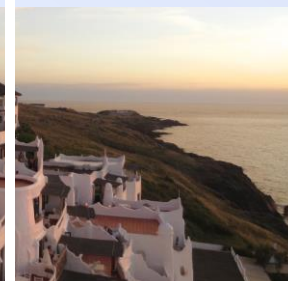
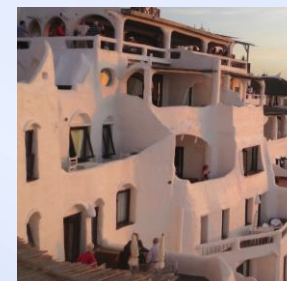
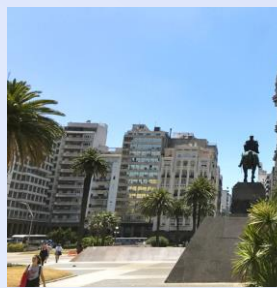




Uruguay

Institutional Presentation

Ministry of Economy and Finance
April 2019





1 Key Highlights of the Uruguayan Economy

2 Recent Developments and Policy Priorities

3 Medium Term Prospects

Key Highlights of the Uruguayan Economy



Sustained (although moderating) growth in a volatile regional environment

Solid medium-term prospects on large-scale investment and infrastructure projects

Strong institutional foundations and political and social stability



Steering inflation back to target, in the context of still-high financial dollarization

Large international reserves and resilient government debt profile

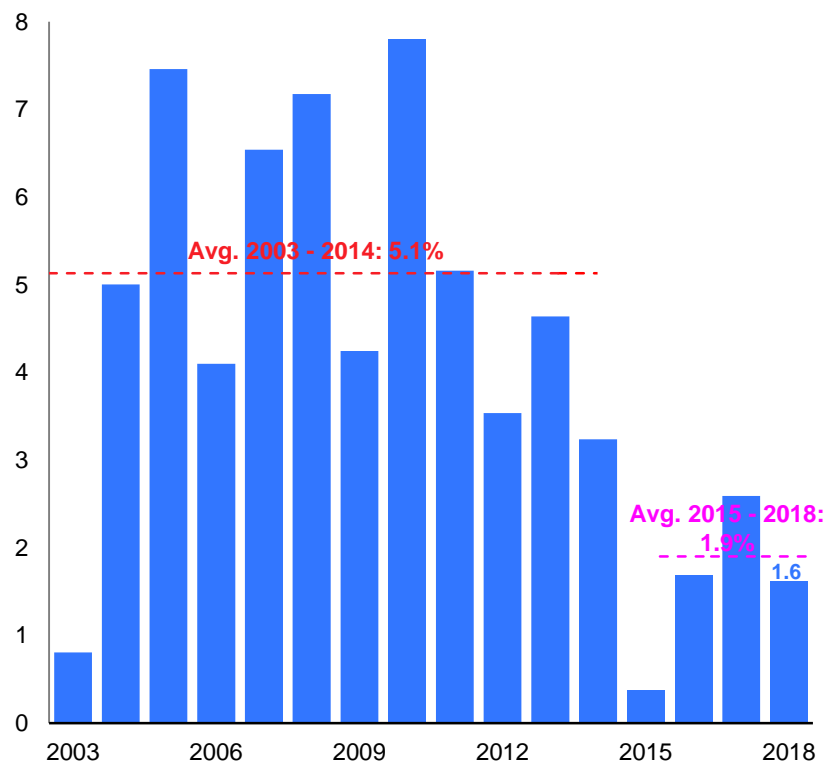
Fiscal consolidation facing headwinds amid rigid spending and decelerating economy

Macroeconomic and social stability based on sustained economic growth...



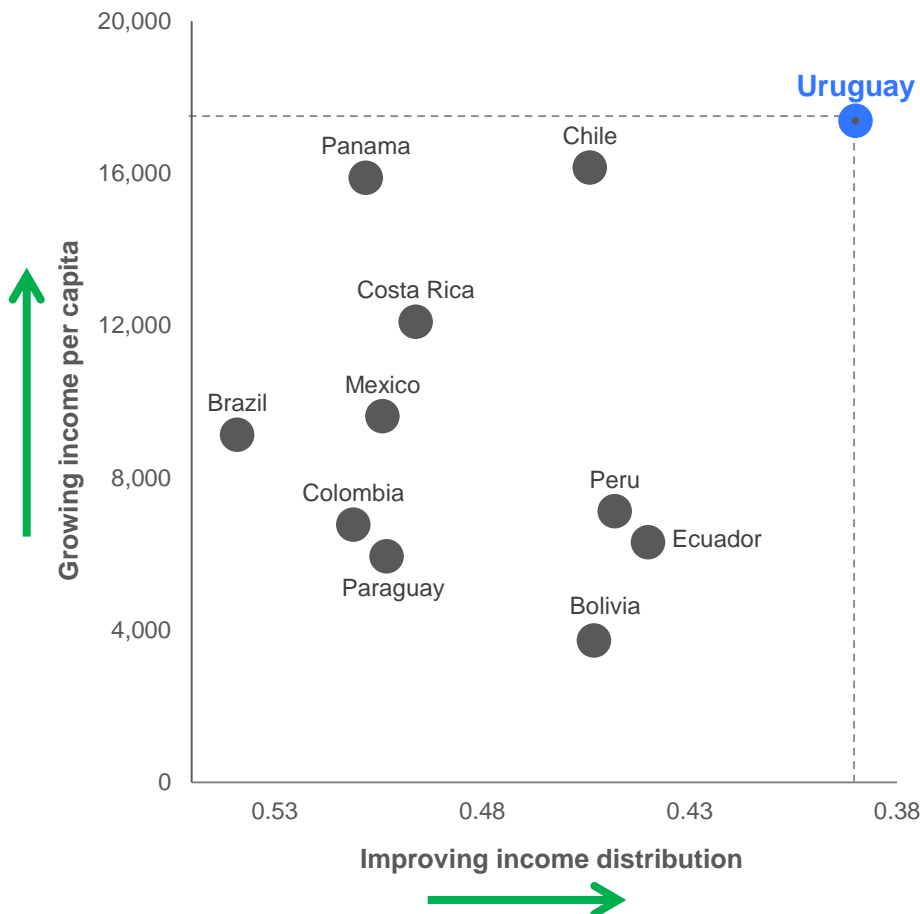
Real GDP growth

(In %)



GDP per capita and income distribution (Gini index)

(Year 2018)

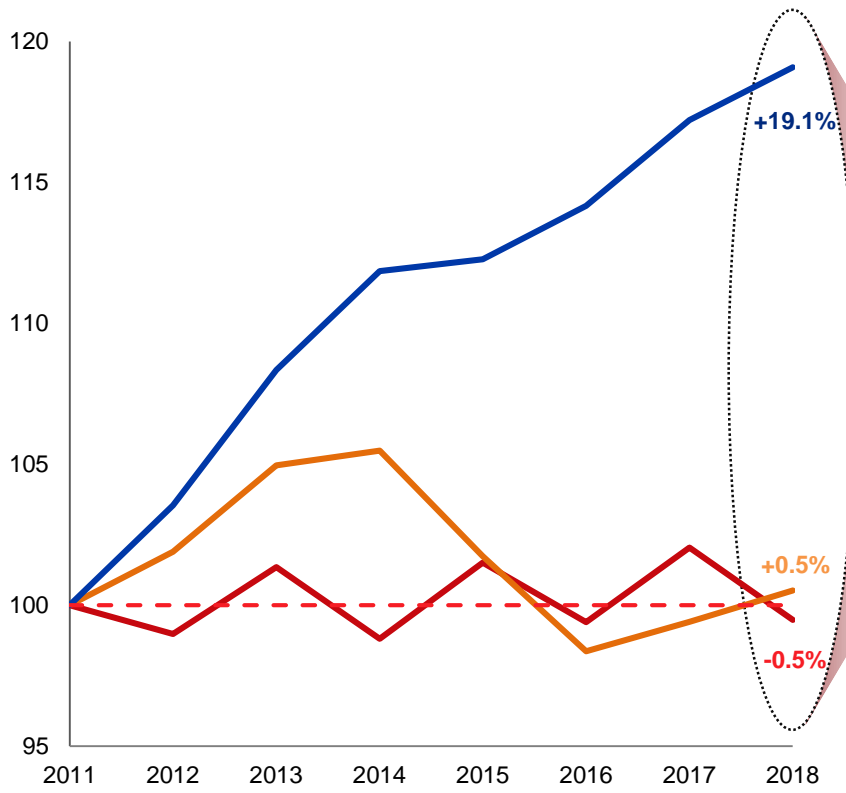


... showing resilience in the face of adverse regional environment.



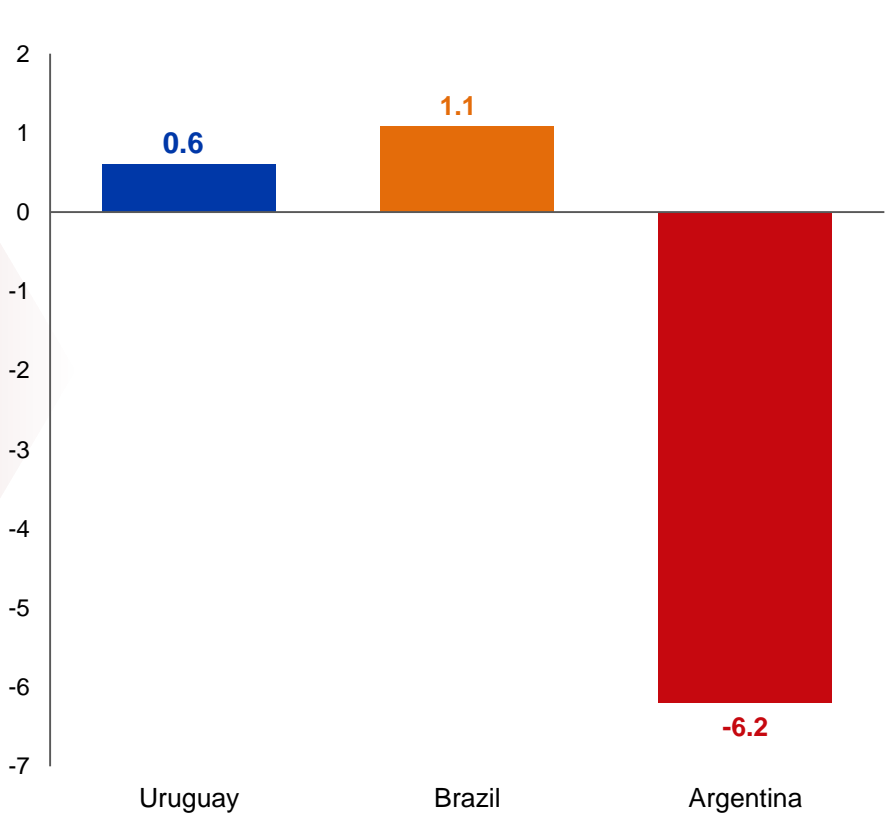
Cumulative real GDP growth (2011 – 2018)

(Index, Base 100=2011)



GDP growth in 2018Q4

(YoY, in %)



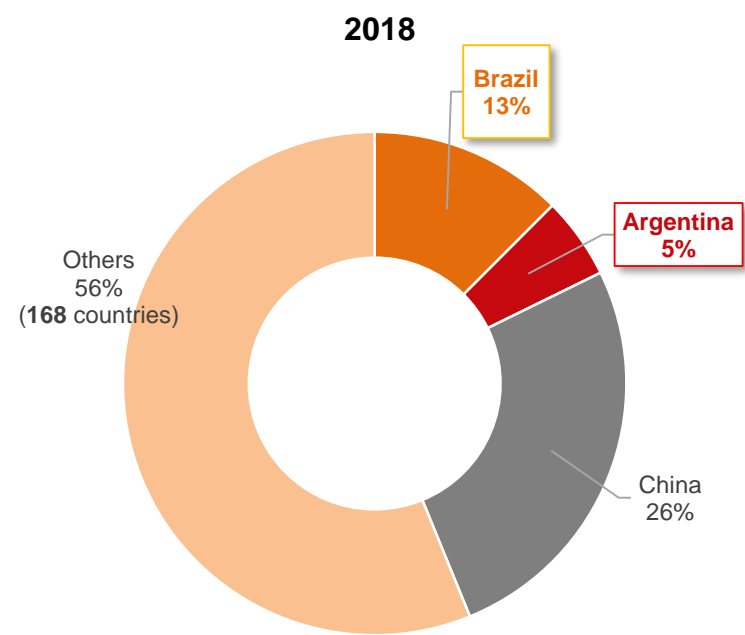
Sources: Central Bank of Uruguay; National Institute of Statistics and Censuses (INDEC - Argentina); Central Bank of Brazil

Export market diversification and limited financial linkages with Argentina has mitigated regional exposure.



