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Emerging Sovereign Debt Markets NEWS

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Fitch Ratings: APAC Remittances to Decline amid the Coronavirus Shock

08-Sep-2020

Fitch Ratings-Hong Kong-08 September 2020: The coronavirus pandemic and subsequent impact on the oil market are having a considerable effect on migrant workers and are likely to suppress remittance flows in the APAC region, Fitch Ratings says in a special report. We expect flows to weaken in the coming quarters, even though recent amounts have been surprisingly robust in some countries due to temporary factors. Declining remittances in economies that are dependent on them may affect sovereign ratings through pressures on external finances and economic growth. Demand for migrant labour has provided an important and stable source of foreign-currency remittance flows for a number of APAC sovereigns, including Bangladesh (6.0% of GDP), Pakistan (7.9%), Sri Lanka (8.0%) and the Philippines (8.4%). India is the largest recipient of remittances globally but they account for a small share of GDP at

2.9%. Remittance flows have helped keep current account deficits contained by offsetting large trade deficits. Indeed, without remittances the Philippines, Pakistan, Sri Lanka, and Bangladesh would all have large current account deficits of between 7%-10% of GDP. Remittances in APAC also provide economic benefits to recipient countries. First, they support domestic consumption by providing an additional income source to households. According to the Asian Development Bank, about 14% of households in Bangladesh receive remittance income, 8% in the Philippines, 4% in Pakistan and 2% in India. Second, job opportunities for migrant workers relieve slack in domestic job markets. Remittance flows in APAC were surprisingly mixed in the second quarter of 2020. Monthly data show a considerable and broad decline in remittances during April and May, as Fitch expected, but a recovery in June and July. The rebound in flows was particularly robust in Pakistan and Bangladesh, where flows broke records in both June and July. Sri Lanka and the Philippines also saw an improvement in remittance flows in June, but much more modest. Anecdotal evidence points to temporary factors for the increase in recorded remittances in the recent period. These include migrant workers transferring their savings in preparation to return home, the impact of lockdown restrictions on transferring funds and a shift to formal remittance channels, which are picked up in the official data. **Fitch forecasts a 12% decline across the region in the second half of the year as the temporary support factors fade.** The deterioration in remittance inflows is likely to widen current account deficits, contributing to higher external financing needs. For countries with fragile external finances, such as Pakistan and Sri Lanka, the shock to remittances could exacerbate existing challenges. Lower oil prices and subdued import demand, however, are likely to soften the aggregate impact on external balances. Remittances typically provide a countercyclical buffer for economic activity and vulnerable households. In domestic economic shocks, family members working abroad can increase remittances to help mitigate the impact of sluggish domestic activity. **The pandemic, however, represents a much more synchronised global economic shock than previous downturns.** This limits the potential support of the remittance channel. Lower remittance flows could affect public finances through two channels: lower revenue collection from weaker consumption and higher social spending to support remittance-dependent households as well as returning migrant workers. **Many countries in the region already have limited fiscal space to address the current coronavirus shock and the decline in remittances could exacerbate current challenges.**

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Bahrain

Bahrain hires banks for second bond issuance of 2020

08-Sep-2020
By Yousef Saba
DUBAI, Sept 8 (Reuters) **- Bahrain has hired banks to arrange a multi-tranche sale of U.S. dollar-denominated sukuk and bonds that would be the country's second bond issue this year, a document from one of the banks arranging the deal showed on Tuesday.**
The Gulf state, which averted a credit crunch in 2018 with a $10 billion aid package from its wealthy neighbours, raised $2 billion in May to bolster finances battered by low oil prices and the coronavirus crisis.
"Appetite for yield is high at the moment so I think demand will be high for Bahrain, as it's perceived as a lower-rated country backed by the rest of the GCC," said Raffaele Bertoni, head of debt capital markets at Gulf Investment Corporation, referring to the six-member Gulf Cooperation Council.
Bahrain, rated B+ by S&P and Fitch, hired Bank ABC, Citi, Gulf International Bank, HSBC, National Bank of Bahrain and Standard Chartered to arrange an investor call on Tuesday, the document said. It plans to issue seven-year sukuk, or sharia-compliant bonds, as well as 12-year conventional bonds and/or 30-year conventional bonds, subject to market conditions.
"They will have no difficulty placing the shorter-dated sukuk with regional investors. Pricing on the 12-year or possible 30-year bond will be driven by international investors," said Doug Bitcon, head of credit strategies at Rasmala Investment Bank.
As of the end of June, Bahrain's debt-to-GDP ratio was 114.9%, with $23.141 billion in external government debt and $14.355 billion in gross domestic government debt, according to an investor presentation seen by Reuters.
Its foreign reserves, including gold, stood at $1.87 billion as of the end of June, estimated to cover 1.3 months of obligations of goods imports.
Bahrain adjusted its expected overall budget deficit for 2020 to $2.148 billion, or 6.6% of gross domestic product, from a previous estimate of $1.598 billion, or 4%, the presentation showed. It expects a 0.9% primary deficit from a previously estimated 0.8% surplus.
The finance ministry did not respond to a request for comment.
A fixed income strategist expected the sukuk to be priced to yield around 4.5% and the 12-year

bonds around 5.5%, adding there was an expectation among investors that further Gulf aid for Bahrain would be forthcoming if needed.
"The 30-year could be priced around 6.25%, which is significant since Bahrain issued four-year sukuk in May this year at that level," he said.

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Saudi 'proxy' Bahrain grabs $2 billion with bond comeback

09-Sep-2020
By Yousef Saba
DUBAI, Sept 9 (Reuters) **- Bahrain sold $2 billion in its second bond offering of the year on Wednesday, a dual-tranche issuance comprising seven-year sukuk, or Islamic bonds, and a 12-year conventional tranche.**
The small oil producer, which averted a credit crunch in 2018 with a $10 billion aid package from its wealthy Gulf neighbours, raised $2 billion in May to bolster finances battered by low oil prices and the coronavirus crisis.
On Wednesday it sold $1 billion in sukuk at 3.95% and $1 billion in 12-year bonds at 5.45%, receiving more than $7.6 billion in combined orders for the paper on offer, a document from one of the banks arranging the deal showed.
Rated 'junk' by S&P and Fitch, Bahrain began marketing the deal at around 4.5% for the sukuk and around 5.75% for the conventional bonds earlier on Wednesday.
Fund managers said the yields were tight compared with similarly rated issuers and considering Bahrain's weak credit standing, with a debt-to-GDP ratio of 114.9% as of the end of June.
"Bahrain can offer a significantly lower yield than an issuer like Egypt because of the explicit support of its Gulf neighbours," said Doug Bitcon, head of credit strategies at Rasmala Investment Bank.
"Investors in many ways see it as a proxy for Saudi Arabia, albeit with a healthy premium, which explains the strong demand."
Bonds due in 2032 by similarly rated Egypt were yielding 7.2% on Wednesday, according to Refinitiv data, while Saudi bonds due in 2032 were yielding 2.3%.
"Bahrain still has a long way to go towards fiscal sustainability ... but I think the market right now is saying they have time because of Gulf support, primarily from Saudi Arabia," said Abdul Kadir Hussain, head of fixed income asset management at Arqaam Capital.
Bahrain had considered issuing a 30-year conventional tranche in lieu of the 12-year bonds or alongside them, but opted for the shorter tenor.
"There was no investor appetite for a 30-year tranche. Bahrain has a relatively low amount of bonds maturing in 12 years, so it was a sweet spot," a financial source said.
Bank ABC, Citi, Gulf International Bank, HSBC, National Bank of Bahrain and Standard Chartered arranged the deal.

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China

China government bond futures jump after PBOC cash injection

08-Sep-2020
SHANGHAI, Sept 8 (Reuters) - **Chinese treasury futures rose sharply on Tuesday after a large cash injection by the central bank prompted investors to question an inexorable march higher in Chinese rates.**
The most-traded contract for 10-year Chinese government bond (CGB) futures, for December delivery rose as much as 0.44% to 97.970.
That came after the People's Bank of China (PBOC) injected a net 100 billion yuan ($14.64 billion) into the banking system through its regular open market operations (OMO) in Tuesday.
The bank has injected a net 120 billion yuan so far this week, compared with a net drain of 470 billion yuan last week.
"Fundamentally, CGB rates shouldn't be this high, so any OMO easing signal can pull rates back," said a Hong Kong-based portfolio manager.
Overall liquidity conditions remained relatively stable, with the volume-weighted average rate of the benchmark seven-day repo at 2.2009% on Tuesday, up slightly from 2.1971% a day earlier.
"Cash conditions were generally loose yesterday, so the unexpected large amount of net injection has supported sentiment," said a trader at a Chinese bank.
As of Monday evening, the yield on China's benchmark 10-year government bond had risen about 30 basis points since late July.
The rise has been supported by relatively tight monetary policy as the country's economic recovery steadily builds up steam, allowing regulators to focus on reducing financial risks.
Analysts at Natixis said last month that they expected regulators to make more liquidity injections and lower bank reserve requirements this year to keep yields in check, support local government special bond issuance and meet corporate and bank refinancing needs.

($1 = 6.8301 Chinese yuan)
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China's local gov't bond issuance hits 1.2 trillion yuan in August

09-Sep-2020

BEIJING, Sept. 9 (Xinhua) -- **China's local government bond issuance hit 1.2 trillion yuan (about 175.4 billion U.S. dollars) in August, data from the Ministry of Finance showed Wednesday.**

The figure took the total local government bond issuance for the year to 4.96 trillion yuan by the end of August as authorities quickened bond sales as part of proactive fiscal policies to shore up the virus-hit economy.

Among the issuance, new sales amounted to 3.75 trillion yuan, accounting for 79.3 percent of the 4.73-trillion-yuan quota planned for the year, the MOF data showed.

The ministry pledged to continue to quicken bond sales to facilitate the implementation of proactive fiscal policy.

China has accelerated the issuance of local government bonds this year to facilitate the timely implementation of various projects in order to mitigate the impacts of the novel coronavirus outbreak.

Enditem

India

India Bond Yields Jump as Supply Fears, Border Tensions Hurt

08-Sep-2020
By Dharam Dhutia
NewsRise

MUMBAI (Sep 8) -- **Indian federal government bond yields ended higher for the third consecutive session, as investors remained worried about the upcoming supply deluge, and the escalating border tensions with China. The benchmark 5.77% bond maturing in 2030** ended at 97.88 rupees, yielding 6.06%, highest since Aug. 31, against 98.34 rupees and 5.99% yesterday. The yield has risen by 16 basis points in the last three sessions. The Indian rupee was at 73.60 to the dollar against 73.34 yesterday.

"The benchmark bond yield should stabilize around 6.00% handle, and the RBI is doing whatever they can to keep artificially yields lower - but with heavy supply from center and states, the impact of measures being side tracked," said Yogesh Kalinge, vice president at AK Capital Services. "We will see sustained fall in yields only through a chunky OMO calendar going ahead, while any rise above 6.10% will be a good value-buying opportunity."

Bond market sentiment has turned bearish despite the recent central bank measures as investors remain concerned over rising supply from states as well as the center in the second half.

