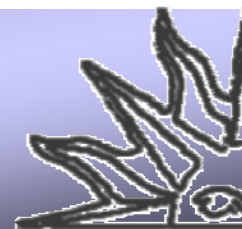


Uruguay Sovereign Debt Report



A quarterly report issued by the Debt Management Unit of the Ministry of Economy and Finance

January 2017

Highlights

- New domestic issuance calendar for local-currency Treasury Notes for the period December 2016-May 2017.
- Government intends to issue during 2017 local-currency Treasury Notes linked to nominal wage index.
- Meeting of the Public Debt Coordination Committee of the Central Bank and Ministry of Finance.
- R&I affirmed Uruguay's credit rating at BBB-, leaving the Positive Rating Outlook unchanged.
- Holders of Treasury Notes maturing during 2017Q1 will have the option to receive final payment of interest and principal in either Pesos or US Dollars.

New domestic market issuance calendar for December 2016 – May 2017

On November 30th, 2016, the Central Government announced its issuance calendar in the domestic market for the period December 2016-May 2017, re-opening on-the-run Treasury Notes in Nominal Pesos and CPI-linked units (UI). The new calendar will continue providing predictability to the market and contributing to efficient price discovery, while supporting the consolidation of benchmarks bonds. The Government expects to raise the total equivalent of around USD 260 million¹ in fifteen auctions according to the following schedule:

Auction Date	Currency	Security	Coupon (in %)	Maturity Date	Auction amount (*) (in USD million equivalent)	Amount Issued (in USD million equivalent)
12-13-2016	Nominal Pesos	Series 8	13.90	07-29-2020	22	22
12-27-2016	CPI-linked (UI)	Series 24	5.25	12-29-2021	15	25
01-10-2017	Nominal Pesos	Series 8	13.90	07-29-2020	22	31
01-24-2017	CPI-linked (UI)	Series 23	5.20	06-17-2019	15	16
01-24-2017	CPI-linked (UI)	Series 21	4.00	11-26-2025	12	3
02-07-2017	Nominal Pesos	Series 8	13.90	07-29-2020	22	
02-21-2017	CPI-linked (UI)	Series 24	5.25	12-29-2021	15	
03-14-2017	Nominal Pesos	Series 8	13.90	07-29-2020	22	
03-28-2017	CPI-linked (UI)	Series 23	5.20	06-17-2019	15	
03-28-2017	CPI-linked (UI)	Series 21	4.00	11-26-2025	12	
04-04-2017	Nominal Pesos	Series 8	13.90	07-29-2020	22	
04-25-2017	CPI-linked (UI)	Series 24	5.25	12-29-2021	15	
05-09-2017	Nominal Pesos	Series 8	13.90	07-29-2020	22	
05-23-2017	CPI-linked (UI)	Series 23	5.20	06-17-2019	15	
05-23-2017	CPI-linked (UI)	Series 21	4.00	11-26-2025	12	

(*) For February 2017 onwards, dollar figures are expressed using the exchange rate and UI prevailing on 1/31/2017.

Starting in mid-December 2016 (the first auction under the new calendar), the government resumed issuance of Nominal Peso Treasury Notes due 2020 (Series 8). These will continue to be offered on a monthly basis with an auction volume of 650 million Pesos (around USD 22 million). Likewise, it will continue reopening CPI-linked Treasury Notes benchmarks in the middle and shorter section of the curve (Series 21, Series 23 and Series 24). Auction amounts for Series 23 and 24 are UI 125 million (around USD 15 million), while for Series 21 is UI 100 million

¹ Government is legally authorized to allocate up to an additional 100% of the original tendered amount on each auction.

(around USD 12 million). Treasury Notes can be settled in Uruguayan Pesos or US Dollars. For more information please access the [Press Release](#) or visit the [DMU's website](#).

Government plans to issue Treasury Notes linked to nominal wage index during 2017

Government will submit legislation in 2017Q1 to create a new daily accounting unit that would track changes to the nominal wage index (*Índice Medio de Salario Nominal - IMSN*). If passed by Congress, Government intends to issue medium and long-dated Treasury Notes in local currency tied to these nominal wage changes.

The main goal of this new issuance strategy is to supply market securities that can be used by insurance companies to match the currency and maturity composition of assets and liabilities in their retirement annuity business². At the same time, this demand for local currency instruments will also help to underpin the public sector's debt de-dollarization strategy, broadening its sources of financing in local markets.

Developing a yield curve in this new unit of account is a foundation, and a necessary prerequisite, for the emergence of an efficient and transparent swap market between the new accounting unit and the index that tracks changes in consumer prices (Unidad Indexada, UI). Going forward, these financial derivatives could provide insurance companies with additional market instruments for better risk-management.

Public Debt Coordination Committee Meeting

On December 14th the Public Debt Coordination Committee (PDCC) held a new quarterly meeting. The topics covered included: (i) progress made to strengthen and update the regulatory framework of the retirement annuities market; (ii) issuance strategy of wage-indexed bonds, (iii) public companies' strategies to manage FX and interest rate risks exposure, including use of financial derivatives; (iv) recent developments in local and international financial markets after the US presidential and the rate increase by the US Federal Reserve. Access de [PDCC Press Release](#). Next meeting will take place in March 2017.

R&I affirmed Uruguay's credit rating at BBB- and left the Positive Rating Outlook unchanged

On December 26th, Rating and Investment (R&I) affirmed the Foreign Currency Issuer Rating of BBB-, leaving the Positive Rating Outlook unchanged. In R&I's view, the government has reinforced its commitment to fiscal consolidation, and the economic outlook has been brightened particularly through stronger investment. Nevertheless, given the uncertainty of the external environment, economic trends and execution risks for fiscal and monetary policies continue to warrant attention according to R&I. A rating upgrade will become more likely if a steady implementation of a fiscal consolidation plan can be envisaged. Access to [R&I Rating Report](#).

Holders of Treasury Notes due on 2017Q1 will have the option to receive final payment of interest and principal in either Pesos or US Dollars

The Government has granted the option to receive the final payment of interest and principal of Treasury Notes coming due during 2017Q1 in either Pesos or US Dollars. This comprises the CPI-linked Treasury Note already due on 01/05/2017 (Series 10) and the Nominal Peso Treasury Note due on 03/21/2017 (Series 5). Bondholders who have a preference to receive their final payment in US Dollars shall proceed as indicated in the [Communication](#) released by the Central Bank of Uruguay (which acts as financial agent of the Republic).

² In Uruguay's defined-contribution pillar of the pension system, once people retire their savings in the pension funds are transferred to insurance companies that serve annuities. These annuities are adjusted by the IMSN index by law. The state-owned *Banco the Seguros del Estado* (BSE, currently the only player in this market) invests most of its assets under management in CPI-indexed securities— thus running a growing exposure to the relative movements of nominal wages and inflation. Having the possibility to invest in assets that co-vary with the wage index (either through bond purchases or, eventually, swaps), would allow the BSE to hedge its obligations and reduce its balance sheet risk. It could also provide incentives for private insurance companies to re-enter this market, as the pension system matures in coming years and larger numbers of retirees will be seeking to use their lump-sum savings to purchase annuities.

CENTRAL GOVERNMENT'S DEBT AND ASSET STATISTICS

Central Government's statistics presented below are compiled by the Debt Management Unit (DMU) of the Ministry of Economy and Finance, with the purpose of monitoring debt portfolio indicators and supporting design of debt management strategies. Debt figures include all loans and public securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private and public-sector agents¹. Total assets include deposits of the National Treasury at the Central Bank and *Banco de la República* accounts.

Table 1. Central Government Debt and Asset Position

(in USD million, end-period)

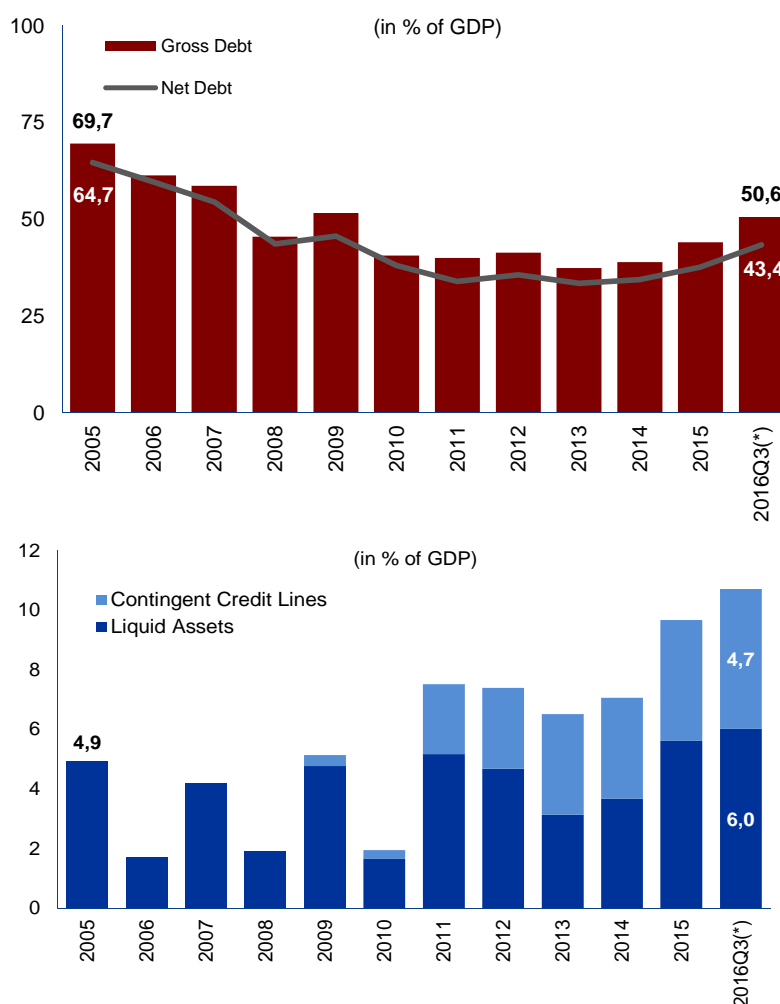
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q3(*)	2016(**)
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	26.139	26.098
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.729	3.320
<i>Liquid Assets</i>	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	3.106	2.515
Net Debt	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	22.410	22.778
Contingent Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	2.417
<i>Memo Item: Nominal GDP (in USD)</i>	17.403	19.630	23.468	30.387	31.703	40.263	47.997	51.229	57.483	57.276	53.461	51.610	(**)

(*) Preliminary

(**) To be released by the Central Bank in March 2016.

Source: Debt Management Unit

Figure 1. Central Government Debt and Financial Buffers



Source: Debt Management Unit

¹ The Central Bank of Uruguay compiles debt statistics for the [consolidated Public Sector](#). This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the [2015 IMF Article IV Report](#), Uruguay is a particular case among emerging market economies as it is one of the very few countries to report official debt statistics for the whole public sector, including Central Bank's liabilities.

The Debt Management Unit of the Ministry of Economy and Finance contributes to the [Standardized Public Debt Database of the Inter-American Development Bank LAC Debt Group](#). The information in the database, provided by the public debt offices of LAC countries, is intended to compile up-to-date standardized statistics for objective and homogeneous definitions of public debt to conduct cross-country comparisons.

Table 2. Composition of Central Government Debt
(in % of total, end-period)

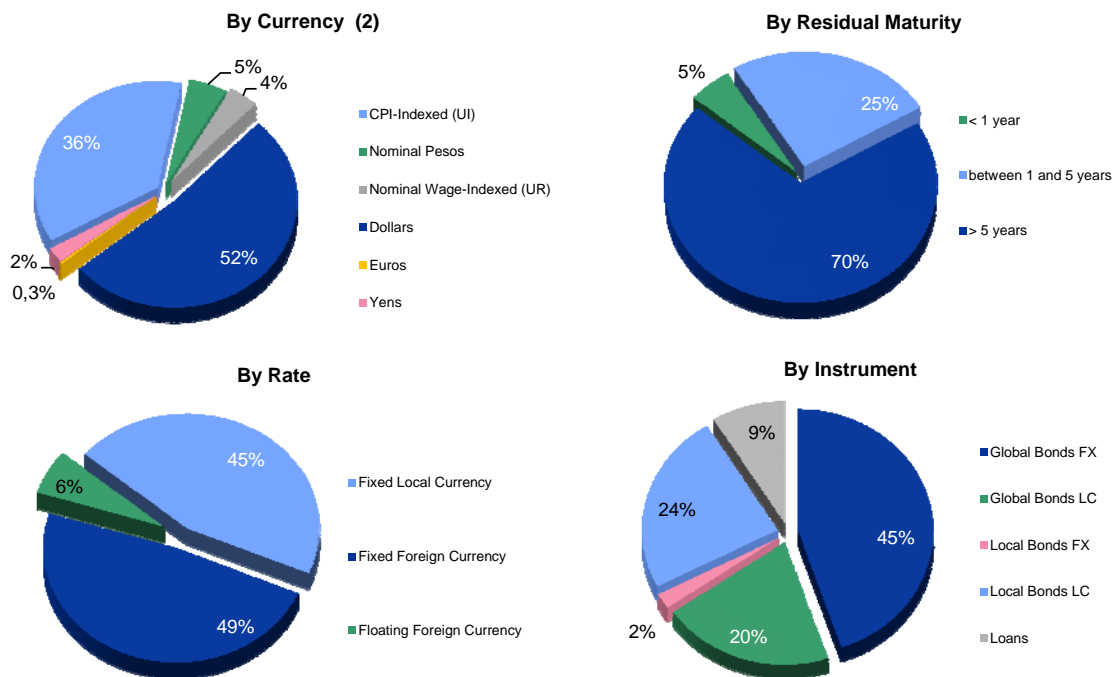
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016(*)
<i>By Currency</i>												
Foreign Currency (FX)	88	85	74	72	69	66	51	45	46	48	55	55
Dollars	68	77	65	64	63	59	44	40	42	45	52	52
Other	21	8	9	8	7	7	6	5	4	3	3	3
Local Currency (LC)	12	15	26	28	31	34	50	55	54	52	45	45
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	4
<i>By Residual Maturity</i>												
Short-Term (less than one year)	16	5	3	2	4	6	3	3	3	4	3	5
Medium and Long Term	84	95	97	98	96	94	97	97	97	96	97	95
<i>By Rate</i>												
Fixed (1)	78	82	83	81	91	88	94	95	95	94	94	94
Floating	22	18	17	19	9	12	6	5	5	6	6	6
<i>By Instrument</i>												
Bonds	60	82	83	81	79	81	85	87	90	91	91	91
Loans	40	18	17	19	21	19	15	13	10	9	9	9
<i>By Jurisdiction Issued</i>												
Local Market	22	23	21	16	16	18	25	30	29	29	26	26
Foreign Market	78	77	79	84	84	82	75	70	71	71	74	74

(*) Preliminary

(1) Includes local currency securities issued at fixed real rate

Source: Debt Management Unit

Figure 2. Breakdown of Central Government Debt
(As of end-December 2016)



(2) Foreign currency composition is defined on a contractual basis and does not reflect adjustment for FX hard-currency swap operations.

Source: Debt Management Unit

Table 3. Central Government Debt Indicators

(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016(*)
<i>Roll-Over and Liquidity Risk</i>												
Average Time to Maturity (in years)	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	10,8	14,4	14,4	13,8
Share of debt due in one year	16,0	4,8	2,9	2,3	3,6	5,5	2,6	2,8	3,3	4,1	2,6	5,1
Liquid Assets /Amortization due in one year	0,3	0,4	0,7	1,6	1,4	0,7	4,0	3,7	2,7	1,9	4,8	1,9
<i>Interest Rate Risk</i>												
Duration (in years)	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,8	8,8	11,3	10,6	10,3
Share of debt that refixes in one year	33,7	21,9	18,1	20,0	10,6	15,1	6,6	6,6	8,3	7,3	6,3	8,2
Average Interest Rate (1)												
Dollars	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,3	5,1	5,1
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9	5,9	5,3
Yens	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9	1,9	1,9
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,5
CPI-Indexed (UI)	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	3,9	4,0	4,1
Nominal Wage-Indexed (UR)										2,3	2,3	2,3

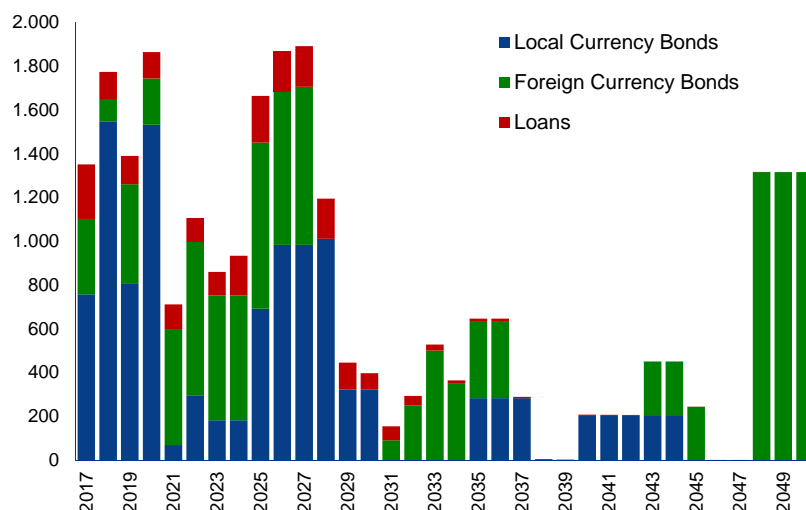
(*) Preliminary

(1) Weighted average rate

Source: Debt Management Unit

Figure 3. Central Government Redemption Profile, by Instrument

(All values as of end-December 2016, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2015	2016(*)	2017(*)
USES	3.519	2.620	2.970
Interests Payments	1.271	1.414	1.492
Amortizations	1.640	626	1.338
Loans	115	114	249
Bonds	1.525	512	1.089
o/w Prepayments	605	0	0
Primary Deficit	265	561	120
Others	344	20	20
SOURCES	3.519	2.620	2.970
Multilaterals Disbursements	136	373	550
Market Bond Issuance	4.157	1.717	2.050
Others	227	141	170
Use of Assets (**)	-1.001	390	200

(*) Preliminary

(**) Positive indicates a reduction in Central Government reserves.

Source: Ministry of Economy and Finance.

DEBT MANAGEMENT UNIT

Herman Kamil, Director

Gabriela Billeci

Victoria Buscio

Antonio Juambeltz

Rodrigo Saráchaga

CONTACT INFORMATION

 +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy