

Uruguay Sovereign Debt Report



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

April 2017

Highlights

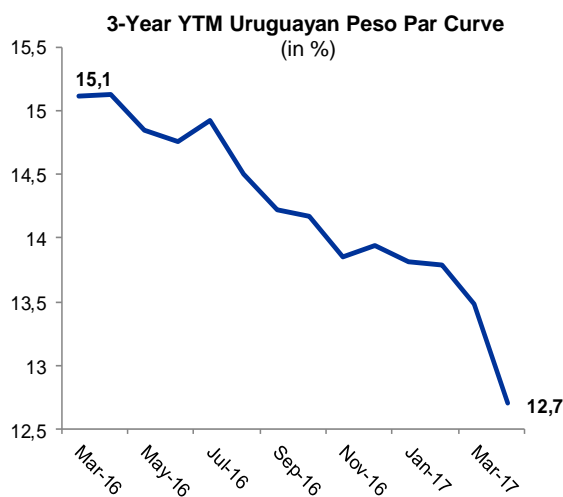
- Sovereign financing costs in local currency have fallen steadily, as inflation recedes and falls back within the Central Bank target range the first time in six years.
- Government eyeing issuance of new benchmark-sized local currency, nominal fixed-rated bond to develop bond markets in Uruguayan pesos; fostering diversification of global investor base a priority
- Conversion of foreign currency-denominated multilateral loans into Uruguayan Pesos
- Swap of part of outstanding dollar-denominated 2027 global bond, into Euros
- Fitch affirmed Uruguay's Investment Grade rating with stable outlook
- Uruguay's Debt Management Unit (DMU) signs technical cooperation agreement with Paraguay's Public Debt Office

Sovereign financing costs in local currency Treasury Notes have fallen steadily, in a context of receding inflationary expectations

Inflation in March 2017 was 6.7%, down from 10.6% a year ago, print that set inflation back within the Central Bank's target band for the first time in six years.

In this context, interest rate of the nominal fixed rate Peso Treasury Notes with residual maturity of around 3.5 year—which the Government resumed its issuance last December—has fallen by more than 250bps in the last four months, to 13%. Likewise, the real return of the CPI-linked Treasury Notes due 2021 stood at 4.74% in the last auction, a 54 bps compression since the beginning of the year.

For more information regarding Treasury Notes auctions refer to [DMU's website](#).



Source: [BEVSA](#)

Government eyeing issuance of new benchmark local currency, nominal fixed-rated bond to increase market depth and extend duration in Peso yield curve: aiming to bolster and diversify foreign investor participation

The government's strategic goal is to increase the share of public sector borrowing denominated in local currency, enhancing market depth and liquidity in local-currency bond markets. For that purposes, its evaluating issuing a new benchmark local currency bond in fixed nominal rates.

The Public Debt Coordination Committee (PDCC) met on March 29th to assess strategies to bolster and diversify foreign investor participation in local currency bond markets¹. In that sense, the Central Bank's Central Securities Depository is in advanced negotiations with one of the international clearing houses to set up a cross-border platform for the trading, settlement and custody of domestically-issued sovereign bonds and other local securities—increasing local-market connectivity with foreign investors.

¹The 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. Access the [Press Release](#). Next meeting will take place in June 2017.

Dollar-denominated multilateral loans converted into Uruguayan Pesos

The Debt Management Unit converted during the first four months of the current year around USD 184mn of its long-term dollar-denominated loans with the IDB (paying 1.14% in dollars), into fixed-rate Uruguayan Pesos (paying an average fixed-rate of 13.3%)². Such transactions constitute a new milestone in the USD – UYU swap market considering its size, tenor (average life 8.5 years) and amortization structure.

As part of its strategy to increase the share of public sector debt denominated in local currency, the DMU will continue to look for favorable market opportunities to convert other foreign currency loans from multilateral institutions into fixed-rate and CPI-indexed local currency.

Part of outstanding dollar-denominated 2027 global bond swapped into Euros

In February 2017, the DMU conducted a syndicated cross-currency swap transaction, by swapping USD 500mn of its dollar-denominated 2027 global bond outstanding into Euros. After this transaction, the Republic will pay a fixed rate of approximately 2.16% in Euros and, in exchange, will receive the fixed dollar coupon of 4.375%.

