Uruguay
Sovereign Debt Report

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

July 2017

Highlights

- **The Republic issued its first-ever nominal fixed-rate global bond in local currency, maturing in 2022. JP Morgan announced its inclusion in the GBI-EM benchmark, effective July 31st, 2017.**
- **The government announced its new issuance calendar in the domestic market for July-December 2017.**
- **Moody's and S&P both improved Uruguay`s credit outlook to Stable from Negative, affirming its credit rating one notch above investment grade.**

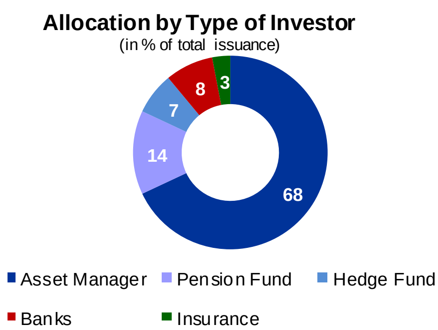
The Republic issued its first-ever nominal fixed-rate global offering in local currency

On June 12th, the Republic issued UYU35.3bn (approximately **USD 1.25bn**) in a five-year global nominal peso bond, Uruguay's first-ever nominal fixed-rate global offering in local currency. The transaction was preceded by a six-day marketing exercise with a series of investor meetings and calls across Europe, U.S. and Latin America. The Uruguayan delegation was composed of representatives from the Ministry of Finance and the Central Bank, which worked in close coordination throughout the whole process.

Concurrently with the new issue, Uruguay launched an intra-day liability management operation composed of two pillars: (i) a tender offer targeting its global CPI-linked bond due 2018, where holders were given the opportunity to either "switch" into the new issue (preferred tenders) or sell them for cash, and (ii) a local exchange targeting Treasury Notes due 2017-2019.

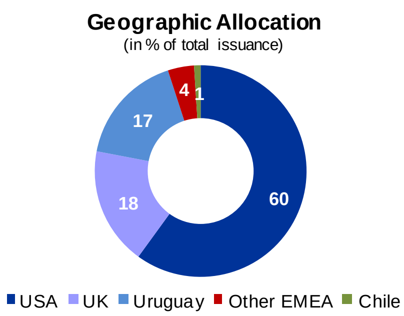
Based on supportive investor feedback received during the roadshow, the transaction was announced with initial price thoughts (IPTs) of "low-to-mid 10%". The strength of demand allowed Uruguay to price the 9.875% coupon bond at a yield of 10.0%, a 25-to-50 bps execution tightening from IPTs (and 90 bps inside the Republic's nominal peso curve at the 5-year tenor). The final order-book was 4.5x oversubscribed (with new cash orders peaking at the equivalent **USD 5.2bn**).Of the total bond issuance, USD1.0bn was new cash and the remainder was used to finance preferred tenders and the local exchange. On the local tranche, and given the strong demand to exchange into the new global issuance, the Republic only accepted the nominal peso Treasury Notes maturing 2018 (13.25% coupon).

The order-book was comprised of high-quality US and European institutional investors, representing a strong and diversified foundation for extending duration and increasing liquidity in the Uruguayan local currency fixed rate curve.



The timing of the issuance benefited from renewed international investors' interest in emerging markets assets in local currency and low volatility environment, as well as rapidly falling domestic inflation and Uruguay's improved outlook from credit rating agencies. The government harnessed these favorable conditions through a comprehensive investor communication strategy.

Through this financing exercise, Uruguay accomplished several goals it had set forth: (i) significantly lowered its local-currency cost of financing; (ii) reduced debt dollarization (the share of debt denominated in local currency increased to 49%, from 47% as of 2017Q1); (iii) extended its local debt profile duration and (iv) diversified its investor base across regions and portfolio managers 'investment strategies. The government was also able to establish a new liquid benchmark to underpin the development of the fixed-rate local currency curve, contributing to better price discovery and providing a reference rate for other market participants in nominal local currency markets at intermediate maturities.

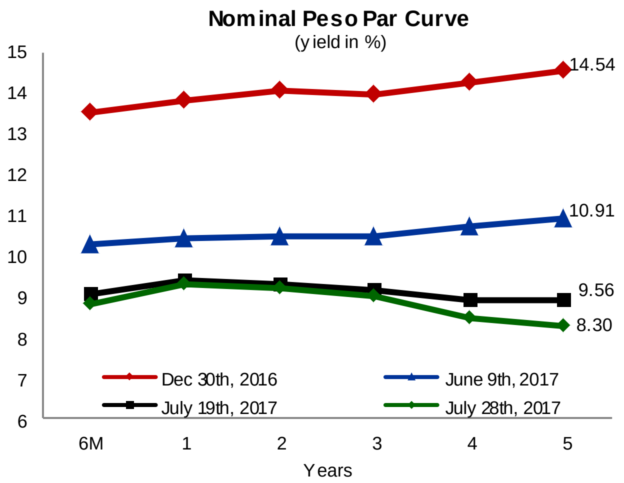


Uruguay nominal fixed-rate global bond will be included in JP Morgan GBI-EM benchmark series on July 31st.

