

Uruguay *Debt Report*



A quarterly report issued by the Debt Management Unit

October 2013

Executive

On August 6th, Uruguay concluded successfully the issuance of a new 2024 dollar global bond and concurrently executed an intraday liability management exercise in the international market. The final new issue size was USD 2bn, of which USD 1bn was new cash while the other USD 1bn was from the liability management exercise. This transaction creates a new liquid on-the-run 10-year benchmark reference, supports the pre funding policy implemented by the Central Government and provides funding flexibility to withstand stress scenarios.

Uruguay printed its first international bond of the year and found strong demand to place a USD 2billion total sized bond, which comprises a USD 1billion new cash component and USD 1billion liability management exercise. The main objectives of the transaction were to establish a new dollar 10-year reference bond and reinforce its status of "*benchmark*" by switching existing smaller and similar maturities issuances of the Republic to the new bond. Additionally, the Government sought to strengthen and reinforce its liquidity position as part of its pre-funding policy, taking advantage of the favorable conditions of capital markets with historic low rates and the perspective of increasing interest rates in the international environment.

It is worth noting that both legs of the transaction were announced concurrently and book-built hand-in-hand which each other intraday, reducing the time that the Government was in the market in a context of ongoing volatility and tangible anxiety among investors with regards of the path of the Treasury rates. Early August, US Treasury yields were unlikely to retest 2012-2013 lows with markets on notice that monetary policy in the US was likely to become less accommodative.

It is important to highlight that Uruguay's solid credit position allowed to build a book with important accounts and new investors from the region. The initial launch announcement for the cash component was set at USD 1billion, benchmark size. The deal received immediate strong demand and the book was quickly oversubscribed reaching USD 3.5billion, with mostly high quality investors. Appetite was truly global, attracting a broad demand with investors across USA (64%), Europe (28%), LATAM (7%), Africa and Asia (1%).

The Government also launched a Tender Offer to reduce four dollar bonds (7.50% 2015, 9.25% 2017, 8% 2022 and 6.875% 2025), whose holders could get into the new 2024 to complete USD 1billion and reach a total size of USD 2billion of the new issue. Thus, the Republic was able to reduce a significant portion of older and fairly illiquid USD bonds by a concurrent "Switch" Tender Offer, where participants either partook in the switch or were automatically allocated the market value of the notes they pledged in the new issue book or tendered their existing notes for cash. The switch Tender Offer pulled in approximately USD763 million in switches (market value of USD 983 million) which then formed part of the new issue, accomplishing the Republic's objective of enhancing liquidity of its Global USD curve by establishing a new large and broadly distributed USD benchmark.

As done in prior transactions, the Republic capped the amount of new bonds to be issued in USD 2billion, both for new cash buyers as well as for switcher. This was done in an effort to avoid creating excessive maturity concentration along the redemption profile. Only 50% of such maximum principal amount, in turn, could be used in the cash tender invitation.

The new USD benchmark deal was launched with initial price guidance of 200bps over US Treasury. Given the strong demand, guidance narrowed to T+187.5/200, with the bond finally priced at the tight end, T+187.5 bps. The Government was able to raise new funding in an efficient manner with a bond issued at a coupon of 4.5% and a yield of 4.521%.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012 (*)	I.2013 (*)	II.2013 (*)	III.2013 (*)
Roll Over Risk												
ATM (years) ⁽¹⁾	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	11,8	11,1	11,1
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	2,7%	3,6%	2,6%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	6,1	6,6	4,3 (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	1,6	1,5	4,0 (4)
Interest Rate Risk												
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	6%	9%	8%
ATR (years) ⁽²⁾	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,2	11,4	10,6	10,6
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,7	10,0	8,9	9,1
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%	95%	95%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%	5%	5%
Foreign Currency Risk												
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	59%	58%	53%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	41%	42%	47%
Debt Composition by Instrument												
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%	11%	10%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%	89%	90%
Debt Composition by Jurisdiction												
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	32%	32%	29%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	68%	68%	71%
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	6,1	6,1	5,6
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,1	4,0	4,0	4,0
Uruguayan Pesos								10,6	9,7	9,7	9,6	9,4
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,8	5,8	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	1,9

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

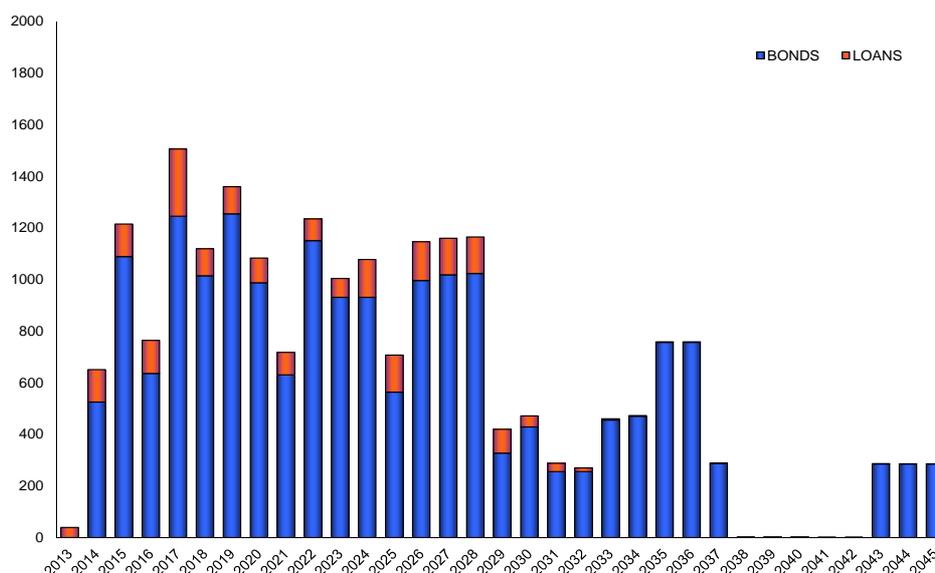
(3) 12 month period ended August 2013

(4) Amortizations of the next 12 months starting in October 2013

Central Government Debt Profile

As of September 2013

USD Million



Central Government Flow of Funds

USD Million

	2012	2013(*)	2014(*)
USES	2689	3947	1959
Interests Payments	1163	1327	1250
Amortizations	1227	1840	659
Loans	186	635 (1)	126
Bonds	1041	1205	533
Others	299	779 (2)	49
SOURCES	2689	3947	1959
Primary Surplus	195	450 (3)	383(3)
Multilaterals Disbursements	186	83	118
Issuances	2436	2733	850
Others	92	192	245
Use of Assets**	-219	488	363

(*) 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

** Positive indicates a reduction in reserves

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