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Emerging Sovereign Debt Markets NEWS

Number 25 Week 13 – 19 June 2020

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ASIA

China

China's 1 trillion yuan special treasury bonds issue will all be sold via auction

15-Jun-2020

SHANGHAI, June 15 (Reuters) - **China's 1 trillion yuan ($140 billion) in special treasury bonds will all be sold via auction, four banking sources told Reuters on Monday.**

One of the sources, who attended a meeting held by China's finance ministry on Monday afternoon, said the government aims to complete the bond sales by the end of July.

China last month announced plans to issue 1 trillion yuan in special treasury bonds for the first time this year, as Beijing ramps up stimulus to aid a virus-hit economy.

($1 = 7.0938 Chinese yuan renminbi)
(Reporting by Hongwei Li, Wu Fang, Xiangming Hou and Brenda Goh; writing by Samuel Shen; Editing by Toby Chopra)
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China mulls plans to fund smaller lenders via local govt bonds

15-Jun-2020

BEIJING, June 15 (Reuters) -- **China is studying plans to recapitalize country's smaller banks via sales of special local government bonds, with a cap of such sales at around 200 billion yuan, China's financial news outlet Caixin reported Monday, citing unamed sources.**

-- The discussion of such plan is at its early stage, Caixin reported, and will set strict conditions on each bank that need the government funding.

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China to issue 3rd batch of special bonds for COVID-19 control

16-Jun-2020

BEIJING, June 16 (Xinhua) -- **China will issue the third batch of special government bonds for COVID-19 control amid efforts to balance epidemic control with economic and social development, the Ministry of Finance said Tuesday.**

The 10-year fixed-rate bonds, worth 70 billion yuan (about 9.89 billion U.S. dollars), will be available for tenders on June 23 and become tradable on June 30, according to a statement on the ministry's website.

On Monday, the ministry announced the issuance of the first two batches of special government bonds, including 50 billion yuan of five-year bonds and 50 billion yuan of seven-year bonds. Both will be listed and traded on June 23, 2020.

China will pursue a more proactive and impactful fiscal policy, setting its fiscal deficit above 3.6 percent of GDP and issuing 1 trillion yuan of government bonds for COVID-19 control this year to release more funds for companies and individuals.

Enditem

China issuance of special gov't bonds to have limited impact on liquidity: analysts

17-Jun-2020

BEIJING, June 17 (Xinhua) -- **China's upcoming issuance of special government bonds for COVID-19 control will have a limited impact on market liquidity and bond prices, analysts said.**

China will issue the first three batches of special government bonds totaling 170 billion yuan (about 24 billion U.S. dollars) to raise funds for coordinating epidemic control and economic development, the Ministry of Finance said Tuesday.

The first two batches of 50 billion yuan of five-year bonds and 50 billion yuan of seven-year bonds will be listed and traded on June 23, while the third batch of 10-year bonds will become tradable on June 30, according to statements on the ministry's website.

Following the announcement, spot prices of bonds plunged while treasury yields climbed.

Although large-scale government bond issuances inevitably squeeze market liquidity and raise borrowing costs, the impact will be limited, analysts said.

Local governments may take into account the special bond issuance and delay some of their own fundraising via bonds, effectively easing their liquidity pressure, said Ming Ming, an analyst with CITIC Securities.

In the meantime, the central bank has stepped up open market operations recently, hinting at an easing bias that will relieve some of the pressure, he noted.

Zhang Xu, an analyst with Everbright Securities, said some of the funds raised via previous government bond issuances will be spent in June and July, adding to market liquidity.

China will pursue a more proactive and impactful fiscal policy, setting its fiscal deficit above 3.6 percent of GDP and issuing 1 trillion yuan of government bonds for COVID-19 control this year to release more funds for companies and

individuals.
The overnight Shanghai Interbank Offered Rate, which measures the borrowing cost of China's interbank market, rose by 29.7 basis points to 2.048 percent Wednesday.

Enditem

India

India Bond Yields Tad Higher Ahead Of State Debt Sale

16-Jun-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jun 16) -- **Indian government bond yields rose marginally ahead of fresh supply of state debt, while investors awaited cues from a meeting between the federal and state governments today.**
The benchmark 5.79% bond maturing in 2030 changed hands at 99.80 rupees, yielding 5.82%, at 10:45 a.m. in Mumbai against 99.97 rupees, yielding 5.79%, yesterday. The Indian rupee was at 75.83 to the dollar against 76.02 at 2:00 p.m. yesterday.
Indian states will sell 47 billion rupees of bonds maturing in three-to-30 years today, and New Delhi will sell 300 billion rupees of bonds on Friday, which includes 180 billion rupees of benchmark note.
"We should not see any major activity today as fundamentals are still the same," a trader with a private bank said. "If hints of further lockdown are given by some states, then we may see some negative reaction."
India's Prime Minister Narendra Modi will interact with state chief ministers today and tomorrow amid concerns over a further spike in coronavirus cases.
Asia's third-largest economy is emerging from a months-long lockdown with most restrictions lifted in areas that are not containment zones. The number of reported Covid-19 cases has risen to 332,424 so far, resulting in 9,900 deaths.
Indian bond yields have been trading in a thin range over the past few sessions on hopes that the central bank will announce measures to absorb the additional supply of notes.
New Delhi has hiked its annual borrowing target by 54% to a record high of 12 trillion rupees for this fiscal year and is expected to go in for another round of additional borrowing in the second half.
The Reserve Bank of India must opt for secondary purchases of government bonds and the quantum must be between three trillion rupees and six trillion rupees, ICICI Securities Primary Dealership said. The RBI has so far not announced an OMO in this fiscal year.
Moreover, India's Monetary Policy Committee is expected to further cut interest rates as the nation's economic growth is expected to contract this year. The MPC has cut rates by 115 basis points in 2020 so far to a record low of 4%, and is likely to cut rates by around 50 basis points in the next policy, traders said.
Crude oil prices fell on concerns that a rise in coronavirus infections around the world could dent fuel demand. The benchmark Brent crude oil contract 0.6% lower at $39.49 per barrel, after climbing 2.6% yesterday. India imports over 80% of its crude oil requirements.

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Fitch Revises India's Outlook to Negative, Affirms IDR at 'BBB-'

18-Jun-2020
Fitch Ratings has revised the Outlook on India's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable and affirmed the rating at 'BBB-'.
KEY RATING DRIVERS
The revision of the Outlook to Negative on India's Long-Term IDRs reflects the following key rating drivers:
The coronavirus pandemic has significantly weakened India's growth outlook for this year and exposed the challenges associated with a high public-debt burden. Fitch expects economic activity to contract by 5% in the fiscal year ending March 2021 (FY21) from the strict lockdown measures imposed since 25 March 2020, before rebounding by 9.5% in FY22. The rebound will mainly be driven by a low-base effect. Our forecasts are subject to considerable risks due to the continued acceleration in the number of new COVID-19 cases as the lockdown is eased gradually. It remains to be seen whether India can return to sustained growth rates of 6% to 7% as we previously estimated, depending on the lasting impact of the pandemic, particularly in the financial sector.
The humanitarian and health needs have been pressing, but the government has shown expenditure restraint so far, due to the already high public-debt burden going into the crisis, with additional relief spending representing only about 1% of GDP by our estimates. Most elements of an announced package totalling 10% of GDP are non-fiscal in nature. Some further fiscal spending of up to 1 percentage point of GDP may still be announced in the next few months, which was indicated by a recent announcement of additional borrowing for FY21 of 2% of GDP, although we do not expect a steep rise in spending.
Fiscal metrics have deteriorated significantly, notwithstanding the government's expenditure

restraint, due to the impact of the severe growth slowdown on revenue, the fiscal deficit and public-sector debt ratios. Fitch expects general government debt to jump to 84.5% of GDP in FY21 from an estimated 71.0% of GDP in FY20. This is significantly higher than the median of 42.2% of GDP for the 'BBB' category in 2019, to which FY20 corresponds, and 52.6% for 2020. The medium-term fiscal outlook is of particular importance from a rating perspective, but is subject to great uncertainty and will depend on the level of GDP growth and the government's policy intentions.

India's record of fiscal consolidation has been mixed since the 2008 global financial crisis, with the general government debt remaining broadly stable at close to 70% of GDP for over a decade. Double-digit nominal GDP growth has not led to a decline in the government debt ratio in recent years, an important reason being the crystallisation of contingent liabilities and significant off-budget financing. Weak implementation of fiscal rules stipulated in the Fiscal Responsibility and Budget Management Act contributes to our view that a speedy fiscal improvement after the pandemic recedes is unlikely.

India's medium-term GDP growth outlook may be negatively affected by renewed asset-quality challenges in banks and liquidity issues in non-banking financial companies (NBFC). The financial sector was already facing weak business and consumer confidence before the crisis and authorities had to deal with some high-profile cases over lapses in governance. Nonetheless, the banking sector's non-performing loan (NPL) ratio likely improved to 9.0% in FY20 from 11.6% two year earlier, according to our estimate, due to government capital injections.

A renewed rise in NPLs and the need for further financial government support now seem inevitable despite regulatory measures announced by the Reserve Bank of India (RBI). These measures include an extension of the 90-day moratorium on recognition of impaired loans to 180 days and several relaxations in bank lending limits such as allowing banks to fund interest on working-capital loans. These moves will put a heavy onus particularly on public-sector banks to bail out the affected sectors and extend impaired-loan recognition, heightening solvency risks if not met by adequate and timely capital support.

India's 'BBB-' IDRs also reflect the following key rating drivers:-

The relatively closed nature of India's capital markets, with limited foreign portfolio inflows, supports the authorities' ability to finance wider fiscal deficits domestically. **Only around 4% of government securities are held by non-residents and the external liabilities account for just 6% of central government debt.** The RBI has also built up its foreign-exchange reserve buffers in recent months to USD502 billion by 5 June 2020, covering around nine months of current account payments, higher than the 'BBB' median of five months. The government intends to open up more to foreign capital in the next few years as a source of deficit financing, but foreign investors' tolerance for government debt at current levels, with a significantly larger portion of external debt, remains to be tested.

The RBI cut its policy rates by 115bp since March this year to support the economy and provided liquidity through long-term repo operations, including targeted ones to stimulate bank lending to NBFCs. We expect the RBI to cut its policy rate by at least another 25bp this fiscal year, as a recent spike in food prices is receding and near-term price moves are likely to be disinflationary in the current environment. A credible inflation-targeting framework in place since 2016 makes debt reduction through high inflation less likely over the medium term. India experienced double-digit inflation in the few years immediately following the deterioration in fiscal metrics during the global financial crisis.

The government has announced structural reforms as part of its response to the pandemic to strengthen GDP growth over the medium term, which, if successful, could improve India's fiscal position. Reforms to improve the efficiency of agricultural supply chains could help reduce food prices and swings in inflation, with food prices accounting for almost half of the CPI basket. The intention to privatise state-owned enterprises (SOE) could also be transformative, depending on the details, the willingness of the government to sell stakes of over 50%, and the demand for these assets in the current environment. The combined debt of around 200 SOEs owned by the central government amounts to 6.7% of GDP, but such information is unavailable for the around 800 SOEs owned by state governments.

Geopolitical risk related to longstanding border issues with India's neighbours was highlighted again by recently intensified tensions with China. Relations with Pakistan are, moreover, negatively affected by the repeal of the special status for Kashmir and recent changes to the status of illegal immigrants based on their religion. A stronger focus by the ruling Bharatiya Janata Party on its Hindu-nationalist agenda since the government's re-election in May 2019 risks becoming a distraction for economic reform implementation and could further raise social tensions.

The Indian economy is less developed on a number of structural metrics than many of its peers. India's ranking for Ease of Doing Business has drastically improved in recent years; at the 68th percentile it is now comparable, albeit still below, the 'BBB' median of the 71st percentile. India's relatively low basic human development is indicated by its ranking on the United Nations Human Development Index (32nd percentile versus the BBB median of 67th percentile), while average per capita GDP also remains low, at USD2,100, compared with the 'BBB' range median of USD12,172.

ESG - Governance: India has an ESG Relevance Score of 5 for both Political Stability and Rights, and the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators have in our proprietary Sovereign Rating Model. India has a medium World Bank Governance Indicator ranking at the 49th percentile (below the BBB median of 58th percentile), reflecting a recent record of peaceful political transitions, moderate institutional capacity and established rule of law, but a high level of corruption.

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

Fitch's proprietary SRM assigns India a score equivalent to a rating of 'BBB-' on the Long-Term Foreign-Currency (LT FC) IDR scale. Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final LT FC IDR.

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

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A structurally weaker real GDP growth outlook, for instance due to continued financial-sector weakness or reform implementation that is lacking.
- Failure to reduce the fiscal deficit after the pandemic recedes, and to put the general government debt/GDP ratio on a downward trajectory.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Implementation of a credible strategy to reduce general government debt after the pandemic that would put it on a path towards the 'BBB' peer median.
- Higher sustained investment and growth rates in the medium term without the creation of macroeconomic imbalances, such as from successful structural reform implementation and a healthier financial sector.

Best/Worst Case Rating Scenario

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

KEY ASSUMPTIONS

The world economy performs broadly in line with Fitch's latest Global Economic Outlook, published in May 2020.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

India 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.

India 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 Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight.

India has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as strong 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.

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

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity (IES), either due to their nature or to the way in which they are being managed by the entity (IES).

India; Long Term Issuer Default Rating; Affirmed; BBB-; RO: Negative
Short Term Issuer Default Rating; Affirmed; F3
Local Currency Long Term Issuer Default Rating; Affirmed; BBB-; RO: Negative
Local Currency Short Term Issuer Default Rating; Affirmed; F3
Country Ceiling; Affirmed; BBB-

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India's Rating to now depend on Economic Recovery, Fiscal Prudence

18-Jun-2020 36
By Dharam Dhutia
NewsRise

MUMBAI (Jun 18) -- **India's sovereign rating will now depend on the extent of its economic recovery from the coronavirus impact, fiscal prudence and containing financial stability risks, Nomura said today.**

While rating agencies are cutting the economy some slack for the next six months, the year 2021 remains a crucial year for India to either disprove or affirm these three concerns before "ultimate" rating outcome is determined, Economists Sonal Varma and Aurodeep Nandi said in a note.

The house sees chances of next rating action as early as the end of this year or the beginning of 2021.

The comments come after Fitch Ratings today lowered outlook on India's Long-Term Foreign-Currency Issuer Default rating to negative from stable citing weak growth and challenging fiscal metrics. However, it kept the sovereign rating steady at investment grade BBB-. **Earlier this month, Moody's Investors Service had cut the nation's rating by one notch to Baa3, the lowest investment grade, while maintaining negative outlook. S&P Global Ratings had kept India's rating at BBB- and maintained stable outlook.**

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India's pursuit of global investors hits turbulence

19-Jun-2020

- **India's economic fundamentals hit by coronavirus**
- **Investment grade credit rating at risk**
- **Efforts to open up finance markets have been sluggish**
- **Potential for major bond index inclusion**

By Marc Jones and Saikat Chatterjee

LONDON, June 19 (Reuters) - **India's ambition to attract more foreign money into its financial markets is being buffeted again, having only just started to make progress after years of talk but very little action.**

Deadly clashes between Indian and Chinese troops on the Himalayan border, a surge in coronavirus cases and its second sovereign credit rating cut of the month on Thursday has thrown the country back into the international spotlight this week.

It is unfortunate timing, coming just months after Indian policy makers embarked on a fresh drive to open the country's bond markets to global investors, but adds to a list of issues stacking up.

After years of rapid growth, India's economy is facing its worst recession in recent history, unemployment has been catapulted to an unprecedented 24%, and extra government spending is expected to leave a yawning 11% budget deficit that will push the debt-to-GDP ratio beyond 80%.

"The coronavirus pandemic has significantly weakened India's growth outlook for this year and exposed the challenges associated with a high public-debt burden," ratings agency Fitch said as it joined Moody's in cutting the Country's rating.

The moves leave it teetering on the last rung of investment grade and a possible return to 'junk' status for the first time in nearly 14 years. Fitch cited doubts whether growth rates of 6-7% could be reclaimed, while Moody's broader concern is that remedies needed to strengthen fiscal health have barely begun.

Mark Evans, investment analyst for emerging market debt and currency at Ninety One, said a further downgrade would "likely trigger a knee-jerk negative reaction across all Indian assets".

Brazil to South Africa in recent years have shown the cost of losing your investment grade stripes but what matters more, Evans added, was whether there was willingness and ability to get fundamentals back on a sounder footing.

"The coronavirus pandemic is a global shock and is not unique to India," Sanjeev Sanyal, principle chief economic adviser at the Ministry of Finance, New Delhi told Reuters in response to questions about the rating worries.

"As far as our ability to service external debt is concerned, India's foreign exchange reserves of $500 billion and rising are more than adequate to meet all foreign obligations."

QUESTION OF TIMING

Policymakers have been talking about opening up India's financial sector and internationalising the use of the rupee for more than a decade, with little progress.

One element of the recent reform plans was to bring foreign investors into Indian markets in broadly the way China has over the last decade.

World Bank head David Malpass has noted India's equity market capitalization had grown to over $2.2 trillion but its debt market remains at a "nascent stage of development".

Less than 4% of government bonds are held by foreigners compared to 20%-40% in nearby Indonesia and Malaysia, according to Institute of International Finance (IIF) deputy chief economist Sergi Lanau. Corporate-bond issuance was roughly 4% of GDP, which is also much less than other big emerging markets.

In March, the central bank took its first real stab at addressing this, moving away from 6% limits on foreign ownership of government bonds and allowing unlimited access on a select group of benchmarks, under Fully Accessible Route (FAR) plan.

The previous limits have kept India's bonds out of top global investment indexes like the JPMorgan-run GBI-EM or Bloomberg Barclays Global Aggregate which attract emerging market-focused money managers worldwide.

Noting the FAR changes, JPMorgan this month flagged India as one of four countries vying for

possible GBI-EM inclusion. It could have chunky 7.8% weighting in the index, though with only 9% of debt stock currently covered by the new rules, the U.S. bank stopped short of suggesting it was imminent.
Jayesh Mehta, India country treasurer at Bank of America, is bullish that at least one of the big indexes will include it soon, though others think it remains some way off. The Barclays Bloomberg index requires an investment grade rating too.
Aviva fund manager Stuart Ritson is one of the doubters. He thinks the prospect of more interest rate cuts by the Reserve Bank of India still makes the country's bonds attractive at present. But $14 billion worth have been sold by foreign investors this year. Outflows from Indian stocks also hit a three-year high in the March quarter.
BofA's Mehta also sees little progress in making the rupee a global power-currency. Masala bonds -- rupee-denominated bonds issued outside India -- have emerged, but there is little incentive for firms to invoice internationally in the currency.
The rupee's share of daily FX market turnover has gradually crept up to 1.7% but that compare to 4.3% for China's yuan where Beijing has been more proactive is pushing yuan bonds.
New Delhi's reluctance to issue dollar-denominated bonds might also cut the government's options at a time when the gaping budget hole needs to be plugged. A ratings downgrade would only make the job tougher.
"We certainly need to watch that space given the level of shock to the system we are seeing now," said Neeraj Seth, head of Asian credit at BlackRock.

(Additional reporting by Manoj Kumar in New Delhi and Swati Shetye Bhat in Mumbai; Editing by Toby Chopra) ((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Indonesia

Indonesia Q2 GDP seen shrinking by 3.1%

16-Jun-2020
JAKARTA, June 16 (Reuters) - **Indonesia's gross domestic product (GDP) is likely to shrink by 3.1% on-year in the second quarter due to weak economic activity amid movement curbs to control the spread of the coronavirus, Finance Minister Sri Mulyani Indrawati said on Tuesday.**
Indrawati said in an online briefing the economy may recover in the following quarter, but may still record a contraction, while positive GDP growth may return in the final quarter of 2020.
Her baseline outlook for 2020 GDP growth remained between -0.4% to 2.3%, but she said growth looked more likely to be within a range of 0% to 1%.
A document she presented in the briefing showed a projection of 8.2% GDP growth in 2021.

(Reporting by Gayatri Suroyo and Maikel Jefriando; Editing by Muralikumar Anantharaman) ((gayatri.suroyo@thomsonreuters.com; +622129927609; Reuters Messaging: gayatri.suroyo.thomsonreuters.com@reuters.net))

Indonesia's fin min flags recession risk as spending hits a snag

16-Jun-2020
- **Q2 GDP seen -3.1% y/y, vs +2.97% in Q1**
- **Q3 GDP may shrink again or turn out flat**
- **Stimulus size increased slightly, but spending has been slow**

By Maikel Jefriando
JAKARTA, June 16 (Reuters) - **Indonesia's economy faces the risk of recession this year due to the coronavirus pandemic, its finance minister said on Tuesday, adding that only a small amount of the government's billion dollar budget to fight the crisis had been doled out.**
Sri Mulyani Indrawati told an online briefing Southeast Asia's largest economy was expected to shrink in the April-June quarter by 3.1% from a year earlier - marking the first contraction since 1999.
The economy could also contract in the third quarter before returning to growth in the final three months of 2020, she said. However, GDP could also be flat in July-September quarter, which would mean the economy avoids a technical recession.
GDP expanded 2.97% in the first quarter.
"We're preparing for all possibilities so that the corporate sector and then the financial sector do not get hit by the domino effect of this COVID-19," she said. "All while we're praying there is no second outbreak."
The minister said the government had only spent a fraction of its pandemic response budget, including less than 2% of allocations for public health and 7% on incentives for businesses. It had disbursed 27% of its social protection programmes, she said.
Indrawati said the programmes were new and there had been challenges distributing cash assistance due to problems such as overlapping data.
She put the size of the 2020 stimulus at 695.2 trillion rupiah ($49.6 billion), slightly more than her previous estimate.
Her baseline outlook for 2020 GDP growth remained between -0.4% to 2.3%, but she said growth looked more likely to be within a range

of 0% to 1%. A steep recovery was expected in 2021, with GDP growth projected at 8.2%. The economy expanded 5% last year.
The government ran a budget deficit of 1.1% of GDP as of the end of May, data showed, significantly below the 6.3% expected for the whole year. It had spent 843.9 trillion rupiah in the first six months, or 31% of the amount targeted for 2020.

($1 = 14,020.0000 rupiah)
(Additional reporting and writing by Gayatri Suroyo; Editing by Jacqueline Wong)
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Investors plough into Indonesia sukuk

17-Jun-2020
By Jihye Hwang and Daniel Stanton
HONG KONG/SINGAPORE, June 17 (IFR) - **The Republic of Indonesia (Baa2/BBB/BBB) has printed a US$2.5bn three-tranche sukuk inside its curve, off an order book of US$16.66bn.**
All three tranches priced 70bp inside initial guidance. A US$750m five-year green sukuk priced at par to yield 2.3%, inside initial guidance of 3% area. The US$1bn 10-year and US$750m 30-year tranches also priced at par to yield 2.8% and 3.8%, respectively, inside initial guidance of 3.5% area and 4.5% area.
Investors, including ESG-compliant funds, ploughed into the deal although the bonds priced inside Indonesia's existing curve by as much as 25bp, according to a banker on the deal.
"They considered it an opportunity to lock in yields as rates are expected to stay low for a prolonged period of time, while investors don't expect as many sovereign issuances," said the banker.
"Sovereigns and quasi-sovereign names from Asia outside of China, which receive global investor demand, are also well bid at this point because trades of US comparables are super-tight and it's hard to pass on that additional pick-up."
The US Federal Reserve said earlier this week that it would start buying individual corporate bonds in its Secondary Market Corporate Credit Facility, pushing down average investment-grade spreads further from their March peaks.
The five-year green sukuk and the 10-year portion were trading flat on Wednesday morning, while the 30-year tranche traded slightly up at a cash price of 100.375.
The strong investor interest comes despite the macroeconomic headwinds Indonesia is facing due to the coronavirus outbreak. **S&P has revised its outlook on Indonesia to negative from stable, citing sharp depreciation of the rupiah, which raised the cost of servicing foreign currency debt, as well as the government's debt burden.**
Around 40% of Indonesian government's debt is denominated in foreign currencies, according to the rating agency, while the government's budget deficit is forecast to reach a multi-decade high of 4.7% this year due to stimulus measures to cushion the impact of the pandemic.
Each tranche of the new 144A/Reg S sukuk was more than five times covered.
The green sukuk received final orders from 196 accounts totalling over US$5.53bn, including US$1.048bn from the leads. Asia, excluding Indonesia, took 40%, Indonesia 5%, Middle East and Islamic 32%, Europe 11% and the US 12%. Fund managers bought 54%, banks 27%, central banks and sovereign wealth funds 15%, insurance and pension firms 3% and private bank and others 1%.
The 10-year note received final orders of over US$5.6bn, including US$1.159bn from the leads, from 190 accounts. Asia, excluding Indonesia, took 34%, Indonesia 5%, Middle East and Islamic 31%, Europe 12% and the US 18%. Fund managers bought 54%, banks 38%, insurers, pension funds and sovereigns 6% and private bank and others 2%.
The 30-year sukuk received final orders of over US$5.53bn, including US$395m from the leads, from 207 accounts. Asia, excluding Indonesia, took 44%, Indonesia 5%, Middle East and Islamic 10%, Europe 33% and the US 8%. Fund managers bought 73%, banks 15%, insurance and pension firms 9% and private banks and others 3%.
Perusahaan Penerbit SBSN Indonesia III is the issuer of the sukuk with the government of Indonesia, represented by the Ministry of Finance, acting as obligor.
BNP Paribas, Dubai Islamic Bank, HSBC, Maybank and Standard Chartered are joint bookrunners. BNP Paribas and HSBC are also joint green structuring advisers.
Danareksa and Trimegah are co-managers.

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Indonesia central bank pressured to amplify pandemic response

18-Jun-2020
By Gayatri Suroyo and Maikel Jefriando
JAKARTA, June 18 (Reuters) - **Indonesia's central bank came under pressure from lawmakers on Thursday to escalate its response to the economic fallout from the coronavirus pandemic, even as it cut its benchmark interest rate to a two-year low.**
Bank Indonesia (BI) delivered its third rate cut this year on Thursday, and said there was scope for more. It has trimmed 175 basis points in an easing cycle since last year to bolster growth.

Said Abdullah, chairman of parliament's budgetary committee, urged BI to fund the government's health and welfare programmes of 397.56 trillion rupiah ($28.38 billion) by buying bonds with a zero coupon as part of the central bank's "burden sharing".
"We can't go to the poor and say 'Here is a government programme for you, but please know that it comes with an interest rate from BI'," Abdullah said during a hearing to discuss the government's 2021 budget.
Planning Minister Suharso Monoarfa, who also attended the hearing, suggested two alternatives: BI buy bonds with yields of 0.1% to 4.5% or bonds with no yield.
"If we see the most basic formula, exports, imports, consumption and investment are down. The only (driver of growth) is government expenditure. If the government is being saddled again with interest payments, I don't think it's fair," Monoarfa said.
Finance Minister Sri Mulyani Indrawati also told the hearing she hoped BI would make its policy even more accommodative as inflation "is not a threat for now". May's inflation rate was the lowest in 20 years.
The suggestions made in the hearing about zero coupon bonds "would be used in our negotiations with BI", she said.
"With COVID-19, we are seeing a dramatic increase in the budget deficit that will be a burden for the next 10 years, so the burden sharing with BI is key to managing COVID-19 without increasing the fiscal burden on development programmes," she said.
Destry Damayanti, BI's senior deputy governor who was at the hearing, told parliamentarians the suggestions would be discussed in a high-level forum with Indrawati later.
Governor Perry Warjiyo attended a closed door meeting with parliament's finance commission at the same time, where he was also pressured to agree to buy low-yielding government bonds, two parliament members told Reuters.
The pressure on BI "to print money" could ruin investors' trust in Indonesia and lead to inflationary problems later on, said Bhima Yudhistira Adhinegara, an economist with Jakarta-based think-tank the Institute for Development of Economics and Finance.
"Investors will doubt BI's independence especially if it bows to the request for 0% interest rate," Adhinegara said.
BI has bought a relatively small amount of government bonds directly in auctions as a non-competitive bidder, with yields determined by the market. It has also bought bonds in the secondary market.

($1 = 14,010.0000 rupiah)
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Israel

Israel central banker `comfortable' with interest rates, won't rule out more cuts

17-Jun-2020
By Steven Scheer
JERUSALEM, June 17 (Reuters) - **Israeli monetary policymakers are content with the current level of interest rates and would weigh using other measures to supply credit to the economy before reducing its rate to zero or negative territory, Bank of Israel Governor Amir Yaron said.**
The central bank lowered its benchmark interest rate to 0.1% from 0.25% in April and opted to leave the rate unchanged in late May, saying the economic damage from the coronavirus pandemic was likely to be less severe than initially feared.
"We feel there are costs and benefits in lowering further. We feel comfortable where we are given this cost-benefit analysis right now," Yaron said in an interview with Reuters, adding other factors play into deciding to cut further.
"It doesn't mean we won't do it," he said. "It just means it's part of a wholesome view of our monetary policy. We have more ammunition under our belt if needed and depending how the crisis develops."
Yaron said the bank's main aims were to ensure financial markets function and households have proper access to credit. To that end, the bank took steps to rein in medium- and longer-term bond yields with loans to banks and repo and swap transactions. It also committed to buy 50 billion shekels ($14 billion) of government bonds to bring yields back to near crisis levels.
By easing capital requirements, Yaron also encouraged Israeli banks to give credit and ease loan pay-back terms.
He praised Israel's leaders in locking down the country early, even though it hurt the economy and sent unemployment soaring. So far, Israel has recorded 302 corona deaths and some 19,000 infected.
Many restrictions have been eased, but the central bank's base scenario foresees a 4.5% contraction in 2020 and growth of 6.8% in 2021, which Yaron said would still be 2 to 3 points below the 3% growth of the past few years. The jobless rate is expected to improve to 5.5% in 2021 from 8.5% in 2020.
Growth, he said, depended on various factors but for now, the central bank was hopeful the "vibrant" economy with an advanced tech sector would avoid a more pessimistic outcome that would stem from a second wave.
"Until there is a vaccine, there will be a glass ceiling of economic activity," Yaron said, noting that instead of a "V" shape, the crisis looked more like the "Nike logo" in which the recovery in 2021 will take longer. "We need to be creative and find ways to open up segments of the

economy."
Yaron was in favour of the country's 100 billion-shekel stimulus package, even though it would send the 2020 budget deficit to around 11% of gross domestic product and the debt to GDP ratio to 75%.
"As long as the spending is to support the economy for the crisis ... that is spending that the markets will understand. You need to think about it as an investment in minimizing the short-run damage," he said. **"Once the crisis is over, Israel will have to lower its deficits and take care of that structural deficit that has grown in the past."**
The central bank has also been forced to intervene to curb the shekel's gains. "The last thing we need is for the export sector to face exchange-rate pressures so ... we are somewhat less favourable about some of the appreciation that has happened since the onslaught of the crisis," Yaron said.

($1 = 3.4688 shekels)
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Netanyahu's push for one-year budget could strain Israeli government

18-Jun-2020
By Steven Scheer
JERUSALEM, June 18 (Reuters) - **Israeli Prime Minister Benjamin Netanyahu is pushing for a single-year budget for 2020 instead of a two-year plan including 2021, a move testing the fragile unity government he formed with rival Benny Gantz.**
Israel's government took office last month, with the delayed budget high on its in-tray, after a third election in a year failed to lead to a decisive winner.
As part of the deal to form a government that should see Gantz become prime minister after 18 months, the parties agreed to a dual-year budget to help maintain political stability. Passing a one-year budget would require reopening the pact.
Failure to pass a budget for 2021 by next March would automatically trigger new elections and Gantz would no longer become prime minister.
Polls show Netanyahu's Likud party would garner 40 of parliament's 120 seats, up from 36 now.
Netanyahu on Thursday met Finance Minister Israel Katz and other officials and said his pursuit of a single-year budget was not political.
"It is necessary to pass an immediate budget to meet current demands of the economy and the implications of the coronavirus and, upon receipt of the information on economic behaviour and the pandemic in the winter, pass a second budget," Netanyahu said.
NEW VOTE?
Katz also supports a single-year budget.
"A two-year budget that includes 2021 would require more aggressive measures," he told Channel 12, saying that passing just a 2020 budget would not be a reason to bring about the government's collapse.
Katz's spokesman said while there has been a recommendation for a single-year budget, no decision has been made. A final decision is expected by early next week.
A spokeswoman for Gantz's Blue and White party declined to comment.
Cabinet minister Yoaz Hendel, an ally of Gantz, asked in an interview on Army Radio about breaking the coalition agreement to pass a one-year budget, said he supports whatever will keep the government going.
"There are good arguments for a one-year budget and good arguments for a two year budget," he said.
"I don't think anyone has serious thoughts, especially in a period of economic crisis and the coronavirus, and possibly a second wave ... of going to another election."
Backed by the central bank, Israel has approved a 100 billion shekel ($29 billion) stimulus package to help the economy - which is headed for a contraction in 2020 - cope with the COVID-19 outbreak. The budget deficit is expected to reach 11% of gross domestic product.

($1 = 3.4573 shekels)
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Laos

Moody's places Laos's B3 Ratings on Review for Downgrade

19-Jun-2020
June 19 (Reuters) -
- **Moody's places Laos's B3 ratings on review for downgrade**
- Moody's says decision to place Laos's ratings on review reflects external vulnerabilities, government liquidity risks related to financing stresses

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Lebanon

Concerns mount as Lebanon struggles to take first steps out of crisis

16-Jun-2020

- **Lebanese pound hits new lows, protesters back in streets**
- **"We are seeing a steady deterioration" - diplomat**
- **Senior appointments show no change in governance**
- **IMF talks still at diagnostic stage - source**

By Tom Perry and Eric Knecht

BEIRUT, June 16 (Reuters) - **Lebanon is struggling to take the first steps out of a deep financial crisis, with hopes of reforms getting under way shaken by what government critics say is a sectarian carve-up of state jobs that has shown the political elite's reluctance to change.**

The heavily indebted country has been sliding deeper into trouble since October, when a combination of slowing capital inflows and protests against corruption spilled into a political, banking and financial crisis.

Hopes of a quick rescue deal with the International Monetary Fund have faded, with talks complicated by a row between the government and central bank over the scale of the losses in the financial system.

Concerns about the absence of change have been compounded by appointments to several positions in the government and central bank last week that were criticised by opponents - and some allies - as based on sectarian ties rather than merit.

This has raised new questions about Prime Minister Hassan Diab's commitment to - or ability to carry out - pledges to deliver competence-driven governance which he made on taking office in January.

"The appointments were basically a signal that it is business as usual," said Mohanad Hage Ali of the Carnegie Middle East Center. "None of the grand reform promises that were made when the government was formed are actually being implemented."

Underlining the growing concerns, a source familiar with the talks with the IMF said that before full negotiations on a rescue deal can begin, the Fund wants to feel comfortable that reforms have at least started - and to see progress in assessing the country's financial losses and a new capital control law.

The talks are still only at the diagnostic stage, the source said.

One important area where donors are still waiting to see any tangible change is the wasteful state-run power sector, a reform seen as a test of Beirut's political will to change.

With hopes of change fading, the threat of instability is growing.

"We are seeing a steady deterioration in the situation on the ground," an international diplomat said. "The international community remains ready to support, but only the Lebanese authorities can deliver reform, and rebuild the economy."

A collapse in the currency and soaring poverty have fuelled new protests, and commercial premises were attacked in Beirut and Tripoli at the weekend.

Sectarian tensions have risen and religious leaders intervened to defuse Sunni-Shi'ite Muslim confrontations in Beirut this month.

As the crisis has worsened, nearly a quarter of a million people have lost their jobs, the labour federation says, the Lebanese currency has lost more than 60% of its value and savers have been locked out of their deposits.

Some banks, repeatedly torched in rioting, have fortified their facades and locked ATMs behind iron curtains.

"PRINTING MONEY"

Foreign donors say Lebanon must enact reforms to fix the root causes of the crisis, but Diab's government has not yet taken a new path.

Diab came to office with support from the Iran-backed Shi'ite group Hezbollah, the Christian President Michel Aoun and Shi'ite Parliament Speaker Nabih Berri.

Sunni politician, Saad al-Hariri, a traditional ally of the West and Gulf Arab states, and Druze leader Walid Jumblatt stayed out of the government.

Critics say last week's state appointments showed who was really in charge.

Berri, long a pillar of the sectarian order, consolidated his influence, picking one of four deputy governors appointed at the central bank, and, among others, the new director general of the economy ministry, Mohammad Abu Haidar.

The Free Patriotic Movement headed by Gebran Bassil, Aoun's son-in-law, got the lion's share of Christian appointments, reflecting the power balance.

An economic recovery plan unveiled by Diab in **April which involved turning to the IMF had raised hopes that Lebanon was getting its act together, but there has been little progress since then, Capital Economics said in a research note on Monday.**

Hurdles to overcome include the risk that IMF member states might veto a deal because of Hezbollah's role in government and rows between the central bank and government, it said.

"It looks increasingly likely that these hurdles will be difficult to overcome," it added.

With the government struggling to prop up the pound, the price of food has soared in the import-dependent country, and state finances are in a parlous state.

"Nobody is going to lend to the Lebanese government," said Nasser Saidi, a former economy minister.

He said the central bank that has been "monetizing the deficits" and this meant "you are ... printing more money to finance government."

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Lebanon adviser in IMF talks quits, citing 'no genuine will' for reforms

18-Jun-2020

BEIRUT, June 18 (Reuters) - **A financial adviser working with Lebanon's government in talks with the International Monetary Fund said on Thursday that he had resigned, citing "no genuine will" to reform and attempts to dismiss the size of losses in the financial system.**

Lebanon began IMF talks in May, aiming to secure aid to steer its way out of a major financial crisis. But the process has been complicated by a dispute over the scale of the losses set out in a government plan presented to the IMF.

In a statement, adviser to the ministry of finance Henri Chaoul said politicians, monetary authorities, and the financial sector were "opting to dismiss the magnitude" of losses and embark on a "populist agenda".

"I have come to the realisation that there is no genuine will to implement either reforms or a restructuring of the banking sector, including the Central Bank."

The plan approved by Prime Minister Hassan Diab's government projects huge losses including $83 billion in the banking system. Chaoul described it as the first time a quantitative diagnosis of Lebanon's multiple crises had been undertaken.

The IMF has said the figures appear to be roughly the correct order of magnitude but that Beirut needed to reach a common understanding to move forward.

The numbers have met opposition from the central bank, the banking sector and a parliamentary fact-finding committee that has challenged the losses and assumptions.

Ali Hassan Khalil, a senior aide to the powerful Parliament Speaker Nabih Berri and a former finance minister, said the plan had been drawn up hastily, mistakes had been made and the fact-finding committee's numbers were more accurate.

Citing issues with the plan, he told broadcaster MTV it assumed Lebanon would be unable to pay its bonds until 2043. This is what led the parliamentary committee "to put its hand on the matter at the request of Speaker Berri".

Berri, who has said depositors' funds are sacrosanct, is involved in efforts to forge a compromise over the losses, sources said.

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Oman

Oman economy: Quick View - Financial support sought from Gulf States

19-Jun-2020

Event

Oman is in discussion with Gulf Arab states about possible financial aid, according to a report by Bloomberg that cited two unnamed regional officials and a US government representative familiar with the situation.

Analysis

Oman has limited options as it seeks to shore up its finances, which have been battered by the recent oil price collapse and by measures to contain the economic impact of the coronavirus. Government revenue in the first two months of 2020 was down by nearly 28% year on year, and the situation has since worsened. The budget for 2020, based on an expected oil price of US$58/barrel, projected a deficit of OR2.5bn (US$6.5bn). However, we expect the deficit to balloon to about double this, reaching just under 20% of GDP in 2020, as oil prices average US$40/b.

The sultanate had intended to borrow OR2bn from international markets in 2020, but has been shut off from sovereign bond issuance by the prohibitive cost of risk premiums. However, Oman's determination not to compromise its political independence will complicate any deal to secure financial assistance from its wealthy Gulf neighbours, with financial support likely to be conditional. This is particularly true with Saudi Arabia and the UAE, with which relations, although superficially cordial, are strained. Differences have been heightened since Saudi Arabia and the UAE began military action in Yemen in early 2015, and Oman's good relationship with Iran is also a major bone of contention.

Collective financial assistance is therefore more likely to be channelled through the Gulf Co-operation Council (GCC). The sultan spoke with the king of Saudi Arabia and met Qatar's deputy prime minister and finance minister in late May, but no further announcements have been made, suggesting that political hurdles will have to be removed before Oman can secure urgently needed funding.

We expect the GCC to eventually agree to support Oman financially, to avoid risking financial contagion or regional political instability. However, this places Oman in a difficult position, as any opposition to UAE or Saudi Arabian policies could cause funding to be withheld. As such, Oman's long-standing neutrality is likely to be gradually undermined as it will be expected to at least display solidarity with its main GCC backers, Saudi Arabia, the UAE and Kuwait.

Pakistan

Fitch Ratings: Pakistan's Public Finances Set to Remain a Rating Weakness

19-Jun-2020

Fitch Ratings-Hong Kong-18 June 2020: **Pakistan's fiscal consolidation targets presented its FY21 budget on 12 June will be challenging to meet amid the economic shock and health crisis associated with the coronavirus pandemic, says Fitch Ratings.** Public finances are a key credit weakness, as we noted even before the health crisis took hold when we affirmed Pakistan's rating at 'B-' with a Stable Outlook in January 2020. Nevertheless, continuing support from the IMF and other official creditors should help the government finance its budget and contain risks associated with the country's fragile external position. **The government has estimated that Pakistan's fiscal deficit will reach 9.1% of GDP in the fiscal year ending June 2020 (FY20), against the original budget proposal of 7.1%.** Revenues fell short of target, due both to the economic fallout from the pandemic and the fact that the budget goal was overly ambitious, in our view. Current expenditures were also boosted by the government's PKR1.2 trillion (2.9% of GDP) support package in March to boost health spending and provide assistance to low-income households. The new budget forecasts a decline in the fiscal deficit to 7.0% of GDP in FY21. However, this assumes tax revenue will increase by 28% from the estimate for FY20, and will prove challenging in the absence of new tax measures, especially if economic growth remains sluggish. Expenditure is forecast to decline modestly as a share of GDP, although the government aims to boost healthcare spending and support to low-income households through its Ehsas programme. Further expenditure cuts could be implemented if revenues fall short of target. Fitch's forecasts are more conservative than the government's. **We expect deficits of 9.5% of GDP in FY20 and 8.2% in FY21, pushing the public debt-to-GDP ratio up to 89% of GDP.** This would be above the median level of 66% among Pakistan's rating peers in that year. We expect that the ratio will begin to fall after FY21, but this remains contingent on the government's ability to make progress in fiscal consolidation and on GDP growth rates. The government's limited fiscal headroom within its rating category will constrain its ability to provide a more robust fiscal response to the coronavirus. The number of COVID-19 cases continues to rise rapidly, increasing by over 40,000 in the week to 15 June. **The country's rating also reflects a fragile external position given the sovereign's high external debt repayments.** Liquid foreign exchange reserves remain low at around USD10.1 billion, but import compression has increased reserve import cover to about 3.6 months. Moreover, lower oil prices are expected to offset the decline in remittances, which will keep the current account deficit stable at around 2% of GDP through FY21. External liquidity will be supported by the country's participation in the G-20's Debt Service Suspension Initiative, which the government estimates will delay servicing payments in 2020 of around USD1.8 billion. The initiative involves only bilateral creditors at present and the Pakistani government has indicated that it has no plans to seek private-sector debt service suspension. **Pakistan also received USD1.4 billion of emergency support from the IMF under the Rapid Financing Instrument in April, in addition to its existing USD6 billion Extended Fund Facility (EFF).** We expect the IMF to be flexible in its programme targets with Pakistan given the magnitude of the pandemic shock, and expect the release of accumulated tranches from the EFF over the coming months. Additional financing has also been forthcoming from other multilateral and bilateral creditors.

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EUROPE

Belarus

Yield grab outweighs ESG unease on Belarus deal

19-Jun-2020

- **Sovereign prints with zero premium**
- **Main rival in election detained**

By Sudip Roy

LONDON, June 19 (IFR) - **The attraction of high-yielding bonds outweighed any ESG concerns investors might have had as Belarus returned to the international bond markets on Wednesday.**

The finance ministry timed the US$1.25bn dual-tranche transaction, split between US$500m February 2026 and US$750m February 2031 bonds, just about right as it came in the wake of a turn in sentiment towards risk assets but before the arrest of the main rival to President Alexander Lukashenko ahead of August's presidential election.

Markets had stabilised after a wobbly few days thanks to the US Federal Reserve kicking its secondary market corporate credit facility into action on Tuesday.

The deal also came ahead of further damaging political headlines. Lukashenko, who has allowed little dissent in the former Soviet republic since

gaining power in 1994, faces the biggest challenge to his authority in years, with thousands taking to the streets to support opposition candidates.
Viktor Babariko, who is widely seen as Lukashenko's main challenger in the election, was detained after being accused of crimes including taking US$430m out of the country in money-laundering schemes.
Babariko was detained along with his 30-year-old son, Eduard, who was running his father's election campaign. His campaign team considered what they had heard about the criminal case and the detention from state television channels as "an absurdity".
Belarus's poor human rights record and US and EU financial and travel sanctions against several individuals, including Lukashenko, is well-known and had not deterred the sovereign from issuing successfully in the past.
This time was no different as a US$5bn book attested to. "Despite all the talk around ESG, bond investors seem happy to finance Lukashenko," said Tim Ash, EM sovereign debt strategist at BlueBay.
Uday Patnaik, head of EM debt at LGIM, was one investor who bought the bonds. "We did buy the five-year tranche, but more to cover an underweight position and take advantage of the high yield versus investment grade compression in EM debt. It was more tactical in nature," he said.
As for the ESG aspect, he said: "We could only buy in particular funds, in which the credit was permitted."
Belarus (B/B) had been monitoring markets ever since undertaking a roadshow for a deal in early March.
"They used their time wisely in negotiations with IFIs and counterparties like the IMF, EBRD and Russia. They managed to strengthen their position, showing that even if they were not printing, they could find the required funding," said a lead.
Following the outbreak of the novel coronavirus, the government got criticised from some quarters for its limited measures but the lead said they helped to minimise the economic shock that a full lockdown would have led to.
Investor calls for the deal took place on Tuesday and with feedback strong, leads went ahead with it the following day.
"We had a very strong line up of IoIs covering a substantial amount of the target funding volume," said Dmitry Gladkov, global head of investment banking at Renaissance Capital.
Books for the 2026 note and the 2031 tranche opened at the 6.625% area and 6.875% area respectively – an incredibly flat curve for a Single B issuer.
Bankers away from the deal put the premium at IPTs at 50bp. "It will be interesting to see how investors play that one given there's no premium for extending from the long five to the long 10-year," said one banker.
Gladkov said the curve was a reflection of various influences, particularly the fact that the long-end has been well bid by investors seeking yield.
Its February 2030s, for example, were quoted at 6.18% at the start of the week, while its February 2023s were around the 5.85% mark, according to Tradeweb.
While different bankers saw different prices – the 2030s, for example, were also quoted at 6.30% – the underlying point about the curve's flatness remained the same.
The strength of demand allowed leads to wipe the new issue premium out and increase the overall size of the deal.
"Our initial view was to print US$1bn across two tranches – US$500m each – but the positive price and book dynamics allowed us to increase the long 10-year to US$750m," said Gladkov.
The 2026s priced at 6.125% and the 2031s at 6.375%. In spread terms, it resulted in an inversion of the curve with the long five-year pricing at 577.9bp over Treasuries and the long 10-year at plus 563.2bp.
US investors took more than 50% of each note.
Both bonds were up about half a point in the aftermarket.
In May, Fitch reaffirmed its Single B rating on Belarus, in contrast to several other sovereigns that are getting downgraded.
Among the things Fitch highlighted were Belarus's "improved macroeconomic stability, high income per capita, relatively prudent fiscal policy and a clean debt repayment record against low foreign exchange reserves."
It also highlighted the country's "weak banking sector, high external indebtedness and weak governance indicators relative to rating peers."
Fitch forecasts the Belarusian economy will contract by 5% in 2020 reflecting the severe deterioration in external demand and its containment measures, albeit limited compared with most other countries, against Covid-19. However, the agency expects the economy to recover to 3.2% growth in 2021.
Citigroup, Raiffeisen Bank International and Societe Generale were the bookrunners. Renaissance Capital was a joint lead.

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Bosnia

Bosnia's central government approves delayed 2020 budget

18-Jun-2020
SARAJEVO, June 18 (Reuters) - **Bosnia's central government approved a delayed draft 2020 budget on Thursday, including long-awaited funding for local elections set to be held on Nov. 15, Finance Minister Vjekoslav Bevanda**

said.
The Balkan country's national institutions have been kept afloat through temporary financing since 2019 owing to a delay of more than a year in the formation of the new central government which was finally approved in December.
Bosnia's two autonomous regions, the Bosniak-Croat Federation and the Serb Republic, had passed and already revised their respective 2020 budgets.
The budget draft, which was sent for the approval to the country's tripartite presidency in March, had to be changed to redirect some funds to tackle the impact of the coronavirus outbreak, as well as financing the local vote, said Bevanda.
The vote, originally set for Oct. 4, had to be postponed after the government failed to allocate necessary funds by a May 22 deadline.
The budget remains at 996 million Bosnian marka ($580 million), including 807 million marka for servicing Bosnia's foreign debt. "Cost savings are introduced at all possible positions except for security agencies," Bevanda told reporters.

($1 = 1.7174 marka)
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Bosnia's Banja Luka invites investors to subscribe for 6.1 mln euro bond issue

18-Jun-2020
SARAJEVO (Bosnia and Herzegovina), June 18 (SeeNews) - **Bosnia's Banja Luka city said it is inviting investors to subscribe for its 12 million marka ($7.0 million/6.1 million euro) issue of ten-year bonds with a 4% annual interest.**
The city of Banja Luka is offering 120,000 bonds of 100 marka in par value each, which will mature on July 22, 2030, it said in a statement with the Banja Luka bourse on Wednesday.
The market price will be determined on the bourse, in line with its rules and regulations, and cannot be lower than the nominal price.
In the first year, the city's authorities will pay out quarterly the interest only, while in the subsequent nine years both the interest and the principal will be paid out in equivalent quarterly installments.
The subscription period starts on July 3 and will remain open for eight days.
Banja Luka is the largest city in the Serb Republic, which is one of two autonomous entities forming Bosnia and Herzegovina. The other one is the Federation.

(1 euro = 1.95583 marka)

Bulgaria

Bulgaria posts 1%/GDP current account surplus through April

17-Jun-2020
SOFIA, June 17 (Reuters) - **Bulgaria posted a current account surplus of 1.0% of gross domestic product in the first four months of 2020, compared with a tiny deficit of 0.03% in the same period a year earlier, central bank data showed on Wednesday.**
For April alone the Balkan country posted a current account surplus of 187 million euros, compared with a deficit of 20 million euros a year ago mainly due to drop of imports amid coronavirus restrictions.
Foreign direct investment, much needed to boost growth in the European Union's poorest member state halved to 155 million euros through April when compared to FDI of 312 million euros in the first four months last year.
The finance ministry sees current account surplus decreasing to 1.2% of GDP this year from 4% in 2019 as it expects both exports and imports to drop as well as smaller inflows of funds from Bulgarians living abroad due to the coronavirus crisis.

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Czech Republic

Czech PM Babis does not rule out EU recovery fund veto, CTK news agency reports

18-Jun-2020
PRAGUE, June 18 (Reuters) - **Czech Prime Minister Andrej Babis wants further negotiations on the European Union's 750 billion euro recovery fund and how the funds are distributed but did not rule out a veto when speaking to lawmakers on Thursday, CTK news agency reported.**
CTK, citing the head of parliament's European affairs committee, to which Babis spoke to in a closed session on Thursday, reported the government still had reservations over the way the money was to be distributed, including based on unemployment before the coronavirus crisis.
The Czech Republic had the EU's lowest jobless rate going into the crisis.

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613))

Hungary

Hungary central bank likely to leave rates steady, downgrade growth forecast

17-Jun-2020

- **Base rate seen at 0.9%, O/N deposit rate at -0.05%**
- **Poll sees Hungary's economy shrinking by 5.1% in 2020**
- **Bank likely to downgrade economic growth forecast**
- **Could form basis of dovish tone, policy tweaks**

By Gergely Szakacs

BUDAPEST, June 17 (Reuters) - **The National Bank of Hungary is expected to leave interest rates unchanged on Tuesday, according to a poll of analysts, but could set the stage for some easing of policy lowering its outlook for economic growth.**

All 16 economists polled between June 15-17 said the NBH would leave its base rate at 0.9%. The 12 analysts who gave a forecast for the overnight deposit rate said it would stay at -0.05% on June 23, when policy makers review the bank's quarterly inflation report.

The poll sees no change in either the base rate or the overnight deposit rate before the end of next year.

Analysts expect Hungary's economy to shrink by 5.1% this year after the coronavirus pandemic shut factories and curtailed activity, a far cry from the central bank's March forecast for a 2% to 3% expansion.

Peter Virovacz, an economist at ING, said a downgrade to the bank's growth projection could lead to a more dovish tone in its policy statement.

"In the short run, the NBH will react with its unconventional tools, mainly adjusting the rate of the 1-week deposit facility and/or putting a limit on this facility," he said.

"The mix of a stable HUF and the expected decline in CPI should eventually lead to some reversal of the prior FX stabilising hikes."

Tuesday's session will be the first rate-setting meeting of the Monetary Council since the resignation of Deputy Governor Marton Nagy, the architect of many of the bank's unconventional monetary easing programmes. He will be replaced by Managing Director Barnabas Virag.

"We now think that the NBH is likely to start easing monetary conditions through first limiting the amounts it accepts in the 1W deposit facility," economists at Morgan Stanley said in a note.

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North Macedonia

North Macedonia sells 600 mln denars (9.7 mln euro) of govt paper

16-Jun-2020

SKOPJE (North Macedonia), June 16 (SeeNews) - **North Macedonia's finance ministry sold 600 million denars ($11 million/9.7 million euro) worth of government securities at two auctions held on June 16, according to notices published by the country's central bank on Tuesday.**

The finance ministry sold 300 million denars worth of one-year Treasury bills and 300 million denars of 15-year bonds, the central bank data shows.

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 bid with amounts.

(1 euro = 61.69 denars)

Poland

Polish central bank warns of coronavirus credit risk

17-Jun-2020

WARSAW, June 17 (Reuters) - **Access to credit in the Polish economy could be limited by the coronavirus crisis, but the risks of a crunch have been lessened by actions already taken, the central bank said on Wednesday as it told banks to bolster their capital buffers.**

Poland, the largest economy in the European Union's eastern wing, has been hit hard by the pandemic, prompting a government and central bank package of spending, guarantees and liquidity measures worth more than 300 billion zlotys ($76 billion) to cushion the blow to businesses and financial markets.

"Financial support for companies launched in response to the shock of COVID-19 and a strong loosening of monetary policy ... reduce the risk to the solvency of companies and households, which reduces banks' credit losses," the central bank said in a report on the stability of Poland's financial system.

As a result of the coronavirus pandemic, banks, insurers and investment funds should use all profit from previous years to strengthen their capital base, the central bank said.

"Additional funds from retained earnings will allow, in particular, to absorb losses expected

as a result of a pandemic, and a surplus of capital will help to sustain lending and the smooth delivery of financial services," the bank said.
The central bank has cut the cost of borrowing by a cumulative 140 basis points to 0.1% since the coronavirus reached Poland in March.

($1 = 3.9426 zlotys)
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Poland's budget deficit seen at almost 26 bln zlotys as of May

19-Jun-2020
WARSAW, June 19 (Reuters) - **Poland's budget deficit rose to almost 26 billion zlotys at the end of May from 18.9 billion a month earlier, state news agency PAP quoted Finance Minister Tadeusz Koscinski as saying on Thursday evening.**
The largest economy in the European Union's eastern wing had been aiming for its first balanced budget in 2020 since the fall of communism three decades ago, but Poland has ramped up spending to protect the economy from the effects of the coronavirus pandemic.
"May was another month of cumulative effects of the pandemic," PAP quoted Koscinski as saying.

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Poland's PM urges quick agreement on recovery fund

19-Jun-2020
WARSAW, June 19 (Reuters) - **Poland's Prime Minister Mateusz Morawiecki urged European Union leaders not to lose time on a long negotiation of the bloc's 750 billion euro ($843.53 billion) recovery fund, saying it needed a quick reaction.**
Morawiecki said Poland would receive around 160 billion euros in total from the recovery fund and the EU's 2021-27 budget.
He said negotiations on the recovery plan could end in July or August.

($1 = 0.8891 euros)
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Romania

Romania's Jan-April current account deficit narrows to 1.78 bln euros

15-Jun-2020
BUCHAREST, June 15 (Reuters) - **Romania's current account deficit narrowed to 1.78 billion euros ($2.00 billion) in the first four months from the same period of last year, central bank data showed on Monday.**
Foreign direct investment fell 454 million euros, compared with a net positive of 2.16 billion euros in the same period of last year. Long-term external debt fell 0.5% from the end of last year to 73.28 billion euros.

($1 = 0.8882 euros)
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Romania's end-April foreign debt rises

15-Jun-2020
BUCHAREST (Romania), June 15 (SeeNews) - **Romania's foreign debt increased to 106.5 billion euro ($120 billion) at the end of April 2020 from 105.8 billion euro at the end of 2019, the central bank, BNR, said on Monday.**
The end-April figure includes 73.27 billion euro in long-term foreign debt, down from 73.64 billion euro at the end of 2019, BNR said in a monthly balance of payments report.
Long-term external debt service ratio fell to 17.6% in April, compared to 18.6% at end-2019.
Goods and services import cover stood at 5.3 months at end-April, from 4.6 months at end-2019.
The ratio of the BNR’s foreign exchange reserves to short-term external debt by remaining maturity increased to 72.1% at end-April, from 73.8% at end-2019.

($= 0.8887 euro)

Romanian central bank says will ensure liquidity, eyes exchange rate

18-Jun-2020
BUCHAREST, June 18 (Reuters) - **Romania's central bank will continue to ensure market liquidity while keeping the exchange rate relatively stable and gradually lowering interest rates without discouraging domestic savings, Governor Mugur Isarescu said on Thursday.**
The bank cut its interest rate by a quarter point to 1.75% in May and pledged to continue

injecting liquidity via repo transactions and secondary market debt purchases to curb the economic fallout from the new coronavirus outbreak.
Isarescu said in a statement the bank has bought 3.8 billion lei worth of treasuries from the secondary market by June 5, while the daily average stock of bilateral repo transactions was roughly 7 billion lei during May 15-June 15.
"Romanian interest rates, still higher compared with the Czech Republic, Hungary and Poland are a consequence and not a cause of Romania's economic situation: twin deficits, the EU's highest fiscal deficit from the start of the pandemic crisis and ... high financing needs," the statement said.

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Turkey

Turkish budget deficit 17.3 bln lira in May

15-Jun-2020
ISTANBUL, June 15 (Reuters) **- Turkey's central government budget posted a deficit of 17.3 billion lira ($2.53 billion) in May, data from the Finance Ministry showed on Monday,**
The primary balance, which excludes interest payments, recorded a deficit of 7.64 billion lira in May, the data also showed.
The budget deficit stood at 90.1 billion lira in the first five months of the year. In September, the government forecast a budget deficit of 138.9 billion lira for 2020.

($1 = 6.8356 liras)
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Ukraine

Ukraine could return to Eurobond market in Q4 2020

15-Jun-2020
KYIV. June 15 (Interfax) - **Ukraine could return to the Eurobond markets in Q4 2020 and raise $1 billion, according to a memorandum of the International Monetary Fund (IMF) signed with the Ukrainian government under the new Stand-By Arrangement (SBA).**
"The macro-framework assumes that Ukraine will return to markets in Q4 2020. The framework does not assume non-resident inflows in the domestic bond market for the remainder of 2020," the IMF experts said.
They said that the Covid-19 crisis has led to an increase in global risk aversion, which has momentarily closed markets for selected emerging economies. However, as Ukraine's sovereign spread has started coming down, it is possible to enter the markets.
In January of this year, Ukraine already raised $1.4 billion by issuing a euro-denominated 10-year Eurobond priced at a 4.375% initial yield.
Over the course of 2020, the European Union is expected to disburse about $1.2 billion under its Macro-Financial Assistance program. The World Bank is projected to provide around $1 billion in budget support. IMF lending under the new program will be on SBA terms and is envisioned as fully earmarked for budget support.
According to the memorandum, in the first quarter of 2021, Ukraine may place another $1.5 billion in Eurobonds, and by the end of the year another $1.5 billion.
In addition, in the second quarter, the second tranche of approximately $550 million under the new Macro-Financial Assistance of the EU will be received. In the middle of May, the fourth tranche of $560 million is planned under SBA, and the final fifth tranche of $980 million in mid-October.
Regarding the domestic government bonds market, the documents announced plans to reduce this year the net issue of foreign currency securities by $1.18 billion, and in the first half of next year by another $269 million.

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LATIN AMERICA AND CARIBBEAN

Anguilla

Government of Anguilla - Anguilla Quarterly Debt Bulletin Q1-2020

18-Jun-2020
The Quarterly Debt Bulletin, prepared by the Government of Anguilla, summarises the public debt position, public debt structure and ratios for Anguilla as at the end of the quarter in review. The currency quoted is in millions of Eastern Caribbean Dollars (XCD/ EC$M). The data presented covers total public debt, both external and domestic, for central government and government guaranteed debt.
1. Total Public Disbursed Outstanding Debt (DOD) as at 31 st March stood at $474.76m. The DOD decreased by 3.73% ($18.40m) and decreased by 5.39% ($27.06m) over that at the end Q4-2019 and the same period in 2019

respectively. Disbursements on existing debt totalled $0.38m. There was no new debt contracted during Q1-2020.

2. Central Government Debt was recorded at $468.61m at the end of Q1-2020. This represented a decrease of $17.92m (3.68%) and a decrease of $25.18m (5.1%) when compared to Q4-2019 and Q1-2019 respectively. External debt accounted for $196.32m (41.89%) and domestic debt $272.29m (58.11%).

External Debt Domestic Debt

3. Total Guaranteed Debt stood at $6.15m at the end of Q1-2020. Total Guaranteed debt declined by $0.47m (7.14%) and $ 1.87 m (23.36%) when compared to Q4-2019 and Q1-2019 respectively. External debt accounted for $5.22m (84.88%) and domestic debt $0.93m

4. Total Public External Debt was recorded at $201.54m at the end of Q1-2020, a decrease of 2.07% ($4.26m) and 6.67% ($14.39m), when compared to Q4-2019 and Q1-2019 respectively. The largest share of external debt is held by Central Government at 97.41% ($196.32m) with Government Guaranteed the remaining 2.59% ($5.22m). The main creditor being Caribbean Development Bank (CDB) at $200.90m. The main loan currency was the United States Dollar (USD) at $200.90m (US$74.41m) or 99.68% and the remaining debt of $0.65m or 0.32% was denominated in Euro. The variable interest rate debt accounted for 97.77% while fixed rate debt accounted for the remaining 2.23%. There were no external arrears.

5. Total Public Domestic Debt was recorded at EC$273.22m at the end of Q1-2020, a decrease of 4.92% ($14.13m) and a decrease of 4.43% ($12.67m) when compared to Q4-2019 and Q1-2019 respectively. All domestic debt was denominated in Eastern Caribbean Dollars (XCD). The main creditor category was Government Related Institutions; specifically, Anguilla Social Security Board accounting for $218.17 ($80.12%). Under the domestic debt by instruments: - the ASSB Promissory note accounted for 78.33% ($214.00m) of the domestic portfolio; followed by the DPT with 15.61% ($42.66m); the loans with 3.08% ($8.42m) and overdrafts with the remaining 2.98% (8.14m).

6. Total Debt Service during Q1-2020 totalled $13.53m. This amount increased by 3.16% ($0.41m) and increased by 12.12% ($1.46m) when compared to Q4-2019 and Q1-2019 respectively. Interest payments accounted for $4.72m (34.89%) and amortization accounted for $8.81m (65.11%). Domestic debt service represented 44.79% ($6.06m) of the actual debt service for Q1-2020 and external debt service the remainder 55.21% ($7.47m).

7. Disbursements for Q1-2020 totalled EC$0.38m, due primarily to continuous disbursements on the Anguilla Community College Project Loan contracted in 2014 from CDB.

8. Debt Ratios

The sustainability indicator, Debt/GDP for Q1-2020 reflects a decrease in the nominal debt stock of 4.12 and 12.60 percentage points when compared to Q4-2019 and Q1-2019 respectively. At the end of Q1-2020 Anguilla was within the Eastern Caribbean Currency Union Debt/GDP target by 14.19 percentage points. The ATM stood at 6.91 years and the ATR 5.15 years; with the share of interest rate to be refixed in one year at 82.91%.

Anguilla's public debt stock at the end of Q1-2020. The maturity profile refers to the amount of debt that is falling due in a given period.

Anguilla's existing debt is due to fully mature in 2041. The indicator shows that EC$67.74m matures in less than a year; EC$186.62m within 5 years and EC$220.40m over 5 years.

At the end of 2019 (Q4-2019) the GoA remained in breach of the prescribed benchmarks as agreed with the United Kingdom Government.

Argentina

Argentina faces restructuring legal threat

15-Jun-2020

By Christopher Spink

LONDON, June 15 (IFR) - **Argentina is risking a decade-long fight with holdout bondholders, similar to the one it picked with New York hedge fund Elliott after its default in 2001, by the way its current US$65bn debt restructuring has been proposed.**

In 2016 Elliott managed to get paid in full on its Argentine bonds, after the US courts said the country could only service its other debts if it first made good on what it owed Elliott and other holdout investors.

While Elliott leveraged pari passu language to argue that all bondholders should be treated equally, this time the government may run into legal problems for potentially manipulating collective action clauses in its favour, say debt restructuring lawyers.

Argentina has two sets of bonds – those issued before Mauricio Macri took office as president in 2016 and those issued by his government. Both have aggregated collective action clauses, allowing bonds to be grouped together to approve changes, but, crucially, their conditions are different.

The pre-2016 ones also require each set of bonds to approve a deal but the later ones, issued by Macri's government, only have a single limb of voting, aggregating votes across all such issues in one poll.

It is unclear how votes across both sets of bonds will be counted but close scrutiny of the exchange offer by Rodrigo Olivares-Carminal, law professor at Queen Mary London University, suggests Argentina has reserved the right to recalculate the votes after they have been

lodged.
This will allow the country to use some of the votes in favour to create a wider clump of such approvals, which could then swing the overall exchange offer behind it, allowing the restructuring to go ahead in full, sweeping up those who initially disapproved the offer in individual bond issues.
The plan could be open to challenge, says Lee Buchheit, the sovereign debt restructuring legal expert who advised Argentina on solving its stand-off with Elliott in 2016, after Macri became president.
"CACs can facilitate sovereign debt workouts but what if a creditor were to move quickly to obtain court judgement to elevate themselves to being a judgement creditor? They could then escape the CACs in the underlying bonds," he said.
Under this scenario, before the exchange offer is completed a bondholder could lodge a claim in the US courts to say they have been harmed by the way the CACs have been set up and require Argentina to pay their instrument back in full.
It is unclear whether a judge could sanction such a claim quickly enough. But in a related situation in Venezuela, where the sovereign has defaulted but not launched a restructuring, numerous judgements have been handed down requiring Venezuela to pay creditors in full.
"We are seeing this play out in Venezuela at the moment where bondholders are getting judgements before any restructuring is being launched," said Buchheit.
In that case, one way of then carrying out a restructuring would be for the courts to use their powers to stay litigation until a later date.
That would then open up a series of disputes that could be resolved over years. Sovereign debt experts are worried that such challenges could undermine the use of aggregated CACs in future bond issues, making them less attractive ways of raising debt for sovereigns.
Olivares-Carminal said Argentina's use of CACs was "an intelligent and bold move" but "at the serious risk of testing the architecture of such instruments. It would be ironic if the debtor whose default in 2001 precipitated the creation of sovereign CACs ended up killing them off."
He agreed that creditors could file claims challenging the abuse of the clauses.
Others reckon that Argentina's use of borrowing through trust structures since 2005, rather than fiscal agency agreements, may prevent major litigation this time round. Elliott relied on the latter agreements to win its hugely profitable case. The trust language would prevent this.
Argentina is currently in talks with various sets of creditors about the economic terms of the proposed restructuring. On Friday it extended the deadline on its debt exchange to June 19.

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Argentina extends confidentiality agreements for debt talks by one day

17-Jun-2020
By Walter Bianchi
BUENOS AIRES, June 16 (Reuters) - **Argentina has extended confidentiality agreements with creditors by one day to allow further negotiations as the two sides seek a last-ditch agreement to restructure around $65 billion in debt.**
A source close to the negotiations told Reuters that the nondisclosure agreements (NDAs) would be extended once more, after a previous extension from last Friday to Tuesday.
Argentina's government is expected to unveil an amended debt restructuring proposal to win over its foreign creditors ahead of a deadline to a reach an agreement that was pushed back on Friday to June 19.

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Argentina will not renew NDAs with creditors over debt restructuring

17-Jun-2020
SANTIAGO, June 17 (Reuters) - **Argentina will not extend confidentiality agreements with creditors due to expire on Wednesday, a government official told Reuters, suggesting last ditch talks have wrapped up as the government races to strike a deal to restructure around $65 billion in debt.**
The nondisclosure agreements (NDAs) have been previously extended to allow negotiations to continue and a gap between the two sides to be closed.
Argentina's government is expected to unveil an amended debt restructuring proposal to win over its foreign creditors ahead of a deadline to reach an agreement that is currently penciled in for June 19.

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IMF official says hopeful Argentina, creditors can reach agreement soon

18-Jun-2020
WASHINGTON, June 18 (Reuters) - **The International Monetary Fund is not party to discussions between Argentina and its creditors, but believes it is in the interest of**

both sides to reach an agreement soon in the country's debt structuring talks, a top IMF official said.
First Deputy Managing Director Geoffrey Okamoto told an online event hosted by the American Enterprise Institute think tank he was hopeful an agreement could be reached, although he conceded it was not necessarily "an easy exercise."
"We think it's in the best interest of both parties that an agreement is reached relatively soon," Okamoto said. "What we ultimately want is ... also having a sound policy framework that allows Argentina to grow and prosper and interact with the world down the line."

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Argentina debt talks hit roadblock as government, creditors rattle sabers

18-Jun-2020
By Jorge Iorio, Hugh Bronstein and Rodrigo Campos
BUENOS AIRES/NEW YORK, June 17 (Reuters) - **Argentina's debt restructuring talks, in a tense final stretch, hit a roadblock on Wednesday with the government determined not to cede further ground after making an improved offer and a key creditor group warning that negotiations had failed.**
An Economy Ministry source told Reuters the country was sticking by its latest proposal with a net present value of around 50 cents on the dollar and warrants linked to Argentina's farm-driven exports. The offer was shared with creditors during recent talks.
The South American grains producer is in talks to revamp around $65 billion in foreign debt that has become unsustainable. The two sides have been inching closer, though tensions have simmered below the surface.
"The government believes that the creditors' proposal has an unsustainable cost for Argentines," said the Economy Ministry source, who asked not to be identified as the talks were private. Creditor groups have made counter-proposals during the process.
"The president is not going to cede any further," the source said.
The major "Ad Hoc" bondholder group, including names like Fidelity, AllianceBernstein and BlackRock, said in a statement that the Argentine government had "walked away" from a counterproposal it had made and called the talks a "failure."
Argentina's Economy Ministry released details of the latest version of its own proposal in a statement late on Wednesday, which it said had been shared with creditors. It also published two counterproposals it had received.
The ministry said creditor demands had varied widely and that some were "inconsistent" with what the country could meet.
Argentina's center-left Peronist President Alberto Fernandez said in a televised interview with network Telefé that the country would keep negotiating with creditors to try to reach an accord, but would not pay more than it was able.
"We are going to pay what we can. Not a millimeter more. And in that I am inflexible," he said.
WHO BLINKS FIRST?
A second person with knowledge of the debt negotiations and familiar with the government's thinking said the country had gone "as far as we could, but the creditors want more."
Proposed warrants tied to agricultural exports had appeared to fall short with bondholders, the person said. "The creditors saw the warrants as a perk but not as a bargaining tool strong enough to bridge the gap," he said.
Argentina, which already improved an original offer made in April, has long argued that debt sustainability analysis shows it cannot afford to pay much more. The International Monetary Fund, a major creditor, has supported that view.
"(Creditors) are not recognizing the restrictions that we set out in the debt sustainability studies that the government and the IMF did," the second person added. "Allowing the NDAs (nondisclosure agreements) to expire means we reached the limit of what we can give and the creditors have not acknowledged that the limit had been reached."
Another creditor involved in the talks with Argentina said the saber rattling was not wholly unexpected.
"There's this point in every negotiation. If you are trying to get the other side to blink, you have to at least pretend you are willing to walk away from the table," the person said.

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Argentina, creditors dance around debt deal as temperature rises

19-Jun-2020
By Adam Jourdan, Marc Jones and Rodrigo Campos
BUENOS AIRES/LONDON/NEW YORK, June 19 (Reuters) - **Argentina's debt deal is hanging in the balance with creditors and the government at an impasse, though most analysts still expected the two sides to find a way to bridge the divide after having made significant progress over the last month.**
The South American grains producer, long a boom-and-bust economy that in May defaulted for a ninth time, has twice improved a proposal to restructure around $65 billion in foreign debt,

though talks with creditors hit a roadblock this week.
Creditor groups are demanding the country improve its offer further, while the government stance is that it cannot cede ground after raising its offer to around 50 cents on the dollar plus an additional export-linked sweetener.
With a fluid deadline on Friday for a deal, expected to be extended, analysts said that despite the tensions the two sides should still be able to reach a deal.
"While it would have been better that negotiations continued with more constructive statements, this is not the first time the restructuring would seem to be at an impasse," Morgan Stanley said in a note on Friday.
It said that at a 10% exit yield, the government's offer was worth around 49.7 cents while the most aggressive counter from two groups, including names like BlackRock, Fidelity and AllianceBernstein, was worth around 57 cents.
"At less than 8 points difference, it would not benefit either side to completely break away from negotiations," the investment bank said, adding it stuck by its view that a deal would be reached in the third-quarter of the year.
Goldman Sachs said that while risks had risen, the two sides may ultimately find a way to bridge a gap it calculated at 5 cents and "avoid a disorderly and contentious default."
Argentine over-the-counter bonds rose on average around 0.7% on Friday after losing ground a day earlier.
BURNED BRIDGES?
Argentina's government now faces further bond repayments at the end of the month, which have a 30-day grace period, after it defaulted on three interest payments in May.
Some were more negative on the prospects.
Kim Catechis, investment strategy head at Martin Currie, said amid "steadily rising acrimony" Argentina risked burning bridges with investors, and cautioned about the rising prominence of populist vice president Cristina Fernandez de Kirchner.
A bondholder with knowledge of the negotiations said the two sides seemed to be skirting around a deal.
"It's like we're sort of dancing around it. It's a game, they are treating this like a continuation of a poker game that they want to keep playing," he said.
Roger Horn, senior emerging market strategist at SMBC Nikko Securities America in New York, said, given the tough current context, the progress already made was notable.
"When you think about it, getting a recovery of almost 50 cents on the dollar from a serial defaulter with the Peronists in power, Cristina in the background, with a collapsed economy during a pandemic, doesn't sound so bad," he said.

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Brazil

Brazil's Treasury secretary confirms he plans to resign

15-Jun-2020
By Rodrigo Viga Gaier
RIO DE JANEIRO, June 14 (Reuters) - **Brazilian Treasury Secretary Mansueto Almeida confirmed in an interview with financial blog Brazil Journal published on Sunday that he plans to resign from the government in July or August.**
Almeida said he expected President Jair Bolsonaro's administration to keep supporting the same fiscal policy, with the government aiming to reduce deficits after the COVID-19 pandemic subsides. Expense have risen to deal with the coronavirus crisis.
Earlier on Sunday, Reuters, citing a government source, reported Almeida was expected to resign soon. Almeida, who has served a year and a half in Bolsonaro's administration, had initially been expected to stay in the government for six months, the source said.
"I'm tired and soon there will be new discussions of fiscal adjustment after the COVID pandemic," Almeida told the blog, adding it was ideal that a new Treasury secretary be involved in those talks.
Brazil has the world's second-largest death toll from the coronavirus, at 43,332, behind only the United States. The Brazilian government expects gross domestic product to contract 4.7% this year, as quarantines and lockdowns to curb the spread of the virus slow economic activity.
Almeida, a longtime government finance specialist, played an important role in recent macroeconomic reforms proposed by Economy Minister Paulo Guedes. Almeida also served under former President Michel Temer.
Almeida said without elaborating that he would not work in the public sector.

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Brazil officials go on fiscal discipline offensive as markets wobble

19-Jun-2020
By Jamie McGeever and Gabriel Ponte
BRASILIA, June 18 (Reuters) - **Brazilian**

economy ministry and central bank officials on Thursday stressed the need for the government to stick to its fiscal rules and keep a tight control on public spending as soon as the COVID-19 crisis passes.
The warnings from three senior figures came on a day of volatility and big moves in currency and interest rate markets, against a backdrop of rising domestic political tension and a new low for official borrowing costs.
Economic Policy Secretary Adolfo Sachsida, the central bank's monetary policy director Bruno Serra and Treasury Secretary Mansueto Almeida all said maintaining the government's spending cap was crucial to Brazil's economic future.
"If the government is unable to resist this pressure (to relax the rule), we run the risk of interest rates rising, and country risk and uncertainty increasing," Almeida said in an online event hosted by Infomoney.
Earlier, Serra said in another online event that the spending cap, which limits the growth in public spending and investment to the previous year's rate of inflation, is "crucial" to sound fiscal and monetary policy,
Almeida noted that government debt will surge this year to around 95% of gross domestic product, and that Brazil has a two-year window to show markets it is committed to a course of fiscal rectitude.
Speaking in the same event as Serra, Sachsida said Brazil must get debt-to-GDP on a downward and sustainable path.
The real fell 2% and the interest rate curve steepened on Thursday, a day of political drama as the education minister quit and a former aide to one of President Jair Bolsonaro's sons was arrested.
Traders said these events, coming after the central bank cut interest rates to a new low of 2.25%, raised doubts about the government's ability to push through the reforms deemed so critical to Brazil's economic well-being.

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Chile

Chile seeks law allowing central bank to buy national Treasury debt

19-Jun-2020
SANTIAGO, June 18 (Reuters) - **Chile's government moved on Thursday to enable the central bank to buy bonds issued by the country's treasury in the secondary market, which could give it added firepower to help offset the COVID-19 crisis.**
The finance ministry, citing the economic impact of the coronavirus pandemic in a statement, said the central bank would be allowed to buy the state-issued debt in "exceptional circumstances" under newly drafted legislation.
The move would be a shift for Chile, where law currently prohibits the central bank from acquiring debt issued by any state organization, or from financing public spending through direct or indirect credit.
Chile, the world's top copper producer, has been hit hard by the pandemic. The central bank forecast this week that the economy would contract between 5.5% and 7.5% this year, which would be the deepest decline in 35 years.
The central bank's president, Mario Marcel, had said on Wednesday that the move to give it license to buy government debt was urgently needed.
The finance ministry, in its statement, said it would leave the country "better prepared to face delicate economic situations, such as those that the world is undergoing as a result of the coronavirus pandemic."
The statement added that "in no case may debt securities issued by the Treasury, state agencies or companies be acquired in the primary market."
Chile's central bank held the benchmark interest rate at its minimum level of 0.5% this week.

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Cuba

Wealthy nations offer Cuba one-year moratorium on debt

19-Jun-2020
By Marc Frank
HAVANA, June 19 (Reuters) - **Wealthy nations grouped together within the Paris Club of creditors have offered Cuba a one-year moratorium on payment of debt that has been in default for more than three decades, according to two diplomats with knowledge of the negotiations.**
Cuba, earlier this year, had asked for a two-year moratorium and the waiving of penalties for overdue payments due to the new coronavirus pandemic.
"The offer requires new negotiations in the spring of 2021 on the unpaid maturities as well as the scheme of future payments," one diplomat said, requesting anonymity.
"They will also have to pay the penalties on the money they owe," he said.
The Paris Club and Cuban government did not respond to a request for comment.
The 2015 Paris Club agreement, seen by Reuters, forgave $8.5 billion of $11.1 billion, representing debt Cuba defaulted on in 1986, plus charges. Repayment of the remaining debt in annual installments was backloaded

through 2033 and some of that money was allocated to funds for investments in Cuba.
Under the agreement interest was forgiven through 2020, and after that is just 1.5 pct of the total debt still due.
The agreement states if Cuba does not meet an annual payment schedule in full it will be charged late interest for that portion in arrears.
Cuba owed an estimated $80 million last year, paying some countries in full, but not others, including the largest creditors Spain, France and Japan.
Cuba last reported foreign debt of $18.2 billion in 2016, and experts believe it has risen significantly since then. The country is not a member of the International Monetary Fund or the World Bank.
The Cuba group of the 19-member Paris Club comprises Australia, Austria, Belgium, Canada, Denmark, Finland, France, Britain, Italy, Japan, the Netherlands, Spain, Sweden and Switzerland.

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Honduras

Honduras sees strong demand on rare dollar bond

19-Jun-2020 NEW YORK, June 19 (IFR) - **Honduras enjoyed strong demand for its first US dollar bond issue in more than three years last Wednesday when it raised US$600m to repay electric sector debt as part of its energy reforms.**
Books were some seven times oversubscribed, allowing leads to land the 10-year bonds at par to yield 5.625%, well inside initial price thoughts of 6.25% area.
Unlike neighbouring Belize, which announced an interest moratorium the same day, Honduras is seen as better able to weather the economic fallout caused by the Covid-19 pandemic.
"It's a pretty solid credit. With this transaction, and with multilateral and bilateral sources they are funding their needs for this year," said a New York-based investor.
In May, S&P confirmed its BB– rating for the sovereign, citing the government's commitment to fiscal moderation and ample access to funding.
Honduras (B1/BB–) has been involved in reform of its electricity sector with support from multilaterals such as the International Monetary Fund.
A memorandum of understanding was signed by President Juan Hernandez and leaders of the country's energy sector in 2018.
That framework pledged to strengthen regulatory agencies, create an independent system operator, and to implement other measures aimed at creating a transparent electricity market.
"Electricity reform remains a strategic priority of the administration and there are a series of programmes with several multilateral organisations lending support to restructure the industry," said an emerging markets analyst.
The deal, which refreshes the 10-year point of the sovereign curve, also offered a pick-up to the 6.25% 2027s, which have enjoyed an incredible 23 point rally since late March to trade on Wednesday at 108.00 to yield 4.82%, according to Refinitiv data.
It also came substantially wide to the higher rated Guatemala (Ba1/BB–), which has 4.875% 2028 notes trading at around 108.81 to yield 3.549%.
Honduras was last in the dollar market in January 2017 when it sold US$700m of its 6.25% 2027 bonds.
The transaction was led by Oppenheimer and local bank Banco Atlandida.

(This story will appear in the June 20 issue of IFR Magazine)
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D Honduras

Nicaragua

Fitch Affirms Nicaragua at 'B-' Outlook Revised to Negative

17-Jun-2020
June 17 (Reuters) - Fitch:
- **Fitch affirms Nicaragua at 'B-'; outlook revised to negative**
- Fitch says it revised outlook to negative from stable on Nicaragua
- Fitch says Nicaragua's negative outlook reflects increased financing risks amid a revenue shock caused by pandemic, rising spending pressures
- Fitch says Nicaragua's negative outlook reflects constraints posed by a small local market and international sanctions
- Fitch says it thinks sanctions will complicate Nicaragua's access to large-scale financing from IMF and some other multilateral institutions
- Fitch says while political environment improved during 2019, pandemic has renewed tensions in Nicaragua

(Reuters.Briefs@thomsonreuters.com)

Peru

Peru central bank predicts worst

economic fall in 100 years after pandemic

19-Jun-2020

LIMA, June 19 (Reuters) - **Peru's central bank slashed its economic outlook for the country on Friday, estimating annual contraction of 12.5% in 2020, which it said would be the copper-producing nation's worst decline in a century due to the impact of COVID-19.**

The forecast, made in the bank's delayed quarterly report, was down from a prediction of 2.3% growth for the year made before the global health crisis.

"It is the biggest fall in the last hundred years. Truly dramatic," central bank President Julio Velarde said at the presentation of the report.

Peru, the world's No. 2 copper producer, which relies heavily on commodities exports, has been hit hard by the pandemic, with a tough and early lockdown since March stalling mining output. The country has recorded nearly 250,000 confirmed coronavirus cases.

The central bank forecast a sharp rebound in 2021, with predicted growth next year of 11.5%. It deepened its forecast for a fiscal deficit of 9.7% of gross domestic product this year and trimmed the outlook for Peru's trade surplus to $5.54 billion.

Velarde said inflation this year would be flat, with the possibility of deflation due to dampened domestic demand. Inflation would rise to around 0.5% in 2021, he said.

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AFRICA

Middle East and North Africa

Fitch predicts dramatic rise in MENA external funding needs

19-Jun-2020

LONDON, June 19 (IFR) - **The coronavirus pandemic will result in a near-doubling in external funding needs in 2020-2021 for rated high-yield sovereigns in the Middle East and Africa, according to Fitch, largely reflecting the impact of a widening of current account deficits.**

The ratings agency expects the external funding needs to be met largely through a combination of official borrowing and reserve drawdowns.

"The IMF's support will crowd in financing from other official lenders, and could help support renewed market access, as evident from Egypt's recent Eurobond issuance," said Fitch.

"The G20's Debt Service Suspension Initiative (DSSI) on bilateral debt may also help to ease external funding pressures for a few sovereigns, such as Angola."

Fitch says DSSI-eligible sovereigns among the 26 it rates in MEA have around US$8.1bn in bilateral debt maturing in 2020. But not all of this will be covered by the scheme and, according to Fitch, a number of governments remain reluctant to participate.

"Large funding needs will put pressure on international reserves despite official creditors' support, particularly given the prevalence of rigid exchange rate regimes in the region," said Fitch.

The worst affected will be Iraq, Nigeria, the Republic of Congo and the Seychelles, which are expected to experience a 30% or greater drop in reserves.

Fitch said funding needs will exceed reserves in Ethiopia, Gabon and the Republic of Congo, although the latter two are able to access reserves pooled under the Economic and Monetary Community of Central Africa.

Ethiopia, under a recently agreed IMF programme, expects to cover most of its external financing needs through official creditor support.

Nigeria's and Egypt's reserves are larger relative to their funding needs.

"However, external liquidity strains could increase if foreign investors sell down their holdings of portfolio investment in these countries, putting pressure on ratings," said Fitch.

The agency said Iraq's reserves will continue to provide sufficient coverage of external funding needs despite a sharp decline.

"Downward pressure on reserves may be eased where exchange rates are flexible, as in Angola, Ghana and Zambia," said Fitch.

"However, in the near-term, currency depreciation may add to strains on debt sustainability, as it increases the burden of external debt repayment in local currency terms."

(This story will appear in the June 20 issue of IFR Magazine)
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C Regional 2

Egypt

Egypt seeks loan of over $1 billion, taps UAE banks

16-Jun-2020

By Saeed Azhar and Davide Barbuscia

DUBAI, June 16 (Reuters) - **The Egyptian government is looking to raise a loan of more than $1 billion and has tapped lenders in the United Arab Emirates (UAE) for financing help, three sources familiar with the deal said.**

The coronavirus crisis has battered Egypt's finances by shutting down tourism, denting

remittances from Egyptians working abroad and triggering capital flight.
Egypt obtained $2.77 billion in emergency financing from the International Monetary Fund (IMF) in May and this month reached staff-level agreement for a one-year, $5.2 billion standby loan.
It also raised $5 billion in bonds in May.
Emirates NBD and First Abu Dhabi Bank are helping to arrange the new loan and have reached out to other lenders as well, the sources said. Two of the sources said the loan would have a maturity of one year.
The Egyptian government, Emirates NBD and FAB did not immediately respond to requests for comment. The sources declined to be named because the information is not public.
Egypt's foreign reserves declined by $5.4 billion in March, $3.07 billion in April and $1 billion in May as the COVID-19 crisis chipped away at sources of foreign currency.
Egypt received $13 billion in tourism revenue and $26 billion from remittances last year. The government says tourism represents 5% of GDP, but analysts say the figure may be as high as 15% with indirect jobs, spending and investment too.

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World Bank provides $400 mln to boost health insurance in Egypt

17-Jun-2020
CAIRO, June 16 (Reuters) - **The World Bank said on Tuesday it would provide $400 million to support universal health coverage in Egypt as the country struggles with rising numbers of new coronavirus cases.**
The funding will help Egypt increase the reach of its universal health insurance system in six governorates and offer temporary financial protection to those hit by high out-of-pocket health expenditures linked to the coronavirus outbreak, the bank said in a statement.
Egypt's health ministry has confirmed 47,856 coronavirus cases, and 1,766 deaths, with the daily increase in cases rising in recent weeks as the government has slightly eased some restrictions on movement.
Though the government has announced increases in health spending during the coronavirus outbreak, the sector has suffered from decades of under-investment.
Quality of public health provision is often poor, and many Egyptians either lack health insurance or do not use it due to concerns over quality of care at government facilities, according to a World Bank report from 2018.
The World Bank launched a five-year, $530 million programme to support Egypt's healthcare system in 2018 that includes screening and treatment for Hepatitis C and non-communicable diseases, health facility improvement and healthcare worker training.

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Ivory Coast

Ivory Coast requests debt holiday from creditors including Paris Club

16-Jun-2020
ABIDJAN, June 16 (Reuters) - **Ivory Coast has asked to join an initiative that would let it suspend its debt payments until the end of the year in order to spend more on health services and tackling the fallout of the coronavirus pandemic.**
The amount of debt service eligible for suspension is 119 billion CFA ($205.45 million), according to a letter sent by the government to its main state creditors dated June 15.
The request is under the Group of 20 major economies' Debt Service Suspension Initiative (DSSI) to help 77 low-income countries, backed by the Paris Club of sovereign lenders.
"Ivory Coast has decided to request participation in the DSSI initiative and, as such, has sent official requests to its main creditors in the official bilateral sector, as well as to the Paris Club," the government said.
It explicitly ruled out requesting any debt holiday from private lenders - something that the Paris Club has previously asked debtor countries to do.
A number of the low-income countries had expressed concerns that to do so could hurt their credit ratings after ratings agencies said a failure to pay private creditors who had agreed to suspend debt payments in parallel with the Club could be considered a default.
"Ivory Coast ... hereby reaffirms its capacity and commitment to honour all of its contractual obligations vis-à-vis its private creditors in the servicing of its external public debt," the statement added.
It said macroeconomic fundamentals in the world's top cocoa producer remained excellent, with an economic growth projection of 3.6% in 2020, and a national debt equivalent to 38.6% of gross domestic product (GDP) at the end of 2019.
The International Monetary Fund expects Ivory Coast's economy to grow 8.7% in 2021, the highest projected rate on the entire continent, the government said.

($1 = 579.2200 CFA francs)
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Kenya

Fitch Revises Kenya's Outlook to Negative

19-Jun-2020
June 19 (Reuters) -

- **Fitch revises Kenya's outlook to negative; affirms at 'B+'**
- Fitch says it revised outlook on Kenya's long-term foreign-currency IDR to negative from stable
- Fitch says forecasts Kenya's GDP growth to slow to 1% in 2020
- Fitch - Kenya's outlook reflects Fitch's view that coronavirus shock will drive sharp economic slowdown, deterioration in 2020 budget deficit
- Fitch says believe coronavirus shock will delay any significant narrowing of fiscal deficit for Kenya until at least fiscal year ending June 2022
- Fitch - Kenya's outlook reflects Fitch's view that coronavirus shock will drive sharp economic slowdown, deterioration in 2020 government debt/GDP ratio
- Fitch says expect Kenya's government debt/GDP to begin levelling off in FY 2022
- Fitch says it believes coronavirus shock will delay any significant narrowing of Kenya's fiscal deficit until at least fiscal year ending June 2022
- Fitch says it forecasts a widening of Kenya's general government deficit to 8.6% of GDP in FY 2020
- Fitch says it expects Kenya's GDP growth to recover to 4% in 2021 and to return to between 5% and 6% over medium term

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Nigeria

Nigeria sells 162.6 bln naira of Islamic bonds

15-Jun-2020
ABUJA, June 15 (Reuters) - **Nigeria has raised 162.56 billion naira ($450 million) to help finance infrastructure projects through the sale of Islamic bonds to local funds and insurance companies, the Debt Management Office (DMO) said.**
The government had planned to sell 150 billion naira of the sukuk in its third outing, the DMO said, but it increased the size of the offer after it received a more than four-fold subscription.
The agency said it expected to issue more bonds to improve infrastructure and plans to use the proceeds of the sukuk sale to finance 44 road projects across Nigeria.
It did not give the maturity or the yield for the naira-denominated bonds.
Africa's biggest economy had a series of debt issues lined up this year before the new coronavirus pandemic triggered a plunge in oil prices, Nigeria's main export, forcing the government to shelve foreign commercial borrowing.
The government is now tapping domestic markets and concessionary loans to help fund its 2020 budget deficit which has been worsened by lower oil prices that have slashed revenues and weakened the naira currency.
The oil price crash has also triggered excess naira liquidity on domestic money markets as foreign investors sell Treasury bills, a situation that has helped created dollar shortages in Nigeria, whose economy is projected to contract as much as 8.9% this year.

($1 = 361.00 naira)
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Senegal

IMF cuts Senegal's 2020 GDP forecast to 1.1%

15-Jun-2020
DAKAR, June 15 (Reuters) - **The International Monetary Fund has cut Senegal's 2020 economic growth forecast to 1.1% from a 3% estimate in April due to the effects of the coronavirus pandemic.**
As recently as January, the Fund had expected 6.8% growth this year, but Senegal's economy has been battered by border closures, a curfew and social distancing, it said in a statement late on Sunday.

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Seychelles

Seychelles economy: Quick View - Seychelles issues solidarity bonds

19-Jun-2020
Event
On June 8th the Ministry of Finance, Trade, Investment and Economic Planning issued three solidarity bonds, worth SRs500m

(US$28.5m) each, to assist the government in covering the deficit in 2020.

Analysis

The issuance and management of the bonds will be done by the Central Bank of Seychelles (CBS). From June 15th Seychellois nationals and foreigners, commercial banks, corporations and other organisations were able to subscribe to the bonds. The three bonds have different maturities and interest rates: the three-year bond will be earning a fixed interest rate of 7% a year, compounded semi-annually; and the five-year and seven-year bonds will be earning a fixed interest rate of 10% and 12% a year respectively. The interest rates on these bonds are considerably higher than the deposit rate offered by banks in the country, thus providing a rational economic reason to invest in the bonds for nationals; consequently, we expect the bonds to be fully subscribed.

The solidarity bonds are part of the government's broader efforts to raise funds for additional spending, to offset the negative impact of the coronavirus pandemic on the tourism-driven economy. **The government announced these plans in the amended 2020 budget, as it projects a significant deficit this year (from a surplus in 2019) stemming from the spending pressures, as well as heavy revenue losses. In addition to the bond issues, we expect the government to seek further external multilateral support to finance the deficit, which should be forthcoming; the IMF disbursed US$31.2m under its rapid financing instrument to help the country meet urgent financial needs.**

South Africa

Mboweni warns of debt crisis unless South African budget is cut

18-Jun-2020

South Africa must cut spending to avoid a sovereign debt crisis within the next four years, Finance Minister Tito Mboweni said.

Mboweni is preparing to deliver a revised budget on June 24 that will reflect the devastation wrought on the economy by the coronavirus pandemic, he told lawmakers Thursday in Cape Town. The Treasury plans to make "very serious and unusual changes" to its expenditure plans, he said.

"We can no longer spend the way we were spending before," he said. "A sovereign-debt crisis is a very serious matter and we are looking it in the eye by 2024 if we do not redo our budget, if we do not manage our house finances carefully."

The adjustment budget Mboweni is preparing will redirect 130 billion rand ($7.5 billion) of spending in the 500 billion-rand coronavirus stimulus package President Cyril Ramaphosa announced in April. The fiscal deficit is likely to be double the 6.8% of gross domestic product Mboweni projected in February, and forecasts for government debt could be close to 80% of GDP.

The country was already running "crisis-level deficits" before the virus hit and the pandemic is resulting in additional fiscal deterioration, central bank Governor Lesetja Kganyago, who is also a former director-general of the Treasury, said Thursday in a public lecture.

"Sustainability concerns have to be addressed at a fiscal level," he said. "This means that the debt-to-GDP ratio has to stabilize, and those projections need to be realistic."

Revenue shortfalls

Revenue collection in South Africa has been undershooting estimates for at least five years. A nationwide lockdown that began in March to curb the spread of the virus is likely to further weigh on tax income, with many businesses forced to shut down permanently. That means the government won't be able to spend more to boost an economy that the central bank projects will contract by 7% this year.

Mboweni said the government must consider adopting a zero-based budgeting system, in which funds are allocated according to the state's revenue base. Ramaphosa backed the proposal in a separate speech to lawmakers on Thursday, when he said such an approach would become "the new normal."

"We are no longer as rich as we thought we were," Mboweni said. "We are much, much poorer and therefore all of us have to adjust our expectations."

A debt crisis would force the nation to seek help from the International Monetary Fund, which would result in the public service and state pensions being slashed, along with "all kinds of structural reform programs we do not want," he said.

Tunisia

Tunisia's PM decides against relying on more external debt, will freeze salaries

15-Jun-2020

By Tarek Amara

TUNIS, June 14 (Reuters) - **Tunisian Prime Minister Elyes Fakhfakh said on Sunday he had decided against the use of more external debt and that all new expenses that arise for the country would be funded only through internal loans.**

He said that he will freeze increases in the wages of public employees because of the critical state of public finances which was worsened by the coronavirus crisis.

This move could spark a conflict with the powerful UGTT Union, which is expected to reject the decision, and could lead to protests and strikes.
Tunisia needs an additional 4.5 billion dinars ($1.6 billion) of loans because of the coronavirus crisis, and the government will seek it from the local market, he added.
"External debt reached dangerous levels and now reached 60% of GDP, compared to 30% in 2013 and I decided not to continue in this way," Fakhfakh said in interview with Attessia TV.
Tunisia expects the economy to shrink by up to 4.3% this year, the steepest drop since independence in 1956.
Tourism revenues fell by about 50% in the first five months of this year compared to the same period in 2019, as western tourists deserted Tunisia's hotels and resorts.
"Public finances are very critical and we cannot continue with the approach of increasing wages," Fakhfakh said.
If the situation continues as it is, the government could be forced to reduce wages, he added.
Tunisia is under pressure from the international lenders to freeze public sector wages — the bill for which doubled to more than 17 billion dinars in 2020 from 7.6 billion in 2010 — as part of measures to reduce its budget deficit.
But the UGTT says the monthly average wage of about $250 is one of the lowest in the world, with high inflation rates which reached 6.3 percent in May.

($1 = 2.8440 Tunisian dinars)
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Uganda

Uganda's ballooning public debt

June 16, 2020
By ISAAC KHISA
Kampala, Uganda June 16 - Uganda government plans to borrow Shs8.73 trillion from local and international lenders to fund the bloated Shs 45.4trillion budget amidst the coronavirus pandemic threat.
According to the Ministry of Finance documents, the funds will be borrowed through treasury bills, bonds as well as concessional and non-concessional loans.
The government, however, does not indicate from whom or where the money will be borrowed externally, though in the recent years, China has become the country's leading external lender to facilitate development of various infrastructure development projects – electricity dams, airports and roads.
This financial year that ends June.30, the government borrowed Shs 2.13 trillion from external lenders and Shs 535bn from domestic market to finance the budget.
The government's increasing borrowing trend in the FY2020/21 locally and externally implies that the private sector will somewhat be squeezed out of the borrowing bracket. They will also be forced to compete with government, which will in the end increase the cost of interest rates currently averaging at an average of 17- 20% per annum.
This development comes as the economy continues to struggle because of lockdown measures put in place to combat the spread of COVID-19.
The economy is projected to grow at an estimated 3.1% this financial year, slower than the average growth rate of 5.4% in the previous four years.
However, Uganda's growing public debt is worrying some experts. Jane Nalunga, the executive director at Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) Uganda told The Independent that it would be prudent for government to borrow while also minimising on the administration costs and fighting graft.
"Borrowing would not be bad but it is the details on where we're getting the money…we should also show that we really care and can live within our means," she said.
"We need some higher level of transparency and accountability, put that money in productive sectors such as industries and agriculture to create jobs.
"We also need to look at expenditure towards repayment…if our expenditure on loan repayment is higher than allocations such as education, health among others, then, there's a problem," she added.
Currently, the government has allocated Shs4 trillion or 8.8% of the entire budget as interest payment on loans.
This is higher than the education and health budgets whose allocations stands at Shs 3.62trillion and 2.77trillion, respectively.
Julius Kapwepwe, the Director of Programmes at Uganda Debt Network said the country's borrowing in the wake of coronavirus pandemic was inevitable but the problem is that there is no evidence that the government had prudently redeployed the earlier planned expenditure on the non-current expenditure that have since been cancelled.
" Ugandans do not have a full picture of the money that had been planned for events like Uganda Marty's Day, Labour Day, World Environment Day, allowances for Board Meetings for academic institutions and allowances for government officials for inland and foreign travels, redeployed and exhausted before going from borrowings," he said.
Uganda's total public debt stood at Sh 48.91trillion (US$13.33bn) as at the end of December last year compared with Shs 46.36trillion (US$12.55bn) in June same year, according to the finance ministry.

Of this, external debt accounted for Shs 31.53trillion (US$ 8.59bn) while domestic debt stood at Shs17.38trillion (US$ 4.73 bn). This current total public debt represents 40.9% of the Gross Domestic Product for the Financial Year 2019/20, and is expected to peak in the Financial Year 2023/24 at 49.5%.
However, budget followers intimate that public debt to GDP could be now higher following the outbreak of the current coronavirus pandemic, which saw government massively involve in foreign borrowings to cushion the economy.
Last month, the government acquired Shs 1.9million (US$491million) from the International Monetary Fund to help finance health social protection and macroeconomic stabilization measures, meet the urgent balance-of-payments and fiscal needs arising from the COVID-19 outbreak and catalyze additional support from the international community.
In April, the government agreed to borrow US$300million from the African Development Bank and US$ 32.39million from the European Union towards budget support. It is also still in negotiation to acquire another US$300.5million from a UK bank to support the upcoming budget, according to Uganda Debt Network.
Nalunga, however, says there is need for government to always involve all the stakeholders in making decision on how and where the borrowed funds should be used for transparency and better returns.
This is the same position that Kipwepwe holds. "The borrowing should at the end of the day account to Ugandans on the number of new hospital bed acquired, oxygen cylinder and accessories secured, new staffing added, hospital laboratories equipped and also that the money borrowed and depleted through Uganda Development Bank is given to all those who deserve it rather than through syndicates on the basis of who is who," he said, adding that the government should always be in position to account to the citizens on how the budget was spent.
Similarly, Ezra Francis Munyambonera, the Head of the Macroeconomics Department at the Makerere University based Economic Policy Research Centre told The Independent that it is time for government to strive for a balance between borrowing for infrastructure development and provision of social services.
Munyambonera said the government should initiate negotiation with lenders especially China to re-allocate early acquired loans to other sectors which are vital to stimulate economic growth during the post COVID-19 period rather than focus on infrastructure development
He said there is also need for government to improve on loan absorption which has remained at less than 50% over the years.

OCEANIA

Fiji

S&P Says Fiji Outlook Revised To Negative On Covid-19-Induced Fiscal Deterioration; 'BB-/B' Ratings Affirmed

19-Jun-2020
June 18 (Reuters) -
- **S&P says Fiji outlook revised to negative on covid-19-induced fiscal deterioration; 'BB-/B' ratings affirmed**
- S&P says covid-19 pandemic will trigger a sharp, temporary collapse in tax revenues for tourism-dependent Fiji
- S&P - Fiji's negative outlook reflects downside risks around duration of pandemic, associated travel restrictions, and strength of subsequent recovery
- S&P - expect that relatively large fiscal deficits will put upward pressure on Fiji's government debt-to-GDP ratio, set back previous plans for budget consolidation
- S&P - could revise our outlook on Fiji to stable during the next 12 months if the risks of a more severe pandemic and recession were to subside

EMERGING MARKETS

Extension of G20 debt freeze may make PSI mandatory

15-Jun-2020
LONDON, June 15 (Reuters) - **The Group of 20 wealthy economies may make private sector involvement mandatory if they extend debt payment holidays for the world's poorest countries beyond this year, analysts at JP Morgan said.**
Roughly half of an eligible 73 low income countries have applied for the G20's COVID-19 crisis Debt Service Suspension Initiative (DSSI).
A number of African governments are requesting an extension of the period beyond the end of 2020, to possibly 2022, but there has also been pressure for more private sector involvement (PSI) beyond a pledge in May of "case-by-case" help.
"The lack of support from the private sector under the current DSSI would have disappointed G-20/Paris Club countries, and as a consequence they may make private participation mandatory for any country looking to postpone debt service obligations beyond 2020," JP Morgan analysts said in a note.
The G20 debt standstill offer is open to the world's poorest and least-developed countries, as defined by the World Bank and the United Nations, provided they are current

in their debt service payments to the World Bank and the IMF.
Some countries have been reluctant to seek such relief out of concern it could harm their credit ratings and access to international capital markets.
Big multilateral lenders, such as World Bank and the African and Asian Development Banks, which have provided roughly a third of low income African countries' $325 billion external debt, are also in the G20 spotlight to provide relief.
They too are wary about losing their top credit ratings if their coveted "preferred creditor" status is undermined, but JP Morgan, whose analysis is closely followed by debt markets, suggested there could be a workaround.
"The multilateral agencies could explore an arrangement where eligible countries pay debt service as scheduled, in the understanding that those funds are immediately re-disbursed to the paying country," it said, adding that could limit the risks.
The Jubilee Debt campaign has estimated the cancellation of poor countries' debt payments, including to private creditors, would free over $25 billion for the countries this year, or $50 billion if extended through 2021.

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Argentina, Brazil, Hungary facing largest fiscal deficits in EM

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LONDON, June 16 (Reuters) - **Argentina, Brazil and Hungary have suffered the biggest increase in fiscal deficits in the wake of the COVID-19 pandemic, according to the Institute of International Finance, as the virus has depressed revenue and lifted spending sharply.**
Fiscal deficits have widened in most parts of the world in recent months, with developed markets often able to comfortably finance them through large quantitative easing programmes.
But it can be trickier for emerging markets, due to lack of policy space and currency depreciation if they embark on QE, the IIF said in a research note, adding that South Africa and Brazil may need a central bank assist to fiscal policy.
Deficits were markedly wider relative to a year ago in some countries, especially in Argentina, Brazil and Hungary, it said.
Greater spending accounted for most of the widening, as tax revenue generally falls with a lag in crises.
Indonesia and Turkey showed the smallest increase in spending, it said.
In a separate note, the bank said its growth tracker for emerging markets showed a contraction of 2.9% for May, mainly driven by weaker hard data. But it added that business surveys suggested the decline in growth had bottomed out and that its forecast assumed stabilisation and partial recovery in the second half of the year.
As factories began to ramp up after the coronavirus hit, Chinese industrial output rose for a second straight month in May, although the weaker than expected gain suggested the recovery was fragile.
While emerging Asia was the only region in positive territory during the month, the reading was worse than April. Trackers for emerging Europe and Africa seemed to have bottomed out, although still in deep negative territory, the IIF said. Latin America's tracker was pushed further down.

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