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Emerging Sovereign Debt Markets NEWS

Number 21 Week 16 – 22 May 2020

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ASIA

GCC - Gulf Cooperation Council

Gulf sovereign bonds rally on oil price recovery

20-May-2020
By Yousef Saba
DUBAI, May 20 (Reuters) - **Gulf sovereign bonds rallied on Wednesday, particularly those with longer maturities, boosted by a recovery in oil prices over the past month as demand improved.**
Saudi dollar bonds maturing in 2060 gained 2.3 cents to trade at 109.7 cents on the dollar. Abu Dhabi bonds due in 2050 were up 1.4 cents to trade at 112.8 cents on the dollar, Refinitiv data showed. Qatari government bonds also rallied, while Omani and Bahraini notes saw small changes.
Three fund managers said the recovery in oil prices helped lift the hydrocarbon-dependent region's debt markets, which also posted strong gains on Monday on the back of a global markets rally.
Brent crude traded at $35.16 a barrel on Wednesday, up from $29.19 a week ago and a low of $19.33 on April 21.
"Look at the performance of Oman exposure this month," a fund manager said. "High beta play on oil."
Oman, among the weakest credits in the region, saw the yield on its 30-year bonds due in 2048 fall to 8.8% on Wednesday from 10.4% a month ago. The yield on those notes peaked at 12.1% in March.
The fund manager added that the Gulf debt market was supported by Asian investors, on the back of an issuance by Abu Dhabi on Tuesday in which it sold $3 billion in bonds through a tap of existing three-tranche dollar bonds that it sold last month.
Kuwait-based KAMCO Investment said in a research note on Wednesday that it expects bond issuances from the Gulf this year to "far surpass" last year's as the region faces widening deficits due to lower oil prices and the impact of the coronavirus pandemic. The Gulf has almost $40 billion in bond maturities this year, it said.

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China

China's bond market sees 4.8-trln-yuan issuance in April

19-May-2020
BEIJING, May 19 (Xinhua) -- **The total bond issuance in China stood at 4.8 trillion yuan (about 676 billion U.S. dollars) in April, down from 5.3 trillion yuan in March, data from the central bank showed Monday.**
Of the total, the issuance of treasury bonds reached 436.64 billion yuan, higher than 370 billion yuan in March, while the issuance of local government bonds stood at 286.76 billion yuan, lower than 387.52 billion yuan in March, according to the People's Bank of China.
In April, the issuance of financial bonds stood at 977.62 billion yuan, that of corporate bonds reached 1.6 trillion yuan, the issuance of asset-backed securities was 60.15 billion yuan and that of interbank certificates of deposit hit 1.3 trillion yuan.
By the end of April, outstanding bonds held in custody hit 104.6 trillion yuan, including 16.4 trillion yuan of treasury bonds and 22.8 trillion yuan of local government bonds.

Enditem

China sets 2020 budget deficit target of at least 3.6% of GDP

22-May-2020
BEIJING, May 22 (Reuters) - **China has set a budget deficit target for this year of "at least" 3.6 percent of gross domestic product (GDP), Premier Li Keqiang said in his work report at the start of the annual parliamentary gathering on Friday.**
The target compares with the 2.8 percent target set for 2019.

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China's fiscal revenue may maintain declining trend in Q2

22-May-2020
BEIJING, May 22 (Reuters) - **China's fiscal revenue may maintain a declining trend in the second quarter due to significant economic uncertainties, although it may start growing in the second half of the year, the finance ministry said on Friday.**
China's fiscal revenue fell 14.5% in the January-April period, the ministry said in a policy report, citing the impact from the coronavirus outbreak and government efforts to cut taxes and fees.

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China sovereign CDS at one-week high after Hong Kong move

22-May-2020

LONDON, May 22 (Reuters) - **The cost of insuring debt issued by China rose to a one-week high on Friday, reflecting worries that Beijing's move to impose a new security law on Hong Kong will increase tensions with the United States.**

Five-year credit default swaps for China reached 52 basis points, up 4 bps from Thursday's close, data from IHS Markit showed.

The cost of CDS for Russia, South Africa and Turkey also jumped by between 5 and 14 basis points, the data showed.

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India

India Stimulus Package May See Fiscal Cost of Around 1% of GDP, Economists Say

18-May-2020
By Dharam Dhutia
NewsRise

MUMBAI (May 18) -- **India's fiscal stimulus package to help mitigate the effects of the coronavirus pandemic may see a net financial impact of around 1% of the country's gross domestic product, according to brokerages.**

The federal government would likely have a fiscal deficit of around 6% to 7% in the current financial year, they said.

The Reserve Bank of India's liquidity measures will account for about 4% of the GDP and "the dent to the fiscal deficit from the remaining government measures" is likely to be about 0.8% of the GDP, Nomura estimates. The overall fiscal deficit for the year will be 7% of the GDP, double the initial target, Sonal Varma, chief India economist at Nomura, wrote in a note.

India yesterday announced the last tranche of fiscal stimulus package through which authorities will infuse 20.97 trillion rupees to buffer the impact of the virus outbreak. Prime Minister Narendra Modi had earlier this month announced the 20-trillion-rupee stimulus package which amounts to about 10% of the country's GDP.

The government already raised its annual market borrowing by 54% to 12 trillion rupees. It allowed states to borrow an additional 0.50% of its gross state domestic product unconditionally, and it can borrow an additional 1.5% of GSDP if it implements certain reforms. This will allow states to borrow an additional 4.28 trillion rupees this year.

Jefferies said it expects a federal fiscal deficit of 6% and states' shortfall at 4%-5% assuming that tax revenue grows 3% for the federal government while falling 5% for the states. The federal government is expected to fully compensate the states for the drop in Goods and Services Tax collections, it added.

India has extended the nationwide lockdown until May-end, while allowing states to decide inter-state movement and define zones to implement restrictions. The world's second-most populous country has seen most activities curbed for most of the 54-day lockdown that was scheduled to end today. The prolonged lockdown to limit the spread of the coronavirus has sharply shriveled economic output and India's $2.7 trillion economy will likely shrink this year.

The virus which spread from China to the rest of the world saw its first infections in India in late January. Confirmed cases are nearing 100,000 in the country, resulting in 2,872 deaths.

Barclays expects the combined fiscal deficit of states and the federal government to rise to 12% of the GDP this year and this may need borrowing of 25 trillion rupees. The country's fiscal shortfall is likely to be close to 6% of the GDP during the current financial year.

"While the increase in deficit limits for states might be subject to revision, we assume they will utilize their additional deficit headroom of 5% of GSDP, with a further 1% of off-balance sheet spending, which would put the consolidated government deficit at 12% of GDP, relative to 8% previously," Rahul Bajoria, chief India economist at Barclays, said.

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India GDP May Contract 5% This Fiscal Year, Goldman Sachs Says

18-May-2020
By Dharam Dhutia
NewsRise

MUMBAI (May 18) -- **India's economy may shrink by 5% in the current financial year as compared with an earlier projection of -0.4% as the nationwide lockdown brings the country to an almost standstill in April-June, Goldman Sachs said.**

"The deeper trough in our Q2 forecasts reflects the extremely poor economic data we have received so far for March and April, and the

continued lockdown measures, which are among the most stringent across the world," economists Prachi Mishra and Andrew Tilton wrote in a report.
Goldman said it expects economic output in April-June to contract 45%, worse than the 20% it had projected in April. It may, however, recover to 20% in July-September followed by 14% and 6.5% in October-December and January-March.
"We see risks to our new forecasts as roughly balanced now. While more forceful policy support could present some upside risk, the recovery could further be delayed if the pandemic is not brought under control globally over the next few months."
India extended the nationwide lockdown until May-end, while allowing states to decide inter-state movement and define zones to implement restrictions. The world's second-most populous country has seen most activities curbed for most of the 54-day lockdown.
The government has announced a fiscal stimulus package worth 20.97 trillion rupees in the past few days, but these reforms are more medium-term in nature, and hence Goldman said it doesn't expect these to have an immediate impact on reviving growth.
The discretionary component of fiscal support across the six phases of announcements by the finance ministry, which included the 1.7 trillion-rupee package announced in March and five rounds of announcements from 13-17 May, stands at 1.3% of the GDP, it said. This is "much smaller than the aggregate figure of 10% of GDP announced by the Prime Minister."

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India Bond Yields Seen Little Changed As Traders Await RBI Steps

19-May-2020
By Siddhi Nayak
NewsRise
MUMBAI (May 19) -- **Indian government bond yields are likely to trade little changed in early session as traders await steps from the central bank to boost appetite, after New Delhi recently announced a stimulus plan to shield the economy from the coronavirus impact.**
The yield on the benchmark 6.45% bond maturing in 2029 is likely to trade in a range of 6.02% - 6.08% today, a trader with a primary dealership said. The note ended higher at 102.82 rupees yesterday, yielding 6.05%. The new 10-year 5.79% 2030 bond ended at 100.36 rupees, yielding 5.74%. The Indian rupee was lower at 75.91 to the dollar at 2:00 p.m. yesterday.
Indian states will raise up to 75 billion rupees via bond auction today.
"Market has pinned hopes on a heavy open market operation calendar, so till such steps are announced, yields should be rangebound," the trader said. "Once the calendar is announced, a breakout below 6% on the benchmark yield should be a certainty."
Market participants expect monetary support from the Reserve Bank of India to help absorb additional supply via a heavy open market operation and a rate cut in the June policy. Expectations of central bank support have risen after the government increased its borrowing target by nearly 54% to 12 trillion rupees for this financial year, amid higher spending to cushion the blow of the novel coronavirus pandemic and the subsequent lockdown.
Confirmed infections of the virus in India have risen to 96,169 so far, resulting in 3,029 deaths. India is in a nationwide lockdown till May 31 to prevent further spread of the virus, with some relaxations in economic activities.
India announced a 20.97-trillion-rupees fiscal stimulus package last week, with focus on different sectors in the economy. Finance Minister Nirmala Sitharaman said that the government was mindful of its finances and was "not splurging" to fund the package.
Moreover, the package may have a fiscal impact of around 1% of the country's gross domestic product, and the government would likely have a fiscal deficit of around 6% to 7% of GDP in the current financial year, according to brokerages.
The stimulus package looks to involve limited cash outflow and a medium-term fiscal consolidation path following the Covid-19 pandemic coupled with the country' s financial sector' s health will play a key part in its credit rating assessment, Thomas Rookmaaker, a director and analyst at Fitch Ratings, said.
The benchmark Brent crude contract was hovering near its highest level in more than a month on signs of output cuts and demand revival as more countries eased lockdown restrictions. India imports over 80% of its crude oil requirements.
KEY FACTORS:
*Benchmark Brent crude oil contract 1.2% higher at $35.22 per barrel, hovering near its highest level since Apr. 9. It climbed 7% yesterday, its biggest one-day rise in two weeks.
*Ten-year U.S. yield at 0.7110%. It rose to a one-month high of 0.7440% yesterday.
*Foreign investors sold net $178.53 million worth of Indian bonds on May 18. In May so far, these investors sold net $2.07 billion of Indian debt.
*RBI to conduct auction of state government securities worth 75 billion rupees.

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India's Return to Fiscal Trajectory to Be Challenging - Finance Commission Head

21-May-2020
By Meghna Mittal and Mukesh Jagota
NewsRise
NEW DELHI (May 21) -- **India will find it tough to return to its earlier fiscal consolidation path after the impact of the novel coronavirus pandemic on Asia's third largest economy tapers off, chairman of the country's Finance Commission said today.**
"There is lot of uncertainty. We will have to look at growth data for the fourth and first quarters to make any assessment of medium term fiscal path," N.K. Singh told reporters after a meeting of a panel on the fiscal consolidation road map. "7%-8% growth is critical for moving to more sustainable debt trajectory."
India's economy is expected shrink between 6% and expand 1% this financial year according to experts, Singh said today. The whole of India has been under a lockdown since Mar. 25 but restrictions have been relaxed recently in areas where the number of infections are low. Travel by rail and airlines is also set to resume.
The federal government's budget deficit is expected to widen to over 5.5% of gross domestic product this year, as it has raised its market borrowing target by 54% to 12 trillion rupees. Investors expect the Reserve Bank of India to continue to buy government debt to reduce pressure on the market.
India had used a fiscal escape clause to widen last year's fiscal deficit to 3.8% of GDP and had targeted it at 3.5% this year, and at 3.3% and 3.1% over the next two years.
While the federal government does not need to tweak the Fiscal Responsibility and Budget Management Act to widen the deficit target as it can use an existing clause applicable in case of natural calamities, the consolidated borrowings of the federal and state governments would be significantly higher, making such debt more expensive, the Finance Commission chairman said. The panel is working on the fiscal consolidation road map at a consolidated level till fiscal year 2026.
New Delhi has allowed states to borrow more through bonds by as much as additional two percentage points their gross domestic product with 150 basis points of the fresh borrowings subject to the states meeting some conditions.
Moreover, the expenditure on health sector will need to be significantly ramped up in the coming months, Singh said.
New Delhi has announced a 20-trillion-rupee package coupled with sectoral reforms. However, the fiscal impact of the package has been assessed to be around 1% of gross domestic product. Analysts expect the government to raise its spending later if the virus continues to further crimp economic activities.

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Indonesia

Indonesian govt plans $8.6 bln coronavirus bailout for state firms

17-May-2020
JAKARTA, May 17 (Reuters) - **Indonesia is planning an $8.6 billion bailout for 12 state-owned firms, to reduce the impact of the coronavirus pandemic, mostly as cash compensation and working capital investments, according to government documents reviewed by Reuters.**
The government has proposed to parliament to provide 128.04 trillion rupiah ($8.63 billion) in financial support to the companies, according to Ministry of Finance documents presented in a May 11 meeting with parliament's financial commission.
A finance ministry spokeswoman on Sunday confirmed the authenticity of the documents and that they were used in the parliament presentation. But, the documents were used in an early stage consultation with lawmakers and still need President Joko Widodo's approval, she said.
National flag carrier Garuda Indonesia, which is trying to restructure $500 million worth of Islamic bonds that mature next month amid a plunge in passengers, would receive 8.5 trillion rupiah in working capital investments, according to the documents.
Kartika Wirjoatmodjo, deputy minister of state-owned enterprises, told Reuters last week the government was arranging a $500 million bridging loan for Garuda.
Power utility Perusahaan Listrik Negara would receive cash compensation of 35.42 trillion rupiah this year, while oil and gas firm Pertamina would get 43.91 trillion rupiah paid in instalments through to 2022, the documents showed.
Both companies have previously said sales of electricity and fuel declined because of curbs on travel and work to control the coronavirus outbreak, which as of Saturday has infected 17,025 and killed 1,089 in the Southeast Asian country.
Steelmaker Krakatau Steel would also receive 3 trillion rupiah in working capital investment under the plan.
Outright capital injections of 7.5 trillion rupiah and 6 trillion rupiah are each planned for

construction firm Hutama Karya and insurance holding company Bahana Pembinaan Usaha Indonesia. Bahana's subsidiaries are tasked to provide credit guarantees for micro, small and medium companies.

The bailout funds will be provided on top of capital injection plans made before the pandemic.

The documents also showed the government plans to help commercial banks restructure souring loans by making 35 trillion rupiah of funds available to the banking industry.

($1 = 14,830.0000 rupiah)
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Indonesia to revise 2020 budget with wider deficit

18-May-2020

JAKARTA, May 18 (Reuters) - **Indonesia will revise its 2020 budget for a second time this year to accommodate a $43 billion stimulus to support economic growth amid the coronavirus pandemic, with the deficit seen swelling further, the country's finance minister said on Monday.**

Minister Sri Mulyani Indrawati said the "National Economic Recovery" programme, worth 641.17 trillion rupiah ($43.26 billion), includes tax breaks, subsidies for interest payments for small firms, liquidity support for the banking industry to restructure loans, bailouts for state firms and other measures.

The programme is an expansion of the $25 billion COVID-19 spending response that President Joko Widodo announced in late March.

The new budget deficit is expected to swell to 6.27% of gross domestic product, larger than her previous forecast of 5.07%, Indrawati told an online news conference, adding the total size of the budget would be 2,720.1 trillion rupiah ($183.54 billion).

"We will speak to parliament about the changes ... and we will talk to a larger audience too, to stakeholders, business people, so they can understand the concept," Indrawati said.

The budget revision would also reflect bigger-than-expected pressure on government revenues due to the pandemic and weak commodity prices, she said. Indrawati is forecasting a 13.6% drop in revenues this year, compared with her earlier estimate of a 10% fall.

The programme contains 149.3 trillion rupiah financial help for 12 state firms, including an 8.5 trillion rupiah short-term loan for airline Garuda, cash compensation of 48.9 trillion rupiah for power utility PLN [PLNEG.UI] and 45 trillion rupiah for oil and gas firm Pertamina.

The government plans to also place 87.6 trillion rupiah of funds at big banks, which will be tasked with channelling funds to other banks having trouble restructuring loans for small- and medium-sized companies, Indrawati said.

The estimated additional bond issuance due to the revision is 175 trillion rupiah, said the finance ministry's head of financing Luky Alfirman.

($1 = 14,820.0000 rupiah)
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Israel

Israel central bank chief says not to "tighten belts" on budget yet

20-May-2020

By Steven Scheer and Ari Rabinovitch

JERUSALEM, May 20 (Reuters) - **Bank of Israel Governor Amir Yaron said on Wednesday he supports an expansionary 2020-21 budget to help the economy recover from the coronavirus pandemic, which has forced businesses to close and unemployment to jump.**

"As long as the economy is in a phase of contraction or even a phase of recovery, we don't want to tighten belts in a way that prevents it from growing as fast as possible and exiting the crisis," Yaron told an online economic conference three days after a new government was sworn in.

The previous government passed a 100 billion- shekel ($28 billion) stimulus package, which has been funded by bond issues. The plan pushed up the expected budget deficit this year to at least 10% of gross domestic product, but so far Israel's credit rating has held steady.

Yaron said once the economy and public finances were in better shape, the government must quickly return to a more responsible fiscal path.

"We will spread it over a few years. It will return us to the debt-to-GDP ratio we were at (prior to the crisis) and also we will drop to a reasonable budget deficit level," he said.

New Finance Minister Israel Katz now has 90 days to pass a budget. Though it will probably be a two-year budget for 2020 and 2021, Yaron said he expects things will be re-examined early next year when there is less uncertainty.

Katz on Wednesday appointed Keren Turner-Eyal as the Finance Ministry's director general to lead efforts to stabilize the economy and draft the budget.

The central bank projects a 5.3% economic contraction in 2020 and growth of 8.7% in 2021 as long as there is no second wave of the outbreak.

After weeks of a lockdown during which jobless claims soared, Israel has begun easing restrictions when its coronavirus infections declined.

($1 = 3.5099 shekels)
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Jordan

IMF approves $396 million loan to Jordan to ease COVID-19 impact

21-May-2020
AMMAN, May 21 (Reuters) - **The International Monetary Fund on Wednesday approved a $396 million loan to Jordan to address pressing financing needs after the country's economy was hit hard by the coronavirus.**
Jordan's finance ministry said in a statement that the Rapid Financing Instrument (RFI) with a low interest rate was timely "given the limitations on external borrowing due to COVID-19."
Finance Minister Mohammad Al Ississ said earlier this month that the country's budget deficit was expected to rise by at least a billion dinars ($1.4 billion) as government finances are dealt a heavy blow from the loss of revenues during a two-month lockdown.
The country’s 2020 growth was also expected to decline by 3.4% this year, compared with the IMF's 2.1% growth forecast before the crisis, Al Ississ said.
The IMF approved a $1.3 billion four-year programme for Jordan last March, which the kingdom hopes will provide financing from its major Western donors worried about the country's stability.
Any new borrowing will increase the record public debt of $42 billion that is now expected to exceed 100% of gross domestic product, up from the current 97%.
Jordanian officials have not ruled out borrowing from global markets in coming months to help cover some of the country’s extra financing needs, although Al Ississ cautioned that credit markets were also affected.
The cash-strapped government has already resorted to more domestic borrowing from banks in the past two months to cover financing needs, bankers say.

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Lebanon

Lebanon's IMF rescue plan fails to set reform roadmap

18-May-2020
- **Blueprint fails to commit to ending sectarian patronage**
- **IMF will push hard for real reform in return for help**
- **Banks say plan unfairly penalises them for state waste**
- **Gruelling talks expected, despite official confidence**

By Samia Nakhoul
BEIRUT, May 18 (Reuters) - **A recovery plan Lebanon is negotiating with the IMF expertly diagnoses the bankrupt state's colossal losses but fails to commit to radical reform, the vital ingredient needed for a financial bailout of the country's sinking economy.**
The 53-page rescue plan, agreed by the government in April after months of haggling, is recognised by officials, economists and diplomats as the most searching examination of how Lebanon came to pile up debts several times the size of its economy.
But sources familiar with the IMF talks say the plan fails to set out a clear roadmap of reforms for a patronage-ridden public sector, looted for decades by the sectarian power-brokers and former warlords who dominate Lebanon's confessionally-based politics and have run its state onto the rocks.
They believe the political elite will shy away from real reform as with four previous aid and soft-loan packages since Lebanon's civil war - and that they are underestimating how hard the IMF will push for deep changes before agreeing to help.
"They are trying to present a plan that the IMF will buy into, and that the international community and creditors will buy into, without really addressing the deeper problems in the country: reforms", said Nasser Saidi, a former economy minister and vice-governor of the central bank.
"The current blueprint is extremely light on the reforms to the public sector," adds Camille Abousleiman, an international finance lawyer and a minister who resigned from the last government over its reform failures.
The losses in the government document are startling. It estimates total sovereign debt at about $90 billion or 176% of GDP -- one of the highest debt ratios in the world. It calculates total bank losses to be $83 billion and "embedded losses" at the central bank at over $40 billion.
The burden that these figures impose is rising with the rapid decline of economy, which shrank by 6.9% last year, according to the government, and will contract around 13.8% this year, with the coronavirus pandemic compounding the crisis.
One senior Lebanese government official claims

that an agreement with the IMF is "70% done". People familiar with the talks are not convinced, predicting gruelling negotiations.

LACK OF ENTHUSIASM FOR REFORM

Although the current government has respected technocrats, it is under the sway of sect leaders as much as the previous one - which was brought down by mass protests against corruption.

The difference is that this cabinet reflects more closely the power of Hezbollah, the Iran-backed Shi'ite paramilitary movement which dominates Lebanon in alliance with the largest Christian party and the Shi'ite Amal party. Pro-Western Sunni, Christian and Druze parties have stayed out.

There is, however, little difference in the lack of enthusiasm for reform of Lebanon's real ruling class.

Last week, the government fielded a team to talk to the IMF drawn from the presidency, finance ministry, central bank and prime minister's office. The team voiced contrasting opinions, a source close to the talks says. The talks resume later on Monday.

The sources say the plan focuses overwhelmingly on the banks and the central bank, which together lent more than 70% of total deposits in the banking system to an insolvent state at increasingly inflated interest rates put in place by central bank governor Riad Salameh.

But the banks were not responsible for the devastating waste, pillage and payroll padding in the public sector – about which this plan has little detailed to say.

Economists and donor country officials say any rescue plan must send strong signals of change, "that this is not just about attacking the banks", as one official puts it, or selectively going after the illicit wealth of a few people – the enemies of the Hezbollah-influenced coalition behind the government.

As things stand, the government aims to shrink the banking sector by mergers, acquisitions, closures and recapitalisation, "haircuts" on the value of big depositors, and repatriation of dividends and interest revenue earned in the past five years.

The Association of Banks in Lebanon has angrily rejected this approach. Banks -- traditionally mostly owned by Christians and Sunni Muslims -- believe there is a systematic agenda by the Hezbollah-dominated government to bring them down.

"The state has to bear a significant portion, but the way they have it, it's all on the banks," Abousleiman said.

The three areas identified as priorities by all reform-minded analysts and officials are the state power company Electricite du Liban (EdL); Telecom, customs and ports; public pensions and the state payroll.

HEZBOLLAH IS UNDER PRESSURE

Losses at EdL, more a party fief than a power utility, have run into billions of dollars since the war. Still it cannot keep the lights on, a job that falls to vested interests of private generator and diesel suppliers no government dared tangle with.

Customs, ports and border crossings are also party fiefs parcelled out as smuggling rackets to evade import levies. The public payroll continues to swell. All parties, without exception, use the system to reward their followers.

Abousleiman argues the government didn't need to wait for the IMF and can start reforms now.

But the Hezbollah-dominated coalition behind the government is baulking at all three measures, and especially at changes to customs arrangements that are important sources of revenue.

The IMF is understood to be wary of being held responsible for a financial meltdown "made in Lebanon", as one official put it, adding it is "a reputational risk" for the Fund unless the adjustment plan is seen to be both fair and efficient.

Hezbollah, which also provides social welfare, is under pressure from poorer Shi'ite supporters who have been hit hard already by hundreds of thousands of private sector job losses and face many more to come in the public sector.

Added to this is what one former Shi'ite minister describes as "extremely vocal" pressure from wealthy diaspora Shi'ites, especially in West Africa, who placed large deposits in Lebanon's banks they now stand to lose.

"We supported you and now we're being strangled", these expat Lebanese are saying, and "Hezbollah is feeling the heat for acting as a shield for the corruption of their government allies", the former minister said.

(Created by Samia Nakhoul, Editing by William Maclean)
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Lebanon seeks foreign government-backed financing for power plants after default

20-May-2020

- **Lebanon defaulted on sovereign debt in March**
- **Power reform seen as critical to fixing state finances**
- **Lebanon to negotiate with four firms on possible arrangements**

By Tom Perry

BEIRUT, May 20 (Reuters) - **Lebanon has turned to global power plant manufacturers including General Electric to arrange financing to build badly needed electricity capacity, hoping favourable terms can be agreed with help from their governments.**

Energy Minister Raymond Ghajar told Reuters on Wednesday that Lebanon had modified its approach to the process since it defaulted on its sovereign debt in March, meaning it was unable to offer the kind of sovereign guarantee sought by investors.

"The default has caused a significant financiability problem for infrastructure projects in Lebanon. That is why we are trying to meander around it," he said in an interview.

Beirut has said it plans to sign memorandums of understandings with Siemens AG, General Electric, Mitsubishi and Ansaldo Energia - for negotiations to propose financially viable solutions for building the plants.

"We talked to the four companies ... they all expressed interest of their governments to finance such projects," Ghajar told Reuters. "They are all willing to invest because now companies like these don't have a lot of work around the world."

Fixing the loss-making power sector is seen as critical for the country which is mired in a financial crisis seen as the biggest threat to its stability since the 1975-90 civil war.

Foreign donors see it as a test of Beirut's will to enact long-delayed reforms that may in turn help unlock their aid.

The companies would have conditions attached to their financing, which is expected to come from export credit agencies. "Hopefully we can meet these conditions ... If they cannot be met we are back to square one," Ghajar said.

Lebanon has set a six-month period for the negotiations.

EXPENSIVE GENERATORS

The country has failed to provide 24-hour power since the war, leaving households reliant on expensive private generators.

