



MINISTRY OF ECONOMY AND FINANCE  
DEBT MANAGEMENT UNIT

# **Macroeconomic and Financial Outlook**

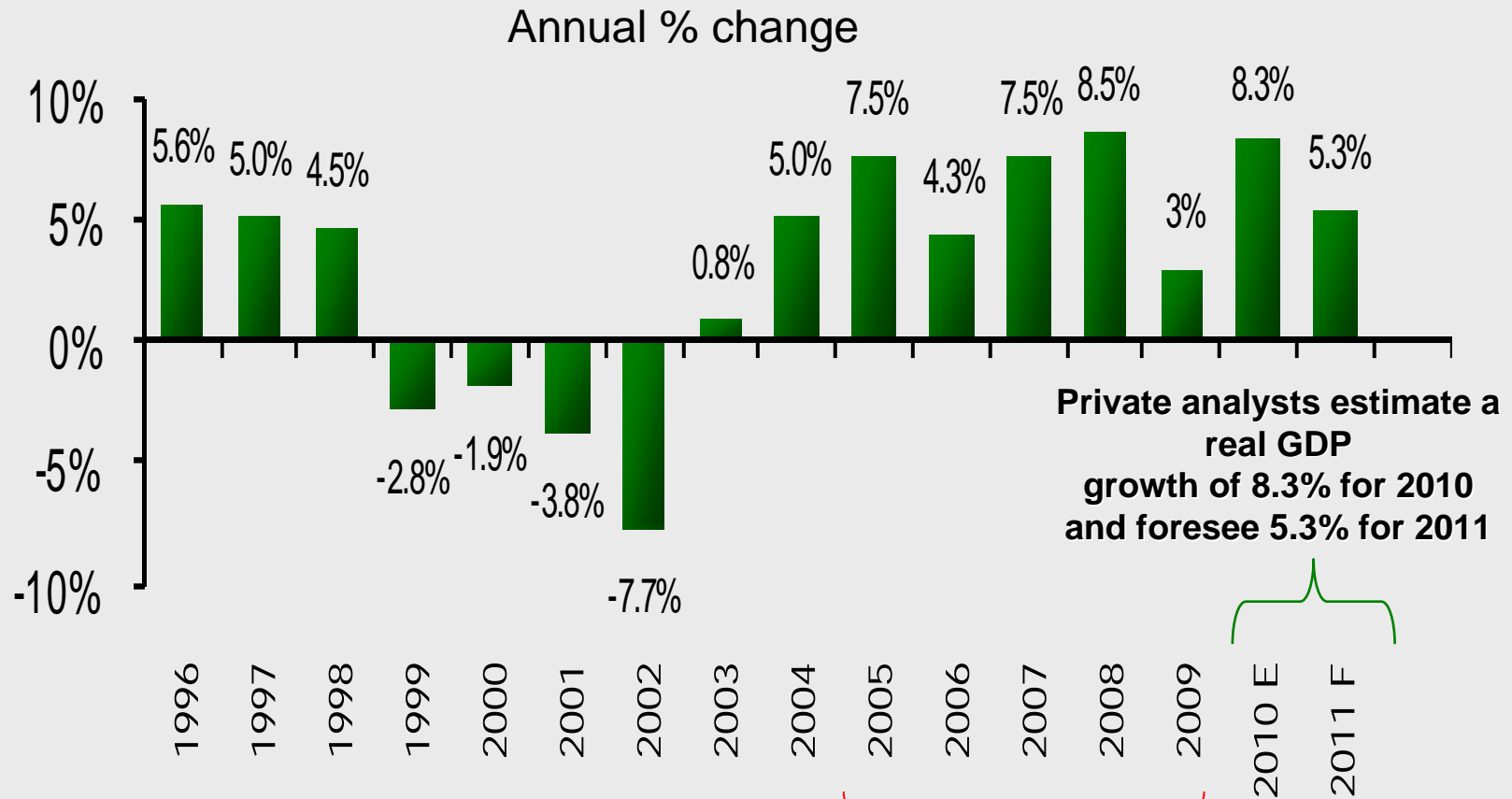
**March 2011**

# I. GROWTH PERSPECTIVES



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# Strong GDP growth in last years...



