

Uruguay *in focus*



A quarterly bulletin issued by the Debt Management Unit

October 2012

Moody's raised Uruguay's rating to IG status with Positive Outlook

On July 31st Moody's Investors Service upgraded to "Baa3" from "Ba1" the Uruguay local and foreign-currency bond ratings. The outlook remains positive. "Uruguay's economic fundamentals have strengthened and potential growth has increased underpinned by an upward shift in total factor productivity. The economy is capable of reporting higher growth rates on a sustained basis", said Moody's.

Moody's Rating and EMBI Evolution



Source: Bloomberg and Moody's Investors Service

The agency also weighted the "conservative" fiscal policy of Uruguay. "An attitude of extreme risk aversion on the part of the authorities has led to a substantial build up of financial buffers that make the government capable of handling adverse shocks, including those associated with severe stress scenarios. A high level of precautionary liquidity reserves -equivalent to 6% of GDP- and contingent credit lines with multilateral banks provides ample coverage against events that could restrict government access to markets, placing Uruguay in a stronger position when compared to similarly rated countries", it concluded.

REAL SECTOR

Economy grew 3.8% in 2012Q2 and continues being on track to the 4% target for this year

The Uruguayan economy experienced a slight deceleration in the second quarter of this year, but with an overall positive evolution. GDP increased 0.8% over the previous quarter (on a seasonally adjusted basis) and 3.8% compared with the same quarter 2011. Consequently, in 2012 real growth could end in line with the official target of 4% for the current year, according to the economic authorities.

In 2012Q2 domestic demand continued underpinning real growth with an increase of 5.8% in general consumption and 18.8% in fixed investment. As real imports registered a high real growth compared with exports, there was a negative effect of the net sales over the GDP growth.

Measured by sector, in turn, Construction increased 7.6% (sar) and 22.3% in 2012Q2 compared with same period of 2011 due to the dynamism in both private and public sector supported by the construction of a second pulp mill -Montes del Plata- and the increase in public infrastructure held by the Ministry of Transport and Public Infrastructure.

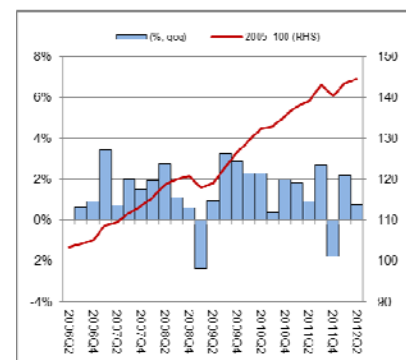
Also, Manufacturing Industry showed a promissory performance in 2012Q2 growing 3.8% (sar) and 2.4% over the same period of 2011.

Transport, storage and communications sectors grew 1.3% (sar) and 7.6% on an interannual basis boosted by the growth in data services and mobile telephony services. In contrast, transport sector registered a decrease

due to a reduction in port services activities.

Commerce, Restaurants and Hotels decreased 0.3% in seasonally terms but registered an expansion of 3.5% in 20112Q2 compared with one year before. It highlights the increase in imported goods and the expansion of tourist's services.

Real GDP
Seasonally adjusted



Source: Central Bank of Uruguay

Other activities sector increased 0.8% (sar) and 3.4% in 2012Q2 underpinned by the expansion in health services and real estate activities.

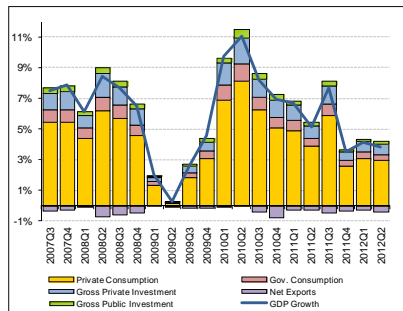
Primary activities contracted 1.6% (sar) but remained stable over the same period a year earlier. In effect, the increase in milk production, soybean, and wheat production was offset by a decrease in rice and livestock production.

In contrast, electricity, gas, and water sector registered a significant decrease of 28.0% (sar) in 2012Q2 and fell 60.0% compared with the same period of 2011 due to a severe drought of the first half of this year. During the second quarter, electric power was generated by

thermal sources, which value added per unit of production is much lower than hydro sources. Because there has been a normalization of rainfall from the second half of this year, this sector is expected to register a significant recovery, which will contribute positively to economic growth.