The market turned cautious after higher-than expected cutoff yields at an auction of government debt on Friday, which was followed by a similar auction for state debt today. Indians states raised 156.75 billion rupees via bonds at cutoff yields that were as much as 15 basis points above estimates.

New Delhi aims to raise a record 12 trillion rupees via bonds in this fiscal year, and market participants anticipate the borrowing to further rise in the second half of the year. It has already raised 6.76 trillion rupees via bonds since Apr. 1 and will sell at least 300 billion rupees of bonds on Friday, which includes 180 billion rupees of the benchmark note.

Fitch Ratings and HSBC today deepened their India gross domestic product forecasts to a double-digit contraction as the coronavirus pandemic continues to spread. Fitch sees Asia's third-largest economy shrinking 10.5% in this fiscal, five percentage points lower than its June estimate. HSBC pegs the annual contraction at 11% against its earlier estimate of a 7.2% shrinkage.

India is the second-worst Covid-19 hit country after the U.S., with the tally of infected people rising to 4.28 million, including 72,775 fatalities. India's economy contracted almost a quarter in April-June, a period that saw one of the most stringent lockdowns to curb the spread of the novel coronavirus.

Meanwhile, border tensions between India and China escalated after China accused Indian troops of violating a bilateral agreement and firing warning shots in the air during a confrontation with Chinese personnel on the disputed border yesterday. The Chinese side took "countermeasures" to stabilise the situation, Reuters reported citing a statement published by the military's official news website today.

India rejected Chinese allegations of violating border agreements and in-turn accused Chinese troops of firing in the air during a face-off. The Chinese army has been "blatantly violating agreements and carrying out aggressive manoeuvres, while engagement at military, diplomatic and political level is in progress," the Indian army said in a statement today.

Chinese troops have engaged in provocative action in the south bank of Ladakh's Pangong lake twice over the last two weeks. India last about ten days back accused China of "provocative military movements to change the status quo" near Pangong lake.

The benchmark Brent crude oil contract was 1.4% lower at $41.45 per barrel. India imports nearly 85% of its crude oil requirements.

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India Bond Yields to Stay Down On RBI Steps, Financial Repression-Capital Economics

09-Sep-2020
By Monika Asthana
NewsRise

MUMBAI (Sep 9) -- **The use of traditional monetary policy tools along with New Delhi's financial repression will likely keep Indian government bond yields low for a prolonged period, Capital Economics said today.**

The government's borrowing costs will likely be in check over the coming years, and "ensure that only modest fiscal tightening will be needed to put the public debt ratio back onto a sustainable footing," senior India economist Shilan Shah wrote in a note.

There are signs that New Delhi is turning towards more financial repression through its policies that will keep borrowing costs artificially low by channelling funds to the public sector, Shah said. That, coupled with the central bank's open market operations and hike in banks' held-to maturity portfolio limit, should prevent a structural rise in bond yields, he added.

The RBI could increase the limit of banks' statutory liquidity ratio to 25% from 18% currently, if the circumstances warrant, Capital Economics said. Moreover, the Monetary Policy Committee's rate-cutting cycle will resume before long as concerns over inflation subside, it added.

India's economy contracted almost a quarter in April-June due to the coronavirus pandemic and ensuing lockdowns. The country is the second-worst hit after the U.S., with the tally of infections rising to 4.37 million, including 73,890 deaths so far. New Delhi has announced a near 21-trillion-rupee stimulus package, which mostly consisted of concessional credit facilities and loan guarantees.

New Delhi hiked its borrowing aim to a record 12 trillion rupees in this fiscal year and is expected to go in for another round of additional borrowing in the second half, which has led to a surge in yields. The Reserve Bank of India recently announced a slew of measures to stem the uptick in yields. The benchmark 5.77% bond maturing in 2030 ended at 98.37 rupees, yielding 5.99%, today against 97.88 rupees and 6.06% yesterday.

India's general government debt as a share of the gross domestic product can surge to 80% in this fiscal year, its highest in almost two decades, Capital Economics said. The government could stabilise the public debt ratio with only modest fiscal tightening over the coming years, provided that interest rates remained below nominal gross domestic product growth, it added.

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Pandemic likely to force India to borrow more, deficit monetisation is last resort

10-Sep-2020
By Aftab Ahmed, Swati Bhat and Manoj Kumar

NEW DELHI/MUMBAI, Sept 10 (Reuters) - **Revenue shortfalls in India, the major economy hardest hit by the coronavirus pandemic, are likely to force the government to borrow more, but it will only consider monetising its deficit as a last resort, sources familiar with discussions told Reuters.**

Borrowing plans for the second half of the financial year, ending on March 31, will be reviewed by government and Reserve Bank of India (RBI) officials later this month, the five sources said.

The officials have already discussed the possibility of monetising the debt, whereby the central bank prints money to bridge the fiscal deficit, but they were in no hurry to return to a bad habit India kicked in 1997.

"There will definitely be higher borrowing in the current year but whether we will print money, that is not yet decided. We will have to have patience and see how things go," a senior official said.

A senior government official said debt monetization was "not the preferred option right now."

"We have seen what some of the countries have done in this regard, but we think that such a move would be the last resort for us," the official added.

Aside from potentially harming India's credit rating, monetisation carries inflation risks that would be politically worrying in a country where voters are extremely sensitive to changes in food prices.

The senior government official said the central bank could ease liquidity through open market operations to keep yields in check while helping the government to increase borrowing, already targeted at a record 12 trillion rupees ($163 billion).

RBI has pumped in over 11 trillion rupees of liquidity into the market, helping to keep 10-year bond yields below 6% even as the government decided to borrow 70% more than last year as a result of the pandemic.

Despite being under one of the strictest lockdowns for over four months India currently has the second highest number of coronavirus cases globally with economic activity curtailed and government revenues severely affected.

India's GDP contracted 23.9% on year in the April-June quarter, with Goldman Sachs now projecting a full-year contraction of 14.8%.
Officials, however, are still pinning some hopes on raising revenue from the sale of the state-owned firms even though they do not expect to meet the target of over 2 trillion rupees for divestment sales this year.
"The dilemma over deficit monetisation is not unique to India," said Radhika Rao, economist with DBS. "The primary challenge is to communicate and ensure that this is a one-off pandemic-induced arrangement and not a recurrent financing line."

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Moody's Says Expects India's Real GDP to Contract By 11.5% in Fiscal 2020

11-Sep-2020
Sept 11 (Reuters) – Moody's Investors Service:

- **Credit profile of India increasingly constrained by low growth, high debt burden and weak financial system**
- Risks from deeper stresses in India's economy, financial system may lead to more severe, prolonged erosion in fiscal strength
- Now expects India's real GDP to contract by 11.5% in fiscal 2020
- Expects India's real GDP growth to rebound to 10.6% in fiscal 2021
- Sharp decline in India's growth will result in materially weaker government revenue
- Now expect India's fiscal deficit to reach 12.0% of GDP in fiscal 2020
- **India's debt burden to peak at around 90% of GDP in fiscal 2020**

(Reuters.Briefs@thomsonreuters.com)

India's Credit Profile Constrained as GDP Likely to Shrink 11.5%, Moody's Says

11-Sep-2020
By Dharam Dhutia
NewsRise
MUMBAI (Sep 11) **-- India's credit profile is increasingly constrained by weak growth, high debt burden and a weak financial system, Moody's Investors Service said today.**
The rating agency expects the economy to shrink by 11.5% in this financial year ending Mar. 31, deeper than an earlier forecast of a 4% contraction.
"The country's policymaking institutions have struggled to mitigate and contain these risks, which have been exacerbated by the coronavirus pandemic," William Foster, vice president and senior credit officer at Moody's, said in a note. "Mutually reinforcing risks from deeper stresses in the economy and financial system could lead to a more severe and prolonged erosion in fiscal strength, exerting further pressure on the credit profile."
Moody's in June cut India's long-term credit rating by a notch to Baa3, the lowest investment grade score, citing challenges for the policymakers through a period of weak growth amid worsening fiscal situation and financial sector stress.
India is the second worst-hit country with Covid-19 tally rising to 4.56 million, including 76,271 fatalities.
The country's economy contracted by almost a quarter in April-June, a period that saw one of the most stringent of lockdowns to curb the spread of the novel coronavirus. From June, most lockdown restrictions have been significantly eased outside of the so-called containment zones. However, the virus has spread from cities to the hinterland and local administrations are still imposing intermittent lockdowns.
Earlier this week, Fitch Ratings said it expects India's economy to contract 10.5% this year, five percentage points lower than its June estimate.
Moody's expects India's growth to recover to 10.6% in the next fiscal year due to a strong statistical base effect and as activity gradually normalises. However, weak infrastructure, rigidities in labor, land and product markets, and rising financial sector risks will continue to constrain the economy's potential.
While a rating upgrade is unlikely in the near future, further evidence of rising economic and financial risks would put downward pressure on India's rating.
India's federal government and states will run fiscal deficits close to 7.5% and 4.5% of GDP, respectively, this year with the debt burden peaking at around 90% of GDP, Moody's said.
Even beyond the pandemic, a growth rebound in India could be more gradual than in other major emerging economies, held back by an increasingly impaired financial system and limited fiscal capacity to provide support, it added.

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Indonesia

Indonesia's debt jumps as government ramps up virus spending

08-Sep-2020

Adrian Wail Akhlas , The Jakarta Post, Jakarta

Indonesia's debt has risen significantly this year as the government has ramped up spending to rescue an economy battered by the coronavirus pandemic amid falling state revenue.

The country's debt-to-gross domestic product (GDP) ratio had risen to 34.53 percent as of August, a jump from the 29.8 percent recorded in the same month last year, Deputy Finance Minister Suahasil Nazara said on Monday, adding that the debt ratio could reach 37.6 percent by the end of the year.

The debt-to-GDP ratio rose because of a lower interest rate and weakening rupiah exchange rate, as well as the rising issuance of sovereign debt papers (SBNs) to finance the nation's response to the pandemic as the budget deficit widened, Suahasil told lawmakers.

"The government expects the debt ratio to reach about 36 percent to 41 percent of GDP next year to fund the country's fiscal deficit," he said.

The government is planning to raise Rp 900.4 trillion (US$61.05 billion) from the issuance of government bonds in the second half of this year as it allocates Rp 695.2 trillion in stimulus funds to strengthen the healthcare system and rescue the virus-battered economy despite slow budget absorption.

It has also agreed on $40 billion in debt monetization with Bank Indonesia (BI), which would see the central bank buy at least $28 billion worth of government bonds through a private placement this year.

The rising debt has become a concern for several economists as it could potentially lower investors' confidence in the Indonesian economy. Government officials have repeatedly stated that they will prudently manage debt and financing policies.

The government now expects to record a state budget deficit of 6.34 percent of GDP this year and 5.5 percent in 2021. It has pledged to reinstate the budget deficit cap of 3 percent by 2023 in a bid to continue a fiscal discipline scheme that has been lauded by investors for a long time.

