

# Uruguay

## *Sovereign Debt Report*



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

*April 2019*

### **Highlights**

- **Update on debt management outcomes and strategies for the rest of 2019.**
- **Government prepaid approximately USD 300 million in dollar-denominated IDB loans, capitalizing on current market conditions and funding flexibility.**
- **Uruguay's wage-linked sovereign bond highlighted in international forums as innovative capital market instrument to support demand for retirement income investments in pension systems.**
- **The Public Debt Coordination Committee, composed of the Minister of Economy and Finance and the Central Bank, discussed strategies to continue managing exposures in the Consolidated Public Sector balance sheet.**

### **Update on debt management outcomes and strategies for 2019**

For the January-June 2019 domestic issuance calendar, the Government is reopening CPI-linked and Nominal Wage-linked (UP) Treasury Notes at short and medium-term maturities. As of end-April 2019, it has issued close to USD 313 million equivalent. These domestic auctions carried out so far, together with the 2031 global USD bond issued in January (USD 1.25 billion outstanding), have contributed to meet a significant portion of the estimated financing needs for the current year (see [Tables 5](#) and [6](#) in the Central Government's Debt and Financing Statistics appendix for further details).

In seeking to balance the currency composition of debt in terms of local and foreign currency, the Government will continue its domestic market issuance in CPI and wage-linked securities— under both semi-annual calendar format<sup>1</sup>, as well as larger-scale liability management operations.

At the same time, the Government does not rule out returning to international bond markets before the end of the year (in either local or foreign currency), as a pre-financing exercise for 2020. In particular, the Republic is keen in continue developing the global nominal fixed-rate peso bond market, adding liquidity to the curve and striving to maintain a stable weight in JP Morgan's government bond index (GBI-EM). However, accessing the international market in nominal pesos will require fiscally responsible interest rates, which are key for debt dynamics.

### **Uruguay prepaid loans with the IDB as part of its strategy to optimize its funding costs**

On April 2019, the Government took advantage of market conditions and its funding flexibility, and prepaid USD 291 million in dollar-denominated loans from the Inter-American Development Bank (IDB). These loans, which had maturities up to 2033, were subject to an annual fixed dollar interest rate of 5.39%, higher than the current Libor-indexed interest rate with this multilateral institution (equivalent to a fixed 3.54% rate for the same tenor).

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<sup>1</sup> The next issuance calendar for the period July–December 2019 will be published in the second half of June 2019.

## **Government's wage-linked bonds highlighted as an innovative instrument to support pension needs**

Uruguay's DMU participated in two seminars analyzing the challenges in the payout phase of social security regimes, and the role of long-term bonds in this regard.

The World Bank's webinar ("[Long-term bonds: different ways to support – and benefit from – pensions' needs](#)"), held on April 3<sup>rd</sup>, 2019, discussed (i) alternatives of issuing long-term government bonds to meet demand for retirement income investments, and (ii) how governments can benefit from these issuances in building a longer-term and less risky public debt profile. Uruguay presented the [country experience on issuing nominal wage-indexed bonds](#).

Likewise, on April 9<sup>th</sup>, 2019, Uruguay's DMU participated in the international seminar "[Innovations for the payout phase and the role of emerging technologies](#)," co-organized by the International Association of Pension Funds Supervisors, the Inter-American Development Bank (IDB) and the Central Bank of Uruguay. At the event, the Head of the DMU presented [Uruguay's experience with government wage-linked securities](#) focused on new capital market instruments to underpin the payout phase of individual capitalization pillars in pension systems.

During the seminar, Dr. Arun Muralidhar shared his perspectives on an innovative new bond idea called Standard of Living indexed, Forward-starting, Income-only Securities (SeLFIES). A SeLFIES would start paying real coupons indexed to aggregate per capita consumption upon retirement, for a period equal to the average life expectancy of the retiree. Access the presentation [here](#).

## **The Public Debt Coordination Committee (PDCC) discussed strategies to continue managing exposures in the Consolidated Public Sector balance sheet**

Since its creation in 2016, the PDCC was tasked with measuring and managing sovereign risk exposures across the consolidated public sector (including the Central Government, the Central Bank and financial and non-financial public corporations).

During its latest meeting held March 18<sup>th</sup>, 2019, the Committee discussed risk-mitigation strategies coordinated between public sector entities to attain hedging gains and reduce borrowing costs within the overall public sector balance sheet. These could include joint issuance and exchange operations by the Central Bank and the Ministry of Finance, involving domestic market securities of both institutions.

In particular, the PDCC will aim to deepen the market for UP-denominated securities (local currency instruments with returns tied to nominal wages), by lengthening the maturity of government issuances in this currency, providing more benchmark points in the yield curve, and encouraging the participation of other non-government issuers in this market. The supply of these instruments would allow insurance companies in the pension annuity business (most notably, the state-owned *Banco de Seguros del Estado*) to hedge their long-term obligations and reduce their balance sheet risk.

The PDCC also assessed recent legal and regulatory changes that will allow public enterprises to more effectively manage their financial indebtedness and market risks through the use of financial derivatives. Access the latest Press Release [here](#).

## CENTRAL GOVERNMENT'S DEBT AND FINANCING STATISTICS

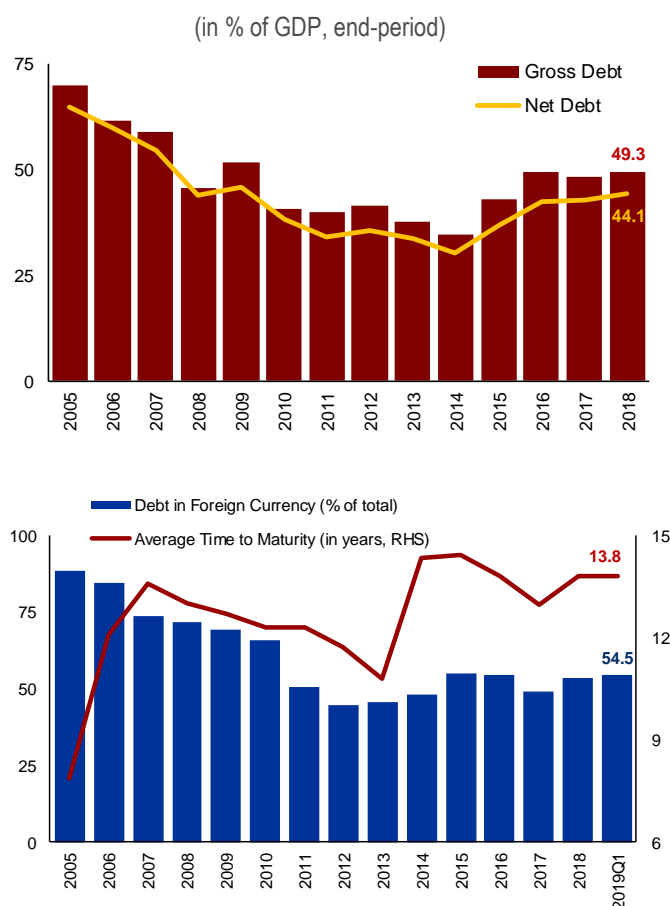
Central Government's statistics presented below are compiled by the Debt Management Unit (DMU) of the Ministry of Economy and Finance, with the purpose of monitoring debt portfolio indicators and supporting design of debt management strategies. Debt figures include all loans and financial market securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private, multilateral, and/or other public sector entities. Debt figures include Central Government securities held by the recently-created public Social Security Trust Fund.<sup>2</sup> Total assets include deposits of the National Treasury at the Central Bank and Banco de la República accounts.<sup>3</sup>

**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	2018(*)	2019Q1(*)
<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	29,383	29,811
<b>Total Assets</b>	858	335	985	580	1,891	1,046	2,886	2,935	2,285	2,635	3,446	3,733	3,324	3,097	3,465
<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	2,132	2,495
<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	22,366	25,341	26,285	26,346
<b>Multilateral Credit Lines</b>	0	0	0	400	120	120	1,130	1,390	1,940	1,940	2,167	2,418	2,418	2,425	2,425

(\*) Preliminary.

**Figure 1. Central Government Debt Indicators**



Note: Debt to GDP ratios reported through 2018Q4. Official GDP figures for 2019Q1 will be released by the Central Bank in June 2019.

Source: Debt Management Unit.

<sup>2</sup> The Central Bank of Uruguay compiles debt statistics for the [consolidated Public Sector](#), netting out intra-public sector cross-holdings. As noted in Annex II of the [2015 IMF Article IV Report](#), Uruguay is one of the very few countries to report official debt statistics for the whole public sector, including Central Bank's liabilities and those of public enterprises.

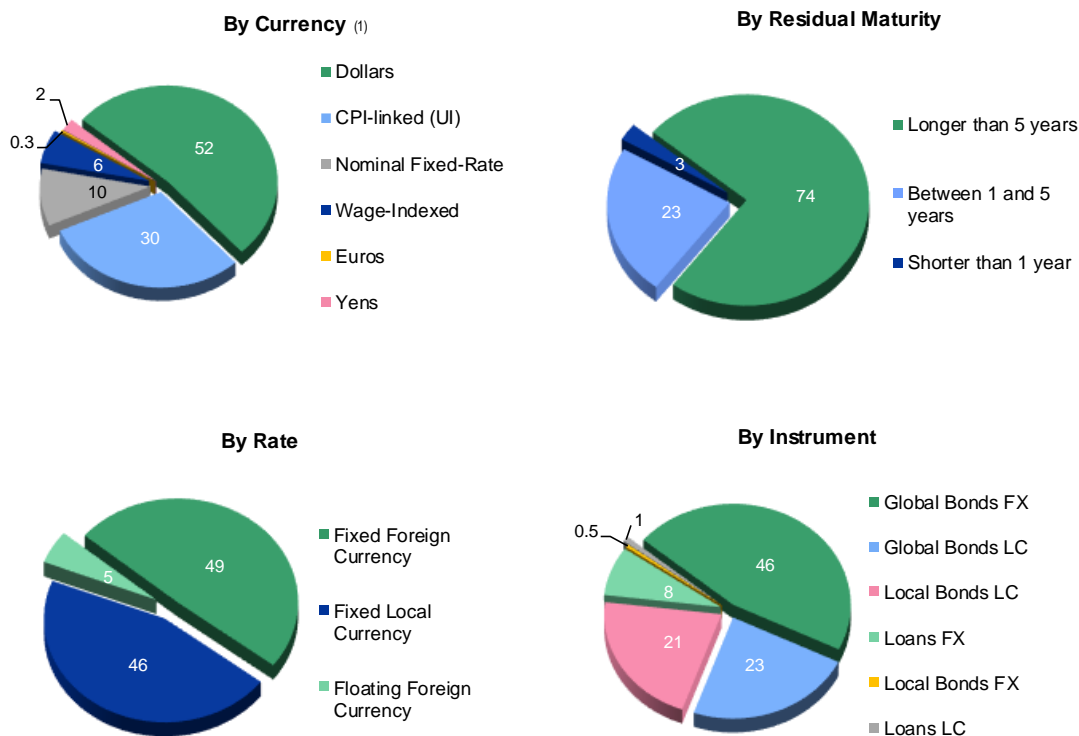
<sup>3</sup> The DMU of the Ministry of Economy and Finance contributes to the [Standardized Public Debt Database of the Inter-American Development Bank LAC Debt Group](#), which compiles up-to-date statistics with homogeneous definitions of public debt for LAC countries.

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018(*)	2019Q1(*)
<i>By Currency (1)</i>															
<b>Foreign Currency (FX)</b>	<b>88</b>	<b>85</b>	<b>74</b>	<b>72</b>	<b>69</b>	<b>66</b>	<b>51</b>	<b>45</b>	<b>46</b>	<b>48</b>	<b>55</b>	<b>55</b>	<b>49</b>	<b>54</b>	<b>54</b>
Dollars	68	77	65	64	63	59	44	40	42	45	52	52	48	51	52
Other	21	8	9	8	7	7	6	5	4	3	3	3	2	2	2
<b>Local Currency (LC)</b>	<b>12</b>	<b>15</b>	<b>26</b>	<b>28</b>	<b>31</b>	<b>34</b>	<b>50</b>	<b>55</b>	<b>54</b>	<b>52</b>	<b>45</b>	<b>45</b>	<b>51</b>	<b>46</b>	<b>46</b>
Nominal Fixed-Rate	0	0	0	0	0	0	7	9	8	5	6	5	13	10	10
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	36	34	31	30
Wage-Indexed	0	0	0	0	0	0	0	0	0	5	4	4	4	5	6
<i>By Residual Maturity</i>															
<b>Short-Term (less than one year)</b>	<b>16</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>3</b>
<b>Medium and Long Term</b>	<b>84</b>	<b>95</b>	<b>97</b>	<b>98</b>	<b>96</b>	<b>94</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>96</b>	<b>97</b>	<b>95</b>	<b>95</b>	<b>96</b>	<b>97</b>
<i>By Rate (2)</i>															
<b>Fixed</b>	<b>78</b>	<b>82</b>	<b>83</b>	<b>81</b>	<b>91</b>	<b>88</b>	<b>94</b>	<b>95</b>	<b>95</b>	<b>94</b>	<b>94</b>	<b>94</b>	<b>94</b>	<b>94</b>	<b>95</b>
<b>Floating</b>	<b>22</b>	<b>18</b>	<b>17</b>	<b>19</b>	<b>9</b>	<b>12</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>5</b>
<i>By Instrument</i>															
<b>Bonds</b>	<b>60</b>	<b>82</b>	<b>83</b>	<b>81</b>	<b>79</b>	<b>81</b>	<b>85</b>	<b>87</b>	<b>90</b>	<b>91</b>	<b>91</b>	<b>91</b>	<b>91</b>	<b>91</b>	<b>91</b>
<b>Loans</b>	<b>40</b>	<b>18</b>	<b>17</b>	<b>19</b>	<b>21</b>	<b>19</b>	<b>15</b>	<b>13</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
<i>By Residency of Holders (3)</i>															
<b>Resident</b>	<b>43</b>	<b>36</b>	<b>34</b>	<b>38</b>	<b>44</b>	<b>43</b>	<b>48</b>	<b>46</b>	<b>39</b>	<b>37</b>	<b>38</b>	<b>47</b>	<b>49</b>	<b>46</b>	<b>48</b>
<b>Non-Resident</b>	<b>57</b>	<b>64</b>	<b>66</b>	<b>62</b>	<b>56</b>	<b>57</b>	<b>52</b>	<b>54</b>	<b>61</b>	<b>63</b>	<b>62</b>	<b>53</b>	<b>51</b>	<b>54</b>	<b>52</b>
<i>By Jurisdiction Issued</i>															
<b>Domestic Market</b>	<b>22</b>	<b>23</b>	<b>21</b>	<b>16</b>	<b>16</b>	<b>18</b>	<b>25</b>	<b>30</b>	<b>29</b>	<b>29</b>	<b>26</b>	<b>26</b>	<b>24</b>	<b>23</b>	<b>22</b>
<b>International Market</b>	<b>78</b>	<b>77</b>	<b>79</b>	<b>84</b>	<b>84</b>	<b>82</b>	<b>75</b>	<b>70</b>	<b>71</b>	<b>71</b>	<b>74</b>	<b>74</b>	<b>76</b>	<b>77</b>	<b>78</b>

(\*) Preliminary.

**Figure 2. Breakdown of Central Government Debt**  
(As of end-2019Q1, in %)



Note:

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

(2) Includes local currency securities issued at fixed real rate, both CPI-indexed and Wage-indexed.

(3) Information reflects latest data available (2018Q4).

Source: Debt Management Unit.

