República Oriental del Uruguay

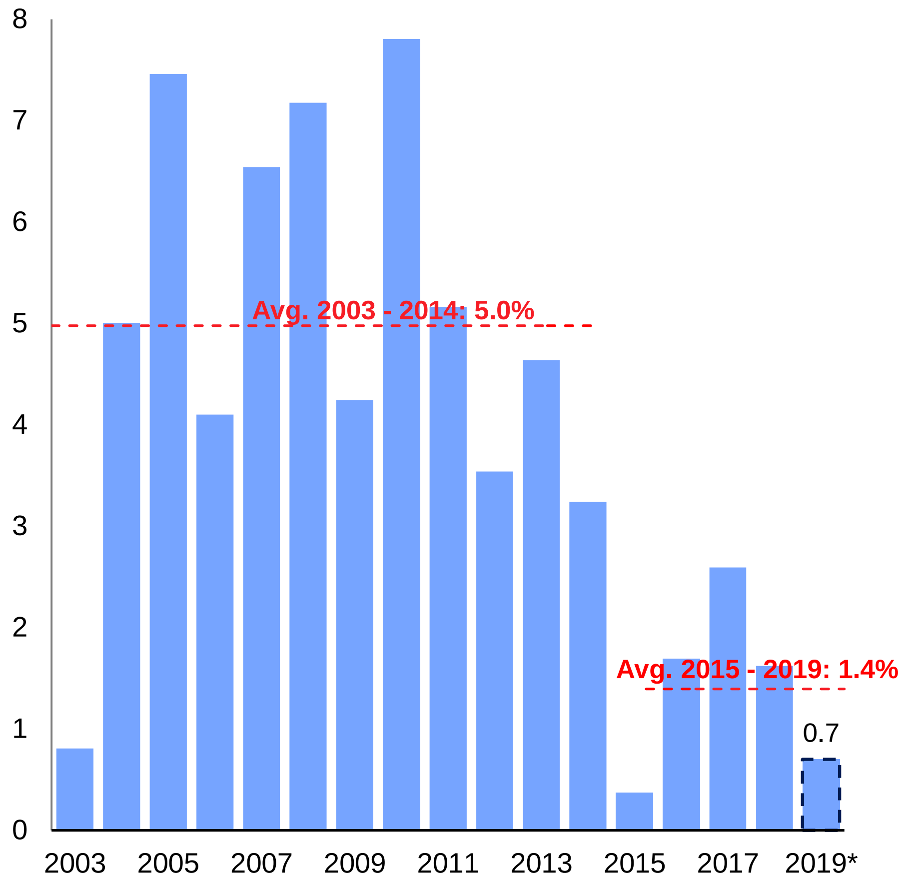
Investor Presentation

January 2020

Sustained growth over the last 16 years, showing resilience in the face of adverse regional backdrop

Real GDP growth

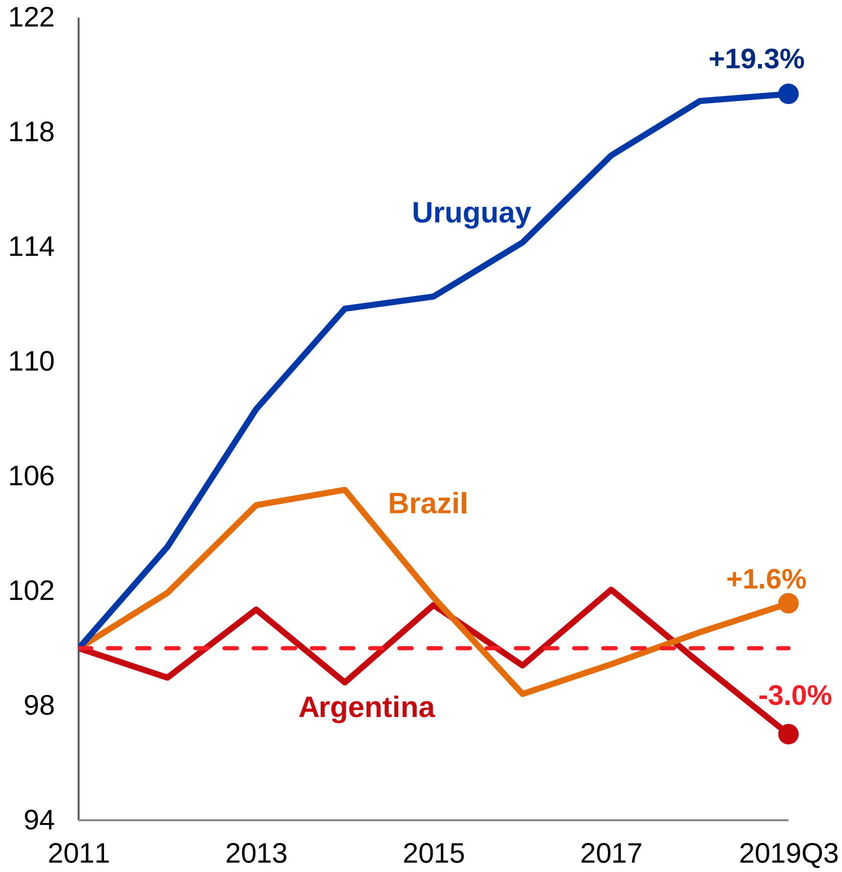
(In %)



(*) 2018 Annual Budget Law projection

Cumulative real GDP growth

(Index, Base 100=2011)

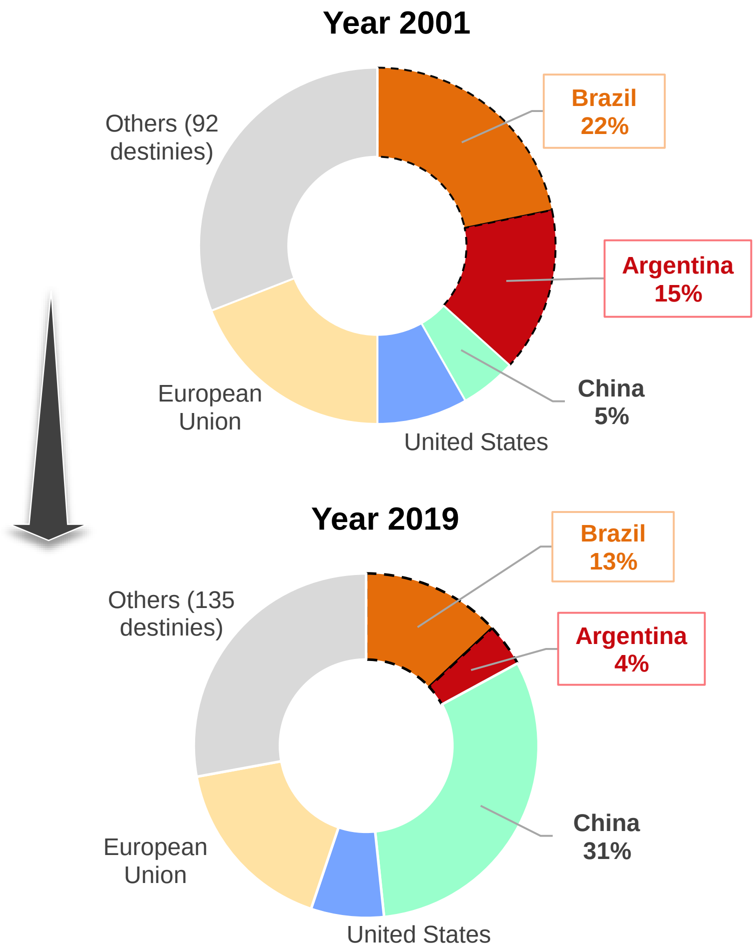


Sources: *Central Bank of Uruguay, National Institute of Statistics and Censuses (INDEC - Argentina), Brazilian Institute of Geography and Statistics (IBGE- Brazil)*

Diversification of export destinations has reduced trade exposure to the region

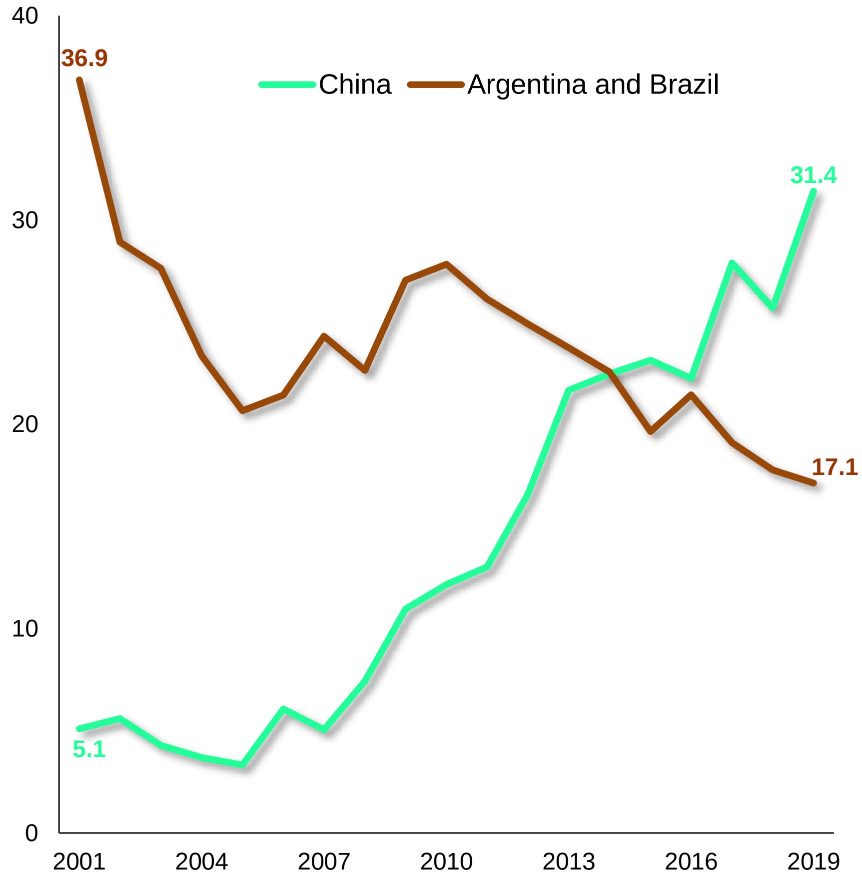
Exports of goods by destination

(As a share of total goods exports, including Free Trade Zone´s exports)



Evolution of exports of goods to key destinations

(As a share of total goods exports, including Free Trade Zone´s exports)

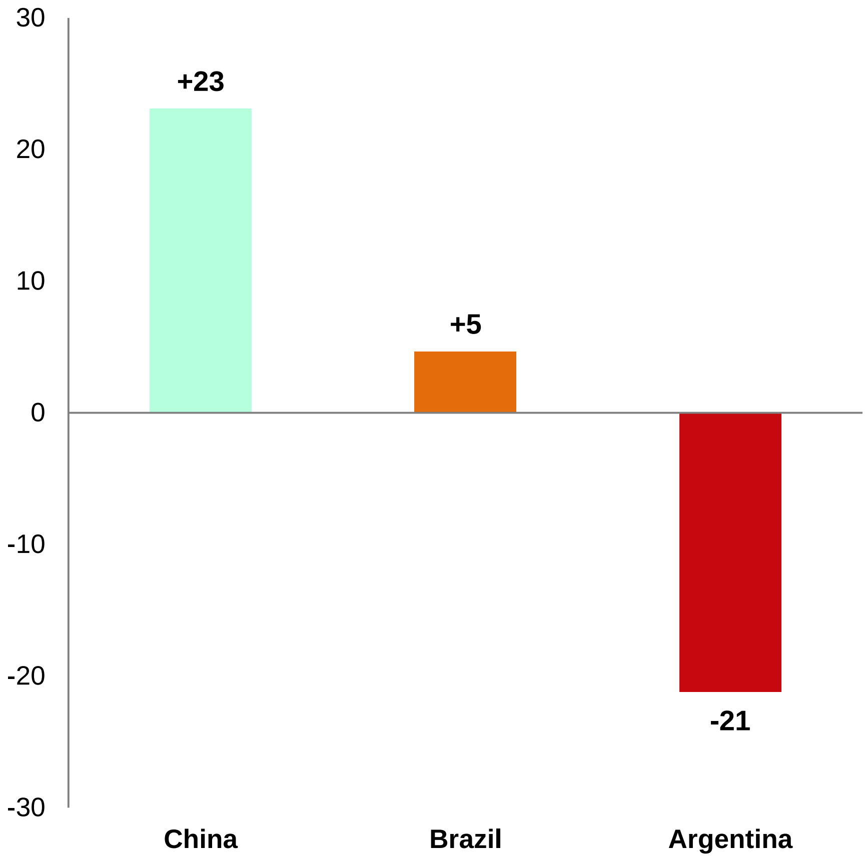


Source: *Export and Investment Promotion Agency (Uruguay XXI)*

China has played a buffer role to offset the regional economic downturn, while the price of beef has been a positive external shock