"[Indonesia's] fiscal deficits were well below the budget ceiling over the past decade, illustrating support for prudent fiscal policy across the political spectrum," Fitch Ratings wrote in a report on Tuesday, adding that the company expected the government's pandemic response to bring the deficit to 6 percent of GDP this year from 2.2 percent in 2019.

Indonesia's slowing economic activity is bad news for state revenue, which had fallen 13.5 percent year-on-year (yoy) to Rp 1.02 quadrillion as of August, according to Finance Ministry data. The amount is around 60.5 percent of the government's state revenue target of Rp 1.69 quadrillion as stated in Presidential Regulation (Perpres) No. 72/2020.

Income from taxes and excise had reached Rp 795.95 trillion as of August, while nontax income stood at Rp 232.07 trillion as businesses were hit by weakening demand and lower commodity prices.

The Indonesian economy shrank 5.32 percent in the second quarter this year and the government expected the economy to shrink further by 2 percent at worst in the third quarter, which would mark the country's first recession since the 1998 Asian financial crisis.

Center of Reform on Economics (CORE) Indonesia research director Piter Abdullah said the government's rising debt was necessary to muster the state spending needed during the current economic downturn, adding that the slowing economic activity would surely hit state revenue hard.

"All countries are doing the same thing. The government must inject a huge amount of money to rescue the economy as businesses falter while households cut back on consumption," he told The Jakarta Post on Monday.

"The important thing is to ensure the survival of households and businesses by accelerating stimulus disbursement and managing the outbreak."

Bank Mandiri chief economist Andry Asmoro said on Aug. 12 that the government's prudent fiscal policies in recent years had provided room for the authority to deal with the impact of the pandemic.

He expressed optimism that the government's burden sharing agreement with BI would help reduce the country's debt burden and bring down bond yields.

Indonesia minister says economic policies must align better to tackle crisis

09-Sep-2020

By Gayatri Suroyo, Ed Davies and Tabita Diela

JAKARTA, Sept 9 (Reuters) - **Indonesia must synchronise monetary and fiscal policies better to tackle economic pressures caused by the pandemic, although the government does not back a proposal for a monetary board to oversee the country's central bank, a top minister told Reuters.**

Coordinating Minister of Economic Affairs Airlangga Hartarto said the government was seeking to strengthen financial reforms to respond to the crisis, which includes ensuring monetary and fiscal policies are more aligned.

"We have to sail to the same direction," Hartarto said in a virtual interview late on Tuesday.

Financial markets have been rattled by concerns about the independence of Bank Indonesia (BI) after parliament started reviewing proposals from a panel of experts to revise the country's 1999 central bank law.

The recommendations include creating a

Monetary Council, giving ministers voting rights at BI's policy meetings, allowing BI to fund fiscal deficits and adding economic growth and employment to its mandate, on top of price stability.

Analysts worry such moves risk pressuring BI to effectively keep printing money through debt monetisation. BI currently has a temporary agreement to fund part of the government's COVID-19 response.

The concerns have knocked the rupiah, while a government bond auction on Tuesday received the lowest bids since April, amid fears the currency might weaken further.

Hartarto, who is the chairman of Indonesia's second-biggest political party Golkar, stressed that the recommendations had not been endorsed by any member of parliament and had not been discussed with government officials.

The government did not support the concept of a monetary board, he said.

However, regarding the expansion of BI's mandate, Hartarto said: "I think it is the role of both the government, fiscal and monetary policy ... to stimulate the market in order to increase the growth and then reduce poverty, as well as to create employment."

He reiterated President Joko Widodo's pledge that BI would remain independent, but said the government wanted BI to be more synchronised with fiscal authorities "like your iPod to your speaker".

Southeast Asia's largest economy is officially forecast to post its weakest performance since the 1998 Asian financial crisis this year - within a range of a 1.1% contraction to 0.2% growth, as against 2019's 5% economic growth.

The government predicts a rebound to 4.5%-5.5% growth in 2021, but Hartarto noted this assumed coronavirus vaccines would be rolled out from the first quarter of 2021.

The government has budgeted 37 trillion rupiah ($2.5 billion) to procure enough vaccines for most of its 270 million people, including from China's Sinovac and Sinopharm, he said.

Indonesian authorities have struggled to contain the outbreak with more than 200,000 cases now confirmed, while the death toll of 8,230 is the highest in Southeast Asia.

($1 = 14,810.0000 rupiah)
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Indonesia parliament body, govt agree to widen 2021 fiscal deficit to 5.7% of GDP

11-Sep-2020

- **2021 GDP target set at 5%**
- **MPs, govt agree to cut tax target, raise spending slightly**
- **Budget committee chairman asks govt not to widen 2021 deficit further**

By Tabita Diela

JAKARTA, Sept 11 (Reuters) - **A key Indonesian parliamentary committee on Friday reached an agreement with the government to expand the 2021 budget deficit target to 5.7% of gross domestic product, from 5.5% initially proposed by President Joko Widodo, the committee chairman said.**

The 2021 economic growth target was approved at 5%, the midpoint of the president's proposed range of 4.5%-5.5%, while the rest of the budget assumptions were approved by the budget committee without changes, said committee chairman Said Abdullah.

The official outlook for GDP this year is within a range of 1.1% contraction to 0.2% growth, versus 2019's 5% expansion.

The wider deficit was due to an agreement between the committee and government officials to raise spending slightly and reduce the tax revenue target for next year.

The total spending for 2021 was temporarily set at 2,750 trillion rupiah ($184.69 billion), up from the 2,747.5 trillion the president proposed in August.

The new target for total state revenue was 1,743.6 trillion rupiah, down from the August proposal of 1,776.4 trillion rupiah.

The committee chairman said the new tax target was more realistic, given an uncertain economic recovery path with the COVID-19 outbreak still raging.

"If the (tax) target isn't reached, the government has to have a good risk management so as not to add onto the budget deficit," he said.

Finance Minister Sri Mulyani Indrawati said the additional spending approved was due to bigger allocations for energy subsidies and other spending that took into account economic uncertainties.

Lawmakers did not discuss how plans to reinstate large-scale social restrictions in the capital Jakarta starting Monday would affect the outlook for Southeast Asia's largest economy.

Sri Mulyani on Thursday said such restrictions will have "serious impact on the social economic conditions of society", according to a local media report.

The committee's approval will be voted on by parliament later, but its endorsement is usually passed.

($1 = 14,890.0000 rupiah)
(Additional reporting and writing by Gayatri Suroyo Editing by Ed Davies)
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Israel

Israel central banker downplays shekel's strength vs dollar, urges budget passage

08-Sep-2020

- **Shekel at nearly 10-year high versus dollar**
- **Policymakers focus more on basket of currencies than dollar**
- **Shekel up 2.5% to record high vs basket, down 3% vs euro in 2020**
- **Deputy cenbank chief: Can cut rates more or expand QE if needed**
- **He says passing 2021 must be government's top priority**

By Steven Scheer

JERUSALEM, Sept 8 (Reuters) **- A nearly 10-year peak for Israel's shekel against the dollar is not overly worrisome for central bank policymakers since those gains have been largely offset by a stronger euro, Bank of Israel Deputy Governor Andrew Abir told Reuters.**

Citing a global "dollar move", Abir said the central bank was more focused on the shekel's valuation against a basket of currencies of Israel's largest trading partners, led by the dollar, euro and Chinese yuan.

The shekel is up some 2.5% this year against the trade-weighted basket -- which has stuck to a narrow range during the coronavirus pandemic and is now at a historic high -- but is 3% weaker versus the euro in 2020.

"Just looking at the dollar is a problem," Abir said in an interview. "We can't change the value of the dollar in the world, so if the dollar is selling off against the euro and other currencies ... we're not going to be an island in this respect. So we very much look at the trade-weighted basket."

While the United States is Israel's biggest single export destination, the European Union is its largest overall trading partner.

The Israeli currency this month reached its highest level against the greenback since mid-2011, at 3.35 shekels per dollar, a strengthening from 3.46 at the start of the year.

Those gains have been helped by a high correlation with Israel's technology sector and a continuation of robust foreign direct investment despite the COVID-19 pandemic, Abir said.

The central bank has bought $14 billion in forex so far this year and $130 billion since its intervention policy started in 2008, and Abir said policymakers remain committed to slowing the shekel's appreciation by intervening in the market where needed.

"The real economy is in a situation where a further appreciation of the shekel would not be helpful," he said, pointing to exporters.

WATCHING AND WAITING

On Aug. 24, the Bank of Israel held its benchmark interest rate at 0.1% for a third successive time after lowering the rate from 0.25% in early April.

The monetary policy committee has been reluctant to cut rates further, preferring measures such as buying currency and government and corporate bonds.

Abir said the MPC was looking to see the impact of prior policy steps before potentially acting again. He said the results have been "pretty good" since the government's benchmark 10-year bond yield stands at 0.7%, enabling the state to finance its huge deficit at very low costs, while corporate bond issuance has risen.

"If we would see a worsening of the situation in the capital markets then we have plenty of tools we can roll out to deal with this problem," Abir said, stressing the bank would not necessarily wait until its next policy meeting on Oct. 22.

"Lowering rates further is a possible tool, enlarging the QE programme is another possible tool, and there are others."

Abir said that while monetary policy is important to help Israel's economy recover, fiscal policy is even more vital. Israel has been without a proper budget for two years and political issues have prevented passage of a 2021 budget.

"The country needs a new budget and new reforms so that we can get through this period in the best possible condition," he said.

The absence of a budget and a surge in COVID-19 cases meant the risk that growth and unemployment will develop in line with the central bank's "pessimistic" scenario has risen, Abir said.

(Reporting by Steven Scheer; Editing by Catherine Evans)
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Israel budget deficit could hit 14.5%/GDP in 2020, Fin Min official says

08-Sep-2020

By Steven Scheer

JERUSALEM, Sept 8 (Reuters) **- Israel's budget deficit could reach as high as 14.5% of gross domestic product this year should the economy recover more slowly than expected from the coronavirus pandemic, a senior Finance Ministry official said on Tuesday.**

Keren Turner-Eyal, the ministry's director-general, told parliament's economics committee that a base scenario shows the deficit reaching 13.3% of GDP in 2020, with the rise due to government spending to help businesses cope with the virus.

In 2021, the deficit would dip to 8.8% and in 2022 to 5.8%.

But should the economy recover slowly, the ministry projects a 14.5% deficit in 2020, 11.7% in 2021 and 8.3% in 2022, Turner-Eyal said. The deficit last year was 3.7% of GDP.

The debt-to-GDP ratio - which was 60% in 2019 - looks to reach 75% this year, or 78% in a more pessimistic scenario, she added, with the ratio growing to 84% or 96% by 2023.

Due to nearly two years of a political stalemate and infighting, Israel does not have a 2020 budget so it is using a pro-rated version of the 2019 base budget. It is not clear if and when a 2021 budget will be passed.

Separately, Finance Minister Israel Katz said he was seeking to boost a fund that provides government-guaranteed loans to small and mid-sized businesses by 18 billion shekels ($5.3 billion) to a total of 40 billion.

