

Foreign Direct & Financial Investments in Uruguay

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Themes

- Foreign direct investment (FDI) flows to Latin America
- Uruguay as an FDI magnet
- Comparative regional economic performance
- Reclaiming the coveted Investment Grade status
- Credit differentiation: Positive versus negative risk factors
- Market perception of sovereign risk
- Regional sovereign bond returns
- Regional sovereign bond correlations

Foreign direct investment flows to Latin America

FDI in \$mn									
	2008	2009	2010	2011	2012	2013	2014	Absolute difference 2014-2013	Relative difference 2014-2013
Argentina	9,726	4,017	11,333	10,840	15,324	11,301	6,612	-4,689	-41%
Brazil	45,058	25,949	48,506	66,660	65,272	63,996	62,495	-1,501	-2%
Chile	16,604	13,392	15,510	23,309	28,457	19,264	22,002	2,738	14%
Colombia	10,565	8,035	6,430	14,648	15,039	16,199	16,054	-146,000	-1%
Peru	6,924	6,431	8,455	7,665	11,918	9,298	7,607	-1,691	-18%
Uruguay	2,106	1,529	2,289	2,504	2,536	3,032	2,755	-278,000	-9%
Venezuela	2,627	-983	1,574	5,740	5,973	2,680	320	-2,360	-88%
South America	95,388	59,194	95,113	133,487	146,901	128,322	119,502	-8,821	-7%
Mexico	28,574	17,644	25,962	23,560	18,998	44,627	22,795	-21,832	-49%
Central America	7,406	4,442	5,863	8,506	8,864	10,680	10,480	-200,000	-2%
Caribbean	9,616	5,281	4,809	6,637	8,284	6,322	6,027	-296,000	-5%
Total	140,984	86,561	131,746	172,190	183,047	189,951	158,803	-31,149	-16%

Source: ECLAC.

Foreign direct investment flows to Latin America

FDI as a % of GDP								
	2008	2009	2010	2011	2012	2013	2014	Average
Argentina	2.4	1.1	2.5	1.9	2.5	1.8	1.2	1.9
Brazil	2.7	1.6	2.2	2.6	2.7	2.7	2.7	2.4
Chile	9.2	7.8	7.1	9.3	10.7	7.0	8.5	8.5
Colombia	4.3	3.4	2.2	4.4	4.1	4.3	4.2	3.8
Mexico	2.6	2.0	2.5	2.0	1.6	3.5	1.8	2.3
Peru	5.7	5.3	5.7	4.5	6.2	4.6	3.8	5.1
Uruguay	6.9	4.8	5.7	5.2	4.9	5.3	4.8	5.4
Venezuela	0.9	-0.4	0.6	1.9	2.0	1.2	0.2	0.9

Source: ECLAC; IMF; J.P. Morgan.

Uruguay: FDI magnet

- Low political risk
- Favorable business climate
- Stable, transparent, and independent legal system
- Low corruption levels
- Equal treatment of local and foreign investor
- Significant tax incentives
- Improved intellectual property protection
- Free access to capital and foreign exchange markets
- Sound banking system
- No national co-ownership requirement
- No full foreign ownership restrictions (except national security interests and legal public monopolies)
- No immigration restrictions
- No local content requirement
- No restrictions on the repatriation of profits

Comparative regional economic performance

Real GDP growth (%)										
	2008	2009	2010	2011	2012	2013	2014	2015F	2016F	Average
Argentina	3.1	0.1	9.5	8.4	0.8	2.9	0.5	2.0	0.6	3.1
Brazil	5.0	-0.2	7.6	3.9	1.8	2.7	0.1	-3.1	-2.2	1.7
Chile	3.2	-1.0	5.7	5.8	5.5	4.3	1.9	2.0	2.3	3.3
Colombia	3.5	1.7	4.0	6.6	4.0	4.9	4.6	2.8	2.2	3.8
Mexico	1.4	-4.7	5.1	4.0	4.0	1.4	2.1	2.3	2.8	2.1
Peru	9.1	1.0	8.5	6.5	6.0	5.8	2.4	2.7	3.2	5.0
Uruguay	7.2	4.2	7.8	5.2	3.3	5.1	3.5	1.5	2.0	4.4
Venezuela	5.3	-3.2	-1.5	4.2	5.6	1.3	-4.0	-8.0	-2.0	-0.3
United States	-0.3	-2.8	2.5	1.6	2.2	1.5	2.4	2.4	2.3	1.3

Source: IMF; J.P. Morgan.

Road to reclaim IG status

Moody's		
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IG	Baa3	Jun 1997
SG	Ba2	May 2002
IG	Baa3	Jul 2012
IG	Baa2	May 2014

No D or SD

S&P		
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IG	BBB-	Jun 1997
SG	BB+	Feb 2002
IG	BBB-	Jul 2011
IG	BBB	Jun 2015

SD 2 Weeks in May 2003

Fitch		
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IG	BBB-	Jan 1999
SG	BB+	Mar 2002
IG	BBB-	Mar 2013

DDD 4 Weeks in May-Jun 2003

Uruguay (Baa2/BBB/BBB-) – Feeling some pain

Politics/elections: New government inaugurated Mar 1; policy continuity on track

IMF program: None

Growth trend: Cooling, but outperforming regional average

Inflation: Above-target (3-7%) inflation remains key policy challenge

FX rate: UYU has weakened lately, but less than BRL, a key regional benchmark

Fiscal: Above-trend deficit

Public debt: Stable burden; strong financial buffers; ample market access

External accounts: CAD moderating thanks to lower oil prices

Positive credit drivers: Growth resilience; healthy FDI inflows; vast FX reserves

Negative credit drivers: High inflation; fiscal pressures; weak regional growth

Developments to watch: Inflation and FX rate path; fiscal consolidation

Ratings outlook: Stable

	2013	2014E	2015F	2016F
Nominal GDP (\$mn)	57,644	57,471	54,761	54,970
Real GDP (% chg)	5.1	3.5	1.5	2.0
Inflation (% eop)	8.5	8.3	9.1	8.5
FX Rate (UYU/\$)	21.42	24.37	30.80	34.00
Fiscal Balance/GDP (%)	-2.3	-3.5	-3.5	-3.3
Trade Balance (\$mn)	-2576	-2351	-2332	-2275
Current Account (\$mn)	-2825	-2538	-1971	-1924
Current Account/GDP (%)	-4.9	-4.4	-3.6	-3.5
External Public Debt (\$mn)	17,559	18,546	18,161	18,805
External Public Debt/GDP (%)	30.5	32.3	33.2	34.2
Domestic Public Debt/GDP (%)	27.0	26.2	27.1	28.0
Total Public Debt/GDP (%)	57.4	58.5	60.3	62.2
Foreign Reserves (\$mn)	16,290	17,555	15,000	15,500

Market perception of sovereign risk

Yields (%) & Spreads (bp)

	YTM*	Z-Spread*
EMBIG Div	6.0	391
EMBIGD LatAm	6.8	497
Argentina	7.4	513
Brazil	6.2	418
Chile	4.3	223
Colombia	5.2	296
Mexico	5.1	287
Peru	4.6	230
Uruguay	5.3	292
Venezuela	26.8	2,512

*Values as of November 5, 2015. Source: J.P. Morgan.

