

Uruguay: an economic overview

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Uruguay at a glance

General overview

- ▶ Population: 3.5 million
- ▶ Language: Spanish
- ▶ Currency: Uruguayan Peso (UYU)
- ▶ Market size (GDP): 80.000 (USD Millions, current prices)
- ▶ GDP per capita: 20.000 (USD/person/year)
- ▶ Low poverty and inequality
- ▶ High human development
- ▶ Solid democratic institutions
- ▶ Sound banking system

Globalized and integrated economy

- ▶ Investment Grade (reaffirmed by DBRS, Moody's, S&P and Fitch)
- ▶ Friendly with FDI (no discrimination for foreign capital)
- ▶ Investment-promotion regime, both for local and foreign capitals
- ▶ No restrictions on profit transfers or capital flows
- ▶ Dollarized economy:
 - US-dollar denominated deposits: 75%
 - Foreign US dollar denominated public debt: 50%

A peaceful, stable and reliable country, with the challenge of overcoming the "middle income trap"



Reliable country

- Sound political parties, democracy and institutions.
- All relevant political parties with Government experience.
- Peaceful and institutional Government transitions.
- Social and political stability.
- Low corruption.
- Independent judicial system.
- Stable and predictable macroeconomic framework.

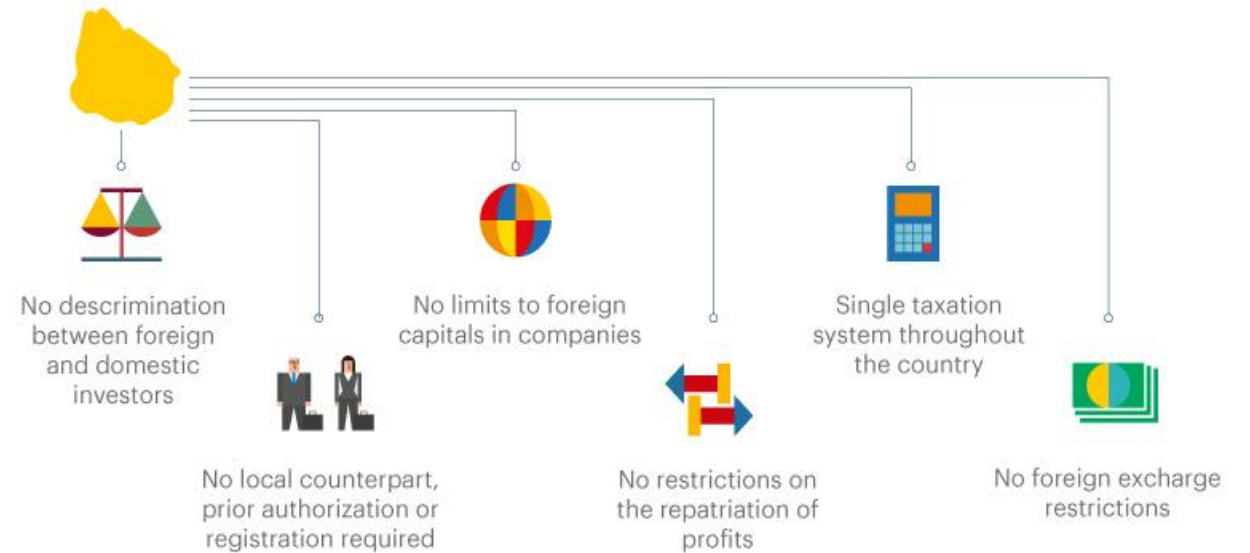
Leader in Latin America



Source: Uruguay XXI

Doing business in Uruguay

- The most stable and reliable business environment in Latin America.
- Both national and foreign investment has been declared of national interest.
- Foreign and local investors are treated equally.
- Wide range of state policies and tax incentives



Business culture and practices

- European influence shaped both Uruguayan culture as well as business environment.
- Uruguay attempts to follow international common practices and laws.
- Informality is low compared to the region. However, still significant in comparison with developed countries.
- One national tax system. The fiscal year begins January 1st and end on December 31st of the same year.
- Spanish is the judicial language used in the country. However, in the business environment English is widely spread.
- Business hours tend to be from Monday to Friday from 9:00 to 18:00.
- Strong laws to prevent bribery and corruption practices.
- No restrictions to hire foreigners.
- Most companies are small and closely held by controlling families, but state-owned companies and multinationals are relevant in Uruguayan economy.

Milestones of long-term competitiveness

Global Competitiveness Index 4.0 2019 edition Rank in 2018 edition: 53rd/140

Performance Overview 2019 Key ◇ Previous edition △ High-income group average □ Latin America and the Caribbean average






STRENGTHS

- Social capital
- Transparency and low corruption
- Property rights
- Judicial independence

ROOM FOR IMPROVEMENT

- Education.
- Labor market efficiency.
- Entrepreneurial culture.