On the expenditure side, the increase in the level of activity was explained by the growth of domestic demand, which recorded a rise in the final consumption expenditure and in gross capital formation.

Contribution to GDP Growth by Expenditure
On a quarterly basis



Source: Central Bank of Uruguay

The increase in final consumption expenditure (5.8% yoy) was due, primarily, to the increase in private final consumption (6.1%).

Gross capital formation also showed a promissory performance in 2012Q2 growing 18.8% driven by the increase in both private and public construction. Also, imports of machinery and equipments registered made by the private sector in this period underpinned the growth in total investment.

Exports of goods and services remained unchanged during the second quarter. While goods exports registered a contraction –explained by a decrease in automobile and textiles external sales–, service exports grew due to the increased influx of tourists from abroad and their higher expenditures during their stay in Uruguay.

Imports of goods and services increased 13.2% on-year, supported by higher foreign purchases of imported goods.

According to Uruguay XXI, the institute of investment and export promotion, from January to September goods exports showed an annual increase of 13.1% reaching USD 6.9bn. In annual terms, April 2012 was the only month in which there was a decline in goods exports due to the delayed soybean harvest. According to Uruguay XXI projections, goods exports will amount to USD 9.2bn in 2012, an increase of 14.2% from 2011, while in 2013 would reach USD 9.7bn.

Upon learning the official growth numbers for the second quarter, private analysts raised their growth forecasts for 2012 to 3.6% in October from 3.3% in September, while keeping a 4.0% real growth for 2013 according to the monthly survey published by the CB. The IMF maintained its forecast in 3.5% GDP growth for 2012 and 4.0% for 2013 respectively, according to October 2012 edition of the World Economic Outlook (WEO).

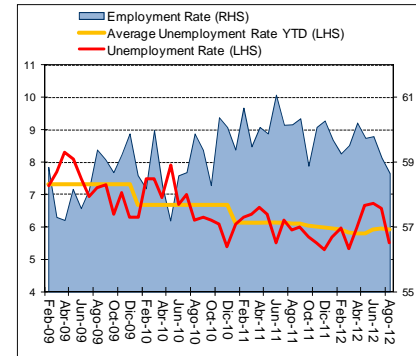
Some leading indicators foresee an expansion during the third quarter of 2012. According to the Leading Activity Index (ILC) elaborated by the private think tank Ceres, there was an increase of 0.9% in July from June. The expansion of this index was fairly generalized, as 67% of the variables that compose the index posted positive readings. The ILC is an accurate predictor of directional changes in economic activity, but does not project their duration or order of magnitude.

Another indicator that anticipates a good performance in 2012Q3 is tax collection, with an increase of 2.1% in real terms in August 2012 over the last year. Excluding public enterprises, the tax collection showed a significantly higher performance, raising the gross and net collection 8.3% and 6.8%, respectively in real terms.

The Industrial Production, in turn, increased 5.6% in August from the same month last year and in the first eight months of this year raised 1.6%.

Also, the national unemployment rate stood at 5.5% in August from 6.6% in July and 5.9% a year earlier. This drop kept the 12-month moving average at 5.9% and was the lowest level in five months.

Unemployment and Employment Rate
% of Economically Active Population



Source: National Institute of Statistics.

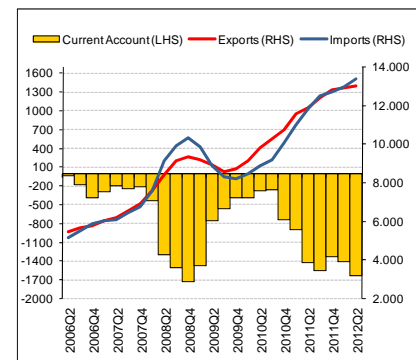
EXTERNAL SECTOR

Current account balance closed 2012Q2 with a deficit of 3.3% of GDP

In the rolling year ended in 2012Q2 the current account deficit (CAD) of the balance of payments worsened over the previous two quarters, reaching 3.3% of GDP.

As has happened in recent years, the CAD was widely financed by capital inflows, allowing a significant accumulation of reserve assets by the Central Bank. The deficit increase was due to a deterioration of USD365 million in the trade balance.

