

# República Oriental del Uruguay

## Investor Presentation

*November 2021*



Cardenal Copete Rojo (*Paroaria Coronata*)  
Photo credit: Leonardo Colistro.



Ministerio  
**de Economía  
y Finanzas**



**BANCO CENTRAL  
DEL URUGUAY**

# Key Credit Highlights



- 1 Low incidence of COVID-19 pandemic in 2020; swift vaccination plan in 2021 has effectively contained the virus spread, after virus surge in first half of this year.
- 2 Economic recovery underway, driven by foreign direct investment, stronger industrial production and higher commodity exports.
- 3 Fiscal targets met in 2020 under new fiscal rule; continued targeted support for vulnerable companies and households during 2021, while aiming for improved structural fiscal balance.
- 4 Monetary policy focused on reducing inflation and anchoring inflation expectations, based on enhanced monetary policy framework.
- 5 Resilient current account and large international reserve buffers.
- 6 Government forges ahead with structural reforms, including social security, public enterprises and international trade integration.
- 7 Uruguay is a top global performer on ESG fundamentals; government is committed to climate action policies towards a low-carbon economy.
- 8 Sovereign funding strategies focused on de-risking debt portfolio in a cost-efficient way, as well as linking debt financing to environmental goals.

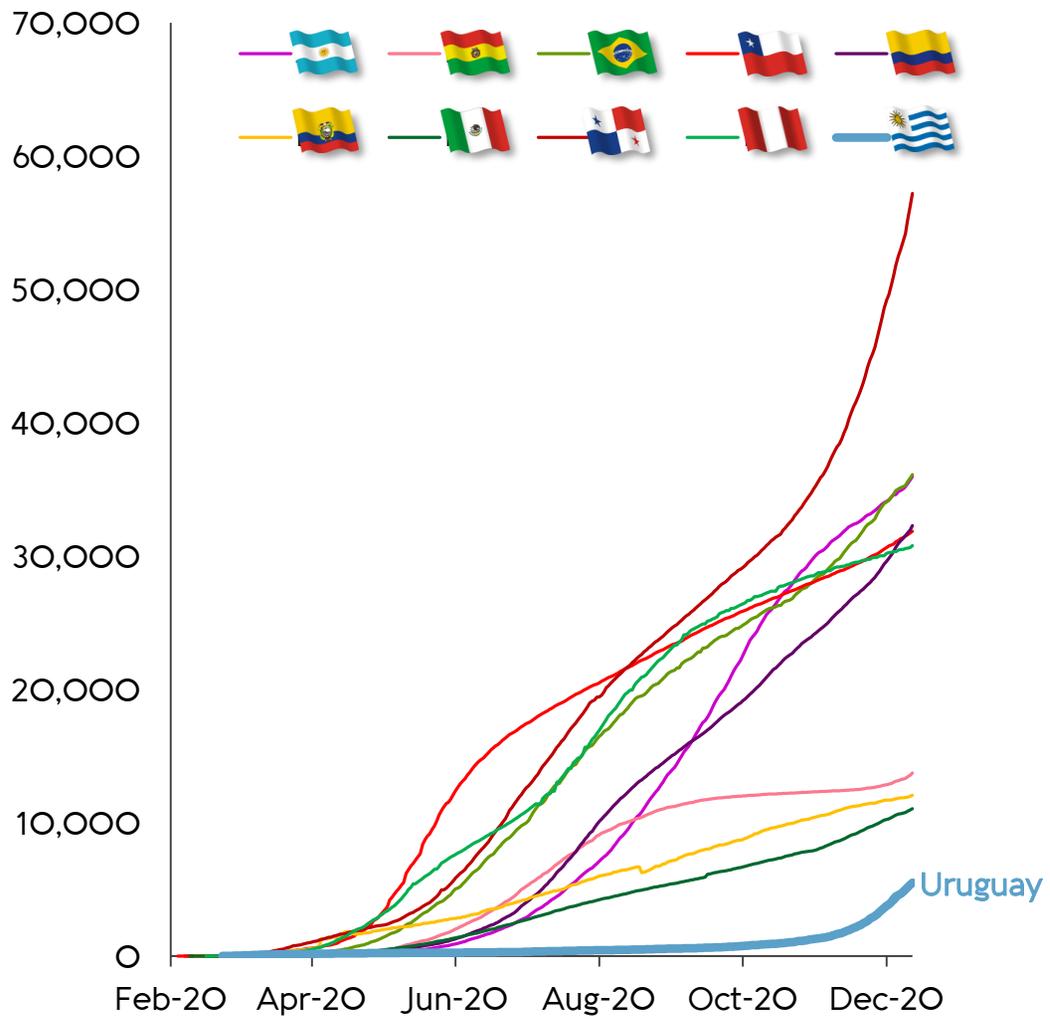
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# Effective response to the COVID-19 pandemic in 2020.

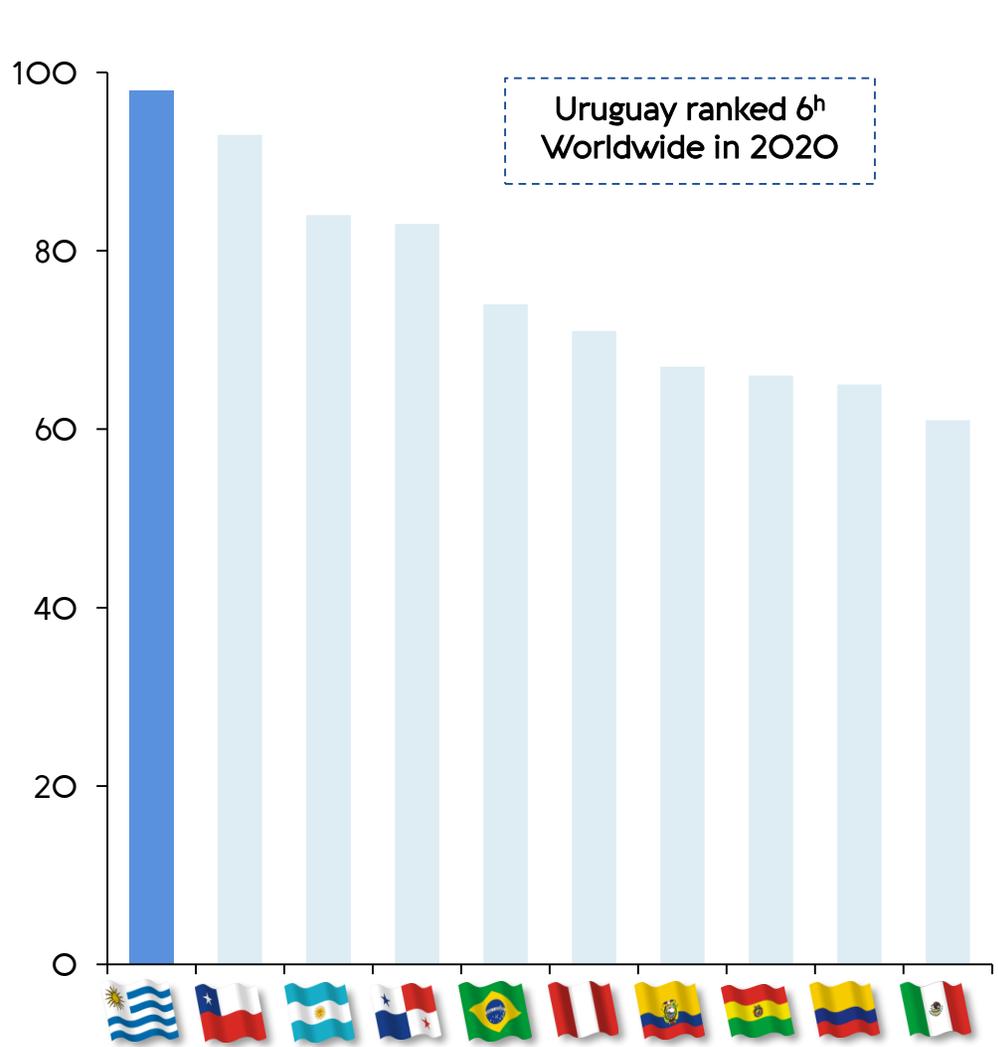
Government did not impose mandatory lockdown, but rather appealed to citizens' "responsible freedom".



Total confirmed cases in 2020 (1)  
(Per million people, as of December 31st, 2020)



Global Freedom Index (2)  
(Index, numerical score from 0 to 100, year 2020)



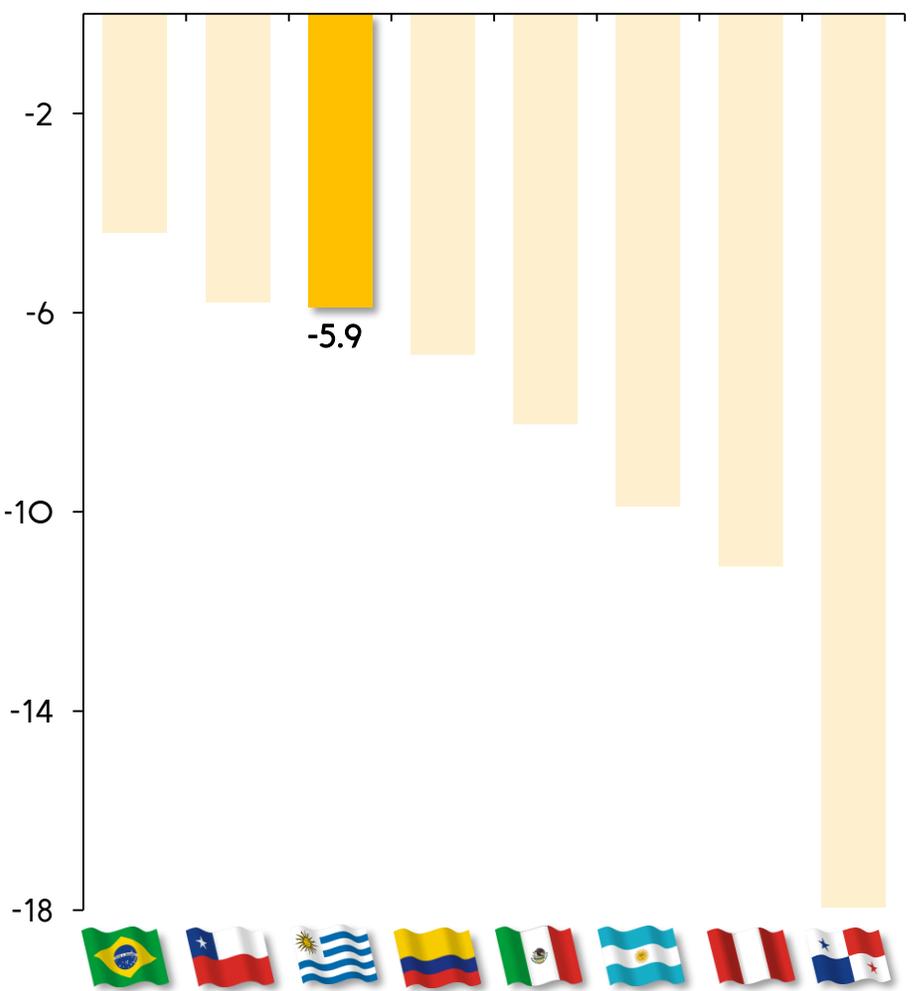
(1) Source: Our World in Data.

(2) Source: Freedom House - Freedom in the World Report 2021 (A country is awarded 0 to 4 points for each of 10 political rights indicators and 15 civil liberties indicators; a score of 0 represents the smallest degree of freedom and 4 the greatest degree of freedom.)

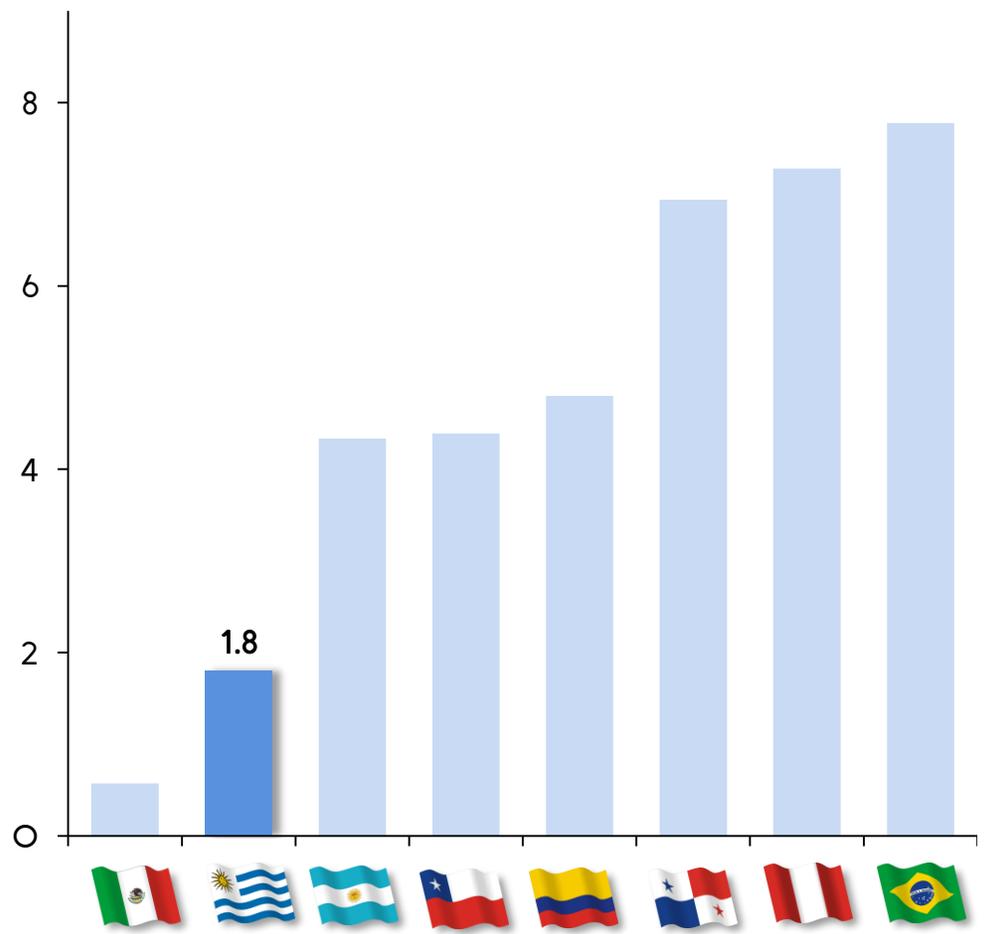
# ...allowed for a comparatively smaller deterioration of macroeconomic fundamentals in 2020.



### Real GDP Contraction in LatAm in 2020 (1) (In %)



### Deterioration in Fiscal Balances in LatAm in 2020 (2) (Change between 2019 and 2020 in fiscal deficit in % of GDP)



Note: Regional and country specific information is as aggregated or reported, as applicable. Each such country information may be calculated differently and aggregated by each respective source using various methodologies. Accordingly, this comparison is for illustrative purposes only and we do not purport assert that the above information is actually comparable.

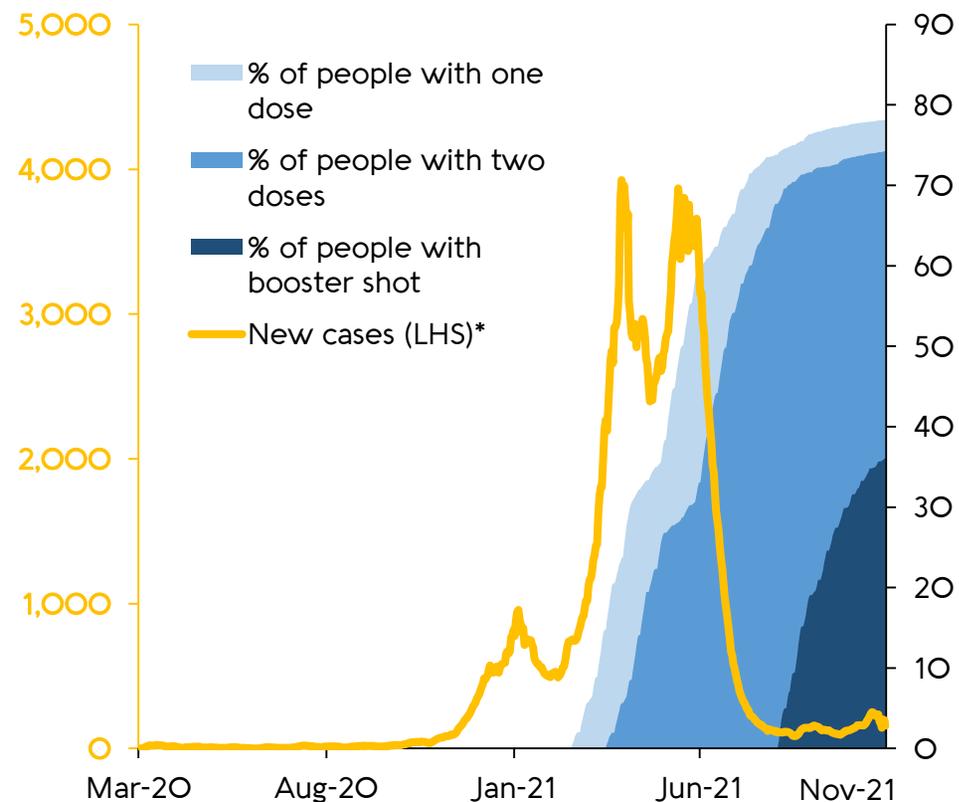
(1) Source : Official National Statistics.

