



República Oriental del Uruguay

Investor Presentation

September 2019



Key Highlights of the Uruguayan Economy



Sustained, albeit moderating, growth in a volatile regional environment

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

Strong institutional foundations, political stability and social cohesion

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

Large international reserves and resilient government debt profile

Fiscal headwinds amid sluggish revenues and a rigid spending profile

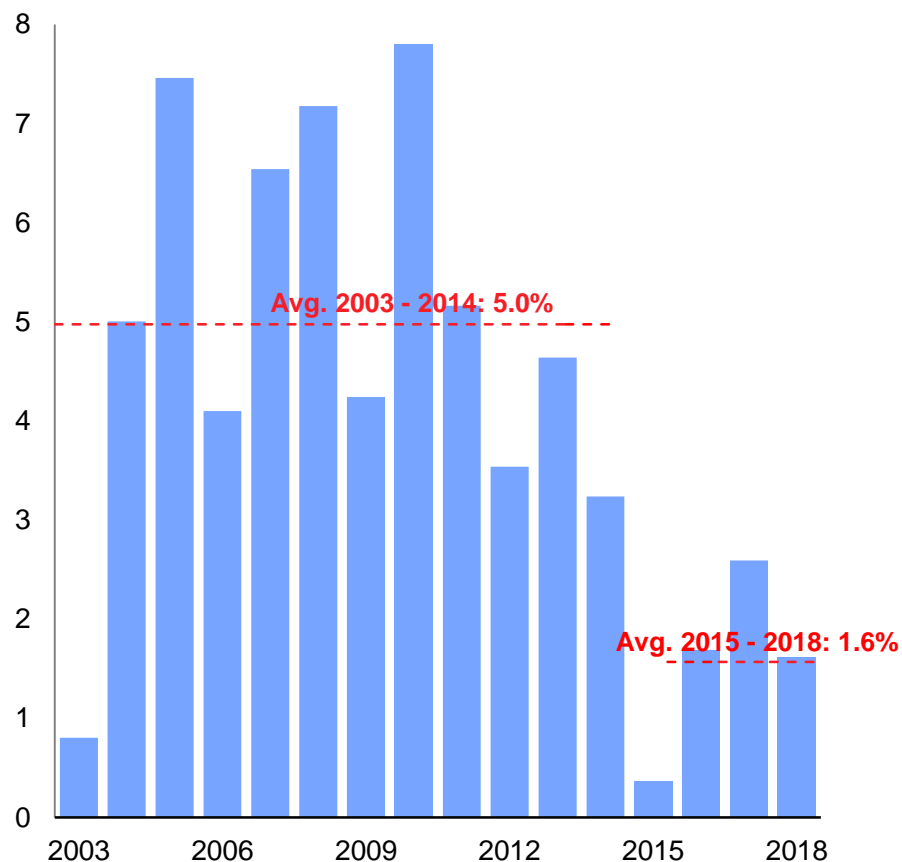




Sustained growth over the last 15 years has led to high GDP per capita

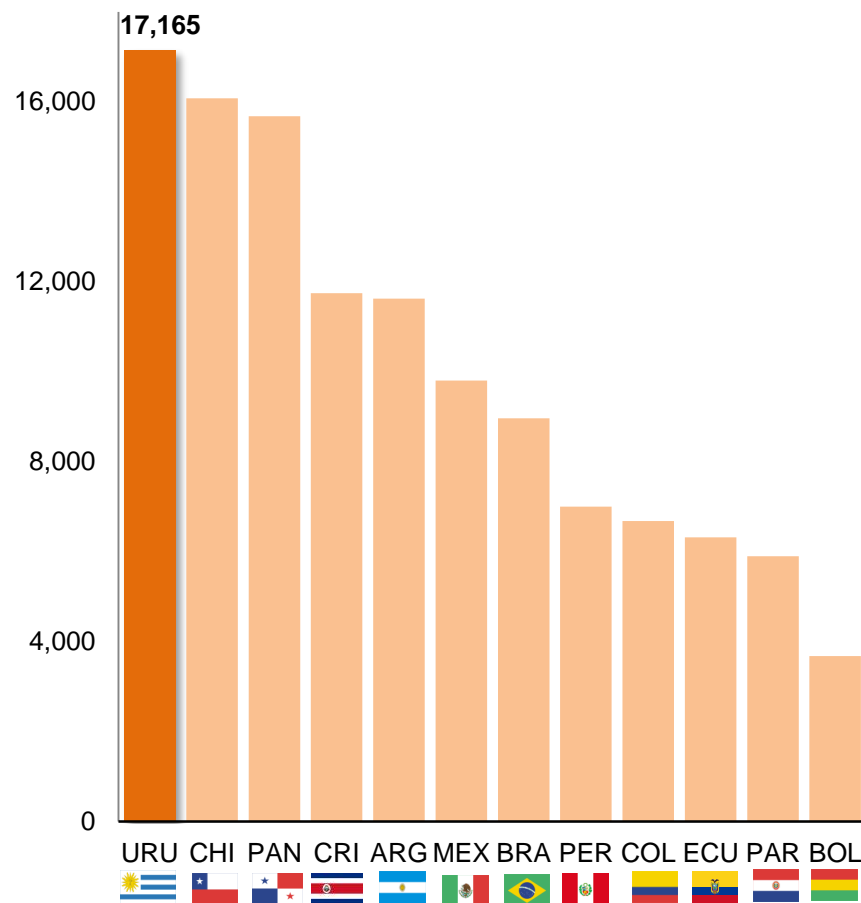
Real GDP growth

(In %)



GDP per capita compared to LATAM

(2018, in current USD)

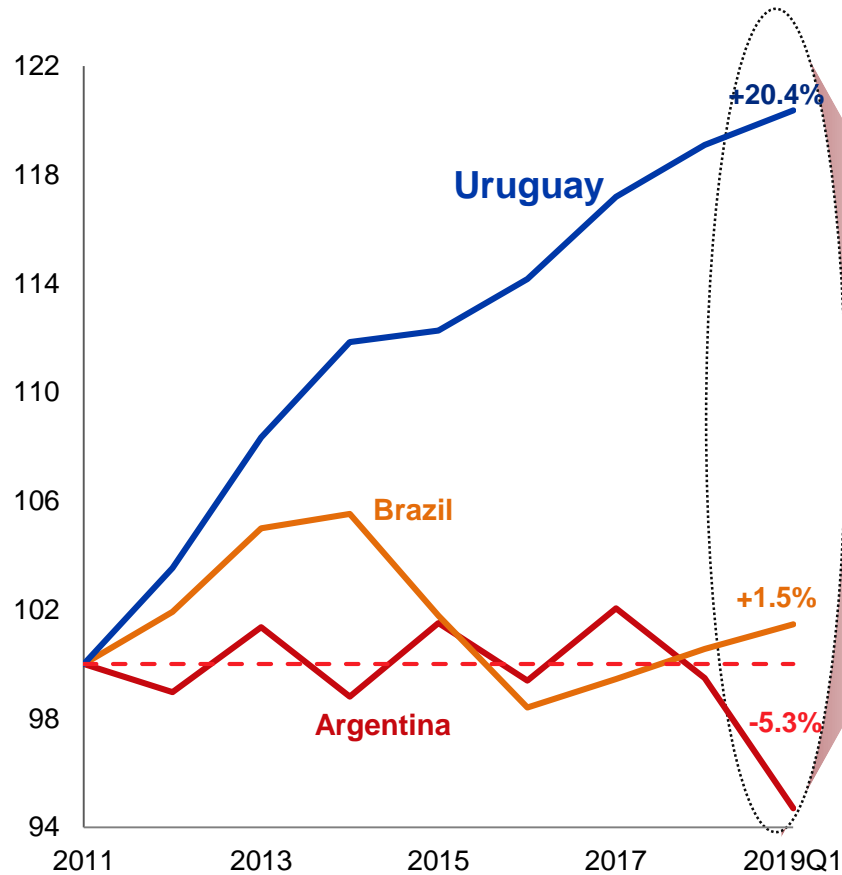




Resilience in the face of adverse regional backdrop

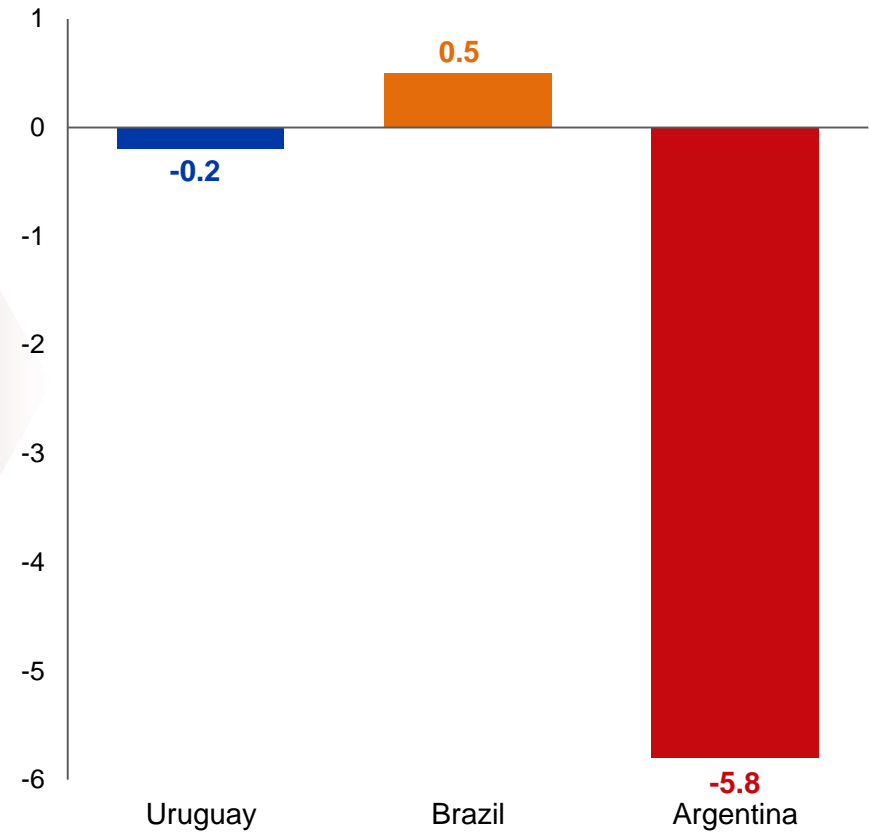
Cumulative real GDP growth

(Index, Base 100=2011)



Change in real GDP in 2019Q1

(YoY, in %)

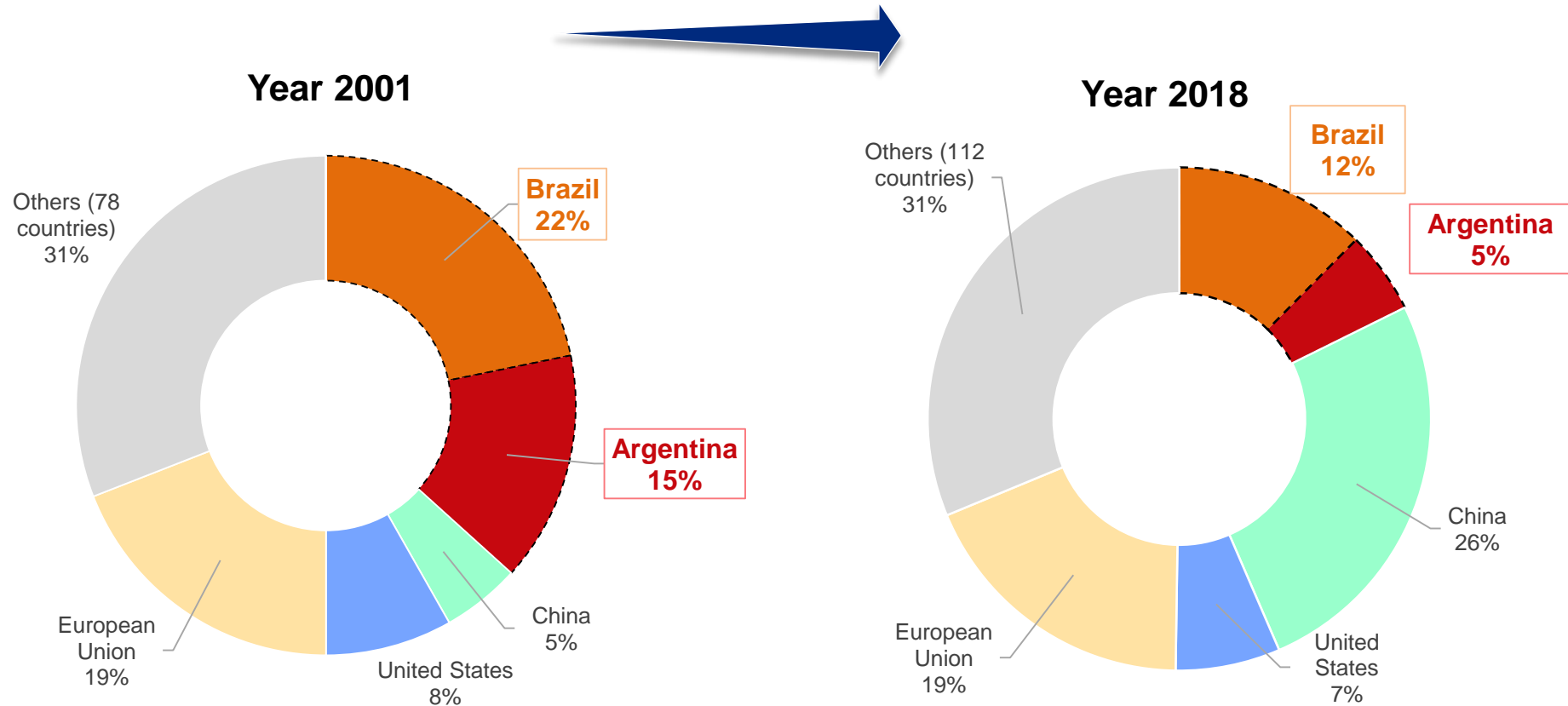




Diversification of export destinations has reduced commercial linkages and trade exposure

Exports of goods by destination

(As a share of total exports)

