

República Oriental del Uruguay

Institutional Investor Presentation

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Ministerio
**de Economía
y Finanzas**

Americas Society/Council of the Americas

July 10th, 2020

Timeline of key recent political and economic developments in Uruguay during 2020



- **March 1st**: the new President Lacalle Pou takes office for a 5-year term, leading a five-party political coalition with majority in Congress.
- **March 11th**: Presidential decree introduces fiscal austerity measures, including expenditure cuts across Ministries.
- **March 13th**: first cases of COVID-19 reported in Uruguay; the Government declares sanitary emergency and launches swift policy response.
- **April 16th**: first Monetary Policy Committee of the new Central Bank Board, announcing enhancements to the monetary policy framework and communication strategy.
- **May 15th**: Finnish company UPM and the Government signed an MoU confirming commitment to ongoing construction of the pulp mill.
- **July 8th**: Congress approves a bill that includes key structural reforms, including a new fiscal rule, changes to the governance of state-owned enterprises and a roadmap for pension reform.

Government's strategy for virus containment after Covid-19 onset in Uruguay



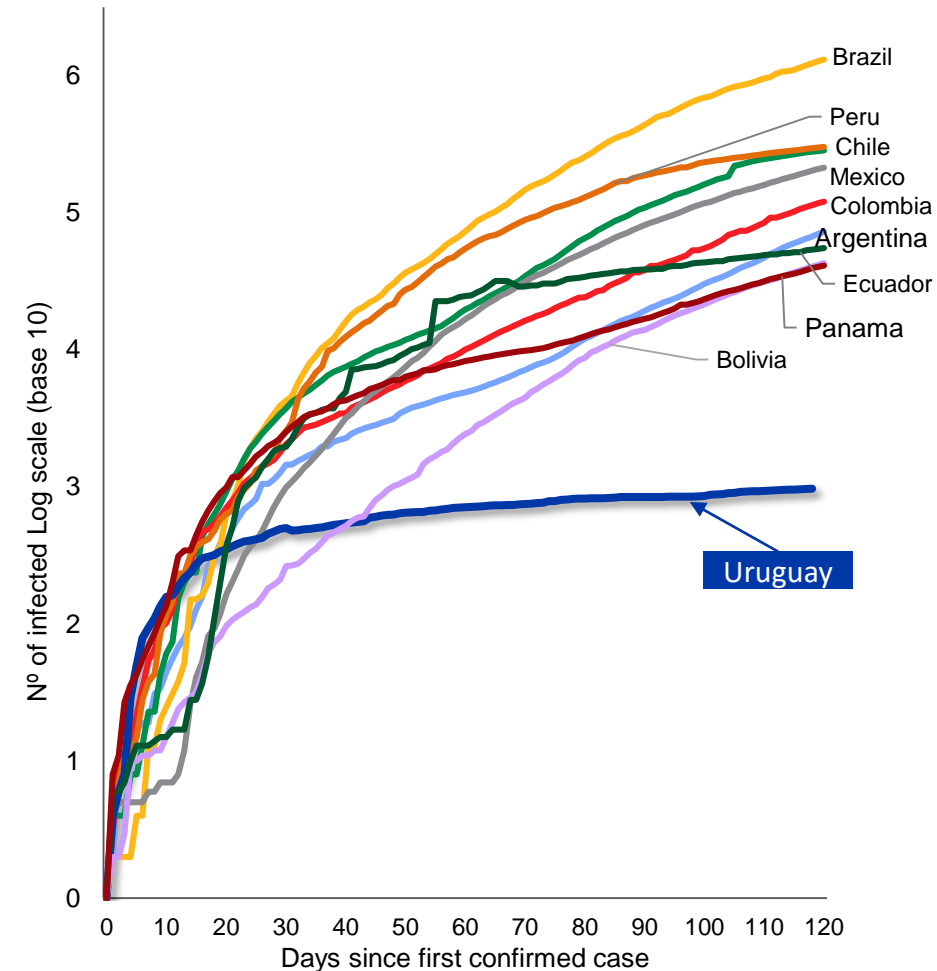
- To slow the spread of the virus, the Government did not enforce a countrywide lockdown or mandatory house confinement, to keep the engines of the economy running. Rather, it trusted citizens to adhere to voluntary social distancing and follow hygiene protocols, appealing to “*individual freedom with social responsibility*”.
- In parallel, the Government took early and decisive action and sealed off land borders, closed air traffic except to chartered repatriation flights, suspended all public events and school classes, limited visits to nursing homes and encouraged citizens to stay home and telework.
- Effective coordinated response between public and private sector and scientific community:
 - strengthening the health care system and facilities, and medical equipment
 - extensive randomized testing and community tracing in outbreak areas (border with Brazil, nursing homes) and in reopening sectors (e.g. construction, shopping centers).
 - developing a roadmap for re-opening the economy in consultation with scientific experts and private sector representatives.
 - innovative Covid-19-tracing technology (Coronavirus UY App), developed jointly with Google and Apple.

So far, Uruguay is holding up well in the face of adversity: contagion curves are flattening and death toll remains subdued..



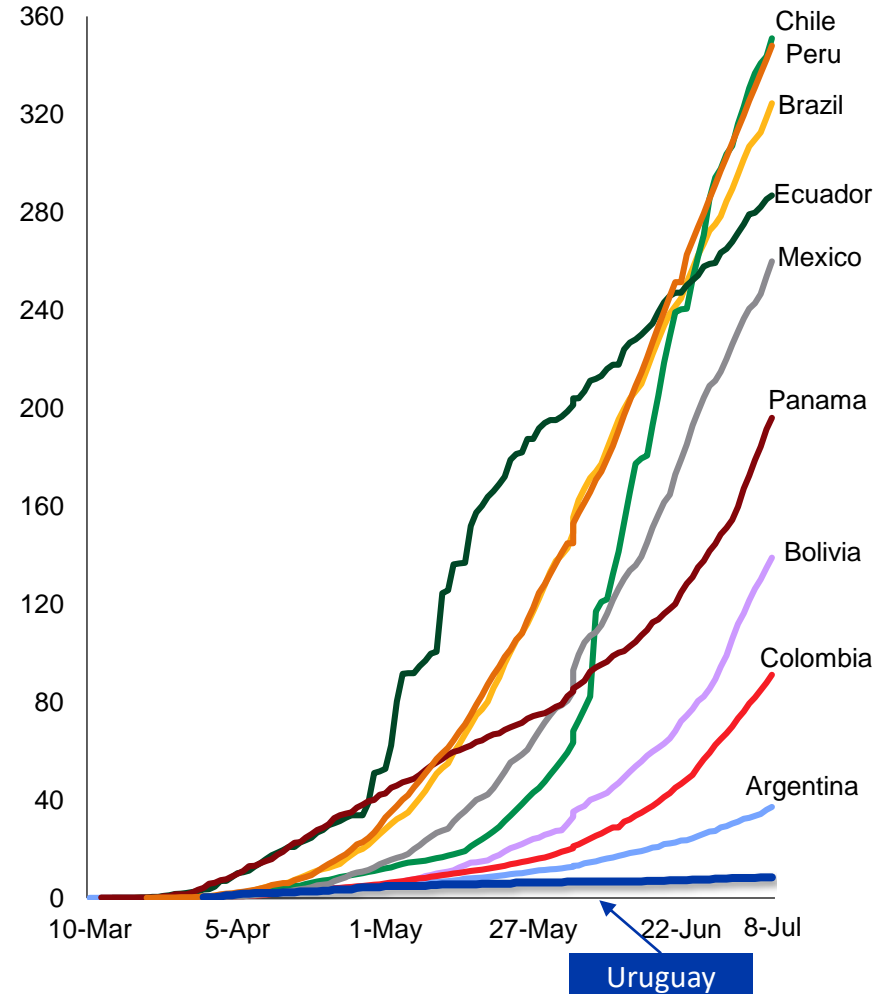
Spread of infection

(As of July 8th, 2020)



Covid 19-related deaths per million

(As of July 8th, 2020)