(2) Source: Fitch Sovereign Data Comparator, as of June 2021, except for Uruguay that corresponds to official fiscal outturns as reported by the Ministry of Economy and Finance. In all cases, corresponds to the General Government.

# After surging in March-June 2021, virus spread has decreased significantly through steadfast vaccination campaign

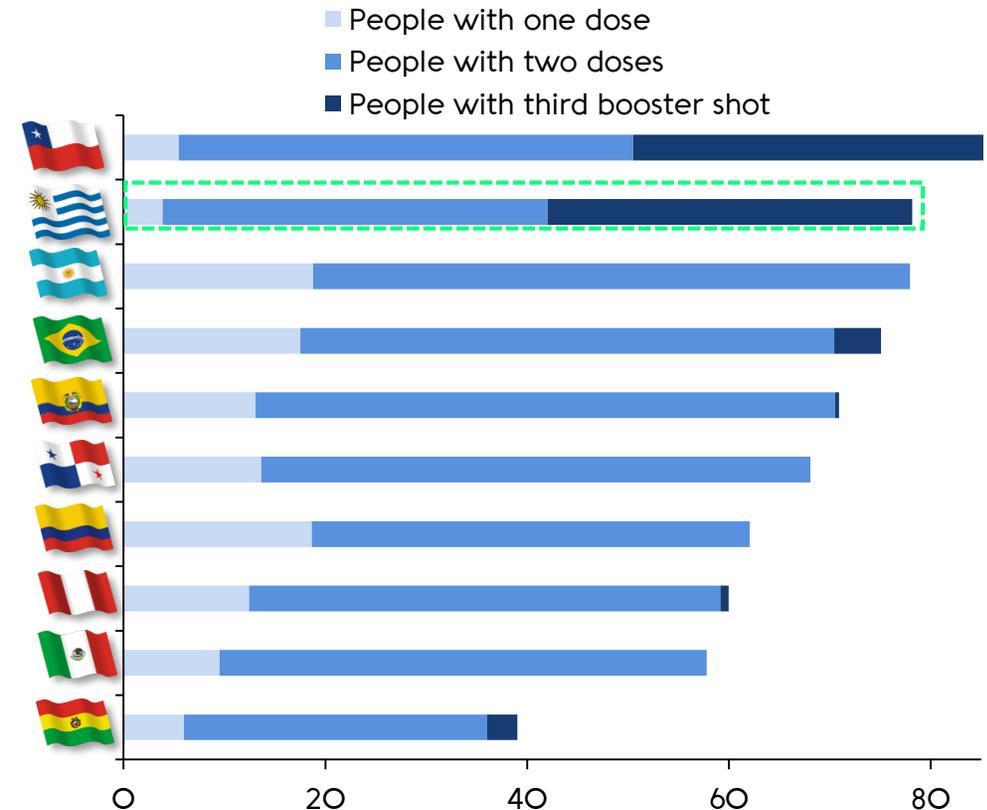


**Uruguay: Covid-19 cases and vaccinations <sup>(1)</sup>**  
(As of November 11<sup>th</sup>, 2021)



(\* ) 7-day rolling average of new cases

**People vaccinated in LATAM, by number of dose <sup>(1)</sup>**  
(Share of total population, as of November 11<sup>th</sup>, 2021)



- Total purchase of 7,85 million vaccine doses (Sinovac, Pfizer and AstraZeneca), plus a donation of 500,000 Pfizer from the United States. In October 2021, the Government agreed with Pfizer-BioNTech to purchase 3.7 million additional doses for 2022.
- Starting in August, 2021, Uruguay began applying a third booster dose of the Pfizer vaccine for all those who received previously two doses of Sinovac (approximately 1,500,000 people).

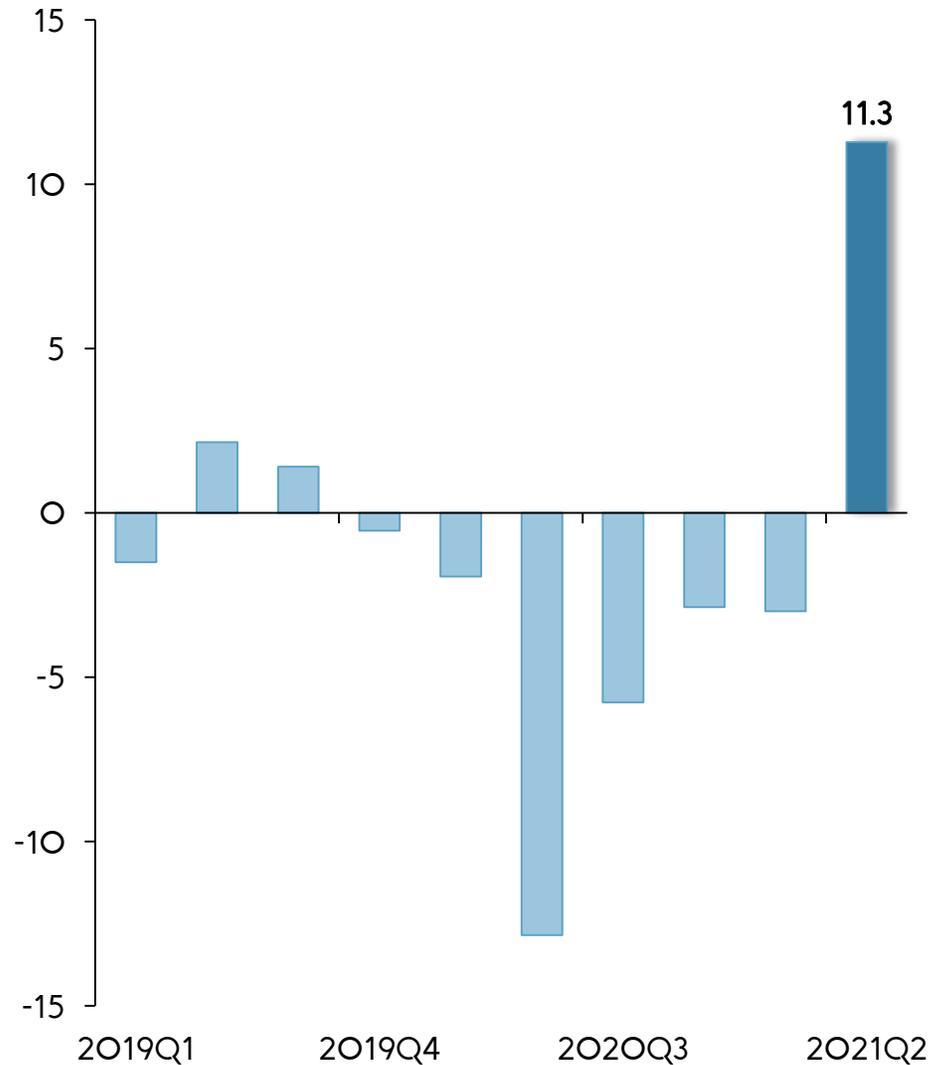
The economy is gaining momentum



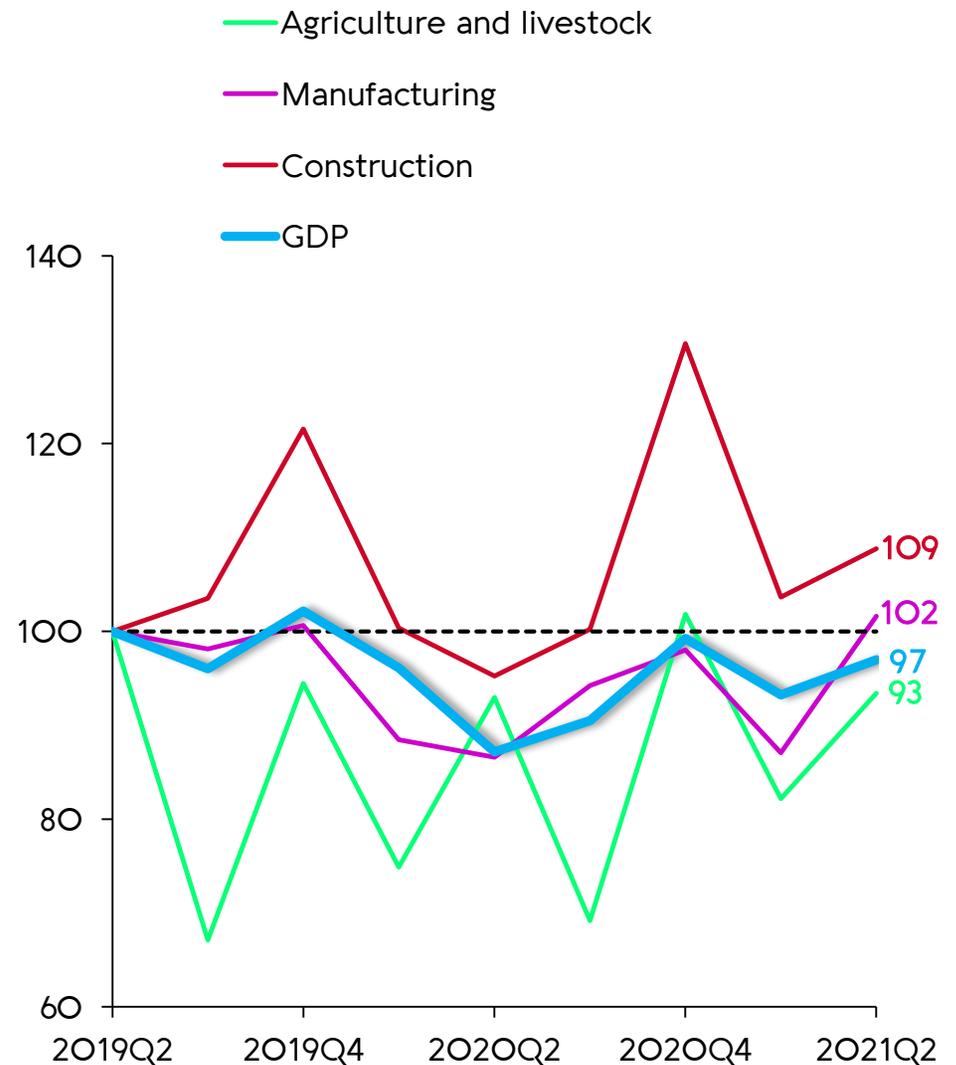
# The economy grew in the second quarter of 2021, though showing uneven performance across sectors



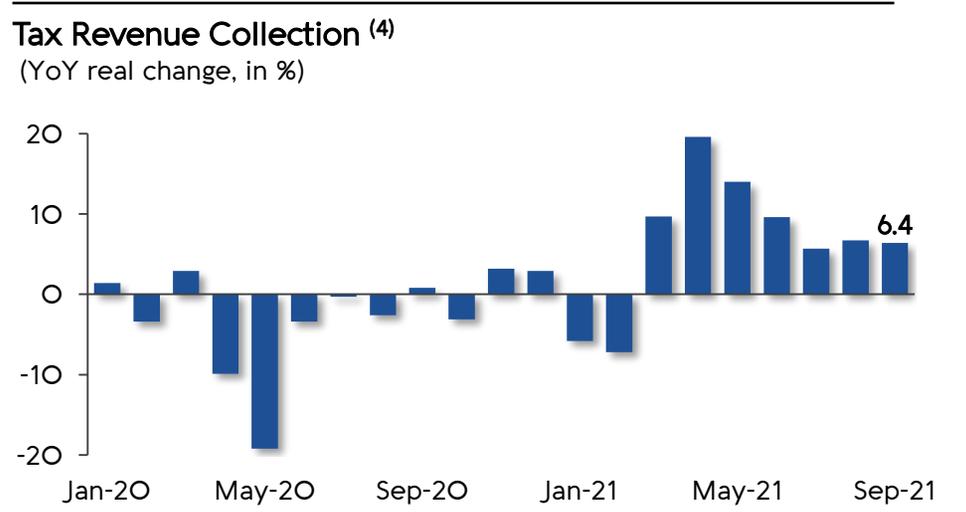
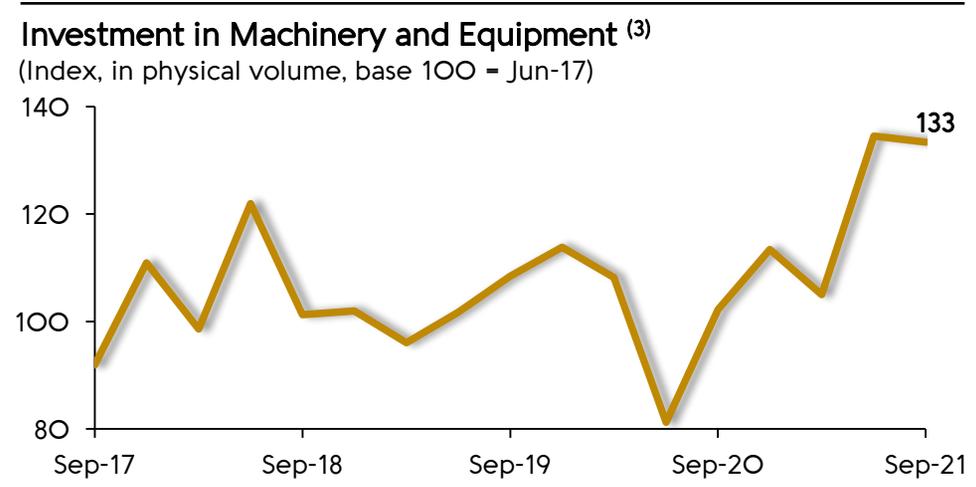
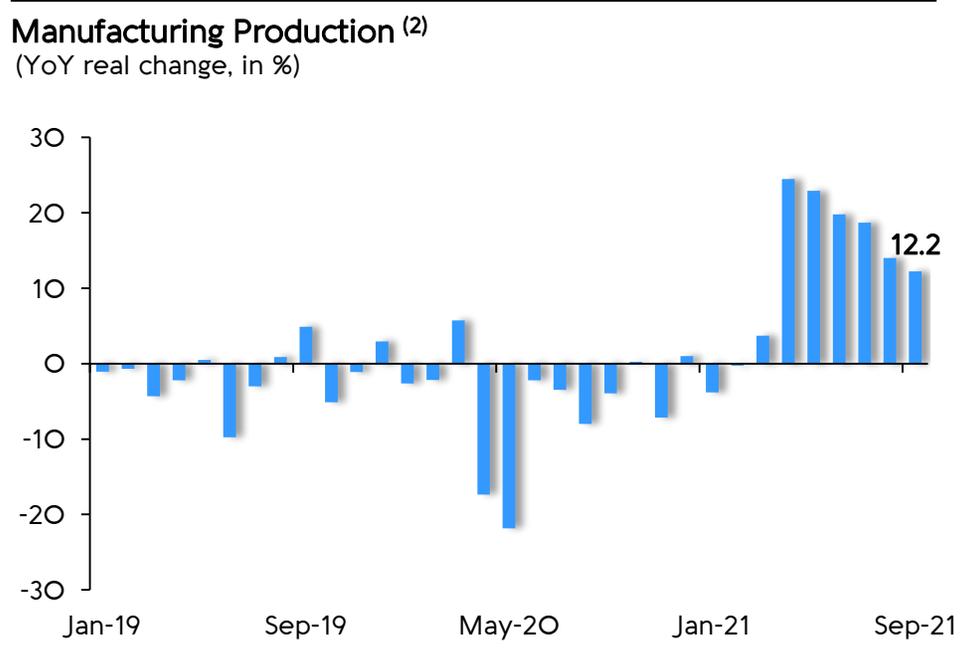
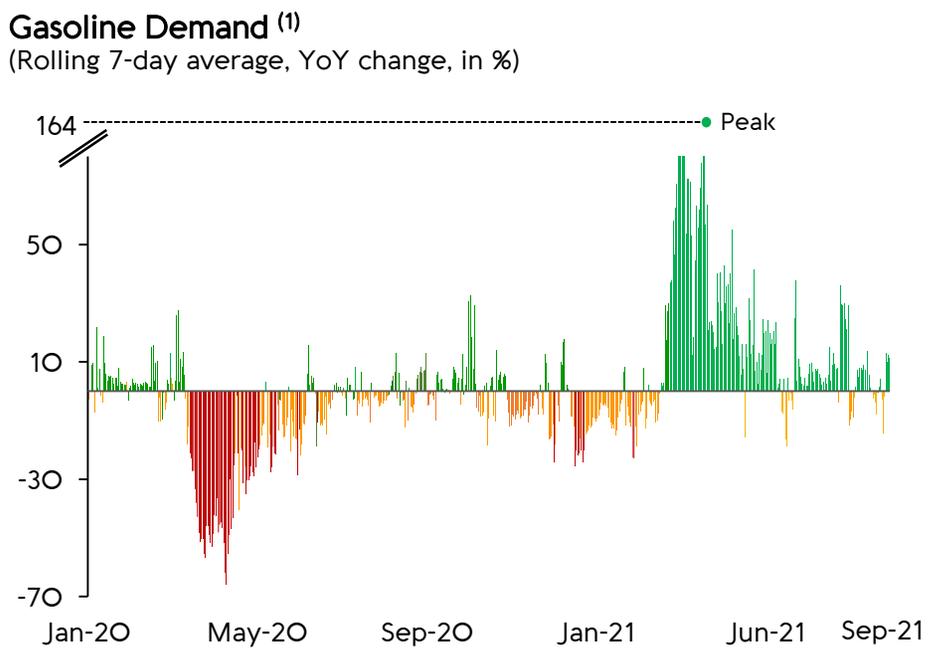
**Quarterly real GDP**  
(In %, yoy change)



**Cummulative real growth of sectors of GDP**  
(Index, base 100 = 2019Q2)



# Leading economic indicators suggest that an economic recovery is underway, with a positive impact on fiscal revenues



(1) Source: Ministry of Economy and Finance.  
 (2) Source: National Statistics Institute  
 (3) Source: Chamber of Industries of Uruguay  
 (4) Source: Tax General Directorate, Ministry of Economy and Finance

2

Higher commodity prices and goods exports are lifting the agricultural sector; the government seeks to expand trade flows and trade agreements



Uruguay remains firmly committed to international trade openness, integration and free flow of goods and services with the world

### Export of Goods (1)

(YoY change in dollar value, in %)



### Commodities Exports Prices (2)

(Index base 100 = January 2017)



(1) Source: Uruguay XXI.