Regional sovereign bond returns

Return analysis

	EMBIGD	EMBIGD LatAm	Uruguay	Brazil	Mexico	Colombia	Peru	Chile	Argentina	Panama	DomRep	CEMBI Broad	GBI-EM GD
TR 2004	11.6%	14.5%	34.0%	14.3%	8.6%	13.2%	12.6%	6.0%	19.8%	13.0%	27.2%	10.3%	23.0%
TR 2005	10.2%	10.8%	16.3%	13.2%	8.1%	12.4%	6.0%	3.2%	2.7%	11.1%	24.1%	6.3%	6.3%
TR 2006	9.9%	12.7%	17.3%	14.8%	6.0%	10.7%	14.8%	4.1%	51.3%	12.3%	18.0%	6.5%	15.2%
TR 2007	6.2%	4.9%	6.6%	9.1%	6.9%	9.1%	7.1%	6.4%	-11.1%	8.5%	7.3%	3.9%	18.1%
TR 2008	-12.0%	-13.5%	-14.0%	5.8%	0.7%	-0.5%	-5.1%	4.5%	-57.9%	-7.6%	-39.0%	-16.8%	-5.2%
TR 2009	29.8%	25.8%	36.7%	11.4%	12.3%	16.7%	22.2%	13.1%	132.8%	25.4%	90.8%	37.5%	22.0%
TR 2010	12.2%	13.3%	15.7%	9.7%	10.5%	11.4%	11.6%	5.9%	35.4%	11.1%	15.3%	12.5%	15.7%
TR 2011	7.3%	12.3%	20.6%	13.8%	14.3%	14.6%	17.1%	10.7%	-12.4%	15.7%	0.3%	3.0%	-1.8%
TR 2012	17.4%	16.0%	15.2%	12.5%	11.7%	12.3%	17.0%	8.7%	8.2%	12.4%	22.2%	15.2%	16.8%
TR 2013	-5.3%	-7.7%	-14.5%	-11.2%	-7.1%	-8.8%	-11.1%	-6.6%	19.0%	-11.3%	-0.7%	-1.3%	-9.0%
TR 2014	7.4%	8.1%	16.5%	8.5%	10.9%	10.5%	13.3%	10.5%	19.1%	16.1%	11.3%	3.6%	-5.7%
YTD (Oct 2015)	2.7%	0.2%	-3.4%	-8.1%	-2.1%	-4.3%	-1.3%	0.7%	24.1%	1.5%	3.0%	3.2%	-11.1%
Cumulative Return	142.3%	141.2%	254.1%	137.6%	113.6%	147.0%	158.8%	89.7%	265.7%	167.7%	274.2%	109.1%	108.2%
Annualized Return	7.8%	7.7%	11.3%	7.6%	6.6%	7.9%	8.4%	5.6%	11.6%	8.7%	11.8%	6.4%	6.4%

Source: J.P. Morgan.

Regional sovereign bond correlations

Correlation analysis

	EMBIGD EMBIG Div	EMBIGD LatAm	Uruguay	Brazil	Mexico	Colombia	Peru	Chile	Argentina	Panama	Dom. Rep.	EMBIGD IG	CEMBI Broad	GBI-EM GD
EMBIG Div	1.00													
EMBIGD LatAm	0.98	1.00												
Uruguay	0.88	0.90	1.00											
Brazil	0.84	0.88	0.81	1.00										
Mexico	0.85	0.86	0.79	0.87	1.00									
Colombia	0.89	0.92	0.85	0.90	0.90	1.00								
Peru	0.87	0.89	0.83	0.84	0.84	0.90	1.00							
Chile	0.68	0.68	0.66	0.67	0.75	0.66	0.64	1.00						
Argentina	0.69	0.69	0.60	0.44	0.44	0.50	0.49	0.31	1.00					
Panama	0.90	0.90	0.88	0.84	0.87	0.92	0.89	0.64	0.53	1.00				
Dom. Rep.	0.72	0.69	0.72	0.46	0.45	0.58	0.61	0.36	0.55	0.66	1.00			
EMBIGD IG	0.96	0.93	0.85	0.85	0.93	0.90	0.89	0.76	0.56	0.91	0.62	1.00		
CEMBI Broad	0.93	0.88	0.80	0.67	0.69	0.74	0.75	0.62	0.69	0.77	0.74	0.87	1.00	
GBI-EM GD	0.79	0.78	0.66	0.68	0.68	0.71	0.62	0.47	0.60	0.68	0.44	0.73	0.70	1.00

Source: J.P. Morgan.

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