Uruguay
Sovereign Debt Report

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

October 2017

Highlights

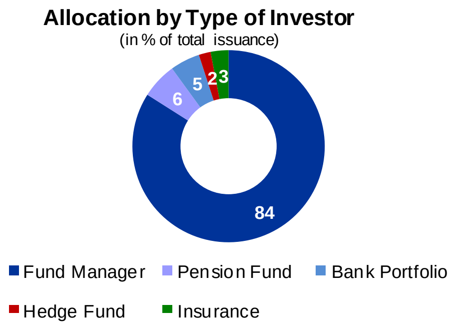
- **In September, the Republic issued a 10-year nominal fixed-rate local currency bond in international markets yielding 8.675%— its second landmark global issuance in pesos during 2017. Both bonds are now included in the JP Morgan GBI-EM benchmark.**
- **The government is on course to complete all of its domestic and international funding in capital markets solely in local currency for 2017.**
- **Fitch affirmed Uruguay`s credit rating at BBB- with stable outlook.**

The Republic returns to the international market with the issuance of a new Global UYU long 10-year benchmark

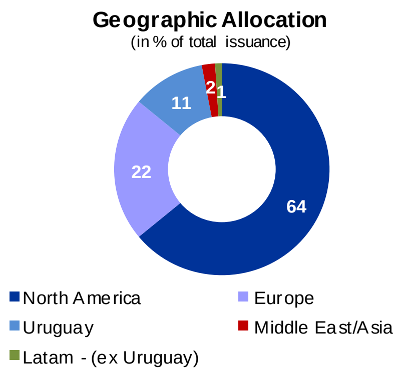
On September 6-7th, 2017, and following strong performance of its global Nominal Peso 5-year bond issued in June, Uruguay took advantage of a supportive market backdrop to further develop its Nominal Peso yield curve by issuing a long 10-year global bond for UYU 31.6bn (USD 1.1bn equivalent). Concurrently, the government launched a cash tender offer of existing Global bonds in USD (2022s/2024s) and CPI-linked (2018s/2027s).

Based on an order book which was 4.0x oversubscribed, Uruguay managed to tighten pricing by about 50bps from IPTs. The new 10-year issue priced at a yield of 8.625% (representing both the longest-ever maturity and lowest-ever rate for a nominal peso issuance). It also priced approximately 5.50% above real rates of comparable maturity, representing a tight inflation premium relative to that paid on the June debut transaction of the Global UYU2022. Out of the total USD1.1bn issuance, USD900m were allocated to new cash buyers, while the rest to switchers to the new bond (both USD-denominated and CPI-linked bonds).

The orderbook 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 nominal local currency curve. Less than two weeks after the transaction, JPMorgan announced it would include this new bond in the GBI-EM Global Diversified, effective since September 29th.



The sequence of landmark global issuances during 2017 in nominal fixed-rate pesos at 5 and 10-year maturities, coupled with liability management operations, has further increased the share of central government debt denominated in local currency (reaching 51% by end-2017Q3). In addition, local currency yield curves in both nominal and real rates compressed significantly, particularly at longer tenors, reducing borrowing costs.



The Republic has also been able to diversify its investor base across both issuances, attracting 178 unique foreign investor accounts looking to extend exposure to the country's credit and currency. The quick inclusion of both Uruguay's global peso bonds in the GBI-EM Global Diversified (with total weight of 28bps) has help buttress liquidity and provide more visibility to the credit, in particular through more trading in the secondary market.

Extending the nominal yield curve also underpins the development of capital markets, by extending the time structure of reference interest rates for the private sector. Likewise, the extension in the duration of the sovereign yield curve at nominal rates, arbitraged against existing CPI-linked instruments of similar maturities, provide new market information on break-even inflation expectations over the medium term.

While the Debt Management unit has focused during 2017 into developing a local currency nominal curve, the Republic intends, subject to market conditions, to return to the global dollar market next year.

