

# Uruguay

## Sovereign Debt Report



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

**October 2018**

### **Highlights**

- **The government launched its second local currency-denominated Treasury Note in Pension Units (indexed to the nominal wage) with a 15-year maturity.**
- **Fitch affirmed Uruguay's rating at BBB- and revised the outlook to negative from stable, while Moody's updated its credit opinion on Uruguay's with Baa2 rating and stable outlook.**
- **Uruguay remains atop IIF's Investor Relations and Data Transparency ranking.**
- **Uruguay's Debt Management Office participated in IDB's LAC Debt Group conference and World Bank's Sovereign Debt Management Forum.**

### **Domestic market issuance of local currency-denominated in Pension Units**

On August 28<sup>th</sup>, the government launched its second local-currency Treasury Note indexed to nominal wages (i.e., denominated in Pension Units, or UP for its Spanish acronym). The security has a 1.8% annual coupon and a 15-year tenor, with principal payments equally distributed in the last three years of the Note's life.

Total amount issued was UP 591.6 million (approximately equivalent to USD 18.6 million, given the 1.00462 value of the UP at issuance), with a 1.9% yield cut rate. Demand for the instrument came from pension funds, insurance companies, and retirement funds, among others, and reached UP 2.6 billion (approximately USD 80.5 million).

The first issuance of a local currency Treasury Note denominated in UP was back in July, and had a 7-year tenor. Both Treasury Notes in UP were re-opened by the government (the 7-year tenor in mid-September and the 15-year tenor in late October), issuing a total equivalent of USD 39.9 million dollars. [Click here](#) for updated auction outcomes in the domestic market. The government will continue issuing both series to establish liquid benchmark reference points along the UP yield curve.

Besides providing insurance companies in the annuity business with a better balance sheet currency match, this new state-contingent instrument provides the government a better hedge against output shocks that affect tax revenues (given the pro-cyclicality of wages).

### **Fitch affirmed Uruguay's rating at BBB- and revised the outlook to negative, while Moody's updated its credit opinion on Uruguay with a Baa2 rating and stable outlook.**

On October 5<sup>th</sup>, 2018, Fitch Ratings affirmed its BBB- rating for Uruguay but revised the outlook to negative from stable. According to the credit rating agency, the key drivers for the revision were a challenging regional macroeconomic environment and tightening global financing conditions, in addition to the government's persistent fiscal deficits and high debt burden. However, solid social and institutional development, strong external liquidity buffers and a long-dated maturity debt profile are key anchors to the credit and contribute to mitigate refinancing risks. [Click here](#) to access the report.

On September 20<sup>th</sup>, 2018, Moody's updated its credit opinion on Uruguay with a Baa2 rating and stable outlook. According to the report, strong institutions, large fiscal reserves and external buffers underpin Uruguay's credit strength. In addition, the favorable debt maturity profile adequately supports the structurally rigid government financing needs. Furthermore, the government's strong liability management practices support creditworthiness. Moody's expects authorities' commitment to fiscal consolidation will contribute to the stabilization of debt metrics. Access the updated credit opinion [here](#).

## **Uruguay remains in the top tier among emerging markets on Investor Relations and Data Transparency**

The Institute of International Finance's annual Evaluation on Investor Relations and Dissemination Practices offers a comprehensive comparative assessment on investor relation practices across 39 emerging market sovereigns. In the latest ranking, Uruguay attains the maximum score, alongside Indonesia, Mexico and Turkey. Access the 2018 report [here](#).

## **Uruguay's DMO participated in IDB's LAC Debt Group and World Bank's Sovereign Debt Management Forum**

The Latin American and the Caribbean Public Debt Management Specialists (LAC Debt Group) is an Inter-American Development Bank (IADB) initiative that supports the generation of knowledge on public debt management and the strengthening of institutional capacities of Debt Management Offices (DMOs) in the region. The XIV annual meeting took place in the Dominican Republic during August 2018. Conference participants exchanged ideas on ways to further strengthen debt management strategies and increase resilience of debt portfolios in Latin America, amid heightened market volatility, rising trade tensions, and mounting political uncertainty. Access the Steering Committee Statement [here](#).

During the meeting, the Head of the DMO presented Uruguay's strategies for the development of public debt domestic markets, as well as an overview on the recent experience of Uruguay in measuring and managing sovereign risk exposures across the consolidated public sector (including the Central Government, Central Bank and financial and non-financial public corporations). Access both presentations [here](#).

--

Every two years, the World Bank Treasury hosts public debt managers from developed and emerging market countries to discuss recent trends and the challenges they are facing in managing public debt portfolios. The 2018 Sovereign Debt Management Forum was held in Washington in October 2018. The conference included presentations, panel discussions, and workshops led by country representatives and experts from the international financial and development communities. Access to the forum agenda [here](#).

The Head of the DMO participated in the opening Plenary session entitled "*What are the major risks to the global economy and how can they affect debt managers around the world?*". The session focused on the headwinds that could slow down or revert the current economic cycle making debt managers' life more difficult. Panelists discussed topics such as political and security risks, the potential overheating of the US economy, potential trade wars and other risks to emerging economies from the normalization of US monetary policy and retrenchment of portfolio flows from emerging markets.

## **Finance Minister Mr. Danilo Astori named Finance Minister of the Year for Latin America**

On October 13<sup>th</sup>, 2018, the newspaper *GlobalMarkets* recognized Mr. Danilo Astori, Uruguay's Ministry of Economy and Finance, as the Finance Minister of the Year for Latin America. The distinction praised Mr. Astori's stewardship of the economy, which has continued to grow steadily in the last year despite crises in neighboring Argentina and Brazil, underlining the country's resilience and robust institutions. It also highlighted the investor relations efforts that led to the building a nominal local currency curve with broad involvement of foreign investors. Access *GlobalMarkets'* formal letter [here](#) and an interview with the Minister [here](#).

## **Meeting of the Public Debt Coordination Committee**

The Public Debt Coordination (PDCC) held its quarterly meeting on September 3<sup>rd</sup>, 2018.<sup>1</sup> The PDCC assessed recent developments in local and international markets, and ensuing changes in currency and term preferences of

---

<sup>1</sup> The Public Debt Coordination Committee headed by the Manager of Economic Policy and Markets of the Central Bank of Uruguay and the Director of the Debt Management Unit at the Ministry of Economy and Finance.

local and international investors. The Committee also discussed the possibility of coordinated execution of debt management strategies, aimed at jointly achieving the monetary policy and government financing objectives. Access the latest Press Release [here](#) and the Constitutive Protocol of the PDCC established in 2016 [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<sup>1</sup>. 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)

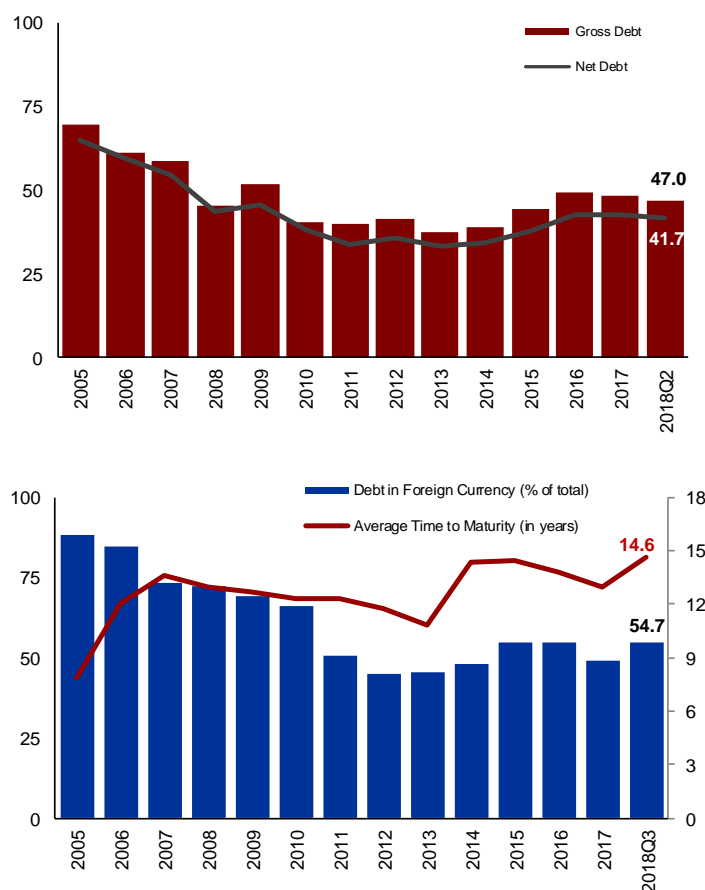
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017(*)	2018Q2(*)	2018Q3(*)
<b>Gross Debt</b>	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	26.098	28.664	28.970	28.281
<b>Total Assets</b>	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	3.481	3.324	3.677	3.164
<i>Liquid Assets</i>	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.515	2.230	2.670	2.164
<b>Net Debt</b>	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	22.618	25.341	25.293	25.117
<b>Multilateral Credit Lines</b>	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417	2.417	2.187	2.437
<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	53.293	52.825	59.228	60.563	(**)