More power cuts of late are linked to the crisis: Ghajar said two fuel shipments sitting off the coast had not been unloaded promptly as JP Morgan, the vendor's correspondent bank, had put a financial hold on Lebanese letters of credit. The issue had now been resolved.

The electricity company (EDL) has drained up to $2 billion a year from the public purse depending on oil prices.

The government has budgeted $1 billion for EDL this year, which Ghajar said would be enough due to low oil prices.

But next year's amount - $500 million - would not, meaning the government needs to curb losses and improve collection rates on bills. If this was not enough, tariffs would need to be restructured, Ghajar said.

Donors want a regulatory authority established as part of the reforms. The government is working on amendments to a law for establishing it, which parliament must then ratify.

Ghajar also said interest in Lebanon's second offshore oil and gas exploration licensing round, which closes on June 1, had not been very high.

Most firms are not interested in exploration as budgets have been cut due to low oil prices and the new coronavirus, he said.

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Malaysia

Yields fall significantly in April amid support of further cut in rates

18-May-2020

Yields on Malaysian Government Securities (MGS) ended April significantly lower mainly due to the heightened expectation of an overnight policy rate (OPR) cut by Bank Negara Malaysia (BNM) at its scheduled Monetary Policy Committee (MPC) meeting on May 5, 2020. Demand for MGS was also supported by signs of falling COVID-19 infection rates in Malaysia which led to rising hopes of looser Movement Control Order (MCO) restrictions in May. The recovery of global crude oil prices and the US Federal Reserve's pledge to keep interest rates near zero and continue its asset purchasing programmes also kept MGS yields low.

By end-April, MGS yields shed between 34bps to 58bps on a bull-flattening bias as yields along the belly till the long-end of the curve fell more sharply compared to shorter tenures. The 20y/3y MGS yield spread narrowed to 96bps (Mar: 116bps). Both the 3y and 10y MGS settled at new multi-year lows of 2.42% (Mar: 2.76%) and 2.87% (Mar: 3.36%). In tandem with MGS, yields on investment-grade corporate bonds also fell. AAA, AA and A-rated corporate bond yields fell by between 25bps and 61bps in contrast with March's increase of between 36bps and 56bps.

Meanwhile, foreign selling pressure of local bonds eased in April, though foreign investors remained net sellers. Net foreign outflows from the local bond market amounted to RM2.0 billion (Mar: -RM12.3 billion). This brought total foreign holdings to RM185.8 billion (Mar: RM187.8 billion). In terms of percentage share of total outstanding, foreign ownership came in at 12.1% (Mar: 12.3%). Government Investment Issue (GII) accounted for most of the outflows (-RM1.9 billion). Foreign holdings of GII amounted to RM18.6 billion (Mar: RM20.5 billion), equivalent to 5.3% (Mar: 5.7%) of total outstanding GII.

On May 5, BNM slashed the OPR by 50bps to 2.00%, the lowest since the global financial crisis. It was the third consecutive rate cut by BNM YTD, following two 25bps rate cuts in January and March. Furthermore, BNM also announced that MGS and GII can be used by banks to fully meet the Statutory Reserve Requirement (SRR) compliance effective May 16, 2020. Previously, BNM only allowed Principal Dealers to recognise both MGS and GII of up to RM1.0 billion. This measure is expected to release about RM16.0 billion worth of liquidity into Malaysia's banking system.

Sri Lanka

Sri Lanka Rating Lowered to 'B-' On COVID-19-Induced Fiscal Deterioration; Outlook Stable

20-May-2020
May 20 (Reuters) -
• **S&P rates Sri Lanka's long term foreign and local currency B-; outlook stable**
• S&P says Sri Lanka rating lowered to 'B-' on covid-19-induced fiscal deterioration; outlook stable
• S&P says uncertainty over the pandemic and the associated economic fallout have increased Sri Lanka's external financing risks
• S&P - expect covid-19 outbreak to push Sri Lanka's economy into recession in 2020
• S&P - lowering its credit ratings on Sri Lanka to reflect fiscal deterioration, which would further weaken sustainability of Sri Lanka's debt profile
• S&P on Sri Lanka - could lower rating if external imbalances deteriorate beyond expectations, leading to sustained decline in forex reserves
• S&P - stable outlook reflects expectation that Sri Lanka government still has access to various multilateral and bilateral resources
• S&P on Sri Lanka - estimate real per capita income to reach about us$4,000 in 2021 and real GDP growth to average 3.3% in 2020-2023
• S&P - forecast the economy to contract by 0.3% in 2020

(Reuters.Briefs@thomsonreuters.com)

Thailand

Thailand's anti-virus $1.57 bln govt savings bonds sold out in a week

21-May-2020
BANGKOK, May 21 (Reuters) - **Thailand has sold 50 billion baht ($1.57 billion) of government savings bonds in a week as it seeks to finance steps to mitigate the fallout of the coronavirus outbreak, the finance ministry said on Thursday.**
The so-called "Thailand stays strong" bonds, offered on May 14, have 5- and 10-year maturities, with an average stepped coupon of 2.4% and 3.0% per year, respectively.
The bonds are part of a government plan to borrow 1 trillion baht for economic measures to combat the outbreak.

($1 = 31.83 baht)
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Vietnam

S&P Says Vietnam Ratings Affirmed At 'BB/B' With Stable Outlook

21-May-2020
May 21 (Reuters) - S&P:
• **S&P says Vietnam ratings affirmed at 'BB/B' with stable outlook**
• S&P says Vietnam's economy should achieve strong recovery following a deep slowdown owing to covid-19 pandemic this year
• S&P says expect Vietnam's consistently strong performance to continue supporting sovereign's creditworthiness once global economy recovers
• S&P says stable outlook reflects expectation that Vietnam's economy will continue to expand, exemplifying gradual improvements in policymaking settings

(Reuters.Briefs@thomsonreuters.com)

United Arab Emirates

Abu Dhabi sells $3 billion in bonds with April re-opening

19-May-2020
By Davide Barbuscia and Yousef Saba
DUBAI, May 19 (Reuters) - **Abu Dhabi sold $3 billion in bonds on Tuesday with a tap of dollar bonds issued last month, a document showed, as governments in the Gulf seek extra cash amid the coronavirus pandemic and a slump in oil prices.**
Oil-rich Abu Dhabi issued in April $7 billion in bonds due in 2025, 2030 and 2050, just after a jumbo $10 billion bond sale by Qatar.
Considered among the best credits in the region, Abu Dhabi, the capital of the United Arab Emirates, received around $45 billion in orders for the April deal.
It has now gone back to the markets with a bond tap, where an existing transaction is reopened for subscription using the same documentation as before. It is set to raise $3 billion more, according to a document issued by one of the banks leading the deal and seen by Reuters.
The deal has attracted around $20 billion in orders.
The emirate sold $1 billion in each tranche. It is offering 135 basis points over U.S. Treasuries for the bonds due in 2025, 150 bps over the same benchmark for the tranche due in 2030, and 3.25% for the notes due in 2050, according to

the document.
It tightened the spreads by 30 to 35 bps from where it began marketing them earlier on Tuesday.
"As expected, the pricing is in line with the earlier tranche," a Dubai-based fixed income strategist said.
"The interesting point to note is there is no skew in demand towards the 30-year bonds, unlike in April, when investors clearly preferred the long end. We believe high dollar price might one of the reasons for this," he said.
The proceeds of the sale will be used for "general budgetary purposes," a separate bank document showed.
A spokesman at Abu Dhabi's department of finance did not respond to a request for comment.
BNP Paribas, First Abu Dhabi Bank, JPMorgan and Standard Chartered were hired to arrange the deal.

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EUROPE

Armenia

Armenia's economic growth expands 3.8% yr/yr in Q1

21-May-2020
YEREVAN, May 21 (Reuters) - **Armenia's economy expanded 3.8% year-on-year in the first quarter of 2020, down from 7.1% growth in the same period of 2019, preliminary official data showed on Thursday.**
The growth in January-March was supported by expansion in the mining sector, communication services, finance and insurance and government expenditure.
The former Soviet republic's economy expanded 7.6% in 2019, up from 5.2% in 2018. This year the government expects a contraction of 2%, down from the earlier projection of 4.9% growth, largely because of the coronavirus outbreak.
International financial institutions have pledged support to Armenia to mitigate the impact of the coronavirus outbreak on the economy and support the healthcare system.

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Bulgaria

Bulgaria posts 0.8%/GDP current account surplus through March

18-May-2020
SOFIA, May 18 (Reuters) - **Bulgaria posted a current account surplus of 0.8% of gross domestic product in the first three months of 2020, compared with a surplus of 0.4% in the same period a year earlier, central bank data showed on Monday.**
For March alone the Balkan country posted a current account deficit of 40 million euros ($43.2 million), compared with a deficit of 25.2 million euros a year ago mainly due to a drop in exports.
Foreign direct investment, needed to boost sustainable growth in the Black Sea state, rose by 254 million euros through March, compared with FDI increase of 149 million euros in the first three months last year.
The finance ministry sees current account surplus decreasing to 1.2% of GDP this year from 4% in 2019 as it expects both exports and imports to drop as well as smaller inflows of funds from Bulgarians living abroad due to the coronavirus crisis.

($1 = 0.9253 euros)
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Czech Republic

Czech government approves $6 billion loan aid for virus-hit firms

18-May-2020
PRAGUE, May 18 (Reuters) - **The Czech government gave final approval to a nearly $6 billion state loan guarantee scheme on Monday for up to 150,000 businesses hurt by the coronavirus outbreak, Finance Minister Alena Schillerova said.**
Business has complained help has been too slow in the export-driven economy that has been hard hit by the coronavirus crisis and is heading for a sharp recession in 2020.
The new programme, called COVID III and approved by parliament and notified to the European Union, will allocate 150 billion crowns ($5.87 billion) in guarantees for commercial loans. The state said that could result in banks lending up to 495 billion crowns.
The loans will be available for businesses with up to 500 employees, with a maximum loan value of 50 million crowns.
"These (companies) need to bridge the current period until their orders and revenues rise

again," Schillerova said in a Twitter post.
The loan programme is bigger than previous offers of help that saw huge demand and complaints of slow execution.
The state Czech-Moravian Guarantee and Development Bank (CMZRB) said last week that 1,500 businesses had received help worth more than 10 billion crowns by mid-May.
The government has pledged more than 1 trillion crowns, or nearly a fifth of annual economic output, to support hard-hit workers and companies, mostly through loan guarantees, in the case of the companies.
Raiffeisen economist Helena Horska has calculated that of direct aid promised of around 277 billion crowns, about a tenth has been delivered, amounting to 0.5% of gross domestic product.

($1 = 25.5410 Czech crowns)
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Hungary

Hungary's economy to rebound quickly

22-May-2020
BUDAPEST, May 22 (Reuters) - **Hungary's economy will recover from the fallout from the coronavirus pandemic faster than previously expected, Prime Minister Viktor Orban told public radio on Friday.**
Hungary started easing coronavirus restrictions in Budapest from Monday, two weeks after it ended the lockdown in the rest of the country, to prevent deeper harm to the economy.
Orban said Hungary had managed to stave off mass infections seen elsewhere in Europe, allowing for a gradual return to normal life and a rebound in economic activity.
"I think that we will return to previous levels of economic output much faster than we had expected earlier," Orban said.
Analysts polled by Reuters expect the economy to shrink by 4.6% this year, much worse than the government's recently downgraded forecast of a 3% downturn.
The budget deficit is seen widening to 4.5% of economic output, also above the government's 3.8% target - lifted early this month to cover the costs of pandemic control measures and economic stimulus programmes.
Orban said April and May economic statistics would be grim, but said strong demand from companies for investment subsidies for new projects, totalling 100 billion forints ($313.92 million) so far, raised hopes of a faster recovery.
As of Friday, Hungary had reported 3,678 coronavirus cases, 476 deaths and 1,587 recoveries.

($1 = 318.55 forints)
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North Macedonia

North Macedonia to offer 3.7 bln denars (59.9 mln euro) of govt paper on May 26

20-May-2020
SKOPJE (North Macedonia), May 20 (SeeNews) – **North Macedonia's finance ministry will offer three issues of government securities worth a combined 3.7 billion denars ($65.6 million/59.9 million euro) at auctions on May 26, according to notices published by the country's central bank.**
The offer comprises 2.5 billion denars worth of one-year Treasury bills, 600 million denars worth of six-month T-bills and 600 million denars of two-year T-bonds.
The central bank will sell the government securities on behalf of the finance ministry through a volume tender, in which the price and coupon are set in advance and primary dealers bid only with amounts.

(1 euro = 61.75 denars)

Poland

Poland's economy may shrink 4-5% in 2020 due to lockdown

20-May-2020
By Marcin Goclowski
WARSAW, May 20 (Reuters) - **Poland's economy may shrink in 2020 by 4-5%, more than the previously forecast 3.4%, as the coronavirus lockdown has lasted longer than anticipated, a senior finance ministry official said on Wednesday.**
In a nod to the economic crisis, the deputy director in the ministry's macroeconomic department said Poland plans to suspend a rule curbing public spending before the 2020 state budget is amended at the end of June or start of July.
"The European Commission has said that it saw Poland's economy contracting by 4.3%. The market consensus is minus 4-5% and we are moving in this direction, but it's not an official forecast," Joanna Beza-Bojanowska told a news conference.
Poland is lifting curbs imposed to prevent the spread of coronavirus, reopening restaurants, shopping malls and kindergartens. But many

parts of society remain closed, with schools expected to reopen no earlier than in September.
The eastern European Union country of 38 million people has reported 19,268 coronavirus cases and 948 deaths.
The health ministry hopes the number of infections may start to fall next week, but expects a second wave in the autumn.
Poland documented its first coronavirus infection in March and soon after announced a 212-billion-zloty ($50.96 billion) aid package to soften the economic repercussions of the virus.
The package includes support from the central bank and the state PFR fund which backs infrastructure projects and raises debt to distribute cash to companies struggling under lockdowns.

