Dipartimento del Tesoro

Click the links below for more info:

>> PDM Network

>> Emerging Markets Weekly Newsletter

>> Bimonthly Newsletter

Emerging Sovereign Debt Markets NEWS

Number 19 Week 2 – 8 May 2020

Table of contents

ASIA

Bahrain

Bailed-out Bahrain may need more Gulf support as soon as this year

04-May-2020

- **Low oil prices to squeeze Bahrain's neighbours**
- **Their support "may not be so forthcoming" this time**
- **2018 deal helped the island avoid a credit crunch**
- **Agreement was linked to fiscal reforms**
- **Fiscal deficit seen at 15.7% of GDP this year**

By Davide Barbuscia, Aziz El Yaakoubi and Tom Arnold

DUBAI/LONDON, May 4 (Reuters) - **Bahrain may need more financial aid from fellow Gulf Arab states as soon as this year but its wealthier neighbours could themselves be hamstrung by low oil prices and the economic impact of the new coronavirus, bankers and analysts said.**

Bahrain, rated junk by major credit rating agencies, in 2018 received a $10 billion aid package over five years from Saudi Arabia, Kuwait and the United Arab Emirates to help it avoid a credit crunch in a deal tied to fiscal reform.

But the U.S.-allied island state, a small oil producer, could need a larger amount than allotted for 2020 to fill bigger financing needs with petroleum prices at $20-$30 a barrel.

Bahrain announced in March an $11 billion stimulus package including plans to spend $570 million on private sector salaries to mitigate the coronavirus impact on the economy.

"Our estimates point to Bahrain needing additional funding in 2020 from the $10 billion support package they got in 2018," said Sara Grut, emerging market strategist at Goldman Sachs.

The finance ministry declined to comment about when it expects to receive this year's tranche of the five-year $10 billion aid, which would equal $1.76 billion according to official plans announced last year.

Bahrain's fiscal deficit is expected to jump to 15.7% of gross domestic product this year from 10.6% in 2019, according to the International Monetary Fund. Bahrain's preliminary estimates in February forecast the 2019 deficit at 4.7% of GDP.

A debt banker in the Gulf said Bahrain's financing gap would be "tiny", especially with additional assistance, but that its neighbours' support "might not be so forthcoming this time".

Bahrain lacks the ample oil and financial resources of its neighbours, and its state finances are among the weakest in the region. But its Gulf Arab allies have provided political and economic support to maintain its stability over the years due to its importance in countering Iranian influence in the region.

Headquarters of the U.S. Navy's Fifth Fleet, Bahrain shares with Riyadh a concern about discontent among some Shi’ite Muslims citizens against their ruling Sunni dynasties, and accuse Shi'ite Iran of fomenting it - a charge Iran denies.

Toby Iles, director at Fitch, said Bahrain's "small size and strategic importance favour ongoing support" from Gulf allies, but Manama would need to use the remainder of the package more quickly.

ON THE FENCE

The finance ministry said fiscal measures, including a 30% reduction in ministries' administrative budgets and postponing large-scale infrastructure projects, would "ensure government spending remains within the budget ceiling" for 2020.

Bahrain plans to issue international bonds twice this year, the ministry said in an emailed statement to Reuters.

Manama secured a loan of about $1 billion to repay a $1.25 billion bond due at the end of March, banking sources had told Reuters, after suspending plans to issue international bonds as market conditions worsened.

But it had to rely on local banks to get the deal done, two banking sources said. "International banks that would normally lend to Bahrain were sitting on the fence for this one," said one of them.

With $3.4 billion in central bank foreign reserves as of the end of February, some are questioning Bahrain's ability to defend its currency peg to the U.S. dollar.

"I have seen some recommendations to short the Saudi riyal, but more obvious ones in the region I guess would be the Omani rial and the Bahraini dinar," Tim Ash, emerging markets senior sovereign strategist at BlueBay Asset Management, said in an emailed comment to contacts last month.
Yields of Bahrain's dollar bonds due in 2047 have risen sharply by some 180 basis points since the beginning of March.
Manama's foreign reserves are likely to be insufficient to absorb the deterioration in its current account if oil stays around $30 this year, Goldman Sachs said in a research note.
"Bahrain has already done reforms, so what room realistically is left?" said a Dubai-based fund manager, referring to subsidy cuts and introduction of value-added tax under a programme to achieve budget balance by 2022.
It would all come down to oil prices, he said. "If it stays at $20 I think you can forget all about (Gulf) support."

(Reporting by Davide Barbuscia, Aziz El Yaakoubi and Tom Arnold; Additional reporting by Yousef Saba and Marc Jones; Editing by Ghaida Ghantous, William Maclean)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

Junk-rated Bahrain to brave markets with dollar bond issues

06-May-2020
By Yousef Saba and Davide Barbuscia
DUBAI, May 6 (Reuters) - **Bahrain has hired banks for a potential dual-tranche dollar bond issue, banking sources said, as the junk-rated Gulf oil producer seeks to raise cash amid the new coronavirus outbreak and historically low oil prices.**
Bahrain's plans mark a step towards recovery for the Gulf debt market, as sub-investment grade issuers had so far been unable to tap international investors due to huge volatility starting in March that followed tumbling oil prices and the spread of the coronavirus.
Bahrain's finance ministry did not immediately respond to a request for comment.
The small oil producer needs to bolster its finances to plug a widening budget deficit due to historically low oil prices. The International Monetary Fund has said Bahrain's fiscal deficit is expected to jump to 15.7% of gross domestic product (GDP) this year from 10.6% in 2019.
In a presentation for investors seen by Reuters, Bahrain said it expects a deficit of 4% of GDP this year, down from a 4.7% deficit last year.
The country was bailed out in 2018 with a $10 billion aid package from wealthy Gulf neighbours Saudi Arabia, Kuwait and the United Arab Emirates to help it avoid a credit crunch in a deal tied to fiscal reform.
Bankers and analysts have told Reuters it may need additional Gulf aid as soon as this year.
Bahrain has hired Bank ABC, Gulf International Bank, HSBC, JPMorgan, National Bank of Bahrain and Standard Chartered to arrange investor calls on Wednesday, to be followed by a benchmark deal subject to market conditions, the sources said.
Benchmark bonds are generally upwards of $500 million.
The planned deal consists of 4-1/2-year sukuk, or Islamic bonds, and 10-year conventional bonds, three sources said on Wednesday.
A fund manager in the region, who asked not to be named, said he expected Bahrain to pay around 50 basis points - or possibly more - over its existing bonds.
"I think this is the first single-B sovereign in the world to come to market since the COVID-19 crisis. So it really is a price discovery exercise," he said.
Bahrain took a $1 billion loan from banks to pay down $1.25 billion in bonds that matured on March 31, sources have said, after it scrapped bond plans earlier this year due to adverse market conditions.
The country expects a further drawdown of $1.76 billion this year from the $10.25 billion aid package that was provided by its Gulf allies in 2018, the investor presentation showed.
That package was provided with a 0% interest rate and a maturity of 30 years per drawdown, the document said. (Full Story)

(Reporting by Yousef Saba and Davide Barbuscia; Editing by Alex Richardson/Giles Elgood/Jane Merriman)
((Yousef.Saba@thomsonreuters.com; +971562166204))

China

Fitch Ratings: China's New Land Policy to Improve Provincial Govt Fiscal, Economic Performance

06-May-2020
Fitch Ratings-Hong Kong-May 06: **China's new policy granting greater autonomy to provincial-level governments over land conversions and farmland acquisitions will assist fiscal and economic performance in the medium to long term, via increased governance efficiency of land management on the local level, Fitch Ratings says.** Still, Fitch believes the reforms maintain the protection of farmland as a top priority, thus an aggressive conversion plan at the national level appears unlikely for environmental and agricultural reasons.
China's state council announced recently the new policy on approvals for land conversion and farmland acquisitions. This policy followed the newly amended Land Administration Law, which took effect on 1 January 2020. These changes

are part of a series of land reforms implemented by the Chinese government to revitalise and integrate urban-rural development.

All provincial level governments will now be allowed to use farmland not classified as permanent basic farmland for development purposes without obtaining central government approval. In addition, only eight provincial governments - namely Guangdong, Zhejiang, Jiangsu, Anhui, Beijing, Shanghai, Tianjin and Chongqing - will be allowed to trial the acquisition of permanent basic farmland, farmland that is larger than 86 acres and other land larger than 173 acres for development without State Council approval.

These small changes in China's land management system will help nudge provincial governments' capital revenue higher in 2020, after many regional economies were put into a temporary halt in response to the coronavirus pandemic. However, the new policy seems unlikely to bring immediate uplift to revenue, but will assist fiscal and economic performance in the medium- to long-term by increasing governance efficiency of land management.

Land-use rights are divided into two broad categories - farmland and construction land. The latter is the main source of capital revenue at the regional level. Farmland is prohibited to be used for development purposes for both environmental and agricultural reasons. China pledged to secure 307 million acres of arable land by 2020, which represented around 20% of farmland and the rest forests, grassland and land for irrigation. This will edge down to 301 million acres by 2030 to allow for a minor decline in arable land. Around 80% of this arable land is identified as permanent basic farmland and is strategically important for China's food reserves.

Conversion of farm land into construction land is a common method among Chinese local and regional governments to obtain additional land allowed for development or construction given the stringent protection of arable land, and any decrease of farmland due to the conversion is compensated by the equivalent amount of new farmland developed of similar quality. Previously, converting farmland to construction land was subject to strict approval from the State Council, with annual conversion quotas and overall land-use plans also needing approval. For collectively owned rural land to be used for development, the state requisitions the land before its use is allowed to change. In the past, state land requisitions needed State Council approval to safeguard the interests of farmers.

The State Council's relaxation of the approval process will allow provincial governments to tailor land supply to development demand much more efficiently by trimming application forms and reducing approval times. Land is increasingly scarce for new factories and office buildings or other commercial uses in more affluent areas. The new land policy could help speed up infrastructure plans, creating a catalyst for economic growth in the medium term.

However, these changes appear unlikely to increase land supply significantly in the near term, due to the restrictions in national land-use planning and stringent central government controls and management remain in place. All local and regional governments are still subject to both overall quotas and annual quotas for land conversion under National Land and Space Planning and Overall Land Use Planning policies. Provincial governments are only allowed to approve land conversion within the state-approved quotas. More control and oversight from the state level will also be in place to ensure provincial governments protect permanent basic farmland and natural reserves. This also includes a State Council appraisal programme to assess provincial governments' skills in land management.

Fitch believes the new policy retains farmland protection as a top priority. The State Council appears unlikely to approve a large amount of conversion quotas in 2020 and thus avoiding financial markets interpreting the new reforms as policy stimulus. In addition, some provincial governments have already approved new construction land quotas for 2020. For example, Beijing announced on 25 February a construction land quota of 9,168 acres - a 1% decrease on the 2019 quota.

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Beijing to revive 'off-budget bonds' as pandemic stokes debt dilemma

08-May-2020

The mainland government has found itself in a tough spot. After years of trying to clamp down on the Nation's high level of debt, it is now being forced to watch it ¬balloon again to rescue its ¬coronavirus-stricken economy.

But to make sure the extra ¬borrowing does not become a ¬feature of government finances, Beijing is using an accounting sleight of hand to keep a new bond issue "off budget" - and not a part of deficit spending.

Still, the government must be careful, analysts said, as the ¬additional debt must be repaid and could jeopardise the country's credit rating if economic ¬conditions ¬deteriorated further.

"Off-budget doesn't mean it can be excluded from the overall debt level," said David Wang, head of China economics at Credit Suisse.

"Even if, officially, the special bonds are accounted for differently from traditional methods, it does not change the fact that the government is ¬borrowing money."

The mainland economy shrank 6.8 per cent in

the first quarter, the first official quarterly ¬contraction since 1992. Amid the uncertainty, the State Council is taking steps to tackle the impact of the virus.
To boost its fiscal firepower, the government will raise funds by selling special ¬off-budget ¬treasury bonds and increasing the limit for local ¬governments to issue bonds for infrastructure spending.
The mainland has not issued a special treasury bond since 2007, when it sold 1.55 trillion yuan (HK$1.7 trillion) worth of bonds to capitalise the China ¬Investment Corporation, its new sovereign wealth fund.
Details of the new special bond issue were expected to be ¬revealed at the National ¬People's Congress on May 22.
Analysts said the issuance of ¬special treasury bonds was sig¬nificant because the mainland was increasingly concerned with its credit rating, which hinges on its economic and fiscal strength, both of which have been ¬hammered by the health crisis.
"The aim is to tackle the ¬pandemic. It will not be ¬included in the fiscal budget, thus giving China some leeway to also expand the scale of its [on-budget] fiscal deficit," said Xia Le, chief economist for Asia at BBVA ¬Research.
"China pays special attention to its credit rating, like its reaction back in 2017 when its rating was downgraded by Moody's ¬Investors Service and Standard & Poor's. This is why it is very ¬cautious with its fiscal policy.
"It doesn't want the fiscal ¬deficit to be too large, although I expect it will lift the budget ¬deficit ratio this year."
In 2017, the Ministry of ¬Finance hit back at Moody's and S&P following the downgrades, saying the two ratings agencies overestimated the economic ¬difficulties the country was facing and underestimated Beijing's ¬capability for ¬reform.
The mainland's credit rating has since been revised up and is currently rated A1, A-plus and ¬A-plus by Moody's, Fitch Ratings and S&P, respectively.
However, the country's fiscal leeway has been weakened since a massive cut in business taxes and fees worth nearly 2 trillion yuan was enacted last year.
Its fiscal revenue tumbled 26.1 per cent in March from a year ¬earlier, extending the slump in February that was exacerbated by the pandemic.
The local governments' ¬finances have also continued to deteriorate. Tianfeng Securities estimated the fiscal self- ¬sufficiency rate was just 49.7 per cent among local governments in 2019, meaning half of their fiscal expenditures were dependent on transfer payments from the ¬central government, as well as -income from new debt and non-tax revenue, such as proceeds from land sales.
To make matters worse, local government tax revenues were expected to decline by 200 billion yuan this year compared with 2019, Tianfeng said.
"More income may not ¬necessarily mean you can spend more, considering the pressure to pay debt. Macroeconomic leverage is high, and hidden debt problems of local governments restrict fiscal strength, so they may not be able to spend the incremental ¬income," analysts at the securities firm said in a note last week.
The overall debt ratio of households, non-financial enterprises and governments rose to 245.4 per cent of gross domestic product in 2019, up 6.1 percentage points from the previous year, according to the National ¬Institution for Finance and ¬Development, a government-linked think tank.
Analysts estimated the size of the mainland's special treasury bonds would be around 1 trillion to 1.5 trillion yuan, which along with an estimated 3.5 trillion yuan in fiscal deficit and 3.5 trillion yuan in local government bond issuance would bring the broad fiscal deficit to around 8 per cent of GDP this year, up from 6 per cent last year.
The central government has not announced how the proceeds from the special treasury bonds will be used, but analysts warn they will be wasted if ¬funnelled to projects that do not make ¬economic sense.
"It may be good for the short term to pull up the GDP and boost employment, but in the long term, you may not be able to repay the debt," Xia said.
Wang at Credit Suisse said it would make sense for the ¬proceeds to go to groups that had been hit the hardest by the ¬pandemic, namely households and small businesses.
By keeping the special treasury bonds off budget, Xia said, Beijing was sending a message that it did not expect the one-off borrowing to put pressure on overall debt.
"The message is to give people confidence that it is not changing its fiscal discipline, that this is a one-off that it needs to tackle the outbreak," Xia added.

India

India set to cap stimulus package at $60 bln to protect credit rating

04-May-2020
By Aftab Ahmed and Manoj Kumar
NEW DELHI, May 1 (Reuters) - **The Indian government is likely to cap its overall spending on coronavirus-related relief at around 4.5 trillion rupees ($60 billion), due to concerns that excess spending could trigger a sovereign rating downgrade, two senior government officials said.**
"We have to be cautious as downgrades have started happening for some countries and rating

agencies treat developed nations and emerging markets very differently," the first official told Reuters.

On Tuesday, Fitch warned India's sovereign rating could come under pressure if its fiscal outlook deteriorates further as the government tries to steer the country through the coronavirus crisis.

"We have already done 0.8% of GDP, we might have space for another 1.5%-2% GDP," the official, who is involved in preparing the package said, referencing the 1.7 trillion rupee outlay that the government announced in March that was directed at helping the poor via cash transfers and food grain distribution.

The stimulus plans yet to be outlined are likely to be aimed at helping people who have lost their jobs, as well as both small and large companies, via tax holidays and other measures, said both officials. They did not wish to be named as the matter is still under discussion.

A spokesman for the finance ministry declined to comment.

Fitch and Standard & Poor's both have India pegged at an investment grade rating that is one notch above a junk rating, while Moody's Investors Service is the only major rating agency that has India's rating two notches above junk.

With a 40-day nationwide lockdown bringing the $2.9 trillion economy to a standstill, and the lockdown in many of India's big cities likely to be extended, many economists expect the economy to stagnate, or even shrink this year, putting further pressure on government finances.

The second official said government revenues are in a tight position given "very weak" tax collections, and the fact that a 2.1 trillion privatisation programme planned for this fiscal year, now looks like it will be a non-starter.

The government has cut salaries of lawmakers including the prime minister and the president, and withheld raises for government employees and pensioners, in a drive to save as much as it can to control fiscal slippage.

India has a fiscal deficit target of 3.5% of GDP for the current year that runs through March 2021, which it is most likely to miss due to weak revenue collections.

In this economic situation, when revenues are falling, and the economy needs government support, the widening of the fiscal deficit is a foregone conclusion, the second official said.

"Considering our higher fiscal deficit ... there is limited scope for government to spend," the second official told Reuters.

India has reported over 35,000 cases and 1,147 confirmed deaths from the coronavirus.

(Reporting by Aftab Ahmed and Manoj Kumar;
Editing by Euan Rocha and Susan Fenton)
((Aftab.Ahmed@thomsonreuters.com;
+911149548060))

India Government Bonds Likely Lower As Fiscal Concerns Linger

04-May-2020
By Siddhi Nayak
NewsRise

MUMBAI (May 4) -- **Indian government bonds are likely to fall in early session, on fears of a fiscal slippage, even as traders await the announcement of an economic package to mitigate the coronavirus impact.**

The yield on the benchmark 6.45% bond maturing in 2029 is likely to trade in a range of 6.10%-6.15% today, a trader with a state-run bank said. The note ended at 102.40 rupees, yielding 6.11% on Apr. 30. The yield fell three basis points in April. The Indian rupee was at 75.11 to dollar at 2:00 p.m. on Apr. 30. Indian financial markets were closed on May 1 for a local holiday.

"Some fiscal slippage is on the cards, and traders won't be too comfortable going long till the package is announced," the trader said. "Unless the Reserve Bank of India takes some major steps to manage the yield curve, it will be difficult for the benchmark yield to fall below 6%."

India, on May 1, extended the nationwide lockdown by another two weeks beyond May 4, but significantly eased restrictions in select areas to help revive economic activities. Cases in India have spiked to over 40,000 with more than 1,300 deaths.