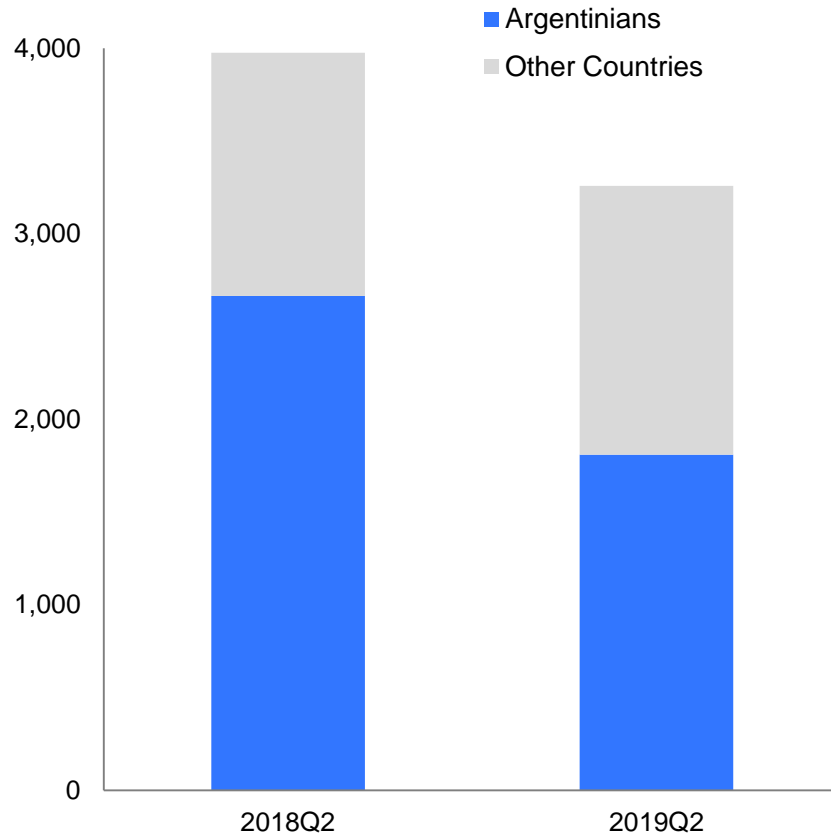


Economic pressures in Argentina have mostly spilled through inbound tourism, yet exports of other services picked up some slack



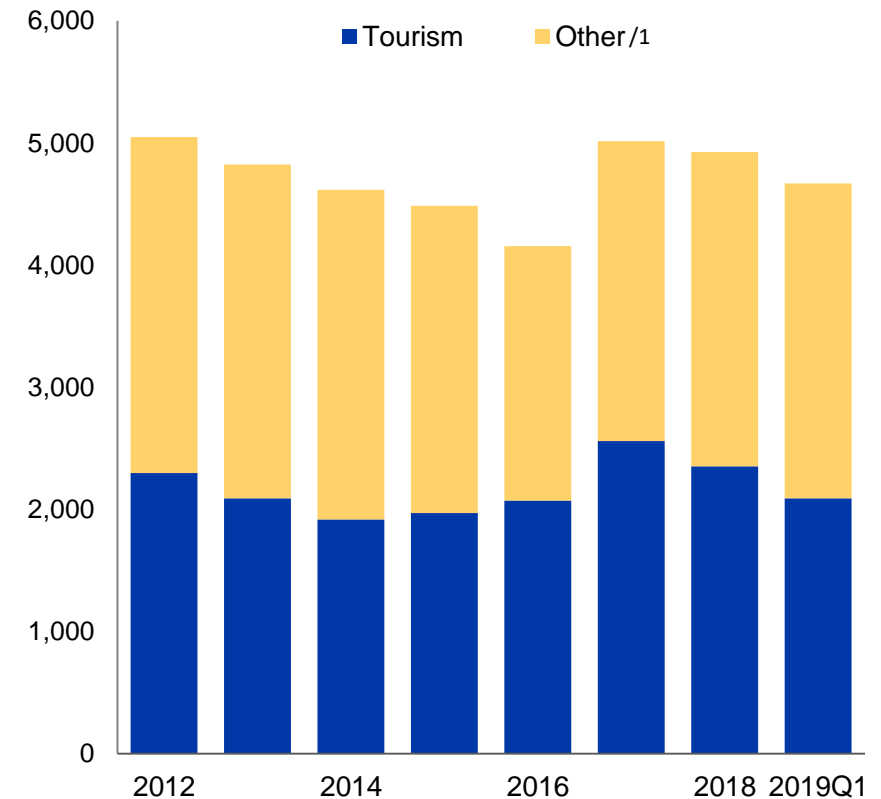
Tourist arrivals

(Last 12 months, in thousands)



Exports of services

(In USD million)



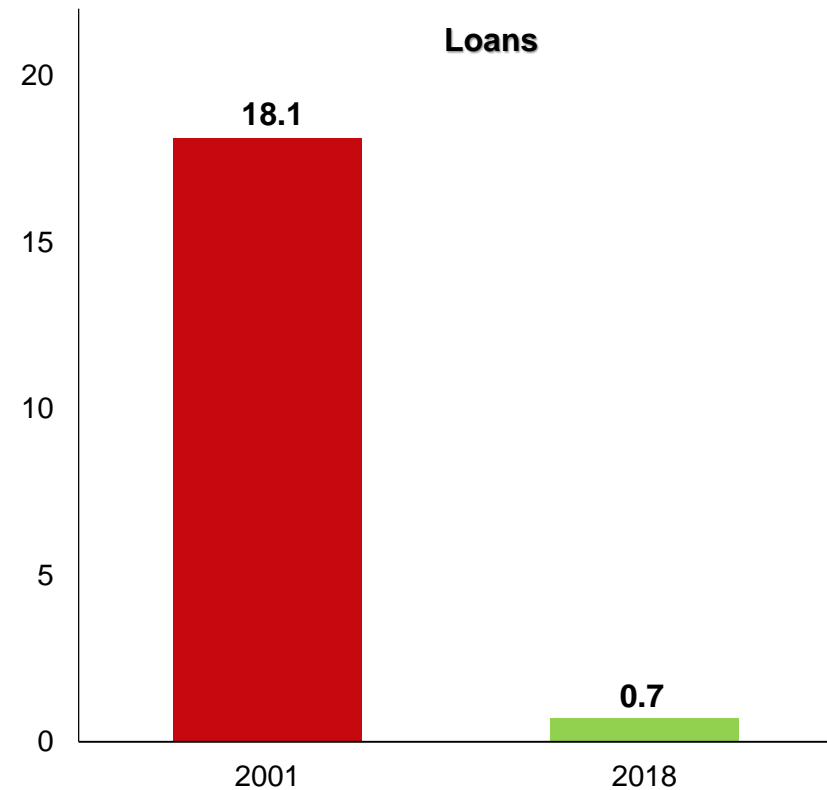
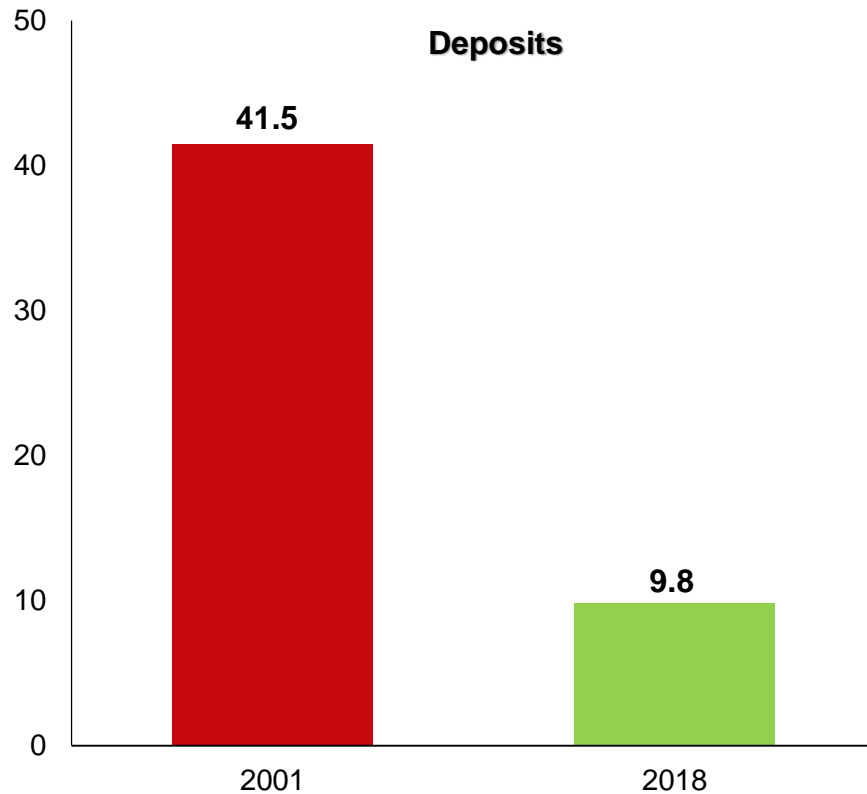
^{1/} Software, transport, logistics, maintenance, financial, personal and professional and consultancy services

Limited banking sector exposure to non-residents mitigates financial spillovers risks



Uruguayan banking system's balance sheet exposure to non-residents

(To non-financial sector, % of total) 1/



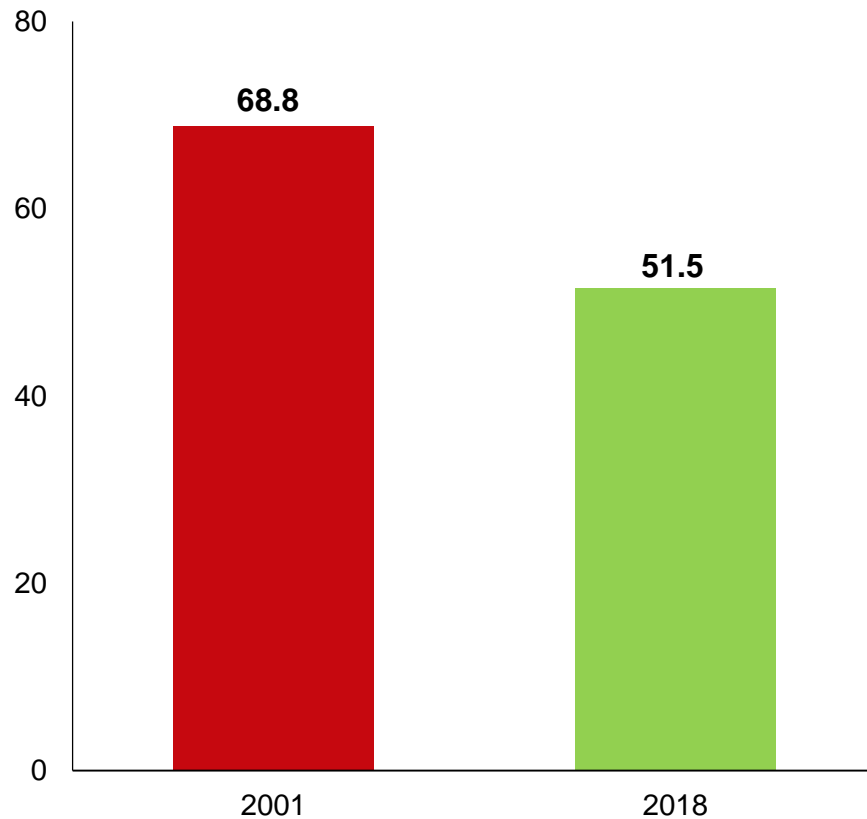
1/ End-period; data for deposits includes only private non-financial sector

Credit dollarization with higher capital requirements; stringent supervision and capital buffers under Basel III regulations

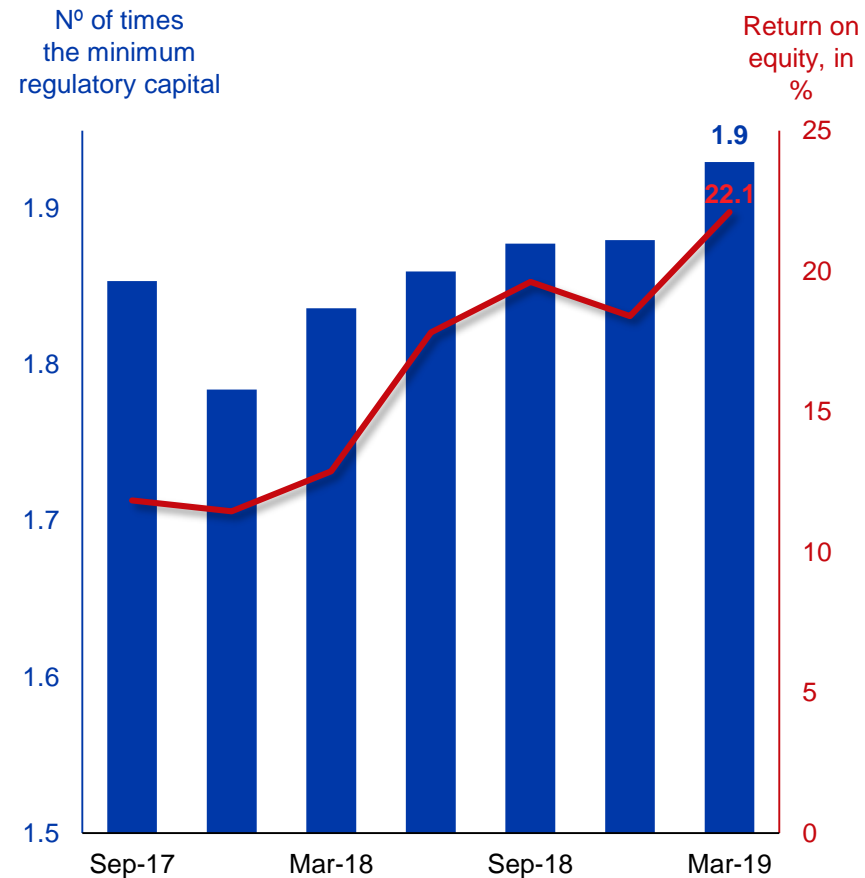


Banks' loans in foreign currency

(To the private non-financial resident sector, % of total)



