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Emerging Sovereign Debt Markets NEWS

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ASIA

Betting on Asia's debt, Europe's hunt for yield heads east

01-Sep-2020

Refiles to add full titles for banks' asset management arms in paragraphs 12 and 13

- **Asia's central banks aren't buying company bonds, lowering prices**
- **Economic rebound has analysts expecting fewer defaults**
- **Asset managers report uptick in interest from Europe**

By Tom Westbrook and Yoruk Bahceli

SINGAPORE/AMSTERDAM, Sept 1 (Reuters) - **Low yields at home are sending some previously shy European investors into Asia's credit markets, money managers say, lured by the promise of higher returns and a hope that rebounding economies can hold defaults at bay.**

Unlike in Europe or the United States, Asia's central banks have not stepped in to put a floor under corporate debt prices. That has the market's recovery in Asia trailing the rest of the world.

"Now people are looking for the valuation gap to close," said Hayden Briscoe, head of Asia-Pacific fixed income at UBS Asset Management.

Starting with family offices, then private banks, flows from Italy, Germany, Switzerland and the United Kingdom have broadened over the past few months, he said.

"I don't think it's slowing down," he said. "We haven't had a day of outflows, it's just been continuous."

Like elsewhere Asia's junk bond spreads, the premium over safer assets that buyers demand for riskier debt, have narrowed sharply since March.

But Asian high yield still offers a rich 686 basis points over safe-haven benchmarks, which is at least 200 basis points more than what European or U.S. junk debt offers.

At the same time Asia's economies, especially China which dominates the region's $260 billion high-yield market, are emerging in better shape from the coronavirus crisis.

Asia is the only region Goldman Sachs Asset Management says it expects to grow this year, and as a consequence, it forecasts junk default rates at 4% compared to 8% in the United States for 2020.

"When you have a market that is giving you sufficient yield and is not necessarily any more risky, it becomes a market that people at least have to look at," said Elizabeth Allen, head of credit research, Asia-Pacific at HSBC Global Asset Management.

"Rather than just - 'Oh this is Asia, I don't know about it, never mind about it' - that mindset is rapidly changing."

BEST IN CLASS

Along with the asset management arms of UBS, HSBC and Goldman, J.P. Morgan Asset Management, Pictet Wealth Management and Credit Suisse are among advisors to sound upbeat on Asian credit.

Goldman Sachs Asset Management, like UBS-AM's Briscoe and HSBC Global Asset Management's Allen, told Reuters it has noticed demand from Europe lately.

Beyond the economic factors, the composition of **Asia's debt market is another attraction, investors say, because exposure to sectors hardest hit by the virus - such as energy, travel and other cyclicals - is lower than in Europe or the United States.**

"The dominant sector is really the Chinese property names," said Tiansi Wang, Senior Credit Analyst at Dutch fund manager Robeco in Hong Kong, adding the well-capitalised industry is driven by supportive domestic factors.

"That makes a big part of Asia's high-yield market run low-correlation with the global high-yield market," she said.

To be sure, Asia is still home to plenty of risky companies vulnerable to going broke and burning their bondholders.

U.S. and European investment in Asian bonds comprises only about 16% of the total, according to J.P. Morgan Asset Management.

But interest in recent deals such as last week's nearly 13-times oversubscribed Tencent Music's $800 million debt sale, of which about two-thirds went to EMEA and U.S. buyers, suggests at the very least a more receptive audience abroad.

"We expect the region's positive growth trajectory, highly-supportive policies and the global grab for yield to continue to sustain demand for Asian dollar credits," said Shaw Yann Ho, head of Asia fixed income at J.P. Morgan Asset Management.

(Reporting by Tom Westbrook in Singapore, Yoruk Bahceli in Amsterdam and Noah Sin in Hong Kong Editing by Shri Navaratnam)

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Bahrain

Bahrain starts preparing its second bond sale this year

30-Aug-2020
By Yousef Saba
DUBAI, Aug 30 (Reuters) - **Bahrain is planning its second foray into the debt capital markets this year, two sources familiar with the matter said, as the tiny oil-dependent Gulf state seeks to bolster its fragile public finances.**
Bahrain sent a request for proposals to banks to arrange a potential issuance of U.S. dollar-denominated benchmark bonds, the two sources familiar with the matter said. Benchmark deals are generally upwards of $500 million.
One of the sources said the deal may include both conventional and Islamic bonds, or sukuk.
The finance ministry did not immediately respond to a request for comment.
The small oil producer, which was bailed out in 2018 with a $10 billion aid package from its wealthy Gulf neighbours to avoid a credit crunch, raised $2 billion in May to bolster finances battered by low oil prices and the coronavirus crisis.
The International Monetary Fund has said it expects Bahrain's fiscal deficit to jump to 15.7% of gross domestic product this year from 10.6% in 2019.
"Bahrain's fiscal position remains fragile and wider GCC fiscal support is vital," Monica Malik, chief economist at Abu Dhabi Commercial Bank, said in a report this month, referring to the six-member Gulf Cooperation Council.
Bahrain, which saw government revenue drop 29% in the first half of 2020, had said it planned to tap debt markets twice this year.
Some bankers and analysts, however, said it may need more financial aid from fellow Gulf Arab states to overcome this year's downturn.
Ratings agency Fitch this month downgraded Bahrain further into "junk" territory, citing increases in the budget deficit and government debt, and a sharp gross domestic product contraction.

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China

China could sell at the top but it's probably trapped

04-Sep-2020
Sept 4 (Reuters) - **China may sell or gradually cut its holdings of U.S. Treasury bonds and notes. With yields perched just above record lows such a move seems perfectly timed. Where better to reduce a trillion dollar investment than near the top.**
That said, if China exits U.S. bonds what would it buy? There is hardly a big choice of sufficiently liquid alternates. Indeed there isn't one that could offer safety like U.S. bonds and that's key.
Effectively, China is trapped in this liquid and safe investment.
A plan to gradually reduce bonds seems prudent but announcing the plan may not be.
At the first sign of China selling, every other investor sitting long might move to pare their investment before China drives down the price.
A plan to exit gradually which is surely intended to cause minimum disruption could easily spark moves anything but gradual, quickly changing the currently attractive levels at which China might pare its own investment.
The risks of China disinvesting is a handy tool to use during trade talks though, and that may be China's real purpose.

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India

Indian central bank announces new measures to maintain market stability

31-Aug-2020
By Swati Bhat
MUMBAI, Aug 31 (Reuters) - **The Reserve Bank of India announced new measures on Monday to maintain stability in the financial system during the coronavirus pandemic, including two more tranches of special open market bond operations in its 'Operation Twist'.**
The central bank said it would also raise the ratio of securities that banks can hold until maturity within their statutory liquidity ratio (SLR) or mandatory bond holding requirement, which would help limit losses due to market volatility.
"The RBI remains committed to use all instruments at its command to revive the economy by maintaining congenial financial conditions, mitigate the impact of COVID-19 and restore the economy to a path of sustainable growth while preserving macroeconomic and financial stability," the central bank said in a statement.
RBI said it will conduct two more tranches of 100 billion rupees ($1.36 billion) each of simultaneous sale and purchase of bonds in September, or 'Operation Twist' as it is popularly known.
Indian bond yields had risen in recent weeks due to high government borrowing, rising inflation and reduced expectations of interest rate cuts following the release of minutes of

the RBI's monetary policy committee's latest meeting.
Some analysts, however, said the RBI's measures did not go far enough.
"It's a band aid for the market but the steps also show RBI doesn't have space for outright OMOs (open market operations)," said A. Prasanna, chief economist at ICICI Securities Primary Dealership.
RBI, however, also said there were indications that food and fuel prices were stabilising and the recent rise in the rupee was helping to contain imported inflationary pressures.
The bank said that it will also conduct term repo operations for a total of 1 trillion rupees at the current repo rate in mid-September to assuage pressures from advance tax outflows.
"This move does not take away the problem of supply overhang, the impact of this move in (keeping bond yields in check) will only be temporary," said Ashhish Vaidya, Head of Trading and Asset Liability Management at DBS Bank India.
"What the market requires, due to the bond supply overhang, is some sort of decisive move in terms of OMO purchases, like what the central banks in developed markets have demonstrated."
RBI said banks would now be allowed to hold up to 22% of their SLR securities under the held-to-maturity category until March 31, 2021, up from the current limit of 19.5%.

($1 = 73.3320 Indian rupees)
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Will RBI measures trigger rally in bonds?

01-Sep-2020
Mumbai: The Reserve Bank of India (RBI) announced fresh liquidity measures and a relaxation in mark-to-market rules to help calm investor nerves as a sudden spike in yields hit bond markets. It raised the amount of bonds that could be held without providing for losses by 2.5 percentage points, raising the demand for government bonds by as much as Rs 3 lakh crore.
The central bank's latest measures could trigger a rally in the bond market, benefitting central and state governments that can borrow at lower costs. The central bank raised the limit on bonds held-to-maturity (HTM) to 22% from 19.5% of total deposits, known as Net Demand and Time Liabilities (NDTL).
This means banks will have room to buy more bonds without bothering about short-term fluctuations in yields. **"In support of the accommodative stance of monetary policy, the RBI is committed to ensuring comfortable liquidity and financing conditions in the economy," the central bank said in a release on Monday.** The central bank also announced it would buy Rs 20, 000 crore of long-duration sovereign bonds and sell a similar quantum of short-term bonds, repeating the 'twist' measure announced and partly conducted last week.
This will take place in two tranches on September 10 and 17. "The RBI remains committed to conduct further such operations as warranted by market conditions," the central bank said. The benchmark bond yield rose over 30 basis points, pulling prices down.
The gauge fell by three basis points Monday to close at 6.12%, although the central bank announcement came after truncated market hours. The bond market close has been advanced to 2 pm from 5 pm in the wake of coronavirus-induced lockdowns.
A basis point is 0.01 percentage point. "The banking system has abundant surplus liquidity without any demand for credit," said Soumyajit Niyogi, associate director at India Ratings and Research.
"The latest rise in HTM limit will open up space for banks parking money in government bonds, which in turn should check funding costs for both central and state governments. The reversing LTRO (Long-Term Repo Operation) option should ease interest rate uncertainties."
The RBI will conduct term repo operations for an aggregate Rs 1 lakh crore at a floating rate in the middle of September to assuage pressures on the market on account of advance tax outflows.
Banks can use the window to reduce interest costs as they availed of money at 5.15% via the LTRO, a dedicated RBI liquidity window introduced in the first few months of the calendar year. The banks may reduce their interest liability by returning funds taken at the 5.
15% repo rate prevailing at that time and swapping it for money at the current repo rate of 4%, the central bank said.

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Indian bond yields plunge, rupee soars on RBI stability measures

01-Sep-2020
By Swati Bhat
MUMBAI, Sept 1 (Reuters) - **Indian bond yields fell to their lowest level in over two weeks on Tuesday following the central bank's special open market operation (OMO) announcement, while the rupee rose to six-month highs.**
The Reserve Bank of India on Monday announced new measures to maintain stability in the financial system during the coronavirus pandemic, including two more tranches of special OMOs in its 'Operation Twist' and some

easing of held-to-maturity (HTM) limits for bond holdings by banks.
The benchmark 10-year bond yield dropped as much 20 basis points (bps) in opening trade and was down 16 bps at 5.96% at 0512 GMT.
"Consistent operation twists and relaxation to the HTM limit should help in flattening the yield curve," said Upasna Bhardwaj, economist at Kotak Mahindra Bank.
"However, the toolbox seems to be shrinking meaningfully. We expect the 10-year to range between 5.8-6.1% given the RBI measures," she added.
Traders said a larger-than-expected contraction in gross domestic product reported on Monday also aided sentiment for bonds as it revived hopes for more rate cuts by the RBI over the next few months.
India's economy shrank 23.9% in April-June, much more than forecast and pointing to a longer than previously expected recovery, with analysts calling for further stimulus.
The RBI in its statement also said the recent appreciation of the rupee is working towards containing imported inflationary pressures prompting traders to believe it may not be as aggressive in its dollar purchases as in recent months.
The partially convertible rupee was trading at 73.12/13 per dollar compared with 73.61 at previous close. It rose to a high of 73.09, its strongest since March 5.
Despite the the statement from the RBI, DBS economists said intervention in the forex market is unlikely to be completely off the table.
"We expect reserve accumulation to be a priority for the policymakers, especially if strong flows destabilise FX markets, when inflationary pressures subside," they wrote in a note.

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Indonesia

Indonesia raises 9.5 trillion rupiah from Islamic bonds auction

01-Sep-2020
JAKARTA, Sept 1 (Reuters) - **Indonesia raised 9.5 trillion rupiah ($652.25 million) on Tuesday from a biweekly Islamic bonds auction, above the indicative target, the finance ministry said.**
The average yields for sukuk matured in May 2023 and May 2033 were higher and the other two matured in October 2024 and October 2046 were lower than comparable notes sold at the previous auction on August 18.
Incoming bids reached 38.33 trillion rupiah, compared with 49.37 trillion rupiah in the previous auction.

($1 = 14,565.0000 rupiah)
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Indonesia's debt monetization scheme only for 2020, says finmin

04-Sep-2020

- **Govt- central bank zero interest bonds pact only for 2020**
- **Govt pledges commitment to independent central bank**
- **Govt reviewing financial stability framework**

By Tabita Diela and Fransiska Nangoy
JAKARTA, Sept 4 (Reuters) - **Indonesian Finance Minister Sri Mulyani Indrawati said on Friday that Bank Indonesia (BI) will buy government debt with zero return for only this year and also pledged the central bank will stay independent despite concerns its mandate may change.**
Indrawati made the remark following President Joko Widodo's comment earlier this week that the "burden-sharing" scheme with the central bank may continue to next year.
BI has pledged to buy $28 billion of government bonds while relinquishing interest payments, as part of a $40 billion fiscal financing deal with the government to fight the impact of the coronavirus pandemic.
Meanwhile, a panel advising parliament proposed that BI have its mandate expanded to include economic growth and give ministers the right to vote at policy meetings, which economists said could disrupt its independence.
Widodo's comment, as well as concerns over the proposed changes to the central bank law, sent the rupiah tumbling by as much as 1.6% on Wednesday.
Indrawati also told a virtual news conference that the government has not started discussion on the bill initiated by parliament and pledged to maintain BI's independence.
"The government stance is very clear that monetary policy has to remain credible, effective and independent," she said. "There must be a competent check and balance mechanism in place."
Indrawati acknowledged, however, that the government is carrying out a review of the country's financial stability framework to mitigate risks including to its banking sector, as the coronavirus outbreak hit the economy, which in the second quarter posted its first contraction since 1999.
"Indonesia once implemented a system where the banking and the monetary authority were under one roof, as well as a separate system as it is today," she said.
"Each system has its advantages and disadvantages that need to be studied more carefully in order to strengthen the banking

supervisory system."

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Kazakhstan

Kazakhstan to offer 40 bln rubles of bonds on Moscow Exchange, AIX

04-Sep-2020

NUR-SULTAN. Sept 4 (Interfax) - **Kazakhstan's Finance Ministry is planning to place three bond issues for a total value of 40 billion rubles or $500 million on the Moscow Exchange (MOEX: MOEX) and the Astana International Exchange (AIX), the Finance Ministry told Interfax.**

The bonds will mature in three to ten years.

"We are now monitoring the situation in the capital markets. The final decision on the government securities placement will depend on the market situation, the demand for government securities from the securities market players and our needs to finance the government budget deficit," the Finance Ministry said.