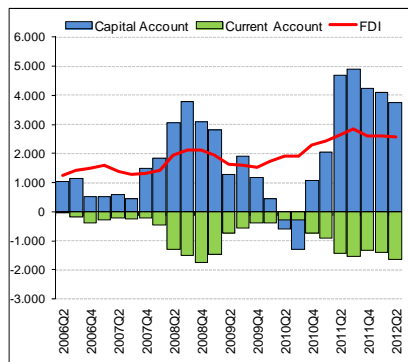
Current Account, Exports and Imports
Million of USD



Source: Central Bank of Uruguay

In the year ended in the second quarter of 2012, the overall result of the Capital and Financial Account showed a net capital inflow of nearly USD4.0 billion. Of this total, 70% accounted for flows to the private sector and 30% to the public sector (due in large part to an increase by more than USD400 million in external borrowing by public enterprises).

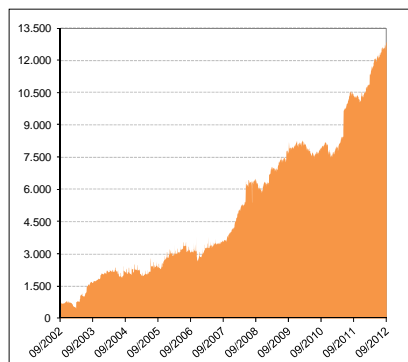
Capital, Current Account and FDI
Million of USD



Source: Central Bank of Uruguay

From the flows to the private sector, a significant portion accounted for FDI flows, which reached USD2.5 billion in the year ended in 2012Q2. The financial system, meanwhile, recorded a decline of its assets with non-residents for USD472 million but also an increase of non-resident deposits, mainly in the first quarter of 2012.

External Reserve Assets
Million of USD



Source: Central Bank of Uruguay

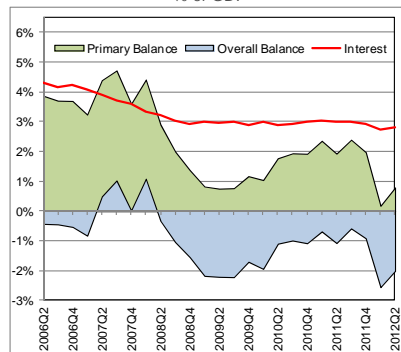
In 2012Q2 the international reserves of the CB continued to rise, reaching USD12.8 billion at end-September. The reserves increased by USD2.3 billion in the last four quarters.

PUBLIC SECTOR

Drought carries fiscal deficit to 2.3%

The overall deficit of the consolidated public sector for the year ended in August 2012 was equivalent to 2.3% of GDP. Leaving aside the energy cost overruns due to the severe drought in recent months, estimated at 1.2% of GDP, the overall deficit stood at 1.1% of GDP.

Public Sector Balance and Interest
% of GDP



Source: Ministry of Economy and Finance

The revenues of the non-financial public sector stood at 28.8% of GDP in the rolling year ending in August 2012. While the revenues from the CG and the social security institute (BPS) remained unchanged, the current primary result of public enterprises posted a slight decrease of 0.04% of GDP due to the poor performance of the state-owned electricity company, UTE.

The current primary expenditure of the CG-BPS rose 10bps compared to the year ended in July, reaching 25.6% of GDP. This was due to an increase in the transfers to BPS and transfers to the pension funds system.

The interest bill on public debt, in turn, stood at 2.8% of GDP, falling 0.1% from the previous month.

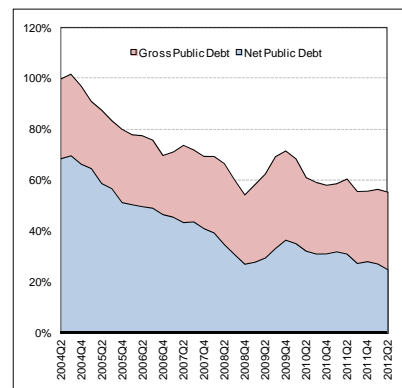
PUBLIC DEBT

Net Debt stood at 25% of GDP, the lowest level in the last 12 years

Overall consolidated indebtedness of the public sector amounted to the equivalent of USD26.7 billion at 2012Q2 (55.5% of GDP). The consolidated net

public debt totaled USD12.0 billion, equivalent to 25.0% of GDP, the lowest level since 2000Q1. Measured in terms of GDP, the total net debt decreased 6.2% respect to 2011Q2.

