Uruguay
Sovereign Debt Report

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

July 2018

Highlights

- **The government issued in the domestic market its first local currency-denominated Treasury Note in Pension Units (indexed to the nominal wage).**
- **Foreign currency-denominated multilateral loan converted to Uruguayan Pesos through innovative execution.**
- **S&P affirmed Uruguay's rating at BBB with stable outlook; Moody's released its annual credit analysis on Uruguay's Baa2 issuer rating with stable outlook.**

New domestic market issuance calendar for July-December 2018

On June 26th, the Central Government announced its issuance calendar in the domestic market for the period July-December 2018, in line with the financial strategy presented in the most recent Annual Budget Review. The new calendar continues providing transparency and predictability to the market, promoting efficient price discovery. In this regard, the government intends to continue consolidating benchmark bonds by re-opening CPI-linked (UI) Treasury Notes for a total equivalent of around USD 240 million.[1] In addition, the government started issuing Treasury Notes denominated in Pension Units (UP for its acronym in Spanish) which tracks the Nominal Wage Index, for a total equivalent of around USD 135 million. The schedule is as follows[2]:

Auction Date	Instrument	Currency	ISIN	Maturity	Issuance type	Amount Auctioned (in millions)		Amount Issued (in millions)	
						Original Currency	USD equiv.	Original Currency	USD equiv.
07-10-2018	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325	40	344	43
07-24-2018	Series 1	UP	N/A	07-25-2025(*)	New	550	18	908	29
07-31-2018	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100	13	152	20
08-14-2018	Series 13	UI	UYNA00013UI7	05-25-2025(*)	Reopening	225	29		
08-28-2018	Series 2	UP	N/A	08-29-2033(*)	New	850	28		
09-11-2018	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325	42		
09-18-2018	Series 1	UP	N/A	07-25-2025	Reopening	550	18		
09-25-2018	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100	13		
10-16-2018	Series 13	UI	UYNA00013UI7	05-25-2025	Reopening	225	29		
10-30-2018	Series 2	UP	N/A	08-29-2033	Reopening	850	28		
11-13-2018	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325	42		
11-20-2018	Series 1	UP	N/A	07-25-2025	Reopening	550	18		
11-27-2018	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100	13		
12-11-2018	Series 13	UI	UYNA00013UI7	05-25-2025	Reopening	225	29		
12-18-2018	Series 2	UP	N/A	08-29-2033	Reopening	850	28		

Forthcoming auctions expressed in USD equivalent as of 07/31/2018.
(*) Amortizable over the last three years

[1] Government is legally authorized to issue up to an additional 100% of the original tendered amount on each auction (CPI-linked and nominal wage-linked securities).

[2] As of July 31st, the amounts outstanding for the CPI-linked Treasury Notes being auctioned are: 2.472.330.000 UI (around USD 317 mn) for Series 24, 1.208.540.000 UI (around USD 156 mn) for Series 25 and 4.553.560.000 UI (around USD 583 mn) for Series 13. The outstanding of nominal wage-linked Series 1 is 908.270.000 UP (around USD 29 mm).

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. Auction details announcement are done one week prior to the auction date.

Year-to-date, the government has already raised a total of **USD 2.3bn** in domestic and external capital markets (85% of the overall 2018 issuance target of USD 2.7bn).

The government issued its first local currency bond denominated in Pension Units

The Pension Unit (UP) is a daily accounting unit that tracks changes to the Nominal Wage Index. It was created by law on April 13th and took the initial value of one peso ($U 1.00) on April 30th, 2018.[3] The supply of this new asset provides insurance companies in Uruguay's retirement annuity business, among others, a means to hedge their currency and maturity risks in their balance sheets.[4] In this regard, the UP overcomes the drawbacks of the Readjustable Unit (UR, also indexed to nominal wages introduced in 1968) that has hindered the development of an efficient market to hedge and trade real wage risk.[5]

On July 24th, the government auctioned the first local currency Treasury Notes denominated in UP with a 7-year tenor and a 1.5% semiannual coupon, and principal payment equally distributed in the last three years of the bond life.