COVID-19 infections have surged in Israel and threaten to slow the economic recovery.

Bank of Israel Deputy Governor Andrew Abir told Reuters that the absence of a budget and a surge in COVID-19 cases meant the risk that growth and unemployment will develop in line with the central bank's "pessimistic" scenario has risen.

That would mean a 7% economic contraction this year.

($1 = 3.3906 shekels)
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Israel's cabinet approves extra funds in 2020 follow-up budget

10-Sep-2020

JERUSALEM, Sept 10 (Reuters) - **Israel's cabinet approved a follow-up budget for 2020 on Thursday that boosted spending for defence, social programmes and religious institutions.**

In a vote that took place in the middle of the night, ministers agreed to add 11 billion shekels of spending to bring total 2020 spending to 411 billion shekels ($121 billion).

Israel is using a pro-rated version of the 2019 state budget, since a 2020 budget has not been approved due to a political stalemate and feuding between government leaders.

Parliament on Aug. 24 ratified the postponement of a deadline to approve the 2020 budget that avoided plunging the country into its fourth election in less than two years. Failure to approve a budget in parliament by Aug. 25 would have automatically triggered an election.

Prime Minister Benjamin Netanyahu and his main coalition partner, Defence Minister Benny Gantz, have been at odds over whether a one-year or two-year budget should be passed, with a second wave of COVID-19 infections fuelling an economic crisis.

It is not clear if and when a budget for 2021 will be approved.

Finance Minister Israel Katz told Army Radio that he had instructed ministry staffers to work on a 2021 budget to be approved as soon as possible.

As part of the extra funding, defence will receive more than 3 billion shekels, while allowances to the disabled will rise by 900 million and budgets for religious institutions will increase.

($1 = 3.3961 shekels)
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Jordan

S&P Says Jordan 'B+/B' Ratings Affirmed, Outlook Remains Stable

11-Sep-2020

Sept 11 (Reuters) –

- **S&P says Jordan 'B+/B' ratings affirmed; outlook remains stable**
- S&P says views Jordan's funding sources as resilient & support from multilateral, bilateral partners for Jordan to remain strong

(Reuters.Briefs@thomsonreuters.com)

Kuwait

Kuwait cuts $3 bln from 2020-21 budget, lawmaker says

08-Sep-2020

DUBAI, Sept 8 (Reuters) **- Kuwait has cut 945 million dinars ($3.09 billion) in expenditure from its budget for the 2020/2021 fiscal year, the head of a parliamentary committee said on Tuesday, adding workers' rights, benefits and subsidies would not be affected.**

The small oil-rich Gulf country is seeking to save money while facing a deficit of 14 billion dinars this fiscal year, which began on April 1, amid the twin shock of the oil price crash and coronavirus pandemic.

The head of the budgets and final accounts committee, Adnan Abdulsamad, also said, however, that the deficit could be lower as it was based on an oil price of $30 per barrel, which has since somewhat recovered.

To bolster its finances, the government is trying to pass a debt law that would raise Kuwait's debt ceiling and allow it to tap international investors. But lawmakers want to see plans to reform the economy and shift its heavy reliance on oil, which made up 89% of revenues last fiscal year.

"As a result of the current crisis, the ministry of finance has amended the estimates for the 2020/2021 budget, with revenues estimated at 7.5 billion dinars and expenditures at 21.5 billion dinars," Abdulsamad said, according to parliament's Twitter account.
In January, Kuwait expected spending of 22.5 billion dinars and revenues of 14.8 billion dinars in the 2020/2021 budget.
Abdulsamad said surpluses between 1999 and 2019 totalled 50 billion dinars and were transferred to the General Reserve Fund, one of Kuwait's sovereign funds.
But "they were exhausted due to the absence of a prudent approach regarding expenditures," he said.
In June, Kuwait said it would cut state entities' budgets by at least 20%.
"Lawmakers reaffirmed, during a discussion on budgets, the need to reconsider support for (government) bodies, abolish the futile ones, and restructure state institutions in order to limit the state's general budget deficit," the Kuwait National Assembly said on Tuesday via Twitter.

($1 = 0.3058 Kuwaiti dinars)
(Reporting by Alaa Swilam;
Writing by Yousef Saba;
Editing by Andrew Cawthorne)
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Lebanon

IMF underscores need for audit of Lebanese central bank

10-Sep-2020
WASHINGTON, Sept 10 (Reuters) **- The International Monetary Fund said on Thursday its discussions with Lebanese authorities are focused on the need for an accounting and financial audit of the balance sheet of the country's central bank to help assess its assets and liabilities.**
IMF spokesman Gerry Rice told reporters such an audit would also help assess the central bank's financing of government operations and its "financial engineering" of its own net worth, key elements to understanding past losses.
Italy has joined France in pressing Lebanon to rebuild trust between its people and institutions and institute reforms to end decades of state corruption and mismanagement, moves aimed at clearing the way for international aid.
Lebanon had launched talks with the IMF in May but those discussions stalled in July as the government argued with the political parties and banks about the scale of losses in the banking system, which had help fund a mountain of public debt.
A reform roadmap outlined by France calls for Lebanon's new government to implement an IMF-approved capital control law, start auditing the central bank and launch reforms to the electricity sector.
Rice told a regular briefing that the Lebanese finance minister had recently signed financial and forensic audits of the central bank.
He said IMF officials had also offered Lebanese authorities technical assistance to help face some of the challenges following the Aug. 4 explosion at the Beirut port that killed about 190 people and caused $4.6 billion in damages.

(Reporting by Rodrigo Campos; Writing by Andrea Shalal; Editing by Richard Chang)
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Oman

Oman will tap local and international debt to fill coffers

09-Sep-2020
DUBAI, Sept 9 (Reuters) **- Oman will tap local and international debt markets to fill state coffers badly hit by low oil prices and the economic downturn caused by the coronavirus crisis, its state news agency said on Wednesday citing the finance ministry.**
A relatively small crude producer burdened by high levels of debt, Oman is more vulnerable to oil price swings than most of its wealthier Gulf neighbours.
The finance ministry hired Bank Muscat and its Islamic unit Meethaq to arrange an issuance of local sukuk, Oman News Agency said.
It said local development bonds worth 550 million Omani rials ($1.43 billion) have already been issued. The ministry also confirmed it has secured a $2 billion bridge loan previously reported by Reuters.
The one-year loan will be repaid with an international bond issuance, which would be Oman's first since July 2019.
The finance ministry is working to fulfil its financing plan, "which includes issuing local and international bonds and sukuk" to plug its remaining needs for the year.
Oman's fiscal deficit could widen to 16.9% of gross domestic product this year from a 7% deficit last year, the International Monetary Fund has estimated.
The finance ministry said it has taken several measures to rein in its deficit, focusing on cutting public spending.
It said Oman's commitment to OPEC+ oil production cuts "was directly reflected in the financial estimates for oil revenues that were approved in the state's general budget at the beginning of the current year," in addition to the impact of low crude prices and the pandemic's impact.

($1 = 0.3850 Omani rials)
(Reporting by Yousef Saba and Alaa Swilam; Editing by Tom Brown)
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Pakistan

Pakistan reserves increase $95 mln to $12,807.8 week ending Sept 4

10-Sep-2020

KARACHI, Pakistan, Sept 10 (Reuters) - **Pakistan's foreign exchange reserves increase $95 million to $12,807.8 million in the week ending Sept 4, compared to $12,712.7 million in the previous week, central bank said on Thursday.**

During the week ending September 4, reserves increase by $95 million.

The increase in reserves is mainly attributed to proceeds of $121 million from Asian Development Bank, central bank said on Thursday.

(Reporting by Syed Raza Hassan)
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South Korea

Fitch Rates Korea's Proposed Foreign-Currency Bonds 'AA-'

07-Sep-2020

Fitch Ratings has assigned Korea's (AA-/Stable) proposed foreign-currency bonds a 'AA-' rating.

KEY RATING DRIVERS

The rating is in line with Korea's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'AA-' with a Stable Outlook.

Fitch affirmed Korea's Long-Term Foreign- and Local-Currency IDRs on 11 February 2020.

RATING SENSITIVITIES

The rating on the proposed bonds is sensitive to any changes in Korea's Long-Term Foreign-Currency IDR.

The following were the rating sensitivities for the sovereign rating published in the rating action commentary in February 2020.

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

- A structural easing of geopolitical risk to levels more in line with rating peers.
- An improvement in governance standards, for example, through further reforms to reduce ties between politics and business.
- Evidence that the economy can expand at a high rate over time, for instance, resulting from successful structural reforms that spur productivity growth.

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

- Significant escalation of tensions on the Korean peninsula that severely worsen Korea's economic metrics or security level.
- An unexpected large rise in the public-sector debt burden caused by a sustained deviation from the country's record of sound fiscal management.
- Evidence that medium-term growth will be structurally lower than Fitch expects, potentially reflecting challenges to Korea's economic model.

BEST/WORST CASE RATING SCENARIO

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

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG Considerations

The ESG profile is in line with that of Korea.

Korea

Senior unsecured; Long Term Rating; New Rating; AA-

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Additional information is available on www.fitchratings.com

South Korea central bank to conduct 5 trln won outright Treasury bond purchase

08-Sep-2020

SEOUL, Sept 8 (Reuters) - **South Korea's central bank on Tuesday said it will conduct outright purchase of treasury bonds worth about 5 trillion won ($4.21 billion) until the end of 2020 to soak up the public debt issuance that is expected to increase in the months to come.**

The Bank of Korea also said it will take steps to stabilise financial markets if bond yield are volatile.

($1 = 1,186.3700 won)
(Reporting by Cynthia Kim. Editing by Louise Heavens)
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South Korea draws extra $6.6 bln budget to help small businesses, households

10-Sep-2020

- **President Moon says economic activities are sharply contracting**
- **Extra budget will need to be funded by government bond sales**
- **3.2 trln won for small retailers, 1.4 trln won for job seekers**

By Cynthia Kim and Hyonhee Shin

SEOUL, Sept 10 (Reuters) - **South Korea is preparing the fourth supplementary budget of this year of around $6.6 billion to aid struggling small businesses facing mass closures amid unprecedented social distancing restrictions to curb a resurgence of the coronavirus.**

At an emergency economic policy meeting, President Moon Jae-in said the fresh spending of 7.8 trillion won ($6.58 billion) will be used to help small businesses and households.

"The unexpected resurgence of the coronavirus is delaying recovery momentum, and economic activities across domestic demand and consumption are sharply contracting," Moon told the meeting.

Of the new budget subject to parliamentary approval, 3.2 trillion won will be used as cash payments to small businesses, while another 1.4 trillion won will support struggling job seekers.

Moreover, every South Korean aged 13 years old or older will be able to receive subsidies for mobile phone bills.

The fourth extra budget of this year comes on top of 277 trillion won ($233.66 billion) of stimulus pledged so far to prevent a deeper downturn in Asia's fourth-largest economy.

South Korea had been more successful than many other countries in containing the virus, managing to avoid a full-blown lockdown, but it suffered a setback in mid-August with a church outbreak which spread to a political rally.

The strict social distancing rules imposed since late August have hurt restaurants, hospitality and retail sectors, as the government banned onsite dining after 9 p.m. (1200 GMT) and limited coffee franchises to takeout and delivery.

Small businesses are vanishing fast.

Statistics Korea data show the number of self-employed businesses were down by 128,000 in July from a year earlier to 5.55 million, marking the biggest annual drop since 2009.

The Korea Center for Disease Control and Prevention (KCDC) reported 155 new cases as of midnight Wednesday, which brought the total infections to 21,743, with 346 deaths.

The fresh government containment efforts have led to a steady drop in the daily tally since it reached a peak of 441 last month. But smaller clusters continued to emerge from churches, offices and medical facilities.

The government is set to announce soon whether to extend current curbs, which expire on Sunday, including limiting nightly on-site dining in the Seoul metropolitan area, health ministry officials said on Thursday.

"There are nearly 100 cases occurring daily in the greater Seoul area and we think this trend should be broken," said Yoon Tae-ho, the ministry's director-general for public health policy.

($1 = 1,185.4800 won)

(Reporting by Cynthia Kim; Editing by Himani Sarkar & Shri Navaratnam)

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S. Korea sells 1.45 bln USD of sovereign bonds to global investors

10-Sep-2020

SEOUL, Sept. 10 (Xinhua) **-- South Korea sold 1.45 billion U.S. dollars of sovereign bonds to global investors at a record-low rate, the finance ministry said Thursday.**

The foreign exchange stabilization bonds were issued in two classes denominated in the U.S. dollar and the euro, according to the Ministry of Economy and Finance.

The FX stabilization bonds are sold by the ministry to raise funds necessary for smoothing operation in the foreign exchange market. The bond's yield acts as a benchmark for debts sold overseas by the private sector.

The 10-year dollar bond worth 625 million dollars carried a yield of 1.198 percent, or 50 basis points of premium on the 10-year U.S. Treasury Bond yield.

Both the yield of 1.198 percent and the yield premium of 50 basis points marked the lowest.

The five-year euro bond worth 700 million euros (about 825 million U.S. dollars) was sold at a yield of minus 0.059 percent, or 35 basis points on the five-year euro mid-swap rate.

It was the first time that the country issued the euro bond at a minus yield.

Enditem

Uzbekistan

Uzbekistan: The Ministry of Finance continues making timely payments to employees of budget organizations

11-Sep-2020

The Treasury of the Ministry of Finance of the Republic of Uzbekistan continues to fulfill the timely payment of salaries to employees of budget organizations, and simultaneously ensures measures to combat the coronavirus infection dissemination.

In order to fully achieve these significant tasks, the treasury and budget organizations have established a systematic exchange of data in an

online mode.
As of September 8 this year, the Treasury paid 2 036 billion sums (99%) of wages and equivalent payments from the budget in the second half of August.
Work on the payment of wages and equivalent payments based on requests submitted on the final registers in The Treasury department of the Ministry of Finance and its territorial divisions is carried out continuously.

EUROPE

Albania

Albania's gross foreign debt up 8.7% in Q2

10-Sep-2020
TIRANA (Albania), September 10 (SeeNews) – **Albania's gross foreign debt totalled 8.9 billion euro ($10.6 billion) at the end of June, up 8.7% compared to the value recorded at the end of the previous quarter, central bank data showed on Thursday.**
The foreign debt of Albania's commercial banks, general government and central bank all increased in the first quarter, according to figures released by Bank of Albania.

($ = 0.8417 euro)

Bulgaria

Bulgaria's parliament ratifies EU regulation on SURE agreement

10-Sep-2020
SOFIA (Bulgaria), September 10 (SeeNews) - **Bulgaria's parliament said that it has ratified the EU regulation on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE), in accordance with which Bulgaria is expected to get a 1 billion levs ($605 million/511 million euro) loan.**
Bulgaria will provide state guarantees of 107.5 million euro, which will be due in case one or more participants in the instrument fails to fully or partially repay its loan, according to documents published by Bulgaria's parliament on Wednesday.
The SURE instrument will allow the government to continue to support employment during the coronavirus crisis through job retention schemes, Prime Minister Boyko Borisov said last month.
SURE is a temporary financing scheme designed to provide up to 100 billion euro of loans under favourable terms to EU member states. The instrument enables member states to request EU financial support to help finance the sudden and severe increases of national public expenditure.
Among the other EU member states in Southeast Europe, Romania is set to receive the largest support - of 3 billion euro. The European Commission's proposal also envisages support of 1.1 billion euro for Slovenia and 1.0 billion euro for Croatia.

(1 euro = 1.95583 levs)

Croatia

Croatia posts budget gap of 4.9% of GDP in H1 2020

10-Sep-2020
ZAGREB, Sept 10 (Reuters) **- Croatia posted a general budget gap of 17.9 billion kuna ($2.81 billion), or 4.9% of gross domestic product (GDP), in the first six months of this year, Finance Minister Zdravko Maric said on Thursday.**
"In the first half of this year, due to the coronavirus crisis and the measures to mitigate its effects on the economy and employment, revenues were 7.2% lower and expenditure was 15.2% higher than in the same period last year," he told a cabinet session.
For the whole year Croatia plans a budget gap amounting to 6.8% of GDP.

($1 = 6.3665 kuna)
(Reporting by Igor Ilic
Editing by Gareth Jones)
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Cyprus

S&P Says Cyprus 'BBB-/A-3' Ratings Affirmed Outlook Stable

05-Sep-2020
Sept 4 (Reuters) - S&P:
- **S&P says Cyprus 'BBB-/A-3' ratings affirmed; outlook stable**
- S&P says covid-19 fallout has pushed Cyprus' tourism-dependent economy into severe recession, prompted a large deficit in 2020
- S&P says believe EU membership supports Cyprus' creditworthiness, particularly favorable decisions taken at both the level of EU, ECB in recent months

(Reuters.Briefs@thomsonreuters.com)

Hungary

Hungary central bank launches swap tenders for foreign currency liquidity

08-Sep-2020

BUDAPEST, Sept 8 (Reuters) - **The National Bank of Hungary (NBH) said on Tuesday it had added swap tenders providing foreign currency liquidity to its monetary policy toolkit in order to reduce volatility in the domestic fx swap market.**

The central bank said in a statement the new swaps will be used "in necessary cases" in addition to its regular swap tenders providing local forint liquidity which the bank has been using for a long time to manage interbank liquidity.

"By announcing a swap instrument providing foreign currency liquidity, the NBH will ensure that the volatility of domestic FX swap market yields at the end of the quarter is reduced significantly and that yields are in line with the level of short-term rates set by the Monetary Council," the bank said.

After two cuts in June and July, the bank last month left key interest rates unchanged and said it would increase its government bond purchases amid a worsening economic outlook caused by the coronavirus pandemic.

It has ruled out further cuts in the base rate, currently at 0.6%, saying it aimed to keep a safe distance from near-zero levels elsewhere in central Europe.

The NBH said on Tuesday it would later inform banks about the conditions of the new swap tenders, which will provide foreign currency liquidity with a maximum of two-week maturity.

The bank also modified its long-term collateralised lending facility, saying it will be kept for three and five-year maturities. Weekly tenders with maturities of up to one year will not be announced, it said.

(Reporting by Krisztina Than;
Editing by Andrew Cawthorne)
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Hungary issues 500 mln euros worth of Samurai bonds

11-Sep-2020

BUDAPEST, Sept 11 (Reuters) **- Hungary raised 500 million euros ($591.70 million) from four-tranche Samurai bonds in the Japanese market, the Hungarian Finance Ministry said in a statement on Friday.**

One-third of the bonds issued were green bonds, in two tranches with maturities of 7 and 10 years. The other two were 3-year and 5-year traditional yen-denominated bonds, the ministry said.

Hungary last issued Samurai bonds in 2018.

Hungary's budget deficit could reach 7% to 9% of GDP this year due to a deeper-than-expected recession and costs linked to the COVID-19 crisis, which has forced the debt agency to modify its debt issuance plans, boosting issuance.

Hungary has already issued forex bonds worth 3.5 billion euros earlier this year, and has now covered its full-year foreign currency bonds issuance plan with the Samurai bonds.

Books for the Samurai bonds built up to near 80 billion yen ($753.58 million) and were allocated first to the longest tenor as the issuer preferred long maturities, IFR reported.

($1 = 0.8450 euros)
($1 = 106.1600 yen)
(Reporting by Krisztina Than, Editing by Sherry Jacob-Phillips)
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North Macedonia

S&P Says North Macedonia 'BB-/B' Ratings Affirmed, Outlook Stable

05-Sep-2020

Sept 4 (Reuters) -

- **S&P says North Macedonia 'BB-/B' ratings affirmed; outlook stable**
- S&P says coronavirus pandemic will weigh on economic recovery of North Macedonia despite early measures to contain the virus

(Reuters.Briefs@thomsonreuters.com)

North Macedonia to offer 2.6 bln denars (42.2 mln euro) of govt paper on Sep 15

09-Sep-2020

SKOPJE (North Macedonia), **September 9 (SeeNews) – North Macedonia's finance ministry will offer two issues of government securities worth a total of 2.6 billion denars ($49.7 million/42.2 million euro) at auctions on September 15, the central bank said**

The offer comprises 1.3 billion denars worth of one-year Treasury bills and 1.3 billion denars of 15-year government bonds, the central bank announced in an auction notice.

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

(1 euro = 61.58 denars)

Romania

Romania sells above target 938 mln lei (193 mln euro) of 2024 T-notes, yield falls

07-Sep-2020

BUCHAREST (Romania), September 7 (SeeNews) - **Romania on Monday sold 938 million lei ($229 million/193 million euro) worth of a new Treasury notes issue maturing on November 25 2024, above initial target, central bank data showed.**

The average accepted yield fell to 3.22% from 3.44% achieved at the previous auction of government securities of the same issue held in August, the data indicated.

Demand for the T-notes, which carry an annual coupon of 3.70%, fell to 1.363 billion lei from 1.956 billion lei at the previous auction.

The issue will be reopened on Tuesday when the finance ministry hopes to raise 75 million lei in a non-competitive tender.

Romania's finance ministry aims to sell domestic debt worth 4.54 billion lei in September, including 540 million lei at non-competitive tenders.

Year-to-date, the ministry has sold some 49.7 billion lei and 645 million euro ($763 million) worth of government bills and bonds and has tapped foreign markets for 6.3 billion euro of 2026, 2030, 2032 and 2050 Eurobonds.

It also sold 10-year dollar-denominated bonds worth $1.3 billion and $2 billion of 30-year bonds on the external market.

(1 euro=4.8552 lei)

Romania's economy down 10.5% in Q2, confirms flash estimate -stats

08-Sep-2020

BUCHAREST, Sept 8 (Reuters) **- Romania's economy contracted 10.5% on the year in the second quarter, the National Statistics Board (INS) said on Tuesday confirming a flash estimate, while domestic consumption fell by 9.3%.**

On a quarterly basis, GDP contracted 12.3% in seasonally adjusted terms in April-June, data showed.