($1 = 4.1599 zlotys)
(Reporting by Marcin Goclowski and Pawel Florkiewicz; Editing by Andrew Heavens and Mark Heinrich)
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Poland adopts rules to prevent takeovers by non-EU investors

20-May-2020
WARSAW, May 20 (Reuters) - **The Polish government has approved regulations aimed at making it difficult for investors from outside the European Union to take over companies cheaply that Poland considers strategic for its economy, it said on Wednesday.**
The regulations are part of a government rescue package worth more than 300 billion zlotys ($72 billion) to help the country survive the new coronavirus pandemic and the resulting economic crisis.
The development ministry, which devised the new rules, said they would be binding for two years and would apply to public companies, producers of software used in power plants, transportation and health systems, and companies in the energy, telecoms and defence sectors.
"We do not want to scare off investors but only protect Polish companies against hostile takeovers due to the deteriorating economic situation," Development Minister Jadwiga Emilewicz said in a statement.
In April, Germany similarly agreed to tighten rules to protect domestic firms from unwanted takeovers by investors outside the European Union.
On Wednesday, it gave itself new powers to veto hostile foreign takeover bids for healthcare companies, after the early stages of the pandemic saw a run on materials thought key to fighting it, including reported attempts by the U.S. government to buy a start-up in Germany working on a vaccine.
Both countries' rules come as Europe also reconsiders relations with China in the face of increased investment in critical sectors by state-owned enterprises.
In Poland's case, though, analysts and critics say the nationalist ruling Law and Justice (PiS) party may also seek to use measures in its rescue package to increase its control over the private sector.
Since coming to power in 2015 the PiS government has tightened its control over energy companies and banks. It has also criticised privatisation deals closed under former governments.
Under the new regulations, the competition watchdog UOKiK will be responsible for regulating cases where a significant number of shares in such companies are acquired.
The rules will apply to companies whose revenues have exceeded 10 million euros in either of the two financial years before the planned acquisition.

($1 = 4.1456 zlotys)
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Romania

Romanian central bank says aims to ensure needed market liquidity

18-May-2020
BUCHAREST, May 18 (Reuters) - **Romania's central bank aims to further ensure the market liquidity necessary to finance state spending and the real economy while keeping the exchange rate relatively stable and gradually lowering interest rates, it said on Monday.**
The central bank cut its benchmark interest rate by 50 basis points to 2.0% in a surprise meeting in March to curb the economic fallout from the new coronavirus outbreak.
The bank also narrowed the corridor between its lending and deposit facilities and pledged to provide liquidity to banks via repo transactions and purchase leu-denominated debt on the secondary market.
On Monday, central bank Governor Mugur Isarescu said in a statement the bank has bought 3.1 billion lei ($695.68 million) worth of treasuries from the secondary market by mid-May, while the daily average stock of bilateral repo transactions was roughly 13 billion lei ($2.92 billion) during April 1-May 15.

($1 = 4.4561 lei)
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Romania could issue more Eurobonds this year

19-May-2020

BUCHAREST, May 19 (Reuters) - **Romania tapped foreign markets for 3.3 billion euros ($3.61 billion) worth of five- and ten-year Eurobonds on Tuesday and Finance Minister Florin Citu said the ministry will consider foreign issues again later this year pending market conditions.**

Romania sold 1.3 billion euros worth of five-year Eurobonds at 305 basis points over mid-swaps and 2 billion euros worth of 10-year Eurobonds at 375 basis points over mid-swaps, Refinitiv news and market analysis service IFR said.

Asked whether Romania, which is rated an investment grade Baa3 by Moody's and BBB- by Fitch Ratings and S&P all with Negative outlooks will consider further issues this year, Citu told Reuters "Yes, if conditions look good."

The finance ministry raised its 2020-2022 Eurobond issuance ceiling by 10 billion euros in March. Its foreign issuance target for the year is 6 billion euros. In addition to Tuesday's tender, debt managers tapped 3 billion euros worth of 2032 and 2050 Eurobonds in January.

($1 = 0.9151 euros)
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Russia

Russia will not scrap its fiscal rule, minister says

21-May-2020

MOSCOW, May 21 (Reuters) - **Russia does not plan to scrap its fiscal rule, a tool which allows it to build up rainy-day fund and maintain a certain macroeconomic stability during periods of low oil prices, finance minister Anton Siluanov said on Thursday.**

Media reports in Russia and the West this month said the government was considering changes to the fiscal rule, while some analysts have called to scrap the rule or at least temporary change the cut off price of oil, currently at $42 per barrel, to allow the budget a greater flexibility to fight economic fallout from coronavirus pandemic.

Siluanov said that the oil price level would not be changed, adding that his ministry might increase state borrowing next year to cover at least part of the budget shortfall. The ministry is already increasing borrowing this year for the same reason.

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Slovakia

Slovakia expects 2020 budget deficit to swell to 8.4% of GDP

19-May-2020

BRATISLAVA, May 19 (Reuters) - **Slovakia's budget deficit could swell to 8.4% of gross domestic product (GDP) in 2020 as it fights the economic impact of the coronavirus outbreak, a finance ministry report showed.**

The report, approved by the government on Monday, said the deficit could stay at about 6% of GDP over 2021-2023 without any consolidation measures.

"Fiscal goals and the need for (further) measures will be updated if changes are necessary due to high uncertainty over future economic development," the ministry's report said.

The budget deficit reached 2.42 billion euros ($2.65 billion) at the end of April, already nearing the full-year deficit target.

The country had aimed to cut this year's budget deficit to 0.49% of GDP, from 1.3%, but plans have been upended by the virus outbreak as measures to contain it shut shops and many factories are idled.

The ministry expects the economy to shrink by a record 7.2% this year.

Slovakia has reported far fewer cases of the novel coronavirus than western neighbours. The total number of cases so far is 1,495 so far, with 1,192 having recovered. The country has recorded 28 deaths.

($1 = 0.9147 euros)
(Reporting by Tomas Mrva
Editing by David Goodman)
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Turkey

Turkey still in talks with four countries for swap lines

19-May-2020

ANKARA, May 19 (Reuters) - **Turkey is still in talks with Japan, the United Kingdom, Qatar and China on creating or expanding swap lines, and reports of a deal with two countries are not true, the state-owned Anadolu news agency reported on Tuesday, citing treasury officials.**

Last week, officials told Reuters that Turkey's government had appealed to foreign allies in an urgent search for funding, as it prepared

defences against what analysts fear could be a second currency crisis in as many years.
The officials said Treasury and Central Bank officials have held bilateral talks in recent days with counterparts from Japan and the United Kingdom on setting up currency swap lines, and with Qatar and China on expanding existing facilities.

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Turkey's central govt debt up 30% y/y at end-Apr

21-May-2020
ANKARA (Turkey), May 21 (SeeNews) **- Turkey's central government debt totalled 1.57 trillion lira ($231 billion/211 billion euro) at the end of April, up 30% year-on-year, according to data from the finance ministry.**
Some 739.5 billion lira of the debt stock is denominated in the local currency while the remaining 836.1 billion lira is in foreign currency, the ministry said on Wednesday.
Turkey's central government debt as of the end of April 2019 came in at 1.21 trillion lira, finance ministry data showed.

(1 euro = 7.44341 lira)

Ukraine

Ukraine president hopes to get new IMF loan deal in May

20-May-2020
KIEV, May 20 (Reuters) - **Ukrainian President Volodymyr Zelenskiy said on Wednesday he hoped to sign a new deal with the International Monetary Fund in May, which was needed to maintain financial stability.**
"We will sign this memorandum, I am sure, in May ... and the door will be open for the International Monetary Fund assistance," Zelenskiy told a press conference to mark the first year of his presidency.
He also said he needed to have direct talks with Russian President Vladimir Putin about Ukraine's war-torn eastern Donbass region, and he hoped for talks between Ukraine, Russia, Germany and France after the coronavirus pandemic subsided.

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LATIN AMERICA AND CARIBBEAN

Fitch Ratings: Coronavirus Amplifies Latin America Sovereigns' Fiscal, Rating Pressures

18-May-2020
Fitch Ratings-New York/London-May 18: **Latin America sovereigns' weak public finances make them particularly vulnerable to the coronavirus crisis, Fitch Ratings says, by limiting both their counter-cyclical policy flexibility and their ability to support post-crisis economic recoveries.** The pronounced negative ratings pressures in the region stem largely from these pre-existing fiscal issues.
Latin America sovereigns entered the crisis on a weak fiscal footing resulting from persistently weak growth, earlier commodity price declines that were not fully offset with budget adjustments, and spending pressures reinforced by recent social unrest. This has rendered them less prepared than before the 2008/2009 global financial crisis. In 2008, the region's 19 Fitch-rated sovereigns had fiscal surpluses or only moderate deficits. By comparison, they almost all reported fiscal deficits in 2019 and had higher ratios of government debt/GDP than in 2008 - and these had increased by over 20pp for eight of the sovereigns.
Weak public finances will constrain fiscal efforts to manage the immediate fallout from the pandemic. They may also challenge recovery prospects by making policy trade-offs more difficult, and could narrow the scope for post-crisis fiscal stimulus after the initial relief efforts end. Larger fiscal adjustments may be needed to ensure debt sustainability, and these could hamper growth and require politically difficult reforms. Failure to make these adjustments could create lasting uncertainty that poses risks to growth.
Latin America's poor fiscal performance was already weighing on ratings, with over half of sovereigns downgraded in 2015-2019 - more than any other region. **Since the crisis began in March 2020, Latin Am has tied with Sub-Saharan Africa for the highest share of sovereigns downgraded, and presently has the highest share (two-thirds) either on Negative Outlook or rated 'CCC' or below - ratings that imply negative trends without Outlooks being assigned.**
Recent ratings pressures have been felt across the ratings scale. Latin America's highest-rated sovereigns, Chile (A/Negative) and Peru (BBB+/Stable), have announced sizeable fiscal packages worth 7%-8% of GDP, reflecting the ample counter-cyclical policy ammunition afforded by their fiscal strength. However, this fiscal strength has eroded in recent years, and further difficulty in preserving or rebuilding fiscal buffers post-crisis could reduce these

sovereigns' capacity to respond to future shocks. Similar issues contributed to our downgrade of Colombia to 'BBB-'/Negative and reinforce the risks captured in Panama's (BBB) and Uruguay's (BBB-) Negative Outlooks, despite their smaller fiscal packages. Mexico's modest counter-cyclical fiscal efforts - worth around 0.7% of GDP - could contribute to an especially deep recession and worsen already weak economic prospects, a risk reflected in our downgrade to 'BBB-' in April.

For most speculative-grade sovereigns, limited financing options either constrain fiscal stimulus or heighten liquidity and macroeconomic risks where it is enacted. All are on Negative Outlook except Jamaica (B+), Paraguay (BB+), Guatemala (BB-) and Nicaragua (B-), which all have a Stable Outlook.

Brazil's (BB-) deep local market allows it to finance the region's largest fiscal package, totalling 14% of GDP, albeit with a 5pp full-year fiscal impact. However, Brazil's Outlook was revised to Negative on 5 May 2020, as tackling rising debt and low economic growth may become even harder after the pandemic.

Among the most financially strained LatAm sovereigns, Ecuador has been forced to tighten fiscal policy and has defaulted, while Argentina, which was downgraded to 'C' in April 2020, is resorting to central bank financing for its sizeable pandemic relief efforts. This could exacerbate its macroeconomic uncertainties and further complicate its ongoing debt restructuring.

The crisis will test the fiscal rules adopted by many Latin America sovereigns, particularly regarding how effectively they help anchor post-crisis fiscal consolidation. This is particularly important for Mexico, Peru, and Paraguay, whose ratings benefit from a one-notch qualitative adjustment for policy credibility, partly due to their records of fiscal discipline.

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Latin America's economy to shrink record 7.6% this year

19-May-2020

By Jamie McGeever

BRASILIA, May 19 (Reuters) - **Latin America's economy will shrink 7.6% this year in the steepest downturn on record and a return to pre-coronavirus crisis levels will take at least another two years, economists at Goldman Sachs said on Tuesday.**

The COVID-19 outbreak and resulting social distancing policies have arrived late to the region, which together with a high degree of uncertainty over policy responses and their effectiveness, means the economic damage will be severe, they said.

"Our baseline now assumes that the bulk of physical restrictions on activity and social distancing protocols will remain in place through May, and will start to be gradually eased through June-July. This extension will generate a deeper and longer-lasting effect on real activity," the Goldman economists wrote.

They also warned of the risk of "scarring effects," such as long-term damage to the labor market and productive capacity of the economy, which could delay and undermine the eventual recovery.

Brazil's gross domestic product, the region's largest, is now expected to shrink 7.4% this year compared with Goldman Sachs economists' previous forecast of a 3.4% contraction.

Mexico's GDP is now expected to fall 8.5%, compared with 5.6% previously forecast, as is Argentina's.

Goldman's new forecast for Brazil is at the bearish end of the spectrum. The government recently revised its 2020 GDP outlook to -4.7%, and the latest consensus among economists in a weekly central bank survey is -5.1%.

The path to recovery will be slow and highly uncertain, in large part due to "significant uncertainty" over the spread of the virus and countries' policy response and strategy to deal with the public health and economic challenges, Goldman said.