On July 20th, JPMorgan announced that would include Uruguay's global peso bond due in 2022 in the GBI-EM Global Diversified index effective July 31st, with and initial weight of 0.15%. This is the first time that a Uruguayan bond will be included in this benchmark index. The GBI-EM is comprised of 18 countries, including Argentina, Brazil, Chile, Colombia, Mexico and Peru from Latin America, and is tracked by investment funds managing around USD220bn in assets.

Overall, yields in fixed-rate local currency bonds have fallen steadily since the end of 2016. From December 30th, 2016 through June 9th 2017 (immediately before of the global peso issuance), rates in the long end of the secondary market yield curve fell from 14.5% to 10.9%.

In the aftermath of the 5yr global peso issuance, local-currency rates compressed across the whole curve, with 5-year returns tightening up to 9.6% the day before JP Morgan's announcement (July 19th, 2017). The day after the news, the Global 2022's price rallied, and its yield fell further approximately 100bps. By end-July 2017, the 5-year secondary-market rate has reached 8.3%, with a significantly inverted yield curve.



New domestic market issuance calendar for July-December 2017

On June 30th, the Central Government announced its issuance calendar in the domestic market for the period July-December 2017, in line with the financial strategy presented in the Budget Law. The new calendar intends to continue providing predictability to the market, contributing to its transparency and promoting an efficient price discovery. In this regard, the Government intends to continue consolidating benchmarks bonds by re-opening CPI-linked Treasury Notes for a total equivalent of around USD 405 million[1]. The schedule is as follows:

Auction Date	Instrument(*)	ISIN	Maturity	Type of Issue	Auction Amount (in million UI)
07-19-2017	Series 24 (UI)	UYNA00024UI4	12-29-2021	Reopening	375(*)
08-08-2017	Series 23 (UI)	UYNA00023UI6	06-17-2019	Reopening	250
08-22-2017	Series 21 (UI)	UYNA00021UI0	11-26-2025	Reopening	775
09-19-2017	Series 24 (UI)	UYNA00024UI4	12-29-2021	Reopening	375
10-10-2017	Series 23 (UI)	UYNA00023UI6	06-17-2019	Reopening	250
10-24-2017	Series 21 (UI)	UYNA00021UI0	11-26-2025	Reopening	250
11-21-2017	Series 24 (UI)	UYNA00024UI4	12-29-2021	Reopening	375
12-05-2017	Series 23 (UI)	UYNA00023UI6	06-17-2019	Reopening	250
12-19-2017	Series 21 (UI)	UYNA00021UI0	11-26-2025	Reopening	250

(*) As of July 31st, the outstanding volume for series 24 is 1.202.150.000 UI (around USD 154 mm); 1.583.440.000 UI (around USD 202mm) for Series 23 and 1.860.270.000 UI (around USD 238 mm) for series 21.

Treasury Notes can be settled in Uruguayan Pesos or US Dollars. For more information, please access the Press Release or visit the DMU's website.

In the first auction in mid-July 2017, the government issued CPI-linked Treasury Notes due 2021 for UI 375 million (approximately USD 48 million), with total demand reaching approximately USD 100 million. This Treasury Note series will be auctioned again next September and November. Likewise, the government will reopen every two months the CPI-linked Treasury Notes benchmarks in the middle and shorter section of the curve (Series 21 and 23). For both Series the auction volume will be UI 250 million (around USD 32 million). Is important to note that on August 22th, the Series 21 will be auctioned for an exceptional amount of UI 775 million (around USD 100 million), considering the fact that Treasury Notes Series 18 will be amortized the day before.

1 Government is legally authorized to allocate up to an additional 100% of the original tendered amount on each auction

Dollar-denominated multilateral loans converted into nominal fixed-rate Uruguayan Pesos

As part of its strategy to increase the share of debt denominated in local currency, the Republic swapped during July dollar-denominated loans with the IADB (paying 1.14% in dollars) into Uruguayan Pesos (paying a nominal fixed-rate of 8.99%)[2]. During 2017, the Debt Management Unit (DMU) has already converted into fixed-rate Uruguayan Pesos around USD 200mn of its long-term dollar-denominated loans with the IADB. 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.