(Reporting by Radu Marinas)
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Russia

Russia's economy to shrink by less than 4% in 2020, minister says

08-Sep-2020

MOSCOW, Sept 8 (Reuters) **- Russia's economy could contract by less than 4% in 2020, Finance Minister Anton Siluanov said on Tuesday, an improvement on previous assessments and a positive sign for an economy bruised by low oil prices and the COVID-19 pandemic.**

Speaking at a financial forum in Moscow alongside Central Bank Governor Elvira Nabiullina, Siluanov warned against excessive borrowing to finance Russia's economic recovery.

The debt-to-GDP ratio will reach nearly 20% in 2021 and must not increase further, Siluanov said.

And at a time when Russia is facing the real threat of additional sanctions over the suspected poisoning of Kremlin critic Alexei Navalny, Siluanov sought to woo foreign investors, attracted to Russia's OFZ treasury bonds thanks to their relatively attractive yields.

"The amount of debt that we borrow this year will depend, among other things, on whether foreign investors trust us," said Siluanov.

"If we do not have as many foreign investors, we will not borrow as much. Therefore, we need to value this trust."

Speaking ahead of the central bank's rate-setting meeting on Sept. 18, Siluanov said lower interest rates would help revive economic growth.

Economists polled by Reuters last month, before the rouble's rapid depreciation, forecast a 4.7% economic contraction in 2020 and said subdued inflationary risks could give Russia room to cut rates for a fifth time this year.

Nabiullina gave no new signals as to whether the central bank would cut the key rate from 4.25% next week, reiterating the bank's earlier statement that there was room for a monetary policy manoeuvre.

"All will depend on how the situation with the pandemic evolves, with the economy in general, with inflation," she said.

The Bank of Russia sees inflation at 3.7-4.2% by the end of the year, and Nabiullina was insistent that there is no need to revise its 4% inflation target.

Neither Nabiullina nor Siluanov addressed the issue of the weak rouble, dented by risks of Western sanctions against Moscow related to the turmoil in Belarus and the poisoning of Navalny.

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Turkey

Turkey's current account deficit at $2 bln in July

09-Sep-2020

- **2020 current account deficit estimate widened to $26.5 billion**

ISTANBUL, Sept 9 (Reuters) - **Turkey's current account is expected to record a deficit of $2 billion in July and a wider shortfall for the full year, a Reuters poll showed on Wednesday, reflecting costly imports even as the coronavirus-hit tourism sector recovered some ground.**

For year-end, the median poll response was for a deficit of $26.50 billion, compared to $21.95 billion in last month's survey, with forecasts ranging between $32.5 billion and $4 billion.

Turkey's long history of current account deficits - which topped $52 billion in 2018 - are again worrying investors as the lira touches record lows and the central bank eats into its foreign exchange reserves.

In the Reuters poll of 12 economists, forecasts for July ranged between deficits of $2.5 billion and $1.65 billion.

Daglar Ozkan, economist at Is Yatirim, said the July shortfall is mainly due to trade though the services component gave some support due to a relative recovery in tourism.

"The second half of the year will be better than the first in terms of current account. I expect the trend in exchange rates to provide some support for exports and put some pressure on imports," he said.

A potential second coronavirus wave could hit tourism again and widen the annual deficit, Ozkan said, adding that it could be narrower if gold imports ease in coming months.

Turkey's 12-month current account ended last year in surplus for the first time since 2001, though the monthly reading dipped back late last year as the economy recovered from a recession brought on by a 2018 currency crisis.

Measures taken to curb the COVID-19 outbreak are expected to shrink the economy in 2020. The lira has fallen 20% this year as worries grew over the central bank's depleted forex reserves.

Turkey's foreign trade deficit, the main component of the current account, narrowed 18.2% year-on-year in July to $2.7 billion, according to the general trade system.

The central bank is expected to announce July current account data at 0700 GMT on Sept. 11.

(Reporting by Ali Kucukgocmen; Editing by Jonathan Spicer)
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Moody's cuts Turkey's rating on risk of balance of payment crisis

11-Sep-2020

Sept 11 (Reuters) - **Moody's on Friday downgraded Turkey's rating to 'B2' from 'B1', saying the country's external vulnerabilities are likely to result in a balance of payments crisis and that its fiscal buffers were eroding.**

"As the risks to Turkey's credit profile increase, the country's institutions appear to be unwilling or unable to effectively address these challenges," the ratings agency said in a statement.

Turkey's trade deficit soared 170% to $6.31 billion in August, trade ministry data showed, as record drops in the lira currency set locals on a rush to buy gold and on concerns over depleted foreign exchange reserves currencies.

Turkey's reserves have been drifting downward for years, but are now at a multi-decade low as a percentage of GDP because of the central bank's unsuccessful attempts to defend the lira since the beginning of 2020, the agency said.

Moody's maintained the country's outlook at negative, citing elevated levels of geopolitical risk that could accelerate any crisis - its relationship with the United States, the European Union and tensions in the Eastern Mediterranean.

(Reporting by Nilanjana Basu in Bengaluru; Editing by Arun Koyyur)
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Ukraine

S&P Rates Ukraine's Long Term Local Currency 'B' and Long Term Foreign Currency 'B' Outlook Stable

11-Sep-2020

Sept 11 (Reuters) –

- **S&P rates Ukraine's long-term local currency 'b' and long-term foreign currency 'B'; outlook stable**
- S&P says Ukraine 'B/B' ratings affirmed; outlook stable

(Reuters.Briefs@thomsonreuters.com)

LATIN AMERICA AND CARIBBEAN

Argentina

S&P raises Argentina's long-term foreign currency rating to 'CCC+'

07-Sep-2020

Sept 7 (Reuters) - **Ratings agency S&P Global Ratings on Monday upgraded Argentina's long-term sovereign credit rating to 'CCC+' from 'SD' citing the conclusion of prolonged foreign and local law foreign currency debt restructurings.**
S&P also said that the outlook on Argentina's long-term ratings was stable to account for certain macroeconomic risks against the fiscal space provided by the various debt restructurings.
The agency's action comes after Argentina took a debt revamp over $100 billion with local bond exchange on Friday.

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S&P lifts Argentina rating out of default after debt revamp

07-Sep-2020
BUENOS AIRES, Sept 7 (Reuters) **- Global ratings agency S&P upgraded Argentina's long-term sovereign credit rating on Monday, pulling it out of default territory after the South American country successfully restructured over $100 billion in sovereign debt.**
The agency lifted the country's rating to 'CCC+' from the previous 'SD', or selective default, citing the conclusion of "complex" foreign and local-law debt restructurings that would significantly reduce coupon payments in the next few years.
"This important step forward provides the opportunity for the government to articulate a broader plan to tackle various post-pandemic macroeconomic challenges," it said.
Argentina has over the last week restructured around $65 billion in foreign bonds and over $40 billion in foreign currency debt issued under local law, a big win for the country that has been mired in recession and default.
The grains producer now has to turn its attentions to negotiating a new deal with the International Monetary Fund to replace a failed $57 billion credit facility from 2018 and to hold talks with the Paris Club groups of lenders.
It is also facing its third straight year of recession with forecasts for a 12% contraction this year, high inflation, draining reserves and rising pressure on the peso currency.
S&P gave Argentina a "stable" outlook, though the agency said it could downgrade the country again if any "unexpected negative political developments undermine prospects for economic recovery and for some reversal of the fiscal deterioration in 2020."
"This scenario could damage fragile local investor confidence in particular and hamper access to peso-denominated debt markets," the ratings agency said.

(Reporting by Shivani Singh in Bengaluru and Adam Jourdan in Buenos Aires; Editing by Lisa Shumaker)
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Indebted Argentine province offers to pay suppliers - with more debt

09-Sep-2020
BUENOS AIRES, Sept 8 (Reuters) - **Argentina's largest province, Buenos Aires, in default and grappling with limited funds, has come up with a novel way to pay its suppliers: issuing them more debt.**
The local government said on Tuesday that it issued "debt-cancellation bonds" to pay suppliers and contractors owed money by provincial authorities for up to 15 billion pesos ($200 million).
The new bonds are intended to settle debts with companies that provide services in areas like health, education, security and infrastructure.
"Despite the difficult economic situation, we continue to implement measures to comply with our commitments and pay off the large debt that we inherited with suppliers and contractors," said provincial Finance Minister Pablo Lopez.
Buenos Aires, the most populous province in the country, is facing a deadline on Friday to restructure $7 billion in foreign debt with its creditors.
Lopez added the bond was a "voluntary" tool that would allow the provincial government to get its wider financial situation resolved more quickly.
The bonds, whose first capital payment would be in December, 2021, will be amortized in four consecutive quarterly installments, each equivalent to 25% of the total capital amount.

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Fitch Upgrades Argentina to 'CCC'

10-Sep-2020
Sept 10 (Reuters) - FITCH-
- **Fitch upgrades Argentina to 'CCC'**
- **Fitch says it upgrades Argentina to 'ccc' from 'RD'**
- Fitch says upgrade of Argentina's rating reflects completion of distressed debt exchanges on its foreign currency sovereign debt securities
- Fitch - upgrade of Argentina's rating reflects completion of DDES on its foreign currency sovereign debt securities in both local, external markets
- **Fitch says Argentina's ratings reflect deep liquidity, debt sustainability challenges**

that impede improvement in sovereign repayment capacity

- Fitch says going forward, it expects any liability management exercises in local Argentina market to take place on non-distressed terms
- Fitch says despite relief from debt restructuring efforts, Argentina's financing picture appears tight in context of sharp fiscal deterioration
- Fitch says upcoming mid-term congressional 2021 elections could constrain scope to allow high inflation to erode real salaries, pensions in Argentina
- Fitch says upcoming 2021 budget could offer some clarity on fiscal plans for Argentina

(Reuters.Briefs@thomsonreuters.com)

Brazil

Brazil administrative reform to generate at least $57 bln savings over 10 years, economy minister says

09-Sep-2020
By Jamie McGeever and Marcela Ayres
BRASILIA, Sept 9 (Reuters) - **The Brazilian government's administrative reform proposals to simplify and reduce the cost of the public sector will generate at least 300 billion reais ($57 billion) of savings over the next decade, Economy Minister Paulo Guedes said on Wednesday.**
This was the first estimate of how much the wide-ranging reforms will save the public purse.
The government presented its constitutional reform bill to congress last week, the first of a three-part legislative process. Officials said savings forecasts would come when second and third phases of guidelines on salaries are presented.
But speaking in an online live event hosted by the Braziliense Institute of Public Law, Guedes on Wednesday said a conservative estimate would be 300 billion reais over the next decade.
"In a very moderate way, we believe that it (savings) will be about 300 billion reais over 10 years. It is an important number," Guedes said, noting that this follows last year's social security reform that aims to generate savings of around 800 billion reais over 10 years.
"When you add it all up, you really regain control over the future path of public spending, which was our main concern - how to control the explosive dynamic of public spending," Guedes said.
The economy ministry last week revised its 2020 fiscal forecasts to new record levels, to account for the extension of emergency payments to the poor through the end of the year.
The ministry now expects the central government primary deficit excluding interest payments to reach 866.4 billion reais ($167 bln) or 12.1% of gross domestic product this year, up from 787.4 billion reais, or 11% of GDP, as forecast in July.
Guedes said he expects the administrative reform bill to have a relatively smooth passage through congress and be approved later this year.
The reform bill will make it easier to fire civil servants and cuts their benefits, and gives the president sweeping powers to eliminate public sector jobs and bodies without congressional approval.

