Click the links below for more info:

>> PDM Network

>> Emerging Markets Weekly Newsletter

>> Bimonthly Newsletter

Emerging Sovereign Debt Markets NEWS

Number 8 Week 15 – 21 February 2020

Table of contents

ASIA

Fitch Ratings: Mongolia, Hong Kong Most Exposed in North Asia to COVID-19 Economic Fallout

20-Feb-2020

Fitch Ratings-Hong Kong-February 19: **North Asian sovereigns' exposure to economic disruption from the COVID-19 virus outbreak is highest in Hong Kong and Mongolia where economic linkages to China are most pronounced, says Fitch Ratings.**

Hong Kong (AA/Negative) and Mongolia (B/Stable) stand out among Fitch-rated North Asian economies, which include Macao, Japan, Taiwan and South Korea, in terms of the potential for economic disruption stemming from the ongoing virus epidemic and associated rating actions. Both economies are tightly integrated with that of China, where the virus has had the most severe impact.

Mongolia's commodity-driven economy is highly dependent on China, the market for almost 90%

of its total exports in 2019. Mongolian authorities have closed the border with China for passengers and vehicles, including coal shipments, until 2 March amid health concerns linked to the coronavirus outbreak.
Mongolia's improved economic performance in recent years has permitted the country to build stronger financial buffers. Fitch believes these are sufficient to weather a short-term shock. **Moreover, the sovereign faces no external bond maturities until early 2021, which provides a short window during which external financing pressure will be muted.** Nevertheless, Mongolia's external position and macroeconomic stability could still be adversely affected if the disruption to exports were to extend for several months. The chance of a sharp loosening of fiscal policy ahead of parliamentary elections, most likely in June, could also increase if the authorities become more concerned about the economic impact of the virus. **Fitch flagged fiscal loosening as a downside rating risk when we affirmed Mongolia's rating in July 2019.**
Hong Kong is closely tied to mainland China through both economic and financial channels, and the virus is adding to economic strains that were already elevated as a result of the territory's political unrest. The government has policy space to deploy in light of its large fiscal reserves, which are equivalent to around 40% of GDP. However, unresolved social cleavages combined with the consecutive political and economic shocks will test the resilience of Hong Kong's business environment, and may undermine its fundamental credit metrics, as reflected in the Negative Outlook.
Macao's economic performance will also be affected by the virus this year, though Fitch believes the territory's fiscal buffers, about 150% of GDP, are more than sufficient to weather even a prolonged disruption. Nevertheless, Macao faces downside rating pressures, as reflected in the Negative Outlook we assigned to its 'AA' rating in December due to its large and rising economic, financial, and socio-political linkages with the mainland, which we believe are consistent with a gradual convergence of its ratings with lower-rated China (A+/Stable).
Korea's (AA-/Stable) recent economic momentum is being blunted by the virus' impact on tourism, retail sales, manufacturing exports, and supply chains. Existing plans for fiscal stimulus in the 2020 budget and our expectations of a 25bp cut in policy rates could offset some of the hit to growth. President Moon Jae-in has termed the outbreak an "emergency", which we believe signals his intention to implement additional relief measures. Responses to past health shocks, such as the MERS outbreak in 2015, have included additional fiscal stimulus, although doing so now, ahead of the April parliamentary elections, may be challenging. We believe, from a credit perspective, Korea has near-term fiscal space for economic stimulus, but wider deficits and a rise in the debt-to-GDP ratio could exert more meaningful pressure on the rating over the medium term.
Taiwan (AA-/Stable) and Japan (A/Stable) are also highly exposed to growth risks from the epidemic. Nevertheless, we think Taiwan's risks to growth and public finances are more moderate than those in Korea, and Japan's rating already incorporates weaknesses associated with low medium-term growth potential and high public debt.

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.

GCC Gulf Cooperation Council

S&P Global warns $40 oil could leave Gulf close to junk

16-Feb-2020

Drop in oil prices to $40 a barrel as the world weans itself of fossil fuels would cut Gulf exporters' sovereign ratings by two notches over time, leaving the average credit score just above 'junk', S&P Global said on Sunday.
A report by the agency said a "hypothetical long-run stress test" where oil prices fell to below $40 by 2040 suggested the average rating of Gulf sovereigns could fall by two notches from 'BBB+' to 'BBB-'.
Hydrocarbons contribute, on average, 81% of central government revenues for Gulf sovereigns - the countries of the Gulf Cooperation Council plus Iraq - and the pace of economic diversification is expected to remain gradual.
Brent crude prices fell to almost $53 last week but have be averaging just over $60 since tumbling down from over $115 a barrel in 2014.
Under S&P's $40-a-barrel scenario, every exporter country would see a least one rating cut, the report said.
By 2027, the paper estimated a deterioration in **countries' fiscal positions would push the average rating of Gulf sovereigns down to 'BBB' from 'BBB+'.**
As it got closer to 2040 they would fall again, dropping the average down to 'BBB-', the last rung of the coveted investment grade bracket that tends to improve a country's borrowing costs.
Below that level ratings move into 'junk' or 'non-investment grade' territory which some large pension funds and asset managers are not permitted to invest in by the mandates.
S&P said that second phase of downgrades would be due to weaker macroeconomic fundamentals and declining GDP per capita levels.
"As the price of oil continues to decline, the concentrated economies of the Gulf shrink

commensurately, highlighting the inherent risks of commodity dependence," the report said.

(Reporting by Marc Jones; Editing by Andrew Heavens) ((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Armenia

Armenia's economic growth accelerates to 7.6% in 2019

20-Feb-2020
YEREVAN, Feb 20 (Reuters) - **Armenia's economy grew by 7.6% last year, up from 5.2% in 2018, supported by expansion in the mining, manufacturing and services sectors, preliminary data showed on Thursday.**
Growth slowed to 7.6% year-on-year in the fourth quarter compared to 8.2% in the previous three months. In the first and second quarters respectively it stood at 7.5% and 6.9%.
Armenia has been largely reliant on mining and agriculture since the fall of the Soviet Union, but sectors including tourism, information technology, services and light manufacturing of products such as textiles are also contributors to the growth.
The country of around 3 million people still depends heavily on aid and investment from former imperial power Russia, whose economic downturn has in recent years hit Armenian exports as well as remittances from Armenians working in Russia.
Officials say that the proportion of remittances to its gross domestic product is gradually decreasing.
The government expects 4.9% economic growth this year.

(Reporting by Nvard Hovhannisyan; writing by Margarita Antidze; Editing by Jan Harvey) ((margarita.antidze@thomsonreuters.com; +995322999370; Reuters Messaging: margarita.antidze.thomsonreuters.com@reuters.net))

Georgia

IMF expects economic growth in Georgia to slow to 4.3% in 2020

19-Feb-2020
By Margarita Antidze
TBILISI, Feb 19 (Reuters) - **The International Monetary Fund expects economic growth in Georgia to slow to 4.3% in 2020 due to external factors, weaker domestic demand and slower investment related to lower capital inflows, its representative in the former Soviet country told Reuters.**
Georgia's economy expanded 5.2% in 2019 with food processing, transport, trade, repair of cars and motorbikes, and the hotels and restaurants sector showing the fastest growth.
The government of the South Caucasus country, which serves as a transit route for Caspian Sea oil and gas, expects growth this year of 4.5%.
"We are in an election year and political uncertainty could have a negative impact on investment and consumer sentiment," the IMF's Selim Cakir told Reuters in an interview, referring to parliamentary elections in autumn.
The opposition have been holding protests against government policies since last summer.
"In addition, the uncertain impact of the coronavirus outbreak or an increase in global trade tensions could worsen the global economic outlook," Cakir said.
He said that resilient credit growth, remittances and tourism were expected to support economic activity.
"All in all, we see the risks to our growth outlook as balanced," Cakir said.
The IMF expects to see a gradual decline in the current account deficit in the next few years after a record low 4.4% in 2019 as Georgia "diversified its exports of goods and services and the domestic production base widened."
The Fund projects a fiscal deficit of 2.4% of gross domestic product (GDP) this year, slightly up from 2.1% in 2019, which is "in line with the 2020 budget and corresponds to a broadly neutral fiscal stance," he said.
"We expect that fiscal deficit will remain stable at around 2.5% of GDP in the medium term," Cakir said, but he added that the authorities needed to remain vigilant against any buildup in fiscal risks.
Cakir said that bringing inflation down to an annual rate of 3% in 2020 was feasible.
Annual inflation last year stood at 7% due to an increase in excise taxes and the depreciation of the currency against the U.S. dollar, which among other reasons was caused by political instability in the country.
The central bank had been raising interest rates since September before leaving its main rate at 9% on Jan. 29.
"The National Bank has repeatedly signalled its intention to do whatever it takes to anchor expectations and bring inflation down to its target," Cakir said.
Fitch Ratings affirmed Georgia's long-term foreign currency issuer default rating at 'BB' with a Stable Outlook earlier this month.

(Reporting by Margarita Antidze; Editing by Hugh Lawson) ((margarita.antidze@thomsonreuters.com; +995322999370; Reuters Messaging: margarita.antidze.thomsonreuters.com@reuters.net))

India

India Govt Bonds Little Changed Amid Lack of Fresh Triggers

18-Feb-2020
By Dharam Dhutia
NewsRise
MUMBAI (Feb 18) -- **Indian government bonds ended little changed as traders awaited fresh triggers, including minutes of the monetary policy meeting, after a bout of profit-booking early in the session.**
The benchmark 6.45% bond maturing in 2029 ended at 100.44 rupees, yielding 6.39%, in Mumbai against 100.42 rupees at the previous close. The Indian rupee was at 71.56 to dollar against 71.29 at 5:00 p.m. yesterday. Indian bonds and foreign exchange markets will be closed tomorrow and on Feb. 21 for local holidays.
"There was some profit-booking in the last two sessions, but bonds have a greater scope to rally from here considering that market has pinned hopes on the RBI to come up with innovative measures to manage the yield curve along with special open market operations," said Yogesh Kalinge, vice president at A.K. Capital. "The minutes of the February meeting will give better clarity on how the RBI will go about targeting inflation and managing bond yields simultaneously."
Indian benchmark bond yield had fallen to a six-month low of 6.34% yesterday - which makes it a 26-basis-points fall for February - on bets that the central bank will take more steps to aid the fall in bond yields, after it announced one trillion rupees of infusion though long-term repos.
The RBI yesterday conducted a three-year term repo for 250 billion rupees, which was oversubscribed by nearly eight times. The central bank will conduct a one-year repo on Feb. 24 for a similar quantum.
The central bank will conduct a government bond switch auction on Feb. 24. India aims to switch government bonds worth 1.65 trillion rupees in this financial year that ends Mar. 31, and has so far conducted such auctions worth around 1.32 trillion rupees.
India's Monetary Policy Committee kept policy rates unchanged early this month due to higher inflation, but said the policy stance will be kept accommodative as long as needed to revive growth. The minutes of the February meeting will be released post market hours on Feb. 20.
Meanwhile, the RBI is working on the modalities of issuing the so-called special federal government securities that will not have any restriction on foreign investments, a finance ministry official said yesterday.
In the budget presented on Feb. 1, India proposed issuance of special securities with no caps on foreign investments, which would pave the way for inclusion of the nation's debt on global bond indices such as Bloomberg Barclays and J.P. Morgan.
The benchmark Brent crude oil contract was down 1.8% at $56.66 per barrel, after rising for five consecutive sessions. India imports over 80% of its crude oil requirements.

- By Dharam Dhutia; dharam.dhutia@newsrise.org; 91-22-61353308
- Edited by Sunil Nair
- Send Feedback to feedback@NewsRise.org

India Bonds Snap 2-Week Rise on Profit Taking; MPC Minutes Eyed

20-Feb-2020
By Dharam Dhutia
NewsRise
MUMBAI (Feb 20) -- **Indian government bonds ended lower in a holiday-truncated week, posting their first fall in three weeks, as traders booked profits, while the market awaited the minutes of the Monetary Policy Committee's February meeting.**
The benchmark 6.45% bond maturing in 2029 ended at 100.17 rupees, yielding 6.42%, in Mumbai, against 100.44 rupees and a 6.39% yield at previous close. The yield rose five basis points this week, after falling 16 and seven basis points in the last two weeks. Indian financial markets were shut yesterday and will be closed tomorrow for a local holiday.
"Bonds had rallied sharply after the budget and the MPC policy. Now we are seeing some consolidation and markets will wait for the MPC minutes and the switch to go through before going long again," said Mahendra Kumar Jajoo, head of fixed-income at Mirae Asset Global Investments. "Even though oil has risen sharply, the major focus will remain on how the RBI will support bonds and with the perspective, the minutes of the MPC become crucial for any further hints."
Indian bonds have been rallying after the government kept this year's borrowing programme unchanged, while the central bank said it will infuse one trillion rupees in the banking system through long-term repos.
The Reserve Bank of India infused 250 billion rupees through a three-year term repo on Feb. 17, which was nearly oversubscribed by eight times, and it will conduct a one-year term repo for a similar amount on Feb. 24. The RBI will also conduct bond switch auction for up to 370 billion rupees on Feb. 24.
The rate-setting panel had held interest rates for the second consecutive time in February due to higher inflation but said the policy stance will remain accommodative as long as needed to revive economic growth.
The RBI is conducting a review of the monetary policy framework. It will consult with economists, analysts and experts in June as part

of the review, Governor Shaktikanta Das told The Indian Express newspaper.

