# Uruguay
# *Sovereign Debt Report*

*A quarterly report issued by the Debt Management Unit* *July 2015*

**Highlights**

- **The Central Government launched an issuance and exchange operation in the local market placing the equivalent of USD 960 million in domestic-currency Treasury Notes. This operation underpins the strategy of de-dollarization of sovereign debt, and established a new longer-dated benchmark in the Nominal Peso yield curve.**
- **Standard & Poor`s improved Uruguay`s investment grade credit one notch to BBB; Moody's affirmed Baa2.**

**Bond Issuance and Exchange Operation in the Local Market**

During the last week of July 2015, the Central Government and the Central Bank launched a joint operation of issuance and exchange of public securities in the local market. As part of the transaction, the Central Government would auction two Treasury Notes in Nominal Pesos (at 3-year and 5-year maturities) and a 10-year Treasury Note in CPI-Indexed units, for a total initial amount (equivalent to) USD 650 million. Investors had the option to buy them by using cash (pesos or dollars) or exchange them for their holdings of local Central Bank securities and/or Central Government securities of shorter residual maturity.[1]

The amount auctioned was strongly over-subscribed at **3.5 times** (with a total bid close to USD 2.3 billion dollars), despite the highly volatile regional and global environment during the execution period of the operation.

The Government decided to place a total of **USD 960 billion**, most of which were bought in exchange for short-term Central Bank securities (thus representing "new money" for the Central Government). The Republic issued close to USD 232 million of 3-year Nominal Peso Note (*on-the-run* Series 7) at a yield of 13.80%, and also sold around USD 582 million of a new 5-year Nominal Peso Note at a yield of 14.22%. In addition, the Republic placed around USD 146 million of a 10-year Note linked to CPI (re-opening of Series 21) at a real rate of 5.22%. Of the total issuance of the three bonds, 78% was bought by the local pension funds, 19% was purchased by banks (part of which were on behalf of non-residents), and the rest was allocated among investment funds and retail investors.

The operation was able to accomplish several goals. First, it further buttressed the Central Governments' pre-funding policy by cashing-on the exchanged securities from the Central Bank, ensuring that precautionary cash reserves covers at least twelve months' debt service (principal + interest). Second, it underpinned the debt de-dollarization strategy, increasing the share of domestic currency-denominated debt to 49% (from 48% at the end of June). Third, this operation contributes to the development of the local market, by giving investors the opportunity to switch from several securities with small outstanding into fewer and more liquid benchmarks.[2] At the same time, it extended the Nominal Peso yield curve by issuing a new 5-year bond, on the back of the recent issuance of a 3-year Nominal Peso bond in April this year. Finally, the operation increased the average maturity of the Overall Public Sector debt (which includes both Central Bank and Central Government liabilities), given that investors in practice preferred to buy almost all of the bonds issued by tendering their holdings of shorter-dated Central Bank securities.

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[1] For a full description of the operation, click here.

