

Uruguay

Sovereign Debt Report



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

October 2019

Highlights

- The government launched a dual-tranche reopening of its dollar-denominated global benchmarks maturing in 2031 and 2055, with a total issuance of USD 1,055 million.
- Uruguay becomes the top-ranked country in the ESG-adjusted sovereign bond benchmark (JESG-EMBI) among 73 emerging market countries, reflecting steady progress on Environmental, Social and Governance performance.
- Moody's affirmed Uruguay's Baa2 ratings with stable outlook.
- Update on the domestic market issuance calendar for July – December 2019.

I. Dual-tranche reopening of global dollar-denominated bonds with final maturity in 2031 and 2055

On September 24th, Uruguay launched a reopening of its global bonds maturing in 2031 and 2055, along with a switch and cash tender offer for its global dollar-denominated bonds of shorter maturity (2022, 2024 and 2027). Holders of the eligible bonds could either “switch” into the new issues (preferred tenders) or tender them for cash.

The 2031 bond reopening was only available through a switch tender of eligible bonds. All components of the transaction (new cash issuance, liability management and tender for cash) were executed concurrently and intra-day.

The transaction aimed at several goals. First, to lock-in long-term funding at historically low dollar rates, taking advantage of the decline in U.S. Treasuries yields in recent months, along with the resilience in Uruguay's credit spreads despite acute regional financial stress (Figure 1).

Figure 1: Sovereign risk premium
(EMBI, in bps, as of Oct. 30th, 2019)



Second, to proactively manage Uruguay's debt maturity profile through a liability management exercise that contributes to term-out short-term amortizations and underpins the liquidity of the 10 and 30-year benchmarks bonds (Figure 2). Third, to achieve a net financial gain by harnessing the favorable secondary market price relationship between the bonds issued (trading significantly above par) and those repurchased.

Total nominal amount of tendered bonds was USD 554 million, of which 15% corresponded to the bond maturing in 2022, 23% to the 2024 bond, and the remaining 62% corresponded to the 2027. All tendered bonds (either for cash or to switch into new issuance) were accepted. Taking into account total debt issued and tendered amounts, the nominal debt stock increased USD 501 million as a result of the transaction (Figure 3).

Of the total nominal amount issued for the 2055 bond, almost 90% (USD 750 million face value) was for new cash, and the rest was issued to fund the switch tenders. Given that the 2055 was re-opened at a price of USD 116.07 for each USD 100 nominal value, total new cash proceeds from the 2055 re-tap was USD 870 million.¹ A total of USD 282 million was used to repurchase bonds with shorter maturity from holders that chose to sell them for cash. As a result, the net cash position increased USD 588 million (Figure 4). Therefore, the global dollar bond issuance and liability management operation achieved a reduction of USD 87 million in the net debt of the central government (Figure 5).

The order-book generated traction from more than 100 accounts in the US, the UK, Continental Europe, Middle East, East Asia and Latin America. These included investors from Chile, Perú, Finland, and Taiwan as well as government-related agencies from Kuwait and Korea, amongst others. Accounts from North America represented 67% of the final allocation, followed by European accounts (20%).

Figure 2: Uruguay's term structure of sovereign global dollar bonds
(as of Oct. 30th, 2019)

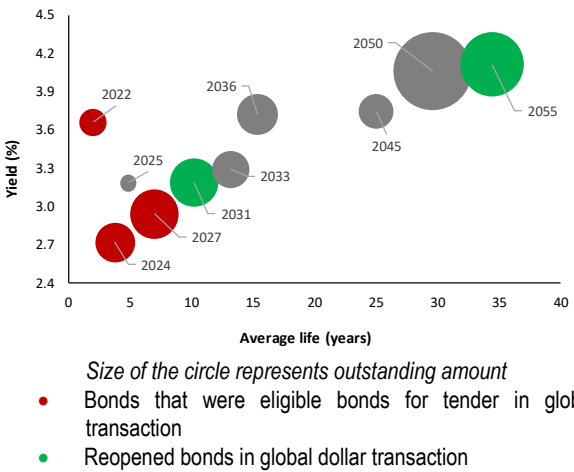


Figure 3: Impact of the transaction on nominal debt stock
(in USD million)

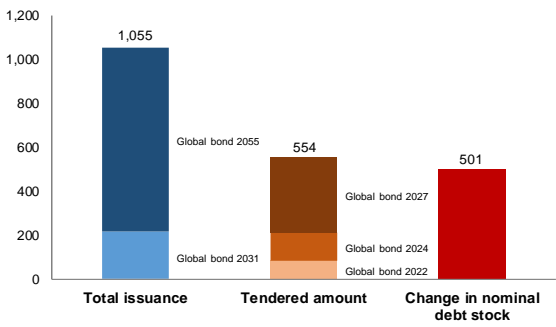


Figure 4: Impact of the transaction on cash position
(in USD million)

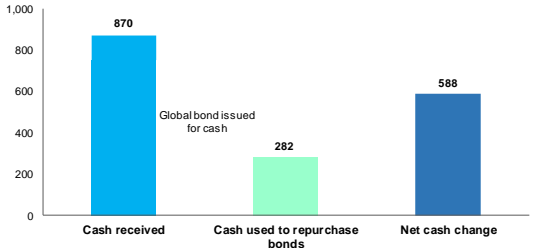
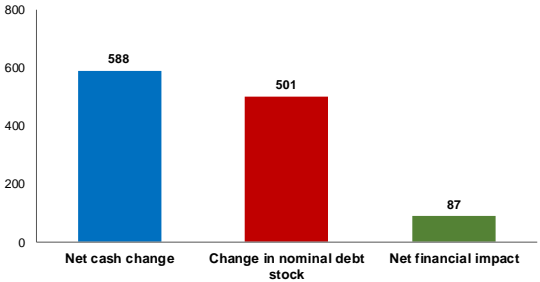


Figure 5: Net financial impact of the transaction
(in USD million)



¹ Considering the nominal amounts issued for each bond, the incremental value from issuing above par was USD 135 million for the 2055 and USD 23 million for the 2031 (reopening price of 110.64).

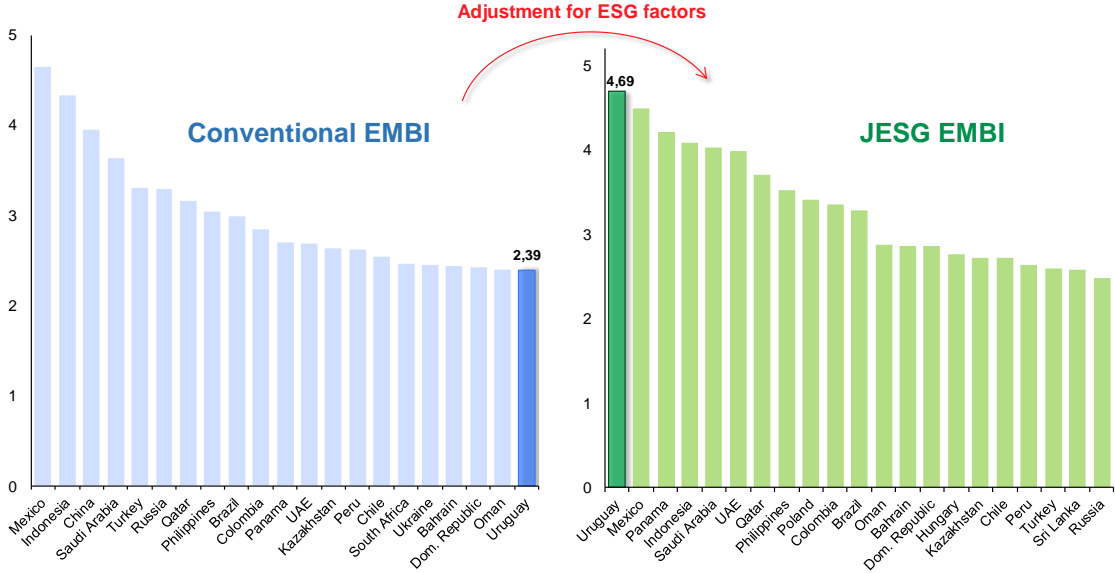
II. Uruguay attains the highest weight in the JESG-EMBI Index, highlighting the country’s steady progress on Environmental, Social and Governance indicators

Investors, credit rating agencies, multilateral institutions and commercial banks are increasingly integrating Environmental, Social and Governance (ESG) factors into their material credit-risk assessments and fixed-income investment strategies.

Reflecting the heightened role of sustainable and impact investment as drivers of global capital allocation decisions, in mid-2018 J.P. Morgan launched its ESG Index suite of indices (JESG). The JESG indices are baselined to the EMBI suite of indices (such as the EMBI Global Diversified), but reset the underlying investment universe by re-weighting country exposures according to their ESG score. What this means is that issuers with better ESG scores will have larger weights relative to the baseline index weights.

In October 2019, Uruguay attained the largest country-weighting (4.7%) in the JESG EMBI (Figure 7). This is approximately 95% higher than its weight in the baseline EMBI (2.4%).² This reflects the country’s leading ESG practices and sustainability commitments, as laid out in [Uruguay: ESG Snapshot October 2019](#).

Figure 6: Country weights in EMBI benchmarks (Top 21)
(in %, as of October 28th, 2019)



The World Bank (WB) recently launched the [Sovereign ESG Data Portal](#), a new data platform will provide sovereign-level sustainability performance information to increase transparency and support investment aligned with sustainable development. In addition, during the 2019 Annual IMF/World, the WB held a roundtable on [“Sovereign Issuer Engagement with Investors on Environment, Social and Governance \(ESG\) Issues”](#). Also, the United Nations PRI Fixed Income Programme published a guide for fixed-income investors on integrating ESG fundamentals and implementing the Principles for Responsible Investment. Access the guide [here](#).

The Ministry of Finance of Uruguay will continue to gather data, insights and knowledge on ESG indicators, to meaningfully engage with the investor community on sustainability issues and impact investing. This includes, *inter alia*:

- exchanging with third-party independent providers of Environmental, Social and Governance indicators to analyze the drivers for changes in ESG scores, helping to back up Uruguay’s strong ESG credentials and identify areas for improvement;

² Please note JP Morgan’s disclaimer: “Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without JPMorgan’s prior written approval. Copyright 2019, J.P. Morgan Chase & Co. All rights reserved”.

- understanding the approach investors use to assess and manage ESG risks and opportunities in their portfolios. While there is no consistent framework for sovereigns to date, this is likely to evolve quite fast as best practices become more established;
- monitoring growth of assets under management from institutions embracing and/or benchmarking ESG investing;
- exploring ways to integrate Uruguay's overall ESG matrix in its sovereign debt funding strategy.

III. Moody's updates its annual credit analysis on Uruguay with Baa2 rating and stable outlook

On August 6th, Moody's affirmed Uruguay's Baa2 rating with stable outlook. According to agency's annual credit analysis, Uruguay's credit strength is underscored by strong institutions, large fiscal reserves and external buffers. According to Moody's, a moderate central government debt burden and strong liability management practices support the country's creditworthiness. On the other hand, Moody's highlighted structural rigidities in the expenditure composition and the relatively high foreign-currency share debt as the main credit challenges. Access the annual credit analysis [here](#).

More recently, Moody's and DBRS published their commentary following Uruguay's presidential elections held on October 27th. Access [Moody's](#) and [DBRS'](#) releases.

IV. Financial transactions with Inter-American Development Bank (IDB) and Corporación Andina de Fomento (CAF)

On August 2019, Uruguay took advantage of unique market opportunities to change the interest rate structure of dollar loans from the IDB, from Libor-indexed to fixed rates.

A weaker global economic growth outlook and a less restrictive monetary policy by the U.S. Federal Reserve has pushed down U.S. Treasuries yields, particularly in the long end of the curve. In turn, this has driven five and ten-year swap rates (i.e., fixed rate-equivalent to a cash flow subject to variable interest rate) below the 3-month Libor floating rate—the first time in ten years.

With the support of the IDB Treasury team, the DMU converted floating-rate loans into fixed rates for an amount of USD 101 million, locking-in at 22 basis lower (on average) than the value of the floating rate prevailing at the time. This transaction was aimed at reducing the interest-rate risk and expected interest burden of the Central Government's multilateral debt portfolio.

On the other hand, on October 4th, CAF renewed the fast-disbursement credit line of USD 750 million available to the Republic, reinforcing Uruguay's liquidity buffers and pre-financing policy.

V. Update on the domestic market issuance calendar for July - December 2019

As of end-October 2019, the Government has issued over USD 280 million equivalent in CPI-linked and Wage-linked Treasury Notes, as part of its domestic auctions schedule for the second semester of 2019.

On October 3rd 2019, the DMU broadened the set of Treasury Notes accepted as means of settlement for the current auction calendar, including the Treasury Notes in Nominal Pesos maturing in July 2020 (Series 8). With this facility, investors have the option to settle their Treasury Notes purchases by tendering short-term Notes due within the next year.

The switch facility incorporated in the calendar for the second half of 2019 has so far contributed to clear upcoming maturities for a nominal amount of approximately USD 102 million equivalent. [Table 5](#) in the Central Government's Debt and Financing Statistics appendix provides further details on the July – December 2019 calendar. For more information, please visit the DMU's website [here](#). Details on the auctions are announced one week prior to the auction date.

CENTRAL GOVERNMENT'S DEBT AND FINANCING STATISTICS

Central Government's statistics presented below are compiled by the 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 financial market securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private, multilateral, and/or other domestic or foreign public sector entities. Debt figures include Central Government securities held by the public Social Security Trust Fund, and exclude non-market Central Government securities issued to capitalize the Central Bank.³

Table 1. Central Government Debt and Asset Position
(in USD million, end-period)

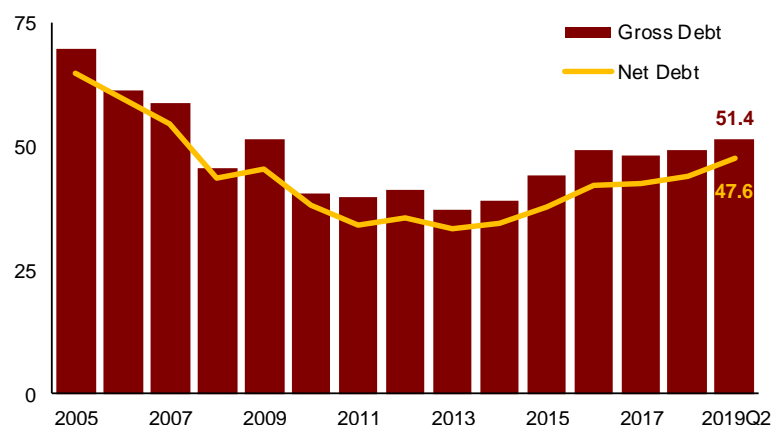
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019Q2(*)	2019Q3(*)
Gross Debt	12,121	12,046	13,767	13,839	16,376	16,375	19,199	21,191	21,520	22,346	23,581	26,098	28,664	29,383	29,491	29,097
Total Assets ⁽¹⁾	858	335	985	580	1,891	1,046	2,886	2,935	2,285	2,635	3,446	3,733	3,324	3,097	2,169	1,710
Liqud Assets ⁽²⁾	858	335	985	580	1,509	663	2,477	2,395	1,802	2,104	3,001	2,515	2,230	2,132	1,751	1,287
Net Debt	11,263	11,711	12,782	13,260	14,485	15,329	16,313	18,256	19,235	19,711	20,135	22,366	25,341	26,285	27,321	27,388
Multilateral Credit Lines	0	0	0	400	120	120	1,130	1,390	1,940	1,940	2,167	2,418	2,418	2,434	2,174	2,191

(*) Preliminary.

(1) Total assets include deposits of the National Treasury at the Central Bank and Banco de la República accounts.

(2) Liquid assets do not include the results of the global dollar bonds issuance and liability management operation settled in October 2019.

Figure 1. Central Government Debt Indicators
(in % of GDP, end-period)



Note: Figures reported cover the period through September 2019, and thus do not reflect the results of the global dollar bonds issuance and liability management operation settled in October 2019. Debt to GDP ratios reported through 2019Q2. Official GDP figures for 2019Q3 will be released by the Central Bank in December 2019.

³ Data on outstanding stock of government bonds issued to capitalize the Central Bank, can be found at: www.bcu.gub.uy/Estadisticas-e-Indicadores/EndeudamientoPublicoSPNM/dpspnm.pdf

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019Q3(*)
By Currency ⁽¹⁾															
Foreign Currency (FX)	88	85	74	72	69	66	51	45	46	48	55	55	49	54	56
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48	51	53
Other	21	8	9	8	7	7	6	5	4	3	3	3	2	2	2
Local Currency (LC)	12	15	26	28	31	34	50	55	54	52	45	45	51	46	44
Nominal Fixed-Rate	0	0	0	0	0	0	7	9	8	5	6	5	13	10	9
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	34	31	29
Wage-Indexed	0	0	0	0	0	0	0	0	0	5	4	4	4	5	7
By Residual Maturity															
Short-Term (less than one year)	16	5	3	2	4	6	3	3	3	4	3	5	5	4	5
Medium and Long Term	84	95	97	98	96	94	97	97	97	96	97	95	95	96	95
By Rate ⁽²⁾															
Fixed	78	82	83	81	91	88	94	95	95	94	94	94	94	94	94
Floating	22	18	17	19	9	12	6	5	5	6	6	6	6	6	6
By Instrument															
Bonds	60	82	83	81	79	81	85	87	90	91	91	91	91	91	91
Loans	40	18	17	19	21	19	15	13	10	9	9	9	9	9	9
By Residency of Holders ⁽³⁾															
Resident	43	36	34	38	44	43	48	46	39	37	38	47	49	46	47
Non-Resident	57	64	66	62	56	57	52	54	61	63	62	53	51	54	53
By Jurisdiction Issued															
Domestic Market	22	23	21	16	16	18	25	30	29	29	26	26	24	23	22
International	78	77	79	84	84	82	75	70	71	71	74	74	76	77	78

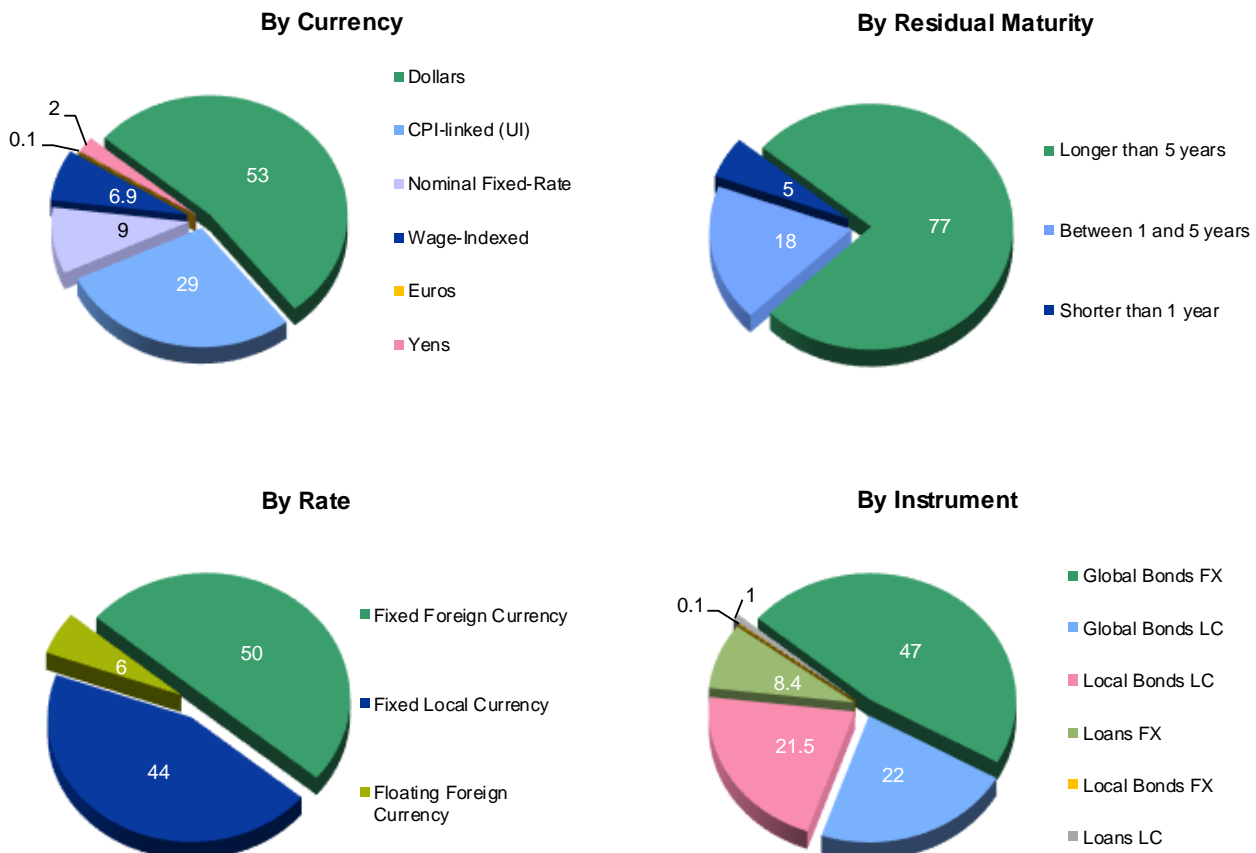
(*) Preliminary.