The monetary policy framework that was agreed to by both the central bank and the government mandates the RBI to maintain retail inflation at 4% with a tolerance range of two percentage points on either side of the target.

India's retail inflation - the key price gauge for the central bank - rose to a near-six-year high of 7.59% in January from a year earlier. Economic growth is expected to fall to an 11-year low of 5% in the current financial year that ends Mar. 31. The GDP growth data for October-December is due on Feb. 28.

Crude oil prices were higher for a second consecutive week due to concerns over supply disruptions and as worries over demand due to the coronavirus outbreak eased. The benchmark Brent crude oil contract was at $58.96 per barrel, up by 2.9% for the week. India imports over 80% of its crude oil requirement.

- By Dharam Dhutia; dharam.dhutia@newsrise.org; 91-22-61353308
- Edited by Sunil Nair
- Send Feedback to feedback@NewsRise.org

Indonesia

Bank Indonesia - Indonesia's External Debt Growth Slowed

17-Feb-2020

Indonesia's external debt experienced slower growth at the end of Q4/19. The external debt was recorded at USD404.3 billion, consisted of public debt (government and central bank) of USD202.9 billion, as well as private debt (including state-owned enterprises) of USD201.4 billion. Indonesia's external debt decelerated to 7.7% (yoy) from 10.4% (yoy) in the previous quarter. Such conditions stemmed from government and private external debt, for which the growth moderated.

Government external debt growth slowed from the previous period. Government external debt in Q4/19 was recorded at USD199.9 billion, which growth declined from 10.3% (yoy) to 9.1% (yoy) in the previous quarter**. The growth was supported by influx of foreign capital to domestic government securities market and issuance of dual currency global bonds, namely in euro and US dollar.** Such conditions reflect solid investor confidence in the national economic outlook and attractive domestic financial markets, as well as less uncertainty in global financial markets. The management of government external debt is prioritized to finance economy, whereas the largest portion is directed towards productive sectors that could promoting economic growth and improving public welfare, among others, human health & social work activities sector (19.1% of government external debt), construction sector (16.6%), education sector (16.2%), public administration, defense & compulsory social security sector (15.4%), and financial & insurance sector (13.3%).

Downward trend in private external debt growth continued from the previous quarter. At the end of Q4/19, private external debt grew 6.5% (yoy), down from 10.8% (yoy) during the last quarter. The lower growth was led by financial institution external debt, which fell from 6.8% (yoy) to 2,9% (yoy), as well as nonfinancial institution external debt which dropped from 12,1% (yoy) to 7,6% (yoy). By sector, the debt was dominated by the financial & insurance sector, electricity, gas, & water supply sector, manufacturing sector, and mining & drilling sector, with share amounted to 76.9% to total private external debt.

Indonesia's external debt maintained a healthy structure supported by the prudential principle application in its management. The condition was among others, reflected in the indicator of Indonesia's external debt to Gross Domestic Product (GDP) ratio in 2019 at 36,1%, which was relatively stable compared to the last quarter. In addition, the debt structure remained dominated by long-term debt, accounted for 88.3% of the total external debt. Bank Indonesia, in close coordination with the Government, continues to monitor external debt by promoting the prudential principle application in its management to maintain a solid external debt structure. Furthermore, external debt's role will also be optimized in supporting development financing without incurring the risks which may affect macroeconomic stability.

Indonesia raises 18.5 trillion rupiah from debt auction

18-Feb-2020

JAKARTA, Feb 18 (Reuters) -

- **Indonesia raised 18.5 trillion rupiah ($1.35 billion) in a biweekly bond auction on Tuesday, above an indicative target of 15 trillion rupiah, the financing and risk management office at the finance ministry said**
- The weighted average yields of the bonds were lower than the yields of comparable bonds in the previous auction on Feb. 4
- Total incoming bids at Tuesday's auction were 127.1 trillion rupiah

($1 = 13,690.0000 rupiah)
(Reporting by Tabita Diela; Editing by Andrew Heavens)
((tabita.diela@thomsonreuters.com; +622129927621))

Kazakhstan

Fitch Affirms Kazakhstan at 'BBB'; Outlook Stable

21-Feb-2020

Fitch Ratings-London-February 21:

Fitch Ratings has affirmed Kazakhstan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook.

Kazakhstan; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta;

Short Term Issuer Default Rating; Affirmed; F2;

Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta;

Local Currency Short Term Issuer Default Rating; Affirmed; F2;

Country Ceiling; Affirmed; BBB+;

Senior unsecured; Long Term Rating; Affirmed; BBB;

KEY RATING DRIVERS

Kazakhstan's 'BBB' IDRs balance large fiscal and external buffers, underpinned by accumulated oil-related fiscal revenues and a strong sovereign net foreign asset position, against high commodity dependence, a weak banking sector relative to peers, and lower governance scores than 'BBB' medians.

Fitch views the structural and political reforms announced by President Tokayev since he took office in June 2019 as broadly positive, although it is still too early to assess whether they will suffice to remove impediments to higher private sector growth. Notable policies under Tokayev's government have included increased social spending and improved dialogue in the face of increased social pressures, relaxed criteria for the formation of political organisations, and the banning of further state bail-outs for non-systemic banks. Previous President Nazarbayev, who ruled for 29 years before stepping down, continues to wield considerable power as president of the ruling Nur Otan party, and as chairman of the National Security Council, with veto powers over key appointments.

Official estimates indicate real GDP growth picked up slightly to 4.5% in 2019 (2018: 4.1%), driven by domestic demand and supported by public sector social programmes and hydrocarbon, infrastructure and residential investment projects. We forecast growth to slow slightly to 3.9% in 2020 and 4.0% in 2021, stronger than the 'BBB' median of 2.8% and Kazakhstan's five-year average of 2.9%, supported by ongoing investments in the USD45 billion production expansion of the Tengiz oil field.

Fitch estimates the 2019 consolidated budget **balance deteriorated to -0.4% of GDP (2018: surplus of 2.5% of GDP) due to a fall in average oil prices and higher government social spending, which included increased minimum and public sector wages, and cuts in personal income tax, debt forgiveness and tax exemptions for small businesses.** The government targets a consolidated budget deficit of 1.3% of GDP in 2020, narrowing to 0.7% in 2021 and 0.1% by 2022, assuming oil prices at USD55pb. Fitch forecasts a smaller deficit of 0.3% in 2020-21 on the basis of our higher oil price assumptions, despite allowing for higher expenditures. However, the recent COVID-19 virus outbreak has lowered oil prices, which if sustained could bring the fiscal deficit closer to the government's target in 2020. Rising social pressures could also result in additional social spending, and the government's ambitious plans to raise domestic investments to 30% of GDP by 2025 from the private sector could be a source of fiscal slippage if government funds are employed to meet the target.

Fiscal policy anchors are weaker than similarly-**rated peers in Fitch's view, evidenced by frequent breaches of and amendments to the government's fiscal rules.** An amended fiscal rule adopted in December 2019 delays the decline in 'guaranteed transfers' to the budget from the state oil-fund (NFRK) step-by-step to KZT2.0 trillion from 2020 to 2022 (KZT2.7 trillion in 2019). However, additional 'targeted transfers' have been used in the past to finance government programmes, subordinating the fiscal rules to other stability aims.

Despite weak fiscal anchors, gross general government debt remains low at 18.2% of GDP at end-2019, (current 'BBB' median: 41.1%) and is forecast to be unchanged in 2021 owing to a primary fiscal balance averaging 0.6% of GDP in 2020-21. The sovereign has a large net creditor position, with assets comprising government deposits, NFRK assets, and sizeable pension savings. Pension assets were 15.2% of GDP at end-2019 and are managed by the National Bank of Kazakhstan (NBK), with 55.5% of assets invested in government and SOE securities, further supporting fiscal financing flexibility. SOE debt has been rising, and amounts to 23.7% of GDP at end-3Q19 and is a contingent liability for the government.

Government efforts to strengthen the banking sector are bearing fruit, but the system remains weak, characterised by non-performing loans of 8.1% of loans at end-2019, high dollarisation (43% of deposits), and impaired financial intermediation. The NBK published aggregated results of the recently concluded banks' asset quality review (AQR), revealing a capital shortfall of just KZT450 billion (0.6% of GDP). However, the shortfall may be concentrated in a few banks and could require further capital injections. Individual bank details are expected at end-February 2020. President Tokayev has announced a ban on the use of budget fund to support non-systemic banks, but Fitch believes state-support could still be deployed through off-balance sheet channels.

Fitch does not believe that the carving out of the financial regulatory agency from the NBK in January 2020 will result in a material improvement of its independence and regulatory quality. In Fitch's view, key decisions regulating the conduct of financial agents and their resolution could be subject to interference, as they will likely be coordinated at the level of the Financial Stability Council, which has representation by the NBK and the president, among others.

Kazakhstan's large sovereign external buffers are a key rating strength. Sovereign net foreign assets are 42.2% of GDP at end-2019 (current 'BBB' median: 3.4%) comprised mainly of NFRK assets invested abroad. Fitch forecasts NFRK assets to fall gradually to 30% of GDP by 2021 from 33.4% in 2019, and from a peak of 44.6% in 2016, due to higher transfers to the budget and fund inflows declining as a share of GDP. International reserves fell to USD29 billion at end-2019 (end-2018: USD31 billion) partly due to SOE external debt repayments.

The current account deficit is officially estimated to have worsened to 3.0% of GDP in 2019 (2018: -0.2%), driven by lower oil prices and imports rising by 10.5% due to stronger consumption and capital investment imports. We forecast the deficit to widen slightly over the forecast horizon due to a gradual decline in assumed oil prices and as robust investment and consumption growth is expected to continue. However, a narrowing primary income deficit is likely to partly offset the narrowing trade surplus as lower commodity prices result in smaller profit remittances. The current account deficit is primarily financed by energy sector FDI.

Transmission of monetary policy remains hampered by the shallowness of the domestic market, high, albeit declining level of dollarisation and involvement of the NBK in quasi-fiscal operations, such as subsidised lending and partial funding of the government's household debt relief programme. Inflation is higher than the current 'BBB' median of 2.5% and has ticked up since 2Q19 and was 5.6%yoy in January 2020, close to the upper bound of the 4%-6% target band. Higher inflation has been driven by food prices (9.2%yoy), partly offset by administrative measures to cut electricity prices (-2.0%yoy) in December 2019, while January 2020 electricity prices rose by 1.0%yoy.

We forecast inflation to rise, averaging 6.0% in 2020 before moderating to 5.5% in 2021, due to recent falls in oil prices expected to weaken the tenge and demand pressures from rising disposable incomes and consumer lending. The NBK is transitioning to an inflation-targeting framework, responding to the uptick in inflation by tightening its key policy rate by 25bp to 9.25% in September 2019. Surveys show that inflation expectations subsided in 2019 and are in line with the target band.

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

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

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

- External Finances: +1 notch, to reflect sovereign external assets held in the national oil fund (33% of GDP at end-2019) that are largest in the rating category and have historically been used to manage external liquidity needs.
- Structural Features: -1 notch, to reflect the weak condition of the banking sector, and weak institutional independence complicating the development of the economic policy framework.

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

RATING SENSITIVITIES

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

- Improved governance indicators and strengthening of the policy framework to enhance its predictability and effectiveness.
- Sustainable improvement in the health of the banking sector, e.g. demonstrated by improved financial intermediation and asset quality.
- Improvement in the economy's and public finances' resilience to commodity price shocks through economic diversification.

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

- Policies that widen the consolidated fiscal deficit materially or undermine monetary policy credibility.
- Materialisation of additional significant contingent liabilities from the banking sector on the public sector balance sheet.

KEY ASSUMPTIONS

Fitch assumes that Brent crude will average USD62.5 p/b in 2020 and USD 60.0 p/b in 2021.

Kuwait

Kazakhstan has an ESG Relevance Score of 5 for 'Political Stability and Rights' as World Bank Governance Indicators having the highest weight in Fitch's SRM and policy capacity, unpredictable policy shifts, and vested interests have limited the improvement of the policy-making framework; this is highly relevant to the rating and a key rating driver with a high weight.

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

Kazakhstan has an ESG Relevance Score of 4 for 'Human Rights and Political Freedoms' as the Social Stability and Voice and Accountability pillars of the World Bank Governance Indicators are relevant to the rating and a rating driver.

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

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Kuwait

Kuwait posts 2.3 bln dinars deficit in period April 2019-Jan 2020

19-Feb-2020

DUBAI, Feb 19 (Reuters) - **Kuwait posted a deficit of 2.3 billion Kuwaiti dinars ($7.52 billion) in the period from April 1 to the end of January, after depositing 10% of revenue to its sovereign wealth fund, official data showed on Wednesday.**

Kuwait previously said it expected a total deficit of 7.7 billion dinars in the 2019-2020 fiscal year, which ends in March.

The Finance Ministry said the data published on Wednesday was incomplete because of delays in the disclosure of spending by several government agencies.

($1 = 0.3059 Kuwaiti dinars)
(Reporting by Nayera Abdallah and Davide Barbuscia; Editing by Edmund Blair)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

Lebanon

Fitch Ratings: Lebanon's Financial Position Points to Debt Restructuring

18-Feb-2020

Fitch Ratings-London/Hong Kong-February 18: **Although Lebanon technically retains foreign-exchange reserves sufficient to service its sovereign debt repayment obligations in 2020-21, the costs of meeting its obligations would be so high that this outcome appears politically unrealistic, says Fitch Ratings.** We believe that some form of government debt restructuring is probable, as reflected in our decision to downgrade the sovereign's rating to 'CC' in December 2019.

We estimate Lebanon's gross external financing requirement in 2020 at around USD10 billion, moderating close to USD9 billion in 2021. We assume that the main financing item will be the foreign currency (FC) assets of the central bank (Banque du Liban; BdL). BdL had around USD29 billion in gross FC reserves at its disposal as of end-January 2020, according to our calculations, with reserves continuing their decline in February. However, the overall net FC position of BdL is negative, according to Fitch's estimates.

As part of its efforts to limit the drain on its FC reserves, BdL in January raised the idea of a debt exchange with Lebanese banks under which their holdings of Eurobonds maturing in March 2020 would be swapped for longer-dated Eurobonds in its portfolio. While the government suspended this idea, it may still be considering it.

Such a transaction might be considered a Distressed Debt Exchange (DDE), according to our published criteria. If so, we would likely downgrade the rating to 'C'. When the exchange was complete, the rating would likely be downgraded to Restricted Default 'RD'. We would make such a determination at the time of announcement of such a debt swap. In our view, to be considered a DDE there would need to be a material reduction in terms, which could include a maturity extension, and the exercise would be undertaken to avoid a default.

The prioritisation of available FC for debt service implies an ongoing and severe recession, accompanied by higher rates of inflation and unemployment and prolonged crisis in the financial sector. The difficulty of enacting fiscal and structural reforms against this background makes it unlikely that this strategy will ultimately lead to the government achieving a more sustainable financial position, or to a renewal of confidence in the financial and monetary system.

We regard the most likely scenario for external financial support as an agreement with the IMF, which would open up other sources of external finance, including from the World Bank and bilateral partners in the Gulf. An IMF deal would almost certainly require some restructuring of government debt.

Government debt restructuring could take different forms and negotiations with bondholders could prove complicated. Some restructuring of FC debt appears likely given Lebanon's unsustainable FC position. Nonetheless, more than 60% of government debt is denominated in Lebanese pounds. Even if Eurobonds were restructured with a 60% nominal haircut, this would reduce government debt by only 33% of GDP (assuming the current official exchange rate). This would leave total government debt at roughly 120% of GDP, still exceptionally high. Restructuring of domestic debt, which is all held locally, would help to address this.

Government debt restructuring will be only part of the challenge. To achieve economic stabilisation the authorities may also have to address the Central Bank's liabilities and the intertwined balance sheets of the BdL and the commercial banks, which could have implications for depositors. Fundamentally, debt sustainability will be contingent on a meaningful

fiscal and structural reform process.
Our report, "Lebanon: Balance Sheet Analysis Points to Restructuring of Debt and Financial Sector", is available at www.fitchratings.com or by clicking on the link above.

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.

©Refinitiv 2020. All rights reserved.

IMF begins visit as Lebanon grapples with financial crisis

20-Feb-2020
BEIRUT, Feb 20 (Reuters) - **A team from the International Monetary Fund (IMF) met Lebanese government officials on Thursday at the start of a visit to advise on how to tackle the country's crippling financial and economic crisis.**
The IMF has said its team will stay until Feb. 23 to provide broad technical advice. Lebanon has not requested financial assistance from the Fund as it draws up a plan to confront the crisis.
"The Fund is giving its view in light of the present circumstances and the financial, economic and reform measures Lebanon needs," Finance Minister Ghazi Wazni said in a statement issued by the prime minister's office.
"The Fund delegation will continue its work until the completion of cooperation with Lebanon to prepare the plan," Wazni said.
The long-brewing economic crisis spiralled last year as the country's capital inflows slowed and protests erupted against the ruling elite.
As the crisis deepens, hitting ordinary Lebanese hard, there is no sign of foreign aid. Western and Gulf Arab states that helped in the past have made clear that any support hinges on Beirut implementing long-delayed reforms to address root causes such as state corruption and bad governance.
Prime Minister Hassan Diab's government - which took office last month with backing from the Iran-backed Shi'ite group Hezbollah and its allies - must decide what to do about looming debt payments, notably a $1.2 billion dollar-denominated sovereign bond due on March 9.
One of Lebanon's most influential politicians, Parliament Speaker Nabih Berri, on Wednesday said that debt restructuring was the best solution for such maturities.
The Lebanese banking association said that foreign investors had shown a willingness to negotiate debt rescheduling.
Lebanon will on Friday review proposals from companies bidding to provide financial and legal advice on its options, a source familiar with the matter said. The government aims to take a quick decision on who to appoint, the source added.
Bidders to provide legal advice so far are Dechert, Cleary Gottlieb and White & Case, the source said. Lebanon has issued requests for proposals to seven companies bidding to be its financial adviser.
The government on Wednesday formed a committee tasked with preparing an economic recovery plan that includes ministers, government officials, a central bank representative and economists, according to a copy of a decree seen by Reuters.
With hard currency in short supply, banks have been limiting depositors' access to dollars and blocking transfers abroad since October. The Lebanese pound has slumped from its official peg on a parallel market.
Dollars were being offered on Thursday at 2,450 pounds, reflecting a 60% weakening of the local currency, a dealer said.

(Reporting by Tom Perry and Ellen Francis; Writing by Tom Perry; Editing by Christian Schmollinger, John Stonestreet, Toby Chopra and David Goodman)
((thomas.perry@thomsonreuters.com; Reuters Messaging: thomas.perry.reuters.com@reuters.net))

Lebanon, IMF discuss all possible options for overcoming crisis

21-Feb-2020
BEIRUT, Feb 21 (Reuters) - **An International Monetary Fund (IMF) team discussed on Friday all possible options with Lebanese officials seeking technical advice for the country's crippling financial crisis, a finance ministry statement said.**
An IMF team is meeting with officials from heavily indebted Lebanon until Feb. 23 to offer broad advice on tackling the crisis as Beirut mulls a plan for dealing with fast-approaching debt payments, including a $1.2 billion Eurobond on March 9.
"All available data and possible options were discussed based on the delegation's vision and its assessment of the situation in the country...to build a vision for how to overcome the current situation," Finance Minister Ghazi Wazni said in a statement.
Since protests erupted in October, Lebanon's currency has slumped by roughly 60% on a parallel market, dollars have become scarce, prices have been hiked and thousands of jobs have been shed.
The government is expected on Friday to review proposals from companies bidding to provide financial and legal advice on options for a potential debt restructuring, a source familiar with the matter said on Thursday.
Lebanon has not requested financial assistance from the IMF and Western and Sunni-led Gulf Arab states that helped in the past insist that Beirut must first implement long-delayed reforms on core issues such as state corruption and bad governance.

(Reporting by Eric Knecht)
((eric.knecht@thomsonreuters.com; Reuters

Messaging:
eric.knecht.thomsonreuters.com@reuters.net))

Moody's Says Downgrades Lebanon's Rating to CA, Changes Outlook to Stable

21-Feb-2020
Feb 21 (Reuters) - MOODY'S:
- **Moody's says downgrades Lebanon's rating to CA, changes outlook to stable**
- Moody's says downgraded the government of Lebanon's issuer rating to ca from caa2 and changed the outlook to stable
- Moody's says Lebanon's rating reflects expectation that private creditors will likely incur substantial losses in any gov't debt restructuring
- **Moody's on Lebanon says deepening economic & financial contraction that undermines sustainability of peg points to government debt restructuring in near term**
- Moody's says Lebanon's deep economic contraction is likely to continue
- Moody's says Lebanon's outlook reflects prospect of availability of external funding enhanced by IMF involvement, reduced by weak policy implementation track record

((Reuters.Briefs@thomsonreuters.com))

Oman

Oman's economic risk higher in 2020 because of oil demand, China exposure

17-Feb-2020
DUBAI, Feb 17 (Reuters) - **Oman's economic downside risks are higher this year because of weaker oil demand and its exposure to China, said an S&P Global analyst on Monday.**
Oman is the most exposed to China among the Gulf Arab region states. Oman exports 45.1% of its good to China, mostly oil, according to S&P.

(Reporting by Saeed Azhar, writing by Alexander Cornwell; Editing by Toby Chopra)
((Alexander.Cornwell@thomsonreuters.com))

Saudi Arabia

Saudi Arabia' fiscal deficit could be 7.4% in 2020, 8.1% in 2021

17-Feb-2020
DUBAI, Feb 17 (Reuters) - **Saudi Arabia could have a fiscal deficit of 7.4% this year and a deficit of 8.1% in 2021, S&P Global analysts said on Monday.**
The fiscal deficits of Gulf Arab states, which includes Saudi Arabia, will rise next year because of expected higher spending and lower oil prices, S&P analyst Zahabia Gupta said in Dubai.
This year, the assumption for oil prices is $60 a barrel and next year is $55 a barrel, the analyst said.

(Reporting by Saeed Azhar, writing by Alexander Cornwell; Editing by Alex Richardson)
((Alexander.Cornwell@thomsonreuters.com))

Singapore

Fitch Ratings: Fiscal Space Facilitates Singapore's Use of Stimulus Measures

20-Feb-2020
Fitch Ratings-Hong Kong-February 19: **Singapore retains exceptionally strong external and fiscal balance sheets, and the wider budget deficit unveiled this week does not jeopardise Singapore's 'AAA' rating, which was affirmed with a Stable Outlook last August, says Fitch Ratings.**
The new budget announced on 18 February will widen the overall central government deficit to 2.1% of GDP in FY20 (fiscal year ending March 2021), from about 0.3% in FY19, against our expectation of a surplus of 1.3% of GDP in FY20 at the time of the last review. The budget includes support packages totalling SGD6.4 billion (about 1.2% of GDP) to address the shock of the COVID-19 novel coronavirus outbreak and continued disruption to exports stemming in part from the US-China trade war.
The government has also confirmed that a planned increase in the goods and services tax (GST) rate from 7% to 9% to raise revenues over the medium term will not occur in 2021, but this remains consistent with its earlier statements that the hike would be implemented some time from 2021-2025.
Despite the increased deficit, the government will still meet its rule of maintaining a balanced budget over the course of a single parliamentary term. Furthermore, according to Fitch's estimates, the general government balance (which includes contributions to and payouts from the Central Provident Fund and receipts from land sales) should remain in a healthy surplus and above the 'AAA' median (0.5% of GDP in 2020). Overall, Singapore's public finances remain on a sound footing and the government's conservative approach to management of the public finances provides support to Singapore's rating.
The budget, which we expect to be the last before the next election, retains a focus on addressing long-term challenges associated with population ageing and raising productivity levels, issues that a number of other economies in the region, such as Hong Kong, are also grappling with. Singapore's FY20 budget allocates SGD8.3

billion (about 1.6% of GDP) towards the economy's transformation and growth.
Singapore's fiscal moves to support the economy are in line with policy trends elsewhere around the region. Hong Kong's financial secretary, Paul Chan, has signalled that Hong Kong may announce its largest ever deficit in the budget for FY20, which is set to be unveiled on 26 February**. Governments in Japan, South Korea, Malaysia and China are also among those that have signalled a willingness to provide increased fiscal support to economic growth in the wake of the virus outbreak, although details remain scarce in most cases.** Singapore stands out in the region for its headroom to relax fiscal policy without undermining its credit metrics.
Singapore's economy will still be among those most affected by the virus outbreak, despite the budget measures. The coronavirus will dampen tourism receipts, which were equivalent to 5.5% of GDP in 2018, and Chinese demand for Singapore exports, as well as cause disruption to supply chains that will adversely affect Singaporean manufacturers. Public health concerns will also dampen consumer and business sentiment within Singapore.
Fitch believes that Singapore's 2020 economic growth is now likely to be closer to 0.6%, less than half the level we projected only a few months ago, and there are downside risks depending on the evolution of the virus outbreak. GDP grew at a much slower pace of 0.7% in 2019 down from 3.4% a year ago. Our 2020 forecast is somewhat closer to the Singapore Ministry of Trade and Industry's revised baseline projection that growth will slow to 0.5% in 2020, although they note downside risks to this forecast.

Media Relations: Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.

Thailand

Thailand plans steps to help virus-hit economy this month

19-Feb-2020
BANGKOK, Feb 19 (Reuters) - **Thailand is preparing new measures to help the economy cope with the aftermath of the coronavirus, the finance minister said on Wednesday.**
The new measures - which the cabinet is expected to vote on this month - will be substantial enough to boost consumption, tourism and other economic activity, Uttama Savanayana told reporters.
The government has sufficient fiscal and financial tools to handle economic problems in the short term, he said.
He also said government spending should start in April after the passage of a delayed 3.2 trillion baht ($102.63 billion) budget bill.

($1 = 31.18 baht)
(Reporting by Kitiphong Thaichareon, Writing by Orathai Sriring; Editing by Andrew Heavens)
((orathai.sriring@thomsonreuters.com; +662 0802309; Reuters Messaging: orathai.sriring.thomsonreuters.com@reuters.net))

Thailand expects public investment of nearly $13 bln in Q2

20-Feb-2020
BANGKOK, Feb 20 (Reuters) - **Thailand's government expects public investment spending of more than 400 billion baht ($12.77 billion) in the second quarter to help the flagging economy weather the impact of the coronavirus outbreak, the finance minister said on Thursday.**
Even before the epidemic that originated in China, the trade-reliant economy has been under pressure, buffeted by the Sino-U.S. trade war, sluggish investment, a delayed fiscal budget and drought.
But investment spending will accelerate following last week's passage of a 3.2 trillion baht budget bill for the current fiscal year, Uttama Savanayana told reporters.
The budget bill, delayed since Oct. 1, projects public investments at 656 billion baht, or 20.5% of all spending.
"There will be more funds injected to drive the economy in the second quarter," Uttama said.
More than 80% of the total public investment budget should be disbursed in this fiscal year that ends on Sept. 30, he said.
Additionally, state-owned enterprises are expected to invest about 100 billion baht in March, Uttama said.
"Nobody can tell when the situation will get back to normal. But we have prepared measures, which will be introduced soon, to help shield the economy," Uttama said.
The minister expects the economy to rebound sharply when the situation returns to normal, probably from the middle of this year.
Southeast Asia's second-largest economy expanded 2.4% in 2019, the lowest rate in five years. This year it is facing an even tougher climate as tourism is being hit hard by the virus outbreak.
The state planning agency on Monday slashed its 2020 growth forecast to 1.5%-2.5% from 2.7%-3.7%.
The number of foreign tourists in Thailand may fall by 5 million this year from last year's 39.8 million, reducing revenue by as much as 500 billion baht, according to the Tourism Authority of Thailand.
Chinese visitors, Thailand's biggest source of tourists, made up about 28% of total foreign arrivals and spending last year. Thailand is also

heavily reliant on China's trade and investment.

($1 = 31.33 baht)
($1 = 31.3600 baht)
(Reporting by Kitiphong Thaichareon; Writing by Orathai Sriring; Editing by Shri Navaratnam)
((orathai.sriring@thomsonreuters.com; +662 0802309; Reuters Messaging: orathai.sriring.thomsonreuters.com@reuters.net))

EUROPE

Albania/North Macedonia

"North Macedonia, Albania will deliver," EU enlargement chief says

18-Feb-2020

- **EU leaders to meet Balkans in Zagreb summit in May**
- **New enlargement commissioner signals progress in reforms**

BRUSSELS, Feb 18 (Reuters) - **North Macedonia and Albania can deliver on the reforms required to join the European Union, the EU enlargement commissioner said on Tuesday, in the latest sign that the Balkan neighbours are set to overcome France's freeze on their aspirations.**

French President Emmanuel Macon, who blocked the opening of talks with Skopje and Tirana in October, said at the weekend he was willing to allow them to begin membership talks if the European Commission gave them a positive review next month.

"I am very encouraged by my visits to both countries," Enlargement Commissioner Oliver Varhelyi told a think-tank event. "They do not give up on reforms ... and you will see that they will deliver, and if they do that, you can be confident that there should be an opening of negotiations."

If allowed to go ahead with membership talks, the approval would set the stage for a summit with EU leaders and all six western Balkan candidate countries - Serbia, Kosovo, Montenegro, Albania, Bosnia and North Macedonia - in Zagreb in May.

It may go some way to assuaging concerns in the EU about growing Chinese and Russian influence in the six states and a sense that the bloc is failing to transform the countries scarred by the wars of the 1990s into market economies.

Macron's comments on Saturday at the Munich Security Conference were also likely to reassure other European leaders that France still backs expanding the EU to new members.

"There is nothing but membership on offer," Varhelyi said.

Macron had refused to approve the start of so-called accession negotiations at a summit in October, saying the process of admitting new members needed to change. One French minister called the accession process an "endless soap opera".

This month, the Commission suggested reforms to the accession process along the lines of a French proposal made in November, giving EU governments more say and making it easier to stop or reset negotiations and freeze funds.

Denmark and the Netherlands, who supported Macron, are expected to drop their resistance, EU diplomats told Reuters.

France and its allies are concerned about the EU's ability to bring in a region struggling with crime and corruption, anxious not to repeat what they believe was the rushed accession of Romania and Bulgaria in 2007.

Membership talks, once underway, will take years.

(Reporting by Robin Emmott)
((robin.emmott@thomsonreuters.com; +32 2 287 6835; Reuters Messaging: robin.emmott.thomsonreuters.com@reuters.net))

Belarus

Belarus preparing Eurobond placement

17-Feb-2020

MOSCOW, Feb 17 (Reuters) - **Belarus' finance ministry said on Monday it is preparing a Eurobond placement and will have the technical readiness to enter the market in the near future, the state news agency Belta cited finance minister Maksim Yermalovich as saying.**

"As soon as we see a convenient window of opportunity for such a placement, we will certainly say," Yermalovich said.

(Reporting by Andrei Makhovsky; Writing by Alexander Marrow; Editing by Alex Richardson)
((alexander.marrow@thomsonreuters.com; +7 495 775 1242))

Bulgaria

Bulgaria's current account surges to 9.7% of GDP in 2019

19-Feb-2020

SOFIA, Feb 19 (Reuters) - **Bulgaria's current account surplus surged to 9.7% of gross domestic product in 2019, exceeding finance ministry's expectations for a surplus of 5.2%, mainly due to weaker imports and pick up in exports, central bank data showed on Wednesday.**

The small and open economy posted a current account surplus of 5.4% of GDP in 2018.

For December alone the current account surplus in the Balkan country stood at 23.9 million

euros, compared with a surplus of 11.3 million euros a year ago.
Foreign direct investment, needed to boost sustainable growth in the Black Sea state, rose by 630 million euros last year, compared with investment of 537 million in the same period a year ago.
The finance ministry sees current account surplus decreasing to 4.1% of GDP as it expects a pickup in imports supported by domestic demand.

(Reporting by Tsvetelia Tsolova)
((tsvetelia.tsolova@thomsonreuters.com; +359-2-93-99-731))

Bulgaria sees July decision on entering euro "waiting room"

21-Feb-2020
SOFIA, Feb 21 (Reuters) - **Bulgaria's bid to join the euro zone's "waiting room" will be reviewed in July, Prime Minister Boyko Borissov said on Friday, urging the local banks to closely monitor their capital adequacy until then to avoid new obstacles to euro adoption.**
Sofia, which has one of the lowest public debt levels in the European Union, initially planned to join both the two-year obligatory precursor to the euro zone, the ERM-2, and the bloc's banking union at the end of April.
Bulgaria is EU's poorest and most corrupt member state, but has been taking steps to boost people's incomes, fight endemic graft and streamline banking supervision.
It has met most of the requirements for entry to the two EU structures except for the successful recapitalisation of two locally owned banks at which the European Central Bank (ECB) found capital shortfalls during a health-check last year.
"The timing is not April, but July. This is when both Bulgaria and Croatia will be reviewed," Borissov told reporters after meeting European Commission Vice President Valdis Dombrovskis in Brussels.
"Until then the Bulgarian banks should monitor very carefully their capital adequacy so that we do not face any additional obstacles," he said.
The ECB's comprehensive assessment in July found Bulgaria's fifth largest lender, First Investment Bank (Fibank), had a capital shortfall of 263 million euros ($284 million), while smaller Investbank came up short by 52 million euros.
Both have to prop up their capital by the end of April, with Fibank planning to raise up to 200 million levs on the local bourse among other steps.
But on Thursday, the country's financial regulator refused to approve Fibank's prospectus, putting more pressure on the lender to meet its recapitalisation plan's timeline. The bank said it would amend its prospectus and resubmit it shortly.
In another bid to calm fears that ERM-2 entry may devalue the lev currency, which is pegged to the euro, and hit people's savings, Borissov reiterated the fixed exchange rate will be kept until Sofia adopts the common currency.
Dombrovskis also said that changing the current exchange rate made no economic sense and was highly unlikely.

($1 = 0.9259 euros)
(Reporting by Tsvetelia Tsolova; Editing by Toby Chopra)
((tsvetelia.tsolova@thomsonreuters.com; +359-2-93-99-731))

Fitch Affirms Bulgaria at 'BBB'; Outlook Positive

21-Feb-2020
Fitch Ratings-Frankfurt am Main-February 21:
Fitch Ratings has affirmed Bulgaria's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB' with a Positive Outlook.
KEY RATING DRIVERS
Bulgaria's ratings are supported by its strong external and fiscal balance sheets and credible policy framework, underpinned by EU membership and gradual progress towards euro membership. The ratings are constrained by slightly lower income levels compared with the current 'BBB' median and unfavourable demographics, which could hinder growth over the long term. Governance indicators are in line with peers.
The process to simultaneously join the Exchange Rate Mechanism (ERM II) and the Banking Union is nearing completion. All ERM II commitments have been finalised, while two domestically-owned banks, Fibank and Investbank are in the process of strengthening their capital positions following the results of the ECB's comprehensive assessment released in July 2019 (which identified capital shortfalls of EUR262.9 million and EUR51.8 million, respectively, under the adverse stress test scenario). Fibank's large stock of impaired loans (26.3% in 3Q19 according to IFRS 9 stage 3 loans consolidated data) and repossessed assets present a challenge, but there appears to be enough commitment for both banks to reach their capital plans by the April 2020 deadline.
Increased public debate about euro adoption and the mechanics surrounding the leva peg under ERM II has also raised the risk of further delays. However, Fitch believes that both the Bulgarian and European authorities remain committed to finalising the process, with a likely positive final decision in 2H2020 following a review process by the ECB and European institutions (most likely in July). This could pave the way for euro adoption by 2023 at the earliest. All else being equal, Fitch would be likely to upgrade Bulgaria's Long-Term Foreign-Currency IDR by one notch on admission to ERM II and one further notch when formally joining

the euro area.
Fitch continues to expect a solid fiscal performance in 2020-21, supported by stable macro conditions and prudent policies. **Fiscal outturns surprised on the upside last year thanks to strong revenue, with the general government cash deficit reaching only 1% of GDP, versus the amended budget target of 2.1%.** In accrual terms Bulgaria posted an estimated surplus of 1% of GDP, the fourth consecutive surplus year and comparing favourably with the BBB median deficit estimate of 1.8%. We expect stable revenue growth in the next two years, reflecting solid domestic demand. Expenditure growth will be driven by measures to boost incomes, including this year´s 10% hike in public wages, and on capital projects as the EU funding cycle reaches its peak. We see the surplus narrowing to 0.1% of GDP by 2021.
Fiscal risks are broadly balanced. Bulgaria has a strong track-record of fiscal prudence across the electoral cycle, limiting downside risk ahead of general elections due May 2021. Entry into ERM II would also serve as an additional anchor for maintaining fiscal stability over the medium term. High government deposits (7.2% of GDP at end-2019), low financing costs and low and declining debt levels provide fiscal space. Fitch forecasts general government debt to fall to 17.9% of GDP in 2021, compared with the current 'BBB' median of 41.4% and consistent with Bulgaria's Convergence Programme Targets.
Bulgaria's very strong external finance metrics are a rating strength and provide a cushion against external shocks. According to IMF balance of payments data, the current account surplus (CAS) exceeded 11% of GDP in 1Q-3Q19, and we estimate a full year CAS of 10.1%. It is Bulgaria´s highest CAS on record and the highest in the 'BBB' and 'A' categories. The surprising performance in 2019 is due in part to a contraction in goods and services imports and sharp drop in income debits due to lower dividend payments. However, it also reflects the strengthening of the goods and services export sectors over the past few years. Fitch expects the CAS to narrow, first substantively in 2020 as import growth picks up, and then more gradually in 2021 as trends stabilise. This will continue to support the country´s external balance sheet, with Bulgaria´s net external asset position expected to increase to 26.8% of GDP by 2021 compared with the current 'BBB' median net debtor position of 7%.
We maintain our GDP growth forecast of 3.3% in 2020-2021, broadly in-line with the 'BBB' median. Weakness in the external environment, and particularly in the eurozone, has not yet significantly affected Bulgaria, with quarterly GDP growth falling only very slightly in 3Q and 4Q19 (to 0.8% and 0.7%, respectively) and annual growth reaching 3.7% (from 3.1% in 2018). However, ongoing external uncertainty and a projected recovery in imports (thanks in part to a pickup in investment), will likely lead to sharper slowdown in headline growth in the coming quarters. As in other countries in the region, domestic demand will support growth, underpinned by favourable financing conditions and a strong labour market.
Fitch expects headline inflation to average 2.4% in 2020-21, broadly in line with the 'BBB' peer median of 2.5% and consistent with a further weakening of the economic cycle. The harmonised index of consumer prices accelerated in 4Q19 and further to 3.4% yoy in January (the highest rate since October 2018), but it was mostly driven by one-off factors affecting food prices. Core inflation remains low (CPI excluding energy, food, alcohol and tobacco was 1.8% in December), with limited pass through from higher wages (up by an estimated 6% in 2019). Nevertheless, if upside risks to inflation materialize, this could complicate Bulgaria´s inflation targets once it is admitted into ERMII.
Bulgaria´s banking sector performance continues to improve gradually, helped by favourable macro conditions and robust credit growth. Overall credit growth stood at 7.5% in 2019, with household credit rising by closer to 10% in line with higher residential mortgage lending. Similar growth rates are expected in 2020. The Bulgaria National Bank remains cautious about credit developments, and in December 2019 decided to raise its counter-cyclical capital buffer further from 1% (effective from April 2020) to 1.5% in early 2021. The NPL ratio continues to fall, falling to 6.5% in 2019, although the situation at individual banks can differ substantially.
Bulgaria's governance indicators remain in line with its 'BBB' peers. Despite a history of unstable governments and various institutional constraints, there is broad-based political consensus in terms of macro-economic policy and in favour of integration with the eurozone.

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

Fitch's proprietary SRM assigns Bulgaria a score equivalent to a rating of 'BBB+' 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:
-Macroeconomics: -1 notch, to reflect Fitch's view that adverse demographic trends and slow progress on structural reform constrain potential growth over the long term.
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 are:
- Formal admission into ERM II.
- An improvement in growth potential that leads towards faster convergence with income levels of higher rate peers without creating imbalances.
- Continued improvement in external and fiscal balance sheets.

The main factors that could, individually or collectively, lead to negative rating action are:
- A halt to the euro accession process.
- Re-emergence of external imbalances and/or deterioration of external competitiveness.
- A sharp rise in public debt driven by fiscal easing or the materialisation of contingent liabilities on the sovereign's balance sheet

KEY ASSUMPTIONS
The global economy performs in line with Fitch's Global Economic Outlook.
ESG CONSIDERATIONS
Bulgaria 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.
Bulgaria has an ESG Relevance Score of 5 for Rule of Law, Institutional Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. Some of these issues have held back implementation of structural reforms and hindered medium-term growth potential.
Bulgaria has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as World Bank Governance Indicators, which have the highest weight in Fitch's Sovereign Rating Model (SRM), are relevant to the rating and a rating driver.
Bulgaria 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 Bulgaria, as for all sovereigns.
Bulgaria has an ESG Relevance Score of 4 for Demographic Trends as a falling and ageing population hinder the economy´s medium term growth potential, which is relevant for the rating in combination with other factors.
Bulgaria; Long Term Issuer Default Rating; Affirmed; BBB; RO:Pos;
Short Term Issuer Default Rating; Affirmed; F2;
Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO:Pos;
Local Currency Short Term Issuer Default Rating; Affirmed; F2;
Country Ceiling; Affirmed; A-;
Senior unsecured; Long Term Rating; Affirmed; BBB

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Czech Republic

Czech PM: we can "go home" if countries insist on lower budget at EU summit

21-Feb-2020
PRAGUE, Feb 21 (Reuters) - **Czech Prime Minister Andrej Babis said on Friday "we can go straight home" from a European Union leaders' summit if a quartet of countries maintained their stance to limit the bloc's next budget.**
"If the group of four rich countries (of) Sweden, Denmark, the Netherlands and Austria insist (on this), we can go straight home," Babis said on his Twitter account, adding their stance would mean 75 billion euros less to the budget than the European Council president's proposals.
EU leaders were holding a second day of discussions after making no headway on Thursday in fractious talks on a joint 2021-27 budget.

(Reporting by Jason Hovet;
Editing by Alison Williams)
((jason.hovet@thomsonreuters.com; +420 234 721 613))

Hungary

Hungarian PM Orban signals tax cuts, tough times for economy

16-Feb-2020
By Krisztina Than
BUDAPEST, Feb 16 (Reuters) - **Hungary will cut taxes on labour and for small firms, Prime Minister Viktor Orban said on Sunday as he warned of tough times ahead for a domestic economy hobbled by stagnation in the euro zone.**
Hungary's economy expanded 4.9% last year but on Friday the government cut its forecast for 2020 from 4% to 3.5%, which would be the slowest growth rate in four years.
"I see dangerous years ahead ... We need to take serious steps to defend what we have achieved so far," Orban said in an annual state of the nation speech that reviewed his decade in office.
"We will have to focus our efforts on preserving jobs in 2020 and also perhaps in the years after... In such times, tax cuts are needed. So, we will reduce the tax on labour and on small businesses," he added without giving details.
A nationalist who has often clashed with

European Union authorities over his clampdowns on immigration, Orban has pursued a mix of go-it-alone economic policies, shifting Hungary's debt financing towards domestic borrowing while keeping the budget deficit low.
But his critics say corruption has increased, and oligarchs close to him have benefited significantly from state contracts and EU funds.
Orban, who had enjoyed consistently high popularity ratings since first being elected, said a key question was if Hungary could maintain growth against the backdrop of stagnation in the euro zone, its main export market.
He also cited "demographic decline" and the climate crisis as threats.
He said the government had approved a climate protection plan that included tighter environmental regulations for multinational firms, a sixfold increase in solar power capacity over 10 years, and the launch of a green government bond.
Think tank Eurasia Group said only an economic downturn could endanger Orban's solid base of support.
"For this reason, the government will continue to use fiscal policy to stimulate the economy while the central bank will keep interest rates low, despite rising inflation," it said in a note to clients.
Hungary's next national elections are due in 2022.

(Reporting by Krisztina Than; editing by John Stonestreet)
((krisztina.than@thomsonreuters.com))

Hungary central bank accepts bids for forint liquidity swaps below its original offer

17-Feb-2020
BUDAPEST, Feb 17 (Reuters) - **Hungary's central bank has accepted total bids worth 176 million euros from commercial banks for its swaps providing forint liquidity at a Monday tender, below its original offer, the National Bank of Hungary said on its Reuters page.**
The bank rejected all bids at its previous two fx swap tenders.
The central bank offered swaps worth 320 million euros at the tender on Monday. Bids were the highest for the 1-month swaps at 547 million euros.
It provided 44 million euros each of the one-month swaps, of 3-month and 6-month swaps, and also of the 12-month tenor.

(Reporting by Krisztina Than and Gergely Szakacs)
((krisztina.than@thomsonreuters.com))

Kosovo

Kosovo sells 25 mln euro of 5-yr T-notes

20-Feb-2020
PRISTINA (Kosovo), February 20 (SeeNews) – **Kosovo's finance ministry sold 25 million euro ($27 million) worth of five-year Treasury notes on February 19, in line with plan, data by the ministry showed.**
The average weighted yield on the government securities fell to 1.58%, from 1.89% at the last auction of five-year T-notes held in December, according to figures published on the website of the finance ministry.

($=0.92599 euro)

Lithuania

S&P Says Lithuania Upgraded To 'A+/A-1' on Strong Fiscal Outlook and Decreasing Debt Burden

21-Feb-2020
Feb 21 (Reuters) - S&P Global Ratings:
- **S&P says Lithuania upgraded to 'A+/A-1' on strong fiscal outlook and decreasing debt burden; outlook stable**
- S&P says Lithuania's upgrade is based on strong track record of balanced economic growth and fiscal discipline

((Reuters.Briefs@thomsonreuters.com))

Montenegro

Montenegro to auction 30 mln euro of 182-day T-bills on Feb 25

21-Feb-2020
PODGORICA (Montenegro), February 21 (SeeNews) - **Montenegro's finance ministry will offer 30 million euro ($32 million) worth of 182-day Treasury bills at an auction on February 25, the country's central bank said on Friday.**
The government securities will mature on August 26, 2020, the central bank said in a statement.
The planned issue will comprise 300,000 securities of 100 euro in par value each.
At the last auction of 182-day T-bills held on February 17, the finance ministry sold 5.0 million euro worth of government securities, significantly below the 24 million euro target. The annual yield grew to 0.84% from 0.57% achieved at the previous auction of 182-day T-

bills held on January 13.
Montenegro sold 144 million euro worth of T-bills in 2019, down 32.6% year-on-year.

($ = 0.925980 euro)

North Macedonia

North Macedonia to sell 900 mln denars (14.5 mln euro) of 1-yr T-bills on Feb 25

21-Feb-2020
SKOPJE (North Macedonia), February 21 (SeeNews) – **North Macedonia's finance ministry will offer 900 million denars ($15.7 million/14.5 million euro) worth of one-year Treasury bills at an auction on February 25, the central bank said.**
The issue bears an interest rate of 0.5%, the central bank said in a tender notice.
The central bank will sell the government securities on behalf of the finance ministry through a volume tender, in which the price and interest rate are fixed in advance and primary dealers only bid with amounts.

(1 euro = 61.06 denars)

Poland

Poland's 2019 state budget deficit at 47.9% of plan

17-Feb-2020
WARSAW, Feb 17 (Reuters) - **Poland's state budget deficit amounted to 13.7 billion zloty ($3.48 billion) last year, or 47.9% of the full-year plan, the finance ministry said on Monday.**
The ministry also said in a statement that revenues amounted to 400.6 billion zloty, or 103.3% of the plan, while spending reached 414.2 billion zloty, or 99.5% of the official projection.
Earlier the ministry said that in the January-November period the deficit amounted to 1.9 billion zloty.

($1 = 3.9318 zloty)
(Reporting by Marcin Goclowski
Editing by Mark Heinrich)
((Joanna.Plucinska@thomsonreuters.com; 0048226539722))

Romania

Romania aims to sell 200 mln euros of June 2025 bonds

21-Feb-2020
BUCHAREST, Feb 21 (Reuters) - **Romania aims to sell 200 million euros ($216.12 million) worth of June 2025 domestic euro-denominated bonds on Feb. 25, the finance ministry said on Friday.**
Debt managers last issued euro-denominated paper in December. Earlier this month, the central bank cut minimum reserve requirements for commercial banks' hard currency liabilities, freeing liquidity into the market.
So far this year, the ministry has sold 12.25 billion lei of local currency bills and bonds, and tapped foreign markets for 3 billion euros worth of 2032 and 2050 Eurobonds.

($1 = 0.9254 euros)
(Reporting by Luiza Ilie; Editing by Radu Marinas)
((luiza.ilie@thomsonreuters.com; +4021 527 0312; https://www.reuters.com/journalists/luiza-ilie))

Turkey

Turkish January budget surplus 21.5 bln lira

17-Feb-2020
ANKARA, Feb 17 (Reuters) - **The Turkish budget showed a surplus of 21.5 billion lira ($3.56 billion) in January, data from the Treasury and Finance Ministry showed on Monday, after a deficit in December of 30.8 billion lira.**
The January budget showed a primary surplus, which excludes interest payments, of 34.2 billion lira, the ministry said. Last year as a whole, the budget deficit widened 69.9% to 123.69 billion lira.

($1 = 6.0360 liras)
(Reporting by Nevzat Devranoglu; Writing by Daren Butler; Editing by Jonathan Spicer)
((daren.butler@tr.com; +90-212-350 7053; Reuters Messaging: daren.butler.thomsonreuters.com@reuters.net))

Fitch Affirms Turkey at 'BB-'; Outlook Stable

21-Feb-2020
Fitch Ratings-London-February 21:
Fitch Ratings has affirmed Turkey's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Stable Outlook.
KEY RATING DRIVERS
Turkey's 'BB-' rating reflects weak external

finances, a track record of economic volatility, high inflation and political and geopolitical risks. These factors are set against Turkey's large and diversified economy, GDP per capita and Ease of Doing Business indicators that compare favourably with 'BB' medians, and moderate levels of government and household debt.

Economic growth is recovering strongly, inflation has fallen from 20% at the beginning of last year, the current account has improved and external risks, although still high, have eased, supported by the real effective exchange rate adjustment and private sector deleveraging. The relative resilience of the banking and corporate sectors to the 2018 crisis contributes to our expectation for a 'V-shaped' recovery.

Fitch forecasts GDP growth of 3.9% in 2020 (an upward revision of 0.8pp since our last review), after 0.4% in 2019, driven by private consumption and a more gradual recovery in investment. Lower interest rates and a sharp pick-up in credit are fuelling domestic demand. Private bank lending is growing at 27% and consumer credit 46% (on a 13-week annualised basis), and we expect full-year aggregate credit growth above 15%. Pent-up demand, mildly positive labour market dynamics, a 15% minimum wage hike, and recovering confidence indicators also support stronger domestic demand. We forecast similar GDP growth in 2021, of 4.0% (but with stronger investment, some moderation in private consumption growth and a smaller drag from net exports), compared with the 'BB' category median of 3.4% in 2020-2021. We continue to estimate Turkey's trend rate of growth at 4.3%.

Turkey's large external financing requirement remains a source of vulnerability, but has reduced to around USD170 billion (including short-term debt) or 161% of foreign exchange reserves in 2020, from USD211 billion in 2018. This is driven by the current account moving to a surplus of 0.2% of GDP in 2019 from a deficit of 3.5% in 2018, mainly due to import compression, although export growth is also supported by the real effective exchange rate (12% below the end-2017 level) and buoyant tourism. Fitch forecasts the current account returns to deficit, of 0.9% of GDP in 2020 and 1.8% in 2021, as recovering domestic demand lifts imports and, to a lesser extent, high inflation begins to erode competitiveness gains.

Banks' external debt due over the next 12 months has fallen to USD82 billion, from USD90 billion a year earlier. Fitch expects banks' FX borrowing to remain muted in 2020, partly due to ongoing weak demand for FX credit (which declined 6% in 2019) and sufficient FX liquidity (which rose USD9 billion in 9M19 to USD86 billion, helped by an increase in FX customer deposits of USD32 billion in 2019). The corporate sector has steadily deleveraged, with the negative net FX position falling to USD176 billion in November from USD207 billion a year earlier, and the debt rollover rate was a robust 89% in December (on a rolling 12-month basis). Highly supportive global financing conditions have also helped limit downward pressure on the lira. Gross foreign exchange reserves increased to USD105.5 billion at end-December, from USD96.3 billion six months earlier.

Weak monetary policy credibility and the deeper **than expected cuts in the policy interest rate from 24% in June to 10.75%, which took the real rate (based on current inflation) from 8.3% to -1.3%, increase risks of renewed market volatility.** This followed the sacking of the central bank governor and replacement of other senior officials in the context of President Erdogan's unorthodox views on the relationship between inflation and interest rates. Inflation in Turkey has averaged 11.7% over the past five years, compared with the 'BB' median of 3.2%, and has been above the 5% central bank target since 2011. **We forecast inflation will remain relatively high, reducing from 12.2% in January to 10.5% at end-2020, helped by tax adjustments and lower energy prices, and to 10.0% at end-2021.**

There has been limited progress in the implementation of key structural reform measures set out in the New Economy Programme (NEP). However the recovering economy, together with the three-and-a-half-year window to the next scheduled elections, provides a more conducive backdrop for reform. Notwithstanding widespread speculation, it is not obvious what would be gained by calling early elections, in Fitch's view (despite reported tensions within the coalition government and the potential for the steady erosion of support to opposition parties). Notable measures the government plans to advance this year include a new insolvency law, complementary pension system, and severance pay reform.

We continue to view the NEP assumptions (for GDP growth of 5%, and inflation falling to the 5% target and the current account balancing by 2022) as highly optimistic. **The Turkish economy has not previously sustained such a combination, and there has been a long-standing close correlation between stronger economic activity, high credit growth and an increasing current account deficit**. It is currently unclear how the authorities view such trade-offs, with a risk that policy settings result in a build-up over time of unsustainable credit growth and greater external imbalances, particularly if structural reform progress remains slow.

A number of near-term geopolitical risks weigh on Turkey's rating. The US Risch-Menendez sanctions bill is likely to be enacted in 1H20, when it will require implementation within 30 days of sanctions listed by the earlier CAATSA, although we expect the US administration will select the lighter measures allowed. The extent to which other sanctions in the bill will be legislated, such as on Turkish banks and public institutions involved in operations in Syria, is currently uncertain. Direct clashes in recent weeks between Turkish and Syrian forces contribute to an increased risk of a further escalation, heightened tensions with Russia, and adverse spillovers, compounded by the likely further displacement of Syrians from Idlib region. We view risks from Turkey's military operation in Libya, the US court case against Halkbank, and potential EU sanctions for gas drilling in Cyprus, as lower impact but still with the potential to damage investor sentiment.

Fitch forecasts the general government deficit remains at 3.2% of GDP in 2020, and edges down to 3.0% in 2021, anchored by the high prioritisation the government attaches to hitting its fiscal targets. Use of one-off measures in 2019 such as transferring the central bank accumulated reserve (0.9% of GDP), and cutting capital spending (by 20% in real terms) contained the increase in the central government deficit to 2.9% of GDP from 2.0% in 2018. Fitch views the 2020 budget target for nominal revenue growth of 17% as achievable given the expected pick-up in GDP growth, phasing out of special consumption taxes, and additional taxes on higher-rate income, property, and the digital sector (totalling 0.2% of GDP). We anticipate the government would implement additional in-year measures in 2020 and 2021 if the central government budget is off track.

General government debt is projected to be broadly flat at 32.3% of GDP in 2020-2021, having increased from 28.2% in 2017, well below the current 'BB' category median of 46.5%. We anticipate only a gradual reversal of the shift towards foreign-currency and shorter-term debt issuance since 2018 (the average maturity of domestic borrowing in 2019 was just 30.1 months, compared with 71.2 in 2017). Contingent liabilities have increased from a low base, and we expect direct government guarantees (including the Credit Guarantee Fund) to stabilise at near 5% of GDP in 2020 and 2021, on top of which we estimate other contingent liabilities from public-private partnerships of a similar magnitude. On-budget transfers relating to these guarantees increased close to 70% in 2019 to 0.4% of GDP.

Banking sector metrics reflect the challenging operating conditions, but short-term risks have eased alongside economic stabilisation. The NPL ratio increased to 5.4% in January from 3.9% at end-2018 and Fitch expects a further rise (partly due to still-high Stage 2 loans of 11%) but at a declining pace. High impairments and weak GDP growth lowered the return on equity to 11.5% in 4Q19 from 14.7% a year earlier, although stronger credit should drive a moderate improvement in profitability this year. The average funding cost fell to 7.3% in December from 8.1% in June, and is likely to further benefit from the lower policy interest rate. The common equity Tier 1 ratio was unchanged in 2H19 at 14.2%, supported by new issuance and foreign currency loan deleveraging. Pre-impairment profit provides a buffer to absorb credit losses but is weaker in state banks, and capital ratios remain sensitive to potential lira depreciation. We anticipate only a gradual improvement in the deposit dollarisation ratio, which remains high at 50.8% despite falling 3.4pp in 2H19.

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

Fitch's proprietary SRM assigns Turkey a score equivalent to a rating of 'BBB-' 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:

- Macroeconomic policy and performance: -1 notch, to reflect weak macroeconomic policy credibility and coherence and downside risks to macroeconomic stability.
- External finances: -1 notch, to reflect a very high gross external financing requirement and low international liquidity ratio.
- Structural features: -1 notch, to reflect an erosion of checks and balances and institutional quality, downside risks in the banking sector and the risk of developments in geopolitics and foreign relations that could impact economic stability.

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 may, individually, or collectively, result in positive rating action are:

- Greater confidence in the sustainability of the external position alongside healthy GDP growth.
- Implementation of structural reforms that raise domestic savings, reduce dollarisation and make GDP growth less dependent on credit growth and external borrowing.
- An improvement in governance standards, political or geopolitical risks for example from the conflict in Syria, and from US sanctions.
- A sustained decline in inflation and a rebuilding of monetary policy credibility.

The main factors that may, individually, or collectively, result in negative rating action are:

- Disruption to the path of economic stabilisation and rebalancing, potentially caused by policy settings that result in a build-up of unsustainable credit growth, higher inflation and greater external imbalances.
- Renewed stresses in the corporate or banking sectors, potentially stemming from a sudden stop to capital inflows or currency volatility.
- A marked worsening in the government debt/GDP ratio or broader public balance sheet.
- A serious deterioration in the domestic

political or security situation or international relations.

KEY ASSUMPTIONS

Fitch forecasts Brent Crude to average USD62.5/b in 2020 and USD60.0/b in 2021.

ESG CONSIDERATIONS

Turkey 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. Turkey faces geopolitical risks and security threats and is involved in conflicts in neighbouring countries.

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

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

Turkey has an ESG Relevance Score of 4 for International Relations and Trade. Bilateral relations with key partners have been volatile, including threats of US sanctions and periodic tensions with the EU. This turbulence hurts investor confidence, brings risks to external financing and can impact trade performance and is a rating driver for Turkey.

Turkey 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 Turkey, as for all sovereigns.

Turkey; Long Term Issuer Default Rating; Affirmed; BB-; RO:Sta;
Short Term Issuer Default Rating; Affirmed; B;
Local Currency Long Term Issuer Default Rating; Affirmed; BB-; RO:Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; B;
Country Ceiling; Affirmed; BB-;
Senior unsecured; Long Term Rating; Affirmed; BB-;
Hazine Mustesarligi Varlik Kiralama Anonim Sirketi;
Senior unsecured; Long Term Rating; Affirmed; BB-

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Ukraine

IMF team to visit Ukraine for technical discussions

18-Feb-2020

Monetary Fund will visit Ukraine for technical discussions, Goesta Ljungman, the IMF Resident Representative in Ukraine said on Tuesday.

"A small IMF team will visit Kiev for technical discussions on policies to achieve stronger growth and safeguard stability," he said.

(Reporting by Matthias Williams, writing by Pavel Polityuk, editing by Andrew Heavens)
((pavel.polityuk@tr.com; +380 44 2449150; Reuters Messaging: pavel.polityuk.thomsonreuters.com@reuters.net))

LATIN AMERICA AND CARIBBEAN

Argentina

Argentine bonds take it on the chin after IMF approves restructuring

20-Feb-2020

By Hugh Bronstein

BUENOS AIRES, Feb 20 (Reuters) - **Argentine bond prices fell 1.3% on Thursday after the International Monetary Fund essentially gave the government a green light to restructure its bonds, the latest chapter in the once-wealthy country's long history of financial crises.**

The Fund, wrapping up a week-long visit to Argentina, said rising public debts meant the country needs a definitive plan to restore debt sustainability, which would require a "meaningful contribution from private creditors."

The question is how much of a haircut private creditors will be asked to take in the upcoming bond revamp.

"The IMF opened the door for Argentina to begin debt restructuring. Now the focus shifts to determining what a 'meaningful contribution from private creditors' means, and what will happen with the debt Argentina owes to the fund," local brokerage SBS Group said in a report.

Argentine bond prices are down 4.8% so far this year. Country risk spreads stood 82 basis points wider at 2,117 over safe-haven U.S. Treasury paper, indicating an increase in the perceived likelihood of default.

Spreads have blown out from 1,770 basis points, where they ended 2019, as Argentina struggles to revamp about $100 billion in bonds and loans, including $44 billion owed to the IMF.

Central bank chief Miguel Pesce told local radio on Thursday that a bond default was possible but not probable.

"The government will make an offer, and that offer can be accepted or rejected. But the government will not accept any kind of proposal that is not sustainable in the short or long term," Pesce said in an interview with radio station La Red.

One of the richest countries in the world a century ago, Argentina has suffered from decades of financial mismanagement. It has defaulted eight times in its history, with bondholders dragging the country through long court battles seeking payment.

Economy Minister Martin Guzman has said he wants to avoid a rancorous restructuring but vows to neither make unsustainable debt payments nor impose fiscal austerity on an economy in its third year of recession.

Alberto Bernal, chief emerging markets strategist at XP Investments in New York, said he was not surprised by the IMF statement and remained optimistic about chances for an investor-friendly debt re-negotiation.

"If Argentina wants to grow and get out of this mess, it has to treat bondholders with respect," he said. "If it tries to take advantage of the bondholders, investors will fight and the macro situation will get worse."

Guzman heads to Saudi Arabia on Thursday for a G20 meeting, where he is scheduled to meet with IMF chief Kristalina Georgieva and U.S. Treasury Secretary Steven Mnuchin.

Asked if Argentina's debt restructuring plans would be discussed during the general sessions at the G20 or as among topics in the Guzman-Mnuchin bilat.

A senior Treasury official confirmed the meeting to reporters and said that the United States expected Argentina to lay out its economic plans at the G20 summit.

