

República Oriental del Uruguay

Investor Presentation

October 2022



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



Ministerio
**de Economía
y Finanzas**

Key Credit Highlights

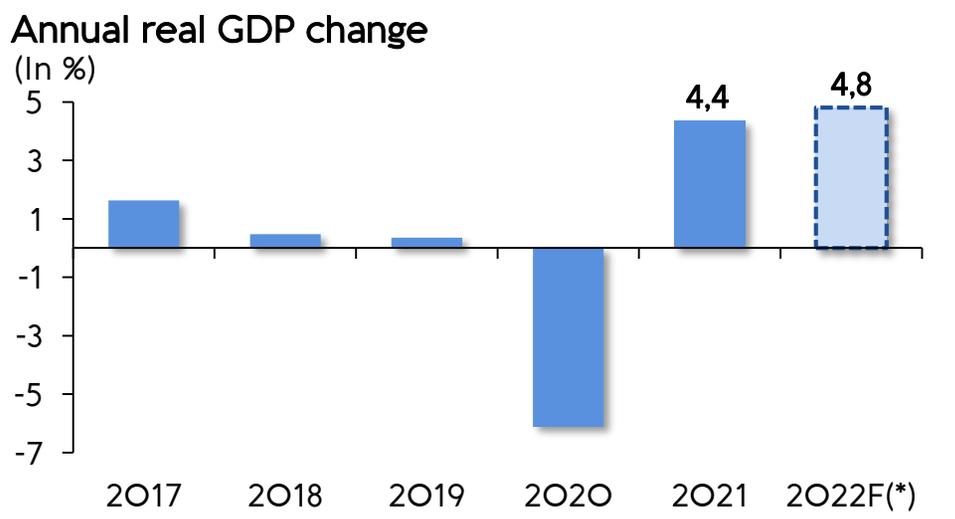
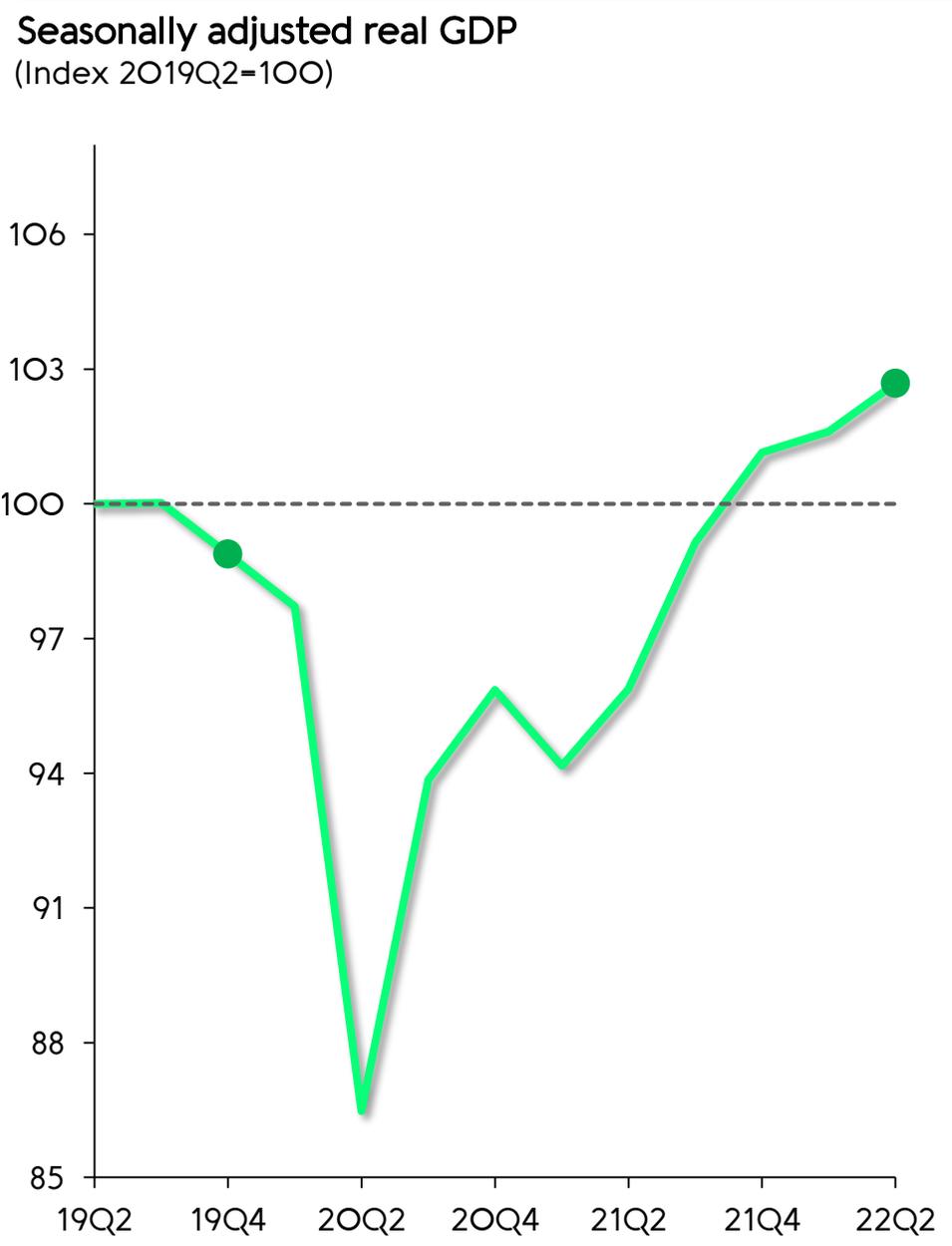
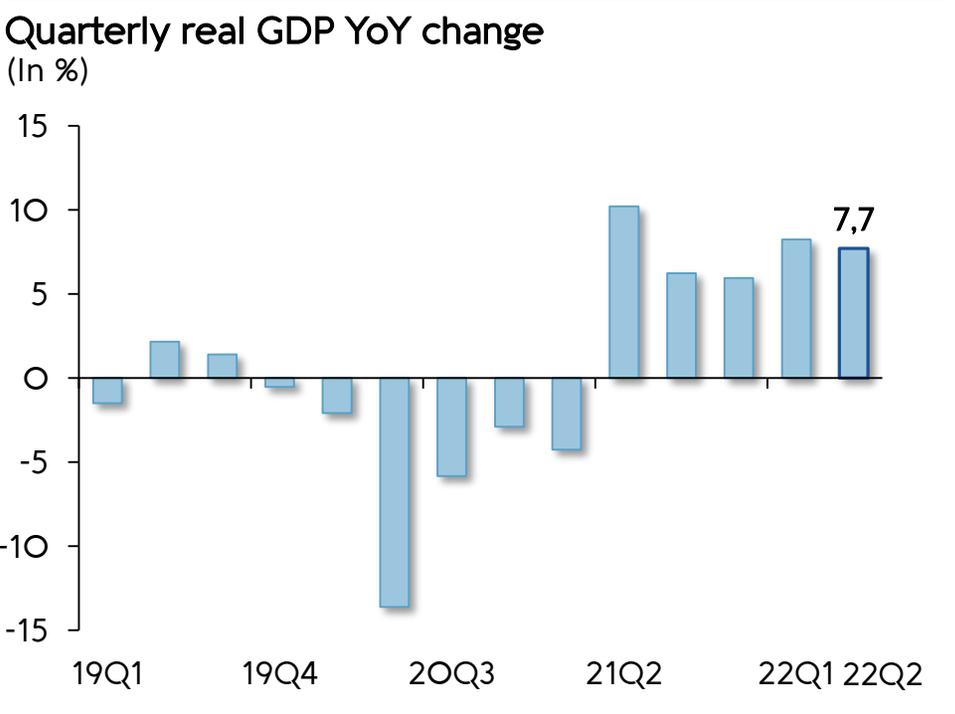


- 1 Swift vaccination plan muted fatality rates tied to Covid-19, and allowed for a faster renormalization of economic and social activities.
- 2 Strong economic recovery underway, driven by foreign direct investment, industrial production and higher commodity exports.
- 3 Impressive outperformance of public finances: fiscal targets achieved for two consecutive years under new fiscal rule.
- 4 Tighter monetary policy focused on reducing inflation and anchoring inflation expectations.
- 5 Resilient current account and large international reserve buffers.
- 6 Government forges ahead with structural reforms after referendum, including social security, public enterprises, education and international trade integration.
- 7 Uruguay is among the top global performers on ESG fundamentals, and was bastion of institutional, social and political stability during the pandemic.
- 8 Sovereign funding strategies focused on de-risking debt portfolio in a cost-efficient way, while aligning debt financing to environmental goals (new SSLB Framework published).

The economy is gaining momentum



2 Economic activity continued expanding, leaving behind pre-pandemic levels; Government estimates 4.8% GDP growth in 2022



Source: Central Bank of Uruguay
 (*) Ministry of Finance projection

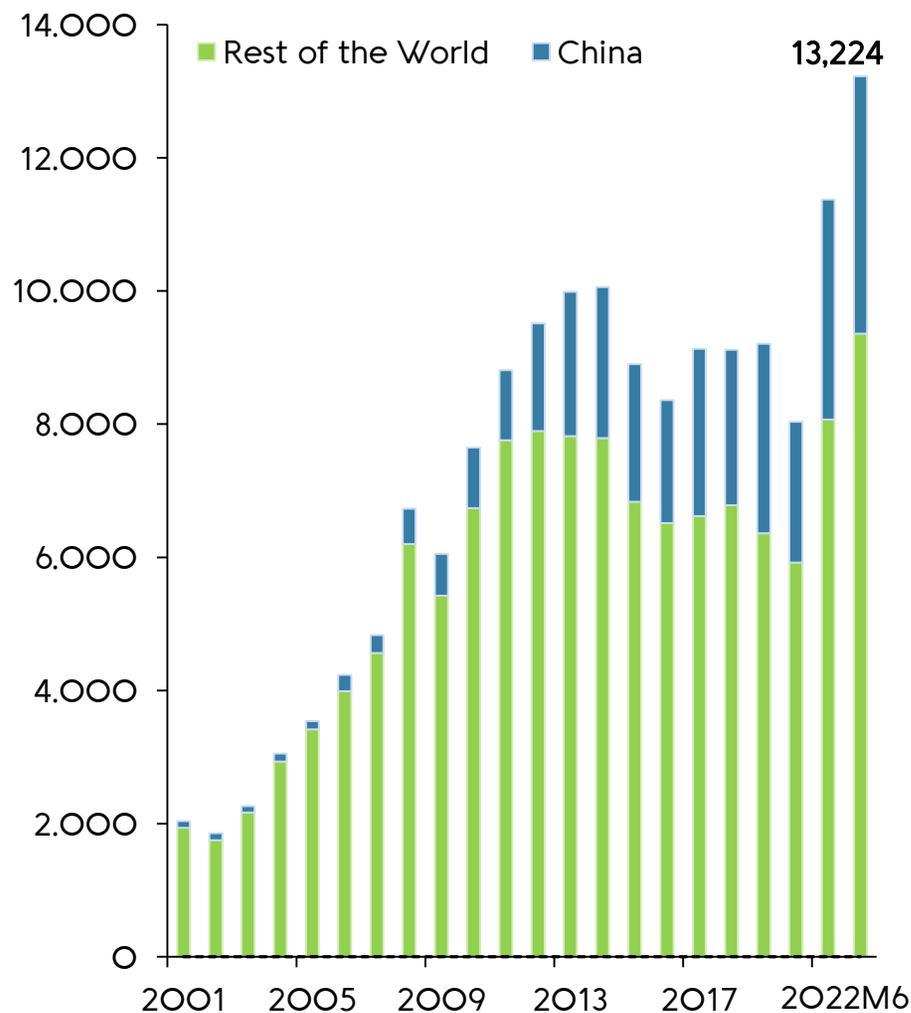
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Uruguay exports reached a record high in rolling-year through June 2022 on the back of higher commodity prices; the Government seeks to expand trade flows and trade agreements beyond MERCOSUR



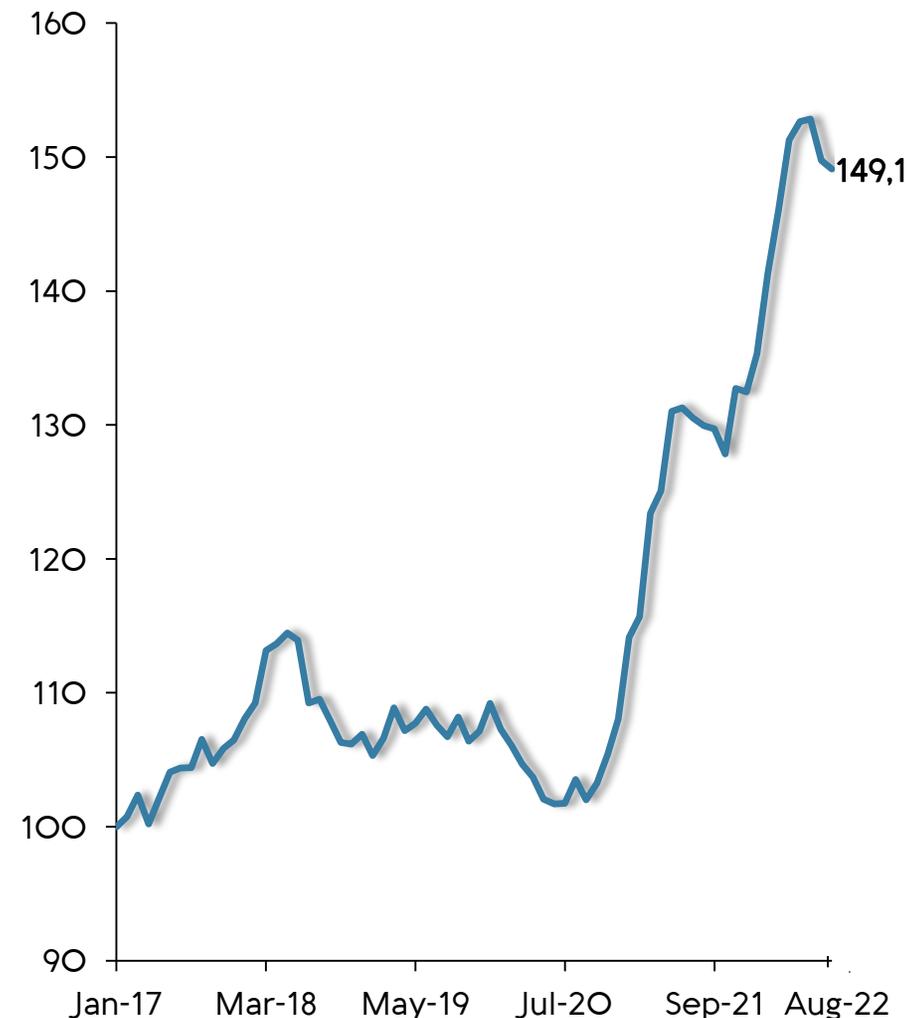
Export of goods (1)

(In millions of USD, rolling 12 months)



Commodities exports prices (2)

(Index base 100 = January 2017)



(1) Source: Uruguay XXI (figures include exports from the Free Trade Zones to the rest of the world). (*) For 2022, data through June corresponds to last 12 months.

