Uruguay Debt Report

A quarterly report issued by the Debt Management Unit April 2012

Executive

The Central Government issued in local currency the equivalent to USD 826million in the domestic market in order to strengthen the Treasury's participation through deeper issuances, as well as providing liquid benchmarks and encouraging portfolio diversification. The transaction allowed further movement towards the Central Government's debt de-dollarization process by increasing the participation of local currency debt up to 53%.

In March 2012, the Central Government issued in the domestic market Notes in Uruguayan Pesos (UYU) and in Indexed Units (Linked to CPI) equivalent to USD 826million, twice the amount auctioned, after receiving bids equivalent to USD 2,119million. More than a half of the securities offered were settled through an exchange of short term Central Bank securities (USD 447million) for Notes issued by the Central Government with a longer maturity. Thus, the Central Bank reduced its short-term debt (up to three years) in USD 447million, which was undertaken by the Central Government, but with longer maturities (3 to 13 years). Furthermore, the equivalent to USD 379million of new money was accepted.

The Republic issued the equivalent of USD 206million for 3 years Peso Notes with a coupon of 10.50% that received bids six times above the amount auctioned, being sold at an average yield of 10%. The 5 years Peso Notes with a coupon of 11% were 5.9 times oversubscribed, reaching the equivalent of USD 206million and issued at an average yield of 10.37%. Likewise, the Republic sold an amount equivalent to USD 414million in a reopening of Notes linked to CPI. For the 8 years Note, with offers more than five times the initial amount auctioned, USD 207million were issued at a yield of 2.78%, quite below Uruguay´s UI curve. This instrument was a reopening of the 10 years Note (Serie 14), which had been auctioned before on a weekly basis since June 2011. The 13 year Notes issuance reached also the equivalent to USD 207million, were 2.7 times oversubscribed and sold at an average yield of 3.64%. All these Notes could be integrated in Pesos, U.S. dollars and securities issued by the Central Bank in UI and Pesos with a remaining time to maturity of less than 3 years.

CASH / Central Bank Securities (up to one year)	→	UYU 10.50% 2015 Up to UYU 4.0 billion	
CASH / Central Bank Securities (up to two years)	→	UYU 11.00% 2017 Up to UYU 4.0 billion	
CASH / Central Bank Securities (up to three years)	→	UI 4.00% 2020 Up to UI 850 million	
CASH / Central Bank Securities (up to three years)	→	UI 4.00% 2025 Up to UI 850 million	

Enhancing liquidity through the provision of securities benchmarks in order to encourage portfolio diversification, and strengthening the participation of the Treasury in the local market through deeper issuances were among the main goals of the transaction. These objectives were reached since the final amount outstanding for the Notes, measured in USD, was around USD 300million for the 3 years Peso Note, USD250 million for the 5 years Peso Note, USD650 million for the 8 years Indexed Units (UI) Note and nearly USD 300million for the 15 years UI Note.

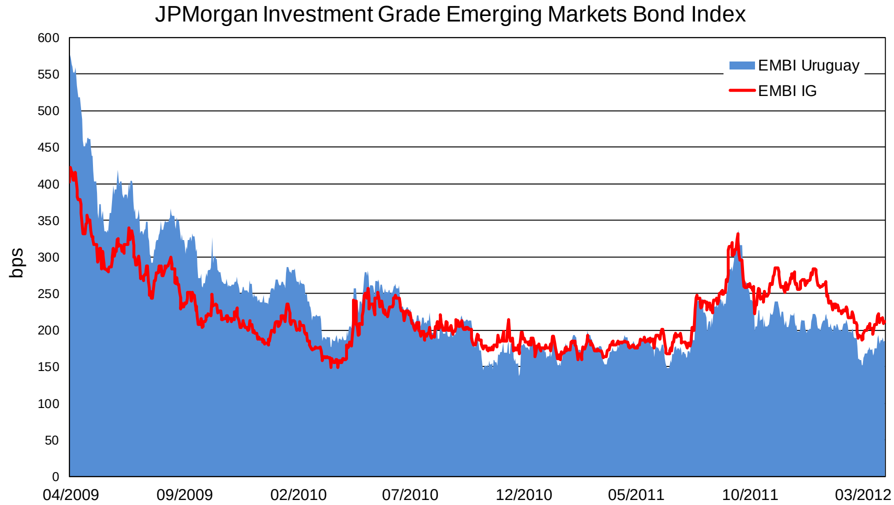
This transaction sets a milestone in the debt de-dollarization process since, after the operation, more than half of the debt is denominated in local currency. These issuances increase such percentage from 49% at the end of 2011 to 53%.

For the whole Public Sector debt (which includes both Central Bank and Central Government liabilities) there was an extension in the average maturity (ATM), since Central Bank securities -with an ATM of around 1.2 years were exchanged for issuances with an ATM of around 6 years. Also, this transaction has allowed the Central Bank's reserves to be transferred to the Central Government through a market mechanism, since the Government sold to the Central Bank all the securities it received in the operation.

Regarding Investment Grade

In recent years, public debt management has focused on reducing risks in the Central Government's portfolio, carrying out important qualitative and quantitative changes in its structure. The results of this policy are reflected in the recent evolution of Central Government Roll Over, Interest Rate, and Foreign Currency risks (Average Time to Maturity, Average Time to Refix, Share of Debt in Local Currency, among others).

The responsible policies in a predictable and clear institutional framework, along with the achievements in terms of debt management, have strengthened the confidence of local and foreign agents in the sustainability of Uruguay's public finances. Thus, and since 2010Q3, investors are demanding from Uruguay the same spread (or even lower) as that requested from other emerging economies with investment grade (IG).



Source: Bloomberg & JPMorgan

Rating actions have had a more gradual evolution, being due to point out Standard & Poor's recent upgraded to BBB- from BB+ on April 3rd. While IG is expected to further reduce spreads by triggering greater flows from institutional investors whose covenants prevent them from taking on high risk in their portfolios, in the short term no impact shall be expected in terms of spread as Uruguay was already trading within IG levels. Nevertheless, as investors rely upon ratings to confirm their own analyses when conditions worsen, IG status can make a difference in their portfolio decision amidst tougher scenarios.

Rating Agency	Long Term Foreign Currency	Long Term Local Currency	Outlook	Last Rating Action
DBRS	BB (high)	BB (high)	Positive	April 2012
Fitch Ratings	BB+	BBB-	Positive	April 2012
Moody's	Ba1	Ba1	Positive	January 2012
Rating & Investment	BB	-	Positive	January 2012
Standard & Poor's	BBB-	BBB-	Stable	April 2012

The Debt Strategy will continue aiming at:

- Maintaining a pre-funding policy to cover debt service payments for the next 12 months
- Extending the average time to maturity of the debt.
- Smoothing the amortization profile through liability management
- Reducing the exposure to foreign currency debt
- Diminishing the interest rate risk
- Diversifying the funding sources by broadening the investor base
- Developing a more dynamic local market
- Improving access to primary market by enhancing the liquidity in the secondary market

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	I.2012
Roll Over Risk									
ATM (years) [1]	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,9
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	6,8	8,3 [3]
Liquid Assets CG/Amortization Payments due in one year	0,3	0,3	0,4	0,7	1,6	1,4	0,7	4,0	4,2 [4]
Interest Rate Risk									
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	6%
ATR (years) [2]	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,3
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,9
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	94%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	6%
Foreign Currency Risk									
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	53%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	47%
Debt Composition by Instrument									
Loans	44%	40%	0%	17%	19%	21%	19%	15%	14%
Bonds	56%	60%	0%	83%	81%	79%	81%	85%	86%
Debt Composition by Jurisdiction									
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	29%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	71%
Average interest rate (annual % by currency)									
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,5
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,1	4,0
Uruguayan Pesos								10,6	10,2
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	1,9	1,9

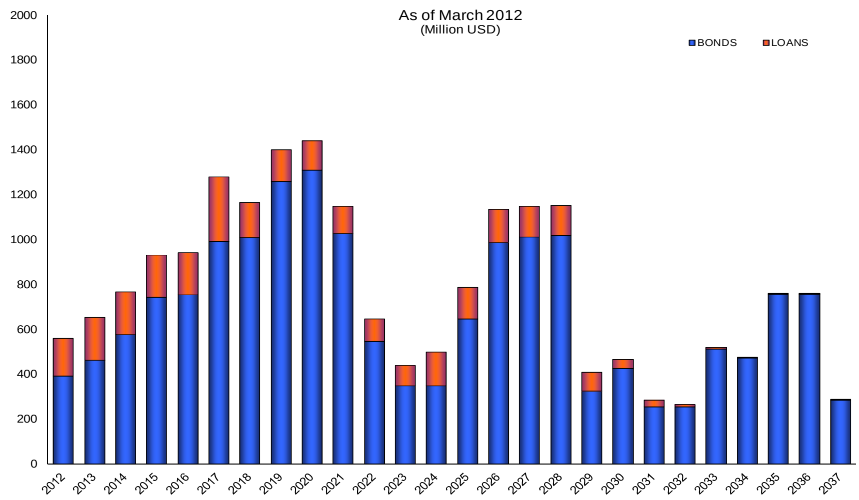
(1) Average time to Maturity

(2) Average time to Refix

(3) 12 month period ended February 2012

(4) Amortizations of the next 12 months starting in February 2012

Central Government Debt Profile



Central Government Flow of Funds

USD Million

	2011	2012
USES	**3977**	**2019**
Interests Payments	1170	1213
Amortizations	2737	637
Loans	457	192
Bonds	2280	445
Others	69	168
SOURCES	**3977**	**2019**
Primary Surplus	800 (1)	700 (1)
Multilaterals Disbursements	237	192
Issuances	4673	1200
Others	119	96
Use of Assets*	-1853	-169

***Positive indicates a reduction in reserves**

(1) Source: Macroeconomic and Financial Advisory Unit

Source: Debt Management Unit

DEBT MANAGEMENT UNIT
CONTACT INFORMATION

☎ +598 2 1712 ext. 2957

Email: debtinfo@mef.gub.uy

Web site: deuda.mef.gub.uy

Azucena Arbeleche, Director

Victoria Buscio

Antonio Juambeltz

Rodrigo Saráchaga

Juan Siutto