



Uruguay: Macroeconomic Outlook and Financing Strategies for 2018

February 1st, 2018



Key Highlights of the Uruguayan Economy



1. Robust macroeconomic performance and better outlook for the region

2. Decelerating inflation and gradual fiscal consolidation underway

3. Resilient government debt profile and large and liquid buffers

4. Milestones in 2017: development of a nominal peso curve and 100% of the CG financial needs covered in local currency

5. Financing plans for 2018?



Plaza Independencia, Montevideo

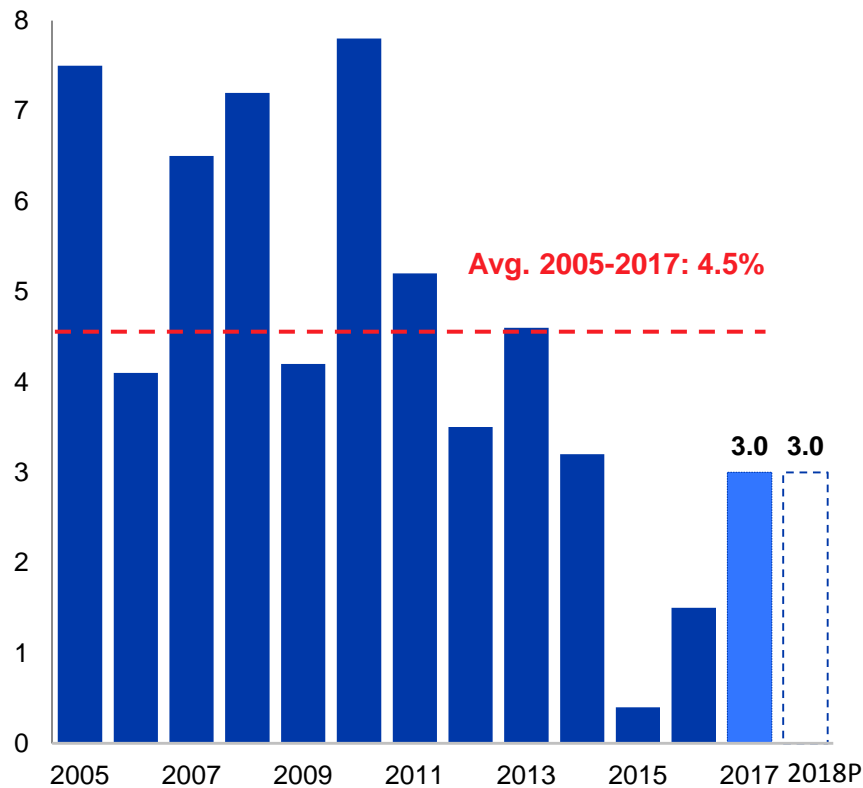
1. The Uruguay economy: recovery and better outlook for the region

I. Uruguay is on track to complete its 15th year of uninterrupted economic growth



Real GDP Growth

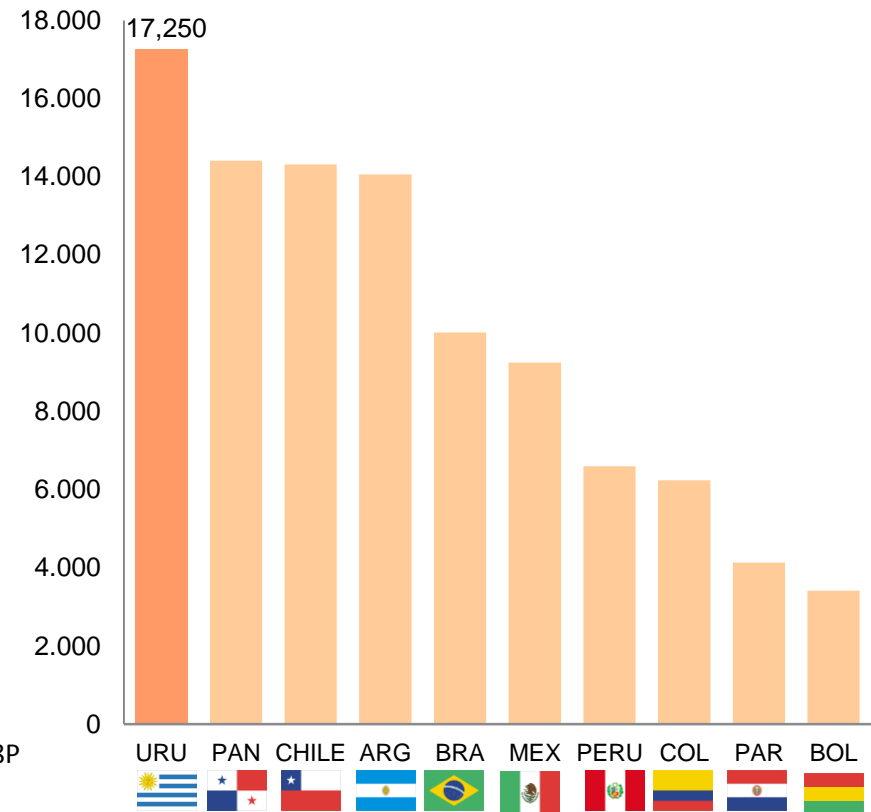
(Annual Change, in %)



Source: Central Bank of Uruguay for historical data; projections from Ministry of Economy and Finance

GDP per Capita compared to LATAM

(2017, in current USD)



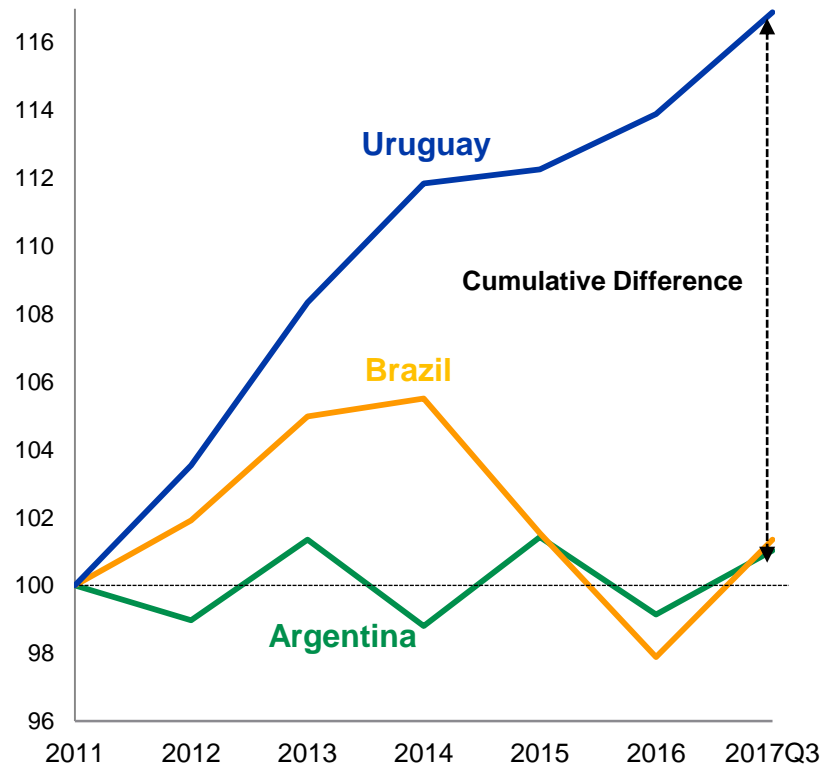
Source: International Monetary Fund (WEO October 2017)

After enduring a regional downturn, Uruguay faces improving growth prospects of its neighbours



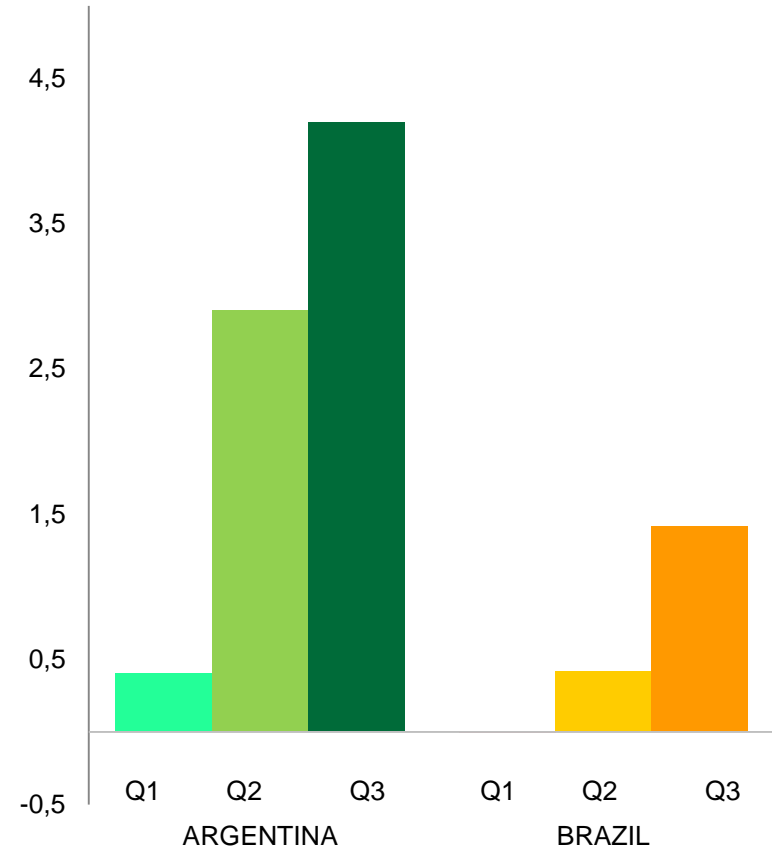
Cumulative Real GDP Growth

(Index, Base 100=2011)



Real GDP Change in Argentina and Brazil during 2017

(Q1, Q2 and Q3 of 2017, respectively, over same period last year, in %)



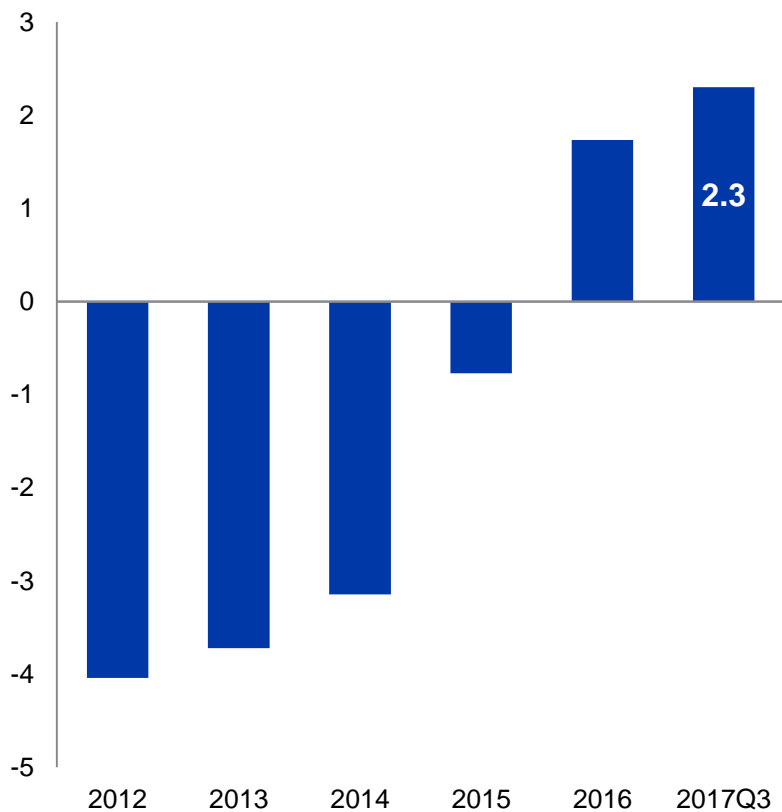
Sources: Central Bank of Uruguay (BCU); Central Bank of Brazil (BCB); National Institute of Statistics and Censuses (INDEC)

Marked improvement of external accounts



Current Account Balance of Uruguay

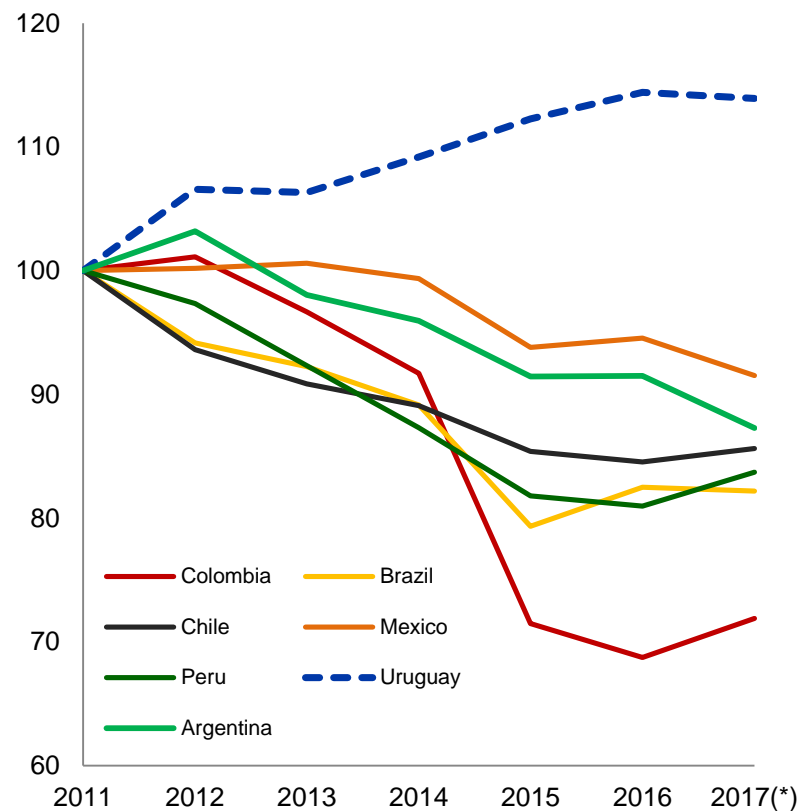
(Last 12 months, in % of GDP)



