### Emerging Sovereign Debt Markets NEWS

Number 9 Week 22 – 28 February 2020

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Follow us on Twitter @pdmnet and on our website www.publicdebtnet.org
Refinancing risks would rise for a growing number of issuers, says Fitch Ratings in a report published today.

Fitch Ratings’ Economics team has outlined a scenario in which the epidemic in China is not contained until well into 2Q20, which would slow China’s real GDP growth in 1Q20 to about 3% yoy. The subsequent recovery would also be delayed, but supported by policy easing, keeping annual growth above 5%.

The impact on Chinese growth could be stronger if the outbreak takes longer to bring under control, or if the disruption has lasting effects that drag on the subsequent recovery, although this falls outside of Fitch’s baseline expectations. For example, widespread business failures and job losses could mean it takes longer for the Chinese economy to recover. The impact on Chinese growth could be stronger if the outbreak takes longer to bring under control, or if the disruption has lasting effects that drag on the subsequent recovery, although this falls outside of Fitch’s baseline expectations.
longer for the economy to get back to its previous growth path, and may increase the risk that this short-term shock becomes more structural.

The authorities' policy response is a key sensitivity for China's sovereign and bank ratings. A substantial easing of credit policy could impede or delay government efforts to reduce risks in the financial sector. It could also increase the Chinese government's debt ratios and contingent liabilities which are already substantial.

Most businesses in China will be affected by the epidemic to varying degrees, both through the impact on their revenue and their ability to refinance. Operational and financial flexibility will be key to the ability to cope with the cash-flow challenges. Those with limited scope to cut costs sharply, that have significant upcoming debt maturities and that might face challenges accessing capital markets will be most vulnerable to refinancing risks if economic disruption drags on.

The report answers questions asked by investors during our webinar, "What Investors Want to Know: COVID-19 Impact on APAC Credits", on 13 February 2020, and is available at www.fitchratings.com or by clicking the link above.

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GCC Gulf Cooperation Council

Moody's Says GCC Insurers Biggest Challenges are Geopolitical Tensions and Intense Competition
26-Feb-2020
Feb 25 (Reuters) - Moody's:
• Moody's says GCC insurers biggest challenges are geopolitical tensions and intense competition
• Moody's says GCC insurers biggest challenges are geopolitical tensions and intense competition
• Moody's says insurance companies in most gulf cooperation council (GCC) countries will face moderate-to-high credit risk over the next 12 to 18 months

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Azerbaijan

Fitch Affirms Azerbaijan Mortgage and Credit Guarantee Fund at 'BB+'; Outlook Stable
26-Feb-2020
Fitch Ratings-Moscow-February 26:
Fitch Ratings has affirmed Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB+' with Stable Outlook.

The affirmation reflects Fitch's unchanged view on the fund's strong link with the Republic of Azerbaijan (BB+/Stable). Under its Government-Related Entities (GRE) Criteria, Fitch applies a top-down approach and views the government's ability and willingness to provide support to the fund as very high. Based on the assessment of strength of linkage and incentive to support Fitch has equalised the fund's IDRs with those of Azerbaijan irrespective of the standalone credit profile (SCP).

KEY RATING DRIVERS

STATUS, OWNERSHIP AND CONTROL ASSESSED AS VERY STRONG

The fund is a non-for-profit organisation, which is fully owned by the state. Its operations are tightly controlled by the central government through a trustee board, whose members are appointed by the President. The trustee board approves the fund's annual borrowings within the limits defined by the government. The fund cannot go bankrupt and can only be liquidated by presidential decree.

The state-initiated expansion of the fund's activity beyond mortgage operations to supporting small and medium-sized enterprises (SMEs) further enhanced the fund's strategic importance in implementing the state's socio-economic objectives.

SUPPORT TRACK RECORD ASSESSED AS VERY STRONG

Since its inception the fund has continuously received different kinds of support from the state. This includes annual capital injections, transfers from the state and central bank's buy-back guarantee on its bonds. The latter implies central bank's obligation to buy back the fund's bonds from bondholders on their request. The fund also enjoys indirect support, which includes low-cost funding, exemption from income tax starting from 2019 and use of profits gained from the operations at its disposal.

Fitch expects the fund will continue to benefit from ongoing state support over the medium term, given expansion of its activity both in its traditional segment of providing affordable housing and in new operations covering guarantees and subsidies on loans to SMEs. In 2019, the scale of support expanded, which was evident in AZN100 million of capital injections
(2015-2018: AZN50 million annually) to finance social mortgages and in further regulatory support of the fund's operations.

**SOCIO-POLITICAL IMPLICATIONS OF DEFAULT ASSESSED AS VERY STRONG**

Fitch views the fund as a strategically important entity in implementing the state's policy of providing affordable housing to the population. The fund is the only state entity that provides subsidised mortgages in the republic, and has no substitutes for provision of mortgages in a weak national banking sector. According to management's estimates, the fund's share in the country's real-estate loans to households in Azerbaijan currently comprises more than 70%. In 2018-2019, 100% of mortgage loans in the country were issued by the fund. Being a state agent in implementing the national housing policy, it channels low-cost funding to the mortgage market, thus making mortgage loans affordable to the population. It makes the fund dependent on regular access to financing. Therefore, potential financial distress of the fund, in our view, would materially impact its core operations, leading to negative socio-political repercussions.

**FINANCIAL IMPLICATIONS OF DEFAULT ASSESSED AS STRONG**

The fund is the third-largest participant of the domestic bond market after the Finance Ministry and the central bank. Thus, in our view, a default of the fund would materially impair confidence in the national financial system and undermine credibility of the central government. This is to some extent offset by the modest size of the Azerbaijani financial market with no exposure of the fund to external capital markets.

**OPERATIONAL PROFILE**

The fund plays a critical role in state housing policy by providing the republic's population with affordable housing through long-term mortgage loans at below-market rates. In 2018-2019, the fund worked on implementing a rent-to-own programme, which is aimed at buyers with insufficient funds for down-payment or those who are not eligible for a mortgage loan. The programme will be available to the public later in 2020. Although the fund is a non-for-profit organisation, it has been profitable since its establishment. Profitability metrics remained stable in 2017-2018: Fitch-calculated net interest income-to-earning assets was 2.44% (2015-2016: average 1.6%), while net operating income-to-total assets was close to 2% (2015-2016: average 1.04%). This is supported by low-cost funding, adequate quality of its mortgage portfolio and strict requirements set for SMEs loans with the fund’s guarantee. Management estimates a return on equity of 3.61% and a return on assets of 1.39% in 2019. The fund’s new role as a credit guarantee provider to local entrepreneurs could place a strain on the fund’s loss absorption capacity as the operating model has yet to be tested. These operations remained small in 2019 due to the new system being fine-tuned and stringent requirements set for borrowers, but management expects the fund’s role as a credit guarantee provider to expand over the medium-term.

**DERIVATION SUMMARY**

The fund has a score of 50 points under our GRE criteria, which irrespective of the fund's SCP, leads to the fund's rating equalisation with those of the Republic of Azerbaijan.

**RATING SENSITIVITIES**

A rating change would be triggered by changes to the sovereign ratings. A weakening of linkage with the government through changes to the fund's legal status leading to a dilution of public control or weakened incentives to support could result in the ratings being notched down from the sovereign ratings.

**ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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. Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan; Long Term Issuer Default Rating; Affirmed; BB++; RO:Sta; Local Currency Long Term Issuer Default Rating; Affirmed; BB++; RO:Sta

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**China**

Local govt' bonds worth 785 bln yuan issued in January

23-Feb-2020

BEIJING, Feb. 23 (Xinhua) -- China's local authorities raised a total of 785 billion yuan (about 112 billion U.S. dollars) through bond issuance in January, according to data from the Ministry of Finance.

The average issuance interest rate stood at 3.5 percent with duration period averaged at 13.9 years.

Outstanding local government debts amounted to roughly 22.09 trillion yuan at the end of last month, the data showed.

The issuing channels have become more diversified as China allowed local government bond issuances over the counter of commercial banks in March last year.

To further spur the economy, China has eased the restrictions on infrastructure construction financing, allowing local governments to use part of special-purpose bonds as project capital to...
JPMorgan inclusion adds shine to rising Chinese bonds

28-Feb-2020

HONG KONG, Feb 28 (Reuters) - Chinese government bonds were rallying their way into JP Morgan's widely-tracked indices on Friday, as expectations of falling interest rates coincided with the pre-scheduled inclusion.

After New York markets close, nine bonds with maturities of between five and 10 years will start a 10-month process of entering the Government Bond Index Emerging Markets (GBI-EM) suite, eventually giving China a 10% weighting in the flagship Global Diversified, which is tracked by $202 billion of funds.

That will draw $3 billion to China each month, according to analyst estimates. The inclusion "underscores growing interest in the world's second-largest bond market," Ming Leap, associate director for fixed income at HSBC Global Asset Management, said in a memo.

The market is particularly attractive to international investors "at a time when nearly a quarter of the global bond market is offering negative yields," he said.

The inclusion could lend momentum to foreign purchases of Chinese government bonds, which has slowed since the end of December, Janice Xue, rates strategist at Bank of America Merrill Lynch, wrote in a research report on Thursday.

Chinese bonds were already rallying before Friday as fears of the spreading coronavirus outbreak sent investors rushing to safe-haven assets.

Bond markets were cheered by China's rapid-fire measures to shore up investor confidence and keep businesses afloat as the epidemic hurt economic activity, which included steps to lower the costs of bank loans and bonds.

Yields on 10-year Chinese government bonds hit a fresh three-year low of 2.81% on Thursday, slumping 24 basis points over the past month.

"I am optimistic that yields can go lower still," said Edmund Goh, Asian fixed income investment director at Aberdeen Standard Investments in Shanghai, who increased Chinese government bond positions in his portfolio around the Lunar New Year in late January when coronavirus cases started to spike in China.

Karan Talwar, an emerging markets investment specialist at BNP Paribas Asset Management in Hong Kong, said investors required few incentives from the index publisher to tap Chinese bonds.

"The JPMorgan inclusion on its own is not going to move the $13 trillion market," he said. "$2.5 billion or $3 billion a month will not be a key factor in driving inflows."

The Bloomberg Barclays Global Aggregate Index, tracked by a larger pool of $2.5 trillion, was the first of the three major bond indexes to incorporate China last year.

FTSE Russell's World Government Bond Index left China out amid long-standing operational concerns last September, but the country remains on the watchlist for entry next month.

(Reporting by Noah Sin;
Editing by Vidiya Ranganathan, Jacqueline Wong, Kirsten Donovan)

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Hong Kong

Hong Kong to announce largest budget in a decade amid protests, coronavirus

26-Feb-2020

By Noah Sin and Sarah Wu

HONG KONG, Feb 26 (Reuters) - Hong Kong is expected to announce its largest budget deficit in at least a decade on Wednesday to cushion the shock of often-violent protests and the outbreak of a coronavirus on the recession-hit economy.

Carrie Lam, the Chinese-ruled city's leader, has already proposed measures worth HK$30 billion ($3.85 billion) to help small and medium-sized companies and low-income households cope with the health crisis.