(2) Source: CPA Ferrere, based on Bloomberg and National Institute of Meat of Uruguay (INAC). Weighted-average of soybeans, meat, rice, dairy products, and pulp exports

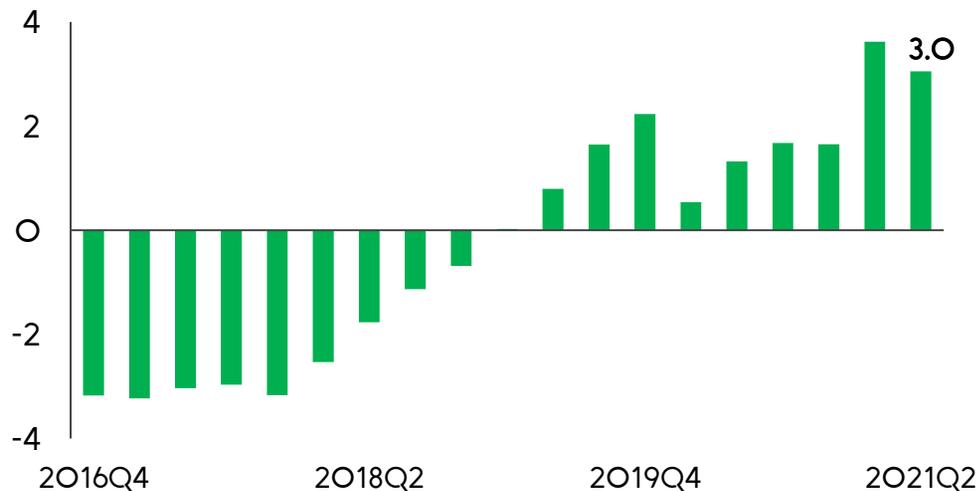
# Ramp up in foreign direct investment and new tax incentives for fixed capital formation underpin the construction sector



## UPM's Pulp Mill (1)

- UPM will invest a total of **US\$ 3 billion (5.5% of GDP)** to build a 2.1 million-tonne greenfield eucalyptus pulp mill in central Uruguay.
- **Proceeding according to schedule.** More than 3,000 people are currently working at the construction site.

## FDI Net Capital Inflows (2) (Rolling 4-quarters, in % of GDP)

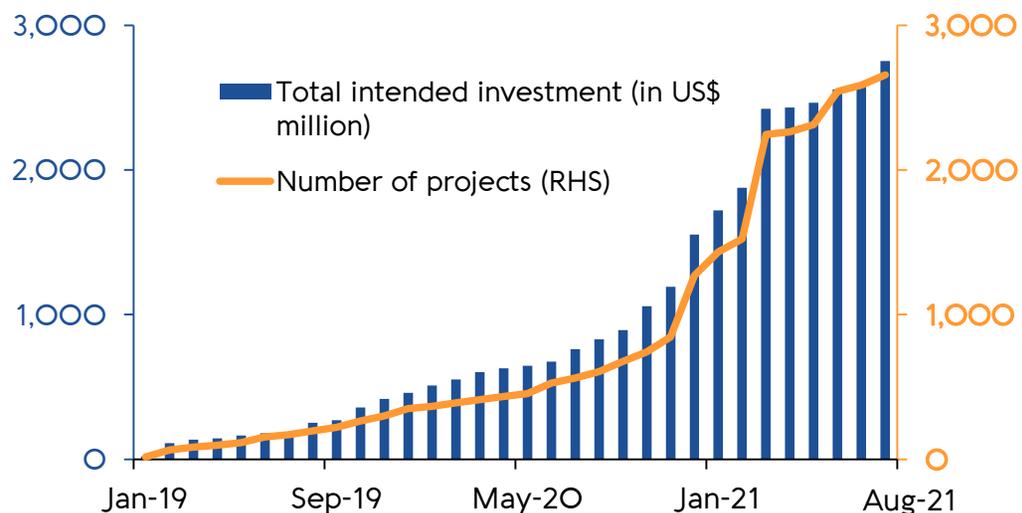


## Central Railway Project (1)

- **US\$ 1 billion investment** in a Central Railway that will run from the city of Paso de los Toros to the port of Montevideo (273 km long).
- **Public-Private-Partnership (PPP)** modality.



## Investment projects presented under COMAP regime (1) (Cumulative)



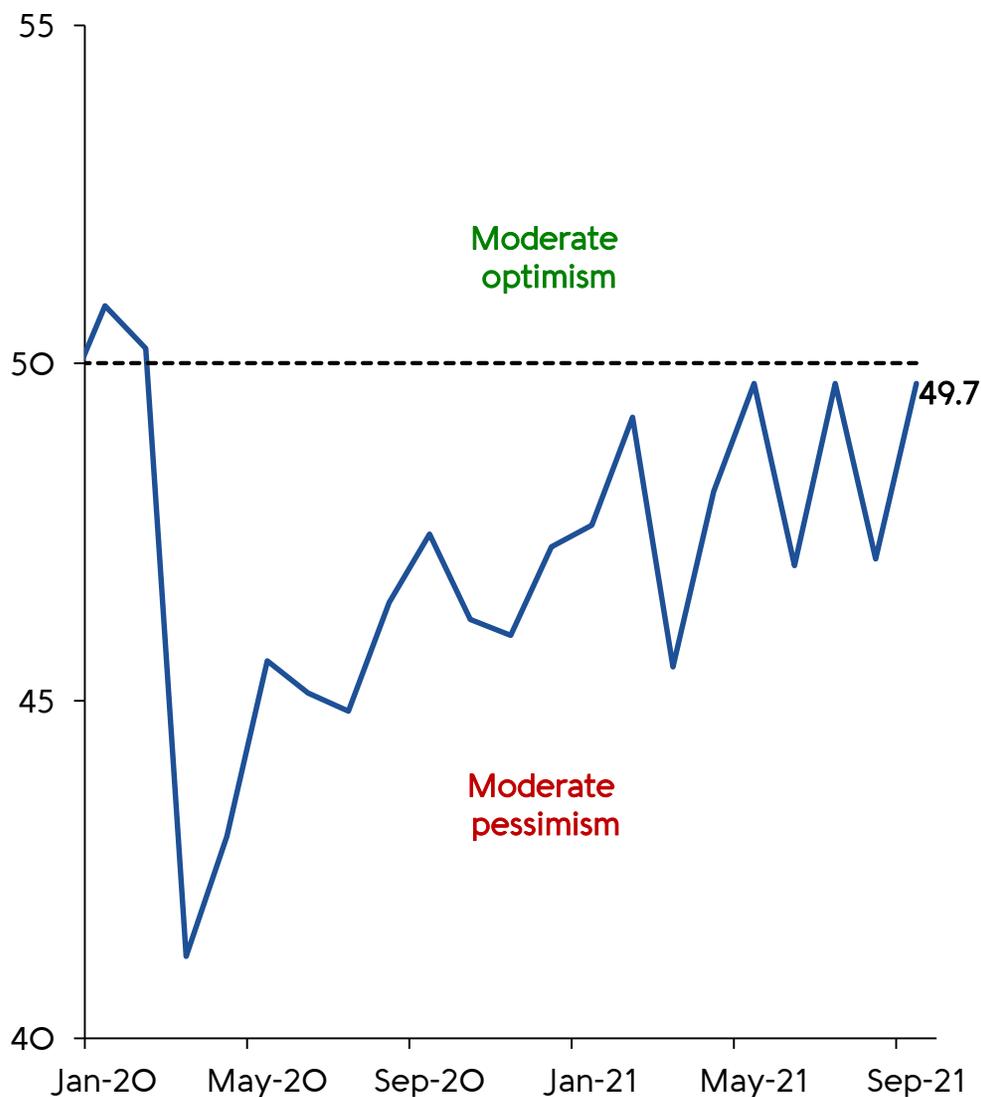
(1) Source: Ministry of Economy and Finance of Uruguay.

(2) Source: Central Bank of Uruguay. Figures of the Financial Account of the Balance of Payments were revised.

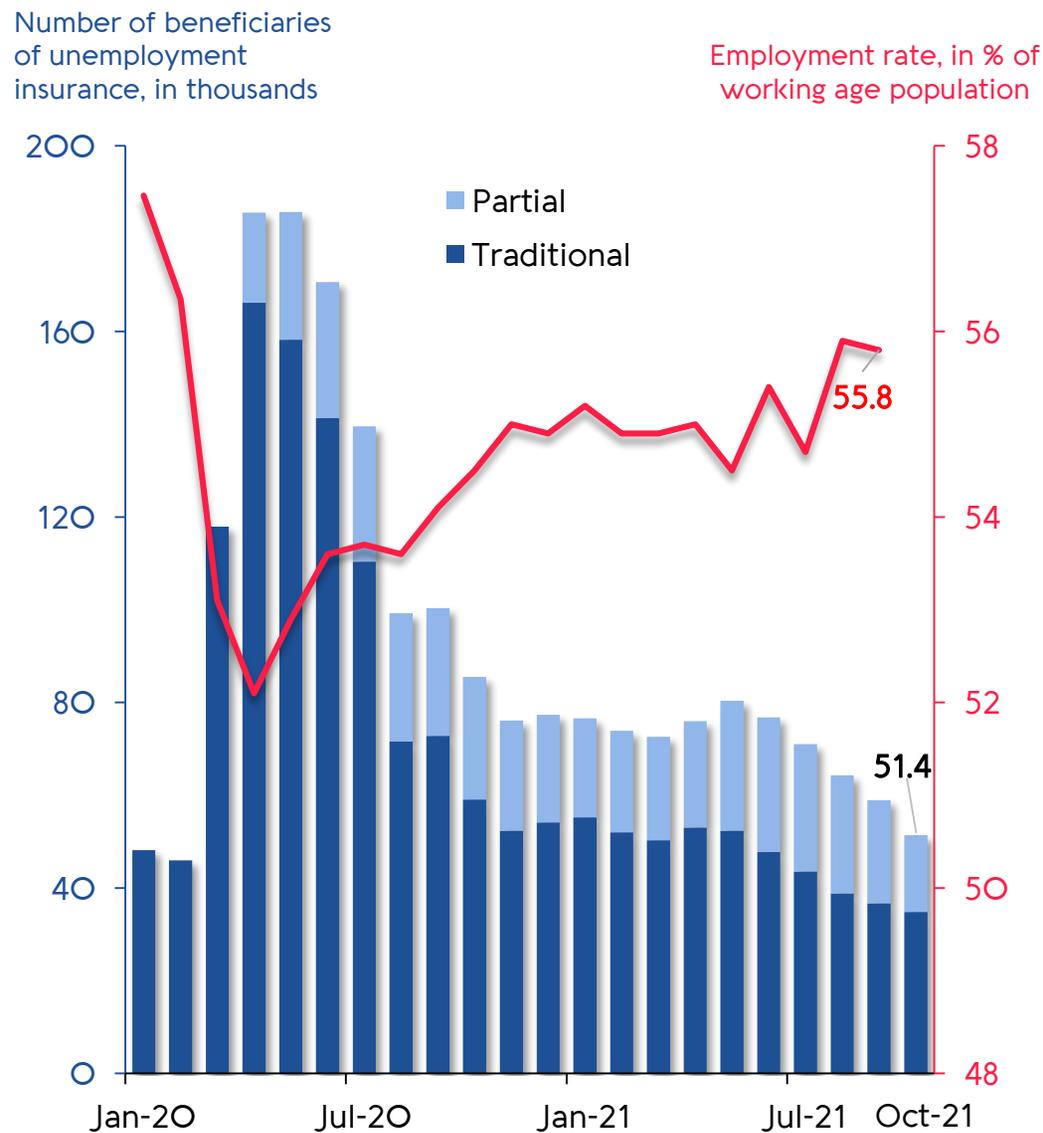
## 2 Recovery in consumer confidence has been uneven, reflecting a still healing labor market



Consumer Confidence Index <sup>(1)</sup>



Unemployment Insurance by type of regime and Employment Rate <sup>(2)</sup>



(1) Source: SURA Chair of Economic Confidence - Catholic University of Uruguay and Equipos Consultores Consulting firm.

(2) Source: Social Security Bank of Uruguay, Ministry of Labor and Social Security and National Institute of Statistics.

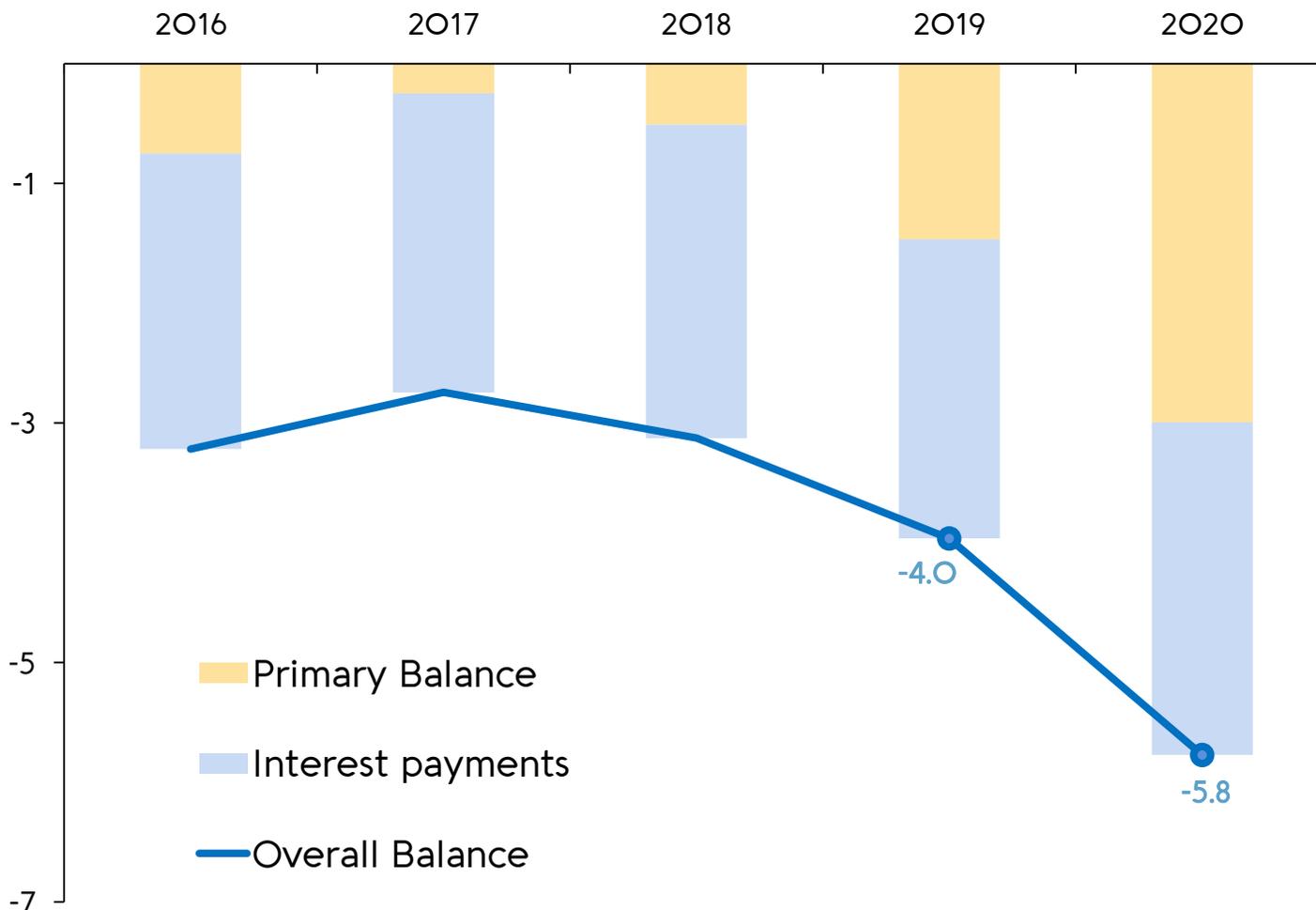
# Pillars of the new fiscal rule are aligned



# Strong commitment to fiscal discipline based on prudent macroeconomic management...



**Central Government Fiscal Balance <sup>(1)</sup>**  
(In % of GDP)



The Government met the 2020 target set in the Budget Law, even accounting for the re-basing of GDP (using previous national accounts estimates, which implies a lower nominal GDP, the fiscal balance observed would have been **-6.3%** of GDP, and the fiscal target was set at **-6.6%**).

