



Institutional Investor Presentation

República Oriental del Uruguay

Ministry of Economy and Finance

October 2018





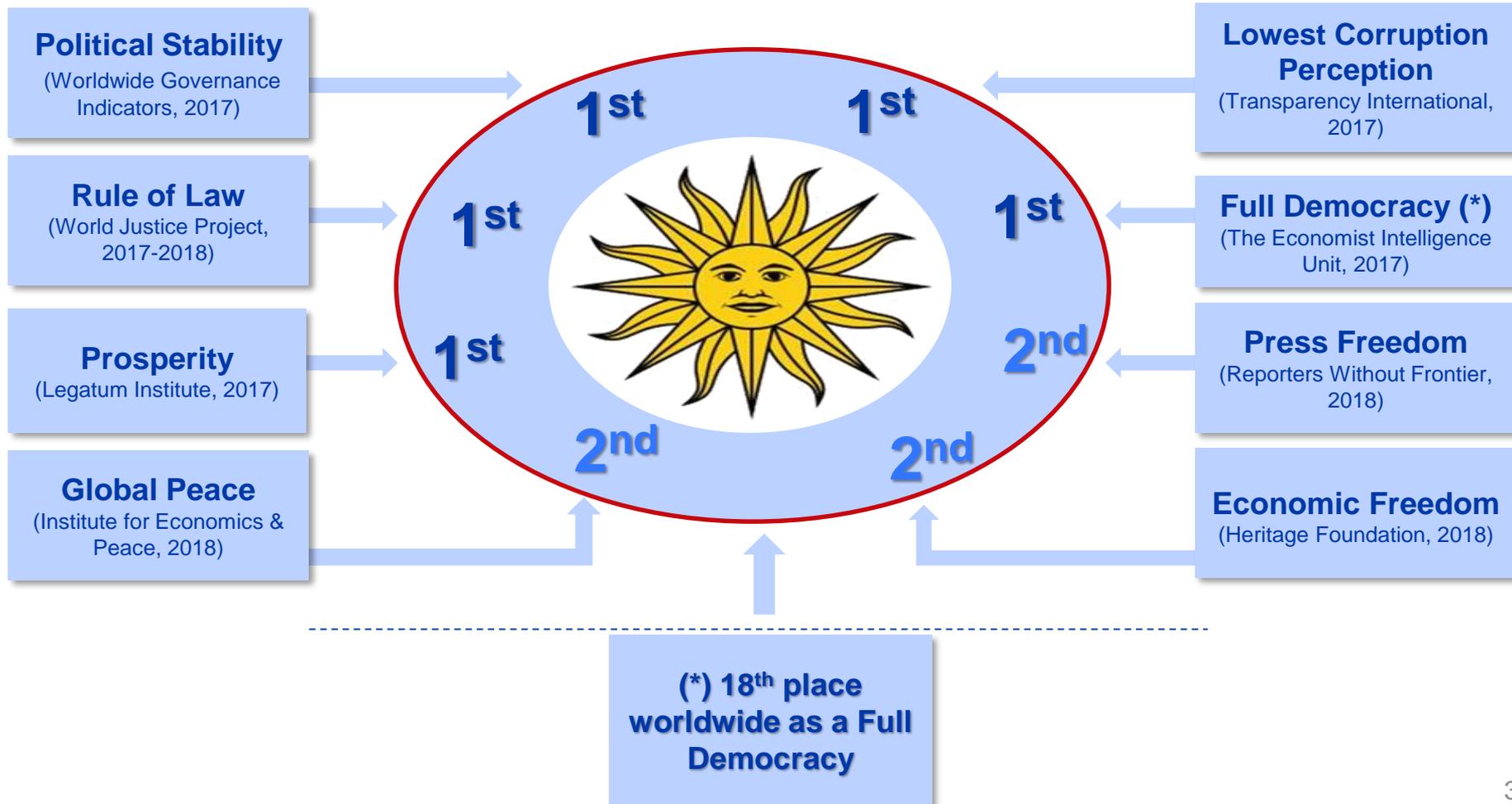
Congress, National Assembly

Strong Institutions and Social Cohesion

Uruguay remains a bastion of institutional stability in a volatile region



Ranking position in LATAM





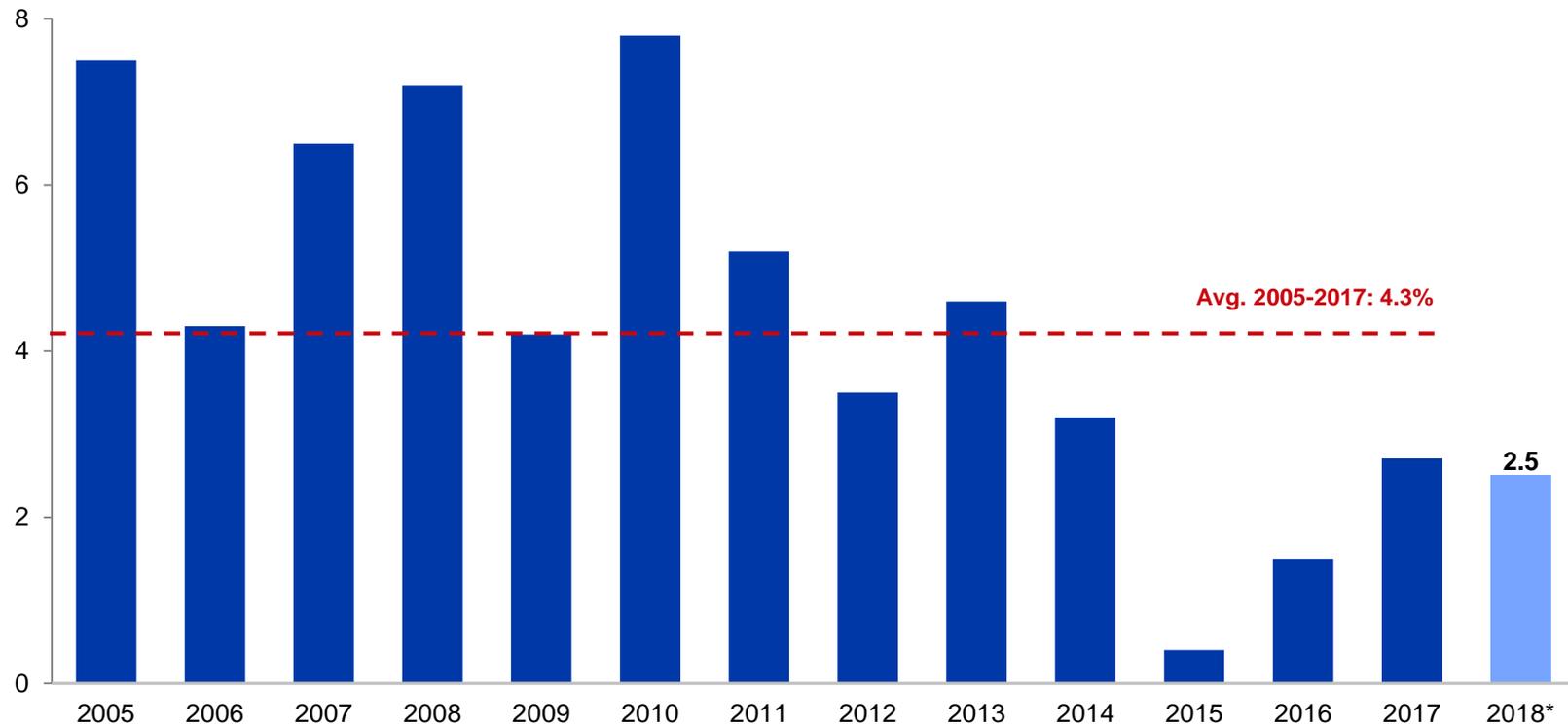
Macroeconomic Stability

Uruguay has experienced over a decade and a half of uninterrupted economic growth



Real GDP Growth

(Annual change, in %)



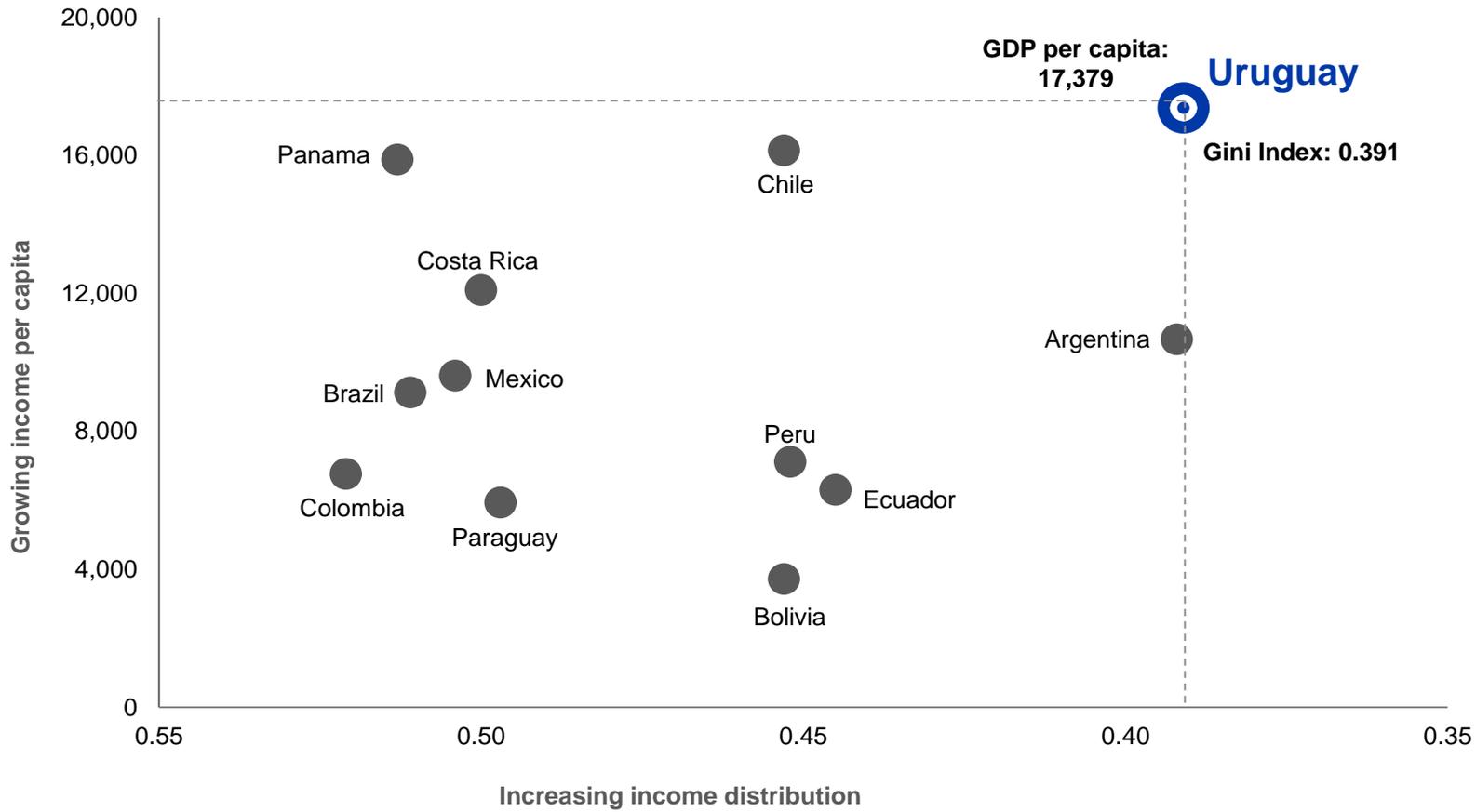
(*) Projected

Source: Central Bank of Uruguay

Growth with equality: the best distributed income and highest GDP per capita in the region



GDP per capita and Gini Index



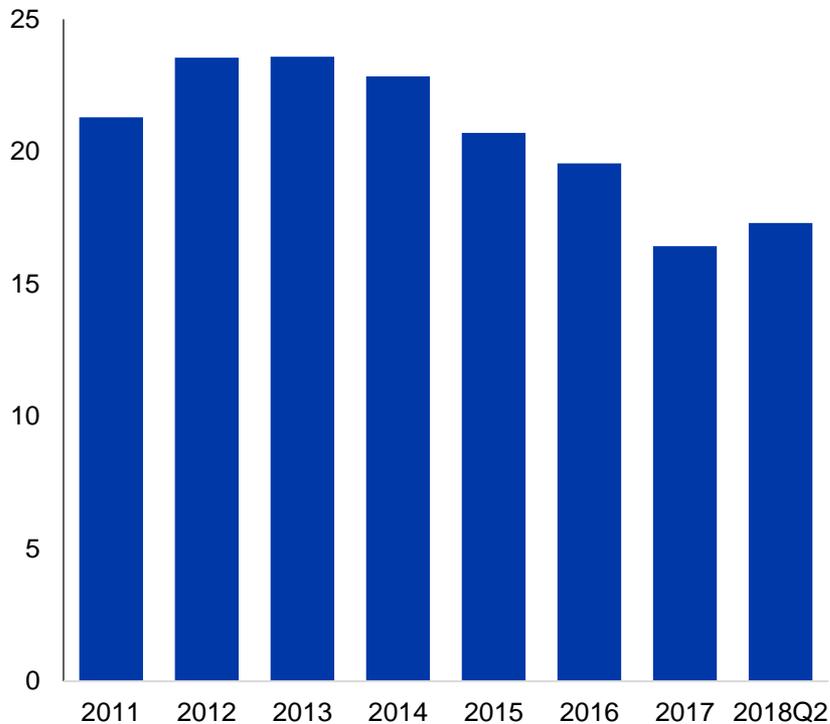
Source: International Monetary Fund, World Economic Outlook Database, October 2018 for GDP per capita in nominal USD; Social Outlook of Latin America 2017 for Gini Index data

Investment has been falling and employment lags the cyclical recovery



Gross Fixed Capital Investment

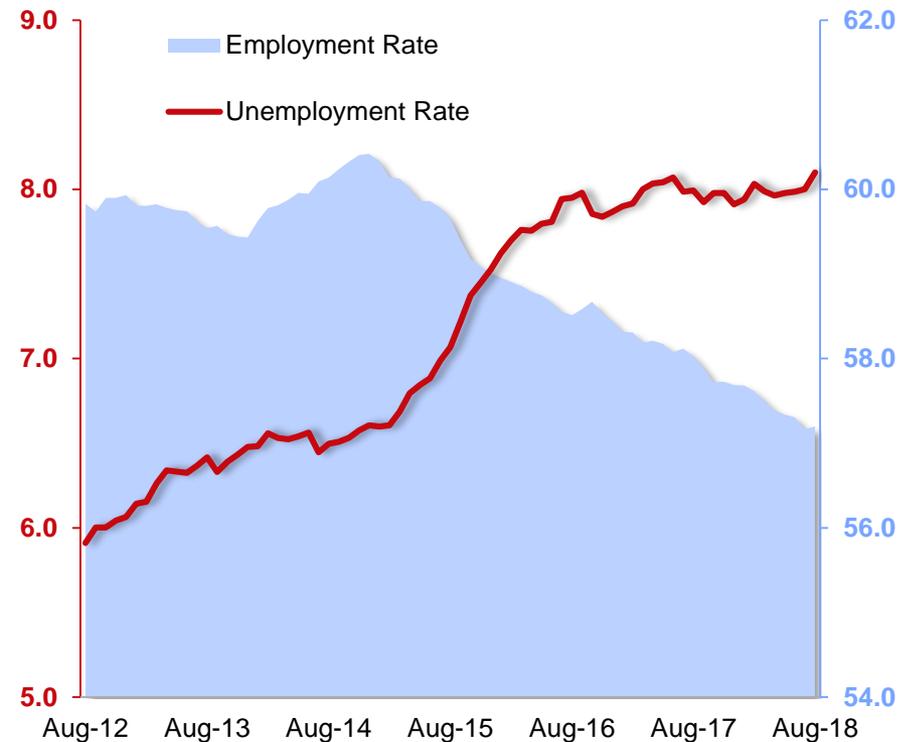
(Last 12 months, in % of real GDP)



Source: Central Bank of Uruguay

Labour market indicators

(Average of last 12 months, in %)



Source: National Bureau of Statistics

The government has launched a set of policies to boost investment and employment...



Promote investment and employment

Support small businesses

Facilitate tax compliance

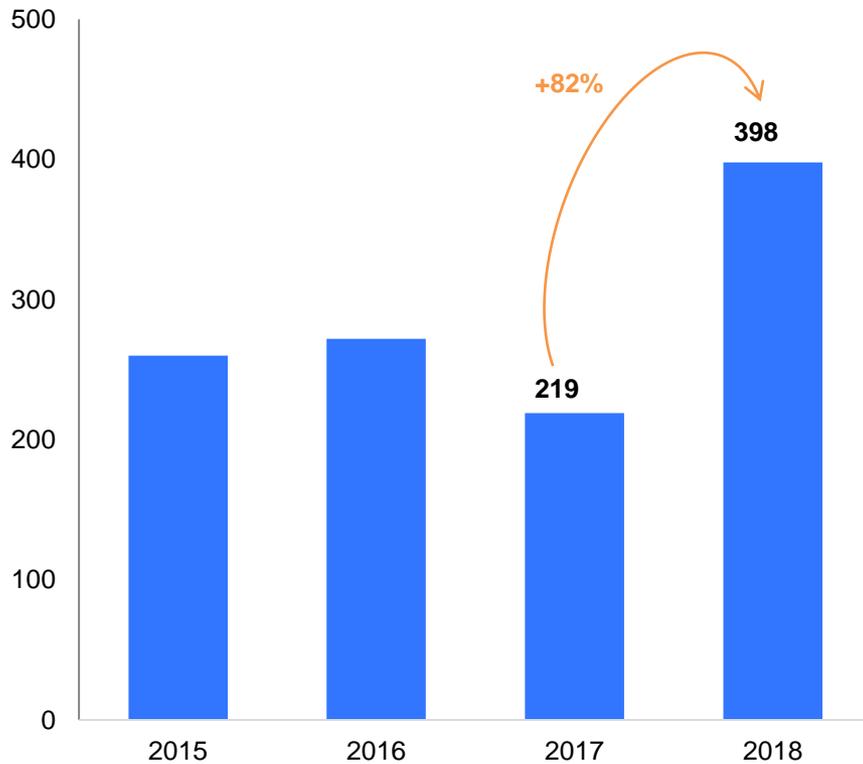
- Changes to the Investment Promotion Regime to boost investments with positive externalities
- Additional tax benefits for promoted investment projects executed in 2018
- Benefits for domestic farm equipment production
- Extension of automatic tax credits for SME investments
- Simplified Net Worth Tax for SMEs
- Simplified procedures for corporate restructuring
- Improvements for tax-payers:
 - ✓ Reduced tax debt payments costs
 - ✓ More payment channels
 - ✓ Reinforcement of Tax Administration rights



...and private investment is reacting to the stimulus

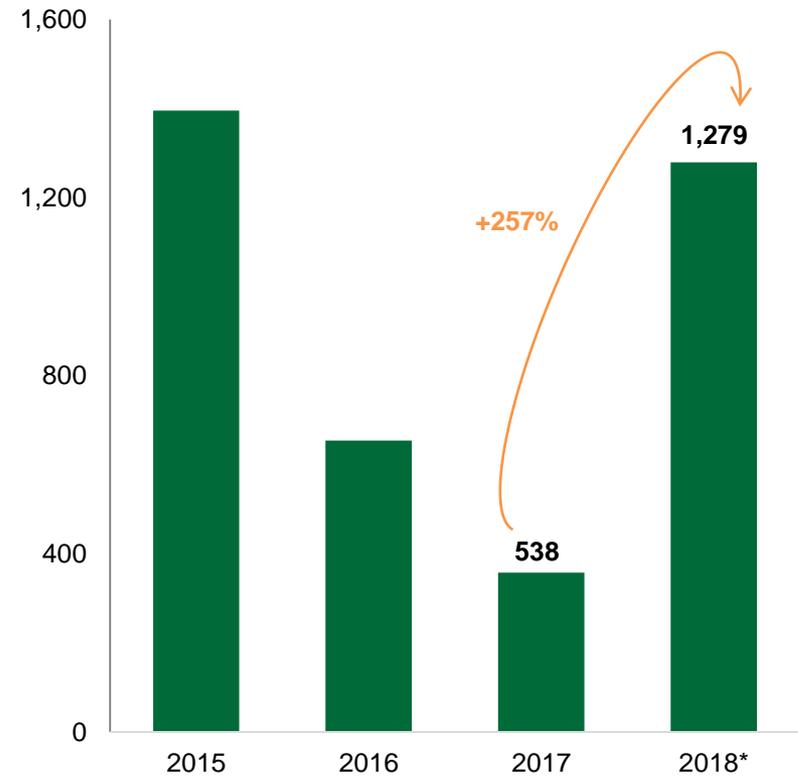
Number of projects presented

(Total for Jan-Aug each year)



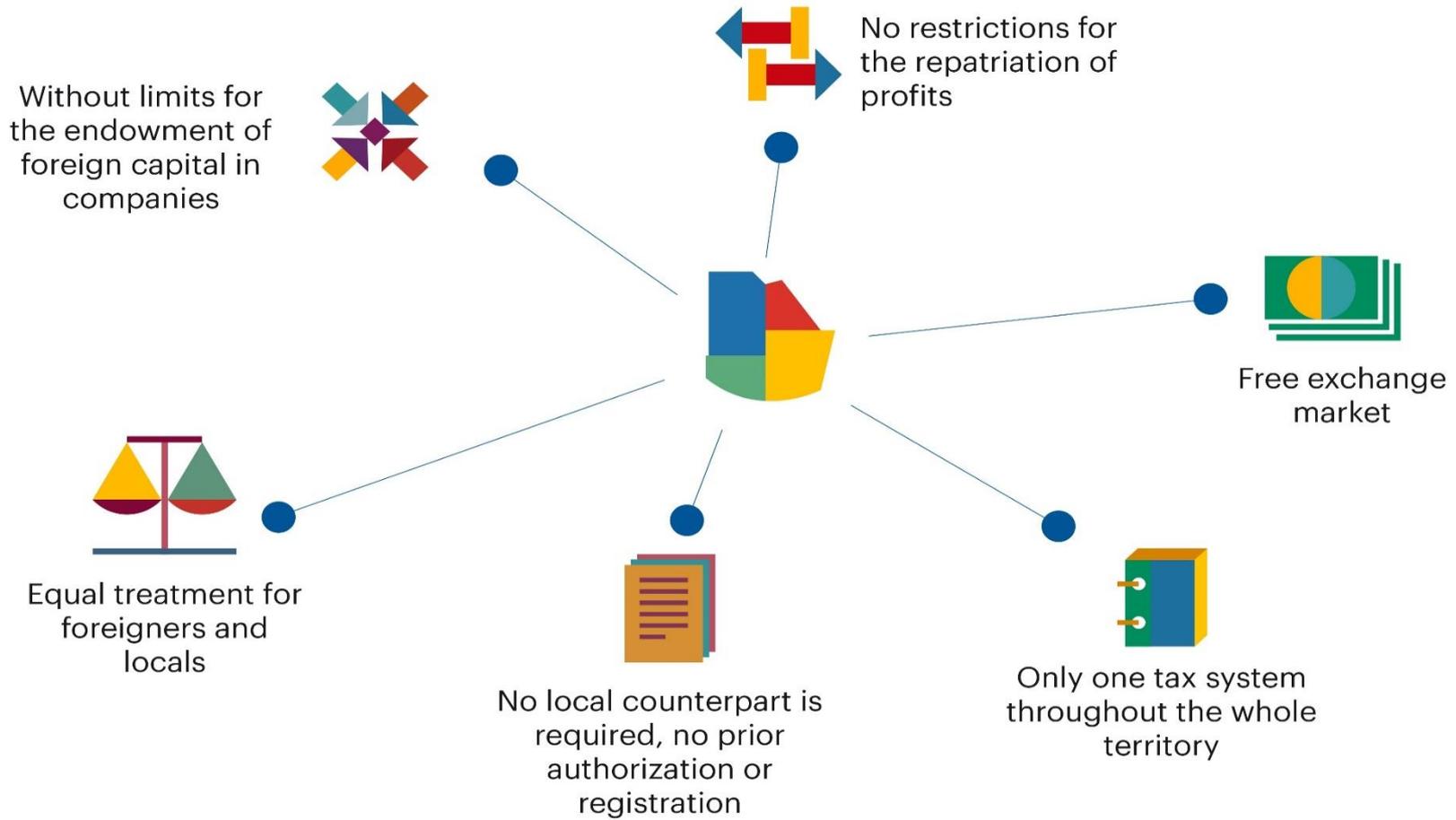
Total investment presented

(Total for Jan-Aug each year, in USD million)



(* Includes USD 412 million corresponding to three projects submitted by UPM.

No restrictions on foreign investor activity in Uruguay





Carrasco Montevideo Airport

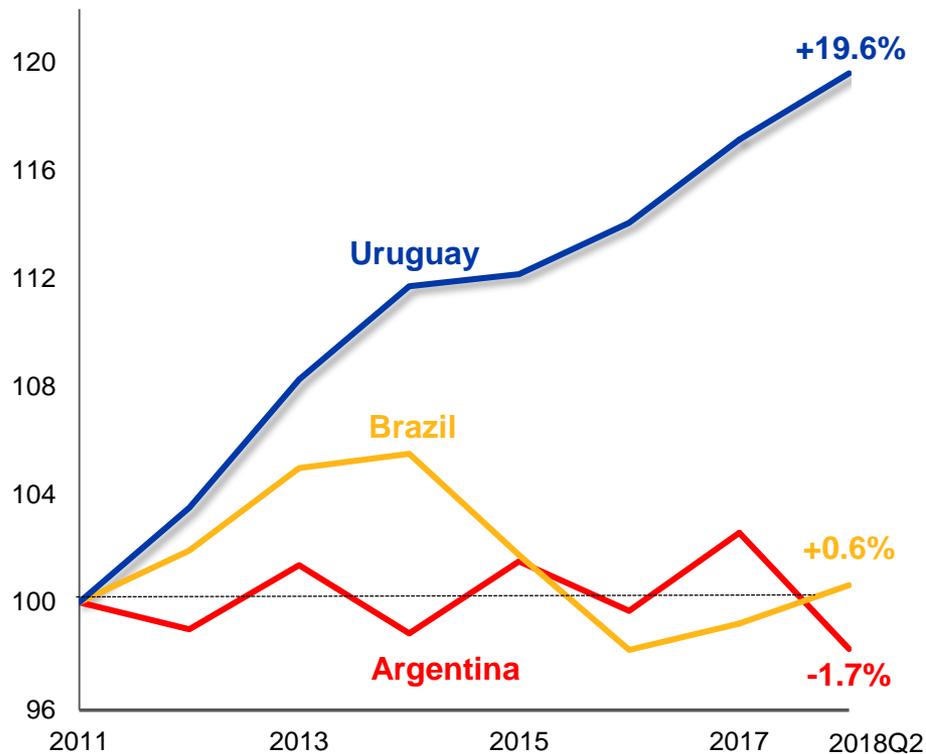
Reduced linkages with the Region



Decoupling in the midst of a regional downturn

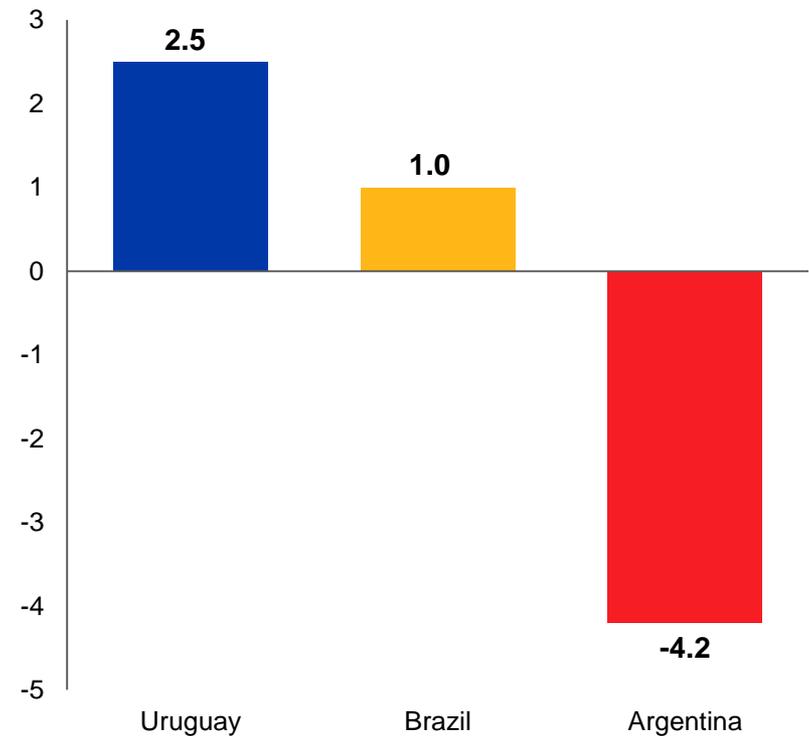
Cumulative Real GDP Growth

(Index base 100=2011)



2018Q2 Real GDP Growth

(YoY change, in %)



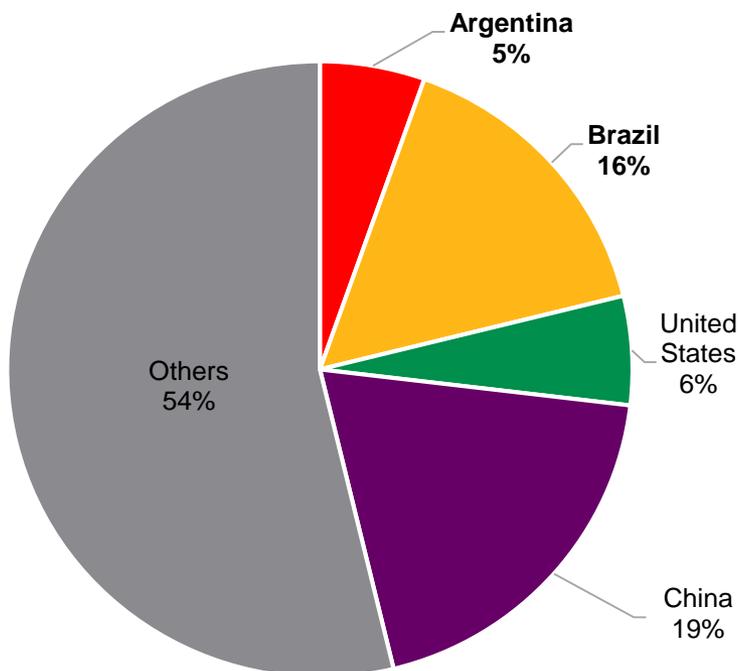
Sources: Central Bank of Uruguay (BCU); Central Bank of Brazil (BCB); National Institute of Statistics and Censuses (INDEC, Argentina).