Annual average 2005-2009

Uruguay: 6.1%

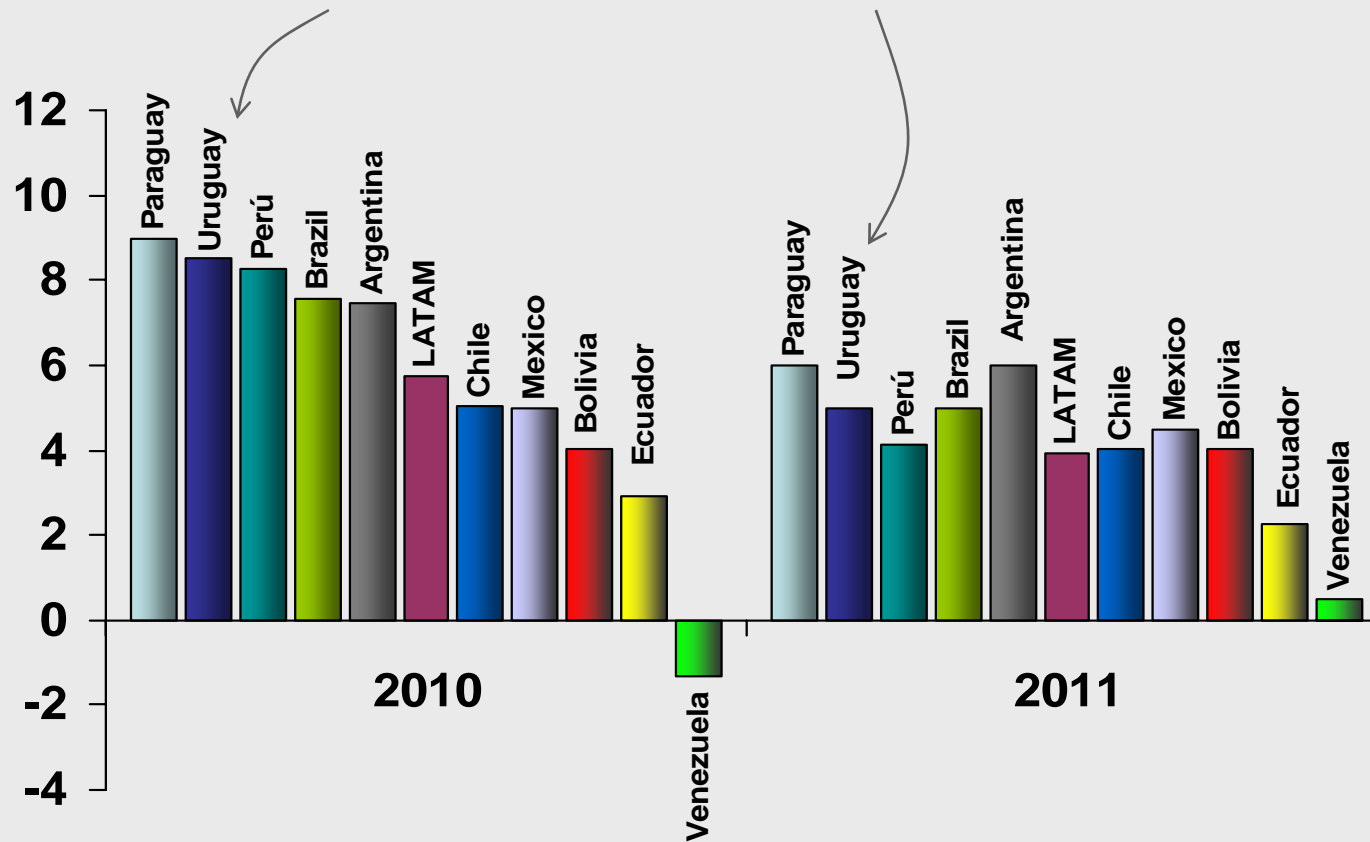
Latin America: 3.7%

Source: Central Bank

# ...and for 2010 and 2011 the perspectives are more promissory

Annual % change

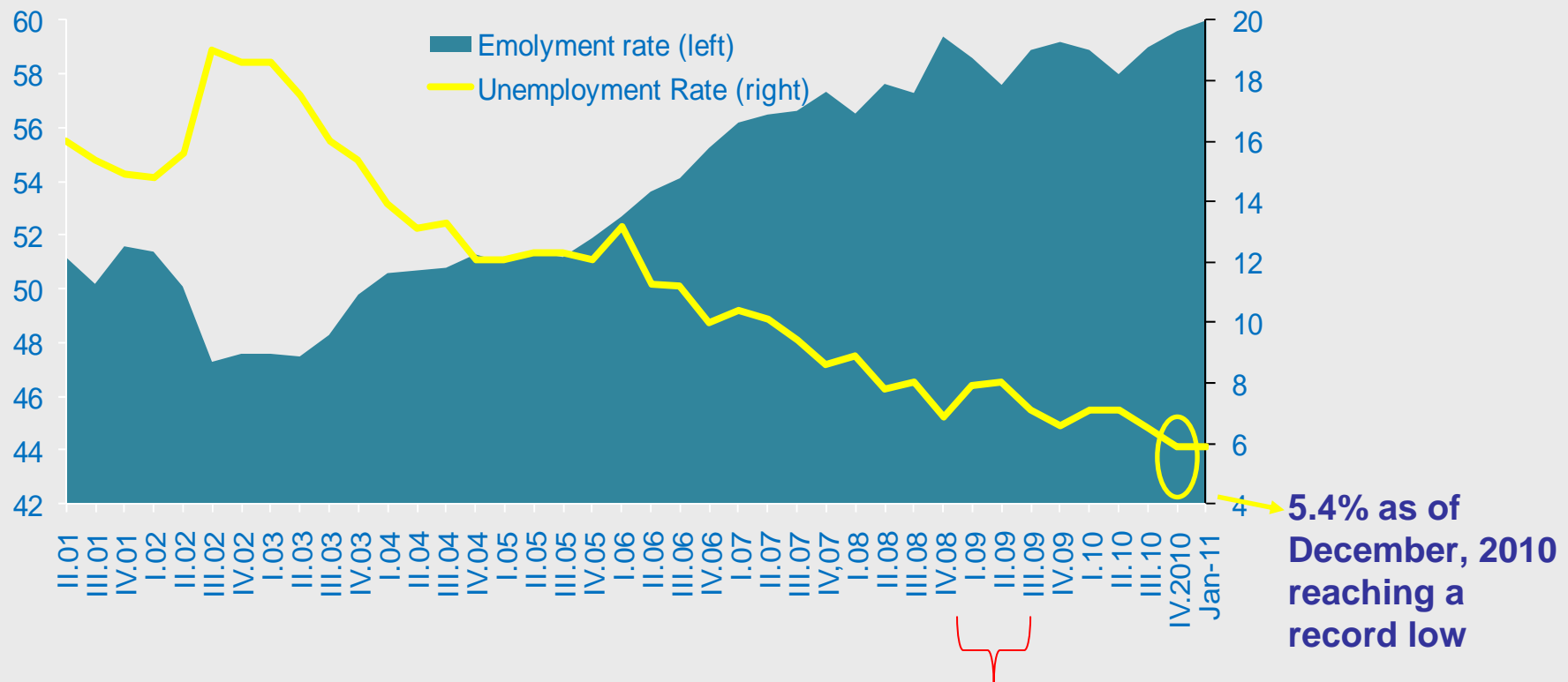
The IMF foresees a real growth of 8.4% for 2010 and 5.0% for 2011



Source: IMF - World Economic Outlook

# Reduced unemployment and high rate of employment, despite of the international economic crisis

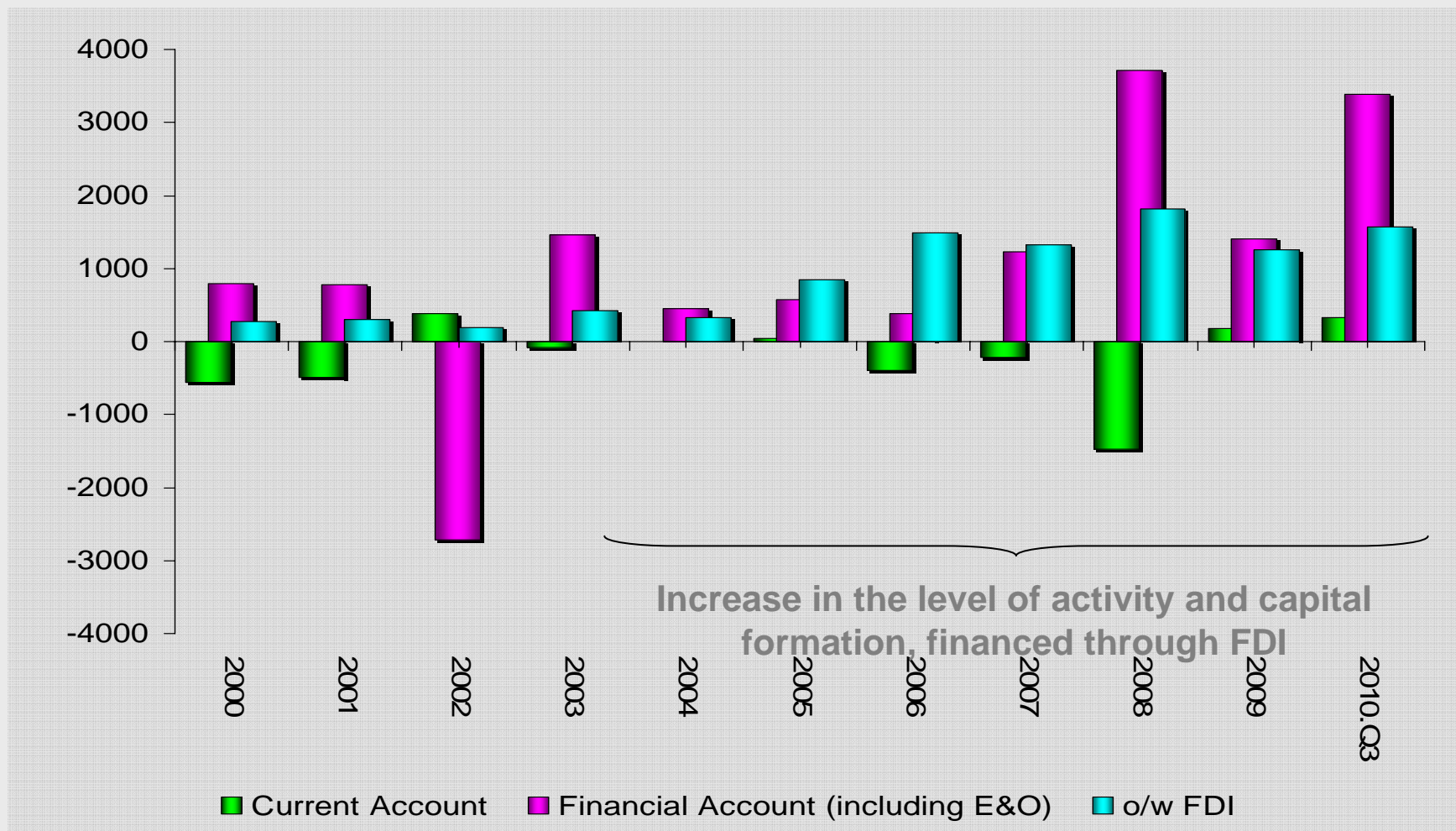
## Localities with 5,000 or more habitants (Quarterly data)



Source: National Statistics Office

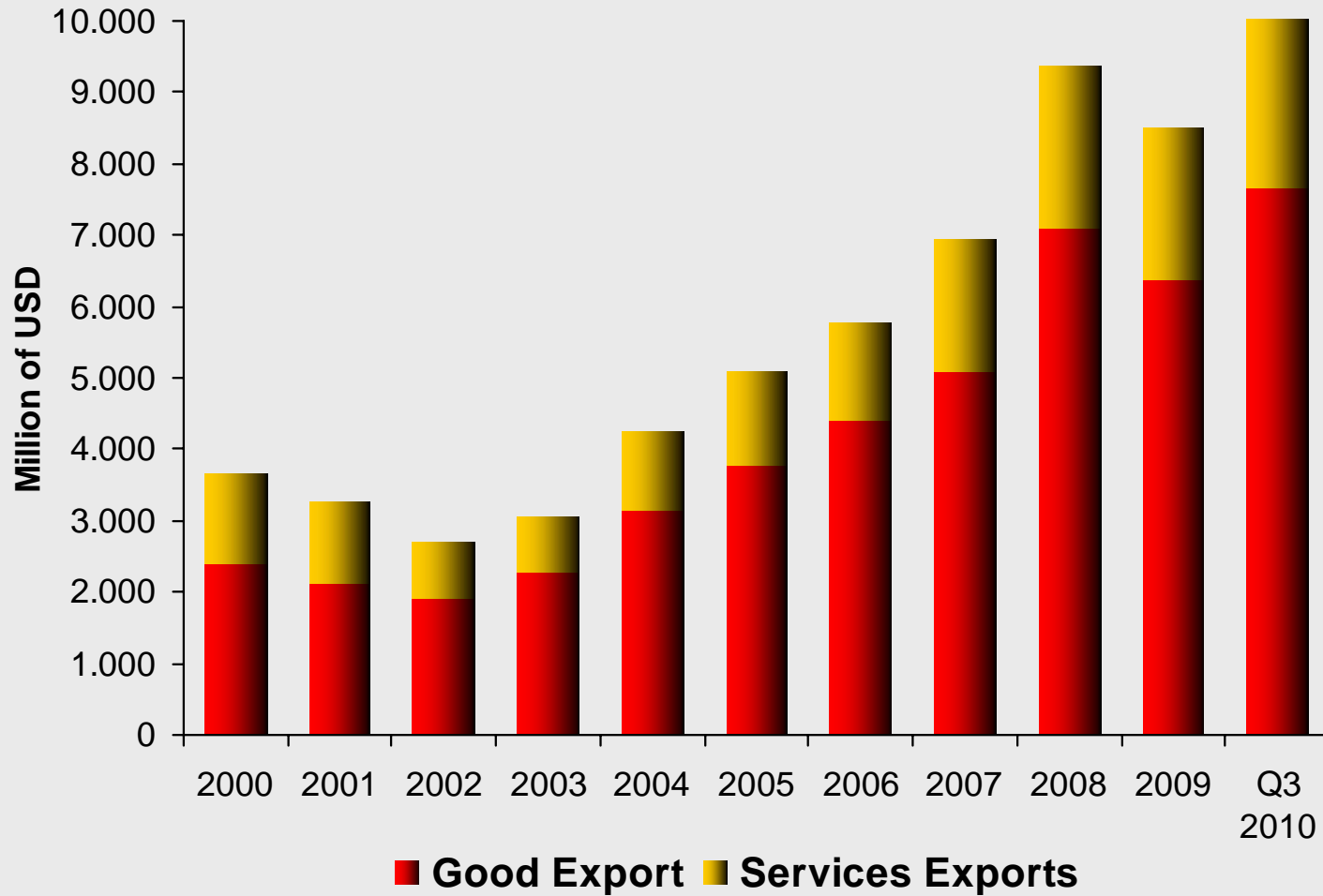
The labour market didn't register significant impact after Lehman collapse

