Uruguay
Sovereign Debt Report

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

April 2018

Highlights

- **Uruguay issued a new 2055 dollar-denominated global bond and concurrently executed an intraday liability-management operation, setting a new benchmark in the long-end of the curve.**

- **Government intends to start issuing local-currency Treasury Notes in the domestic market linked to the nominal wage index, during the second semester of 2018.**

- **R&I upgraded Uruguay's credit rating to BBB with stable outlook; Fitch affirmed Uruguay's at BBB- with a stable outlook.**

- **Global video conference on Uruguay's macroeconomic outlook and government financing plans for 2018.**

New global USD bond issuance and tender offer

On April 12th, Uruguay issued a new USD global bond amortizing in 2055 (with an average life of 36 years). The primary objective of the transaction was to raise a significant portion of 2018`s funding needs. Alongside the new issue, Uruguay announced a tender offer targeting shorter global USD bonds (maturing in 2022, 2024, 2025 and 2033).[1] The liability management exercise was employed to continue the Republic's efforts to manage its debt maturity profile and enhance the size and prospective liquidity of the new benchmark.

The transaction was announced with initial price thoughts of T+235 bps area. On the back of a strong book, the guidance swiftly move to T+205 +/-5bps. The strength of demand (with the order-book peaking at USD6.7) allowed Uruguay to price the **USD1.75bn bond** at a yield of **5.053%** with a spread of **200 bps** over Treasury**.**

Of the total amount issued, USD1.5bn was new cash and the remainder was used to finance preferred tenders. Uruguay's accepted only those bonds maturing in 2024s, given that it was the cheapest above par and had a relatively high coupon, thus minimizing the increase in gross debt associated with the tender.

The order-book generated traction from a vast array of close to 300 accounts in the US, the UK, Continental Europe, Middle East, East Asia and Latin America, as well as local Uruguayan accounts. In particular, the Republic was able to diversify its investor base by including Taiwanese accounts for the first time.

This transaction represented the longest-dated bond issued by the Republic, setting a new anchor in the long-end of the dollar curve, with a tight pricing versus its outstanding bonds.[2] Through this operation, the Central Government further buttressed its liquidity position as part of its pre-funding policy by locking-in and with a view on the ongoing normalization of monetary policy in the US. As of end-April 2018, liquid assets increased to around **6.0% of GDP** – enough to cover debt service payments for the next year and a half.

[1] Holders were given the opportunity to either "switch" into the new issue (preferred tenders) or sell them for cash. Both legs of the operation were launched concurrently and executed intra-day.

[2] The new global bond priced 15 bps over the outstanding USD 2050 bond, with an estimated new issue premium of 7.5 to 10 bps (reflecting an estimated 5 to 7.5bps bps for a 5-year curve extension).

Government intends to issue local-currency Treasury Notes linked to nominal wage index after approval of new Pension Unit.

On April 13th, Uruguay's Congress passed a bill that creates a new daily accounting unit that will track changes to the nominal wage index (which will be called Unidad Previsional, i.e., Pension Unit). The Pension Unit will take the initial value of one peso ($U 1.00) on the 04/30/2018.

During the second semester, the government plans to auction in the domestic market treasury notes linked to wages. The supply of this new tradable asset class aims to give insurance companies in the retirement annuity business a means to hedge their currency and maturity risks in their balance sheets.[3]

R&I upgraded Uruguay's to BBB with stable outlook; Fitch affirmed Uruguay's at BBB- with a stable outlook.

On February 14th, R&I upgraded Uruguay's foreign currency issuer rating to BBB on its view that the government's economic and fiscal management will be more solid. According to R&I, although Uruguay's growth is slower than before, the economy has increased its stability, driven primarily by domestic demand. This, coupled with the high likelihood of large FDI inflows, has made the economic outlook brighter than previously expected. Moreover, R&I expect that the current account balance, which turned into surplus, will likely be stable for the foreseeable future. Access to the R&I Press Release.

On April 5th, Fitch Ratings affirmed Uruguay's long-term foreign currency rating at BBB- with stable outlook. According to Fitch, Uruguay's ratings are supported by strong structural features in terms of social and institutional development, a healthy external balance sheet, and a favourable public debt maturity profile. These factors are balanced by a relatively elevated and dollarized public debt and high budget rigidity, among other factors. Access to Fitch Press Release and to its Full Rating Report.

Global video conference on Uruguay's macroeconomic outlook and government financing plans for 2018

Uruguay sees strategic value diversifying sources of funding, as it helps improve its financing terms and ensure ready access to international capital markets. The bedrock of this strategy has been a transparent, predictable and proactive approach towards investor relations and data dissemination. The DMU develops a continuous dialogue with retail and institutional investors, banks, multilateral organizations, credit rating agencies and analysts— providing timely and detailed information on economic indicators, debt statistics, rating agencies´ reports and the legal framework governing public debt. In that sense, Uruguay's Investor Relations program ranks among the top countries in the assessment of investor relations and data transparency practices of the Institute of International Finance (IIF 2017 Assessment Results).

As part of this program, on February 1st, 2018, the Debt Management Unit organized a live global video conference on Uruguay's macroeconomic outlook and the central government`s financing plans for the current year. Access to the recording of the videoconference here.

Public Debt Coordination Committee meeting

The Public Debt Coordination Committee (PDCC) held its quarterly meeting on March 23th, 2018. The PDCC addressed the following topics: (i) analysis of the local and international financial context and its effect on the expected costs and risk within the whole public sector debt management, and (ii) status of the draft law submitted to Congress regarding the creation of a new unit of account linked to nominal wage index (Pension Unit). The next meeting will take place in June 2018. Access to the PDCC Press Release here.

---

[3] Since 1989, Uruguay's Constitution explicitly mandates indexation of pensions to the average wage index.

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

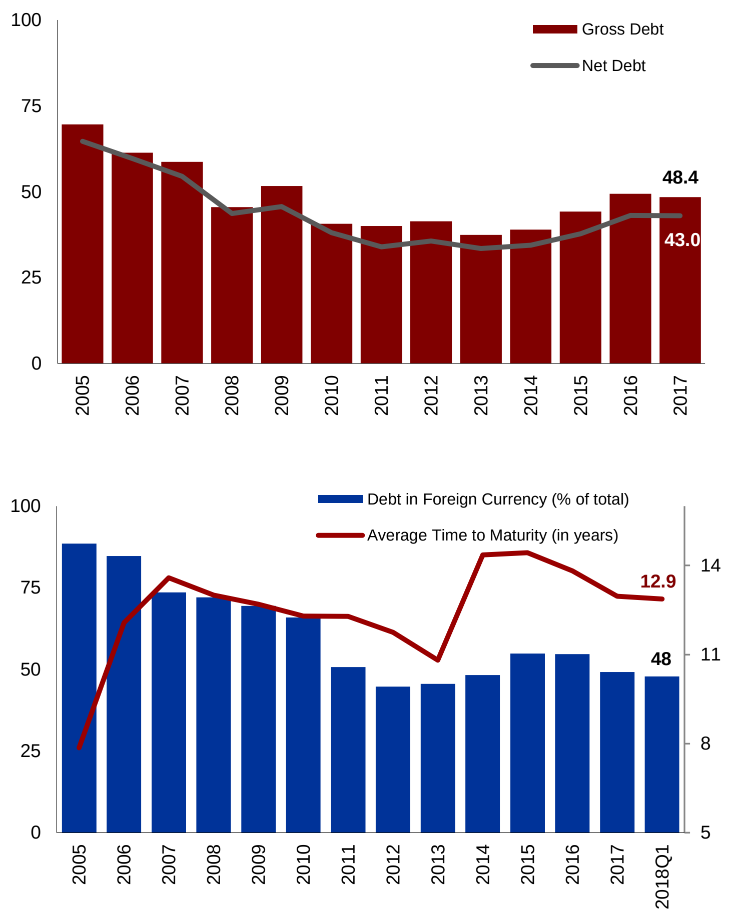
(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017(*)	2018Q1(*)
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	28.664	29.364
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.321	3.193	3.152
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	2.230	2.218
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	25.472	26.213
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	52.825	59.228	(**)

(*) Preliminary
(**) GDP figures for 2018Q1 to be released by the Central Bank in June 2018
Source: Debt Management Unit

Figure 1. Central Government Debt and Debt Indicators

(in % of GDP)



Source: Debt Management Unit

Note: Figures reported cover the period through March 2018, and thus do not reflect the results of the global bond issuance in April 2018.

