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Emerging Sovereign Debt Markets NEWS

Number 28 Week 4 – 10 July 2020

Table of contents

ASIA

China

Foreign yuan bond holdings hit new peak in June as yields lure buyers

06-Jul-2020

SHANGHAI, July 6 (Reuters) - **Foreign holdings of Chinese yuan bonds hit fresh highs in June as attractive yield premiums continued to lure investors, official data showed on Monday.**

Offshore investors held yuan-denominated Chinese bonds worth a total of 2.51 trillion yuan ($355.9 billion) at the end of June, according to Reuters calculations using official data from interbank market clearing houses China Central Depository and Clearing Co and the Shanghai Clearing House.

That was an increase of 3.4% from the previous month and a record high. Foreign investors raised their holdings of Chinese bonds by 14.6% in the first half of 2020, the data showed.

As in May, the increase was driven by a jump in

holdings of bonds issued by China's three policy banks. Foreign holdings of the instruments, which are among the most traded in China's interbank market, rose 7.4% to 639.85 billion yuan.
Offshore investors raised their holdings of Chinese treasury bonds by nearly 3% to 1.49 trillion yuan, the data showed.
Chinese bond yields became increasingly attractive to offshore investors in June, as central and local governments issued a flood of new special bonds to help fund the economic recovery from the coronavirus pandemic.
The spread of Chinese 10-year government bonds over their U.S. counterpart widened by 18 basis points over the month of June. On Monday, the spread was at 231.5 basis points, according to Refinitiv data, a record high.

($1 = 7.0525 Chinese yuan)
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China to issue 4th batch of special bonds for COVID-19 control

09-Jul-2020
BEIJING, July 9 (Xinhua) -- **China will issue the fourth batch of special government bonds for COVID-19 control amid efforts to balance epidemic control with economic and social development, the Ministry of Finance said Thursday.**
The 10-year fixed-rate bonds, worth 70 billion yuan (about 10 billion U.S. dollars), will be available for tenders on July 15 and become tradable on July 20, according to a statement on the ministry's website.
In June, the ministry announced the issuance of the first three batches of special government bonds for COVID-19 control, including 70 billion yuan of 10-year bonds, 50 billion yuan of five-year bonds and 50 billion yuan of seven-year bonds.
China plans to issue 1 trillion yuan of government bonds for COVID-19 control this year.

Enditem

China H1 local govt special bond net issuance nearly 60% of year's quota

08-Jul-2020
BEIJING, July 8 (Reuters) - **New local government special bond issuance in China in the first half of the year accounts for 59.5% of the year's quota, the finance ministry said on Wednesday.**
The net issuance stood at 2.23 trillion yuan ($317.86 billion) in Jan-June, the ministry said in a statement on its website.
Overall bonds net issuance by local governments in the same period accounted for 58.9% of the whole-year quota.

($1=7.0156 Chinese yuan renminbi)
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India

Government borrowings in comfort zone as T-bill yields drop

04-Jul-2020
Mumbai: **Concerns about government finances are easing with the short-term treasury-bill yields declining to levels below the reverse repo, yielding negative real rates for the first time since the global financial crisis a decade ago.** Treasury bills are sovereign papers with up to one-year maturities. "Investors are now looking to invest in shorter-term papers as they would not want to lock in long duration in lower rates, "said Ritesh Bhusari, deputy general manager at South Indian Bank.
"This, coupled with surplus liquidity in the system, is dragging T-bill rates down." That has made it cheaper for the government to borrow short-term money. To be sure, the banking system has a surplus of Rs 4.36 lakh crore. Since the past four weeks, yields have started dropping due to increased demand for T-bills, surplus liquidity and no new sale of cash-management bills. The seven-day T-bill yields plunged 64 basis points since June 8 to 2.85 per cent, data gathered by Financial Benchmarks India showed. The 14-day series tanked 48 basis points. A basis point is 0.01 percentage point. Yields on the three-month paper, billed as the most liquid of securities, dropped 28 basis points. "With some cash management bills maturing and net treasury bill supply lower in the quarter ahead when compared with the previous quarter, the supply of paper has also reduced, " said Suyash Choudhary, head-fixed income at IDFC Asset Management.
"This may be putting further downward pressure on yields at the very short end." On July 1, the Reserve Bank of India (RBI) auctioned Rs 35, 000 crore worth of treasury bills. Yields on treasury bills had climbed up to 56 basis points since May 22, when the RBI cut the benchmark rate to a record low, with the government raising Rs 80, 000 crore via cash management bills outside the borrowing calendar, ET reported on June 8.
The real rate, or the differential between one-

year treasury bills and projection of consumer price rises, is also turning negative.While the one-year sovereign papers are yielding around 3.45 %, the RBI projected inflation is in the range of 3.6 - 3.8 % up to 2022.The central bank has conducted a switch auction Thursday, buying Rs 10, 000 crore of long-dated papers while selling treasury bills of a similar quantum.

India Bond Yields Lower, State Debt Sale Outcome Awaited

07-Jul-2020
By Dharam Dhutia
NewsRise

MUMBAI (Jul 7) -- **Indian federal government bond yields were lower in the afternoon session as traders awaited the result of a weekly auction of state government debt.**

The benchmark 5.79% bond maturing in 2030 changed hands at 99.81 rupees, yielding 5.81% at 1:00 p.m. in Mumbai against 99.65 rupees, yielding 5.84% yesterday. The Indian rupee was at 74.91 to the dollar against 74.67 yesterday.

Indian states plan to raise at least 115 billion rupees selling bonds maturing in three-to-35 years today. The quantum is the highest in four weeks, but lower than the 198 billion rupees that was scheduled to be sold.

“It seems, there was decent bidding interest for state debt, which is supporting some buying momentum, but major action may be likely after the result,” a trader with a primary dealership said.

Traders continue to expect steps from the Reserve Bank of India to lower long-term rates, after the federal government hiked its annual borrowing target for this year by 54% to 12 trillion rupees.

New Delhi is widely expected to go in for another round of additional borrowing in the second half of this financial year as the coronavirus pandemic and the subsequent lockdowns have dented government revenues.

The RBI conducted a special open market operation last week, where it bought and sold notes worth 100 billion rupees each. This re-kindled hopes that the central bank may continue such operations in the weeks ahead.

Traders expect the RBI to conduct OMO auctions to the tune of three trillion rupees to six trillion rupees, while some brokerages predict that the central bank will opt for deficit monetisation in the second half.

India’s Monetary Policy Committee is expected to ease policy rates by at least 25 basis points to help the economy that is expected to shrink this year. The MPC has already cut rates by 115 basis points in 2020 to a record low of 4.00%. The next rate decision is due on Aug. 6.

Cases of the novel coronavirus in India have risen to 719,665 so far, resulting in 20,160 deaths. India has extended its lockdown until the end of July in containment zones and states are free to impose restrictions as they deem fit.

India’s non-deliverable overnight indexed swap curve could steepen from current levels tracking similar moves in global peers. There are signs that economic activity may be plateauing, and if this persists, market expectations of policy easing may be brought forward which would limit the rise in front-end yields, Nomura said in a note today.

Crude oil prices were trading lower as rising coronavirus cases in the United States raised concerns over recovery in fuel demand. The benchmark Brent crude oil contract was trading 0.5% lower at $42.90 per barrel. It rose 0.7% to a two-week high of $43.71 per barrel yesterday. India imports almost 85% of its crude oil requirements.

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Sovereign Gold Bonds' issue open until Friday, have you invested?

08-Jul-2020

Mumbai: **The fourth tranche of sovereign gold bonds (SGBs) 2020-21 which opened for subscription on Monday will close on Friday (July 10), with the government fixing the issue price of the bonds at Rs 4, 852 per gram during the subscription period.** The Government in consultation with the Reserve Bank of India (RBI) has decided to allow a discount of Rs 50 per gram from the issue price to those investors who apply online and the payment is made through digital mode. For such investors, the issue price of Gold Bond will be Rs 4, 802 per gram of gold.

"A unique opportunity to invest in gold is presented by the Sovereign Gold Bond (SGBs), issued by the RBI on behalf of the GOI, " said Thomas, head of research - Emkay Wealth Management pointing that on the face value of the investment, the investor earns 2.50 per cent interest per annum during the term of the investment, i.e. eight years, and it also obviates the need to hold or invest in physical gold. The investment as well as the redemption will be at the prevailing market rates relevant to the specific time periods. "Gold prices have been moving up in the international markets in the last one year in response to the uncertainties in economic growth faced by all the major economies of the world.

This situation has been further compounded by the pandemic and the resultant lockdown to combat the same, "said Thomas." While in all standard asset allocation models, a 5 % allocation to gold as an asset class is suggested

with the intention of providing stability to the portfolio and as a hedge against inflation, a higher allocation may be contemplated based on portfolio size and other portfolio peculiarities, "he added. A minimum of one gram can be purchased by eligible individuals and Hindu undivided families (HUFs) in a financial year.
The maximum limit of subscription shall be 4 Kg for individuals, 4 Kg for HUFs and 20 Kg for trusts and similar entities per fiscal year. SGBs come with a maturity period of eight years, with an exit option after the fifth year. If an investor is eyeing an exit before the lock-in period of 5 years, they can always get out of the bonds by selling it on stock exchanges.
The exit option can be utilized on interest payment dates. Gold, which has been hovering around record high levels in India, has been one of the best performing asset class in recent times as uncertainty due to the Covid-19 pandemic triggered a flight to safe-haven assets.
The government will issue SGBs in six tranches that began in April 20 and will go on until September.
After the current tranche, in which the bonds will be issued on July 14, the sovereign gold bond scheme will open for subscription for five days each in the month of August and September.

Indonesia

Indonesia govt, central bank agree on nearly $40 bln bond buying scheme

07-Jul-2020
Corrects to make clear size of central bank bond purchase is 397.6 trillion rupiah
JAKARTA, July 6 (Reuters) - **Indonesia unveiled a nearly $40 billion financing scheme for its fiscal deficit on Monday, with the central bank set to buy some 397.6 trillion rupiah ($28 billion) directly without receiving interests, to help fund the economic recovery, Finance Minister Sri Mulyani Indrawati said.**
The bonds Bank Indonesia purchases will be used to finance public interest programmes and the cost will be fully borne by the central bank, Indrawati said.

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Moody's, S&P monitoring Indonesian central bank's credibility in new debt scheme

07-Jul-2020
JAKARTA, July 7 (Reuters) - **The ratings agencies Moody's and S&P said on Tuesday Indonesia's debt monetization would not affect the country's credit ratings in the short term, but they are monitoring how the central bank maintains its credibility in the implementation.**
The Indonesian government on Monday introduced a nearly $40 billion fiscal deficit financing scheme that includes the central bank buying $28 billion worth of bonds without receiving interest, to fund a ballooning deficit due to COVID-19 response spending.
The scheme will reduce costs for government debt, Moody's sovereign analyst, Anushka Shah, said, but the agency is monitoring the long-term implications for the central bank's ability to maintain credibility and ensure price stability.
Moody's full analysis of the ratings implication depend on aspects that Shah said remained unclear. Those include Bank Indonesia's exit strategy, the implications the scheme has for money supply and prices and whether there are other constraints for the use of the financing by the fiscal side.
"More broadly speaking, the strength of the monetary policy framework is a sort of consideration for us," she said.
BI Governor Perry Warjiyo told an investor call on Tuesday the scheme would have a small inflationary impact and would not affect the central bank's monetary policy framework. He said BI has an exit strategy, but its current focus is on supporting the economy.
S&P noted that the debt monetization was announced as a "one-off scheme" and sees the bonds bought by BI "in the same way as those purchased by commercial creditors", its sovereign analyst Andrew Wood said.
"Like many counterparts elsewhere around the world, we've seen Indonesia's central bank and finance ministry employ unusual policy tools to mitigate the very disruptive impact of the COVID-19 pandemic on their economies and financial systems," Wood said in an email.
"How these policies affect the credibility of these institutions will likely depend on a number of factors, including whether bond-buying schemes like this one persist, even as economic and financial conditions normalize," he said.
Fitch Ratings declined to comment on Tuesday, but referred to an April note that laid out debt-monetization risks, including increased political interference in monetary policy and the erosion of the market's ability to price Indonesian debt.
The three agencies rate Indonesia one notch above the lowest investment grade. S&P revised Indonesia's outlook to negative in April. Fitch and Moody's gave the country a stable outlook.

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Fiscal-monetary teamwork

07-Jul-2020
The Jakarta Post,

The agreement between the Finance Ministry and Bank Indonesia (BI) on Monday to share the financial burdens of handling the COVID-19 outbreak and its devastating impacts will significantly strengthen market confidence in Indonesia's macroeconomic management.

The burden sharing will also further strengthen the good teamwork between the fiscal and monetary authorities, which have consistently demonstrated good cooperation and coordination in policy making and implementation since the moment the country began to feel the brunt of the outbreak in early March.

Burden sharing has become an imperative, as the government has significantly increased spending, which is expected to raise the fiscal deficit to an estimated 6.3 percent of gross domestic product this year. This in turn will force the government to borrow much more, thereby resulting in estimated total debt-interest costs of more Rp 66 trillion (US$4.5 billion) this year.

