PDM NETWORK

MEF Dipartimento del Tesoro

OECD BETTER POLICIES FOR BETTER LIVES

WORLD BANK GROUP

Click the links below for more info:

>> PDM Network

>> Emerging Markets Weekly Newsletter

>> Bimonthly Newsletter

Emerging Sovereign Debt Markets NEWS

Number 30 Week 18 – 24 July 2020

Table of contents

ASIA

Gulf Cooperation Council

Gulf government debt to see record $100 bln surge in 2020

20-Jul-2020
By Marc Jones
LONDON, July 20 (Reuters) - **The Gulf region is set to see a record $100 billion jump in debt this year as a result of the slump in oil prices and the economic repercussions of the COVID-19 pandemic, rating agency S&P Global estimated on Monday.**
S&P, which has already downgraded a number Gulf countries' credit ratings this year, said the sovereigns' central government deficits were expected to reach about $490 billion cumulatively between 2020 and 2023.
"We expect total GCC (Gulf Cooperation Council) government debt to increase by a record-high of about $100 billion in 2020 alone, with an additional $80 billion run-down in government assets to finance an aggregate GCC central government deficit of about $180 billion."
"Based on our macroeconomic assumptions, we expect to see GCC government balance sheets continue to deteriorate up until 2023," it added.

Saudi Arabia's deficit makes up the majority of the GCC fiscal deficit in nominal terms at about half of this year's and the next few years' $180 bln and $490 bln respective totals.
As a percentage of GDP, however, Kuwait has the highest 2020 central government deficit-to-GDP ratio of 39%, followed by Oman at 17%, Saudi Arabia at 15%, Abu Dhabi at 13%, Bahrain at 12% and Qatar at 10%.
S&P said it expected Gulf fiscal deficits to begin shrinking again from 2021, assuming that oil prices rise and production cuts are gradually tapered.
Debt issuance is seen meeting about 60% of the $490 billion financing requirement in 2020-2023 with the rest covered by asset drawdown. After this year's expected surge to $100 billion, total annual debt issuance is expected to drift down toward $70 billion by 2023.

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

Gulf States to keep currency pegs despite yawning deficits

23-Jul-2020
By Davide Barbuscia
DUBAI, July 23 (Reuters) **- Gulf countries, facing wider fiscal deficits amid low oil prices, are unlikely to devaluate their currencies even though defending their dollar pegs may lead to a depletion of foreign assets and debt accumulation, ratings agency Fitch said.**
Currency pegs fix the value of one currency relative to another and central bank reserves are crucial to enforce that relationship.
Policymakers in the petroleum exporting region have long said that dollar pegs serve their hydrocarbon-heavy economies, but this year's drop in oil prices has increased strains on a number of pegged currencies.
"We foresee no change in the pegged exchange-rate regimes in Gulf Cooperation Council countries in the medium term" Fitch Ratings said in a report, but it added that defending the pegs "will entail significant depletion of foreign assets and/or build-up of debt."
Saudi Arabia, Kuwait, UAE and Qatar have sufficient resources to maintain their peg regimes, Fitch said, while external financial support remains critical for Bahrain, which was pledged $10 billion from its wealthier Gulf allies in 2018 to avoid a credit crunch.
In the case of Oman, which has higher foreign reserves than Bahrain, buffers are eroding quickly and upcoming large debt repayments may undermine confidence in the peg.
Gulf States have been cutting and reallocating expenditure this year, and Saudi Arabia - the region's largest economy - has increased a value-added tax to boost revenues.
Fixing their finances through fiscal consolidation rather than by devaluating their currencies is consistent with the structure of Gulf economies, Fitch said.
"Devaluation would result in few competitiveness benefits to GCC countries given the undiversified nature of their economies," it said.
Social concerns are also likely to discourage governments from currency devaluations, as they may lead to increases in cost of living.
"Potential social backlash is a risk both of devaluation and fiscal consolidation, although fiscal policy may lend itself better to a more gradual adjustment," said Fitch.

(Editing by William Maclean)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

China

Five bln yuan-denominated treasury bonds issued in Hong Kong

23-Jul-2020
BEIJING, July 23 (Xinhua) -- **China's Ministry of Finance (MOF) issued 5 billion yuan (about 715.31 million U.S. dollars) worth of yuan-denominated treasury bonds to the Hong Kong Special Administrative Region Thursday.**
The bonds, targeting institutional investors, included 4 billion yuan of two-year treasury bonds and 1 billion yuan of five-year treasury bonds, the MOF said in a statement.
The MOF started selling yuan-denominated treasury bonds in Hong Kong in September 2009 to boost the region's economy and speed up the expansion of offshore yuan business.

Enditem

India

India’s Debt-To-GDP Ratio to Spike, Direct Deficit Monetisation Must Be Done, SBI Says

20-Jul-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jul 20) -- **India’s debt-to-gross domestic product ratio is expected to increase sharply this financial year and direct deficit monetisation must be undertaken, State Bank of India said.**
“We strongly emphasize that direct monetization is both a mathematical and a preferred policy option that could facilitate borrowing at a lower cost and anchor inflationary expectations at

least for now as it will be liquidity substitution in lieu of deficient Government revenue," Soumya Kanti Ghosh, Group Chief Economic Adviser of SBI, wrote in a note.

India aims to borrow a gross 12 trillion rupees this financial year. SBI expects gross borrowing by states and the federal government to be around 21.60 trillion rupees, with net borrowing at 18.90 trillion rupees.

Given that these borrowings are likely to increase the gross debt further, SBI estimates a combined debt of around 170 trillion rupees for the current fiscal year.

"Also, since the lockdown related to the pandemic has led to disruption of economic activity, nominal GDP is also likely to contract. This in turn will inflate the debt-to-GDP ratio to 87.6%," Ghosh said.

An increase in expenditure and shortfall in revenue also raised the risk that the federal government will announce additional borrowing in the second half of the fiscal year.

"There has been a decline in money multiplier in the Indian context. Thus, it is unlikely that a direct monetization if used as a policy option will have any inflationary consequences given the stagnant demand," Ghosh said.

Open market bond purchases by the Reserve Bank of India could boost liquidity further and this could act as an enabler on inflationary expectations as food inflation is running at high levels.

Ghosh further recommends direct monetization through the issue of perpetual bonds or other similar instruments, saying that could significantly bring down the cost of borrowing at the long end.

"Mathematically, we believe RBI would have to still support additional borrowings only through a combination of OMO purchase and direct monetization of deficit," he said. "The FRBM Act clearly mentions that direct monetization of deficit can be used by the government in certain exceptional circumstances. The current Corvid pandemic is one such."

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

India's deteriorating debt profile puts onus on growth revival

20-Jul-2020
New Delhi

New Delhi, July 20 **-- India's debt profile is set to worsen sharply in FY21 with mounting government borrowing and falling nominal GDP, making growth revival all the more imperative.**

The country's debt to GDP ratio was already worsening before the coronavirus pandemic hit the economy, rising from 67.4% in FY12 to 72.2% in FY20. Higher level of borrowing and worsening growth outlook is likely to take India's debt to GDP ratio to 87.6% in FY21, according to a report by the State Bank of India released on Monday.

Finance minister Nirmala Sitharaman on Saturday said the sovereign rating downgrades by credit rating agencies may limit policy options for emerging market economies in their fight against coronavirus pandemic. However, analysts believe India's should be more worried about growth outlook than its debt profile and provide more fiscal support for revive growth rather than opting for fiscal conservatism.

Prachi Mishra, chief India economist at Goldman Sachs last week in a presentation at the Delhi based think tank NCAER said market participants and credit rating agencies appear to be less worried about the worsening of fiscal and debt positions in the short-term - in fact, it is the reverse. "They appear to be more concerned about the fact that India may not have the administrative and fiscal capacity to implement a large fiscal support, and that would be a headwind to growth. What would reassure markets and avoid further credit rating downgrades is not lower fiscal spending in the sort-run as many perceive, but most importantly a strategy to revive growth, combined with a credible fiscal plan for the medium term," she added.

Soumya Kanti Ghosh, group Chief Economic Adviser at State Bank of India said the current thinking of rating downgrade in policy circles is a false narrative as India's rating is likely to face a litmus test of downgrade in FY21 depending on what we have done to bring growth back to track. "Interestingly, the GDP collapse is pushing up the debt to GDP ratio by at least 4%, implying that growth rather than continued fiscal conservatism is the only mantra to get us back on track," he added.

Mishra said going forward, how the debt dynamics evolve, will depend on the evolution of real and nominal GDP growth, and government's fiscal plan. "The debt-to-GDP ratios could start to decline from FY24 assuming interest-growth differential turns negative putting a downward pressure on the debt dynamics, and with continued consolidation of primary deficit by the government. Moreover, even when debt starts to decline, it would likely be at significantly higher levels than it is currently," she added.

SBI said the higher debt amount will also lead to shifting of the FRBM target of combined debt to 60% of GDP by FY23 by seven years with the target now seem achievable in FY30 only. "The moot point is the sustainability of the Indian debt. The current level of foreign exchange reserves is sufficient to meet any external debt obligations. On the internal debt, since most of the debt is domestically owned, the debt servicing of the same is not an issue," he added.

Moody's Investors Service last month said lower real and nominal GDP growth over the medium term will diminish the government's ability to reduce its debt burden, after a significant rise as a result of the coronavirus economic shock. "A mixed track record on implementation of revenue-raising measures lowers the prospects of fiscal policy-driven budget consolidation, amplifying a long-standing weakness in India's credit profile," it added. Published by HT Digital Content Services with permission from MINT.

Onus is on growth revival as debt profile gets worse

21-Jul-2020

New delhi, July 21 -- **India's debt profile is set to worsen sharply in FY21 with mounting government borrowing and falling nominal gross domestic product (GDP), making growth revival all the more imperative.**

The country's debt-to-GDP ratio was worsening even before the covid-19 pandemic hit the economy, rising from 67.4% in FY12 to 72.2% in FY20. The higher level of borrowing and worsening growth outlook is likely to take India's debt-to-GDP ratio to 87.6% in FY21, according to a report by the State Bank of India (SBI) released on Monday.

Union finance minister Nirmala Sitharaman on Saturday said the sovereign rating downgrades by credit rating agencies may limit policy options for emerging market economies in their fight against covid-19. However, analysts believe India should be more worried about its growth outlook than its debt profile and provide more fiscal support to revive growth rather than opt for fiscal conservatism.

Market participants and credit rating agencies appear to be less worried about the worsening of fiscal and debt positions in the short term, Prachi Mishra, chief India economist at Goldman Sachs, said last week in a presentation at the Delhi-based think tank National Council of Applied Economic Research. "They appear to be more concerned about the fact that India may not have the administrative and fiscal capacity to implement a large fiscal support and that would be a headwind to growth. **What would reassure markets and avoid further credit rating downgrades is not lower fiscal spending in the short run as many perceive, but most importantly a strategy to revive growth, combined with a credible fiscal plan for the medium term," she said.**

The current thinking of rating downgrade in policy circles is a false narrative as India's rating is likely to face a litmus test of downgrade in FY21 depending on what the country has done to bring growth back to track, said Soumya Kanti Ghosh, group chief economic adviser at SBI. "Interestingly, the GDP collapse is pushing up the debt-to-GDP ratio by at least 4%, implying that growth rather than continued fiscal conservatism is the only mantra to get us back on track," he said.

How the debt dynamics evolve will depend on the evolution of real and nominal GDP growth and the government's fiscal plan, Mishra said. **"The debt-to-GDP ratios could start to decline from FY24, assuming interest-growth differential turns negative, putting a downward pressure on the debt dynamics and with continued consolidation of primary deficit by the government.** Moreover, even when debt starts to decline, it would likely be at significantly higher levels than it is at present," she said.

The higher debt will also lead to shifting of the fiscal responsibility and budget management target of combined debt to 60% of the GDP by FY23 by seven years with the target seeming achievable only by FY30, Ghosh said. Published by HT Digital Content Services with permission from MINT.

Risk-Reward Favourable for RBI to Support India Govt Borrowing

23-Jul-2020

By Dharam Dhutia

NewsRise

MUMBAI (Jul 23) -- **India's central bank would find risk-reward favourable if it adopts means other than a private placement at lower rates to support the government's borrowing programme, Spark Capital said.**

“In our assessment, the most important monitorable is how the hoarded excess liquidity in the system goes back into the economy through higher government spend and/or incentives for consumption and/or bank loan growth,” research analysts Gautam Singh and Vijayaraghavan Swaminathan said.

The government has increased its gross borrowing by 54% to a record 12 trillion rupees for the current financial year amid a slump in revenue. Market participants expect the borrowing to be further raised in the second half of the year, leading to calls for open market bond purchases or debt monetisation.

“A private placement at lower rates of interest artificially distorts the interest rates and goes against market pricing. Instead, higher OMOs at market rates are preferable. A higher dividend by monetising its assets is more elegant,” the analysts said.

However, the federal government is not considering monetising the deficit as of now and there have been no discussions with the central bank on this issue, Economic Affairs Secretary Tarun Bajaj said earlier today.

If the central bank decides to monetise the fiscal deficit to the tune of 2.5% of gross domestic product, it would provide an additional five trillion rupees to the government for expenditure, Spark Capital

said.
"This could be earmarked to spur spending on infrastructure or boost consumption or such productive expenditures to create a multiplier effect and could lead to swifter economic recovery."
The central bank's direct purchase of bonds should also help inject liquidity into the bond market and keep market interest rates low, the brokerage added.
The central bank has not yet conducted outright open market purchases in this financial year, but bond yields have eased amid expectations of the same despite rise in supply.
Still, the key risk of a fiscal deficit monetisation by the RBI would be the impact on the independence and credibility of the central bank, Spark said.