Source: Central Bank of Uruguay

Terms of Trade for Goods compared to LATAM

(Average 2011=100)

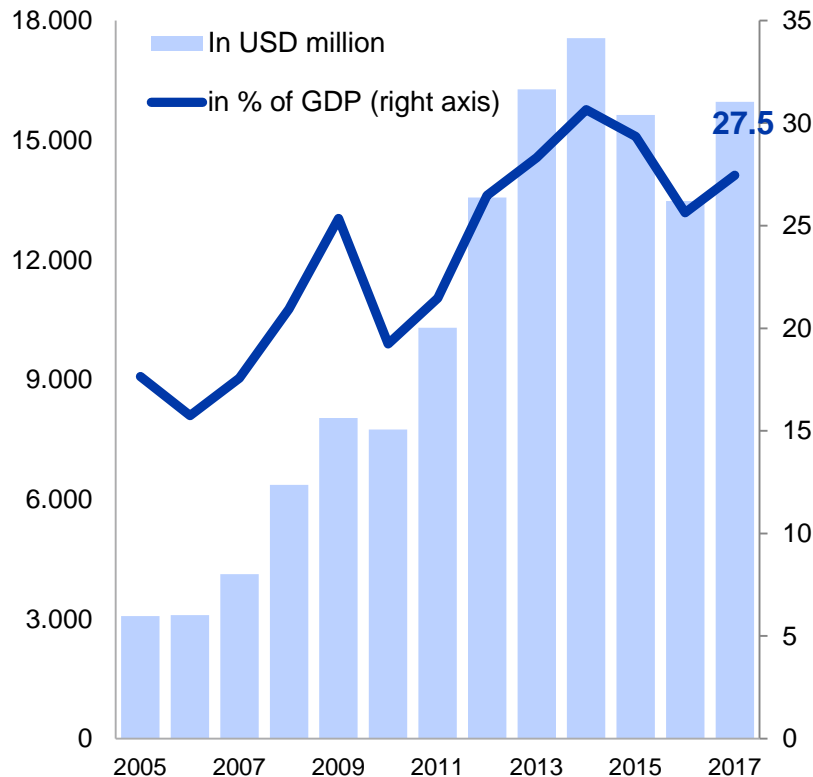


Source: International Monetary Fund.
(*) Estimated for 2017



Comfortable external liquidity position

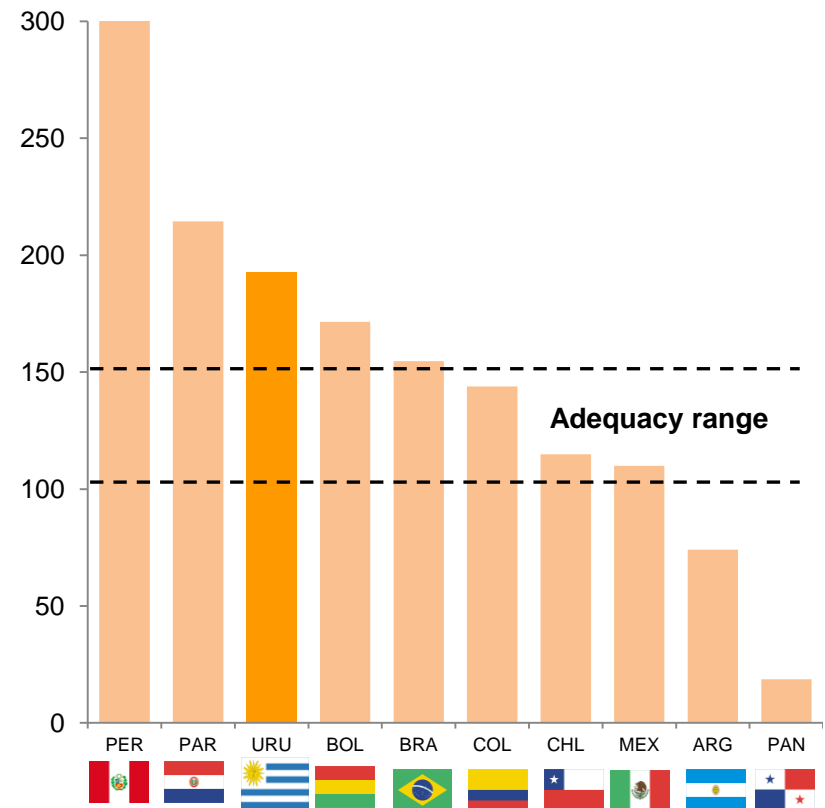
International Reserves in Uruguay



Source: Central Bank of Uruguay

Reserves Adequacy Measure in LATAM

(International reserves to reserve to adequacy Metric %)



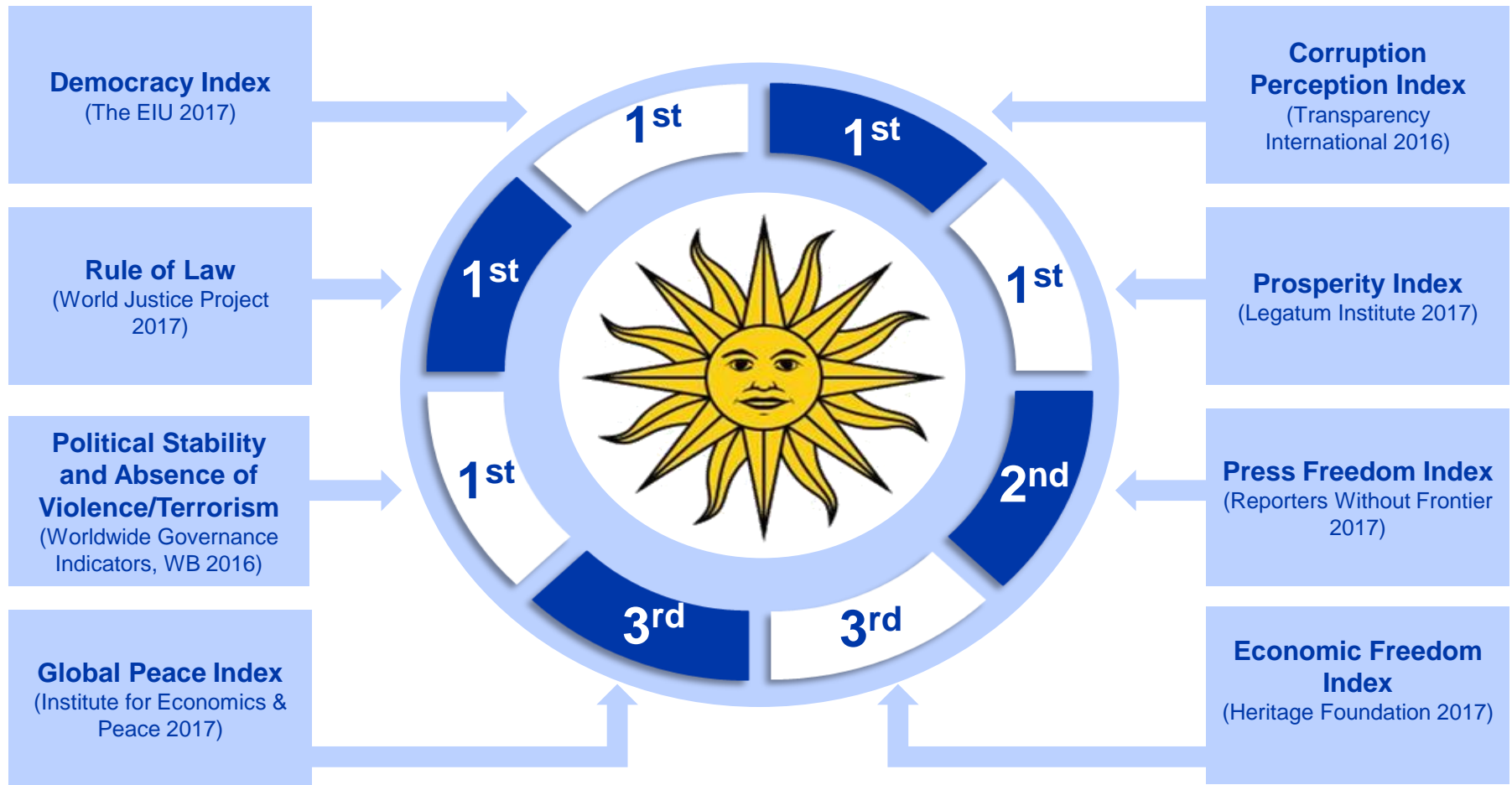
Source: International Monetary Fund

Note: The assessing reserve adequacy (ARA) metric for EM comprises four components reflecting potential balance of payment drains: (i) export income, (ii) broad money, (iii) short-term debt, and (iv) other liabilities. The weight for each component is based on the 10th percentile of observed outflows from EM during exchange market pressure episodes, distinguishing between fixed and flexible exchange rate regimes.

Uruguay remains a bastion of institutional stability in the region



Ranking position in LATAM





Carrasco Montevideo Airport

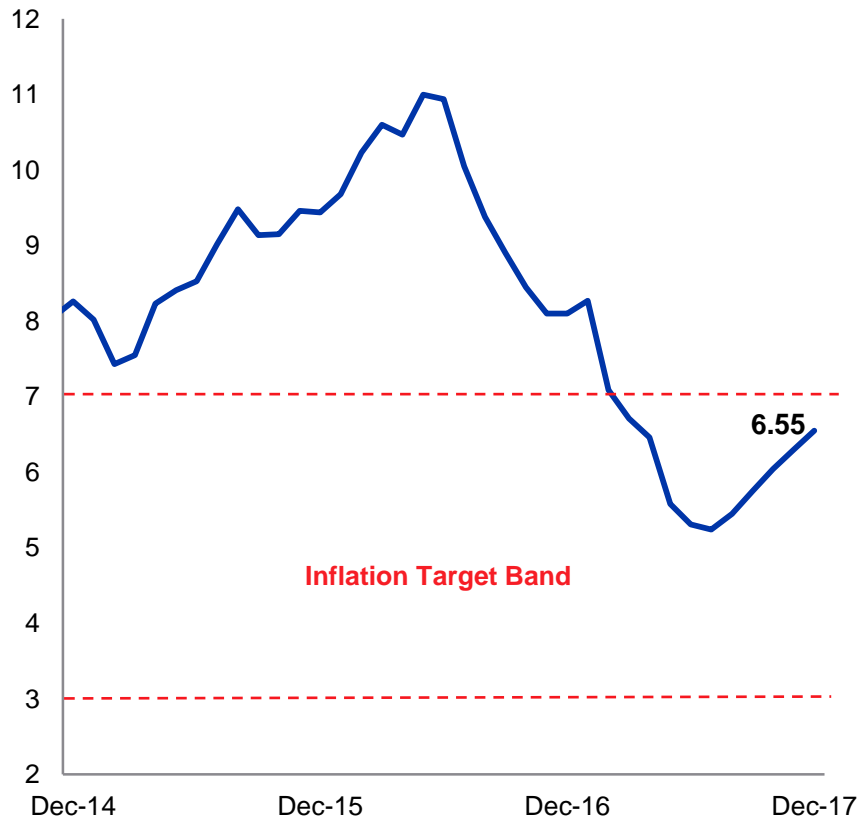
2. Decelerating inflation and fiscal consolidation underway

II. Inflation has fallen significantly and is back within the target band



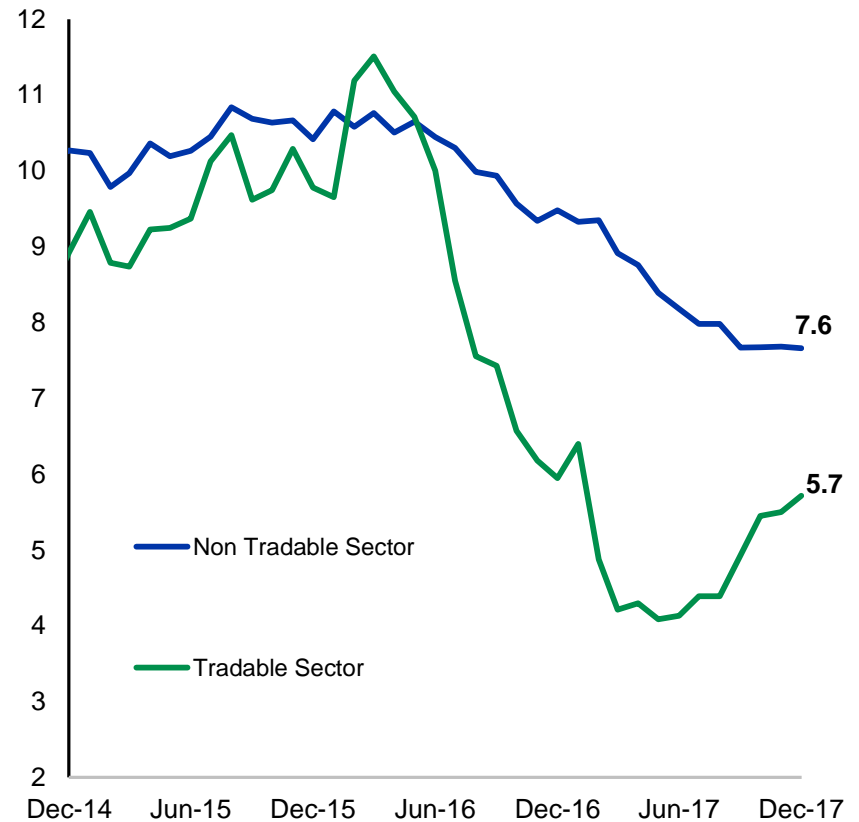
Inflation

(annual, in %)