($1 = 5.30 reais)
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Colombia

Colombia places $1.3 bln in local TES bonds

10-Sep-2020
BOGOTA, Sept 10 (Reuters) **- Colombia has placed 4.8 trillion pesos ($1.3 billion) in local treasury bonds, with proceeds earmarked to help the Andean country support the development of its capital markets, the ministry of finance said on Thursday.**
The 30-year TES bonds - the longest placement period ever for a bonds in local currency - are due in 2050. The bonds, which saw demand of almost double the offer, have an interest rate of 7.25%.
Colombia has been obliged to look for billions in funding by issuing bonds and obtaining credit with organizations like the Inter-American Development Bank to deal with economic upheaval from the coronavirus pandemic.
As well as supporting capital markets, the bonds will allow Latin America's fourth-largest economy to advance its internal financing under favorable conditions, the ministry said in a statement.
"The high demand confirms financial markets' confidence in the strength of Colombian institutions, the prudent management of the economy and the growing diversification of our investor domestic and foreign investor base," the ministry said.
The peso-denominated TES bonds are the country's second top source of financing after tax collections.

($1 = 3,717.25 Colombian pesos)
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Mexico

Mexico raises gross debt limit to 70% for rest of president's term

08-Sep-2020
By Abraham Gonzalez
MEXICO CITY, Sept 7 (Reuters) **- Mexico has raised a non-binding limit for gross debt to 70% of gross domestic product (GDP), almost 20 percentage points above last year's level, for the remaining four years of the term of its fiscally conservative president.**
Mexico's debt to GDP ratio is closely watched by ratings agencies, which this year stripped national oil company Petroleos Mexicanos of its investment grade rating and who warn that the nation's sovereign rating could be next.
Ratings agencies have cited the impact of the coronavirus pandemic, interest rate changes and a depreciation of the peso as the main risk factors for further downgrades.
Charles Seville, head of North American sovereign ratings at Fitch Ratings, said a further downgrade will depend in part on how much the government deviates from its fiscally conservative course.
"There are several triggers, one is if indeed the debt to GDP ratio continues to rise or we believe it is going to continue to rise. And that could result from either policies or the evolution of the virus and the economy from here. So that's pretty important."
Mexico had a gross debt to GDP ratio of 60.2% updated to June, about 10 percentage points above the level at the close of 2019, official statistics show. In a document issued after the president's state of union address last week, the government revealed the new upper limit of 70%.
The limit is not legally binding.
The Mexican finance ministry did not respond to requests for comment.
President Andres Manuel Lopez Obrador said his government's decision to avoid debt-fueled economic stimulus meant the country had healthy finances.
Lopez Obrador also promises an austere 2021 budget - due to be presented to Congress by the finance ministry late on Tuesday.
"Last year, we didn't increase debt and that helped us," Lopez Obrador said during a regular news conference, adding that the ratio had increased because of the economic contraction and a weaker peso.
The central bank predicts the economy will contract by almost 13% because of the pandemic.
"Because of the pandemic, it was no longer possible to maintain the same level of debt but we'll recover and grow," Lopez Obrador said.

(Reporting by Abraham Gonzalez; Writing by Stefanie Eschenbacher; Editing by Frank Jack Daniel and Richard Pullin)
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Mexico government sees 4.6% GDP growth in 2021 - draft budget document

08-Sep-2020
MEXICO CITY, Sept 8 (Reuters) **- Mexico's finance ministry is forecasting the country's economy will grow by 4.6% next year, according to a draft budget proposal published on Tuesday.**
The document, which was made public by officials at the lower house of Congress, also predicts that Mexico's primary budget balance - the calculation which excludes interest payments on existing debt - will be nil next year.

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Mexico government defends 2021 budget some deem 'optimistic'

09-Sep-2020
By Abraham Gonzalez
MEXICO CITY, Sept 9 (Reuters) **- Mexico's finance minister on Wednesday defended his 2021 budget, calling next year's growth estimate responsible, as ratings agency Moody's warned the government's austere approach to public finance "was not sustainable."**
The finance ministry on Tuesday delivered a budget proposal that would keep a lid on spending and forecasts only partial recovery for an economy hammered by the COVID-19 pandemic.
"It's a responsible estimate," Finance Minister Arturo Herrera said at the president's daily news conference.
Others disagreed.
"It's based on optimistic estimates, particularly when it comes to growth and crude oil production" said Carlos Serrano, an economist at Mexican bank BBVA.
"If, instead of what the government forecasts, the economy grows as the market expects and crude oil production doesn't recover then we'll end up with a deficit."
Ariane Ortiz-Bollin, Moody's sovereign risk analyst, said the lean budget meant the ratings agency was now more worried about Mexico's economic growth than debt.
"It is not sustainable," Ortiz-Bollin said. "It can't be repeated every year."
The budget forecast Mexico's economy, Latin America's second-largest, would contract 8% this year, a somewhat rosier view than the central bank's worst-case scenario of a 13% slump.
President Andres Manuel Lopez Obrador and

Herrera have said Mexico's economy is not in a position to go on a spending spree and offer the kind of bailouts seen in some European nations or the United States. They have also refused to take on new debt in order to defend public finances.
But businesses big and small argue they have been left out in the cold as Mexico faces its steepest economic recession since the Great Depression of the 1930s.
Herrera said that while the growth forecast in the budget was not based on the development of a vaccine, the economy would continue to be impacted by the coronavirus crisis.
"While there's no vaccine, the economy is going to keep operating in unusual circumstances," he said.

(Reporting by Abraham Gonzalez in Mexico City
Additional reporting by Stefanie Eschenbacher, Daina Beth Solomon and Raul Cortes in Mexico City
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AFRICA

African sovereigns eye synthetic debt funds

11-Sep-2020
By Christopher Spink
LONDON, Sept 11 (IFR) **- African countries are considering setting up special purpose vehicles to shore up their finances hit by the economic impact of the coronavirus pandemic.**
Guggenheim Securities has held discussions with finance ministers about a proposal that would see them ring-fence revenues from specific sources, such as taxes on commodity exports, and raise money from public sector agencies or the commercial debt markets backed by such collateral.
The plan to create synthetic stabilisation funds is the brainchild of Mark Walker, head of sovereign debt restructuring advisory at Guggenheim. Walker said at a virtual conference organised by the University of Pretoria last week the idea was inspired by his work during the eurozone sovereign debt crisis.
Walker was part of the Lazard team advising Greece during its negotiations in 2012 with its eurozone partners, the International Monetary Fund, and private sector creditors about restructuring its debts.
Greece and other afflicted eurozone members borrowed from the European Stability Mechanism, funded in the debt markets on the back of pledges from eurozone sovereigns, when they were unable to finance themselves in the bond markets.
Walker afterwards moved to Rothschild, where the ESM was a client. He advised the agency on further negotiations to rework its agreement with Greece.
"Credit enhancement is one way to bring in extra financing," he said, noting that Mexico was creating such a stabilisation fund, based on export revenues, allowing it to "smooth" the resources available to the government.
The concept had counter-cyclical qualities making sovereigns more resilient, he said. "Money made available for the stabilisation fund does not have the attribute of debts, which require specific payments on specific dates."
That might make it an attractive vehicle for investors to back too. "The SPV could fund itself in the market issuing long-term bonds," Walker said.
Multilateral banks could also support such fundraising, and possibly provide additional backing as partial guarantors standing behind the fund. "We are already talking to one country in Africa about this," he said.
"NOT A SUBSTITUTE"
Another potential benefit is that such stabilisation funds could bring new money into economically ravaged countries at the most critical moment.
"This could provide a new money commitment alongside a debt restructuring. That is tricky to do at the moment," said Walker. "But this is not a substitute for debt relief. There will still be a need to deal with the existing debt."
The conference was organised to provide ideas on how African countries might overcome financial difficulties in the coming years. Fiscal revenues are expected to be crimped by pandemic-hit economies while healthcare spending rises, making debt payments hard to meet.
"African countries are facing elevated levels of debt," said South African Reserve Bank governor Lesetja Kganyago at the conference. "The Covid shock will see debt stocks go above 80% of GDP, and there is a significant risk of debt going above 100% of GDP."
So far, several African sovereigns have benefited from the G20's offer to suspend debt payments due this year. But private sector creditors have not guaranteed such assistance.
Discussions about extending the scheme into 2021 and insisting on full private sector backing are being held over the next few months.
Several of the countries that have signed up to the initiative have outstanding bonds. They include Ethiopia, Cameroon, Senegal, Ivory Coast and Zambia, which wants to carry out a liability management exercise and appointed Lazard in May to advise on negotiations with creditors.
Rodrigo Olivares-Caminal, law professor at Queen Mary University in London, said sovereigns could consider introducing clauses allowing them to suspend debt payments for a limited period in the event of an emergency, such as the pandemic outbreak.
His suggestion was inspired by the addition of clauses in Grenada's bonds, allowing it to suspend payments if the Caribbean island was struck by a hurricane. "This can give immediate

relief by opening fiscal space," Olivares-Caminal said. "It just gives some breathing space."

(This story will appear in the September 12 issue of IFR Magazine)
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07A 650

Egypt

Egypt's net foreign reserves at $38.4 bln at end-August

07-Sep-2020

CAIRO, Sept 7 (Reuters) - **Egypt's net foreign reserves stood at $38.36 billion at the end of August, up slightly from $38.315 billion in July, the central bank said on Monday.**

Foreign reserves had dropped since March from a high of more than $45 billion amid economic fallout from the coronavirus outbreak.

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Namibia

Namibian economy contracted more in 2019 than previous estimates

10-Sep-2020

WINDHOEK, Sept 10 (Reuters) - **Namibia's economy contracted by 1.6% in 2019 compared to growth of 1.1% recorded in 2018, according to revised figures released by the statistics office on Thursday.**

Preliminary figures released in March by the Namibia Statistics Agency estimated that gross domestic product (GDP) contracted by 1.1% last year compared to growth of 0.7% in 2018, but the agency has since revised its figures.

The contraction in 2019 was mainly due to an 8.9% drop in primary activities as the worst drought in a century took its toll.

Namibia's finance minister said in May that he expects the economy to contract by 6.6% in 2020 and by 1.1% next year as the COVID-19 pandemic hits economies globally.

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South Africa

South African central bank slows bond buying to 353 mln rand in August

07-Sep-2020

JOHANNESBURG, Sept 7 (Reuters) - **The South African central bank further slowed its purchase of government bonds in August, buying only 353 million rand ($21.19 million) of securities to bring its total holdings to 38.737 billion, data showed on Monday.**

A deep sell-off of government debt in March and April, as the coronavirus struck, saw the bank announce emergency liquidity measures, including a quantitative easing style purchase of bonds in the secondary market.

