Ministerio
de Economía
y Finanzas

October 21st, 2022

Global issuance of a new Sovereign Sustainability-Linked Bond (SSLB) in U.S. dollars with final maturity in 2034

On Thursday October 20th, the government issued a new global dollar-denominated Sovereign Sustainability-Linked Bond (SSLB) due in 2034. Concurrently, it launched a switch and cash tender offer for dollar-denominated bonds of shorter maturity.

I. Transaction goals

1) Complete the government's funding needs in the international market for 2022.
2) Link the sovereign financing strategy to Uruguay's environmental objectives, implementing a new symmetric mechanism of interest rate adjustment, that links the country's cost of capital to the achievement of its climate and nature-based goals under the Paris Agreement.
3) Diversify the investor base.
4) Mitigate re-financing risk and extend the average time to maturity of debt, re-profiling shorter-term liabilities.

II. Design of the transaction

The design of the SSLB and its corresponding framework, was a result of the joint effort of five ministries: Economy and Finance; Environment; Livestock, Agriculture and Fisheries; Industry, Energy and Mining; and, Foreign Relations. The project received technical and financial assistance from the Inter-American Development Bank (IDB) and the United Nations Development Program (UNDP).

The transaction was executed intra-day and involved:

- The issuance of a new global dollar-denominated SSLB with final maturity in 2034 (principal repayment in three equal annual payments in 2032, 2033 and 2034), and a switch and cash tender offer for global dollar denominated bonds with final maturities in 2024, 2027 and 2031 ("eligible bonds").
- Holders of eligible bonds could either "switch" into the new issue ("preferred tenders"), or tender them for cash ("non-preferred tenders").

III. Results

- **Total nominal amount issued was approximately USD 1.5 billion**, of which USD 1 billion was for new money, and the remaining was used to fund eligible bonds tendered.
- The **demand** greatly exceeded the amount issued, with a joint order book that, at its peak, reached **USD 3.96 billion**.
- The annual yield to maturity at issuance was **5.935%** (with a **5.75%** annual coupon), corresponding to a spread of **170 basis points** with respect to the reference U.S. Treasury.
- The consolidated order book generated traction from 188 accounts from the U.S., Europe, Asia, Uruguay and other Latin American countries. A total of approximately 40 accounts participated for the first time in an international bond transaction from Uruguay, many of which have a specific focus on sustainable bonds issuances.

IV. Assessment

- Despite recent global uncertainty, Uruguay achieved large-scale financing, at an intermediate-term with an innovative instrument. The SSLB is the first global sustainability-linked bond that incorporates a step-up/step-down interest rate structure, depending on the achievement of the established objectives.
- The strength of the demand allowed the government to compress the spread during the transaction, to reach a final value of **170 basis points**. This represented an estimated concession below 20 basis points with respect to the sovereign curve in the secondary market.
- The transaction received incremental demand of investment funds committed to sustainable economic development. It also contributed to increase the visibility of Uruguay's climate action strategy, that could provide providing enhancing access to other international climate financing instruments for the transition to a lower carbon economy.