



República Oriental del Uruguay: Investor Presentation

January 2018



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Organization of the Presentation



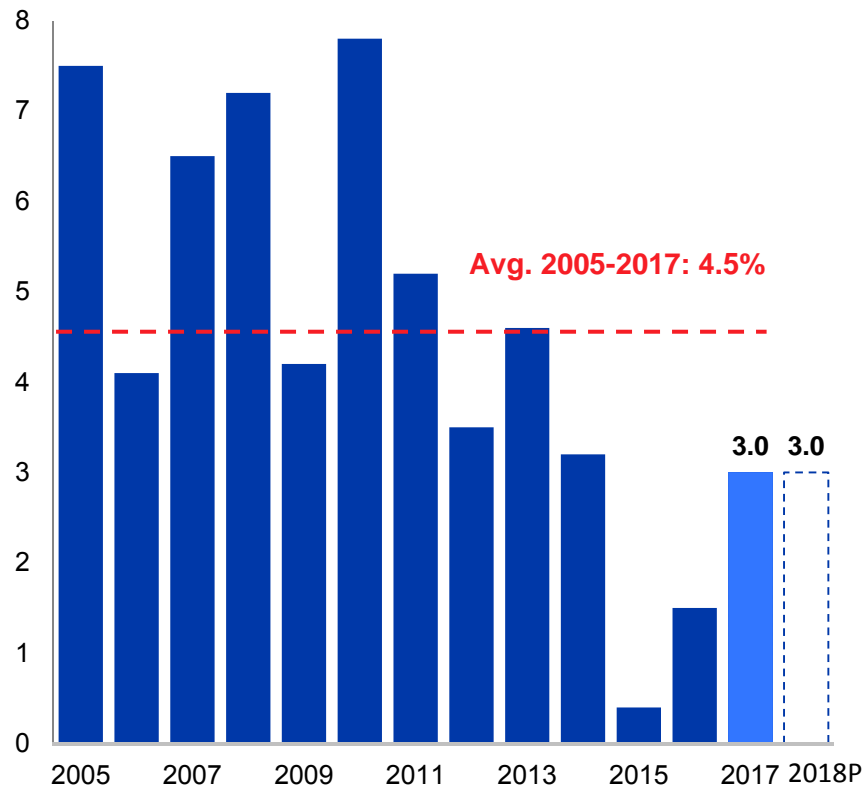
- I. Recent developments and outlook
- II. Macroeconomic challenges and policy responses
- III. Debt-management strategies and financing plans for 2018

I. Uruguay is on track to complete its 15th year of uninterrupted economic growth



Real GDP Growth

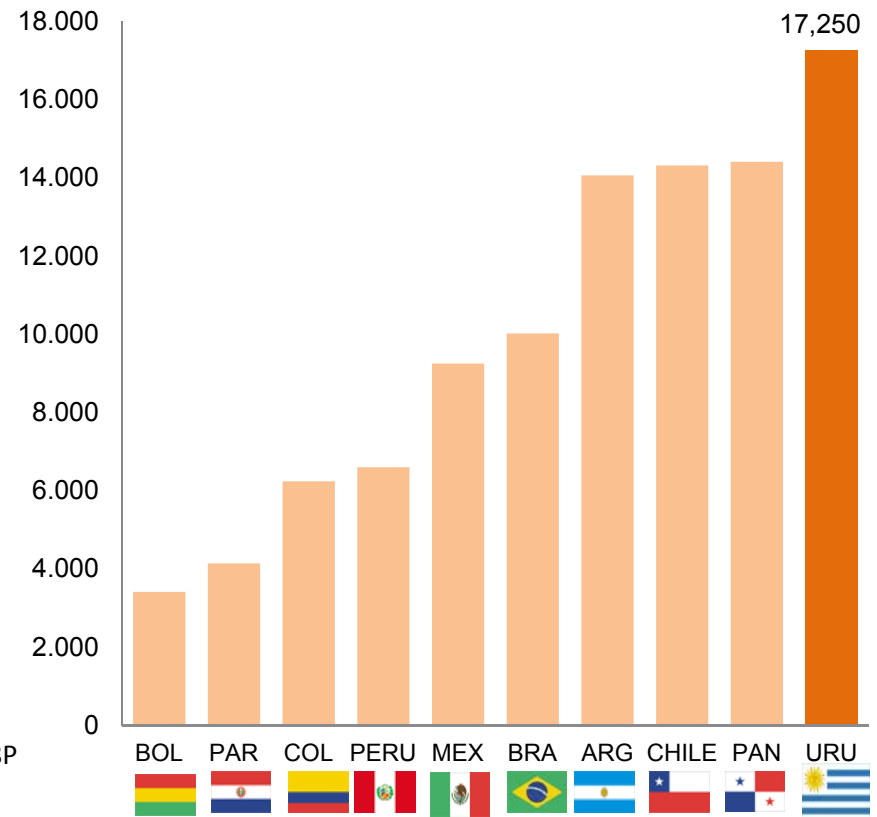
(Annual Change, in %)



Source: Central Bank of Uruguay for historical data; projections from Ministry of Economy and Finance

GDP per Capita compared to LATAM

(2017, in current USD)



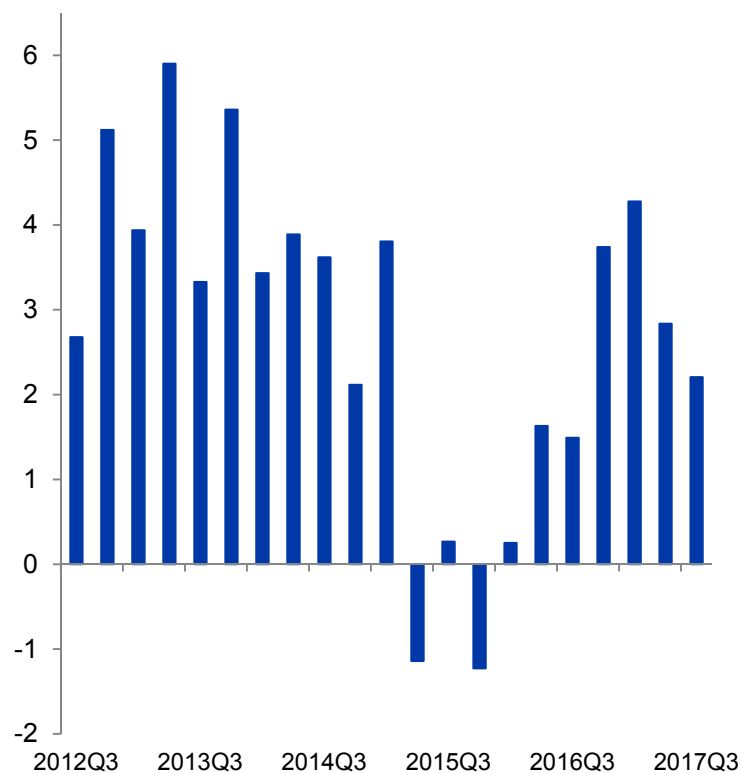
Source: International Monetary Fund (WEO October 2017)

The economy bounced back during 2017



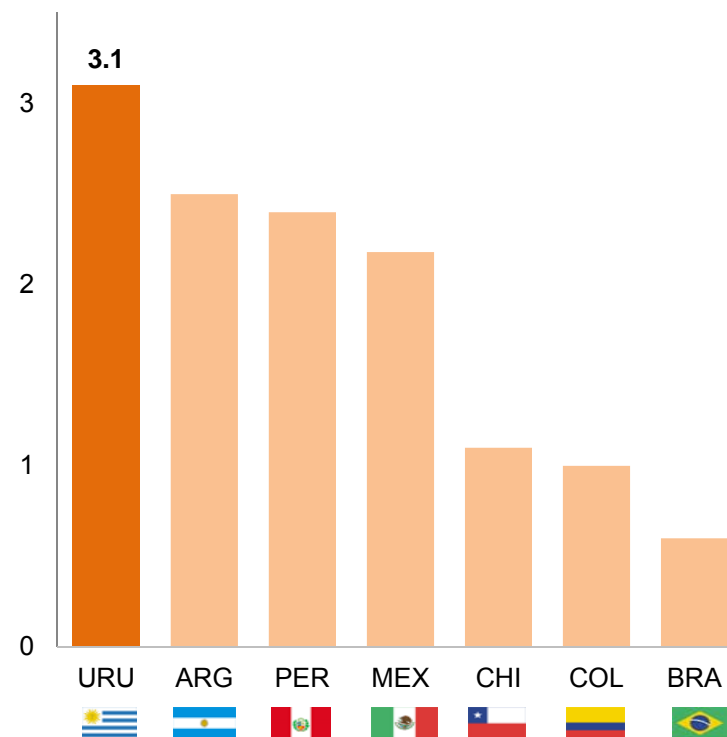
Real GDP Change of Uruguay

(Year-over-year, in %)



Real GDP Change compared to LATAM

(2017Q1-Q3 over same period of 2016, in %)



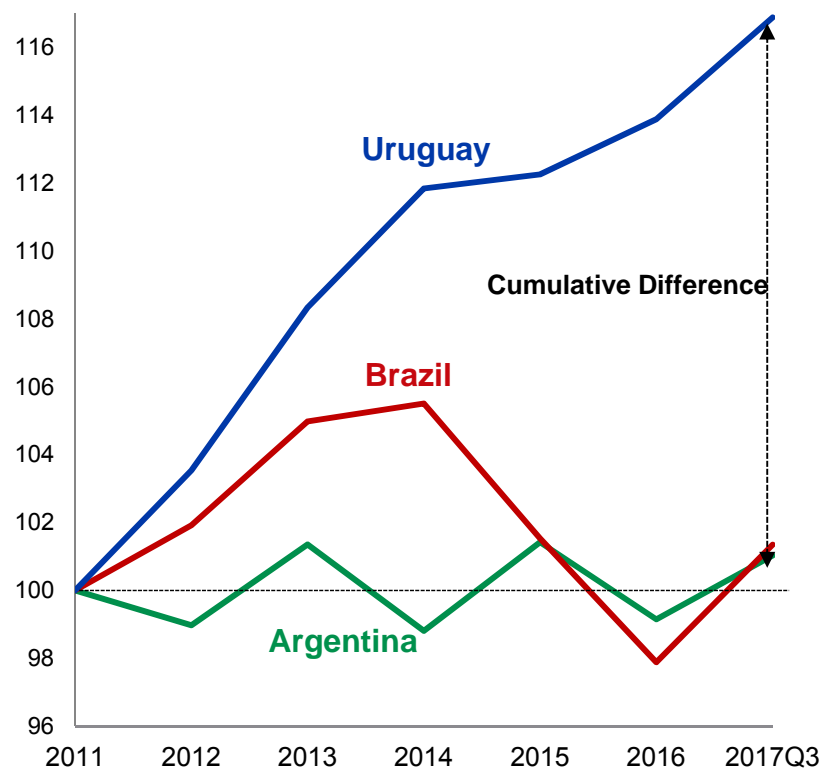
Source: Central Bank of Uruguay and official statistical institutions from LATAM countries

After enduring regional downturn, Uruguay faces improving growth prospects of its neighbours



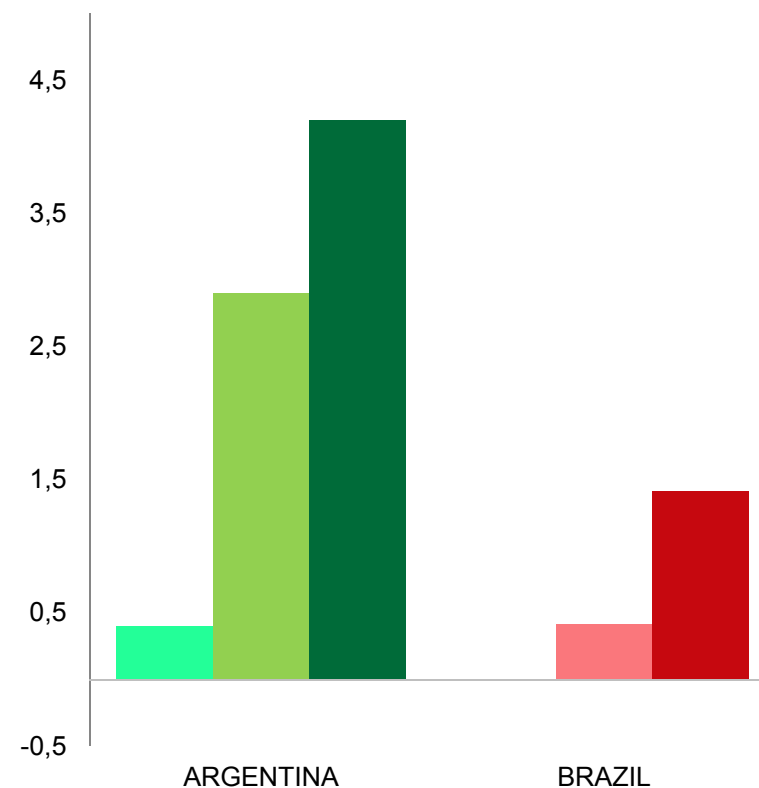
Cumulative Real GDP Growth

(Index, Base 100=2011)



Real GDP Change in Argentina and Brazil during 2017

(Q1, Q2 and Q3 of 2017, respectively, over same period last year, in %)



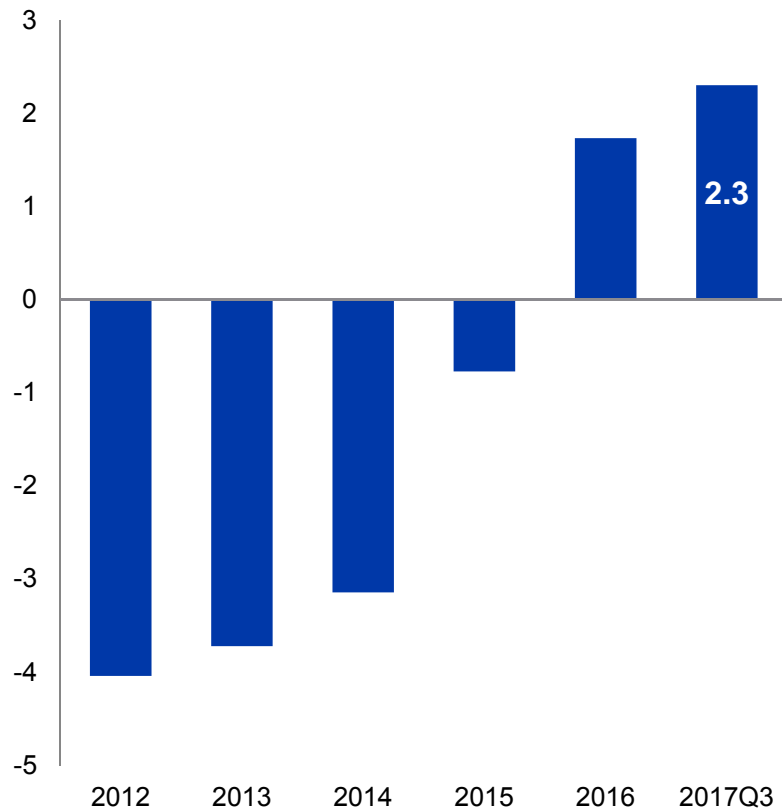
Sources: Central Bank of Uruguay (BCU); Central Bank of Brazil (BCB); National Institute of Statistics and Censuses (INDEC)

Marked improvement of external accounts



Current Account Balance of Uruguay

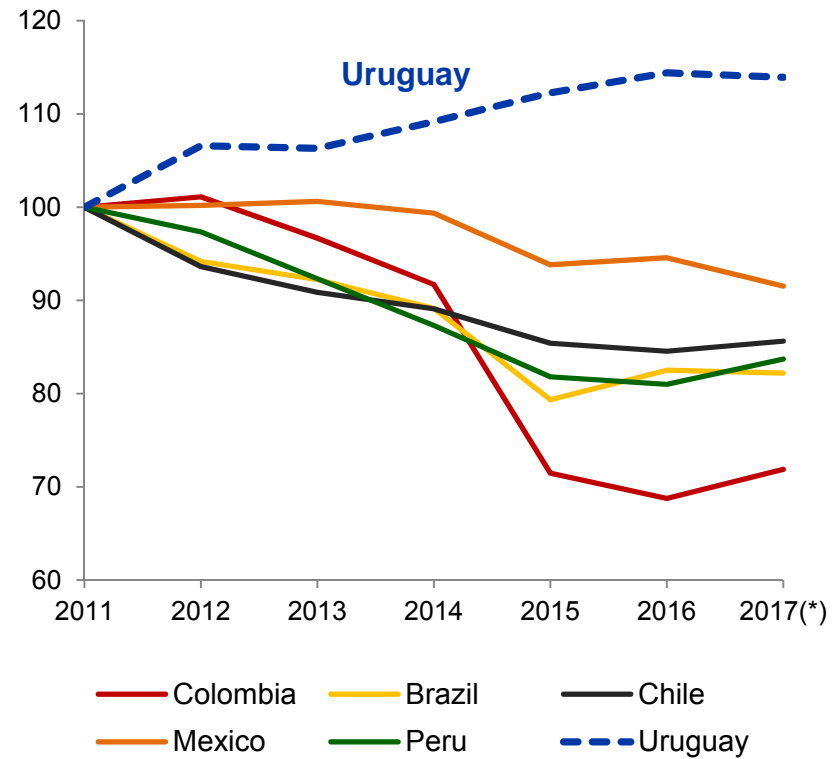
(Last 12 months, in % of GDP)



Source: Central Bank of Uruguay

Terms of Trade for Goods compared to LATAM

(Average 2011=100)

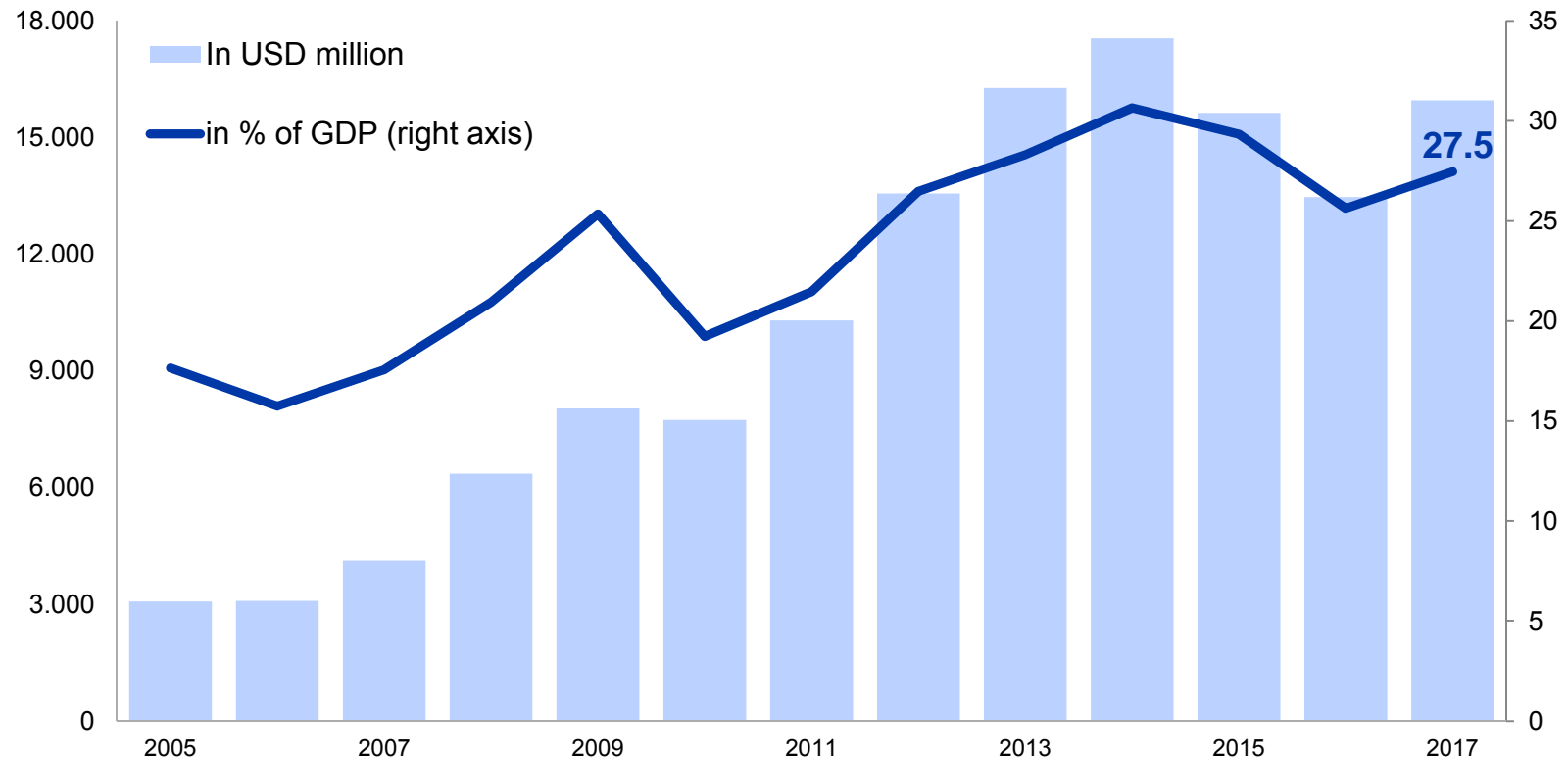


Source: International Monetary Fund.
(*) Estimated for 2017

Comfortable external liquidity position



International Reserves

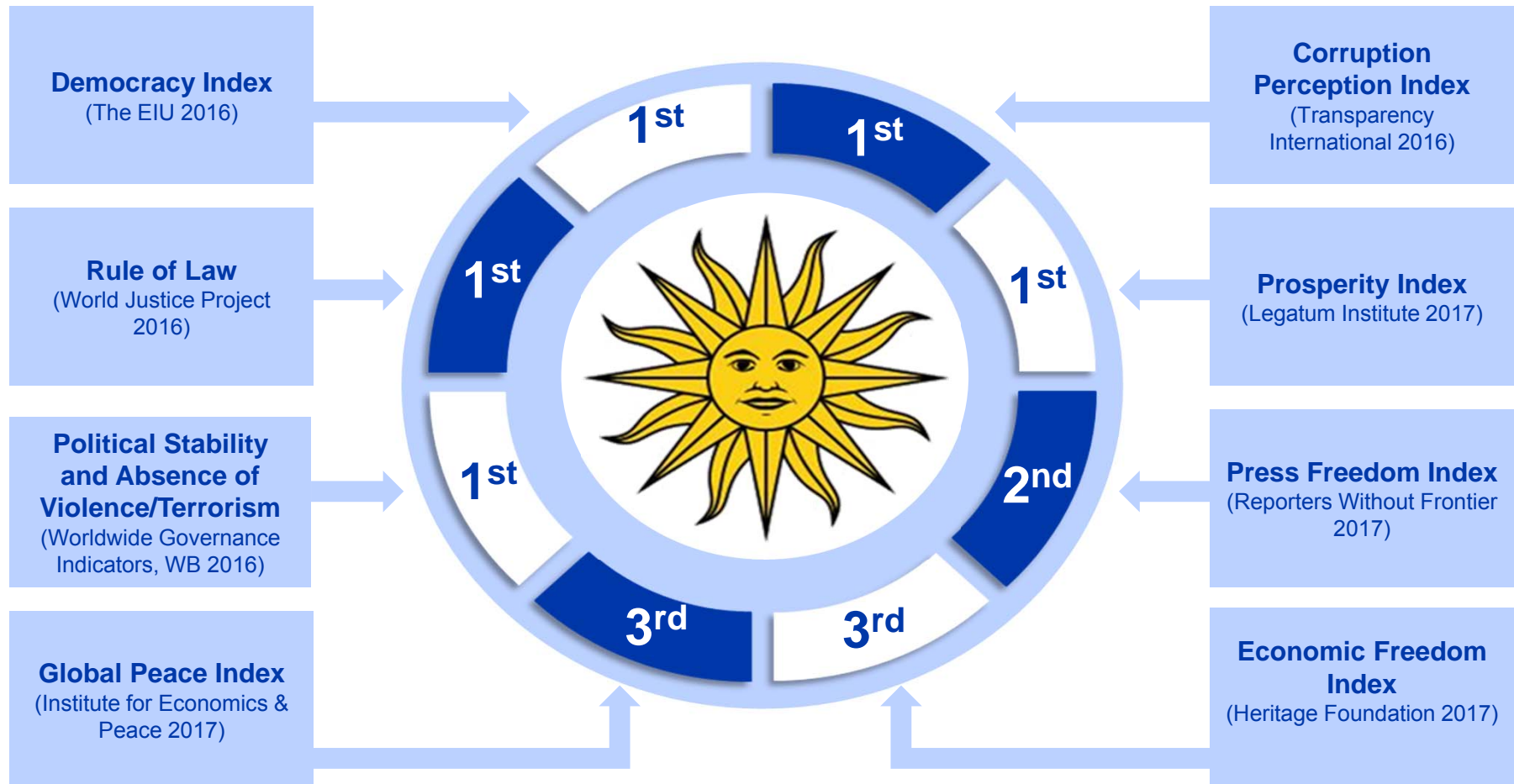


Source: Central Bank of Uruguay

Uruguay remains a bastion of institutional stability in the region



Ranking position in LATAM



Note: Ranking position in LATAM and Worldwide, respectively

II. Inflation has fallen significantly and is back within the target band



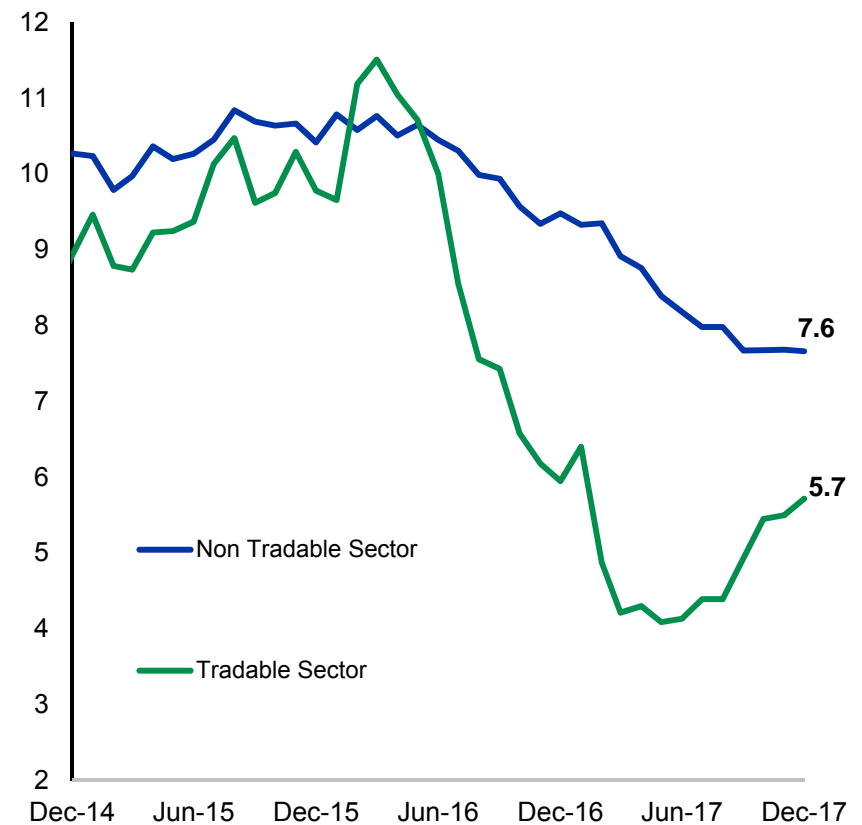
Inflation

(annual, in %)



Tradable and Non-Tradable Inflation

(annual, in %)



Source: National Bureau of Statistic & Central Bank of Uruguay

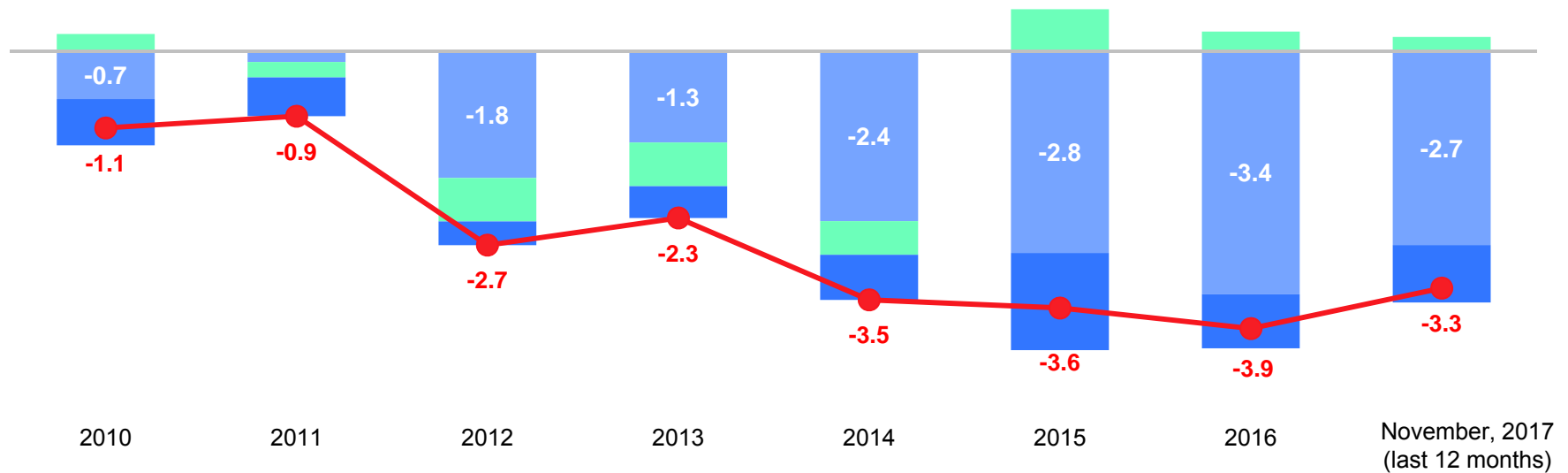
Policy priority is to shore-up public finances to meet 5-year budget target of 2.5% of GDP by 2019



Consolidated Public Sector Balance

(in % of GDP)

- General Government
- Public Enterprises
- Central Bank
- Consolidated Fiscal Result



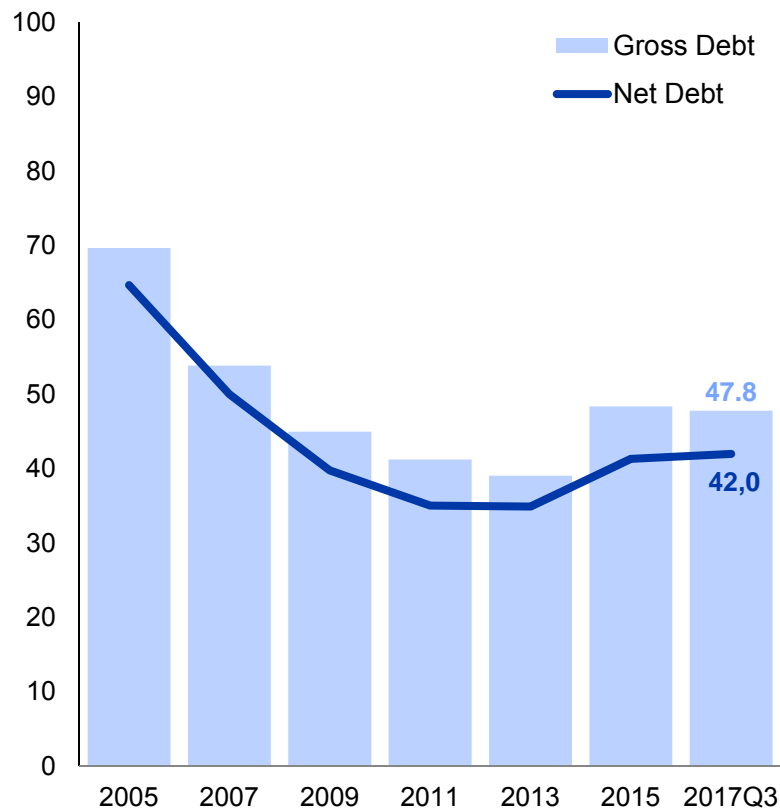
Source: Ministry of Economy and Finance

III. Debt management strategy over the last decade: reduce FX and roll-over risk



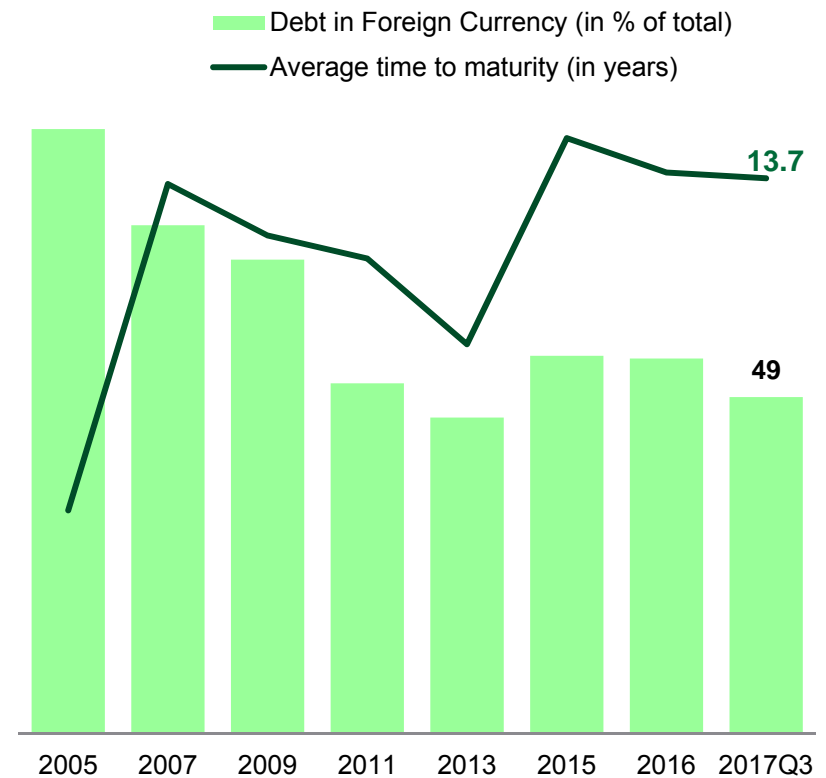
Central Government Debt

(in % of GDP, end-period)



Currency and Maturity Composition of Debt

(end-period)



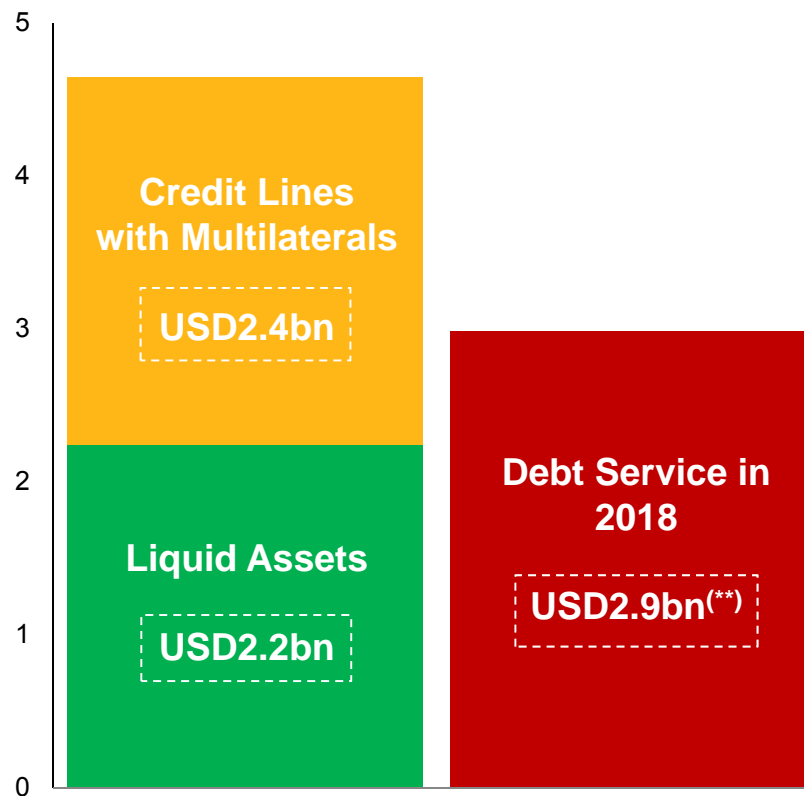
Source: Debt Management Unit, Ministry of Economy and Finance

Active pre-funding policy has build-up central government's liquidity reserves



Financial Buffers and Debt Service Obligations

(in USD billions, as of December 2017)(*)



(*) preliminary data

(**) Amortization plus interest payments

Source: Debt Management Unit, Ministry of Economy and Finance

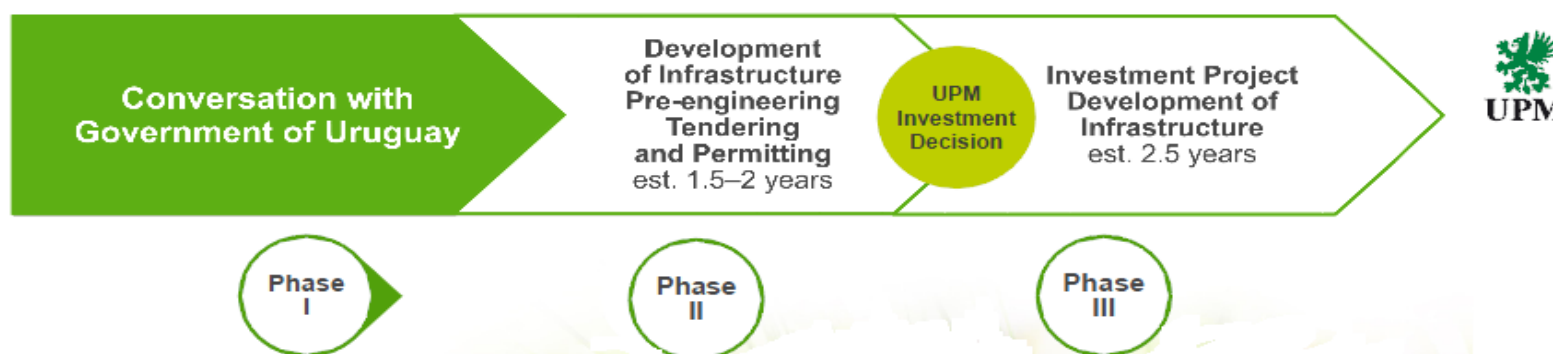
Large liquidity buffers:

- Underpin the credit quality of the sovereign
- Provide flexibility when deciding timing, strategy and format of capital market transaction

Government has reached an investment agreement with Finnish company UPM to build a second pulp mill in the country



- Largest private investment in history.
- Would lead to massive increase in transport infrastructure.
- In an economy of the size of Uruguay, this sort of investment, if it comes to pass, could have a material positive impact on GDP growth, employment and the Balance of Payments.

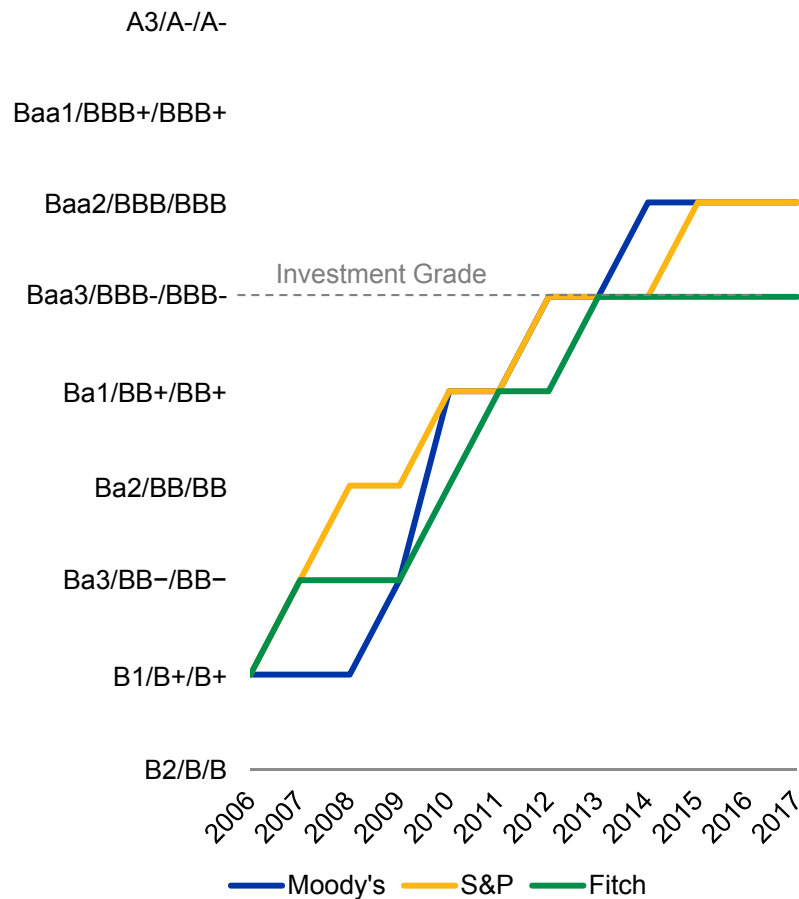


Source: UPM (<http://assets.upm.com/Investors/2016/Investor%20Presentation%20-%20September%202016.pdf>)

Credit rating actions during 2017 pointed to continued resilience and improved outlook



Evolution of Uruguay Sovereign Credit Ratings



Sources: Moody's, S&P, R&I, DBRS and Fitch

Credit Rating Updates in 2017



09/2017. Affirmed Uruguay's rating at "BBB-" with **Stable outlook**.



07/2017. **Outlook raised to Stable from Negative** and affirmed "BBB" rating.



05/2017. **Outlook improved to Stable from Negative** and affirmed "BBB" rating.



05/2017. Affirmed Uruguay's rating at "BBB(Low)" with **Stable Outlook**.

Financing strategies in global markets during 2017: “second-generation” dedollarization



Objectives

Increase Reliance in Local Currency Funding and Diversify Investor Base

- **Reduce exposure to currency risk in the government debt portfolio**
- **Expand the sources of funding and improve financing terms**

“Second-generation” dedollarization of government debt



Objectives

Increase Reliance in Local Currency Funding and Diversify Investor Base

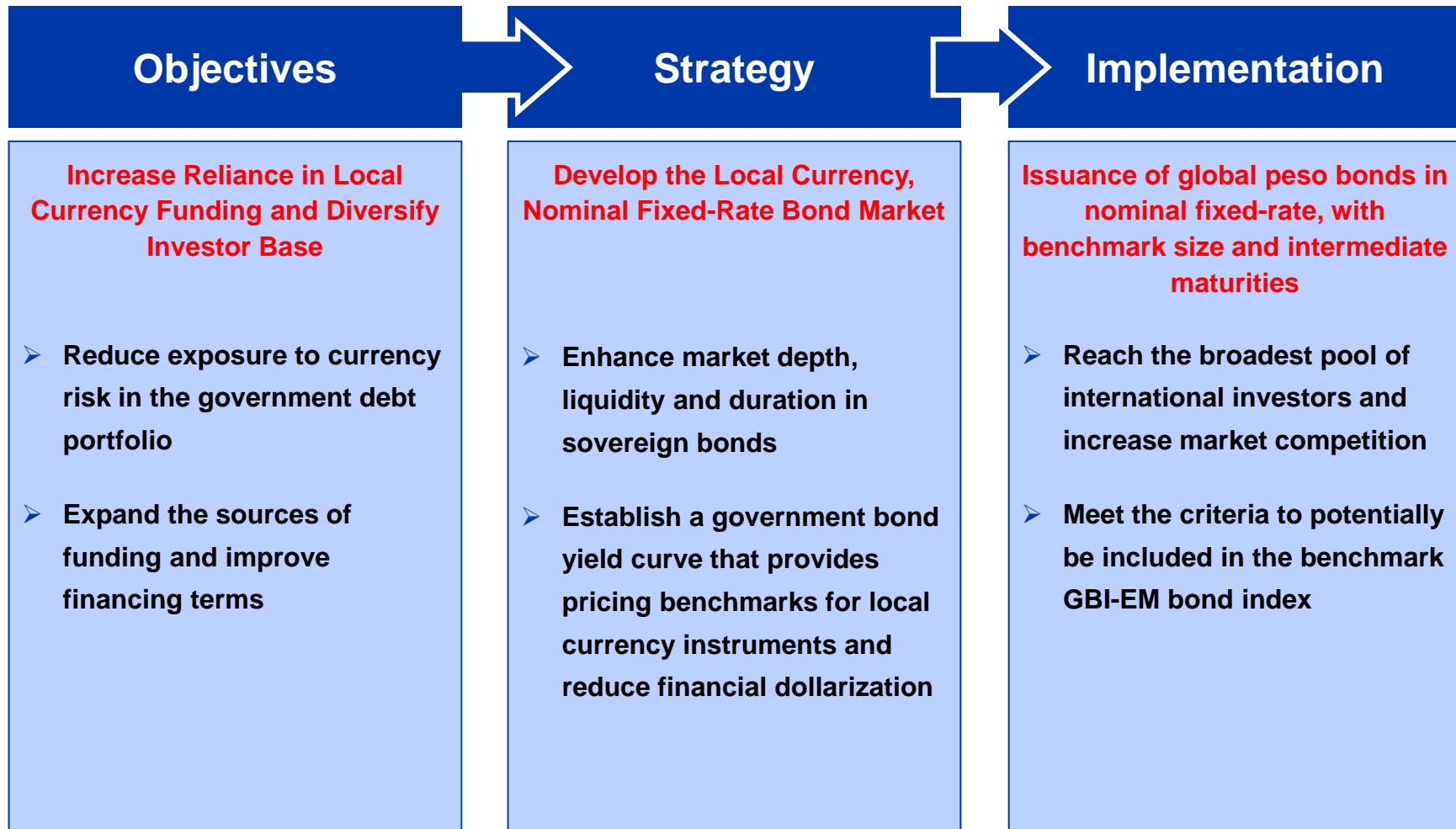
- Reduce exposure to currency risk in the government debt portfolio
- Expand the sources of funding and improve financing terms

Strategy

Develop the Local Currency, Nominal Fixed-Rate Bond Market

- Enhance market depth, liquidity and duration in sovereign bonds
- Establish a government bond yield curve that provides pricing benchmarks for local currency instruments and reduce financial dollarization

“Second-generation” de-dollarization of government debt

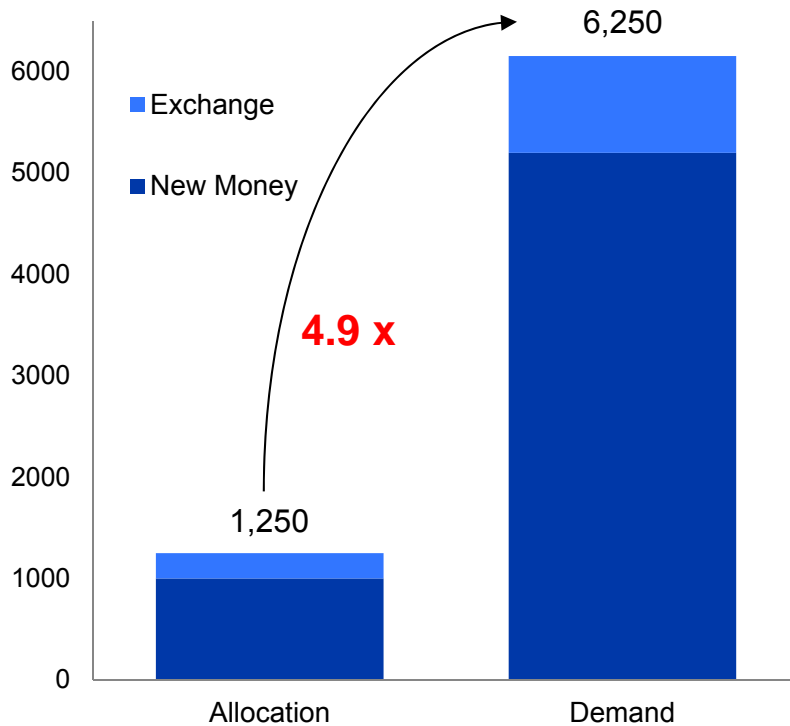


Landmark 5-year international issuance in nominal fixed-rate peso met large and diversified investor demand



Global UYU due 2022

(in USD million equivalent)



June 2017:

First-ever nominal fixed-rate global peso issuance.

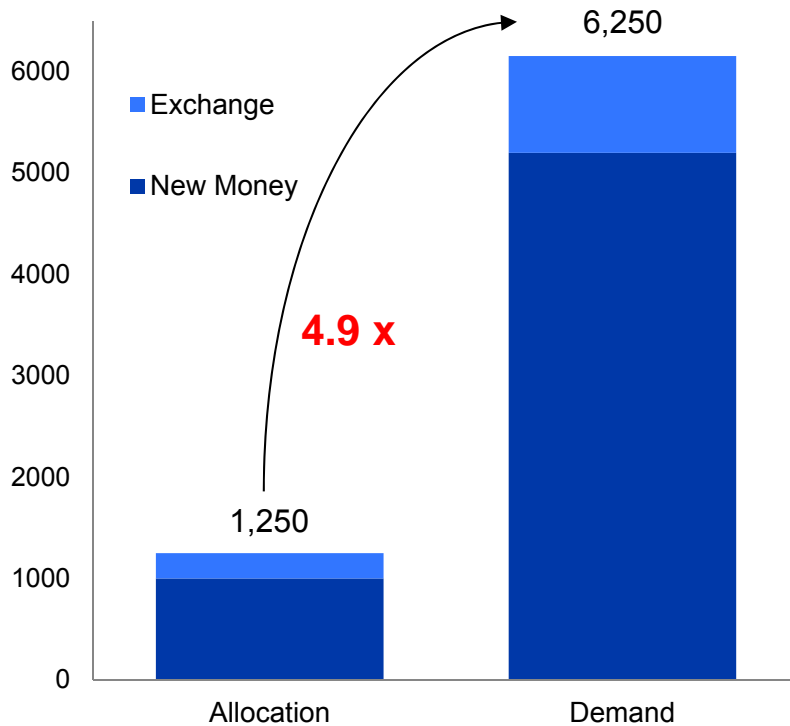
- 5-Year maturity for USD 1.25bn-equivalent, 10% yield.
- Key role played by the Central Bank in implementing the local leg of the concurrent LM operation.

Strong rally in bond price, particularly after inclusion in Emerging Markets Government benchmark index



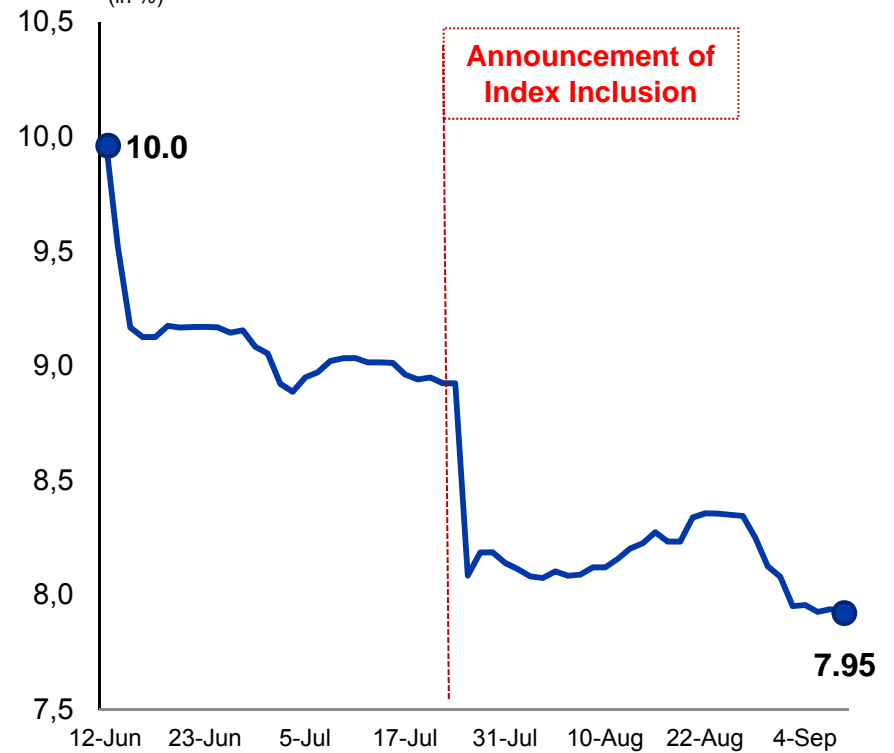
Global UYU due 2022

(in USD million equivalent)



Global UYU 2022 Yield evolution, since issuance

(in %)



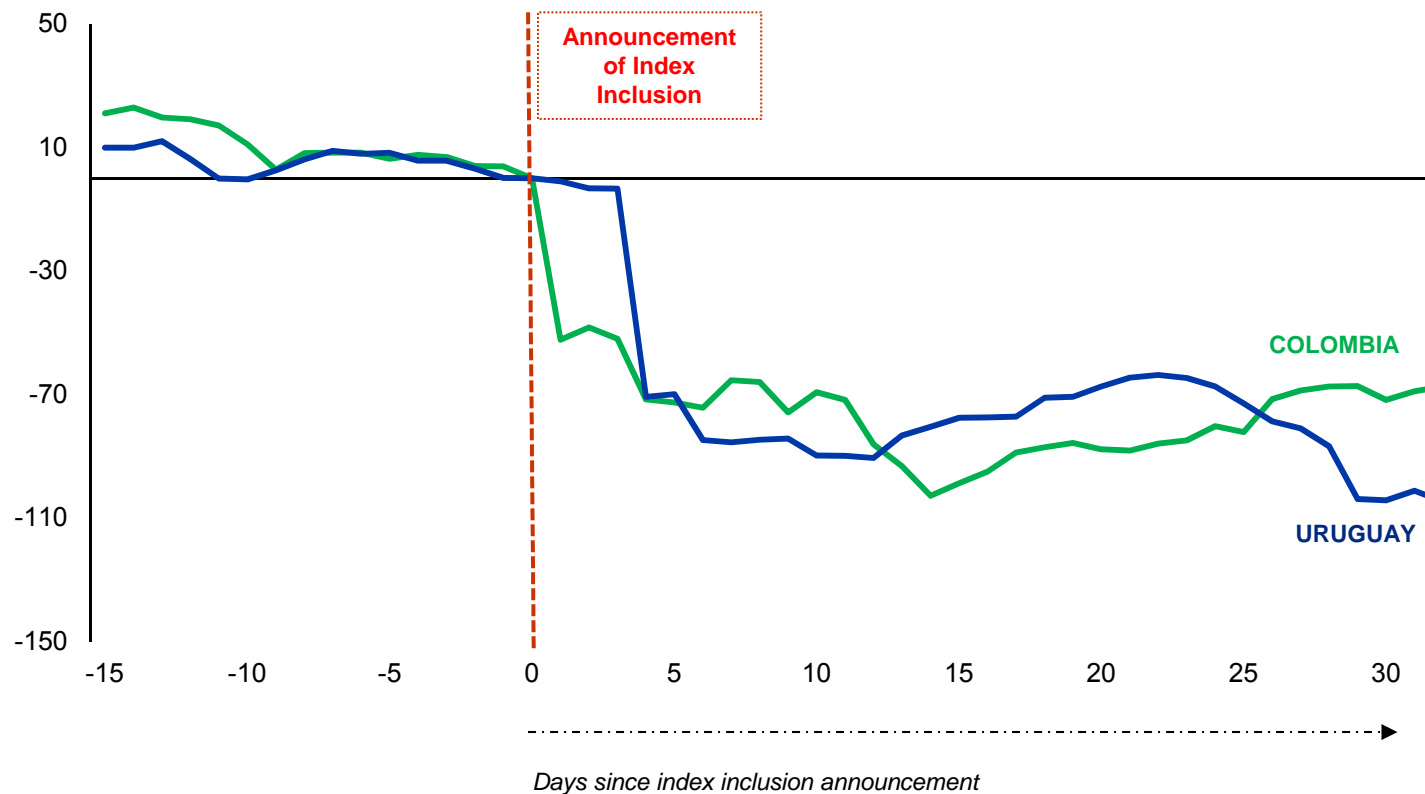
Source: Bloomberg

Impact of bond's inclusion in the GBI-EM was similar to the case of Colombia



5-Year Yield on Nominal Fixed Rate in Local Currency

(change in bps, around moment T=0)