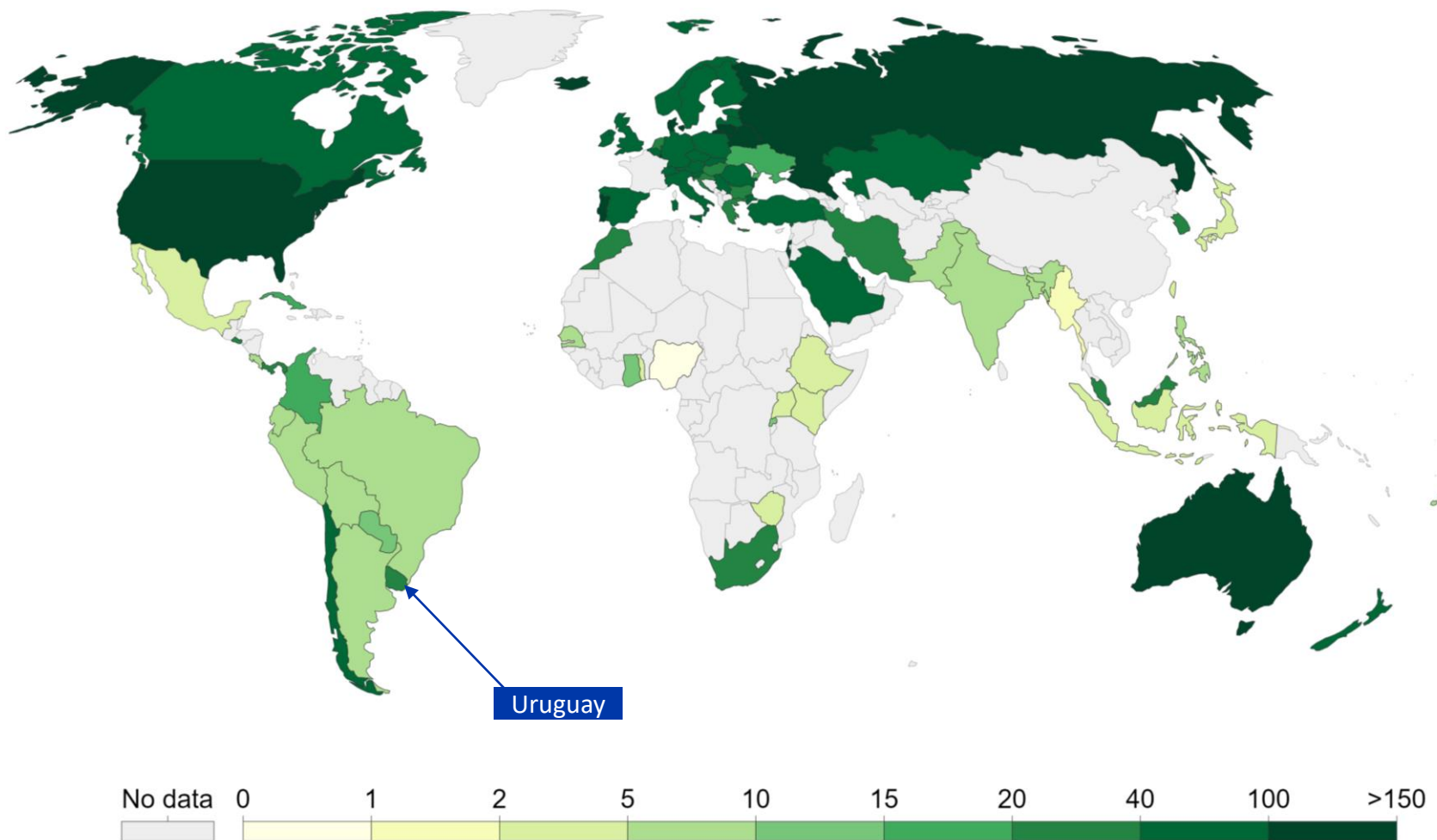


...while ensuring an elevated number of daily tests and contact tracing protocols, enabling the country to react to potentially new bouts in the near future



Total Covid-19 tests per 1,000 people

(Figures relate to the closest date for which data is available, with a maximum of 10-days' difference, as of July 8th, 2020)



Government and the Central Bank implemented policy measures to mitigate the economic and social fallout



Fiscal policy measures

Protect household income and human capital through direct income transfers, expanded unemployment and health insurance, tax relief and deferral of mortgage obligations.

- Income transfers to vulnerable households to cover food expenses and basic needs.
- Targeted temporary deferrals in payroll, VAT and other income taxes, and partial reduction of mortgage obligations in state-owned mortgage bank.
- Expanded social safety net for unemployment and health insurance:
 - more flexible terms for unemployment claims, allowing firms to place employees in part-time schedules.
 - provision of unemployment benefit to self-employed workers.
 - Extensions of sick leave insurance for private sector workers 65+ years old, thus providing sick leave compensation for *all* elderly formal workers in the country.

Credit and liquidity support

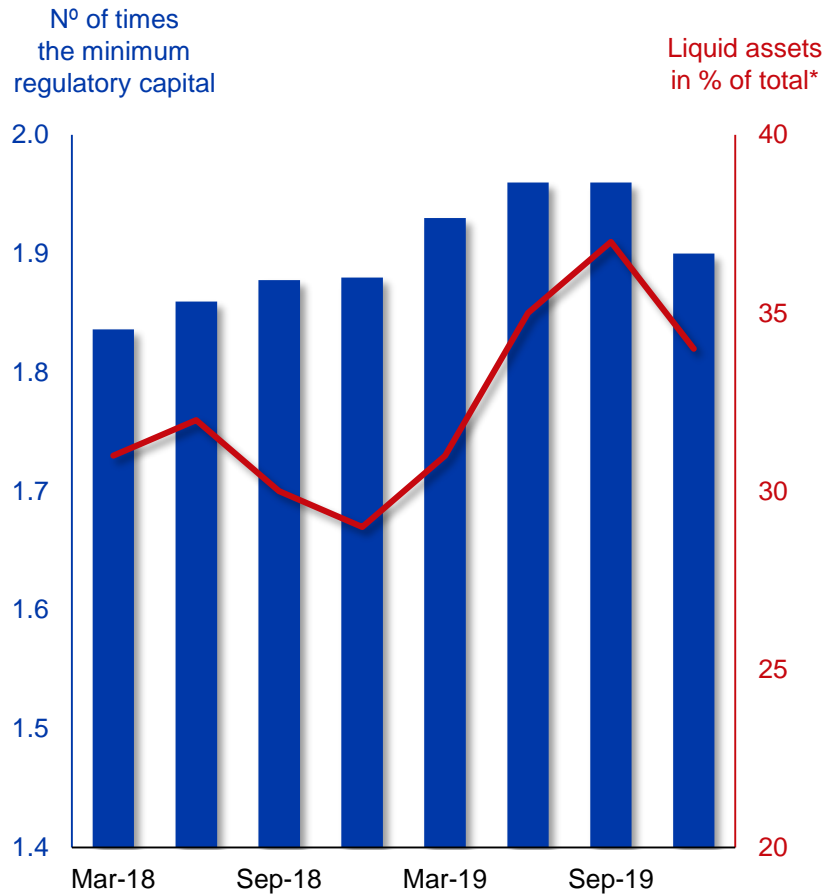
Preserve the financial health and credit quality of micro, small and medium-sized enterprises (SMEs) to ensure functioning payment systems and supply chains between producers, suppliers, intermediaries and creditors.

- Capitalization of the National Guarantee System (SIGa) for USD 500 million to leverage banking system loans to SMEs for up to USD 2.5 billion, and reducing the commission charged for guarantees.
- State-owned development bank (BROU) introduced more flexible loan repayment and financing terms.
- The National Development Agency launched direct credit program for micro-entrepreneurs at subsidized rates.
- The Central Bank deployed countercyclical monetary policy tools:
 - reduced commercial banks' local currency reserve requirements to inject additional liquidity into the financial system.
 - eased bank regulations, authorizing financial institutions to defer companies' loan payments coming due for up to 180 days.