S&P and Moody's both upgraded Uruguay's outlook to Stable from Negative, and affirmed Uruguay's credit rating one notch above investment grade. DBRS affirmed Uruguay´s rating with a Stable outlook

On July 13th Moody's raised the outlook to **stable** from negative and affirmed Uruguay's **Baa2** issuer and government bond ratings. Two key drivers underpin the change in outlook to stable from negative, according to Moody's: a) the government's strong commitment to fiscal consolidation as demonstrated in policy measures that are likely to stabilize government debt metrics; and b) an improving macroeconomic performance that will support the ongoing fiscal consolidation process. Likewise, Moody's rating incorporates credit challenges which include, among others: structural rigidities in the government's expenditure composition, a relatively high share of foreign currency-denominated government debt, and a more moderate growth outlook compared to the 2004-13 period. Access to Moody's Credit Research and the Annual Credit Analysis.

On May 30th, S&P revised its outlook on the Republic to **stable** from negative and affirmed its **BBB** long-term foreign and local currency sovereign credit ratings. According to S&P, the stable outlook reflects its expectation of a gradual strengthening of the Uruguayan economy, which will support the country's income levels, revenue base, fiscal and monetary policy flexibility, and capacity to absorb debt. S&P stated that the government has also shown commitment to achieving its fiscal deficit target by 2019, which will reduce the general government deficit and contain changes in government debt. S&P believes that these developments have lessened the likelihood of a deterioration in Uruguay's creditworthiness over the next two years according. Access to S&P Research Update.

On May 26th, DBRS confirmed Uruguay's long-term foreign and local currency issuer ratings at **BBB (low)** with **stable** trend. The confirmation of the ratings reflects DBRS's view that Uruguay has weathered well the recessions in Brazil and Argentina. According to DBRS, Uruguay's credit profile would benefit from greater fiscal space and counter-cyclical capacity. Access to DBRS's Rating Report.

Public Debt Coordination Committee Meeting

The Public Debt Coordination Committee (PDCC) held a new quarterly meeting on June 30th. The topics covered included: (i) evaluation of the global issuance in nominal pesos, (ii) recent developments on local currency interest rates and its positive fiscal impact, (iii) government domestic market issuance calendar for 2017H2. The next meeting will take place in October 2017. Access to the PDCC Press Release (in Spanish).

Holders of Treasury Notes due on 08/23/2017 will have the option to receive final payment of interest and principal in either Pesos or US Dollars

The Government has granted the option to receive the final payment of interest and principal of Treasury Notes coming due on 08/23/2017 in either Pesos or US Dollars. Bondholders who have a preference to receive their final payment in US Dollars shall proceed as indicated in the Communication released by the Central Bank of Uruguay (which acts as financial agent of the Republic).

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[2] Neither rate includes the 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 agents[3]. 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

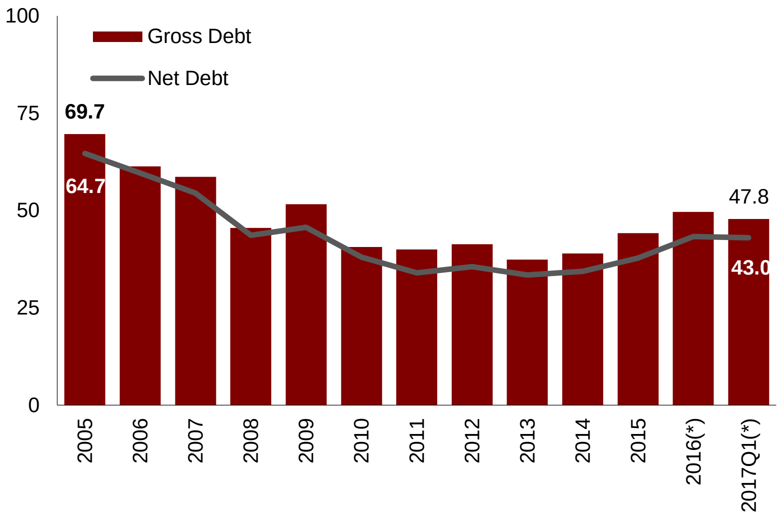
(in USD million, end-period)

