

J.P Morgan Investor Seminar  
Challenges of Exiting Unconventional Monetary Policy

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# Uruguay: Curbing Capital Inflows and Inflation Pressures

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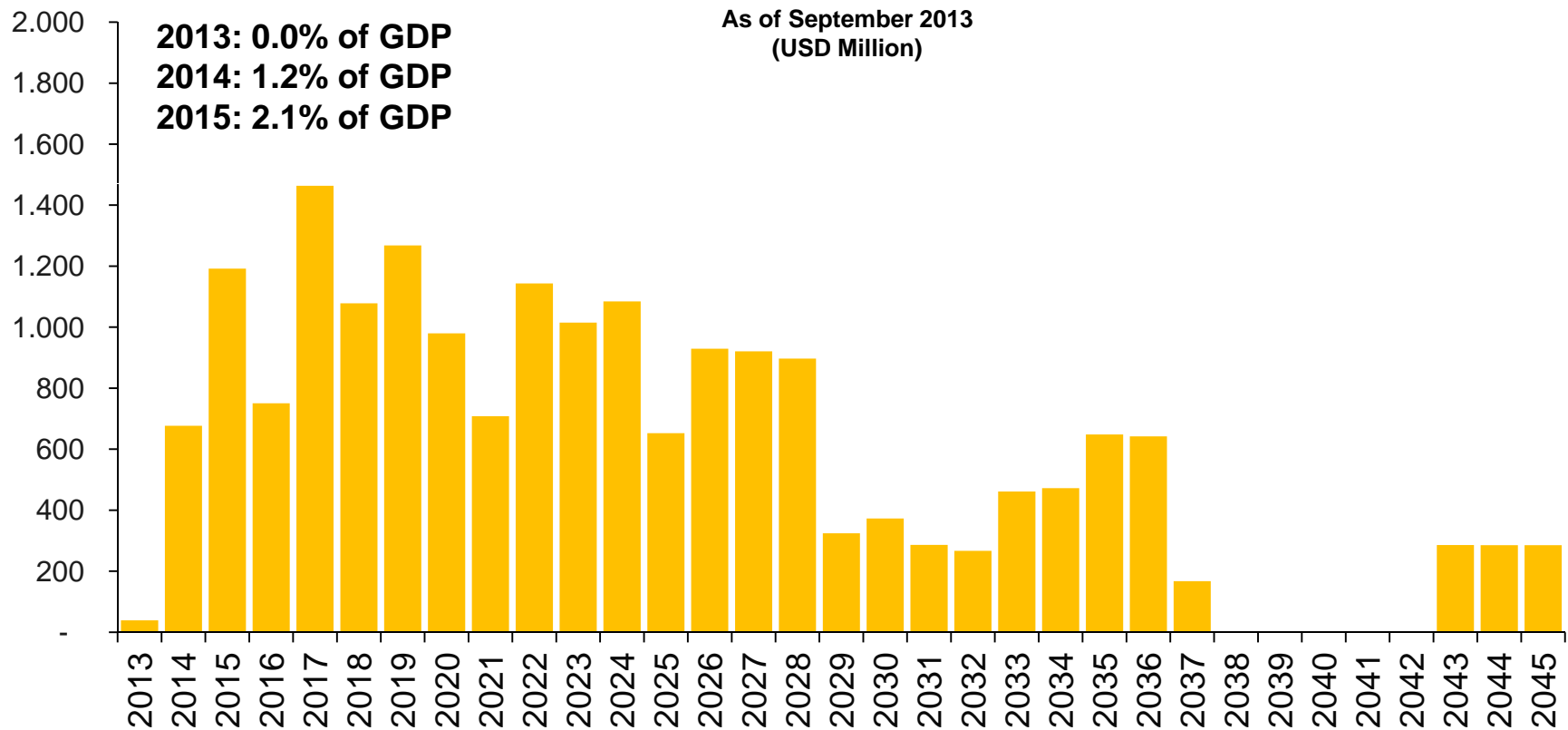
## GUIDELINES FOR DEBT MANAGEMENT

Main guidelines according to the Financial Strategy for 2010-2014 are:

- ✓ Continue reducing the rollover risk, keeping a minimum floor for Average Time to Maturity.
- ✓ Maintaining a pre-funding policy to cover debt services payments for the next 12 months.
- ✓ Continue reducing FX risk, goal of 45% LC debt at the end of 2014.
- ✓ Continue reducing interest rate risk.
- ✓ Achieve an optimal mix of multilaterals and private debt.
- ✓ To achieve a more dynamic domestic market.
- ✓ To diversify the funding sources and broaden the investor base.

