



República Oriental del Uruguay

Institutional Investor Presentation

June 2020

Timeline of key recent political and economic developments



- **March 1st, 2020:** the new President Lacalle Pou takes office for a 5-year term, leading a five-party political coalition with majority in Congress.
- **March 11th, 2020:** Presidential decree introduces fiscal austerity measures, including expenditure cuts across Ministries.
- **March 13th, 2020:** first cases of COVID-19 reported in Uruguay; the Government declares sanitary emergency and launches swift policy response.
- **April 16th, 2020:** first Monetary Policy Committee of the new Central Bank Board, announcing enhancements to the monetary policy framework and communication strategy.
- **April 23rd, 2020:** Government submits to Congress 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.
- **May 15th, 2020:** Finnish company UPM and the Government signed an MoU confirming commitment to ongoing construction of the pulp mill.

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



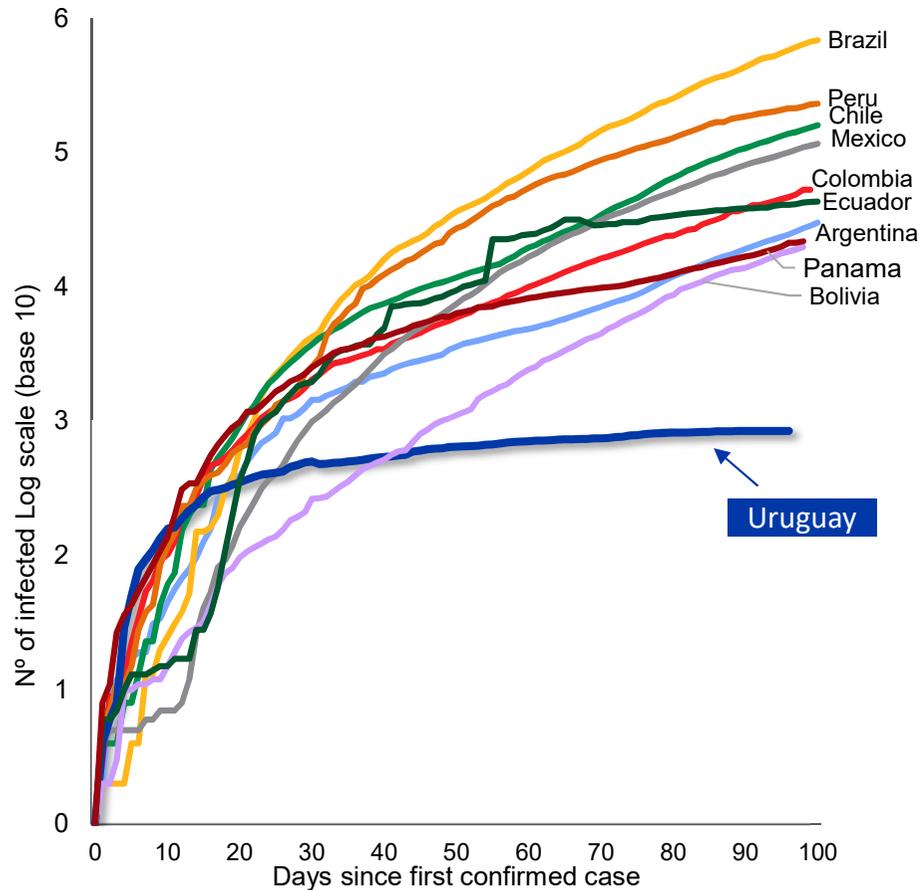
- To slow the spread of the virus, the Government did not enforce a countrywide lockdown or mandatory house confinement; rather, it trusted citizens to adhere to voluntary social distancing and follow hygiene protocols, by appealing to “*individual freedom with social responsibility*”.
- In parallel, 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.

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



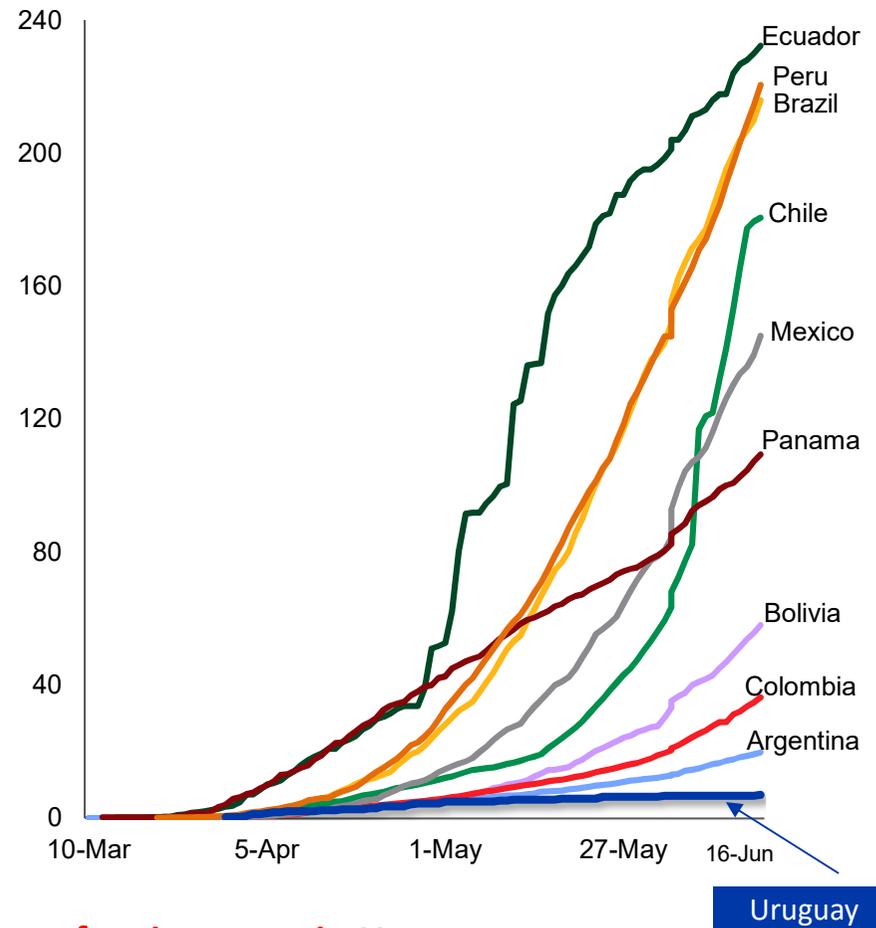
Spread of infection

(As of June 16th, 2020)



Covid 19-related deaths per million

(As of June 16th, 2020)



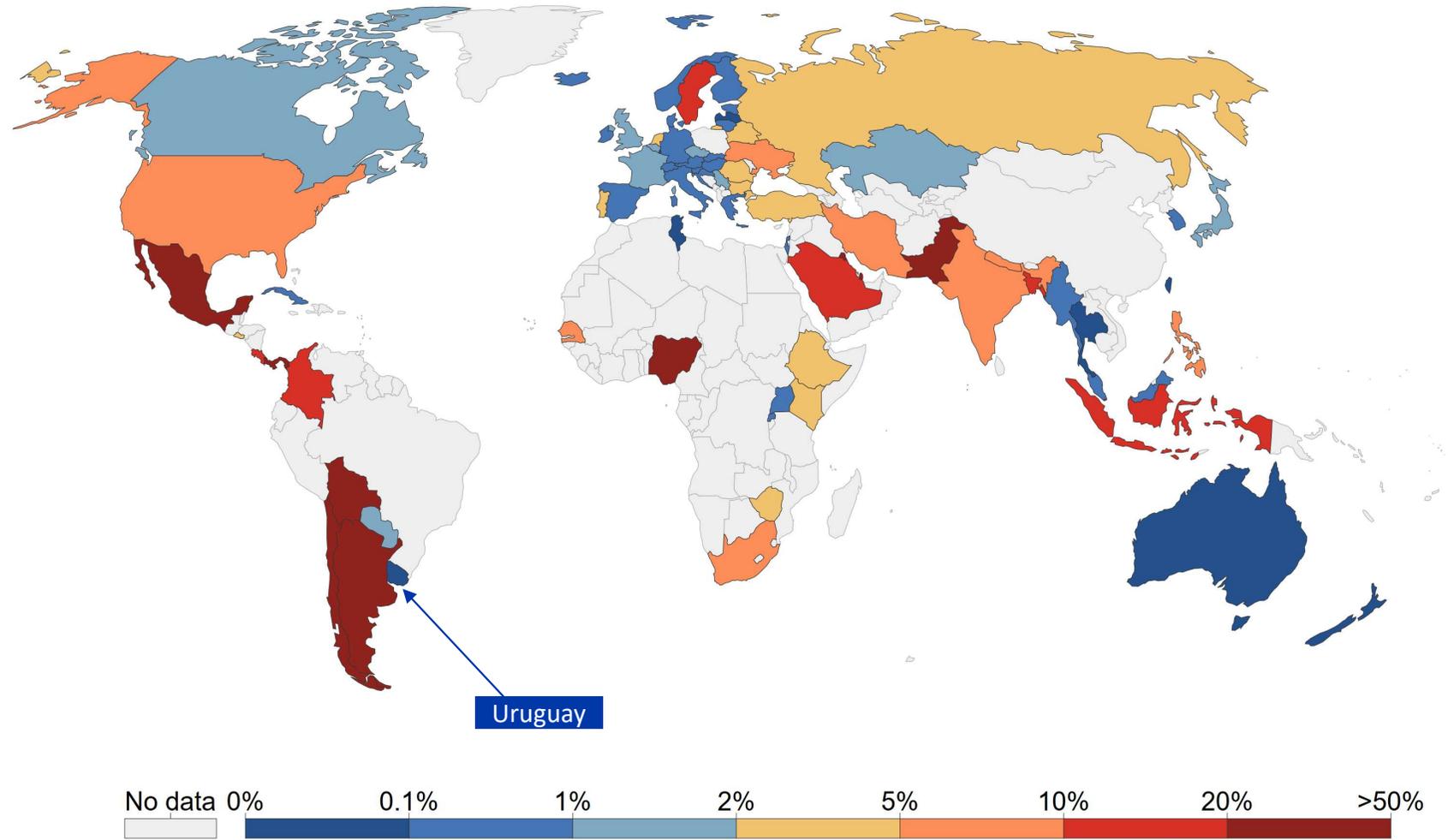
As of June 19th, 2020, the number of active cases in Uruguay had dropped to 15 patients.