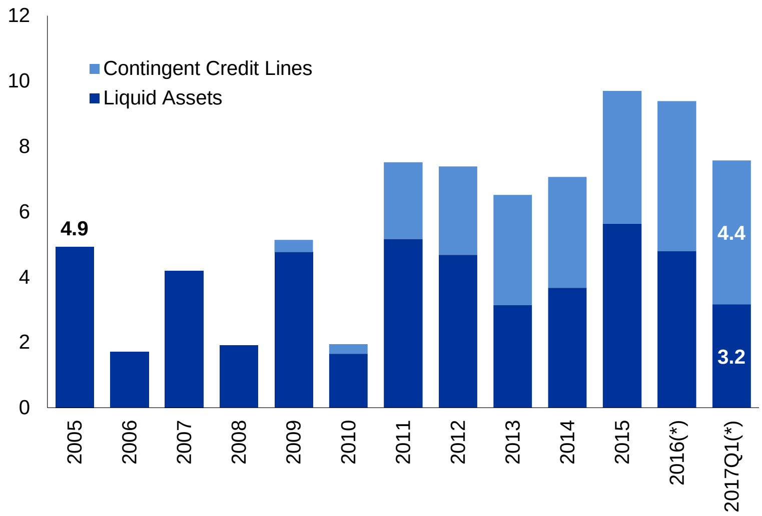
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017Q2(*)
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	26.098	27.242
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.321	2.999
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	2.415
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	24.243
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	53.293	52.556	(**)

(*) Preliminary
(**) To be released by the Central Bank in September 2017
Source: Debt Management Unit

Figure 1. Central Government Debt and Liquidity Buffers

(in % of GDP)





Source: Debt Management Unit

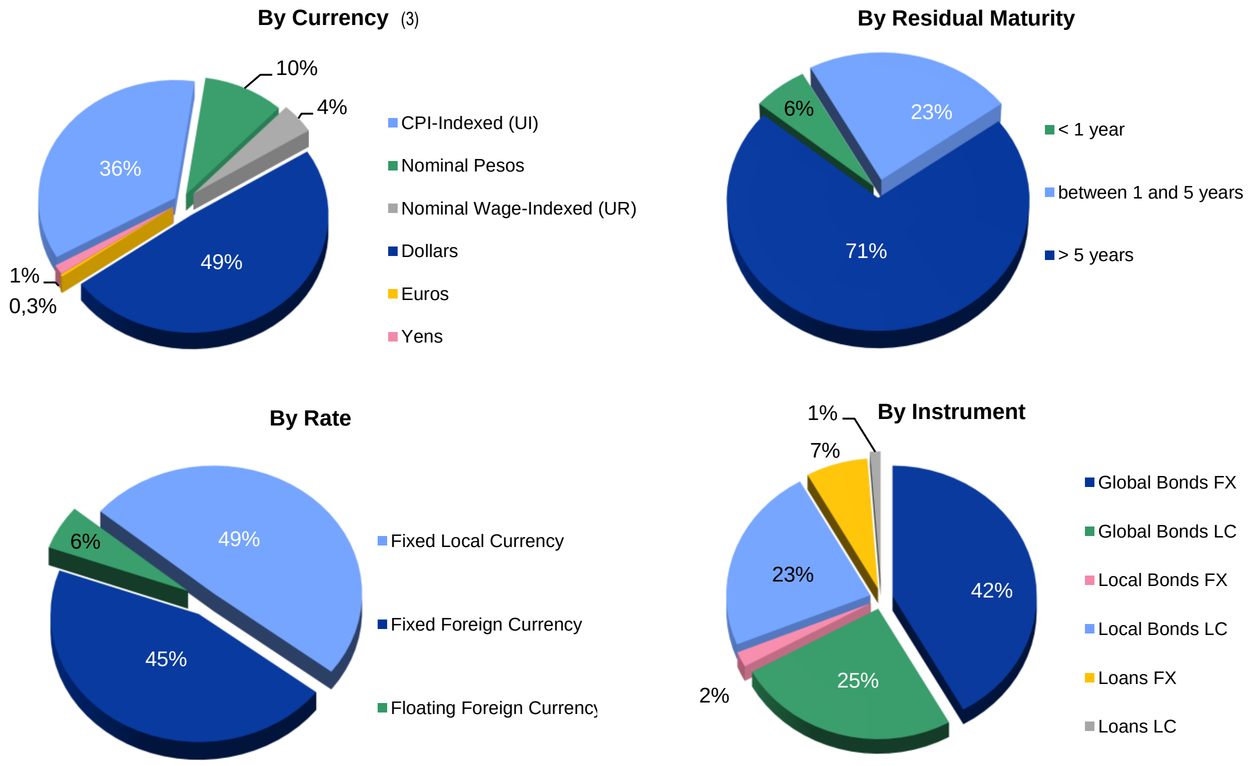
[3] The Central Bank of Uruguay compiles debt statistics for the consolidated Public Sector. This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the 2015 IMF Article 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(*)	2017Q2(*)
By Currency													
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**55**	**51**
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	49
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**	**49**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	10
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	36
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	4	4
By Residual Maturity													
Short-Term (less than one year)	**16**	**5**	**3**	**2**	**4**	**6**	**3**	**3**	**3**	**4**	**3**	**5**	**5**
Medium and Long Term	**84**	**95**	**97**	**98**	**96**	**94**	**97**	**97**	**97**	**96**	**97**	**95**	**95**
By Rate													
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**
By Instrument													
Bonds	**60**	**82**	**83**	**81**	**79**	**81**	**85**	**87**	**90**	**91**	**91**	**91**	**92**
Loans	**40**	**18**	**17**	**19**	**21**	**19**	**15**	**13**	**10**	**9**	**9**	**9**	**8**
By Residency of Holders (2)													
Resident	**43**	**36**	**34**	**38**	**44**	**43**	**48**	**46**	**39**	**37**	**38**	**47**	**54**
Non-Resident	**57**	**64**	**66**	**62**	**56**	**57**	**52**	**54**	**61**	**63**	**62**	**53**	**46**
By Jurisdiction Issued													
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**	**25**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**	**75**

(*) Preliminary
(1) Includes local currency securities issued at fixed real rate
(2) Information reflects latest data available (2017Q1)
Source: Debt Management Unit

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



Source: Debt Management Unit

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

Table 3. Central Government Debt Indicators

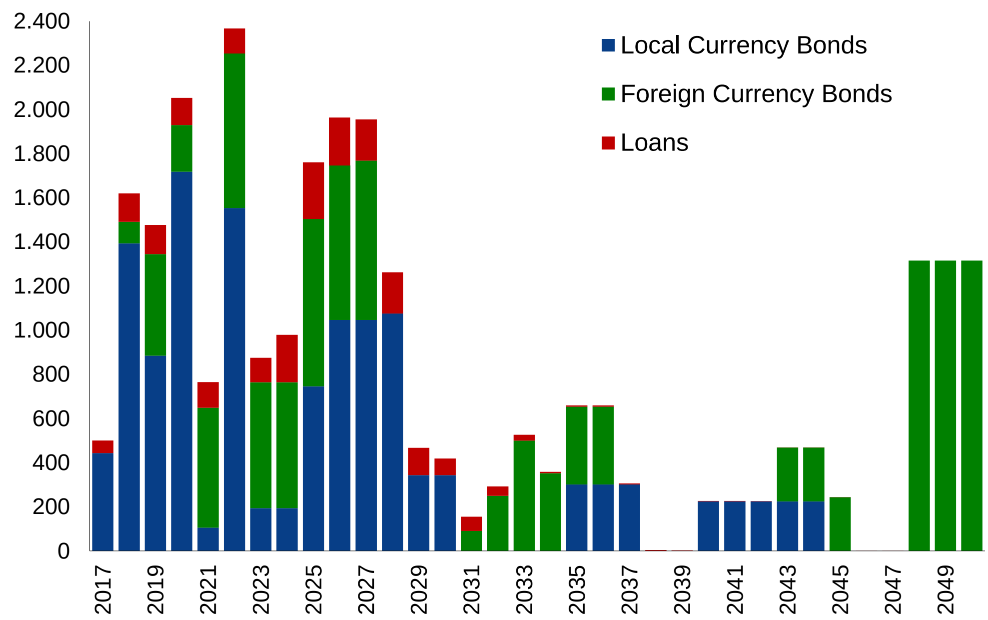
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017Q2(*)
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**	**13,8**	**13,8**
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**	**5,5**
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**	**1,5**
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**	**10,3**	**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**	**5,8**
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	11,9
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	4,0
Nominal Wage-Indexed (UR)										2,3	2,3	2,3	2,3

(*) Preliminary
(1) Weighted average
Source: Debt Management Unit

Figure 3. Central Government Redemption Profile, by Instrument

(All values as of end-June 2017, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2017(*)	**2018**(*)
USES	**3.234**	**3.364**
Interests Payments	1.521	1.689
Amortizations	1.625	1.717
Primary Deficit (**)	22	-140
Others	67	98
SOURCES	**3.234**	**3.364**
Multilaterals Disbursements	350	300
Total Bond Issuance	2.250	2.750
Others	182	102
Use of Assets (***)	452	212

(*) Preliminary
(**) Positive value indicates a primary surplus of the Central Government
(***) Positive value indicates a reduction in Central Government`s assets
Source: Ministry of Economy and Finance.

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