In July, the bank had bought 2.5 billion rand worth of bonds.

In the first few months of the scheme, the bank's bond purchases averaged around 10 billion rand per month, but the pace has since slowed as market conditions normalised and bond yields fell back below 10%.

At its last policy-setting meeting in July, where the Reserve Bank (SARB) lowered the lending rates to a record low 3.50%, Governor Lesetja Kganyago stressed the bond-buying program was aimed at normalising liquidity rather than a QE-style financing of the government's ballooning budget deficit. Calls for the bank to do more to support the economy and employment have grown louder as the impact of COVID-19 threatened to drag the economy deeper into a recession which began before the pandemic.

A bill to nationalise the bank, which has been fiercely fought by the regulator, is currently being debated in parliament.

It is seen by some analysts as a forerunner to changing the SARB's mandate of inflation-targeting and currency stability.

($1 = 16.6608 rand)
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Investors see South Africa cutting rates again after GDP plunge

09-Sep-2020

- **Forwards indicate higher chance of rate cuts at Sept. 17 meeting**
- **Central bank has cut benchmark rate by 300 bps in 2020**
- **Highest real returns in emerging markets attract bond investors**

By Mfuneko Toyana

JOHANNESBURG, Sept 9 (Reuters) - **Investors have upped bets on more interest rate cuts by South Africa's central bank after a historic contraction in the economy during the second**

quarter, when coronavirus lockdown measures curtailed activity.
The South African Reserve Bank (SARB) has slashed rates by 300 basis points over the course of 2020 to support the economy, but had hinted an end to the cutting cycle after July, when two of five policymakers voted against its 25 bps cut.
But after dismal economic data on Tuesday, investors have stepped up bets on a further rate reduction at the SARB's Sept. 17 meeting. The South African economy contracted an annualised 51.0% in the April-June quarter from Q1, or 16.4% in unadjusted terms, which is how many countries present their data.
One- and three-month forward rate agreements on the Johannesburg Stock Exchange were bid below 3.5%, the SARB's benchmark rate, on Wednesday, a sign investors see lower rates.
Forward agreements beginning end-September were pricing in a 50% probability of a 25 bps cut, and three-month contracts a nearly 70% probability.
"Headline and core inflation have been stuck at the bottom of the targeting range, so odds of a cut are increasing," said Vladimir Demishev of Sova Capital.
South Africa's credit rating was cut to junk earlier this year, pushing up the premium investors demand to buy its bonds and making support for the economy more expensive.
Bond yields spiked above 13% in Q1 as non-resident investors sold a record 74.4 billion rand ($4.43 billion) of bonds. Yield-hungry buyers have since returned although foreign holdings were at an eight-year low of 29.9% in August.
"The Q2 GDP should be enough for policymakers to justify another rate cut, especially given SA has amongst the highest real yields in the emerging market space," said Kieran Siney of ETM Analytics, citing a 10-year real yield of over 5%.

($1 = 16.7821 rand)
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South Africa GDP plunge, revenue shortfall to delay debt stabilisation

10-Sep-2020
JOHANNESBURG, Sept 10 (Reuters) - **South Africa will struggle to bring down its soaring levels of public debt, set to reach 80% of gross domestic product this year, due to the impact of the record economic contraction on tax revenues, ratings firm Moody's said on Thursday.**
Africa's most developed economy shrank by a record 51% in the second quarter on an annualised basis, or 16.4% in unadjusted terms, mainly due to a strict coronavirus lockdown that allowed only essential services and sectors to operate. The measures have since been eased.
Moody's, along with the other two main ratings firms, S&P and Fitch, already rate the country's debt below investment status, or junk.
"Although we had already factored such a large drop into our full-year growth forecasts, the downturn will nevertheless intensify the government’s fiscal woes, particularly its ability to generate revenue," said the ratings firm in a statement.
Moody's said the economic downturn would also hurt commercial banks as non-performing loans rose and the bank's were forced to make higher provision costs and lower capital buffers.
"Pressures on profitability will likely continue throughout the rest of the year, before gradually easing in 2021. That said, unlike the sovereign, banks entered this crisis from a position of strength," Moody's said.

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South Africa records current account deficit in second quarter

10-Sep-2020
JOHANNESBURG, Sept 10 (Reuters) **- South Africa's current account balance swung to a deficit in the second quarter of this year from the previous three months as the trade surplus more than halved due to the impact of the COVID-19 pandemic.**
Africa's most industrialised economy had a deficit of 2.4% of gross domestic product (GDP) on its current account balance in April-June, from a revised surplus of 1.2% of GDP in the prior quarter.
The trade surplus more than halved to 91.5 billion rand ($5.47 billion) in the second quarter from the 201.7 billion rand surplus in the previous three months.
"The adverse impact of the COVID-19 pandemic on the domestic economy was inevitable as world trade volumes continued to contract in the second quarter," the South African Reserve Bank said in a statement.
"The deterioration in the trade balance came about as the value of merchandise exports decreased substantially more than imports," the central bank added.
Data on Tuesday showed that South Africa's economic output recorded its largest contraction ever in the second quarter as a strict lockdown shut down most activity.
The lockdown, which started from late March, has now been eased to allow most of the economy to function while adhering to strict health protocols.

($1 = 16.7364 rand)
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Sudan

Sudan declares state of economic emergency after sharp fall in currency

10-Sep-2020
KHARTOUM, Sept 10 (Reuters) - **Sudan declared an economic state of emergency on Thursday after its currency fell sharply in recent weeks, setting up special courts to prosecute what officials called a "systematic operation" to vandalize the economy.**
The transitional government, in charge of the country since the ouster of Omar al-Bashir last year, will criminalize purchasing, selling, possessing or smuggling raw gold or precious minerals, key hard-currency earners.
The pound has declined in recent weeks on what officials blamed on manipulation by those opposing the transitional government.
"We are able to simply say what happened is an open war against the revolution, the economy, the government," Information Minister Faisal Saleh told a news conference.
Special courts will be set up in coming days to fight smuggling and other illicit activities.
Sudan, a gold producer, took steps in June to further open up the precious metals trade to private investors, allowing them to handle all exports and taking the business out of state hands.
But authorities recently noted people selling gold at above market price to intentionally move the exchange rate.
"What is happening is a systematic operation to vandalize the Sudanese economy, choke the transitional government, and we will not relent or be complacent," acting Finance Minister Hiba Mohammed Ali said.
Bashir's government had tried to crack down on the black-market traders by arresting some of them, but had little success. The currency has been devalued four times since 2018.
Inflation in Sudan is second only to that of Venezuela, with the headline rate climbing to 143.78% in July.
Security forces would also step up border controls to stop the smuggling of commodities, officials said.
Justice Minister Nasredeen Abdelbari said Sudan expected to be removed "soon" from a U.S. list of state sponsors of terrorism going back to Bashir's Islamist government.
The designation makes Sudan technically ineligible for debt relief and financing from the International Monetary Fund and World Bank. The U.S. Congress must approve any removal.

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Uganda

Uganda introduces primary dealers for government debt market

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By Elias Biryabarema
KAMPALA, Sept 7 (Reuters) - **Uganda's central bank has appointed seven commercial banks to act as primary dealers for the country's government bonds as it tries to encourage the development of an active and liquid secondary market, it said on Monday.**
From Oct. 1, only Absa Bank, Bank of Baroda, Centenary Bank, DFCU Bank, Housing Finance, Stanbic and Standard Chartered will be allowed to buy newly issued government bonds, in amounts of more than 200 million Ugandan shillings ($54,303.56) apiece.
"Competitive bidding in the primary market for government securities shall be limited to only primary dealer banks," Bank of Uganda said in a statement.
It said a secondary market that is more liquid, meaning securities are easier to sell if the holder wants, should attract more investors into Uganda's government securities.
Like other frontier markets, the East African nation has increased domestic debt issuance in response to demand from local and foreign investors, as well as to raise funds for a range of infrastructure projects.
Secondary trading of government bonds is limited, however: the central bank said only 41% of outstanding government securities were traded in the secondary market in the financial year that ended in June, with the rest being held by the original investor until maturity.
That is very low compared to more established markets like South Africa, where the value of bonds traded on the secondary market was 1,200% of total outstanding government securities, it added.
Market participants said the changes would also help the market price risk more accurately.
"The reforms point towards underwriting whereby the few eligible institutions will take up the entire offer," said Stephen Kaboyo, executive director of Alpha Capital Partners, a fund manager.
Both public and private debt securities in Uganda are traded on the Uganda Securities Exchange (USE), a small bourse with just 17 listed equities.

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Zambia

Zambia launches process to register Eurobond creditors

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LONDON, Sept 7 (Reuters) **- Zambia has kicked off the process of registering its Eurobond creditors, bringing the country another step closer to tackling its hefty debt burden.**

One of the world's largest copper producers, Zambia owes money to four main types of creditor. It has $3 billion of Eurobonds outstanding and owes $2 billion to commercial banks, $2 billion to the International Monetary Fund and World Bank and another $3 billion to China.

Zambia's Finance Ministry said in an authorisation letter that its financial adviser Lazard had appointed Morrow Sodali to gather information on the holders of its three outstanding Eurobonds and "facilitate communications".

In May, Zambia's government appointed debt specialists Lazard to advise on how to overhauls its foreign-currency debt.

Meanwhile, its three outstanding dollar-denominated bonds have recorded sharp gains in recent days. The 2022, 2024 and 2027 issues, all traded around 55 cents in the dollar, having gained around 3 cents since the start of the month and up from levels below 30 cents in late March and early April, during the height of the coronavirus crisis.

"Sub-Saharan bonds in general have recovered on massive G7 central bank liquidity injections, the pick-up in commodity prices, a stronger performance than many so-called 'developed country' peers in dealing with Covid-19, and solid emergency macro policies in countries such as Angola and Ghana," said Simon Quijano-Evans, chief economist at Gemcorp Capital LLP.

Furthermore, the bonds had benefited from peers across the region making progress in debt forbearance talks with China and the Paris Club of creditor nations. Paris Club creditors agreed in late August to give Angola debt service relief until the end of 2020.

In June, 10 of Zambia's international bondholders said they had formed a creditor group to facilitate debt talks with the government.

"Looking ahead, all eyes will now be on what plans Zambia may have with regard to liability management, coupled with a much-needed IMF loan program," said Quijano-Evans.

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EMERGING MARKETS

Goldman Sachs sees double-digit returns in emerging market junk

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LONDON, Sept 10 (Reuters) - **Analysts at Goldman Sachs have forecast double-digit returns on high yield - also known as junk - emerging market bonds over next 12 months if the world gets over its coronavirus worries.**

"We continue to think EM HY sovereigns offer the best risk-adjusted total return opportunity: our 12m target of ~600bp for EM HY spreads (from ~730bp currently) implies double-digit total return potential," Goldman said in a note on Thursday.

The investment bank also forecast emerging market governments would issue at least $150 billion of dollar-denominated debt this year as they look to tackle the crisis, though it could be even higher.

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