Law No.2/2020, which regulates the government's response to the outbreak, has broadened the mandates of both the Finance Ministry and BI to take whatever policies and measures are necessary to cope with the outbreak and maintain macroeconomic and financial system stability. The government has allocated Rp 903.50 trillion to address the public health and economic crises for this year alone.

Though at the outset, most of the immediate response had been fiscal measures, such as extending tax deadlines, allowing debt moratoriums and deferring interest payments and distributing various forms of social assistance to households, BI has all along provided support through its monetary measures to increase liquidity and maintain the stability of the financial system.

Certainly, this fiscal-monetary teamwork should be seen from a general perspective, as the role of monetary, prudential and fiscal policy differ according to the problems being addressed. Monetary policy has been critical in addressing illiquidity by allowing BI to purchase government bonds on the primary and secondary markets.

BI has deployed its full box of tools in its capacity as lender of the last resort, cutting interest rates, thereby reducing the costs of funds, lent to financial and non-financial institutions through repo operations and made adjustments to compulsory reserve requirements.

But large-scale interventions into the government debt markets, as BI has been doing since April, can be sustained only if it promotes the central bank's macroeconomic stabilization objectives, as stated in its mission statement. There are limits to how far the boundaries between fiscal and monetary policy can be pushed without running the risk of undermining the central bank's credibility.

BI's aggressive quantitative easing policy should not smack of financing the fiscal deficit but fundamentally should be fully in line with its primary mission of safeguarding macroeconomic and financial stability.

Trust and confidence in BI are arguably its most important assets. It is precisely because of this hard-won trust and confidence that BI can execute its broader mandate in the primary market of government bonds to maintain stability during the current public health and economic crises. Preserving that confidence is crucial.

Indonesia finmin says Q2 GDP may shrink by as much as 5.1%

09-Jul-2020

- **Q2 GDP seen -3.5% to -5.1% y/y, baseline still -3.8%**
- **Govt spent 39% of 2020 budget in H1**
- **Central bank gov says focusing policy on GDP growth**

JAKARTA, July 9 (Reuters) - **Indonesia's gross domestic product may have shrunk by as much as 5.1% on-year in April-June because of the fallout from the coronavirus pandemic, but will likely expand in subsequent quarters, its finance minister said on Thursday.**

Sri Mulyani Indrawati said the government kept its baseline forecast for a 3.8% annual contraction in second quarter GDP, but was using a range of -3.5% to -5.1% in its prediction.

Southeast Asia's largest economy is expected to see the economy rebounding in the second half of 2020, with social restrictions eased, Indrawati told parliament's budgetary committee, giving a range of 0.3% to 2.2% for second-half yearly growth rate.

The government spent 1,068.9 trillion rupiah ($74.62 billion) in the first half of 2020, or 39% of this year's budget, but spending was expected to accelerate, Indrawati said.

Bank Indonesia Governor Perry Warjiyo told the same hearing that he and Indrawati had agreed to focus their policies on reviving economic activity in the short term.

"We have agreed, madam minister (of finance) will focus on absorbing the state budget while we focus on providing monetary stimulus," he said.

The governor also reiterated that Bank Indonesia still has room for further rate cuts after three reductions so far this year.

($1 = 14,325.0000 rupiah)
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Fitch Says Indonesia's Policy Credibility Eases Deficit Monetisation Risks

10-Jul-2020
July 9 (Reuters) - Fitch Ratings:

- **Fitch RTGS: Indonesia's policy credibility eases deficit monetisation risks**
- Fitch- central bank financing of Indonesia's budget deficits may help government overcome shock from pandemic, but carries well-established risks
- **Fitch -central bank financing of Indonesia's budget deficits could raise uncertainty about Indonesia's policy approach over medium term**
- Fitch says expect Indonesia's general government deficit to reach 6.5% of GDP in 2020, up from 2.2% in 2019

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Israel

Israel central bank expands bond market intervention, holds interest rates

06-Jul-2020
By Steven Scheer and Ari Rabinovitch
JERUSALEM, July 6 (Reuters) - **Bank of Israel Governor Amir Yaron said risks to the economy were rising due to a resurgence in COVID-19 cases, but the central bank opted to focus on calming financial markets and ensuring the low cost of credit instead of lowering interest rates.**
The central bank on Monday as expected held its benchmark interest rate at 0.1% and forecast an economic contraction of 6% in 2020, compared with its previous view that the economy would shrink 4.5% this year.
"It appears that the health situation is becoming more severe," Yaron told a news conference. "The rise in morbidity data in Israel increases the uncertainty and is expected to delay the return to routine economic activity."
Still, with rates already near zero and the central bank's long-time reluctance to move to negative rates, Yaron said policymakers turned to other monetary tools. It plans to buy 15 billion shekels ($4.4 billion) of high-rated corporate bonds in the secondary market, and it renewed three-year low interest loans to banks to allow credit to flow to companies.
The move sent stock and bond prices higher.
He noted that the bank continues to buy government bonds and intervene in the foreign exchange market.
Thirteen of 15 economists polled by Reuters believed the monetary policy committee would hold the line on rates after holding pat in May following a reduction from 0.25% on April 6. Two analysts expected a 10 basis point cut to 0%.
Central bank economists forecast a recovery next year with growth of 7.5%, above its estimate in late May for 6.8% growth in 2021, although the jobless rate looks to reach 9% this year.
"The economy is not expected to return to full activity until the end of 2021," Yaron said, adding consumer demand is falling.
The bank's staff reiterated an estimate that it expects the key rate to be in a 0-0.1% range in a year's time.
After reopening the economy in May, Israel has seen a surge in coronavirus infections, prompting the government on Monday to re-impose some restrictions.

($1 = 3.4510 shekels)
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Bank of Israel buys $1.445 bln of FX in June, reserves top $147 bln

07-Jul-2020
JERUSALEM, July 7 (Reuters) - **The Bank of Israel said on Tuesday it bought $1.445 billion of foreign currency in June to help push its forex reserves up to a record $147.3 billion.**
In a bid to contain the shekel's gains, the central bank has bought more than $10 billion of foreign currency this year.
The central bank also said it had bought 23.4 billion shekels ($6.8 billion) of government bonds through June 30 as part of a plan to buy up to 50 billion shekels it announced in March in an aim to calm financial markets.
That is up from 19.2 billion shekels at the end of May.
It also conducted repo transactions with bonds as collateral of 1.5 billion shekels, while its balance of dollar-shekel swaps on June 30 was $4.5 billion.

($1 = 3.4520 shekels)
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Jordan

Jordan says it tapped bond market to speed recovery from pandemic hit

08-Jul-2020

AMMAN, July 8 (Reuters) - **Jordan's finance minister said on Wednesday the kingdom's success in tapping $1.75 billion from the international debt market last week has eased pressure on the economy and paves the way for a quicker recovery from the impact of the coronavirus pandemic.**

The kingdom raised the funds from a double tranche Eurobond issue of $500 million at 4.95% over a five-year maturity and $1.25 billion at 5.85% over a 10-year maturity that was oversubscribed by more than 6.25 times after attracting bids worth over $6.25 billion.

Mohammad Al Ississ said the strong investor appetite from over 200 top tier institutional and corporate investors - 35% from the U.S. market, 25% from the UK and the rest from other regional and Asian investors - reflected confidence in the Jordanian "economy's ability to recover."

The external debt borrowing will help relieve pressure on liquidity within the local banking system and free more funds for lending to corporations and individuals, Al Ississ said.

"We will be injecting liquidity and won't compete with the private sector. Our main goal is to raise growth," Al Ississ told reporters.

There were signs the economy could strongly bounce back next year from a sharp contraction in growth estimated at around 3.4% so far this year, Al Ississ said, adding that the recent reopening of business activity could improve the outlook.

The relatively low interest rates secured by Jordan compared to other regional sovereign issuers saved the treasury tens of millions of dollars, helping the kingdom to better manage its debt servicing, Al Ississ said.

"It will help financial and monetary stability," he said.

The bulk of proceeds of the Eurobond would go to repay a $1.25 billion bond maturing next October, but also allow the government to meet accumulated debts to contractors.

The government aimed to repay nearly 1 billion dinars ($1.4 billion) in local debt due by end of the year, and another 300 million dinars owed to contractors, hospitals, and energy firms, the finance minister said.

"Our goal is to enhance the ability of the Jordanian economy and its private sector to overcome the negative hits that COVID-19 posed," Al Ississ said.

$=0.7090 dinars
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Lebanon

Lebanon's bonds ratings slashes by S&P as the country struggles to meet debt obligations

06-Jul-2020

Lebanon's public debt is projected to climb to 161.8% of GDP in 2020 from an estimated 155% last year

An anti-government protester shouts slogans. Major retailers in Lebanon last week said they will temporarily close in the wake of an increasingly volatile currency market and their inability to set prices while the local currency tumbles against the US dollar. AP

S&P Global Ratings lowered the ratings on several Lebanon government bonds, as the country's economy teeters on collapse and the government struggles to meet debt obligations.

The ratings agency slashed the issue rating to 'D' from 'CC' on bonds which had their coupon payments due in May and June, S&P said on Sunday. The 10 bonds ranged $250 million (Dh917.5m) to $1 billion in size, with different maturities from 2022 to 2035.

On June 19 the Lebanese government missed the principal payment on a $600m Eurobond, following its first default on March 9 on a $1.2bn issue. The government has also missed interest payments on several other bonds in May and June. In March Lebanon's government said it would stop paying all its commercial foreign currency debt obligations of about $31bn.

"The Lebanese government, under Prime Minister Hasan Diab and with the support of external advisors, has thus far made only limited progress in engaging creditors on debt restructuring negotiations," S&P analysts Zahabia Gupta and Trevor Cullinan wrote in the report.

READ MORE

Lebanon-IMF talks hit 'rock bottom' as France fears violence

Lebanon's private sector economy continued to contract in June

Empty fridges show impact of Lebanon's economic crisis

Lebanon's central bank governor: saviour or scapegoat?

"In the absence of a comprehensive restructuring plan backed by all key political institutions and parties, and external support, we continue to expect the negotiation process will be drawn out beyond 2020."

The ratings agency affirmed Lebanon's long- and short-term foreign currency sovereign credit ratings at selective default. It also affirmed Lebanon's long- and short-term local currency ratings at 'CC/C' with negative outlook.

The negative outlook reflects the government's likely decision to restructure its local currency debt as part of a broader restructuring program, S&P said.
Lebanon's woes are compounded by the Covid-19 pandemic, which has dealt a further blow to an already weak economy and severe external, fiscal, and financial constraints.
The country's private sector economy continued to contract in June, albeit at a softer pace, as weak demand and a sharp fall in output worsened business conditions. The Blom Lebanon PMI index, improved to 43.2 in June but remained well below 50 a reading above which indicates economic expansion.
The country, which has suffered months of protests and political upheaval, faces its worst financial crisis in three decades. **Lebanon's public debt is projected to climb to 161.8 per cent of gross domestic product in 2020 from an estimated 155 per cent last year, according to International Monetary Fund. That is the third-highest debt-to-GDP ratio in the world after Japan and Greece.**
Lebanon faces a foreign currency shortage and the pound's peg to the US dollar has weakened. The pound has lost as much as 80 per cent of its value against the greenback in the black market.
S&P said a restructuring programme, when agreed, is likely to be accompanied by an official currency devaluation.
"We understand the government has yet to announce any restructuring of its local currency debt obligations, which represent about 110 per cent of GDP (63 per cent of total debt),"according to S&P analysts. **"Our 'CC' and 'C' ratings on Lebanon's local currency debt reflect our expectation that domestic debt restructuring is highly likely if the country is to set its public debt on a sustainable footing."**
In May, Lebanon asked the IMF for a $10bn loan, but it has yet to make progress on the emergency funding arrangement and is cyrrently in discussions with the fund. The IMF forecasts Lebanon's economy to contract 12 per cent this year.

