Uruguay
Sovereign Debt Report

A quarterly report issued by the Debt Management Unit of the Ministry of Economy and Finance

October 2016

Highlights

- **Announcement of auction sales in November 2016 of Treasury Notes in domestic currency with fixed nominal rate**
- **Meeting of the Public Debt Coordination Committee of the Central Bank and Ministry of Finance**
- **Fitch Ratings affirmed Uruguay's credit rating at BBB- with Stable Outlook**
- **Conversion of foreign currency-denominated multilateral loans into Uruguayan Pesos**
- **Uruguay`s 2016 oil price hedging program highlighted among innovative sovereign risk-management strategies by multilateral institutions**
- **Uruguay remains atop the Institute of International Finance`s ranking on Sovereign Debt Investor Relations and Data Transparency**

Auction announcement of fixed-nominal rate Treasury Notes in domestic currency

The Central Government will reopen the fixed-rate domestic currency (i.e., Nominal Peso) Treasury Notes due April 2018 (Series 7 with a 1.5 years residual maturity) on November 8th and 22nd., 2016. This Nominal-Peso Notes will be auctioned along with the CPI-linked Treasury Notes already scheduled for those dates[1].

The amount to be sold by auction on November 8th will be 750 million Pesos[2] (approximately 27 million dollars). Series 7 has a current outstanding of 11.5 billion Pesos (equivalent to 410 million dollars).

All investors authorized by the Central Bank of Uruguay are allowed to submit bids on these auctions. Non-residents can invest without restriction through a local bank or broker account. Treasury Notes can be settled in Uruguayan Pesos or US Dollars. Additional information will be posted one week prior to each auction date on Debt Management Unit and Central Bank of Uruguay respective websites.

A new issuance calendar for the period December 2016 – May 2017 will be published in the second half of November.

Public Debt Coordination Committee Meeting

On September 28th the Public Debt Coordination Committee (PDCC) held it second meeting since its creation in April 2016. The PDCC provides an institutional setting to formally coordinate the implementation of debt management strategies of the Central Bank and the Government, based on consistent monetary policy and government financing goals. The Committee is headed by the Manager of Economic Policy and Markets of the Central Bank of Uruguay and the Director of the Debt Management Unit of the Ministry of Economy and Finance.

The topics covered at the meeting included: (i) recent developments in domestic and international debt capital markets and renewed investor appetite for local currency instruments; (ii) developing domestic market instruments that could help insurance companies (including the state-owned *Banco de Seguros del Estado*) reduce their balance sheet currency mismatches associated to annuities payments under the pension regime framework, and (iii) analysis of currency hedging alternatives for public-sector enterprises. Next meeting will take place in early December.

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[1] See issuance calendar June-November 2016.

[2] The Central Government is legally authorized to allocate up to an additional 100% of the original tendered amount.

Foreign currency-denominated multilateral loans converted into Uruguayan Pesos

As part of its strategy to manage currency risk in the debt portfolio, the DMU swapped during September some loans with the multilateral banks denominated in foreign currency into Uruguayan Pesos. The DMU will continue to support its strategy of increasing its share of local currency debt by seeking conversion of other loans into local currency, subject to market conditions. In addition, the government will continue assessing opportunities to diversify the FX exposure in its hard-currency debt stock, by using financial market instruments to attain a preferred cost and risk profile in its portfolio composition.

Fitch Ratings affirmed Uruguay's credit rating at BBB- with Stable Outlook.

On October 5th, Fitch Ratings affirmed Uruguay's Long-Term Foreign and Local Currency Ratings at BBB- with a stable outlook. According to Fitch, Uruguay's creditworthiness is supported by strong structural features in terms of social and institutional development, established external liquidity buffers, and low fiscal financing risks. These factors are balanced by credit challenges that include persistently high inflation, high public debt, and a rigid spending profile lifting fiscal deficits above targets in recent years. In Fitch's view, medium-term growth prospects have improved on the announcement of an USD4bn mega-project in the pulp sector. Access to Fitch Full Rating Report.

Uruguay`s oil price hedging program highlighted among innovative sovereign risk-management strategies

During October, the Debt Management Unit presented Uruguay's Oil Price Hedging program at two international conferences on sovereign debt and risk-management practices.[3] During 2016, the Ministry of Economy and Finance and the Treasury Department of the World Bank jointly designed and executed an oil price hedging program that caps the price of oil at 55 dollars per barrel through June 2017, for around half of Uruguay`s total oil imports. The program was established as an insurance protection to moderate the negative impact of significant oil price increases on Uruguay's fiscal budget and the overall economy. With this transaction, Uruguay became the first sovereign to execute a commodity hedge with the World Bank as direct counterpart. Access the presentation and the World Bank's case study.