*(1) Does not include extraordinary inflows to the Social Security Trust Fund.  
Source: Central Bank of Uruguay; Ministry of Economy and Finance of Uruguay*

# ...meeting all three pillars of the new fiscal in 2020, strengthening fiscal credibility.

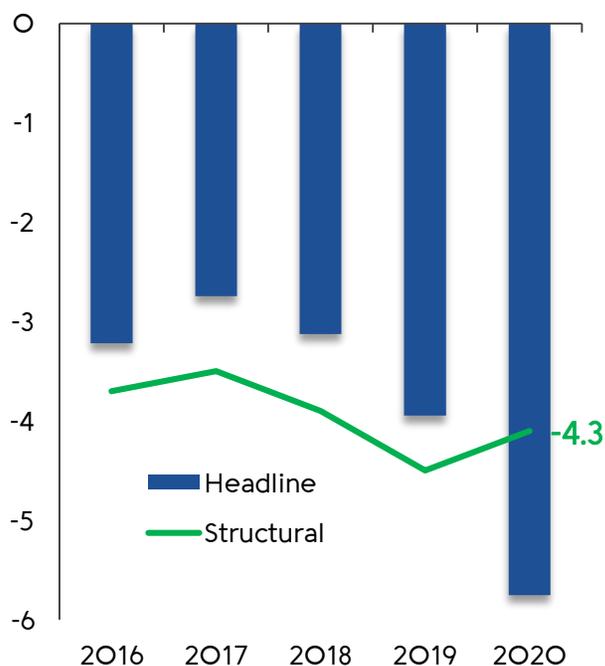


✓ **Structural balance target**, to account for business cycle fluctuations and one-off/temporary spending and revenue items

✓ **Cap on real growth in primary expenditure** in line with potential real economic growth

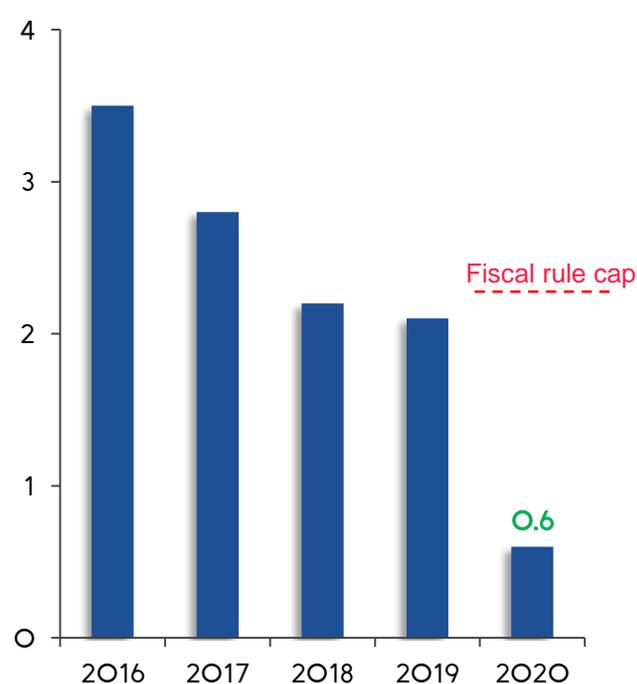
✓ **Binding maximum level of annual net indebtedness** in absolute dollar amounts

**Headline (1) and Structural Balance (2)**  
(In % of GDP)



The target for the structural fiscal balance in 2020 was set at **-4.4%**

**Primary Spending**  
(Annual real variation, in %)



The cap for real expenditure growth in 2020 was set at **2.3%**

**Net Indebtedness in 2020**  
(US\$ mm)

(1) Gross Borrowing (Bonds + Loans)	5,891
(2) Amortizations (Bonds + Loans)	2,205
(3) Accumulated Financial Assets	574
<b>Net Indebtedness = (1) - (2) - (3)</b>	<b>3,113</b>

Legal limit on net indebtedness was set at **US\$ 3,500 million**

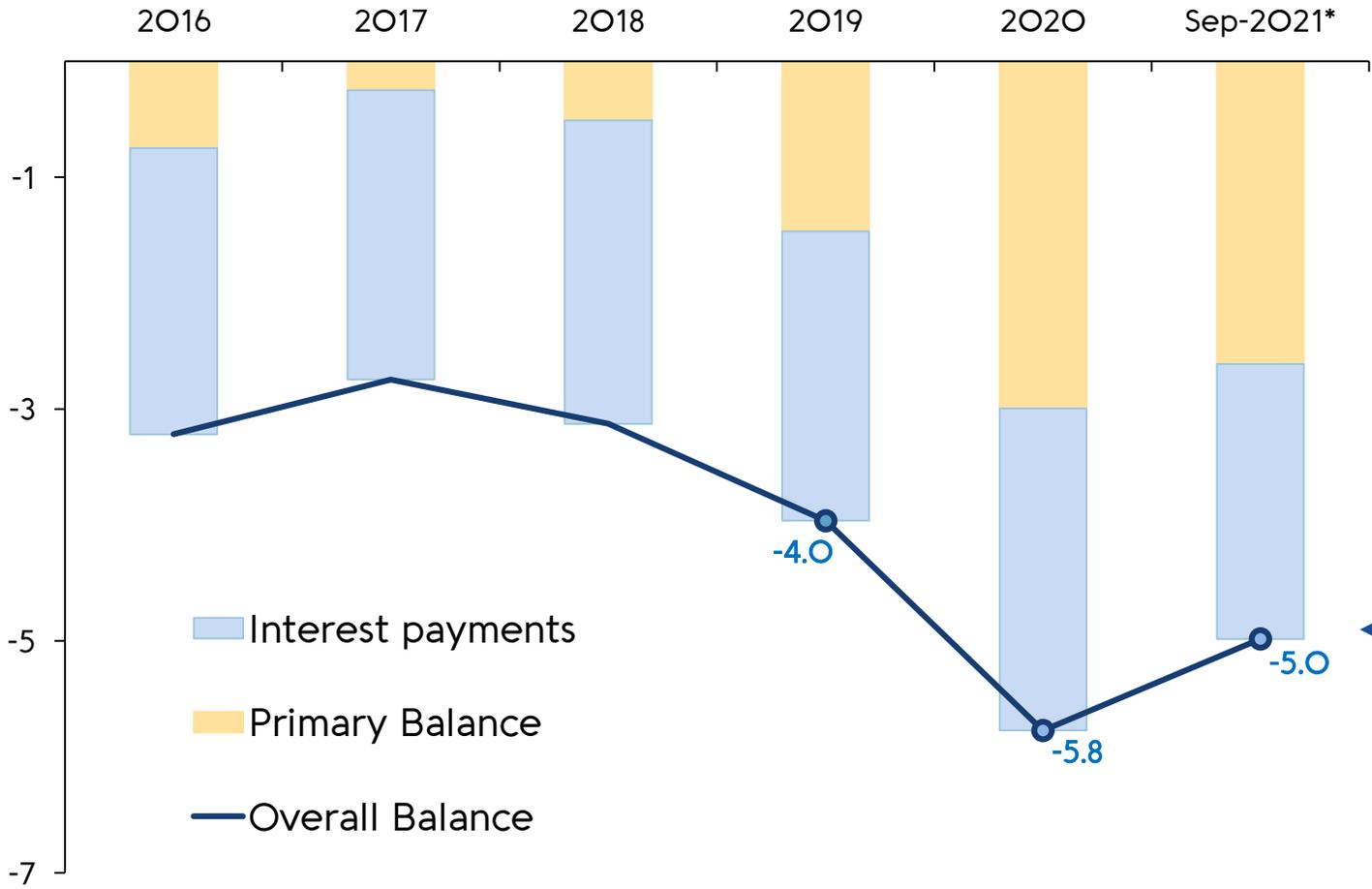
(1) Does not include extraordinary inflows to the Social Security Trust Fund.

(2) The Structural Balance is the fiscal balance that accounts for business cycle fluctuations and one-off/temporary spending and revenue items.

# For 2021, the government is targeting an improvement in the fiscal balance within the rules-based framework



### Central Government Fiscal Balance <sup>(1)</sup> (In % of GDP)



Central Government deficit for 2021 is projected at **4.9%** of GDP, given an assumed real GDP growth of 3.5%.

(\*) Last 12 months.

(1) Does not include extraordinary inflows to the Social Security Trust Fund. Source: Central Bank of Uruguay; Ministry of Economy and Finance of Uruguay

# Enhancing the monetary policy framework



# Monetary policies focused on bringing down inflation and anchoring inflation expectations within target



1

## Commitment to Lower Inflation

- Key focus is to lower inflation and anchor inflation expectations within the target band in a sustainable way.

2

## Short-term Interest Rate as new Policy Instrument

- New monetary policy instrument under inflation targeting regime.
- Designed to improve market signals and allows for fine-tuning of monetary policy at higher frequency.

3

## Enhanced Transparency in Communication

- Higher frequency in Monetary Policy Committee (MPC) meetings, published minutes of MPC, relaunched inflation survey, among others.
- Publication of Central Bank's inflation projections and survey of firms' inflation expectations.

4

## Counter-cyclical Monetary Policy Stance

- To respond to the Covid-19 health emergency, monetary policy had been in an expansionary mode.
- As the pandemic has eased, the Central Bank announced a gradual shift towards a more contractionary monetary policy stance, twice increasing the reference rate by a cumulative 125 bps, to 5.75% by November 11<sup>th</sup>, 2021.

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## Financial De-Dollarization

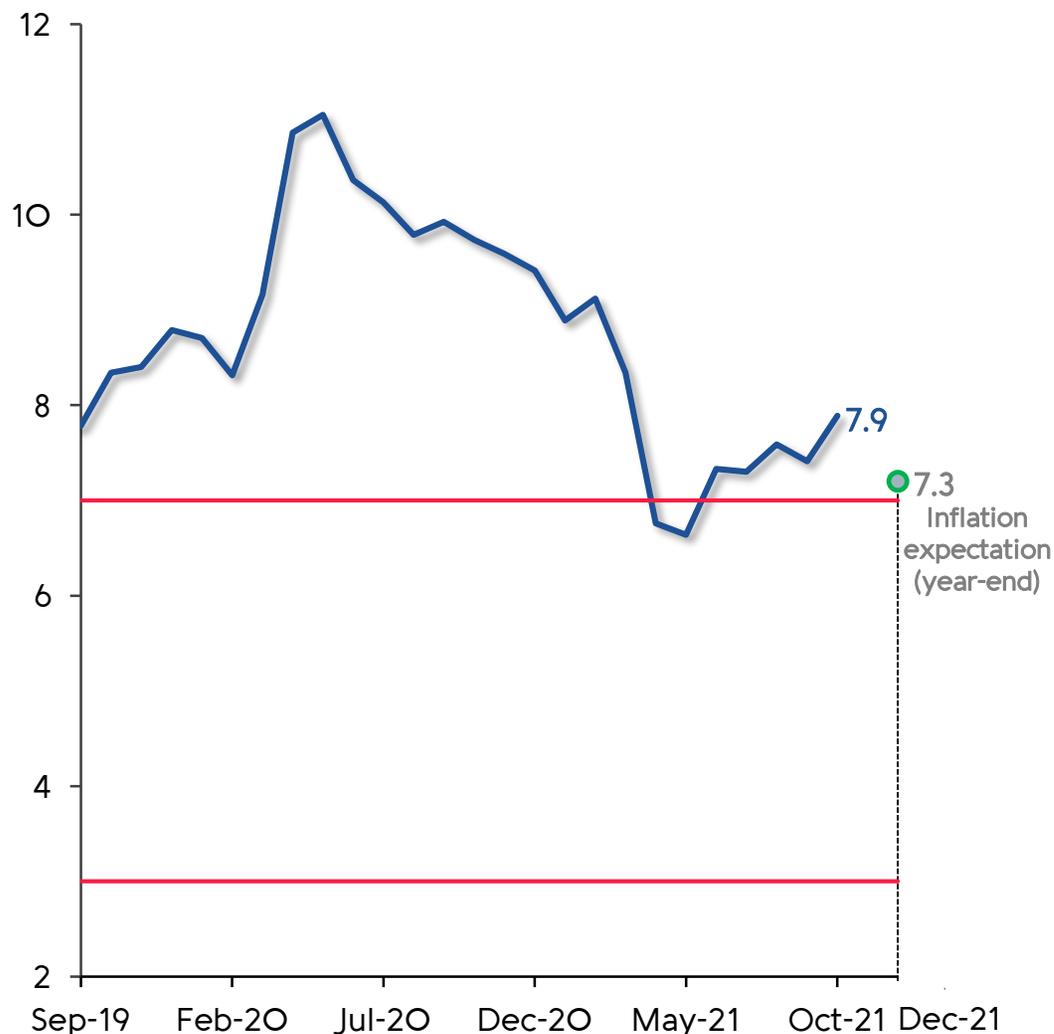
- Rebuilding markets in local currency to mitigate financial dollarization and developing FX derivatives markets.

# Inflation has been trending significantly down, although remains slightly above inflation target



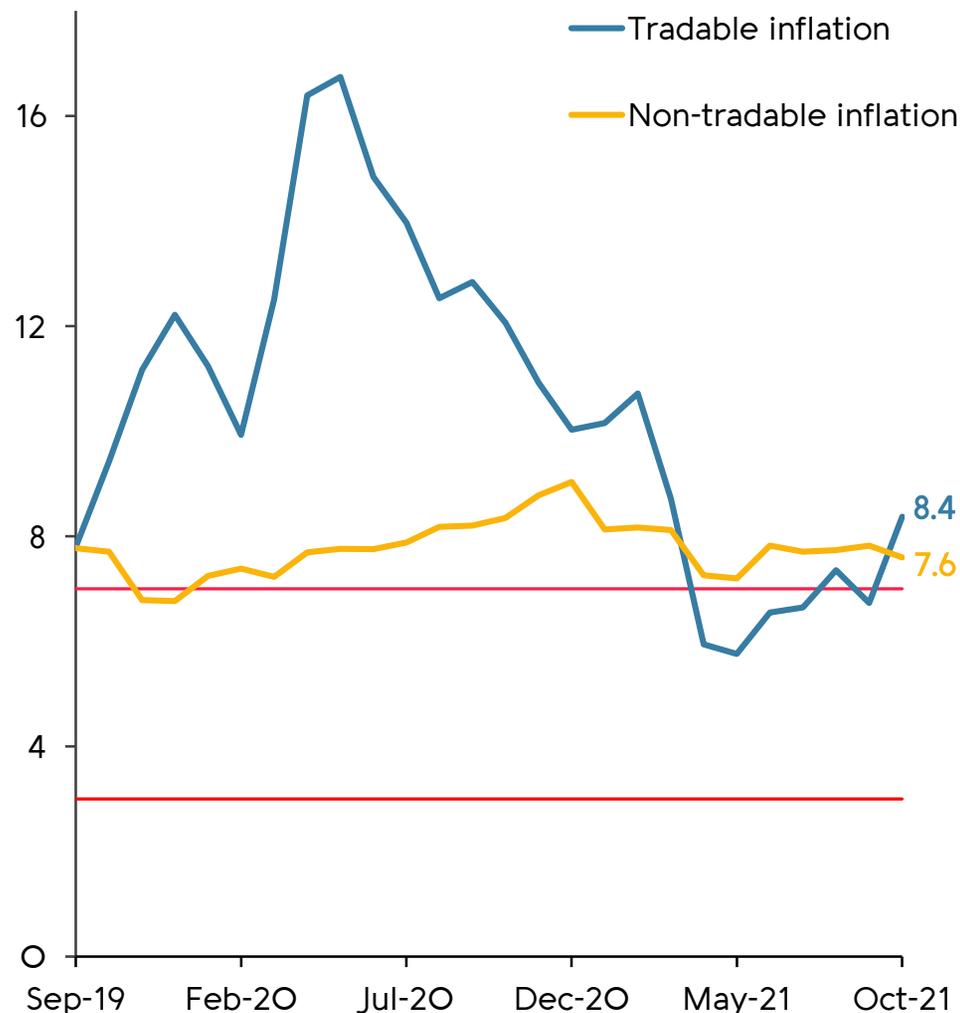
## Headline Inflation (1)

(YoY, in %)



## Tradable and Non-Tradable Inflation (2)

(YoY, in %)