Update of domestic market issuance calendar

On June 30th, the Central Government announced its issuance calendar in the domestic market for the period July-December 2017. Since then, it has issued around USD 385mn equivalent by re-opening CPI-linked Treasury Notes. Find below the results of the auctions so far (highlighted in grey), and the remaining schedule:

Auction Date	Instrument(*)	ISIN	Maturity	Type of Issue	Auction Amount (in million UI)	Amount Issued (in million UI)
07-19-2017	Series 24 (UI)	UYNA00024UI4	12-29-2021	Reopening	375	375
08-08-2017	Series 23 (UI)	UYNA00023UI6	06-17-2019	Reopening	250	432
08-22-2017	Series 21 (UI)	UYNA00021UI0	11-26-2025	Reopening	775	979
09-19-2017	Series 24 (UI)	UYNA00024UI4	12-29-2021	Reopening	375	519
10-10-2017	Series 23 (UI)	UYNA00023UI6	06-17-2019	Reopening	250	440
10-24-2017	Series 21 (UI)	UYNA00021UI0	11-26-2025	Reopening	250	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 October 31st, the outstanding volume for series 24 is 1.721.030.000 UI (around USD 218 mm); 2.456.2000.000 UI (around USD 312mm) for Series 23 and 3.090.010.000 UI (around USD 392 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.

A new issuance calendar for the period January–June 2018 will be published in the second half of December.

Fitch affirmed Uruguay´s rating at BBB- with a Stable outlook

On September 21st, Fitch Ratings affirmed Uruguay's Long-Term Foreign and Local Currency Issuer Default Rating (IDRs) at 'BBB-' with a Stable Outlook. According to Fitch, Uruguay's rating 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 weak track record of compliance with inflation and fiscal targets (weighing on policy credibility), relatively elevated and dollarized public debt, and high budget rigidity. Fitch stated that fiscal consolidation consistent with stabilization of the public debt trajectory, and a sustained reduction in inflation and better anchoring of inflation expectations, could lead to a positive rating action. Access to Fitch Press Release.

Public Debt Coordination Committee Meeting

The Public Debt Coordination Committee (PDCC) held its quarterly meeting on September 27th. The PDCC addressed the following topics: (i) assessment of recent global sovereign bond issuances in nominal pesos; (ii) the evolution of interest rates in local currency-denominated securities of the government and the Central Bank; (iii) progress being made by the Central Bank towards connecting domestic financial markets in Uruguay to global clearing and settlement systems, (iv) financial risk management and financing of state-owned enterprises, and (v) development of market instruments that could allow insurance companies in the annuities business to better manage their financial risks. The next meeting will take place in December 2017. Access to the PDCC Press Release.

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

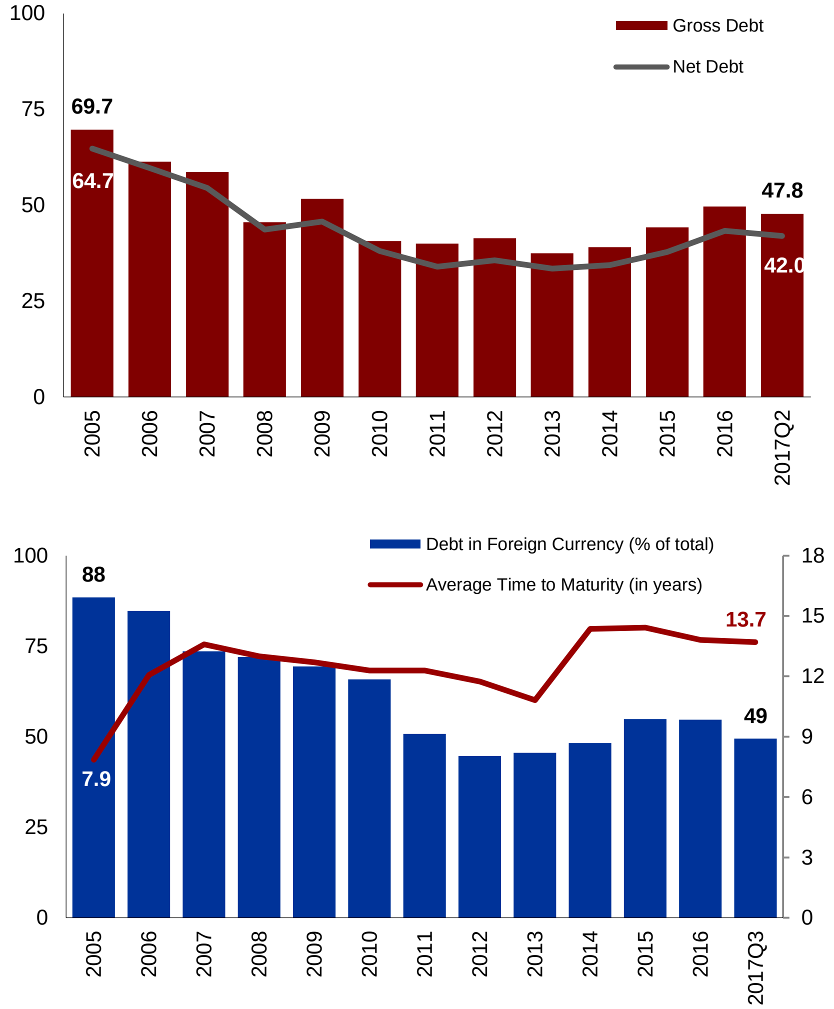
(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017Q2(*)	2017Q3(*)
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	27.983
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.321	3.299	3.679
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	2.415	2.737
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	23.943	24.305
Contingent Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	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	57.047	(**)

(*) Preliminary
(**) GDP figures for 2017Q3 to be released by the Central Bank in December 2017
Source: Debt Management Unit

Figure 1. Central Government Debt and Debt Indicators

(in % of GDP)



Source: Debt Management Unit

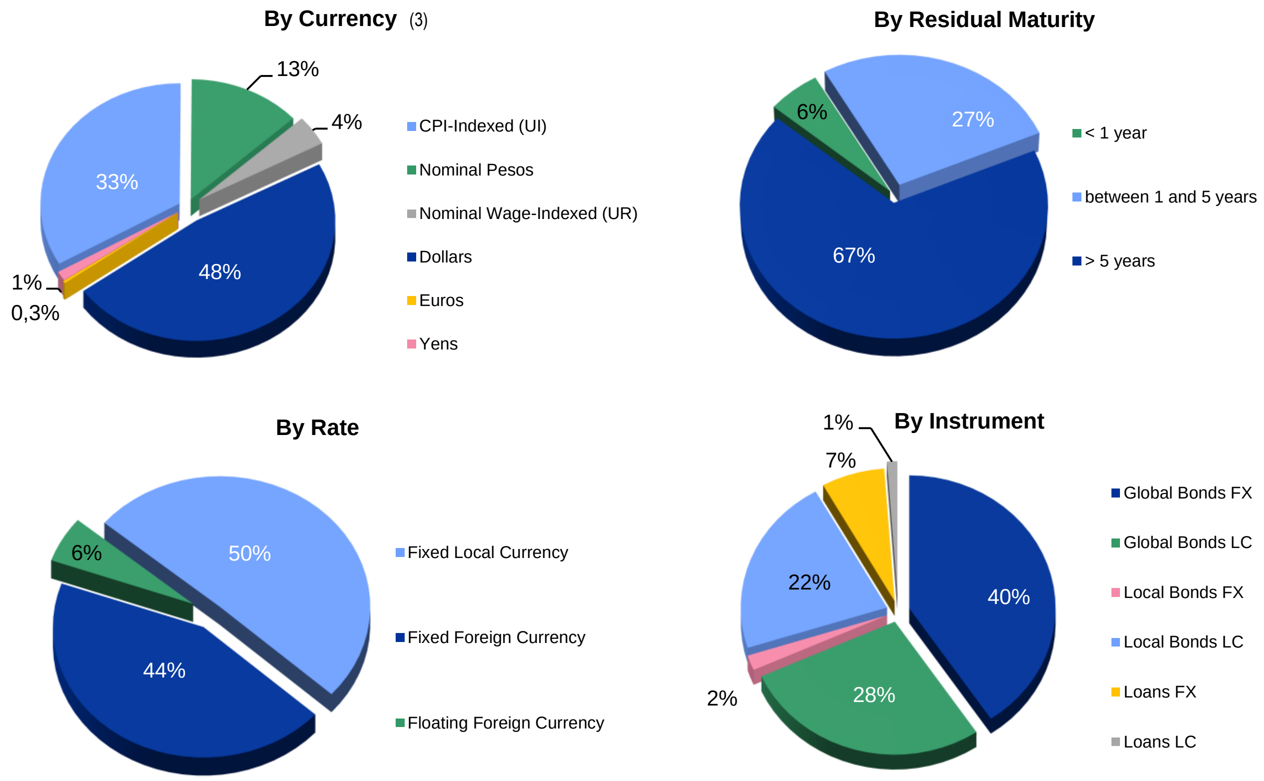
[1] The Central Bank of Uruguay compiles debt statistics for the consolidated Public Sector. This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the 2015 IMF Article 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(*)	2017Q3(*)
By Currency													
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**55**	**49**
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48
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**	**51**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	13
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	33
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**	**52**
Non-Resident	**57**	**64**	**66**	**62**	**56**	**57**	**52**	**54**	**61**	**63**	**62**	**53**	**48**
By Jurisdiction Issued													
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**	**24**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**	**76**

(*) Preliminary
(1) Includes local currency securities issued at fixed real rate
(2) Information reflects latest data available (2017Q2)
Source: Debt Management Unit

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



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

Source: Debt Management Unit

Table 3. Central Government Debt Indicators

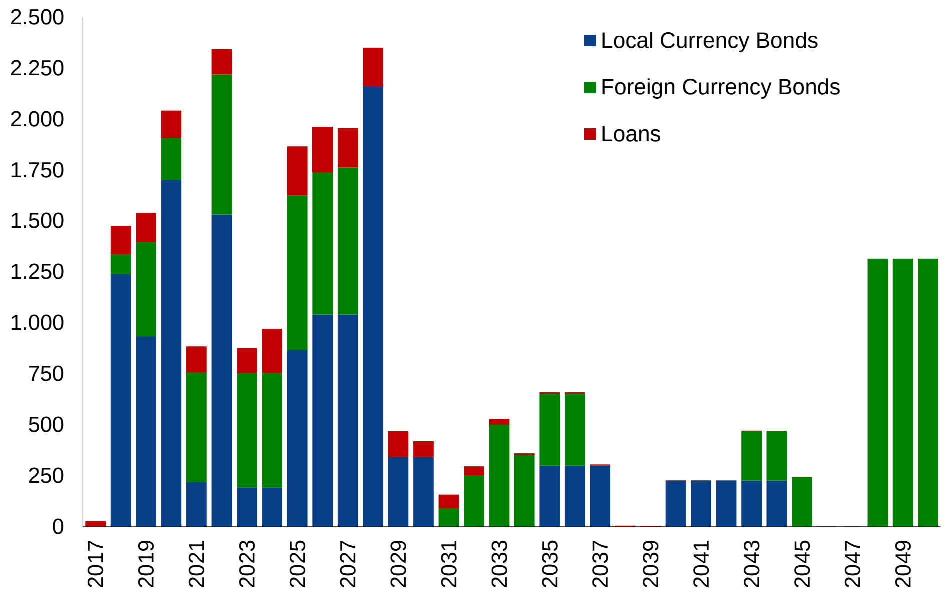
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017Q3(*)
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**	**13,7**
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**	**1,7**
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**	**10,3**
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**	**7,5**
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	10,9
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	4,1
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-September 2017, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2017(*)	**2018**(*)
USES	**3.470**	**3.055**
Interests Payments	1.558	1.672
Amortizations (a)	1.862	1.523
Primary Deficit (b)	50	-140
SOURCES	**3.470**	**3.055**
Multilaterals Disbursements	146	500
Total Bond Issuance	3.057	2.700
Net Others	91	185
Use of Assets (c)	177	-329

(*) Preliminary
(a) For 2017 includes repurchases and early bond redemptions for USD 474 million.
(b) Negative value indicates a primary surplus of the Central Government.
Result for 2017 includes transfer of Energy Stabilization Fund surplus.
(c) Positive indicates a reduction in Central Government reserves

Source: Ministry of Economy and Finance.

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