...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



Share of daily Covid-19 tests that are positive

(Rolling 7-day average, as of June 15th, 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 benefits for *all* workers 65+ years old, in both the public and private sector.

Credit and liquidity support

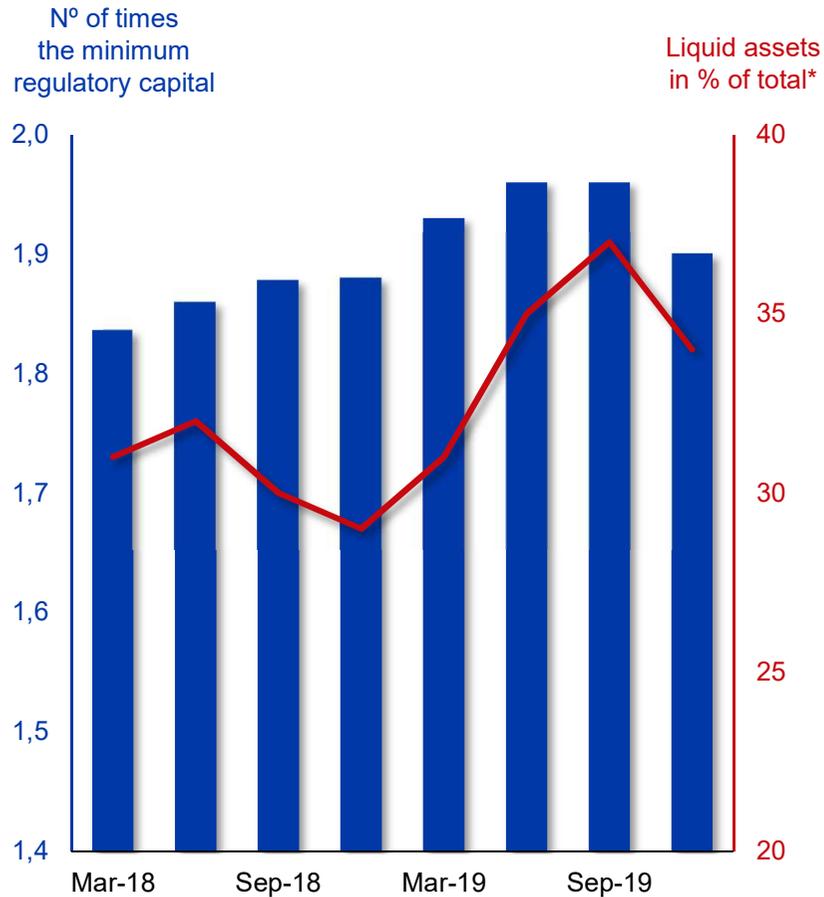
Preserve the financial health and credit quality of micro, small and medium-sized enterprises (SMEs) to ensure functioning payment systems and supply chains between producers, suppliers, intermediaries and creditors.

- State-owned development bank (BROU) introduced more flexible loan repayment and financing terms.
- Capitalization of the National Guarantee System (SIGa) to leverage banking system loans to SMEs, reducing the commission charged by the guarantee system.
- 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 Central Bank; no spillovers to financial system from Argentina



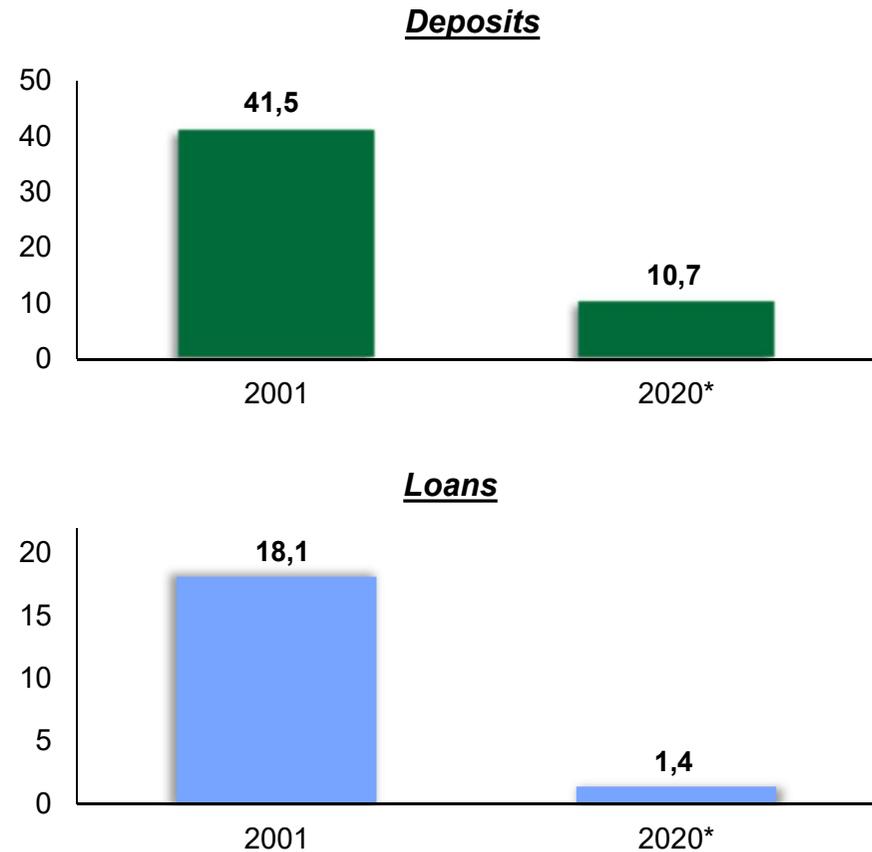
Solvency and liquidity of the banking system



(*) 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

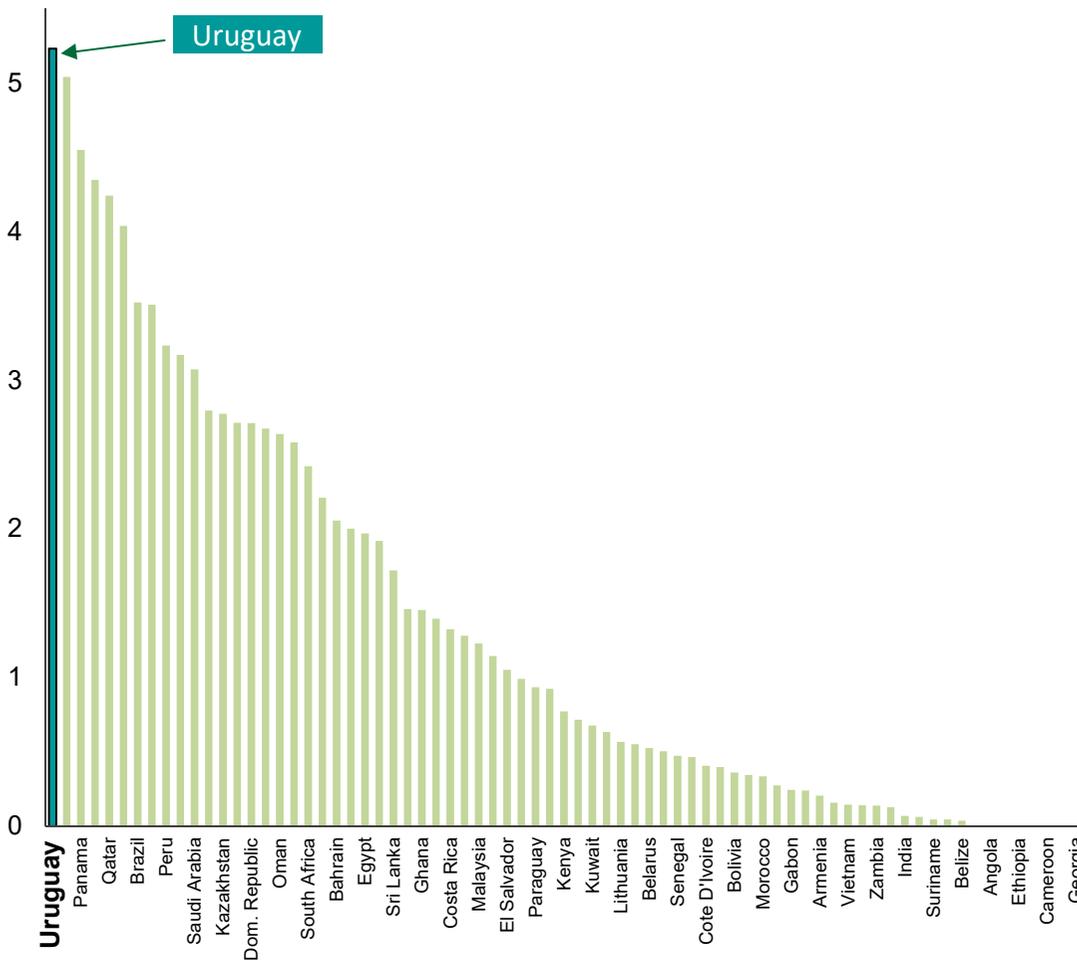
(*) As of April

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 73 countries, in %; as of April 30th, 2020)



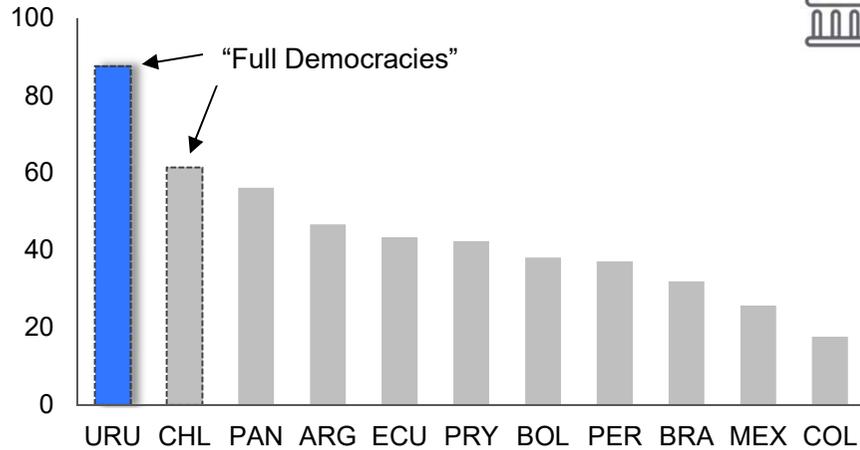
- **Trustworthiness of institutions:** Very high public compliance with voluntary quarantine and adherence to social distancing measures. Strong democratic tradition meant citizens trusted public officials' guidance and health recommendations.
- **Socially stable country with relatively low inequality, 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.

