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ASIA

ADB Sells Dual-Tranche $2.25 Billion 3-Year and $2 Billion 10-Year Global Benchmark Bonds
17-Jan-2020
The Asian Development Bank (ADB) returned to the US dollar bond market on 15 January with the pricing of a 3-year global benchmark bond worth $2.25 billion and a 10-year global benchmark bond worth $2.0 billion, proceeds of which will be part of ADB’s ordinary capital resources.
‘The dollar market has seen a very active start to the new year,’ said ADB Treasurer Mr. Pierre Van Peteghem. ‘ADB is very pleased to make its first outing a strong one. The dual 3-year and 10-year tranche approach allowed ADB to respond to investor demand on both ends of the maturity spectrum as reflected in the final order book being over $6.5 billion. It is also

Fitch Assigns Ecuador’s Partially Guaranteed Social Bond ‘B (EXP) Expected Rating

Fitch Downgrades Suriname’s Ratings to ‘CCC’
noteworthy that this 10-year transaction opened the market for supranationals in that tenor and equaled ADB's largest 10-year transaction to date.'

The 3-year bond, with a coupon rate of 1.625% per annum payable semi-annually and a maturity date of 24 January 2023, was priced at 99.953% to yield 7.7 basis points over the 1.5% US Treasury notes due January 2023. The 10-year bond, with a coupon rate of 1.875% per annum payable semi-annually and a maturity date of 24 January 2030, was priced at 99.610% to yield?13.25 basis points over the 1.75% US Treasury notes due November 2029. The transaction was lead-managed by Barclays, J.P. Morgan, Nomura, and RBC Capital Markets. A syndicate group was also formed consisting of ANZ, Commerzbank, ING, Credit Agricole, and NatWest Markets.

Both issues achieved wide primary market distribution with 37% of the 3-year bonds placed in Asia, 37% in the Americas, and 26% in Europe, Middle East, and Africa. By investor type, 51% of the bonds went to central banks and official institutions, 35% to banks, and 14% to fund managers and other types of investors.

For the 10-year bonds, 55% were placed in Europe, Middle East, and Africa; 31% in Asia; and 14% in the Americas. By investor type, 36% of the bonds went to central banks and official institutions, 44% to banks, 20% to fund managers, and other types of investors.

ADB plans to raise around $25 billion from the capital markets in 2020.

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members-49 from the region.

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Azerbaijan

Fitch Affirms Azerbaijan at 'BB+'; Outlook Stable
17-Jan-2020
Fitch Ratings-London-January 17:
Fitch Ratings has affirmed Azerbaijan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+' with a Stable Outlook.
Azerbaijan; Long Term Issuer Default Rating; Affirmed; BB+; RO: Sta;
Short Term Issuer Default Rating; Affirmed; B;
Local Currency Long Term Issuer Default Rating; Affirmed; BB+; RO: Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; B;
Country Ceiling; Affirmed; BB+

Senior unsecured; Long Term Rating; Affirmed; BB+

KEY RATING DRIVERS

Azerbaijan's 'BB+' IDRs reflect its strong external balance sheet and low government debt, set against weaknesses from its heavy hydrocarbon dependence, an underdeveloped, albeit improving policy framework, weak governance indicators and continued banking sector vulnerabilities.

The consolidated fiscal surplus is estimated to have increased to 6.0% of GDP for 2019 (including the State Oil Fund of Azerbaijan, SOFAZ), compared with the current ‘BB’ median of -2.8%. The strong performance is supported by the resilient oil price averaging USD65/b in 2019 and increased gas production. New gas production and exports to Europe and Turkey coming on-stream in 2020 from the Shah Deniz 2 gas field will continue to support sizeable hydrocarbon revenues in the coming years and offset slowing oil production growth.

Lower oil prices (2020: USD62.5/b 2021: USD60.0/b) and higher social spending should drive a narrowing of the fiscal surplus to 4.4% of GDP in 2020 and 4.2% by 2021. 2020 expenditure priorities include the roll-out of a mandatory health insurance programme (1.1% of GDP), and will see carry-over effects from the 2019 public wage rise measures on the public sector wage bill and social security contributions. The 2020 budget complies with the revised fiscal rule adopted in 2018, which was relaxed in November 2019 by restricting consolidated expenditure growth to 3% in real, instead of nominal, terms. The fiscal rule also constrains oil revenue spending, and necessitates a decline in the non-oil primary deficit. The recent improvements to the policy framework, stemming from the adoption of the fiscal rule and medium-term debt management strategy, could benefit the credibility of the fiscal framework but the track record of compliance is still limited.

Azerbaijan's fiscal and external buffers are stand-out strengths relative to the 'BB' and 'BBB' medians. Gross general government debt at 18.9% of GDP in 2019, is less than half the current 'BB' median of 46.5%. Government on-lending and guarantees of 31% of GDP at end-3Q19 accruing to (International Bank of Azerbaijan's (IBA) (B-/Positive) restructuring and to gas investment projects are a significant contingent liability. Fitch forecasts debt/GDP to decline only slightly to 17.7% of GDP by 2021 despite significantly larger fiscal surpluses, as government assets with SOFAZ are forecast to grow to 95.6% of GDP (end-September 2019: 90.3%). SOFAZ assets are predominantly invested abroad and translate into a sovereign net foreign asset position of 86.2% of GDP in 2019 ('BB' median: 0.4%). Current account surpluses estimated at 9.9% of GDP in 2018-2021, driven by hydrocarbon exports, support further accumulation of SOFAZ assets. Vulnerability to oil-price shocks is high, with commodity exports at 67% of current account
receipts. The stability of the exchange rate at 1.7AZN/USD since April 2017 despite oil price volatility raises questions about whether the authorities would allow the currency to act as a shock absorber if there was a new oil price shock.

**Real GDP growth continues to recover from the oil shock and devaluation crises since 2014.** Fitch estimates that real GDP growth reached 2.4% in 2019 from 1.4% in 2018, driven by 3.5% non-oil growth and just 0.8% for the oil and gas industry. We forecast growth to stabilise at 2.2% in 2020-21, driven by new gas production coming on-stream, and supported by the government packages announced in 1H19. Inflation averaged 2.6% in 2019, remaining closer to the lower bound of the 4 plus or minus 2% target band, helped by the stable exchange rate and lower imported food prices. Fitch forecasts inflation to rise to average 3.3% in 2020 due to stronger demand pressures from government measures and policy rate cuts (225bps between February and December 2019).

Azerbaijani banks are recovering from legacy asset quality problems since the 2015 devaluations, but remain very weak, as reflected by its poor 'Fitch Banking System Indicator (BSI) score of 'b'. Capitalisation had increased to 23.0% at end-October 2019 (end-2018: 19.4%), while non-performing loans fell considerably to 11.0% at end-October 2019 (end-2018: 14.5%), helped by write-offs, the government’s NPL resolution programme payments to banks and households, and also as new loans recovered since 4Q18 to grow by 20.3%yoy in November 2019. Moral hazard distortions from the NPL resolution programme and the acceleration in credit growth could lead to further asset quality issues in the future if left unchecked.

The largest bank, state-owned IBA, faced a debt restructuring in 2017, but is now profitable again with sound capitalisation liquidity and low-risk assets. However, it continues to hold a large, albeit decreasing, open FX position of USD0.8 billion at end-October 2019 (2017: USD1.9 billion), which should continue decreasing gradually in 2020 towards the USD150 million threshold to be compliant with regulatory requirements.

In an unexpected presidential decree in November 2019, the Financial Market Supervisory Authority’s (FMSA) functions were transferred back to the Central Bank of Azerbaijan (CBA), since FMSA’s recent formation in March 2016. It is still unclear how the CBA intends to reform the financial market supervisory framework since assuming its new mandate. The reform demonstrates the ongoing lack of predictability and transparency of policy-making, despite broader reform improvements since the 2014 oil shock.

Azerbaijan significantly underperforms the 'BB' median across all six components of the World Bank governance indicators, and trails on GDP per capita (at market exchange rate). It has achieved significant improvement in the World Bank Ease of Doing Business indicators to rank in the 87th percentile of Fitch-rated sovereigns in 2019, from the 70th percentile in 2018, but the ability to attract significant FDI in the non-oil sector to diversify the economy remains uncertain.

A long-standing conflict with Armenia over Nagorno-Karabakh has the potential to escalate, although several recent meetings between officials from both countries signal a possibility for easing of tensions. Fitch does not expect any major changes to macroeconomic policy making from the upcoming snap parliamentary elections in February.

**SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)**

Fitch's proprietary SRM assigns Azerbaijan a score equivalent to a rating of 'BB' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to rated peers, as follows:

- **External Finances:** +1 notch, to reflect large SOFAZ assets, which underpin Azerbaijan's exceptionally strong foreign currency liquidity position and the very large net external creditor position of the country.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch’s QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

**RATING SENSITIVITIES**

The main factors that could, individually or collectively, trigger positive rating action are:

- Improvement in the macroeconomic policy framework, strengthening the country’s ability to address external shocks and reducing macro volatility.
- A significant improvement in public and external balance sheets.
- Reduction in dependence on the hydrocarbon sector, for example due to stronger non-oil GDP growth underpinned by improvements in governance and the business environment.

The main factors that could, individually or collectively, trigger negative rating action are:

- An oil price or other external shock that would have a significant adverse effect on the economy, public finances or the external position.
- Developments in the economic policy framework that undermine macroeconomic stability.
- Weakening growth performance and prospects.

**KEY ASSUMPTIONS**
Fitch forecasts Brent Crude to average USD62.5/b in 2020 and USD60.0/b in 2021. Fitch assumes that Azerbaijan will continue to experience broad social and political stability and that there will be no prolonged escalation in the conflict with Armenia over Nagorno-Karabakh to a degree that would affect economic and financial stability.

**ESG CONSIDERATIONS**
Azerbaijan has an ESG Relevance Score of 5 for 'Political Stability and Rights’ as World Bank governance indicators have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight. Azerbaijan has an ESG Relevance Score of 5 for 'Rule of Law, Institutional Regulatory Quality, Control of Corruption’ as World Bank governance indicators have the highest weight in Fitch’s SRM and are highly relevant to the rating and a key rating driver with a high weight. Azerbaijan has an ESG Relevance Score of 4 for 'Human Rights and Political Freedoms' as social stability and voice and accountability are reflected in the World Bank Governance Indicators that have the highest weight in the SRM. They are relevant to the rating and a rating driver. Azerbaijan has an ESG Relevance Score of 4 for 'Creditors Rights’ as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns.

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**China**

**Overseas investors increase holdings of Chinese bonds**

13-Jan-2020

BEIJING - Overseas investors have been increasing holdings of Chinese bonds as the country opens up its financial sector, official data showed.

Overseas institutional investors bought bonds worth 3.2 trillion yuan (US$461.4 billion) in 2019 while sold bonds worth 2.1 trillion yuan, resulting in a net increase of 1.1 trillion yuan in holdings, according to the China Foreign Exchange Trade System. As China opens its financial sector, its bond market has become an important part of global asset allocation, said Li Yang, chairman of the National Institution for Finance and Development.

Chinese bonds are relatively undervalued in the global bond market and overseas institutions would continue to add positions at the proper time, a report by investment bank CICC said.

**China set to post weakest growth in 29 years as trade war bites, investment sputters**

17-Jan-2020 00:00:00

- China GDP seen growing 6.0% y/y in Q4, unchanged from Q3
- But 2019 growth seen slowing to 6.1% - weakest pace since 1990
- Partial Sino-US trade deal a relief but may offer only modest boost
- More stimulus expected in 2020 - a crucial year for leaders
- Q4 GDP, Dec activity data due Jan 17 at 0200 GMT

By Kevin Yao

BEIJING, Jan 17 (Reuters) - China is expected to report on Friday that economic growth slowed to its weakest in nearly three decades in 2019 amid a bruising trade war with the United States, and more stimulus steps are expected this year to help avert sharper slowdown.

While recent data have pointed to some signs of improvement in the ailing manufacturing sector, and a newly-signed Sino-U.S. trade deal has helped lift business confidence, analysts are not sure if the gains can be sustained.

Analysts poll by Reuters expect the economy to have grown 6.0 percent in the October-December quarter from a year earlier, unchanged from the previous quarter's pace, which was the slowest since the first quarter of 1992, the earliest quarterly data on record.

For the whole of 2019, growth is expected to slow from 6.6% in 2018 to 6.1% -- the weakest since 1990 -- and cool further to 5.9% in 2020, a separate Reuters poll showed, reinforcing views that Beijing will roll out more stimulus measures.

Policy sources have told Reuters that Beijing plans to set a lower economic growth target of around 6% this year from last year's 6-6.5%, relying on increased infrastructure spending to ward off a sharper slowdown.

China will release its fourth-quarter and 2019 gross domestic product (GDP) data on Friday (0200 GMT), along with December factory output, retail sales and fixed-asset investment. Data on Tuesday showed China's exports rose for the first time in five months in December and by more than expected, with imports also beating estimates, signaling a modest recovery in demand as Beijing and Washington agreed to de-escalate their prolonged trade war.

Underlining the pinch caused by the trade war, growth of China's exports slowed to just 0.5% last year from a near 10% gain in 2018, reflecting falling U.S. sales.