Reduced reliance on the region for export revenues and sources of FDI inflows



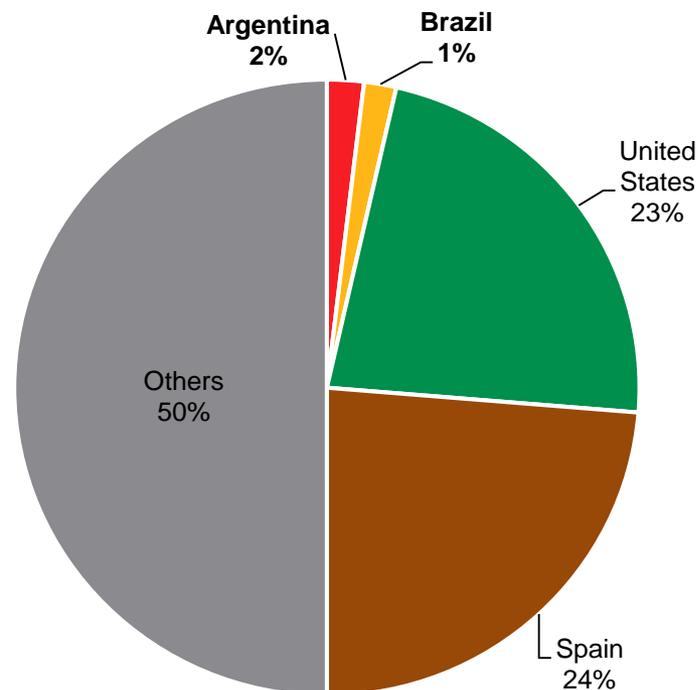
Exports of Goods by Destination

(Last 12 months to August 2018, as a share of total)



Foreign Direct Investment Inflows by Country of Origin^{1/}

(As a share of total, 2017)^{2/}



^{1/} Includes equity contributions and profits reinvestments and excludes loans with related companies.

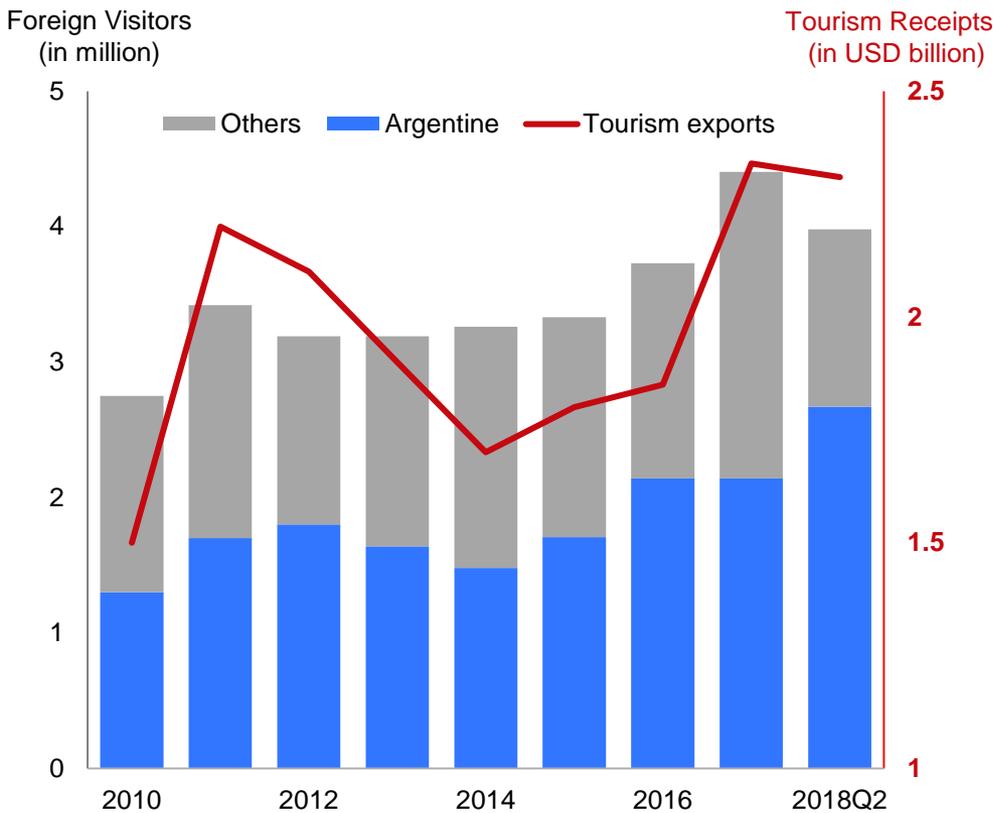
^{2/} Only considers countries with positive inflows.

Argentina remains the main source of inbound tourism, yet the weight of other services has increased recently



Tourist Arrivals and Receipts

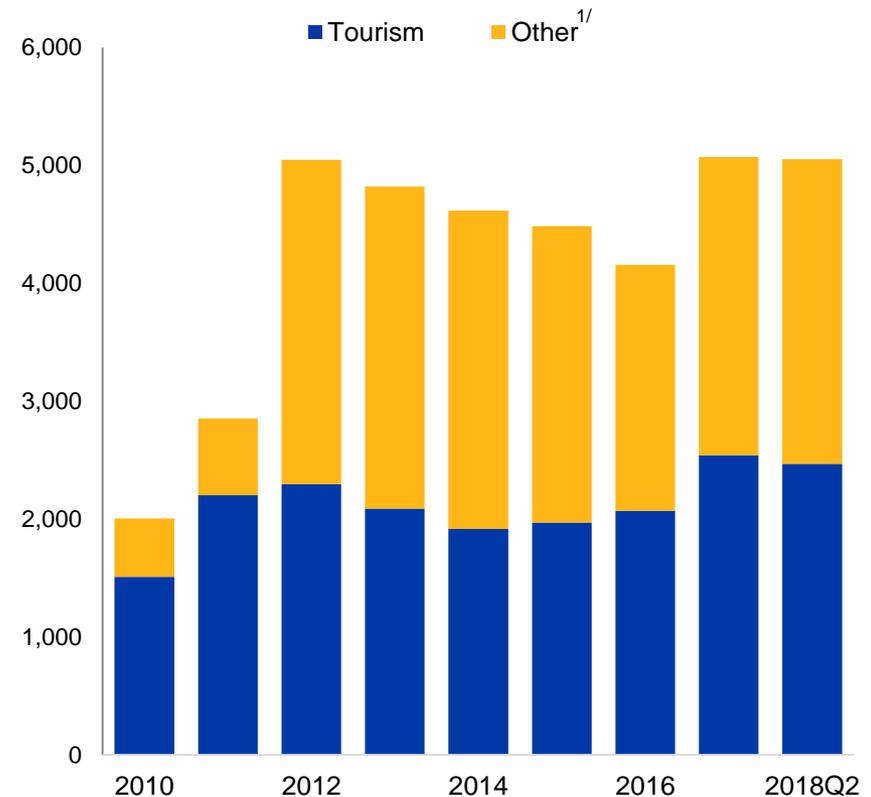
(Last 12 months)



Source: Ministry of Tourism

Exports of Services

(Last 12 months, in USD millions)



^{1/} Software, transport and logistics

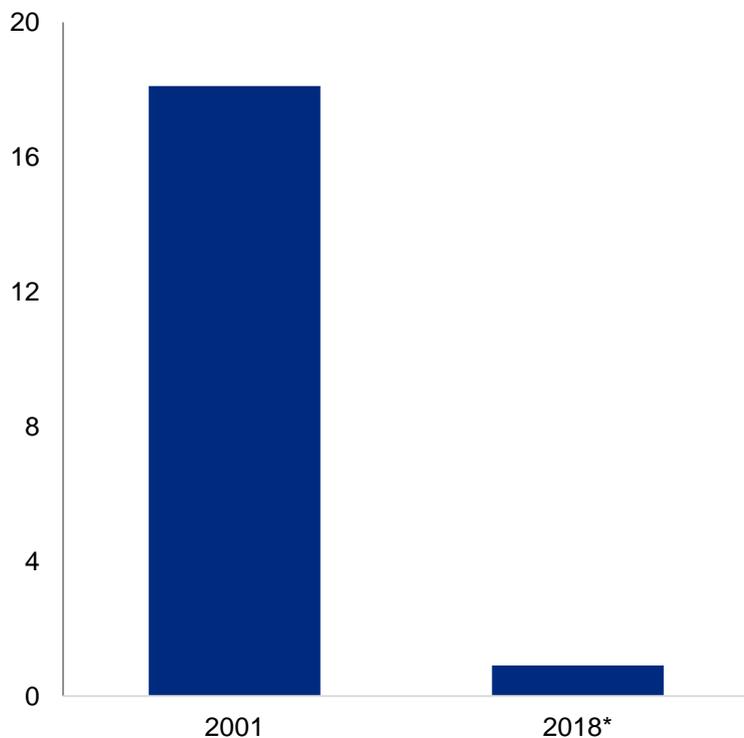
Source: Central Bank of Uruguay

In addition, financial linkages with non-residents through the banking sector have diminished



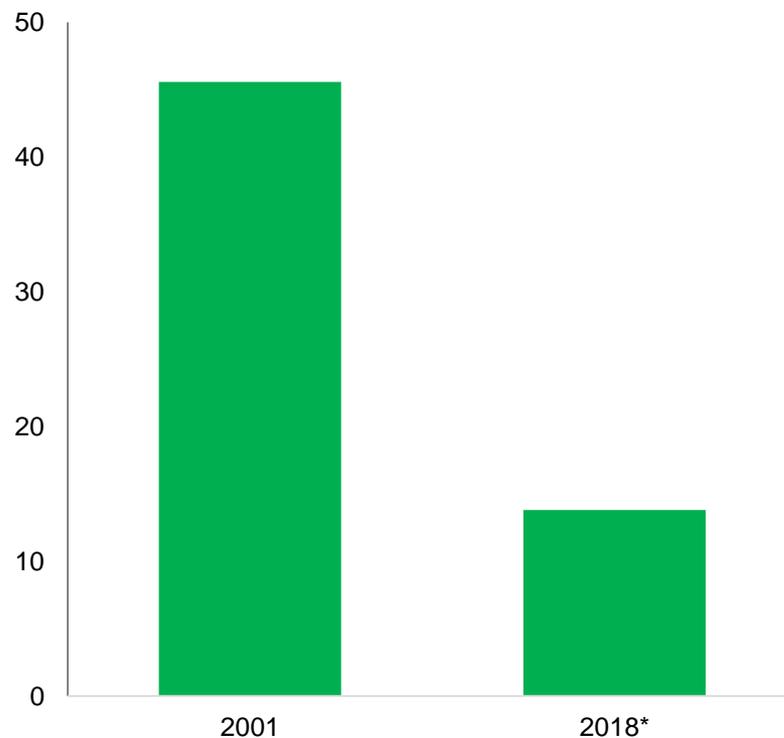
Credit to Non-residents by Local Banking System

(% of total credit, end-period)



Deposits by Non-residents in Local Banking System

(% of total deposits, end-period)