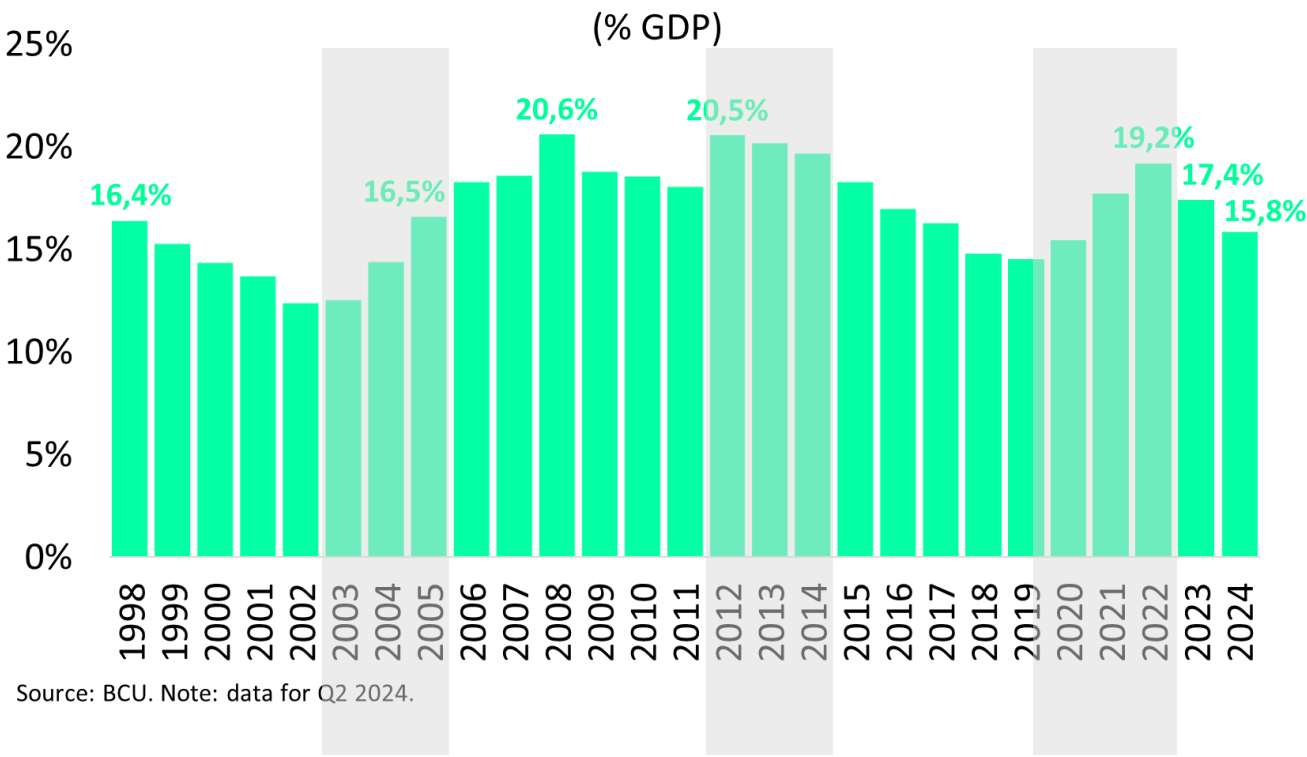
Investment promotional schemes

 <p>LOGISTICS & DISTRIBUTION Cross-docking Postponement</p>	 <p>COMMERCE & SERVICES Sales - Trading - Procurement Shared Serv. Cent. - Holding</p>	 <p>INNOVATION IT solutions / R&D</p>	 <p>PRODUCTION Manufacturing</p>
<p>FREE PORT & AIRPORT LAW Goods exempt from domestic taxes and Customs duties</p>	<p>TRADING CIT 0,75%</p> <p>SSC / CCR CIT 2-8%</p>	<p>SOFTWARE CIT 0%</p> <p>INNOVATION Tax credit up to 45% of the eligible R&D project costs</p>	<p>EXPORT TAX REFUND 3 - 6% of FOB value</p> <p>TEMPORARY ADMISSION VAT & Customs duties exempt</p>
<p>INVESTMENT PROMOTION LAW SCIENTIFIC & INDUSTRIAL PARKS LAW CIT exemption up to 100% of investment</p>			
<p>FREE TRADE ZONE LAW 0% CIT and Customs duties · Special tax and pension regime for expats</p>			

An investment-oriented country

- Investments at all-time high in 2012-14.
- Economic super-cycle starting 2004.
- Significant flows of FDI (historical record in 2013).
- Great incentives towards investment:
 - Tax benefits for ALL investment projects: tax exemptions (for income and net worth) of up to 100% of the investment amount. ALL types of investments in ALL sectors are eligible.
 - Free Economic Zone regime.
 - Free port regime.
 - Specific incentives for some industries, for example, renewable energy.