(\*) Preliminary

(\*\*) GDP figures for 2018Q3 to be released by the Central Bank in December 2018

Source: Debt Management Unit

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



Source: Debt Management Unit

<sup>1</sup> 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 with homogeneous definitions of public debt to conduct cross-country comparisons.

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

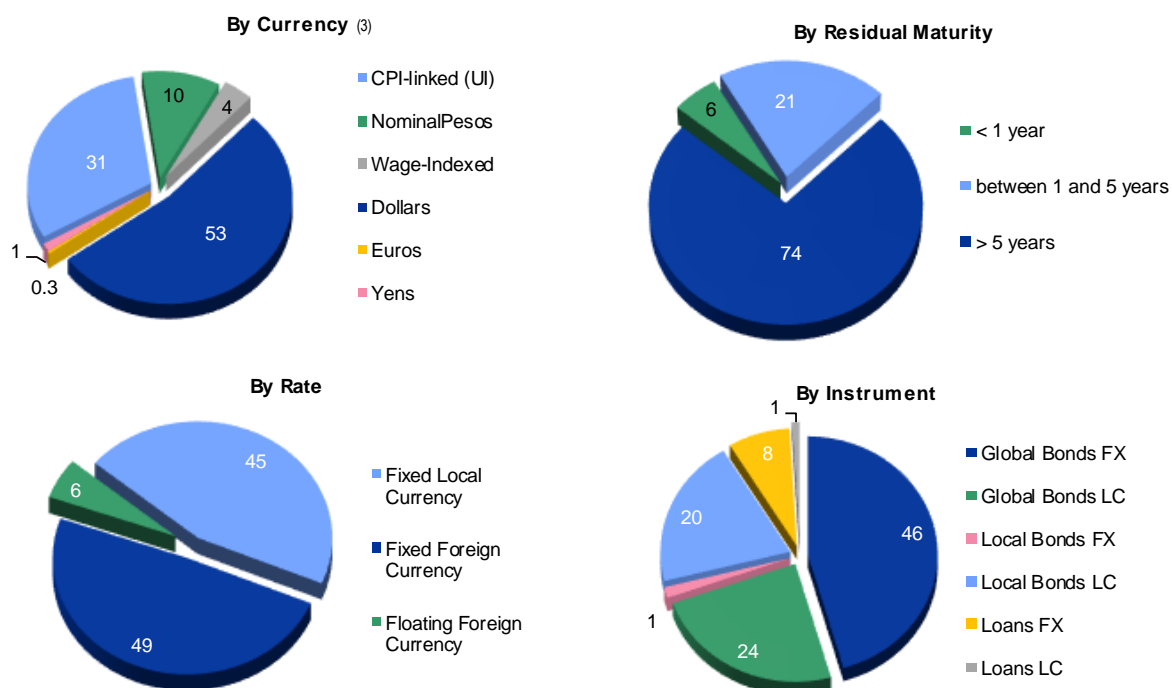
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)	2018Q3(*)
<i>By Currency</i>														
<b>Foreign Currency (FX)</b>	88	85	74	72	69	66	51	45	46	48	55	55	49	55
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48	53
Other	21	8	9	8	7	7	6	5	4	3	3	3	2	2
<b>Local Currency (LC)</b>	12	15	26	28	31	34	50	55	54	52	45	45	51	45
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5	13	10
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	34	31
Wage-Indexed	0	0	0	0	0	0	0	0	0	5	4	4	4	4
<i>By Residual Maturity</i>														
<b>Short-Term (less than one year)</b>	16	5	3	2	4	6	3	3	3	4	3	5	5	6
<b>Medium and Long Term</b>	84	95	97	98	96	94	97	97	97	96	97	95	95	94
<i>By Rate</i>														
<b>Fixed (1)</b>	78	82	83	81	91	88	94	95	95	94	94	94	94	94
<b>Floating</b>	22	18	17	19	9	12	6	5	5	6	6	6	6	6
<i>By Instrument</i>														
<b>Bonds</b>	60	82	83	81	79	81	85	87	90	91	91	91	91	91
<b>Loans</b>	40	18	17	19	21	19	15	13	10	9	9	9	9	9
<i>By Residency of Holders (2)</i>														
<b>Resident</b>	43	36	34	38	44	43	48	46	39	37	38	47	49	46
<b>Non-Resident</b>	57	64	66	62	56	57	52	54	61	63	62	53	51	54
<i>By Jurisdiction Issued</i>														
<b>Local Market</b>	22	23	21	16	16	18	25	30	29	29	26	26	24	22
<b>Foreign Market</b>	78	77	79	84	84	82	75	70	71	71	74	74	76	78

