

# Uruguay

## *in focus*



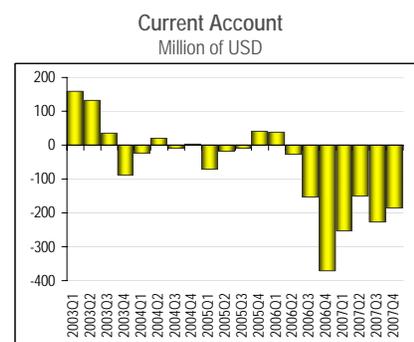
A quarterly bulletin issued by the Debt Management Unit

April 2008

### EXTERNAL SECTOR

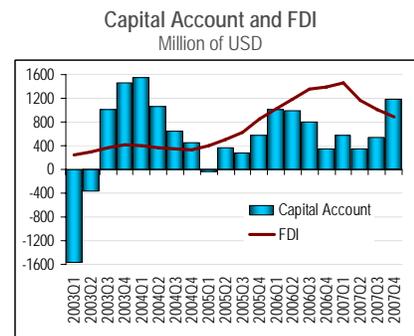
**Balanced increase in external trade, sustained capital inflows and reserves accumulation.**

In spite of the nominal and real currency appreciation, the current account of the Balance of Payments closed 2007 with only a deficit of USD 186m, equivalent to less than 1% of GDP.



Source: Central Bank of Uruguay

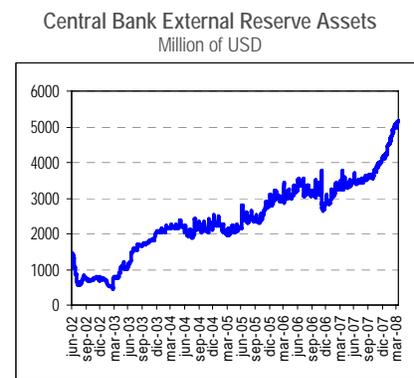
In general terms, private sector capital inflows remained sustained at estimated levels of USD 1.226m, most of them stemming from FDI movements. The Government and the Central Bank took advantage of these favorable conditions to strengthen their joint international investment position, mainly through an increase in their external reserve assets.



Source: Central Bank of Uruguay

Exports and imports continued to grow on a steady basis. Exports of goods and services increased approximately 18% during 2007, reaching a record high of USD 6.825m, while imports increased 16%. According to Uruguay XXI - a Uruguayan foundation devoted to promote external trade and foreign investment-, merchandise exports increased 37% in the first quarter, as compared to the same period of 2007.

While FOB merchandise exports had increased 12.8% in 2007, also a key role was played by exports of services. Tourism, in particular, increased 35% after a 13% extension in the average length of stay and a significant 20% increase in the average per capita expenditure, following a shift in the composition of visitors. The nationality of incoming tourists is in a process of healthy diversification. This fact is expected to increase the resilience of this variable to external adverse conditions.



Source: Central Bank of Uruguay

The reduction of the current account deficit during last year, however, is mainly related to the decrease in the amount of net interest payments. In particular, the decrease in debt service - as well as the increase in the net

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revenue derived of a higher stock of reserve assets- reduced in USD 100m the contribution of this item to the current account deficit.

The net capital inflows, in turn, allowed the monetary authority to increase the stock of international reserves, financed either by the sustained level of seigniorage or through issuances of DX denominated debt. As a result, the FX position of the monetary authority and the overall Public Sector has been consistently improving. As of March 2008, the reserve assets of the monetary authority had already surpassed USD 5bn.

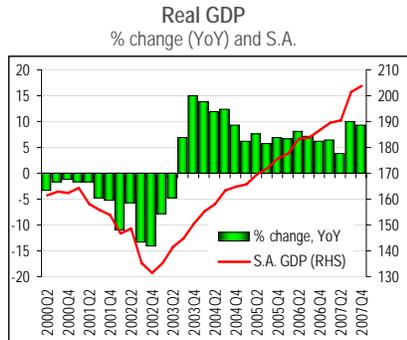
### REAL SECTOR

**Economic activity grew 7.4% in 2007.**

Real GDP growth exceeded public and most private estimations in 2007, posting a strong 7.4% when compared to levels of 2006. On a seasonally adjusted basis, growth was 1.1% during the fourth quarter.

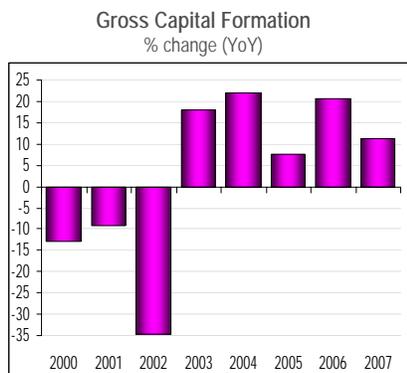
Behind this overall 7.4%, growth has been generalized across every sector in the economy. The leadership corresponds to *Transports and Communications* (12.3%), mostly

related to the expansion of mobile technologies and the increased activity generated by higher volumes of merchandise, as well as passenger transportation. Water transportation and ports activity are amongst the top performers.



Source: Central Bank of Uruguay

Also *Electricity, Gas and Water* grew 11.4%. -after a disappointing 2006 in terms of weather conditions- and *Commerce, Restaurants and Hotels* recorded a significant 10.9% in response of a higher demand from the corporate and the household sectors, also boosted by a higher tourist expenditure. *Manufacturing* grew 8%, while the only two sectors evolving below average were *Construction* and *Agriculture and Livestock*. In this particular sector, the lower rate of growth corresponds to a contraction in the beef and milk sub sectors, not because of a bad performance but rather because extraordinary conditions in the previous year impose a higher point of comparison.

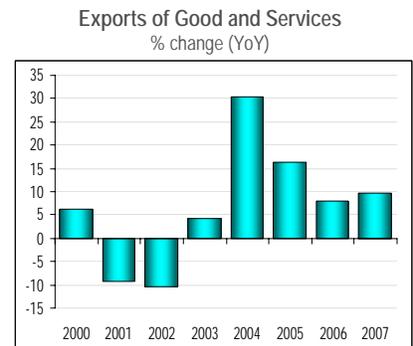


Source: Central Bank of Uruguay

On the expenditure side, growth continued to be led by a combination of exports of goods and services (9.7%)

and domestic demand (7.8%). In particular, private consumption (7.8%) and gross capital formation (11.2%) were the most dynamic components of domestic expenditure. Government consumption only grew 2.9%.

Merchandise exports increased as well as the service sectors. Foodstuffs, dairy products, rice and agricultural products were still among the top exporters.



Source: Central Bank of Uruguay

Fixed capital formation is mainly attributable to private investment in machinery and equipment.

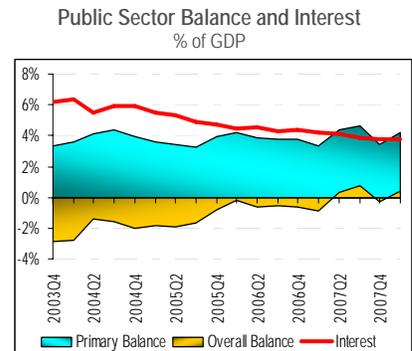
Market analysts, surveyed by the Central Bank in March, expect on average a rate of growth of 5.8% in 2008, converging to 4% in 2009.

**PUBLIC SECTOR**  
MEF reported overall surplus of 0.4% as of February 2008.

After closing 2007 with an overall deficit in line with projections (0.3% of GDP) and a primary surplus of 3.4%, the Global Public Sector recorded an overall surplus of 0.4% in the year ended February, 2008.

This overall surplus includes a primary surplus of 4.2% of GDP, improving 0.1% with respect to January. This result reflects an increase of 0.4% of GDP in tax collection, as well as in the current performance of public enterprises.

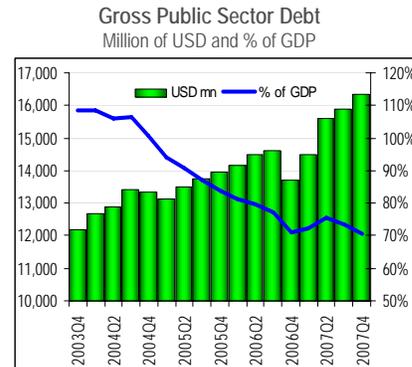
Primary expenditures, in turn, increased 0.3% of GDP due to adjustments in pensions and higher current transfers, mostly related to the reform of the health and family allocations systems.