Many companies in tourism and retailing are struggling to survive as a partial closure of the border reduces visitor arrivals to a trickle and keeps residents away from public areas.

Those measures came on top of other handouts totalling HK$35 billion announced in recent months to mitigate the impact of the protests, which saw activists and police clashing in shopping malls and in the financial district.

They were expected to push the 2019/20 budget into a deficit and ensure the gap widened in 2020/21, with more measures due to be announced on Wednesday. Hong Kong usually runs balanced budgets or surpluses, since its pegged currency system commits it to fiscal prudence.

Tommy Wu, senior economist at Oxford Economics, expects the fiscal deficit to be 1.2% of gross domestic product in 2019-20 and 2.6% of GDP in 2020-21.

"To pull the economy out of contraction, you need something that benefits everybody, like cash handouts, tax cuts," Wu said. "Pushing forward infrastructure spending that can be done sooner rather than later would also help."

ANZ analysts expect the government to propose a deficit of 4% of GDP for the coming year. Final GDP data later on Wednesday is expected...
to confirm the economy has shrunk for three quarters. Preliminary data showed the economy contracted by 0.4% in October-December from the previous quarter, versus a revised 3.0% contraction in July-September.

**On an annual basis, the economy shrank 2.9%, compared with a revised 2.8% fall in the third quarter. For all 2019, the economy contracted by 1.2%, its first annual decline since 2009.**

The first quarter of 2020, when Hong Kong recorded its first coronavirus patients, is expected to be significantly worse. Analysts predict the coronavirus will cut 1 or 2 percentage points off first-quarter growth and the contraction for 2020 may be worse than last year's, depending on the government stimulus. Carlos Casanova, economist for Asia Pacific at Coface, warned handouts are unlikely to boost consumption when residents aren't leaving their homes.

"One-offs and freebies are people pleasers ... they will not offer long-term benefits to growth," said Casanova, who changed his 2019/20 budget deficit forecast to 1.5% of GDP from 0.2% because of the coronavirus.

"We would rather see a continuation of targeted support for affected sectors, as well as better redistributive policies – social housing, healthcare, education – and value-added infrastructure investments," he said.

($1 = 7.7867 Hong Kong dollars)

(Writing by Marius Zaharia, editing by Larry King)

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**Fitch Ratings: Hong Kong Budget Sees Sustained Softening of Public Finances**

27-Feb-2020

The considerable weakening of Hong Kong's medium-term fiscal position - as outlined in the budget delivered on 26 February

- Is unlikely by itself to put downward pressure on the territory's rating, given its large fiscal reserve, says Fitch Ratings. However, our 'AA' rating on Hong Kong remains on Negative Outlook due to the possibility that lingering social instability amidst ongoing economic strains will further damage the attractiveness of the territory's business environment and perceptions of the effectiveness of its governance.

In his annual budget announcement, the Financial Secretary indicated the deficit would rise from an estimated 1.5% of GDP in the fiscal year ending in March 2020 (FY20) to 5.4% in FY21, a post (1997)-handover record. The budget contains one-off relief measures of HKD120 billion in FY21 (4.1% of GDP) to support the ailing economy, which Fitch expects will contract again this year. These include cash handouts for eligible permanent residents worth HKD71 billion (2.4% of GDP) and enterprise relief measures of HKD18.3 billion.

The fiscal support measures appear aimed at allaying both social discontent against the backdrop of recent anti-government protests and the economic fall-out of the novel coronavirus outbreak. The government expects the budget deficit will narrow to under 1% of GDP in subsequent years, but it does not currently project a return to surplus before FY26. This is a marked change from last year's budget, which had projected a steady surplus over a broadly similar period.

**Hong Kong has experienced previous periods of recurring deficits, such as during five out of the six fiscal years between FY99 and FY04.** Nevertheless, the government's projection of sustained budget deficits over the entirety of its five-year medium range forecast is noteworthy in the context of a Basic Law requirement that stipulates the territory should strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with its GDP growth rate. Without detailing specifics, the Financial Secretary did raise the possibility that the government may seek new revenue sources or revise tax rates. These are not yet reflected in the government's medium-term projections, but could potentially occur against the backdrop of an OECD proposal to establish a global minimal tax rate for multinational enterprises, which is relevant for Hong Kong in light of its relatively low corporate tax burden.

The government projects fiscal reserves at FYE25 will be equivalent to 26.5% of GDP. This would be down from an estimated 39.5% at FYE20, but still represents a considerable fiscal buffer in Fitch's view. The fiscal deficits projected in the budget are thus unlikely to pose a near-term vulnerability for Hong Kong's fiscal profile, although they could ultimately put pressure on the rating in the absence of off-setting revenue measures to neutralise the potential onset of structural deficits associated with the city's ageing population. Fitch downgraded Hong Kong's rating by one-notch to 'AA' in September 2019, based on our view that rising economic, financial and socio-political linkages with the mainland were consistent with a gradual narrowing of the rating differential between Hong Kong and mainland China (A+/Stable).

The Outlook remains Negative, consistent with our view that unresolved social cleavages linked to anti-government protests combined with the emergence of a second major economic shock from the novel coronavirus will further test the resilience of Hong Kong's business environment and international perceptions of its political stability, which may further erode its fundamental credit metrics. At the same time, there is still little evidence that Hong Kong's role as a global financial centre has been impaired; recent equity and debt financing trends have been in line with the territory's three-year average.
India

India Bonds Little Changed Amid Consolidation, State Debt Supply
25-Feb-2020
By Dharam Dhutia
NewsRise
MUMBAI (Feb 25) -- Indian government bonds ended largely steady amid consolidation after yesterday’s rally, while state debt supply further weighed on sentiment.

The benchmark 6.45% bond maturing in 2029 ended at 100.57 rupees, yielding 6.37%, in Mumbai against 100.58 rupees and 6.37% yield at close yesterday. The Indian rupee was at 71.88 to the dollar at 5:00 p.m. against 71.99 yesterday.

Trading volume was impacted today after India extended the deadline for submitting bids for today’s state bond sale to 3:00 p.m. instead of the usual 12:00 p.m., likely due to a technical glitch in the auction platform e-Kuber, traders said. Government bond trading was also extended to 6:30 p.m. local time, dealers said.

“We are expecting some range-bound moves in the coming sessions, considering there are no fresh triggers in the market,” said Yogesh Kalinge, vice president at A.K. Capital. “The benchmark yield should trade in the 6.30% to 6.40% band for the rest of the week, assuming coronavirus scare is contained hereon.”

Indian states raised 241.32 billion rupees via bonds today, against a targeted 226.32 billion rupees, which was the highest quantum in a year.

Bonds had rallied yesterday tracking a consistent fall in U.S. Treasury yields as well as crude oil prices amid fears that the coronavirus is heading beyond China.

The benchmark Brent crude contract was trading at $56.25 per barrel after falling nearly 4% yesterday, while the U.S. 10-year yield was at 1.3788% after falling to 1.3520% yesterday, which was its lowest since July 2016. India imports over 80% of its crude oil requirements. South Korea has reported 60 new cases of the coronavirus, taking the total to about 900. Italy also witnessed a jump in infections which has intensified fears of a pandemic. The death toll due to the virus stood at 2,663 in China as on yesterday, Reuters reported.

India’s current monetary policy framework, which adopted inflation targeting and price stability as key monetary policy objectives and is due for review in the months ahead, has succeeded in meeting its goals, a senior finance ministry official said.

“There is evidence that the framework that led to the setting up of Monetary Policy Committee to meet inflation target has been helpful in bringing down inflation,” the official, who did not wish to be identified, told NewsRise. “The MPC’s core objective is price stability and it has worked.”

The Monetary Policy Framework Agreement between the central bank and the government mandates that the Reserve Bank of India will maintain retail inflation at 4% with a tolerance range of two percentage points on either side of the target. It was operationalised in September 2016 and a target of 4% CPI inflation was set for RBI for the next five years.

India’s rate-setting MPC held interest rates steady for the second consecutive meeting in February, but said that the policy stance will be kept accommodative as long as needed to revive growth. Headline retail inflation rose to a near-six-year high of 7.59% in January from a year earlier. India’s gross domestic product growth data for October–December is due on Feb. 28. Barclays expects growth to recover to 5%.

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Indonesia

Indonesia announces nearly $750 mln stimulus in response to coronavirus
25-Feb-2020

- Basic needs subsidies, incentives for tourism part of package
- Outbreak in China could weaken 2020 GDP growth to 4.7% -finmin

By Maikel Jefriando and Gayatri Suroyo
JAKARTA, Feb 25 (Reuters) - Indonesia has prepared a stimulus package worth 10.3 trillion rupiah ($742.6 million) to protect its economy from the impact of the coronavirus outbreak in China, ministers said on Tuesday.

The announcement came less than a week after Indonesia’s central bank cut interest rates for a fifth time since May, while trimming its 2020 growth outlook over the virus epidemic.

Growth in Indonesia's economy had already slowed to 5.02% in 2019, its lowest in three years, amid a global slowdown. Finance Minister Sri Mulyani Indrawati warned the virus outbreak in China, Indonesia's top trade partner and a major source of investment and tourism, could further weaken growth to 4.7% in 2020, below the government's target of 5.3%.

The stimulus package that Indrawati laid out includes a 30% increase in subsidies for basic needs for 15.2 million poor households for six
months to support consumption. That measure would cost the government 4.6 trillion rupiah.

A state property financing programme would be expanded by 1.5 trillion rupiah and expected to cover financing for 175,000 homes. Airlines and travel agents will be given 443.4 billion rupiah to provide 30% discounts on air fares for some seats for three months. Another 298.5 billion rupiah will be used as an incentive to bring in foreign tourists to visit one of Indonesia's 10 most popular destinations. Restaurants and hotels will be exempted from some taxes paid to regional governments for six months, with the central government providing 3.3 trillion rupiah cover for the shortfall in regional budgets. The government will also convert 147 billion rupiah of fiscal transfers that had not been earmarked to programmes to support tourism. In addition, state energy company Pertamina and two state airport operators would be ordered to cut jet-fuel prices and airport charges for three months.

"We're going to focus on markets other than China, such as Australian and European tourists, for example, who spend a lot per arrival," said Tourism Minister Wishnutama Kusubandio, setting a target to get 736,000 tourists.

The coronavirus has killed more than 2,600 people in mainland China and infected more than 80,000 others. There have been more than 2,000 cases in 28 countries outside China, with more than 20 deaths. Indonesia has not had any confirmed infection cases. Hariyadi Sukamdani, chairman of Indonesia's Employers Association, said the virus outbreak has cut imports of major materials for many Indonesian factories and some foodstuffs, such as garlic, which could trigger increases in prices. At least 50,000 hotel bookings have also been cancelled, mostly by Chinese tourists, he said. "We depend quite a lot on China," Sukamdani said.

($1 = 13,870 rupiah)

(Reporting by Maikel Jefriando and Gayatri Suroyo, editing by Larry King)

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The rupiah dropped 2%, its steepest fall in more than eight years, benchmark 10-year bond prices suffered their steepest plunge in a year and the stock market fell to an almost three-year low. "It's a big wave out of the high yielders," said Stephen Innes, Asia-Pacific market strategist at AxiCorp. "We're just seeing a complete de-risking of every asset."