The bond was issued at par, with a real 1.5% yield cut rate. The government raised 908 million UP (approximately USD 29 million, given the 1.0038 value of the UP on July 25th), above the UP550mn initially intended for this auction. Total demand for the instrument was almost UP2.5bn (approximately USD 80 million), and came from a diverse set of investors (pension funds, insurance companies, banks and retail). The next UP-denominated Treasury Note will have a 15-year tenor and auctions in late August.

World Bank' dollar-denominated loan converted to Uruguayan Pesos through innovative structure

During May and July, the government converted outstanding loans with the World Bank from US Dollars to Uruguayan Pesos, continuing the strategy of reducing exposure to foreign exchange risk.

The World Bank generally provides local currency conversions on loans if it can hedge its local currency risk. Because the swap market in UYU is not yet sufficiently developed, especially at longer maturities, loan conversions to local currency are typically less cost-efficient for the Republic. In view of this, the World Bank, in coordination with the government, adopted an innovative strategy consisting of lining up a 10-year bond in nominal pesos issued by the World Bank with a 14-year loan conversion for the Republic. This transaction allowed the government to convert around USD 30mn of a floating dollar-denominated loan with the World Bank (paying 6M Libor + 46 bps), into fixed-rate Uruguayan Pesos (paying an average fixed-rate of 9.5%).

By providing both sides of the transaction to a market dealer who only took residual risk of mismatch in the amortization profile from both transactions, the World Bank was able to offer the Republic a significant price improvement compared to what it would have obtained through a stand-alone cross-currency swap. Going forward, these types of structures could be used as a stepping-stone in the development of a swap market in UYU.

As part of its strategy to increase the share of public sector debt denominated in local currency, the DMU will continue to look for favorable market opportunities to convert other foreign currency loans into fixed-rate and CPI-indexed local currency.

S&P affirmed Uruguay's credit rating at BBB with stable outlook. Moody's released its annual credit analysis on Uruguay's Baa2 issuer rating with stable outlook.

On May 9th, S&P affirmed Uruguay's long-term foreign and local currency sovereign rating at BBB with stable outlook. According to S&P, Uruguay's rating reflects a track-record of balanced growth and the economy's solid external

[3] See Bloomberg ticker <URUDUP Index> for more details.

[4] Since 1989, Uruguay's Constitution explicitly mandates indexation of pensions to the average wage index.

[5] Current government' debt portfolio has a Treasury Note denominated in UR with an outstanding amount equivalent to USD1.1bn as of 07/31/2018.

position. These factors are balanced by persistently high general government deficits, the substantial share of foreign currency in the government's debt stock, and elevated levels of dollarization in the financial sector. A sustained decline in inflation, along with further deepening of local capital markets could, in S&P's view, facilitate the government's ongoing efforts to increase the share of local currency in its debt stock and reduce the sovereign balance sheet exposure to exchange-rate fluctuations, leading to a higher rating over the next two years. Access to S&P Research Update.

On July 26th, Moody's released its annual credit analysis that elaborates on Uruguay's credit profile in terms of economic strength, institutional strength, fiscal strength and susceptibility to event risk. According to Moody's, Uruguay's Baa2 rating with stable outlook reflects a strong institutional framework that reinforces political and social stability and makes the country an attractive destination for FDI. Comparatively large fiscal reserves and external buffers, a moderate central government debt burden and very strong liability management practices also support creditworthiness. Moody's expects that government measures to reduce the fiscal deficit will contribute to the stabilization of the debt metrics. Access Moody's Credit Analysis. In addition, on July 19th Moody's published a research report analyzing the latest fiscal developments following the 2017 Budget Review presented by the government on June 30th. Click here to access the report.

Meeting of the Public Debt Coordination Committee

The Public Debt Coordination Committee (PDCC) held its quarterly meeting on June 27th, 2018. The PDCC addressed the following topics: (i) recent developments in local and international markets, as well as changes in prices and liquidity in Uruguayan government securities` secondary bond markets; (ii) government`s financing plans in local currency in the second half of the year, and (iii) debt currency conversions with multilaterals credit organizations. Access to the PDCC Press Release here.

CENTRAL GOVERNMENT`S DEBT AND ASSET STATISTICS

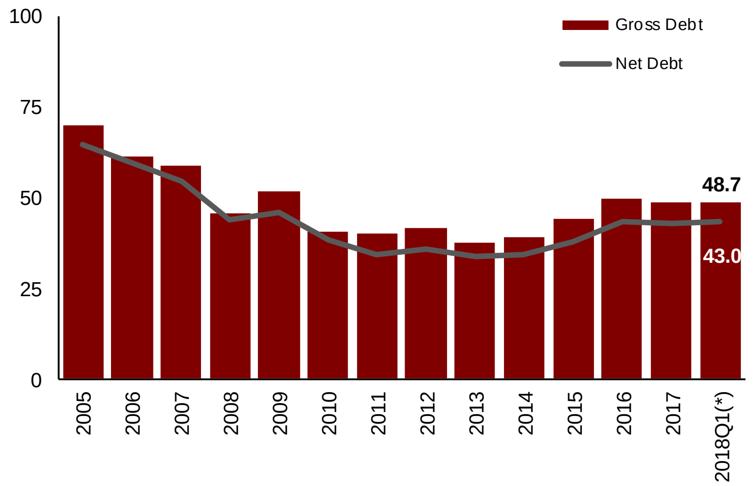
Central Government`s statistics presented below are compiled by the Debt Management Unit (DMU) of the Ministry of Economy and Finance, with the purpose of monitoring debt portfolio indicators and supporting design of debt management strategies. Debt figures include all loans and public securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private and public-sector agents[1]. Total assets include deposits of the National Treasury at the Central Bank and *Banco de la República* accounts.

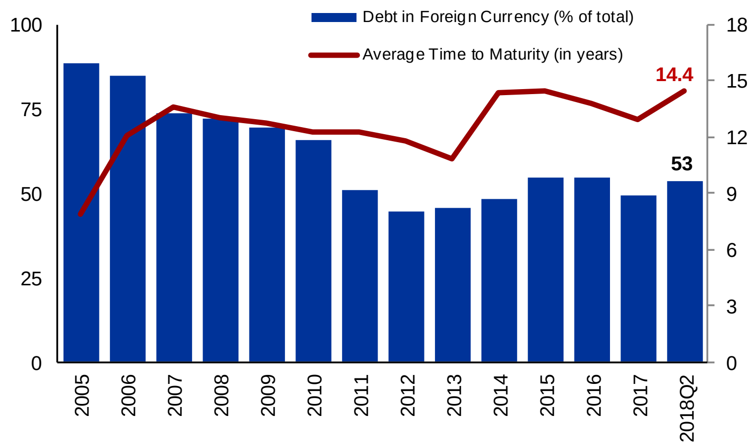
Table 1. Central Government Debt and Asset Position
(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017(*)	2018Q1(*)	2018Q2(*)
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	26.098	28.664	29.364	28.970
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.321	3.193	3.152	3.546
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	2.230	2.218	2.670
Net Debt	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	22.778	25.472	26.213	25.424
Multilateral Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	2.417	2.447	2.187
Memo Item: Nominal GDP (in USD)	17.403	19.630	23.468	30.387	31.703	40.263	47.997	51.229	57.483	57.276	53.293	52.825	59.228	60.277	(**)

(*) Preliminary
(**) GDP figures for 2018Q2 to be released by the Central Bank in September 2018
Source: Debt Management Unit

Figure 1. Central Government Debt and Debt Indicators
(in % of GDP)