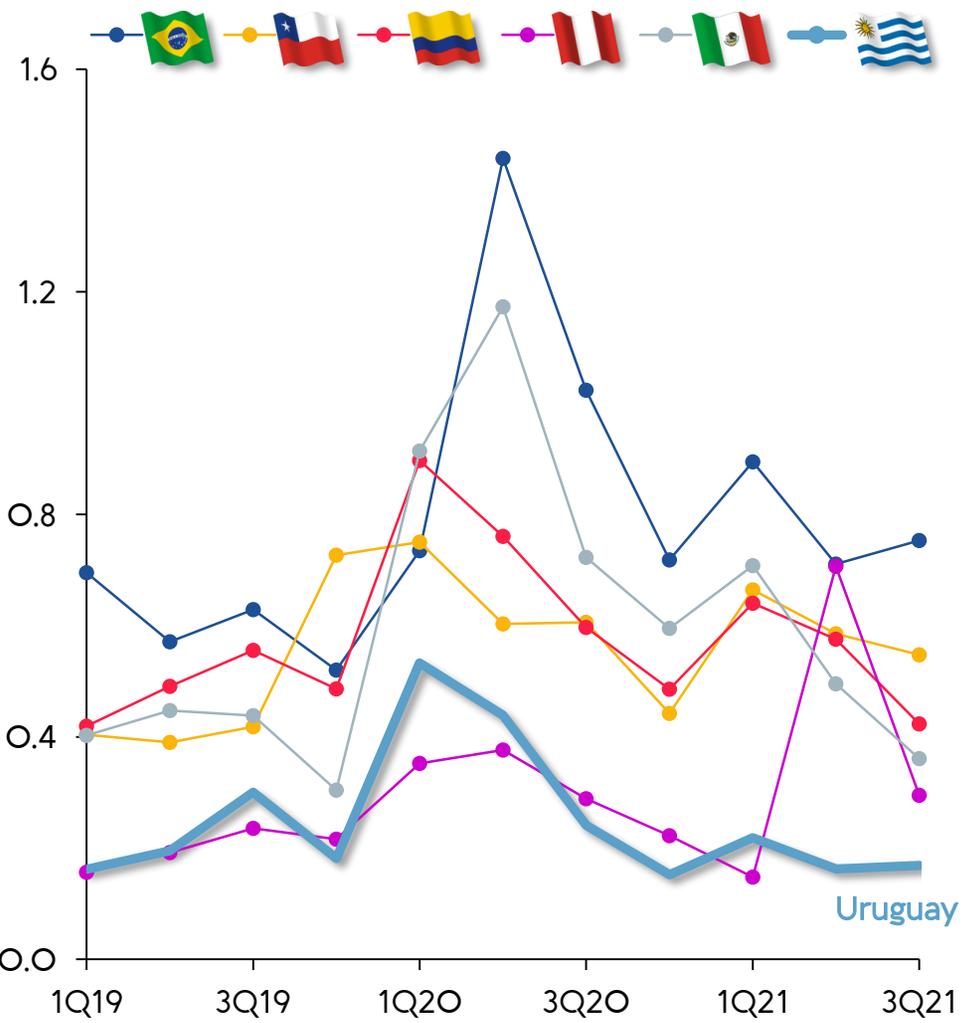
(1) Source: National Institute of Statistics and Central Bank of Uruguay. Median inflation expectations based on Central Bank's market survey as of October 2021.

(2) Source: Central Bank of Uruguay.

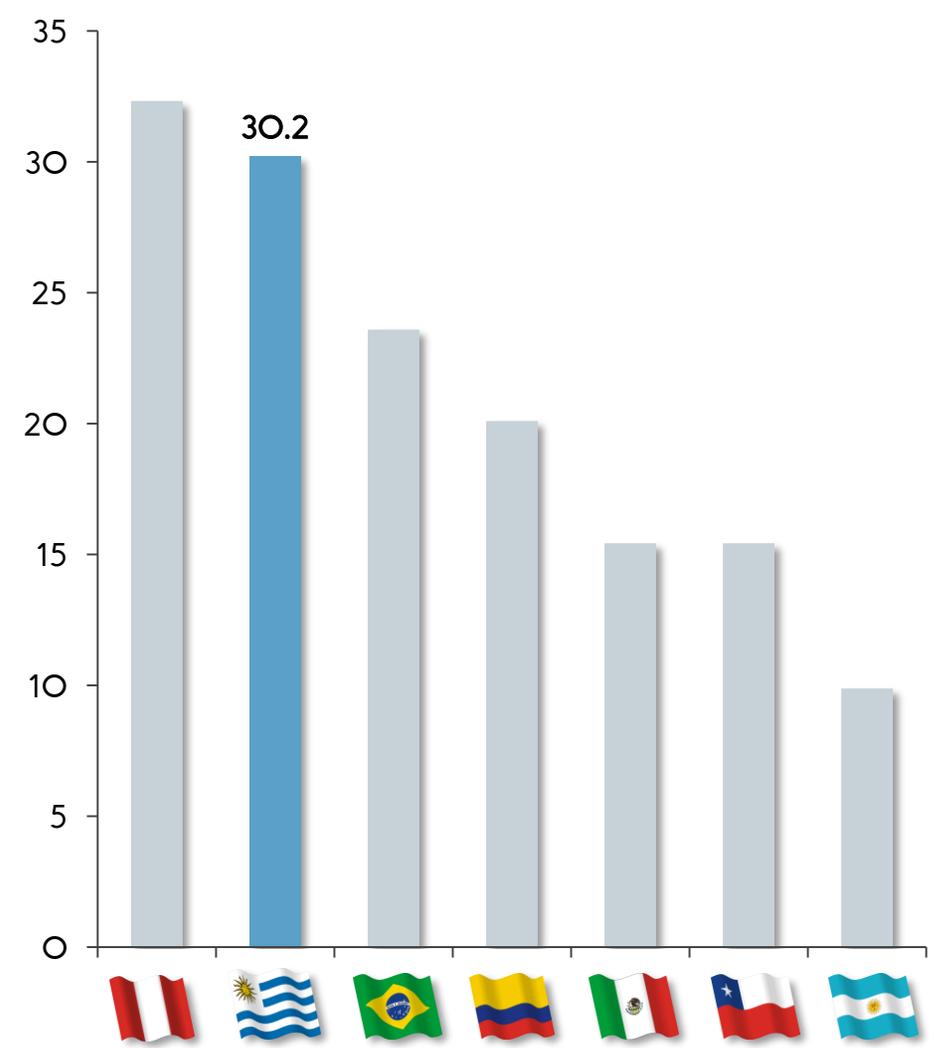
# 4 The nominal exchange rate has shown relative stability over the last year, including during risk-off episodes



**Nominal Exchange Volatility in LatAm (1)**  
 (Quarterly average of absolute value of daily percent changes)



**International Reserves in Latam (2)**  
 (In % of GDP, as of end-June 2021)

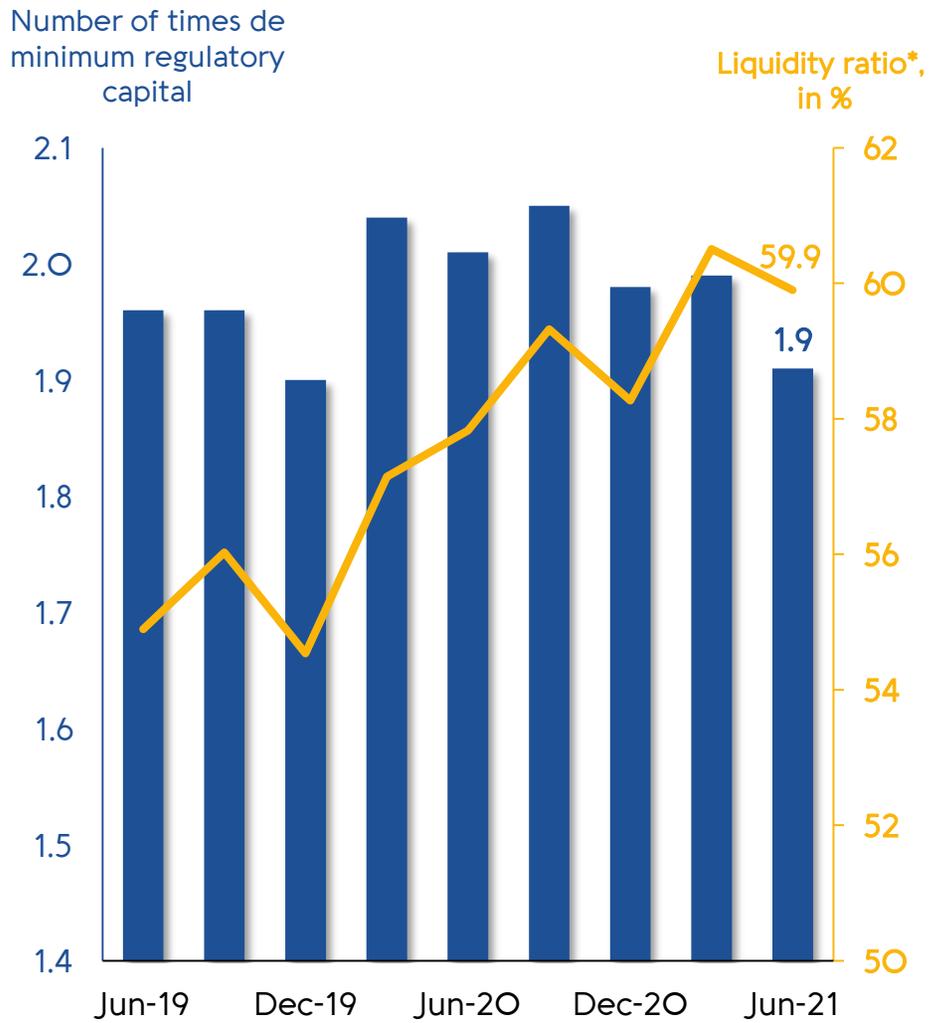


(1) Source: ECLAC, based on Bloomberg.  
 (2) Source: Official National Statistics of each country.

# Banking sector remains profitable and well-capitalized with high liquidity levels



## Solvency and liquidity of the banking system

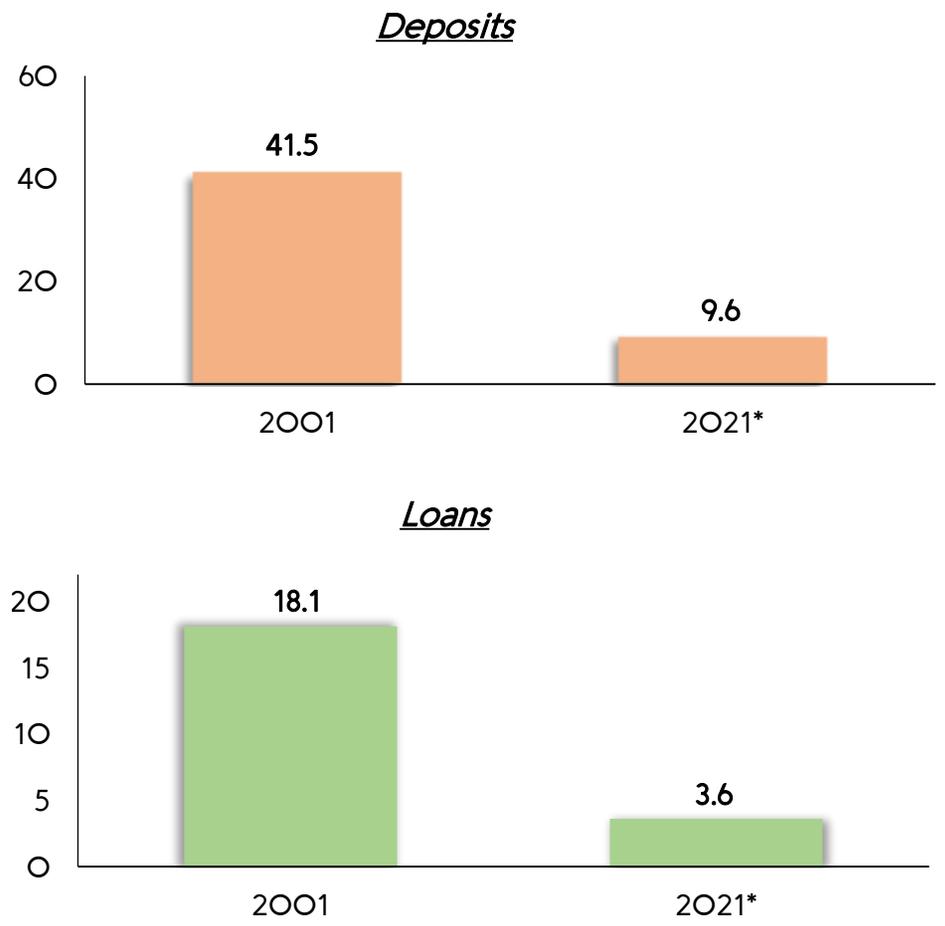


(\*) Share of liquid assets (maturity up to 30 days) over total assets.

Source: Central Bank of Uruguay.

## Banking system's exposure to non-residents

(To the non-financial sector, % of total)<sup>1/</sup>



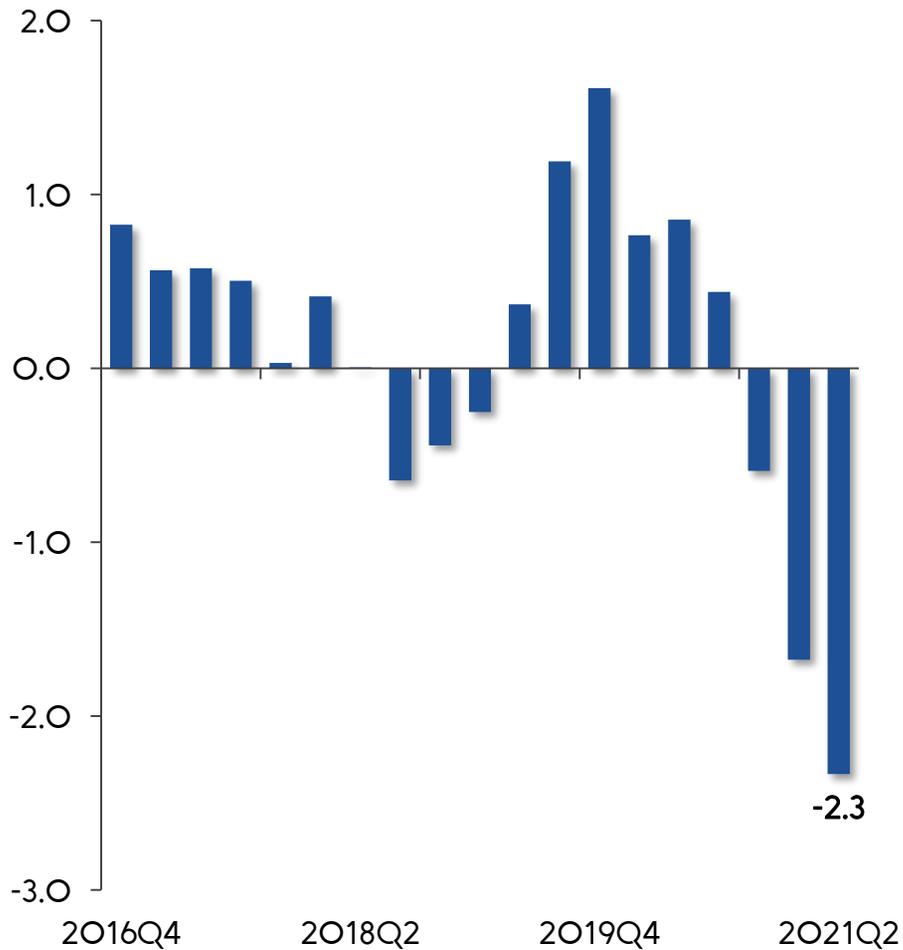
<sup>1/</sup> End-period; data for deposits includes only private non-financial sector

(\*) As of September 2021.

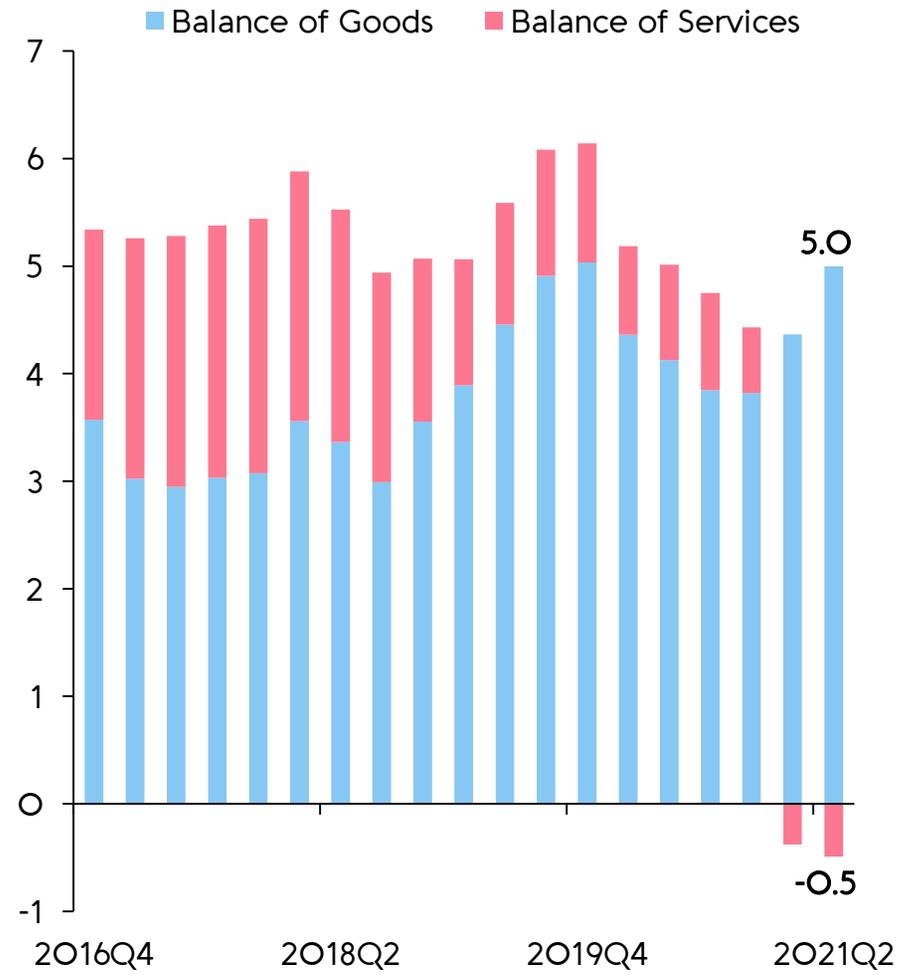
# Moderate current account deficit and large international reserves



### Current Account Balance of Uruguay (Rolling 4-quarters, in % of GDP)



### Goods and Services Balances of Uruguay (Rolling 4-quarters, in % of GDP)



Source: Central Bank of Uruguay.