(*) As of August

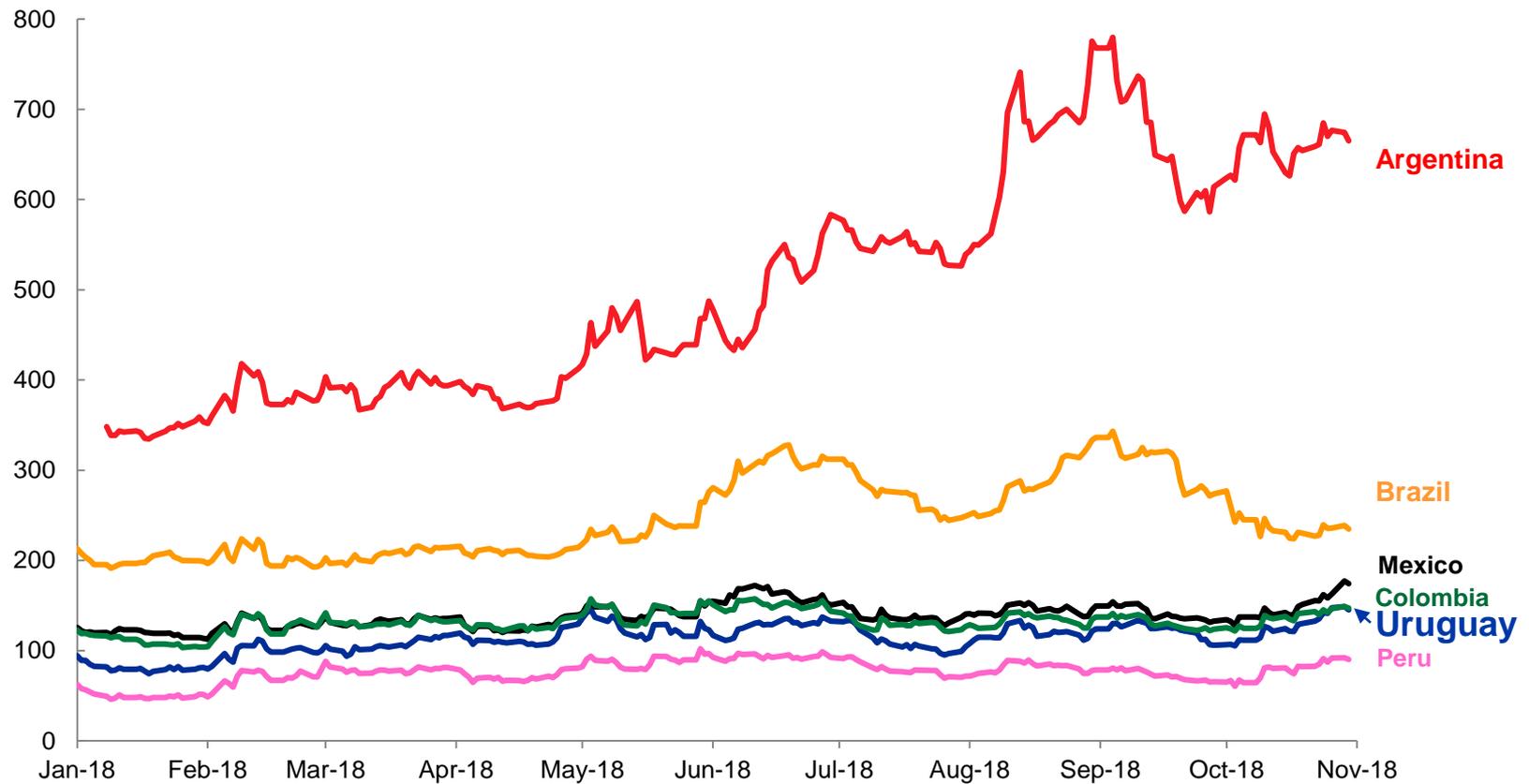
Source: Central Bank of Uruguay

Sovereign credit spreads are indicative of the ongoing differentiation



Sovereign Risk

(G-Spread in 10-Y dollar bonds, in bps)



Source: Bloomberg



Cerro de los Caracoles, Uruguay

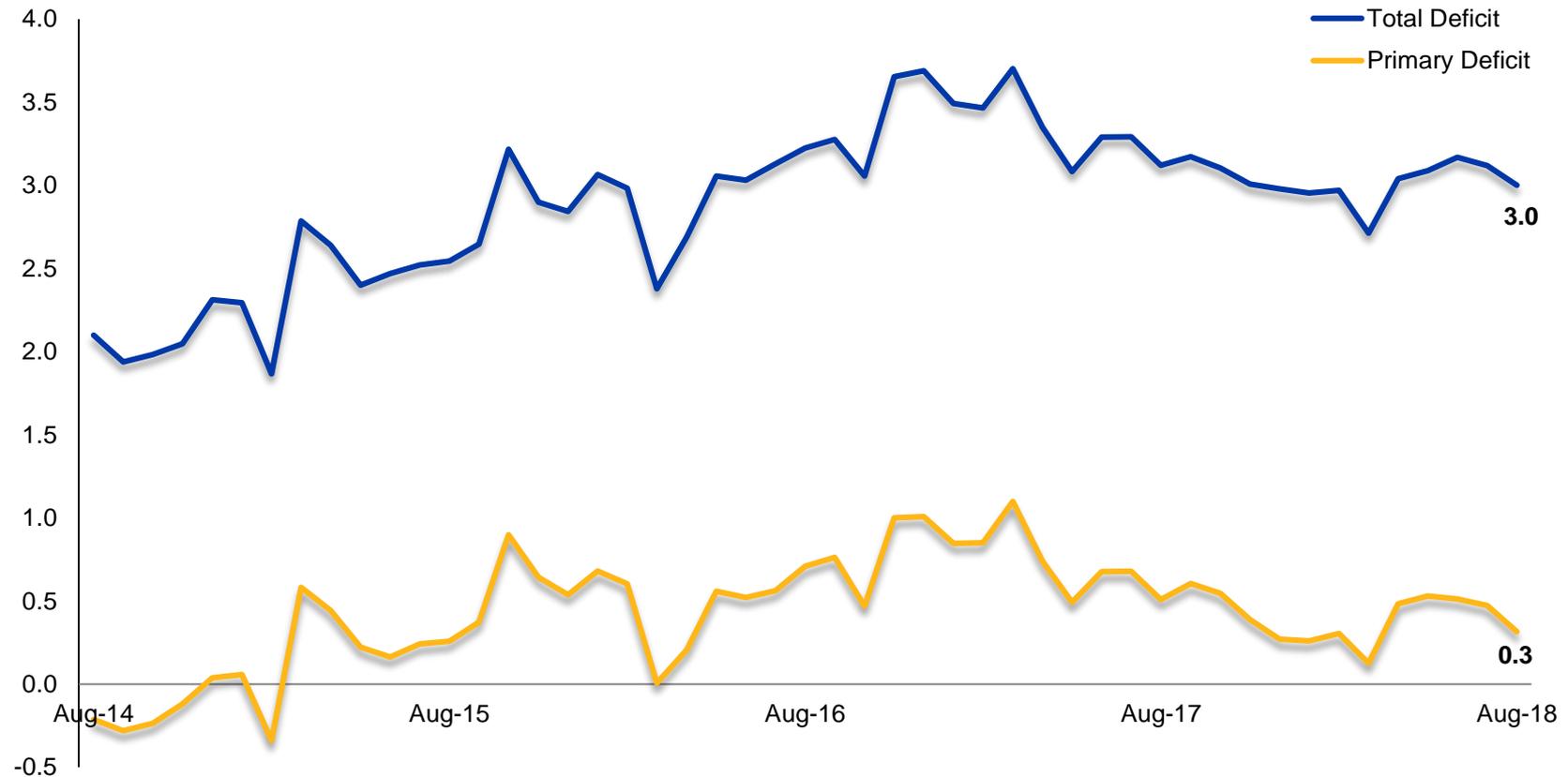
Fiscal Policy Outlook

Central Government deficit is gradually contained...



Central Government deficit

(Last 12 months, in % of GDP)



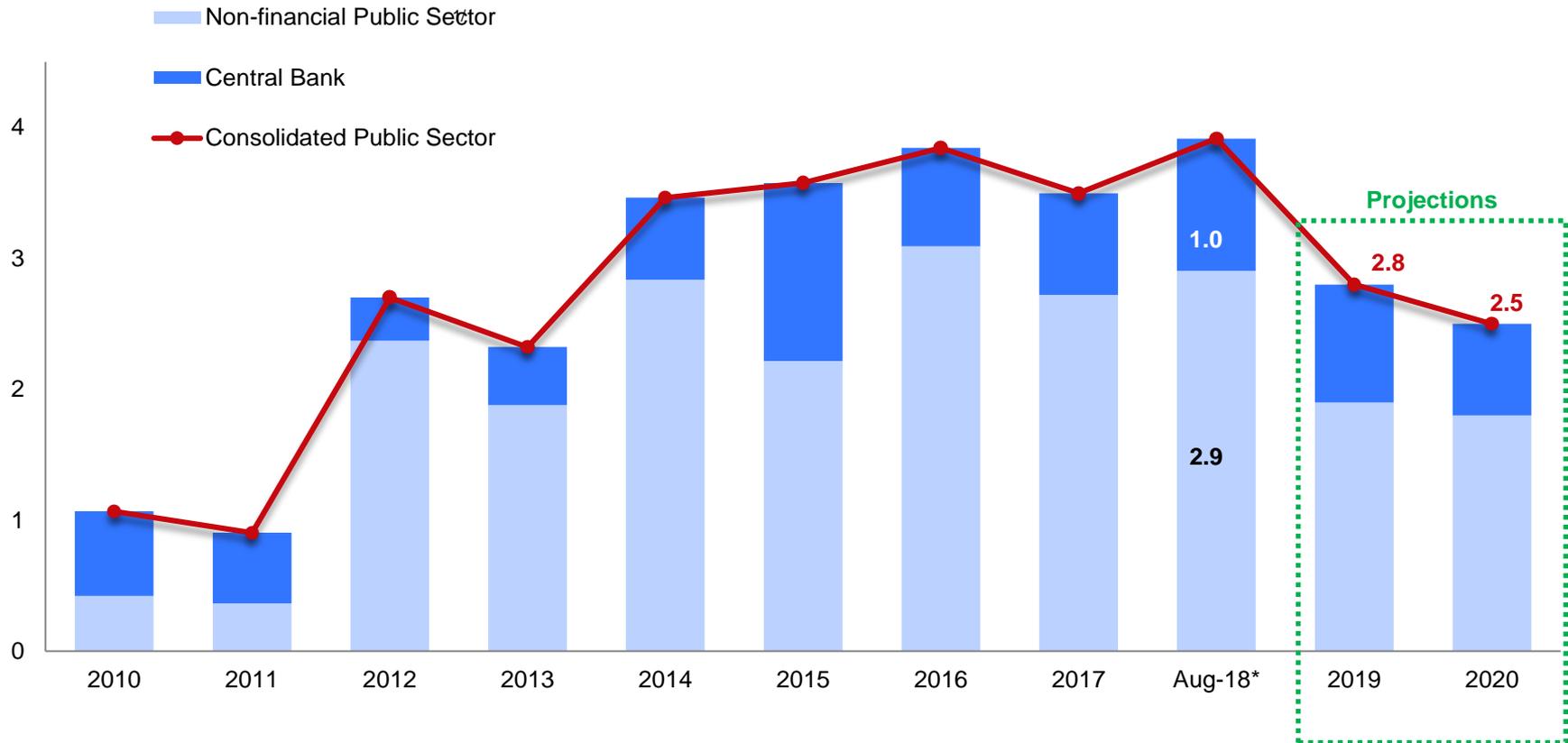
Source: Ministry of Economy and Finance

... and policy priority is to shore-up overall public finances



Consolidated Public Sector deficit

(In % of GDP)



(*) Last 12 months

^{1/} Includes Public Enterprises

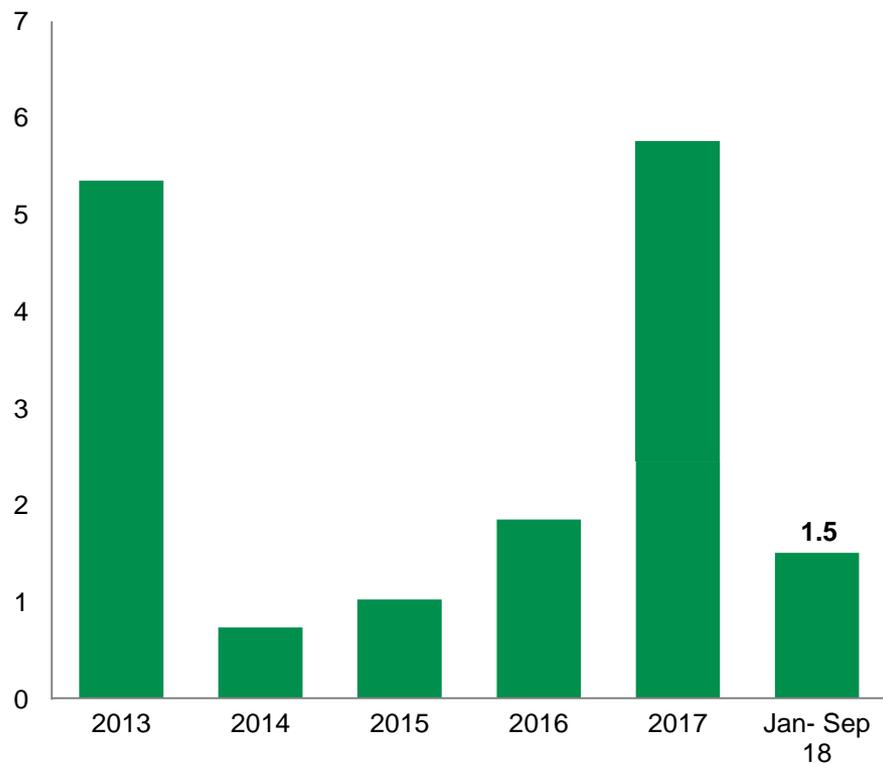
Source: Ministry of Economy and Finance

Tax collection and social security contributions have moderated recently in real terms...



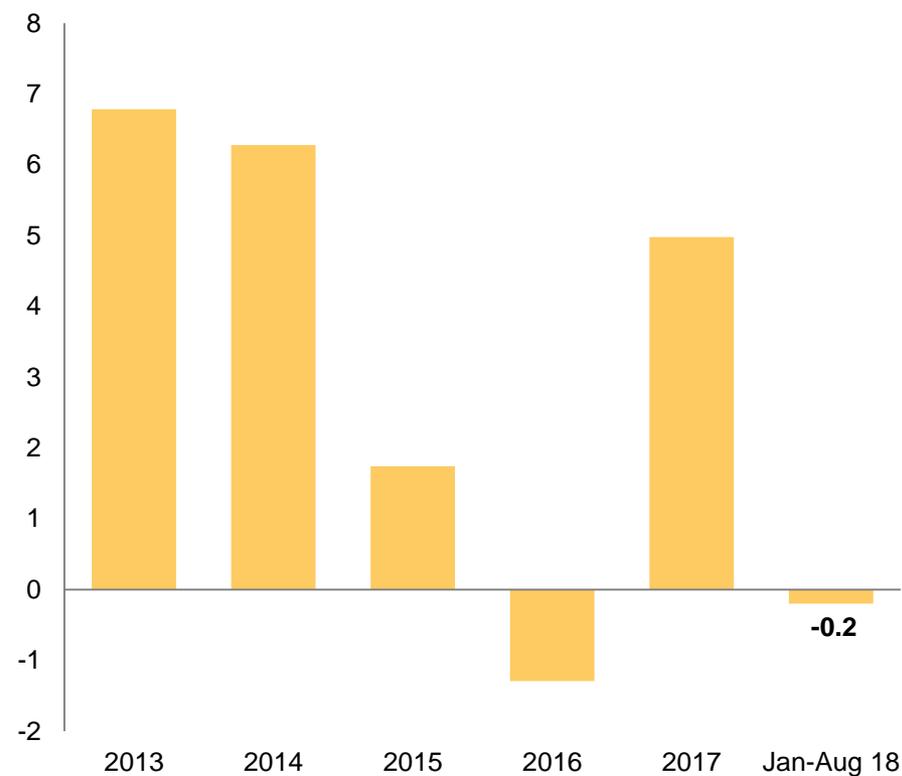
Tax revenues

(Real annual change, in %)



Social security contributions

(Real annual change, in %)