(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

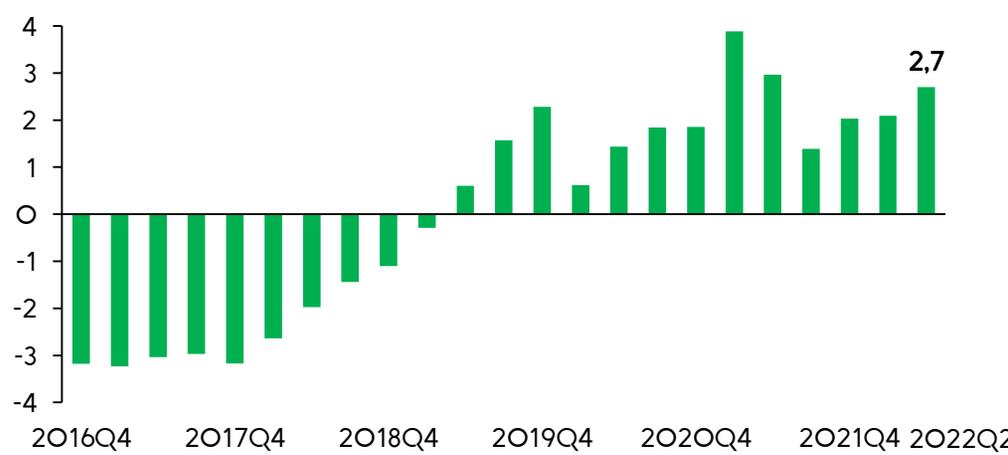


Ramp up in foreign direct investment and new tax incentives for fixed capital formation underpin the construction sector

UPM's pulp mill and Central Railway project (1)

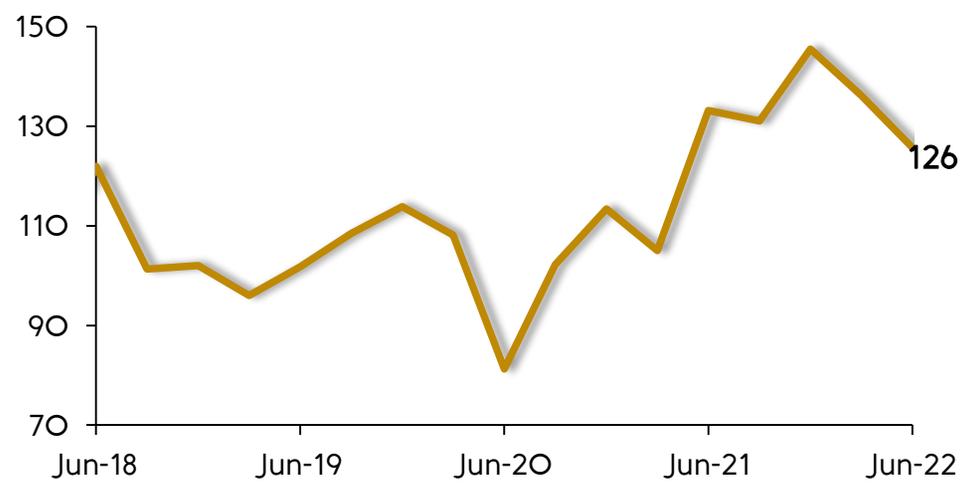
- UPM will invest a total of **US\$ 3 billion (5.5% of GDP)** to build a 2.1 million-tonne greenfield eucalyptus pulp mill in central Uruguay.
- **Proceeding according to schedule.** 3,000 people currently working at the construction site.
- **US\$ 1 billion investment in a Central Railway** running from Paso de los Toros city to the port of Montevideo (273 km long). Public-Private-Partnership (PPP) modality.

FDI net capital inflows (2) (Rolling 4-quarters, in % of GDP)



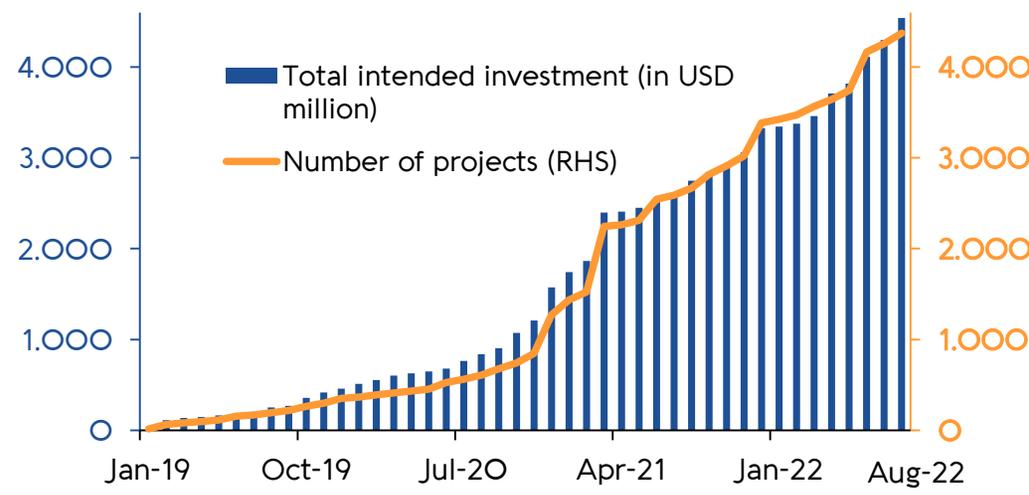
Investment in machinery and equipment (3)

(Real Index, base 100 = Jun-17)



Investment projects presented under COMAP regime (4)

(Cumulative since beginning of 2019)

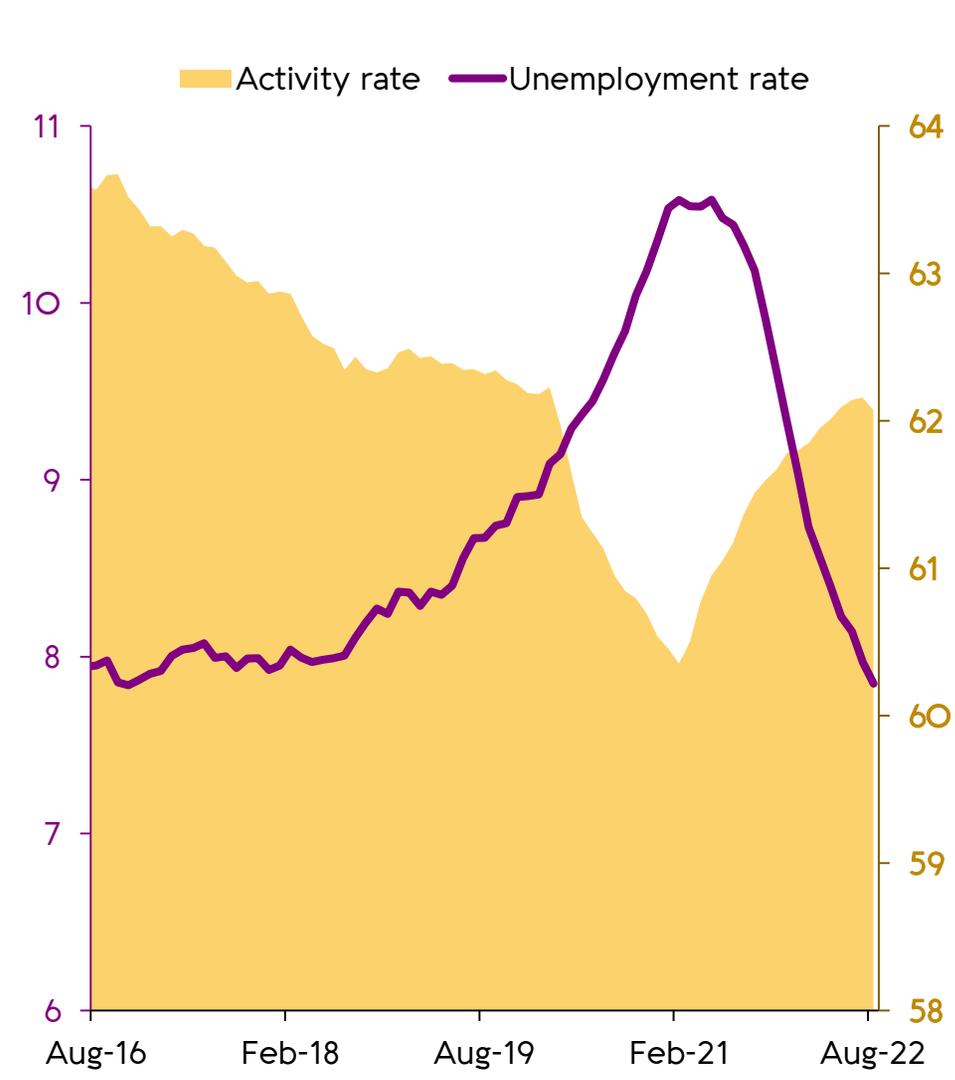


(1) Source: Ministry of Economy and Finance of Uruguay.
 (2) Source: Central Bank of Uruguay. Figures of the Financial Account of the Balance of Payments were revised.
 (3) Source: Chamber of Industries of Uruguay
 (4) Source: Ministry of Economy and Finance of Uruguay

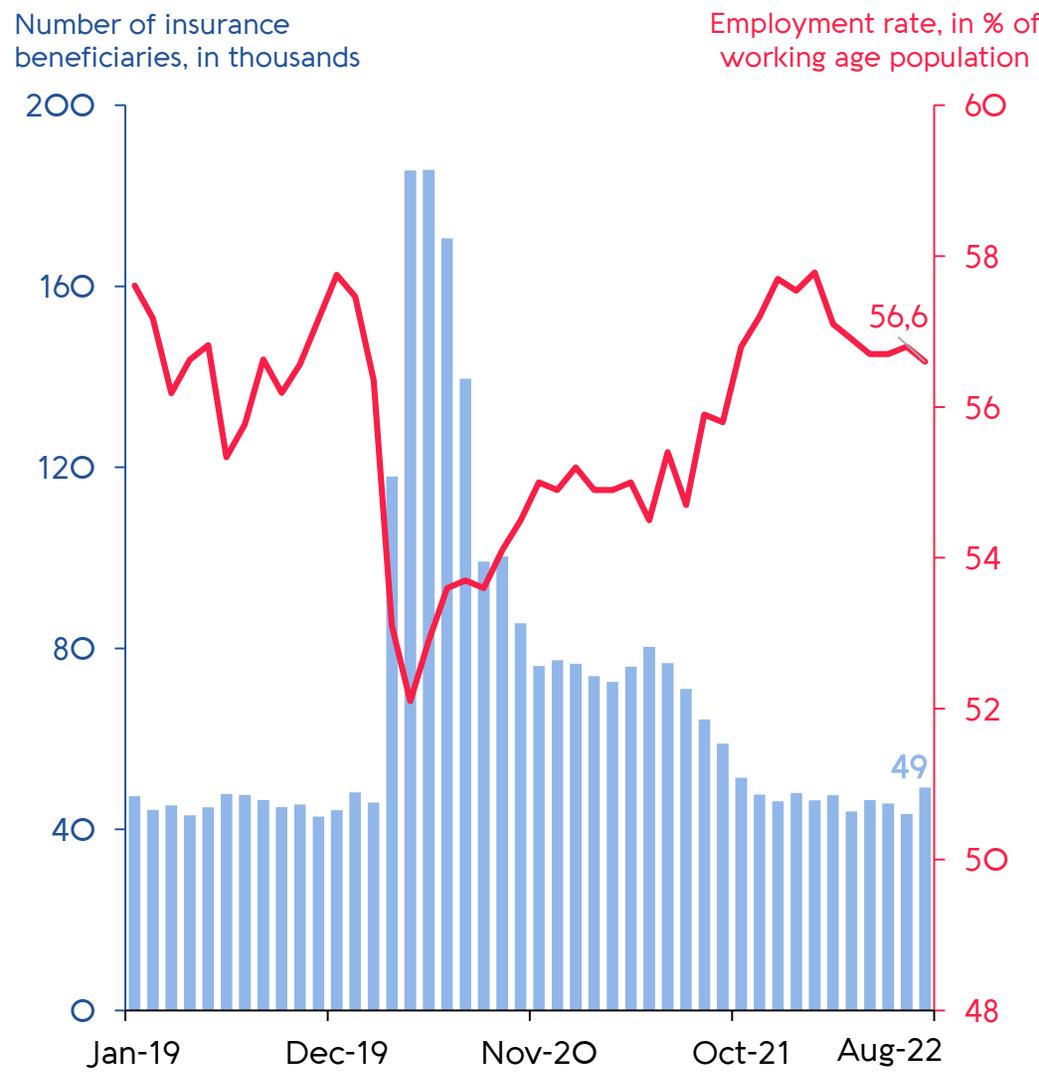
2 Labor market indicators show that the recovery process is still underway



Activity and Unemployment rate⁽¹⁾
(Average of last 12 months, in %)



Unemployment Insurance and employment rate ⁽²⁾
(Monthly observations)



(1) Source: National Institute of Statistics

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

Note: The traditional regime refers to the full unemployment insurance benefit according to Uruguayan law, whereas the partial regime implies that employees maintain the job relationship, working partial time.

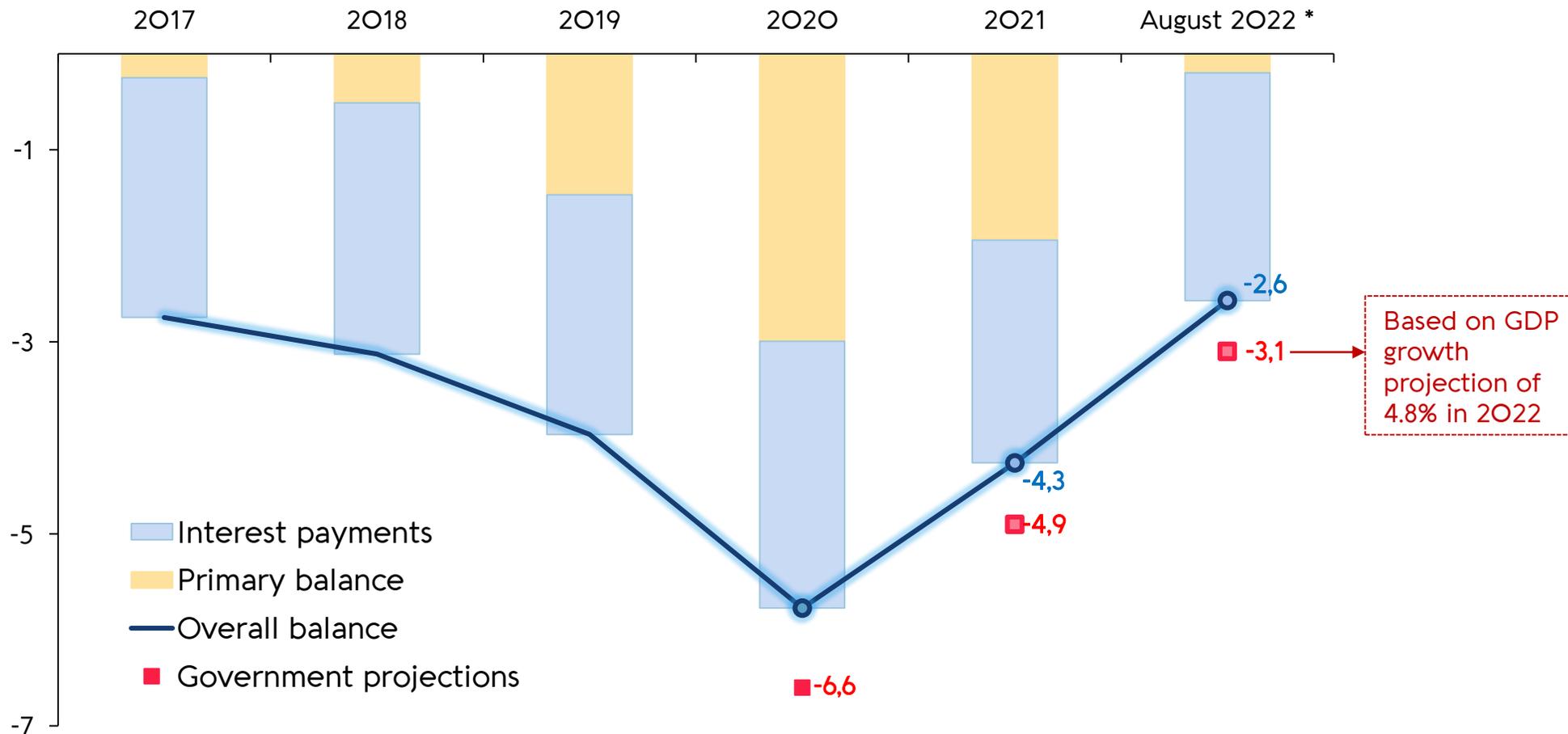


Impressive improvement in public finances based on strong commitment to fiscal discipline within the rules-based framework...



Central Government's fiscal balance ⁽¹⁾

(In % of GDP)



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

(*) For 2022, data through August corresponds to last 12 months. The projection is for the whole year.

...meeting all three pillars of the new fiscal rule for the Central Government both in 2020 and 2021, restoring fiscal credibility.



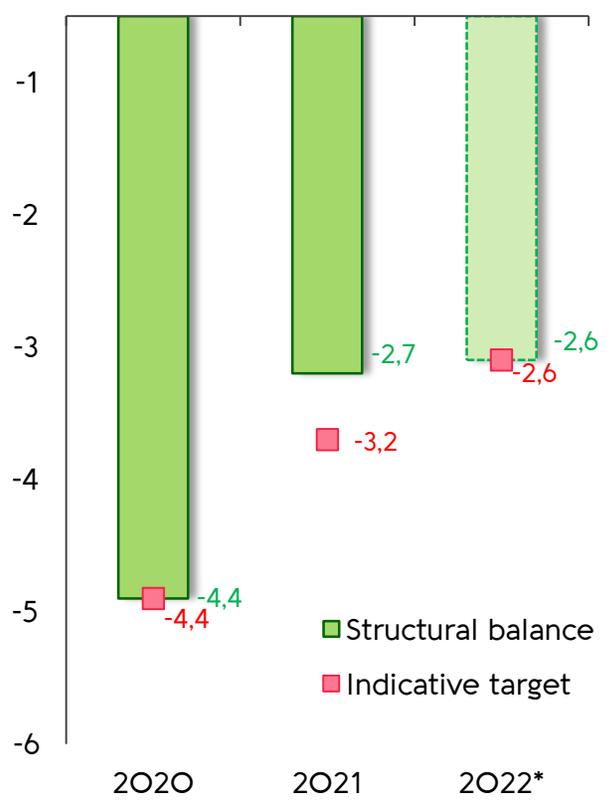
✓✓ Indicative target on structural fiscal balance, to account for business cycle fluctuations and one-off/temporary spending and revenue items.

✓✓ Indicative target cap on real growth in primary expenditure in line with estimated potential real GDP growth ⁽¹⁾

✓✓ Legally binding maximum level of annual net indebtedness in dollar amount.

Structural balance

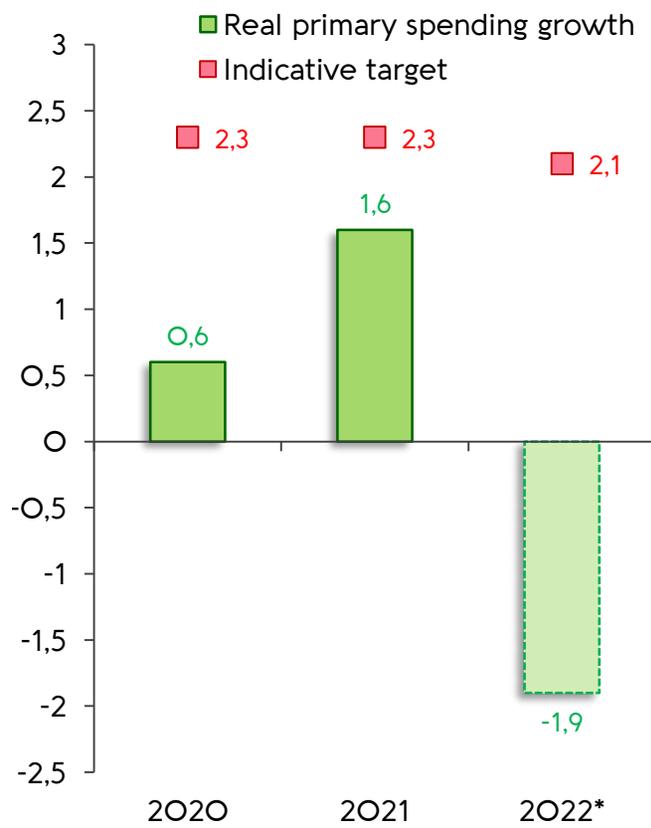
(In % of GDP)



(*) Projected

Primary spending (1)

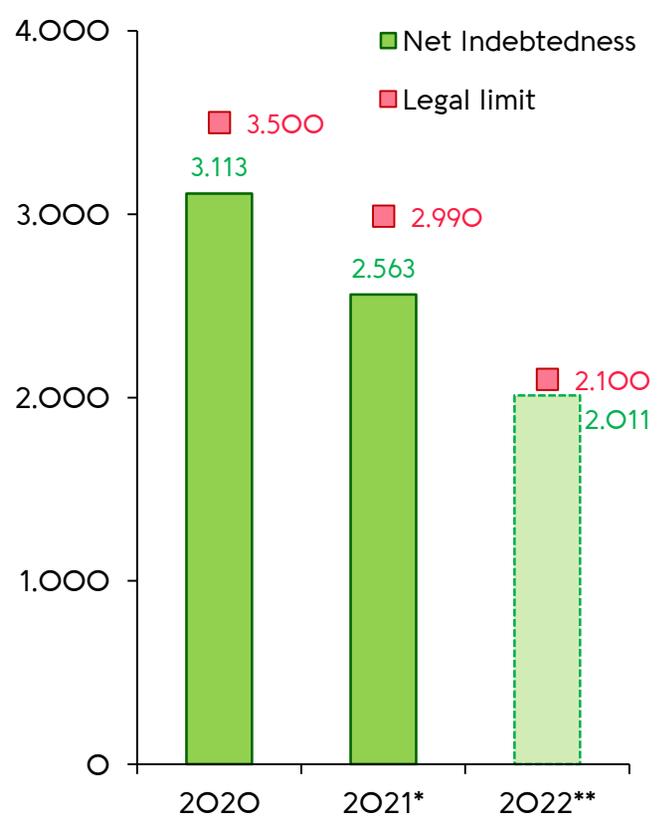
(Annual real variation, in %)



(*) Projected

Net indebtedness

(USD mm)



(*) Augmented limit after legal safeguard clause invoked during Covid-19 pandemic.
(**) Projected.

Source: Ministry of Economy and Finance of Uruguay.

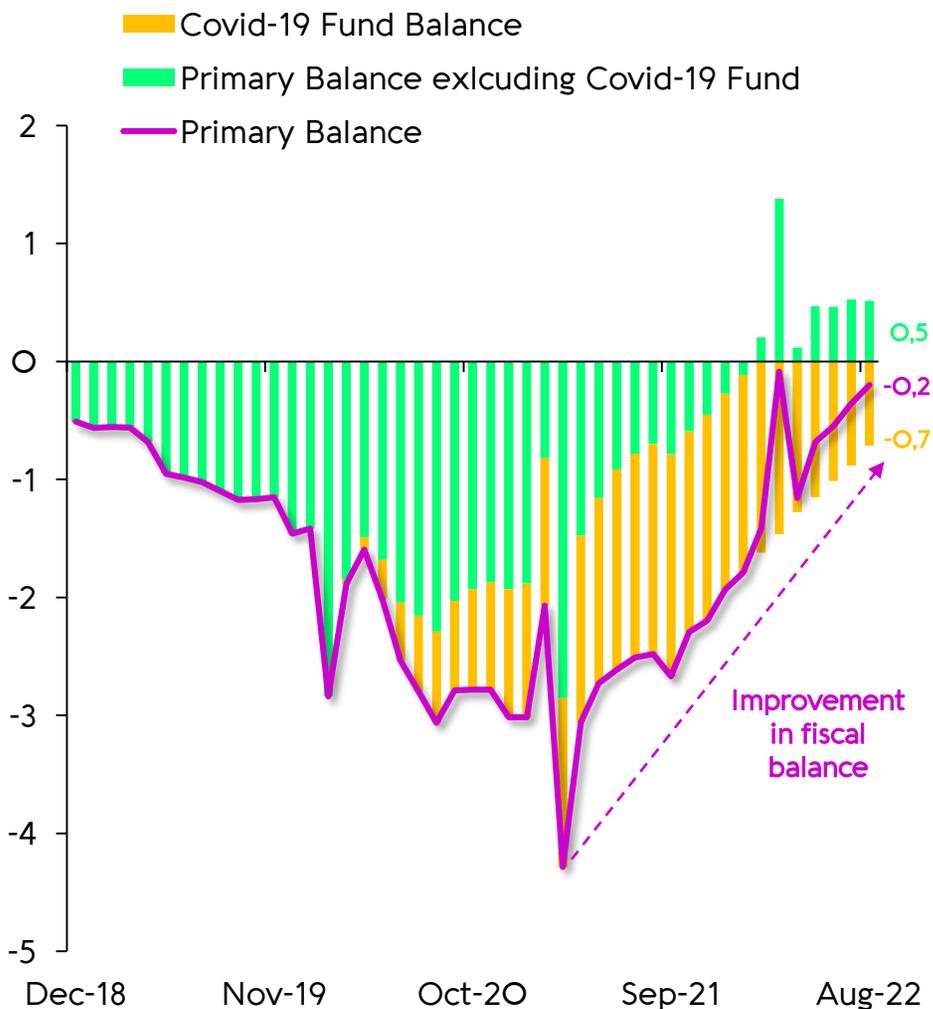
(1) Potential real GDP growth rate was revised as of February, 2022, from 2.3% to 2.1% (i.e. the indicative target for real primary spending growth is 2.1%).

Primary fiscal balance has been consistently improving, driven mostly by spending restraint and robust tax revenues (without increasing in tax rates)



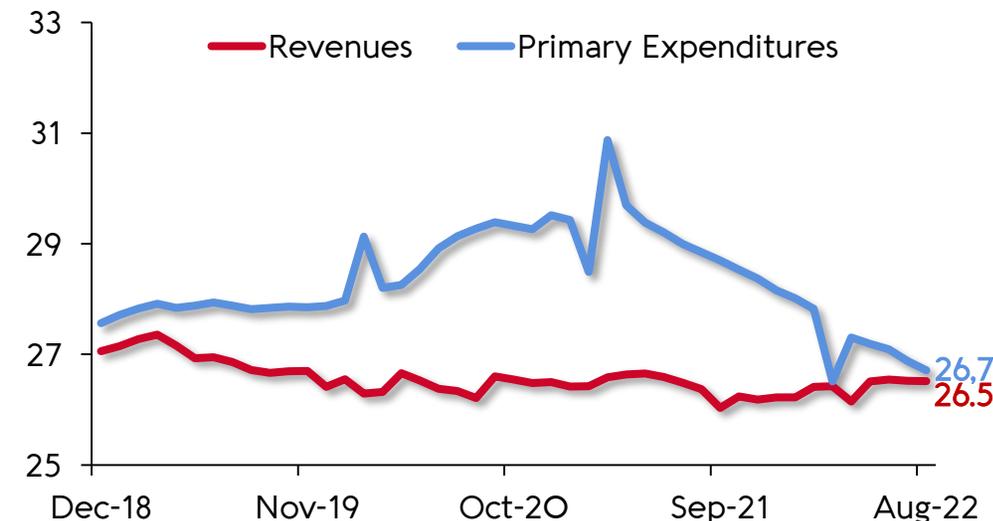
Central Government's primary balance ⁽¹⁾

(Last 12 months, in % of GDP)



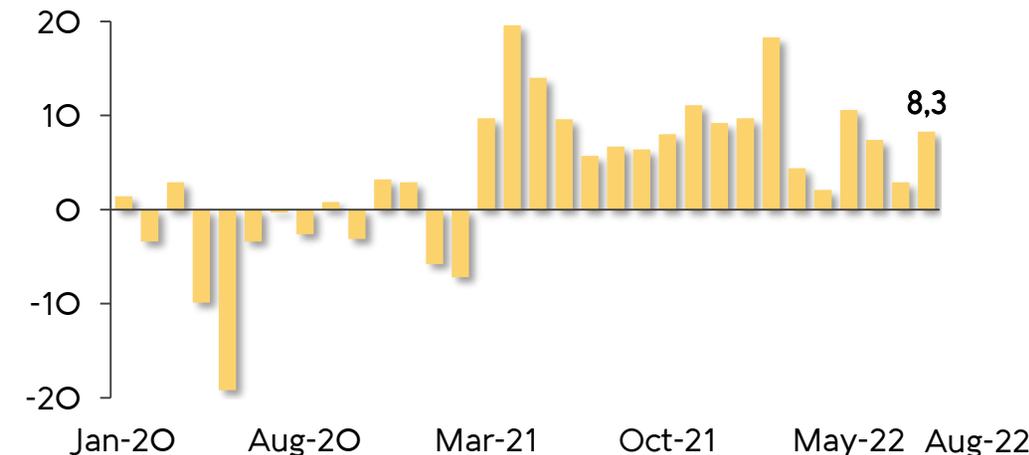
Central Government's revenues and primary expenditures ⁽¹⁾

(Last 12 months, in % of GDP)



Tax revenue collection ⁽²⁾

(YoY real change, in %)



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

(2) Source: Tax General Directorate, Ministry of Economy and Finance

New Fiscal Framework



Establishment of the Fiscal Advisory Council

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

Creation of the Expert Committee

The Expert Committee (EC) was created on December 29, 2021. The EC has eleven members representing Universities, consulting firms and think tanks. Will provide technical parameters to the Ministry of Economy and Finance used for the calculations and projections of the structural fiscal balance.

Validation of Structural Balance

On July 7, 2022, the FAC concluded that the **calculation of the structural fiscal balance presented in the 2021 Budget Review was in accordance with the official methodology.**

[Link to latest report \(in Spanish\)](#)

Implementation of the new fiscal institutional framework marks the first time that the Ministry of Economy and Finance has clear, well-defined metrics and indicative targets to assess its fiscal policy and promote accountability. Furthermore, estimates for unobservable values (structural fiscal balance) have the methodological validation of the independent Fiscal Advisory Council.

Enhancing the monetary policy framework and anchoring inflation expectations



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

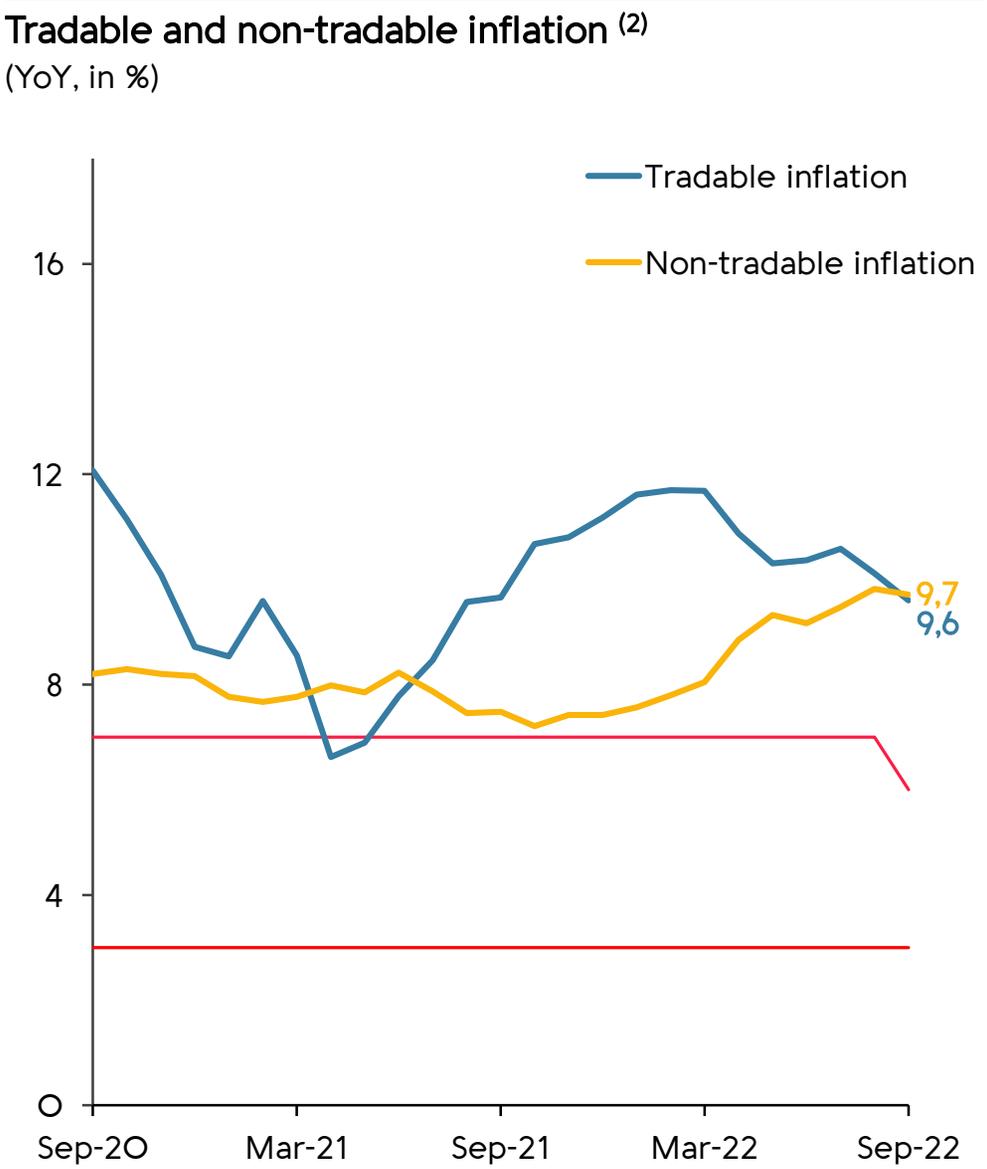
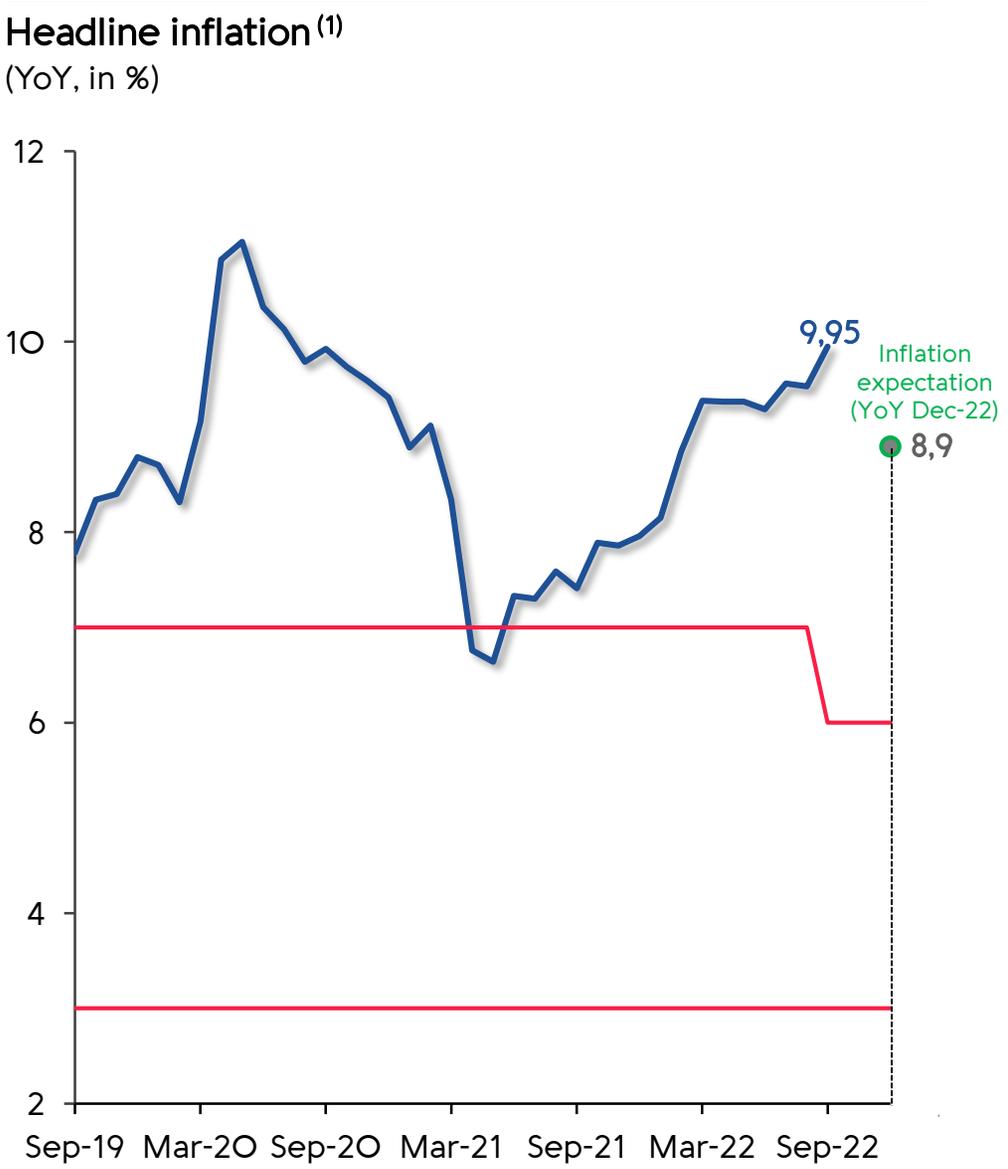
- As the pandemic has eased and inflationary pressures have build up, the Central Bank has shifted towards a more contractionary monetary policy stance, increasing the reference rate by an cumulative 625 bps since August 2021, to the current 10.75%.

5

Financial De-Dollarization

- Rebuilding markets in local currency to mitigate financial dollarization and developing FX derivatives markets
- Adjustments to the level and differentiation of the rates levied on interest generated by bank deposits and market securities
- Encouragement to the participation of public enterprises in the FX derivatives markets.

Inflation still remaining above the inflation target

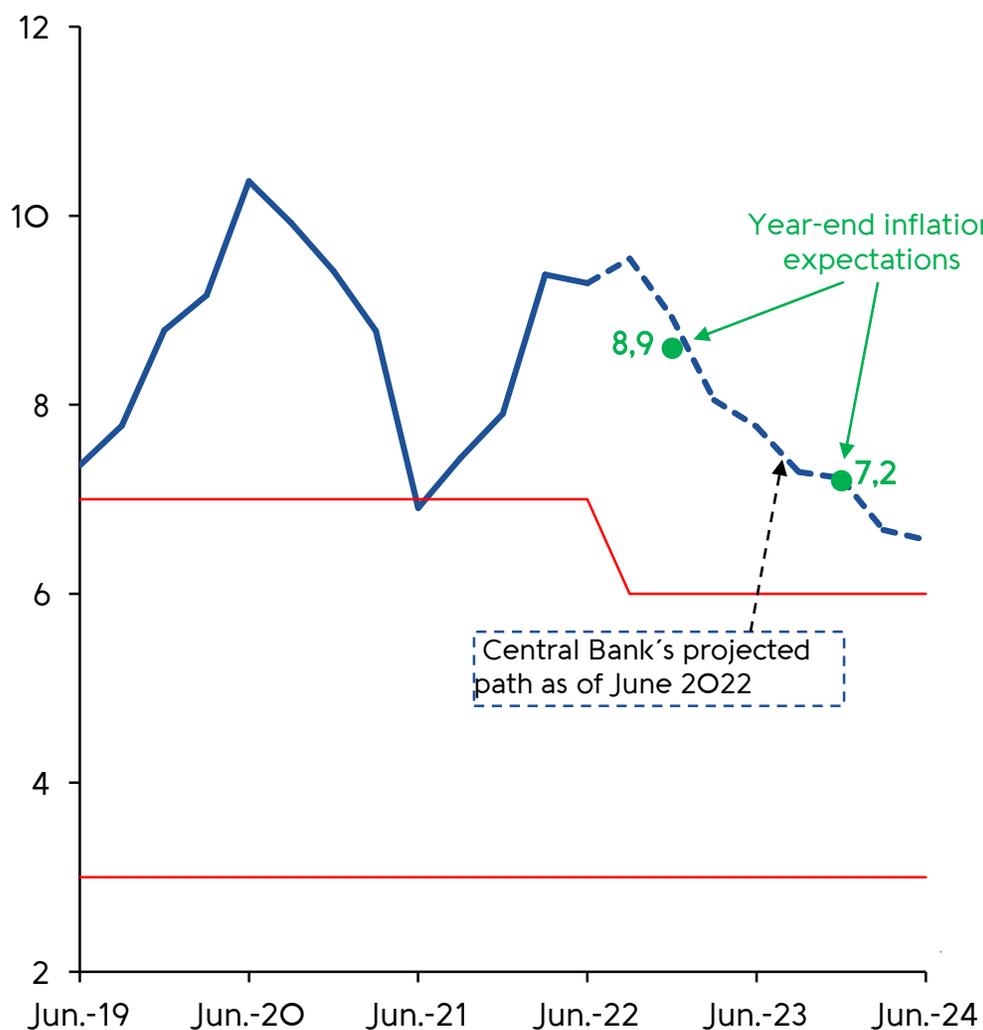


(1) Source: National Institute of Statistics and Central Bank of Uruguay. Median inflation expectations based on Central Bank's market survey as of July 2022.
 (2) Source: Central Bank of Uruguay. Tradable inflation excludes fruits and vegetables, while Non-Tradable inflation excludes administered prices (such as utility bills and cigarettes).

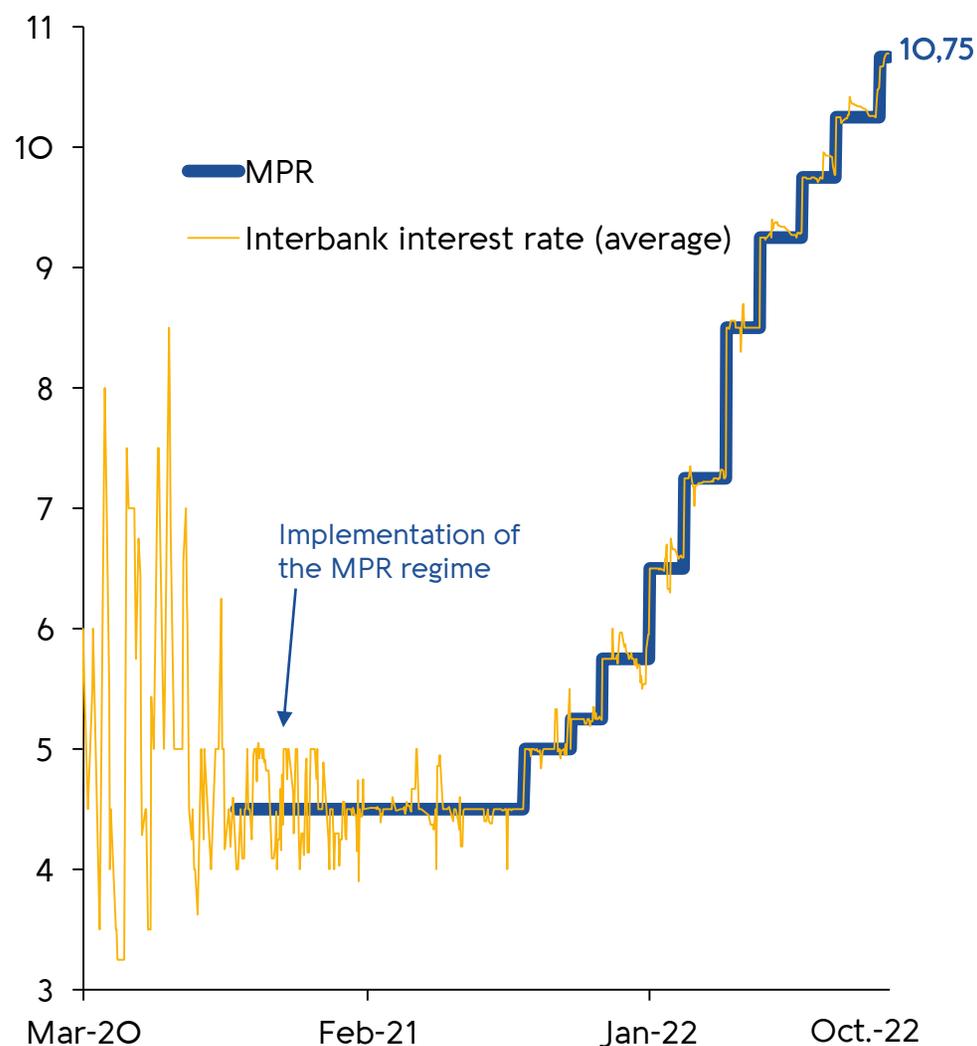
Monetary policy has shifted to a more contractionary stance, and using the short term interest rate as policy instrument has lowered volatility in the interbank interest rate



Central Bank's projected inflation path and inflation expectations⁽¹⁾
(YoY, in %)



Interbank interest rate and Monetary Policy Rate (MPR)⁽²⁾
(In %)



(1) Source: Central Bank of Uruguay; Quarterly forecasts of the baseline scenario of the Central Bank as of June 2022. Median inflation expectations based on Central Bank's market survey as of September 2022.

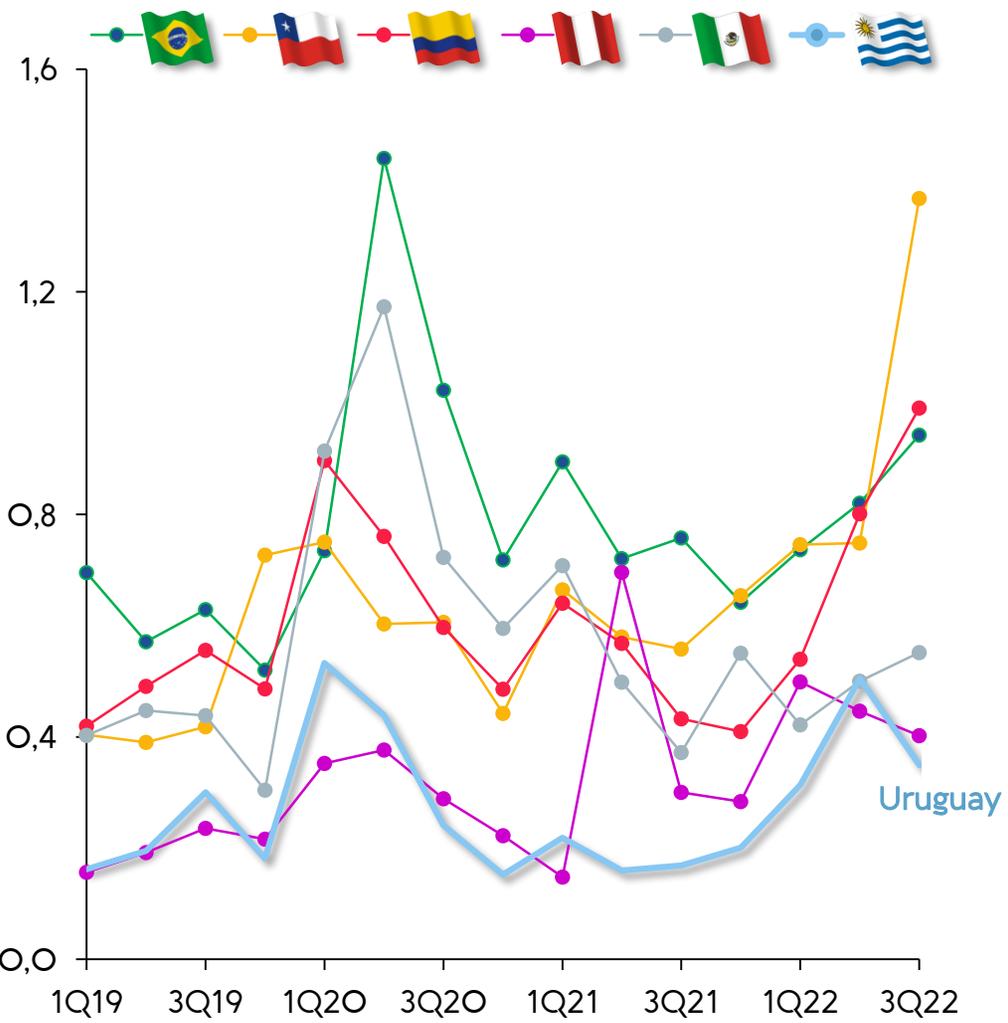
(2) Source: Central Bank of Uruguay. Before September 2020, the monetary policy instrument targeted growth in M1' monetary aggregate.

4

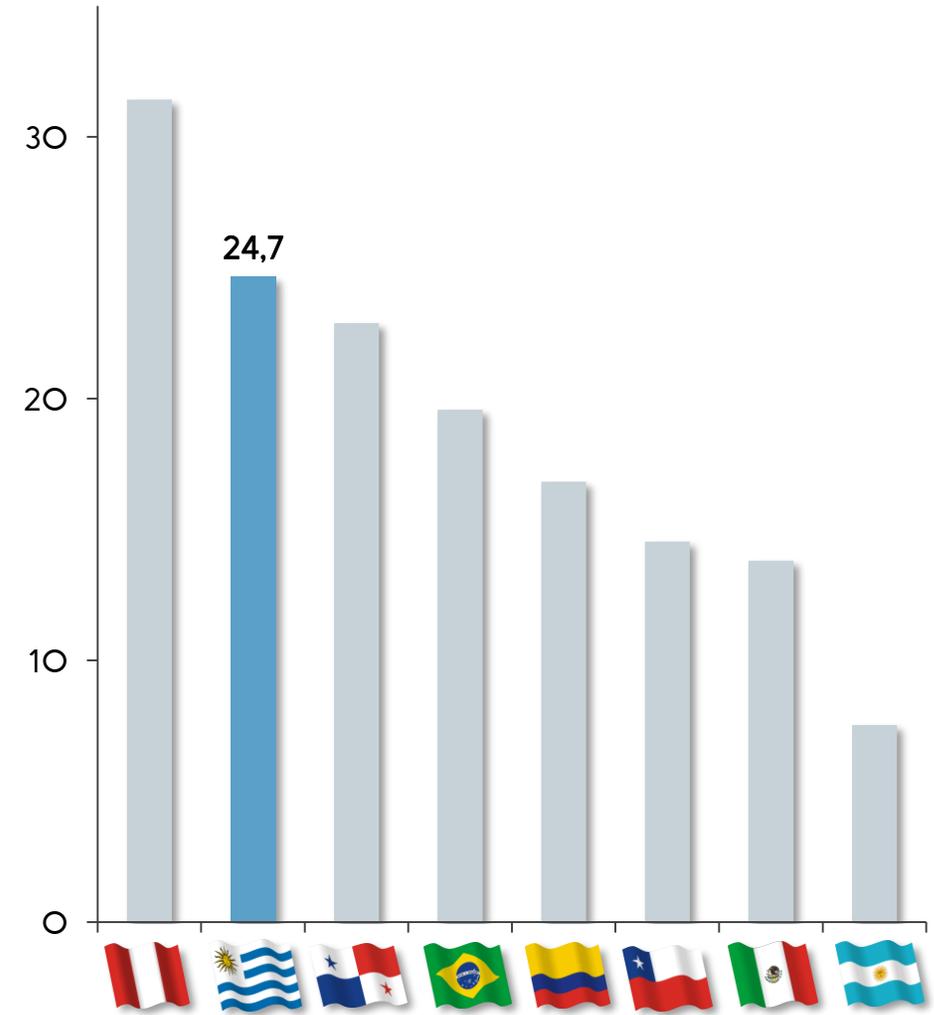
The nominal exchange rate has shown relative stability over the last two years, including during risk-off episodes; large international reserve buffers are a significant external backstop



Nominal exchange volatility in LatAm (1)
(Quarterly average of absolute value of daily percent changes)



International reserves in Latam (2)
(In % of GDP)*



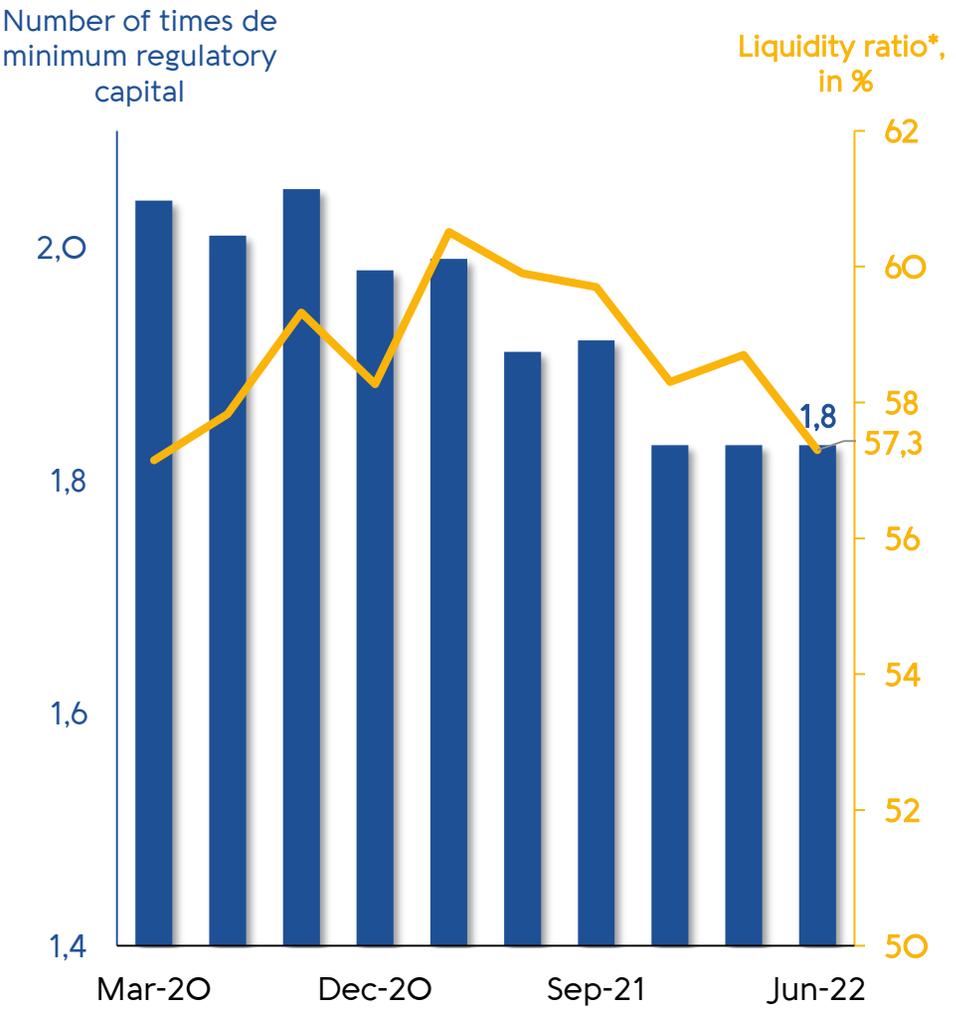
(1) Source: ECLAC, based on Bloomberg.
(2) Source: Official National Statistics of each country.

(*) As of end-June 2022, except for Panama which is as of end-March 2022 18

4 Banking sector remains profitable and well-capitalized with high liquidity levels, and low exposure to the region

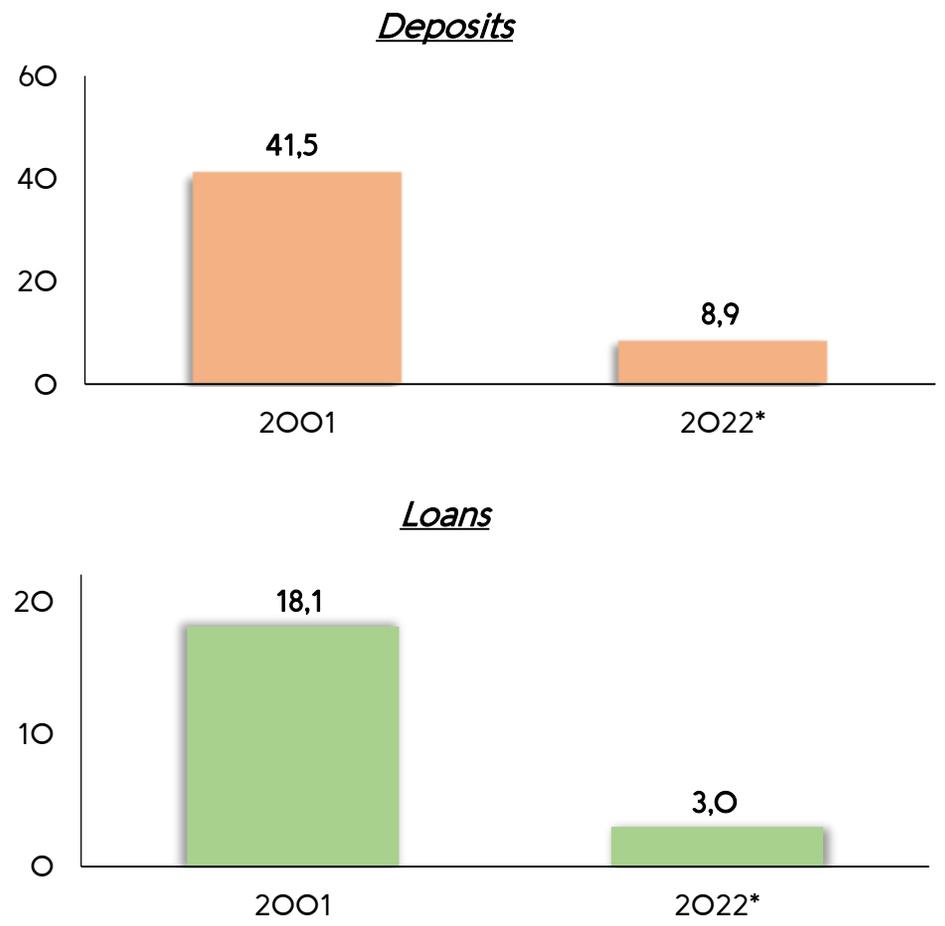


Solvency and liquidity of the banking system



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

Banking system's exposure to non-residents (To the non-financial sector, % of total)^{1/}



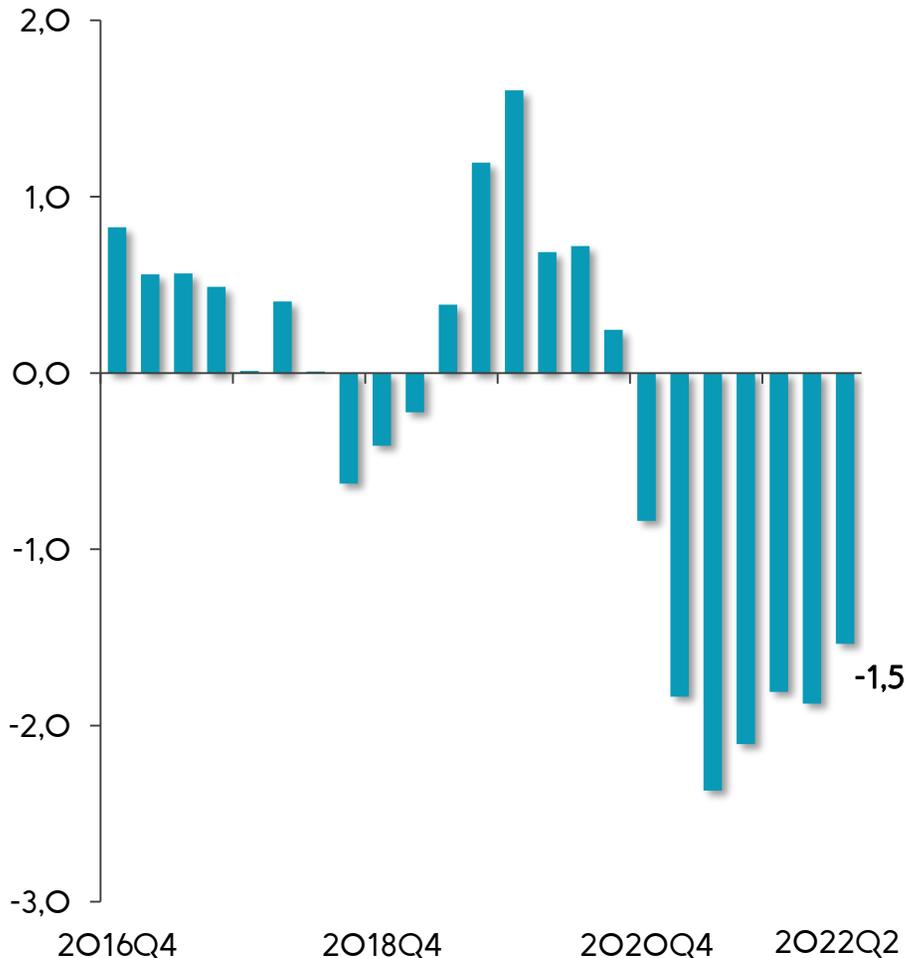
^{1/} End-period; data for deposits includes only private non-financial sector

(*) As of August 2022.

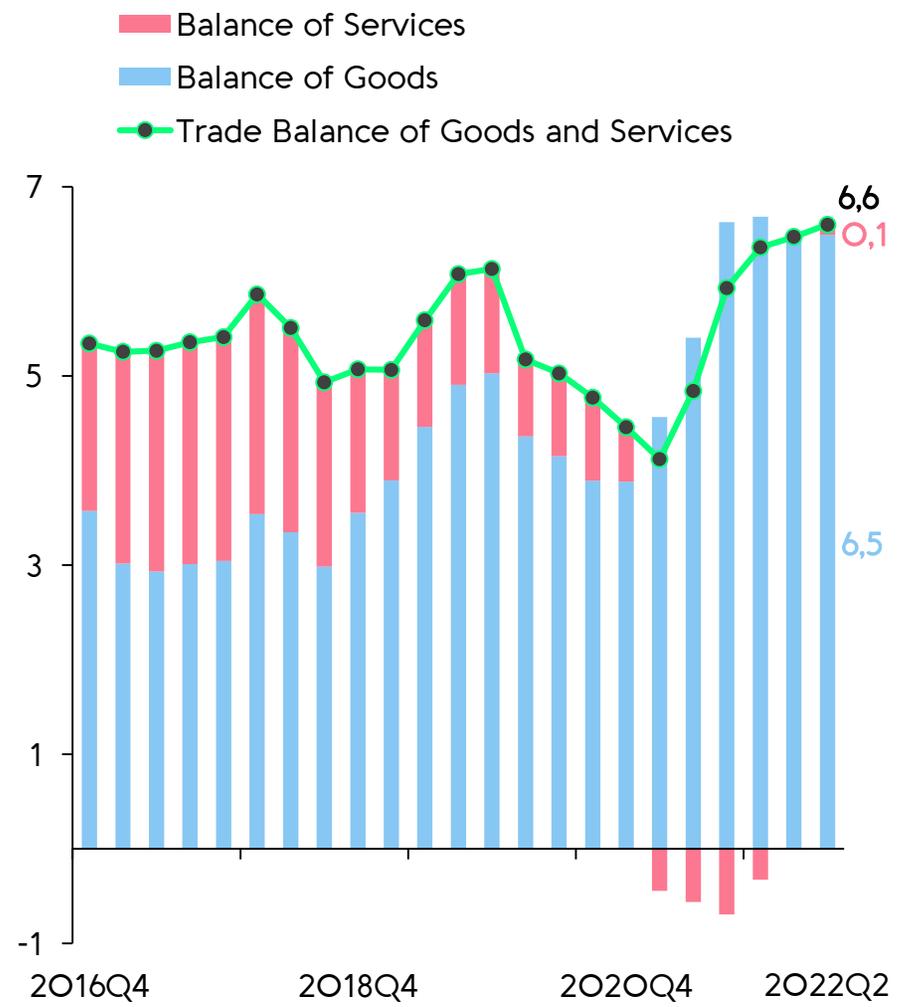
Moderate current account deficit on the back of a resilient balance of goods and services during the pandemic



Current account balance
(Rolling 4-quarters, in % of GDP)



Goods and services balances
(Rolling 4-quarters, in % of GDP)



Source: Central Bank of Uruguay.

Government forges ahead with structural and market-friendly reforms: “keeping the high-beam headlights on”



Urgent Consideration (UC) Law^{1/}



2020-2024 Budget Law



2020 Budget Review



2021 Budget Review

Approved on July 9th, 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 23rd 2021 and has 90 days onwards to present a comprehensive reform to Congress.
- Draft of new fiscal framework.

Approved on December 18th, 2020

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

Approved on November 3rd, 2021

- Fullfillment of the three pillars of the Fiscal Rule in 2020
- Implementation of two social programs that address child poverty, from 0 to 3 years-old, and housing for lower income families.

Submitted to Congress on June 30, 2022

- Fullfillment of the three pillars of the Fiscal Rule in 2021
- Proposes additional expenses for three specific areas: education, I+D and citizen security.
- Provides for further public policies to foster the long-term growth of the

^{1/} On March 27th, 2022, a public referendum was held on whether to repeal, or uphold, 135 articles of the Urgent Consideration Law voted in 2020. The majority of the population (51,3%) voted in favour of upholding them.

Impactful and long-lasting structural reforms are underway



● Commercial integration and free trade:

- Positive outcome of the feasibility study on a China-Uruguay Free Trade Agreement –initiated in September 2021–, leading to formal trade talks.
- Uruguay and Brazil agreed on the reduction of the Common External Tariff of Mercosur and on preferential access of goods from free trade zones.

● Social security reform:

- Convergence of the different subsystems towards a uniform base regime (mixed system), and parametric changes to all schemes (extension of working life, minimum contribution time, benefit calculation formula).
- In July, 2022, the Executive Power submitted to the ruling political coalition and the opposition party a draft bill for the reform, making it public on its website too.

● Educational reform:

- Governance reform, reduction of disparities within the educational system, management reforms in educational centers, curricular and teaching-training and career reforms.

