

República Oriental del Uruguay

Institutional Presentation

June 2020



Key Recent Developments

- **March 1st, 2020:** the new President Lacalle Pou takes office for a 5-year period, leading a five-party political coalition with majority in Congress.
- **March 13th, 2020:** the first four cases of COVID-19 are reported in Uruguay; the Government declares the state of sanitary emergency and launches a broad policy response.
- **April 23rd, 2020:** Government submits to Congress the *Urgent Consideration* bill, that includes key structural reforms, including a new fiscal rule and guidelines for pension reform.
- **May 15th, 2020:** Finnish Company UPM and the Government signed an MoU on pending items related to UPM's growth project in Uruguay, expanding the scope of original project.

The new government moved quickly on its pledge to curb the fiscal deficit through expenditure cuts



Fiscal austerity measures introduced through a Presidential decree on March 11th, right off-the bat:

- *Improvement of discretionary spending and budget execution:* Ministries must save 15% on operating, investment and administrative expenses.
- *Restrictions on public sector hiring:* only one third of personnel vacancies in the central government can be filled during the year, except for teachers, health and security personnel.
- *Reduction in tax expenditures:* reduced VAT exemptions on credit and debit cards purchases.

Government's strategy for virus containment after Covid-19 onset



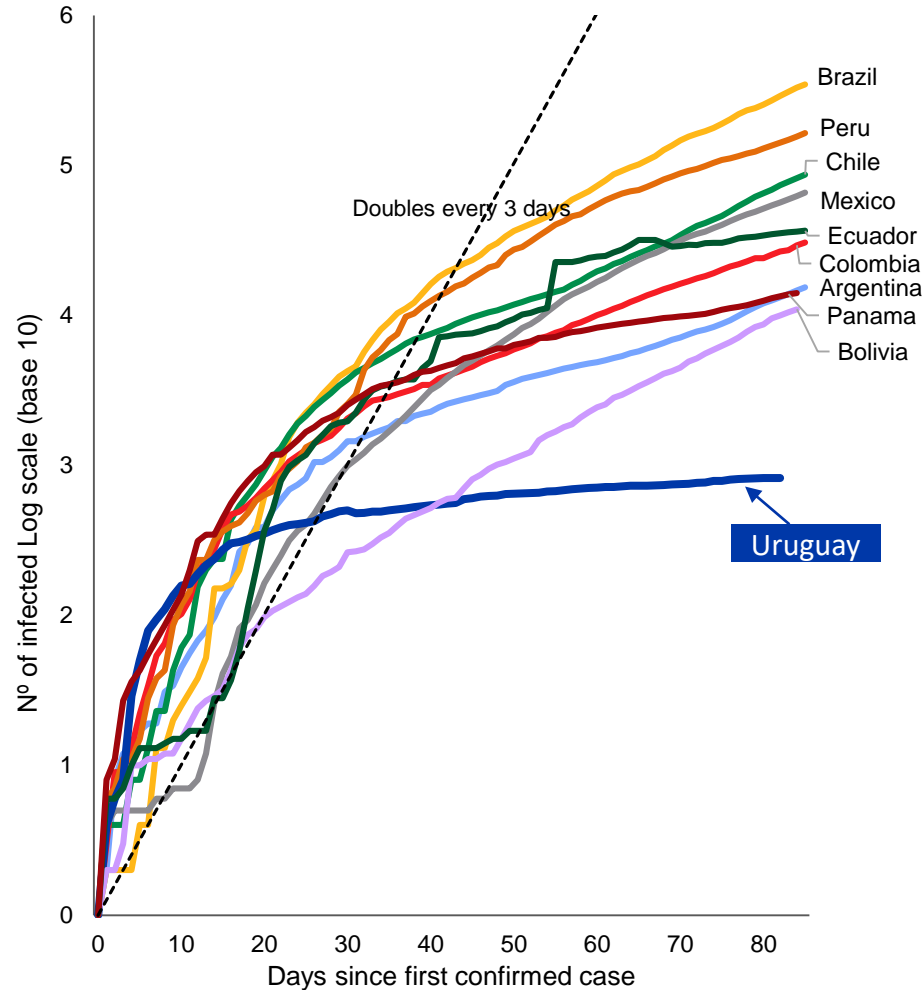
- The Government did not impose a countrywide lockdown, given the importance of keeping the economy running and philosophical appeal to “*freedom with responsibility*”.
- Instead, it suspended all public performances, outdoor events and classes for all educational levels; promoted social distancing measures; introduced travel restrictions and suggested and encouraged citizens to stay home and telework, to slow the spread of the virus.
- Coordinated response to the COVID-19 outbreak based on:
 - strengthening the health care system and facilities
 - acquiring medical equipment
 - expanding testing and treatment to prevent mass contagion (enlist the National Statistical Office for randomized tests in hotspots such as border with Brazil)



Flattening the contagion curve and mortality rates...

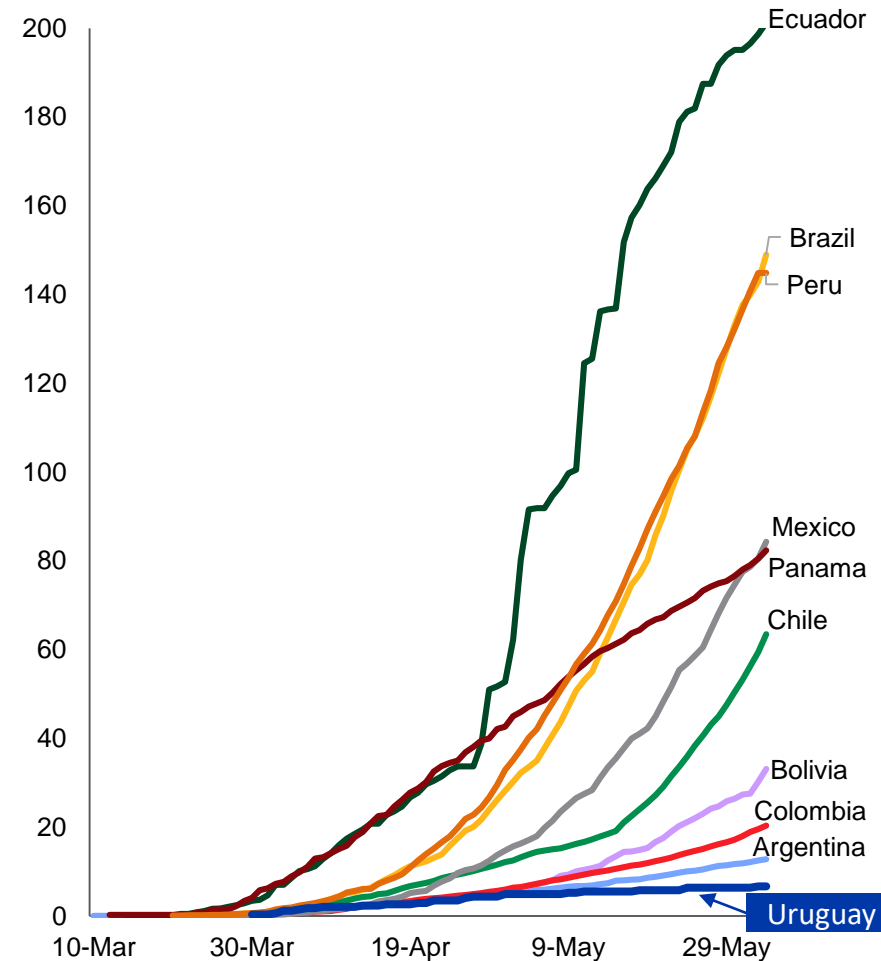
Spread of infection

(As of June 2nd, 2020)



Covid 19-related deaths per million

(As of June 2nd, 2020)

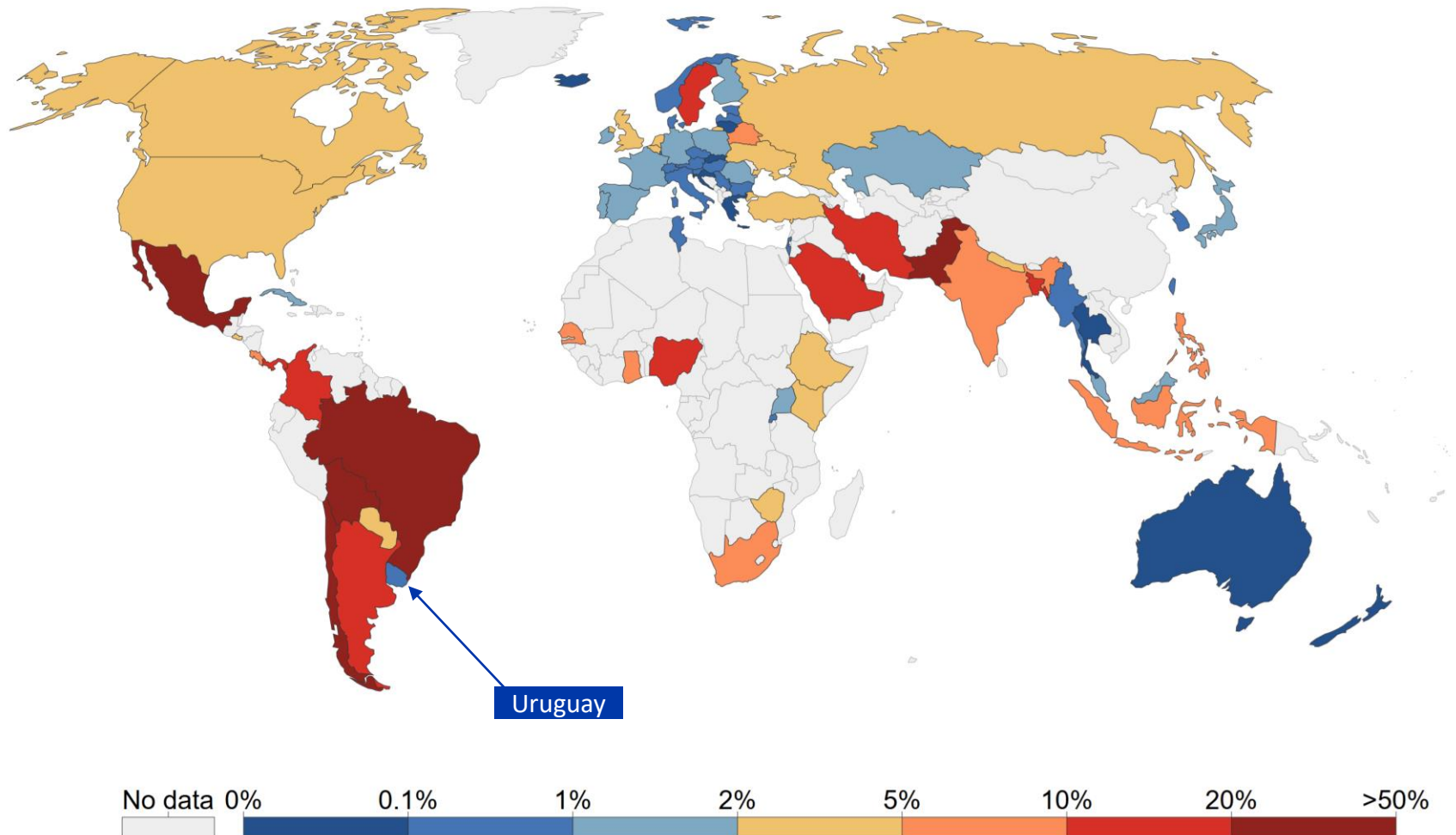




... and virus spread is currently subdued

Share of daily Covid-19 tests that are positive

(Rolling 7-day average, as of June 3rd, 2020)



Government swiftly implemented a wide array of economic and social measures to mitigate the fallout and minimize scarring



Fiscal policy measures

Protecting household income and human capital through direct income transfers, expanded unemployment and health insurance, deferrals of taxes and mortgage obligations

- Income transfers to most vulnerable households to cover food expenses and basic needs.
- Expanded social safety net to cover more vulnerable sectors (including self-employed workers).
- Expanded flexibility in unemployment insurance, allowing firms to place employees in part-time schedules; provision of unemployment benefit to self-employed workers.
- Extensions of sick leave benefits for all workers 65+ years old, in the public and private sector.
- Targeted temporary deferrals in payroll, VAT and other income taxes, and partial reduction of mortgage obligations in state-owned mortgage bank.

Credit and liquidity support

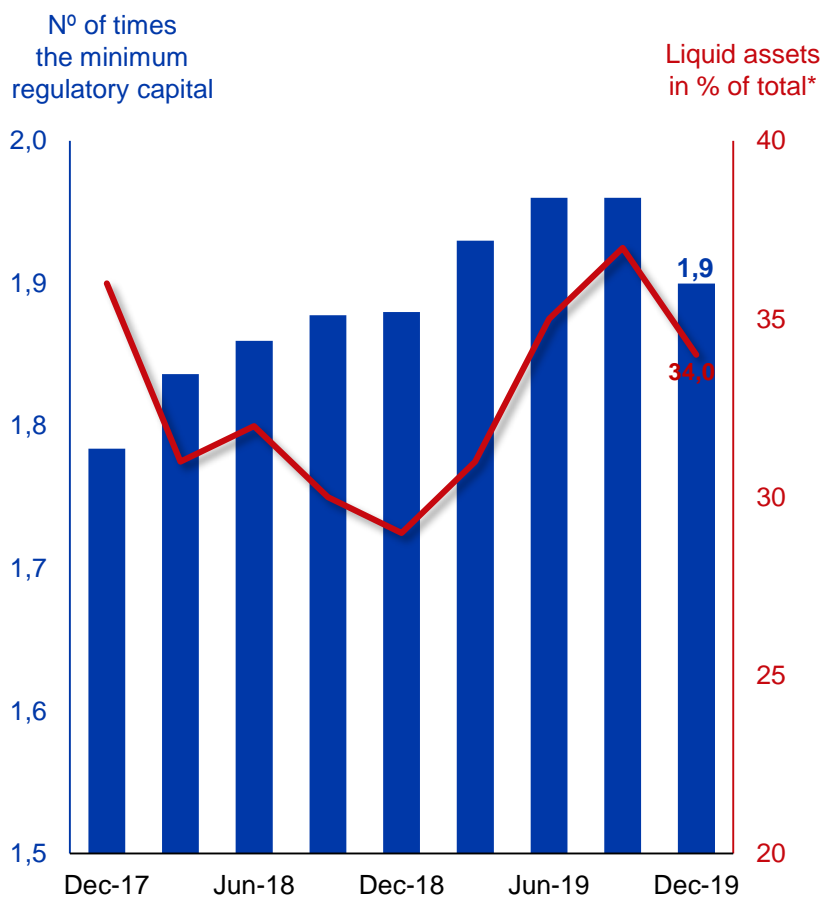
Preserve the financial health and credit quality of micro, small and medium-sized enterprises (SMEs) to ensure a functioning payment system between producers, suppliers and creditors.

- State-owned development bank (BROU) introduced more flexible loan repayment and financing terms.
- CBU reduced commercial banks' reserve requirements on local currency deposits, to inject liquidity into the local currency loan market.
- Capitalization of the National Guarantee System (SIGa) to leverage banking system loans to SMEs, reducing the commission charged by the guarantee system.
- The National Development Agency launched a direct credit program for micro-entrepreneurs.
- Easing of bank regulations and forbearance: CBU authorized financial institutions to extend companies' loan payments coming due for up to 180 days.
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Banks' strong capitalization, profitability and liquidity have mitigated the pandemic fallout and potential spillovers from the region



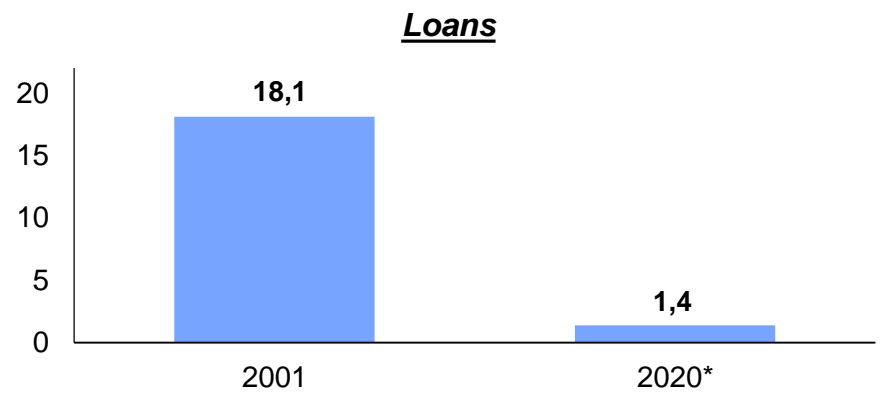
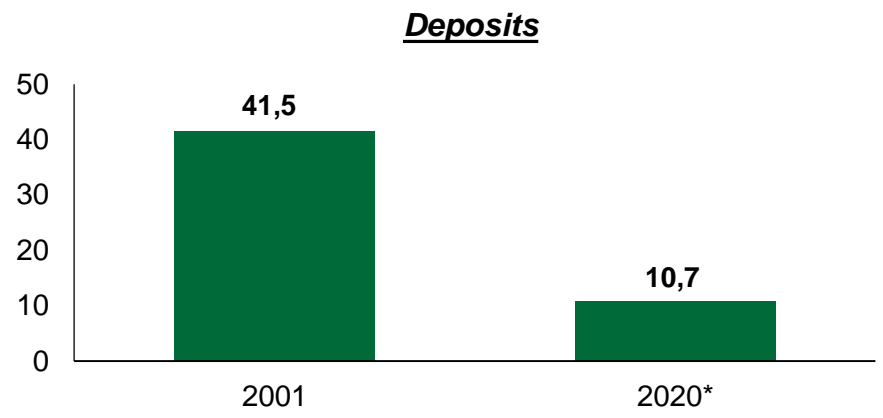
Solvency of the banking system



(*) Share of assets available within 30 days over total assets

Banking system's balance sheet exposure to non-residents

(To the non-financial sector, % of total)^{1/}



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

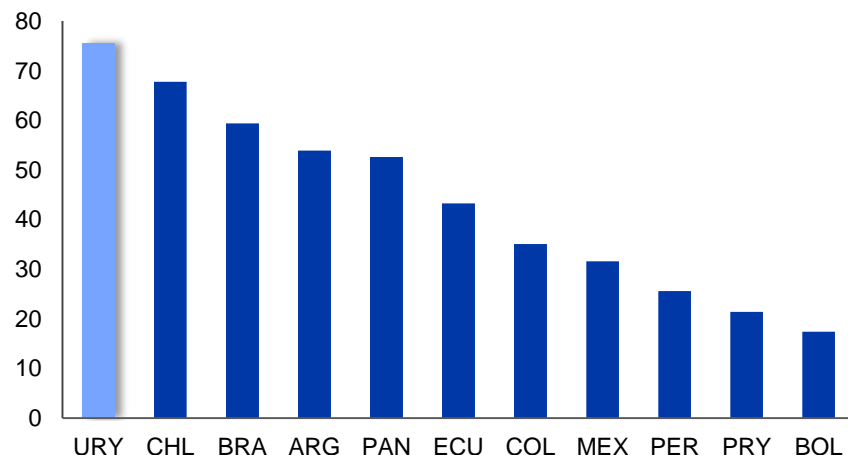
(*) As of April

Extensive social insurance net with broad capillarity ensures efficient work of automatic stabilizers (unemployment and health insurance)



Labour market formality compared to Latam

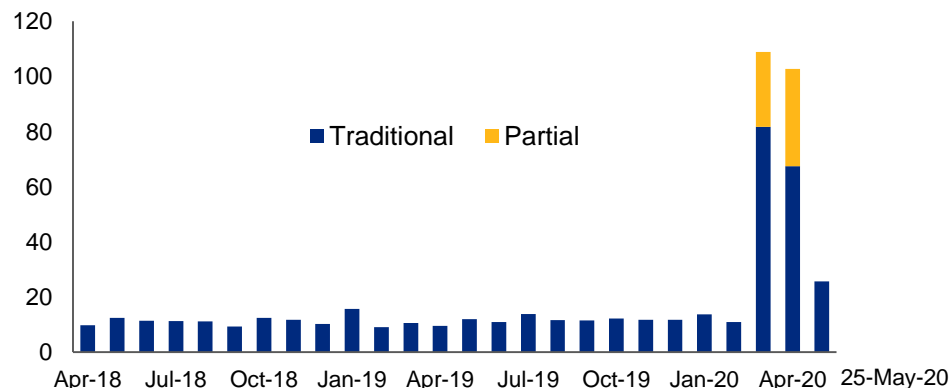
(Contributors to social security system as % of workforce)



- **Social security system of working-age people** in Uruguay consists of sickness insurance, child and family benefits, maternity benefits and unemployment insurance.
- Uruguay provides **universal access to healthcare**.
- Given the COVID-19 lockdown, both **sickness and unemployment insurance** became a crucial policy instrument to broadly and orderly cope with the economic crisis.

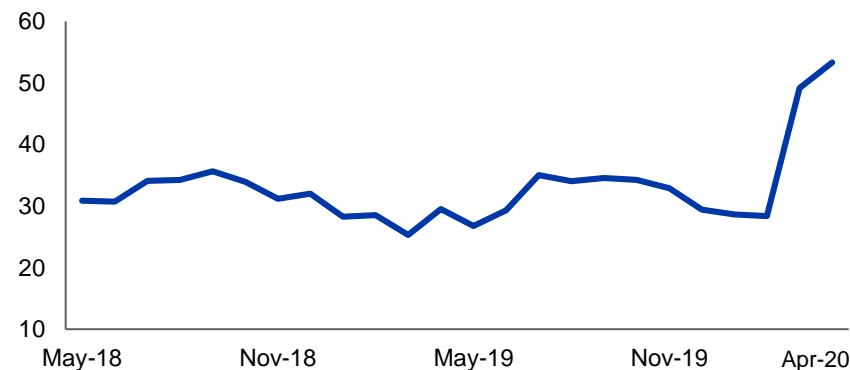
Unemployment insurance claims

(Number of claims per month, in thousands)



Number of beneficiaries from the sickness insurance ^{1/}

(In thousands)



^{1/} Includes beneficiaries from job's accidents insurance

COVID-19 Solidarity Fund: transparency and accountability



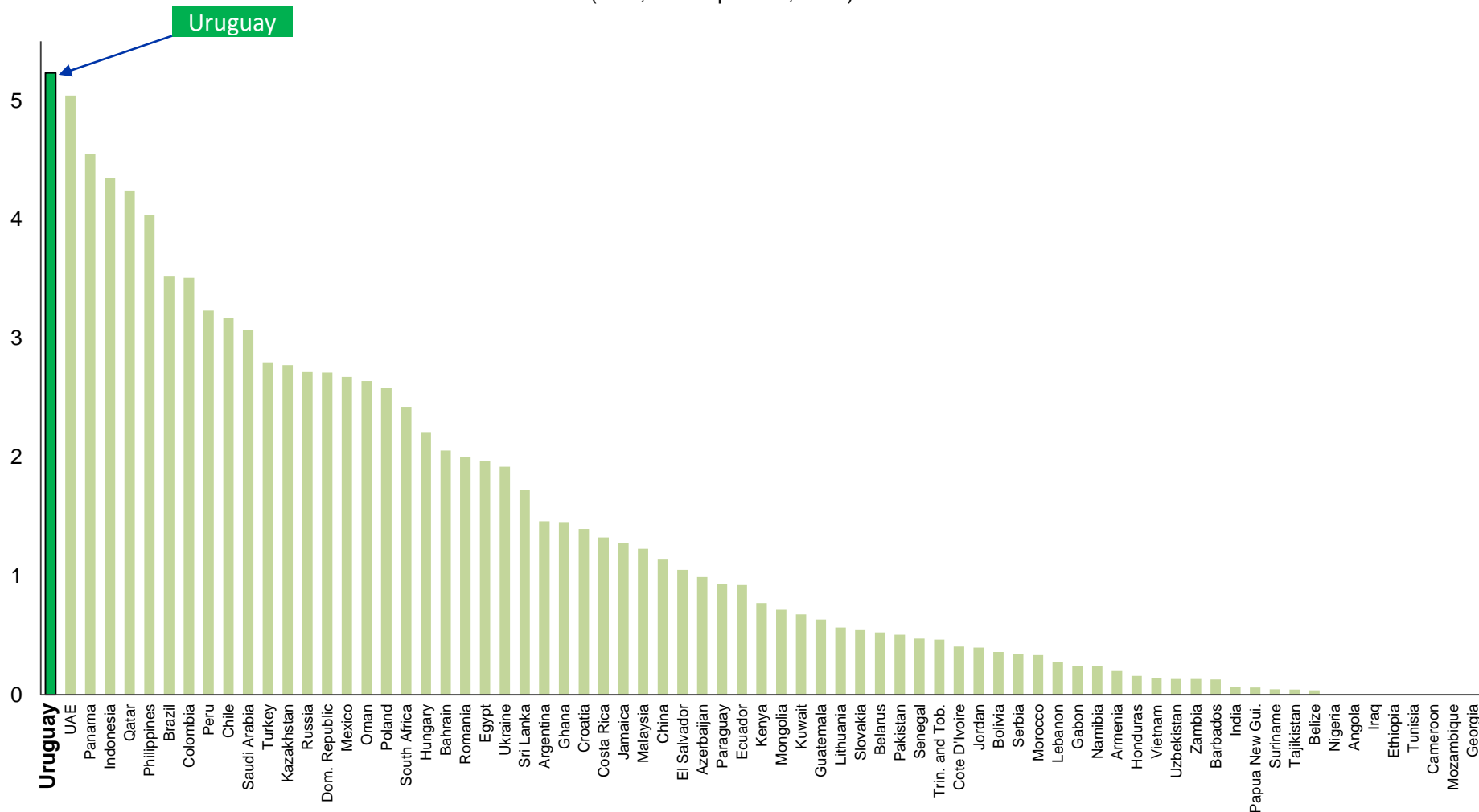
- **Earmarked fund:** MEF assigns resources and expenditures to address the emergency, allowing ex-post evaluation and accountability review.
- **Transparency:** registered within Central Government statistics, frequent, timely and complete disclosure of information.
- Voted **unanimously** by all parties in Congress in a single day.
- **Partially funded by a** new temporary tax on higher-earning public employees (*Impuesto Emergencia Sanitaria COVID-19*).

Uruguay's robust ESG features underpins strong response to the pandemic



Country weights in ESG-adjusted EMBI benchmark

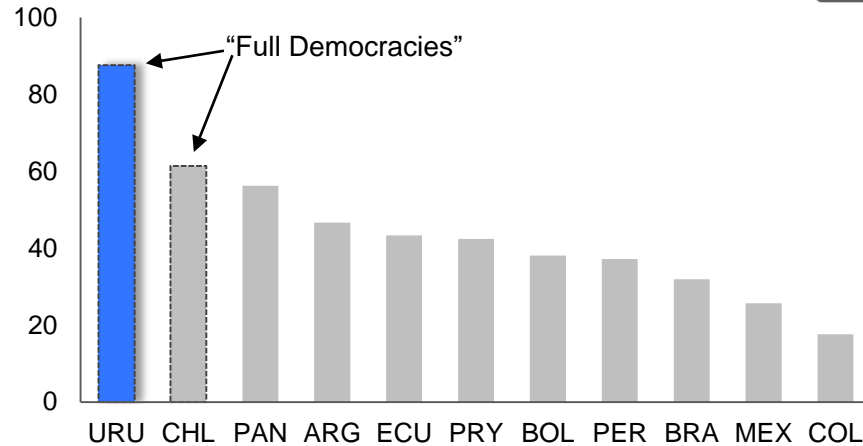
(In %; as of April 30th, 2020)



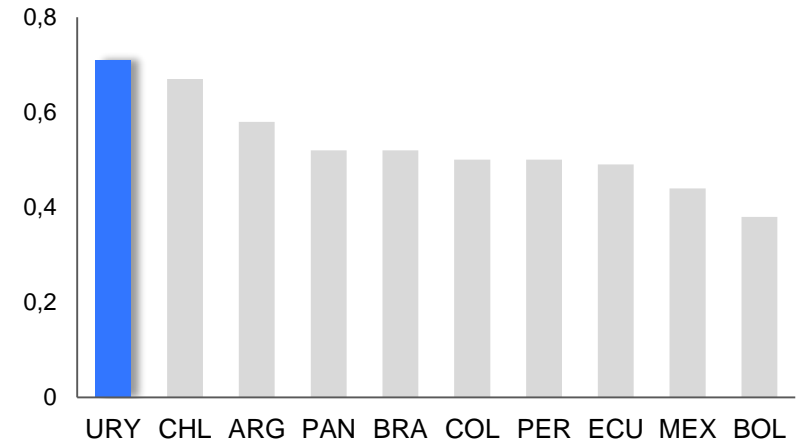
Institutional strength and a developed welfare system could have contributed to contain the pandemic's economic damage relative to other Latin American sovereigns



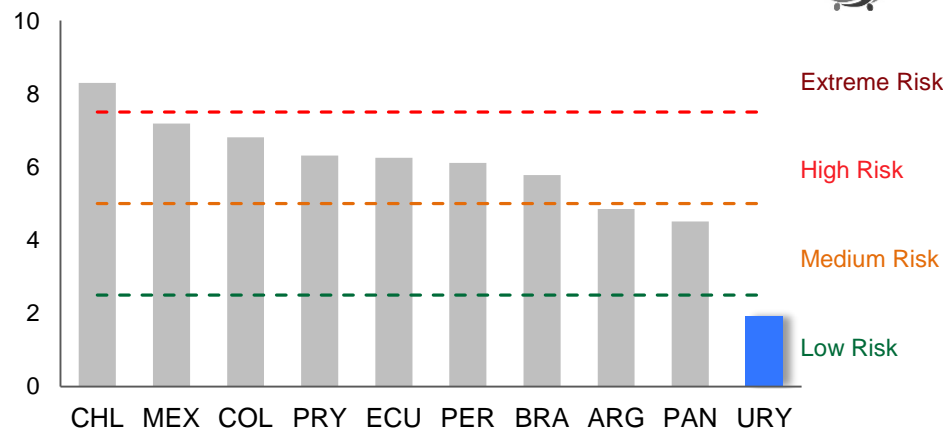
Strongest political stability and full democracy ^{1/ 2/}



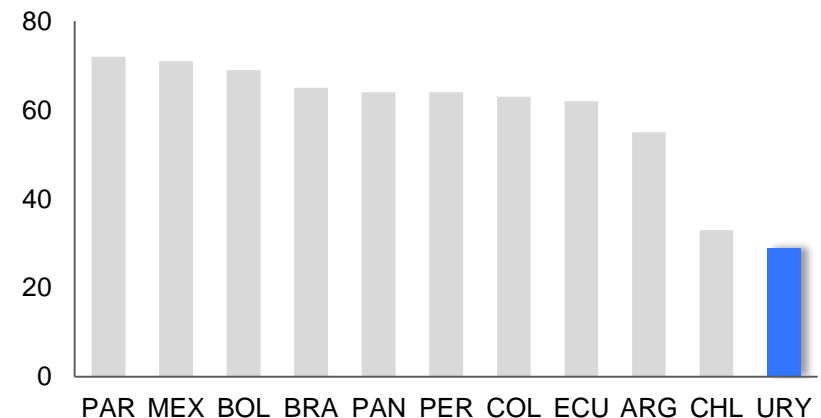
Highest adherence to the rule of law ^{3/}



Lowest civil unrest ^{4/}



Lowest corruption perception ^{5/}

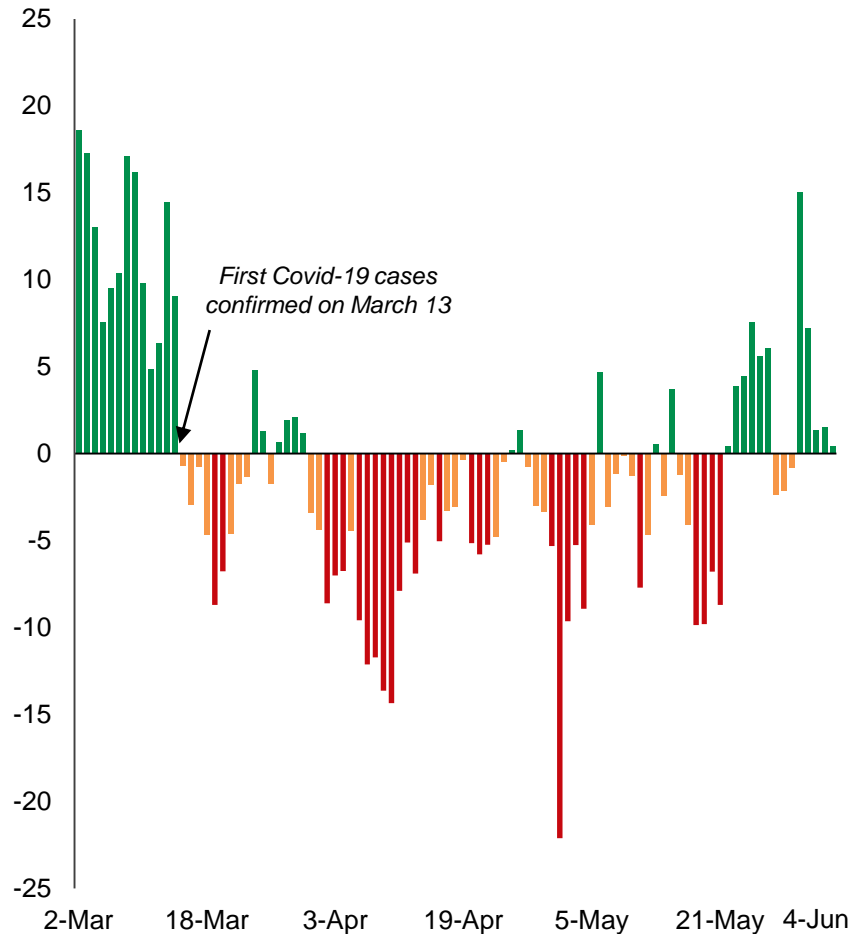


A faster re-normalization: leading indicators anticipate a speedier recovery



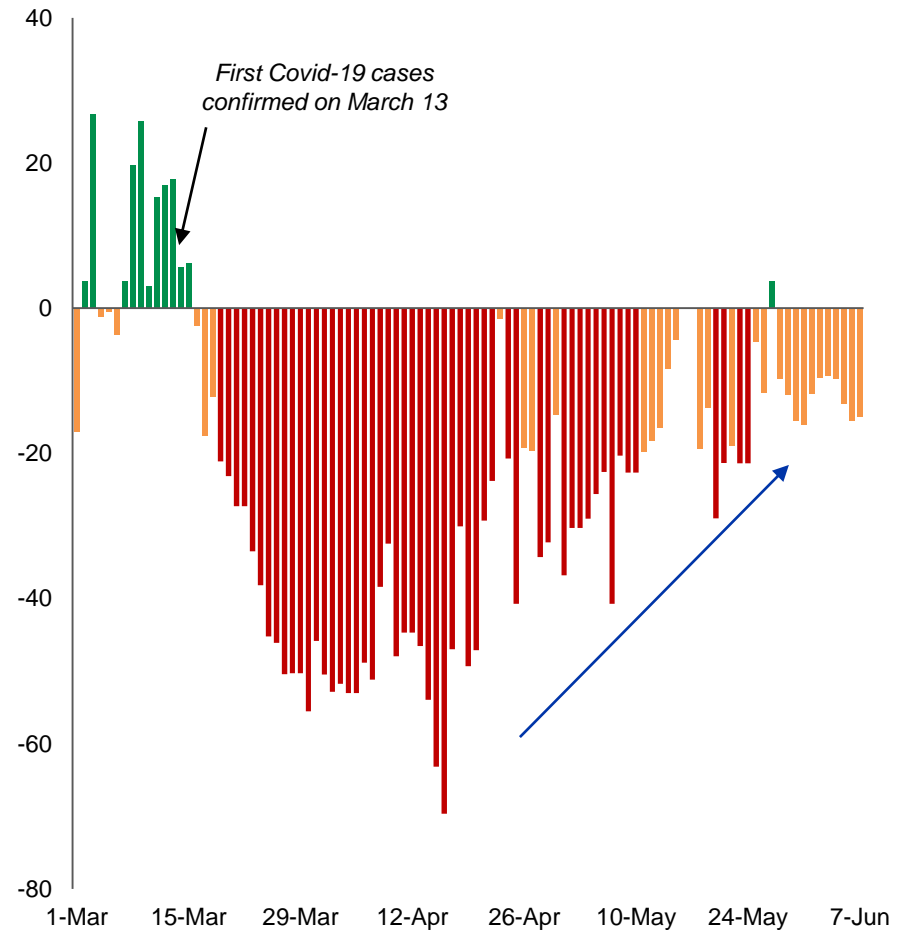
Electricity demand per day

(YoY change, in %)



