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Emerging Sovereign Debt Markets NEWS

Number 6 Week 2 – 8 February 2019

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ASIA

Bahrain

Bahrain's budget deficit down 35 pct in 2018 year/year

04-Feb-2019

CAIRO, Feb 4 (Reuters) - **Bahrain's budget deficit dropped 35 percent in 2018 compared to a year earlier, the finance minister said on Monday.**

Bahrain's finances have been hit hard by a slump in oil prices in 2014 and it has been struggling to cut government spending while avoiding public anger over austerity measures.

Bahrain released a 33-page fiscal plan last year after signing an agreement with its Gulf

neighbours to fix its debt-burdened finances and abolish its budget deficit by 2022. Manama had projected a \$3.5 billion budget deficit in 2018.

(Reporting by Nayera Abdallah, Writing by Stephen Kalin, Editing by Angus MacSwan)
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China

China unveils guideline for panda bond issuance to further open up bond market

02-Feb-2019

BEIJING, Feb. 2 (Xinhua) -- **The National Association of Financial Market Institutional Investors (NAFMII) on Friday officially introduced a guideline for the panda bond**



issuance to further open up the domestic bond market.

Panda bonds refer to the yuan-denominated debts sold by foreign issuers in China.

The guideline has detailed information disclosure, the use of funds raised, and regulations about intermediary agencies in terms of the panda bond issuance, which will help promote the development of the panda bond market into a market with transparent rules, efficient mechanisms and standardized processes.

The guideline has clarified the requirements for overseas enterprises' registration documents, documents disclosed during the issuance and the duration, major events, time of disclosure, and language for the disclosure to strike a balance between protecting the investors' interests and motivating enthusiasm of foreign institutions for issuing bonds.

With the opening up of the Chinese capital market and the acceleration of the RMB internationalization, the panda bond market has grown increasingly stronger.

Data shows that by the end of 2018, a total of 41 overseas issuers had completed the registered panda bonds of 383.21 billion yuan at the NAFMII and 87 deals were completed to raise 165.56 billion yuan. To be specific, there were 33 non-financial enterprises abroad, with the panda bonds supporting the development of chip manufacturing, green environmental protection, automobile, port, medicine, electric power, warehousing and logistics, transportation, etc.

The panda bond market has seen diversified issuers and active investors. Since 2018, the number of global top 500 companies represented by the French Air Liquide Group and the Singapore-based Trafigura Group has increased in terms of the panda bond issuance.

With the launch of the Bond Connect program in July 2017, the issuers such as Hungary, the Philippines, and Daimler AG issued the panda bonds to the investors at home and abroad through the program.

(Edited by Hu Pingchao, hupingchao@xinhua.org)
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India

India Bonds Gain For 2nd Day As MPC May Shift To Neutral Stance

06-Feb-2019

By Neha Dubey

NewsRise

MUMBAI (Feb 06) -- Indian government bonds rose for a second day, as hopes that the rate-setting panel may tomorrow announce a change in policy stance to neutral aided demand.

The benchmark 7.17% bond maturing in 2028 ended at 97.46 rupees, yielding 7.57%, in

Mumbai, against 97.15 rupees and a 7.61% yield yesterday. The 7.26% bond maturing in 2029 settled at 99.31 rupees, yielding 7.36%, against 99.15 rupees and a 7.38% yield yesterday.

"A change in stance to neutral is largely expected in the monetary policy outcome, which drove the bond prices after the sell-off post the interim budget," said R. Siva Kumar,

head - fixed income at Axis Asset Management Company. "The rally will be short lived, even if the stance change is accompanied by a rate cut, as inflation may gain momentum going ahead."

The Monetary Policy Committee's decision is due at 11:45 a.m. tomorrow. This is the first review meeting since Shaktikanta Das took charge as the governor of the Reserve Bank of India and he is also the chairman of the rate-setting panel. While several economists do not expect the MPC to cut rates after India last week widened its fiscal deficit targets for the current and next financial years due to spending on income support for farmers, ANZ Research and Bank of America Merrill Lynch Global Research expect a 25-basis-point easing tomorrow.

India's retail inflation - the MPC's key price gauge - fell to an 18-month low of 2.19% on year in December and is broadly expected to stay below the 4% target in the coming months. The data for January is due next week.

India aims to keep the fiscal deficit at 3.4% of gross domestic product this year as well as the next year, wider than previous targets of 3.3% and 3.1%. The government has planned a gross borrowing of 7.10 trillion rupees next fiscal, with the net borrowing pegged at 4.73 trillion rupees. Bonds gained yesterday as the government expects the RBI to pay 280 billion rupees in interim dividend this fiscal year, which will include 130 billion rupees that is due from past years, according to a senior finance ministry official.

New Delhi expects the central bank to pay 690 billion rupees in dividend next fiscal year starting Apr. 1, which includes 140 billion rupees of previous surplus, the official said.

India will sell bonds worth 120 billion rupees on Feb. 8, including 40 billion rupees of the 2029 bond. It will sell Treasury Bills worth 100 billion rupees today.

The benchmark Brent crude oil contract was down 0.7% at \$61.54 per barrel. India imports about 80% of its crude oil requirements.

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India Bonds Keep Gains On Monetary Easing; Debt Sale Outcome Eyed

08-Feb-2019

By Neha Dubey



NewsRise

MUMBAI (Feb 08) -- **Indian government bonds stayed higher in afternoon session, helped by an unexpected rate cut by the nation's rate-setting panel yesterday and as participants awaited weekly debt sale outcome for further cues.**

Underlying bond market sentiment improved after the policy review committee's commentary raised bets of further monetary easing in the months ahead.

The benchmark 7.17% bond maturing in 2028 changed hands at 98.02 rupees, yielding 7.47%, at 1:00 p.m. in Mumbai, against 97.87 rupees and a 7.50% yield yesterday. The 7.26% bond maturing in 2029 was at 99.80 rupees, yielding 7.29%, against 99.55 rupees, and a 7.32% yield, yesterday.

"The monetary policy outcome and further expectations of rate cut are aiding demand for the bonds," a trader with a state-run bank said. "However, the weekly auction outcome remains in focus and aggressive bids in the auction can boost secondary market prices later in the day."

India's Monetary Policy Committee yesterday cut the key policy interest rate by 25 basis points to 6.25%, as it expects inflation to stay below target over the next year despite New Delhi's expansionary fiscal proposals. The MPC cut its inflation forecast to 3.2%-3.4% for the first half of next fiscal year from 3.8%-4.2%, with risks broadly balanced. The central bank forecasts growth for the next fiscal year at 7.4%.

This was the first policy review under Governor and MPC Chair Shaktikanta Das, a former bureaucrat who was appointed as the RBI chief after former Governor Urjit Patel abruptly resigned in December amid reported differences with the federal government.

The MPC is likely to cut interest rates by 25 basis points again in April, a majority of the 16 economists and analysts surveyed by NewsRise said. Eleven of those surveyed said they expect the MPC to cut rates in April, while others expect at least one rate cut in 2019.

India's retail inflation - the MPC's key price gauge - fell to an 18-month low of 2.19% on year in December. The inflation data for January is due next week.

India's federal government is selling bonds worth 120 billion rupees today, including 40 billion rupees of the 7.26% bond maturing in 2029. This would be the third auction of this note.

However, gains may be capped over the coming sessions, as India said it will borrow an additional 360 billion rupees through bonds in March, taking the gross supply for this year to 5.71 trillion rupees. The government has planned a gross borrowing of 7.10 trillion rupees next fiscal, with the net borrowing pegged at 4.73 trillion rupees.

India aims to keep the fiscal deficit at 3.4% of gross domestic product this year as well as the next year, wider than previous targets of 3.3% and 3.1%.

India's federal financial services secretary and agriculture secretary are likely to review farm credit with senior management of state-run banks later today, a senior government official said.

Crude oil prices fell amid worries over global economic growth, even as supply cuts from U.S. sanctions on Venezuela and OPEC-led supply cut capped the fall. The benchmark Brent crude oil contract was 0.6% lower at \$61.24 per barrel, extending an overnight decline of 1.7%. India imports about 80% of its crude oil requirements.

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Indonesia

Fitch Ratings: Most Indonesian Credits Resilient to Global Tightening Scenario

08-Feb-2019

Fitch Ratings-Hong Kong/Singapore-February 07: **Indonesia is among the emerging-market economies most likely to come under market pressure in a scenario where global monetary conditions tighten more quickly than Fitch Ratings expects.** Indonesia's current account deficit - albeit modest - along with its relatively high commodity dependence, share of domestic government securities held abroad, and external debt above the median, make it more vulnerable to emerging-market pressures than its 'BBB' peers. However, we find the credit profiles of most rated Indonesian issuers would be resilient to the impact of our quantitative tightening (QT) Stress Scenario, which examined sensitivities to a weaker rupiah, higher borrowing costs, and slower economic growth.

The Stress Scenario involves a sharp rise in US Fed Funds to 4.5% by end-2019, at least 150bp above our baseline, and US bond yields rising to around 5%. We assume investor sentiment shifts against Indonesia and other emerging markets, causing capital outflows and weakening the rupiah to USD/IDR18,000 by end-2019, before recovering to USD/IDR17,000 by end-2020 (versus our baselines of USD/IDR14,800 and USD/IDR15,000, respectively). Bank Indonesia (BI) responds by raising its one-week repo rate to 9.0% by end-2019, 275bp above our base case, which would result in slower GDP growth. Recent guidance from the Federal Reserve indicates a pause in monetary tightening, but a resumption later in the year - as Fitch expects - remains a key risk, particularly in emerging markets.

This Stress Scenario does not represent a forecast, but instead allows us to assess which issuers and sectors in Indonesia would be most vulnerable under such a scenario. The exercise is part of a broader effort by Fitch to



assess vulnerabilities in emerging markets. For example, we undertook a similar exercise for issuers in Turkey in July 2018 and identified significant vulnerabilities, particularly to exchange-rate risk. The subsequent collapse in the lira tested these weaknesses and resulted in rating downgrades and negative outlooks across our financial institutions and corporate portfolios.

The results of our Indonesia stress test stand in contrast to the Turkey findings, pointing only to pockets of vulnerability rather than broad risks. In general, Indonesian issuers hold less foreign-currency debt than their Turkish counterparts, and are better protected by natural or technical hedging. **Indonesia's external finances have improved over the past few years and are stronger than during the 2013 "Taper Tantrum". This is the result of a disciplined monetary-policy stance and macro-prudential measures that have helped curb a sharp rise in corporate external debt.**

The sovereign rating would be resilient to the Stress Scenario, provided the fallout involves no significant run-down in foreign-currency reserves. Currency depreciation and lower economic growth would raise the general government debt ratio, but Indonesia's current low debt burden compared with peers provides a cushion in the rating.

The profitability and capitalisation of the nine large Fitch-rated Indonesian banks provide a comfortable buffer against a spike in revaluation losses, as well as higher funding and credit costs. Credit profiles of other banks are generally more susceptible to stress due to lower earnings and reserve buffers. However, their non-rupee exposure tends to be insignificant, as they are only permitted to engage in plain-vanilla foreign-currency activities.

Rated Indonesian corporates are less exposed to a currency mismatch between debt and cash flows than in many emerging markets, although we identify some with high foreign-currency debt and less effective hedging practices. The main threat to the credit quality of other corporates would be the inability to deleverage in line with our baseline expectations, as the demand slowdown would weaken their cash flows.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

Indonesia's Q4 c/a deficit wider than anticipated

08-Feb-2019

JAKARTA, Feb 8 (Reuters) - **Indonesia's fourth quarter current account deficit was wider**

than anticipated and the central bank will continue its efforts to narrow the gap, its central bank governor said on Friday.

Bank Indonesia (BI) Governor Perry Warjiyo told reporters Indonesia had a balance of payments surplus of around \$5 billion in October-December with full details to be released later in the day.

When asked whether BI would cut rates following India's surprise easing, Warjiyo said the two countries face different conditions and that in Indonesia, "efforts that have been taken to ensure the current account deficit narrows would continue to be taken and so far our policy rate is already near its peak."

He also said he expects further capital inflows to Indonesia and that the rupiah's current exchange rate was "still undervalued".

The rupiah was trading at 13,970 per dollar at 0630 GMT.

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Israel

S&P Says Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

02-Feb-2019

Feb 1 (Reuters) - **S&P Global Ratings:**

S&P says Israel ratings affirmed at 'AA-/A-1+'; outlook stable.

S&P says expect Israel's economic growth will remain resilient "in the face of softer global growth".

S&P, on Israel, says despite widening budgetary deficit in 2019, S&P believes that new government will ensure net public debt remains below 60% of GDP.

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Lebanon

Lebanon government formation positive for credit rating

04-Feb-2019

LONDON, Feb 4 (Reuters) - **The formation of a new government in Lebanon is positive for the country's credit rating, Moody's said on Monday, as it should help unlock a \$11 billion, five-year international support package offered last year.**

"The announcement is credit positive because we expect that the new government will implement necessary fiscal reforms to unlock the \$11 billion five-year investment package committed by international donors," Moody's



analysts said in a new report.

The report did warn, however, that risks remained elevated given that very weak economic growth will challenge the government's fiscal consolidation efforts.

"Lebanon's fiscal and external positions will remain weak as long as a lack of investor confidence continues to weigh on deposit growth, thus increasing the risk that the government's response will include a debt rescheduling or other liability management exercise that may constitute a default."

Moody's currently rates Lebanon Caa1, which is a warning the country has substantial debt risks.

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Lebanese central bank governor: dollar offered in market since government formed

05-Feb-2019

BEIRUT, Feb 5 (Reuters) - **U.S. dollars are being offered in Lebanon's local market to buy Lebanese pounds since the formation of a new government, al-Jadeed television quoted the central bank governor, Riad Salameh, as saying on Tuesday.**

Lebanese leaders agreed a new national unity government last week after nearly nine months of political wrangling over how to share out cabinet portfolios.

Prime Minister Saad al-Hariri has said bold reforms must now be taken to address problems in the heavily indebted state, which has suffered from years of low economic growth and has some of the world's worst debt and balance-of-payment ratios.

The Lebanese pound has been pegged against the dollar at its current level for more than two decades.

"After the formation of the government the dollar has been offered in the local market to buy pounds and this restores the strength of the role of national currency in savings," al-Jadeed quoted Salameh as saying from the presidential palace.

Presidential sources said President Michel Aoun had discussed the monetary situation at a meeting with Salameh.

Moody's said on Monday the government formation was positive for the country's credit rating as it should help unlock a \$11 billion, five-year international support package offered last year.

The international institutions and foreign governments that pledged the support, mostly in the form of concessional loans, want to see government reforms to put the state finances on a sustainable path.

(Reporting by Tom Perry; Editing by Peter Graff)



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Power sector, deficit, revenue 'priorities' for Lebanon

06-Feb-2019

BEIRUT, Feb 6 (Reuters) - **Lebanon's Finance Minister and a World Bank official see electricity reform, budget deficit reduction and revenue increases as priorities as the new government prepares its policy statement, the ministry said on Wednesday.**

The tasks are among measures Lebanon has agreed to take in return for donors supplying \$11 billion in infrastructure investment to help boost its weak economy.

"The two sides discussed the required reforms... giving priority to electricity sector reforms and reducing the budget deficit and raising the level of revenues," the ministry said in an emailed statement.

Finance Minister Ali Hassan Khalil also said in the meeting that the ministry was ready to discuss the 2019 budget, numbers and details for which are "being reviewed", the ministry said in a statement.

Following Thursday's formation of a new government after months of wrangling, President Michel Aoun on Tuesday Tweeted that the period of crisis had passed.

"The crises are behind us and the financial situation is improving and it is expected that the interest rate will fall soon," he wrote.

The World Bank's regional director for Lebanon, Iraq, Syria and Jordan, Saroj Kumar Jha, who met Khalil, last week told Reuters that power sector reform was "the area where we want to move in very quickly".

Lebanon has one of the highest public debts in the world, equivalent to around 150 percent of gross domestic product, and subsidies to its electricity sector place "a staggering burden" on public finances, the World Bank said last year.

A new national unity government was agreed on Thursday and it is now preparing a policy statement that it must put before parliament.

The statement will include all the reforms the country promised to make during a meeting last year for international donors to agree on potential investments in Lebanon's infrastructure, Khalil said on Tuesday.

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Lebanon commits to quick reforms, warns could be painful

06-Feb-2019

BEIRUT, Feb 6 (Reuters) - **Lebanon is committed to carrying out fast and effective**

reforms that could be "difficult and painful" to avoid a deterioration in economic, financial and social conditions in the country, the new government said in a draft policy statement.

The government formed last week is also committed to bringing down the debt-to-GDP ratio by boosting the size of the economy and reducing the budget deficit, it said in a draft seen by Reuters on Wednesday.

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Pakistan

S&P cuts Pakistan's credit rating to 'B-' from 'B'; keeps stable outlook

04-Feb-2019

Feb 4 (Reuters) - **S&P Global Ratings on Monday lowered Pakistan's sovereign credit rating one notch to 'B-' from 'B', citing diminished growth prospects and elevated external and fiscal stresses.**

In S&P's system, B- is six steps below an investment grade rating.

S&P maintained Pakistan's rating outlook at "stable", adding that it reflects expectations the country will secure sufficient financing to meet its external obligations over the next 12 months, and that neither external nor fiscal metrics will deteriorate well beyond the current projections.

Pakistan is set to receive a \$3 billion loan package from the United Arab Emirates (UAE) in-order to help bridge a yawning current account deficit and shore up foreign reserves.

S&P noted that "while Pakistan has secured financial aid from bilateral partners to address its immediate external financing needs, we believe that fiscal and external imbalances will remain elevated".

The ratings agency said that the government's protracted negotiations with the International Monetary Fund (IMF) suggest that the resulting reforms will be less "expedient" than previously anticipated.

Fitch in December downgraded Pakistan's long-term foreign currency issuer default rating to 'B-' from 'B', citing a rise in external financing risk from low reserves and high external debt repayments, along with a continued deterioration in the economy's fiscal position.

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Philippines

ADB raises \$100 mln via maiden offshore peso-linked bonds

08-Feb-2019

MANILA, Feb 8 (Reuters) - **The Asian Development Bank (ADB) has raised 5.22 billion pesos (\$100 million) from its maiden issue of Philippine peso-linked bonds in the international market, the lender said on Friday.**

The four-year bonds pay a fixed interest rate of 5.25 percent and will be settled in U.S. dollar. Proceeds from the issue will support ADB's growing local currency lending operations in the Philippines and help reduce foreign exchange risk for ADB's borrowers, the Manila-based lender said in a statement.