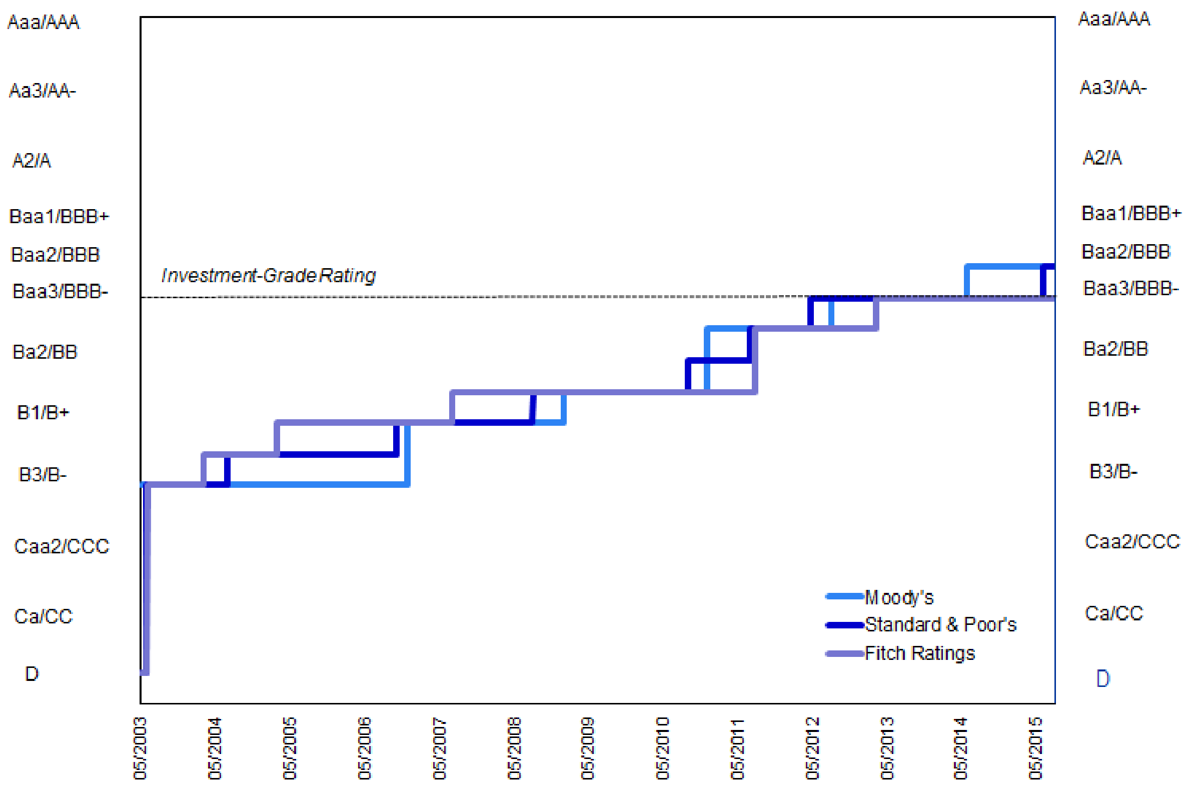
[2] In the case of the on-the-run securities, the total outstanding of the 3-year Nominal Peso Treasury Note increased 1.3 times to the equivalent of USD 406 million, while the 10-year CPI-linked Treasury Note increased 4.6 times to the equivalent of USD 178 million.

**Standard & Poor`s raised Uruguay`s credit rating to BBB; Moody’s affirmed Baa2.**

On June 5th, Standard & Poor's raised Uruguay’s sovereign credit rating to 'BBB/A-2' (from 'BBB-/A-3'), one notch above minimum investment grade and with stable outlook. According to Standard & Poor's the upgrade reflects three factors: a) the newly elected administration of Tabaré Vázquez will build on Uruguay's track record of cautious macroeconomic policies, gradual diversification of the economy, and prudent debt management; b) greater resilience to regional and global shocks, given the significant improvement in Uruguay’s external position over the past decade and c) S&P believes that the regional risks to Uruguay have stabilized and will improve next year.

Previously, on May 21st, Moody’s affirmed Uruguay's ratings at Baa2 with stable outlook. The key drivers of Moody’s rating action were a) the fact that the gradual economic deceleration has not uncovered any major macroeconomic imbalances and vulnerabilities remain contained and b) the new government's commitment to ensuring the sustainability of public finances and the likelihood that it will pursue fiscal consolidation to stabilize debt ratios despite a less favorable macroeconomic environment.

