Uruguay
Debt Report
A quarterly report issued by the Debt Management Unit April 2010

The new economic team ratified the financial strategy for 2010 based on a precautionary policy and stressed the importance of strengthening the development of the local market.

The main role of the Debt Management Unit (DMU) is to ensure the Central Government´s medium term financing at the lowest cost consistent with a prudent risk level. To comply with that objective, the main strategic guideline will continue to be the reduction of the roll-over risk. To dispel it, is the main challenge for any emerging country debtor. This aim will be achieved through further actions directed to the smoothening of the debt maturity profile and the extension of the average life of the debt. At the same time, the DMU will carry on the same pre-funding policy as today. This stance will assure that at in any point of time the government will have liquid assets to cover total debt service due for the next twelve months, plus an additional cushion for unexpected events that might have a transitory impact in the fiscal balance, as was the case of the 2008-2009 draught.

In this regard, the central government ended 2009 with total balances in local and foreign currency for around USD 1.5bn. The central government is expected to use around one third of these liquid assets to cover financial requirements for 2010. The remaining needs will be covered with the primary surplus of USD 350mn, multilaterals disbursements estimated at USD 320mn and issuances of public instruments for USD 500mn. Thus, the total central government´s accounts are projected to end 2010 in around USD 1bn. (See Central Government Flow of Funds on the next page).

The DMU is also committed to the reduction in the foreign currency (FX) risk. This goal will be managed through local currency issuances -linked to CPI- and by exploring the possibilities of contracting liabilities with multilaterals in domestic currency and/or of swapping funds originally disbursed in FX. It is worth noting that the existence of a smooth redemption debt profile also contributes to decreasing the FX risk, since the effects of a depreciation of the local currency are not concentrated on any particular year.

Another important guideline of the financial strategy is to diminish the interest rate risk. After last year´s swap operation with the Inter-American Development Bank only 10% of the central government´s portfolio is in floating rate. The DMU will continue monitoring and reviewing the risk associated with changes in interest rates that affect debt servicing costs on new issues when fixed rate debt is refinanced, and on floating rate debt at the resets dates in order to further decrease the share of debt at variable rate.

The financial strategy for 2010 also targets the achievement of an optimal mix of multilateral and private debt. In this task, the government will consider not only the most cost efficient funding alternative, but other factors such as the maintenance of a good relation and presence with private investors and multilateral credit institutions. In the design and negotiation of loans with these institutions for the coming years, Uruguay seeks to build a web of contingent credit lines as part of its precautionary financial policy.

An important guideline within the strategy for the next years is the focus in achieving a more dynamic domestic market. The DMU will explore mechanisms for developing the public securities market within the country, aiming to facilitate the access to the primary market and to enhance the liquidity and efficiency in the secondary market. In particular, the DMU will work on a Retail Program which will analyze the incorporation of the retail investor in the primary auctions and the different ways to facilitate trading for these investors, such as operating through the internet. Uruguay will receive a technical assistance of the World Bank, through the Global Emerging Markets Local Currency Bond Program (Gemloc), to address different aspects of the domestic market. The DMU aims at achieving a more liquid and efficient secondary market in order to offer investors, whether institutional or retail, products that really facilitate their investment choices and ensure the ability to effectively enact their portfolio strategies. The implementation of a Central Securities Depositary System in the Central Bank, as part of the Payments System Reform, will play a key role in this goal. In the short term, Uruguay will restart its weekly bonds´ auctions that were interrupted at the end of last year as the government at that time already had accomplished its financial program.

Finally, the DMU is committed to encourage the promotion of the domestic private securities market. Last year the Parliament approved a Law for enhancing the development of the private securities market. This new legal framework includes different features amongst which are the introduction of Corporate Governance Practices, disclosure of the information regarding the issuer and the offer, protection against the use of inside information, strengthening of supervisory practices to be enforced by the Central Bank and changes in the relevant taxation. A Promotion Committee for the Securities Market is created by law, in which the Executive Power, which is being represented by the DMU, plays an active role together with representatives of the Stock Exchanges, issuers and pension funds. A more dynamic government securities market will also act as a catalyst for the development of the private securities market.

Central Government Risk Indicators

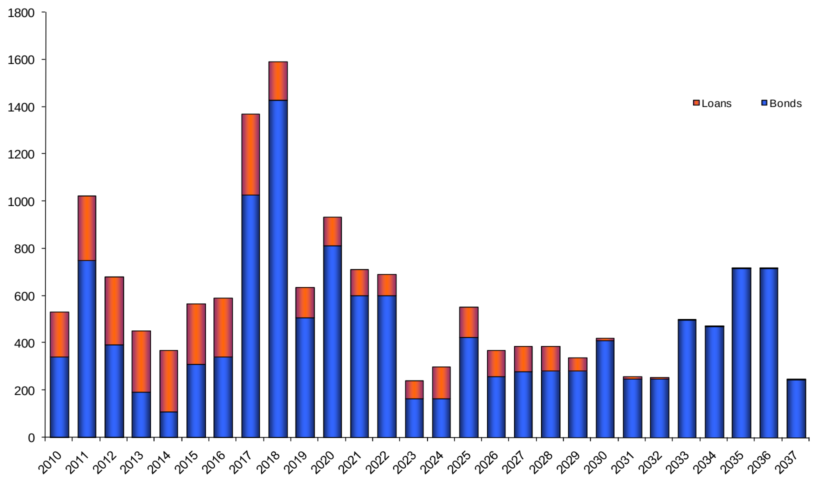
	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	I.2010
Roll Over Risk							
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,70	12,73
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	4,2%
Interest Rate Risk							
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	11%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	12,0
Duration (years)	5,6	8,0	8,9	10,4	9,9	10,3	10,4
% debt with Fixed Rate	77%	78%	82%	83%	81%	91%	90%
% debt with Floating Rate	23%	22%	18%	17%	19%	9%	10%
Foreign Currency Risk							
% debt in Units linked to CPI	11%	11%	15%	26%	28%	31%	31%
% debt in dollars	62%	64%	77%	65%	64%	63%	63%
% debt in others currencies	26%	25%	8%	9%	8%	7%	6%
Debt Composition by Instrument							
Loans	44%	40%	0%	17%	19%	21%	21%
Bonds	56%	60%	0%	83%	81%	79%	79%
Debt Composition by Jurisdiction							
Local Market	22%	22%	23%	21%	16%	16%	16%
External Market	78%	78%	77%	79%	84%	84%	84%
Average interest rate (annual % by currency)							
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3
Euros	6,9	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	2,3

(1) Average time to Maturity

(2) Average time to Refix

Central Government Debt Profile

USD Million



Central Government Flow of Funds

USD Million

	2009	2010	2011
USES		**1817**	**2081**
Interests Payments		979	984
Amortizations		669	1048
Loans		229	274
Bonds		440	774
Others		168	49
SOURCES		**1817**	**2081**
Primary Surplus		350	450
Multilaterals Disbursements		320	261
Issuances		500	1300
Others		149	0
Use of Assets*	-928	498	70
Central Government Account	1509	1011	941

***Positive indicates a reduction in reserves**

Source: Debt Management Unit

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