Source: Debt Management Unit

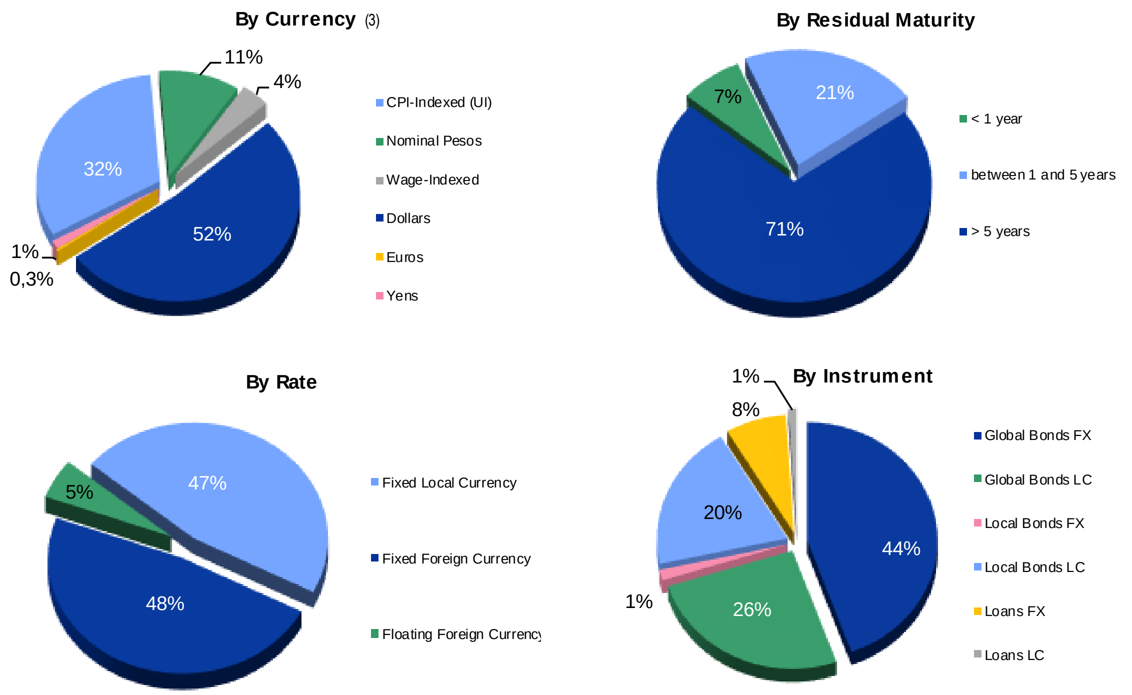
[1] The Central Bank of Uruguay compiles debt statistics for the consolidated Public Sector. This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the 2015 IMF Article 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(*)	2017(*)	2018Q2(*)
By Currency														
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**55**	**49**	**53**
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48	52
Other	21	8	9	8	7	7	6	5	4	3	3	3	2	2
Local Currency (LC)	**12**	**15**	**26**	**28**	**31**	**34**	**50**	**55**	**54**	**52**	**45**	**45**	**51**	**47**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	13	11
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	34	32
Wage-Indexed	0	0	0	0	0	0	0	0	0	5	4	4	4	4
By Residual Maturity														
Short-Term (less than one year)	**16**	**5**	**3**	**2**	**4**	**6**	**3**	**3**	**3**	**4**	**3**	**5**	**5**	**9**
Medium and Long Term	**84**	**95**	**97**	**98**	**96**	**94**	**97**	**97**	**97**	**96**	**97**	**95**	**95**	**91**
By Rate														
Fixed (1)	**78**	**82**	**83**	**81**	**91**	**88**	**94**	**95**	**95**	**94**	**94**	**94**	**94**	**94**
Floating	**22**	**18**	**17**	**19**	**9**	**12**	**6**	**5**	**5**	**6**	**6**	**6**	**6**	**6**
By Instrument														
Bonds	**60**	**82**	**83**	**81**	**79**	**81**	**85**	**87**	**90**	**91**	**91**	**91**	**91**	**91**
Loans	**40**	**18**	**17**	**19**	**21**	**19**	**15**	**13**	**10**	**9**	**9**	**9**	**9**	**9**
By Residency of Holders (2)														
Resident	**43**	**36**	**34**	**38**	**44**	**43**	**48**	**46**	**39**	**37**	**38**	**47**	**49**	**50**
Non-Resident	**57**	**64**	**66**	**62**	**56**	**57**	**52**	**54**	**61**	**63**	**62**	**53**	**51**	**50**
By Jurisdiction Issued														
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**	**24**	**21**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**	**76**	**79**