**Uruguay’s Sovereign Credit Rating Evolution**
(2003-2015)



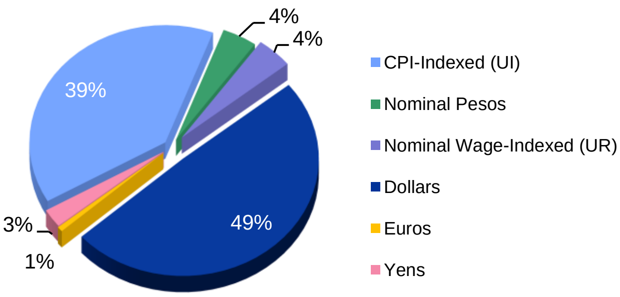
## Composition of Central Government Debt
(in % of total, end-period)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(*) | II.2015(*) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *By Currency* | | | | | | | | | | | | |
| **Foreign Curreny** | **89** | **88** | **85** | **74** | **72** | **69** | **66** | **51** | **45** | **46** | **48** | **52** |
| Dollars | 62 | 68 | 77 | 65 | 64 | 63 | 59 | 44 | 40 | 42 | 45 | 49 |
| Other | 26 | 21 | 8 | 9 | 8 | 7 | 7 | 6 | 5 | 4 | 3 | 3 |
| **Domestic Currency** | **11** | **12** | **15** | **26** | **28** | **31** | **34** | **50** | **55** | **54** | **52** | **48** |
| Nominal Pesos | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 9 | 8 | 5 | 4 |
| CPI-Indexed (UI) | 11 | 12 | 15 | 26 | 28 | 31 | 34 | 43 | 46 | 47 | 42 | 39 |
| Nominal Wage-Indexed (UR) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 4 |
| *By Residual Maturity* | | | | | | | | | | | | |
| **Short-Term (less than one year)** | **11** | **16** | **5** | **3** | **2** | **4** | **6** | **3** | **3** | **3** | **4** | **4** |
| **Medium and Long Term** | **89** | **84** | **95** | **97** | **98** | **96** | **94** | **97** | **97** | **97** | **96** | **96** |
| *By Rate* | | | | | | | | | | | | |
| **Fixed** (1) | **77** | **78** | **82** | **83** | **81** | **91** | **88** | **94** | **95** | **95** | **94** | **94** |
| **Floating** | **23** | **22** | **18** | **17** | **19** | **9** | **12** | **6** | **5** | **5** | **6** | **6** |
| *By Instrument* | | | | | | | | | | | | |
| **Bonds** | **56** | **60** | **82** | **83** | **81** | **79** | **81** | **85** | **87** | **90** | **91** | **91** |
| **Loans** | **44** | **40** | **18** | **17** | **19** | **21** | **19** | **15** | **13** | **10** | **9** | **9** |
| *By Jurisdiction Issued* | | | | | | | | | | | | |
| **Local Market** | **22** | **22** | **23** | **21** | **16** | **16** | **18** | **25** | **30** | **29** | **29** | **26** |
| **Foreign Market** | **78** | **78** | **77** | **79** | **84** | **84** | **82** | **75** | **70** | **71** | **71** | **74** |

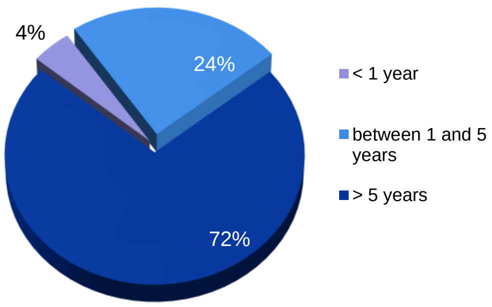
(*) preliminary
(1) Includes local currency securities issued at fixed real rate