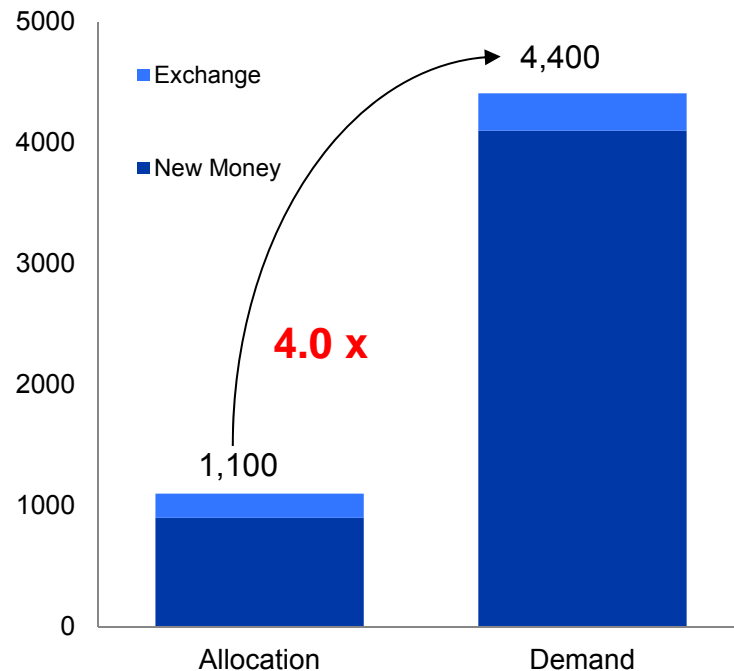
Source: Bloomberg

Followed through three months later, by extending duration with a 10-year UYU global issuance



Global UYU due 2028

(in USD million equivalent)



September 2017:

Longest-ever nominal fixed-rate peso issuance.

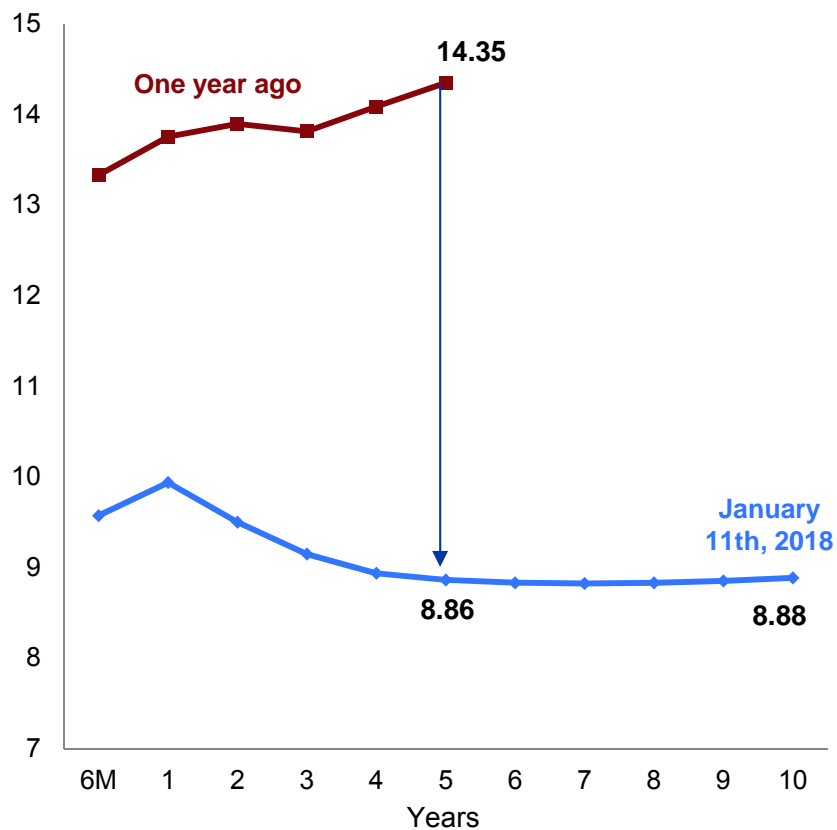
- 10-Year maturity for USD 1.1bn-equivalent, 8,625% yield.
- LM operation focused on international bonds (local currency and US dollar).

Compression in Rates and Shape of Yield Curve Portend Lower Long-term Inflation Expectations



Nominal Peso Yield Curve

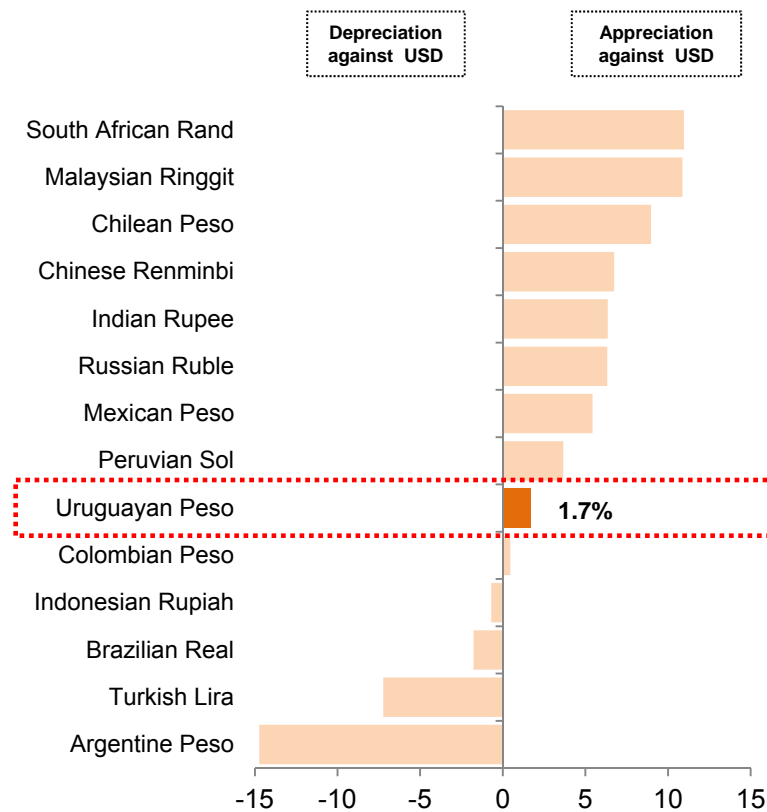
(Par value, in %)



Source: Bolsa Electronica de Valores del Uruguay (BEVSA)

EM Currencies Performance vs USD

(Spot change in 2017, in %)

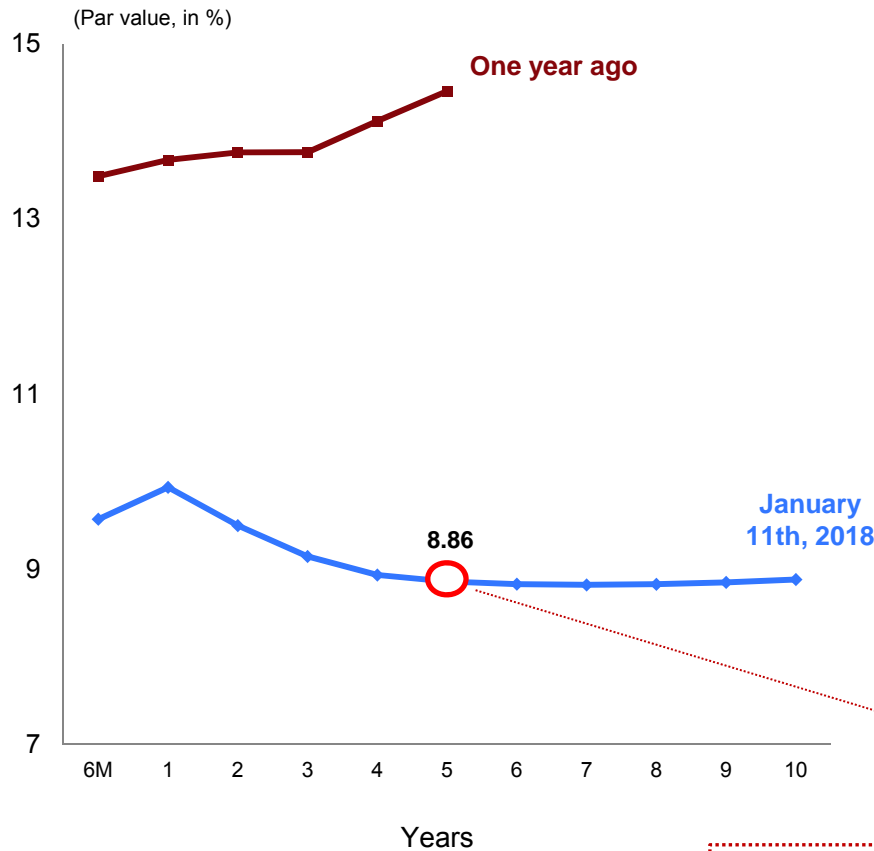


Source: Bloomberg

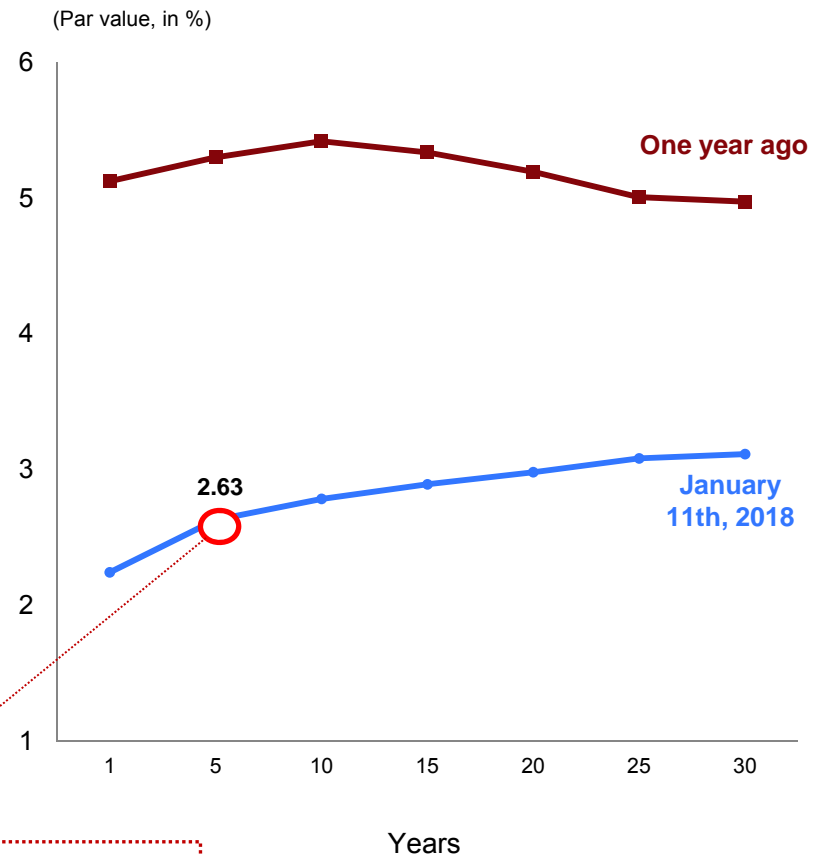
Yield-curve arbitrage in local currency bonds portend a reduction in long-term inflation expectations