Investment: Gross Fixed Capital Formation



Investment in Pulp Industry through investment cycle

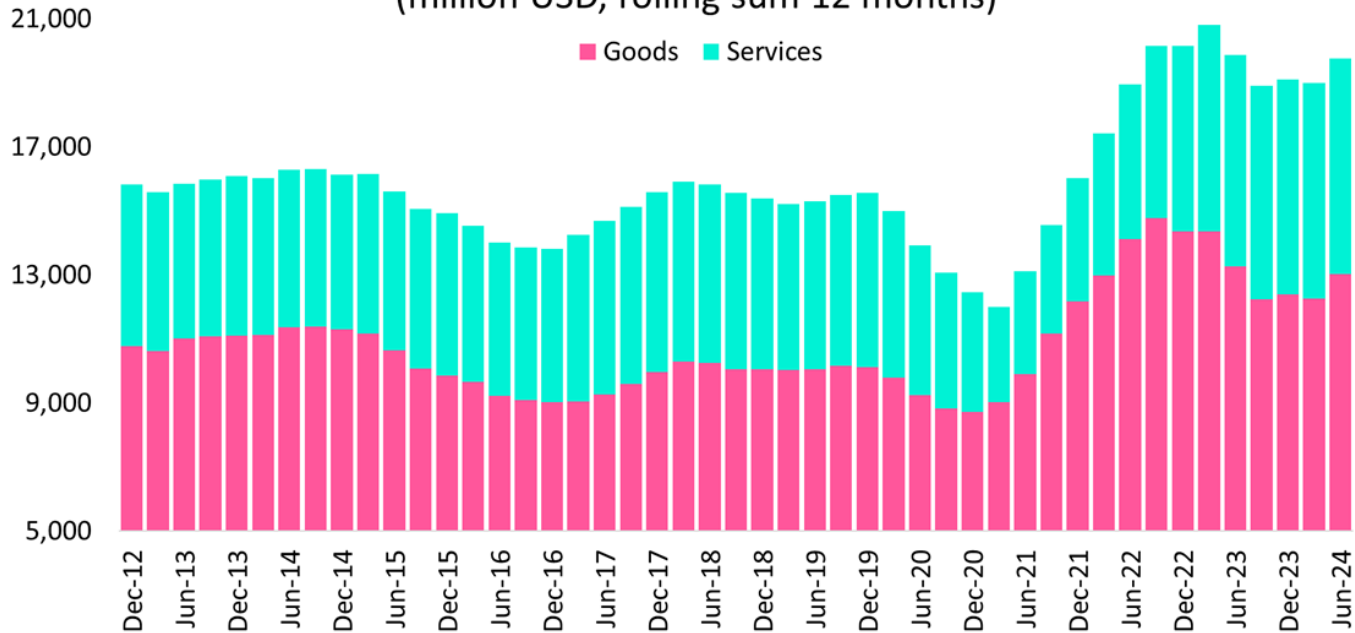
Botnia – UPM
Fray Bentos Mill

Montes del
Plata Mill

UPM Paso
de los Toros

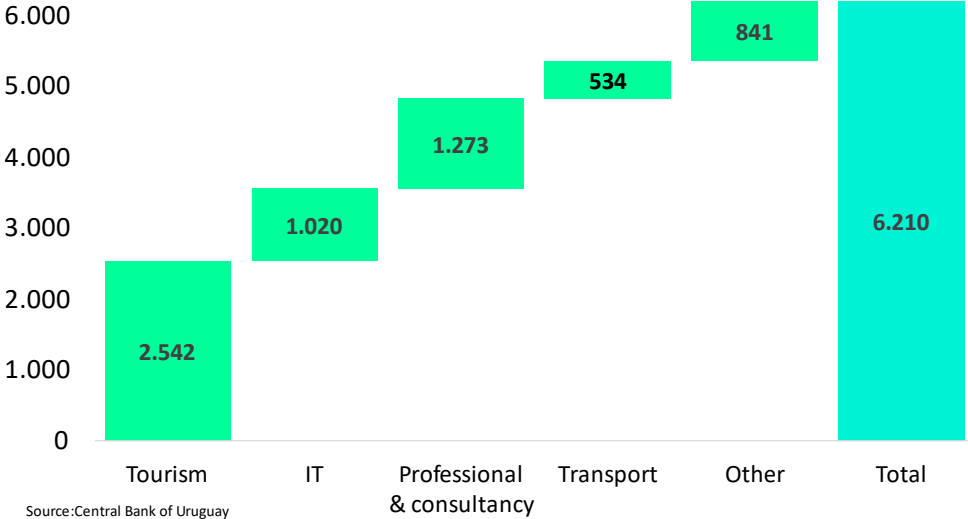
Agribusiness account for 70% of export of goods. Successful service diversification.

Exports of goods and services
(million USD, rolling sum 12 months)

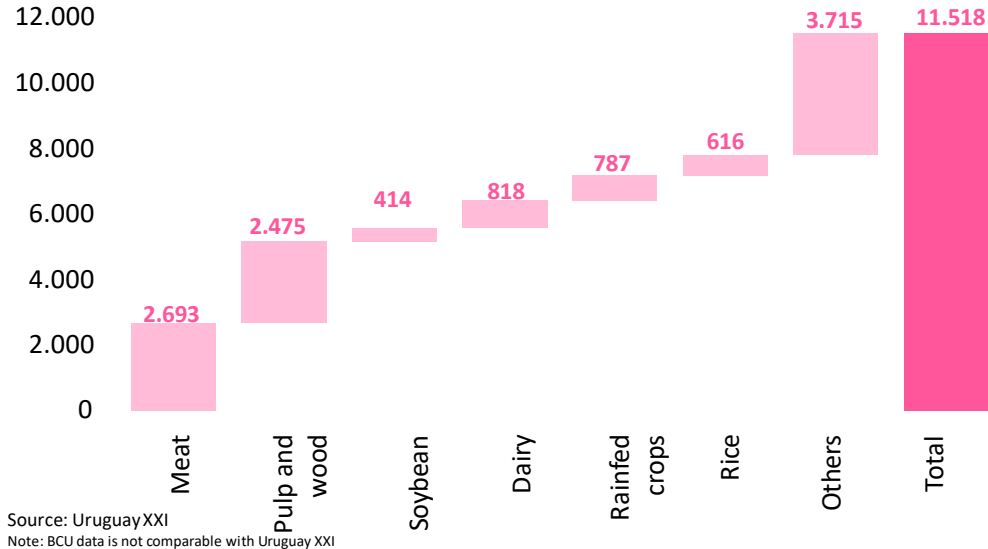


Source: BCU
(*) Note: Trading operations are excluded

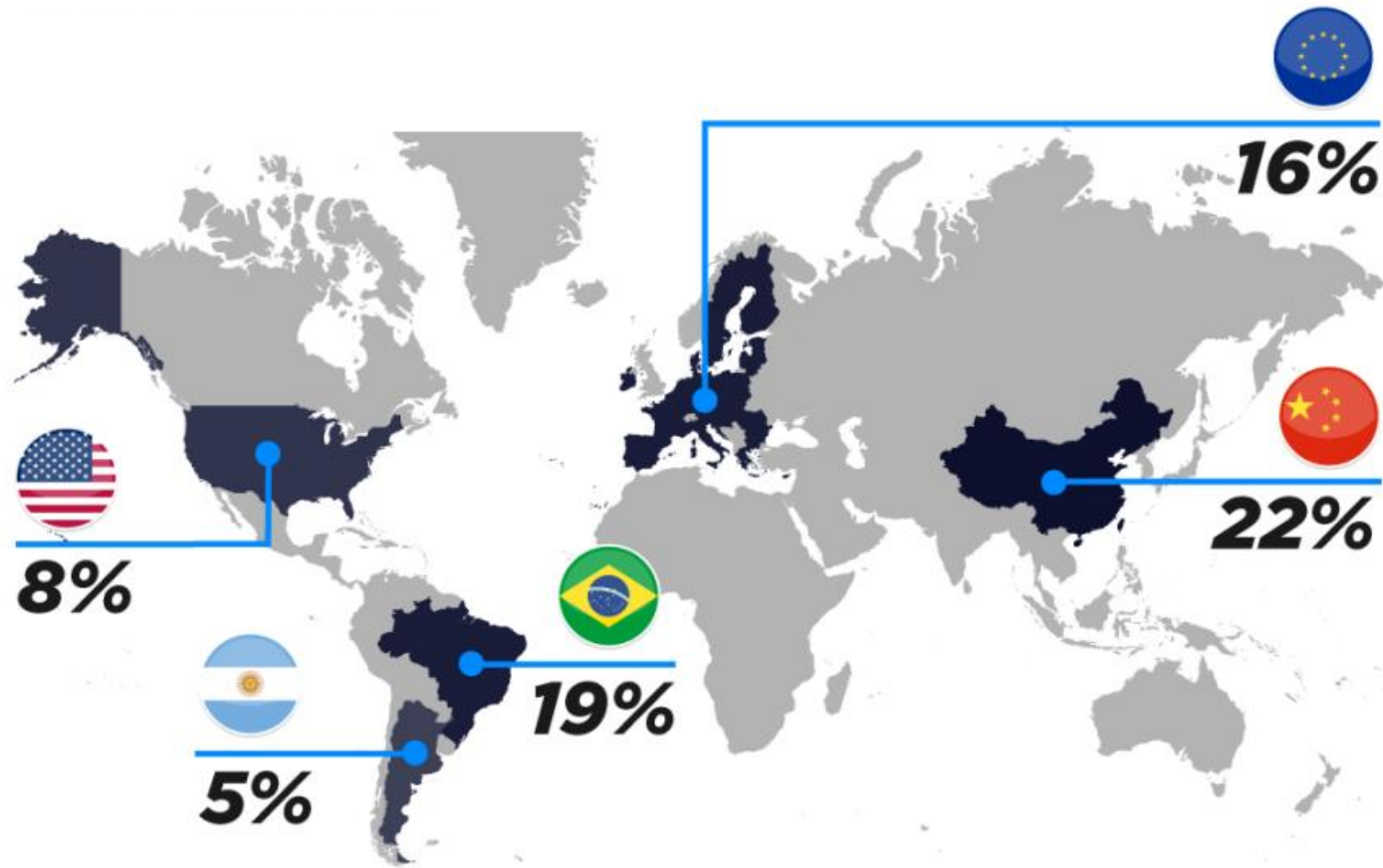
Exports of services
(million USD, 2023)



Exports of goods including free zones
(million USD, 2023)



Main destinations of exports of goods during 2023.



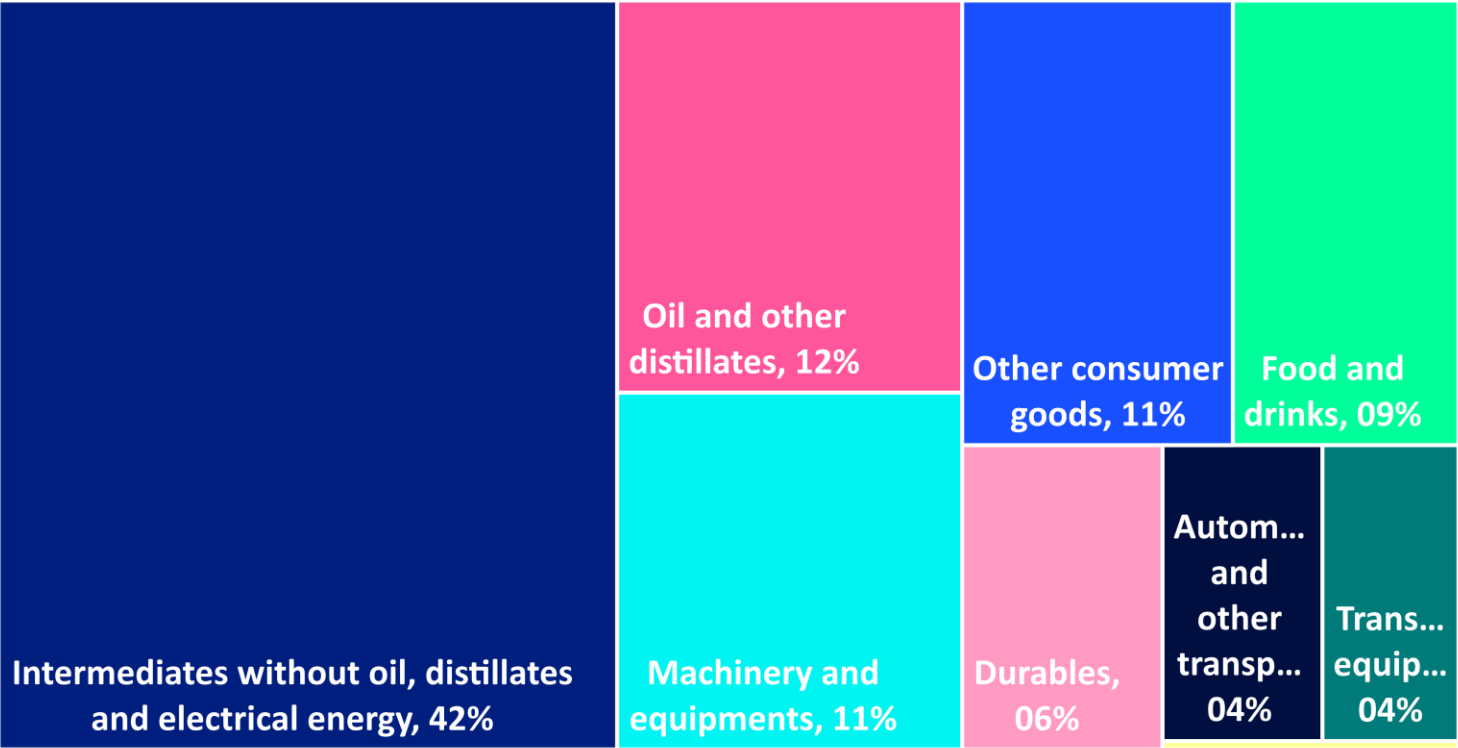
Source: Uruguay XXI, 2023

China is the main destination for exports of goods, mainly beef, pulp and soybeans.

USA is the main destination for exports of services, mainly IT and professional services.

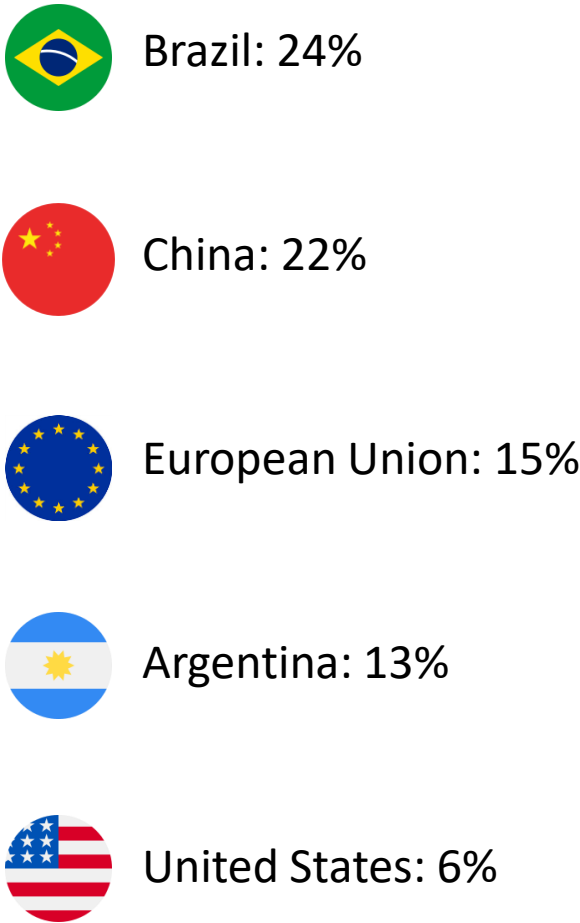
Import structure

Imports: 2016–2023



Source: Central Bank of Uruguay

Main origins of imports: 2023

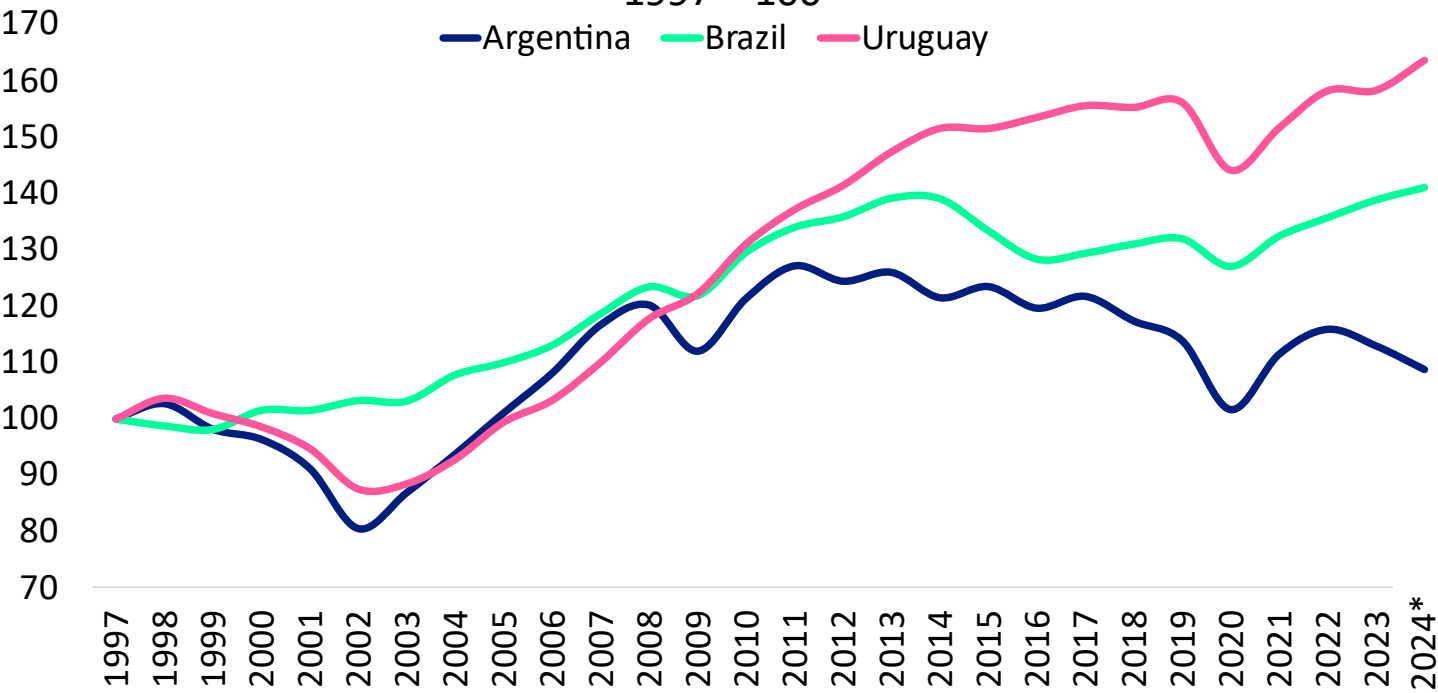


Outstanding performance compared to neighboring countries

Real GDP per capita (PPP)

1997 = 100

— Argentina — Brazil — Uruguay



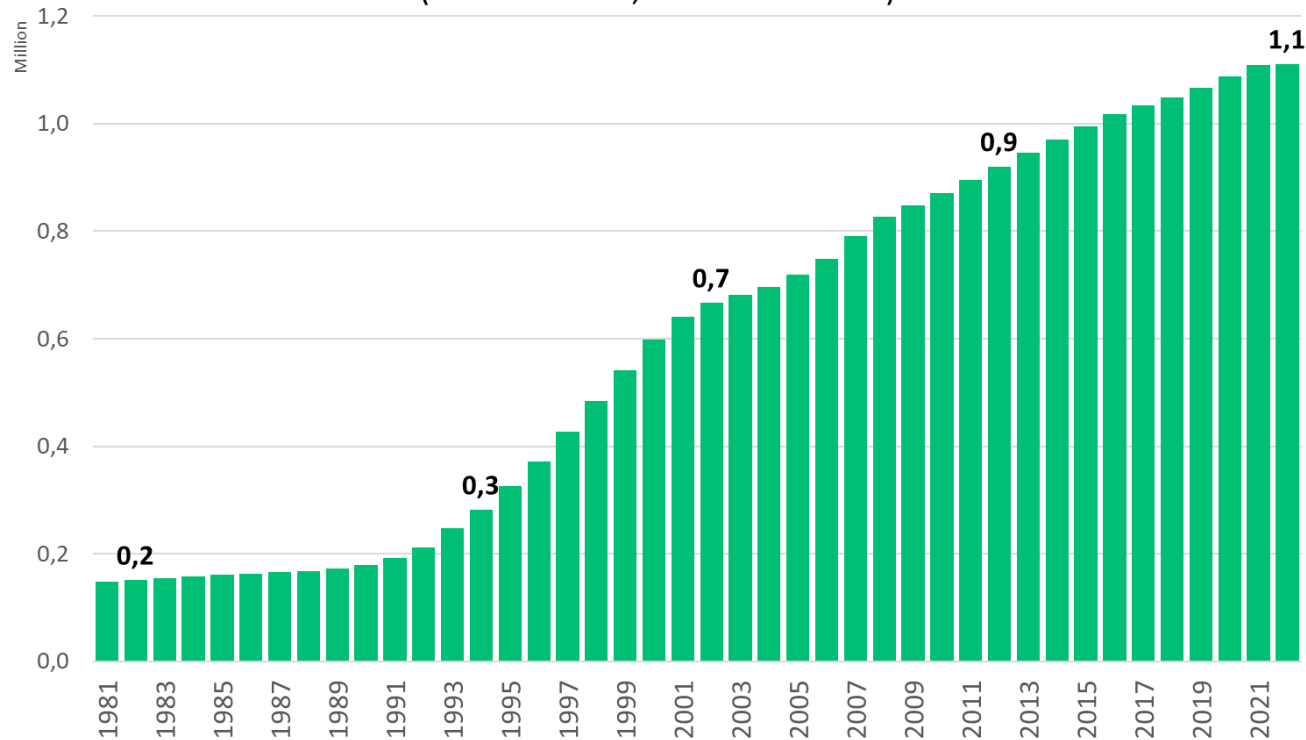
Source: IMF, april 2024.
2024*: projection.