# Government forges ahead with structural and market-friendly reforms



## Covid-19 Solidarity Fund



## Urgent Consideration Law



## 2020-2024 Budget Law



## 2020 Accountability Law



Approved on April 8<sup>th</sup>, 2020

- Voted unanimously by all parties, to be managed by the Executive branch.

- Fund earmarks the budgetary resources to address the emergency, keeping tabs of the Covid-related expenditures and where and how the money is spent.

Approved on July 9<sup>th</sup>, 2020

- Changes in the tax code for small businesses.
- Changes in the regulatory framework for energy markets.
- Commission of experts of the Pension Reform submitted the diagnosis on March 23<sup>rd</sup> 2021 and has 90 days onwards to present a comprehensive reform to Congress.
- Draft of new fiscal framework.

Approved on December 18<sup>th</sup>, 2020

- New governance for public enterprises: performance targets and accountability.
- Environmental and ESG-focused policies (Helsinki Principles).
- Implementation of new fiscal institutionality.

Approved on October 26<sup>th</sup>, 2021

- Achievement of 2020 fiscal targets.
- Updated macro and fiscal projections for the 2021-2025 period.
- Focus on the efficiency of primary expenditures and the implementation of social programs addressing child poverty and housing for lower-income families

On September 29, 2021, the **Fiscal Advisory Council** was established (a technical, honorary and independent body) tasked with assessing the overall implementation of the fiscal rule.



# Strong ESG foundations

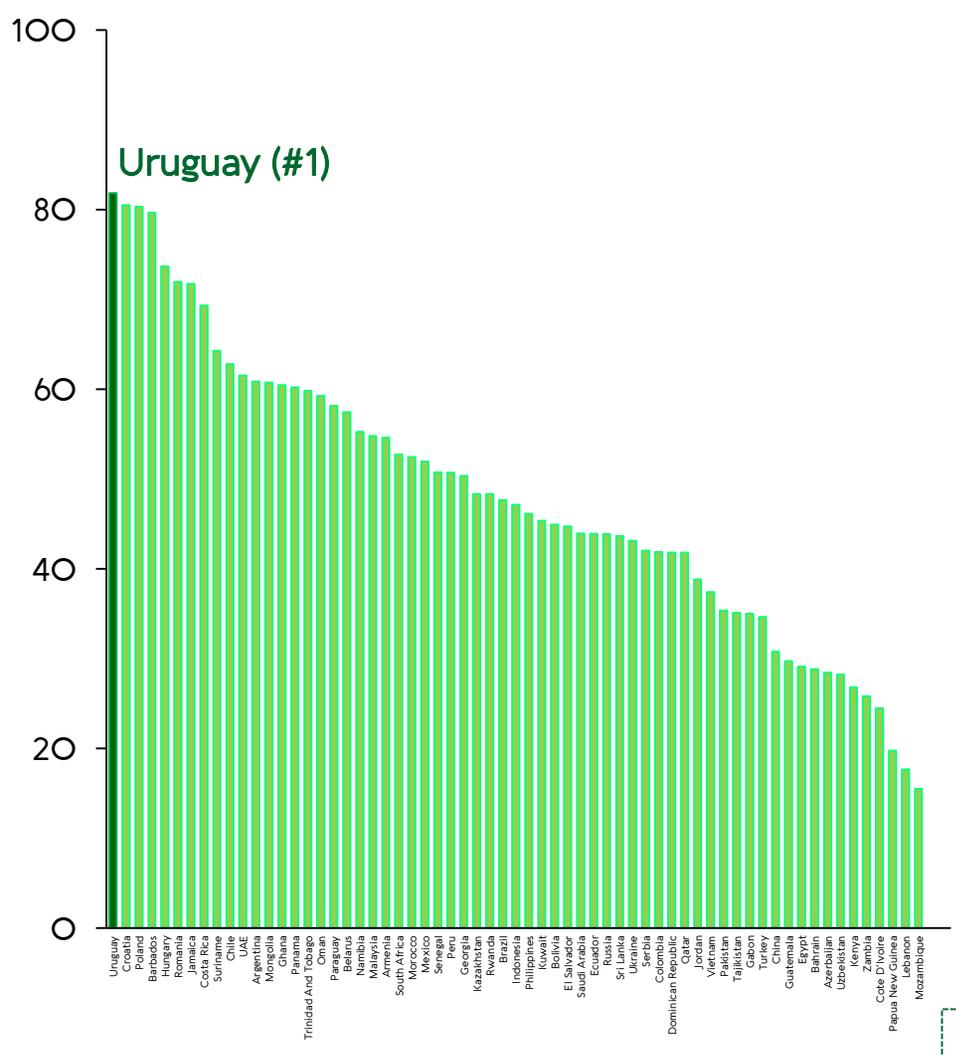


# Uruguay is on top of global performers on ESG fundamentals



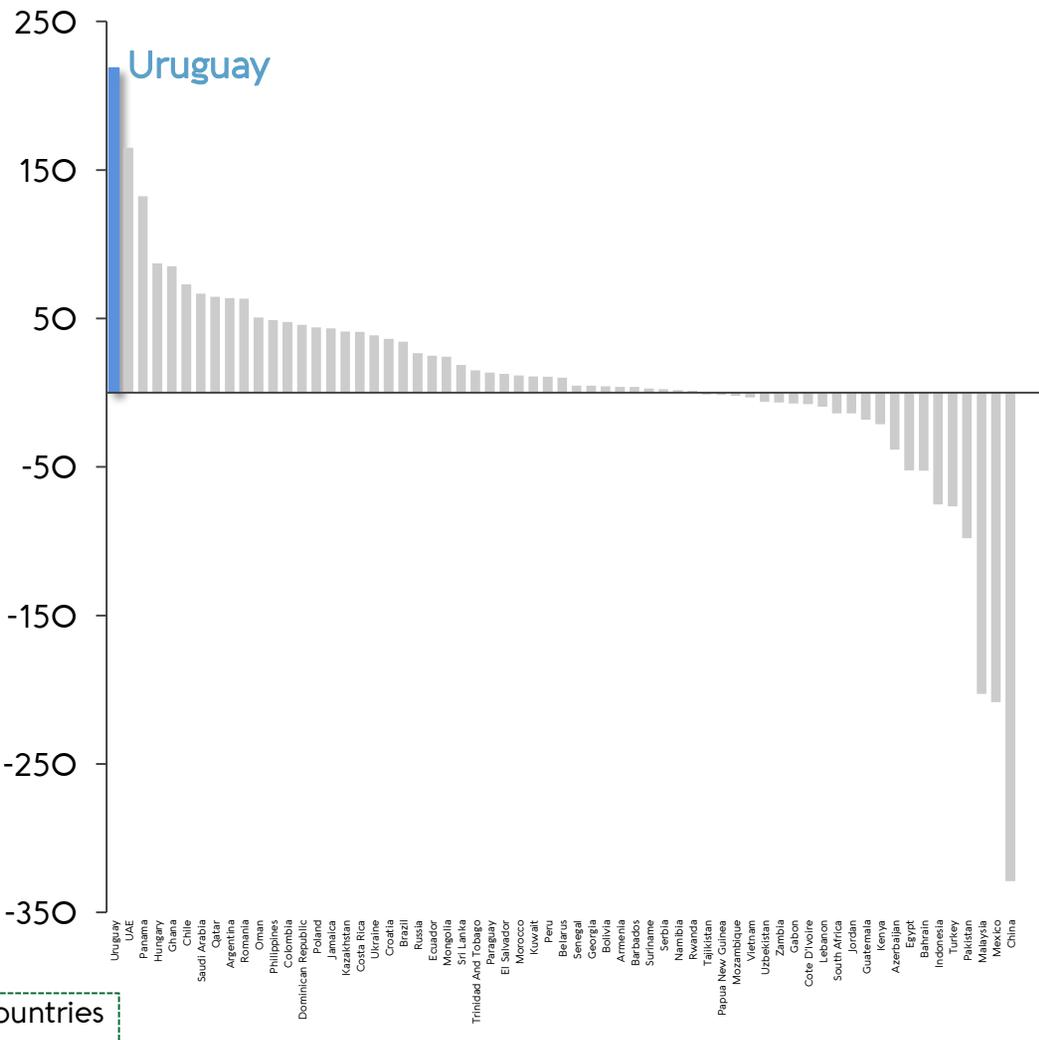
### Emerging Markets' ESG Score

(Index, 100 = best performance; as of end-October, 2021)



### Weight change when moving from Conventional EMBI to ESG-Adjusted EMBI

(In basis points; as of end-October, 2021)



63 countries

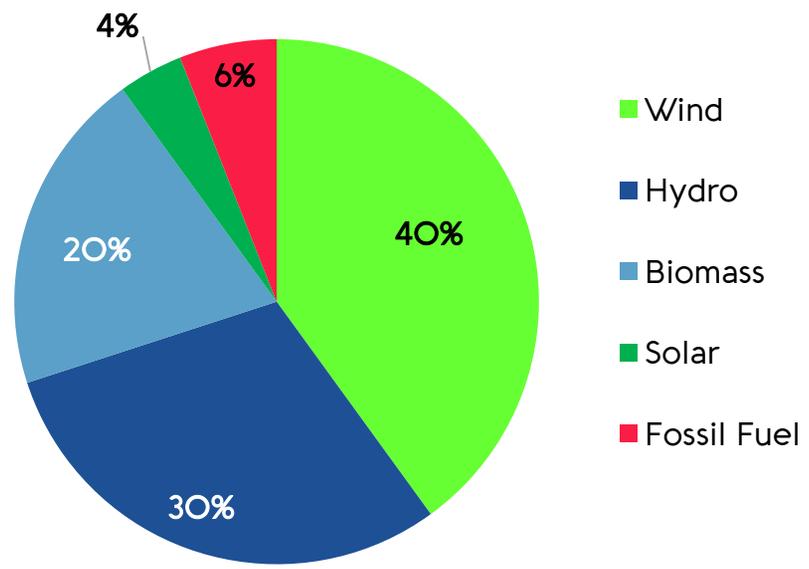
Source: J.P. Morgan Chase & Co. using data from RepRisk, Sustainalytics and Climate Bonds Initiative.  
Disclaimer: "Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2021, J.P. Morgan Chase & Co. All rights reserved."

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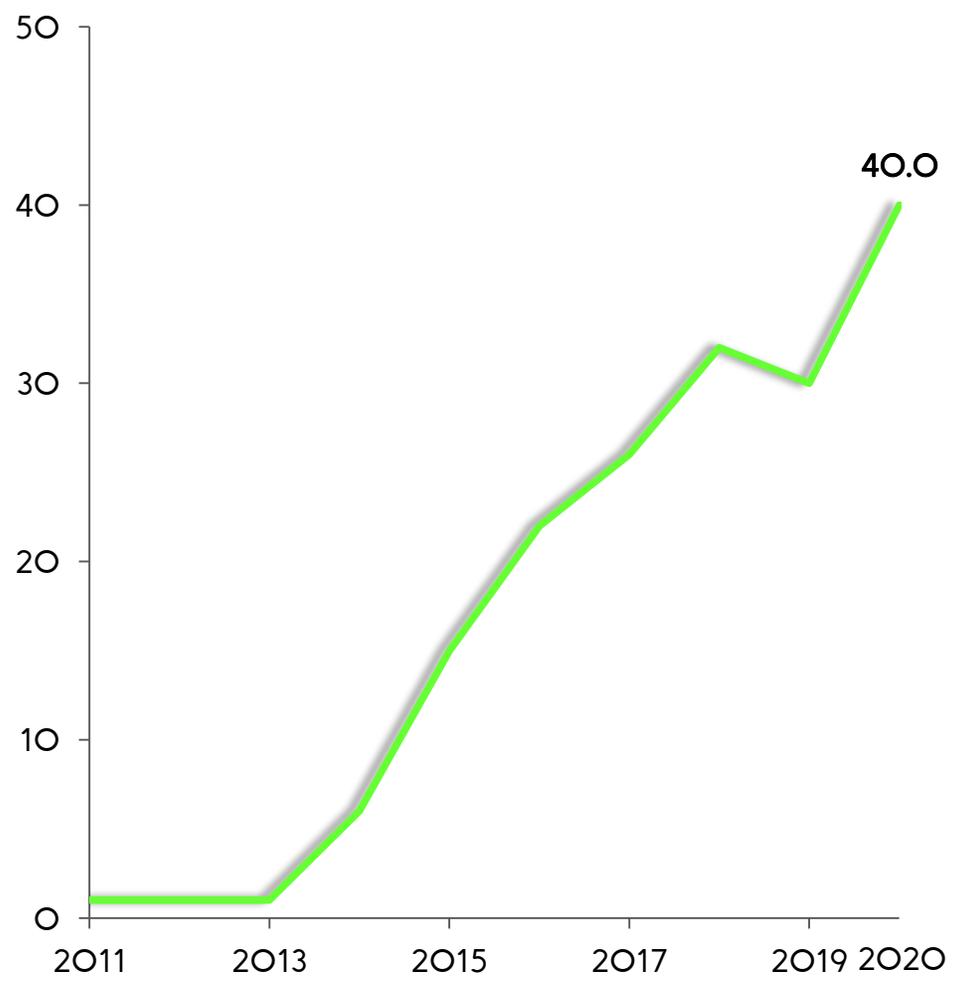
**ESG** : Uruguay's electricity matrix is mostly based on renewable resources, partly as a result of a steady growth in wind energy in the last decade...



**Electricity Generation by Source (1)**  
(% of total, 2020)



**Electricity Generation from Wind Energy (1)**  
(% of total)



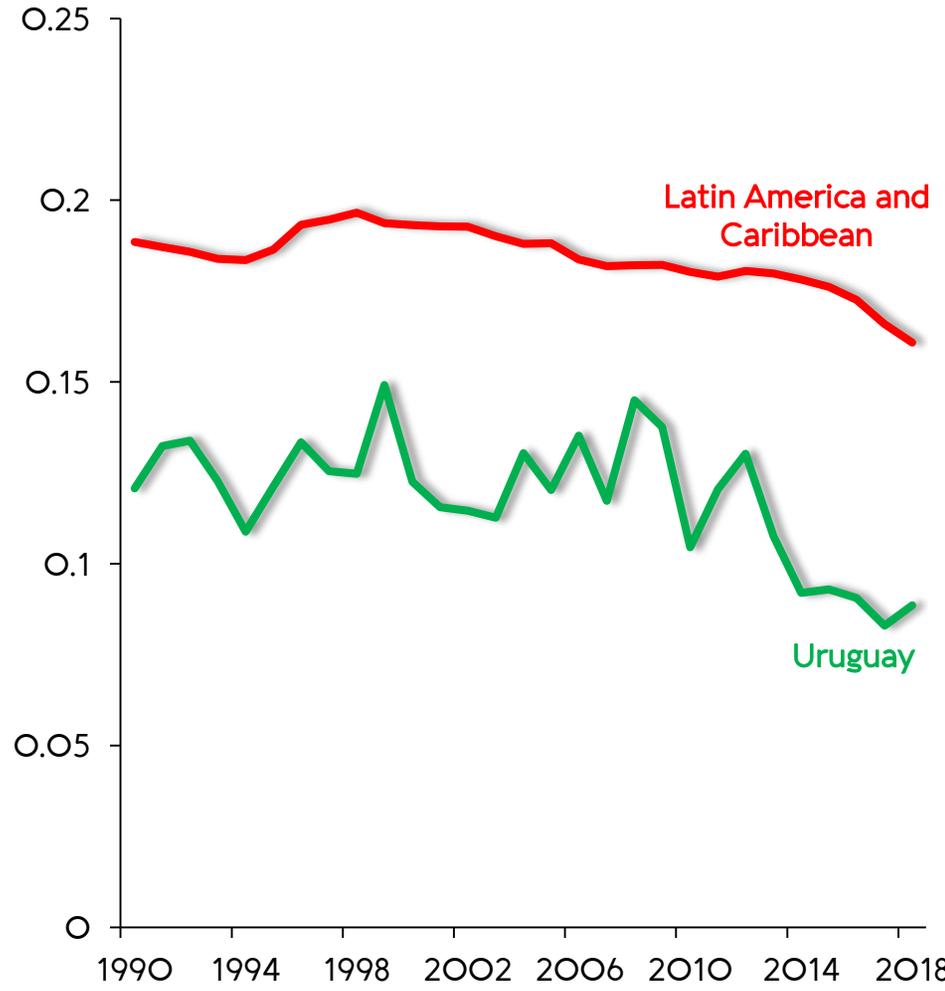
Uruguay ranks #2 in the world in share of electricity production from wind and solar sources in 2020(2)

(1) Source: National Energetic Balance 2020, Ministry of Industry, Energy and Mining.  
(2) Source: Ember's Global Electricity Review 2021

# ESG : Uruguay is at the forefront of environmentally-friendly policies, reflected in low carbon intensity



### CO<sub>2</sub> Emissions Intensity <sup>(1)</sup> (kg per 2011 PPP GDP)



## Ranked #1 in the:

- WEF Energy Transition Index among Emerging and Developing Countries
- MSCI Environmental Pillar Index among all countries in the world
- Green Future Index, MIT Technology Review

(1) Source: World Bank

## ESG : The Government is committed to climate action policies



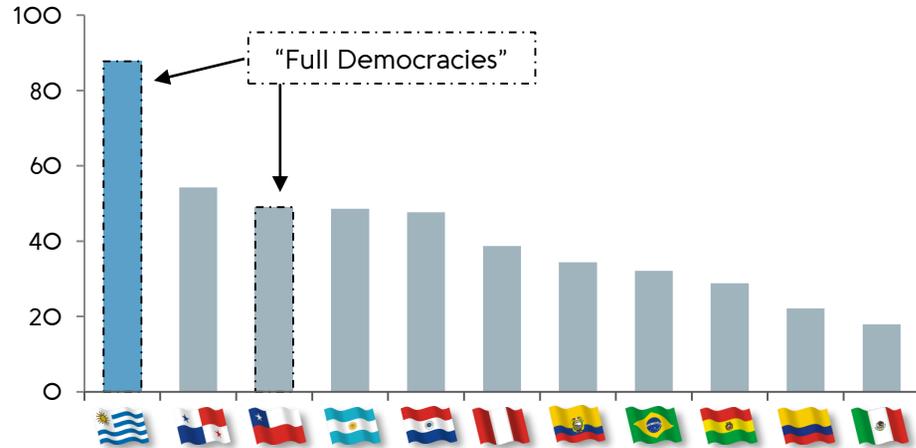
The goal is to make economic growth consistent with a pathway towards low greenhouse gas emissions and a climate-resilient economy, through macroeconomic, fiscal and financing policies.

- Creation of the Ministry of Environment (*July, 2020*).
- The Government joined the Coalition of Finance Ministers for Climate Action (*October, 2020*).
- The Central Bank joined the Network for Greening the Financial System (*November, 2020*), and announced a diversification strategy of the international reserves' portfolio towards a green bonds' investment fund (*September, 2021*).
- The Helsinki Principles were explicitly incorporated in the 2020-2024 Government Budget Law, putting climate resilience at the center of the planning and design of economic policies and fiscal management (*December, 2020*).
- The Ministry of Industry and Energy launched the national road-map for green hydrogen production.
- The Government will launch in November 2021 its Long Term Strategy on Climate Change, with an aspirational goal of net-zero Co2 by 2050.

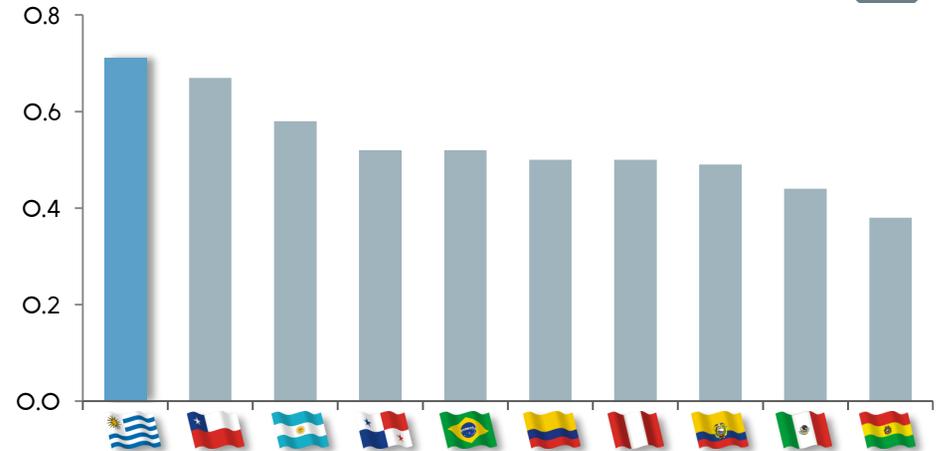
# ESG: Uruguay is a bastion of institutional, political and social stability in LatAm, ranking alongside most developed nations



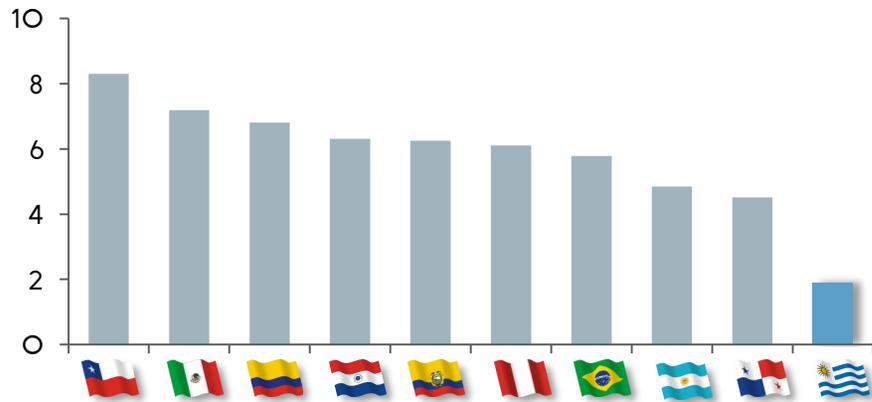
**Political Stability and Democracy (1)**  
(Percentile rank, year 2020)



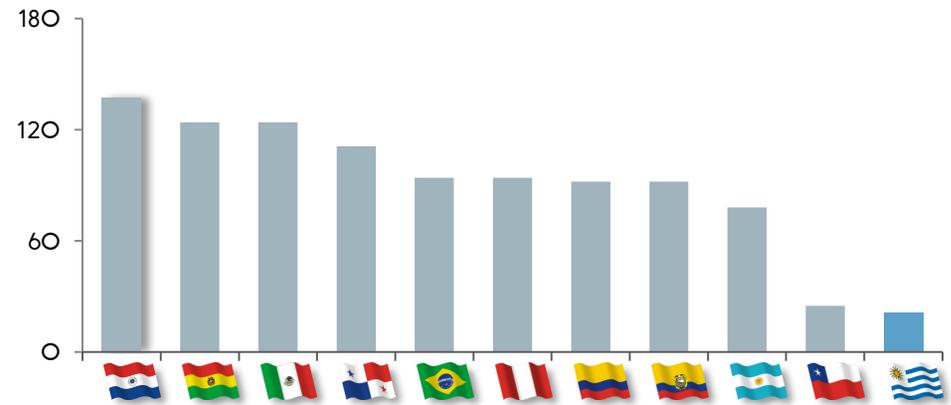
**Adherence to the Rule of Law (2)**  
(Numerical score out of 1, year 2021)



**Civil Unrest (3)**  
(Index out of 10, first quarter of 2020)



**Corruption Perception (4)**  
(Rank, year 2020)



(1) Source: Worldwide Governance Indicators, World Bank (2021) and The Economist Intelligence Unit (2021).

(2) Source: World Justice Project (2021).

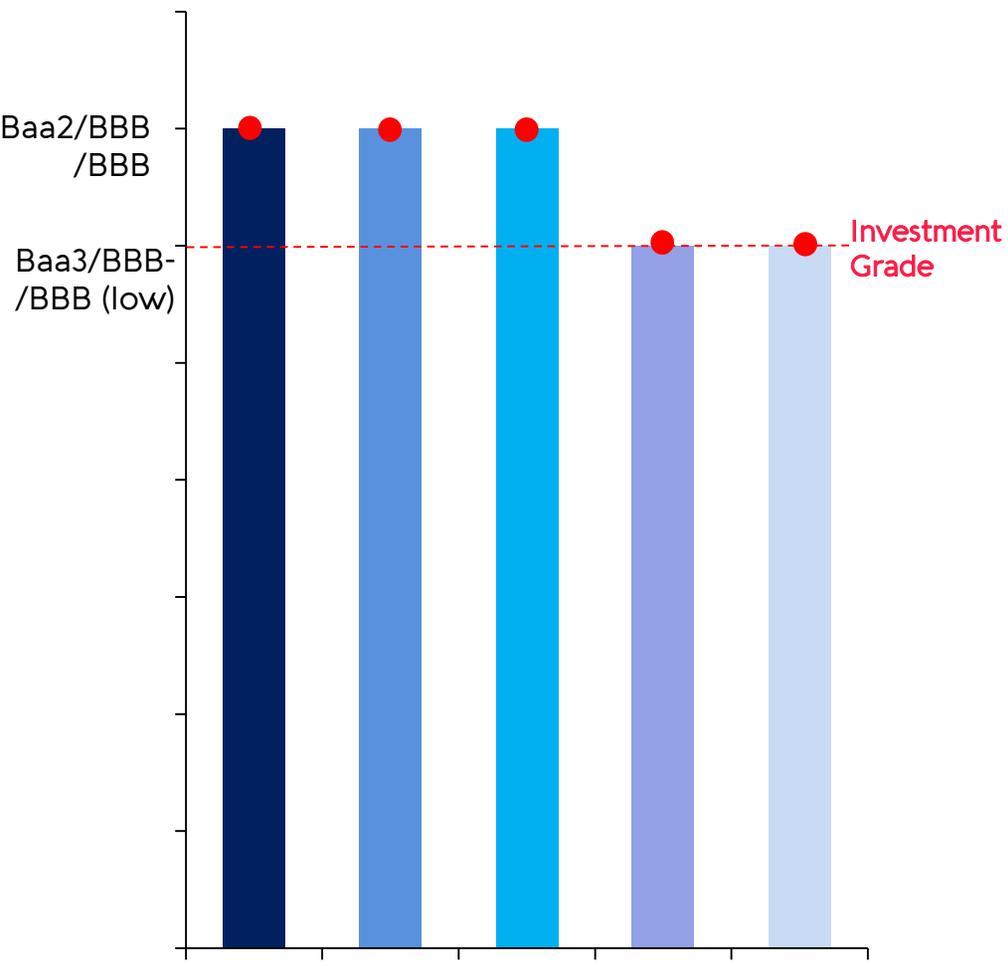
(3) Source: Verisk Maplecroft ((2020).

(4) Source: Transparency International (2021).

# Uruguay's is an investment grade, low-beta country, with lowest sovereign risk spread in LATAM



**Uruguay's sovereign credit ratings (1)**  
(As of November 11<sup>th</sup>, 2021)



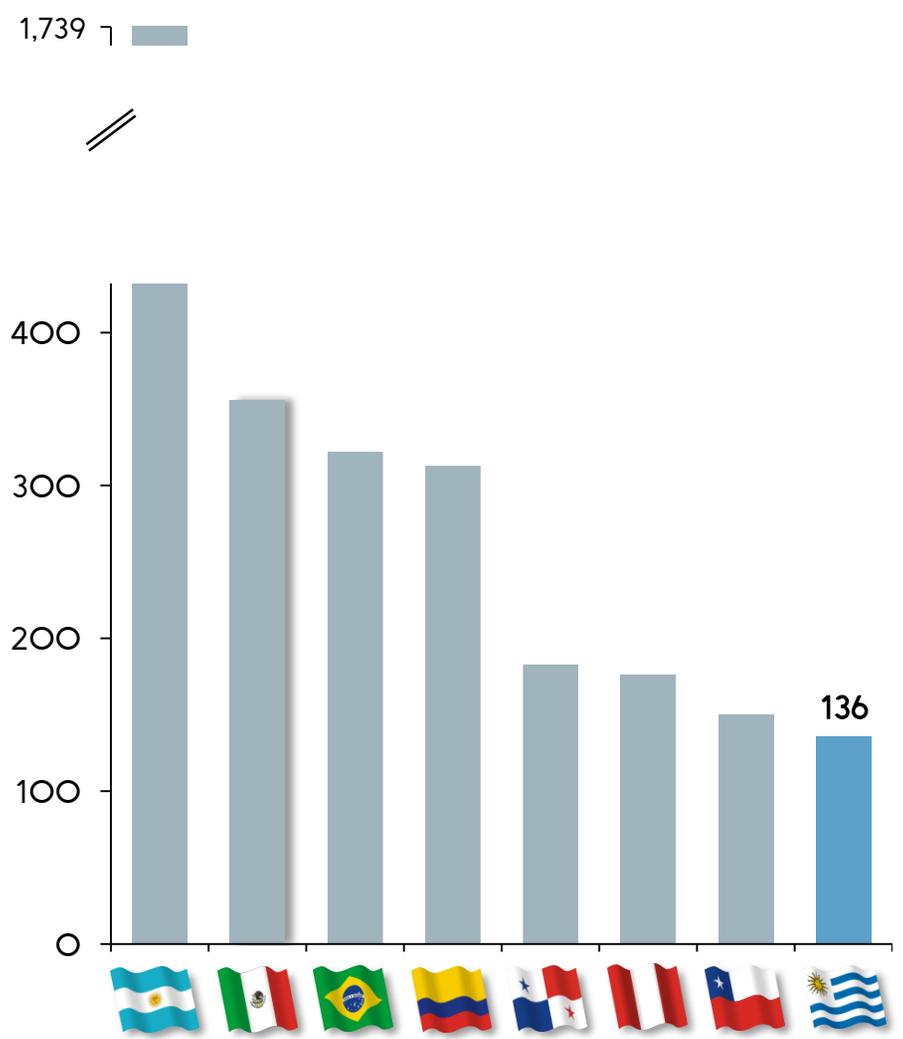
**Outlook:** (Stable) (Positive) (Stable) (Stable) (Negative)

**Last update:** Aug-21 Jun-21 Apr-21 Jan-21 Jun-21

(1) Source: Moody's, S&P, R&I, DBRS-Morningstar and Fitch.  
(2) Source: Bloomberg

**Sovereign Risk Premia (2)**

(EMBI spread in bps, as of November 11<sup>th</sup>, 2021)