(\*) Preliminary

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

(2) Information reflects latest data available (2018Q2)

**Figure 2. Breakdown of Central Government Debt**  
(As of end-September 2018, in %)



(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)

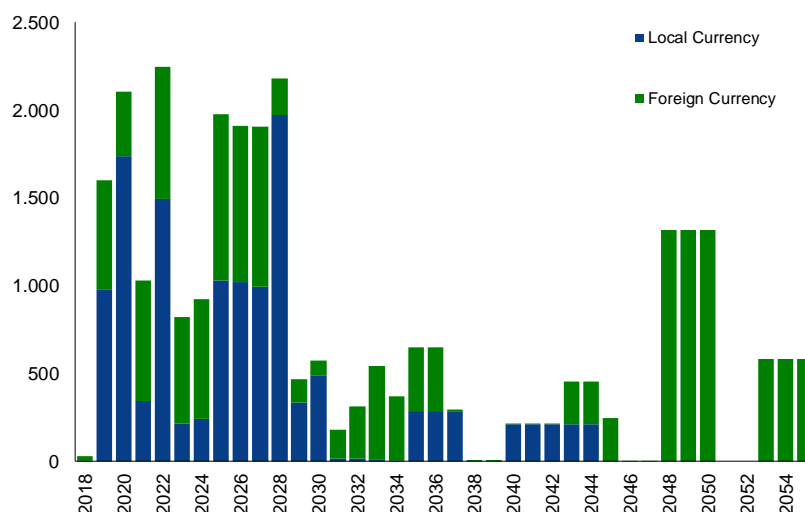
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(*)	2017(*)	2018Q3(*)
<i>Roll-Over and Liquidity Risk</i>														
<b>Average Time to Maturity (in years)</b>	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	10,8	14,4	14,4	13,8	13,0	14,6
<b>Share of debt due in one year</b>	16,0	4,8	2,9	2,3	3,6	5,5	2,6	2,8	3,3	4,1	2,6	5,1	5,5	5,6
<b>Liquid Assets /Amortization due in one year</b>	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	1,4
<i>Interest Rate Risk</i>														
<b>Duration (in years)</b>	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
<b>Share of debt that refixes in one year</b>	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	10,9
<b>Average Interest Rate (1)</b>														
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	2,2

(\*) Preliminary

(1) Weighted average

**Figure 3. Central Government Redemption Profile, by Currency**

(All values as of end-September 2018, in USD million)



Source: Debt Management Unit

**Table 4. Central Government Flow of Funds**

(in USD million)

	2018(*)	2019(*)
<b>Financing Needs</b>	<b>3.352</b>	<b>3.012</b>
Interests Payments	1.640	1.647
Amortizations (a)	1.658	1.580
Primary Deficit (b)	54	-215
<b>Funding Sources</b>	<b>3.352</b>	<b>3.012</b>
Multilaterals Disbursements	360	350
Bond Issuance	2.700	2.950
<i>Foreign market</i>	1.750	•
<i>Domestic market</i>	950	•
Net Others	165	180
Use of Assets (c)	127	-468

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

Source: Ministry of Economy and Finance.

## **DEBT MANAGEMENT UNIT**

Herman Kamil, Director

Gabriela Billeci

Victoria Buscio

Inés Cal

Jessica Gerpe

Antonio Juambeltz

Gonzalo Muñiz

Rodrigo Saráchaga

Fernando Scelza

## **CONTACT INFORMATION**

 +598 2 1712 ext. 2957

Email: [debtinfo@mef.gub.uy](mailto:debtinfo@mef.gub.uy)

Web site: [deuda.mef.gub.uy](http://deuda.mef.gub.uy)