The lockdown, first imposed on Mar. 25, has brought economic activities to a grinding halt and has severely hurt industry and financial institutions. This has raised expectations of a fiscal stimulus package by the government to help revive troubled sectors.

An economic stimulus package for the country is being worked on and should be coming out soon, the finance ministry's Chief Economic Adviser Krishnamurthy Subramanian had said last week.

New Delhi is likely to cap its overall spending on coronavirus-related relief at around 4.5 trillion rupees, on concerns that a higher spending could lead to a rating downgrade, Reuters reported citing two senior government officials. Last week, Fitch had said that India's sovereign rating could come under pressure if its fiscal outlook deteriorates further.

India's fiscal deficit rising over the budget target of 3.5% of gross domestic product this financial year has become unavoidable, RBI Governor Shaktikanta Das had said.

Higher government expenditure may lead to additional supply of bonds in the later part of the year, leading to calls for more support from the central bank, including a series of secondary market bond purchases and a tweak in valuation norms to shield banks from market-to-market losses, traders said.

Crude oil prices fell after U.S. President Donald Trump said that raising tariffs on China could be an option to retaliate for the spread of the coronavirus. India imports over 80% of its crude oil requirements.

KEY FACTORS:

*Benchmark Brent crude oil contract trading 2% lower at $25.86 per barrel, after climbing over 23% last week.

*Ten-year US yield at 0.6181%.

*Foreign investors sold net $302.60 million worth of Indian bonds on Apr. 30. In April, these investors sold net $1.65 billion of Indian debt.

*India’s infrastructure output contracts 6.5% in March, the lowest level since at least April 2012.

*RBI likely to announce details of 190 billion rupees weekly bond auction.

- By Siddhi Nayak; siddhi.nayak@newsrise.org; 91-22-61353307
- Edited by Gourab Das
- Send Feedback to feedback@NewsRise.org

India FY20 Fiscal Deficit Touches 6-Year High At 4.4% of GDP

05-May-2020
By Dharam Dhutia
NewsRise

MUMBAI (May 5) **-- India’s fiscal deficit in the financial year ended Mar. 31 widened to 4.4% of the gross domestic product, which is 60 basis points over the revised target of 3.8%, Bloomberg reported.**

A revenue shortfall of around 1.7 trillion rupees led to the biggest shortfall in six years, the report said, citing unidentified people familiar with the matter.

The government has not yet officially announced the data. It usually releases this figure in April.

The fiscal deficit for April-February stood at 10.36 trillion rupees, or 135.2% of the government’s estimate. The government had raised the deficit goal to 3.8% in its February budget from 3.3% targeted earlier.

India aims to keep the fiscal deficit at 3.5% this year, but market participants expect slippages in this target due to weaker revenue collection amid the coronavirus outbreak and the lockdown.

India was under a near-complete lockdown for 40 days till May 3. While the government extended the lockdown for two more weeks till May 17, some relaxations were allowed.

Most brokerages are expecting a less-than-1% economic growth in the current financial year, with some even predicting a contraction.

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

Here's why investors seek safety of debt investment

05-May-2020

MUMBAI: **Government bonds, which were not even on the radar of individual investors, are in demand these days. Given the increasing risk aversion, investors are now buying the seven-year 7.75 per cent non-tradable bonds.**

"It makes sense for retail and HNI investors," said Deepak Jasani, head - retail research at HDFC Securities. "This is the only instrument where the interest rate is not yet cut in line with the trend. Before it happens, we are seeing a surge in investor interest.

Post-tax returns would be less, but investors are currently prioritising safety. "Investors in the highest tax bracket would earn 4.40 per cent after tax on these instruments, which could be bought from banks, including State Bank of India (SBI), ICICI Bank and HDFC Bank, and investment portals such as HDFC Securities and ICICI Securities.

The government has already cut interest rates in other schemes, including National Savings Certificates, Public Provident Funds, and Sukanya Samriddhi Account. "Many investors have shied away from the equity markets," said Vikram Dalal, MD of Synergee Capital Services. "With investable money, they are seeking seven.

75 per cent RBI Saving (Taxable) Bonds. Since the instrument is a fixed deposit, is not tradable in the secondary market. But the instrument could be a steady long-term source of interest income.

"At present, SBI's fixed deposits offer 5.7- 6 per cent interest rates. There are no purchase limits. Indian citizens and Hindu Undivided Families (HUFs) can buy the securities that come with a lock-in period during which investors cannot redeem."Even HUFs are keen on these sovereign-backed papers under the current circumstances," said Mansi Shah, founder Aarvi Management Services, an Ahmedabad-based advisory firm.Senior citizens can redeem the bonds in four, five and six years.

Bonds cannot be pledged to avail any loan. Interest payable is either half yearly or cumulatively. If an investor needs liquidity, the half-yearly option works well.

Bonds are issued in dematerialised form to investors. The latest series of government bonds was introduced in January 2018.

Why India must chance raising debt despite risk of a sovereign downgrade

06-May-2020

There is no doubt the finance ministry will be worried about the size of the national debt relative to GDP that India will run up in doling

out support to different segments of the economy. It is not a worry about growth slump or the phrase "secular stagnation" made famous by former US treasury secretary, Larry Summers. It is about "expecting the emerging markets to copy mechanically what the developed economies can do", as Sajjid Chinoy perceptibly commented at an NCAER event, in April last week.

The ministry has reasons to be worried since this metric has, of late, often become the measuring rod for rating agencies and for the global debt market to decide how much to invest in a country. While the government seems to have again woken up to the need to pull investments from abroad, a ratings downgrade would be unwelcome news. It has been a tricky terrain though. **The troika of S&P, Moody's and Fitch is far more strict about measuring the health of the emerging markets than about developed economies.** Notice that Singapore, despite the lockdown extension, has retained its triple-AAA rating. India's, on the other hand, is just a notch above junk. The Narendra Modi-led government has already imposed barriers on foreign investment from China, directly and indirectly. The alternative, investments from the sovereign wealth funds of the Middle East, does remain but with a big if, once the ratings dip. Though the oil funds (about $3 trillion) badly need some performing assets to make up for the disasters in most sectors globally and India could be the answer.

Despite the concerns, is India making too much of a big deal over the debt-GDP ratio? Unlike individuals or companies, an economy can survive ballooning debt though in the very long term it loses its ability to service borrowings. A government runs up a debt when it borrows to finance itself. The national accounts adds up all these borrowings, including those by provincial governments, to estimate the size of the sovereign debt. For India, a Fitch Ratings report estimates it at close to 70 per cent, higher than comparable economies. The more a government borrows, the higher it has to push up interest rates to keep the markets interested. India has a lovely cushion in that most of its debt is held domestically. So even if the debt does rise by, say, Rs 5 trillion—the projected size of the economic stimulus over this year—yet the relative share of the domestic to foreign market remains, should it still be too much of a concern.

Paradoxically, it could be since firms and individuals too will also borrow big time to survive past the pandemic. Leverage will rise as operating revenue will be down 10 per cent for companies across the board, notes a Crisil report. While rates would ordinarily need to rise to make people lend to governments, firms and individuals would want the rates to come down to borrow more for themselves. As Martin Wolf points out in this column for FT, as debt soars "people are ever more unwilling to borrow still larger amounts". What happens then?

Interest rates have to keep on sliding to make them borrow, bringing the rates to even zero, according to Summer's secular stagnation hypothesis. But as we have seen, governments of emerging market economies cannot let the rates slide if they have to raise large capital from abroad. So large debts by the states do matter.

Certainly, while it is one thing for the US Fed not to offer an interest on the dollar, investors will not buy the same argument for the Indian rupee. Interest rates have to be positive for money from anywhere to come in. Chinoy says since markets like India do not have reserve currencies, the debt overhang could make capital move out. "Fiscal policies too have to be exceptionally intelligent in the circumstances," he says. **The shock for the Indian economy has been larger than most (because of the low per capita income and a far larger population), but the concern with the debt-GDP ratio means it is fashioning a response with one hand immobile.**

But is this risk immediately on the horizon? The overwhelming attention to debt by rating agencies might be exaggerated. Every key economy is raising their debt big time. The average debt to GDP of G7 economies was above 260 per cent by 2017. It shows no sign of coming down. India, with a close to $3 trillion economy before the pandemic, had a central government debt of only 50.3 per cent of GDP in FY19. It is the pace of the economic recovery from the pandemic with all sectors intact that will interest the investors from abroad. For instance, to make banks and NBFCs lend to the MSME sector, economists like Abheek Barua of HDFC recommend a "backstop to banks which will help". It will mean giving up the concerns on debt. "The low current account deficit gives room for policy space," he says. The foreign flows will weaken but not too badly, he reckons.

Essentially India has to chance it. And then as Chinoy says, run an exceptionally intelligent fiscal policy, with it.

India may see 0% GDP growth this fiscal year

08-May-2020
By Swati Bhat

MUMBAI, May 8 (Reuters) - **The impact of the coronavirus outbreak will exacerbate the material slowdown in India's economic growth, with the country expected to see 0% expansion in the current fiscal year, analysts at Moody's said on Friday.**

The ratings agency said it expected India to see no growth in financial year 2021 and bounce back to a 6.6% GDP growth in FY22, while the fiscal deficit is seen rising to 5.5% of GDP in FY21 versus the budgeted estimate of 3.5%.

The COVID-19 spread in the country has also

"significantly reduced the prospects of a durable fiscal consolidation," it said in a report.
In November, Moody's cut the outlook on India's sovereign rating of Baa2 to "negative" from "stable" due to a slowdown in growth and had said it will monitor the country's debt levels closely.
Baa2 is the second-lowest investment grade score.
"Prolonged financial stress among rural households, weak job creation and, more recently, a credit crunch among non-bank financial institutions have increased the probability of a more entrenched weakening," the agency noted.
If nominal GDP growth does not return to high rates the government will face very significant constraints in narrowing the budget deficit and preventing a rise in the debt burden, Moody's said.
India has so far outlined a 1.7 trillion rupee ($22.53 billion) stimulus plan providing direct cash transfers and food security measures to give relief to millions of poor and a second package focussing on help for small and medium businesses is expected soon.
Moody's reiterated that the negative outlook indicates an upgrade is unlikely in the near term.
"We would be likely to change the rating outlook to stable if we saw a significant increase in the probability of fiscal metrics stabilizing and strengthening over time," it said.
It added that a downgrade of India's rating would likely occur "if we expected its fiscal metrics to weaken materially".
India's eight-week long lockdown, one of the world's most stringent, has helped contain the spread of the coronavirus, officials say, with the country having reported only 56,342 cases and 1,886 deaths, compared to the 3.86 million global infections.
"Lower growth and government revenue generation, coupled with coronavirus-related fiscal stimulus measures, will lead to higher government debt ratios, which we project to rise to around 81% of GDP over the next few years," Moody's said.
While the government remains committed to medium-term fiscal consolidation, material strengthening in India's public finances is likely to be limited near term and the debt burden will remain sensitive to changes in nominal GDP growth, it added.

($1 = 75.4430 Indian rupees)
(Reporting by Swati Bhat; Editing by Rashmi Aich)
((swati.bhat@thomsonreuters.com; twitter.com/swatibhat22; +91-22-68414381; Reuters Messaging: swati.bhat.thomsonreuters.com@reuters.net))

Bond yields likely to spike after Govt raised borrowing targets

08-May-2020
Mumbai: **Bond yields are set to spike next week after the government raised its borrowing target more than 50 percent for the fiscal year and that could also lead to the Reserve Bank of India coming up with new measures to cushion the shock from excess supply of bonds.** Some estimate that the yield could rise as much as 25 basis points on the benchmark bonds to close to 6 percent, from the 5.72 percent it traded Friday, before the higher borrowing plan was made public.
A basis point is 0.01 percentage point. "Yields are likely to surge significantly Monday," said Naveen Singh, head of trading at ICICI Securities Primary Dealership Ltd.
"It has to be seen how the selling pressure mounts sending yields higher. This sentiment will also weigh on corporate borrowers raising bonds. "The gross borrowing programme for the year has been increased to Rs 12 lakh crore from the earlier targeted Rs 7.
8 lakh crore as the government's revenue dwindled due to the nationwide lockdown imposed to prevent the spread of Covid - 19 virus. While investors were expecting a rise in borrowing limits for the year, they did not expect such a huge jump at one go. They also expect the RBI to lower interest rates further to counter the economic slowdown.
Bonds rallied Friday with a new benchmark debut taking the yields down by nine basis points to 5.7 percent. But, the bond market rally may not sustain next week amid fear of large scale sell-offs.
``Typically, more paper in the market means excess supply with prices coming down and yields up, '' said Madan Sabnavis, chief economist at CARE Ratings. Hence logically yields should move up.
"Goldman Sachs expects the RBI to reduce the policy rates by 100 basis points between now and the end of third quarter. This compared to their earlier expectation of 50 basis points. ``There are clear signs of government finances being affected by the shutdown as revenue has ebbed and expenditure pressure will be there through the year even after the lockdown is withdrawn," Sabnavis said.
Short-term rates too dropped amid a raft of RBI measures. Treasury Bill with less than one-year maturities are now yielding about 70-100 basis points lower than the levels seen about a month ago. Investors can now earn 3.50-3.60 percent from T-bills in the secondary market.

Indonesia

Indonesia central bank pledges liquidity support, cautions on rate cut as economy slows

06-May-2020

- **Gov says interest rate policy's priority is rupiah stability**
- **2020 GDP growth may be below 2.3% - governor**
- **BI has cut rates twice in 2020, injected $33 bln of liquidity**

By Tabita Diela and Gayatri Suroyo

JAKARTA, May 6 (Reuters) - **Indonesia's central bank chief pledged on Wednesday to provide as much liquidity as needed to support an economy that last quarter grew at its slowest in 19 years, but hinted that keeping the rupiah currency stable might prevent an early interest rate cut.**

"Our stance remains loose," Governor Perry Warjiyo told an online news conference. "But for the short term, interest rate policy's priority is the rupiah's stability, although we understand there is room to lower the (benchmark) rate."

BI has cut so far cut its benchmark 7-day reverse repurchase rate twice this year to help the economy weather the coronavirus pandemic, having already cut four times in 2019.

The central bank refrained from making a third cut at its April meeting, citing high global uncertainty affecting the rupiah.

The rupiah remained emerging Asia's worst performing currency so far this year despite some recent appreciation. It traded at 15,080 a dollar at 0405 GMT on Wednesday, down sligthly from the previous day's closing.

Warjiyo's comment came a day after data showed Southeast Asia's largest economy grew 2.97% in January-March, the weakest since 2001 and below the central bank's forecast, as consumption and investment took a bigger hit than expected due to the virus outbreak.

Some analysts predicted BI would make more rate cuts in response to the GDP data.

Separately, a central bank survey released on Wednesday showed the lowest consumer confidence level in 12 years, adding to economic indicators that suggest further slowdown in coming quarters.

Warjiyo said the first quarter data meant the full-year GDP growth would likely come in below BI's earlier estimate of 2.3%.

BI maintained its outlook for growth in the second quarter through to the fourth at 0.4%, 1.2% and 3.1%, respectively, he said.

All of BI's instruments but the policy rate would be geared towards cushioning the pandemic's economic impact, Warjiyo said, singling out its liquidity injection as the most effective tool for now to prop up growth.

BI has injected 503.8 trillion rupiah ($33.32 billion) of liquidity into the financial system so far, in operations Warjiyo called "quantitative easing" that include cuts in banks' required reserves and BI's purchase of government bonds.

"BI has increased banks' liquidity, which, God willing, should be enough to fund programmes on economic recovery and for small and medium enterprises," Warjiyo said.

"We will assess further whether this is enough or whether BI needs to increase the liquidity even more," he added.

($1 = 15,095.0000 rupiah)

(Additional reporting by Fransiska Nangoy; Editing by Simon Cameron-Moore)

((gayatri.suroyo@thomsonreuters.com; +622129927609; Reuters Messaging: gayatri.suroyo.thomsonreuters.com@reuters.net))

Indonesia central bank to buy maximum $8.3 bln govt bonds from primary market

06-May-2020

JAKARTA, May 6 (Reuters) - **Indonesia's central bank will buy a maximum of 125 trillion rupiah ($8.31 billion) of government bonds in the primary market, bank governor, Perry Warjiyo, told parliament on Wednesday.**

Warjiyo estimated the government will sell 506.8 trillion of bonds in the second to the fourth quarter this year and said he expected the market would absorb most of it.

Bank Indonesia has been allowed to buy government bonds from the primary market as a non-competitive bidder and the bank's governor has said it will act as buyer of last resort to support budget financing.

($1 = 15,050 rupiah)

(Reporting by Tabita Diela; Writing by Fransiska Nangoy; Editing by Tom Hogue)

((Fransiska.Nangoy@thomsonreuters.com; +62 21 2992 7610; Reuters Messaging: fransiska.nangoy.thomsonreuters.com@reuters.net))

Fitch Ratings: Coronavirus Has No Direct Rating Impact on Indonesian Public-Policy GREs

06-May-2020

Fitch Ratings-Jakarta-May 06: **Fitch Ratings does not expect the coronavirus pandemic and its effects to directly affect the ratings of rated public-policy government-related entities (GREs) in Indonesia, because the ratings are dependent on that of the Indonesian sovereign (BBB/Stable).**

Fitch's International Public Finance group rates five Indonesian Public-policy GREs based on our Government-Related Entities Rating Criteria. The five are:

- PT Sarana Multi Infrastruktur (Persero) (SMI, BBB/AAA(idn)/Stable)
- PT Sarana Multigriya Finansial (Persero)

(SMF, AAA(idn)/Stable)
- PT Penjaminan Infrastruktur Indonesia (Persero) (IIGF, BBB/AAA(idn)/Stable)
- PT Indonesia Infrastructure Finance (IIF, AAA(idn)/Stable)
- Lembaga Penjamin Simpanan (LPS, AAA(idn)/Stable)

The Long-Term Issuer Default Ratings on SMI and IIGF would be affected if the sovereign's ratings change, as they are equalised with the sovereign rating.
However, a change in the sovereign rating will have only a limited impact to the five GREs' National Long-Term Ratings, which are a measure of relative credit risk among issuers in a country or monetary union. The five GREs are rated at 'AAA (idn)', the highest rating on Fitch's National Rating scale for Indonesia.
Fitch rates the five GREs using a top-down approach, equalising the GREs' ratings with the sovereign's based on a GRE scoring of 45. The Indonesian GREs benefit from high GRE scores as they have important policy roles and they are highly likely to receive support from Indonesia government in case of financial distress.
Fitch estimates that Indonesia's GDP growth will slow to around 1.2% in 2020, from a pre-pandemic forecast in December 2019 of 5.1%. The estimate assumes that consumer sentiment and the tourism industry will take a hit from the global health crisis, with expectation of rebound in growth by 2H20 and reaching pre-virus level by late 2021.
Fitch believes that slower economic growth will translate into a weaker operating environment that will affect the operations and financial performances of the GREs. The extent of this impact will depend on the severity and duration of the outbreak and the economic effects. However, Fitch has not assigned Standalone Credit Profiles for the five GREs as it is difficult to detach the entities from the government frameworks in which they operate. Fitch believes that pressure on their operations and financial performances will not affect the final rating as all of the above five issuers have high overall support scores, reflecting a high likelihood of support from the government if required. This results in rating equalisation with the sovereign.
Fitch's ratings are forward-looking, and Fitch will monitor developments in the sector as a result of the coronavirus outbreak as it relates to severity and duration, and incorporate revised qualitative and quantitative inputs to its base and rating cases, based on expectations for future performance and assessment of key risks.

Media Relations: Peter Hoflich, Singapore, Tel: +65 6796 7229, Email: peter.hoflich@thefitchgroup.com; Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Iran

Iran to issue sukuk securities to fund oil, gas projects

02-May-2020
DUBAI, May 2 (Reuters) - **Iran plans to issue sukuk securities worth up to $217 million to fund oil and natural gas projects, state-run energy news service SHANA reported on Saturday.**
Vice President Eshaq Jahangiri signed off on a decision, authorised under the annual state budget, which allows the oil, energy and industry ministries to issue the sukuk, which are Islamic sharia-compliant bonds, worth up to 35 trillion rials ($217 million at the free market exchange rate) for gas and oil projects, it said.

(Reporting by Maher Chmaytelli and Dubai newsroom; Editing by Edmund Blair and James Drummond)
((maher.chmaytelli@thomsonreuters.com))

Israel

Government goes to bond markets again

04-May-2020
Event
In late April the government issued US$5bn in US-dollar denominated bonds in an issue targeting Asian investors.
Analysis
The issue was the second since the government announced a major fiscal programme in late March aimed at mitigating the impact of the coronavirus. This means that including a US$3bn offering in January, the sovereign has already issued US$13bn in foreign currency bonds in 2020, which is an annual record.
Israel's NIS 80bn (US$22bn) fiscal plan will require considerable domestic and external financing. With financial markets volatile and many developed and emerging-market sovereigns in a similar predicament fiscally, Israel has acted early to secure a substantial share of its elevated financing needs for the year. The US$5bn raised in April was the second such sized bond offering within a month, in what had previously been a record size bond offering for the sovereign. In late March the government sold US$5bn in a US$2bn tranche yielding 2.75%: a US$2bn 30-year tranche at 3.875% and US$1bn over 100 years with a 4.5% coupon, making Israel one of a handful of sovereigns to have issued such long-dated foreign-currency paper. The late April bond issuance was carried out in Asian markets-a first for Israel-as the previous issue had attracted strong interest from Asian institutional investors. The latest market borrowing also offered a long

maturity, with the 40-year bond yielding-3.8%.
Even with risk premiums elevated by global financial market nervousness over government finances and a flight to safety, Israel's risk profile has not worsened as severely as some others, and the decline in US policy interest rates has also kept borrowing costs in check. Israel's recent borrowing has come at a reasonable cost, comparable to the country's issuance in recent years. The country's five-year credit default swap rates, which measure the cost of insuring against a default, have widened by about 30-35 basis points since the global pandemic crisis began to play out, which compares favourably in the region and is close to developed market trends. Israel has seen some fiscal slippage over the past year in a period of political deadlock, but two decades of economic consolidation have strengthened its economic fundamentals and improved resilience to economic shocks.

Jordan

Jordan lifts all curbs on economic activity in latest easing of lockdown

03-May-2020
AMMAN, May 3 (Reuters) - **Jordan said on Sunday it had lifted all restrictions on economic activity in the latest easing of coronavirus lockdown rules to help jump-start the cash-strapped economy.**
Jordan has in the last two weeks been lifting restrictions to allow businesses back to work, but with lower levels of staff and strict social distancing and hygiene guidelines.
Minister of Industry and Trade Tariq Hammouri said businesses and industries would now be able to resume production.
Public transport will be allowed to return to full normal service with safety guidelines following the outbreak, but universities and schools will remain closed and a night curfew will continue.
Jordan has reported 460 confirmed coronavirus cases and nine deaths but says it has now contained the outbreak.
The government of Prime Minister Omar al Razzaz won widespread praise for quick moves to curb the spread of the coronavirus. But as the economic impact deepened, the government faced criticism from business groups and there were fears of social unrest.

(Reporting by Suleiman Al-Khalidi; Editing by Andrew Cawthorne and Timothy Heritage)
((suleiman.al-khalidi@thomsonreuters.com; +96279-5521407))

Jordan sees economy down 3% in 2020 due to coronavirus

03-May-2020
By Suleiman Al-Khalidi
AMMAN, May 3 (Reuters) - **Jordan's cash-strapped economy is expected to contract around 3% in 2020 due to the impact of the coronavirus as government revenue plunges due to a tight lockdown that paralysed businesses, the finance minister said on Sunday.**
The International Monetary Fund (IMF), which last March approved a four-year $1.3 billion programme with the kingdom, had expected Jordan’s economy to grow around 2.1% in 2020 then gradually rise in the next few years to 3.3%.
"The impact of the big economic blow that hit the local economy has been deep and this will continue," Mohammad Al Ississ said in a remarks on state television in the first contraction in growth since 1990.
The government has in recent days stepped up moves to return to normality, allowing most businesses to go back to work after a tight nearly two-month lockdown, as the economic impact deepened with mounting fears that layoffs and bankruptcies could trigger social unrest, officials say in private.
Al Ississ said government revenue plunged by 610 million dinars ($860 million) in the year to April compared to the previous year, pushing a fiscal deficit well beyond a previous forecast of 2.3% of gross domestic product.
"Our revenues have been dealt a heavy shock and this will lead to the rise in the deficit, but we know we are in an battle for survival to protect our economy," Al Ississ said. He did not give any estimate of the projected increase.
The crisis will not however push the country to scale down public spending in its 9.8 billion dinars ($14 billion) budget for 2020, Al Ississ said.
Economists warn that fiscal stability was at stake if the government does not rein in public spending that has expanded rapidly as successive governments sought to appease citizens with state jobs to maintain stability.
State salaries comprise the bulk of state expenditure in a country that has among the world's highest government spending relative to the size of its economy.
The IMF obliges the kingdom to proceed with structural reforms and fiscal consolidation to reduce a $42 billion public debt, equivalent to 97% of gross domestic product that has spiralled in the last decade due to employment in a bloated public sector.
Al Ississ said the government remained committed to repaying its local and foreign debt maturities and state salaries.
"We are committed to paying the instalments and servicing of internal and foreign debt and there is no fear over this," he said.
The government would take "deep financial

measures" that would illustrate the country's ability to withstand external shocks and show donors it was progressing towards much needed reforms, he said.

The government hopes its new IMF deal will help it secure concessional grants and loans at preferential borrowing rates to ease annual debt servicing needed to reduce the debt to GDP ratio, Al Ississ said.

But Al Ississ warned that going to the markets and getting funding from donors might be more difficult in the current climate as Western donors wrestled with their own woes.

"International financial markets have dried up," he said.

(Reporting by Suleiman Al-Khalidi; Editing by Andrew Cawthorne and Daniel Wallis)
((suleiman.al-khalidi@thomsonreuters.com; +96279-5521407))

Jordan deficit forecast to rise by $1.4 billion as economy hit by coronavirus

08-May-2020
By Suleiman Al-Khalidi

AMMAN, May 7 (Reuters) - **Jordan's budget deficit is expected to rise by at least one billion dinars ($1.4 billion) as government finances are dealt a heavy blow by the coronavirus' impact on the aid-dependent economy, the finance minister said.**

Mohammad Al Ississ said losses from the lockdown was estimated at 100 million dinars per day ($140 million). The shutdown started in March and was eased in the last two weeks as businesses and industries were allowed to reopen.

"The forecasts in front of us indicate that our deficit until the end of the year will exceed what we expected by at least a billion dinars," Al Ississ told TV news broadcaster Al Mamlaka, saying the impact was the worst in decades.

The government had estimated a 1.3 billion dinar ($1.8 billion) deficit in this year's 2020 expansionist budget, characterized by sizeable public sector salary hikes to ensure stability in the aftermath of a wave of protests in the region.

"This is a huge blow to the economy. The situation is difficult, very difficult," Al Ississ added.

The country's 2020 growth was also expected to plunge by 3.4% this year compared to the International Monetary Fund's 2.1% forecast before the crisis.

Al Ississ did not rule out borrowing from global markets to help cover some of the country's extra financing needs although he cautioned credit markets were also affected.

The cash-strapped government has already resorted to more domestic borrowing from banks in the last two months to cover financing needs, bankers say.

The IMF had approved a $1.3 billion four-year programme for Jordan last March which the kingdom hopes will provide financing from its major Western donors worried about the country's stability.

Any new borrowing will increase record public debt of $42 billion that is now expected to exceed 100% of GDP from a current 97%.

Debt has spiralled due to years of runaway spending on a rapidly expanding public sector as successive governments sought to appease citizens with state jobs to maintain stability.

The government planned significant spending cuts to offset a steep 600 million-dinar drop in revenue up to April compared to the same period last year, Al Ississ said.

Al Ississ said the government for now did not plan any new taxes, the main source of state revenues.

Any cuts to a bloated state bureaucracy, which incurs 600 million dinars of monthly salary costs, would be politically sensitive.

The country has among the world's highest government spending relative to the size of its economy.

Fears have mounted that layoffs and bankruptcies resulting from the coronavirus lockdown will deepen poverty and unemployment and eventually trigger civil unrest, officials say in private.

"The matter that most worries us is increased unemployment and poverty," said Al Ississ said.

(Reporting by Suleiman Al-Khalidi; Editing by Cynthia Osterman)
((suleiman.al-khalidi@thomsonreuters.com; +96279-5521407))

Fitch Revises Jordan's Outlook to Negative; Affirms at 'BB-'

08-May-2020
Fitch Ratings-Hong Kong-May 08:

Fitch Ratings has affirmed Jordan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' and revised the Outlook to Negative from Stable.

KEY RATING DRIVERS

The revision of the Outlook to Negative reflects the economic impact of the coronavirus pandemic on Jordan, which will result in a sharp GDP contraction and lead to marked increases in the budget deficit and government debt and a worsening of external finances. The government response to the crisis has been prompt and external financial support forthcoming, but the extent of the shock raises downside risks to the sovereign's credit profile.

The shock further magnifies the challenge of consolidating public finances, which were already a core rating weakness. We forecast the general government (GG) budget deficit to widen to around 5% of GDP in 2020, from close to balance in 2018-2019. We forecast real GDP to fall by 5% in 2020, given the nationwide lockdown to contain the spread of the virus from mid-March, which has been gradually easing from mid-April, and the halt to tourism and weaker external demand. The reduction in GDP and tax relief measures will cause a sharp decline in budget revenue. The government is reprioritising spending and will find some savings in the 2020 budget, but plans to maintain spending levels to cushion the crisis.

In 2021 we expect a partial economic rebound, with real GDP growth of 5%, which will help to narrow the GG deficit to around 3% of GDP. We expect that Jordan will continue to focus on improving revenue mobilisation as the economy returns to growth and following the approval of a USD1.3 billion Extended Fund Facility (EFF) by the IMF in March 2020. Prior to the coronavirus crisis, Jordan was working to improve implementation of the recent income tax reform, the tax administration and tax collection through limiting exemptions. The EFF also seeks to remove impediments to GDP growth, through reforms of labour markets and cross-subsidies that are damaging for the private sector.

We forecast GG debt to jump to 91% of GDP (from 81% in 2019), far higher than the current median for 'BB' rated peers of 58% of GDP. We expect this will largely stabilise in 2021. Availability of domestic financing owing to a fairly large and liquid banking sector and the fact that 60% of government external debt is owed to multilateral and official bilateral creditors who continue to provide Jordan with substantial financial support are mitigating factors. Nonetheless, there are also downside risks to the outlook if the economic recovery is weaker than projected.

Gross public debt, as reported by the Ministry of Finance, is higher at 98% of GDP at end-2019, while Fitch estimates consolidated GG debt by netting out the Social Security Investment Fund's (SSIF) holdings of government debt (20% of GDP at end-2018) and adding municipal debt. The SSIF manages the assets of the Social Security Corporation (SSC). Like the official public debt numbers, Fitch's GG debt estimate includes all debt guaranteed by the government, namely the debt of the public water authority (WAJ) and some of the debt of the electricity company (NEPCO).

The slump in tourism will cause a doubling of the current account deficit (CAD) to USD2.5 billion or 6.1% of GDP in 2020, after a sharp improvement in the CAD to a 15-year low of 2.9% of GDP in 2019. This forecast assumes a 60% decline in travel credits, which accounted for a quarter of current account revenue in 2019. We assume tourism partially recovers in 2021, causing the CAD to narrow to 5.2% of GDP. Lower oil prices and a decline in non-oil imports will only partly offset lower tourism revenue.

The CAD will be financed with external borrowing, leading net external debt (NXD) to rise to 27.5% of GDP in 2021 in line with the 'BB' median, and a drawdown on foreign reserves, which are currently at robust levels. Jordan was a net external creditor in 2004-2014, but net external debt has increased significantly since then, given weaker coverage of CADs by net FDI. We expect the Central Bank of Jordan's reserves to fall to USD13.5 billion in 2021, from USD15.4 billion at end-2019, but this would still represent 7.4 months of current external payments.

A significant portion of external borrowing is concessional and Jordan's external financing flexibility remains a rating strength. This is underpinned by strong relations with the international donor community, multilateral organisations, and bilateral allies, including the US and partners in the Gulf Cooperation Council. Foreign grants and concessional loans averaged more than 7% of GDP in 2012-2019.

For 2020, Jordan has secured at least USD2.3 billion in concessional budget support loans (in addition to grants) and we assume there will be further financing from the IMF (USD400 million through the Rapid Financing Instrument), World Bank and EU in the near term. Against this, there is close to USD2 billion of public external debt maturities, including a USD1.25 billion Eurobond. After that, Jordan's next Eurobond maturity is in 2022.

Jordan scores above the 'BB' median on average across the six pillars of governance as measured by the World Bank Governance Indicators, although the scores for political stability and voice and accountability are well below the median. Jordan has weathered multiple regional shocks since 2011, but regional geopolitics remain volatile, posing some risk of negative spillovers. While political stability has been maintained under the leadership of King Abdullah, low growth and high unemployment (likely above 20% in 2020) present risks of social unrest.

ESG - Governance: Jordan has an ESG Relevance Score of 5 for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Jordan has a medium WBGI ranking at the 49th percentile, slightly above the 'BB' peer median.

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

Fitch's proprietary SRM assigns Jordan a score equivalent to a rating of 'BB' 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:

- Public finances: -1 notch, to reflect high public debt: the SRM is estimated on the basis of a linear approach to government debt/GDP and does not fully capture the increased risks at a high level. In addition, central government financing needs are higher than implied by the general government numbers; and there are risks from loss-making government entities.

The committee decided to remove the -1 notch on Structural features, which reflected domestic and regional political risks that may not be fully captured in the WBGI used in the SRM. Offsetting this is the availability of financial support from Jordan's allies and supportive institutions to assist its economy given the challenging political context, which may also not be fully captured in the model.
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 negative rating action/downgrade:

- Failure to renew fiscal consolidation following the COVID-19 shock, leading to further increases in government debt/GDP, which could also stem from prolonged low growth
- Weakening of support from external partners and further rise in external indebtedness
- Deterioration in domestic political stability or geopolitical shocks that adversely affect the economy or public finances

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

- Progress in fiscal consolidation following the COVID-19 shock, leading to a reduction in government debt/GDP
- Lower current account deficits that reduce the upward pressure on net external debt.
- Sustained higher trend real GDP growth

Best/Worst Case Rating Scenario
International scale credit ratings of Public Finance 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

We assume global economic trends to develop as outlined in Fitch's latest Global Economic Outlook.

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
Jordan 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.
Jordan 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.
Jordan has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as scores for the voice and accountability are part of the World Bank Governance Indicators that have the highest weight in the SRM. They are relevant to the rating and a rating driver.
Jordan 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 Jordan, 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.
Hashemite Kingdom of Jordan; Long Term Issuer Default Rating; Affirmed; BB-; RO: Neg
Short Term Issuer Default Rating; Affirmed; B
Local Currency Long Term Issuer Default Rating; Affirmed; BB-; RO: Neg
Local Currency Short Term Issuer Default Rating; Affirmed; B
Country Ceiling; Affirmed; BB

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Lebanon

Lebanon urges unity to tackle crisis, says time is short

06-May-2020

BEIRUT, May 6 (Reuters) - **Lebanese must set aside their differences as the country has no time to lose in tackling its major financial crisis, Prime Minister Hassan Diab warned on Wednesday, saying a government recovery plan was not a sacred text and could be amended.**

The government approved the plan last week, announcing that it would form the basis of

negotiations with the International Monetary Fund (IMF) for aid.
Diab was speaking at a meeting of Lebanon's fractious sectarian leadership to review the plan, which maps out vast losses in the financial system. President Michel Aoun said the IMF was a "mandatory path" for recovery.
The government proposals have encountered strong criticism from the commercial banking sector which, according to the plan, is set to sustain losses of some $83.2 billion.
"Time is very precious. The accumulated losses are very big. The situation is very painful, and the chance to rectify (the situation) will not last long," Diab told the meeting convened at the presidential palace.
He urged political parties, economic syndicates and the banks to set aside differences. There was no place for score-settling, he said, adding that trading accusations would be "costly for all".
Diab's government was appointed in January with backing from the powerful, Iran-backed Shi'ite group Hezbollah and its allies including the Christian Maronite head of state, President Michel Aoun.
Leading Sunni politician Saad al-Hariri, a former prime minister and traditional ally of Gulf Arab and Western states, did not attend the meeting. Neither did Druze leader Walid Jumblatt though Aoun's Maronite rival, Samir Geagea, attended.
The crisis is seen as the greatest risk to stability since the 1975-90 civil war. The local currency has lost more than half its value since October and depositors have largely been shut out of their savings as dollars have become ever more scarce. Inflation, unemployment and poverty have soared.
Lebanon defaulted on its sovereign debt in March.
Addressing the meeting, Finance Minister Ghazi Wazni said Lebanon had started negotiations to restructure its sovereign debt two weeks ago.
The benefits of going to the IMF included boosting international confidence in Lebanon and the provision of financial support of $9-$10 billion for the treasury, he said.
The plan adopts a flexible exchange rate in the coming phase but in "a gradual and studied" way, Wazni said. He said floating the exchange rate before restoring confidence and securing international support would lead to a big deterioration in the value of the pound, among other negative consequences.

(Writing by Tom Perry; Editing by Alex Richardson, William Maclean)
((thomas.perry@thomsonreuters.com; Reuters Messaging: thomas.perry.reuters.com@reuters.net))

Lebanon rescue plan, any IMF deal will need laws

06-May-2020
BEIRUT, May 6 (Reuters) - **Major parts of the Lebanese government's plan for pulling the country out of a financial crisis will require new legislation, as will any deal with the IMF, a senior MP said on Wednesday, signalling that those parts will still require debate in parliament.**
Ibrahim Kanaan, the chairman of parliament's budget and financial affairs commission, also told Reuters the committee was reviewing the plan and would propose amendments.
Prime Minister Hassan Diab said on Wednesday that the rescue plan, which his cabinet approved last week, was not sacred and could evolve. The blueprint, entailing vast losses in the country's financial system, will form the basis of negotiations with the International Monetary Fund.
Lebanon is seeking IMF help and wants to restructure around $90 billion in debt to tackle a fiscal crisis that has prompted a sovereign default, sent the local currency into a tailspin and fuelled public unrest.
"A major part of the plan - if it is going to be executed - needs laws," Kanaan said.
This would apply to the proposed restructuring of the banking sector, the central bank and the public debt, he said, as well as to any changes in taxation and any deal with the IMF.
In recent months, the Lebanese pound has lost more than half its value as dollars grow ever more scarce. Inflation, unemployment and poverty have soared.

(Reporting by Tom Perry; Writing by Ellen Francis; Editing by Hugh Lawson)
((Ellen.Francis@thomsonreuters.com))

Lebanon plan based on flexible exchange rate in 'coming period'

06-May-2020
BEIRUT, May 6 (Reuters) - **A government plan for getting Lebanon out of a financial crisis is based on a shift to a flexible exchange rate, but in the "coming period", and a currency peg will be maintained for now, Finance Minister Ghazi Wazni said on Wednesday.**
The government approved the plan, which entails vast losses in the financial system, last week, announcing it would form the basis of aid negotiations with the International Monetary Fund.
The crisis is seen as the greatest risk to Lebanon's stability since its 1975-90 civil war.
Prime Minister Hassan Diab said the plan was not sacred and could evolve, urging Lebanese to set aside differences during a meeting with some of the country's fractious politicians.
The Lebanese pound has lost more than half of its value since October and depositors have largely been shut out of their savings as dollars have become ever more scarce. Inflation, unemployment and poverty have soared.
The pound has been pegged at 1,507.5 to the dollar since 1997 and the central bank supplies

dollars at this price for the purchase of fuel, medicine and wheat. Dollars were changing hands at over 4,000 pounds on the parallel market on Wednesday.
The plan is based on "a policy of a flexible exchange rate in the coming period, in a gradual and studied way," Finance Minister Ghazi Wazni told the meeting.
He gave no time frame for the change but said freeing up the exchange rate before restoring confidence and securing international support would lead to a big deterioration in the value of the pound and uncontrolled price rises of basic goods.

DEBT DEFAULT

"We are forced in the current phase to continue in the policy of fixing (the rate)," he said.

The Diab government took office in January with backing from the powerful, Iran-backed Shi'ite group Hezbollah and allies including President Michel Aoun, the Christian Maronite head of state.

Speaking after the meeting, Samir Geagea, a Maronite rival to Aoun and Hezbollah opponent, said he would not support this or any other plan that did not start with serious steps to fight corruption and waste, including customs evasion.
These are widely seen as prime causes of the crisis, landing Lebanon with one of the world's biggest public debt burdens. Lebanon defaulted on its sovereign debt in March.
Neither leading Sunni politician Saad al-Hariri, a former prime minister and traditional ally of Gulf Arab and Western states, nor Druze leader Walid attended the meeting.
"Time is very precious. The accumulated losses are very big. The situation is very painful, and the chance to rectify (it) will not last long," Diab said.
Wazni said Lebanon had started negotiations to restructure its sovereign debt two weeks ago. Benefits of going to the IMF included securing financial support of $9-$10 billion, he said.
Critics of the plan include Lebanon's commercial banks. The plan foresees them sustaining losses of some $83.2 billion.
The banking association is working on its own plan that aims to preserve some of its capital rather than writing it off as set out in the government proposals.

(Reporting by Beirut newsroom; Writing by Tom Perry; Editing by Alex Richardson, John Stonestreet, William Maclean)
((thomas.perry@thomsonreuters.com; Reuters Messaging: thomas.perry.reuters.com@reuters.net))

Oman

Clock ticks on Oman's debt requirement

07-May-2020
By Sandrine Bradley
LONDON, May 7 (LPC) **- Oman is shut out of the debt capital markets when it is most in need of external financing due to the double impact of the coronavirus crisis and falling oil prices, with government finances likely to hit a critical stage and its currency's US dollar peg to become unstable within a year.**

Low oil prices and the coronavirus are set to push Oman's fiscal deficit sharply upwards this year, with rating agency Fitch expecting the deficit to climb to around US$12bn, which is 18% of GDP in 2020 based on an oil price assumption of US$35 per barrel. This is up from an estimated US$10bn figure that Fitch published in a briefing on April 6.
In recent years, Oman has relied heavily on external debt to offset a widening deficit caused by lower crude prices. It now finds itself in a situation where it needs external cash more than ever but is effectively shut out of the market.
In March, the sultanate was forced to put a US$2bn syndicated loan on hold after it was downgraded by Fitch further into junk territory - to BB from BB+ - while access to the bond market has also now closed.

"The cost of international debt issuance is currently prohibitive for Oman," said Krisjanis Krustins, a director in Fitch's sovereign team.

The sultanate has enough usable assets to be able to stay out of the international debt markets for a year, according to market analysts, and with only US$1.2bn of debt maturing in 2020 a debt crisis is unlikely in the short term.

However, beyond a year the willingness of lenders to fund Oman's large external financing needs will be critical, and this timeframe could even shrink if market conditions deteriorate further.
"If Oman's funding conditions continue to be stressed, it may need external financial assistance before the middle of 2021. Clearly, a number of factors including continued weakness in oil prices or the government's inability to adjust the government budget could all bring this point forward," said Krustins.

CASH IN RESERVE

Oman had around US$17bn in foreign assets at the State General Reserve Fund, not all of which are liquid, and another US$17bn in gross foreign exchange reserves at the Central Bank of Oman, including US$2.5bn from the Petroleum Reserve Fund, at the end of 2019.

Fitch expects the government's funding needs in 2020 will be met mostly through a drawdown of over US$5bn from the SGRF and over US$4bn in new foreign debt, with this year's US$1.2bn of debt maturities likely to be met by the PRF.

However, substantial drawdown from SGRF brings its own issues.
"In our view, the government's ability to deplete reserves is limited by the need to maintain confidence in the currency peg," Krustins said.
The US$4bn in new foreign debt includes an assumption by Fitch that Oman will be able to return to the market for a bond or syndicated loan later this year. It could also include some debt from non-market sources, such as UK export credit facilities, the Arab Fund for Development, and loans with guarantees from the Multilateral Investment Guarantee Agency, which provided Oman with a US$1bn loan in 2019.
However, there are also doubts over Oman's ability to secure debt from non-market sources.
"Our expectation is that financing needs this year will be met through a confluence of FX reserves and SWF drawdowns as well as debt issuance. Part of the latter could be through non-market sources," said Ehsan Khoman, head of MENA research and strategy at MUFG.
"Given the fluidity of the current market environment, the nominal composition of the above is uncertain and conditional on what the sovereign deems most optimal for its balance sheet."
In the worst case scenario, Oman could seek support from other governments in the Gulf Cooperation Council or from the IMF.
"They may become the only options if Oman's funding conditions continue to be stressed," said Krustins.
The lack of a precedent could make this more of a challenge.
"There is no history of IMF programmes in the GCC and Oman does not even authorise publication of regular IMF AIV staff reports, but that does not make an IMF deal impossible and Oman did receive pledges of financial assistance from the GCC in 2011 which it has still not fully utilised," Krustins said.

(Additional reporting by Robert Hogg)
(Editing by Chris Mangham)
((Sandrine.bradley@thomsonreuters.com; +44 207 542 0651))

Pakistan

Pakistan's fiscal deficit to surge, tax revenue to miss target this year

08-May-2020
By Asif Shahzad
ISLAMABAD, May 8 (Reuters) - **Pakistan's finance adviser Abdul Hafeez Shaikh said on Friday that the country's fiscal deficit was set to hit 9% of GDP in the ongoing fiscal year.**
In an interview with Reuters at his office in Islamabad, Shaikh said the coronavirus-hit South Asian economy will also miss a tax revenue target that had recently been downwardly-revised and agreed to with the IMF, which gave the country a three-year, $6 billion bailout last year.
Pakistan is set to collect 3.9 trillion Pakistani rupees ($24.54 billion) in taxes, 19% below the downwardly revised target of 4.8 trillion Pakistani rupees ($30.20 billion).
The IMF also gave Pakistan a $1.386 billion rapid financing package last month to mitigate the economic fallout of the virus.
The country's economy is now projected to contract 1% to 1.5% in the ongoing fiscal year, said Shaikh, who is effectively Pakistan's finance minister.
"Revenue has taken a hit. Exports have taken a hit. Remittances have taken a hit, and, above all, our people are suffering," Shaikh said.
Pakistan, which has reported 26,435 COVID-19 cases and 599 deaths, has announced it will start lifting a countrywide lockdown from Saturday.

($1 = 158.9300 Pakistani rupees)
(Reporting by Asif Shahzad
Editing by Chizu Nomiyama)
((asif.shahzad@thomsonreuters.com; +923018463683))

Philippines

Fitch Assigns Philippines' USD Bonds Final 'BBB' Ratings

05-May-2020
Fitch Ratings-Hong Kong-May 04:
Fitch Ratings has assigned the Philippines' USD1 billion 2.457% bonds due 2030 and USD1.35 billion 2.950% bonds due 2045 final ratings of 'BBB'. This replaces the expected rating of 'BBB (EXP)' that Fitch assigned on 27 April 2020.
KEY RATING DRIVERS
The ratings are in line with the Philippines' Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BBB' with a Positive Outlook.
Fitch affirmed the Philippines' Long-Term Foreign- and Local-Currency IDRs at 'BBB' and revised the Outlook to Positive from Stable in February 2020.
RATING SENSITIVITIES
Factors that could, individually or collectively, lead to positive rating action/upgrade:
- Continued strong growth while maintaining macroeconomic stability
- Strengthening of governance standards towards those of the rating category peer median
- Sustained broadening of the government's revenue base that enhances fiscal finances and improves debt dynamics.

Factors that could, individually or collectively, lead to negative rating action/downgrade:
- Reversal of reforms or a departure from

the existing policy framework that leads to macro instability

• Deterioration in external indicators, including foreign-exchange reserves, the current account deficit and net external debt, that reduces the resilience of the economy to shocks.

• Instability in the financial system, possibly triggered by a sustained period of high credit growth.

Best/Worst Case Rating Scenario

International scale credit ratings of Public Finance 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.

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

The ESG profile is in line with that of the Philippines.

Media Relations: Peter Hoflich, Singapore, Tel: +65 6796 7229, Email: peter.hoflich@thefitchgroup.com; Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com.

Additional information is available on www.fitchratings.com

Fitch Revises Outlook on Philippines to Stable; Affirms at BBB

07-May-2020

Fitch Ratings-Hong Kong-May 07:

Fitch Ratings has revised the Outlook on the Philippines' Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable from Positive, and affirmed the rating at 'BBB'.

KEY RATING DRIVERS

The revision of the Outlook reflects deterioration in the Philippines' near-term macroeconomic and fiscal outlook as a result of the impact of the global COVID-19 pandemic and domestic lockdown to contain the spread of the virus. Fitch projects the economy will contract this year, and that fiscal relief measures will contribute to a widening of the 2020 general government deficit by more than 3.5pp of GDP. The affirmation of the 'BBB' rating reflects the Philippines' fiscal and external buffers, including its lower government debt/GDP ratio compared with peer medians and net external creditor position, as well as its still-strong medium-term growth prospects.

Fitch projects the economy to contract by 1% in 2020, after expanding by 6% in 2019. The 2020 forecast is uncertain and subject to considerable downside risks depending on how the virus runs its course globally and domestically and the possibility of a further extension or re-imposition of lockdown measures. The pace of newly reported cases shows signs of flattening, but the virus nevertheless continues to spread, and partial lockdown measures that were introduced in mid-March have been extended through at least May 15.

Private consumption, which accounts for 72%% of GDP, is likely to stay muted with the social distancing measures and lockdowns in place. We expect remittance inflows, which account for about 8% of GDP, to contract by 2.5% reflecting the impact of the health crisis in overseas locations (remittances from the oil-sensitive Middle East accounted for about 20% of the total in 2019). We also forecast tourism receipts, which account for 2.5% GDP, to contract by about 70% before beginning to recover gradually later in the year.

The current account deficit is forecast by Fitch to widen to about -1.6% of GDP in 2020, from -0.2% in 2019, driven by the decline in tourism receipts and remittances. Exports are also projected to contract by about 2% on account of weak external demand. Sharply lower oil prices and lower import demand mitigate the impact on the current account. Under our baseline, we assume a gradual economic recovery from Q320, and we expect growth of 7% in 2021. Our baseline forecast assumes a gradual recovery in tourism and remittance inflows, along with firming exports, as the global economy begins to recover in line with our latest Global Economic Outlook. These projections, however, remain highly uncertain and subject to downside risks.

The authorities have been proactive in implementing policies to counter the economic effects of the virus, with a combined fiscal and monetary support package amounting to 8% of GDP, with the fiscal component assumed by Fitch to be recorded partly on-budget and partly as off-budget or below-the-line spending. We now expect the general government deficit to increase to -4.9% of GDP in 2020 from -1.2% in 2019. This compares with our projection for 2020 of -1.2% of GDP when we affirmed the rating in February. Our projection of the central government deficit is -6.5% of GDP in 2020, somewhat above the authorities' projection of -5.3%, as we assume a sharper decline in revenue collections and slightly higher expenditure. Our central government fiscal projections incorporate the on-budget portion of our assumption of the fiscal component of the authorities' four-pillar socio-economic strategy against COVID-19 amounting to about 2.3% of GDP.

Fitch expects the authorities to finance the higher deficits through a combination of domestic and external financing, in line with their planned borrowing mix of 70%/30% split in favour of the former. The Bangko Sentral ng Pilipinas (BSP) has authorised the use of a repurchase agreement with the Bureau of the Treasury, of PHP300 billion of government securities since March. Fitch understands the facility has been authorised on an exceptional and short-term basis to help meet the government's urgent COVID-19-related financing needs. Meanwhile, we expect external funding to be met through international bond issuance and multilateral loans, including from the Asian Development Bank and the World Bank in response to the health crisis.

Under our baseline assumptions, we expect the general government debt/GDP ratio to rise to about 46% of GDP by 2021, from about 35% estimated by Fitch for end-2019, which would be below the projected 2020 'BBB' median. The scale of this projected increase in the debt ratio exceeds the size of our forecast of the fiscal deficit, reflecting the proportion of the fiscal support package assumed by Fitch that will be recorded off-budget or as below-the-line spending. The debt ratio could rise further if the virus outbreak persists or returns, necessitating further lockdowns. Over the medium term, we expect the debt ratio to decline gradually to 41.7% by 2023, in line with the authorities' intention to consolidate the deficit once the effects of the pandemic recede.

The Bangko Sentral Ng Pilipinas (BSP) has cut the policy rate by 125bp since the beginning of the year to a historic low of 2.75%, including an off-cycle 50bp cut on April 16. The BSP has also reduced the reserve requirement by 200bp so far this year. There may still be room for limited monetary easing as inflation declines, in Fitch's view. We expect inflation to end the year at the lower end of the central bank's 2%-4% target range.

The 'BBB' IDR also reflects the following key rating drivers:

The Philippines' structural indicators are weaker than peers, including per capita income, governance standards and human development. Reforms undertaken in the last couple of years, such as passage of the Philippine Identification System Act of 2018, increased coverage under the National Health Insurance Program and establishment of the Presidential Anti-corruption Commission, could lead to improved structural indicators over time.

Foreign-currency reserves and gross external debt levels remain healthy. Despite global financial market volatility, foreign reserves have been stable this year, at USD89 billion as of end-March. Modest external debt-service payments relative to its foreign-currency reserves also support a strong external liquidity ratio of about 372% (measured as total external assets/liabilities), compared with 148% for the 'BBB' median. We project foreign-currency reserves of around USD90billion at end-2020, equivalent to about eight months of current external payments (CXP). This assumes proceeds of global bond issuances of about USD3.7 billion and possible disbursements from multilaterals of around USD6 billion for the whole year.

Tax reform has supported an improvement in the Philippines' government revenues and the central government revenue/GDP ratio rose further, to 16.1% of GDP by end-2019 from 15.6% in 2018 (based on the newly rebased GDP series). The Philippines' general government revenues are still weaker than the peer median, although we expect further progress on tax reforms to lead to higher revenues over time. Fitch understands that the authorities remain committed to passing the remaining tax packages of the comprehensive tax reform program (CTRP), notably packages two, three and four, before the next presidential election in 2022.

Fitch revised the Philippine banking sector's outlook to negative in March, reflecting our expectation that the pandemic will weigh on banks' asset quality and profitability. The economic contraction expected in 2020 implies that loan delinquencies and credit costs will rise, especially as asset quality associated with recent rapid credit growth has not been tested through the cycles. The lower interest-rate environment and slower economic activity will also pressure the banks' profitability. That said, the commercial banks' sector-wide total capital-adequacy ratio of 16% as of December 2019 provides loss absorption buffers to withstand moderate credit stresses in the system.

ESG - Governance: Philippines has an ESG Relevance Score of '5' for Political Stability and Rights as well as for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the World Bank Governance Indicators have in our proprietary Sovereign Rating Model. Philippines has a medium World Bank Governance Indicator ranking in the 40th percentile, reflecting a recent record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a moderate level of corruption.

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

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

Fitch's sovereign rating committee adjusted the output to arrive at the final Long-Term IDR by applying its QO, relative to rated peers, as follows:

- Macro: +1 notch for strong and sustainable levels of projected GDP growth over the medium term, combined with a sound policy framework.

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

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A resumption of strong economic growth following recovery from the pandemic, while maintaining macroeconomic stability.
- Strengthening of governance standards towards those of the rating-category peer median.
- Sustained broadening of the government's revenue base that enhances fiscal finances and places the government debt/GDP ratio on a downward trajectory.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Reversal of reforms or a departure from the existing policy framework that leads to macro instability or weaker fiscal or economic outcomes.
- Deterioration in external indicators, including foreign-currency reserves, the current account deficit and net external debt, that lowers the resilience of the economy to shocks.
- Deterioration in banks' asset quality that leads to instability or stress in the financial system.

Best/Worst Case Rating Scenario

International scale credit ratings of Public Finance 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

A gradual global recovery extending into 2021 after an initial, sharp economic shock from the coronavirus pandemic this year, assuming national lockdowns of around eight or nine weeks, as in our latest Global Economic Outlook baseline assumptions.

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

Philippines 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.

Philippines 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.

Philippines 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.

Philippines 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 Philippines, as for all sovereigns.

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

Philippines; Long Term Issuer Default Rating; Affirmed; BBB; RO: Stable
Short Term Issuer Default Rating; Affirmed; F2
Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO: Stable
Local Currency Short Term Issuer Default Rating; Affirmed; F2
Country Ceiling; Affirmed; BBB+
Senior unsecured; Long Term Rating; Affirmed; BBB

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Qatar

Qatar National Bank expected to sell $750 mln-$1 bln in bonds

05-May-2020

DUBAI, May 5 (Reuters) - **Qatar National Bank, the Gulf's biggest lender, is expected to sell between $750 million and $1 billion in five-year bonds on Tuesday and has received over $3.5 billion in orders, two sources said.**

The bank set its final price guidance at 225 basis points (bps) over mid-swaps, tightening by 35 bps from where it began marketing the notes earlier on Tuesday.

It has hired Barclays, Credit Agricole, ING, Mizuho, QNB Capital and Standard Chartered to arrange the deal, which is expected to close on Tuesday.

(Reporting by Yousef Saba; editing by Jason Neely) ((Yousef.Saba@thomsonreuters.com;

+971562166204))

S&P affirms Qatar's rating at "AA-", outlook at "stable"

08-May-2020

May 8 (Reuters) - **S&P Global Ratings on Friday affirmed Qatar's rating at "AA-", saying it believes the Arab country's government and external balance sheets will be able to provide sufficient buffers to withstand shocks.**

The agency said it expects a timely policy response from Qatar's government to shore up its liquidity, given continued challenges in the international capital markets.

Qatar sold $10 billion in bonds in April, the first Gulf state to raise cash in the debt markets against a backdrop of low oil prices and market uncertainty caused by the coronavirus pandemic.

"Despite a sharp economic contraction and low hydrocarbon prices, we don't expect the government's fiscal and external stock positions will materially deteriorate beyond our expectations," the ratings agency said in a statement.

Income levels in Qatar remain among the highest of rated sovereigns, supporting its strong credit profile, S&P added.

Ratings agency Moody's last week cut Saudi Arabia's outlook, citing higher fiscal risks due to the oil price crash, and uncertainty about its ability to offset the oil revenue losses and stabilize debt.

S&P maintained Qatar's outlook at "stable".

(Reporting by Nilanjana Basu;
Editing by Vinay Dwivedi)
((Nilanjana.Basu@thomsonreuters.com))

Saudi Arabia

Moody's cuts Saudi Arabia's outlook to "negative" from "stable"

02-May-2020

May 1 (Reuters) - **Moody's Investors Service cut Saudi Arabia's outlook to "negative" from "stable" on Friday, citing higher fiscal risks for the Gulf nation due to the crash in oil prices, and uncertainty about the Saudi government's ability to offset the oil revenue losses and stabilize its debt in the medium term.**

However, the ratings agency affirmed sovereign credit rating at "A1", citing Saudi Arabia Government's "still relatively robust, albeit deteriorating" balance sheet, moderate debt level and substantial fiscal and external liquidity buffers.

Global fuel demand has tumbled by a third due to coronavirus-related lockdowns and business shutdowns.

"The plans to diversify Saudi Arabia's economy away from oil could lift the country's medium- to long-term growth potential," Moody's said in a statement

However, "The risks associated with the implementation of the diversification agenda are high and the benefits will likely take many years to materialize," Moody's added.

The Saudi Arabian Monetary Authority said late on Tuesday that Saudi Arabia's central bank foreign reserves fell in March at their fastest rate in at least 20 years and to their lowest since 2011, while the kingdom slipped into a $9 billion budget deficit in the first quarter as oil revenues collapsed.

(Reporting by Devbrat Saha in Bengaluru;
Editing by Vinay Dwivedi)
((Devbrat.Saha@thomsonreuters.com; +91 8061822770 (direct), +1-646-223-8780 (extension 2770)))

Saudi central bank reaffirms commitment to peg, says foreign reserves strong

04-May-2020

DUBAI, May 4 (Reuters) - **Saudi Arabia's central bank on Monday reaffirmed its commitment to pegging the Saudi riyal to the U.S. dollar, calling it a strategic choice that has contributed to the kingdom's economic growth for over three decades.**

"The authority pointed to the strength of its foreign exchange reserves and its ability to meet all the requirements of the national economy in foreign currencies, covering approximately 43 months of imports," the Saudi Arabian Monetary Authority added in a statement.

(Reporting by Alaa Swilam; Writing by Yousef Saba;
editing by David Evans)
((Yousef.Saba@thomsonreuters.com;
+971562166204))

Saudi dollar bonds post losses as investors brace for pain to come

04-May-2020

- **Finance minister says spending must be cut sharply**
- **Moody's cuts Saudi Arabia's outlook to negative**
- **S&P model shows CDS market pricing Saudi Arabia at BBB-**

By Yousef Saba

DUBAI, May 4 (Reuters) - **Saudi government dollar bonds posted losses on Monday after the finance minister said Riyadh would have to take painful measures to deal with the impact of the coronavirus and Moody's downgraded the country's ratings outlook.**

Moody's cut Saudi Arabia's outlook to negative from stable on Saturday, citing higher fiscal risks due to the crash in oil prices, and uncertainty about the government's ability to offset oil revenue losses and stabilize its debt in the medium term.
By 1540 GMT on Monday, Saudi Arabia's 35-year bonds due in 2055 had lost 1.4 cents to trade at 89.85 cents on the dollar, while its 40-year bonds due in 2060 shed 1.5 cents to trade at 98.2 cents on the dollar, Refinitiv data showed.
The country saw steep losses on its other bonds as well, while most other sovereign bonds in the Gulf region saw smaller losses in early trade and some even strengthened marginally.
Saudi Finance Minister Mohammed al-Jadaan said on Saturday the government "must reduce budget expenditures sharply" and that the impact of the new coronavirus on state finances would be felt from the second quarter of the year.
Japan's Mitsubishi UFJ Financial Group Inc (MUFG), in an analyst report on Monday, said that large fiscal deficits could put pressure on the country's credit rating and borrowing costs.
MUFG said it expected Saudi Arabia's real GDP to contract 3.2% this year, its worst performance since 1999. It also forecast public debt would rise to 31.6% of GDP - the highest since 2005 - and foreign reserves would fall by up to $47 billion.
Saudi Arabia's large capital buffers will allow it to weather low oil prices over the medium term, the bank said in its note, also commending the kingdom's forward guidance to markets regarding its policy responses to the economic shock.
Saudi Arabia has imposed strict measures to stem the spread of the coronavirus, including halting flights and imposing curfews.
As of Sunday, the kingdom had reported 27,011 infections and 184 deaths, both the highest among the six Gulf Cooperation Council countries.
MUFG said that the Saudi riyal's peg to the U.S. dollar remained "bullet-proof" despite market fears over its long-term stability.
"While we expect the peg to be maintained, large fiscal deficits are likely to put pressure on the sovereign's credit ratings and cost of funds, which could build vulnerabilities over the medium term," the bank said.
The central bank, the Saudi Arabian Monetary Authority, reaffirmed its commitment to pegging the riyal to the dollar, calling it a strategic choice that has contributed to the kingdom's economic growth for over three decades.
It added in a statement: "The authority pointed to the strength of its foreign exchange reserves and its ability to meet all the requirements of the national economy in foreign currencies, covering approximately 43 months of imports."
An S&P Capital IQ model based on CDS prices currently shows markets pricing Saudi Arabia as BBB-, just one notch above "junk", or sub-investment grade as it is formally known.
Saudi Arabia is rated A by Fitch, A2 by Moody's and A- by S&P.
Saudi Arabia increased its debt ceiling to 50% of GDP from a previous 30% in March and has already raised $12 billion in international bonds this year.

(Reporting by Yousef Saba; Additional reporting by Marc Jones in London; Editing by Toby Chopra/Pravin Char/Susan Fenton and Nick Macfie)
((Yousef.Saba@thomsonreuters.com; +971562166204))

Saudi dollar bonds post losses as investors brace for pain to come

06-May-2020

Oil slips to $26 as weak demand, supply glut weigh

Stock markets rise on virus hopes as oil tanks

Saudi government dollar bonds posted losses in early trade on Monday as investors absorbed the finance minister's comments that the country would take strict and painful measures to deal with the economic impact of the pandemic.
By 1136 GMT, Saudi Arabia's 35-year bonds due in 2055 had lost 1.4 cents to trade at 89.8 cents on the dollar, while its 40-year bonds due in 2060 shed 1.6 cents to trade at 98.2 cents on the dollar, Refinitiv data showed.
The country saw steep losses on its other bonds as well, while most other bonds from the Gulf saw smaller losses and some even strengthened marginally.
Finance Minister Mohammed Al-Jadaan said on Saturday the government "must reduce budget expenditures sharply" and that the impact of the new coronavirus on Saudi Arabia's state finances would appear from the second quarter of the year.
Japan's Mitsubishi UFJ Financial Group Inc (MUFG) said in an analyst report on Monday that large fiscal deficits could pressure the country's credit rating and cost of borrowing.
MUFG said it expected Saudi Arabia's real GDP to contract 3.2% this year, its worst since 1999. It also forecast public debt would rise to 31.6% of GDP - the highest since 2005 - and foreign reserves fall by up to $47 billion.
Saudi Arabia's large capital buffers will allow it to weather low oil prices over the medium-term, the bank said in its note, also commending the kingdom's forward guidance to markets regarding its policy responses to the economic shock.
MUFG added that the Saudi riyal's peg to the U.S. dollar remained "bullet-proof" despite market fears over its long-term stability.
"While we expect the peg to be maintained, large fiscal deficits is likely to put pressure on the sovereign's credit ratings and cost of funds, which could build vulnerabilities over the medium-term," the bank said.
Saudi Arabia increased its debt ceiling to 50% of GDP from a previous 30% in March and has

already raised $12 billion in international bonds this year.

Tajikistan

Tajikistan secures $190 mln IMF loan to fight coronavirus crisis

07-May-2020
DUSHANBE, May 7 (Reuters) - **The International Monetary Fund's executive board has approved a disbursement of $189.5 million for Tajikistan to help it "meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic", the IMF said on Thursday.**
The Central Asian nation confirmed its first novel coronavirus cases at the end of April, by which time it had already felt the economic impact of the outbreak as the volume of remittances from Tajiks working in Russia started to fall.
"The economy is currently projected to contract by 2% this year and the overall budget deficit could rise to 7.7% of GDP," the IMF said in a statement, describing the pandemic's impact on the former Soviet republic as severe.
While the Fund's aid will provide a sizable share of the required financing, it said, "additional concessional and grant financing from the international community will be critical to close the remaining financing gap."

(Reporting by Nazarali Pirnazarov; Writing by Olzhas Auyezov; Editing by Muralikumar Anantharaman)
((olzhas.auyezov@thomsonreuters.com; +7 727 2508 500; Reuters Messaging: olzhas.auyezov.thomsonreuters.com@reuters.net))

Thailand

Thailand to sell $1.55 bln of govt savings bonds next week

08-May-2020
BANGKOK, May 8 (Reuters) - **Thailand will sell up to 50 billion baht ($1.55 billion) of government savings bonds from May 14 to finance economic measures aimed at mitigating the impact of the coronavirus outbreak, the finance ministry said on Friday.**
The so-called 'Thailand stays strong' bonds with five and ten-year maturities will carry an average coupon of 2.4% and 3.0% per year, respectively, the ministry said in a statement.
The bonds are part of a government plan to borrow 1 trillion baht for economic steps.

($1 = 32.27 baht)
(Reporting by Kittiphong Thaichareon and Orathai Sriring; Editing by Shri Navaratnam)
((orathai.sriring@thomsonreuters.com; +662 0802309))

EUROPE

Czech Republic

S&P Says Czech Republic 'AA-/A-1+' Foreign Currency and 'Aa/A-1+' Local Currency Ratings Affirmed; Outlook Stable

02-May-2020
May 1 (Reuters) - S&P:
- **S&P says Czech Republic 'AA-/A-1+' foreign currency and 'AA/A-1+' local currency ratings affirmed; outlook stable**
- S&P says stable outlook on Czech Republic reflects anticipation of limited permanent negative impact on economy & public finances over next 2 years

((Reuters.Briefs@thomsonreuters.com))

Georgia

IMF disburses $200 mln to Georgia to fight coronavirus

02-May-2020
TBILISI, May 2 (Reuters) - **The International Monetary Fund (IMF) said on Saturday it would disburse a $200 million loan tranche to Georgia to help the ex-Soviet country meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.**
The Fund said its executive board had approved increased extra financing for Georgia to about $448 million.
"The pandemic is expected to have a significant impact on Georgia's economy, interrupting the positive economic trajectory of past years," the IMF said in a statement.
"The IMF financial support will make a substantial contribution toward fulfilling the needed increases in health spending and social safety nets."
The IMF said last month it expected Georgia's gross domestic product (GDP) to decline by 4% in 2020. But it sees a recovery in growth at 4% in 2021, supported by an end to containment measures and pickup in trading partners' growth, Selim Cakir, the fund's resident representative in Georgia, told Reuters.
The South Caucasus country of 3.7 million had reported 582 coronavirus cases as of Saturday and eight deaths.

(Reporting by Margarita Antidze; Editing by Andrew

Cawthorne)
((margarita.antidze@thomsonreuters.com; +995322999370; Reuters Messaging: margarita.antidze.thomsonreuters.com@reuters.net))

Hungary

Hungary plans wider budget deficit to tackle recession this year

05-May-2020

BUDAPEST, May 5 (Reuters) - **Hungary's government has raised its budget deficit goal to 3.8% of economic output this year from 2.7% previously as the country tries to mitigate the economic fallout from the coronavirus pandemic.**

The crisis has sent the Hungarian economy, which grew by a robust 4.9% last year, from a chronic labour shortage into rising unemployment and has forced right-wing Prime Minister Viktor Orban to abandon his long-held principle of keeping the deficit below a 3% EU-mandated ceiling.

"The deficit, considering the fiscal impacts from the crisis management and recovery measures and the temporary recession in 2020, will remain at a relatively low level, and is expected at 3.8% of GDP this year," it said.

In an updated convergence programme published on the European Commission's official website on Tuesday, the government outlined a baseline scenario of a 3% drop in output this year, although analysts had projected a 4.1% recession in a Reuters poll last month.

It expects the economy to rebound in 2021 and grow by 4.8%, and the budget deficit to narrow to 2.7%. The unemployment rate is expected to rise to 5.6% this year from 3.4% last year.

The government said its projections were based on the assumption that the pandemic is curbed in the second quarter across Europe and from the third quarter output can recover gradually.

"However, there is a risk that ....the recovery will start later," it said.

One of two government risk scenarios projects that the pandemic will be curbed only in the third quarter and economic recovery will start in the last quarter. In that case, the economy could shrink by 5.6%.

If the recovery starts only in 2021, then the recession could reach 7.3% this year, worse than after the 2008 financial crisis.

(Reporting by Krisztina Than; editing by Philippa Fletcher)
((krisztina.than@thomsonreuters.com))

The crisis caused by the epidemic has overwritten previous economic outlooks

05-May-2020

'The primary goal of Hungarian economic policy is to protect the economic results achieved so far, and to regain the momentum of economic growth', it states in the Convergence Programme submitted to the European Commission by the Ministry of Finance. The document calculates with 3 percent economic recession and a target budget deficit of 3.8 percent for this year, with economic performance possibly increasing to 4.8 percent next year.

In contrast to this year, when the document centred on economic growth in excess of the European Union average and falling sovereign debt, at the focus of this year's document lies the economic crisis caused by the coronavirus epidemic.

In view of the fact that handing the direct and indirect economic consequences of the coronavirus crisis requires an increased role on the part of the treasury, the budget deficit will exceed the original target for this year; it is expected to be 3.8 percent, falling to 1 percent by the end of the programme period.

The document forecasts a 3.0 percent reduction in GDP this year, but in 2021 growth could reach 4.8 percent, and GDP growth of over 4 percent is expected between 2022 and 2024. Following a slowdown in the falling trend of the sovereign debt to GDP ratio this year, the tendency is expected to return in 2021, and in 2024 the debt rate could fall below the 60 percent benchmark value.

Hungarian economic policy remains committed to the convergency process, which the government wishes to achieve via the improvement of competitiveness, the continuation of tax cuts, and responsible fiscal management.

Thanks to the economic policy of recent years, in March the virus met with a resistant economy that had a balanced structure, and accordingly the rebooting of the Hungarian economy may also be successfully assisted by the economy protection measures.

Hungary posts April budget surplus, healthcare spending rises

08-May-2020

BUDAPEST, May 8 (Reuters) - **Hungary's state budget posted a 104.5 billion forints ($323.94 million) surplus in April due to the inflow of funds worth 249.8 billion forints from the European Union for projects, the Finance Ministry said in a statement on Friday.**

The ministry said the accumulated deficit in the first four months was 727.4 billion forints. In this period, expenses related to EU-funded projects were close to 842 billion forints, while disbursements from the EU totalled 313.2 billion. By the end of April, Hungary spent close to 400 billion forints on purchasing ventilators, masks and other healthcare equipment related to the coronavirus pandemic.
Earlier this week, Hungary's government raised its budget deficit goal to 3.8% of economic output this year from 2.7% previously as the country tries to mitigate the economic fallout from the pandemic.

($1 = 322.5900 forints)
(Reporting by Krisztina Than)
((gergely.szakacs@reuters.com; https://twitter.com/szakacsg; +36 1 882 3606; https://www.reuters.com/journalists/gergely-szakacs))

Moldova

Moldova court says 200 mln euro loan from Russia violates law

07-May-2020
CHISINAU, May 7 (Reuters) - **The Moldovan constitutional court on Thursday forbade the government from taking a 200 million euro ($216 million) loan from Russia, saying the loan agreement violated the law.**
The government's attempts to secure the loan have sparked a political row in the tiny Eastern European country ahead of a presidential election expected later this year.
The government hoped the 10-year loan could partially cover this year's state budget deficit as Moldova is seeking external financing to support its economy during the turbulence caused by the coronavirus pandemic.
Sergiu Sirbu, a lawmaker from the opposition pro-European group Pro-Moldova, had petitioned the court to block the loan, after objecting to some of its conditions.
Squeezed between European Union member Romania and non-EU Ukraine, Moldovan politics tend to divide between those who favour closer ties with the West and those who seek a strong alliance with Moscow.
President Igor Dodon, who has pushed for closer relations with Russia, called the court's decision a "strong blow to the millions of Moldovans who were expecting help from this money."
The opposition says Russia's motivation in providing the loan is to support Dodon, who plans to run for a second term.
Opposition parties also say the loan agreement threatens Moldova's national security, in particular a clause that gives Russia the right to demand from Moldova the repayment of loans issued to Moldovan companies by Russian banks.

($1 = 0.9232 euros)
(Reporting by Alexander Tanas; Writing by Matthias Williams; Editing by Peter Cooney)
((matthias.williams@thomsonreuters.com))

Montenegro

S&P Says Montenegro Outlook Revised To Negative on Rising Economic and Fiscal Risks from Covid-19 Pandemic

02-May-2020
May 1 (Reuters) - S&P:
- **S&P says Montenegro outlook revised to negative on rising economic and fiscal risks from covid-19 pandemic; affirmed at 'B+/B'**
- S&P says expect covid-19 pandemic to send Montenegro's tourism-dependent economy into a deep recession in 2020
- S&P says revising outlook on Montenegro to negative from stable

((Reuters.Briefs@thomsonreuters.com))

Romania

Romania adds 6-month bill tender to May debt issuance plans

06-May-2020
BUCHAREST, May 6 (Reuters) - **Romania's finance ministry scheduled an additional tender for 450 million lei ($100.93 million) worth of six-month treasury bills on May 7 to its existing domestic debt issuance plans for May, it said on Wednesday.**
The ministry now aims to sell domestic debt worth 4.52 billion lei in May, including 465 million lei at non-competitive tenders, data showed. Debt managers sold 5.67 billion lei worth of debt in April.
So far this year, Romania has sold roughly 24.3 billion lei of local currency bills and bonds as well as 150 million euros worth of euro-denominated paper, and tapped foreign markets for 3 billion euros worth of 2032 and 2050 Eurobonds.

($1 = 4.4584 lei)
(Reporting by Luiza Ilie)
((luiza.ilie@thomsonreuters.com; +4021 527 0312; https://www.reuters.com/journalists/luiza-ilie))

Serbia

S&P Says Serbia Outlook Revised to Stable from Positive on Economic

Fallout Related to Covid-19

02-May-2020
May 1 (Reuters) - S&P:

- **S&P says Serbia outlook revised to stable from positive on economic fallout related to covid-19; 'BB+/B' ratings affirmed**
- S&P says project restrictions imposed on peoples' movements on account of coronavirus to cause Serbian economy to contract by 3.5% in 2020
- S&P says government's fiscal, debt metrics will deteriorate this year, as will near-term outlook for non-debt-creating investment inflows into Serbia
- S&P says Serbia's recovery will be tied to fortunes of its key trading partners by virtue of economy being more open than global financial crisis
- S&P says Serbia is entering the crisis with significantly lower imbalances than it faced a decade ago

((Reuters.Briefs@thomsonreuters.com))

Slovakia

Slovakia takes on rising funding needs with 4 bln euro bond issue

06-May-2020
By Jason Hovet
PRAGUE, May 6 (Reuters) - **Euro zone member Slovakia priced 4 billion euros ($4.3 billion)of new syndicated 5- and 12-year bonds on Wednesday as it tackles funding needs seen almost doubling this year to combat the economic fallout from the coronavirus outbreak.**
The country is likely on its way to a record budget deficit in 2020, officials have said, as the pandemic has led to a virtual lockdown of the central European nation and hammered the economy, much like the rest of the world.
With budget revenue being squeezed and spending rising to help hard-hit workers and firms, the crisis has upended government plans to narrow the deficit to 0.49% of GPD this year. The central bank has estimated it could balloon to 10.3%.
Debt agency ARDAL's Managing Director Daniel Bytcanek told Reuters funding needs this year could be up to 10 billion euros, above an original plan of 5.3 billion.
With Wednesday's debt issue, borrowing has climbed already this year to 9.7 billion euros, via syndicated deals, domestic bond auctions and the sale of short-term Treasury bills.
Katarina Muchova, an analyst at Slovenska Sporitelna, part of Austria's Erste Group Bank, said the latest syndicated sale would ease pressure.
"(This syndicated sale) puts the debt agency into a comfortable position, whereby a significant part of this year's financing needs has already been covered," she said.
The new bonds were priced at 65 basis points over mid-swaps for the 5-year tenor and 110 bps for the 12-year, both tightening from earlier guidance.
Order books soared to a combined 15 billion euros.
Slovakia, rated A2 by Moody's agency, had issued 3.3 billion in all of 2019 but has been forced to borrow quickly amid the novel coronavirus crisis and while investors soak up fresh borrowing around central Europe.
In April, Slovakia launched its first syndicated bond of the year with the sale of 1.5 billion euros of 10.5 year paper at 100 basis points above mid-swaps. It has also sold 1.35 billion euros worth of bonds on domestic markets so far this year.
To help financing this year, government officials have said the state wanted to use up to 4 billion euros of unspent European Union funds. Slovakia could also borrow up to 2 billion euros from the European Stability Mechanism (ESM).

($1 = 0.9246 euros)
(Reporting by Jason Hovet;
Editing by Alison Williams and Emelia Sithole-Matarise)
((jason.hovet@thomsonreuters.com; +420 234 721 613))

Fitch Downgrades Slovakia to 'A' Outlook Stable

08-May-2020
May 8 (Reuters) - Fitch Ratings:

- **Fitch downgrades Slovakia to 'A'; outlook stable**
- Fitch downgrades Slovakia to 'A' from 'A+'
- Fitch says external demand will be significantly weaker and restrictions on activity will depress domestic demand in Slovakia
- Fitch says forecasts that Slovakia's real GDP will shrink by 10% yoy in 2020, as Slovakia's open economy is hit by covid-19 pandemic
- Fitch says it assumes lockdown of economic activity will be progressively loosened from mid-May, Slovakia's economy will begin recovering from 2h20
- Fitch says weaker revenues and spending on Slovakia's economic support measures will cause a significant deterioration in fiscal metrics

((Reuters.Briefs@thomsonreuters.com))

Turkey

Turkey's Albayrak says in swap talks;

sees economic growth in 2020

04-May-2020
ISTANBUL, May 4 (Reuters) - **Turkey is holding talks with trade partners on reaching swap agreements to conduct trade in local currencies, Finance Minister Berat Albayrak was quoted as saying in Sabah newspaper on Monday, adding he expected the economy to grow this year.**
He also said the central bank's reserves were adequate to meet Turkey's short-term forex liquidity needs, despite a recent drawdown in the buffer. The coronavirus pandemic meanwhile is tipping the economy into a sharp downturn.
"We think that economic growth will return to a normal trend in the final quarter and that we will complete the year with a positive growth performance," Albayrak was quoted as saying.
He said that Turkey was holding talks with G20 countries and that it was discussing swap deals to conduct trade in local currency with all countries with which it has free trade agreements.
"We will take decisive steps within one or two months on the issues of import measures and trade in local currencies with countries with which we have deficits," he said.
He also said that the government was preparing an action plan to prevent 2020 being a "lost year" for the country's key tourism sector.

(Reporting by Daren Butler; Editing by Jonathan Spicer)
((daren.butler@tr.com; +90-212-350 7053; Reuters Messaging: daren.butler.thomsonreuters.com@reuters.net))

Ukraine

Ukraine wants to finish talks with IMF next week

07-May-2020
KIEV, May 7 (Reuters) - **Ukrainian Finance Ministry said on Thursday the government planned to complete talks with the International Monetary Fund about a new loan next week.**
The IMF said today earlier that it had shifted its discussions with Ukraine to providing an 18-month Standby Arrangement instead of a more conditional three-year Extended Fund Facility to allow the government more room to respond to the coronavirus pandemic in the near term.
The size of the program for the respective periods remains unchanged, the ministry said in a statement without further details.

(Reporting by Natalia Zinets)
((Natasha.Zinets1@thomsonreuters.com))

IMF shifts Ukraine talks to standby arrangement to address pandemic

07-May-2020
WASHINGTON, May 7 (Reuters) - **The International Monetary Fund said on Thursday it has shifted its discussions with Ukraine to providing an 18-month Standby Arrangement to allow the government more room to respond to the coronavirus pandemic in the near term.**
IMF spokesman Gerry Rice told a regular news briefing that at the start of 2020, the Fund and Ukraine had been discussing a more conditional three-year Extended Fund Facility.
But he said they were now discussing the 18-month Standby Arrangement because of "the unprecedented uncertainty surrounding the economic and financial outlook, and the need to focus policy priorities on near-term containment and stabilization."
In December, Ukraine and the IMF agreed provisionally on a $5.5 billion Extended Fund Facility loan deal, but disbursement was contingent on Ukraine passing banking and land reforms and more anti-corruption measures. IMF Managing Director Kristalina Georgieva said in March that those talks had been progressing well, but the pandemic was increasing uncertainty.
The IMF's Standby Arrangements are less conditional and allow more flexibility for countries dealing with economic crises. Rice said such an arrangement can provide balance of payments support to reinforce Ukrainian authorities' response to the coronavirus economic crisis.
"When a recovery is in place, the focus could shift back to addressing Ukraine's longer-term structural reform needs to foster stronger and more inclusive growth," Rice said.

(Reporting by David Lawder; Editing by Kevin Liffey and Andrea Ricci)
((David.Lawder@tr.com; +1 202 354 5854; Reuters Messaging: david.lawder.thomsonreuters.com@reuters.net))

Ukraine discussing $5 bln deal with IMF for 2020-21

08-May-2020
KIEV, May 8 (Reuters) - **Ukrainian Finance Minister Serhiy Marchenko said on Friday Ukraine hoped to receive $5 billion of International Monetary Fund assistance in 2020-21 under a new programme.**
The IMF has shifted its discussions with Ukraine to providing an 18-month Standby Arrangement instead of a more conditional three-year Extended Fund Facility to allow the government more room to respond to the coronavirus pandemic in the near term.
"The size of the aid for the years 2020-21, which

is being discussed, is $5 billion," Marchenko said at a televised meeting of the parliament financial committee. Ukraine hopes to finalise talks next week.

(Reporting by Natalia Zinets; Editing by Matthias Williams and Alison Williams)
((Natasha.Zinets1@thomsonreuters.com))

LATIN AMERICA AND CARIBBEAN

Argentina

Argentina in standoff with bondholders as $65 bln debt deadline nears

04-May-2020
By Marc Jones, Karin Strohecker and Adam Jourdan
LONDON/BUENOS AIRES, May 4 (Reuters) - **Argentina's government and its biggest bondholders are at loggerheads over plans to restructure $65 billion in foreign debt, with little sign of either side budging in last-ditch talks to strike a deal.**
Three major creditor groups on Monday reiterated their stance that they would reject a tough offer the government made last month. The offer's deadline is Friday and the government has hardened its position it cannot afford to sweeten the deal.
The negotiations, which have hammered Argentine bonds, will determine whether the country is able to avoid slipping into what would be its ninth default, damaging access to global markets as it struggles to escape from a painful recession.
Argentina's offer included a three-year halt on payments on the bonds, a 62% reduction in coupon payments and maturities pushed back to 2030 and beyond.
The bondholders, who have previously rebuffed the proposal, said they would not tender their bonds in the current offer. It involves "disproportionate losses that are neither justified or necessary" for creditors, the bondholder committees said in a statement.
In an online seminar, one of the three committees, the Exchange Bondholder Group holding nearly $4 billion of the bonds, also urged investors to reject the current deal.
"Any holder who takes this deal risks being part of a stillborn transaction," said Pijus Virketis of HBK Investments, adding that Argentina's government had been "close-handed" with information during the negotiation process.
Argentina's economy ministry said it was disappointed with the position of creditor groups, but added that "much can change in the course of a week".
"We are hopeful that our creditors will recognize that, especially in the wake of the COVID-19 crisis, Argentina cannot afford to pay more," the ministry said in a statement.
"If bondholders have a different approach that would still meet those constraints, they should come forward with a specific proposal. We are always willing to listen and try to find common ground," the statement said.
Argentine bonds, which are already trading at distressed levels between 20-35 cents, fell an average 3% on Monday.
The standoff is raising the risk Argentina will fall into a sovereign debt default on May 22, when the grace period on a $500 million missed interest payment runs out.
NO MORE ILLUSIONS
Economy Minister Martin Guzman wrote in an opinion piece in the Financial Times on Sunday that Argentina cannot afford to pay creditors more, especially with the coronavirus now devastating exports and fiscal revenues.
He noted the country had "defaulted on its debt eight times, suffered hyperinflation twice, and gone through multiple balance of payments crises as well as 20 IMF-supported economic programmes in 60 years."
"In the new COVID-19 world, we cannot continue to spend 20% of government revenues or more on debt payments — as some creditors have effectively asked. It is simply impossible," Guzman said, adding "the time for illusions is over."
The current offer leaves creditors with an average bond coupon of 2.3%, compared with their 7% average now. Analysts have calculated the net present value - a key metric for creditors - at around 30-35 cents on the dollar.
One of the three main bondholder groups currently formed includes AllianceBernstein, Amundi, Ashmore, BlackRock, BlueBay, Fidelity and T. Rowe Price.
Another, the Argentina Creditor Committee, includes distressed debt specialist Greylock Capital, as well as mutual funds, family offices, insurance firms and asset managers. The Exchange Bondholder Group has hedge funds HBK, Monarch Alternative Capital and Pharo Management among its members.

(Reporting by Marc Jones and Karin Strohecker in London and Adam Jourdan in Buenos Aires; additonal reporting by Cassandra Garrison and Rodrigo Campos; editing by Larry King, Dan Grebler and Tom Brown)
((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Argentina's $65 bln debt revamp has 'proven difficult'

05-May-2020
By Hugh Bronstein
BUENOS AIRES, May 5 (Reuters) - **Argentina's**

efforts to convince bondholders to accept a $65 billion debt restructuring proposal are proving tough work, the country's economy minister told Reuters, but said he had no plans to extend a Friday deadline for a deal.
Argentina is at loggerheads with its creditors over its proposal to impose large reductions on coupons, a three-year payment hiatus and push back maturities into the next decade.
Bondholders have until Friday to respond to the proposal, though three major creditor groups have already rejected the offer, clashing with Argentina's government, which says it cannot afford to pay anything more.
"We are still working to get both sides closer. ... It has proven difficult," Martin Guzman, the economy minister, told Reuters at his offices in downtown Buenos Aires on Monday afternoon.
"We are not planning to change the deadline," he added, without saying if that stance might be altered nearer the date.
The current proposal includes a three-year suspension of payments and would leave creditors with an average coupon of 2.3%, compared with their 7% average now. It amounts to a steep 62% cut to interest payments.
On Monday three creditor groups panned the deal, saying it imposed on creditors "disproportionate losses that are neither justified nor necessary."
Argentina's Economy Ministry said it was disappointed by the position taken by the bondholder groups, though indicated it was open to counter proposals if they aligned with the country's analysis of what debt levels would be sustainable.
Guzman said Argentina had had "positive engagement with some creditors over the last few days."
"Others have decided not to engage and not to accept our invitations to meet," he added. "Some creditors are already expressing their conformity with the offer and there is time to agree on a sustainable resolution with the rest of our creditors."
Argentine will be flexible to a degree as long as the restructuring respects constraints imposed by the government's debt sustainability analysis and a separate report from the International Monetary Fund, Guzman said.
He added that talks have been constructive with the International Monetary Fund over a new deal to replace a $57 billion facility agreed in 2018. The country is in talks with the Paris Club of country-to-country lenders, though will miss a $2.1 billion payment due on Tuesday.
"We are in negotiations to reschedule the Paris Club debt. We are not paying tomorrow," Guzman said. "The Paris Club has been receptive and the process for rescheduling the debt is ongoing."
The last time Argentina had a major default, in 2001-02, it punctuated a financial crisis that pushed millions of middle-class Argentines into poverty and kicked off more than a decade of acrimonious lawsuits by bondholders in U.S. federal courts.
The current crisis is being aggravated by the global coronavirus pandemic, which is punishing even the world's strongest economies. Argentina was in recession before the health crisis hit.

(Reporting by Hugh Bronstein; Editing by Adam Jourdan and Leslie Adler)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Argentine bonds edge up as deadline looms to strike deal with creditors

05-May-2020
By Cassandra Garrison
BUENOS AIRES, May 5 (Reuters) - **Argentine bonds edged up on Tuesday, with the country locked in a $65 billion game of chicken with creditors as a deadline for bondholders to accept a tough debt restructuring proposal looms at the end of the week.**
Bondholders have until Friday to respond to Argentina's proposal to impose large reductions on coupons, a three-year payment hiatus and push back maturities into the next decade.
It is part of a broader sovereign debt restructuring with creditors, including the International Monetary Fund and Paris Club of country-to-country lenders, as Argentina struggles to keep up with payments.
If the government fails to gain enough support for its deal, it could risk a painful default, with a grace period to pay around $500 million of interest on three separate dollar bonds due on May 22.
The prospect of securing an agreement by the Friday deadline has darkened after a trio of major creditor groups rejected the offer, and Economy Minister Martin Guzman acknowledged that reaching a consensus had "proven difficult."
"Argentine authorities are now gearing up for the economic aftermath with increasing foreign exchange controls to mitigate the shock," Amherst Pierpont said in a client note.
"The hard default could eventually complicate IMF negotiations with lending into arrears requiring good faith efforts to negotiate with bondholders."
It was not, however, out of the question, despite the government's tough talk, that last-minute negotiations could take place before the May 22 due payment, analysts said.
"The strategy in the following two weeks could be to seek to improve the offer," said Gustavo Ber, an economist at local firm Estudio Ber, who pegged May 22 as the real deadline.
"It is not though known if there will be modifications and whether they will be enough to avoid entering default."
Argentina's economy ministry responded to creditors' criticism of its proposal on Tuesday, saying in a statement the government had always looked to maintain "a transparent, good

faith and constructive dialogue with creditors."
It added the government had rejected a counter-proposal from bondholders on April 11 because it was incompatible with its macroeconomic framework. Argentina urged creditors on Monday to come forward with specific "common-sense" proposals.
If creditors remain obtuse to Argentina's economic outlook, worsened by the coronavirus pandemic, and refuse to accept the proposals, they could end up on the losing side as emerging markets buckle under financial distress, according to economist Jeffrey Sachs.
"The creditors would be foolish to turn the exchange down," Sachs said.
"The government cannot pay and will not sacrifice its people to pay interest rates that are astronomical. Nor will it agree now on terms that will simply lead to a future default."
Buenos Aires province is locked in parallel talks with its own creditors to revamp around $7 billion in foreign debt.
"The proposed exchange offer does not reflect (the province's) reasonable payment capacity and, as such, does not present a path towards a consensual resolution," the creditors group said in a statement on Tuesday, reiterating previous objections from bondholders.
"Regrettably, (the province) chose not to engage with the group and launched the current unilateral proposal," the statement said.

(Reporting by Cassandra Garrison and Walter Bianchi, additional reporting by Marc Jones and Rodrigo Campos; Editing by Tom Brown and David Gregorio)
((Cassandra.Garrison@thomsonreuters.com; +54 11 5830 7443))

Argentina clinches $4 bln coronavirus loan from Development Bank of Latin America

06-May-2020
By Walter Bianchi
BUENOS AIRES, May 5 (Reuters) - **The Development Bank of Latin America (CAF) will loan Argentina $4 billion to help finance projects to combat the growing economic impact of the coronavirus, the bank and the government said on Tuesday.**
The financing will be disbursed over four years, Argentina´s president Alberto Fernández and the head of CAF, Luis Carranza Ugarte, said in a statement following a video conference.
The bank expects to invest $900 million in Argentina in 2020, and aimed to fast-track infrastructure projects in the South American nation in the coming months, according to the statement.
Confirmed cases of the novel coronavirus topped 5,000 in Argentina on Tuesday, the government said, but remain far below the level of large neighboring countries Chile, Brazil and Peru.
Argentina has managed to stall the rise in new cases with a strict nationwide lockdown that allows people in major cities outside only for essential labor, emergencies or to buy groceries and other household necessities.
But the lockdown has hit the South American country's economy hard, with the government now eyeing a 6.5% economic contraction this year.

(Reporting by Walter Bianchi, writing by Dave Sherwood
Editing by Sonya Hepinstall)
((dave.sherwood@thomsonreuters.com; +56 9 9138 1047, +56 2 2370 4224; Reuters Messaging: dave.sherwood.thomsonreuters.com@reuters.net))

IMF hopeful Argentina can restore debt sustainability

07-May-2020
NEW YORK, May 7 (Reuters) - **The International Monetary Fund is hopeful that Argentina can reach a debt agreement with a large number of creditors that will restore sustainability to its debt, a spokesman said on Thursday.**
Gerry Rice, director of the communications department at the IMF, said in a scheduled press conference the Fund is "hopeful that an agreement with high creditor participation can be reached that restores that sustainability with high probability."
Rice added that Argentina's negotiations with private creditors, which have a self-imposed deadline on Friday, are a bilateral matter and as standard practice the Fund is not involved.

(Reporting by Rodrigo Campos
Editing by Chizu Nomiyama)
((rodrigo.campos@reuters.com; @rodrigocampos; +1.646.223.6344; Reuters Messaging: rodrigo.campos.thomsonreuters.com@reuters.net))

Argentina's $65 bln debt deadline hits as officials push further talks

08-May-2020
By Hugh Bronstein
BUENOS AIRES, May 8 (Reuters) - **Argentina will keep pushing for talks with creditors even as a deadline for its $65 billion debt restructuring proposal passed on Friday with little sign it had the support needed from international bondholders to unlock a comprehensive deal.**
Economy Minister Martin Guzman told Reuters on Friday that Argentina "remains open to dialogue" and that it would reassess its position after the deadline, which expired at 6 p.m. (2100 GMT) in Buenos Aires.
Argentina faces a race to restructure what it says is an "unsustainable" debt pile and avoid slipping into a ninth sovereign default that would revive memories of an acrimonious decade-long

standoff with creditors after a default in 2001-02.
"We will assess the situation after the offer expires today and we will continue working to achieve the goal of restoring debt sustainability to put the county back on its feet," Guzman said in messages sent to Reuters.
If creditors have ideas that suit them better while respecting the constraints that Argentina faces, then "we are ready to listen", Guzman added.
"Any combination of interest or principal reduction, grace period, and extension of maturities that is aligned with the debt sustainability analyses of Argentina's government and the IMF will be considered."
Major bondholder groups have balked at Argentina's proposal to impose big cuts in coupon payments, allow a three-year payment hiatus, and push back maturities into the next decade. The offer was unveiled in the middle of last month.
"There clearly needs to be some upfront cash flow relief but this doesn't necessarily rationalize three years of no payments," Siobhan Morden, head of Latin America fixed income strategy at Amherst Pierpont Securities, said in a note.
Guzman indicated to local media that the country would announce the next steps in the process on Saturday.
UNCERTAIN OUTCOME
The bond revamp is part of a broad restructuring with creditors, including major backer the International Monetary Fund and the Paris Club of country-to-country lenders.
The government says its ability to pay creditors is extremely limited as Argentina was already in recession before going into lockdown due to the coronavirus pandemic on March 20. Since then the economy has shriveled.
"The market is pessimistic about the chances of a deal being reached today," said Gabriel Zelpo, director of Buenos Aires economic consultancy Seido.
On both sides of the talks, officials and creditors indicated there was unlikely to be a quick resolution, but there was hope a deal could eventually be struck.
"There's still time for these negotiations that are ongoing," IMF Managing Director Kristalina Georgieva said on Friday, adding it appeared Argentina recognized "it is important to find a pathway to resolve their debt crisis."
Oxford Economics said that the current offer was likely to be rejected, raising the risk of non-payment. "Yet, we expect negotiations to continue and a disorderly default to be avoided as the government remains open to counterproposals," it said.
Argentine country risk as measured by JP Morgan's Emerging Markets Bond Index Plus was virtually unchanged when the market opened on Friday, at 3,318 basis points over safe-haven U.S. Treasury bonds.
The country's bonds have edged up in recent days, but are still at distressed levels between 20-35 cents on the dollar.

(Reporting by Hugh Bronstein, additional reporting by Rodrigo Campos in New York; Editing by Grant McCool and Rosalba O'Brien)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Brazil

Brazil eyes new fiscal measures if crisis lasts extra 4 months

04-May-2020
BRASILIA, May 4 (Reuters) - **Brazil will have to consider drawing up a new set of emergency fiscal measures if the crisis sparked by the coronavirus pandemic lasts for another four months, economic policy secretary Adolfo Sachsida said on Monday.**
Speaking in a live online event hosted by Eleven Financial, Sachsida also warned that unemployment will rise sharply, but said Brazilian industry should look to take advantage of the real's fall to a record low against the dollar.

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

Fitch lowers Brazil outlook to 'negative' as crisis deepens

06-May-2020
By Jamie McGeever
BRASILIA, May 5 (Reuters) - **Fitch Ratings on Tuesday lowered its outlook on Brazil's credit rating to negative from stable, the latest indication of the severe economic and financial damage being wrought on Latin America's largest economy by the coronavirus pandemic.**
Maintaining its "junk-status" BB-minus sovereign credit rating, Fitch said Brazil's economy is on course to shrink 4% this year with risks still tilted to the downside, and noted a rapidly deteriorating fiscal position and growing political risks.
"Brazil entered the current period of stress with a relatively weak fiscal balance sheet and low economic growth. The pandemic and the related recession will further increase public indebtedness, eroding fiscal flexibility and increasing vulnerability to shocks," Fitch said in a news release.
The outlook downgrade comes amid a raft of downward revisions to 2020 gross domestic product growth forecasts and increasingly weak economic indicators.
Fitch's -4% GDP forecast is in line with

consensus, according to the central bank's latest "FOCUS" survey of economists, but a growing number of forecasters, including the World Bank and International Monetary Fund, are going for -5% or more.
Figures on Tuesday showed that industrial production in Brazil plunged by 9.1% in March, taking the level of output back to where it was 17 years ago. The sector is now 24% smaller than its peak in May 2011.
Fitch expects the government's general budget deficit, including interest payments, to widen to 13% of GDP this year, almost double the median 6.8% of GDP for countries with a "BB" credit rating.
Similarly, it expects Brazil's overall debt-to-GDP ratio to hit 79.4% this year, up from 75.8% last year and considerably higher than the current median of 58.4% across countries with a "BB" rating.
"Given the high uncertainty of the pandemic's duration, additional fiscal measures ... cannot be ruled out," Fitch said, adding that "challenges could arise with new spending initiatives to stimulate the economy post-crisis or an extension of the existing measures, especially in the context of limited flexibility to cut discretionary spending."

(Reporting by Jamie McGeever; Editing by Sandra Maler and Leslie Adler)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Brazil/Mexico

Brazil, Mexico set for double-digit GDP contractions in Q2 this year

05-May-2020
By Jamie McGeever
BRASILIA, May 5 (Reuters) - **The economies of Brazil and Mexico are set to contract by at least 10 percentage points in the second quarter this year, economists at Capital Economics said on Tuesday, in what are among the most gloomy forecasts yet for Latin America's two most powerful economies.**
In a research note titled "Brazil and Mexico set for double-digit contractions", they said the increasingly devastating economic impact of coronavirus and social isolation measures to combat it will spur the unprecedented fall in output.
The economies of Brazil and Mexico are expected to contract by 10% and 14%, respectively, in the second quarter on a year-on-year basis, Capital Economics economist Quinn Markwith told Reuters.
For calendar year 2020 as a whole, Brazil's gross domestic product is on course to shrink 5.5% and Mexico's 8.0%, he said.
Minutes of the Mexican central bank's latest policy meeting released on Tuesday showed that further interest rate cuts to shore up the creaking economy are likely, while Brazil's central bank is expected to cut its key lending rate to a new low of 3.25% on Wednesday.

(Reporting by Jamie McGeever; Editing by Sandra Maler and Marguerita Choy)
((jamie.mcgeever@thomsonreuters.com; +55 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Colombia

Colombia widens 2020 deficit limit to 6.1% of GDP due to coronavirus

05-May-2020
BOGOTA, May 4 (Reuters) - **Colombia's Fiscal Rule Advisory Committee has again widened the government deficit limit for 2020, to 6.1% of gross domestic product, so the government has more space to meet the fiscal needs created by the coronavirus pandemic, it said on Monday.**
In April the committee approved widening the GDP deficit limit to 4.9%, from 2.2%, in a move that would allow the government to take on more debt. But the government now expects the economy to contract by 5.5% this year, greater than previously forecast, necessitating a further extension of the GDP deficit limit, the committee said.
At the time of the last meeting, Colombia's economy was expected to contract by 1.5% to 2% during the course of 2020 due to the impact of measures taken to halt the spread of COVID-19, the disease caused by the coronavirus.
"The deterioration of the fiscal balance compared to 2019 is due to both the extraordinary spending needs derived from the health and economic emergency, and to the significant reduction in projected tax collection," the committee said in a statement.
The fiscal rule, put in place in 2011, is designed to block deterioration in public finances and is seen as key for Colombia to maintain investor confidence.
The government of President Ivan Duque has earmarked billions of dollars in extra welfare payments, helping independent workers and shoring up businesses in a bid to stem job cuts and economic losses.
The country is under a nationwide quarantine until May 11. The Andean country has reported just under 8,000 cases of the disease, which has led to 358 deaths.
Recently, Fitch Ratings lowered Colombia's credit rating to BBB-minus from BBB, while Standard and Poor's revised its outlook on the country to negative from stable.
As a whole, economic output in Latin America is

set to contract 5.2%, according to the International Monetary Fund.

(Reporting by Oliver Griffin and Nelson Bocanegra; Editing by Sandra Maler and Leslie Adler)
((Oliver.Griffin@thomsonreuters.com; +57 304-583-8931))

Colombia's economy to contract up to 7% in 2020

05-May-2020
By Nelson Bocanegra
BOGOTA, May 5 (Reuters) - **Colombia's economy will contract between 2% and 7% this year, due to the impact on productivity of a coronavirus quarantine and the shock caused by falling oil prices, the central bank's technical team predicted.**
In the second quarter alone, the country's gross domestic product (GDP) will fall between 10% to 15% on a year-on-year basis, in comparison to the 2% growth likely seen in the first quarter, the bank said in its monetary policy report released late on Monday.
The bank said its projections are subject to numerous uncertainties, including the coronavirus infection rate and possible further fiscal and health measures that could affect economic activity. There have been no previous joint economic shocks similar to the current situation, it said.
"Parallel with the COVID-19 phenomenon, the country has had to confront a strong fall in the price of oil which ... is a second shock whose duration also is uncertain and equally should have negative consequences on growth via the dynamic of national income, investment and public spending," the report said, referring to the respiratory illness caused by the novel coronavirus.
President Ivan Duque has decreed a nearly two-month quarantine in the Andean country set to last until May 11. The shuttering of much of the economy led to a jump in urban unemployment to 13.4% in March.
On Monday, Colombia's finance ministry projected an economic contraction of 5.5% for this year, a revision from its previous estimate of a contraction of 1.5% to 2%.
In response, the Fiscal Rule Advisory Committee late on Monday widened the government deficit limit for 2020 to 6.1% of GDP.
The country's inflation measure will end 2020 at between 1% and 3% and reach the long-term target of 3% at the close of 2021, the report said.
"Factors like the fall in confidence and in household incomes, in an environment of high unemployment probability, will keep demand depressed for a time ... which will limit the increase of prices in general," the bank said.
The technical team "foresees the need to significantly relax the monetary position," the report said, a signal further interest rate cuts may be on the horizon.
The bank cut its key interest rate by a total of 100 basis points at its March and April meetings, taking it to 3.25% in an effort to relieve pressure on borrowers. It has also announced some $7.5 billion in liquidity measures.
The current account deficit will be between 2% and 5% of GDP this year, the report said. The country had a deficit of 4.3% of GDP last year.

(Reporting by Nelson Bocanegra
Writing by Julia Symmes Cobb and Oliver Griffin
Editing by Chizu Nomiyama and Paul Simao)
((julia.cobb@thomsonreuters.com; +57-316-389-7187))

Ecuador

Bondholders accept Ecuador's offer to delay Petroamazonas debt payment

05-May-2020
QUITO, May 4 (Reuters) - **Holders of bonds issued by Ecuadorean state-run oil company Petroamazonas accepted the country's offer to defer a $175 million principal payment as the country seeks to renegotiate its foreign debt, the finance ministry said on Monday.**
Ecuador, facing serious liquidity issues, is seeking to raise new resources and lessen its debt load to deal with one of the worst coronavirus outbreaks in Latin America, as a collapse in crude prices and rupture of its two main pipelines due to a landslide have devastated the oil-dependent economy.
The government proposed the deferral last week, resembling a similar deal reached earlier in April with the holders of some nine sovereign bonds that delayed around $811 million in payments through August, when the parties plan to begin a renegotiation.
In a statement, the finance ministry said the Petroamazonas deal meant the country would only have to pay $5.4 million in interest payments between May and December 2020, and that it would resume making principal payments in installments in January of next year.

(Reporting by Alexandra Valencia
Writing by Luc Cohen
Editing by Rosalba O'Brien)
((luc.cohen@thomsonreuters.com; +58 424 133 7696; Reuters Messaging: Twitter: https://twitter.com/cohenluc))

Dominican Republic

Fitch Revises Dominican Republic's Outlook to Negative from Stable

08-May-2020

May 8 (Reuters) - Fitch:
- **Fitch revises Dominican Republic's outlook to negative; affirms at 'BB-'**
- Fitch says it revises Dominican Republic's outlook to negative from stable
- Fitch says coronavirus led to a sharp fall in economic activity and exerted balance of payments pressures on Dominican Republic
- Fitch says prospects for renewed fiscal consolidation and policy reforms are uncertain in Dominican Republic given potential outcome of 2020 elections

((Reuters.Briefs@thomsonreuters.com))

Mexico

Moody's cuts Mexico 2020 GDP forecast to -7%

04-May-2020
MEXICO CITY, May 4 (Reuters) - **Credit rating agency Moody's Investors Services said on Monday that it had revised down its forecast for Mexico's economic performance in 2020 to a contraction in gross domestic product (GDP) of 7% from a contraction of 3.7% previously.**
"While the coronavirus outbreak represents a large and negative shock to the economy, weak medium-term economic growth prospects and substantial, ongoing support to Petroleos Mexicanos are the main challenges the sovereign faces," Moody's said.
The ratings agency rates the Mexican sovereign Baa1, with a negative outlook, signaling that another downgrade is likely. It forecast GDP to grow 2.2% in 2021.
However, it warned that Latin America's second-largest economy could contract more than anticipated and that the recovery from the novel coronavirus could also take longer.
"If the pandemic worsens, pressures to increase government spending would add to the deterioration of fiscal and debt dynamics," it said.

(Reporting by Sharay Angulo; Writing by Stefanie Eschenbacher
Editing by Marguerita Choy)
((Stefanie.Eschenbacher@thomsonreuters.com))

Mexico central bank says expected declines in global economy not seen since Great Depression

05-May-2020
MEXICO CITY, May 5 (Reuters) - **The economic shock from the coronavirus pandemic is already clearly visible in the Mexican economy and forecast declines in global economic activity are of a magnitude not seen since the Great Depression, Mexico's central bank minutes said on Tuesday.**
Most of the bank's board members said the economic shock is observable in consumer and business confidence, credit card spending, manufacturing orders, purchasing managers' indices, car sales, air and land transportation, and hotel occupancy and tourism flows.
The bank unveiled on April 21 around $31 billion in support for the financial system and cut borrowing costs in the country's most decisive move yet to help the economy weather the pandemic.

(Reporting by Anthony Esposito; Editing by Frank Jack Daniel)
((anthony.esposito@tr.com; +5255 5282 7140))

Peru

S&P Says Peru 'BBB+/A-2' Foreign Currency Ratings Affirmed; Outlook Remains Stable

05-May-2020
May 4 (Reuters) - S&P Global Ratings:
- **S&P says Peru 'BBB+/A-2' foreign currency ratings affirmed; outlook remains stable**
- S&P says Peru has sufficient fiscal headroom to manage pandemic, although anticipate global economic downturn will weigh on economic growth in 2020
- S&P says expect Peru's economy to contract about 3% this year before recovering by 4% in the following three years

(Reuters.Briefs@thomsonreuters.com)

Uruguay

Fitch Ratings: Coronavirus Shows Uruguay's Strong Institutions, but Weak Policy Ammunition

04-May-2020
Fitch Ratings-New York/London-May 04: **Uruguay's institutional strengths are supporting its efforts to navigate the coronavirus crisis, but it lacks scope for a more forceful fiscal and monetary response to contain the economic damage, Fitch Ratings says. Risks to already challenging debt dynamics have risen.**
Strong governance and social cohesion are evident in Uruguay's response. It has smoothly implemented measures to contain the virus and mitigate its economic impact, for example creating a Solidarity Fund to transparently channel emergency economic relief, partly funded by contributions from public employees and the agriculture sector.

Institutional strength and a developed welfare system could help Uruguay to contain the pandemic's economic damage relative to other Latin American sovereigns, as could better terms of trade (the cost of imported oil has fallen more than prices of agricultural exports).
However, Uruguay enters the crisis on a weak footing. Its institutional strength has been insufficient to arrest a deterioration in economic growth and rapid rise in public debt in recent years - trends reflected in the Negative Outlook on Uruguay's 'BBB-' sovereign rating.
GDP grew just 0.2% last year and contracted in 4Q19. This weakness persisted into 2020 pre-crisis, with unemployment rising to a 13-year high of 10.5% in February. We expect real GDP to contract by 3.3% in 2020 and rebound 3.6% next year, supported by construction of the UPM pulp mill.
Uruguay's weak fiscal position reduces room for forceful fiscal stimulus to support a swift economic recovery. The central government deficit rose to 5.1% of GDP in March (net of extraordinary revenue) before the crisis began. Fitch forecasts it will rise to 7% in 2020 due to revenue losses, automatic stabilizers, and discretionary measures worth 0.8% of GDP.
Financial buffers and long-dated debt allow Uruguay to finance this deficit without urgently tapping global capital markets. Its "pre-financing" cash buffer has fallen in recent years, but Uruguay has begun to activate USD2.2 billion in multilateral credit lines prudently arranged for emergencies. It has continued local market issuance, although this has become more costly, highlighting weaker monetary flexibility than peers where policy rate cuts have lowered borrowing costs.
Fitch projects that the general government debt will rise to 72% of GDP (well above the 50% 'BBB' median) this year from 62% in 2019 because of the wider deficit and weaker growth. Uruguay's debt ratio rose the most in the 'BBB' category in the five years through 2019, and its 2020 increase will again be among the largest in the category due to acute sensitivity to peso depreciation (the stock of foreign-currency debt is large) and the indexation of most peso-denominated debt to rising inflation.
While this jump in debt primarily reflects an unexpected shock, structural spending overruns continue to contribute as well, highlighting risks captured in the Negative Outlook. Our projected debt increase in 2020 would use up Uruguay's fiscal headroom at its current rating, and the coronavirus shock may pose a more lasting setback to debt stabilization. We estimate a 3pp-of-GDP improvement in the primary balance (from March's deficit of 2.1% to a 1% surplus) would stabilize debt. However, a slower economic recovery, or longer-lasting spending pressures stemming from the crisis may make a larger adjustment necessary to achieve this.
This scenario would provide a sterner test of the pledges of President Luis Lacalle Pou's government, which took office in March, for economic revitalisation and fiscal consolidation. It has moved quickly on these pledges, cutting administrative expenses and submitting a bill of microeconomic reforms. But stabilizing debt could require it to augment and accelerate fiscal consolidation plans, potentially via tax increases it previously had ruled out. This would amplify the policy trade-offs the government faces in its upcoming five-year budget.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com.
Additional information is available on www.fitchratings.com.

AFRICA

Egypt

Egypt sees growth slowing to 2% in 2020-21 if coronavirus continues to December

03-May-2020
CAIRO, May 3 (Reuters) - **Egypt was expecting growth of 3.5% in the fiscal year 2020-21 which starts in July, but growth could slow to 2% if the coronavirus crisis continues to December, Planning Minister Hala al-Saeed said in a statement on Sunday.**
The government had been targeting annual growth of 5.6% in the current fiscal year 2019-20, but was now looking at 4.2% due to the crisis, she added.

(Reporting by Ehab Farouk, writing by Mahmoud Mourad; Editing by Elaine Hardcastle) ((mahmoud.mourad@thomsonreuters.com))

Egypt's foreign reserves fall to $37.037 bln end-April

07-May-2020
CAIRO, May 7 (Reuters) - **Egypt's foreign reserves dropped by a further $3.07 billion in April as investors spooked by the coronavirus pulled cash from emerging markets, the central bank said on Thursday, a drain on funds that has pushed Egypt to seek help from the International Monetary Fund (IMF).**
Reserves fell to $37.037 billion at the end of April from $40.108 billion at the end of March after having fallen by $5.4 billion in March.
The net foreign assets of the country's banks plummeted by 162.12 billion Egyptian pounds ($10.33 billion) in March, according to central bank figures.
Egypt said on April 26 it was seeking IMF financial support in the form of a Rapid Financing Instrument (RFI) and its Stand-By Arrangement (SBA), both designed for countries

facing urgent or potential balance of payments problems.
The IMF's executive board is scheduled to consider both requests on Monday. Egypt can borrow as much as $2.78 billion under the RFI and about $4 billion per year under the SBA, according to analysts and information on the IMF website.
"Global markets at large remain under pressure due to the persistence of the COVID-19 pandemic which continues to drive portfolio flow reversals from emerging markets," the central bank said in a statement on Thursday.
Egypt drew on its foreign reserves in April to repay a Eurobond worth $1 billion and $600 million in other external obligations, as well as to cover the imports of strategic goods, the bank said.
Foreign investors in March sold the equivalent of 149.3 billion Egyptian pounds ($9.5 billion) of Egyptian pound treasury bills, more than half of their holdings, data published on Thursday on the central bank website showed.
Foreign currency inflows have been hurt by a virtual halt in tourism from mid-March, while remittances from workers outside of Egypt have also come under threat.
Tourism earned Egypt $13 billion and remittances $26.8 billion in 2019, according to central bank figures.

($1 = 15.7000 Egyptian pounds)
(Reporting by Nadine Awadalla, Writing by Patrick Werr, Editing by Gareth Jones and Chizu Nomiyama)
((Nadine.Awadalla@thomsonreuters.com))

Nigeria

Nigeria amending 2020 budget assuming oil at $20 per barrel

05-May-2020
LAGOS, May 5 (Reuters) - **Nigeria's government is amending its 2020 budget to assume an oil price of $20 per barrel, Finance Minister Zainab Ahmed said on Tuesday in a web conference about the impact of low oil prices on Africa's top crude exporter.**
In March she said the budget would be cut and the initial assumed oil price of $57 per barrel would be reduced. Ahmed on Tuesday also said Nigerian oil and gas projects will be "delivered much later than originally planned" due to upstream budget cuts.

(Reporting by Libby George and Alexis Akwagyiram in Lagos, and Chijioke Ohuocha in Abuja;
Writing by Alexis Akwagyiram; Editing by Andrew Heavens)
((alexis.akwagyiram@thomsonreuters.com; +234 8188 779 319; Reuters Messaging: alexis.akwagyiram.thomsonreuters.com@reuters.net / Twitter: https://twitter.com/alexisak))

Nigeria in talks to defer debt service obligations to "2021 and beyond"

05-May-2020
LAGOS, May 5 (Reuters) - **Nigeria is in talks to defer debt service obligations to "2021 and beyond", Finance Minister Zainab Ahmed said in a web conference on Tuesday.**
"It's not debt forgiveness, it's just rescheduling of our obligations," said Ahmed, with regards to talks with lenders. She did not provide details of the lenders with whom talks were held. She said Nigeria was spending around 58% to 60% of revenues to service debt, which was responsible for the request.

(Reporting by Libby George and Alexis Akwagyiram in Lagos, and Chijioke Ohuocha in Abuja; Writing by Alexis Akwagyiram; Editing by Alex Richardson)
((alexis.akwagyiram@thomsonreuters.com; +234 8188 779 319; Reuters Messaging: alexis.akwagyiram.thomsonreuters.com@reuters.net / Twitter: https://twitter.com/alexisak))

South Africa

South Africa deputy finance minister urges central bank to print money to fund gov't

04-May-2020
JOHANNESBURG, May 4 (Reuters) - **South Africa's finance deputy minister was quoted in a leading newspaper on Sunday as urging the central bank to temporarily create money to fund the government response to the COVID-19 pandemic and its economic fallout.**
In an interview with the Sunday Times, David Masondo called on the government to avert a 1930s-style depression by getting the central bank to buy government bonds directly to fund the country's deficit during the coronavirus crisis.
"Such bonds must be once-off special bonds with earned proceeds, and should be treated as a temporary measure with a clear exit plan," he was quoted by the paper as saying.
"Such money from the SARB (South African Reserve Bank) must be used for immediate COVID-19 health-related interventions and ... economic recovery measures," he added.
Central bank spokeswoman Thoraya Pandy said the SARB "does not comment on fiscal policy".
"We will continue to deploy our tools or instruments, as appropriate and in accordance with our mandate, to support the South African economy," she added in an emailed response.
President Cyril Ramaphosa last month announced a record 500 billion rand ($26.3 billion) rescue package equalling 10% of the GDP of Africa's most industrialized nation, to cushion the economic blow of the coronavirus pandemic. Since then debate has stirred as to

how it is to be funded.
Ramaphosa has approached the IMF and World Bank, a sensitive issue in a government that has generally been hostile to the so-called Washington consensus.
Masondo is a former youth leader of South Africa's Communist Party, but since Ramaphosa appointed him a year ago he has been a strong advocate of tough economic reforms, including clamping down on excessive government spending.
In an unprecedented move in March, the bank central did begin a programme of buying back government bonds from the secondary market to inject liquidity and prevent lending from seizing up.
But the idea of the central bank purchasing government debt directly to fund the deficit would most likely cross a red line for Finance Minister Tito Mboweni, a fiscal conservative who believes in central bank independence.
The government would also be keen to avoid a situation like neighbour Zimbabwe, whose runaway money-printing to pay its bills triggered massive hyperinflation a decade ago.

(Reporting by Tim Cocks
Additional reporting by Alexander Winning
Editing by Frances Kerry and Toby Chopra)
((tim.cocks@thomsonreuters.com))

South Africa's revenue shortfall to reach $15 billion due to coronavirus

05-May-2020
CAPE TOWN, May 5 (Reuters) **- South Africa's tax revenue losses due to the coronavirus impact and credit ratings downgrades could amount to as much as 285 billion rand ($15.5 billion) in the current fiscal year, the commissioner of the revenue services said on Tuesday.**
"Whilst it is early days, revenue losses could be anywhere between peaking at between 15 and 20 percent lower and that translates into a revenue loss of up to 285 billion (rand)," commissioner Edward Kieswetter told a parliamentary briefing.

($1 = 18.4082 rand)
(Reporting by Wendell Roelf; Writing by Mfuneko Toyana; Editing by Alex Richardson)
((mfuneko.toyana@thomsonreuters.com; +27117753153; Reuters Messaging: mfuneko.toyana.thomsonreuters.com@reuters.net))

Zimbabwe

Zimbabwe pleads with foreign lenders to prevent coronavirus "catastrophe"

04-May-2020
By MacDonald Dzirutwe
HARARE, May 4 (Reuters) - **Zimbabwe is headed for a health and economic catastrophe from the coronavirus pandemic because its debt arrears mean it cannot access foreign lenders, the finance minister warned in a letter to the IMF.**
Mthuli Ncube said in the letter dated April 2 and seen by Reuters on Monday that Zimbabwe needed to start talks and normalise ties with foreign creditors to clear its decades-old arrears and unblock urgently-needed funding.
"The Zimbabwean authorities propose a high-level dialogue on mitigating the economic and social downfall from the COVID-19 pandemic through transformative arrears clearance ... short of which the country will suffer a health and economic catastrophe," Ncube said in the letter.
It was sent to the IMF and copied to the World Bank, African Development Bank, European Investment Bank and the chair of the Paris Club of sovereign creditors.
The IMF declined to comment on the leaked letter. An official in the agency, who declined to be identified, confirmed the letter had been received.
Lenders like the International Monetary Fund and World Bank stopped lending to Zimbabwe in 1999 after the country defaulted on its debt repayments.
That has led the government to resort to domestic borrowing and money-printing to finance the budget deficit, pushing inflation to 676.39% in March year-on-year, one of the highest in the world.
Before the coronavirus outbreak, Zimbabwe was grappling with its worst economic crisis in a decade, marked by shortages of foreign exchange, medicines and electricity as frustration over President Emmerson Mnangagwa's government grows.
Zimbabwe has reported just 34 coronavirus cases and four deaths. Yet the economic effects of its lockdown have been ruinous. More than half of Zimbabwe's 15 million people already needed food aid after a drought in 2019, according to the government and aid agencies, which shrank the economy by 6%.
The president last week promised a $720 million stimulus package for distressed companies, but did not say where the money would come from.
"Cumulatively, Zimbabwe's economy could contract by between 15% and 20% during 2019 and 2020. This is a massive contraction with very serious social consequences," Ncube said in the letter.
Ncube and his spokesman did not respond to questions from Reuters. Treasury officials did not immediately respond to a request for comment.
The minister said in return for external support, Zimbabwe would undertake political and economic reforms.
But the government made similar promises under an IMF staff monitoring programme, which the fund said in February was off track

owing to a lack of progress on reforms such as failure to scrap non-discretionary subsidies to farmers and gold miners.
"Zimbabwe desperately needs international support," Ncube said, adding that the pandemic could lead to loss of lives and "raise poverty to levels not seen in recent times".

(Editing by Tim Cocks and Nick Macfie)
((tim.cocks@thomsonreuters.com))

Zimbabwe gets $7 million World Bank grant to fight coronavirus

06-May-2020
HARARE, May 6 (Reuters) - **The World Bank will grant $7 million to Zimbabwe to help it fight the new coronavirus pandemic that is expected to worsen an already struggling economy and food crisis, a bank spokesman said on Wednesday.**
Zimbabwe's finance minister wrote to global lenders last month warning that the country was being driven towards a health and economic catastrophe by the coronavirus because its debt arrears mean it cannot access foreign financing.
That is because the country is more than $1.2 billion in arrears to the World Bank, African Development Bank and European Investment Bank, making it ineligible for funding or debt forgiveness from global lenders.
The World Bank spokesman said that while Zimbabwe and other countries indebted to the lender could not access regular financing, they could get money from its trust funds to fight the coronavirus that has slowed down the global economy.
"We recognise this is a global crisis that impacts every country and we cannot leave anyone behind in our response," the spokesman said.
Zimbabwe would get $5 million from the World Bank's global financing facility trust and another $2 million would be diverted from funds meant to help the country recover from a devastating cyclone in 2019.
The amount is nowhere near the $200 million that Finance Minister Mthuli Ncube said the country would need to fight COVID-19 in his letter to international lenders.
The World Bank did not immediately say whether its grant was in response to the financial request by Zimbabwe.
A Zimbabwe treasury spokesman did not respond to questions from Reuters.
"The bank's senior management has underlined the need for additional trust fund financing to ensure that Zimbabwe and the small group of other countries in arrears can receive support as part of our global effort to help countries respond to the COVID-19 crisis," the World Bank spokesman said.
The impoverished southern African nation has only recorded 34 cases and four deaths from the coronavirus but analysts say its fragile health system will not be able to handle any surge in infections.
Before the coronavirus outbreak, Zimbabwe was already in the grips of its worst economic crisis in a decade, marked by severe shortages of food, foreign exchange, medicines and electricity.

(Reporting by MacDonald Dzirutwe
Editing by Mark Heinrich and Ken Ferris)
((macdonald.dzirutwe@thomsonreuters.com; +263 4 799 112; Reuters Messaging:
macdonald.dzirutwe.thomsonreuters.com@reuters.net
))

GLOBAL

Now is the time for public investment projects, IMF says

06-May-2020
WASHINGTON, May 6 (Reuters) - **Countries around the world should use the novel coronavirus pandemic as an opportunity to invest in public infrastructure and other projects that take advantage of low interest rates, the International Monetary Fund said in a report on Wednesday.**
Countries should also strengthen their unemployment benefits and social safety nets in order to reinvigorate economic growth once the virus abates, the global lender said in its semi-annual Fiscal Monitor.
"The COVID-19 pandemic of 2020 has strengthened the case for fiscal policy action and heightened its urgency," the IMF said, referring to the respiratory disease caused by the virus that has been confirmed in more than 3.6 million people around the world.
"Low-for-long interest rates present an opportunity for quality public investment across the world to boost growth."
Last month, the IMF forecast the global economy would shrink 3.0% during 2020 as a result of the pandemic, but warned that its forecasts were marked by "extreme uncertainty" and that outcomes could be far worse.
In outlining ways the countries should handle downturns and times of weaker economic growth more generally, the IMF said it was imperative to invest in health systems, infrastructure, low-carbon technologies, education and research to improve productivity growth, which has been on a mostly downward trend.
Noting that a moderation of capital accumulation over the past decade had slowed economic growth, IMF economists said that modernizing aging infrastructure in advanced economies and addressing infrastructure needs and other sustainable development goals in developing countries were also crucial and should be prioritized now.
Lawmakers and central banks globally have taken unprecedented actions to try to mitigate

the fallout from the economic damage wreaked by the virus as a result of countries implementing strict lockdowns among large populations. Unemployment has shot up in many countries.
In the United States, Congress has already allocated almost $3 trillion to help businesses and individuals. Other assistance packages have been put together by governments around the world, but the emphasis has mostly been on the immediate need to get money into people's pockets, not on large-scale public investments.
IMF economists noted that such investment types of spending during previous downturns came too late and were not well targeted, adding they could have the effect of spurring private consumption and investment through higher inflation expectations and lower real interest rates.
"To reduce implementation lags and guide expectations, policymakers should act swiftly to establish a pipeline of appraised investment projects now that can be implemented when the health crisis abates, and plan discretionary measures that can be deployed quickly," the IMF said.

(Reporting by Lindsay Dunsmuir; Editing by Peter Cooney)
((Lindsay.Dunsmuir@thomsonreuters.com; +1 202 898 8411))

EMERGING MARKETS

Saudi minister urges private sector to ease poor nations' debt burden

03-May-2020
May 3 (Reuters) - **Saudi Arabia Finance Minister Mohammed al-Jadaan on Sunday urged private creditors to match a move by the G20 major economies to suspend debt payments for the world's poorest countries, freeing up funds to fight the coronavirus pandemic.**
Many private creditors have indicated that they are seriously considering debt suspension, said current G20 chair al-Jadaan, adding that such a move has to be voluntary and the G20 countries should avoid imposing anything on private investors.
"Just as the world rallied to support the financial services industry in 2008 and 2009, financial institutions and other private creditors should follow the G20's example and consider what assistance and support they can now provide to the most vulnerable in the world," al-Jadaan wrote in an opinion piece in the Financial Times.
The G20 economies agreed in April to suspend debt service payments for the world's poorest countries through to the end of the year.

(Reporting by Ismail Shakil in Bengaluru
Editing by David Goodman)
((ismail.shakil@tr.com; +91 8861175297; Tweet @ismail_s;))

IMF approved $18 bln in 50 requests for emergency pandemic aid

07-May-2020
WASHINGTON, May 7 (Reuters) - **The International Monetary Fund has approved requests for emergency pandemic aid from 50 of its 189 members for a total of about $18 billion and is continuing to work quickly through the remaining more than 50 requests, an IMF spokesman said on Thursday.**
The IMF's executive board was working through requests at record speed and would consider a request from Egypt for both emergency financing and a stand-by lending arrangement on May 11, spokesman Gerry Rice told reporters in an online briefing.
"It's an IMF moving at an unprecedented speed in an unprecedented way to meet this unprecedented challenge which we're all facing," he said, noting the Fund had also temporarily suspended payments on IMF debts for 25 of the poorest countries.
Rice did not name all the countries that have emergency requests pending. But replying to questions, he said the Fund's staff was considering requests from Sri Lanka, South Africa and Zambia. He did not provide the amounts they had requested.
The aid granted under the IMF's rapid financing initiatives comes without the usual conditionality, but the Fund is working to ensure transparency and prevent corruption by asking all recipient governments to commit to enhanced reporting of crisis-related spending and undertake audits, Rice said.
He said the funds were also subject to the IMF's safeguards assessment policy, under which a central bank's framework of governance reporting and controls must be deemed sufficient to manage resources, including IMF disbursements.
Rice said the Fund was also in discussions with Zimbabwe, which has cleared its arrears with the Fund but is not currently eligible for IMF assistance since it has arrears with other financial institutions and bilateral creditors, Rice said.
"Beyond the issue of arrears, consideration of any future request would require Zimbabwe to be ready to implement strong macro policies, and structural reforms," he said. "We do recognize the dire circumstances facing the people of Zimbabwe, and we're providing technical assistance right now."
An IMF team will begin discussions next week with Lebanon, another country that has run into debt sustainability issues, on the details of its economic reform plans, Rice said.
He said IMF Managing Director Kristalina Georgieva viewed Lebanon's plan as an

important step forward to address its economic challenges and identify key areas for reforms to restore external and public debt sustainability.
Rice said the IMF was also in talks with Argentina and Ukraine.

(Reporting by Andrea Shalal and David Lawder; Editing by Dan Grebler)
((andrea.shalal@tr.com; +1 202-815-7432))