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Emerging Sovereign Debt Markets NEWS

Number 5 Week 25 – 31 January 2020

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ASIA

China

China CDS jump to highest in more than three months on virus worries

27-Jan-2020

LONDON, Jan 27 (Reuters) - **The cost of insuring exposure to China's sovereign debt rose to its highest level since mid-October amid rising fears about the possible economic impact of the coronavirus outbreak.**

China 5-year credit default swaps (CDS) jumped by 4 basis points (bps) from Friday's close to 41 bps, data from IHS Markit showed. The CDS closed at 30 bps a week ago.

Much of the outbreak has centred on the city of Wuhan which has been in a lockdown since last week. The virus has killed 81 people and stranded tens of millions during the biggest holiday of the year.

(Reporting by Karin Strohecker; editing by Sujata Rao) ((karin.strohecker@thomsonreuters.com; +442075427262; Reuters Messaging: karin.strohecker.reuters.com@reuters.net))

Global investors optimistic about China's bond market

28-Jan-2020

BEIJING, Jan. 28 (Xinhua) -- **Amid the expanding scale of bonds with negative interest rates worldwide, China's bond market has made sustained efforts to expand its global presence and facilitate the influx of foreign capital.**

The total value of Chinese bonds held by overseas institutional investors topped 2 trillion yuan (about 291 billion U.S. dollars) in 2019.

Overseas institutional investors purchased 3.2 trillion yuan of Chinese bonds in 2019 and sold 2.1 trillion yuan, resulting in net buying of 1.1

trillion yuan, according to the China Foreign Exchange Trading Center.
By the end of 2019, 2,608 overseas institutional investors had invested in the Chinese interbank bond market. Overseas institutions held as much as 2.19 trillion yuan of RMB bonds, up 457.8 billion yuan from a year earlier.
Foreign investors have increased their holdings of Chinese bonds for 13 consecutive months since December 2018.
Among Chinese bonds acquired by foreign institutions, government bonds are the most sought-after. At the end of 2019, foreign investors held as much as 1.31 trillion yuan of government bonds, accounting for 69.74 percent of Chinese bonds under custody purchased by foreign capital.
Representing the credit of a country, government bonds come with low risks, thus being an important choice for international investment, said Zong Liang, chief researcher of the Bank of China.
Why are Chinese bonds popular in the international bond market? Attractive interest margin, steadier RMB exchange rate, a slew of opening-up policies and smoother entry channels have all made China's bond market a popular destination for investment.
On the one hand, with high yield rates, Chinese bonds have appealed to global investors, on the other hand, China has been open to foreign investors, Zong said.
A series of opening-up measures have facilitated the influx of foreign capital.
Three of the 11 opening-up measures for the financial market announced by the State Council's Financial Stability and Development Committee in July 2019 were directly related to the bond market.
International investors are bringing in capital. In April 2019, Bloomberg announced it would include Chinese bonds into the Bloomberg Barclays Global Aggregate Index. In September 2019, J.P. Morgan announced it would include Chinese government bonds in its widely tracked Government Bond Index Emerging Markets (GBI-EM) suite from February 2020.
The inclusion of Chinese bonds into global indexes will encourage the inflow of global capital into the Chinese market on a large scale, Zong said.
China will not stop opening up its financial market in 2020.
To further open up the financial sector, the Ministry of Finance (MOF) in January announced it would relax restrictions over the qualifications of wholly foreign-funded banks, joint venture banks and branches of foreign banks in joining in the underwriting groups of local government bonds.
The approach can help expand bond issuance channels, enable further opening-up of the government bond market and RMB internationalization and enhance the global visibility of the Chinese bond market, according to the MOF.
As the Chinese economy scales up, the layout of financial opening-up is becoming mature and the Chinese bond market has become a major destination for global capital allocation and will remain a hot spot for global investment in the near future, said Li Yang, chairman of the National Institution for Finance and Development.

Enditem

India

India Bonds Seen Little Changed Before State Debt

28-Jan-2020
By Siddhi Nayak
NewsRise
MUMBAI (Jan 28) -- **Indian government bonds are likely to trade largely unchanged ahead of a fresh supply of state loans today.**
The yield on the benchmark 6.45% bond maturing in 2029 is likely to trade in a range of 6.53%-6.58% today, a trader with a primary dealership said. The note ended at 99.24 rupees, highest since Jan. 9, yielding 6.56%, yesterday. The Indian rupee settled at 71.44 to the dollar.
Indian states will raise 181.70 billion rupees via bonds maturing in five years to 40 years today
"Traders are likely to be on the sidelines till the state debt auction to gauge appetite in the secondary market," the trader said. "Until the budget, 6.58% should be a strong resistance level on the benchmark yield."
India will present the next financial year's federal budget on Feb. 1 and investors expect the government to come up with measures to boost demand.
New Delhi targets fiscal deficit at 3.3% in this fiscal year and 3% in the next. Bonds have factored in a fiscal slippage of up to 50 basis points this year. Market participants expect next year's gross borrowing to be over 7.50 trillion rupees against this year's planned 7.10 trillion rupees.
Reserve Bank of India Governor Shaktikanta Das said last week that monetary policy has its limitations and India needs a fiscal push to boost economic activity. The nation's rate-setting Monetary Policy Committee, chaired by Das, is widely expected to hold rates when it meets next week.
Crude oil prices extended losses for a sixth session today, as the spread of the coronavirus in China and other countries raised concerns over economic growth. India imports over 80% of its crude oil requirements.
KEY FACTORS:
*Benchmark Brent crude oil contract trading 0.5% lower at $59.01 per barrel, extending losses into the sixth straight session. The

contract has fallen over 9% in the last five sessions.
*Ten-year US yield at 1.6046%, hovering around its lowest level since Oct. 10.
*Foreign investors sold net $13.02 million worth of Indian bonds on Jan. 27. Month-to-date these investors are sellers of net $1.42 billion of Indian debt.
*RBI to conduct 14-day term repo auction worth 260 billion rupees.
*RBI to auction state government securities worth 181.70 billion rupees.
*RBI to conduct overnight and 28-day variable rate reverse repo auctions worth a total 1.40 trillion rupees.

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

India Bonds Stay Lower Ahead Of Debt Sale Result; Budget Eyed

31-Jan-2020
By Dharam Dhutia
NewsRise

MUMBAI (Jan 31) -- **Indian government bonds stayed lower in afternoon session, ahead of the results of a bond auction and as investors awaited the federal budget tomorrow.**

The benchmark 6.45% bond maturing in 2029 changed hands at 98.95 rupees, yielding 6.60%, at 1:00 p.m. in Mumbai against 99.21 rupees and a 6.56% yield at previous close. The Indian rupee was at 71.40 to the dollar against 71.48 at previous close.

India's federal government will raise 140 billion rupees via bonds today, in the last scheduled auction for this financial year, which includes 50 billion rupees of the benchmark bond.

"The economic survey is not providing any major hints about the budget, hence there is not much reaction," trader with a primary dealership said. "Also, since tomorrow there is no trading, participants are not getting very confident of carrying large positions."

The government today released the Economic Survey today, and Finance minister Nirmala Sitharaman will present the federal budget for the next financial year tomorrow. The budget comes at a time when measures are needed to arrest the downturn in the Indian economy, which saw growth slipping to 4.5% in July-September. Indian bond markets will be closed tomorrow.

The survey today pegged economic growth for this fiscal year at 5% and expects growth for next FY between 6.0%-6.5% band.

The government faces a significant shortfall in tax revenues this financial year as economic growth has slowed and revenue collections have been below expectations. New Delhi targets fiscal deficit at 3.3% of gross domestic product for this fiscal year and 3% for the next.

Indian bond investors expect the federal government to borrow a record 7.75 trillion rupees ($108 billion) via sovereign notes in 2020-21, according to a median of poll of 20 market participants. The expectations for the borrowing varied from 7 trillion rupees to 8.20 trillion rupees.

Kotak Mahindra Bank, which expects the borrowing to be 8.20 trillion rupees, said the government's twin tasks of providing fiscal stimulus to the economy and prudent fiscal management will be even harder than usual given the sharp slowdown in the economy and meaningful deterioration in its fiscal position.

Citigroup forecasts the borrowing at 7.80 trillion rupees. It said such an elevated borrowing could be an overhang on bond yields, especially because space for policy rate cuts is extremely limited in the next fiscal year unless foreign savings are tapped.

The poll predicts next year's fiscal deficit target at 3.5%, while additional borrowing to the tune of 350 billion rupees in the current financial year is also expected.

The benchmark Brent crude contract recouped some of yesterday's losses, after Reuters reported, citing sources, that Saudi Arabia has opened a discussion about moving the upcoming OPEC policy meeting to early February from March after the recent slide in crude oil prices.

The contract was last up 1.4% at $59.04 per barrel. India imports over 80% of its crude oil requirements.

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

India forecasts faster economic growth, warns of fiscal challenge

31-Jan-2020

- **Gov't sees 6.0-6.5% GDP growth in 2020/21 vs 5% for 19/20**
- **Says fiscal deficit target for 2019/20 may have to be relaxed**
- **Sees marginal impact from coronavirus**
- **Economists feel growth target over-optimistic**

By Aftab Ahmed and Mayank Bhardwaj

NEW DELHI, Jan 31 (Reuters) - **India's government predicted that economic growth will pick up to between 6% and 6.5% in the fiscal year beginning April 1, after falling to more than a decade-low this financial year.**

India saw growth drop to 4.5% in the July-September quarter - its lowest level in 26 quarters. Consequently, the budget deficit for the upcoming fiscal year may need to exceed

this year's target of 3.3% of gross domestic product, the government said in an economic survey released on Friday.
India should rationalise food subsidies, push exports and adopt counter-cyclical fiscal policy to boost sluggish demand, Krishnamurthy Subramanian, chief economic adviser to the finance ministry, said in the report.
But he warned that expanding fiscal deficit targets would pose a risk of "crowding out private investments" and slower growth in consumer demand amid continued global trade tensions.
The government estimates gross domestic product will grow 5% this fiscal year, which ends on March 31. That would be the slowest growth since the global financial crisis of 2008-09.
The survey urged the government to use its majority in parliament to speed reforms to boost investments and recovery.
Some economists believe the survey's growth forecast is too optimistic. They point out recovery remains fragile, inflation is accelerating, and consumer demand and investments are likely to decline, even though the central bank cut interest rates by 135 basis points in 2019.
"The forecast could be aspirational," said N.R Bhanumurthy, at the National Institute of Public Finance and Policy think tank.
"There are difficult times we are facing right now, the economy is in a bad shape," he added, citing protests against the new citizenship law, perceived to be discriminatory to Muslims.
"THALI-NOMICS"
In an attempt to show the impact of the fall in overall inflation during the last six years with Narendra Modi as Prime Minister, the survey came up with the term "Thalinomics - the economics of a plate of food in India."
The survey said affordability of vegetarian "thalis", a Hindi word for a plate of food, has improved by 29% from 2006-07 to 2019-2020, and non-vegetarian "thalis" by 18%.
The Modi government has touted its achievement in bringing down inflation from a 12.13% high in November 2013 to below 5%, though it has risen again and recorded a five-year high of 7.35% in December.
The survey said the fall in food inflation has been a major contributing factor in reductions between 2014-15, when the Modi government first came to power, and 2018-19.
However, economists point out that low core inflation, without fuel and food prices, is evidence for weak demand in the economy.
Finance Minister Nirmala Sitharaman will present the budget for the coming fiscal year on Saturday.
In it, Sitharaman is expected to announce a host of economy-reviving measures. Income tax cuts, higher spending on infrastructure and incentives for real estate are likely. So is a plan to revive stressed shadow banks.
However, the slowdown in growth has reduced tax revenues. The government may be forced to channel its increased spending through quasi-sovereign bodies, which would not be included in its deficit calculations.
The report gave no projection for the deficit. Economists believe that is around 3.8% for the ongoing fiscal year.
To accommodate higher spending, the deficit might be allowed to grow to at least 3.5%, missing the 3% target for next year, sources and economists have told Reuters.
Subramanian also said that the impact of China's fast-spreading coronavirus would be marginal on the Indian economy.

((manoj.kumar@thomsonreuters.com; +91 11 4954 8029; Reuters Messaging: manoj.kumar.thomsonreuters.com@reuters.net))

Indonesia

Indonesia to reduce portion bond issuance in forex in 2020

29-Jan-2020
JAKARTA, Jan 29 (Reuters) - **Indonesia aims to reduce the portion of bond issuance in foreign currencies to 14%-18% of total planned issuance, Finance Ministry senior official Loto Srinaita Ginting said on Wednesday.**
"The aim is to reduce portion of foreign exchange issuance. It was previously at around 20% or even up to 25%," she told reporters. The government is planning to raise a total of 735.52 trillion rupiah ($53.19 billion) from bonds this year.
The government also plans to space out bond issuance in foreign currencies through the year in 2020, instead of issuing most of them at the beginning of the year.
Indonesia has raised the equivalent of $3.1 billion from U.S.-dollar and euro-denominated bond sales earlier this month.

($1 = 13,640.0000 rupiah)
(Reporting by Maikel Jefriando
Writing by Fransiska Nangoy
Editing by Shri Navaratnam)
((Fransiska.Nangoy@thomsonreuters.com; +62 21 2992 7610; Reuters Messaging: fransiska.nangoy.thomsonreuters.com@reuters.net))

Jordan

IMF staff agrees new $1.3 bln four-year loan program with Jordan

30-Jan-2020
WASHINGTON, Jan 30 (Reuters) - **The International Monetary Fund on Thursday said it has reached a staff-level agreement with Jordan on a $1.3 billion new four-year program aimed at bolstering economic growth**

and stimulating job creation, while strengthening fiscal stability.
The program, arranged under the IMF's Extended Fund Facility (EFF), is subject to IMF management approval and consideration by the IMF Executive Board, which is expected in March, the IMF said in a statement.
It said Jordan's structural reform agenda was "designed to improve the investment climate and reduce costs to businesses, which will make it easier to create jobs while also protecting Jordan’s poor and most vulnerable."
News of the agreement was first reported by Jordan's state news agency Petra earlier Thursday.
It said Jordan will receive nine installments of between $140 million and $150 million over four years under the new program, with a first installment of $140 million expected by the end of March.
IMF official Chris Jarvis, who led the IMF team negotiated the agreement with the Jordanian officials in Amman, said the new program would reinforce Jordan's ambitious macroeconomic and structural reform agenda for the next four years.
"The authorities’ program aims at enhancing the conditions for more inclusive economic growth, particularly in light of the challenges posed by ongoing regional conflict and uncertainty," Jarvis said, singling out Jordan's role in the Syrian refugee crisis.
"In this regard, the hosting of Syrian refugees is a testament to Jordan’s generosity and resilience. Donor support for this effort and for the program continues to be essential," Jarvis said.
He said the program would include efforts to reduce electricity prices for businesses to improve competitiveness, and provide direct households subsidies to those in need.
Jordan would also introduce measures to help young people and women enter the labor force and reform an illicit gains law to improve Jordan’s asset-declaration system for public officials, improving accountability.
It said Jordan's gross domestic product was projected to reach 2.1% in 2020, reaching 3.3% over the medium term, the IMF said. Inflation was expected to remain subdued in 2020, at under 1% but could edge higher to 2.5% over the next few years.

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

Israel

Israel sells $3 billion bond as regional tensions abate

27-Jan-2020

Just days after a deadly airstrike on Iranian general Qassem Soleimani shook the markets, Israel sold a $3 billion Eurobond to investors who say that, despite early fears of an imminent escalation, regional flare-ups are just an everyday part of investing in the region.
Israel, rated A1/AA-/A+, launched a $1 billion 10-year bond at 68 basis points over Treasuries and a $2 billion 15-year bond at 115bp OVER&ON January 8& with orders for the deal topping $20 billion, according to a lead manager.
The US killing of general& Qassem Soleimani in Iraq on Friday January 3 marked what commentators said was the most serious flare-up in regional tensions in recent years. Iranian forces retaliated by firing missiles at US troops in Iraq on January 8.
But despite an initial turn to safehaven assets that prompted gold and oil prices to spike, broader financial markets proved resilient, providing a supportive market for Israel to sell its Eurobond.&
The sovereign is a regular on the international markets and tends to print deals in January.
"There's been zero impact on the Israel bond (sale)," says Koon Chow, a macro strategist in emerging markets fixed income at UBP Asset Management. "Very few EM investors hold their bonds, they're not in the index and it has very low yields."
Chow points out that the moves in asset prices were muted, with investors choosing to look past the headlines to focus on the country fundamentals.
"The headlines don't interest me in the least," he says. "It's like a bad soap opera again and again, how do you trade off that? You'd be rash to trade off that."
Asset price moves were muted. **In the Gulf, hard currency sovereign bond spreads widened just three to four basis points while the cost of insuring five-year Saudi Arabian debt was just one basis point wider. Only Iraq's dollar sovereign bonds suffered an outsized sell-off and were down three to four cash points.**
By January 9, equities in the Middle East were up by 1% to 2% while easing supply fears triggered a sharp drop in oil prices. Brent crude was last seen at $65 a barrel, down from a peak of $71 after the strikes.

Muted

JPMorgan analysts point out that the rise in oil prices has been more muted than the spike seen following the alleged Iranian strike on Saudi Aramco's oil facilities in September, suggesting that investors believe the impact on oil supply will be limited.
"This price action likely reflects the view that any response will not have a major impact on global oil supply," wrote analysts in a note published on January 4.
Gold had recovered more than 3.5% from a day earlier to trade around $1,550 an ounce on January 9.
Despite the broader market recovery, Israel is not a true proxy for Middle Eastern risk on

account of its strong rating and because its bonds are often held tightly by members of the country's diaspora.

While Israel's hard-currency bonds are of little interest to many emerging- markets dedicated investors, its strong economic outlook with decent growth, low inflation and a current account surplus are drawing large flows into local-currency bonds and the shekel.

Foreign direct investment, portfolio flows and Israel's current account surplus equate to 8% of GDP, according to Paul Greer, portfolio manager in emerging market debt and fixed income at Fidelity.

"From a balance of payments perspective, it is as good as it gets in EM," he says. "They also have gas exports from the Leviathan gas field in the eastern Mediterranean, which will help money come in."

The OECD expects Israel's economic growth to be 2.9% in 2020. Israel's shekel bonds will be included in the FTSE Russell World Government Bond Index from April 1.

Kazakhstan

Kazakhstan's national debt down 0.7% in January-September 2019

30-Jan-2020

NUR-SULTAN. Jan 30 (Interfax-Kazakhstan) - **Kazakhstan's national debt as of October 1, 2019 amounted to $157.7 billion compared to $158.8 billion as of January 1, 2019, a decline of 0.7%, the National Bank said in a statement.**

The ratio of external debt to GDP as of October 1, 2019 was 86.9% compared to 88.5% at the beginning of the year.

Public sector accounts for 8.5% of the external debt or $13.4 billion, the banking sector (2.9% or $ 4.6 billion), sectors with no direct investment (26.1% or $ 41.2 billion) and intercompany debt makes up 62.4% or $ 98.5 billion.

"Over the 9 months of 2019, Kazakhstan's net external debt increased by $2.5 billion or 5.3% to $49.4 billion or 27.2% of GDP," the statement reads.

The government's external debt (National Bank and Government) rose by $1.1 billion after the issue of sovereign bonds worth 1.2 billion Euro.

Bank's external debt (second-tier banks and Development Bank of Kazakhstan) decreased by $1.2 billion due to the loan repayment (China's Eximbank loan to DBK), an early redemption of Eurobonds (Halyk Bank of Kazakhstan), and a rising domestic demand for banks' Eurobonds.

Lebanon

Lebanon's bonds fall as debt restructuring decision looms

27-Jan-2020

LONDON, Jan 27 (Reuters) - **Lebanon's government bonds fell to fresh lows on Monday as traders waited on a possible government decision about how it will deal with its debt, including a $1.2 billion Eurobond maturing in March.**

An April 2021 issue shed 2 cents to 50.4 cents in the dollar, while an October 2022 bond dropped 1.9 cents to 43.2 cents in the dollar, Tradeweb data showed.

The sell-off preceded a possible government decision on whether its March bond -- the next due for repayment -- might be included in any debt restructuring. Hours after he was named, Finance Minister Ghazi Wazni last week said the government must decide on its approach to the $1.2 billion issue.

"I suppose market sentiment may be leaning that they may be included [in any debt restructuring]," said Giyas Gokkent, of JPMorgan Securities.

(Reporting by Tom Arnold; editing by Marc Jones)
((Tom.Arnold@thomsonreuters.com; +442075428510; Reuters Messaging: tom.arnold.thomsonreuters.com@reuters.net))

Lebanon's government bonds in biggest daily rise since early Dec

30-Jan-2020

LONDON, Jan 30 (Reuters) - **Lebanon's sovereign dollar bonds climbed on Thursday, with several notching up their biggest daily rise since early December amid increased hopes among investors for a plan to fight the country's worst economic crisis in decades.**

Market sentiment was boosted by meetings on Wednesday between ministers and banking officials to discuss how to ease the crisis, said Nafez Zouk, lead economist and emerging markets strategist at Oxford Economics.

"The general mood was 'reassuring' as everyone was trying to send positive vibes, suggesting that we aren't yet at the edge of crisis, and that we still have time," Zouk said in an emailed comment. "I think markets are taking that to mean that March will be paid."

Investors are waiting on a government decision about how it will deal with its debt pile, including a $1.2 billion Eurobond maturing in March.

(Reporting by Tom Arnold
Editing by Gareth Jones)
((Tom.Arnold@thomsonreuters.com; +442075428510;

Reuters Messaging:
tom.arnold.thomsonreuters.com@reuters.net))

Lebanon finance minister asks banks to cut interest rates

31-Jan-2020

BEIRUT, Jan 31 (Reuters) - **Lebanon's finance minister urged the banks on Friday to cut interest rates and also tried to reassure savers that their deposits would not be touched as the country wrestles with a financial crisis.**

The new government, which must still win a parliamentary vote of confidence, faces a liquidity crunch that has fuelled inflation and weakened the Lebanese pound.

The financial crisis, Lebanon's worst in decades, has also shaken confidence in the banks, which have imposed informal controls, and spurred fears among depositors over their savings.

Finance Minister Ghazi Wazni called on the Association of Banks in Lebanon (ABL) to reduce interest rates "in the coming period in order to spur economic activity and ease the burden on public finances", his office said in a statement issued after the minister met with the association.

The statement cited ABL chairman Salim Sfeir as saying the meeting "was very positive". He later said in a tweet that banks would work to bring down interest rates.

The central bank told commercial banks in December to cap their interest rates on deposits in foreign currencies at 5% and to cap the rate on Lebanese pound deposits at 8.5%.

The outgoing economy minister, Mansour Bteish, said this month that Lebanon must bring interest rates down drastically as a first step towards rescuing its economy.

(Reporting by Eric Knecht and Ellen Francis; editing by Ghaida Ghantous and Gareth Jones)
((eric.knecht@thomsonreuters.com; Reuters Messaging:
eric.knecht.thomsonreuters.com@reuters.net))

Malaysia

Fitch Ratings: Malaysia Confronts Challenge of Shoring up Investor Confidence

31-Jan-2020

Fitch Ratings-Hong Kong-January 30: **Malaysia's ruling Pakatan Harapan (PH) coalition has been making progress in addressing uncertainties that surfaced after the 2018 election about the medium-term outlook, says Fitch Ratings.** The government has faced a difficult task since taking office to reassure investors of policy continuity amid persistent concerns about political stability, fiscal consolidation and the outlook for economic growth.

In a video interview with Fitch Ratings just released, Malaysia's Minister of Finance Lim Guan Eng emphasised the government's commitment to fiscal consolidation over the medium term in light of Malaysia's relatively high public debt at 65% of GDP. In its 2020 budget announced last October, the government set a deficit target of 3.2% (from our expected outturn of 3.4% in 2019), which the minister stressed balances the need to support growth against the need to narrow the deficit over time. He also emphasised that last year's special dividend from Petronas was a one-off.

The PH administration's first budget in November 2018 raised investor concerns about the fiscal outlook, following the repeal of Malaysia's goods and services tax (GST), although these were balanced by expectations of improved fiscal transparency and governance. The government replaced the GST with a sales and services tax, which partly offset the revenue loss, and has sought to reassure investors that it remains committed to fiscal consolidation. However, this commitment could be tested if revenues underperform or if Malaysia's economy were hit by new economic shocks, such as the outbreak of the Wuhan coronavirus. There are also risks associated with Malaysia's high property prices and household debt.

The government's fiscal projections could be challenged if oil prices were to fall below its expectations. Fitch believes the loss of revenues from the GST makes the budget more reliant on oil proceeds. Nevertheless, the government's oil price forecast in the 2020 budget is not unduly optimistic, at USD62 per barrel, and aligns closely with our own forecast in the December Global Economic Outlook of USD62.50 this year.

Another source of potential unease for investors, which the minister sought to allay in the interview, is the risk of near-term political volatility. The PH coalition has an agreement that Prime Minister Mahathir Mohamad will hand over power to Anwar Ibrahim, head of the Parti Keadilan Rakyat. Although the agreement reportedly stipulated that this transition would take place within two years of the PH taking power, no formal date has been set for it.

The perception of the PH administration among foreign investors is particularly significant for Malaysia as foreign-investor holdings of domestic government bonds amount to around 20% of the total, albeit down from a high of 33% in 2016 and less than Indonesia's 39%. Foreign direct investment could also serve to support faster economic growth. Malaysia has potential to benefit from the ongoing relocation of export-oriented manufacturing from China. So far Malaysia's exports, which are diversified across commodities and manufactured goods, have held up reasonably well, and GDP growth is estimated by Fitch at 4.5% in 2019 and 4.3% in 2020. In our interview, Minister Lim noted that

the government believes Malaysia's economic performance in 2020 will be better than in 2019.
The PH coalition has made significant strides in improving Malaysia's governance standards since taking office, which has helped to bolster the country's credit rating. It has notably improved fiscal transparency and moved to tackle corruption scandals, such as 1MDB. This has been reflected in a jump in its World Bank governance indicators, the biggest improvement among Fitch-rated sovereigns over the last year. There is nevertheless potential for further improvement as Malaysia's governance indicators remain below those of its 'A-' rated peers.

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.

Philippines

Philippines launches 3-year retail bond offer, sets coupon at 4.375%

28-Jan-2020
MANILA, Jan 28 (Reuters) - **The Philippine government on Tuesday launched an offer to sell and exchange peso-denominated retail Treasury bonds due in 2023 for notes maturing in April this year, setting the coupon rate at 4.375% via an auction.**
The Bureau of the Treasury fully awarded its auction offer of 134 billion pesos ($2.63 billion) of the peso-denominated bonds at an average rate of 4.297%, against tenders totalling 149.83 billion pesos.
The debt swap opportunity for holders of existing 4.25% retail Treasury bonds due on April 11 is available until Feb. 6, while the offer to small investors also runs in the same period. Bond issuance is set for Feb. 11, the BTr said.
The bond exchange offer lengthens the government's debt maturity, helping it manage refinancing risks.
The government last issued RTBs in March 2019, raising around 236 billion pesos via a public offer of five-year notes for budgetary support.
The Philippines, one of Asia's fast-growing economies, has programmed a record 4.1 trillion peso national budget for this year, with a sizeable portion allotted for an ongoing infrastructure overhaul.

($1 = 50.95 Philippine pesos)
(Reporting by Enrico dela Cruz; Editing by Kim Coghill)
((enrico.delacruz@tr.com; +632 841-8934))

Sri Lanka

Sri Lanka central bank unexpectedly cuts key interest rates to support growth

30-Jan-2020
- **SDFR, SLFR cut by 50 bps each**
- **SRR left unchanged at 5%**
- **Inflation seen below 5% in 2020**

By Swati Bhat
MUMBAI, Jan 30 (Reuters) - **Sri Lanka's central bank cut both its key interest rates by 50 basis points in an unexpected move on Thursday, citing the need to support an economic recovery.**
This is the third time in less than nine months that it has reduced rates, having first cut rates in May following the Easter bomb attacks that triggered a slump in investments and tourism in a blow to domestic growth.
The Central Bank of Sri Lanka (CBSL) lowered the standing deposit facility rate (SDFR) and standing lending facility rate (SLFR) by 50 basis points (bps) each to 6.50% and 7.50%, respectively. The statutory reserve ratio (SRR) was, however, left unchanged at 5%.
Headline inflation, as measured by the year-on-year change in the Colombo Consumer Price index (CCPI), accelerated in December due to domestic supply disruptions.
"In spite of such short-term fluctuations, the near-term forecast suggests that inflation will hover below 5% in 2020, and stabilise between 4%-6% thereafter, assisted by appropriate policy measures and underpinned by well-anchored inflation expectations," the CBSL said in its policy statement.
Economists were sceptical about the central bank cutting rates at its first monetary policy meeting of 2020, especially after a slew of fiscal-loosening measures taken by the new government over the past two months.
Newly elected President Gotabaya Rajapaksa promised to boost annual growth to 6.5% in his election manifesto. The economy grew 3.2% last year, the slowest pace in 17 years.
It grew at a slow pace of 2.6% in real terms in the first nine months of 2019. The rate of growth for the whole year is likely to be around 2.8%.
"Given that credit growth has been picking up in absolute terms since around August/September and overall lending rates have moved lower, this cut may have come in too soon," said Trisha Peries, product head of economic research at Frontier Research.
"It is likely to increase pressures towards end-2020 and into 2021, if there is an excessive build-up in demand conditions."
The national consumer price inflation rose 6.2% in December, compared with a 4.1% rise in the previous month.
With Thursday's cut, the central bank has cumulatively reduced its benchmark rates by

150 bps and the SRR by 250 bps, releasing around 150 billion rupees ($832 million) of liquidity into the financial market.
As money market rates have continued to decline albeit at a slower pace, the CBSL said it felt it was essential that the rates should fall further to support a probable pickup in credit growth and economic activity.
"The growth of money and credit aggregates is expected to accelerate with the envisaged continued decline in lending rates," it said.
Analysts said the rate cuts would help growth but at the expense of stability in financial markets, as lower rates put pressure on the rupee and drive foreign funds out of domestic bonds.
"The Monetary Board will stand ready to respond to any build-up of demand-driven price pressures in the foreseeable future," the CBSL said.

(Reporting by Swati Bhat; Editing by Shounak Dasgupta and Subhranshu Sahu)
((swati.bhat@thomsonreuters.com; twitter.com/swatibhat22; +91-22-68414381; Reuters Messaging: swati.bhat.thomsonreuters.com@reuters.net))

Thailand

Thai court to rule on validity of delayed $104 bln budget bill

29-Jan-2020
BANGKOK, Jan 29 (Reuters) - **Thailand's Constitutional Court agreed on Wednesday to rule on the validity of a $104 billion budget bill for the fiscal year that began in October, suggesting a further delay to spending plans aimed at reviving the struggling economy.**
Some lawmakers had sought a ruling from the court after the discovery of an irregularity during the parliamentary vote that passed the bill in January.
"The court has taken the case," the Constitutional Court said in a statement. It did not say how long it would take to make a decision.
The proposed budget foresees a 7% rise in overall spending to 3.2 trillion baht ($104 billion) for the current fiscal year. It projects a budget deficit of 469 billion baht, up 4.2% from the 2019 fiscal year.
Southeast Asia's second-largest economy has lagged most regional peers for years, growing an estimated 2.5% in 2019, the slowest pace in five years.
Earlier on Wednesday, the finance ministry cut its 2020 economic growth forecast to 2.8% from 3.3%.

($1 = 30.9 baht)
(Reporting by Panarat Thepgumpanat
Writing by Orathai Sriring
Editing by Catherine Evans)
((orathai.sriring@thomsonreuters.com; +662 0802309; Reuters Messaging: orathai.sriring.thomsonreuters.com@reuters.net))

EUROPE

Albania

Albania plans to issue 600 mln euro bond

29-Jan-2020
TIRANA (Albania), January 29 (SeeNews) – **Albania's finance ministry said it intends to issue a Eurobond of up to 600 million euro ($660.9 million) with a maturity from 7 to 10 years on the international markets later this year.**
The proceeds will be used to cover the government financing needs and manage proactively debt liabilities, the ministry said in a statement late on Monday.
“This transaction is consistent with the medium term debt management strategy of the government to adequately finance the budget at the least cost and a prudent level of risk,” the ministry noted.
The ministry also said it is inviting bids for joint lead managers. The deadline for submitting proposals is February 5.
In 2015, Albania issued a 500 million euro seven-year Eurobond with a coupon of 3.50%, down from 5.75% on its five-year Eurobond issued in 2015.

($ = 0.90775 euro)

Andorra

Fitch Affirms Andorra at 'BBB+'; Outlook Stable

31-Jan-2020
Fitch Ratings-London-January 31:
Fitch Ratings has affirmed Andorra's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook.
KEY RATING DRIVERS
Andorra's 'BBB+' rating is supported by high GDP per capita (more than three times the 'BBB' median), favourable governance indicators, low and improving net public indebtedness, and a track record of fiscal prudence. This is set against Andorra's small and undiversified economy, gaps in the availability of economic data, and risks associated with a large financial sector (consolidated bank assets are close to 500% of GDP) without a credible "lender of last resort".

Fitch forecasts a reduction in the general government surplus to 1.8% of GDP in 2020 and 1.4% in 2021, from an estimated 2.1% in 2019 (and an average 2.9% in 2015-2018). This is driven by smaller local government and social security surpluses, with the central government position expected to remain close to balance. **We estimate the 2019 central government surplus at 0.1% of GDP, a 0.2pp improvement on 2018 and outperforming the government target of a 0.8% of GDP deficit due to recurrent expenditure restraint and a boost to direct taxes from stronger economic growth.** December's updated budget plan does not include any sizeable new fiscal measures and leaves all headline tax rates unchanged. More generally, there has been a relatively high degree of policy continuity since the new coalition government came to power last May.

General government debt has continued to fall gradually to 35.3% of GDP at end-2019 since peaking at 41.9% in 2012, and is below the current 'BBB' median of 41.1%. Fitch forecasts a further reduction to 33.5% in 2021 on the back of sustained primary surpluses and moderate GDP growth. One and three-year domestic bond issuances in 2H19 (at 0.45% and 0.90%, respectively) lowered average debt interest costs to an estimated 1.3% of revenues, from 1.4% in 2018, compared with the peer group median of 7.1%. However, the average maturity of debt reduced to 2.7 years, from 3.0 years at end-2018 ('BBB' median 6.7 years). The sovereign's balance sheet is enhanced by a large stock of liquid assets in the social security sector, which rose 3.1pp in 2019 to 50.0% of GDP. The annual social security surplus has averaged 2.0% of GDP in 2017-2019, but is projected by the government to move into deficit by 2025.

Progress towards an EU association agreement continues, although it slowed somewhat last year, partly due to the elections. The chapter on the free movement of goods is complete and Fitch expects the remaining three pillars will take several years to conclude, after which there will be a confirmatory referendum. **The government applied for IMF membership in January 2020, with the aim of joining by year-end, which we view as an ambitious timetable.** This process could lead to the development of balance of payments statistics, which would help address Andorra's main data gap from a sovereign rating perspective. Some further steps have been made in Andorra's alignment with international standards of financial regulation and tax transparency. Following last year's removal from the EU "grey list" of non-cooperative tax jurisdictions, December's Moneyval anti-money-laundering evaluation was generally positive.

GDP growth quickened to an estimated 2.4% in 2019, from 1.6% in 2018, on the back of firm private consumption, and construction growth of close to 6%. Domestic demand is supported by further, albeit moderating, employment growth of 1.9% in the first 10 months of 2019 (from 3.0% in 2018) and a pick-up in FDI, of 7.8% of GDP (from 5.5% in 2018). Tourism was affected by unfavourable weather conditions, with visitor days falling 1.8% to 13.9 million in 2019, but has recovered strongly this month. Closure of the border with France for two weeks due to landslides also weighed on tourism and trade, with export growth slowing 4.3pp in 2019 to 1.4% and imports by 4.0pp to 0.7%. Fitch forecasts a moderation in GDP growth to 1.9% in 2020, partly due to cooling activity in Spain (which accounts for 62% of exports and 41% of FDI), and 1.5% in 2021, which is in line with our assessment of the trend rate.

Overall inflation remains muted at 0.6% in the year to November, similar to 2018, and Fitch forecasts a gradual increase to 1.0% this year and 1.3% in 2021. This partly reflects expectations of stronger average wage growth, which slowed to 0.9% in 2019, from 2.7% in 2018, despite ongoing labour market tightness and a 10-year low annual unemployment rate of 1.7%. House prices are recovering, up 9.2% in the year to 3Q19, but this still leaves them 29.3% below their 2011 level. Credit growth has also started to revive, following an average annual real contraction of 4.7% in 2017-2018 (which was partly due to the collapse of the Banca Privada d'Andorra), and we expect an increase to 1.5% in 2019, broadly in line with GDP growth.

The size of the banking sector and the lack of a lender of last resort mean the sector represents a large contingent liability for the sovereign. However, credit fundamentals have been resilient to the transition to a more tightly regulated, competitive, and lower-margin private banking business model. The average bank Viability Rating is 'bbb', and the main credit metrics are broadly stable. Fitch anticipates a modest improvement in profitability (return on equity was 7.3% in 2018), driven by increased revenues from international operations, and for capital buffers to be maintained following last year's introduction of Basel III (the phased-in CET1 ratio at end-2018 was 16.3%). The NPL ratio (8.6% at end-2018, including foreclosed assets) is higher than peers, but this is mitigated by improved loan coverage (at 81.5%). There is a stable customer deposit base that comfortably funds the loan book and liquidity positions are conservatively managed.

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

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

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

- Structural factors: -1 notch, to reflect the relatively large banking sector and lack of a credible lender-of-last-resort that would make the economy and the sovereign balance sheet

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

RATING SENSITIVITIES

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

- Reduced risk of contingent liabilities from the banking sector materialising on the sovereign balance sheet
- More rapidly declining government debt/GDP, for example due to fiscal consolidation or improved GDP growth prospects
- Greater confidence in the strength of the external sector, for example through the development of robust balance of payments statistics

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

- Rising government indebtedness, for example due to fiscal slippage or worsening economic prospects
- Increasing risk of contingent liabilities from the banking sector crystallising on the sovereign's balance sheet

KEY ASSUMPTIONS

- Fitch has not included potential costs of financial damages from the lawsuit brought by Banca Privada d'Andorra's former owners against the government in its public finance projections.
- Our public debt projections assume remaining annual social security fund surpluses are rolled up in the fund, rather than being used to pay down public debt.
- Global macroeconomic developments are in line with Fitch's Global Economic Outlook (December 2019).

A number of data series that feed into our credit analysis are not available for Andorra, principally on the Balance of Payments and External Balance Sheet. This is addressed by the use of estimates of key data items, and conservative assumptions e.g. on sovereign external debt, augmented by qualitative discussions with the Andorran authorities and independent banking sector analysts. These give us sufficient information to assess with reasonable confidence the impact of Andorra's External Finances on the overall rating. The main data adjustments made are:

- Current account plus FDI: assumed to be 0% of GDP (a conservative assumption, given that Andorra's tourism sector implies a structural current account surplus);
- External interest service: assumed to be the same as the 'BBB' median projections for the three-year average centred on 2019 (4.0% of current account receipts);
- Broad money estimates are unavailable; we have used information from the consolidated balance sheets of Andorran banks as a proxy.

ESG CONSIDERATIONS

Andorra has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight.
Andorra has an ESG Relevance Score of 5 for Rule of Law, Institutional Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight.
Andorra has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as strong social stability and voice and accountability are reflected in the World Bank Governance Indicators that have the highest weight in the Sovereign Rating Model (SRM). They are relevant to the rating and a rating driver.
Andorra has an ESG Relevance Score of 4 for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Andorra, as for all sovereigns.
Andorra; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Sta;
Short Term Issuer Default Rating; Affirmed; F2;
Country Ceiling; Affirmed; A+

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Bulgaria

Bulgaria on path to adopt euro in 2023 -IMF's Georgieva

26-Jan-2020
SOFIA, Jan 26 (Reuters) - **Bulgaria's plans to enter the Eurozone's waiting room this spring and adopt the euro currency in 2023 are "completely foreseeable", the head of the International Monetary Fund said on Sunday.**
The Balkan country, a European Union member since 2007, hopes to join the precursor to Eurozone membership, the ERM-2 exchange rate mechanism, by the end of April and adopt the euro in 2023.
"My expectations are that the plans for Bulgaria's eurozone entry will happen exactly as made," IMF head Kristalina Georgieva told national BNR radio.
"Of course one should not say 'hop' until one jumped, but things are looking very good," she said.
Georgieva said the European Central Bank

President Christine Lagarde "sees very positively" Bulgaria's push for eurozone entry and told her at the World Economic Forum in Davos that "it seems Bulgarian would soon be spoken in my hall where eurozone meetings take place".
Georgieva, who is of Bulgarian origin, said eurozone entry will be beneficial for the country and provide more monetary security and shield it from global uncertainty.
Bulgaria, whose lev currency is already pegged to the euro, meets the nominal criteria to adopt the single currency, with healthy public finances and low debt, but is also one of the EU's poorest and most corrupt member states.
A comprehensive assessment at six Bulgarian lenders by the ECB last year found capital shortfalls at two locally owned banks, but both First Investment Bank and Investbank has since announced plans to raise their capital.
"Bulgaria as a whole stands very well. There are two banks that had some issues but they are working on them and I do not see any problems," Georgieva said.

(Reporting by Tsvetelia Tsolova, Editing by William Maclean)
((tsvetelia.tsolova@thomsonreuters.com; +359-2-93-99-731;))

Bulgaria's gross foreign debt grows 1.4% at end-Nov

29-Jan-2020
SOFIA, Jan 26 (Reuters) - **Bulgaria's gross foreign debt totalled 34.6 billion euro ($38.1 billion) at the end of November, up by an annual 1.4%, the central bank said on Wednesday.**
The gross foreign debt at the end of November was equivalent to 56.6% of the projected 2019 gross domestic product (GDP), the Bulgarian National Bank said in a statement.
At the end of November, Bulgaria's external debt was 0.2% higher compared to a month earlier.

($ = 0.9088 euro)

Bulgaria sees fiscal surplus of 0.7% of GDP in January

31-Jan-2020
SOFIA, Jan 31 (Reuters) - **Bulgaria expects a fiscal surplus equal to 0.7% of gross domestic product in January after one-off spending on war planes forced it to end 2019 with a budget shortfall of 1% of GDP, the finance ministry said on Friday.**
Sofia, which is preparing to enter the eurozone's "waiting room", the ERM-2 mechanism, in April, aims to balance its fiscal books in 2020 and keep it that way till 2023, when it hopes to adopt the euro.
The finance ministry expects the small, open economy growing by 3.3% this year and to maintain a similar growth rate over the next three years.
Bulgaria's consolidated fiscal programme recorded a shortfall of 1.2 billion levs ($681 million) or 0.97% of GDP last year, the ministry said in a statement.
Government revenues were 44 billion levs last year, up 11% compared to 2018. Spending was 45.2 billion levs, up 14% on the year, mainly due to the purchase of eight new F-16 fighter jets and a 10% increase in public sector salaries, finance ministry data showed.
The fiscal reserves, held under a currency regime pegging the lev to the euro, stood at 8.8 billion levs at the end of December.

($1 = 1.7626 leva)
(Reporting by Tsvetelia Tsolova
Editing by Gareth Jones)
((tsvetelia.tsolova@thomsonreuters.com; +359-2-93-99-731))

Hungary

Hungary brought back €1 billion of high-yield FX bond

30-Jan-2020
Hungary brought back €1 billion of high-yield FX bonds, saving the state 42.7 billion forints (€26.4 million) in debt servicing expenditures, said Finance Minister Mihály Varga.
And the unemployment rate fell to 3.3% in December, down 0.2% from the previous month and 0.3% lower than twelve months earlier, the Central Statistical Office (KSH) announced.
"Another FX bond issue was not necessary to refinance the debt as the bonds had been repurchased with existing forint and FX liquidity", said Varga.
He noted that the credit default swap (CDS) spread on Hungary's sovereign debt is now under 50bp: in 2010, the CDS spread on Hungarian government securities was around 400bp.
Meanwhile, the unemployment rate covers those between the ages of 15 and 74. In absolute terms, there were 155,200 unemployed, 8,100 fewer than in the previous month and down 12,000 from a year earlier.
The unemployment rate in the 15-24 age group stood at 12.2%, up 2.1% from the year before. The unemployed in this age group account for more than one-quarter of all jobless, KSH noted.

Hungary's central bank warns market

liquidity could drop in short term

30-Jan-2020

By Krisztina Than

BUDAPEST, Jan 30 (Reuters) - **Hungary's central bank warned of an impending drop in interbank market liquidity on Thursday as it tries to fine-tune liquidity conditions via its swap tenders, with the forint trading near all-time lows.**

The forint fell to a record low versus the euro on Monday after the bank's last such swap tender. Some market players said investors had expected more tightening in liquidity by the central bank than it had delivered.

The swap tenders, which allow the National Bank of Hungary to manage forint liquidity in the banking system, have been an important policy tool for the bank, which has held on to its dovish stance.

The NBH said in a study on its website on Thursday that the current abundance of liquidity in markets was misleading, and "might melt away rapidly."

"All this means that the banking sector's current abundant liquidity might decline substantially even if the NBH's swap stock does not decrease. That should be taken into account in forecasting expected liquidity conditions," NBH directors Barnabas Virag and Pal Kolozsi said.

Last June, the bank was forced to hold an extraordinary one-week swap tender to cope with a sudden liquidity shortage in the banking system, which pushed up interbank rates well beyond levels desired by the bank.

Peter Virovacz, an analyst at ING said the comments from the bank were a "gentle reminder that the FX swaps are not for an FX management purpose but a liquidity management tool."

The forint eased to 338.16 from 337.50 after the bank published the comments on Thursday and analysts said there was room for more weakening.

"Their message is that the current monetary policy stays," said Zoltan Varga, an analyst at brokerage Equilor. Varga said the forint could soon test the level of 340 if important resistance at 338.20 is broken.

"The NBH seems to be reluctant to tighten liquidity conditions faster reacting to FX volatility ahead of government operations draining liquidity, which may maintain pressure on the HUF in the short term amidst rising global risk aversion," Citigroup analyst Eszter Gargyan said in a note on Thursday.

(Reporting by Krisztina Than and Gergely Szakacs, editing by Larry King)
((krisztina.than@thomsonreuters.com))

Lithuania

Fitch Upgrades Lithuania to 'A'; Outlook Stable

31-Jan-2020

Fitch Ratings-Frankfurt am Main-January 31:

Fitch Ratings has upgraded Lithuania's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'A' from 'A-'. The Outlook is Stable.

KEY RATING DRIVERS

The upgrade of Lithuania's Long-Term IDRs reflects the following key rating drivers and their relative weights:

HIGH

Solid real GDP growth has brought GDP per capita at market exchange rates close to 90% of the current 'A' median, from 68% in 2014, when we upgraded Lithuania to 'A-'. The economy has weathered the slowdown in its main trading partners, with Fitch revising its 2019 growth estimate upwards to 3.9% ('A' forecast median of 2.8%), a slight uptick from 2018 (3.6%). Fitch forecasts growth to moderate to 2.6% in 2020 and 2.4% in 2021, in line with Lithuania's potential growth and the 'A' forecast median for the period.

General government debt, net of pre-funding requirements, is estimated to have fallen to 33.8% of GDP at end-2019, compared with the forecast 'A' median of 50%. Lithuania pre-financed its USD1.8 billion Eurobond redemption in February 2020, and consequently gross debt jumped to 36.5% of GDP in 2019 (from 34.1% in 2018), but Fitch expects it to edge down to 34.7% in 2021, owing to primary surpluses close to 1% of GDP and relatively high nominal GDP growth throughout the forecast period. Lithuania enjoys low borrowing costs as a eurozone issuer. Interest payments/revenues are estimated at 2.5% in 2019, compared with the current peer median of 4.7%.

Fitch has increased confidence that Lithuania's policy framework, characterised by prudent fiscal policy and eurozone membership, will continue to reduce macroeconomic volatility and mitigate the economy's vulnerability to shocks. The recent period (2015 up to forecast 2019) of high growth has been accompanied by fiscal surpluses (average of 0.2% of GDP), current account surpluses (average of 0.4% of GDP), and relatively stable inflation (average of 1.7%), in sharp contrast with the five years prior to the last recession (2009). Fitch believes there are no materially significant macroeconomic imbalances being formed in Lithuania.

Lithuania remains a net external debtor, estimated at 9.5% of GDP in 2019 (the peer median is a net external creditor position of 9.7% of GDP) and has an estimated negative net international position of -26.4% of GDP in 2019, but these are on a fast improving trend. Net external debt is highly inflated by ECB operations and intra-company debt, owing to the large presence of foreign banks in Lithuania.

MEDIUM

Fitch expects a fiscal surplus for 2019 of 0.1% of GDP, compared with the 'A' median deficit of -1.2%, in line with government estimates. This would be the fourth consecutive year of surpluses, highlighting the government's commitment to fiscal prudence. As tax collection has slightly underperformed under the new tax system, we are more conservative then the government in our revenue projections for 2020-2021. We project the surplus to stabilise in 2020, and be in balance by 2021, below the government targets.

Widening current account surpluses (forecast of 2.9% of GDP in 2019, against the 'A' median of 1.6%) and continued external deleveraging in the private sector have strengthened Lithuania's external position faster than expected. Meanwhile, despite an increase in unit labour costs, Lithuania has maintained competitiveness due to a gradual shift in the tradeable sector towards higher value exports (particularly in goods). For 2020-2021, Fitch forecasts an average current account surplus of 2.4% of GDP, well above the projected median current account surplus of its 'A' category peers (1.1%).

Lithuania's 'A' Long-Term IDRs also reflect the following key rating drivers:

Lithuania achieved positive net migration in 2019, the first time since at least 1991. This contributed to an overall population increase (month-on-month) starting in May 2019, also a first. If net migration remains positive, especially if accompanied by the return of highly-skilled citizens, Fitch would likely revise upwards its estimates for Lithuania's growth potential.

Wages increased by around 8.8% in 1Q-3Q19 in nominal terms, in line with the neighbouring Baltics. However, given the low level of labour costs in Lithuania (EUR9 per hour in 2018, about 33% of the EU-28 average), the rise is modest in absolute levels, and has not affected external competitiveness. Fitch estimates inflation to have been 2.2% in 2019, higher than peers (1.7%) and the eurozone average (1.2%), but down from 2018. We project inflation to remain on a downward trend, averaging 2% in 2020-2021.

The banking sector is highly profitable and well-capitalised, but also highly concentrated, dominated by subsidiaries of Nordic banks. According to ECB data, key metrics are on an improving trend. The Common Equity Tier 1 ratio was 19.5% at end-1Q19 (19.3% at 1Q18) and non-performing loans fell to 2.2% of gross loans at 1Q19 from 3% at 1Q18. Household debt rose to 28.6% of GDP at 1Q19, but is still in line with its long-term average, and low compared with the euro area average. Mortgage growth averaged 8.6% yoy in 2H19 (up to November), in line with the recent average, and credit growth to non-financial corporations returned to positive in October 2019 (0.8% yoy growth in November 2019).

Governance indicators, as measured by the World Bank, are broadly in line with the current peer median. The political scene has remained relatively stable, with the widened coalition being able to pass legislation. There is little difference between parties on economic issues and a consensus around fiscal conservatism. The next parliamentary elections are due by October 2020.

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

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

Fitch's sovereign rating committee did not adjust the output from the SRM to arrive at the final LT FC IDR.

The committee decided to remove the -1 notch on the external finances, which had reflected the vulnerability to shocks in Lithuania's main trading partners and specific sectors, due to the small size and openness of the economy. External finances have improved substantially and are on a positive trend, mitigating risks, and the committee judges that a negative notch adjustment is no longer warranted.

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

RATING SENSITIVITIES

The main factors that could, individually or collectively, trigger positive rating action include:

- Increased confidence in Lithuania achieving higher potential economic growth, especially if accompanied by reforms to tackle weak demographics, thus fostering higher income per capita and avoiding macroeconomic imbalances.
- A faster decline in government debt/GDP than we currently forecast.
- A sustained improvement in external debt ratios closer to the 'A' median.

The main risk factors that could, individually or collectively, trigger negative rating action are:

- Weaker growth prospects, for example due to delay in implementing the necessary reforms to tackle Lithuania's weak demographic profile.
- Deterioration in Lithuania's public debt dynamics, for example, from sustained fiscal slippage or economic underperformance.
- Deterioration in external finances, for example, associated with overheating of the domestic economy or worsening international competitiveness.

KEY ASSUMPTIONS

The global economy performs in line with Fitch's December 2019 Global Economic Outlook.

Fitch assumes that under severe financial stress, support for subsidiary banks would come first and foremost from their foreign parent banks.

ESG CONSIDERATIONS

- Lithuania has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank

Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver.

- Lithuania has an ESG Relevance Score of 5 for Rule of Law, Institutional Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver.
- Lithuania has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore relevant to the rating and a rating driver.
- Lithuania has an ESG Relevance Score of 4 for Creditors Rights as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns.

Lithuania; Long Term Issuer Default Rating; Upgrade; A; RO:Sta;
Short Term Issuer Default Rating; Upgrade; F1+;
Local Currency Long Term Issuer Default Rating; Upgrade; A; RO:Sta;
Local Currency Short Term Issuer Default Rating; Upgrade; F1+;
Country Ceiling; Affirmed; AAA;
Senior unsecured; Long Term Rating; Upgrade; A

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

North Macedonia

North Macedonia sells 1.5 bln denars (24.2 mln euro) of govt paper

28-Jan-2020

SKOPJE (North Macedonia), **January 28 (SeeNews) – North Macedonia's finance ministry sold 1.5 billion denars ($26.7 million/24.2 million euro) worth of government securities at auctions on January 28, the central bank said on Tuesday.**

The finance ministry sold 600 million denars of one-year T-bills and 900 million denars of 30-year T-bonds, the central bank said in a statement.

The central bank sells government securities on behalf of the finance ministry through volume tenders, in which the price and coupon are set in advance and primary dealers only bid with amounts.

(1 euro = 61.05 denars)

Poland

Poland deserves higer ratings due to strong economy

31-Jan-2020

WARSAW, Jan 31 (Reuters) - **Poland deserves higher credit ratings from leading agencies such as Moody's, Fitch and S&P, because its finances and economic growth are solid, Finance Minister Tadeusz Koscinski said on Friday.**

In an interview with Reuters, Koscinski also dismissed criticism that investors might be discouraged by lower-than-expected economic growth in 2019 or by Warsaw's battles with the EU over its overhaul of the judicial system.

Since coming to power in 2015, Poland's eurosceptic, nationalist Law and Justice (PiS) party has introduced a series of judicial reforms which EU officials and democracy activists say may breach the bloc's rule of law standards.

"Investors see Poland in a different way. They are interested in the government's plan for further development and in macroeconomic parameters," Koscinski said, when asked about the possible impact of the reforms on investors' perceptions.

"I hope that agencies will be analysing our economic situation and will raise our rating. I think the current ratings do not fully reflect Poland's economic situation."

Standard & Poor's and Fitch both have Poland's long-term ratings at A- with a stable outlook, while Moody's rates the EU's biggest former communist member state at A2.

Poland expects its general government deficit will amount this year to 1.2% of gross domestic product, well below the EU's ceiling of 3%.

Some analysts say the 2020 budget is built on a promise of one-off revenues and that some of them may not materialise. Koscinski saw no need for a plan B and said that the 2020 budget was balanced when measured according to domestic methodology.

He saw no need to change the rule that caps state budget spending in order to open the way for increased social spending.

"We have to talk about and analyse (this issue), but for the moment I do not see a need to change the spending rule due to social spendings," he said.

He added that he plans no significant debt issue abroad this year, as he wants to avoid adding foreign exchange risk to the budget, after Poland recently issued green bonds and bonds with a negative yield to strengthen its investment status.

However, Koscinski said, Poland may repeat its green bonds issue.

(Reporting by Pawel Florkiewicz and Marcin Goclowski Editing by Gareth Jones)
((marcin.goclowski@thomsonreuters.com))

Romania

Romania's 2019 budget deficit stood at 4.6% of GDP

28-Jan-2020
BUCHAREST, Jan 28 (Reuters) - **Romania ran a higher-than-expected consolidated budget deficit of 4.6% of gross domestic product last year, driven by one-off expenses and uncollected revenue from dividends, Finance Minister Florin Citu said on Tuesday.**
The shortfall, significantly above the European Union's ceiling of 3% of GDP, risks triggering an excessive deficit procedure from the European Commission, which could push up Romania's borrowing costs and put pressure on its leu currency.
Citu's Liberal minority government, which came to power in November after the collapse of a Social Democrat cabinet, aims to lower the deficit to 3.6% of GDP this year and to below 3% by 2022.
On Tuesday, Citu said the 2019 deficit, which was 0.2 percentage points above target, would not have an impact on this year's deficit.
The European Commission, ratings agencies and analysts have warned a 40% hike in pensions from September, approved by the Social Democrats last year, posed the biggest challenge to Romania's budget this year and next.
Faced with local and parliamentary elections this year, the Liberals have repeatedly said they plan to push the hike through.
However, earlier this year, Prime Minister Ludovic Orban said the increase, the largest in three decades, was not "100% guaranteed" and depended on economic developments and better tax collection.
Throughout their three years in power, the Social Democrats went back and forth on tax plans, hiked state wages and pensions at the expense of infrastructure investment and introduced measures without impact assessment and public debate.
In nominal terms, the deficit stood at 48.3 billion lei ($11.22 billion) at the end of December. Budget revenue totalled 321.13 billion lei, or 30.9% of GDP.

($1 = 4.3063 lei)
(Reporting by Luiza Ilie; Editing by Kirsten Donovan)
((radu.marinas@thomsonreuters.com; +40 21 527 04 33))

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Romania to issue 5 bln lei (1.04 bln euro) of domestic debt in Feb

31-Jan-2020
BUCHAREST (Romania), January 31 (SeeNews) - **Romania's finance ministry said on Friday it intends to sell 5 billion lei ($1.15 billion/1.04 billion euro) worth of government securities in February, including 615 million lei in non-competitive offers.**
The finance ministry plans seven auctions of government securities with residual maturities ranging from 2-1/2 to 15 years and an auction of one-year Treasury bills, according to an issuance plan published in the Official Gazette.
The ministry planned to place 5 billion lei worth of government securities in January. It overshot its target by selling 6 billion lei and 3 billion euro ($3.3 billion) worth of 2032 and 2050 Eurobonds.

(1 euro=4.7790 lei)

Russia

Russia eyes euro-denominated sovereign Eurobond in Q1

30-Jan-2020
MOSCOW, Jan 30 (Reuters) - **Russia is considering issuing a Eurobond denominated in euros in the first quarter of the year, a source familiar with the finance ministry's plans said.**
Russian debt is popular among foreign investors, who held more than 54% of its sovereign Eurobonds as of the end of 2019. But Russia needs to rethink its global borrowing plans after another round of U.S. sanctions imposed on Moscow last year.
The source, who asked not to be named because of the sensitivity of the issue, said the clearing firm Euroclear has confirmed that there will be no problem this year with issuing a Eurobond in the single European currency despite U.S. sanctions.
The finance ministry did not immediately reply to a Reuters request for comment.
In late December, Finance Minister Anton Siluanov said Russia may issue a Eurobond in 2020 that will be denominated in a currency other than the U.S. dollar.
The United States in August banned U.S. banks from buying sovereign Eurobonds directly from Russia to punish Moscow for the poisoning of a former Russian agent and his daughter in Britain. Moscow has denied any wrongdoing.
In September 2019, after the sanctions were imposed, the finance ministry said Russia was likely to keep its external borrowing plan for 2020 at $3 billion, the same level as in 2019.

(Reporting by Darya Korsunskaya; Writing by Andrey Ostroukh; Editing by Hugh Lawson)
((andrey.ostroukh@thomsonreuters.com; +7 495 775 1242))

Serbia

Serbia mulling new Eurobond issue in 2020

30-Jan-2020

BELGRADE (Serbia), January 30 (SeeNews) - **Serbia is considering the possibility for a new Eurobond issue of up to 2 billion euro ($2.2 billion) in 2020, more likely in the second half of the year, Erste Group said on Thursday.**

After the successful placement of 1 billion euro of Treasury notes in mid-2019, followed by the reopening of the issue for a further 550 million euro of government securities, Serbia is now considering another Eurobond issue this year, the Austria-based banking group said in an e-mailed statement.

However, as the government's attention is now turning to the upcoming parliamentary elections, no Serbian activity on the international capital market is expected before the second half of 2020, Erste said.

The government may postpone the issuance of new Eurobonds to the end of 2020 or the beginning of next year after a new assessment of the country's credit rating, the bank noted.

"The country targets an investment-grade rating which would create the opportunity to include a new group of investors. Moreover, this would entail greater confidence in investing in Serbia, lower and more stable level of returns, greater liquidity of investment instruments, a narrower spread in pricing, and new longer-term sovereign debt issues," Erste added.

Last month, Serbian finance minister Sinisa Mali said the country plans to borrow 2 billion euro ($2.2 billion) through the sale of government securities on the global markets in 2020. The borrowing through the issuance of domestic government debt is envisaged at about 312 billion dinars, Mali noted.

In November, Serbia sold 550 million euro worth of ten-year Treasury notes listed on the London Stock Exchange (LSE). The T-notes were added to a 1.0 billion euro issue of government securities first auctioned in June and were sold at an average yield of 1.25%, down by 37 basis points.

Serbia should hold regular parliamentary and local elections in the period between March 22 and April 5, 2020, President Aleksandar Vucic said in November.

($ = 0.907816 euro)

Serbia to issue long-term dinar-denominated bond

31-Jan-2020

BELGRADE (Serbia), January 31 (SeeNews) - **Serbia plans to issue a long-term dinar-denominated bond, in order to strengthen the dinarisation of the country's financial system, finance minister Sinisa Mali has said.**

"Our aim is to further strengthen the confidence of the citizens in the local currency, to increase the share of dinar deposits of the population and the economy, but also to reduce currency risks and create a healthy balance of currencies in Serbia's total public debt," Mali said in a statement earlier this week.

Serbia's government also plans to launch official cooperation with securities transactions settlement bank Euroclear, in order to facilitate foreign investment in Serbian sovereign debt and reduce borrowing costs, Mali said.

Last month, Mali said that the country plans to borrow 2 billion euro ($2.2 billion) through the sale of government securities on international markets in 2020. The borrowing through the issuance of domestic government debt is envisaged at about 312 billion dinars, Mali noted.

On Wednesday, Serbia sold 150 million euro of 20-year Treasury bonds on the domestic market at an average yield of 3.0%.

($ = 0.906756 euro)

Turkey

S&P affirms Turkey's ratings, outlook

31-Jan-2020

Jan 31 (Reuters) - **Ratings agency Standard & Poor's on Friday affirmed its long-term foreign currency sovereign credit rating on Turkey at 'B+' and outlook at stable, saying changes in current benign global financing conditions could hurt the country's growth strategy.**

"We also continue to see risks stemming from Turkey's international relations. Multiple points of contention remain in Turkey's relations with the U.S.", the agency added in a statement.

In December, a U.S. Senate committee backed legislation to impose sanctions on Turkey after its offensive in Syria and purchase of a Russian S-400 missile system.

Turkish President Tayyip Erdogan in response said Ankara would retaliate against potential U.S. sanctions over its purchase of Russian defense systems and a natural gas pipeline.

Ratings agency Fitch revised Turkey's outlook to "stable" from "negative" and affirmed its "BB-" rating in November, citing no impact to credit fundamentals by Ankara's operation in northeastern Syria.

(Reporting by Shivani Singh in Bengaluru)
((ShivaniSingh1@thomsonreuters.com; +91 80 6182 2803 (direct), +1-646-223-8780 (extension 2803))

Ukraine

Ukraine central bank deputy expects Ukraine to get $1.7 bln from IMF in 2020

30-Jan-2020

KIEV, Jan 30 (Reuters) - **Deputy Ukraine Central Bank Governor Dmytro Sologub said on Thursday he expected the IMF to disburse $1.7 billion in loans this year.**

Ukraine's government secured provisional agreement with the IMF for a new loan deal in December, though disbursement is conditional on the government's performance on reforms.

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

LATIN AMERICA AND CARIBBEAN

Argentina

Argentina economy minister to meet with IMF officials in NY

27-Jan-2020

BUENOS AIRES, Jan 27 (Reuters) - **Argentine Economy Minister Martin Guzman will meet with International Monetary Fund officials in New York on Tuesday, an IMF spokesman said on Monday, as the government continues talks with its biggest creditor ahead of a massive debt restructuring.**

Guzman will meet with Julie Kozack, the IMF deputy director for the Western Hemisphere, and Luis Cubeddu, head of the IMF's mission in Argentina, the spokesman said.

Argentina is preparing to renegotiate its debt with its creditors, including the IMF, which has a $57 billion financing program with the South American nation. The new center-left administration of President Alberto Fernandez set a March 31 deadline to renegotiate Argentina's rampant public debt.

The IMF spokesman declined to offer more details on the meetings. A spokesman for Guzman declined to comment on his agenda in New York.

Earlier on Monday, Guzman attended a Council of the Americas event in New York.

Guzman, a young economist with close ties to influential U.S. economist Joseph Stiglitz, has been tapped by Fernandez to help lead the country's debt restructuring and negotiations with creditors for about $100 billion in sovereign debt.

(Reporting by Cassandra Garrison; Editing by Sandra Maler and Leslie Adler)
((Cassandra.Garrison@thomsonreuters.com; +54 11 5544 6746))

Argentina's lower house approves debt renegotiation bill

29-Jan-2020

BUENOS AIRES, Jan 29 (Reuters) - **Argentina's lower house of Congress approved a bill on Wednesday that would enable the government of President Alberto Fernandez to handle a massive debt restructuring of bonds issued in foreign currency that it needs to negotiate with creditors.**

With support from the opposition, the bill was approved with 224 votes in favor and two against. The bill moves to the Senate, where it is expected to pass next week.

The Fernandez government, inaugurated on Dec. 10, is looking to renegotiate about $100 billion in sovereign debt amid a deep recession, inflation of more than 50% and a weakened peso currency. Fernandez set a deadline of March 31 to deal with Argentina's public debt.

"It is necessary to give tools in fiscal matters, in foreign exchange matters, and this bill gives tools to negotiate," said a former economy minister Jorge Sarghani who is a lawmaker for the ruling party.

Economy Minister Martin Guzman met with International Monetary Fund officials in New York on Tuesday for talks on how to proceed with its $57 billion credit facility agreed under the previous administration of Mauricio Macri in 2018, the largest in the Fund's history.

Guzman and Luis Cubeddu, head of the IMF mission in Argentina, both said the meeting was positive and productive.

(Reporting by Eliana Raszewski; writing by Cassandra Garrison; editing by Grant McCool)
((Cassandra.Garrison@thomsonreuters.com; +54 11 5544 6746))

Argentina plans new debt swap auction to push maturities

31-Jan-2020

BUENOS AIRES, Jan 31 (Reuters) - **Argentina's economy ministry said in a statement on Friday it was planning a new debt swap auction on Feb. 3 to exchange a bond maturing that month for others with later payment schedules in 2021 to help ease a wider debt crunch.**

The government said holders of a dual currency 2020 bond were invited to bid to swap for four new instruments. The 2020 bond matures on Feb. 13 and has outstanding payments due of $1.6 billion, Refinitv Eikon data show.

Argentina is struggling to make its debt

payments sustainable amid a stubbornly weak economy, high inflation, and after a sharp market crash last year battered the peso. It carried out an earlier swap on Jan. 20, helping delay payments.
The bondholders will be able to bid on four new instruments, all maturing on Aug. 5, 2021. They include three Treasury bonds denominated in pesos and a fourth in U.S. dollars.
The ministry said the debt swap would help "improve the maturity profile of the instruments in pesos."
Argentina's new Peronist government faces tough debt restructuring negotiations with international holders of its debt, including the International Monetary Fund. Local peso debt has so far proven easier to reprofile.

(Reporting by Eliana Raszewski; writing by Adam Jourdan; editing by Jonathan Oatis) ((adam.jourdan@thomsonreuters.com; +54 1155446882; Reuters Messaging: adam.jourdan.thomsonreuters.com@reuters.net))

Barbados

Central Bank of Barbados - Governor Cleviston Haynes Gives His Outlook for the Economy

30-Jan-2020
The Bank forecasts that the economy will expand within a range of 1.25 percent to 1.75 percent in 2020. This positive outlook hinges on continued growth in tourism and the recovery of private investment. Special events, including 'We Gatherin' Barbados' and the 15th UNCTAD quadrennial conference, should boost the tourism and ancillary sectors and complement the activity related to the investment projects that are expected to start during the year. The overall pace of activity will be influenced by the start-up date of these projects. Investors are finalising plans in several cases and obtaining the necessary regulatory approvals. Implementation of several of these projects is multi-year in scope and this should enhance medium term growth prospects by enhancing Barbados' competitive capacity.
Barbados is ranked 128th out of 190 economies and 20th out of 33 Latin American and Caribbean countries covered in the 2020 Doing Business Report. Structural reforms are therefore needed to improve competitiveness indicators to support sustainable long-term growth. Addressing weaknesses in the business climate, including the time required to obtain construction permits, acquiring electrical connections and registering properties together with improved labour market productivity, remain central to creating conditions for improved competitiveness and sustained growth. Enhancing doing business must also extend to the financial sector. To improve decision making in the sector, the Bank expects that the legislation supporting fair credit reporting will come on-stream during 2020, providing a regulatory framework for licensing and regulating credit bureaus. In addition, the Bank will continue to promote improved delivery of financial services, particularly in the area of payments. This improvement will involve extending access to the Automated Clearing House directly to the credit union sector for direct debits, upgrading the Real Time Gross Settlement system, introducing oversight legislation for the payments system and promoting the reduced use of paper-based transactions such as cheques and cash so as to improve settlement efficiency of domestic payments.
In its latest release of the short-term energy outlook, the U.S. Energy Administration forecasts a modest increase in the price of West Texas Intermediate crude oil. This projected increase follows the confirmation of deepening production cuts by Organisation of Petroleum Exporting Countries members and Russia, along with expectations of heightened demand pressures linked to the conclusions of phase one of the U.S.-China trade deal. The Bank forecasts that domestic inflation will slow to within the range of 2.5 percent to 3.0 percent. However, there remains a down-side risk to this outlook related to the agriculture production outturn.
Fiscal consolidation efforts will continue to be the bedrock of macroeconomic stability. Achieving the targeted primary balance at the end of fiscal year 2019/20 remains critical to building on the progress made in 2019. Such efforts will reduce public sector indebtedness, restore investor confidence and facilitate further sovereign credit rating upgrades.
With the completion of the external debt restructuring, the public sector's demand for foreign exchange will increase because of the resumption of debt service payments on the restructured debt. Nevertheless, further accumulation of international reserves is expected, given the forecast for improved economic activity and the on-going funding support of international financial institutions.

Brazil

Brazil 2019 current account deficit 2.76% of GDP, widest in four years

27-Jan-2020
By Jamie McGeever
BRASILIA, Jan 27 (Reuters) - **Brazil's balance of payments position with the rest of the world deteriorated last year, as a steep decline in the country's trade surplus contributed to the widest current account**

deficit in four years.
December's $5.69 billion current account deficit brought the total shortfall for the year to $50.76 billion, or 2.76% of gross domestic product, central bank figures showed on Monday. That was the widest gap by both measures since 2015 when Brazil was mired in one of its worst-ever recessions.
The 2019 figures compare with a deficit of $41.5 billion, or 2.20% of GDP, the year before. Central bank figures show the trade surplus last year shrank by more than a quarter to $39.4 billion from $53.0 billion in 2018.
Brazil's exports last year were hit by the fallout from the Brumadinho mining disaster, escalating global trade tensions, and the financial and economic turmoil that rocked neighbor and key trading partner Argentina.
The current account deficit last year was more than adequately financed, however, by foreign direct investment of $78.56 billion, representing 4.27% of GDP. That was slightly up from $78.16 billion, or 4.15% of GDP, in 2018, the central bank said.
The data also shone a light on the central bank's foreign exchange market interventions in the second half of last year as the real slid to new all-time lows against the dollar.
Total FX reserves fell by a net $17.8 billion over the course of the year to $356.88 billion, driven by spot FX market dollar sales of $36.9 billion, the central bank said.

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

Brazil government posts smallest budget deficit in five years

29-Jan-2020
By Marcela Ayres and Jamie McGeever
BRASILIA, Jan 29 (Reuters) - **Brazil's government posted its smallest annual deficit last year since 2014, Treasury figures on Wednesday showed, indicating that its concerted effort to balance out the public finances is bearing fruit.**
The central government's primary deficit, before interest payments are taken into account, of 95.07 billion reais ($22.6 billion) marked the sixth consecutive year that expenditure has exceeded income, but was the smallest deficit since 2014.
It was down almost a quarter from the previous year's 120.3 billion reais deficit, and came in well below the government's original target of around 139 billion reais.
As a share of gross domestic product, the deficit fell to 1.3% from 1.7% the year before, also below the government's target of 1.9% of GDP.
Net receipts rose 5.6% to 1.35 trillion reais, and expenses increased 2.7% to 1.44 trillion reais.
One-off inflows, such as proceeds from November's oil auctions, helped boost the figures, Treasury said, stressing that the squeeze on spending will intensify.
"The fiscal policy outlook remains challenging... (but) this effort is fundamental to... (getting) public debt to more prudent levels and ensuring the path towards sustainable economic growth," Treasury said in a statement.
The government's main legislative success of last year was congressional approval of a sweeping pension reform bill which aims to save the public purse around 1 trillion reais over the next decade, via a range of measures including raising the minimum retirement age and increasing pension contributions.
Wednesday's figures showed that social security expenditure last year rose 5.3% in real terms to 213.18 billion reais.
For the month of December, the government posted a primary budget deficit of 14.64 billion reais, less than half the 31.75 billion shortfall the same month a year earlier.

($1 = 4.2150 reais)
(Reporting by Jamie McGeever and Marcela Ayres Editing by Chizu Nomiyama and Rosalba O'Brien)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Brazil's government to send public sector reform to Congress within 2 weeks

30-Jan-2020
SAO PAULO, Jan 30 (Reuters) - **Brazil's government will submit a bill that would reduce public sector costs and benefits and make it easier to fire workers to Congress "in a week or two," Economy Minister Paulo Guedes said on Thursday.**
Speaking alongside Rodrigo Maia, the speaker of Brazil's lower house, at an event in Sao Paulo, Guedes said he is confident the "administrative reform" bill will be approved this year, but he warned against a delay that he said would dilute its measures.
Maia said the bill will be given priority status.
The bill is one of the government's main reform proposals this year, together with tax reform and a new 'federative pact' framework governing the flow of funding between central and local governments.
For his part, Maia, who many credit with a pivotal role in getting pension reform legislation passed last year, said the administrative reform will be a priority for Congress this year. Local elections should not hinder the process, but Congress may be quieter in the second half of the year, he warned.
Figures on Wednesday showed that the central government's primary budget deficit narrowed last year to its smallest since 2014, although

social security expenditure rose 5%. It was the government's sixth annual primary deficit in a row.
Guedes rebutted suggestions that conservative President Jair Bolsonaro is lukewarm on administrative reform, insisting that he backs the proposals although, for him, it is "question of timing."
The economy minister also said the government will do all it can to ensure tax reform, aimed at simplifying the system and ultimately reducing the tax burden, is approved this year. Maia said he believes there is widespread support for it in Congress.
Many analysts are highly skeptical, however, that meaningful reform of Brazil's tax system will be achieved, certainly this year, noting its complexity and the loaded legislative calendar.

(Reporting by Jose Gomes Neto
Writing by Jamie McGeever;
Editing by Alison Williams and Paul Simao)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

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Brazil 2019 primary budget deficit 61.87 bln reais, 0.85% of GDP

31-Jan-2020
BRASILIA, Jan 31 (Reuters) - **Brazil posted a public sector budget deficit, before interest payments are factored in, of 61.87 billion reais ($14.6 billion) last year, less than half the government's official target of a 132 billion reais shortfall, the central bank said on Friday.**
That was equivalent to 0.85% of gross domestic product, the central bank said, adding that the national debt at the end of last year was 75.8% of GDP, the lowest since May 2018.

($1 = 4.25 reais)
(Reporting by Marcela Ayres; editing by John Stonestreet
Writing by Jamie McGeever)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Mexico

Mexico's primary budget surplus for 2019 higher than envisioned

31-Jan-2020
By Sharay Angulo
MEXICO CITY, Jan 30 (Reuters) - **Mexico's finance ministry on Thursday reported a primary budget surplus of 1.1% for 2019, slightly more than the 1% set out in its budget, adding that at the end of the year its financial results were better than expected.**
Earlier, it pledged strict management of public sector debt and said government financing needs would be lower this year than last, when credit ratings came under intense scrutiny.
"For the end of 2019, the financial results were better than expected, which validates our commitment for healthy public finances," the ministry said in a statement, while conceding the economy had slowed.
Mexico's economy contracted last year for the first time in a decade.

(Reporting by Sharay Angulo; Writing by Stefanie Eschenbacher; Editing by Clarence Fernandez)
((Stefanie.Eschenbacher@thomsonreuters.com))

Venezuela

Venezuela's PDVSA, in default, says total debt remained unchanged in 2019

27-Jan-2020
CARACAS, Jan 27 (Reuters) - **Venezuela's state-run oil company PDVSA [RIC:RIC:PDVSA.UL] said its financial debt fell less than 0.1% in 2019 from the prior year to some $34.5 billion, though it remained in default on its bonds as sanctions freeze it out of the global banking system.**
PDVSA, which is short for Petroleos de Venezuela S.A., has stopped paying interest on most its bonds, and together with Venezuela's government has accumulated billions of dollars in late interest payments.
The company's announcement, in the form of an advisory in a local newspaper last week, said it owed almost $25.2 billion to bondholders, up slightly from $24.7 billion at the end of 2018.
PDVSA said its commercial debts with foreign joint venture partners, including Chevron Corp and China National Petroleum Corp, dipped to $2.65 billion by the end of 2019, down from $2.66 billion at the end of the prior year.
The company, which has not published a complete annual report since 2017, did not detail other obligations, such as pending debt to providers, an issue that has contributed to declining output in recent years.
PDVSA defaulted on some of its bonds in 2017 and on the rest of its bonds in 2019. It is in default on $6 billion in interest and principle.
Venezuela reported to OPEC an average crude production of about 1 million barrels per day (bpd) in 2019, its lowest level in almost 75 years amid sanctions imposed by the United States to oust socialist President Nicolas Maduro, lack of investment capital and staff, and mismanagement.

(Reporting by Luc Cohen; editing by Jonathan Oatis)
((luc.cohen@thomsonreuters.com; +58 424 133 7696; Reuters Messaging: Twitter: https://twitter.com/cohenluc))

Venezuela opposition lawyer declines to use foreign litigation fund

30-Jan-2020

CARACAS, Jan 30 (Reuters) - **The Venezuelan opposition's overseas legal representative has said he will not use $20 million of funding approved by the National Assembly for litigation to protect the country's overseas assets from lawsuits by creditors.**

Jose Ignacio Hernandez told National Assembly President Juan Guaido in a letter dated Jan. 29 that he would not make any payments with the funds because Tuesday's vote authorizing their use did not have the support of the entire opposition.

"Until there is a political decision with the desired consensus, no fees will be paid based on the Jan. 28 agreement, which considerably increases the risk to overseas assets," Hernandez wrote.

The $20 million is held in accounts previously belonging to socialist President Nicolas Maduro's government that Washington has frozen.

Hernandez offered to resign in the letter, in which he also said that lack of consensus among the opposition was hampering efforts to protect Venezuelan assets.

It was not immediately evident if he would leave his post. Hernandez declined to comment.

A spokesman for Guaido, who most Western democracies recognize as Venezuela's president rather than Maduro, said he had no immediate comment.

Lawmakers from the First Justice opposition party had objected to the funding measure on the grounds that it did not clearly identify what cases would be financed.

Offshore assets including U.S. refiner Citgo have long been seen as attractive by investors holding defaulted Venezuelan bonds and companies seeking to be paid back for the nationalization of their holdings.

The opposition has sued in U.S. court to contest the validity of one bond backed by Citgo.

The opposition assumed control of Citgo, and the responsibility of protecting it from creditors, after the United States recognized Guaido as Venezuela's legitimate president last year as part of its bid to remove Maduro on the basis that his 2018 re-election vote was rigged.

Maduro calls Guaido a U.S.-backed puppet seeking to oust him in a coup, and says the opposition is trying to "steal" Citgo. He remains in control of the Venezuelan state and armed forces despite U.S. sanctions and diplomatic pressure from dozens of countries for him to resign amid an economic crisis.

In the letter, Hernandez said he had been trying to explain to lawmakers the importance of approving the funds for months and regretted that there was not yet total consensus in favor of their use.

"This delay was an obstacle to the defense of the state's interests," he wrote. "It created unnecessary risks to the protection of the state's assets, and it gave unnecessary advantages to the lawyers and creditors of Nicolas Maduro's regime."

(Reporting by Luc Cohen and Mayela Armas; Editing by Catherine Evans)
((luc.cohen@thomsonreuters.com; +58 424 133 7696; Reuters Messaging: Twitter: https://twitter.com/cohenluc))

AFRICA

Ivory Coast

Fitch Ratings: Cote d'Ivoire's Presidential Election to Test Stability

27-Jan-2020

Fitch Ratings-Hong Kong-January 27: **High political risks around the upcoming presidential election in October continue to weigh on Cote d'Ivoire's credit profile, Fitch Ratings says. Our baseline remains for the election to pass peacefully but with a significant risk of a disruptive political crisis.**

Following a decade during which tensions were contained, political polarisation is mounting again, fostered by pre-electoral party positioning. Disagreements over the management of the election or legal cases against major opposition figures could be possible triggers of a political crisis, in Fitch's view, and this could stir security risks and cause political violence to re-emerge. Political tensions may persist well after the vote and regardless of its outcome.

Since 1995, all presidential elections - except that of 2015- have been fraught with significant community violence and disruptions to economic activity. Political crises in the context of power struggle or electoral instability have been accompanied by interruption of service payment on Cote d'Ivoire's external market debt in two instances, in 2000 and 2011.

Fitch's assumption of a relatively peaceful election is reflected in our decision in November to revise the Outlook on Cote d'Ivoire's ratings to Positive from Stable. Our baseline is predicated on the significant improvement in security conditions over the last decade and progress on political normalisation and institutional reform.

Unlike in the early 2000s, the territory is no longer split into two zones and significant progress has been made on disarmament. The ongoing reform of the military will reduce risks of further mutinies and political representation has been enhanced. Some progress has also been achieved on national reconciliation, which nonetheless remains incomplete.

The incumbent president, Alassane Ouattara, is likely to pass the baton to a new leader after the

election, although there is a chance that he could seek a third term. Uncertainty remains on economic policies under any of Mr Ouattara's possible successors. Fitch assumes continued adherence to fiscal and economic reforms in the new term, anchored by renewed engagement with the IMF. However, we see a risk of a somewhat looser fiscal policy after a period of prudent policies.
Following a decade of strong macroeconomic performance, Cote d'Ivoire is confronted with the challenge of sustaining buoyant economic growth without straining fiscal and external balances. Cote d'Ivoire's 'B+'/Positive rating balances robust economic growth, continued macroeconomic stability and low inflation against low development indicators, comparatively high GDP volatility and dependence on agricultural commodities.

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

Kenya

Kenya's public debt hits 60.4 bln USD

27-Jan-2020
NAIROBI, Jan. 27 (Xinhua) -- **Kenya borrowed externally as much as it did internally in 2019, pushing up the public debt past the 6 trillion shilling (about 60 billion U.S. dollars) mark, new data from the National Treasury shows on Monday.**
The debt closed 2019 at 60.4 billion dollars, up from 58 billion dollars in June the same year as the government accelerated borrowing from internal and external sources to fund infrastructure projects and its budget, according to the Treasury.
While domestic debt stood at 29.4 billion U.S. dollars and external borrowing hit 31 billion U.S. dollars, the total debt accounts for about 60 percent of the country's gross domestic product (GDP).
The Treasury said the debt ratios show that external debt is within a sustainable level and that public debt as a proportion of GDP remains low, well below the lower-middle-income country debt sustainability benchmark of 70 percent of GDP in present value terms.
It was projected that Kenya will borrow 3.1 billion dollars from the domestic market and 2.5 billion dollars from external sources during the current fiscal year.

Enditem

Kenyan GDP expected to grow 6.2% in 2020, central bank says

28-Jan-2020
By George Obulutsa
NAIROBI, Jan 28 (Reuters) - **Kenya's economy is forecast to grow 6.2% this year, up from 5.7% last year, central bank governor Patrick Njoroge said on Tuesday, as regional trade shields Kenya from the effects of a global downturn.**
The bank expects recovering agriculture, medium and small businesses and robust private-sector credit growth to support that growth.
"We will end up with 6.2%. Frankly, this is a very benign baseline," Njoroge told a news conference.
Kenya is East Africa's richest economy and is enjoying an extended rainy season after several years of drought. The government also lifted caps on bank lending rates last year, which had inhibited loans to private business.
Njoroge said Kenya's trade with other African countries had a stabilising effect. Exports to the regional East African Community accounted for 23% of total exports and the rest of the continent made up about 37% in 2019, he said.
"If there are problems in the rest of the world, at least around us there is some stability. It offers a sense of security," Njoroge said.
On Monday, the central bank cut the benchmark lending rate for the second meeting in a row, to 8.25% from 8.50%. It said the economy was operating below potential and it saw room for a more accommodative monetary policy.
The finance ministry said earlier this month economic growth probably slowed to 5.6% last year, from 6.3% a year earlier, compared with government's initial estimate of about 6%.
The ministry forecasts growth of 6.1% this year, rising to 7% per annum in the medium term.
But concern has been growing over increasing public debt. Hundreds of mismanaged infrastructure projects have stalled and it will cost around $10 billion to revive them, the International Monetary Fund said this month.
Kenya scrapped a cap on commercial lending rates in November. The cap, imposed in 2016, was blamed for strangling private-sector credit growth, especially to small businesses, and reducing the effectiveness of monetary policy.
Njoroge said the central bank and commercial banks were working to make sure that customers got lending rates that reflected their risk profiles.
Previously, information from credit reference bureaus and other sources did little to reduce interest rates.
"It will not be one size fits all. It cannot be. Because we all have different risk profiles," Njoroge said. "You have to do serious banking, not lazy banking. We were doing lazy banking before, that is what it was."

(Reporting by George Obulutsa; writing by Katharine

Houreld and Omar Mohammed; editing by Larry King)
((katharine.houreld@thomsonreuters.com; + 254 796 142 176))

Malawi

Malawi central bank keeps benchmark rate flat, raises GDP forecast

30-Jan-2020

LILONGWE, Jan 30 (Reuters) - **Malawi central bank left its benchmark lending rate unchanged at 13.5% on Thursday, and said gross domestic product (GDP) would grow by as much as 6% in 2020 as the country recovered from drought and agricultural output rose.**

The small and impoverished country's economy, dominated by sales of tobacco, tea and sugarcane, has slowed in recent years due to drought, electricity shortages, political uncertainty and a cyclone last year that caused millions of dollars of damage.

"Real GDP growth is projected between 5.0% to 6.0% owing to further recovery in the agriculture sector as well as favourable macro-economic environment". Governor of the Reserve Bank of Malawi Dalitso Kabambe said during a monetary policy meeting.

(Reporting by Frank Phiri. Writing by Mfuneko Toyana Editing by Marguerita Choy)
((mfuneko.toyana@thomsonreuters.com; +27117753153; Reuters Messaging: mfuneko.toyana.thomsonreuters.com@reuters.net))

South Africa

IMF says South Africa's economic growth weakened by bailouts

30-Jan-2020

JOHANNESBURG, Jan 30 (Reuters) - **South Africa's economy is likely to grow by just 0.8% in 2020, the International Monetary Fund said on Thursday, because of the weak performance of state companies and the government bailouts that are widening an already large deficit.**

South African economic growth has slowed over the last decade. Debt has climbed rapidly as the government scrambles to plug a widening budget deficit and bail out state firms plagued by mismanagement.

On Tuesday, a state-owned bank gave South African Airways (SAA) 3.5 billion rand ($244.20 million) to keep it going as it wraps up a voluntary restructuring. The state power company Eskom got a 230 billion-rand bailout in 2019 as it struggled to service its 450 billion rand of debt.

"Weaknesses in public enterprises are resulting in poor service delivery and weighing on the fiscus through bailouts or administrative interventions," the IMF said in a statement following a regular consultation this month.

Regular power cuts over the last 18 months saw the economy contract twice in two quarters last year. Communities where services like water and healthcare have failed have erupted in protests and riots.

A report last week by the country's national science council showed blackouts by Eskom cost the economy up to 120 billion rand ($8.3 billion) in 2019.

"On current policies, staff projects a lacklustre growth recovery from an estimated 0.4% in 2019 to 0.8% in 2020 and 1.5% percent in the outer years," the IMF said.

($1 = 14.3325 rand)
(Reporting by Mfuneko Toyana, editing by Larry King)
((mfuneko.toyana@thomsonreuters.com; +27117753153; Reuters Messaging: mfuneko.toyana.thomsonreuters.com@reuters.net))

Tunisia

Tunisian banks lend government about $500 mln

31-Jan-2020

TUNIS, Jan 31 (Reuters) - **Tunisian banks agreed on Friday to lend the government 455 million euros ($504 mln), the government said, as it struggles to borrow about $4.3 billion this year.**

The North Africa country has awaited the installation of a new government since elections last October and political parties failed to reach an agreement.

Prime Minister designate Elyes Fakhfakh, proposed this month by President Kais Saied, hopes to form a coalition government next week.

Tunisia needs about $4.3 billion of loans this year including $1.3 billion from the local market.

The finance ministry said that the loan will help to stabilize the Tunisian currency and aimed to finance the budget.

(Reporting by Tarek Amara; editing by Grant McCool)
((tarek.amara@thomsonreuters.com))

GLOBAL

GLOBAL MARKETS-Shares slump on China virus economic concerns, gold gains

31-Jan-2020

- **World share index heads for worst month since August**

- **U.S., European equity markets fall more than 1%**
- **Dismal Chicago PMI adds to fears of slower growth**
- **Amazon surges 8.7% as sales beat forecasts**
- **Bond yields slump and oil prices slip**

By Herbert Lash

NEW YORK, Jan 31 (Reuters) - **Global equity markets headed toward their first monthly loss since August on Friday as growing concerns about the economic impact of the coronavirus outbreak in China sapped risk appetite and lifted the safe-haven Japanese yen and Swiss franc.**

Gold headed to its best month in five, while yields on U.S. and euro zone government debt fell to three-month lows as the United States, Japan and other countries tightened travel curbs to China, where the death toll from the virus rose to 213.

Crude prices fell, with Brent poised for its biggest monthly decline since November 2018, as supply chains disruptions and travel curbs look to crimp Chinese growth, leading economists to temper their outlook for the world's second-largest economy.

Citigroup revised its full-year forecast for China's GDP growth to 5.5% in 2020 from 5.8%. The bank also cut first-quarter growth expectations to 4.8% from 6% in the fourth quarter of 2019.

JPMorgan shaved its forecast for global growth by 0.3 percentage point for this quarter.

Equity markets tumbled more than 1% as disappointing U.S. and European data pointed to economic weakness and a mixed batch of corporate earnings added to the gloom.

U.S. consumer spending rose steadily in December, the Commerce Department said, but tepid income gains pointed to moderate consumption growth this year.

The Chicago Purchasing Management index fell to a lower-than-expected 42.9, the lowest since December 2015, as new orders and production tumbled and producers forecast tepid activity in 2020.

"The Chicago PMI was very weak," said Tim Ghriskey, chief investment strategist at Inverness Counsel in New York.

The recently signed U.S.-China trade deal had been expected to lift the global economy, but the coronavirus outbreak has dampened that outlook, he said.

"Market expectations are for a big push in growth. It's being put off every quarter, especially the industrial side of the economy," Ghriskey said. "Bond yields have plummeted. The bond market is trying to tell us something."

Yields on the benchmark 10-year U.S. Treasury note slid to a low of 1.508%.

MSCI's gauge of stocks across the globe shed 1.21%, while emerging market stocks lost 1.17%.

In Europe, the pan-European STOXX 600 index closed down 1.07%. Losses for the week were 3%, its worst in almost six months, while the 1.2% monthly loss was the worst January since 2016.

Early gains in Europe quickly soured as headlines of more cases and deaths, travel bans and factory shutdowns due to the virus were compounded by disappointingly weak economic data.

The big blow was that both the French and Italian economies unexpectedly shrank at the end of last year, with Eurostat also confirming that the euro zone as a whole grew slower than analysts had forecast.

On Wall Street, the Dow Jones Industrial Average fell 590.48 points, or 2.05%, to 28,268.96. The S&P 500 lost 56.66 points, or 1.73%, to 3,227 and the Nasdaq Composite dropped 137.24 points, or 1.48%, to 9,161.70.

The poor data reading and fears of a spreading virus obscured relatively solid fourth-quarter earnings reports.

Amazon.com Inc surged 7.7% after it trumped Wall Street's estimates for holiday-quarter results, bolstering the online retailer's market capitalization to more than $1 trillion.

Asia-Pacific shares outside Japan extended their fall, dropping 0.4%. Japan's Nikkei bounced 1%, but was off 2.6% for the week. Hong Kong's Hang Seng drifted 0.3% lower and has shed 9% in two weeks. Korea's Kospi had its worst week in 15 months, losing 5.6%.

Sterling extended gains after jumping on Thursday when the Bank of England confounded market expectations by not cutting interest rate cut.

Sterling traded at $1.3199, up 0.80% on the day. The yen strengthened 0.52% versus the greenback at 108.41 per dollar.

The dollar index fell 0.47%, with the euro up 0.53% to $1.1088.

The Australian dollar fell to a four-month low against the U.S. dollar, while China's offshore yuan struggled to find a footing in the wake of the virus outbreak.

The 10-year Treasury note rose 12/32 in price to yield 1.5136%.

Spot gold rose 0.87% at $1,587.5 an ounce, while U.S. gold futures settled 0.1% lower at $1,587.90.

Oil prices fell, on track for a fourth straight weekly loss.

Brent crude slid 13 cents to settle at $58.16 a barrel. U.S. West Texas Intermediate (WTI) settled down 58 cents at $51.56 a barrel.

(Reporting by Herbert Lash; Editing by Andrea Ricci nd Diane Craft)
((herb.lash@thomsonreuters.com; 1-646-223-6019; Reuters Messaging: herb.lash.reuters.com@reuters.net))