Uruguay *Debt Report*

A quarterly report issued by the Debt Management Unit October 2009

Executive

In September 2009, Uruguay tapped the international capital market issuing a US-Dollar 2025 Global Bond at a yield of 6.875% and a spread of 340.3 basis points over US Treasuries. The amount of the issuance was USD 500 million. Final order book which reached USD 2,689 million was more than five times the offer.

One of the main guidelines of the financial strategy for the period 2005-2009 has been the reduction of the roll-over risk achieved mainly through the smoothing of the debt profile and the extension of the average time to maturity of the debt portfolio. During the first half of 2009, this goal was tackled through the disbursements of contingent credit lines with multilaterals (around one billion dollars). This pre-financing policy enabled Uruguay to keep out of capital markets during the first semester of 2009 until its funding costs reached pre-crisis levels. In fact, the last cash raising exercise for Uruguay was in June 2007 when a UI-linked Note due 2037 was issued for an equivalent to USD 500 million. The Global dollar market was last tapped for new money in March 2006.

The extra yield investors demand to own Uruguayan bonds instead of US Treasuries tightened from 685 basis points at end of 2008 to 324 basis points as of September 2009 according to EMBI Index. The Uruguayan borrowing cost of a 10 year bond in USD was around 10% in December 2008 and has shown a decreasing pace with the 2022 US-Dollar Bond trading today below 7%.

Uruguay took advantage of the favorable market conditions issuing in September of this year a new US-Dollar 2025 Global Bond for an amount of USD 500 million dollars. The transaction was priced at a yield of 6.875%, which represents a spread of 340.3 basis points over US Treasuries. The new bond´s coupon is the lowest fixed coupon in dollars paid by Uruguay in the international capital markets. The transaction reached a demand of 2,689 million dollars, more than five times the offer, mainly from United States and Europe accounts. This new bond pays principal in three equal installments at the end of the bond´s life similar to the other Uruguayan Notes´ structures. The choice of the amortizations in 2023, 2024 and 2025, was guided by the reduced concentration of debt payments in these years.

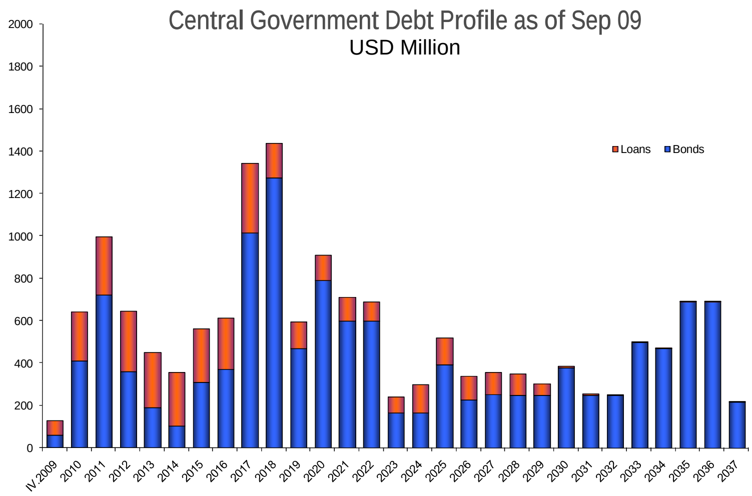
The deal resulted in an adequate diversification of the investor base with above 40% of the orders from European accounts which is a significant level for a dollar bond. In addition, 70% of the issue was bought by institutional investors and funds specialized in emerging markets. The new bond has traded up since its issuance and has tightened the rest of the USD bond curve. The UI bond curve has also continued its positive trend which started later than the improvement in the dollar curve.

In the domestic market, Uruguay restarted in July 2009 its weekly bond´s auctions for an amount of USD 5 mn which can be increased to USD 10 mn. The instrument issued in the local market is a 10 year bullet USD-Bond bearing an annual coupon of 7.05%. The funding cost through this bond which is determined every week is aligned with Uruguay´s global USD bond curve.

Uruguay will use the proceeds from the global us-bond 2025 to consolidate the Central Government´s flow of funds for 2009 and 2010, as part of its pre-funding policy. In 2009, the government´s aggregate principal and interest payments on account of outstanding debt total approximately USD 1.3 bn. Uruguay expects its funds available for debt payments to exceed amounts due through December 2009 by approximately USD 800 mn. The government´s debt payment obligations for 2010 total approximately USD 1.7 bn. Uruguay expects to discharge this amount with proceeds from disbursements from multilateral credit agencies (estimated at USD 600 mn for 2010), domestic borrowings (estimated at USD 250 mn), the proceeds of the described transaction and the central government´s estimated primary surplus (see Flow of Fund´s Table on next page). The government has announced that it will not tap into the international market for new money for the rest of 2009.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	III.2009
Roll Over Risk						
ATM (years)	7,4	7,9	12,1	13,6	13,0	12,8
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,4%
Interest Rate Risk						
% debt that refixes rate in one year	32%	34%	22%	18%	20%	9%
ATR (years)	4,9	6,6	11,1	12,3	11,8	12,0
Duration (years)	4,6	8,0	8,9	10,4	9,8	10,4
% debt with Fixed Rate	77%	78%	82%	83%	81%	91%
% debt with Floating Rate	23%	22%	18%	17%	19%	9%
Foreign Currency Risk						
% debt in Units linked to CPI	11%	11%	15%	26%	28%	29%
% debt in dollars	62%	64%	77%	65%	64%	64%
% debt in others currencies	26%	25%	8%	9%	8%	7%
Debt Composition by Instrument						
Loans	44%	40%	18%	17%	19%	22%
Bonds	56%	60%	82%	83%	81%	78%
Debt Composition by Jurisdiction						
Local Market	22%	22%	23%	21%	16%	15%
External Market	78%	78%	77%	79%	84%	85%
Average interest rate (annual % by currency)						
Dollars	6,1	7,8	7,0	7,1	7,0	6,4
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3
Euros	6,9	6,9	6,9	6,9	6,9	6,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3



Central Government Flow of Funds

USD Million

	2008	2009	2010
USES		**1284**	**1687**
Interests Payments		851	894
Amortizations		357	623
Loans		220	227
Bonds		137	396
Others		**76**	**170**
SOURCES		**1284**	**1687**
Primary Surplus		200	300
Multilaterals Disbursements		1040	620
Local Market Issuances		110	250
International Market Issuances		500	0
Others		40	0
Use of Assets*		-606	517
Central Government Account	697	1303	787

***Positive indicates a reduction in reserves**

Source: Debt Management Unit

DEBT MANAGEMENT UNIT

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