Uruguay Debt Report

A quarterly report issued by the Debt Management Unit January 2011

Executive

With the objective of creating domestic benchmarks and as part of its dedollarization strategy, the Central Government issued the equivalent to USD 1,256 million in the local market.

In January 2011, the Central Government issued in the domestic market Notes in Uruguayan Pesos (UYU) and in Indexed Units (Linked to CPI) equivalent to USD 1,256 million. Most of the transaction was the result of an exchange of short term Central Bank securities (USD 1,121 million) for Notes issued by the Central Government with a longer maturity. Additionally, the equivalent to USD 136 million of new money was accepted.

The Republic issued the equivalent to USD 303 millions for a 3 years Peso Notes with a coupon of 9%, sold at an average yield of 9.11% that were 4.4 times subscribed. The 5 years Peso Notes with a coupon of 9.5% reached the equivalent of USD 252 million with a demand that was three times above the amount auctioned. The Note was issued with an average yield of 9.7%. Regarding the UI instruments, the Republic sold an amount equivalent to USD 702 million of Notes linked to CPI, USD 650 million were for the 8 years Note, with offers that represented more than three times the initial amount auctioned. The Note was issued at a yield of 3.23%, quite below Uruguay´s UI curve. The 15 year Notes, which were reopened in the equivalent of USD 52 million, reached and equivalent of USD 300 million. The yield accepted for these securities was 3.51%.

The primary purpose of the transaction was to enhance liquidity in the local market. This objective was successfully accomplished, since the final outstandings, measured in dollars, for the Notes were the following: around USD 300 million for the 3 years Peso Note, USD 250 million for the 5 years Peso Note, USD 650 million for the 8 years Indexed Units (UI) Note and nearly USD 300 million for the 15 years UI Note. This last instrument was a reopening of the 15 years Note (Serie 13) which had been auctioned weekly until December 2010.This operation also allows to continue implementing the prefunding policy undertaken by the Central Government, reducing the foreign currency risk and strengthening the presence of the Treasury in the local market.

It is worth noting that the Central Government had not been issuing in nominal pesos since 2005 and since then had carried on its dedollarization policy through the issuance of UI instruments. In this transaction the government issued Peso Notes of 3 and 5 years maturity, thus extending the peso curve which reached the 2 years tenor with the Central Bank´s instruments.

It is important to highlight the distribution of the investor base. A 42% of the issuance was bought by local banks, 40% by pension funds, 2% by retail investors through Montevideo Stock Exchange and the rest was allocated to Insurance Companies, Public Enterprises and others.

This transaction shows a significant progress in terms of increasing the percentage of debt denominated in local currency. These issuances increase such percentage from 34% at the end of 2010 (see Central Government Debt Indicators on the next page) to 39%. The Budget Law for the next four years indicates that to the extent market conditions allows, the government seeks to increase the percentage of debt in local currency from 30% at the end of 2009 to 45% at the end of 2014.

In line with the guideline of reducing the FX risk, the government has funded itself along 2010 basically with local currency issuances in the domestic market. At the same time, during 2010 the government has anticipated payments denominated in dollars for USD 470 million. At the end of 2010 Uruguay prepaid loans with the IADB for USD 300 millions whose maturities were below 2017. Comparing the Uruguayan cost of funding in the international market at the same maturity, this operation represented savings of USD 7,2 million for the government or 2.4% of the total amount outstanding. Also, the Government has been executing private debt buybacks for an amount equivalent to USD 170 million (nominal value) in 2010.

For the whole Public Sector debt (which includes both Central Bank and Central Government liabilities) there was an extension in the average maturity (ATM), since Central Bank securities -with an ATM of around 1.5 years were exchanged for issuances with ATM of 7 years. Also, this transaction has allowed the Central Bank´s reserves to be transferred to the Central Government through a market mechanism, since the Government sold to the Central Bank all the securities it received in the operation.

Central Government Risk Indicators

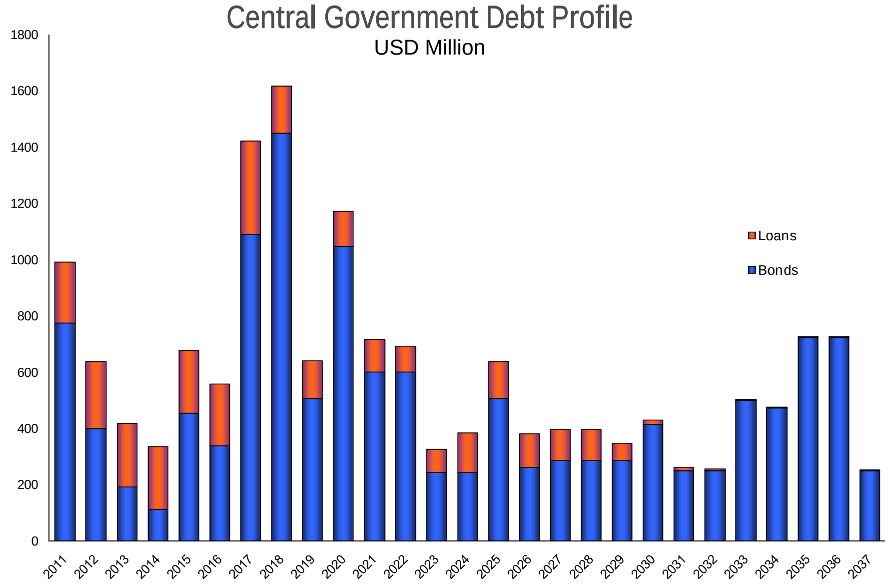
	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010
Roll Over Risk							
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%
Interest Rate Risk							
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4
% debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%
% debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%
Foreign Currency Risk							
% debt in Units linked to CPI	11%	11%	15%	26%	28%	31%	34%
% debt in dollars	62%	64%	77%	65%	64%	63%	58%
% debt in others currencies	26%	25%	8%	9%	8%	7%	8%
Debt Composition by Instrument							
Loans	44%	40%	0%	17%	19%	21%	19%
Bonds	56%	60%	0%	83%	81%	79%	81%
Debt Composition by Jurisdiction							
Local Market	22%	22%	23%	21%	16%	16%	18%
External Market	78%	78%	77%	79%	84%	84%	82%
Average interest rate (annual % by currency)							
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,6
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3

(1) Average time to Maturity

(2) Average time to Refix

Central Government Debt Profile

USD Million



Central Government Flow of Funds

USD Million

	2010	2011
USES	**2251**	**2244**
Interests Payments	948	1075
Amortizations	1156	1001
Loans	519	216
Bonds	637	785
Others	147	168
SOURCES	**2251**	**2244**
Primary Surplus	471	489
Multilaterals Disbursements	74	250
Issuances	594	1700
Others	154	120
Use of Assets*	957	-314

***Positive indicates a reduction in reserves**

Source: Debt Management Unit

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