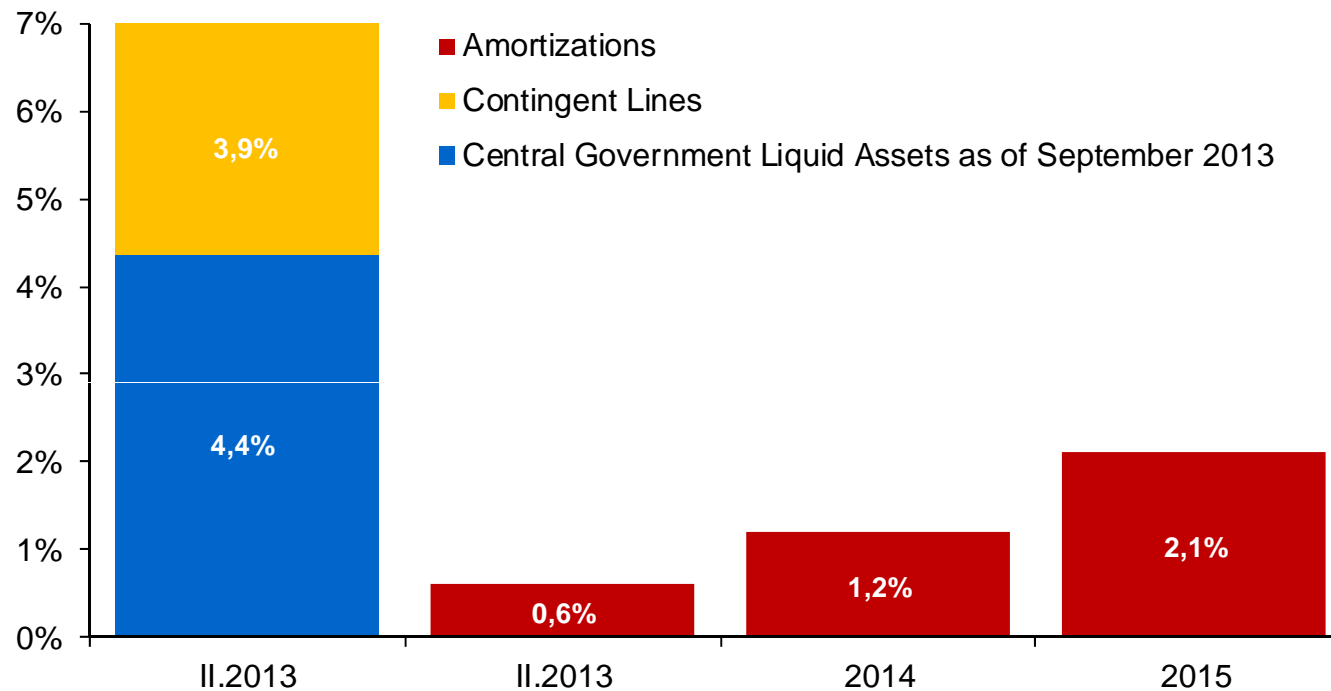
# DEBT MANAGEMENT HAS LED TO A SMOOTH REDEMPTION PROFILE

## Central Government Debt Profile



Source: Debt Management Unit, Ministry of Economy and Finance (preliminary data)

