Uruguay
Sovereign Debt Report

A quarterly report issued by the Debt Management Unit of the Ministry of Economy and Finance

July 2016

Highlights

- **Uruguay successfully launched a dual-tranche reopening of its dollar-denominated bonds maturing in 2027 and 2050, issuing a total of USD1.147mn. The transaction was heavily oversubscribed and attained historically low interest rates.**
- **The government announced a new issuance calendar for Treasury notes in the domestic market for the period July 2016-December 2016.**
- **The government swapped part of the outstanding dollar-denominated loans with the World Bank into Japanese yens for an equivalent of USD500mn.**
- **Moody's and S&P affirmed Uruguay's credit rating one notch above investment grade; both rating agencies changed outlook from Stable to Negative.**
- **The Ministry of Economy and Finance implemented an oil hedging program with the World Bank, to help moderate the impact of significant oil price increases on the fiscal budget and the overall economy.**

Global bond issuance

On July 13th, Uruguay launched a dual-tranche reopening of its dollar-denominated bonds maturing in **2027** (with an outstanding of USD1.7bn and 4.375% coupon) and **2050** (with outstanding USD3.2bn and 5.1% coupon). The transaction was announced with Initial Price Thoughts (IPT's) of T+220 bps and T+295 bps, respectively.

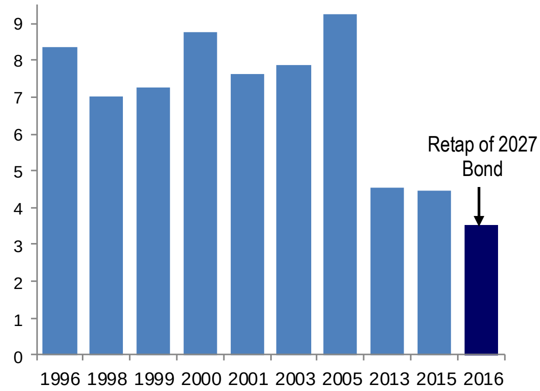
On the back of a strong book (that peaked at a total of **USD5.3bn**), Uruguay issued a total nominal value of **USD1.147mn**. This was achieved through a tap of **USD400mn** for the 2027 at T+205 bps (yield of **3.52%**), and tap of 2050 for **USD747mn** at T+275 bps (yield of **4.93%**). The good quality and size of the book enabled the Republic to tighten pricing with low concessions to secondaries (10 bps for the shorter tranche and 5 bps for the longer maturity, compared with pre-announcement levels).

The Republic attained a balanced participation of US/European Asset Managers, Asian and US Insurance companies as well as local Uruguayan accounts. There was a strong presence of European investors and — for the first time — orders from official institutions in Asia.

As such, the transaction was able to accomplish three goals:

i) As part of its pre-funding policy, the Central Government buttressed its liquidity position at very low financing costs. The 2027, in particular, marked the lowest yield ever paid by Uruguay on an international dollar bond issuance. Liquid assets are now enough to cover more than one and a half years of future debt service.
ii) Continue extending the average time to maturity of the debt, to around 15 years (one of the longest in the sovereign universe), further reducing rollover risks.
iii) Enhance the liquidity of on-the-run benchmarks in the secondary market, ensuring a more efficient functioning of the yield curve. In that sense, the diversification of investors across regions and type of institutions ensures a broad array of investors` views on Uruguay, contributing to stabilize prices along the curve.

Uruguay's 10-Year Global Bonds Issuances in USD
(Yield at issuance, in %)



Source: Debt Management Unit

Overall, the timing of the transaction allowed to make the most of the strong rebound in Uruguay`s bond prices and renewed appetite for yield and duration in the wake of the Brexit vote, benefiting also from a scarcity of investment-grade new issues from Latin America in recent months.

New domestic market issuance calendar for July-December 2016

On June 2nd, 2016, the Central Government announced its issuance calendar in the domestic market for the period July 2016-December 2016. The Government started the issuance of two new CPI-linked (UI) Treasury Notes due 2019 and 2021 (Series 23 and Series 24, respectively) that work as benchmarks in the middle-to-short section of the curve (3 and 5 years, respectively). In addition, it resumed CPI-linked (UI) Treasury Notes issued on November 2014 and due on November 2025 (Series 21), last reopened on September 2015. Series 23 are issued every month, while Series 21 and 24 are being reopened every two months. The estimated nominal monthly issuance amounts on Series 23 and 24 are UI 200 million (around USD 23 million), while for Series 21 are UI 150 million (around USD 17 million).

For the six-month calendar ended in May 2016, the government issued UI 2.899 million (around USD 305 million), 1.5 times the amount originally targeted despite a significantly more challenging environment for local currency deals. For more information, please access the Press Release or visit the DMU's website.

DMU swapped dollar-denominated multilateral loans into Japanese yens

As part of its strategy to manage and diversify currency risk in the debt portfolio, the DMU swapped outstanding loans from the World Bank denominated in U.S Dollars into Japanese Yens, for a total of USD 500mn. After this transaction, these loans will pay a fixed rate of around -0.40% in Yens per year, instead of the floating 6-month USD Libor rate. The DMU will continue its proactive management of the FX exposure of its portfolio by seeking conversion of dollar-denominated debt into other advanced-economy currencies, such as Euros.

Moody's and S&P affirmed Uruguay's credit rating one notch above investment grade and both agencies changed outlook from Stable to Negative. DBRS affirmed Uruguay´s rating with a stable outlook

On June 23th, Moody's affirmed Uruguay's Baa2 sovereign credit ratings and changed the outlook to negative from stable. According to Moody's, Uruguay's sovereign rating is supported by a strong institutional framework that reinforces political and social stability and makes the country an attractive destination for foreign direct investment. Comparatively large fiscal reserves and external buffers, moderate central government debt burden and very strong liability management practices also support creditworthiness. These factors are balanced by credit challenges that include persistently high inflation, a deterioration of fiscal balances and relatively high financial system dollarization. Access to Moody's Annual Credit Analysis.

On June 6th S&P affirmed Uruguay's BBB sovereign credit rating and revised its outlook to negative from stable. According to this credit agency, the negative outlook reflects the risks that the economy could weaken further, which would weigh on Uruguay's revenue base and the government's planned fiscal adjustment. On the other hand, the ratings could stabilize if the economy gradually strengthens, supporting per capita income, and thus the country's revenue base and thus its capacity to absorb growing debt levels. Access to S&P Research Update.

On May 27th DBRS confirmed Uruguay's long-term foreign and local currency issuer ratings at BBB (low) with stable outlook. According to DBRS, Uruguay's credit fundamentals are supported by highly effective debt management, strong public institutions, and ample external buffers. Counterbalancing these strengths are limited fiscal flexibility, persistently above-target inflation, and exposure to external developments. DBRS added that despite economic weaknesses among key global and regional partners, lower export prices, and global financial volatility, the external accounts of Uruguay have improved. Access to DBRS Rating Report.

Uruguay Partners with the World Bank to Reduce its Exposure to Oil Price Volatility

On June 15th, the Ministry of Economy and Finance acting through its Debt Management Unit announced the completion of an oil hedging program, aimed at moderating the impact of significant oil price increases on Uruguay`s fiscal budget and the overall economy. This program was implemented through an option call derivative contract which covers around half of Uruguay's total annual oil imports for the next 12 months, at a strike price of 55 dollars per barrel. This is the first commodity hedge transaction between an emerging market sovereign and the World Bank. Access the Press Release.

CENTRAL GOVERNMENT`S DEBT AND ASSET STATISTICS

Central Government`s statistics presented below are compiled by the Debt Management Unit (DMU) of the Ministry of Economy and Finance, with the purpose of monitoring debt portfolio indicators and supporting design of debt management strategies. Debt figures include all loans and public securities contracted/issued by the Central Government in domestic and foreign currency, in both local and international markets, and held by private and public-sector agents[1]. Total assets include deposits of the National Treasury at the Central Bank and *Banco de la República* accounts.

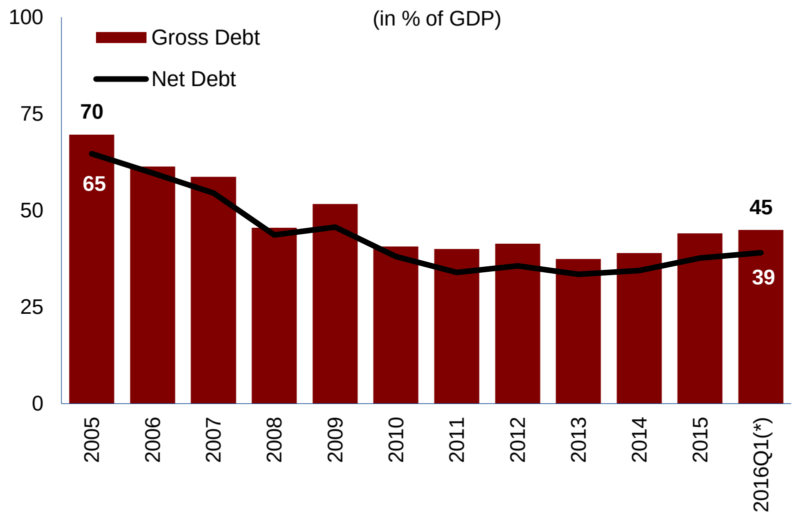
Table 1. Central Government Debt and Asset Position (a)