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

Indonesia

Indonesia may return tax to companies amid pandemic

24-Jul-2020
By Gayatri Suroyo and Maikel Jefriando
JAKARTA, July 24 (Reuters) - **Indonesia is considering returning tax paid by companies to support them during the coronavirus pandemic, the country's deputy finance minister said on Friday, as the government seeks to retune parts of its economic stimulus.**
Southeast Asia's largest economy has budgeted 695.2 trillion rupiah ($47.81 billion) for its pandemic response, but some existing tax incentives had not been widely taken up, Suahasil Nazara said in an online interview.
"We're thinking of giving a tax cashback. So if a business player has been compliant with its taxes all this time, we will return their 2019 taxes," Nazara said, declining to comment on whether this could be all or part of a company's tax payments.
The government may also scrap a minimum electricity payment for businesses in the pandemic, allowing firms to pay only for power consumed, he said, adding that power company Perusahaan Listrik Negara would get state compensation.
Government spending and a projected fall in revenue is pressuring Indonesia's budget, with the 2020 deficit set to be the widest in more than a decade at 6.34% of gross domestic product.
The government has faced criticism for being slow to spend after only using 39% of the 2020 budget in the first semester.
Nazara said the finance ministry had been meeting other government agencies to accelerate the execution of programmes to try to prevent GDP from contracting this year after growing 5% in 2019.
DEBT MONETISATION
Indonesia has issued an emergency decree to waive a fiscal deficit ceiling of 3% for three years, while Bank Indonesia (BI) has agreed to buy 397.6 trillion rupiah of bonds this year and relinquish interest payments.
Nazara said this would help manage the proportion of interest expenses in the budget at 14%-15% annually, up from 12% pre-pandemic. Without the BI arrangement, the proportion would hit 17% in coming years, he said.
The question of whether to continue BI's debt monetisation next year "is on the table right now, the answer of which we are formulating by moving forward little by little", he said.
Fiscal policy would remain expansive for as long as needed, Nazara said, noting that a target to return the budget deficit to below 3% in 2023 could still be relaxed if there was political agreement.
For next year, government officials and lawmakers have been discussing a 4.7% deficit.

($1 = 14,540.0000 rupiah)
(Additional reporting by Tabita Diela
Editing by Ed Davies)
((gayatri.suroyo@thomsonreuters.com; +622129927609; Reuters Messaging: gayatri.suroyo.thomsonreuters.com@reuters.net))

Kazakhstan

Kazakhstan preparing to offer 14 bond issues totaling 170 bln rubles on Russian market

20-Jul-2020
MOSCOW. July 20 (Interfax) - **The Central Bank of Russia has decided to register and allow the offering and public circulation of Kazakhstan's 14 bond issues totaling 170 billion rubles in Russia, the issuer has said.**
The volume of the 1-2nd issues will amount to 20 billion rubles each, of the 3-5th issues, as well as the 7-9th and 11-14th issues will hold 10 billion rubles each, the 6th and 10th issues will hold 15 billion rubles each. The face value of one bond is 1,000 rubles.
The maturity period for the 1st-4th issues is 3 years, for the 5th-6th issues is 5 years, for the 7th-10th issues is 7 years and for 11th-14th is 10 years.
Earlier the National Settlement Depository assigned International Securities Identification Number (ISIN) code to these issues.
This is the first step towards the placement of the Kazakh government bonds on the Moscow Exchange.

Kazakhstan's Finance Ministry said earlier that the country intends to raise $ 500 million by placing treasury bonds on the Russian market in 2020 to cover the budget deficit.

Kuwait

Kuwait scrambles to boost coffers with up to $16 billion debt plan

19-Jul-2020

- **Kuwait faces economic contraction, widening deficit**
- **Plans to issue up to $16 bln in debt by March 2021**
- **But parliament has opposed law to raise borrowing**

By Ahmed Hagagy

KUWAIT, July 19 (Reuters) - **Kuwait plans to issue between 4 billion and 5 billion dinars ($13 billion to $16 billion) in public debt by the end of the fiscal year ending March 2021 if parliament approves a long-debated debt law, a government document seen by Reuters showed.**

Facing one of the worst economic crunches in the oil-exporting Gulf region, Kuwait is scrambling to boost state coffers badly hit by the coronavirus crisis and low crude prices, rapidly depleting its General Reserve Fund (GRF) to plug a budget deficit.

A parliamentary committee is due to vote on the law - which would allow Kuwait to tap international debt markets - on Sunday ahead of putting it to the elected assembly for approval.

Legislators have been requesting more visibility from the state about use of the funds and repayment mechanisms given the government's heavy reliance on oil income.

"The government will face a real crisis in everything if the debt law is not passed," a government official told Reuters on condition of anonymity.

The law, which a parliamentary committee discussed last week, would allow it to borrow 20 billion dinars ($65 billion) over 30 years.

Other Gulf States have tapped international markets over the past few years and the region saw more issuances when oil prices crashed earlier this year as the pandemic hit global demand.

Even with parliamentary approval, Kuwait could need three to four months to prepare a debt sale, according to the government document.

A finance ministry official declined to comment when contacted by Reuters.

Kuwait has already depleted the cash in its GRF, the document showed. The International Monetary Fund estimates the deficit could reach more than 11% of gross domestic product this year, compared with a 4.8% surplus last year.

The finance ministry also proposed selling 2.2 billion dinars of the GRF's assets to Kuwait's other - much larger - sovereign fund, the Future Generations Fund, or borrowing from the central bank to boost state finances, the document showed.

Finance Minister Barak al-Sheatan said in a statement published in state media on Saturday that the ministry submitted to cabinet "available options for securing sufficient liquidity" and that the government had approved an "interim financial reform scheme". He did not specify the measures approved.

"The government looks forward to the legislative authority's cooperation," Sheatan said in the statement issued after S&P Global Ratings on Friday revised Kuwait's outlook to 'negative' from 'stable'.

Kuwait's 91-year-old Emir Sheikh Sabah al-Ahmad al-Sabah underwent successful surgery on Sunday morning after being admitted to hospital on Saturday, his office said. His designated successor Crown Prince Sheikh Nawaf al-Ahmed al-Sabah temporarily took over some of the ruler's constitutional duties on Saturday.

TAXES

The document said the cabinet approved a slate of reforms aimed at diversifying state revenues away from oil, but it did not specify them.

Lawmaker Riyadh al-Adsani had tweeted that reforms include introducing value-added tax and excise taxes, a tax on net profits of private businesses, reforming the wage structure in the bloated public sector, slashing some benefits and raising utility prices.

Successive parliaments have hampered far reaching economic reform plans over the past decade in a country whose citizens are accustomed to a cradle-to-grave welfare system.

Kuwait is due to hold parliamentary elections in the next several months.

Deutsche Bank estimates its economy will contract by 7.8% this year, the biggest fall among Gulf States.

Last month Kuwait's government approved a cut to state entities' budgets by at least 20%.

It is also considering making an annual 10% transfer of state revenue to the Future Generations Fund conditional on budget surpluses, a move that could save it some $3 billion in the current fiscal year.

($1 = 0.3070 Kuwaiti dinars)
(Writing by Davide Barbuscia, additional reporting by Yousef Saba in Dubai; editing by Emelia Sithole-Matarise)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

Lebanon

IMF plan only option for Lebanon, says

France's Le Drian

23-Jul-2020

BEIRUT, July 23 (Reuters) - **French Foreign Minister Jean-Yves Le Drian said on Thursday that Lebanon had no alternative other than an International Monetary Fund programme to help the country out of acute financial and economic crisis.**

Le Drian also told a news conference on an official visit to Beirut that the need for change and reform in Lebanon "is known by all" and that France stood ready to mobilise support if there is concrete reform.

(Reporting by Ellen Francis; Editing by Catherine Evans)

Lebanese central bank governor inflated assets as liabilities grew

23-Jul-2020

By Samia Nakhoul and Tom Arnold

BEIRUT/LONDON, July 23 (Reuters) - **Lebanon's central bank governor inflated the institution's assets by over $6 billion in 2018, its audited annual accounts show, underlining the extent of financial engineering used to help prop up the country's economy.**

The financial statements for 2018, a copy of which was seen by Reuters, were signed off with qualifications by EY and Deloitte just last month, and have not been made public.

The accounts show how the central bank managed to balance its books while helping to fund an ever-widening government deficit, including recording a 10.27 trillion Lebanese pound ($6.82 billion) asset described as "seigniorage on financial stability".

The accounts said Governor Riad Salameh "determines on a yearly basis the amount that should be allocated from the liability balance from seigniorage to deferred interest expense and other finance costs".

Most central banks record seigniorage, usually defined as a profit made from printing money, as an income stream. But Lebanon's central bank was recording expected seigniorage profits as an asset, according to the annual financial statement for 2018, prepared by the central bank and reviewed by EY and Deloitte.

"The item that deals with seigniorage is total fiction," said Steve H. Hanke, Professor of Applied Economics at the Johns Hopkins University and a central banking expert.

In an emailed response to Reuters, Salameh rejected the notion that the central bank's accounting was used to make its financial position appear stronger or to hide losses, saying it was in line with accounting policies approved by its board, as stated in the 2018 financial statements.

"Several central banks adopt cost deferral in order to achieve their objectives and deliver on their mandates," he wrote, without identifying those banks. "Banque Du Liban had to adopt it for relatively larger balances and for longer periods compared to other central banks as Lebanon has been witnessing exceptional circumstances for most of the past 15 years."

He said "deferred costs" had been accumulated over that period because of the central bank's intervention to support government finances, pressured in the wake of public servants' salary rises and the impact of an influx of Syrian refugees on the economy since 2011.

Deloitte declined to comment. EY did not respond to a request for comment.

The outlines of the central bank's accounting approach were first reported by the Financial Times.

Explaining why they were signing off on the accounts with qualifications, EY and Deloitte listed a number of factors including being unable to confirm all deposit balances and being unable to conduct an in-person inventory of the bank's gold reserves.

In addition, Deloitte and EY said the central bank used an accounting and financial reporting framework adopted by its own council, rather than International Financial Reporting Standards (IFRS). They said their own audit was conducted in accordance with International Standards on Auditing.

The central bank's unusual approach is permissible because there is no global standard for central bank accounting.

FINANCIAL ENGINEERING

During Salameh's 27 years in charge, the governor has used what he has described as "financial engineering" to keep Lebanon's public finances afloat and defend the pound's peg to the U.S. dollar, chiefly by attracting dollars from local banks with high interest rates.

The International Monetary Fund described Lebanon's central bank as "the linchpin of financial stability" in an October 2019 report "but at the cost of intensifying sovereign-bank linkages, which pose risks to banking sector stability, and weighing down its balance sheet while protecting banks' profitability."

Salameh has publicly defended the strategy.

"This engineering, we were forced to do it to buy time for Lebanon, so Lebanon could reform," he said in a televised address in April.

But an economic crisis that has led Lebanon to default on foreign currency debt and seen the currency plunge by 80% has shaken his reputation as a pillar of stability, and Salameh has become a focus of anger for street protesters.

Prime Minister Hassan Diab said on Tuesday that turnaround specialist Alvarez & Marsal would conduct a forensic audit and KPMG and Oliver Wyman a financial audit of the central bank amid a dispute over the scale of the financial losses facing the institution.

The 2018 report shows a number of methods used to inflate assets and minimise liabilities of the central bank, which the government and the IMF, from which Lebanon is seeking

support, say is $50 billion in the red.
As well as the unorthodox seigniorage accounting, the central bank also booked supposed profits on lending to the government. The cost of interest paid to banks at rates of between 10% and 20% was meanwhile constantly deferred, building up huge future debts, the statements show.
The statements also refer to the central bank purchasing treasury bills from the banks at a premium carried over unamortized, meaning it should be treated as a liability on the central bank's balance sheet.
"Central banks don't have strict rules like companies do, IFRS or GAAP," said Mike Azar, a senior financial adviser based in Lebanon, referring to international accounting standards.
"But there are good practices they should follow. One is not to show losses and resulting negative capital as fake assets."
GOLD RESERVES
Talks with the IMF that began in May are on hold while the government and central bank argue over the scale of losses in the financial system -- estimated at nearly $69 billion by Alain Bifani, a former member of Lebanon's negotiating team with the IMF -- and how they should be shared.
The most recent central bank data show it had assets of $152 billion last month. According to research by Credit Libanais, that included "other assets" valued at $48.2 billion in mid-June, 61% higher than a year before, a rise the investment bank attributed to seigniorage, open market operations and an appreciation in gold reserves.
The 2018 statements showed the central bank held gold worth 10.61 trillion pounds on which the auditors were unable to perform a physical inventory due to a "policy which gives access exclusivity to top executives of the bank".
One accountant, who spoke on condition of anonymity, said that should have raised a red flag given the central bank's asset position and credibility was under scrutiny.
In his email to Reuters, Salameh said he had recently approved a physical count of the gold which the bank's external auditors would be asked to attend, with the aim of completing it before the 2019 audit is finalised.
The accountant also said it was not best practice for the central bank's financial statements to be released so late.
A September 2018 paper by the IMF said more than half of central banks publish their statements within nine months of their financial year-ends.
Salameh blamed delays to the 2018 audited statements on the "unusual circumstances and social unrest" in Lebanon since October 2019 and the lockdown caused by COVID-19.
Asked about the 2018 report, Bifani, the second member of Lebanon's IMF team to quit last month, said:
"The most glaring thing is how they're hiding the losses. He is trying to inflate his assets as much as possible."

(Editing by Catherine Evans and Carmel Crimmins)
(samia.nakhoul@thomsonreuters.com)

Oman

Oman may issue bonds this year or require aid from neighbours, IMF as fiscal gap widens

21-Jul-2020
DUBAI, July 21 (Reuters) - **Oman is likely to issue bonds this year but may need to lean on aid from its wealthier Gulf neighbours or resort to help from the International Monetary Fund (IMF) if it does not, MUFG's head of Middle East research said on Monday.**
One of the weakest economies in the oil-rich Gulf region, Oman has so far not tapped the international debt markets despite a widening fiscal deficit amid a slump in oil prices and subdued demand due to the coronavirus pandemic.
Ehsan Khoman, MUFG's head of MENA research and strategy, said Oman will likely tap the international debt markets because it would not want to draw down too much on its foreign reserves.
The finance ministry did not immediately respond to a request for comment.
Khoman also said Oman can issue bonds because Bahrain, the only other junk-rated Gulf country, has already done so amid the pandemic, raising $2 billion in May.
"If it was to not tap the market, it would need to get that liquidity from somewhere else. So, maybe GCC states, maybe the IMF," Khoman said, referring to the six-member Gulf Cooperation Council.
He said the Bahraini dinar and Omani rial, which are pegged to the dollar, have seen some pressure in the forwards markets, though that pressure has "come down quite sharply" in the past month.
"Our baseline scenario is that Oman will continue to comprise adequate reserve buffers to sustain the currency peg over the medium-term. Though if market risk appetite were to sour, which could lead to an acceleration of asset depletion, then confidence in the peg could diminish," Khoman said.

(Reporting by Yousef Saba; Editing by Bernadette Baum)
((Yousef.Saba@thomsonreuters.com; +971562166204))

Philippines

Philippines: National Treasury awarded Php192.707B retail bonds

23-Jul-2020

The Bureau of Treasury (BTr) awarded P 192.707 billion worth of Retail Treasury Bonds (RTBs) in a recent auction.

Dubbed Ahon Pilipinas, Progresso Bond Para Sa Bayan, this auction is the 24th issuance of RTBs (RTB 24) of the Philippine government and second for 2020.

Issuance of RTBs has been part of government efforts to support financial inclusion and literacy among Filipinos by making investment instrument accessible to the public. It also aims to encourage the country's unbanked population to open an account, invest their money in low-risk, fix interest investment, and be paid in a quarterly basis during the term of the bond.

"Through the RTB 24, the combined effort of the government and the nation in the fight against COVID-19 will be a true testament to the Filipino spirit of bayanihan as we work together to support our country and our fellow countrymen," said National Treasurer Rosario V. de Leon.

"Since the creation of RTBs since 2001, it has been a nation-building exercise by providing an avenue for the Filipino people and the National Government to work together for the advancement of the economy," said De Leon in a press statement.

The RTB 24 with a 5 year term, encourages the general public to invest with a minimum P5,000 with an interest rate of 2.625% per annum that started July 16 and up to August 7, 2020 or an earlier date that may be determined by BTr.

Proceeds from the issuance of RTB 24 will be used to aid the Country's effort to mitigate the effects of COVID-19 and support the most affected sectors by the pandemic such as the healthcare system, displaced OFWs, the MSMEs as well as to finance the Government infrastructure projects, refinance the existing debt obligations and other national expenditures which focus on government efforts to address the current health crisis.

RTBs can be access in three ways: through the BTr website; the BONDS PH mobile app and over-the-counter bank branches selling agents.

Interested investors should have a peso account with selling agents banks accredited by the BTr or a Bond.

It is through a Peso account or Bonds. PH account that investors will receive their quarterly interest payments and principal amount maturity.

Philippines DBP: Invest in bonds, help raise funds for COVID-19 response

24-Jul-2020

For a minimum of Php 5,000, anybody can invest in the government's "Progreso Bonds" and earn interest rates higher than those offered by time deposits. While earning interest, investors are at the same time helping raise funds to address the COVID-19 pandemic.

Forbes.com defines bonds as "investment securities where an investor lends money to a company or a government for a set period of time, in exchange for regular interest payments".

In a press release, the Development Bank of the Philippines (DBP) is calling on its depositors as well as the general public to purchase the said "Progreso Bonds" for a minimum of Php 5,000.

"Progreso Bonds" or the Retail Treasury Bonds Tranche 24 (RTB-24) is "a five-year government-issued debt security, especially designed for retail investors". The offer period runs from July 16 to August 7, 2020.

"For a minimum of Php5,000, the public would have the chance to invest in a safe and higher-yielding instrument, which fetches an annual fixed interest rate of 2.625 percent, payable quarterly over the next five years," said DBP President and Chief Executive Officer Emmanuel Herbosa.

Not only will investing in the bonds reap interest for the investor, Herbosa said, but it will also mean helping augment government funds for projects related to the COVID-19 pandemic.

"We urge the public to invest in RTB-24 as it will fund priority health initiatives to respond to and recover from the COVID-19 crisis and to extend support to returning overseas Filipino workers and small and medium enterprises," Herbosa added.

"The government is expecting to raise a minimum of Php30-billion," the press release reads.

The bonds can be purchased from any DBP branch, or in its partner institutions.

Saudi Arabia

Saudi Arabia says G20 to consider extending debt suspension initiative

18-Jul-2020

DUBAI, July 18 (Reuters) - **Saudi Arabian Finance Minister Mohammed al-Jadaan on Saturday on Saturday said the Group of 20 advanced economies will consider extending a debt suspension initiative beyond this year.**

Jadaan told a news conference in the Saudi capital Riyadh that, as of July 18, 42 countries had applied for the initiative.

(Reporting by Davide Barbuscia; writing by Raya

Jalabi; Editing by Kevin Liffey)
(Raya.Jalabi@thomsonreuters.com)

Saudi economy likely worse in Q2 despite June improvement

18-Jul-2020

RIYADH/DUBAI, July 18 (Reuters) - Saudi Arabia's economy likely deteriorated more in the second quarter than in the first three months of the year, the Saudi central bank governor said on Saturday.
Speaking at the end of a virtual meeting of G20 finance officials, Ahmed al-Kholifey said he did not expect the Saudi economy to have improved in the second quarter despite a pickup in June.
Saudi Arabia's economy shrank by 1% in the first quarter, as the coronavirus crisis and lower oil prices took their toll.

(Reporting by Marwa Rashad, Davide Barbuscia; Editing by Hugh Lawson)
(Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

Moody's Says Saudi Arabia's Profile Reflects Robust But Weakening Balance Sheet

21-Jul-2020

July 21 (Reuters) - Moody's

- **Moody's says Saudi Arabia's credit profile reflects robust but weakening balance sheet and high level of economic strength**
- Moody's says Saudi Arabian government balance sheet likely to continue to weaken in next few years
- Moody's says Saudi Arabia's economy expected to grow at an average rate of around 3% during 2021-24
- Moody's says geopolitical risk weighs on Saudi Arabia's credit profile, driven by regional security threats and tensions with Iran
- Moody's says large stock of hydrocarbon reserves with low extraction costs, prudent financial system regulation support Saudi Arabia's credit profile
- Moody's says Saudi Arabia's credit challenges include its economic & fiscal exposures to declines in global oil demand and prices
- **Moody's says Saudi Arabia's negative outlook reflects risks to fiscal strength from shock to oil demand, prices triggered by coronavirus pandemic**

(Reuters.Briefs@thomsonreuters.com)

Saudi Arabia to widen privatisation scope, finance minister says

22-Jul-2020

By Davide Barbuscia and Marwa Rashad

DUBAI/RIYADH, July 22 (Reuters) - **Saudi Arabia will look to sell assets in sectors not previously considered for privatisation, the country's finance minister said on Wednesday, as the country contends with the economic impact of sustained low oil prices.**
Saudi Arabia, the world's largest oil exporter, is facing a sharp recession because of the coronavirus crisis and depleted oil revenues.
The International Monetary Fund has forecast a 6.8% contraction this year, but Finance Minister Mohammed al-Jadaan said at Bloomberg event that he expects the economy to contract less than that.
"A lot of factors work in our favour ... local and domestic tourism for example is picking up very nicely this month," he said.
Saudi Arabia has planned a series of privatisations in recent years, including the initial public offering of state-owned oil giant Aramco, which took place last year.
"We're looking at sectors that haven't been targeted before for privatisation," Jadaan said, mentioning healthcare and education.
Asked how much revenue privatisations would generate, he said the sale of assets would generate more than 50 billion riyals in the next four to five years.
The prospects for economic recovery were brightened by some promising July data, though the pandemic makes for an uncertain outlook, he added.
Saudi Arabia tripled its value-added tax to 15% this month as part of efforts to bolster state coffers. Though Jadaan said there are no imminent plans to introduce an income tax, he added that nothing could be ruled out.
Later on Wednesday state news agency (SPA) quoted an unnamed Saudi official as saying that the issue has not been discussed by the Cabinet or any government committee.
“This topic is not a matter of discussion,” the source added.
International debt investors are likely to be tapped by Saudi Arabia once again this year, Jadaan said, but no decision has been taken on the currency of the planned issuance.
Saudi Arabia, which has raised $12 billion from international bond issues this year, has increased local debt issuance significantly from its original plans, the minister said.

(Reporting by Davide Barbuscia and Marwa Rashad Editing by Toby Chopra, David Goodman and Jonathan Oatis)
(Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net)

Thailand

Govt to offer B30bn of green bonds in August

24-Jul-2020

Patricia Mongkhonvanit, the Public Debt Management Office director-general, briefs the media on the planned offer of green bonds, at the Finance Ministry on Thailand will offer up to 30 billion baht of 15-year green bonds to investors next month to help finance coronavirus support measures, a Finance Ministry official said on Friday.

Patricia Mongkhonvanit, the Public Debt Management Office director-general, told a briefing the bonds will be offered to institutional investors, with book building set on Aug 13. They will be sold at Bangkok Bank, Bank of Ayudhya and Standard Chartered Bank Thai. **Some 20 billion of bonds will be for the government's 1 trillion baht borrowing plan to mitigate the impact of the outbreak and 10 billion baht for the Mass Rapid Transit Authority of Thailand (MRTA), the official said.**

The bonds were being offered in cooperation with the Asian Development Bank, Bank for Agriculture and Agricultural Cooperatives (BAAC), the MRTA and the National Housing Authority (NHA). The ministry did not mention the interest rate.

A green bond is normally a fixed-income instrument and comes with tax incentives to enhance their attractiveness to investors. The ministry said it also supports BAAC and NHA plans to issue green bonds by the end of the fiscal year.

EUROPE

Czech Republic

Fitch Affirms Czech Republic at 'AA-'; Outlook Stable

24-Jul-2020

Fitch Ratings - Frankfurt am Main - 24 Jul 2020: **Fitch Ratings has affirmed Czech Republic's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook.**

KEY RATING DRIVERS

The Czech Republic's 'AA-' rating balances strong external and public finances, and a solid banking system, with lower GDP per capita and slightly weaker governance indicators compared with its rating peers. **The Stable Outlook reflects Fitch's expectation that a strong policy framework and measured policy response will help the economy absorb the COVID-19-related shock to domestic and external demand and lead the public debt ratio to stabilise in 2022 at a level still well below the 'AA' median, as the crisis response is unwound and the economy recovers.**

Following annual real economic growth of 3.7% on average from 2015-19, the Czech economy is forecast to contract by 7.0% in 2020 owing to the impact of the coronavirus, before rebounding by 4.3% in 2021 and 3.9% in 2022. The main channels of economic impact of COVID-19 in 2020 are the hit to domestic demand as a result of lockdown measures, drop in exports and a sharp contraction in investment (projected 22% yoy decline) and tourism (revenues projected to fall by 50%). The Czech Republic benefited from a relatively strong starting economic position going into the crisis, with unemployment at 1.8% (ILO definition) in February 2020, strong wage growth (2019: 6.4%), high household savings (1Q20: 13.5% of gross disposable income) and low debt levels overall. However, the economy is highly geared to external demand.

The auto manufacturing (including sub-contractors and the broader supply chain) accounts for over 9% of Czech GDP. Vehicle production fell by 52.5% yoy in 2Q20 while vehicle exports collapsed by 55% yoy in the quarter (the total contraction in auto production was 32.5% yoy in 1H20). While a small sequential recovery in auto production was visible as of June, it will take time to recover previous output and export levels. The sector also faces medium-term challenges from potentially tighter emission regulations and shifts in consumer demand towards electric/hybrid cars.

Fitch projects medium-term potential growth at 2.5%, with the main contribution from capital deepening. Risks are to the downside, particularly given weak demographics (19.2% of the population was over 65 years as of 2018), and sluggish productivity growth in recent years (2019: 2.1%, 2018: 1.7%).

Inflationary pressures are set to persist, despite slowing wage growth, given strong core inflation (3.5% yoy in June 2020) and food price growth (5.0% in June). The Czech National Bank (CNB) cut rates by a cumulative 200bp to 0.25% since February in light of the ongoing economic crisis. The trajectory of inflation, which has consistently stayed above the upper band of the CNB's inflation target of 2%+/-1pp so far in 2020, and pressures on the koruna (down by 5% vs the euro since January) - will be important determinants of monetary policy.

Fitch expects the general government balance to deteriorate to -6.3% of GDP in 2020 (current peer median: -8.6%) and average -2.8% in 2021-22. Fitch's projections include a cumulative 1.8pp of GDP in revenue foregone and 3.3pp of GDP increase in discretionary expenditures as part of a stimulus package. Its measures included wage payments for furloughed workers, reduction in the VAT rate for tourism services, increase in healthcare investments, extraordinary welfare payments and on the revenue side, suspension of some social security contributions, and corporate and personal income tax payments.