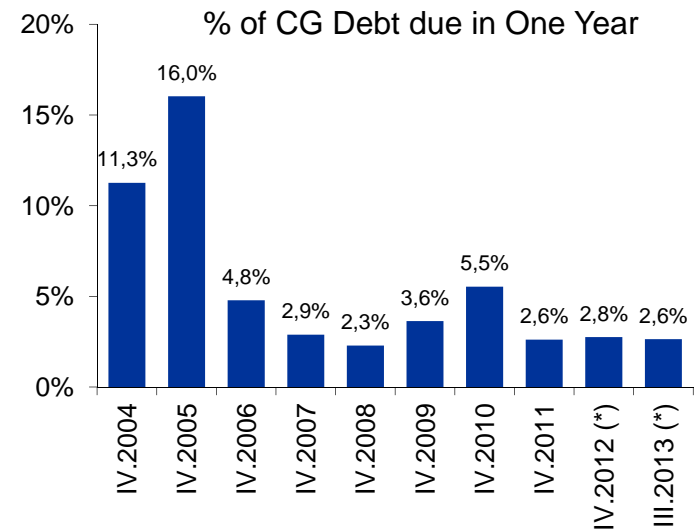
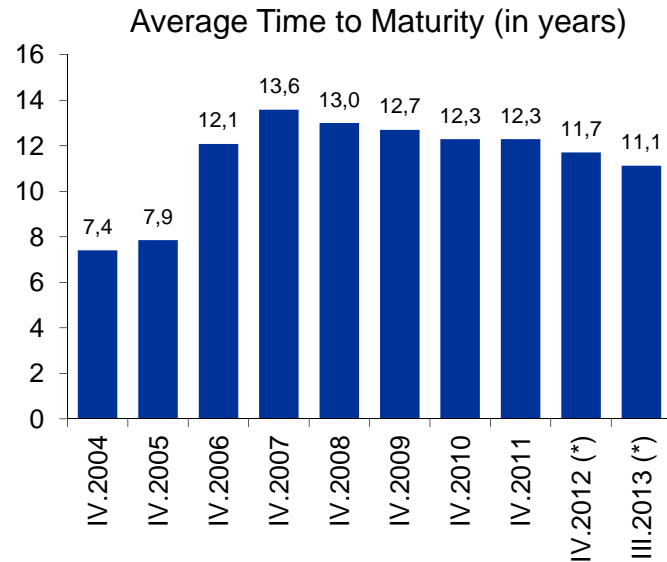
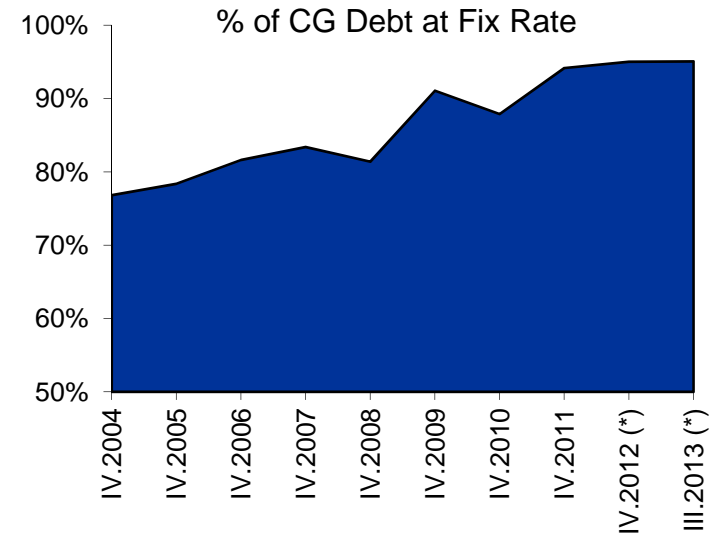
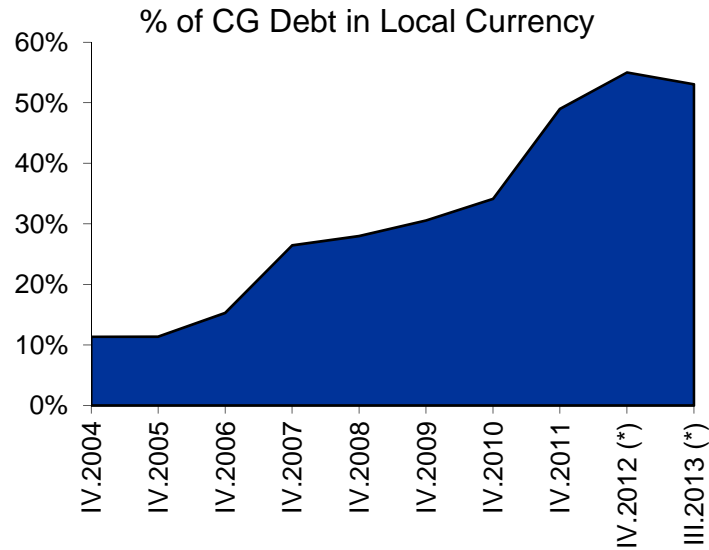
## LOW REFINANCING RISK



Source: Debt Management Unit, Ministry of Economy and Finance

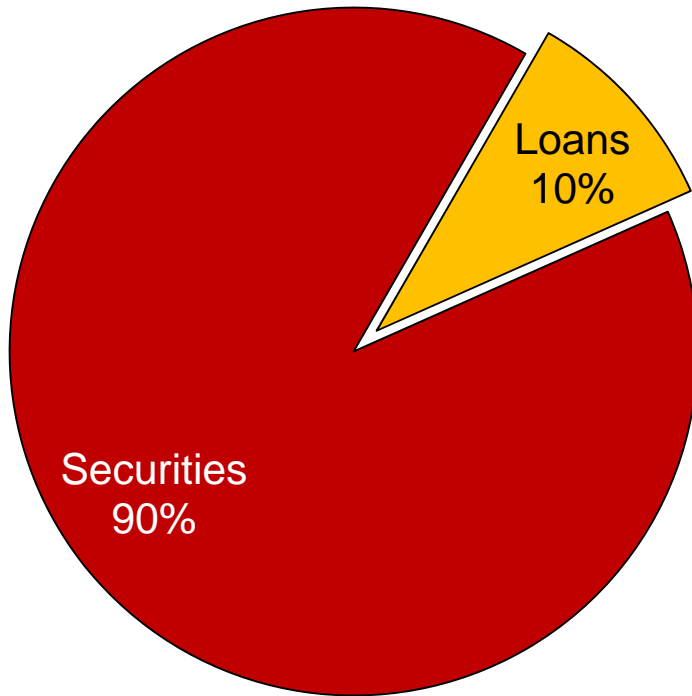
- ✓ Contingent credits lines amount to nearly USD 2bn, around 3.9% of GDP (World Bank - USD 520 million, IDB - USD 550 million, CAF - USD 400 million, FLAR USD 470 million).
- ✓ This provides the CG with significant funding flexibility in the event of market turbulence.

## CENTRAL GOVERNMENT DEBT PROFILE

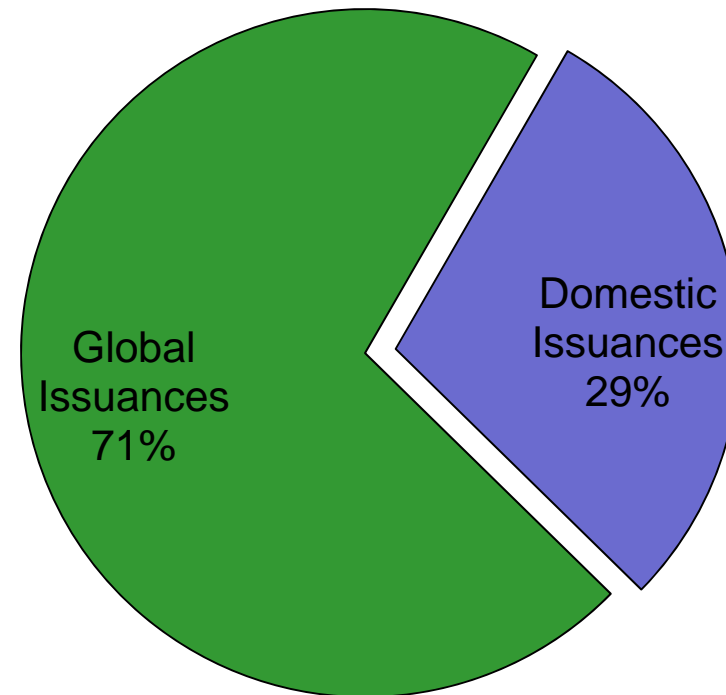


Source: Debt Management Unit, Ministry of Economy and Finance / (\*) preliminary data