# Strong growth influenced by high level of FDI



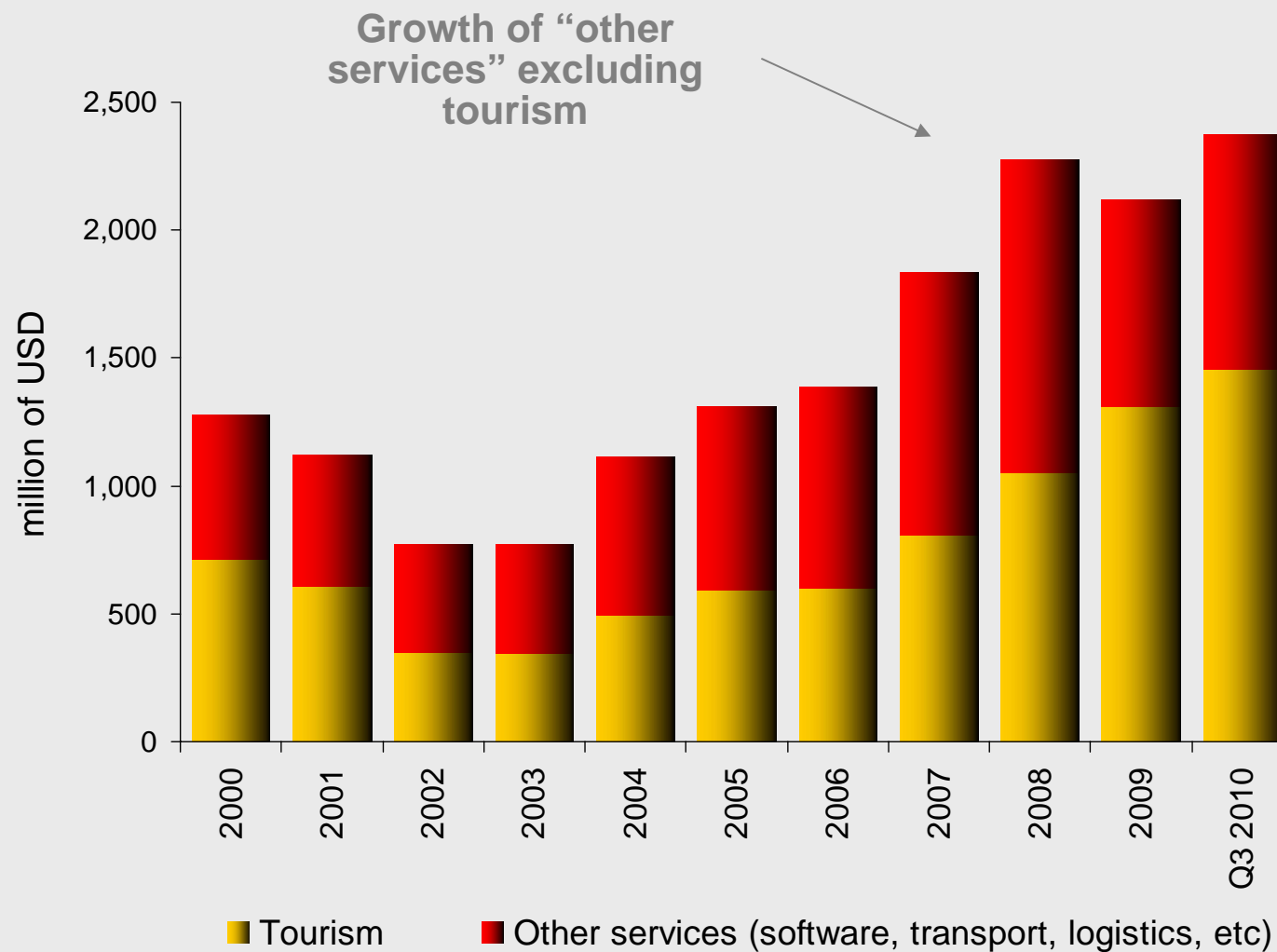
Source: Central Bank

# Important growth of exports



Source: Central Bank

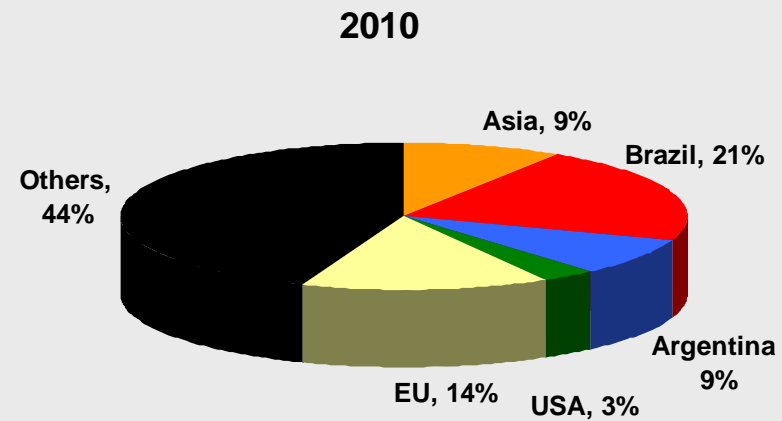
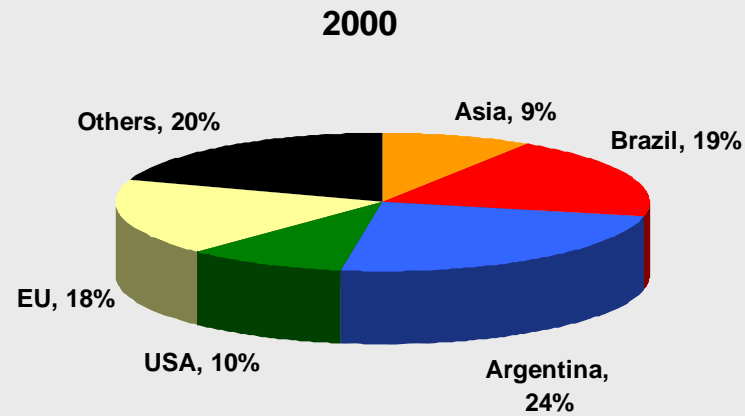
# Service exports also diversify



Source: Central Bank



# Diversification of goods export by markets



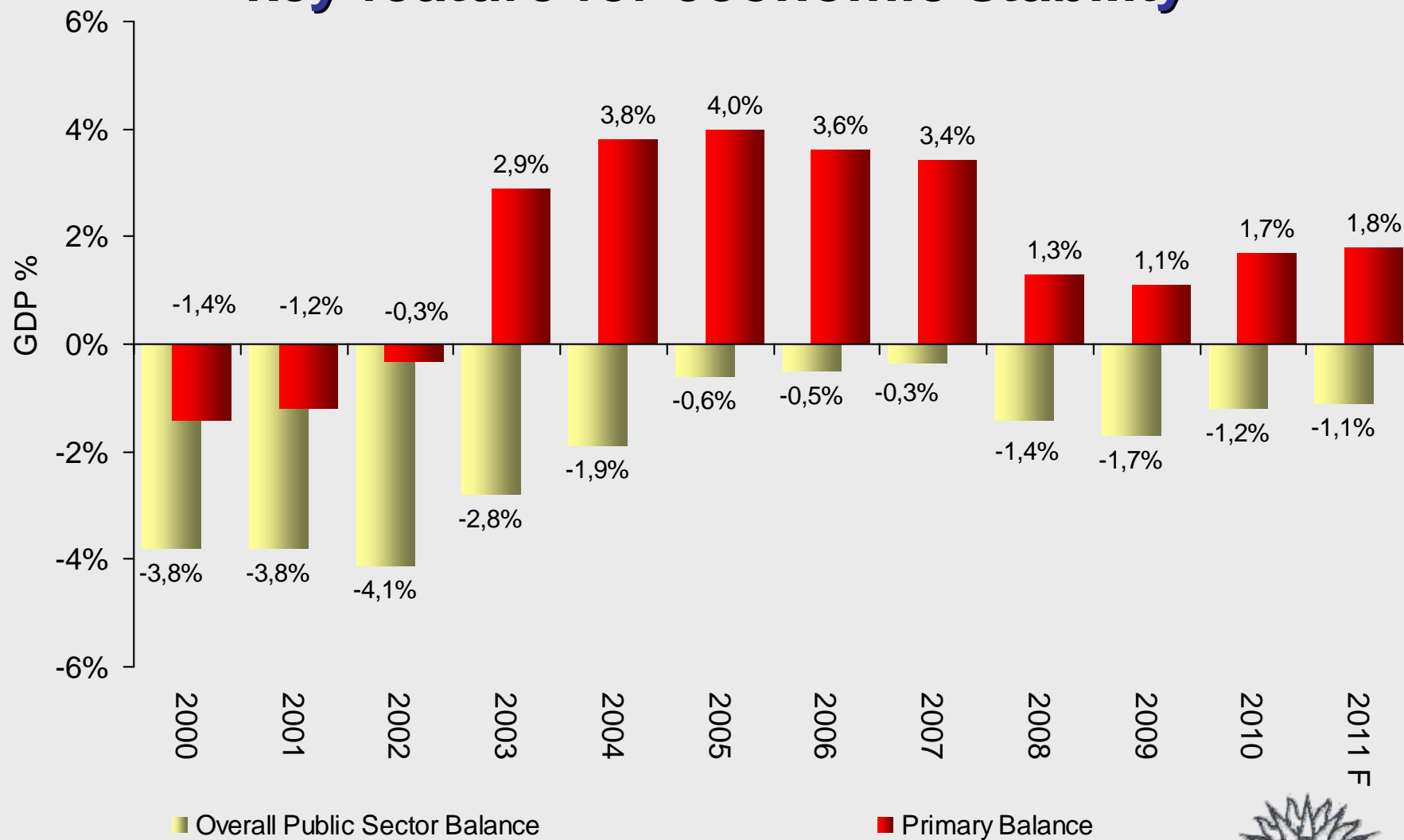
Source: Central Bank

## **II. FISCAL SITUATION and POLICY**



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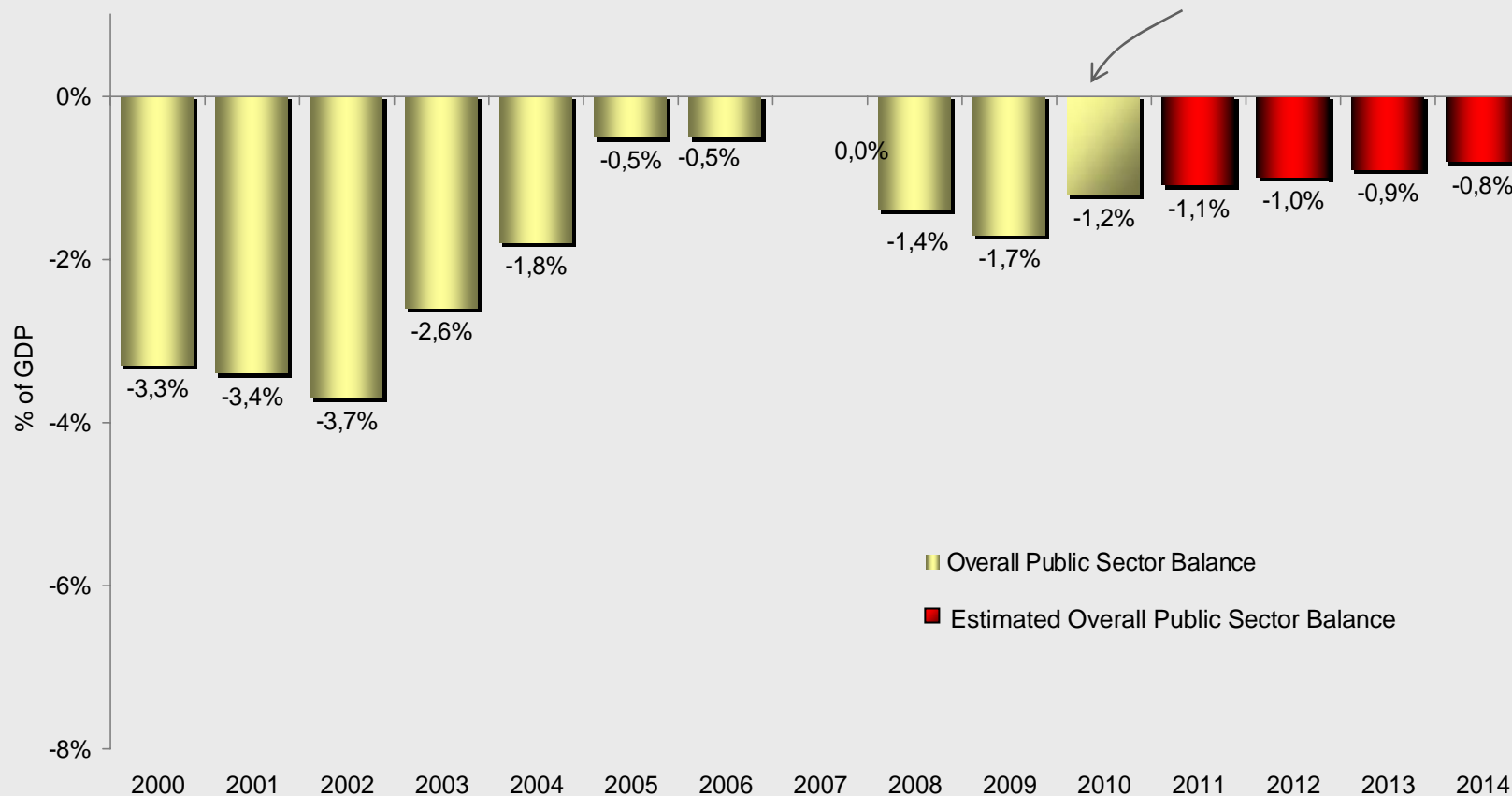
# The commitment to fiscal responsibility is a key feature for economic stability



Sources: BCU and Ministry of Economy.

# ...and the Government will continue with its fiscal discipline.

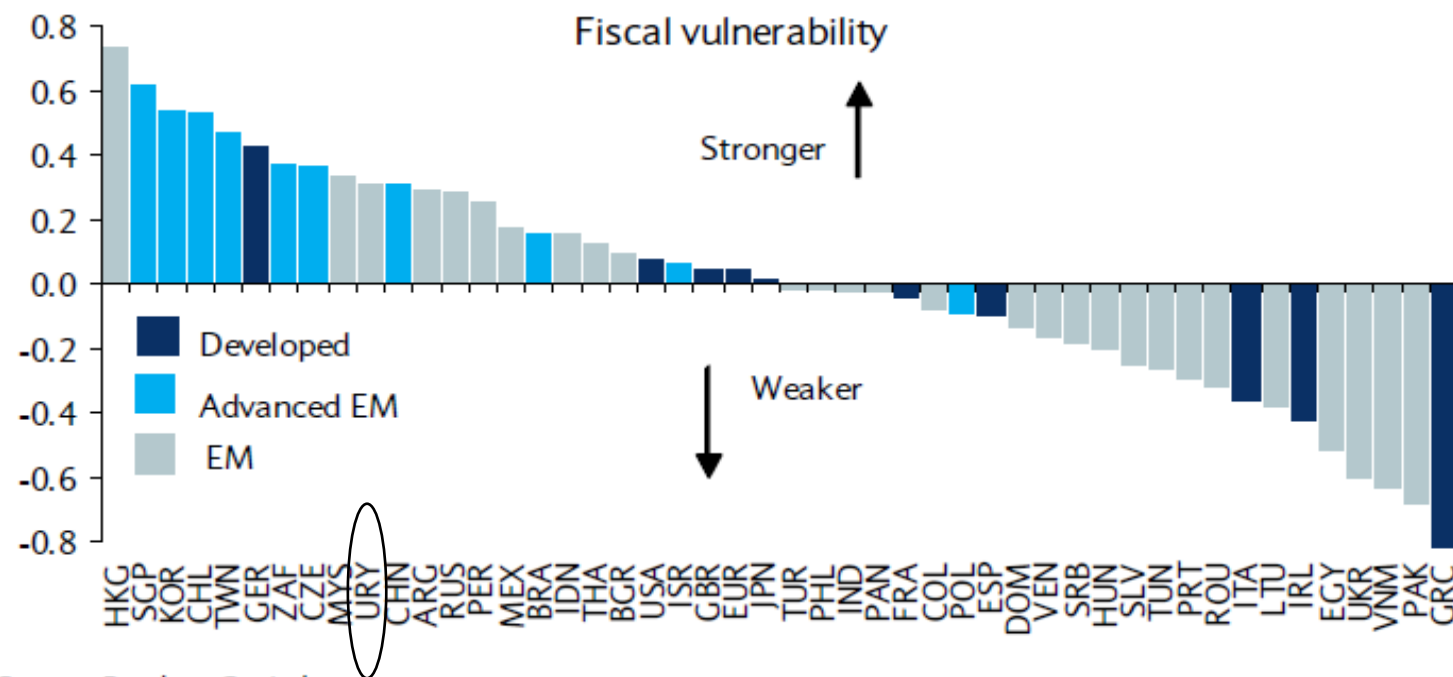
It includes 0.4% of GDP of a stabilization fund created by UTE.



Sources: Ministry of Economy.