The fiscal stimulus also includes credits and guarantees (primarily on loans provided to businesses by commercial banks) with an aggregate guarantee and insurance capacity at around CZK858 billion (15.2% of 2019 GDP). The utilisation of credits and guarantees reached CZK25.1 billion (0.4% of 2019 GDP), as of end-June 2020. Fitch assumes that up to 20% of issued guarantees could crystallise on the government's balance sheet in 2021.

The Czech Republic will reportedly have access to EUR8.7 billion in grants and EUR15.4 billion in loans (collectively equivalent to 10.9% of 2019 GDP) under the EU's Next Generation Fund. These should offset the bulk of around a 20% decline in transfers expected under the next Multi-Annual Financial Framework (MFF) for 2021-27. The planned front-loaded disbursements of the Next Generation Fund could smooth the regular dip in economic growth seen between MFFs.

Fitch expects general government debt/GDP to increase by 7.1pp to 36.9% of GDP in 2020 (current peer median: 42.3%) before stabilising at an average of 34.8% in 2021-22. As of 22 July, the authorities have borrowed CZK551.8 billion (9.8% of GDP) in 2020, meeting 75.5% of gross financing needs, at relatively low costs. The redemption profile is also manageable, although 2021 will see a spike with nearly CZK300 billion (5.3% of GDP) coming due.

The Czech Republic's external finances will continue to be a rating strength. Its net external creditor position, at an estimated 23% of GDP in 2020, is bolstered by its large FX reserves (2020F: 64% of GDP) and large sovereign net foreign asset position, and outperforms its peers. We expect a mild deterioration in the current account balance in 2020. Pressures on the current account will be mitigated by large EU capital transfers and foreign direct investment.

The mostly foreign-owned Czech banking sector is well capitalised (1Q20 common equity Tier 1 capital ratio of 20.1%), with strong asset quality (1Q20: non-performing loan ratio of 2.4%), good profitability (1Q20: return on equity of 9.2%) and robust funding. In Fitch's view, banks are well placed to withstand the pressures on asset quality and profitability from the effects of the COVID-19 crisis and related interest rate cuts by the CNB and weak loan demand.

General institutional strength is underpinned by EU membership. World Bank Governance Indicators and Human Development Index rankings are slightly below the peer medians. GDP per capita is around half the current 'AA' median (at market exchange rates), although income levels are at 92% of the EU level as of 2019 (2009: 82%).

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

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

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

- Macro: We have introduced a new +1 notch adjustment in recognition of a track record of strong macroeconomic and fiscal policy management that has underpinned macroeconomic stability in a relatively small and open economy and improved its external and fiscal positions relative to peers, and will enable the Czech Republic to absorb the additional growth volatility that has impacted its SRM score without lasting effects on its long-term macroeconomic stability.

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

RATING SENSITIVITIES

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

Structural: Convergence of structural indicators, including GDP per capita and governance indicators, closer to rating peer medians, over the medium term.

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

Public Finances: Failure to reduce general government debt/GDP from 2020 levels over the medium term, for example due to a more pronounced and longer period of fiscal loosening and economic contraction.

Macro: Evidence of a significant deterioration in trend growth in the medium term, for example through failure of the auto sector to adapt to regulatory changes or industry/customer trends in key export markets.

BEST/WORST CASE RATING SCENARIO

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

KEY ASSUMPTIONS

Fitch expects the global economy to perform in line with Fitch's Global Economic Outlook (29 June 2020), which projects the Eurozone to contract by -8% in 2020 before growing by 4.5% in 2021 and 2.8% in 2022.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG CONSIDERATIONS

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

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

Czech Republic has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as strong social stability and voice and accountability are reflected in the World Bank Governance Indicators that have the highest weight in the SRM. They are relevant to the rating and a rating driver.

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

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

RATING ACTIONS

ENTITY/DEBT RATING PRIOR

Czech Republic LT IDR AA- Affirmed AA-
•ST IDR F1+ Affirmed F1+
•LC LT IDR AA- Affirmed AA-
•LC ST IDR F1+ Affirmed F1+
•Country Ceiling AAA Affirmed AAA
•senior unsecured LT AA- Affirmed AA-

Georgia

AIIB approves $50 mln loan for Georgia to ease impact of coronavirus

22-Jul-2020

TBILISI, July 22 (Reuters) - **The Asian Infrastructure Investment Bank (AIIB) said on Wednesday it had approved a 45 million euro ($50 million) loan to Georgia to support the South Caucasus country's economy and provide more protection against the coronavirus.**

The loan, which will be jointly financed by the World Bank, is the second for Georgia following $100 million in emergency assistance approved in May, which was used to finance the country's health infrastructure and social protection measures during COVID-19.

Georgia, a country of 3.7 million, has reported 1,073 cases of the coronavirus and 16 deaths as of Wednesday, a relatively low number compared to some countries.

However it expects its economy to be hit hard by the impact of the pandemic as it relies heavily on tourism, forecasting GDP will shrink by 4% this year after growing 5.2% in 2019.

"By providing financing to support mitigation measures and safeguard macroeconomic stability, AIIB's response will help minimise losses and put the country back on a recovery path," Konstantin Limitovskiy, AIIB's vice president for investment operations, said in a statement.

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

Hungary

Hungary central bank cuts base rate again, resumes bond purchases

21-Jul-2020

- **Base rate 0.6%, O/N depo rate -0.05%**
- **Decision in line with expectations**
- **Forint shade weaker vs euro after statement**
- **Deputy Governor Virag pledges "conservative" rate policy**

By Gergely Szakacs and Krisztina Than

BUDAPEST, July 21 (Reuters) - **The National Bank of Hungary (NBH) cut its base rate by 15 basis points to 0.6% on Tuesday, delivering its second straight cut to shore up the economy hit by the coronavirus pandemic, and said it would resume government bond purchases.**

The central bank, led by an ally of Prime Minister Viktor Orban, said the 0.6% base rate supported price stability and the recovery of growth "in a sustainable manner", signalling a halt in rate cuts.

"In the event of a persistent deterioration in the outlook for growth, the Bank will deliver the required additional economic stimulus using its targeted instruments," the NBH added, referring to its massive lending programme and corporate bond scheme for companies.

In a reply to Reuters questions, Deputy Governor Barnabas Virag said the NBH had made the necessary easing in short-term yields and would conduct a "conservative interest rate policy."

"On the whole, decision-makers sent the

message that at the moment they are not planning to further reduce the base rate," analysts at Equilor said.
At 1347 GMT, the forint traded at 351.15 versus the euro, weaker than the 350.7 before the decision, which was in line with a Reuters poll.
Virag said last month that July's cut would be as far as the bank would go, ruling out near-zero interest rate levels seen in Poland and the Czech Republic.
The central bank launched its bond-buying programme in early May, but suspended it after a few weeks. Now it said purchases would resume, targeting the long end of the yield curve.
Analysts expect Hungary's economy to shrink by 4.35% this year, while the NBH foresees modest growth of 0.3% to 2%.

(Reporting by Gergely Szakacs and Krisztina Than, editing by Larry King)
(gergely.szakacs@reuters.com; https://twitter.com/szakacsg; +36 1 882 3606; https://www.reuters.com/journalists/gergely-szakacs)

Hungarian central bank signs 4 billion-euro repo deal with ECB

23-Jul-2020
BUDAPEST, July 23 (Reuters) - **The National Bank of Hungary has agreed with the European Central Bank to provide euro liquidity to Hungarian banks to address possible euro liquidity needs amid the COVID-19 pandemic, the NBH said on Thursday.**
Romania and Serbia are also among a number of Eastern European countries that secured access to euro liquidity via similar repo or swap lines with the ECB in the wake of the coronavirus pandemic.
Under the deal, the ECB provides euro liquidity in exchange for adequate euro-denominated collateral. The NBH will be able to borrow up to 4 billion euros from the ECB until the end of June 2021, unless an extension is decided.
The ECB repo line comes on top of agreements with the Bank for International Settlements for 2 billion euros, a repo facility by the Federal Reserve, and an FX swap deal with the Bank of China. Taken together, they enable the NBH to increase foreign-currency liquidity by up to 10 billion euros within a short time, the Hungarian central bank said.
"The safety net created by the above agreements ensures additional foreign-currency liquidity over central bank reserves," the NBH said in a statement.
"By building the safety net, the Bank has significantly increased its room for manoeuvre, thereby it is able to give a quick and firm response to potential tension emerging in any sub-market while maintaining safe levels of international reserves."
Hungary's international reserves stood at 30.2 billion euros at the end of June, up from 24.9 billion euros at the end of February, just before the coronavirus pandemic reached Hungary.
Hungary, which had previously preferred forint-denominated debt financing, issued a total of 3.5 billion euros worth of eurobonds amid the pandemic to help finance its increased budget deficit.

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

Hungary's 2020 budget deficit could exceed 3.8%/GDP goal

23-Jul-2020
BUDAPEST, July 23 (Reuters) - **Hungary's 2020 budget deficit could exceed the government's revised 3.8% target after the deficit widened to 3.8-4% by the end of June as the coronavirus pandemic takes its toll on the economy, Finance Minister Mihaly Varga said on Thursday.**
On the government's website, Varga was cited by national news agency MTI as saying that further funds would be needed to restart the economy.
Varga reiterated that in the second quarter Hungary's GDP could fall by as much as 10% in annual terms.

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

Poland

Poland comfortable with EU's 2020 deficit forecast of 9.5%/GDP

22-Jul-2020
WARSAW, July 22 (Reuters) - **Poland's government is comfortable with an EU forecast of 9.5% of GDP for this year's general government deficit, the finance ministry's chief economist Lukasz Czernicki said on Wednesday.**
The government's existing forecast was 8.4%, up from last year's 0.7% due primarily to state support for local companies hit by the coronavirus.
Those funds have come mostly via debt issues by two state agencies, the PFR fund and BGK bank, expected to total almost 100 billion zloty ($26 billion) each this year.
Piotr Poplawski, senior economist at ING Bank in Warsaw, estimated that, including those funds, the deficit would hit 10% of economic output, higher than the EU average.
Finance Minister Tadeusz Koscinski told reporters the deficit excluding the funds would amount to around 100 billion zloty.
Before economic fallout caused by the pandemic made previous fiscal plans unrealistic, the

government had planned a deficit-free budget for 2020.
Koscinski said he expected the economy to shrink around 4.5-4.6% this year.
Next year the economy will get a first boost from the European Union, estimated at 160 billion euros, from the recovery fund that leaders reached a deal on on Tuesday, he said.

($1 = 3.8554 zlotys)
($1 = 3.8143 zlotys)
(Reporting by Anna Koper and Marcin Goclowski; editing by John Stonestreet)
(marcin.goclowski@thomsonreuters.com)

Romania

Romania's public debt nears 40% of GDP at end-May

18-Jul-2020
BUCHAREST July 21- **Romania's public debt increased by RON 23.2 billion (EUR 4.8 bln) in May, amid the EUR 3.3 bln Eurobonds issue, to reach RON 428.4 bln (EUR 88.5 bln) at the end of the month.**
The debt-to-GDP ratio reached 39.9%, over 2pp more than a month earlier. In addition to the Eurobonds, the Treasury also raised RON 1.5 bln (EUR 300 mln) in the month.
Since the end of 2019, Romania's public debt rose by RON 55 bln (EUR 11.3 bln), and the debt-to-GDP ratio advanced by 4.7pp.
The USD 3.3 bln Eurobonds in July and the financing needs for the rest of the year amid subdued economic activity are expected to push the debt above 45% of GDP.
This situation will trigger corrective measures and drafting relevant strategies. The lack of corrective actions will complicate the financing of the deficit: seen by the Government at 6.7% of GDP. The Government added no active fiscal consolidation measure to the passive measure of curtailing and deferring the pension hikes.
"We are already borrowing not only more expensive than in previous months but also at costs well above the level other countries in the region pay. We have the highest country risk in the entire European Union, and this is the reality we have to face," commented independent analyst Laurian Lungu for Ziarul Financiar.
He also pointed out that there is no correction on the public spending side, which will result in higher yields charged by lenders.

Business Insider, editor@romania-insider.com

Russia

Russia: Government debt may not exceed 20% of GDP in 2020-2025

21-Jul-2020
According to the action plant of the Russian Ministry of Finance for 2020-2025, the government debt should not exceed 20% of GDP in that period. As of 1 July 2020, the debt stood at RUB 14.80tn (EUR 192.63bn USD 222.18bn), of which RUB 11.2tn is internal obligations. It is 13% of GDP (the forecast before the coronavirus pandemic) or 14% of GDP (adjusted macro forecast). Earlier, the Ministry of Finance announced the program of borrowing RUB 5tn including RUB 4tn of repayment of previous obligations. Securities worth RUB 1tn have been issued since early 2020. **Thus, the government debt may reach 17% of GDP by the end of 2020. Extra funds will be invested in anti-crisis measures.** In 2021, RUB 1.6tn or more will be attracted. According to BKS Premier, the government debt may exceed 20% of GDP in late 2021 - early 2022 if economic stimulus rates remain the same. ACRA says the level of government obligations will stabilize and the government debt will not exceed 20% of GDP during the next three years if the crisis ends in 2021. There is a significant safe potential of debt growth.

Russian central bank plans to resume FX buying for reserves in 2022

24-Jul-2020 17:10:29
MOSCOW, July 24 (Reuters) - **The Russian central bank plans to resume its purchases of foreign currency for state reserves that are pegged to oil prices in 2022, after pausing them this year amid the rouble crash, Governor Elvira Nabiullina said on Friday.**
The central bank stopped putting pressure on the rouble with FX buying on the domestic market and started selling instead earlier this year for the first time since 2015 as the rouble nosedived over an oil price slump and the novel coronavirus.
Nabiullina said the central bank planned to restart buying FX under the fiscal rule when Russia's Urals oil blend prices average $45 per barrel in 2022.
The bank's FX operations are closely watched by rouble traders as they steer Russia's free-floating currency in the absence of other factors.
The central bank, which cut its rates to a record low on Friday, also decided not to carry out FX buying that it had to put on hold during the previous rouble crash in 2018.
Those postponed FX purchases will be netted with FX sales that the central bank planned to carry out as part of the deal to sell its stake in Russia's No.1 lender Sberbank to the finance ministry, Nabiullina said.
Given that the postponed FX purchases are worth $19 billion, the central bank will sell

only $2.6 billion in extra FX intervention in the fourth quarter, said Sofia Donets, chief economist at Renaissance Capital.
Without disclosing the amount that it will sell on the market after netting the internal flows, the central bank said this FX selling should not impact the Russian currency market.

(Reporting by Elena Fabrichnaya and Andrey Ostroukh;
Editing by Andrew Cawthorne)
(andrey.ostroukh@thomsonreuters.com; +7 495 775 1242)

Slovenia

Slovenia may borrow further 1.4 bln euro to limit COVID-19 impact

20-Jul-2020
LJUBLJANA (Slovenia), July 20 (SeeNews) - **Slovenia's government may further borrow up to 1.4 billion euro ($1.6 billion) by the end of the year to mitigate the negative impact of the novel coronavirus (COVID-19) crisis, the country's finance ministry has said.**
Slovenia has already borrowed 2.17 billion euro in 2020 to limit the adverse effect of the COVID-19 pandemic and the rest of the allowed borrowing for this year is 1.4 billion euro, the finance ministry said in a statement on Friday.
The borrowing since the beginning of 2020 has allowed the government to maintain the stability of the state budget and the possible assumption of further debt will depend on the developments related to the COVID-19 pandemic, the finance ministry said.
Earlier this month, the European Commission kept unchanged its forecast for Slovenia's economic performance this year, expecting it to shrink 7%. At the same time, the Commission cut its 2021 economic growth forecast for Slovenia to 6.1% from 6.7% predicted in May. The Commission noted that a recovery in consumption is expected to take place in the second half of 2020, thanks to the fact that household incomes have been maintained.

($ = 0.8727 euro)

Turkey

Turkey's external debt up to one-year maturity at $169.5 bln at end of May

20-Jul-2020
ISTANBUL, July 20 (Reuters) - **Turkey's central bank said on Monday the country's external debt maturing in a year or less stood at $169.5 billion, up nearly $5 billion from a month earlier.**
Public-sector debt made up 23.2% of the total stock. The central bank made up 11.4% and the private sector made up 65.4%, the bank said.
Short-term external loans used by banks declined by 5.8% to $7.3 billion in the first five months of 2020, it said. Short-term debt of state banks rose 2.6% to $25.7 billion in the same period, while the private sector's short-term external debt declined 13% to $78.4 billion.
Separately, data from the BDDK banking watchdog showed on Friday that state banks' short foreign currency positions had increased to $9.7 billion as of July 10, from $8.3 billion a week earlier, as they continue their largest direct intervention in years.
The increase in state banks' short FX position has coincided with greater stability of the lira, which is trading in a narrow range after settling in mid-May and staying almost unchanged from 6.85 to the dollar since mid-June.
The lira has faced downward pressure from falling interest rates over the last year to support economic growth - vital to President Tayyip Erdogan's long political dominance - and limit fallout from the coronavirus crisis.
The currency has lost some 45% of its value against the dollar since the end of 2017.
The combined short positions of the state banks add to more than $90 billion of central bank intervention since last year by bankers' estimates, for a total of about $100 billion used to support the Turkish currency.

(Reporting by Ali Kucukgocmen, editing by Larry King)
(ali.kucukgocmen@thomsonreuters.com, @alikucukgocmen; +902123507067; Reuters Messaging: Reuters Messaging: ali.kucukgocmen.thomsonreuters.com@reuters.net)

Turkey's central govt debt up 34.5% y/y at end-June

21-Jul-2020
ANKARA (Turkey), July 21 (SeeNews) - **Turkey's central government debt totalled 1.64 trillion lira ($239 billion/209 billion euro) at the end of June, up 34.5% year-on-year, the finance ministry said.**
Some 822.8 billion lira of the debt stock is denominated in the local currency while the remaining 818.4 billion lira is in foreign currency, the ministry said in a statement on Monday.
Turkey's central government debt totalled 1.22 trillion lira as of the end of June 2019.

(1 euro = 7.84666 lira)

Ukraine

New Ukraine central bank governor expects no delay in receiving IMF loans

20-Jul-2020

KYIV, July 20 (Reuters) - **Ukraine's new central bank governor, Kyrylo Shevchenko, said on Monday he did not expect there to be delays in Ukraine receiving loans from the International Monetary Fund under a new $5 billion deal.**

Shevchenko also told reporters the central bank would not allow uncontrolled inflation. He said the central bank would maintain its existing policy on having a floating exchange rate, and on PrivatBank, Ukraine's largest lender, which was nationalised in 2016.

(Reporting by Natalia Zinets; writing by Matthias Williams; Editing by Andrew Heavens)
(matthias.williams@thomsonreuters.com)

Ukraine returns to bond market after new central bank governor appointed

22-Jul-2020

KYIV/LONDON, July 22 (Reuters) - **The Ukrainian government said on Wednesday it would relaunch a Eurobond issue this week after being forced to postpone a $1.75 billion sale at the start of July, when the surprise resignation of the central bank governor rattled investors.**

Ukraine has hired international banks to organise the issuance of a Eurobond denominated in U.S. dollars and will also announce an exchange programme for outstanding Eurobonds maturing in 2021 and 2022, the finance ministry said in a statement.

Governor Yakiv Smoliy quit at the start of July complaining of "systematic political pressure".

New governor Kyrylo Shevchenko was installed last week, promising to keep the central bank free from political meddling. Bonds rallied on his appointment, although investors said much depended on how independent Shevchenko actually proved to be.

Ukraine's dollar-denominated sovereign bonds rose again on Wednesday, with some rising by their most since before parliament approved Shevchenko.

"I haven't seen the pricing yet but probably they will have to pay a few basis points more (as a result of the central bank drama), but not too much," said Viktor Szabo at Aberdeen Standard Investments.

"If you think back, the book size was $6.5-$7 billion originally for the new money. So people wanted to buy then and I guess they will want to buy now, there hasn't been that much of a deterioration in the situation."

The central bank held a call with investors this week ahead of the Eurobond sale.

"During yesterday's investor call, the new CB governor stressed the continuation of CB independence, and the goals of price and financial stability remain unchanged," said Richard House, CIO emerging market debt at Allianz Global Investors.

"The episode was unfortunate, but doesn't derail the overall positive Ukraine story."

Ukraine wants to raise debt on the back of securing a $5 billion loan deal from the International Monetary Fund that the government touts as a signal of its commitment to reforms while it battles an economic slump caused by the coronavirus.

"Ukraine also plans to launch tomorrow, on Thursday, 23rd July 2020, an accelerated switch tender offer for certain of Ukraine's existing notes due 2021 and 2022 up to $750 million in conjunction with the issuance of new notes," the finance ministry said.

(Reporting by Pavel Polityuk in Kyiv and Tom Arnold and Marc Jones in London; Writing by Matthias Williams; Editing by Hugh Lawson)
(pavel.polityuk@tr.com; +380 44 2449150; Reuters Messaging:
pavel.polityuk.thomsonreuters.com@reuters.net)

Ukraine to use $846 mln to buy govt notes maturing 2021, 2022

24-Jul-2020

KYIV, July 24 (Reuters) - **Ukraine, which sold a $2 billion eurobond on Thursday, will use $846.15 million to purchase outstanding government notes maturing in 2021 and 2022 to minimize the future debt burden, the Finance Ministry said on Friday.**

"Notwithstanding turbulent times for the EM countries, Ukraine continues to implement its debt management strategy with proactive management of upcoming maturities to reduce refinancing risks," Ukrainian Finance Minister Serhiy Marchenko was quoted in a later statement as saying.

The ministry confirmed market reports that the new bond was priced at 7.253% and would mature in March 2033.

"This transaction complements our efforts to maximize the amount of concessional financing available to Ukraine in order to ensure a sufficient liquidity buffer in this current environment," said Marchenko.

Ukraine relaunched a debt sale this week, which Kyiv had been forced to abort in early July following the shock resignation of its central bank governor.

The sudden resignation of Yakiv Smoliy, who blamed "systematic political pressure" on the central bank, rattled markets and sparked concerns at the International Monetary Fund whose $5-billion stand-by assistance for Ukraine is contingent on the central bank's independence. Kyrylo Shevchenko, appointed

last week as the new governor, made reassuring noises to investors and the IMF about stability and keeping the central bank independent.
At its monetary policy meeting yesterday, the central bank decided to keep the key interest rate unchanged at 6.0% although politicians appealed to continue cuts.

(Reporting by Natalia Zinets; Editing by Toby Chopra)
(Natasha.Zinets1@thomsonreuters.com)

LATIN AMERICA AND CARIBBEAN

Argentina

Argentina creditors close ranks over debt deal as government digs in

21-Jul-2020
By Adam Jourdan, Karin Strohecker and Marc Jones
BUENOS AIRES/LONDON, July 20 (Reuters) - **Argentina's government rejected a counterproposal from the country's three main creditor groups on Monday to revamp around $65 billion in foreign debt, doubling down on its own "final" offer as bondholders appeared to close ranks.**
Economy Minister Martin Guzman said the latest debt restructuring offer, the first from the three groups together, reflected a "lack of understanding" of the limitations faced by the crisis-stricken South American nation.
"Accepting what some creditors ask for would mean subjecting Argentine society to more anguish," Guzman said in a statement. "It would imply, for example, adjusting pensions, and we will not do it."
The two sides are trying to reach an agreement to restructure around $65 billion in foreign debt before a government-set deadline of Aug. 4, looking to avoid a messy and protracted legal standoff after recession-hit Argentina slipped into default in May.
Argentina's government made a "final" offer in July after talks broke down. Center-left President Alberto Fernandez and Guzman have since repeatedly said it was the maximum the country could offer.
The three groups -- the Ad Hoc group, Argentina Creditor Committee and Exchange Bondholder Group -- said their proposal, issued earlier on Monday, made "significant economic and legal concessions." They all agreed to oppose the government offer.
"Our three groups have also signed a cooperation agreement reaffirming that **Argentina's current offer falls short of a proposal that can be supported by the creditor groups," they said, adding they would not tender their bonds under the offer.**
The new creditor proposal puts the weighted average of the net present value (NPV) at 55.70 cents, according to a presentation seen by Reuters. Analysts had calculated the NPV of the government offer at 53-54 cents.
The unified opposition from the groups, which together hold more than a third of both Argentina's "global" bonds and its "Exchange" bonds, will make it tough for the government to get a comprehensive deal on its current offer.
The groups added, however, that a deal could still be struck.
"We are confident that a consensual resolution is in sight and that such an agreement will provide a path towards a sustainable economic future for Argentina's people," they said.
The three groups said their new proposal included an "amended version of the 2016 indenture" for eligible global bonds, a reference to the key legal clauses that have been a point of contention.
Guzman reiterated the government's offer was its "maximum effort" and he believed that most creditors would accept it.
Hans Humes, CEO of Greylock Capital, which was one of the prominent voices in the ACC committee before it exited the group and tendered its bonds, said there was a risk that some were misreading the reality of the Argentine situation.
"We may have been able to get concessions on legal language and adviser fees," the distressed debt veteran said. "But not the net present value (NPV) that Argentina has said no to many times."
The country's sovereign bonds, which have been buffeted since last year over concerns of a default, edged down 0.5% in on Monday. They have risen over recent months on hopes of a deal.
"We suspect we are getting closer to a deal," analysts at Morgan Stanley said after seeing the groups combine and their new offer.
"Having walked a long - and winding - road to get to where we are today, it would be surprising to see the parties becoming inflexible now."

(Reporting by Adam Jourdan and Karin Strohecker; additional reporting by Cassandra Garrison, Jorge Otaola and Rodrigo Campos in New York and Marc Jones in London; Editing by Catherine Evans)
(adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net)

Argentina's $65 bln debt deal inches closer despite standoff

22-Jul-2020
By Adam Jourdan, Karin Strohecker and Rodrigo Campos
BUENOS AIRES/LONDON/NEW YORK, July 21 (Reuters) - **Argentina and its creditors are likely to find a way to seal a $65 billion debt restructuring deal, analysts said, despite a**

standoff after bondholders joined forces to reject a government proposal and put forward one of their own.

Three major creditor groups on Monday unveiled a joint counteroffer, the first time the trio had unified, lowering their demands but hardening opposition to a "final" offer the government made in early July.

The new proposal closed the gap between two sides' proposals to within around 3 cents on the dollar in terms of valuation, which most said should be bridged in last-ditch talks. The two sides are currently working toward an Aug. 4 deal deadline.

"We expect that negotiations in coming weeks should ultimately lead to an agreement, given the authorities' appetite to avoid a chaotic default that would put the economy in further pain," Morgan Stanley said in a note.

The investment bank calculated the creditors' new proposal was valued at around 55.8 points at a 10% exit yield, versus 52.4 points for the government's offer, and that the two sides were "inching closer" to an deal even if more talks were needed.

Argentine over-the-counter bonds rose 0.6% on average on Tuesday after having edged down on Monday.

'WHERE THE RUBBER MEETS THE ROAD'

Argentina's President Alberto Fernandez and Economy Minister Martin Guzman, who has led the negotiations, have maintained that the government offer was the maximum effort the recession-hit country could make after slipping into default in May.

"I trust that the creditors understand that we are making a huge effort with the offer we made and that it is the most we can do," Fernandez said during a video conference on Tuesday hosted by the Americas Society/Council of the Americas.

He added it was impossible to do more with poverty levels at 40%, adding his government had inherited a country already in a "very complex situation" of recession and unsustainable debt.

"When we came into government in December, it's like Argentina was in intensive care and with an automatic respirator. And then the pandemic came and the respirator was gone. So now we face the situation that we face," he said.

Citi analysts said that the government's position may soften in coming weeks and that the new counterproposal was a "step in bringing together the two positions."

"The authorities have stated that the amended proposal presented in early July will not be modified, but we believe this is mostly a negotiation tactic," the bank added.

A creditor source with knowledge of the talks said that there was confidence both sides could move to find a middle ground between the two proposals.

"It is now really down to where the rubber meets the road. There is a tiny economic difference between the two proposals. There will have to be give on both sides," the person said, asking not to be named.

The person added that getting a deal done without litigation was in everyone's best interest and that an agreement could be reached in a matter of days if the government was flexible.

"If both sides are willing to move, they can make a deal quickly," the person said.

(Reporting by Adam Jourdan in Buenos Aires, Karin Strohecker, Tom Arnold and Marc Jones in London and Rodrigo Campos in New York; Additional reporting by Nicolas Misculin, Cassandra Garrison and Jorge Otaola; editing by Jonathan Oatis and Grant McCool)
(adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net)

Argentina posts June primary fiscal deficit of $3.53 bln

22-Jul-2020

BUENOS AIRES, July 22 (Reuters) - **Argentina posted a primary fiscal deficit of 253.706 billion pesos ($3.53 billion) in June,** the economy ministry said on Wednesday, as spending rose to counter the economic impact of the novel coronavirus pandemic.

($1 = 71.7700 Argentine pesos)
(Reporting by Jorge Iorio; Writing by Adam Jourdan)
(adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net)

Argentina may cede ground on legal terms in debt offer, not on cash flow

23-Jul-2020

By Adam Jourdan and Hugh Bronstein

BUENOS AIRES, July 22 (Reuters) - **Argentina could cede ground to creditors on key legal terms as it looks to strike a deal to restructure around $65 billion in foreign debt, but the government will not increase overall cash flow in the payout, two sources told Reuters.**

The South American country is facing a standoff with bondholders after creditor groups joined forces to reject the government's proposal this week and put forward one of their own. The government has repeatedly said it cannot offer more.

However, two sources close to the talks said the government may be willing to bend on some of the demands in the joint creditor counterproposal as long as it did not involve increasing the cash flow in any final deal.

Argentina's Economy Ministry declined to comment.

Creditors' legal demands include that amendments be made to the 2016 indenture for new debt issued in exchange for 'Macri' bonds, to prevent the government from using 'Pac-Man' style measures to make future changes to any agreement.

"Argentina might be willing to identify which are the pain points around legal clauses, which is creating tension and noise within the investors' community," one source close to the talks said, declining to be named as the negotiations are private.

Talks to identify where concessions could potentially be made were taking place, the person added, and there may be room to "shift and twist" the existing Argentinian proposal to increase the net present value (NPV) without putting in more money.

"So I think that there could be flexibility but not on the real cash flow."

A second source, a person close to the talks and familiar with government thinking, said in economic terms the current government offer was final, though there may be some leeway on legal clauses.

"In legal terms, Argentina could make modifications if a consensus emerges that the existing model clauses are somehow flawed," the person said. "There will be no changes to NPV, unless the creditors realize that after the restructuring Argentina merits a discount rate of less than 10%."

Despite digging in heels, analysts say a gap of about 3 cents on the dollar between the sides at the negotiating table should be bridged in last-ditch talks ahead of a current Aug. 4 deadline for a deal to avoid a messy legal standoff.

That has helped push up Argentine bond prices, which rose an average 1.8% on Wednesday.

Argentina has been in default since May, the country's ninth, and is headed for 10-12% economic contraction this year due to the impact of COVID-19, deepening a recession since 2018.

Siobhan Morden at Amherst Pierpont said a compromise solution would be a win-win for Argentina that would give it substantial cash flow relief and allow focus to turn to domestic debt markets and negotiations with the IMF.

"It's almost incomprehensible for Argentina to choose another alternative," she wrote in a note.

(Reporting by Adam Jourdan and Hugh Bronstein; Additional reporting by Rodrigo Campos; Editing by Tom Brown)
(adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net)

Debt doyen Buchheit backs Argentina over CACs dispute

24-Jul-2020
By Christopher Spink

LONDON, July 23 (IFR) - **Sovereigns should resist calls to get rid of their bonds' aggregated collective action clauses, which have proved controversial during Argentina's restructuring talks, according to leading sovereign debt lawyer Lee Buchheit. Ditching them could increase their future borrowing costs by raising litigation risks.**

"Such a retrograde movement would, in our opinion, inflict significant damage and cost on the market for emerging market sovereign bonds," wrote Buchheit in a paper with Duke University professor Mitu Gulati. Buchheit advised Argentina in 2016 when at law firm Cleary Gottlieb.

In the current stand-off between Argentina and its creditors, some of the country's bondholders initially demanded that only earlier iterations of collective action clauses, used in the country's 2005 and 2010 exchange offers, should be put in any new instruments coming out of the exchange.

This was prompted by Argentina's proposal that it could effectively choose which bonds to include in any new offer, should its initial exchange fail to get sufficient support under its aggregated collective action clause. This discretion only applies to bonds issued in 2016 and afterwards.

"They were trying to game the system to bring in or pull out different investors depending on how the votes went," said Mike Conelius, portfolio manager of T Rowe Price's Emerging Markets Bond Strategy, which holds some of the instruments.

"That is why on the Argentine side many bondholders were looking to go back to the 2005 indenture because it was stronger. Argentina showed their hand – they have not been a good actor in how these negotiations have gone."

Last week, three creditor groups said they now merely wished to amend the 2016 CACs, without precisely specifying how (see Emerging Markets). That could be along the lines of Ecuador's current restructuring, allowing creditors to change their minds and withdraw initial supportive votes before any offer reopening.

Gulati and Buchheit, who also advised Greece in 2012 on its €200bn restructuring that imposed a retroactive aggregated CAC across all its domestic bonds, said the latest version of CACs had been an important tool to try to ensure restructurings were not hampered by hold-out bondholders.

"The willingness of the hold-outs from Argentina's last restructuring to deploy a pari passu weapon on their quondam fellow bondholders illustrates that hold-outs pose a potential threat to all of the other parties caught up in these affairs," the paper said.

Aggregated CACs get around this by ensuring any modifications of repayment terms obtain "broad support of the holders of the instrument" and "reduce the risks posed by any minority hold-outs to the issuer and the supermajority of holders who accepted the modifications".

However, they accepted that CACs, as recommended by the International Capital Markets Association, should not be abused.

"A healthy financial system must start with an assumption that contracts will be performed

as they are written. Only extraordinary circumstances can excuse that performance and collective action clauses in sovereign bonds were not meant to give sovereign issuers the unilateral ability to change the terms of their bonds," the paper said.
"The group of experts that drafted the model ICMA CAC, comprising individuals from both the debtor and creditor sides of the spectrum, attempted to strike this balance. Their handiwork has enjoyed overwhelming acceptance by the market and should not now be abandoned."
Ecuador has suggested that it can only change the series of bonds in any proposed aggregation after holders are first given five days to withdraw their existing votes and if at least two-thirds of the original aggregated voting group by value has approved the offer.

Additional reporting by Paul Kilby
(This story will appear in the July 25 issue of IFR Magazine)
(chris.spink@refinitiv.com; +44 20 7542 3814; @ChristophSpink)
02B 500

Belize

Belize Announces Commencement of Consent Solicitation

18-Jul-2020
July 17 (Reuters) - Government of Belize:
- **Belize announces commencement of consent solicitation**
- **Belize - seeking consent of eligible owners of U.S. Dollar bonds due 2034 to a capitalization of interest payments due Aug & Nov 20, Feb 2021**
- Belize - funds to meet coupon payments on bonds, scheduled for august 2020, November 2020, and February 2021 will not be available
- Government of Belize - measure it has proposed gives it the best chance "of riding out this storm" while not materially prejudicing bondholders' position
- Government of Belize - consent solicitation will expire on august 10, unless extended or earlier terminated

((Reuters Messaging: Reuters.Briefs@thomsonreuters.com))

Brazil

Brazil economy showing signs of quick rebound

20-Jul-2020
BRASILIA, July 20 (Reuters) - **Brazil's economy is showing signs it will rebound quickly from the coronavirus crisis shock, Privatization Secretary Salim Mattar said on Monday, adding that there will be no tax increases to help plug the yawning budget deficit.**
Instead, lowering the country's tax burden, and cutting taxes and export tariffs, is vital to improving Brazil's competitiveness and growth prospects, Mattar said in a live event hosted by Banco do Nordeste.

(Reporting by Marcela Ayres
Writing by Jamie McGeever, Editing by Franklin Paul)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Brazil govt sees $154 bln deficit this year, to issue official outlook next week

22-Jul-2020
By Jamie McGeever
BRASILIA, July 22 (Reuters) - **Brazil's government on Wednesday revised its 2020 primary budget deficit forecast to 787.4 billion reais ($154 billion) in its latest bimonthly revenue and expenditure report, from a 540.5 billion reais shortfall projected in the last report in May.**
The wider deficit is almost entirely a result of the emergency spending measures taken to mitigate the coronavirus-related shock to the economy, with the outlook for revenues barely changed from two months ago.
This implies a deficit, excluding interest payments, of 11% of gross domestic product, according to the figures in the report. Waldery Rodrigues, special secretary to the ministry, said this will likely be reduced in new official forecasts to be published on July 31.
"That 787.4 billion will be used as an input into the new forecasts. Our expectation is the deficit estimate from earlier this month will be lower," he said in an online response to journalists' questions.
Fluctuations in the exchange rate, inflation and oil prices, as well as the government using its central GDP outlook of -4.7% as the basis rather than the recent market consensus of -6.5%, should result in a narrower 2020 deficit, Rodrigues said.
Earlier this month, the Economy Ministry said it projected a central government primary deficit of 795.6 billion reais, or 11.5% of gross domestic product, and a wider public sector deficit of 828.6 billion reais.
In the bimonthly revenue and expenditure report published on Wednesday, the ministry kept its primary revenue estimate steady at 1.2 trillion reais from the last report's 1.21 trillion reais, and raised its primary spending forecast by 229.3 billion reais to 1.98 trillion reais.
Earlier on Wednesday, Treasury Secretary Bruno Funchal said the wider public sector primary deficit will probably come in around

12% of GDP this year, easily the widest deficit on record.

($1 = 5.10 reais)
(Reporting by Jamie McGeever, Editing by Franklin Paul, Bernadette Baum and Jonathan Oatis)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Colombia

Fitch Says growth, Debt Risks Underpin Colombia's Negative Outlook

23-Jul-2020
July 22 (Reuters) -

- **Fitch says growth, debt risks underpin Colombia's negative outlook**
- Fitch says continue to expect Colombia's GDP growth to bounce back in 2021
- Fitch - improved popularity for Colombia's president Ivan Duque through coronavirus crisis could help government pass difficult reforms through middle of 2021

(Reuters.Briefs@thomsonreuters.com)

Colombian plans for debut nominal 30-year ColTes may bear fruit

24-Jul-2020
By Paul Kilby
NEW YORK, July 22 (IFR) - **Colombia's plans to issue its first 30-year nominal rate, peso bond may soon bear fruit as the country's finance ministry pushes ahead with a deal that has been in the works for over a year now.**
The finance ministry said last month that it aimed to issue in the second half of 2020 a peso-denominated Treasury bond, or TES, due 2050 through a local syndication process rather than the standard auction.
Cesar Arias, the country's director of public credit, has been exploring this idea for some time now and has already mandated BBVA, Citibank and Bancolombia to lead the transaction.
In April last year, Arias told IFR that he was thinking of selling the deal through a bookbuilding process so that both domestic and international investors would be able to participate.
The backdrop may be ripe for such an issue given the massive monetary easing being conducted throughout the developed world which is encouraging investors to seek yield elsewhere.
At the same time, emerging market countries are facing higher funding needs in the face of the Covid-19 health crisis, forcing them to be creative in how they raise financing.
"With central banks pushing rates down, investors are being forced to look for opportunities elsewhere and going out the risk curve," said Alejo Czerwonko, chief investment officer for emerging markets at UBS Wealth Management.
"When you see 10-year US Treasury rates at 62bp and 10 year (German) Bunds at minus 46bp, Colombia will draw interest if they compensate for the risks involved."
True enough, Colombia, which is also an oil producer, has been hit by the global pandemic and the rout in crude prices earlier this year.
The country's economy shrunk 16.65% in May, versus the same month a year ago, as lockdowns took their toll, according to Reuters.
But crude prices have stabilized as has the Colombian peso, which was trading at around Ps3,635 against the dollar on Wednesday, down from the Ps4,178 seen on March 23, according to Refinitiv data.
All this could bode well for appetite among foreign accounts, at least those willing to play in the local market and with a bond that is not Euroclearable.
"I like the long end of the local currency curve because it is quite steep. It seems it is pricing in some of the fiscal deterioration that the market expects post Covid," Sarah Glendon, senior analyst at Columbia Threadneedle Investments, said earlier this month.
"The market could have decent appetite (for a new 30-year nominal bond). The central bank has cut rates by 175bp since March and I believe they have 50bp more to go. That could be supportive as well."

(Reporting By Paul Kilby; Editing by David Bell)
(paulj.kilby@thomsonreuters.com; 646 223 4733; Reuters Messaging: paulj.kilby.thomsonreuters.com@reuters.net)

Ecuador

Ecuador ploughs on with $17.4 bln debt revamp with major creditor support

20-Jul-2020
LONDON/QUITO, July 20 (Reuters) - **Ecuador pushed forward with its debt overhaul plans on Monday, requesting a vote among its creditors on reconfiguring the terms of $17.4 billion of its external bonds, with its largest group of creditors backing the proposal.**
Under the proposed deal - unchanged from the government's earlier proposal - 10 existing bonds maturing between 2022 and 2030 would be swapped for three bonds due in 2030, 2035 and 2040, as well as a past due interest bond maturing in 2030.
This would provide debt relief of more than $10 billion over the next four years and $6 billion

more between 2025-2030 and deliver a nominal haircut of 9%.

"This restructuring, if it is accepted, will provide important relief to the country and will allow more resources to be destined to the management of the sanitary crisis and the reactivation and recovery of the economy," Ecuador's finance ministry said in a statement on Monday.

A spokesman for the International Monetary Fund said the group "welcomed" Ecuador's restructuring proposal.

Bondholders will have until July 31 to vote on the deal.

Two creditor groups, which have in recent weeks pushed for better terms, rejected the new proposal, saying it did not represent Ecuador's best efforts to reach an equitable deal.

The steering committee for the group, which includes Amundi, Contrarian Capital Management and T Rowe Price Associates, represents more than 25 institutional investors and an ad hoc group of holders of notes due in 2024.

They have holdings of more than 25% in certain series of the bonds and over 35% in others, according to earlier statements.

The groups did not immediately respond to requests for comment.

Ecuador's largest creditor grouping, the Ad Hoc Group including asset managers such as AllianceBernstein, BlackRock and Ashmore, is backing the plan.

The group, which collectively holds over 53% of Ecuador's total outstanding sovereign bonds and close to or more than 50% of almost every individual bond series, said it believed the plan would make "a substantial contribution to ensuring the sustainability of Ecuador's external debt in the medium term."

In response to questions about Monday's proposal, Tiago Severo, Vice President of Latin America Economic Research at Goldman Sachs, said: "It appears a somewhat risky strategy to us, and it may result in a temporary stall in the process."

"However, we remain of the view that the parties will ultimately find common ground and that a comprehensive restructuring will be achieved in the next few/several weeks," he said.

The government said it required the support of creditors holding at least 80% of the aggregate principal of all bonds apart from the 2024 issue. The latter, which has different terms, requires 75% support according to legal experts.

(Reporting by Karin Strohecker and Tom Arnold in London and Alexandra Valencia in Quito, editing by Karin Strohecker, Hugh Lawson, Chizu Nomiyama and Timothy Heritage)
((Tom.Arnold@thomsonreuters.com; +442075428510; Reuters Messaging: tom.arnold.thomsonreuters.com@reuters.net))

Ecuador debt talks turn boisterous amid bondholder protests

24-Jul-2020

- **DEBT RESTRUCTURING**

Government rejects Amundi-backed proposal

By Paul Kilby

NEW YORK, July 24 (IFR) - **Long held up as a friendly bond restructuring, Ecuador's debt talks suddenly got more boisterous last week when one creditor group took umbrage to the government's rejection of its counter offer.**

The Economy Ministry was quick to reject a counter proposal announced earlier this month by a Steering Committee of bondholders, which adds some long-term incentives, including ESG triggers on a new bond.

Ecuador called the proposal a "lose-lose" proposition, arguing among other things that the interest rates in the plan were too high.

In a strongly worded letter to Ecuador's legal representative Hogan Lovells, the Steering Committee – backed by Amundi and T Rowe Price – expressed its dismay at the country's decision to move forward with a plan agreed with BlackRock without taking on board its proposals.

Objecting to the tight timeframe to sign on to a consent solicitation by July 31, the group accused the government of using "high pressure tactics to force an unfavourable deal upon investors".

Calling the deal "coercive", the committee said that "Ecuador has insisted that bondholders decide within a timeframe of only 10 days whether to accept this exchange offer, lest they risk further losses in the form of accrued and unpaid interest."

It accused the Republic of potentially violating provisions in the bonds eligible for the exchange by providing bondholders who do not participate with less favourable terms.

It also said that proposed modification would reduce thresholds required to change terms and issue new notes.

"Ecuador's proposal would eviscerate the covenants that were bargained-for to protect the bondholders who agreed in good faith to invest in these securities," it said.

The objections from the Steering Committee have complicated what has up until now been an orderly restructuring process, albeit with pending risks regarding an IMF agreement.

"The markets seem complacent about not only the IMF condition but the implications in terms of deal risk on the restructuring and budgetary stress in terms of financing shortfall," wrote Siobhan Morden, head of LatAm fixed income strategy at Amherst Pierpont.

The government's outright rejection of the Amundi-backed proposal surprised some market participants who had been expecting more give-and-take with holders outside the BlackRock camp, but it may indicate confidence in Ecuador's ability to get the deal done under current terms.

BlackRock did not immediately respond to a request for comment.
"Either they have some conviction that they will have sufficient participation to push this through or they may eventually come through with a counter proposal," said Sarah Glendon, senior analyst at Columbia Threadneedle Investments.
Whether Ecuador can push through the deal as it stands remains unclear, though the government said last week informal support has reached nearly 60% for a consent solicitation that was launched on July 20.
That puts it within touching distance of the 66.66% aggregate threshold across outstanding bonds to get the deal passed.
The consent solicitation is being seen as a facsimile of the deal the sovereign agreed to with the Ad Hoc Committee comprising BlackRock.
The offer involves swapping US$17.375bn of bonds maturing between 2022 and 2030 for up to US$15.834bn of three new bonds – a 2030, 2035 and a 2040 – plus a past due interest bond due 2030.

((paulj.kilby@thomsonreuters.com; 646 223 4733; Reuters Messaging: paulj.kilby.thomsonreuters.com@reuters.net))
D Ecuador box

Ecuador/Argentina

Ecuador is willing pawn in Argentina debt standoff

20-Jul-2020
By Anna Szymanski
NEW YORK, July 20 (Reuters Breakingviews) - **Ecuador is struggling with low oil prices, a high Covid-19 fatality ratio, and the straitjacket of a dollarized economy. Now it has to help clean up Argentina's mess, too.**
The smaller Latin American country will tweak voting rules as part of its $17.4 billion restructuring, a change relevant to the larger borrower's $65 billion drama. Buenos Aires should take the hint.
The Quito government released an offer on Monday that limits how it can use so-called collective action clauses or CACs. These are legal provisions that allow a majority of bondholders to agree to new terms that bind the minority, making it harder for holdouts to scupper majority-supported deals. It may say Ecuador at the top, but it has Argentina written all over it.
Buenos Aires recently threatened to push through a restructuring proposal many creditors didn't like by playing around with a new type of CAC created in 2014. The government could have tried cherry picking groups of creditors to calculate approval percentages and then using multiple offerings, tailored to maximize the chances of approval, to get the restructuring done step by step – the aptly named Pac-Man strategy.
Creditors balked and demanded Economy Minister Martin Guzman issue new bonds with older CACs that offer issuers weaker protections and preclude the Pac-Man approach. Economist Joseph Stiglitz, a Guzman mentor, is among those who think this shows bondholders want to move sovereign-debt restructuring backward. But that wasn't the intent of the newer CACs anyway, and Argentina was trying to pressure some of the largest bondholders, not just minority creditors holding the process to ransom.
Meanwhile, Ecuador has been playing ball with its investors, some of which are the same firms squabbling with Argentina. It paid out around $340 million in March, despite domestic criticism. It also discussed preliminary terms with bondholders to ensure its offer would have strong support.
Some of Quito's creditors still want the proposal sweetened – but hopefully that won't scuttle the legal fix. The language limiting the use of CACs not only addresses the issue in Ecuador's case, it also gives Argentina a roadmap for a compromise that improves the clarity of debt provisions that are in the long-term interest of both borrowers and creditors.
Sorting out CACs across sovereign restructurings more broadly will be a longer process involving organizations like the International Capital Market Association, the G20 and the Institute of International Finance. As an early step, though, Ecuador is doing its creditors a solid.
CONTEXT NEWS
- **Ecuador on July 20 released its official exchange offer for around $17.4 billion of external bonds on July 20. It said on July 6 that it had reached agreement in principle on the proposed restructuring terms with a major group of creditors including BlackRock, AllianceBernstein and Ashmore.**
- These creditors together hold over 53% of Ecuador's total outstanding sovereign bonds and around 50% of almost every individual bond series, according to their July 20 statement in support of the deal.
- In Ecuador's offer, 10 bonds maturing between 2022 and 2030 would be exchanged for three bonds due in 2030, 2035 and 2040 and a past-due interest bond maturing in 2030. The deal would provide over $10 billion of debt relief over the next four years and $6 billion more between 2025 and 2030. The creditors would take a 9% haircut on their holdings. The deadline for the offer is July 31.
- On July 13, a steering committee representing other creditors, including more than 25 institutional investors and a group of holders of bonds maturing in 2024, urged Quito to improve its tentative terms and released a counterproposal. These groups also rejected the official exchange offer on July 20.

(Editing by Richard Beales and Amanda Gomez)
((anna.szymanski@thomsonreuters.com; Reuters Messaging: anna.szymanski.thomsonreuters.com@reuters.net))

Honduras

EU gives Honduran health system $93 mln to tackle coronavirus

23-Jul-2020
By Gustavo Palencia
TEGUCIGALPA, July 22 (Reuters) - **The European Union has granted Honduras 80 million euros ($93 million) in aid to help the impoverished Central American nation's health system cope with the impact of the coronavirus pandemic, an EU representative said on Wednesday.**
Despite strict measures to curb the spread of the pandemic, local hospitals have struggled to cope with the number of patients with respiratory illnesses in Honduras, which has registered 35,345 infections and 988 deaths from the virus.
"In Honduras, 80 million euros will be allocated in the areas of health, early recovery, measures to aid economic recovery, jobs and human rights," Alessandro Palmero, the EU's representative to Honduras, told reporters.
Analysts expect the pandemic to cause the Honduran economy to contract by between 2.9% and 3.9% this year and lose 500,000 jobs. Some 62% of the population already lives in poverty.

($1 = 0.8646 euros)
(Reporting by Gustavo Palencia; Writing by Stefanie Eschenbacher; Editing by Richard Pullin)
((Stefanie.Eschenbacher@thomsonreuters.com))

AFRICA

Sub-Sahara Africa

Sub-Saharan Africa GDP to contract 3.1% this year

24-Jul-2020
By Vuyani Ndaba
JOHANNESBURG, July 24 (Reuters) - **Sub-Saharan Africa's economy will contract this year after shutdowns disrupted activity and as daily cases of coronavirus are still rising in the region but a recovery is expected next year, a Reuters poll found on Friday.**
Following months of lockdowns which have muted economic activity a Reuters poll taken in the past week suggested the region will contract 3.1% this year but bounce back to around 3.5% growth in 2021.
Some countries have begun relaxing restrictions but virus cases are still increasing, unlike in many developed countries that have started to show signs of recovery, so the uncertainty meant the range of forecasts for next year was wide - between flatlining and 4.8% growth.
South Africa has reported the most cases in Africa, partly reflecting more widespread testing, and it is harder to gauge the full extent of outbreaks elsewhere although there are no signs numbers are falling.
"Growth downgrades dominate in a region where external and fiscal buffers were already substantially eroded. The impact of COVID-19 will reduce growth even further," Standard Chartered wrote in a note.
Nigeria, Africa's biggest economy, was expected to contract 3.7% this year but bounce back to 2.0% growth next year.
Continental peer South Africa was expected to grow 3.5% next year following an 8.0% contraction this year, a Reuters poll showed last week.
However, Ghana, one of the continents oil exporters, was still expected to grow, expanding 1.9% this year and 4.2% in 2021.
"Despite the obvious downside risks from lower oil prices and headwinds from COVID-19, we believe Ghana has a decent growth outlook and reasonably comfortable external sector metrics relative to other African oil exporters," said Michael Kafe, economist at Barclays.
"The fallout from COVID-19 and associated lockdown means GDP growth is likely to be weak this year. However, unlike other African oil exporters such as Angola, Gabon and Nigeria, where GDP growth is likely to contract this year, we expect Ghana to post positive GDP growth."
Kenya - east Africa's biggest economy - was expected to have a lacklustre performance this year with no growth, a poor outcome having averaged around 6% annual growth in the past decade.

(Reporting by Vuyani Ndaba, additional polling by Khushboo Mittal; Editing by Jonathan Cable and Alison Williams)
((vuyani.ndaba@thomsonreuters.com; +27 11 775 3157))

Egypt

Egypt's economic growth seen slowing in 2020/21

21-Jul-2020
By Mahmoud Mourad
CAIRO, July 21 (Reuters) - **Egypt's economic growth will slow to 3.1% in the fiscal year 2020/2021 that began this month due to the coronavirus pandemic, a Reuters poll showed on Tuesday, down from 3.5% forecast in a similar poll three months ago.**
The country's economy had been boosted in the last three years by an upswing in tourism, strong remittances from Egyptian workers abroad and recently discovered natural gas fields coming onstream.
But since the coronavirus outbreak, tourism has collapsed, the price of gas has plummeted, and

worker remittances have come under threat with the decline of oil revenues in Gulf Arab states, where many Egyptians are employed.
The government was expecting growth of 3.5% in the fiscal year 2020/21, which began in July, but growth could slow to 2% if the coronavirus crisis continues until year-end, Planning Minister Hala al-Saeed said in May.
The July 7-20 poll predicted Egypt's gross domestic product (GDP) growth would recover in 2021/2022 to 5.0%.
"Egypt's GDP in the first half of 2020/21 is expected to be negatively affected by the COVID-19 outbreak in Egypt with tourism, private investment and consumption being the main components negatively affected," said HC Securities' research team.
"As we go into FY 2021/22, we expect this negative effect to fade out and the economy to start capitalizing on the 2016-2019 economic reform," they added.
The economists polled by Reuters expected Egypt's annual urban consumer price inflation to slow to 7.0% in 2020/21, down from 7.5% expected in the previous poll. They predicted inflation would remain unchanged at 7.0% in 2021/22.
"Although the economy is slowly reopening, domestic demand conditions will likely remain subdued going forward as salaries are reduced and workers are laid off amid the economic downturn. This coupled with a relatively strong currency should keep inflation low in months to come," said Callee Davis, an economist at NKC African Economics.

(Reporting by Mahmoud Mourad; Polling by Md Manzer Hussain, Shaloo Shrivastava and Tushar Goenka in Bengaluru; Editing by Hugh Lawson)
((mahmoud.mourad@thomsonreuters.com))

Nigeria

Nigeria's central bank holds benchmark lending rate at 12.5 pct

20-Jul-2020
By Alexis Akwagyiram
LAGOS, July 20 (Reuters) - **Nigeria's central bank held its benchmark lending rate at 12.5%, the governor said on Monday, adding that members of the monetary policy committee wanted to assess the impact of a 100-basis-point rate cut at the last meeting.**
Godwin Emefiele said eight of the 10 committee members voted to retain the rate and two voted for a rate cut.
In May the bank unexpectedly cut the rate by 100 basis points to 12.5% from 13.5%. It was the largest rate cut since 2015.
"The committee was mindful of the cut in policy rate at the last MPC (committee) meeting and the need to allow time for its effect to permeate the economy," said Emefiele.
Emefiele said the rate cut was having a "positive impact" as credit growth had increased significantly in the economy.

(Reporting by Alexis Akwagyiram; Editing by Alison Williams/Mark Heinrich)
((alexis.akwagyiram@thomsonreuters.com; +234 8188 779 319; Reuters Messaging: alexis.akwagyiram.thomsonreuters.com@reuters.net / Twitter: https://twitter.com/alexisak))

Sudan

Sudan's Hamdok says currency to be adjusted as he unveils reforms

22-Jul-2020
By Khalid Abdelaziz
KHARTOUM, July 22 (Reuters) - **Sudanese Prime Minister Abdalla Hamdok announced long-awaited economic and political reforms on Wednesday aimed at rescuing the country's economy and keeping its civilian transition on track after the ouster of Omar al-Bashir last year.**
Sudan's economy is at risk of freefall, hammered by an annual inflation rate of more than 100% and shortages of electricity, bread, fuel and medicine. The currency recently hit a record low of 150 Sudanese pounds to the dollar on the black market compared with 55 at the official rate, though it is now at 140 to the dollar.
Hamdok said Sudan would start a currency adjustment plan and lift subsidies on diesel and gasoline, following amendments to the 2020 budget in order to mitigate the impact of the coronavirus pandemic.
The pandemic has hit the economy hard, causing a loss 40% of public revenues, acting Finance Minister Hiba Mohamed Ali said.
A government source told Reuters the currency adjustment programme would begin in August aiming to reach a full float in two years. The amended budget would be approved in the coming days, the source added.
Fuel and bread shortages were the initial spark that led to mass protests against Bashir's three-decade rule.
Ali said the private sector would be allowed to import fuel in unlimited quantities through a newly created trade finance fund, which Hamdok said has a portfolio of $1 billion for imports.
The government source told Reuters that fuel importers would be allowed to start buying fuel using dollars at a free market price in August.
Hamdok said that while subsidies on diesel and gasoline will be lifted, the government would continue to bear the brunt of the cost of flour, medicine and cooking gas. Subsidized fuel can still be sold to sectors like agriculture, Ali said.
The removal of costly subsidies is often a key requirement of donors such as the International Monetary Fund, which signed a staff-level

agreement on policies and reforms that can underpin a staff-monitored program subject to board's approval.

Foreign donor nations in June pledged $1.8 billion to help Sudan. Ali said $484.7 million of that money has been set aside for a cash transfer programme to support poor families as the subsidies are being phased out.

Separately, Hamdok, who has run Sudan for three years with the military which helped remove Bashir, announced the appointment of civilian governors for Sudan's 18 states, which for more than a year had been ruled by military officers.

The appointment was a key demand from protesters.

(Reporting by Khalid Abdelaziz in Khartoum; Editing by Leslie Adler
Writing by Nafisa Eltahir in Dubai and Nadine Awadalla in Cairo
Editing by Mark Heinrich and Ulf Laessing)
((Nafisa.Eltahir@thomsonreuters.com; +971 56 226 1754))

South Africa

IMF board to consider South Africa financing aid on Monday-spokesman

23-Jul-2020

WASHINGTON, July 23 (Reuters) - **The International Monetary Fund confirmed on Thursday that South Africa has requested emergency financing assistance and its executive board will consider the request on Monday, which would bring to 72 the number of countries receiving IMF aid to deal with the coronavirus pandemic.**

"They've requested this assistance to help them address urgent balance of payments needs arising from this external shock that the pandemic has given to so many countries," IMF spokesman Gerry Rice told a regular news briefing. "As always, our board will make the decision on the approval and on the amount."

(Reporting by David Lawder
Editing by Chizu Nomiyama)
(David.Lawder@tr.com; +1 202 354 5854; Reuters Messaging:
david.lawder.thomsonreuters.com@reuters.net))

Tunisia

Fitch Ratings: Tunisia's Political Instability Raises Sovereign Financing Risks

21-Jul-2020

Fitch Ratings-Hong Kong-21 July 2020: **The resignation of Tunisia's Prime Minister, Elyes Fakhfakh, on 15 July raises the risk of a renewed political deadlock that will further delay reforms and impede efforts to agree a new programme with the IMF, says Fitch Ratings.** Although Tunisia faces limited immediate financing pressures, its funding position will become much more challenging in 2021 without the support that an IMF deal would provide.

The prime minister's resignation reflects challenges to government stability stemming from a volatile political environment, in the context of Tunisia's democratic transition.

The parliament that was elected in October 2019 is highly fragmented, making it complicated to form a coherent governing majority – after the election it took until February for the parliament to approve a new government. Strains between influential participants have risen in recent months, notably between Ennahda, the largest party in parliament, and its erstwhile coalition partners. Forming a new government against this backdrop will be difficult and would require a coalition of at least four parties across the political spectrum. Any future cabinet's support base in parliament will be heterogeneous and fragmented, constraining its ability to implement legislation, and the risk of snap elections will linger.

The political deadlock will delay the approval of reforms and raises significant risks around our assumption of an agreement on a new IMF programme before the end of 2020. An arrangement with the Fund is required to unlock some official creditor support, including a EUR600 million (2% of GDP) loan from the EU. Implementation of reforms under any new IMF programme will be challenging in the face of continued social and labour union opposition, as well as popular unrest aggravated by the economic fallout from the coronavirus pandemic.

We forecast a 6% GDP contraction in 2020 – the sharpest on record. We still expect the government to be able to cover its funding needs in 2020 with support from official creditors, even without a new IMF programme. (This support does, however, include a USD745 million emergency loan from the IMF, approved in April.)

Tunisia will face a fiscal funding gap of around TND4 billion (USD1.3 billion, or 3.6% of GDP) in 2020, according to our estimates, reflecting our revised forecast of a central government deficit of 7.6% of GDP in 2020, up from 3.9% in 2019. Robust official creditor support for Tunisia has played an important role in balancing the external vulnerabilities stemming from the country's large funding needs.

GLOBAL

Equity markets rebound on EU fund optimism; gold edges higher

20-Jul-2020

- **Euro hits four-month peak on reports of progress on EU talks**
- **Italian-German spread falls to 162 bps, lowest since late March**
- **AstraZeneca shares hit high on COVID experimental drug**
- **Gold edges up on safe-haven demand**

By Herbert Lash

NEW YORK, July 20 (Reuters) - **Global equity markets rebounded on Monday on optimism the European Union would agree on a recovery fund to help revive regional economies hit by the coronavirus, but worries about the pandemic's economic and human toll pushed gold prices higher.**

The euro rose after a bout of profit-taking on early gains that took the single currency to a 19-week high on hopes for an EU fund expected to be around 750 billion euros ($857.93 bln).

Italy's borrowing costs fell to their lowest since early March on signs of a potential agreement, which has driven a rally in southern European bonds, led by Italy, since May.

European shares advanced on hopes for the recovery fund, while the S&P 500 and Nasdaq rose, led by technology stocks.

News that AstraZeneca's experimental COVID-19 vaccine was safe and produced an immune response in early-stage clinical trials in healthy volunteers helped lift equities, but it was still too early to call the drug a success.

"We're finally getting the details on these Phase I, Phase II studies that we kind of all expected to be positive, but it’s all about the Phase III and that's where everything and anything can go wrong," said Edward Moya, senior market analyst at currency broker OANDA in New York.

MSCI's benchmark for global equity markets rose 0.49%. On Wall Street, the Dow Jones Industrial Average fell 0.28%, the S&P 500 gained 0.27% and the Nasdaq Composite added 1.35%.

In Europe, the broad FTS Eurofirst 300 index closed up 0.73%. AstraZeneca's shares rose 1.8% after hitting a record high ahead of a report on its vaccine.

An attempt to reach a compromise on the recovery fund failed on Sunday. A deal envisaging 400 billion euros in grants - down from a proposed 500 billion euros - was rejected by the north, which said it saw 350 billion euros as the maximum.

Discussions over the grants has since narrowed, with EU summit Chairman Charles Michel saying they would be based on 390 billion euros combined with smaller rebates.

The euro was up 0.14%, at $1.1442, while the yen gained 0.20%, to $107.2000.

The euro hit its highest against the dollar since March 9, at $1.1467 after reports of progress following three days of negotiations.

Gold prices jumped to their highest since September 2011 and silver hit a more-than-four-year peak as a spike in COVID-19 infections and hopes for increased stimulus measures supported safe-haven demand.

Spot gold prices rose $6.7542 to $1,815.65 an ounce.

Oil prices fell as coronavirus cases increased in many countries, though investor optimism about a potential COVID-19 vaccine and ongoing talks over the European Union fund to revive economies hit by the pandemic curbed losses.

Brent crude futures rose $0.02 to $43.16 a barrel. U.S. crude futures gained $0.08, to $40.67 a barrel.

Earlier in Asia, MSCI's broadest index of Asia-Pacific shares outside Japan gained 0.26%, reversing early losses.

Chinese markets rose more than 2% after regulators raised the equity investment cap for insurers and encouraged mergers and acquisitions among brokerages and mutual fund houses.

Prices for copper, a barometer of economic growth, fell after data showed rising inventories in Chinese warehouses and on concern that climbing coronavirus cases threatened a sustainable global recovery.

(Reporting by Herb Lash and Ritvik Carvalho; additional reporting by Swati Pandey and Sumeet Chatterjee in Sydney; editing by Larry King and Dan Grebler)

(Herbert.Lash @thomsonreuters.com)

EMERGING MARKETS

G20 finance officials stop short of recommending debt freeze extension

18-Jul-2020

By Andrea Shalal and Davide Barbuscia

WASHINGTON/DUBAI, July 18 (Reuters) - **Finance officials from the Group of 20 countries on Saturday called for all official bilateral creditors to implement fully a short-term debt freeze for the world's poorest countries, but stopped short of extending the initiative into next year.**

Sources briefed on the G20 meeting said there was strong support for extending the standstill beyond the end of 2020, given the severity of the economic fallout from the coronavirus pandemic, but the group's final communique said only that the issue would be considered in the second half of 2020.

It also said nothing about growing calls for cancelling - not just deferring - the debts of some of the poorest countries.

The Debt Service Suspension Initiative, agreed by G20 ministers in April, has proven challenging to implement, with only 42 of 73 eligible countries expressing interest thus far, saving just $5.3 billion in service payments

instead of the $12 billion initially promised.
World Bank officials have singled out China, a G20 member and the largest creditor for developing nations, for holding back debts owed to its state-owned development and state-owned companies.
World Bank President David Malpass also told G20 officials on Saturday that they needed to "open the door" to talks on reducing the overall debt overhang for the poorest countries.
Failure of the private sector to participate has also been a growing concern. The Institute for International Finance last week said its members had not received any formal requests for debt relief from countries eligible for the DSSI.
The communique did not mention China, but G20 officials said they would closely monitor implementation of the debt freeze and noted efforts to set up a fiscal monitoring framework to strengthen the quality of debt data and improve debt disclosure.
"All official bilateral creditors should implement this initiative fully and in a transparent manner," they said.
They also said they "strongly encourage" commercial lenders to provide relief when requested.
Decisions on extending the freeze would come after the International Monetary Fund and World Bank complete a report on the liquidity needs of countries before the next G20 finance officials' meeting in October, the communique said.
The UK-based Jubilee Debt Campaign said the G20's failure to take swifter and more decisive action would cost poor countries billions of dollars each month.
"We needed rapid and concerted action, but instead the G20 have backtracked," said Sarah-Jayne Clifton, director of Jubilee Debt Campaign, one of many groups that have called for extending the debt freeze and expanding it.
More than 200 religious, labor, human rights, environmental and development groups signed a separate letter spearheaded by Jubilee USA Network that was sent this week to G20 leaders, the White House and the IMF.

(Reporting by Andrea Shalal in Washington, Additional reporting by Leigh Thomas in Paris; editing by Diane Craft and Cynthia Osterman)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))