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Emerging Sovereign Debt Markets NEWS

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ASIA

China

China's special local gov't bond issuance picks up

19-Aug-2020

BEIJING, Aug. 19 (Xinhua) -- **The issuance and use of China's special local government bonds have accelerated this year, which has been a key factor for the country's proactive fiscal policies.**

Newly-issued special local government bonds hit 2.56 trillion yuan (369.94 billion U.S. dollars) as of Sunday, up 51 percent from the same period last year, according to the Ministry of Finance (MOF).

The use of funds raised from the bonds has accelerated, with 2 trillion yuan having been spent by the end of July.

The MOF said it will properly handle the pace of issuance, ensure orderly and steady issuance of special bonds, and try to achieve this year's issuance target by the end of October.

The ministry vowed to optimize the investment of funds raised from the bond issuance, strictly manage negative lists, urge local governments to make good use of the bonds and improve the efficiency of fund usage.

China plans to issue 3.75 trillion yuan of special local government bonds this year, 1.6 trillion yuan more than last year.

Enditem

China’s Tibet

China's Tibet issues gov't bonds on exchange market for first time

17-Aug-2020

SHANGHAI, Aug. 17 (Xinhua) -- **Southwest China's Tibet Autonomous Region has issued 8.8 billion yuan (about 1.27 billion U.S. dollars) worth of local government bonds on the Shanghai Stock Exchange, according to the bourse.**

It is the first time that the Tibet regional government bonds have been issued on the exchange market. The region issued 6.2 billion yuan in general bonds and 2.6 billion yuan in special bonds on Wednesday.

The general bond funds are mainly used in the construction of roads in rural areas. Funds related to the special bond will be utilized in public health, urban development, shantytown renovation and environment protection. They will provide significant financial support for stabilizing investment, strengthening weak links and improving people's welfare.

The issuance had 10-year, 15-year and 20-year bonds.

India

Bond market expects massive OMO to help govt meet Rs 12 trn borrowing goal

16-Aug-2020

The bond market is expecting substantial amount of secondary market bond purchases by the Reserve Bank of India (RBI) to cool down yields and enable the government to sail through the record Rs 12 trillion borrowing programme.

The RBI buys or sells bonds from the secondary market through its open market operations (OMO) programme. While the OMOs are largely announced, the central bank also buys bonds unannounced. So far this fiscal, the RBI has bought about Rs 1.14 trillion of bonds from the secondary market, most of them unannounced. This could be termed as indirect monetization, something which the central bank could have to resort to more in this fiscal, say bond dealers. Such purchases lower the yields, or boost the price of the bonds, and the government, the issuer, gets to borrow at a cheaper rate.

Bond yields spiked up on Friday by 9 basis points, and the bond dealers wanted higher yield for the 10-year securities on offer in the weekly auction. RBI refused to oblige to the market and Rs 4637.93 crore of the Rs 18,000 crore 10-year bond auction remained unsold. The cut-off yield in the auction of this bond came at 5.96 per cent, against its coupon of 5.77 per cent. The bond was launched a fortnight back and replaced another 10-year bond that was the benchmark for just three months.

So far this fiscal, the government has raised Rs 5.84 trillion in bonds from the market.

“The devolvement at the auction on Friday, is a sign of investor 'fatigue', and the markets' appetite for further supply will be limited, in the absence of some support from RBI,” said Badrish Kulhalli, head of fixed income at HDFC LIfe Insurance.

The RBI kept policy rates unchanged, and economists say the room for aggressive rate cuts is limited. Inflation is on the rise, albeit should start coming down in the second half as per RBI estimates. But the bond market is more or less certain that rate support would no longer be there.

“With US yield up and higher than expected CPI market have given hope on October cut, market will now look for support from RBI in form of OMO,” said Jayesh Mehta, head of treasury of Bank of America.

The RBI can also do operation twist, in which it simultaneously sells short bonds and treasury bills for longer maturity government securities. "Expectations of OMO or Operation Twist is likely to build up in the coming days,” said Kulhalli.

India's Faltering Bond Sale Flags Need For RBI Action, Analysts Say

18-Aug-2020

By Dharam Dhutia and Siddhi Nayak
NewsRise

MUMBAI (Aug 18) -- **India’s reliance on underwriters to close last week’s auction of federal government securities has highlighted the need for the central bank to step up its intervention in a market grappling with a record supply of notes, analysts said.**

On Friday, the Reserve Bank of India devolved 25% of a new 10-year bond issue on primary dealers who underwrite such auctions. New Delhi is struggling to shore up its finances as the coronavirus pandemic remains unabated, forcing intermittent lockdowns and hurting economic activities. The central bank, faced with rising inflation, is constrained in cutting policy rates further.

“If the RBI does not intervene, it will be difficult for the market to hold on to current levels,” Murthy Nagarajan, head-fixed income at Tata Asset Management, said. “Once the key psychologically key level of 6% is breached, there will be a further selloff and RBI’s yield-curve management policy will go for a toss.” Indian 10-year benchmark bond yield had fallen by only 38 basis points since Mar. 26 despite ample banking liquidity and 115 basis points of policy rate cuts. The yield is up 15 basis points in August.

The federal government has raised its annual borrowing target by 54% to a record 12 trillion rupees and is expected to borrow more, along with state governments, starting October. Calls for the central bank to step up its asset purchases have yielded little so far, with the RBI conducting two special open market operations, where it attempts to lower long-term yields.

The central bank had bought 1.20 trillion rupees of Treasury Bills in April and May but investors want it to purchase longer-dated notes to lower the term premium and reduce the supply in the market. Tata’s Nagarajan expects the central bank to conduct special OMOs of four trillion rupees and hike banks’ held-to-maturity portfolio limit to boost demand.

“In case the RBI delays the special open market operations, the possibility of devolvement will keep rising and primary auctions may continue to see tepid demand,” Pankaj Pathak, fund manager at Quantum Mutual Fund, said. “Bonds maturing in 10-14-years are likely to face the brunt."

Some worry that the RBI's dollar purchases may hamper its bond market moves.

"The rupee is significantly undervalued compared with its emerging market currencies, indicating that the RBI has done enough on the forex side to control the rupee appreciation," said Anindya Banerjee, deputy vice president - currency & interest rate derivatives research at Kotak Securities.

"It is time for the RBI to shift its attention to the bond market or else it may have to reduce the quantum of its OMO calendar in the second half to manage excess rupee liquidity," Banerjee added.

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Sovereign Gold Bonds see record subscription of Rs 3,387 crore

18-Aug-2020

Mumbai: **Gold is attracting Indian investor interest like never before. Indian households have subscribed to a record Rs 3, 387 crore worth of sovereign gold bonds in the recently concluded fifth series for FY21. By volume, this adds up to 6.**

35 tonnes. This is by far the highest in value and volume in any series since SGBs were launched in 2015 as a means of cutting costly imports of the yellow metal. In the past five years, SGBs aggregating to 48.

16 tonnes have been issued by the RBI on behalf of the government. The issue price of Rs 5334 per gram in the fifth series was almost 10% higher than that in the the fourth series. "It's a stark contrast to physical demand which has slumped amid the Covid pandemic," said Surendra Mehta, national secretary of gold trade body IBJA.

"While it reflects rising investment demand, demand for physical gold would resume post the pandemic."In the June quarter gross billion imports into India were a minuscule 14.1 tonnes, down 95% from a year ago, as per World Gold Council, showing the impact of Covid on consumer demand.

While in interest in SGBs is miniscule compared with the average annual 800 plus tonnes' gross bullion imports in the past two years, it reflects a rising investment trend with prices having risen 25% to Rs 53600 per 10 gm (Ex-GST) since the beginning of the current fiscal.

India MPC Needs to Use Available Policy Space Judiciously, RBI Governor Das Says

21-Aug-2020
By Dharam Dhutia
NewsRise

MUMBAI (Aug 21) -- **India's rate-setting panel has space to cut rates further but must use it when needed the most, the head of the panel and governor of the central bank said today.**

"I would like to reiterate that there is policy space but we need to use it prudently and judiciously," MPC head and Reserve Bank of India Governor Shaktikanta Das told CNBC Awaaz in an interaction.

The six-member Monetary Policy Committee earlier this month unanimously kept the key interest rates unchanged at record lows amid quickening inflation. The panel said it will continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of the Covid-19 pandemic on an economy.

In the minutes of this meeting published yesterday, panel members including Governor Das raised concerns over rising inflation even as the growth outlook remains extremely uncertain. Das said in the minutes that the central bank must remain watchful to ensure that the momentum in inflation does not get entrenched in the economy.

India is the third worst affected country by the pandemic and saw its biggest single-day spike in Covid-19 cases yesterday. The country's reported tally stands at 2.91 million cases, with over 54,500 dead.

Das said today that economic growth is expected to slump in the first half and improve in October-March, with the economy shrinking in this financial year that ends Mar. 31. The RBI is keeping a close watch on the financial markets and will intervene with the necessary policy instruments when needed. All conventional, unconventional tools remain on the table, he added.

The central bank will ensure that government borrowing programme is implemented in a "non-disruptive manner," Das added. Indian bond yields have risen sharply this week on expectation that higher inflation has reduced the space for rate cuts and amid a record borrowing by New Delhi.

Three new external members would be joining the MPC as the terms of current members Ravindra Dholakia, Chetan Ghate and Pami Dua are ending, the governor said.

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Indonesia

Indonesia's Q2 c/a deficit narrows, BoP at $9.2 bln surplus

18-Aug-2020
JAKARTA, Aug 18 (Reuters) - **Indonesia's current account deficit in the second quarter narrowed slightly from the previous three months to $2.9 billion, or 1.2% of gross domestic product, according to a central bank report released on Tuesday.**
The first quarter's current account gap was equal to 1.4% of GDP.
The country had a $9.2 billion balance of payments surplus in the April-June quarter, compared with a $8.5 billion deficit in the first quarter.
Portfolio capital inflows returned in the second quarter after significant outflows at the beginning of the coronavirus pandemic, Bank Indonesia said in the report.

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Kazakhstan

Kazakhstan drafts 2021 budget with $6.2 bln deficit

20-Aug-2020
ALMATY, Aug 20 (Reuters) - **Kazakhstan plans to increase its central budget deficit to 2.6 trillion tenge ($6.2 billion), or 3.4% of gross domestic product, in 2021 from 2.4 trillion tenge this year, according to the draft budget published on Thursday.**
The oil-rich Central Asian nation's government forecasts GDP growth at 2.8% in 2021 after an expected 0.9% contraction this year, it said in the document.
Kazakhstan will draw 3.7 trillion tenge from its rainy-day National Fund in 2021, down from 4.8 billion this year, according to the draft.
The former Soviet republic's economy has been hit hard by coronavirus lockdowns and the drop in energy prices, prompting the government to boost spending.

($1 = 419.3700 tenge)
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Kuwait

Kuwait committee rejects public debt law, parliament to vote

16-Aug-2020
By Ahmed Hagagy
KUWAIT, Aug 16 (Reuters) - **The Kuwaiti parliament's financial and economic committee rejected the proposed public debt law that would allow the government to borrow 20 billion dinars ($65.43 billion) over 30 years, the committee head said on Sunday.**
The government and parliament have long been at odds over the law, which would allow Kuwait to tap international debt, but the issue has become more urgent in recent months as the oil-exporting nation has been hit by low crude prices and the COVID-19 pandemic.
The committee does not have the power to scrap the law and parliament is still expected vote on the matter. Committees are tasked with studying draft laws and making recommendations to parliament. No date has yet been announced for a vote.
"Today we rejected the public debt law ... The government has no commitment to real reform," Safaa al-Hashem, the committee head, said in parliament.
The government was planning to issue between 4 billion and 5 billion dinars in public debt by the end of March 2021 if parliament approved the law, a document seen by Reuters showed.
Legislators have been requesting more visibility from the state about use of the funds and repayment mechanisms, given the government's heavy reliance on oil income that accounted for 89% of revenue in the past financial year.
Facing one of the worst economic crunches in the oil-exporting Gulf region, Kuwait is scrambling to boost state coffers badly hit by the coronavirus crisis and low oil prices, rapidly depleting its General Reserve Fund (GRF) to plug a budget deficit.
Kuwait posted an actual deficit of 5.64 billion dinars in the 2019-20 financial year ending in March, up 69% year on year, it said on Thursday.

($1 = 0.3057 Kuwaiti dinars)
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Kuwait Debt Law Likely To Pass in 2021 on Rising Fiscal Pressures

17-Aug-2020

Key View:

- **On August 16, the Kuwaiti parliament's Financial and Economic committee rejected a proposed debt law, meaning that the government will have to continue to rely on sovereign wealth fund assets to fund the deficit.**
- In light of rising fiscal pressures however, we maintain our core view that the debt law will be passed in 2021.
- Overall, however, Kuwait's ample reserves (valued at 435% of GDP) mean that risks to Kuwait's fiscal position are small.

On August 16, the Kuwaiti parliament's Financial and Economic committee rejected the government's proposed debt law, which would have allowed the authorities to issue new government debt. Parliamentary debate over the rule has prevented the government from issuing new public debt since Q417, forcing the near depletion of the General Reserve Fund (GRF) - the portion of the sovereign wealth fund that can be used to finance the fiscal deficit. The proposed law - which would allow the country to issue up to USD65bn over 30 years - was rejected by four of the committee's seven members, with the chair citing the lack of a credible reform plan. The government will therefore continue relying on the GRF to fund the deficit and cover upcoming debt maturities.

In light of rising fiscal pressures, we maintain our core view that parliament will eventually pass a new debt law in 2021. We forecast that the budget deficit will reach 21.2% of GDP this fiscal year (*see chart below*), primarily due to the oil price decline as hydrocarbon revenues account for four-fifths of revenues. Indeed, our Oil & Gas team expects that oil prices will average USD44.0 per barrel (/bbl) in 2020, down from the 2019 average of USD64.2/bbl. Kuwait's strict compliance with OPEC+ restrictions that came into effect on May 1 will cause output volumes to fall by 13.7% this year. Overall, we forecast hydrocarbon revenues will decline by 40.0% in FY2020/21. Non-oil revenues are also slumping given the impact of social distancing measures on the household spending and broader business activity.

Political pressures, however, mean that it will be difficult for the government to implement deep spending cuts. Fiscal policy in Kuwait - as in most of the GCC - tends to be pro-cyclical meaning that when oil prices decline, the authorities will cut back on expenditure. Part of the spending cuts will fall on capital expenditure. Nevertheless, we believe the authorities will be reluctant to trim the wage bill and subsidies given that it could prompt some social discontent. As such, headline expenditure will fall by 9.4%, far milder than the 35.7% decline in headline revenues.

This, in turn, will exert pressure on both the government and parliament to reach a compromise. According to the IMF, the GRF's total and liquid balances were 56.0% and 24.0% of GDP over a year ago (compared to our FY2020/21 deficit forecast of 21.2% of GDP, besides upcoming debt maturity obligations - *see chart above*), respectively. According to Reuters, the fund's cash reserves ran out in mid-July, implying that future withdrawals will force the authorities to sell assets. This leaves the government with few options but to push forward with the debt law by offering parliament a credible fiscal reform programme. Alternatively, the government could potentially issue the law by decree, although constitutionally, this would have to happen following the expiration of parliament's term in November. Either way, we still view it as fairly likely that rising fiscal pressures and the near depletion of the GRF to prompt the issuance of the debt law in 2021 or authorisation for the government to tap the Future Generations Fund (FGF) - the larger portion of the sovereign wealth fund.

Despite the escalating parliamentary battle, actual risks to Kuwait's fiscal position are small. While the GRF is near depletion, the fund represents the smaller portion of Kuwait's fiscal buffers. IMF figures show that the *Kuwait Investment Authority* (the sovereign wealth fund) and central bank have reserves worth 435% of GDP, implying ample cushions against growing fiscal needs. While the government has, so far, abided by regulations that only allow it to tap a small (and now almost depleted) share of the wider reserves, we expect that they would find some legal way of accessing the larger pool to avoid exacerbating fiscal pressures. Indeed, government bond yields have hardly moved since news of parliament's rejection of the proposed law, suggesting that the latest parliamentary dispute has not spooked investors.

Kuwait parliament approves new wealth fund law, delays debt reform

19-Aug-2020

By Ahmed Hagagy

KUWAIT, Aug 19 (Reuters) - **Kuwait's parliament on Wednesday approved a law to make transfers of state revenue to one of its sovereign wealth funds conditional on budget surpluses, a move which will provide more than $12 billion in much needed liquidity to the treasury.**

Parliament, however, returned a public debt law

that would allow the government to borrow 20 billion dinars ($65.4 billion) over 30 years to a parliamentary committee for two weeks of further study, it said on its website.
Government and parliament have long been at odds over debt reform, which would allow Kuwait to tap international markets. But the issue has become more urgent in recent months as the oil-exporting nation has been hit by low crude prices and the COVID-19 pandemic.
Kuwait automatically transfers 10% of the state's revenue every year to the Future Generations Fund, one of its sovereign funds, but the law passed by the national assembly on Wednesday will now only allow transfers to the fund when the year's budget is in surplus.
Meanwhile, it makes available to the government 3.8 billion dinars ($12.5 billion) of accrued money that would have been otherwise transferred to the Future Generations Fund, a parliamentary document seen by Reuters showed.
Some additional money set aside for the fund in the current fiscal year would also now remain available to the treasury, according to the document.
Oil-rich Kuwait faces a deficit of 14 billion dinars ($46 billion) in the current fiscal year, which began on April 1.
Kuwait's Minister of Finance Barak Ali Al-Shitan said to parliament on Wednesday that the government's available liquidity was sufficient to cover salaries until next November.

($1 = 0.3051 Kuwaiti dinars)
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Laos

Moody's cuts Laos to Caa2

17-Aug-2020
HONG KONG, Aug 17 (IFR) - **Moody's has downgraded the Government of Laos's issuer rating to Caa2 from B3 and changed the outlook to negative.**
The rating cut reflects severe liquidity stress, given sizeable debt servicing payments due this year for US$1.2bn, according to Moody's. The financing stress is set to be ongoing until 2025 with the government facing average debt service repayments of a little over US$1bn annually.
The rating agency said the weak external and fiscal buffers as well as poor governance exacerbate the liquidity risk, pointing to a material probability of a default in the near term. That probability could increase because of a more acute impact of the coronavirus shock.
The negative outlook reflects the risk of material losses to investors in the event of a default, said Moody's.
Laos has a US$150m bond with a coupon of 6.875% due in June next year. The sovereign printed the US dollar debt in a club deal in December last year, which was its first offering to be widely marketed to international investors.

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Lebanon

Fitch Affirms Lebanon's Long-Term Foreign-Currency IDR at 'RD'

20-Aug-2020
Aug 20 (Reuters) - Fitch:

- **Fitch affirms Lebanon's long-term foreign-currency IDR at 'RD'**
- **Fitch says Lebanon remains in RD on foreign currency government debt, after sovereign's failure to pay principal on Eurobond that matured on march 9, 2020**
- Fitch says affirmed Lebanon's long-term foreign-currency issuer default rating at 'restricted default' and long-term local-currency IDR at 'CC'
- Fitch says Lebanon's progress with reform and debt restructuring will require greater unity among political & economic elites

(Reuters.Briefs@thomsonreuters.com)

Lebanon can only subsidise basic goods for 3 more months

20-Aug-2020
BEIRUT, Aug 20 (Reuters) - **Lebanon's central bank will only subsidise fuel, wheat and medicine for three more months, an official source said on Thursday, as critically low foreign currency reserves dwindle.**
A central bank official was not immediately available for comment, and the caretaker economy minister referred questions on the matter to the central bank.
The source told Reuters the bank had informed the government it would end the subsidies then in order to prevent reserves from falling below $17.5 billion.
Other sources had in July estimated that the reserves stood at some $18 billion, before this month's massive Beirut port blast that killed 179 people and wrecked swathes of the city.
The explosion and its aftermath compounded a financial crisis that, since late last year, has

slashed the value of the Lebanese pound on the parallel market, hitting imports as dollars grow ever more scarce. Inflation and poverty have soared.
Still, the official pegged rate of 1,507.5 Lebanese pounds to the dollar, in place since 1997, has remained available to subsidise the key imports of fuel, wheat and medicine - keeping their prices stable.
The now caretaker government, which resigned over the Aug. 4 blast, launched talks had in May with the International Monetary Fund after defaulting on its hefty foreign currency debt, citing low reserves.
But the negotiations stalled over inaction on reforms and a domestic row over the size of vast losses in the financial system.
Foreign humanitarian aid has poured in after the port explosion, but donors have made clear they will not bail out the state without reforms to tackle entrenched corruption and mismanagement.

(Reporting by Samia Nakhoul and Ellen Francis; Writing by Ghaida Ghantous; editing by John Stonestreet)
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Oman

Fitch cuts Oman credit rating for second time this year

17-Aug-2020
DUBAI, Aug 17 (Reuters) - **Fitch Ratings has downgraded Oman's credit rating for the second time this year, bringing it down a notch to BB-minus from BB and keeping its outlook negative, the ratings agency said on Monday, citing the continued erosion of its fiscal and external balance sheets.**
One of the weakest economies in the hydrocarbon-reliant Gulf, Oman is a relatively small crude producer burdened by high levels of debt and is therefore more vulnerable to oil price swings than most of its wealthier neighbours.
Fitch forecast a fiscal deficit of nearly 20% this year, up from 8% last year, saying that a 32% drop in revenue driven by lower oil prices and production more than offsets an 8% cut in spending.
The agency expects Oman's average oil export price to be $45 a barrel in 2020, far below its estimated break-even price of $70.
The government secured a $2 billion bridging loan with a group of banks to bolster state coffers hit by low oil prices and the economic downturn caused by the coronavirus crisis, sources said last week. **Fitch said it expects debt to increase to more than 80% of GDP this year, against 60% last year.**
"The coming three years will be a critical test of the funding flexibility that Oman has displayed in the past, and a steep maturity schedule will keep Oman's funding needs large beyond that, even as the fiscal deficit is reined in," Fitch said.
Fitch forecast fiscal deficits and external debt maturities will total $12 billion to $14 billion a year in 2020-2022, which it said was a level last seen in 2015-16 when Oman's balance sheet was markedly stronger. The agency expects more than half of the government's funding needs to be met by external debt.
While Fitch said that financial support from the six-member Gulf Cooperation Council (GCC) is likely to become available to Oman, multiple factors are at play.
"The size, timing and form of further support remain uncertain amid Oman's desire to maintain geopolitical neutrality, political and fiscal challenges in the rest of the GCC and the large size of Oman's funding need," it said.
In June, Moody's downgraded Oman deeper into junk territory to Ba3 from Ba2, citing risks related to its financing needs and diminishing buffers.

(Reporting by Yousef Saba
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Pakistan

Fitch Affirms Pakistan at 'B-'; Outlook Stable

17-Aug-2020
Fitch Ratings has affirmed Pakistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Stable Outlook.
KEY RATING DRIVERS
Pakistan's 'B-' rating reflects weak public finances, including large fiscal deficits and a high government debt/GDP ratio, a challenging external position characterised by large external debt repayments against low foreign-exchange reserves and low governance indicator scores. The coronavirus pandemic has exacerbated these challenges by depressing economic growth and pressuring the public finances. The external finances appear resilient to the shock due to the authorities' policy actions and continuing multilateral and bilateral financial support.
Policy actions by the authorities over the past couple of years eased external vulnerabilities prior to the coronavirus shock. These included tighter monetary policy settings and the move to a more market-determined exchange rate regime, which contributed to a sharp narrowing of the current account deficit and a modest rebuilding of foreign-exchange reserves. Greater exchange rate flexibility has continued during

the pandemic and has been an important shock absorber.

Liquid gross foreign-exchange reserves rose to about USD12.5 billion by end-July from USD7.7 billion a year prior. A sharp reversal in March of record non-resident inflows to local-currency government notes (reaching a stock of USD3.2 billion in February) generated exchange rate volatility and a modest decline in foreign-exchange reserves. Foreign holdings have stabilised since then, and reserves have been restored through multilateral and bilateral disbursements. The central bank's net forward position has increased somewhat in the past months and net reserves remain negative, even though they have narrowed. Fitch forecasts a further rise in liquid gross reserves to about USD16 billion by end of fiscal year ending June 2021 (FY21).

Pakistan's current account deficit narrowed to 1.1% of GDP in FY20, from a peak of 6.1% in FY18, due mainly to import compression and lower oil prices. Fitch forecasts a slight widening of the current account deficit to 1.7% in FY21 due to a modest recovery in imports and declining remittances. Remittances rose unexpectedly by 7.3% in 4QFY20, but we view this as temporary and expect a decline of about 10% in FY21 due to the impact of the global economic shock on Pakistan's overseas workers.

External financing requirements have declined, in line with the narrowing of the current account deficit. **However, the government's external debt repayments remain high at about USD10.3 billion (about 80% of current gross liquid reserves) in FY21 and USD8.9 billion in FY22.** The USD3 billion in deposits at the central bank from Saudi Arabia were slated to be rolled over through 2022, but the Saudi authorities requested repayment on USD1 billion of the deposits in July. In our baseline scenario, we assume the additional USD2 billion will be rolled over when the respective tranches mature in December and January, but this is subject to some risk.

Pakistan has received approval for its participation in the G-20's Debt Service Suspension Initiative (DSSI), which will lower FY21 debt repayments to bilateral creditors by roughly USD2 billion. **The relief provided by bilateral creditors does not constitute a default under Fitch's definitions, and we understand that the authorities have ruled out any request for participation by private creditors.**

Access to external financing appears sufficient in the near-term to close any financing gap, underpinned by support from multilateral and bilateral creditors. In April, the IMF board approved USD1.4 billion in financing through its Rapid Financing Instrument. The 39-month, USD6 billion IMF programme, which began in July 2019, remains in place. We expect the second review to be completed in the coming months, although it has been delayed since March, due mainly to the IMF's willingness to facilitate the authorities' policy focus on the coronavirus response. We understand that both the IMF and government of Pakistan remain committed to the programme, which has facilitated significant financing from a range of multilateral institutions. Official bilateral and commercial bank borrowing from China has also been a key source of financing. The authorities have also indicated they plan to return to the international bond market later this calendar year.

Public finances are a rating weakness. Fiscal consolidation efforts were affected by the coronavirus shock, but the general government fiscal deficit still declined to 8.1% of GDP in FY20 from 9.1% in FY19. The shock weighed on revenue in 4QFY20, but it still increased 28% for the full year due in large part to base effects from low revenue collection during FY19 and the authorities' earlier efforts to improve revenue collection. The government passed a PKR1.2 trillion (2.9% of GDP) coronavirus support package in March to lift health spending and provide assistance to low-income households, although delayed disbursements limited the impact on the FY20 deficit. Limited headroom due to a large fiscal deficit, low revenue and high debt is likely to constrain further fiscal stimulus beyond the March package.

We forecast the fiscal deficit to remain roughly stable at 8.2% in FY21, due to the lingering impacts of the coronavirus shock. Under the recently passed FY21 budget, the government targets a deficit of 7.0%, but, in Fitch's view, this target relies on optimistic revenue growth assumptions from ongoing administrative initiatives, as the budget does not contain new revenue raising measures.

Fitch forecasts that Pakistan's debt/GDP ratio will rise to about 90% at FYE21, from 87.2% at FYE20, well above the 'B' median of 50.8%, increasing debt sustainability concerns. The deterioration in the debt/GDP ratio is much more significant than our expectation of an 80% level by FYE20 at our last review in January, due to the coronavirus shock, as well as further currency depreciation. Under Fitch's baseline the debt ratio will begin a gradual decline in FY22, to about 85% of GDP by FYE25, as the fiscal deficit narrows and GDP growth picks up. Mitigating the risk around a high debt ratio is that roughly two-thirds of the debt stock is in local currency, compared with a 'B' median of about a third. The government is also seeking to extend maturities to limit rollover risks by taking advantage of the apparent appetite from the domestic banking sector for longer-dated issues.

We forecast GDP growth to rebound to 1.2% in FY21, following a contraction of 0.4% in FY20 resulting from the pandemic and the authorities' macro adjustment policies. Risks to the forecasts are skewed to the downside given uncertainty around the coronavirus. Recent data show the spread of the virus to be declining, and the government appears keen to avoid re-imposition of widespread lockdown measures, opting instead for a "smart lockdown" strategy of targeting coronavirus hotspots. Recent locust infestations pose another downside risk to agriculture, and to the broader growth and the inflation outlook.

The monetary policy stance has been loosened to support the economy during the coronavirus shock. The central bank cut the policy rate by a cumulative 625bp to 7% between March and June. As a result, the real interest rate has turned negative, although Fitch forecasts that inflation will remain on a downward trajectory, averaging 7.8% during FY21 from 10.7% in FY20, supported by diminishing pass through from last year's substantial rupee depreciation.

The coronavirus poses a potential setback to the government's reform agenda, with policy focused on the pandemic response, and possibly affects the ability to advance politically challenging reforms. Nevertheless, the government has undertaken some reforms in the past months, although further steps to address circular debt in the power sector - a key element of the IMF programme - have been delayed.

Pakistan's rating is constrained by structural weaknesses, reflected in weak development and governance indicators. Per capita GDP of USD1,264 is below the USD2,867 median of its 'B' rated peers. Governance quality is also low in Pakistan with a World Bank Governance Indicator (WBGI) score in the 22nd percentile compared with a 'B' median in the 38th percentile.

ESG - Governance: Pakistan has an ESG Relevance Score (RS) of 5 for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the WBGIs have in our proprietary Sovereign Rating Model. Pakistan has a low WBGI ranking at 22.5, reflecting the absence of a recent record of peaceful political transitions, relatively weak rights for participation in the political process, weak institutional capacity, uneven application of the rule of law and a high level of corruption.

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

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

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

- Structural: +1 notch to adjust for the negative effect on the SRM of Pakistan's take-up of the DSSI, which prompted a reset of the "years since default or restructuring event" variable (which can pertain both to official and commercial debt). In this case, we judged that the deterioration in the model as a result of the reset does not signal a weakening of the sovereign's capacity and willingness to meet its obligations to private-sector creditors.

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

RATING SENSITIVITIES

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

- External Finances: Continued implementation of policies sufficient to facilitate a rebuilding of foreign-exchange reserves and ease external financing risks.
- Public Finances: Sustained fiscal consolidation, for instance through a structural improvement in revenue, sufficient to put the debt/GDP ratio on a downward trajectory over the medium-term.
- Macro: Sustained improvements in the business environment that contribute to improved medium-term growth and export prospects.

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

- External Finances: Indications of reduced access to external finance leading to financing strains.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure 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.

KEY ASSUMPTIONS

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

Pakistan has an ESG Relevance Score of 5 for Political Stability and Rights, as WBGIs have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight. Domestic security risks and geopolitical tensions with neighbours also pose a risk to political stability.

Pakistan has an ESG Relevance Score of 5 for Rule of Law, Institutional & Regulatory Quality and Control of Corruption, as WBGIs 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.
Pakistan 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 WBGIs that have the highest weight in the SRM. They are relevant to the rating and a rating driver.
Pakistan 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, 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). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.
Pakistan; Long Term Issuer Default Rating; Affirmed; B-; RO: Stable
Short Term Issuer Default Rating; Affirmed; B
Local Currency Long Term Issuer Default Rating; Affirmed; B-; RO: Stable
Local Currency Short Term Issuer Default Rating; Affirmed; B
Country Ceiling; Affirmed; B-senior unsecured; Long Term Rating; Affirmed; B-
The Third Pakistan International Sukuk Company Limited senior unsecured; Long Term Rating; Affirmed; B-

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South Korea

S. Korea's foreign debt grows to 503.1 bln USD in Q2

19-Aug-2020

SEOUL, Aug. 20 (Xinhua) -- **South Korea's foreign debt grew in the second quarter as foreigners bought local state bonds, the finance ministry said Thursday.**
The country's foreign debt amounted to 503.1 billion U.S. dollars as of the end of June, up 17.2 billion dollars from three months earlier, according to the Ministry of Economy and Finance.
The short-term external liability, which matures in less than a year, gained 5.7 billion dollars to 154.3 billion dollars in the cited period as the dollar fund was supplied through the currency swap deal between central banks of South Korea and the United States.
The long-term foreign debt with a maturity of at least one year expanded 11.5 billion dollars to 348.8 billion dollars as foreign investors raised investment in domestic government and public bonds.
Despite the debt increase, the foreign liability soundness remains solid. The ratio of short-term foreign debt to the total external liability stood at 30.7 percent as of end-June, up 0.1 percentage point from three months earlier.
It was much lower than 51.7 percent tallied at the end of September in 2008 when the global financial crisis roiled the financial market.
Net external credit, or investment in overseas financial assets minus foreign debt, amounted to 553.2 billion dollars as of the end of June, down 12.2 billion dollars from three months earlier.

Enditem

Thailand

Thailand plans more stimulus for economy in deep slump

19-Aug-2020

- **Tourism, job measures to be put to cabinet next week**
- **More incentives for Thai travellers**
- **Q2 economic slump the worst since 1998 Asian crisis**
- **Subsidies planned to spur creation of 1 million jobs**

By Kitiphong Thaichareon
BANGKOK, Aug 19 (Reuters) - **Thailand will introduce more stimulus measures to boost tourism, jobs and consumption hit hard by the coronavirus pandemic, a deputy prime minister said on Wednesday, including generous subsidies to encourage more hiring and domestic travel.**
Southeast Asia's second-largest economy suffered its biggest contraction since the 1998 Asian financial crisis in the second quarter as the pandemic put the brakes on vital tourism and domestic activity.
With borders closed to foreign visitors since April, the government plans more incentives to spur local tourism and add more jobs, while other measures will be decided later, Supattanapong Punmeechaow told a briefing.
The tourism and employment perks are expected to be put to cabinet for approval next week, he said after a meeting of a special task force tasked with reviving the economy.
"The job measures should create more than a million jobs, including 400,000 for new graduates," he said.
The government plans to "co-pay" for new employment with the private sector,

Supattanapong said, without elaborating.
On tourism, it plans to increase benefits included in an earlier package to spur domestic travel, to recoup some losses from the absence of foreign tourists, who numbered a record 39.8 million last year, with spending accounting for 11.4% of GDP.
The government hopes to increase its subsidies for hotels, flights and bus tickets, said Danucha Pichayanan, a spokesman for the task force.
The tourism-reliant country is expecting full-year visitor numbers to be less than a fifth of last year's total. It has shelved its "travel bubble" proposal due to new outbreaks around Asia.
The measures will be financed by the government's 1 trillion baht borrowing, part of a bigger 1.9 trillion baht coronavirus response package.
The stimulus introduced to shore up the economy would be in line with the COVID-19 situation, Supattapong said, adding: "It's not to devote all resources in a short period".

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Thailand to sell $1.59 bln government savings bonds next week

20-Aug-2020
BANGKOK, Aug 20 (Reuters) - **Thailand will sell 50 billion baht ($1.59 billion) of government savings bonds to the public from next week to help finance the budget deficit, the finance ministry said on Thursday.**
The bonds will be offered in two tranches - 5 billion baht of four-year bonds with a coupon of 1.7% per year and 45 billion of seven-year bonds with a 2.22% coupon, the minister said in a statement.
The proceeds will be for financing the budget deficit, rather than for COVID-19 responses, Patricia Mongkhonvanit, head of the ministry's Public Debt Management Office, told a briefing.
The offering follows the sale of 50 billion baht of government savings bonds in May to finance steps aimed at mitigating the fallout of the coronavirus outbreak under a 1 trillion baht borrowing plan.

($1 = 31.39 baht)
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Editing by Ed Davies)
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United Arab Emirates

Abu Dhabi in talks with banks for new international bond deal

19-Aug-2020
By Davide Barbuscia
DUBAI, Aug 19 (Reuters) - **The government of Abu Dhabi is in talks with banks for a new international bond issue, sources said, having already raised $10 billion via debt issues this year to prop up its finances amid low oil prices and the coronavirus crisis.**
Hydrocarbon-dependent Gulf states have raised billions of dollars to refill state coffers this year and more deals are expected in coming months, with ratings agency S&P predicting a record $100 billion jump in debt this year.
Oil-rich Abu Dhabi - rated AA by Fitch and S&P and Aa2 by Moody's, making it overall the highest-rated sovereign issuer in the Gulf - raised $10 billion through an initial $7 billion bond in April which was re-opened the following month.
It is now discussing a new transaction and has picked a group of banks to arrange it, said two sources familiar with the matter without identifying the banks involved.
Abu Dhabi's department of finance did not immediately respond to a request for comment.
Abu Dhabi, whose fiscal balance depends largely on revenue from hydrocarbon royalties and taxes and dividends received from ADNOC, its national oil company, said in June it would consider raising more money via the bond markets.
"The emirate's net asset position, which exceeds 200% of GDP despite the recent oil price decrease, ensures that Abu Dhabi continues to be in a strong position to leverage market windows," the department of finance said at the time.
Sources had told Reuters earlier this year that Abu Dhabi planned to engage global fixed income investors on a more regular basis because of low oil prices.
Other Gulf countries such as Saudi Arabia and Bahrain have said they plan to tap debt investors at least once more this year.

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EUROPE

Armenia

Armenia's economy contracts 13.7% y/y in Q2

20-Aug-2020

YEREVAN, Aug 20 (Reuters) - **Armenia's economy contracted 13.7% year-on-year in the second quarter of 2020 after a 3.9% growth in the first quarter, taking a hit from the novel coronavirus pandemic, preliminary official data showed on Thursday.**

The decline from April to June was the result of the contraction in almost all sectors of the economy besides mining, communication services and government expenditures, Armenia's Statistical Committee said.

The former Soviet republic's economy had expanded 7.6% in 2019 and 5.2% in 2018.

The central bank has forecast the economy to contract by 4% in 2020 due to the negative impact of the coronavirus pandemic, but it is expected to recover and grow 5.5% next year.

International financial institutions have pledged support to Armenia to mitigate the impact of the coronavirus on the economy and support the healthcare system.

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Hungary

Hungary's Q2 public debt jumped to 71.9% of GDP as pandemic hit

17-Aug-2020

BUDAPEST, Aug 17 (Reuters) - **Hungary's gross consolidated public debt jumped to 71.9% of GDP including the debt of state-owned Eximbank in the second quarter from 66.8% in the first quarter as the coronavirus pandemic hit the economy, the central bank said on Monday.**

Excluding Eximbank, public debt widened to 70.2% of GDP in the second quarter from 65.2% in the first quarter of 2020, the bank said in a statement.

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Poland

Poland's budget deficit falls to 16.3 bln zlotys at end-July

18-Aug-2020

WARSAW, Aug 18 (Reuters) - **Poland's budget deficit fell to 16.3 billion zlotys ($4.44 billion) in July from 17 billion a month earlier, the finance ministry said on Tuesday.**

Before the outbreak of the coronavirus pandemic, Poland, the largest economy in the European Union's eastern wing, had been aiming for its first balanced budget since the fall of communism three decades ago.

Poland's finance minister said last month he expected the deficit at around 100 billion zlotys this year.

($1 = 3.6744 zlotys)
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Poland expects 109.3 bln zloty budget deficit in 2020 due to virus

20-Aug-2020

By Alicja Ptak

WARSAW, Aug 20 (Reuters) - **The Polish government has accepted a revision to the country's 2020 budget that forecasts a deficit of 109.3 billion zlotys ($29.4 billion), it said on Thursday, highlighting the impact of the coronavirus pandemic on the public finances.**

Before the coronavirus reached Poland, the government had planned this year to have its first balanced budget in three decades. But it was forced to ramp up spending to support the economy as it introduced sweeping lockdown measures, which lowered tax receipts.

"The spread of the coronavirus contributed to the greatest economic crisis of recent years, which dramatically slowed economic activity in Poland and other countries affected by the pandemic," the government said in a statement.

Finance Minister Tadeusz Koscinski had previously said the deficit in the amended budget would be 100 billion zlotys.

The revised budget envisages that in 2020 Poland's gross domestic product (GDP) will contract by 4.6%. Previously it was expected to grow by 3.7%.

Deputy Finance Minister Piotr Patkowski told reporters that if there was a revision to the GDP forecast, it would be to the upside.

"Everything indicates that in a further wave of the coronavirus... there will not be a complete lockdown but only shutdowns of specific sectors," he said.

The unemployment rate is set to rise to 8%, from the 5.1% predicted before the revision, and inflation is forecast to be 3.3%.

Budget revenues will amount to 398.7 billion zlotys, 36.7 billion zlotys less than expected, and expenses 508 billion zlotys, 72.7 billion

zlotys more than originally planned.
Patkowski said the 2020 general government deficit would probably be bigger than the 8.4% that is in the updated convergence plan submitted to the European Union.

($1 = 3.7203 zlotys)
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Romania

Romania says sells planned 500 mln lei of 2025 bonds

20-Aug-2020
BUCHAREST, Aug 20 (Reuters) - **Romania's finance ministry said it sold a planned 500 million lei ($122.40 million) of July 2025 treasury bonds on Thursday at average accepted yields of 3.73%.**
Debt managers last issued the paper in July at 3.79%.
So far this year, Romania has sold roughly 46.9 billion lei of local currency bills and bonds as well as 150 million euros worth of euro-denominated paper, and tapped foreign markets for 6.3 billion euros worth of Eurobonds and $3.3 of dollar bonds.

($1 = 4.0851 lei)
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Russia

Russia ups investment in US Treasuries by $477 mln in June

18-Aug-2020
WASHINGTON. Aug 18 (Interfax) - **Russia increased investments in US Treasuries by $477 million in June compared to the previous month.**
Russia held $5.871 billion worth of US Treasuries at the end of June, compared to $5.394 billion a month earlier, data from the U.S. Treasury Department show. Russia's investments in long-term bonds fell by $889 million to $2.87 billion, while investments in short-term bonds increased by $1.366 billion to $3.001 million.

Vp ak
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Turkey

Turkish budget deficit 29.7 bln lira in July

17-Aug-2020
ISTANBUL, Aug 17 (Reuters) - **The Turkish central government budget posted a deficit of 29.7 billion lira ($4.02 billion) in July, data from the Treasury Ministry showed on Monday, while the primary deficit, which excludes interest payments, stood at 21.2 billion lira.**
The budget deficit for the first seven months of the year stood at 139.1 billion lira, slightly higher than the government's deficit forecast for the whole year.
Finance Minister Berat Albayrak said last week that Turkey will miss its budget deficit target this year due to the coronavirus pandemic and the deficit will likely be around 5-6% of gross domestic product, compared to the government's previous forecast of 2.9%.

($1 = 7.3922 liras)
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Ukraine

Ukraine buys back 10% GDP-linked warrants

15-Aug-2020
KYIV, Aug 15 (Reuters) - **Ukraine bought back about 10% of warrants linked to its economic growth, implementing the government's strategy to reduce debt pressure on the budget in coming years, the finance ministry said late on Friday.**
"The Ministry of Finance has no current intension to resell such securities," the ministry said in a statement.
Ukraine's government included $3.6 billion in GDP warrants - bonds indexed to economic growth - in its 2015 sovereign debt restructuring after forcing investors to write off 20% of the value of their original holdings.
"The Ministry of Finance may undertake, at any

time and from time to time, the repurchase, cancellation or exchange of additional outstanding securities of Ukraine, including the GDP-Linked Securities, in open-market purchases, privately negotiated transactions or otherwise depending on prevailing market conditions," the ministry said.
In July Ukraine repurchased part of its Eurobond due in 2021 and 2022.

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LATIN AMERICA AND CARIBBEAN

Argentina

Argentina files amended bond restructuring offer with SEC

17-Aug-2020
LONDON, Aug 17 (Reuters) - **Argentina's government filed its amended bond restructuring offer to the U.S. Securities and Exchange Commission on Monday, confirming creditors have until Aug. 28 to approve a deal.**
The government already published the proposal in the official gazette on Sunday after an official decree on Saturday night approved a second round of amendments to the government's initial offer made back in April, moving further along in its efforts to clinch an agreement.
Argentina and its main creditor groups reached an agreement in principle on Aug. 4 to restructure some $65 billion in distressed sovereign bonds after lengthy negotiations, breaking an impasse that had threatened to derail the talks.
Separately, Buenos Aires - Argentina's richest and most populous province - on Monday extended a deadline for its own $7 billion debt restructuring until Sept. 11, the local government said in a statement.

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Argentine bonds shrug off debt deal as gloomy economic outlook weighs

19-Aug-2020
By Jorge Otaola and Rodrigo Campos
BUENOS AIRES/NEW YORK, Aug 18 (Reuters) - **Argentine bonds extended a recent dip on Tuesday after the government formalized its $65 billion debt restructuring offer, underscoring investor concern about the South American country's shaky economy despite creditors' rallying behind a deal.**
Argentina's over-the-counter bonds closed down an average of 0.3% and traded at around 45-50 cents on the dollar, well below the 54.8 cents net present value (NPV) of the government's proposal. The country's risk index also edged up.
Following months of tough negotiation, Argentina made a breakthrough with creditors in early August on a deal and filed a new offer to the U.S. Securities and Exchange Commission on Monday. Creditors now have until Aug. 28 to approve the deal.
The three main creditors groups who took part in the talks, including names like BlackRock, Ashmore and AllianceBernstein, have already backed the latest proposal, giving it a high chance of success.
On Tuesday one of the groups reiterated its support and said it hoped the revised terms and extended offer period "will contribute to a successful high-participation debt exchange".
Despite the backing, however, analysts said there were concerns about falling reserves, persistent capital controls and economic recovery after the pandemic, and what that meant longer term about debt sustainability.
"The debt restructuring in itself doesn't provide enough of a positive shock or solution to the current economic crisis," Siobhan Morden, head of Latin America fixed income strategy at Amherst Pierpont Securities, said in a note to clients.
Morden said the current pricing indicated an exit yield of nearly 12% and added that for further rises, creditors would want to see a pragmatic plan to deal with the crisis and positive news on talks with the International Monetary Fund.
"The damage to investor relations and the already weak economy from a protracted debt restructuring process now questions whether the revised repayment terms are sufficient to service still onerous payments in 2025-2035," Morden added.
Others noted that current prices, however, were not far from market expectations throughout the negotiation.
"Investors always expected the bonds would start to trade at 12% exit yield," said Mauro Roca, emerging markets sovereign research managing director at TCW in Los Angeles. In the talks both sides had converged on a 10% exit yield.
"That is consistent with the average price that we have now that is around 47 (cents)," Roca added.

(Reporting by Jorge Otaola and Rodrigo Campos, writing by Cassandra Garrison and Adam Jourdan Editing by Alistair Bell, Will Dunham and Tom Brown)
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Bermuda

Bermuda launches US$1.35bn two-tranche bond deal

17-Aug-2020
By Miluska Berrospi
NEW YORK, Aug 17 (IFR) - **Bermuda was set to raise US$1.35bn on Monday after launching a two-part bond deal to finance deficits and pay down outstanding debt.**
The government has set a final spread of US Treasuries plus 170bp on a new US$675m 10-year bond and a 195bp spread on a US$675m 30-year tranche.
Final pricing is coming well inside initial price thoughts in the area of T+212.5bp and T+237.5bp, respectively. Goldman Sachs and HSBC are acting as leads.

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Brazil

Brazil Economy Minister Paulo Guedes not about to resign

18-Aug-2020
By Marcela Ayres
BRASILIA, Aug 17 (Reuters) - **Brazil's Economy Minister Paulo Guedes has no intention of resigning, two sources from the economic team told Reuters, in an attempt to quash rising speculation that political pressure for more public spending could force him to quit.**
Doubts about Guedes' future have grown since two more of his special secretaries left the ministry last week and local media reported at the weekend that central bank president Roberto Campos Neto is being lined up to replace him.
The two sources, who are close to both Guedes and Campos Neto and spoke to Reuters on condition of anonymity, said the two men agree on the need to control spending so that Brazil can start to reduce its debt burden following a surge in emergency spending to combat the coronavirus pandemic.
Both sources stated that Guedes' departure is not being considered internally either at the ministry or the central bank. One of them said that even if Guedes were to leave at the behest of President Jair Bolsonaro, his successor would likely be someone determined to spend, so Campos Neto seems an unlikely candidate.
Speculation surrounding Guedes dominated currency market trading on Monday, driving volatility higher and the real lower, analysts said.
The second source noted that Guedes is still involved in trying to reduce mandatory expenses and put in place controls against the creation of new expenses.
"There has always been this conflict between the areas that want a budget to spend and those that need to control it. In the past, the fight was between Planning and Finance (ministries). The focus here is on one point: Economy," the second source said.
"And the peripheral ministries are there, at the edge of the lake, which is a little dry, wanting to take a drink of water," he added.
The sources said that Guedes will present his draft annual budget later this month, laying bare a dire outlook for public finances next year, and making it clear there will be very little room to make investments.

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Brazil Treasury to seek central bank funds amid liquidity crunch

18-Aug-2020
By Gabriel Ponte
BRASILIA, Aug 18 (Reuters) - **Brazil's Treasury will request approval from the National Monetary Council later this month that the central bank transfer to it some of its foreign exchange-related profits, Treasury Secretary Bruno Funchal said on Tuesday.**
Speaking at an online event hosted by Banco Santander, Funchal said the law permits transfers to the Treasury under severe liquidity conditions, which have now arisen due to the coronavirus pandemic.
"When we look closely at the situation brought about by the pandemic, we can see this severe liquidity squeeze," Funchal said, noting that these are the conditions under which the legislation allows for transfers to be made to the Treasury.
"It makes sense, looking at these severe changes in the market, to take this issue to the National Monetary Council. And that is what the Treasury is doing," Funchal said.
The CMN is Brazil's highest economic policy body and includes the economy minister and central bank president.
The real's steep slide against the dollar in the first half of the year helped boost the real-based value of the central bank's assets by 478.5 billion reais ($87 billion).
Central bank chief Roberto Campos Neto said on Monday that transfers to the Treasury should be

treated with caution.
Funchal noted that the surge in government spending to combat the pandemic has resulted in a surge in Treasury debt issuance. Much of this has been in shorter-dated paper, meaning refinancing needs in the coming months will intensify.
The 2019 law has a loophole that allows central bank proceeds from FX operations to be used to pay down public debt when liquidity conditions significantly affect the Treasury's ability to roll over its debt.
Some longer-dated interest rates and spreads have risen in recent weeks to their highest since May.

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Brazil lower house upholds public sector pay veto, in victory for Bolsonaro

21-Aug-2020
By Maria Carolina Marcello and Jamie McGeever
BRASILIA, Aug 20 (Reuters) - **Brazil's lower house of Congress on Thursday voted to uphold a presidential veto blocking pay increases for civil servants, a victory for President Jair Bolosonaro and Economy Minister Paulo Guedes in their drive to maintain fiscal discipline.**
The 316 to 156 vote will prevent a potential hit to the public finances of more than 120 billion reais ($21.6 billion), after the Senate had 24 hours earlier overturned the veto.
With one of the chambers in congress having now voted to uphold the veto, it will not be returned to the Senate and the matter is closed.
Guedes had called the Senate decision on Wednesday a "crime" against the country. The real slumped to a three-month low against the dollar earlier on Thursday and market interest rates and spreads shot to three-month highs as investors' fears over Brazil's fiscal path intensified.
"The possible overturning would have had serious consequences for the public finances, especially for states and municipalities," the economy ministry said in a statement on Thursday, praising all lawmakers in both houses who voted to keep the ban.
Rodrigo Maia, the powerful speaker of the lower house who helped garner support for the vote, tweeted afterwards that freezing civil servants' salaries will free up resources to fund the public sector.
"(This) is the least those of us in public service can offer Brazilians," he tweeted.
Maia's support was crucial to upholding the veto, analysts said, also noting that his public comments on Thursday afternoon that he would work to achieve this goal helped ease some of the tension across financial markets.

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Dominican Republic

Dominican Republic's new president takes office warning of tough recovery

17-Aug-2020
By Ezequiel Abiu Lopez
SANTO DOMINGO, Aug 16 (Reuters) - **The Dominican Republic's new president, Luis Abinader, warned as he took office on Sunday that the country faced stiff challenges from a flagging economy and a coronavirus pandemic that has caused more than 1,450 deaths in the small Caribbean nation.**
"Recovery will not come quickly or easily," the 53-year-old economist said in his first speech to Congress, stressing the damage wreaked by the coronavirus pandemic on tourism, the country's main economic driver, and exports.
He also lamented that public debt had doubled over the past decade, and that the fiscal deficit had reached historic levels.
"Never has any government faced such a combination of challenges and threats," he said at the speech in front of lawmakers and guests including the president of neighboring Haiti, Jovenel Moise, and U.S. Secretary of State Mike Pompeo.
Abinader won the presidential election last month as an opposition candidate, ending 16 years of rule by the Dominican Liberation Party (PLD).
Abinader's Modern Revolutionary Party (PRM) also won 18 of 32 Senate seats, and 92 of 190 seats in the lower house of Congress.

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Mexico

Mexico crafts plan to help states reorganize debt

20-Aug-2020

MEXICO CITY, Aug 20 (Reuters) - **Mexico's government said late on Wednesday it had agreed a plan with national development bank Banobras to help restructure some debt among the federal states, which have felt the squeeze from a sharp recession during the coronavirus pandemic.**

After a meeting between President Andres Manuel Lopez Obrador and state governors, the Finance Ministry said rules for federal programs from previous administrations linked to state financing contracted with Banobras had been modified.

The rule changes would allow states to carry out refinancing or restructuring of their debt, the ministry said.

Such steps will be determined in agreement with Banobras as sole creditor of the financing, and the measures did not mean any state would fail to meet its obligations, it added.

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AFRICA

Egypt

Egypt signs US$2bn sovereign loan

18-Aug-2020

Egypt's Ministry of Finance has signed a US$2bn one-year syndicated term loan, according to banking sources.

The facility is divided between a US$1.49bn conventional tranche and a US$510m Islamic tranche.

First Abu Dhabi Bank and Emirates NBD acted as initial mandated lead arrangers, bookrunners and global coordinators on the deal. They were joined by Bank ABC, HSBC, Mashreq, Standard Chartered and SMBC as mandated lead arrangers and bookrunners.

Abu Dhabi Islamic Bank, Dubai Islamic Bank, Al Ahli Bank of Kuwait, Gulf International Bank, Intesa Sanpaolo and Sharjah Islamic Bank acted as mandated lead arrangers.

The deal pays a margin of 365bp over Libor. Bankers said the attractive pricing and short tenor meant there was strong appetite among lenders for the deal.

"It's good value and it's short term," a banker said.

The loan was launched in July at US$1.5bn with an option to increase it to US$2bn. It received US$2.5bn of commitments before banks were scaled back.

"Some banks put in quite chunky commitments and were angry that they got heavily scaled back by the government," a second banker said.

In May, Egypt raised a US$5bn bond that closed four times subscribed. Egypt sold US$1.25bn in four-year notes at 5.75%, US$1.75bn in 12-year bonds at 7.625% and US$2bn in 30-year notes at 8.875%.

Appetite for the loan was further boosted by the fact that pricing for the facility is higher than pricing for the bond in the secondary market, the first banker said.

"Pricing is better than the bond pricing in the secondary market," the first banker said.

Egypt, rated B2/B/B+, agreed US$2.77bn in emergency financing from the International Monetary Fund in May.

Egypt's foreign reserves declined by US$1bn in May as the Covid-19 crisis has squeezed some of the country's main sources of foreign currency, especially tourism and remittances from workers abroad.

The African Export-Import Bank has disbursed US$3.85bn to the Egyptian banking sector through is Pandemic Trade Impact Mitigation Facility (PATIMFA) since the outbreak of the coronavirus pandemic in March.

PATIMFA, which is designed to assist Afreximbank member countries in managing the adverse impact of Covid-19 on their economies, has provided US$3.55bn to the Central Bank of Egypt and other Egyptian Banks to bolster their liquidity and ensure trade debt payments that fall due are honoured.

The funds will also support the stabilization of foreign exchange resources in order to preserve the flow of critical imports.

It also provided US$300m to the National Bank of Egypt to support activities aimed at expanding intra-African trade.

Egypt's MOF did not immediately respond to a request for comment.

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Egypt's holdings of US Treasuries hit $2.235bn in June

20-Aug-2020

Egypt's holdings of US Treasuries rose by 3.9% or $84 million, amounting to $2.235 billion in June, compared to $2.151 billion in the same month a year earlier, data by the US Department of the Treasury showed.