Under "financial siege", Lebanon must stave off strife, says Bassil

07-Jul-2020

- **Lebanon faces serious economic crisis**
- **Talks with the IMF have been put on hold**
- **Donors want Beirut to fix state waste and corruption**

By Tom Perry and Laila Bassam
BEIRUT, July 7 (Reuters) - **Lebanon is facing a "financial siege" imposed by international powers and its priority is staving off strife caused by the country's economic meltdown, leading politician Gebran Bassil said on Tuesday.**
Bassil, an ally of the Iran-backed Shi'ite group Hezbollah, said he supported talks with the International Monetary Fund (IMF), hoping they would pressure the state into reforms, but that Lebanon was running out of time and any foreign aid could not come at the price of sovereignty.
Talks with the IMF were put on hold last week after becoming bogged down by a dispute on the Lebanese side over the scale of losses in the financial system and pending the start of reforms to address the root causes of the crisis, seen as the biggest threat to Lebanon's stability since the 1975-90 civil war.
The government of Prime Minister Hassan Diab, which is backed by Bassil and Hezbollah, has yet to embark on serious reforms sought by donors including the United States and France, which say Beirut must fix state waste and corruption before any aid is released.
"What we are subjected to is an economic, financial and political siege ... This doesn't pardon the state and the Lebanese from their mistakes ... at the forefront of them -- corruption," Bassil said in an interview.
"When there is a desire to help Lebanon, tomorrow the gates will be opened. And when there are great powers blocking the gates, Lebanon does not have capacity to open them."
"The absolute priority ... is how to keep Lebanon away from anarchy and strife."
Lebanese must also be protected from extreme poverty, said Bassil, a son-in-law of President Michel Aoun.
Hezbollah is classified as a terrorist group by the United States. The group's influence in state affairs has grown since it won a parliamentary majority with its allies in 2018.
Opponents say the alliance forged by Aoun and Bassil with the heavily armed Hezbollah has provided political cover for its arsenal.
Though critics say he exercises wide influence over the government, Bassil said no ministers were members of the Free Patriotic Movement he leads, and the cabinet must accelerate reforms.
"We don't accept this model of low productivity," he said of the government, which he said could not continue if it failed to do more.
Asked if he saw a risk to peace, Bassil said: "Of course this fear exists."
The response, he said, was "in national unity" and dialogue.
He warned of the risk of "an international game" unfolding to weaken Lebanon or "a party in Lebanon such as Hezbollah".
"Syria must be a lesson for all. It would be a shame to take Lebanon on the path to destruction once again," he said.

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Lebanon holds meeting with IMF, more talks next week -statement

10-Jul-2020

BEIRUT, July 10 (Reuters) - **A Lebanese government a delegation held a meeting with the International Monetary Fund (IMF) on Friday, the finance ministry said, the first since the talks were declared on hold last week.**

Lebanon began talks with the IMF in May, hoping to secure aid to tackle a financial crisis considered the biggest threat to the country since its 1975-90 civil war.

The meeting, which was attended by Energy Minister Raymond Ghajar, dealt with reforms in the state-owned electricity sector, which has bled state funds for decades and is seen as one of the major causes of the crisis.

The discussions will continue next week, the finance ministry said in a statement.

The talks have been bogged down by a row over the scale of financial losses that has embroiled the government, the central bank, commercial banks and lawmakers from Lebanon's main political parties.

Finance Minister Ghazi Wazni said last week the talks were on hold pending the start of economic reforms and agreement on the losses.

(Writing by Tom Perry; Editing by Edmund Blair)
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Philippines

Philippines: DOF maintains need for fiscal sustainability of stimulus plans even as state borrowings go up to beat COVID-19

10-Jul-2020

Finance Secretary Carlos Dominguez III has maintained the Duterte administration's position to anchor on fiscal prudence and sustainability any plans to stimulate the domestic economy amid the deepening coronavirus-induced global downturn, as state borrowings to beat the pandemic went up in the first four months of the year to P1.22 trillion.

Net of repayments to the government's creditors and bondholders for existing loans, the Government's financing increased by an additional P873 billion from end of 2019 to April 2020.

The latest report from the Bureau of the Treasury (BTr) revealed that around P982 billion, or 81 percent of the new borrowings, was sourced domestically through treasury bills and bonds and through a P300-billion short-term loan from the Bangko Sentral ng Pilipinas (BSP). The balance, amounting to around P237 billion or 19 percent of the total, was sourced externally through a mix of concessional foreign loans and bond issuances.

Dominguez explained that higher borrowings this year are crucial to letting the Duterte administration carry out a wide range of initiatives for the country to cope with the unexpected shocks unleashed by the coronavirus disease 2019 (COVID-19) pandemic and, before that, the eruption of the Taal Volcano.

"The government has had to increase spending to implement its Four-Pillar Socioeconomic Strategy against COVID-19 even as strict mobility restrictions that National and local Governments imposed since March to suppress the coronavirus' spread had curtailed economic activity and led to a sizeable drop in the state's revenue intake," Dominguez said.

Before the surge of COVID-19 community transmissions in the country, he said, the Duterte administration also had to deal at the onset of 2020 with the eruption of the Taal Volcano, which caused temporary suspensions in production, particularly in the Cavite-Laguna-Batangas-Rizal-Quezon (CALABARZON) growth corridor.

"While the government is borrowing more than usual this year in order to fund healthcare, social protection and other essential programs while our revenues are down, we have to be careful about spending too much above our means," Dominguez said.

"None of us knows how long this pandemic will last. As we have borrowed a lot" P1.22 trillion in just four months, to be exact fiscal space should be saved to afford us elbow room in case future circumstances require a new round of big healthcare spending, subsidies and/or stimulus programs," he said.

"Loans are not free money," he added. "They are advances that we, or even our children and their children, will have to pay for in some way in the future. The Duterte administration's policy is to be careful not to borrow beyond sustainable levels, lest we fall into a vicious cycle of accumulating unmanageable debt, which might drastically increase our financing costs, and plunge us deeper into debt."

"Hence, it is an imperative that we limit state spending to a manageable and sustainable level equivalent to a 9-percent budget deficit."

The economic team earlier reported that a target budget deficit of 9 percent, which takes into account the administration's proposed stimulus measures, would place it at the median of the Philippines' peer group.

This should hold true whether the country is compared to countries in East Asia and the Pacific, to its Association of Southeast Asian Nations (ASEAN) neighbors, or to countries with credit ratings in the "BBB" to "A-" range.

In a vote of confidence in President Duterte's prudent fiscal management and his government's capability to steer the economy

back to its high-growth trajectory, the Japan Credit Rating Agency (JCR) upgraded the country's credit rating from "BBB+" to "A-" with a "stable" outlook last week.
The credit rating upgrade comes at a time when economies across the world are reeling from what could likely become the worst global downturn in nearly a century.
Dominguez said last week that JCR's "A-" rating upgrade was a solid recognition of the Philippines' capability to stage a quick and strong recovery from the COVID-triggered global economic slump on the back of its Four-Pillar Strategy to beat the pandemic.
The Government's Four-Pillar Socioeconomic strategy against COVID-19 is made up of the following: (I) emergency support for vulnerable groups and individuals; (II) marshalling of resources to fight COVID-19; (III) fiscal and monetary actions to finance emergency initiatives and keep the economy afloat and (IV) an economic recovery program focused on getting businesses back on their feet to sustain and create jobs. The strategy has a combined value of Php1.74 trillion or 9.1 percent of GDP.

(DOF)

South Korea

South Korea hires for offshore bond

10-Jul-2020
HONG KONG, July 10 (IFR) - **The Republic of Korea has mandated baks for an international bond, according to a market source.**
It has hired Bank of America, BNP Paribas, Citigroup, JP Morgan, Mirae Asset Daewoo and Standard Chartered for the proposed offering.
The issue size is capped at US$1.5bn, as announced last month in the country's economic plan for the second half of this year. **The finance ministry said it was reviewing the possible issuance of foreign currency bonds this year to securely manage the country's foreign exchange reserves.**
The timing and currency of the proposed sovereign offering are yet to be decided.
South Korea last visited the international bond market in June 2019 with a US$1.5bn dual-trancher that included a five-year green and sustainability portion. The sovereign issued renminbi-denominated bonds in 2015 and a euro tranche in 2014.

(This story will appear in the July 11 issue of IFR Magazine)
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B South Korea 2

United Arab Emirates

S&P warns Dubai economy to shrink 11%, cuts property giants to junk

10-Jul-2020
LONDON, July 10 (Reuters) - **S&P Global warned that Dubai's economy was set to shrink 11% this year, as it cut the credit ratings of two of the emirate's biggest property firms to 'junk' status.**
Dubai, the Middle East's trade and tourism hub, has been hit hard by coronavirus-containment measures and is set for an economic contraction almost four times worse than during the global financial crisis in 2009, S&P said.
"We now expect Dubai's real GDP will shrink by about 11% in 2020, compounding the economic slowdown that began in 2015," S&P analysts wrote in a note dated July 9, adding that the emirate's fiscal deficit was expected to balloon to about 4% of GDP this year.
A growth rebound of about 5% is expected next year, but real GDP growth will then slow to 2% through to 2023, which would be half of what it has averaged for the last 10 years.
S&P downgraded Emaar Properties, the United Arab Emirate's largest property firm and the builder of the world's tallest building, Dubai's Burj Khalifa, to a BB+ 'junk' rating from an investment grade BBB- score.
It said it expected a 30%-40% slump in Emaar's earnings in 2020, a 15%-20% dive in overall revenues, while the anticipated recovery next year would be only partial.
DIFC Investments, a unit of the company running Dubai's International Financial Center free zone, was cut to BB+ from BBB- as well.
"We expect Dubai's balance sheet to deteriorate, reducing its ability to provide extraordinary financial support to its related entities," S&P's analysts said.

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Vietnam

Fitch Ratings: Vietnam Outperforms Among Asia's Frontier Sovereigns

06-Jul-2020
Fitch Ratings-Hong Kong, Singapore-05 July 2020: **Vietnam is positioned to stand out among Asia's frontier and emerging markets this year in terms of its economic resilience and success in bringing the coronavirus outbreak under control, says Fitch Ratings.** These factors should support Vietnam's 'BB' rating, which we affirmed in April 2020 while

revising the Outlook to Stable from Positive. Nevertheless, the country faces a number of challenges, including contingent liability risks from state-owned enterprises and structural weaknesses in the banking sector. **Vietnam is one of only four Fitch-rated sovereigns in the Asia Pacific (APAC) that we expect to post positive economic growth in 2020.** Official data show the economy expanded by 0.4% yoy in 2Q20, despite the impact of the coronavirus pandemic on tourism and export demand, in line with our full-year 2.8% growth projection. Fitch forecasts that the pace of expansion will accelerate in 2021, as external demand, including tourism exports, recovers. The relative strength of Vietnam's growth momentum owes much to its success in curbing the pandemic. Vietnam had no reported deaths from COVID-19 as of end-June, according to the World Health Organisation. This could reflect a variety of factors, including the effectiveness of the official health policy response. Vietnam has introduced fiscal stimulus of around VND271 trillion (3.4% of GDP) to help offset the effects of the pandemic. This includes tax deferrals, cuts and exemptions, as well as cash transfers to affected workers and households, the latter being worth 0.4% of GDP. **We expect the general government debt-to-GDP ratio to rise to around 42% in 2020, from 37% in 2019, based on Fitch estimates, but this still below the 59% median for 'BB' rated sovereigns.** The State Bank of Vietnam has also loosened monetary policy to support the economy, but the lower interest-rate environment and state pressure on banks to ease lending terms will weigh on bank profitability. Meanwhile, slower economic growth and loan forbearance will add to asset quality problems. These factors will aggravate the structural weaknesses in the banking sector, such as low capital buffers and under reporting of problem loans, which have already dragged on the sovereign rating. Slower credit growth may, however, provide some relief on capital.

EUROPE

Belarus

Moody's Says Pandemic to Cause Sharp Economic Contraction in 2020 for Belarus

07-Jul-2020
July 7 (Reuters) -

- **Moody's says Belarus' credit profile balances high incomes and moderate debt against external vulnerabilities**
- Moody's says coronavirus will cause a sharp economic contraction in 2020 before mild recovery next year for Belarus
- Moody's says Belarus government debt burden will rise this year given shift to a large budget deficit but still remain moderate relative to peers

Bulgaria/Croatia

Bulgaria, Croatia take vital step to joining euro

10-Jul-2020
Updates with EU Commission, detail on voting rights, background
By Balazs Koranyi
FRANKFURT, July 10 (Reuters) - **Bulgaria and Croatia have been accepted into ERM-2 mechanism, a mandatory stage for joining the euro and beginning the currency bloc's first expansion in half a decade, the European Central Bank said on Friday.**
Following the approval from Euro zone finance ministers and ECB officials, the two eastern European nations will also join the bloc's banking union, putting their biggest lenders under the ECB's supervision from Oct. 1, the bank said in a statement.
The two nations must spend at least two years in ERM-2 before starting the practical preparations to join the euro, a process that takes roughly another year, making 2023 the earliest year for their membership.
The decision "represents an important milestone in Bulgaria and Croatia's efforts to join the euro area," the European Commission said.
Joining the euro would be a particular breakthrough for Bulgaria, which joined the EU in 2007 and has struggled against concerns about organised crime and its relative poverty, it has the lowest per capita economic output of the bloc.
For Croatia, which joined the EU in 2013, it represents a means to cement its economic gains and stability since the break-up of Yugoslavia in the 1990s.
Already many in Croatia save in euros and the country is also seeking to join the bloc's passport-free Schengen travel zone.
During the minimum two years of ERM-2, the two nations need to pursue sound economic policies, meet membership criteria and have a stable exchange rate.
Both countries will sit on the ECB's Supervisory Board from October with full voting rights.
As part of ERM-2, the ECB set the central rate of the Bulgarian lev at 1.95583 against the euro and the Croatian kuna's central rate was set at 7.53450.

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Cyprus

Cyprus raises 1 bln euros by reopening existing bonds

07-Jul-2020

NICOSIA, July 7 (Xinhua) -- **Crisis-hit Cyprus has drawn one billion euros (1.3 billion U.S. dollars) from the international markets by reopening its existing bonds to boost cash reserves and repay costlier debt, Finance Minister Constantinos Petrides said on Tuesday.**

Petrides said in a statement that 500 million euros were drawn from a bond maturing in 2024 at an interest rate of 0.34 percent.

Bids for this bond totaled over two billion euros, he added.

Another 500 million euros were raised from a bond maturing in 2040 at an interest rate of 1.47 percent, with bids exceeding three billion euros.

Petrides noted that the increase in public debt will be temporary as existing debt will be repaid.

According to official figures, Cyprus' general government debt jumped from 95.5 percent at the end of 2019 to 113 percent of gross domestic product (GDP), totaling 24.56 billion euros in April. The Finance Ministry has borrowed money to finance the government's support program to businesses and households aimed at mitigating the impact of the coronavirus pandemic.

Enditem

Czech Republic

Czech parliament approves raising record 2020 budget gap for a third time

08-Jul-2020

PRAGUE, July 8 (Reuters) - **The Czech lower house of parliament approved a government plan to run a record 500 billion crown ($21.11 billion) central state budget deficit in 2020, more than 12 times the original target set before the coronavirus pandemic hit.**

The gap would be equal to around 9% of the country's expected 2020 gross domestic product. That is before a potential additional impact of local budgets, the health system and other parts of the public sector is factored into overall public finances.

The deficit increase from a previous plan of 300 billion crowns is the third time the government has raised the gap since the novel coronavirus hit Europe hard in March, leading to the shutdown of much of daily life and business.

While most restrictions have gone, the central bank has forecast an 8% fall in GDP this year, before a 4% rebound in 2021.

"I think this is a budget that maintains employment, that supports investment which is beneficial for all citizens of our country," Prime Minister Andrej Babis told lawmakers.

The state budget council has called the massive jump in the deficit plan premature.

However, the Czech Republic has room to lift debt after driving it down in the past few years to 30.8% of GDP in 2019, versus an EU average of 79.3%. The ministry easily covered the bulk of its planned borrowing in bond auctions in the first half of the year with investor demand staying strong.

The budget crunch comes as the economic contraction cuts tax income and the state spends more to help businesses and workers.

Babis's government has pledged around 1.2 trillion crowns in total for support, most of that coming in state-backed commercial loans and guarantees.

Businesses, though, have complained aid has been slow and sometimes hard to get.

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Hungary

Hungary's budget deficit swells to $ 2.5 bln in June on anti-pandemic effort

08-Jul-2020

BUDAPEST, July 8 (Reuters) - **Hungary's state budget posted a 785.5 billion forint ($2.5 billion) deficit in June after a $1.1 billion deficit in May, a more then a threefold increase over last year's same period, the Finance Ministry said in a statement on Wednesday.**

In June 2019 the budget gap was 213.6 billion forints.

The ministry said the accumulated deficit in the first half was 1.84 trillion forints, adding that the extra expenses due to the coronavirus defence effort boosted the account from a 390 billion forint deficit in the first half of 2019.

Hungary spent 520 billion forints on medical equipment alone. Expenses related to EU-funded projects were over 1 trillion forints, while disbursements from the EU totalled 490 billion.

($1 = 314.5200 forints)
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Hungary could veto EU rescue plan if conditioned on rule of law, Orban says

10-Jul-2020

BUDAPEST, July 10 (Reuters) - **Hungarian Prime Minister Viktor Orban said on Friday the EU's coronavirus recovery plan would be unacceptable if funding were linked to rule-of-law conditions, and Budapest could veto any deal as a last resort.**

Orban, a right-wing nationalist who has accumulated unprecedented powers since winning election a decade ago, has clashed with the European Union executive for years over his perceived backsliding from democratic governance.

The EU's 27 national leaders are to meet next week for the first time in person since the COVID-19 crisis halted policy meetings in Brussels to hash out details of the next multiannual EU budget and post-pandemic recovery.

"We could veto (a final accord), because it needs to be a unanimous decision, but we would find ourselves facing off with 26 other countries. One should only do that as a last resort," Orban told Hungarian public radio.

The EU is set to spend 750 billion euros on aiding economic recovery in member states hardest hit by the pandemic - money that Orban said should be distributed "fairly and flexibly".

"One thing should be carefully avoided: mixing it up with politics. That's (Hungary's) gravest condition," he said.

When a liberal Hungarian EU lawmaker asked German Chancellor Angela Merkel, now holding the EU's rotating presidency, on Wednesday whether the EU was prepared to condition recovery funding on adherence to democratic standards in Hungary, Merkel told the European Parliament she would engage with Orban.

"Defending the rule of law is important...We are going to say things clearly when it comes to Viktor Orban," Merkel said Wednesday. "We will keep a watchful eye on what happens there."

Orban lashed back on Friday, dismissing the criticism as "liberals mouthing off... always trying to attach their ideology to economic matters of the EU. That's a dead end."

The opposition Socialist Party said Orban's stance was "hypocritical", accusing him of spending the last decade undoing democratic norms in Hungary.

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Moldova

Moldova eyes $550 mln in IMF funding under new three-year programme

08-Jul-2020

CHISINAU (Moldova), July 8 (SeeNews) - **Moldova's government said it aims to obtain $550 million (488 million euro) under a new three-year programme currently being negotiated with the International Monetary Fund (IMF).**

The funds would be used for fiscal support and to top up Moldova's foreign exchange reserves, the government said in a press release on Tuesday.

"Financial support from the IMF is essential for the Republic of Moldova, whose economy has clearly been affected by the COVID-19 pandemic. We are ready to discuss and fulfil the important points provided in the financing agreement and to continue the collaboration, all the more since the last program with the IMF was successfully fulfilled," prime minister Ion Chicu said.

The IMF executive board will discuss a memorandum on the new programme in September, according to the press release.

An IMF mission led by Ruben Atoyan would remotely hold discussions on a new three-year programme with Moldovan authorities from the IMF headquarters in Washington, D.C. during July 7-22, the global lender said last week.

In April, the IMF approved a total disbursement of $235 million to meet Moldova's urgent balance of payment needs stemming from the COVID-19 pandemic. Moldova's macroeconomic outlook has deteriorated sharply, giving rise to an urgent balance of payments gap estimated at about $830 million, the IMF said at the time.

On March 11, the IMF said it is disbursing $20 million to Moldova under the current 40-month funding arrangements approved in November 2016. The new disbursement came as a result of the progress Moldova had made in keeping its reform commitments and brings total disbursements under the arrangements to support the country's economic and financial reform programme to about $178.7 million.

The IMF said in April that Moldova's economy will shrink by 3% in 2020 before growing by 4.1% in 2021.

($ = 0.8871 euro)

Poland

Poland's budget deficit falls to around 17 bln zlotys at end-June

07-Jul-2020

WARSAW, July 7 (Reuters) - **Poland's budget deficit at the end of June was around 17 billion zlotys ($4.29 billion), the finance ministry said on Tuesday.**
That was down from a budget deficit at the end of May of 25.9 billion zlotys.
Before the outbreak of the coronavirus pandemic, the largest economy in the eastern part of the European Union had been aiming for its first balanced budget since the fall of communism three decades ago.

($1 = 3.9634 zlotys)
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Polish economy could return to pre-virus levels in 2021

07-Jul-2020
WARSAW, July 7 (Reuters) - **Poland could return to pre-coronavirus levels of economic activity in the first or second quarter of 2021, the head of state fund PFR said on Tuesday, adding that the economy could grow by 5% in the third quarter versus the second.**
The largest economy in the European Union's eastern region has been hit hard by the pandemic, with the finance ministry expecting GDP to fall around 4% in 2020, but economists expect it to make a quick recovery compared to many others.
"The recession ended in the second quarter ... We have an economic rebound, the end of the recession and a growth of GDP of about 5% (in the third quarter) compared to the second quarter," Pawel Borys told a conference.
Borys said that it would take at least three to four quarters to return to pre-crisis levels of economic activity, with this being possible in the first or second quarter of 2021.
He also said that PFR, which invests in Polish businesses, estimated that the drop in numbers of people in employment during the last three months was about 150,000-180,000.
A report published on Tuesday by PFR and the Polish Economic Institute said that the number of companies planning to maintain staffing at current levels rose to 79% at the beginning of July from 62% at the beginning of April.

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Romania

Romania heads to dollars after recent euro deal

07-Jul-2020
By Sudip Roy
LONDON, July 7 (IFR) - **Romania has returned for a second international bond in a little over a month, though this time in US dollars.**
After raising €3.3bn in May, the sovereign is marketing Feb 2031 and Feb 2051 US dollar benchmarks at 265bp area over swaps and 4.25% area respectively.
Given the two-tranche nature of the deal, one investor expects Romania (Baa3/BBB-/BBB-, all negative) to raise between US$2.5bn and US$3bn.
Pricing has begun about 30bp back of fair value, according to a lead. He put fair value at 235bp for the long 10-year and at 3.97% for the long 30-year tranche.
Others think the starting concessions are bigger. "The long 10-year seems about 45bp cheap to fair value, while the long 30-year is about 40bp cheap," said an investor.
A banker away thought both notes began 35bp-40bp wide of fair value.
Although Romania is a well-known issuer in the US dollar market, it doesn't have a close reference point at the 10-year part of its curve. It has Jan 2024s, which are bid at 186bp according to Tradeweb, with nothing outstanding again until Jan 2044. At the long end, it has Jun 2048s bid at 3.90%.
As for comparison with its euro curve, the banker away said the dollar market provides considerable pricing advantage.
The 2031 at IPTs, for example, swaps back to an equivalent euro spread of 220bp - already well inside the sovereign's €1.4bn Jul 2031s that are bid at 265bp on Tradeweb.
"And no doubt that given the lack of supply and limited CEE sovereigns in dollars this should go well," he said.
Quite how much pricing is revised remains to be seen, but a second investor said recent EM deals have moved considerably during execution. "Up until recently new issues have been tightening in the region of 50bp," he said.
Citigroup, Erste Group, HSBC, ING, JP Morgan and RBI are the bookrunners on the 144A/Reg S transaction.

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Russia

Investors in Russian bonds relaxed about extended Putin rule

07-Jul-2020
- **Constitutional changes allow Putin to rule through 2036**
- **Investors don't see issue as significant**
- **Foreigners hold over 30% of rouble**

OFZ bonds

- **Russia to raise $71 bln in OFZs to help recovery this year**

By Andrey Ostroukh and Karin Strohecker

MOSCOW/LONDON, July 7 (Reuters) - **The prospect of President Vladimir Putin staying in the Kremlin until 2036 does not seem to be deterring buyers of Russia's high-yielding sovereign bonds as investors focus on economic fundamentals and political stability rather the risk of policy stagnation.**

Investors in Russia are no strangers to shocks, having seen the country's markets roiled in recent years by sanctions and oil price collapses.

Yet very little of this has taken the shine off rouble-denominated government debt - so-called OFZs - thanks to the Russia's low indebtedness, prudent monetary and fiscal rules and the world's fourth largest FX reserves.

Now, constitutional changes that could extend the rule of Putin, who has been in power since 2000, as well as Moscow's plans to funds its post-pandemic recovery program have shone a fresh spotlight on the $135 billion OFZ market.

Few investors have expressed concern about Putin - who will turn 84 in 2036 - staying in power for so long, though this is not unusual for emerging markets where many prefer the stability of long-standing rulers to the ebb and flow of frequent policy change, as long as fiscal policy is sound.

"It's mixed news - on one hand you are always concerned when a leader is extending his time in office by hook or crook," said Kevin Daly, senior investment manager at Aberdeen Standard Investments in London, whose firm holds OFZs.

"On the other hand you have to give credit where credit is due in terms of the fiscal management under his (Putin) leadership, which has been prudent."

Foreign investors currently hold $43 billion worth of OFZs or around a third of sovereign rouble bonds.

Many enjoy the carry trade when they borrow dollars cheaply, convert them into roubles and invest in OFZs with yields of around 6% on a 10-year horizon.

Russian interest rates are well above those measured by JPMorgan's widely-tracked Government Bond Index Emerging Markets Global Diversified which hit an all-time low of 2.65%, according to analysts.

And in a world where interest rates have plunged ever lower as policymakers around the globe try to kickstart economies flattened by the coronavirus pandemic, this is an attractive play for many.

"Russian bonds are the only bonds I would buy now because they have high interest rates," veteran investor Jim Rogers, who has invested in OFZs, told Reuters.

Russia needs its investors on side: Moscow wants to double its OFZ sales to $71 billion to steer through the recession. And bond buyers seem happy enough to comply.

A lengthy extension of Putin's rule did not seem to be a significant issue or the markets would have already repriced the risk, said Natasha Smirnova, sovereign portfolio manager for emerging markets fixed income at PineBridge Investments in London.

"There are no immediate alternatives to Putin and he is still popular even though support has been declining with an understandable desire for new fresh faces."