# Uruguay ranks 10th over 47 countries with a “stronger” fiscal position.

Figure 1: The world according to our Fiscal Vulnerability Index



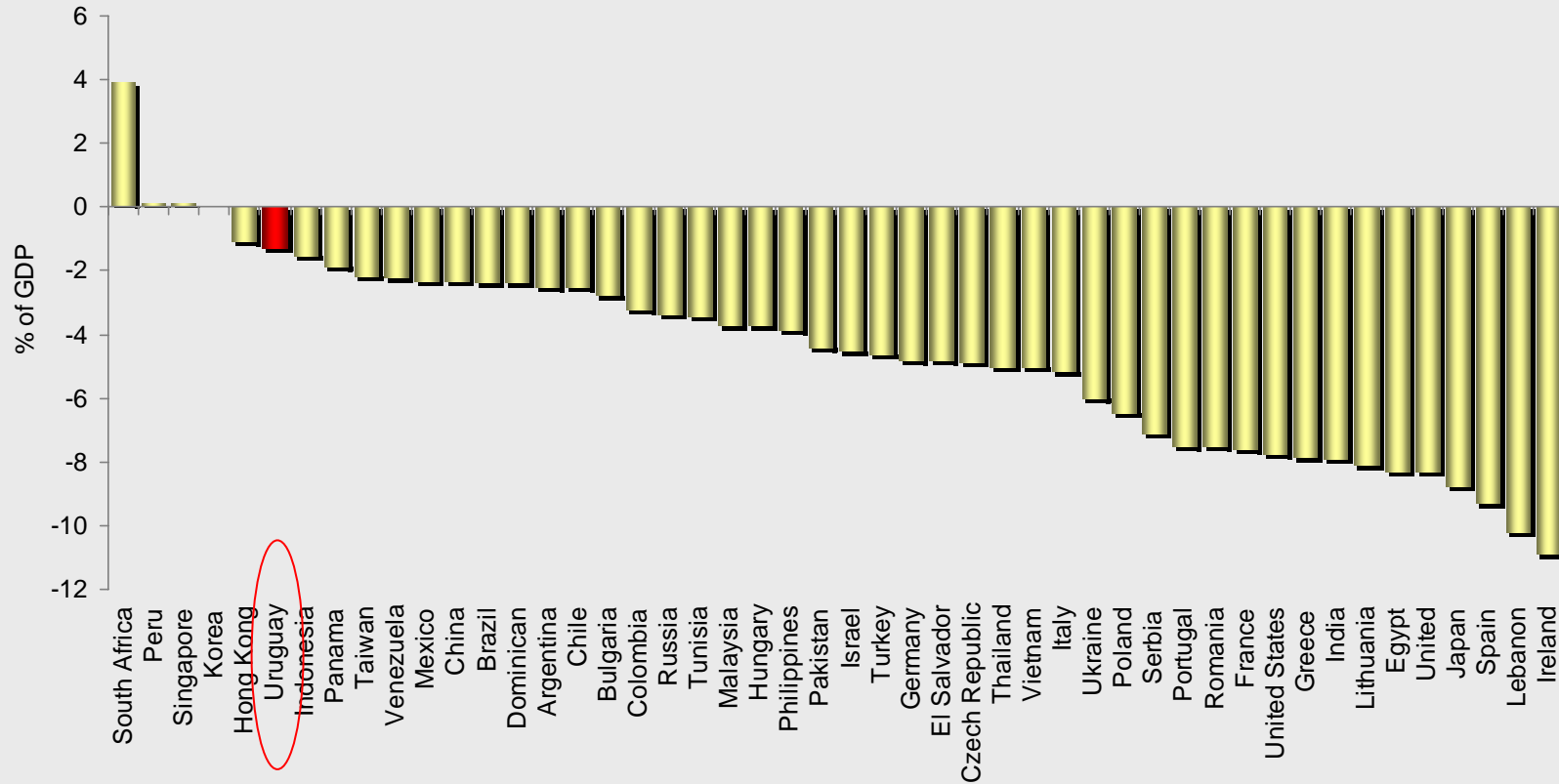
Source: Barclays Capital

1. Solvency (i.e., basic debt dynamics)
2. Fiscal financing needs and debt composition
3. External financing dependence
4. Financial sector health
5. Institutional strength

Source: Barclays Capital, “Our measure of fiscal vulnerability” sept-10.

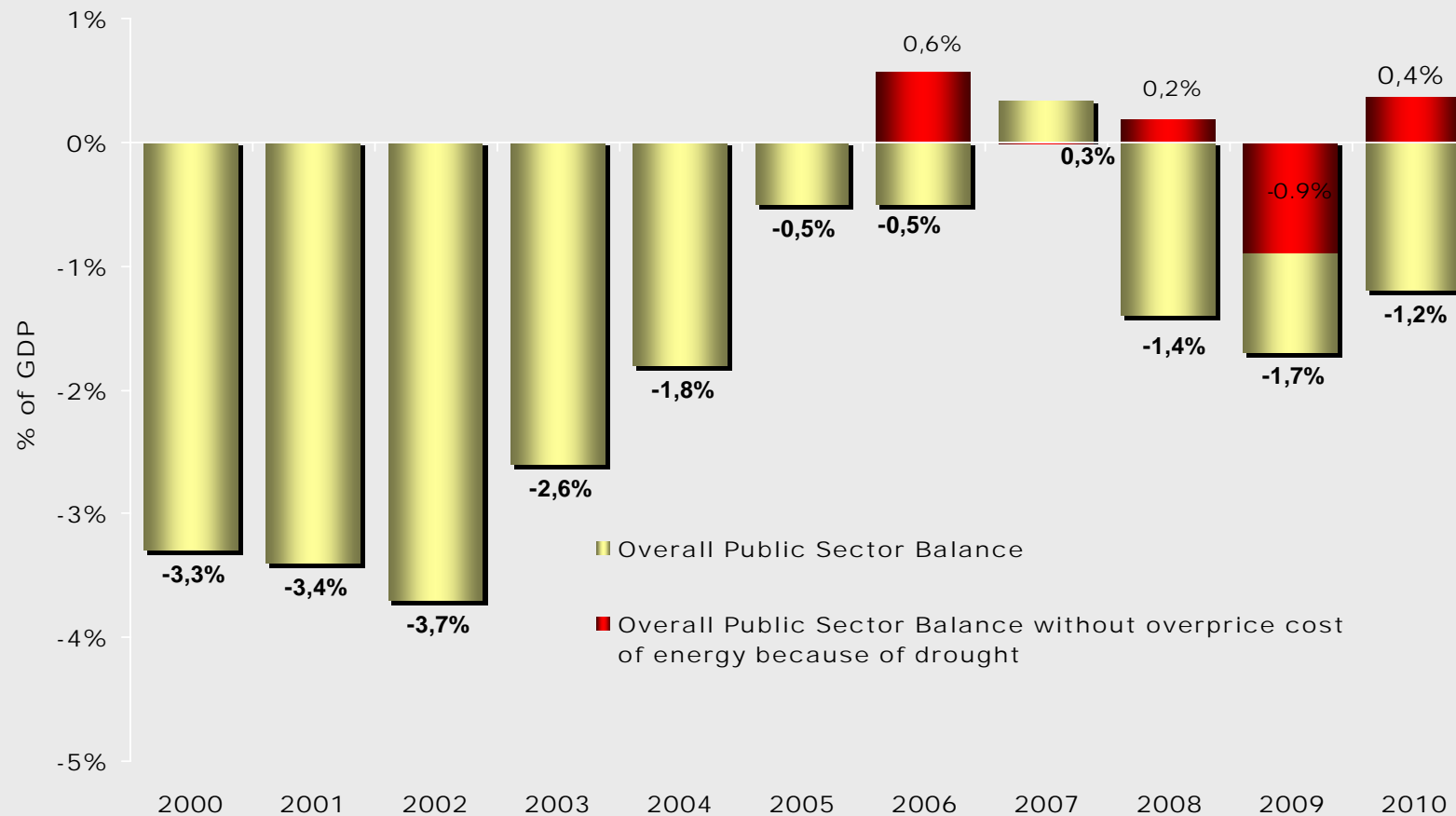
# The fiscal balance compared with the other 46 countries.

## Projected Government balance Avg 2010 – 2011 in % of GDP



Source: Barclays Capital, "Our measure of fiscal vulnerability" sept-10.