(\$1 = 52.0500 Philippine pesos)

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Qatar

Qatar central bank sells 600 mln riyals of T-bills

05-Feb-2019

DUBAI, Feb 5 (Reuters) - **Qatar sold 600 million riyals (\$164.81 million) in T-bills split into maturities of three, six and nine months, the central bank said on Tuesday.**

The 400 million riyals three-month bills offer a 2.52 percent yield, the 100 million six-month notes yield 2.45 percent and the 100 million riyals with a nine-month maturity yield 2.69 percent, it said.

(\$1 = 3.6405 Qatar riyals)

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Saudi Arabia

Saudi Arabia plans international sukuk sale in second half of this year

05-Feb-2019

DUBAI, Feb 5 (Reuters) - **Saudi Arabia plans to issue international sukuk, or Islamic bonds, in the second half of this year, the Maal financial news website reported, citing the head of Saudi Arabia's Debt Management Office, Fahad al-Saif.**

The kingdom plans to borrow a total of 118 billion riyals (\$31 billion) this year, which will be used to partly cover its projected budget deficit of 131 billion riyals, al-Saif was quoted as saying.

Saudi Arabia has already tapped the international debt markets this year, raising \$7.5 billion through conventional bonds.

(\$1 = 3.7502 riyals)

(Reporting by Tuqa Khalid

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Sri Lanka

Fitch Ratings: Recalibration of Sri Lanka National Rating Scale

05-Feb-2019

Fitch Ratings-Hong Kong/Singapore-February 04: **Fitch Ratings said today it will recalibrate the Sri Lankan National Rating scale to reflect changes in the relative creditworthiness among Sri Lankan issuers following the downgrade of the country's sovereign rating to 'B' from 'B+' on 3 December 2018.** The recalibration will result in rating actions for some issuers with Sri Lankan national ratings. We anticipate a reduction in the number of 'AAA(lka)' rated issuers after the recalibration exercise is finalised, expected by end-February 2019, as a result of the sovereign downgrade and the resultant changes to the relative ranking of credits in the country.

National scale ratings are a risk ranking of issuers in a particular market designed to help local investors differentiate risk. Sri Lanka's national scale ratings are denoted by the unique identifier '(LKA)'. Fitch adds this identifier to reflect the unique nature of the Sri Lankan national scale. National scales are not comparable with Fitch's international ratings scales or with other countries' national rating scales.

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www.fitchratings.com

Tajikistan

Tajikistan hopes to finalise \$220 mln IMF loan in March

06-Feb-2019

DUSHANBE, Feb 6 (Reuters) - **Tajikistan hopes**

to secure a \$220 million International Monetary Fund loan next month after years of talks, central bank chairman Jamshed Nurmahmadzoda said on Wednesday.

A deal would be positive news for holders of the impoverished Central Asian nation's Eurobonds.

"We are in the final stages," Nurmahmadzoda told a briefing. "A concluding round of talks is scheduled for March when an IMF mission is due to visit Dushanbe."

The IMF commended the Tajik government last October for its plans "to put the energy sector on a sound financial footing, strengthen the financial sector, and develop the monetary policy framework".

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Uzbekistan

Fitch Rates Uzbekistan's Upcoming FC Bond 'BB-(EXP)'

05-Feb-2019

Fitch Ratings-London-February 05: Fitch Ratings has assigned Uzbekistan's upcoming foreign currency-denominated senior unsecured bonds an expected rating of 'BB-(EXP)'.

The assignment of the final rating is contingent on the receipt of final documents conforming to information already received.

KEY RATING DRIVERS

The rating is in line with Uzbekistan's Long-Term Foreign-Currency Issuer Default Rating (IDR), which Fitch assigned at 'BB-' with a Stable Outlook on 20 December 2018.

RATING SENSITIVITIES

The bonds' rating is sensitive to changes in Uzbekistan's Long-Term Foreign-Currency IDR.

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EUROPE

Albania

S&P affirms Albania at B+/B, outlook stable

04-Feb-2019

TIRANA (Albania), February 4 (SeeNews) - **Standard & Poor's said it has affirmed its long- and short-term sovereign credit ratings on Albania at B+/B, with a stable outlook.**



"We expect Albania's real GDP will expand by nearly 4% on average through 2022," Standard & Poor's said in a statement late on Friday.

"While we anticipate ongoing commitment to fiscal consolidation and a resulting gradual reduction of the still-high public debt-to-GDP ratio, public-private partnership (PPP) projects continue to pose a significant fiscal risk," Standard and Poor's noted.

The rating agency also said the weak headline credit growth and high euroization highlight key challenges for the monetary policy of the Bank of Albania.

Standard & Poor's also said:

"OUTLOOK

The stable outlook reflects our view that Albania's economy will expand by just under 4% over the next years; fiscal deficits will remain limited; and gradually narrowing current account deficits will predominantly be covered by solid foreign direct investment (FDI) inflows over the next three to four years. A period of sustainable economic growth, improvements in the business environment, FDI inflows, and a reduction in the size of the informal economy could lead to a positive rating action over the next two years. We would consider taking a positive rating action if fiscal consolidation strengthened beyond our base case leading to a more pronounced downward trajectory for public debt, or lower interest costs relative to government revenues. In turn, we might take a negative rating action if we observed material fiscal slippages, potentially resulting from higher fiscal deficits or materialization of contingent liabilities from PPP projects. We could also lower the rating if we assessed that the monetary policy transmission mechanisms of the Bank of Albania (BoA, the central bank) had weakened, for example due to a more prolonged period of repressed credit growth.

RATIONALE

The ratings are constrained by Albania's relatively weak institutional framework; modest income levels; its large net external liability position, resulting from persistent current account deficits; still relatively high general government debt burden, significant parts of which are either denominated in foreign currency or short term in nature; and limited monetary policy flexibility, owing to extensive euroization and high informality.

EU accession remains a political priority of the current administration and will provide a policy anchor for the government as it aims to fulfill requirements for EU membership. The administration has already made efforts to enhance the rule of law and combat the informal economy. Last year's Sofia declaration determined that EU accession negotiations for Albania will likely start in 2019. However, given strong sentiments in specific EU countries against further geographic expansion of the EU, we think that Albania's accession is unlikely before 2025.

More specifically, the strong EU membership

aspirations also spurred the government to pass the judicial reform last year, which aims to create a more independent judiciary. The reform has the potential to sustainably improve the country's business environment, for example, by increasing the effectiveness of property rights enforcement. The vetting body was established last year and will progress with its assessments. Currently, more than half of the judges evaluated have been dismissed from their judiciary duty, and we view this as a strong indication that these key reform efforts will be sustainable, even though comprehensive reform and restructuring of the judicial system will require more time. Further structural reforms are necessary to strengthen Albania's still-weak institutional framework, in our view. In general, the country has a considerable shadow economy, with prevalent corruption and constrained effectiveness of the rule of law.

We project that Albania's formal economy will expand by an average of 3.7% in real terms between 2019 and 2022, albeit still from a relatively low level of development. A number of large-scale investment projects have raised economic growth rates in recent years, and will likely be completed in 2019. This includes the Trans-Adriatic Pipeline (TAP), which will connect Albania with Italy and the Caspian Sea, as well as the construction of a hydropower plant. The completion of these projects will result in higher production capacity of the energy sector. In addition, the tourism sector posted very solid growth rates over the past two years, and we see clear development potential in this area. We consider that strong domestic demand, with rising consumption, will be a primary growth engine over the next years, also aided by rising employment levels.

We expect Albania's fiscal performance will remain relatively strong over our forecast horizon through 2022. The country has outperformed its budget and our previous expectations in the past year, and we note that Albania fiscally outperforms its Western Balkan peers in the same rating category. This is a result of the healthy growth outlook and the government's adherence to the debt brake law. We forecast general government deficits to average 2% of GDP annually over 2019-2022. Revenue growth should remain solid on the back of strong economic performance and coordinated tax mobilization efforts. That said, the shadow economy continues to weigh on public revenues, and sustainable improvement on revenue intake will hinge on continuous improvements to tax administration and compliance. In this respect, the implementation of a new property tax this year could be instrumental.

The administration has shown stricter cost control than in previous years, but specific downside risks remain. The government is actively pursuing several PPP infrastructure projects with local construction companies. While we acknowledge high infrastructure needs for the country, the risk framework governing these projects is currently not yet sufficiently

developed and many of these proposals remain unsolicited tenders. Annual expenditures for PPP projects currently stand at an estimated 2%-5% of government revenues, but the full amount of potential financial risks for the administration is impossible to evaluate.

Nevertheless, we expect that stronger overall fiscal consolidation will lead the government's net debt stock to decline to about 60% of GDP by the end of 2022. The authorities are actively pursuing efforts to increase debt sustainability, which is currently challenged by refinancing and foreign exchange risks. The average maturity of debt, while increasing over the past years, is still relatively short at 2.25 years. This is particularly the case for domestically issued debt, about half of which needs to be refinanced annually. **About one-half of Albanian government debt is denominated in foreign currency and unhedged, bearing the risks of marked exchange rate fluctuations.** Additionally, Albania's banking sector still holds the largest share of domestic debt, around one-quarter of banks' total assets. While we see no borrowing constraints for the public sector in the domestic market, the government will likely also continue to look for opportunities to fund itself abroad at longer maturities, especially given the successful placement of a Eurobond last year at rather favorable terms. We expect that the aforementioned risks will further abate as the government's debt burden declines. In contrast to government statistics, we include in the country's debt burden our assessment of unresolved arrears, currently estimated at 1.5% of GDP.

Although we expect the government will be the only significant sector to issue external debt, Albania's external vulnerabilities, reflecting large external financing needs and an increasing stock of external liabilities, remain high. We have revised down our estimate of the country's current account deficits; we now expect that they will decline to 6.3% of GDP by 2022 from currently above 7.0%. These deficits also relate to large-scale, import-intensive investment projects, which are mostly foreign funded; the most important ones will likely conclude in 2019. At the same time, the current account was supported by buoyant receipts from the tourism sector and strong remittance inflows (some 6%-7% of GDP annually) from Albanians employed in the EU, namely in Italy and Greece. We expect net FDI inflows will remain Albania's main external financing source for current account deficits, particularly via large-scale investment projects. For example, the TAP project, totaling €1.5 billion (11% of GDP in 2018), has been executed over the past two years and will likely be finalized by 2019.

We observe continued consolidation in the financial sector as subsidiaries of Greek banks are withdrawing from the market. Veneto Bank's subsidiary will be acquired by fellow Italian bank Intesa Sanpaolo's subsidiary and Societe Generale Albania will be acquired by

Hungarian banking group OTP. We do not consider these developments indicative of a broader trend of foreign banks leaving the market, since exiting banks represent only a minor share of the financial sector and more sizable foreign banks show no indication of significant disinvestments.

At the same time, banks have reduced the share of nonperforming loans (NPLs) on their balance sheet to below 12%, largely due to write-offs. Despite still-high disparities between financial institutions, this represents a pronounced decrease from the 25% peak in September 2014. This has not caused financial stress due to banks' sufficient provisioning and generally high liquidity. With a reported average tier-1 ratio of 16%-17% for the banking system, overall capitalization remains well above minimum requirements.

The deposit-funded financial sector has strengthened its position as a net external creditor. The steady rise of the financial sector's net foreign assets--partly reflecting high liquidity--illustrates Albania's limited lending opportunities and banks' low risk appetite in recent years. Even when considering the impact of NPL write-offs on overall credit growth figures of the economy, new credit growth remains subdued. We expect growth of domestic credit will trail nominal GDP growth over our forecast horizon.

Shallow capital markets and extensive euroization of the financial system further impair the effectiveness of Albania's monetary policy, as is the case for several economies across the region. BoA's de-euroization strategy has resulted in a decrease of euro-denominated credits, but deposits in foreign currencies will likely remain above 50% of total deposits through 2021 based on high euro inflows. Loans in foreign currencies have been decreasing in recent years, and we expect that they will remain below 50% of total loans in the coming years, given the BoA's strong policy focus on containing foreign-currency lending and a relatively large stock of euro-denominated NPLs. We still consider the BoA's exchange rate regime more stable than peers' in the same rating category. The Albanian lek remains a generally free-floating currency, and we expect exchange rate interventions by the central bank will remain intermittent and limited. The BoA has generally remained tolerant to the continuous upward pressure on the lek relative to the euro for the past several years, but decided to actively intervene in the market as a response to turbulences in the foreign exchange market in the second quarter of last year. However, this did not break the generally appreciating trend of the lek relative to the euro last year.

The central bank's policy rate now stands at a historically low 1%. Despite its very accommodative monetary policy, BoA's track record of meeting its inflation targets remains relatively limited over the past years. In the absence of stronger-than-anticipated lek depreciation, we project inflation will likely

remain closer to 2% in the foreseeable future and not reach the 3% target rate before 2023."

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Albania to sell 3 bln leks (24.0 mln euro) of 2-year T-notes on Feb 13

08-Feb-2019

TIRANA (Albania), February 8 (SeeNews) - **Albania's finance ministry will offer 3 billion leks (\$27.3 million/24.0 million euro) of two-year fixed-rate Treasury notes at an auction on February 13, the ministry's debt issuance calendar shows.**

The government securities will mature on January 9, 2021.

At the last auction of two-year fixed-rate T-notes held on January 7, the coupon rate on the issue edged down to 1.92% from 1.94%, according to figures published on the website of the finance ministry.

(1 euro = 123.654 leks)

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Bosnia

Bosnia's Serb Republic sells 18.8 mln euro of 5-yr T-notes, yield falls

05-Feb-2019

BANJA LUKA (Bosnia and Herzegovina), February 5 (SeeNews) - **Bosnia's Serb Republic raised on Monday a total of 36.7 million marka (\$21.4 million/18.8 million euro) from the sale of five-year Treasury notes, the finance ministry said.**

The government paper was sold at 104.89% of par, with a weighted average yield of 2.45%, down from 2.89% at the previous similar auction held on January 30, 2018, the ministry said in a filing with the Banja Luka bourse on Monday.

Demand for the notes, which bear an annual coupon of 3.5%, reached 134.5 million marka.

The Serb Republic is one of two autonomous entities forming Bosnia and Herzegovina. The other one is the Federation of Bosnia and Herzegovina.

(1 euro = 1.95583 marka)

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Croatia

Croatia places two bonds worth total 5.5 bln kuna (741.5 mln euro) on domestic market

04-Feb-2019

ZAGREB (Croatia), February 4 (SeeNews) - **Croatia's finance ministry placed two bonds worth a total of 5.5 billion kuna (\$849.5 million/741.5 million euro) on the domestic**

capital market, the ministry said on Monday.

One of the bond issues has a nominal value of 500 million euro and matures in 2022, whereas the other one, with a par value of 5 billion kuna, matures in 2029, the finance ministry said in a statement.

The three-year issue was placed at a yield of 0.66%, while the ten-year paper yielded 2.41%. Commercial banks were the dominant investors in the shorter maturity bonds, while the longer-term bond attracted mostly pension funds.

(\$ = 0.8733 euro)

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Croatia to offer 1.0 bln HRK in T-bills next week

07-Feb-2019

ZAGREB, Feb 7 (Reuters) - **Croatia will offer one-year treasury bills worth 1.0 billion kuna (\$153 million) at an auction on Feb. 12, the Finance Ministry said on Thursday.**

At the previous auction, held last week, the sale fell short of target as the market was gearing up for longer-term bonds issued a few days after the auction.

The Croatian finance ministry sometimes also offers three-month and six-month bills, as well as euro denominated papers. Last week it also refinanced 15-month euro bills worth 1.0 billion euros.

The benchmark overnight rate on the local money market was quoted at 0.33 percent on Thursday and the one-year rate at 0.52 percent. Daily market rates change at 1000 GMT.

(\$1 = 6.5375 kuna)

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Czech Republic

Czech fin min seeks cuts for 2020 budget as growth slows

07-Feb-2019

PRAGUE, Feb 7 (Reuters) - **Czech Finance Minister Alena Schillerova has asked government ministers to prepare spending cuts which would make up for a drop in state revenues in 2020 estimated at 50 billion crowns (\$2.20 billion), Lidove Noviny reported on Thursday.**

Citing a Finance Ministry document, the newspaper said that without cuts to make up for that expected revenue drop, the central state budget deficit would swell to 90 billion crowns.

The government aims for a budget deficit of 40 billion crowns in 2019 and also in 2020.

The ministry in January cut its outlook for growth to 2.5 percent in 2019 and 2.4 percent in 2020, respectively down from a previous outlook seeing expansion at 2.9 percent and 2.9

percent. It cited a slowing external environment. The Czechs have posted an overall fiscal surplus in the last three years, helped by a growing economy and falling unemployment. But economists have criticised the government for adding spending like generous pension and wage hikes that they said would strap future budgets.

(\$1 = 22.7120 Czech crowns)
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Czech central bank leaves rates unchanged, remains open to tightening

07-Feb-2019

- **Czech central bank keeps main rate at 1.75 pct, as expected**
- **Board voted 5-2 for no change, dissenters favoured 25 bps hike**
- **Update to staff forecast cuts growth, inflation forecast**
- **Board sees risks to new outlook as slightly inflationary**
- **Governor Rusnok says one or two hikes in 2019 still possible**

PRAGUE, Feb 7 (Reuters) - **The Czech National Bank left interest rates unchanged for the second meeting in a row on Thursday but remained open to one or two increases this year if external pressures wane, the domestic economy keeps growing and the crown stayed weaker than forecast.**

The central bank raised its main rate five times last year to restrain price pressures from a growing Czech economy and declining unemployment, the lowest in the European Union. However, threats from the outside have led to a pause in its tightening, which began in mid-2017.

The CNB board voted 5-2 on Thursday to keep the main two-week repo rate at 1.75 percent. The decision was expected.

The bank cut its growth forecast for this year to 2.9 percent from a previous 3.3 percent. At the same time, it raised its outlook for the three-month inter-bank rate (PRIBOR) - seen as proxy for the central bank's main rate - by 0.1 percentage point to 2.1 percent.

Rate-setters assessed the risks to the forecast as slightly inflationary, the bank said, identifying the weaker crown and the risk of a disorderly Brexit as inflationary risks.

"I can still imagine one or two (rate) increases on the horizon of this year -- it can easily happen," Governor Rusnok told reporters.

"That would be the option that we return to the rather more optimistic scenario of a soft landing of the economy's cooling to its equilibrium, sustainable pace of growth, and that would also probably be a scenario accompanied by the crown firming less than we expect," he said.

The crown has underperformed the bank's

assumptions in the last year as it gets caught in market jitters in Europe and globally, adding to inflationary risks.

The bank's forecast released on Thursday saw the average 2019 exchange rate at 25.00 crowns to the euro, weaker than the 24.70 forecast in November.

In the first quarter, the bank expects an average of 25.6, compared with 25.1 in the November forecast. The crown traded in the range of 25.768-25.840 on Thursday.

Among external factors, the central bank pointed to developments in the euro zone and the United States as influences.

The European Commission on Thursday has cut its forecasts for economic growth in the euro zone this year and next because of an expected slowdown in the largest countries of the bloc, owing to global trade tensions and growing public debt.

Last week, the U.S. Federal Reserve signalled its three-year-drive to tighten monetary policy may be at an end amid a suddenly cloudy outlook for the U.S. economy caused by a global slowdown and impasses over trade and government budget negotiations.

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Hungary

Hungary posts 20-year-high budget surplus in Jan

08-Feb-2019

BUDAPEST, Feb 8 (Reuters) - **Hungary posted a 244.5 billion forint (\$867.82 million) budget surplus in January as tax revenues increased sharply and the country recorded a significant transfer of EU funds as well, the Finance Ministry said in an emailed statement on Friday.**

The figure was the largest surplus for January in the past two decades, Finance Minister Mihaly Varga said in the statement.

Higher wages led to higher consumption, higher personal and value-added tax revenues and social security contributions as well, he added.

(\$1 = 281.74 forints)
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Kosovo

Kosovo's parliament approves 2019 budget, avoids crisis

03-Feb-2019

By Fatos Bytyci

PRISTINA, Feb 3 (Reuters) - **Kosovo's parliament approved the 2019 budget on Sunday after an opposition party agreed to support the minority government two days after the deadline expired, forcing a temporary halt in all state spending.**

The budget passed with 65 votes in the 120-seat parliament. The coalition government, which holds 53 seats, negotiated the support of the opposition Social Democrat Party (PSD).

Parliament also passed a bill raising public wages. Teachers ended a strike on Friday after reaching a deal with the government, meaning half million pupils and students will go back to school on Monday after three weeks away.

Workers in the energy sector, airport control, customs and doctors had also threatened to block their work if the new law on wages will not consider their demands.

Prime Minister Ramush Haradinaj said spending in this year's budget was a record high.

"With 2.37 billion euros (\$2.71 billion) this is Kosovo's biggest development budget that will contribute to have an economic growth of 4.7 percent," Haradinaj said after the vote.

The International Monetary Fund (IMF) said Kosovo will grow 4.2 percent this year from 4 percent last year.

The government plans to keep a budget deficit of 2 percent gross domestic product. Some 800 million euros will be spent on state infrastructure projects mainly to build new roads.

Haradinaj said capital investment expenditure was raised by 11 percent compared to last year's budget, spending for law enforcement agencies by 6 percent and base pensions by 20 percent.

Kosovo economists say increasing public sector wages would further increase the gap between the public and private sector and harm competitiveness. The average private sector wage is 370 euros a month, comparing to 520 euros per month in the private sector.

Corruption and political instability have kept most foreign investors away from Kosovo since its 2 million people declared independence from Serbia in 2008.

(\$1 = 0.8731 euros)

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Romania

Romania aims to sell debt worth 2.13 bln lei in February

04-Feb-2019

BUCHAREST, Feb 4 (Reuters) - **Romania's finance ministry plans to sell 2.13 billion lei (\$512.54 million) worth of leu currency bills and bonds in February, including 225 million lei at non-competitive rounds of auctions, it said on Monday.**

The ministry said it has scheduled six bond tenders in February, with residual maturities ranging from 2.7 to 12.6 years, as well as one auction for 400 million lei worth of one-year treasury bills.

Romania sold about 1.58 billion lei and 83.5 million euros of domestic debt in January. It sold less debt than planned and even rejected all bids at several tender, as the market struggled to digest a newly introduced tax on banks' financial assets.

(\$1 = 4.1558 lei)

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Fitch Ratings: Romania 2019 Budget Fails to Lift Fiscal Uncertainty

04-Feb-2019

Fitch Ratings-London-February 04: **Romania's draft 2019 budget targets a reduction in the budget deficit, but is based on optimistic assumptions and fails to clarify uncertainty over the new bank tax, Fitch Ratings says.**

The budget published by the Ministry of Public Finance on 31 January targets a reduction in the general government (GG) budget deficit (on an ESA basis) to 2.6% of GDP from 3.0% in 2018. This would represent a moderate fiscal tightening and be a step towards strengthening the public finances and reducing economic imbalances. It is expected to be voted on by parliament in the next few days.

Fitch projected a 2019 deficit of 3.5% of GDP when we affirmed Romania's 'BBB-/Stable sovereign rating in November.

Our next forecast update will reassess this in the light of the final 2019 budget that is approved by parliament and further information about the bank tax, which was introduced by emergency ordinance in December. However, Fitch is sceptical that the 2.6% target will be achieved, given the government's optimistic growth and revenue assumptions.

The draft budget projects expenditure to grow by 13.4%, but specific new revenue raising measures in the budget are only worth around a net RON3.3 billion (0.3% of GDP). The budget is based on a GDP growth forecast of 5.5%, much

higher than Fitch's projection of 3.2%. It projects nominal revenue growth of 15.7%, far in excess of nominal GDP growth, and assumes revenue gains from fighting tax evasion of 0.7% of GDP. Moreover, presidential elections due in late 2019 will make it challenging to cut expenditure if revenues undershoot the government's optimistic assumptions.

The draft budget targets a further deficit reduction to 2.5% of GDP in 2020, 2.2% in 2021 and 1.8% in 2022. The targets for 2019-2021 are higher than the government's commitments to the European Commission in its letter of 18 October 2018. The Commission has yet to respond publically to the draft budget.

The 2018 GG budget deficit (ESA basis) was 3.0% of GDP, in line with the government's target and Fitch's forecast. However, it was met with the help of one-off measures, which will be difficult to sustain in 2019.

Curiously, the draft 2019 budget appears to omit revenues from the new bank tax. The only revenue lines related to December's emergency ordinance are RON0.8 billion from turnover taxes on energy and telecom companies, RON0.5 billion from higher taxes on gambling, and RON0.6 billion from higher tobacco excise taxes (totally 0.2% of GDP); as well as RON1.5 billion in additional SOE dividends from reserves. It is therefore unclear whether the bank tax (which is already in force) will be amended, added to a later draft of the budget or remain outside the formal budget. To the extent that revenues from the bank tax are excluded from the budget, they provide a modest fiscal buffer, which we estimate could amount to around RON3 billion-RON4 billion this year assuming a quarterly tax of 0.3% on financial assets.

In Fitch's view, an increase in taxes that helped reduce the budget deficit would strengthen Romania's public finances and reduce economic overheating risks, which have been key downside risks to the sovereign rating.

However, aspects of the new taxes risk damaging policy credibility and offsetting the potential benefit to the public finances. These include the lack of consultation over the bank tax (including with the National Bank of Romania), the lack of an impact assessment, as well as an absence of clarity over how it operates, its populist labelling as a "tax on greed" and aspects of its design. These could adversely impact the business environment, investment and economic growth, potentially leading to a partially offsetting fall in tax revenues.

The increasing incidence of the bank tax as the interbank ROBOR rate exceeds a benchmark rate of 2% could complicate the transmission of monetary policy and reduce banks' internal capital generation as interest rates rise. If banks pass on the cost of the tax to retail borrowers this could dampen demand for credit.

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Additional information is available on www.fitchratings.com

Russia

Russia may scrap limit for OFZ government bond offering

05-Feb-2019

MOSCOW, Feb 5 (Reuters) - **Russia's finance ministry said on Tuesday it was considering scrapping its usual practice of setting a maximum amount of OFZ treasury bonds on offer next week.**

The ministry, which usually offers OFZ bonds at weekly auctions every Wednesday, said it could be more flexible in its reaction to changes in market conditions and fulfil more bids if it stops setting the ceiling.

If it scraps the limit, the amount of OFZ bonds it sells will be determined by overall demand as well as the premium that investors ask for compared with the bonds' actual yields, the ministry said.

The ministry, which borrows money for the budget by selling OFZ bonds, said it would inform markets on its decision regarding the auction mechanism on Feb. 12.

This week, the ministry is offering 35 billion roubles (\$534 million) of OFZ bonds at two auctions on Wednesday.

(\$1 = 65.5200 roubles)

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Russian Eurobonds edge up, unstable UST keep growth in check

05-Feb-2019

MOSCOW, Feb 5 (Interfax) - **Prices for most Russian Eurobonds are rising slightly on Tuesday amid sustained demand for emerging markets (EM), however instability on the US Treasuries market seen in the last few days is taking the edge off the buying.**

That said, UST are gaining in price on February 5, and sovereign spreads are changing somewhat.

Russia's benchmark 2030 bonds were up 12 basis points from previous closing by 6:15 p.m. Moscow time at 110.85% with yield at 3.8% per annum, 4 bps lower. Three-year US Treasuries were up 5 bps from previous closing at 98.68%, with yield down 1.5 bps at 2.495%. Spread between Russia-30 and UST3 narrowed 2.5 bps to 130.5 bps.

Russia's 2043 bond was up 29 bps at 109.89% yielding 5.16%, down 2 bps; the 2042 bond was up 25 bps at 106.46%, with yield down 1.5 bps at 5.145%; the 2026 bond was up 15 bps at 101.4% with yield down 2.5 bps to 4.52%; and the 2023 bond rose 14 bps in price to 103.51%,

yielding 4.035%, down 3 bps. The 2047 bond was up 34 bps to 97.98% with yield down 2 bps to 5.39%; and the 10-year bond maturing in 2027 was up 15 bps at 97.67%, with yield down 2 bps at 4.59%.

Pr mz
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Russian Eurobonds little changed on Wednesday in absence of new drivers

06-Feb-2019

MOSCOW. Feb 6 (Interfax) - **Prices for most Russian Eurobonds were little changed on Wednesday in the absence of strong new drivers in either direction, with US Treasuries also not demonstrating clear trends, resulting in only slight changes to spread between the two benchmark issues.**

Russia's benchmark 2030 bonds were up 10 basis points from previous closing by 6:15 p.m. Moscow time at 110.94% with yield at 3.77% per annum, 3.5 bps lower. Three-year US Treasuries were up 4 bps from previous closing at 98.74%, with yield down 1.5 bp at 2.47%. Spread between Russia-30 and UST4 narrowed 2 bps to 130 bps.

Russia's 2043 bond was up 20 bps at 110.46% yielding 5.12%, down 1.5 bp; the 2042 bond was up 21 bps at 106.92%, yielding 5.11%, down 1.5 bps; the 2026 bond was up 13 bps at 101.52% with yield down 2 bps to 4.5%; and the 2023 bond rose 6 bps in price to 103.62% yielding 4.005%, down 1.5 bp.

The new 2047 bond was up 17 bps to 98.42% with yield down 1 bps to 5.36%; and the new 10-year bond maturing in 2027 was down 2 bps at 97.7%, with yield up 0.5 bps at 4.585%.

Ng mz
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Serbia

IMF praises Serbian growth, supports bid to sell bank

04-Feb-2019

BELGRADE, Feb 4 (Reuters) - **The International Monetary Fund praised Serbia's strong economic performance in 2018 and said on Monday it agreed with government plans to privatise a major bank and a loss-making petrochemical plant.**

Serbia's estimated 4.4 percent growth in 2018 "was the fastest for over a decade," said the lender, which is working on a 30-month programme to monitor the economy and offer advice.

According to a flash estimate last week, Serbia's economy grew 3.5 percent in the fourth quarter

of 2018. Its gross domestic product is forecast to grow 3.5 percent in 2019 as low base effects from 2017 and 2018 wane.

"The general government posted a fiscal surplus of 0.6 percent of GDP in 2018 and public debt declined to about 54 percent of GDP," read the statement from an IMF mission visiting Serbia.

Last October, the European Union candidate country and the IMF agreed a 2019 fiscal deficit target of 0.5 percent of GDP.

The IMF mission also said it supported government efforts to privatise state-owned Komercijalna Banka bank, as well as its bid to dispose of the loss-making HIP Petrohemija chemical plant. Last February, Serbia ended a previous three-year, 1.2 billion-euro (\$1.41 billion) loan agreement with the IMF, as part of which the Balkan country cut public-sector wages and pensions to reduce its deficit and debt. It did not draw on any of the funds.

The IMF is now monitoring the economy as part of a 30-month non-financial Policy Coordination Instrument (PCI) arrangement.

Serbia is hoping that the PCI - tailored for countries that do not require the IMF's direct financial backing - will attract more investors.

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Slovakia

Slovakia may reach balanced budget despite slower growth

04-Feb-2019

BRATISLAVA, Feb 4 (Reuters) - **Slovakia's aim to reach a balanced budget this year is a realistic goal despite the economy's slowdown, Finance Minister Peter Kazimir said on Monday.**

The Finance Ministry cut its 2019 growth outlook earlier on Monday to 4.0 percent from 4.5 percent as foreign demand weakens, the first outlook downgrade since September, 2013.

The ministry also lowered its forecast for 2020, expecting growth to ease to 3.7 percent, down from an earlier estimate of 3.9 percent.

The economy reached its peak last year when it grew by 4.3 percent instead of the expected 4.1 percent, the ministry said.

"So far we don't have enough data to be able to say whether it's a reversal of the economic cycle or just a slowdown," Kazimir told reporters.

"The fundamentals of the domestic economy are healthy, the downgrade reflects the situation of our biggest trade partners including Germany. We have to be cautious and realistic but there is no reason to panic," he added.

The expected slowdown in foreign demand will be offset by rising output at the Slovak factory

of British-based Jaguar Land Rover [RIC:RIC:TAMOJL.UL] which launched operations late last year, the ministry said. Germany's Volkswagen, South Korea's Kia and French company Peugeot also produce cars in Slovakia, which manufactured more than a million vehicles last year, mostly for export.

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Slovenia

Slovenia to auction 140 mln euros of treasury bills on Feb 12

07-Feb-2019

LJUBLJANA, Feb 7 (Reuters) - **Slovenia's finance ministry said on Thursday it will auction about 140 million euros (\$159 million) of 3-month, 6-month and 12-month treasury bills on Feb. 12.**

At the last auction in October, the ministry issued 80 million euros of 18-month, 12-month and 6-month treasury bills, all at negative interest rates of minus 0.37, minus 0.39 percent and minus 0.4 percent respectively.

Analysts said interest rates are expected to remain in negative territory at the auction next week, reflecting low interest rates set by the European Central Bank.

(\$1 = 0.8827 euros)

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Turkey

Turkey's Erdogan to move CHP's Isbank stake to Treasury

05-Feb-2019

By Daren Butler

ANKARA, Feb 5 (Reuters) - **Turkish President Tayyip Erdogan said on Tuesday that the Treasury will take over a 28 percent stake in Isbank, the country's largest listed lender, from the main opposition Republican People's Party (CHP).**

Erdogan has said in the past that the stake, which was bequeathed to the CHP by Mustafa Kemal Ataturk, founder of the Turkish Republic, will be moved to the Treasury.

"Political parties do not have the right or authority to take part in banking activities," Erdogan told reporters following a parliamentary speech to his AK Party's lawmakers. Erdogan's

comments knocked 6 percent off Isbank's share price.

The CHP, which appoints four members to Isbank's board, opposes the move by Erdogan, who said that Ataturk had bequeathed the stake to the Treasury, not the party.

"I believe this parliament will take this historic decision, with God's permission, and the 28 percent Isbank stake will be transferred to the nation's treasury," Erdogan told lawmakers.

In addition to the CHP stake, Isbank has a 31.4 percent free float and 40.5 percent is held by the Isbank pension fund.

At 28.1 percent, the CHP's holding is worth around 7.32 billion lira (\$1.41 billion), based on Isbank's market capitalisation of some 26.04 billion lira.

The CHP has said that its members on the Isbank board and the party do not get a dividend payout from the bank.

Erdogan said the timing of the transfer to the Treasury would depend on how long the parliamentary process takes.

Isbank shares were trading 6.43 percent lower at 5.38 lira at 1326 GMT.

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LATIN AMERICA AND CARIBBEAN

Fitch Says Latin America's Weak Recovery Vulnerable To Multiple Risks

04-Feb-2019

Feb 4 (Reuters) - Fitch:

Fitch says Latin America's weak recovery vulnerable to multiple risks.

Fitch says Latin America is currently most vulnerable emerging market region to negative rating pressures.

Fitch says Latam region experiencing some positive trends including improving economic growth, contained inflation, current account deficit adjustment.

Fitch says potential risks in Latam include tighter external financing conditions, trade protectionism, commodity price volatility, among others.

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Argentina

Argentina sells \$400 mln worth of



inflation-adjusted 2020 bonds

06-Feb-2019

BUENOS AIRES, Feb 6 (Reuters) - **Argentina sold 15 billion pesos (\$400 million) in inflation-adjusted treasury bonds on Wednesday, the Finance Ministry said.**

The bonds, known as BONCER, mature in 2020 and aim to ease pressure on the exchange rate. The issuance received 275 offers equal to about 18.2 billion pesos, the ministry said.

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Brazil

S&P Says Brazil 'BB-/B' Sovereign Ratings Affirmed; Outlook Remains Stable

07-Feb-2019

Feb 7 (Reuters) - S&P Global Ratings:

S&P says brazil 'bb-/b' sovereign ratings affirmed; outlook remains stable.

S&P says brazil's stable outlook reflects S&P's view that the Bolsonaro administration will advance policies to slowly improve the fiscal deficits.

S&P says sees slow growth and fiscal weaknesses as key credit constraints for brazil's economy.

S&P says also expect moderate acceleration of brazil's economic growth on improved investor confidence after a wait-and-see mode prior to elections.

S&P says new administration of brazil confronts challenge of maintaining broad political capital and forging effective congressional alliances.

S&P says ratings on brazil supported by S&P's expectation that brazil's economic activity & fiscal position will gradually strengthen in coming years.

S&P - new administration of brazil has challenge of forging alliances to pass controversial pieces of legislation to correct structural fiscal slippage & rising debt burden.

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Brazil markets, central bank converge on 'lower for longer' rates view

07-Feb-2019

By Jamie McGeever

BRASILIA, Feb 7 (Reuters) - **Brazilian financial markets' and the central bank's views on interest rates are beginning to converge: Rates will likely remain at record lows all year, with social security reform being the biggest single risk to a move in either direction.**

The central bank's statement accompanying the

unanimous decision on Wednesday to keep rates on hold at 6.50 percent struck a cautious tone. Although the "asymmetry" of risks still points to an eventual rise, the tightening bias is softening. Interest rate traders have been far more dovish and still see no change this year, but they softened their easing bias on Thursday. January 2020 futures contracts nudged up to 6.50 percent, wiping out the 15 basis-point easing they had implied all week in the biggest one-day rise since October.

Meanwhile, some of the reform-fueled optimism that lifted the Brazilian real to a three-month high last week also weakened on Thursday. The currency fell for a fifth straight day, and was on course for its worst week since November.

None of these moves alone are particularly big, but together they reflect a pause in Brazil's market rally, serve as a reminder that pension reform will be fraught and are a nod to the central bank's reluctance to rock the boat, said analysts.

"The central bank and markets appear to be converging, but this will depend on whether pension reform is approved," said Julio Hegedus Netto, chief economist at Lopes Filho & Associados. "If it isn't, we could well have a reversal," he said.

The size, shape and scope of the government's plan to overhaul Brazil's social security system, which Economy Minister Paulo Guedes said could save the state around 1 trillion reais (\$270 billion) in a decade, is still to be determined.

Guedes said on Thursday that various options will be put to President Jair Bolsonaro as soon as he recovers from surgery he had last week. Guedes said the measures they are examining will form a comprehensive package.

The newly elected speaker of the lower house, Rodrigo Maia, said this week that pension reform will be the first item on Brazil's legislative agenda and could be approved in both chambers by July.

That is later than some traders had hoped for, contributing to the reversal in Brazilian rates and currency markets on Thursday and bringing traders and the central bank that little bit closer together.

(\$1 = 3.7166 reais)

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Paraguay

Paraguay sets IPTs of 5.65% area on March 2050 bond

04-Feb-2019

By Natalie Harrison

NEW YORK, Feb 4 (IFR) - **The Republic of Paraguay has set initial price thoughts of 5.65% area on a US\$500m no-grow bond**



maturing in March 2050, one of the banks managing the deal told IFR.

Morgan Stanley (B&D), Citigroup and Goldman Sachs are managing the trade, which is expected to price later on Monday and expected to be rated Ba1/BB/BB+.

Proceeds will finance infrastructure and capital expenditures and to refinance a portion of its outstanding debt in accordance with the sovereign's annual budget.

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Editing by Jack Doran)

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Fitch Rates Paraguay's USD500MM Bond 'BB+'

05-Feb-2019

Fitch Ratings-New York-February 05: **Fitch Ratings has assigned a 'BB+' rating to Paraguay's USD500 million bond, with final maturity in 2050. The bond has a coupon of 5.4%.**

Proceeds from the issuance will be used for capital expenditures and to refinance a portion of outstanding debt.

KEY RATING DRIVERS

The bond rating is in line with Paraguay's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BB+'.

RATING SENSITIVITIES

The bond would be sensitive to any changes in Paraguay's Long-Term Foreign Currency IDR. Fitch upgraded Paraguay's Long-Term Foreign Currency IDR to 'BB+' from 'BB' and revised the Rating Outlook to Stable from Positive on Dec. 11, 2018.

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Additional information is available on

www.fitchratings.com

Uruguay

Fitch Says Uruguay's Fiscal Slippage Poses Election

06-Feb-2019

Feb 5 (Reuters) - FITCH:

Fitch says Uruguay's fiscal slippage poses election-year challenges.

Fitch says persistent deficits are lifting Uruguay's already high debt burden and eroding policy space to confront shocks.

Fitch on Uruguay says some signs of revenue weakness have emerged amid economic deceleration.

Fitch says a further rise in deficit is more likely than a reduction toward Uruguay government targets in 2019 election year.

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Venezuela

Russia's foreign ministry: help Venezuela, but don't meddle

03-Feb-2019

MOSCOW, Feb 3 (Reuters) - **Russia's foreign ministry said on Sunday that the international community should focus on helping to solve Venezuela's economic and social problems and refrain from any "destructive" interference, Interfax news agency reported.**

"The international community's goal should be to help (Venezuela solve socio-economic problems), without destructive meddling from beyond its borders," Alexander Shchetinin, head of the ministry's Latin American department, was cited by Interfax as saying.

Earlier on Sunday U.S. President Donald Trump said in an interview to CBS that sending the military to Venezuela was "an option".

(Writing by Polina Ivanova)

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Fitch Says Resolving Venezuela's Debt Default To Take Years

06-Feb-2019

Feb 6 (Reuters) - Fitch:

Fitch says resolving Venezuela's debt default to take years.

Says in short term, new U.S. Sanctions imposed on state-owned oil company PDVSA will deepen Venezuela's economic crisis.

Says Venezuela's ongoing political & diplomatic crisis raises risks of increased near-term economic pain and potential for greater domestic political division.

On Venezuela, says any political transition would take time to deliver on debt restructuring and materially improving economic situation.

Says in Venezuela, oil production will likely fall further and more quickly affecting economic output, exports and government revenues.

Says military's position will be key to Venezuela's political future and there is potential for a protracted stalemate and deepening of positions.

On Venezuela, says domestic disruption caused by protests and political uncertainty will further deepen severe economic distortions.

On Venezuela, says if Maduro able to retain power, reform prospects to stabilize economy & end hyperinflation likely to be diminished, at least in near term.

Says domestic disruption in Venezuela caused by protests and political uncertainty will further deepen severe economic distortions.

On Venezuela, says external and internal political pressures on Maduro administration are growing significantly.

On Venezuela, says even in case of a political transition, a debt restructuring is likely to be a lengthy process.

Says should successful political transition combined with economic stability reforms be implemented, Venezuela will have significant potential.

On Venezuela, says for oil sector & industry in general, sustained, significant investment will be needed to stabilize and increase production.

Says PDVSA would need to be restructured from ground up and incentives put in place for private investment.

On Venezuela says nature of varied class of creditors incl. PDVSA bondholders, bilateral lenders (esp. China & Russia) to be added obstacles for debt restructuring.

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AFRICA

Botswana

Botswana sees budget surplus in 2020

07-Feb-2019

By Brian Benza

GABORONE, Feb 7 (Reuters) - **Botswana plans to swing back to a budget surplus in 2020 after three straight years of deficits, Finance minister Kenneth Matambo said on Thursday.**

The diamond-producing southern African country expects a budget deficit this year estimated at 3.5 percent of gross domestic product (GDP), the same as 2018's estimated shortfall, Matambo had said in his budget speech on Monday.

On Thursday, Matambo told a media briefing that the 3.5 percent deficit for 2019 which amounts to 7 billion pula (\$667.80 million) will be financed from borrowing from the local or outside markets as well as drawing down of cash reserves.

"We have had three years of budget deficits and this was a deliberate move to try and boost the economy," he said.

"Through a combination of expenditure control and expansion of revenue sources, including widening of the tax base we plan to return to modest surpluses in the financial year beginning April 2020."

Matambo also said China has agreed, in principle, to lend 10 billion pula to Botswana for capital projects, a facility which he said would not expose the country to any debt distress.

"We have not signed yet but they have agreed to lend us the money, which will be useful when it comes. Concerns have been raised about African countries getting loans from China, but I want to clearly say that I have got not issues

with getting money from China's long as the terms are right," he said.

Botswana has forecast that economic growth would slow to 4.2 percent in 2019 from an estimated 4.5 percent in 2018.

Matambo said the sluggish projections are based on the expected performance of the minerals sector, which he said is heavily reliant on the global economy.

"The projection of lower growth is a reflection of what we expect to happen in the global economy, whose growth is slowing. One of the biggest contributors to our economy is the minerals sector and this is highly dependent on the happens in the global economy," he said.

Botswana, which produced 24.1 million carats of diamonds in 2018, sees mineral revenue as the highest contributor to the budget at to 35.62 percent of total revenues.

(\$1 = 10.4822 pulas)
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Egypt

Egypt's short-term dollar debt drops to \$14 billion

03-Feb-2019

CAIRO, Feb 3 (Reuters) - **Egypt's short-term dollar-denominated debt fell \$3.25 billion to about \$14 billion by the end of 2018, the deputy finance minister said on Sunday.**

Egypt has borrowed heavily from abroad after adopting a three-year economic reform programme backed by the International Monetary Fund (IMF) since late 2016.

The government, which faces a tough debt repayment schedule, plans to issue foreign currency bonds early this year to raise \$3 billion to \$7 billion. It has also been periodically issuing dollar-denominated treasury bills.

Officials say they are trying to diversify sources of debt and lengthen its average maturity. "We succeeded in borrowing long term from international markets and using part of those funds to pay off short-term foreign debt," Deputy Finance Minister Ahmed Kouhouk said in a statement.

Egypt's foreign debt stood at \$92.64 billion at the end of the last financial year in June, up 17.2 percent year-on-year.

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Foreign holdings in Egyptian treasuries at \$13.1 bln

05-Feb-2019

CAIRO, Feb 5 (Reuters) - **Foreign investors held \$13.1 billion in Egyptian treasury bills and bonds as of the end of January, Deputy Finance Minister Ahmed Kouchouk said on Tuesday, in a sign that foreign capital may no longer be fleeing from the Egyptian market.**

Kouchouk had put foreign holdings at \$14 billion as of the end of September after a turbulent summer for emerging markets.

That was down from \$17.5 billion at the end of June and \$23.1 billion at the end of March.

According to central bank figures, which don't include bonds, foreign holdings of treasury bills continued their fall in November and December. Allen Sandeep, head of research at Naeem Brokerage, said carry trade appetite had increased and treasury yields had fallen by an average 1.8 percentage points since December.

He said this signalled "expectations of a likely interest rate cut soon and confidence in the economy, combined with better global emerging market sentiments."

Finance Minister Mohamed Maait said on Tuesday that foreign investors bought \$900 million worth of Egyptian treasury bills and bonds in January.

The average yield for bonds was 18.5 percent in the July-December period and that for treasury bills was 19.5 percent, Kouchouk said.

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Egypt's central bank has received \$2 bln tranche of IMF loan

06-Feb-2019

CAIRO, Feb 6 (Reuters) - **Egypt's central bank has received the \$2 billion fifth tranche of its IMF loan, state news agency MENA said on Wednesday.**

The IMF agreed to disburse the fifth tranche of the \$12 billion three-year loan programme that began in 2016 after concluding its fourth review of Egypt's economic reforms and the central bank received the funds late on Tuesday.

About \$10 billion has now been disbursed under the deal, with a final tranche due after another review in June.

As part of the IMF deal, Egypt has been pushing ahead with tough economic reforms including a hike in petrol prices of up to 50 percent last June.

Its remaining fuel subsidies are expected to be cut by mid-2019 and the petroleum minister said last month that Egypt will implement an automatic price indexation mechanism on 95 octane petrol starting in April.

The IMF cited those promised changes in a statement on Tuesday, saying: "The authorities

remain committed to reaching cost recovery for most fuel products by mid-2019 and implementing automatic fuel price indexation."

Other reforms have included the introduction of a value-added tax, deep cuts to energy subsidies and a currency devaluation, putting the budgets of tens of millions of Egyptians under strain.

The changes are aimed at luring back investors who withdrew funds from Egypt during the 2011 uprising that overthrew strongman Hosni Mubarak.

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Nigeria

Nigeria naira firms as funds shrug off election risk to buy treasuries

07-Feb-2019

By Chijioke Ohuocha

LAGOS, Feb 7 (Reuters) - **The Nigerian naira has gained 0.55 percent in a week to reach 361 per U.S. dollar on Thursday as foreign funds shrugged off the risk of forthcoming elections to buy government treasuries, traders said.**

The currency was quoted between 362.50 and 363 a week ago on the over-the-counter market, traders said.

Foreign investors have been buying one-year Nigerian treasuries, yielding 15 percent, helping boost dollar liquidity on the currency market, after the naira touched 365 last month.

On Thursday, the central bank auctioned 321 billion naira of bills, more than it had offered. The bank has been selling treasuries to lure foreign investors that fled at the start of the cycle of interest rate hikes in United States which hurt the naira.

"There's liquidity on the market," one trader said.

"We have traded as low as 360.80 naira this week. Foreign investors are coming in. I don't think they are as concerned with the elections or the premium on yield is good enough."

On the stock market, Nigeria's top 10 banks soared 3.74 percent on Thursday.

Nigerians go to the polls on Feb. 16 for a presidential election. The incumbent Muhammadu Buhari and his deputy have been touring the country to woo voters for a second term in office.

Traders say investors have been buying bonds partly to offset lower yields abroad, especially after the U.S. central bank signalled a dovish stance on rates this year and on the assumption of limited policy changes in Nigeria if Buhari wins re-election.

"If the incumbent wins, status quo could remain and if the main opposition wins ... they sound

more pro-market so investors have nothing to lose," another trader said.

The main opposition candidate Atiku Abubakar has said he would consider an amnesty for corruption suspects and privatise the state-owned oil company NNPC and float the naira currency to attract investors back to the country.

Nigeria has at least three different exchange rates, which the central bank has used to manage pressure on the currency. At currency bureaux the naira was quoted at 361 and 306.20 on the official market, supported by the central bank.

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South Africa

South Africa's rand to shed half its 2019 gains in a year

06-Feb-2019

Rand gains to be halved by reality check in coming months

By Vuyani Ndaba

JOHANNESBURG, Feb 6 (Reuters) - **South Africa's rand will lose half of the 7 percent gains made against the U.S. dollar since the start of the year over the next 12 months, pressured by fiscal constraints and weak growth, a Reuters poll found on Wednesday.**

The rand has topped emerging market currencies since the turn of the year, buoyed by external developments such as a potentially more "patient" Federal Reserve in raising interest rates and a revitalised mood in U.S.-China trade talks.

However, in 12 months the rand is expected to have weakened over 3 percent to 13.85 per dollar although that median forecast is 58 cents stronger than last month's.

"There are still notable local risks aligned to subdued growth and fiscal challenges that warrant caution," said Christopher Shiells, emerging markets analyst at Informa Global Markets.

In October's budget review, South Africa's finance minister Tito Mboweni predicted wider budget deficits and cut growth forecasts that focused spending on infrastructure, manufacturing and agriculture to boost the weak economy.

"These challenges may lead to a sovereign credit rating downgrade from Moody's in March if the 2019 budget does not allay any lingering concerns," Shiells said.

The budget is due to be announced in about two weeks, followed by a Moody's review. Moody's is the only major agency still holding South Africa's debt at investment grade.

A downgrade of the debt dominated in rands from Moody's will trigger forced capital outflows from passive investments.

Shiells also added to the risks national elections due in May which carry "popular policy moves and reform paralysis".

Analysts were still bullish about the support the currency has received from abroad even when local fundamentals have been disappointing.

The most bullish forecaster in the sample said the rand would trade at 12.63 per dollar in a year while the most bearish suggested the currency could weaken to 15.50.

Fed policymakers last month indicated they were pausing a rate increase campaign that began in December 2015 as the U.S. central bank tries to sort out how much a weakening global economy could drag on the United States.

South Africa's own rates were expected to be hiked 25 basis points to 7.00 percent in May, after the Reserve Bank left them unchanged last month.

The Bank tries to keep inflation between its 3-6 percent comfort level and projected it would average 4.8 percent this year, down from a previous forecast of 5.5 percent. An average of 5.3 percent is expected in 2020.

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Tunisia

Tunisia averts national strike with public sector wage deal

07-Feb-2019

By Tarek Amara

TUNIS, Feb 7 (Reuters) - **Tunisia's biggest union on Thursday cancelled a nationwide strike scheduled for later this month after the government agreed to raise wages of about 670,000 state employee, ending months of tensions.**

The government is under pressure from foreign lenders to cut spending and reduce its large budget deficit but also faces public anger over high unemployment and poverty.

"The deal is a victory for Tunisia, it will help create a good social climate," Nourredine Taboubi, head of the General Union of Tunisian Workers (UGTT), told reporters after a ceremony to sign the salary deal.

The total wage rise was not announced.

Tunisia's economy has been in crisis since autocrat Zine al-Abidine Ben Ali was toppled in 2011, with unemployment and inflation shooting up.

"The government has bought social peace," Minister of Economic Reform Taoufik Rajhi said before the ceremony.

Teachers had been boycotting exams for

hundreds of thousands of students for nearly two months. On Wednesday, thousands rallied near the prime minister's office for better conditions and wages.

Last month, rail, bus and air traffic was halted and protests drew thousands as the UGTT staged a one-day strike.

Political turmoil and lack of reforms have deterred investment sorely needed to create jobs, forcing the government to implement austerity measures in return for loans totalling about \$2.8 billion from the International Monetary Fund (IMF).

The IMF had wanted Tunisia to freeze public-sector wages - the bill for which doubled to about 16 billion dinars (\$5.5 billion) in 2018 from 7.6 billion in 2010 - to reduce them from about 15.5 percent of GDP now to 12.5 percent in 2020.

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into neutral territory to 4.4.

The bank also said positions taken by private clients showed no sign of the "irrational exuberance" experienced by markets during the tech bubble, which grew at the end of the century.

"Since 2012, of every \$100 invested by private clients, \$55 has gone into debt, \$35 into equities, and \$10 into cash & alternatives," they wrote, noting no sudden rise in risky assets in portfolios.

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EMERGING MARKET

Investors pump record amounts of cash in emerging markets

08-Feb-2019

LONDON, Feb 8 (Reuters) - **Investors pumped record high volumes of cash into emerging markets shares and bonds in the past week, Bank of America Merrill Lynch (BAML) said on Friday amid expectations U.S. monetary policy could lead to a weaker U.S. dollar.**

Flows into bonds reached \$11.1 billion, the biggest since May 2018, \$4.3 billion went into equities and \$400 million were pulled out of precious metals, marking the first drop in nine weeks, according to the report based on EPFR data and tracks fund flows from Wednesday to Wednesday.

It was also the biggest week of inflows in three years to high-yield bonds with \$4.8 billion and emerging market debt with \$4.4 billion.

BAML noted that since Jan. 2, investors have bought \$36 billion of bonds and sold \$10 billion of equities. Among the risky asset classes, there were buys of \$16 billion of emerging market equities and sales of \$26 billion and \$7 billion of U.S. and European shares respectively.

Investors have piled into emerging market equities and bonds in recent months amid expectations that the U.S. Federal Reserve will not raise interest rates as quickly as previously expected or even no longer tighten its policy.

In the note, BAML chief investment strategist Michael Hartnett told clients that in his view "the greatest threat to EPS (earnings per share) in the next 3 years is an acceleration of global populism via taxation, regulation & government intervention".

BAML said its Bull and Bear indicator rose further