Uruguay remains in the top tier in international ranking on Investor Relations and Data Transparency Ranking

Uruguay remains on the top tier on investor relations best practices, according to the 2016 Evaluation on Investor Relations and Dissemination Practices produced by the Institute of International Finance (IIF). The IIF issues its annual assessment of investor relations and data dissemination practices of the most active emerging market sovereign borrowers, offering a comprehensive comparative evaluation of the communication with investors and the data dissemination practices of 39 emerging market countries.[4] Uruguay attains the maximum score available, along with Indonesia, Mexico and Turkey. Click here to access the report.

Uruguay's formal investor relations program is in place since 2011, and its main goal is to promote an active engagement and direct communication between the government and different stakeholders in the financial community (local and foreign investors, banks and other private financial institutions, market analysts, media, think-tanks, credit rating agencies, multilateral institutions and other countries` debt-management offices). The Ministry of Finance is committed to providing timely, transparent and reliable information and easily-accessible data to the investor community.

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[3] The Latin American and the Caribbean Public Debt Management Specialists (LAC Debt Group, IADB) and the World Bank Sovereign Debt Management Forum, both held in Washington DC.

[4] This evaluation has been cross-referenced in the World Bank/IMF Revised Guidelines for Public Debt Management.

CENTRAL GOVERNMENT`S DEBT AND ASSET STATISTICS

Central Government`s statistics presented below are compiled by the Debt Management Unit (DMU) of the Ministry of Economy and Finance, with the purpose of monitoring debt portfolio indicators and supporting design of debt management strategies. Debt figures include all loans and public securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private and public-sector agents[1]. Total assets include deposits of the National Treasury at the Central Bank and *Banco de la República* accounts.

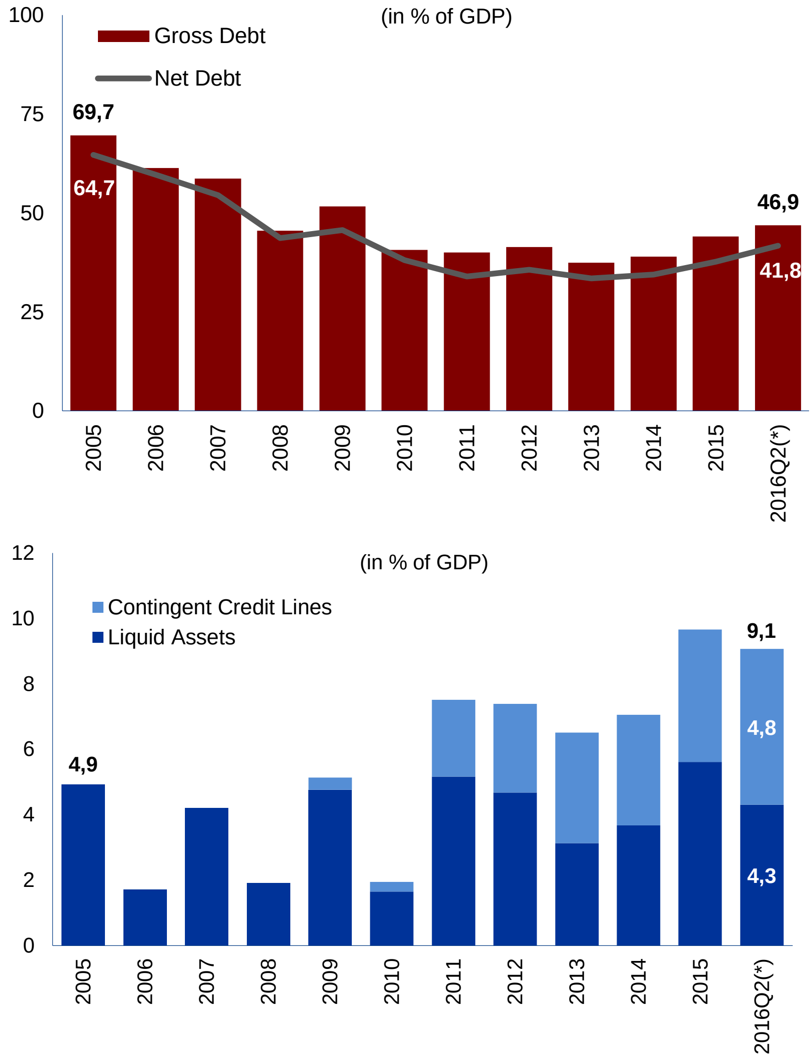
Table 1. Central Government Debt and Asset Position

(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q2(*)	2016Q3(*)
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	23.814	26.087
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	2.619	3.677
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.188	3.106
Net Debt	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	21.195	22.410
Contingent Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	2.417
Memo Item: Nominal GDP (in USD)	17.403	19.630	23.468	30.387	31.703	40.263	47.997	51.229	57.483	57.276	53.461	51.847	(**)

(*) Preliminary
(**) To be released by the Central Bank in December 2016.