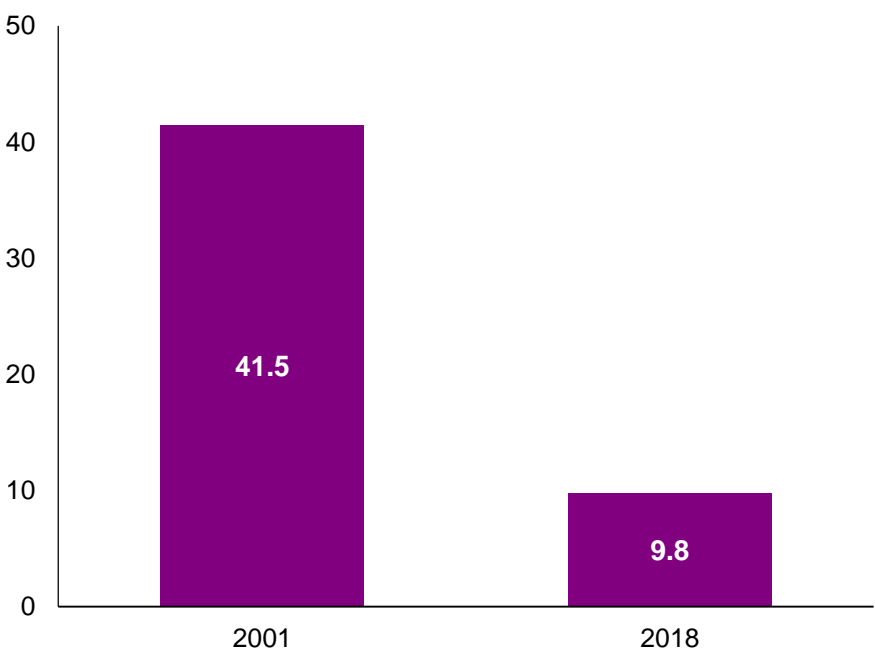
Exports of goods by destination

(as a share of total exports in each year)



Deposits by non-residents in local banking system ^{1/}

(Private non-financial sector, % of total)



















^{1/} Assumes all non-residents deposits are in foreign currency

Uruguay remains a bastion of institutional, political and social stability in Latin America



Uruguay Ranking Position in LatAm & Caribbean

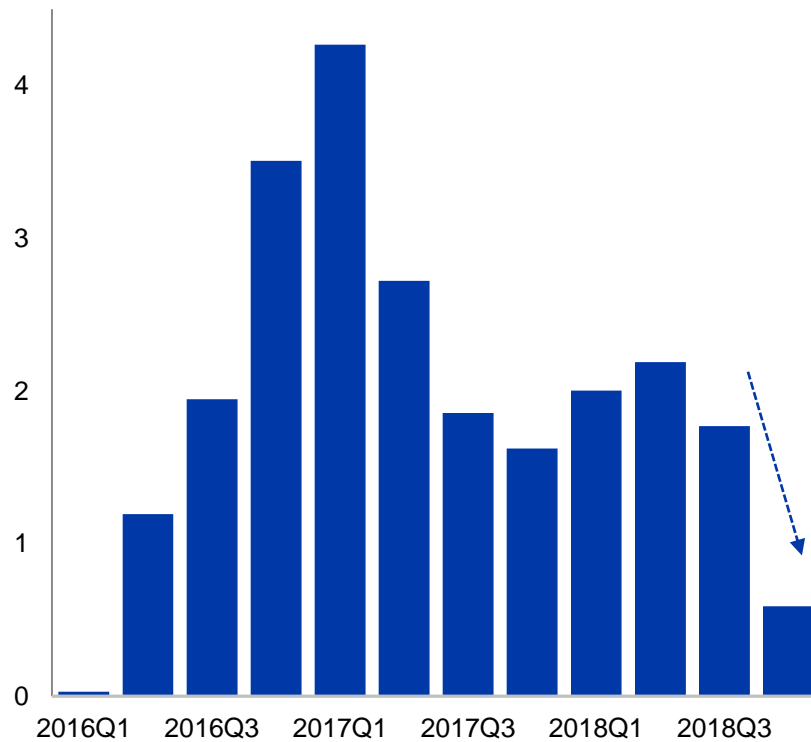
 1	Political Stability ^{1/}		 1	Prosperity ^{5/}	
 1	Rule of Law ^{2/}		 2	Press Freedom ^{6/}	
 1	Lowest Corruption Perception ^{3/}		 2	Economic Freedom ^{7/}	
 1	Full Democracy ^{4/}		 2	Global Peace ^{8/}	

However, the economy is losing steam and employment has lagged in recent years...



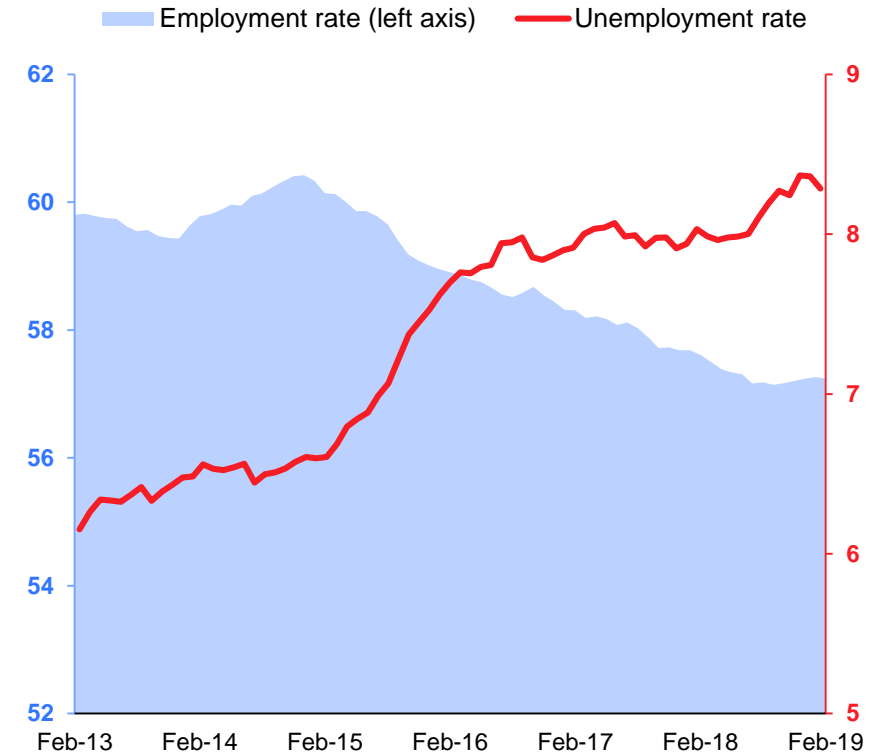
Quarterly real GDP growth

(YoY change, in %)



Labour market indicators

(Average of last 12 months, in %)

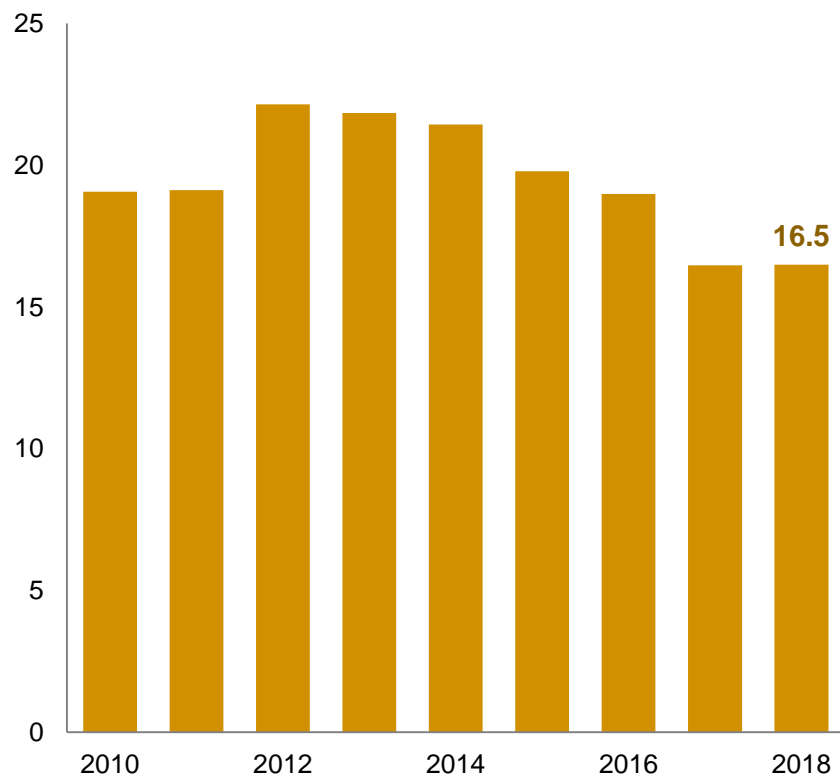


... thus, boosting investment has been a key policy response.



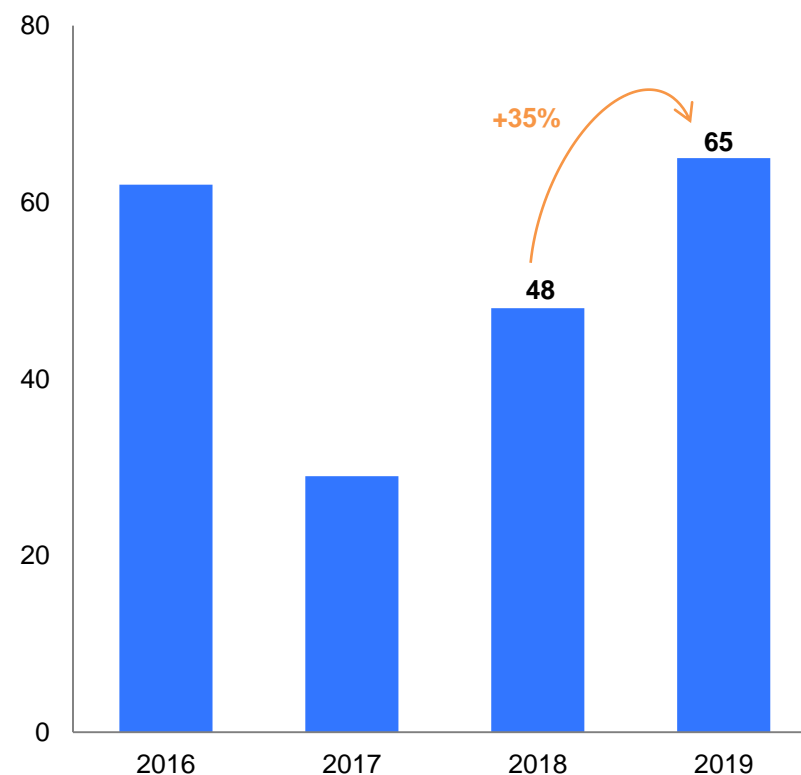
Gross Fixed Investment

(In % of GDP)



Number of projects presented to the Investment Law Applicability Committee

(Total for January – February each year)

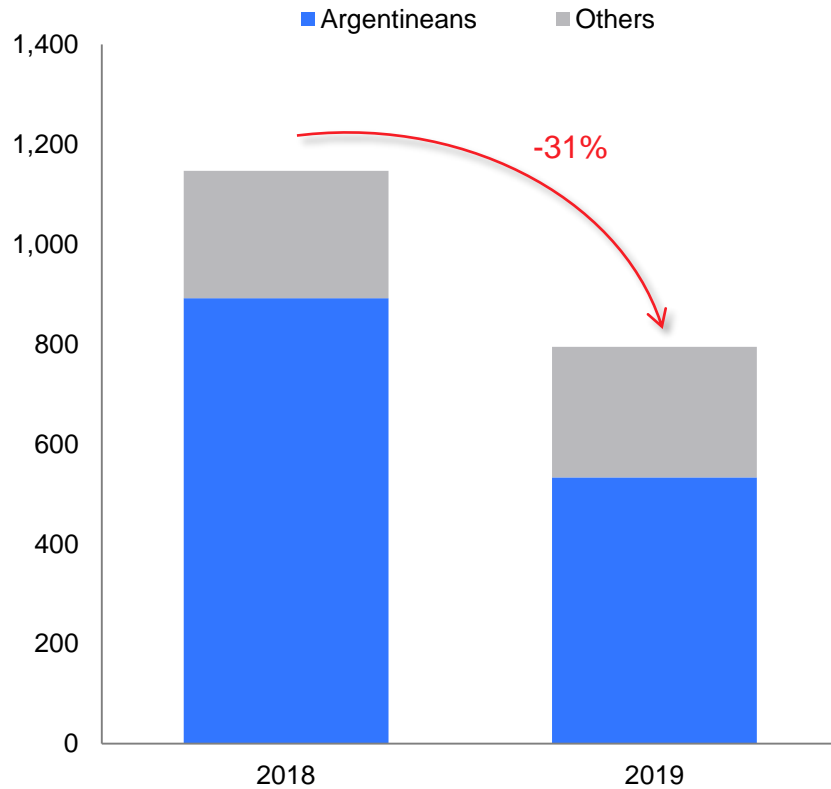


Economic pressures in Argentina spilled through the tourism channel; a severe drought reduced soybean production



