Uruguay Debt Report

A quarterly report issued by the Debt Management Unit July 2013

Executive

Uruguay has built a sizable financial shield to reduce the fundamental vulnerabilities that affected the country in the past, bringing sustainable foundations for economic growth and social development and providing more flexibility in the event of market turbulence.

The Government has made significant improvements to reduce its financial vulnerabilities through the construction of a sizable financial shield that has enhanced the resilience of the economy to withstand unexpected external shocks and provides a sustainable foundation for economic growth and social development. The Government has successfully reduced the high level of indebtedness and improved the composition of the public debt reducing refinancing risk, foreign currency risk, and interest rate risk.

Responsible fiscal policy has helped reduce Uruguay's indebtedness. It is important to highlight that the total public net debt has been reduced in 40 percentage points in the last 8 years; at the end of 2012 the ratio of Net debt to GDP has reached 27% for the whole public sector.

Regarding the debt management policy, the Government has made significant improvement in terms of reducing the roll over risk, aiming to push forward maturities of debt in the short term. The Government has successfully extended the average time to maturity of the debt from 7.4 years at the end of 2004 to more than 11 years at June 2013 (among the longest in either emerging or advanced economies), even reducing by four times the percentage of debt that matures in one year. Liability management transactions have also substantially helped smooth the amortization schedule and extend the average time to maturity of the debt.

Furthermore, the Government implemented a pre-funding policy, keeping cash reserves to serve the debt service one year forward and to cover unexpected shocks that can impact on the fiscal front. The Government has near 2.6% of GDP in cash reserves as of the end of June 2013, enough to cover roughly two years of debt amortizations. Additionally, Uruguay's financial cushion is endorsed by contingent credit lines with multilateral institutions totaling near USD 2billion (3.9% of GPD) from the IADB, WB, CAF and FLAR. These lines provide additional financial leeway to protect the economy from unexpected external turbulences and constitute an important source of financing in case capital markets are closed. In the past international financial crisis of 2008, the Government already took advantage of such a financial safety net, disbursing contingent credit lines formerly negotiated with multilaterals without going to private capital markets.

Proactive debt management has significantly improved the composition of the Republic's debt, reducing foreign and interest rate risk. The percentage of public debt denominated in local currency increased from 11% in 2004 to 58% at mid 2013, a five times increase in the period. It is worth noting that the Government has exceeded the initial goal of the current administration to lift the percentage of debt denominated in local currency to 45% by 2014. This objective was reached by issuing in local currency in both domestic and external markets, and also through several liability management transactions. Moreover, the Government has worked with multilateral institutions in order to make disbursements in local currency and swaps of multilateral debt. Regarding the interest rate risk, the Government reduced the percentage of debt at fixed rate from 78% at the end of 2005 to 95% at the end of June 2013 mainly through issuances at fixed rate and swaps with multilaterals.

The regained investment grade status constitutes another key milestone, helping the Republic lower its borrowing costs and widen its access to funding in the private external capital market. The main strengths highlighted by rating agencies are, among others, the solid fiscal position, reduction of roll-over risk through liability management operations, extension of average debt maturity, increase in the share of domestic currency-denominated debt, and the high level of precautionary liquidity reserves.

So, albeit still positive, if a scenario of less favorable economic conditions ensues, the Republic's credit resilience will be supported by the financial shield built over the last years.

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012 (*)	I.2013 (*)	II.2013 (*)
Roll Over Risk											
ATM (years) (1)	7,4	7,9	12,1	13,6	13,0	12,7	12,3	12,3	11,7	11,8	11,1
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	2,7%	2,7%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	6,1	6,5 (3)
Liquid Assets CG/Amortization Payments due in one yea	0,3	0,3	0,4	0,7	1,6	1,4	0,7	4,0	3,7	1,6	1,5 (4)
Interest Rate Risk											
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	6%	6%
ATR (years) (2)	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,2	11,4	10,6
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,7	10,0	8,9
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%	95%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%	5%
Foreign Currency Risk											
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	59%	58%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	41%	42%
Debt Composition by Instrument											
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%	11%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%	89%
Debt Composition by Jurisdiction											
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	32%	32%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	68%	68%
Average interest rate (annual % by currency)											
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	6,1	6,1
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,1	4,0	4,0
Uruguayan Pesos								10,6	9,7	9,7	9,6
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,8	5,8
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9

(*) Preliminary Data

(1) Average time to Maturity

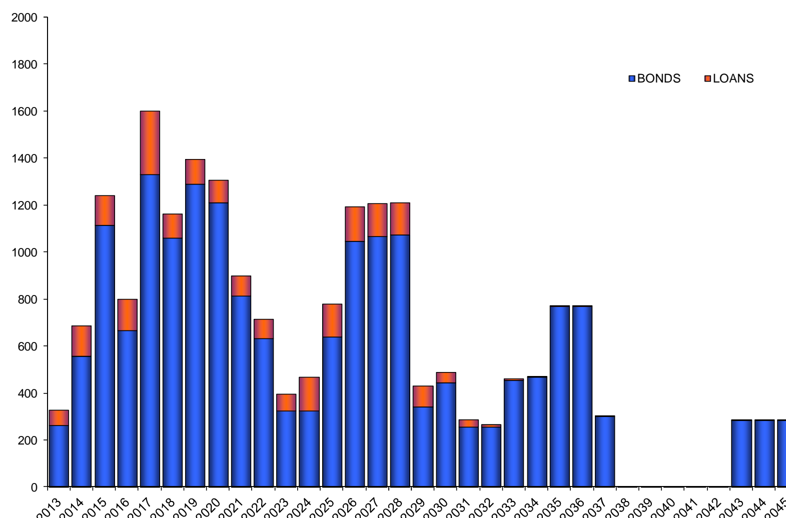
(2) Average time to Refix

(3) 12 month period ended May 2013

(4) Amortizations of the next 12 months starting in July 2013

Central Government Debt Profile

USD Million



Central Government Flow of Funds

USD Million

	2011	2012(*)	2013(*)
USES	**3976**	**2689**	**3038**
Interests Payments	1170	1163	1377
Amortizations	2736	1227	1094
Loans	457	186	650 (1)
Bonds	2280	1041	444
Others	69	299	567(2)
SOURCES	**3976**	**2689**	**3038**
Primary Surplus	884	195	420(3)
Multilaterals Disbursements	237	186	70
Issuances	4673	2436	1250
Others	119	92	196
Use of Assets**	-1937	-219	1102

(*) Preliminary Data

(1) Include IADB Prepayment for USD 519 million in January 2013

(2) Include Loan from the Executive to ANCAP for USD 517 million in January 2013 to prepaid debt w ith PDVSA

(3) Source: Macroeconomic and Financial Advisory Office

**** Positive indicates a reduction in reserves**

Source: Debt Management Unit

DEBT MANAGEMENT UNIT

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