Fuel demand per day

(Rolling 7-day, YoY change, in %)

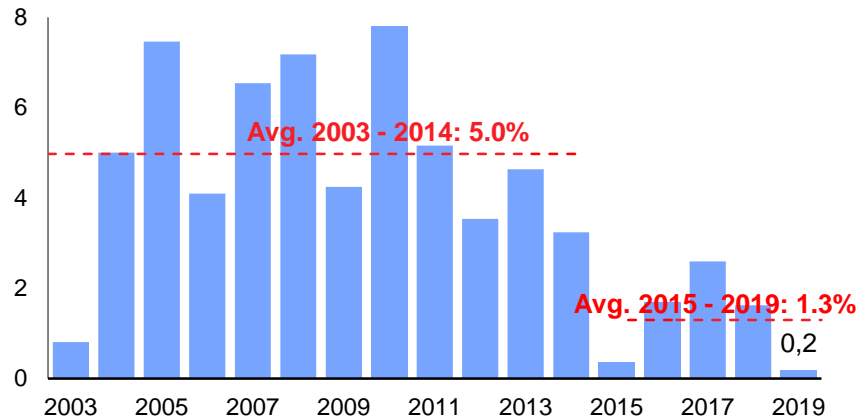


Backdrop before Covid-19 outbreak: decelerating economy, persistent fiscal deterioration and increasing debt burden



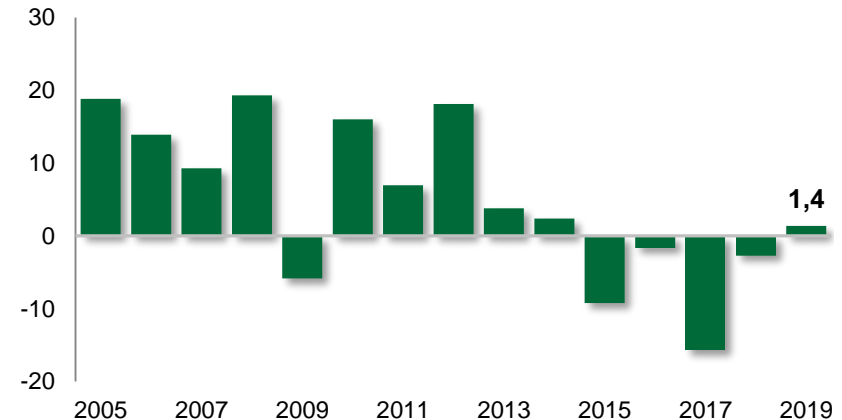
Real GDP growth

(In %)



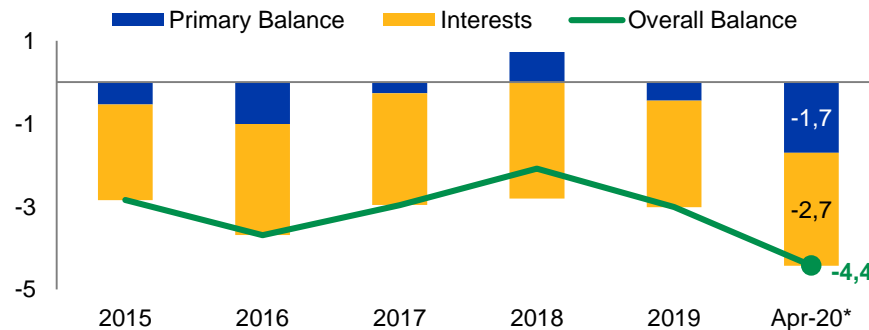
Gross fixed capital investment

(Annual real change, in %)



Central Government fiscal balance ^{1/}

(In % of GDP)

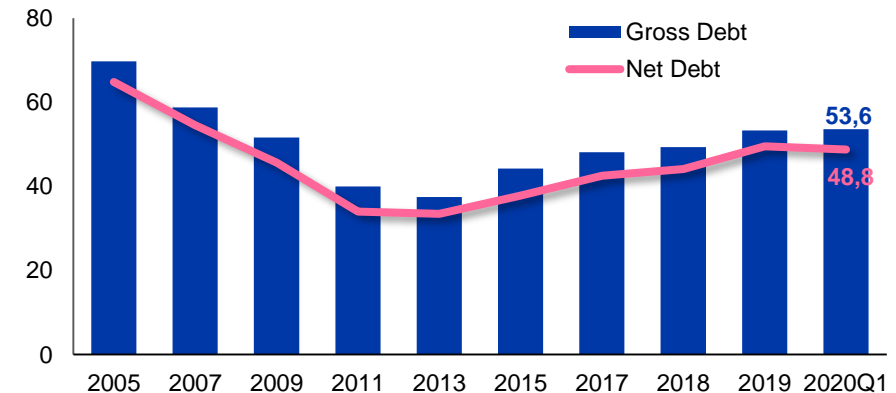


1/ Does not include inflows of funds to the Social Security Trust, of 1.2% of GDP

(*) Last 12 months

Central Government debt

(In % of GDP, end of period)



***Urgent Consideration* bill submitted to Parliament includes a spate of fiscal and structural reforms**



In the midst of the pandemic, the Government sent a bill to Congress that will receive fast-track consideration within 90 days, and includes:

- a new fiscal rule, fiscal framework and budget process to ensure sustainable finances over the medium term;
- new governance policies for public enterprises;
- establishment of a commission of experts on pension reform;
- microeconomic reforms (such as the regulatory framework for energy markets and promotion of competition in non-tradable sectors) to boost potential GDP and competitiveness.

Inflation above target: shock to beef prices and FX depreciation partially offset by falling NT inflation



Headline Inflation

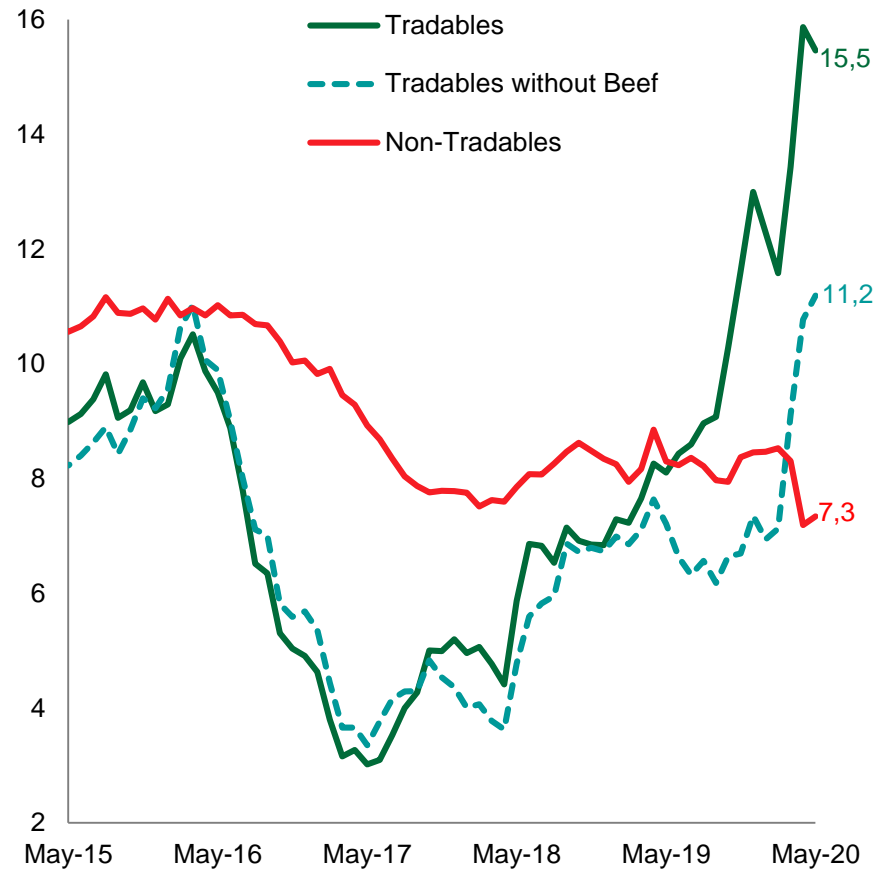
(Annual, in %)



^{1/} Median expectation in Central Bank's market survey as of May 2020

Tradable and non-tradable inflation components^{1/}

(Annual, in %)



^{1/} Excluding fruits and vegetables, and administered prices

Central Bank: enhancements to monetary policy framework and communication strategy to anchor inflation expectations