The United States and China signed a partial trade deal on Wednesday that will roll back
some tariffs and boost Chinese purchases of U.S. products. But most of the tit-for-tat levies imposed by the two sides over the past 18 months remain in place and a number of thorny issues are unresolved, raising the risk of a renewed flare-up in tensions.

**CHALLENGES AHEAD**

This year is crucial for the ruling Communist Party to fulfill its goal of doubling GDP and incomes in the decade to 2020, and turning China into a “moderately prosperous” nation. Ning Jizhe, head of the National Bureau of Statistics, has said that gross domestic product is expected to approach 100 trillion yuan ($14.52 trillion) in 2019, with per capita GDP surpassing $10,000 for the first time.

Growth of about 6% this year could be enough to meet the long-term goal, but policy insiders say Chinese leaders will have to ensure annual expansion of 5%-6% in the next several years to overcome the so-called "middle income trap", where incomes rise to a certain level then stagnate.

Beijing has been relying on a mix of fiscal and monetary steps to weather the current downturn, cutting taxes and allowing local governments to sell huge amounts of bonds to fund infrastructure projects.

Banks also have been encouraged to lend more, especially to small firms, with new yuan loans hitting a record 16.81 trillion yuan ($2.44 trillion) in 2019. But the economy has been slow to respond, and investment growth has been stuck at record lows.

The central bank has banks’ reserve requirement ratios (RRR) - the amount of cash that banks must hold as reserves - eight times since early 2018, most recently this month, alongside modest cuts in its key lending rate.

Analysts polled by Reuters expect further cuts in RRR and key interest rates this year. But Chinese policymakers have repeatedly said they will avoid unleashing the kind of massive stimulus used in past downturns, which quickly juiced growth rates but left a mountain of debt.

($1 = 6.8875 Chinese yuan renminbi)
($1 = 6.8794 Chinese yuan renminbi)
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**India**

**India Bonds Fall For 2nd Wk as Inflation Spikes, Fiscal Woes Stay**

17-Jan-2020

By Dham Dhutia

NewsRise

MUMBAI (Jan 17) -- Indian government bonds ended lower for the second consecutive week as a spike in inflation has heightened speculation about a prolonged pause on rates, while fiscal worries remain a dampener.

The benchmark 6.45% bond maturing in 2029 ended at 98.74 rupees, yielding 6.63%, in Mumbai, versus 98.91 rupees and a 6.60% yield yesterday. The benchmark yield rose four basis points this week, after gaining seven basis points last week. The Indian rupee ended at 71.08 to the dollar, down 0.2% for the week.

“The sharp spike in retail inflation has temporarily suspended rate cut bets which, along with the persistent fiscal worries, kept prices under some pressure,” said Debendra Kumar Dash, assistant vice president - treasury at AU Small Finance Bank. “However, the RBI’s special OMO announcement was a positive surprise, and that should cap any major rise in yields, assuming next year’s gross borrowing is around 7.80 trillion rupees.”

India’s December retail inflation quickened to 7.35% - a more-than-five-year high - and breached the central bank’s upper tolerance level for the first time since July 2016. The RBI aims to maintain inflation in the 2%-6% band.

The head of the country’s special panel on economic statistics, Pronab Sen, said the surge in India’s inflation indices propped by soaring food prices risks crimping consumption further in an already slowing economy, triggering stagflation worries.

“Certain sectors are going into deflationary territory, and some others are showing inflation, particularly on the food side. These are worrying trends,” he told NewsRise.

Barclays and ING do not expect any more rate cuts in the current cycle, while Capital Economics expects rate hikes to start by the end of 2020.

Sentiment was also impacted as India will conduct a government bond switch auction worth up to 250 billion rupees on Jan. 20. Under the switch, the government will buy bonds maturing in 2020 and issue the 6.19% 2024 note worth 50 billion rupees and the benchmark note worth 200 billion rupees.

Bonds have so far priced in a slippage of up to 50 basis points and additional borrowing of around 500 billion rupees in this financial year. New Delhi targets fiscal deficit at 3.3% of gross domestic product for this financial year and 3% for the next.

Citi expects the government to gross borrow 7.80 trillion rupees in the next financial year, along with additional borrowing of around 300 billion rupees to 350 billion rupees this year. State Bank of India pegs the gross borrowing at 7.85 trillion rupees in the next financial year, with the fiscal deficit at 3.8%.

**Investors expect the government to announce measures to rev up the economy in the federal budget on Feb. 1.**

The RBI will conduct the fourth tranche of its special open market operations worth up to 100 billion rupees on Jan. 23, wherein it will simultaneously buy the benchmark bond and the 7.32% 2024 bond and sell papers maturing in 2021-22.

The RBI has conducted three special OMOs so
far, in which it bought bonds worth 300 billion rupees, including 211 billion rupees of the benchmark note and sold 253 billion rupees of less-than-one year papers.
The central bank has been intervening in the debt market since last month, to cool down long term interest rates and bring down term premia, as the bond market is bracing for additional borrowing by the federal government in this fiscal year.
The benchmark Brent crude contract was trading at $65.10 per barrel, up 0.2% this week after falling 5.3% last week. India imports over 80% of its crude oil requirements.

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India/China

Why a $453 billion bond manager is shifting bets from India to China
15-Jan-2020
India, Jan. 15 -- Western Asset Management Co. is reducing its Indian government bond holdings as tensions around a new citizenship law and the Kashmir region cloud the economic outlook.
The $453 billion investor, an affiliate of Legg Mason Inc., is diverting some of its funds into longer-dated Malaysian and Chinese debt, according to Desmond Soon, head of investment management for Asia ex-Japan. It has an overweight position in India bonds.
The initial market euphoria from Prime Minister Narendra Modi’s re-election last year is wearing thin as economic growth stutters and a policy making it harder for Muslim migrants to get citizenship stirs protests.
Foreign holdings of Indian sovereign debt have dropped to near a three-month low.
"It certainly distracts Prime Minister Modi’s government from making the necessary economic policy and reform to focus on the economy," Soon, a 30-year investment veteran, said in Singapore. "We are in the process of reducing India somewhat."
Angry protests have erupted in many Indian states, forcing the government to send in hundreds of soldiers to aid local police. Modi ended seven decades of autonomy for Jammu and Kashmir in 2019.
The changes were part of the election promises made by the BJP.
Despite five interest-rate cuts last year to shore up growth, yields on 10-year India bonds remain some of the highest in Asia at 6.64%.
A recent rally in the market, spurred by bond purchases from the Reserve Bank of India, has stalled as inflation surges to a five-year high. Stagflation looms as the economy grinds toward its slowest expansion in more than a decade.
The central bank will probably refrain from cutting interest rates in the coming months, and that along with the deteriorating macro environment, is probably why global funds are turning away from Indian bonds, said Ek Pon Tay, a portfolio manager for emerging-market fixed-income at BNP Paribas Asset Management.
"An expected increase in the fiscal deficit and economic growth not yet rebounding from below-trend levels mean bond yields will be under further upward pressure," Tay said.

Indonesia

Indonesia raises 7 trillion rupiah from Islamic bonds
14-Jan-2020
JAKARTA, Jan 14 (Reuters) -
• Indonesia raised 7 trillion rupiah ($512.26 million) in a biweekly Islamic bond auction on Tuesday, in line with an indicative target, according to the financing and risk management office at the Finance Ministry.
• Total incoming bids for Tuesday’s auction were 59.14 trillion rupiah.
• Indonesia aims to raise 165.5 trillion rupiah of bonds as its first-quarter target between January and March this year through its regular weekly auction according to the government website.

($1 = 13,665 rupiah)
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Indonesia’s External Debt Growth Slowed
15-Jan-2020

PDM Network Weekly Newsletter on Emerging Markets
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Indonesia’s external debt experienced slower growth at the end of November 2019. The external debt at the end of November 2019 was recorded at USD401.4 billion, consisted of public debt (government and central bank) of USD201.4 billion, as well as private debt (including state-owned enterprises) of USD200.1 billion. Indonesia’s external debt decelerated to 8.3% (yoy) from 12.0% (yoy) in the previous period. Such conditions stemmed from government and private external debt, for which the growth moderated.

Government external debt growth slowed from the previous period. Government external debt in November 2019 was recorded at USD198.6 billion, grew lower at 10.1% (yoy) compared with 13.6% (yoy) in the last period. The level went down from the last period, mainly due to the repayment of maturing bilateral and multilateral loans. The management of government external debt is prioritized to finance economy, whereas the biggest portion is directed towards productive sectors that could promoting economic growth and improving public welfare, among others, human health & social work activities sector (19.0% of government external debt), construction sector (16.5%), education sector (16.1%), public administration, defense & compulsory social security sector (15.4%), and financial & insurance sector (13.4%).

Private external debt growth decelerated from the previous month. At the end of November 2019, private external debt growth was recorded at 6.9% (yoy), slowed down from 10.7% (yoy) in the previous period. Such conditions influenced by repayment on maturing domestic debt securities, despite increasing debt from securities issued by nonfinancial corporations and loan disbursement by banks. By sector, the debt was dominated by the financial & insurance sector, electricity, gas, & water supply sector, manufacturing sector, and mining & drilling sector with share amounted to 76.9% to total private external debt.

Indonesia’s external debt maintained a healthy structure supported by the prudential principle application in its management. The condition was among others, reflected in the indicator of Indonesia’s external debt to Gross Domestic Product (GDP) ratio, which was relatively stable at 35.9% in November 2019. In addition, the debt structure remained dominated by long-term debt, accounted for 88.5% of the total external debt. Bank Indonesia, in close coordination with the Government, continues to monitor external debt by promoting the prudential principle application in its management to maintain a solid external debt structure. Furthermore, external debt’s role will also be optimized in supporting development financing without incurring the risks which may affect macroeconomic stability.

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Israel

Israel’s deficit to reach 4% without tax hikes, spending cuts
12-Jan-2020
By Steven Scheer

JERUSALEM, Jan 12 (Reuters) - Israel’s budget deficit is projected to be at least 4% of gross domestic product in the next few years if the government does not make tax and spending adjustments of tens of billions of shekels, the Finance Ministry said in a report on Sunday.
A year-long political stalemate has made it difficult to take proper fiscal steps since the caretaker governments are limited in power. A third election in less than a year in March would mean a 2020 state budget would not be approved until at least the middle of the year.

In the meantime, a pro-rated version of the 2019 budget is being used.

Israel posted a budget deficit of 3.7% of GDP in 2019, above an initial target of 2.9%.

Finance Minister Moshe Kahlon has come under fire from economists who say that he and Prime Minister Benjamin Netanyahu increased spending on state subsidies for day care and other services, and gave pay rises to police and other public servants, while cutting taxes at the same time.

Kahlon has placed the blame for the gap on his ministry’s economists, saying they overestimated government income.

Analysts expect a similar deficit in 2020.

The Finance Ministry said that in 2021 the deficit would reach 4.2% of GDP unless it makes 30 billion shekels ($8.7 billion) of tax hikes and/or spending reductions. The target is 2.25% of GDP and the next government will likely raise it.

To meet a 2% of GDP target in 2022, 33 billion shekels of adjustments are necessary, the ministry said.

For 2020, the ministry expects tax income of 330.2 billion shekels, 1 billion less than in its prior estimate in June but above 2019 revenue of 317.4 billion shekels.

The ministry also trimmed its 2020 economic growth estimate to 3% from 3.2% in its prior forecast, with the decline mainly due to expectations of weaker growth in investment and private spending.

Last week, the Bank of Israel said growth this year would be 2.9% -- with 0.3% of the growth coming from natural gas production at the new Leviathan field.

The ministry projects stable growth of 2.9% to 3% between 2021 and 2023.

($1 = 3.4656 shekels)

(Reporting by Steven Scheer; Editing by Elaine Hardcastle)

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Lebanon

The various ways Lebanon could default

15-Jan-2020

LONDON, Jan 15 (Reuters) - Lebanon's caretaker finance minister has asked the central bank governor to hold off on a proposed swap of 2020 Eurobonds after ratings agencies warned it could constitute a selective default, a source familiar with the matter said on Wednesday.

One of the most heavily indebted countries in the world, Lebanon has $2.5 billion in Eurobonds due this year including a $1.2 billion bond set to mature in March.

But its dire finances and political crisis mean it is running out of options to avoid a default. There are a number of ways this could happen. These are the main ones:

EXTENDING PAYMENT DEADLINES ON BONDS

Lebanon had proposed asking local banks and other investors that hold a set of government bonds due for repayment this year to switch them for longer-dated ones to give it more breathing space.

As that would change the fundamental contract of the bonds, rating agencies appear to have warned the country it would constitute what is known as a "selective" or "restricted" default.

A selective or restricted default is different to a broader default in that it reflects the fact that some bonds or obligations might still be being paid.

Credit Default Swaps

While a rating agency default tag carries symbolic weight, it does not necessarily trigger Credit Default Swaps that investors or traders may have bought as insurance for the holdings.

That instead depends on a committee, usually made up of banks, investors and other specialists in the CDS market. These committees tend to sit under the umbrella of the New York-headquartered International Swaps and Derivatives Association.

A CYPRUS-STYLE HIT TO BANK DEPOSITS

One of the possibilities to help Lebanon's finances is to take a slice of the deposits individuals and firms hold at Lebanese banks.

The controversial measure was used in Cyprus at the height of the euro zone debt crisis. James McCormack, head of Fitch's sovereign rating team, said that move didn't actually trigger a default as the definition of a default is more narrowly focused on the non-payment of debt.

(Reporting by Marc Jones; Editing by Hugh Lawson)

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Kuwait

Kuwait deficit to widen with 2020-2021 budget on lower revenues

14-Jan-2020

By Ahmed Hagagy and Alexander Cornwell

KUWAIT, Jan 14 (Reuters) - Kuwait expects a budget deficit of 9.2 billion dinars ($30.33 billion) in the fiscal year starting on April 1 after it has deposited 10% of total revenue into the country's sovereign wealth fund, government figures released on Tuesday showed.

That represents a deficit increase of 19% compared with the previous year, for which the Gulf state had projected a 7.7 billion-dinar shortfall.

Kuwait projects spending of 22.5 billion dinars for the 2020-2021 budget, according to the figures released at a news briefing by Finance Minister Mariam Aqeel Al-Aqeel.

That represented no rise in overall spending from the year before, implying that a projected drop in overall revenues, to 14.8 billion dinars from last year's 16.3 billion dinars, accounted for the deficit increase.

The budget assumes an oil price of $55 a barrel, the minister said, down from the $55-65 per barrel Kuwait had assumed in its previous budget. Oil revenues are expected to account for 87.3% of total revenues in the next fiscal year.

The 2020-2021 deficit will be covered by Kuwait's General Reserve Fund, one of the wealth funds managed by Kuwait Investment Authority, said the minister.

A major oil exporter, Kuwait was not hit hard when oil prices sank in 2014-2015, but it has not tapped global debt markets since its debut $8 billion debt sale in 2017, because parliament has yet to pass a law that would allow it to raise its debt ceiling and to issue debt with longer maturities.

That has raised concerns among analysts that the fund might be depleted over the next few years. The minister did not respond when asked how long the country could continue to use the reserve fund to finance its deficit.

(Reporting by Ahmed Hagagy and Alexander Cornwell; writing by Davide Barbucia; editing by Edmund Blair, Larry King)

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Lebanon default "probable", deposit grab "possible"
16-Jan-2020
By Marc Jones
LONDON, Jan 16 (Reuters) - Lebanon's precarious finances mean the crisis-hit country looks likely to default on its debt in some way and could even launch a Cyprus-style grab for savers' bank accounts, Fitch's top sovereign analyst said.
Lebanon's debt problems have jumped back into focus this week after reports emerged of a bid by authorities there to try and delay some of this year's bond repayments.
A Lebanese source told Reuters that ratings agencies had told the authorities that the plan would constitute a "selective" or "restricted" default, ending its so-far unblemished rating record and potentially triggering further problems.
Fitch's head sovereign analyst James McCormack told Reuters a distressed debt event (DDE) is defined as when there is a material reduction in terms. That includes a maturity (payment deadline) extension to avoid a default.
"At the time of announcement, the rating would likely be downgraded to 'C'. When the exchange was complete, the rating would likely be downgraded to Restricted Default 'RD','" he said in an interview. It currently rates it 'CC'.
More would likely follow, McCormack added.
Deep in political turmoil, Lebanon is grappling with its worst economic crisis in decades and battered confidence in its banking system.
The risk of default and its need to rethink a 23-year-old currency peg has risen in a country with one of the world's biggest foreign debt burdens at around 150% of its annual economic output.
"We think the finances are precarious and a restructuring of some sort is probable," McCormack said.
The timing of it is less clear, though: "When we look at the repayment profile of the government, it looks manageable relative to the size of foreign exchange reserves the central bank has." "It looks OK, a little bit tight shall we say, but if the inflows don't materialise it really becomes more urgent."
Lebanon has $2.5 billion in Eurobonds due this year including a $1.2 billion bond set to mature in March.
There has been speculation among bankers and in local media - but ruled out by the central bank - that Lebanon could even copy Cyprus' move when it took money from better-off savers during its debt crisis.
"That is definitely possible but for us on the sovereign side, that is not necessarily a default," McCormack said.
"A default is narrowly defined as the government not paying its debt obligations on time." (Reporting by Marc Jones; Editing by Hugh Lawson)

Frustrated Lebanese depositors turn rage on crisis-hit banks
17-Jan-2020
- Cash withdrawal caps set at a few hundred dollars
- Frustrated depositors turn to protest, violence
- Security stepped up at bank branches
- Heavily indebted Lebanon in economic crisis

By Eric Knecht
BEIRUT, Jan 17 (Reuters) - As cash runs short at Lebanon's banks, so has the patience of depositors. Hit by restrictions on withdrawals, some are taking extreme steps, occupying branches and in one case taking an employee hostage, to squeeze what they can from their accounts.
Lebanon's financial crisis and dollar shortage have prompted commercial banks to impose strict caps on withdrawing dollars and a block on most transfers abroad, leaving Lebanese, many of whom are paid in dollars, strapped for cash.
Since protests directed at the country's elite erupted on Oct. 17, commercial banks seen as bearing part of the blame for the crisis have been targeted, including in late-night riots which left bank facades smashed and ATMs destroyed in Beirut's Hamra district.
With withdrawal caps set at a few hundred dollars per week, some depositors have tried to strong-arm their way to their cash.
Lebanon has seen 101 incidents at banks from Nov. 1 to Jan 13, ranging from scuffles and sit-ins to more violent assaults on bank branches, according to security sources.
"It's like a snowball, growing each day," said a security source. "It's starting to reach a choking point and people are suffocating."
When one depositor who identified herself only as Lama and five colleagues from the southern city of Sidon were denied $400 their bank had promised, they returned with 10 protesters in a show of force.
The group stormed the branch, Lama said, scuffling with security and bank employees before the branch manager agreed to give Lama and her colleagues $400 per week.
"What I discovered is that with pressure or fear from us ... they give in," said Lama.
Videos on social media show similar incidents - depositors joined by protesters storming banks, sometimes charging at security, hurling chairs and demanding money from their accounts. Reuters could not independently verify the videos.
When another bank in Sidon refused to cash Mostafa al-Bitar's check this month he returned with his company's forklift and two trucks and blocked its entrance. The branch manager cashed the check.
"We were forced to do this to get our rights ... the situation is getting much worse," said Bitar. A heavier police presence and a hotline for bank employees to call in rapid support from security forces implemented after the unrest began has done little to deter outraged depositors.

'MY MONEY'

Protesters on Jan. 3 took a Blom Bank branch manager in the northern region of Akkar hostage for several hours to demand dollars for a client, releasing the manager only when security intervened, according to a Blom Bank statement.

Banks across Akkar were hit by arson and vandalism. They shut on Jan. 3 and have remained closed.

"We've been working in the banking sector for a long time and this is something we've never seen before," said a Tripoli-based bank employee.

Heavily indebted Lebanon has struggled since the government was toppled by the resignation of Prime Minister Saad al-Hariri in October as a result of protests against corruption and bad governance seen as root causes of the economic problems. The Lebanese pound has lost around half of its value.

Foreign donors have held back on releasing about $11 billion in support until a new government and reform agenda are in place.

After the unrest began in October lenders shut intermittently, the result of a bank staff union strike over safety concerns, paralysing the economy and trade. They re-opened on Nov. 19 after an agreement to enhance security and police stand outside most branches.

"There's always a policeman at the bank, but what is he going to do when 60 or 70 people descend on the bank?" said one Beirut-based bank employee. "I don't know when the customer in front of me is going to rage on me." 

"No matter what I tell them I hear the same thing: 'I want my money. I want my money. I want my money','" he said.

(Reporting by Eric Knecht; Additional reporting by Dala Osseiran; Editing by Janet Lawrence)

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Lebanon’s bonds slump on bond swap worries

17-Jan-2020

LONDON, Jan 17 (Reuters) - Lebanon’s shorter-dated bonds slumped on Friday, with several of them set for their steepest daily drop in nearly three months as worries mounted that a proposed bond swap plan could trigger a full-scale default.

The troubled country’s March 2020 issue shed 5.8 cents to 82 cents in the dollar, its most in a day since late October, while the June 2020 issue shed 3.6 cents to 74 cents in the dollar, according to RRPBONDS data.

With Lebanon beset by its worst economic crisis since the 1975-90 civil war, the central bank had proposed that local holders of some the bonds swap them for longer-dated ones to ease the pressure on its finances.

Lebanon’s caretaker finance minister Ali Hassan Khalil asked the central bank to hold off on the plans however, after ratings agencies warned it could constitute a selective default, a source familiar with the matter said on Wednesday.

"I think there is concern by local holders that the swap will still go ahead and that they will be firmly encouraged to participate," said Koon Chow, macro and FX strategist at fund manager UBP.

He said the higher pricing of the shorter-dated dollar issues also looked increasingly untenable against the longer-dated bonds, which have slid to as low as 40 cents in the dollar in recent weeks.

Straining under the one of the heaviest debt loads in the world, Lebanon has $2.5 billion in Eurobonds due in 2020 including a $1.2 billion bond set to mature in March.

(Reporting by Tom Arnold and Marc Jones;
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Oman

Fitch Ratings: Oman’s Fiscal Challenges to Remain Post-Succession

15-Jan-2020

Fitch Ratings-Hong Kong-January 15: The elevation of Haitham bin Tariq al-Said as Oman’s new Sultan will entail continuity of fiscal policies, Fitch Ratings believes. The rapid succession is in line with our long-standing assumption of a smooth transition from his cousin, Sultan Qaboos, who died January 10 aged 79. Twin fiscal and external deficits and rising indebtedness remain the key risks to Oman’s BB+/Stable rating, which was affirmed in July 2019.

As the chosen successor of Sultan Qaboos and a senior member of the government and the royal family, we believe Sultan Haitham, who is 65, will adhere to previous policy approaches. He will also face many of the same constraints to reform as his predecessor, in particular the need to ensure Oman’s security in an unstable region and to provide economic opportunities to a young and underemployed population. The speed with which he was chosen limits the risk of a substantial loosening of fiscal policy to support the leadership transition.

There is nonetheless a possibility that Sultan Haitham could pursue bolder fiscal and economic reform than his predecessor, who had suffered from ill health in recent years. Sultan Qaboos
was pivotal to Oman's development during his nearly 50-year reign and held many senior positions, including central bank governor and prime minister, as well as those of the ministers of finance, foreign affairs and defence. Preliminary 2019 data suggest that Oman's fiscal deficit decreased marginally to 8.4% of GDP last year, compared with the forecast of 9.8% in our last rating assessment. However, excluding proceeds from asset sales the deficit would have increased, amid falling oil revenue and higher spending. The government is budgeting for a higher deficit of 8.7% for 2020 despite its expectation of further asset-sale proceeds and some spending cuts. (This compares with a forecast of 8% for 2020 in our last assessment.) The 2020 budget is consistent with our previous assumption that government debt will rise above 60% of GDP in 2020 and that sovereign net foreign assets will become negative; both indicators will then be worse than ‘BB’ category medians.

On the external political front, Sultan Haitham has announced that he intends to continue Oman's policy of neutrality, which appears to have widespread support within the country. In Fitch's view, this policy - along with Oman’s access to other sources of financing including debt issuance, asset sales and drawdowns from reserve funds - is one of the reasons why Oman, unlike Bahrain, has thus far not sought more financial support from the Gulf Cooperation Council.

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Oman's new sultan faces 'balancing act' as credit crunch looms

15-Jan-2020
By Davide Barbucia

DUBAI, Jan 15 (Reuters) - Holders of more than $20 billion of Oman's dollar bonds want the new sultan to push through urgent reforms to ward off a credit crunch in the Gulf's worst performing economy.

The swift appointment of Haitham bin Tariq al-Said after the death on Friday of Sultan Qaboos bin Said reassured investors, as some had feared a protracted succession that could have exposed Oman to external interference. While world leaders welcomed Haitham's promise to uphold a balanced foreign policy, analysts said he needed to tackle unemployment and strained public finances in the indebted country.

"It is in the domestic politics and economic policy realm where the ultimate success of Haitham’s leadership will be determined," said Robert Mogielnicki of the Washington-based Arab Gulf States Institute.

Rated junk by all three major agencies, Oman's debt to GDP ratio spiked to nearly 60% last year from around 15% in 2015, and could reach 70% by 2022, according to S&P Global Ratings. It faces rising refinancing risks as a result of large government external debt maturities in 2021 ($4.3 billion) and 2022 ($6.4 billion) that could add significant pressure to foreign exchange reserves if the debt is not rolled over, S&P associate director Zahabia Saleem Gupta said.

The relatively small oil producer has relied heavily on debt to offset a widening deficit caused by lower crude prices and held back on austerity measures that could cause unrest.

"The country is pursuing a sustainable fiscal adjustment path: austerity measures are to be combined with a decisive impulse towards diversification," said Fabio Scacciavillani, chief economist at Nuverse and former chief economist at an Omani sovereign wealth fund.

"It is a delicate balancing act which might encounter resistance in certain quarters," he said.

DECENTRALIZING

Qaboos was finance minister and central bank chairman. He was also premier, defence and foreign minister and head of the armed forces. He resisted turning to Gulf neighbours for financial aid in order to maintain an independent foreign policy. When protests broke out in Oman during the 2011 Arab Spring, Qaboos sacked more than a third of the cabinet, created thousands of jobs and gave money to the unemployed.

Haitham cannot afford such largesse.

"Qaboos had too many roles and was reclusive and that meant his advisers would not tell him the challenges the country was facing," said a diplomat in Oman.

"Inevitably he (Haitham) will be more receptive to the challenges of the country."

Haitham, who was culture minister and in charge of Oman's development plan, is likely to form a team of policy advisers after 40 days of mourning, which started on Sunday.

If he appoints a prime minister and moves to decentralize power this would signal willingness to improve decision making, the diplomat said.

REFORMS LAG

Oman will be the Gulf's worst performing economy over the next two years, with gross domestic product growth forecast at 0.5% this year and 0.8% in 2021, according to Jason Tuvey, senior emerging markets economist at Capital Economics.

This year, it plans to raise over $5 billion in debt to partly cover some $6.5 billion of estimated deficit, equivalent to 8% of GDP. It will cover the rest of the deficit by drawing from reserves, already eroded in recent years at a pace which has raised concerns over the sustainability of the Omani rial's peg to the U.S. dollar.

Fiscal slippage could occur in Haitham's first year, when spending tends to increase, said Carla Slim, economist at Standard Chartered.
But his ascension "could act as a catalyst for the pace of reform and medium-term fiscal planning", she said. Oman has delayed bringing in a 5% value added tax from 2019 to 2021, and economic diversification has lagged, with oil and gas still accounting for over 70% of government revenues.

(Additional reporting by Marc Jones; Editing by Giles Elgood)

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Pakistan

Fitch Affirms Pakistan at 'B-'; Outlook Stable
13-Jan-2020
Fitch Ratings-Hong Kong-January 13: Fitch Ratings has affirmed Pakistan’s Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Stable Outlook.

KEY RATING DRIVERS
The 'B-' rating reflects a challenging external position characterised by a high external financing requirement and low reserves, weak public finances including large fiscal deficits and a high government debt-to-GDP ratio, and weak governance indicators. Progress is being made towards strengthening external finances and positive steps have been made on the fiscal front, but considerable risks remain.

External vulnerabilities have been reduced over the past year as a result of policy actions by the authorities and financing unlocked through an IMF programme, which have narrowed the current account deficit and supported a modest rebuilding of reserves. Still, external finances remain fragile with relatively low foreign-exchange reserves in the context of an elevated external debt repayment schedule and subdued export performance. Pakistan’s liquidity ratio is 111.4%, much weaker than the historic ‘B’ median of 161.2%.

Fitch forecasts a further narrowing of the current account deficit to 2.1% of GDP in the year ending June 2020 (FY20) and 1.9% in FY21, from 4.9% in the last fiscal year. Import compression remains the predominant driver of the narrowing deficit, facilitated by a depreciation of the rupee against the US dollar of around 30% since December 2017 and tighter monetary conditions. Exports are forecast to grow modestly from a low base.

The State Bank of Pakistan’s (SBP) adoption of a more flexible exchange rate last May and capital inflows are also supporting a rebuilding of foreign-exchange reserves. Fitch expects gross liquid foreign-exchange reserves rise to around USD11.5 billion by FYE20, from USD7.2 billion at FYE19. The SBP has also reduced its net forward position by over USD3 billion since June, contributing to a considerable improvement in its net foreign-exchange reserves, although these remain negative. We expect continued adherence to the new exchange rate regime to help rebuild foreign-exchange reserves and improve external resilience.

Access to external financing has improved after the approval of a USD6 billion, 39-month Extended Fund Facility (EFF) by the IMF board in July 2019. According to the IMF, this has potentially unlocked about USD38 billion in financing from multilateral (including from the IMF) and bilateral sources over the programme period. It may also facilitate financing from offshore capital markets. The EFF is on track, with the first review completed in December. However, implementation risks remain high in Fitch’s view, particularly given the politically challenging nature of the authorities' reform agenda.

Gross external financing needs are likely to remain high, in the mid-US$20 billion range, over the medium term due to considerable debt repayments and despite the smaller current account deficit. Sustaining inflows to meet these financing needs could prove challenging over a longer horizon without stronger export growth and net FDI inflows.

Public finances are a key credit weakness and deteriorated further in FY19 prior to the approval of the IMF programme. The general government deficit slipped to 8.9% of GDP in FY19, from 6.5% in FY18, as revenues contracted, due in part to one-off factors, such as lower SBP dividends and delayed telecom licence renewals. General government debt rose to 84.8% of GDP, well above the current ‘B’ median of 54%, due to the currency depreciation, higher fiscal deficit, and build-up of liquidity buffers. Debt/revenue also jumped sharply to 667%, compared with the historic ‘B’ median of 252%.

The government is consolidating public finances, but Fitch believes progress will be challenging due to the relatively high reliance on revenues to achieve the planned adjustment. Fitch believes the revenue target in the FY20 budget is ambitious. Nevertheless, the government’s efforts to broaden the tax base through its tax-filer documentation drive and removal of GST exemptions will contribute to stronger revenue growth in the current fiscal year. The passage of the Public Financial Management Act should improve fiscal discipline by limiting the use of supplementary budgets. The government has also taken steps to improve federal-provincial level fiscal coordination through its Fiscal Coordination Council, as the provinces play a key role in the fiscal structure.

Fitch forecasts the fiscal deficit to decline to 7.9% of GDP in FY20, based on a reversal of the previous year’s one-off factors and revenue-enhancing measures. This is slightly higher than the government’s expectations of 7.5% due to our more conservative revenue projections. We expect expenditure to rise, particularly as...
interest-serving costs increase sharply on the back of higher interest rates. We project interest payments/general government revenues of 45% in FY20, well above the historic peer median of 8.6%.

**We forecast general government debt to GDP will fall to about 80% by end-FY21 due to faster nominal GDP growth and fiscal consolidation.** The government has taken steps to manage domestic debt rollover risks following the cessation of borrowing from the SBP under the EFF. In particular, the government has reprofiled its SBP debt stock into longer-tenor instruments and has sought to lengthen maturities by issuing longer-term domestic bonds. The government still has roughly 17% of GDP in upcoming domestic maturities in FY20 compared with the ‘B’ median of 6%, but has built up its cash buffer to partly mitigate rollover risk.

Tighter macroeconomic policies are further slowing GDP growth, which Fitch forecasts at 2.8% in FY20 from 3.3% in FY19. We expect growth to recover gradually to 3.4% by FY21. Inflation has also continued to rise sharply from the cost pass-through of the currency depreciation and increases in energy tariffs. Fitch forecasts inflation to average 11.3% in FY20 compared with 6.8% in FY19. The SBP is likely to keep the policy rate at the current peak of 13.25% in the coming months, before modest cuts towards the end of FY20 as inflationary pressures begin to fade.

**Improvements to the business and security environment could further support the growth outlook.** Domestic security has improved over the past couple of years, measured by a decline in terrorist incidents. Nevertheless, ongoing international perceptions of security risks and geopolitical tensions with neighbouring countries weigh on investor sentiment. The government has also made progress on business reforms, reflected in the country’s move from 136th to 108th in the World Bank’s latest Ease of Doing Business survey.

Pakistan’s rating is constrained by structural weaknesses, reflected in weak development and governance indicators. Per capita GDP of USD1.382 is below the USD 3,470 median of its ‘B’ rated peers. Governance quality is also low in Pakistan with a World Bank governance indicator score in the 22nd percentile while the ‘B’ median is in the 38th percentile.

**SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)**

Fitch’s proprietary SRM assigns Pakistan a score equivalent to a rating of ‘B’ on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch’s sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to rated peers, as follows:

- **Structural:** -1 notch, to reflect domestic security issues, geopolitical risks arising from tensions with neighbouring countries, and political risks around IMF programme implementation.

Fitch’s rating committee removed a -1 notch on external finances to reflect an improvement in external financing flexibility as a result of policy changes supporting the rebuilding of reserves and the external financing unlocked as part of the IMF programme approved in July 2019.

Fitch’s SRM is the agency’s proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch’s QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

**RATING SENSITIVITIES**

The main factors that could, individually or collectively, lead to a positive rating action are:

- Continued implementation of policies sufficient to facilitate a rebuilding of foreign-exchange reserves and ease external financing constraints.

- Sustained fiscal consolidation, for instance through a structural improvement in revenue, sufficient to put the debt-to-GDP ratio on a downward trajectory.

- Sustained improvements in the business environment and the security situation, which contribute to improved growth and export prospects.

The main factors that could, individually or collectively, lead to a negative rating action are:

- Reduced access to external finance that causes financing strains.

**KEY ASSUMPTIONS**

We assume the global economy will perform in line with our Global Economic Outlook.

**ESG CONSIDERATIONS**

Pakistan has an ESG Relevance Score of ‘5’ for Political Stability and Rights as World Bank Governance Indicators have the highest weight in the SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. Domestic security risks and geopolitical tensions with neighbours also pose a risk to political stability.

Pakistan has an ESG Relevance Score of ‘5’ for Rule of Law, Institutional and Regulatory Quality, and Control of Corruption as World Bank Governance Indicators have the highest weight in the SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. Pakistan also scores low on the World Bank’s Doing Business Index, despite recent improvements.

Pakistan has an ESG Relevance Score of ‘4’ for Human Rights and Political Freedoms as World Bank Governance Indicators have the highest weight in the SRM and are relevant to the rating and a rating driver.

Pakistan has an ESG Relevance Score of ‘4’ for Creditors Rights as willingness and ability to service debt are relevant to the rating and a rating driver, as for all sovereigns.

Pakistan; Long Term Issuer Default Rating; Affirmed; B-; RO:Sta;
Sri Lanka

S&P revises Sri Lanka's outlook to negative from stable, affirms 'B/B' rating

14-Jan-2020
Jan 14 (Reuters) - Ratings agency Standard & Poor's on Tuesday said it revised its outlook on Sri Lanka's credit rating to negative from stable, citing increased risks from a deteriorating fiscal position. "Sri Lanka's fiscal position deteriorated following the Easter Sunday attacks," S&P said. "Although a recovery is expected, we expect a widening of the fiscal deficit following the implementation of wide-ranging tax cuts." The ratings agency affirmed Sri Lanka's 'B/B' sovereign credit rating, it added.

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Taiwan

Fitch Ratings: Sharp Rise in Cross-Strait Tensions Unlikely Despite DPP Win

16-Jan-2020
Fitch Ratings-Hong Kong-January 14: The outcome of Taiwan's elections further underscores the geopolitical risks associated with the island's complex relations with the mainland, as captured in Fitch Ratings' 'AA-' rating and Stable Outlook. However, the re-election of President Tsai Ing-wen, and the renewed majority for her Democratic Progressive Party (DPP) in the legislature, is unlikely to mark a sea change in cross-Strait relations.
The DPP is known for its more antagonistic relationship with the Beijing authorities than Taiwan's opposition Kuomintang (KMT), which has been more amenable to strengthening economic ties. As a result, the cross-Strait tensions that characterised Tsai's previous term are likely to persist, and could even intensify to some degree. Fitch applies a one-notch adjustment to the 'AA' score that Taiwan would otherwise receive under our Sovereign Rating Model, in order to reflect the complex relationship with mainland China that raises the potential for economic and political shocks. Taiwan's rating was affirmed in September 2019.
There is a risk that the election result may further aggravate the already-strained relations between Taiwan and the mainland. Tsai portrays herself as seeking to preserve the status quo in cross-Strait ties, as reiterated in her acceptance speech. However, Tsai campaigned on an explicit rejection of the "one country two systems" formula of governance under which China hopes to advance reunification.
Fitch believes that Tsai will seek to maintain a relatively defensive approach to cross-Strait relations in her second term, rather than to further antagonise the mainland. This would suggest that existing trade and agreements will remain broadly unaffected while high-level communications remain frozen, as has been the case since the 2016 election. From Beijing's perspective, the mainland authorities' willingness to take more aggressive action against Taiwan may also be moderated by their concerns about dealing with multiple ongoing internal and external policy challenges, such as instability in Hong Kong or the US-China 'trade
Beijing's most visible effort to exert economic pressure on the DPP in recent years has been a restriction on tourism. This has nonetheless had a relatively muted economic impact on Taiwan, given a notable rise in tourist arrivals from other Asian markets. Beijing has also attempted to exert pressure by isolating Taiwan internationally through commercial and diplomatic channels, and by increasing the frequency of military exercises.

The Beijing authorities may also be wary of adopting aggressive policies that severely disrupt existing trade and economic ties, given the important role that Taiwanese firms play in generating employment and catalysing technological development in the mainland. They could seek to levy further economic sanctions on Taiwan directed against DPP strongholds; but the more targeted these were, the weaker their likely macroeconomic impact would be.

Fitch expects Tsai's government to adhere to the relatively prudent fiscal approach demonstrated during its previous term. Pension reforms undertaken by the administration in recent years made notable advances in curtailting long-standing contingent liabilities. However, rapid demographic ageing will continue to impose a drag on economic growth potential, and the scale of the contingent pension liabilities still remains large as a share of GDP, underscoring the importance of further reform.

Our outlook on the economy will remain susceptible to potential spillovers from the US-China trade war - both negative and positive. The latest data from Taiwan's Ministry of Economic Affairs suggest that 329 local firms have plans to invest some NTD859 billion (around USD28.6 billion) under three government schemes launched in 2019 to promote reshoring. Taiwan's external finances are already among the strongest across Fitch-rated sovereigns, which would limit the ratings impact of any pick-up in export growth, but faster economic expansion could provide further support to the current rating.

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Thailand

Thai parliament passes delayed 2020 budget bill to revive economy

11-Jan-2020

- Budget deficit projected at 469 bln baht in FY 2020
- Budget to be effective in Feb, 4 after
delays
- More stimulus is needed to boost growth - economist

By Panarat Thepgumpanat and Orathai Srinting
BANGKOK, Jan 11 (Reuters) - Thailand's parliament on Saturday passed a delayed draft budget bill for the 2020 fiscal year aimed at boosting Southeast Asia's second-largest economy, which is growing at its slowest pace in years.

The budget's approval was key for the survival of the coalition government, which has a slim majority in parliament. A defeat would have forced former junta leader Prayuth Chan-ocha's government to either resign or dissolve parliament.

After a four-day debate, the draft bill's second and third readings passed with 253 votes. There were 196 abstentions in the 450-member parliament.

The proposed budget foresees a 7% rise in overall spending to 3.2 trillion baht ($105.89 billion) for the fiscal year that began on Oct. 1. It sets a deficit of 469 billion baht, up 4.2% from the 2019 fiscal year.

"The government will ensure that the approved budget will be used effectively for the country's security and the people's prosperity," Prayuth told parliament.

The draft bill is expected to come into effect in February following a vote in the senate, which meets on Jan. 20, and the king's endorsement, Budget Bureau chief Dechawitwat Na Songkhla told Reuters.

Its passage was pushed back after delays in the formation of the cabinet following an election in March that saw Prayuth win another term as prime minister.

"The challenge here is how to speed up disbursement, which has been subdued since October due to the budget delay," said Charnoon Boonnuch, an economist at Nomura in Singapore.

More fiscal stimulus is needed to help economic growth, he said, adding two rate cuts by the central bank already pushed the key interest rate to a record low of 1.25% last year amid a deteriorating outlook.

He expected a further rate cut at the central bank's policy review on Feb. 5.

The central bank forecast economic growth at 2.8% for this year and 2.5% for 2019 -- the slowest pace of growth in five years.

($1 = 30.22 baht)
(Editing by Clelia Oziel)
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Belarus

Belarus eyes $1-1.2 billion Eurobond in Q1

14-Jan-2020
MINSK, Jan 14 (Reuters) - Belarus will be ready to issue a Eurobond in the first quarter and is aiming for a placement of between $1.0-1.2 billion, Belarusian Finance Minister Maxim Yermolovich said on Tuesday.

Speaking about Belarus's failure to agree terms with Russia for oil supply this year, the minister said Minsk had prepared for all possible supply risks and sees no need to resort to exceptional measures.

Bosnia

Bosnia’s Serb Republic plans to issue 7-yr T-notes worth 19 mln euro

17-Jan-2020
SARAJEVO (Bosnia and Herzegovina), January 17 (SeeNews) - Bosnia’s Serb Republic sold 37.2 million marka ($20.9 million/19 million euro) worth of seven-year Treasury notes, above its 35.8 million marka target, at an auction on Monday, data by the Banja Luka Stock Exchange (BLSE) showed.

The government paper was sold at 103.93% of par, with the weighted average yield falling to 1.70% from 1.90% at the last auction of seven-year government securities held on August 19, BLSE data showed.

Monday’s issue carries a coupon of 2.30%, lower than the 2.50% coupon of the August issue. Coupon payments are due yearly. The principal is payable at maturity.

Bulgaria

Bulgaria Jan-Nov current account surplus surges to 9.6% of GDP

17-Jan-2020
SOFIA, Jan 17 (Reuters) - Bulgaria posted a current account surplus of 5.9 billion euros ($6.54 billion) or 9.6% of gross domestic product in the first 11 months of the year, compared with a surplus of 5.3% in the same period a year earlier, central bank data showed on Friday.

For November alone the surplus stood at 410.3 million euros, compared with a surplus of 140.2 million euros a year ago mainly due to strong exports and weaker imports.

Foreign direct investment, needed to boost sustainable growth in the Black Sea state, rose by 989.2 million euros through November, compared with investment of 521.6 million in the same period a year ago.

The finance ministry sees the current account posting a surplus of 5.2% in 2019 as it expects slower exports and a pick-up in imports driven by domestic demand. Bulgaria sees 2020 current account surplus at 4.1% of GDP.

EUROPE
**Bulgaria**

**Bulgaria to auction 102.3 mln euro worth of 10.6-yr T-bonds on Jan 27**

17-Jan-2020

SOFIA (Bulgaria), January 17 (SeeNews) - Bulgaria will seek to raise 200 million levs ($113.6 million/102.3 million euro) by reopening a 10.6-year Treasury bond issue due in December 2029 at an auction scheduled for January 27, the Bulgarian National Bank (BNB) said on Friday.

The bonds carry an annual coupon of 0.50% paid semi-annually, the central bank said in a statement.

Bulgaria placed 69.18 million levs worth of bonds at a weighted average annual yield of 1.38% at the previous reopening of the issue, on October 7.

(1 euro = 1.95583 levs)

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**Croatia**

**Croatia to sell 1 bln kuna (134.5 mln euro) of 1-yr T-bills on Jan 21**

17-Jan-2020

ZAGREB (Croatia), January 17 (SeeNews) - Croatia's finance ministry said it will offer 1 billion kuna ($149.5 million/134.5 million euro) worth of one-year Treasury bills at an auction on January 21.

The T-bill issue will mature on January 21, 2021, the finance ministry said in a notice.

The ministry sold 1.4 billion kuna worth of government securities, below its 1.8 billion kuna target, at the last auction of one-year kuna-denominated T-bills held on December 30. The yield was 0.06%, unchanged in comparison with the previous auction of one-year T-bills held on December 3.

(1 euro = 7.43718 kuna)

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**Czech Republic**

**CSO - Government deficit and debt - 3rd quarter of 2019**

14-Jan-2020

In the Q3 2019, the general government sector balance reached the surplus of CZK 15.2 billion, which corresponds to 1.05% of the GDP. Revenues of the general government sector reached 40.58% of the GDP, while expenditure amounted to 39.53% of the GDP. The government debt ratio declined by 1.91 percentage points (p. p.), year-on-year (y-o-y), to 31.97% of the GDP.

In the Q3 2019, the general government sector balance decreased by CZK 3.2 bn, y-o-y. The central government surplus decreased by CZK 5.8 billion, y-o-y, and reached CZK 11.4 billion, while local government performance ended up with the deficit of CZK 1.4 bn, which was lower by CZK 3.9 bn, y-o-y. Social security funds surplus decreased by CZK 1.3 bn, y-o-y and reached CZK 5.3 billion.

**The general government sector balance, Q3 2017 - Q3 2019**

The total general government sector revenues increased by 6.6%, y-o-y. Especially the following contributed to the y-o-y increase in revenues: increase of taxes on income (+10.8% to CZK 116.0 bn), growth of revenues from received social contributions (+6.7% to CZK 219.0 bn), increase of property income (+14.1% to CZK 6.4 bn) and other current transfers (+7.1% to CZK 12.4 bn). The total government expenditure increased by 7.5%, y-o-y. The following contributed the most to the expenditure growth: increase of compensation of employees (+9.7% to CZK 140.6 bn), increase of intermediate consumption (+8.0% to CZK 83.8 bn) and increase of social transfers in kind (+11.4% to CZK 42.1 bn).

The government debt ratio decreased from 33.88% to 31.97% of the GDP in the year-on-year comparison. The increasing nominal GDP contributed to a decrease in indebtedness by 2.01 p. p. The nominal debt of the general government increased by CZK 5.4 bn to CZK 1783.5 bn, y-o-y, and thus contributed to the increase of the debt ratio in amount 0.10 p. p.

In the quarter-on-quarter comparison, the debt ratio decreased by 1.18 p. p., which was contributed to by the increasing nominal GDP (0.56 p. p.) as well as by the decreasing debt (0.62 p. p.), which dropped by CZK 33.8 bn.

Regarding the debt structure, the y-o-y decrease of the debt was caused by a decrease in the volume of received loans (CZK ~40.8 bn). On the contrary, the value of issued debt securities increased by 2.9%. The volume of short-term securities dropped by CZK 42.5 bn, while the value of long-term securities increased by CZK 88.3 bn, y-o-y. In the q-o-q comparison, there was decrease in all components of the debt.

Issued debt securities with the share of 91.8% remain to be the main debt instrument.

**Debt of the general government sector, Q3 2017 - Q3 2019**

The general government sector balance after seasonal adjustment as well as adjustment for calendar effects ended up with a surplus of CZK 4.5 bn, which is 0.32% of the GDP. In the q-o-q comparison, the adjusted surplus dropped by CZK 1.6 bn. The development of the general government sector balance adjusted by seasonal and calendar effects is shown in the chart below.

**Seasonally adjusted general government sector balance, Q3 2017 - Q3 2019**

The government surplus/deficit is represented by the item B9 net borrowing (−) or net lending (+) in the system of national accounts.
It refers to the ability of the general government sector to finance other sectors of the economy (+) or the need of the general government sector to be financed (−) by other sectors of the economy in the given period. **The general government debt is the amount of consolidated liabilities of the general government sector comprising the following items: currency and deposits, debt securities, and loans.** In case of foreign exchange debt instruments hedged against the currency risk, the value in CZK is obtained by means of the contractual exchange rate. The general government sector balance is compared with the amount of the GDP in the given quarter at current prices. The amount of consolidated general government debt is compared with the sum of quarterly GDP for the last four quarters at current prices.

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**Czech central bank chief: Interest rates most likely stable in 2020**

16-Jan-2020

**PRAGUE, Jan 16 (Reuters) - Czech interest rates are most likely to be stable this year and average inflation is likely to ease from 2019 levels, central bank Governor Jiri Rusnok was quoted as saying on Thursday.**

The Czech National Bank is one of the few central banks in Europe that has been debating whether another interest rate hike was needed to tame price pressures in a growing economy with a strong job market. But it has held steady on policy since last May as it monitors the risks from a slowdown abroad.

A spike in the inflation rate, which reached 3.2% in December according to data this week, has also fuelled expectations that rates could rise later this year.

The price rise meant inflation was outside the upper end of the bank's tolerance band around its 2% target for a second month.

Rusnok told Ekonom magazine in an interview that it looked like rate stability was most likely this year.

"Of course we do not know whether some extraordinary events will come, but under normal scenarios, stability is the most likely," Rusnok said when asked on the rate outlook for 2020.

He said he expected average inflation to ease to around 2.5%, below 2.8% seen in 2019, which was the fastest rate since 2012. He said this was why the board saw at the last meeting in December more of a "smoothing" of the rate path, rather than a hike followed by a cut, as indicated in the bank's outlook.

The seven-strong board has voted 5-2 at the last three meetings to hold the main two-week repo rate at 2.00%. The minority has backed a 25 basis-point increase.

Bank board member Vojtech Benda, who has supported a rise, said on Wednesday that the bank had room to raise rates this year and that it would be better to move sooner than later. Another rate setter, Vice-Governor Marek Mora, who voted in the minority for a hike in September but has backed stable rates since then, told Czech Television on Monday he expected stable or slightly higher rates this year.

(Reporting by Jason Hovet; Editing by Hugh Lawson)

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**Hungary**

**Hungary's net external debt falls to historical lows**

17-Jan-2020

Hungary’s net lending started to rise slightly in 2019 Q3 and its level remained above those observed in the region. Due to an increase in the trade surplus, the current account balance also improved, with growing exports playing a dominant role, accompanied by a dynamic expansion in industrial production. In addition to the continued inflow of foreign direct investment, Hungary’s net external debt declined further.

The economy’s four-quarter net lending rose to 1.1 percent of GDP in 2019 Q3 and, in contrast to the decrease in the previous period, the current account balance also improved. Rising external balance indicators primarily reflected an increase in the trade surplus, which was also supported by robust growth in industrial production and a decline in inventories. Meanwhile, historically strong investment activity contributed to high import growth. The absorption of EU transfers slowed down in the quarter, and the income balance also continued to improve slightly.

**Based on financing data in the third quarter, there was a continuous inflow of net direct investment despite outward investment by resident companies in 2019 Q3.** Net external debt declined further. The latter mainly reflected an increase in foreign exchange reserves, due in part to revaluation effects. As a result, the external debt-to-GDP ratio fell to 8.6 percent. The significant increase in foreign exchange reserves exceeded the rise in short-term external debt linked to EU transfers. As a result, international reserves amounted to EUR 28.4 billion, continuing to significantly exceed the level expected and considered safe by investors by over EUR 9 billion.

Based on developments in savings, the improvement in external balance indicators in the third quarter was related to a decline in companies’ net borrowing. Domestic corporations decreased their inventories significantly, thus improving their net lending...
position. Households’ net financial savings remained high, amounting to around 5 percent of GDP. The still high saving was supported by the retail government security programme, including the introduction of MÁP+. The increase in households' security holdings has contributed to a reduction in Hungary’s external vulnerability through forint and foreign currency bond repurchases.

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Montenegro

Montenegro sells 14.9 mln euro in 182-day T-bills
14-Jan-2020
PODGORICA (Montenegro), January 14 (SeeNews) - Montenegro sold 14.9 million euro ($16.6 million) worth of 182-day Treasury bills in an auction held on January 13, the central bank said.
The annual yield on the issue grew to 0.57% from 0.49% achieved at the last auction of 182-day Treasury bills held on August 27, the central bank said in a statement on Monday.
The government securities will mature on July 14, 2020.

($ = 0.897686 euro)
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North Macedonia

North Macedonia sells 500 mln denars (8.0 mln euro) of 1-yr T-bills
14-Jan-2020
SKOPJE (North Macedonia), January 14 (SeeNews) - North Macedonia's finance ministry has sold 500 million denars ($9.0 million/8.0 million euro) worth of one-year Treasury bills at an auction on Tuesday, in line with target, the central bank said.
The central bank sells government securities on behalf of the finance ministry through volume tenders, in which the price and coupon are set in advance and primary dealers only bid with amounts.

(1 euro = 60.94 denars)
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Romania

Romania’s end-Nov foreign debt rises
13-Jan-2020
BUCHAREST (Romania), January 13 (SeeNews) - Romania’s foreign debt increased to 107.103 billion euro ($118 billion) at the end of November from 99.841 billion euro at the end of 2018, the central bank, BNR, said on Monday.
The end-November figure includes 72.971 billion euro in long-term foreign debt, up from 68.2 billion euro at the end of 2018, BNR said in a monthly balance of payments report.
Long-term external debt service ratio fell to 17.4% at end-November, compared to 22.6% at end-2018.
Goods and services import cover fell at 4.7 months at end-November, from 4.9 months at end-2018.
The ratio of the BNR’s foreign exchange reserves to short-term external debt by remaining maturity increased to 74% at end-November, compared to 74.1% at end-2018.

($=0.9015 euro)
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Poland

Poland’s C/A surplus at 1.457 bln
13-Jan-2020
Jan 13 (Reuters) - Poland’s current account surplus amounted to 1.457 billion euros ($1.62 billion) in November, compared to a revised surplus of 573 million euros in the previous month, central bank data showed on Monday.
Economists polled by Reuters had expected a surplus of 500 million euros in November.
The full balance of payments data is available on the central bank website:

($1 = 0.8992 euros)
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coupon of 4%, rose to 865.8 million lei from 614 million lei at the December auction. The issue will be reopened on Friday when the finance ministry hopes to raise 120 million lei in a non-competitive tender. So far this year, Romania has sold almost 3.9 billion lei of debt.

(1 euro=4.7795 lei)

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Slovenia

Fitch Affirms Slovenia at 'A'; Outlook Stable
17-Jan-2020
Fitch Ratings-Frankfurt am Main-January 17: Fitch Ratings has affirmed Slovenia’s Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'A' with a Stable Outlook.

KEY RATING DRIVERS
Slovenia’s ratings reflect GDP per capita levels and governance indicators that are above the 'A' median. The ratings are further supported by institutional strengths and a credible policy framework that come with EU and eurozone membership. The ratings are constrained by the relative small economy exposed to shocks and high, albeit declining government indebtedness compared with the rating peer median. Over the medium to long term, ageing pressures will adversely affect public finances in the absence of measures to effectively address them.

We expect the general government surplus to edge down, from an estimated 0.7% for 2019 to 0.6% this year and then 0.5% in 2021 due to the revenue ratio decreasing by more than the spending/GDP ratio. Our projections are less optimistic than the government’s, in part due to a lower starting point, but mainly due to weaker macroeconomic assumptions and lower than expected tax revenues. Our public finance projections are consistent with the government debt/GDP ratio falling from an estimated 67.2% of GDP at end-2019 (‘A’ median: 50.0%) to 63.0% this year, and 59.5% in 2021. The most recent European Commission Ageing Report’s baseline scenario indicates that Slovenia will face an increase in age-related public spending of 6.9% of GDP to 28.8% of GDP between 2016 and 2050, the highest increase (in percentage points of GDP) among all EU countries. This suggests that pension reform measures would be required to prevent public debt/GDP rising in the medium to long term. The longer reforms are delayed, the more economically and politically difficult they become as the rising dependency ratio places a greater burden on a smaller pool of workers, while pensioners become a larger share of voters.

Approval of the 2020 budget looked in doubt when in early November the Left party withdrew its support for the minority coalition government of Marjan Sarec (a five-party coalition holding 43 out of 90 seats, and relying on external support from the Left) prompted by disagreements on issues relating to healthcare reform. However, the government secured the parliamentary approval of the budget with the support of the SNS party and deputies from linguistic minorities. There is now a higher likelihood of the minority government not being able to see out its full term, and new elections taking place ahead of the scheduled date of June 2022.

The budget included cuts to personal income tax rates and increased tax allowances partly offset by higher capital gains tax and corporate tax, and expenditure-reducing measures on social transfers (limiting the duration of unemployment benefits and tightening their eligibility) and public sector wage and pensions growth. The government estimates that the revenue budget measures will be broadly neutral, while the spending measures will reduce the deficit by around 0.3pp of GDP.

The Slovenian economy slowed down over 2019, compared with strong growth in 2017 and 2018, owing to an easing in investment growth and slower growth in Slovenia’s main export markets. Overall, we estimate real GDP growth to have been 2.5% in 2019, and to remain at that level this year, before edging up to 2.7% in 2021.

We estimate that the current account surplus remained broadly stable in 2019, despite a smaller trade surplus, at 5.8% of GDP, and we expect the current account surplus to average 5% over the next two years, above the forecast 'A' median (1.3% in 2019-2021). Current accounts surpluses are translating to a decline in net external indebtedness. According to IMF data, net external debt was 8.6% of GDP in 2018, and our projections are consistent with Slovenia becoming a net external creditor this year.

Fitch has a Banking System Indicator (the weighted Viability Rating of Fitch-rated banks) for Slovenia of 'bb', which is weak compared with 'A' rated sovereigns. At the same time, banks’ asset quality continues to improve. According to European Banking Authority data, non-performing exposures declined to 3.4% in 3Q19, from 5.8% a year earlier. However, the NPE ratio remains higher than the EU-wide average of 2.5%. Slovenian banks’ overall capital ratio is line with the EU average at 18.9% in 3Q19.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)
Fitch’s proprietary SRM assigns Slovenia a score equivalent to a rating of ‘A+' on the Long-Term Foreign-Currency (LT FC) IDR scale. Fitch’s sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to rated peers, as follows:

-Public finances: -1 notch, to reflect contingent liabilities from state-owned entities, and the risk
of ageing pressures adversely affecting the public finances in the medium- to long-term. Fitch has removed the -1 notch on external finances, to reflect the declines in net external indebtedness and sustained current account surpluses mitigating Slovenia’s external vulnerability. We have added the -1 to public finances as the adverse impact of demographic trends is becoming nearer, while reforms to address them have been moderate.

Fitch’s SRM is the agency’s proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

**RATING SENSITIVITIES**

The main factors that could, individually or collectively, lead to positive rating action include:

- Further reductions in the government debt/GDP ratio, especially if supported by measures ensuring long-term public debt sustainability in the face of demographic challenges.
- Strengthening of medium-term growth potential, for example owing to structural reforms.

The main factors that could, individually or collectively, lead to negative rating action include:

- Rising government indebtedness, for example, through fiscal policy loosening.
- A deterioration in medium-term growth prospects.

**KEY ASSUMPTIONS**

Fitch assumes that the global economy performs in line with the December Global Economic Outlook.

In Fitch’s debt sensitivity analysis, we assume over the next 10 years an average primary balance of 1.0% of GDP, with the balance falling to zero by the end of the horizon, average real GDP growth of 2.6%, an average effective interest rate of 2.2%, and whole-economy inflation of 2.1%. On the basis of these assumptions, the government debt-to-GDP ratio would decline to 46.5% by 2028.

**ESG CONSIDERATIONS**

Slovenia has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch’s SRM and are therefore highly relevant to the rating and a key rating driver with a high weight.

Slovenia has an ESG Relevance Score of 5 for Rule of Law, Institutional Regulatory Quality, and Control of Corruption, as World Bank Governance Indicators have the highest weight in Fitch’s SRM and are therefore highly relevant to the rating and a key rating driver with a high weight.

Slovenia has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver.

Slovenia has an ESG Relevance Score of 4 for Demographic Trends as demographic pressures from ageing costs will have an impact on public finances and economic performance over the medium to long term in the absence of offsetting policy measures and are relevant to the rating and a rating driver.

Slovenia has an ESG Relevance Score of 4 for Creditors Rights as willingness to service and repay debt is relevant to the rating and is a rating driver, as for all sovereigns.

Slovenia; Long Term Issuer Default Rating; Affirmed; A;
RO:Sta;
Short Term Issuer Default Rating; Affirmed; F1+;
Local Currency Long Term Issuer Default Rating; Affirmed; A;
RO:Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; F1+;
Country Ceiling; Affirmed; AAA
Senior unsecured; Long Term Rating; Affirmed; A

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**Turkey**

**Turkish budget deficit leaps 70% in 2019 after recession**

15-Jan-2020

ISTANBUL, Jan 15 (Reuters) - The Turkish budget deficit widened 69.9% last year to 123.69 billion lira ($21 billion), the Treasury and Finance Ministry said on Wednesday, reflecting in part fiscal stimulus to lift Turkey's economy from recession.

It said the budget deficit in December was 30.76 billion lira ($5.2 billion), while the primary budget balance, excluding interest payments, showed a deficit of 26.59 billion lira during the month.

($1 = 5.8902 liras)

(Reporting by Can Sezer and Birsen Altayli; Writing by Daren Butler; Editing by Jonathan Spicer)

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**Fitch Ratings: Turkish Monetary Policy**
Credibility Still a Key Rating Weakness

16-Jan-2020
Fitch Ratings-London-January 16: Weak monetary policy credibility and the large reduction in Turkish real interest rates since last summer continue to weigh on Turkey’s rating of 'BB-' with a Stable Outlook, Fitch Ratings says.

Turkey’s policy interest rate has now more than halved from 24% in June 2019, including today’s 75bp cut to 11.25%. The Turkish lira has been fairly stable during this period, trading within 5.49-5.98 against the US dollar, supported by economic recovery, lower inflation, the large current account adjustment (from a deficit of USD57 billion to a surplus of USD3 billion from June 2018 to November 2019 on a rolling 12-month basis), reduced US sanctions risk and the marked easing in global financing conditions in 2019.

However, Turkey's record of high and volatile inflation, weak monetary policy credibility, and the sharp compression of real interest rates since June give rise to risks of renewed market volatility. Turkey's still-high external financing requirement (despite reducing to an estimated USD170 billion in 2020 from USD211 billion in 2018) and susceptibility to geopolitical shocks and sanctions risk remain key vulnerabilities.

Inflation in Turkey has averaged 11.7% over the past five years and has been above the 5% central bank target since 2011. The credibility and independence of the central bank was further compromised by the sacking last year of the governor and other senior officials, in the context of President Erdogan's unorthodox views on the relationship between inflation and interest rates. This was a key factor in our one-notch downgrade of Turkey’s sovereign rating to 'BB-' in July.

Deeper-than-expected interest rate cuts, combined with December’s 1.3pp rise in the inflation rate to 11.8%, have reduced Turkey’s real interest rate to -0.6% (using the latest available inflation figure) from last year’s peak of 8.3% in June. This has reversed the real interest rate differential with other large emerging markets (EMs) from 6.4pp in June to -1.8pp (using the average of the other “Fitch 10” EMs), increasing risks of renewed pressure on the lira and greater stress on corporate and bank balance sheets.

Fitch forecasts inflation to remain high, at 10% at end-2021. The sharp reduction in inflation since peaking at 25.2% in October 2018 was driven by base effects and recovery of the lira, and market inflation expectations are sticker at 8.6% at end-2021. Using our December Global Economic Outlook forecasts, our end-2021 interest rate forecast of 12% would leave a 2% positive real interest rate, slightly above our 1.1% forecast average for the other Fitch 10 large EMs. We expect global monetary policy conditions to be less amenable to monetary policy easing this year, with the other Fitch 10 EM average real interest rates falling only 20bp compared to last year's 100bp, and an unchanged US Federal Reserve Funds rate.

To a lesser extent, Turkey's monetary policy credibility may also be weakened by further measures providing liquidity outside the one-week repo facility, such as subsidised lending to primary dealers, while renewed state-owned bank lending at rates below the cost of funding could undermine transmission channels.

High and volatile inflation has contributed to volatile GDP growth, interest rates and exchange rates, and discouraged lira savings, which are rating weaknesses. The share of foreign-currency deposits in total deposits remains relatively high, at 50.8% at end-2019, up from 44.9% at end-1Q18 (although down from 54.2% at end-2Q19).

Turkey's rating is supported by its large and diversified economy, GNI per capita above the ‘BB’ category median, and moderate government and household debt. Our next scheduled sovereign review is due on 21 February.

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Turkish central bank adjusts gold limits in lira reserve requirements

18-Jan-2020
ISTANBUL, Jan 18 (Reuters) - The Turkish central bank said on Saturday it had decreased the upper limit of holding standard gold to 20% from 30% of lira reserve requirements in a move to support financial stability and bring out gold savings into the economy.

By decreasing the limit, $1.7 billion equivalent of liquidity in terms of gold will be provided to the market and 4.5 billion lira liquidity will be withdrawn from the market, the bank said.

It said it was taking the step "to strengthen the monetary transmission mechanism, support financial stability and bring out gold savings into the economy".

As part of the move it said it also increased the upper limit of holding standard gold converted from wrougt or scrap gold collected from residents to 15% from 10% of lira reserve requirements.

In doing so, $300 million equivalent of liquidity in terms of gold will be withdrawn from the market, whereas 2 billion lira liquidity will be provided to the market.

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Ukraine

Finance minister says Ukraine will move clearly to reduce deficit

16-Jan-2020
KIEV, Jan 16 (Reuters) - Ukrainian Finance Minister Oksana Markarova said on Thursday the government would move clearly towards reducing the budget deficit.
The government has targeted a budget deficit of 2.09% in 2020.
Speaking at the same event in Kiev, Prime Minister Oleksiy Honcharuk said Ukraine could not afford to have such a high level of non-performing loans in the banking system.

Argentina

Argentina’s Fernandez sets March 31 deadline to renegotiate debt, says has IMF backing

12-Jan-2020
By Maximilian Heath
BUENOS AIRES, Jan 12 (Reuters) - President Alberto Fernandez said he has set a March 31 deadline to renegotiate Argentina’s rampant public debt and that a more “innovative” International Monetary Fund approves of the direction his government is taking.
Argentina is in talks with bondholders and other creditors to restructure about $100 billion in debt, among them the IMF to whom it owes about $44 billion.
"I think that from here to March 31 our trajectory is going to be very clear," Fernandez said in an interview published on Sunday by the online news site El Cohete A La Luna. "That is the ceiling we have set, because there are significant maturities."
Fernandez, a moderate center-left Peronist, was elected in October with a mandate to end painful Fiscal cuts implemented by his predecessor, Mauricio Macri.
Supporters of Fernandez expect more state spending to help families struggling with low growth, rising poverty and inflation over 50%.
After assuming the presidency a little over a month ago, his government has announced plans to hike taxes on farm exports, as well as efforts to gain revenue from foreign assets and Argentine tourism dollars spent abroad.
The measures brought criticism from the opposition but, according to Fernandez, won the approval of the IMF.
"Everything we have proposed so far has been seen as essential starting points for setting the economy straight," Fernandez said of his government’s initial talks with the global financial institution.
IMF officials in Buenos Aires did not immediately respond to a request for comment.
Fernandez said the new IMF managing director, Kristalina Georgieva, was aiming for a more "innovative" approach than her predecessor, Christine Lagarde.
"In the Lagarde era, they would not have taken all this sympathetically, they would have seen it in a critical way," he said. "It's a good start but I think there is a long way to go."

Argentina government plans $3.6 bln debt swap to delay payments

18-Jan-2020
BUENOS AIRES, Jan 17 (Reuters) - Argentina’s economy ministry is planning a debt swap auction relating to Treasury bonds with a face value of over 214 billion pesos ($3.6 billion) that would push back repayments as the South American nation looks to stave off a damaging default.
The ministry said on Friday it would hold a Jan. 20 auction for holders of five debt instruments, who could bid to exchange their debt for two new peso-denominated Treasury bills maturing on Sept. 18 and Dec. 22 this year.
The swap would help push back upcoming payments on the original peso debt of around $2.44 billion due between Feb. 13 and Apr. 8, according to a statement from the ministry.
Argentina is looking to restructure its local and foreign debt, which the government has said it is unable to pay without renegotiating repayments and being given time to revive the country’s stalled economy to raised funds.
The new debt maturing in September will have an annual interest rate of Badlar plus 400 basis points, while the December debt will pay interest of Badlar plus 550 basis points. The interest will be paid in full on maturity.
Earlier this week Buenos Aires province - the richest and most populous district in Argentina - asked 2021 bond holders to delay until the start of May an interest payment that was due this month, a move which knocked down the value of the bond.

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LATIN AMERICA AND CARIBBEAN

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Brazil

Brazil's 2020 gross debt not expected to surpass 80% of GDP

14-Jan-2020
BRASÍLIA, Jan 14 (Reuters) - Brazil's 2020 gross debt is not expected to exceed 80% of the country's gross domestic product, Waldery Rodrigues, special secretary at the Economy Ministry, told journalists on Tuesday.

Rodrigues said that level is still higher compared with the average of countries with similarly sized economies, adding this means Brazil's drive toward fiscal austerity should continue. The country's 2019 primary budget deficit is forecast at about 70 billion reais ($16.91 billion), he said.

Brazil govt debt, deficit projections continue to fall

16-Jan-2020
By Marcela Ayres
BRASÍLIA, Jan 16 (Reuters) - The Brazilian government's fiscal outlook for this year and next continues to improve, an Economy Ministry summary of private sector forecasts on Thursday showed, which will give the government more leeway to meet its deficit targets.

Median forecasts suggest the primary budget deficit this year, before interest rate payments are taken into account, will be 82.3 billion reais ($19.7 billion), down from 84 bln reais predicted previously, according to the Ministry's latest 'Prisma' report.

That would be significantly below the official target of 124.1 bln reais, but still mark the seventh consecutive annual deficit.

Economists' primary deficit forecast for 2021 is 47.2 bln reais, slightly down from 47.6 bln reais in last month's survey, and again well below the government's official target of a 68.5 bln reais shortfall.

The report also showed that economists have reduced their forecast for Brazil's gross national debt this year to 79% of gross domestic product from 79%. That is expected to remain steady into 2021.

El Salvador

Fitch Ratings: El Salvador's 2020 Budget Passage Is Positive for Governability

17-Jan-2020
Fitch Ratings-New York/London-January 17: The passage of El Salvador's 2020 budget and associated financing legislation means that President Nayib Bukele's administration has passed a key political test, Fitch Ratings says.

The budget targets a lower fiscal deficit than initially proposed, but debt/GDP will continue to rise without further consolidation.

President Bukele's GANA party holds just 11 seats in the 84-seat National Assembly, but support from the conservative opposition party ARENA, which holds 37 seats, and a range of other, smaller parties secured the two-thirds majority needed to pass the legislation, which authorizes long-term borrowing. The leftist opposition party FMLN voted against the budget in December's vote.

Bukele won last year's presidential election as an anti-corruption candidate, campaigning on social media and becoming El Salvador's first president since the country's civil war from neither ARENA nor the left-wing FMLN. Passing the budget with the associated authorization for financing demonstrates an ability to negotiate across party lines and develop a consensus within the National Assembly, which is critical for governability. Failure would have been a negative signal for policymaking. The president's high approval rating of nearly 90%, helped by improvements in security and the fight against corruption, suggests he retains significant political capital for future negotiations.

Fitch projects a fiscal deficit of 2.7% of GDP for 2020 based on the approved budget, down from the preliminary estimated deficit of 2.9% in 2019. The narrower projection is due to a new Fiscal Amnesty law which the government hopes will produce an additional USD110 million of revenue. Spending plans reflect the government's policy priorities of improving security, education and social infrastructure, and highlight continued spending pressures. The largest budget increases go to the ministries of defense (26.7%), health (12.4) and security...
Ecuador

Fitch Assigns Ecuador's Partially Guaranteed Social Bond 'B (EXP)' Expected Rating

15-Jan-2020

Fitch Ratings-New York-January 15:

Fitch Ratings has assigned Ecuador's USD400 million partially-guaranteed Social Bond a 'B (EXP)' expected rating. The Social Bond will benefit from a USD300 million partial credit guarantee (PCG) provided by the Inter-American Development Bank (IDB, AAA/Stable) for scheduled debt service payments.

The expected rating on the Social Bond represents a one-notch uplift above Ecuador's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B-', reflecting Fitch's assessment that the PCG-protected issuance would benefit from a higher recovery rate than unsecured obligations of Ecuador in the event of a default by the sovereign.

Fitch last affirmed Ecuador's Long-Term Foreign-Currency IDR of 'B-' on 21 August 2019 and revised the Outlook to Stable from Negative. Ecuador guaranteed;

Long Term Rating; Expected Rating; B (EXP)

KEY RATING DRIVERS

Ecuador will issue a USD400 million Social Bond in the form of senior unsecured 144A/Reg S 15-year amortising notes to finance its social housing programme. The Social Bond will represent general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, and will rank equally in terms of repayment priority with Ecuador's existing Eurobonds. The Social Bond contemplates events of default customarily included in the terms and conditions of other Eurobonds issued by Ecuador in international markets.

The Social Bond will benefit from an amortising USD300 million PCG to be provided by the IDB to the trustee representing the holders of the Social Bond. The PCG will partially cover principal and interest on the Social Bond in accordance with the guarantee's amortisation schedule. The IDB's obligations under the PCG will constitute direct, unsecured obligations.

The PCG provides enhanced potential recovery to the Social Bond noteholders relative to other unsecured creditors. Our analysis of the structure of the Social Bond, including the absence of acceleration rights of the PCG, indicates that the potential recovery on the PCG notes would be in the range of 51%-70% (in line with a Recovery Rating of 'RR3' as outlined in our Criteria for Evaluating Third Party Partial Credit Guarantees), above the normal unsecured recovery rate band of 31%-50% ('RR4') which is typically assumed for Fitch-rated entities. The enhanced recovery potential provided by the guarantee results in a one-notch uplift for the rating of the notes above Ecuador's Long-Term Foreign-Currency IDR of 'B-'.

Other features of the transaction structure include:

Under a counter-guarantee agreement, any payment made by the IDB under the PCG will constitute a loan to Ecuador. Under the agreement, Ecuador will be required to repay any guarantee payment made by the IDB within 180 days. Also, any repayment made by Ecuador to the IDB under the counter-guarantee agreement will be excluded from any recovery claim of the IDB to the Social Bond's trust. Any rights or payments that the IDB might have to receive payments from Ecuador through the Social Bond's trust will rank pari passu with the Social Bond noteholders.

The purchaser of the Social Bond will be Ecuador Social Bond, S.a.r.l. (ESB), a newly formed SPV incorporated in Luxembourg. In turn, ESB will issue class A and class B 144A/Reg S notes, which will be backed by the Social Bond. Interest and principal payments on the class A notes will benefit from 100% of any calls on the IDB's PCG. The class B notes will not benefit from the IDB PCG and will effectively represent senior unsecured obligations of the Ecuador sovereign.
The IDB PCG cannot be accelerated, has a fixed amortisation schedule, and can be drawn up to a maximum amount on each payment date. In the event of a default by Ecuador, calls on the guarantee will be applied to partially cover interest and principal on the Social Bond notes. Fitch believes the primary benefit of the guarantee will be to increase the potential recovery for Social Bond noteholders in the event of an issuer default.

RATING SENSITIVITIES
The notes' rating is sensitive to Ecuador’s sovereign rating. A change in Ecuador’s Long-Term Foreign-Currency IDR would result in a change in the notes' rating.

KEY ASSUMPTIONS
Fitch assumes that the structure of the transaction will be materially in line with documents already provided to the agency.

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Puerto Rico

Puerto Rico to be given access to $8.2 bln in blocked disaster aid funding
15-Jan-2020
Jan 15 (Reuters) - Puerto Rico will be allowed access to $8.2 billion in blocked disaster aid funding by the U.S. Department of Housing and Urban Development (HUD), Politico reported on Wednesday, citing people familiar with the matter. The U.S. territory has undergone hundreds of earthquakes and aftershocks since Dec. 28 that have caused structural damage to thousands of buildings and homes. The quakes have worsened Puerto Rico’s woes as it continues to recover from Hurricanes Maria and Irma in 2017, which killed about 3,000 people, and goes through a bankruptcy process.
"Now that a full financial monitoring team is assembled and active, we can move forward with confidence that these disaster recovery funds will reach those who need them the most," the Politico report quoted an unnamed HUD official as saying.
U.S. President Donald Trump suggested in July last year that Puerto Rico could not be trusted to manage federal aid, saying it was "in the hands of incompetent people and very corrupt people." Access to the funds after all may come as a relief for Puerto Rico after rating agency Moody’s Investors Service said on Tuesday that recent earthquakes posed a setback for the Caribbean island in terms of its economic recovery and ability to retain residents and businesses. The development followed a letter on Tuesday in which Senate Democratic leader Chuck Schumer and several other Senate Democrats asked the Trump administration to approve full aid to Puerto Rico.
The HUD did not immediately respond to a Reuters request for comment outside regular working hours.

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Suriname

Fitch Downgrades Suriname's Ratings to 'CCC'
16-Jan-2020
Jan 16 (Reuters) - Fitch Ratings:
• Fitch downgrades Suriname's ratings to 'CCC'
• Fitch says downgrade of Suriname's rating reflects a sharp increase in government debt, reduced financing flexibility

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AFRICA

Moody's says African Regional and Local Governments' weak fiscal capacity will hold back sustainable development, a credit negative
14-Jan-2020
Jan 14 (Reuters) -
• Moody's says African regional and local governments' weak fiscal capacity will hold back sustainable development, a credit negative
• Moody's says despite rapidly rising infrastructure, capex needs in urban areas in Africa, there is still a financing gap estimated at some $30 billion/year
• Moody's says African RLGS face many challenges in funding infrastructure due to their weak fiscal capacity and limited decentralisation
• Moody's says urbanisation rates differ among African countries & regions, with east Africa expected to be the last region to urbanise

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Egypt

Egypt's central bank keeps overnight interest rates steady

16-Jan-2020
CAIRO, Jan 16 (Reuters) - Egypt's central bank left its overnight interest rates unchanged on Thursday, unexpectedly halting an easing cycle that began in August.
The bank kept its deposit rate steady at 12.25% and its lending rate at 13.25%, the bank’s Monetary Policy Committee (MPC) said in a statement.
Eight out of 11 economists surveyed by Reuters had expected the bank to cut rates. Of those, four saw a 50 basis point cut and four a 100 bps cut.
The bank cut rates at each of its previous three MPC meetings as inflation abated, with urban consumer price inflation decelerating to as little as 3.1% in October.
But in December, inflation rebounded to 7.1% year-on-year from 3.6% in November as favourable base-year effects wore off.
"Following the cumulative reduction of 350 basis points over the previous three MPC meetings, the MPC decided that keeping key policy rates unchanged remains consistent with achieving the inflation target of 9 percent (±3 percentage points) in 2020 Q4 and price stability over the medium term," the statement said.
Allen Sandeep, head of research at Naeem Brokerage, said the surprise hold in rates was likely caused by the 3.5% increase in inflation.
"This means that the central bank, faced with a close call, continues to choose the conservative path when it comes to monetary policy," he said.
Economist Mohamed Abu Basha of EFG Hermes said a rise in international oil prices may also have caused the MPC to remain cautious.
"We still think though they have room to cut rates in 2020 as real rates still remain high with inflation at 6-7%," he said.
The MPC meeting was postponed by three weeks to Jan. 16 pending the confirmation of committee members under Governor Tarek Amer's second four-year term.

(Reporting by Amina Ismail, writing by Patrick Werr; Editing by Kirsten Donovan and Grant McCool)
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Egypt/Ethiopia/Sudan

Egypt, Ethiopia, Sudan to finalize Blue Nile dam agreement this month

15-Jan-2020
WASHINGTON, Jan 15 (Reuters) - Ministers

The ministers met in Washington this week and agreed to fill the $4 billion Grand Ethiopian Renaissance Dam (GERD) in stages during the wet season, taking into account the impact on downstream reservoirs, the U.S. Treasury Department, which hosted the meeting, said in a joint statement with the countries and the World Bank.
Initial filling of the dam, due to begin in July, will aim for a level of 595 meters above sea level and early electricity generation, while providing appropriate mitigation measures for Egypt and Sudan during severe droughts, the statement said.
The ministers will hold technical and legal talks ahead of their Jan. 28-29 meeting in Washington, where they plan to finalize the agreement, the statement said.
Cairo fears the dam, announced in 2011 and under construction on the Blue Nile near Ethiopia’s border with Sudan, will restrict supplies of already scarce Nile waters on which its population of more than 100 million people is almost entirely dependent.
Addis Ababa denies the dam will undermine Egypt's access to water and says the project is crucial to its economic development, as it aims to become Africa's biggest power exporter with a projected capacity of more than 6,000 megawatts.
The three regional powers convened in Washington for the third time on Monday, aiming to reach a deal before Wednesday’s deadline the nations had agreed to following a November meeting with U.S. Treasury Secretary Steven Mnuchin and World Bank President David Malpass.
Previous meetings ended without agreement, with Egypt voicing concern that Ethiopia had not offered sufficient guarantees that filling the dam would be slowed during droughts.
Meetings in Addis Ababa last week ended in deadlock as Ethiopia said Egypt had proposed filling the dam over an extended period of 12-21 years, and that this was unacceptable.
However, Egypt said it had not specified the number of years over which the dam’s reservoir should be filled, and that an earlier, stage-based process agreed on by the countries would lead to a filling period of six to seven years under normal conditions.

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Kenya

Kenya in talks with World Bank for loan of as much as $1 bln
17-Jan-2020
By Duncan Miriri
NAIROBI, Jan 17 (Reuters) - Kenya is in advanced talks with the World Bank for "a fairly priced" loan of up to 100 billion shillings ($991.57 million), nearly half of its required external funding this fiscal year, a senior Treasury official said on Friday.
The East African nation wants to cut debt from overseas capital markets, after a borrowing binge in recent years, including Eurobond offerings, a package of Chinese loans and syndicated commercial loans.
The World Bank, which has multiple development funding programs with Kenya worth billions of dollars, is seen as one of the viable alternatives to commercial debt.
The Washington D.C.-based financier lent money straight to the Kenyan ministry of finance for the first time last year, changing past practice where it channelled cash straight to the projects, bypassing the Treasury.
"The size of the loan from the World Bank will be determined by how much its own funders can put together," said Julius Muia, the principal secretary in the ministry of finance.
"We are thinking something between 50-100 billion (shillings) depending on what kind of interest there will be," he told Reuters.
The loan will be cheaper than commercial debt, the official said, in line with the government's policy of cutting its funding costs.
"It is very competitive, it is fairly priced," Muia said, adding it was likely to be just above the bank's concessional rate of 200 basis points in interest.
Kenya became a middle-income country in 2014 after it rebased the economy, meaning it cannot secure funds from the World Bank at the concessional rates offered to low-income states.
The finance ministry has set a budget deficit of 6.3% of GDP for this financial year to the end of June and Muia said about 213 billion shillings is needed to cover the deficit.
The balance of the funds will be raised through Kenya's first sovereign green bond, he said, with the country taking advantage of next week's UK-Africa investment summit in London to gauge investor demand for the potential issue.
"It is taking shape as we go," Muia said.
The Treasury projects that the budget deficit will shrink to 5.7% of GDP in 2020/21. The gap, which peaked at 9.1% of GDP in 2016/17 financial year, is expected to narrow further to the desired level of 3.3% in 2023/24.
Muia said he was confident that this year's deficit will be fully covered through affordable loans.
"We are very clear in our minds that we want to keep the cost of debt down."

Nigeria

Nigeria to issue 150 bln naira worth of sukuk this year
17-Jan-2020
ABUJA, Jan 17 (Reuters) - Nigeria plans to issue sukuk bonds worth 150 billion naira ($490 mn) on the local market this year, the Debt Management Office said on Friday.
The debt office said the funds would be used for road projects.

Nigeria's debt rose to 26.2 trln naira as of Sept
17-Jan-2020
ABUJA, Jan 17 (Reuters) - Nigeria's total public debt rose to 26.21 trillion naira ($85.54 bln) as of September, up from 22.43 trillion naira a year earlier, the Debt Management Office said on Friday.

Nigeria to talk to concessionary lenders about $2.8 bln borrowing
17-Jan-2020
By Camillus Eboh
ABUJA, Jan 17 (Reuters) - Nigeria plans to talk to concessionary lenders about 850 billion naira ($2.8 billion) in external borrowings earmarked in its 2020 budget, the head of the debt office said on Friday.
"The 850 billion naira does not mean Eurobonds. We will still talk with concessionary lenders," Debt Management Office Director General Patience Oniha told reporters.
Nigeria has been borrowing to fund growth after a 2016 recession slashed income and weakened
its currency. The government is now seeking to raise revenues through value-added tax hikes, but the cost of debt service is also rising. Onha said the strategy is to seek concessionary loans first due to the lower interest rate and longer maturities, and any shortfall might be raised from commercial sources.

Nigeria has budgeted to spend 10.59 trillion naira ($34.6 billion) for 2020, which assumes a deficit of 1.52% of the estimated gross domestic product - around 2.18 trillion naira - to be funded through foreign and domestic borrowing.

The debt office said Nigeria has a debt-to-GDP ratio of 18.47% - below its limit of 25% and comparing favourably with those of developed countries, some of which are above 100%.

However, Nigeria, Africa’s biggest economy, spends more than half of its revenues in debt service, the debt office said.

Total public debt rose to 26.2 trillion naira as of September, up 16.88% from a year earlier. The debt office said it has managed to stretch out the maturity profile of its borrowings in favour of longer term debt.

For new local financing, the debt office said the government would issue 150 billion naira worth of sukuk this year, in addition to bonds and treasury bills.

In a presentation seen by Reuters on Thursday, the debt office said it would introduce a 15-year maturity for the first time and sell a new 30-year bond, after launching the tenor last year, to extend the maturity profile of its debt.

Last year, foreign investors cut their participation in Nigerian government bond auctions after yields fell and an oil prices drop reignited fears that the currency could come under pressure.

Yields have fallen from as high as 15% to around 11% for the benchmark 10-year bond.

(Additional reporting and writing by Chijioke Ohuocha
Editing by Mark Heinrich)

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Global debt shattering records
13-Jan-2020
By Marc Jones
LONDON, Jan 13 (Reuters) - Global debt is expected to climb to a new all-time high of more than $257 trillion in the coming months, the Institute of International Finance estimated on Monday, adding there was no sign of it retreating either.

The amount works out at around $32,500 for each of the 7.7 billion people on planet and more than 3.2 times the world’s annual economic output, but the staggering numbers don’t stop there.

Total debt across the household, government, financial and non-financial corporate sectors surged by some $9 trillion in the first three quarters of 2019 alone.

In mature markets total debt now tops $180 trillion or 383% of these countries’ combined GDP, while in emerging markets it is double what it was in 2010 at $72 trillion, driven mainly by a $20 trillion surge in corporate debt.

"Spurred by low interest rates and loose financial conditions, we estimate that total global debt will exceed $257 trillion in Q1 2020," the IIF said, adding non-financial sector debt was now approaching $200 trillion.

Global government debt alone is set to break above $70 trillion.

China’s debt is fast approaching 310% of its GDP.

Rwanda GDP to grow 8% in 2020
18-Jan-2020
KIGALI, Jan 18 (Reuters) - Rwanda’s economy is expected to grow by 8% this year and in 2021 versus an estimated 8.5% in 2019, boosted by private investment and trade, the International Monetary Fund (IMF) said.

The small East African nation’s economy relies largely on agriculture, tourism and mining. The government also forecasts it will grow 8.5% in 2019.

It grew 11.9% in third quarter versus 7.7% in the third quarter of 2018, reflecting an improved performance in manufacturing, construction and services.

"Upside risks (to growth) are a continuation of strong private investment, more regional trade, and growth payoffs from large public investment projects," the IMF said.

Factors that could slow growth include high fuel prices, unpredictable weather and regional issues, the IMF said in a statement late on Friday.

It did not elaborate on those regional issues.

Early last year, Rwanda closed its main border crossing with neighbouring Uganda. It was briefly re-opened to cargo trucks in June but then closed again.

Rwandans were banned from travelling to Uganda, which has accused Rwanda of effectively imposing a trade embargo.

In August, the two countries’ presidents signed a pact agreeing the two sides would respect each other’s sovereignty, refrain from action that destabilises the other's territory, and resume cross-border activities.

(Reporting by Clement Uwiringiyimana; writing by George Obulutsa; editing by Jason Neely)

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— one of the highest in emerging markets - and following a marked slowdown in 2017/18 when Beijing made a big push for deleveraging, there has been a pick-up again in corporate debt. **China’s government debt also grew at its fastest annual pace last year since 2009, the IIF said, and household debt and general government debt are now at all-time highs of 55% of GDP.**

All parts are the world are loading up however. Household debt-to-GDP have reached a record high in Belgium, Finland, France, Lebanon, New Zealand, Nigeria, Norway, Sweden and Switzerland.

Non-financial corporate debt to GDP topped in Canada, France, Singapore, Sweden, Switzerland and the United States. Government debt-to-GDP has also hit an all-time high in Australia and the United States.

The IIF’s data is based on Bank for International Settlements and International Monetary Fund figures as well as its own.

Another potentially risky trend is that the amount of emerging market ‘hard currency’ debt - debt sold in a major currency like the dollar that can become hard to pay back if a crisis hits a local currency's value - reached $8.3 trillion in Q3 2019, $4 trillion higher than a decade ago. Dollar debt accounts for over 85% of this increase.

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**EMERGING MARKETS**

**Rising sea levels threaten sovereign credit ratings**

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SINGAPORE, Jan 16 (Reuters) - Economic shocks stemming from rising sea levels pose a long-term risk to the sovereign credit ratings of dozens of countries which have large areas at risk of submersion, including Vietnam, Egypt, Suriname and the Bahamas, Moody's said on Thursday.

Climate science suggests that sea levels will continue to rise for decades, contributing to increasingly frequent natural disasters such as storm surges, floods and cyclones, the credit rating agency said in a report.

"The economic and social repercussions of lost income, damage to assets, a loss of life, health issues and forced migration from the sudden events related to sea level rise are immediate," Moody's said.

"Vulnerability to extreme events related to sea level rise can also undermine investment."

Farming, tourism and trade are all threatened by rising sea levels, especially in countries with a large proportion of land and people at risk of submersion, including island states like the Philippines, Fiji and the Maldives.

While high-income economies, such as Japan and the Netherlands, are also exposed, they have countermeasures in place that mean their credit ratings are unlikely to be materially impacted, Moody’s said.

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