Russian OFZs have become a mainstay for many international emerging market investors since it became possible for foreigners to settle the asset through Euroclear in 2012.

Western sanctions against Moscow or Russian individuals over annexation of Crimea in 2014 only temporarily dented the share of rouble government bonds held by foreigners.

With the central bank recently switching to a more accommodative monetary policy stance - raising the prospect of more rate cuts - foreigners have bought into OFZ bonds before their prices go up, said a bond trader at a major western bank in Moscow.

The latest cut in Russia's key rate to an all-time low of 4.5% is not expected to see investors pull out of OFZs, central bank governor Elvira Nabiullina said last month, adding she was confident that all $71 billion set by the finance ministry for this year will be raised.

Over the past 10 years almost all domestic political developments were a "non-event" for investors who pay more attention to sanctions, said Igor Burlakov, chief business officer at Sova Capital in London.

And while sanctions are the single biggest risk to Russian assets, investors have learned to look beyond them.

"It is a permanent risk overhang, with occasional flare-ups, but the magnitude becomes smaller with each wave or yet another sanctions headline," said PineBridge's Smirnova.

($1 = 70.8977 roubles)
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Slovakia

Slovak government plans fourfold rise in deficit to battle coronavirus

08-Jul-2020

PRAGUE, July 8 (Reuters) - **Slovakia's government approved on Wednesday a more than fourfold increase in the 2020 budget deficit target, to 11.95 billion euros, to factor in the costs of tackling the economic impact of the COVID-19 pandemic.**

The target is up from an originally expected gap of 2.77 billion euros, according to documents on the government website. The previous largest gap in records going back to 2006 was a deficit

of 4.5 billion euros in 2010, just after the global financial crisis.
Slovakia, a member of the euro zone, forecasts an economic contraction of 9.8%, larger than previous falls and undoing years of growth.
However, the small central European nation of 5.5 million people has avoided the avalanche of COVID-19 cases reported by many other European countries since the pandemic hit in March. It had reported 1,798 cases and 28 deaths as of Tuesday.
The approved budget plan sees an extra 7.8 billion euros in spending this year, with 4.9 billion euros directly tied to the pandemic, such as business relief. It also sees a new 1.4 billion euro hole in tax income.

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Ukraine

Ukraine economy Q2 likely fell 10% in Q2, full recovery not seen this year

06-Jul-2020
By Natalia Zinets
KYIV, July 6 (Reuters) - **Ukraine's economy will be shown to have fallen 10% in the second quarter year-on-year due to restrictions to tame the coronavirus outbreak, and it will not be able to recover fully in the next six months, according to a Reuters monthly poll of analysts.**
It would mark the deepest decline since the economic aftermath of Russia's annexation of Crimea and the outbreak of military conflict in the industrial east, which led to a 14.5% year-on-year fall in the second quarter of 2015.
"Economic activity figures are likely to reveal the full extent of the crisis; we expect the decline to deepen to 10% year-on-year in the second quarter," analysts for the ICU investment company said in written comments.
Ukraine has secured a $5 billion loan deal with the International Monetary Fund to fight the economic slump, but the market was rattled last week by the shock resignation of the central bank governor.
A robust performance in the farming sector, which has started the grain harvest, may offset some of the damage to the economy from the coronavirus pandemic, but consumer demand and investor activity will remain weak in 2020, analysts said.
They forecast Ukraine's gross domestic product to shrink 5.5% year-on-year in the third quarter and 3.0% in the fourth quarter.
The State Statistics Service will publish its second-quarter GDP data in mid-August. In the first quarter, the economy declined by 1.3% compared to 2.9% growth in the first quarter last year.
The twelve analysts polled by Reuters see the economy shrinking 6.5% for the full year compared to growth of 3.2% in 2019. The government expects a -4.8% drop in 2020.
"We project GDP to start recovering from 3Q20, but at a slow pace due to lower incomes and precautionary behaviour of consumers and investors," the ICU said.
The government began imposing restrictions on businesses and people's movement in March. It began easing those restrictions in May, allowing the operations of public transport, shops, hotels and open-air terraces of restaurants to resume.
But a sharp daily rise of new cases since then has prevented the government from relaxing more restrictions. Ukraine has reported 49,043 coronavirus cases, including 1,262 deaths.

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LATIN AMERICA AND CARIBBEAN

Argentina

Argentina economy to shrink 12% in 2020 as pandemic batters output

04-Jul-2020
By Maximilian Heath
BUENOS AIRES, July 3 (Reuters) - **Argentina's economy is expected to contract by 12% in 2020, a monthly central bank poll of analysts showed on Friday, worse than the previous estimate of a 9.4% decline, as output is ravaged by measures to tame the coronavirus outbreak.**
The central bank poll of 41 analysts projected that inflation will be 40.7% this year. Prices are expected to have risen 2% in June, according to the poll.
The poll did find a silver lining, noting that "the expectation of growth for the remaining quarters of 2020 suggest that the effect of the coronavirus pandemic is perceived as transitory."
The grim economic picture comes as Argentina tries to restructure about $65 billion in debt after defaulting on its sovereign bonds earlier this year. The South American nation is readying a final debt restructuring offer to creditors that could be formally sent to U.S. regulators within days, a government source told Reuters on Friday.
Analysts forecast the average nominal exchange rate will reach 88 pesos per dollar in December 2020 and 122.5 pesos per dollar in December 2021.

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Argentina's sweetened debt offer wins early support; bonds climb

06-Jul-2020
By Marc Jones, Tom Arnold and Walter Bianchi
LONDON/BUENOS AIRES, July 6 (Reuters) - **Argentina's new debt restructuring offer won a tentative thumbs up from creditors as they digested the details on Monday, pumping up the country's bonds on hopes the two sides could strike a deal by an extended Aug. 4 deadline.**

Two prominent funds, Gramercy and FinTech, said they would back the deal, though there was no immediate sign of whether it would gain the blessing of the biggest bloc of creditors, including BlackRock and Fidelity, which could torpedo any deal.

Argentina laid out an improved and "final" offer on Sunday that increased creditors' payments, shortened their wait time and changed key legal clauses that had become a source of tension.

The revised offer came after tensions flared with two major creditor groups and talks stalled in mid-June, as the grains powerhouse was battered by the coronavirus pandemic. It still has to be formalized with U.S. regulators.

"Considering everything that the country is going through, it looks to like a fairly good offer," said Alejandro Hardziej, at bondholder Pala Asset Management. He added that creditors might have liked a "GDP warrant" for extra payments if economic growth improves.

A deal is key for Argentina avoiding a messy and protracted legal standoff that could lock the country out of international markets and drag it further into recession.

"We look forward to supporting Argentina's offer as it provides... debt sustainability that is crucial for durable, high and inclusive economic growth," Gramercy and FinTech said in a joint statement.

Under the proposal, Argentina would start making payments in one year versus three in its original offer, made in April. Coupon payments start low but could rise to around 5%.

"The valuation gap with the latest bondholder proposals has shrunk considerably," analysts at U.S. investment bank Citi said in a note, calculating the gap at 4-5 cents on the dollar.

The bank expected a "sizable" proportion of investors holding the "exchange" bonds that were restructured last time Argentina defaulted to sign onto the deal, as the government had backed away from eroding their legal rights.

There might not be such high take up, however, from those with bonds sold under the country's previous president, Mauricio Macri, as their replacement bonds would be issued under terms offering less legal protection.

Argentine bonds, which have climbed over recent months as hopes grew for a deal, closed up almost 4% on average on Monday, though most remain at between 38-45 cents on the dollar.

DEAL RISK

Siobhan Morden at Amherst Pierpont said in a note the offer was "reasonable" and calculated its value at 53 cents on the dollar at an exit yield of 10%. She added, however, that the lack of a previous accord with key bondholder groups was a hurdle.

"There is still deal risk as this last phase was not negotiated with the Ad Hoc and Exchange Bondholder joint group," she said, adding that the pair, which together hold around $21 billion of the total eligible bonds, could block a deal.

"It's a higher-risk strategy to go ahead with a final offer without majority bondholder consent," she noted.

The two groups did not respond to requests for comment.

Goldman Sachs also calculated the net present value of the new offer at 53-54 cents, 3-4 cents above the most recently floated government proposal shared with creditors in June, though it pointed to the lack of a value recovery mechanism.

Hardziej said he hoped the two sides would be able to reach an agreement given the "small difference" between the latest proposals.

"We hope that this is the last offer and we hope it works," he said.

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Argentina's Guzman says fate of debt deal in creditors' hands after 'final' offer

07-Jul-2020
By Adam Jourdan and Nicolás Misculin
BUENOS AIRES, July 7 (Reuters) - **Argentina's Economy Minister said on Tuesday that the fate of a $65 billion debt restructuring deal was now in the hands of creditors, though he expected opposition from a key bondholder group after the government unveiled its "final" offer.**

The South American country formalized the offer with the U.S. Securities and Exchange Commission overnight and all eyes have turned to a key bloc of creditors including names like BlackRock and Fidelity, which has so far stayed silent.

The new government offer, which improved payment terms and ceded ground on disputed legal terms, drew early support from some creditors on Monday, helping propel sovereign bonds up 4% on hopes a deal could be struck.

However, the major Ad Hoc and Exchange bondholder groups, which combined hold around $21 billion of the total eligible debt and could obstruct any deal, have notably held off from supporting or rejecting the proposal.
Economy Minister Martin Guzman told local radio on Tuesday that he expected that the Ad Hoc group would oppose the deal, at least initially, though he added that the government had the "support of an important part of the market".
"We expect that there will shortly be a statement against it and that then they will take some time to decide," Guzman told local Radio Con Vos, adding the government would consider closing a deal with "part" of its creditors.
"This is the final offer," he added. "The decision is now with the creditors."
Argentine bonds climbed 0.8% on average on Tuesday, after having edged down earlier in the day.

'BY NO MEANS A DONE DEAL'

Morgan Stanley said that despite the improved offer, reaching an agreement was "by no means a done deal" with a gap of 4-5 points still between the proposal and some creditors' demands. The investment bank cut its bullish stance to neutral.
"Deal risk stems from the new offer not being agreed to by creditors before being presented and Argentina unlikely to improve the offer for now," it added.
Argentina's negotiations with creditors had stalled in June after edging close to an agreement, with the main issues being with the two groups, which slammed the talks as having failed and later criticized the government for a lack of engagement.
A deal is key for Argentina to avoid a damaging legal standoff with creditors. The country defaulted for a ninth time in May and is headed for an estimated 12% economic contraction this year on the back of two straight years of recession.
In the full prospectus, filed overnight with the SEC and in Argentina's official gazette, the government added some details on the offer, including on minimum participation thresholds.
It said that the offer would go ahead only if it received support by an Aug. 4 deadline from holders of 66.6% of the total eligible bonds, or levels between 50%-60% if 2005 and 2016 bond indentures were taken independently.
The offer, if successful, would be settled on Sept. 4.
The International Monetary Fund, a key backer to Argentina, said in a statement that the country's amended debt offer was an "important step" and hoped both sides could work constructively and quickly toward an agreement.

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Argentina debt deal hopes survive bondholder group blow

09-Jul-2020
By Marc Jones
LONDON, July 9 (Reuters) - **Analysts kept faith that Argentina would be able strike a debt deal with its creditors on Thursday, after the most prominent group of funds had dismissed the government's "final" offer as only a good starting point.**
The Ad Hoc and Exchange bondholder groups, which between them own almost a third of the $65 billion of debt Argentina wants to restructure, said that though they didn't accept the latest proposal, it did provide a basis for "constructive engagement".
Argentina's Economy Minister Martin Guzman, who has led the negotiations, responded by saying there was "clearly" no room to improve the country's "maximum effort", but followers of the long-running saga weren't giving up hope.
"I think they are getting closer to a deal and I think they will reach it," said North Asset Management's Peter Kisler, who holds Argentina bonds but is not part of any of creditor group.
"The creditors are trying to extract as much as they can. It doesn't cost them anything to push for more especially as there is bit of time left," he added, referring to Argentina's latest offer being on the table until at least early August.
Bond prices have risen from around 20 cents on the dollar as negotiations have continued in recent months, but as they approach 50 cent on the dollar it could be time to think about potentially cashing in, Kisler said.
"They could go to 60 cents maybe but the risk-reward gets more difficult once you get above that (50 cents) level."
Another of the bond groups, the Argentina Creditor Committee, which includes funds such as Greylock Capital and GMO is still to give its view, but most focus remains on the Ad Hoc and Exchange groups which contain the likes of BlackRock, Fidelity, Pimco and Ashmore.
Carlos de Sousa, Lead EM Economist, Oxford Economics told Reuters that bondholders still had concerns about a potential "Pac-Man" strategy where the government would try to gobble up bonds in successive restructurings rather than in one clean swoop.
"The discussion is not only about a few more cents on the dollar. That said, our debt sustainability analysis supports Argentina's statements that the new offer is the country's maximum effort," de Sousa said.
"In the sense that, Argentina would risk falling again on an unsustainable debt path within a decade if they offer significantly more."

