Ministerio de Economía y Finanzas

May 8th, 2024

Uruguay issued a new global CPI – linked bond with maturity in 2045 for an equivalent amount of USD 1.5 billion and re-tapped the global bond in nominal fixed-rate pesos with maturity in 2033, for USD 300 million equivalent

On Wednesday, May 8th, the government launched a global bond issuance transaction denominated in local currency for a total USD 1.8 billion equivalent, of which USD 1.5 billion was for a new CPI-linked bond with final maturity in 2045, and USD 300 million for the re-tap of the global bond in nominal pesos with final maturity in 2033. The transaction also featured a liability management component, including shorter-term global bonds and domestic securities (Treasury Notes and Monetary bills). This was the first time that Uruguay carried out a sovereign asset and liability management transaction (i.e, including both the Government`s and Central Bank`s securities as tender instruments) in global markets.

I. Transaction goals

1) Continue with the funding program for 2024.
2) Advance the de-dollarization process of central government debt.
3) Further develop the secondary market for global bonds in local currency, by establishing a new benchmark CPI-linked bond at a 20-year maturity and improving the liquidity of the nominal peso bond reference.

II. Design of the transaction

The transaction was executed intra-day and involved:

- The issuance of a new CPI-linked bond with maturity in 2045 (amortized in three annual payments in 2043, 2044 and 2045).
- The reopening of the global bond in nominal pesos with final maturity in 2033.
- Investors had the following options for settlement: (i) cash, (ii) global CPI-linked bonds of short-term maturity (maturing in 2027 and 2028) and/or iii) domestic

securities (CPI-linked Treasury Notes or Monetary Regulation Bills issued by the Central Bank) that matured in 2024 and 2025.

- The underwriters involved in the transaction were HSBC Securities (USA Inc.), Itaú BBA USA Securities Inc. and Santander Capital Markets LLC.

III. Results

- Total issuance was USD 1.8 billion equivalent, of which USD 1.55 billion was in the orderbook considered as cash (USD 1.25 billion equivalent of the new CPI-linked bond and USD 300 million equivalent of the reopening of the bond in nominal pesos). The remaining issued amount was used to fund the purchase of short-term global CPI-linked bonds.
- The issuance of the new global CPI-linked bond yielded an annual real yield of 3.40%, while the yield of the reopened global bond in nominal pesos was 9.15% per year.
- The transaction achieved low new estimated issue concessions (relative to reference rates in the secondary market the day before the issuance announcement). In the case of the new global CPI-linked bond, the estimated concession was close to 10 basis points, while the nominal yield of the reopened global bond was almost in line with secondary market prices.
- The consolidated order book was made up of 58 investment accounts from the United States, Europe, Asia, Latin America and Uruguay. Total demand for both bonds peaked at USD 2.6 billion equivalent. Of the maximum total demanded, 77% was for the new global CPI-linked bond with maturity in 2045.

IV. Assessment

- This was the first time the government executed a dual-tranche local currency bond issuance (in inflation-linked and nominal fixed rate pesos) in global markets.
- Likewise, it was also the first time that it concurrently launched an LM transaction targeting both global and domestic securities (Treasury Notes and Central Bank Monetary bills). In other words, both resident and non-resident investors had the option to purchase the global bonds being issued by paying them with cash and shorter-term global bonds, as well as with domestic securities from the Government (the issuer) or the Monetary Authority. Incorporating this financial mechanism required close coordination between the Ministry of Finance and

technical and operational areas of the Central Bank, including the Payment Settlement System department.

- The inclusion of domestic securities as eligible instruments sought to provide investors with greater financial flexibility and boost the demand for the issued bonds, thus seeking better funding conditions for the government.
- The 9.15% yield rate obtained in the reopening of the global bond in nominal pesos was lower than that obtained when this bond was first issued back in July 2023 (9.75%). The sustained reduction in inflation and in inflation expectations over the last year, together with improvements in Uruguay`s credit ratings, fundamentally explained the improvement in financing terms.