# The commitment to fiscal responsibility was despite the severe drought and the impact of the financial crisis



Sources: Ministry of Finance

# III. DEBT AND LIQUIDITY



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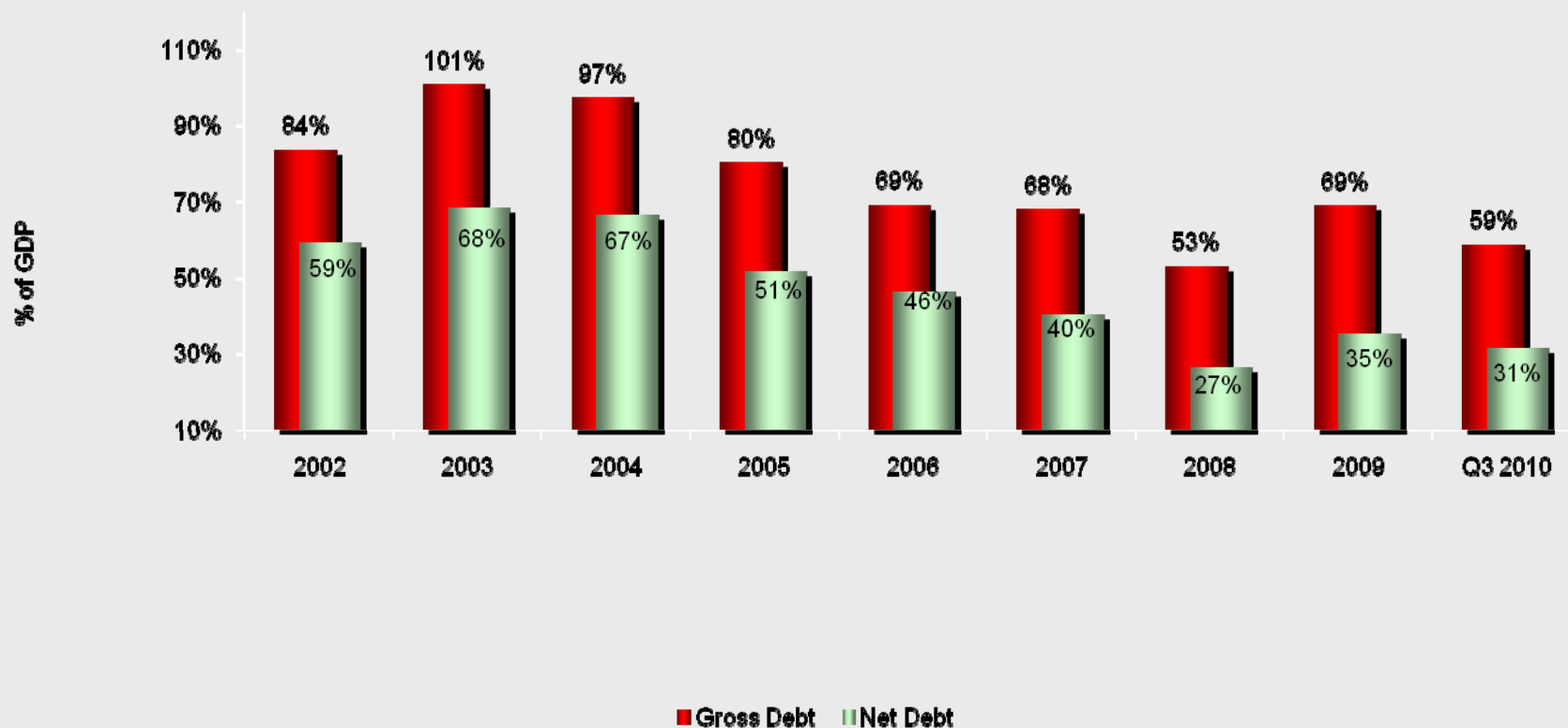


## Financial Strategy for 2010 - 2014

1. To reduce the total gross public debt / GDP ratio from 69% in 2009 to around 40% in 2014.
2. Continuing with the dedollarization of Central Government debt from 30% in 2009 to 45% in 2014.
3. Continue activating the domestic market securities which includes the implementation Central Securities Depository System. This will allow external investors to buy and hold local securities in the International Depository Companies (Euroclear, etc).
4. To achieve the *investment grade* status.

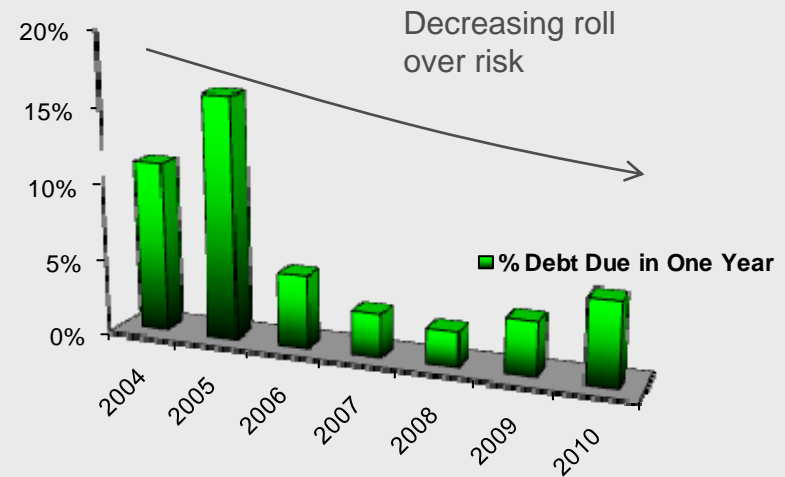
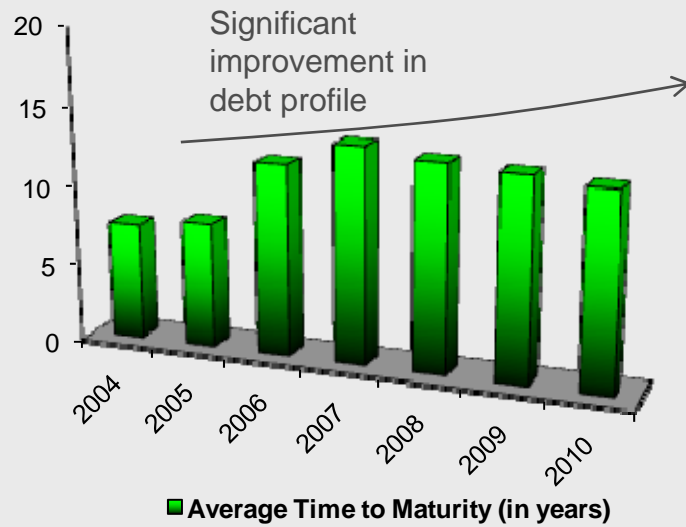
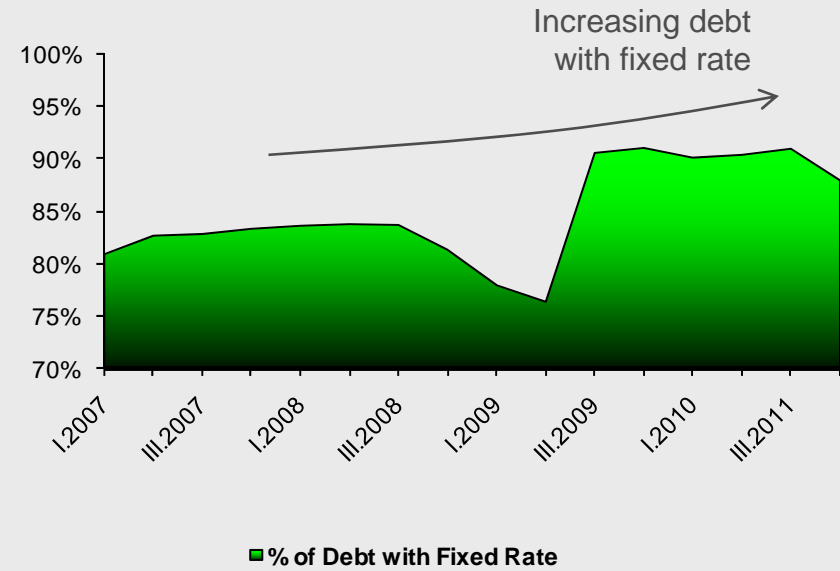
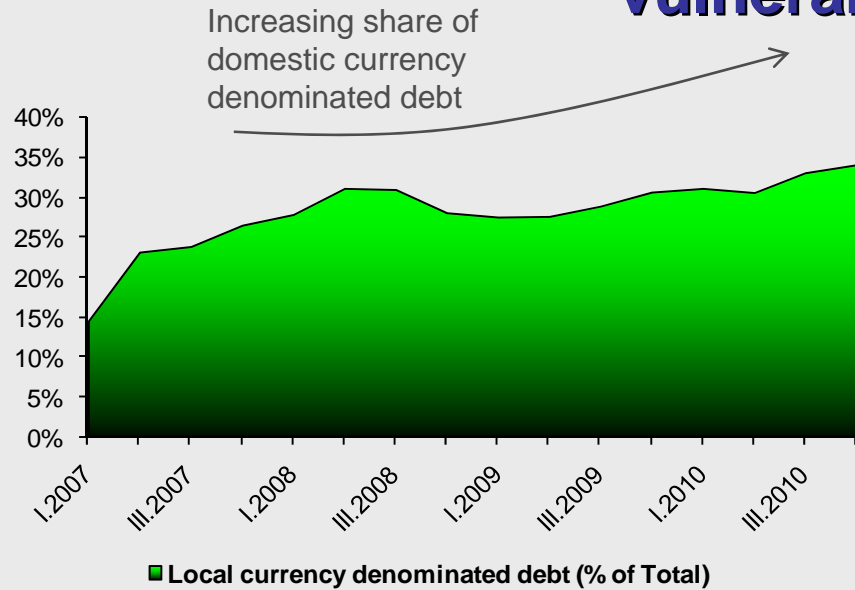


