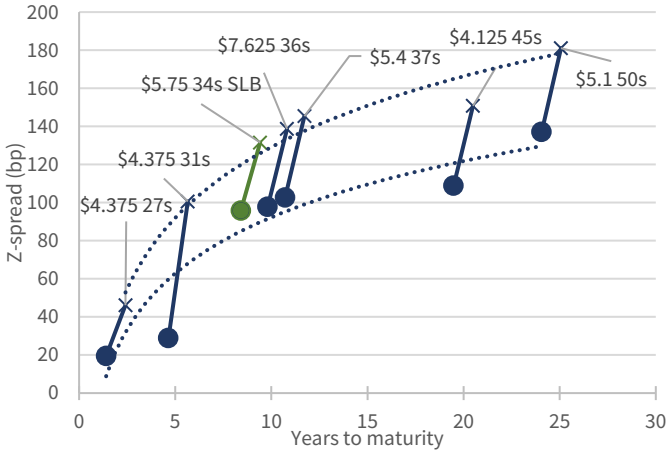


Uruguay SLB update after latest reporting

Josephine Richardson (*), Jonas David

Uruguay is one of the few sovereign issuers of Sustainability-Linked Bonds (SLBs), and the first to reach an observation date; the bond (URUGUA 5.75% 34s, ISIN: US760942BE11) will observe its end-2025 Sustainability Performance Targets (SPTs).[1]

Figure 1. Uruguay USD bond z-spreads from 30 May 2025 (crosses) to 1 Jun 2026 (circles). Source: Bloomberg, accessed 1 Jun 2026.



The bond has two Key Performance Indicators (KPIs), each with two targets. The first KPI, linked to emissions intensity, is reported annually with a one-year delay. The second KPI, maintenance of native forest area, is reported only once every four years also with a year's delay.[2]

The coupon adjustments are symmetric; both KPIs have a target which if not achieved results in a step-up, and also a stretch target which if achieved results in a step-down.[3]

Uruguay published its latest report on 29 May 2026,[4] giving emissions figures for 2024 alongside a qualitative update on its overall transition. The data shows progress on emissions reduction, with a year-on-year trend that if continued would enable the 2025 base target to be met. While no data was given on forest area, new forest registrations continue to increase suggesting a positive trend.

Given the positive movement on emissions reductions, we have updated our illustrative probabilities of meeting SPT1a and SPT1b (full details in Figure 4 overleaf). Along with the shortening of the remaining maturity, the AFII option value changes from 5.0bps to 1.2bps running.

As shown in Figure 1, the SLB is trading broadly on the curve. Over the past year, it has tightened less than the closest maturity bonds, however this is alongside a substantial tightening of spreads.

The trend of the last two Uruguay data reports has been towards reducing emissions, which would be expected to reduce the likelihood of a step-up coupon. It may be that the market has always been pricing a balanced probability between step-up and step-down coupons, which implies this positive data trend is as expected.

---

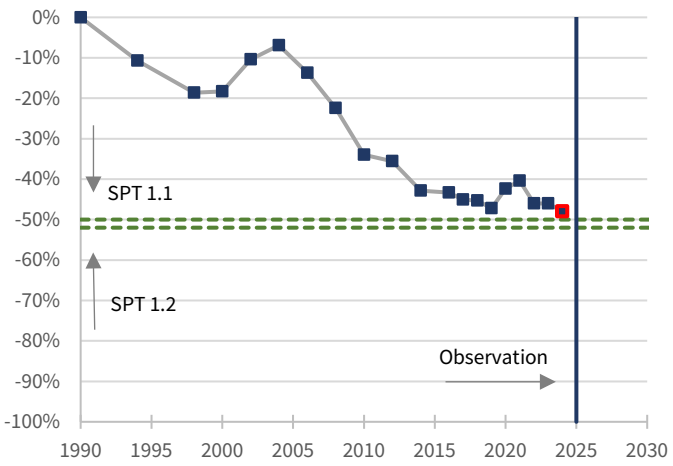
[1] For earlier analysis please see "Uruguay SLB: market update", AFII, 5 Jun 2023 and "Uruguay-ding light in Sovereign SLBs", AFII, 20 Jun 2025.
[2] Final figures for the 2025 observation date are therefore expected in May 2027.
[3] In 2022, Uruguay was the first sovereign issuer to use a dual step-up/step-down mechanism; this innovative feature has since been adopted by other issuers including Thailand, Slovenia and Chile in its latest bond.
[4] "SSLB Annual Report 2026", Uruguay, 29 May 2026.

Not investment advice. First published 3 Jun 2026. Important disclaimers at end of the document.
(*) Anthropocene Fixed Income Institute (www.anthropocenefii.org). Author for contacts: jor@anthropocenefii.org

KPI1

The first KPI is linked to a reduction in emissions intensity (emissions/GDP) compared to a 1990 baseline. There are two SPTs associated with this KPI; a less than 50% reduction results in a 15bps step-up, while a more than 52% reduction will result in a step-down of 15bps.

Figure 2. KPI1 aggregate GHG/Real GDP for Uruguay compared to 1990 baseline. Source: Ministry of Economy and Finance of Uruguay.



The most recent data point, reporting 2024 emissions, shows a 48% reduction compared to the baseline (as shown in Figure 2),[4] having been flat between the two prior data points.

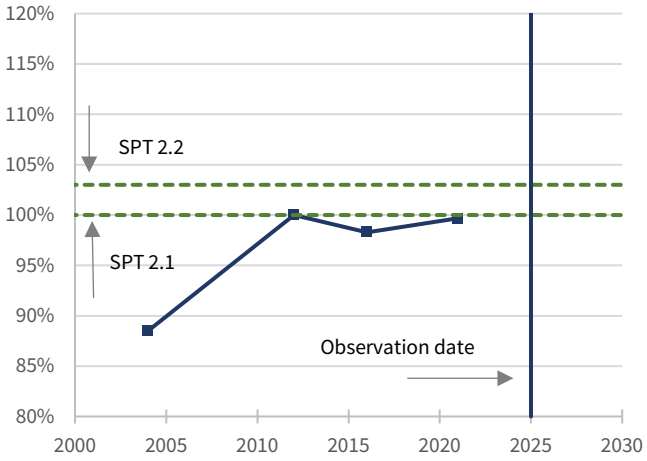
The year-on-year change of -2% would meet the base target if extended for the final year before observation. A reduction of -4% is needed to achieve the stretch target.

The disclosure in this report does indicate positive developments. Emissions from power generation are sharply down, with fossil generation now constituting only 1% of generation. Emissions from energy are still rising overall though, driven by ground transportation. The other factor of note, the report cites AFOLU (Agriculture, Forest and Other Land Use) as one sector recording a decrease in absolute emissions, mainly from sheep and cattle farming methods.[4] As the focus on reducing emissions in this area increases, it is encouraging to see a positive story in this area.

KPI2

The second KPI measures native forest area compared to a 2012 baseline. Achieving the target of 100% will avoid a 15bps step-up, while achieving an increase to 104% will result in a 15bps step-down.

Figure 3. KPI2 Native forest area compared to a 2012 baseline. Source: Ministry of Economy and Finance of Uruguay.



This data is only updated every four years, and a year in arrears, so there was no new reporting on KPI2 in the latest report. The final figure for 2025 is expected by 31 May 2027.

There are insufficient historical data points to infer any model dynamics. A qualitative assessment would suggest it's likely that at least the lower target will be achieved, but it's less likely that the higher target will be met since there has been no net improvement since 2013. As no new data has emerged since our Jun 2023 analysis, we maintain our prior probability estimates: a 25% chance of missing the lower target and a 40% chance of achieving the higher target.

Option Pricing

Bond structure

The final KPI figures for 2025 are due before 31 May 2027, because of the one-year lag. Our interpretation of the bond prospectus is that any change in coupon will begin to accrue from October 2027 and therefore impact seven years' worth of coupons. Considering just the step-up of 15bps per KPI, that means a maximum non-discounted cumulative increased coupon of 2.1%, although this is 1.7% on a discounted basis; and equal lowered coupons for the step-down. This represents a relatively high degree of materiality compared to other structures, driven by the fact the observation date is set early in the life of the bond.

SPT probabilities

To price the step-up or step-down options, one must assess the probability of the issuer meeting each target.[5]

As both KPIs have two targets, there are three possible results at the observation date. If the lower base is missed the coupon will step-up, if the stretch target is achieved the coupon will step-down, and if the result is in the middle there will be no change.

Figure 4. Illustrative probabilities used for SLB pricing. Source: AFII.

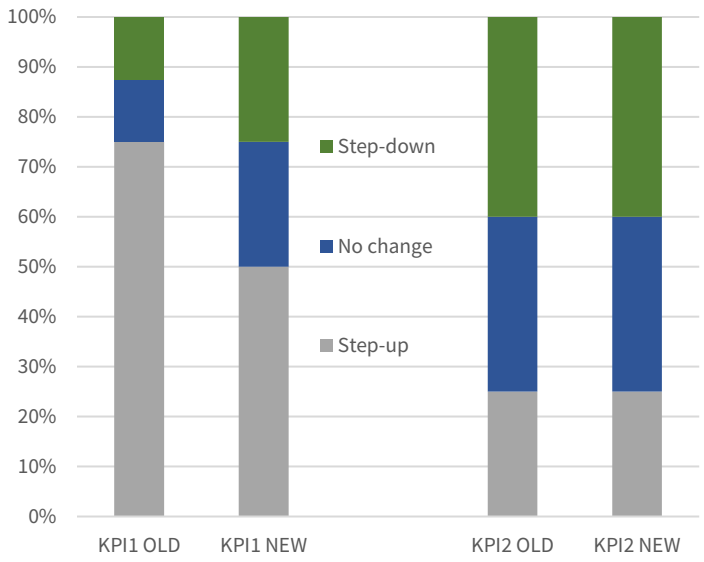


Figure 4 depicts the probabilities that we have used in our illustrative bond pricing, and how this has changed since the prior report. For KPI1, given the historical trend, we have reduced the chance that both targets are missed to 50%. Because the targets are quite close together, we have assigned 25% probability that both targets are achieved. For KPI2, in contrast, as the lower target is already achieved it seems likely this will remain the case, but in the context of recent volatility the range between the two targets seems wide. However, it also needs to be considered that there have been no other data published on this KPI since 2021. Despite the qualitative updates, these estimated figures are unchanged since our last report.