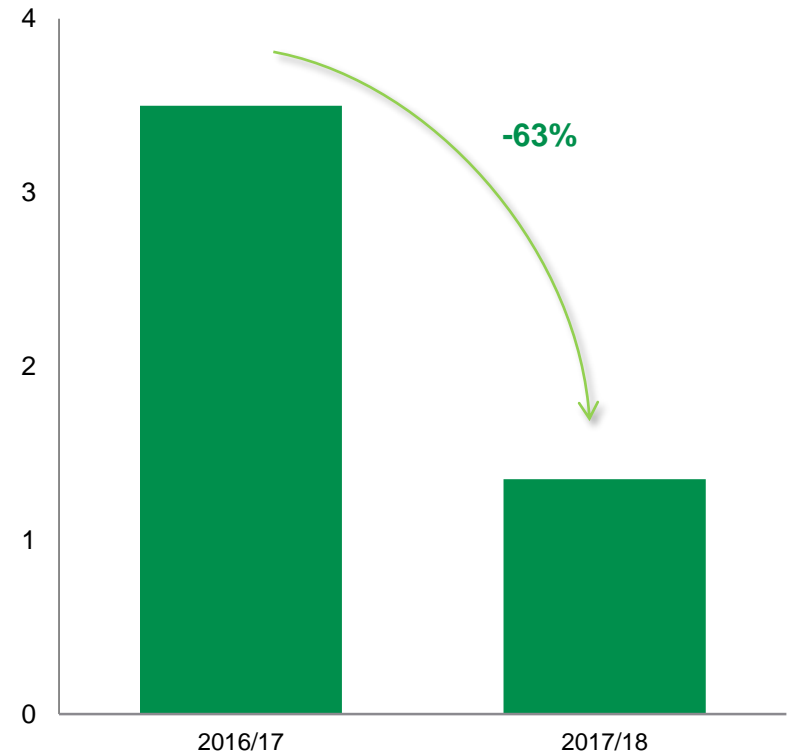
Tourist arrivals

(In thousands, January - February of each year)



Soybean production

(In millions of tonnes, by harvest period)

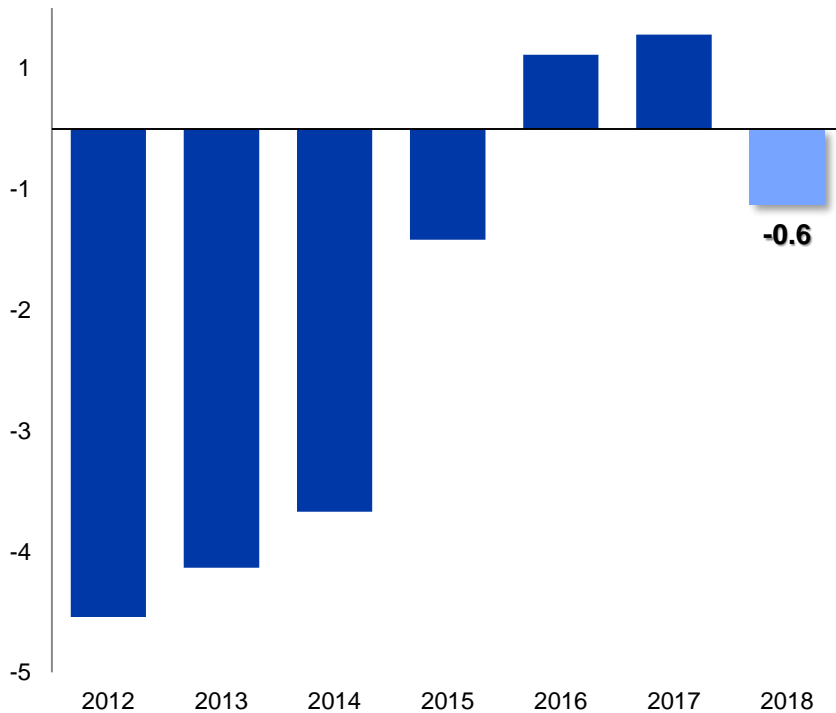


External current account balance is broadly consistent with fundamentals



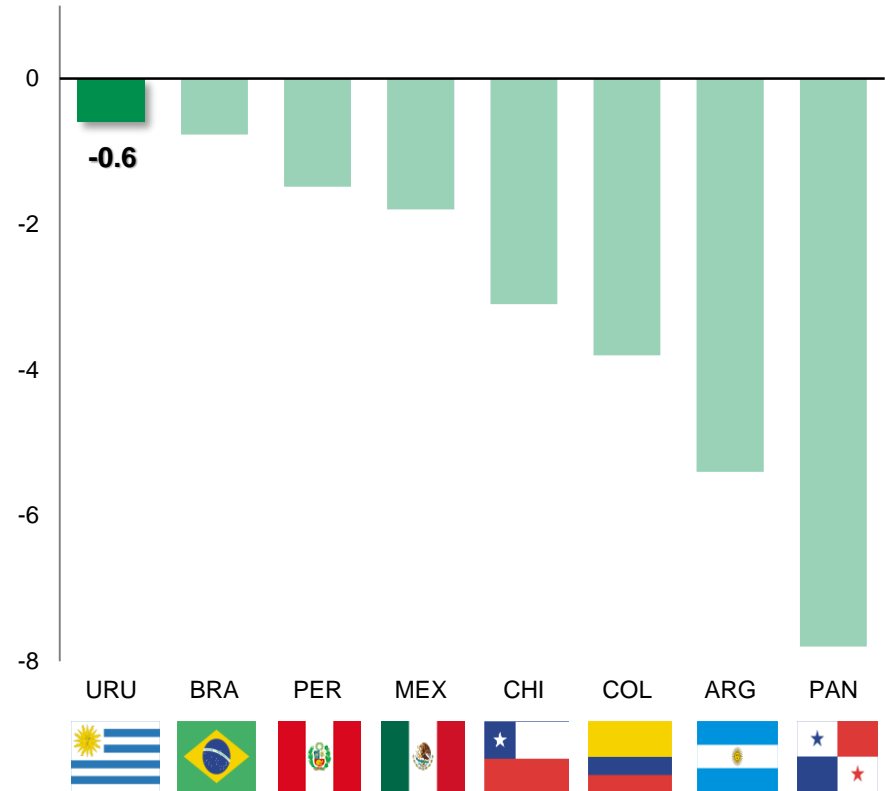
Current account balance

(In % of GDP)



Current account balance compared to LatAm

(2018, in % of GDP)



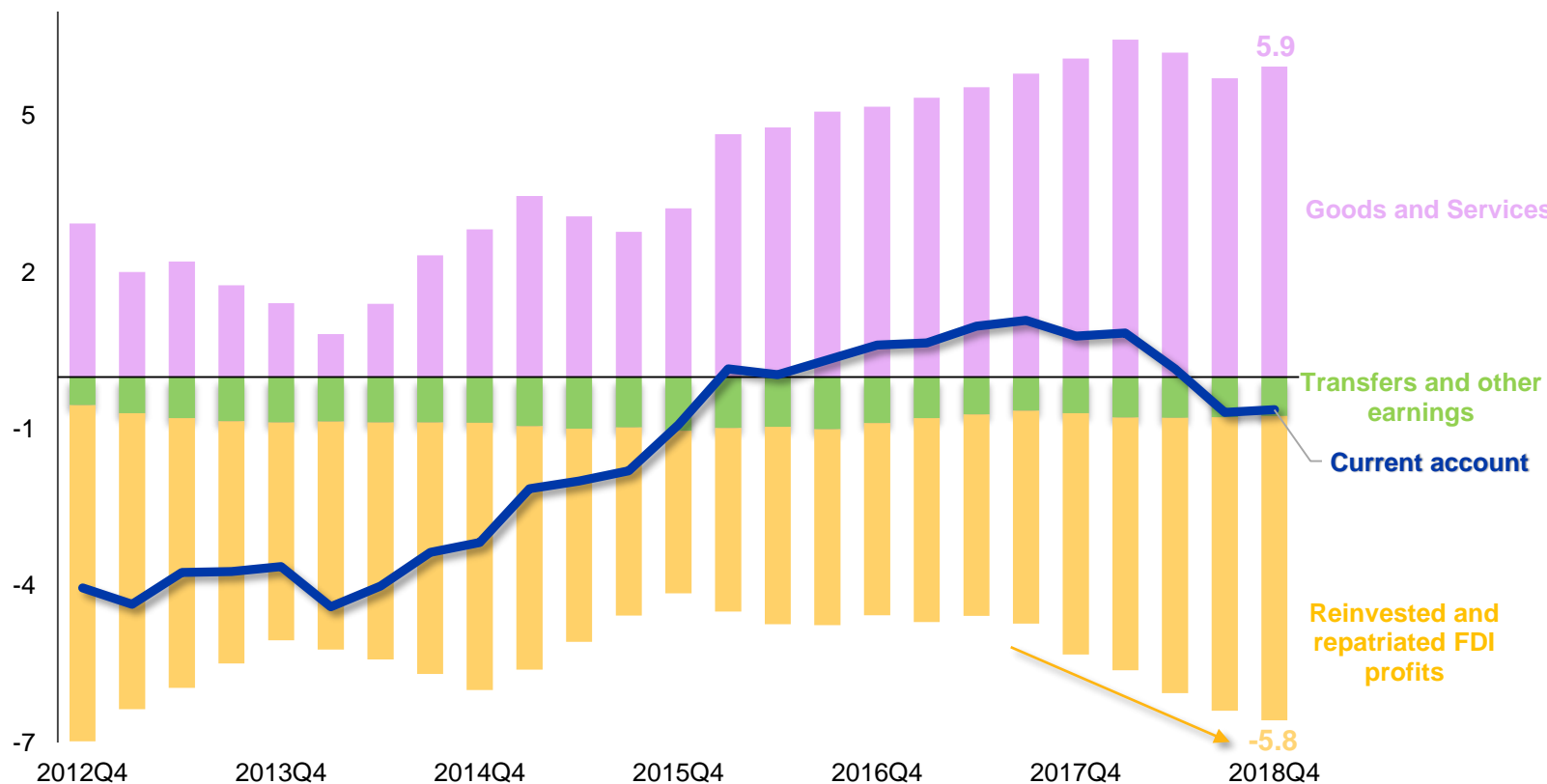
Source: Central Bank of Uruguay; Central Bank of Mexico; National Institute of Statistics and Censuses (INDEC - Argentina); Central Bank of Brazil; Banco de la República de Colombia; Central Reserve Bank of Peru; Central Bank of Chile; Contraloría General de la República de Panamá.

