Uruguay Debt report

A quarterly report issued by the Debt Management Unit October 2014

Executive

The last Macroeconomic Coordination Committee held on September decided to remove reserve requirements for foreign investors on CG local securities. To keep providing a steady supply of local benchmark bonds, a new issuance schedule for the forthcoming six-months was released.

MEF removes reserve requirements on CG local securities on foreign investors

The last Macroeconomic Coordination Committee held on September which comprises authorities from the Ministry of Economy and Finance and the Central Bank decided to removes reserve requirements on nonresident's holdings of local securities issued in domestic currency by the Central Government and reduced from 50% to 30% the already operating for CBU's securities. This regime was introduced in August 2012 and then modified in July 2013 in a context of further appreciation of the Uruguayan Peso and important portfolio-inflows aimed at domestic securities in local currency. It is important to highlight that since the measure had been taken, nonresidents maintained their holdings in both CBU and CG securities. But since the beginning of July 2014, prospects of a further strengthening of the US Dollar and the prolonged rally seen versus most currencies (to which the Uruguayan Peso was no stranger) underpinned the decision

Forthcoming six-months auction calendar

In early October the Central Government released its new issuance calendar for the forthcoming six-months (October 2014- March 2015) in the domestic market. The Government will reopen the 5-year CPI linked Note with final maturity in 2020 and intends to issue a new reference in the 10 year segment to continue strengthening local benchmarks in the CPI Curve. Total issuance for the entire period is planned to be around the equivalent of USD 115 million (each Note will be issued every two months). It is important to note that at each auction up to 200% of the auctioned amount can be accepted (for further information click here).

Instrument	Preliminary Issue Amount per auction (in millions)
5-Year CPI Note benchmark	Around UI 200
10-Year CPI Note benchmark	Around UI 120

The semi-annual publication of the issuance calendar, introduced in August 2012, aims to increase the efficiency of the Government local securities market and provide sound basis for further financial market development in line with the objective of promoting the domestic market. Emphasis is placed on the continued effort to build up local benchmark-sized series. This Program also helps to improve transparency and offers predictability to the market.

Prefunding Policy

Ongoing issuances in the domestic market are part of the Central Government pre-funding policy, especially in light of the uncertainty about the international economic situation. In line with this policy, the Government has enough liquid assets to cover at least 12 months of total debt service (interest and amortizations). As of September 2014, total liquid assets Central Government stood at around 4.5% of GDP while total debt service stands at 3.8% GDP one year ahead. For 2015, the total Central Government financing needs are estimated at around USD 2.4 million (4.2% of GDP) that will be financing by the renewal of bonds and loans, and use of assets.

Despite the depreciation in the Uruguayan Peso Debt- to-GDP ratio remains stable

Finally, it is important to highlight that the issuance program in local currency contributes to support debt dedollarization. A proactive debt management along with issuances in local currency and liability management transactions has led to an increase in the CG ratio of local currency debt over total debt from 11% in 2004 to 51% as of September 2014. This policy implies an insurance against movements in the foreign exchange rate. In that sense, despite the depreciation of the local currency registered recently, Debt- to-GPD ratio remained stable. The benefit of this insurance can be illustrated comparing the effective evolution of CG debt ratio with a hypothetical alternative of not continuing with the dedollarization process since the end of 2012 (assuming that all the financing needs were fulfilled in US Dollars). Given the depreciation of the local currency registered in this period, the difference of both ratios represented a reduction in 3% in Debt- to-GPD ratio.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012	IV.2013 (*)	I.2014 (*)	II.2014 (*)	III.2014 (*)
Roll Over Risk													
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	10,8	13,5	15,0	14,9
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	3,3%	2,2%	2,5%	4,1%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	5,8	7,3	3,5	4,2 (3)
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	4,0	3,7	2,7	3,1	3,1	2,2 (4)
Interest Rate Risk													
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	8%	6%	6%	7%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,3	10,4	12,9	14,4	14,3
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,8	8,8	11,6	11,7	11,7
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%	93%	94%	93%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%	7%	6%	7%
Foreign Currency Risk													
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	54%	55%	52%	51%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	46%	45%	48%	49%
Debt Composition by Instrument													
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%	10%	10%	10%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%	90%	90%	90%
Debt Composition by Jurisdiction													
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	29%	31%	29%	29%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	71%	69%	71%	71%
Average interest rate (annual % by currency)													
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,6	5,3	5,3
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9	5,9	5,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9	1,9	1,9
Units Linked to CPI (UI)	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	4,0	4,0	4,0
Units Linked to Average Wage Index (UR)											2,3	2,3	2,3
Uruguayan Pesos								10,6	9,7	9,4	9,8	9,6	9,6

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

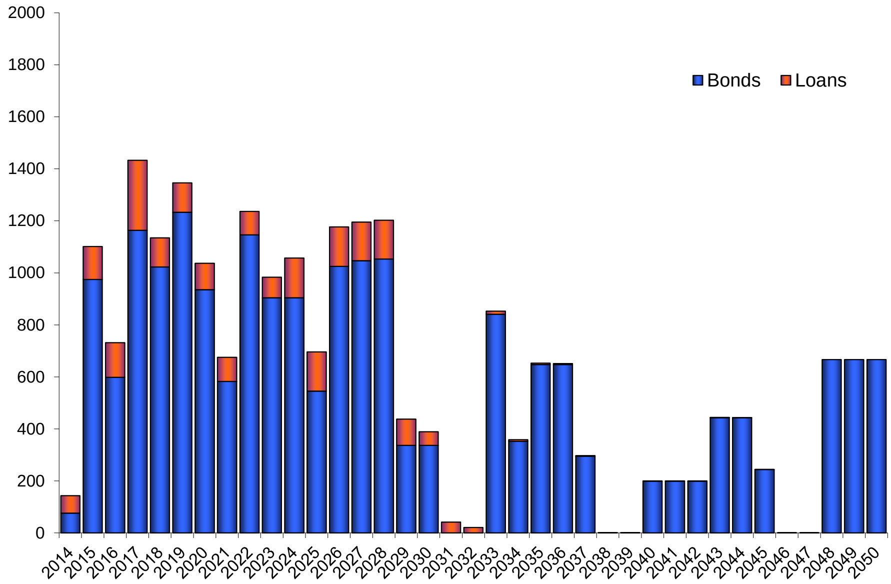
(3) 12 month period ended August 2014

(4) Amortizations of the next 12 months starting in October 2014

Central Government Debt Profile

As of September 2014

USD Million



Central Government Flow of Funds

USD Million

	2013(*)	2014(*)	2015(*)
USES	**3947**	**3249**	**2398**
Interests Payments	1326	1289	1226
Amortizations	1842	1651	1123
Loans	635 (1)	119	126
Bonds	1207	1531 (3)	997
Others	779 (2)	310	49
SOURCES	**3947**	**3249**	**2398**
Primary Surplus	522	185 (4)	200 (5)
Multilaterals Disbursements	61	144	120
Issuances	2587	3191	1000
Others	200	269	267
Use of Assets (**)	578	-541	812

(*) Preliminary Data

(1) Includes IADB Prepayment for USD 519 million in 01/2013

(2) Includes Loan from the Executive to ANCAP for USD 517 million in 01/2013 to prepay debt with PDVSA

(3) Includes early redemption of treasury notes and bonds as a result of local LM exercise (03/2014) plus repurchase of USD Global Bonds at LM exercise (06/2014)

(4) Source: Budget Execution Balance 2013 (Rendición de Cuentas y Balance de Ejecución Presupuestal 2013)

(5) Source: Macroeconomic and Financial Advisory Unit preliminary estimate

(**) Positive indicates a reduction in reserves

Source: Debt Management Unit

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