## A responsible fiscal policy lowed a significant reduction of public debt...



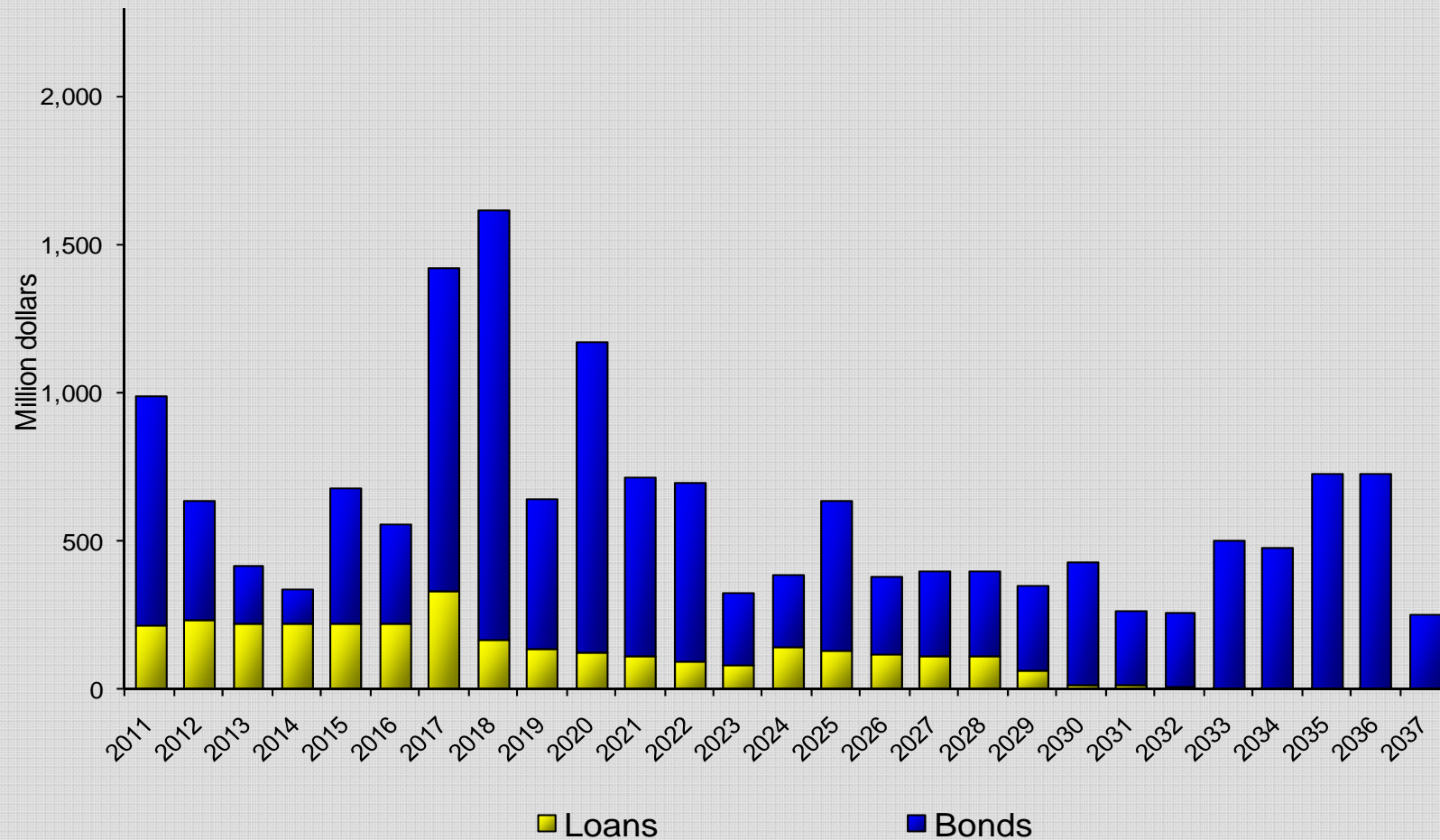
Source: Central Bank

# Debt Management strategy diminished CG's financial vulnerabilities



Source: Debt Management Unit, Ministry of Finance

# Central Government Amortizations



Source: Debt Management Unit, Ministry of Finance.

# **Liability Management operation**

## **January 2011**

- **MAIN GUIDELINES**

- **Enhance liquidity in the local market.**
- **Continuing the dedollarization of the Central Government Debt by increasing the percentage in LC debt and extending the average life.**
- **Continuing the pre funding policy undertaken by the Central Government.**
- **Strengthen the participation of the Treasury in local market through more liquid issuances.**



# Liability Management operation in 2011

- **RESULTS**

- **Create domestic benchmarks in local currency: USD 1.250bn**
  - USD 300 million for 3 years Peso Notes
  - USD 150 million for 5 years Peso Notes
  - USD 650 million for 8 years CPI Note
  - USD 50 million for 15 years CPI Note (Total outstanding USD 300 million)
- **Extending the peso curve from 2 years tenor with the CBU instruments to 5 years with the Treasury Notes.**
- **Progress in increasing the percentage of debt denominated in local currency. ➡ From 34% Dec, 2010 to 39% Jan, 2011.**
- **Extension of the ATM for the whole public sector.**

# Central Government: Projected Flow of Funds In USD million

## Central Government Flow of Funds

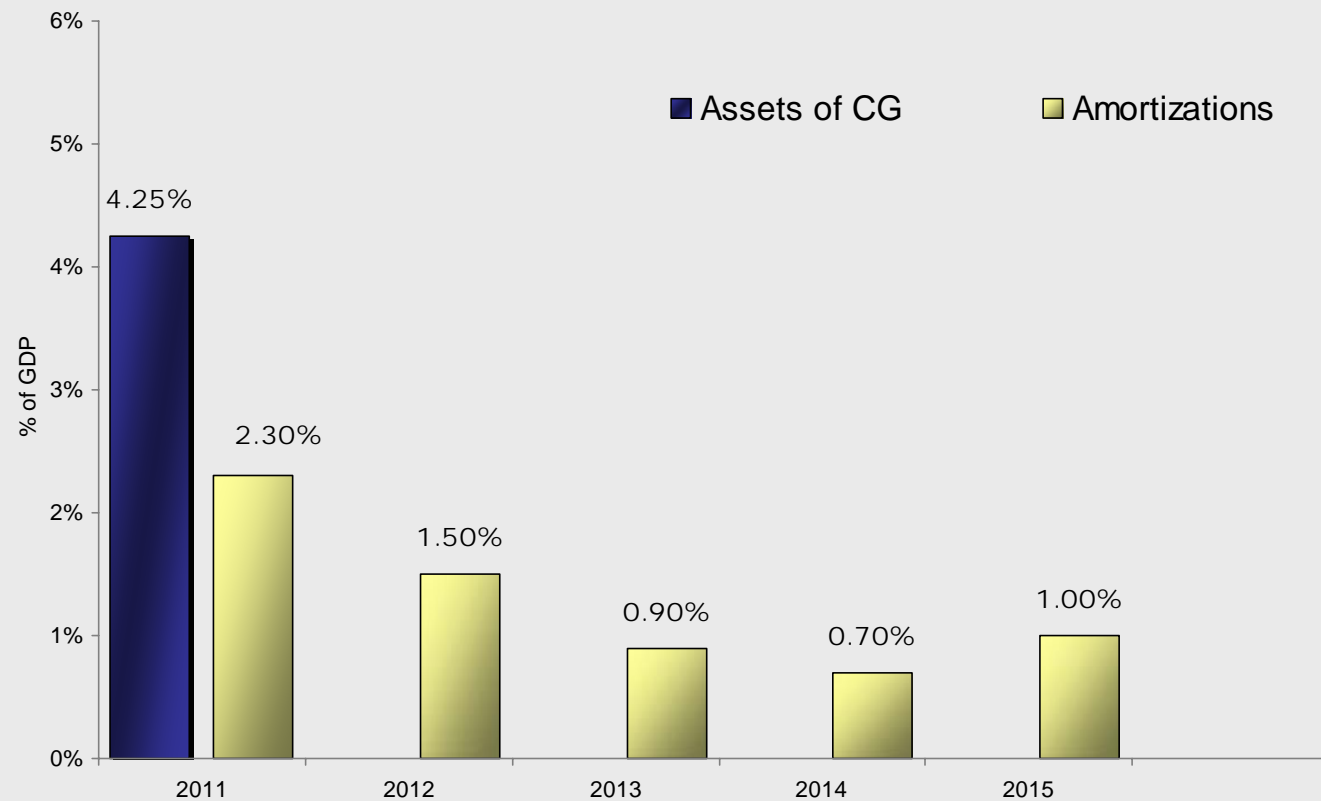
USD Million

	2010	2011
<b>USES</b>	<b>2251</b>	<b>2244</b>
Interests Payments	948	1075
Amortizations	1156	1001
Loans	519	216
Bonds	637	785
Others	147	168
<b>SOURCES</b>	<b>2251</b>	<b>2244</b>
Primary Surplus	471	489
Multilaterals Disbursements	74	250
Issuances	594	1700
Others	154	120
Use of Assets*	957	-314

\*Positive indicates a reduction in reserves

Source: Ministry of Finance

# Due to a pre-financing policy, CG has enough liquid assets to cover the financial needs for at least the next 12 months



Source: Ministry of Finance, Estimated



## **In the most recent rating action, Moody's highlighted the low refinancing risks (Dec. 2010)**

**“A very favorable maturity profile financing needs and a strong liquidity reserves is associated with relatively moderate credit risks. Combined, these conditions mitigate the potential impact of exchange rate shocks, despite Uruguay’s relatively high share of foreign currency debt”.**

