

Emerging Sovereign Bond Markets NEWS

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China

China bond market to fall bear in 2010 amid economic recovery, inflation

17 December 2009

Provided by: [Xinhua's China Economic Information Service](#)

BEIJING, Dec. 17 (Xinhua) -- **A strong economic recovery and mild inflation will steer China's bonds downwards from a choppy market in 2010, and most institutional investors have set their bond investment tones at defensive.**

T-bonds and policy financial bonds, which account for the largest share of China's bond market, are sensitive to interest rates and will therefore suffer most from an impending increase in the interest rate.

In contrast, smaller debenture bonds should see fallen yields given that their current spreads are at a historical high, making them a fairly attractive investment product in 2010.

ECONOMIC RECOVERY

A positive consensus has been reached on economic prospects for 2010.

The Industrial Bank predicted that China's GDP would increase 9 percent to 10 percent in 2010 with a median of 9.5 percent. Guosen Securities even predicted that the economy would traverse from recovery to expansion, growing 9.8 percent to 10.7 percent for the whole of 2010.

Meanwhile, Shanghai Securities predicted a lesser 8.8 percent and noted that the growth in bank loans should remain bountiful.

The Industrial Bank held that bank credit should swell between 17.5 percent and 22.5 percent given huge fixed-asset investment demand triggered by the central government's economic stimulus package totaling four trillion yuan.

Inflation and inflationary expectations would be the heaviest weights on the bond market. The Industrial Bank forecasted that the Consumer Price Index (CPI), a gauge of inflation, would reach between 1.9 percent and 2.6 percent in 2010.

Guosen Securities meanwhile reckoned that CPI would post mild growth, though the value would not surpass three percent, the figure for inflation. However, such an increase would bring about adverse inflationary expectations given the fact that CPI does not include the prices of houses and other assets.

In November CPI turned to positive growth, rising 0.6 percent year on year while the Producer Price Index, a major measurement of

inflation at the wholesale level, declined 2.1 percent in November from a year earlier, 3.7 percentage points lower than that in October, which fell 5.8 percent year on year.

Gloomy T-BONDS

China's T-bonds dominate the bond market both in terms of turnover and issuance, so their movement could direct the overall sentiment. And it is widely held that they will face severe challenges, including rising interest rates and a swelling issuance.

Overall, the yield curve would post an upward shift in 2010, said Qu Qing, a fixed-income analyst with Shenying & Wanguo Securities.

Qu added that the surge in short-term interest rates would act as the major force in pushing up the T-bond's yield curve. Further, the current long-term yield has absorbed inflationary expectations to some extent, so the yield curve for T-bonds should grow steeper in 2010.

Moreover, T-bonds will have to weather an issuance glut in the coming year. China International Capital Corporation (CICC) recently predicted that 2010 would see a total issuance of 1.86 trillion yuan in T-bonds based given a predicted fiscal deficit and T-bonds coming of age.

CICC said in a report that China would demand more funds for investment in 2010, so the fiscal deficit should fatten further to 800 to 900 billion yuan. Statistics show that a total of 1.01 trillion yuan of T-bonds would come due in the coming year. Guosen Securities also forecasted that a total of 5.06 trillion yuan of bonds would be issued in 2010, including 1.8 trillion yuan of T-bonds and 1.3 trillion yuan of financial bonds.

However, given that banks, the largest bond investing group, will face reduced demand for bond investments, they must divert more funds for credit expansion. When lessened demand meets an expanded supply, the T-bond market will no doubt recede into a bearish market.

PROMISING DEBENTURE BONDS

In spite of overall bearish sentiments for 2010's bond market, China's debenture bonds are likely to stand out with their declined yields and narrowed spreads.

Several institutions believed that the yield for debenture bonds would peak in 2010's first half, then decline throughout the latter half.

In fact, the credit spread of debenture bonds has already reached a historically high level. The credit spread of 5-year AAA-rated enterprise bonds has stabilized around 150 basis points and 5-year AA+ bonds at 200 basis points.

The imbalanced supply and demand relationship would be improved in 2010 and by then, the economic fundamentals would lead the bonds' trend, said Jiang Chao, a researcher with Guotai

& Juanan Securities.

Gao Yu, a senior fixed-income analyst with Guosen Securities, echoed this view. Gao suggested buying AAA-rated enterprise bonds in the first quarter on the primary market.

Gao also saw value in debenture bonds rated AA+ or above in Q2 of 2010, and urban investment bonds in that year's second half.

Written by Zhu Zhu, contributed by Sheng Ermo, Yang Yiren Enditem (c) 2009

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Xinhua's China Economic Information Service

Five keywords for 2009 China bond market

11 December 2009

Provided by: Xinhua's China Economic Information Service

BEIJING, Dec. 11 (Xinhua) – **China's bond market witnessed steady expansion for the whole of 2009 which is featured with five keywords: expansion, super-long T-bond, zero transaction, risk and going out.**

EXPANSION

China's largest bond product T-bond in 2009 has almost doubled the issuance in 2008.

Statistics show that the government has issued a total of 1.37 trillion yuan in T-bond products by the end of October, including book-entry T-bond, saving T-bond and local government bond, as compared with only 724.639 billion yuan in the whole of 2008.

The huge issuance of T-bond echoed the government's economic stimulus program totaling four trillion yuan to prop up the economy amid financial crisis.

The rapid economic development urges for improving the country's direct financing channel and the expansion in T-bond market has laid solid foundation for economic recovery and provided more funds for economic construction in the future, noted Guan Shengyi, a bond expert with China Government Securities Depository Trust & Clearing Co., Ltd. (CGSDTC).

Besides, the debenture bond, mainly issued by China's enterprises and corporations, also enjoyed scale-up in the year.

Statistics from CGSDTC show that a variety of enterprises have issued 1.25 trillion yuan of bonds on the interbank market by October, far exceeding 844.24 trillion yuan issued in 2008."

The bond expansion has brought opportunities for extending financing channel and lowering financing cost," said Zhen Zhenyuan, a researcher with First Capital.

He added that the financing via bond issuance could facilitate alter the traditional mode relying heavily on bank loans and gain more saying in

the pricing of bank loans for enterprises.

However, some market experts noted that the investor groups should also be diversified amid issuance increase. The current investors mainly center on banks, investment firms and insurance companies.

SUPER-LONG T-BOND

China issued the first 50-year T-bond on Nov. 27.

The official of Ministry of Finance (MOF) said before the issuance that the time is mature on the ground that commercial bank and insurer needs such bond to match liability and on the other side, MOF also has such long-term capital demand.

On the day of issuing, the bond received warm hospitality by investors, a total of 20 billion yuan attracted 39.79 billion yuan of subscribing funds, resulting a subscription ratio of 1.99 times.

However, the successfully issuance has not completely swept away other worries, including liquidity and pricing reference, which could only be told by time.

ZERO Transaction

For the period from May to September, China has raised a total of 200 billion yuan via issuance of local government bonds, which, no doubt, has offered ample funds for local investment and safeguarding a steady economic growth.

However, some government-backed bonds suffered zero transaction on the secondary bond market. It is learned only 50 percent of local government bonds were traded among investors.

Guan attributed the bleak trading to small issuance and lower yield level and, digging deeper, inverted pricing between the primary and secondary market.

He added that the issuing yield was pushed down by rich large commercial banks on the primary market, but when it comes to the secondary market, the investors, composed of medium and small-size commercial bank, securities dealer, do not show interest on the low yield.

Some experts pointed out that the cold reception on the secondary market is a longstanding problem, which, unsettled, is bound to threaten the issue, trading and pricing of local government bond.

RISK

Risks have been put on the spotlight with rapid expansion in the bond market, especially those issued on the local government-backed platform, which have been under hot debate among academic experts and officials.

Statistics from China Cheng Xin International Credit Rating show that China's local government has beard debts totaling 5.62 trillion

yuan by September, in comparison with 1.8 trillion yuan by the of 2008.

As a result, the local government has to raise funds by issuing bond in the name of local urban construction and investment companies.

Lian Ping, chief economist with Bank of Communication, noted that too much development in such financing channels is set to bring risk.

More emphasis on risk could improve risk awareness among supervisor and investors and help push forward the establishment of marketing mechanism.

China established first credit-enhance company in September, which help improve the credit risk-sharing mechanism to some extent and amplify the market liquidity.

However, a heavier risk-aversion would lift financing cost for issuers.

GOING OUT

The globally spread financial crisis could hardly hurdle RMB's going out program, among which, the debut of RMB-denominated T-bonds totaling 6 billion yuna issued in Hong Kong, has played a significant role.

Experts mainly believed that the issuance has far-reaching meaning in pushing forward RMB's cross-broad settlement and lifting the position of RMB on the international market.

However, only two billion yuan of such bonds could hardly produce liquidity and efficiency, said Ma Jun, a senior economist with Deutsch Bank. Besides, the limited source of liquidity and demand structure is unfavorable to create an integrated yield curve and a secondary market.

Edited by Zhu Zhu, contributed by Hua Yedi and Yang Yiren Enditem (c) 2009

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Xinhua's China Economic Information Service

India

Floating rate bond signals interest hike?

17 December 2009

Provided by: [Mint](#)

Mumbai, Dec. 17 -- **The Reserve Bank of India (RBI) is set to issue a floating rate bond on Friday, after a gap of four years, and many bond dealers say this is an indication that interest rates will rise sooner rather than later.**

The last time such a floating rate bond was issued was on 25 January 2005. So far, nine such papers are in circulation worth Rs41,350 crore, although they are not traded in the market.

"RBI comes with these papers in a rising

inflation scenario," said J. Moses Harding, head of fixed income at IndusInd Bank Ltd.

In January 2005, when the last floating rate bond was issued, inflation was close to 6%. RBI soon started tightening its monetary policy and its policy rate peaked at 9% in August 2008, before the central bank reversed its stance to help aid the recovery of the slowing economy, hit by an unprecedented credit crunch.

Unlike a fixed rate bond, the interest rate of a floating rate bond is pegged to a benchmark, such as the treasury bill rate, and adjusted periodically.

In a rising interest rate scenario, the yields of the bonds held by banks go up and their prices drop. This forces banks to book mark-to-market (MTM) losses, which dent their profitability. MTM is an accounting practice of valuing investments at a prevailing market rate and not the historical rate at which they are bought.

Since the interest rates of floating rate bonds get adjusted periodically, banks will be spared from booking MTM losses if they invest in these bonds. "In a rising interest rate scenario, banks and primary dealers do not get excited about buying fixed rate bonds for fear of MTM losses, but they feel comfortable with floating rate bonds. **To that extent, by issuing a floating rate bond, RBI is giving a signal that rates will go up," said an executive with a primary dealer that buys and sells bonds.**

Although RBI is issuing a Rs2,000 crore, 11-year paper, the success of this auction will enthruse the central bank to float many such papers. The coupon of this paper is linked to the coupon of 182-day treasury bills. It will be pegged at 3.79% for the first six months. The coupon will be reset every six months, in accordance with the average yields of the last three auctions of 182-day treasury bills.

With wholesale price-based inflation jumping to 4.78% in November from 1.34% in October, economists expect the central bank to tighten monetary policy by sucking out liquidity from the system and raising rates.

"This is a good paper for banks to manage their asset-liability mismatches and will help them hedge against rising interest rates," said Pradeep Madhav, managing director of STCI Primary Dealer Ltd.

"It (floating rate bonds) was a demand in the market for long. RBI is just meeting the demand," said S. Sridhar, head of treasury at Axis Bank Ltd.

Such issuances also make sense for the government as it is raising 11-year money at six months' rate. The yield on a 11-year paper is at 7.76% now, much higher than the coupon offered for the floating rate bond.

The government is borrowing a record Rs4.51 trillion in the current fiscal to bridge a 6.8% fiscal deficit and many economists believe that

the government will be required to borrow such a huge amount in the next fiscal too.

According to G.A. Tadas, managing director of IDBI Gilts Ltd, the central bank will assess the acceptability of Friday's paper before issuing more such paper. **"The problem with floating rate papers...is that investors buy it and don't trade," he said. This is because there is no chance of a loss in such debt.**

Historically, floating rate paper has not been a success in the secondary market, but dealers said greater availability of such bonds, which could be a necessity in a rising interest rate scenario, will prompt trading in this type of debt.

"If the acceptability of this paper turns out to be good, many such issuances might come and older papers could be reissued. Depending on the liquidity of floating rate papers, anybody who will have asset-liability mismatches will trade these," said STCI Primary Dealer's Madhav.

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Mint

Kerala to issue first Islamic bond in India

17 December 2009

Provided by: [Global Banking News](#)

The Indian state of Kerala is planning to sell the nation's first Islamic bonds, or sukuk, in 2010 to raise capital for infrastructural projects, reports Bloomberg.

'The way we see it it's another form of venture capital, the state finance minister Thomas Isaac reportedly said in an interview. 'We need long-gestation funds to build airports, high-speed trains and expressways. Islamic finance promises unexplored potential in that context,' he added

The state is helping to set up Al-Barakah Financial Services Limited to sell the bonds, Isaac added. The fund will target Indian Muslims living and working in the Gulf.

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Indonesia

Debt Need for 2010 Reaches IDR234 Trillion; Global Islamic Bond Next Year Targeted at US\$750 Million

16 December 2009

Provided by: [Bisnis Indonesia](#)

JAKARTA: The government plans to raise IDR233.66 trillion in financing next year through T-bond issuance and direct loans.

Rahmat Waluyanto, Director General of Debt

Management at the Department of Finance, explained of IDR236.13 trillion in total financing for 2010, only IDR2.46 trillion would be non-debt financing, while the rest would come from gross T-bond issuance (IDR175.06 trillion), program loans (IDR24.44 trillion), project loans (IDR33.13 trillion), and domestic financing from national banks (IDR1 trillion).

"So, IDR233 is the total gross financing from T-notes and loan withdrawal," he explained after Investor Gathering yesterday.

Data by the Directorate General of Debt Management recorded the total financing need was based on the deficit of the 2010 State Budget, which is fixed at IDR98 trillion or 1.6% of GDP, on IDR129.47 trillion in due debt, and IDR8.64 trillion in loan forward payment plan.

The total due debt covers IDR58.84 trillion in foreign loans and IDR70.63 trillion in domestic bonds.

According to Rahmat, the government would optimize domestic financing to realize all new debt plants.

"The more we have rupiah-denominated debts, the better since we will be able to avoid loss on foreign exchange mismatch. We will try to have rupiah debts representing more than 50% of the total debt from the current 40%."

Global Islamic bond

In the meantime, Director of Islamic Financing at the Department of Finance Dahlan Siamat explained the indicative target for Indonesia's US dollar-denominated issue was fixed at US\$750 million for June next year.

"It is still indicative and can be increased as long as demand is high and the condition sees it fit."

Previously, the government issued US\$650 million in Islamic bonds in April of a total subscription of US\$4.7 billion. HSBC Holdings Plc and Standard Chartered Plc help the government in issuing the bond.

In his presentation to investors yesterday, Dahlan explained the state currently had a total underlying asset of IDR25 trillion.

He added the government would also issue Islamic financing instrument next year, namely project-based Islamic bond, once it pocketed a religious decree from the National Islamic Council (DSN).

The government also plans to issue retail Islamic bond in early January.

Chief Economist of Mandiri Sekuritas Destry Damayanti suggested the government reschedule debts that would be due next year to alleviate the 2010 State Budget's burden.