(*) Preliminary
(1) Includes local currency securities issued at fixed real rate
(2) Information reflects latest data available (2018Q1)

Figure 2. Breakdown of Central Government Debt
(As of end-June 2018)



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

Source: Debt Management Unit

Table 3. Central Government Debt Indicators

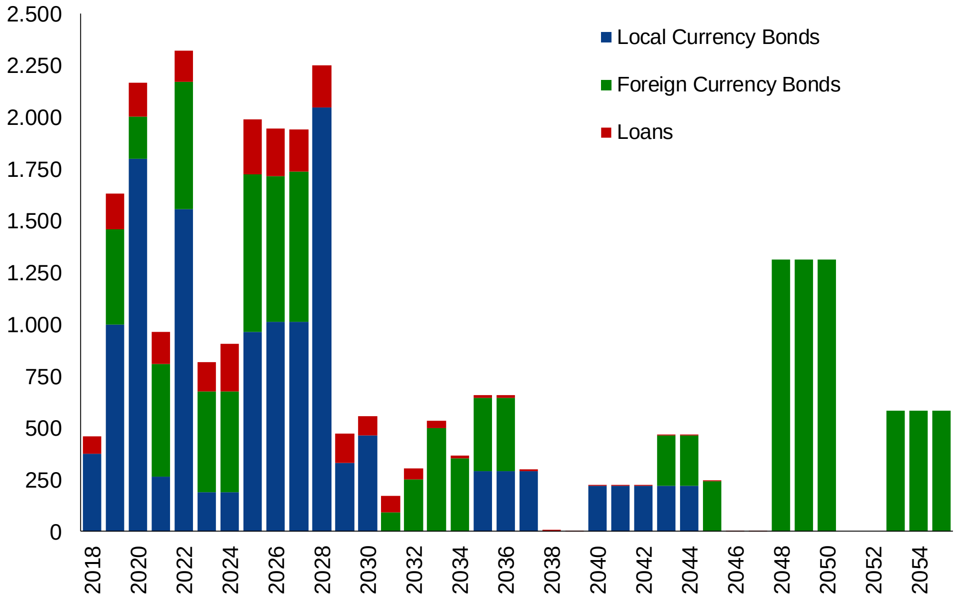
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)	2018Q2(*)
Roll-Over and Liquidity Risk														
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**	**13,0**	**14,4**
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**	**5,5**	**8,5**
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**	**1,4**	**1,2**
Interest Rate Risk														
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**	**10,4**	**12,9**
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**	**10,9**	**8,1**	**11,2**	**10,7**	**11,8**
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	5,2	5,2
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	5,3	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	1,6	1,6
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,5	10,9	10,6
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	4,1	3,9
Wage-Indexed										2,3	2,3	2,3	2,3	2,3

(*) Preliminary
(1) Weighted average

Figure 3. Central Government Redemption Profile, by Instrument

(All values as of end-June 2018, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2018(*)	2019(*)
USES	**3.443**	**3.143**
Interests Payments	1.676	1.723
Amortizations (a)	1.712	1.635
Primary Deficit (b)	54	-215
SOURCES	**3.443**	**3.143**
Multilaterals Disbursements	350	350
Bond Issuance (c)	2.700	2.950
Net Others	171	186
Use of Assets (d)	222	-343

(*) Preliminary
(a) Includes repurchases and early bond redemptions for USD 217 million in 2018.
(b) Negative value indicates a primary surplus of the Central Government.
(c) Includes both local and international issuances.
(d) Positive indicates a reduction in Central Government reserves.

Source: Ministry of Economy and Finance.

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