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

(2) Includes local currency securities issued at fixed real rate, both CPI-indexed and wage-indexed.

(3) Information reflects latest data available as of 2019Q2.

Figure 2. Breakdown of Central Government Debt
(As of end-2019Q3, in %)



Note: Figures reported cover the period through September 2019, and thus do not reflect the results of the global dollar bonds issuance and liability management operation settled in October 2019.

Table 3. Central Government Debt Indicators

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

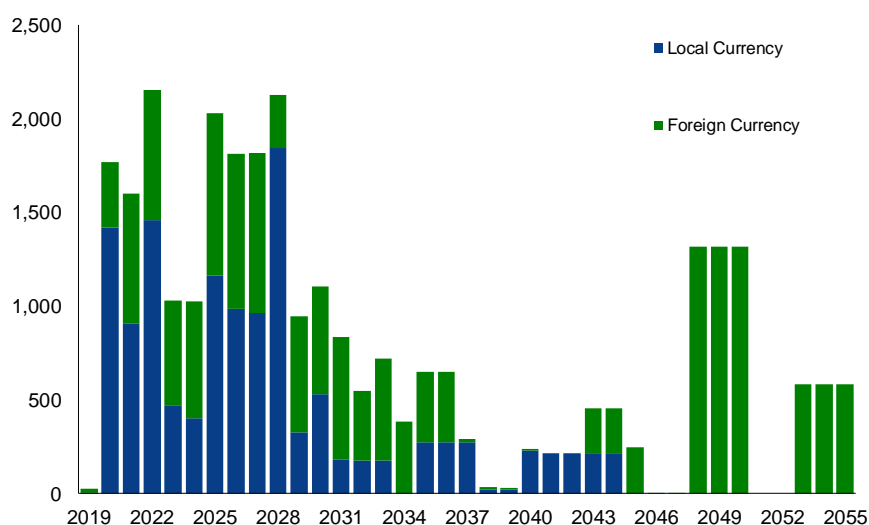
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019Q3(*)
Roll-Over and Liquidity Risk															
Average Time to Maturity (in years)	7.9	12.1	13.6	13.0	12.7	12.3	12.3	11.7	10.8	14.4	14.4	13.8	13.0	13.8	14.0
Share of Debt Due in One Year	16.0	4.8	2.9	2.3	3.6	5.5	2.6	2.8	3.3	4.1	2.6	5.1	5.5	3.9	5.3
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	1.4	1.9	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	10.4	12.3	12.5
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	10.9	8.1	11.2	10.7	9.2	10.6
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	5.1
Euros ⁽²⁾	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	0.3
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	1.3	1.3
Nominal Pesos							10.6	9.7	9.4	9.6	12.8	13.5	10.9	10.6	10.6
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	3.8	3.8
Wage-Indexed										2.3	2.3	2.3	2.3	2.2	2.3

(*) Preliminary.

(1) Weighted average by currency.

(2) Global bonds denominated in euros matured during the first semester of 2019. All euros obligations remaining are multilateral loans, which pay a significant lower interest rate.

Figure 3. Central Government Redemption Profile, by Currency
(All values as of end-September 2019, in USD million)



Note: Figures reported cover the period through September 2019, and thus do not reflect the results of the global dollar bonds issuance and liability management operation settled in October 2019.

Table 4. Central Government Financing Needs and Funding Sources
(in USD million; projected)^{1/}

	2019	2020
Financing Needs	4,428	3,338
Interest Payments	1,609	1,578
Amortizations of Bonds and Loans (a)	2,495	1,709
Primary Deficit (b)	323	51
Funding Sources	4,428	3,338
Multilateral Loans	409	300
Gross Bond Issuance (c)	3,571	3,250
Net Others	225	158
Use of Assets (d)	223	-369
Memo Item: <i>Net Bond Issuance (e)</i>	1,366	1,541

^{1/} Note: Figures reported include the results of the global dollar bonds issuance and liability management operation (LMO) settled in October 2019

(a) Obligations coming due on a contractual basis. For 2019, also includes bonds repurchased in LMO and loan pre-payments.

(b) Excludes transfers to the Social Security Trust Fund. Projections based on latest Annual Budget Review (June 2019).

(c) Includes bonds issued domestically and in international markets.

(d) Positive value indicates a reduction in Central Government reserves.

(e) Corresponds to the difference between gross bond issuance and total bond amortization (debt payments coming due plus, bonds repurchased in LMO).

Table 5. Ongoing Issuance Calendar for July – December 2019

Treasury Note	Maturity Date ^{1/}	Coupon (%)	Currency ^{2/}	Auction Date	Amount auctioned (in millions)		Amount issued (in millions)	
					Original Currency	USD equiv.	Original Currency	USD equiv.
Series 26	05-13-2023	2.45	UI	07-16-2019	325.0	39.0	337.6	40.5
Series 2	08-29-2033	1.80	UP	07-23-2019	750.0	23.0	1,000.0	32.3
Series 25	07-24-2030	2.90	UI	07-30-2019	100.0	12.0	128.5	15.9
Series 13	05-25-2025	4.00	UI	08-13-2019	250.0	30.0	322.5	37.8
Series 1	07-25-2025	1.50	UP	08-20-2019	650.0	20.0	735.2	22.1
Series 3	05-13-2040	2.20	UP	08-27-2019	375.0	12.0	425.0	12.8
Series 26	05-13-2023	2.45	UI	09-10-2019	325.0	39.0	117.2	13.7
Series 2	08-29-2033	1.80	UP	09-17-2019	750.0	24.0	1,124.0	34.0
Series 25	07-24-2030	2.90	UI	09-24-2019	100.0	12.0	101.8	11.8
Series 13	05-25-2025	4.00	UI	10-15-2019	250.0	30.0	115.4	13.3
Series 1	07-25-2025	1.50	UP	10-22-2019	650.0	20.0	994.5	30.0
Series 3	05-13-2040	2.20	UP	10-29-2019	375.0	12.0	550.0	16.5
Series 26	05-13-2023	2.45	UI	11-12-2019	325.0	39.0		
Series 2	08-29-2033	1.80	UP	11-19-2019	750.0	23.0		
Series 25	07-24-2030	2.90	UI	11-26-2019	100.0	12.0		
Series 13	05-25-2025	4.00	UI	12-03-2019	250.0	30.0		
Series 1	07-25-2025	1.50	UP	12-10-2019	650.0	20.0		
Series 3	05-13-2040	2.20	UP	12-17-2019	375.0	12.0		

Note: Outstanding amount of Treasury Notes can be accessed [here](#).

^{1/} All Treasury Notes , except for Series 25, have principal repaid in the last three years to maturity, in annual and equal installments.

^{2/} UI: Unidad Indexada (CPI-indexed)

UP: Unidad Previsional (Wage-indexed)

Table 6. Outstanding Sovereign Bonds Issued in International Markets

In FOREIGN CURRENCY

US Dollars										
Security	Issue Date	Maturity Date	Coupon (%)	Duration (years)	Avg. Life (years)	Amount Issued (USD mm) 1/	Outstanding Amount (USD mm) 1/	Amortizer 2/	Next Coupon Date	Bloomberg Identifier
URUGUAY '22	11-18-2005	11-18-2022	8.000	1.9	2.0	1,805	466	Yes	11-18-2019	EF173885 Corp
URUGUAY '24	08-14-2013	08-14-2024	4.500	3.5	3.8	2,000	1,010	Yes	02-14-2020	EJ783737 Corp
URUGUAY '25	09-28-2009	09-28-2025	6.875	4.3	4.9	500	175	Yes	03-28-2020	EH983569 Corp
URUGUAY '27	07-15-1997	07-15-2027	7.875	6.1	7.7	510	22	No	01-15-2020	TT334611 Corp
URUGUAY '27	10-27-2015	10-27-2027	4.375	6.1	7.0	2,100	1,527	Yes	04-27-2020	QJ2218924 Corp
URUGUAY '31	01-23-2019	01-23-2031	4.375	8.3	10.2	1,467	1,467	Yes	01-23-2020	AW7271116 Corp
URUGUAY '33	05-29-2003	01-15-2033	7.875	9.2	13.2	1,056	841	No	01-15-2020	EC939210 Corp
URUGUAY '36	03-21-2006	03-21-2036	7.625	10.4	15.4	1,421	1,057	Yes	03-21-2020	EF330974 Corp
URUGUAY '45	11-20-2012	11-20-2045	4.125	15.9	25.0	854	731	Yes	11-20-2019	EJ442676 Corp
URUGUAY '50	06-18-2014	06-18-2050	5.100	16.5	29.6	3,947	3,947	Yes	12-18-2019	EK3264687 Corp
URUGUAY '55	04-20-2018	04-20-2055	4.975	18.0	34.5	2,588	2,588	Yes	04-20-2020	AS2148789 Corp
Yens										
URUGUAY '21	06-03-2011	06-03-2021	1.640	1.6	1.6	367	367	No	12-03-2019	EI6818500 Corp

In LOCAL CURRENCY

Nominal Fixed-Rate (UYU)										
Security	Issue Date	Maturity Date	Coupon (%)	Duration (years)	Avg. Life (years)	Amount Issued (USD mm) 1/	Outstanding Amount (USD mm) 1/	Amortizer 2/	Next Coupon Date	Bloomberg Identifier
URUGUAY '22	06-20-2017	06-20-2022	9.875	2.3	2.6	941	941	No	12-20-2019	AN9574152 Corp
URUGUAY '28	09-15-2017	03-15-2028	8.500	5.8	8.4	843	843	No	03-15-2020	AP0760557 Corp
Linked to CPI (U)										
URUGUAY '27	04-03-2007	04-05-2027	4.250	5.7	6.3	851	851	Yes	04-05-2020	EG3199437 Corp
URUGUAY '28	12-15-2011	12-15-2028	4.375	6.8	8.0	1,981	1,981	Yes	12-15-2019	EI8993764 Corp
URUGUAY '30	07-10-2008	07-10-2030	4.000	8.0	9.5	930	930	Yes	01-10-2020	EH4525315 Corp
URUGUAY '37	06-26-2007	06-26-2037	3.700	12.4	16.4	815	815	Yes	12-26-2019	EG5893227 Corp

1/ Dollar-equivalent as of October 30th, 2019.

2/ Amortizer bonds have principal repaid in the last three years to maturity, in annual and equal installments.

Source: Debt Management Unit and Bloomberg.

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