"Of course people are very interested in the economic plans of the Argentine administration and I think we are all hoping that there will be strong policies that can help put Argentina on a sustainable growth path," the official said.

(Reporting by Hugh Bronstein; Additional reporting by David Lawder in Washington, Walter Bianchi, Eliana Raszewski, Hernan Nessi and Jorge Otaola; Editing by David Gregorio and Lisa Shumaker)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Argentine bonds recover from IMF blow; more bumps ahead

21-Feb-2020

BUENOS AIRES, Feb 21 (Reuters) - **Argentina's sovereign bonds edged up on Friday after a tumultuous week following the International Monetary Fund's saying the South American nation would need major debt restructuring amid concerns about default.**

Local over-the-counter bonds rose an average 1.1%, trimming losses for the week to just 0.5%. A dollar 'Par' bond was one of the top performers, up 3.1%.

Argentina is facing tough negotiations with creditors and the IMF to restructure around $100 billion in debt that the country's new Peronist government says that it cannot pay unless given time to revive stalled economic growth.

The IMF, which wrapped up a visit to Argentina earlier this week, said the country's debt situation had become "unsustainable" and that private creditors would need to make a "meaningful contribution" to resolve the crisis.

That was taken as a signal to bondholders that they would need to accept steep losses in the restructuring process and boosted the government's negotiating position as it looks to strike a deal with creditors before the end of March.

Market insiders said that bonds, already at distressed levels after plummeting last year, would continue to bounce around on news about the ongoing debt talks.

"The debt issue goes on and will to continue to be the market thermometer which will keep swirling around until there is a final resolution," said one trader.

Argentina's country risk index eased 37 units to 2,055 basis points around midday, elevated but down from almost 2,600 points September.

The country's S&P Merval stock index edged down slightly, while the peso currency was flat.

(Reporting by Walter Bianchi; Writing by Jorge Otaola and Adam Jourdan; Editing by Dan Grebler)
((adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net))

Brazil

Brazil's real posts record low close as central bank impact fades, GDP outlook dims

18-Feb-2020

BRASILIA, Feb 18 (Reuters) - **Brazil's real registered an all-time closing low of 4.3573 reais per dollar on Tuesday as the impact of last week's central bank intervention faded and more economists cut their 2020 growth forecasts.**

Against a broadly strengthening dollar, Brazil's currency fell toward last week's all-time intraday low below 4.38 reais per dollar, which it plumbed before the central bank's $2 billion intervention in the swaps market on Thursday and Friday.

Economists at U.S. bank Citi were the latest on Tuesday to lower their 2020 gross domestic product growth forecast, to 2.0% from 2.2%, citing the fallout from the coronavirus outbreak in China, Brazil's largest trading partner.

They also lowered their outlook for inflation and the real, predicting that Brazil's benchmark interest rate will remain at 4.25% until well into next year and that the dollar will not fall below

4.00 reais until at the end of next year at the earliest.
"In addition (to growth worries), there are concerns regarding whether higher global uncertainty might constrain capital inflows to emerging markets, which together with the potentially lower commodity prices should sustain a weaker domestic currency," Citi economists wrote in a note Tuesday.
They now see the real ending this year at 4.14 reais per dollar, the current account deficit widening to 3.3% of GDP, and inflation falling to 3.5%, well below the central bank's 4.00% goal.
Economists at UBS and Barclays recently cut their 2020 GDP growth forecasts to 2.1%, while Morgan Stanley and Goldman Sachs say downward revisions on the back of the coronavirus fallout are likely.

(Reporting by Jamie McGeever; Editing by Richard Chang)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Brazil's 12-month current account deficit 2.85% of GDP in January

21-Feb-2020
SAO PAULO, Feb 21 (Reuters) - **Brazil's current account deficit as a share of gross domestic product widened to 2.85% in the 12 months to January from 2.76% the month before, the central bank said on Friday.**
The monthly deficit was $11.879 billion, while foreign direct investment failed to cover the gap, coming in at $5.618 billion.

(Reporting by Marcela Ayres; Writing by Carolina Mandl; Editing by Alison Williams)
((carolina.mandl@thomsonreuters.com; +55 11 5644 7703; +55 11 97116-3806))

Cuba

Cuba facing UK court battle over unpaid government debt

19-Feb-2020
By Marc Jones
LONDON, Feb 19 (Reuters) - **Cuba is facing a court battle in London over its unpaid government debt after one of the communist-run country's creditors filed a formal claim at Britain's High Court.**
CRF I Ltd, an investor in defaulted Cuban sovereign debt since 2009, said it had filed the case in London after Havana refused a debt relief offer made by CRF and some other bond holders back in 2018.
Further contacts since then, including at the start of this year, have also failed, CRF said. Cuba's government will now have two weeks to respond.
"CRF is an important holder of Cuban commercial debt and seeks a fair and equitable outcome for both Cuba and its commercial creditors and will endeavour to work constructively with Cuba towards that end," CRF Chairman David Charters said.
"However, the board of CRF have made clear that the legal process now underway will not be halted unless there is a satisfactory prior negotiated settlement with the Cuban government."
The communist-run island has seen its finances deteriorate in recent years following the deepening of Venezuela's economic crisis, lower revenue from commodities and restrictions put in place by the U.S. administration under President Donald Trump.
In 2015, Havana reached a deal with members of the 'Paris Club' of creditor nations that saw roughly three-quarters of that debt written off. But having not dealt with its commercial creditors in the so-called 'London Club' the country remains shut out of international capital markets.
CRF has taken the decision to head to the UK High Court separately from the creditor group that made the 2018 offer, though it remains part of that group.
That creditor group represents a face value of $1.4 billion of Cuba's debt it has said, though it is likely to be much more if interest and penalty payments were included.
Rodrigo Olivares-Caminal, the coordinator of the creditor group and a law professor at London's Queen Mary University added CRF's move was an "individual action".

(Reporting by Marc Jones; Editing by Alex Richardson)
((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Ecuador

Goldman's revived Ecuadorian coverage sure sign of new deal

17-Feb-2020
Goldman Sachs published an economics report on January 10 informing the markets that it was "re-initiating coverage of the Ecuadorian" economy.
Then, less than two weeks later, the investment bank repackaged a $400 million social housing bond for the country in an innovative structure that enabled the sovereign to price at a lower cost than its existing benchmarks.
The Inter-American Development Bank (IADB) provided a guarantee for $300 million of B-/B- rated Ecuadorian bonds, with a 15-year term and a 7.25% coupon - a much lower comparable yield than the sovereign's

longest-dated bond, a 9.5% 2030 issue, which is trading with a yield of around 10.65%.
Goldman packaged the bond into two tranches: a single- A rated secured tranche offering a 2.6% coupon and& a yield of 3.75%, and a single-B unsecured zero coupon tranche that was sold at a deep discount of 65.191 to yield 12.25%.
Challenges
Euromoney's sister publication, Global Capital, reported that the bonds' lower funding costs were based on investors' expectations of capital appreciation.
And while that isn't an outlier view - many investors think Ecuador has large potential upside for better valuations, if the country continues to work with the IMF of on its proposed pro-market reform agenda - the country still faces notable challenges.
Also, Ecuador's relatively small size creates the traditional challenge of attracting investor liquidity, as the small scale of potential issuance doesn't create the natural incentive for emerging market (EM) investors to do their own credit work. That's compounded when innovative structures such as Goldman's are employed.
"We expect the government to continue servicing its debt obligations in 2020," stated the Goldman research report.
"The greatest threat to sovereign investors, in our opinion, is the possibility that a mix of austerity and stagnation may tilt the odds in favour [of] a market unfriendly agenda ahead of the early 2021 presidential elections, leading to renewed financial stresses in the back end of next year".
In other words, the next 12 months, at least, look good - and which EM high-yield bond investors really have a longer-term horizon than that?

Nicaragua

Moody's Downgrades Nicaragua's Rating to B3 Changes; Outlook to Stable

15-Feb-2020
Feb 14 (Reuters) - Moody's:
- **Moody's downgrades Nicaragua's rating to B3; changes outlook to stable**
- Moody's says downgrade on Nicaragua reflects risk of reduced access to official external credit is creating funding challenges
- Moody's says downgrade of Nicaragua's rating reflects economic strength has weakened as result of social tensions
- Moody's says risk of less access to official external credit is restricting authorities' ability to support Nicaragua's economic activity

((Reuters.Briefs@thomsonreuters.com))

AFRICA

Moody's Says In West Africa, Higher Debt Burdens Raise Debt Sustainability Concerns

17-Feb-2020
Feb 17 (Reuters) - MOODY'S:
- **Moody's says in West Africa, higher debt burdens raise debt sustainability concerns**
- **Moody's says Togo, and to some extent, Ghana, Nigeria are among those facing risks to debt sustainability; Mali and Niger are vulnerable to shocks**
- Moody's says Senegal and Ivory Coast have the highest external debt private creditors but have the best financial management capacity

((Reuters.Briefs@thomsonreuters.com))

Financial experts to meet in Uganda over Africa's public debt management

20-Feb-2020
KAMPALA, Feb. 20 (Xinhua) -- **Financial experts, government representatives, and bilateral and multilateral creditors are scheduled to meet here in a three-day conference on Africa's public debt management.**
Gabriel Ajedra Aridru, minister of state for finance in charge of general duties told reporters here on Thursday that the debt conference scheduled for Feb. 26-28 will look at sustainable debt management and strengthened economic growth.
The minister said debt management has become more challenging after changes in the composition of the external public debt over the last decade gave sovereign borrowers more choices.
Ajedra said the shift from concessional loans provided by bilateral and multilateral agencies towards market-based loans provided by private lenders has led to more expensive and riskier debt portfolios in several countries.
"Therefore, the objective of the conference is to empower public debt and financial managers in sub-Saharan Africa identify practical steps to ensure that external borrowing is used to ultimately foster sustainable economic growth," the minister said.
He said the conference will also devise ways to strengthen Africa's position in negotiating for favorable terms and conditions of debt.
According to the World Bank, over the period 2010-18, the average public debt increased by

half from 40 to 59 percent of Gross Domestic Product, making sub-Saharan Africa the fast-growing debt accumulation continent.
In June 2019, the World Bank Global Economic Prospect showed that unsustainable accumulation of public debt has become gradually troublesome in the past years.

Enditem

Egypt

Egypt's central bank keeps overnight interest rates steady

20-Feb-2020
CAIRO, Feb 20 (Reuters) - **Egypt’s central bank on Thursday kept its key interest rates unchanged, in line with forecasts from a Reuters poll of economists.**
The central bank held its overnight deposit rate at 13.25% and its overnight lending rate at 12.25%, a bank statement said.
Egypt's annual urban consumer inflation rose to 7.2% in January from 7.1% in December after falling to as low as 3.1% in October, its slowest since December 2005.
The most populous Arab country is emerging from a three-year IMF-backed economic reform programme that saw inflation soar as high as 33% during 2017.
"MPC decided that keeping key policy rates unchanged remains consistent with achieving the inflation target of 9 percent (±3 percentage points) in 2020 Q4 and supporting the disinflation path over the medium-term," the bank said in a statement.

(Reporting by Amina Ismail and Alaa Swilam
Editing by Chizu Nomiyama)
((amina.ismail@thomsonreuters.com; +20 2 2394 8114;))

Ethiopia

Ethiopia approves supplementary budget of 27.89 billion birr

17-Feb-2020
ADDIS ABABA, Feb 17 (Reuters) - **Ethiopia's council of ministers approved a supplementary budget of 27.89 billion birr ($877.87 million) for 2019/2020 to finance economic reforms, Prime Minister Abiy Ahmed's office said in a statement on Monday.**
The funds add to the 386.9 billion birr of government spending that the Horn of Africa nation of 109 million people approved in 2019.
"18 billion birr from the total supplementary budget is allocated to overcome current economic challenges," the statement posted on the Prime Minister's office Facebook page said, without giving specifics.
"The rest of the money, which is 2 billion birr and 7.9 billion birr, will be allocated for safety net programs and the national implementation of equal pay for equal work, respectively."
Abiy, who took office in 2018, has embarked on ambitious economic reforms trying to open up one of Africa's fastest-growing but most closed economies. It has already begun the process of privatising its telecoms, banking and sugar sectors.

($1 = 31.7700 birr)
(Reporting by Dawit Endeshaw; Writing by Omar Mohammed; Editing by Alex Richardson)
((omar.mohammed@thomsonreuters.com; +254 20 499 1232; Reuters Messaging: omar.mohammed.thomsonreuters.com@reuters.net))

Ivory Coast

Ivory Coast to issue $380 mln Eurobond this year

20-Feb-2020
ABIDJAN, Feb 20 (Reuters) - **Ivory Coast will issue a Eurobond worth 230 billion CFA francs ($383 million) this year, Prime Minister Amadou Gon Coulibaly said on Thursday.**
He told a news conference that Ivory Coast planned to borrow 1.492 trillion CFA francs in total this year, including 1 trillion CFA francs on the regional market and the rest from international banks.

($1 = 600.0800 CFA francs)
(Reporting by Anna Pujol-Mazzini, Editing by Aaron Ross and Edmund Blair)
((Anna.Pujol-Mazzini@thomsonreuters.com; +221 78 432 22 26))

Kenya

Kenya to issue 150 bln shillings roads bond by June

20-Feb-2020
NAIROBI, Feb 20 (Reuters) - **Kenya will issue a 150 billion shillings ($1.48 billion) roads bond by June, the Business Daily newspaper reported on Thursday, quoting a top government official.**
The bond will be the first whose proceeds are dedicated to building and maintaining the East African nation's road network. Some roads were damaged by heavy rains last year.
Paul Maringa, principal secretary for the state department of infrastructure, told a parliamentary committee that cash raised from the bond would be used to pay pending bills to

contractors and to finance new work, the newspaper reported.
A second such bond will be issued in September, the report said, adding that the Treasury would guide the issuance of the bonds, including their structuring.
Officials could not immediately be reached for comment.
President Uhuru Kenyatta's government has been criticised by voters for borrowing heavily since coming to power in 2013, and his administration was forced to raise its borrowing ceiling last year after breaching initial targets.
The Treasury, which is trying to rein in a gaping budget deficit and reduce spending, has expressed confidence that the government will not face any funding challenges.

($1 = 101.3500 Kenyan shillings)
(Reporting by Duncan Miriri; Editing by Edmund Blair)
((duncan.miriri@thomsonreuters.com; Tel: +254 20 4991239; Reuters Messaging: duncan.miriri.thomsonreuters.com@reuters.net))

South Africa

Moody's cuts South Africa's 2020 GDP growth forecast to 0.7%

17-Feb-2020
By Nqobile Dludla
JOHANNESBURG, Feb 17 (Reuters) - **Ratings agency Moody's has cut its 2020 growth forecast for South Africa to 0.7%, saying the economy remained stuck in low gear due to lacklustre private sector demand at home.**
Moody's, which in September had foreseen growth of 1.5%, also attributed the downgrade to the detrimental impact of widespread power outages on manufacturing and mining activity, it said in a research report released on Monday.
State-owned utility Eskom produces more than 90% of South Africa's electricity, but its ailing fleet of coal-fired plants have struggled to keep up with demand, leading to periodic crippling power shortages.
Mines across South Africa shut down in December after flash flooding triggered the most severe blackouts in more than a decade, threatening the key export sector.
President Cyril Ramaphosa, who is under pressure to quicken the pace of reform, said in an annual address to parliament last week that his government would shortly issue plans to procure more power and increase generating capacity outside Eskom.
Moody's noted indicators such as industrial production and purchasing managers' index (PMI) data indicated industrial activity remained weak. "Business and consumer sentiment has also declined over the last two years," it said.
The central bank expects economic growth of 1.2% in 2020, higher than the International Monetary Fund's forecast in January of 0.8%.
The country needs growth of at least 3% to tackle soaring unemployment and poverty and lure back investors.
The ratings agency left South Africa on the brink of "junk" status in November last year after it revised the outlook on the country's last investment-grade credit rating to "negative."
Moody's is the last of the major international agencies to keep an investment grade rating on the sovereign and is scheduled to review that assessment in March.
It also forecast economic growth of 0.9% in 2021 and trimmed its 2019 estimate to 0.3% from a September forecast of 0.7%.

(Reporting by Nqobile Dludla
Editing by Olivia Kumwenda-Mtambo and David Holmes)
((nqobile.dludla@thomsonreuters.com; +27115952816; Reuters Messaging: nqobile.dludla.thomsonreuters.com@reuters.net))

South Africa could use mining royalties to set up sovereign fund

19-Feb-2020
JOHANNESBURG, Feb 19 (Reuters) - **South Africa could use mining royalties to set up a proposed sovereign wealth fund, Mineral Resources and Energy Minister Gwede Mantashe said on Wednesday.**
President Cyril Ramaphosa said in an annual address to parliament last week the government had decided to establish a sovereign fund, but he did not say how the fund would work.
Many analysts are sceptical about the idea, given that South Africa does not have large oil and gas revenues, its mining industry is in decline and it has large fiscal and current account deficits.
"The president spoke to the sovereign wealth fund ... Many people asked the question, 'where will money come from?' I can tell you that all the mines pay a royalty to the state. It can be used to start a royalty fund," Mantashe said during a parliamentary debate, before his allotted time ran out.
Peter Attard Montalto, head of capital markets research at Intellidex, estimated the government would earn 9.2 billion rand ($614 million) from mining royalties in the 2020/21 fiscal year, too little for a fund of a meaningful size.
He said it was not clear what purpose the fund would serve.
Remarks prepared for Mantashe and circulated by his ministry on Wednesday also noted that draft petroleum legislation published for public comment in December proposed that future owners of petroleum production rights could contribute to a sovereign fund via a "resource rent tax".
Setting up a sovereign fund is a longstanding ambition of leftist elements in the governing

African National Congress (ANC) party that favour strong state control over Africa's most industrialised economy.
The South African Communist Party, which is closely aligned with the ANC, wants the fund to hold equity stakes on behalf of the nation.
Finance Minister Tito Mboweni is expected to give more details on the fund during a budget speech next week.

($1 = 14.9822 rand)
(Reporting by Alexander Winning; editing by David Evans)
((alexander.winning@tr.com; +27 11 595 2801))

Zambia

S&P Says Zambia Long-Term Rating Lowered To 'CCC' From 'CCC+' On Rising Debt Repayment Risks; Outlook Negative

21-Feb-2020
Feb 21 (Reuters) - S&P Global Ratings:

- **S&P says Zambia long-term rating lowered to 'CCC' from 'CCC+' on rising debt repayment risks; outlook negative**
- S&P says lowered rating on Zambia due to perception that it faces increasing risks of likely nonpayment of commercial obligations this year
- S&P says lowered rating on Zambia due to our perception that country faces increasing risks of likely nonpayment of commercial obligations this year
- S&P says Zambia's outlook is negative because we see Zambia as being vulnerable to nonpayment of upcoming commercial obligations
- S&P says estimate that Zambia's economic growth is likely to be only around 2% for 2019, while fiscal deficit still exceeds 7% of GDP

((Reuters.Briefs@thomsonreuters.com))

OCEANIA

Solomon Islands

Solomon Islands seeks $100-bln loan from Chinese interests

21-Feb-2020

- **Solomons switched ties from Taiwan to Beijing last year**
- **The region is strategically important to Beijing, Washington**
- **Solomons has a GDP of just $1.47 bln**
- **Opposition lawmaker says proposal is 'extraordinarily stupid'**
- **PM's office says an official statement is pending**

By Jonathan Barrett
SYDNEY, Feb 21 (Reuters) - **The Solomon Islands is seeking a $100-billion loan from Chinese interests in talks begun soon after the small South Pacific archipelago switched diplomatic ties to Beijing from Taiwan last year.**
Details of the proposal, reviewed by Reuters, have sparked concern over whether the small economy can handle a loan that represents more than 66 times its annual economic output.
The loan has been formally "offered by confidential donors" through broker Terry Wong, documents from the Solomons' finance department show. The broker, with a Beijing address, would receive a proposed fee of 11% if the $100 billion loan is secured.
A person who answered calls to the broker did not comment.
Harry Kuma, the Solomons' finance minister, who is leading the negotiations, told Reuters he would provide further detail about the talks next week.
The office of Prime Minister Manasseh Sogavare said an official statement was pending.
A senior member of the Solomons government with knowledge of the proposal confirmed the veracity of the documents. He declined to be identified because he is not authorised to speak on behalf of the government.
This person said the discussions were exploratory and there was no certainty a deal would be reached. The proposal was from "private Chinese interests" and did not involve the Chinese government.
Responding to faxed questions from Reuters, China's foreign ministry said it was not aware of the matter, but that ties between the two countries had got off to a good start since the establishment of diplomatic ties.
The correspondence between the broker and the Solomons government dates from last November, shortly after the South Pacific nation switched ties to Beijing from long-term partner Taiwan, drawing a sharp U.S. rebuke.
The diplomatic switch was a prize for China in its bid to peel away allies from Taiwan, which it considers sacred territory with no right to state-to-state ties.
The site of fierce fighting in World War Two, the archipelago is a key strategic location in the South Pacific.
Opposition lawmaker Peter Kenilorea, who was critical of the diplomatic shift to Beijing, said he was vehemently opposed to the loan proposal.
"It's extraordinarily stupid," he told Reuters on Friday, citing an unsustainable debt load.
Documents from the Solomons finance ministry include investment plans designed to recoup the brokerage fee and service annual interest of about 0.05% on the $100 billion loan.
"Surplus revenue generated from the investment plan will be injected into the Solomon Islands national budget annually," the proposal said.
In February, the International Monetary Fund

(IMF) said the Solomons' debt was low, but it was at risk of financial shocks as a small, low-income economy heavily reliant on a logging industry that is in decline due to depleted resources.
The Solomons has a population of about 650,000, and a GDP of $1.47 billion, budget documents show.

(Reporting by Jonathan Barrett in Sydney; Additional reporting by Tony Munroe in Beijing; Editing by Clarence Fernandez)
((Jonathan.Barrett@thomsonreuters.com))

GLOBAL

World government debt to hit record $53 trillion this year

20-Feb-2020
By Marc Jones
LONDON, Feb 20 (Reuters) - **The amount of debt owed by the world's governments will jump to a record $53 trillion by the end of the year, S&P Global estimated on Thursday, with $8.1 trillion set to borrowed this year alone.**
About 70%, or $5.8 trillion, of sovereigns' gross borrowing will be to refinance maturing long-term debt, though the expected $2.3 trillion of new borrowing will still be worth at least 2.6% of global GDP.
S&P said the increase reflected the higher borrowing needs of the largest countries. The U.S. at $3 trillion and Japan at $1.75 trillion will remain by far the largest borrowers globally, accounting for almost 60% of the overall total.
"By end-2020 we project that the commercial debt stock of all sovereigns we rate will rise by 5% to reach a record of $53 trillion compared to 2019 and by 30% compared to 2015," a report headed by analysts Karen Vartapetov and Roberto Sifon-Arevalo said.
After the U.S. and Japan, China is forecast to issue around $636 billion, followed by Italy, Brazil, and France, each of which are expected to borrow $250 billion in 2020.
Those four together will account for around 17% of the global total, slightly below Japan by itself, while the G-7 group of nations will account for approximately 70% of global borrowing and debt.
The top 20 emerging economies are expected to issue a combined $1.62 trillion this year meanwhile, with up 4% from 2019 and a historical high.
"The (global) increase reflects the higher borrowing needs of the largest sovereign issuers as their fiscal stance loosens in 2020 amid the fragile global economic outlook," the report said, adding that low interest rates were also encouraging the trend.

(Reporting by Marc Jones; Editing by Christina Fincher)
((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

EMERGING MARKETS

Emerging markets need policy mix, not just flexible FX, IMF chief says

18-Feb-2020
LONDON, Feb 18 (Reuters) - **Flexible exchange rates may not be the most suitable shock absorber for emerging-market economies under pressure, the head of the International Monetary Fund said, adding that a more country-specific policy mix might be needed.**
In an opinion piece published in the Financial Times on Tuesday, Kristalina Georgieva said that addressing volatile capital flows could be daunting, because there was little consensus on the right combination and timing of policy measures.
"The IMF’s current framework, grounded in more conventional economic thinking, broadly steers members towards using the exchange rate as a shock absorber," she said, adding this had provided a good approximation of how advanced economies adjust to external shocks and exchange rate movements.
"But it can miss important characteristics of emerging markets that alter their economies’ response to external shocks and may call for a different policy prescription."
In many developing countries, the U.S. dollar played a disproportionate role in trade invoicing as well as being the currency in which chunks of external debt were denominated.
"That can cause exchange rates to become shock amplifiers as they can suddenly increase debt-service costs and liabilities," she said. Lack of liquidity in many emerging currency FX markets added to the woes.
In recent years, a number of countries such as **Egypt, Angola, Uzbekistan and Venezuela have loosened their grip on their currencies, allowing for economic adjustments through their exchange rates and trying to preserve reserves and tackle dollar shortages.**
Georgieva said the IMF would reassess the cost and benefits of four tools - monetary policy, macroprudential policy, exchange rate interventions and capital flow measures — in how they interacted with each other but also with a country's specific circumstances. Additionally, any situations needed ongoing assessment to account for "undesirable side effects".
"How can we make capital flows safer for emerging-market economies? Finding the right response to that question is critical for financial stability, growth and jobs," she said.

(Reporting by Karin Strohecker)
((karin.strohecker@thomsonreuters.com;

+442075427262; Reuters Messaging:
karin.strohecker.reuters.com@reuters.net))