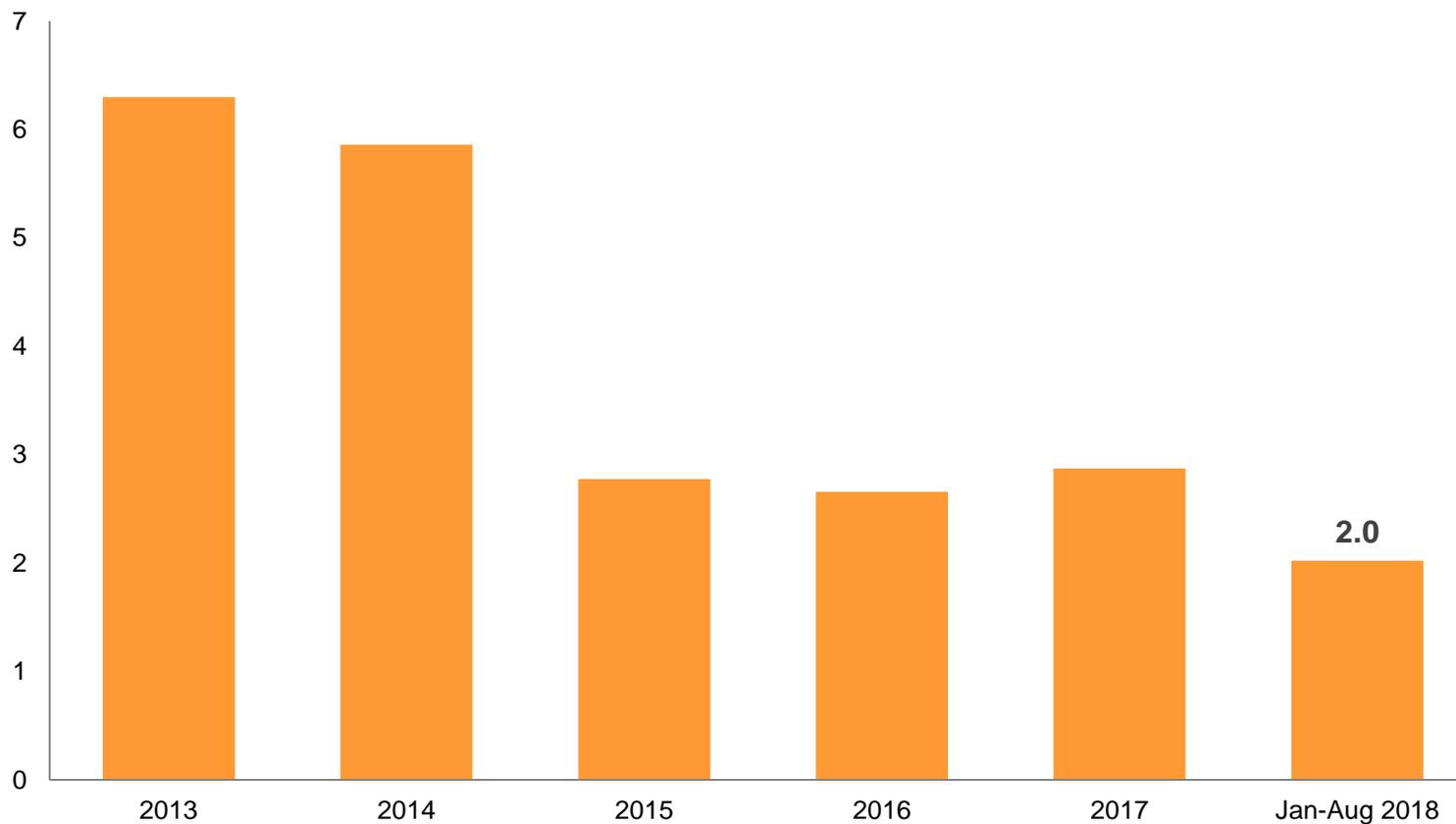
Source: Ministry of Economy and Finance

... while real expenditures are decelerating



Central Government – current primary expenditure

(Real annual growth, in %)



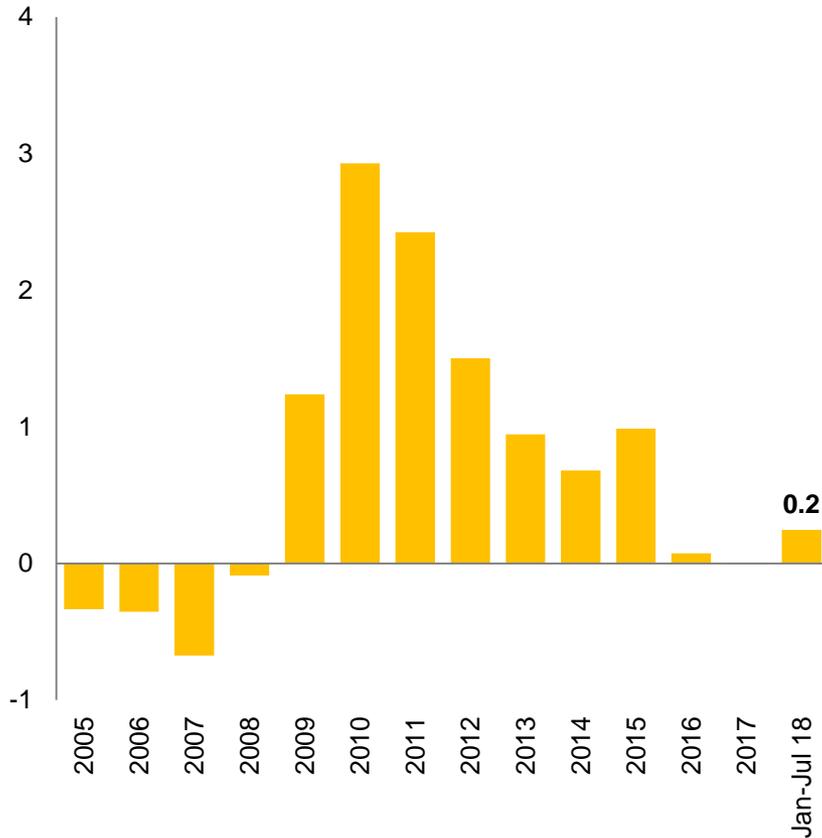
Source: Ministry of Economy and Finance

Growth in number of retirees and associated pension expenditure has stabilized...



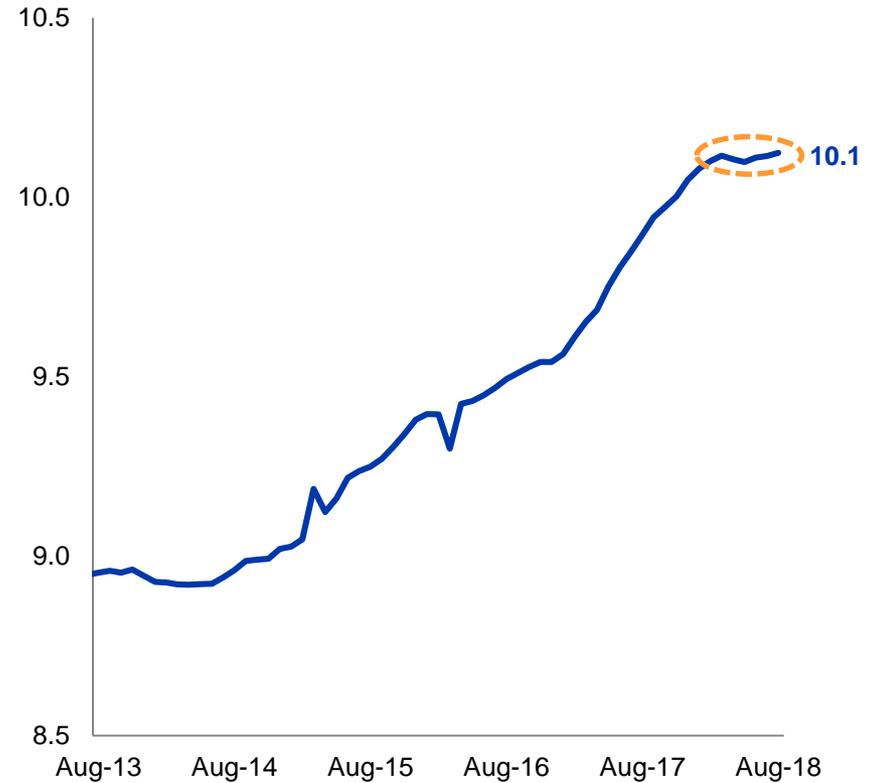
Total number of pensioners

(Annual change, in %)



Pension expenditures

(Last 12 months, in % of GDP)



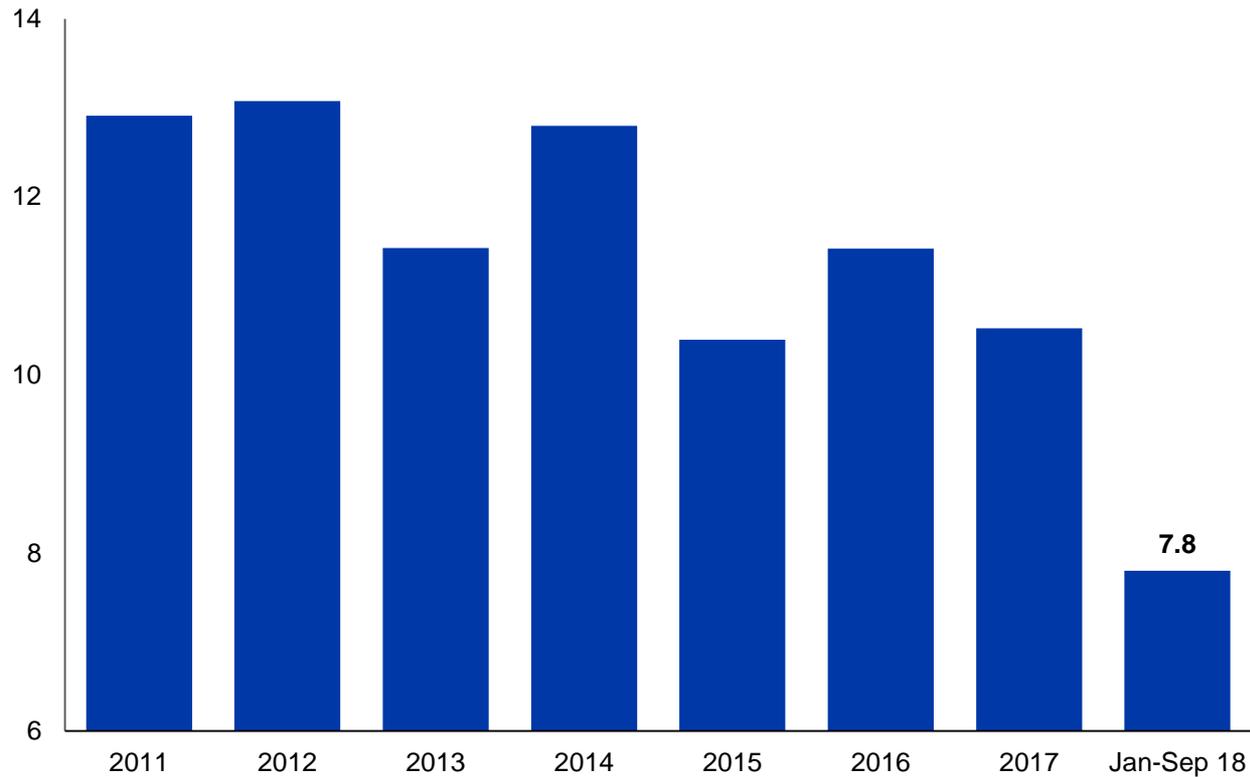
Source: Ministry of Economy and Finance

... and nominal wage deceleration will further reduce pressures on indexed pension expenditures next year



Nominal Wages

(Annual change, in %)



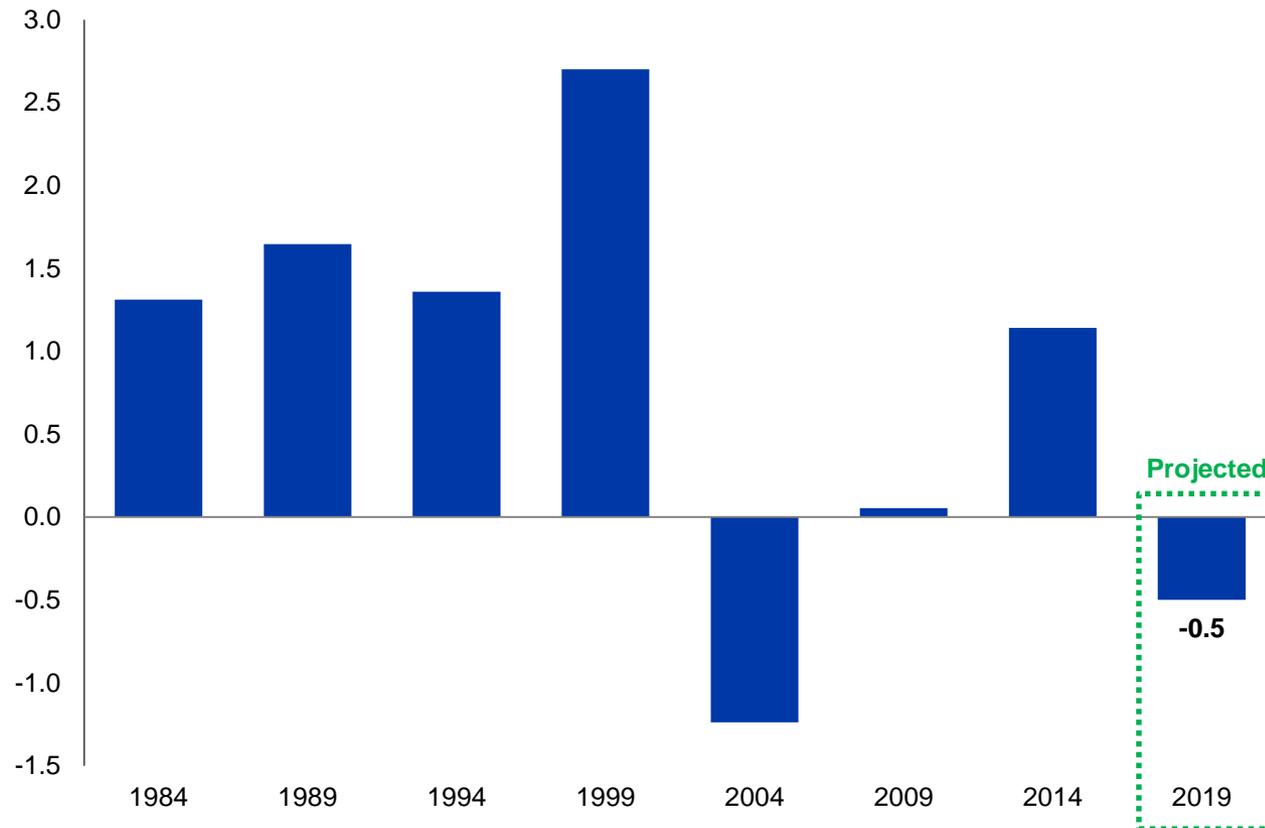
Source: National Bureau of Statistics

Recent Budget Review Law was prudent



Change in Fiscal Deficit on election years

(In % of GDP from previous year – Consolidated Public Sector)



Source: Ministry of Economy and Finance



Port of Montevideo

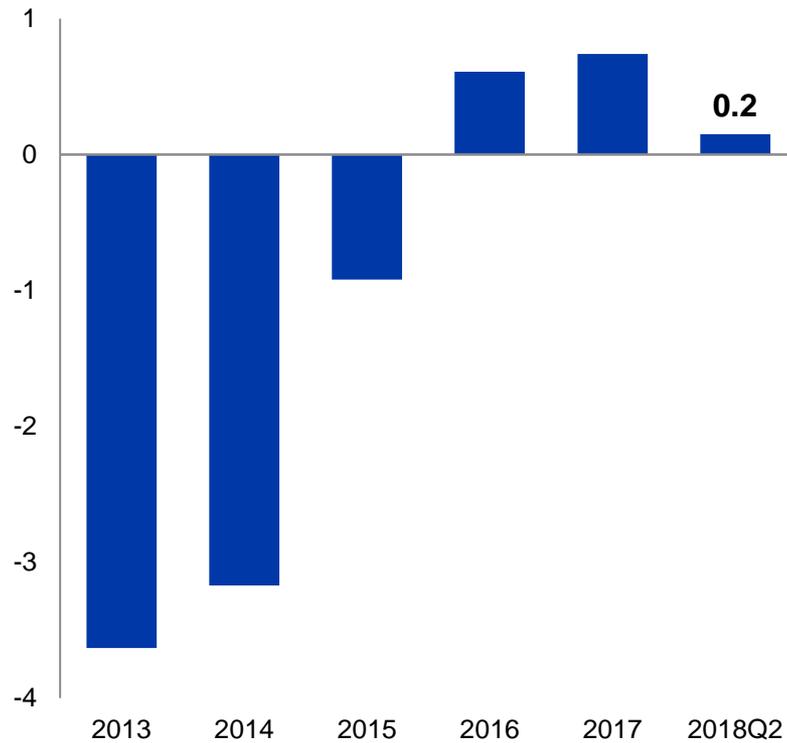
Robust External Sector

Improvement of external accounts



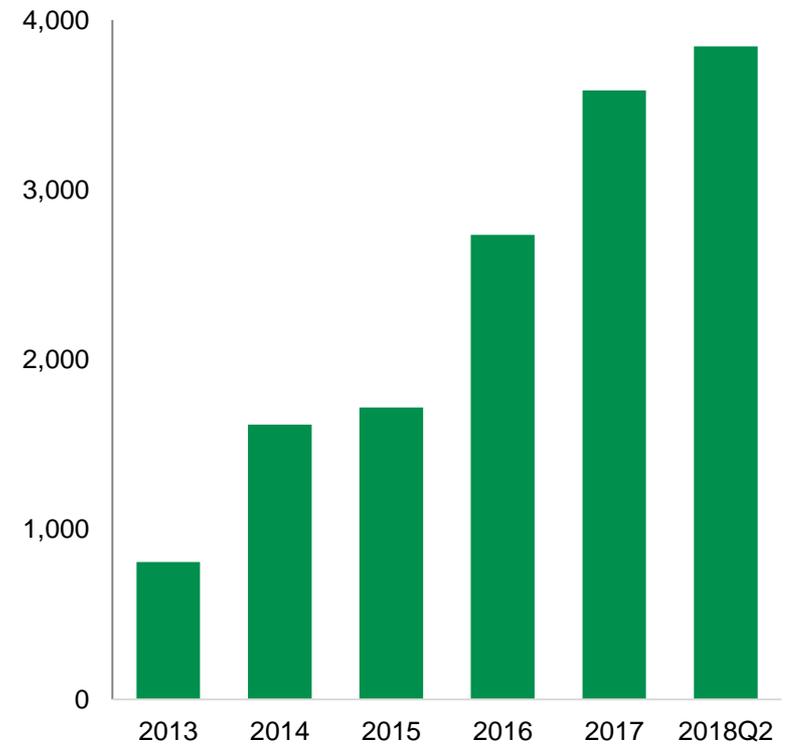
Current Account Balance

(Last 12 months, in % of GDP)



Trade Balance in Goods & Services

(Last 12 months, in USD million)



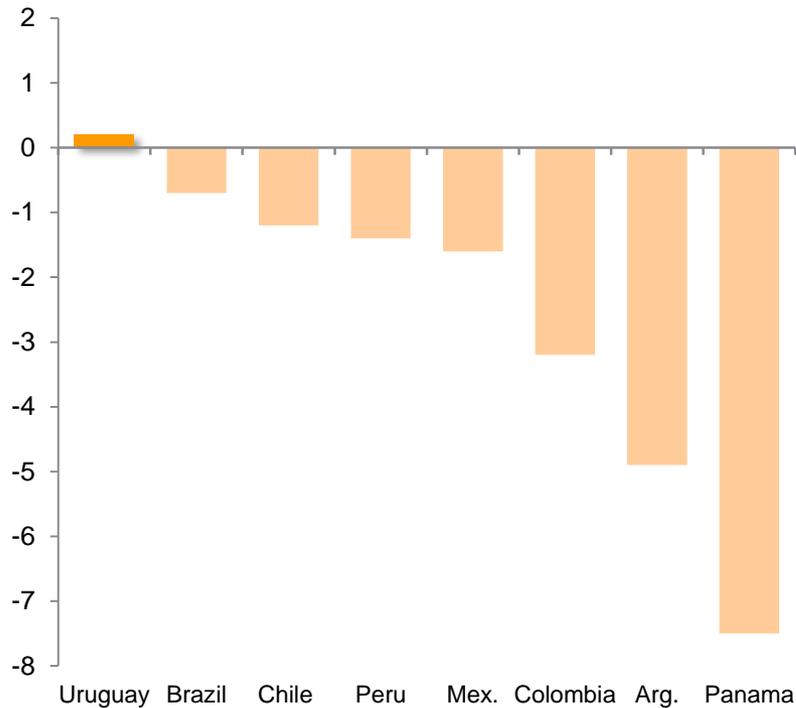
Source: Central Bank of Uruguay



Solid external buffers

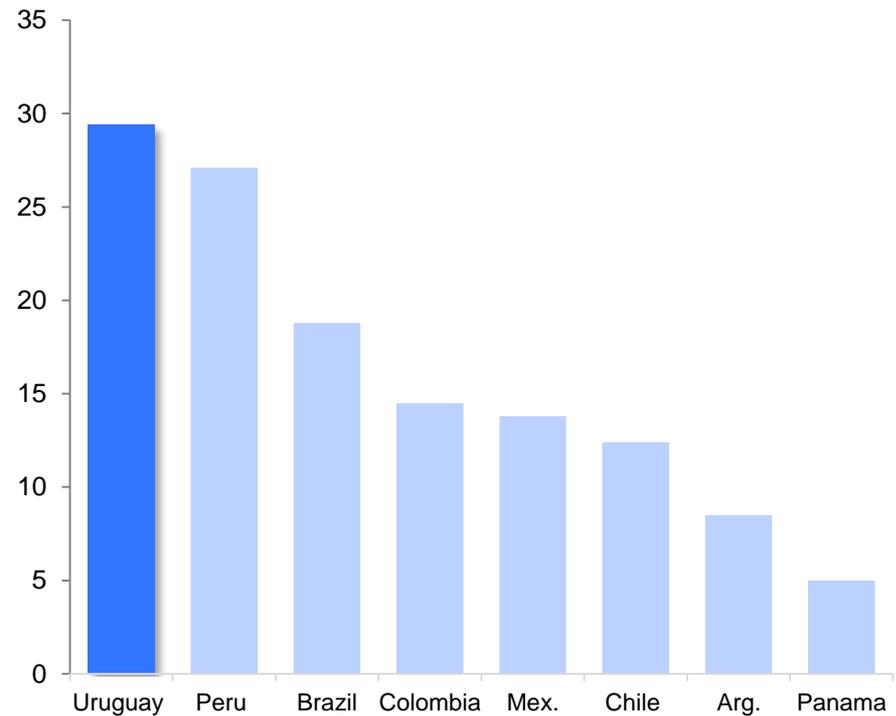
Current Account Balance compared to LATAM

(Last 12 months to 2018Q2, in % of GDP)



International Reserves compared to LATAM

(As of June 2018, in % of GDP)



Source: Central Bank of Uruguay; Central Bank of Mexico and National Bureau of Statistics and Geography of Mexico; National Bureau of Statistics and Censuses (INDEC) of Argentina; Central Bank of Brazil; Central Bank of Colombia; Central Reserve Bank of Peru; Central Bank of Chile; National Bureau of Statistics and Censuses of Panama.

Nominal Exchange depreciation in line with other Emerging Markets



Nominal Exchange Rate

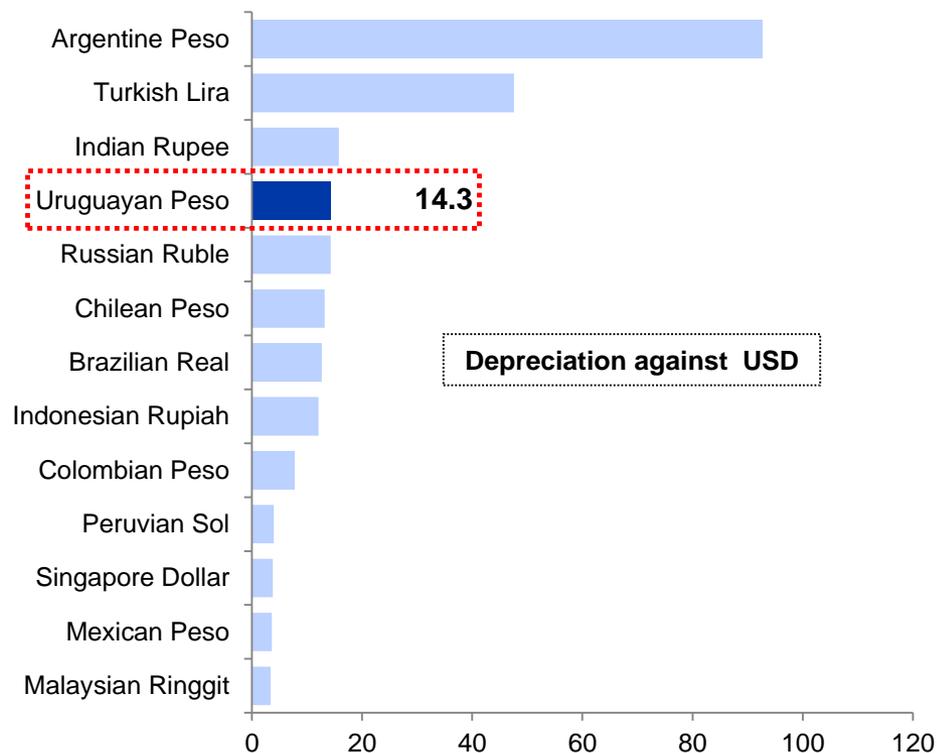
(pesos per USD; daily)



Source: Central Bank of Uruguay

Emerging Market Currencies vs USD

(2018 YTD change as of 10/30, in %)



Depreciation against USD

Source: Bloomberg

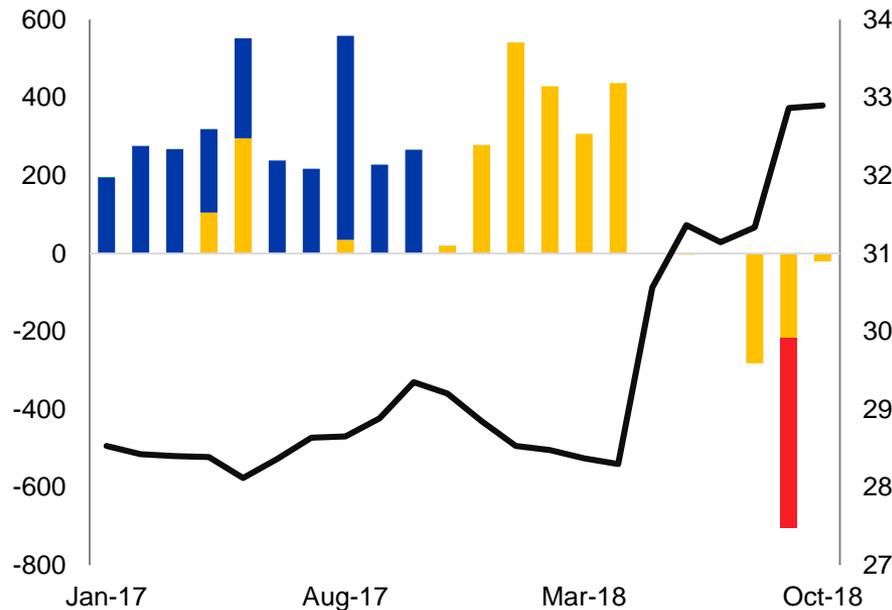
Central Banks has intervened on both sides of the FX market to smooth out undue volatility



Central Bank FX Intervention

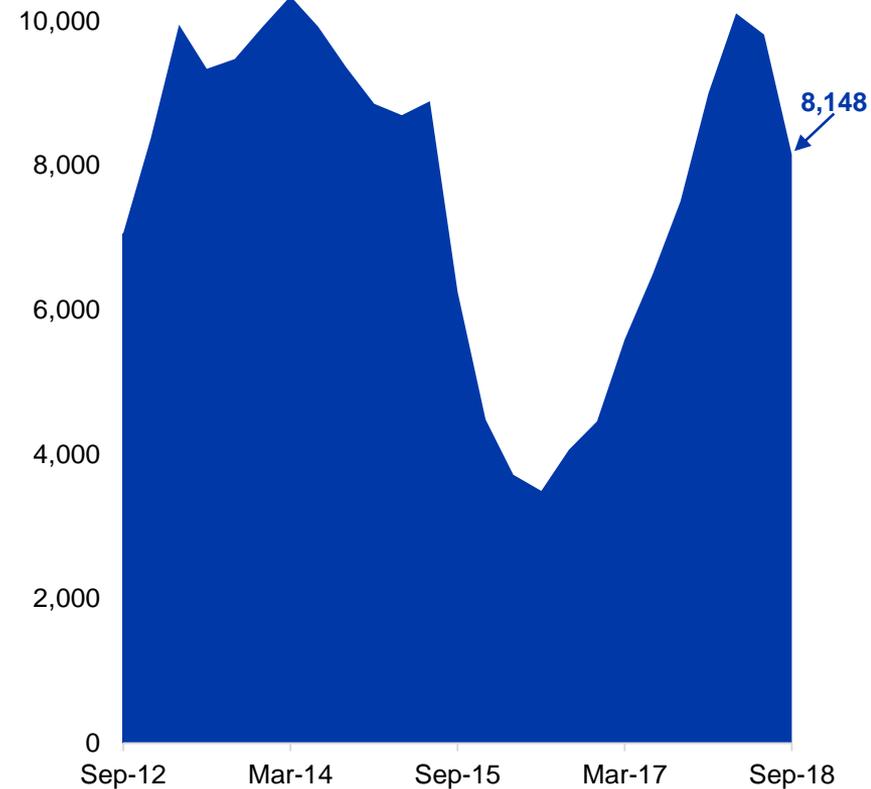
(In USD million)

- █ FX Sales through CB Bills Repurchase
- █ #REF!
- █ FX Purchases
- Average Monthly Nominal Exchange Rate



Stock of Central Bank Bills

(In USD million)

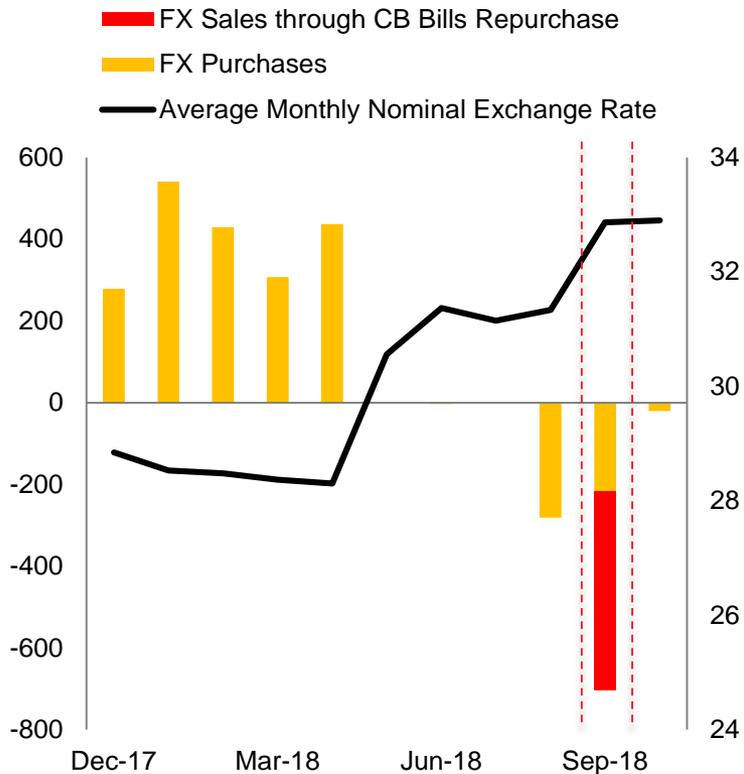


During the regional sell-off, the Central Bank (CB) sold dollars in exchange for local-currency CB bills, mostly tendered by Pension Funds (PF). This allowed PF to buy-up global nominal peso government bonds, allowing for an orderly unwinding of non-resident positions by increasing liquidity during financial stress



Central Bank FX Intervention

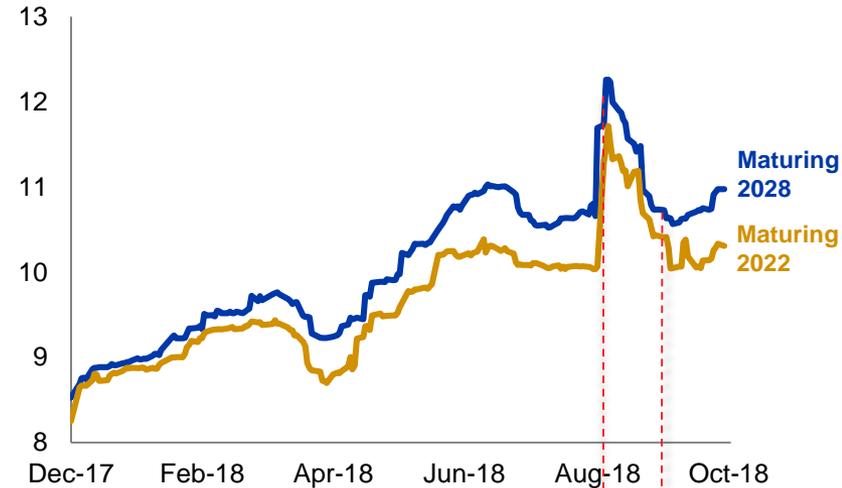
(In USD million)



Source: Central Bank of Uruguay

Yield of Nominal Peso (UYU) Bonds

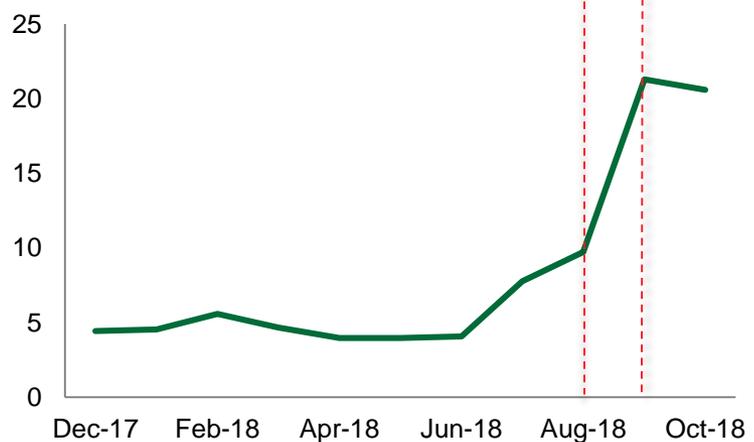
(In %)



CB Bills Repurchase implication →

Residents' Holdings of UYU Bonds

(In % of total outstanding)



Source: Bloomberg (upper); Ministry of Economy and Finance (below)



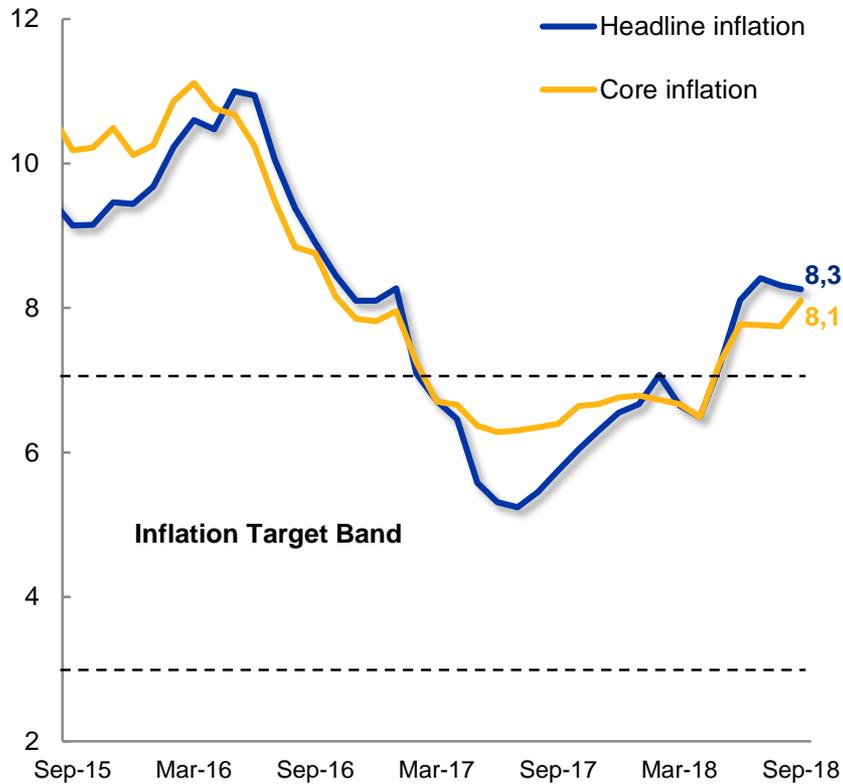
Inflation and Wage Developments

Inflation has hovered around the upper ceiling of inflation target band



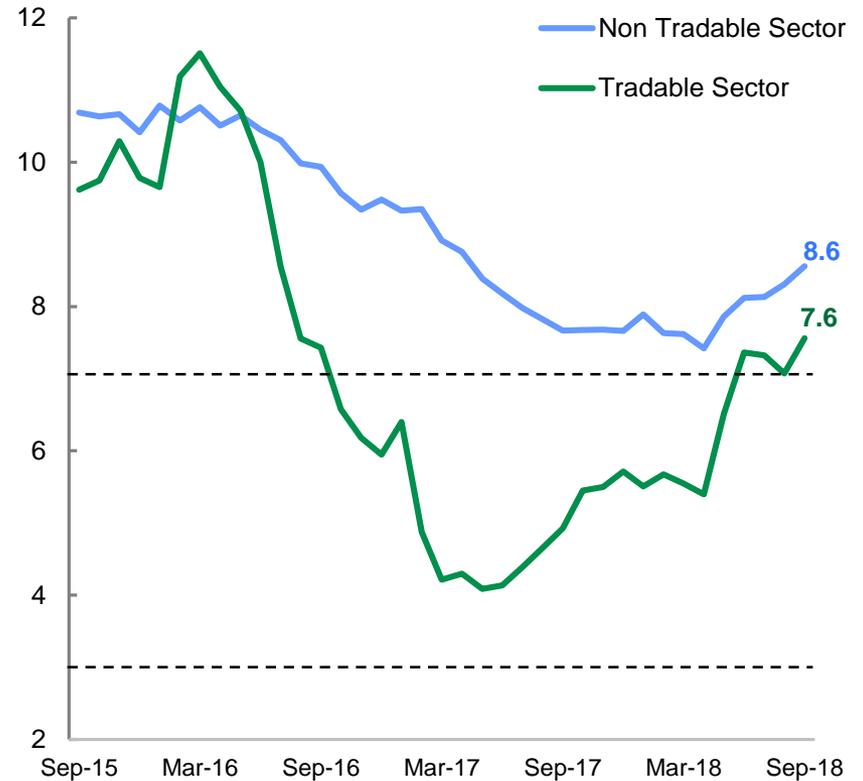
Inflation

(Annual, in %)



Tradable and Non-Tradable Inflation

(Annual, in %)



Source: National Bureau of Statistic & Central Bank of Uruguay

Deceleration in nominal wage growth reflects wage-setting guidelines that reduced indexation



Government's guidelines for 2018 wage negotiations

(Annual increases in nominal wages, in %)

Economic sector's situation:

Year	Laggard	Intermediate	Dynamic
2018	6.5	7.5	8.5
2019	6.0	7.0	8.0
2020	5.0	6.0	7.0

- As of September, 23 out of 170 arrangements have been completed. Of these, 21 followed Government's Guidelines.
- Among these are the Construction and Health Sector, that together account for 21.6% of aggregate salaries.
- Regarding their classification, 17% were classified as Dynamic, 70% as Intermediate and 13% as part of the Laggard sector.

Source: Ministry of Economy and Finance and Ministry of Labour and Social Security



bank

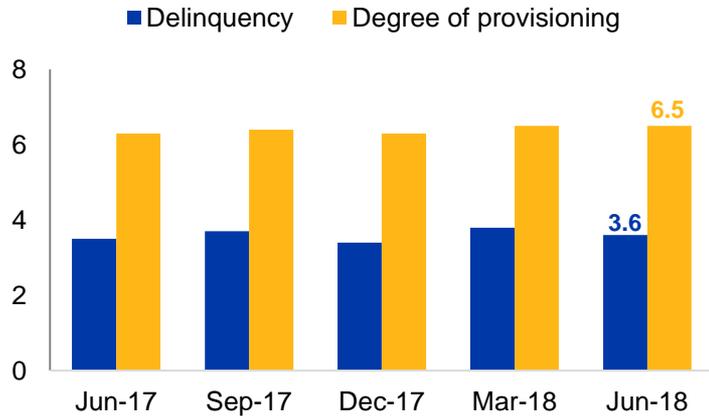
Solid Financial Sector

Over and above, the financial system as a whole enjoys excellent health



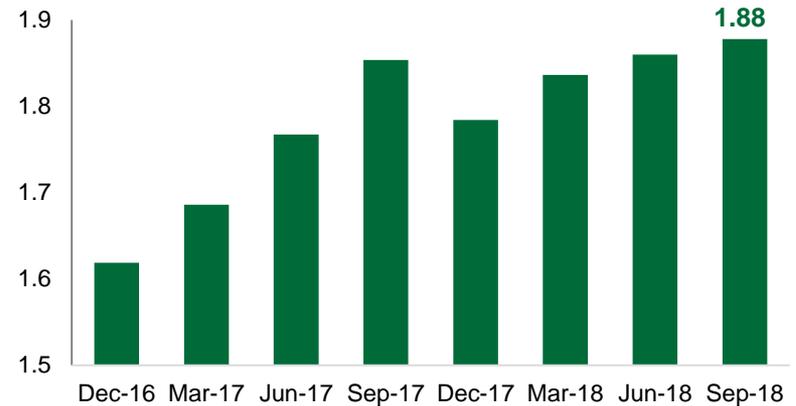
Non-Performing Loans and Degree of Provisioning

(Local and Foreign currency, in %)



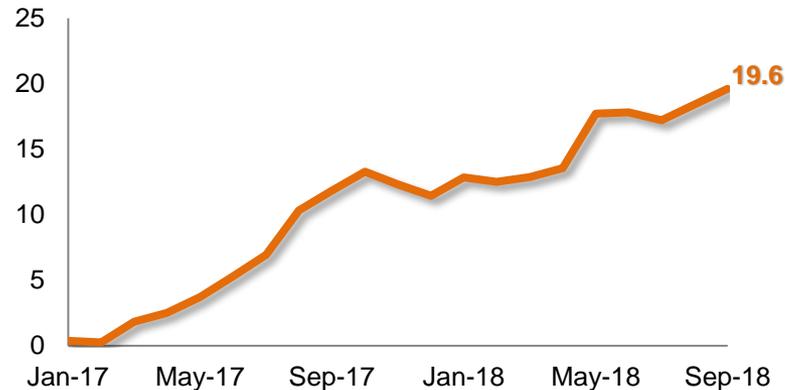
Solvency Profile

(Number of times of the minimum regulatory capital)



Return on Equity

(Last 12 months, in %)





Solís Theatre

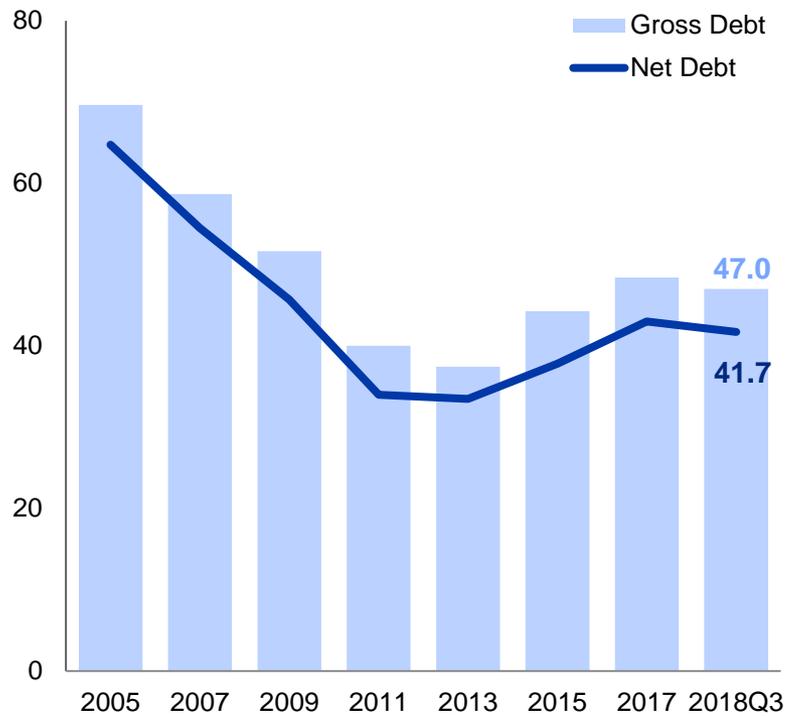
Structure of Government Debt and Precautionary Pre-Funding

Proactive debt management reduced FX exposure which mitigates higher volatility risks



Central Government (CG) Debt

(In % of GDP, end-period)



Currency and Maturity Composition of CG Debt

(End-period)



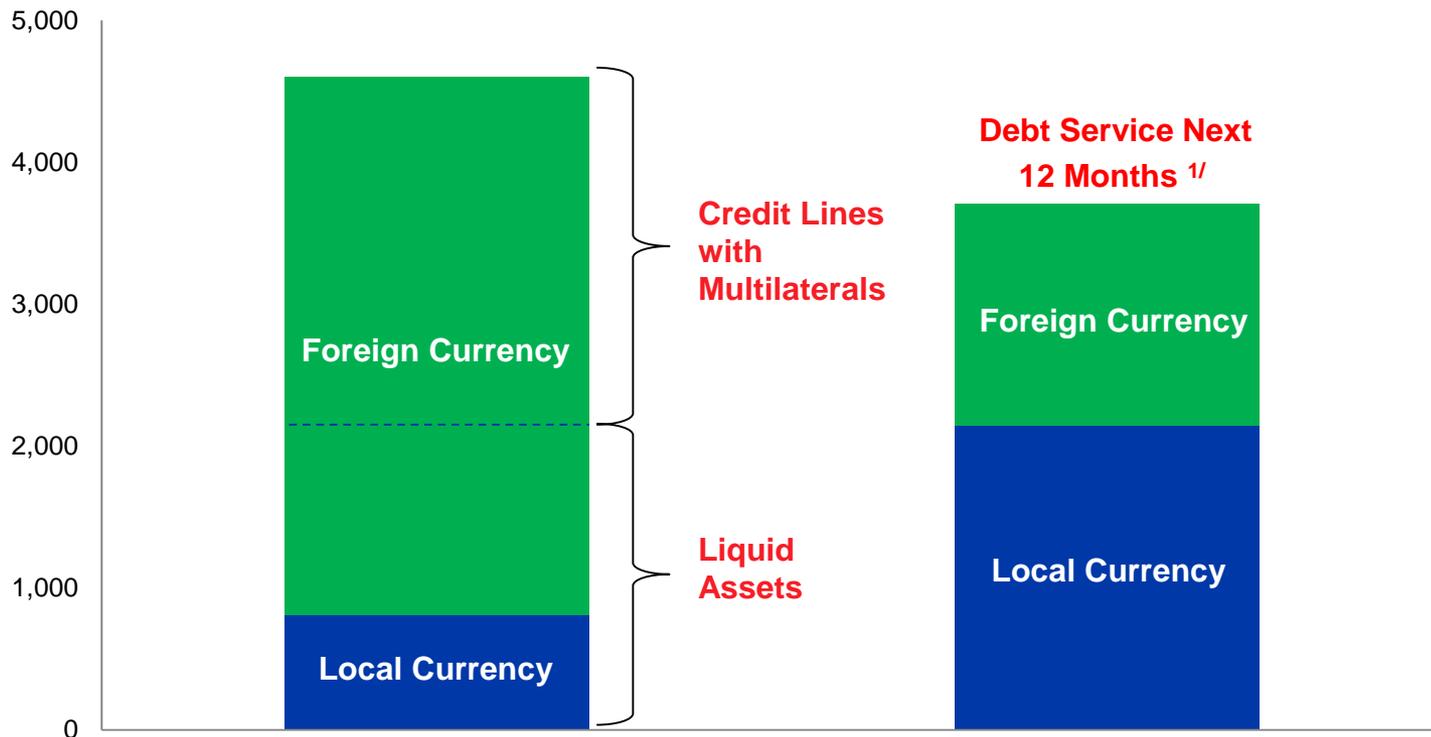
Source: Debt Management Unit, Ministry of Economy and Finance

Pre-funding policy of Government limits roll-over and FX risks



Government's Financial Buffers and Debt Service Obligations ^{1/}

(In USD million, as of September 2018)



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

Central Government's flow of funds



Uses and Sources of Funds

(In USD million)

	2018(*)	2019(*)
FINANCING NEEDS	3,352	3,012
Interest Payments	1,640	1,647
Amortization (a)	1,658	1,580
Primary Deficit (b)	54	-215
FUNDING SOURCES	3,352	3,143
Multilateral Disbursements	360	350
Total Bond Issuance	2,700	2,950
Foreign market	1,750	•
Domestic market	950	•
Net Others	165	180
Use of Assets (c)	127	-467

(*) Preliminary

(a) Includes repurchases and early bond redemptions for USD 217 million in 2018.

(b) Negative value indicates a primary surplus of the Central Government.

(c) Positive indicates a reduction in Central Government reserves.



Montevideo Port

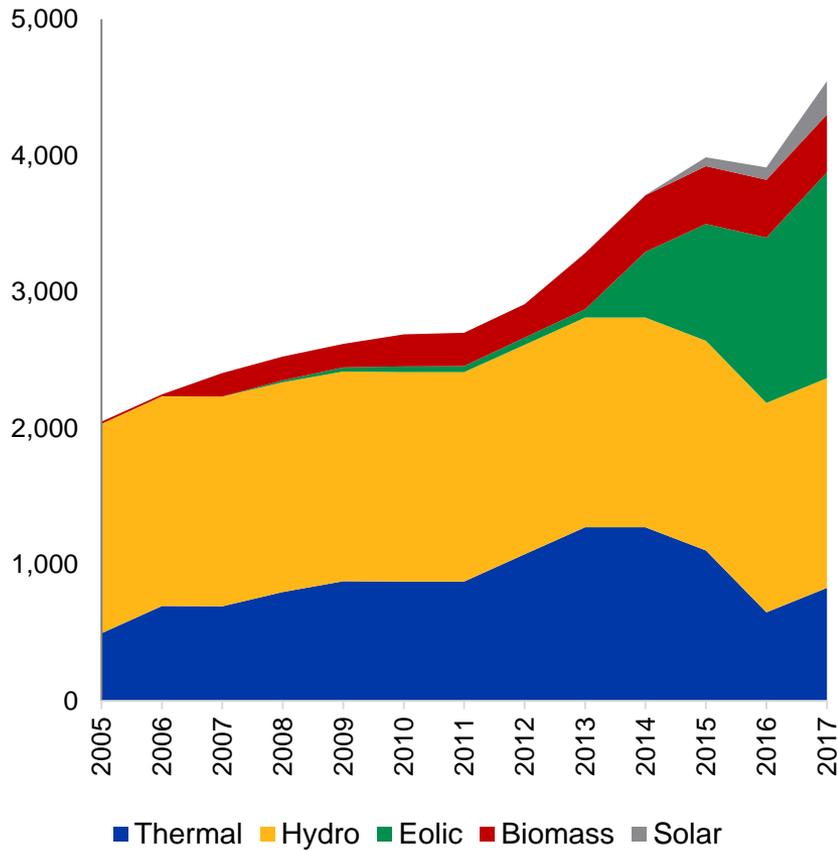
Transformational infrastructure and energy policies underpin medium-term outlook

Uruguay is going green, diversifying its energy mix towards renewable sources and reducing fiscal risks



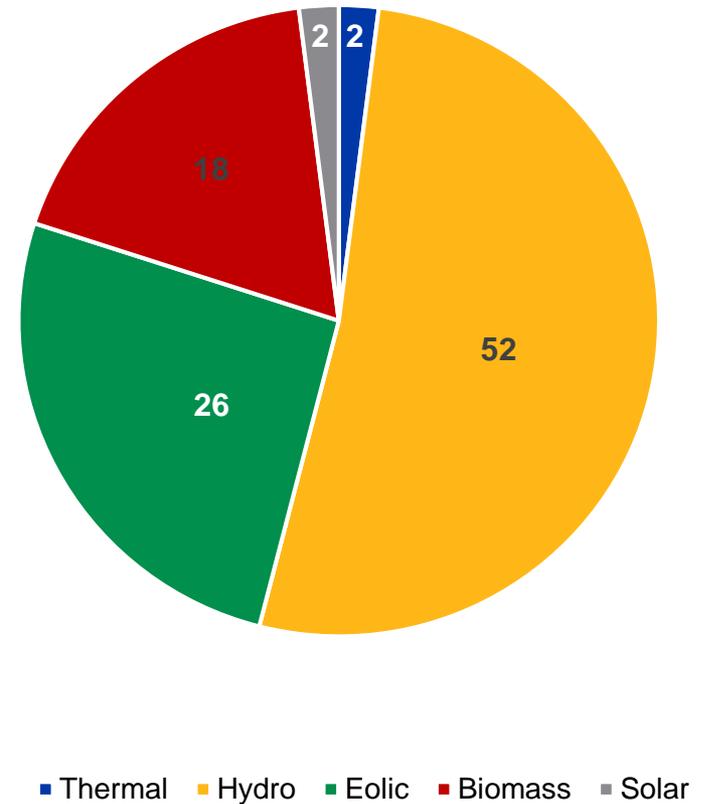
Installed Capacity in MW

(According to generation source)



Electricity Generation Matrix 2017

(By generation source, in % of total)



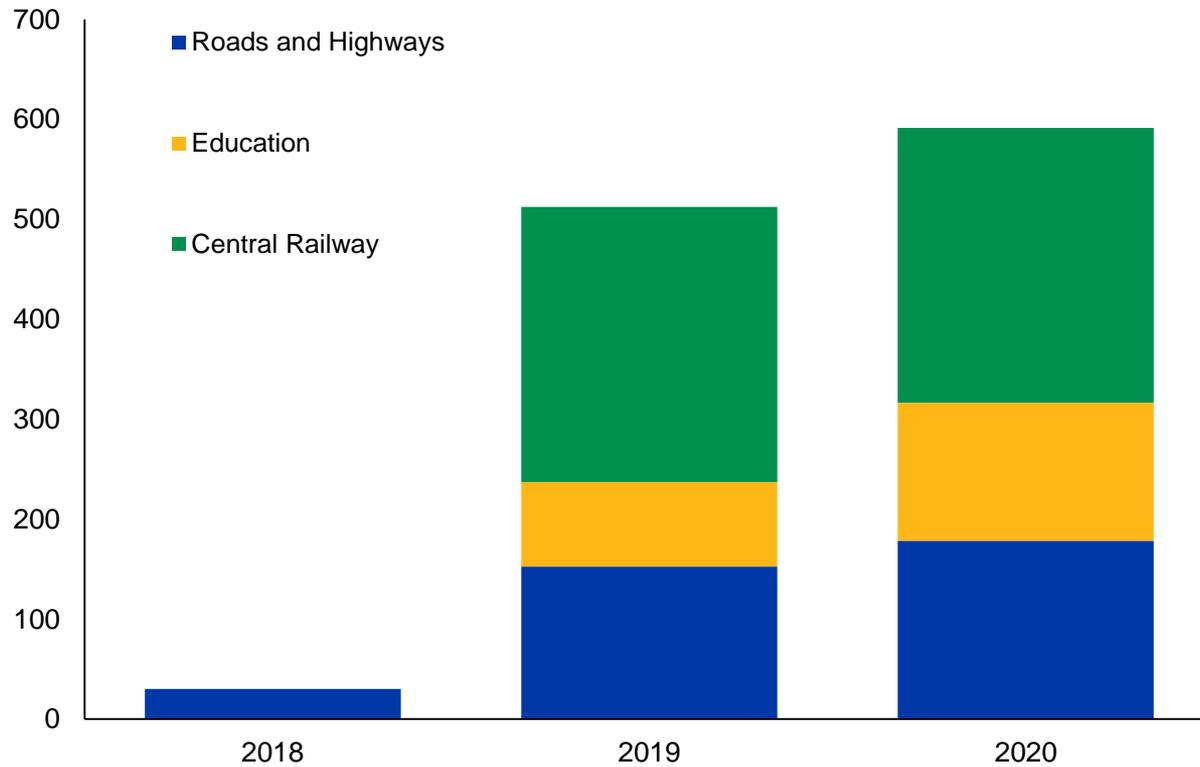
Source: Ministry of Industry, Energy and Mining

Increasing investment as the PPP program matures



Executed PPP investment and pipeline of projects

(In USD million)



Source: PPP Unit, Ministry of Economy and Finance

Central Railway Project poised to start early 2019



- 273 km of railways between the port of Montevideo and the city of Paso de los Toros (located in the centre of the country).
- Planned investment: USD 825 million
- Employment to more than 1,000 people.
- Transportation of 4.5 million tons per year.

Investment and infrastructure plans are key to establish foundations for long term economic growth



Second UPM pulp mill will imply:

- Largest investment in Uruguay's history
- Estimated to lead to a permanent GDP increase of 2%