Strong ESG foundations

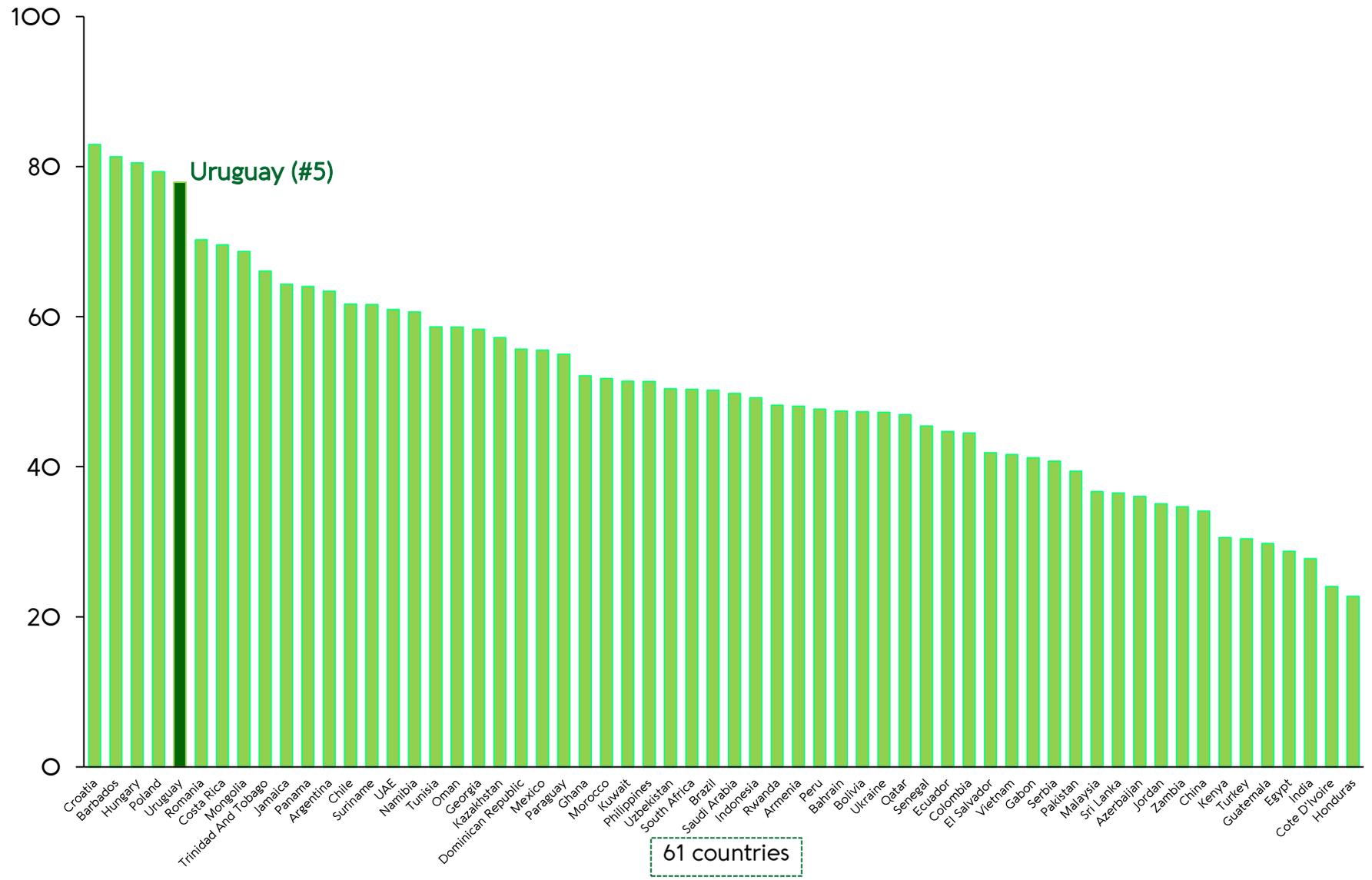


Uruguay is among the top global performers on ESG fundamentals



Emerging markets' ESG Score

(Index, 100 = best performance; as of end-September, 2022)



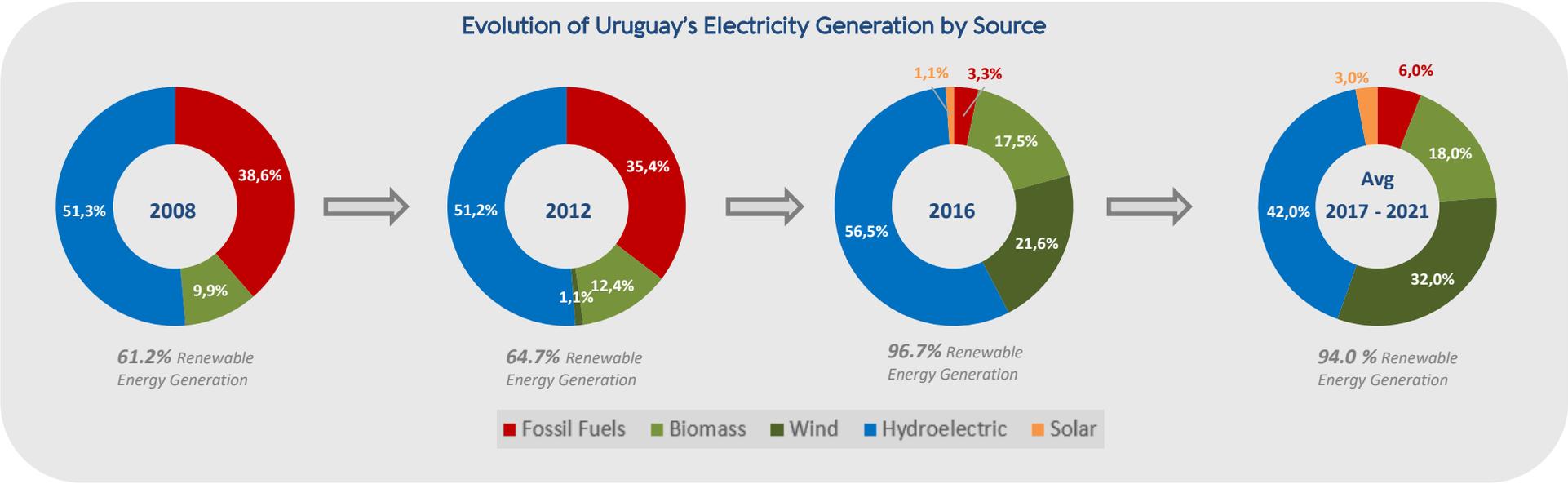
61 countries

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."

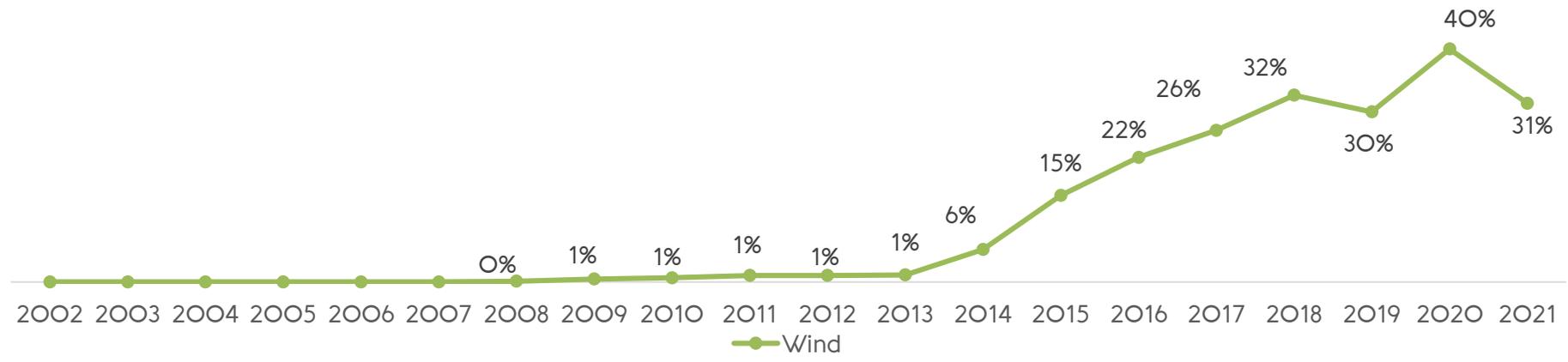
Uruguay has undertaken a remarkable energy transition, propelling the country as a world leader in renewable electricity generation



Between 2017 and 2021, on average 94% of Uruguay's electricity production was generated using diverse renewable sources



Wind-powered generation of electricity (% of total)

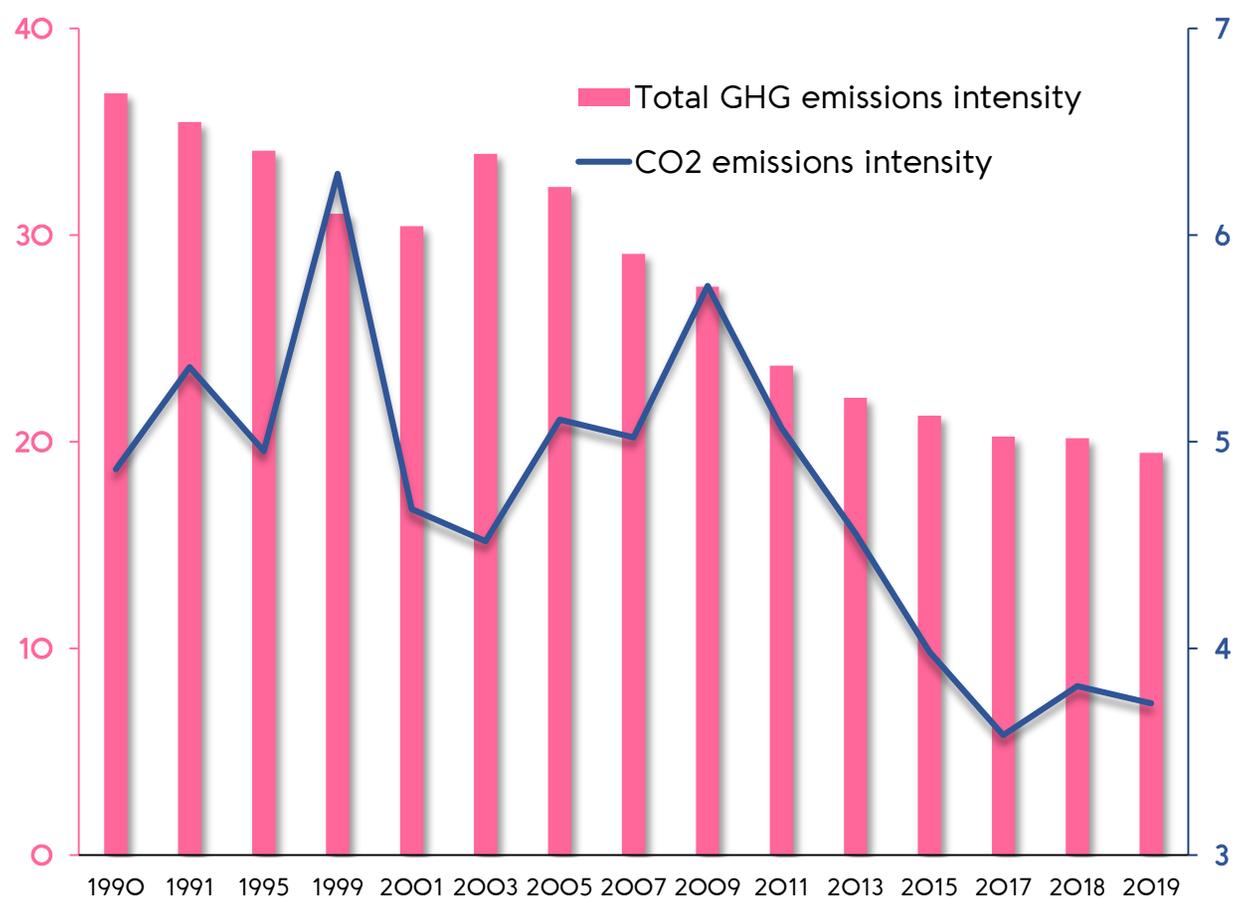


Source: National Energetic Balance, 2021

The country is at the forefront of environmentally-friendly policies, with a significant reduction in the carbon intensity of economic activity



Uruguay: Carbon intensity as a share of GDP (1)
(Green House Gas emissions as a share of real GDP, in %)



Among emerging and developing countries, Uruguay is ranked:

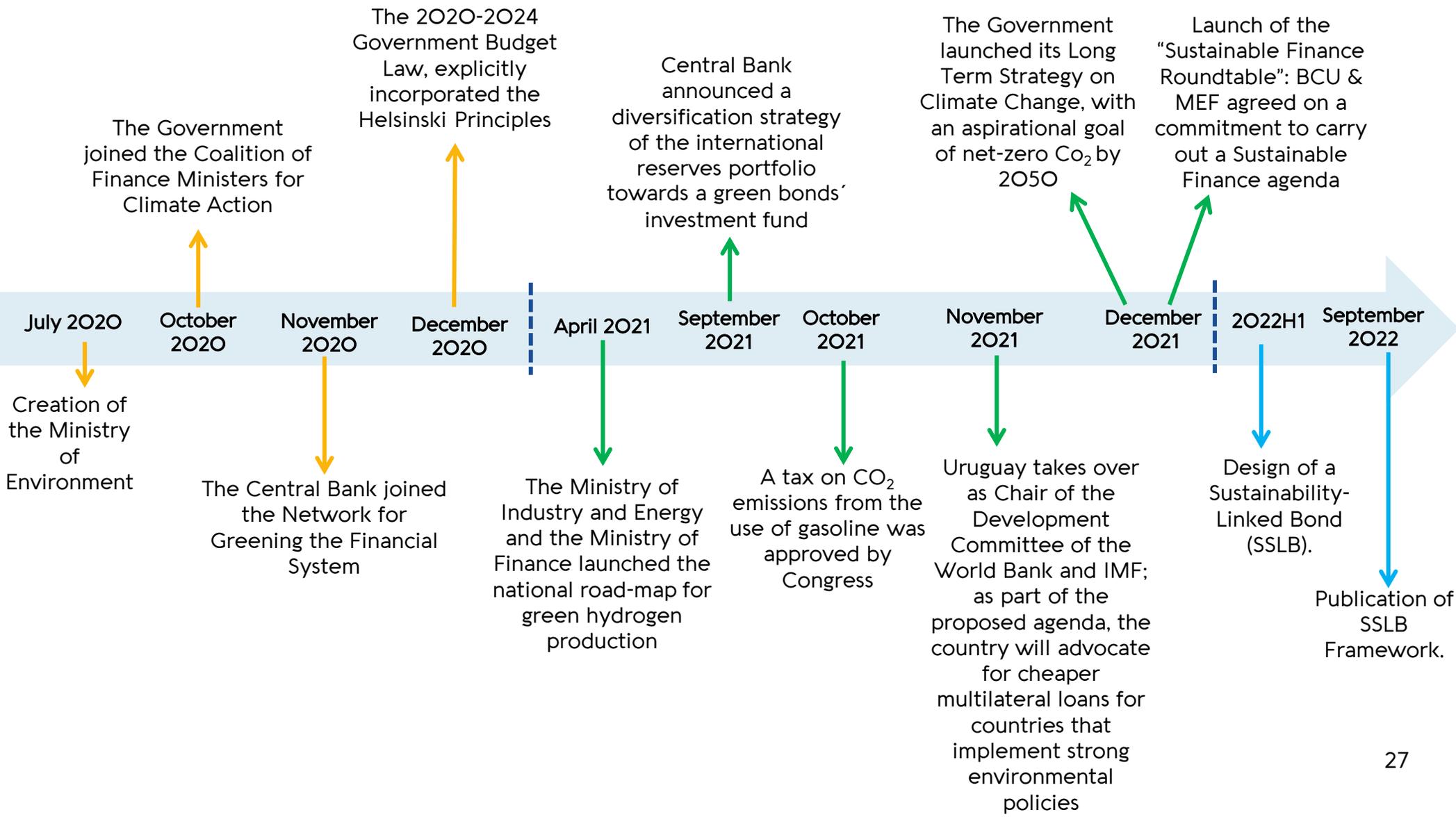
- **#1 in the Environmental Pillar Index** from MSCI (2021)
- **#2 in the Energy Transition Index** from the World Economic Forum (2021)

(1) Source: National Inventory of Green House Gas Emissions and Ministry of Economy and Finance.

The Government is committed to climate action policies



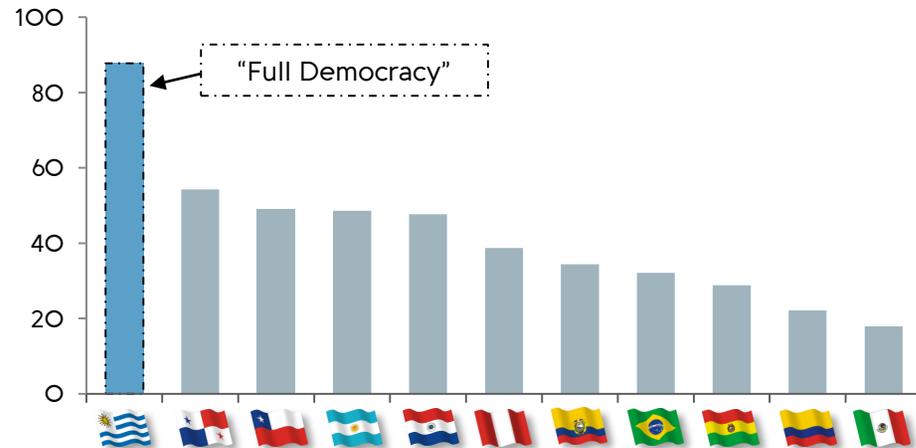
The goal is to make economic growth consistent with a pathway towards low greenhouse gas emissions and a climate-resilient economy, through macroeconomic, fiscal and financing policies.



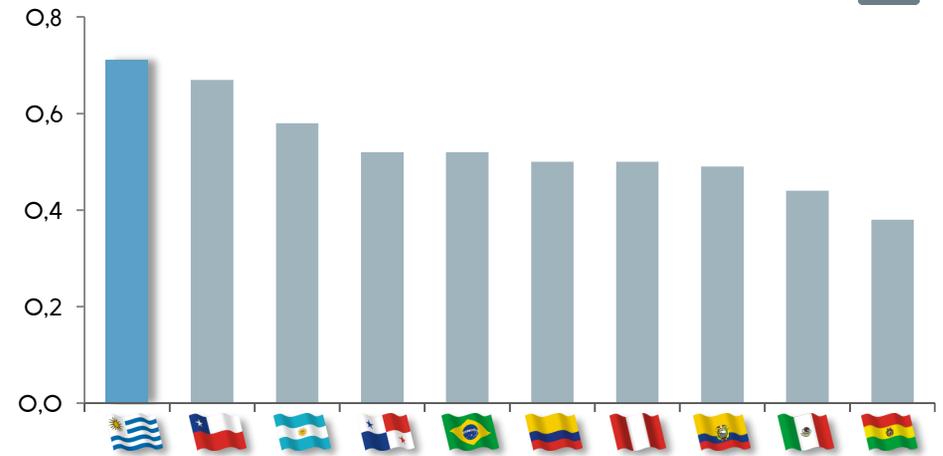
Uruguay is a bastion of institutional, political and social stability in LatAm, ranking alongside most developed nations



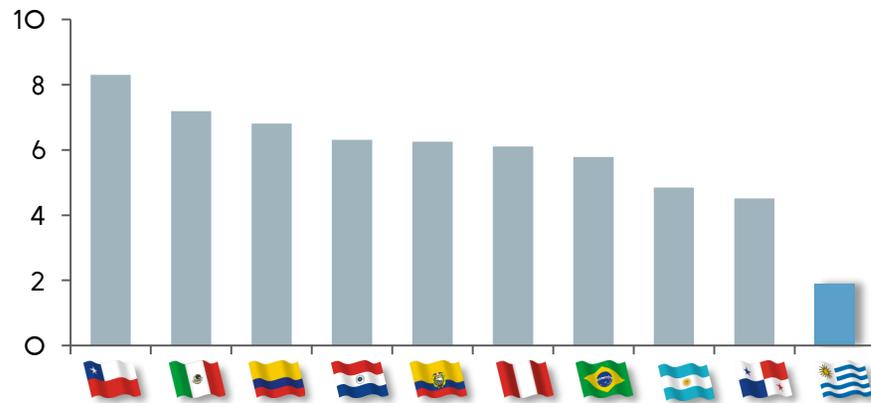
Political Stability and Democracy (1)
(Percentile rank, year 2021)



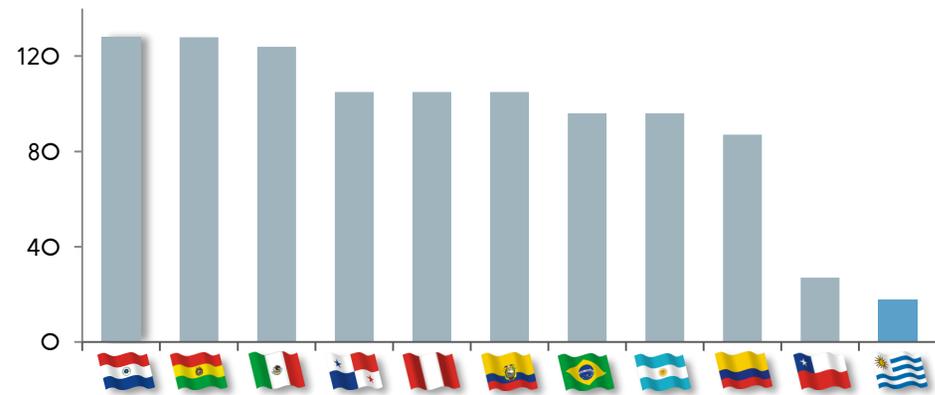
Adherence to the Rule of Law (2)
(Numerical score out of 1, year 2021)



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



Corruption Perception (4)
(Rank, year 2021)



(1) Source: Worldwide Governance Indicators, World Bank (2021) and The Economist Intelligence Unit (2022).

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

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

(4) Source: Transparency International (2022).

Uruguay placed first in the Capacity

to Combat Corruption Index for the second year in a row among Latin America & Caribbean countries



Overall Ranking

1	Uruguay	7.80
2	Chile	6.51
3	Costa Rica	6.45
4	Peru	5.66
5	Argentina	5.16
6	Brazil	5.07
7	Colombia	4.81
8	Ecuador	4.77
9	Panama	4.55
10	Dominican Republic	4.38
11	Mexico	4.25
12	Paraguay	4.08
13	Guatemala	3.84
14	Bolivia	2.43
15	Venezuela	1.40

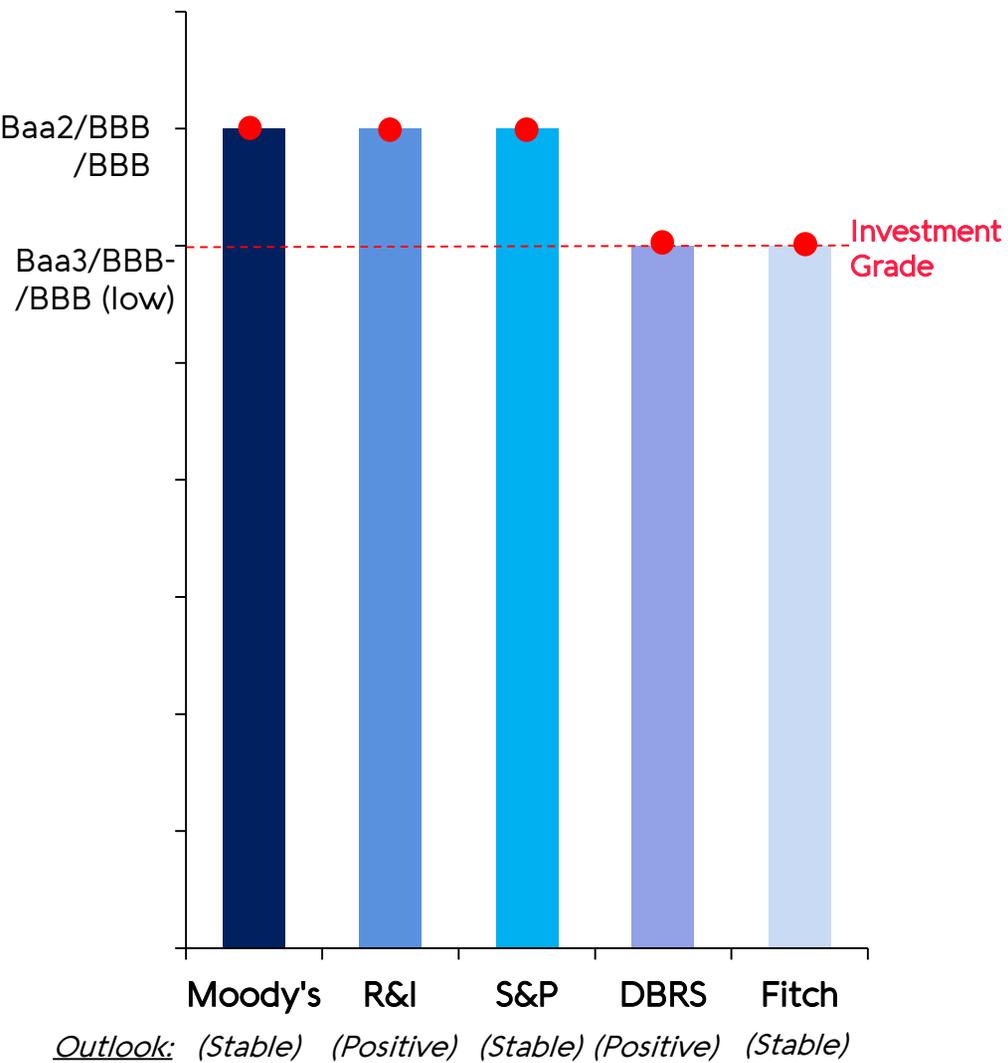
The Capacity to Combat Corruption Index evaluates and ranks countries based on how effectively they can combat corruption, based on three pillars: legal capacity, democracy and political institutions and civil society and media.

(1) Source: Americas Society/Council of the Americas (AS/COA) and Control Risks (June, 2022).

Uruguay's is an investment grade, low-beta country



Uruguay's sovereign credit ratings ⁽¹⁾ (As of September 2022)



Latest credit rating action ⁽²⁾



June 2022. Confirmed Uruguay's rating at BBB-, and **maintained the stable outlook.**



April 2022. Affirmed Uruguay's rating at BBB with stable trend.



November 2021. Uruguay's rating affirmed at BBB (low), and **improved the outlook to positive from stable.**



August 2021. Affirmed Uruguay's rating at Baa2, outlook remained stable.



June 2021. Confirmed Uruguay's rating at BBB with positive trend.

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

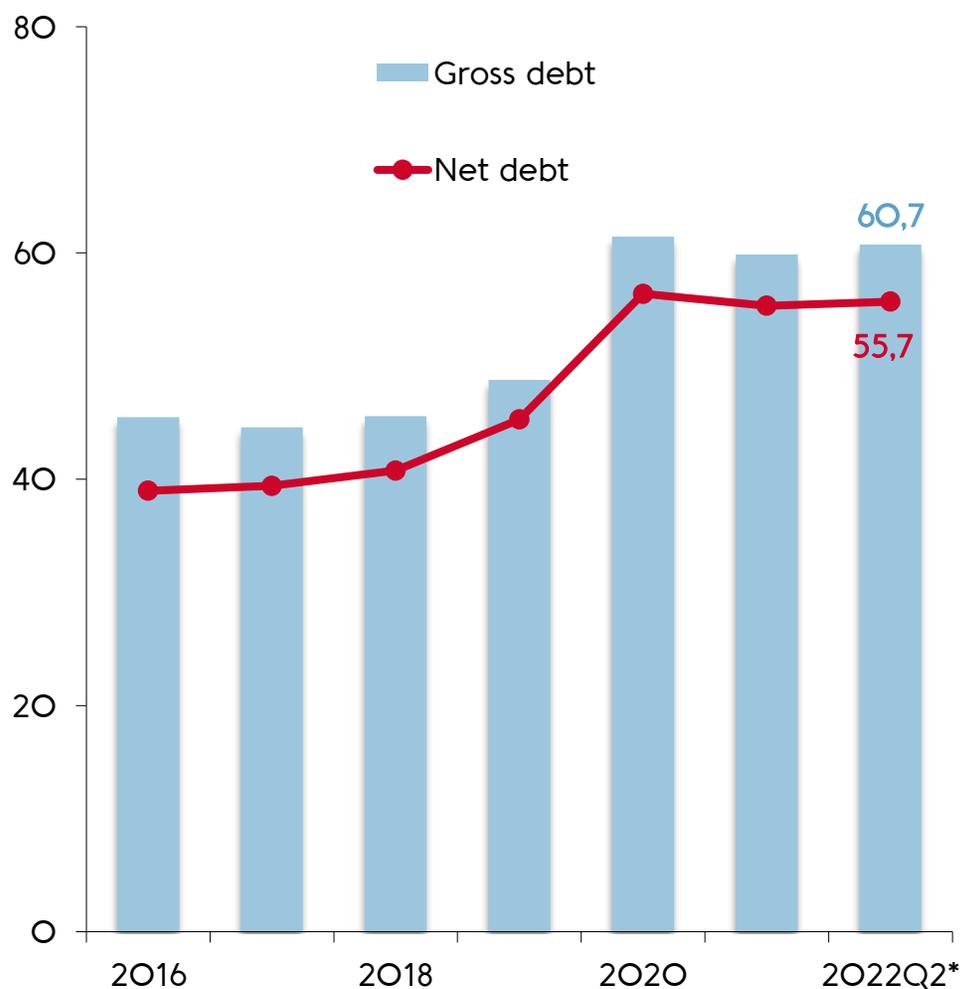
Resilient debt structure and sustainable financing strategies



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

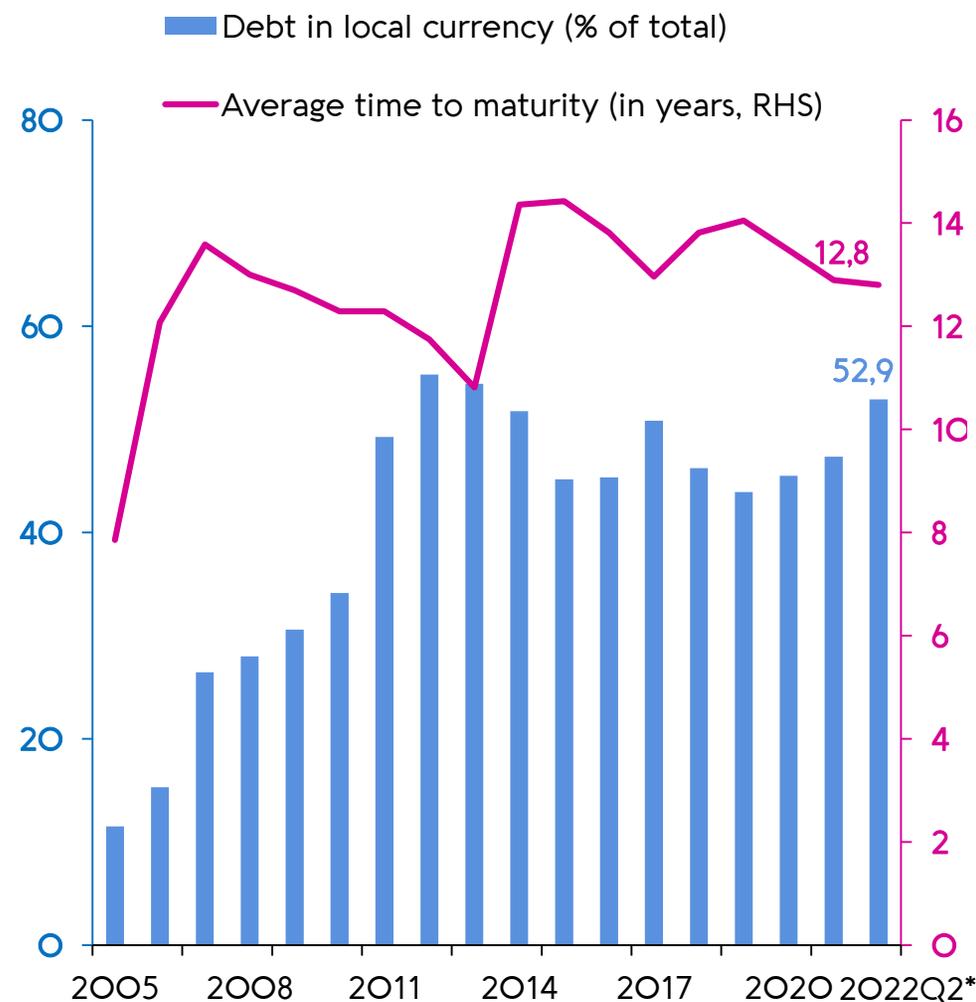


Gross and net debt stock of the Central Government
(As of end-period, in % of GDP)



(*) Preliminar

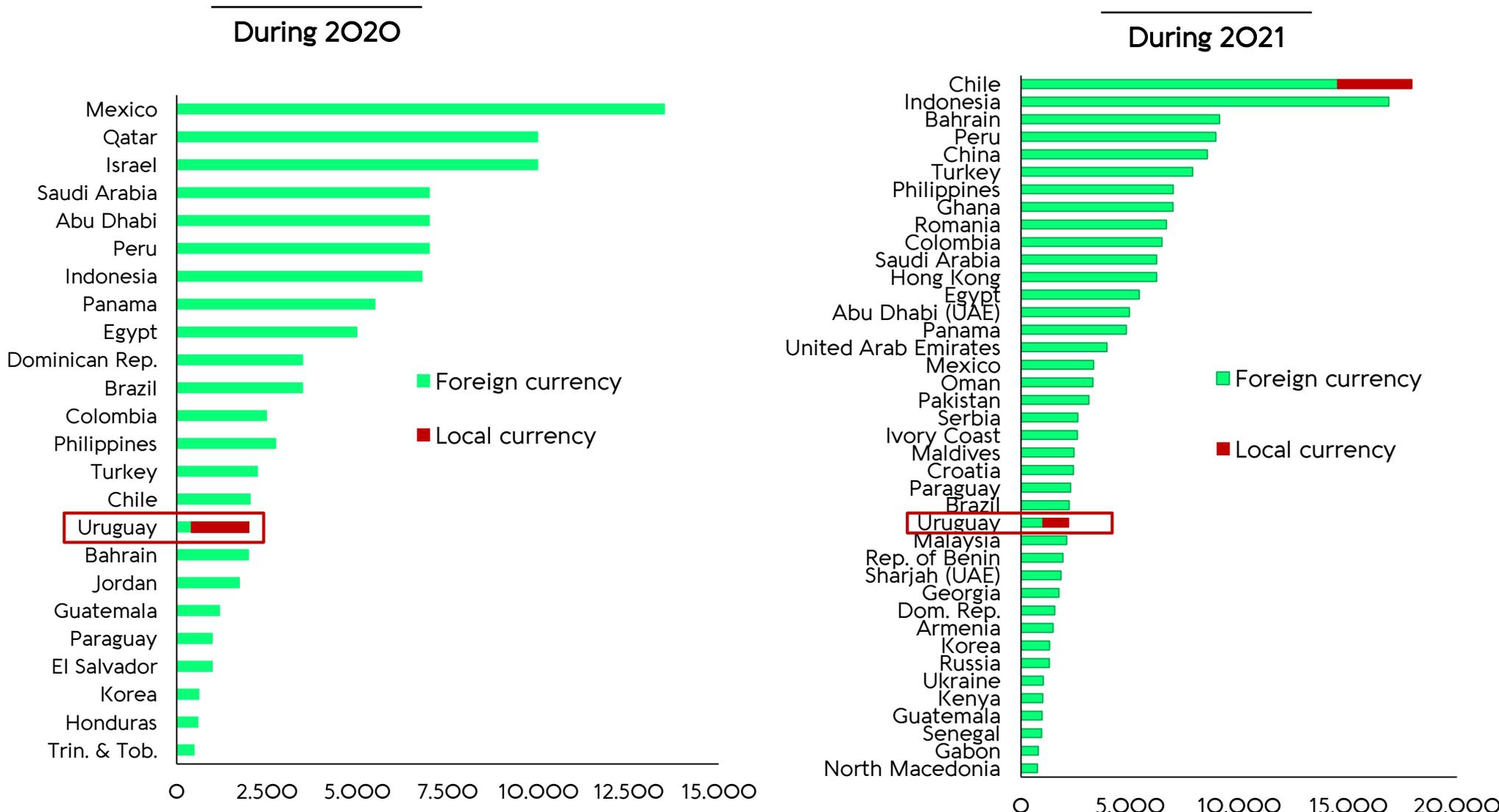
Currency and maturity composition of debt
(As of end-period)