Table 1. SLB option prices. Source: AFII.

	Updated pricing		Prior report	
	Upfront value	Running value	Upfront value	Running value
KPI1.1	0.42%	6.1 bps	0.61%	8.0 bps
KPI1.2	-0.21%	-3.0 bps	-0.10%	-1.3 bps
KPI2.1	0.21%	3.0 bps	0.20%	2.7 bps
KPI2.2	-0.34%	-4.8 bps	-0.33%	-4.2 bps
TOTAL	**0.08%**	**1.2 bps**	**0.39%**	**5.0 bps**

Using the probabilities from Figure 4 gives a total option value of 0.08% or 1.2bps running. A breakdown for the individual targets is shown in Table 2. The values for KPI2 imply an expectation of a step-down resulting in a negative option value. The value of the step-up in KPI1.1, however, is higher which is why the overall value is just positive.

[5] For full details of the AFII option pricing approach please see "Sustainability Linked Bond Handbook", AFII, 12 May 2024.

Market Pricing

Figure 5 shows spread moves for USD Uruguay bonds that were issued longer than a year ago. We use these to see if there has been any reaction in the SLB since 30 May 2025, i.e. before the previous SLB report signalling the change in trend was released.

Figure 5. Uruguay USD bond spreads from 30 May 2025 (crosses) to 1 Jun 2026 (circles). Source: Bloomberg, accessed 1 Jun 2026.



If the option value has decreased from 5.0bps to 1.2bps we would expect to see an underperformance. The 34s have tightened 35.7bps compared to 40.9bps for the 36s and 42.7bps for the 37s, however this flattening is alongside a substantial spread tightening and so it is hard to conclude on a relative movement.

Throughout our analysis of this SLB we have broadly concluded it is trading on the curve. It may be that the market has always implied a higher chance of emissions reductions than the historic data suggested, and therefore these recent two years of reporting have in fact offered no change in trajectory.

Conclusions

Uruguay was the second sovereign issuer of SLBs, but will be the first to reach its observation date at the end of 2025. However, data reporting lags mean the market will not receive final results until Q2 2027.

Data from 2024 has shown emissions reductions, at a pace that, if extended will meet the lower target for 2025, resulting in no step-up coupon. Our adjusted probabilities give an estimated option value of 1.2bps.

The SLB has tightened less than peers over the past year, however this is alongside a substantial tightening so does not lead us to conclude any clear underperformance. It could be that the market has always viewed the likelihood of a coupon step-up and step-down as evenly balanced.

This research is funded in part by the Gordon and Betty Moore Foundation through The Finance Hub, which was created to advance sustainable finance.

ABOUT THE GORDON AND BETTY MOORE FOUNDATION:

The Gordon and Betty Moore Foundation fosters path-breaking scientific discovery, environmental conservation, patient care improvements and preservation of the special character of the Bay Area. Visit Moore.org or follow @MooreFound

IMPORTANT DISCLAIMER:

This report is for information and educational purposes only. The Anthropocene Fixed Income Institute ('AFII') does not provide tax, legal, investment, accounting, or any regulatory or regulated advice or services. This report is not intended to provide, and should not be relied on for, tax, legal, investment, accounting, or regulatory or regulated advice or services. Nothing in this report is intended (i) as investment advice, as an offer or solicitation of an offer to buy or sell, or as a recommendation, endorsement, or sponsorship of any security, company, issuer, or fund or (ii) to express a particular investment proposal in respect of a financial instrument or an issuer, or (iii) to propose a particular investment decision in respect of a financial instrument or an opinion as to the present or future value or price of any financial instrument or (iv) to recommend or suggest any investment strategy.

AFII is not responsible for any investment decision made by you. You are responsible for your own investment research and investment decisions. This report is not meant as a general guide to investing, nor as a source of any specific investment recommendation. Unless attributed to others, any opinions expressed are our current opinions only. AFII does not take into account your own circumstances or assets and AFII assumes no direct or indirect responsibility or liability for any investment decisions you make, and you remain fully responsible for your own research, legal and regulatory compliance, and decisions.

Certain information presented may have been sourced from third parties. AFII believes that such third-party information is reliable, and has checked public records to verify it wherever possible, but does not guarantee its accuracy, timeliness or completeness; and it is subject to change without notice. Any reference to an issuer's creditworthiness or likelihood of positive or negative performance in the current or future market is purely observational and should not be taken as a recommendation, endorsement or advice in relation to such issuer or its securities. AFII is a non-profit organisation that provides fixed income investors with the insights and tools they need to align their portfolios with ambitious climate and nature targets. For more information about the Institute, please visit www.anthropocenefii.org.

