Uruguay *Debt Report*

A quarterly report issued by the Debt Management Unit January 2014

Executive

The economic team reinforces the same guidelines for the financial strategy.

The financial strategy for the year ahead lies within the same guidelines established in the budget law for 2010-2014, focusing on the reduction of the Central Government financial vulnerabilities within a context of continued high global uncertainty and volatility. Thus, the main f ocus of the Central Government's debt management strategy is to preserve low refinancing risk with a redemption profile as even as possible in the long run and maintain debt's average life. Furthermore, the Central Government stressed the continuity of the current pre-funding policy, aiming to maintain a large liquidity buffer. By the end of 2013 Central Government cash balance is near 3.3% of GDP, comfortably covering the debt service of the year ahead.

Moreover, and in view of still uncertain perspectives for local and international financial markets, alternative funding sources have been developed by securing contingent lines of credit with multilateral institutions. Under scenarios of low liquidity and volatility in the international markets, this type of financing is more stable and cost-efficient than debt capital markets. In this regard the Government has secured near USD 2.0bn in contingent financing, around 3.6% of GDP. Thus, the strong liquidity buffers built by the Republic substantially reduce the roll-over risk that the country experienced in the past, and allows for counter-cyclical policy response if adverse shocks were to occur.

Another important guideline of the financial strategy is to reduce the foreign currency risk by achieving the goal of accounting a ratio of local currency debt over total debt of 45% by the end of 2014, further strengthening the counter-cyclical policy. In this regard, it is worth noting the potential impact that peso depreciation over 2013 could have had on the level of debt if its structure by currency would have remained at the levels observed in the first half of the last decade. As more than a half of the debt is denominated in local currency, 54% at 2013Q4, the rise in US Dollar did not lead to a rise in the total debt over GDP ratio.

As part of the effort to reduce the interest rate risk, the Government will continue substituting floating rate debt with fixed rate debt, monitoring and reviewing the risk associated with changes in interest rates that affect debt service costs.

An additional key objective is to achieve a more dynamic domestic market, establishing benchmark issuances and improving communication with the market.

The financial strategy also pursues the achievement of an optimal mix between multilateral and private debt, considering not only the most cost efficient funding alternative but also other factors such as the maintenance of a good relationship and presence with private investors and multilateral credit institutions, among others.

Finally, the Government will continue working to broaden the investor base of domestic and foreign debt trying to achieve the most cost–efficient financing among market conditions and the development of liquid and efficient yield curves.

UTE

From a wider financial risk management perspective, it is worth mentioning the execution by UTE, the state owned company, of a weather derivative with the World Bank, by which the risks of a fiscal deterioration as consequence of climatic factors is narrowed. The transaction insures UTE for the next 18 months against severe drought and high oil prices up to USD 450million. The company sets tariffs in line with medium term costs suffering an impact in results when costs increase in the short term. UTE, which generates electricity principally with hydro, has suffered recent droughts in 2008, 2009 and 2012, which had a negative impact in the fiscal deficit of 1.6%, 1.2% and 1.0% of GDP, respectively. In these cases, UTE had to find additional funding in the local market and was authorized by law to disburse a loan from the central government. In 2010 the Energy Stabilization Fund was created to smooth the result of the public sector and in 2012 UTE already had to draw USD 150million from the fund. Looking ahead, UTE plans to reduce the vulnerability in the energy sector by increasing its generation capacity from wind and natural gas (see *Uruguay in Focus* January 2014).

Central Government Risk Indicators

	IV.2004	IV.2005	IV.2006	IV.2007	IV.2008	IV.2009	IV.2010	IV.2011	IV.2012 (*)	IV.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	10,8
% debt due in one year	11,3%	16,0%	4,8%	2,9%	2,3%	3,6%	5,5%	2,6%	2,8%	3,3%
Tax Revenues /Amortization Payments	1,4	2,6	1,6	6,0	4,6	17,9	7,6	3,6	8,3	5,7 [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	2,7 [4]
Interest Rate Risk										
% debt that refixes rate in one year	32%	34%	22%	18%	20%	11%	15%	7%	7%	8%
ATR (years) [2]	4,9	6,6	11,1	12,3	11,9	12,0	11,3	11,7	11,2	10,4
Duration (years)	5,6	8,0	8,9	10,5	9,9	10,3	10,4	10,2	9,7	8,8
% Debt with Fixed Rate	77%	78%	82%	83%	81%	91%	88%	94%	95%	95%
% Debt with Floating Rate	23%	22%	18%	17%	19%	9%	12%	6%	5%	5%
Foreign Currency Risk										
% debt in Local Currency	11%	11%	15%	26%	28%	31%	34%	49%	55%	54%
% debt in Foreign Currency	89%	89%	85%	74%	72%	69%	66%	51%	45%	46%
Debt Composition by Instrument										
Loans	44%	40%	18%	17%	19%	21%	19%	15%	13%	10%
Bonds	56%	60%	82%	83%	81%	79%	81%	85%	87%	90%
Debt Composition by Jurisdiction										
Local Market	22%	22%	23%	21%	16%	16%	18%	25%	30%	29%
External Market	78%	78%	77%	79%	84%	84%	82%	75%	70%	71%
Average interest rate (annual % by currency)										
Dollars	6,1	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6
Units Linked to CPI	7,1	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,1	4,0
Uruguayan Pesos								10,6	9,7	9,4
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9
Yens	2,5	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9

(*) Preliminary Data

(1) Average time to Maturity

(2) Average time to Refix

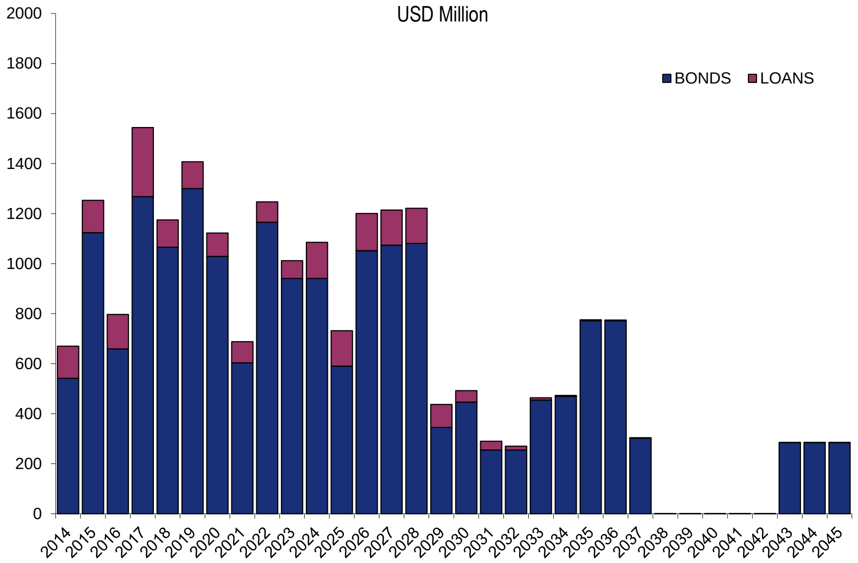
(3) 12 month period ended November 2013

(4) Amortizations of the next 12 months starting in January 2014

Central Government Debt Profile

As of December 2013

USD Million



Central Government Flow of Funds

USD Million

	2012	2013(*)	2014(*)
USES	**2689**	**3947**	**1954**
Interests Payments	1163	1326	1243
Amortizations	1227	1842	662
Loans	186	635 [1]	129
Bonds	1041	1207	533
Others	299	779 [2]	49
SOURCES	**2689**	**3947**	**1954**
Primary Surplus	195	550 [3]	405 [3]
Multilaterals Disbursements	186	83	140
Issuances	2436	2587	850
Others	92	192	257
Use of Assets**	-219	535	301

(*) Preliminary Data

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

(2) Includes Loan from the Executive to ANCAP for USD 517 million in January 2013 to prepay debt with PDVS

(3) Source: Macroeconomic and Financial Advisory Unit Preliminary Estimate

**** 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

Web site: deuda.mef.gub.uy

Azucena Arbeleche, Director

Victoria Buscio

Antonio Juambeltz

Rodrigo Saráchaga

Juan Siutto