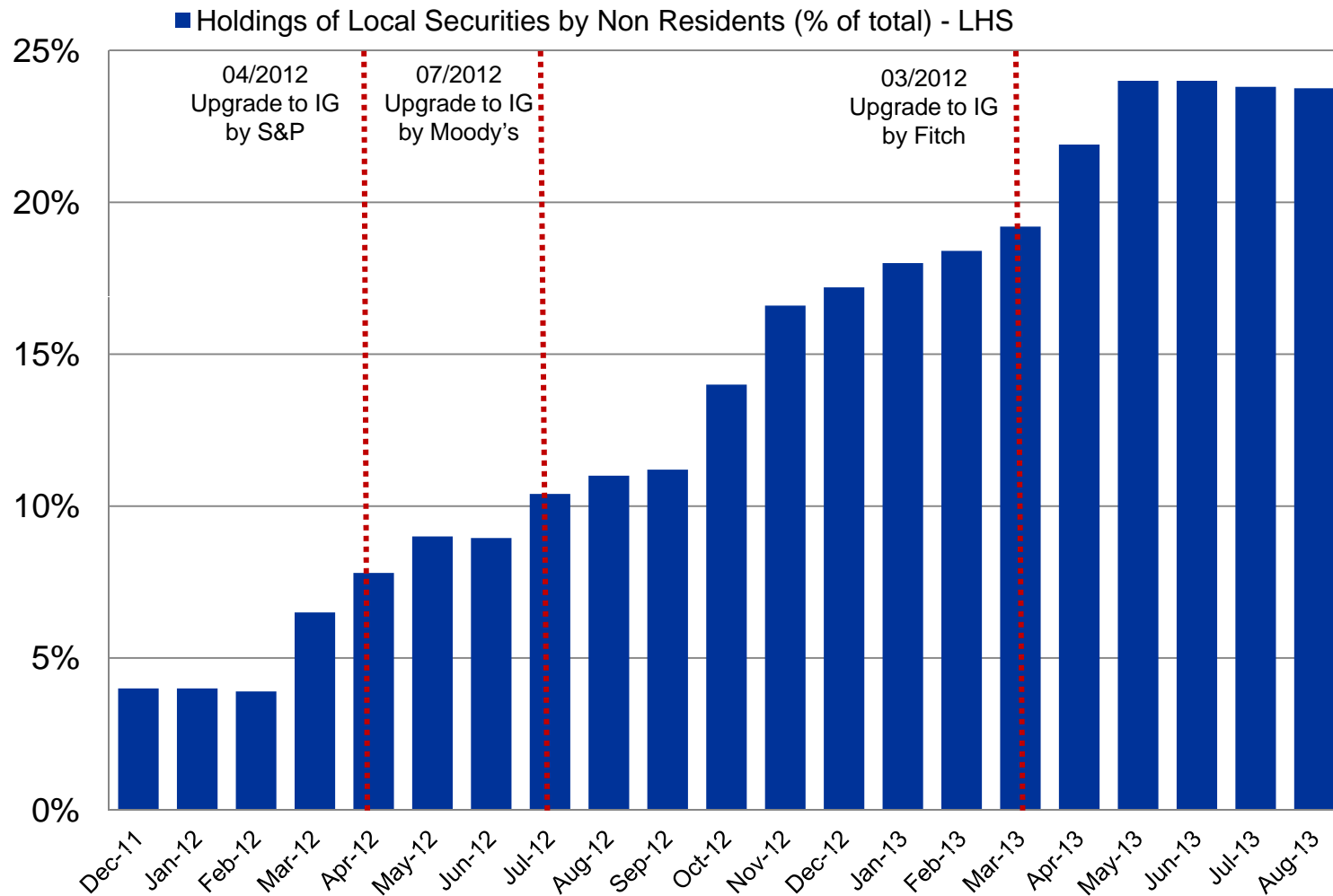
### CG Debt Profile by Instrument 2013 Q3



