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Opportunities and Challenges from the World Economic Situation for Debt Management in LAC: the case of Uruguay

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International and Regional Context

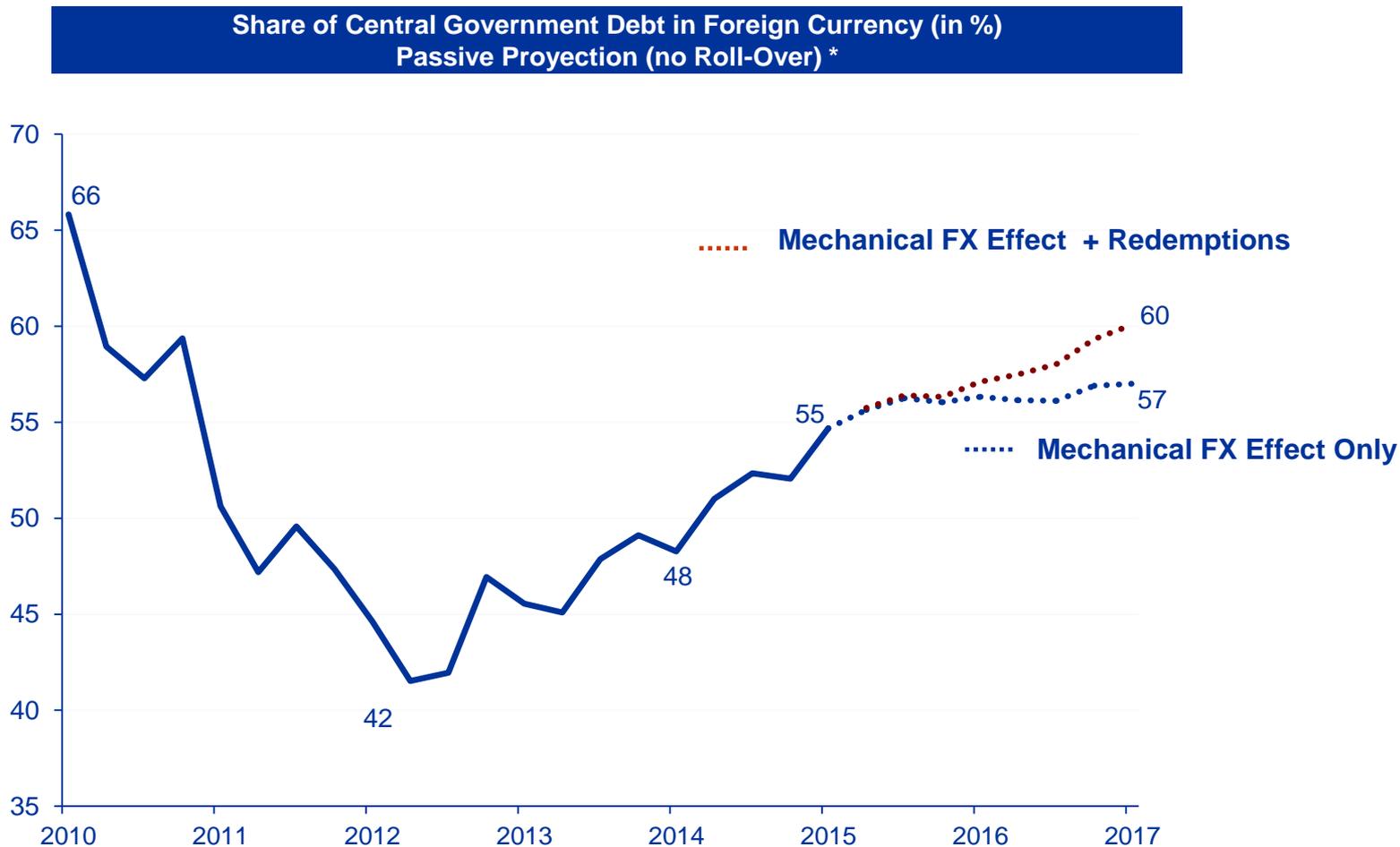
- Gradual increase in interest rates in the U.S. and strengthening of U.S. Dollar (and U.S economy).
- Divergent monetary policies in advanced economies.
- Global volatility and less appetite for emerging markets assets.
- Falling commodity prices and regional deterioration, particularly Brazil.



Main Challenges to Debt Management

- Inertial pressures for “re-dollarization” of public debt.
- Change in investors’ preferences: less demand for local currency and duration.
 - Limited range of financing options and increased execution risks.
 - Increasing local interest rate to offset currency depreciation.
- Behavior of non-resident investors in the local market.
- Changes in global bonds market structure and liquidity.

Mechanical and Inertial pressures for “re-dollarization” of government debt



(*) Assuming Annual Devaluation =12% and Inflation 9,5%

Strategies and Opportunities going forward



- Maintain and further reduce the foreign currency exposure in total debt:
 - Intensify use of derivatives (hedge against FX and interest rate risk) and currency conversion of multilateral credits.
 - Diversify the debt portfolio across hard currencies.
- Debt buybacks.
- Further develop the local bond market in coordination with the Central Bank.
- Increasing use of multilateral funding and strengthening of precautionary credit lines.

Several factors make Euro funding (or exposure) an attractive option:



1) Interest Rate Differential: Low Coupons → impact in Fiscal Balance

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95) Chart Page 1/4 Bond Yield Forecasts

Region G7 Spread 2 Year - 10 Year

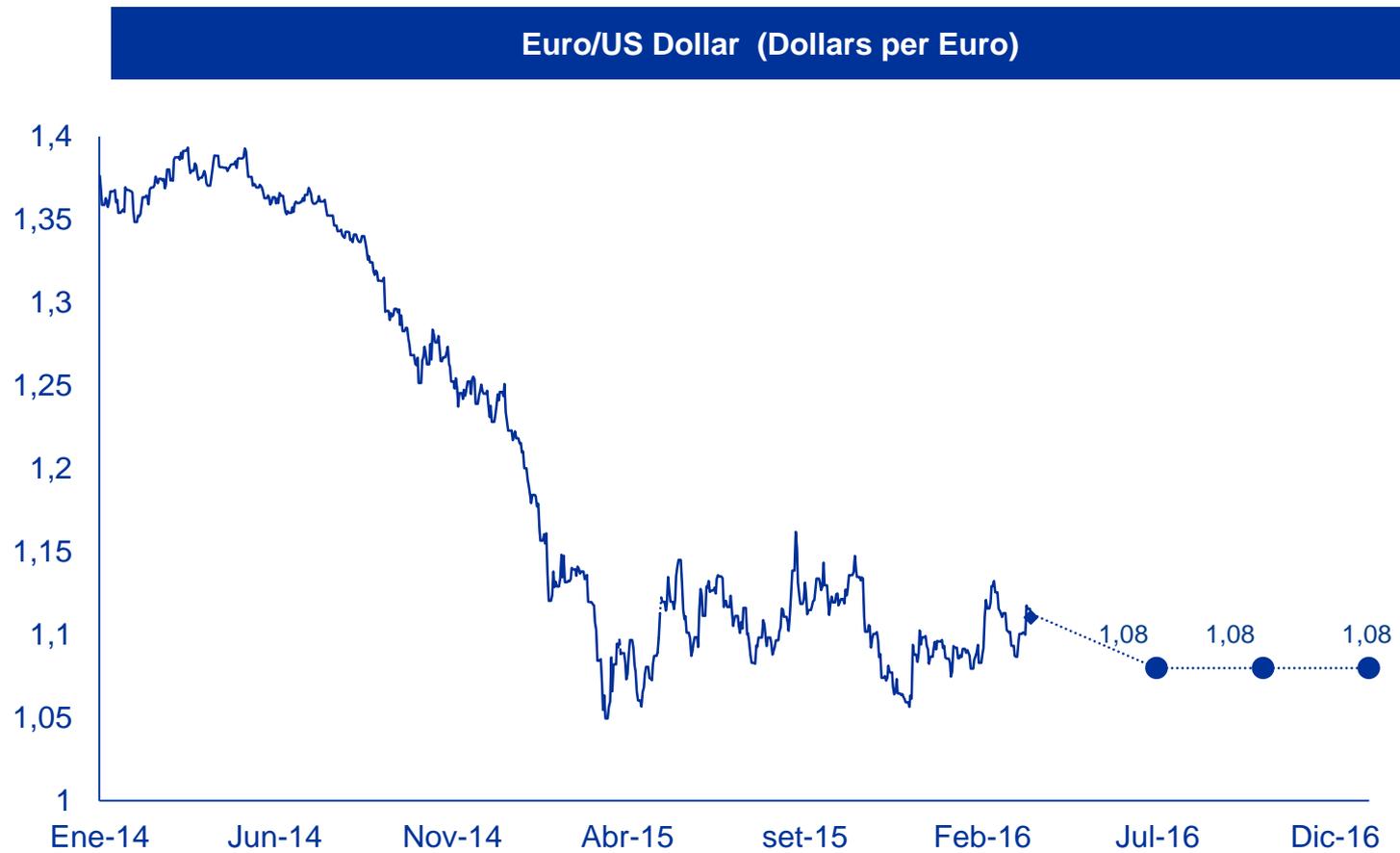
	Rate	Market Yield	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17
United States								
1)	US 30-Year	2.72	2.67	2.82	2.93	3.06	3.19	3.28
2)	US 10-Year	1.96	1.89	2.00	2.15	2.32	2.49	2.65
3)	US 2-Year	0.97	0.84	0.97	1.14	1.33	1.53	1.74
4)	US 3-Month Libor	0.64	0.63	0.76	0.92	1.08	1.28	1.55
5)	Federal Funds Target Rate - Upper Bound	0.50	0.50	0.70	0.80	1.00	1.20	1.45
6)	Federal Funds Target Rate - Lower Bound	0.25	0.26	0.45	0.57	0.76	0.96	1.20
	2 Year - 10 Year Spread	0.99	1.04	1.02	1.01	0.99	0.96	0.91
Germany								
7) *	Germany 10-Year	0.32	0.30	0.36	0.45	0.63	0.73	0.88
8) *	Germany 2-Year	-0.46	-0.48	-0.49	-0.46	-0.41	-0.37	-0.30
9) *	3-Month Euribor	-0.23	-0.26	-0.27	-0.28	-0.29	-0.27	-0.26
10) *	ECB Main Refinancing Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	2 Year - 10 Year Spread	0.77	0.78	0.85	0.91	1.04	1.10	1.18
Interest Rate Differential (UST - Euros, in bps)		164	159	164	170	169	176	177

* Official survey completed within last 2 days

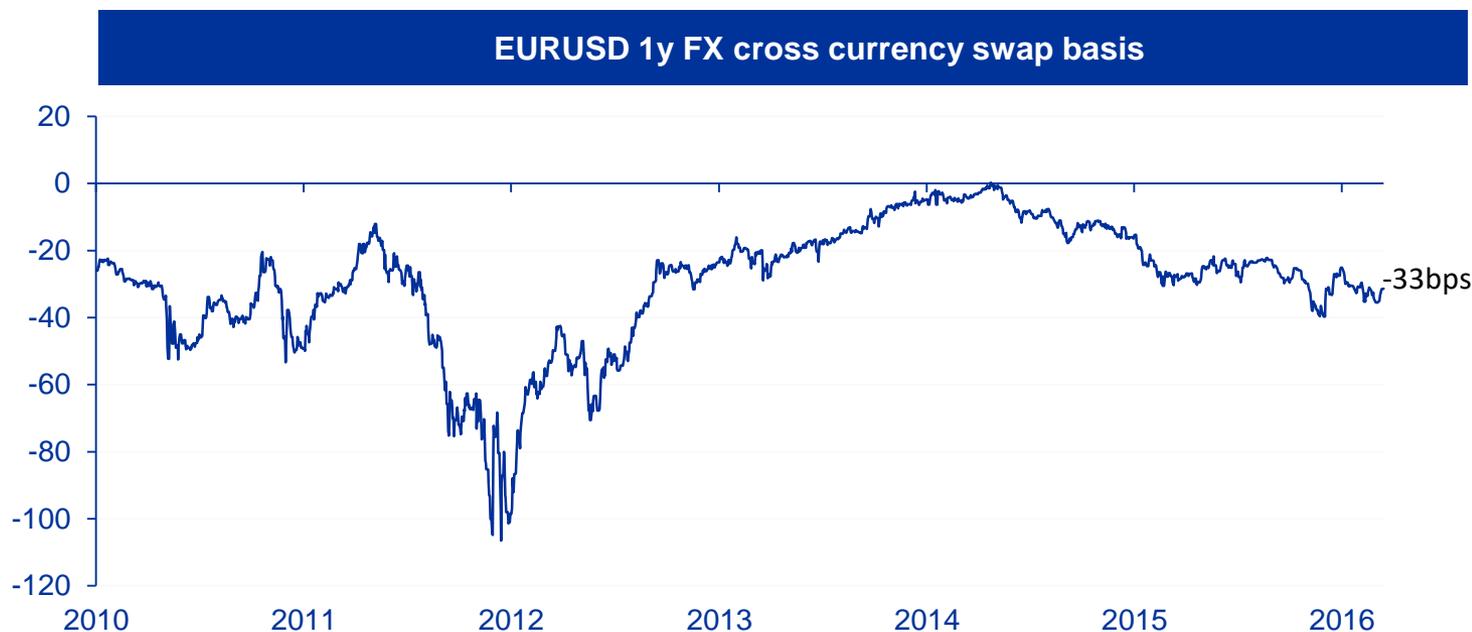
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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance L.P.
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2) EURO is expected to continue weakening



3) Basis Widening on Cross-Currency Swaps favors Euro borrowing



Transaction from the Point of View of Government of Uruguay:

Long Position in USD / Receives from Bank:
3m USD Libor



Borrows in Euros / Pays to Bank:
3m Euribor – 33bps