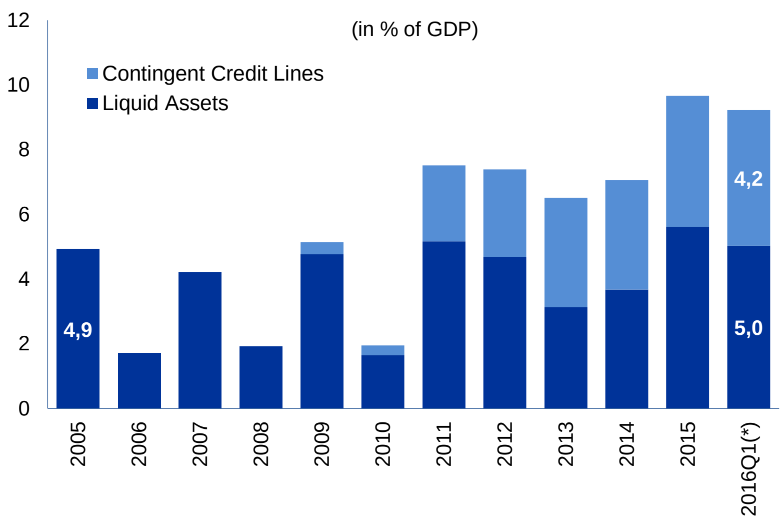
(in USD million, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q2(*)
Gross Debt	12.121	12.046	13.767	13.839	16.376	16.375	19.199	21.191	21.520	22.346	23.581	23.814
Total Assets	858	335	985	580	1.891	1.046	2.886	2.935	2.285	2.635	3.446	2.619
Liquid Assets	858	335	985	580	1.509	663	2.477	2.395	1.802	2.104	3.001	2.188
Net Debt	11.263	11.711	12.782	13.260	14.485	15.329	16.313	18.256	19.235	19.711	20.135	21.195
Contingent Credit Lines	0	0	0	400	120	120	1.130	1.390	1.940	1.940	2.167	2.417
Memo Item: Nominal GDP (in USD)	17.403	19.630	23.468	30.387	31.703	40.263	47.997	51.229	57.483	57.276	53.461	(**)

(*) Preliminary
(**) To be released by the Central Bank in September 2016.

Figure 1. Central Government Debt and Financial Buffers





Source: Debt Management Unit
(a) Figures reported in charts and tables cover the period through June 2016, and thus do not reflect the results of the global bond issuance in July 2016.

