



**BANCO CENTRAL  
DEL URUGUAY**



**Ministerio  
de Economía  
y Finanzas**

### **Public Debt Coordination Committee Press Release**

The Public Debt Coordination Committee (PDCC), headed by the Manager of Economic Policy and Markets of Banco Central del Uruguay (BCU) and the Director of the Debt Management Unit at the Ministry of Economy and Finance (MEF), gathered on September 9<sup>th</sup>, 2020.

During the meeting, the following agenda was covered:

- **Analysis of the evolution of public securities market in recent months.** Committee members exchanged their views on how the public debt market (Monetary Regulation Bills and Treasury Notes) evolved since the last meeting on July 2<sup>nd</sup>. The Central Bank highlighted the compression in average yields of monetary regulation bills, adjusting of more than 300 basis points across all nodes of the curve, while the CPI-linked returns showed an average reduction of approximately 100 basis points along the curve. Likewise, domestic institutional investors continued to shift their portfolio preferences towards public instruments local currency, with moderate capital-inflows from non-residents investors.

The government highlighted the strong demand received in its domestic issuances during the second semester, completing more than 70% of the base amount announced in the 2020H2 issuance schedule, despite having executed just a third of the auctions. The Committee also underscored the positive performance of global government securities in both domestic and foreign currency, which are yielding lower rates than before the start of the pandemic, with a significant compression in dollar sovereign risk premiums.

- **Initial assessment of changes to the monetary policy framework.** The Committee assessed the decision adopted by the Central Bank on September 3<sup>rd</sup> to move to the short interest rate as the policy instrument under the IT regime. Members highlighted the enhanced transparency of monetary policy signals helping to strengthen transmission channels, as well as promoting a liquid and deeper money market. These changes add to the improvements in communication that the Central Bank has been undertaking.

- **New legal framework for Central Government indebtedness.** Included in the 2020-2024 Budget Law Draft Bill recently submitted to the Parliament, is a new legal framework for the authorization of public sector indebtedness. The new framework establishes a maximum for the government's annual net indebtedness, which is defined as total issuance of public market debt securities and loan disbursements, deducting the amortizations of public debt securities and loans, and net of the change in financial assets during the year. This concept is derived directly from the government's financial program, and is closely associated with the central government's observed fiscal balance (excluding the "Cincuentones effect"). The members of the Committee agreed that this new legal framework for debt authorization under consideration will complement the recently established fiscal rule and help stabilize the debt burden.

The next Committee meeting will take place in December 2020.