Mild deterioration in the CA due to strong increase in repatriated and reinvested profits of foreign-owned firms



Current account components

(12-month rolling period, in % of GDP)

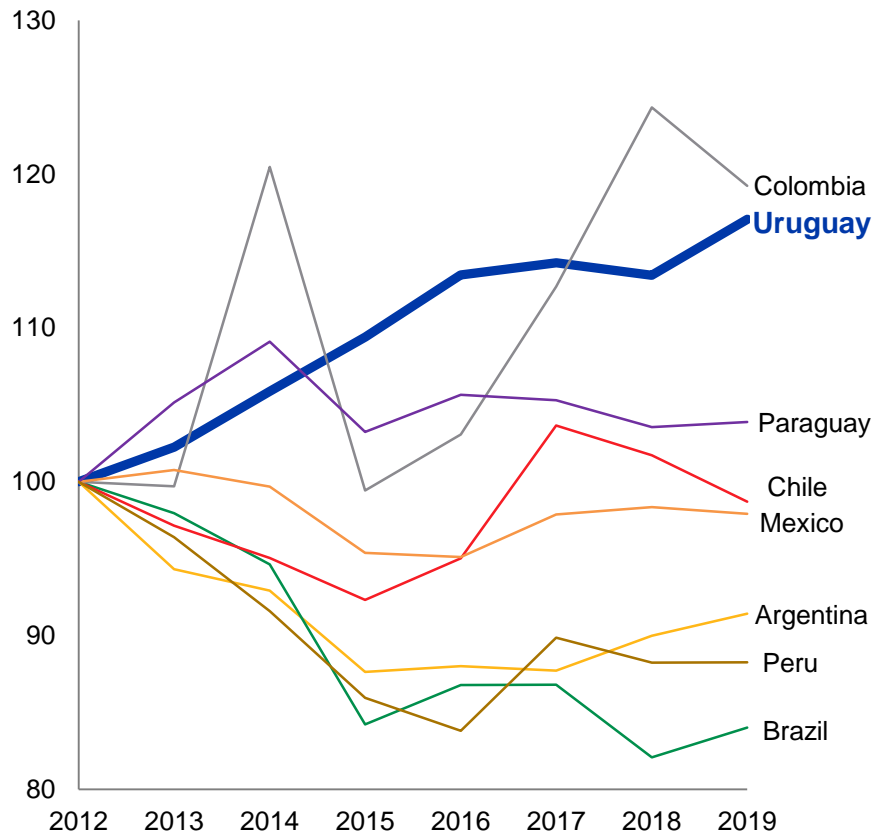


Terms of trade stabilized CA dynamics, and exports of other services picked up some slack from lower inbound tourism



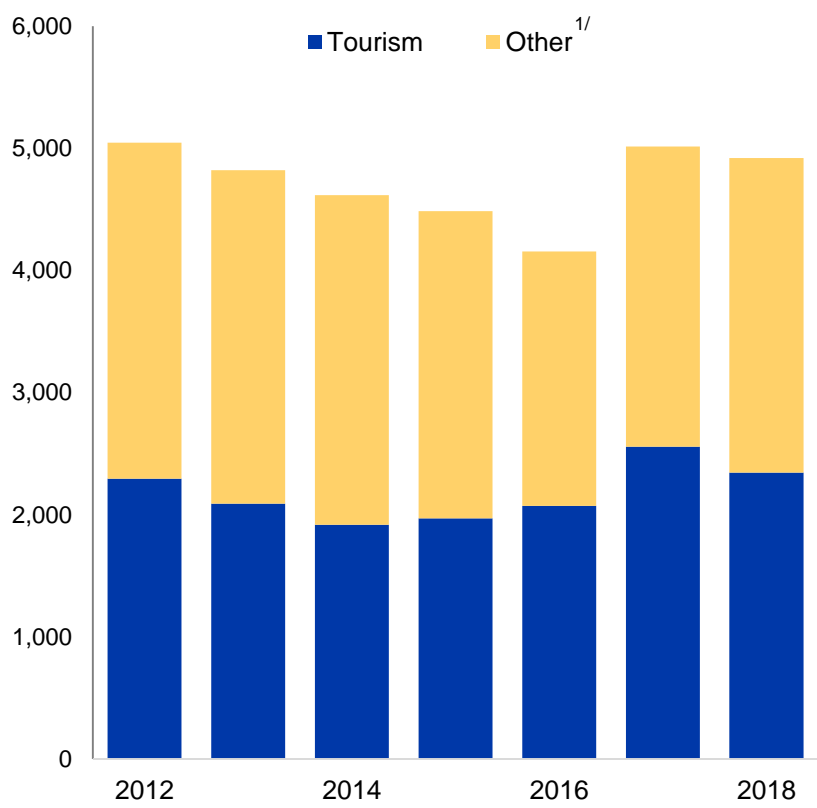
Terms of trade for goods

(Average 2012 = 100)



Exports of services

(In USD million)



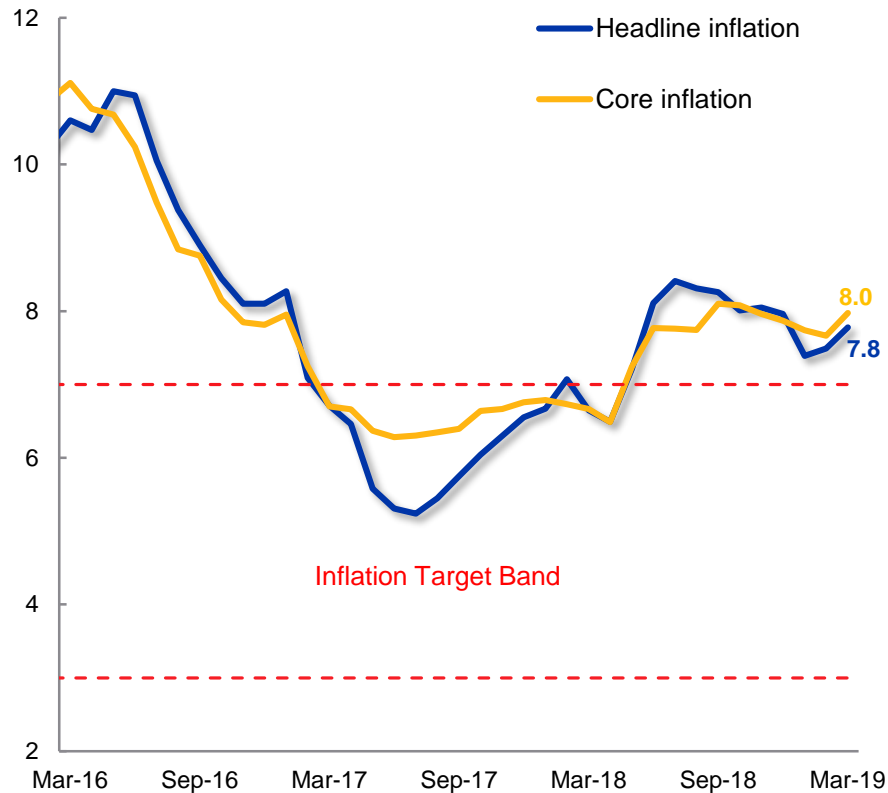
^{1/} Software, transport, logistics, maintenance, financial, personal and professional and consultancy services

Steering inflation back to target is a key policy priority



Inflation

(Annual, in %)



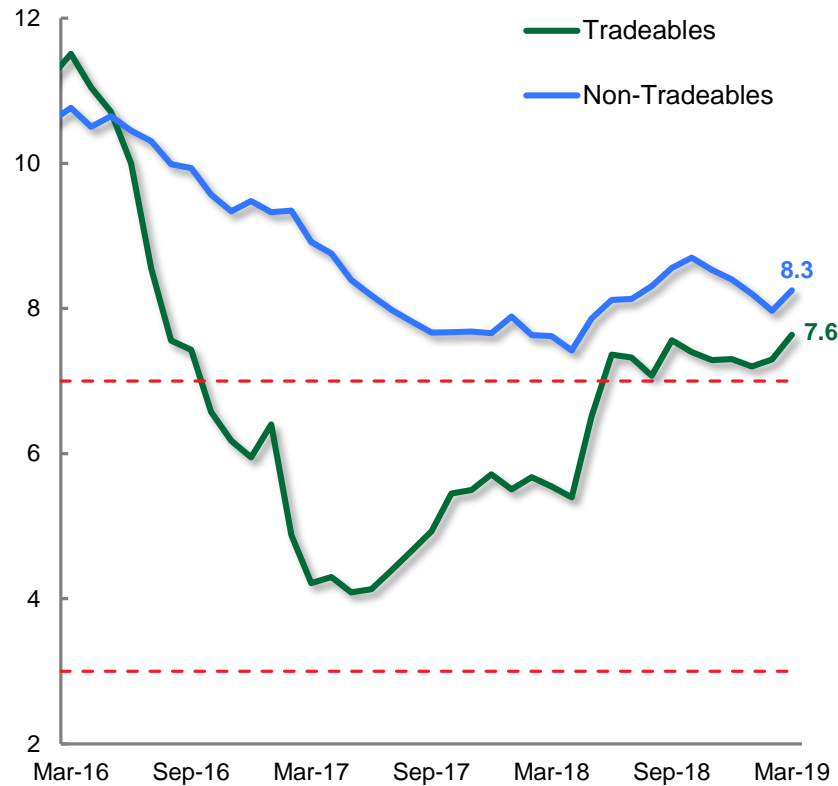
- Monetary policy's moderate contractive stance is geared towards bringing inflation down, taking into account the stage of the business cycle.

Flexible and forward-looking wage-setting guidelines aimed at reducing indexation and non-tradable inflation inertia



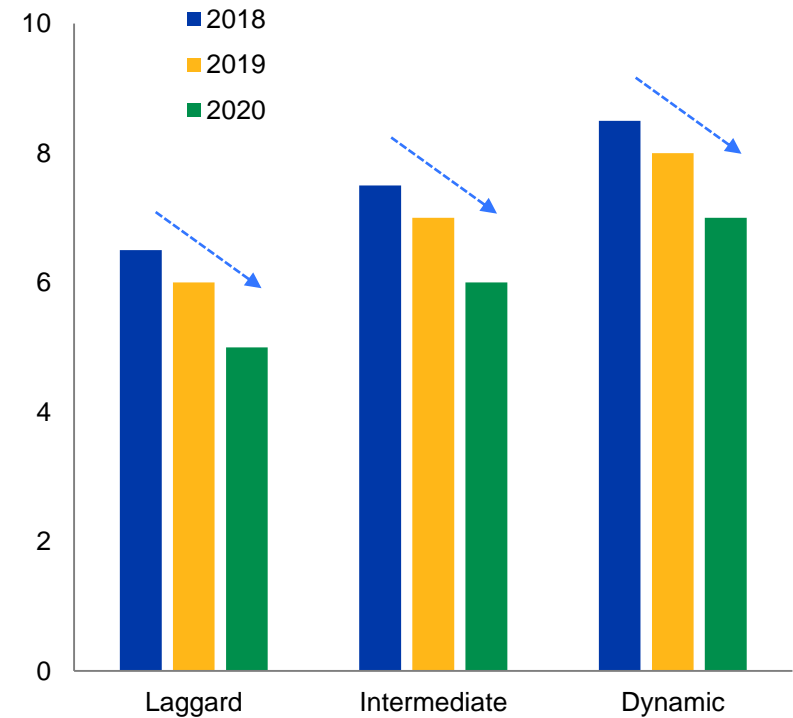
Tradeable and non-tradeable inflation

(Annual, in %)



Government's guidelines for 2018 wage negotiations

(Annual increase in nominal wages by sector classification, in %)

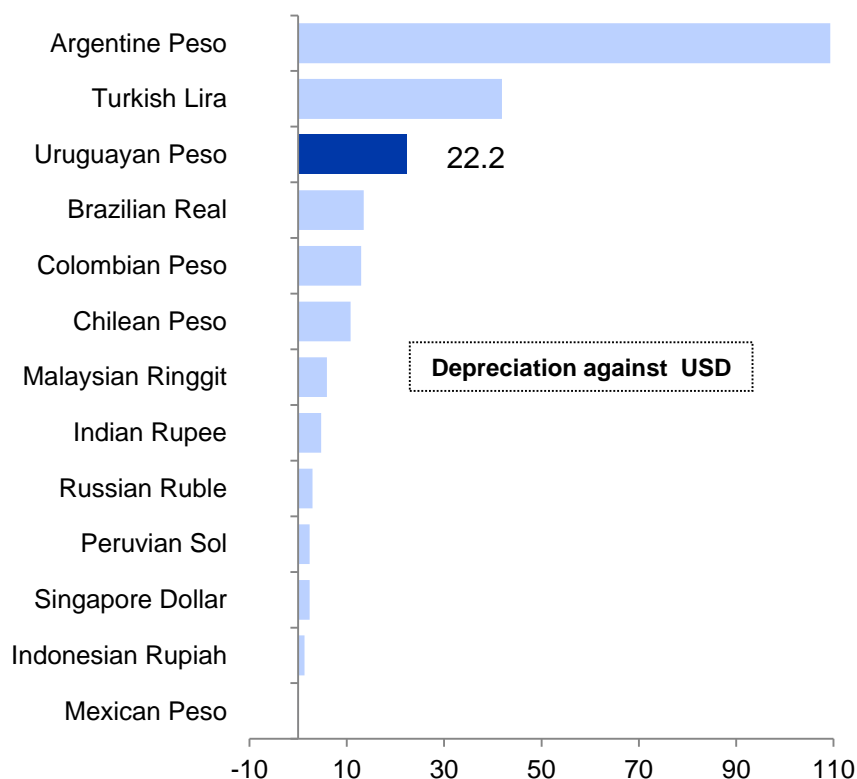


Nominal exchange depreciation in line with other emerging markets



Emerging market currencies vs USD

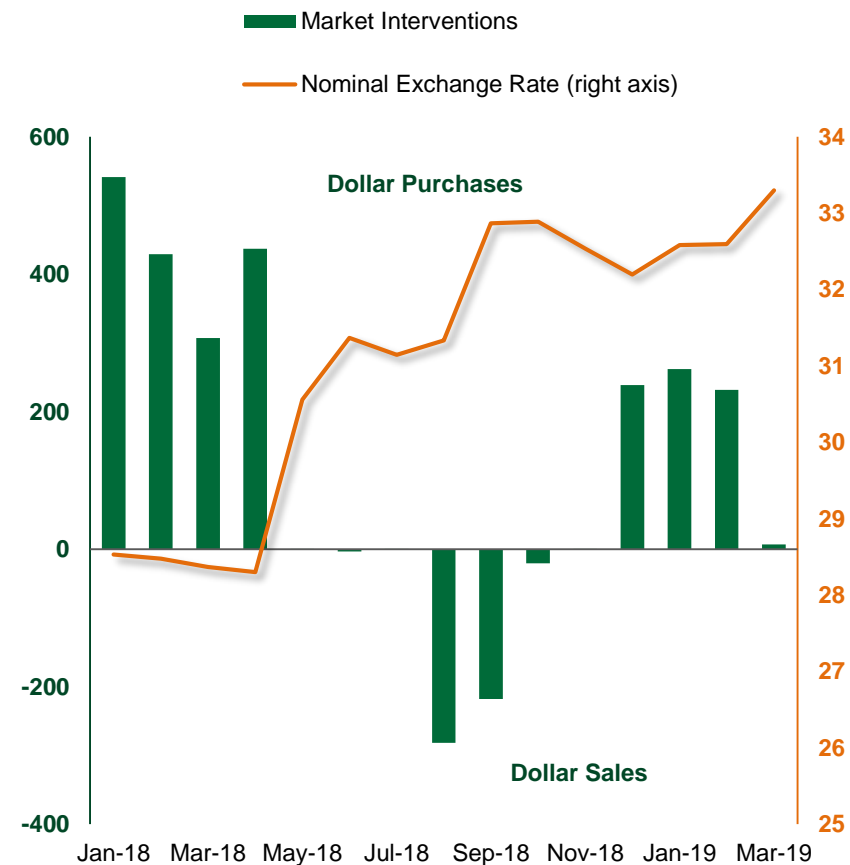
(YoY change in nominal exchange rate, in % as of 4/23/2019)



Source: Bloomberg

Central bank FX intervention

(In USD million)



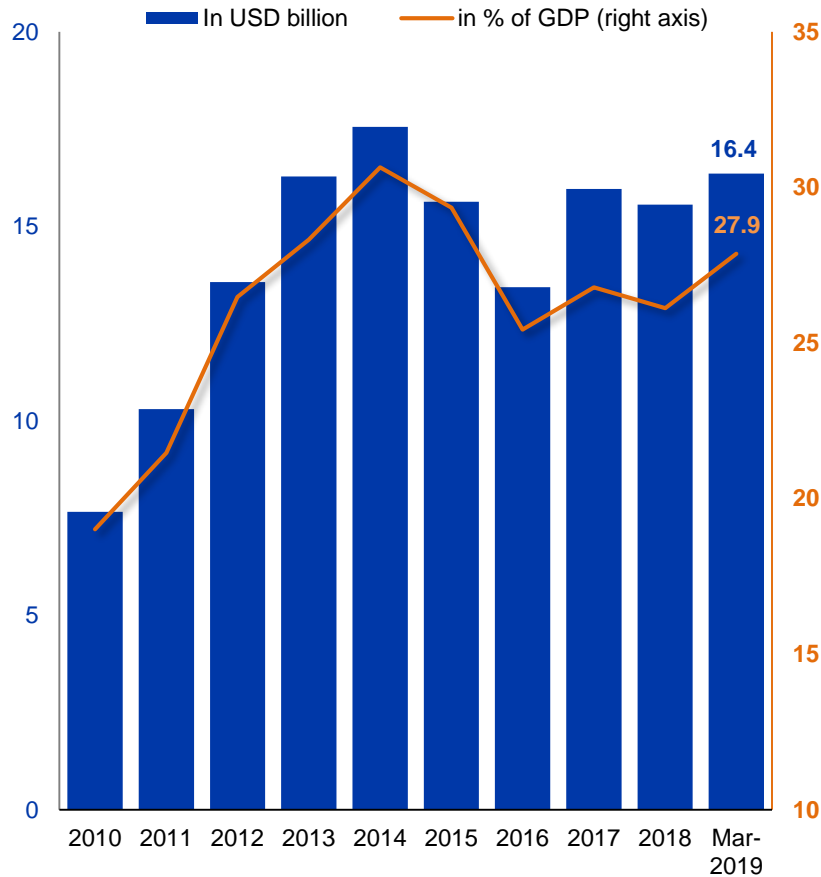
Source: Central Bank of Uruguay

Ample international reserves provides sizeable external buffers



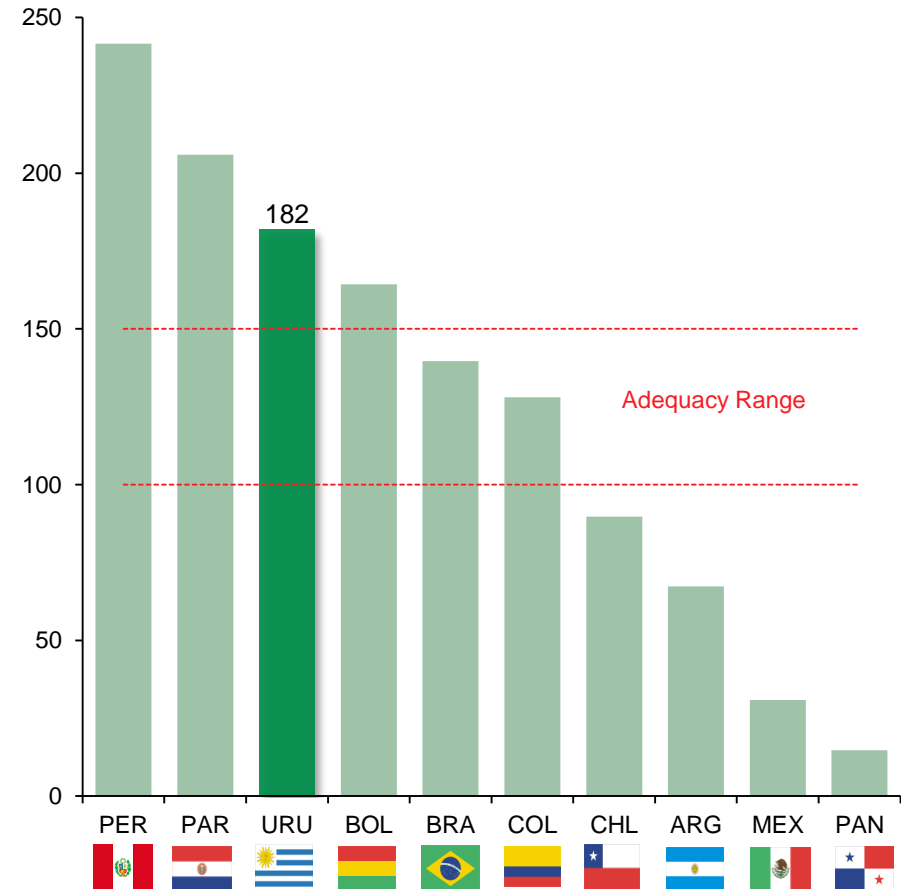
International reserves

(End-of-period)



Reserve adequacy compared to LatAm

(International reserves to IMF's Reserve Adequacy metric, as of November 2018)



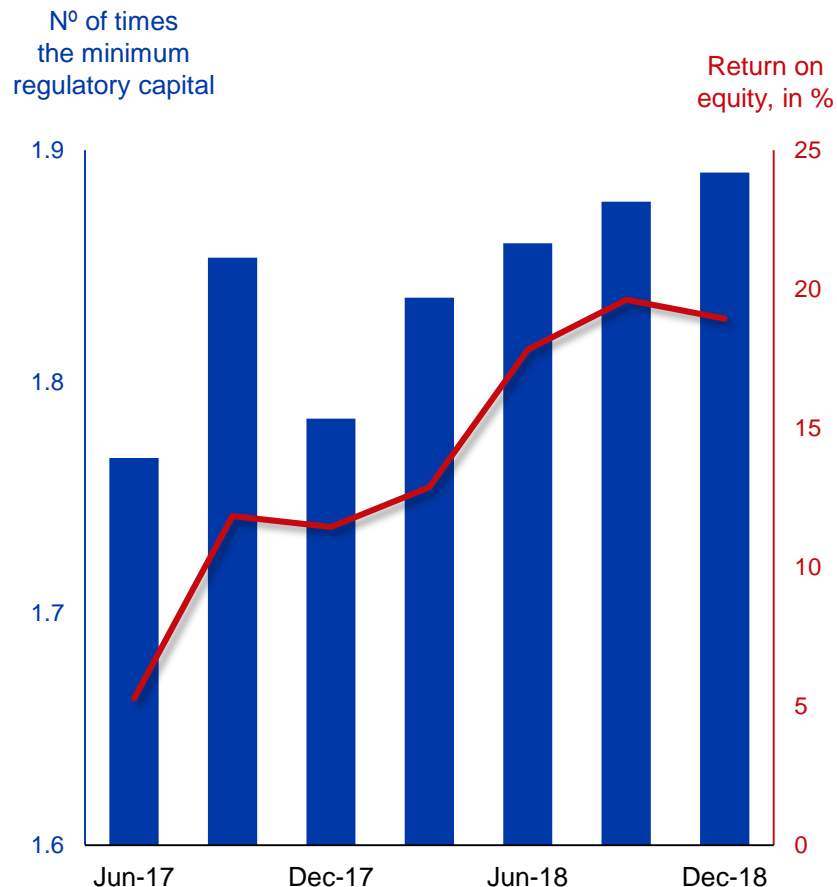
Note: The Reserve Adequacy (ARA) Metric is calculated by the IMF for Emerging Markets (EM) and comprises four components reflecting potential balance of payment drains: (i) export income, (ii) broad money, (iii) short-term debt, and (iv) other liabilities. The weight for each component is based on the 10th percentile of observed outflows from EM during exchange market pressure episodes, distinguishing between fixed and flexible exchange rate regimes.

Sources: Ministry of Economy and Finance, Central Bank of Uruguay, IMF

The banking system shows high profitability and capitalization, yet deposit dollarization is still elevated

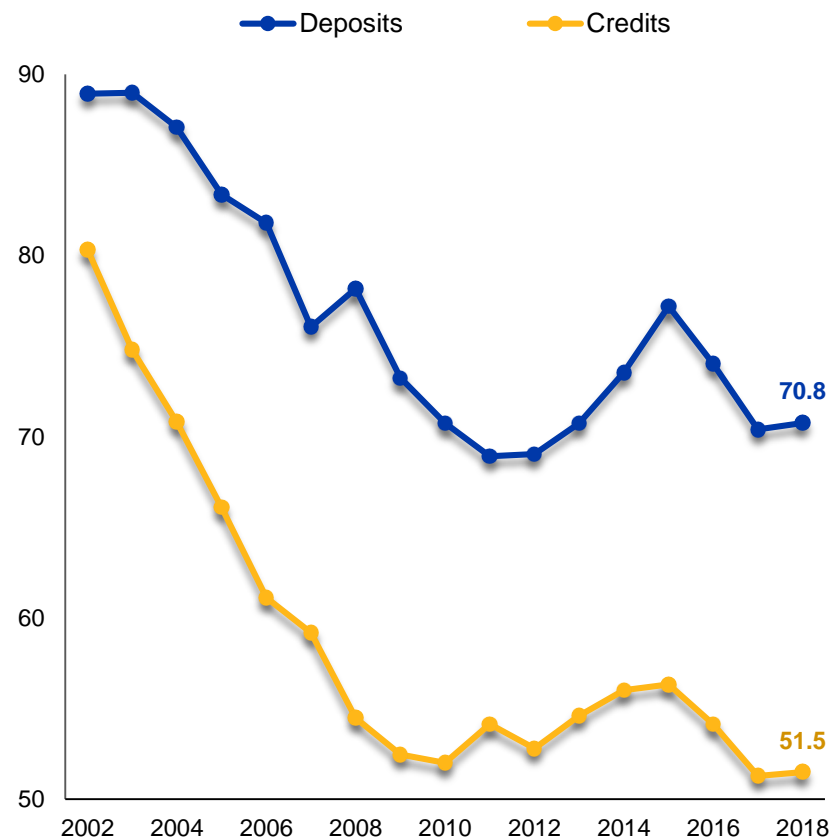


Solvency and profitability of the banking system



Dollarization of banks' deposits and credit

(Private non-financial resident sector, % of total)