Source: J.P. Morgan Chase & Co. 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 2020, J.P. Morgan Chase & Co. All rights reserved."

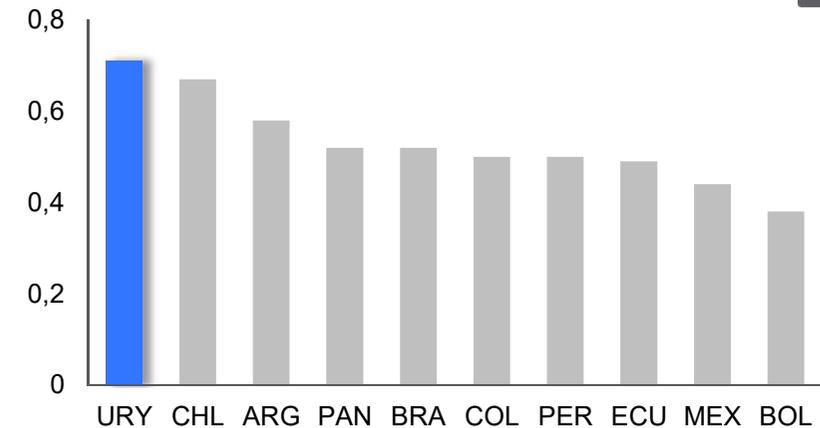
Uruguay remains a bastion of institutional, political and social stability in Latin America



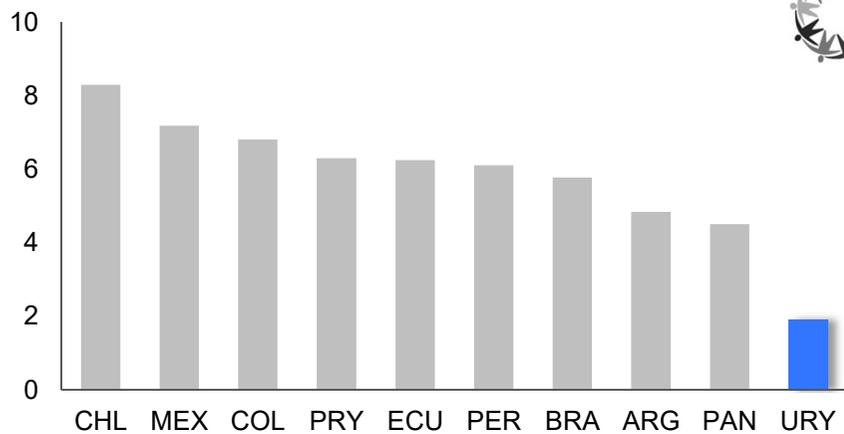
Strongest political stability and full democracy ^{1/2/}



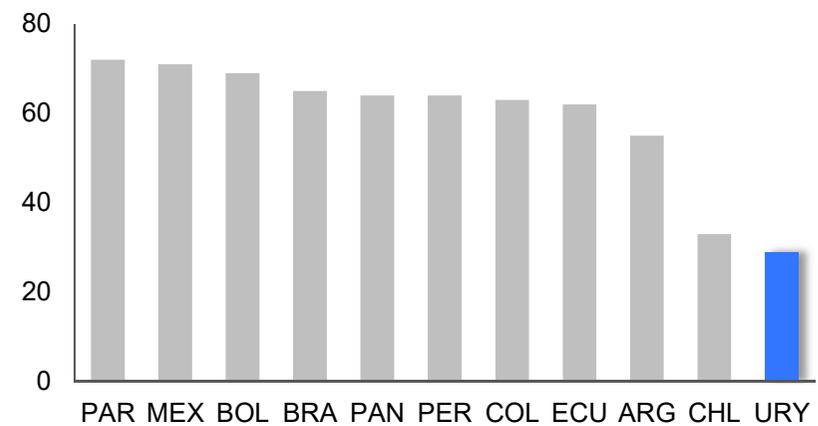
Highest adherence to the rule of law ^{3/}



Lowest civil unrest ^{4/}



Lowest corruption perception ^{5/}



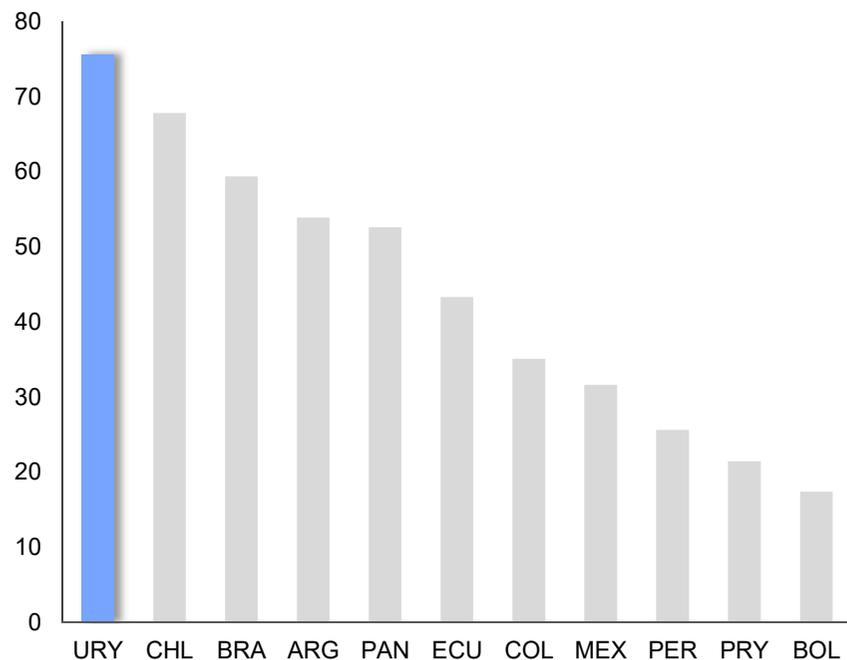
Sources: 1/ Worldwide Governance Indicators, World Bank (2019); 2/ The Economist Intelligence Unit (2020); 3/ World Justice Project (2020); 4/ Verisk Maplecroft (first quarter of 2020); Transparency International (2020)

Low informality and broad social safety net ensures efficient work of automatic stabilizers



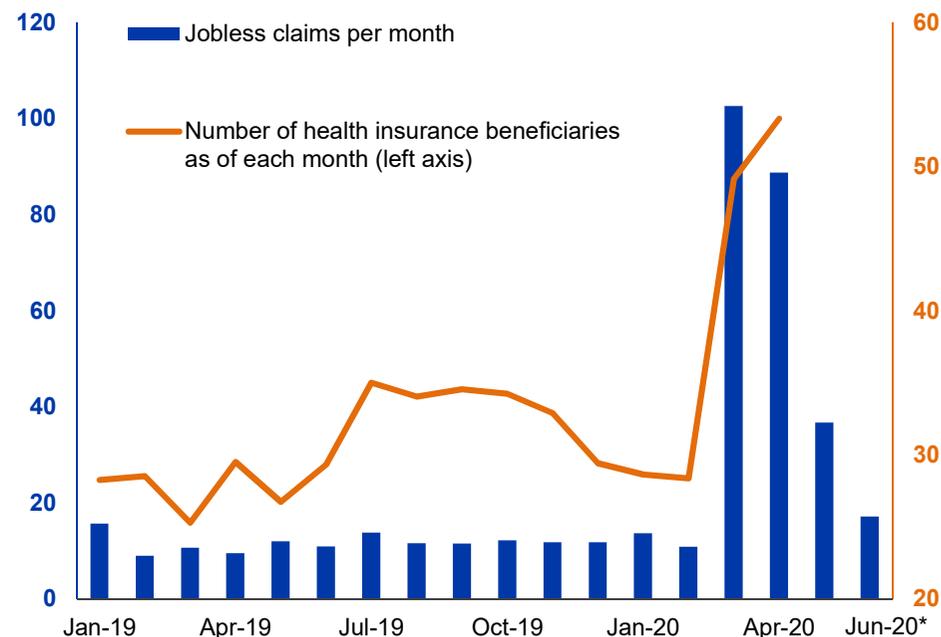
Labour market formality compared to Latam

(Contributors to social security system as % of workforce)



Unemployment and sickness insurance

(In thousands)



1/ Latest data available through April 2020. (*) As of June 14th

- Given the COVID-19 containment measures, both **sickness and unemployment insurance** became a crucial policy instrument to broadly and orderly cope with the health emergency and its fallout. **Developed welfare system for working-age people** in Uruguay consists of near-universal access to healthcare, unemployment insurance, sickness insurance, and child and family benefits.
- The sharp increase in health insurance beneficiaries in March was mainly driven by the government's proactive policy of providing wage compensation through sick leave to all elderly workers (over 65 years old) in the public and private sector, so that could stay at home.

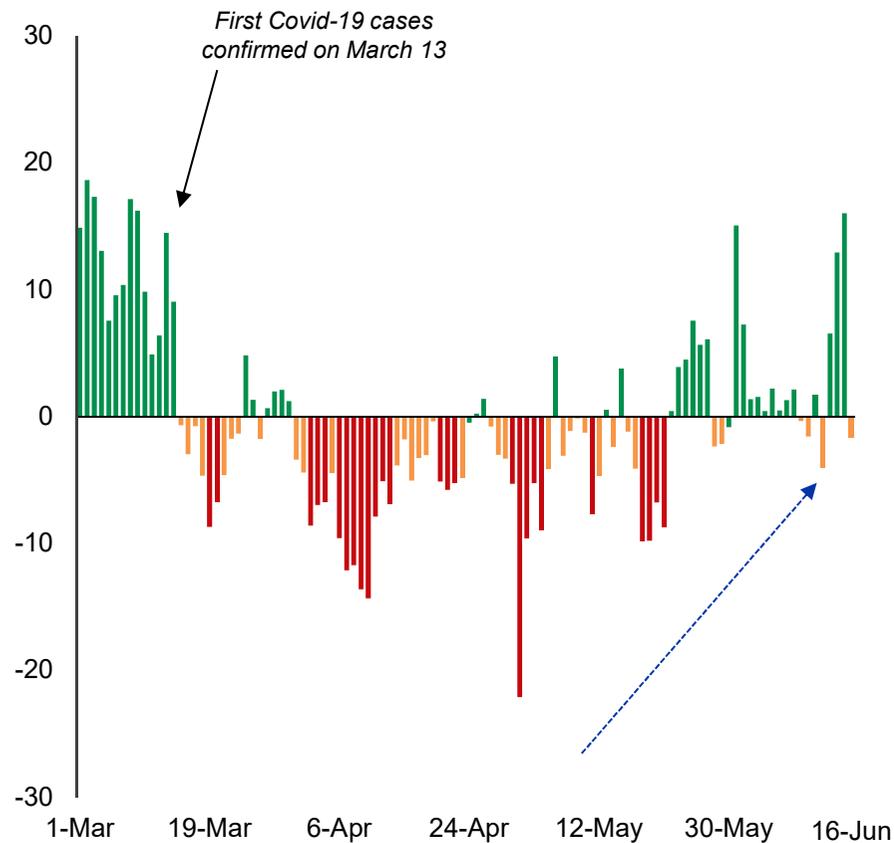
Low and declining virus incidence has allowed for faster renormalization of business and social activities



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

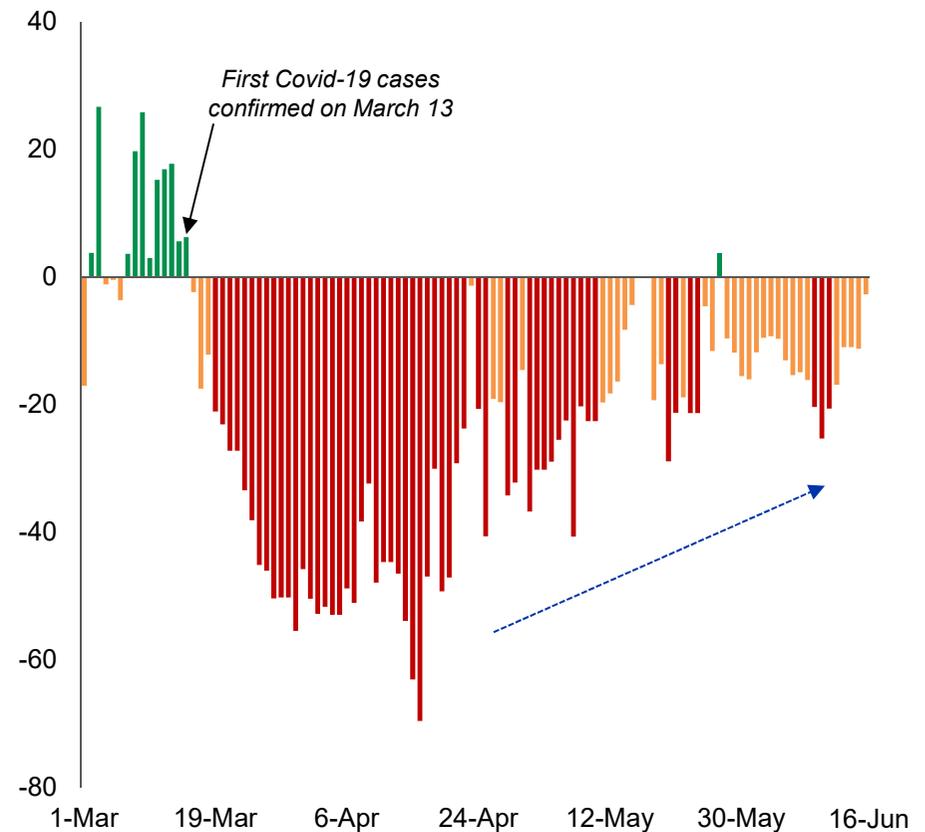
Electricity demand per day

(YoY change, in %)



Fuel demand per day

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

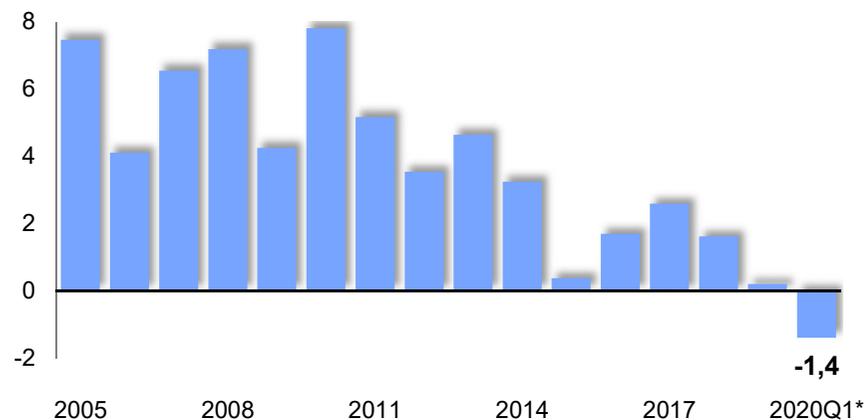


Challenges before Covid-19 outbreak: decelerating economy, persistent fiscal deterioration and increasing debt burden



Real GDP

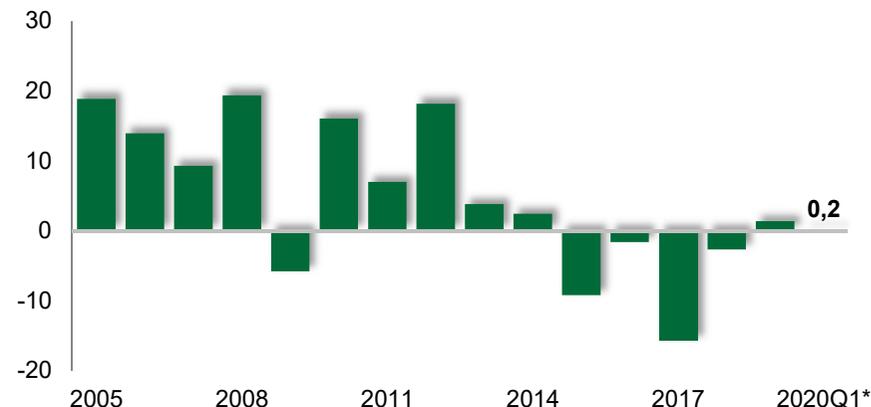
(Annual change, in %)



(*) YoY

Real gross fixed capital investment

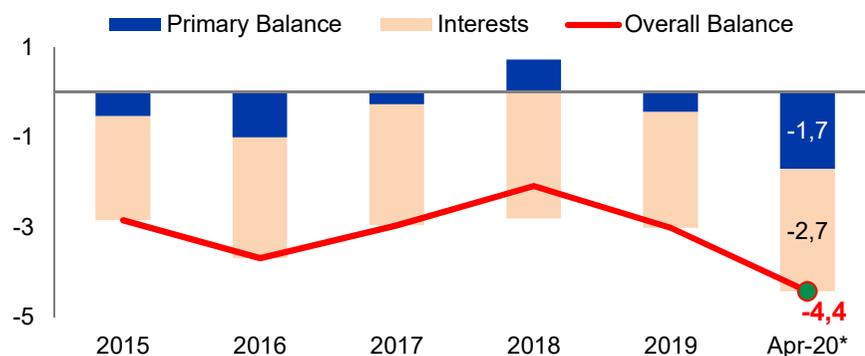
(Annual change, in %)



(*) YoY

Central Government fiscal balance ^{1/}

(In % of GDP)

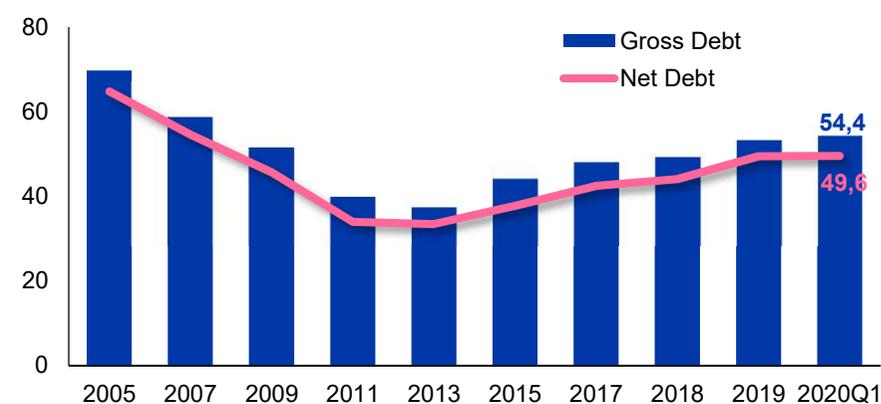


^{1/} Does not include inflows of funds to the Social Security Trust, of 1.2% of GDP

(*) 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, that 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.