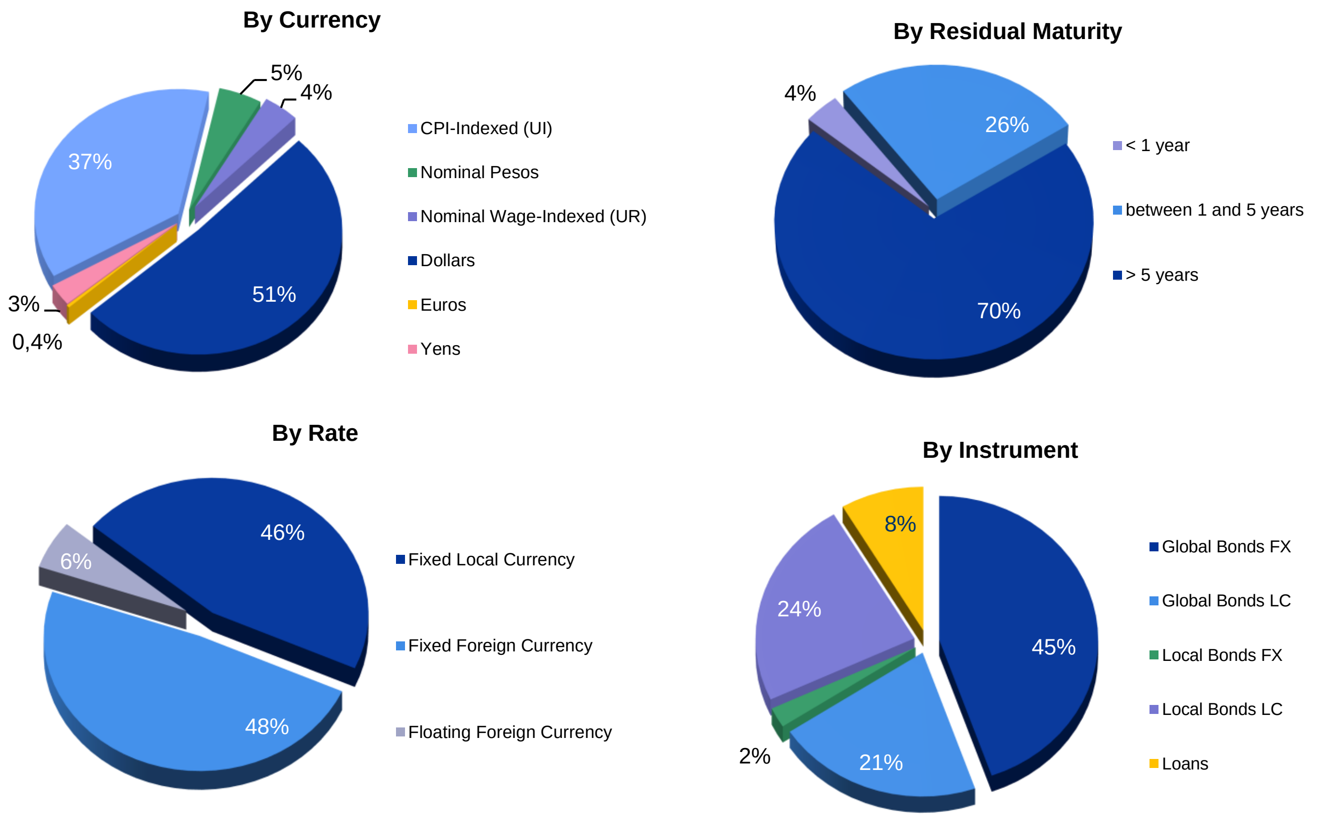
[1]The Central Bank of Uruguay compiles debt statistics for the consolidated Public Sector. This broader institutional coverage includes debt of the Central Government, the Central Bank, Public Enterprises, Local Governments and other public sector entities. As noted in Annex II of the 2015 IMF Article IV Report, Uruguay is a particular case among emerging market economies as it is one of the very few countries to report official debt statistics for the whole public sector, including Central Bank`s liabilities.

Table 2. Composition of Central Government Debt
(in % of total, end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016Q2(*)
By Currency												
Foreign Curreny (FX)	**88**	**85**	**74**	**72**	**69**	**66**	**51**	**45**	**46**	**48**	**55**	**54**
Dollars	68	77	65	64	63	59	44	40	42	45	52	51
Other	21	8	9	8	7	7	6	5	4	3	3	3
Local Currency (LC)	**12**	**15**	**26**	**28**	**31**	**34**	**50**	**55**	**54**	**52**	**45**	**46**
Nominal Pesos	0	0	0	0	0	0	7	9	8	5	6	5
CPI-Indexed (UI)	12	15	26	28	31	34	43	46	47	42	35	37
Nominal Wage-Indexed (UR)	0	0	0	0	0	0	0	0	0	5	4	4
By Residual Maturity												
Short-Term (less than one year)	**16**	**5**	**3**	**2**	**4**	**6**	**3**	**3**	**3**	**4**	**3**	**4**
Medium and Long Term	**84**	**95**	**97**	**98**	**96**	**94**	**97**	**97**	**97**	**96**	**97**	**96**
By Rate												
Fixed (1)	**78**	**82**	**83**	**81**	**91**	**88**	**94**	**95**	**95**	**94**	**94**	**94**
Floating	**22**	**18**	**17**	**19**	**9**	**12**	**6**	**5**	**5**	**6**	**6**	**6**
By Instrument												
Bonds	**60**	**82**	**83**	**81**	**79**	**81**	**85**	**87**	**90**	**91**	**91**	**92**
Loans	**40**	**18**	**17**	**19**	**21**	**19**	**15**	**13**	**10**	**9**	**9**	**8**
By Jurisdiction Issued												
Local Market	**22**	**23**	**21**	**16**	**16**	**18**	**25**	**30**	**29**	**29**	**26**	**26**
Foreign Market	**78**	**77**	**79**	**84**	**84**	**82**	**75**	**70**	**71**	**71**	**74**	**74**

(*) Preliminary
(1) Includes local currency securities issued at fixed real rate

Figure 2. Breakdown of Central Government Debt
(As of end-June 2016)



Source: Debt Management Unit

Table 3. Central Government Debt Indicators

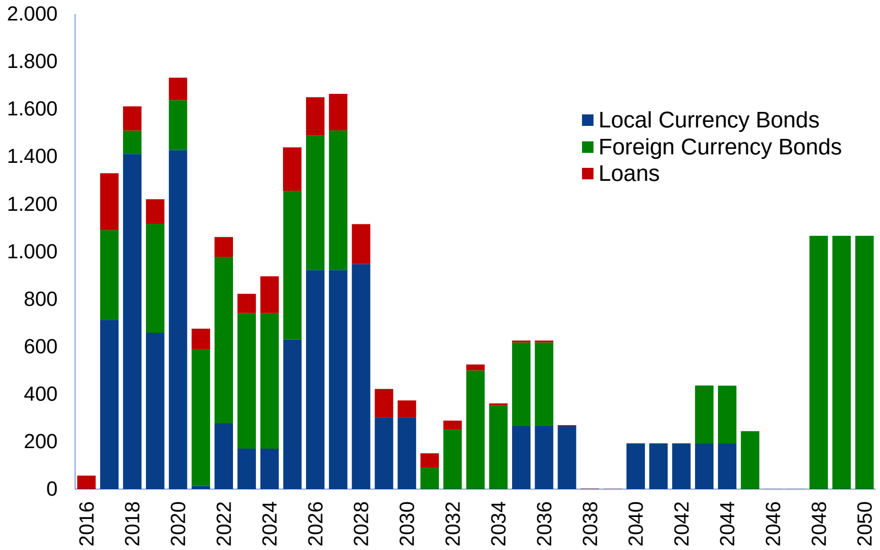
(in %, except where noted; end-period)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015(*)	2016Q2(*)
Roll-Over and Liquidity Risk												
Average Time to Maturity (in years)	**7,9**	**12,1**	**13,6**	**13,0**	**12,7**	**12,3**	**12,3**	**11,7**	**10,8**	**14,4**	**14,4**	**14,5**
Share of debt due in one year	**16,0**	**4,8**	**2,9**	**2,3**	**3,6**	**5,5**	**2,6**	**2,8**	**3,3**	**4,1**	**2,6**	**3,6**
Liquid Assets /Amortization due in one year	**0,3**	**0,4**	**0,7**	**1,6**	**1,4**	**0,7**	**4,0**	**3,7**	**2,7**	**1,9**	**4,8**	**2,5**
Interest Rate Risk												
Duration (in years)	**8,0**	**8,9**	**10,5**	**9,9**	**10,3**	**10,4**	**10,2**	**9,8**	**8,8**	**11,3**	**10,6**	**10,8**
Share of debt that refixes in one year	**33,7**	**21,9**	**18,1**	**20,0**	**10,6**	**15,1**	**6,6**	**6,6**	**8,3**	**7,3**	**6,3**	**7,8**
Average Interest Rate												
Dollars	7,8	7,0	7,1	7,0	6,5	6,5	6,5	6,1	5,6	5,3	5,1	5,2
Euros	6,9	6,9	6,9	6,9	6,9	6,9	6,9	5,8	5,9	5,9	5,9	5,2
Yens	2,5	2,5	2,3	2,3	2,3	2,3	1,9	1,9	1,9	1,9	1,9	1,9
Nominal Pesos							10,6	9,7	9,4	9,6	12,8	13,4
CPI-Indexed (UI)	5,4	5,3	4,4	4,3	4,3	4,3	4,2	4,0	4,0	3,9	4,0	4,0
Nominal Wage-Indexed (UR)										2,3	2,3	2,3

(*) Preliminary

Figure 3. Central Government Redemption Profile, by Instrument

(As of end-June 2016, in USD Million)



Source: Debt Management Unit

Table 4. Central Government Flow of Funds

(in USD Million)

	2015	2016(*)	2017(*)
USES	**3.519**	**2.472**	**2.757**
Interests Payments	1.271	1.375	1.395
Amortizations	1.640	625	1.272
Loans	115	114	238
Bonds	1.525	511	1.034
o/w Prepayments	605	0	0
Primary Deficit(1)	265	423	41
Others	344	49	49
SOURCES	**3.519**	**2.472**	**2.757**
Multilaterals Disbursements	136	350	500
Bond Issuance	4.157	1.750	2.050
Others	227	132	133
Use of Assets (**)	-1.001	241	74

(*) Preliminary
(**) Positive indicates a reduction in reserves.
(1) Source: Projections from the Macroeconomic and Financial Advisory Unit (MEF).

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