### CG Securities – Issues by Jurisdiction 2013 Q3

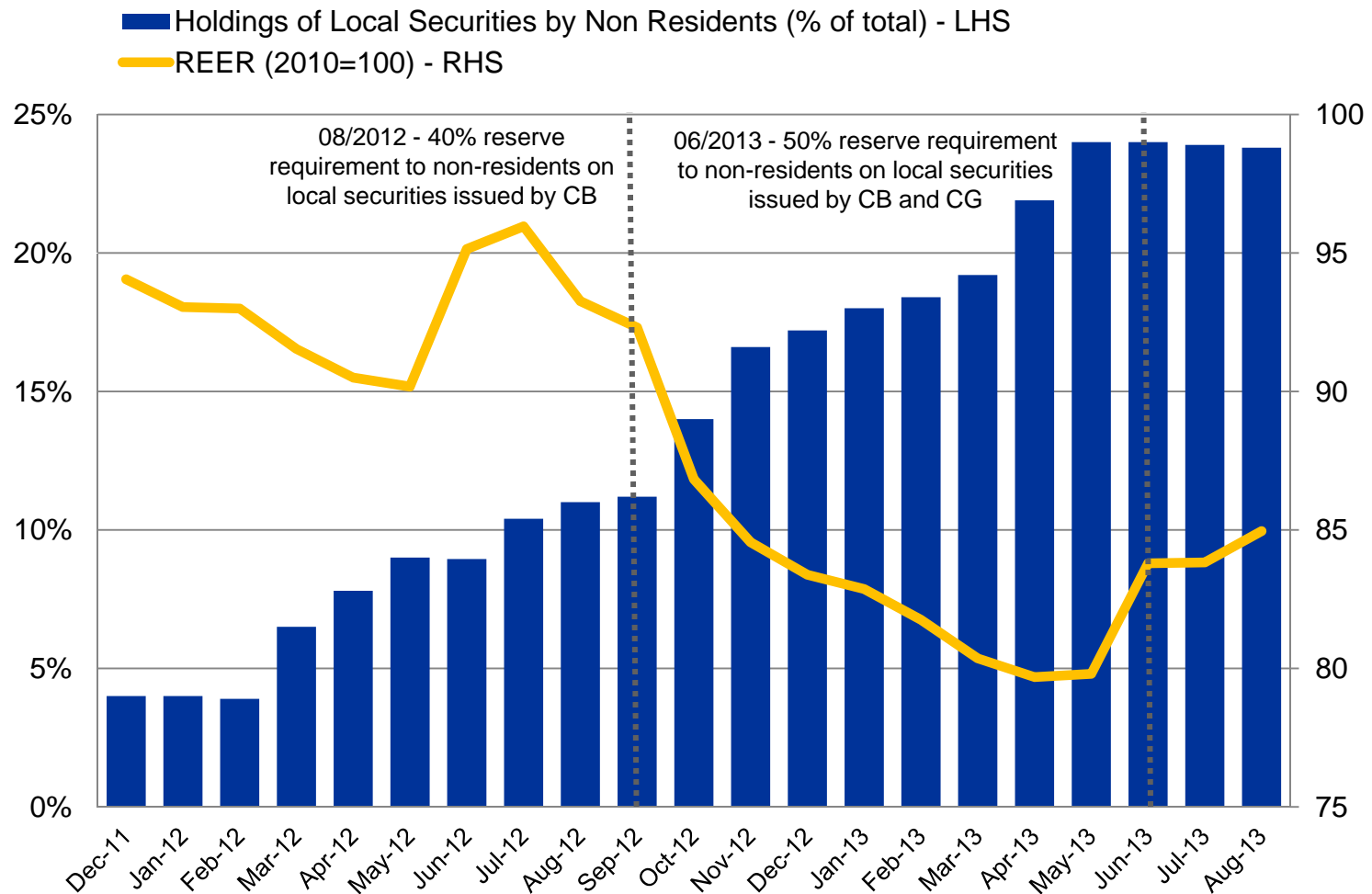


## INCREASING PRESENCE OF NON RESIDENTS IN THE DOMESTIC MARKET



Source: "Reporte de Política Monetaria 2013Q2" Central Bank of Uruguay

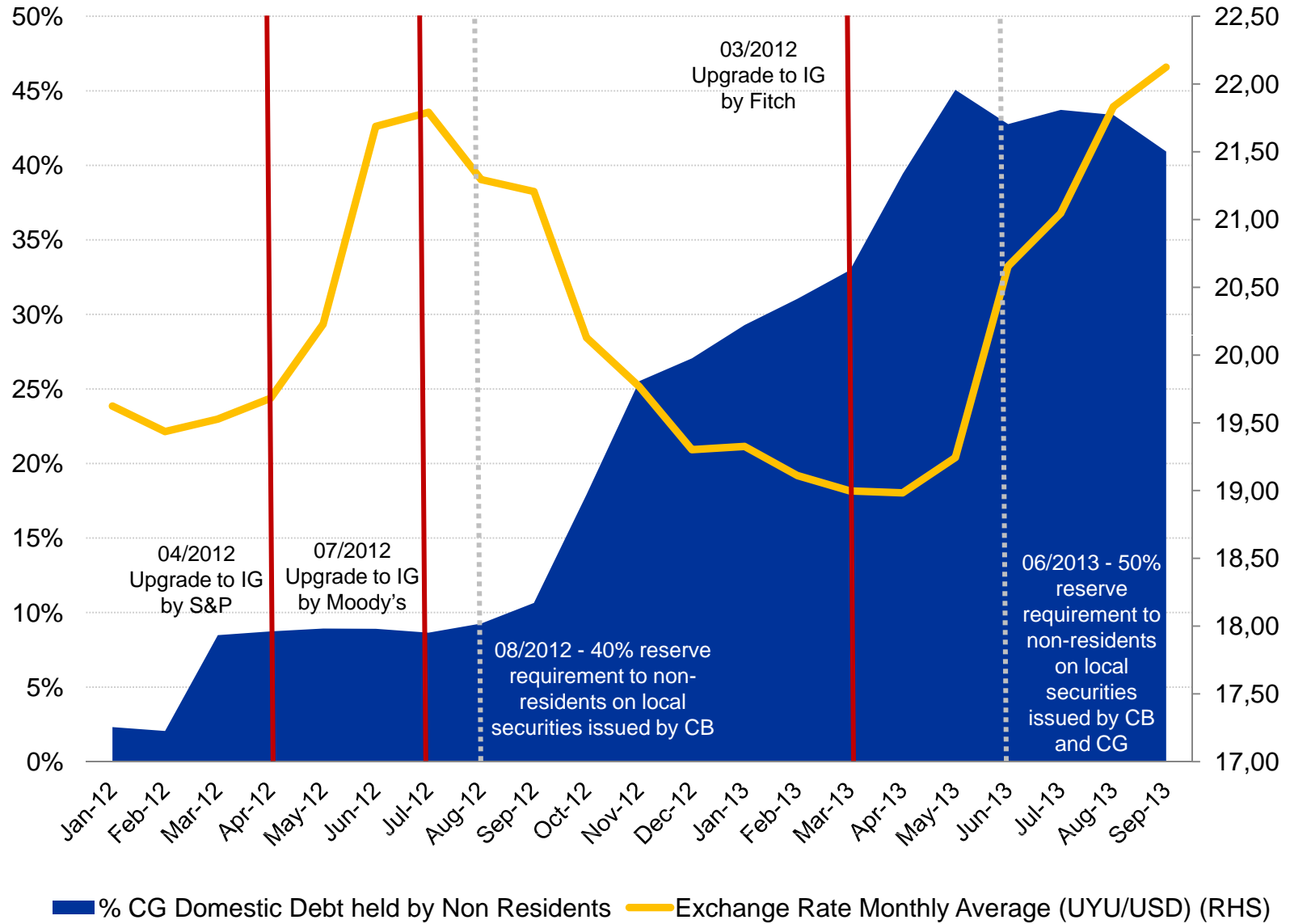