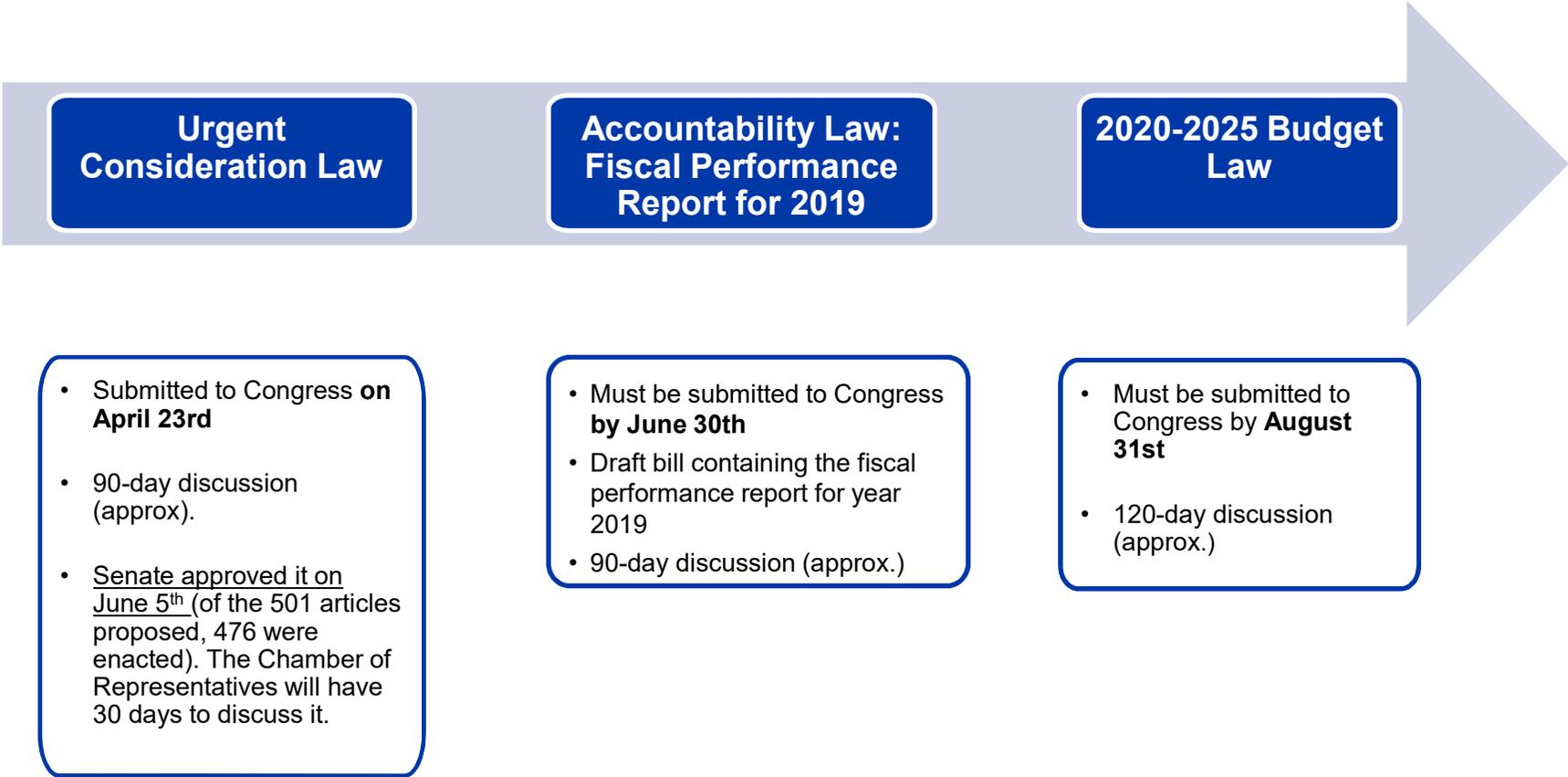
The government is forging ahead with an ambitious reform agenda backed by political majority in Congress



Despite the Covid-19 outbreak, the Government moved forward and submitted to Parliament an omnibus bill (“Urgent Consideration Law”), including a spate of structural and fiscal reforms:

- new fiscal framework to ensure sustainable finances over the medium term: fiscal rule to account for business cycle (structural balance) and government spending capped by potential GDP growth.
- new governance policies for public enterprises;
- establishment of a 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).

Milestones and timing of political & budget process



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



Headline Inflation

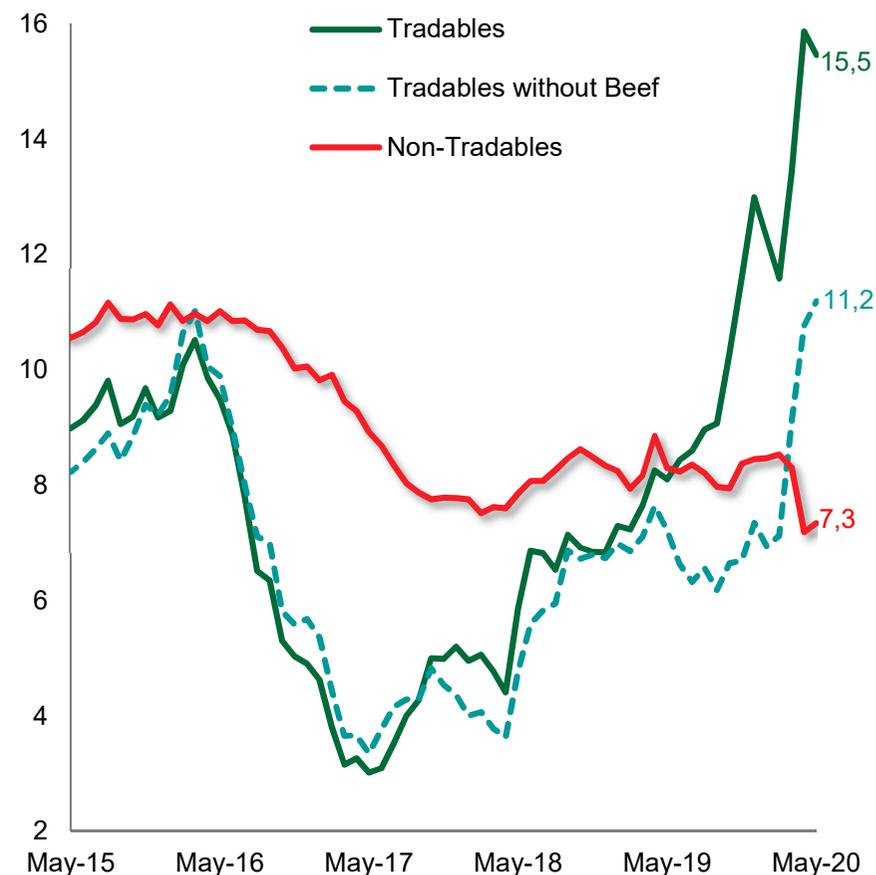
(Annual, in %)



1/ Median expectation in Central Bank's market survey as of May 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.
- Monetary authority`s commitment to break inflation expectations inertia and new wage-setting guidelines for the private sector that prioritize employment creation, should reinforce disinflation pressures as softer economic activity cools down price increases.

New communication strategy and developing the FX derivative markets



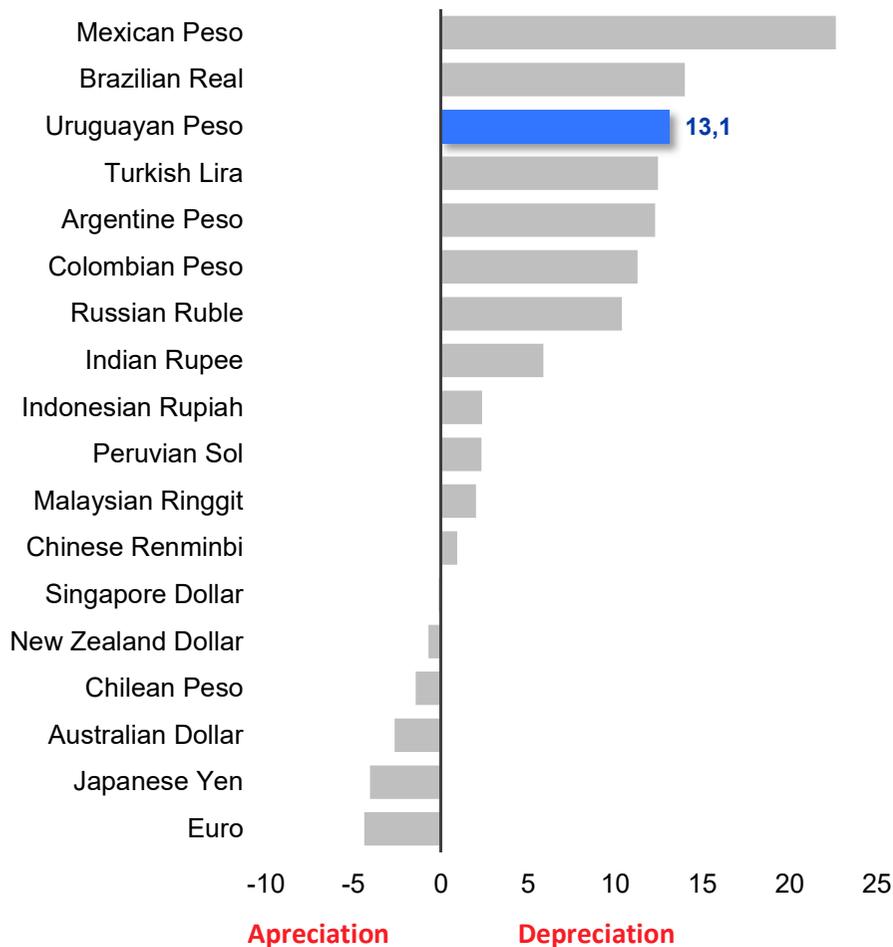
- **In the Monetary Policy Committee in April, 2020, the Central Bank introduced innovations to its communication and transparency strategy:**
 - Doubled the frequency of its Monetary Policy Committee (MPC) meetings to better react to rapidly evolving conditions.
 - Started publishing minutes of the MPC to provide more clarity.
 - Relaunch of the economic expectations survey, significantly increasing the number of respondents.
- Further actions to develop the FX derivative market: create repository of OTC transactions to provide more transparency, availability and efficient price discovery on FX hedging markets.

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 June 16th, 2020)



Exchange rate and Central Bank FX intervention



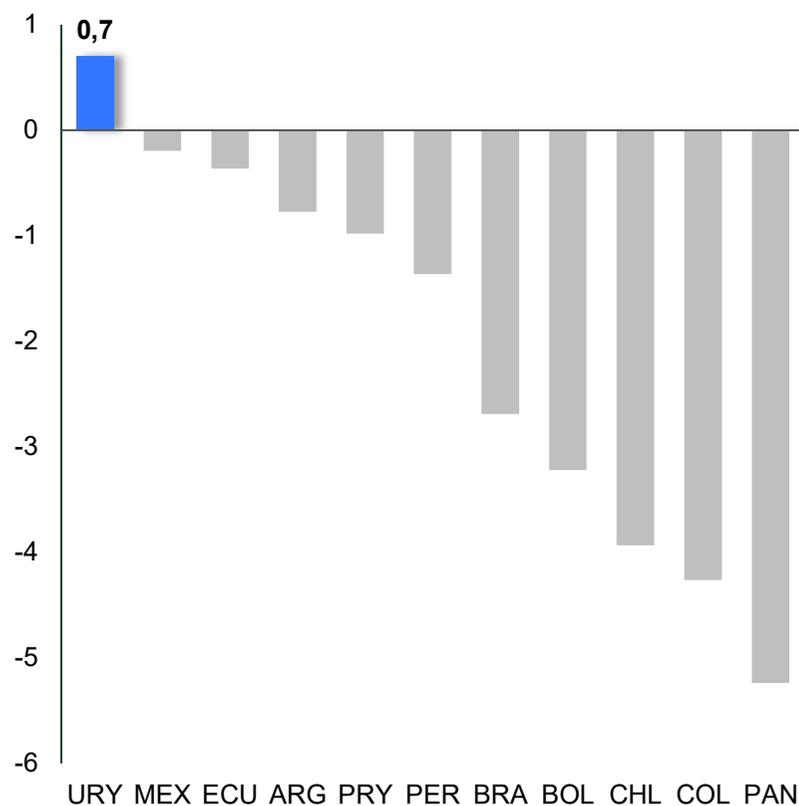
1/ Median expectation in Central Bank's market survey as of May 2020

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



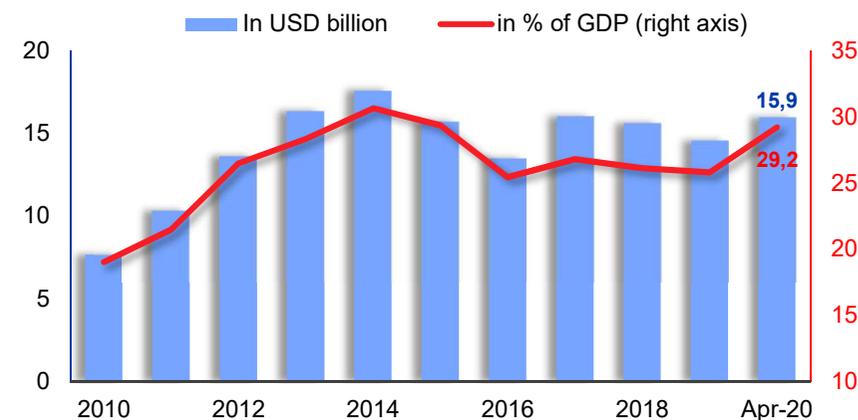
Current account balance compared with Latam

(In % of GDP, 2019)



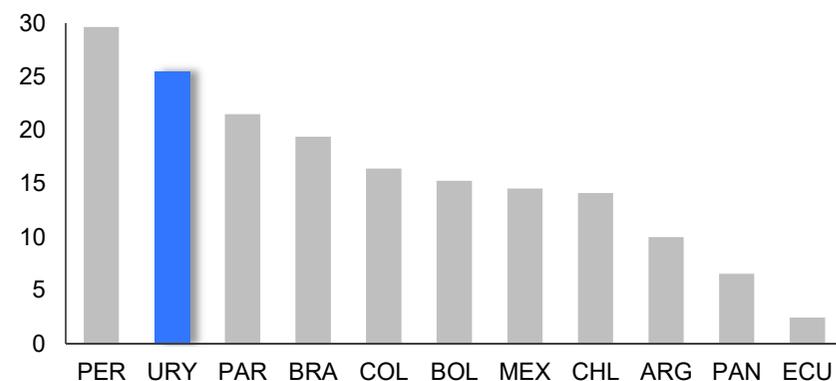
International reserves

(End-of-period)



International reserves compared to LatAm

(In % of GDP, 2019)

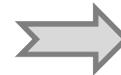


Largest-ever private investment in the country proceeding as scheduled: Uruguay poised to receive large FDI inflows



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



Central Government's funding needs and financing strategies



Flow of funds for 2020 ^{1/}

(In USD million)

FINANCING NEEDS	4,649
Amortization of Bonds and Loans	1,618
Interest Payments	1,529
Primary Deficit (a)	1,501
FUNDING SOURCES	4,649
Multilateral Loans	1,520
Domestic and External Bond Issuance	3,750
Net Others	128
Use of Assets (b)	-750
<i>Memo Item: Net Bond Issuance</i>	<i>2,132</i>

^{1/} Projections.

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

(b) Negative figure indicates an accumulation of Central Government liquid assets.

Estimated overall deficit of **6,7% of GDP**, given a projected real GDP contraction of **3%** in 2020.

Year-to-date: **43%** (USD **1612** million) of total estimated bond issuance for 2020 has been completed (through domestic auctions in local currency Treasury Notes).



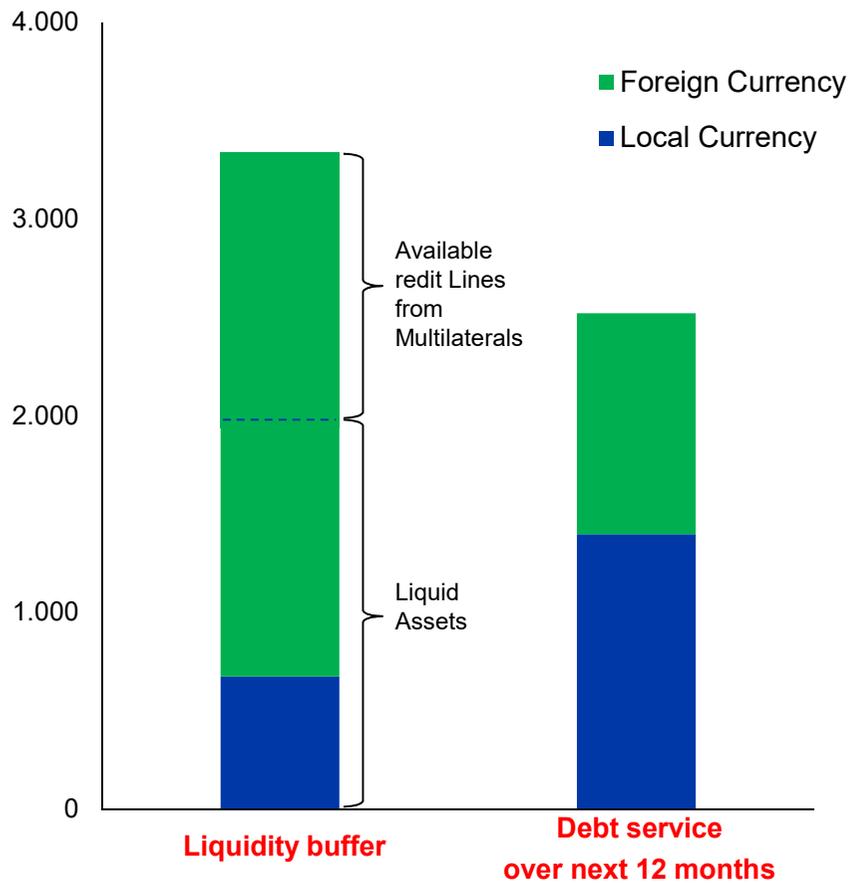
- For the rest of 2020, the Government will strive to **rebalance currency mix in international debt market issuances**: will aim to develop the global local currency curve (in CPI-linked and/or nominal fixed-rate), to the extent that borrowing costs in local currency remain consistent with sustainable debt dynamics and fiscal restraint. Otherwise, does not rule out re-tapping international debt market in dollars.

Government's sizable international reserves and liquidity buffers mitigate risks to external debt sustainability; dollar credit spreads remain subdued and clustered among higher-rated Latam peers



Liquidity buffers and short term debt service obligations

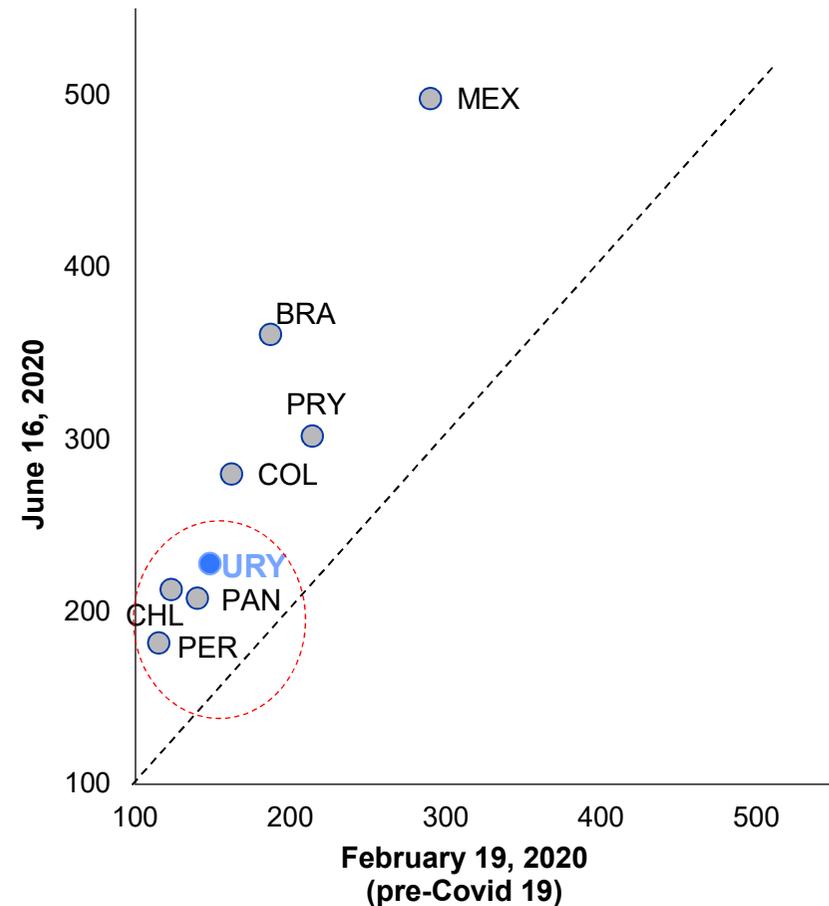
(In USD million, as of end-May 2020)



1/ Debt service includes amortization plus interest payments

Change in sovereign risk premium since COVID-19 outbreak

(EMBI spread, in bps)



Disclaimer



THIS PRESENTATION IS NOT AN OFFER OR SOLICITATION OF AN OFFER TO BUY OR SELL SECURITIES IN ANY JURISDICTION OR AN INDUCEMENT TO ENTER INTO INVESTMENT ACTIVITY. THIS PRESENTATION HAS BEEN PREPARED BY THE REPUBLIC OF URUGUAY (“URUGUAY”) SOLELY FOR INFORMATION PURPOSES. THIS PRESENTATION DOES NOT CONTAIN ALL THE INFORMATION THAT IS MATERIAL TO AN INVESTOR. NO PART OF THIS PRESENTATION, NOR THE FACT OF ITS DISTRIBUTION, SHOULD FORM THE BASIS OF, OR BE RELIED ON IN CONNECTION WITH, ANY CONTRACT OR COMMITMENT OR INVESTMENT DECISION WHATSOEVER. THIS PRESENTATION IS NOT FINANCIAL, LEGAL, TAX OR OTHER PRODUCT ADVICE.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THE INFORMATION OR ANY OPINION CONTAINED HEREIN. THE INFORMATION CONTAINED IN THIS PRESENTATION SHOULD BE CONSIDERED IN THE CONTEXT OF THE CIRCUMSTANCES PREVAILING AT THE TIME AND WILL NOT BE UPDATED TO REFLECT MATERIAL DEVELOPMENTS THAT MAY OCCUR AFTER THE DATE OF THE PRESENTATION. NEITHER URUGUAY NOR ANY OF ITS AFFILIATES, AGENTS, DIRECTORS, EMPLOYEES, OFFICIALS OR ADVISORS SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS ARISING FROM ANY USE OF THIS PRESENTATION OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION WITH THIS PRESENTATION.

The presentation may contain statements that reflect Uruguay’s beliefs and expectations about the future. These forward-looking statements are based on a number of assumptions about the future, some of which are beyond Uruguay’s control. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Uruguay does not undertake any obligation to update any forward-looking statements to reflect events that occur or circumstances that arise after the date of this presentation.

ANNEX

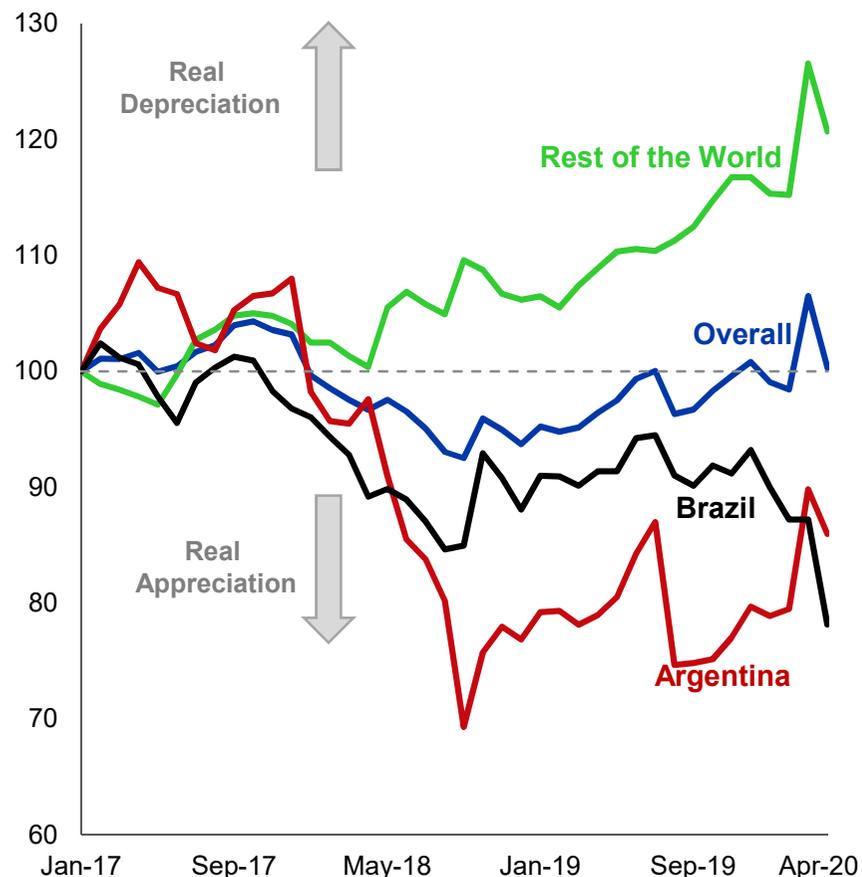


Economic pressures in Argentina have spilled through inbound tourism, yet exports of other services picked up some of the slack



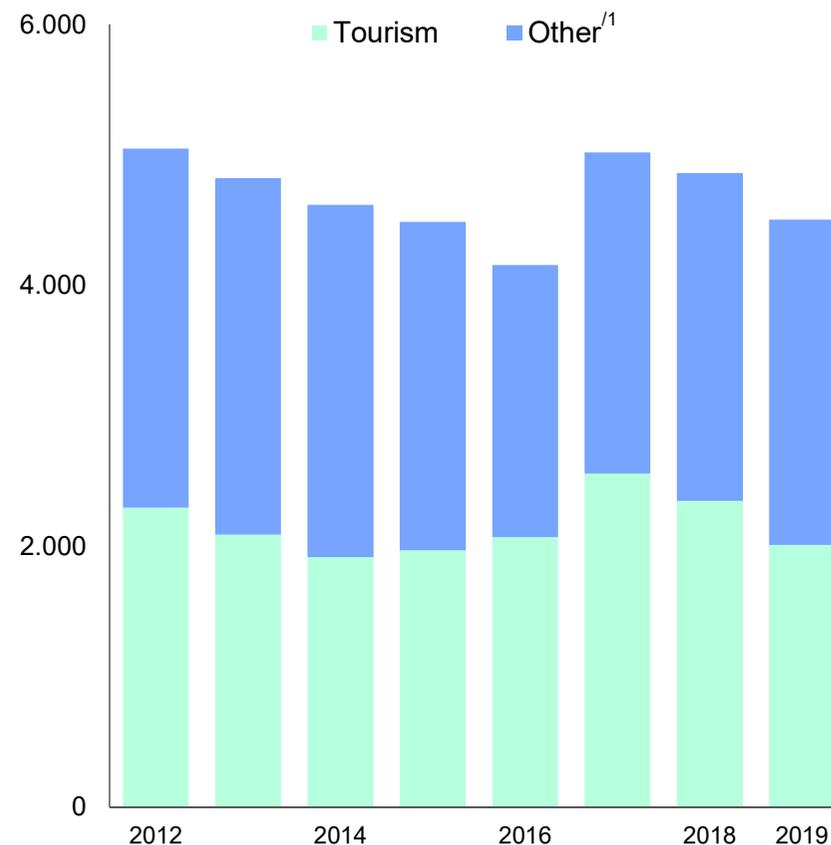
Real effective exchange rate vis-à-vis other countries and regions

(Index base 100 = January 2017)



Exports of services

(In USD million)



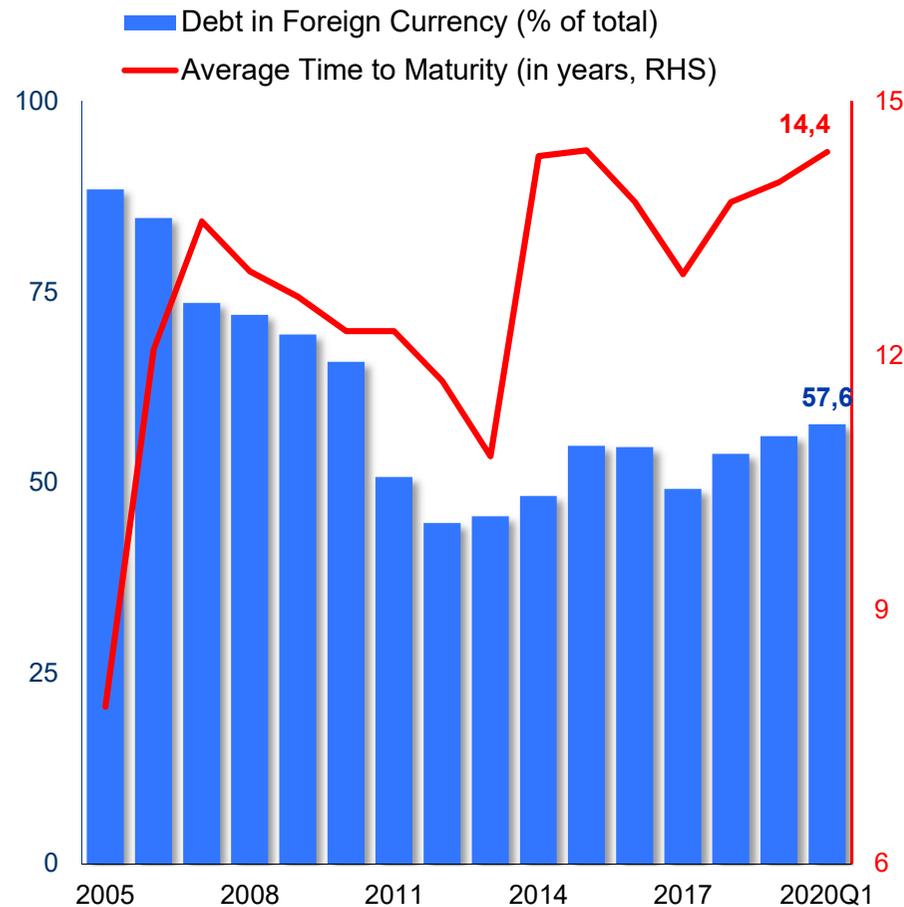
^{1/} Software, transport, logistics, maintenance, financial, personal and professional and consultancy services

Government's proactive debt management strategy: reduce roll-over risk and FX exposure in short term debt



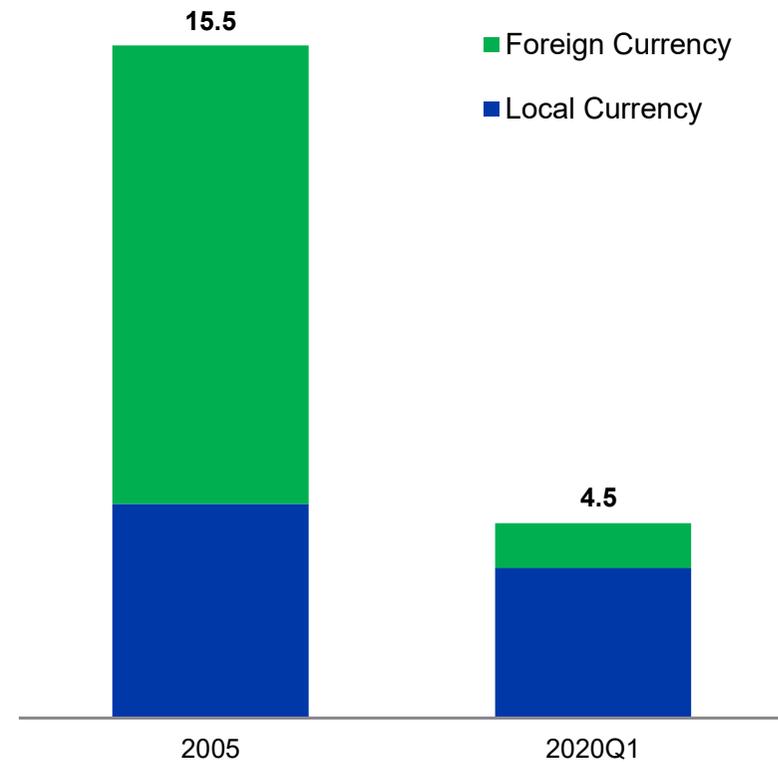
Currency and maturity structure of Government debt

(End-period)



Government debt maturing in next 12 months

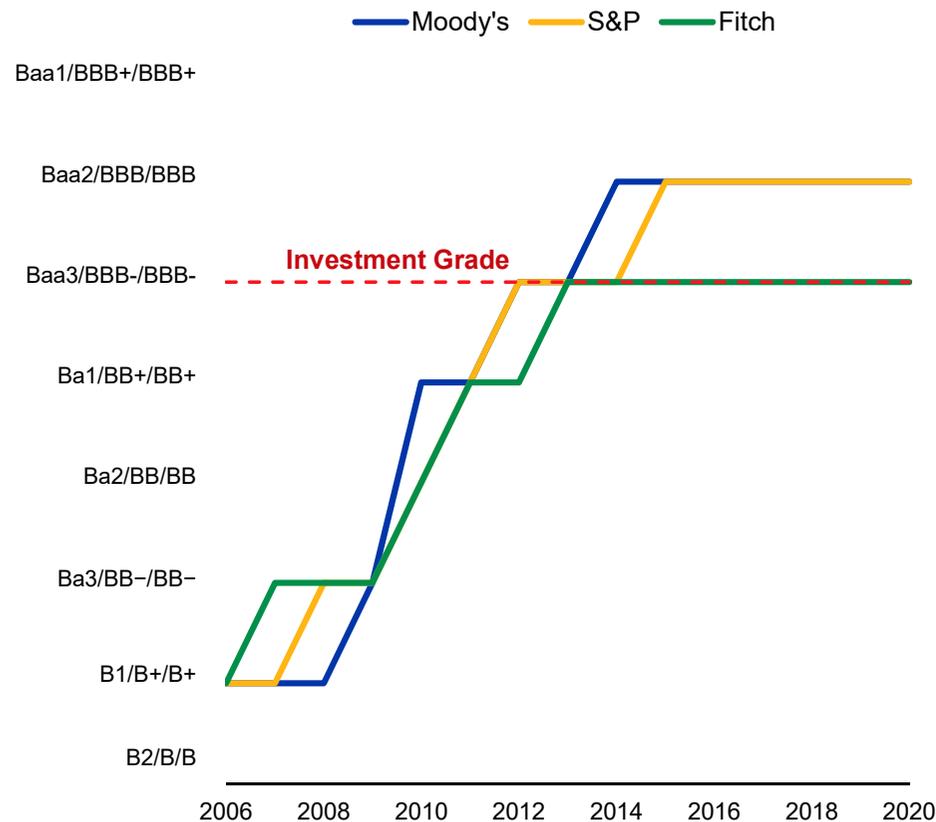
(in % of total of total debt outstanding, as of end of each period)



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.



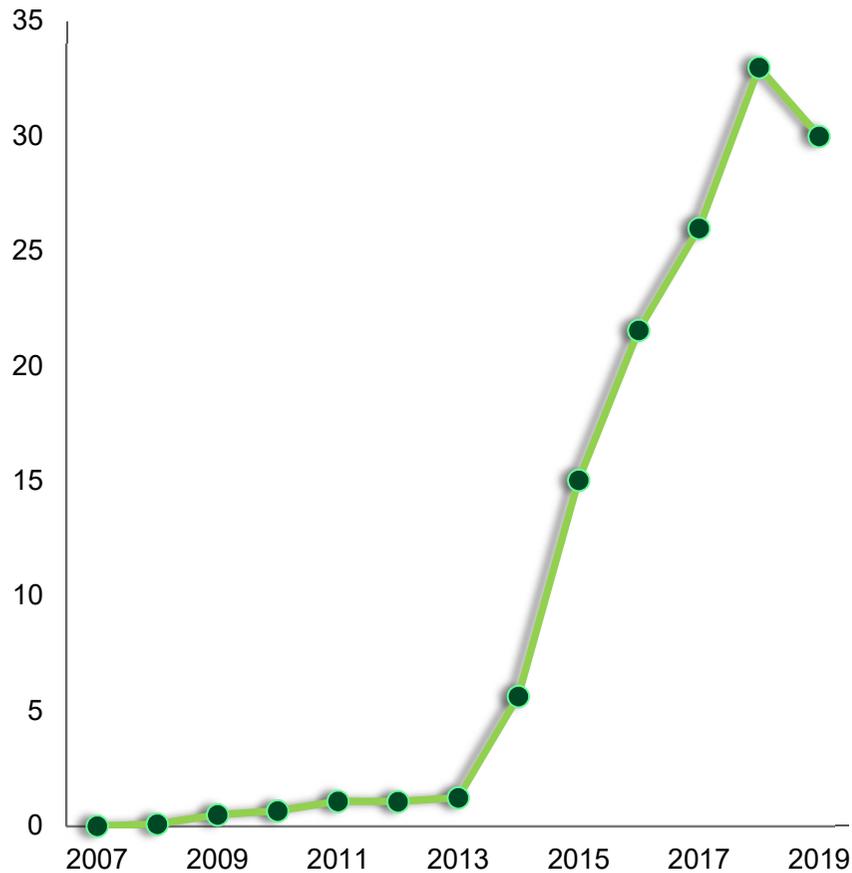
August 2019. Uruguay's rating affirmed at Baa2 with Stable outlook.

Uruguay has been widely recognized for the transformation of its energy matrix over the past decade away from fossil fuels, and is often referred to as a global “Green Energy Leader”



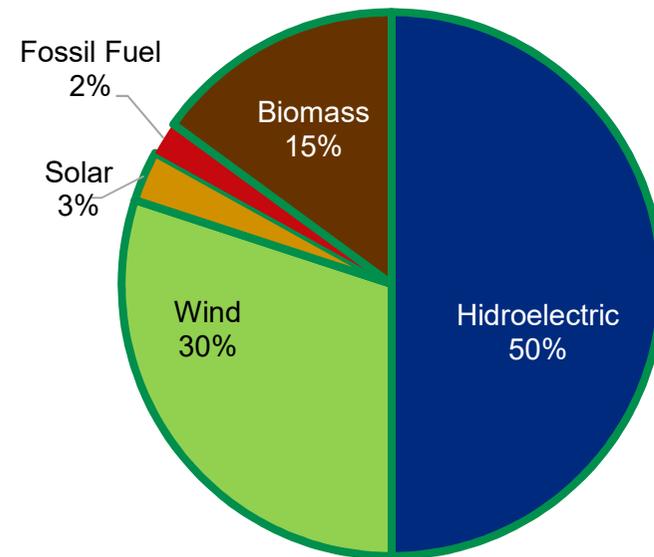
Electricity generation by wind energy

(In % of total)



Electricity generation by source

(In % of total, year 2019)



- Uruguay is 4th in the world in **wind and solar** generation, and 1st in Latin America

Top performer amongst developing economies in Energy Transition Index: low air pollution and carbon footprint



Energy Transition Index (ETI) in 2020

(Ranking position)

