Uruguay Debt Report

A quarterly report issued by the Debt Management Unit January 2015

Executive

As the US monetary policy normalization and oil and commodity prices are likely to remain as key risk factors in 2015 for most emerging markets, Uruguay's credit resilience is endorsed by the structural shift of its debt profile and a sizeable financial shield built over the last two administrations.

Responsible fiscal policy, supported by relatively robust GDP growth, has helped to reduce Uruguay's indebtedness substantially and improve its debt composition in recent years. Whole Public Sector Net Debt has been narrowed by more than 48 percentage points in the last 10 years, reaching 21.6% of GDP by the end of 2014Q3.

Remarkable advances, in line with the Republic debt management guidelines, have been achieved over the last decade. In terms of roll-over risk, the Central Government (CG) has successfully extended the average time to maturity of its debt from 7.4 years at 2004Q4 to more than 14 years at 2014Q4 (one of the longest among sovereigns). Several well-timed liability management (LM) exercises conducted throughout these years have also helped smooth the amortization schedule and extended the average time to maturity. Total CG debt maturity is projected to be around 2.0% of GDP in 2015 and around 1.3% of GDP in 2016.

Furthermore, the CG has been prefunding its debt payments by holding enough liquid assets to meet its debt service for at least the next 12 months. The Government has nearly 3.8% of GDP in cash reserves as of the end of December 2014, enough to cover roughly two years of debt amortizations. Additionally, and instead of accumulating more costly financial assets for precautionary reasons, Uruguay's financial cushion is supplemented by contingent credit lines with multilateral institutions totaling near USD 2billion (3.5% of GPD). These lines provide additional financial leeway to protect the Republic from external turbulences and constitute an important source of financing in the event of market turbulence (in the international financial crisis of 2008 the Government already took advantage of this safety net).

Proactive debt management has significantly improved the composition of the Republic's debt, reducing foreign currency and interest rate risk. The percentage of CG debt denominated in local currency has increased substantially, standing at 52% at 2014Q4 from 11% in 2004Q4. This objective was reached by issuing in local currency in both domestic and external markets, and also through LM exercises such as buybacks of foreign currency denominated bonds and prepayment of debt with multilateral agencies. It is worth noting that the goal of the current administration set in 2010 was to lift the share of debt denominated in local currency to 45% by 2014. Moreover, the Government has worked with multilateral institutions in order to make disbursements in local currency and currency swaps. Regarding the interest rate risk, the share of debt at fixed rate has increased from 78% at 2004Q4 to 95% at 2014Q4 mainly through issuances at fixed rate and swaps with multilaterals.

Efforts to develop the local bond market were deepened, creating benchmarks at different maturities and increasing transparency and predictability on bond placements. Auctions of CG local debt follows a schedule for the upcoming six months, alternating benchmark bonds to provide depth and liquidity to investors. Interest from foreign investors increased since 2012, thus diversifying the traditional investor base of local pension funds, insurance companies, and banks.

Regained investment grade status constitutes another key milestone, helping the Republic lower its borrowing costs and widen its access to funding. Since 2005 Uruguay' credit rating has been upgraded several notches until being granted again with the investment grade status by the five rating agencies that assesses the country (Fitch, Moody's, S&P, DBRS and R&I). Rating agencies credited various factors as key drivers of the upgrade, foremost of which are the solid fiscal position, reduction of roll-over risk, extension of average debt maturity, increase in the share of domestic currency-denominated debt, and the high level of precautionary liquidity reserves.

So, albeit still positive, if a scenario of less favorable economic conditions ensues, Uruguay's credit resilience will be supported by the structural shift of its debt profile and the sizeable financial shield built over the last years.

Central Government Risk Indicators

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

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

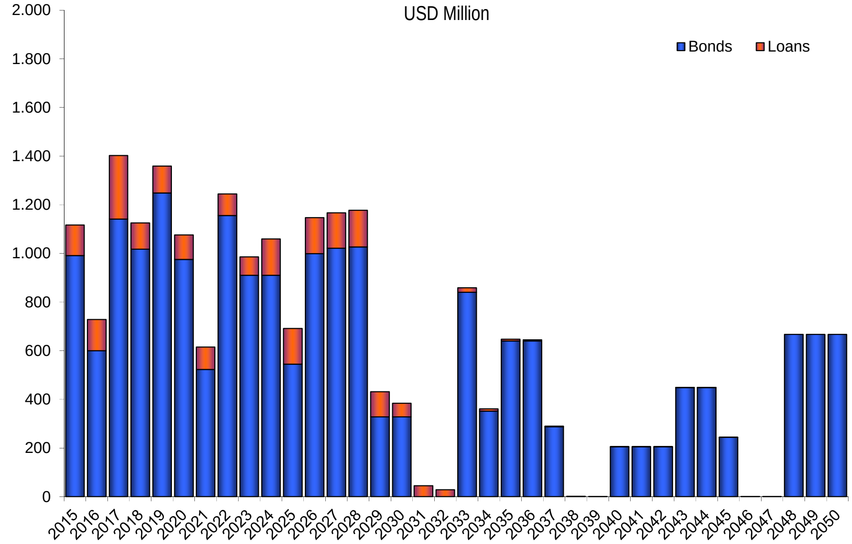
(3) 12 month period ended November 2014

(4) Amortizations of the next 12 months starting in January 2015

Central Government Debt Profile

As of December 2014

USD Million



Central Government Flow of Funds

USD Million

	2014(*)	2015(*)
USES	**3.228**	**2.400**
Interests Payments	1.274	1.250
Amortizations	1.644	1.101
Loans	113	126
Bonds	1.532 [2]	974
Others	310	49
SOURCES	**3.228**	**2.400**
Primary Surplus [1]	0	100
Multilaterals Disbursements	140	126
Issuances	3.147	1.450
Others	361	237
Use of Assets (**)	-421	486

(*) Preliminary Data

(1) Source: Macroeconomic and Financial Advisory Unit Preliminary Estimate

(2)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)

(**) Positive indicates a reduction in reserves

Source: Debt Management Unit

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