Solvency and profitability of the banking system

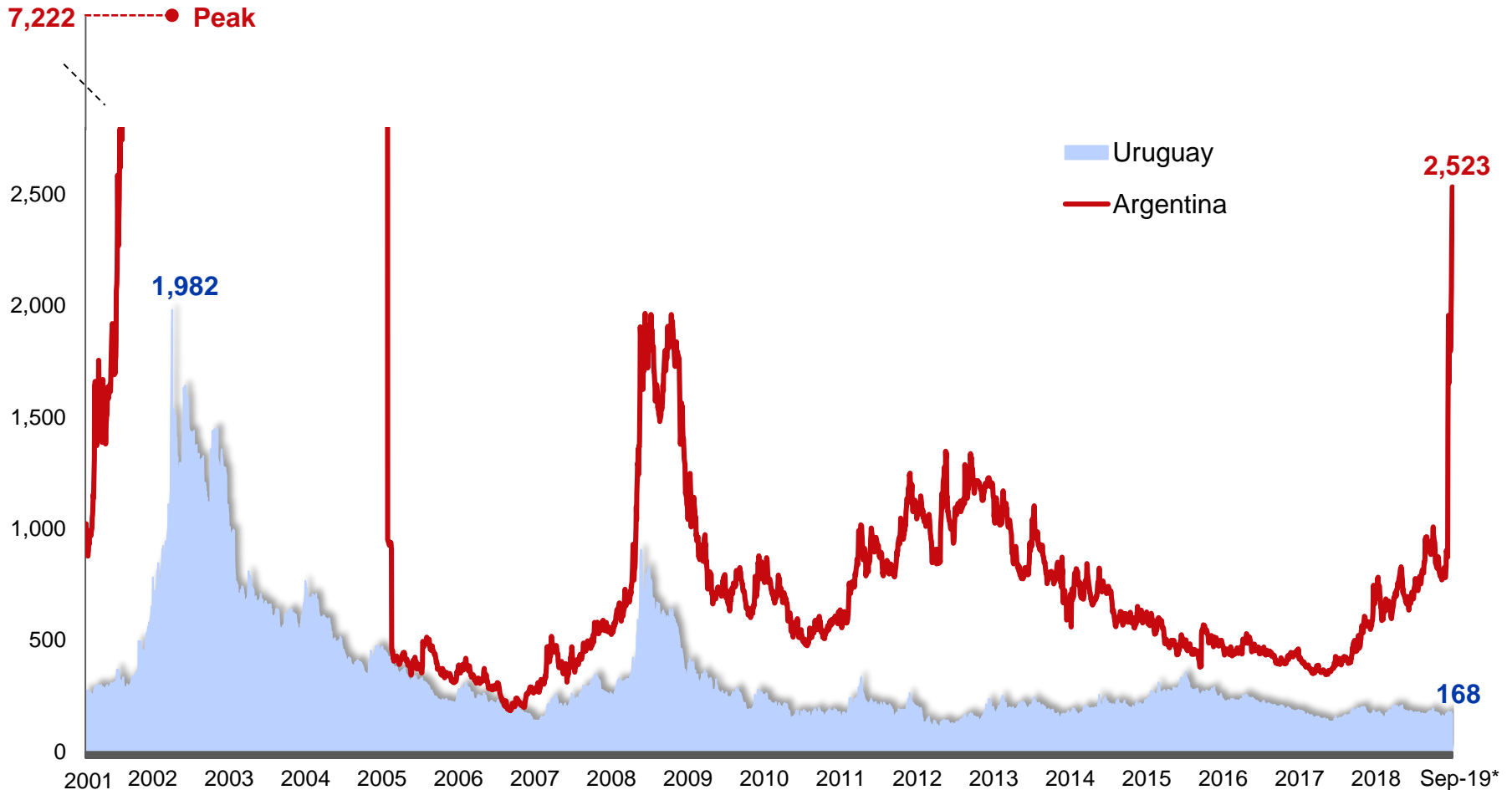


Credit spreads remain anchored despite regional turmoil



Sovereign risk premium

(EMBI, in bps)



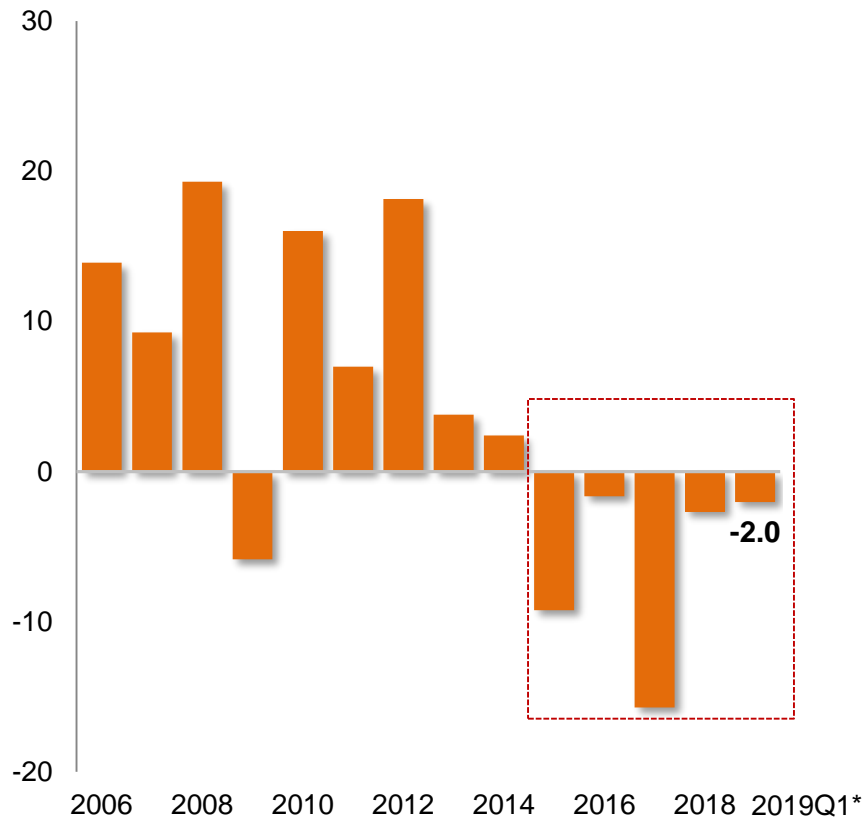
(*) As of September 3

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



Gross fixed capital investment

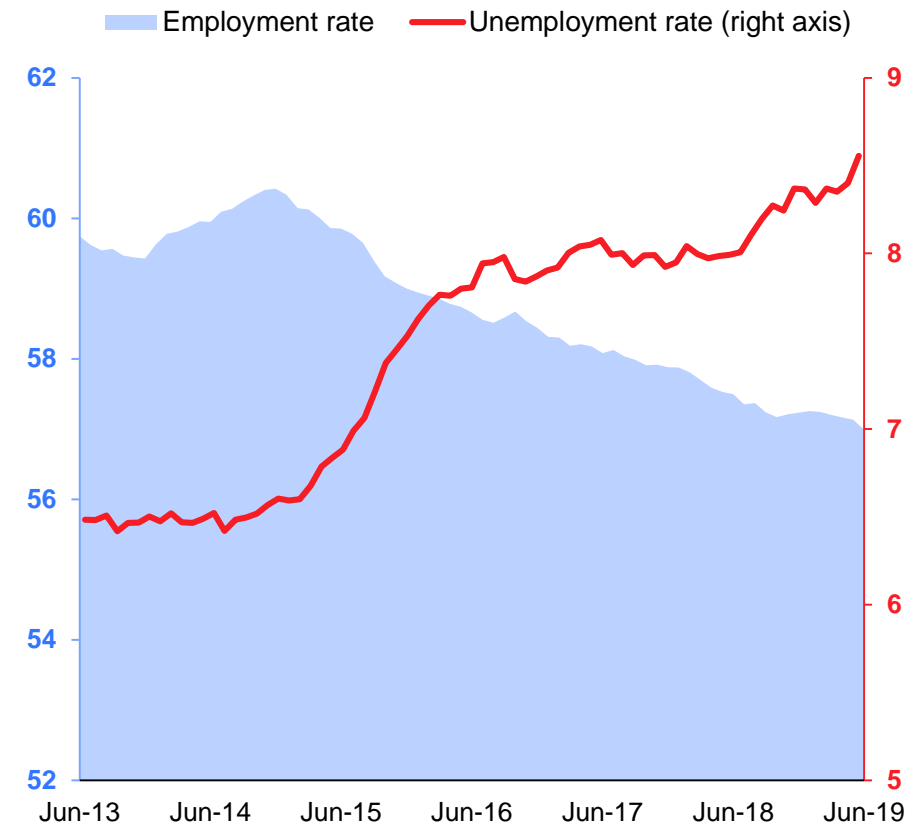
(Annual real change, in %)



(*) Last 12 months

Labour market indicators

(Average of last 12 months, in %)



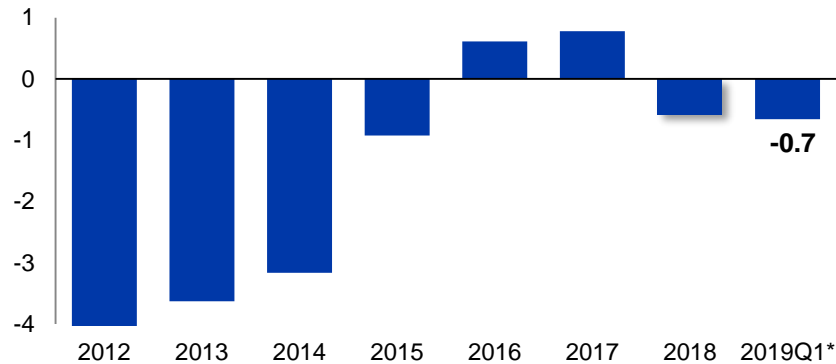
Moderate current account deficit driven by a surge in foreign direct investment earnings



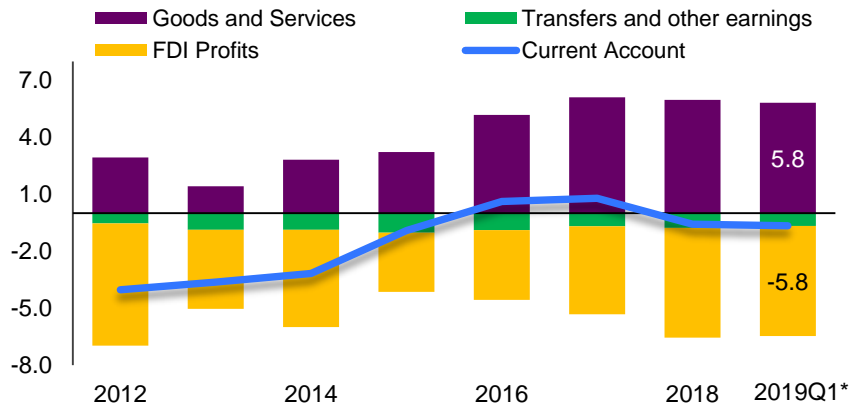
Current account balance in Uruguay

(In % of GDP)

Overall



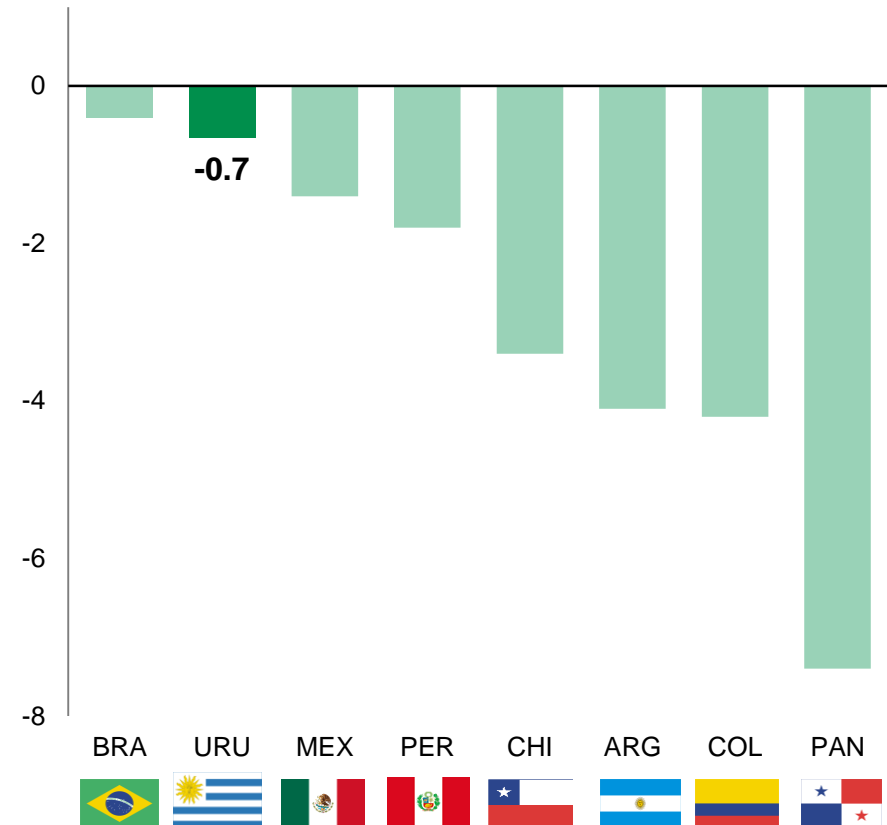
By components



(*) Last 12 months

Current account balance compared to LatAm

(Last 12 months through 2019Q1, in % of GDP)

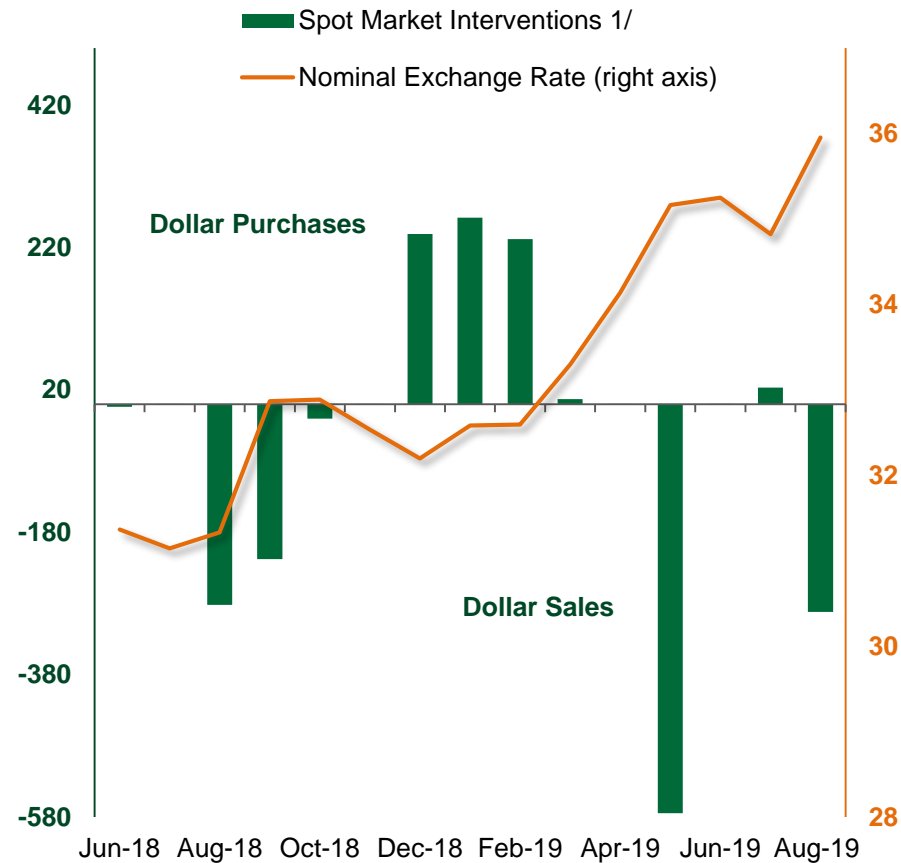


Central Bank market has intervened on both sides of the market to smooth out FX fluctuations



Central Bank FX intervention

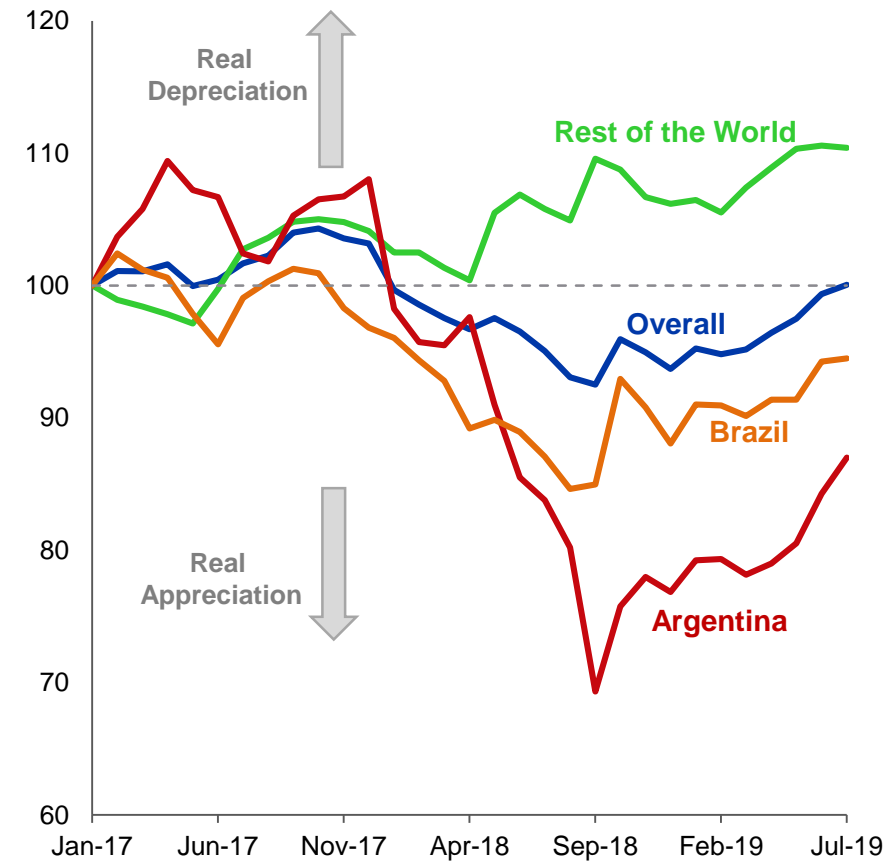
(In USD million)



1/ Does not include Central Bank's repurchases of monetary bills.

Effective real exchange rate

(Index base 100 = January 2017)

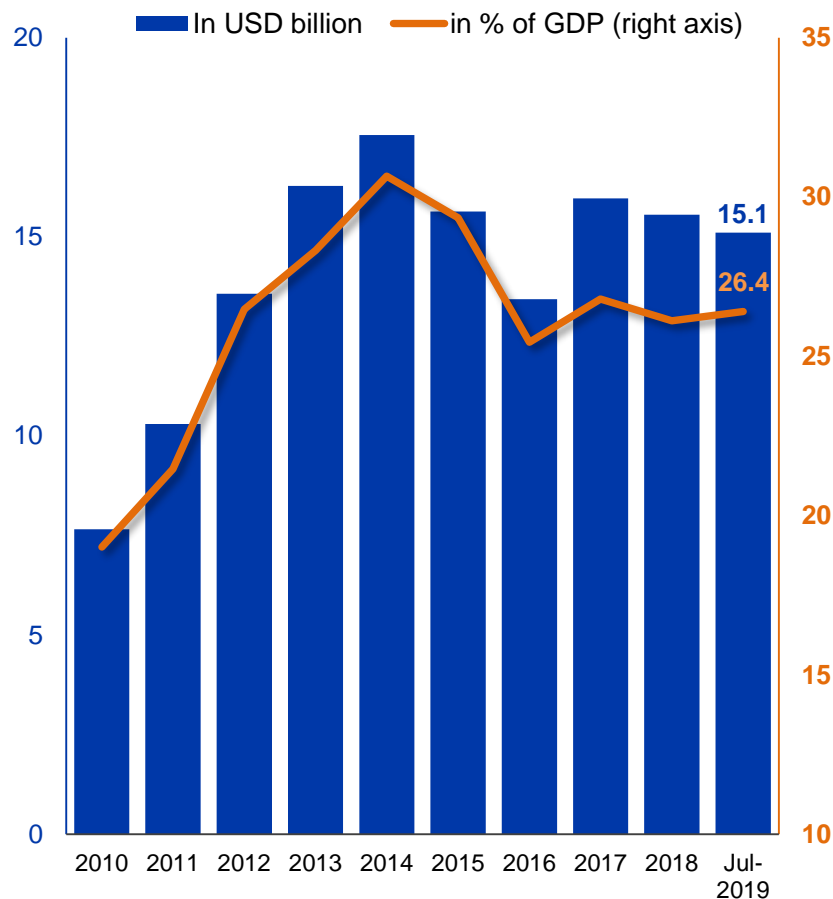


Ample international reserves provides sizeable external buffers



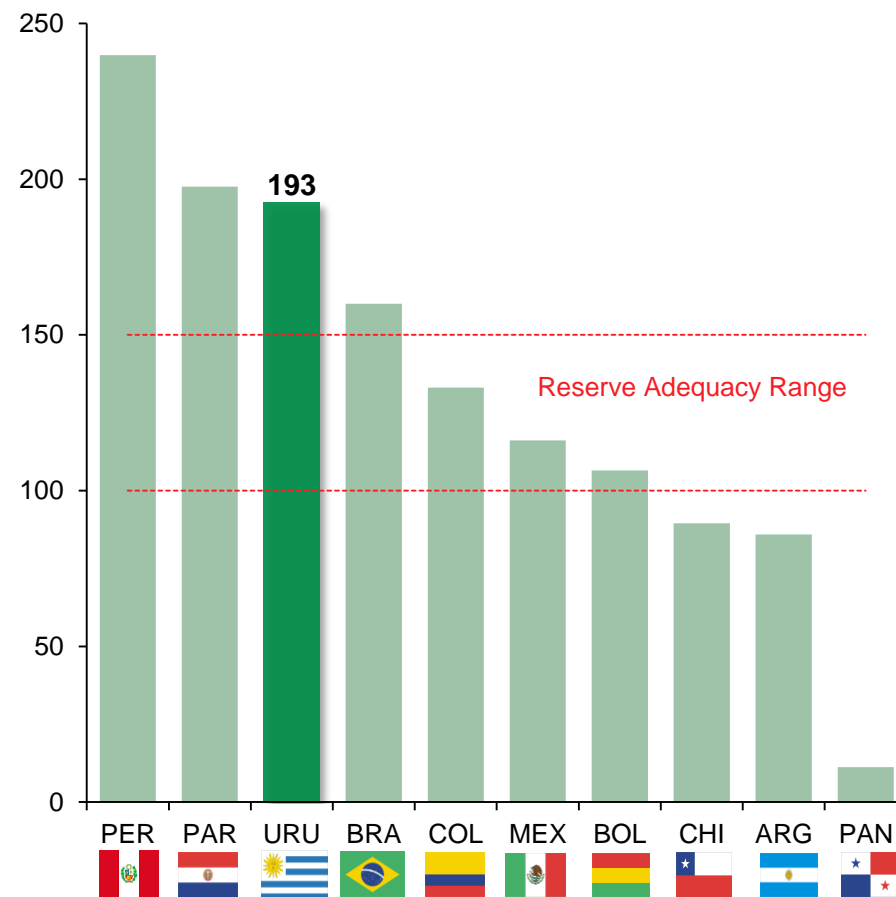
International reserves

(End-of-period)



Reserve adequacy compared to LatAm

(International reserves to IMF's Reserve Adequacy metric, as of July 2019)



Sources: Ministry of Economy and Finance, Central Bank of Uruguay, International Monetary Fund

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.

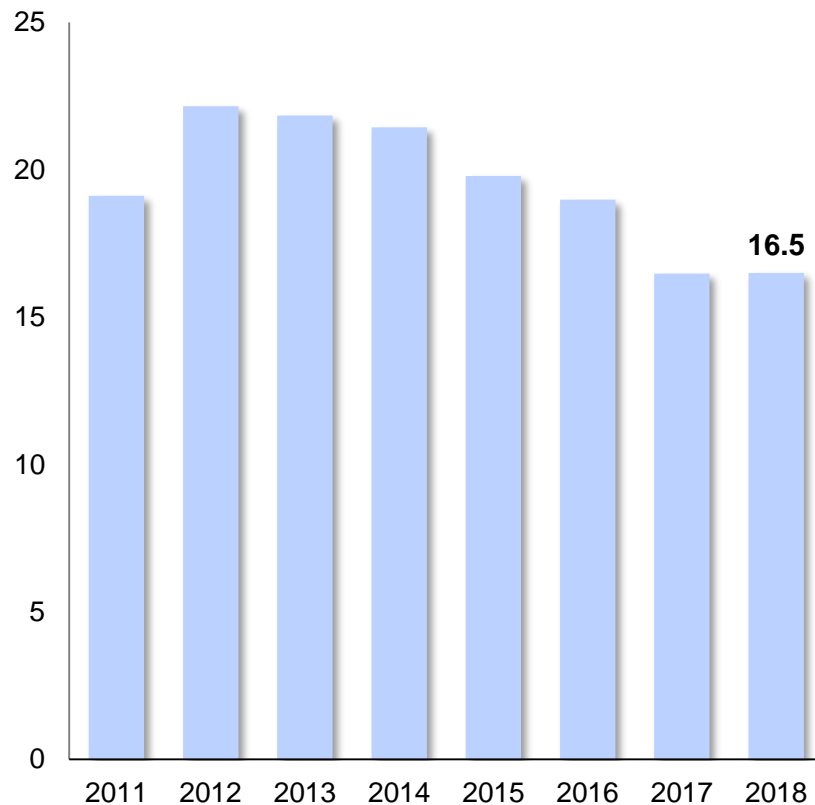
Macroeconomic Challenges and Policy Responses:

1) Boosting private investment to jump-start economic activity



Gross fixed capital investment

(In % of nominal GDP)



Policy responses to promote investment

- Changes to the Investment Promotion Regime to boost investments with positive externalities
 - Additional tax benefits for promoted investment projects executed in 2018
 - Benefits for national farm equipment production
- Extension of automatic tax credits for SME investments
- Transformative infrastructure projects

Macroeconomic Challenges and Policy Priorities:

2) Steering inflation back to target



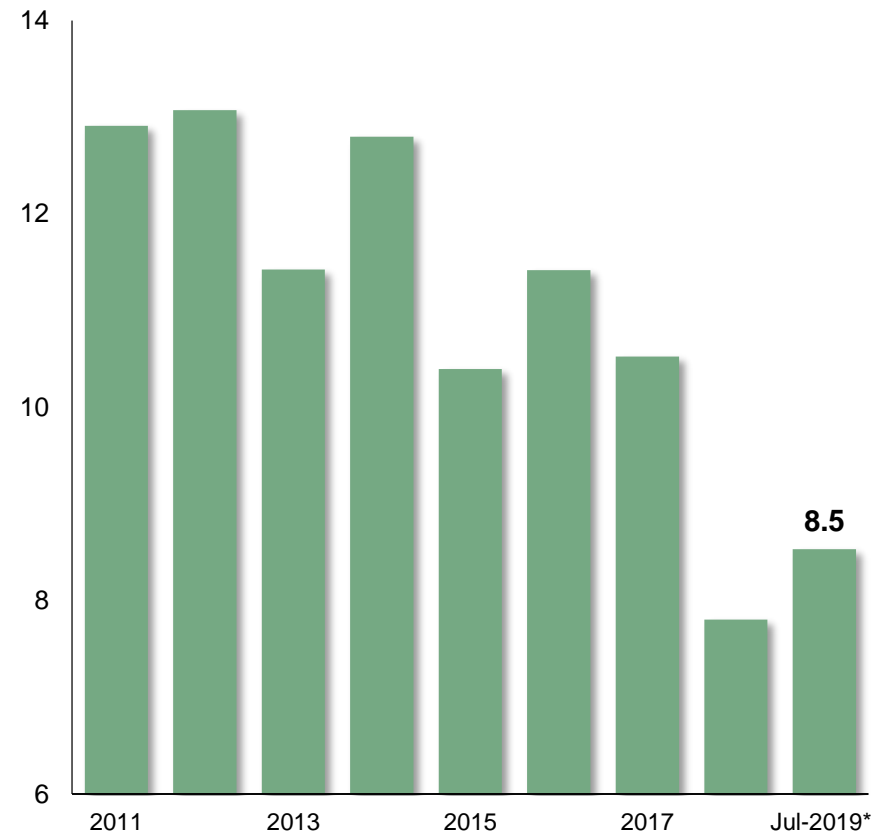
Inflation

(Annual, in %)



Nominal Wages

(Average annual change, in %)



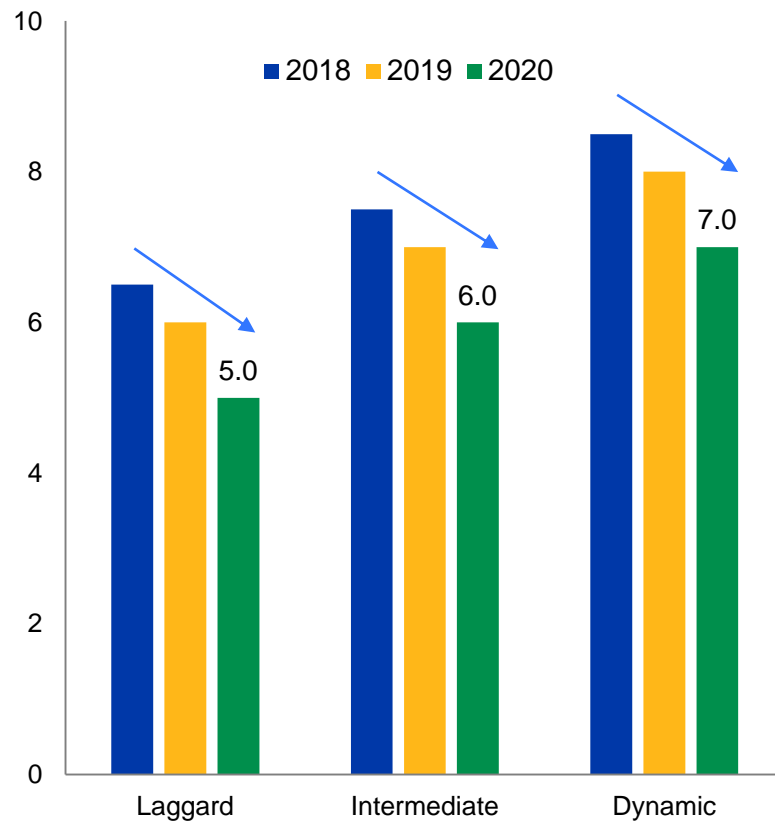
(*) Last 12 months

Flexible and forward-looking wage-setting guidelines to reduce indexation and non-tradable inflation inertia



Government's guidelines for 2018-2020 wage negotiations

(Annual increases in nominal wages by economic sector, in %)



Wage-setting guidelines in the private sector

- Nominal wage adjustments based on forward-looking inflation
- Wage increases depending on sector's economic situation
- Longer-term wage contracts and less frequent real wage corrections

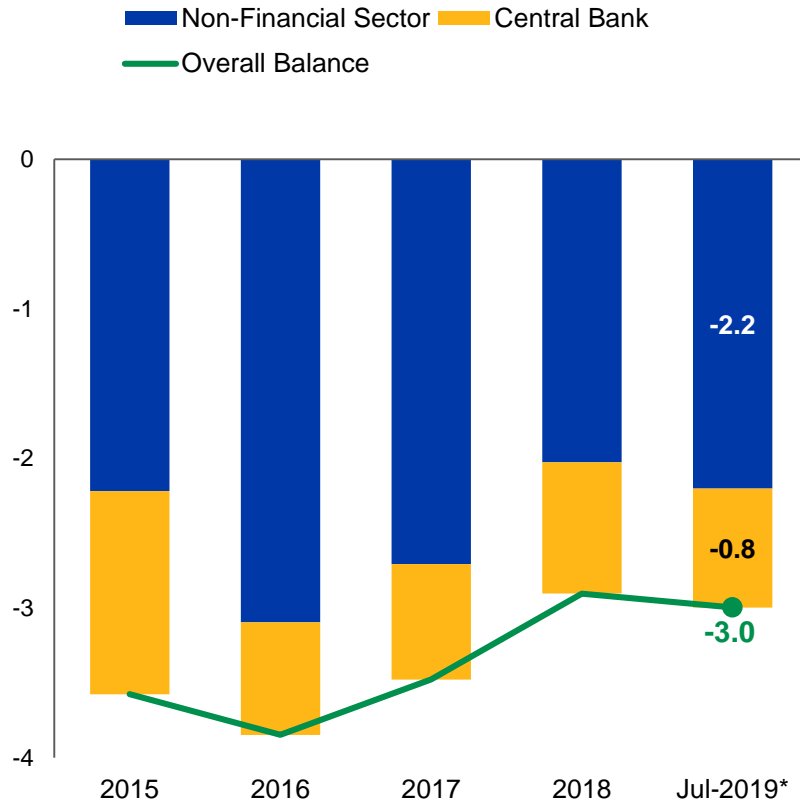
Macroeconomic Challenges and Policy Responses:

3) Shoring up fiscal finances



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 Public Enterprises and the Central Bank
- Since October 2018, the public Social Security Trust Fund (SSTF) has received extraordinary transfers from Pension Funds, following a law introducing changes to the pension system
- These accumulated transfers, are registered as government revenues consistent with IMF statistics standards, and reduced the headline fiscal deficit by 1.9% of GDP in the last 12 months

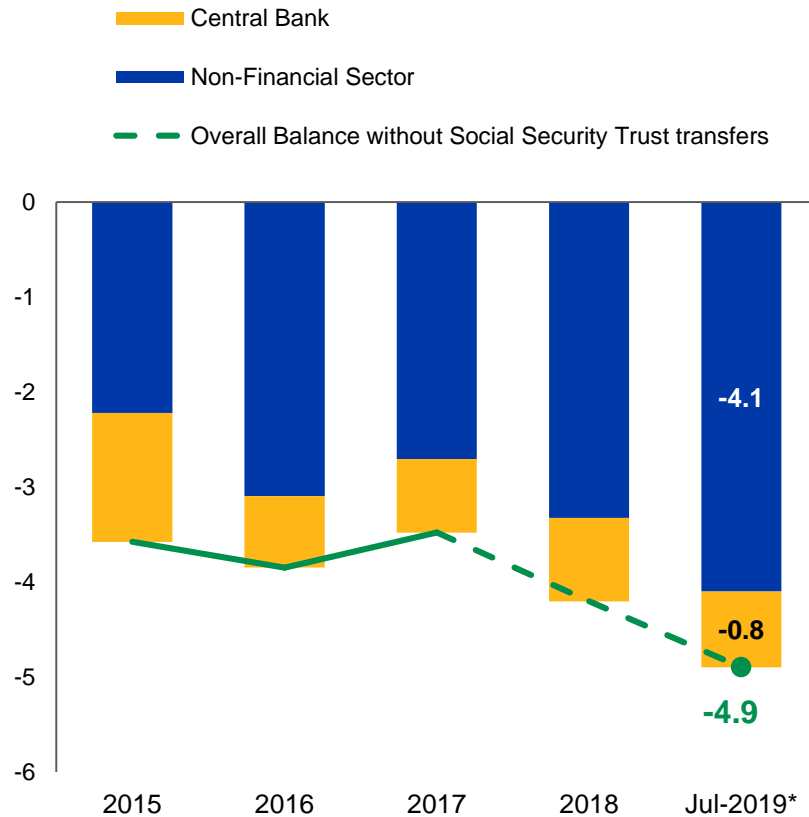
Macroeconomic Challenges and Policy Responses:

3) Shoring up fiscal finances



Fiscal balance of the overall public sector

(In % of GDP)



(*) Last 12 months

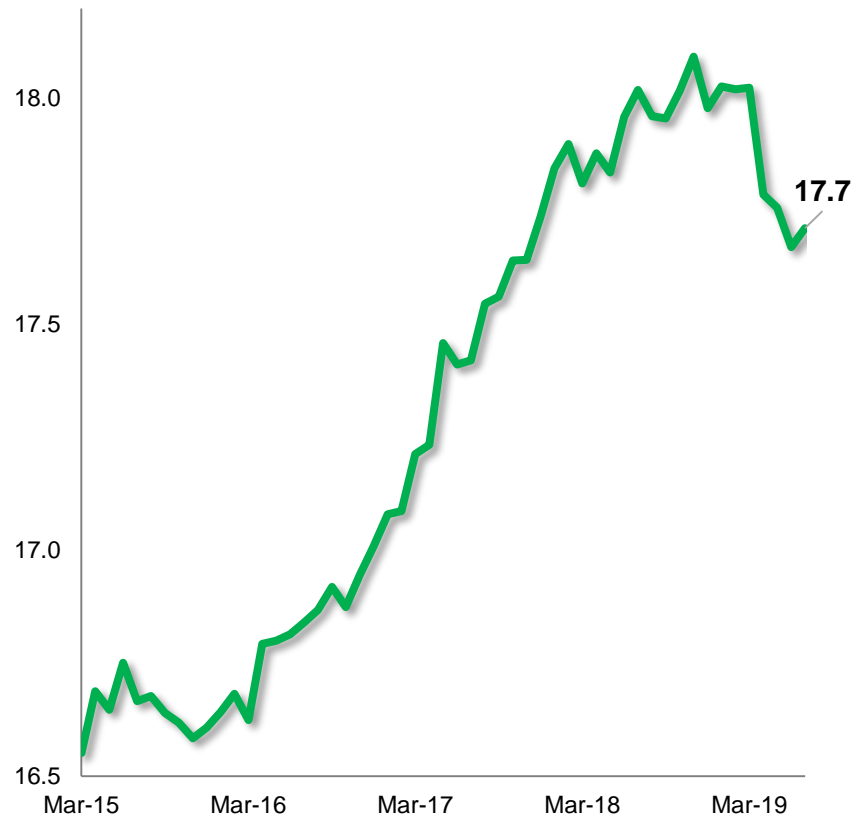
- Excluding these inflows into the SSTF, fiscal finances has seen a persistent deterioration since 2017
- The Ministry of Finance has deployed measures to improve quality of discretionary spending and budget execution
- The Central Bank cannot transfer to the Treasury unrealized gains originated from the accounting revaluation of international reserves

Fiscal consolidation is facing headwinds from a sluggish economy and sustained increase in rigid and indexed expenditures



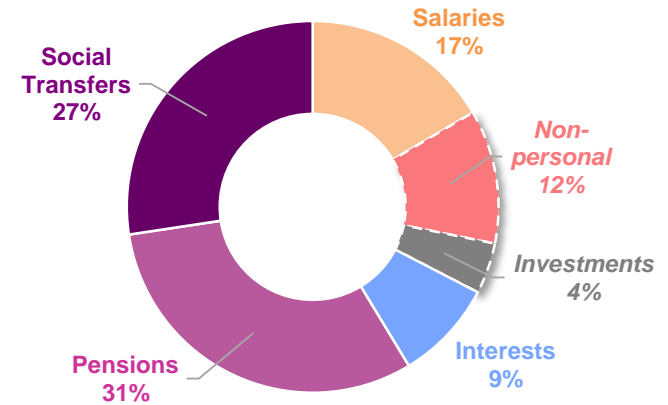
Tax Revenues

(In % of GDP)



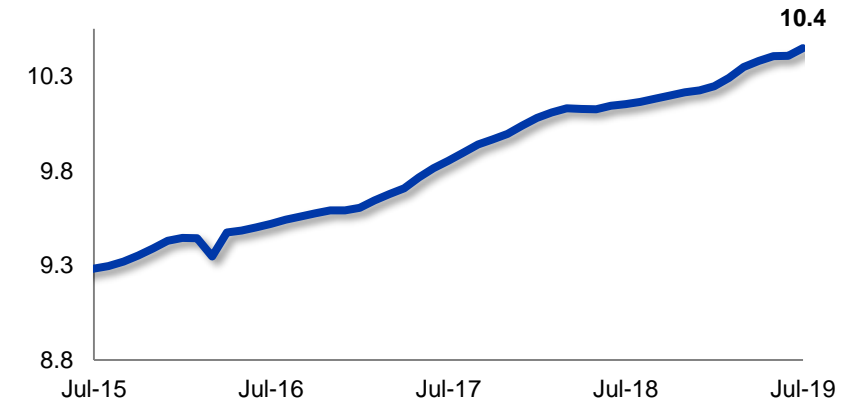
Central Government expenditures by component

(12-month through July 2019)



Pension expenditures

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

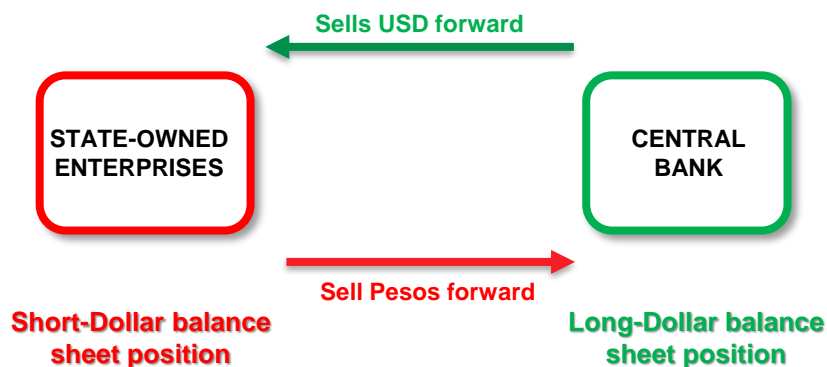


Improvement in SOE's management and policies strengthened financial position and operating efficiency

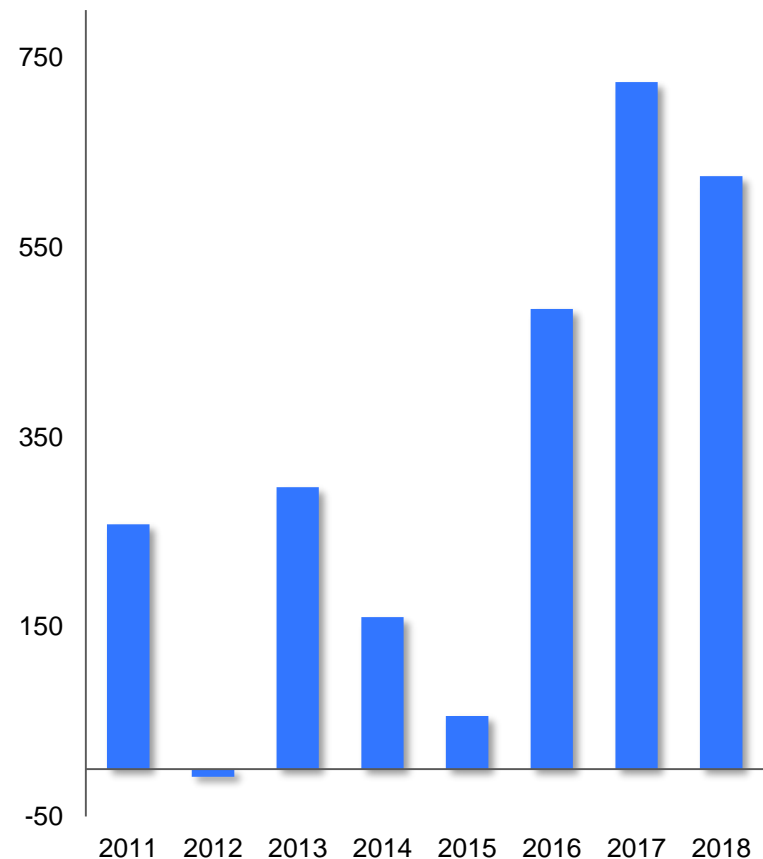


Improvement in financial health of public enterprises

- More efficient management and reduction in operating costs
- Reduced vulnerability to exchange rate fluctuations and diversified sources of funding.
 - Coordinated with MoF and Central Bank (sovereign asset and liability management framework)



State-owned enterprises' balance sheet results
(In USD million)/1



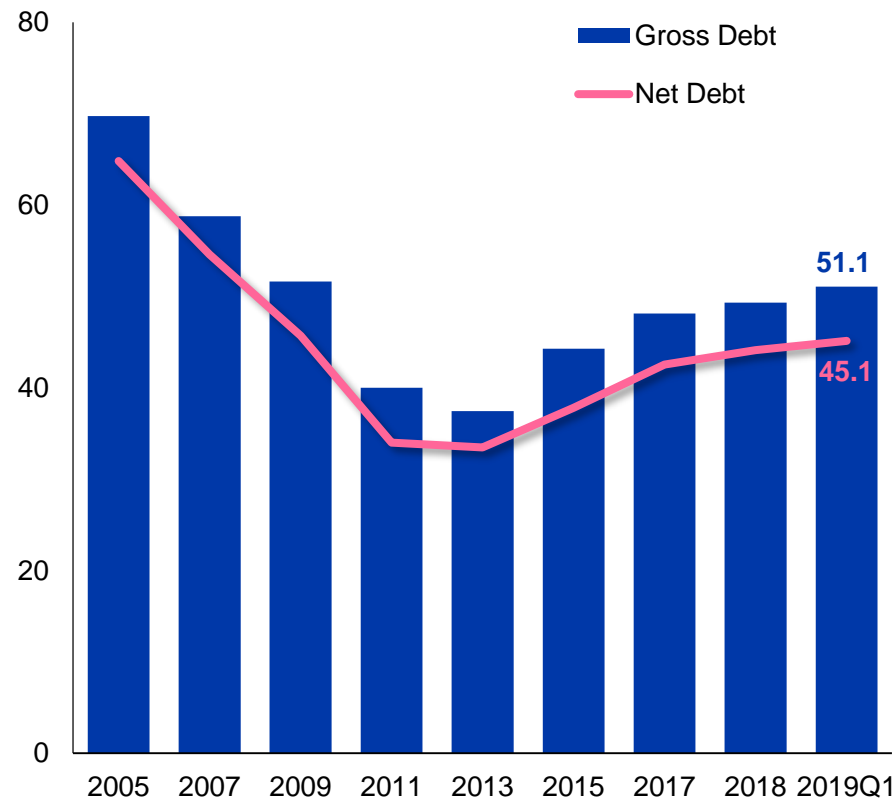
1/ Includes UTE, ANCAP, ANTEL y OSE

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



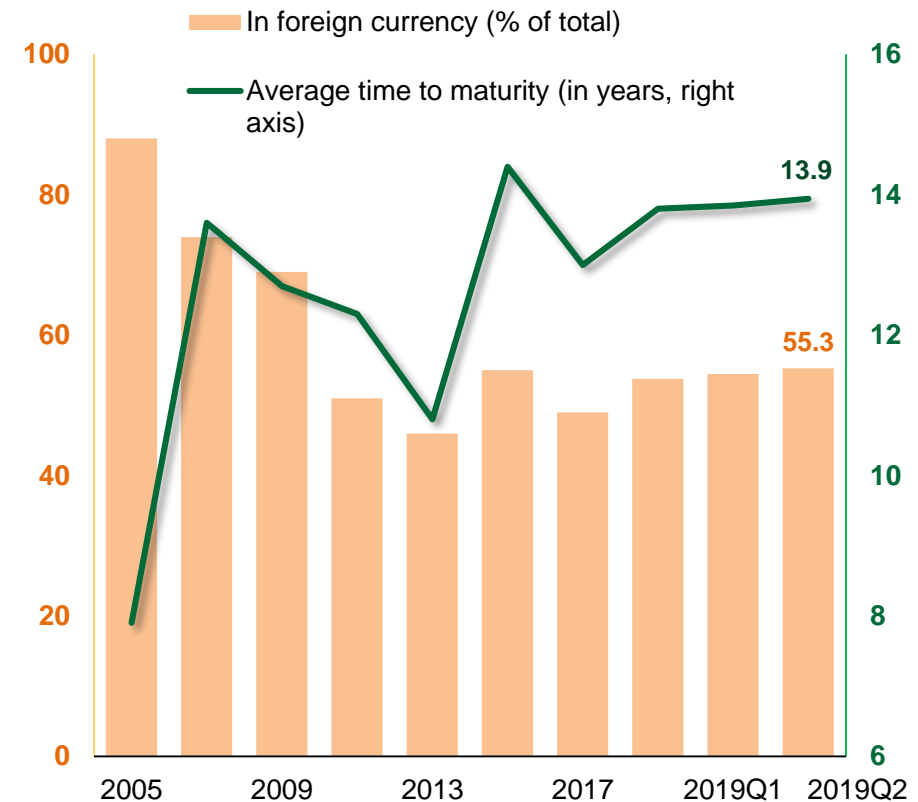
Central Government (CG) debt

(In % of GDP, end-year)



Currency and maturity composition of CG debt

(End-year)

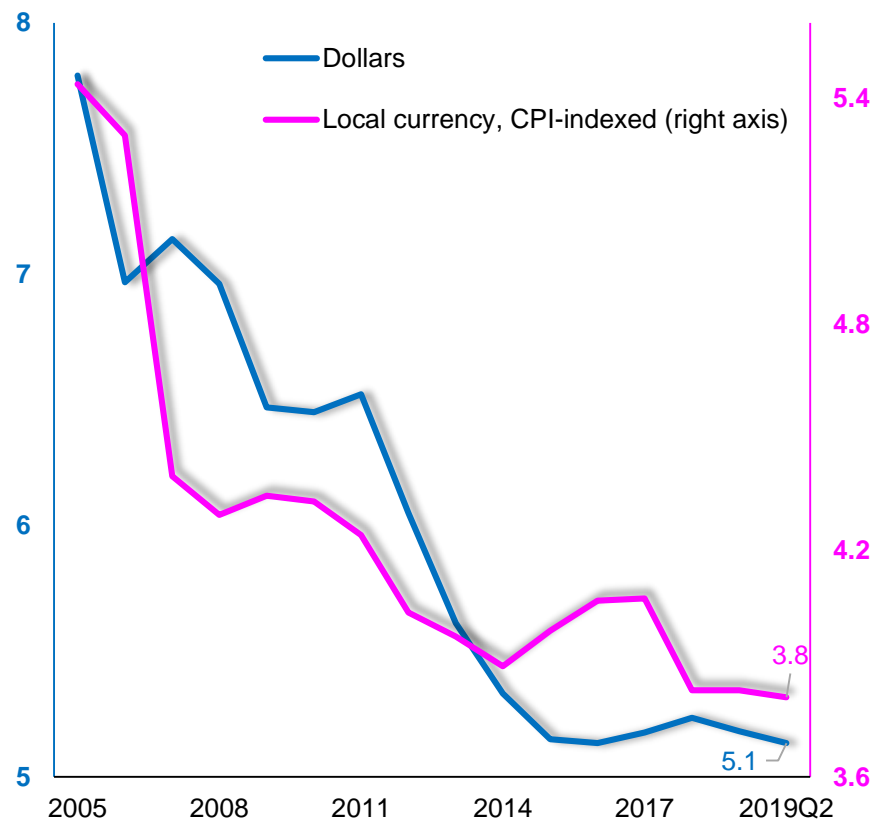


...while keeping borrowing costs subdued and risk spreads in line with better-rated peers



Central Government (CG) borrowing costs

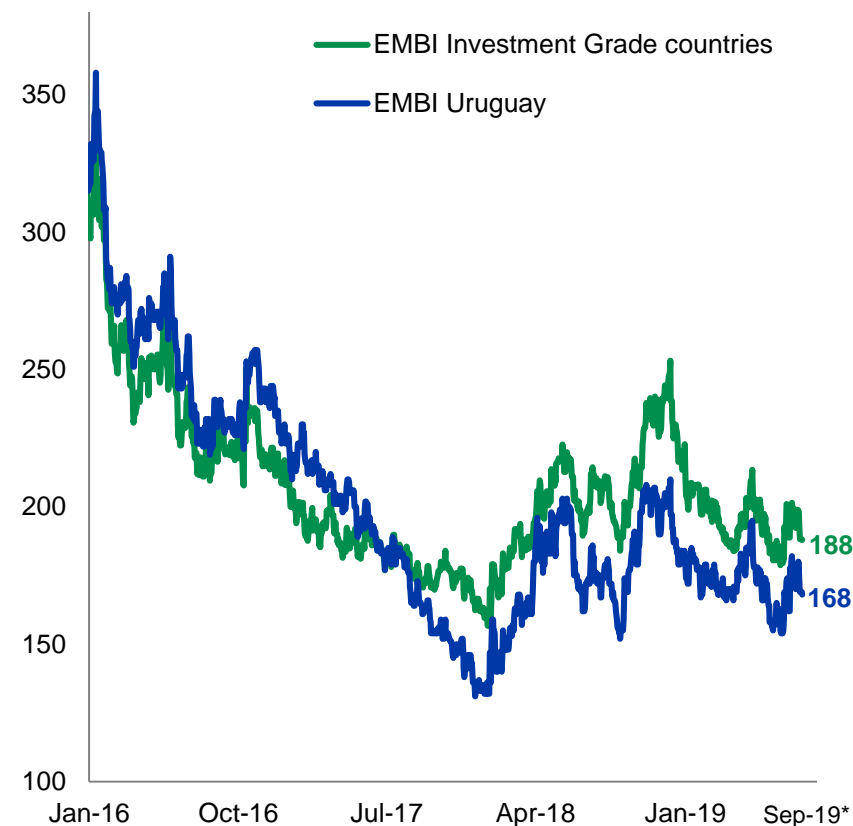
(Average interest rate on outstanding debt, in %)^{1/}



^{1/} Weighted average

Sovereign risk premium

(In bps)



(*) As of September 3

Government financing needs and funding plans



Flow of Funds

(in USD million, projected)

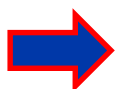
	Year 2019	Year 2020
FINANCING NEEDS	3,832	3,581
Interest Payments	1,643	1,664
Amortizations of Bonds and Loans	1,865	1,866
Primary Deficit (a)	323	51
FUNDING SOURCES	3,832	3,581
Multilateral Loans	347	300
Gross Bond Issuance (b)	3,250	2,900
Net Others	125	166
Use of Assets	110	215
Memo Item: Net Bond Issuance (c)	1,676	

70%
completed as
of August

(a) Excludes transfers to the Social Security Trust Fund. Projections based on latest Annual Budget Review (June 2019).

(b) Includes bonds issued domestically and in international markets.

(c) Difference between gross bond issuance and total bond amortization (debt payments coming due plus bonds repurchased in LMO).



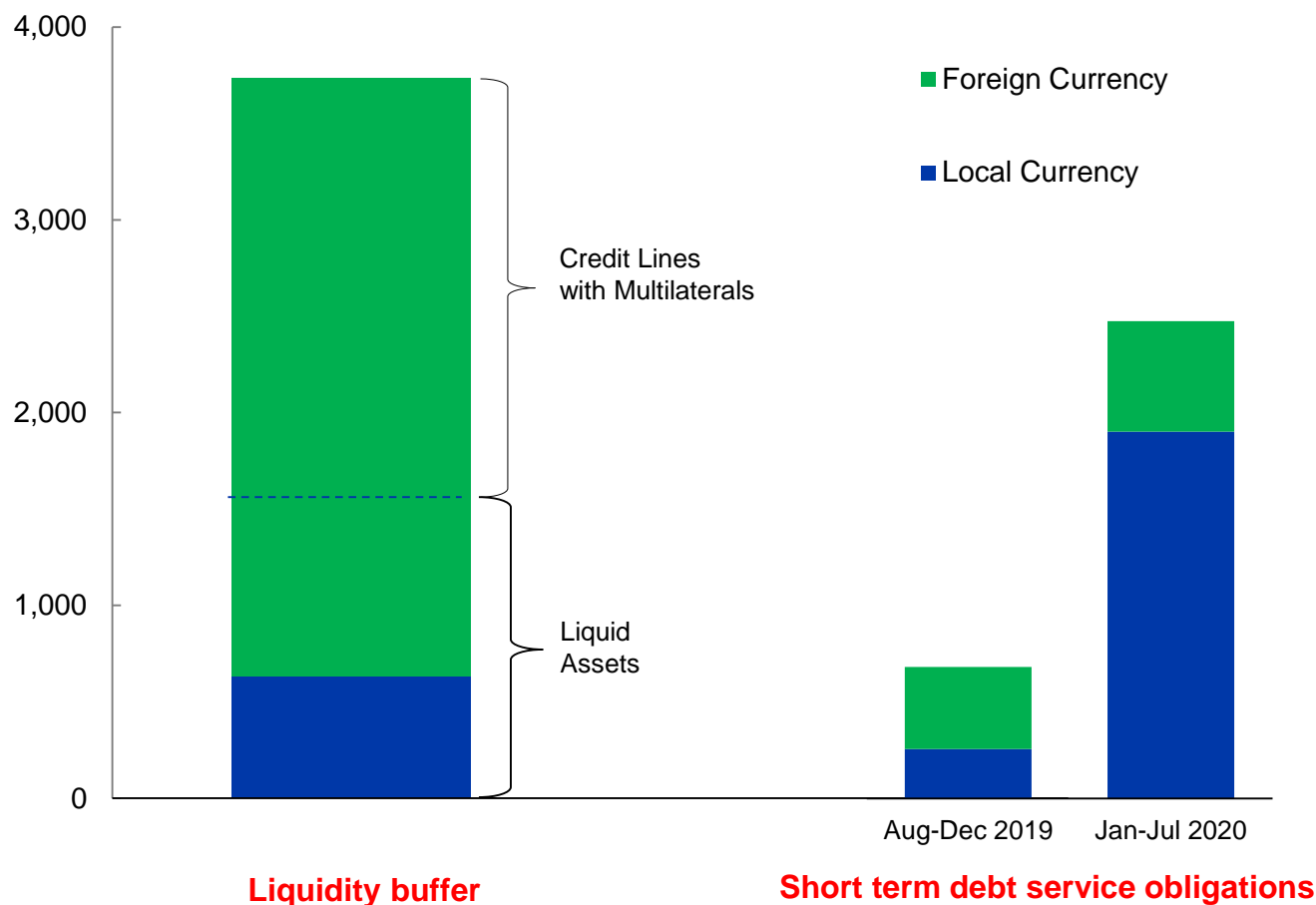
The goal is to balance the currency composition of debt issuance in terms of local and foreign currency, at fiscally responsible rates

Manageable funding needs and pre-financing policy provides flexibility in the event of external shocks



Government's liquidity buffers and short term debt service obligations ^{1/}

(In USD million, as of end-July 2019)

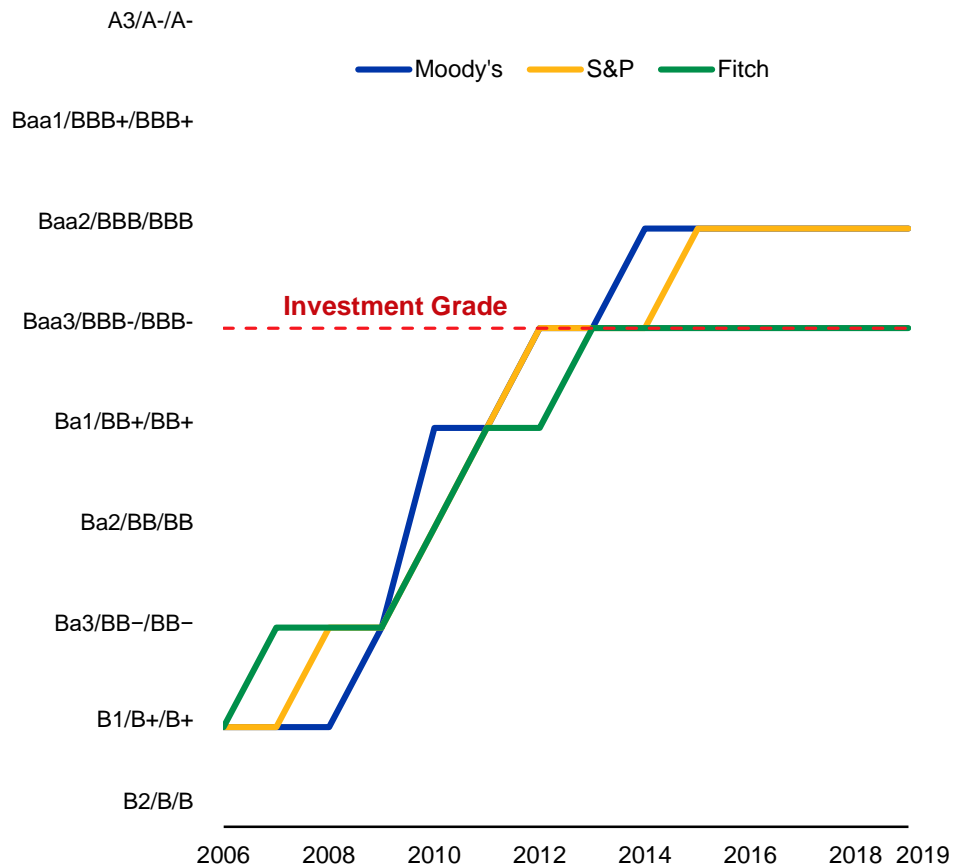


^{1/} Debt service includes amortization plus interest payments

Uruguay's credit rating performance



Evolution of Uruguay's Sovereign Credit Ratings



Latest Credit Rating Actions



August 2019. Confirmed Uruguay's rating at Baa2, Stable trend.



June 2019. Uruguay's rating affirmed at BBB- with Negative outlook.



May 2019. Affirmed Uruguay's rating at BBB, outlook remained stable.



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



January 2019. Affirmed BBB rating, stable outlook.

Moving ahead with largest-ever private investment in the country...



Construction of new pulp mill

- Finnish company UPM's Second pulp mill in the country
Located near Paso de los Toros in central country
- Overall investment: approx. **USD 3 billion (5% of GDP)**
 - On-site investment (USD 2.7 billion)
 - Deep-sea pulp terminal in Montevideo port with direct rail access (USD 280 million)
 - New residential area and other investments outside the mill fence (USD 70 million)
- Will have a material positive impact on GDP growth, employment and the balance of payments
- World-class design with proven high environmental performance



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



Central Railway project

- Will run from the heart of the country (city of Paso de los Toros) to the Port of Montevideo (273 km long)
- Public-Private-Partnership (PPP) modality
- **USD 1,000 million** investment
- Will reduce transportation costs for other economic activities and is expected to foster more agricultural activity in the center-north part of the country.



... plus a wide range of infrastructure projects, which together are setting the foundations for medium-term economic growth



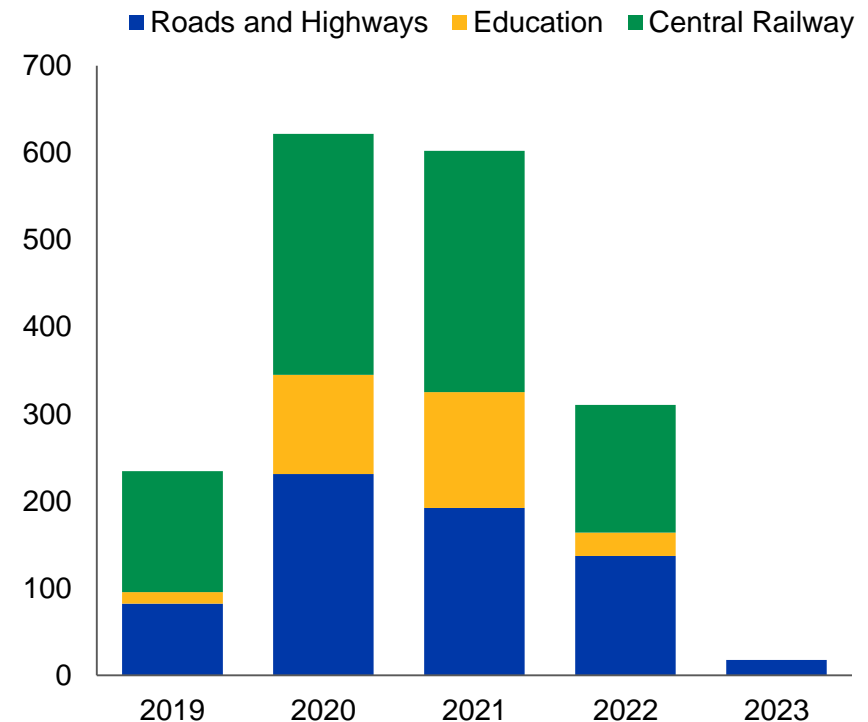
Maturing pipeline of PPP infrastructure projects

- Total Investment of USD **1,900 million**
- The PPP portfolio spans 13 projects.
- Most of them poised to start execution this year:
 - Roads and highways
 - Education infrastructure
 - Central Railway



Executed PPP investment and pipeline of projects

(In USD million)



Deeper trade integration in good and services: Free Trade Agreements negotiated with EU and EFTA during 2019



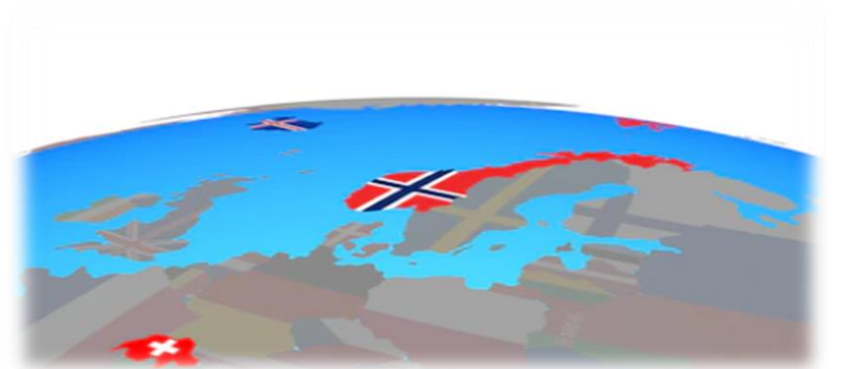
EU:

- Most important agreement since the creation of Mercosur
- The EU is Uruguay's second largest commercial partner
- 97% of exports supply will have preferential access to the EU



EFTA (Switzerland, Norway, Iceland and Liechtenstein):

- The agreement covers tariff issues, government purchases, trade in services, intellectual property, trade facilitation, sustainable development, competition, investment and trade defense.



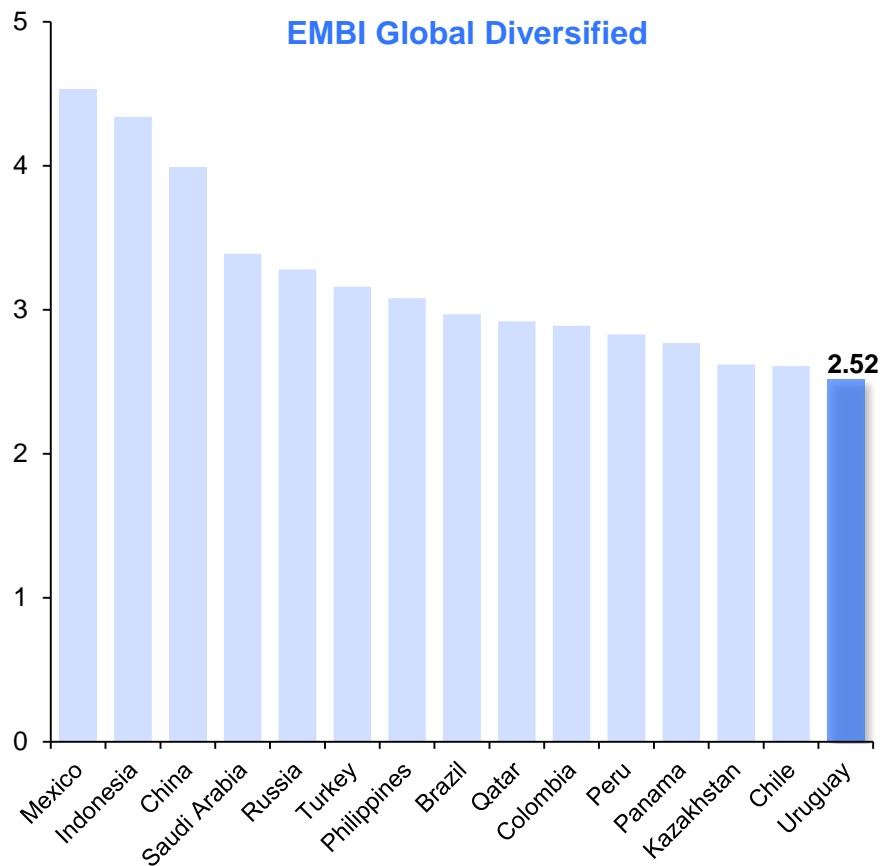
Uruguay is a top performer on ESG fundamentals



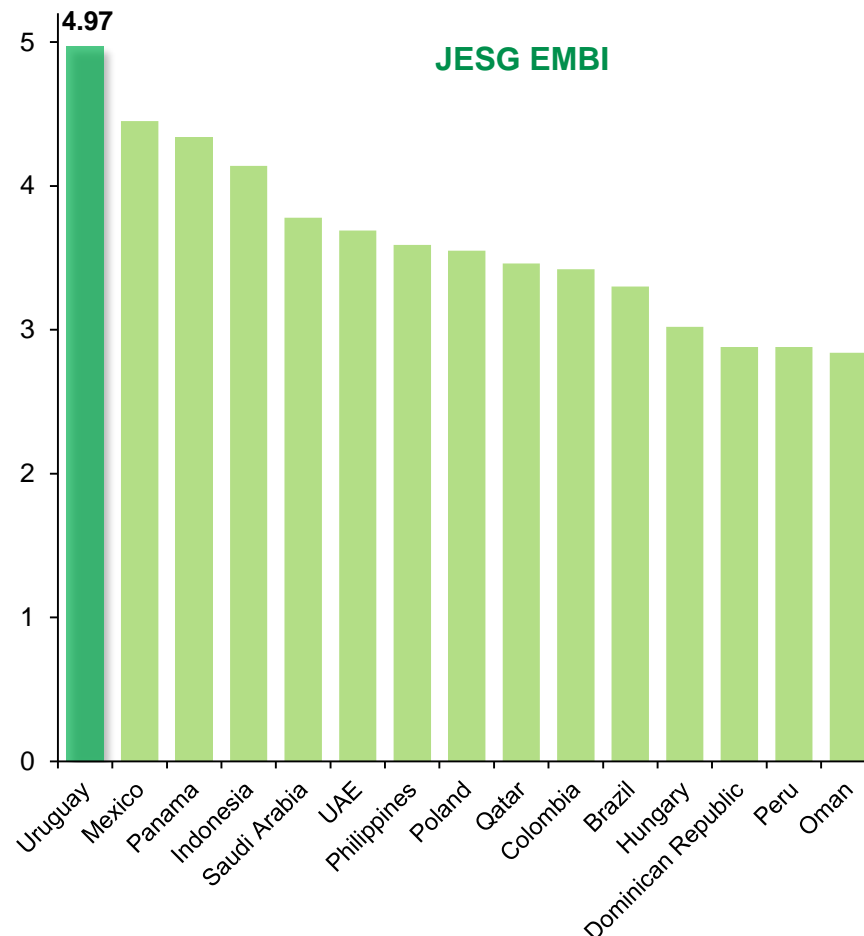
EMBI Benchmarks: Top-15 Country Weights

(In %; as of end-August, 2019)

EMBI Global Diversified



JESG EMBI



Source: J.P. Morgan Chase & Co

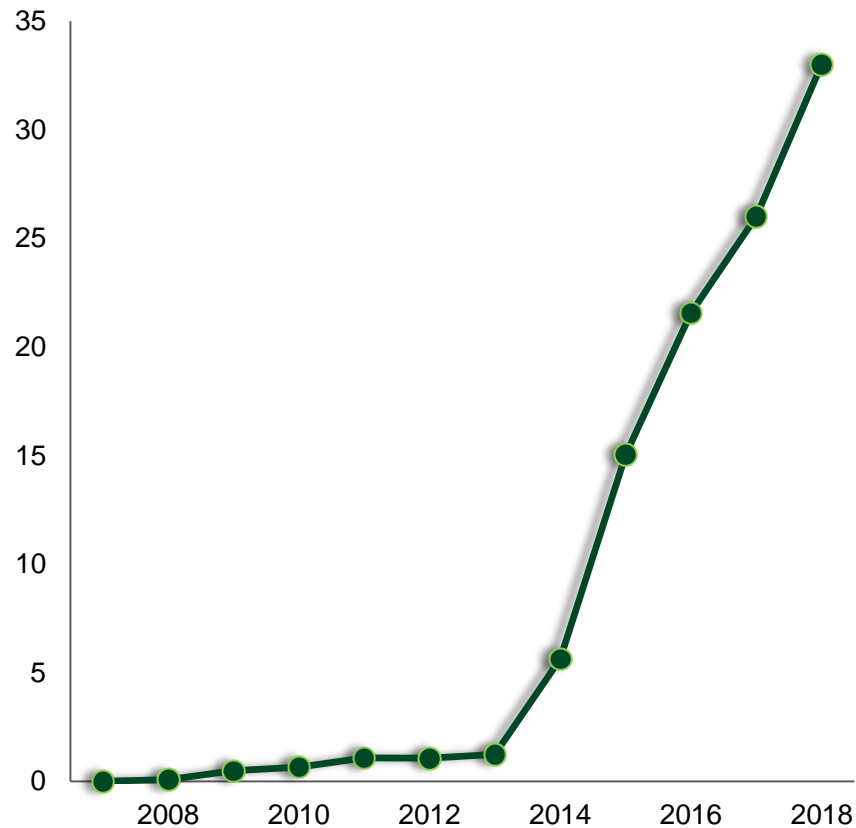
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Swift energy matrix transformation towards more renewable sources

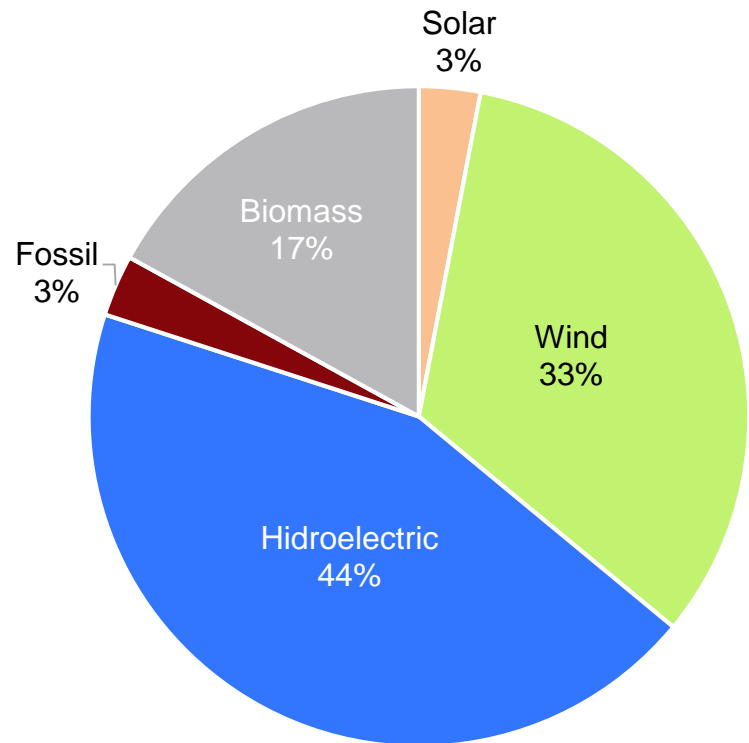
Electricity generation by wind energy

(In % of total)



Electricity generation by source in 2018

(In % of total)



Adherence to international standards underpinned by domestic policies



International Agreements

- Paris Agreement (2016)
- Sustainable Development Goals (2016)
- Kyoto Protocol (2000) and Doha Amendment (2012)

Local Legislation

- National Climate Change Policy (2017)
- National Environmental System (2016)
- Program to Reduce Emission Caused by Deforestation and Forest Degradation (2016)
- National Plan of Energy Efficiency (2015)
- National System of Response to Climate Change and Variability (2009)

Local Legislation

- Economic benefits for the incorporation of electric vehicles
- Subsidies program to public bus services to incorporate electric-engine buses
- Forbidden the use of non-biodegradable plastic bags plus a USD 0.11 tariff



August 2019

**Development Strategy
Uruguay 2050**

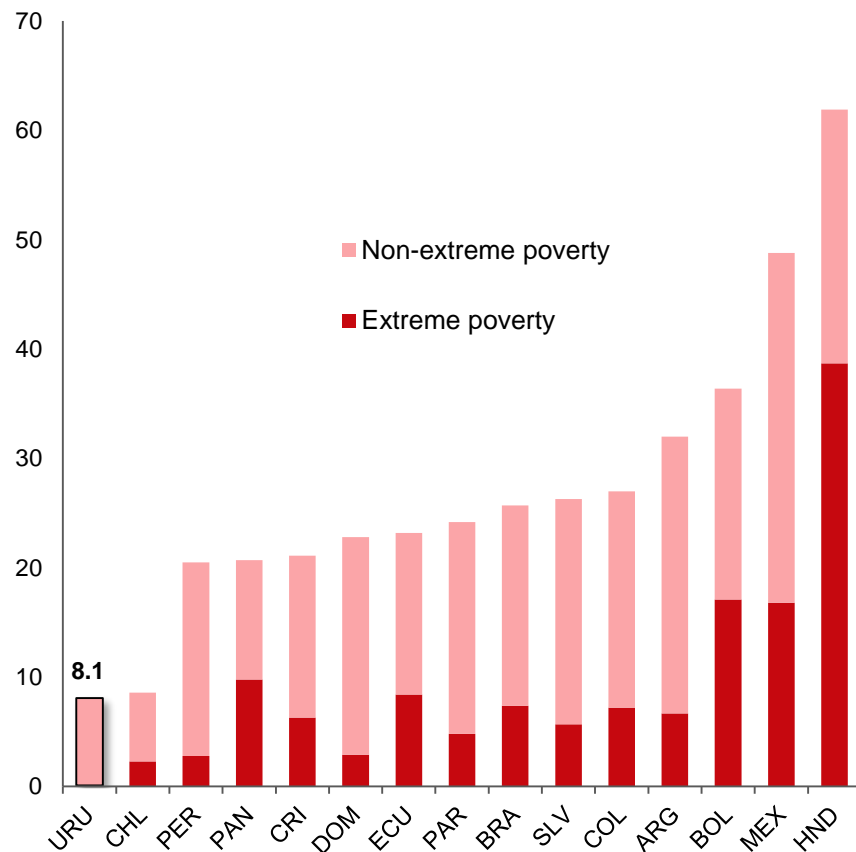
Report on **sustainable
productive
transformation**

Low poverty rates and a broad social safety net stand out in Latam



Poverty compared to Latam

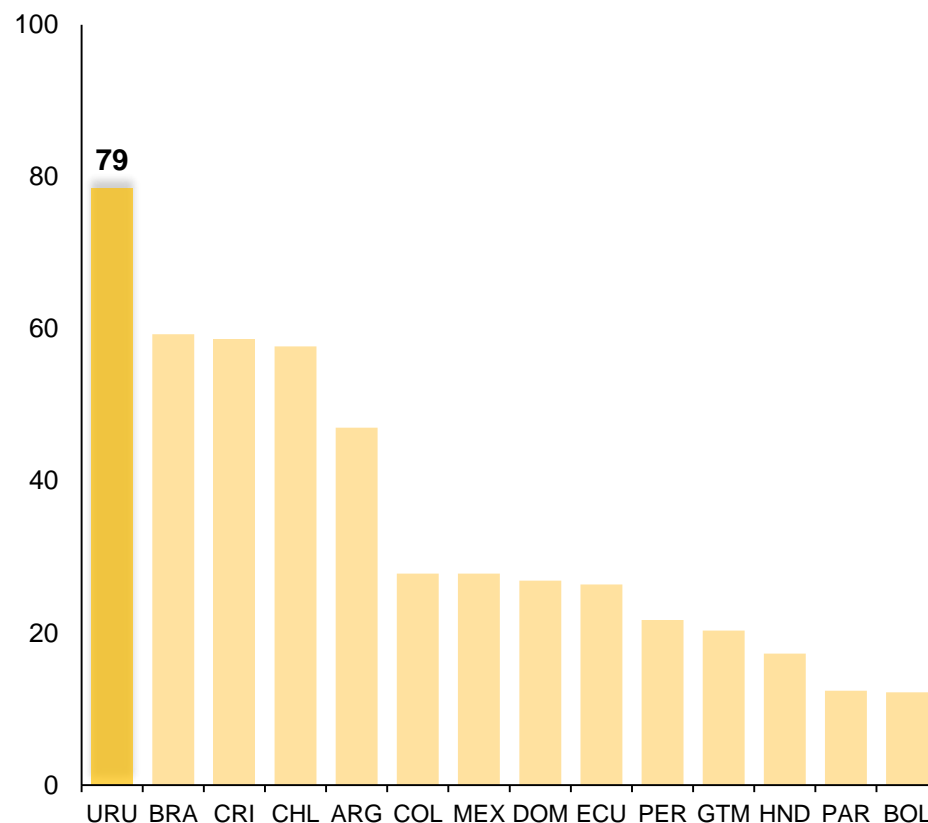
(Year 2018, in % of total population) ^{1/}



^{1/} Except for Argentina, which is urban poverty, and Bolivia, Brazil, Chile and Panama which figures are for 2017.

Social security coverage ratio compared to Latam

(Contributors over labor force, in %)

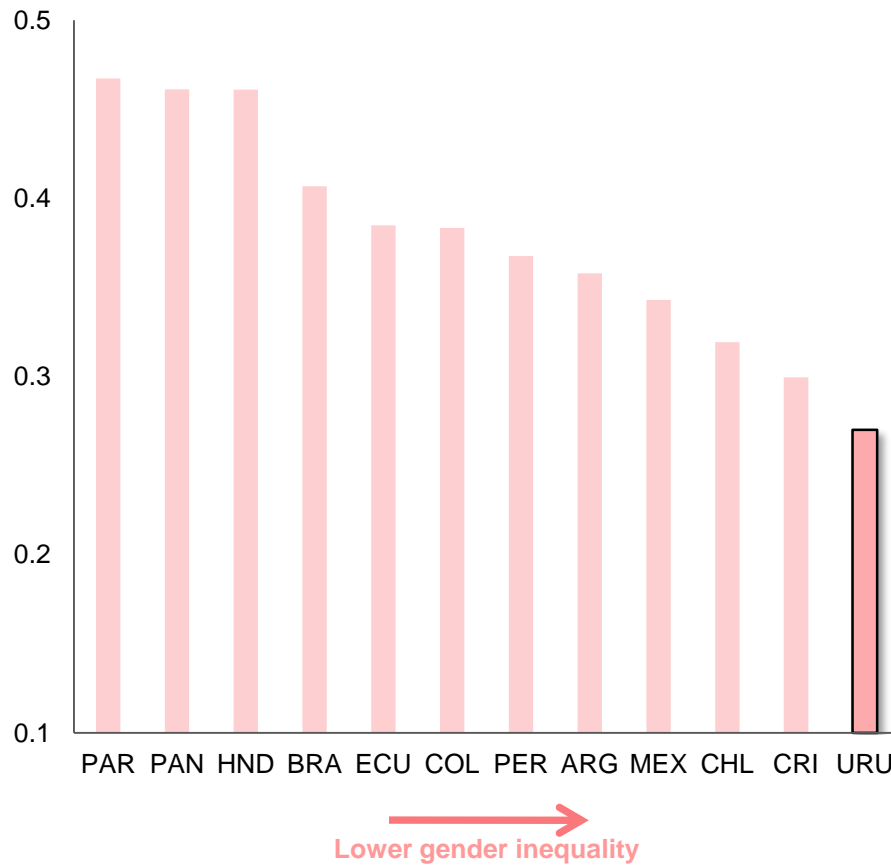




Highest GDP per capita and income distribution and lowest gender inequality in Latam

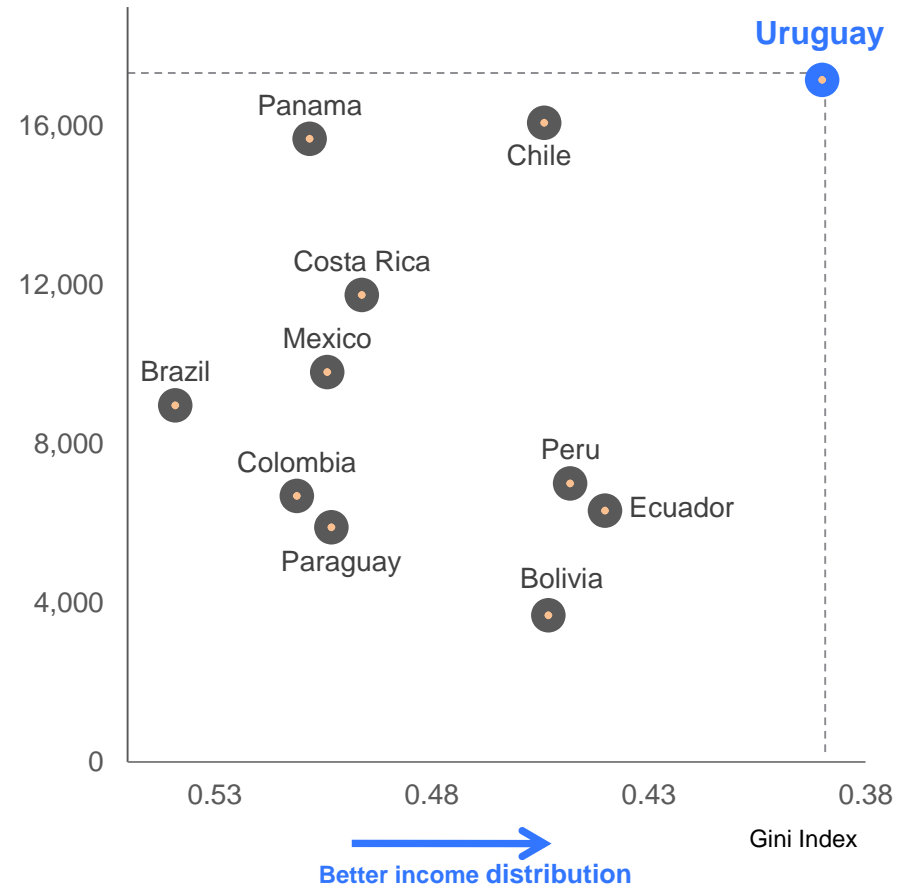
Gender inequality compared to Latam

(Gender Inequality Index, 2018)



GDP per capita and income distribution^{1/}

(Year 2018)



^{1/} GDP per capita in nominal USD; latest available Gini Index for each country

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



Uruguay Ranking Position in Latin America (2018-2019)



Key Highlights of the Uruguayan Economy



Sustained, albeit decelerating, growth in a volatile regional environment

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

Strong institutional foundations, social cohesion and political stability



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

Large international reserves and resilient government debt profile

Fiscal headwinds amid sluggish revenues and a rigid spending profile

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