Uruguay Debt Report

A quarterly report issued by the Debt Management Unit October 2010

Executive Summary

The economic team submitted to Parliament the Budget Law´s draft that includes the government Financing Program and the respective Financial Strategy for the next four years.

The guidelines of the financing policy for the next four years were published alongside Budget 2010-2014 on August, 31. The main strategy continues to be the reduction of the roll over risk. This objective will be addressed through liability management operations aimed at the smoothing of the debt amortization profile and the extension of the debt´s average life. At the same time the Debt Management Unit (DMU) stressed the continuity of the current prefunding policy. This precautionary strategy stance seeks the accumulation of liquid assets equivalent to Central Government Debt Services´ payments –net of primary balance -for the next 12 months, plus an additional cushion for unexpected events that could transitory affect the fiscal balance.

The financial strategy also targets a reduction in the foreign currency risk (FX). This objective will be implemented through debt issuances only in local currency (linked to CPI) and liability management operations both with private capital markets and multilateral institutions. To the extent market conditions allow, the government seeks to increase the percentage of debt in local currency from 30% at the end of 2009 to 45% at the end of 2014. A smooth redemption debt profile also contributes to decrease the FX risk, since the effects of a depreciation of the local currency are not concentrated in a particular year.

The DMU will work to diminish the interest rate risk by monitoring and reviewing the risk associated with changes in interest rates that affect debt servicing costs on new issuances when fixed rate debt is refinanced, and on floating rate debt at the resets dates. After last year´s swap operation with the Inter-American Development Bank (IADB) only 10% of the central government`s portfolio is under the provisions of floating rates.

The financial strategy also sets the achievement of an optimal share between multilateral and private debt. This goal will be managed not only considering the most cost efficient funding alternative, but also others factors such as the maintenance of a good relation and presence with private investors and multilateral credit institutions. Moreover, the building up of a web of contingent credit lines with multilateral agencies will continue as part of its precautionary financial policy as in the past.

Another key strategic objective is to achieve a more dynamic domestic market. The DMU shall work to facilitate the access to the primary market both at an institutional and retail level. At the same time, it aims to enhance liquidity and efficiency in the secondary market. 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. It is worth noting that the DMU will be monitoring and analyzing opportunities to access the international capital markets to the extent permitted by market conditions.

The Financial strategy also targets the diversification of the funding sources and broadens the investor base. The aim is to reach new investors abroad and strengthen domestic retail investor participation.

Finally, the DMU is committed to contribute in the development of a more efficient private local market. This endeavor means to work more closely with market participants with the final purpose to generate beneficial spillovers to the private securities market.

For the period 2010-2014, the financing program for the next four years shows total amortizations of around USD 3.2 billion (annual average of 1.5% of GDP, with a maximum of 2.5% of GDP in 2011) and interests' payments that amount to USD 5.5 billion (annual average of 2.5% of GDP). The financial sources to cover these needs will stem from the primary balance which is expected to reach an accumulated amount of USD 2.5 billion in the next 4 years, estimated issuances of around USD 5 billion and multilateral´s disbursements (IADB, World Bank, and CAF) of around USD 1.2 billion. In consequence net disbursements from these institutions should be zero. Also new indebtedness will be focused in local currency as long as market conditions allow it. The government plans to end the period 2014 with the same level of liquid assets it hold at the end of 2009 (around USD 1.5 billion).

Central Government Risk Indicators

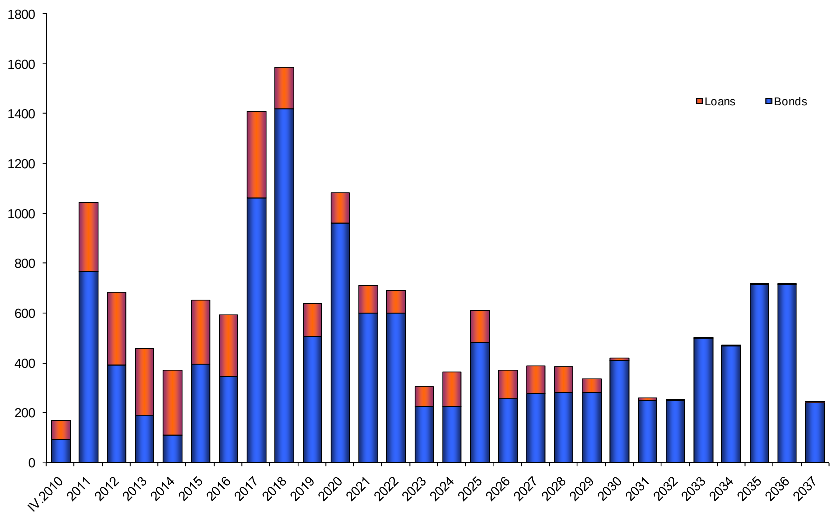
	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	I.2010	II.2010	III.2010
Roll Over Risk									
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,7	12,6	12,3
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	4,2%	4,7%	5,3%
Interest Rate Risk									
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	11%	11%	12%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	12,0	11,9	11,5
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,5	10,0
% debt with Fixed Rate	77%	78%	82%	83%	81%	91%	90%	90%	91%
% debt with Floating Rate	23%	22%	18%	17%	19%	9%	10%	10%	9%
Foreign Currency Risk									
% debt in Units linked to CPI	11%	11%	15%	26%	28%	31%	31%	31%	33%
% debt in dollars	62%	64%	77%	65%	64%	63%	63%	63%	61%
% debt in others currencies	26%	25%	8%	9%	8%	7%	6%	6%	7%
Debt Composition by Instrument									
Loans	44%	40%	0%	17%	19%	21%	21%	21%	21%
Bonds	56%	60%	0%	83%	81%	79%	79%	79%	79%
Debt Composition by Jurisdiction									
Local Market	22%	22%	23%	21%	16%	16%	16%	16%	17%
External Market	78%	78%	77%	79%	84%	84%	84%	84%	83%
Average interest rate (annual % by currency)									
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,4	6,6
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,4	4,3
Euros	6,9	6,9	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	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	2012	2013	2014
USES		**1826**	**2138**	**1843**	**1665**	**1656**
Interests Payments		963	1062	1104	1164	1232
Amortizations		694	1027	689	452	374
Loans		228	273	284	258	256
Bonds		467	755	406	193	118
Others		168	49	49	49	49
SOURCES		**1826**	**2138**	**1843**	**1665**	**1656**
Primary Surplus		442	463	465	496	588
Multilaterals Disbursements		330	259	231	209	208
Issuances		700	1400	1000	1100	750
Others		149	116	76	76	78
Use of Assets*		204	-99	70	-216	32
Central Government Account	1509	1305	1404	1334	1550	1518

***Positive indicates a reduction in reserves**

Source: Debt Management Unit

DEBT MANAGEMENT UNIT
CONTACT INFORMATION

☎ +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Carlos Steneri, Director

Azucena Arbeleche

Victoria Buscio

Antonio Juambeltz

Juan Siutto