The bonds are expected to be listed on both the Moscow Exchange and the AIX.

Astana International Exchange (AIX) was organized in 2017 as part of Astana International Financial Centre (AIFC). Trading in securities on the AIX was launched on November 14, 2018.

The Finance Ministry said earlier that it was planning to open an investor bid book for the purchase of bonds of the 1st, 7th and 11th issues totaling 40 billion rubles in value in the second half of September.

The organizers are Gazprombank, Credit Bank of Moscow, Rosbank and Kazakhstan-based First Heartland Securities. Rosbank will act as a placement agent for the Moscow Exchange.

Earlier the Central Bank of Russia registered the offering of Kazakhstan's 14 bond issues totaling 170 billion rubles in Russia.

The value of the 1-2nd issues will amount to 20 billion rubles each, of the 3-5th issues, as well as the 7-9th and 11-14th issues will hold 10 billion rubles each, the 6th and 10th issues will hold 15 billion rubles each. The face value of one bond is 1,000 rubles.

The maturity of the 1st-4th issues is 3 years, for the 5th-6th issues is 5 years, for the 7th-10th issues is 7 years, and for 11th-14th is 10 years.

The Kazakh Finance Ministry said earlier that the country intends to raise $500 million by placing treasury bonds on the Russian market in 2020 to cover the budget deficit.

In mid-June this year newly appointed Finance Minister Erulan Zhamaubayev said that Kazakhstan plans to raise 400 billion tenge from external sources to finance the budget deficit in 2020.

Kz pr mz
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Kuwait

Kuwait government to discuss changes to debt law sought by lawmakers

30-Aug-2020

KUWAIT, Aug 30 (Reuters) - **The Kuwaiti government will discuss proposed amendments to a long-debated debt law, including reducing the oil-exporting nation's debt ceiling, Finance Minister Barak Ali Al-Shitan told parliament on Sunday.**

The government and parliament have long been at odds over the law that would allow Kuwait to tap international debt, but the issue has gained urgency in recent months due to the COVID-19 pandemic and low crude prices.

The law proposed by the government would allow it to borrow a maximum of 20 billion dinars ($65.53 billion) over 30 years, 8 billion of which would be used to cover this year's budget deficit.

Al-Shitan said it remained "urgent and necessary" to pass the law. Kuwait faces a deficit of 14 billion dinars this fiscal year, which began on April 1.

Parliament's financial and economic committee proposed a debt ceiling of 10 billion dinars and for the repayment period to be 10 years, said the committee's head, Safaa al-Hashem.

She added that the proposal included that the law be reconsidered within three years, in terms of the debt ceiling and repayment period, provided that the next finance minister presents a complete economic reform programme with a way to cut expenditure and boost revenue, as well as lay out clear repayment mechanisms.

Al-Shitan told the committee public debt would not exceed 60% of gross domestic product and that proceeds would go to infrastructure and development projects, he told reporters after meeting the committee.

He said the government would study the committee's proposals and return a written response in order to reach a compromise and pass the long-delayed debt law.

($1 = 0.3052 Kuwaiti dinars)
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Fitch Ratings: Kuwait to Overcome

Political Obstacles to Financing

01-Sep-2020

Fitch Ratings-Hong Kong-01 September 2020: Fitch Ratings believes that Kuwait will maintain smooth funding of government, despite depletion of treasury liquidity and political roadblocks to a new law permitting debt issuance. Recent measures indicate increased urgency on the part of the authorities to solve the funding conundrum, and their flexibility to take extraordinary measures to this end. In August, parliament passed legislation making fiscal surpluses a precondition to transfers from the General Reserve Fund (GRF), which effectively serves as the government's treasury account, into the main Reserve Fund for Future Generations (RFFG). The new law allowed for the reversal of the transfer for the fiscal year ending March 2020 (FY19), and followed the purchase of assets from the GRF by the RFFG. We now estimate that the GRF will last until November. When debating the legislation amending the rules governing transfers from the GRF to the RFFG, the minister of finance stated that the GRF had about KWD2 billion remaining and was being depleted at a monthly rate of KWD1.7 billion. Monthly drawdowns from the GRF will now be about KWD100 million lower, and the reversal of the FY19 transfer provides a one-off boost of about KWD2.2 billion. The earlier asset transfer provided KWD2.3 billion to the GRF but was already reflected in the figure quoted by the minister of finance. **Beyond November, we assume Kuwait's government will issue new debt or access the principal of the RFFG more broadly, despite uncertainty about whether parliament will pass the debt law (under consideration since 2017).** Kuwait's Amir has wide-ranging constitutional powers and could issue decrees with the force of law after the parliamentary session ends in September, ahead of the November elections. Even without new legislation, the GRF could borrow from the RFFG, as it did during the Iraqi invasion in 1990-1991. Some respite could also come from the government's overdraft at the Central Bank of up to 10% of revenue (about KWD1 billion), although it is unclear whether this is subject to the debt law.

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Lebanon

Third Lebanese IMF negotiator quits post

30-Aug-2020

BEIRUT, Aug 30 (Reuters) - **A senior member of Lebanon's negotiating team with the International Monetary Fund (IMF) has resigned, becoming the third to do so over deadlocked talks, a source close to the finance ministry told Reuters on Sunday.**

Talal F. Salman was economic advisor to the Lebanese finance ministry. A ministry spokeswoman declined to comment.

Lebanon began talks with the IMF for a bailout in May after defaulting on its huge sovereign debt but the negotiations were put on hold in July due to a lack of action on reforms and a row on the Lebanese side over the size of its vast financial losses.

The government that launched the talks resigned this month over the Aug. 4 port explosion in Beirut that fuelled public anger at a political class seen as responsible for the country's many woes, including a deep financial crisis rooted in corruption and mismanagement.

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Lebanon bank requirements decisions will help stabilise exchange rate

01-Sep-2020

DUBAI, Sept 1 (Reuters) - **Lebanon's central bank governor said on Tuesday that the new decisions on bank requirements would help stabilise the Lebanese pound's exchange rate.**

Lebanon has $19.5 billion in reserves on top of gold reserve, Riad Salameh told Sky News Arabia. He said 30% of funds that exited Lebanese banks have to be returned, saying it was "not logical" for bank owners not to have their funds in their own banks.

Salameh said banks that do not comply with the latest directives on ratios will have to exit the market after February.

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French roadmap sets blistering pace for Lebanon to change course

02-Sep-2020

- **Draft French programme for Lebanon sets out major reforms**
- **PM-designate Adib starts process of forming government**
- **Reforms threaten old habits of ruling elite, says analyst**
- **Politician says Macron pressure means "it might work"**

By Tom Perry and Raya Jalabi

BEIRUT, Sept 2 (Reuters) - **A French roadmap for Lebanon's next government calls for the immediate resumption of talks with the International Monetary Fund to fix the shattered economy and swift moves to fight graft and introduce other reforms that have been delayed for years.**

The draft programme was reviewed by Reuters on Wednesday, a day after French President Emmanuel Macron on a visit to Beirut delivered a stark message to Lebanon's leaders: deliver on reforms by the end of October or face possible sanctions.
Macron, whose pressure prompted Lebanon's bickering leaders to agree on a new prime minister, has spearheaded international efforts to set Lebanon on a new course after decades of corrupt rule led to its deepest crisis since the 1975-1990 civil war.
Lebanon's banks are paralysed, its currency has crashed and sectarian tensions are rising. On top of that, a huge port blast last month smashed a swathe of Beirut, killing more than 190 people and causing damage estimated at up to $4.6 billion.
Reuters obtained the draft, which lays down detailed demands in line with Macron's call for "credible commitments", from two Lebanese officials. It was also reported by Lebanese media.
The French presidency and Foreign Ministry did not immediately respond to a request for comment.
Within 15 days of taking office, Lebanon's new government should have set out a timeframe for IMF talks, the draft says.
Within a month, it must implement an IMF-approved capital control law, start auditing the central bank and launch reforms to the electricity sector, which still cannot provide the nation of about 6 million people with 24-hour power.
Also within a month, it should scrap current plans to build a controversial power station in Selaata, north of Beirut, and set up a national anti-corruption authority.
Mustapha Adib, the former ambassador to Germany, was designated prime minister hours before Macron arrived. Before taking up the post, he must form a cabinet, which usually takes months. Macron said politicians agreed to do this in two weeks.
"The challenges are overwhelming and cannot bear delay," Adib said after meeting politicians on Wednesday.
'SET OF SPOILS'
Lebanon's talks with the IMF were launched in May but stalled in July as the government argued with the political parties and banks about the scale of losses in the banking system, which had largely funded a mountain of public debt.
Mohanad Hage Ali of the Carnegie Middle East Center said the reforms would be difficult for the political elite as they would make it tough to finance their networks of influence.
"It shifts politics from the old regime, which looks at public services as a set of spoils, into a new economy in which the old practices cannot go on," he said.
But a senior political source said there were signs of concessions, partly due to French pressure. "It is ambitious but with (Macron) coaching Lebanon, it might work," the source said.
While Macron has led international diplomacy on Lebanon, other powers still have considerable sway, such as Iran via its ally the heavily armed Lebanese Shi'ite group Hezbollah.
Saudi Arabia, Iran's regional rival, has exercised influence over Lebanon's Sunnis and the United States, which lists Hezbollah as a terrorist group, is a major donor.
Hezbollah official Mahmoud Qamati told Hezbollah's al-Manar TV he saw regional and international cooperation over Lebanon. "Therefore this is an opportunity for this government to solve some of the crises at least, if not all of them," he said.
The Lebanese Forces, a Christian party staunchly opposed to Hezbollah, said expert ministers in the new government must act independently without having to consult a political master, unlike the previous cabinet now acting as caretaker.
Lebanon's leading Druze politician Walid Jumblatt told broadcaster LBC the government would likely follow the roadmap.
Gebran Bassil, head of the biggest Christian party, the Hezbollah-allied Free Patriotic Movement (FPM), said "if this government does not succeed it means we are going towards a bigger catastrophe".

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Myanmar

Myanmar: Sovereign signs ¥30bn JICA loan to combat virus

02-Sep-2020
The Government of the Republic of the Union of Myanmar has obtained a loan of up to ¥30bn (US$283m) from the Japan International Cooperation Agency in response to the coronavirus pandemic, according to a press release on Tuesday.
The loan, which was signed in Nay Pyi Taw on September 1, will assist recovery from economic downturn caused by Covid-19 through budgetary support and related policies for promoting investment, trade, and the financial sector.
The loan has a tenor of 40 years and pays an annual interest rate of 0.01%, according to the release.
It is part of JICA's Covid-19 Active Response and Expenditure Support Programme Loan.
It follows another US$250m loan from the Asian Development Bank in August, which was also for the government's response to the pandemic.
On August 5, JICA provided a ¥50bn loan to the Republic of Indonesia also in response to the coronavirus pandemic.

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(Editing by Prakash Chakravarti)
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Saudi Arabia

Saudi to allow foreigners to invest directly in debt instruments

02-Sep-2020

RIYADH, Sept 2 (Reuters) - **Saudi Arabia's Capital Market Authority (CMA) said on Wednesday it will allow foreigners to invest directly in debt instruments, furthering open the Saudi market to outside investors.**

The market regulator said resident and non-resident foreigners would be able to invest in listed and non-listed debt instruments.

Saudi Arabia's reforms to develop and open up its capital markets are part of Vision 2030, an economic reform plan aimed at boosting growth in the private sector and at diversifying the country's economy beyond oil.

The Saudi main stock exchange, Tadawul, opened to foreign investors in 2015. The kingdom has since introduced a raft of reforms to attract overseas share buyers and issuers as part of efforts to lure foreign capital and diversify the oil-dependent economy.

This decision will help "enhance the investment environment attractive for foreign investors, thus contributing to raising the efficiency of the market and increasing its competitiveness regionally and internationally", the CMA said in its statement.

Non-resident foreigners will not be able to invest as direct investors in listed debt instruments and at the same time invest as a qualified foreign investor or an ultimate beneficiary in swap agreements, a vehicle that allows foreigners to buy into listed stocks through intermediaries.

In addition, foreigners who invest directly in debt instruments may not convert them into shares listed in the main market unless they are among the categories allowed to invest directly in listed shares in the main market or become an an ultimate beneficiary in a swap agreements, according to the statement.

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South Korea

S. Korea plans to create $17 bln fund for 'New Deal' economic initiatives

03-Sep-2020

SEOUL, Sept 3 (Reuters) **- South Korea's finance ministry said on Thursday the government plans to create a 20 trillion won ($16.8 billion) fund over the next five years for President Moon Jae-in's "New Deal" program.**

The fund, aimed at financing economic initiatives that invest in technology sectors for jobs and growth, will be partly financed by policy banks as well as retail investors who will be invited to make investments, the ministry said.

($1 = 1,187.6300 won)
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Thailand

Thailand announces $2.2 bln worth of additional stimulus in handouts, job measures

02-Sep-2020

- **Govt plans to give cash to 15 million people**
- **Plans to help private sector pay for new hires**
- **Govt will continue introducing stimulus measures**

By Kitiphong Thaichareon

BANGKOK, Sept 2 (Reuters) - **Thailand announced on Wednesday 68.5 billion baht ($2.2 billion)worth of fiscal stimulus in cash handouts and job measures to support Southeast Asia's second-largest economy which has been battered by the coronavirus pandemic.**

The announcement comes one day after the surprise resignation of newly-appointed Finance Minister Predee Daochai, which Thailand's prime minister said earlier would not impact economic policy or investor confidence.

The government plans to spend 45 billion baht on 3,000 baht handouts for 15 million people to boost domestic consumption, said Danucha Pichayanan, a spokesman of the government's task force, at a news briefing. It has earmarked 23.5 billion baht to help the private sector hire 260,000 new graduates for a year.

"The government will continue introducing additional measures" to help domestic activity and investment, said Deputy Prime Minister Supattanapong Punmeechaow, at the same briefing held after a meeting on stimulus

measures.
Thailand's economy suffered its deepest contraction in over two decades in the second quarter as the pandemic hit tourism and domestic activity, even as the country saw a more modest number of coronavirus cases compared to some of its peers.
The government also said civil servants would be given two days leave to make the most of subsidies for domestic tourism offered by the government since June to offset the drop in foreign visitors from the border closures in April.
Overall, the measures will be financed by the government's 1 trillion baht borrowing, part of a bigger 1.9 trillion baht coronavirus response package to help an economy which the finance ministry expects to shrink by a record 8.5% this year.
The state planning agency earlier said there were about 2 million job losses as a result of the tourism slump. It expects only 6.7 million visitors in 2020, after last year's record 39.8 million tourists whose spending made up 11.4% of GDP.
Thailand said last month it would allow foreign tourists to visit the resort island of Phuket for long stays from October with a quarantine, replacing a previous "travel bubble" proposal due to new outbreaks around Asia.

($1 = 31.20 baht)
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United Arab Emirates

Dubai government total debt at $33.6 bln as of end-June

31-Aug-2020
DUBAI, Aug 31 (Reuters) - **The Dubai government had 123.45 billion dirhams ($33.61 billion)in total direct debt as of June 30, a document showed, which included debt from the Abu Dhabi government and United Arab Emirates central bank.**
In December 2018, Dubai renewed for five years a $10 billion debt facility from Abu Dhabi, a base prospectus for a planned debt sale showed on Monday. In March 2019, Dubai renewed for five years a $10 billion loan from the UAE central bank.
In April, the Dubai finance department entered into three debt agreements comprising a 10-year Islamic debt facility worth 7.7 billion dirhams, a $275 million seven-year bilateral term loan and a 1 billion dirhams eight-year term loan.

($1 = 3.6728 UAE dirham)
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Editing by Kim Coghill)
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Abu Dhabi issues USD 5 billion in multi-tranche, 50-year bond marking GCC's longest dated sovereign issuance

02-Sep-2020
Abu Dhabi issues USD 5 billion in multi/tranche, 50/year bond marking GCC's longest dated sovereign issuance
ABU DHABI, 2nd September 2020 (WAM) - The emirate of Abu Dhabi on 2nd September 2020 successfully completed a USD 5 billion multi-tranche bond offering, which represents a continuation of Abu Dhabi's commitment to fiscal sustainability.
Underpinned by strong investor appetite, the bonds are priced at historic low yields. The issuance comprises three tranches: a USD 2 billion 3-year tranche, a USD 1.5 billion long 10-year tranche, and a USD 1.5 billion 50-year tranche.
The 50-year tranche is the longest term for a bond issued by a GCC sovereign issuer, which underscores Abu Dhabi's robust credit fundamentals and the investors' trust in the emirate's future economic prospects.
As the only AA-rated sovereign issuer by all three rating agencies in the GCC region, Abu Dhabi's proactive medium-term debt management strategy optimizes the capital structure of the emirate and taps into diverse funding sources, while maintaining the current credit ratings.
The bond issuance was 4.8 times oversubscribed (at peak orderbook), with orders coming from over 60 new accounts and an orderbook which peaked at USD 24 billion.
The 50-year bonds were particularly well received by international investors, who accounted for 95% of the final geographical allocation, showcasing trust in Abu Dhabi's ability to deliver sustained, long-term economic growth.
Commenting on the offering, Jassem Mohammed Buatabh Al Zaabi, Chairman of the Abu Dhabi Department of Finance, said: "The success of this bond issuance, in the midst of the Covid-19 global crisis, demonstrates the robust credit fundamentals and more broadly the strength of Abu Dhabi's economy. The 50-year tranche is a first for not just Abu Dhabi but also for the GCC, and a reflection of formidable investor confidence in our economy, credit strength and long-term outlook." He continued: "Abu Dhabi has proven its resilience throughout a global challenging economic period. As the UAE prepares for the next 50 years, through its '2020: Towards the next 50' initiative, we are committed to supporting the wise leadership's national strategy by instilling a culture of fiscal sustainability." The proceeds of the bond issuance will allow Abu Dhabi to focus on sustaining pronounced non-hydrocarbon sector expansion as the emirate continues to diversify its sources of funding and optimize the

deployment of government resources to provide continued and sustainable growth.
The tranches achieved unprecedented pricing at 0.83% for 3-year bonds, 1.732% for 10-year bonds, and at 2.7% the 50-year notes.
Citi, Deutsche Bank, First Abu Dhabi Bank, Morgan Stanley, and Standard Chartered were Joint Lead Managers and Joint Bookrunners.

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Returning to public debt markets after six years, Dubai gets $2 billion

02-Sep-2020
By Yousef Saba and Davide Barbuscia
DUBAI, Sept 2 (Reuters) - **The government of Dubai sold $2 billion in dual-tranche bonds on Wednesday, its first sale in public debt markets in six years, as it seeks to boost finances hit by the coronavirus crisis.**
Dubai sold $1 billion in 10-year sukuk, or Islamic bonds, at 210 basis points (bps) over mid-swaps and $1 billion in 30-year conventional bonds at 4%, according to a document issued by one of the banks leading the deal and seen by Reuters.
It received more than $6.5 billion in orders for the sukuk and over $3.5 billion for the bonds.
"There is no value in the sukuk but there will be local buyers," a fund manager who declined to be named said on the initial pricing, which was tightened during book-building by 40 bps for the sukuk and 37.5 bps for the conventional notes.
"It's attractively priced for Dubai ... less money on the table for investors," said Tim Ash, emerging markets senior sovereign strategist at BlueBay Asset Management.
The Middle East trade and tourism hub's first public debt issuance since 2014 comes amid a sharp economic downturn that has revived concern over its finances and revived memories of the 2009 debt crisis that wobbled its economy.
That crisis caused Dubai's real estate market to crash, threatening to force some state-linked companies to default on billions of dollars of debt. Its oil-rich neighbour Abu Dhabi and the UAE central bank provided Dubai $20 billion of debt in its aftermath, facilities that were refinanced for five years in 2018 and 2019, a bond prospectus showed.
OUTSTANDING DEBT
Dubai has budgeted a $3.2 billion deficit this year, the prospectus showed.
It also showed that while the government's direct debt amounted to nearly $34 billion at the end of June, Dubai had no consolidated estimates for the outstanding total debt of government-related entities.
"It's always been one of the big negatives of Dubai, but it's really the worst-kept secret. Clearly the market doesn't take the numbers at face value either," a second fund manager said, adding spreads on Dubai's existing bonds are not "commensurate with what the headline debt and deficit numbers suggest". The fund manager also declined to be identified.
Dubai is unrated, which may exclude a pool of investors from its debt offering, said advisory and research firm Azure Strategy.
"A rating process would require a more granular disclosure of Dubai's credit profile," it said in a report on Tuesday.
In July, ratings agency S&P said Dubai's economy could shrink 11% this year, as it cut the credit ratings of two of the emirate's biggest property firms to "junk" status.
The issuance comes as the United Arab Emirates and Israel work to promote investment between the two countries, after agreeing to normalise relations last month.

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Mideast, European funds grab Dubai bonds, while Asia shies away

03-Sep-2020
By Yousef Saba
DUBAI, Sept 3 (Reuters) - **Dubai's $2 billion dual-tranche bond sale on Wednesday was backed mostly by funds in the Middle East, Europe and the United Kingdom, a document showed, while the emirate's lack of a rating may have contributed to Asian investors shying away.**
It was Dubai's first foray into the public debt markets since 2014, as the Middle Eastern tourism and commerce hub seeks to bolster finances hurt by the COVID-19 pandemic.
The debt sale comprised a $1 billion tranche of 10-year sukuk, or Islamic bonds, at 2.763% and a $1 billion tranche of 30-year conventional bonds at 4%. Fund managers said on Wednesday the Dubai deal was priced attractively for the emirate.
The bonds were trading up following the issuance, said Doug Bitcon, head of credit strategies at Rasmala Investment Bank.
"At current levels, the longer end of the unrated Dubai curve looks attractive relative to the Baa2/BBB rated Sharjah curve. This is evident in the yield on the new 30-year Dubai government issue which is trading just below 4% versus around 3.5% for the 30-year Sharjah government bond," Bitcon said.
Dubai's Department of Finance (DoF) said the bonds were issued at the lowest interest rate ever for Dubai bonds.
"This is a strong indicator of the efficiency of government financial solvency and the continued high investor confidence in the financial landscape of the Dubai government at the global level," DoF Director General Abdulrahman Saleh Al Saleh said in a statement.
Fund managers took a majority of the sukuk,

buying 52%, while banks and private banks (PBs) took 44%, according to a document from one of the banks leading the deal seen by Reuters.

Investors from the Middle East were the biggest buyers of the sukuk, which attracted $6.6 billion in orders, taking 48%. UK and other European investors got just over a quarter, Asian buyers bought 16% and offshore U.S. investors took 10%.

Abdul Kadir Hussain, head of fixed income asset management at Arqaam Capital, said fund managers taking more than half the sukuk was encouraging for the overall sukuk market.

Fund managers dominated the conventional tranche too, taking 78%, while banks and private banks got 17%.

Half of the investors in the 30-year bonds, which received $3.4 billion in demand, were from the UK and Europe. Offshore U.S. investors took 21%, Middle Eastern buyers bought 16% and Asian investors accounted for 13% of the bond distribution.

"The lack of a rating may have been a factor in lower Asian participation," Hussain said.

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Dubai issues US$2b in Sukuk and bonds with lowest interest rate in its history

03-Sep-2020

Dubai issues US$2b in Sukuk and bonds with lowest interest rate in its history

DUBAI, 3rd September, 2020 (WAM) -- **The Government of Dubai officially announced today the successful completion of an issuance process consisting of ten-year Islamic Sukuk of US$1 billion at a profit rate of 2.763 percent and thirty-year government bonds of US$1 billion at an interest of 3.90 percent.**

"We are satisfied with the success of Dubai in this issuance. Department of Finance, DoF, was able to obtain the lowest interest rate for thirty-year bonds and the lowest profit for ten-year Sukuk in Dubai government history," confirmed Abdulrahman Saleh Al Saleh, Director General of DoF.

"This issuance was in line with the determinants of the financial policy pursued by the emirate, which was based on financial sustainability and continued spending on vital infrastructure projects, while responding to the requirements of the current stage set in the budget priorities circular, issued at the beginning of the second quarter of this year. This is a strong indicator of the efficiency of government financial solvency and the continued high investor confidence in the financial landscape of the Dubai government at the global level," Al Saleh added.

Rashed Ali bin Obood, Head of Investors Affairs at DoF, said, "The value of the order book exceeded US$10b, five times more than the target value of the issuance.

The strength of the order book as well as the diversity of the investor base reflect the strong confidence of international community in the resilience of the emirate's economy and the reaffirmation of superiority of Dubai's credit globally."

"Global investors made up 84 per cent of the total investors in the long-term bond segment (30 years). The continuous positive interaction of the Dubai government with the global investment markets in the past years has always played an important role in the success of previous bonds and sukuk issuances, which is also reflected in this issuance by lowering the rates," Bin Obood concluded.

The Government of Dubai mandated Dubai Islamic Bank, Emirates NBD, First Abu Dhabi Bank, HSBC, and Standard Chartered Bank to manage the issuance process.

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EUROPE

Albania

Albania sells 10.41 bln leks (83 mln euro) of T-bills

01-Sep-2020

TIRANA (Albania), September 1 (SeeNews) - **Albania's finance ministry sold 10.41 billion leks ($99 million/83 million euro) worth of Treasury bills at two auctions held on September 1, data by the country's central bank shows.**

The finance ministry sold 9.5 billion leks worth of one-year T-bills that will mature on September 2, 2021 and 913.34 million leks worth of six-month T-bills with a maturity date of March 4, 2021, the data shows.

Some 2.1 billion leks worth of the offer of one-year government securities was reserved for Albania's central bank.

(1 euro = 125.440 leks)
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Belarus

Russia discusses debt refinancing with Belarus

01-Sep-2020

MOSCOW, Sept 1 (Reuters) - **Russia's finance ministry said Moscow and Minsk were discussing the parameters of refinancing**

Belarusian debt, Interfax news agency reported on Tuesday.
The discussions were held at the level of the finance ministries, the ministry added.
Belarusian leader Alexander Lukashenko said last week he had agreed the refinancing of a $1 billion loan with Russian President Vladimir Putin.

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Bosnia

Bosnia decides to launch talks with IMF on new funding deal

03-Sep-2020
SARAJEVO (Bosnia and Herzegovina), September 3 (SeeNews) - **Bosnia's Prime Minister Zoran Tegeltija said the country decided to launch negotiations with the International Monetary Fund (IMF) on a new funding arrangement.**
An IMF mission is expected to arrive to Bosnia for the purpose in October, Tegeltija said in a statement on Wednesday, after meeting with Fadil Novalic and Radovan Viskovic, the prime ministers of Bosnia's two autonomous entities - the Federation and the Serb Republic, respectively.
Tegeltija noted that the Bosnian authorities expect to agree a deal with the IMF within two months after the arrival of the Fund's mission.
The new funding will primarily go to help offset the impact of the Covid-19 crisis and to support a new investment cycle, he added.
In April, the IMF said it's turning its attention to negotiating a new, multiyear funding arrangement with the Bosnian authorities, following the approval of 333 million euro ($394 million) in emergency assistance to the country in the context of the coronavirus pandemic.
In September 2016, the IMF approved a three-year, 553.3 million euro loan under a Extended Fund Facility (EFF) to support Bosnia's economic reform agenda. However, its implementation had been blocked after Bosnia failed to form a new government and state institutions more than year following the October 2018 general elections. The country's new government was eventually voted in office in December 2019, pledging to unblock the IMF deal.

($=0.8448 euro)
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Bulgaria

Bulgaria's economy shrinks by 8.5% y/y in Q2

04-Sep-2020
SOFIA, Sept 4 (Reuters) - **Bulgaria's economy contracted by 8.5% on an annual basis in the second quarter compared to a flash estimate of 8.2% due to the coronavirus pandemic that hit on business activity, the statistics office said on Friday.**
On a quarterly basis, the small and open economy shrank by 10% from April to June in seasonally adjusted terms, recording the steepest quarterly decline since 1997 when the Balkan country was battered by a domestic financial crisis.
Bulgaria's central bank estimates an annual GDP drop at 8.5% this year because of the coronavirus crisis.

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Czech Republic

Czech central bank chief: No reason to ease monetary policy further

30-Aug-2020
PRAGUE, Aug 30 (Reuters) - **The Czech National Bank has no reason to ease monetary policy further as inflation is slightly above the central bank's target, Governor Jiri Rusnok said on Sunday.**
The central bank's main interest rate stands at 0.25% after a series of cuts it made in spring to help the economy hit by the global pandemic caused by the new coronavirus.
"There is no reason to ease monetary policy further when we have inflation above target or returning slowly to the target," Rusnok said in a televised debate.
The central bank targets inflation at 2% with a tolerance band of one percentage point in both directions.
In July, annual inflation accelerated to 3.4%, in line with the central bank's macroeconomic forecast, which sees the consumer price index (CPI) above 3% until the end of this year.
Central bank Vice-Governor Tomas Nidetzky said earlier this month that the bank would tolerate inflation above its target in the coming period, as the main priority is to help the economy recover from the impact of the coronavirus.
The central bank's board kept interest rates unchanged at its last two meetings in August and June. The next monetary policy meeting is scheduled for Sept. 23.

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Drop in foreign demand drives Czech Q2 GDP slump

01-Sep-2020

PRAGUE, Sept 1 (Reuters) **- Czech economic output slumped by a record 11% year-on-year in the second quarter, revised-down data showed on Tuesday, as activity hit a coronavirus-induced low before an expected return to growth in the current quarter.**

The Czech Statistical Bureau (CSU), revising down its flash estimate of 10.7%, said a decline in foreign demand accounted for 7.9 percentage points of the drop, with the household consumption fall contributing another 2 points.

In quarter-on-quarter terms, the economy contracted by 8.7%, also more than the flash estimate, which was 8.4%.

The Czech Republic was quick to shut down borders, transport links and most retail trade in March when it detected the first coronavirus cases.

But the data showed the manufacturing industry accounted for the biggest economic hit in the second quarter, followed by trade, transportation, and the also severely affected but smaller hospitality services.

The CSU said that the foreign trade surplus slumped by 56.5 billion crowns ($2.58 billion) from a year ago to 44.1 billion, with exports down 23.3%.

The overall decline was only slightly offset by a rise in government spending.

Total employment dropped 1.9% year on year but the number of hours worked fell by 10.7%.

Radomir Jac, chief economist at Generali Investments CEE, said the full-year decline in the economy may turn out to be smaller than original fears. He forecast a 2020 drop of around 5.8%, followed by growth of around 5% in 2021.

"The data speak against further monetary policy easing, and the CNB (central bank) can stick to its scenario of stable interest rates at least until mid-2021," he said in a note, adding that the data may lead the CNB to raise its GDP forecast.

In August, the central bank had predicted a drop in output of 12% for the second quarter and 8.2% for the whole of 2020.

GDP totalled 1,327.564 billion crowns ($60.62 billion) for the second quarter in nominal terms. Previous flash estimates in parenthesis.

The Czech statistics office (CSU) will release an update of national accounts on Oct. 2.

($1 = 21.9000 Czech crowns)
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Czech government will let massive tax cut dent budgets

03-Sep-2020

PRAGUE, Sept 3 (Reuters) - **The Czech Finance Ministry is not looking for savings or new revenue streams to compensate for a more than $3 billion income tax cut and will allow higher budget deficits in the coming years, news agency CTK cited minister Alena Schillerova as saying on Thursday.**

The country's two ruling parties have agreed to bring the effective main personal income tax rate down to 15% from 20.1% as of January, ahead of an election due next autumn.

Schillerova said the cut, worth about 1.3% of gross domestic product, would help boost household spending, CTK reported.

"It is an investment into spending, it will not return immediately, but gradually in long-term economic growth," she said.

"It will of course be at the expense of the deficit being higher in the coming years," she said.

The tax cut is a turnaround in the country's traditionally largely conservative fiscal policy.

Government debt has been cut to just over 30% of gross domestic product last year, among the lowest in Europe, as the public sector remained in surplus after years of solid growth.

But the coronavirus crisis prompted the government to raise this year's planned public sector deficit to somewhere around 8% of GDP. A smaller but still large deficit was expected next year, even without the tax cut.

Schillerova said the impact on public budgets would be about 70 billion crowns ($3.14 billion), a little below the previous estimate of 74 billion crowns, and the share belonging to the central state budget would be about 50 billion crowns, with the rest of the lost revenue hitting local budgets.

The plan won a rare rebuke from the normally restrained central bank. Governor Jiri Rusnok has said it was not thought through and threatened fiscal stability.

The plan was also criticised by the country's National Budget Council of independent economists.

($1 = 22.2940 Czech crowns)
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Hungary

Hungary must return to tight fiscal policy after 2022

31-Aug-2020

BUDAPEST, Aug 31 (Reuters) - **Hungary should allow only a temporary increase in its budget deficit and public debt but must once again decline after 2022, central bank Governor Gyorgy Matolcsy said in an article published on the novekedes.hu website on Monday.**
Matolcsy also urged Prime Minister Viktor Orban's government to implement competitiveness reforms to ensure that Hungary does not permanently fall behind its richer European Union peers in terms of living standards.
Orban's government faces the next general election in 2022. **The Finance Ministry said last week that the budget deficit could reach 7% to 9% of economic output this year due to a sharp recession and the costs of fighting the pandemic.**

(Reporting by Gergely Szakacs and Marton Dunai)
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Hungary central bank buys HUF 40 bln worth of bonds from banks

01-Sep-2020
BUDAPEST, Sept 1 (Reuters) - **Hungary's central bank bought 40 billion forints ($135.42 million) worth of 10-year and 15-year government bonds from commercial banks at a weekly tender on Tuesday, the National Bank of Hungary (NBH) said on its pages.**
It bought 32.5 billion forints worth of 2031/A bonds at 2.27% average yield and 7.5 billion forints worth of 2038/A bonds at an average yield of 2.68%.

($1 = 295.38 forints)
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Hungary central bank sees slower recovery, stimulus near its limits

04-Sep-2020
- **Slower economic rebound likely after weak Q2**
- **Bank's optimism had rested on higher investments, no second wave**
- **Loan demand rising very cautiously, banks more conservative**
- **Room for manoeuvre limited by high inflation, forint weakness**

BUDAPEST, Sept 4 (Reuters) - **Hungary's recovery from the coronavirus pandemic will likely be slower than previously expected, two central bank sources told Reuters, adding that the bank was nearing its limits with tools to stimulate the economy.**
The sources said earlier hopes for a V-shaped recovery were dashed after second-quarter data showed the economy contracted by an annual 13.6%, the worst in central Europe and nearly double the pace the bank had flagged in June.
The National Bank of Hungary (NBH) cut its base rate by a combined 30 basis points to 0.6% in June and July, and maintained its forecast for economic growth in 2020 of 0.3% to 2% - whereas economists in a Reuters poll projected a contraction of 4% to 5%.
The bank's optimistic forecast and hopes for a quick recovery rested on two key assumptions, that government investments would soften the blow to the economy and that a second wave of the pandemic can be avoided, the sources said.
They said the bank was now revising its GDP forecast.
"We had assumed that investments, especially government investments would kick in, but the second quarter turned out really miserably," one of the sources said. "My gut feeling is that there could be a 5% to 7% downturn this year, but the new forecast is only being drawn up."
The sources said a recovery shaped like a 'Nike swoosh' now looked a more realistic scenario. Asked about the remarks, the central bank's press office declined to comment beyond the latest Monetary Council policy statement.
Prime Minister Viktor Orban said on Friday that Hungary must take steps to kick-start the economy.
Orban's government spent hundreds of billions of forints this year on a job saving programme and medical equipment needed during the pandemic and has flagged further possible measures that could push the budget deficit to 7% to 9% of GDP.
Hungary registered 459 new coronavirus cases on Friday, its highest daily tally since the outbreak of the pandemic, which has led to 621 deaths in the country.
The bank has launched a 1 trillion forint ($3.3 billion) quantitative easing programme, a 1.5 trillion forint scheme to provide small businesses with cheap loans and a 450 billion forint corporate bond programme to help larger businesses.
"Based on our current knowledge, we are pretty much at the limit," the second source said when asked about the bank's room for manoeuvre. "The QE programme is ongoing, while there is still abundant financing available in the cheap loans scheme."
Based on the latest tally, companies have received 467 billion forints of financing under the scheme, with many opting to refinance earlier, more expensive loans.
"The central bank has room to increase the size of these lending programmes but what good is it if even the current amount is not exhausted? Demand is rising very cautiously and banks are more conservative," one of the sources said.
The central bank has ruled out further cuts in its base rate and one source said any rate easing was now an "absolute taboo."

The bank's wiggle room is also limited by high inflation, seen stuck at the top of the bank's 2% to 4% target range in August, and renewed falls in the forint since Hungary's worse-than-expected second-quarter GDP data.
"Next year is still bound to be difficult and we cannot know what the second wave brings and how long it will last," one source said.

($1 = 303.33 forints)
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Editing by Susan Fenton)
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Kosovo

Kosovo sells 25 mln euro of 3-yr T-notes

31-Aug-2020
PRISTINA (Kosovo), August 31 (SeeNews) – **Kosovo's finance ministry said it sold 25 million euro ($29.8 million) worth of three-year Treasury notes at an auction on August 28, in line with plan.**
The average weighted yield on the government securities decreased to 1.65% from 1.78% at the last auction of three-year T-notes held in June, according to figures published by the finance ministry.

($ = 0.8377 euro)
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Poland

Polish central bank to purchase debt securities in September

31-Aug-2020
WARSAW, Aug 31 (Reuters) - **Poland's central bank will carry out a structural operation to purchase debt securities on Sept. 16, it said in a statement on Monday.**
Further repo operations to provide liquidity will be carried out if the central bank sees a need for it in the interbank market, it said.
The central bank will issue 7-day bills on Sept. 4, 11, 18 and 25.

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Poland has covered about 97% of 2020 borrowing needs

31-Aug-2020
WARSAW, Aug 31 (Reuters) - **Poland had covered about 97% of 2020 borrowing needs for the amended 2020 budget as of the end of August, Deputy Finance Minister Piotr Nowak said on Monday**
Poland had about 125 billion zlotys in liguid funds in zlotys and foreign currencies on its budget accounts at the end of August, Nowak said.

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Fitch, on Poland's Revised 2020 & 2021 Budgets, Says Expects Suspension of Expenditure Rule in Poland to Be Temporary

01-Sep-2020
Sept 1 (Reuters) - Fitch:
- **Fitch, on Poland's revised 2020 & 2021 budgets, says expects suspension of expenditure rule in Poland to be temporary**
- Fitch, on Poland's revised 2020 &2 2021 budgets, says expects once expenditure rule restored will return to being important anchor for fiscal policy
- **Fitch, on Poland's revised 2020 & 2021 budgets, says some signs that growth in current expenditure over recent years will ease**

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Poland will not have V-shaped recovery, Moody's says

03-Sep-2020
By Alan Charlish
WARSAW, Sept 3 (Reuters) - **Poland will not have a V-shaped recovery from the economic fallout of the coronavirus pandemic, but it is better placed to rebound than regional peers, Moody's analyst Heiko Peters told Reuters.**
The largest economy in the European Union's eastern wing saw its second-quarter gross domestic product (GDP) decline 8.2% year-on-year, but the drop was less steep than economists feared and compared favourably with other countries, fuelling hopes of a quick recovery.
"We are expecting that the 2019 GDP level will be reached again in 2022, so it's not a V-shaped recovery because in a V-shaped recovery you would see stronger quarterly growth rates in the second half of 2020, directly compensating for the earlier decline. So it's more gradual recovery," Peters, the lead analyst for Poland, said.
"Overall in the decline of GDP, Poland was less affected and then with the 2021 recovery,

Poland is roughly similar to the CEE average. So overall, Poland is then in a better position to recover from the coronavirus shock among the CEE countries," he added.
Poland's finance ministry expects the general government deficit to be around 12% of GDP in 2020, falling to 6% in 2021.
"What is important for us for the implications for the rating and on the credit profile is that on the one hand, we see that the government will implement consolidation measures after the sizable deficit and that we see a decrease of debt-to-GDP going forward," Peters said.
"If we will not see this, then we would see a potential negative implication on the credit profile and potentially on the rating ... but this is not what we are expecting."
Moody's has an A2 rating for Poland, one notch higher than S&P and Fitch, which both have an A- rating. All of the ratings have a stable outlook.
Moody's will review Poland's rating on Sept. 11.

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Romania

Romania aims to sell debt worth 4.54 bln lei in Sept

31-Aug-2020
BUCHAREST, Aug 31 (Reuters) **- Romania's finance ministry aims to sell domestic debt worth 4.54 billion lei ($1.12 billion) in September, including 540 million lei at non-competitive tenders, it said on Monday.**
The ministry sold 2.58 billion lei and 495.1 million euros worth of domestic debt in August.
In September, it scheduled eight bond tenders with residual maturities ranging from 1.5 to 10.1 years, as well as one auction for one-year treasury bills.
So far this year, Romania has sold roughly 47.6 billion lei of local currency bills and bonds as well as 645.1 million euros worth of euro-denominated paper. It tapped 6.3 billion euros and $3.3 billion from foreign markets.

($1 = 4.0640 lei)
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Russia

Russia to cut rates in 2020, helping economy to grow in 2021

31-Aug-2020
By Andrey Ostroukh

MOSCOW, Aug 31 (Reuters) - **A mix of economic contraction and subdued inflationary risks will allow Russia to cut interest rates again this year, paving the way for a stronger rouble and an economic recovery in 2021, a poll of economists and analysts showed on Monday.**
Russia took a hit from lower oil prices and the global coronavirus pandemic, which led to lockdowns that sparked a full-scale economic crisis, prompting the central bank to slash rates.
Russian markets have also come under pressure this month in the wake of the political crisis in neighbouring Belarus as well as over the suspected poisoning of Kremlin critic Alexei Navalny.
The consensus forecast of 21 analysts and economists suggested the central bank may lower its benchmark rate to 4% as soon as September although it may also opt to keep the rate at 4.25%.
"Increased volatility on the debt and currency market raises the probability that the Bank of Russia will take a pause at the Sept. 18 rate meeting," said Kirill Sokolov, chief economist at Sovcombank.
"If the geopolitical background stabilises, the Bank of Russia may lower the key rate by 25 bps to 4%."
The poll suggested that the key rate would then stay at 4% through 2021.
Inflation is seen finishing this year at 3.7%, the same as in the late-July poll.
The main impact of rate cuts will take several months to show, but should help the economy recover in the future.
In 2020, the oil-dependent economy will contract by 4.7% before returning to growth in the second quarter of 2021. In the whole of 2021, the economy will grow 3.2%, the poll showed. The previous monthly poll predicted a 4.3% contraction this year and 2.7% growth next year.
Most of the forecasts in the Reuters poll were based on at least 10 individual projections.
The rouble outlook against the euro worsened slightly and was largely unchanged versus the dollar but the currency was still expected to firm up from current levels.
"We believe that in the next 1-2 weeks the rouble will return to 72-74 versus the dollar," BCS Brokerage said, keeping its year-end forecast at 69.6.
The poll showed the rouble was expected to trade at 70.33 to the dollar and 82.73 to the euro 12 months from now. The previous poll foresaw exchange rates of 70.50 and 81.67, respectively.
On Monday, the rouble's official exchange rates, set by the central bank, were 74.64 per dollar and 88.74 per euro.

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Russia eyes up to $12 bln increase in state spending in 2021

03-Sep-2020
MOSCOW, Sept 3 (Reuters) - **Russia's finance ministry has proposed a softening of the fiscal rule to allow an increase in state spending of up to 875 billion roubles ($11.58 billion) next year to help recovery from the coronavirus crisis, a draft law published on Thursday showed.**
The fiscal rule redirects oil revenues to the National Wealth Fund if crude prices are above $42.4 per barrel, a system which is designed to shield the economy from swings in prices for oil, Russia's main export, and protect its reserves.
Russia is fighting a sharp economic contraction triggered by a rapid fall in crude prices and the coronavirus pandemic.
Higher budget spending will help Russia adapt to the new macroeconomic conditions, the finance ministry said in comments accompanying the budget amendments.
It said the proposed increase in state spending would in the medium term allow it to continue measures to support the economy and household incomes hit by the pandemic.
The amendments would also leave the door open for increased state borrowing in 2021.
Russia's fiscal or budget rule has been praised by international rating agencies for its ability to shield the economy from external shocks.
The finance ministry had earlier said it would not scrap the rule even though oil prices had slid below the $42.4 per barrel level factored into the 2021 budget. Russia has instead raised state borrowing this year beyond budgeted limits in the response to the pandemic.

($1 = 75.5372 roubles)
(Reporting by Darya Korsunskaya; Writing by Andrey Ostroukh; Editing by Catherine Evans)
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Serbia

Moody's Says Serbia's Credit Profile Supported By Relatively High Wealth, Robust Growth Potential and Fiscal Consolidation

03-Sep-2020
Sept 3 (Reuters) -
- **Moody's - Serbia's credit profile supported by relatively high wealth, robust growth potential and fiscal consolidation**
- Moody's- credit profile of Serbia (BA3 positive) is supported by its relatively high income compared to peers

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Turkey

World Bank approves $500 mln loan for pandemic affected firms in Turkey

01-Sep-2020
ANKARA (Turkey), September 1 (SeeNews) - **The World Bank said it has approved a $500 million (417 million euro) loan for the implementation of a project in Turkey aimed to help small and medium enterprises (SMEs) fight the economic impacts of the COVID-19 pandemic.**
The Turkey Emergency Firm Support Project includes a $250 million line of credit to public bank Vakifbank, to be lent directly to SMEs, and a $250 million credit line to Turkey Development and Investment Bank (TKYB), to be lent to commercial banks, leasing companies and factoring companies under a wholesale structure, the World Bank said in a statement last week.
“A key pillar of the World Bank Group’s approach to supporting client countries in mitigating the impact of COVID-19 on their economies, firms, and workers entails ensuring sustainable business growth and job creation as countries restructure their economies in the face of COVID-19 and lay the foundation for a resilient recovery,” Auguste Kouame, World Bank country director for Turkey, said in the statement.
The World Bank added that the project will pay special attention to women-centered firms and firms operating in lagging regions.