**Table 3. Central Government Debt Indicators**

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

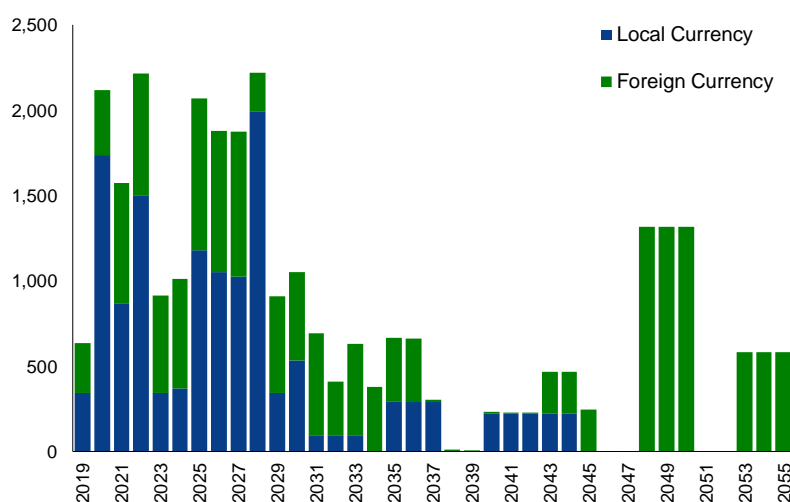
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018(*)	2019Q1(*)
<i>Roll-Over and Liquidity Risk</i>															
<b>Average Time to Maturity (in years)</b>	7.9	12.1	13.6	13.0	12.7	12.3	12.3	11.7	10.8	14.4	14.4	13.8	13.0	13.8	13.8
<b>Share of debt due in one year</b>	16.0	4.8	2.9	2.3	3.6	5.5	2.6	2.8	3.3	4.1	2.6	5.1	5.5	3.9	2.7
<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	1.9	3.1
<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	12.3	12.4
<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	9.2	7.5
<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	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	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	1.3	1.3
Nominal Pesos							10.6	9.7	9.4	9.6	12.8	13.5	10.9	10.6	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	3.8	3.8
Wage-Indexed										2.3	2.3	2.3	2.3	2.2	2.2

(\*) Preliminary.

(1) Weighted average.

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

(All values as of end-March 2019, in USD million)



Source: Debt Management Unit.

**Table 4. Central Government Financing Needs and Funding Sources**

(in USD million)

	2018 (*)	2019 (projected)
<b>Financing Needs</b>	<b>4,124</b>	<b>3,212</b>
Interest Payments	1,663	1,654
Amortizations (a)	2,167	1,773
Primary Deficit (excl. transfers to Soc. Security Trust Fund) (b)	294	-215
<b>Funding Sources</b>	<b>4,124</b>	<b>3,212</b>
Multilateral Loans	414	350
Bond Issuance	3,351	2,950
Net Others	170	168
Use of Assets (c)	189	-256

(\*) Preliminary.

(a) Includes repurchases and early bond redemptions for USD 736 million in 2018 and for USD 386 million in 2019, as well as loan prepayments for USD 291 million in 2019.

(b) Negative value indicates a primary surplus. For 2019, corresponds to projections from latest Annual Budget Review (June 2018). Figures could be updated at the time of the next Budget Review (June 2019).

(c) Positive value indicates a reduction in Central Government reserves.

Source: Ministry of Economy and Finance.

**Table 5. Outstanding Sovereign Bonds Issued in International Markets**

**In FOREIGN CURRENCY**

<b>US Dollars</b>										
<b>Security</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Coupon (%)</b>	<b>Duration (years)</b>	<b>Avg. Life (years)</b>	<b>Amount Issued (USD mm)</b> 1/	<b>Outstanding Amount (USD mm)</b> 1/	<b>Amortizer</b> 2/	<b>Next Coupon Date</b>	<b>Bloomberg Identifier</b>
URUGUAY '22	11-18-2005	11-18-2022	8.000	2.3	2.5	1,805	551	Yes	05-18-2019	EF173885 Corp
URUGUAY '24	08-14-2013	08-14-2024	4.500	3.9	4.3	2,000	1,134	Yes	08-14-2019	EJ783737 Corp
URUGUAY '25	09-28-2009	09-28-2025	6.875	4.6	5.4	500	175	Yes	09-28-2019	EH983569 Corp
URUGUAY '27	07-15-1997	07-15-2027	7.875	6.4	8.2	510	22	No	07-15-2019	TT334611 Corp
URUGUAY '27	10-27-2015	10-27-2027	4.375	6.5	7.5	2,100	1,873	Yes	10-27-2019	QJ2218924 Corp
URUGUAY '31	01-23-2019	01-23-2031	4.375	8.6	10.7	1,250	1,250	Yes	07-23-2019	AW7271116 Corp
URUGUAY '33	05-29-2003	01-15-2033	7.875	9.3	13.7	1,056	841	No	07-15-2019	EC939210 Corp
URUGUAY '36	03-21-2006	03-21-2036	7.625	10.4	15.9	1,421	1,057	Yes	09-21-2019	EF330974 Corp
URUGUAY '45	11-20-2012	11-20-2045	4.125	15.5	25.6	854	731	Yes	05-20-2019	EJ442676 Corp
URUGUAY '50	06-18-2014	06-18-2050	5.100	15.8	30.1	3,947	3,947	Yes	06-18-2019	EK3264687 Corp
URUGUAY '55	04-20-2018	04-20-2055	4.975	17.1	35.0	1,750	1,750	Yes	10-20-2019	AS2148789 Corp
<b>Euros</b>										
URUGUAY '19	05-29-2003	06-28-2019	7.000	0.2	0.2	135	65	No	06-28-2019	EC9391540 Corp
<b>Yens</b>										
URUGUAY '21	06-03-2011	06-03-2021	1.640	2.0	2.1	358	358	No	06-03-2019	EL6818500 Corp

