Uruguay
Debt Report
A quarterly report issued by the Debt Management Unit April 2014

Executive

The Central Government restarts its domestic issuances in local currency to further improve the local debt market in consistent with the Financial Strategy presented in the Annual Budget Law ("Rendición de Cuentas").

As part of its strategy to improve the efficiency of the domestic government securities market and provide its participants with a sound basis for their decisions, the Central Government restarts in April its local issuances and presents a new auction calendar for the next six months. Emphasis is placed in ongoing efforts to establish liquid benchmarks in the medium term of the UI curve, thus completing the long-end provided by the Global Bonds. The Government intends to issue a new 3.5% coupon CPI-linked Treasury Notes with final maturity in 2020 (Series 20) and will continue reopening the CPI-linked Treasury Notes due on 2022 (Series 19) and issued in September 2012. Notes will be auctioned alternately every two months with an estimated nominal issuance of around UI 200 million and UI 120 million, Series 20 and Series 19 respectively (around USD 25 million and USD 15 million equivalent). The government has also established a target size for each benchmark which is around USD 500 million equivalent. The announced plan remains subject to further changes depending on market conditions and the Republic's financing needs throughout the year. You can find more information at http://deuda.mef.gub.uy/auction-results.

In March 2014 the Republic, in conjunction with the Central Bank (CBU), executed a liability management transaction in the local market. Among its main objectives was the improvement of the amortization debt profile and to continue supporting the ongoing de-dollarization process of the Central Government debt. This transaction also contributes to increase the average time to maturity (ATM) of the Whole Public Sector debt. At the same time, this operation provides an instrument that contributes to address the currency and interest rate mismatching of Banco de Seguros del Estado[1]'s liabilities in their social security insurance operations linked to Adjustable Units (AR)[2]. The Government is also inviting private insurance companies in similar situations as Banco de Seguros del Estado, to participate in this exchange.

The Republic issued the equivalent of USD1.0 billion (AR 32,276,939) in a 30-year Treasury Notes in Adjustable Unit (AR) (Series 1). The new Note has final maturity in 2044, and will amortize its capital in equal and consecutive annual installments beginning in 2040 to full maturity, and pays a coupon of 2.25% annual (issued at par). The Note was settled mostly through an exchange of short term Central Bank securities and, to a lesser extent, by Central Government treasury notes and bonds held by Banco de Seguros del Estado, the main player in the segment of social security insurance.

Through this transaction, the Central Government could extend its maturity profile in line with the objective of reducing roll-over risk, contributing to smooth the amortization debt profile as well as increasing the ATM of the debt in more than one year. In addition, further improvements were achieved towards the ongoing debt de-dollarization process, standing at 55% the percentage of debt denominated in local currency as of March 2014. For the whole public sector this transaction had virtually no impact in the total level of indebtedness, as the increase in Central Government´s debt was offset by an early redemption of CBU's short term liabilities.

The Central Government is also evaluating mechanisms to facilitate access for retail investors to investment instruments, and in that regard supports an initiative presented by the Central Bank to private financial institutions. They were invited to design and launch in the market an investment fund whose underlying assets will be Bills issued by the Central Bank in the local market. Any investor will be able to buy a share of the fund through a financial correspondent. This initiative seeks to facilitate access to larger amount of savings instruments for households, promote financial inclusion and allow local retail investor to access liquid, secure and simple instruments at a low transaction cost. In addition, this initiative contributes to strengthen the channels of transmission of monetary policy which targets monetary aggregates.

Going forward the Government is planning to continue on the path of market development, strengthening its issuance program in order to provide market participants with a sound basis for their decisions. Additionally, regular communication and feedback meetings with investors on market conditions will continue to take place. Moreover, measures to improve liquidity and the local market infrastructure such as security lending, buybacks and exchanges are all worthwhile actions under analysis by the DMU.

[1] State-owned insurance bank

[2] The AR is a Unit that adjusts in accordance of the evolution of the Average Wage Index published monthly by the INE (National Statistics Office),

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012 (*)	IV.2013 (*)	I.2014 (*)
Roll Over Risk											
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	10,8	11,9
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	3,3%	2,4%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	5,8	6,5 (3)
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	4,0	3,7	2,7	3,1 (4)
Interest Rate Risk											
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	8%	6%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,2	10,4	11,3
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,7	8,8	10,1
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%	93%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%	7%
Foreign Currency Risk											
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	54%	55%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	46%	45%
Debt Composition by Instrument											
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%	10%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%	90%
Debt Composition by Jurisdiction											
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	29%	31%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	71%	69%
Average interest rate (annual % by currency)											
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,6
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	4,0
Uruguayan Pesos								10,6	9,7	9,6	9,7
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

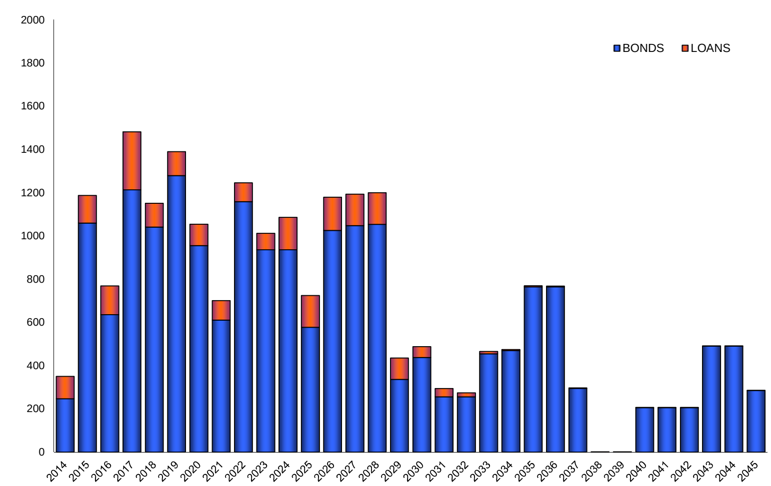
(3) 12 month period ended February 2014

(4) Amortizations of the next 12 months starting in April 2014

Central Government Debt Profile

As of March 2014

USD Million



Central Government Flow of Funds

USD Million

	2012	2013(*)	2014(*)
USES	**2689**	**3947**	**2036**
Interests Payments	1163	1326	1223
Amortizations	1227	1842	764
Loans	186	635 (1)	119
Bonds	1041	1207	644 (4)
Others	299	779 (2)	49
SOURCES	**2689**	**3947**	**2036**
Primary Surplus	195	522	405 (3)
Multilaterals Disbursements	186	61	144
Issuances	2436	2587	1215
Others	92	192	261
Use of Assets**	-219	585	11

(*) Preliminary Data

(1) Includes IADB Prepayment for USD 519 million in January 2013

(2) Includes Loan from the Executive to ANCAP for USD 517 million in January 2013 to prepay debt with PDVSA

(3) Source: Macroeconomic and Financial Advisory Unit Preliminary Estimate

(4) Includes Central Government treasury notes and bonds early redemption as a result of exchange with Banco de Seguros

** Positive indicates a reduction in reserves

Source: Debt Management Unit

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