Source: Ministry of Economy and Finance

**PUBLIC DEBT**  
Public debt weight and FX exposure continue to decrease.

By the end of 2007, the overall gross Public Sector debt had declined to 71% of GDP, from 73% in the third quarter of the year. Netting the international reserve assets, total debt declined to 42.7% of GDP as of the fourth quarter of 2007, from 51.2% one year before.



Source: Central Bank of Uruguay

After three international issuances in the first half of 2007 –one in JPY for the equivalent of USD260m and two other DX denominated, for an equivalent of USD500m each- and the continuous weekly issuance program in the domestic market, the share of DX denominated obligations increased to 25%, at the same time that the average maturity of public obligations increased to 13 years. In this way, the government has not only succeeded in reducing the overall foreign currency exposure of public debt, but also the refinancing risks stemming from concentration of maturities in the short term.



coaches from Italy that will improve the amount and quality of services.

### **New Investment Promotion System**

The new investment promotion scheme, created in November 2007, contributed to the development of new projects for a total amount of USD108 million in the first quarter of 2008. These projects are mainly concentrated in the primary and manufacturing sectors, with a particular focus in the livestock industry.

### **Important investment in Uruguayan dairy sector**

New Zealand's PGG Wrightson has embarked in a major farm expansion in Uruguay. For this purpose, the company has celebrated a management contract with NZ Farming Systems Uruguay (NZFSU) to provide expertise in production development. NZFSU recently started to build up a dairy farm in eastern zone of Uruguay, employing a labor force of 800 workers. The overall size of the investment is estimated in USD200 million. This farm is estimated to deliver a total production equivalent to 50% of the total domestic dairy products consumption.

### **Two Spanish mega-projects to be developed in Colonia**

The District of Colonia, located in the south-west coast of Uruguay, is preparing to host two important projects from Spanish companies. Empresa Nacional de Celulosa en España (ENCE) is prepared to start the construction of a new pulp mill during the current year. The company recently announced that it had covered its funding needs until 2011 with the support of a pool of Spanish financial institutions. The overall funding plan totals USD1.920m, out of which USD1.090m corresponds to the construction of the pulp mill.

Simultaneously, Ferroman –a Spanish investment group-, is preparing to develop a tourist resort (Arenas Blancas), estimated to require an investment of USD800 million. This project will employ 2,500 workers and the construction period will extend over 8 years.

### **Portucel evaluates to establish in Uruguay**

High executives of Portucel Soporcel Group (Portugal) visited Uruguay in April. The company evaluates the possibility of settling a factory in the easter zone of the country.

Portucel reported to be planning an initial investment of USD1.9 billion through the construction of a paper pulp mill facility. In a second stage, an investment of USD1.1 in a paper factory is also under consideration. The Group has a production capacity of 1 million tonnes of paper and 1.3 million tonnes of pulp, exporting over EUR900m to 82 countries.

### **JR&I Upgrades Uruguay to BB-**

On April 18, the Japan Rating and Investment Information agency upgraded to "BB-" the foreign currency issuer sovereign rating of Uruguay, with a stable outlook. According to JR&I, the upgrade was supported by strong economic growth, an improvement in the balance of payment structure and a significant increase in foreign reserves. The agency affirmed that the Uruguayan government has achieved greater stability in fiscal management and an improvement in public debt structure.



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## Uruguay

Economic Indicators <sup>(1)</sup>

	2000	2001	2002	2003	2004	2005	2006	2007	last available	as of:
<b>Economic structure and performance</b>										
Population (mn, as of June 30th)	3,3	3,3	3,3	3,3	3,3	3,3	3,3	3,3	3,3	2007
Nominal GDP (local currency, \$bn)	243	247	261	316	379	407	465	542	542	2007Q4
Nominal GDP (USDmn)	20080	18562	12295	11206	13241	16653	19357	23143	23143	2007Q4
GDP per Capita (USD)	6083	5611	3716	3392	4010	5038	5840	6983	6983	2007Q4
Unemployment (% of labor force, eop)	13,6	15,3	17,0	16,9	13,1	12,2	10,9	9,2	8,2	2008M02
Real GDP (% change)	-1,4	-3,4	-11,0	2,2	11,8	6,6	7,0	7,4	7,4	2007Q4
									1,1	2007Q4/2007Q3 (sadj)
o/w Agricultural & Livestock	-3,2	-7,1	5,1	10,5	10,7	4,7	8,3	2,8	2,8	2007Q4
Manufacturing	-2,1	-7,6	-13,9	4,7	20,8	10,1	8,4	8,0	8,0	2007Q4
Electricity, gas & water	5,0	1,7	-0,6	-7,4	1,8	5,8	-1,5	11,4	11,4	2007Q4
Construction	-11,1	-8,7	-22,0	-7,1	7,5	4,2	14,0	2,5	2,5	2007Q4
Commerce, restaurants & hotels	-5	-3	-24	-1	21	10	8,4	10,9	10,9	2007Q4
Transportation & communications	1,5	0,3	-9,1	3,1	11,5	11,1	12,0	12,3	12,3	2007Q4
Gross domestic investment (% volume change)	-13,0	-9,1	-34,5	17,9	22,0	12,7	24,7	11,2	11,2	2007Q4
Gross domestic investment/GDP (%)	14,0	13,8	11,5	12,6	13,1	13,1	15,0	15,1	15,1	2007Q4
Consumption (% volume change)	-1,4	-2,1	-15,9	1,1	9,5	2,8	8,6	7,2	7,2	2007Q4
Consumption/GDP (%)	87,7	87,9	86,5	85,9	83,8	84,3	85,7	85,6	85,6	2007Q4
Exports (goods & services, % volume change)	6	-9	-10	4	30	16	8	10	10	2007Q4
Exports (goods & services)/GDP (%)	19,3	18,3	22,0	26,1	31,8	31,1	30,0	29,2	29,2	2007Q4
Imports (goods & services, % volume change)	0,1	-7,1	-27,9	5,8	26,8	10,1	16,0	10,3	10,3	2007Q4
Imports (goods & services)/GDP (%)	21,0	20,0	20,0	24,6	28,7	28,5	30,8	29,9	29,9	2007Q4
Openness of the economy (%)	40	38	42	51	61	60	61	59	59	2007Q4
<b>Inflation and Monetary Indicators</b>										
Inflation (CPI, % change, 12m)	5,05	3,59	25,94	10,19	7,59	4,90	6,38	8,50	8,03	2008M03
Inflation (WPI, % change, 12m)	9,5	3,8	64,6	20,5	5,1	-2,2	8,2	16,1	17,3	2008M03
Nominal exchange rate (UYU per USD, dec)	12,45	14,06	27,20	29,19	26,51	23,58	24,38	21,63	20,35	2008M03
Nominal exchange rate (UYU per USD, average)	12,10	13,32	21,22	28,17	28,65	24,42	24,01	23,41	20,62	2008M03
REER (CPI, 2000=100)	99,3	105,3	119,8	145,8	134,8	122,8	128,3	119,6	116,6	2008M02
REER (% change, 12m, +=depreciation)		6,0	13,8	21,7	-7,5	-8,9	4,5	-6,8	-7,0	2008M02
Real Wages (% change)	-1,9	0,0	-19,5	-3,4	2,9	4,5	3,7	4,1	4,6	2008M02
Monetary Base (% change, 12m)				24,9	11,1	34,1	5,0	45,5	36,2	2008M03
M1 (% change, 12m)	-4,2	-3,2	4,7	34,0	13,0	33,4	20,0	31,8	24,5	2008M02
M2 (% change, 12m)	4,1	-0,8	-7,9	29,4	13,5	27,2	22,1	31,0	26,2	2008M02
Overnight interbank interest rate (% dec avg)	17,5	42,7	51,3	1,4	1,0	0,8	1,0	7,2	7,2	2008M03
Short-term deposit interest rate (% 60-90 days, dec avg)	16,2	22,4	61,8	8,7	5,0	2,3	2,0	2,5	3,5	2008M02
Total private NFS banking deposits/GDP (% eop)	66,5	80,4	55,3	68,5	61,9	51,8	48,6	45,9	42,4	2008M02
Local currency private NFS deposits (USDmn equiv, eop)	1577	1339	605	692	862	1178	1421	2125	2210	2008M02
Foreign currency private NFS deposits (USDmn, eop)	11766	13590	6194	6981	7330	7456	7993	8489	8874	2008M02
o/w non-resident deposits (USDmn, eop)	4852	6194	1336	1382	1527	1553	1607	1739	1819	2008M02
Dollarization ratio (% of foreign currency deposits)	88,2	91,0	91,1	91,0	89,5	86,4	84,9	80,0	80,1	2008M02
Foreign currency deposits/Total reserve assets				3,3	2,9	2,4	2,6	2,1	1,8	2008M03
Domestic credit to private NFS/GDP	48,7	48,3	50,9	35,1	27,2	22,3	21,5	23,6	21,5	2008M02
Domestic credit to private NFS (USDm, eop)	9781	8957	6257	3930	3598	3717	4165	5460	5625	2008M02
<b>Balance of payments and external trade</b>										
<b>(USDmn)</b>										
Current account balance	-566	-498	382	-56	43	42	-369	-186	-186	2007Q4
Current external receipts	4489	4143	3230	3421	4796	5810	6683	7863	7863	2007Q4
Current external payments	5055	4641	2848	3477	4753	5767	7053	8048	8048	2007Q4
Trade balance (goods & services)	-533	-460	202	350	518	393	-54	22	22	2007Q4
Merchandise balance	-927	-775	48	183	153	21	-460	-491	-491	2007Q4
Exports of goods and services	3660	3262	2693	3084	4296	5085	5799	6825	6825	2007Q4
o/w Merchandise exports, FOB	2384	2140	1922	2281	3145	3774	4407	5063	5063	2007Q4
Tourism	713	611	351	345	493	594	598	809	809	2007Q4
Imports of goods and services	4193	3722	2492	2734	3778	4693	5854	6803	6803	2007Q4
o/w Merchandise imports, FOB	3311	2915	1874	2098	2992	3753	4867	5554	5554	2007Q4
Income	-61	-68	109	-488	-588	-494	-441	-342	-342	2007Q4
Income, credit	782	833	453	242	373	563	734	879	879	2007Q4
o/w Interest receipts	780	833	453	242	367	560	724	869	869	2007Q4
Income, debit	842	901	344	730	960	1057	1175	1220	1220	2007Q4
o/w Interest payments	753	798	660	622	742	839	916	878	878	2007Q4
Current transfers, net	28	30	72	83	113	144	126	134	134	2007Q4
Current transfers, credit	48	48	84	95	127	161	150	159	159	2007Q4
Current transfers, debit	21	18	12	12	14	17	24	25	25	2007Q4
Capital & financial account	772	490	-280	426	67	748	426	1221	1221	2007Q4
Direct investment, net	274	291	180	401	315	811	1400	876	876	2007Q4
o/w Foreign direct investment	274	297	194	416	332	847	1399	879	879	2007Q4
Portfolio equity and debt investment, net	191	508	329	-311	-422	806	1686	1172	1172	2007Q4
Other capital flows	306	-308	-789	336	174	-869	-2660	-826	-826	2007Q4
Net errors and omissions	17	285	-2430	1010	345	-174	-79	-34	-34	2007Q4
Overall balance (increase in Central Bank intl reserve assets)	222	277	-2328	1380	455	617	-22	1002	1002	2007Q4
memo items: Central Bank international reserve assets (eop)	2905	3100	772	2087	2512	3078	3091	4121	4993	2008M03
International investment position (eop, +=creditor)			-1694	-1256	-1520	-1221	-2197	-2197	-2197	2006
Total external debt (eop)	8895	8937	10548	11013	11593	11418	10560	12145	12145	2007Q4
Net external debt (eop)	5800	5489	8857	8255	8624	7531	6959	6379	6379	2007Q4
<b>(% current USD values, unless otherwise indicated)</b>										
Current external receipts/GDP	22,4	22,3	26,3	30,5	36,2	34,9	34,5	34,0	34,0	2007Q4
Current external payments/GDP	25,2	25,0	23,2	31,0	35,9	34,6	36,4	34,8	34,8	2007Q4
Current account balance/GDP	-2,8	-2,7	3,1	-0,5	0,3	0,3	-1,9	-0,8	-0,8	2007Q4
Current account balance/Current external receipts	-12,6	-12,0	11,8	-1,6	0,9	0,7	-5,5	-2,4	-2,4	2007Q4
Trade balance/GDP	-2,7	-2,5	1,6	3,1	3,9	2,4	-0,3	0,1	0,1	2007Q4
Exports (goods & services, % change, 12 rolling months)		-10,9	-17,4	14,5	39,3	18,4	14,0	17,7	17,7	2007Q4

## Uruguay

Economic Indicators <sup>(1)</sup>

	2000	2001	2002	2003	2004	2005	2006	2007	last available	as of:
Merchandise exports, FOB/GDP	11,9	11,5	15,6	20,4	23,8	22,7	22,8	21,9	17,9	2008M01
Merchandise exports, FOB (% change, 12 rolling months)		-10,2	-10,2	18,7	37,9	20,0	16,8	14,9	14,4	2008M01
Tourism exports/GDP	3,5	3,3	2,9	3,1	3,7	3,6	3,1	3,5	3,5	2007Q4
Tourism exports (% change, 12 rolling months)		-14,4	-42,5	-1,8	43,1	20,5	0,6	0,6	0,6	2007Q4
Imports (goods & services, % change, 12 rolling months)		-11,2	-33,0	9,7	38,2	24,2	24,7	16,2	16,2	2007Q4
Merchandise imports, FOB/GDP	16,5	15,7	15,2	18,7	22,6	22,5	25,1	24,0	21,4	2008M01
Merchandise imports, FOB (% change, 12 rolling months)		-12,0	-35,7	12,0	42,6	25,4	29,7	14,1	20,7	2008M01
Net interest payments/Current external receipts	-0,6	-0,8	6,4	11,1	7,8	4,8	2,9	0,1	0,1	2007Q4
Foreign direct investment/GDP	1,4	1,6	1,6	3,7	2,5	5,1	7,2	3,8	3,8	2007Q4
Net foreign direct investment/GDP	1,4	1,6	1,5	3,6	2,4	4,9	7,2	3,8	3,8	2007Q4
Total external debt/Current external receipts	198,1	215,7	326,5	321,9	241,7	196,5	158,0	154,5	154,5	2007Q4
Net external debt/Current external receipts	129,2	132,5	274,2	241,3	179,8	129,6	104,1	81,1	81,1	2007Q4
International investment position/GDP (+=Creditor)			-8,4	-6,8	-12,4	-10,9	-16,6	0,0	0,0	2007Q4
Share of merchandise trade w/MERCOSUR partners	44,1	42,7	40,6	39,1	35,5	33,1	35,8	37,5	37,5	2007Q4

## Public Finances

(%)

## Non Financial Public Sector

Overall balance/GDP	-3,4	-3,7	-4,0	-2,5	-1,1	-0,7	-0,9	-0,4	0,4	2008M02
Revenue/GDP	29,6	30,6	29,5	30,0	29,0	29,2	28,8	29,2	29,6	2008M02
Expenditure/GDP	33,0	34,3	33,4	32,5	30,1	29,9	29,7	25,9	29,2	2008M02
o/w non-interest	30,6	31,5	29,0	26,5	24,9	25,3	25,2	22,1	25,5	2008M02
interest	2,4	2,8	4,4	6,0	5,2	4,6	4,5	3,8	3,7	2008M02
Primary balance/GDP	-1,0	-0,9	0,4	3,5	4,1	3,9	3,5	3,4	4,1	2008M02
Gross debt/GDP	34,8	42,1	82,7	96,5	85,8	71,3	61,7	58,8	58,8	2007Q4
Gross debt/Revenue	117,4	137,8	280,7	321,9	296,3	243,9	214,4	202,9	202,9	2007Q4
External debt/GDP	26,4	28,1	62,9	78,4	69,3	56,1	47,8	47,3	47,3	2007Q4
External debt/Gross debt	76,0	66,6	76,1	81,2	80,8	78,6	77,6	80,4	80,4	2007Q4
Foreign currency debt/Gross debt	76,0	66,6	76,1	79,6	76,9	75,2	73,1	68,0	68,0	2007Q4
Interest Payments/Revenue	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,1	0,1	2007Q4

## Public Sector

Overall balance/GDP	-3,8	-4,0	-4,1	-2,9	-2,0	-0,8	-0,6	-0,3	0,4	2008M02
Primary balance/GDP	-1,2	-1,1	0,3	3,3	4,0	3,9	3,8	3,4	4,1	2008M02
Gross debt/GDP	45,5	54,3	92,6	108,5	100,6	83,7	70,9	70,5	70,5	2007Q4
Net Debt/GDP	30,0	35,5	65,5	73,6	68,8	53,6	47,3	41,7	41,7	2007Q4
Gross External Debt/GDP	30,3	31,4	67,5	85,3	77,3	61,2	48,2	47,6	47,6	2007Q4
External Debt Service/International Reserve Assets			119,2	66,7	52,2	55,2	152,5	na	152,2	2006Q4

(1) Data since 2006 are preliminary and may be subject to revision.