Nominal Peso Yield Curve



CPI-linked Yield Curve



Annual average breakeven inflation of 6.23% over a 5-year horizon

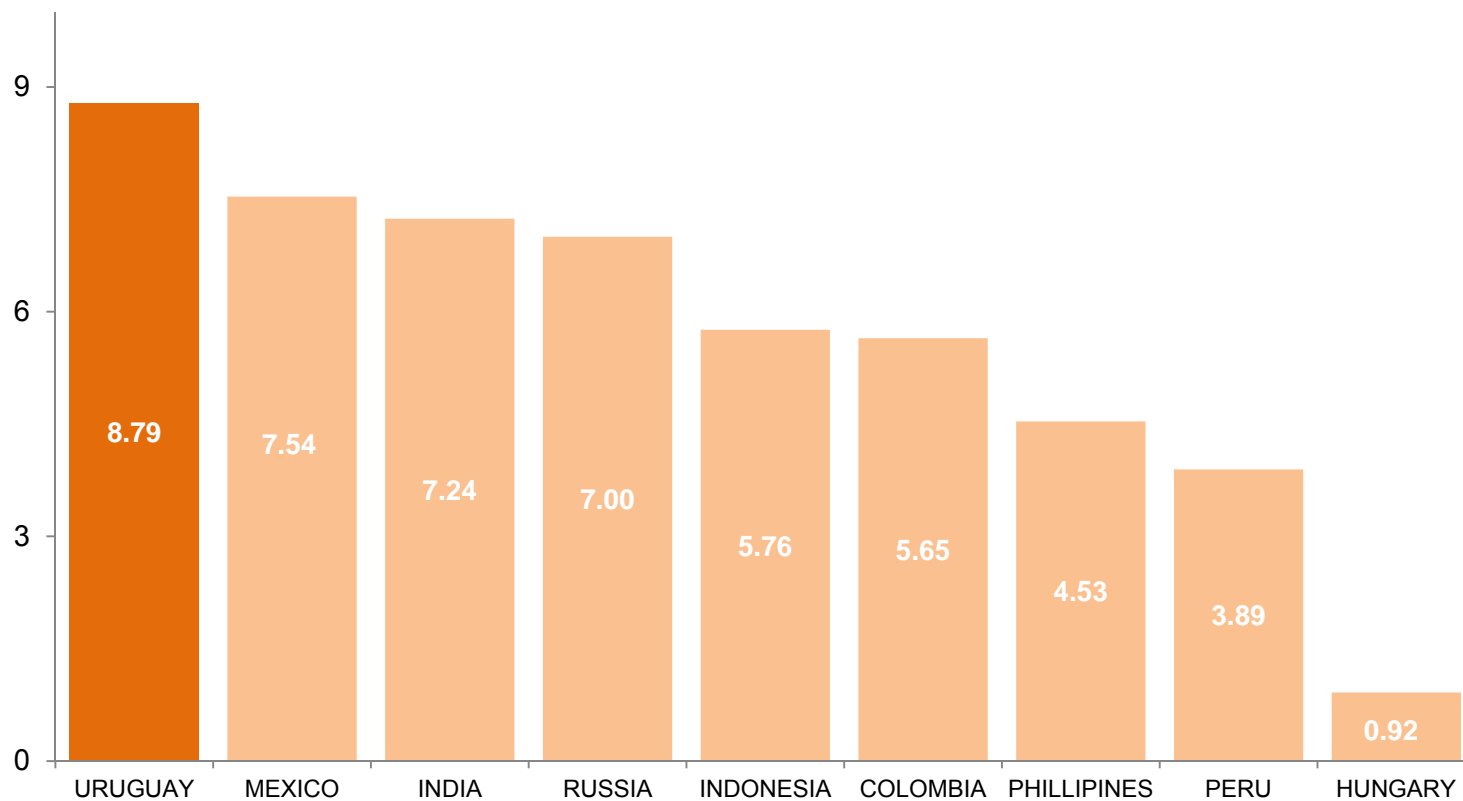
Source: Bolsa Electronica de Valores del Uruguay (BEVSA)

Despite significant compression, Uruguay's nominal yield remain relatively high among IG countries in EM



Yield of 5-Year Local Currency Sovereign Bond (Nominal Fixed Rate)

(mid-yield to maturity, in %)



Source: Bloomberg

Milestones of Uruguay's debt management in 2017



- First-ever issuances in pesos at nominal fixed rate on a global scale
- Index inclusion in GBI-EM: a further step towards international financial integration
- Both local and international capital market funding was fully done in Local Currency

Central government funding needs and sources



Indicative Uses and Sources of Funds

(in USD million)

	2017	2018
USES (*)	3,470	3,055
Interest Payments	1,558	1,672
Amortization	1,862	1,523
Primary Deficit	50	-140
SOURCES (*)	3,470	3,055
Multilateral Disbursements	146	500
Total Bond Issuance (**)	3,057	2,700
Others	91	185
Use of Assets (***)	177	-329

(*) Preliminary data

(**) Includes domestic and external issuances

(***) Positive value indicates a reduction in Central Government's assets

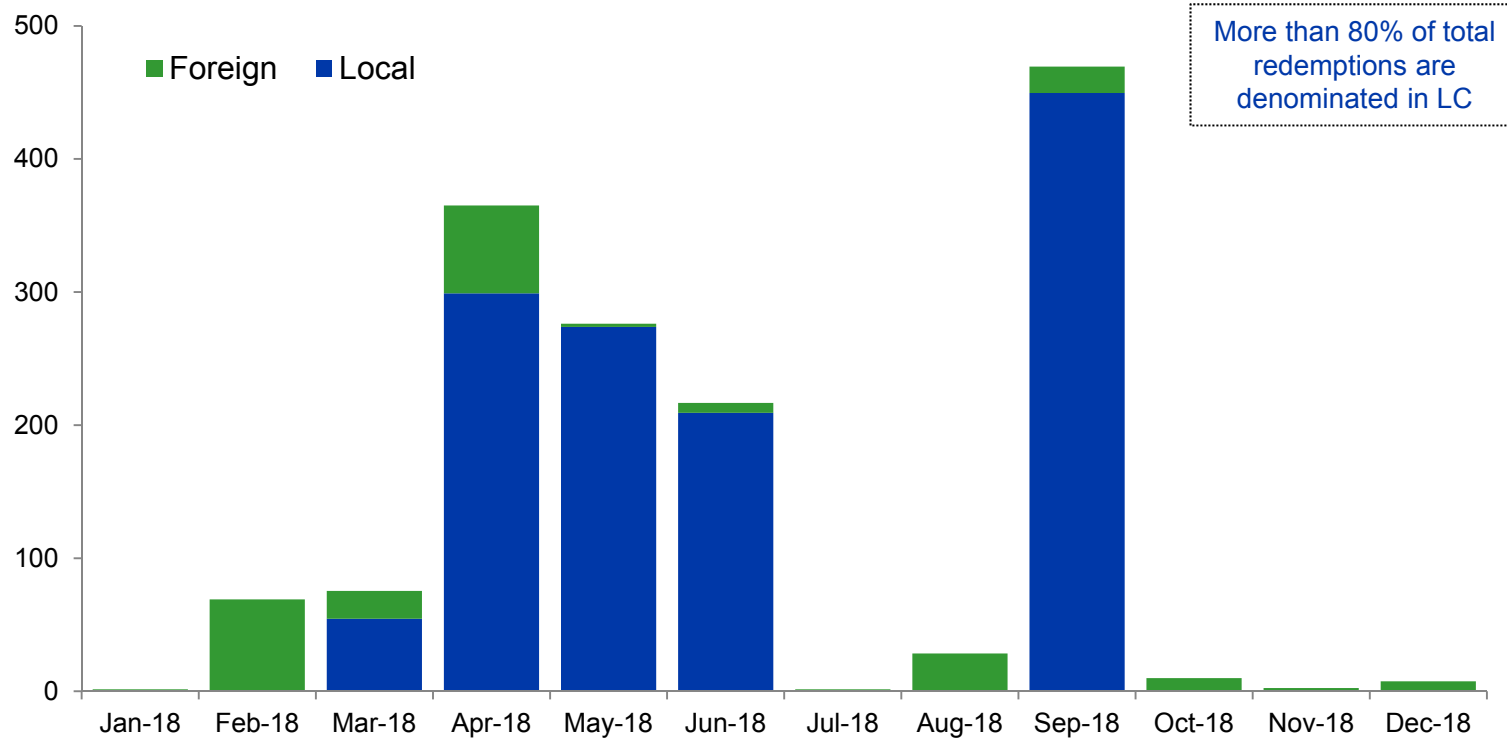
Source: Ministry of Economy and Finance.