Years of low and falling interest rates around the globe had driven billions of dollars in foreign money into countries such as Indonesia and Mexico in search of higher yields. However, the resultant heavy presence of foreigners in Indonesia’s debt market and relatively low foreign exchange reserves have left it vulnerable as investors seek to reduce risk en masse.

The yield on benchmark 10-year bonds, which rises when prices fall, jumped 17 basis points to 6.887%. It has risen almost 30 basis points in two days. The currency has lost 5% against the dollar in little more than a week.

"Risk sentiment is fragile, and countries where risk premia was too low are more affected, with Indonesia being one of them," said Ashish Agrawal, head of FX and emerging markets' macro research for Asia at Barclays.

"This week prompted Bank Indonesia (BI) to intervene to stabilise yields and the currency. "Bond markets and especially FX could continue to face pressure as FX reserves are limited," Nomura analysts said in a note on Friday, which disclosed that the bank had, on Feb 20, closed a bet that the rupiah would rise against the dollar.

"Our decision to exit our position was driven by the deterioration of the global risk environment and concerns that BI (Bank Indonesia) would allow the rupiah to weaken," the note said.

The central bank often uses a domestic version of the non-deliverable forwards to influence the rupiah’s value. But analysts said the low auction volumes of such contracts only increased worries about BI’s ammunition.

It sold about $1.8 billion in forwards on Wednesday and Thursday, a drop in the ocean compared with the more than $70 billion of foreign holdings of rupiah bonds.

($1 = 14,200 rupiah)

(Reporting by Gayatri Suroyo and Fransiska Nangoy in Jakarta and Vidya Ranganathan and Tom Westbrook in Singapore; Editing by Christian Schmollinger and Emelia Sithole-Matarise)

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Kazakhstan

Kazakhstan seeks to enter Russian bond market with state securities in 2020

26-Feb-2020

The authorities of Kazakhstan plan to enter Russia's bond market with state securities this year, TASS reported with reference to the First Deputy Prime Minister and Finance Minister of Kazakhstan Alikhan Smailov. "This year we plan to enter the Russian bond market with at least $500 mln," he said, adding that on the Russian market "rates are cheaper, while the currency risk is minimum." The plan is to enter the Russian bond market “within a month or two,” Smailov clarified. "The issue is about Kazakhstan’s treasury bonds," he noted.

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Lebanon

S&P Says Lebanon Ratings Lowered To 'CC/C' On Expected Debt Restructuring Outlook Negative

22-Feb-2020

Feb 21 (Reuters) - S&P:

• S&P says Lebanon ratings lowered to 'CC/C' on expected debt restructuring; outlook negative

• S&P says lowering our ratings on Lebanon to 'CC/C' from 'CCC/C' and assigning a negative outlook

• S&P says Lebanon's negative outlook reflects that S&P could lower ratings if government signals that it will undertake distressed exchange offer

• S&P says Lebanon's negative outlook reflects that S&P could lower ratings if government misses next interest or principal payment

• S&P says on Lebanon negative outlook reflects risk to near-term debt repayment in context of ongoing political, financial, & monetary pressures

• S&P says lowering ratings because S&P believes restructuring/nonpayment of Lebanon's government debt is virtually certain, regardless of specific time to default

• S&P says deep sectarian divisions in Lebanon's political system and high regional security risks will continue to hamper policymaking, in S&P's view

• S&P says expect that Lebanon's social unrest will make it politically difficult to repay creditors in 2020

• S&P says expect that Lebanon's
contracting economy will make it politically difficult to repay creditors in 2020
• S&P says expect that Lebanon’s intensifying liquidity pressures in private sector will make it politically difficult to repay creditors in 2020
• S&P on Lebanon says expect external security risks will remain high

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Repayment difficulties put Lebanese investors in a risk frenzy
24-Feb-2020
Lebanon stood out with one of the biggest falls of all among the countries downgraded by risk analysts in Euromoney’s global risk survey last year.
The political and economic crisis saw it plunge a massive 25 places in the survey rankings between the third and fourth quarters, to 127th out of 174 countries, and fall in line with high-risk Mongolia, Nepal, Niger and Iraq.
All of Lebanon’s economic and political risk scores worsened by year-end, along with its capital access rating, as economic indicators flashed red, public protests ignited and chunky debt repayments loomed.
The downgrade occurred amid a spike in the credit default swap market, highlighting the elevated cost of insuring sovereign debt as Lebanese authorities pondered the repayment of $1.2 billion-worth of borrowings due in March.
Credit ratings similarly fell, with Standard & Poor’s lowering its ratings to CCC negative (from B-) in November, and Fitch from CCC to CC in December, though Moody’s Caa2 grade was kept under review.
Dilemma
In January, the markets took the view the new administration would take the appropriate course of action to improve the economy and win over the trust of creditors, citing the fact it contains several experts likely to value economic over political prerogatives.
Recent days have seen confidence increase as the government will at least honour the first of its debt repayments to international creditors, while possibly enforcing a swap (selective default) on domestic bondholders.
Yet maintaining investor confidence requires devising and, crucially, implementing a credible economic recovery programme, which carries huge risk.
Doing so is complicated by political challenges in a coalition led by Hassan Diab, the former education minister with a background in academia and engineering, but not in economics or public policymaking, who is notably backed by Hezbollah.
The influence of the Iran-backed military group is jeopardizing the support of Gulf partners, such as Saudi Arabia, amid threats also from the Trump administration it will slash aid if the government moves too close to Tehran.
And then there is the economic crisis to contend with, which is stark to say the least.
GDP growth has been crawling along at less than 1% per annum on average between 2014 and 2018.
Last year saw little growth, if any at all - most likely a contraction will be revealed - and a similar outcome is expected for 2020, given the electricity outages, reduced flows of government funding and limits on cash withdrawals, as intense pressure continues on the currency peg. The reliance on food, energy and other imports has created a persistently large and barely sustainable current-account deficit of around 25% of GDP.
Meanwhile, the fiscal deficit is expected to widen to 11.5% of GDP this year from an already large 9.8%: "2019, according to the IMF, with total debt climbing to 162% of GDP, and to 185% of GDP by the end of the forecast horizon in 2024, with external debt - including non-resident deposits - a staggering 219% of GDP.
In theory, the central bank has ample foreign currency reserves of more than $30 billion, providing adequate imports coverage of around 11 months, but the net position is much worse with a large shortfall of reserves to cover the central bank’s liabilities to commercial banks.
Pessimistic scenario
None of Euromoney’s Lebanese risk experts was prepared to comment publicly on the crisis, though Byblos Bank - a contributor to the risk survey - signalled that all aspects of Lebanon’s risk profile have worsened.
In a recent research note quoting analysis undertaken by the Institute for International Finance, it remarked: "The current government could fail to take the necessary actions to restore macroeconomic stability, given the track record of previous governments."
In this pessimistic scenario, with limited reforms, little access to international financing and the depreciation of the parallel exchange rate, GDP is seen declining in real terms by 9% this year and by a further 7.4% in 2021, with inflation rising to 35%, the fiscal deficit-to-GDP ratio remaining in double digits and FX reserves continually dwindling.
That worse case will hopefully fail to materialize, but the government has little time to get on with the changes required to restore confidence.
Although a default in March now seems less likely, there are more payments due in April and June, and the markets are still factoring in an increased risk of default, or restructuring of longer-dated bonds, with IMF support now crucial - and almost inevitable.
The drop in Lebanon’s rating in Euromoney’s risk survey means investors had been warned.

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Hezbollah says it opposes IMF management of Lebanon crisis

25-Feb-2020

BEIRUT/LONDON, Feb 25 (Reuters) - Hezbollah is against allowing the International Monetary Fund to manage Lebanon’s financial crisis, the powerful group said on Tuesday, indicating opposition to any IMF bailout that would impose tough conditions on the heavily indebted state.

Hezbollah, backed by Iran and designated as a terrorist group by the United States, is one of the main parties that backs the new Beirut government as it struggles with the unprecedented crisis.

Facing a huge public debt burden and a liquidity crunch, the government on Tuesday appointed international investment firm Lazard and law firm Cleary Gottlieb Steen & Hamilton LLP as its financial and legal advisers on a widely expected sovereign debt restructuring.

Beirut has sought IMF technical but not financial aid.

"We will not accept submitting to (imperialist) tools ... meaning we do not accept submitting to the International Monetary Fund to manage the crisis," said Hezbollah’s Sheikh Naim Qassem, deputy leader of the heavily armed Shi’ite group.

"Yes, there is nothing to prevent consultations ... and this is what the Lebanese government is doing."

An IMF technical team visited Beirut from Feb. 20-24. "The discussions on the challenges and the authorities’ plans to address them were very informative and productive," IMF spokesman Gerry Rice said.

"Staff is available to provide further technical advice to the government as it formulates its economic reform plans."

The crisis came to a head last year as capital inflows slowed and protests erupted against the ruling elite over corruption and bad governance - root causes of the crisis.

Banks are imposing tight restrictions on access to deposits and transfers. The Lebanese pound has slumped: dollars were being offered at 2,470 pounds on Tuesday, a dealer said. The official rate is 1,507.5.

"Hezbollah is very adamantly opposed to the IMF and that makes it very, very difficult and means Lebanon will have to get to a point where the situation is bad for longer," said Steffen Reichold, portfolio manager at Stone Harbor Investment Partners, which holds some Lebanese Eurobonds.

"That could mean the exchange rate getting to 3,000 and significantly more inflation."

French Finance Minister Bruno Le Maire said on Monday his government was looking at options to help Lebanon recover, including an IMF programme if Beirut seeks one.

Foreign states which have backed Lebanon in the past want to see implementation of long-delayed reforms before any assistance is forthcoming this time.

Some of Lebanon’s Eurobonds intensified their sell-off.

The government must urgently decide how to handle a $1.2 billion Eurobond maturing on March 9.

"It’s pretty likely they will go down the debt restructuring route and the question then becomes will the March 2020 bonds be brought in to that," said Nick Eisinger, principal, fixed income emerging markets, at Vanguard.

"I think the market will not be particularly happy that the IMF will not be coming on board with a financial programme as without that the recovery prospects and long-term recovery of the country are not good," he said.

(Reporting by Tom Perry, Ellen Francis, Laila Bassam and Samia Nakhoul in Beirut, Tom Arnold in London; Writing by Tom Perry, editing by Alex Richardson, William Maclean and Giles Elgood)

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Lebanon approves financial, legal advisers on debt restructuring

25-Feb-2020

BEIRUT, Feb 25 (Reuters) - Lebanon has given approval for U.S. investment bank Lazard to be its financial adviser on debt restructuring, a government source said on Tuesday, with the heavily indebted state facing a major financial crisis.

At a cabinet meeting on Tuesday, approval was also given for law firm Cleary Gottlieb Steen & Hamilton LLP to act as the government’s legal adviser, the source said.

Lazard’s recent restructuring work has included large retailers such as Neiman Marcus, which reached agreement last March to extend maturities on more than $2.5 billion of its debt, and Forever 21, which filed chapter 11 bankruptcy last September.

Lebanon is grappling with a choking financial crisis. A foreign currency liquidity crunch has forced banks to impose tight restrictions on access to hard currency and transfers abroad and the Lebanese pound has slumped.

One of Lebanon’s most influential leaders, parliament speaker Nabih Berri, said last week that debt restructuring was the best solution for looming Eurobond maturities, which include a $1.2 billion Eurobond due on March 9.

S&P last week lowered Lebanon’s sovereign rating on the expected debt restructuring. Moody’s also downgraded Lebanon, saying the rating reflected expectations that private creditors would likely incur substantial losses in any debt restructuring.

Fitch also said Lebanon’s financing position points to debt restructuring.

(Reporting by Samia Nakhoul; Writing by Tom Perry; Editing by Samia Nakhoul and Alex Richardson)
IMF calls Lebanon talks 'productive,' stands ready to give more advice
25-Feb-2020
WASHINGTON, Feb 25 (Reuters) - The International Monetary Fund said on Tuesday its staff held five days of "very informative and productive" talks with Lebanese authorities on their plans to deal with debt and economic challenges and stand ready to provide further technical advice.

In a statement issued after the Feb. 20-24 staff visit to Beirut, IMF spokesman Gerry Rice said the IMF team met with Prime Minister Hassan Diab as well as the country's deputy prime minister, central bank governor, finance minister, and other officials. The IMF statement made no mention of debt restructuring or the possibility of IMF financial assistance to Lebanon.

(Reporting by David Lawder)
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Lebanon pays $71 mln in Eurobond interest
26-Feb-2020
BEIRUT, Feb 26 (Reuters) - Lebanon on Wednesday paid $71 million in coupons due on Eurobonds maturing in 2025 and 2030, a source familiar with the matter said, a day after appointing legal and financial advisers for a widely expected debt restructuring.

Lebanon, grappling with an unprecedented financial crisis and a hard currency liquidity crunch, is under pressure to decide what to do about its looming sovereign debt maturities, the first of them a $1.2 billion Eurobond due on March 9.

The government on Tuesday appointed investment bank Lazard and law firm Cleary Gottlieb Steen & Hamilton LLP as its financial and legal advisers.

Lebanon is one of the world's most heavily indebted states with public debt equivalent to more than 150% of its GDP. Its long-brewing economic crisis came to a head last year as capital inflows slowed and protests erupted against the ruling elite.

(Reporting by Tom Perry; Editing by Hugh Lawson)
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Lebanon to take decision on Eurobonds next week
28-Feb-2020
BEIRUT, Feb 28 (Reuters) - Lebanon will take a decision on its Eurobonds -- including one maturing on March 9 -- in the coming week, information minister Manal Abdel Samad Najd said on Friday.

Heavily indebted Lebanon must decide whether to repay a $1.2 billion Eurobond due on March 9 amid a deep financial crisis and dollar crunch that has led to strict capital controls and raised concerns about a default among investors.

"In terms of the Eurobond maturities, we are continuing to study the options available in front of us and we have not yet taken any decision on this," said Najd.

"The coming week will be critical in terms of the decision before the March maturity date."

A government source said on Thursday that Lebanon would seek a seven-day grace period ahead of the March 9 maturity, a move financial sources said made it more likely the government would look to restructure the March bond.

Beirut this week appointed U.S. investment bank Lazard and law firm Cleary Gottlieb Steen & Hamilton LLP as its financial and legal advisers on the widely expected debt restructuring.

Najd said Prime Minister Hassan Diab, whose Hezbollah-backed government won a vote of confidence in parliament this month, would look to make his first trip to an Arab state during the second half of March, without specifying what country.

Lebanon has so far failed to win financial support from Western and Gulf Arab states who have made any help conditional on Beirut enacting economic reforms.

(Reporting by Eric Knecht and Dala Osseiran; Editing by Catherine Evans)
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Oman
Oman's new ruler aims to reduce country's debt
23-Feb-2020
DUBAI, Feb 23 (Reuters) - Oman's Sultan Haitham bin Tariq al-Said said on Sunday the government would work to reduce public debt and restructure public institutions and companies to bolster the economy.

Haitham, in his second public speech since assuming power in January, said the government would create a national framework to tackle unemployment while addressing strained public finances.

"We will direct our financial resources in the best
way that will guarantee reducing debt and increasing revenues," he said in the televised speech.
"We will also direct all government departments to adopt efficient governance that leads to a balanced, diversified and sustainable economy."
Rated junk by all three major credit rating agencies, Oman's debt to GDP ratio spiked to nearly 60% last year from around 15% in 2015, and could reach 70% by 2022, according to S&P Global Ratings.

The small oil producing country has relied heavily on debt to offset a widening deficit caused by lower crude prices. Also, the late Sultan Qaboos, who ruled Oman for nearly 50 years, held back on austerity measures that could cause unrest.

The country has delayed introducing a 5% value added tax from 2019 to 2021, and economic diversification has been slow, with oil and gas accounting for over 70% of government revenues.

Last week, rating agency Fitch said Oman was budgeting for a higher deficit of 8.7% for 2020 despite its expectation of further asset-sale proceeds and some spending cuts.
"We are willing to take the necessary measures to restructure the state's administrative system and its legislation," Haitham said in his first speech since the mourning period for Qaboos ended, without elaborating.

He said there would be a full review of government companies to improve their business performance and competence. Oman observers have said that if Haitham moves to decentralise power it would signal willingness to improve decision making. Like Qaboos, he holds the positions of finance minister and central bank chairman as well as premier, defence and foreign minister.

(Reporting by Ghaida Ghantous and Aziz El Yaakoubi, editing by Ghaida Ghantous and Jane Merriman)
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South Korea

S. Korea may consider supplementary budget to head off virus impact

24-Feb-2020

SEOUL, Feb 24 (Reuters) - South Korean President Moon Jae-in on Monday said the government should start reviewing whether a supplementary budget should be drawn up to head off the impact of the coronavirus outbreak on Asia's fourth-largest economy.
"In addition to swiftly deploying the emergency fund set aside, (the government) should review drafting up of a supplementary budget after coordinating it with the parliament," Moon said in a meeting with chief aides and medical experts.

(Reporting by Cynthia Kim; Editing by Christian Schmollinger)
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Thailand

Thai king signs delayed $100 bln budget into law

26-Feb-2020

• Budget bill has been delayed since Oct. 1
• Spending may not be fast - analyst
• 2020 growth seen weaker as virus outbreak hits tourism

By Orathai Sriring and Panarat Thepgumpanat
BANGKOK, Feb 26 (Reuters) - Thailand's King Maha Vajiralongkorn has signed into law a delayed $100 billion budget for the current fiscal year that aims to revive Southeast Asia's second-largest economy, according to the Royal Gazette.
The budget, delayed since the Oct. 1 start of the 2020 fiscal year, forecasts a rise of 7% in overall spending to 3.2 trillion baht ($101 billion), with a deficit of 469 billion baht.
The budget is much needed to shore up the economy which expanded just 2.4%, the slowest pace in five years, last year, due to declining exports and sluggish investment.
This year will likely be tougher as tourism is being hit by the coronavirus outbreak, which originated in China, Thailand's biggest source of foreign visitors.
Spending, however, may not be quick, analysts say.
"We think it is unlikely that expenditure disbursements will accelerate immediately, particularly for public sector capex as projects take time to kick off," said Charnon Boonnuch, economist of Nomura in Singapore.
"At the very least, overall fiscal spending should remain weak in Q1 and continue to weigh heavily on construction activity," he added.
He forecast growth of just 0.2% in the first quarter from a year earlier and a 0.6% contraction from the previous quarter.
Earlier this month, Finance Minister Uttama Savanayana said the government expected public investment spending of more than 80% of the total investment budget should be disbursed in this fiscal year that ends Sept. 30.

($1=31.76 baht)
(Reporting by Orathai Sriring and Panarat Thepgumpanat; Editing by Jacqueline Wong)
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United Arab Emirates

UAE economy grew at 2.9% in 2019, central bank says
23-Feb-2020
DUBAI, Feb 23 (Reuters) - The United Arab Emirates' economy grew at 2.9% year-on-year in 2019, up from 1.7% in 2018, a UAE central bank report said. The country’s hydrocarbon sector grew at 7.6% in 2019, while the non-hydrocarbon sector expanded by 1.1%, the bank report said. The central bank said the UAE economy grew 1.3% in the fourth quarter from a year earlier, slowing from a pace of 2.9% in the third quarter.

The International Monetary Fund expects the UAE economy to expand at 2.5% in 2020 as oil producers will be hit by output cuts following the decision by OPEC and non-OPEC producers in December to extend supply cuts. The UAE central bank report also said property prices in Dubai fell by 7.0% in the fourth quarter from a year earlier, compared with an 8.2% drop in the previous quarter.

"The Dubai market continues to exhibit decline in rent due mainly to excess supply," it said. Property group Knight Frank said in a report earlier this month that a total of 62,500 residential units are scheduled to be completed this year in Dubai, the biggest number of new units since 2008. For Abu Dhabi, the central bank said residential property prices fell 7.5% in the fourth quarter from a year earlier, moderating from a drop of 8.2% in the third quarter.

(Reporting by Nayera Abdallah and Saeed Azhar.
Writing by Nafisa Eltahir. Editing by Jane Merriman)

Abu Dhabi in talks with banks for debut loan of $2 billion
27-Feb-2020
By Davide Barbuscia
DUBAI, Feb 27 (Reuters) - The government of Abu Dhabi is in talks with banks for a $2 billion loan, two sources familiar with the discussions said, a move which would allow the oil-rich emirate to tap new liquidity pools in an era of low oil prices.

Abu Dhabi, the capital of the United Arab Emirates, sold its latest international bonds in September last year, raising $10 billion for budgetary purposes and garnering almost $20 billion in demand. It is now working on a "self-arranged loan", putting together commitments from banks for a potential $2 billion debt facility which, if finalised, would be the government’s first, the two sources familiar with the discussions said.

The Abu Dhabi Department of Finance declined to comment, a spokesman said. Rated AA by S&P and Fitch and Aa2 by Moody’s, Abu Dhabi has one of the world’s largest sovereign net foreign asset positions and low levels of debt, but its fiscal balance depends almost entirely on revenue from hydrocarbon royalties and taxes and dividends received from ADNOC, its national oil company.

Sources told Reuters earlier this month that the emirate had been in discussions with banks for potential issues in the debt markets this year as part of plans to engage global fixed income investors on a more regular basis.

Discussions with potential bond advisers were put on hold about two weeks ago, said one of the two sources and a third source familiar with the matter.

A fourth source said it would make sense for the emirate to tap different pools of liquidity after its latest $10 billion jumbo bond.

Governments in the Gulf region have resorted to large amounts of debt finance over the past few years to offset the impact of lower oil prices on their revenues.

After oil prices dropped in 2014 and 2015, Abu Dhabi reduced public spending and increased dividends from state-owned entities.

It had forecast a deficit of 27.2 billion dirhams ($7.41 billion) for 2019, according to its latest bond prospectus.

($1 = 3.6728 UAE dirham)
(Reporting by Davide Barbuscia; Editing by Kirsten Donovan)
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The Serb Republic is one of two autonomous entities that form Bosnia. The other one is the Federation.

(1 euro = 1.95583 marka)
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**Bulgaria**

**Bulgaria expects budget surplus of 1.2% of GDP in February**

28-Feb-2020

SOFIA, Feb 28 (Reuters) - Bulgaria expects to have a fiscal surplus equal to 1.2% of gross domestic product at the end of February, the finance ministry said on Friday.

The Sofia government, which has slowed its push to enter the euro zone's "waiting room" - a precursor to membership - until July, plans to run balanced budgets through 2023 after ending 2019 with a one-off fiscal shortfall of 1.0% of GDP.

The finance ministry expects the country's small economy to grow by 3.3% this year and maintain a similar growth rate over the next three years.

**Bulgaria's consolidated fiscal programme recorded a fiscal surplus of 877 million levs ($487 million) or 0.7% of GDP at the end of January, the ministry said in a statement.**

Government revenues were 3.7 billion levs in January, flat compared with the same period a year ago. Spending was 2.9 billion levs, up from 2.7 billion a year ago, mainly due to an increase of capital investment and public salaries, the finance ministry said.

Fiscal reserves, held under a currency regime pegging the lev to the euro, stood at 10.7 billion levs at the end of January.

($1 = 1.7992 levs)
(Reporting by Tsvetelia Tsvolova; Editing by Pravin Char)
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**Croatia**

**Croatia plans domestic, foreign bonds to refinance maturing debt**

25-Feb-2020

ZAGREB (Croatia), February 25 (SeeNews) - Croatia plans to issue short-term bonds on the domestic and on the international markets to refinance maturing debt, finance minister Zdravko Maric said.

The country will first sell debt on the domestic market to refinance two domestic bonds - one worth 1.0 billion euro ($1.1 billion) and the other удыш 5.0 billion kuna ($727 million/670 million euro), that mature on March 5, Maric said in a statement on the government's website on Monday.

"So, it is about a total value of some 12.5 billion kuna that we are going to refinance on the domestic market. The activities have been already in an advanced stage and in the next several days we will announce the agreed terms and other details of these transactions," Maric said.

**Right after, the ministry will prepare an international bond issue to refinance a $1.25 billion bond that matures on July 14, he added.**

Croatia last sold long-term debt in November, placing two bond issues of combined 11 billion kuna on the domestic market. One issue was worth 3.5 billion kuna and maturing in 2024, and the other totalled 7.5 billion kuna and maturing in 2034.

The 3.5 billion kuna bond was sold with a 0.25% interest rate, yielding 0.36%, while the 7.5 billion kuna bond (which is indexed to the euro) has a 1.00% interest rate, yielding 1.20%.

Back then, interested investors placed bids worth more than 23 billion kuna for the two new issues, with over 10 billion kuna offered for the five-year securities and more than 13 billion kuna for the 15-year bond.

(1 euro = 7.46274 kuna)
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**Croatia places 15 bln kuna (2.0 bln euro) of bonds in three tranches**

28-Feb-2020

ZAGREB (Croatia), February 28 (SeeNews) - Croatia has placed three tranches of government bonds worth a combined 15 billion kuna ($2.2 billion/ 2.0 billion euro), in order to repay debt that will mature next week, finance minister Zdravko Maric said.

The average achieved interest rate on the new debt is around 1.0%, Maric said in a statement on Wednesday when the bonds were placed.

In particular, Croatia placed a 5 billion kuna issue of five-year debt, yielding 0.38%, a 4 million kuna euro-indexed issue of 14-year debt with a 1.12% yield, and a maiden 20-year bond worth 800 million euro ($881 million), which is the country's longest maturity of issued debt so far, yielding 1.28%, Maric said.

On March 5, Croatia has to repay two domestic bonds issued in 2010 and worth 1.0 billion euro and 5.0 billion kuna, respectively, or an overall 12.5 billion kuna. The first bond was sold at 6.75% interest rate and the second at an interest rate of 6.50%, according to the statement.

(1 euro = 7.46288 kuna)
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Minister Maric announced the refinancing of two domestic bonds
28-Feb-2020
Deputy Prime Minister and Minister of Finance Zdravko Maric said today that two domestic bonds would be refinanced in the next few days, and that he held a meeting with financial investors in London to familiarize them with the next steps regarding the issue of bonds.

Minister Maric and Prime Minister Andrej Plenkovic attended an investment summit of the European Bank for Reconstruction and Development (EBRD) on the Western Balkans today. He seized the opportunity to hold a regular meeting with long-time financial investors in Croatian bonds.

"The purpose of today's meeting was first of all to give them new information on the Croatian economy and finances and the general state of the country and to announce our steps in the near future," Maric said. He recalled that on March 5, two domestic bonds - worth one billion euros and five billion kuna - are due.

"So this is a total value of about HRK 12.5 billion, which we will refinance in the domestic market. The activities are already in an advanced phase and in the next few days we will inform about the achieved conditions and other details of these transactions" said Maric.

Immediately after, the Ministry of Finance will prepare an international edition. "Step by step, from the selection process of the arranger to the rest, given that on July 14 the $ 1.25 billion bond is due," Maric announced. It is a bond that has been issued in nominal terms in dollars but has been converted into euros.

"As before, we always make preparations on time and look for the best possible moment, depending on financial conditions, in order to achieve the best mix of conditions, first of all in terms of price but also maturity," Maric concluded.

The Ministry of Finance last issued new bonds last November, totaling HRK 11 billion. One issue was realized on the domestic capital market, maturing in 2024, in the nominal amount of HRK 3.5 billion, and another, indexed to the movement of the kuna against the euro, maturing in 2034, in the nominal amount of HRK 7.5 billion.

The maturity bond issue of 2024 was realized with a yield of 0.36 percent and an annual interest rate of 0.25 percent, while the issue of a maturity bond of 2034 was realized with a yield of 1.20 percent and an annual interest rate of one percent.

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Hungary
Pension bonds to be launched shortly
25-Feb-2020
Pension bonds will be launched shortly, and the minimum tie-up period will be ten years, Finance Minister Mihaly Varga said. He added that with the pension bonds they are hoping to offer people who wish to save up towards their pensions an attractive instrument which could compete as regards the interest and yields it offers even with the Hungarian Government Securities Plus. They are currently completing the finishing touches before the launch, and the offering will start this year.

Mr Varga said they are planning to offer the pension bonds to private individuals, not to institutions. They would like to introduce an arrangement which offers better terms and conditions to young buyers: the younger they are, the earlier they decide to buy bonds, the better the conditions will be. They seek to offer favourable yields and interest rates, and also sufficient flexibility which allows buyers to supplement their savings subject to their needs as at any time, he indicated.

He said the most important underlying idea is to encourage responsible action, and to extend the options of financial self-care. He added that as tax benefits will continue to remain attached to both the Early Pension Savings Account (NYESZ) and pension fund savings, he does not expect the pension bonds similar to the Hungarian Government Securities Plus to rearrange this area. Its role will be to supplement the current options, and to extend the possibilities of early financial self-care.

Regarding the term, the Finance Minister said it depends on the amount of time left from the start of the investment period to the investor's pensionable age. The related consultations have not been concluded yet; for instance, as to whether similar to pension fund savings savings or a part thereof should be made available after 10 years or only upon the completion of the pensionable age. The minimum tie-up period will be 10 years.

They are currently negotiating about the green bonds also to be placed on the market this year on two markets, in Japan and China. There is greater interest in the former country where multiple market players have offered to act as partners in the offering. According to his information, they will be launched this year; by mid-year, they will have all information available, based on which they will be able to decide on the size of the green bond offering. They are considering terms of three to five years, and are planning to finance specifically climate protection-oriented projects from the
proceeds.
Mr Varga also said that the Ministry of Finance will have talks about the reform of the local trade tax both with the opposition-led metropolitan municipality and the leaders of small settlements.

Poland

Polish Treasury debt at end-Jan. up by PLN 5.5 bln
28-Feb-2020
Polish Treasury debt at end-January increased by PLN 5.5 bln or 0.6% m/m to ca. PLN 978.8 bln, the Finance Ministry said of its early estimate.
Domestic debt increased to some PLN 718.2 bln in January from PLN 716.5 bln in December, the statement showed.
The zloty-denominated value of foreign debt went up to ca. PLN 260.6 bln from PLN 256.9 bln a month earlier.
The Finance Ministry also published a broader set of data for end-December Treasury debt, which climbed 1.2% m/m to PLN 973.3 bln.
Average domestic Treasury tenor in December went down m/m to 4.53 years from 4.60, while the average tenor on foreign debt also decreased m/m, to 6.11 years from 6.14.
Duration edged up to 3.60 years in December from 3.58 years in the prior month for the total portfolio of zero-coupon and fixed-rate papers, including 3.10 years for domestic debt and 4.75 years for foreign debt.
kz/ mbn

Romania

Romania's bonds slide after top court scuppers early election plan
25-Feb-2020
LONDON, Feb 25 (Reuters) - Romania's longer-term government bonds fell sharply on Tuesday, a day after the country's top court overturned President Klaus Iohannis's re-nomination of ousted Liberal Party leader Ludovic Orban as prime minister.
The move looks set to prolong the country's political turmoil. Earlier this month, lawmakers toppled Orban's three-month-old minority government after a confidence vote by the Social Democrats (PSD) opposition.
Bucharest's longer-term government bonds were down as much as 1.7 euro cents on Tuesday having fallen around 1.5 euro cents on Monday after the court ruling, and as markets were rattled by a spike in coronavirus cases in Italy.

(Reporting by Marc Jones; Editing by Tom Arnold)
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Turkey to issue 5 bln lei (1.04 bln euro) of domestic debt in March
28-Feb-2020
BUCHAREST (Romania), February 28 (SeeNews) - Romania's finance ministry said on Friday it intends to sell 5 billion lei ($1.14 billion/1.04 billion euro) worth of government securities in March, including 600 million lei in non-competitive offers.

The finance ministry plans seven auctions of government securities with residual maturities ranging from 2 to 14 years and an auction of one-year Treasury bills, according to its March issuance plan published in the Official Gazette.

The ministry planned to place 5 billion lei worth of government securities in February. It overshot its target by selling 7 billion lei and 150 million euro ($164 million) worth of debt paper.

So far this year, Romania has sold almost 13 billion lei and 150 million euro of debt and tapped foreign markets for 3 billion euro worth of 2032 and 2050 Eurobonds.

(1 euro=4.8068 euro)

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Slovakia
Slovak December current account shows 328 million euro deficit
25-Feb-2020 14:38:38
PRAGUE, Feb 25 (Reuters) - Slovakia's current account showed a deficit of 328 million euros in December after a revised deficit of 260 million euros in November, the central bank said on Tuesday.

The November figure was revised from an originally reported deficit of 284 million euros.

(Reporting by Jan Lopatka)

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Turkey
Turkish economy registers strong rebound from recession
28-Feb-2020

- Fourth-quarter growth at 6%
- Full-year growth of 0.9% beats expectations
- Central bank slashed rates to boost growth
- Growth of 5% expected this year

By Nevzat Devranoglu
ANKARA, Feb 28 (Reuters) - The Turkish economy grew 6% year on year in the fourth quarter and nearly 1% in 2019 as a whole, data showed on Friday, beating expectations with a strong rebound from recession as it shakes off the effects of the 2018 currency crisis.

The data marked a sharp turnaround for the emerging market economy, which has a track record in the past two decades of about 5% growth but has been hit by a nearly 40% slide in the lira's value since the beginning of 2018.

Compared with the third quarter, Turkey's gross domestic product (GDP) expanded at a seasonally and calendar-adjusted rate of 1.9%, Turkish Statistical Institute data showed.

A Reuters poll had forecast the economy would expand 5% year on year in the fourth quarter.

In 2019 as a whole, the economy grew 0.9%, against a poll forecast of 0.6%.

The government is forecasting 5% economic growth this year and next.

Consumer spending helped to boost economic activity in the final quarter of 2019, said Haluk Burumcekci, an economist who runs Burumcekci Consulting in Istanbul.

"Preliminary signals indicate that the growth momentum maintains its strength in Q1, 2020," he said, adding that an easing in financial conditions as well as the pace of credit growth will help to determine the longer-term growth outlook.

"We think, with the latest data available, it will be possible to achieve 4-5% growth this year," he added.

The lira stood at 6.2540 against the dollar on Friday, weakening from Thursday's close of 6.2080. It slipped on concern over the impact of a Syrian government attack that killed 33 Turkish soldiers in northwest Syria on Thursday.

The central bank responded to the 2018 currency crisis by raising its benchmark interest rate to 24%, where it stayed until last July. It cut the rate to 20% in December after a revised deficit of 260 million euros in November, the central bank said on Tuesday.

The central bank offered 100 billion lei (2.24 billion euro) worth of government securities in December after a revised deficit of 260 million euros in November, the central bank said on Tuesday.

The central bank responded to the 2018 currency crisis by raising its benchmark interest rate to 24%, where it stayed until last July. It cut the rate to 20% in December after a revised deficit of 260 million euros in November, the central bank said on Tuesday.

Separately Turkish industrial production climbed 8.6% year on year in December, rising for a fourth straight month and underlining economic strength in the last quarter of 2019.

Economists' median estimate in the Reuters poll was for annual growth of 4% this year, below the government's 5% forecast.

The statistics institute also announced that the foreign trade deficit rose 94.3% year on year in December, rising for a fourth straight month and underlining economic strength in the last quarter of 2019.

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Argentina

IMF's Georgieva welcomes Argentina's commitment to keep working on debt issue
22-Feb-2020
RIYADH, Feb 22 (Reuters) - IMF Managing Director Kristina Georgieva on Saturday said she had a "very fruitful exchange of views" with Argentine Economy Minister Martin Guzman about putting the Latin American country on a path to more sustainable and inclusive growth.

After meeting with Guzman on the sidelines of a G20 meeting, Georgieva said the Argentine government planned to remain engaged with the International Monetary Fund to "secure a sustainable and orderly resolution of Argentina’s debt situation."

"I welcomed the Argentine authorities' commitment to continue to deepen our engagement including through an Article IV Consultation and steps toward a Fund-supported program in the future. The modalities of these next steps will continue to be discussed," she said in a statement.

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Editing by Frances Kerry)
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Argentina's talks with IMF moving "in the right direction"
23-Feb-2020
RIYADH, Feb 24 (Reuters) - U.S. Treasury Secretary Steven Mnuchin on Sunday welcomed Argentina's talks with the International Monetary Fund after the heavily indebted Latin American country said it would launch consultations that could lead to a new funding program.

Mnuchin told Reuters that he had a productive meeting with Argentine Economy Minister Martin Guzman on the sidelines of a meeting of finance officials from the world's 20 largest economies (G20) in Riyadh.

IMF officials also briefed G20 finance ministers and central bankers about the situation in Argentina, whose debt situation the IMF last week described as "unsustainable".

"There are many issues that still need to be addressed," Mnuchin said in an interview. "The conversations that they're having with the IMF are preliminary but are moving in the right direction."

Guzman's minister said the meeting between the two officials last about half an hour. Guzman, in a post on Twitter, also used the word "productive" to describe the meeting with Mnuchin.

The Argentine minister on Saturday said Argentina would initiate Article IV consultations with the IMF that could pave the way for an IMF program - a move experts say will reassure bondholders that Argentina remains under IMF supervision.

The country, which has defaulted on debt obligations eight times so far, is facing tough negotiations with creditors and the IMF to restructure around $100 billion in debt that the Argentine government says it cannot pay unless given time to revive stalled economic growth.

The IMF gave Argentina a $57 billion standby financing agreement in 2018, but that program was agreed by the previous government and has been essentially on ice since the election.

(Reporting by Andrea Shalal in Riyadh; Additional reporting by Hugh Bronstein in Buenos Aires; Editing by Daniel Wallace)
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Argentina issues 9.222 bln pesos of 2020, 2021 debt
26-Feb-2020
BUENOS AIRES, Feb 26 (Reuters) - Argentina issued 9.222 billion pesos ($148.5 million) of debt on Wednesday via local currency Treasury notes and bonds maturing in 2020 and 2021 as it seeks to raise funds to cope with a crippling debt load amid rising default fears.

The economy ministry said it had awarded the debt after receiving a total of 851 purchase orders for 23.148 billion pesos.

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Brazil

Brazil national debt to rise in coming years, nearing 80% of GDP by 2023
27-Feb-2020
BRASILIA, Feb 27 (Reuters) - Brazil's gross national debt is expected to rise to 77.9% of gross domestic product this year from 75.8% last year, the Treasury said on Thursday, predicting a steady rise in the coming years to 79.4% by 2023 before falling back again.

The Treasury's calculations are based on the central bank's benchmark Selic interest rate staying at 4.25% this year then rising to 6.5% in 2022, and medium-term growth of 2.5% and inflation of 3.5%, it said.

(Reporting by Bruno Mendes)
Brazil's government posts record January primary budget surplus

27-Feb-2020
By Marcela Ayres
BRASILIA, Feb 27 (Reuters) - Brazil's government finances started the year on the strongest footing since 1997, official figures showed on Thursday, as a solid mix of higher revenues and lower outgoings delivered a surprisingly high budget surplus.

The primary surplus across the Treasury, central bank and social security system, before interest payments are taken into account, totaled 44.1 billion reais ($9.9 billion) in January, the biggest January surplus since comparable records began in 1997.

The figure was much wider than the 38 billion reais surplus median forecast in a Reuters poll of economists, but the Treasury cautioned against too much optimism, even though the government may well meet its 2020 fiscal targets.

"It is very difficult to say for sure that this is a new trend. We have to wait for the next few months," Treasury Secretary Mansueto Almeida told reporters in Brasilia.

In a note accompanying January's figures, the Treasury said this year's primary deficit target of 124.1 billion reais could well be met, although it was too early to say how much smaller it might be.

Almeida also said that consolidating economic growth is crucial to reducing the national debt, and said that budget freezes this year are an option open to the government if its deficit targets come under threat.

The Treasury figures showed that net revenues increased by 6.4% in January to 151.691 billion reais, and total expenses fell 3.3% to 107.567 billion reais.

January's revenues are traditionally boosted by corporate taxes. Earlier this month, the revenue service said January's tax take was the highest on record for that month.

The government's primary deficit last year came in at 95.1 billion reais, well below its goal of 139 billion reais.

Almeida added that the country's BNDES national development bank still owes the Treasury around 194 billion reais, which should help bolster government revenues this year.

($1 = 4.49 reais)
(Reporting by Marcela Ayres
Writing by Jamie McGeever; Editing by David Gregorio)
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Colombia

IMF urges Colombia to tighten fiscal adjustment, increase reserves

22-Feb-2020
BOGOTA, Feb 21 (Reuters) - Colombia needs a more durable fiscal adjustment to meet its financial targets, the International Monetary Fund said on Friday, adding that the country's central bank should increase reserves to protect against external shocks.

Hamid Faruqee, chief of the IMF's mission to Colombia, highlighted recent improvements in tax collection and spending efficiency.

But in remarks to reporters, after the IMF trimmed its growth forecast for Colombia to 3.4% this year from a previous forecast of 3.5% in January, Faruqee said the Andean country should seek to further reduce public debt as a percentage of gross domestic product.

Debt-reduction measures can include removing regimes that favor certain sectors and expanding the taxpayer base, Faruqee said, adding that measures should be taken to protect the vulnerable.

Faruqee said external risks facing Colombia had increased, citing commodity price declines, growing global trade tensions and the outbreak of coronavirus among other concerns.

"We encourage the central bank to consider restarting reserve accumulation when the conditions allow it, to help maintain its reserve coverage as a buffer against external shocks," Faruqee said.

During the central bank's 2019 program to build up foreign reserves it acquired $2.8 billion. Colombia has a flexible $11.4 billion credit arrangement with the IMF that it can use to counter external shocks.
Mexico

Mexico central bank cuts 2020 growth forecast, cites coronavirus risk

26-Feb-2020

By Abraham Gonzalez

MEXICO CITY, Feb 26 (Reuters) - Mexico's central bank on Wednesday trimmed its 2020 economic growth forecast and hiked its inflation view, saying projections were shrouded in uncertainty because it is unclear how the fast-spreading coronavirus will impact global growth.

The Banco de Mexico, in its quarterly economic report, lowered its growth outlook for this year to between 0.5% and 1.5%, from a prior estimate of 0.8% to 1.8%.

The growing pessimism comes after the economy shrank by 0.1% in 2019, the country's first economic contraction in a decade.

"There is a high degree of uncertainty regarding this outlook, as the Mexican economy is expected to continue facing a complex environment ... especially uncertainty regarding the possible effects of the coronavirus outbreak on world economic activity and, specifically, on global value chains," the bank said.

Mexico is a big producer of export goods, including cars, that rely heavily on imported raw materials and components.

The new coronavirus is believed to have originated in the Chinese city of Wuhan late last year and has infected about 80,000 people and killed more than 2,700, the vast majority in China. But there have now been cases in at least 30 countries with large, spreading outbreaks in South Korean, Iran and Italy.

The outbreak has upended supply chains and hit global demand.

"This outlook anticipates a more gradual recovery of domestic demand throughout the forecast horizon, in a context in which the global economy continues showing weakness and U.S. industrial production expectations have been revised downwards once again," the Mexican central bank said.

The bank raised its outlook for annual headline inflation for the fourth quarter of this year to 3.2%, up from 3.0% previously.

Inflation expectations have been stoked by the government’s decision in December to raise the daily minimum wage by 20%, the biggest increase in more than four decades and the second major one in as many years.

Higher-than-forecast agricultural and livestock goods prices are also fanning inflation, the bank said.

(Africa)

Algeria

Algeria president urges spending rationalisation to ease financial problems

23-Feb-2020

ALGIERS, Feb 23 (Reuters) - Algerian President Abdelmadjid Tebboune on Sunday urged his government to rationalise spending, as the member of the Organization of the Petroleum Exporting Countries tries to cope with a drop in energy earnings.

The North African nation's government has already approved a 9.2% state spending cut for this year while trying to avoid social unrest after a year of protests demanding reforms.

"He (Tebboune) called on the government members to rationalise expenditures," the presidency said in a statement after a cabinet meeting.

Algeria's oil and gas export revenue has sharply fallen due to lower output and a drop in global crude prices since mid-2014, pushing up the country's trade deficit despite import restrictions to reduce spending on purchases from abroad.

Oil and gas earnings account for 94% of Algeria's total export revenue and 60% of the state budget as output in the non-energy sector is still poor due to a lack of investment.

In a bid to find new funding sources, the government has announced plans to issue sukuk, or Islamic bonds, and develop its tiny stock exchange in 2020.

"He (Tebboune) urged the need to diversify national production and rid the country of dependence on hydrocarbon revenues," the statement said.

Since last year, Algeria has been facing weekly demonstrations demanding political and economic reforms and the prosecution of people involved in corruption.

Several senior officials have been jailed as part of anti-graft investigations since President Abdelaziz Bouteflika stepped down in April 2019 under pressure from protesters who rejected his plan to seek a fifth term.

In an attempt to appease protesters, Tebboune, elected in December, has set up a commission to amend the constitution with the aim of allowing a greater role for the parliament and government.

(Reporting by Hamid Ould Ahmed; Editing by Richard Chang)
Liberian former IMF Africa chief named as deputy managing director

26-Feb-2020
By David Lawder
WASHINGTON, Feb 25 (Reuters) - International Monetary Fund Managing Director Kristalina Georgieva on Tuesday nominated former IMF official Antoinette Sayeh to become a deputy managing director at the Fund.

Sayeh, a Liberian national, was director of the IMF’s African Department between 2008 and 2016. She since has been at the Center for Global Development think tank in Washington, having served as Liberia’s finance minister from 2006 to 2008 and spent 17 years at the World Bank.

She would serve as one of four deputy managing directors under Georgieva, but would not replace David Lipton as first deputy managing director, the Fund's No. 2 role, which has strong influence over policies.

Lipton and Carla Grasso, a deputy managing director who is the IMF’s chief administrative officer, are due to leave at the end of February in the first major management changes made by Georgieva, a Bulgarian economist who took over as managing director in October.

Geoffrey Okamoto, a 35-year-old U.S. Treasury acting assistant secretary has emerged as a leading candidate to replace Lipton, backed by U.S. Treasury Secretary Steven Mnuchin.

Georgieva’s announcement neither specified Sayeh’s future portfolio at the IMF nor whether any changes to deputy managing director duties would be made. She has said both Lipton and Grasso would be replaced.

The IMF’s No. 2 official has traditionally been an American, while the Fund’s managing directors have been from Europe. The United States is the largest shareholder in the IMF, with 16.5% of the Fund’s voting power.

"Antoinette demonstrates a rare combination of institutional leadership, deep analytical capacity, and an unwavering commitment to fairness," Georgieva said in a statement, adding that the two had worked together for many years at the World Bank.

(South Africa’s budget deficit seen at 18-year high next fiscal year)

26-Feb-2020
CAPE TOWN, Feb 26 (Reuters) - South Africa's budget deficit is projected to widen to an 18-year high next fiscal year as weak economic growth and bailouts to state companies strain public finances, the National Treasury said on Wednesday.

The budget deficit was likely to reach 6.8% of gross domestic product (GDP) in the 2020/21 fiscal year, which begins in April, compared with a previous estimate of 6.5%, the Treasury's 2020 budget showed.

The projected deficit would be the highest since the Treasury started producing the consolidated budget in 2002/03.

The Treasury warned that debt was unlikely to stabilise over the next three years, with gross loan debt peaking at 71.6% of GDP in fiscal year 2022/23.

(S. Africa's budget underscores 'severe deterioration' in state finances)

26-Feb-2020
JOHANNESBURG, Feb 26 (Reuters) - Fitch Ratings said on Wednesday that South Africa's 2020 budget highlighted the "severe deterioration" underway in the country's public finances, and expressed scepticism that savings planned via cuts to the wage bill were achievable.

"(South Africa's) consolidation measures rely heavily on hoped-for moderation in public sector wages, which might not materialise, adding further risks to South Africa's deficit and debt trajectories," Fitch said in a statement, adding it affirmed the country's "BB+" junk rating with a negative outlook in December.

(Moody's sees 'elevated' risks to South African budget forecasts)

27-Feb-2020
JOHANNESBURG, Feb 27 (Reuters) - Ratings agency Moody's said on Thursday it sees
"elevated" risks to South Africa's budget forecasts due to doubts over whether trade unions will agree to cutting the public sector wage bill and potential liabilities from struggling state companies.

Finance Minister Tito Mboweni said during an annual budget speech on Wednesday that the government would cut public sector wages by around 160 billion rand ($10.5 billion) over the next three years to contain a rising budget deficit.

But many analysts are sceptical that the government will be able to achieve those cuts given entrenched opposition from unions. Even with the cuts, the budget deficit will reach 6.8% of gross domestic product (GDP) next fiscal year.

Moody’s is the last of the big three ratings agencies to have South Africa in investment grade and is scheduled to review that rating next month.

It said in a research report that the risks for South Africa were skewed towards a higher debt path, given challenges in containing spending and persistent obstacles to economic growth.

"Even if the government achieves its planned spending restraint, the government's projected primary deficit of 1.1% of GDP by fiscal 2022 would still be too wide to stabilize the debt burden," the report said.

"The fiscal trajectory under the new budget is broadly similar to the Medium-Term Budget Policy Statement presented in October."

Moody’s said in November that a credible fiscal strategy at this week’s budget would be crucial for South Africa to maintain its current ‘Ba3’ rating. The outlook on that rating was lowered to "negative" last year.

($1 = 15.2377 rand)

(Reporting by Alexander Winning and Karin Strohecker Editing by Mark Heinrich and Alexandra Hudson)

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**Tunisia**

**Fitch Affirms Tunisia at 'B+'; Outlook Negative**

28-Feb-2020

Fitch Ratings-Hong Kong-February 28:

**Fitch Ratings has affirmed Tunisia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'B+' with a Negative Outlook.**

A full list of rating actions is detailed below.

**KEY RATING DRIVERS**

Tunisia’s ratings are weighed down by wide current account deficits, high fiscal and external debt, a challenging political environment and subdued economic growth. This is balanced against strong governance indicators, continued support from official creditors underpinning the sovereign’s financing flexibility and a diversified economy. The Negative Outlook reflects ongoing vulnerability from large external funding needs, weak external and fiscal buffers and entrenched social opposition to macro-economic stabilisation policies.

The inauguration of a new government in late February following the October parliamentary elections will enable a continuation of reform policies, albeit at a still slow pace, and renewed engagement with international creditors, including the IMF. **Fitch expects the new cabinet to negotiate a new IMF programme to follow the 2016-2020 arrangement expiring in April and broadly adhere to fiscal reforms and consolidation policies initiated by its predecessor.**

The protracted government formation has significantly delayed the sixth review of the current arrangement with the IMF, initially due last September and still to be completed. However, institutional safeguards have permitted continued policy implementation under the caretaker government and the budgetary process was uninterrupted, underscoring the resilience of Tunisia’s policy process.

The implementation of macro-economic stabilisation policies under the new cabinet will remain subject to elevated political and social risks. The heterogeneity of the government could complicate policymaking as the cabinet comprises representatives from six parties positioned across the political spectrum alongside a large share of non-politically affiliated ministers. The ability of the new government head to drive the policy agenda appears limited given his Ettakatol party has no seats in Parliament and his poor own result in the presidential election. Deep antagonism between the largest blocs in Parliament will thwart a wider consensus between government and opposition on reform approval and implementation.

The cabinet’s support base also appears vulnerable and there are risks of resurgence of the government instability that Tunisia had witnessed prior to 2016. In a more fragmented legislature than its predecessor, the cabinet is backed by four parliamentary blocs representing around 15 different political parties. The government's stability could come under pressure in case of withdrawal of a junior coalition partner or shift in bloc composition given volatility of party affiliation in Parliament. Although powerful labor unions have voiced support for the new cabinet, Fitch expects social pressures will continue to slow down policy implementation. Risks from social tensions are illustrated by wide-scale strikes early in 2019 that led the government to agree to substantial wage increases, in breach of the targets set under the ongoing IMF programme. They are also highlighted by private-sector opposition to energy price hikes, with delays to tariff adjustments causing a 0.4% of GDP overrun on subsidy spending in 2019. The poor showing of established parties and the ascension of outsiders and populist forces in the September
and October 2019 presidential and legislative elections also point to reform fatigue among voters. The tightening of fiscal and monetary policies amid favorable cyclical developments has started to address macro-economic imbalances, which nonetheless remain sizeable. Fitch projects the current account deficit (CAD) will narrow to 7.7% of GDP in 2021 - still double the forecast 'B' median of 3.9% - from an estimated 8.8% in 2019 and 11.1% in 2018. The improvement in the CAD will be driven by buoyant tourism, a pick-up in the domestic production of natural gas and phosphates alongside some import compression. Significant external liquidity pressures stem from Tunisia’s high external funding requirements averaging 39% of GDP (16% of GDP assuming rollover of short-term debt mostly composed of trade credit and bank deposits) per year in 2019-2021 under Fitch’s forecasts. This is nearly three times as much as the forecast ‘B’-category median of 14% of GDP. Continued reliance on external borrowing has resulted in a two-fold rise in net external debt in six years to 80% of GDP in 2019 based on our estimates, one of the highest levels among all Fitch-rated sovereigns. External vulnerability is somewhat mitigated by strong official creditor support partly related to Tunisia’s democratic transition. A new IMF programme will also help to catalyse official and market financing. However, Tunisia’s mixed performance under the current arrangement with the IMF highlights risks to programme implementation, and creditor support could weaken. Tunisia has received only USD1.6 billion under the ongoing programme from an initial allocation of USD2.9billion, illustrating challenges in reaching the agreed milestones. Some multilateral institutions, including the World Bank, are facing constraints in extending further budget support loans to Tunisia.

The dinar’s mild appreciation in 2019 was helped by short-term factors but economic fundamentals, such as wide CAD subdued growth and comparatively high inflation, will drive a gradual depreciation of the currency over the coming two years. The dinar’s temporary strengthening has given the central bank some space to replenish its international reserves, which rose from 2.6 months of current external payments in 2018 to 3.6 months in 2019, their highest level in five years. However, the level of reserves still offers only a modest buffer relative to Tunisia’s large external vulnerabilities. The shift to a market-determined exchange rate regime could, if maintained, bolster external resilience. Tunisia has implemented sizeable fiscal consolidation of 3.2% of GDP in two years, halving the central government (CG) deficit (including grants) to 3.3% of GDP at end-2019 from 6% in 2017. Tax revenues/GDP reached a record in 2019, despite subdued growth while capital spending/GDP has fallen to its lowest level in three decades, underscoring limited scope for further consolidation from cuts to investment outlays or higher revenues. Meanwhile, current spending has reached its highest level on record, at 26% of GDP in 2019, illustrating the difficulty of reining in pressure from a bloated payroll, rising debt interest cost, energy subsidies and transfers to loss-making state-owned enterprises. Fitch projects the CG deficit will stabilise at 3.3% of GDP in 2020, overshooting the government target of 2.8%, before narrowing to 2.9% in 2021. Efforts to enhance tax collections will provide a small boost to revenues while savings will be achieved from the gradual phasing-out of energy subsidies, a strict hiring policy and a 2019 pension reform. Personnel spending will edge further up in 2020, lifted by salary increases under the 2019 wage agreement with labour unions. CG debt has declined to 72% of GDP in 2019 from 78% in 2018, mostly helped by the appreciation of the dinar, but any new depreciation would again push up debt as 73% of debt is denominated in foreign currencies. Fitch projects CG debt will stabilise close to its current level in 2020 and 2021, remaining well above the forecast ‘B’ median of around 54% of GDP. CG debt excludes government guarantees on SOE debt of 15% of GDP, half of which are owed by the ailing electricity company STEG. Additional contingent liability risks stem from public banks and persistent, albeit receding, weaknesses in the banking sector more generally. Economic growth prospects are modest as the tightening of the policy mix and pressures on competitiveness hold back economic activity. Fitch projects growth will recover to a still weak average of 2.4% in 2020-2021, from 1% in 2019. Growth will be lifted by a pick-up in extractive industries and sturdy activity in agriculture and tourism, although the global spread of the coronavirus raises downside risks. A slowdown in growth in the eurozone, Tunisia’s main export market, and the recent aggravation of the armed conflict in neighbouring Libya also pose risks to the outlook. Inflation will fall towards an average of 5.7% in 2021 under Fitch’s forecasts from a 28-year annual average high of 7.3% in 2018, helped by monetary tightening and a decline in oil prices.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)
Fitch’s proprietary SRM assigns Tunisia a score equivalent to a rating of ‘BB-’ on the LTFC IDR scale. Fitch’s sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to rated peers, as follows:

- Structural factors: -1 notch, to reflect high social and political constraints to policy implementation, which continue to impact growth, external and public finances and social reforms.
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 LTFC IDR. Fitch’s QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

**RATING SENSITIVITIES**
The main factors that may individually, or collectively, lead to a downgrade:
- Failure of external liquidity conditions to improve and persistent vulnerability from high external funding needs;
- Political developments or social unrest undermining prospects for progress on macro-economic adjustment policies and reforms; and
- Failure to narrow the fiscal deficit or materialisation of contingent liabilities, leading to further rise in government debt/GDP.

The current Outlook is Negative. Consequently, Fitch does not currently anticipate developments with a material likelihood of leading to an upgrade. However, the main factors that may individually, or collectively, result in the Outlook being revised to Stable include:
- A decline in external financing needs and a recovery in international liquidity buffers, for example due to a significant improvement in the current account deficit; and
- Further progress on fiscal consolidation supporting macro-economic stability and stabilising the public debt/GDP ratio over the medium term.

**KEY ASSUMPTIONS**
We expect global economic trends to develop as outlined in Fitch's most recent Global Economic Outlook.

Tunisia 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. Social unrest and political tensions in the context of the democratic transition are constraining reform implementation and impacting the economy. This is highly relevant to the rating and a rating driver.

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

Tunisia has an ESG Relevance Score of 4 for Human Rights and Political Freedoms. Its score on the Voice and Accountability pillar of the World Bank governance indicators outperforms the ‘B’ median. This is relevant to the rating and a rating driver.

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

Tunisia does not publish fiscal data on a consolidated general government basis. Fitch has relied until now on separate data on central government, local government and social security budget positions submitted by the authorities to produce its own estimates for general government fiscal metrics. In the absence of updated local government and social security budget statistics, the agency has decided to adopt central government fiscal metrics as a proxy for the assessment of the general government fiscal position. Qualitative discussions with the issuer indicate that the local government and social security components have only marginal contribution to the overall general government position, providing sufficient confidence to use the narrower central government data in the rating process.

Tunisia; Long Term Issuer Default Rating; Affirmed; B+; RO:Neg;
Short Term Issuer Default Rating; Affirmed; B;
Local Currency Long Term Issuer Default Rating; Affirmed; B+; RO:Neg;
Local Currency Short Term Issuer Default Rating; Affirmed; B;
Country Ceiling; Affirmed; BB-;
Senior unsecured; Long Term Rating; Affirmed; B+;

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**Zimbabwe**

**Zimbabwe's economic reform agenda off-track**

26-Feb-2020

JOHANNESBURG, Feb 26 (Reuters) - The International Monetary Fund (IMF) said on Wednesday that Zimbabwe’s economic reform agenda was off-track, and that without further donor support the risks of a deep humanitarian crisis were high.

Zimbabwe is struggling through its worst economic crisis in a decade, with prices of basic goods soaring and shortages of medicine, fuel and electricity worsening. Hopes of a quick recovery under President Emmerson Mnangagwa are fading.

"The government that came to office following the 2018 elections adopted an agenda focused on macro stabilisation and reforms ... but [this] is now off-track as policy implementation has been mixed," the IMF said in a statement outlining the conclusion of its latest Article IV consultation with Zimbabwe.

It added that delays and missteps in foreign exchange and monetary reforms had failed to restore confidence in Zimbabwe's new currency and the government’s reengagement internationally on debt arrears was still delayed,
constraining its access to external support. Last June Zimbabwe ended a decade of dollarisation, fuelling inflation which economists estimate reached 525% in December. Without an increase in donor support, the IMF said, Zimbabwe had a high risk of humanitarian crisis, with more than half of the population without food security, another poor harvest expected and growth in 2020 projected at near zero. Zimbabwe also has a severe drought that has severely hit supplies of staple grains such as maize and further pushed their price up. The worsening poverty is upsetting the fragile calm experienced since the 2017 coup that toppled long-time ruler Robert Mugabe.

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GLOBAL

Moody's Says Global Automakers' Sales Forecast Slashed As Coronavirus Impact Deepens

26-Feb-2020

Feb 26 (Reuters) - Moody's:
• Moody's says Global automakers' sales forecast slashed as coronavirus impact deepens
  • Moody's says Global auto sales will decline 2.5% in 2020, up from previously projected 0.9% drop
  • Moody's says Global auto sales forecast to rebound only modestly in 2021, with growth of 1.5%
  • Moody's says outlook on global auto sector remains negative
  • Moody's says Chinese auto sales will fall 2.9% in 2020
  • Moody's says Japan will be the only major auto market to see unit sales growth, with light vehicle sales expected to grow 0.4% in 2020
  • Moody's says U.S. Auto sales to remain weak, while Western European car sales to decline in 2020 after stronger-than-expected demand at end of 2019

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Coronavirus panic wipes $6 trillion off world stocks this week

28-Feb-2020

• MSCI ACWI down nearly 10%, S&P500 in correction in just 6 days
• U.S. yield curve firmly inverted, investors fear recession
• Fed rate cut next month seen probable
• European shares fall 3%-5%

By Marc Jones
LONDON, Feb 28 (Reuters) - Coronavirus panic sent world share markets skidding again on Friday, putting them on course for their worst weekly fall since the 2008 global financial crisis, with almost $6 trillion wiped from their market value so far this week.

The rout showed no signs of slowing as Europe's main markets slumped 3-5% and the ongoing dive for safety sent yields on U.S. government bonds, widely seen as the world's most secure asset, to fresh record lows.

Hopes that the epidemic, which started in China would be over in months and that economic activity would quickly return to normal have been shattered this week as the number of international cases spiralled.

Bets are now that the Federal Reserve will cut U.S. interest rates as soon as next month and other major central banks will follow to try and nurse economies through the troubles and stave off a global recession.

"The volatility isn't as surprising as the fact that it took so long to rear its head. However, the recent swings indicate the complacency that appears to have settled over markets during the earlier stages of the outbreak has been dislodged," said Paras Anand, CIO, Asia Pacific at Fidelity International.

Disruptions to international travel and supply chains, school closures and cancellations of major events have all blackened the outlook for a world economy that was already struggling with the U.S.-China trade war fallout.

MSCI's all-country world index, which tracks almost 50 countries, was down more than 1% ahead of U.S. trading and almost 10% for the week - the worst since October 2008.

Wall Street shares plunged 4.4% on Thursday alone, their largest fall since August 2011. Futures pointed to a modest 1% drop later, but the S&P 500 has lost 12% since hitting a record high just nine days ago, putting it in so-called correction territory.

Europe's airlines and travel stocks have plunged 18% in their worst week since the 2001 9/11 attacks in the United States. .EU. The CBOE volatility index, often called the "fear index", jumped as high as 47, its highest in about two years, well out of the 11-20 range of recent months.

The index, which measures expected swings in U.S. shares in the next 30 days, typically shoots up to around 50 when bear market selling hits its heaviest, and approached almost 90 during the 2008-09 financial crisis.

PANDEMIC WARNING

In Asia, MSCI’s regional index excluding Japan shed 2.6%. Japan’s Nikkei slumped 3.7% on rising fears the July-August Tokyo Olympics in may be called off due to the coronavirus.

"The coronavirus now looks like a pandemic. Markets can cope even if there is big risk as long as we can see the end of the tunnel," said...
Norihiro Fujito, chief investment strategist at Mitsubishi UFJ Morgan Stanley Securities. "But at the moment, no one can tell how long this will last and how severe it will get."

World Health Organization Director General Tedros Adhanom Ghebreyesus said the virus could become a pandemic as the outbreak spreads to major developed economies such as Germany and France.

**About 10 countries have reported their first virus cases over the past 24 hours, including Nigeria, the biggest economy in Africa.**

The global rout knocked mainland Chinese shares, which have been relatively well supported this month, as new coronavirus cases in the country fell and Beijing doled out measures to shore up economic growth.

The CSI300 index of Shanghai and Shenzhen shares dropped 3.5%, to bring its weekly loss to 5% and the worst since April.

Oil prices languished at their lowest in more than a year having plunged 12% this week - the worst since 2016 - while all the major industrial metals have dropped between 3% and 6%.

The appeal of guaranteed income sent high-grade bonds rallying. U.S. yields - which move inversely to the price - plunged, with the benchmark 10-year note yield hitting a record low of 1.1550% in frenzied European trading. It last stood at 1.1847%.

That is well below the three-month bill yield of 1.43%, deepening the so-called inversion of the yield curve. Historically an inverted yield curve is one of the most reliable leading indicators of a U.S. recession.

Expectations the Fed will cut interest rates to cushion the blow are rising in money markets. Analysts say Fed funds futures are now pricing in about a 75% chance of a 25 basis point cut at the central bank's March 17-18 meeting.

The European Central Bank historically lags the Fed but it is now seen cutting by another 10 basis points by June.

(Additional reporting by Hideyuki Sano in Tokyo; Editing by Kirsten Donovan and Catherine Evans)

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