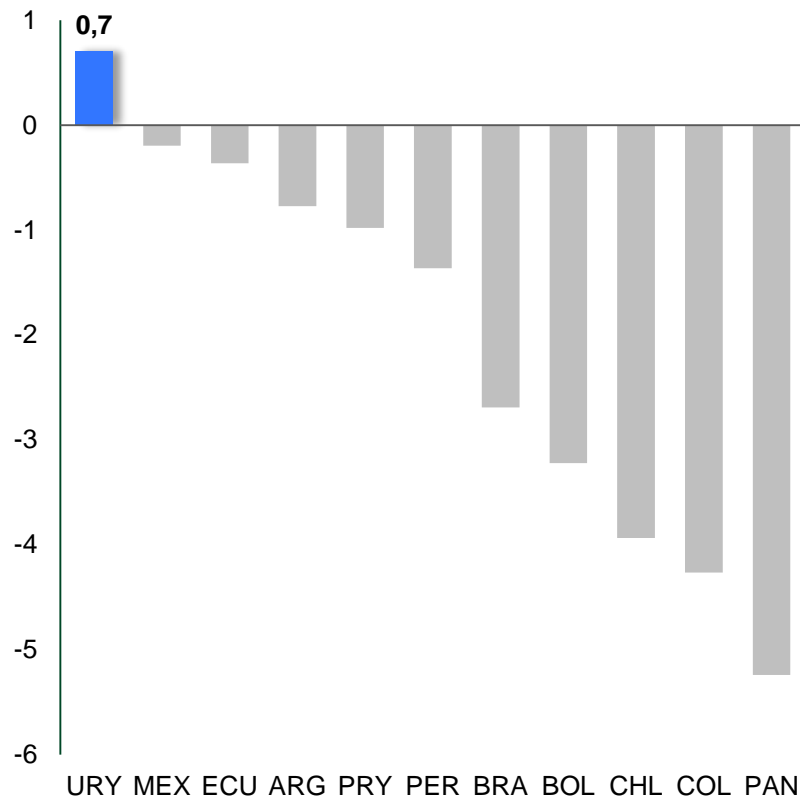
- **Main objective in COVID-19 juncture:** to keep appropriate levels of liquidity in the banking system to support credit provision.
- Focus on disinflation strategy and anchoring inflation expectations within Central Bank target.
- The Central Bank introduced some best practices in terms of communication and transparency:
 - Doubled the frequency of its Monetary Policy Committee (MPC) meetings to better react to the rapidly changing conditions.
 - Started publishing minutes of the MPC
 - Relaunch of the economic expectations survey, significantly increasing number of respondents
- Further actions to develop the FX derivative market: expanded market players and more transparency on OTC transactions (repository).
- **Next step:** reevaluation of the Inflation Targeting regime, including discussion of the intermediate instrument.

Positive current account balance; ample international reserves are an important backstop for external stability



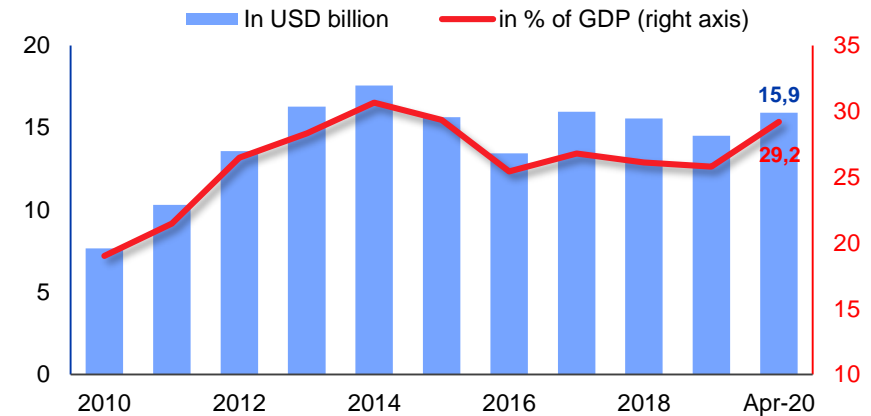
Current account balance compared with Latam

(In % of GDP, 2019)



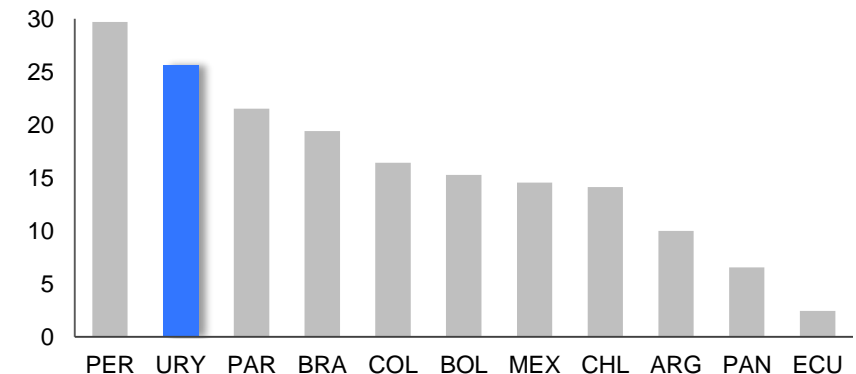
International reserves

(End-of-period)



International reserves compared to LatAm

(In % of GDP, 2019)

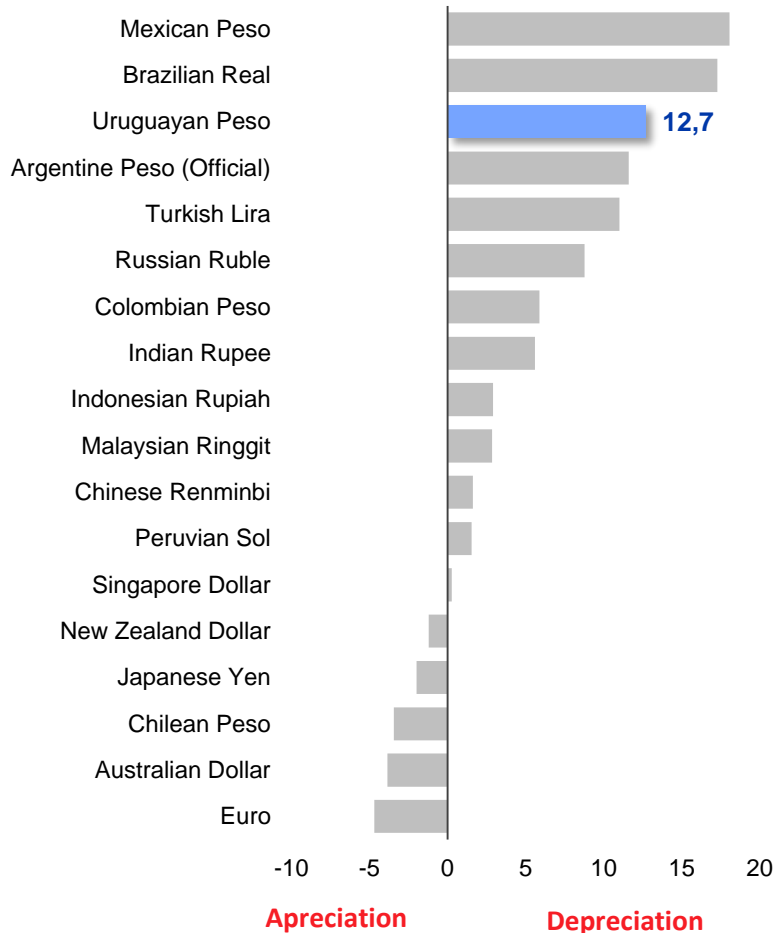


Floating exchange rate has been a key shock absorber; CB intervenes on both sides of the market to smooth out volatility

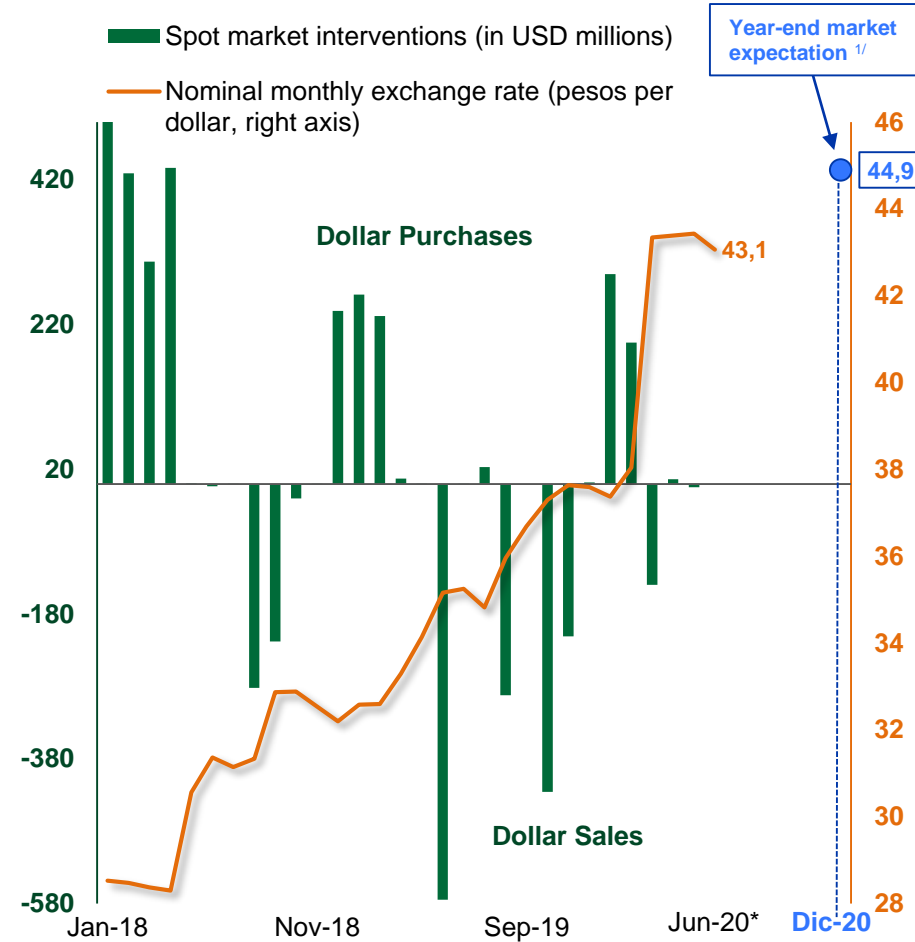


Currency performance vs USD since Covid-19 world outbreak

(Percent change since February 19th, as of June 4th, 2020)



Nominal exchange rate and Central Bank FX intervention



^{1/} Median expectation in Central Bank's market survey as of May 2020

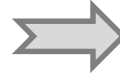
(*) As of June 4, 2020

Uruguay is poised to receive FDI inflows from the largest-ever private investment in the country and associated infrastructure



Large-scale FDI project: construction of new pulp mill

- Finnish company UPM's second pulp mill in the country
- Overall investment: approx. **USD 3 billion (5% of GDP)**
- Will have a material positive impact on GDP growth, employment and the BoP
- World-class design with proven high environmental performance
- **May 15, 2020:** UPM and the new Government of Uruguay have signed a MoU on pending items related to UPM's growth project in Uruguay that will **further strengthen the implementation of UPM's growth project** and existing operations in the country as well as the local economy.



