Uruguay Debt Report

A quarterly report issued by the Debt Management Unit October 2011

Executive
Uruguay stands with a solid financial position to face uncertainty in global markets.

The Central Government continues with the pre-funding policy that has been in place for the last years, which today places the Treasury in a comfortable position amidst the current financial turbulence. Currently, the Central Government has around USD 2.1 billion that more than covers the debt service (amortizations and interests payments) for the next twelve months, not considering the primary surplus. In 2008, Uruguay experienced the benefits of a precautionary financing strategy and a coordinated work between fiscal policy and debt management that allowed the country to successfully sail through the financial crisis with minor effects in comparison with other countries of the region. Additionally, as was also the case in 2008, the Government has been working with multilateral credit institutions in the design of a network of contingent credit lines that could be disbursed if market conditions are not appropriate.

To strengthen its precautionary funding policy, the Government has been issuing instruments in local currency (denominated in nominal pesos and linked to CPI) in the local market, at the same time contributing to the de-dollarization of the debt and the achievement of a more dynamic domestic market.

Since the beginning of the year, Uruguay started preparing for deterioration in financial conditions, given the uncertainty of the duration and depth of the turmoil in international capital markets. In January 2011, the Treasury exchanged short-term securities issued by the Central Bank for Notes in pesos and Indexed Units (linked to CPI) in an amount equivalent to USD 1.3 billion. This transaction provided a market mechanism to transfer reserves from the Central Bank to the Central Government. At the same time, this operation resulted in the creation of domestic benchmarks and an extension in the average time to maturity for the whole of Public Sector debt, since Central Bank securities with an ATM of around 1.5 years were exchanged for issuances with ATM of 7 years.

The Ministry of Finance had already been issuing since May 2010 in local currency in the domestic market, reaching the equivalent of USD 600 million at the end of 2010. In addition to January's transaction so far this year the government has issued locally the equivalent of USD 500 Million through four different securities which are reopened in weekly auctions CPI linked Bonds due 2016 and 2020, Nominal Peso Bonds due 2014 and 2 year Nominal Peso T-Bills.

All of this funding in local currency together with the anticipated payments of liabilities denominated in foreign currency is part of the de-dollarization strategy. The government has prepaid loans with multilateral credit agencies denominated in dollars giving space to build contingent financing with these institutions. In December 2010, Uruguay prepaid loans with the Interamerican Development Bank (IADB) for an aggregate principal amount of USD 300 million and in September 2011 the Government prepaid USD 200 million with the Corporación Andina de Fomento (CAF). A further anticipated payment with the CAF, of USD 80 million, is expected for the end of this year. During 2010 the Government executed private debt buybacks in foreign currency for an amount equivalent to USD 170 million (nominal value).

Also as part of its pre-financing policy and in order to diversify its investor base, in May 2011 Uruguay tapped the international market issuing a 1.64% Japanese Yen Bond due 2021 for ¥40 billion (USD 491 million equivalent) guaranteed by JBIC. In March 2011, the Republic had redeemed ¥ 13.7 billion of the 2001 Samurai Bond (USD 168 million).

In addition to the maintenance of a liquidity cushion, the Government is negotiating credit lines with multilateral agencies that constitute a second financial buffer. The government has signed with CAF a contingent loan which amounts to USD 400 million. The country is working with the World Bank on a loan for Policy Development of USD 260 million, which is for approval of its Board, whose disbursement would be at the discretion of the Uruguayan Government. With the IADB, the country is in negotiations for a policy-based loan of USD 300 million, whose availability would be linked to the capitalization of the institution. Both loans are intended for use in case the conditions in global markets deteriorate. Additionally, the Government presented an article in the Budget Law that facilitates the transfer of a FLAR disbursement to the Treasury through the Central Bank. Flar's contingent credit line amounts to USD 470 million, after Uruguay's last capitalization to the institution in October 2011.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	I.2011	II.2011	III.2011
Roll Over Risk										
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,2	11,9	11,7
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	4,1%	3,2%	2,8%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	7,4	5,7	5,6 (3)
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	2,4	1,9	2,4 (4)
Interest Rate Risk										
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	9%	9%	8%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,5	11,2	11,0
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,9	9,6
% debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	91%	92%	93%
% debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	9%	8%	7%
Foreign Currency Risk										
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	41%	42%	41%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	59%	58%	59%
Debt Composition by Instrument										
Loans	44%	40%	0%	17%	19%	21%	19%	18%	17%	16%
Bonds	56%	60%	0%	83%	81%	79%	81%	82%	83%	84%
Debt Composition by Jurisdiction										
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	24%	24%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	76%	76%
Average interest rate (annual % by currency)										
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,3	6,2	6,3
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,2	4,2
Uruguayan Pesos								9,4	9,4	9,6
Euros	6,9	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	2,2	1,9	1,9

(1) Average time to Maturity

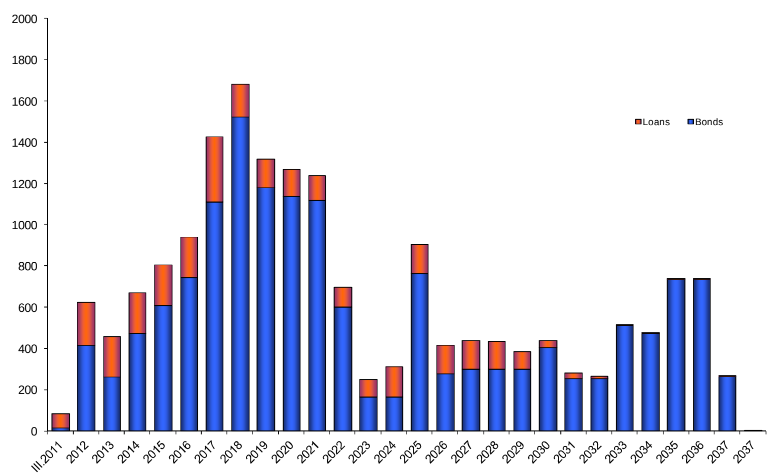
(2) Average time to Refix

(3) 12 month period ended Aug 2011

(4) Amortizations of the next 12 months starting in Aug 2011

Central Government Debt Profile

USD Million



Central Government Flow of Funds

USD Million

	2010	2011
USES	**2203**	**2538**
Interests Payments	948	1165
Amortizations	1108	1185
Loans	464	382
Bonds	644	803
Others	147	188
SOURCES	**2203**	**2538**
Primary Surplus	491	697 (1)
Multilaterals Disbursements	118	150
Issuances	607	2500
Others	154	120
Use of Assets*	833	-929

***Positive indicates a reduction in reserves**

(1) Source: Macroeconomic and Financial Advisory Unit

Source: Debt Management Unit

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