- ▶ Up to 1990's, Uruguay's economic cycle showed high dependency with Argentina and Brazil.
- ▶ Uruguay successfully decoupled from an unstable and declining region in the last decade.
- ▶ Good policies and diversification in our export matrix after 2005 reduced dependency with the region. Steady growth in agribusiness played an important role.

The forestry-pulp sector is one of the leading industries of the economy in the last two decades

Total area of commercial forestry

(effective area, million hectares)

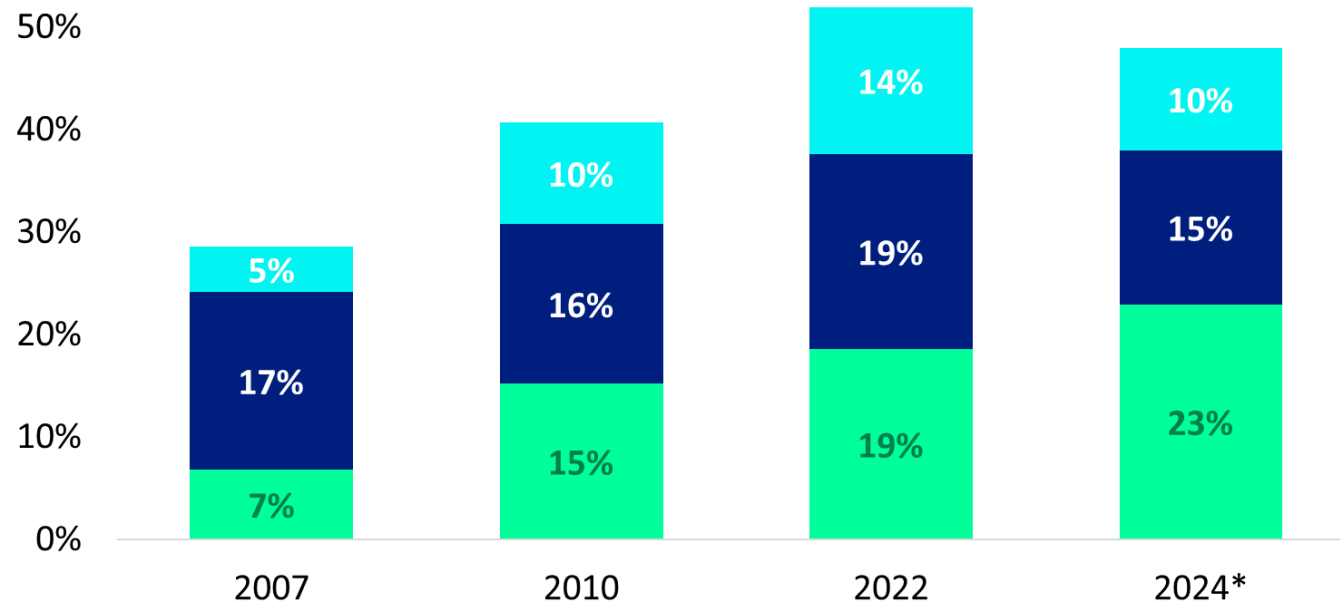


- Since the **Forestry Law N° 15,939 of 1987**, the promotion and expansion of the forestry sector as State Policy has transcended different governments.
- Steady growth of effective area since late '80s, reaching **+1,1 million hectares, equivalent to 7%** of productive land of Uruguay (16 million hectares).
- Room for additional growth:** soils defined as “forestry priority” by Law 15,939 covers 4 million hectares.
- The construction of **UPM Paso de los Toros** became the **largest private investment** in the **history** of the country.

The forestry-pulp sector is one of the leading industries of the economy in the last two decades and became top exporter in 2024

Shares of top export products in total exports of goods (%)

Forestry Beef Soybeans



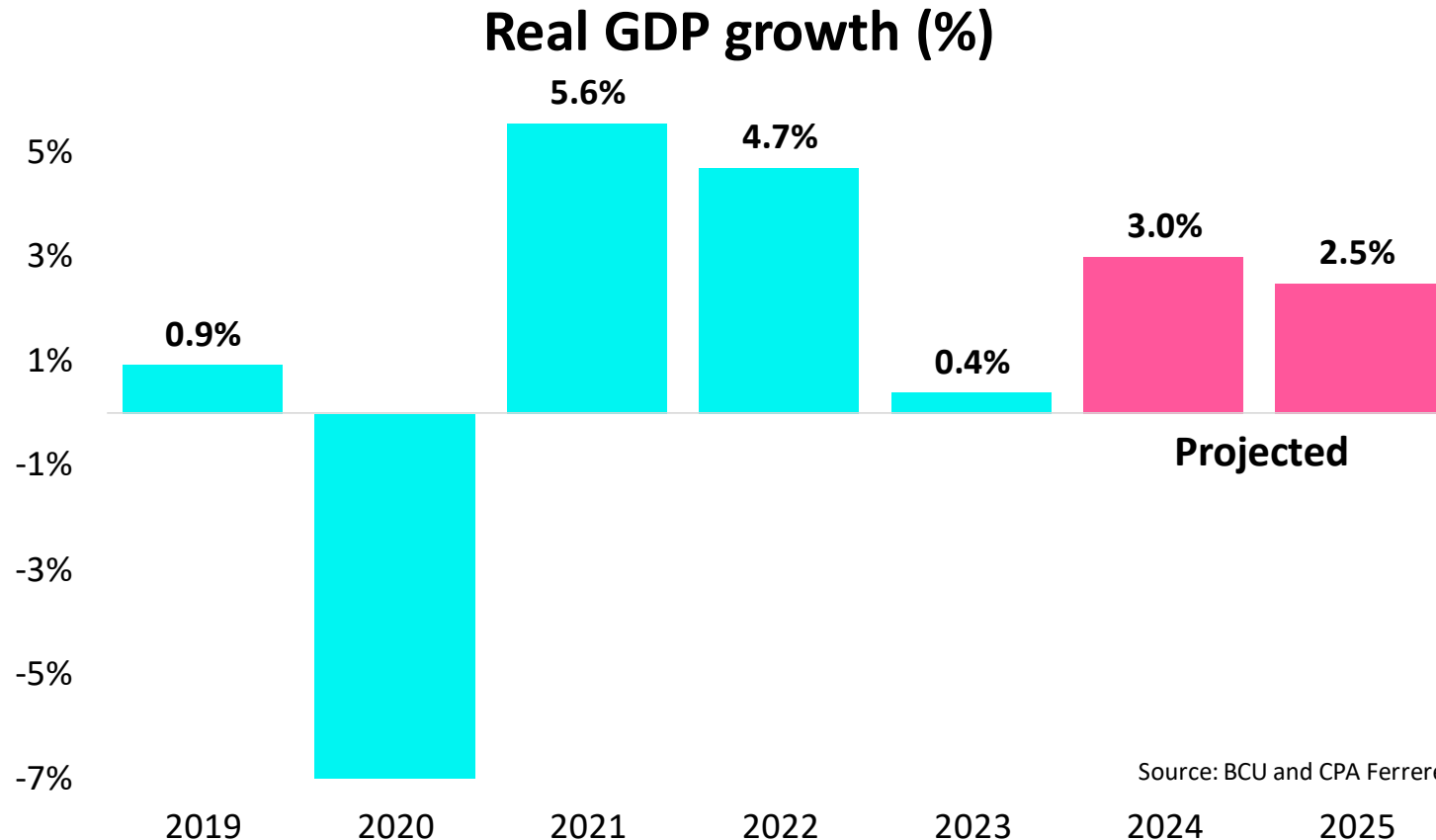
Source: Uruguay XXI. Note: forestry products include pulp, wood, wood products, paper and cardboard.

* Data from January to September 2024.

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- Room for additional growth:** soils defined as "forestry priority" by Law 15,939 covers 4 million hectares.
- The construction of **UPM Paso de los Toros** became the **largest private investment** in the **history** of the country.
- Pulp** became the **main export product** in **2024**.

Forestry industry explains ≈6% of GDP and explains 40,000 high quality jobs. UPM accounts for 60% of forestry and 70% pulp industry.

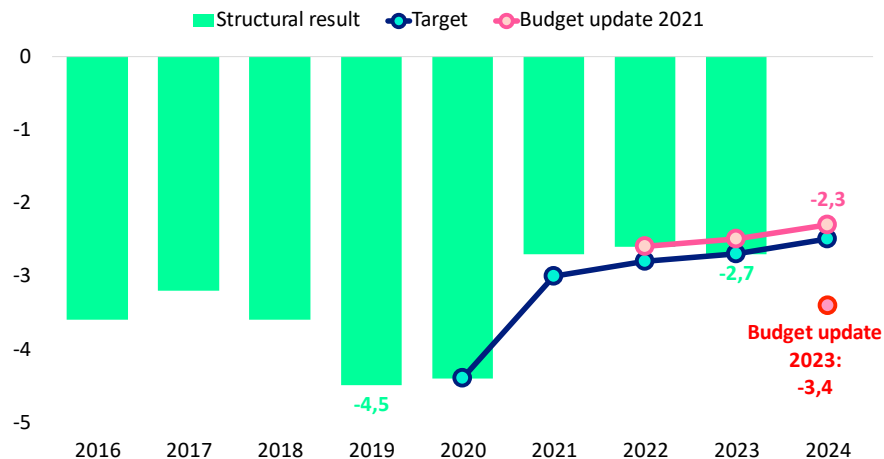
Short term outlook: GDP is expected to rebound back to potential growth in 2024–25 after severe drought in 2023.



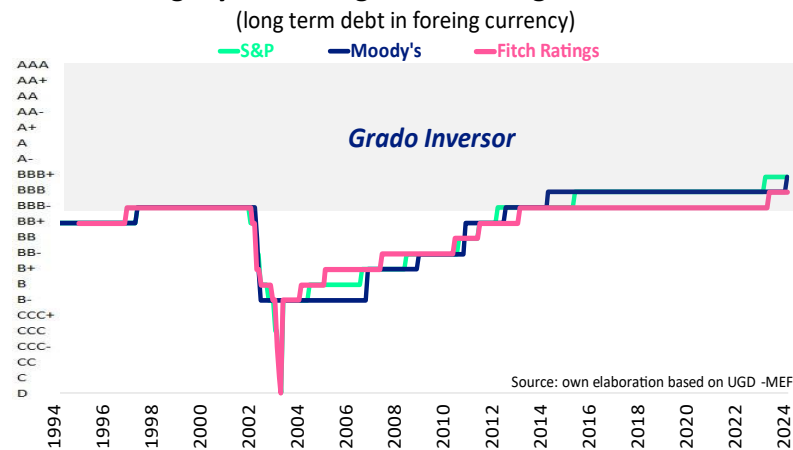
- ▶ The challenge of overcoming the **“middle income trap”**: signs of diminishing returns on capital.
- ▶ Uruguay **needs to boost growth and productivity** to sustain welfare state and social policies.
- ▶ Political consensus across the board: next government needs to address **structural reforms**.

Progress and pending on the fiscal front: institutional reforms and improvement in the structural fiscal result

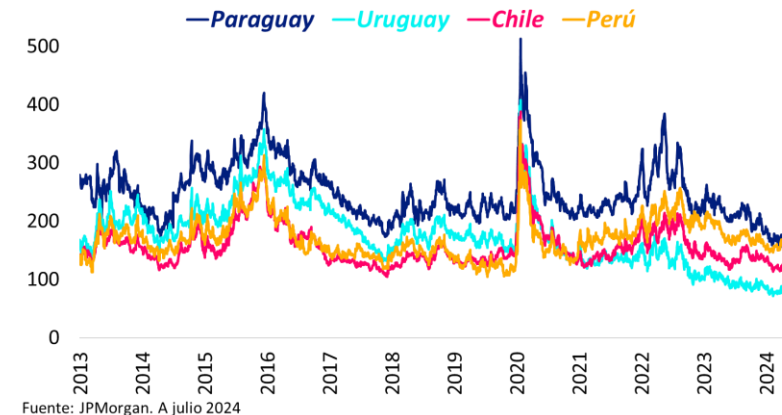
Structural budget balance and targets (% GDP)



Uruguay's Sovereign Debt Ratings evolution



Sovereign Spread (basic points)



Improvements

- ▶ New institutional framework with **fiscal rule and external councils**.
- ▶ **Social security reform** that avoids a fiscal deterioration of 3.5% of GDP in the long term.
- ▶ **Reversal of the fiscal slump** registered between 2015 and 2019.

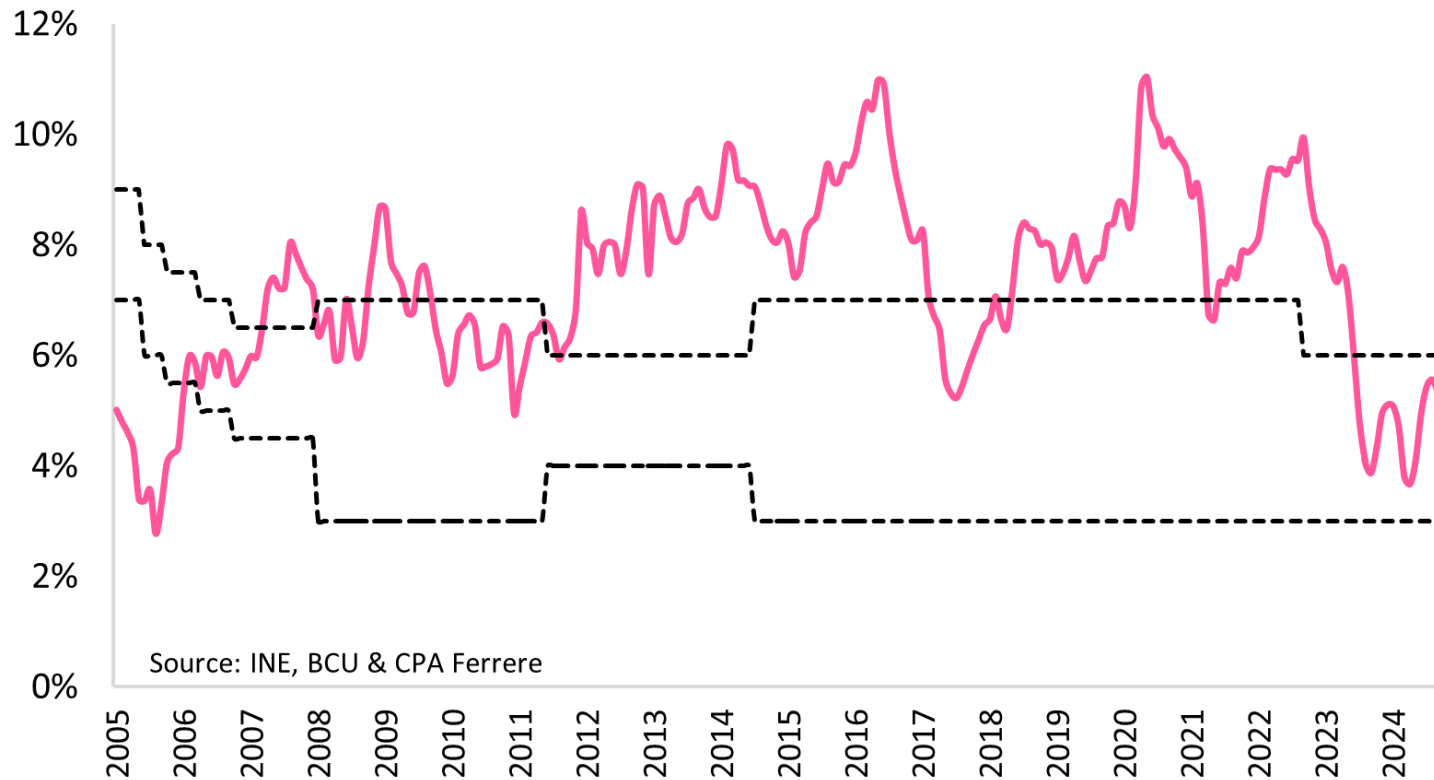
Pending

- ▶ **No adjustment was made on the spending side**, which will increase 1.2% of GDP in this five-year period.
- ▶ **Structural fiscal deficit** will be lower than in 2019, but **higher than planned**.
- ▶ **Low fiscal room** for next Government.

Best credit rating and lowest sovereign spread in history

After a disinflationary policy, Central Bank successfully managed inflation inside the target for the first time in 20 years.

Inflation (CPI YoY % change)



- ▶ Low inflation and “anchored” expectations is an asset for next government.
- ▶ Keep inflation under control is a consensus across the political board.
- ▶ Microeconomics reforms can help to reduce price inertia (contract indexation), improve credibility and reduce costs of monetary policy.

**Inflation inside the target
for 17 months in a row**

Political landscape: current government

- Center-right wing coalition took office in **2020** after 3 Governments of left-wing party Frente Amplio.

- President **Luis Lacalle Pou**, 51 years old. One of the highest approval rates in 40 years of continuous democracy.

- Government of 4 parties coalition.

- Some **milestones in political agenda**:

- ▶ **2020**: Congress approved an **Urgent Consideration Law** changing and creating new regulation in many dimensions: public security, labor market, competition and supply regulation for energy and fuels, first steps towards a social security reform.
- ▶ **2020**: Congress approved the **5-year Budget Law**, consistent with a sustainable path for structural fiscal results.
- ▶ **2020-21**: Successful strategy for COVID-19. **No mandatory lockdowns.**
- ▶ **2022**: **Government was supported** in an open referendum to derogate some articles of the **Urgent Consideration Law**.
- ▶ **2022**: Government launched **education system reform**, to be implemented in 2023.
- ▶ **2023**: Government approved a **Social Security Reform**.



President Luis Lacalle Pou

50% approval rate

(Equipos Consultores November
2024 Survey)

Yamandú Orsi won ballotage on November 24 with 49,8% of votes and will take the office on March 2025.

Left-wing Party Frente Amplio – Program and commitments:

- ▶ Recover higher growth rate, with focus in social inclusion and well-being.
- ▶ Fiscal sustainability is an asset; maintain and improve the fiscal rule introduced in 2020.
- ▶ Introduce changes in tax system in order to adapt to GMT (global minimum tax), reduce tax erosion and keep incentives to investment.
- ▶ Tax incentives for companies hiring young unemployed people (unemployment rate is ≈25% in young population).
- ▶ Boost second energy transition, electric mobility and green H2.
- ▶ 48 measures to improve economy, security and health, recently announced, with a fiscal impact of 1% of GDP, to be financed with increased tax collection of higher growth and revision of tax exemptions (to be determined).
- ▶ Little room for RER depreciation, so will try to improve competitiveness through microeconomic reforms >> “Reduce costs and bureaucratic burden for SMEs.”
- ▶ Improve access and coverage of social security, reversing 2023 reform (additional increase in public pension system spending).
- ▶ Keep inflation below 6% and pursue a 4,5% inflation target. In order to overcome monetary policy weakness and avoid RER misalignments, Frente Amplio proposes to break down inflation inertia in public contracts (construction, concessions, public services) and introduce changes in collective bargaining system.



Yamandú Orsi – Frente Amplio

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