# Resilient debt structure and sustainable financing strategies

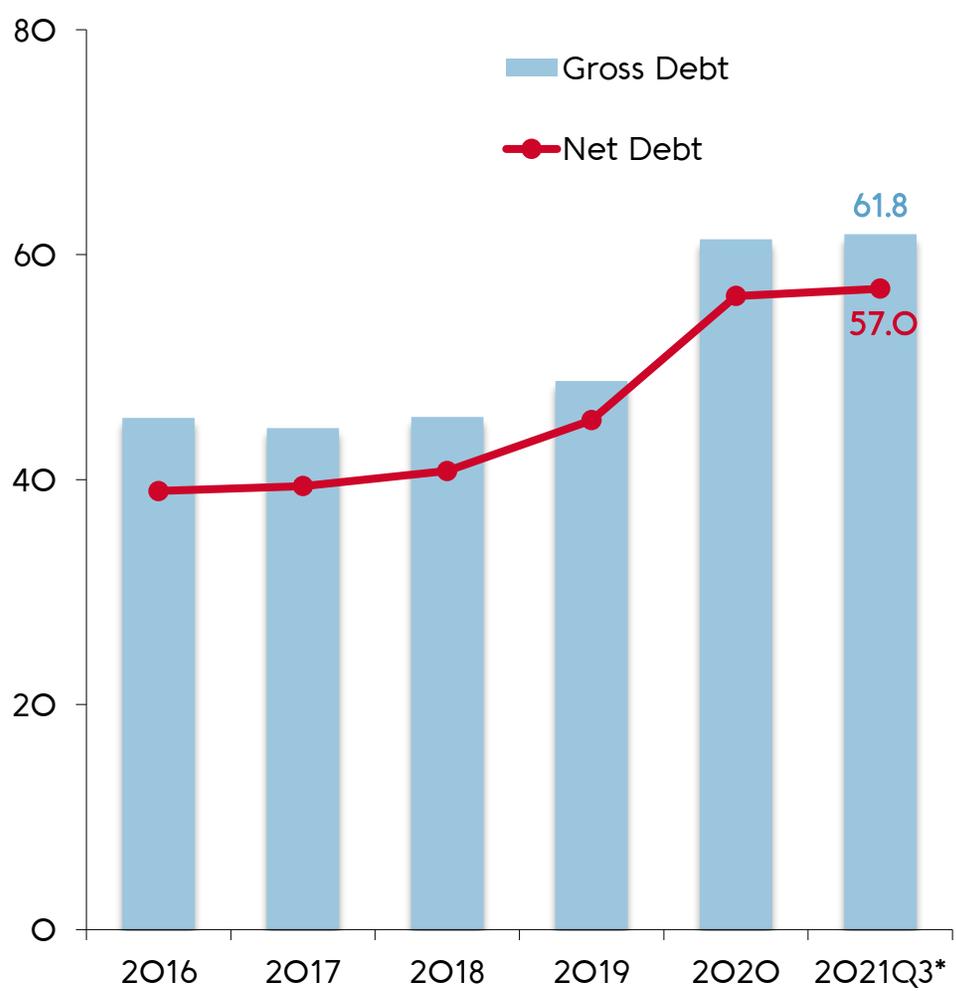


Hornero (*Vanellus chilensis*), in the door of his nest. Photo credit: Emi Abe

# Proactive debt management strategies to de-risk debt portfolio while keeping borrowing costs contained

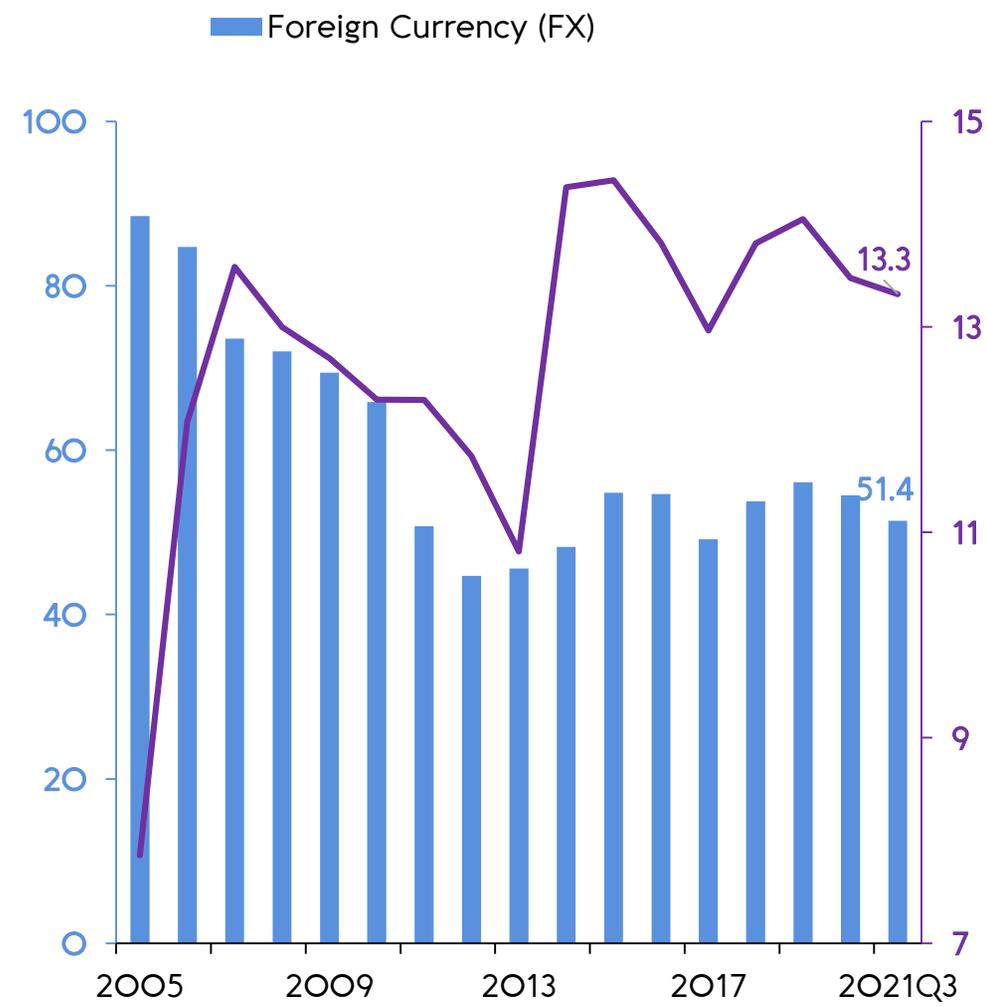


### Gross and Net Debt Stock of the Central Government (As of end-period, in % of GDP)



(\* Preliminar)

### Currency and Maturity Composition of Debt (As of end-period)

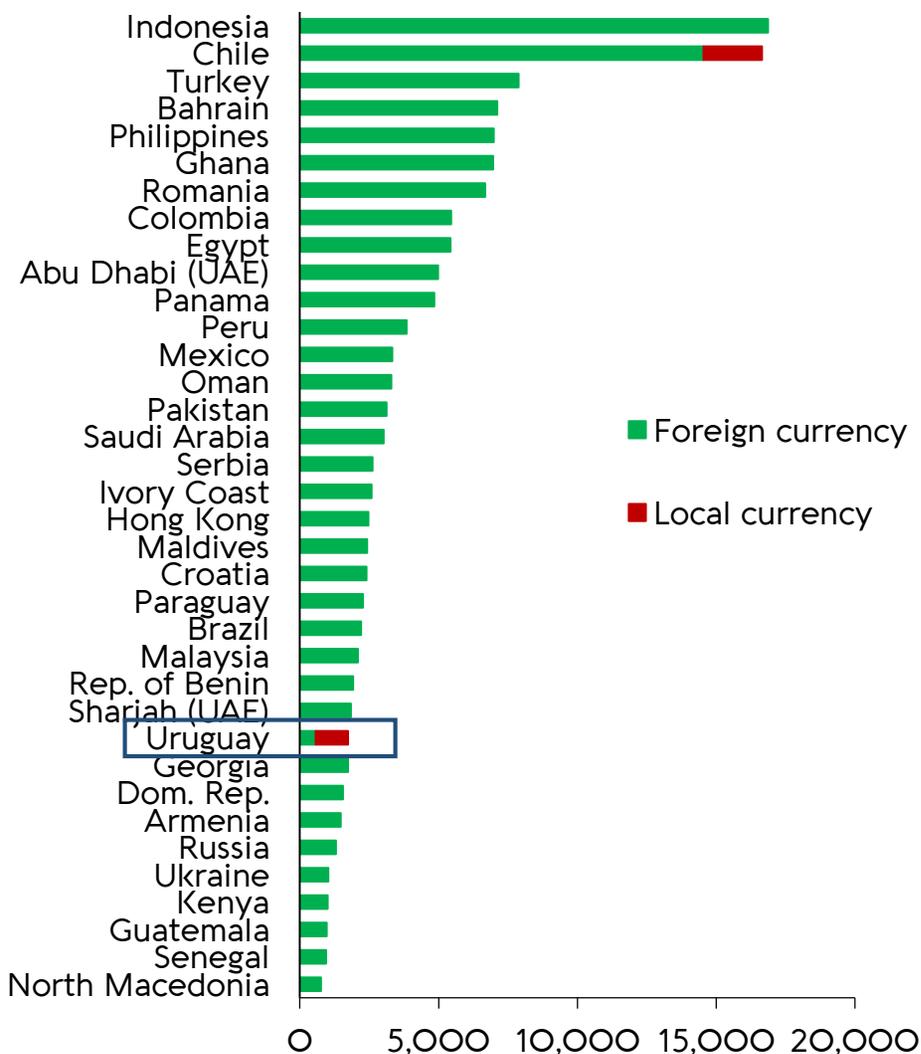


# In 2021, Uruguay's bond issuance has been mostly in local currency, with a growing relevance of the domestic market



## Emerging Markets: Sovereign International Bond Issuances during 2021 (\*) (1)

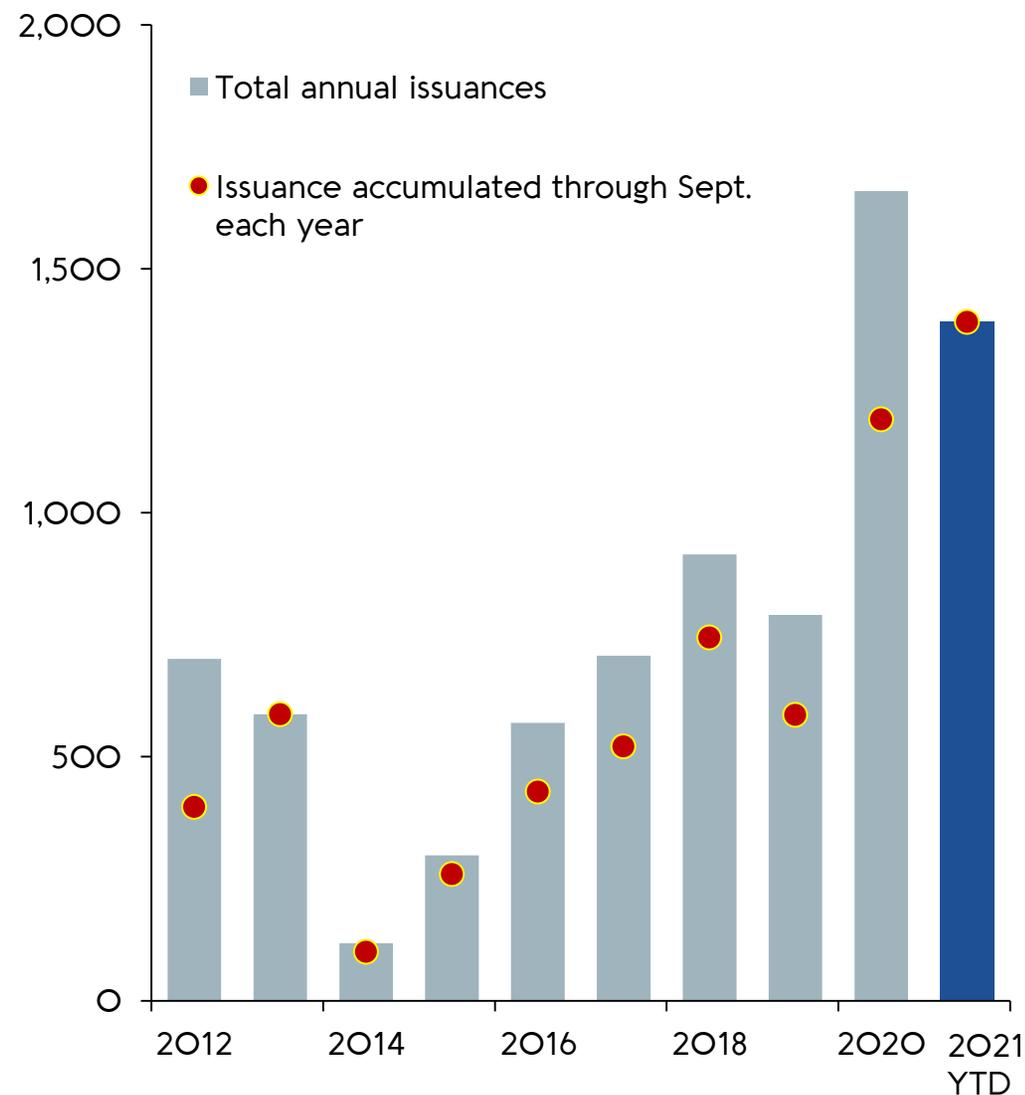
(In US\$ million, as of end-September)



(\*) For countries with several transactions in multiple currencies during the year, it shows the sum of total amount issued.  
Excludes European EM countries that have issued in Euros.

## Uruguay: Treasury Notes Issuances in Domestic Market (2)

(In US\$ million equivalent, as of end-September, 2021)



# Funding needs and financing sources for 2021



## Flow of Funds in 2021

(US\$ mm, projections)

<b>FINANCING NEEDS</b>	<b>4,964</b>
Primary Deficit <sup>(1)</sup>	1,264
Interests Payments <sup>(2)</sup>	1,492
Amortizations of Bonds and Loans <sup>(3)</sup>	2,142
Change in Financial Assets <sup>(4)</sup>	66
<b>FUNDING SOURCES</b>	<b>4,964</b>
Disbursements from Multilaterals and Fin. Instit.	600
Total Issuance of Market Debt <sup>(5)</sup>	4,317
Others (net) <sup>(6)</sup>	47
<b>Memo Item: Government Net Indebtedness (GNI)</b>	<b>2,709</b>

As of mid-October 2021, almost 72% of annual targeted bond issuance has been completed

(1) Excludes extraordinary transfers to the public Social Security Trust Fund (SSTF).

(2) Includes interests payments to the SSTF on its holdings of Central Government debt.

(3) For 2021, includes the obligations coming due on a contractual basis and bonds repurchased and early redeemed through October 29, 2021.

(4) Change in liquid assets of the Treasury and other financial assets (assets of the SiGa trusts and assets with other public sector entities, product of loans contracted by the Republic in representation of the same); a negative value (-) implies a de-accumulation of assets.

(5) Includes bonds issued domestically and in international markets.

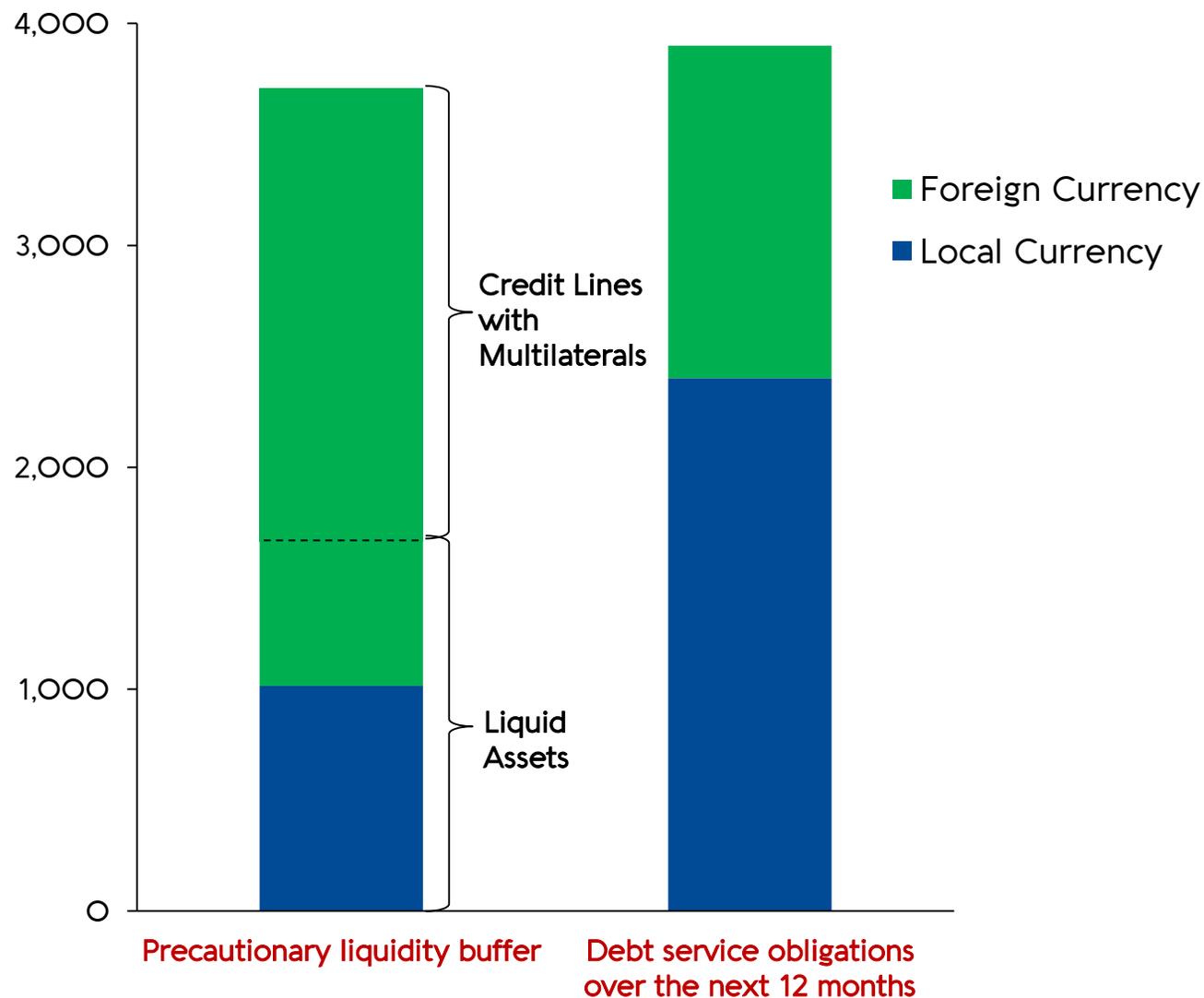
(6) Includes exchange rate and market price valuation effects.

# Large liquidity buffers and precautionary credit lines of the Central Government provide financial backstops



## Liquidity Buffers of the Government and Short-Term Debt Service Obligations <sup>(1)</sup>

(In US\$ million, as of end-September 2021)



Available precautionary credit lines with multilaterals totalize USD 2.0 billion:

- Corporación Andina de Fomento (US\$ 750 million);
- World Bank (US\$ 180 million)
- Fondo Latinoamericano de Reservas (US\$ 665 million)
- Inter-American Development Bank (US\$ 450 million)

<sup>(1)</sup> Debt service includes amortization plus interest payments.  
Source: Debt Management Unit, Ministry of Economy and Finance of Uruguay

## 8 Cornerstones of debt management strategy and sustainable financing



- Seek a balanced currency composition of debt in terms of local and foreign currency.
- Maintain a healthy average maturity of debt, to keep roll-over risks low.
- Diversify sources of funding across markets and continue building a large and diverse investor base.
- Align sovereign funding strategies with achieving ambitious environmental targets: working on a Sustainability-Linked Sovereign Bond tied to Uruguay's climate change commitments under the Paris Agreement.



**República Oriental  
del Uruguay**

***THANK YOU***