Upcoming maturities continue to be highly concentrated in local currency



Government Debt Redemption Profile during 2018, by Currency

(in USD million)



Source: Ministry of Economy and Finance

Intended debt management strategies for 2018



1) Continue developing the local currency bond market by:

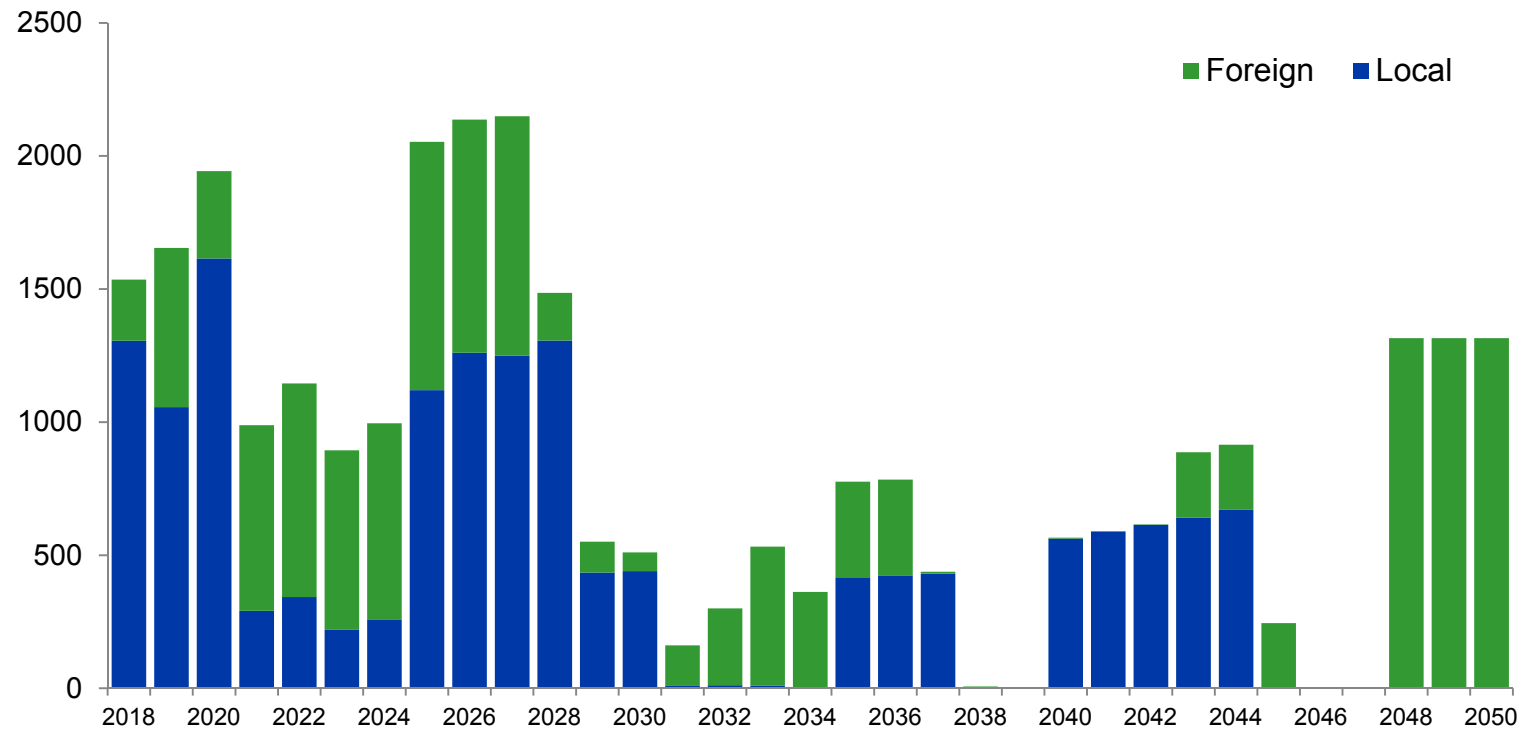
- Extend duration in nominal peso yield curve through issuance of longer-dated global bonds and liability management operations.
- Continue to target index-eligibility in primary issuances to enhance liquidity, while ensuring the right incentives for banks to increase trading in secondary markets and dollar/peso hedging instruments.
- Increasing share of peso debt through dollar/peso cross-currency swaps.
- Aligning custody and settlement process in domestic markets to international standards.

Government debt redemption profile



Total Government Debt Amortizations, by Currency

(in USD million)



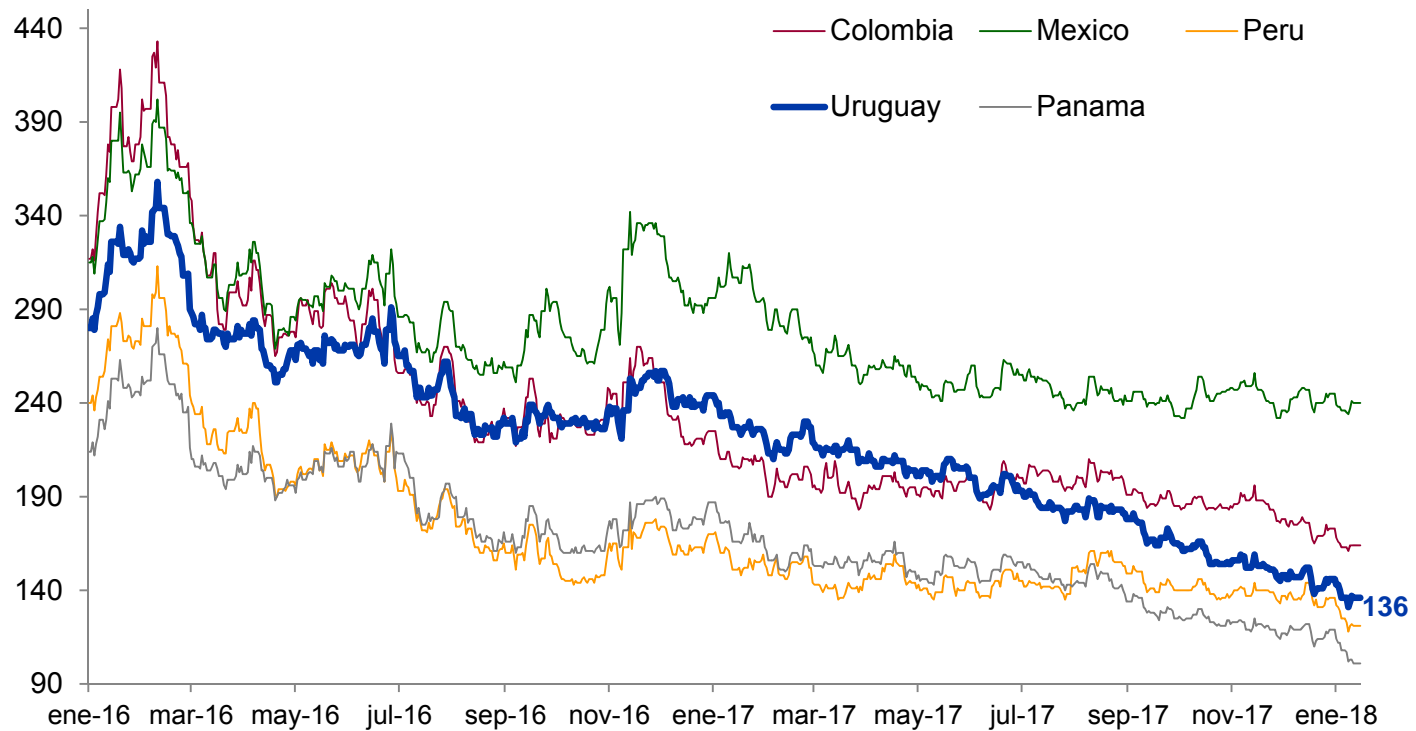
Source: Ministry of Economy and Finance

Uruguay's sovereign risk premium performance has been below better-rated peers



JP Morgan EMBI Index

(in bps)



Source: Bloomberg

Intended debt management strategies for 2018



2) Returning to the international dollar bond market:

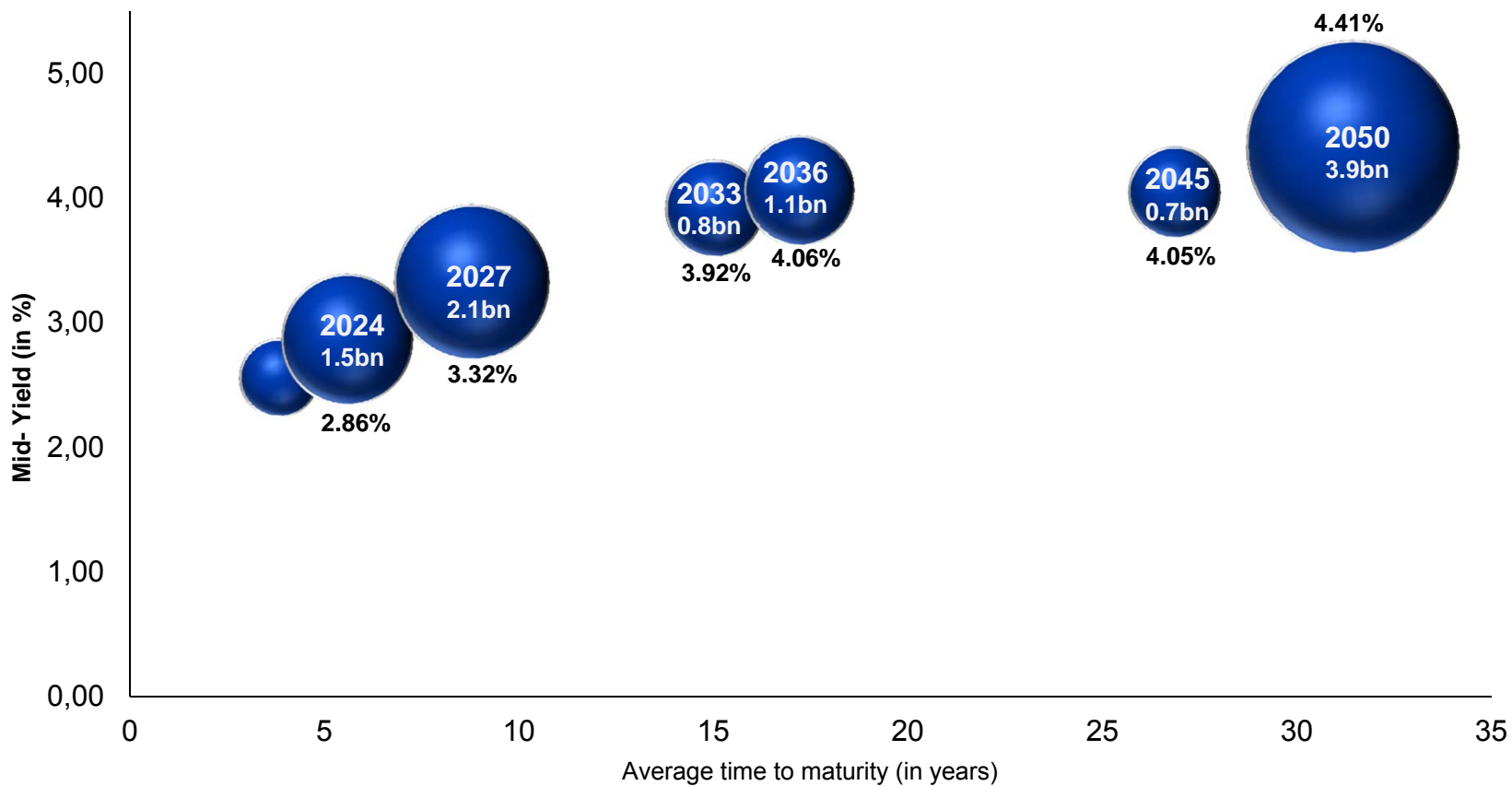
- Our deepest and more efficient source of funding.
- US dollar bond market gives the Republic more flexibility regarding the maturity of issuances.
- Update and refresh of USD Global Curve after being out of the market for more than one and a half year.
- Continue diversifying investor base.



Uruguay's Global USD curve

Uruguay's US Dollar Curve (*)

(bond size in USD)



(*) For bonds with outstanding above USD 500mn

Source: Bloomberg

Key Highlights of the Uruguayan Economy



Robust macroeconomic performance and investment grade country

Solid institutional foundations

Decelerating inflation and fiscal consolidation underway

Resilient government debt profile and large and liquid buffers

Ambitious infrastructure agenda underpinning medium term outlook