Banks' strong capitalization and liquidity position supports credit measures of the loan guarantee system and the Central Bank; no spillovers from Argentina to financial system of Uruguay



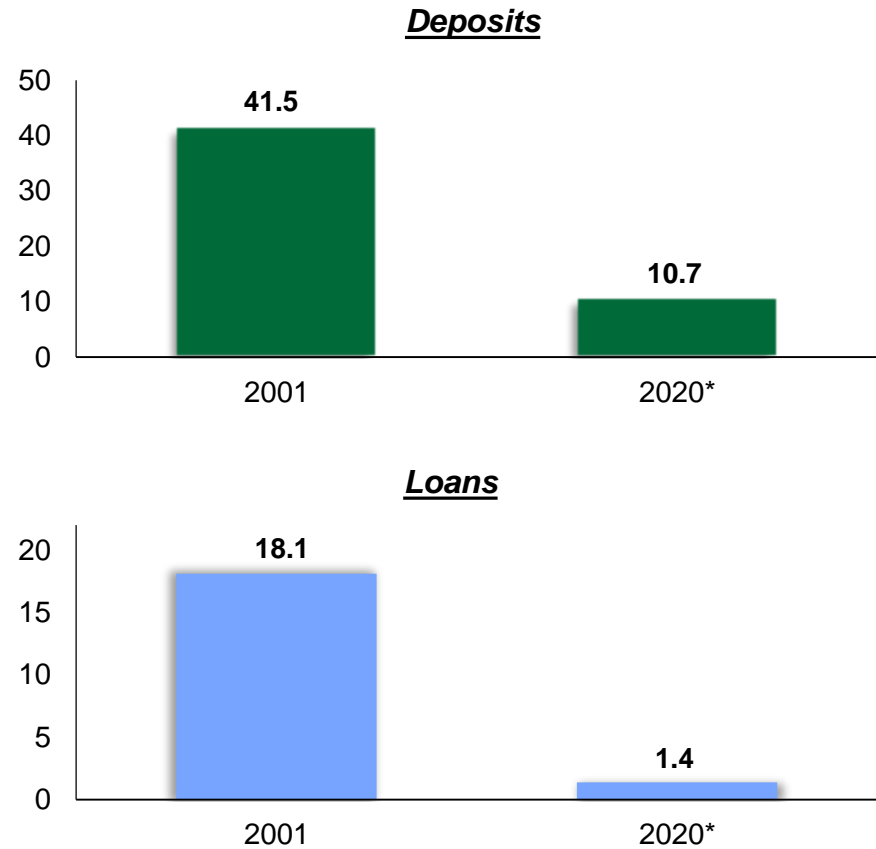
Solvency and liquidity of the banking system



(*) Liquid assets are those available within 30 days

Banking system's balance sheet exposure to Argentina

(To the non-financial sector, % of total)^{1/}



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

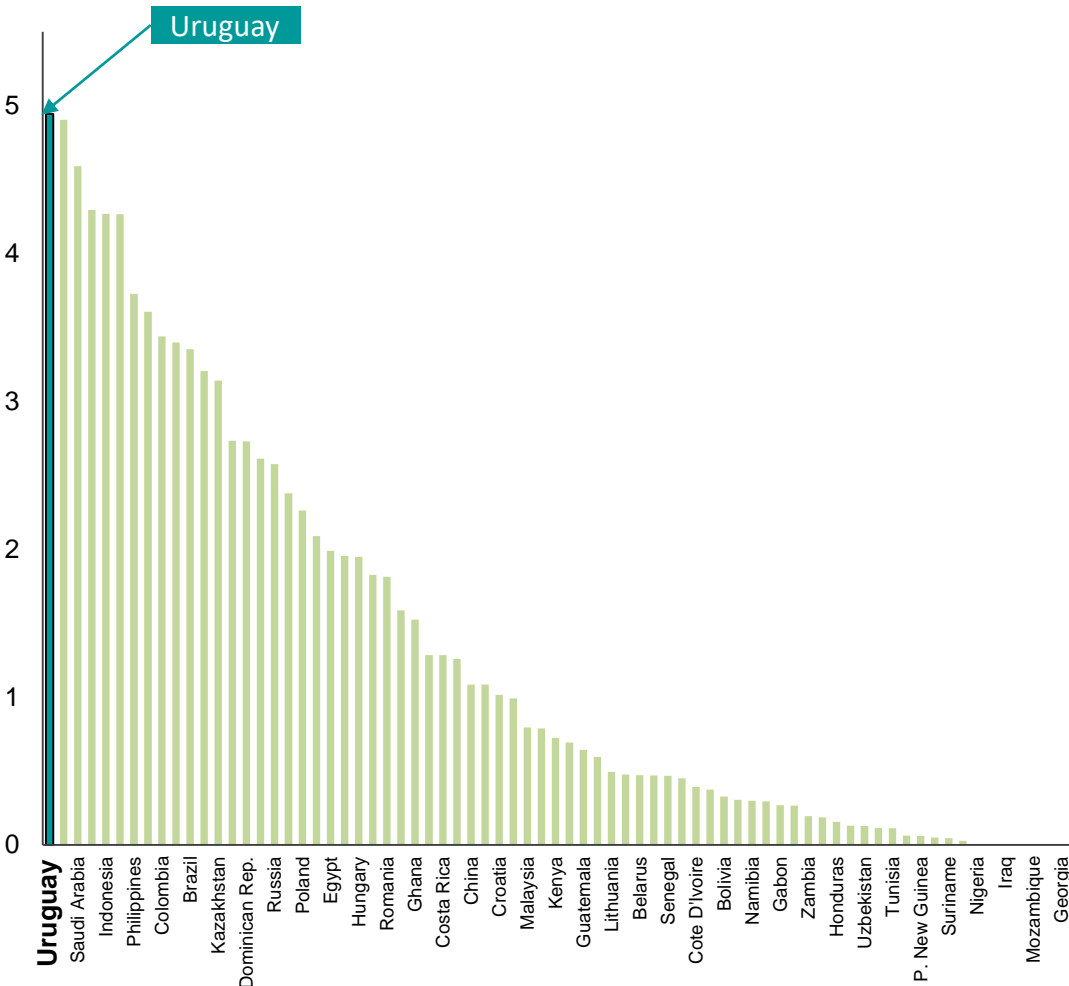
(*) As of April

Uruguay's robust ESG features has underpinned steadfast response to the pandemic, yet there is no room for complacency



ESG-adjusted EMBI benchmark

(Country weights for 74 countries, in %; as of June 30th, 2020)

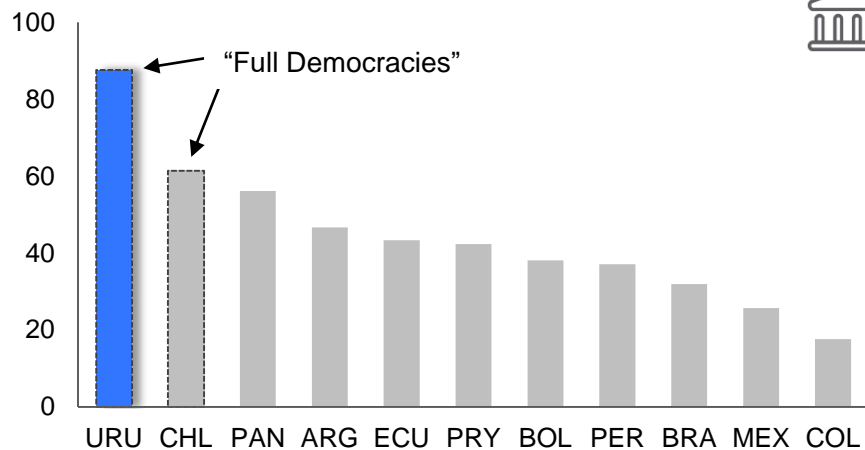


- **Trustworthiness of institutions:** Very high public compliance with voluntary quarantine and adherence to social distancing measures. Strong democratic tradition meant citizens trusted public officials' guidance and health recommendations.
- **Socially stable country with relatively low inequality, low informality and a broad social insurance net:** Efficient work of automatic stabilizers provide income and healthcare support, allowing Uruguayans to act on their commitment to voluntary distancing with no civil unrest— aided by the country's low urban population density.
- **Fiscal transparency and accountability and mature political system:** Congress created by Law the "COVID-19 Solidarity Fund" (voted unanimously by all parties), to be managed by the Executive branch. The Fund clearly earmarks the resources and budgetary expenditures to address the emergency, keeping tabs of the Covid-related expenditures and where and how the money is spent.