Using the fourth quarter of last year as a pre-crisis base, most economies in the region, with the exception of Chile, will not fully recover until 2022-23, they said.

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Argentina

Argentine bonds close higher, country risk dips as officials weigh restructuring counteroffers

18-May-2020

By Cassandra Garrison and Eliana Raszewski

BUENOS AIRES, May 18 (Reuters) - **Argentine bonds closed higher on Monday as the government weighed new counteroffers from its creditors while racing to strike a deal to restructure about $65 billion in foreign debt before Friday, when a grace period for paying interest on three dollar-denominated bonds expires.**

The counteroffers from leading creditor groups, announced by Argentina's government late Friday night, call for a shorter one-year grace period on payments and higher average interest rates than the government's initial proposal, according to local media outlet Infobae.

Argentine over-the-counter bonds were up an

average 3.3%, traders said, while country risk fell 144 basis points to 2,693. The black market peso also strengthened to 128 per U.S. dollar, after falling to a historic low of 136 per dollar last week, double the official exchange rate.
Argentina, which is at risk of default on the bonds, proposed last month a tough restructuring that included a three-year payment halt, maturities pushed back until the next decade and a 62% reduction in coupon payments, an offer rejected by the majority of its creditors.
A joint counteroffer by firms Greylock, Gramercy and Fintech proposed a net present value of $58 for every $100 of current debt, an average interest rate of 5.03%, and a 2.3% lowered valuation, or haircut, on capital.
Another separate creditor group proposal, backed by BlackRock Financial Management, implies an average interest rate of 4.44%, a net present value of $60 per $100, and capital amortization starting in 2025.
A third offer proposed by firms including Monarch and BHK Capital included no haircut on capital and an average interest rate of 4.75% with capital amortization starting in 2027. It also included a net present value of $58 per $100.
A spokesman for Argentina's Ministry of Economy declined to comment on the new counteroffers.

DOWNGRADE

Buenos Aires province, meanwhile, was downgraded on Friday by ratings agency S&P Global to "SD" from "CC" after it missed the deadline for a bond payment of about $110 million.
The province had been deadlocked with its own creditors over the restructuring of $7 billion in foreign debts after they rejected its earlier proposal.
The province's situation, seen as an indicator for how talks could go at the sovereign level, does not necessarily mean Argentina will have the same fate, said Lisa Schineller, lead analyst for sovereign ratings in Latin America at S&P Global.

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Argentina sees negotiation with creditors beyond May 22

19-May-2020
NEW YORK, May 19 (Reuters) - **There is a "big chance" for Argentina's negotiations with creditors to extend beyond a May 22 deadline, the country's economy minister said on Tuesday.**
"We are of the view that there is a big chance that the deadline is extended so we can eventually make the amendments that are necessary in order to achieve a sustainable deal with our creditors," Minister Martin Guzman said in a webcast.
Both sides have exchanged proposals to restructure some $65 billion in debt, and Guzman said they are still having a "constructive" dialogue and need to deepen their collaboration.
"We are in the middle of negotiations, both sides are working with intention of reaching a deal," he said.
Guzman's comments come as the South American country faces a Friday deadline to pay $500 million in interest or face defaulting on its obligations for a ninth time.

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Argentina's race to solve $323 billion debt conundrum

21-May-2020
By Adam Jourdan
BUENOS AIRES, May 21 (Reuters) - **Argentina is racing to avoid a messy ninth sovereign default as it firefights recession, stubborn inflation and increasingly wary investors, who have pushed the South American grain giant's bonds into distressed territory since last year.**
The country, which had a total $323 billion debt pile at the end of 2019, needs to pay interest on three bonds on Friday, the same day as an increasingly fragile-looking deadline to strike a $65 billion restructuring deal with holders of its foreign debt.
Argentina's center-left government made an initial proposal to bondholders in April, which was rejected by major creditor groups who have now made counter proposals. The two sides remains "meters apart," though are edging closer.
The country's economy minister, Martin Guzman, said on Tuesday he expected the Friday deadline for a restructuring deal to be pushed back with work still to be done to close the gap between the government and its creditors.
Argentina's initial proposal included a three-year halt on payments, a 62% coupon cut, equivalent to a $37.9 billion reduction, and a 5.4% reduction of principal, amounting around $3.6 billion. It also pushed maturities to 2030 and beyond.
An initial deadline on May 8 passed and was extended to May 22.
The Exchange Bondholder Group, which holds around $4 billion of bonds, has proposed a short payment halt until November with coupons ramping up each year, a zero principal haircut and a mechanism to increase payouts tied to

GDP.
The Argentina Creditor Committee, Fintech and Gramercy proposed a bond maturing in 2040 with coupons on dollar bonds starting at 1.25% in November 2020, rising to 5.875% by the end of 2025. Amortization payments would start in 2027.
The Ad Hoc Bondholder Group including BlackRock, Fidelity and others, proposed new bonds maturing from 2027 onward with generally no haircut, and cash coupon payments from 2021, a proposal obtained by Argentine publication Infobae showed.
That group's law firm White & Case did not respond to a request for comment on the proposal.
WHAT ELSE DOES ARGENTINA OWE?
Argentina's debt pile includes $130 billion of debt with the public sector, while around half of the total is split between foreign currency debt with the private sector and global organizations such as the International Monetary Fund.
Argentina owes the Paris Club creditor group $2.1 billion under a deadline that expired earlier in May. It has asked the informal group of lenders for a one-year extension on the payment.
The South American country is also negotiating with the IMF to strike a new agreement to replace a landmark $57 billion financing deal struck in 2018. Argentina has already received around $44 billion under that deal.

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IMF encouraged by Argentina creditor talks

21-May-2020
NEW YORK, May 21 (Reuters) - **The International Monetary Fund said on Thursday it is "encouraged" by the willingness to talk between Argentina and its creditors and hopes they reach an agreement that will put Argentina's economy in a sustainable path, the Fund's spokesman said.**
"We are encouraged by the willingness of both sides to continue discussions to reach an agreement," said Gerry Rice, director of the communications department at the IMF, in a scheduled press conference.
"I don't want to speculate here on the outcome of those negotiations," he said.
Rice said the IMF is in "active and constructive dialogue" with Argentine authorities but discussions have not started on a new fund-supported program.
"I do not today have a timeline on possible next steps," he said.

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Argentina to amend $65 bln debt offer, talks on "positive" course

22-May-2020
By Hugh Bronstein
BUENOS AIRES, May 22 (Reuters) - **Argentina is planning to amend its offer to creditors to restructure $65 billion in foreign debt, with talks on a positive course despite there being an "important distance" left to cover, Economy Minister Martin Guzman told Reuters.**
The negotiations, which are at a pivotal stage, are key to Argentina averting a hard default that would risk locking the grains producer out of international capital markets as its already fragile economy suffers from the coronavirus pandemic.
The South American country's government on Thursday extended a deadline for talks until June 2 after an initial restructuring offer failed to gain sufficient support. The country is also expected to miss bond payments due on Friday.
Guzman told Reuters in messages late on Thursday that the deadline extension would give the government time to revise its deal on the basis of discussions with creditors that he expected to take place in coming days.
"We are planning to make amendments with the goal of achieving a sustainable deal with our creditors," he said.
"We extended the offer so we can gain some time to make those amendments, and those will be determined in the process of negotiations over the next days."
The government and creditors had exchanged proposals over the last month, with both sides recently signaling a willingness to find middle ground and avoid a messy standoff.
Argentina is keen to turn the page on a history of defaults, with a major one in 2001 leading to over a decade of acrimony with creditors that was only fully resolved in 2016.
The country could enter a ninth sovereign default on Friday, when it faces the end of a 30-day grace period for around $500 million in bond payments. Guzman declined to comment on whether the government would make the payment.
Guzman said there was an "increasing mutual understanding" with creditors, even if there remained work to be done.
"There is still an important distance to cover but all sides are at the table trying to find a solution," he said.

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Argentina extends debt talks deadline as default looms

22-May-2020

By Cassandra Garrison, Adam Jourdan and Marc Jones

BUENOS AIRES/LONDON, May 21 (Reuters) - **Argentina on Thursday said it would extend a deadline for talks with creditors to restructure around $65 billion in foreign debt to June 2, as the two sides edge closer to a deal needed to avert a messy default that would drag the country deeper into crisis.**

The extension comes as Argentina faces a potential ninth sovereign default if it misses bond payments due Friday, which had also been the cut-off date for restructuring talks after an initial proposal by the government was rejected earlier in May.

The recession-hit South American nation and its creditors have been signaling progress in the talks but need to close a still sizeable gap between the debt relief the government is seeking and what creditors are willing to give up.

The government said in a statement it was still receiving and analyzing suggestions from investors over "different paths to improve recoveries" in order to maximize support for the deal while remaining what it see as sustainable.

Creditors and analysts expect Argentina to default on around $500 million in bond payments due on Friday, but say the impact of that would depend on the success of the restructuring deal and how fast one can be struck.

"I think it's going to be very difficult to avoid some sort of default," said Hans Humes, who heads Greylock Capital and has played a major role in one of the main creditor committees.

"But it's very different if you can come up with some way to cure the default in short order ... I would hate to see something disorderly as a hard default."

Humes, speaking at a virtual conference on Thursday, said he thought Argentina would find consensus with creditors.

"There should be enough flexibility to get to a deal that is acceptable," said Humes. "But we'll have to see."

Others remained skeptical.

Edward Glossop of Capital Economics said in a note on Thursday that a default would not surprise the market, where Argentine bonds are trading at distressed levels.

But he said talks could drag on and losses could be bigger than expected, with international bond values "as low as 30 cents on the dollar."

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Argentina defaults on bond payments as debt talks heat up

22-May-2020

By Cassandra Garrison, Adam Jourdan and Hugh Bronstein

BUENOS AIRES, May 22 (Reuters) - **Argentina missed payments on around $500 million in already delayed bond coupons on Friday, creditors and a ratings agency said, marking the country's ninth sovereign default amid ongoing restructuring talks with creditors.**

The default on three bonds came as negotiations to revamp around $65 billion in foreign debt revved up, with Economy Minister Martin Guzman saying talks were on a positive course despite an "important distance" left to reach a deal.

A source close to the talks and familiar with the government's thinking separately told Reuters that the two sides were making substantial progress and that a comprehensive deal was possible in a "matter of days, not months".

Argentina and its creditors, which have traded proposals over the last month, have indicated they are eager to avoid a messy default that could spark years of litigation and lock the major grains-producing country out of global capital markets.

The country has pushed the deadline for a deal to June 2 amid signs the two sides may be edging closer to an accord.

The default could however complicate things.

"Argentina today failed to pay $503 million in interest which was originally due on April 22," Gabriel Torres, a Moody's vice president said in a statement, adding it was consistent with the agency's current sovereign credit view on the country.

The bond payments had a 30-day grace period.

"We expect the road ahead for Argentina's debt restructuring is likely to become more problematic," Torres added.

Argentina's ambassador to the United States had earlier written in a letter obtained by Reuters that the country would miss the Friday payments given the "prospect of reaching an agreement with its creditors on new terms for their bonds."

Guzman said in a statement the interest payment was part of wider restructuring discussion "and we expect it to be addressed in the broader agreement that we are pursuing."

The minister told Reuters late on Thursday the government planned to amend its offer to creditors based on negotiations over the coming days.

"These are critical times. What's achieved now will affect the lives of millions of people and will likely have spillover effects on an entire class of assets," he said.

'ACTIONS LOUDER THAN WORDS'

Creditors also have shown signs of flexibility and indicated they are unlikely to take immediate action against Argentina over any default, as long as talks are on the right course.

A major creditor group holding around $16.7 billion of Argentina's international bonds said that while failure to pay would trigger defaults on various bonds, it recognized Argentina was seeking a comprehensive deal.

The Ad Hoc Bondholder Group, including names like Ashmore, BlackRock and AllianceBernstein, cautioned that it wanted more engagement from Argentina, which it said was still lacking.

"The Group welcomes Argentina's expression of an intent to work with creditors, but actions speak louder than words," it said. "Over the last month, Argentina has had virtually no substantive engagement with its creditors."

The Argentina Creditor Committee, another of the main groups, said it objected to Argentina's decision to default on its international bonds, though it remained committed to seeking a successful restructuring deal.

"This latest default, if not promptly resolved, will prevent access to the international capital markets needed for the recovery of the Argentine economy and therefore will be detrimental to the Argentine people."

The Economist Intelligence Unit's regional director for Latin America and the Caribbean, Fiona Mackie, said in a note that a default would make reaching a deal even more pivotal for Argentina's economy, already stuck in recession for two years.

"Without it, Argentina faces a troubling outlook not just this year, but for several years to come," she wrote, adding that fears of losing access to credit markets would spur the government to strike a deal.

"The alternative is grim, and includes the growing risk of a hyperinflationary spiral all while economic activity remains subdued by financing constraints," she said.

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Brazil

Moody's warns of risks to Brazil 'stable' rating outlook from deep recession

18-May-2020
By Jamie McGeever

BRASILIA, May 18 (Reuters) - **Credit rating agency Moody's on Monday warned of the growing risks to its 'stable' outlook on Brazil's sovereign debt rating, noting that an even deeper recession than currently forecast could require prolonged fiscal support from the government.**

Moody's expects Latin America's largest economy to shrink by 5.2% this year due to the coronavirus-fueled crisis, a forecast broadly in line with the market consensus and which would mark the biggest annual downturn since records began in 1900.

The risks are tilted to the downside, said Samar Maziad, Moody's lead analyst for Brazil's sovereign ratings. That could require more support for the economy and abort the government's plan to resume fiscal austerity and its reform agenda next year.

"Brazil's growth dynamics are subject to downside risks," Maziad said in a video call with reporters on Monday. "If the fiscal deterioration becomes permanent, that would be the critical trigger for a rethink on the outlook."

Moody's maintained its outlook and "Ba2" credit rating on Brazil's sovereign debt on Friday, citing three main reasons for optimism on the debt dynamics: a resumption of fiscal austerity soon; record low interest rates helping to service a record debt load; low external debt and strong foreign currency reserves.

Economy Ministry officials insist that crisis-fighting expenditures will be limited to this year only and that the government will resume its drive to get the public finances back on an even keel next year.

Emergency measures to tackle the twin health and economic crises will have an estimated 349.4 billion reais ($60 billion) impact on this year's primary budget balance, while the overall primary budget deficit could reach 700 billion reais, or more than 9% of gross domestic product.

Maziad also noted growing political risks. President Jair Bolsonaro has lost two health ministers in a month, his popular justice minister resigned and relations with Congress are rocky.

"We are cognizant of the risks that are out there - a deeper economic contraction, political dynamics, and a possible permanent deterioration in the fiscal performance," Maziad said.

Brazil's "Ba2" credit rating from Moody's is two notches below investment grade. Rival rating agencies Fitch and S&P recently lowered their outlook on Brazil.

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Brazil yields on bonds beyond 3 years too high to fund crisis spending

19-May-2020

By Marcela Ayres

BRASILIA, May 19 (Reuters) - **Brazil will finance emergency crisis-fighting spending by selling debt of up to three years maturity, beyond which borrowing costs start to get very high, Treasury Secretary Mansueto Almeida said on Tuesday.**

Speaking in an online event hosted by the France-Brazil Chamber of Commerce, Almeida said the economy could shrink this year by more than 5%, and that the budget deficit could exceed 9% of gross domestic product.

The economic crisis caused by the COVID-19 pandemic will trigger massive increases in government spending and borrowing, with the deficit excluding interest payments likely to reach 700 billion reais ($122 billion) this year and top 200 billion reais next year, Almeida said.

Borrowing at the long end of the bond market is unfeasible, he said, noting that even with yields at 8% or 9% on 10-year bonds, there little investor demand. Borrowing costs on bonds beyond three years' maturity start to get expensive, he said.

"Traditionally, buyers of long bonds - 10 years in Brazil is a long bond - are foreign investor and pension funds. Even before the crisis, they were already largely absent from the market," he said.

Almeida said the government may borrow overseas, either in U.S. dollars or euros. Foreign bond markets are open for a country like Brazil, and the current spread to borrow in dollars is "inviting", Almeida said.

Almeida again insisted that Brazil must return to its fiscal austerity, pro-market, and economic reform agenda as soon as the worst of the health crisis passes. That will reassure financial markets and kickstart the economic recovery, he said.

While Brazil's debt is on track to approach 90% of GDP this year, it is its trajectory rather than level that is most important, Almeida said.

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Brazil emergency measures to have 4.7% of GDP impact on budget

21-May-2020

BRASILIA, May 21 (Reuters) - **Brazil's emergency measures to support the economy during the coronavirus pandemic will have a 344.6 billion reais ($62 billion) impact on this year's primary budget balance, worth 4.7% of gross domestic product, according to an Economy Ministry presentation on Thursday.**

Outlining details of the presentation to reporters in Brasilia, ministry officials also said emergency payments for low-paid, informal workers will total 151.5 billion reais, more than previously announced.

($1 = 5.57 reais)
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Editing by Sonya Hepinstall)
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Brazil revises 2020 deficit, debt forecasts to record levels as crisis deepens

22-May-2020

By Jamie McGeever

BRASILIA, May 22 (Reuters) - **Brazil's government on Friday sharply revised its 2020 budget deficit and national debt forecasts to record levels, reflecting the hit to tax revenues and need for massive emergency spending caused by the coronavirus crisis.**

Based on the government's economic forecasts, gross national debt is expected to reach 93.5% of GDP this year from around 78% currently, and net debt to rise to 67.6% of GDP, the Economy Ministry said in a presentation.

Taking into account emergency measures yet to be formally approved, the central government budget deficit excluding interest payments could balloon to 675.7 billion reais ($121 billion), or 9.4% of gross domestic product, the presentation said.

The broader public sector deficit, meanwhile, would reach 708.7 billion reais, or 9.9% of GDP, assuming these emergency measures are approved.

The projections were announced after the ministry issued new official forecasts in its latest bimonthly revenue and expenditure report, which included a central government primary deficit of 540.5 billion reais.

Even that would be more than four times the 124.1 billion reais shortfall originally projected at the start of the year.

Brazil's economy is on course for its steepest annual downturn since records began in 1900. The government expects GDP to contract by 4.7%. The consensus in the central bank's latest weekly survey of economists is for a 5.1% fall.

These predictions may already look optimistic. Swiss bank UBS on Thursday became the latest in a clutch of banks to slash their GDP forecast to show a fall of 7% or more.

In the revenue and expenditure report, the ministry lowered its 2020 revenue estimate by 111.2 billion reais to 1.21 trillion reais, and raised its primary spending forecast by 267.7 bln reais to 1.75 trillion reais.

Figures on Thursday showed that federal tax revenues slumped 29% in April to 101.15 billion reais the lowest tax take for that month since records began in 2007.

($1 = 5.55 reais)

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Colombia

Colombia to swap $509 mln in local bonds

18-May-2020

BOGOTA, May 18 (Reuters) - **Colombia's national government will swap 2 trillion pesos ($509 million) in local bonds with the finance ministry's treasury department, the government said on Monday.**

The swap - the third so far this year - will take place on Monday and Tuesday and comes as the government is seeking resources to carry the country through the coronavirus pandemic and low oil prices.

Including this operation, the government has accumulated 6 trillion pesos in swaps this year.

The most recent swap took place on Friday when the government swapped 1.8 trillion pesos with the central bank

Monday's swap will delay the expiry of between 15 and 20 trillion pesos during 2020 and 2021 in local treasury bonds, director of public credit Cesar Arias told local radio.

"It allows us to optimize our expiry profile...we have also looked to optimize interest costs," Arias told Javeriana Estereo radio.

The country's expiry obligations are now less than 5 trillion pesos for this year and 12 trillion pesos for next.

Arias did not rule out future swaps, including with the market.

"These debt management operations this year, given the special circumstances that we have been living, have been more in the official sector, but we don't rule out that if conditions keep normalizing and are favorable we could also do debt operations with domestic and international market participants," he said.

The Fiscal Rule Advisory Committee widened the government deficit limit for 2020 to 6.1% of gross domestic product - equivalent to about 60 trillion pesos - earlier this month, ahead of an economic growth contraction the government predicts will reach 5.5%.

($1 = 3,926.06 Colombian pesos)
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'Highly uncertain' whether Colombia will meet 2020 deficit target

21-May-2020

BOGOTA, May 21 (Reuters) - **It is "highly uncertain" whether Colombia's government will meet its deficit target of 6.1% of gross domestic product this year, Finance Minister Alberto Carrasquilla said on Thursday, due to spending needed to deal with economic fallout from the coronavirus pandemic.**

The country's Fiscal Rule Advisory Committee widened the government deficit limit for 2020 to 6.1% of GDP earlier this month - or about 60 trillion pesos ($15.7 billion) - from 4.9% previously and 2.2% preceding that.

The government of President Ivan Duque has earmarked billions in aid for businesses and increased spending for welfare programs to lessen the impact of a two-month coronavirus quarantine.

The government expects the economy to contract 5.5% this year.

"Whether we think it will be met or not will be discussed when we do the mid-year revision of fiscal targets, but I'll tell you it's highly uncertain because we don't know how long we'll need to implement these programs," Carrasquilla said during a virtual presentation.

Economic target revisions, usually released in June, will be delayed until the end of July, he said.

The government has designated 30 trillion pesos to respond to the coronavirus crisis and another 30 trillion in credit guarantees, Carrasquilla said.

"This 30 trillion that we have spent up to now and probably more that we will spend in future, are temporary," he said, adding he is not worried about increasing the country's debt, which was equivalent to about 50% of GDP before the crisis.

"We will end the year with debt indexes at their highest in history ... that 50% will rise to 60% or more, first because growth will be negative but also because of these temporary spending initiatives."

After the crisis is over, debt adjustment will take place via austerity, spending cuts and changes to taxes, Carrasquilla added.

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Ecuador

Ecuador cuts public spending by $4 billion in face of new debt crisis

19-May-2020

QUITO, May 19 (Reuters) - **Ecuadorean President Lenin Moreno on Tuesday**

announced new public spending cuts aimed at saving his government $4 billion as the Andean country faces a new debt crisis worsened by the coronavirus crisis.
The collapse in global oil prices and an economic slowdown as Moreno's government scrambles to contain one of Latin America's worst COVID-19 outbreaks have dented state revenues by $8 billion.
Ecuador's total public debt was $58 billion as of March, equivalent to almost 53% of gross domestic product.
Moreno, in a TV broadcast, also unveiled a new system to limit gasoline price changes. The system will allow prices to fluctuate by 5% from the oil price and will be revised each month.
Moreno's decision last year to eliminate state subsidies for gasoline spurred weeks of violent protests in Ecuador, which prompted him to reverse course.
The spending cuts will lead to a reduction in the work day by two hours, which will cut state workers' wages. Moreno said the government would also renegotiate its debt load, which would save an estimated $1.3 billion in interest payments.
Ecuador has registered over 33,000 coronavirus cases and around 2,800 deaths, overwhelming health and funeral services in the southern city of Guayaquil. In the country of 17 million people, the pandemic has left 150,000 people unemployed.

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Trinidad and Tobago

Moody's Says Changes Outlook on Trinidad and Tobago's Ratings to Negative, Affirms Ba1 Ratings

22-May-2020
May 22 (Reuters) - MOODY'S:

- **Moody's says changes outlook on Trinidad and Tobago's ratings to negative, affirms BA1 ratings**
- Moody's - negative outlook reflects increased downside risks to Trinidad and Tobago's economic, fiscal strength stemming from medium-term challenges
- Moody's, on Trinidad and Tobago, says fiscal, debt dynamics are highly sensitive to recovery in energy sector
- Moody's says Trinidad and Tobago's outlook informed by uncertainty regarding degree to which government will be able to offset revenue losses over time
- Moody's, on Trinidad and Tobago, says risks to government debt ratios remaining at higher levels have materially risen

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AFRICA

MEA - Middle East and Africa

Fitch Ratings: Coronavirus Darkens Fiscal Outlook for MEA Sovereigns

22-May-2020
Fitch Ratings-Hong Kong-May 22: **The global coronavirus pandemic has led to a sharp deterioration in fiscal prospects for almost all sovereigns in the Middle East and Africa (MEA), says Fitch Ratings.** This mainly reflects the impact of a sharp decline in oil prices on public finances of oil exporters, and the effect of domestic and international containment measures in curtailing economic activity and thus fiscal revenues.
Fitch forecasts a return to economic growth for most of the region in 2021, and general government (GG) deficits will narrow as a consequence. However, the deficits will remain wide in many countries, and debt will rise in most MEA sovereigns through 2021.
Among the minority of MEA sovereigns with declining GG debt to GDP ratios in 2021, several are facing immediate and binding financing constraints that mean further debt accumulation is capped. The expected normalisation of GDP - the denominator in the ratio - will also support a decline in debt ratios in some countries.
The economic shock created by COVID-19 has hit the region at a time when many countries had already gone through a significant deterioration of their public finances. Median GG debt as a share of GDP rose from a low of 36% in 2013 to 60% in 2019 among Fitch-rated sovereigns within the Middle East & North Africa region, according to our estimates. This trend was influenced by the previous drop in oil prices over 2014-2016. Median GG debt/GDP in rated Sub-Saharan Africa sovereigns rose from a low of 27% in 2012 to 53% in 2019, reflecting in part weak management of public finances and strong public investment.
Buffers to absorb the shock have been limited in several cases, partly as a result of the weakening of public finances prior to the outbreak of the pandemic. This has been reflected in our decision to downgrade the ratings of 10 MEA sovereigns since the start of 2020. In addition, the share of negative outlooks on sovereign ratings in the region - eight out of 33 - is higher than it was after the 2008 Global Financial Crisis or the 2014 oil-price shock, suggesting a high chance of further downgrades. A further five of the 33 are rated at 'CCC' or below, where Fitch does not assign an outlook.
Fitch has considered a downside scenario under which the re-emergence of infections prolongs the health crisis and confidence shock,

particularly in major economies. If the risks embodied in our downside scenario were to crystallise, this would be likely to result in additional deterioration in the credit metrics of MEA sovereigns. Those on negative outlook would be most vulnerable to downgrades under such circumstances.

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Egypt

Egypt likely to reduce T-bills, bonds bids following the IMF's $2.7 loan

21-May-2020

The Ministry of Finance announced on Wednesday it will likely reduce the accepted amounts of treasury bills (T-bills) and bonds bids issued in local currency until the end of FY 2019/2020, which ends in June.

The ministry said the move came on the back of receiving the Rapid Finance Instrument (RFI) loan from the International Monetary Fund (IMF), worth $2.7 billion, to address the COVID-19 crisis and its implications.

The ministry stressed that acquiring the IMF loan reflects the international financial institutions' praise of Egypt's economic and fiscal policies, which resulted in keeping Egypt's credit rate with a stable outlook by global credit rating institutions.

It added that these signs reflect the financial institutions' confidence in Egypt's ability to cope with the external shocks despite the negative impacts of the COVID-19 outbreak.

On Sunday, the Central Bank of Egypt (CBE) announced it is ready to issue EGP 19 billion in T-bills, on behalf of the Finance Ministry, in two installments: the first is estimated at EGP 8.5 billion with a 91-day yield, while the second is valued at EGP 10.5 billion with a 273-day yield.

Foreign investors sold more than half their T-bill holdings in local currency in March, according to the CBE, amid the COVID-19 pandemic which led them to pull money out of emerging markets.

Foreign customers held the equivalent of EGP 149.3 billion ($9.5 billion) as of the end of March, down from EGP 310.65 billion at the end of February, according to the CBE.

Meanwhile, Finance Minister Mohamed Maait said in April that foreign investment in Egyptian T-bills stood at between $13.5 billion and $14 billion, which may include foreign holdings of treasury bonds, which the central bank doesn't provide figures for.

Egypt's net foreign reserves dropped by $5.4 billion to $40.1 billion in March, while the net foreign assets of the country's banks declined by EGP 162.12 billion, according to the CBE data.

In May, the CBE announced that Egypt's foreign reserves dropped by a further $3.07 billion in April.

On 11 May, the IMF's Executive Board approved Egypt's request for emergency financial assistance of $2.772 billion (100 percent of Egypt's quota) under the RFI to meet the urgent balance of payments needs stemming from the outbreak of the COVID-19 pandemic.

The IMF also announced that purchase under the RFI entails exceptional access due to outstanding credit under the previous extended arrangement under the Extended Fund Facility.

According to the IMF, Egypt achieved a remarkable turnaround prior to the COVID-19 shock, carrying out a successful economic reform programme supported by the IMF's Extended Fund Facility to correct large external and domestic imbalances.

Egypt sells $5 billion in three tranches of bonds

21-May-2020

By Yousef Saba and Davide Barbuscia

DUBAI, May 21 (Reuters) - **Egypt sold $5 billion in bonds in three tranches on Thursday with maturities of four, 12 and 30 years, a document showed, as the country grapples with the economic fall-out of the novel coronavirus.**

Egypt has been particularly hard hit by the impact of the pandemic on tourism, which is a major revenue earner.

Egypt sold $1.25 billion in four-year notes at 5.75%, $1.75 billion in 12-year bonds at 7.625% and $2 billion in 30-year notes at 8.875%, a document from one of the banks leading the deal showed.

Those levels were 50 basis points lower than those at which it began marketing the bonds earlier on Thursday. The deal attracted more than $6 billion in demand for each of the four and 12-year tranches and more than $7.6 billion for the 30-year bonds, the document showed.

Deputy central bank governor Rami Aboul Naga said the sale had attracted strong demand in a short period of time, adding there had been keen interest from investment funds and international institutions, state news agency MENA said.

Earlier this month, the International Monetary Fund said it had approved $2.77 billion in emergency financing for Egypt to help it weather the pandemic.

The government has taken steps to contain the outbreak, including a night curfew and the closure of cafes and mosques, but has stopped short of a full lockdown as it seeks to keep the economy going.

As of Wednesday, Egypt had reported 14,229

confirmed cases of the coronavirus and 680 deaths.
Egypt hired BNP Paribas, Citi, HSBC, JPMorgan and Standard Chartered to arrange the debt sale, which is expected to close later on Thursday.

(Reporting by Yousef Saba and Davide Barbuscia; Additional reporting by Ulf Laessing and Hesham Abdul Khalek
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Egypt likely to reduce T-bills, bonds bids following the IMF's $2.7 loan: Finance ministry

22-May-2020
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Kenya

World Bank approves $1 billion funding for Kenya budget support

20-May-2020
By Duncan Miriri
NAIROBI, May 20 (Reuters) - **The World Bank has approved a $1 billion loan for Kenya to help it close a gaping budget deficit and tackle the economic shocks from the coronavirus pandemic, both sides said on Wednesday.**
The loan, initiated before the health crisis started, is the second ever such direct lending for the budget from the World Bank, after the first was processed last year.
"Its approval is timely, since it will help fill the financing gap generated by the severe, ongoing shock to Kenya's economy," the World Bank said in a statement.
The budget deficit has swollen to 8.2% of GDP in the financial year to the end of June, from an initial forecast of under 7%, mainly due to reduced tax collection and lost revenue from VAT and income tax cuts.
Finance Minister Ukur Yatani said the approval was a vote of confidence in the government's handling of the economy.
"The... WB (World Bank) does not provide budget support to countries with a weak macro framework," he wrote on Twitter.
The bank said that $750 million of the loan, which will come from the International Development Association, will be repaid over a 30-year period, after a grace period of five years, with 1.35% interest.
The second component of $250 million, which will come from the International Bank for Reconstruction and Development, will have a market-based interest rate of about 2%.

"Both amounts are highly concessional," Felipe Jaramillo, the World Bank's Kenya head, told an online news conference.
The loan comes two weeks after the IMF approved $739 million in emergency financing, a move which has supported the shilling currency.

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Namibia

Moody's Changes Outlook on Namibia's Rating to Negative from Stable Affirms Ba2 Rating

22-May-2020
May 22 (Reuters) - Moody's:

- **Moody's changes outlook on Namibia's rating to negative from stable; affirms BA2 rating**
- Moody's says negative outlook reflects economic, financial pressures coronavirus shock is exerting on Namibia's credit metrics
- Moody's says effectiveness of measures to restore growth, revive fiscal consolidation will be challenged by Namibia's more rigid economic structure
- Moody's says for Namibia, coronavirus shock is transmitting through sharp growth shock reflecting lower mining activity, lower tourism arrivals
- Moody's says Namibia's gross borrowing requirements are high and rising

(Reuters.Briefs@thomsonreuters.com)

Nigeria

Nigeria's economy to contract by 8.9% this year in worse case

21-May-2020
ABUJA, May 21 (Reuters) - **Nigeria's economy could shrink as much as 8.9% in 2020 in a worse case scenario without stimulus, Finance Minister Zainab Ahmed said on Thursday, a deeper recession than forecast after oil prices plunged due to the coronavirus pandemic.**
Ahmed told the country's top advisory body, the National Economic Council, that the contraction could reach 4.4% in a best case, without any fiscal measures.

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World Bank sees Nigeria $1.5 bln loan decision in late July

22-May-2020
By Paul Carsten
ABUJA, May 22 (Reuters) - **The World Bank expects to make a decision in late July on a $1.5 billion loan to support Nigeria as it fights the novel coronavirus, the Bank's country director said in an interview on Friday.**
The World Bank is working on packages that could provide more than $3 billion to Africa's largest economy, which is facing what the lender says may be its greatest fiscal crisis in 40 years, set off by the coronavirus pandemic and resulting oil price crash.
"We were hoping to present to our board by late July or latest early August, because the government will need the finance," Shubham Chaudhuri, its Nigeria country director, told Reuters.
"The immediate challenge is a fiscal one: How does the government marshal the fiscal resources to keep basic government functions going?" Chaudhuri said.
On Thursday, Nigeria's finance minister said the economy could shrink as much as 8.9% in 2020.
The World Bank expects Nigeria's economy to shrink by between 3.2% and 8% in 2020, and government oil revenues could fall by a third or possibly more than half, said Chaudhuri.
The Bank's lead economist on Nigeria, Marco Hernandez, said even if the outbreak were contained, the situation was "unprecedented, shocking."
Nigeria's 2016 recession sent 13 million people into unemployment; this crisis might be "much more pronounced," Hernandez said.
World Bank loans like the $1.5 billion often have conditions attached to them - reforms that governments must enact to secure the money.
Chaudhuri and Hernandez declined to comment on any conditions for the loan, including contentious subsidies for fuel, electricity and propping up the naira currency that cost Nigeria billions of dollars a year.
"We have been recommending a move towards a unified exchange rate and a more flexible exchange rate for some time," said Hernandez, adding that it would help the recovery and boost investor confidence.

(Reporting by Paul Carsten; Editing by Kevin Liffey and Hugh Lawson)
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Rwanda

Rwanda to increase spending 7.5 % in

2020/21

21-May-2020

KIGALI, May 21 (Reuters) - **Rwanda plans to increase spending by 7.5% in the 2020/21 (July-June) fiscal year to 3.245 trillion francs ($3.43 billion), its finance minister said on Thursday.**

Donors will fund 15.2% of the budget with the rest coming from revenue and debt, Uzziel Ndagijimana told Rwanda's parliament while presenting a draft budget.

He said the country would borrow from abroad 783.4 billion francs but did not give details. Rwanda, like other East African nations, will present its final budget in June

($1 = 947.0390 Rwandan francs)

(Reporting by Clement Uwiringiyimana; Writing by George Obulutsa)

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Rwanda GDP growth to slow to 2% in 2020 from 9.4% last year

21-May-2020

KIGALI, May 21 (Reuters) - **Rwanda's economic growth is expected to slow to 2% this year from 9.4% in 2019, hurt by the effects of the COVID-19 pandemic, its finance minister said on Thursday.**

Uzziel Ndajigimana said the growth was expect to rebound next year to hit 6.3% and to reach 8% in 2022.

(Reporting by Clement Uwiringiyimana; Editing by George Obulutsa)

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South Africa

Moody's says South Africa's loan guarantee scheme will aid financial stability

18-May-2020

JOHANNESBURG, May 18 (Reuters) - **The 200 billion rand ($10.81 billion) loan guarantee scheme introduced by South Africa to keep small and medium size businesses from folding due to the coronavirus pandemic will help buffer the country's financial stability, ratings agency Moody's said on Monday.**

"It has the potential to reduce asset quality deterioration at banks and help maintain financial stability," the ratings firms said in a statement.

($1 = 18.5067 rand)

(Reporting by Mfuneko Toyana; Editing by Alex Richardson)

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S&P forecasts South Africa's economy to shrink 4.5% in 2020

22-May-2020

JOHANNESBURG, May 22 (Reuters) - **S&P Global Ratings on Friday said it projects South Africa's economy to shrink by 4.5% this year as a result of the COVID-19 pandemic that has impacted production and consumption.**

In April, S&P downgraded South Africa's credit rating further into non-investment-grade territory, saying COVID-19-related pressures would have significant adverse implications for the country's already-ailing economy and for tax revenues.

It lowered its long-term foreign-currency rating on South Africa to "BB-minus" from "BB" and its long-term local-currency rating to "BB" from "BB-plus," with a stable outlook.

"COVID-19 will weigh heavily on GDP growth given the strict domestic lockdown that has shut down much of the economy, the markedly weaker external demand outlook, and tighter credit conditions," S&P said. "As a result, we now project the economy to shrink by 4.5% this year."

The ratings agency projects growth of 3.5% for 2021.

South Africa's lockdown has entered its ninth week, leaving many businesses and individuals struggling without income in the recession-hit economy.

S&P said the weaker macroeconomic environment would also weigh heavily on fiscal revenues, projecting that the fiscal deficit would widen to 13.3% of gross domestic product in 2020 the widest in the country's democratic history.

S&P estimates net debt levels would rise to over 75% of GDP by the end of 2020.

"Our anticipation of an only tepid economic recovery means that public financing needs will likely remain elevated throughout the forecast period," S&P said. "As a result, the net debt-to-GDP ratio is unlikely to stabilize within this timeframe, rising to 85% by 2023, raising questions around debt sustainability."

(Reporting by Olivia Kumwenda-Mtambo; Editing by Leslie Adler)

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GLOBAL

World: EIU Global Forecast - Sovereign debt crises are coming

20-May-2020

The coronavirus pandemic is a game-changer for the global economy; 2020 and 2021 will be lost years in terms of growth. We only expect the global economy to recover to pre-coronavirus levels in 2022. The effects of the pandemic will be felt beyond economic losses; sovereign debt crises are likely. Governments in many developed countries have concluded that increasing public expenses, and therefore public debt levels, is preferable to the widespread destruction of productive capacity during the epidemic. As a result, public debt levels will increase sharply this year. For the most reliable sovereigns, the cost of servicing these much higher levels of public debt will not be an immediate cause for concern.

Public debt is piling up

However, the debt pile-ups will eventually have to be confronted. To curb fiscal deficits, governments in most developed countries will not be able to pursue austerity strategies as many did after the global financial crisis. Austerity absorbs political capital, and there might not be enough left to pursue such a plan, especially given that for many countries the last period of belt-tightening was so recent. Governments are also unlikely to be able to make the sorts of savings that could meaningfully reduce debt stocks; in many economies the public sector is much smaller than before the 2008-09 financial crisis, and cuts to healthcare spending, for instance, are unlikely, as the epidemic has brought to light the stress that health systems are under as a result of recent austerity measures.

Governments have little fiscal room for manoeuvre

Rather than dramatically cutting spending, governments are likely to look at the other side of their balance sheets and consider raising fiscal revenue. Among advanced economies, the trend over the past 40 years has been one of lower corporate and personal income taxes. Demographic changes were going to force governments to reverse this eventually; the coronavirus crisis might mean that they will have to do it sooner. However, it is not clear whether governments will be able to raise taxes quickly enough for such measures to be sufficient. Investors' appetite for increased amounts of sovereign debt may also wane.

Sovereign debt crises will quickly spread across the world

As a result, some developed countries will, in the medium term, find themselves on the brink of a debt crisis. This is compounded by the fact that many of the European countries that are among the worst affected by the epidemic, such as Italy and Spain, already had weak fiscal positions before the coronavirus outbreak. **South European states are still recovering from years of austerity, combined with high levels of public debt, an ageing population (which is more vulnerable to severe forms of the coronavirus) and persistent fiscal deficits.** A debt crisis in any of these countries could quickly spread across the globe, sending the global economy into another economic crisis.

Multilateral assistance will give poor countries some breathing space

Poorer countries might be among the hardest hit in such a scenario. In an effort to mitigate the economic impact of the pandemic, multilateral financial institutions, together with the world's wealthiest countries, have now offered substantial financial support to help to ease the financial burden on low-income and emerging-market economies. The IMF, the World Bank and other multilateral development banks have ramped up their emergency funding support, debt relief is on the agenda, and the G20 is offering substantial financial support by temporarily suspending debt repayments. These efforts will give the world's poorer countries some short-term breathing space on their balance of payments and free up resources for them to beef up healthcare spending and implement economic stimulus and relief programmes.

Poorer countries will emerge from the coronavirus crisis even more indebted

However, most new funding (albeit on concessional terms) will be added to the balance sheets of emerging economies, and the debt-assistance package from the G20 is a delay rather than a write-off, so debt repayments will remain outstanding and continue to accrue interest. Many countries will emerge from the current virus-driven economic crisis even more indebted and financially stressed than before. This will raise concerns about their ability to repay external debt in the absence of more comprehensive debt-relief plans.

Are massive debt restructurings on the cards?

Attention could turn to more widespread debt restructuring and debt relief as the coronavirus crisis unfolds in the developing and emerging world. Steps in this direction would require the leadership of the G20, the backing of multilateral financial institutions and, crucially, the full engagement of China, the world's largest lender to low-income and emerging markets. Adding private creditors to the mix would provide a substantial boost, but this is unlikely. The current fractious nature of global geopolitics and historical precedents suggest that any debt restructuring or write-offs are more likely to occur on a case-by-case basis rather than as a broad-brush policy.

A crisis that has blunted the euro's global profile

21-May-2020

- **Coronavirus crisis is denting euro's position as rival to dollar**

- **French/German recovery fund proposal a step forward**
- **ECB needs to step up role as global lender - economists**

By Tommy Wilkes and Dhara Ranasinghe

LONDON, May 21 (Reuters) - **The coronavirus crisis may have dealt a lethal blow to the idea that the euro could one day replace the dollar as the world's preferred currency, by exposing euro zone frailties and cementing the U.S. Fed's role as global lender of last resort.**

These months have highlighted - and possibly entrenched - the dollar's dominance of global commerce, investment, borrowing and central bank reserve savings, not least because of the differing U.S. and European responses to the crisis.

This week's proposals for a European Union recovery fund financed by jointly issued debt may burnish the euro's international role if it leads to more cohesion within the bloc.

But economists say that even if the proposal makes it past a late-May EU meeting, squabbling, whether over budget spending or the issuance of coronabonds to aid poorer states, has re-ignited fears that the euro could even break up.

"The crisis has again demonstrated that the euro may not be forever," said Joachim Fels, global economic adviser at Pimco, the world's biggest bond manager. "The dollar reigns even more supreme as the (world's) reserve currency."

Already in recent years the euro's share in global finance has shrunk - International Monetary Fund data shows its weight in allocated central bank reserves at around 20%, down from nearly 26% in 2010, though negative European Central Bank interest rates are partly to blame. The dollar, meanwhile, has a 61% share.

An ECB index of the euro's international role has tumbled from over 27% in the early 2000s to below 22% in 2017, the last time the measure was updated.

The euro has also steadily lost ground in forex trading and currency derivatives, and lags the dollar in international borrowing. Latest SWIFT data shows it accounts for 31% of global payments versus over 40% in 2012. The dollar's share has risen to 44% from 30%.

DOLLAR RUSH

The world's dollar dependence was underscored during the March market panic when businesses dashed for greenback liquidity to pay bills, redeem debt or just increase their buffers.

It was proof that access to dollars is paramount in times of crisis, so "central banks will anticipate that, going forward, they will need to hold dollars," said Brad Setser, senior fellow for international economics at the Council on Foreign Relations.

The rush, which sent the dollar up 8% in 10 days, only eased after the Federal Reserve activated hundreds of billions of dollars in swap lines to central banks to ensure greenbacks continued flowing, with other central banks also seeking swap lines with the Fed.

To other countries which needed emergency dollars, it offered repo loans, if they had Treasury bonds to post as collateral.

Elina Ribakova, deputy chief economist at the Institute of International Finance, contrasted the Fed's actions with the "timid" ECB.

"If you look at what's happening now versus in 2008, the Fed made lightening progress in recognising its role as the lender of last resort," Ribakova said.

In recent months the ECB has only established swap lines with Bulgaria and Croatia, but "there isn't a similar conversation about what happens if euro funding dries up," she added.

"You have to be more proactive if you ever want to challenge the dollar's position."

OPPORTUNITY

Since the euro's birth in 1999, its backers have pushed to end the dollar's post-World War Two dominance. The calls got louder when President Donald Trump resorted to weaponising the dollar in overseas dealings, such as the trade spat with China or while re-imposing sanctions on Iran.

Francesco Papadia, former market operations director-general at the ECB, said the dollar's "ultimate safe asset" role gave it an advantage "not even the incompetence and vagaries of the U.S. President can offset".

The current crisis may hurt the euro's international position further, he added, if the U.S. policy response fuels a faster recovery than in Europe.

But it also offered a chance to address one of the euro's drawbacks for reserve managers: the lack of a big pool of 'safe' assets, comparable with U.S. Treasury bonds.

Central banks usually hold reserves in bonds denominated in their chosen currency. U.S. government bonds, with $17 trillion-plus of AAA-rated paper in circulation, are the closest thing to a risk-free asset.

German, French and Italian bond markets combined come to less than half that size, and only Germany carries the top AAA score.

Even increased borrowing to fund COVID-19 recovery programmes will not bring Germany's debt pool anywhere close to that of Treasuries.

Backing for the Franco-German recovery fund plan may lay the foundation for joint euro bonds, which could eventually offer reserve managers a viable risk-free alternative to Treasuries.

In the near term, renewed Sino-U.S. tensions could discourage China from holding the majority of its reserves in dollars, according to Barry Eichengreen, economics professor at the University of California, Berkeley, who has long argued that there is room for more than one major reserve currency.

Some central banks have begun to diversify. Russia for instance slimmed down its Treasury holdings after being slapped with U.S. sanctions in 2014, and Russian oil firm Rosneft has switched export contracts to euros.

"I wouldn't write off the Europeans quite yet," Eichengreen added. "As the father of European integration, Jean Monnet, famously said, 'Europe is forged in crises'."

($1 = 0.9127 euros)
(Reporting by Tommy Reggiori Wilkes and Dhara Ranasinghe; Additional reporting by Sujata Rao; Graphics by Ritvik Carvalho; Editing by Sujata Rao and Hugh Lawson)
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EMERGING MARKETS

Mali, Dominica first to get Paris Club debt relief under G20 deal

18-May-2020
PARIS, May 18 (Reuters) - **The Paris Club of creditor nations have accepted suspending debt service payments from Mali and the Caribbean island of Dominica until the end of the year as part of a G20 debt relief deal, the group said on Monday.**
The two countries thus become the first two to benefit from the deal after the Group of 20 countries and Paris Club agreed to freeze the debt payments of the 77 poorest countries from May 1 through to the end of the year to free up cash for the fight against the pandemic.
The Paris Club, an informal group of government creditors, said in a statement that its members would continue to coordinate closely with other concerned parties, especially when the time comes to consider extending the suspension.

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Morgan Stanley turns bullish on emerging market sovereign debt

18-May-2020
LONDON, May 18 (Reuters) - **Morgan Stanley slapped a buy call on emerging markets sovereign debt on Monday, citing cheap valuations, the prospect of significant policy support and the fact that sell-offs in recent months have created a space for investors to move into.**
The U.S. investment bank said EM (emerging market) sovereign credit spreads had stabilised at cheap levels, especially against U.S. credit, fund outflows have stopped and issuance has resumed, suggesting that markets have priced in much of recent COVID-19 "shock".
"While we don't dismiss the risk of another leg down, we see many factors as supportive," Morgan Stanley analysts said.
So-called 'high-yield' countries with lowly credit ratings were "the only place to go" they added, recommending Argentina, Bahrain, Ghana and Pakistan.
Pemex (Mexico's state oil firm) also remained a top pick. However, they said they we're not adding Egypt to the buy list as it was already "priced to perfection". They also moved Ukraine down to a "dislike."

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Goldman Sachs: Brazil, Turkey vulnerable to local debt splurge

18-May-2020
LONDON, May 18 (Reuters) - **Brazil, Turkey and some frontier markets face the biggest risk from a possible surge in local sovereign debt issuance as developing governments ramp up spending to tackle the economic fallout from the coronavirus pandemic, Goldman Sachs said on Monday.**
Developing economies' assets were especially hard hit by a deep market sell-off in March and face rising borrowing costs.
That makes it more challenging for them to fund a stimulus spree on the scale of those by major governments, with interest rates near record lows, that are pumping trillions into their ailing economies.
How well-placed local debt markets across developing nations are to absorb heavy government debt issuance depends on factors such as domestic pension funds and insurance companies, the presence of local commercial banks and the buying power of central banks, Goldman Sachs said in a note.
"A key question is whether local markets are equipped to absorb the additional issuance if foreign portfolio investment is constrained or whether this will cause further increases in bond premia and renewed upward pressure on yields," Goldman Sachs' Kamakshya Trivedi wrote.
Brazil faced a "medium-to-high risk" from a potential surge in local government debt, he said.
"Although local markets are liquid relative to peers, it is highly likely that the local banking sector (both commercial banks and the central bank) will eventually have to increase their purchases to counterbalance the high bond supply and the foreign outflows driven by the low FX (forex) carry," Trivedi said.
Over the medium to long term, risks could escalate without meaningful fiscal adjustments, he said, adding the weakness of the currency over the last few months was a warning of domestic investors' low confidence in local assets.
Brazil's real has been the worst performer among emerging markets. The currency has weakened by around 30% against the U.S.

dollar since the start of the year.
Frontier markets - a subset of smaller and riskier emerging economies - faced a high risk from any local sovereign debt surge because of their relatively small number of institutional investors, relatively small banking sectors and because their central banks need to preserve foreign asset buffers to prevent pressures on the currencies.
The lack of a private sector counterweight to mop up a possible debt splurge means support from the official sector was likely to be inevitable, Trivedi said, adding he would also put Turkey in this group.
Turkey's lira fell to fresh record lows in early May although it has recovered since. Still, since the start of the year it has lost 14% against the dollar.

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Paris Club debt relief to pick up after G20 deal clarified

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PARIS, May 19 (Reuters) - **The number of countries to get Paris Club debt relief this year under a deal with the G20 is set to rise after the Club - a group of state creditors - clarified the terms, a French finance ministry source said on Tuesday.**
The Group of 20 leading economies and the Paris Club, an informal group of state creditors coordinated by France's finance ministry, agreed last month to freeze the debt payments of the 77 poorest countries this year to free up cash for them to fight the coronavirus pandemic.
However, some debtor countries have hesitated to sign up, fearing that it could hurt their credit rating after ratings agencies said a failure to pay private creditors who had agreed to suspend debt payments in parallel with the Club could be considered a default.
Kenya's finance minister told Reuters last week that this was one of the reasons Nairobi would not apply.
So far, the Paris Club has signed agreements only with the Caribbean islands of Dominica and Grenada, and Mali and Nepal, the French source said.
But the Club has now made clear that applicant countries can specify that they want relief only on their debts to state creditors.
"We've got about 20 more in the process of finalising the documents to sign agreements and we are expecting another dozen to make requests in the coming days," the source said.
The countries likely to sign off shortly include Cameroon, the Democratic Republic of Congo, the Republic of Congo, Ethiopia, Pakistan and Mauritania, another source familiar with the matter said.
Usually the Paris Club asks borrowing governments to seek the same debt repayment conditions from private sector creditors.
With this exception to that rule, the ratings agencies now understand that the debt relief programme is not negative for ratings, the source said.
Countries eligible for the programme have a combined $36 billion falling due this year, composed of $13 billion owed to other governments, $9 billion to private creditors and the rest to multilateral development lenders.

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Poor countries need more debt relief during pandemic, Germany's Merkel says

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BERLIN, May 20 (Reuters) - **Rich countries should help the world's poorest survive the coronavirus pandemic by keeping up development aid and mulling relief measures that go beyond a moratorium on debt payments, German Chancellor Angela Merkel said on Wednesday.**
Major international creditors agreed last month to relieve the poorest countries of debt payments this year to help them deal with the coronavirus crisis that has sparked the steepest downturn in the global economy since the 1930s.
Speaking to reporters following a video conference with leaders of international organisations such as the International Monetary Fund, World Bank and World Trade Organisation, Merkel said that more needed to be done to help the most vulnerable.
"For Germany, this means no cuts in development aid but further investing in overseas development aid and reorganising funds ... so that it fits better into this pandemic situation," Merkel said.
Leaders agreed during the video conference that the coronavirus crisis had increased the risk of protectionism across the globe, Merkel said.
"We see how harmful it is when supply chains collapse," Merkel said, adding that Germany wanted to strengthen the rule of law and the international trade system.
Of course, one lesson of the coronavirus crisis is that there is a need for Germany and other European countries to diversify certain supply chains to become less dependent on one country or one supplier, Merkel added.
"But the answer to the pandemic can certainly not be to renationalize all international supply chains now. Then everyone would pay a very high price," Merkel warned.

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IMF says over 20 poor countries seek debt relief, extension possible

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WASHINGTON, May 21 (Reuters) - **The International Monetary Fund said on Thursday that over 20 poor countries have requested relief from official bilateral debt under a G20-backed initiative and the Fund stands ready to support an extension of forbearance beyond the end of 2020 if needed.**

IMF spokesman Gerry Rice told a regular news briefing that more than half of the 73 poor countries eligible for have expressed interest in the program prompted by the coronavirus pandemic, and inquiries are expected to continue to increase.

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