---

[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.

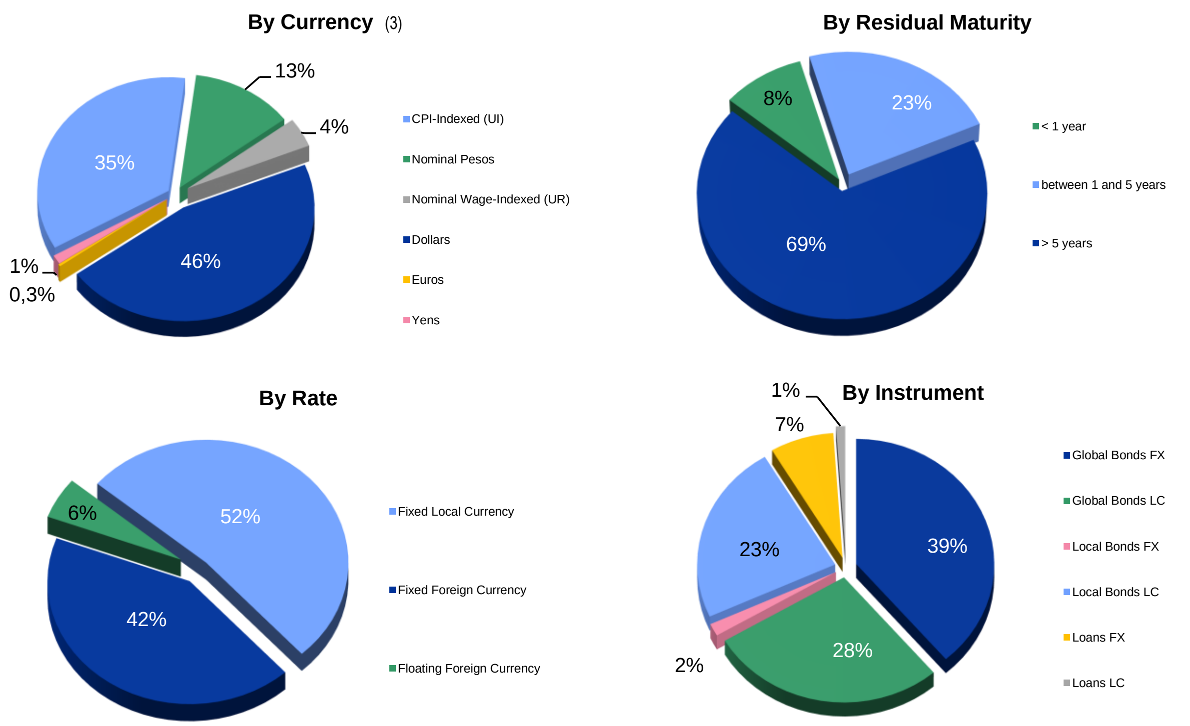
Table 2. Composition of Central Government Debt
(in % of total, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)	2018Q1(*)
By Currency														
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**55**	**49**	**48**
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48	46
Other	21	8	9	8	7	7	6	5	4	3	3	3	2	2
Local Currency (LC)	**12**	**15**	**26**	**28**	**31**	**34**	**50**	**55**	**54**	**52**	**45**	**45**	**51**	**52**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	13	13
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	34	35
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	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**	**8**
Medium and Long Term	**84**	**95**	**97**	**98**	**96**	**94**	**97**	**97**	**97**	**96**	**97**	**95**	**95**	**92**
By Rate														
Fixed (1)	**78**	**82**	**83**	**81**	**91**	**88**	**94**	**95**	**95**	**94**	**94**	**94**	**94**	**95**
Floating	**22**	**18**	**17**	**19**	**9**	**12**	**6**	**5**	**5**	**6**	**6**	**6**	**6**	**5**
By Instrument														
Bonds	**60**	**82**	**83**	**81**	**79**	**81**	**85**	**87**	**90**	**91**	**91**	**91**	**91**	**91**
Loans	**40**	**18**	**17**	**19**	**21**	**19**	**15**	**13**	**10**	**9**	**9**	**9**	**9**	**9**
By Residency of Holders (2)														
Resident	**43**	**36**	**34**	**38**	**44**	**43**	**48**	**46**	**39**	**37**	**38**	**47**	**49**	**49**
Non-Resident	**57**	**64**	**66**	**62**	**56**	**57**	**52**	**54**	**61**	**63**	**62**	**53**	**51**	**51**
By Jurisdiction Issued														
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**	**24**	**25**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**	**76**	**75**