Public Sector Gross Debt
% of GDP and Million USD



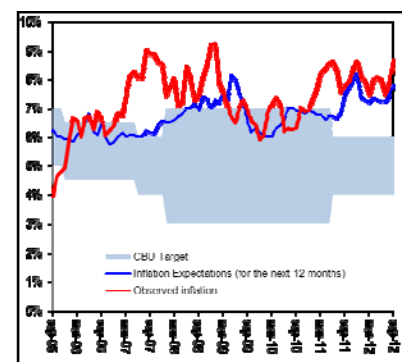
Source: Central Bank of Uruguay

INFLATION & MONETARY INDICATORS

Central Bank raised its benchmark interest rate 25bps to 9%

Consumer prices rose to 8.64% in the rolling year ended in September, a monthly increase of 1.2% that was higher than the expected by the private analysts: 0.7%.

Inflation, CPI
Last 12 months



Source: Central Bank and National Institute of Statistics

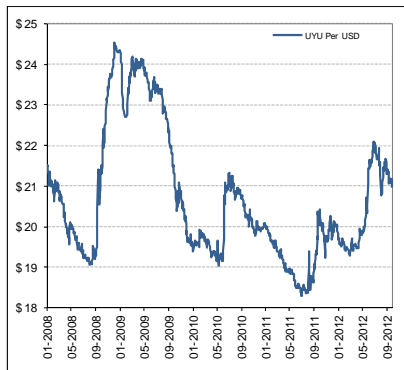
The increase was mainly driven by food and non-alcoholic beverages, posting a rise of 2.1% followed by health and housing with an increase of 1.7% and 1.6% respectively, as reported by the National Institute of Statistics.

Private analysts surveyed by the CB forecasted an inflation of 8.3% for this

year and 7.3% for 2013 according to October bulletin.

Due to the acceleration of inflation the Monetary Policy Committee (MPC) of the CB lifted its benchmark rate in 25bps to 9.0% in the ordinary meeting of September. The MPC had held the rate steady at its last two monthly monetary policy meetings. "The reactivation of external inflationary pressures and sustained domestic demand oblige us to focus on internal price pressures," it said. "It is necessary to avoid a situation in which inflation threatens an economic scenario that otherwise looks healthy even in weak, uncertain and turbulent global context," said the CB in a statement. The next meeting of MPC is scheduled for next December.

FX Market
On a daily basis



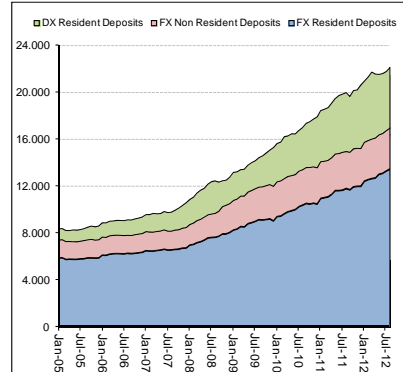
Source: Central Bank of Uruguay

The Uruguayan Peso has been appreciating since late June after losing ground against the dollar earlier in the year. The nominal exchange rate, in turn, closed September at UYU 20.98 per USD, being the monthly average UYU 21.20 per USD.

Private analysts forecast a nominal exchange rate of UYU20.6 per USD and UYU 21.6 per USD at the end of 2012 and 2013 respectively, according to the survey of CB reported in October. On August 15th, 2012, CB announced a reserve requirement equivalent to 40% of incremental purchases by non-residents of securities issued by this institution. This decision does not affect Treasury Notes. The purpose of this measure was to manage local liquidity

and to prevent any distortions in the money market related to growing FX capital inflows. Foreign capital inflows increased after Uruguay earned its second investment-grade rating in July.

Total Deposits in the Banking System
Million of USD



Source: Central Bank of Uruguay

The overall banking sector continued to increase deposits. As of September 2012, residents' foreign currency deposits increased to USD 13.7bn, compared to USD 11.7bn one year before. Non-residents' deposits totaled USD 3.6bn in this period, compared to USD 3.2bn of the previous year.

RECENT DEVELOPMENTS

New LNG regasification plant is planned with a minimum investment of USD400 million

With the objectives of diversifying the energy matrix and obtaining a secure supply of natural gas, Uruguay has announced an international call for the construction and operation of a LNG regasification terminal. It will be located two kilometers from the west coast of Montevideo -Punta de Sayago-, and will cost between USD 400million and USD 600million, according to preliminary estimations. The final project is forecasted to produce 10million cubic meters of gas per day and will involve the construction of protective sea walls, docks and a floating storage and regasification plant and the maintenance for 15 years. The regasification plant will receive liquefied gas from different countries; re-gasify it; and finally send the natural gas through a pipeline. Natural gas will be used in

homes, industry and transport. Also, it will be used for the generation of electrical energy.

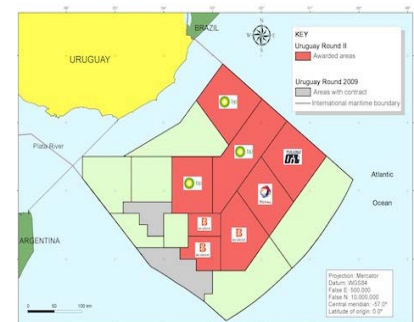
As of October 1st it took the qualification of stage companies (the French Gas de France-Suez; the South Korean Samsung and Korea Gas; the Spanish Enagás and the Norwegian Høegh). In December 2013 the contract will end and in late 2014 the new plant will begin to operate.

Uruguay Signs USD 1.6bn in Offshore Oil-Exploration Deals

In September 2011, the Government launched "Uruguay Round II", a program to be implemented by the state oil company ANCAP, aimed at hydrocarbons exploration and exploitation contracts in off-shore areas.

In March 2012, ANCAP received 19 offers on eight of the 15 blocks offered. These blocks cover more than 50% of the total area offered and were awarded to the companies British Petroleum and British Gas, Total and Tullow Oil.

In October 2012, the Uruguayan authorities signed offshore exploration and production contract with those companies, which committed to invest around USD1.6billion. The companies will assume all the risks and costs generated by the oil operations during the phases of exploration and production.



Area in red color indicates the awarded blocks for international oils companies under the "Uruguay Round II" Program

The exploration blocks are located off the coasts of Maldonado and Rocha departments in waters that range from 500 meters to 2,500 meters deep. BP

and BG will each explore three blocks, while Total will explore one and Tullow another. This work is expected to begin next year. ANCAP will be entitled to have a participation of up to 30% in case of any discoveries.

South Korea opens beef market for Uruguayan exports

South Korea announced the re-opening of its markets to Uruguayan beef since the current month. Consequently, Uruguay has joined Chile, Australia, US, New Zealand, Canada and Mexico in an increasingly competitive Korean beef market. In 2011 Uruguay total beef exports reached US\$ 1.7billion, representing an increase of 21% with respect to the previous year. In the last 10 years beef was the main product exported by Uruguay, representing 20% of total exports.

Even though Uruguay exports beef to more than 100 countries, the Uruguayan authorities began negotiations to enter the Japanese market. "We had defined three strategic objectives. The first was to put Uruguay in the circuit of the high quality beef in Europe and the second goal was Korea. The third one is the Japanese market", said in August the minister of Agriculture, Livestock and Fisheries, Mr. Tabaré Aguerre.

Twenty five percent of Uruguay beef exports goes to the EU; 23% to the rest of Europe; 10% goes to the member countries of NAFTA; 14% to MERCOSUR; 10% to the Middle East and the rest of the world is distributed the remaining 18%.

Montevideo continues attracting more luxury hotels

Montevideo continues to attract investment projects first class hotels. In September, Hyatt Hotels Corporation announced the construction of a new five-star hotel along Montevideo's famous waterfront "Rambla". Hyatt plans to develop the USD50 million project under the popular condo-hotel model and individual units will be sold initially for USD190,000.



Hyatt Montevideo will be sold as luxury condo-hotel units.

On the other hand, Hilton Garden Inns will start to build a new hotel by the end of this year located near the World Trade Center towers. The investment will total USD 30million. Also, in November Hotel Montevideo Casino Carrasco, an emblematic building of South America, will reopen. The hotel captures the glamour and the French aesthetic of the early twentieth century. Since 2009 Carrasco Nobile group has invested more than USD60 million for its rebuilding and restoration.



The reopening of Casino Carrasco Hotel is expected for next month.

The Uruguayan government emphasized these project investments as signs of strength within the tourism sector, especially in Montevideo, which has a shortage of luxury hotels.

Population of Uruguay totaled 3,286,314 people in 2011

The total population of Uruguay is 3,286,314 people according to the last National Census of 2011 elaborated by the National Institute of Statistics. This figure was derived from the sum of two components: the census population (3,252,091 people) and the estimated number of people living in private residents with inhabitants surveyed absent (34,223 people).

Since 2004-2011 the annual rate of population growth was 0.19% representing a lower growth rate than the 0.32% achieved in the previous inter-census period (1996-2004). The share of women in total population increased from 51.7% in 2004 to 52% in 2011. Meanwhile, the percentage of population living in urban areas reached 94.7% while the remaining 5.3% lives in rural areas.

DEBT MANAGEMENT UNIT
INVESTOR RELATIONS CONTACT INFORMATION

Azucena Arbeleche, Director

Antonio Juambeltz

Rodrigo Saráchaga

 +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy

Uruguay	Economic Indicators ⁽¹⁾												last available	as of:
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011		
Public Finances														
(%)														
Non Financial Public Sector														
Overall balance/GDP	-2.9	-3.2	-3.4	-2.3	-1.0	-0.6	-0.8	-0.5	-1.8	-1.9	-0.8	-0.7	-1.9	2012Q2
Revenue/GDP	26.0	27.2	26.6	27.9	28.0	28.0	28.4	28.6	26.9	26.9	35.0	28.8	30.3	2012Q2
Expenditure/GDP	29.0	30.3	30.0	30.1	28.9	28.6	29.2	29.1	28.6	28.8	35.8	29.5	32.1	2012Q2
o/w non-interest	26.9	27.9	26.2	24.6	24.0	24.2	24.9	25.3	25.8	26.1	32.8	27.1	29.6	2012Q2
interest	2.0	2.4	3.8	5.5	4.9	4.3	4.3	3.8	2.9	2.7	3.0	2.4	2.5	2012Q2
Primary balance/GDP	-0.9	-0.8	0.4	3.2	3.9	3.7	3.5	3.3	1.1	0.8	1.7	1.8	0.7	2012Q2
Gross debt/GDP	30.6	37.4	74.6	89.7	82.8	68.3	60.8	58.0	45.1	56.3	42.8	42.6	42.2	2012Q2
Gross debt/Revenue	117.4	137.8	280.7	321.9	296.3	243.9	214.4	202.9	167.7	195.7	143.7	147.7	151.5	2012Q2
External debt/GDP	23.2	24.9	56.8	72.9	66.9	53.6	47.2	46.7	34.8	39.8	30.4	28.3	27.9	2012Q2
External debt/Gross debt	76.0	66.6	76.1	81.2	80.8	78.6	77.6	80.5	77.3	70.7	71.1	66.5	66.2	2012Q2
Foreign currency debt/Gross debt	76.0	66.6	76.1	79.6	76.9	75.2	73.1	68.0	66.6	64.0	62.3	52.1	51.2	2012Q2
Interest Payments/Revenue	7.9	8.9	14.4	19.8	17.5	15.5	15.3	13.4	10.8	9.9	8.2	8.4	8.4	2012Q2
Public Sector														
Overall balance/GDP	-3.3	-3.4	-3.7	-2.6	-1.8	-0.4	-0.5	0.0	-1.6	-1.7	-1.1	-0.9	-2.1	2012Q2
Primary balance/GDP	-1.2	-0.9	0.2	3.0	3.8	4.0	3.7	3.6	1.4	1.2	1.9	2.0	0.8	2012Q2
Gross debt/GDP	40.0	48.2	83.6	100.8	97.2	80.2	69.9	69.5	54.4	71.7	58.2	55.9	55.5	2012Q2
Net Debt/GDP	26.4	31.5	61.2	68.3	66.5	51.4	46.7	41.2	27.2	36.6	31.2	28.2	25.0	2012Q2
Gross External Debt/GDP	39.0	42.8	77.4	91.3	84.5	65.6	53.8	52.1	39.6	46.1	36.7	32.1	32.0	2012Q2
External Debt Service/International Reserve Assets	27.6	33.2	119.2	66.7	52.2	55.2	157.4	25.1	21.2	11.9	19.6			

(1) Data from 2008 are preliminary and may be subject to revision.