Central Railway project

- Will run from city of Paso de los Toros to the Port of Montevideo (273 km long)
- Public-Private-Partnership (PPP) modality
- **USD 1,000 million** investment



Central Government's funding needs and financing sources and strategies



CG Flow of funds for 2020 ^{1/}

(In USD million)

FINANCING NEEDS	4,649
Amortizations of Bonds and Loans	1,618
Interest Payments	1,529
Primary Deficit (a)	1,501
FUNDING SOURCES	4,649
Multilateral Loans	1,520
Domestic and External Bond Issuance	3,750
Net Others	128
Use of Assets (b)	-750
<i>Memo Item:</i> Net Bond Issuance	2,132

Estimated overall deficit of **6,7% of GDP**, given a projected GDP contraction of **3%** in 2020.

- **Higher reliance on existing credit lines from multilateral institutions:** fast access to large-scale resources at lower dollar rates; embedded clauses that allow for quick execution of currency and interest rate conversions.
- **Balanced currency debt mix:** develop the local currency curve, in nominal and/or real rates, provided that borrowing costs remain consistent with sustainable debt dynamics.

As of June 8th, **43%** of total bond issuance has been completed (through domestic auctions).

1/ Projections.

(a) Excludes transfers to the public Social Security Trust Fund.

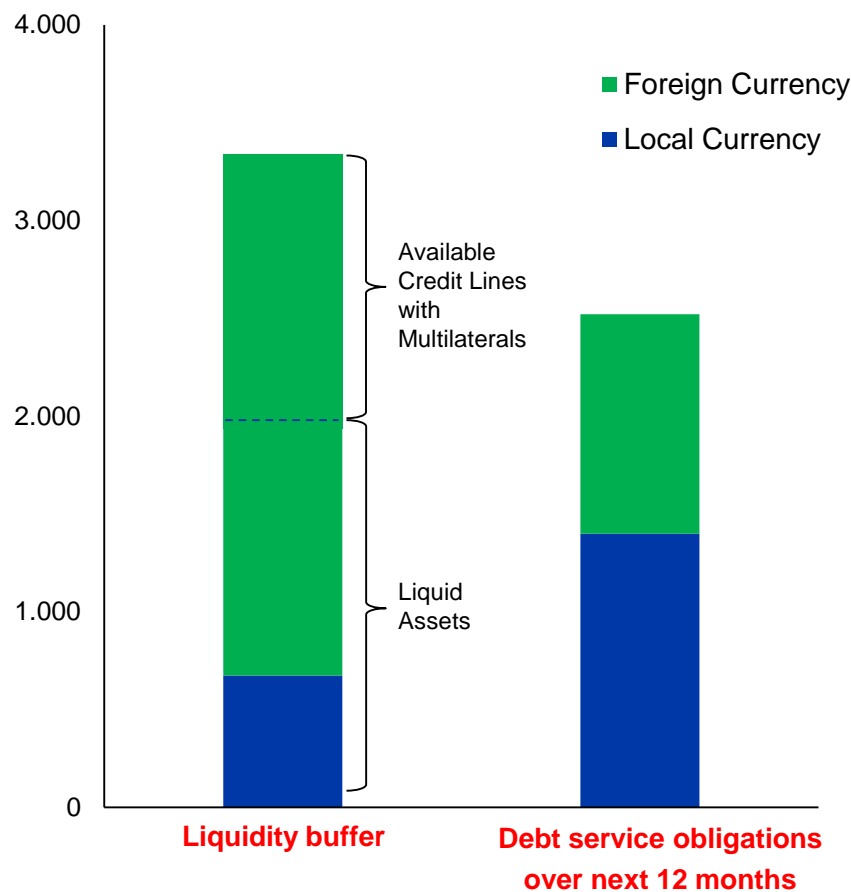
(b) A positive (negative) figure indicates a reduction (accumulation) of Central Government liquid assets.

Government's sizable international reserves and liquidity buffers mitigate risks to external debt sustainability; dollar credit spreads remain subdued and clustered among higher-rated peers



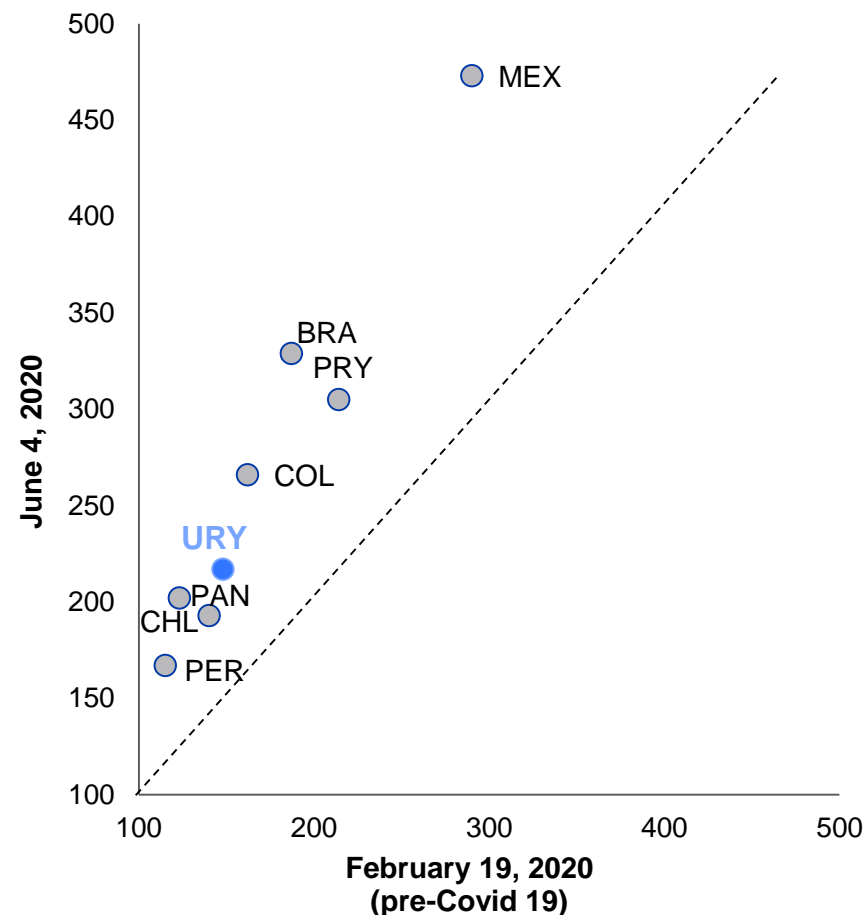
Government's liquidity buffers and short term debt service obligations

(In USD million, as of end-May 2020)



Change in sovereign risk premium since COVID-19 outbreak

(EMBI, in bps)





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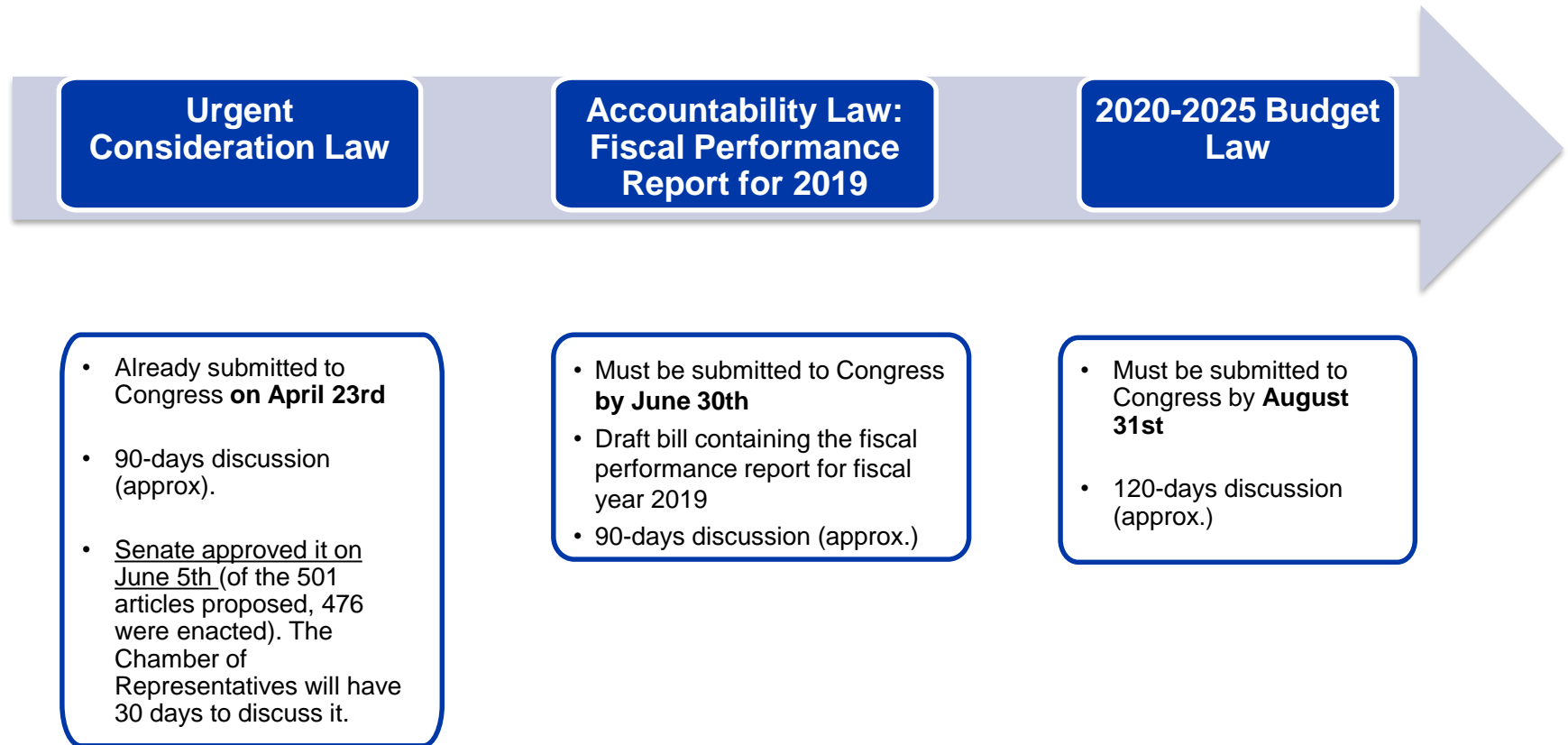
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Annex





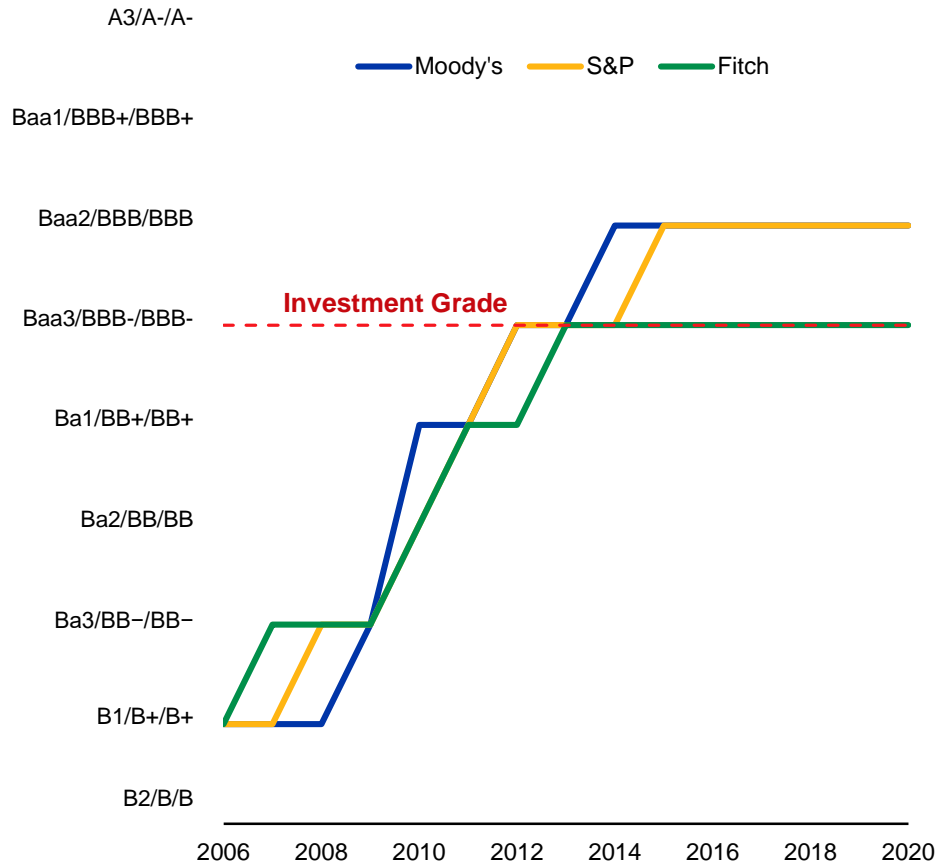
Milestones and Timing of Political Process





Uruguay's credit rating performance

Evolution of Uruguay's sovereign credit ratings



Latest credit rating actions



April 2020. Affirmed Uruguay's rating at BBB, outlook remained stable.



February 2020. Uruguay's rating affirmed at BBB- with Negative outlook.



February 2020. Affirmed Uruguay's rating at BBB, and changed outlook to Positive from Stable.



January 2020. Confirmed Uruguay's rating at BBB (low) with Stable trend.



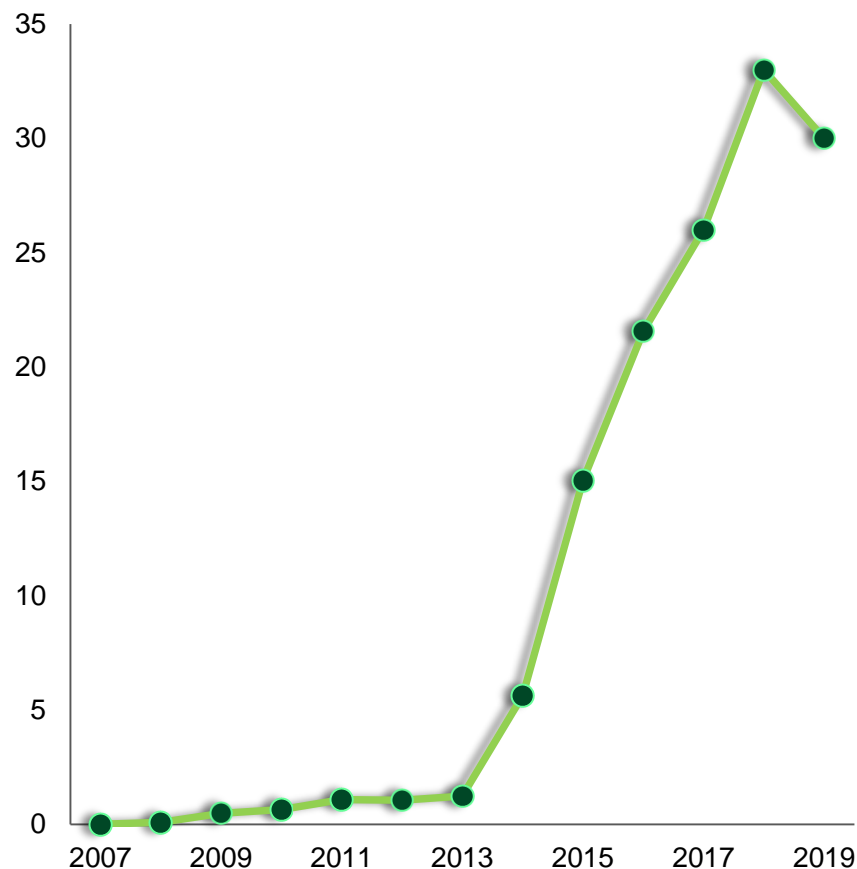
August 2019. Uruguay's rating affirmed at Baa2 with Stable outlook.

Swift energy matrix transformation towards renewable sources, shifting away from fossil fuels



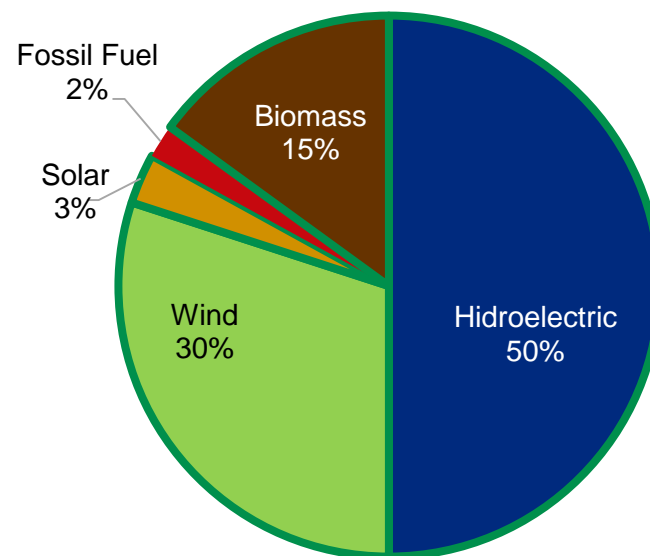
Electricity generation by wind energy

(In % of total)



Electricity generation by source

(In % of total, year 2019)



- Uruguay is 4th in the world in wind and solar generation, and 1st in Latin America

Top performer amongst developing economies in Energy Transition Index: low air pollution and carbon intensity



Energy Transition Index (ETI) 2020

(Ranking position)