(Bisnis/agi/aca/21)

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Pakistan

SBP to introduce electronic bond trading platform next year: Salim Raza

18 December 2009

Provided by: Plus News Pakistan

Syed Salim Raza, Governor State Bank of Pakistan has said that the central bank intends to introduce an electronic bond trading platform early next year. 'This will provide investors real-time information about market yields resulting in enhanced liquidity and better price discovery in the fixed-income market', he added.

Delivering a keynote address on "Developing the Next Generation Capital & Commodity Markets Ecosystem in Pakistan: Creating Value & Inclusive Growth in the Society" at the South Asian Federation of Exchanges (SAFE) Country Roundtable held at a local hotel in Karachi this morning, **Mr. Raza said that in the initial stage only sovereign paper will be traded on the platform resulting in a liquid sovereign yield curve that would provide better representative benchmarks for issuance of corporate debt instruments.**

'This platform will also help in shifting government debt from banks to other institutional investors thus freeing up funds for private sector credit hence facilitating the development of real economy,' he added.

Mr. Raza said that the State Bank during the last decade has been at the forefront of broadening not only the investment instruments and risk management tools but also supporting the broadening of the participants that have a need to use these to address their investment mandates.

SBP Governor said he believes that there is a room to accommodate more investor groups in the local currency Government Debt program and one such group might consist of investors currently accessing the National Savings Scheme (NSS). He said it would be more efficient for the Government and the investors, to rationalize the issuance process. "This would enable an improved pricing strategy, eliminating the need to give away embedded put options which are available to investors at free of cost," he said and added it will also provide higher liquidity to the investors for their holding by making the debt fungible among all investors, residents and non-residents, corporate and individuals.

Mr. Raza said that SBP feels that financial institutions have a significant role to play to by taking on the role of financial advisors to the public in general. "This would include selecting the appropriate mix of asset classes (equity, debt, commodity, real estate, etc.), setting liquidity/maturity targets, tax planning services and provide their services of financial intermediation to enable them to invest and rebalance their retirement/investment portfolios

periodically," he added.

Mr. Raza stressed that the State Bank has played a role in supporting the price risk management activities by allowing the banks to provide financial intermediation in the currency & commodities hedging, interest rate risk management, etc. and would continue to do so as institutional activity evolves.

SBP Governor said that the government has now recognized that with globalization and the maturity of Pakistan's economy, allowing the prices of goods, especially ones that are politically sensitive like petroleum, to be set based on international prices. He said Pakistan has essentially been a commodity-based economy with 65% of its exports (rice and cotton based) and 45% of its imports driven by commodities like petroleum, edible oil, and chemicals. For the last few years, the global markets have experienced quite a significant degree of price volatility that has put the individuals and the business at a disadvantage in their ability to manage commodity price inflation, he added.

Mr. Raza said the key advantage of having institutions like National Commodities Exchange would be to provide price discovery and marking to market taking place in local time zone rather than having to hedge price risk in European, Asian or American time zone. "It is expected that technological innovation would be at the forefront of such development, introducing transparent electronic trading and mechanism to minimize the resultant settlement and price risk," he added.

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Philippine

Philippine yields up before budget, debt plan

18 December 2009

Provided by: Reuters News

HONG KONG, Dec 18 (Reuters) - **Philippine domestic debt yields inched up in thin trade on Friday as investors turned cautious ahead of the release of the November budget data and the government's first-quarter borrowing plan, both expected next week.**

The 5-year bond yielded 5.99 percent, 2 basis points (bps) higher than the previous day's close, while the 7-year debt yield ended up 3 bps to 7.02 percent, traders from Manila said.

Volume of trade was at 1.4 billion pesos (\$30 million) when the market closed at 0815 GMT, sharply down from 6.42 billion pesos on Thursday, traders said.

"The market is in a defensive mood ahead of the announcement," a trader said. "Most players are waiting for the borrowing programme and want

to see the total amount that the BTR (Bureau of Treasury) will raise before taking more positions."

The government has exceeded its 250 billion peso budget deficit forecast for 2009 in October, and is now eyeing a 300 billion gap for the whole year. "If the deficit is near the 300 billion peso mark as of November, we might selling pressures in the market," another trader said.

Traders were also nervous ahead of the government's borrowing programme for the first quarter of 2010, expected next week, which will show the maturities, frequency and the amount that will be sold at every auction during the period.

But rises in yields were capped by expectations that the central bank would keep its overnight rates at record lows at least until the first half of 2010, traders said.

The central bank signalled on Thursday it was in no hurry to raise them. While the central bank was watching inflation risks coming from food and oil prices, it said it favoured non-monetary policy responses.

Meanwhile, Thai government bonds steadied after strengthening the previous session. On Wednesday, yields rose after the Bank of Thailand sold fewer bonds than planned at an auction.

The yield on the liquid 5-year bond was unchanged at 3.58 percent, after rising to as high as 3.63 percent on Wednesday, while the 10-year yield was little changed at 4.16/4.22 percent, traders said.

(Editing by Kazunori Takada)

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Public sector debt hits P5T Alexis Douglas B. Romero

14 December 2009

Provided by: BusinessWorld

OUTSTANDING DEBT of the public sector totaled P5.5 trillion in the first quarter, driven by the higher debt of the financial public sector, data the Finance department released over the weekend showed.

The P5.5-trillion debt was 4.36% more than the P5.27 trillion incurred as of end-December 2008 and 33% more than the P4.12 trillion recorded as of March 2008.

The outstanding debt of the public sector, which consists of the national government, the Bangko Sentral ng Pilipinas, state-run corporations and banks, as well as local government units (LGUs), was equivalent to 73.2% of gross domestic product (GDP) as of end-March this year.

Around P2.99 trillion were owed to foreign creditors, while the balance of P2.51 trillion were borrowed from domestic creditors.

The non-financial public sector, consisting of state-run firms, the national government, and

LGUs, posted a total debt of P4.48 trillion, equivalent to 59.7% of GDP, and slightly less than the P4.517 trillion recorded in end-December 2008.

"This was mainly due to the decrease in the debt stock of the 14 monitored non-financial government corporations," the department said in a statement. "[The lower debt of the non-financial public sector was] partially offset by the increase of the debt of the financial public sector composed of the Bangko Sentral ng Pilipinas."

The financial public sector - consisting of the BSP and government financial institutions Development Bank of the Philippines, Land Bank of the Philippines, as well as the Trade and Investment Development Corporation of the Philippines - posted a consolidated debt of P1.014 trillion in the first quarter, more than a third higher than the P754 billion recorded as of end-December last year.

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BusinessWorld

Singapore

Govt bond prices may come under pressure in 2010: UBS

17 December 2009

Provided by: [Business Times Singapore](#)

It is more bullish on corporate bonds, where default rates have fallen sharply.

PRICES of government bonds could come under pressure next year as leading central banks begin to hike interest rates in the third quarter of 2010, says UBS Wealth Management.

In their latest global outlook report, UBS analysts notes that central banks worldwide reacted resolutely to the financial crisis by cutting interest rates to close to zero and committing to keep rates low for an extended period.

But UBS sees a possibility that central banks may shift their focus from avoiding an economic meltdown 'to the risks of remaining too loose for too long', as the global economy is now getting back on a more solid footing.

'Typically, bonds are most at risk when central banks stop fighting recession risks and start to normalise interest rates,' the UBS analysts say.

Indeed, they believe the authorities could start raising rates in Q3 next year 'and we look for long rates to rise from current low levels. Supply and demand will also turn less favourable for government bonds'.

'Central banks and private investors are likely to reduce the amount of new investments they make, while private bond issuance typically increases during an economic recovery.'

On corporate bonds segment, UBS is more

bullish.

For one, measures to repair corporate balance sheets should continue into the new year, which should result in a sharp decline in corporate default rates, its analysts say.

'For example, we believe the default rate on US high-yield companies will likely fall to around 6-8 per cent, which although elevated, is significantly below the 13 per cent pace reached during 2009.'

And while government bond yields are forecast to rise over the next 12 months, this will be offset by an expected decline in credit spreads.

'For high-yield bonds, the decline in the credit risk premium could more than compensate for higher government bond yields,' the UBS analysts say.

'Therefore, we think cautious investors should shift some of their government bond exposure to investment-grade corporate bonds with medium-term durations, while investors with greater tolerance for risk should consider high-yield corporate bonds.'

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Business Times Singapore

South Korea

S.Korea sees T-bond yields not rising much in 2010

14 December 2009

Provided by: Reuters News

*** T-bond yields seen below 5 pct in 2010 - FinMin**

*** Benchmark 5-yr T-bond yield averages 4.63 pct in 2009**

*** Policy rate seen up by around 100 bps in 2010 - analysts**

SEOUL, Dec 14 (Reuters) - **South Korea expects borrowing costs through treasury bonds will not rise above 5 percent next year on average from around 4.6 percent this year, Finance Minister Yoon Jeong-hyun said on Monday.**

He made the remark in response to a question from a lawmaker during a parliamentary session, without elaborating. But the comment came amid growing expectations the country's central bank will start raising interest rates in early 2010.

"I think (the yields) will reach near the upper 4 percent range on average in 2010. The government will also consider taking steps to stabilise the bond market and boost demand for treasury bonds," Yoon said.

The country's benchmark 5-year treasury bond yields averaged 4.63 percent so far this year on the secondary market, data from the Korea

Finance Investment Association showed.

Yeom Sang-hoon, a fixed-income analysts at SK Securities, said the comment was in line with his company's view even assuming the policy rate will be raised by 100 basis points from the current record-low level of 2.0 percent.

"We expect the Bank of Korea to raise the base rate by 100 basis points during the first half of next year and hold it steady for the rest of the year," he said.

"Treasury bond yields have already priced in much of the anticipated rise in the base rate and would not likely rise much even if the base rate is actually raised," he added.

The Bank of Korea expects Asia's fourth-largest economy to expand 4.6 percent in 2010, picking up sharply from a projected 0.2 percent rise in 2009.

Its governor, Lee Seong-tae, flagged a growing chance of a rise in the 7-day repurchase agreement rate by telling reporters last week that the current policy rate was significantly low for the recovering economy.

(Reporting by Yoo Choonsik; editing by Ken Wills)
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S. Korea plans measures to stabilize bond market next year

12 December 2009

SEOUL, Dec. 12 (Yonhap) -- **The government is mapping out measures to stabilize the nation's bond market next year, Finance Minister Yoon Jeong-hyun said Saturday.**

"One thing that needs to be cautious next year is the stabilization of bond market," Yoon told a parliamentary committee. "The government is devising measures for the stabilization of the bond market." Yoon made the remark when he was asked by Rep. Kim Seong-shik of the ruling Grand National Party whether the government needs to fine-tune the size of government bond issuances due to the Dubai debt crisis.

Yoon said that government, state-run and private companies are likely to sell bonds worth a combined 80 trillion won (US\$68.8 billion) to 90 trillion won next year.

"If such volumes are too big to be digested by the bond market, it would pose a negative effect of increasing interest rates," Yoon said.

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Thailand

Rising debt in the public sector is cause of concern

15 December 2009

Provided by: The Nation (Thailand)

Continued propping up of economy could result in dire consequences.

Last week, Finance Minister Korn Chatikavanij reiterated a need for the government to continue its expansionary fiscal programme to revive economic growth. He said the stimulus measures would be implemented as Thailand remains vulnerable to persistent global risk factors. This follows a debt crisis in Dubai in the Middle East and fears of debt default by Greece in the European Union. To help stabilise the economy, the Thai government plans to introduce stimulus spending totalling Bt300 billion, which is part of the Bt1.43-trillion Thai Khemkhaeng package. This would be disbursed next year.

The government's growing intervention in economic growth is starting to become worrisome. Funds for government spending come from tax revenue. With the economic downturn, tax receipts have fallen. This has forced the government to resort to borrowing to finance its spending. If the government is not careful enough, the public-sector debt to gross domestic product will rise rapidly. Once the public-sector debt rises, it will be very difficult to bring it down.

At present, Thailand's credit rating remains sound, compared to most countries in the world. The public finances of the US, the UK and Japan are in a shambles. Greece is facing a crisis because the government is racking up more debt. Many Eastern European countries have also borrowed foreign loans beyond the capacities of their economies to service. They all are marching down the road of economic disaster.

Thailand's public-sector debt to GDP now remains manageable at 43-44 per cent. As a rule of thumb, this debt ratio should be kept below 50 per cent. But full implementation of the Thai Khemkhaeng package - if all the Bt800 billion in stimulus measures are spent - would raise the public-sector debt to 58 per cent by the scheduled end of the term of the Abhisit government in 2012. At present, only Bt400 billion of the Bt800-billion stimulus package has passed Parliament. The remaining half is still stuck in the parliamentary process.

Korn indicated he is confident Thailand's fiscal position will be strong enough to finance the measures, especially as the ministry plans to ask for Cabinet approval early next year for the proposed new land and property tax. Tax collections should also improve, and all of this will help reduce government borrowing and fiscal deficits.

Our main concern is that the public and the private sector see the government as a white knight every time there is an economic downturn. The government cannot lift the economy. If the government is addicted to spending future money, it will eventually destroy the public finances and push the country into an

economic crisis.

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The Nation (Thailand)

EUROPE

Belarus

Belarus quadruples debt plan to fight stagnation

11 December 2009

Provided by: Reuters News

*** Plans \$2 billion of Eurobonds**

*** Turns to Russia for support**

*** Seeks cash to overcome economic stagnation**

By Lidia Kelly and Andrei Makhovsky

MOSCOW, Dec 11 (Reuters) - **Belarus on Friday quadrupled its 2010 Eurobond plan to \$2 billion and pledged to sell a key oil plant to Russia as it seeks to raise cash to fight economic stagnation after years of explosive growth.**

The government also said it wants to raise another \$400 million from the Russian bond market, only a day after getting a promise from resource-rich Russia that it would continue subsidising the Belarus economy with cheap energy in 2010.

Belarus, whose export-oriented economy has been run along Soviet-style command lines by President Alexander Lukashenko since 1994, has been hit by the global crisis alongside its bigger neighbour Russia.

But while Russia and other countries in the region saw a tenth or so of their economies disappear in gross domestic product terms in the first half of the year, GDP in Belarus has declined only 1 percent in the first 10 months. Alexander Morozov, chief economist at HSBC in Moscow, said the modest contraction was due to the fact that the government has been forcing its companies to produce and increase stock of finished goods without being able to sell them.

"But this cannot last forever. They cannot compensate for the loss of demand that they saw before the crisis," Morozov said.

Next year promises to be tough, and economists say one government scenario for the economy to grow 11-13 percent is simply unrealistic.

The World Bank sees the country's economy growing 2 percent next year. The budget deficit is forecast to reach \$1 billion. On Friday, Belarus' prime minister Vladimir Semashko said the government would sell oil refinery Naftan to a Russian company, possibly to Russia's No.2 oil producer LUKOIL, in the near future. This follows Thursday's news of the approved sale of state-run BPS Bank to Russia's largest lender, Sberbank, for slightly over \$280 million. Last

week, Lukashenko sacked his government's economy, trade and tax ministers in a reshuffle aimed at tackling economic stagnation. The World Bank said last week it is prepared to boost its financial aid to Belarus. The country's finances have also been supported by a \$3.63 billion stabilisation programme issued by the International Monetary Fund late last year and disbursed in tranches.

But Belarus is increasingly bowing to its mighty neighbour Russia again. On Thursday, Lukashenko won a pledge of support from President Dmitry Medvedev during a visit to Moscow. **On Friday, Semashko said Belarus wants Russia's Sberbank to organise the Eurobonds issue with a maturity of three to five years and of the rouble bond issue for up to 15 billion roubles (\$411 million).**

State-controlled Sberbank will also syndicate loans for \$300 million and 5 billion roubles, Semashko said, giving no further details.

On Friday, Belarus also said Russia has agreed to supply the country with 8 to 9 million tonnes of oil duty-free in 2010. "This is really good news for Belarus Russia is the key market for Belarus," HSBC's Morozov said. "The more liberalised the trade with Russia is, the more benefits Belarus will be able to extract from that."

(Reporting by Lidia Kelly in Moscow and Andrei Makhovsky in Minsk; writing by Lidia Kelly; Editing by Hugh Lawson)
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Czech Republic

Czech govt OKs higher bond issue to cover 2009 budget deficit

14 December 2009

Provided by: CTK Business News
Prague, Dec 14 (CTK) - **The Czech cabinet today okayed amended law on the state bond programme which increases the Finance Ministry's bond limit for covering the 2009 state budget gap up to Kc37.7bn, Finance Minister Eduard Janota told journalists after the cabinet meeting.**

The original limit reckoned with a bonds issue worth Kc23.6bn. The limit has to be raised because the budget gap widened from Kc38.1bn to Kc52.2bn.

"The aim of the bond programme is to use the income from the bond issue to cover part of the increased deficit of the 2009 state budget," the Finance Ministry said.

Under the state budget law, the budget gap is financed among others by state bond issues and loans from the European Investment Bank.

The state budget for this year was approved with a deficit of Kc38.1bn. Deputies approved a growth to Kc52.2bn in November. The gap will,

however, virtually exceed Kc175bn this year due to the economic crisis, according to the ministry's estimate.

The state budget showed a record deficit of Kc169.4bn at end-November.

The cabinet approved increased limits for insurance of bank deposits from the current EUR50,000 to EUR100,000 (around Kc2.6m), Janota said.

The change to take effect in 2011 is based on the EU directive and is yet to be passed by parliament and signed by the president.

The amendment also provides for shortening the period of payment of compensations for the insured deposits to 20 working days.

The government's housing subsidy for low-income families will grow as of 2010 because the cabinet today decided to increase average housing costs which serve as a basis to calculate the subsidy. The ministers took into account the expected changes in rents, prices of energy and housing-related services. The draft budget reckons with Kc394m to be earmarked for the purpose next year, the Labour Ministry has said.

vr/er

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CTK Business News

Hungary

Hungary to issue net market debt of HUF 568bn in 2010 - AKK

17 December 2009

Provided by: MTI - EcoNews

Budapest, December 17, 2009 (MTI-ECONEWS)

- **Hungary will issue net market debt of HUF 568bn in 2010, showing a significant step toward a return to full market financing, the Government Debt Management Agency (AKK) said on Thursday.**

The state plans EUR 1.5bn in foreign issues in 2010, mostly to refinance maturing foreign currency debt.

AKK plans HUF 170bn of net domestic issues, including HUF 153bn of discount treasury bills.

Loans from the European Investment Bank (EIB) present net financing resources of HUF 215bn.

Gross issues are planned to reach HUF 6,262bn in 2010, 17pc less than in 2009 because of the smaller deficit and less maturing debt. Forint issues will account for 94pc of gross issues and foreign currency issues for 6pc.

Hungary's net financing requirement is expected to reach HUF 982bn.

AKK will take a more flexible market stand in 2011 than before the crisis. For example, maturities will not be decided beforehand in the bond auction calendar, rather this will be adjusted to market demand.

About EUR 3bn from Hungary's IMF-led financial

support package that has been called down but not used has been included in financing resources. No further call-downs have been included in the issue plan.

Depending on market conditions, AKK could issue new products, such as floating-rate bonds pegged to yields of discount T-bills.

Hungary expects to pay back HUF 5,694bn in debt in 2010, about 14pc less than in 2009. Forint debt repayments are expected to fall by HUF 984bn to HUF 5,328bn and foreign currency debt repayments are seen growing by HUF 77bn to HUF 366bn in 2010.

Gross government debt was HUF 19,033bn at the end of November, a sum that is not expected to change significantly until the end of 2010. Gross forint-debt of the central budget is expected to decline by HUF 733bn this year, while gross foreign-currency debt expressed in forints is expected to rise significantly as a result of HUF 1,708bn in net issues, AKK reported.

The amount of money drawn down from the international credit package and allocated in the form of foreign-currency deposits and credit was HUF 1,100bn, a sum that constitutes part of Hungary's government debt. Debt of the central budget grew by HUF 900bn as compared to the end of 2008.

(HUF 100 = EUR 0.3593)

esl/gsg

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Hungary details plan to rely on bond market not IMF in '10

17 December 2009

Provided by: [Reuters News](#)

*** Debt agency sees HUF 170 bln net govt bond issuance**

*** Hungary plans EUR 1.5 bln FX bond issues next year**

By Krisztina Than and Sandor Peto

BUDAPEST, Dec 17 (Reuters) - **Hungary on Thursday outlined plans to come off IMF aid next year and return to market financing frozen by the financial crisis, projecting net local bond issues of 170 billion forints (\$876.5 million).**

The government also plans 1.5 billion euros worth of foreign currency issuance mainly to finance expiring debt, with some of that possibly coming in the first quarter of 2010, the state debt management agency AKK said on Thursday.

It does not plan to draw down further funds from a \$25.1 billion loan granted by the IMF, the EU and the World Bank in the midst of the crisis last year, but does plan to use some of the funds already placed at the central bank from the package.

Hungary has stabilised its finances this year after it averted financial collapse in October 2008 with the help of international lenders.

Its budget deficit is targeted at 3.8 percent of gross domestic product next year, one of the lowest in the European Union, but there are big upside risks to the deficit and elections coming in April or May 2010 increase uncertainty.

But high debts continue to make it vulnerable and the agency said it would adopt a flexible approach to forint debt auctions, adjusting offers to domestic demand as global markets continue to be fragile.

"In this situation, all (sovereign) issuers try to rely on domestic savings," AKK deputy CEO Andras Borbely told a news conference.

"We expect foreigners' Hungarian bond holdings to stagnate...we have estimated the amount of domestic savings which can be invested in Hungarian government debt and we have adjusted our forint issuance plan to that."

IMF LEFTOVERS

The government has drawn down 12.8 billion euros worth of funds from the IMF-led package so far in 2008 and 2009, and there is still 3 billion euros deposited at the central bank.

Including funds drawn down directly by the bank itself, the total amount of drawdowns is 14.2 billion euros so far.

The 3 billion euros in deposits include unused funds set aside for helping out banks and the AKK said it plans to use more than half of this for debt financing next year.

Hungary's total net financing need is expected at 982 billion forints next year, after a planned total 950 billion forints in 2009.

The 2010 net financing need includes a cash-flow budget deficit of 870 billion forints, and the impact of EU transfers which reduce the state's liquid funds by 111 billion forints.

Discount treasury bill issues will exceed expiries by about 150 billion forints next year, the AKK said.

Borbely said the average amount of government bonds to be sold at next year's auctions will be about the same as in the past months.

(Reporting by Krisztina Than/Sandor Peto; editing by Patrick Graham)

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Poland

Poland plans euro benchmark bond issue in Jan-finmin

16 December 2009

Provided by: [Reuters News](#)

WARSAW, Dec 16 (Reuters) - **Poland is considering a 1 billion euros bond issue in January and is also planning to issue dollar-denominated bonds in the first quarter, Deputy Finance Minister Dominik Radziwill said on Wednesday.**

"Euro benchmark issue is possible in January."

The maturity (of bonds) will depend on market situation," Radziwill told reporters. "Dollar-denominated bond issue is also possible in the first quarter but a decision on its form has not been made yet."

(Reporting by Pawel Sobczak, Writing by Dagmara Leszkowicz)
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Romania

Romania's Public Debt Seen At 30% Of GDP End-Dec

17 December 2009

Provided by: Mediafax News Brief Service
BUCHAREST, 17 dec (MEDIAFAX) - **Romania's public debt is estimated to increase by 2.3 percentage points (approximately EUR2.7 billion) over the last two months of this year to 29.9% of the gross domestic product, the Finance Ministry said in a statement Thursday.** In October, Romanian public debt fell slightly to 27.6% of GDP from 28.08% of GDP the month earlier.

End-2008, the public debt stood at 21.78% of GDP, amounting to 109.75 billion lei (EUR1=RON4.2232).

State treasury sales accounted for the most part of the public debt in 2009. So far this year, the ministry sold around RON63 billion in state treasuries, against RON10.3 billion sold in the same period of 2008. It has also sold foreign currency-denominated treasuries worth EUR2.26 billion.

The ministry said it managed to gradually lower the yields for leu-denominated paper from over 14% at the beginning of the year (close to the 14.25% Lombard rate) to 10% currently.

"For 2010, the yields are expected to drop further, thus ensuring visibly reduced re-financing costs," it added.

The ministry said Romania has been also using external loans to finance its budget deficit, as they offer better conditions than the domestic market loans.

In spring, Romania secured a EUR20 billion financial support from the International Monetary Fund, the European Commission and other international lenders.

Romania has already received two tranches worth around EUR7 billion out of the EUR13 billion stand-by arrangement from the IMF. It also received a first EUR1.5 billion tranche of the EUR5 billion loan from the European Commission.

The EU loan has a 3.125% annual interest rate and matures in 2015. Romania will pay an interest rate of about 3.5% on the year for the IMF funds, and has to reimburse the loan after a three-year grace period.

(Florentina Dragu, florentina.dragu@mediafax.ro)
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Mediafax News Brief Service

Slovak Republic

Slovaks eye new bonds for 2010, stick to debt plan

14 December 2009

Provided by: Reuters News

*** Slovaks see four new bonds, two new T-bills in 2010**

*** 2010 gross borrowing confirmed at 6-8 billion euros**

By Martin Santa

BRATISLAVA, Dec 14 (Reuters) - **The euro zone's newest member plans to place four new government bonds next year, the Slovak Debt Agency (ARDAL) said on Monday, confirming its gross borrowing plan of up to 8 billion euro in bonds and T-bills.**

The government of Prime Minister Robert Fico had to boost borrowing this year, with ARDAL already pre-financing for 2010, as the heavily export-reliant economy undergoes its deepest crisis since independence in 1993.

Slovakia, which adopted the euro zone single currency in January as only the second ex-communist country after Slovenia, plans to open a new two-year zero-coupon state bond with an issue size of 1.0 billion euros in January.

ARDAL said will also place 6-year, 10-year and 15-year fixed-rate coupon state bonds, each worth 3.0 billion euros. For more see. Timing of the longer maturities' auctions will depend on market conditions and investor sentiment, it added.

Tomas Kapusta, head of ARDAL's debt management department, told Reuters earlier on Monday the new 10-year bond would start first as a syndicated bond worth up to 1.5 billion euros by the end of the first quarter. Slovakia's outstanding liabilities are 3.1 billion euros in 2010, accompanied by the expected budget deficit of 3.7 billion euros, according to the finance ministry's debt agency.

The 70-billion euro economy, driven strongly by car and electronics industries, has auctioned 4.208 billion euro in 24 domestic bond auctions this year.

"How much we will auction next year depends on how the 2009 and 2010 fiscal deficits will look like," Kapusta said.

The premium investors demand to hold Slovak 10-year government bond rather than euro zone benchmark German Bunds stood at 108 basis points on Monday, compared with Portugal's corresponding 78 basis points, or Italy's 81.5 basis points. The next year's calendar also includes two new 364-day treasury bill issuances, both of 2.0 billion euros.

FIGHTING RISING FISCAL DEFICIT

Fico's government sees the fiscal deficit rising to 6.3 percent of gross domestic product this year but it plans to cut the gap to 5.5 percent of GDP next year and slash it to the EU limit of 3.0 percent by 2012.

Outgoing European Central Bank Governing Council member and Slovak central bank Governor Ivan Sramko reiterated on Monday, while addressing a conference on Slovakia's adoption of the euro, that faster consolidation was needed.

The European Commission gave Slovaks until 2013 to reduce the ballooning fiscal gap, with the finance ministry accepting the deadline as reasonable.

Slovakia's economy is expected to contract by 5.6 to 5.7 percent this year, erasing much of its 6.2 percent GDP growth from 2008, but it should emerge as the EU's fastest growing member next year.

The central bank will present its updated GDP growth and inflation forecasts on Tuesday. Sramko said he saw risks to the bank's current prediction on the positive side.

(Editing by James Dalgleish)

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Turkey

Turkey plans Samurai bond sale - Treasury sources

11 December 2009

Provided by: Reuters News

*** Turkey waits for details from JBIC for selling Samurai**

*** Turkey's 2010 borrowing plan does not assume IMF loans**

*** World Bank extends \$1.25 bln for budget in Q1**

*** No sukuk issue planned for Gulf market in 2010**

By Selcuk Gokoluk and Orhan Coskun

ANKARA, Dec 11 (Reuters) - **Turkey plans to sell yen-denominated Samurai bonds next year, Treasury sources said on Friday, diversifying a borrowing program which will still rely largely on the sale of domestic debt and Eurobonds.**

Turkey would issue the Samurai bonds under a Japanese programme which guarantees debt issued by emerging countries with ratings below investment grade and is now waiting for more information from Tokyo, the sources said.

Turkey borrowed \$8 billion from the Samurai market between 1992 and 2000 in 19 auctions, but made its final repayment last year.

The news comes a day after Turkey's Treasury revealed its 2010 financing program, in which it plans to borrow 181.6 billion lira (\$120.6 billion) from the domestic market, plus foreign borrowing of 13.7 billion lira -- including \$5.5 billion worth of Eurobond

issues.

The Japan Bank for International Cooperation, a government agency, started a programme just after the global crisis erupted, as this market had been closed to emerging market issuers with ratings below investment grade.

"We held a meeting with the JBIC chairman in October during the World Bank-International Monetary Fund meetings in Istanbul and we are thinking of benefitting from this programme," a Treasury official said.

Last month, Colombia said it had sold \$500 million in 10-year Samurai bonds with a partial JBIC guarantee.

"For the time being, we are waiting for some more detailed information from the JBIC," said the same official.

Turkey's \$5.5 billion Eurobond issue plan will be conducted from traditional Western markets and does not include borrowing from Japan next year. March 2010 is the deadline for applications to the JBIC programme.

BETTER EARLIER THAN LATER

Traders said a possible Samurai bond would support the Treasury's borrowing plan in 2010, when it plans to pay off 200.3 billion lira debt, but it must act quickly because timing of the issues would be important.

"Interest rates are expected to be low for a while around the world and if the Treasury issues Samurai bonds before rate hikes by the Federal Reserve and the European Central Bank, yields would be low and the JBIC guarantee would back this," said Ata Investment Securities trader Cem Tozge.

"If the Samurai issue is left to later part of 2010, the yield would be higher than predicted. An issue before the liquidity falls in the world will be far more successful," Tozge said.

The World Bank will lend Turkey \$1.25 billion for budget financing in the first-quarter of 2010, the officials said.

The Treasury officials said Turkey's 2010 borrowing programme did not assume loans from the IMF, as the country still negotiates a stand-by deal after a previous deal ended in May 2008.

Turkey's financing programme in 2010 does not include any specific debt instruments, or sukuk, designed for the Gulf Arab investors, the officials said.

The third-quarter 3.3 percent gross domestic product contraction is consistent with the government's projections and no revision is considered in the end-2009 contraction estimate of 6.0 percent.

"Tax revenues are going better than expected and expenditures are controlled. Primary surplus and budget deficit goals for 2009 and 2010 would be achieved," said one Treasury official.

The budget deficit is expected to come below 62.4 billion lira (\$41.82 billion) estimate for 2009 thanks to rising tax revenues, said the same official.

Ukraine

Premier says Ukraine reduced foreign debt in 2009

11 December 2009

Provided by: [BBC Monitoring Ukraine & Baltics](#)
Kiev, 11 December: **The Ukrainian cabinet has reduced the foreign debt by 46bn hryvnyas (5.7bn dollars) in the critical year of 2009, Prime Minister Yuliya Tymoshenko said at the founding session of the student council today.**

She said that this was a record sum in the past 18 years.

"We have repaid more debts this year. We have paid back 46bn hryvnyas during the crisis and have prevented the financial system from collapsing," she said.

Tymoshenko described as normal the taking of foreign loans to "warm up the economy and investment in systemic reforms".

She recalled that Ukraine's foreign debt of about 30 per cent of GDP was lower than the debts of the most economically developed countries.

Source: ITAR-TASS news agency, Moscow, in Russian
1245 gmt 11 Dec 09

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BBC Monitoring Ukraine & Baltics

LATIN AMERICA

EMERGING MARKETS-Dubai debt lifeline outweighs Mexico downgrade

14 December 2009

Provided by: [Reuters News](#)

*** S&P cuts Mexico credit rating one notch to BBB**

*** Abu Dhabi throws Dubai a \$10 billion credit lifeline**

*** Emerging market stocks, currencies, bonds rise**

*** Argentina creates \$6.6 bln debt payment fund**

By Daniel Bases

NEW YORK, Dec 14 (Reuters) - **Mexico's second credit rating downgrade did little to diminish the stronger global risk appetite on Monday that pushed emerging markets higher after Abu Dhabi gave fellow UAE member Dubai a \$10 billion lifeline.**

Standard & Poor's trimmed Mexico's credit rating one notch to BBB from BBB-plus, citing fiscal challenges it expects will persist "over the coming years," but at the same time lifted them to a stable from negative credit outlook. The

move by S&P was widely expected and comes after Fitch cut the country's credit rating one notch to BBB and gave a stable outlook on Mexico three weeks ago. This was Mexico's first downgrade in over 10 years.

S&P's sovereign analyst Lisa Schineller said the new rating takes into account the credit rating agency's expectation of a low U.S. economic growth rate in 2010. Mexico's stock market ended the day higher while the peso briefly retreated before rebounding against the U.S. dollar. Mexico's sovereign U.S. dollar-denominated bonds were mostly higher on the day.

The Mexican peso traded at 12.7470 versus the greenback, up 1.04 percent.

"While markets may get a little more positive due to the outlook shift, we feel that because of the uncertain fiscal and policy outlook in 2010, we remain a bit bearish (on the peso) which has outperformed almost all of EM (except Chile) so far in the fourth quarter," Win Thin, senior currency strategist at Brown Brothers Harriman in New York, wrote clients on Monday.

Mexico's sovereign U.S. dollar-denominated debt was generally higher across the yield curve with the 5.95 percent U.S. dollar-denominated 10-year sovereign bonds up 0.50 point in price to bid 107.125, yielding 4.979 percent.

In the credit markets, the yield spread between emerging market bonds and U.S. Treasuries narrowed by 8 basis points to 294 basis points on the JP Morgan Emerging Markets Bond Index Plus. Mexico's portion of the EMBI+ was 6 basis points narrower at 168 basis points over comparable U.S. Treasuries.

"Particularly reassuring for the market is the stable outlook," said Jimena Zuniga, an analyst at Barclays Capital in New York.

"The market was largely expecting this and now that it has passed, it removes a worrying element of uncertainty and it clears the path for a period of less news-driven trading for Mexico," Zuniga added.

Mexico's 5.95 percent U.S. dollar-denominated 10-year sovereign bonds traded up 0.50 point in price to bid 107.125, yielding 4.979 percent.

In the equity markets, prices rose on the diminishing Dubai debt woes. MSCI's emerging markets stock index gained 0.66 percent while the Latin American stock index rose 0.59 percent.

On Sunday, Abu Dhabi said it would lend debt-laden Dubai the money to help it pay off a \$4.1 billion Islamic bond owed by property developer Nakheel maturing on Monday.

Dubai's creditors still need to approve a standstill on outstanding debt, but the cash infusion gives it some breathing room on the restructuring of \$26 billion of its debt.

ARGENTINA DEBT PROVISION

Argentina said it will set aside \$6.57 billion of its foreign currency reserves to ensure the country meets its 2010 debt payments, a step

meant to remove doubts about its ability to pay, given it had a massive debt default eight years ago.

Analysts said the decision could give Argentine debt prices a boost in the short term. But some said that using reserves instead of fiscal surplus to pay debt was a worrying sign.

Alberto Ramos, a senior economist at Goldman Sachs, said the government's decision was "bullish" for Argentine short-term debt.

"But it is clearly negative from an institutional standpoint as it weakens the central bank and provides the government with extra rope to extend a notoriously profligate spending stance that is often shaped according to political criteria," he said in a research note.

(Additional reporting by Michael O'Boyle in Mexico City, Walter Brandimarte in New York and Kevin Gray in Buenos Aires; Editing by Jan Paschal)
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Argentina

Argentina files \$15 bln debt shelf offering in US

16 December 2009

Provided by: Reuters News

NEW YORK, Dec 16 (Reuters) - **Argentina filed a shelf offering with the U.S. Securities and Exchange Commission on Wednesday for the sale of up to \$15 billion in debt instruments in the United States, according to documents posted on the SEC's website.**

The filing was the latest step in Argentina's quest to return to international capital markets eight years after its near \$100 billion default and as it faces tight financing next year.

Argentina plans to launch an offer next month to swap some \$20 billion in defaulted debt that is still in the hands of "holdout" investors who did accept a controversial debt restructuring in 2005. A deal with those investors is essential for Argentina to be able to issue an international bond.

In the SEC filing, Argentina said the instruments to be offered may include "debt securities in exchange for other debt securities, or that are convertible into new debt securities."

Argentina's debt obligations will rise to \$13 billion next year, according to the Economy Ministry. Economists estimate that the funding gap could be between \$2 billion and \$7 billion depending on where the government can borrow money internally.

Argentine Economy Minister Amado Boudou has wooed international investors in recent months with a series of market-friendly gestures and announcements.

First he set the country on a path to try to neutralize hundreds of lawsuits filed by the holdouts by giving them another chance to

accept a restructuring similar to the 2005 deal. This week he said the swap offer to holdouts would be launched Jan. 12.

Also this week, he announced Argentina would prepay some interest payments due next year with a discount set in an auction, and that the government would set aside funds from foreign currency reserves to make debt payments.

Bond prices have risen steadily as a result, compressing yields and lowering the cost of issuing debt.

On Wednesday Argentina's risk spread over comparable U.S. Treasuries dropped 25 basis points to 684 basis points.

Argentina's center-left President Cristina Fernandez shocked markets last year with a surprise nationalization of private pension fund administrators, and investors have been leary of some of her policies, such as price controls.

In addition, Argentina's reputation with investors has suffered due to persistent questioning of official data, especially inflation numbers.

(Reporting by Walter Brandimarte and Daniel Bases; Writing by Fiona Ortiz; Editing by Leslie Adler)
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Brazil

Treasury raises US\$500mn abroad

17 December 2009

Provided by: [Gazeta Mercantil News \(Real Time\)](#)
SÃO PAULO, 12/16/09 - **Brazil raised on Tuesday US\$500 million on the international market at the lowest interest ever paid on this type of operation. The National Treasury issued debt bonds maturing 2019 at a yield of 4.75%/year.**

In addition to being the lowest rate ever paid on Brazilian international ten-year bonds, it is the lowest among Brazilian dollar-indexed bonds. Before that, the lowest interest rate was 5.299%/year paid on ten-year bonds issued in May 2008.

Lower interests mean that foreign investors are less worried about Brazil defaulting on its debt and more confident about the Brazilian economy.

The issue took place a week after risk rating agency Standard & Poor's maintained Brazil's investment grade, which was assigned in April 2008.

The Treasury announced that it will issue a further US\$25 million in the Asian market this week. The money will be incorporated to Brazil's foreign reserves.

This is Brazil's fifth international bond issue so far this year: in January the Treasury issued US\$1.025 billion in bonds maturing 2019; in May US\$ 750 million maturing 2019; in July US\$ 525

million maturing 2037 and in September US\$1.25 billion maturing 2041. Information was published by Agência Brasil.

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Gazeta Mercantil News (Real Time)

AFRICA

Region Turns to Local Bond Market

15 December 2009

Provided by: All Africa

Dec 15, 2009 (The Monitor/All Africa Global Media via COMTEX) -- **In a move aimed at easing constraints on infrastructure financing, as well as developing debt markets in Africa, the Association of African Securities Exchange has endorsed plans to support the issuing of local currency bonds on the continent.**

Local currency bond markets are becoming a popular alternative funding source for several emerging and developing as a way to rid themselves of the challenges of using aid for development purposes. Regulators and industry players in the capital market reached the agreement of supporting the issuing of fixed income securities during their 13th annual ASEA conference held in Abuja Nigeria early this month.

"The meeting discussed the criticality of issuing Fixed Income Securities on the capital markets to support the infrastructure deficits in Africa. Stock Exchanges will work with all concerned parties to support the development of infrastructure for example electricity, water, telecommunications, energy and transportations," ASEA officials said in a joint press statement issued after the conference.

The development is a welcome initiative as African countries work towards riding themselves of over dependence on donor funds to finance development projects on the continent. Over the last half century, more than \$1 trillion has been given as aid to developing countries.

Raising such financing locally saves the country from overreliance on foreign aid which is very expensive when it comes to servicing it, allows local capital markets to grow from within and avoid economic shocks from exchange rate fluctuations.

In 2005, a \$40 billion debt owed by the world's poorest countries many of which are African countries was cancelled under the Multilateral Debt Relief Initiative by the G8. Since then, the International Monetary Fund and World Bank have been actively advising countries to guard against falling back into unsustainable debt levels.

Global lenders have been arguing that the

domestic debt market is the best tool for long-term fiscal policy and overall debt sustainability. The analysis argues that from a macroeconomic policy perspective, the lack of bond market places constraints financing of fiscal deficits, while bond markets provide useful market signals for macroeconomic policy. In the recent past, it has become necessary that a well developed domestic debt is also needed for monetary policy purposes, including for sterilising inflows of foreign exchange.

"The greater the degree of foreign indebtedness, the more vulnerable a country is to cessation of loans or foreign exchange crises," the capital market players said in their communique. Bond markets also help to provide interest rates across the maturity spectrum and a more efficient pricing of risk. By providing an alternative source of financing, they reduce concentration of intermediation in banks. Because lending can be hedged in the bond market, banks have the ability to lend longer.

The usefulness of domestic debt markets (currency) can also be seen in the context of countries that are dependent on aid flows. International aid is often linked to project financing and can therefore not finance capital projects not supported by the donors.

African countries are increasingly becoming very conscious about the inflows of foreign debt; the supply of foreign financing is uncertain, and dependent on the aid agencies' budgets and assessment of economic performance in the recipient country.

The ASEA noted that in many instances, domestic debt has increased because of a need to fill the shortfall caused by the decline in the supply of foreign aid. Players in the capital market industry also argue that even if foreign debt is significantly cheaper than domestic debt, the latter is easier to roll over than foreign debt, and there is no foreign exchange requirement.

Recently, the Preferential Trade (PTA) bank issued the first tranche note of Shs8.5 billion of the total Shs40 billion bonds for infrastructure development in Uganda. The PTA bank also issued bonds in Kenya and Tanzania

The ASEA move comes hardly a month after the joint study by World Bank and NEPAD titled Africa's Infrastructure - a Time for Transformation revealed worrisome results that indicated poor infrastructure cuts national GDP growth by 2 per cent yet better infrastructure could increase productivity of business by as much as 40 per cent.

Governments current spending on infrastructure in Sub-Saharan Africa approaches \$48 billion a year, two-thirds of which is domestically resourced and financed by taxpayers and infrastructure users. The balance comes from a variety of external sources.

In 2006, the International Finance Corporation, the World Bank and the Swedish International Development Agency (SIDA) launched a programme known as Efficient

Securities Markets Institutional Development, known as ESMID in South Africa.

Under the Efficient Securities Markets Institutional Development, ESMID Africa, experts committed themselves to work with government regulators and market participants to design new products that provide this funding and that build or strengthen the marketplaces and institutions (such as stock exchanges, rating agencies, and securities firms) that are the core of the securities industry. The collaboration will help bring to market new types of securities products that will attract investors and further develop the securities markets in Africa.

The ESMID initiative is expected to make long-term financing in local currencies more widely available in the emerging markets. In East Africa ESMID was launched on March 2007 to provide investment and advisory services for capital markets.

The meeting elected the Chief Executive Officer of the Nigeria Stock exchange, Ms professor Ndi Okereke-Onyiuke, as the new president of ASEA and Mr Simone Rutega, chief executive officer of Uganda Securities Exchange, as the new vice president of ASEA.

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Nigeria

Nigeria's domestic debt hit N3.03trn in September

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Abraham Nwankwo, director-general of Debt Management Office (DMO) on Thursday disclosed that the nation's domestic debt stock as at September ending stood at N3.03 trillion, just as members of the House of Representatives and other stakeholders frowned at the increasing external borrowing without commensurate impact on the nation's economy. The budget implementation report for the first quarter obtained by BusinessDay showed that Federal Government's external debt stock reduced by 2.5 percent to \$3.627.5 million from \$3.720.36 million as at December 31, 2008 while the domestic debt rose from N2.320.31 billion to N2.487.83 billion as at March 2009, showing 7.21 percent increase. The actual debt service payments of domestic debt and external debt at the end of the first quarter stood at N119.2 billion and \$93.05 million, respectively. Nwankwo who spoke with BusinessDay after the public hearing on a bill for an Act to repeal the Debt Management Office (Establishment) Act No. 18 of 2003 and to re-enact the Debt Management Office (Establishment) Act 2008, to establish the Debt Management Office and

related matters, 2009, stated that all the states of the federation and FCT have right to obtain foreign loan at will but in line with extant laws. He said "Nigeria's domestic debt as at the end of September is about N3.03 trillion", adding that all the states seeking external loans are at liberty to do so in accordance with relevant laws including the Fiscal Responsibility Act and DMO. **The guidelines are very specific. No state, no government in Nigeria obtains external loan without the guarantee and approval of the Federal Government. And so every external loan that you want to obtain, you go through the Debt Management Office, go through the Security and Exchange Commission and go through the honourable Minister of Finance, otherwise, you cannot borrow externally. Any borrowing done externally by any government agency at the federal or state level without the full approval of the Federal Government is null and void.**" On the recent move by the House of Representatives to investigate the legality of the \$200 million obtained by the Abia State government, the DMO boss said "I'm not aware that the National Assembly set up a committee to investigate any state. I'm not aware of that," he insisted. Nwankwo, who expressed support for ongoing efforts to repeal the DMO Act 2003 aimed at strengthening the Office, noted that such move will further consolidate on the efforts of the Federal Government to ensure sustainable development of the country.

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