The DMU plans to continue its strategy to diversify hard-currency risk in the debt portfolio, taking advantage of the divergence of monetary policies in advanced economies.

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

On April 7th, 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, a strong external balance sheet, and fiscal financing buffers. These factors are balanced by a structural deterioration in public finances, a relatively high and dollarized public debt burden, and budget rigidity. In Fitch's view, the main factors that could lead to a positive rating action are a fiscal consolidation consistent with a declining public debt trajectory, and a track record of lower inflation and improved anchoring of inflation expectations. Access to [Fitch Full Rating Report](#).

Public Debt Office of Paraguay will receive technical assistance from Uruguay's DMU

The Ministry of Finance of Uruguay will provide technical assistance to the Ministry of Economy and Finance of Paraguay to strengthen its public debt management, following an agreement signed in April between the Paraguayan Minister Mr. Santiago Peña and Uruguayan Minister Mr. Danilo Astori. The cooperation agreement, which was signed during the Annual Meeting of the Inter-American Development Bank (IDB) in Asunción, includes support for technical training, sharing experience and knowledge transfer, further deepening the relationship between both countries. Access the [Press Release](#).

² Neither rates includes the same loan margin on ordinary capital of the IADB.

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 agents¹. 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

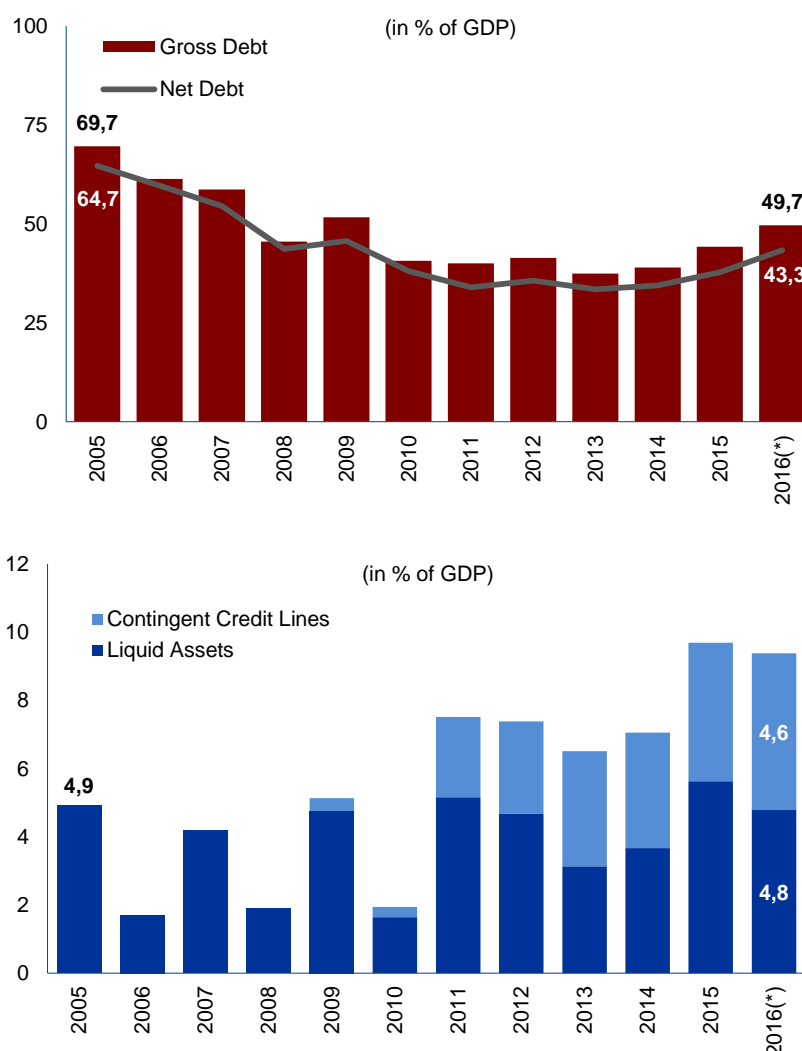
(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017*
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	26.098	26.275
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.320	3.368
<i>Liquid Assets</i>	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	1.737
Net Debt	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	22.778	22.906
Contingent Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	2.417
<i>Memo Item: Nominal GDP (in USD)</i>	17.403	19.630	23.468	30.387	31.703	40.263	47.997	51.229	57.483	57.276	53.293	52.556	(**)

(*) Preliminary

(**) To be released by the Central Bank in June 2017.