(*) Preliminary
(1) Includes local currency securities issued at fixed real rate
(2) Information reflects latest data available (2017Q4)

Note: Figures reported cover the period through March 2018, and thus do not reflect the results of the global bond issuance in April 2018.

Figure 2. Breakdown of Central Government Debt
(As of end-March 2018)



(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)

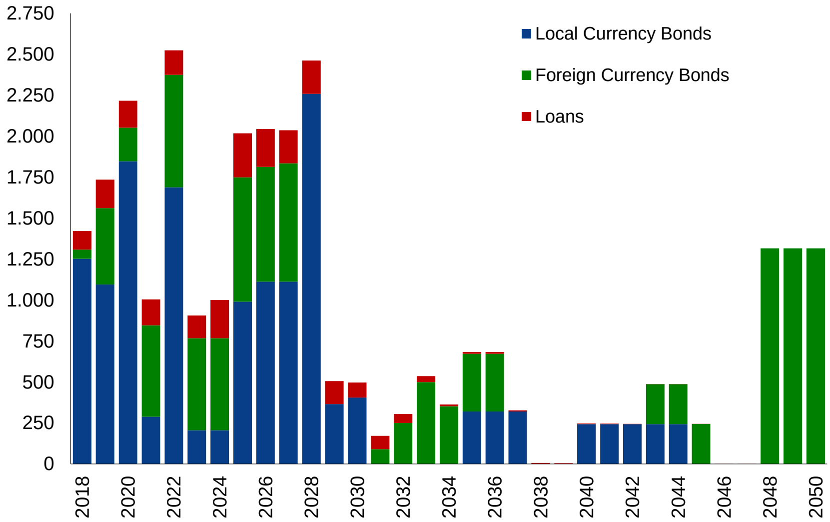
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)	2018Q1(*)
Roll-Over and Liquidity Risk														
Average Time to Maturity (in years)	**7,9**	**12,1**	**13,6**	**13,0**	**12,7**	**12,3**	**12,3**	**11,7**	**10,8**	**14,4**	**14,4**	**13,8**	**13,0**	**12,9**
Share of debt due 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**	**8,4**
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**	**1,4**	**0,8**
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**	**10,2**	**10,2**
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**	**10,3**	**9,9**
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	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	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	1,6
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,5	10,9	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	4,0
Nominal Wage-Indexed (UR)										2,3	2,3	2,3	2,3	2,3

(*) Preliminary
(1) Weighted average

Note: Figures reported cover the period through March 2018, and thus do not reflect the results of the global bond issuance in April 2018.

Figure 3. Central Government Redemption Profile, by Instrument

(All values as of end-March 2018, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2017(*)	2018(*)
USES	**3.575**	**3.372**
Interests Payments	1.558	1.724
Amortizations (a)	1.863	1.788
Primary Deficit (b)	154	-140
SOURCES	**3.575**	**3.372**
Multilaterals Disbursements	149	350
Bond Issuance (c)	3.045	2.700
Net Others	86	180
Use of Assets (d)	294	142

(*) Preliminary
(a) Includes repurchases and early bond redemptions for USD 474 million in 2017 and USD 217 million in 2018, the latter as part of the global transaction that resulted in the issuance of the USD global bond 2055.
(b) Negative value indicates a primary surplus of the Central Government.
(c) Includes both local and international issuances.
(d) 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

Gonzalo Muñiz

Rodrigo Saráchaga

Fernando Scelza

CONTACT INFORMATION

☎ +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy