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Emerging Sovereign Debt Markets NEWS

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ASIA

Gulf Cooperation Council

Gulf economies to shrink by 7.6% this year, IMF says

30-Jun-2020
By Davide Barbuscia and Marwa Rashad
DUBAI/RIYADH, June 30 (Reuters) - **Gulf Cooperation Council (GCC) countries will see their economies shrink by 7.6% this year, an International Monetary Fund official said on Tuesday, revising downwards April forecasts of nearly 3%.**
The six GCC nations are, with varying degrees, facing steep economic declines as the slowdown in business activity due to the coronavirus pandemic is amplified by a price drop in hydrocarbons, which are their main source of revenue.
The IMF last week said Saudi Arabia's economy - the largest in the Arab world - faces a 6.8% contraction this year, sharper than the 2.3% the Washington-based lender had forecast in April.
"We expect the GCC economies to contract by 7.6% this year, the contraction will be across all sectors, oil and non-oil," Jihad Azour, director of the IMF's Middle East and Central Asia Department, said on Tuesday at a virtual economic forum.
He said oil-producing countries in other regions were likely to see even larger drops.
Bahrain - one of the smallest Gulf producers - expects its economy to shrink in line with IMF forecasts, said Central Bank Governor Rasheed Mohammed al-Maraj, also speaking at the forum.
The IMF in April had projected Bahrain's economy to contract by 3.6% this year.
Saudi Arabia's central bank governor said instead that the kingdom expects its economy to fare better than forecast by the IMF.
Without providing a number, Ahmed al-Kholifey, governor of the Saudi Arabian Monetary Authority (SAMA), said the IMF outlook was "more pessimistic" than Saudi Arabia's own projections.
Kholifey said SAMA was encouraging commercial banks to lend more to support businesses during the downturn and that banking indicators were reassuring, with banks' coverage for loans at over 140% in the banking sector.
In a "worst-case scenario", he said, non-performing loans would not exceed 4% of total loans this year.

($1 = 3.7506 riyals)
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Bahrain

Bahrain borrowing 'critical' for currency peg after FX reserves drop

02-Jul-2020
DUBAI, July 2 (Reuters) - **Bahrain will need to attract additional capital this year, including through borrowing to sustain its currency peg, after a huge drop in foreign reserves due to low oil prices, ratings agency Moody's said.**
One of the financially weakest countries in the Gulf, Bahrain's foreign reserves more than halved between February and March, and then dropped to 290 million Bahraini dinars ($768.82 million) in April, central bank data showed.
That was their lowest level since 1990, Moody's said.
Reserves picked up in May, rising to $1.8 billion, after Bahrain issued $2 billion in bonds.
"The sharp drop of nearly $2.7 billion (or 78%) between February and April highlights Bahrain's exceptionally high external vulnerability risk given that its longstanding exchange-rate peg is supported by only a very thin foreign currency buffer," Moody's said in a note.
Bahrain maintains an exchange-rate peg at 0.376 Bahraini dinars to the US dollar.
Its current account deficit could widen to around $2 billion between June and December this year, said Moody's.
"The ability of Bahrain to attract additional net capital inflows this year (including in the form of external borrowing by the government) will be critical to sustaining the currency peg and avoiding a depletion of reserves," it said.
Bankers and analysts have told Reuters that Bahrain, rated as junk by major credit rating agencies, may need more financial aid from fellow Gulf states as soon as this year.
In 2018, the small oil producer received a $10 billion aid package over five years from Saudi Arabia, Kuwait and the United Arab Emirates to help it avoid a credit crunch

($1 = 0.3772 Bahraini dinars)
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China

S&P affirms China; flags risk to growth from coronavirus, tensions with U.S.

29-Jun-2020
June 29 (Reuters) - **Credit rating agency S&P Global Ratings on Monday affirmed China's sovereign credit ratings at 'A+/A-1' with a**

stable outlook, amid the ongoing coronavirus outbreak.
S&P said China is likely to maintain above-average economic growth relative to other middle-income economies in the next few years.
However, it said that the growth is likely to come under pressure from the coronavirus outbreak, efforts to restructure the Chinese economy and U.S.-China tensions.
The agency noted that it does not expect U.S.-China relations to normalize in the foreseeable future.
"We expect per capita real GDP growth to average 5.5% annually in 2021-2023, as the economy recovers from the COVID-19 shock", S&P said on Monday.

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Chinese insurers now can trade Treasury bond futures, but for hedging only

July 02, 2020
China's banking and insurance regulator issued rules Wednesday allowing insurers to participate in treasury bond futures trading, making clear that it should be for hedging risks only and not for speculation, reported Caixin.
With large capital scale and long debt horizons, insurance companies are the main investors in longer-term treasury bonds. Without the ability to participate in Treasury bond futures trading, the industry will lack risk-hedging tools and find it difficult to manage interest-rate risks of bond assets and to match up the maturity structure of assets and liabilities, an insurance industry insider told Caixin.
As of the end of January, Chinese commercial banks held nearly RMB 10 trillion ($1.41 billion) of treasury bonds, and insurers held RMB 360.6 billion, together accounting for two-thirds of total outstanding treasury bonds.
Based on the experience of the more mature market in the US, the participation of Chinese insurance companies in treasury bond futures is expected to bring to the market incremental investment of RMB 88.6 billion to RMB 110.8 billion, Citic Securities' futures research team said in a report.

India

India May Consider Direct Fiscal Deficit Monetisation in Oct-Mar

29-Jun-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jun 29) -- **India is likely to consider direct monetisation of fiscal deficit in the second half of this financial year, Business Standard reported, citing sources.**
A top government official was cited as saying that such a move is a "high possibility." Authorities will get a clearer picture of the economic damage of the coronavirus outbreak in the latter half of the year and further resources may be needed to support the economy, the official said, according to the newspaper.
A final decision on the matter would be taken before the borrowing-calendar meeting for the second half, which usually takes place in late September, according to the report.
The federal government has increased its gross borrowing programme by 54% to 12 trillion rupees for the current financial year amid a slump in revenue and increased expenditure related to the pandemic.
If a decision is taken to directly monetise the deficit, it will also mean the government will borrow more than what has already been announced, the report said.
However, sources indicate that these could be in the form of specific, targeted instruments, like 'Covid bonds,' the report said, adding that this borrowing may be used specifically for providing support to the economy.

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India's Bond Yields Fall On Value Buying Ahead Of Quarter End

29-Jun-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jun 29) -- **Indian federal government bond yields fell in early trade on value buying ahead of the quarter end amid bets that the central bank may announce bond supportive measures soon.**
The benchmark 5.79% bond maturing in 2030 changed hands at 99.20 rupees at 10:45 a.m. in Mumbai, yielding 5.90%, against 99.08 rupees, and 5.91% yield, at the previous close. The Indian rupee was at 75.56 to dollar against 75.65 in the previous session.
"Yields should trend lower today and tomorrow as apart from value purchases, traders will also

look to manage the rates for balance sheet purposes," a trader with a primary dealership said.
Indian benchmark yield rose 11 basis points in the last two weeks as absence of steps from the central bank has hurt appetite. Calls for central bank intervention have risen after New Delhi hiked its borrowing for this fiscal year, and is expected to do so again in the second half of the year in the wake of the coronavirus pandemic. The government has hiked its annual borrowing target by 54% to a record high of 12 trillion rupees this year.
The Reserve Bank of India is widely expected to conduct quantum-heavy open market operations or directly monetise debt. The RBI has yet to conduct OMO auctions so far this year.
India is likely to consider direct monetisation of fiscal deficit in the second half of this fiscal, Business Standard reported today, citing sources.
Economic activity is slowly picking up as Asia's third-largest economy emerges from a months-long lockdown. However, the number of reported coronavirus cases in the country has risen to 548,318, resulting in 16,475 deaths.
India's economy will post a sharp recovery beyond this year as the novel coronavirus pandemic threatens fiscal projections, N.K. Singh, chairman of the country's 15th Finance Commission said last week. The commission is working on a roadmap for sharing of resources between the federal and state governments till financial year 2026.
Crude oil prices fell as rising coronavirus cases in the U.S. and other parts of the world raised concerns over demand.
The benchmark Brent crude oil contract was 2.1% lower at $40.15 per barrel, adding to last week's 2.8% fall. India imports over 80% of its crude oil requirements.

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India's federal fiscal deficit touches 58.6% of annual target in two months

30-Jun-2020
NEW DELHI, June 30 (Reuters) **- India's federal fiscal deficit in the first two months through May stood at 4.66 trillion rupees ($61.67 billion), or 58.6% of the budgeted target for the current fiscal year, government data showed on Tuesday.**
Net tax receipts during April-May period were 338.5 billion rupees ($4.48 billion), while total expenditure was 5.12 trillion rupees, the data showed, indicating the government was front-loading its budgeted spending to combat the impact of pandemic.
India's federal fiscal deficit touched 4.6% of GDP in 2019/20 fiscal year ending March, from initial estimates of 3.3%.

($1 = 75.5575 Indian rupees)
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Indian States to Borrow Higher Via Bonds in July-September

30-Jun-2020
By Mumbai Newsroom
NewsRise
MUMBAI (Jun 30) -- **India's state governments will borrow 1.78 trillion rupees via bonds in July-September, higher than the targeted borrowing of 1.27 trillion rupees in April-June, the Reserve Bank of India said today.**
The size of weekly auctions during July-September will range between 73 billion rupees to 201 billion rupees, according to the RBI.
State government finances have been under stress as the months-long lockdown has brought most economic activities to a near halt, hurting revenue collections.

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India's Amendments to Bank Resolution Framework Credit Positive

02-Jul-2020
By Dharam Dhutia
NewsRise
MUMBAI (Jul 2) -- **India allowing the central bank to prepare a restructuring or amalgamation scheme of a struggling lender without placing it under a moratorium is credit positive, Moody's Investors Service said today.**
"The amended resolution process is credit positive because it will help preserve depositor confidence and avoid deposit flight from a weak bank as the risk of a moratorium is reduced," Alka Anbarasu, vice president - senior credit officer, and Graeme Knowd, managing director - banking at Moody's Investors Service, said in a note.
The amendments are also credit positive for the bank's depositors and creditors as their ability to obtain full and timely repayments during the resolution process will be unaffected, they added.
India's federal cabinet had last month approved an ordinance to amend the Banking Regulation Act in a bid to allow the Reserve Bank of India to

resolve stress in banks without disrupting their operations.
Previously, the RBI could initiate the resolution process of a weak bank after seeking approval from the government to impose a moratorium on the bank's assets and liabilities for up to six months.
The RBI had in March placed a moratorium on Yes Bank. Last year, it had capped withdrawals from Punjab and Maharashtra Cooperative Bank and superseded the board citing major financial irregularities.

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Indonesia

Indonesia Central Bank ready to finance more fiscal deficit to fight pandemic impact

27-Jun-2020
JAKARTA, June 27 (Reuters) - **Indonesia's central bank is ready to further finance the government's budget deficit and "share the burden" of fighting the coronavirus outbreak, the bank's chief told an online seminar on Saturday.**
Bank Indonesia (BI) Governor Perry Warjiyo said he and Finance Minister Sri Mulyani Indrawati had agreed to accelerate budget deficit financing and for the central bank "to ease the government's burden" of responding to the outbreak.
"The point is BI is ready to provide financing for the state budget and share the burden," Warjiyo told a seminar hosted by the IPB School of Business.
The central bank and the finance ministry are in their final stage of agreement for the deficit financing scheme and they would work with parliament's finance commission and the Audit Board of Indonesia to ensure accountability, Warjiyo said.
Lawmakers last week pressured BI to step up its bond buying and purchase zero coupon government debt in a bid to help combat the economic fallout of the coronavirus pandemic, even after the central bank made its third interest rate cut this year.
Warjiyo reiterated in the seminar that BI has scope to trim its main policy rate further.
BI has so far in 2020 bought 40 trillion rupiah ($2.83 billion) of government bonds directly in auctions, as a non-competitive bidder, with pricing determined by the market. It has also purchased 166.2 trillion rupiah of bonds in the secondary market.
In total it has injected 614.8 trillion rupiah of liquidity into the financial system, including via bond buying operations, the governor said.
The fiscal deficit this year is expected to be 6.3% of GDP, up from an initial plan of 1.8%, with the government forecasting a 10% drop in revenue and allocating nearly $50 billion for the COVID-19 budget.
Indonesia recorded a total of 51,427 coronavirus cases as of Friday, with 2,683 deaths.

($1 = 14,150.0000 rupiah)
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Fitch Rates Indonesia's USD Sukuk Final 'BBB'

30-Jun-2020
Fitch Ratings-Hong Kong-30 June 2020:
Fitch Ratings has assigned Indonesia's US dollar sovereign global certificates (sukuk) issued through Perusahaan Penerbit SBSN Indonesia III (PPSI-III) a final rating of 'BBB'. This replaces the expected rating of 'BBB (EXP)' that Fitch assigned on 16 June 2020. The final rating is in line with Indonesia's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BBB'.
The sukuk was issued on 23 June 2020 through PPSI-III, which is also the trustee. PPSI-III is a legal entity in Indonesia set up solely for the purpose of issuing sharia-compliant securities of the Indonesian government in foreign currencies in the international markets.
Three tranches were issued - USD750 million maturing June 2025, USD1 billion maturing June 2030 and USD750 million maturing June 2050. The June 2025 maturity is a green sukuk and its proceeds will be used to finance or refinance expenditure directly related to eligible green projects, as defined in the government's green sukuk framework.
KEY RATING DRIVERS
The certificates' rating is driven solely by Indonesia's 'BBB' IDR. This reflects Fitch's view that a default of these senior unsecured obligations would reflect a default of Indonesia, in accordance with Fitch's rating definitions.
We have not considered any underlying assets or collateral provided when assigning a rating to the PPSI-III sukuk, as we believe that the issuer's ability to satisfy payments due on the certificates will ultimately depend on the Indonesian government satisfying its unsecured payment obligations to the issuer under the transaction documents described in the prospectus and other supplementary documents.
In addition to the Indonesian government's undertaking to ensure repayment of the PPSI-III sukuk, in Fitch's view it would also be required to ensure full and timely repayment of PPSI-III's

obligations due to the Indonesian government's various roles and obligations under the sukuk structure and documentation, especially - but not limited to - the following features in the ijara and wakala series:

- In the ijara series, on or prior to each periodic distribution date, the state (as lessee) will pay PPSI-III rental due under the lease agreement for the ijara assets, which is intended to be sufficient to fund the periodic distribution amounts payable by PPSI-III. Furthermore, in the wakala series, the lessee will pay to PPSI-III an amount reflecting the rental due for any project assets following their completion and delivery.
- On the scheduled dissolution or following the occurrence of a dissolution event, PPSI-III will have the right to require the state to purchase all of its rights, title, benefits and entitlements in, to and under the trust assets.
- The state will have to purchase the assets at a price equal to the outstanding face amount of the sukuk plus any accrued and unpaid periodic distribution amounts and any accrued but unpaid supplementary rental.
- In addition, the government will be required to pay any shortfall in insurance proceeds directly to the transaction account by no later than the close of business in London on the 31st day after the occurrence of the total loss event, unless the lease assets are replaced.
- **The payment obligations of the government (acting in any capacity) under the transaction are direct, unconditional, unsecured and general obligations, which rank pari passu with Indonesia's unsecured and unsubordinated marketable external debt.**

The PPSI-III sukuk includes a negative pledge provision that is binding on the government, as well as financial reporting obligations, covenants and default acceleration terms.

Certain aspects of the transaction will be governed by English law, while others will be governed by Indonesian law. Fitch does not express an opinion on whether the relevant transaction documents are enforceable under any applicable law. However, Fitch's rating for the certificates reflects its belief that the government will stand behind its obligations.

When assigning ratings to sukuk certificates, Fitch does not express an opinion on their compliance with sharia principles.

RATING SENSITIVITIES

The rating is sensitive to any changes in Indonesia's Long-Term Foreign-Currency IDR. Fitch affirmed Indonesia's Long-Term Foreign-Currency IDR at 'BBB' with a Stable Outlook in January 2020.

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

- Reduction in external vulnerabilities, for instance, through a sustained increase in foreign-exchange reserves, reduced dependence on portfolio flows or lower exposure to commodity price volatility.
- An improvement in the government revenue ratio, for example, from better tax compliance or a broader tax base, which would strengthen public finance flexibility.
- Continued improvement of structural indicators, such as governance standards, closer in line with those of 'BBB' category peers.

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

- A sustained decline in foreign-exchange reserve buffers, resulting from a sharp external shock to investor confidence.
- A rapid increase in the overall public debt burden, for example resulting from budget deficits well exceeding the current 3% ceiling or accumulation of the debt of publicly owned entities.
- A weakening of the policy framework that could undermine macroeconomic stability.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, public finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance.

ESG CONSIDERATIONS

The ESG profile is in line with that of Indonesia.

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Indonesia raises 100 bln yen from Samurai bond sale

03-Jul-2020

JAKARTA, July 3 (Reuters) - **Indonesia raised 100 billion yen ($930.49 million) from a sale of Samurai bonds with five tranches, the finance ministry said on Friday, part of the Southeast Asian government's effort to finance its coronavirus response.**

The Japanese-yen-denominated bonds carried coupons that were higher than paper with similar tenures that Indonesia offered last year, signalling investors had perceived higher fiscal and economic risks due to the coronavirus pandemic.

The shortest tenure of 3 years had a 1.13% coupon compared with last year's 0.54%, while the 20 year bonds had a 1.80% coupon versus 1.79% in the previous sale.

($1 = 107.4700 yen)
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Jordan

Jordan issues double tranche $1.75 bln Eurobond, pushes public debt

01-Jul-2020
By Suleiman Al-Khalidi
AMMAN, June 30 (Reuters) - **Jordan said on Tuesday it issued a double tranche of $1.75 billion of Eurobonds that will help it cope with the economic impact of COVID-19, which economists and critics say will push public debt to a record 100% of gross domestic product.**
The Finance Ministry said the issue of $500 million at 4.95% over a five-year maturity and $1.25 billion at 5.85% over a 10-year maturity was oversubscribed by more than 6.25 times after attracting bids worth over $6.25 billion.
Finance Minister Mohammad Al Ississ said the oversubscription and "relatively low interest rate" of Jordan's Eurobonds was a "testament to its fiscal stability."
The high demand led to lowering the yield on the recently offered Eurobonds, lessening the interest burden, the Finance Ministry said. The rates were significantly lower than Jordan's last Eurobond issuance of 2017 and recent issues by peer countries of similar ratings, it said.
Al Ississ said the funds would go towards covering a Eurobond maturing in October, worth $1.25 billion and injecting liquidity into the private sector by paying arrears accumulated by both present and previous governments.
Those owed include hospitals, pharmaceuticals, energy and contractors, he said.
Under a new four-year $1.3 bln IMF deal last March, the kingdom has to proceed with structural reforms and fiscal consolidation to reduce a $42 billion public debt, that now stands above 100% of gross domestic product and has spiralled in the last decade due to employment in a bloated public sector.
Jordan's 2020 growth was also expected to plunge by 3.4% this year as a result of COVID-19 compared to the International Monetary Fund's 2.1% forecast before the crisis.
Economists said fiscal stability was at stake if the government does not rein in public spending that has expanded rapidly as successive governments sought to appease citizens with state jobs to maintain stability.

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Lebanon

Lebanon's PM says rescue plan shows huge losses in financial system

30-Jun-2020
BEIRUT, June 30 (Reuters) - **Lebanon's Prime Minister Hassan Diab said on Tuesday his government was committed to a financial rescue plan and the losses envisaged in it, saying it remained the basis of talks with the IMF.**
Diab did not give a figure but the rescue plan agreed by the government after months of haggling portrays in depth how Lebanon came to pile up debts several times the size of its economy.
The government's draft rescue plan has served as the cornerstone of the talks with the IMF and maps out massive losses in the financial system.
But the talks have been bogged down by a row between the government and the central bank over the scale of the losses and how they should be shared.
Alain Bifani, a senior member of Lebanon's negotiating team with the IMF, resigned as finance ministry director general on Monday, saying vested interests were undermining the government's economic recovery plan.
Bifani said the losses stood at $61 billion.
The Fund has said the government's figures appear to be roughly the correct order of magnitude but that Beirut needs to reach a common understanding to move forward.

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Lebanon's IMF talks on hold, finance minister says

03-Jul-2020
BEIRUT, July 3 (Reuters) - **Lebanon's talks with the IMF are on hold pending the start of economic reforms and agreement on the Lebanese side on a common approach for calculating losses, Finance Minister Ghazi Wazni said.**
Wazni will remain in contact with the IMF until the talks resume, he said in comments to al-Joumhuria newspaper that were confirmed to Reuters by official sources.
"What is being worked on today is defining the losses and their size in all sectors," Wazni said. "We must come up with a unified approach agreed upon with all political forces and in coordination between the government and parliament."
"...We must agree as soon as possible."
Lebanon began talks with the IMF in May,

hoping to secure aid to tackle a financial crisis considered the biggest threat to the country since its 1975-90 civil war.
But the process got bogged down by a row over the scale of the financial losses that has embroiled the government, the central bank, commercial banks and MPs from Lebanon's main political parties.
A parliamentary fact-finding committee said on Wednesday losses in the system were between a quarter and half the amount set out in a government recovery plan that was submitted to the IMF.
The IMF has said the government's numbers appear to be about the right order of magnitude.
Reuters reported on Wednesday that several current and former Lebanese officials, diplomats, international officials, economists and analysts agreed that the IMF talks were going nowhere. (Full Story)

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Oman

Oman seeks $2 billion bridge loan, says source confirming LPC

03-Jul-2020
DUBAI, July 3 (Reuters) - **Oman is seeking a $2 billion bridge loan from international and regional banks, a source familiar with the matter said on Friday, confirming a report by LPC, a fixed income news service owned by Refinitiv.**
The Gulf state was in talks with banks earlier this year about funding options, including a loan of about $2 billion, but discussions were put on hold due to the coronavirus crisis and plunging oil prices, sources previously said.
Discussions had now resumed, sources said on Friday.
Oman sent a request for proposals to banks in June for a $2 billion loan with a one-year maturity, which would be replaced by a bond issue, one source familiar with the matter said, confirming the LPC report.
Banks were expected to submit proposals this week, the source added.
A second source said loan talks had resumed without giving details.
Oman's Finance Ministry did not immediately respond to a Reuters request for comment.
Oman, a relatively small crude producer and burdened by high levels of debt, is more vulnerable to oil price swings than most of its wealthier Gulf neighbours.
It was downgraded in June by Moody's further into junk territory to Ba3 from Ba2, with the ratings agency citing risks related to Oman's financing needs and its diminishing buffers.

(Reporting by Davide Barbuscia and Aziz El Yaakoubi; Editing by Edmund Blair)
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Pakistan

Pakistan plans US$1.5bn Eurobond offering

02-Jul-2020
By Jihye Hwang
HONG KONG, July 2 (IFR) - **The Islamic Republic of Pakistan, rated B3/B–/B–, is planning a Reg S bond offering with a target issue size of US$1.5bn that could come as soon as August, a debt policy official told IFR.**
The sovereign is expected to visit the international bond market with a conventional offering and possibly a sukuk portion, subject to market conditions.
The official said the government is looking for the right window now that yield levels have come down from the March highs prompted by the coronavirus outbreak, although no final decision has been made.
The cash price of Pakistan's 2025 bonds plunged more than 26 points in March to as low as 87.25, but partially recovered in May and June and is now hovering around 104, according to Refinitiv data. The current levels, however, are still around 10 points lower than at the start of the year.
Moody's placed Pakistan's local and foreign currency long-term issuer B3 ratings under review for downgrade in May, citing a potential default on private sector debt.
The rating agency also expects the coronavirus outbreak to cause a significant shock to the domestic economy and forecast a 1% drop in GDP for the fiscal year 2020 that ended in June, from 3.3% growth in fiscal 2019. The country is expected to grow by 2%–3% in fiscal 2021, which is below potential, according to Moody's.
The fiscal deficit is expected to have risen to close to 10% of GDP in fiscal 2020 from 8.9% the previous year.
Nomura's trading desk said in its second half Asia Credit outlook report that it is underweight Pakistan, citing the sovereign's worsening credit metrics.
The new proposed bonds could help fund the government's virus-relief efforts, but the official said it is unlikely that the bonds will be labelled as social bonds.
Pakistan had a US$1bn sukuk maturing in December last year. It mandated banks in November for an international bond offering with a target size of US$3bn, but the deal did not go through until now, according to the debt policy official. "The government decided to wait for the next financial year that starts in July," he said.

Five banks, including JP Morgan, Citigroup, Standard Chartered and Deutsche Bank, are rumoured to have been mandated as bookrunners for the delayed deal.
The target size for the potential issue has been halved in light of market conditions, the official said.
Pakistan previously visited the international bond market in 2017 when it raised US$2.5bn from a two-tranche offering that included a US$1bn sukuk.

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Pakistan reserves increase $1,270 mln to $11,231.0 week ending June 26

02-Jul-2020
KARACHI, Pakistan, July 2 (Reuters) - **Pakistan's foreign exchange reserves decrease $1,270 million to $11,231.0 million in the week ending June 26, compared to $9,961.2 million in the previous week, central bank said on Thursday.**
During the current week ending 26 June, State Bank of Pakistan received around $2,046 million official inflows, including $737 million from World Bank, $503 million from Asian Development Bank, $500 million from Asian Infrastructure Investment Bank and $300 million as Government of Pakistan loan disbursement form China, central bank said on Thursday.
After incorporating government external debt payments of $809 million, bank's reserves increased by $ 1.270 million to 11,231.0 million.
During the current week, central bank has received additional $1,000 million as Government of Pakistan loan disbursement from China.
These funds will be part of banks weekly reserves data as of 3 July to released on 9 July 2020, State Bank added on Thursday.

(Reporting by Syed Raza Hassan)
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Saudi Arabia

Saudi FX reserves rise slightly in May

28-Jun-2020
DUBAI, June 28 (Reuters) - **Saudi foreign reserves rose slightly in May after record declines in the previous two months when the kingdom had used tens of billions of dollars to back investments of its sovereign wealth fund.**
Net foreign assets of the Saudi Arabian Monetary Authority (SAMA) increased to $444.82 billion in May from $444.1 billion in April, data from the central bank showed on Sunday.
Saudi Arabia had transferred $40 billion in reserves to sovereign fund the PIF between March and April to back acquisitions of stakes in overseas companies.

($1 = 3.7508 riyals)
(Reporting by Davide Barbuscia and Nayera Adallah; Editing by Susan Fenton)
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IMF economic forecasts more pessimistic than Saudi Arabia's

30-Jun-2020
DUBAI, June 30 (Reuters) - **Saudi Arabia's central bank governor said the International Monetary Fund's economic contraction forecast for Saudi Arabia was "more pessimistic" than Saudi Arabia's own forecasts.**
The IMF has estimated the Saudi economy will contract by 6.8% this year.
Saudi Arabia's non-oil economy is expected to bounce back quickly as coronavirus restrictions are lifted, Saudi Arabian Monetary Authority (SAMA) Governor Ahmed al-Kholifey said, without providing a number.
He was speaking at a virtual economic forum.

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South Korea

S. Korea's parliament approves third extra budget, of 35.1 trln won

03-Jul-2020
SEOUL, July 3 (Reuters) - **South Korea's parliament on Friday approved a supplementary budget of 35.1 trillion won ($29.3 billion) to fight the economic fallout from the coronavirus pandemic.**
The passage of the third supplementary budget this year will raise the government debt to 43.5% of gross national product from 41.4%, the finance ministry said in a statement.
Total fiscal spending to fight the pandemic amounts to about 277 trillion won, according to the ministry.

($1 = 1,199.0300 won)
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Thailand

Thailand plans to sell up to $5 bln of govt bonds in July-Sept

30-Jun-2020

BANGKOK, June 30 (Reuters) - **Thailand plans to sell up to 157 billion baht ($5.08 billion) of government bonds in the July-September period as part of a debt-restructuring effort, the finance ministry said on Tuesday.**

The baht-denominated bonds will be sold domestically, the ministry said in a statement.

($1 = 30.91 baht)

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Thailand plans bigger deficit due to COVID-19 as budget debate starts

01-Jul-2020

- **Budget deficit projected at 623 bln baht in FY 2021, up 32.8%**
- **Spending estimated at 3.3 trln baht, up 3.1%**
- **Budget plan based on expected 2021 GDP growth of 4.0-5.0%**

BANGKOK, July 1 (Reuters) - **Thailand's parliament began debate on Wednesday on a budget bill that projects a larger 623 billion baht ($20.14 billion) deficit for the 2021 fiscal year starting Oct. 1, as the government tries to revive an economy hit badly by the coronavirus.**

Southeast Asia's second-largest economy could shrink a record 8.1% this year, the central bank predicts. The budget planners expect a contraction of 5.0-6.0%.

"The Thai economy remains highly uncertain and may perform worse than forecast if the COVID-19 outbreak continues," Prime Minister Prayuth Chan-ocha told the House of Representatives, which plans to debate until Friday.

The 623 billion baht deficit, accounting for 3.7% of GDP, is up from the 523 billion baht planned in January, and 32.8% higher than the previous fiscal year.

The government expected revenue to fall by 100 billion baht in the next fiscal year. The budget gap was increased by the same amount in late March, when Thailand imposed restrictions to curb the outbreak, Budget Bureau chief Dechapiwat Na Songkhla told Reuters.

The bill still projects spending of 3.3 trillion baht, up 3.1% from the previous year.

The budget plans for government investment of about 675 billion baht, up 4.7% from the previous year, and slightly lower than the 693 billion baht estimated in January.

The bill's second and third readings are expected in early September, Dechapiwat said. It will also needs senate and royal approval.

The budget planners have assumed the economy will grow 4.0-5.0% in 2021.

($1 = 30.95 baht)

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EUROPE

Armenia

Armenia's central bank sees economy contracting 4% in 2020

30-Jun-2020

YEREVAN, June 30 (Reuters) - **Armenia's economy will contract by 4% in 2020 due to the negative impact of the coronavirus pandemic, but is expected to recover and grow 5.5% next year, Martin Galstyan, the country's central bank head, said on Tuesday.**

The central bank had previously forecast a contraction of 0.7% this year after growth of 7.6% in 2019. The worst-affected sectors of the economy are services and construction as well as international tourism, Galstyan said while presenting the bank's quarterly inflation report.

Inflation is expected to be around 1.9% in 2020. Armenia's consumer price index declined 0.1% in May month-on-month, but rose 1.2% year-on-year.

In the report, the bank said the amount of private remittances would decline by 22-25% this year due to the drop in oil prices in Russia, Armenia's main trade partner, and Moscow's ban on migrant workers during the pandemic.

However, it said that would not have a significant impact on GDP.

The central bank cut its key refinancing rate to 4.5% from 5% last month, citing weakening external and internal demand as well as a slow pace of recovery.

The country of around 3 million people had reported 25,542 cases of the coronavirus as of Tuesday, and 443 deaths. It is the worst-affected country in the South Caucasus region.

(Reporting by Nvard Hovhannisyan; writing by Margarita Antidze; editing by Kirsten Donovan)

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Belarus

Belarus' external state debt down 2%

in January-May 2020

30-Jun-2020

MINSK, 30 June (BelTA) – **As of 1 June 2020, Belarus' external state debt totaled $16.8 billion, down by $0.3 billion or 2% from the beginning of 2020 (taking into account differences in currency exchange rates), BelTA learned from the Belarusian Finance Ministry.**

In January-May 2020, the Belarusian government borrowed $449.3 million abroad, including $250.1 million from the Russian government and banks, $141.5 million were bonds floated on foreign financial markets, $41.4 million was borrowed from the Export-Import Bank of China, $10.6 million from the International Bank for Reconstruction and Development (IBRD), and $5.7 million from the European Bank for Reconstruction and Development (EBRD) and the Nordic Investment Bank (NIB).

In January-May 2020, Belarus spent $643.6 million to repay the external state debt, including $289.1 million to the Russian government, $209.4 million to Chinese banks, $88.3 million to the Eurasian Fund for Stabilization and Development (EFSD), $54.8 million to the IBRD, $1.3 million to the EBRD and NIB, and $0.7 million to the U.S. Commodity Credit Corporation.

As of 1 June 2020, Belarus' state debt totaled Br49.9 billion, up by Br5.1 billion, or 11.4%, from the beginning of the year.

The internal state debt amounted to Br9.4 billion as of 1 June. Taking into account differences in currency exchange rates, the internal state debt went up by Br0.7 billion or 7.6% from the beginning of the year.

In January-May 2020, the Belarusian government sold $208.9 million worth of domestic government bonds nominated in foreign currencies to individuals and corporations and redeemed $307.4 million and Br161.2 million worth of government bonds nominated in foreign and national currencies from corporations and individuals.

Bulgaria

Bulgaria expects budget surplus of 1.3% of GDP at end-June

30-Jun-2020

SOFIA, June 30 (Reuters) - **Bulgaria expects to have a fiscal surplus equal to 1.3% of gross domestic product in the first half of the year, compared with a surplus of 2.7% over the same period a year ago, the finance ministry said on Tuesday.**

The Ministry, said it sees the coronavirus crisis cutting the fiscal surplus by 1.7 billion levs ($977.80 million) on an annual basis through June. It expects to end the year with a fiscal deficit of 3% of GDP.

So far the country has recorded a budget surplus of 1.3 billion levs, or 1.1% of GDP, in the first five months of the year, it said.

Government revenues were 17.6 billion levs at the end of May, down 1.1 billion levs from the same period in 2019. Spending was 16.3 billion levs, up from 15.7 billion a year ago, mainly due to an increase in public pensions and other social spending, the finance ministry said.

Fiscal reserves, held under a currency regime pegging the lev to the euro, stood at 10.2 billion levs at the end of May.

The government expects the coronavirus crisis to shrink the country's small and open economy by 3% this year. The European Commission is less optimistic and sees Bulgaria's economic output down by 7.2% in 2020.

($1 = 1.7386 leva)
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Croatia

World Bank lending $500 mln to support Croatia's recovery from coronavirus, earthquake

29-Jun-2020

ZAGREB (Croatia), June 29 (SeeNews) - **The Word Bank said it has approved two loans worth a combined $500 million (446 million euro) to provide Croatia with an emergency support to cushion the effects of the coronavirus crisis and the earthquake that hit the capital Zagreb in March.**

The firs loan totals $300 million and will finance the Crisis Response and Recovery Development Policy Operation that will support the government's economic packages approved in March and April to mitigate the economic and social impact of the COVID-19 crisis, the World Bank said in a statement on Friday.

The project will also addresses some of Croatia's longstanding institutional gaps, laying the foundations of an inclusive and sustainable recovery, the statement read.

The government's measures aim to ease the impact of the pandemic on workers and companies, by providing wage subsidies to reduce job losses, expanding free health insurance coverage for the poor, and providing additional liquidity to firms through financing programmes and tax relief.

The measures also address key institutional bottlenecks, support policies for elderly people without incomes, promote low carbon development and resilience to climate change in line with EU targets, as well as administrative

improvements to the framework for the absorption of EU funds, the World Bank noted.
The second loan totals $200 million and targets the Earthquake Recovery and Public Health Preparedness Emergency Recovery Project, representing the first big reconstruction loan for Zagreb following the 5.3-magnitude earthquake, which left behind considerable material damage and killed one person.
The project will finance the reconstruction and rehabilitation of critical public services in health and education facilities, the design of a financial support programme for private housing reconstruction, and will strengthen Croatia's institutional capacity to respond to future disasters and manage future risks, the World Bank said.
"To deal with the consequences of an earthquake in addition to a pandemic is an extraordinary feat that Croatia will have to face and for which financial, technical and advisory support will be needed from all," the World Bank Country Manager for Croatia, Elisabetta Capannelli, said in the statement.
"While the reconstruction will be very costly, we are confident that together with the authorities and Croatia's partners, we can support a fast recovery," she added.
In May, Prime Minister Andrej Plenkovic said that the reconstruction works in the aftermath of the earthquake are estimated to cost 13 billion euro.

($=0.891233 euro)

Croatia central bank buys more state bonds as government prepares new debt

30-Jun-2020
ZAGREB, June 30 (Reuters) - **Croatia's central bank said on Tuesday it had bought state bonds nominally worth 1.32 billion kuna ($196 million) at an auction, boosting liquidity for the second consecutive day as the state gears up for a new local borrowing.**
The central bank bought 2.75 billion kuna worth of bonds on Monday, part of its operations that began in March to boost local liquidity and ease state borrowing at a time when budget revenues fell sharply due to the coronavirus lockdown.
So far, the central bank has bought 17.9 billion kuna worth of state bonds in five such operations.
Croatia is likely to issue a local bond again next month to keep financing its budgetary needs in a year when the deficit is projected at 6.8% of gross domestic product, or about 25 billion kuna.

($1 = 6.7470 kuna)
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Croatia issues local bonds worth $750 million

30-Jun-2020
ZAGREB, June 30 (Reuters) - **Croatia has issued two new tranches of local bonds altogether worth 5.05 billion kuna ($750 million), an arranger said on Tuesday.**
It issued a 2.46 billion kuna worth third tranche of an 11-year bond maturing on Dec. 14, 2026, and a 2.59 billion kuna worth second tranche of another 11-year bond maturing on Feb. 7, 2028.
The new tranche of the 2026 bond is priced 121.307 yielding 0.85%, while the new tranche of the 2028 bond is priced 114.163 yielding 0.94%.

($1 = 6.7404 kuna)
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Cyprus

Moody's says Cyprus's Credit Profile Balances High Wealth and Improved Resilience against elevated debt

01-Jul-2020
July 1 (Reuters) - Moody's:
- **Moody's says Cyprus's credit profile balances high wealth and improved resilience against elevated debt**
- Moody's says coronavirus pandemic will result in sizeable deficits for Cyprus amid large support package
- Moody's says Cyprus's debt will remain elevated, but highly affordable
- Moody's says Cyprus faces many credit challenges from relatively undiversified economy, high levels of government, nonfinancial corporate, household debt
- **Moody's says expect Cyprus's debt reduction will resume at sustained pace after 2020 coronavirus crisis**
- Moody's says anticipate increase in debt related to coronavirus to be transitory, partly because of Cyprus's large fiscal surplus going into pandemic
- Moody's says medium-term debt trends & banking sector issues will drive evolution of Cypriot sovereign rating & outlook

(Reuters.Briefs@thomsonreuters.com)

Czech Republic

Foreign holdings of Czech domestic

bonds fall in May

30-Jun-2020

PRAGUE, June 30 (Reuters) - **The proportion of non-residents holding Czech state domestic bonds dropped to 36.0% in May from 36.85% in April, Finance Ministry data showed on Tuesday.**

Foreigners' holdings in recent years have sat at more than double levels seen prior to the central bank's intervention regime to keep the crown currency weak that ran from 2013-2017.

But since the end of February, they have dropped from a share of 40.77%.

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Editing by Jason Hovet)
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Czech budget deficit in June already deeper than in 2009 crisis

01-Jul-2020

PRAGUE, July 1 (Reuters) - **The Czech central state budget deficit for this year deepened to 195.2 billion crowns ($8.2 billion) at the end of June, already surpassing a record gap posted in the 2009 financial crisis.**

The country has emerged from restrictions on shops and businesses imposed because of the coronavirus crisis, but is set for a steep economic contraction this year.

The deficit, which has also been pressured by past spending promises, is not yet even halfway to the 500 billion crowns that the government foresees for 2020, subject to parliament's approval, with pressures ahead from rising unemployment and the collapse of businesses.

The previous record deficit was 192.4 billion crowns, for all of 2009.

"As long as pessimistic epidemiological scenarios are not fulfilled, we expect the discussed deficit of 500 billion crowns to be more than enough," said Raiffeisen analyst Vit Hradil.

Finance Ministry data on Wednesday put the deficit at 37.8 billion crowns in June alone, a swing from usual surpluses. In 2019, the first-half deficit was 20.7 billion crowns.

Direct help to individuals and firms hit by the restrictions, in the form of tax waivers and deferrals or financial support, reached 83.2 billion crowns by June 30, the ministry said, less then a third of the 271.1 billion the government expects to disburse.

State loan guarantees helped to generate 25.1 billion crowns' worth of loans, a fraction of the 851.5 billion planned.

Overall expenditure rose 17.0% in January-June, while income was down 5.9%.

The government originally planned a deficit of 40 billion crowns for 2020.

The central bank forecasts that the overall public sector deficit will be 8% of GDP this year.

($1 = 23.8200 Czech crowns)
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Hungary

Hungary central bank says will not buy any govt bonds this week

30-Jun-2020

BUDAPEST, June 30 (Reuters) - **Hungary's central bank will not buy any government bonds from local banks this week, it said on Tuesday.**

The bank launched the tenders in early May as part of efforts to shore up the economy hit by the coronavirus pandemic.

However, it suspended the purchases early this month after buying 149 billion forints ($469.59 million) worth of bonds from local lenders, a fraction of the originally targeted amount.

Last week the bank said it considered the programme a safety net, to be used only to the extent necessary.

($1 = 317.3 forints)
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Hungary issued 60% of increased 2020 debt plan by July 1

02-Jul-2020

BUDAPEST, July 2 (Reuters) - **Hungary has completed 60% of its increased 2020 debt financing plan by the end of the first half and only had one Japanese yen bond issue remaining to complete its foreign currency bond issue plan for the year, the debt agency AKK said on Thursday.**

Hungary boosted gross debt issuance this year as the funding requirement of the central budget has increased by 289 billion forints after the government raised the deficit target to 3.8% of GDP.

The AKK completed 68% of its household issuance plan and 55% of its planned issuance to institutional investors. It reiterated a plan to lengthen average maturity. It issued 88% of its 4 billion euro foreign currency bond issuance plan.

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Hungary approves 2021 budget with 2.9% deficit target

03-Jul-2020

BUDAPEST, July 3 (Reuters) - **Hungary's parliament on Friday approved the country's 2021 budget with a deficit target of 2.9% of gross domestic product, in line with a government bill submitted in May.**

The country's economy is expected to contract by 3% in 2020 in the wake of the coronavirus crisis but the government also estimates it will rebound sharply in 2021, growing by 4.8% and contributing to a fall in public debt as a proportion of economic output.

Reducing public debt and minimising the economy's foreign exposure has been one of the main goals of nationalist Prime Minister Viktor Orban during his decade-long rule.

Orban has used an often unconventional economic policy to stabilise Hungary's once-fragile economy even at the cost of heavily taxing major business sectors when necessary.

The targeted 2.9% fiscal shortfall is slightly higher than Hungary's euro convergence programme stipulates but remains below the European Union's 3% of GDP ceiling.

The fiscal deficit will return to the EU target range after this year's slight deviation caused by the government raising the 2020 deficit target to 3.8% so it can spend money to help the country cope with fallout from the coronavirus pandemic.

Hungary achieved a growth rate around 5% in both 2018 and 2019.

The budget stipulates that public debt, projected at 72.6% of GDP at the end of 2020, will fall to 69.3% of GDP by the end of next year.

The Fiscal Council, a watchdog created to ensure budget sustainability, reviewed the bill and found it to be a credible guarantee for fiscal rigor, Arpad Kovacs, the council's chairman, told parliament before the vote.

"Although risks are higher than in previous years, they are manageable," Kovacs said. "The budget also creates opportunities to modernise state finances, so if we take advantage of them, positive scenarios may come to pass."

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Lithuania

Lithuanian economy seen shrinking 7% in 2020

30-Jun-2020

VILNIUS, June 30 (Reuters) - **The Lithuanian Finance ministry said on Tuesday it expected the economy to contract 7% this year, in line with its previous outlook, as the slump due to the new coronavirus pandemic weighed.**

"We see the first signs of a recovery," Finance minister Vilius Sapoka told reporters.

The new estimate compared with a forecast in March for a 7.3% contraction. Lithuania's central bank forecast a 2020 drop of 9.7% in early June while the European Commission forecast a fall of 7.9% in May.

The Finance ministry's last forecast before the novel coronavirus pandemic struck, from December, was for growth of 2.3%.

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Moldova

Moldova to start talks on new three-year IMF programme

03-Jul-2020

CHISINAU (Moldova), July 3 (SeeNews) **- An International Monetary Fund (IMF) mission will arrive in Moldova on July 7 to negotiate a new three-year programme, IMF's Resident Representative in Moldova Volodymyr Tulin said.**

The mission led by Ruben Atoyan will visit Moldova between July 7-22, Tulin said in a press statement published on IMF's website on Thursday.

"In response to the request from the authorities, the mission will hold discussions with the Moldovan authorities on a new three-year program focused on a comprehensive set of policies that would help maintain macroeconomic stability, support post-pandemic recovery, advance governance and institutional reforms, and mobilize external financing," Tulin said.

Discussions will also focus on safeguarding the central bank's independence, improving fiscal and financial sector governance, strengthening the anti-corruption framework, and rule of law, he added.

In April, the IMF approved a total disbursement of $235 million (216 million euro) to meet Moldova's urgent balance of payment needs stemming from the COVID-19 pandemic.

Moldova's macroeconomic outlook has deteriorated sharply, giving rise to an urgent balance of payments gap estimated at about $830 million, the IMF said at the time.

On March 11, the IMF said it is disbursing $20 million to Moldova under the current 40-month funding arrangements approved in November 2016.

The new disbursement came as a result of the progress Moldova has made in keeping its reform commitments and brings total

disbursements under the arrangements to support the country's economic and financial reform programme to about $178.7 million.
The IMF said in April that Moldova's economy will shrink by 3% in 2020 and then rise by 4.1% in 2021.

($ = 0.8906 euro)

Poland

Poland is ready for increased borrowing needs

02-Jul-2020
WARSAW, July 2 (Reuters) - **Poland has financed all its borrowing needs for the current budget in full and is ready for an expected increase in borrowing needs when the budget is amended as a result of the coronavirus pandemic, a deputy finance minister said on Thursday.**
Piotr Nowak also said in an emailed statement that Poland had the equivalent of 107 billion zlotys ($27.08 billion) on its accounts at the end of June.

($1 = 3.9513 zlotys)
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Romania

Romania fin min revises upward debt issuance targets

29-Jun-2020
BUCHAREST, June 29 (Reuters) - **Romania's finance ministry revised this year's gross financing needs to 120 billion lei ($27.9 billion) from 87 billion, to reflect its new 2020 budget gap estimate, a document published on the ministry's website showed on Monday.**
It said its new foreign issuance target will rise to about 7.7-8 billion euros and the domestic one to 70 billion lei. Romania's consolidated budget deficit is expected to jump to 6.7% of gross domestic product against 3.6%.
The previous plan for the year was 6 billion euros, but minister Florin Citu said last month the ministry would consider foreign issues again later this year pending market conditions.
So far this year, Romania has sold roughly 40 billion lei of local currency bills and bonds as well as 150 million euros worth of euro-denominated paper, and tapped foreign markets for 6.3 billion euros of Eurobonds.

($1 = 4.3015 lei)
(Reporting by Radu Marinas)
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Romania aims to sell 5.34 bln lei debt in July

30-Jun-2020
BUCHAREST, June 30 (Reuters) - **Romania's finance ministry plans to sell domestic debt worth 5.34 billion lei ($1.24 billion) in July, including 540 million lei at non-competitive tenders, it said on Monday.**
In July, it scheduled eight bond tenders with residual maturities ranging from 3.24 to 14.22 years, as well as two auctions for six-month and one-year treasury bills.
So far this year, Romania has sold 39.9 billion lei of local currency bills and bonds as well as 150 million euros worth of euro-denominated paper, and tapped foreign markets for 6.3 billion euros of Eurobonds.

($1 = 4.3166 lei)
(Reporting by Radu Marinas)
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Russia

Russian plans to raise up to $14 bln in OFZ bonds in Q3

30-Jun-2020
MOSCOW, June 30 (Reuters) **- Russia plans to raise up to 1 trillion roubles ($14 billion) by selling OFZ treasury bonds in the third quarter, the finance ministry said on Tuesday.**
The ministry raised 1.1 trillion roubles from selling OFZ bonds in the second quarter, up from the 600 billion roubles initially planned for the period.
Russia is increasingly dependent on borrowing via OFZ bonds, popular among foreign investors thanks to their yields, as it finances its response to the coronavirus epidemic.

($1 = 71.1231 roubles)
(Reporting by Polina Devitt and Darya Korsunskaya; Editing by Kevin Liffey)
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Slovakia

Slovakia expects tax revenue down 5.6% this year, better outlook than in April

30-Jun-2020
PRAGUE, June 30 (Reuters) - **The Slovak Finance Ministry expects the country's tax and related revenue to drop 1.6 billion euros, or 5.6%, this year to 27.4 billion euros ($30.71 billion), the ministry said on Tuesday.**
While the drop puts a dent into the country's budget, it is an improvement of 356 million euros from the previous outlook made in the middle of coronavirus restrictions on business and public life in April.

($1 = 0.8922 euros)
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Turkey

Turkey's gross foreign debt up 5% y/y at end-March

30-Jun-2020
ANKARA (Turkey), June 30 (SeeNews) - **Turkey's gross foreign debt totalled $431 billion (384.6 billion euro) at the end of March, up 5% year on year, the finance ministry said on Tuesday.**
The gross foreign debt at the end of March was equivalent to 56.9% of Turkey's gross domestic product (GDP) estimated for the year, the ministry said in a statement.
The country's net foreign debt stood at $256.5 billion at the end of March, or 33.8% of GDP. Treasury-guaranteed foreign debt stock amounted to $14.2 billion as of end-March.
EU-defined general government debt stock amounted to 1.55 trillion lira ($226 billion/202 billion euro), or 35.1% of GDP, at the end of March, whereas public net debt stock totalled 782.2 billion lira, equivalent to 17.7% of the country's GDP.

($ = 0.8923 euro)

Moody's Says Turkey's Credit Profile Reflects Erosion of Institutional Strength

01-Jul-2020
July 1 (Reuters) - Moody's:

- **Moody's says Turkey's credit profile reflects erosion of institutional strength, policy uncertainty and external vulnerabilities**
- Moody's says following steep contraction in turkey’s real GDP in 2020 because of coronavirus shock, it expects real growth to bounce back in 2021
- **Moody's says given Turkey's negative outlook, a positive outlook or an upgrade is highly unlikely**
- Moody's says potential for renewed geopolitical tensions in Turkey, prolonged stagflation could lead to repeat of 2018 currency crisis or challenging conditions

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Fitch Ratings: External Pressures Remain Turkey's Main Credit Weakness

03-Jul-2020
Fitch Ratings-London-03 July 2020: **The main impact of the coronavirus on Turkey's sovereign credit profile is through external financing risks, Fitch Ratings says in a new report.** Private-sector external debt rollovers have remained resilient despite financial market volatility as the pandemic took hold globally, but the fall in foreign-exchange (FX) reserves since end-February, added to weak monetary policy credibility and negative real interest rates increases risks of further external pressures. **At our most recent rating review in February, when we affirmed Turkey's sovereign rating at 'BB-'/Stable, one of the three qualitative notches deducted from the model-implied outcome was for weak external finances. This reflected low FX reserves and a large external financing requirement.** Since then, there have been sizeable FX interventions to support the Turkish lira. Gross FX reserves (including gold) fell to USD90 billion at 26 June from USD106 billion at end-2019. If we calculate gross reserves minus swaps, there has been a much sharper fall, from USD87 billion at end-December 2019 to USD33 billion. These trends highlight the underlying pressure on reserves, which has increased external vulnerability since February. Recent policy on FX interventions suggests that Turkey's prior, long-standing commitment to a flexible exchange rate has weakened. **The marked increase in the proportion of reserves made up of FX swaps also creates a greater risk in the event of their large-scale withdrawal by banks. However, the external financing positions of the banking and corporate sectors have been resilient. This resilience has been a supporting feature for Turkey's sovereign credit profile since the mid-2018 lira crisis.** Banks' orderly foreign-currency deleveraging has continued and the rollover rate of 73% in April (on a rolling 12-month basis) was unchanged on 1Q20. Foreign-currency bank deposits are still growing. The corporate sector has also steadily deleveraged and its external debt rollover rate was 84% in

April on a rolling 12-month basis, unchanged on March.

Ukraine

World Bank approves $350 mln loan for Ukraine

27-Jun-2020

KYIV, June 27 (Reuters) - **The World Bank has approved a $350 million loan for Ukraine in support of reforms that are critical to its economic recovery and to help mitigate the impact of the coronavirus pandemic, the bank said.**

Ukrainian government said earlier this month it expected to receive this loan by the end of June after securing a $5 billion loan programme from the International Monetary Fund on June 9.

The bank said late on Friday that the key reforms supported by the loan included a strengthening land and credit markets, fostering anti-corruption institutions and bolstering the social safety net for the vulnerable elderly population to cushion the impact of the COVID-19 pandemic.

The World Bank is a major development partner of Ukraine and since the country joined the Bank in 1992, its commitments to Kyiv have totalled about $14 billion for more than 80 projects and programs.

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Investor worries led to Ukraine's Eurobond delay

02-Jul-2020

LONDON, July 2 (Reuters) - **Ukraine postponed its planned Eurobond sale after fund managers asked to cancel orders or for the deal to be re-priced following the resignation of the central bank governor, investor sources told Reuters.**

One investor said his firm asked if it could pull its order for the bonds, while another said it had requested adjustments to the pricing or for the deal to be delayed after Yakiv Smoliy unexpectedly resigned.

Ukraine decided to pause the sale after learning that Smoliy had quit as central bank governor and consulting investors, Finance Minister Serhiy Marchenko said on Thursday.

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Ukraine aborts Eurobond sale as central bank governor's exit rattles market

02-Jul-2020

- **Smoliy complains of "systematic political pressure"**
- **Exit could jeopardise $5 billion deal with the IMF**
- **Finance minister says no threat to financial stability**

By Matthias Williams, Natalia Zinets and Tom Arnold

KYIV/LONDON, July 2 (Reuters) - **Ukraine's government on Thursday sought to reassure investors that its reform agenda remained on track after being forced to abort a $1.75 billion Eurobond sale following the shock resignation of Central Bank Governor Yakiv Smoliy.**

Smoliy's exit, in which he complained of "systematic political pressure", could derail a $5 billion deal with the International Monetary Fund agreed last month to help Ukraine fight an economic slump caused by the coronavirus pandemic.

It also came just as the government had finalised a Eurobond sale on the back of sealing the new IMF agreement. It halted the issue after consulting investors. Sources told Reuters that fund managers had asked to cancel orders or for the deal to be re-priced.

"The resignation was done at the worst time. If this had happened at another time, we would now talk about the successful placement of Eurobonds," Finance Minister Serhiy Marchenko said, stressing there was no threat to Ukraine's financial stability.

"There was a long night of negotiations with investors ... Such an event in the world of international finance is quite significant. Therefore, in the morning we made a considered decision to stop this issue," Marchenko said.

Kevin Daly, senior investment manager at Aberdeen Standard Investments in London, said Ukraine had no option. "Investors would have been kicking and screaming if that had not been the case," he said.

"This is clearly a setback ... Ukraine has a history of these type of surprises, and central bank interference will increase no doubt because of this news and will be cause for concern not just for the investor community but also for the IMF."

Smoliy's resignation sparked worries from Ukraine's Western backers about the credibility of the government's reform agenda under President Volodymyr Zelenskiy, a former comic actor elected last year promising to tackle corruption.

CURRENCY WEAKENS

The IMF said central bank independence was central to its Ukraine programme and had to be maintained under Smoliy's successor.
Smoliy's resignation weighed on sovereign bonds and the local hryvnia currency, which fell to its lowest level since April against the dollar.
Under Smoliy's leadership, the central bank has kept its reputation among investors as a respected institution that brought down inflation to single digits while resisting calls for faster interest rate cuts.
Zelenskiy accepted Smoliy's resignation, meaning parliament must now formally vote on whether to dismiss him.
No successor has been named although various names have been floated in the local media, including the head of the central bank's supervisory council.
The central bank has previously complained of being subjected to pressure, including over its decision in 2016 to nationalise Ukraine's largest lender, PrivatBank, which was formerly co-owned by businessman Ihor Kolomoisky, a backer of Zelenskiy.
Zelenskiy has denied any favouritism towards Kolomoisky and publicly expressed support for the central bank's independence.
Kolomoisky has fought a protracted legal battle against the central bank and the government to win back control of PrivatBank, which was nationalised after the central bank said shady lending practices had pushed it towards insolvency.
Kolomoisky denies any wrongdoing. Kolomoisky's allies in parliament this year tried to scupper legislation, demanded by the IMF that would prevent him from regaining control of PrivatBank.
Alexander Dubinsky, a lawmaker who was a journalist on Kolomoisky's 1+1 channel before entering parliament in Zelenskiy's Servant of the People party, has pushed for parliament to formally investigate the central bank.

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LATIN AMERICA AND CARIBBEAN

Argentina

Stalled Argentina debt negotiations ensnared by Pac-Man fears and legal wrangles

29-Jun-2020

- **Argentina aims to restructure $65 bln of debt after 9th default**
- **Collective Action Clauses become focal point**
- **Legal ramifications could reach well beyond Argentina - experts**

By Karin Strohecker and Cassandra Garrison
LONDON/BUENOS AIRES, June 29 (Reuters) - **Argentina's debt talks have gone cold with the country at loggerheads with its creditors over the legal terms of a $65 billion bond restructuring after coming tantalisingly close to a financial agreement.**
Argentina's government extended a deadline for talks earlier this month to July 24, the biggest delay yet, to allow time to defuse tensions.
With the two sides only a whisker apart in terms of valuation of their proposals, the wrangling has shifted to the collective action clauses (CACs) which determine the requirements for any future changes made to the bond agreements.
"The next phase may focus more on legal as opposed to financial terms," said Siobhan Morden, head of Latin America fixed income strategy at Amherst Pierpont Securities.
As analysts and creditors game out various scenarios, some fear Argentina could adopt what has been dubbed the "Pac-Man" strategy and attempt to get creditors on board one at a time - in much the same way as the 1980s video-game character gobbled up ghosts. This would make it harder and harder for remaining creditors to block any deal, but could also aggravate relations with them.
Morden considers this a high-risk strategy and worst case scenario, while a protracted standstill remains most likely.
CACs make it easier for countries to push through an orderly debt restructuring by requiring only a majority of creditors to agree to change payment terms or otherwise restructure debt.
The widespread adoption of "enhanced" CACs by the international community from 2014 went a step further by allowing borrowers to bundle together multiple bonds, making it even harder for minority hold-outs pushing for a better deal to disrupt the process.
Argentine Economy Minister Martin Guzman admitted that differences over CACs with the major Ad Hoc Bondholder Group including the likes of BlackRock, AllianceBernstein and Fidelity had caused the recent snag.
"Part of what created a lack of understanding is the legal terms that were suggested by the Ad Hoc Group for a restructuring deal," he said during a recent Council of the Americas event. "And that's not something that Argentina can commit to."
'GO BACK IN TIME'
Legal wrangles over enhanced CACs - broadly untested to date - could have ramifications well beyond Argentina at a time when economic strife threatens to push more developing economies into debt overhauls, say restructuring experts.
In its latest proposal, the Ad Hoc Bondholder group said it wanted new bonds to be issued using the same legal terms as existing 2005 bonds.
That would mean a restructuring vote would

need to clear an 85% threshold on an aggregate vote of the relevant debt as well as a 66% bar for individual bond-by-bond votes, giving more protection to creditors.

Meanwhile nine-time defaulter Argentina is pushing for the enhanced CACs, under which there is only a single threshold generally set at 75%.

"They have been endorsed by the G20, the IMF and ICMA and now we are being asked to go back in time and remove those enhanced collective action clauses," Guzman said.

Bondholders say Argentina is trying to bend the system, requesting the right to decide which bonds would be included in a restructuring deal - even once a vote on such a deal had passed.

"What is so frustrating to creditors is this is not what the CACs are for," said one bondholder source with knowledge of the talks. "They have turned this on its head."

Mark Sobel, chairman of economic policy and central bank think tank OMFIF said almost all emerging market foreign law sovereign bond issuers have adopted the enhanced CAC standard, and a shift backwards could stoke more risky litigation.

"Any undermining of the new global standard could hurt other emerging markets using enhanced CACs in their quest for more orderly and predictable contractually based sovereign debt restructurings," he said.

The Argentina talks, meanwhile, have largely ground to a halt, the bondholder source added.

"Nothing is happening," the source said. "There are no discussions happening, and that is not a good sign."

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Argentina bondholder alliance splintering over debt deal

01-Jul-2020
By Marc Jones

LONDON, July 1 (Reuters) - **One of the main bondholder alliances in Argentina's $65 billion debt talks is at risk of splintering after at least three of its members signalled they could break ranks and accept a lower value deal than the group has proposed, three bondholders said.**

The bondholders, who requested anonymity, told Reuters the Argentina Creditor Committee (ACC) - one of three main creditor groups - has been jolted by U.S. funds Gramercy, Fintech and Oaktree signalling they were willing to pursue their own deals.

The ACC has proposed a deal where bondholders would effectively receive 55-56 cents for their securities, but the indications that the trio and perhaps one or two others may be prepared to accept a lower offer, has caused a rift.

"It is possible," one of bondholders familiar with the discussions said of the potential fracturing of the group. "These committees are fluid and firms come and go."

Gramercy, Fintech and Oaktree, which had joined forces with ACC earlier this year, either did not immediately respond to requests for comment or were unreachable for comment on whether they have had separate contacts with Buenos Aires.

The ACC will need to hammer out the issue over the coming days, which come at a crucial stage in talks with the Argentine government.

Negotiations have been extended a number of times in an effort to reach a deal, though the other two main creditor groups, the "Ad Hoc" and "Exchange" groups, complained this week of a lack "meaningful engagement" from the government since mid-June.

Those two groups, which have also forged an alliance, could potentially draw in ACC members if it did end up splintering, though some funds may also simply go their own way.

"There's a split in our committee with the majority not in favour of this backchannel deal supported by funds that have hardly any bonds," a second bondholder said of the ACC friction.

A third bondholder added: "Could Gramercy and Fintech go their own way? Certainly, but hopefully we can still find a unified ACC approach."

The first two bondholders were also critical of proposed tweaks to the government's deal that they see as an attempt to strongarm investors to sign up - rewarding those who do to the detriment of those who do not.

Between $10-$15 million a day of interest has been building up on Argentina's defaulted bonds in recent weeks, while other limited-time-only sweeteners have also been dangled, they said.

"It sets a bad precedent for other restructurings," the second bondholder said. "They are trying to use these (proposals) in a coercive manner."

The first bondholder also voiced frustration that the Argentine government had not been keener to bridge the relatively small gap in the offers.

"The frustration is that Argentina knows the contours of the deal that would get broad acceptance," he said. "But they are spending valuable time and resources in trying to extract every last tidbit of value out of creditors."

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Argentina's hard-won fiscal progress

knocked back by virus

01-Jul-2020

By Hernan Nessi

BUENOS AIRES, July 1 (Reuters) - **Argentina battled last year to trim its fiscal deficit, but its progress has been crippled by the coronavirus pandemic as emergency spending has ballooned while tax revenues flatlined.**

The South American grains producer, which is renegotiating $65 billion debt and has been locked out of capital markets after a default in May, had shrunk the deficit last year with tough monetary tightening to trim back a heavy debt load.

That tightening has now gone by the wayside to firefight the impact of COVID-19, with money taps opened to counteract a tanking economy pushing millions into poverty.

Argentina posted a fiscal deficit in May of around $3.7 billion, the deepest on record. The deficit could swell to 5.5%-6.5% of gross domestic product for the full year, analysts polled by Reuters said, from around 2.2%-2.5% so far this year.

"The pandemic and quarantine have hammered the fiscal accounts, which were already in a fragile situation before the coronavirus outbreak," said Isaias Marini, economist at consulting firm Econviews.

"Primary spending soared in the last three months, while income plummeted in line with a downturn in economic activity."

The left-leaning government of President Albert Fernandez has rolled out assistance packages to low-income workers and families while freezing utilities tariffs to help people hit by the lockdown. Primary spending almost doubled in May to 579.5 billion pesos ($8.23 billion).

Despite 45% annual inflation, tax receipts have stalled during the lockdown, which has been extended and tightened in the densely-populated area in and around capital city Buenos Aires.

"The fiscal deficit increased and now we are in a situation that is way more delicate than the situation before COVID-19," Economy Minister Martin Guzman said during an event in June.

The economy has tanked during the pandemic. Economic activity in April plummeted 26.4% and the International Monetary Fund has forecast a nearly 10% economic contraction for the full year. It would be Argentina's third straight year in recession.

FISCAL GAINS "ERODED"

The country, under the former administration of Mauricio Macri, had slowly improved its fiscal position with tight policies to rein in spending, in part to meet targets agreed with creditors like the IMF.

Morgan Stanley said that with high spending to battle the virus "fiscal consolidation efforts of the past couple of years are being quickly eroded" even as Argentina races to restructure $65 billion in foreign debt.

"Amid lack of market access, Argentina should incur in further deficit monetization to fund the widening fiscal gap, in turn helping fuel inflation once domestic demand conditions begin to normalize," the investment bank said in a note.

Local consultancy ACM, which predicts a fiscal deficit exceeding 6% for the year, said the outlook would worsen with tumbling tax revenue and "higher costs to help firms and workers in quarantine mitigate the spread of the coronavirus".

Analysts said that even after Argentina strikes a debt deal and the pandemic ends, the country will still need to climb an economic mountain, including tempering runaway prices once demand rebounds given recent injections of cash.

Month-on-month inflation has come down recently as the lockdown has hit consumer spending.

"The main thing now is to renegotiate the debt, so you can go back into debt to finance the expansionary fiscal policy," said Natalia Motyl, an economist at policy think tank Libertad y Progreso, adding the government eventually may have to raise tax revenue and cut pension payments.

"Argentina during this crisis does not have much room to maneuver. But come what way, once this crisis is over, there needs to be a comprehensive economic plan."

($1 = 70.4500 Argentine pesos)

(Reporting by Hernan Nessi; Additional reporting by Walter Bianchi and Jorge Otaola; Editing by Adam Jourdan and David Gregorio)

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S&P slashes some Argentine foreign-currency bonds to default on interest non-payment

01-Jul-2020

July 1 (Reuters) - **Ratings agency S&P Global on Wednesday slashed seven Argentine foreign-currency bonds to default, triggered by non-payment of interest, as the government remains entangled in debt negotiations with its foreign creditors.**

S&P said it downgraded to "D" from "CC" three foreign-law foreign-currency bonds that had about $582 million in interest due at the end of June. It also downgraded four Argentine-law, U.S. dollar-denominated bonds with $837 million interest due at the end of June.

"The ratings on these bonds will remain 'D' pending the conclusion of the debt renegotiations that are underway," the ratings agency said in a press release.

Argentina, which defaulted on foreign bond payments in May, is aiming to avoid a messy legal standoff with creditors over the restructuring of about $65 billion in foreign debt.

The government has extended the deadline for talks with bondholders several times, as it seeks to reach a deal on debt it says it cannot pay

under the current terms.
S&P also slapped Argentina with downgrades in late May, cutting four foreign currency bonds and a local-law dollar bond to default.
S&P said in the press release it expected Argentina to pay a Japanese-law yen-denominated discount bond due in December 2033 on time, as it is not part of the ongoing restructuring negotiations.

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Argentine creditors build 'Pac-Man' defences as country readies final offer

03-Jul-2020
By Marc Jones and Jorge Iorio
LONDON/BUENOS AIRES, July 3 (Reuters) - **Argentina's government is reading a final debt restructuring offer to creditors which could be formally sent to U.S. regulators within days, a government source told Reuters on Friday, even as increasingly splintered bondholders tabled another proposal of their own.**
Argentina will present its new offer to the U.S. Securities and Exchange Commission in the coming days, according to a government source.
A day earlier, a source close to the negotiations said the government was "crafting the definitive and final offer" to creditors.
Meanwhile, a new counteroffer by bondholders, which Reuters reported had been tabled on Thursday, will provide the government with $39 billion of cashflow relief over the next eight years, the Argentina Creditor Committee (ACC) said. It includes a requirement that two-thirds of bonds participate in any deal.
Debt specialists see the participation threshold as important. If the government did not accept it they say it could signal an intention to adopt a so-called 'Pac-Man' strategy' whereby the government tries to get investors to deal with it one at a time.
"The ACC continues to believe that the best way forward is a consensual resolution," the group said in a statement.
Sources on Thursday said the new ACC offer valued bonds at around 54.5 cents on the dollar. That would be a modest drop from its previous offer of around 55-56 cents but would still be above the government's last proposal of 50 cents plus sweeteners.
The ACC added that its offer would leave creditors with a weighted average coupon of 3.95% on their bonds with a 5% maximum. Eligible bonds would also maintain their original indentures - the contract associated with the bond - meaning they would not have inferior legal guarantees.
The move comes at a crucial stage in the $65 billion debt renegotiations with the Argentine government.
Talks have been extended a number of times in an effort to reach a deal, though the two biggest creditor groups, the "Ad Hoc" and "Exchange" groups, which hold a combined $21 billion of the $65 billion, have complained this week of lack of engagement from the government.
Sources familiar with the thinking of those two groups have told Reuters that they still want a better deal than the ACC proposal.
They also say that if Argentina's next offer is not up to scratch they will have a so-called "lock up", which would prevent any of the individual firms in the groups peeling off and accepting a deal if the government did try the Pac-Man approach.

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Belize

S&P Says Belize Downgraded to 'CC/C' on Expected Debt Restructuring or Missed Coupon Payment, Placed on CreditWatch Negative

30-Jun-2020
June 30 (Reuters) - S&P:
- **S&P rates Belize's long-term local currency 'CC' and long-term foreign currency 'CC'; outlook credit watch negative**
- S&P says lowered its long-term foreign and local currency sovereign credit ratings on Belize to 'CC' from 'CCC'
- **S&P says lowering foreign & local currency long-term credit ratings on Belize reflects heightened risk of distressed debt exchange in near term**
- S&P says placing ratings on Belize on CreditWatch with negative implications
- S&P says Belize has limited scope to effectively counter covid-19 pandemic shock & maintain timely debt service
- S&P says a distressed exchange or unilateral default on Belize's coupon payments is virtually certain at this point

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Brazil

Brazil's debt and deficit hit record

highs in May, outlook darkens

30-Jun-2020
By Jamie McGeever
BRASILIA, June 30 (Reuters) **- Brazil's national debt and public-sector deficit surged to record highs in May, figures showed on Tuesday, reflecting the squeeze on finances from a second full month of social isolation and quarantine to curb the novel coronavirus pandemic.**
The deterioration in the public accounts supports Treasury Secretary Mansueto Almeida's comments on Monday that debt will likely exceed 95% of gross domestic product this year and the primary budget deficit is on course to top 11% of GDP.
Economy Minister Paulo Guedes went further on Tuesday, warning that the debt and primary deficit could rise above 100% and 15% of GDP, respectively. The Economy Ministry is expected to announce new debt and deficit forecasts later in the day.
Brazil's gross debt rose to a record 81.9% of GDP in May, the central bank said, higher than the 81.3% forecast in a Reuters poll of economists, while net debt rose to 55% of GDP, also higher than expected.
The overall public sector posted a primary budget deficit excluding interest payments of 131.4 billion reais ($24 billion) in May, the central bank said, less than the 135 billion reais deficit forecast in a Reuters poll, but also a record.
"The deterioration of fiscal accounts is increasing, and we believe the main risks are still ahead of us," economists at Citi said in a note on Tuesday.
"The pressure to increase spending is and will probably remain high, so the risks are biased towards a larger deterioration of fiscal accounts," they said.
As a share of GDP over the 12 months to May, the primary deficit widened to 3.9%, the widest since the data series began in 2002, according to central bank figures.
The government insists that emergency spending must be temporary, its fiscal rules such as the spending cap be honored, and that a resumption of the austerity agenda is critical to ensuring a sustainable economic recovery.

($1 = 5.50 reais)
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Brazil needs primary surplus 1.73% of GDP in 2021-2029 to get debt back to 2019 levels

02-Jul-2020
BRASILIA, July 2 (Reuters) - **Brazil's Treasury said on Thursday that the public sector will have to generate an average annual primary surplus of 1.76% of gross domestic product in the 2021-29 years if gross debt at the end of that period is to get back to where it was last year.**
That is a significantly more challenging fiscal adjustment than the 0.26% of GDP previously forecast, Treasury said, adding that public sector net debt probably will not get back top pre-crisis levels for more than 10 years.

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Brazil revises 2020 fiscal outlook, sees 'lost decade' for national debt

02-Jul-2020
By Jamie McGeever and Marcela Ayres
BRASILIA, July 2 (Reuters) - **Brazil's government on Thursday revised its 2020 fiscal outlook, forecasting significantly higher debt and wider deficits due to the COVID-19 crisis, and said it will be over a decade before public debt falls back to last year's level.**
A surge in emergency spending and slump in tax revenues will require an even greater effort to get public finances back on track, the economy ministry said, indicating Brazil is in for a prolonged period of severe austerity once the immediate crisis passes.
The ministry now expects a central government budget deficit excluding interest payments of 795.6 billion reais ($149 bln) or 11.5% of gross domestic product, compared with its previous forecast of a 675.7 billion reais shortfall, or 9.4% of GDP.
It also expects a wider public sector deficit of 828.6 billion reais or 12% of GDP, up from 708.7 billion reais and 9.9% of GDP.
Assuming a 6.5% decline in GDP this year, as per the latest consensus forecast in the central bank's weekly 'FOCUS' survey of economists, the ministry said it now expects gross debt to reach a record 98.2% of GDP this year.
The government's official forecast this year is for a 4.7% fall in GDP. Waldery Rodrigues, special secretary to the economy ministry, said this will be revised on July 10.
According to calculations from Brazil's Treasury, the public sector will have to generate an average annual primary surplus of 1.76% of GDP in the years 2021-29 if gross debt at the end of that period is to get back to where it was last year as a share of GDP.
That is a significantly more challenging fiscal adjustment than the 0.26% of GDP previously forecast, Treasury said.
"The simulations are hypothetical, but reveal the fiscal challenges," Treasury said in a report on its website.
"They show the need to proceed with reforms

that will spur the fiscal adjustment and sustained growth. This will improve debt dynamics ... (and help) keep interest rates low and inflation under control," it said.
Rodrigues insisted that maintaining the spending cap rule is the fundamental pillar of the government's fiscal policy.

($1 = 5.33 reais)
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Ecuador

Fitch Ratings: Deep Restructuring Is No Guarantee of Ecuador Debt Sustainability

02-Jul-2020
Fitch Ratings-London/New York-02 July 2020: **Debt restructuring is a necessary but insufficient condition to help Ecuador overcome liquidity and debt sustainability challenges, Fitch Ratings says in a new report.** In addition to a deep restructuring, sustainability will require stronger growth and a fiscal adjustment that are likely to prove challenging regardless of the outcome of 2021's elections. **Bondholders approved Ecuador's request for a four-month deferral of interest payments in April to allow time for a comprehensive restructuring, leading Fitch to downgrade its sovereign rating to 'RD'.** Ecuador's request came amid a severe liquidity crunch and economic crisis caused by the coronavirus pandemic and oil price shock. Yet this development only exacerbated existing problems after years of low growth, a social backlash against policy adjustments, and failure to keep the country's IMF programme on track. **Ecuador's debt/GDP and interest/revenues metrics are moderate compared with other low-rated sovereigns, but solvency is weak given the country's low debt tolerance.** This reflects its unique vulnerability as an oil-dependent, dollarised economy heavily reliant on external credit. External interest payments are already high (10% of current external receipts in 2019) and international reserves are low. Servicing external debt during a liquidity shock and pandemic had become politically untenable and put macroeconomic stability at risk. **Ecuador's government and the IMF have called for deep; debt relief to overcome liquidity and solvency challenges.** They have set explicit goals to reduce consolidated non-financial public sector (NFPS) debt to 55% of GDP by 2025 and 45% by 2030 (from around 65% in 2020) and gross financing needs below 6% of GDP by 2025 (from 14% this year). By Fitch's calculations, the authorities' macroeconomic assumptions and debt goals point to a restructuring that would result in a 50%-55% recovery value via a large reduction in coupon rates and a smaller principal haircut. However, even a restructuring based on these guidelines could leave Ecuador at risk of renewed financial distress, in Fitch's view. The authorities have not explicitly targeted building a liquidity buffer to help manage further commodity or financing shocks, and their macroeconomic assumptions appear optimistic. The authorities project that nominal GDP growth will recover to 4.5% by 2026, but Fitch expects it could fall well short of this amid fiscal austerity, lower oil prices, and competitiveness challenges. Improving growth prospects within the constraints of dollarisation via a major structural reform programme is likely to be politically difficult, and without it, pressure for a painful; internal devaluation; could build. Reaching the projected 3.1%-of-GDP NFPS surplus by 2025 (involving a 4.4pp adjustment) also appears difficult. Fitch sees limited scope for the capital spending cuts the authorities expect will offer most of this adjustment, making it more reliant on cuts to salaries, tax increases, and social security reform. These would be politically challenging, as evidenced by the tortuous legislative path and dilution of last year's tax reform and recurrent social unrest. **Debt sustainability would remain at risk in a more conservative macroeconomic scenario even with a deeper restructuring.** Assuming medium-term nominal GDP growth of 2.3%, which is half the authorities' projection but above the 2015-2019 average, and a 1.5%-of-GDP primary surplus, sustainability is not assured even if the restructuring is very deep (e.g. a 35% recovery rate).

Mexico

Mexico could pitch fresh stimulus if necessary, deputy fin min says

29-Jun-2020
MEXICO CITY, June 29 (Reuters) - **Mexico has its finances under control and if necessary, could put forward additional measures to stimulate growth in the face of the coronavirus pandemic, Deputy Finance Minister Gabriel Yorio said on Monday.**
"So we need to be watchful, and we'll be ready to propose another package should it be necessary, but we can see that recovery has begun," Yorio told a news conference.
Mexico's economy contracted by a record 17.3% in April and the government has come under fire for its reluctance to increase spending to weather the effects of the pandemic.

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Uruguay

Uruguay eyes possible market return this year

02-Jul-2020
By Miluska Berrospi
NEW YORK, July 2 (IFR) - **Fresh off a successful US$2bn equivalent transaction in the dollar market last week, Uruguay could return in the second half of the year if market conditions allow, the country's head of debt Herman Kamil told IFR.**
While Uruguay will be focused in raising debt in its local market for the year and does not need to access international markets, given the right conditions, it could seize the opportunity.
"If market conditions continue to improve during the second half of this year and we see a window of opportunity, we don't rule out tapping the global markets again," said Kamil.
The country is also looking to diversify sources of funding across currencies and markets, including possible transactions in Japanese Yen, he added.
Last Wednesday June 24, the sovereign issued the region's first local currency linked bond since the Covid-19 pandemic hit global markets, and the country's first inflation linker since 2011.
In a two-part deal, it approached investors with a US$400m tap of its outstanding 4.375% 2031s and a new inflation-linked Ps68.5bn (US$1.6bn) 2040 bond offering.
The deal marked the first local-currency deal for 2020.
"We are very satisfied with the robust outcome of the transaction, in terms of the level of demand and amount issued, the rates achieved, the currency mix of the bonds and the quality of the investors that participated," said Kamil.
Books on the transaction peaked at US$6.1bn equivalent and the order book saw the participation of over 140 accounts, with 55 of them participating in the local tranche.
The dollar tranche priced at a yield of 2.48% with a negative issue premium, making history as the country's lowest yield ever since it began issuing debt some 30 years ago, according to the Finance Ministry.
Neighboring country's, and higher-rated Peru (A3/BBB+) and Chile (A1/A+) issued 10-year paper at yields of 2.78% and 2.45%, respectively for earlier transactions this year.
"Our goal was to raise new funding in international markets, but to do it in a way that avoided a significant re-dollarization of its debt stack," said Kamil.
"That meant raising new funding in local currency on a large scale."
Proceeds of the deal will be allocated toward curbing the effects of the Covid-19 pandemic as well as the repurchase of US$500m of its 2027 and 2028 bonds.
Uruguay is rated Baa2/BBB/BBB-.

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Venezuela

Russia says Venezuela will increase debt repayment five-fold from 2023

30-Jun-2020
MOSCOW, June 30 (Reuters) - **Russia on Tuesday disclosed terms of a previously agreed debt restructuring with Venezuela that show annual payments from Caracas to Moscow increase fivefold starting in 2023.**
The details were included in a governmental bill presented for ratification to the lower house of parliament, or the Duma. It was unclear what would happen to the agreement between Russia and Venezuela if the Duma rejects the bill.
Caracas has to pay Moscow $133 million a year from 2019 to 2022. That increases to $684 million from 2023 to 2026, the document on the lower house of parliament's website showed.
The deal, signed by Russia and Venezuela in 2018, envisages repayment of $3.12 billion in principle and interest payments of $217 million.
Russia and Venezuela agreed on the debt restructuring in late 2017. Close ally Moscow has acted as a lender of last resort for Caracas, with the Russian government and oil giant Rosneft providing at least $17 billion in loans and credit lines since 2006.

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AFRICA

Sub-Sahara Africa

Fitch: Sub-Sahara African debt burdens rising faster than elsewhere

30-Jun-2020
LONDON, June 30 (Reuters) - **Government debt burdens across sub-Saharan Africa are rising at a faster pace and to higher levels than elsewhere in emerging markets, heightening the risk of further rating downgrades and defaults, ratings agency Fitch warned on Tuesday.**

Emerging markets have been battered by the fallout from the coronavirus pandemic, with a coinciding oil price rout adding to the pain for smaller and often riskier developing countries, many focussed on crude exports and having few fiscal or monetary buffers.
Fitch predicted that the median of government debt-to-GDP for the 19 sovereigns it rated in the region would rise to 71% by end-2020 from 26% in 2012, while the median debt ratio across other emerging markets is expected to climb to 57%.
Africa's main oil exporters – Angola, the Republic of Congo, Gabon and Nigeria – have been hit particularly hard given their high reliance on oil revenues for fiscal and external financing, and the dependence of the rest of their economies on crude earnings.
Countries with a concentration on tourism, particularly Cabo Verde and the Seychelles, have also been badly affected, Fitch said.
While Mozambique and Republic of Congo already defaulted recently, ratings pointed to more stress ahead, with Zambia at 'CC' and Gabon, Mozambique and Republic of Congo 'CCC'.
Another 13 sovereigns were in the single 'B' range, with seven sovereigns having a 'negative' outlook on their rating.
"The coronavirus shock compounds a marked deterioration in SSA public finances that has been running for a decade and which will be challenging to reverse," Ed Parker, managing director sovereign ratings EMEA, wrote in a report.
"Further sovereign defaults are probable," he added.
While emergency support from the International Monetary Fund and the G20 Debt Service Suspension Initiative (DSSI) provided useful fiscal and external financing, those programmes were "moderate in size" at around 0.9% and 1.2% of GDP respectively, Parker said.
They were not designed to address debt stocks and medium-term risks to debt sustainability, he added.

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Egypt

Egyptian parliament approves $5 billion supplemental spending bill

01-Jul-2020
CAIRO, July 1 (Reuters) - **The Egyptian parliament on Wednesday approved an 80 billion Egyptian pound ($5 billion) supplementary spending bill for the financial year that ended on Tuesday.**
The newly approved funds will be used to help pay 102 billion pounds that the electricity ministry owes the petroleum ministry and to pay a 50 billion pound first instalment on the 160.5 billion pounds owed to the state pension fund, Finance Minister Mohamed Maait told parliament.
The 2019/20 budget had originally allocated spending of 1.57 trillion Egyptian pounds, according to the Finance Ministry website.
The draft 2020/21 budget provides for 1.7 trillion in expenditures, a cabinet statement said on March 30.

($1 = 16.0800 Egyptian pounds)
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Ethiopia

Fitch Affirms Ethiopia at 'B'

30-Jun-2020
- **Fitch affirms Ethiopia at 'B'; outlook negative**
- Fitch says affirmed Ethiopia's long-term foreign-currency issuer default rating at 'B' with a negative outlook
- Fitch says Ethiopia's rating balances strong medium-term economic growth potential against low development & governance indicators and low FX reserves
- Fitch says negative outlook largely reflects risks emanating from covid-19 pandemic, which will significantly hit Ethiopia's economic growth

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Nigeria

Nigeria's debt rose to 28.62 trln naira as of March

03-Jul-2020
ABUJA, July 3 (Reuters) - **Nigeria's total public debt rose to 28.62 trillion naira ($79.5 billion) as of March, up 15% from a year earlier, the Debt Management Office (DMO) said on Friday.**
Africa's largest economy has been racking up debt to fund infrastructure projects and boost a sluggish economy now projected to fall into recession following the impact of an oil price crash triggered by the coronavirus pandemic.
Total public debt stood at 24.94 trillion naira in the first quarter of 2019.
Nigeria had a series of debt issues lined up this year before the collapse in oil prices, the country's main export, forcing the government to shelve foreign commercial borrowing.

The government is now tapping domestic markets and concessionary loans to help fund its 2020 budget deficit which has been worsened by the lower oil prices that slashed revenues and weakened the naira currency.

But debt servicing costs have risen.

The government spent 609.13 billion naira ($1.69 billion) to service domestic debt in the first quarter of 2020, the DMO said in a statement.

A director at ratings agency Fitch told Reuters last week that a sharp rise in Nigeria's sovereign debt and a ballooning financing gap could trigger a rating downgrade.

Nigeria's debt to revenue ratio is set to worsen to 538% by the end of 2020, from 348% a year earlier, before improving slightly next year, Fitch said.

($1 = 360.00 naira)
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South Africa

South Africa's May budget deficit widens year on year

30-Jun-2020

JOHANNESBURG, June 30 (Reuters) - **South Africa's May budget deficit widened to 52.37 billion rand ($3.02 billion) compared with a 17.54 billion rand shortfall in the corresponding period of the previous year, Treasury data showed on Tuesday.**

The tables below show revenue and expenditure for the second month of the 2020/21 fiscal year (April to March), compared with the previous financial year.

These are also expressed as a percentage of the 2020/21 budget and the preliminary outcome for 2019/20.

($1 = 17.3612 rand)
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OCEANIA

Fiji

Moody's Says Changes Fiji's Outlook to Negative from Stable, Affirms Ba3 Rating

29-Jun-2020

June 29 (Reuters) - Moody's:

- **Moody's changes Fiji's outlook to negative from stable, affirms BA3 rating**
- Moody's says change in Fiji outlook driven by risk that government is unable to reverse large increase in debt burden & weakening in debt affordability
- Moody's says there has been significant shock to Fiji's tourism sector due to global coronavirus outbreak

(Reuters.Briefs@thomsonreuters.com)

EMERGING MARKETS

Emerging market debt rush set to run despite Ukraine U-turn

02-Jul-2020

- **Record first half year for emerging market debt sales**
- **Scramble to borrow after coronavirus crisis, oil rout**
- **Most high-yield borrowers are able to access market**
- **Those most at risk of default to seek alternatives**

By Tom Arnold

LONDON, July 2 (Reuters) - **A flourishing first half for emerging market debt issuance is expected to continue, with worries among some investors about a risk of oversupply eased by Ukraine's cancellation of a $1.75 billion Eurobond.**

Higher-yield emerging market borrowers like Ukraine have been tempted back to the market by growing risk appetite after a glut of investment grade issues by Gulf governments and Israel in the immediate wake of the coronavirus crisis and oil price rout.

Ukraine's plan was promptly aborted at the request of investors, sources said, after central bank governor Yakiv Smoliy unexpectedly resigned, in a reminder of the risks inherent in some emerging markets.

But Ukraine's last-minute change is unlikely to deter appetite for other higher-yield issuers.

"For some borrowers, financing levels are now more attractive than pre-crisis. Our pipeline is similar to what we saw in June, so we do not anticipate a slowdown in July," said Stefan Weiler, head of Central and Eastern Europe, Middle East and Africa debt capital markets at JPMorgan.

Weiler said a mix of corporates, financial institutions and governments from most regions were preparing to access markets this month, with funding costs starting to become comparable to pre-crisis levels on a yield basis.
Belarus, Albania and Dubai-based ports operator DP World were among recent issuers, capping off a record first half, during which $110.5 billion was sold by sovereign issuers and $274.8 billion by corporates, Refinitiv data shows.
Although some borrowers, such as Saudi Arabia and Russian issuers, have even been able to achieve record low yields, some investors are worried about the risk of oversupply.
The latest bonds from Albania and Belarus have traded sideways since launch, while Egypt's recent issue has not performed particularly well, Nick Eisinger, principal, fixed income emerging markets at Vanguard, said.
"The market is still concerned about the fundamentals and the outlook for some of the riskier names ... if there's too much supply and that's not with a decent enough concession the market struggles a bit," Eisinger said.
The stronger performance was being sustained by relatively small amounts of inflows into emerging market debt compared to recent years, despite large amounts of liquidity issued by major central banks, he added.
Debt flows to emerging markets reached $23.5 billion in June, data from the Institute of International Finance shows, continuing a recovery from March lows.

ALTERNATIVE ROUTES

Sub-Saharan African states have so far been absent from the market, with participants saying governments may be weighing alternatives, such as official debt relief or assistance from the International Monetary Fund.

The Group of 20 major economies (G20) launched an initiative in April to suspend debt payments for the world's poorest nations to help them cope with the fallout from the pandemic.

Borrowers most at risk of default have also been absent.
"The market is distinguishing between distressed and other higher yield names," Steffen Reichold, portfolio manager at Stone Harbor Investment Partners, said.
"A lot depends on what spread level issuers are willing to issue at. It does make sense for some weaker countries to borrow from the IMF now and come to the market later when pricing may have improved," Reichold added.

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