December 29th, 2023

Public Debt Coordination Committee Press Release

On December 12th, 2023, the Public Debt Coordination Committee (PDCC) held its quarterly meeting, with the participation of the Central Bank of Uruguay (CBU) and the Ministry of Economy and Finance (MEF).

A summary of the topics discussed, and subsequent policy actions, is described below:

- **Analysis of the evolution of the domestic public securities market in the last quarter of 2023.** Views were shared on the evolution of the domestic public debt market (Monetary Regulation Bills and Treasury Notes) since the last Committee was held. The Committee also analyzed the issuance of global bonds in international markets carried out on November 6th, 2023, which allowed the government to complete its funding program in the international market for 2023. The reopening of the Sovereign Sustainability-Linked Bond (SSLB), with final maturity in 2034 for USD 700 million, reaffirmed the alignment of Uruguay's sovereign financing strategy with its environmental objectives.

- **Government financing strategy in the domestic market.** The MEF highlighted the importance of the domestic market as a source of government financing, which has contributed to deepen the process of de-dollarization of the public debt. The MEF will hold meetings with local investors in order to design the domestic issuance strategy for the first semester of 2024. Details on the Treasury Notes to be auctioned and the settlement options will be communicated when the new auction calendar is published.

- **Capitalization of the CBU in compliance with Law 16,696**. By end-2022, the CBU's net worth had fallen below the minimum legal threshold (set at UI 5 billion).

According to Article 8 of Law No. 16,696 of March 30th, 1995, the Executive Power had to capitalize the institution.[1]

On December 28th, 2023, the government issued capitalization bonds in order to buttress the CBU's net worth. The issuance consisted of a five-year, local currency CPI-indexed (UI), zero-coupon bond for a nominal amount of UI 12,038,612,913 (equivalent to approximately USD 1,808 million).[2] This bond is considered in the CBU's balance sheet at its effective value, so the institution's capitalization was for a book value of UI 10,324,631,580 million (equivalent to approximately USD 1,551 million).[3] Given the capitalized amount, the CBU’s net worth will remain above the legal threshold by end-2023, given the trajectory of domestic and international macroeconomic variables during the year.

The CBU, as many central banks around the world, has a significant currency mismatch in its balance sheet. Its financial assets are mainly denominated in dollars, while its financial liabilities are denominated in Uruguayan pesos. Its international reserves are mainly invested in short-term Treasury Bonds of advanced countries, while its financial liabilities are, in large part, Monetary Regulation Bills. Therefore, it is not unusual for the CBU's net worth (the accounting difference between its assets and liabilities) to fluctuate significantly, as a result of variations in the price of financial assets (such as the exchange rate, international interest rates, and the domestic monetary policy rate).

Given the CBU’s unique structure of assets and liabilities, it has also been necessary, in previous occasions, to proceed with its capitalization (in 2010, 2011, 2012 and 2013), following the approval of a new charter for the institution in 2009. The occurrence of negative net worth in a given year, and the consequent need for the government’s capitalization, does not weaken or affect the CBU's functions and capacities, which are to ensure price stability and the regulation and supervision of

[1] By end-2022, the CBU’s net worth was negative in UI 1,438 million, according to the CBU’s accounting financial statements.
[2] A zero-coupon bond is one in which the yield is implicit in the issuance price, that is, it does not pay a periodic coupon.
[3] The issuance of a five-year zero-coupon bond (with a positive yield and arbitraged with market rates for government instruments in UI), implies that the price will be below par when a nominal value of 100% is considered. The value of that bond, is at the date of this press release, 85.76%, because it has an implicit real rate of 3.12% in UI so that in five years it reaches its nominal value, that is, 100%. The bond is recorded in the CBU’s balance sheet with a hold to maturity criteria, consistent with accruing the price until par.

the payments and the financial system, promoting its solvency, efficiency and development.

Since capitalization bonds are non-market securities, they are not included in net indebtedness statistics of the government's fiscal rule, as established in Article 697 of Law No. 19,924.

- **Agreement between the CBU and the MEF for services provided by the CBU as financial agent of the government.** The CBU, in its role as the government's financial agent, provides a set of services, which include executing transactions related to the service of public debt (including loans with multilateral organizations). In addition, the CBU manages deposits in local and foreign currency that the Treasury holds at the CBU. In this context, on December 28th, 2023, both institutions signed an agreement formalizing the terms and conditions of the services that the CBU provides in its role as the government's financial agent. The agreement establishes, among other things, the payment to be made by the MEF as remuneration for the administrative services for managing public debt payments provided by the CBU, and the remuneration income to be received by the MEF on the government’s outstanding deposits held at the CBU. Access the Agreement (in Spanish) here.

The next meeting of the Committee will take place in March 2024.