Figure 1. Central Government Debt and Financial Buffers



Source: Debt Management Unit

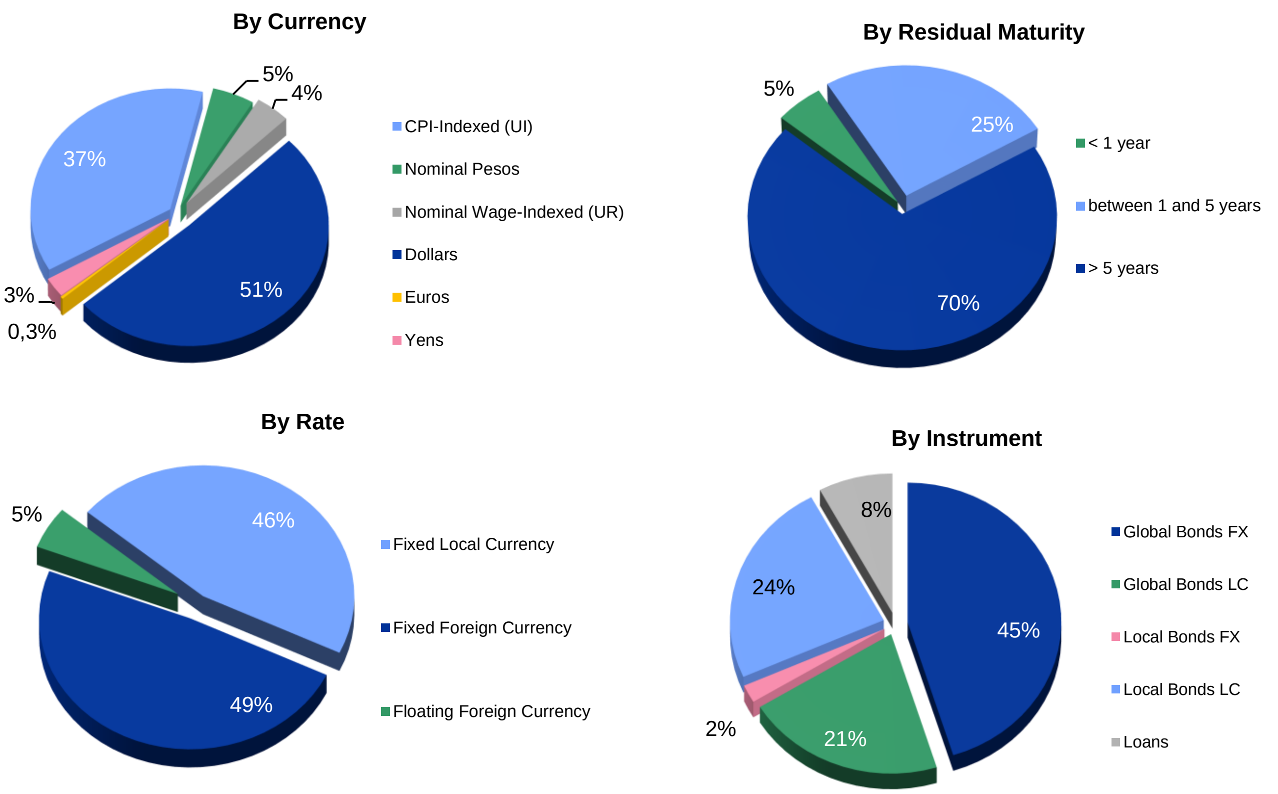
[1] The Central Bank of Uruguay compiles debt statistics for the consolidated Public Sector. This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the 2015 IMF Article IV Report, Uruguay is a particular case among emerging market economies as it is one of the very few countries to report official debt statistics for the whole public sector, including Central Bank`s liabilities.
The Debt Management Unit of the Ministry of Economy and Finance contributes to the Standardized Public Debt Database of the Inter-American Development Bank LAC Debt Group. The information in the database, provided by the public debt offices of LAC countries, is intended to compile up-to-date standardized statistics for objective and homogeneous definitions of public debt to conduct cross-country comparisons.

Table 2. Composition of Central Government Debt
(in % of total, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016Q3(*)
By Currency (1)												
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**54**
Dollars	68	77	65	64	63	59	44	40	42	45	52	51
Other	21	8	9	8	7	7	6	5	4	3	3	3
Local Currency (LC)	**12**	**15**	**26**	**28**	**31**	**34**	**50**	**55**	**54**	**52**	**45**	**46**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	37
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	4
By Residual Maturity												
Short-Term (less than one year)	**16**	**5**	**3**	**2**	**4**	**6**	**3**	**3**	**3**	**4**	**3**	**5**
Medium and Long Term	**84**	**95**	**97**	**98**	**96**	**94**	**97**	**97**	**97**	**96**	**97**	**95**
By Rate												
Fixed (2)	**78**	**82**	**83**	**81**	**91**	**88**	**94**	**95**	**95**	**94**	**94**	**95**
Floating	**22**	**18**	**17**	**19**	**9**	**12**	**6**	**5**	**5**	**6**	**6**	**5**
By Instrument												
Bonds	**60**	**82**	**83**	**81**	**79**	**81**	**85**	**87**	**90**	**91**	**91**	**92**
Loans	**40**	**18**	**17**	**19**	**21**	**19**	**15**	**13**	**10**	**9**	**9**	**8**
By Jurisdiction Issued												
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**

(*) Preliminary
(1) Foreign currency exposure is defined on contractual basis and does not reflect adjustment for swap operations.
(2) Includes local currency securities issued at fixed real rate

Figure 2. Breakdown of Central Government Debt
(As of end-September 2016)



Source: Debt Management Unit

Table 3. Central Government Debt Indicators

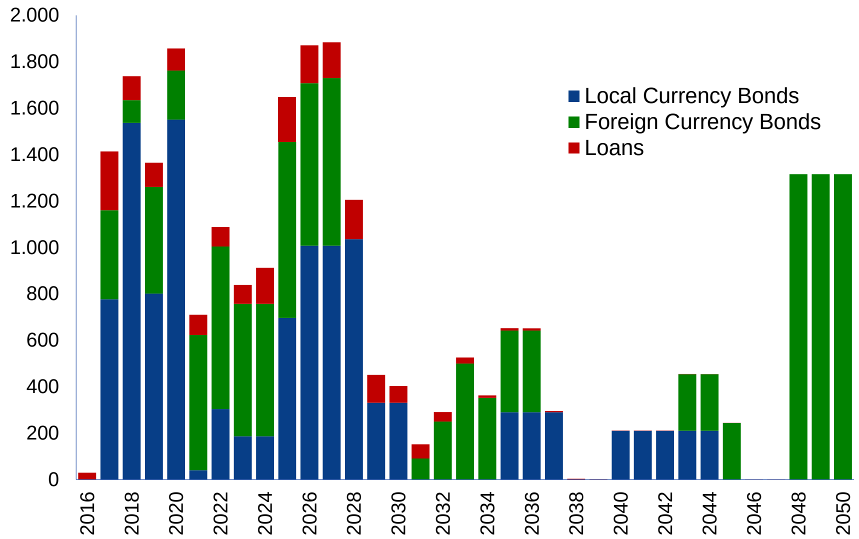
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016Q3(*)
Roll-Over and Liquidity Risk												
Average Time to Maturity (in years)	**7,9**	**12,1**	**13,6**	**13,0**	**12,7**	**12,3**	**12,3**	**11,7**	**10,8**	**14,4**	**14,4**	**14,5**
Share of debt due in one year	**16,0**	**4,8**	**2,9**	**2,3**	**3,6**	**5,5**	**2,6**	**2,8**	**3,3**	**4,1**	**2,6**	**5,0**
Liquid Assets /Amortization due in one year	**0,3**	**0,4**	**0,7**	**1,6**	**1,4**	**0,7**	**4,0**	**3,7**	**2,7**	**1,9**	**4,8**	**2,3**
Interest Rate Risk												
Duration (in years)	**8,0**	**8,9**	**10,5**	**9,9**	**10,3**	**10,4**	**10,2**	**9,8**	**8,8**	**11,3**	**10,6**	**10,8**
Share of debt that refixes in one year	**33,7**	**21,9**	**18,1**	**20,0**	**10,6**	**15,1**	**6,6**	**6,6**	**8,3**	**7,3**	**6,3**	**7,1**
Average Interest Rate (1)												
Dollars	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,3	5,1	5,2
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9	5,9	5,2
Yens	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9	1,9	1,9
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,4
CPI-Indexed (UI)	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	3,9	4,0	4,1
Nominal Wage-Indexed (UR)										2,3	2,3	2,3

(*) Preliminary
(1) Weighted average rate

Figure 3. Central Government Redemption Profile, by Instrument

(All values as of end-September 2016, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2015	**2016**(*)	**2017**(*)
USES	**3.519**	**2.512**	**2.978**
Interests Payments	1.271	1.413	1.509
Amortizations	1.640	626	1.378
Loans	115	115	253
Bonds	1.525	512	1.125
o/w Prepayments	605	0	0
Primary Deficit	265	423	41
Others	344	49	49
SOURCES	**3.519**	**2.512**	**2.978**
Multilaterals Disbursements	136	108	550
Market Bond Issuance	4.157	1.750	2.050
Others	227	141	153
Use of Assets (**)	-1.001	514	225

(*) Preliminary
(**) Positive indicates a reduction in Central Government reserves.
Source: Ministry of Economy and Finance.

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