## Breakdown of Central Government Debt
(As of June 2015)

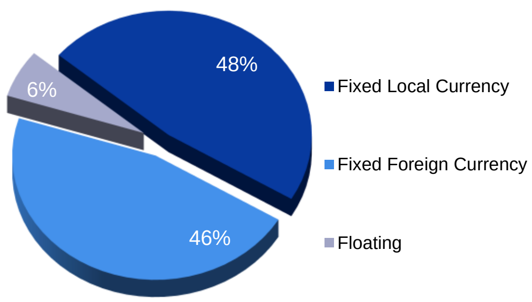
### By Currency



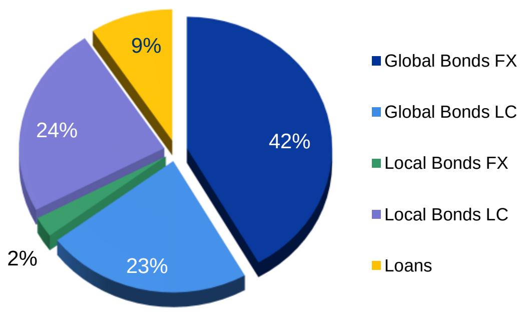

### By Residual Maturity




### By Rate




### By Instrument




Source: Debt Management Unit

## Central Government Debt Indicators

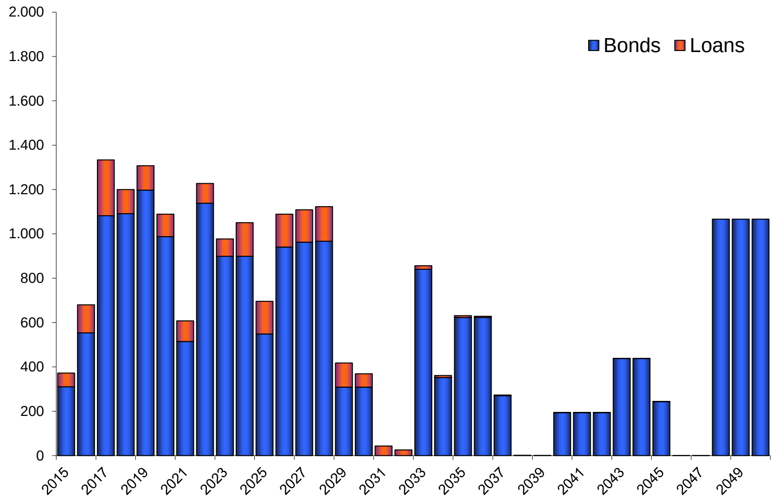
(in %, except where noted; end-period)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014(*) | II.2015(*) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Roll-Over and Liquidity Risk* | | | | | | | | | | | | |
| **Average Time to Maturity (in years)** | **7,4** | **7,9** | **12,1** | **13,6** | **13,0** | **12,7** | **12,3** | **12,3** | **11,7** | **10,8** | **14,4** | **15,5** |
| **Share of 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** | **4,4** |
| **Liquid Assets /Amortization 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** | **2,4** |
| *Interest Rate Risk* | | | | | | | | | | | | |
| **Duration (in years)** | **5,6** | **8,0** | **8,9** | **10,5** | **9,9** | **10,3** | **10,4** | **10,2** | **9,8** | **8,8** | **11,3** | **11,5** |
| **Share of debt that refixes in one year** | **32,3** | **33,7** | **21,9** | **18,1** | **20,0** | **10,6** | **15,1** | **6,6** | **6,6** | **8,3** | **7,3** | **6,7** |
| **Average Interest Rate** | | | | | | | | | | | | |
| Dollars | 6,1 | 7,8 | 7,0 | 7,1 | 7,0 | 6,5 | 6,5 | 6,5 | 6,1 | 5,6 | 5,3 | 5,2 |
| 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 |
| 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 |
| Nominal Pesos | | | | | | | | 10,6 | 9,7 | 9,4 | 9,6 | 10,4 |
| CPI-Indexed (UI) | 7,1 | 5,4 | 5,3 | 4,4 | 4,3 | 4,3 | 4,3 | 4,2 | 4,0 | 4,0 | 3,9 | 3,9 |
| Nominal Wage-Indexed (UR) | | | | | | | | | | | 2,3 | 2,3 |

(*) preliminary

## Central Government Redemption Profile, by Instrument

(As of June 2015, in USD Million)




## Central Government Flow of Funds

(in USD Million)

| | **2014**(*) | **2015**(*) |
|---|---|---|
| **USES** | **3.253** | **2.369** |
| Interests Payments | 1.297 | 1.268 |
| Amortizations | 1.647 | 1.052 |
| Loans | 113 | 120 |
| Bonds | 1.534 | 932 |
| Others | 310 | 49 |
| **SOURCES** | **3.253** | **2.369** |
| Primary Balance (1) | -18 | 100 |
| Multilaterals Disbursements | 140 | 110 |
| Issuances | 3.147 | 2.680 |
| Others | 361 | 230 |
| Use of Assets (**) | -378 | -752 |

(*) preliminary data

(**) positive indicates a reduction in reserves

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

Source: Debt Management Unit

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