



## Public Debt Coordination Committee Press Release

The Public Debt Coordination Committee (PDCC), headed by the Manager of Economic Policy and Markets of the Central Bank of Uruguay and the Director of the Debt Management Unit at the Ministry of Economy and Finance, met on September 27<sup>th</sup>.

During the meeting the following agenda was addressed:

- **Assessment of recent global bond issuances in nominal pesos.** The Committee valued positively the sequence of landmark global issuances in nominal fixed-rate pesos at 5 and 10-year maturities conducted in June and September, respectively. Both issuances improved the currency and maturity structure of the central government public debt and reduced funding costs. Moreover, it will help establish indicative rates for banks' medium-term local currency lending, contributing to de-dollarize the economy. It also underpins the development of capital markets, by extending the time structure of reference interest rates for private projects. Likewise, the extension in the duration of the sovereign yield curve at nominal rates, arbitrated against existing CPI-linked instruments of similar maturities, provide new market information on break-even inflation expectations over the medium term.
- **Evolution of Interest rates of sovereign bonds in local currency.** The Committee analyzed the broad decline in interest rates in local currency (both in nominal and real terms) of instruments issued by the Central Bank and the Ministry of Economy and Finance, which happened since the last meeting. This trend is explained largely by the steep fall in headline inflation and inflation expectations, the stability of the nominal exchange rate and the recovery of the Uruguayan economy— together with the sustained interest of foreign investors in emerging markets' assets denominated in local currency. This process also benefited from the fast inclusion of both global peso-denominated bonds in the

JP Morgan GBI-EM index, which brought further diversification of the international investor base and increased demand for peso-denominated securities.

- **The Committee analyzed the progress made towards fully linking financial markets in Uruguay to the global securities clearing and settlement systems.** When implemented, the Central Bank would act as a sub-custodian of the international securities depositories most often used by foreign investors. This new financial infrastructure will provide clearing and custody services for cross-border transactions of public and private securities issued under Uruguayan jurisdiction.
- **Financial risk management and financing of state-owned enterprises (SOE's).** The Central Bank, the Ministry of Economy and Finance and the SOE's held several coordination meetings to assess market instruments available to hedge foreign exchange exposure of their balance sheets. In this regard, it stands out the agreement reached between the state-owned oil company (ANCAP) and the Central Bank for U.S dollars futures exchanges. Given that ANCAP is a net oil importer of oil, while the Central Bank has a long dollar position due to its sizeable reserve assets, this transaction will mitigate the impact of foreign exchange fluctuations on the results of both institutions. It should be noted that the terms and conditions of this transaction will be agreed at prevailing market prices.

The Committee also discussed mechanisms to encourage the participation of SOE's and other market agents in formal FX derivatives markets, with the aim of generating greater efficiency among them. In the near future, the Central Bank is expected to collect comprehensive information on volumes and prices of OTC transactions, with the intention to channel this type of operations increasingly through formal electronic markets.

On the other hand, the Committee valued positively the results obtained by state-owned water company (OSE) in its first-ever issuance of CPI-linked debt securities, obtaining a yield comparable to that of the sovereign. Financing in the capital market gives the company more flexibility to manage its liabilities and flow of funds, optimizing its financing costs and further improving its credit profile.

- **Development of market instruments that allow insurance companies in the annuities business to better manage their financial risks.** The Committee discussed the status of the draft law submitted to Congress regarding the creation of a new unit of account (to be called Pension Unit), which will track the evolution of nominal wages and will have daily value. The Ministry of Economy and Finance seeks to promote the development of financial instruments that allow public and private insurance companies, among others, to better match the currency-denomination of its assets and obligations, i.e., pension payments (which are indexed to wages). In developing this new market, the government will balance its overall debt strategy goals, with the importance of developing the annuities market and the need to maintain an efficient financial market in national currency.

The next meeting of the Committee will take place in December 2017.