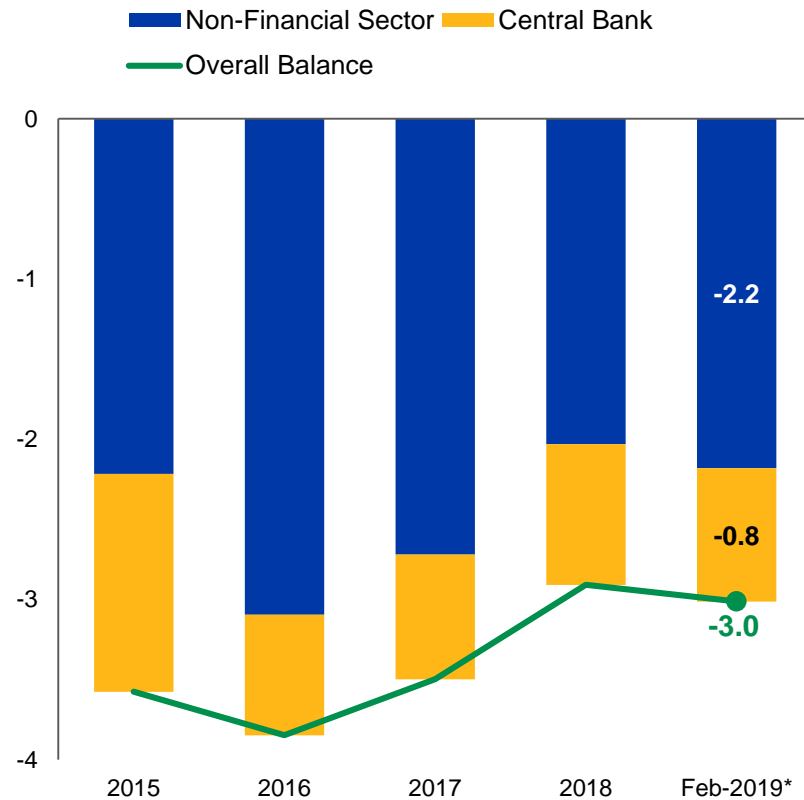


Fiscal consolidation is critical to achieve budget objectives



Headline Fiscal balance of the overall public sector

(In % of GDP)



(*) Last 12 months

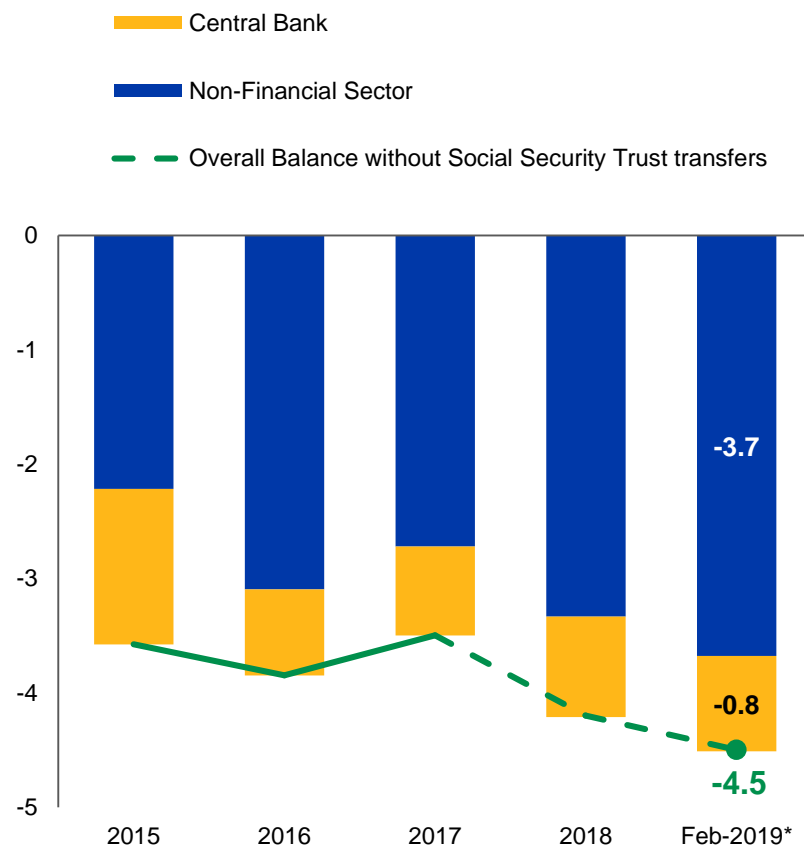
- **Headline fiscal balance is consolidated for the whole public sector, including the Central Bank and public enterprises.**
- The Central Bank cannot transfer to the Treasury unrealized gains originated from the accounting revaluation of international reserves and other central bank assets.

Fiscal consolidation is critical to achieve budget objectives



Fiscal balance of the public sector

(In % of GDP)



(*) Last 12 months

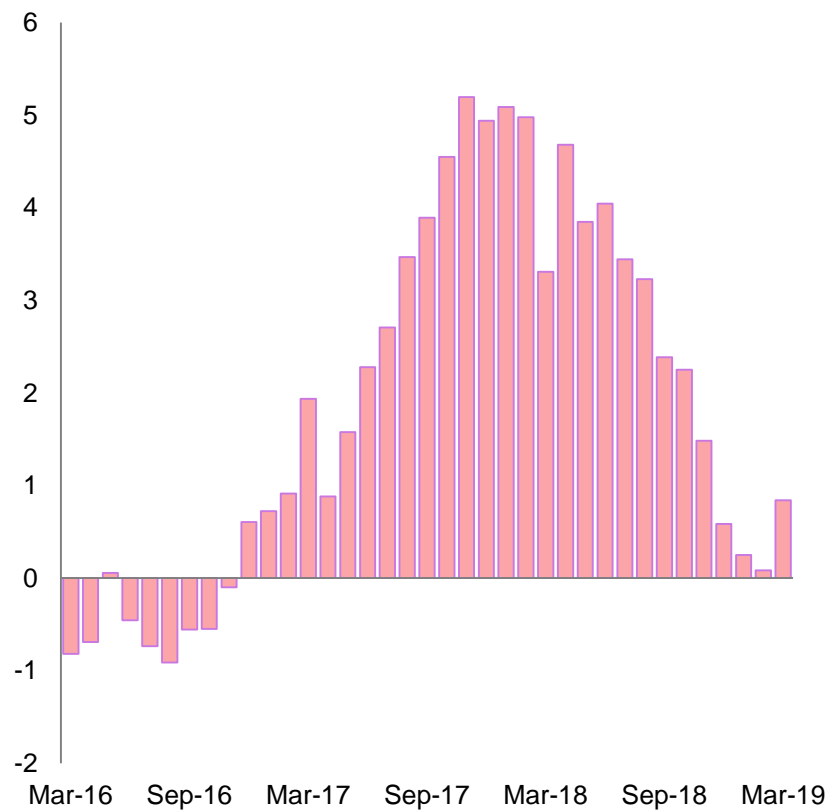
- **Government revenues includes the inflow of funds into the public Social Security Trust, in the context of a law introducing changes to the pension system.**
- These accumulated inflows reduced the headline fiscal deficit by 1.5% of GDP in the 12 months to February 2019.

Fiscal consolidation is facing headwinds...



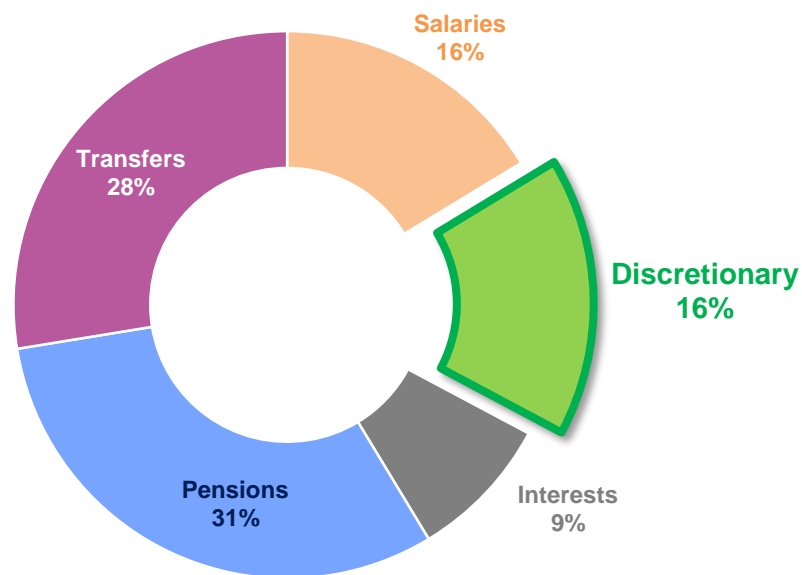
Revenues from VAT from the private sector

(Real change in %, 12-month rolling period)



Composition of Central Government expenditures

(12-month period as of February 2019, in % of total)



Note: Transfers includes Central Government and Social Security Bank (BPS) transfers.

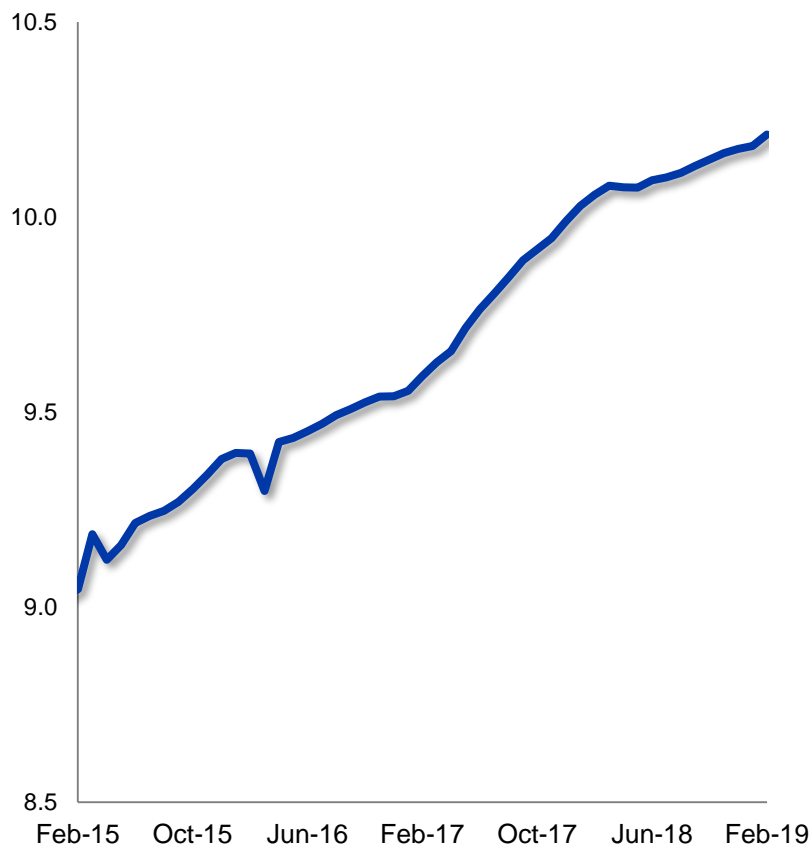
Source: Ministry of Economy and Finance

... which is the flip side of a broad social safety net ensuring social cohesion and low poverty rates.



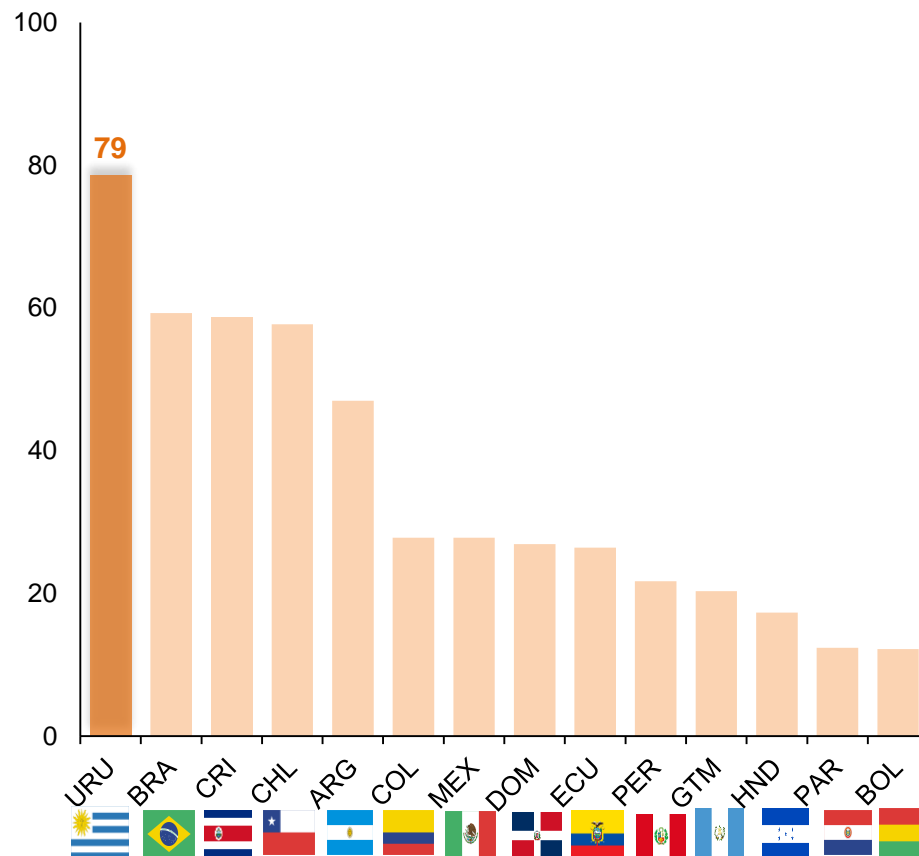
Pension expenditures

(In % of GDP, 12-month rolling period)



Social security coverage ratio compared to Latam

(Contributors over labor force, in %)

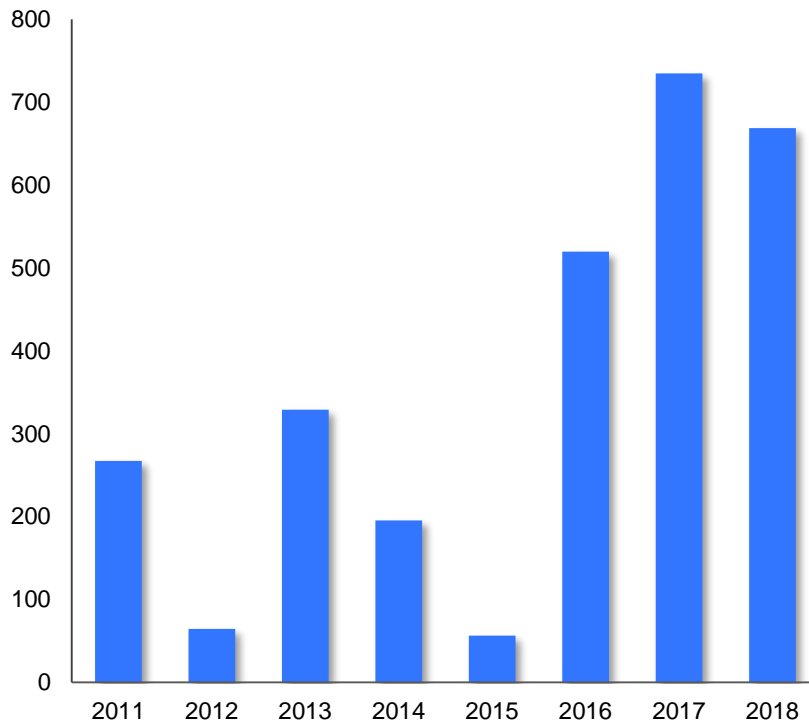


Improvement in financial health of public enterprises

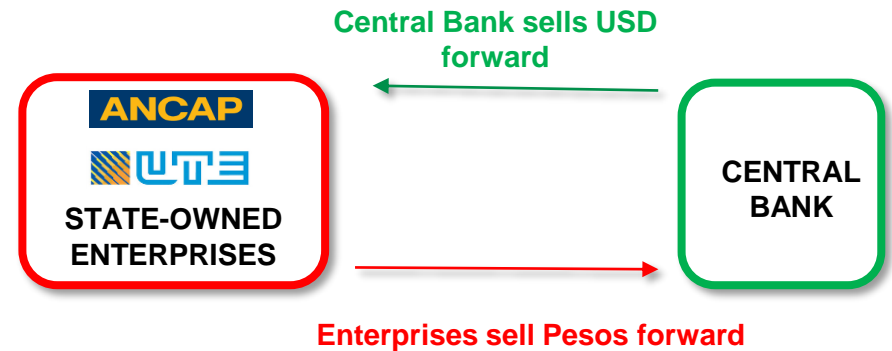


State-owned enterprises' balance sheet results ^{1/}

(In USD million)



1/ Includes UTE, ANCAP, ANTEL y OSE



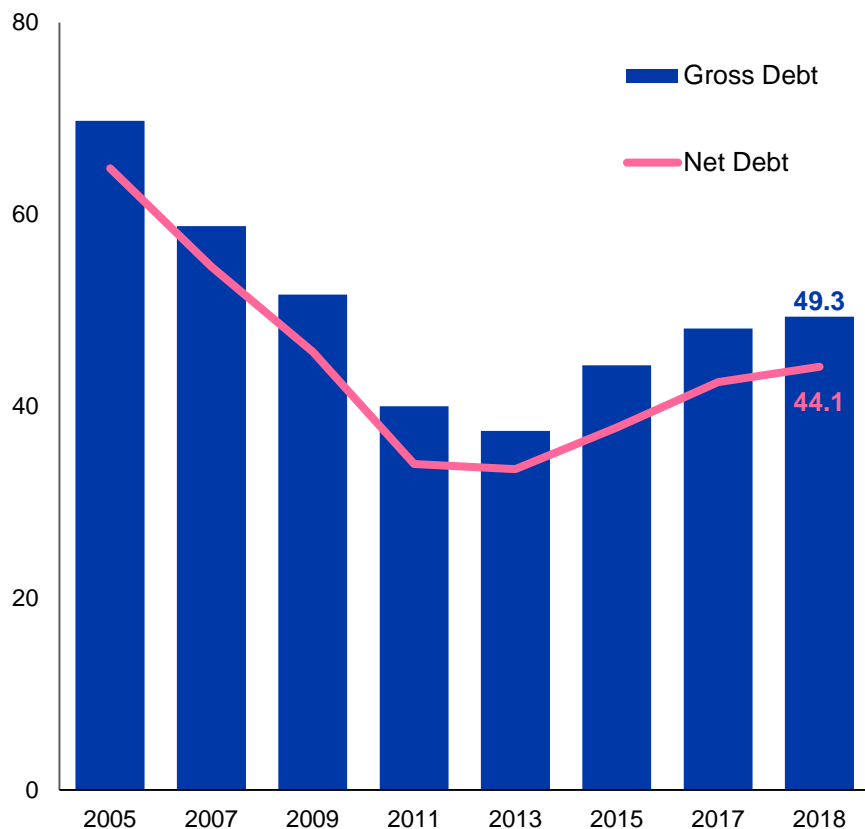
- Central Bank signed forward peso/dollar contracts with each company at market prices, and with appropriate counterparty-risk clauses.
- This transaction re-distributed foreign exchange risk among those institutions with the best capacity to absorb it.

Active debt management has improved the debt profile, reducing currency and maturity risks...



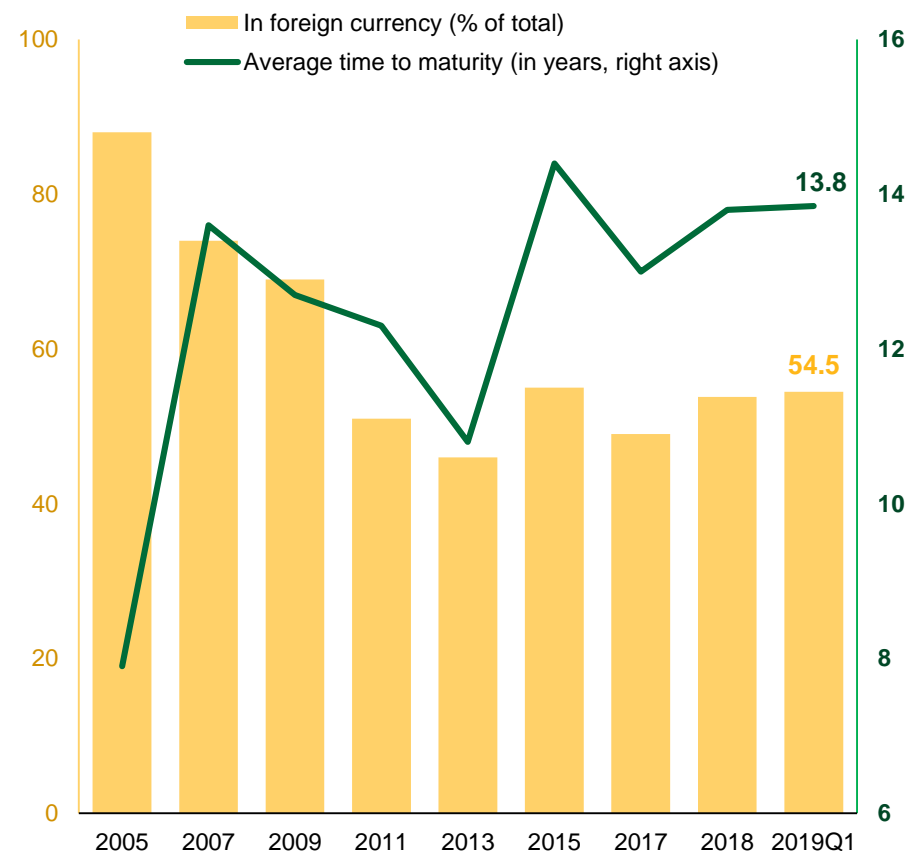
Central Government (CG) Debt

(In % of GDP, end-period)



Currency and maturity composition of CG debt

(End-year)

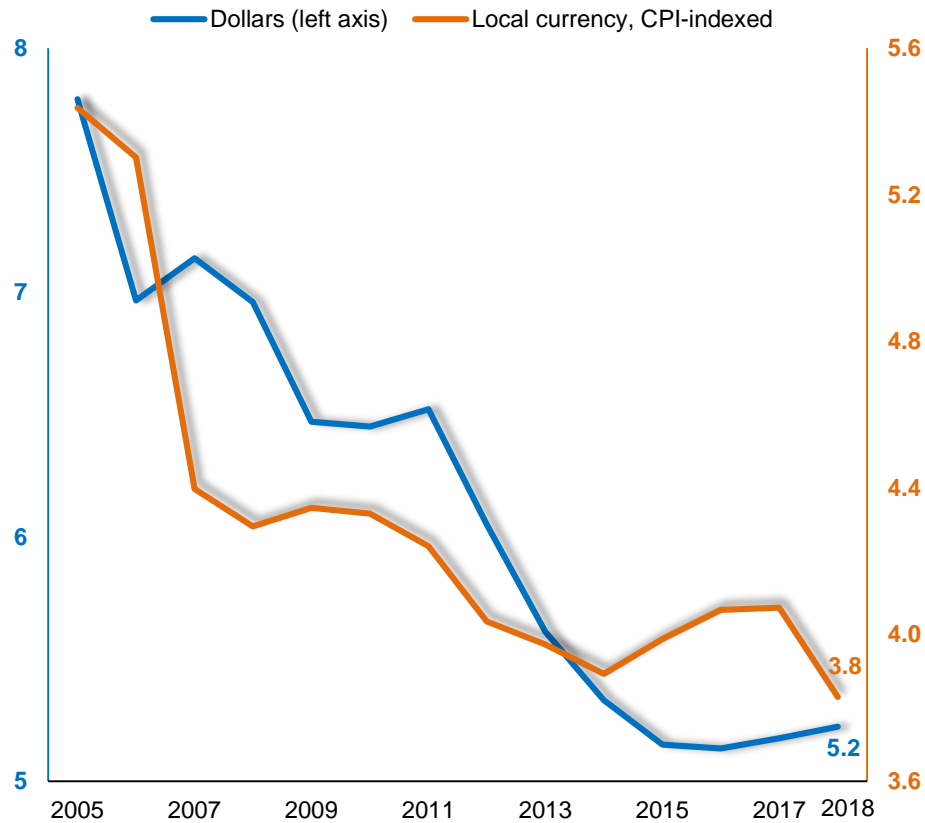




...while keeping borrowing costs subdued

Central Government (CG) cost of financing

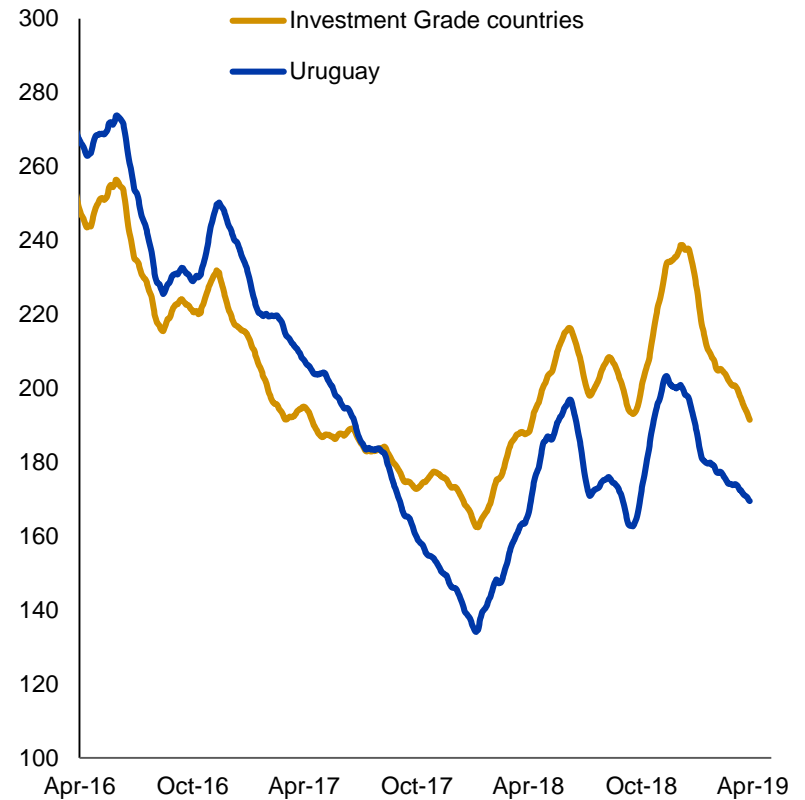
(Average interest rate on outstanding debt, in %)^{1/}



^{1/} Weighted average

EMBI Spread

(In bps)

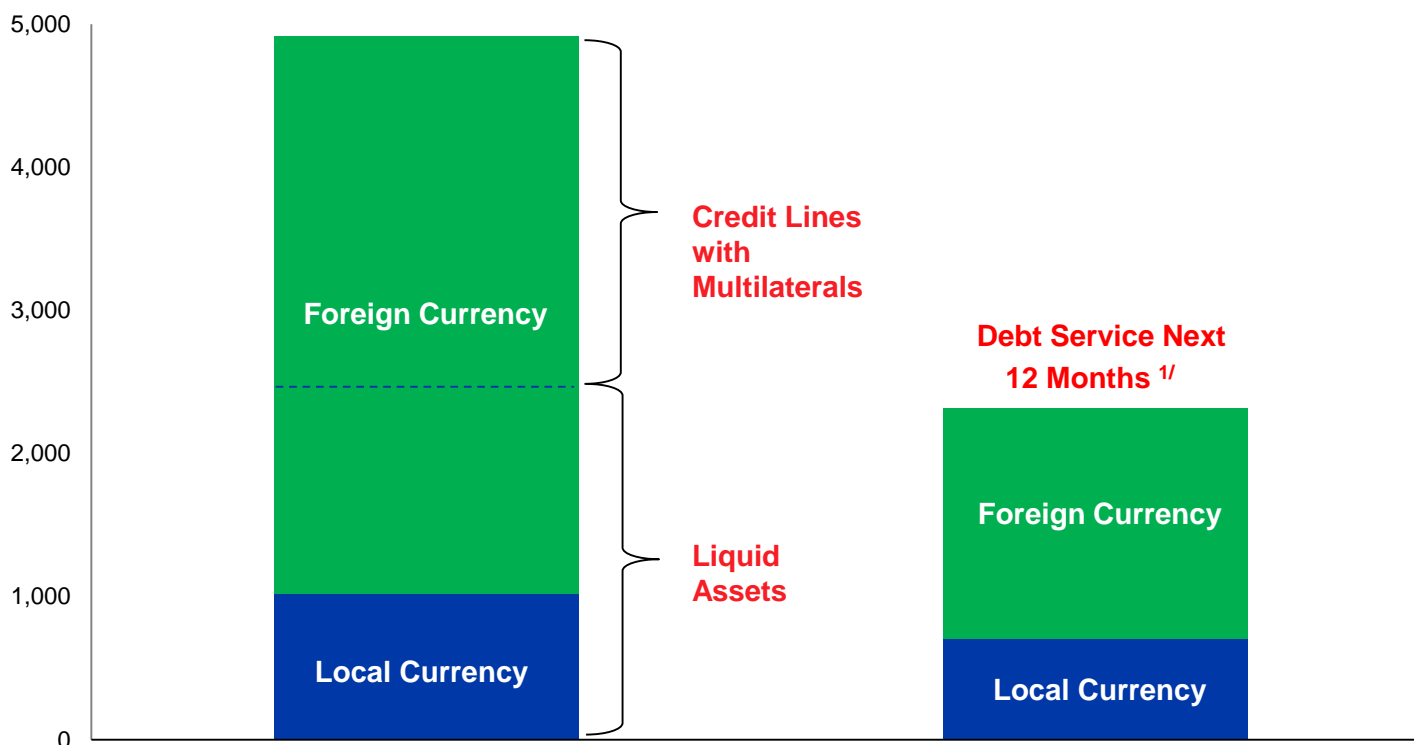


Pre-financing policy of Government provides funding flexibility in the event of external shocks



Government's financial buffers and debt service obligations ^{1/}

(In USD million, as of March 2019)



^{1/} Debt Service includes amortization plus interest payments

Central Government's financing needs and funding strategies



In **2018:**

Financing needs last year totaled **USD 4.13 billion**. Almost 80% was raised in debt markets in both local and foreign currency (in almost equal proportions), by tapping the short, intermediate and longer-end of the sovereign yield curve.

In **2019:**

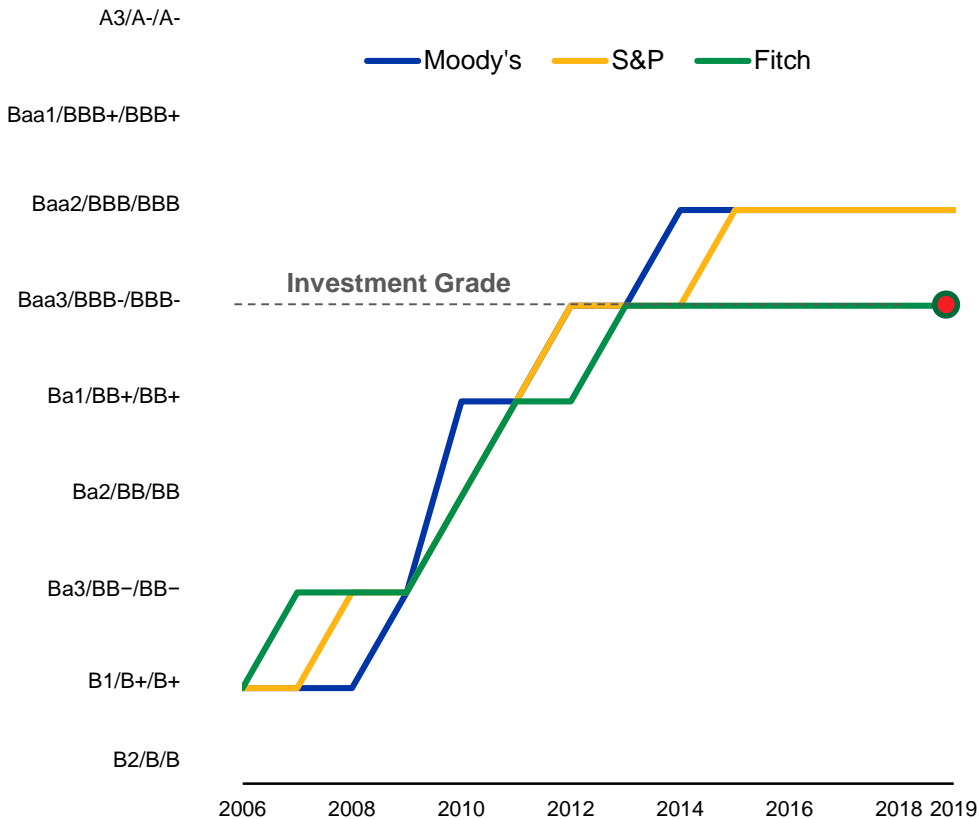
Estimated total funding needs are around **USD3.2 billion** (excluding transfers to public sector pension scheme). Total bond issuance is estimated at **USD 2.95 billion** (52% has already been completed).

➔ The goal is to balance the currency composition of debt in terms of local and foreign currency, while keeping conservative pre-financing policy.



Uruguay's credit rating performance

Evolution of Uruguay's sovereign credit ratings



Latest credit rating actions



January 2019. Confirms Uruguay's rating at BBB (low), Stable trend.



January 2019. Uruguay's rating affirmed at BBB with Stable outlook.



October 2018. Affirmed Uruguay's rating at BBB-, revised outlook to Negative.



May 2018. Affirms Uruguay's rating at BBB with Stable outlook.



July 2017. Outlook raised to Stable from Negative and affirmed "BBB" rating.



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Prospect of largest-ever private investment...



- Potential construction of a new pulp-mill with and on-site investment of EUR 2 billion
- Could have a material positive impact on GDP growth
 - Background: UPM 1 had a permanent impact on GDP of around 1.4%, while Montes del Plata 2%

Key features:

- Plantation base:



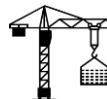
- Railway with high technical standards



- Deep sea Port in Montevideo loading full vessels



- Construction of a specialized port terminal



... together with a new railway system...



Central Railway project poised to start in 2019



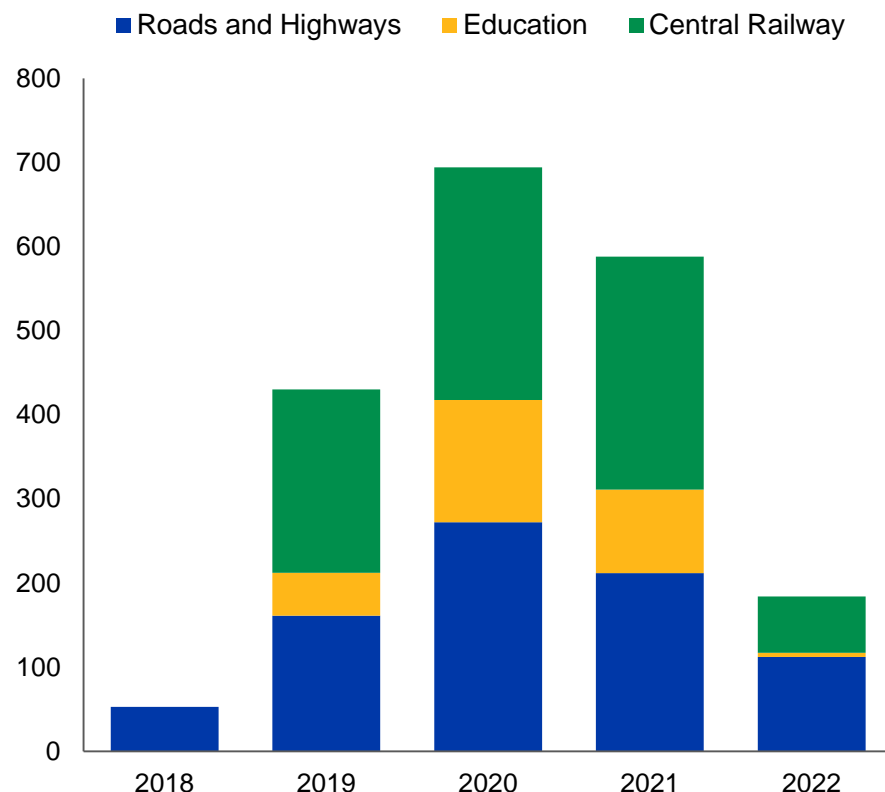
- Will run between the port of Montevideo and the city of Paso de los Toros, located in the centre of the country (273 km of railways)
- **Estimated investment of USD 825 million**

... plus a maturing pipeline of PPP infrastructure projects are foundations for medium-term economic growth



Executed PPP investment and pipeline of projects

(In USD million)



- As of end of March, **72%** of the **USD 12.4 bn 2015-2019 total infrastructure plan** (financed by budget + PPP) is completed.
- 11 PPP projects in the pipeline are poised to start execution this year.