**“Uruguay’s average debt maturity exceeds 12 years, one of the longest in the sovereign universe. The government faces low refinancing risks, as less than 5% of the debt matures annually during 2011-2015. With 90% of the financial obligations carrying fixed interest rates, the government’s exposure to interest rate shocks is small”.**

**“Gross financing needs have been declining steadily, going from 10% of GDP at the beginning of the decade to some 3% of GDP at present. Furthermore, government cash reserves provide ample financial buffer as they are sufficient to cover more than 18 months of upcoming principal payments”.**

- “Economic Climate Index” by Getulio Vargas Foundation and Munich University (01/2011)

**Nº 1 in Latin America**

*RANKING IFO/FGV DE CLIMA ECONÔMICO NA AMÉRICA LATINA*

Posição Anterior	Posição Atual	País	ICE Médio dos últimos 4 trimestres (em pontos)	
			Até outubro.10	Até janeiro.11
2	1	<b>URUGUAI</b>	7,3	7,5
1	2	PERU	7,5	7,5
4	3	CHILE	7,2	7,3
3	4	BRASIL	7,3	7,0
6	5	PARAGUAI	6,5	6,8
5	6	COLOMBIA	6,6	6,6
7	7	ARGENTINA	5,4	5,6
8	8	MÉXICO	5,2	5,4
9	9	BOLIVIA	5,0	4,9
10	10	EQUADOR	4,8	4,8
11	11	VENEZUELA	2,3	1,8

The Economic Climate Index (ECI) is the summary indicator, composed of two qualitative questions, the Present Situation Index (ISA) and the Expectations Index (EI), which deal respectively with the general economic situation in the country moment and the next six months.



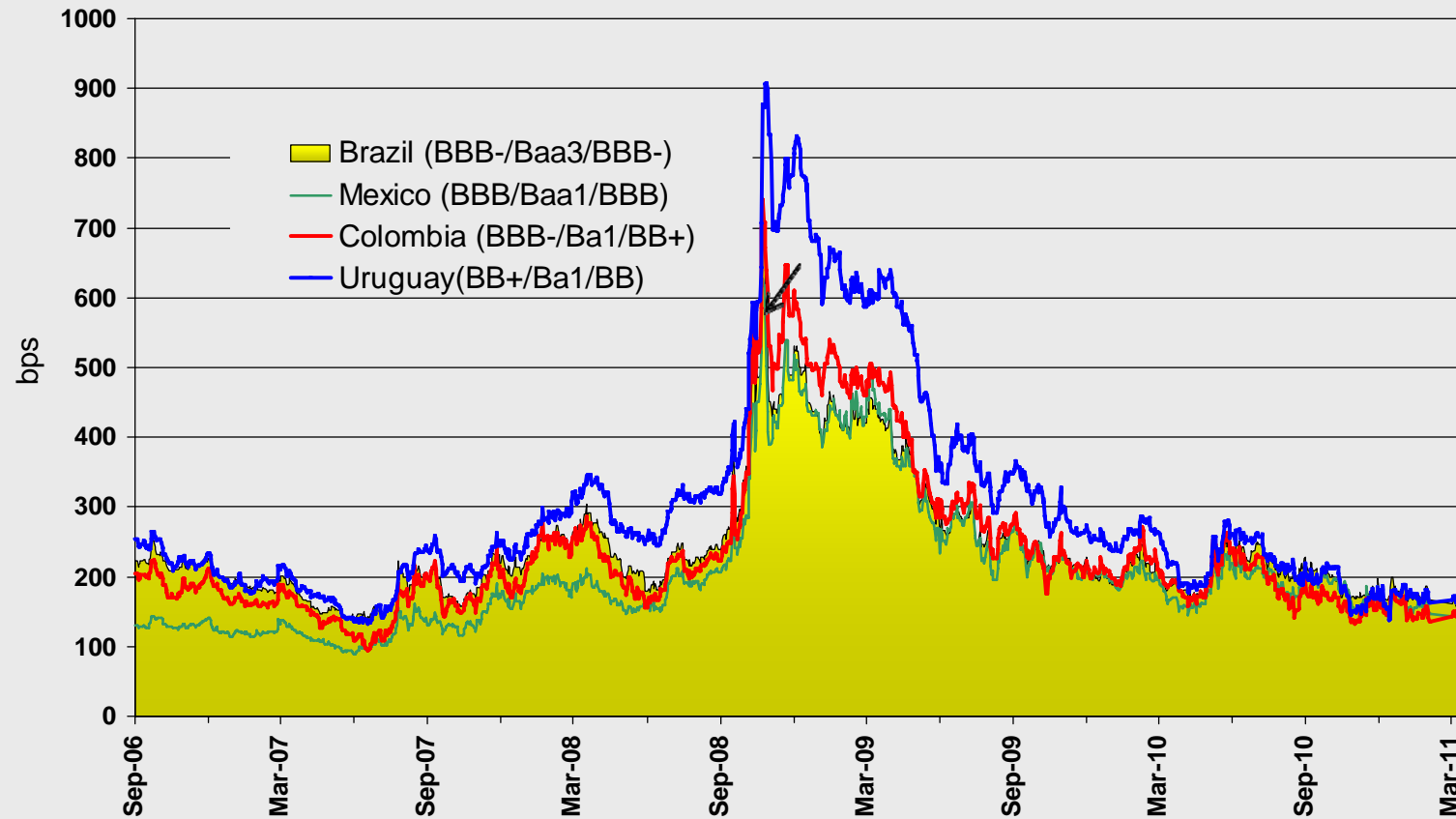
## Political and social stability

Ranking	Uruguay in South America
Low Corruption (Transparency International 2010)	2
Democracy Index (The Economist Intelligence Unit 2010)	1
Economic Freedom Index (Heritage Foundation 2011)	2
Quality of Life (Mercer Eco-City Ranking 2010)	1
Cost of Living (Mercer Cost of Living City Ranking 2010)	4



# The macro, political and social stability was reflected in the Uruguayan bonds

EMBI  
(S&P/Moody's/Fitch)



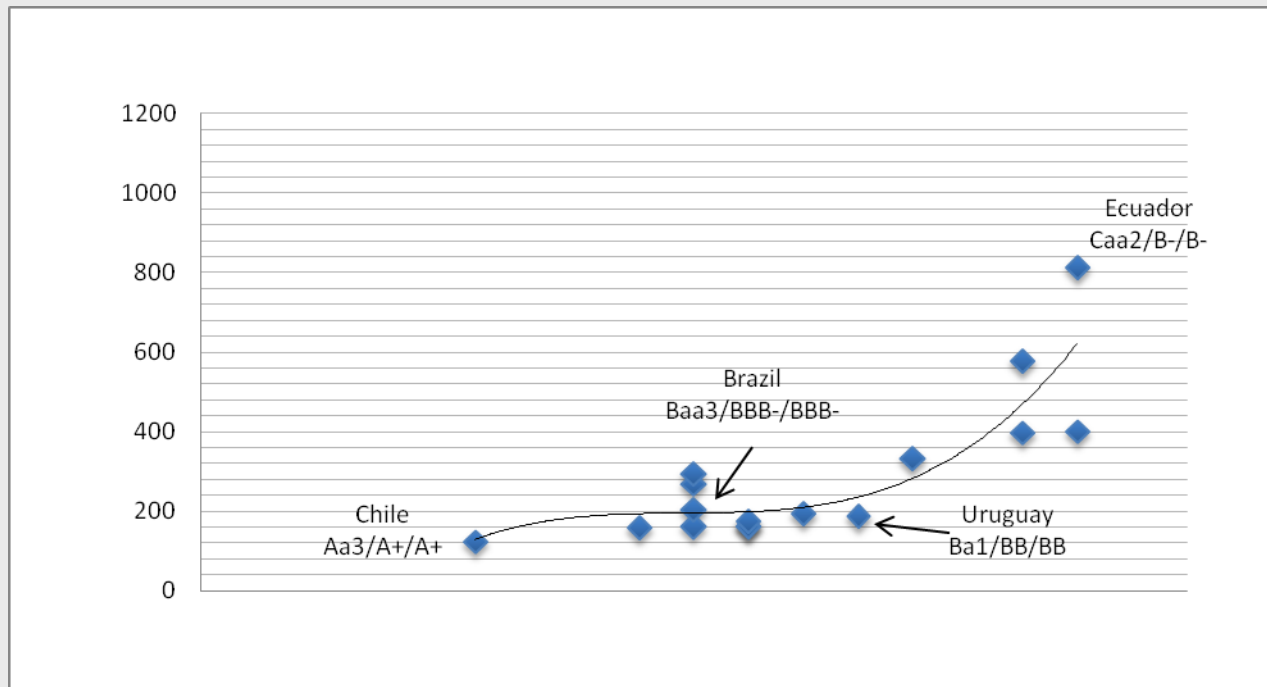
Source: JP Morgan

Montevideo, 01/12/2008



# Investors are anticipating a sovereign upgrade in short

(Moody's/S&P/Fitch)



Source: Bloomberg based on JP Morgan and Rating Agencies.

Trend line was fitted by a 3er degree polynomial.