Ghana

Fitch Ratings: Ghana's Slow Fiscal Consolidation May Add to Rating Strains

19-Aug-2020

Fitch Ratings-Hong Kong-19 August 2020: **Ghana's plans to pursue fiscal consolidation more slowly than the government had previously indicated may lead to a higher public debt trajectory and could be a source of downward pressure on the country's ratings, although the projections need to be seen in the context of upcoming elections, says Fitch Ratings.** The government's revised budget, approved by parliament on 7 August, forecasts the deficit to reach 11.4% of GDP in 2020, up from 4.7% in its initial budget. The 2021-2024 budget guidelines released on 17 August indicate that the 2020 fiscal deficit could rise even higher to 12.2% of GDP. The finance minister has received parliamentary approval for a temporary suspension of the 5%-of-GDP deficit ceiling stipulated in the Fiscal Responsibility Act (FRA). We had expected a substantial, temporary deterioration in the budget balance in 2020, in line with the shock from the coronavirus pandemic. However, the pace of fiscal consolidation over the medium term outlined in the government's latest forecasts represents a bigger departure from our assumptions. **Projections in the budget guidelines suggest that the deficit will remain above the 5% ceiling until 2022, but still record a primary deficit even in 2024, against the FRA requirement of a primary surplus.** A failure to substantially narrow fiscal deficits in 2021-2024 may result in a significant increase in the ratio of public debt to GDP. Ghana's ratios of public debt and interest costs relative to fiscal revenue are very high compared with the median for other 'B' rated sovereigns, pointing to the urgency of fiscal consolidation. In April, when we affirmed Ghana's rating at 'B', with a Stable Outlook, we highlighted a weakening of public finance metrics relative to our base-case scenario, for example due to failure to implement a credible consolidation strategy after the election in December 2020, as a factor that could lead to negative rating action. The government's projections may signal that the coronavirus crisis has weakened the administration's previous commitment to a fiscal adjustment beginning in 2021. Nevertheless, the medium-term fiscal forecasts are subject to a high degree of uncertainty. Notably, the general election could influence the direction of policy. Ghana's issuance of a USD3 billion Eurobond in February supports its short-term external liquidity position. The IMF also approved a USD1 billion emergency Rapid Credit Facility for the country in April. The central bank's financing of part of the fiscal deficit further eases the need for external funding.

Nigeria

Nigeria's $1.5 bln World Bank loan delayed over reforms

17-Aug-2020

By Chijioke Ohuocha and Libby George

ABUJA/LAGOS, Aug 17 (Reuters) - **The World Bank is unlikely to approve a much-needed $1.5 billion for Nigeria in August as planned due to concerns over desired reforms, three sources familiar with the talks told Reuters.**

A delay in financing from multilateral lenders could leave Africa's biggest economy and top oil producer, battered by low crude prices, unable to fully finance a record 10.8 trillion naira ($28.35 billion) budget. The central bank has said Nigeria's balance of payments gap this year will be $14 billion.

The World Bank, which has said Nigeria could be heading toward its greatest fiscal crisis in 40 years, had aimed to bring the loan to its board for approval this month, but the sources said negotiations over what Nigeria will do to secure it were incomplete.

"They are not convinced about the reforms," a source close to the government said. All three sources declined to be named due to the sensitivity of the negotiations. The source added that the currency was the core issue.

World Bank loans are often contingent upon reforms. It has not outlined any demands, but said previously that it was "recommending" a more unified, flexible exchange rate. Fuel subsidies and electricity tariffs are also being discussed.

Another banking source said the loan could now not be approved until October.

Nigeria's finance ministry directed queries to the World Bank. In a statement, the lender said discussions were at an advanced stage, but confirmed that it had not presented the loan to its board.

"Of particular importance are the steps the government is taking to marshal the needed fiscal resources for a pro-poor response to the crisis and undertake the reforms that will help ensure a robust recovery," the statement said.

Nigeria's policy of supporting the naira has become more costly since the oil price slide, as it relies on oil for 90% of its foreign exchange. It has devalued the naira twice this year, but the sources said that was not enough for the World Bank, which wanted fuller reform of the naira policy.

Nigeria also said it had eliminated fuel subsidies through a "floating" price cap, but two of the sources said the World Bank felt the mechanism was not sufficiently transparent.

($1 = 381.00 naira)
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Nigeria eyes record 12.65 trillion naira spending plan for 2021

17-Aug-2020

ABUJA, Aug 17 (Reuters) - **Nigeria expects to spend a record 12.65 trillion naira ($33.20 billion) in 2021 despite severe revenue constraints, according to an outlook released by the Finance Ministry on Monday.**

The spending by Africa's largest economy, still reeling from low oil prices and the new coronavirus pandemic, is a 17.2% jump from the record 10.8 trillion naira budgeted this year.

The projected debt servicing payments would consume 3.1 trillion naira of the spending, or just under 25%.

Additionally, revenues in the year are expected to reach 7.5 trillion naira in 2021, implying a higher deficit.

The document also said spending would focus on completing as many ongoing projects as possible, and that no new works would be allowed unless there were adequare resources to complete ongoing projects.

($1 = 381.0000 naira)
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South Africa

South Africa's economy to grow strongly this quarter after record Q2 fall

21-Aug-2020

By Vuyani Ndaba

JOHANNESBURG, Aug 21 (Reuters) - **South Africa's already recession-hit economy likely suffered its deepest-ever contraction in the second quarter but is set to grow strongly in the third as curbs to contain the coronavirus pandemic ease, a Reuters poll found.**

Economists lowered their forecasts again and now expect an annualised 44.5% contraction in the April-June quarter, compared with the median estimate in a July poll for a 38.7% fall.

That would be by far the biggest drop since comparable records began in 1993, the year before South Africa held its first fully democratic elections. Second quarter GDP data is due early next month.

The most pessimistic forecast was for a 53% contraction while even the most optimistic predicted 20% shrinkage.

Growth is seen recovering in the third quarter, although the forecast 18.6% rebound is not as sharp as the 19.3% predicted last month.

JP Morgan wrote that high-frequency data point to a notable recovery of activity in July and August.

However, that will not be enough to offset the previous plunge as coronavirus restrictions closed down swathes of the economy.

The 2020 median outlook for an 8.0% contraction is unchanged from last month's poll but next year's rebound has been cut to 3.1% from 3.5%.

"There is higher forecast risk when modelling the sectors for which monthly data is lacking," Citi economist Gina Schoeman wrote. "We are confident that the agricultural sector will be a lone positive print given that it remained open throughout with fairly good harvests, but this is a small weight in GDP."

With the outlook bleak, the South African Reserve Bank is seen keeping interest rates at their current level of 3.50% for much longer than previously thought.

The median of the latest survey suggests no change though 2021 whereas the previous poll pointed to a 25 basis point hike in January or March.

Inflation is expected to remain benign - below the midpoint of the Reserve Bank's 3-6% comfort level - at an average of 3.1% this year and 4.0% next year.

SARB Governor Lesetja Kganyago said last week that adding unemployment or economic growth to the Bank's mandate, an additional measure touted by some politicians and labour leaders, would risk policy mistakes and hurting its credibility.

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EMERGING

G7 to consider extending debt freeze for low-income countries

17-Aug-2020

By Andrea Shalal

WASHINGTON, Aug 17 (Reuters) - **Finance ministers from the Group of Seven rich countries on Monday noted improved conditions in their economies, but underscored their concerns about the debt problems facing low-income nations, a U.S. Treasury spokesperson said.**

During a videoconference hosted by U.S. Treasury Secretary Steven Mnuchin, the ministers urged all official bilateral creditors to fully implement the G20 debt freeze for the poorest countries, and agreed to consider additional options, including extending the initiative into 2021, the spokesperson said.

The meeting also included the leaders of the World Bank and the International Monetary Fund, who have urged the Group of 20 countries to extend their Debt Service Suspension Initiative (DSSI) given the economic impact of the novel coronavirus pandemic.

G20 members, including China, and the Paris Club of official creditors in April offered a freeze on debt service payments to the 73 poorest countries through year-end to free up an estimated $12 billion in funds for the poorest countries to fight the outbreak and mitigate its economic impact.

As of July 24, 41 countries had requested forbearance under the initiative.

But implementation of the debt freeze has been challenging and the global economic downturn has hit those countries particularly hard, triggering calls for its extension and expansion.

China's reluctance to include its state-supported China Development Bank and state-owned enterprises in the debt payment suspension and concerns over confidentiality agreements included in many Chinese loans to countries in Africa have slowed progress in executing the debt freeze, economists say.

German Finance State Secretary Wolfgang Schmidt said the debt issue was a key topic during the meeting, and emphasized the need for the private sector to take part.

"We all agree that a debt moratorium must be implemented in full by all creditors," he said in a statement. "We also emphasized that it is very important that the private sector be part of this."

Countries have been reluctant to ask for a freeze in private sector debt payments for fear it would hurt their credit ratings.

The ministers agreed to "advance debt data transparency and consider additional options going forward for low income countries, including an extension of the DSSI into 2021," the spokesperson said.

They also emphasized the need to manufacture and distribute vaccines and treatments for the virus. They also discussed support for Lebanon, the spokesperson said, following an explosion in Beirut's port on Aug. 4 that killed at least 178 people and deepened a financial crisis.

(Reporting by Andrea Shalal; Additional reporting by David Lawder and Tim Ahmann in Washington and Christian Kraemer in Berlin; Editing by Chizu Nomiyama and Grant McCool)

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