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Argentina's Guzman says 'clearly' no room to improve debt revamp offer

09-Jul-2020
By Hugh Bronstein
BUENOS AIRES, July 8 (Reuters) - **Argentina has no room to improve its latest debt restructuring offer to creditors, Economy Minister Martin Guzman told Reuters on Wednesday, as the country looks to win bondholders to a deal and avert a damaging legal standoff after defaulting in May.**
The South American grains producer unveiled what it called its "final" offer on Sunday to revamp around $65 billion in foreign debt, which drew initial support from some creditors and has helped pump up sovereign bond prices so far this week.
Two key creditor groups rejected the offer on Wednesday, but said it was a step in the right direction and that "a path towards full resolution of remaining issues is still possible."
"We made our maximum effort," Guzman told Reuters and one other media organization in an interview at his offices in Buenos Aires, adding there was "clearly not" any room for amending the offer further.
The Ad Hoc and Exchange bondholder groups, made up of names like BlackRock and Fidelity, had criticized the government after negotiations stalled in mid-June.
Argentina's latest offer, which improved payment terms and ceded ground on disputed legal terms, was made without having previously reached an accord with the group.
"With the Ad Hoc group we did not reach an agreement before we launched the offer," Guzman said.
Guzman added that once a restructuring was finalized with private creditors, focus would turn to negotiations over a new program with the International Monetary Fund, which extended a record $57 billion credit facility to the country in 2018.
"We need to borrow from the IMF to pay the IMF," he said, adding that the country would also look to reschedule its debt payments with the Paris Club group of lenders.
"It's going to take some time for Argentina to regain access to credit markets."

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Argentina and creditors spar over restructuring terms

10-Jul-2020
- **Front story Latin America**
- **Argentina counters and turns up PR war**
- **Market banks on conclusion to debt talks**

By Paul Kilby
NEW YORK, July 10 (IFR) - **The very public battle between Argentina and a creditor group led by BlackRock burst into the open again last week as both sides made their case over a US$65bn bond restructuring that the market hopes is nearing completion.**
A counter-offer by the government last weekend – seen as its last – sweetened the terms for creditors, but was insufficient for the Ad Hoc Bondholder Group, backed by BlackRock, and the Exchange Bondholder Group to come on board.
Both groups rejected the proposal, saying in a statement last week that it did not "reflect the vitally needed input of Argentina's largest creditor groups to deliver to Argentina a fully successful debt restructuring".
The government said on July 5 that it had improved the terms on the new bonds by increasing coupons and offering shorter-dated maturities as well as better value on PDI securities.
Stuart Culverhouse, head of sovereign and fixed-income research at Tellimer, said in a note that the move "could be a significant step forward to closing a deal".
Argentina bonds jumped in response to the news on July 6, with the Century Bond climbing two points to 40.50 and the shorter-dated 5.625% 2022s up 1.5 points to 43.05 over the same period, according to MarketAxess data.
The counter-offer was seen as positive step by many in the market, who see the government winning the PR war against opposing creditors.
BETTER TERMS
The government is now offering average recovery values of around 53 cents, based on a discount rate of 10%, up from around 40 on the Government's initial offer, wrote Siobhan Morden, head of Latin American fixed-income strategy at Amherst Pierpont.
It is also allowing holders of bonds denominated in other currencies to swap into dollar bonds and has dropped value recovery instruments – which had yet to be fully defined.
But perhaps more importantly it says new bonds received by the holders of securities issued in the prior exchanges will continue to be governed by the stronger 2005 indenture.
This had been a stumbling block for the so-called exchange bondholders who felt that they were relinquishing important legal protections by accepting bonds with weaker 2016 indentures.
"This has been a key condition of the Exchange Bondholder Group from the beginning, who have been reluctant to sacrifice the stronger legal protections provided under the 2005 Indenture compared to what the government was offering by switching everyone into 2016 Indenture,"

wrote Culverhouse.
"However, while this may win over the EBG, it is not clear what it will mean for the Ad Hoc group and of course, it risks perpetuating the prevailing system of having two classes of bonds."
So far such amendments appear to have done little to persuade the EBG to sign on given its joint rejection with the Ad Hoc group of the terms last week.
Fears that Argentina will eventually cut a deal by garnering support from investors one at a time – the so-called Pac-Man strategy – may also be assuaged after the government agreed to set a threshold for minimum participation.
"They are trying to indirectly communicate they won't use the Pac-Man strategy," said Morden.

SHOWING SUPPORT

Gramercy Funds Management and Fintech Advisory Inc – which are part of the Argentina Creditor Committee – have already expressed their support for the new terms.
"We look forward to supporting Argentina's offer as it provides for the debt sustainability that is crucial for durable, high and inclusive economic growth," they said on July 5.
Luis Caputo, an economy minister during the prior administration of former president Mauricio Macri, has also reportedly backed the new terms.
"Argentina has done its part. This proposal will allow the country to grow again and sustain that growth. Further (comprise) begins to put us in an unsustainable situation," Economy Minister Martin Guzman said in a statement.
"The country "has made an important effort, and now the decision is on the side of the creditors".
Guzman also put Argentina's PR machine in full gear last week, garnering the support of other countries and academics in an apparent effort to apply pressure on creditors holding out.
The government made a point of highlighting the backing of IMF head Kristalina Georgieva, citing her saying "private creditors must see this as a moment of action, in which both creditors and the country can join (together)".
Arturo Herrera, Mexico's economy minister, also chimed in at the ministerial meeting saying: "I join ... Kristalina, wishing for a swift and sensitive agreement between Argentina and its creditors," according to the government's statement.
The support of Argentina Creditor Committee was seen as important, but they only have a minority holding of 7% of the debt being restructured, said Morden.
More important will be the reaction of the Ad Hoc and Exchange holder groups which have a 35% share and are seen to be under some pressure given the apparent broad backing for the Argentine government's latest proposal.
"This deal is going to get done," said Morden. "Everyone is going to say it is reasonable and it will pose a reputational risk for real-money investors (if they don't participate)."
Meanwhile, the clock is ticking with a little less than a month to go before the new deadline of August 4 set by the government.
"We, as Argentina's largest creditors, remain ready to approach final discussions with responsibility and good faith, and urge Argentina to join us in that effort without delay," said the Ad Hoc and Exchange Holder Group in a joint statement.

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Brazil

World Bank Group - The challenge of maintaining medium-term fiscal adjustment in the context of COVID-19

10-Jul-2020

The COVID-19 pandemic presents a major challenge for the fiscal consolidation process in Brazil. The fiscal framework was already weak before the crisis. Brazil's public finances face a number of structural challenges, including low levels of economic growth, with resulting limited growth in tax revenues; continued rise in mandatory pension and personnel expenses; and an already high public debt. The economic recession expected in 2020 and the increase in public debt caused by COVID-19 response measures make fiscal adjustment even more difficult from 2021 onwards.
In order to address the crisis in the health sector and minimize the effects on the income of the most vulnerable families due to lower economic activity, the federal government has put forward a package of fiscal measures that add up to about 7.3% of GDP.
For subnational governments, the federal government has pledged to keep state and municipal transfers (FPE and FPM, respectively) at the same levels as in 2019. In addition, it has approved transfers to finance expenditures related to the health crisis. Another aid package for states and municipalities (worth R$60 billion, or 0.9 percent of GDP) is intended to partially offset local tax revenue losses (ICMS and ISS), and finance expenses related to COVID-19.
Of this total, R$50 billion can be freely used by each subnational entity to finance its expenditure needs in the face of reduced tax revenues. The remainder is earmarked for health care and social assistance. In addition, the package also suspends the payment of subnational entities' debts with the federal government, and gives them permission to renegotiate their debts with other creditors.
Ideally, states will not grant wage raises to their public servants, to maintain flexibility in their budgets, and to focus their resources on priority

areas (for example, critical health care workers). However, this point is yet to be defined.
Considering all the measures that have already been approved, Brazil's primary deficit in 2020 is estimated to exceed 8% of GDP, an increase of almost 7 percentage points compared to 2019, and 6,7 percentage points above pre-COVID-19 estimates.
In a downside scenario, Brazil's primary deficit could reach 10% of GDP. A smaller GDP growth and large primary deficit in 2020, and a potential increase in borrowing costs due to greater uncertainty, will strongly impact the trajectory of Brazil's public debt.
The country's public-debt-to-GDP ratio is expected to increase from 75.8% in 2019 to 91.5% in 2020, and stabilize at 101.6% in 2028. In the downside scenario, debt would reach stability only in the next decade, at 119.6% of GDP in 2032. However, the short-term debt scenario may turn out to be even more dire, if sizable contingent liabilities materialize. These include the debts of subnational governments and public utilities (electric, water, transport), many of which were in a weak financial position even before the crisis.
Although it is too early for a precise assessment of the fiscal vulnerabilities resulting from COVID-19, it is already clear that the public sector will need to reinforce fiscal consolidation efforts from 2021 onwards. The promotion of fiscal consolidation depends on the implementation of a structural reform agenda to control mandatory public spending and accelerate economic growth. For this, Brazil should stick to the following principles.

1. Ensuring that fiscal measures to address the crisis are indeed temporary.
2. Reaffirming the federal spending cap rule as a fiscal anchor in Brazil, which limits public spending and guides the fiscal consolidation process. **In order to comply with the ceiling rule, the government will need (i) to increase the flexibility of its public budget so as to better control and reallocate expenses according to needs.** A first step would be the approval of the three proposed constitutional amendments (PECs) currently in Congress (known as Emergency PEC, Public Funds PEC and Federative Pact PEC). In addition, (ii) administrative reforms are required to reduce the federal administration's recurring expenses.
3. Reducing the federal government's contingent liabilities through the appropriate sharing of fiscal risks among federal, state and municipal governments. This requires (i) the creation of a framework that may reduce moral hazards in intergovernmental fiscal relationships, but also (ii) the acceleration of fiscal reforms in subnational governments so as to limit their structural expenditure growth (for example, completing the pension reforms in states and municipalities).
4. Resuming progress on the long-term economic growth agenda, which includes measures to improve the business environment, lower the cost of production, and increase Brazil's insertion in global value chains through greater openness to trade. Reforming Brazil's tax system to enable a more efficient allocation of production factors and foster greater trade liberalization takes a high priority.

The uncertainties surrounding the impacts of COVID-19 are still high. If the crisis were to be prolonged or if new waves of infection occur, further stoppage of economic activity may become necessary, deepening the recession, and delaying the recovery. This could require the extension of temporary measures adopted by the government, further increasing Brazil's fiscal deficit, and forcing an even stronger fiscal adjustment in the aftermath.
Therefore, reinforcing Brazil's commitment to the resumption of economic and fiscal reforms would help to secure investor confidence and gain access to cheaper sources of financing, which would, in turn, accelerate the economic recovery once the health crisis has been overcome.

Ecuador

Ecuador says debt deal would cut capital payments, extend maturities

06-Jul-2020
QUITO, July 6 (Reuters) - **Ecuador's finance ministry said on Monday that a deal it reached with bondholders to renegotiate the South American country's debt would cut outstanding capital payments and extend maturities on the country's bonds.**
In a presentation shown to reporters, the cash-strapped country's government said the deal with institutional holders of its roughly $17.4 billion in outstanding sovereign bonds would include a 5-year grace period on principal payments and a 2-year grace period on all but $79 million of interest payments.

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Ecuador advances in debt restructuring

10-Jul-2020
NEW YORK, July 10 (IFR) - **Ecuador looked close to completing a US$17bn bond restructuring last week after it announced it had cut a deal with one of the major creditor groups involved in its debt talks**
Yet while the agreement had the country's bonds leaping multiple points in response, the

sovereign still has much do if it wishes to claim victory by the mid-August deadline.
The group, which consists of large investors such as BlackRock, holds just less than half of the outstanding bonds and the sovereign still needs to hit a 66% participation rate if it wishes to succeed
This does not include the 2024s, which have stronger legal rights than other bonds and require an agreement from 75% of the holders.
Siobhan Morden, head of Latin American fixed-income strategy at Amherst Pierpont says that **Ecuador may just take a page out of Argentina's playbook, ensuring that 2024 holders will have the same strong legal rights on the new bonds.**
Argentina, which is going through its own debt talks, has done this for the holders of the bonds exchanged during its restructurings in the mid to late 2000s.
Ultimately Ecuador may have to provide a sweetener to get more investors on board – which could involve pushing recovery values up to 52–54 cents and reducing principal haircuts.
But most investors feel that a deal is do-able given the goodwill between both sides.
"To get this group of major bondholders on board so quickly is pretty impressive," said Sarah Glendon, senior analyst at Columbia Threadneedle Investments.
"There is some deal risk. They may need to change the terms but I am fairly optimistic they will get an agreement."
As it stands, the agreement will lower average interest rates from 9.3% to 5.2%, push out maturities from 6.1 years to 12.7 years, and give the country a five-year grace period on principal payments.
The deal involves swapping 10 outstanding bond maturing between 2022 and 2030 for three new amortising bonds maturing in 2030, 2035 and 2040 with average interest rates of between 5.2% and 5.5%.
That compares with existing bonds with average interest rates of between 7.775% and 10.75%.
Rather than any major reduction in its debt stack, Ecuador has achieved some breathing space not only for this government but for the next administration, say investors.
It is only reducing its outstanding international bond total from US$17.375bn to US$15.835bn, and that is only fraction of its overall US$58.418bn debt stack.
It has, however, pushed back large looming debt payments – close to US$12bn between 2020 and 2024 – which will take the form of a zero coupon bond to be paid at a later date.
"It gives the government some breathing space to recover from the pandemic and the oil shock," said Petar Atanasov, co-head of sovereign research at hedge fund Gramercy.
"Where they go from here depends on whether they implement the right policies."
Ecuador's bond prices certainly leapt on the news, climbing up to 10 points from levels seen in late June.
The sovereign's 10.75% 2029 traded up to 51.50, while the 9.5% 2030 went as high as 56.00 cents on the dollar, according to Market Axess data.
That rally may have been overdone given the country still needs to cut a new deal with the International Monetary Fund and there is still much uncertainty over the outcome of the presidential elections next year.
Under the current terms, Morden calculates a recovery value of around 50 cents on the dollar, accounting for PDI and a discount rate of 12%.
"To some extent, the rally is pricing in the assumption there will be some sort of programme from the IMF that will come between now and the August 15 deadline," said Glendon.
The longer-term outlook, however, looks risky. The cash flow relief obtained from this restructuring could either be a positive or a negative for bondholders.
While it may give the next government breathing space to implement fiscal measures, it could also tempt a new administration to leave politically painful reforms for another day.
"One would assume that the next administration, even if it is a populist one, would have an incentive to pay. It would be difficult to make the case that they couldn't pay," said Atanasov.
"[But] they need to implement the right policies and try to grow out of the situation."

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D Ecuador

Mexico

Mexico central bank says economic recovery uncertain

09-Jul-2020
MEXICO CITY, July 9 (Reuters) - **Mexico's central bank said the economic recovery from the coronavirus pandemic is on shaky footing, even as Latin America's second largest economy opens up for business, according to minutes of the last policy meeting.**
Most members of the Bank of Mexico's five-member board said that "although the reopening of certain economic sectors and regions in May and June will foster a slight recovery of economic activity, the impact has been considerable and uncertainty persists."
In a unanimous decision by its board, the bank reduced the key interest rate by 50 basis points to 5.0% on June 25, the lowest level since September 2016.
Bank of Mexico, as the bank is known, said it will take the needed actions considering incoming information, the large impact on productive activity and the evolution of the financial shock

so the policy rate is consistent with convergence inflation to its 3.0% target.
"Most members considered that monetary policy should continue to incorporate all available information and consider the persisting environment of uncertainty," the minutes said.
Most of Bank of Mexico's members agreed the balance of risks for growth remains significantly biased to the downside and the majority of members stressed the risk of a new coronavirus outbreak.
Mexico's economy will likely contract by 10.5% this year, the International Monetary Fund said last month. The finance ministry and the central bank have said the recession will be the worst since the 1930s Great Depression.
Fiscally conservative President Andres Manuel Lopez Obrador has resisted pressure to borrow to fund an economic stimulus package.
"Most members stated that various countries have adopted important fiscal stimulus measures to mitigate the adverse effects on employment and on households' and firms' incomes," according to the minutes.

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Suriname

Moody's Downgrades Suriname's Rating to Caa3; Maintains Negative Outlook

07-Jul-2020
July 7 (Reuters) -

- **Moody's downgrades Suriname's rating to CAA3; maintains negative outlook**
- Moody's says Suriname's downgrade to caa3 reflects much higher probability of a distressed exchange or default on market debt than expected
- Moody's says spending pressures from coronavirus and increased financing needs have led to severe tightening of financing conditions for Suriname
- **Moody's says negative outlook reflects material risk of extensive restructuring of Suriname's marketable debt**
- Moody's says expects real GDP will contract by 4% in 2020, with risks to the downside for Suriname

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Uruguay

Uruguay: Uruguay issued dollar bonds at the lowest rate in history

07-Jul-2020
Uruguay issued dollar bonds at the lowest rate in history and was the first emerging country to enter the international market in 2020 in national currency; the demand was three times greater than the amount placed. A new 20-year bond in Indexed Units for the equivalent of US $ 1.6 billion was launched on the global market and reopens a 10-year dollar bond for US $ 400 million.
The Government carried out a simultaneous operation to issue a global bond in local currency (indexed units, IU) with maturity in 2040 and a global bond in dollars with maturity in 2031. Likewise, an offer was made buyback of global bonds in shorter-term UI.
Objectives of the Operation
Continue with the government funding program for the current year, with the objective of financing measures designed to support economic activity, employment and protect vulnerable sectors, including the government response related to COVID-19.
Support the process of de-dollarization of government debt, extending the maturity term and establishing a new benchmark bond in long-term UI.
Design
The transaction was executed over the course of a day and comprised:
The issuance of a new global bond in UI with final maturity in 2040 (redeemable in three annual payments in 2038, 2039 and 2040). The reopening of the global dollar bond with final maturity in 2031 (redeemable in three annual payments in 2029, 2030 and 2031).
A repurchase offer of three series of global UI bonds with final maturity in 2027, 2028 and 2030 (called "eligible bonds", and which are also redeemable). The holders of said bonds had the possibility of selling them to the Republic under two modalities: as a form of payment to buy the new bond in UI ("A preferred offers"), or by cash ("non-preferred offers").
The global bond with final maturity of 2031 could only be purchased with cash.
Results
The total joint issue reached approximately $ 2 billion, of which approximately $ 1.5 billion corresponds to cash ($ 1.1 billion equivalent of the new UI bond, and $ 400 million of the dollar bond). The remaining issued amount will be used for the exchange of bonds in lower maturity UI, the details of which will be released tomorrow.
The total orders received for both bonds totaled $ 6.1 billion (of which half was for UI securities).
The consolidated order book was made up of more than 180 international local accounts, with the presence of accounts focused on emerging markets with high credit ratings.

The issuance of the new global bond in UI was made at a real yield of 3.875% per year, while the issuance of the global bond with final maturity in 2031 was made at a yield of 2.48% per year (corresponding to a differential of 180 points basic with respect to the reference bond of the United States Treasury).

Evaluation

Despite the current context of uncertainty and regional and global volatility, Uruguay managed to obtain long-term, large-volume financing in local currency. Uruguay is the first Latin American and emerging market sovereign to issue in its own currency so far in 2020.

The issuance of the new global UI bond was launched with an initial return of just over 4% real (Low 4%). The volume of demand allowed this reference to be compressed to 3,875%, the lower range of the guide released (4% +/- 0.125%).

The rate obtained by the bond in dollars is the lowest that has been obtained since Uruguay entered the international fixed income markets in dollars, reflecting both the fall in the rates of United States Treasury bonds and the stability of the premium for risk country in Uruguay after the outbreak of the global pandemic.

The reopening of the global bond with final maturity of 2031 was launched with an initial spread of 200 bps above the reference American Treasury bond. The quantity and quality of orders received allowed the spread to be compressed to 180 bps, which implies a negative issue premium of approximately 5 basis points, compared to the levels observed in the secondary market at the time of announcing the transaction.

AFRICA

Moody's Says Coronavirus Fallout Poses Long-Lasting Economic, Financial and Social Threat to African Sovereigns

07-Jul-2020

July 7 (Reuters) - Moody's:

- **Moody's says coronavirus fallout poses long-lasting economic, financial and social threat to African sovereigns**
- Moody's says pressures on African sovereigns' already weak fiscal positions will intensify from coronavirus fallout
- Moody's says many African governments have limited financial, institutional capacity to absorb current coronavirus shock
- Moody's says longer-term negative effects on Africa's sovereign credit profiles will leave them with diminished capacity to absorb future shocks
- Moody's says African sovereigns with large borrowing requirements or weak revenue bases, like Mozambique, Zambia, Ghana, face most severe liquidity stress

Kenya

Kenyan banks swamp debt market as COVID-19 slows down economic activities

10-Jul-2020

NAIROBI, July 10 (Xinhua) -- **Kenya's short-term government securities received the highest subscription in history this week as banks swamped the debt market with bids amid reduced economic activities due to the COVID-19 pandemic.**

The 91-, 182- and 364-day Treasury bills attracted subscriptions of up to 950 percent, with bidders mainly going for the 91-day paper, the Central Bank of Kenya (CBK) said on Friday on auction results.

During the auction, the apex bank put up for sale 91-day bills worth 4 billion shillings (about 38 million U.S. dollars) and received bids worth 379 million dollars, an uptake of 948 percent.

The CBK floated 182- and 364-day papers worth 100 million dollars each and received bids worth 273 million dollars and 206 million dollars respectively.

David Luusa, the bank's director of financial markets, said total bids received topped 860 million dollars for the bills worth 240 million dollars floated.

The CBK accepted bids worth 462 million dollars, nearly twice the money it had sought at low-interest rates of between 6 and 7 percent.

Analysts attributed the increased activities on the debt market to the impact of the COVID-19 pandemic, which prompts banks to shun risky investment in the private sector and to lend to the government for the short-term.

Enditem

Morocco

Morocco's economy to contract 13.8% in Q2, 4.6% in Q3

05-Jul-2020

Rabat, July 5 (Reuters) - **Morocco's economy is expected to contract by 13.8% in the second quarter under the impact of the coronavirus lockdown, the state planning agency said on Sunday.**

It said the economy was expected to shrink by a

further 4.6% year-on-year in the third quarter as restrictive measures are loosened.
The economy grew 0.1% in the first three months of this year, it said.
Both domestic and foreign demand are expected to improve in the third quarter after taking a hit in the previous three months.
The central bank forecasts economic growth at -5.2% in 2020 against +2.5% last year.

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Nigeria

Nigeria's president signs revised 2020 budget into law -aide

10-Jul-2020
ABUJA, July 10 (Reuters) - **Nigeria's President Muhammadu Buhari has signed into law the 10.8 trillion naira ($28.38 billion) revised 2020 budget passed by lawmakers last month, a presidential aide said on Friday.**
Parliament in June passed the budget, which was revised as part of an effort by the government to tackle the new coronavirus pandemic and low oil prices.

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South Africa

South Africa faces battle to rein in spending

07-Jul-2020
JOHANNESBURG, July 7 (Reuters) - **South Africa's plans to rein in government spending will be hard to implement due to low economic growth, ratings agency Fitch said on Tuesday, adding the country had a poor track record of delivering debt and spending cuts.**
Finance Minister Tito Mboweni said in an emergency budget in June that the government deficit would widen to 14.6% of gross domestic product in the 2020/21 fiscal year, while debt would jump to 81.8% of GDP.
However, the Treasury stuck with its promise of around 230 billion rand ($13.5 billion) of spending cuts in the short term, a target set in February before the COVID-19 pandemic.
This has been criticised by unions and some economists, who believe the government should ramp up spending to drag the economy out of recession.
"They have had previous plans to achieve a primary balance, which would have required smaller adjustments, and those have been abandoned. So the track record of following up on such plans isn't really there," said Fitch's head of Africa sovereign ratings Jan Friederich during a webinar.
Fitch downgraded South Africa's credit rating deeper into "junk" territory in April, citing the lack of a clear path towards debt stabilisation and higher economic growth. The other top ratings firms, Moody's and S&P, also rate the country at sub-investment grades.
Africa's most advanced economy contracted for the fourth time in five quarters in the three months to March, before the pandemic. The Treasury estimates GDP will shrink 7.2% this year.

($1 = 17.0698 rand)
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Tunisia

Tunisia's budget deficit in 2020 will be more than 5 percent of GDP

08-Jul-2020
TUNIS, July 8 (Reuters) - **Tunisia's budget deficit in 2020 will be more than 5 percent of GDP, compared to 3 percent previously due to the coronavirus crisis, the finance minister said on Wednesday.**
Nizar Yaich said that Tunisia will need an additional financing of 5 billion dinars.

(Reporting by Tarek Amara; Editing by Sandra Maler)
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Zambia

Moody's Says Zambia's Sovereign Credit Fundamentals Will Remain Very Weak for Foreseeable Future

09-Jul-2020
July 9 (Reuters) - Moody's:
- **Moody's says Zambia's sovereign credit fundamentals will remain very weak for foreseeable future**
- Moody's says Zambia's debt restructuring likely in order to address debt sustainability challenges
- Moody's says Zambia's debt affordability deteriorates & refinancing risks rise amid weakening financing conditions
- **Moody's says Zambia's very weak credit profile reflects unsustainable debt**

dynamics, heightened liquidity & external vulnerability pressures

• Moody's says Zambia's stable rating outlook reflects potential contrast in outcomes for private-sector creditors

• Moody's says fiscal slippage & accumulation of arrears underscore Zambia's weak government effectiveness

(Reuters.Briefs@thomsonreuters.com)

Zimbabwe

Implement substantive reforms, Paris Club creditors tell Zimbabwe

07-Jul-2020

HARARE, July 7 (Reuters) - **Zimbabwe should implement sustainable political and economic reforms and successfully complete an IMF monitoring programme in order to normalise ties with international lenders, the Paris Club of creditor nations said in a letter seen by Reuters.**

Finance Minister Mthuli Ncube in April wrote to the International Monetary Fund, World Bank, Paris Club and African Development Bank seeking high-level talks to improve relations with the creditors. He warned that without their help, Zimbabwe faced a catastrophe.

But the Paris Club insisted that President Emmerson Mnangagwa's government should first implement "substantive and sustainable political and economic reforms, in particular regarding respect for human rights, especially freedoms of assembly and expression".

Odile Renaud-Basso, a senior French treasury official who signed the June 12 letter, said a poor performance by Zimbabwe during an IMF staff programme that ended early this year was a missed opportunity to impress creditors.

Harare has admitted to policy missteps during the programme. Ncube did not respond to questions on his mobile phone on Tuesday.

"We encourage you to press forward with a credible reform programme to stabilise the economy and strengthen economic governance," the Paris Club letter said.

The French treasury declined to comment on the letter.

Schwan Badirou Gafari, Paris Club secretary general, did not immediately respond to a request for comment.

Zimbabwe will also have to clear more than $2 billion in arrears with the World Bank and African Development Bank to benefit from any debt restructuring from the creditors, their letter said.

Hopes of an economic rebound after the departure of Robert Mugabe in 2017 has turned to despair as inflation soars to nearly 800% amid unemployment above 80%.

Citizens fear the country is returning to the economic horrors of 2008 when Zimbabwe was forced to dump its currency, wrecked by hyperinflation. Workers are agitating for U.S. dollar salaries to protect their earnings and savings.

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GLOBAL

Longer, greener, broader: strategies for a world awash in new bonds

07-Jul-2020

• **US, Europe net debt issuance may top $4 trn in 2020 - estimates**

• **Governments globally tap demand for longer-dated debt**

• **Green, social bonds, dollar bonds playing bigger role**

• **Syndications growing in appeal among sovereigns**

By Dhara Ranasinghe

LONDON, July 7 (Reuters) - **Century bonds and green bonds, the first 20-year U.S. Treasury issue in decades, securities for mom-and-pop investors and with growth-linked payouts -- a borrowing binge is forcing governments to think creatively to get the funds they need.**

Net bond issuance from the United States, euro area and Britain is tipped at around $4.2 trillion this year, as they expand budget spending to battle the coronavirus pandemic. That's roughly equal to their combined debt sales in the previous four years, NatWest Markets estimates.

Much of the supply will be sucked up by central banks buying assets. But governments still need to tap the broadest range of issuance tools to find customers for the sudden pile of new debt and keep funding costs down.

This week, Italy is taking orders from retail investors for a BTP Futura and is considering another such bond this year. Thailand also marketed bonds to retail investors in May, Belgium and Finland have issued dollar bonds and Europe is moving towards a joint bond plan.

"The more issuance you have, the more opportunity there is to find different markets -- as long as you can deliver to your core investor base and ensure liquidity there," said Lee Cumbes, head of public sector debt, EMEA at Barclays.

"There is a lot more opportunity now to issue things like dollar bonds, ultra-long debt such as 100-year bonds, inflation-linked bonds."

Aside from diversifying their investor base, such initiatives reduce pressure on local banks, whose outsize government debt portfolios can be a source of risk during crises.

That's one reason Italy aims to gradually double the amount of sovereign bonds held by small investors. Its BTP Futura includes a "loyalty premium" linked to nominal economic growth, payable to those who hold the bond to maturity.

"If your growth rate is strong, you can afford to pay bond holders more, and if growth is weak and you can't, your interest burden falls," said Jim Leaviss, head of fixed income at M&G Investments.

GO LONG

Austria's 2 billion euros of "century bonds" last month took orders for more than nine times that amount. Unsurprising, given that anyone who bought its 100-year issue in 2017 would have doubled their money.

Long-maturity issues with relatively higher yields are attractive for pension and insurance investors facing over $12 trillion of negative-yielding debt worldwide.

Governments, meanwhile, can lock in long-term funding at cheap rates - Austria paid a 0.85% coupon. Century bonds could become the norm post-COVID, Kames Capital predicts.

Is the next step perpetual bonds -- with no maturity date and paying interest forever? That's an option the European Union should consider, says financier George Soros, who estimates the bloc can raise a trillion euros at 0.5% annually for perpetuity.

Others are tapping bits of the curve they have not recently issued -- the U.S. Treasury sold 20-year bonds for the first time since 1986 in May.

THE COLOUR GREEN

Governments are also successfully tapping into the environmental zeitgeist - the Netherlands' 1.42 billion-euro green bond sold out within four minutes on June 23.

"Although the circumstances are unfortunate that we are facing significant funding needs, it does throw up opportunities for governments to look at themed bonds, green bonds," Dutch State Treasury Agency head Elvira Eurlings told a recent conference.

France has just pledged a 15 billion-euro "green" funding plan. Germany's first green bond is due in September, to be sold via a syndicate of banks.

To reach more investors and sell big-size debt quickly, Germany's debt office this year resumed using syndications for the first time in five years, rather than rely on auctions.

Aberdeen Standard Investments fund manager Ross Hutchison expects this to become more of "a permanent feature of the issuance process".

Finland meanwhile made greater use of private placements, where a bond is sold to a small group of private investors, in the second quarter.

"If you look at the supply against their forecast, they've done a little. But if you look at all their private placements, you realise they are close to 80% of their total issuance," said John Madziyire, portfolio manager, rates at the Vanguard Fixed Income Group. "Keeping tabs on stuff like this does add value."

(Reporting by Dhara Ranasinghe; editing by Sujata Rao and Larry King)

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Coronavirus tipping sovereign rating balance into junk

08-Jul-2020

- **Record number of credit rating cuts in last six months**
- **More countries to be junk than investment grade for first time**
- **Global debt-to-GDP to hit 95%, has doubled over last decade**

By Marc Jones

LONDON, July 8 (Reuters) - **The record number of sovereign credit rating downgrades caused by the coronavirus will for first time leave more countries in the riskier "junk" category than the investment grade bracket, Fitch predicted on Wednesday.**

The crisis has already seen Fitch take 32 negative rating actions affecting 26 countries this year, but with more than a third of its 118 sovereign grades still carrying "negative outlook" downgrade warnings the numbers are expected to jump further.

It is also set to tip the balance between the fiscally stronger countries in the triple-A to BBB- "investment grade" band, and those with weaker finances in the junk, or "speculative grade" category, as it is also known.

"Five sovereigns rated 'BBB-' are on Negative Outlook, suggesting speculative grade ratings will soon outnumber those in investment grade for the first time," Fitch's top sovereign analysts, James McCormack and Tony Stringer, said in a report.

Becoming a "fallen angel" - as a downgrade to junk is known in rating agency parlance - can set off a wave of problems.

It automatically excludes the country's bonds from certain high-profile investment indexes, which means conservative funds - active managers as well as passive "trackers" - are no longer able to buy and sell them. It can push up borrowing costs and cut the bonds' value as collateral at central bank funding operations too.

Countries teetering on the brink for Fitch are Colombia, India, Morocco, Romania and Uruguay. Italy and Mexico, which have two of the biggest bond markets in the world, are on BBB- too, although the ratings currently have "stable" outlooks.

There is no region in the world with less than five sovereigns on a negative outlook. In Latin America and the Middle East & Africa the numbers are in double digits and Fitch sees severe and lasting damage to globally.

It estimates the virus will leave a global fiscal deficit of $9.7 trillion this year, which is around 12% of world GDP. Overall debt is expected to reach $76 trillion - 95% of world GDP - and would be more than double the $34 trillion it stood at before the 2007-08 financial

crisis.
Relative rating volatility – measured by the number of rating changes on a 12-month trailing basis per 100 sovereign ratings – was also likely to exceed its all-time high later this year, McCormack and Stringer said.

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IMF calls for global fiscal reform after coronavirus crisis

08-Jul-2020
TOKYO, July 8 (Reuters) - **The International Monetary Fund is concerned about rising debt in both emerging and advanced economies due to coronavirus stimulus spending, and it will urge countries to tackle fiscal reform once the pandemic ends, its deputy managing director Mitsuhiro Furusawa said on Wednesday.**
For the first time ever, global public debt is seen rising to above 100% of combined GDP after governments responded to the health crisis, Furusawa said.
"Once the economy gets back on track, (a) medium to long-term fiscal framework must be created to manage public finances accordingly," Furusawa told an online panel discussion organised by Columbia Business School's Center on Japanese Economy and Business.
"That will be among the utmost priorities for our policy recommendations."

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Big economies face surging debt, have time to put house in order, Barclays says

08-Jul-2020
By Dhara Ranasinghe and Saikat Chatterjee
LONDON, July 8 (Reuters) - **Major developed economies face a surge in debt as the coronavirus crisis sparks massive fiscal stimulus, but they have time to get their houses in order, Barclays said on Wednesday.**
In a new report on debt in developed markets, the British bank added that policymakers won't be able to ignore worsening fiscal profiles for long.
The ratio of debt to gross domestic product for G20 countries is set to rise above World War Two levels in the coming year. Barclays expects the U.S. ratio to rise almost 30 percentage points over the next two years; the euro area's is likely to grow to around 100% in 2020 from about 85% in 2019.
Barclays said the United States is seeing the greatest fiscal deterioration but is "least likely to face a reckoning" on its debt levels.
That is because the world's biggest economy enjoys the benefits of having the reserve currency and a large and liquid bond market that's less prone to volatility, Barclays said.
But the euro zone remains vulnerable, as a monetary union without a fiscal union.
Italy's debt burden is rising sharply, but its debt trajectory is likely to stabilise at high levels rather than end up on "unsustainable exponential path", Barclays said. It expects the country's debt/GDP ratio to reach 165%.
"The key contributor is the structurally low core interest rates and the ECB's commitment to putting a cap on Italian spreads," Barclays said, referring to the European Central Bank's asset-purchase scheme.
Barclays also said the bar for a new Euro zone debt crisis was high versus 2010-12, noting a sharp fall in financing costs. It estimates average nominal yields on sovereign debt have fallen to below 2% from 3.75% in 2010.
But while borrowing costs in the Eurozone have fallen broadly, the diverging economic trends between Southern and Northern Europe and its unique monetary system means Europe has to carve out a separate way to reduce overall debt.
Barclays expects redistributing money and credit and pursuing a policy of financial repression by putting a ceiling on bond yields will be the most relevant channels to reduce debt to income levels in highly indebted nations.
For Italy, "an evolution of partial fiscal transfers and debt mutualisation into a permanent one over time would provide protection in case of more permanent macro shocks in the interest rate environment," it said.
In Britain, Barclays expects debt management to come under greater scrutiny in a post-Brexit environment.
"A belief that the gilt market will passively accept higher borrowings and less fiscal transparency may be an assumption that a future government does not have the luxury of making," Barclays said.

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EMERGING MARKETS

Creditor countries urged to think about post-2020 debt relief

08-Jul-2020
By Leigh Thomas and Andrea Shalal
PARIS/WASHINGTON, July 8 (Reuters) - G20 countries

and Paris Club creditor nations must start thinking about debt relief for the poorest countries beyond a debt payment freeze this year and outright restructurings may be unavoidable, top global finance chiefs said on Wednesday.
Speaking to an online G20 debt conference, International Monetary Fund Managing Director Kristalina Georgieva said debt restructuring may be needed on a country-by-country basis for those "that simply cannot stay above water without determined action."
World Bank President David Malpass told "the conference the debt payment freeze should be extended through 2021, and called for reductions in the debt load of some of the most indebted countries to avoid "an even longer poverty trap."
The Group of 20 leading economies and the Paris Club, an informal group of state creditors coordinated by the French finance ministry, agreed in April to freeze debt payments from the 73 poorest countries for the rest of 2020.
"We need to start thinking about what comes next, we will have to take decisions at the end of 2020," French Finance Minister Bruno Le Maire told the conference. G20 finance officials are due to meet online on July 18.
"We could decide to extend the initiative by a few months or we could decide to already start a new phase that could involve deeper debt restructuring for some countries on a case by case basis and in a multilateral framework."
So far, 41 countries have applied for relief from debt servicing under the G20 Debt Service Suspension Initiative (DSSI), and the Paris Club has signed agreements with 20 countries ranging from Ivory Coast to Ethiopia and Pakistan.
The DSSI will free up $12 billion that countries can use to deal with the health and economic strains caused by the novel coronavirus, according to World Bank data.
The debt payment freeze is also unique in bringing China to the table as it has become a major creditor in recent years and come under frequent criticism for a lack of transparency on its lending, including the use of nondisclosure agreements.
Malpass, echoing comments made by G7 finance ministers in June, emphasized the need for greater transparency. In an unusually pointed reference to China, he said all official bilateral creditors, including policy banks such as China's Development Bank and state-owned enterprises, should participate in debt relief.
Georgieva said the Fund needed to "tune up" its lending instruments to help low-income countries and richer tourism-dependent small island economies that have taken a huge hit to growth prospects.

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