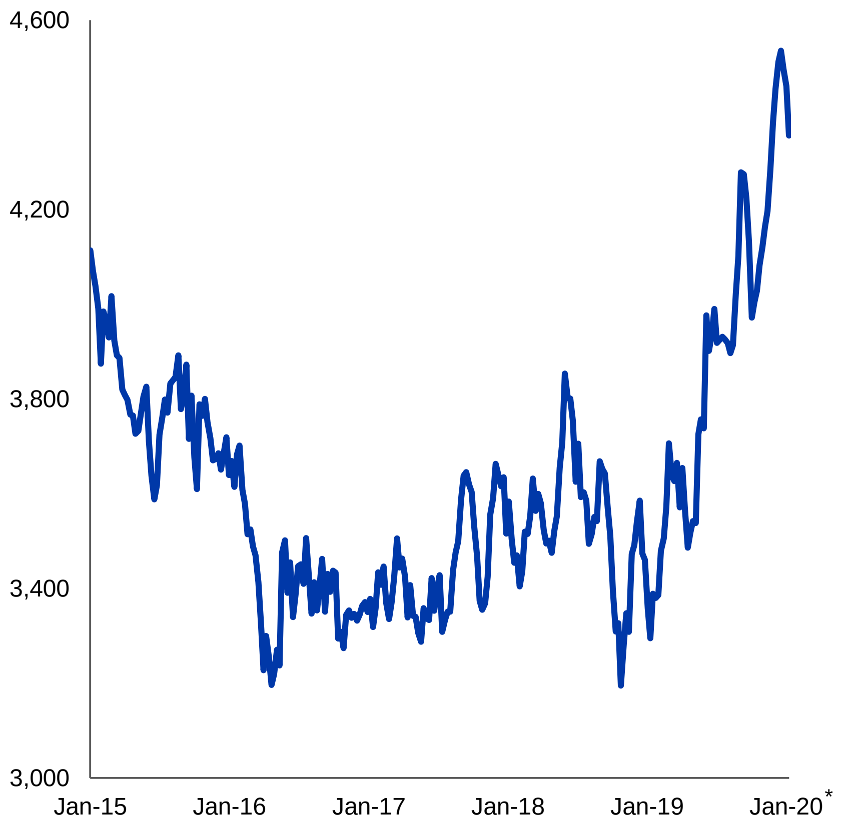
Change in exports of goods to key destinations[1/]

(In USD, 2019 *vs* 2018 change, including Free Trade Zone´s exports, in %)



Export price of beef

(In USD per tonne, 4-week rolling average)



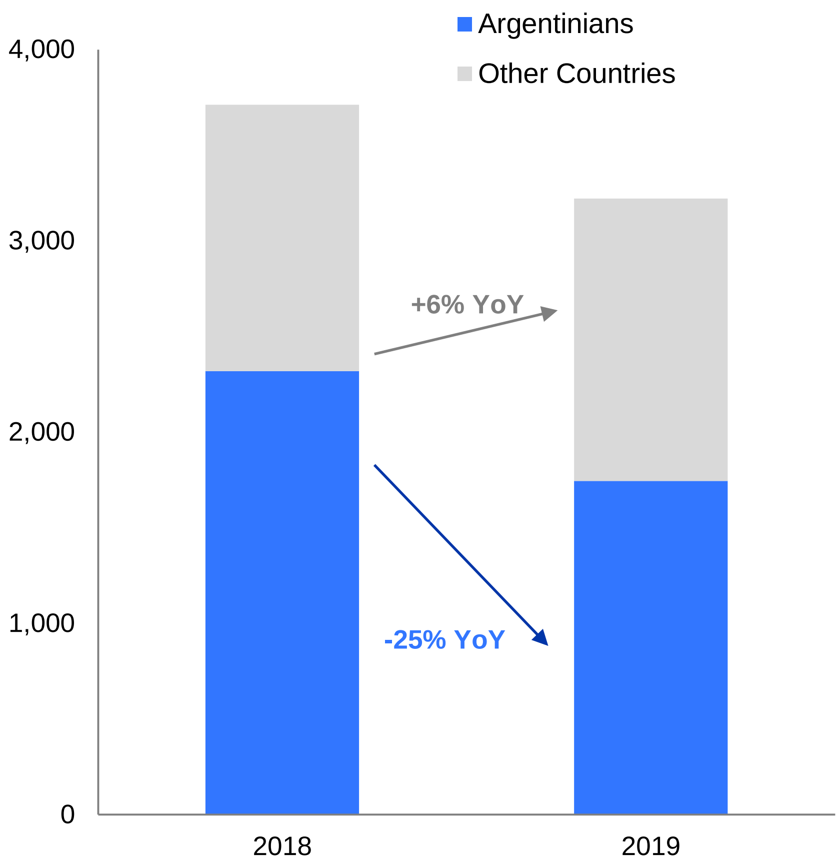
(*) As of January 18th

Source: *Export and Investment Promotion Agency (Uruguay XXI), National Institute of Beef (INAC)*

Economic pressures in Argentina have continued to spill through inbound tourism, yet exports of other services picked up some slack

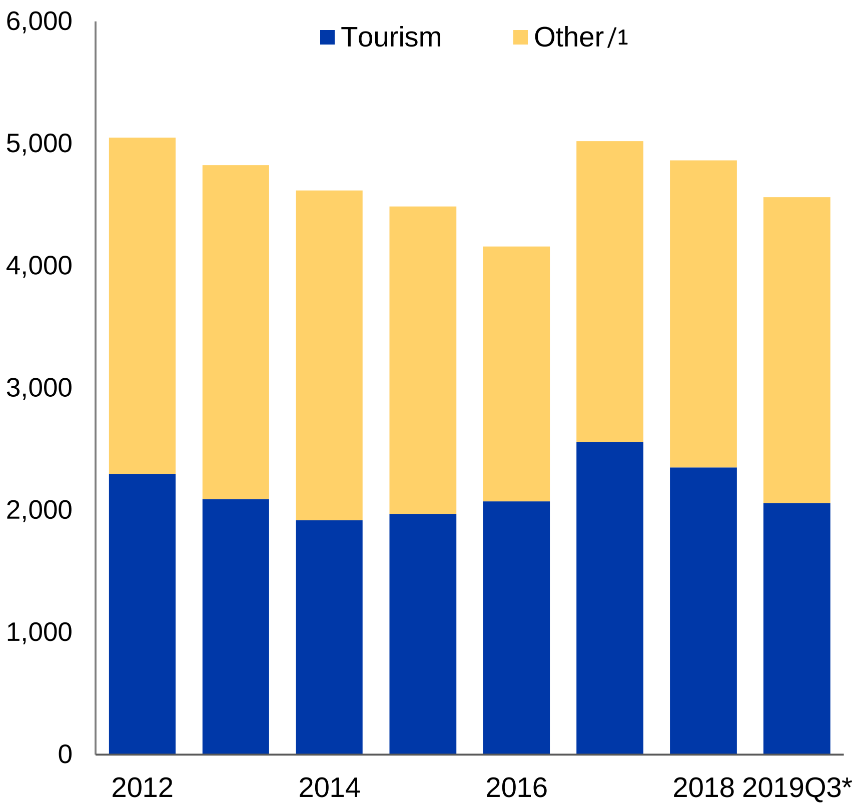
Tourist arrivals

(In thousands)



Exports of services

(In USD million)



(*) Last 12 months

1/ Software, transport, logistics, maintenance, financial, personal and professional and consultancy services

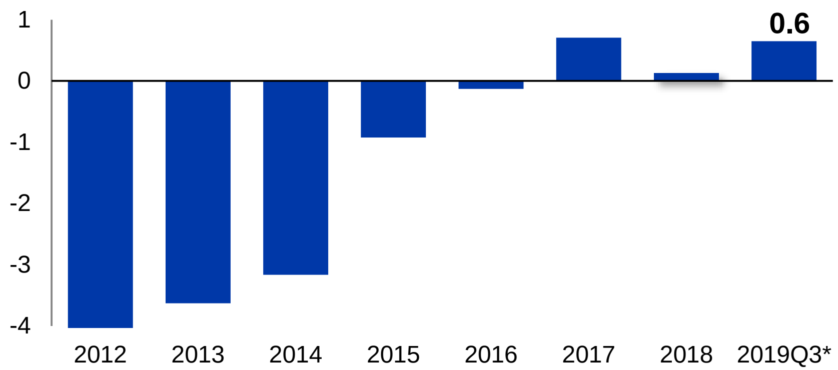
Source: *Ministry of Tourism of Uruguay; Central Bank of Uruguay*

Since 2017, the current account has shown a positive balance

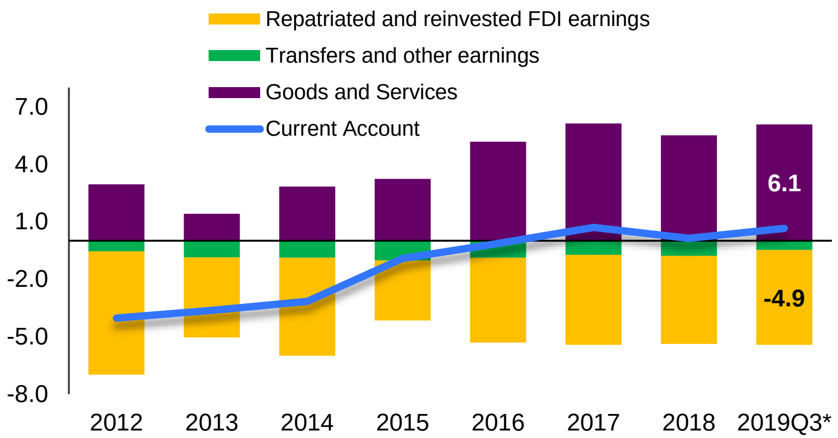
Current account balance in Uruguay

(In % of GDP)

Overall



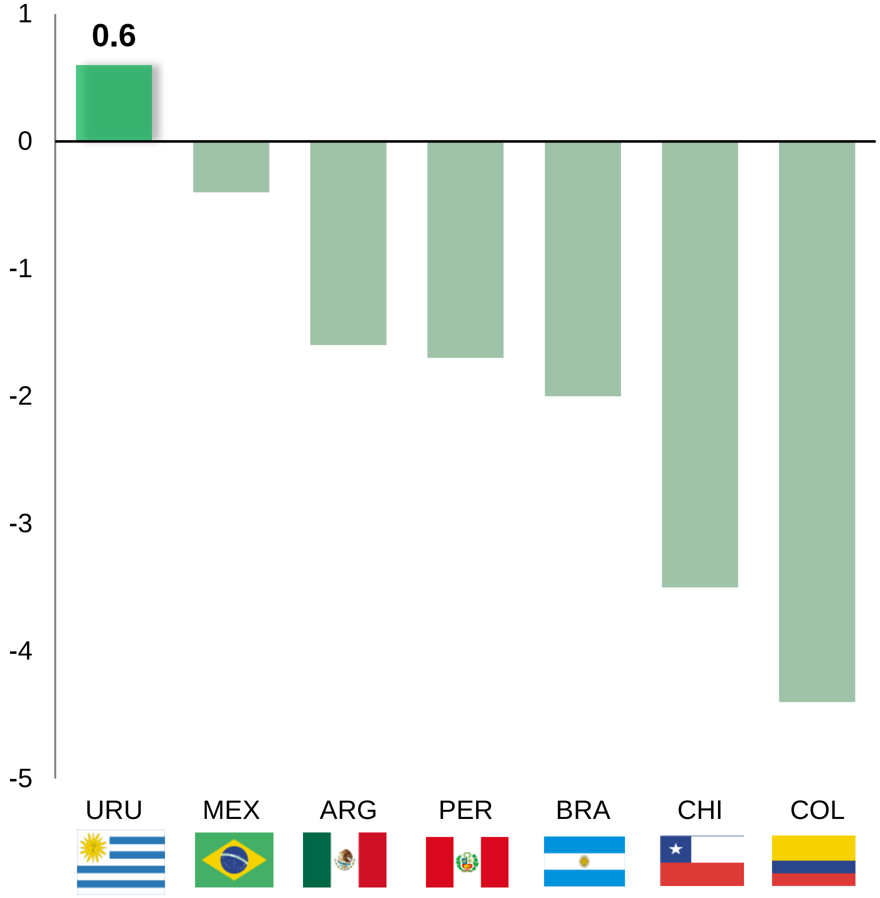
By components



(*) Last 12 months

Current account balance compared to LatAm

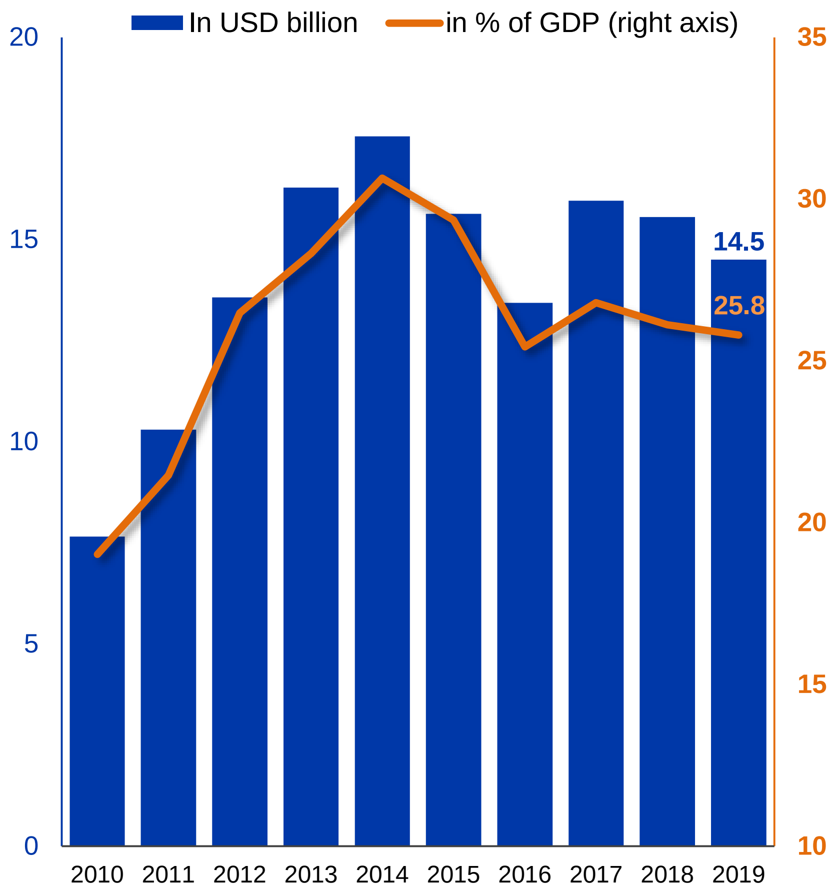
(Last 12 months through 2019Q3, in % of GDP)



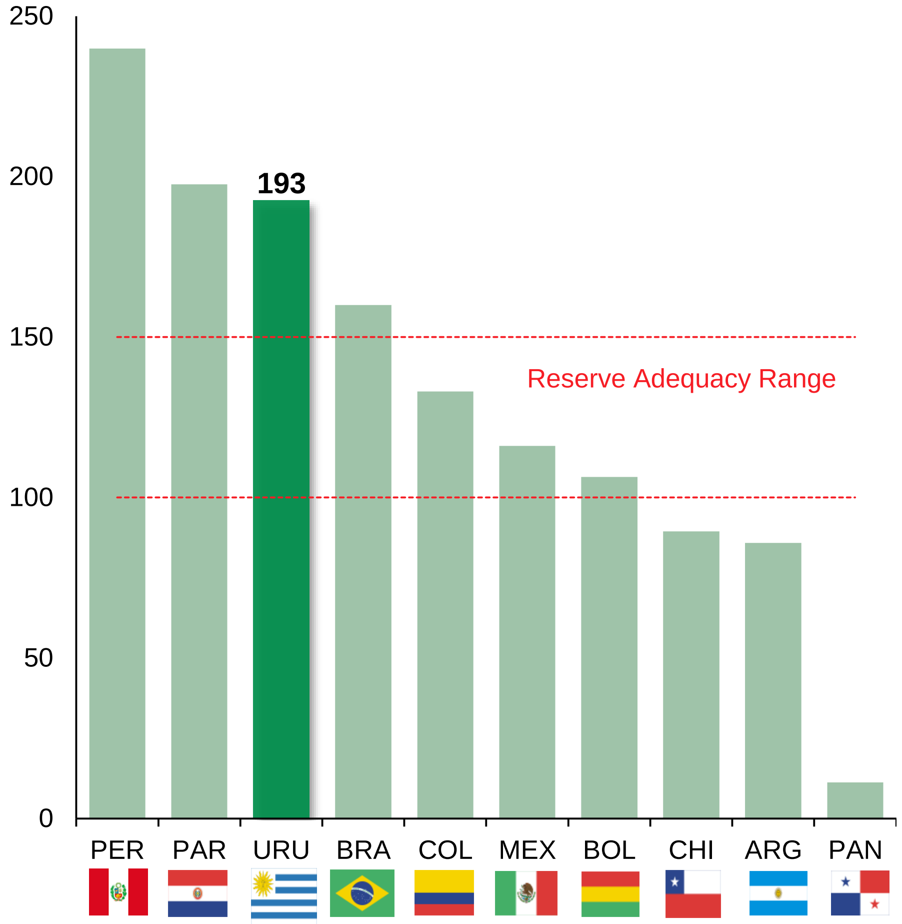
Source: *Central Bank of Uruguay; Central Bank of Mexico; National Institute of Statistics and Censuses (INDEC - Argentina); Central Bank of Brazil; Banco de la República de Colombia; Central Reserve Bank of Peru; Central Bank of Chile; Contraloría General de la República de Panamá.*

Ample international reserves provides sizeable external buffers

International reserves
(End-of-period)



Reserve adequacy compared to LatAm
(International reserves to IMF's Reserve Adequacy metric, as of July 2019)



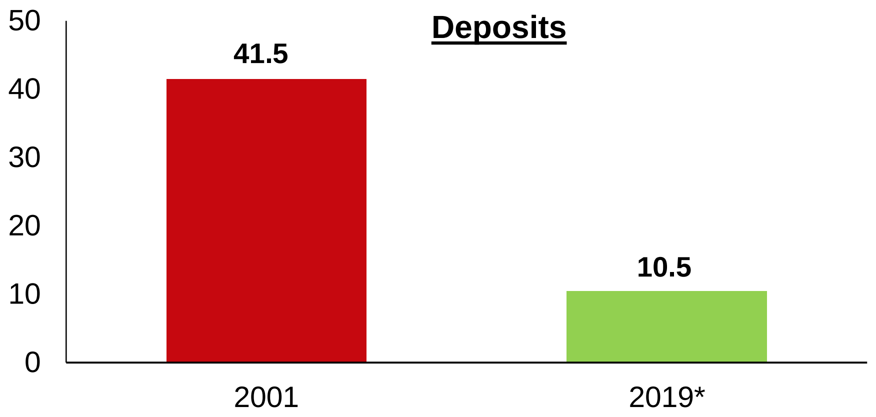
Sources: *Ministry of Economy and Finance, Central Bank of Uruguay, International Monetary Fund*

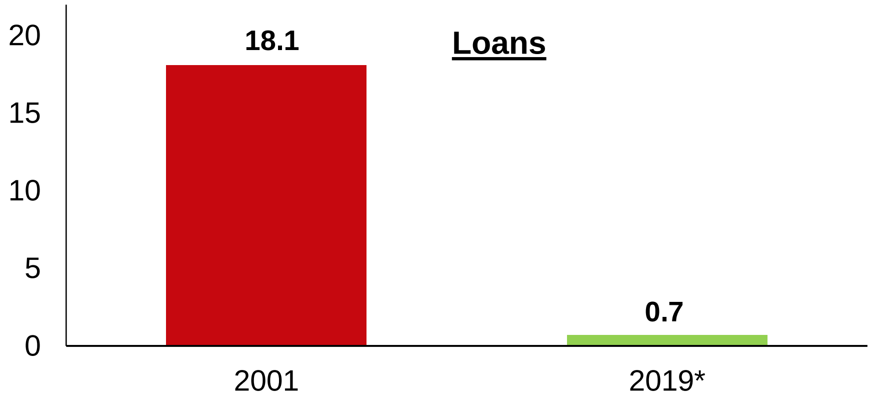
Note: *The Reserve Adequacy (ARA) Metric is calculated by the IMF for Emerging Markets (EM) and comprises four components reflecting potential balance of payment drains: (i) export income, (ii) broad money, (iii) short-term debt, and (iv) other liabilities. The weight for each component is based on the 10th percentile of observed outflows from EM during exchange market pressure episodes, distinguishing between fixed and flexible exchange rate regimes.*

Limited banking sector exposure to non-residents mitigates financial spillovers risks; stringent supervision under Basel III regulations

Banking system´s balance sheet exposure to non-residents

(To non-financial sector, % of total)1/

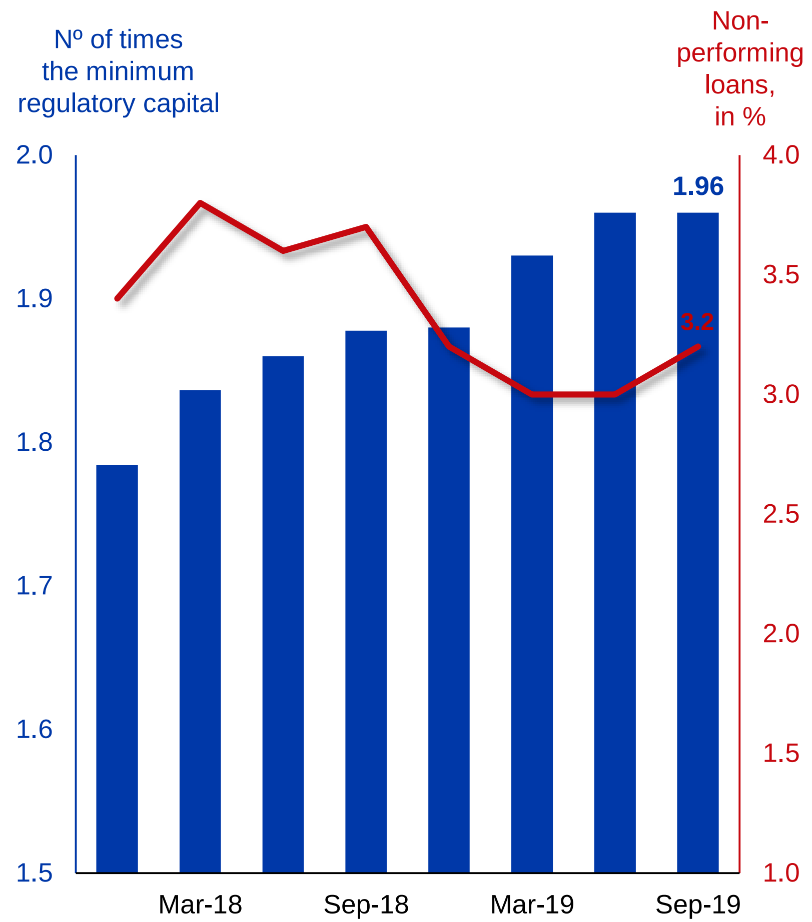




1/ End-period; data for deposits includes only private non-financial sector

(*) As of November

Solvency of the banking system

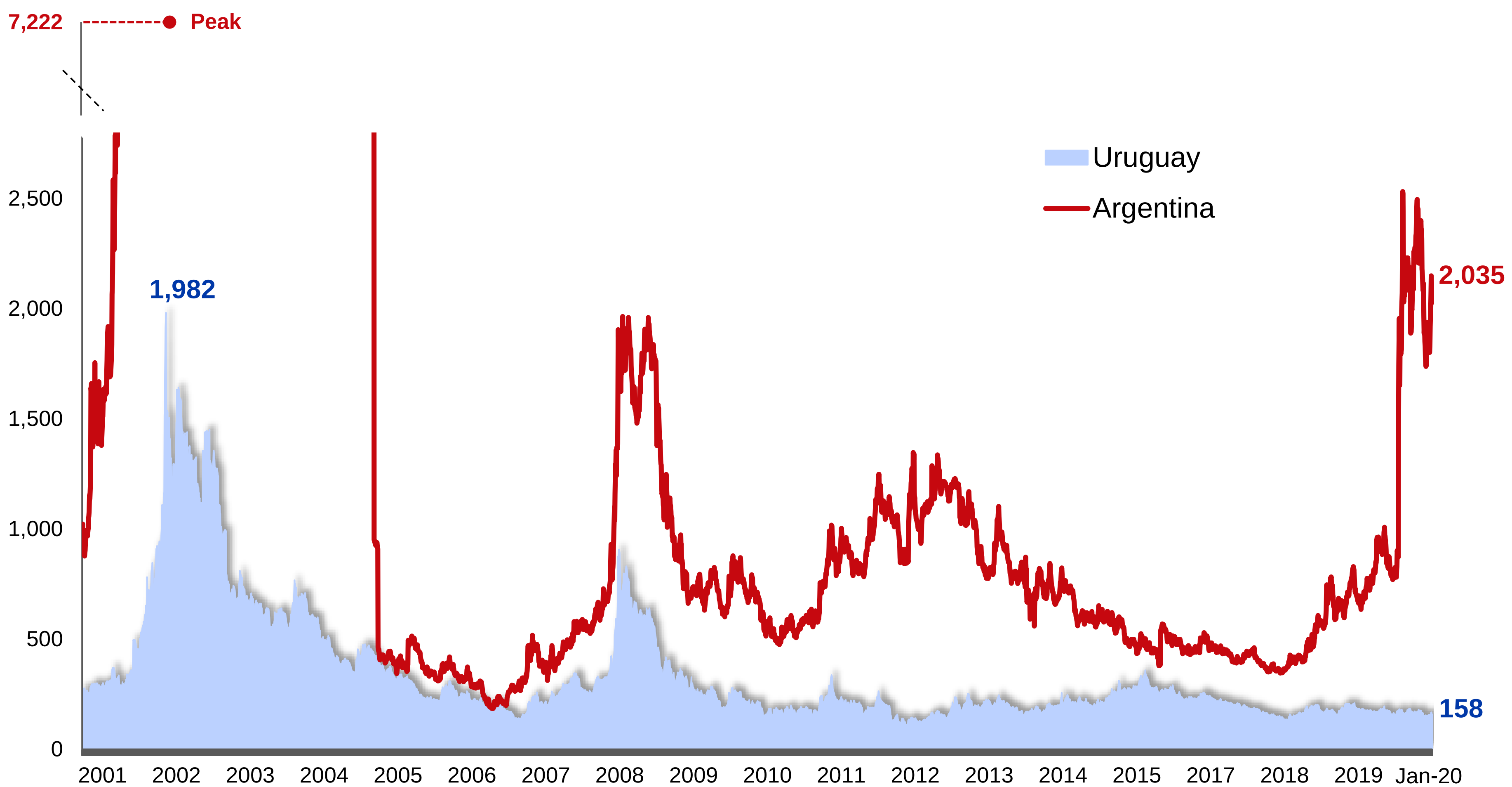


Source: *Central Bank of Uruguay*

Uruguay`s dollar credit spreads remain subdued despite regional turmoil

Sovereign risk premium

(EMBI, in bps)

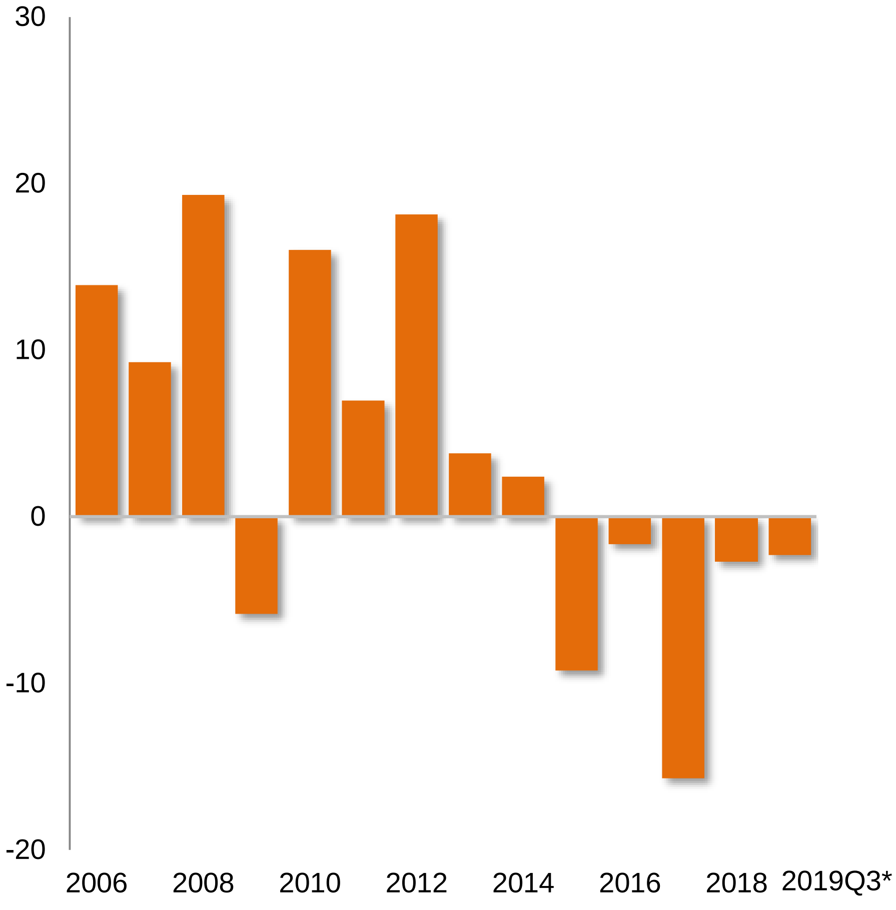


(*) As of January 30th

Source: *Bloomberg*

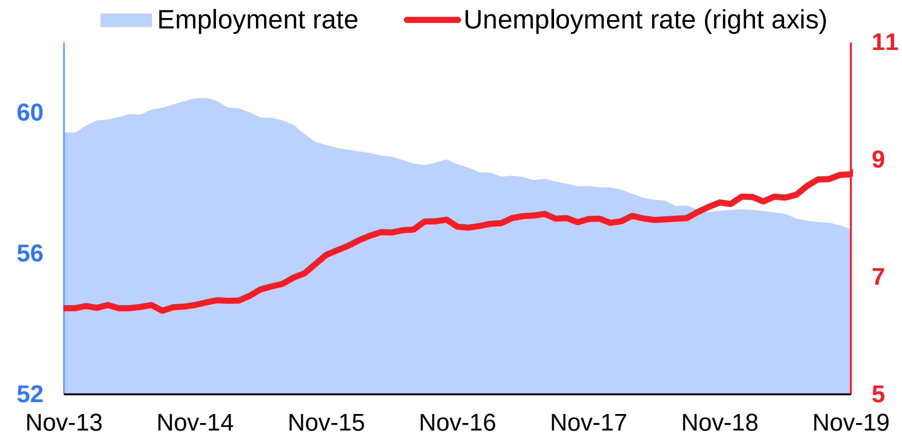
Macroeconomic Challenges and Policy Priorities:
1) Boosting private investment to jump-start economic activity

Gross fixed capital investment
(Annual real change, in %)

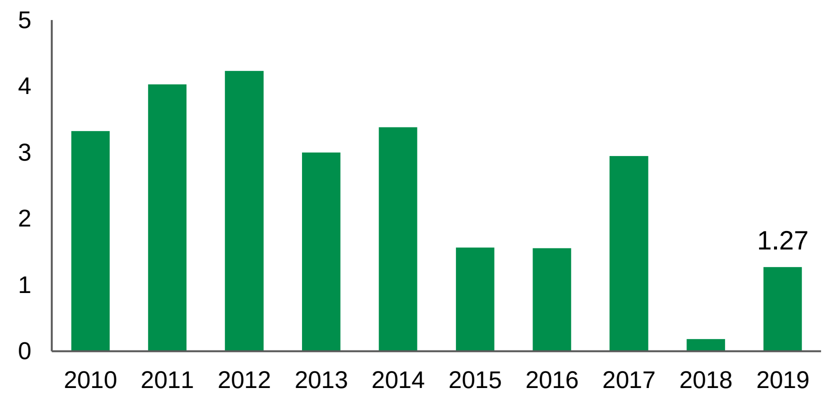


(*) Last 12 months

Labour market developments
(Average of last 12 months, in %)



Real wage
(Annual change, in %)

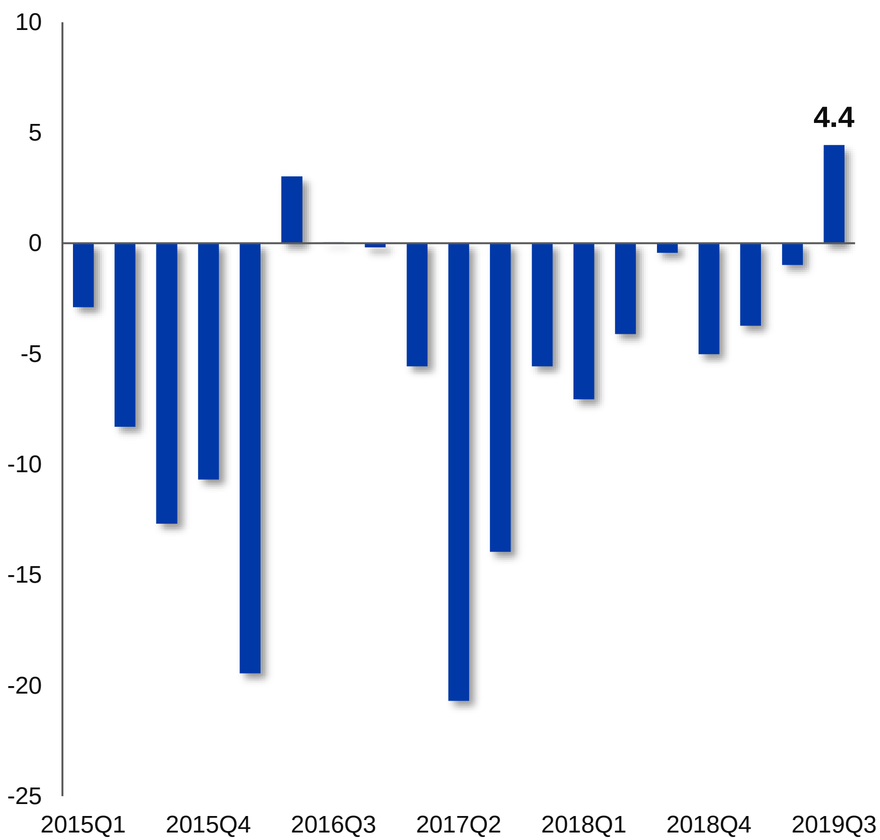


Source: *Central Bank of Uruguay; National Institute of Statistics (INE)*

Recent macroeconimic data suggests that contraction in private investment may be bottoming out

Gross fixed capital investment of private sector

(YoY real change, in %)



Policy responses to promote investment

- Changes to the Investment Promotion Regime to boost investments with positive externalities
  - Additional tax benefits for promoted investment projects executed in 2018
  - Benefits for national farm equipment production
- Extension of automatic tax credits for SME investments
- Transformative infrastructure projects
- **September 2019:** *Government announced a new stimulus program, with new and expanded tax breaks and incentives for 14 economic sectors, including farming, food processing, global services, logistics and tourism.*

Source: *Central Bank of Uruguay; Ministry of Economy and Finance*

Construction of a new pulp mill will be the largest-ever private investment in the country, and is slated to begin this year

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 balance of payments
- World-class design with proven high environmental performance

- **On-site** preparatory works have already started
- Preparation work for the construction of the **pulp terminal** have started at the Montevideo Port
- Construction of temporary and permanent **housing** for mill construction employees is ongoing
- Uruguayan authorities opened a public online recruitment platform

Source: ***https://www.upm.uy/crecimiento/****; Ministry of Economy and Finance*

A new railway system and other infrastructure projects lay the foundations for medium-term growth

Central Railway project

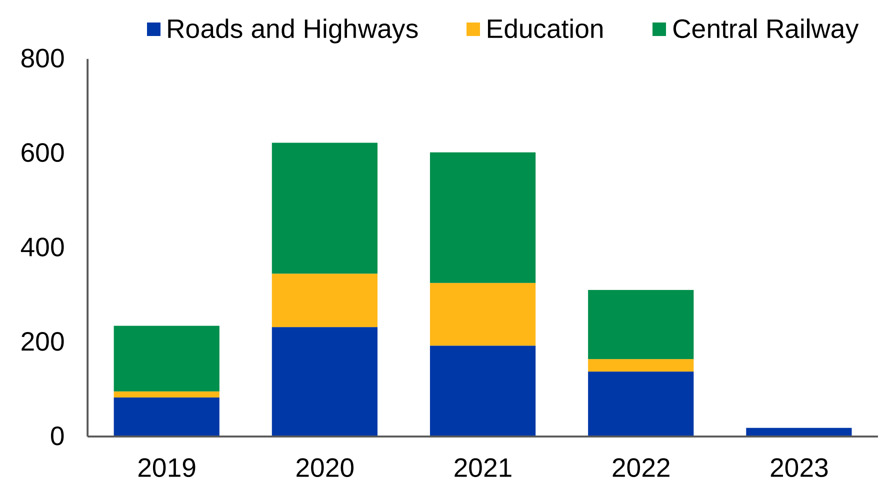
- Will run from city of Paso de los Toros to the Port of Montevideo (273 km long)
- Public-Private-Partnership (PPP) modality
- **USD 1,000 million** investment

Maturing pipeline of PPP infrastructure projects

- Total Investment of **USD 1,900 million**
- The PPP portfolio spans 13 projects
- Most of them poised to start execution this year

Executed PPP investment and pipeline of projects

(In USD million)



Source: *PPP Unit, Ministry of Economy and Finance, Ministry of Transport and Public Works*

Deeper trade integration in good and services: Free Trade Agreements negotiated with EU and EFTA during 2019

EU:

- Most important agreement since the creation of Mercosur
- The EU is Uruguay´s second largest comercial partner
- 97% of exports supply will have preferential access to the EU

EFTA (Switzerland, Norway, Iceland and Liechtenstein)**:**

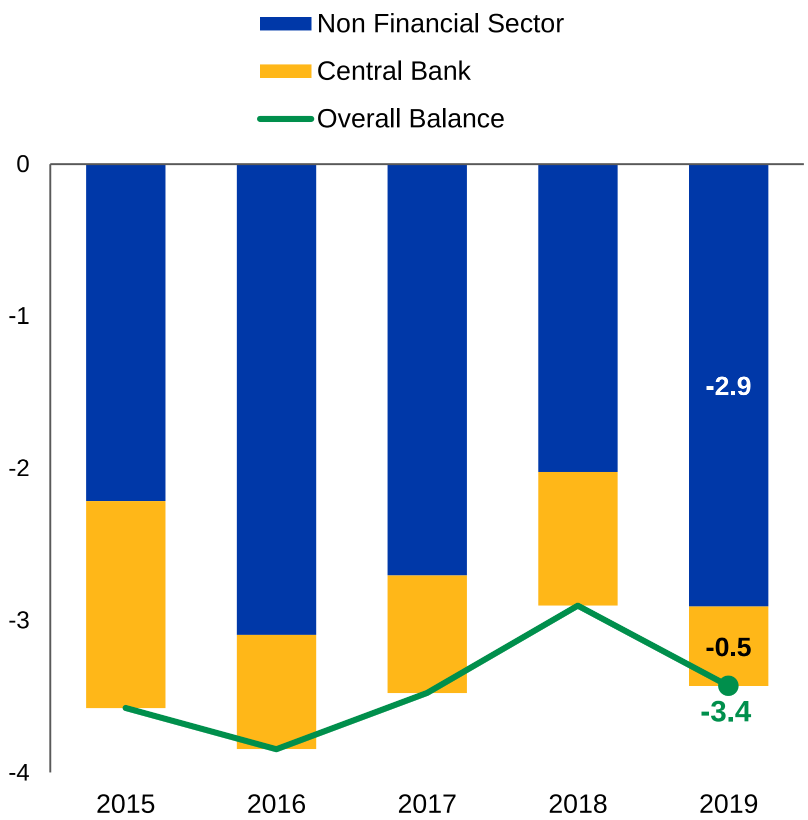
- The agreement covers tariff issues, government purchases, trade in services, intellectual property, trade facilitation, sustainable development, competition, investment and trade defense

__Source:__ https://www.elobservador.com.uy/nota/acuerdo-entre-la-ue-y-el-mercosur-traera-beneficios-para-uruguay-por-us-100-millones-20197119357; https://www.elobservador.com.uy/nota/moody-s-preve-que-el-pacto-mercosur-ue-beneficie-mas-a-uruguay-y-paraguay-201971223959

Macroeconomic Challenges and Policy Priorities:
2) Shoring up fiscal finances amid rigid spending profile

Headline fiscal balance of the overall public sector

(In % of GDP)



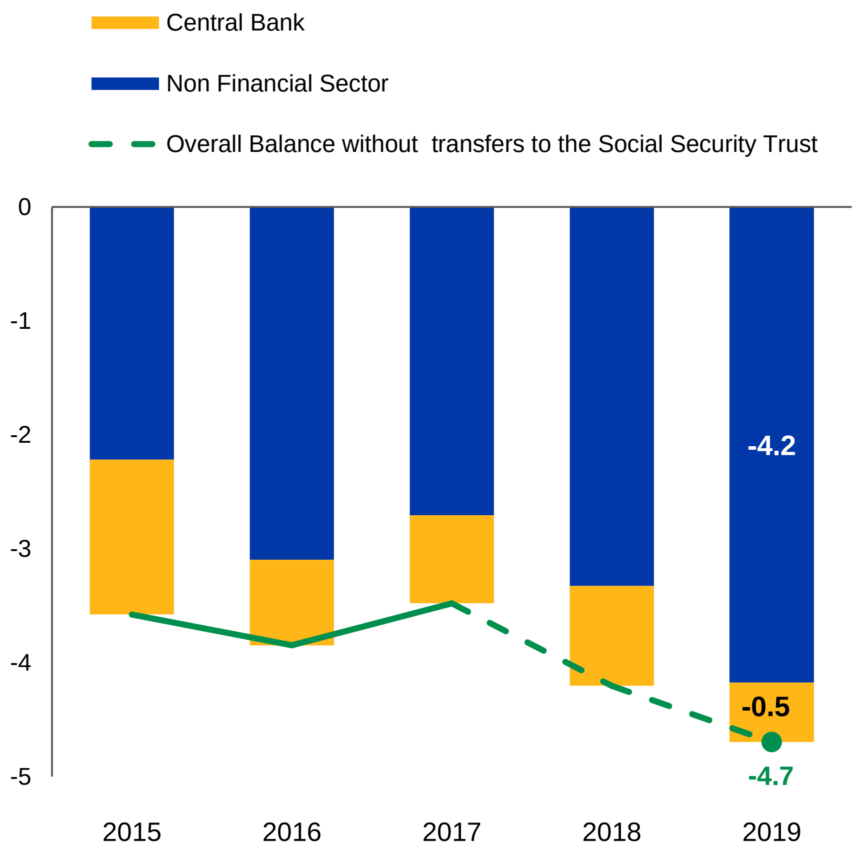
- Fiscal targets are set for the consolidated public sector, including Public Enterprises and the Central Bank
- Since October 2018, the public Social Security Trust Fund (SSTF) has received extraordinary transfers from Pension Funds, following a law introducing changes to the pension system
- These accumulated transfers, are registered as government revenues consistent with IMF statistics standards, and reduced the headline fiscal deficit by **1.3% of GDP** in the last 12 months to December 2019

***Source**: Ministry of Economy and Finance*

Macroeconomic Challenges and Policy Priorities

Fiscal balance of the overall public sector

(In % of GDP)



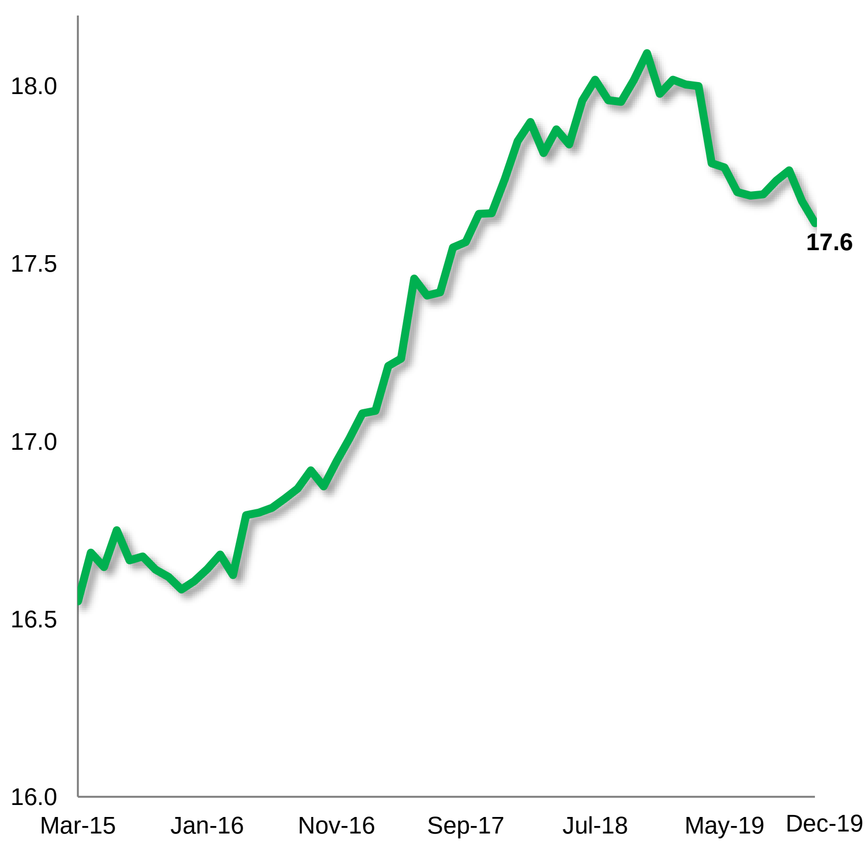
- Excluding extraordinary inflows into the SSTF, fiscal finances has seen a persistent deterioration since 2017
- The Ministry of Finance has deployed measures to improve the quality of discretionary spending and budget execution
- The Central Bank cannot transfer to the Treasury unrealized gains originated from the accounting revaluation of international reserves

Source: *Ministry of Economy and Finance*

Fiscal consolidation is facing headwinds from a sluggish economy and sustained increase in indexed expenditures

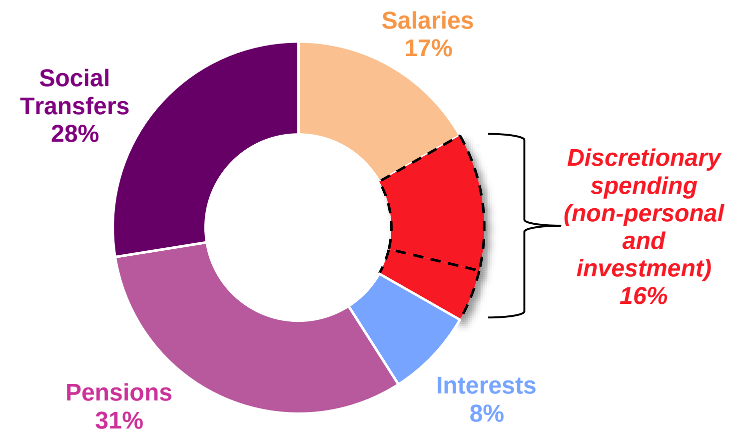
Tax revenues

(In % of GDP, 12-month rolling period)



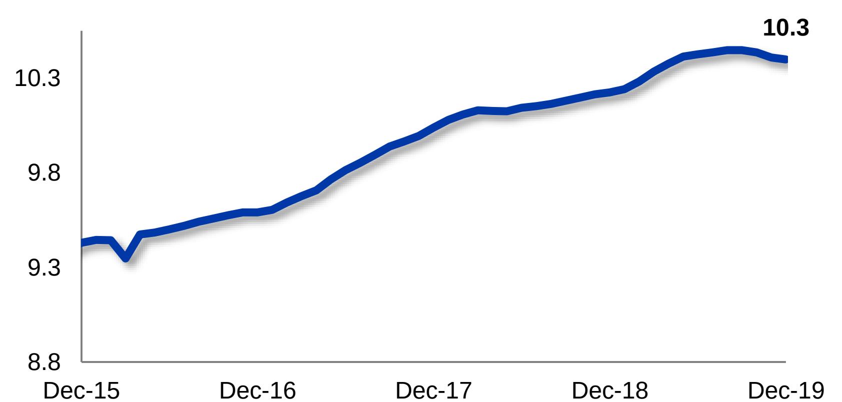
Central Government expenditures by component

(As share of total, year 2019)



Pension expenditures

(In % of GDP, 12-month rolling period)

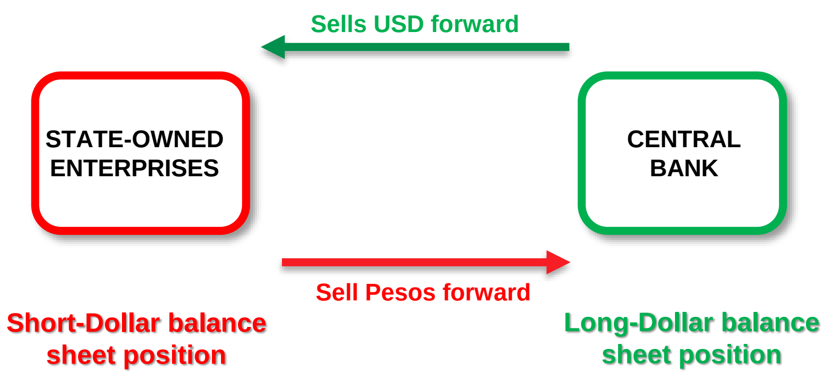


***Source**: Ministry of Economy and Finance of Uruguay*

Improvement in SOE's management and policies strengthened financial position and operating efficiency

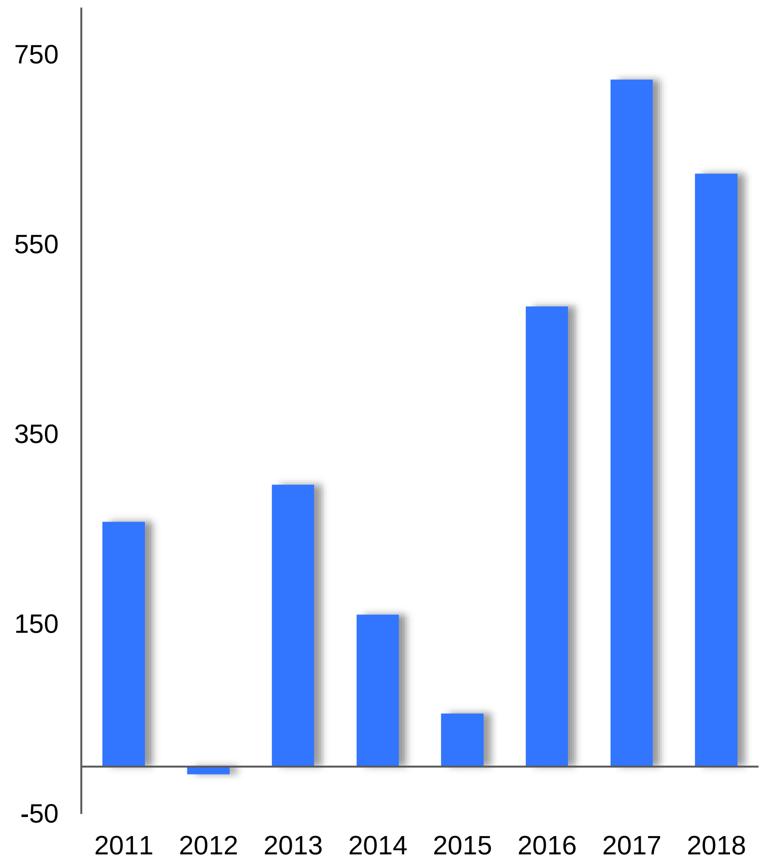
Improvement in financial health of public enterprises

- More efficient management and reduction in operating costs
- Reduced vulnerability to exchange rate fluctuations and diversified sources of funding.
  - ➢ Coordinated with MoF and Central Bank (Sovereign Asset and Liability Management Framework)



State-owned enterprises´ balance sheet results[1/]

(In USD million)



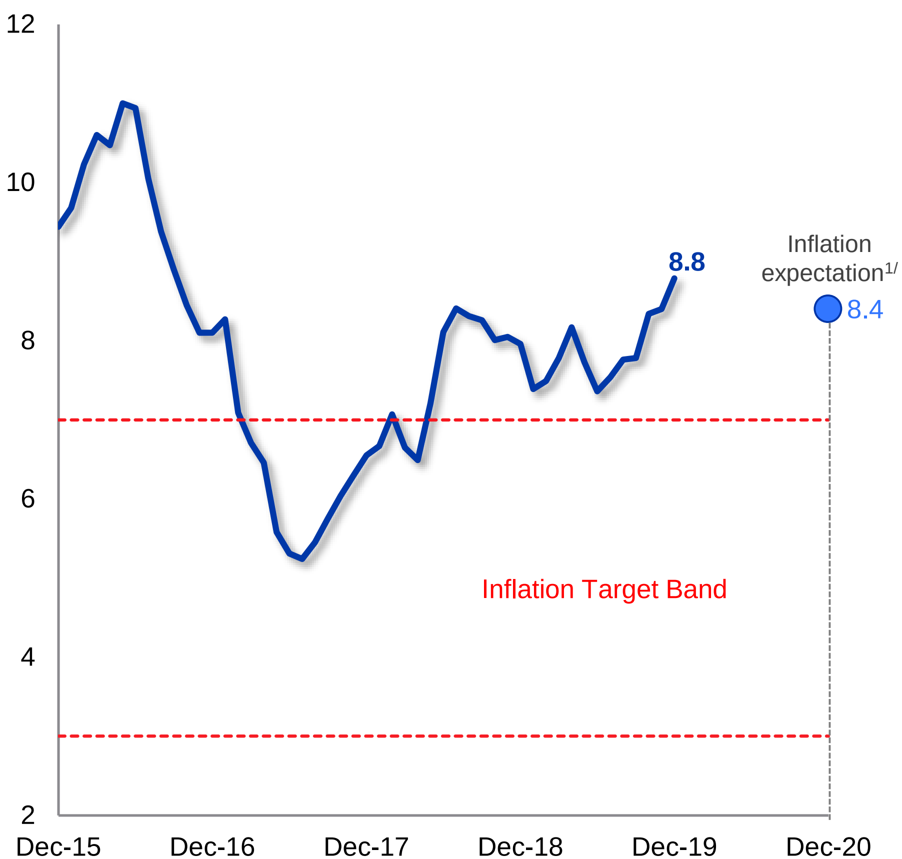
1/ Includes UTE, ANCAP, ANTEL y OSE

***Source**: Ministry of Economy and Finance*

Macroeconomic Challenges and Policy Priorities:
3) Steering inflation back to target while FX is shock absorber

Headline inflation

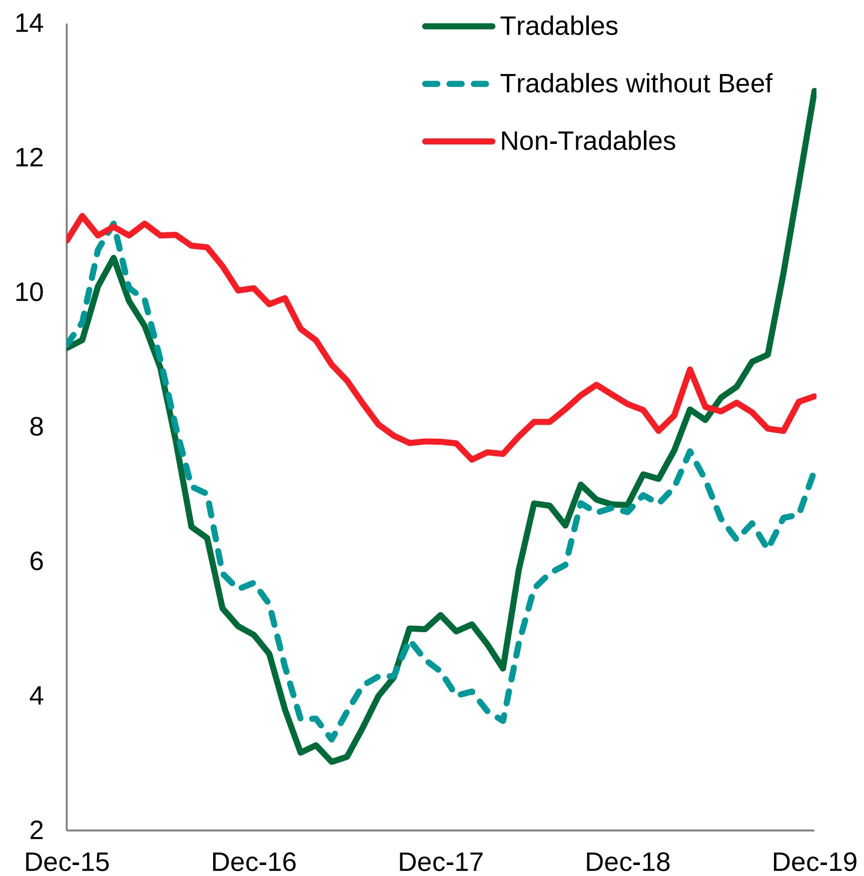
(Annual, in %)



1/ Median expectation in Central Bank´s market survey

Tradable and non-tradable inflation components[1/]

(Annual, in %)



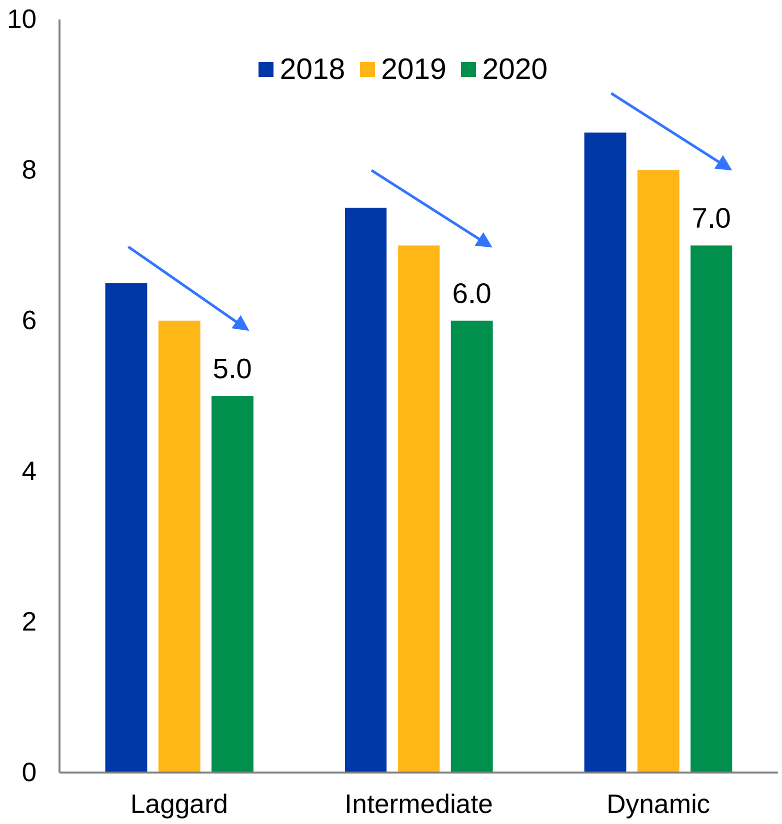
1/ Excluding fruits and vegetables, and tariffs

Source: *National Institute of Statistics (INE); Central Bank of Uruguay*

Flexible and forward-looking wage-setting guidelines to reduce indexation and non-tradable inflation inertia

Government`s guidelines for 2018-2020 wage negotiations

(Annual increases in nominal wages by economic sector, in %)



Wage-setting guidelines in the private sector

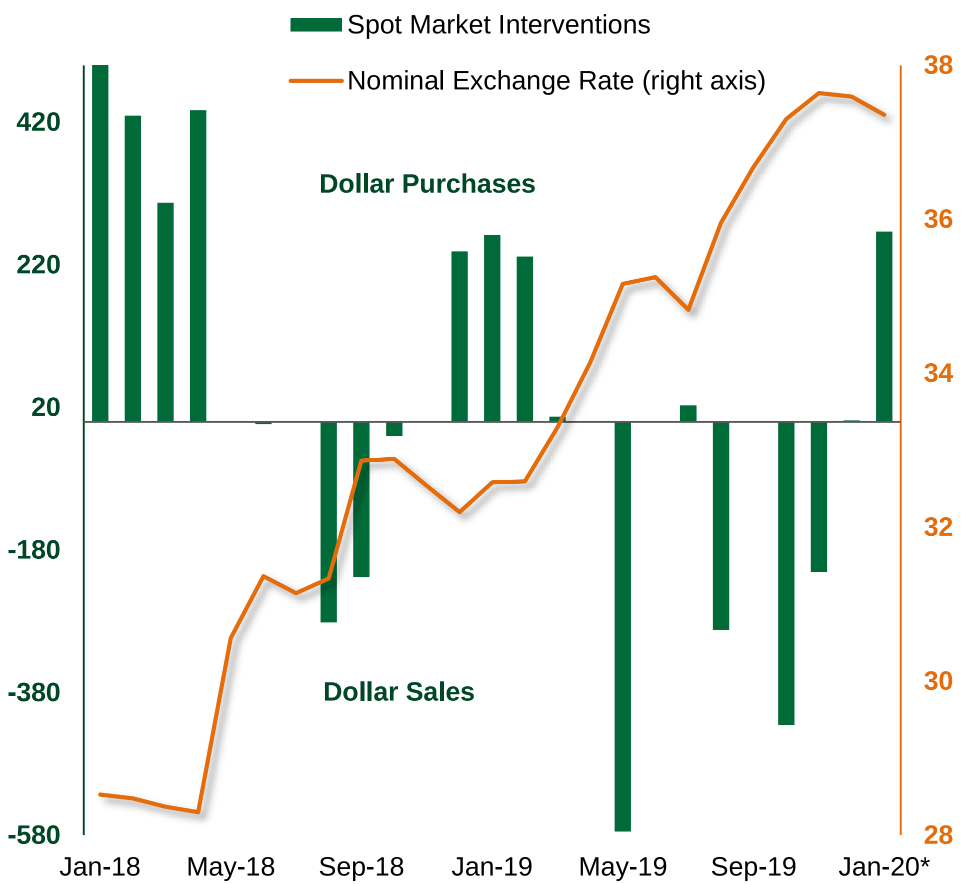
- Nominal wage adjustments based on forward-looking inflation
- Wage increases depending on sector`s economic situation
- Longer-term wage contracts and less frequent real wage corrections

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

Central Bank market has intervened on both sides of the market to smooth out FX fluctuations

Central Bank FX intervention[1/]

(In USD million)



(*) As of January 29th

1/ Does not include Central Bank`s repurchases of monetary bills

Monetary and exchange rate policy

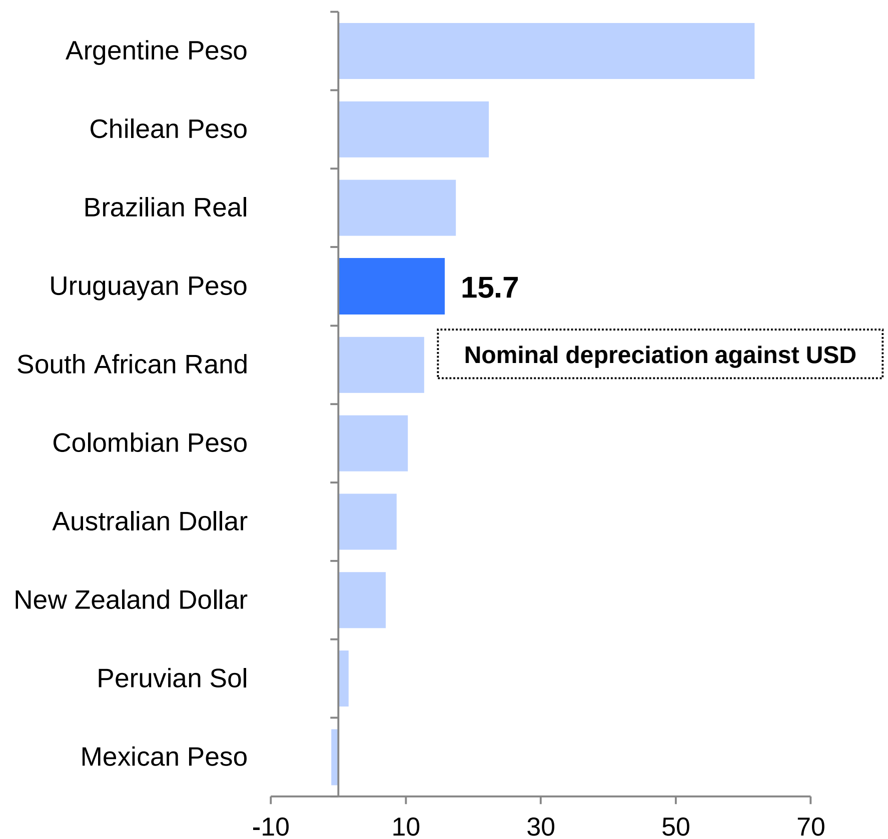
Moderate contractionary stance of monetary policy, which takes into account reduced FX pass-through and the stage of the business cycle

***Source**: Central Bank of Uruguay*

Nominal exchange depreciation in line with other Latam countries and trade competitors; RER broadly in line with fundamentals

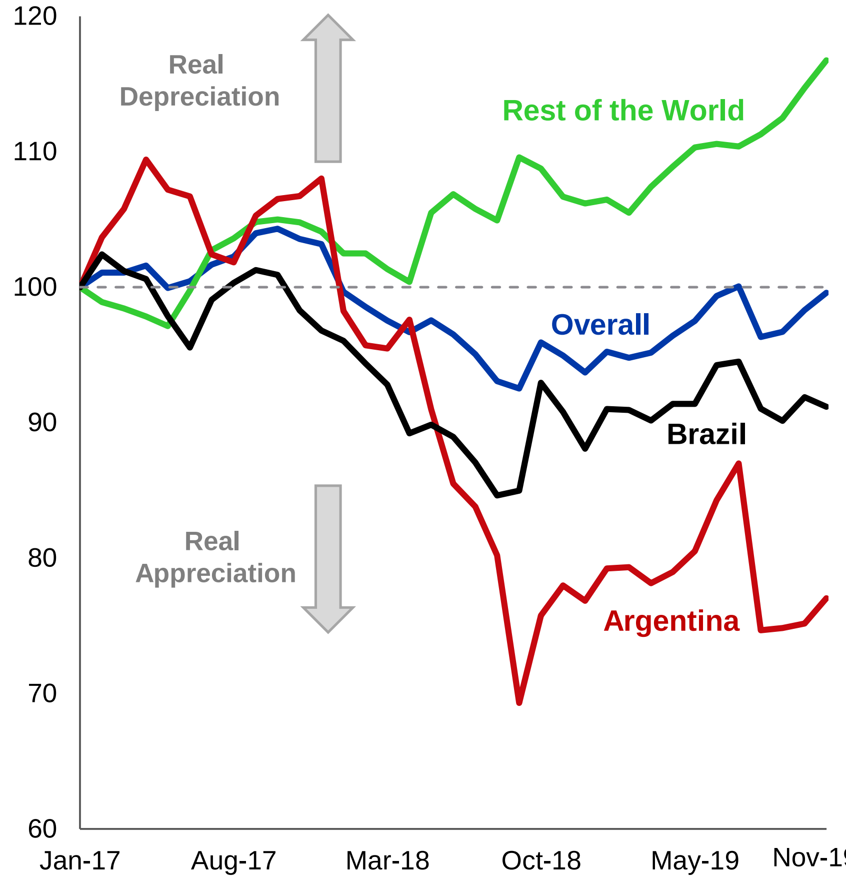
Currency performance vs USD:
Latam and other relevant trade competitors

(YoY change in nominal exchange rate, in %, as of January 30th)



Effective real exchange rate

(Index base 100 = January 2017)

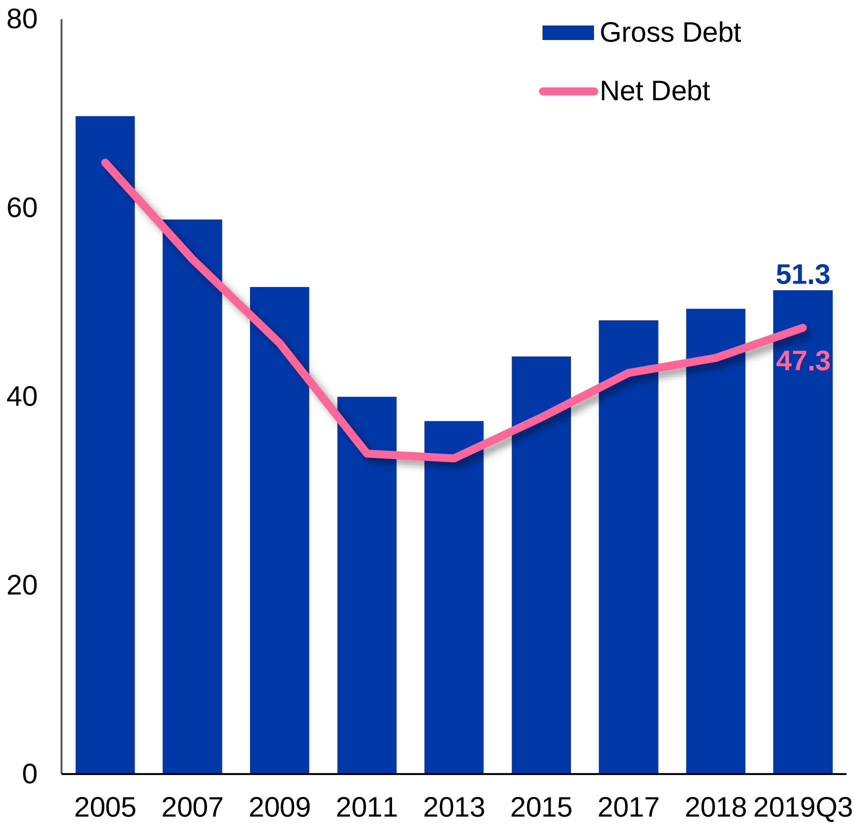


***Source**: Bloomberg; Central Bank of Uruguay*

Active debt management has improved the debt profile, reducing currency and rollover risks…

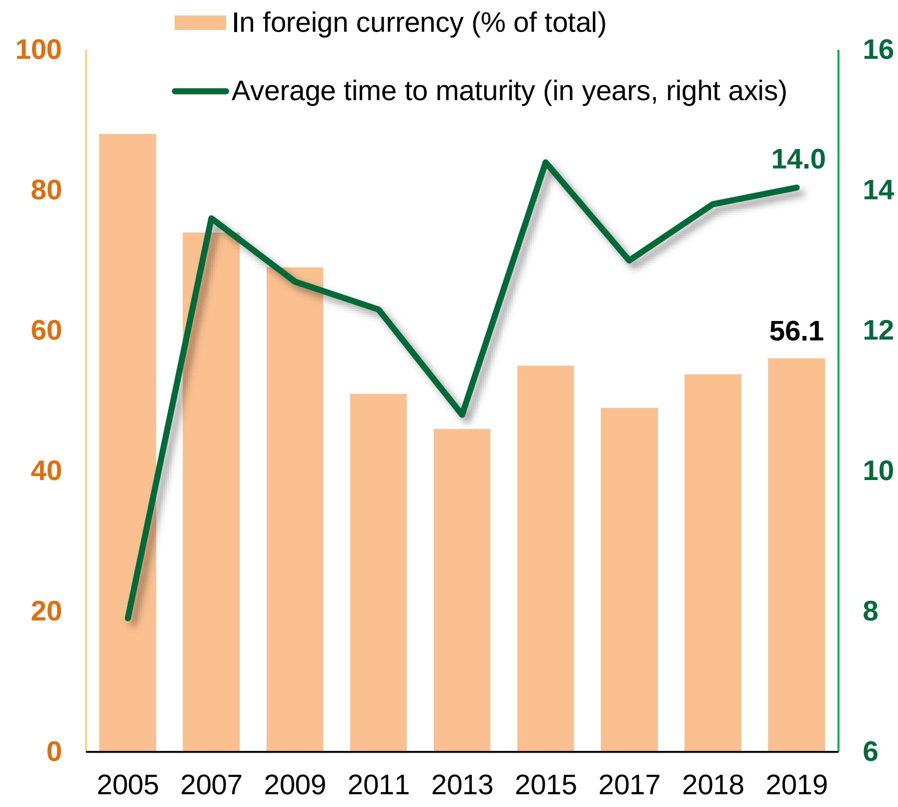
Central Government (CG) debt

(In % of GDP, end-year)



Currency and maturity composition of CG debt

(End-year)

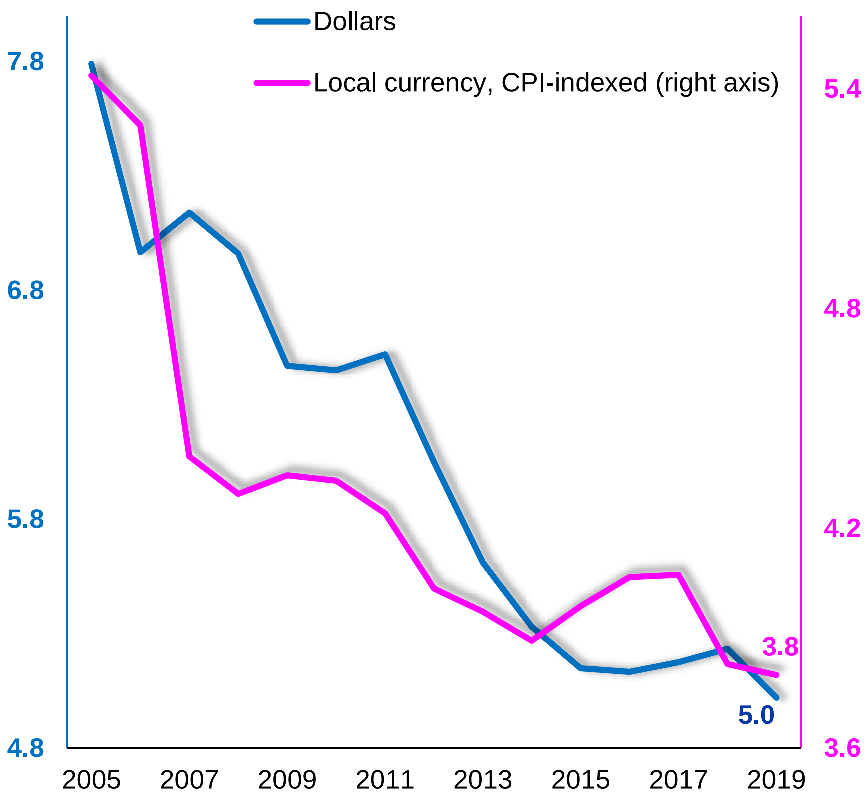


Source: *Debt Management Unit, Ministry of Economy and Finance*

…while keeping borrowing costs subdued and risk spreads in line with better-rated peers

Central Government (CG) borrowing costs

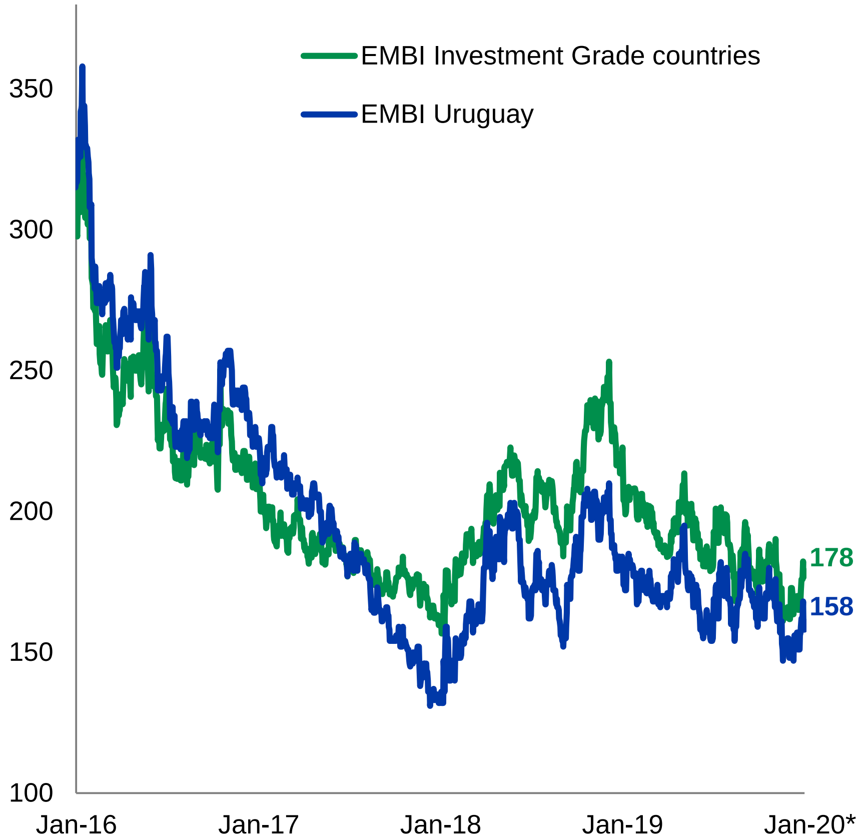
(Average interest rate on outstanding debt, in %)[1/]



1/ Weighted average

Sovereign risk premium

(In bps)



(*) As of January 30th

Sources: *Debt Management Unit, Bloomberg – JPM Index*

Central Government´s Financing Needs and Funding Sources

Flow of funds

(In USD million)

	Year 2019	Year 2020 (*)
FINANCING NEEDS	**4,833**	**3,973**
Interest Payments	1,451	1,639
Amortizations of Bonds and Loans (a)	2,523	1,751
Primary Deficit (b)	859	583
FUNDING SOURCES	**4,833**	**3,973**
Multilateral Loans	457	350
Gross Bond Issuance (c)	3,595	3,450
Net Others	282	142
Use of Assets	498	31
Memo Item: Net Bond Issuance (e)	*1,467*	*1,699*

(*) Projections.
(a) For 2020, the figure includes obligations coming due on a contractual basis and bonds repurchased in the Januray 2020 domestic auctions and maturing in 2021.
(b) Excludes transfers to the Social Security Trust Fund. Projections for 2020 will be subject to economic policies of the incoming administration.
(c) Includes bonds issued domestically and in international markets.

Source: *Debt Management Unit, Ministry of Economy and Finance*

Priorities of Debt Management Strategy for 2020

- Continue seeking a **balanced currency composition of debt**, underpinning the progress achieved on government debt's de-dollarization.

- Look for opportunities in international debt markets to **develop the local currency curve**, in either nominal or linked rates, taking into account that borrowing costs remain consistent with sustainable debt dynamics

- Keep moving towards mechanisms that would simplify **non-residents access to local-currency bonds**.

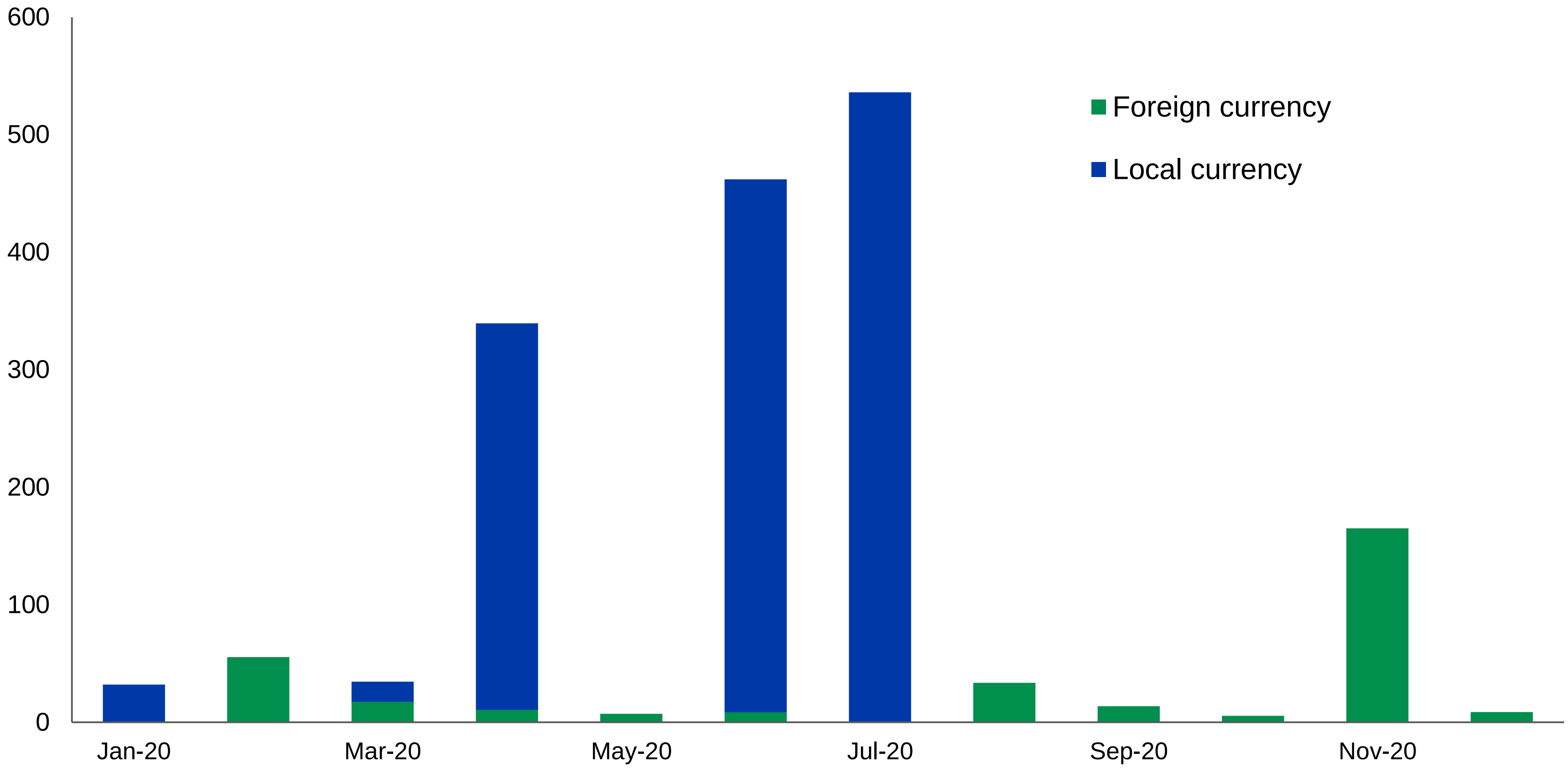
- Continue to **diversify hard-currency exposure** of the government debt's portfolio.

Source: *Debt Management Unit, Ministry of Economy and Finance*

More than 80% of government debt coming due in 2020 is denominated in local currency

Central Government´s redemption profile during 2020

(All values as of end-December 2019, in USD million)



Source: *Debt Management Unit, Ministry of Economy and Finance*

Uruguay has solid institutional and social foundations, as well as fiscal and debt transparency

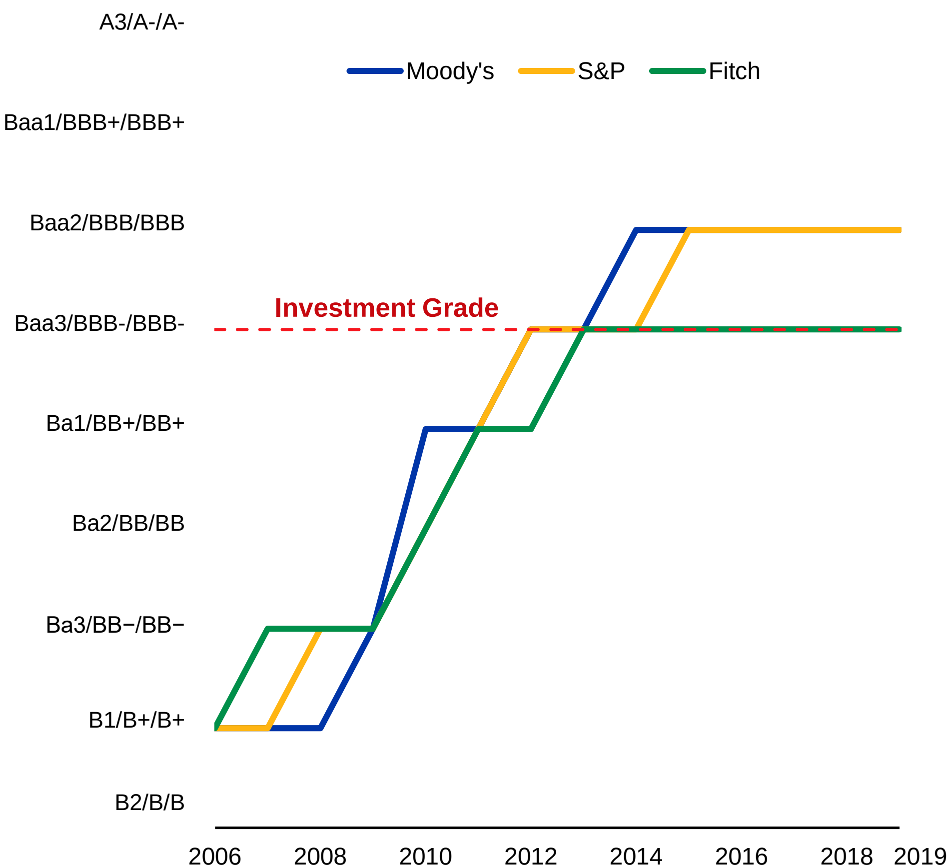
Uruguay´s Ranking Position in Latin America (2018-2019)

1	Political Stability 1/	1	Full Democracy 5/
1	Rule of Law 2/	2	Press Freedom 6/
1	Lowest Corruption Perception 3/	2	Economic Freedom 7/
1	Prosperity 4/	2	Government Open Data 8/

Sources: 1/ *Worldwide Governance Indicators, World Bank; 2/ World Justice Project, 3/ Transparency International, 4/ Legatum Institute, 5/ The Economist Intelligence Unit, The Economist; 6/ Reporters Without Frontier, 7/ Heritage Foundation, 8/ Worldwide Web Foundation - Open Data Barometer*

Uruguay’s credit rating performance

Evolution of Uruguay’s sovereign credit ratings



Latest credit rating actions

DBRS — ***January 2020.*** Confirms Uruguay’s rating at BBB (low) with Stable trend.

Moody’s Investors Service — ***August 2019.*** Confirmed Uruguay’s rating at Baa2, Stable outlook.

FitchRatings — ***June 2019.*** Uruguay´s rating affirmed at BBB- with Negative outlook.

Standard & Poor’s Ratings Services, McGraw Hill Financial — ***May 2019.*** Affirmed Uruguay's rating at BBB, outlook remained stable.

R&I — ***January 2019.*** Affirmed BBB rating, stable outlook.

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

Key Highlights of the Uruguayan Economy

Sustained, albeit decelerating, growth in a volatile regional environment

Solid medium-term prospects on large-scale FDI and infrastructure projects

Strong institutional foundations, social cohesion and political stability

Steering inflation back to target, as exchange rate takes key role of shock absorber

Large international reserves and resilient government debt profile

Fiscal headwinds amid sluggish revenues and a rigid spending profile