**In LOCAL CURRENCY**

<b>Nominal Fixed-Rate (UYU)</b>										
<b>Security</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Coupon (%)</b>	<b>Duration (years)</b>	<b>Avg. Life (years)</b>	<b>Amount Issued (USD mm)</b> 1/	<b>Outstanding Amount (USD mm)</b> 1/	<b>Amortizer</b> 2/	<b>Next Coupon Date</b>	<b>Bloomberg Identifier</b>
URUGUAY '22	06-20-2017	06-20-2022	9.875	2.7	3.1	1,018	1,018	No	06-20-2019	AN9574152 Corp
URUGUAY '28	09-15-2017	03-15-2028	8.500	6.1	8.9	912	912	No	09-15-2019	AP0760557 Corp
<b>Linked to CPI (UI)</b>										
URUGUAY '27	04-03-2007	04-05-2027	4.250	6.1	6.8	888	888	Yes	04-05-2019	EG3199437 Corp
URUGUAY '28	12-15-2011	12-15-2028	4.375	7.2	8.5	2,066	2,066	Yes	06-15-2019	EI8993764 Corp
URUGUAY '30	07-10-2008	07-10-2030	4.000	8.4	10.0	970	970	Yes	07-10-2019	EH4525315 Corp
URUGUAY '37	06-26-2007	06-26-2037	3.700	12.7	16.9	850	850	Yes	06-26-2019	EG5893227 Corp

1/ Dollar-equivalent as of April 29<sup>th</sup>, 2019.

2/ Amortizer bonds have principal repaid in the last three years to maturity, in annual and equal installments.

Source: Debt Management Unit and Bloomberg.

**Table 6. Domestic Issuance Calendar (January - June 2019)**

Find below the results of the auctions held so far (highlighted in grey), and the remaining schedule for 2019H1:

Auction Date	Instrument	Currency	ISIN	Maturity	Issuance type	Amount auctioned (in millions)		Amount issued (in millions)	
						Original Currency	USD equiv.	Original Currency	USD equiv.
01-15-2019	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325	40	650	80
01-22-2019	Series 1	UP	UYNA00001UP7	07-25-2025(*)	Reopening	650	20.6	655	21
01-29-2019	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100	12.3	97.3	12
02-12-2019	Series 13	UI	UYNA00013UI7	05-25-2025(*)	Reopening	225	28	241.8	30
02-26-2019	Series 2	UP	UYNA00002UP15	08-29-2033(*)	Reopening	750	23.8	1,500	47.7
03-12-2019	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325	40.4	355.5	44.2
03-19-2019	Series 1	UP	UYNA00001UP7	07-25-2025	Reopening	650	20.8	987.1	31.6
03-26-2019	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100	12.3	77.8	9.57
04-09-2019	Series 13	UI	UYNA00013UI7	05-25-2025	Reopening	225	27.47	49.22	6.01
04-23-2019	Series 2	UP	UYNA00002UP15	08-29-2033	Reopening	750	24	970.8	30.7
05-14-2019	Series 24	UI	UYNA00024UI4	12-29-2021	Reopening	325			
05-21-2019	Series 1	UP	UYNA00001UP7	07-25-2025	Reopening	650			
05-28-2019	Series 25	UI	UYNA00025UI1	07-24-2030	Reopening	100			
06-11-2019	Series 13	UI	UYNA00013UI7	05-25-2025	Reopening	225			
06-25-2019	Series 2	UP	UYNA00002UP15	08-29-2033	Reopening	750			

(\*) Amortizes over the last three years.

## **DEBT MANAGEMENT UNIT**

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