## INCREASING PRESENCE OF NON RESIDENTS IN THE DOMESTIC MARKET ALONG WITH A STEEP DECLINE OF REAL EXCHANGE RATE



Source: "Reporte de Política Monetaria 2013Q2" Central Bank of Uruguay



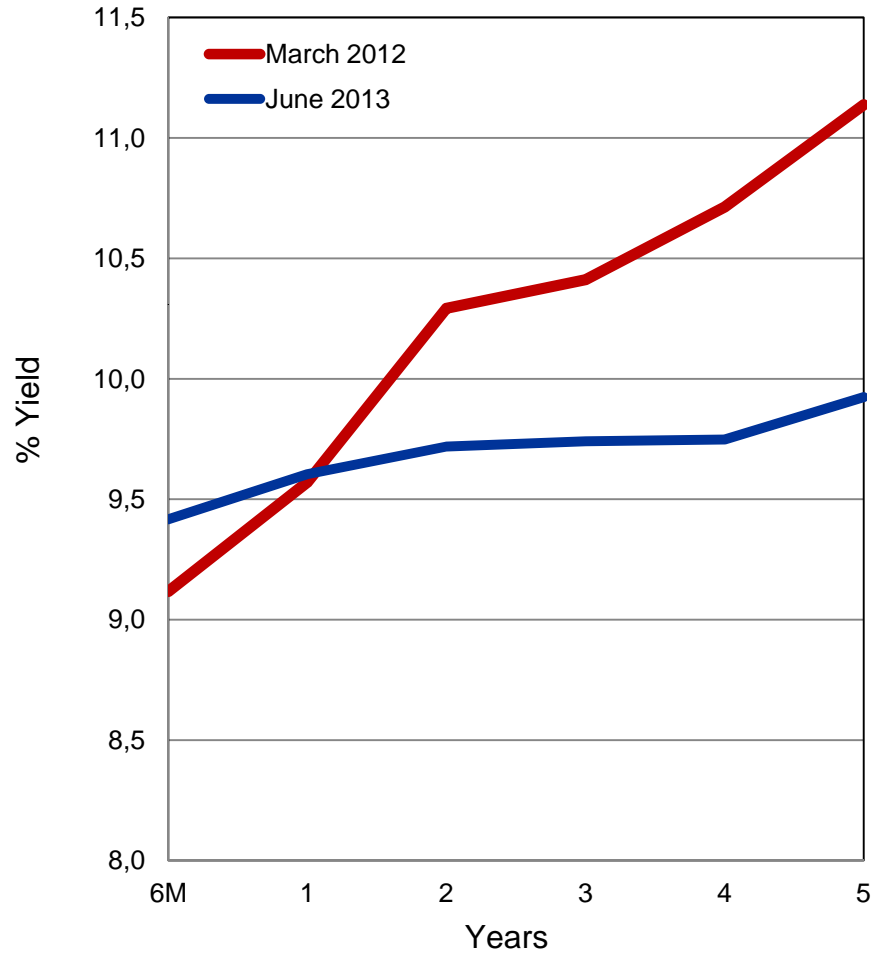
# CG DOMESTIC DEBT HELD BY NON RESIDENTS



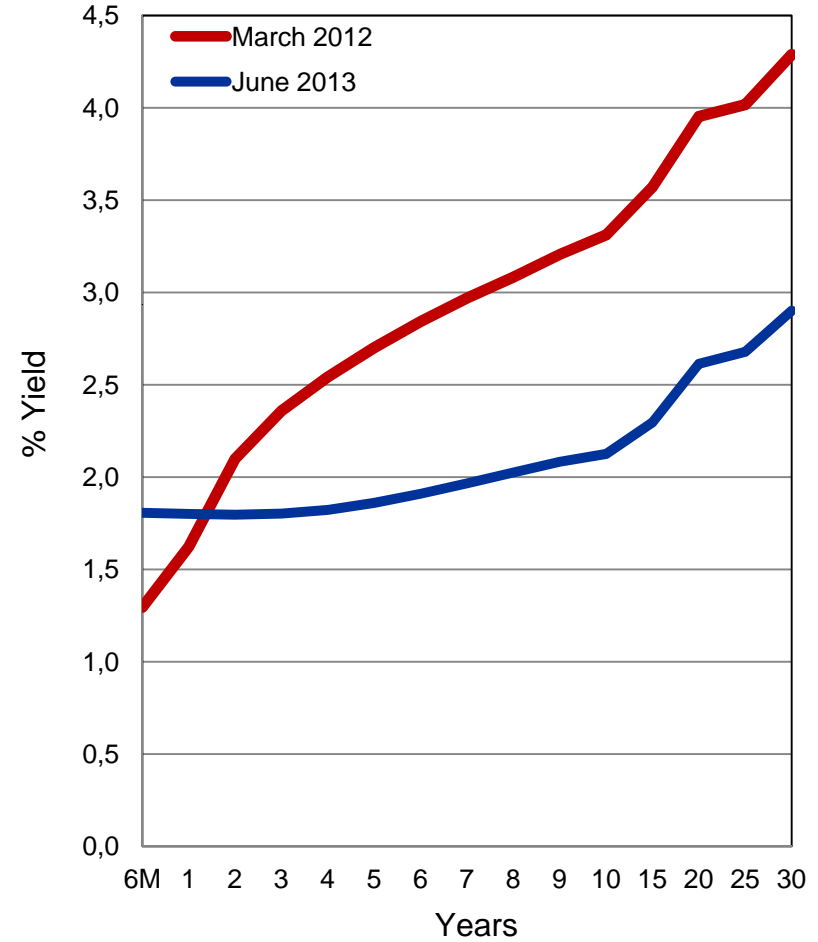
Source: Debt Management Unit, Ministry of Economy and Finance

## LOCAL CURRENCY CURVES

### Uruguayan Peso Curve (ITLUP)



### Indexed Units Curve (CUI)



Source: Debt Management Unit based on BEVSA

## WHY HAS THE DEMAND FROM NON RESIDENTS INCREASED IN URUGUAY?

### Push Factors

- Low Interest Rates and Weak Currencies in Advanced Economies

### Pull Factors

- Political and Social Stability, Sound Institutions & Smart Regulation.
- Sound Macro Policies and Conservative Debt Management.
- Recently regained Investment Grade Status (wider market) .
- New Issuance Program for the Local Market (liquid benchmarks).
- Relatively High Inflation increases appetite for Uruguay's Linkers (high return and low risk).
- Tight Monetary Policy to fight back Inflation (Monetary Policy Rate at 9.25%, highest among Latam IG peers).
- Appreciation of the Uruguayan Peso.

## CHALLENGES AHEAD

### Short Term

- Promote a stable FX Market
- Implementation of Monetary Policy
- Estimate of CG Accounts (Pesos and Dollars)

### Medium Term

- Decrease or sudden stop of foreign inflows.
- Adjustment of US Monetary Policy (increase of rates, USD appreciation).
- Importance of Local Investors to support a reverse of foreign inflows.

**THANK YOU**