During 2020 and 2021, Uruguay's bond issuance in international markets has been mostly in local currency

Emerging markets: Sovereign international bond issuances (*)
(In USD million)

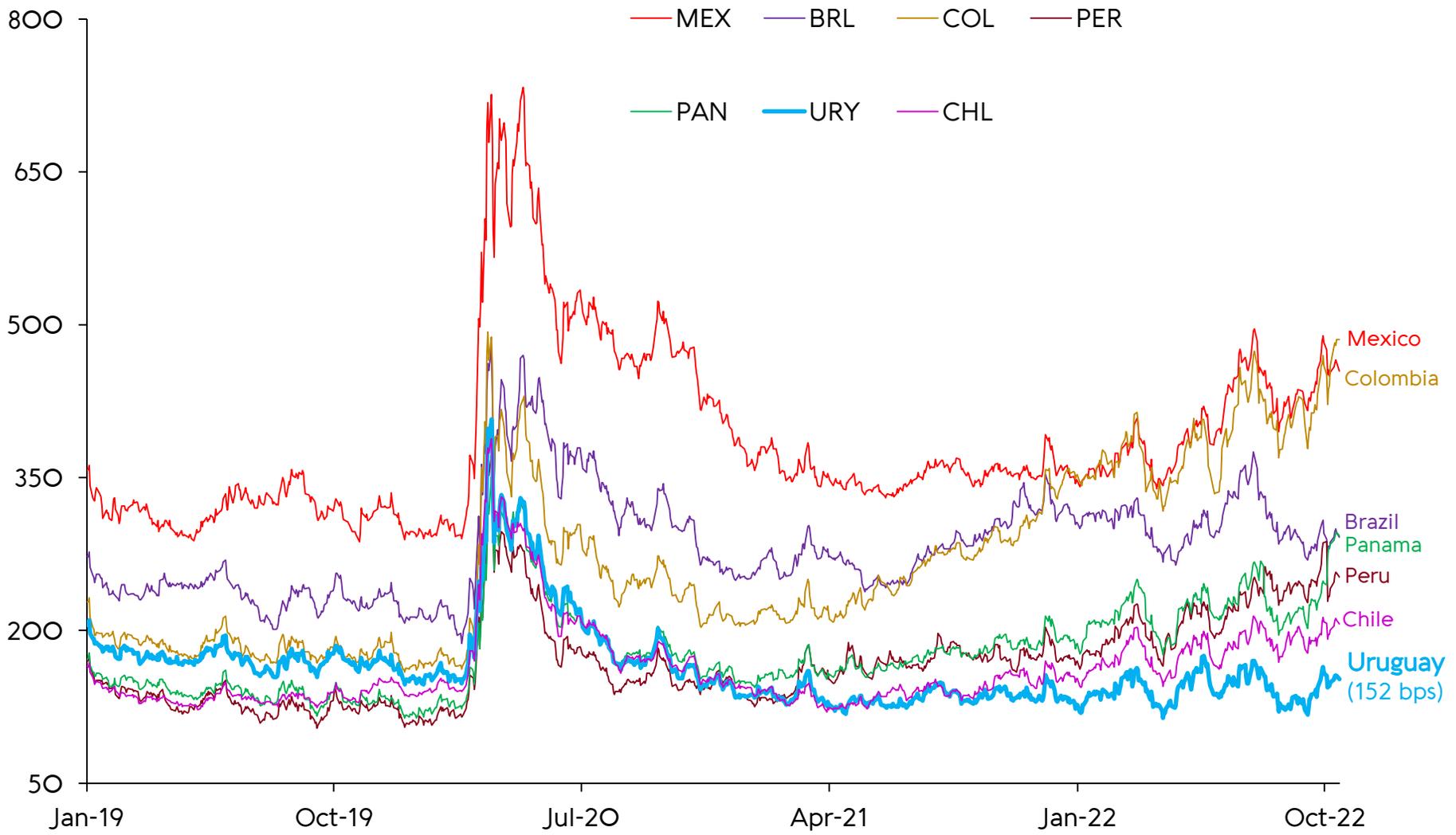


(*) For countries with several transactions in multiple currencies during the year, it shows the sum of total amount issued. Excludes European EM countries that have issued in Euros.



Lowest EMBI in Latam

Sovereign risk premia⁽¹⁾
(EMBI spread, in bps)



(1) Source: Bloomberg

Funding needs and financing sources for 2022 and 2023



Flow of funds

(Annual, in USD million)

	2022 (*)	2023 (*)
FINANCING NEEDS	4,479	4,185
Primary Deficit ⁽¹⁾	544	195
Interests Payments ⁽²⁾	1,682	1,773
Amortizations of Bonds and Loans ⁽³⁾	1,962	1,850
Change in Financial Assets	291	367
FUNDING SOURCES	4,478	4,185
Disbursements from Multilaterals and Fin. Instit.	550	350
Total Issuance of Market Debt ⁽⁴⁾	3,714	3,710
Others (net) ⁽⁵⁾	214	125
<i>Memo Item: Government Net Indebtedness (GNI)</i>	2,011	1,844

(*) Preliminary. The sum of the components may differ from the totals due to rounding.

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

(2) Includes interest payments to the SSTF on its holdings of Central Government debt, but does not net out market price valuation gains on above-par bond issuances.

(3) For 2022, includes the obligations coming due on a contractual basis and bonds repurchased and early redeemed through July 31st 2022.

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

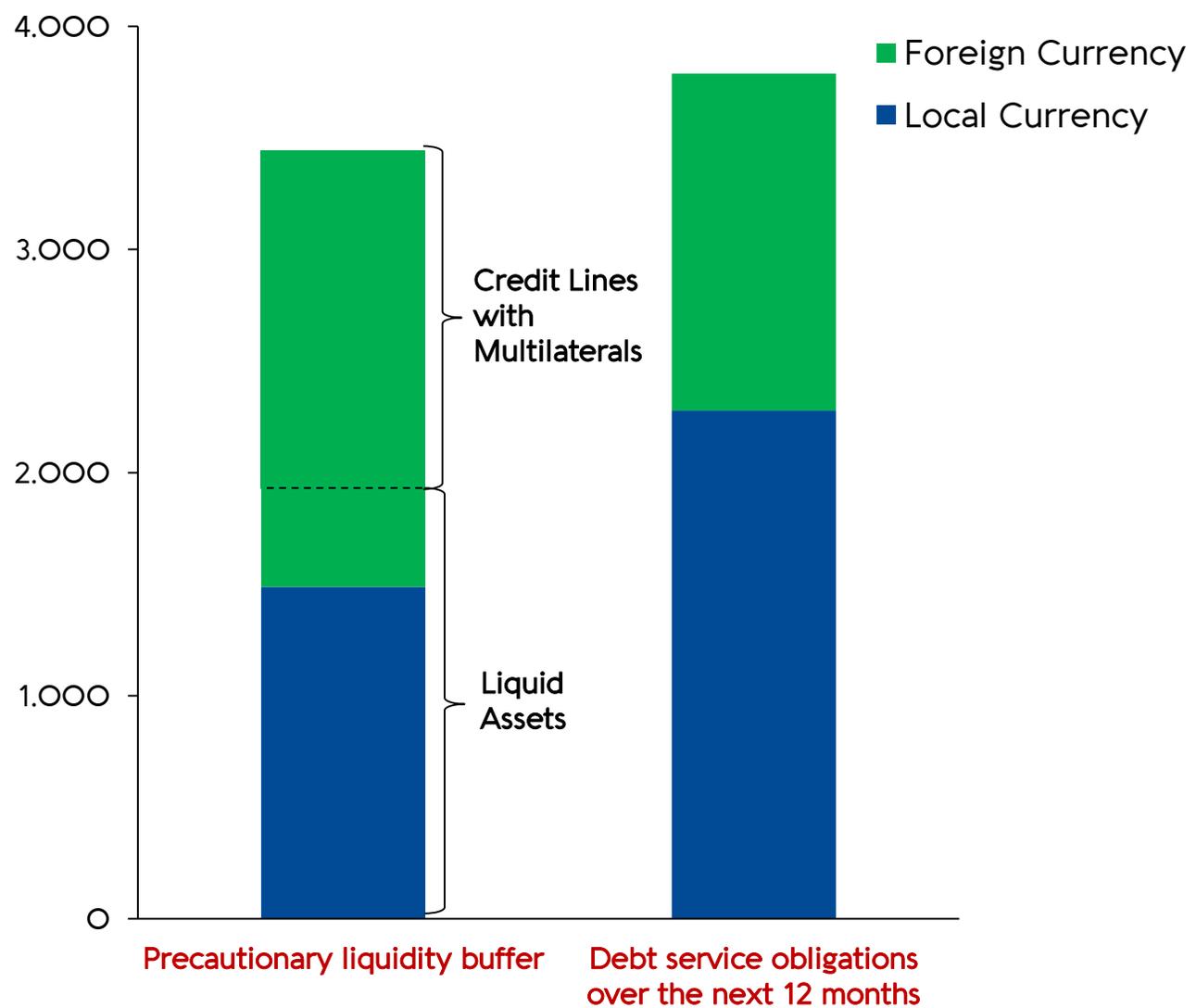
(5) Includes exchange rate and market price valuation effects.

Source: Ministry of Economy and Finance of Uruguay.

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 (1)
 (In US\$ million, as of end-August 2022)



Available precautionary credit lines with multilaterals totalize USD 1.5 billion:

- Corporación Andina de Fomento (*USD 750 million*);
- Fondo Latinoamericano de Reservas (*USD 665 million*)
- Inter-American Development Bank (*USD 100 million*)

(1) 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

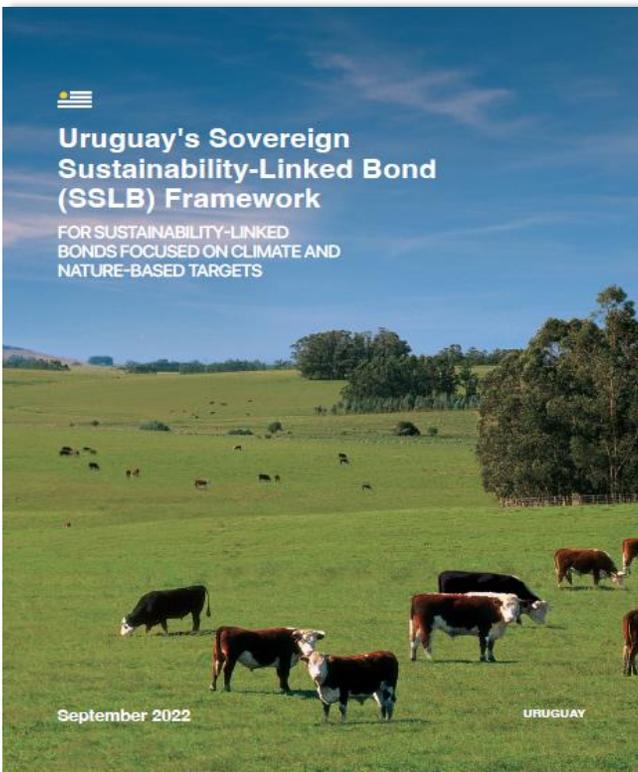


- Seek a balanced currency composition of debt in terms of local and foreign currency.
- Maintain a robust average maturity of debt, to keep roll-over risks low.
- Diversify sources of funding and continue broadening the investor base, particularly ESG-focused accounts.
- Align sovereign funding strategies with achieving ambitious environmental targets to address climate change.

Developing a Sustainability-Linked Sovereign Bond for Uruguay



- The Ministry of Finance of Uruguay (MoF), together with the Ministries of Environment, Industry and Energy, Agriculture and Livestock, and Foreign Relations, have been working on a novel Sovereign SLB (SSLB) tied to Uruguay's climate action outcomes.
- On September 20th, 2022, the MoF published the SSLB Framework, and developed a specific webpage with all the information related to this project (<http://sslburuguay.mef.gub.uy/>).



- The Second Party Opinion report from Sustainalytics was also published, which details the Framework's alignment with ICMA's Sustainability-Linked Bond Principles.

Second Party Opinion Uruguay's Sovereign Sustainability-Linked Bond (SSLB) Framework

Evaluation Summary

- Selection of Key Performance Indicators:** Uruguay's Climate Sustainability Linked Bond (SSLB) Framework includes two KPIs. Percentage change in negative land emissions per net GPP and from the marine area and marine forest area, % of maintenance with respect to baseline year (see Table 1). Sustainalytics considers the KPIs chosen to be strong.
- Calibration of Sustainability Performance Targets:** Sustainalytics considers the SPTs to be aligned with Uruguay's sustainability strategy. Sustainability further considers SPT 1 and 2 to be ambitious based on their target improvement against historical performance. Sustainability considers SPT 2 to be highly ambitious given its target above historical performance and the performance against regulatory standards.
- Bond Characteristics:** Uruguay has listed the bond's financial characteristics in the attachment of the SPO, which is aligned with ICMA's Sustainability-Linked Bond Principles (SLBPs), and a section report on the reporting SPTs 1, 2 and 3 (see attachment of the SPO attachment). The achievement of SPTs is subject to the achievement of the SPTs and other related indicators, as detailed below.
- Reporting:** Uruguay commits to publish official, externally verified reports on an annual basis for KPI 1, and every two years for KPI 2. External auditors will also be provided for SPT 2 on an annual basis. Reports and updates will be published on Uruguay's Economy and Finance Ministry (MEF) website. Uruguay commits to disclose relevant information that may affect the KPIs. The reporting commitments are aligned with the Sustainability-Linked Bond Principles (SLBPs).
- Verification:** Uruguay commits to have external auditors conduct the annual Sustainability-Linked Bond Program, against each SPT for each KPI at the reporting date, and throughout the term of the bond. This is aligned with the Sustainability-Linked Bond Principles (SLBPs).

Overview of KPIs and SPTs

KPI	Indicator	SPT	Target of KPI	Performance of SPT
Percentage change in negative land emissions per net GPP	2020	SPT 1: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved
Percentage change in negative marine emissions per net GPP	2020	SPT 2: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved
Percentage change in negative forest emissions per net GPP	2020	SPT 3: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved
Percentage change in negative land emissions per net GPP	2020	SPT 4: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved
Percentage change in negative marine emissions per net GPP	2020	SPT 5: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved
Percentage change in negative forest emissions per net GPP	2020	SPT 6: Reduce 10% relative to the corresponding year of net GPP	Strong	Achieved

The SSLB Framework looks to pioneer an alternative approach for sustainability-linked debt financing



- The Framework describes Uruguay's strategic sustainability priorities and sets out goals with respect to two Key Performance Indicators (KPIs) tied to climate change mitigation and nature conservation goals:



Reducing the intensity of Greenhouse Gas emissions



Preserving the area of native forests

- The Sustainability Performance Targets (SPTs) are based on quantitative goals set for 2025 and are in line with Uruguay's Nationally Determined Contribution (NDC) under the Paris Agreement.
- The Framework also introduces an interest rate structure for SSLBs that features a potential coupon adjustment (increase, constant or decrease), depending on whether the country fails to meet, delivers, or overperforms on its SPTs, respectively.
- The project benefited from technical assistance from the Interamerican Development Bank (IADB) and the United Nations Development Program (UNDP).

8 Step-up/step-down coupon structure based on country's environmental performance



- Uruguay seeks to implement an innovative financing mechanism that links the country's cost of capital to its delivery of ambitious climate and nature goals.
- Embedding better-aligned financial incentives in sovereign fixed-income instruments can achieve the integration of nature and climate considerations into sovereign debt markets, providing positive incentives for countries to contribute to global public goods.
- We believe it would also more concretely reflect the support and conviction of lenders and investors in the progression to global environmental goals.



**República Oriental
del Uruguay**

THANK YOU