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.

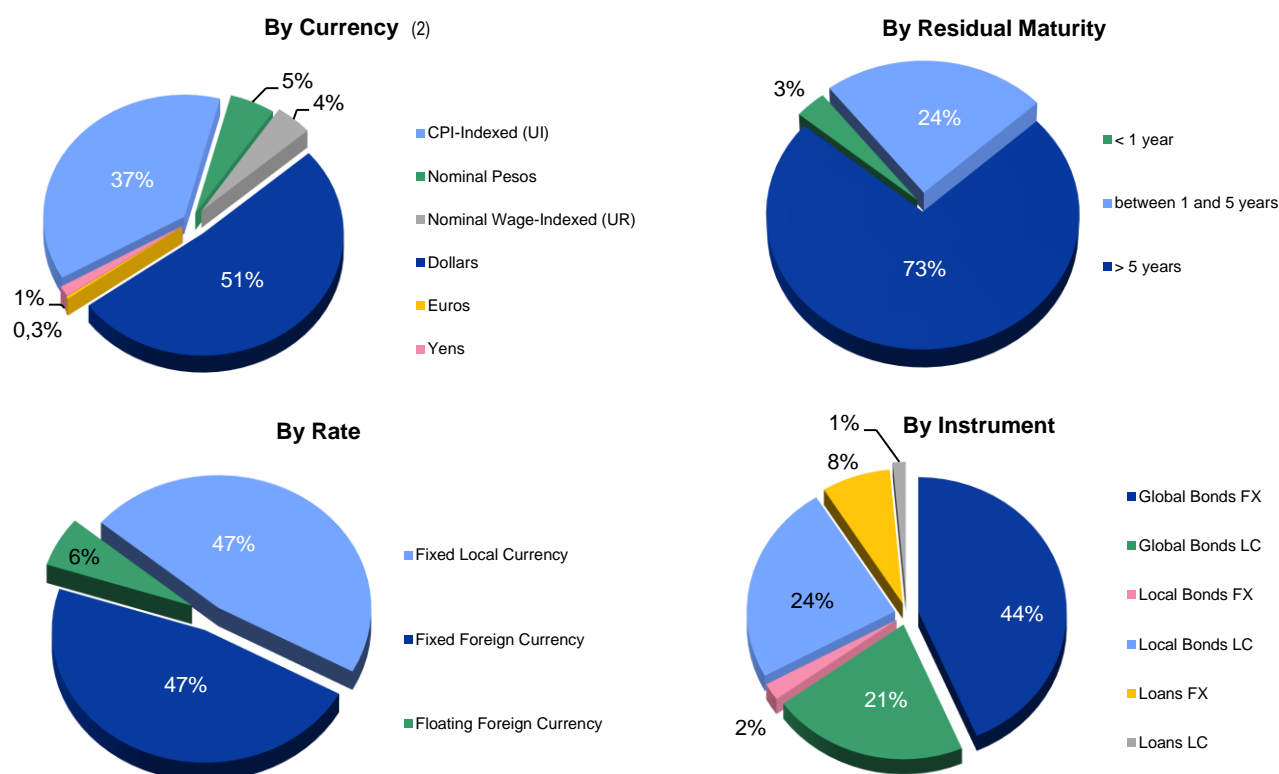
Table 2. Composition of Central Government Debt
(in % of total, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	1.2017(*)
<i>By Currency</i>													
Foreign Currency (FX)	88	85	74	72	69	66	51	45	46	48	55	55	53
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	51
Other	21	8	9	8	7	7	6	5	4	3	3	3	2
Local Currency (LC)	12	15	26	28	31	34	50	55	54	52	45	45	47
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	5
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	37
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	4	4
<i>By Residual Maturity</i>													
Short-Term (less than one year)	16	5	3	2	4	6	3	3	3	4	3	5	3
Medium and Long Term	84	95	97	98	96	94	97	97	97	96	97	95	97
<i>By Rate</i>													
Fixed (1)	78	82	83	81	91	88	94	95	95	94	94	94	94
Floating	22	18	17	19	9	12	6	5	5	6	6	6	6
<i>By Instrument</i>													
Bonds	60	82	83	81	79	81	85	87	90	91	91	91	91
Loans	40	18	17	19	21	19	15	13	10	9	9	9	9
<i>By Jurisdiction Issued</i>													
Local Market	22	23	21	16	16	18	25	30	29	29	26	26	26
Foreign Market	78	77	79	84	84	82	75	70	71	71	74	74	74

(*) Preliminary

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

Figure 2. Breakdown of Central Government Debt
(As of end-March 2017)



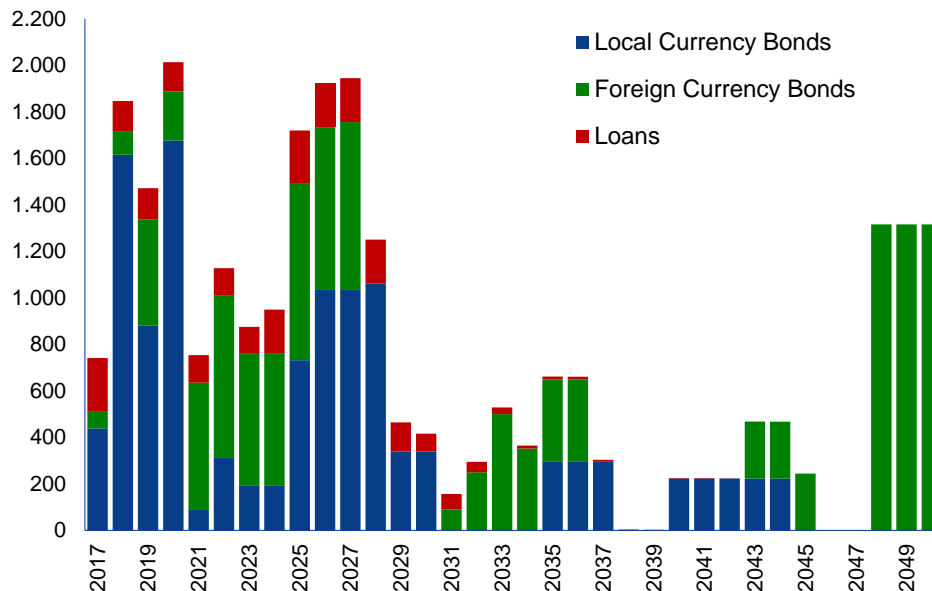
(2) Foreign currency composition is defined on contractual basis and does not reflect adjustment for FX hard-currency swap operations.

Table 3. Central Government Debt Indicators
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)
<i>Roll-Over and Liquidity Risk</i>													
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	13,8	14,0
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	5,1	3,3
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	1,9	2,0
<i>Interest Rate Risk</i>													
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	10,3	10,4
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	8,2	7,0
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	5,1	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	5,3	5,3
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	1,6
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,5	13,8
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	4,1
Nominal Wage-Indexed (UR)										2,3	2,3	2,3	2,3

(*) Preliminary
(1) Weighted average rate

Figure 3. Central Government Redemption Profile, by Instrument
(All values as of end-March 2017, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds
(in USD Million)

	2016(*)	2017(*)
USES	2.872	3.112
Interests Payments	1.414	1.539
Amortizations	626	1.386
Primary Deficit	561	120
Others	272	67
SOURCES	2.872	3.112
Multilaterals Disbursements	373	550
Total Bond Issuance	1.717	2.050
Others	141	182
Use of Assets (**)	642	330

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

DEBT MANAGEMENT UNIT

Herman Kamil, Director

Gabriela Billeci

Victoria Buscio

Antonio Juambeltz

Rodrigo Saráchaga

CONTACT INFORMATION

☎ +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy