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Emerging Sovereign Debt Markets NEWS

Number 29 Week 11 – 17 July 2020

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ASIA

China

Foreign investors keen on China bonds with high inflows in Q2

13-Jul-2020

NEW YORK, July 13 (Xinhua) -- **Overseas investors are cranking up holdings of Chinese government bonds with an eye on yields and safety, said a report by the Wall Street Journal on Monday.**

Chinese government bonds are both defensive and offer some yield, said Evan Brown, head of multi-asset strategist with UBS Asset Management.

Switzerland-based private banking group Lombard Odier has created a separate category for Chinese debt products and raised its holdings of Chinese government bonds, according to the report.

"We see China as a safe haven for government bond issues," said Stephanie Monier, chief investment officer at Lombard Odier.

Trading of locally denominated Chinese government debt in Europe's secondary market jumped in the second quarter, said the report citing bond trading platform Market Axess.

Overseas investors added 238.2 billion yuan (34 billion U.S. dollars) of holdings of Chinese government bonds in the second quarter of 2020 and the holdings by foreign investors totaled 2.196 trillion yuan by the end of June, surging 33.48 percent year on year, according to data issued by China Central Depository and Clearing Co., Limited in early July.

Enditem

Chinese yields hover near six-month highs, analysts see central bank policy shift

14-Jul-2020

- **Chinese government 10-year bond yields highest since January**
- **PBOC seen shifting from growth focus to risk management**
- **Chinese bond yield rise seen capped**

By Andrew Galbraith

SHANGHAI, July 14 (Reuters) - **The yield on Chinese 10-year government bonds hovered this week near its highest since January, reflecting tighter cash conditions that analysts see as a sign of a policy shift by the central bank.**

Investors have also shunned bonds in favour of typically riskier stocks in recent weeks, as data has pointed to a rebound in the world's second-largest economy after it was hit hard by the coronavirus pandemic.

Yields on China's benchmark 10-year government bonds stood at 3.01% on Tuesday, traders said. The 10-year yield is up more than 50 basis points since April 29.

Yields have risen as the People's Bank of China (PBOC) drained 780 billion yuan from the banking system over the previous two weeks through regular open market operations. It has injected 80 billion yuan this week.

Data on Tuesday showed that imports rose in June for the first time since the pandemic paralysed the economy this year, while exports also climbed.

Analysts said the brighter economic backdrop was prompting the central bank to pivot attention away from supporting the economy to ensuring financial risks are not building too rapidly as a result of cheap money.

"The economic fundamentals ... have allowed the PBOC to shift its focus from maintaining economic growth to containing financial risks," said Wei He, China economist at consultancy Gavekal.

Short-dated government bonds have underperformed other maturities, with one-year government yields 110 basis points higher than at the end of April.

The volume-weighted average rate of China's benchmark seven-day repo, a liquidity indicator, was 2.1059% on Tuesday, up from 1.1379% in March.

"Liquidity conditions are good, but the rise in rates is ominous," said a trader at an Asian bank in Shanghai.

Still, few expect the bond rout to continue indefinitely, particularly if a recent stock market rally comes to an end.

"The tightening of the PBOC has reached a temporary end," said He, who forecasts a cut of 20 to 30 basis points in China's medium-term lending facility (MLF) and loan prime rates (LPR) this year.

(Reporting by Andrew Galbraith; Additional reporting by Winni Zhou and Xiangming Hou; Editing by Muralikumar Anantharaman and Ana Nicolaci da Costa)
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China to speed up issuance and use of special local government bonds

15-Jul-2020

BEIJING, July 15 (Reuters) - **China's cabinet said on Wednesday it will speed up issuance and use of special local government bonds to expand effective investment, state television reported.**

Local government special bonds issuance totalled 2.24 trillion yuan ($320.76 billion) by mid-July, of which 1.9 trillion yuan has been spent, the state cabinet said in a meeting chaired by Premier Li Keqiang.

($1 = 6.9834 Chinese yuan renminbi)
(Reporting by Lusha Zhang, Judy Hua and Kevin Yao; Editing by Andrew Heavens)
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China's finance ministry to sell 15 bln yuan in offshore bonds this year

17-Jul-2020

SHANGHAI/HONG KONG, July 17 (Reuters) - **China's Ministry of Finance said on Friday it will sell a total of 15 billion yuan ($2.1 billion) worth of yuan-denominated bonds in the offshore market in 2020.**

In a statement published on its website, it said it will auction 5 billion yuan of these bonds in Hong Kong on July 23.

That will include a 4 billion yuan two-year tranche and a 1 billion yuan five-year tranche, according to a notice published by the Hong Kong government.

"This demonstrates clearly the Central Government's staunch support in reinforcing further Hong Kong's position as the global offshore RMB business hub, and is conducive to promoting the sustainable development of the bond market in Hong Kong," said Paul Chan, the city's financial secretary, referring to the yuan's other name, in a statement.

($1 = 6.9999 yuan)
(Reporting by Winni Zhou in Shanghai, Noah Sin in Hong Kong and Beijing Monitoring Desk; Editing by Tom Hogue & Shri Navaratnam)
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China's fiscal revenue up 3.2% in June

as economy rebounds

17-Jul-2020

BEIJING, July 17 (Reuters) - **China's fiscal revenues rose 3.2% in June from a year earlier, reversing a 10% drop in May and returning to expansion for the first time this year, the finance ministry said on Friday, in line with a recovery in the economy.**

Fiscal revenues have been gradually recovering in the second quarter after a deep decline in the first three months, ministry official Liu Jinyun told a briefing.

China's economy returned to growth in the second quarter after a deep slump at the beginning of the year, but weak demand underscored the need for more policy support for the recovery after the shock of the novel coronavirus crisis.

For the first half, fiscal revenues fell 10.8% from a year earlier to 9.6176 trillion yuan, while fiscal spending fell 5.8% to 11.6411 trillion yuan, the ministry said.

Tax revenues fell 11.3% in the first half, while non-tax revenues were down 8%, it said.

China has issued 720 billion yuan ($102.89 billion) in special treasury bonds as of July 16, accounting for 72% of the planned issuance that could be completed by the end of July, Liu said.

In May, the government said it would issue 1 trillion yuan in special treasury bonds to support employment, expand consumption and investment.

The government will also let local governments issue 3.75 trillion yuan worth of special bonds to fund investment projects.

The cabinet said this week that local governments had issued 2.24 trillion yuan in special bonds by mid-July, of which 1.9 trillion yuan had been spent.

Funds raised from local government special bonds must be used for projects with certain returns and cannot be used to pay wages or pensions, finance ministry official Wang Kebing told the briefing.

The ministry had issued a fourth batch of a local government special bond quota of 1.26 trillion yuan, on top of previous tranches totalling 2.29 trillion yuan, Wang said.

The government will prevent risks from local government debt and will not relax controls due to the coronavirus, Wang said.

($1 = 6.9976 yuan renminbi)
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India

India Bond Yields Steady As Traders Await Fresh Cues, RBI Steps

16-Jul-2020

By Dharam Dhutia

NewsRise

MUMBAI (Jul 16) -- **Indian government bond yields ended little changed as market participants awaited fresh triggers as well as steps from the central bank to help ease supply pressure.**

The benchmark 5.79% bond maturing in 2030 ended at 99.82 rupees, yielding 5.81%, against 99.80 rupees, yielding 5.82%, yesterday. The Indian rupee was at 75.19 to the dollar against 75.15 yesterday.

"Bond yields are likely to be sandwiched in a thin range going forward," said Dwijendra Srivastava, chief investment officer - debt at Sundaram Mutual Fund. "The RBI has managed to appease worries of excess supply for the time being by conducting a special OMO and that has given enough confidence to the market that the RBI will step in at the right time to manage the yield curve."

Traders are looking forward to another round of special open market operations by the Reserve Bank of India this month. Earlier in July, the central bank bought bonds and sold Treasury Bills worth 100 billion rupees each, which was its second such auction this fiscal.

The central bank is widely expected to announce more special OMOs or several outright OMOs as the government has hiked its gross market borrowing for this financial year to 12 trillion rupees. The federal government is expected to go in for another round of additional borrowing in the second half of this fiscal as the coronavirus pandemic-led lockdown will shrink its revenues.

India will raise at least 300 billion rupees via sale of bonds tomorrow, which includes 180 billion rupees of the benchmark note. The government has already borrowed 4.14 trillion rupees via sale of bonds in this financial year.

Meanwhile, the rise in headline inflation above the central bank's tolerance ceiling of 6% has weakened the case for sharp rate cuts by the rate-setting Monetary Policy Committee. June retail inflation stood at 6.09%, while the government did not publish readings for April and May due to inadequate data.

India's headline retail inflation likely rose 6.98% from a year earlier in June based on new weights, quicker than the official print, State Bank of India said in a research note. "We believe that inflation will remain at elevated levels for the next few months due to supply side constraints and labour shortage, rather than due to fiscal deficit and external factors, except crude."

Some traders expect the MPC to pause at the next policy on Aug. 6, but maintain the accommodative stance to support growth and cut rates later in the year. Nomura said the MPC might cut rates by 25 basis points each in October and December after maintaining a pause in August.

India's coronavirus infections have climbed to 968,876, resulting in 24,915 deaths. The surge in cases has prompted many cities in the country to re-impose lockdowns this month,

hurting prospects of a near-term growth revival.
The economy is likely to contract this year. India's potential growth has been "deeply damaged" by the pandemic, former central bank governor Raghuram Rajan said earlier this week.
The benchmark Brent crude oil contract was down 0.9% at $43.40 per barrel after rising 2.1% to a three-week high yesterday. India imports nearly 85% of its crude oil requirements.

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India Bond Yields Snap 2-Week Fall on Profit Booking

17-Jul-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jul 17) -- **Indian government bonds yields ended a two-week falling streak on profit-booking, even as the market continued to look for support from the central bank to absorb excess supply.**
Some pullback was seen today after aggressive demand at the weekly debt auction.
The benchmark 5.79% bond maturing in 2030 ended at 99.88 rupees, yielding 5.80% against 99.82 rupees, yielding 5.81%, yesterday. The yield however gained four basis points this week, after falling by an aggregate of 16 basis points in the last two weeks. The Indian rupee was at 75.02 to the dollar, down 0.2% for the week.
"Although bonds have not seen any material selloff now, we think the market will begin to react soon if there is no firm commitment from the RBI to intervene in the debt market," said Pankaj Pathak, debt fund manager at Quantum Mutual Fund. "The higher retail inflation data may pose a tricky task for the MPC in the August policy. While the RBI has reiterated that its priority is to revive growth, it has also given importance to inflationary pressures, which could be a hurdle for the MPC to cut rates."
Indian bond yields rose as traders cut positions after the central bank chose to not intervene through bond purchases for the second straight week, against expectations of another round of special open market operation.
The central bank had bought bonds and sold Treasury Bills worth 100 billion rupees each in early July, reigniting hopes of continuity of such operations.
Still, bets of central bank intervention in the debt market continue to support investor appetite despite heavy borrowing. New Delhi has hiked its gross market borrowing for this financial year to a record high of 12 trillion rupees.
The federal government is widely expected to go in for another round of additional borrowing in the second half of the year, as the coronavirus pandemic and the subsequent lockdowns have dented government revenues.
New Delhi has already raised 4.48 trillion rupees via sale of bonds in this financial year, including 500 billion rupees through usage of the greenshoe option.
The central bank will have to resume open market bond purchases to push down yields and help lower the government's borrowing costs as the scope for deeper interest rate cuts is limited, analysts have said.
The rate-setting Monetary Policy Committee may choose to a pause at the next meeting on Aug. 6, as inflation has risen over the tolerance ceiling of 6%.
"It is unlikely that the MPC will opt for a rate cut at the August policy review, but it will look to comfort the market with a dovish commentary," said Dwijendra Srivastava, chief investment officer - debt at Sundaram Mutual Fund. "The RBI will have to step in to soothe the market sentiment once there is sharp uptick in yields."
India does not need direct monetisation of its fiscal deficit this year in contrast to Indonesia, as there is only a small funding gap of 1.1% of gross domestic product which needs to be covered, the Australia and New Zealand Banking Group said.
"Surplus liquidity, a robust balance of payments position, and weak credit demand cumulatively provide sufficient space for the (Indian) government to expand its borrowings," ANZ economists Sanjay Mathur and Rini Sen said in a note.
Meanwhile, India saw its largest single-day spike in fresh coronavirus cases yesterday, and also crossed the dubious milestone of one million infections. The total infected cases stand at 1,003,832 cases, including 25,602 deaths. The surge in coronavirus cases has prompted many cities in the country to re-impose lockdowns this month, hurting prospects of a near-term growth revival. India's economy is likely to shrink by 9.5% this fiscal year, ICRA said yesterday.
The benchmark Brent crude oil contract was trading at $43.01 per barrel, down 0.5% this week. India imports nearly 85% of its crude oil requirements.

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India Does Not Need Direct Monetisation of Deficit This Fiscal Year, ANZ Says

17-Jul-2020

By Dharam Dhutia
NewsRise
MUMBAI (Jul 17) -- **India does not need direct monetisation of its fiscal deficit this year in contrast to Indonesia where the central bank has committed to absorbing at least 38% of 2020 budget financing, the Australia and New Zealand Banking Group said today.**
“Surplus liquidity, a robust balance of payments position, and weak credit demand cumulatively provide sufficient space for the (Indian) government to expand its borrowings,” ANZ economists Sanjay Mathur and Rini Sen said in a note.
According to ANZ's analysis, there is only a small funding gap of 1.1% of gross domestic product which needs to be covered. Regulatory changes to increase bond demand from onshore financial institutions and allowing the rupee to appreciate to increase the appeal to foreign investors could cover the gap, the economists said.
Asia's third-largest economy is expected to shrink this fiscal year that started Apr. 1 as coronavirus cases spike leading to localised lockdowns after the months-long restrictions brought most activities to a halt.
India's federal government has hiked its annual gross borrowing by 54% to a record of 12 trillion rupees and market participants expect the borrowing to rise further in the second half. States are also under fiscal pressure and are widely expected to increase borrowings going ahead.
ANZ expects India’s federal and state governments to borrow a gross 21.90 trillion rupees and net 18 trillion rupees via bonds in this year.
Banks should be able to absorb slightly more than nine trillion rupees of the net bond supply this year due to lower credit pick up and there is scope for the central bank to scale up its open market operations, the house said.
The Reserve Bank of India can augment the banking sector’s appetite for government bonds and state debt through regulatory changes, such as raising the threshold for held-to-maturity under the Statutory Liquidity Ratio, it added.
Moreover, foreign appetite for Indian bonds, which has faded over the last few months, can be revived by allowing the rupee to appreciate, ANZ said.
India's 10-year benchmark bond yield closed at 5.81% yesterday, down 33 basis points so far this fiscal year.

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Indonesia

Indonesia raises 18.34 trillion in retail bonds, over target

13-Jul-2020
JAKARTA, July 13 (Reuters) - **Indonesia has raised 18.34 trillion rupiah ($1.28 billion) from sales of retail bonds, nearly double its target, the finance ministry said on Monday, the proceeds of which will be used to fund its ballooning fiscal deficit.**
More than 42,700 Indonesians purchased the retail bonds, which carry a 6.40% coupon per annum. Half of the investors were new and about 44% were under 40 years old.
The government's budget deficit is seen expanding by more than three times the original plan to the equivalent of 6.34% of gross domestic product this year, due to spending to fight the coronavirus pandemic.
Southeast Asia's largest economy has a target to raise around 900 trillion rupiah to finance its budget deficit in the second half of the year, some 397 trillion rupiah of which would be funded by the central bank through debt monetization.

($1 = 14,350.0000 rupiah)
(Reporting by Tabita Diela; Editing by Gayatri Suroyo)
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Indonesia's debt-sharing experiment worries rupiah investors

13-Jul-2020
By Gayatri Suroyo and Tom Westbrook
JAKARTA/SINGAPORE, July 13 (Reuters) - **Indonesia's experiment to borrow money for free from the central bank has excited proponents of modern monetary theory and raised concerns about its effects on inflation and the rupiah.**
The "burden-sharing" agreement unveiled last week involves Bank Indonesia (BI) effectively buying about $28 billion worth of bonds the government plans to issue to finance its COVID-19 stimulus spending, while relinquishing interest payments.
The final plan, announced after months of tough negotiations between BI and the government, limits the central bank's debt-monetisation to this year.
Still, the lack of clarity on the tenor of bonds the BI will buy and how it will subsequently get rid of these bond holdings have analysts worried.
The rupiah, historically prone to volatile swings caused by inflationary pressures, has fallen more than 3% against the dollar in about three weeks.
Deutsche Bank strategists said their main concern was that significant debt monetisation would expand the monetary base, eventually feeding into faster credit growth, inflation,

imports and a weaker rupiah.
"The risk is that, in conducting these operations in such large size, that people start to question what the exit policy to this will be," said Siddharth Mathur, head of APAC emerging markets research at BNP Paribas in Singapore.
As investors await details, Mathur expects "they will raise slightly the risk premium that they associate with Indonesia as a compensation for the uncertainty of what happens down the road".
It is a rare case of a government borrowing without paying interest to the central bank, which must then print money to ensure that borrowing is free and the budget deficit doesn't blow out.
Yields on rupiah bonds, more than 30% of which are held by foreigners, have so far held steady.
Analysts at Nomura Singapore said they remain neutral on Indonesian bonds after the announcement, and Deutsche said it would stay long bonds but shift to the five-year tenor.
The biggest investor concerns are however around the likely pressure on BI to cut interest rates to limit losses and whether that would compromise its policy responses to inflation.
June annual inflation was at a 20-year low of 1.96% as the virus outbreak suppressed demand. BI Governor Perry Warjiyo has said it would likely remain muted this year, while signalling there was space for lower rates even after the three cuts to 4.25% this year.
A BI document presented to parliament last week showed the central bank expected a 3.35% inflation rate this year as a result of debt monetisation, up from an initial forecast of 2.49%, and a further increase to between 4.88% and 6.69% in 2021.
Citi Indonesia economist Helmi Arman said he had expected one more 25 basis point cut before the scheme was announced, but there could be more as policymakers "may be more inclined to lower monetary policy costs".
Former Indonesian finance Minister Chatib Basri told Reuters it was heartening that BI's participation in government financing was limited.
"If BI doesn't have a strong enough capital, it may be reluctant to raise rates even when the economic conditions warrant, for example, when inflation shoots."

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Indonesia raises record-high $1.27b from retail bonds sale

15-Jul-2020
Adrian Wail Akhlas, The Jakarta Post, Jakarta
Indonesia has raised Rp 18.33 trillion (US$1.27 billion) from a government retail bond issuance ORI-017, the Finance Ministry announced on Monday, the highest proceeds ever recorded in an online bond offering by the country as the government struggles to finance its coronavirus response.
The Finance Ministry attributed the figure to individual investors who had flocked to safe-haven assets amid a volatile financial market caused by uncertainties triggered by the COVID-19 outbreak. This is the third year the government has issued retail bonds online.
"The proceeds will be used to fund the budget deficit, particularly for mitigating the impact of the COVID-19 pandemic," the Finance Ministry's director for sovereign debt papers, Deni Ridwan, told a discussion on Monday.
"With the high appetite of retail investors, we can be more independent in financing state budget needs."
Bonds in the ORI-017 series carry a fixed coupon rate of 6.4 percent and have a tenure of three years to mature on July 15, 2023. The debt papers were offered online to Indonesian individuals who could invest between Rp 1 million and Rp 3 billion each. The bond will be tradable between domestic investors after a two-month holding period.
The Finance Ministry noted that 42,733 investors bought the debt papers offered from June 15 to July 9. They are dominated by millennials, or people between 20 and 40 years of age, followed by the age group of 41 to 55 years and investors aged 54 to 74 years old.
The number of investors who bought ORI-017 worth Rp 1 million jumped by 123 percent from the previous series to 2,002 people.
"Aside of being a source of state budget financing, the ORI-017 issuance as part of the government retail bond series is also an effort to nurture an investment culture [among Indonesians] and to create independence in state financing," the ministry said in a statement on Monday.
The government faces a daunting task to cover a state budget deficit of 6.34 percent of GDP this year as it has allocated Rp 695.2 trillion to strengthen the healthcare system and to prevent a more severe economic fallout from the pandemic.
Most of the funding to plug the deficit will come from debt financing, as the government expects to raise more than Rp 1.5 quadrillion from bonds this year, Rp 50 trillion to Rp 75 trillion of which is to come from retail bonds.
"This is a good opportunity to democratize and broaden our debt market so that the government may have a new source of funding from retail investors," Bareksa CEO Karaniya Dharmasaputra said in a statement on Friday.
The investment marketplace reported an increase of 608 percent in government bond sales from series ORI-017 to ORI-016, which was issued by the government last year, with the number of buyers soaring by 382 percent from last year.
The COVID-19 pandemic is taking a severe toll on the country's economy, with the government

expecting a growth of just 1 percent this year under the baseline scenario or a contraction of 0.4 percent under the worst-case scenario.
This situation has forced Southeast Asia's biggest economy to increase its spending at a time when income has fallen to mitigate the economic and public health impact of the COVID-19 crisis, resulting in a widening state budget deficit.

Israel

Bank of Israel sees 2020 budget deficit 13% of GDP, backs new aid package

12-Jul-2020
JERUSALEM, July 12 (Reuters) - **Bank of Israel Governor Amir Yaron on Sunday threw his support behind a second stimulus package to help those hurt by the coronavirus outbreak despite the extra spending that is expected to boost budget deficits in the next two years.**
Israel's government already approved aid of 100 billion shekels ($29 billion), but only about half has been allocated -- prompting a protest by thousands on Saturday night in Tel Aviv against what they said has been an inept government response to the economic crisis.
Unemployment soared to 27% after the country's partial lockdown in March but is now running at 21% as people have come back from furlough.
Prime Minister Benjamin Netanyahu last week announced a new package for Israelis who have lost livelihoods due to the coronavirus crisis, saying the measures would provide an economic safety net for the coming year.
Yaron said the fiscal cost would be 15 billion shekels in 2020 and 27 billion in 2021. That, he said, would bring the budget deficit to about 13% of gross domestic product this year and to 7% next year. Before the second stimulus package, the budget deficit was estimated at 11% of GDP, up from 3.7% in 2019.
The debt-to-GDP ratio would rise to 76% in 2020 and to 78% in 2021, from about 60% last year.
"This is the time to take advantage of the safety cushions we have to alleviate the impact of the crisis and allow the economy and public to get through it with minimal harm," Yaron said at Sunday's cabinet meeting.
He said the government has the ability to fund the programme.
The Bank of Israel, which held its benchmark interest rate at 0.1% last week while expanding its bond purchases to include corporate bonds, projects an economic contraction of 6% this year.

($1 = 3.4573 shekels)

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Netanyahu faces pushback over money-for-all coronavirus grants plan

16-Jul-2020
- **Allotment package announced by prime minister**
- **Netanyahu faces public anger over COVID-19 response**
- **Plan calls for all Israelis to receive state grant**
- **Central Bank head, foreign minister want targeted approach**
- **Proposal still needs cabinet approval**

By Steven Scheer
JERUSALEM, July 16 (Reuters) - **Prime Minister Benjamin Netanyahu got a lukewarm reception on Thursday from his main coalition partner and the head of the central bank to a plan to grant money to all Israelis to kickstart the economy during the coronavirus crisis.**
Netanyahu announced the 6 billion shekel ($1.75 billion) package on Wednesday, amid public anger over his handling of a pandemic in which contagion has surged and promised state aid to businesses has been slow to arrive.
The payments of 750 shekels for individuals and up to 3,000 shekels to families, Netanyahu said, would boost consumer spending and employment. The plan still requires cabinet approval.
Bank of Israel Governor Amir Yaron and Foreign Minister Gabi Ashkenazi of the centrist Blue and White party that has partnered with Netanyahu's Likud in the government, said the money should instead be targeted at the poorest citizens.
In an interview with Army Radio, Yaron said it was very important to help "but even more important to aid those in need. There are more effective ways to help increase demand," he said, adding that more cash could be given to the unemployed.
Yaron had supported a previous 100 billion shekel ($29 billion) stimulus package and a second one announced last week, even though they are expected to drive this year's budget deficit up to 13% of gross domestic product.
The economy is set to contract 6% in 2020. Unemployment soared to 27% after a partial lockdown in March but is now running at 21% as people have come back from furlough.
Ashkenazi said on Army Radio that while he was not opposed to grants for Israelis hit by economic hardship, Blue and White would try to amend Netanyahu's plan so that the money would go "to those who are hurting and not to those who don't need it".
Netanyahu said doing so would be too time-consuming.

Polls show less than 30% of the public trusts Netanyahu's handling of the crisis. Thousands took part in anti-Netanyahu rallies last week.
Israel, with a population of around nine million, has reported more than 44,000 coronavirus cases and 377 deaths.

($1 = 3.4218 shekels)
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Kazakhstan

Kazakh government to offer securities worth up to 1 trln tenge by end-2020

14-Jul-2020
ALMATY. July 14 (Interfax-Kazakhstan) - **Kazakhstan plans to issue short-term government securities worth up to one trillion tenge by the end of 2020.**
The country's National Bank Chairman Yerbolat Dosayev said that the Bank and the Finance Ministry will issue one- to three-year government securities in 2020 and one- to five-year securities in 2021-2022.
"Amendments have been made as necessary to the government security program to include an issue of short-term securities for a total value of up to one trillion tenge on a regular by the end of 2020. This will allow us to get Kazakhstan's government securities included in the international indexes of local bonds," Dosayev said at a Tuesday meeting of the government.
Official exchange rate on July 14 is 411.66 tenge per $1.

Kuwait

Kuwait asks parliament to approve debt law to help cover deficit

12-Jul-2020
KUWAIT, July 12 (Reuters) - **Kuwait's government formally submitted a public debt law to parliament on Sunday which would allow it to borrow 20 billion dinars ($65 billion) over 30 years, including 8 billion dinars to help finance the current budget deficit, a legislator said.**
The government and parliament have long been at odds over the law which would allow Kuwait to tap international debt, but the issue has gained urgency in recent months as the oil-exporting nation has been hit by low crude prices and the COVID-19 pandemic.
Safaa al-Hashem, head of parliament's financial and economic committee, announced details of the request while reiterating criticism of the government for not outlining investment plans and failing to diversify state revenues away from oil.
"The country is drowning in economic problems that need to be addressed," she said in parliament after a meeting with officials from the finance ministry and Kuwait Investment Authority (KIA), which manages two sovereign wealth funds.
"What is the government plan for investment spending?"
Kuwait has been drawing down its General Reserve Fund to plug the deficit, which the International Monetary Fund estimates could reach more than 11% of gross domestic product this year, compared with a 4.8% surplus last year.
Hashem said the fund only had 1.1 billion dinars left.
Reuters could not immediately reach the government for comment. It has previously said Kuwait has plans for economic reform and diversification, but that lawmakers often block them, particularly if they are unpopular.
The Future Generations Fund, which automatically receives 10% of state oil revenue each year and has only been drawn down once, during the first Gulf War, accounted for about $489 billion of KIA's estimated total assets of $527 billion at the end of March, according to Fitch Ratings estimates.
A government official, speaking on condition of anonymity, told Reuters on Sunday that the state was considering selling assets of the General Reserve Fund to the Future Generations Fund as one alternative to plug the deficit.

($1 = 0.3073 Kuwaiti dinars)
(Reporting by Ahmed Hagagy; Writing by Yousef Saba; Editing by Pravin Char)
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S&P revises Kuwait's outlook to negative on depletion in liquidity buffer

17-Jul-2020
July 17 (Reuters) - **S&P Global Ratings on Friday revised Kuwait's outlook to 'negative' from 'stable', saying it expects that the country's main liquidity buffer, the General Reserve Fund, will be insufficient to cover central government deficit.**
"The GRF balance has been steadily reducing over the past three years, but this process has accelerated in recent months following the decline in oil prices and Kuwait's implementation of the OPEC+ oil production cut agreement," the ratings agency said in a statement.
The S&P affirmed Kuwait's ratings at 'AA-/A-1+'.

(Reporting by Nilanjana Basu in Bengaluru; Editing by Arun Koyyur)
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Lebanon

IMF urges Lebanese to unite around government financial rescue plan

13-Jul-2020

July 13 (Reuters) - **The International Monetary Fund urged Lebanese authorities on Monday to unite around a government rescue plan and warned that attempts to lower losses from the financial crisis could only delay recovery.**

The government's rescue plan has served as the cornerstone of talks with the IMF and maps out massive losses in the financial system.

The talks have been bogged down by a row over the scale of financial losses that has embroiled the government, the central bank, commercial banks and lawmakers from Lebanon's main political parties.

"It is very important that the authorities unite around the government plan. From our side, we are ready to work together with the authorities to improve the plan where this is necessary," said Athanasios Arvanitis, deputy director of the IMF's Middle East and Central Asia Department.

Lebanese Finance Minister Ghazi Wazni said last week the talks were on hold pending the start of economic reforms and agreement on the losses.

Arvanitis said in an online press conference that delaying taking action would only worsen the outlook for the economy.

"However we're also worried that attempts to present lower losses and postpone difficult measures into the future would only increase the cost of the crisis by delaying the recovery," the IMF official said.

Alain Bifani, a senior member of Lebanon's negotiating team with the IMF, resigned as finance ministry director general last month, saying vested interests were undermining the government’s economic recovery plan. He said the losses stood at $61 billion.

Nafez Zouk, emerging markets strategist at Oxford Economics, said there had recently been push back within parliament against proposals put forward by Lebanon's banking association to avoid a default on internal debt. There had also been push back with the assembly against the central bank's stance to view losses as sums to be carried forward against future revenues, he said.

An adviser to the banking association, who declined to be identified because they were not authorised to talk on the record, said: "Past losses of the financial sector are interesting but irrelevant to either an IMF program or a debt restructuring."

"The reason is that such losses are a subset of the outstanding liabilities and have already been financed."

(Reporting by Davide Barbuscia; Writing by Suleiman al-Khalidi; Additional reporting by Tom Arnold; Editing by Andrew Heavens, William Maclean)
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Lebanon's advisers to work on compromise on financial plan, sources say

17-Jul-2020

BEIRUT, July 17 (Reuters) - **Lebanon's financial adviser Lazard will see if a government financial rescue plan can be adjusted to reach a compromise workable for the International Monetary Fund, two sources said on Friday, after the plan hit resistance from politicians, banks and the central bank.**

The plan, which anticipates vast losses in the financial system, has been undermined by objections from Lebanon's ruling elite, obstructing IMF talks aimed at rescuing the country from a financial meltdown.

Prime Minister Hassan Diab's government had approved the plan, which would lead to losses of 241 trillion Lebanese pounds in the financial system, or $68.9 billion at the exchange rate applied by the plan, as the basis for talks with the IMF.

The IMF said the losses appeared to be about the right order of magnitude.

But a parliamentary fact-finding committee, backed by all Lebanon's main parties, objected to the approach taken in the plan. Applying different assumptions, it came up with losses between a quarter and half that amount.

"Lazard will come possibly next week to see if they can adjust the government plan and work on a compromise acceptable to the IMF. They will do any adjustment based on the government plan," one of the sources said.

The second source said the aim of the Lazard visit is "how we can try to adjust the government plan to see if we can come up with something workable for the IMF and for the Lebanese counterparts".

Lebanon's legal adviser, Cleary Gottlieb Steen & Hamilton LLP, is also visiting the country, the sources said.

Lazard and Cleary Gottlieb declined to comment.

The IMF warned Lebanon on Monday that attempts to lower losses from the financial crisis could only delay recovery.

Alain Bifani, a senior member of Lebanon's negotiating team with the IMF, resigned as finance ministry director general last month, saying vested interests were undermining the government plan.

(Reporting by Tom Perry and Samia Nakhoul in Beirut and Gwenaelle Barzic in Paris and Karin Strohecker in London; writing by Tom Perry; editing by Larry King)
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Philippines

Philippines launches retail Treasury bond offer at 2.625% coupon rate

16-Jul-2020

MANILA, July 16 (Reuters) - **The Philippine government on Thursday launched an offering of five-year retail treasury bonds (RTB), seeking to attract small investors and holders of previously-issued RTBs to swap their holdings for the new issue.**

The Southeast Asian country is ramping up borrowing, seeking to raise more money to mitigate the economic impact of the COVID-19 pandemic and offset a slide in revenues due to lockdowns and business shutdowns.

Called "Progreso" or Progress Bonds, the new RTB offer fetched a coupon rate of 2.625% at an auction at the Bureau of the Treasury, with the government awarding 192.7 billion pesos ($3.89 billion) worth of the paper against total tenders of 278.6 billion pesos.

Proceeds will be used to fund government efforts to assist sectors hit hard by the pandemic and its flagship "Build, Build, Build" infrastructure development programme.

"The pandemic will not stop our lofty pursuit...to empower every Filipino to contribute in putting the economy back to a trajectory of sustained high growth," National Treasurer Rosalia de Leon said.

The offer, available through some banks and the second such issue this year, runs from Thursday until August 7.

Holders RTBs maturing in August this year and March 2021 can swap their holdings for the 2025 RTBs, allowing the government to lengthen maturity of some of its debt obligations.

($1 = 49.56 pesos)
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Editing by Ed Davies)
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United Arab Emirates

Government of Sharjah hires banks for 30-yr Formosa bonds

13-Jul-2020

DUBAI, July 13 (Reuters) - **Sharjah, the third-largest emirate of the United Arab Emirates, has hired banks to arrange the issuance of U.S. dollar-denominated 30-year Formosa bonds, a document showed on Monday.**

Sharjah has hired Citi, Emirates NBD Capital, HSBC, Invest Bank, JPMorgan and Standard Chartered to arrange an investor call on Monday, to be followed by the issuance, subject to market conditions, the document from one of the banks arranging the deal showed.

It would be Sharjah's first Formosa, first long-dated and first conventional benchmark bond, said a source close to the deal. Benchmark generally means at least $500 million.

The government issued a conventional Panda bond - yuan-denominated debt issued by foreign borrowers - in 2018, but the size was about 2 billion yuan ($286 million), the source said.

The Emirate's longest maturity in the public market so far is 10 years.

"The 30 years duration and the Formosa market would allow Sharjah to tap a new investor base," the source said.

Formosa bonds are sold in Taiwan by foreign borrowers and are denominated in currencies other than the Taiwanese dollar.

Sharjah sold $500 million in five-year sukuk, or Islamic bonds, last month.

The Formosa bonds would be listed on Euronext Dublin, Nasdaq Dubai and Taipei Exchange, the document said.

($1 = 6.9986 Chinese yuan renminbi)
(Reporting by Yousef Saba and Davide Barbuscia;
Editing by Muralikumar Anantharaman and Mark Potter)
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EUROPE

Bulgaria

Moody's completes periodic review of Bulgaria's ratings

13-Jul-2020

SOFIA (Bulgaria), July 13 (SeeNews) - **Moody's Investors Service said that it has completed a periodic review of the ratings of Bulgaria's government, which did not involve a rating committee.**

The review was conducted through a portfolio review in which Moody's reassessed the appropriateness of Bulgaria's ratings, and a comparison of the financial and operating profile to similarly rated peers, Moody's said in a statement late on Friday.

The publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future, the ratings agency noted.

Moody's also said in its statement:

"Bulgaria's Baa2 government bond rating reflects a "baa3" economic strength, balancing the relatively low size of the economy and lower wealth per capita (vs the EU average) and the clear improvement trend of the Country's ranking in the World Economic Forum Global Competitiveness Index;

"baa2" institutions and governance strength,

capturing still weaker than peers results in terms of Government effectiveness, Rule of Law and Control of Corruption although the EU accession provides an important anchor;
"a1" fiscal strength, mirroring healthy public finances despite the coronavirus outbreak and a clear commitment to the stability of the currency board arrangement in order to join the euro area in 2020 and "ba" susceptibility to event risk assessment, driven by the country's banking system risks although recent developments point to higher liquidity and a stronger capitalization.
This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period."

Bulgaria posts 1.2%/GDP current account surplus through May

17-Jul-2020
SOFIA, July 17 (Reuters) - **Bulgaria posted a current account surplus of 1.2% of gross domestic product in the first five months of 2020, compared with a surplus of 0.1% in the same period a year earlier, central bank data showed on Friday.**
For May alone the Balkan country posted a current account surplus of 75 million euros, compared with a surplus of 58 million euros a year ago mainly due to drop of imports amid coronavirus restrictions.
Foreign direct investment, much needed to boost growth in the European Union's poorest member state dropped by 44.7% to 136.7 million euros through May on an annual basis.
The finance ministry sees current account surplus decreasing to 1.2% of GDP this year from 4% in 2019 as it expects both exports and imports to drop as well as smaller inflows of funds from Bulgarians living abroad due to the coronavirus crisis.

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Bulgaria/Croatia

ECB calls on Croatia, Bulgaria to do more before joining euro

13-Jul-2020
FRANKFURT, July 13 (Reuters) - **Bulgaria and Croatia still have work to do in fixing their economies and improving their institutions before joining the euro, European Central Bank board member Fabio Panetta said on Monday.**
The reforms undertaken by the two will not fix all the imbalances and vulnerabilities they are facing, and more progress is needed to improve governance, their legal framework, and the overall quality of institutions, Panetta said in speech.
The two nations were admitted to the ERM-2 mechanism on Friday, a waiting room to enter the euro, and could join the currency union as soon as 2023.

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Czech Republic

Czech state debt jumps to record in Q2 after massive borrowing spree

17-Jul-2020
PRAGUE, July 17 (Reuters) - **The Czech Republic's gross central government debt jumped to 2.157 trillion crowns ($92.37 billion) at the end of June, the Finance Ministry said on Friday, as the country launched a record borrowing spree amid the coronavirus pandemic.**
The country has covered 77% of its crown financing needs for 2020 after selling 318.5 billion crowns of bonds in primary auctions in the second quarter.
The government faces a record budget deficit of 500 billion crowns this year. Overall financing needs are 730.6 billion crowns, according to a debt strategy update last month.
The ministry said on Friday that without any further issuance in the second half of the year and only using funds from the state treasury for the state deficit and bond redemptions, state debt would end 2020 at 2.0 trillion crowns.
"However, the actual state debt at the end of this year will reflect the Ministry's issuing activity, which will respond flexibly to the actual development of the state budget...the state of available funds in the state treasury, the situation on the government bond market and demand," the ministry said.

($1 = 23.3530 Czech crowns)
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Czech PM says EU no closer to deal on

economic recovery from COVID

17-Jul-2020

PRAGUE, July 17 (Reuters) - **Czech Prime Minister Andrej Babis said on Friday that views remained widely different among EU leaders after hours of talks on Friday on a plan to inject hundreds and billions of euros to restart growth in Europe hit by coronavirus pandemic.**

Babis also said he did not feel the 27 EU heads were getting closer to a deal and that there was no agreement on the size of a new fund proposed at 750 billion euros to help economic revival.

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Hungary

Hungary's Orban wins parliament's backing in EU budget talks

14-Jul-2020

- **Orban wins symbolic backing of parliament**
- **Bill rejects rule-of-law conditions on EU funding**
- **Resolution threatened to veto aid deal as last resort**

By Anita Komuves

BUDAPEST, July 14 (Reuters) - **Hungarian Prime Minister Viktor Orban's nationalist government won parliamentary approval on Tuesday to press the European Union to distribute the bloc's coronavirus economic rescue package without conditions attached on the rule of law.**

EU leaders meet this week to agree details of the bloc's next budget and post-pandemic recovery. The EU is set to spend 750 billion euros ($850 billion) on economic recovery in member states hardest hit by the pandemic.

Some EU parties want the disbursement of EU funds to be tied to conditions on the rule of law, and Orban's ruling Fidesz party has been suspended by the European People's Party for disrespecting those principles.

Fidesz submitted a resolution last week saying financial resources from the EU should not be tied to "political or ideological conditions - under the label of rule of law."

The resolution also said citizens of poorer EU countries should receive less money than those in richer states.

"(EU leaders) want to tie the disbursement of these monies to a mandate of meeting the political expectations of the EU's increasingly aggressive globalist, pro-immigration, anti-family and anti-nationalist elite," Parliamentary Speaker Laszlo Kover said.

Kover, an Orban ally, said parliament "will never accept any political conditions for the recovery package."

Orban has reserved the right to veto the deal as a last resort.

The government did not legally require parliament's support but Orban wanted a show of unity over Hungary's stance.

The resolution also said EU proceedings against Hungary and Poland for flouting democratic rules "must be closed" before the EU budget and rescue plan are approved.

Bence Tordai, a member of the opposition Parbeszed party, said Fidesz's proposal amounted to "blackmailing other EU member states" to let Fidesz do whatever it wants in Hungary.

($1 = 0.8818 euros)
(Reporting by Anita Komuves, Writing by Marton Dunai, Editing by Timothy Heritage)
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Poland

Poland sees growth of 4.0% - 4.5% in 2021

16-Jul-2020

WARSAW, July 16 (Reuters) - **Poland will return to economic growth in 2021, around 4.0% - 4.5%, Finance Minister Tadeusz Koscinski said on Thursday.**

The Ministry is in no rush to amend the state budget strained by the economic slump caused by the coronavirus pandemic, as "public finances are healthy", Koscinski told a news conference.

Poland had 17 billion zloty ($4.32 billion) deficit in the first half of the year.

Earlier this week the central bank said the Polish economy may contract by 4.2% - 7.2% this year.

($1 = 3.9318 zlotys)
(Reporting by Anna Koper; Writing by Marcin Goclowski; Editing by Alison Williams)
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Romania

Romania's C/A deficit shrinks 15.6% y/y in Jan-May

14-Jul-2020

BUCHAREST, July 14 (Reuters) - **Romania's current account recorded a deficit of 2.88 billion euros ($3.27 billion) in January-May, 15.6% down on the year, against a 3.41 billion shortfall in the same period of 2019, the central bank said on Tuesday.**

Foreign direct investment posted a negative net value of 338 million euros against a positive net of 2.059 billion euros in January-May 2019.

Long-term external debt rose 5.4 percent from the end of last year to 77.6 billion euros.

($1 = 0.8949 euros)
(Reporting by Radu Marinas)
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Romania's end-May foreign debt rises

14-Jul-2020
BUCHAREST (Romania), July 14 (SeeNews) - **Romania's foreign debt increased to 110.896 billion euro ($125.5 billion) at the end of May 2020 from 105.873 billion euro at the end of 2019, the central bank, BNR, said on Tuesday.**
The end-May figure includes 77.63 billion euro in long-term foreign debt, up from 73.646 billion euro at the end of 2019, BNR said in a monthly balance of payments report.
Long-term external debt service ratio rose to 18.8% in May, compared to 18.6% at end-2019.
Goods and services import cover stood at 5.8 months at end-May, from 4.6 months at end-2019.
The ratio of the BNR's foreign exchange reserves to short-term external debt by remaining maturity increased to 79.3% at end-May, from 73.8% at end-2019.

($= 0.8836 euro)

Romania's central bank says ensures mkt leu liquidity

16-Jul-2020
BUCHAREST, July 16 (Reuters) - **A liquidity shortfall on the monetary market has stayed at "relatively important" levels, prompting the central bank to continue to inject liquidity via repo operations, central bank Governor Mugur Isarescu said on Thursday.**
Isarescu also said the monetary authority continued to buy state securities from the secondary market, adding that: "this approach aided fluent functioning of the monetary market and of the other segments of the financial market ... under relative stability of the leu/euro exchange rate."
He said in a statement the bank has bought 4.4 billion lei ($1.04 billion) worth of treasuries from the secondary market by July 15, while the daily average stock of bilateral repo transactions was roughly 3.7 billion lei during June 15-July 15.

($1 = 4.2345 lei)
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Russia

Russia Jan-June budget deficit at $13.5 bln

13-Jul-2020
MOSCOW, July 13 (Reuters) - **Russia ran a budget deficit of 955.9 billion roubles ($13.5 billion) in the first six months of the year, the finance ministry said on Monday, citing preliminary data.**
The ministry did not say what the deficit was as a percentage of Russia's gross domestic product (GDP).

($1 = 70.8200 roubles)
(Reporting by Darya Korsunskaya; Writing by Alexander Marrow
Editing by Katya Golubkova)

S&P affirms Russia's rating at 'BBB-/A-3', outlook stable

17-Jul-2020
July 17 (Reuters) - **S&P Global Ratings on Friday affirmed Russia's rating at 'BBB-/A-3', saying strong policy framework, including a flexible exchange rate as well as solid external and public balance sheets, should help the economy absorb oil price and coronavirus shocks.**
"Despite multiple shocks hitting the economy, we expect Russia's 2020 GDP performance to be less adverse than advanced peers", the ratings agency said in a statement.
The agency maintained Russia's outlook at stable.

(Reporting by Nilanjana Basu in Bengaluru; Editing by Arun Koyyur)
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Slovakia

Slovak lawmakers back record budget deficit to tackle virus fallout

14-Jul-2020
PRAGUE, July 14 (Reuters) - **Slovakia's parliament on Tuesday approved government plans to run a record 11.95 billion euro state budget deficit in 2020, a more than fourfold increase from a target set before the COVID-19 pandemic hit.**
The government last week added an extra 7.8 billion euros in spending to budget plans this year, with 4.9 billion euros directly tied to measures to battle the pandemic's impact, such as business relief.
Slovak lawmakers passed it on Tuesday in a fast-track procedure.

The deficit target is up from an originally expected gap of 2.77 billion euros. Previously, the largest gap in records going back to 2006 was a deficit of 4.5 billion euros in 2010, just after the global financial crisis.
Slovakia, a member of the euro zone, has kept cases of the new coronavirus low in the country of 5.5 million, with 1,908 cases recorded overall. Of those, 1,493 have recovered and 28 have died, one of the lowest tallies in Europe.
But the pandemic has hit the economy and the state forecasts an economic contraction of 9.8%, undoing years of growth.

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Slovenia

Fitch Affirms Slovenia at 'A' Outlook Stable

17-Jul-2020
July 17 (Reuters) -
- **Fitch affirms Slovenia at 'A'; outlook stable**
- Fitch says its believes Slovenia's financial sector is better positioned to weather covid-19 shock than during global financial crisis of 2008-09

(Reuters.Briefs@thomsonreuters.com)

Turkey

Turkish Treasury says issued $2.4 bln in bond, $161 mln in sukuk

14-Jul-2020
ISTANBUL, July 14 (Reuters) - **Turkey's Treasury said on Tuesday it had issued $2.36 billion in dollar-denominated government bonds and $160.9 million in dollar-denominated sukuk to corporate investors.**
The issues have a settlement date of July 17, 2020 and will mature on July 16, 2021, it said, adding that they will have a six-month rate of 1.25%.

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Turkey issues $2.52 bln of USD-denominated bonds, lease certificates

15-Jul-2020
ANKARA (Turkey), July 15 (SeeNews) - **Turkey's finance ministry said it issued one-year fixed-rate government bonds and one-year fixed-rent rate lease certificates denominated in U.S. dollars' worth a total of $2.52 billion (2.2 billion euro) on July 14.**
The ministry has issued $2.36 billion worth of fixed-rate government bonds and $160.89 million worth of fixed-rent rate lease certificates, it said in a statement on Tuesday.
Both issues will mature on July 16, 2021 and carry a coupon rate of 1.25%, paid semiannually, according to an earlier statement by the ministry.

($ = 0.8740 euro)

Ukraine

IMF leader tells Ukraine's president to keep central bank independent

14-Jul-2020
WASHINGTON, July 14 (Reuters) - **The International Monetary Fund on Tuesday appealed directly to Ukraine's president to maintain the independence of the country's central bank after its governor quit July 1, complaining of "systematic political pressure."**
The IMF's managing director, Kristalina Georgieva, issued a statement about what she called an "open discussion" with Ukrainian President Volodymyr Zelenskiy on "concerns about the pressures being put on the National Bank of Ukraine (NBU)."
Georgieva said she told Zelenskiy that Ukraine was required to preserve the central bank's independence under the terms of a $5 billion IMF program finalized weeks ago to help fight an economic slump caused by the coronavirus pandemic.
Zelenskiy, who had called for the central bank to cut interest rates, on Tuesday said he assured Georgieva that he would nominate a new central bank chief by the end of this week and said that person would be an independent technocrat.
National Bank of Ukraine Governor Yakiv Smoliy quit on July 1 shortly after Ukraine signed the IMF program, complaining that the president's office had tried to push him into cutting interest rates too quickly and letting the hryvnia devalue.
His exit rattled financial markets, forcing the government to abort a 12-year Eurobond placement worth $1.75 billion and raising concerns that the IMF and other lenders would freeze loans.
Georgieva's telephone call with Zelenskiy followed stern comments by the IMF's country representative last week.

"It is in the interest of Ukraine to preserve the independence of NBU and it is also a requirement under the current IMF-supported program," Georgieva said. "I urged President Zelenskiy to stay the course of sound monetary and financial policies – those are key to stronger investment and inclusive growth."

Georgieva said the central bank had been instrumental in stabilizing the Ukrainian economy and shoring up economic stability and investor confidence, and cleaning up a fraud-ravaged financial sector.

The central bank last month cut interest rates to 6%, the lowest rate since independence in 1991. Critics say it has brought rates down too slowly.

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LATIN AMERICA AND CARIBBEAN

Latin America's recession to drag on, Brazil urged to seek fiscal cure

15-Jul-2020
By Gabriel Burin

BUENOS AIRES, July 15 (Reuters) - **A historic recession in Latin America will likely drag on before Brazil, the region's No. 1 economy, starts fixing a dire budget shortfall that tops the list of threats along with the persistent coronavirus pandemic, a Reuters poll showed.**

Expectations of a moderate recovery next year reflect high caution about a potential return to fiscal discipline, a prerequisite for any improvement in business confidence, as the health crisis deepens long-standing economic problems.

The number of deaths from the coronavirus in Latin America has exceeded the figure for North America for the first time since the start of the pandemic, a Reuters count showed this week.

Brazil's gross domestic product is forecast to shrink 6.4% in 2020, almost the same as the last survey taken in May, according to the median estimate of 45 economists polled July 6-13. But views for Mexico and Argentina were revised sharply downward, obscuring the regional outlook.

"Should the pandemic take longer to be effectively controlled, the risk is that expenditures will continue to rise," said Roberto Secemski, Brazil economist at Barclays, in New York.

Promising the drift from austerity will be temporary, President Jair Bolsonaro's government now sees a record primary deficit of 11.5% of GDP this year. The sheer size of the imbalance is giving analysts pause.

"Although political tensions subsided in recent weeks, we are not convinced that the conditions to move forward with bold reforms to address mandatory spending are in place yet," said Secemski.

Prospects for Mexico have worsened significantly, with economic activity now expected to slump 9.0% compared with an estimated GDP loss of 5.1% in April. Latin America's No. 2 economy is besieged on many fronts, domestic and external.

To avoid further mistrust from investors already upset by some of his decisions, President Andrés Manuel López Obrador is resisting the kind of big fiscal stimulus that would send the budget down the same road as Brazil's.

The effort may not be enough. In a report, Oxford Economics analysts forecast Mexico's primary fiscal deficit would reach 0.8% of GDP in 2020, double the official projection, following a surprisingly steep revenue drop in May.

Moreover, the country's exposure to the world economy could bring additional challenges for the economy and policymakers. "Depressed global trade (conditions) and a battered auto sector could limit Mexico's recovery in the second half," the report, published on Friday, added.

Argentina is an example of what its neighbors are fretting about. The mix of the pandemic's impact with heavy state intervention has already resulted in a massive currency depreciation, unruly consumer prices and increasing poverty.

The government so far has been unable to reach a much hoped-for deal with debtors, mainly foreign funds, that would help stabilize an economy going through its third year of recession amid inflation rates of 40%-50%.

"A successful debt restructuring could reduce one source of uncertainty among economic agents and should allow authorities to focus on other pressing matters, including the designing of a macro plan," Morgan Stanley analysts wrote earlier this month.

Argentina's GDP is seen falling 10% this year, the worst contraction in the region, which nevertheless is an optimistic outlook for the country, assuming a smooth reopening and progress in talks with bondholders over the coming months.

Peru's activity is expected to suffer a similar drop of 9% in 2020. However, it is due to pick up much faster next year and make up for most of the loss, getting back on its recent track as one of Latin America's top-performing economies.

Chile and Colombia should also recover almost fully in 2021, provided they are capable of rekindling growth in a socially inclusive way, the lack of which in Chile led last year to disrupting protests beyond economists' risk considerations.

(Reporting and polling by Gabriel Burin
Editing by Ross Finley and Steve Orlofsky)
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Argentina

Argentina sends bill to Congress to restructure local-law dollar debt

17-Jul-2020
By Nicolás Misculin
BUENOS AIRES, July 17 (Reuters) - **Argentina's government sent a bill to Congress late on Thursday night laying out its plans to restructure public debt in dollars issued under local law, offering creditors new instruments in both foreign currency and pesos.**
The process to revamp the local-law debt is running in parallel to tense negotiations with international creditors to restructure $65 billion of the nation's foreign-law bonds, with a deadline for creditors to accept a "final" offer on Aug. 4.
The government, which is battling with a deep recession and already in default on bond payments, has previously said that holders of local-law dollar debt would receive equitable restructuring conditions.
"This proposal is in line with the offer to restructure the public securities of Argentina ... issued under foreign law, including options in pesos for certain eligible instruments," according to the bill's text seen by Reuters.
"If holders (of the debt) choose not to accept this exchange invitation, then interest service payments and principal repayments will continue to be deferred until December 31, 2021," the government added in the document.
The draft law, which would see the new bonds be issued on Sept. 4, must now be approved by Congress.
Argentine Economy Minister Martin Guzmán emphasized on Thursday that the government's proposal to holders of its foreign-law debt was the "maximum effort" the country could make and that the decision was now in the hands of creditors.
"We have a very strong commitment to reach an agreement. We seek to avoid confrontation with creditors and we have done the best that could be done," Guzmán said at a business event.

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Brazil

Brazil Economy Minister proposes lowering taxes amid coronavirus crisis

16-Jul-2020
BRASILIA, July 15 (Reuters) - **Brazilian Economy Minister Paulo Guedes said on Wednesday that his team is studying reducing taxes and encouraging informal workers to file tax returns by granting them up to a 20% bonus over their earnings, what he called a "negative tax."**
Brazil's economy is reeling from the coronavirus pandemic, which has sent many workers into unemployment. Guedes, an orthodox economist, has long proposed lowering taxes without offering specific details.
Under the proposal laid out by Guedes in a radio interview, the government would deposit the 20% bonus into a bank account that would be similar to a savings account.
He added that the government is also looking into cutting taxes, possibly by reducing the amount of tax payable on earnings up to the legal minimum wage.

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Ecuador

Ecuador will have to sweeten offer to reach $17.4 bln debt revamp, analysts say

13-Jul-2020
By Tom Arnold and Karin Strohecker
LONDON, July 13 (Reuters) - **Ecuador's government will likely have to sweeten its offer to creditors in order to reach an agreement to restructure $17.4 billion in bonds, say analysts.**
The government's proposal already has the backing of one group of creditors, holding around half of the bonds and including AllianceBernstein, Ashmore and BlackRock. Yet another group of bondholders have said the terms must be improved, though it declined to say what percentage of creditors it counted among its members.
The government most likely will need to negotiate the terms of the initial offer somewhat to entice the two-thirds aggregate majority of bondholders, or 75% in the case of the 2024 bonds, to accept the proposal, said Tiago Severo, vice president of Latin America economic research at Goldman Sachs.
That would trigger collective action clauses, designed to help push through an orderly debt restructuring by requiring only a majority of creditors to agree to change payment terms or restructuring.
"My sense is that the scope for adjustment is not large given the challenging fiscal and macro situation," Severo said in emailed comments. "Since average coupons of the proposed exchange instruments are already reasonable, improvements (if any) would most likely come through a slightly smaller principal haircut and/or a slightly more frontloaded payment schedule."
Under the current deal, ten existing bonds

maturing between 2022 and 2030 would be swapped for three bonds due in 2030, 2035, and 2040, with a nominal 9.2% haircut on the face value of the bonds, trimming $1.7bn off the principal due.
"Whether or not the current deal is eventually accepted, the key point is that we don't think that the deal currently on the table would be enough for Ecuador to achieve debt sustainability over the long-run," Quinn Markwith at Capital Economics wrote in a note.
The fallout from COVID-19 and the oil price shock saw debt-to-GDP rise to 64.6%, according to IMF data.
The government in April reached a deal with the bondholders to delay interest payments through August, as the oil plunge and coronavirus weighed on public finances.
Quito last week said it planned to formally launch consent solicitation over the debt revamp in the short term.
Reaching a deal with creditors by August was a realistic timeline, said a source familiar with the thinking of creditors.
"There is an urgency about dealing with the situation - the crisis on the ground is quite severe so removing the uncertainty is quite important," the source said.
"Also, there are elections coming up next year in Ecuador and if the government doesn't deal responsibly with the debt and reach an agreement with the IMF on the back of the restructuring with the private sector, that could create real political chaos in the country in the run up to the election."
The government did not respond to requests from Reuters for comment.

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Ecuador's bonds rally after new creditor proposal

14-Jul-2020 16:38:18
LONDON, July 14 (Reuters) - **Ecuador's government bonds rallied to a four-month high and as much as 3 cents on the dollar on Tuesday, after the country's creditors made a fresh proposal in its $17.4 billion debt renegotiations.**
A group of around 25 investors and an ad hoc group of holders of Ecuador notes due in 2024, holding between a quarter and a third of Ecuador's different tiers of bonds, put forward their plan after rejecting an earlier proposal that had been supported by the country's other main group of creditors.
Hopes that it would help progess towards a deal pushed Ecuador's 2029-maturing bond up 3 cents and most of its others between 1.3 and 2 cents.

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Ecuador bondholders make counter offer in $17.4 bln debt revamp

14-Jul-2020
By Tom Arnold and Karin Strohecker
LONDON, July 13 (Reuters) - **Two groups of Ecuador bondholders have proposed revised restructuring terms to the government as it seeks to strike a deal to renegotiate $17.4 billion in debt.**
The government's proposal already has the backing of one group of creditors, holding around half of the bonds and including AllianceBernstein, Ashmore and BlackRock.
Yet a steering committee including Amundi, Contrarian Capital Management, Grantham Mayo Van Otterloo & Co, and T Rowe Price Associates, representing a group of more than 25 institutional investors and an ad hoc group of holders of notes due in 2024, have said the terms must be improved. They have holdings of more than 25% in certain series of the bonds and more than 35% in others, the committee, advised by BroadSpan Capital and UBS, said in a statement on Monday.
The government needs to get approval from two-thirds of the aggregate majority of bondholders, or 75% in the case of the 2024 bonds, to push ahead with a deal.
That would trigger collective action clauses, designed to help push through an orderly debt restructuring by requiring only a majority of creditors to agree to change payment terms or restructuring.
Under the current deal, 10 existing bonds maturing between 2022 and 2030 would be swapped for three bonds due in 2030, 2035, and 2040, with a nominal 9.2% haircut on the face value of the bonds, trimming $1.7 billion off the principal due.
The steering committee for the group of more than 25 institutional investors and ad hoc group of holders of notes due in 2024 proposed a 10% principal haircut be applied to the outstanding principal of the new bonds. However, the new bonds exchanged for the existing 2024 bonds would not be subject to any principal haircut, it said in the statement.
The committee proposed an extension of maturities in existing bonds in the new bonds, with the earliest final maturity in 2030. Amortization would begin in 2026.
The government in April reached a deal with the bondholders to delay interest payments through August, as the oil plunge and coronavirus weighed on public finances.
Quito last week said it planned to formally launch consent solicitation over the debt revamp

in the short term.
"The SC (steering committee) remains engaged in good faith discussions with the Ecuadorean authorities and hopes to have an agreement in principle in the very near-term," the statement added.
Speaking earlier in the day, Tiago Severo, vice president of Latin America economic research at Goldman Sachs said the scope for adjustment in the government's offer was "not large given the challenging fiscal and macro situation."
Reaching a deal with creditors by August was a realistic timeline, said a source familiar with the thinking of creditors.
"There is an urgency about dealing with the situation - the crisis on the ground is quite severe so removing the uncertainty is quite important," the source said.
"Also, there are elections coming up next year in Ecuador and if the government doesn't deal responsibly with the debt and reach an agreement with the IMF on the back of the restructuring with the private sector, that could create real political chaos in the country in the run up to the election."
The finance ministry did not immediately respond to requests from Reuters for comment.

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El Salvador

Fitch Says El Salvador's Risks Remain Elevated from High Debt Burden

16-Jul-2020
July 16 (Reuters) - Fitch:
- **Fitch says El Salvador's risks remain elevated from high debt burden**
- Fitch says debt sustainability remains a key issue for El Salvador
- **Fitch says El Salvador's recent $1 billion bond issue helps to narrow sovereign's financing gap and reduces short-term liquidity risks**
- Fitch says El Salvador's financing challenges also remain significant and will continue to be significant in 2021

(Reuters.Briefs@thomsonreuters.com)

Suriname

Fitch Downgrades Suriname's LT-FC IDR to 'RD'

13-Jul-2020
July 13 (Reuters) -
- **Fitch says has downgraded Suriname's long-term foreign-currency issuer default rating (IDR) to 'RD' from 'C'**
- Fitch says downgrade of Suriname's LT-FC IDR & issue rating on Suriname's 2023 notes to 'D' follows agreement by commercial bondholders on July 9
- Fitch on Suriname says expects central bank to implement exchange-rate adjustment in near term
- Fitch on Suriname says views risk of broader restructuring of FC debt as high
- Fitch on Suriname says high FC debt restructuring risk reflect high government debt burden, acute shortage of fc & distressed financing conditions

(Reuters.Briefs@thomsonreuters.com)

S&P Says Republic Of Suriname FC Ratings Lowered to 'SD' Issue-Level Rating on December 2023 Bond Lowered To 'D'

13-Jul-2020
July 13 (Reuters) -
- **S&P says republic of Suriname fc ratings lowered to 'SD'; issue-level rating on December 2023 bond lowered to 'D'**
- S&P, on Suriname, says lowering long-term foreign currency sovereign credit rating to 'SD' from 'CCC+'
- S&P on Suriname says outlook on local currency credit ratings is negative
- S&P, on Suriname, says lowering issue-level rating on the December 2023 bond to 'D' from 'CCC+'
- **S&P says negative outlook reflects potential for us to lower local currency credit rating on Suriname in next 6 to 12 months**
- S&P - political uncertainty could constrain Suriname's ability to implement reforms necessary to put finances back on path to fiscal sustainability

(Reuters.Briefs@thomsonreuters.com)

AFRICA

Egypt

Egypt's sovereign loan to sign next week

15-Jul-2020
Egypt's one-year sovereign loan is expected to close next week at around US$2bn, bankers said.
The deal, which is in syndication via coordinators and bookrunners First Abu Dhabi Bank and

Emirates NBD, was launched last month at US$1.5bn and included an option to be increased up to US$2bn.
The loan pays a margin of 365bp over Libor, one of the bankers said.
"The deal pays well and appetite has been strong," he said.
Appetite for Egypt, rated B2/B/B+, has been helped by a one-year US$2.77bn emergency financing from the International Monetary Fund that was agreed in May.
In May, Egypt also raised a US$5bn bond that closed four times subscribed. Egypt sold US$1.25bn in four-year notes at 5.75%, US$1.75bn in 12-year bonds at 7.625% and US$2bn in 30-year notes at 8.875%.

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Kenya

S&P downgrades Kenya's outlook to 'negative' on coronavirus pressures

14-Jul-2020
July 14 (Reuters) - **S&P Global Ratings on Tuesday revised Kenya's outlook to 'negative' from 'stable', citing that the coronavirus pandemic will slow the country's GDP growth significantly in 2020 and weigh on its already weak public finances.**
"Although external financial support, including from the International Monetary Fund (IMF), will help fund Kenya's twin fiscal and external deficits in 2020, external debt will rise sharply in 2020 and remain high in 2020-2023," the ratings agency said in a statement.
S&P affirmed Kenya's ratings at 'B+/B'.

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Nigeria

Nigeria's 'Bond Lady' tackles public debt with strategy

17-Jul-2020
As director-general of the Debt Management Office (DMO) of the Nigerian Ministry of Finance, Patience Oniha oversees the country's public debt strategy. Her speciality is innovative bond issues in the financial markets, albeit at the behest of her political masters.
Cape Town - She is Nigeria's very own "Bond Lady"! Not that her fame and feats are in espionage and national security. As director-general of the Debt Management Office (DMO) of the Nigerian Ministry of Finance, Patience Oniha oversees the country's public debt strategy. Her speciality is innovative bond issues in the financial markets, albeit at the behest of her political masters. Following an impressive 22-year banking career and 12 years as a senior official at the ministry during which she achieved several notable firsts in the local and Eurobond market, Oniha can teach beleaguered South African Finance Minister Tito Mboweni a trick or two.
While governments have scurried to mitigate the health and economic impact of Covid-19 through emergency financing packages, including Nigeria and South Africa, Oniha has brought a much-needed creativity to sustainable public finances. She has innovated the use of Sukuk, an alternative investment "bond", whose returns are based not on conventional interest rates but on profit or rental (leasing) rates linked to real assets.
In June the DMO raised 150 billion naira (R6.4bn) through its latest Sukuk – its third since December 2017, which has hauled in a total N350bn – all ring-fenced to finance the construction or rehabilitation of 25 arterial roads in Nigeria.
The issuances, according to Oniha, delivered impressive real economy benefits, including "jobs, improved travel times between major commercial cities, linked borrowing and government expenditure to specific critical projects, helped increase the flow of cargo and passenger traffic across major cities, and improved infrastructure delivery across the country".
This is one of the most effective social and development impact debt financing measures in infrastructure. Implicit is its financial inclusion because a quarter of the subscription is earmarked for retail investors – the ordinary person in the street. Not surprisingly, the June issuance was oversubscribed 446%. It gives Nigerians a direct stake in funding their country's infrastructure while earning an investment return to boot. Where else in the world would you find a sign on a highway stressing: "This section funded by Sukuk". Or: "Thanks for your Sukuk Investment, journeys are now faster"? This is the reality on the Kaduna Eastern Bypass Road, the Kano-Maiduguri Highway or the Obajana-Okene Road.
The market, investor community and contractors linked to the projects have lobbied the government to continue issuing road Sukuk. The process is safe-guarded by an arms-length independent audit body to oversee drawdown of funds against work completed to pre-empt corruption and misuse of funds; ring-fencing funds specifically for work stated in the offer documents; contractors receiving payment promptly; and Sukuk investors getting paid on time. Sukuk, says Oniha, is an established part of Abuja's diverse public debt raising universe "subject to the government's funding need and portfolio management strategy". Domestic borrowing through Sukuk, an estimated $200bn

niche ethical ESG instrument, has seen a dramatic uptake during the Covid-19 outbreak in the Middle East and Southeast Asia. The Saudis have raised $12.42bn through sovereign Sukuk in FH 2020. The UK Treasury is issuing a second Sukuk to help mitigate the impact of a Hard Brexit, to attract FDI from the Middle East and Asia, and under its financial inclusion policy.
South Africa and Nigeria have a similar diversified debt financing approach including external borrowings and global and domestic bonds and Sukuk. Both, despite being major commodity producers, have a low revenue base relative to their GDP which is reflected in their high Debt Service to Revenue Ratio. While Abuja has shown urgency in Sukuk issuance, Pretoria has dithered.
South African state-owned enterprises (SOEs) have long toyed with the idea of issuing Sukuk, but the country's dire economic fundamentals, mismanagement of SOEs, structural issues relating to toll road and electricity pricing and the Treasury's reluctance to provide guarantees, put paid to Eskom, Sanral and TransNet going to the market. Yet Pretoria has failed to capitalise on its first mover advantage when in 2014 it became the first and only African sovereign to issue an international Sukuk – a benchmark $500m offering which matured last month. Are the winds of change sweeping the Treasury? In his Budget Review in April, Mboweni confirmed that "in 2020/21, the borrowing requirement will be R432.7bn. To ensure a diversified debt portfolio that spreads risk, the requirement will be met from short and long-term borrowing in the domestic market, and from foreign-currency loans." The Treasury, he added, is preparing to issue a debut rand- denominated Sukuk in 2020/21. "The intention," says Siyabonga Shange, director, debt issuance and management at the Treasury, "is to develop and help grow the rand Sukuk market while potentially diversifying the investor type. "The need to develop the domestic market at the moment was greater." Given the Covid-19 disruption, the timing and size of the Sukuk will depend on market conditions and pricing. "We feel the market is big enough to warrant attention and potential development."If the pricing and market conditions are right, the government might return to the market later with a second US dollar Sukuk. The Treasury can learn from its Nigerian counterpart. The pricing of Abuja's three Sukuk sharply declined from a rental rate of 16.47% in 2017 to 15.743% in 2018 to 11.2% a year in 2020. This despite the Covid-19 disruption and the sharp fall in oil prices and its impact on Nigeria's revenues and public finances. Regular issuances instil investor confidence and build up a Sukuk yield curve for other issuers including SOEs and corporates, which ultimately reduces the cost of finance. On June 24, Eskom issued a tender inviting "credible" law firms to bid "to provide legal services for a rand Sukuk issuance."

Parker is an economist and writer based in London

South Africa

South Africa's economy to shrink 6.9% in 2020

13-Jul-2020

JOHANNESBURG, July 13 (Reuters) - **South Africa's economy will contract by more than initially projected, likely shrinking 6.9% in 2020 compared to an earlier forecast of a 4.5% contraction, ratings agency S&P Global Ratings said on Monday in a report.**
South Africa has the highest number of confirmed coronavirus cases in Africa, with more than 270,000 infections, and 4,000 deaths, and is now recording the fourth-largest daily increase in new cases worldwide at more than 12,000 per day.
"The pandemic situation in the country has worsened since our previous macroeconomic update, leading to a further hit to confidence, which was already low before the pandemic, amid lack of growth and concerns about the fiscal trajectory," the firm said.
S&P along with the other two main ratings firms, Moody's and Fitch, already rate the country's debt at below investment status, or junk. S&P cut its rating one notch to the third tier of non-investment grade, BB-, in April, with a stable outlook.
S&P's growth forecast is however more optimistic than National Treasury's prediction of a 7.2% contraction this year. Treasury predicts debt to gross domestic product will breach 80% as government borrows more to fund its response to the pandemic.
To cushion the economic blow of the pandemic on the economy, President Cyril Ramaphosa announced a 500 billion rand ($28.86 billion) relief package in April, equivalent to 10% of South Africa's GDP.
"The sizeable fiscal package will only partially mitigate the economic toll, but coupled with lower revenues, will lead to a significant increase in government debt, further impairing public finances," the ratings agency said.

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South Africa's failure to lower debt could trigger downgrade

15-Jul-2020

JOHANNESBURG, July 15 (Reuters) - **A failure by South Africa to lower public debt risks triggering credit downgrades deeper into subinvestment, Fitch said on Wednesday.**
Debt in Africa's most industrialized economy is set to breach 80% of gross domestic product next year as the government borrows more to bring the coronavirus pandemic under control.
Fitch downgraded South Africa's credit rating deeper into "junk" territory in April, citing the lack of a clear path towards debt stabilisation and higher economic growth. The other top ratings firms, Moody's and S&P, also rate the country at sub-investment grades.
"A continued rise in government debt/GDP and failure to formulate a clear and credible path towards stabilising the government debt/GDP ratio could lead to a further downgrade in South Africa's 'BB' rating, which is on Negative Outlook," said Jan Friederich, Fitch's head of Africa sovereign ratings.
Finance Minister Tito Mboweni said in an emergency budget in June the Treasury would stick to its promise of some 230 billion rand ($13.5 billion) of spending cuts in the short term, a target set in February before the COVID-19 pandemic.
"Social and political factors, including exceptionally high inequality, powerful trade unions, and deep divisions within the governing African National Congress, present significant hurdles to fiscal consolidation," Friederich said in a research report.

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Tunisia

Tunisia seeks late debt payments as crisis hits economy, state budget

13-Jul-2020
TUNIS, July 13 (Reuters) - **Tunisia has asked four countries to delay debt repayments, it said on Monday as it announced more pessimistic economic and budget forecasts for 2020 because of the coronavirus pandemic.**
It is negotiating with Saudi Arabia, Qatar, France and Italy to push back the payments, Investment Minister Slim Azzabi told a news conference. Tunisia also hoped to arrange a new deal within four months with the International Monetary Fund.
The request on debt repayments underscores the dire condition of Tunisia's public finances, already a source of concern before the coronavirus crisis pummelled the global economy.
Azzabi said he expected the Tunisian economy to shrink by 6.5% this year because of the pandemic. Tunisia imposed a complete lockdown from March until May and has gradually reopened since, though some businesses remain closed.
The pandemic is particularly hammering the tourism sector, which contributes nearly 10% of gross domestic product (GDP) and is an important source of foreign currency.
Tourism revenue in the first six months of the year fell by half from the same period of 2019 as Tunisia closed its borders and travel for Western tourists grew more expensive and complex.
The government, which took office in February after months of political wrangling following last year's election, was already seeking to reduce the deficit and bring down public debt.
Finance Minister Nizar Yaich told the same news conference on Monday that he now expected the budget deficit to widen to about 7% of GDP from the 3% previously expected.

(Reporting by Tarek Amara
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GLOBAL

Global debt hits record high of 331% of GDP in Q1

16-Jul-2020
By Andrea Shalal
WASHINGTON, July 16 (Reuters) - **Global debt surged to a record $258 trillion in the first quarter of 2020 as economies around the world shut down to contain the coronavirus pandemic, and debt levels are continuing to rise, the Institute for International Finance said on Thursday in a report.**
The IIF, which represents global banks and financial institutions, said the first-quarter debt-to-GDP ratio jumped by over 10 percentage points, the largest quarterly surge on record, to reach a record 331%.
While the rise in debt levels was well below average quarterly gains seen from 2015 to 2019, the pace of global debt build-up by governments, companies, financial institutions and households had accelerated since March, it said.
Overall gross debt issuance hit an "eye-watering" record of $12.5 trillion in the second quarter, compared with a quarterly average of $5.5 trillion in 2019, the IIF said. It noted that 60% of those issues came from governments.
"While increasing debt levels raise concerns about debt sustainability, over 92% of government debt is investment-grade," the report said.
Debt in mature markets topped 392% of GDP, up from 380% in 2019, with the rise in debt ratios outside the financial sector most pronounced in Canada, France, Norway and the United States. U.S. debt made up half of

the total $185 trillion of debt in mature markets.
Debt-to-GDP ratios jumped to 230% in emerging markets in the first quarter from 220%, but the U.S. dollar value of debt fell by $700 million to $72.5 trillion, largely due to a depreciation in emerging market currencies against the U.S. dollar, the IIF said.
It said China's debt across all sectors was on track to hit 335% of GDP after increasing to 318% in the first quarter from 302%, the largest quarterly surge on record. About 60% of the debt build-up was due to non-financial corporates, it said.
The group said some $3.7 trillion of emerging market debt would come due through the end of 2020, and was set to rise to $4 trillion in 2021.

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EMERGING MARKETS

IIF unveils new legal tool to ease G20 debt relief process

11-Jul-2020
By Andrea Shalal
WASHINGTON, July 10 (Reuters) - **The Institute for International Finance on Friday released a legal tool aimed at helping some of the world's poorest countries take advantage of a suspension of debt payments offered by the Group of 20 major economies.**
The IIF, which groups more than 450 banks and other global financial institutions, said it developed the template waiver letter at the request of U.N. officials and others who are worried the pandemic could spark a major debt crisis.
The G20 countries and the Paris Club of official creditors in April agreed to freeze debt payments from the 73 poorest countries for the rest of 2020 to free up funds to contain the pandemic and mitigate its economic fallout.
Forty-one countries have expressed interest in the G20 Debt Service Suspension Initiative (DSSI), but the Paris Club has signed agreements with just under half of them so far, including Ivory Coast, Ethiopia and Pakistan.
Some countries have been reluctant to participate out of concern that doing so could trigger an automatic "event of default" on their private sector debts, even if the freeze only affects official bilateral debt payments.
Many private sector loans include terms that allow creditors to declare a default if circumstances - such as payments to official creditors - change. Private sector lenders have said they would be willing to waive those clauses on a case-by-case basis, but borrowers would need to request such a step.
The IIF letter will speed up that process by giving borrower countries a legal template they can adapt to ask commercial creditors to waive the possibility of a default, said IIF Managing Director Sonja Gibbs.
"It allows borrowers to ask their official bilateral creditors for this debt service suspension without triggering an event of default," she said.

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G7 ministers urge full implementation of G20 debt freeze

14-Jul-2020
By Andrea Shalal
WASHINGTON, July 13 (Reuters) - **Group of Seven finance ministers on Monday called for full implementation of a G20 freeze in debt service payments by all official bilateral creditors, amid growing pressure on China's state-owned banks and enterprises to join the relief effort.**
In a teleconference early Monday, the G7 ministers underscored the need for greater transparency about lending, a U.S. Treasury spokesperson said, an apparent reference to confidentiality clauses included in many Chinese loans to developing countries in Africa and elsewhere.
The ministers discussed domestic and international economic responses to the coronavirus pandemic and strategies to reverse a deeper-than-projected downturn in the global economy, ahead of a virtual meeting of finance officials from the Group of 20 advanced economies on Saturday.
G20 members, including China, and the Paris Club of official creditors in April offered a freeze on debt service payments to the 73 poorest countries through year-end to free up an estimated $12 billion in funds for fighting the outbreak. But implementation of the Debt Service Suspension Initiative (DSSI) has proven challenging, and the unexpectedly deep downturn in the global economy has prompted calls for extension and expansion of the moratorium.
China's refusal to include its state-supported China Development Bank and state-owned enterprises in the debt payment suspension and concerns over confidentiality agreements included in many Chinese loans to countries in Africa have slowed progress in executing the debt freeze, economists say.
Private-sector participation has also been sluggish.
A senior U.S. official said the G7 ministers discussed the need for China to participate fully and transparently in the global initiative.
"It's key, both to realizing the full potential of the DSSI and from a transparency perspective," the official said.
So far, 41 countries have applied for relief under

the DSSI and the Paris Club has signed agreements with 20 countries ranging from Ivory Coast to Ethiopia and Pakistan.

World Bank President David Malpass said transparency was vital to ease work on debt restructurings and aid in reconciling debtor-creditor data.

"It's important that the G20 broaden the scope of the debt suspension initiative, extend it, and that commercial creditors join," he said in a statement to Reuters Monday.

Malpass last week backed an extension of the debt payment freeze through 2021 and the need for increased transparency about lending and said all official bilateral creditors, including policy banks such as China's Development Bank, and state-owned enterprises with implicit government guarantees should take part.

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Extension of G20 debt freeze for poorest countries 'highly probable'

17-Jul-2020

By Andrea Shalal

WASHINGTON, July 17 (Reuters) - **The Group of 20 major economies is likely to extend a freeze in debt service payments on official bilateral debt for the world's poorest countries beyond the end of 2020, the World Bank's new chief economist said on Friday.**

Carmen Reinhart, a former Bear Stearns executive who started her new job on June 15, said the health and economic crisis triggered by the novel coronavirus was more severe and taking longer to overcome than initially expected.

She said it was "highly probable" that G20 finance officials would agree to extend the offer to freeze debt service payments, which is due to expire at the end of 2020, but she was not certain if that would happen when they meet online on Saturday.

"It is widely recognized that this pandemic is taking much longer to play out," Reinhart said. "There's a clear view that more than six months will be needed so my own expectation is that an extension to a longer timeframe is highly probable."

The initiative would save $12 billion in service payments on official bilateral debt through the end of the year.

Top international officials, industry leaders and civil society groups have called for extending the debt freeze - which is intended to let the poorest nations focus on fighting the pandemic, not servicing their debts - and widening it to include other countries hit by the crisis. **Reinhart said G20 officials would also discuss the lack of private sector participation in the debt relief initiative, and "heavier moral suasion" was needed to make progress, but said she did not expect any moves to mandate their participation.**

"You really can't just allow the better angels of our nature to guide this," she said. "But ... taking measures to involuntary participation? I don't think we're there yet."

She said there was also ongoing dialogue about the failure of China, a G20 member and the world's largest official creditor, to include lending by the state-owned China Development Bank in the initiative.

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