Tradable and Non-Tradable Inflation

(annual, in %)



Source: National Bureau of Statistic & Central Bank of Uruguay

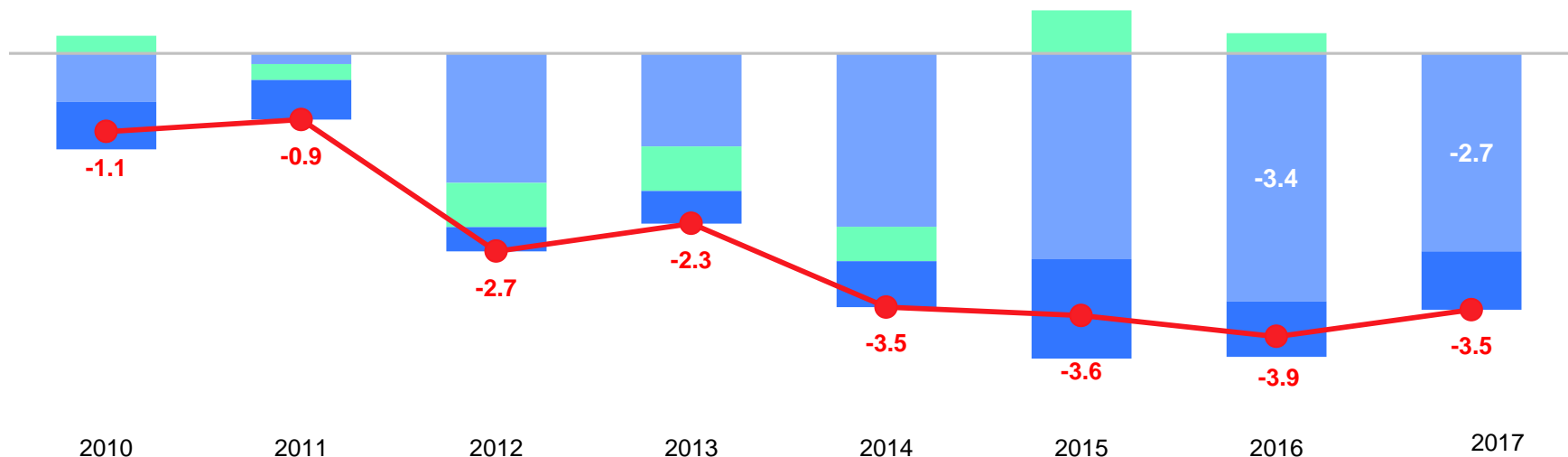
Policy priority is to shore-up public finances to meet the targeted overall deficit of 2.5% of GDP by 2019



Consolidated Public Sector Balance

(in % of GDP)

- General Government
- Public Enterprises
- Central Bank
- Consolidated Fiscal Result



Source: Ministry of Economy and Finance



Punta del Este, Uruguay

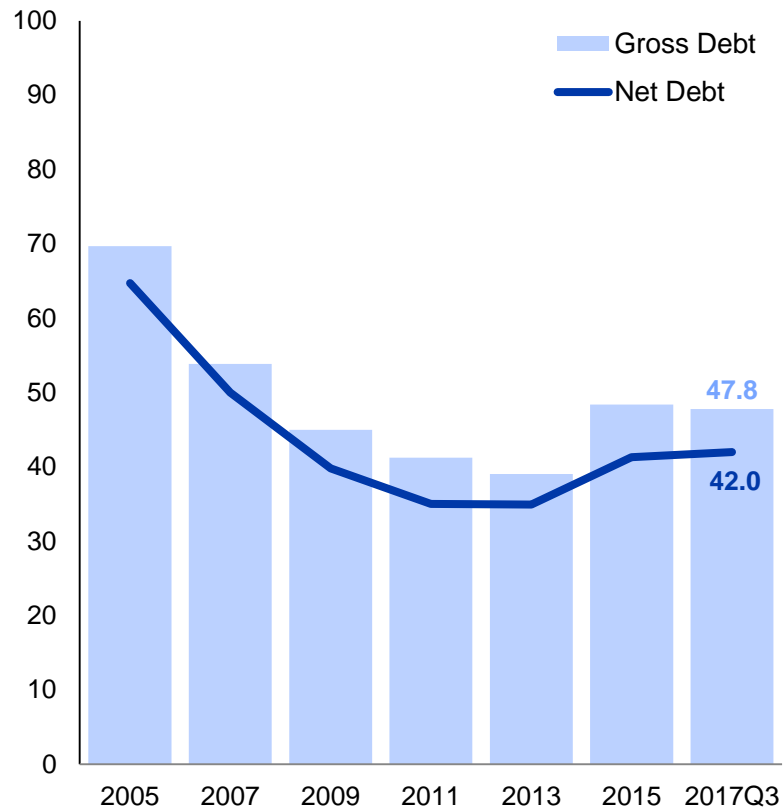
3. Resilient government debt profile and large and liquid buffers