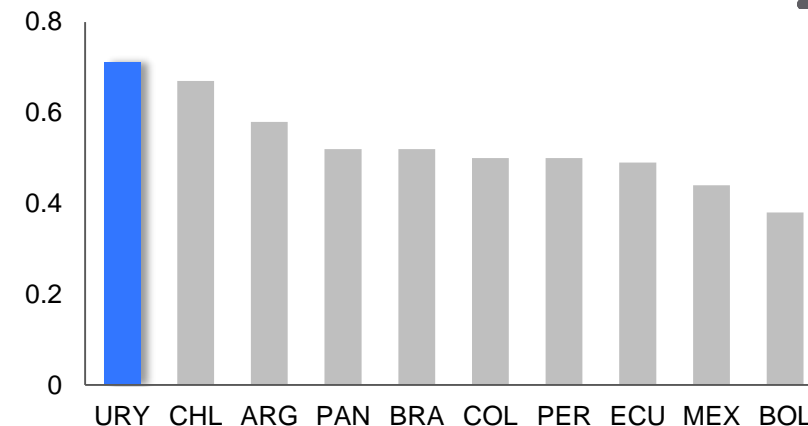
Uruguay remains a bastion of institutional and political stability in Latin America



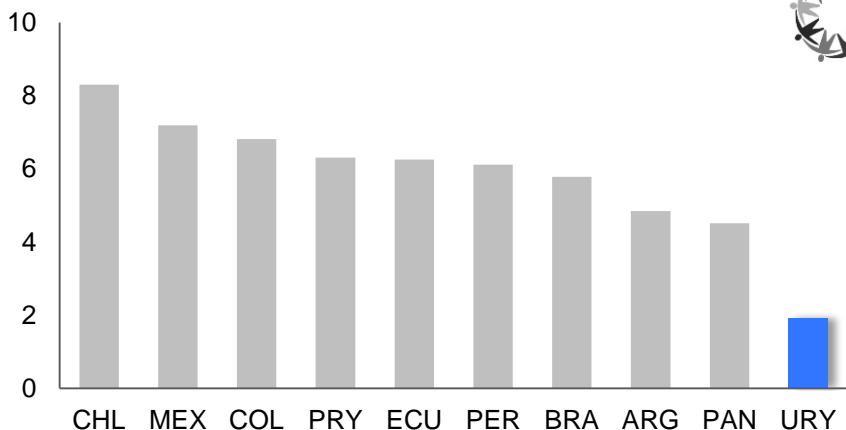
Strongest political stability and full democracy ^{1/2/}



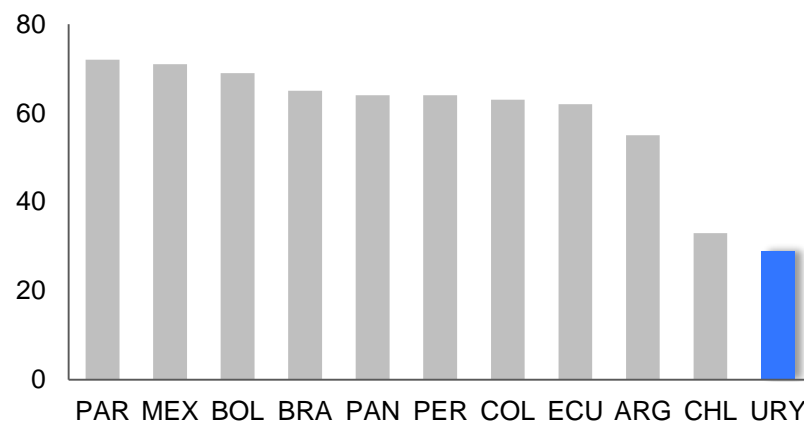
Highest adherence to the rule of law ^{3/}



Lowest civil unrest ^{4/}



Lowest corruption perception ^{5/}



Sources: 1/ Worldwide Governance Indicators, World Bank (2019); 2/ The Economist Intelligence Unit (2020); 3/ World Justice Project (2020); 4/ Verisk Maplecroft (first quarter of 2020); Transparency International (2020)

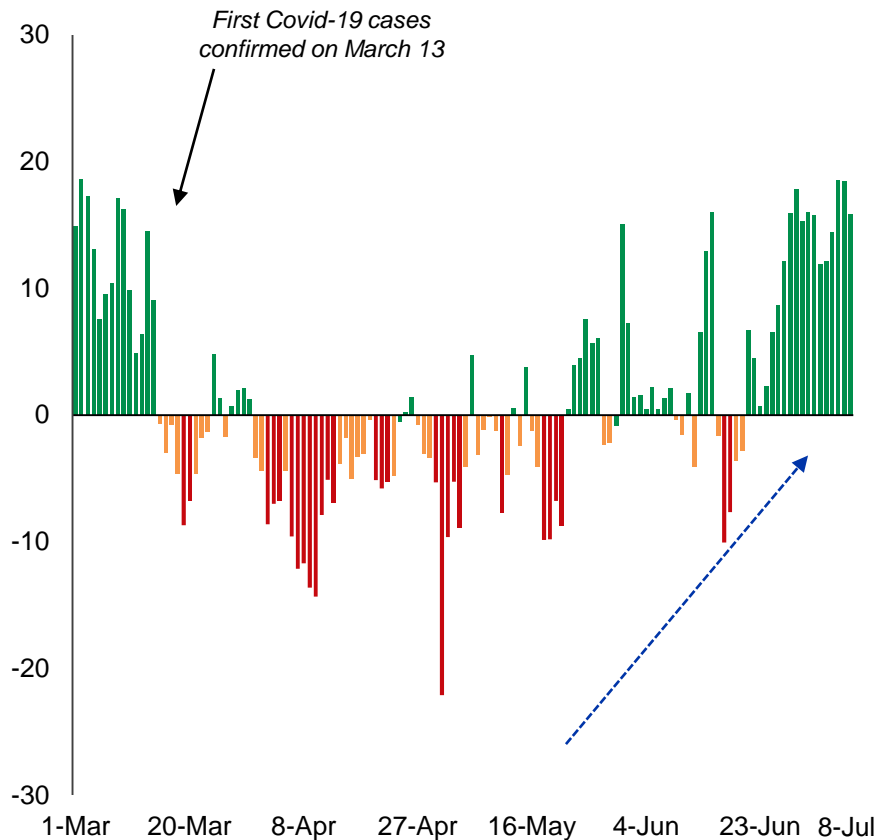
Low and declining virus incidence has allowed for faster renormalization of business and social activities



Leading indicators suggest that economic downdraft may have bottomed-out, and a gradual recovery is underway:

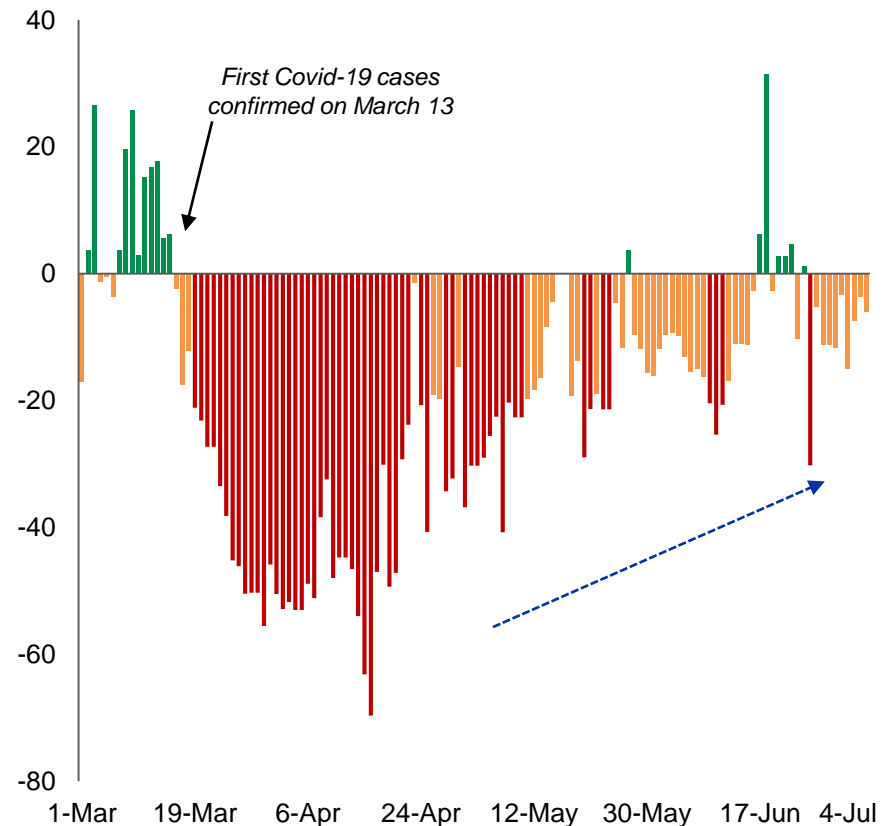
Electricity demand per day

(YoY change, in %)



Fuel demand per day

(Rolling 7-day, YoY change, in %)

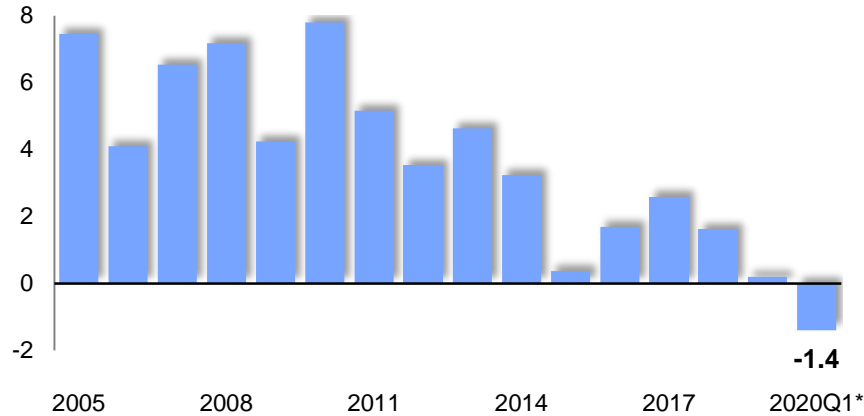


Challenges before Covid-19 outbreak: decelerating economy, persistent fiscal deterioration and increasing debt burden



Real GDP

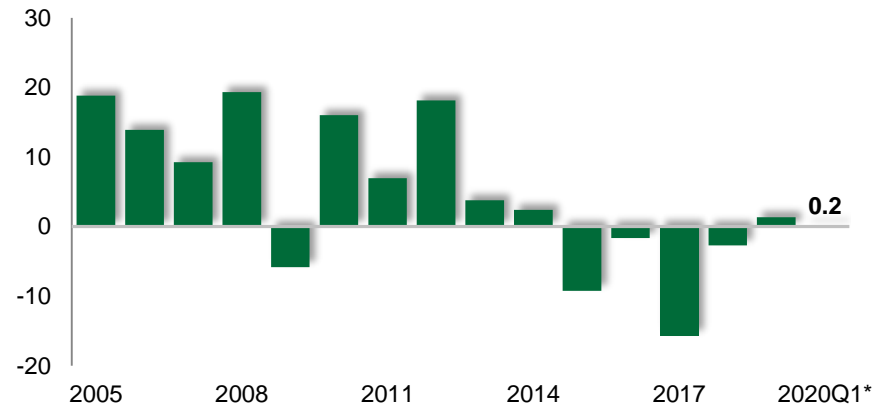
(Annual change, in %)



(*) YoY

Real gross fixed capital investment

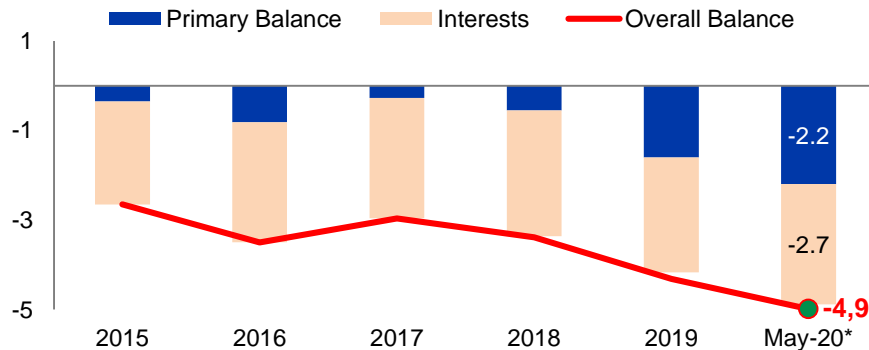
(Annual change, in %)



(*) YoY

Central Government fiscal balance ^{1/}

(In % of GDP)

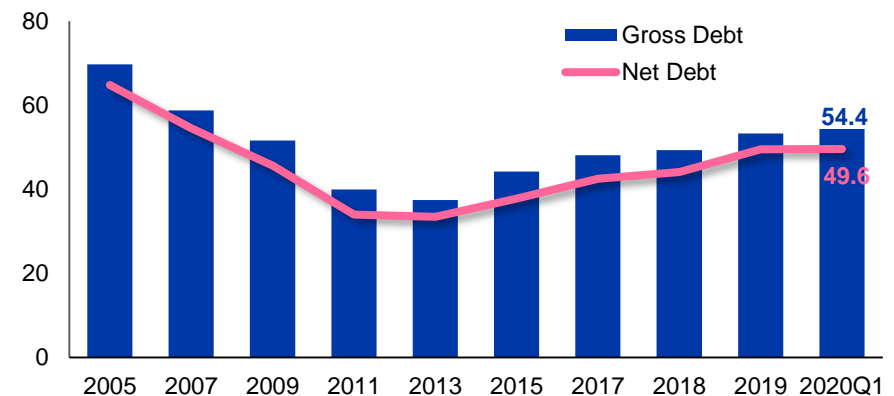


1/ Does not include inflows of funds to the Social Security Trust, of 1.2% of GDP

(*) Last 12 months

Central Government debt

(In % of GDP, end of period)



The new government moved promptly on its pledge to tackle the fiscal deficit through expenditure cuts



Fiscal austerity measures introduced through a Presidential decree on March 11th, have remained in place despite Covid-19:

- *Reduction of discretionary spending and more efficient budget execution:* ministries must save 15% on operating, investment and administrative expenses.
- *Restrictions on public sector hiring:* only one third of personnel vacancies in the central government can be filled during the year, except for teachers, health and security personnel.
- *Reduction in tax expenditures:* reduced VAT exemptions on credit and debit cards purchases.

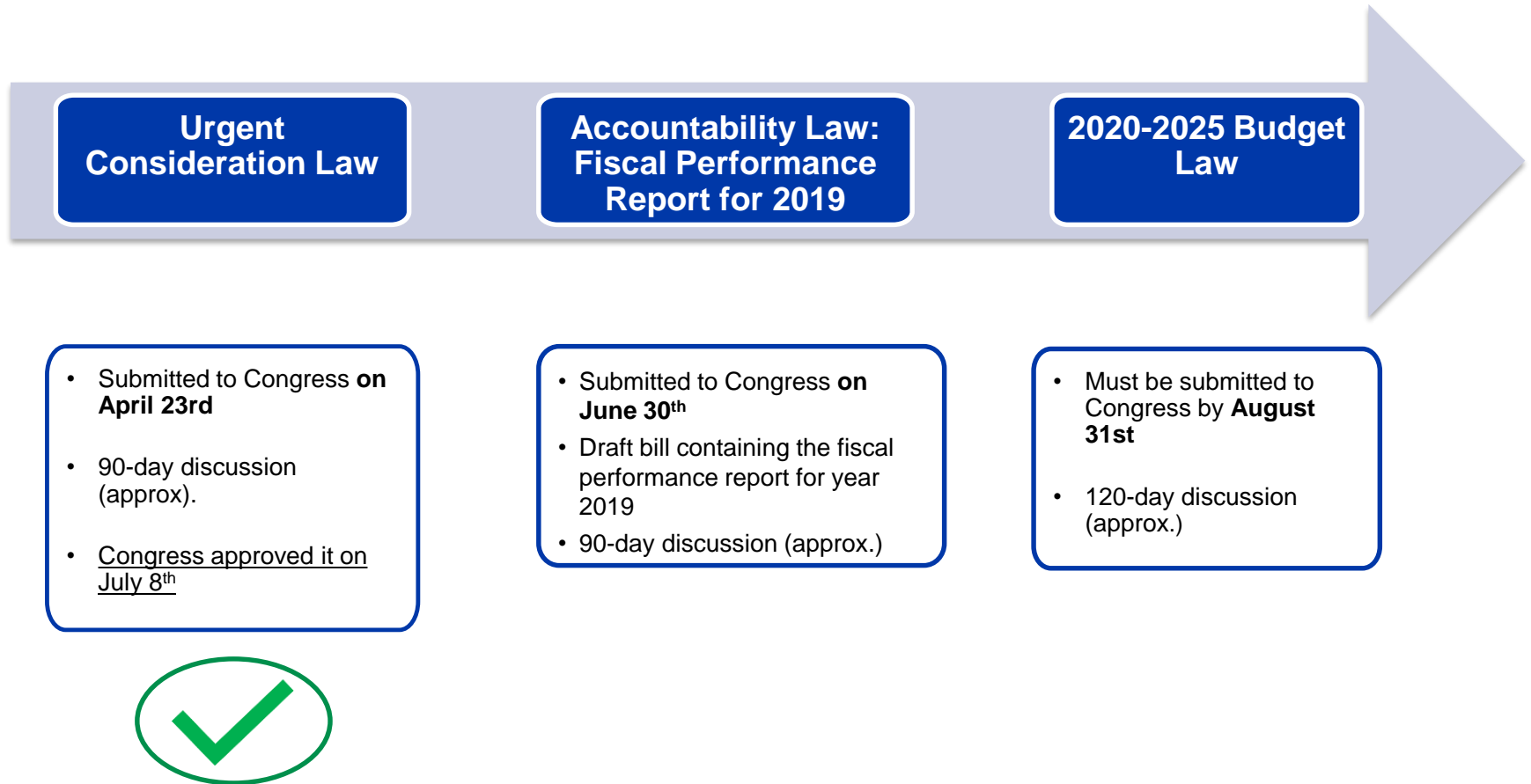
The government is forging ahead with an ambitious reform agenda backed by political majority in Congress



Despite the Covid-19 outbreak, the Government moved forward and submitted to Parliament in April an omnibus bill (“Urgent Consideration Law”) that included a spate of structural and fiscal reforms. **The bill was approved on July 8th:**

- new fiscal framework to ensure sustainable finances over the medium term and establish credibility in meeting fiscal targets: fiscal rule to account for business cycle (structural balance) and government spending capped by potential GDP growth.
- new governance policies for public enterprises;
- commission of experts to make proposals for a comprehensive pension reform;
- microeconomic reforms to boost potential GDP and improve business climate and competitiveness (changes in the regulatory framework for energy markets and promotion of competition in non-tradable sectors), so that the private sector can lead the way to recovery .

Milestones and timing of political & budget process

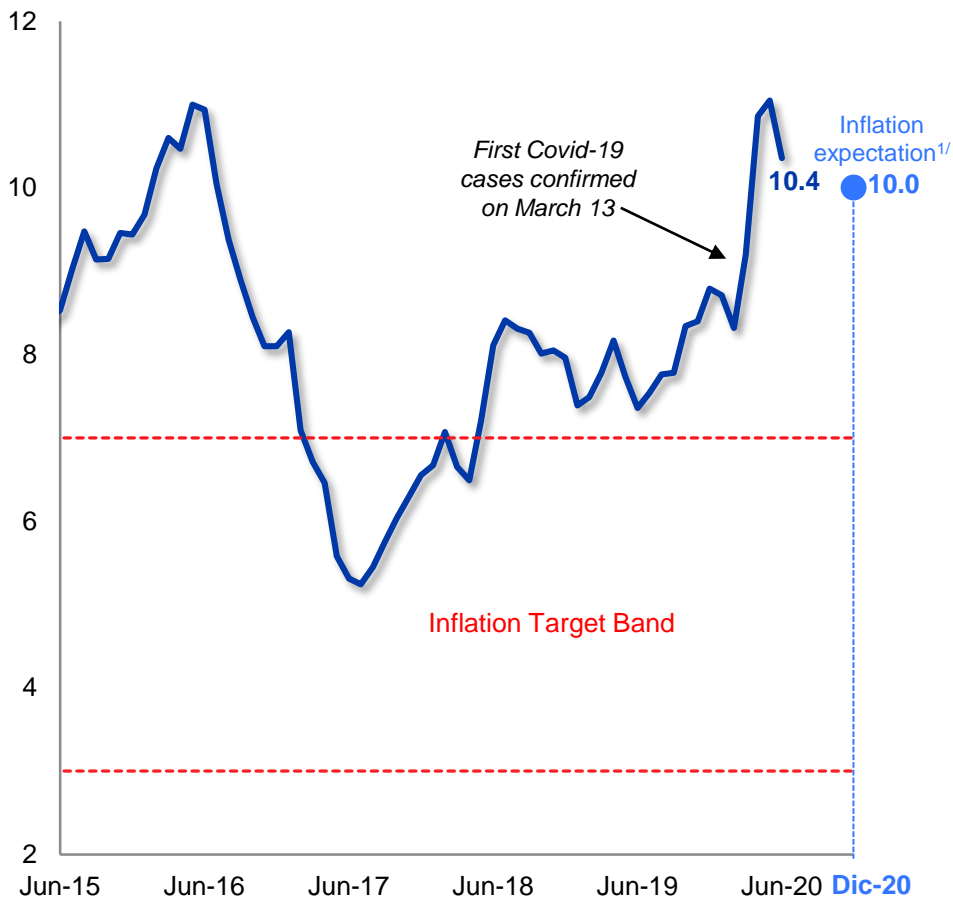


Inflation above target: shock to beef prices and FX depreciation partially offset by falling non-tradable inflation



Headline inflation

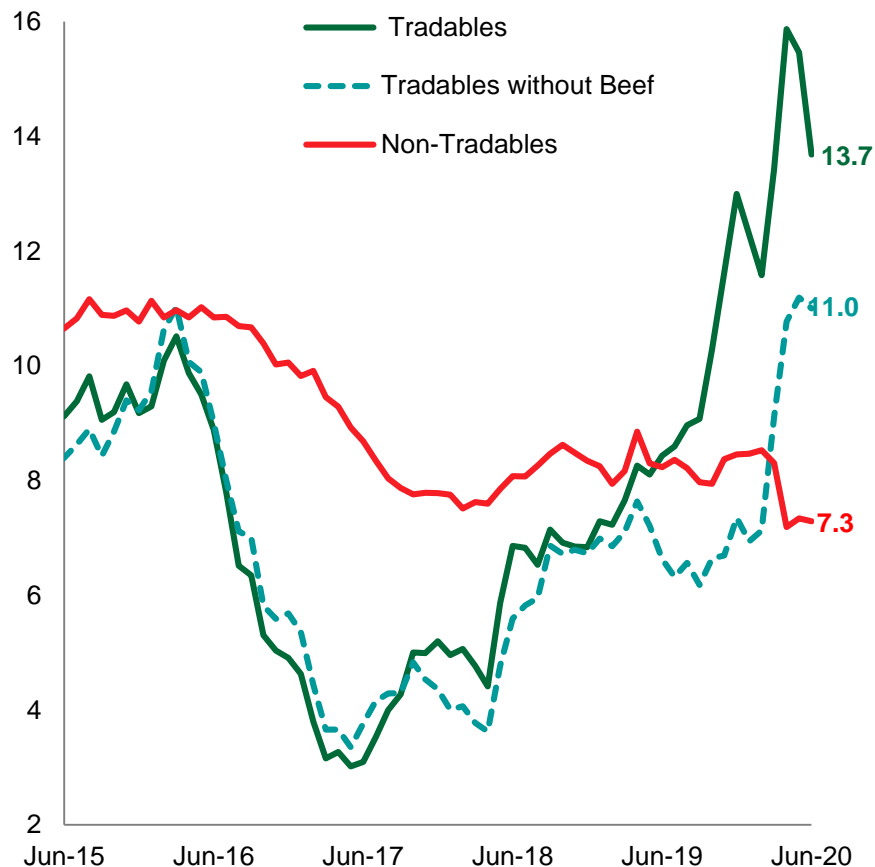
(Annual, in %)



1/ Median expectation in Central Bank's market survey as of June 2020

Tradable and non-tradable inflation components^{1/}

(Annual, in %)



1/ Excluding fruits and vegetables, and administered prices

Enhancements to monetary policy framework under the inflation targeting regime



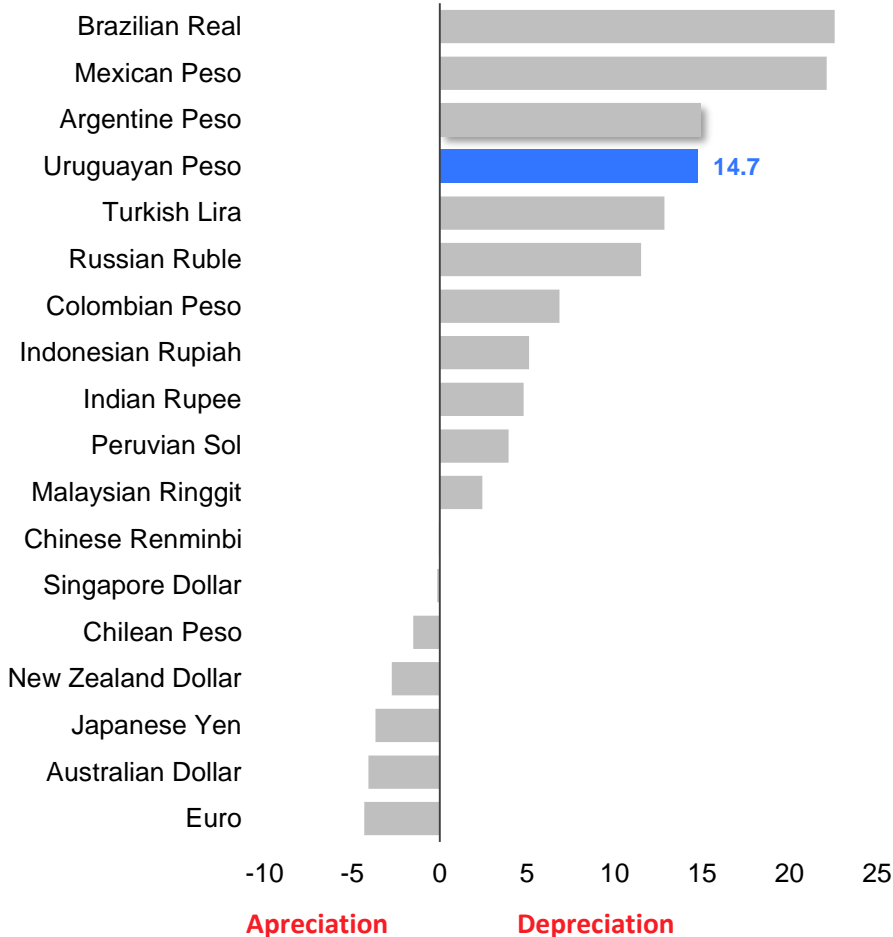
- **Once the epidemic recedes, the Central Bank will focus on disinflation strategy as its overriding objective, planning to:**
 - tighten monetary policy to anchor inflation expectations within inflation target.
 - re-assess the policy instrument with the possibility to revert to the short term reference rate to improve signals to economic agents.
- In the Monetary Policy Committee in April, 2020, the Central Bank introduced **innovations to its communication and transparency strategy.**
- **Strong coordination between fiscal, monetary and income policies:** monetary authority's commitment to **break inflation expectations inertia and the new wage-setting guidelines** for the private sector prioritizing employment creation, should reinforce disinflation pressures as softer economic activity cools down price increases.

Floating exchange as a shock absorber; Central Bank intervenes on both sides of the market to smooth out undue volatility



Currency performance vs USD since Covid-19 world outbreak

(Percent change since February 19th, as of July 9th, 2020)



Exchange rate and Central Bank FX intervention



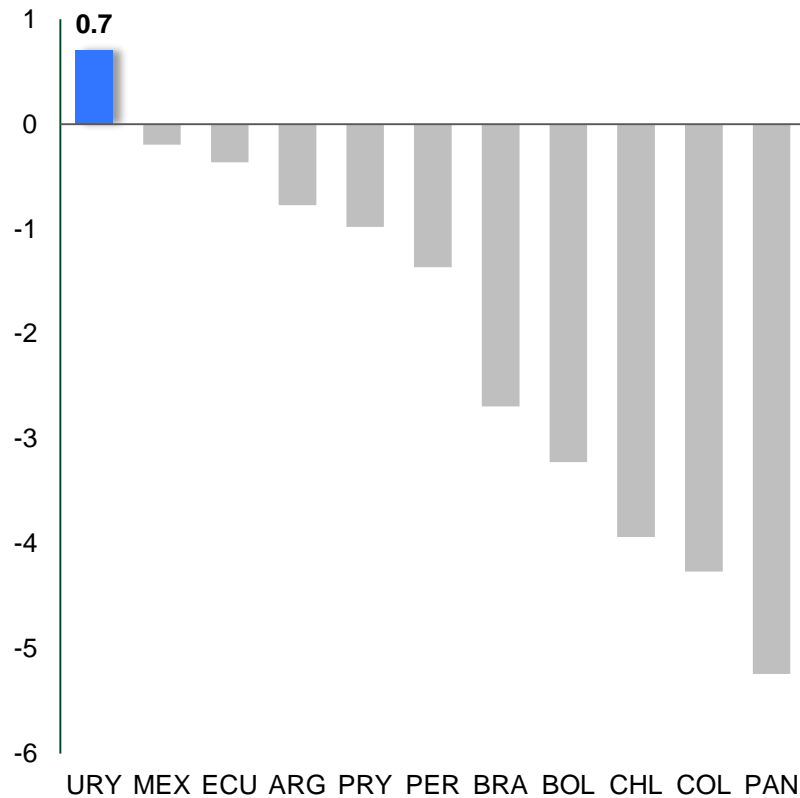
^{1/} Median expectation in Central Bank's market survey as of June 2020

Sizable international reserves are an important backstop for external stability and key policy anchor



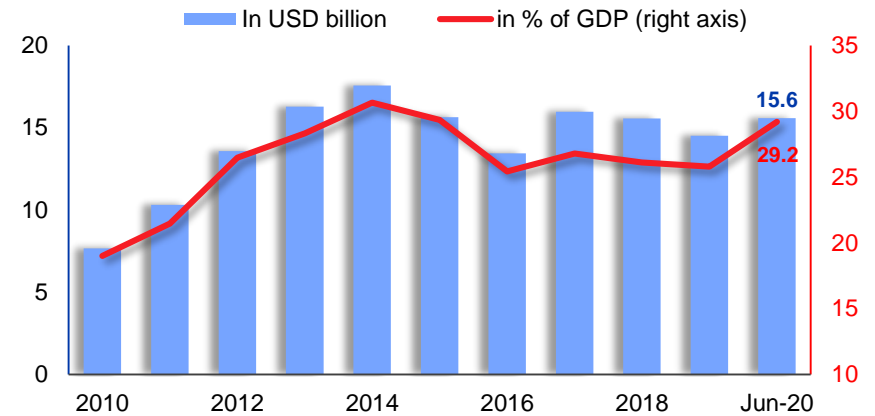
Current account balance compared with Latam

(In % of GDP, 2019)



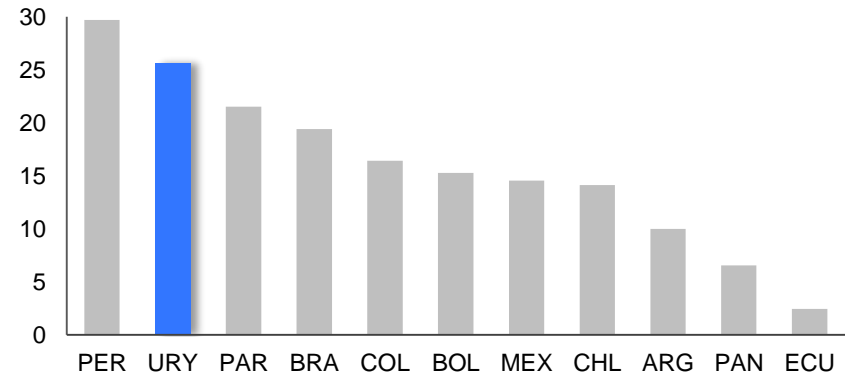
International reserves

(End-of-period)



International reserves compared to LatAm

(In % of GDP, 2019)



Biding Time: Government's external financing strategy since the onset of the Covid-19 global disruption



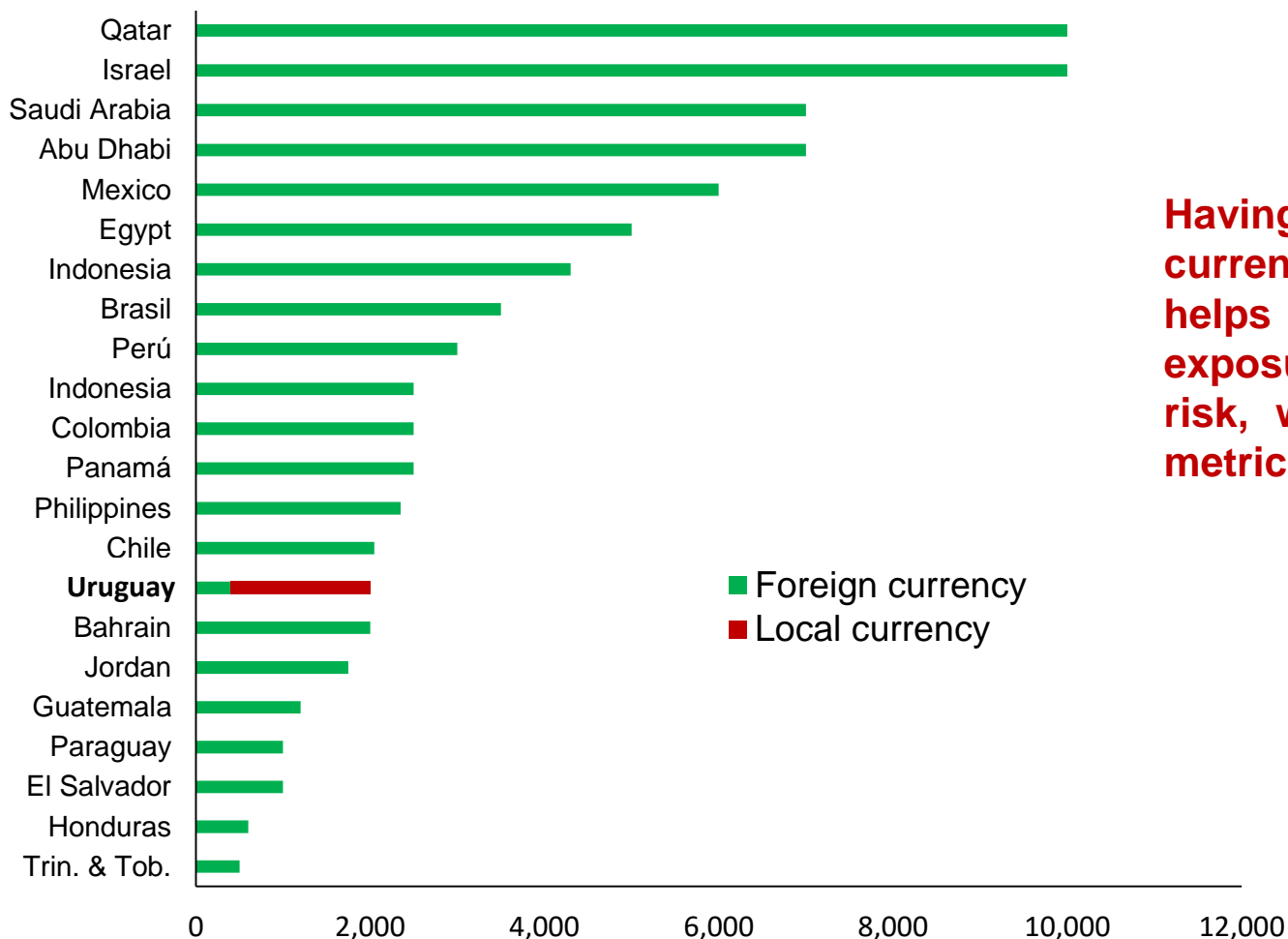
- In the wake of the global pandemic shock, market conditions in March-April 2020 became extremely volatile and rates shoot up.
- As a first response, the government relied on multilateral financing to shore up liquidity buffers— by rapidly disbursing pre-arranged credit lines. This access to contingency financing provided large-scale resources with lower borrowing costs and no execution risk, allowing for biding time before returning to market.
- As international markets stabilized, the Government spotted a chance in late June 2020 and issued global bonds in both dollars and pesos, at favourable terms (the dollar rate was the lowest ever achieved by Uruguay in an international dollar issuance).

Uruguay is the first Emerging Market sovereign to issue in its own currency in global markets, since the onset of the Covid-19 crisis



Sovereign global bond issuances from emerging market countries^{1/}

(In USD million, since February 2020)



Having access to local currency, long-term funding helps mitigate the debt exposure to exchange rate risk, which is a key credit metric.

^{1/} Excludes European countries

Uruguay offers a market-friendly environment for doing business, with advanced ICT infrastructure



Uruguay has become a first-class digital business hub:

- Uruguay was classified as the **top-ranking country in Latin America in terms of telecommunications development**, according to the Telecoms Maturity Index (TMI) produced by the independent research Company BuddeComm.
- Uruguay entered in February 2018 -together with Canada- into the **elite Digital Nine (D9) Group**, the most advanced countries worldwide in digital development.



Uruguay has a wide range of investment support schemes for national and foreign investors



Current General Investment Promotion Regime:



- It is a fundamental instrument for transforming the production matrix, encouraging quality employment and social integration, promoting innovative projects with more added value and contributing to a more environmentally sustainable production. Allows adapting to changes in policy priorities, according to national development objectives.
- The indicators to assess the investment projects are: employment creation, decentralization, increase of exports, clean technologies, R&D&I (Research, Development and Innovation).
- Fiscal exemptions encompass the Corporate Income Tax, Net Worth Tax, Value Added Tax (IVA) and fees and taxes on imports.

On July 8th, 2020 the OECD's Investment Committee recommended Uruguay's incorporation as a full member of the committee.

Largest-ever private investment in the country proceeding as scheduled: Uruguay poised to receive large FDI inflows



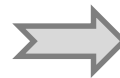
Construction of new pulp mill

- Finnish company UPM will build a second cellulose plant in the country
- Overall investment: approx. **USD 3 billion (5% of GDP)**
- Will have a material positive impact on GDP growth, employment and Balance of Payments
- World-class design with proven high environmental performance
- *UPM and the new Government of Uruguay have signed a MoU on pending items related to UPM's growth project in Uruguay that will **further strengthen the implementation of UPM's growth project** and existing operations in the country as well as the local economy.*



Railway infrastructure project

- Central Railway 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



The new administration is focused on jump-starting the economy by attracting and promoting foreign private investment



Recent changes in the legal framework provide more flexibility on tax incentives for investment projects underway, and introduces new tax breaks for big-ticket construction projects and social housing:

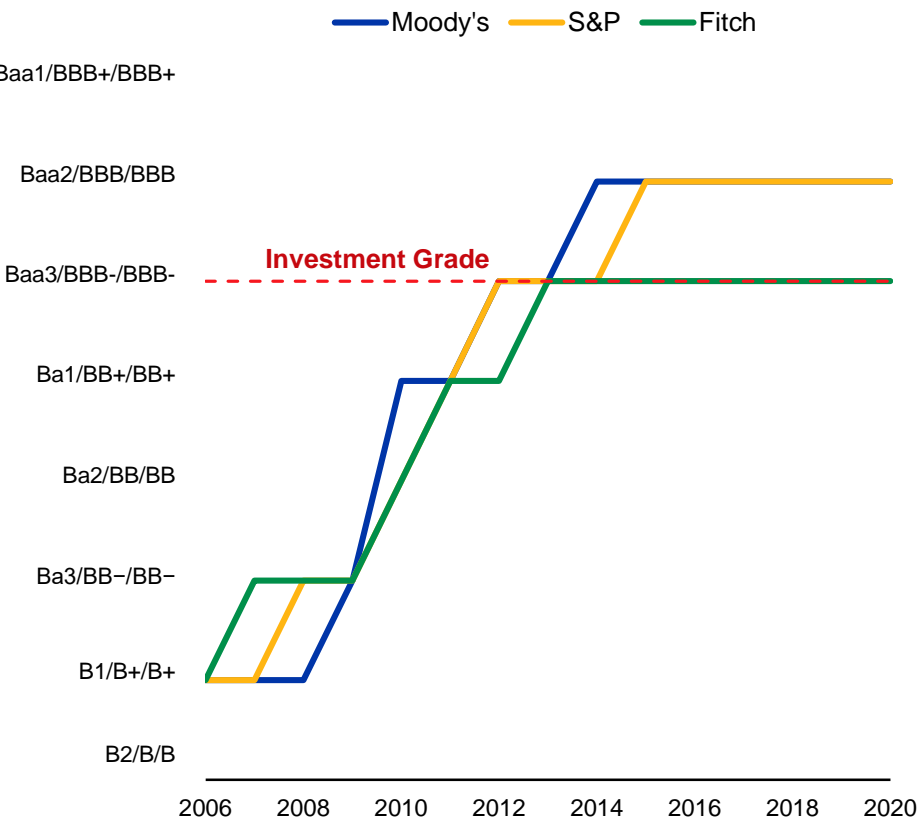
- **Projects of great economic dimension:** promotes the construction of offices, houses and urbanizations of more than USD 6 million and at least 10% of common use areas.
- **Social housing:** Promotes the housing construction, recycling, expansion and renovation projects, for low and middle sectors of the population.

Fiscal benefits encompass the Income Tax on Economic Activities (IRAE), Net Worth (IP), Value Added Tax (IVA) and fees and taxes on imports.

Uruguay's credit rating performance



Evolution of Uruguay's sovereign credit ratings



Latest credit rating actions



April 2020. Affirmed Uruguay's rating at BBB, outlook remained stable.



February 2020. Confirmed Uruguay's rating at BBB- with Negative outlook.



February 2020. Affirmed Uruguay's rating at BBB, and changed outlook to Positive from Stable.



January 2020. Confirmed Uruguay's rating at BBB (low) with Stable trend.



August 2019. Uruguay's rating affirmed at Baa2 with Stable outlook.