($ = 0.8343 euro)
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Fitch Revises Turkey Wealth Fund's Outlook to Negative on Sovereign Outlook Change

02-Sep-2020
Fitch Ratings-Frankfurt am Main-02 September 2020:
Fitch Ratings has revised Turkey Wealth Fund's (TWF) Rating Outlooks to Negative from Stable, while affirming the Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'BB-'. A full list of rating actions is below.
The rating actions follow the revision of the Outlook on Turkey's Long-Term IDRs to Negative from Stable (see "Fitch Revises Turkey's Outlook to Negative; Affirms IDR at 'BB-", dated 21 August 2020).
Fitch classifies TWF under its Government-Related Criteria as a government-related entity (GRE) and applied a top-down approach due to TWF's strong linkages with Republic of Turkey (BB-/Negative) and the latter's incentive to

provide extraordinary support to TWF in case of need.

KEY RATING DRIVERS

Fitch assesses TWF as a credit-linked entity to its sovereign by applying a top-down approach, which results in its ratings being sensitive to a rating action on the sovereign. TWF acts as the strategic long-term investment arm and equity-solutions provider of Turkey and therefore its strategic objectives are aligned closely with the national economic objectives.

Financial Profile assessed as 'Weaker'

Fitch rating case expects TWF's net debt/EBITDA to increase up to 8x by 2025, due to equity investments predominantly in energy, petrochemicals and mining. Fitch, however, expects TWF's revenue stream to remain resilient with sufficient liquidity, including risk cushion, for debt servicing.

Derivation Summary

Fitch applied a top-down approach under its GRE Criteria due to TWF's strong linkages with Republic of Turkey and the latter's incentive to provide extraordinary support to TWF in case of need, which yields an overall support factor of 50 points, warranting an equalisation of TWF's IDR with that of Turkey, irrespective of TWF's 'b(cat)' Standalone Credit Profile.

RATING SENSITIVITIES

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

An upgrade of the sovereign will lead to a similar rating action for TWF, provided that overall support factors remain unchanged.

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

A downgrade of the sovereign will lead to a similar rating action for TWF. A weaker assessment/ dilution of the overall support factors could result in TWF's ratings being notched down once from the sovereign's ratings.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

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

Turkey Wealth Fund; Long Term Issuer Default Rating; Affirmed; BB-; RO: Negative

Short Term Issuer Default Rating; Affirmed; B

Local Currency Long Term Issuer Default Rating; Affirmed; BB-; RO: Negative

Local Currency Short Term Issuer Default Rating; Affirmed; B

National Long Term Rating; Affirmed; AAA (tur); RO: Stable

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Additional information is available on www.fitchratings.com

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Ukraine

Ukraine pays $2.1 bln on coupons, redeeming 2020 Eurobonds

01-Sep-2020

KYIV. Sept 1 (Interfax-Ukraine) - **The Ukrainian Finance Ministry has redeemed the second series of Eurobonds issued in the course of restructuring in 2015 and maturing this year worth $1.69 billion and paid some $400 million in interest payments on Eurobonds maturing in 2020-2027.**

"By the end of the year, the balance of foreign currency payments on state debt is about $1.6 billion," the ministry said in a statement on its website.

The ministry said that government domestic loan bonds maturing in 2020 with a total par value of $1.78 billion had been issued in 2015-2016 with an interest rate of 7.75% per annum. In 2017, as part of the first ever active state debt management operation, the Finance Ministry bought $420 million worth of bonds, however, in August 2020 it additionally placed bonds worth $330 million through J.P. Morgan to complete settlements for the redemption of GDP warrants on the open market.

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Deficit of Ukraine's national budget comes to UAH 40 bln in eight months

02-Sep-2020

KYIV. Sept 1 (Interfax-Ukraine) - The deficit of the national budget of Ukraine amounted to UAH 40 billion in January-August 2020, the Finance Ministry said citing recent data of the State Treasury Service of Ukraine.

The deficit of the general fund totaled UAH 51 billion.

According to data of the State Treasury Service, expenses for the general fund amounted to UAH 646.6 billion, or 87.4% of the reporting period's breakdown.

"A total of UAH 208 billion was raised from issuing government domestic loan bonds for financing state debt - 13.2% of the plan, including UAH 84.6 billion or $2.4 billion and EUR7 million from government domestic loan bond issues denominated in foreign currencies," the ministry said.
Some UAH 170.3 billion was raised from external sources, which corresponds to the plan, including UAH 55.4 billion from placement of 12-year eurobonds worth $2 billion at 7.253% per annum, UAH 55.2 billion from the first tranche from the IMF in the framework of the 2020 Stand-By Arrangement, UAH 33.8 billion from placing ten-year eurobonds worth EUR1.25 billion at 4.375% per annum, UAH 15 billion in macro-financial assistance funds from the European Union, and a loan of UAH 1.35 billion from the International Bank for Reconstruction and Development in the framework of the project "Modernization of the Social Support System."

A total of UAH 275 billion was allocated for paying off state debt, which is 99.9% of the amount planned.
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Fitch Affirms Ukraine at 'B'; Outlook Stable

04-Sep-2020
Fitch Ratings has affirmed Ukraine's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'B' with a Stable Outlook.
KEY RATING DRIVERS
The ratings of Ukraine reflect its credible macroeconomic policy framework that had lowered inflation and narrowed fiscal deficits prior to the coronavirus shock, and a record of multilateral support. These strengths are set against low external liquidity relative to high financing needs associated with large sovereign debt repayments, a vulnerable, albeit improving, banking sector, and weak governance indicators. The coronavirus shock has at least temporarily reversed Ukraine's improvements made in recent years in terms of a declining debt burden, normalisation of growth prospects after the 2014-2015 geopolitical and economic crises, and reduced growth volatility.
Ukraine's new IMF programme has been designed to reduce financing constraints and support a recovery in international reserves. Ukraine received the first tranche (USD2.1 billion) under an USD5billion 18-month stand-by arrangement (SBA) for budget support in June. The sovereign also issued a USD2 billion Eurobond in July. Easing of external-financing constraints allowed the sovereign to buy back external bonds maturing in 2021-2022 and to repurchase close to 10% of its outstanding GDP warrants.
Fitch estimates that Ukraine has met close to 68% of its 2020 fiscal financing needs of USD23.5billion (USD14.2 billion in amortisations including debt prepayments). Fitch expects one additional disbursement from the IMF SBA (USD0.7 billion) and the first tranche of a new EUR1.2 billion loan in 2020. Available domestic liquidity and government cash holdings provide room to accommodate remaining financing requirements, which in turn are dependent on the pace of expenditure implementation. Domestic banks, most notably state-owned, have increased exposure to government debt, as foreign investors have reduced their share of domestic government bonds by about USD1.5billion since February to 16% (not including National Bank of Ukraine, NBU, holdings).
International reserves rose to USD29 billion at the beginning of September, due to central bank FX purchases (net USD1.2 billion YTD in 2020) and external financing. We expect international reserves to finish 2020 at USD27.4 billion or 4.5 months of current external payments (CXP), slightly above the projected 4.1 months for the 'B' median. In our forecast for a gradual return of the current account deficit and continued access to external financing, reserve coverage will average 3.8 months of CXP in 2021-2022. **External liquidity, measured by the country's liquid external assets-to-liquid external liabilities, will rise to 112% for 2021, close to the 118% forecast for the 'B' median.**
External financing needs have declined compared with previous years (35% of international reserves) in spite of large debt repayments, reflecting higher international reserves and a projected current account surplus (2.5% of GDP) in 2020, due to fairly resilient exports and remittances, sharp decline in imports and improved data availability on reinvested earnings by foreign investors. External financing needs will rise in 2021-2022 with the return to a current account deficit (reaching 3.5% of GDP by 2022). External sovereign amortisations (government plus NBU) will decline from USD6 billion in 2020 but will remain large averaging USD4.3 billion in 2021-2022 (bond repayments of USD2 billion and USD1 billion, respectively).
Fitch considers that continued engagement with the IMF is key for Ukraine to maintain access to external financing. However, the IMF SBA implementation risks are significant given Ukraine's poor record from previous programmes and potential judicial rulings and legislative initiatives that lead to reform reversals. In Fitch's view, unexpected and frequent cabinet changes early in the year, especially those related to key economic positions such as the Minister of Finance, and political pressure on NBU, leading to the governor's resignation in July, create policy uncertainty. In addition to eroding hard-earned policy credibility, reduced central bank independence could lead to reversal in the improvements in macroeconomic and financial-sector stability, constrain access to external financing and increase Ukraine's vulnerability to shocks.

Inflationary pressures remain subdued (2.4% yoy in July; core 3%), but inflation is expected to approach the 5% NBU target by end-2020 due to higher energy and food prices as well as recovering domestic demand. Fitch expects inflation to average 5.3% in 2021 and 5.7% in 2022, above the forecast 4.4% and 4.8% 'B' medians. The NBU cut policy rates to a record low 6% in June (750bp in 1H20) in response to the pandemic, but further easing could be constrained, in Fitch's view, by rising inflationary pressures and the proposal of a significant minimum wage increase in 2021.

Fitch maintains its April forecast that the economy will contract 6.5% in 2020. The economy reportedly contracted 11.4% in 2Q20. Improving retail sales, industrial production and construction reflect reviving consumption and investment, while faster expenditure implementation in 2H20 and lower interest rates will support recovery. We expect growth to reach 3.8% and 3.5%, respectively, in 2021 and 2022, in line with our medium-term forecasts for Ukraine. However, downside risks to our forecasts remain, given uncertainty around the extent and duration of the coronavirus outbreak, and the duration or re-introduction of restrictions, especially given the reported uptick in coronavirus cases in Ukraine.

Fitch forecasts the general government deficit to reach 6.5% of GDP in 2020, below the projected 7.7% under the IMF SBA and 7.3% 'B' median. Large dividend payments from state-owned companies (1.8% of GDP), and recovering tax collection (except for import-related taxes) have supported government revenues, while expenditure growth remains moderate YTD and concentrated in social transfers and health spending. We forecast fiscal consolidation to proceed at a gradual pace, with the general government deficit shrinking to 5.4% of GDP in 2021 and 4.2% in 2022. Although the government has indicated they intend to pursue expenditure initiatives to support growth such as the proposed minimum wage increase (up to 30% in 2021), the actual pace of fiscal consolidation will depend on continued engagement with the IMF and available financing.

General government debt will increase to 57.4% of GDP (65.1% including guarantees) and 60% by 2022, from 44.4% (50.4% with guarantees) in 2019 and close to the forecast 65.3% 'B' median. Fitch forecasts that Ukraine general government debt will stabilise at around 60% in 2022-2023 and decline gradually thereafter with the return of primary surpluses. Risks to the debt dynamics stem from a weaker exchange rate (64% foreign currency-denominated debt), lower-than-expected growth or failure to narrow the fiscal deficit.

Improved supervision and capitalisation levels and NBU's liquidity support have reduced risks to financial stability. Although NPLs have declined slightly to a still high 48% (96.8% covered by provisions) in July, the weaker macroeconomic outlook will likely lead to asset-quality deterioration, thus increasing the risk of additional fiscal costs in capitalisation requirements for state-owned banks (59% of total system assets). The government has approved the strategy to reduce NPLs through write-offs, which could support progress in reducing the NPL overhang. Deposit- (41%) and loan- (41%) dollarisation remains high and some of the recent progress could be reversed in the short term.

The government under President Zelensky remains popular but its political position has weakened somewhat, especially in the Rada, as resistance to reform from vested interests and oligarchs has not only delayed and weakened reform legislation, but also now threatens to undermine approved reforms such as the strengthened bank resolution framework and the anti-corruption agenda.

In Fitch's view, President Zelensky remains committed to achieving a resolution to the conflict with Russia. Although both countries have engaged in prisoner exchanges and ceasefire agreements, we do not anticipate a near-term resolution to the Russian-Ukrainian conflict.

ESG - Governance: Ukraine has an ESG Relevance Score (RS) of 5 for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model (SRM). Ukraine has a low WBGI ranking at 29%, reflecting the conflict with Russia in the east of Ukraine, weak institutional capacity, uneven application of the rule of law and a high level of corruption.

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

Fitch's proprietary SRM assigns Ukraine a score equivalent to a rating of 'B' on the LTFC IDR scale.

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

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

RATING SENSITIVITIES

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

- Public Finances: General government debt/GDP returning to a firm downward path over the medium term, for example due to post-coronavirus fiscal consolidation
- External Finances: Reduction in external

financial vulnerabilities, for example due to a sustained increase in international reserves, strengthened external balance sheet and greater financing flexibility.
- Macro and Structural: Increased confidence that progress in reforms will lead to improvement in governance standards and higher growth prospects while preserving improvements in macroeconomic stability.
The main factors that could, individually or collectively, lead to negative rating action/downgrade:
- Macro and External Finances: Increased external financing pressures, sharp decline in international reserves or increased macroeconomic instability, for example stemming from extended delays in the disbursements from the IMF programme due to deterioration in the consistency of the policy mix and/or reform reversals.
- Public Finances: Persistent increase in general government debt, for example due to a more pronounced and longer period of fiscal loosening, economic contraction or currency depreciation.
- Structural: Political/geopolitical shocks that weaken macroeconomic stability, growth prospects and Ukraine's fiscal and external position.

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.

KEY ASSUMPTIONS

Fitch does not expect resolution of the conflict in eastern Ukraine or escalation of the conflict to the point of compromising overall macroeconomic performance.
Fitch assumes that the debt dispute with Russia will not impair Ukraine's ability to access external financing and to meet external debt service commitments.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Ukraine has an ESG Relevance Score of 5 for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight. A major escalation of the conflict in the east of Ukraine represents a risk.
Ukraine has an ESG Relevance Score of 5 for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and in the case of Ukraine weaken the business environment and investment prospects; this is highly relevant to the rating and a key rating driver with high weight.
Ukraine has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver.
Ukraine has an ESG Relevance Score of 4 for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Ukraine, as for all sovereigns.
Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.
Ukraine; Long Term Issuer Default Rating; Affirmed; B; RO: Stable
Short Term Issuer Default Rating; Affirmed; B
Local Currency Long Term Issuer Default Rating; Affirmed; B; RO: Stable
Local Currency Short Term Issuer Default Rating; Affirmed; B
Country Ceiling; Affirmed; B
Senior unsecured; Long Term Rating; Affirmed; B

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LATIN AMERICA AND CARIBBEAN

Argentina

Argentina's Guzman says 93.55% of bonds tendered in debt restructuring

31-Aug-2020
BUENOS AIRES, Aug 31 (Reuters) **- Argentina's $65 billion debt restructuring gained huge majority support with creditors tendering 93.55% of the eligible bonds, the country's Economy Minister Martin Guzman said at a press conference on Monday, allowing a near full revamp of the debt.**
The deal would allow Argentina to restructure 99% of the total eligible debt, Guzman added, key as the country battles to exit default, revive an economy in its third year of recession and start debt talks with the International Monetary Fund.

(Reporting by Hugh Bronstein; Writing by Adam Jourdan)

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Argentina defuses default crisis with 'massive' debt deal

01-Sep-2020
By Hugh Bronstein, Walter Bianchi and Adam Jourdan

BUENOS AIRES, Aug 31 (Reuters) - **Argentina has defused fears of a messy default after it gained backing from creditors, allowing it to exchange 99% of the bonds involved in a $65 billion restructuring, a deal that could set a precedent for future sovereign crises.**

After months of winding and tense negotiations, framed by the coronavirus pandemic, bondholders tendered 93.55% of the eligible bonds in the exchange, which with collective action clauses (CACs) allowed a near-full deal to go ahead.

"In recent days we have worked on the conditions of an offer that gained massive acceptance by our creditors as a result of the dialogue process in past months," Economy Minister Martin Guzman told a news conference on Monday.

A strong deal is a major win for Argentina, Latin America's No. 3 economy, as it looks to escape from its ninth sovereign default and revive an economy in its third year of recession and expected to contract around 12.5% this year.

Reuters reported on Friday, when the deal deadline closed, that the government was confident of high creditor support after winning over its main three creditor groups to a deal in principle earlier in August.

Center-left President Alberto Fernandez, who took power in December, said Argentina had been in a "labyrinth" of debt that had now been solved. He thanked allies, including Pope Francis, an Argentine, and Mexican President Andres Manuel Lopez Obrador.

The government said the deal and a separate restructuring of local law dollar debt would together bring financial relief of $37.7 billion over the 2020-2030 period, and help cut average interest payments on foreign law bonds to 3% from 7%.

"Now there are other challenges, the first of which is to reactivate the domestic market," Fernandez said at the Casa Rosada presidential palace.

WHAT NEXT?

Guzman said Argentina now needed to turn attention to sealing a new program with the International Monetary Fund to replace a defunct $57 billion facility agreed in 2018, as well as tackling provincial debt amid various smaller regional restructurings.

He said the government planned to send a 2021 budget bill to Congress in mid-September, which would include a forecast for a primary fiscal deficit next year of around 4.5%. A new deal with the IMF is unlikely before March next year, said Guzman.

The 1% of bonds that did not meet collective action clause (CAC) thresholds of support for a restructuring highlighted pockets of holdouts on individual bonds, though Guzman told reporters it was not a major issue and would be resolved.

In a statement, the government said it had excluded certain bond series including the USD Par 2038 Bonds II and III and Euro Par 2038 Bonds II and III following the invitation results.

The bonds being restructured have CACs that mean the government needs a certain level of support to restructure them. Older 2005 indenture bonds require a combined 85% of creditor support, with two-thirds of support needed on each individual series.

The strong support and few holdouts stands in contrast to Argentina's 2005 debt restructuring, which saw creditors holding around a quarter of bonds reject a deal, leading to over a decade of legal battles.

"I was expecting them to easily clear the CAC threshold on most of the bonds, but this result was on the high side of my expectations," said Ajata Mediratta, president of Greylock Capital Management in New York, which was involved in the talks.

Eduardo Levy Yeyati, an economist at Torcuato Di Tella University, said the good result underscored the important role of CACs, similar to what had happened with a recent successful restructuring in Ecuador.

"Once the government made a realistic offer acceptable to creditors, the CACs induced the rest to get on board, dissuading holdouts and avoiding costly litigation," he said. We now have four years ahead of us to implement the policies that make this swap a sustainable solution."

(Reporting by Adam Jourdan, Hugh Bronstein and Walter Bianchi; Additional reporting by Eliana Raszewski and Rodrigo Campos in New York; Editing by Rosalba O'Brien, Leslie Adler and Catherine Evans)
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Argentina's debt victory lap is way too early

01-Sep-2020
By Anna Szymanski

NEW YORK, Sept 1 (Reuters Breakingviews) - **Wrapping up a debt restructuring is a cause for relief – not celebration. Argentina crowed on Monday that it had received almost unanimous approval for its rejig of $65 billion of debt. It's a necessary first step, but restoring economic stability will be a much harder slog.**

It was a decent outcome. Creditors representing over 93% of the outstanding principal of eligible bonds agreed to exchange. And a clause that forces other creditors to take part in the restructuring if certain voting thresholds are met was triggered in one category of bonds, bringing the total participation to 99%.

That said, it took months, and involved more acrimony than was necessary. While the process may have been speedier than some in the past, too much of it was conducted publicly and included attempts by Argentina to play with voting rules that did little but waste time and increase the frustration level among creditors.

The International Monetary Fund will probably not put up with such behavior. President Alberto Fernandez needs a new loan to pay off the roughly $45 billion Buenos Aires already owes the multilateral lender. IMF Managing Director Kristalina Georgieva can't loan new money unless Argentina agrees to tax, spending and structural reforms that will make it more likely it can service its debt.

The IMF may not demand draconian growth-sapping measures on the scale it has in the past. It already expects the country's economy to shrink around 10% this year, and its 2018 plan was one reason Mauricio Macri, the last president, didn't win re-election. But it can't be too lenient. And any measures that squeeze the budget will be politically unpopular even after the Covid-19 crisis ends.

Fixing Argentina's economy for the long term will be far harder than cleaning up the latest debt mess. The country's inflation rate is still upwards of 40%. Reducing this and ensuring that its budget deficit doesn't blow out will be tough without hampering growth.

This balance is a challenge at the best of times, but it will be even more so with the global economy struggling. The massive commodity price boom that helped the previous Peronist regime isn't going to reappear. Clearing one relatively low hurdle is not the occasion for a victory lap.

CONTEXT NEWS

- Argentina said on Aug. 31 that it had obtained creditor approval to exchange around 99% of the total outstanding principal amount of eligible bonds in its restructuring of roughly $65 billion of foreign debt.
- The government released the initial terms on April 21 and then officially amended and reformulated them on Aug. 17.
- Together with a separate restructuring of local-law dollar debt, the deal will reduce Argentina's financial burden by $38 billion between 2020 and 2030, according to the government. It will help reduce average interest payments on foreign-law bonds from 7% to 3%.

(Editing by Richard Beales and Amanda Gomez)
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Argentina takes debt revamp over $100 bln with local bond exchange

04-Sep-2020

By Eliana Raszewski and Walter Bianchi

BUENOS AIRES, Sept 4 (Reuters) - **Argentina said it had successfully restructured over $40 billion of local-law foreign currency debt on Friday, on top of its recent $65 billion international bond revamp, which will help the country dig itself out of its ninth sovereign default.**

The revamp of nearly 99% of the eligible local debt, taking the combined amount over $100 billion in the space of a week, came as many of Argentina's international sovereign bonds traded for their last day before new instruments take over next week.

The bonds, including the notorious "century bond" maturing in 2117, had come into the spotlight since mid-last year as Argentina buckled under economic crisis, leaving it unable to keep up with repayments and leading to a default in May.

After months of tense negotiations, the country's center-left Peronist government reached a breakthrough accord with creditors at the start of August, which led to almost all its eligible international bonds being restructured.

On Friday Argentine Economy Minister Martin Guzman said the country had also revamped 98.8% of around $41.7 billion in the local law bonds denominated in foreign currency.

"The debt burden has been thoroughly cleared away across the horizon," Guzman said at a press conference after the results.

Argentina will issue new foreign and local debt, including 12 new international bonds that mature between 2029 and 2046, and should start trading from Monday.

"Today when the new bonds are settled, the previous ones will disappear," said Roberto Geretto, an economist at Banco CMF in Buenos Aires.

EXIT YIELD

In gray market transactions, the new bonds were trading at around an 11% yield, analysts and traders said, giving some indication of where they could settle next week.

"The first operations of the new titles showed optimistic results, with yields close to 11% in the bonds of both legislations," Argentine brokerage Portfolio Personal Inversiones (PPI) said in a note. "In any case, to get a true idea of these yields we will have to wait for more deals that will be given with the liquidations on the different exchanges."

Viktor Szabo at Aberdeen Standard Investments in London said the new 2030 bonds had started trading on Thursday at 55 cents, or at around a 9.6% yield, though had closed lower at 51.5-52.2 cents, indicating a 10.6% yield.

Brokerage SBS said that in thin trading, foreign law dollar bonds traded at yields of around 10%-11%.

Another important step will be when the new bonds are added into JP Morgan's widely tracked emerging market debt indexes, set for Thursday, which is expected to increase the country's weighting in dollar-denominated indexes.

Argentina's final proposal gave creditors an average net present value of 54.8 cents on the dollar. The country's bonds have been on a wild ride since mid-2019, tumbling as low as 20-odd cents on the dollar before rising in recent months.

The government will now turn its attention to talks with the International Monetary Fund to negotiate a deal to replace its record $57-billion standby agreement struck in 2018.

A number of regional governments are also involved in smaller restructurings, including Buenos Aires Province, which is in talks to revamp around $7.148 billion in debt.

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Brazil

Brazil public sector debt rises to record 86.5% of GDP

31-Aug-2020

BRASILIA, Aug 31 (Reuters) - **Brazil's national debt rose to a record 86.5% of gross domestic product in July and the public sector primary deficit in the 12 months to July widened to 7.5% of GDP, the central bank said on Monday.**

The public sector deficit excluding interest payments was 81.1 billion reais ($15 billion) in July, the central bank said, less than the 94 billion reais shortfall forecast in a Reuters poll, and the nominal deficit was 86.9 billion reais, also less than the expected 109.9 billion reais.

($1 = 5.42 reais)
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Brazil to revise 2020 public deficit forecast on Tuesday

31-Aug-2020

BRASILIA, Aug 31 (Reuters) **- Brazil's government will revise its 2020 public sector deficit forecast of 11.3% of gross domestic product on Tuesday, a senior Economy Ministry official said on Monday, adding that revenue from public bank dividends, privatizations and concessions next year may be higher than budgeted for.**

Speaking in an online news conference after the government released its 2021 budget proposal, Waldery Rodrigues, special secretary to the ministry, said crisis-fighting emergency spending will not be extended into next year and no new social welfare program is included in the 2021 budget.

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Brazil 2021 budget proposal sees $43 bln deficit, no new social welfare programs

01-Sep-2020

By Jamie McGeever

BRASILIA, Aug 31 (Reuters) - **Brazil's government said on Monday it expects to post a budget deficit of 233.6 billion reais ($43 billion) next year, another huge fiscal shortfall as it battles to repair public accounts blown apart by the COVID-19 pandemic.**

In its 2021 budget proposal sent to congress, the government said it expects the economy to grow by 3.2% next year, recovering from this year's fall that is shaping up to be the steepest on record.

Speaking to reporters via videolink, special secretary to the economy ministry Waldery Rodrigues said emergency spending triggered by the COVID-19 pandemic will not be extended next year, and there will be no new social welfare program in the 2021 budget.

This cuts to the heart of a rift between President Jair Bolsonaro and Economy Minister Paulo Guedes. Bolsonaro last week rejected Guedes' proposal for a new cash welfare program called 'Renda Brasil' because it would involve cutting other programs.

"The bill raises lots of questions. It is well known that Bolsonaro has good reasons to gain from last week's noise about 'Renda Brasil', and more economists and analysts are commenting on the spending ceiling uncertainty," said Jose Francisco Goncalves, chief economist at Banco Fator in Sao Paulo.

Rodrigues noted that the current 'Bolsa Familia' scheme for millions of Brazil's poorest people will be expanded by 5 billion reais to 35 billion reais.

The government's spending cap limiting growth in expenditure to the rate of inflation will be 1.486 trillion reais, according to the bill.

Rodrigues insisted that the "super anchor" of fiscal policy will not be tinkered with, and that any increase in real spending would be met with spending cuts elsewhere.

The targeted budget deficit of 233.6 billion reais excluding interest payments will equate to 3.0% of gross domestic product, the government said, and is up from its previous goal of 149.6 billion announced in April.

This year's wider public sector deficit of over 800 billion reais, or 11.3% of GDP, will be revised on Tuesday, Rodrigues said.
Next year will be the government's eighth annual deficit in a row. Treasury Secretary Bruno Funchal said that based on the spending cap and market projections for GDP and interest rates, the government will still be posting primary deficits in 2026 and 2027.
The 2021 budget projects net government revenues of 1.28 trillion reais, down 97.3 billion reais form April's forecast, and total expenditure of 1.52 trillion reais.

($1 = 5.47 reais)
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Brazil govt presents public sector reform bill, gives president sweeping powers

03-Sep-2020
By Jamie McGeever and Marcela Ayres
BRASILIA, Sept 3 (Reuters) - **Brazil's government on Thursday presented to congress a constitutional reform bill aimed at simplifying and reducing the cost of its public sector, which it argues is too bloated and a major reason why the public finances are in such poor shape.**
According to an economy ministry presentation, the bill will make it easier to fire civil servants and cuts their benefits, and gives the president sweeping powers to eliminate public sector jobs and bodies without congressional approval.
Caio Mario Paes de Andrade, special secretary for deregulation at the economy ministry, said it marks a "profound transformation of the state" and will improve the quality and efficiency of the public sector machine.
This constitutional amendment is the first of three phases that will overhaul Brazil's public sector, ministry officials said. Estimates on the fiscal impact on the public purse will be included in the second and third phases when guidelines on salaries are presented, they said.
Spending on public sector employees last year was 13.7% of domestic product, up from around 12% in 2012, Gleisson Rubin, deputy special secretary for deregulation, said in a virtual press conference.
Current public sector workers will not see their terms or salaries changed. But the benefits of future employees such as retroactive pay rises, more than 30 days vacation per year, and extra leave for length of service, will be cut.
As was the case with last year's landmark social security reform, military personnel are not included in this reform proposal. Lawmakers and magistrates will also be exempt, officials said.
According to the proposals, the president will be granted sweeping powers to cut jobs, eliminate public bodies, and reorganize public sector departments without congressional approval as long spending does not rise.
Brazil is on course to post a record budget deficit this year due to the emergency spending and lost tax revenue resulting from the COVID-19 pandemic, which has also pushed total government debt to a record high.
This year will be the Government's seventh in a row of budget deficits. It may still be in deficit by 2027, Treasury Secretary Bruno Funchal said this week.

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Brazil widens 2020 govt primary deficit forecast to 12.1% of GDP from 11%

04-Sep-2020
BRASILIA, Sept 4 (Reuters) **- Brazil's economy ministry on Friday revised its fiscal forecasts to factor in the extension of emergency payments to the poor, and now sees a 2020 central government primary deficit of 866.4 billion reais ($167 bln) or 12.1% of gross domestic product**.
That compares with a previous forecast of 787.4 billion reais, or 11% of GDP. The wider public sector deficit was also revised wider to 891.1 billion reais or 12.4% of GDP, from 812.2 billion reais or 11.3% of GDP.
The extension of the emergency fiscal transfers for a further four months through the end of the year will take the total cost of the program up to 321.8 billion reais from 254.2 billion reais, the ministry said.

($1 = 5.30 reais)
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Colombia

Colombia to carry out debt swaps with multilateral banks, official says

03-Sep-2020
By Nelson Bocanegra
BOGOTA, Sept 3 (Reuters) **- Colombia will carry out public debt swaps with multilateral banks to reduce its exchange-rate exposure amid higher debt due to coronavirus, a finance ministry official said on Thursday, adding the country will evaluate opportunities to extend expiries on local bonds.**

Colombia has been obliged to look for billions in funding by issuing bonds and obtaining credit with organizations like the Inter-American Development Bank to deal with economic upheaval from the coronavirus pandemic. The efforts have increased its exposure to international exchange rates.

"The instruments we'll contract are derivative instruments, swaps that will allow us to change this exposure of set yield in dollars for set yield in Colombian pesos," said the director of public credit Cesar Arias.

"In the great majority of cases we would do it with treasuries of multilateral development banks with whom we have loans, but of course they also will be doing the correspondent transactions with the capital market and national and international currencies," Arias said.

The operations will take place beginning this month and through next year, said Arias, who said he did not have a specific swap amount in mind.

Colombia holds about $18 billion in external debt.

"We aren't going to operate with specific goals. It is very important that citizens and market agents understand that these operations are tactical," he said.

Arias said swap operations for local TES bonds will extend into the end of the year.

"If the market allows and the conditions are favorable, we will carry out some debt operations that will allow us to optimize our profile of local debt through swaps," Arias said.

The peso-denominated TES bonds are the country's second top source of financing after tax collection.

The country will "imminently" issue new 30-year TES paper set to expire in 2050. The first issue will be between 1 trillion and 3 trillion pesos ($273 million and $821 million).

($1 = 3,653.70 Colombian pesos)
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Costa Rica

Costa Rica requests $1.75 billion in IMF financial assistance

29-Aug-2020

SAN JOSE, Aug 29 (Reuters) **- Costa Rica's government said on Saturday it has requested $1.75 billion in financial assistance over three years from the International Monetary Fund as the Central American nation's economy has been reeling from the coronavirus pandemic.**

On July 12, Costa Rican President Carlos Alvarado said his administration would begin negotiations with the IMF to access a financial aid package to help offset the economic blow from COVID-19. Details about the size of the aid package were not disclosed at the time.

In a letter dated Aug. 29 and addressed to IMF Managing Director Kristalina Georgieva, Costa Rica's central bank president Rodrigo Cubero and finance minister Elian Villegas requested financial aid "in the form of a 3-year arrangement under the Extended Fund Facility," equivalent to $1.75 billion.

"Despite our proactive policy efforts, the combined impact of the global shock and domestic containment measures on our country's balance of payments and fiscal account is proving much sharper and protracted than expected, amid a resurgence in COVID-19 cases and a deeper contraction than initially envisaged," the letter said.

The financial aid aims to offset diminishing government revenue as the 2020 fiscal deficit looks set to exceed 9.0% of the gross domestic product, and the central bank's debt is seen reaching nearly 70% of GDP, according to the letter.

The central bank forecasts Costa Rica's economy to contract by 5% in 2020, with only a gradual recovery over the medium term.

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Fitch Says Costa Rica's IMF Loan Eases But Does Not Eliminate Financing Pressure

03-Sep-2020

Sept 3 (Reuters) - Fitch:

- **Fitch says Costa Rica's IMF loan eases but does not eliminate financing pressure**
- Fitch - Costa Rica's government will rely on more expensive domestic market borrowing to fund larger deficit share after 2020, hampering fiscal consolidation
- Fitch, on Costa Rica - failure to consolidate fiscal accounts pre-pandemic & economic shock from coronavirus materially increased risks to debt sustainability

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Ecuador

Ecuador, IMF reach preliminary agreement on $6.5 bln facility

29-Aug-2020

By Rodrigo Campos

NEW YORK, Aug 28 (Reuters) - **The International Monetary Fund said on Friday it had reached a staff-level agreement with Ecuador for a new $6.5 billion facility to help the South American country address the**

economic shock caused in part by the sharp drop in oil prices and the COVID-19 pandemic.
The agreement, subject to approval by the IMF's executive board, clears the way for the settlement of a $17.4 billion debt exchange between Ecuador and its creditors, expected on Monday.
The goal of the 27-month Extended Fund Facility (EFF) agreement is to help the Ecuadorian authorities stabilize the economy and protect the lives and livelihoods of its citizens, the IMF said.
The arrangement will partly support Ecuador's policies "to expand the coverage of social assistance programs" and "protect the vulnerable segments of the population," said in a statement Ceyda Oner, the IMF mission head for Ecuador.
Ecuador's economy is expected to contract 11% this year, she said.
The agreement "shows strong international diplomatic support for a country that has pushed an opening agenda," said Siobhan Morden, head of Latin America fixed income strategy at Amherst Pierpont Securities in New York.
"The vote of confidence from the IMF will likely translate into normalized exit yields of 10% or perhaps even lower," she added.
Ecuador's deal with private creditors was expected to improve the government's cash flow by $10 billion in the coming four years.
The IMF had approved an EFF for Ecuador in March 2019 that was canceled in May 2020.

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Ecuador says nearly all creditors accept bond swap as restructuring concludes

01-Sep-2020
QUITO, Aug 31 (Reuters) - **Ecuador said on Monday that 98.5% of its bondholders accepted a proposed bond swap, concluding a debt restructuring process that began when the plunge in crude prices and the coronavirus outbreak dealt blows to the Andean country's finances.**
The deal announced in early August allowed holders of 10 bonds totaling some $17.4 billion to exchange for three new bonds - maturing in 2030, 2035, and 2040 - that the government said total $15.6 billion in obligations, including interest and principal payments.
The finance ministry said in its Monday statement that investors who did not sign the agreement, which represent some $270.4 million in holdings, will receive the same treatment as the holders of the 2040 bonds. The largest new bond is the 2035, with a principal payment of some $8.5 billion.
"This teamwork will allow us to keep international finance open, and to focus on economic recovery, creating jobs and social protection," Finance Minister Richard Martinez said in the statement.
The government added that it would issue an additional $1 billion bond to some creditors, representing interest payments the government missed between March and August of this year, which it did not make due to the fiscal cash crunch.
Separately, Ecuador last week reached a staff-level agreement with the International Monetary Fund (IMF) for a $6.5 billion facility. The IMF board will consider the deal in late September.

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S&P Says Ecuador Long-Term Ratings Raised To 'B-' From 'SD' On Completed Debt Exchange; Outlook Stable

02-Sep-2020
Sept 1 (Reuters) -
- **S&P rates Ecuador's long-term local currency at 'B-' and long-term foreign currency at 'B-'; outlook stable**
- S&P says Ecuador long-term ratings raised to 'B-' from 'SD' on completed debt exchange; outlook stable
- S&P on Ecuador says view the risk of another default in the next two to three years as less likely
- S&P - upgrade to 'B-' reflects Ecuador's more manageable debt service and expectation of broad policy continuity in government's implementation of reforms

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Fitch Upgrades Ecuador to 'B-' Outlook Stable

03-Sep-2020
Sept 3 (Reuters) -
- **Fitch upgrades Ecuador to 'B-'; outlook stable**
- Fitch says upgraded Ecuador's long-term foreign currency issuer default rating to 'B-' from 'RD'
- Fitch says expects any Ecuador government will have incentives to honor debt deal following upcoming elections in 2021
- **Fitch says upgrade of Ecuador's rating to 'B-' reflects completion of 'distressed debt exchange'**
- Fitch says Ecuador may remain challenged to meet its financing needs, particularly as support from IMF - expected to be front loaded - tails off

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El Salvador

IDB approves lines of credit to El Salvador worth $650 mln

31-Aug-2020
SAN SALVADOR, Aug 31 (Reuters) - **The Inter-American Development Bank (IDB) said on Monday it had approved two lines of credit to El Salvador worth $650 million in total for use in areas including education and improving access to credit.**
The two credit lines are so-called Conditional Credit Lines for Investment Projects (CCLIP), the IDB said.

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Mexico

Remittances to Mexico hit third highest level on record in July

01-Sep-2020
MEXICO CITY, Sept 1 (Reuters) **- Remittances sent to Mexico, a major support for the Mexican economy and in particular for low-income families, continued its historic 2020 run and rose in July to the third highest level on record, central bank data showed on Tuesday.**
Mexico received $3.53 billion in remittances in July, up by more than 7% compared to the $3.29 billion in remittances the country was sent the same month last year.
Remittances hit their highest level since records began in 1995 in March of this year and then reached their second best level in June.
Most of Mexico's remittances are sent by the millions of Mexicans living in the United States and are a pillar of support for Latin America's second largest economy, which suffered in the second quarter its deepest slump since the Great Depression.
Remittances are also one of Mexico's main sources of foreign exchange.
Goldman Sachs economist Alberto Ramos said that the sharp contraction of activity and employment in the United States has not visibly impacted the flow of remittances to Mexico.
"Generous wage/income support fiscal transfers in the U.S., a very competitive MXN/USD level, and a deep contraction of activity and employment in Mexico may have acted as both push and pull drivers of dollar remittances from the U.S. to Mexico," said Ramos.

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Peru

Peru plans to issue up to $11.56 billion in bonds in 2021

31-Aug-2020
LIMA, Aug 30 (Reuters) - **Peru plans to issue bonds worth up to 40 billion soles ($11.56 billion) in 2021, almost four times more than expected this year, to help manage an economic crisis and the COVID-19 pandemic, according to government data released on Sunday.**
The expected issuance is based on a projected exchange rate of 3.46 soles per U.S. dollar, according to the government's 2021 debt plan, which was sent to Congress on Sunday. The issuance is planned for the domestic market but could be sold in international capital markets depending on market conditions.
The economy of the world's No. 2 copper producer is set to shrink 12% this year, its worst performance in three decades, according to the government. But it expects a 10% rebound in 2021, fueled by recovery in domestic consumption and investment.
Peru imposed a quarantine in March when the virus broke out.
But since May the government has launched a staggered reopening of the economy bolstered by fiscal stimulus equivalent to almost 20% of gross domestic product. The Economy Ministry has said that public debt will rise to 38% of GDP in 2021, up almost 11 percentage points from 2019.
The government sent its 2021 public budget project to Congress on Saturday. It totals 183,000 million soles, an increase of 3.2% compared with this year's spending plan.
Coronavirus cases totaled 647,166 in Peru as of Sunday, which has the second-highest number of infections in Latin America, after Brazil, and the fifth-highest in the world. Coronavirus-related deaths in Peru have totaled 28,788, according to the Ministry of Health.

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Fitch Says Peru's Next Administration

Will Face Trade-Offs Between Fiscal Stimulus and Greater Fiscal Austerity

03-Sep-2020

Sept 3 (Reuters) -

- **Fitch says Peru's next administration will face trade-offs between fiscal stimulus and greater fiscal austerity**
- Fitch on Peru says next administration's economic reform and fiscal consolidation plans will be important for creditworthiness

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AFRICA

Angola

Angola to benefit from debt relief initiative, Paris Club says

01-Sep-2020

LONDON, Sept 1 (Reuters) **- Paris Club creditors have agreed to give Angola debt service relief until the end of 2020, the group said.**

Relying heavily on oil revenues and saddled with debts that exceed its economic output, the third-largest economy in sub-Saharan Africa has been reeling from the fallout of the coronavirus pandemic and weak oil prices.

"In application of the term sheet of the debt service suspension Initiative (DSSI) also endorsed by the G20, the Paris Club recognised that the Republic of Angola is eligible to benefit from the initiative," the Paris Club said in a statement on Monday.

G20 members, including China, and the Paris Club in April offered a freeze on debt service payments to some of the poorest countries through year-end to free up funds to fight the outbreak and mitigate its economic impact.

Angola's debt service suspension will apply from May 1 to Dec. 31, the Paris Club said.

The government is committed to use resources freed by the initiative to raise spending to mitigate the health, economic and social impact of the pandemic, said the group, which is coordinated by France's finance ministry.

The government is also committed to seeking from all its other bilateral official creditors debt service treatment in line with the agreed term sheet, the group added.

Angola said in June it had asked for G20 debt relief and was in advanced stages of talks with some countries importing its oil on adjusting financing facilities.

The debt service initiative will also contribute to improve debt transparency and debt management, Paris Club said, adding it will continue to closely coordinate with other stakeholders on the scheme, in particular when considering a possible extension of the suspension period.

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Fitch Downgrades Angola to 'CCC'

04-Sep-2020

Fitch Ratings has downgraded Angola's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) to 'CCC' from 'B-'.

Fitch typically does not assign Outlooks or apply modifiers to sovereigns with a rating of 'CCC' or below.

A full list of rating actions is below.

KEY RATING DRIVERS

The downgrade reflects a sizable increase in Angola's government debt, reduced external financing flexibility as evident in a sharp rise in sovereign bond yields and declining external liquidity. The fall in global oil prices has exacerbated key vulnerabilities in the Angolan economy, leading to lower external receipts and a sustained weakening of the kwanza; this has resulted in increasing debt servicing costs and downward pressure on fiscal and external buffers. In Fitch's view these factors increase risks to the government's capacity to service its debt liabilities over time.

The sustainability of Angola's government debt has deteriorated and weak public finances will inhibit the authorities' ability to significantly lower debt levels over our two-year forecast horizon. By end-2020, Fitch forecasts general government debt to increase to 129% of GDP, or 850% of government revenue, which is more than twice the 'B' median forecast of 356% and is indicative of Angola's difficulties in increasing non-oil revenue.

In 2020, the combination of lower oil prices and production cuts under the OPEC+ agreement will lower oil revenue by between 3pp and 4pp of GDP, compared with 2019. Cuts to capital expenditure and non-health related current expenditure will not offset the increase in debt servicing costs, which we forecast to increase to 48.3% of revenue, more than three times the 'B' median of 13.2%. As a result, we forecast the general government fiscal deficit to widen to 4.3% of GDP in 2020, from 3.5% in 2019.

We forecast the deficit to narrow in subsequent years as higher oil prices and new tax measures implemented in 2019 contribute to a recovery in revenue. **However, unfavourable debt dynamics will keep Angola's debt burden high. In recent years, the debt/GDP ratio has continued to rise due to FX depreciation and real GDP declines even as the government achieved primary surpluses.** In 2020, we estimate that FX depreciation will be responsible for 18pp of the increase in debt/GDP. Barring additional external shocks, government debt will stabilise in 2021 but we forecast that government debt will remain above 120% of GDP through 2022.

Fitch estimates Angola's sovereign external debt servicing costs at USD6.9 billion, or 12.3% of GDP, in 2020, but we expect that approximately USD2.5 billion in bilateral debt service payments will be re-profiled. The Paris Club has announced an agreement under the G-20 debt service suspension initiative for Angola and this will likely be matched by comparable treatment from non-Paris Club lenders, specifically Chinese lenders, who hold more than 40% of Angola's external debt.

We expect the government to meet the remaining USD4.4 billion in 2020 payments through a combination of multilateral lending, withdrawals from the sovereign wealth fund, and the drawing down of external reserves. **Angola's current IMF Extended Credit Facility is scheduled to disburse approximately USD1 billion in 2020.** The most recent review of the programme has experienced delays, which Fitch believes reflects IMF concerns regarding Angola's external liquidity and the sustainability of government debt. Our baseline scenario assumes that the IMF will conclude a debt sustainability analysis that finds Angola's debt at a high level of distress but not unsustainable, which, along with the debt re-profiling, will allow the planned disbursements plus an additional USD400 million in IMF lending. We also expect the IMF programme will catalyse an additional USD1 billion in support from the World Bank and African Development Bank. The sale of financial assets from Angola's sovereign wealth fund will provide as much as an additional USD1.5 billion in external financing. The remainder will come from external reserves.

We expect the sovereign to meet its 2020 external financing needs but the total external position of Angola's economy will continue to weaken, increasing the risk of a default event in subsequent years. We estimate that total external debt servicing costs, including servicing on debt held by the private sector, will still reach USD8billion (14% of GDP) in 2020, which we forecast to equal 40.3% of current external receipts (CXR). By comparison, the current forecast for 'B' rated sovereigns is 12.8% of CXR. High debt servicing will be coupled with an expected current account (CA) deficit of 6% of GDP, versus a 6% CA surplus in 2019. As a result, FX reserves will continue to fall. Fitch forecasts gross international reserves to fall to USD15 billion by end-2020, from USD17.2 billion at end-2019.

Angola's gross reserves will remain high relative to peers', 7.6 months of current external payments at end-2020 compared with the current 'B' median of 3.8 months. However, the net reserves position is likely to fall below USD10 billion in the absence of new financing sources. Furthermore, the National Bank of Angola will continue to be the main supplier of hard currency to the economy. Future downward pressure on the kwanza would leave the authorities with the choice of either selling more dollars to support the kwanza or conserving FX reserves, which would decrease foreign-currency liquidity and hinder economic recovery.

Angola's 'CCC' IDRs also reflects the following key ratings drivers.

The Angolan economy continues to be constrained by its high level of commodity dependence, which contributes to low growth and increased macroeconomic instability. Contraction in the oil sector, combined with resulting tight dollar liquidity, will keep Angola in its fifth straight year of recession. Fitch forecasts growth to contract 4% in 2020. Inflation will accelerate to a 24% annual average in 2020, well above the 'B' median forecast of 4.8%.

Reforms in the hydrocarbon sector and new investment may help to stabilise the long-term decline in oil production. Oil production increased to 1.4 million of barrels per day (mobpd) in 1Q20, up slightly from 1.35 mobpd in 4Q19, but fell again as the government phased in cuts under the OPEC+ agreement. Fitch forecasts production to average 1.3 mobpd in 2020 and we expect production to remain at broadly the same level in 2021.

Angolan banks will face increased economic challenges as the coronavirus pandemic shock extends Angola's recession. The authorities have taken a number of measures to support lending, including lowering rate on the seven-day standing deposit facility and implementing a credit support programme for lending to small- and medium-sized enterprises. However, the government's increased call on the domestic debt market will also contribute to crowding out private sector lending. We forecast real private sector credit growth to contract in 2020. Already-poor asset quality will likely continue to weaken, reflecting banks' high level of exposure to the hydrocarbon sector.

Fitch's affirmation of the Country Ceiling at 'B-', a notch above the LTFC IDR, reflects our view that the probability of the sovereign imposing capital or exchange controls that impede the private sector's ability to access foreign exchange and make debt service payments is less than the sovereign's probability of restructuring or default.

ESG - Governance: Angola has an ESG Relevance Score (RS) of 5 for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model (SRM). Angola has one of the lowest WBGI rankings among Fitch-rated sovereigns, at 18.3, reflecting weak rights for participation in the political process, weak institutional capacity, uneven application of the rule of law and a high level of corruption.

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

In accordance with its rating criteria, for ratings in the 'CCC' range and below, Fitch's sovereign

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

RATING SENSITIVITIES

The main factors that could, individually or collectively, lead to positive rating action/upgrade are:
- Public Finances: A firm decline in general government debt over time, for instance through increasing non-oil revenue mobilisation, or a reduction in the share of foreign-currency or foreign currency-linked debt.
- External Finances: The rebuilding of external reserves that could occur as a result of higher oil receipts or the identification of additional external financing sources.

The main factors that could, individually or collectively, lead to negative rating action/downgrade:
- Critical weakening of the government's capacity to secure financing to meet debt servicing obligations.
- Indications that the authorities are planning a restructuring of sovereign market debt.

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.

KEY ASSUMPTIONS

Fitch expects global indicators, including oil prices, to move in line with Fitch's Global Economic Outlook forecasts.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Angola has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM; this is highly relevant to the rating and a key rating driver with a high weight for Angola, which ended an almost 30-year civil war in the early 2000s.
Angola has an ESG Relevance Score of 5 for Rule of Law, Institutional and Regulatory Quality, and Control of Corruption as Angola has the lowest score among Fitch-rated sovereigns on the Control of Corruption pillar of the World Bank Governance Indicators; this is highly relevant to the rating and a key rating driver with a high weight.
Angola has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as Angola scores lower than peers on the Voice and Accountability pillar of the World Bank Governance; this is relevant to the rating and a rating driver.
Angola has an ESG Relevance Score of 4 for Creditor Rights as willingness to service and repay debt is relevant to the rating and a rating driver, as for all sovereigns.
Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.
Angola; Long Term Issuer Default Rating; Downgrade; CCC
Short Term Issuer Default Rating; Downgrade; C
Local Currency Long Term Issuer Default Rating; Downgrade; CCC
Local Currency Short Term Issuer Default Rating; Downgrade; C
Country Ceiling; Affirmed; B-
Senior unsecured; Long Term Rating; Downgrade; CCC

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Egypt

Egypt signs $2 bln loan with regional, international banks

31-Aug-2020

CAIRO, Aug 31 (Reuters) **- Egypt signed a $2 billion conventional and Islamic loan with several international and regional banks in a deal coordinated by two UAE lenders, the finance ministry said on Monday.**
Emirates NBD Capital and First Abu Dhabi Bank were joint coordinators and lead managers of the deal, the ministry said in a statement.
The loan aims at "financing the state budget and supporting the Egyptian economy in order to maintain its strong path in the face of fluctuations prevailing in global markets", it added.
The loan was approved by parliament, the statement said.
A parliamentary document obtained by Reuters showed Egypt initialized the deal with Emirates NBD and FAD in July 20 to obtain a one-year, $2

billion loan in two tranches to close the gap in its 2020/21 budget wrought by the COVID-19 pandemic.
The first tranche is a conventional facility of $1.490 billion and the second an Islamic facility of $510 million, the document added.
"When they came to the market...on the back of COVID, the pricing was dislocated, the comparables were a bit on the high end. But they managed to convince the banks to commit to a tight level. And now..., it is in line with the market's pricing," a banking source said.

(Reporting by Ehab Farouk; additional reporting Yousef Saba; writing by Mahmoud Mourad; editing by Jason Neely/Mark Heinrich)
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Egypt's economy grew by 3.5% in FY 2019/20

03-Sep-2020
CAIRO, Sept 3 (Reuters) - **Egypt's economy grew by 3.5% in the fiscal year that ended on June 30, Planning Minister Hala al-Saeed said on Thursday, a revision down from a preliminary 3.8% announced last month.**
Prior to the coronavirus crisis, Egypt had been targeting growth of 5.8% in fiscal year 2019/20.
The economy has been boosted in recent years by an upswing in tourism, strong remittances from Egyptian workers abroad and recently discovered natural gas fields coming onstream.
But since the coronavirus outbreak, tourism has collapsed, the price of gas has plummeted, and worker remittances have come under threat with the decline of oil revenues in Gulf Arab states where many Egyptians are employed.
A cabinet statement quoted al-Saeed as saying during a weekly ministerial meeting on Thursday that "without the government intervention, the growth rate for the year 2019/20 was expected to be 1.9%".
Preliminary data showed that real GDP growth had fallen to 3.8% in the fiscal year to June 30 despite having grown by 5.6% from July to December, the central bank's Monetary Policy Committee (MPC) said last month.
Egypt expects the economy to grow 3.5% in fiscal year 2020/21, which started in July, but that could slow to 2% if the coronavirus crisis drags on till year-end, al-Saeed said in May.

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Ghana

Ghana to issue around $4 bln treasury bills over next three months

04-Sep-2020
ACCRA, Sept 4 (Reuters) - **Ghana's finance ministry said on Friday it plans to issue treasury bills worth around $4 billion over the next three months, of which 3.43 billion is to roll-over maturities and the remaining $532 million are fresh issuances.**

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Nigeria

Nigeria pays $14 mln for fuel in June despite subsidy removal

31-Aug-2020
By Libby George
LAGOS, Aug 31 (Reuters) - **Nigeria's state oil company recorded a 5.34 billion naira ($14 million) cost for fuel in June, months after it changed its pricing method in an effort to eliminate subsidies.**
State oil company NNPC outlined the "under recovery" bill in its June monthly statement, a term used to reference money lost through fuel sales.
NNPC spokesman Kennie Obateru said the costs represented temporary payments to marketers, who buy imported fuel and then sell it on, for stocks they held when the subsidy was removed, and would be spread over six months.
"Since the subsidy removal started with reduction in pump price, marketers have to be paid the differential of the (government) verified stock they held," he told Reuters.
In March, amid a global oil price crash, Nigeria cut its gasoline pump price and said it had eliminated subsidies through a new price cap that maintained government control, but allowed prices to move with the market.
Nigeria's gasoline prices had been kept artificially low at 145 naira ($0.48) per litre. **A study supported by the British government estimated Nigeria spent 10 trillion naira on subsidies from 2006 to 2018, more than the individual budgets for health, education or defence.**
But in the past riots have broken out merely over rumours of any increase.
The body tasked with setting pump prices, PPPRA, has not published retail prices since March 31. Fuel importers said there is a set monthly depot price, but it is not widely distributed. Those who want to know it have to

visit the depot.
The lack of transparency around the new gasoline pricing mechanism has been a point of contention for those monitoring whether the subsidy cost has been permanently eliminated and is one of the sticking points over a much-needed World Bank loan.

($1 = 380.5000 naira)
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South Africa

South African state firms seeking billions of rand in bailouts, govt says

01-Sep-2020
JOHANNESBURG, Sept 1 (Reuters) - **South African state companies the Post Office and broadcaster SABC have requested billions of rand in financial support, the National Treasury said in a presentation to parliament on Tuesday.**
The Treasury said the Post Office had requested 4.9 billion rand ($292.87 million) in support and SABC was seeking 1.5 billion rand because of the impact of the COVID-19 pandemic.
It added that state agricultural lender Land Bank, which defaulted earlier this year, had resumed interest payments to lenders from Aug. 11.

($1 = 16.7310 rand)
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GLOBAL

Emerging Markets-Philippine stocks slip as virus cases spike, India soars

01-Sep-2020
- **Indian rupee hits highest since March 3**
- **Indonesia's rupiah falls after three days of gains**

Sept 1 (Reuters) - **Philippine stocks sank to their lowest level in almost a month on Tuesday, lagging broader Asian markets, as rising coronavirus cases hit manufacturing activity and pushed the country to extend curbs in and around the capital Manila.**
Partial restrictions will be in place for another month starting Tuesday, President Rodrigo Duterte said on Monday, adding to pressure on business activity as data showed August manufacturing PMI had dropped to its lowest in three months.
Manila's benchmark index slid 1.4%, while the peso was flat.
"I suspect the PMI data has something to do with the PSEi's performance today," said Ruben Carlo O. Asuncion, chief economist at Union Bank of the Philippines, saying the trough in manufacturing was due to the strict quarantine measures in place at the start of August.
In contrast, the Indian rupee rose to a near six-month high and the stock market advanced 0.6% after the country's central bank laid out measures to stabilize the financial system after a record economic contraction in the June quarter.
The Reserve Bank of India's measures include two more tranches of special open market operations (OMOs) and easing of held-to-maturity (HTM) limits for bond holdings by banks.
"The biggest announcement which reduced the market's apprehension about absorption of supply was increase in limit for banks for holding bonds in HTM category," said Abhishek Goenka, founder and CEO of Mumbai-based trading firm IFA Global.
"This would increase the appetite for bonds of banks, nationalized banks in particular."
South Korean shares rallied 1% after Asia's fourth-biggest economy unveiled plans to ramp up spending in the next few years to combat pandemic-induced economic weakness.
Currencies across the region broadly benefited from robust Chinese factory activity data and weakness in the U.S. dollar, although Indonesia's rupiah was an outlier with a 0.2% dip.
Lower inflation puts more pressure on Indonesia's central bank to cut interest rates further, potentially reducing the return of one of foreign investors' favourite Asia currency carry trades and weakening the attraction of the rupiah.
HIGHLIGHTS
** Singapore's 10-year benchmark yield is down 3.7 basis points at 0.982%
** In the Philippines, top index losers are JG Summit Holdings down 4.43%, Puregold Price Club down 3.89% and International Container Terminal Services down 3.24%
** Top gainers on the Jakarta stock index include Dewata Freight International Tbk up 26.14%, Asuransi Bintang Tbk up 21.85% and Link Net Tbk up 16.16%

(Reporting by Shashwat Awasthi and Shriya Ramakrishnan in Bengaluru; Editing by Patrick Graham and Amy Caren Daniel)
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Moody's Says Policy Effectiveness Will Be Key for Emerging Markets as Debt Burdens Rise

01-Sep-2020

Sept 1 (Reuters) -
- **Moody's - policy effectiveness will be key for emerging markets as debt burdens rise**
- Moody's on emerging markets says debt affordability generally stable, but will deteriorate from already weak levels for some
- Moody's-expect government debt in emerging market sovereigns to rise by almost 10 percentage points of GDP on average by end of 2021 from 2019 levels
- **Moody's says government debt in Brazil, India and South Africa will rise to among the highest levels across the em19, above 80% of GDP by 2021**
- Moody's-medium-term growth and fiscal challenges pose downside risks for emerging market sovereigns

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Half of eligible countries take up debt suspension plan

04-Sep-2020
By Christopher Spink
LONDON, Sept 4 (IFR) - **More than US$2bn of debt payments due this year from the world's poorer countries to the group of 20 leading economies has been deferred beyond 2020 under the debt service suspension initiative agreed by the G20 in April.**
The Paris Club of official sector creditors, which is helping to coordinate the initiative, said last week that 39 of the 73 countries eligible for the temporary relief, or more than half, had now asked to take part in the scheme.
Twenty-nine of the countries have agreed a formal memorandum of understanding with the Paris Club to implement the initiative too. Between them they have debt maturities of US$1.8bn due to the official sector before the end of the year.
The initiative is significant as it binds China, the major creditor to many eligible countries, into the scheme. China is a member of the G20 but not a full member of the Paris Club, where it has observer status.
The majority of the applicants are in Africa, but a notable number are in the Caribbean and central Asia. Discussions are still going ahead with the remaining countries that have approached the Paris Club about the initiative. Tajikistan is the latest to reach an agreement.
But with less than four months until the end of the year attention is now turning to extending the scheme beyond the end of 2020. This will be an issue of key importance to discuss at the International Monetary Fund and World Bank meetings, to be held virtually next month.
Odile Renaud-Basso, chair of the Paris Club, said the club was "fully committed to continuing to contribute actively to the DSSI and post-DSSI discussion and implementation".
The IMF and World Bank are producing a report on the liquidity needs of countries eligible for the DSSI. This will be used by Paris Club creditors to "examine a possible extension of the suspension period", it said.
Official sector lenders may be reluctant to offer more relief without private sector creditors also agreeing to suspend payments on what is owed to them. Private sector lobby body the Institute of International Finance has said its members would only volunteer to provide relief.
Several of the countries that have signed up to the initiative have outstanding bonds. These include Ethiopia, Grenada, Cameroon, Senegal, Ivory Coast and Zambia. It is unclear whether bondholders have agreed to suspend payments to them too.
Zambia has already said it wants to carry out a liability management exercise, having appointed Lazard in May to advise on negotiations with creditors.
Other countries, such as Pakistan, have said they plan to issue new bonds despite being granted relief on their official sector debts this year by the G20.
Some other distressed countries, such as Belarus and Lebanon, which is in default, are not among the countries listed by the Paris Club as having signed up to the DSSI.
Some countries, such as Kenya, expressed concern that not paying creditors this year might be seen as a reason for credit ratings agencies to downgrade them.

(This story will appear in the September 4 issue of IFR. Reporting by Christopher Spink)
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