Reduced FX exposure and roll-over risk

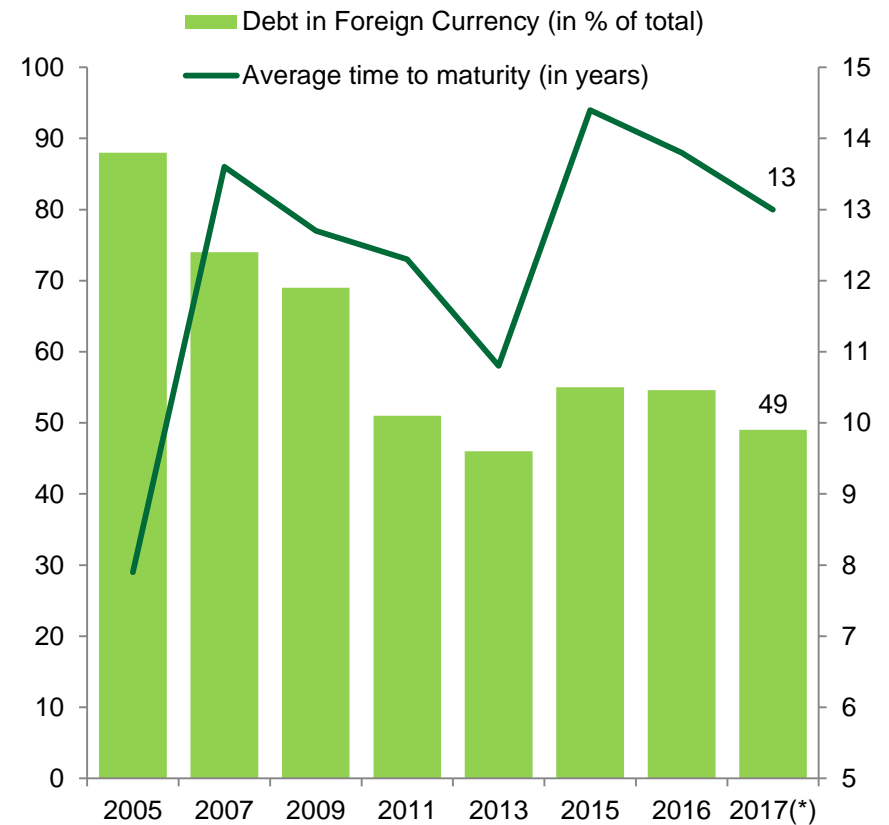
Central Government Debt

(in % of GDP, end-period)



Currency and Maturity Composition of Debt

(end-period)



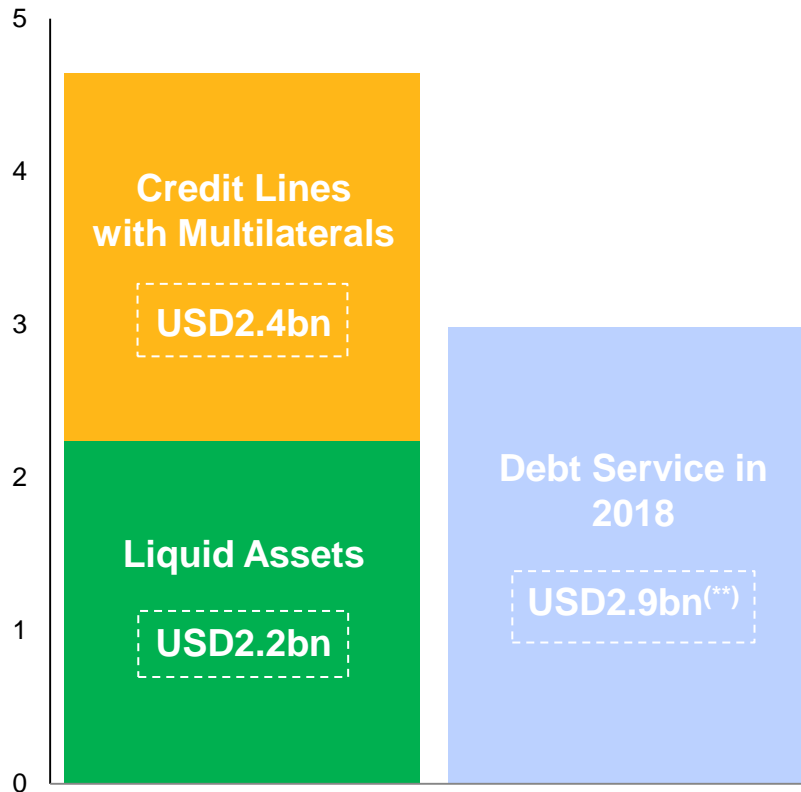
Source: Debt Management Unit, Ministry of Economy and Finance

Active pre-funding policy has build-up central government's liquidity reserves



Financial Buffers and Debt Service Obligations

(in USD billions, as of December 2017)(*)



(*) Preliminary data

(**) Amortization plus interest payments

Source: Debt Management Unit, Ministry of Economy and Finance

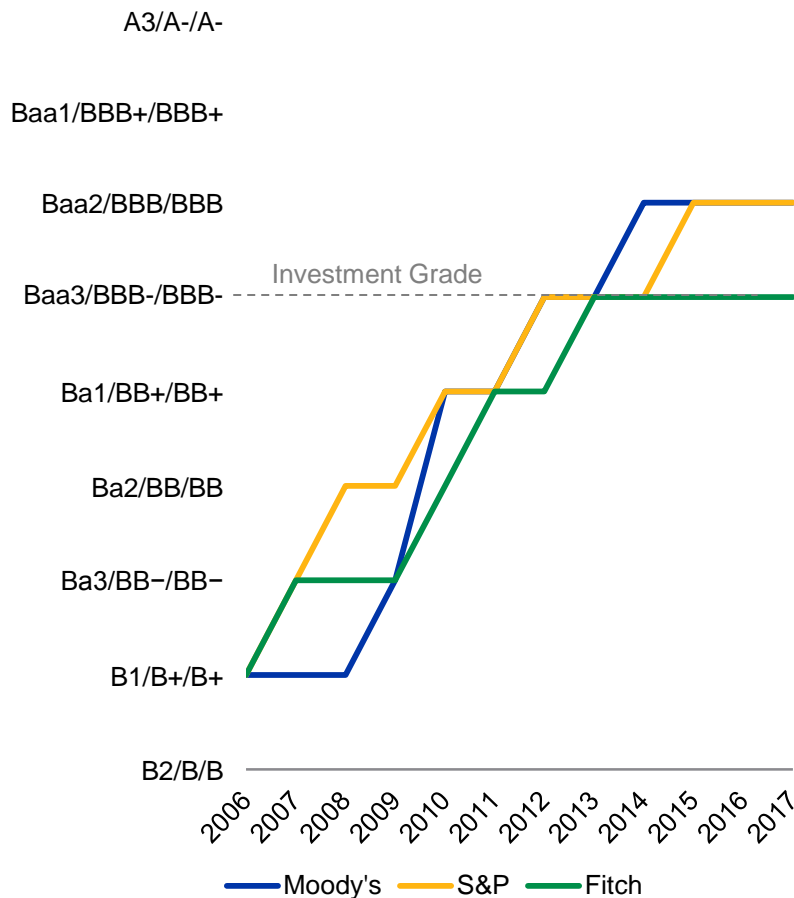
Large liquidity buffers:

- Underpin the credit quality of the sovereign
- Provide flexibility when deciding when and how to tap the market

Recent credit actions confirmed improved outlook



Evolution of Uruguay's Sovereign Credit Ratings



Latest Credit Rating Actions



01/2018. Affirmed Uruguay's rating at "BBB(Low)" **with Stable Outlook.**



09/2017. Affirmed Uruguay's rating at "BBB-" **with Stable outlook.**



07/2017. Outlook **raised to Stable from Negative** and affirmed "BBB" rating.



05/2017. Outlook **improved to Stable from Negative** and affirmed "BBB" rating.



12/2016. **Left the Positive Outlook unchanged** and affirmed Uruguay's rating at "BBB-"

Government has reached a MoU with Finnish company *UPM* that sets the preconditions for the potential construction of a new pulp mill



- Would be largest private investment in history.
- Will lead to massive increase in transport infrastructure.
- In an economy of the size of Uruguay, this sort of investment, if it comes to pass, could have a material positive impact on GDP growth, employment and the balance of payments.



4. Milestones in debt management during 2017

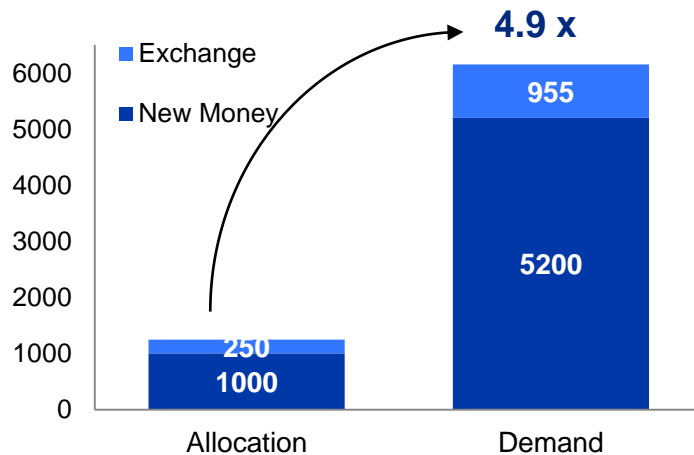
Landmark local currency global issuances during 2017 met large investor demand



- **First-ever nominal fixed-rate peso issuance in global markets (June, 2017)**
 - *5-year maturity; USD 1.25 billion equivalent with a yield of 10% (coupon of 9.785%).*
- **Longest-ever nominal fixed-rate peso issuance (September, 2017)**
 - *10-year maturity; USD 1.1 billion equivalent with a yield of 8.625% (coupon of 8.5%).*

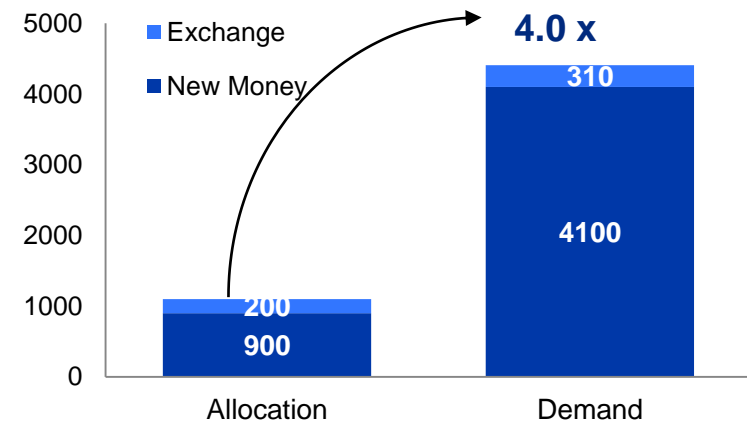
Global UYU 2022

(in USD million equivalent)



Global UYU 2028

(in USD million equivalent)

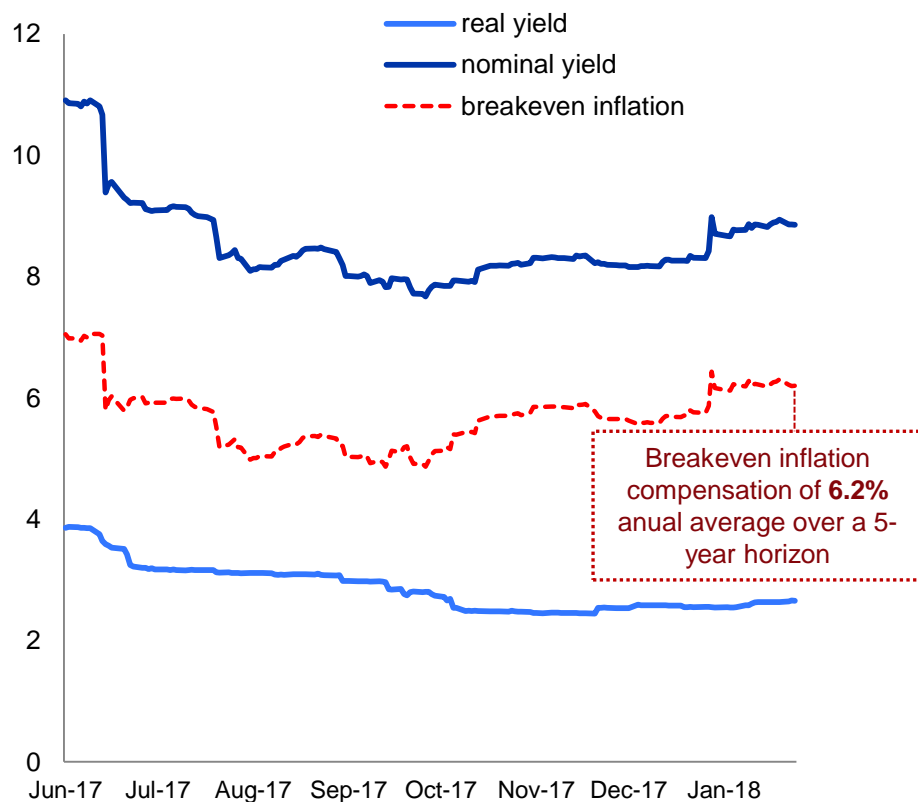


Compression in local currency rates and shape of yield curves portend lower long-term inflation expectations



Nominal and Real Local Currency 5Y Yield

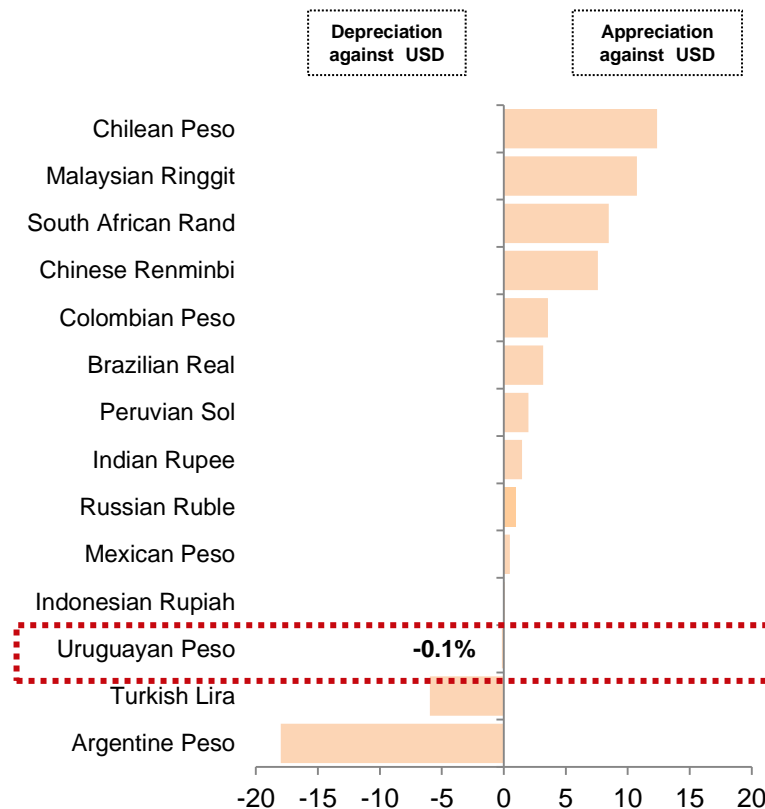
(Par value, in %)



Source: Bolsa Electronica de Valores del Uruguay (BEVSA)

EM Currencies Performance vs USD

(Spot change since June 1st 2017, in %)



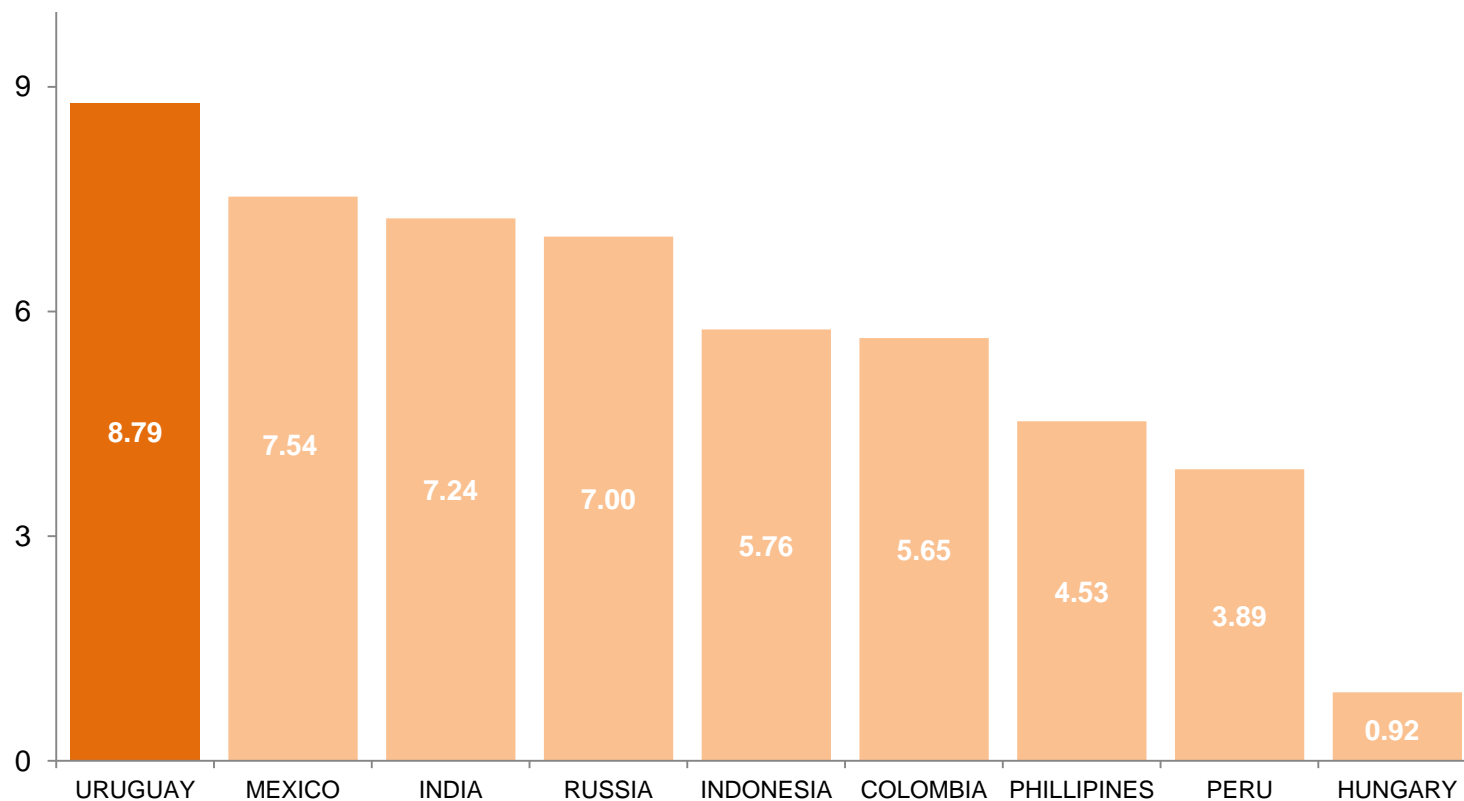
Source: Bloomberg

Despite significant compression, Uruguay's nominal yield remain relatively high among IG countries in EM



Yield of 5-Year Local Currency Sovereign Bond (Nominal Fixed Rate)

(mid-yield to maturity, in %)



Source: Bloomberg

Landmarks during 2017



- First-ever issuances in pesos at nominal fixed rate on a global scale
- Lowest nominal rate achieved for a non-indexed peso issuance
- Index inclusion (GBI-EM), deepening international financial integration
- Both local and international capital market funding was done entirely in LC



Cerro de los Caracoles, Uruguay

5. Financial program and funding plans for 2018

Central government funding needs and sources



Indicative Uses and Sources of Funds

(in USD million)

	2017	2018
USES (*)	3,575	3,077
Interest Payments	1,558	1,682
Amortization	1,863	1,535
Primary Deficit	154	-140
SOURCES (*)	3,575	3,077
Multilateral Disbursements	149	350
Total Bond Issuance (**)	3,045	2,700
Net Others	86	187
Use of Assets (***)	294	-160

(*) Preliminary data

(**) Includes domestic and external issuances

(***) Positive value indicates a reduction in Central Government's assets

Source: Ministry of Economy and Finance.

Government is committed to maintaining strategic debt-management guidelines



- Balance the goal of reducing FX exposure and roll-over risk, while ensuring an efficient functioning of secondary markets in Uruguay`s bonds:
 - Expand the sources of funding and improve financing terms
 - Maintain the pre-financing policy
 - Underpin sovereign credit profile

Intended debt management strategies for 2018



1) Continue developing the local currency bond markets:

- Extend duration and/or retap benchmarks in nominal peso yield curve
- Continue to target index-eligibility in primary issuances to enhance liquidity
- Promoting trading in secondary bond markets and dollar/peso hedging instruments
- Increasing share of peso debt through dollar/peso cross-currency swaps

2) Exploring the possibility of returning to the global dollar market:

- Deepest, more stable and efficient source of financing
- Provides opportunities for extending duration

Concluding Remarks



- Robust macroeconomic performance and a solid reputation for having strong institutions, social stability and a predictable policy framework
- Policy priorities aimed at fiscal consolidation and keeping inflation pressures low
- Government has ample liquidity to manage disruptions in global financial conditions
- Continue developing local-currency bond markets and diversifying our funding markets and investor base



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