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Emerging Sovereign Debt Markets NEWS

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ASIA

APAC Asia-Pacific

Fitch Ratings: APAC Sovereigns Set to Recover Amid Lingering Rating Pressures

10-Jun-2020

Fitch Ratings-London-09 June 2020: **Asia-Pacific (APAC) economic momentum should turn positive in 2H20 as domestic lockdowns are eased and external demand gradually improves, limiting the drop in regional economic output to 1.7% in full-year 2020, says Fitch Ratings**. Despite this, a number of APAC sovereigns will continue to face negative rating pressures amid the shock from the coronavirus pandemic, particularly from deteriorating public finances and, in some cases, external financing risks. The majority of the region's sovereign credits are on Stable Outlook. However, this follows a number of negative rating actions this year, including downgrades on Hong Kong, the Maldives, and Sri Lanka, and the removal of Positive Outlooks on the Philippines, Thailand, and Vietnam. **The pandemic was a factor in all of these rating actions**. Negative Outlooks are in place on the ratings of six sovereigns in the region. Half of these are frontier markets that face external refinancing risks (Laos, Maldives and Sri Lanka), while the remainder are coping with high and rising public debt ratios or, in the case of Macao, downward credit pressures from declining gaming revenues. Some sovereigns in APAC, such as Indonesia, Korea and New Zealand, entered the crisis with policy space to counter an unexpected downturn through fiscal easing without putting pressure on their ratings. For others, widening fiscal deficits and rising public debt ratios present negative rating pressure. In countries in which general government debt-to-GDP ratios are already above the respective peer medians, we expect a further jump in their ratios in 2020, such as in Australia, India, Japan and Malaysia. **More generally, when governments fail to present credible medium-term strategies for stabilising or reversing the recent rise in debt-to-GDP levels after the crisis subsides, this could strain ratings.**

China

China's finance ministry asks local govts not to ignore debt risks

08-Jun-2020

BEIJING, June 8 (Reuters) - **China's local governments cannot ignore debt risks and take on more debt illegally because of the fiscal difficulties caused by the coronavirus pandemic, a meeting chaired by finance minister Liu Kun said on Monday.**

Local governments are asked to step up management of their debts, the meeting said, according to a statement on the finance ministry's website.

(Reporting by Stella Qiu, Judy Hua and Ryan Woo; Editing by Toby Chopra)
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China to accelerate issuance, use of local government bonds

08-Jun-2020

BEIJING, June 8 (Xinhua) -- **The Ministry of Finance on Monday called for efforts to expedite the issuance of local government bonds and accelerate use of the funds raised from those bonds.**

Funds raised from special local government bonds should primarily be used to invest in major sectors and major projects, according to a statement issued by the ministry after a national meeting of financial officials.

The funds should also be used to catalyze investment from the private sector to support those sectors that address inadequacies, to improve people's well-being, and to boost consumption and domestic demand, it said.

Great importance should be attached to preventing debt risks, Finance Minister Liu Kun said at the meeting, urging efforts to enhance regulation in order to hold accountable those responsible for illegal and irregular practices in bond issuance. He also ordered risk control to forestall systemic risks.

China plans to issue 3.75 trillion yuan (about 528.91 billion U.S. dollars) of special local government bonds this year, 1.6 trillion yuan more than last year.

Officials at the meeting agreed to increase government investment to counter the downward pressure on economic growth, expand tax and fee reduction policies to help enterprises tide over hard times, and strengthen budget balance to mitigate the adverse impact of the epidemic on fiscal revenue growth, the statement said.

China has vowed to pursue a more proactive and impactful fiscal policy, setting its fiscal deficit above 3.6 percent of GDP, 0.8 percentage points higher than that of 2019.

Enditem

through digital mode. For such investors, the issue price of Gold Bond will be Rs 4, 627 per gram of gold," it added. Here are the key things to know about the SGB scheme: Interest: Fixed rate of 2.5 per cent per annum on the nominal value of the bond, payable semi-annually. The minimum permissible amount allowed for investment in SGB is one gram of gold. The interest on gold bonds are taxable as per the provision of Income Tax (I-T) Act.
The maximum limit is four kilograms for individuals and HUFs (Hindu Undivided Families), and 20 kilograms for trusts and similar entities per fiscal year (April-March), which is notified by the government from time to time. In case of joint holding, the investment limit of 4 kilograms is applied to the first applicant only. Who can buy: SGBs are issued by the Centre, for which investors get a holding certificate.
It comprises government securities denominated in gold wherein investors are required to pay the issue price in cash. These are restricted for sale to resident individuals, HUFs, trusts, universities and charitable institutions. Documents required: KYC (Know Your Customer) documents such as Voter ID, Aadhaar card/PAN (Permanent Account Number) or TAN (Tax Deduction and Collection Account Number)/Passport are needed for buying the SGB scheme.
Maturity: Gold bonds have a maturity period of eight years but investors will have the option to exit after the fifth year. Investors can also exit before the lock-in period by selling bonds on stock exchanges.

China strengthens supervision to ensure fiscal funds benefiting businesses, people

12-Jun-2020
BEIJING, June 12 (Xinhua) -- **China will tighten oversight to ensure increased fiscal funds meant for companies and individuals arrive directly without being intercepted or diverted, an official said Friday.**
Vice Finance Minister Xu Hongcai made the remarks at a press conference in Beijing.
According to a government work report, China's fiscal deficit will rise by 1 trillion yuan over last year and it will issue government bonds worth the same amount for COVID-19 control, which will be transferred in full to local governments.
The State Council executive meeting on Tuesday stressed efforts to ensure that the 2-trillion-yuan (about 282.2 billion U.S. dollars) newly increased fiscal funds will directly benefit businesses and people.
The country has established a system to closely monitor the entire process of how the funds are allocated, transferred and used. It is meant to prevent fraud, embezzlement and interception, Xu said.
Government departments at various levels involved in the handling of the funds will share data to facilitate oversight.
Other measures include strengthening audit and transparency, said Xu.

Enditem

India

Sovereign gold bond scheme open for subscription: Things to know

08-Jun-2020
NEW DELHI: **The third tranche (series-III) of the Sovereign Gold Bond (SGB) scheme for 2020-21 opened for subscription on Monday.** The issue price has been fixed at Rs 4, 677 per gram and online subscribers can secure bonds at a discount of Rs 50 per gram. "The Sovereign Gold Bond Scheme 2020-21-Series III will be opened for subscription for the period from June 8, 2020 to June 12, 2020.
The nominal value of the bond based on the simple average closing price for gold of 999 purity of the last three business days of the week preceding the subscription period, i.e. June 3 - June 5, 2020 works out to Rs 4, 677 per gram of gold," the Reserve Bank of India stated in its notification.
"Government of India, in consultation with the Reserve Bank of India, has decided to offer a discount of Rs 50 per gram less than the nominal value to those investors applying online and the payment against the application is made

High debt-to-GDP ratio could strain India's sovereign rating: Fitch

10-Jun-2020
MUMBAI: **India's sovereign rating could be under strain as the already high debt to GDP ratio could jump further in 2020, widening fiscal deficit and increasing negative rating pressure on the country's credit rating agency Fitch said.** The New York based rating agency has a BBB- rating on India with a stable outlook, which is the lowest among countries rated in the investment grade. It had last affirmed the country's rating in December 2019 but now says the situation has changed due to the economic impact of the lockdown caused by the Covid 19 pandemic.
"The pandemic has drastically weakened India's growth outlook and laid bare the challenges caused by a high public-debt burden...
General government debt already stood at 70% of GDP in FY20, according to our estimate, well above the 'BBB' median of 42%. We now expect India's ratio of public debt/GDP to rise to 84% of GDP in FY21 - up from a forecast of 71% when we affirmed the rating in December. This is based on our

expectation of slower economic growth in FY21 and wider fiscal deficits, assuming that the government's fiscal response remains restrained," Fitch warned in a note.

Fitch's warning comes just a week after another rating agency Moody's cut India's rating from 'Baa2' to 'Baa3' - a notch above junk citing structural weaknesses, weak policy effectiveness, and slow reforms momentum. Moody's Baa2 rating was the highest among the three top rating agencies including Standard & Poors and Fitch. The cut has brought ratings of all three agencies on par.

Moody's has predicted a prolonged period of low growth for India. "While the action was taken in the context of Covid-19, it was not driven by its impact. Rather, the pandemic amplifies vulnerabilities in India's credit profile that were building prior to the shock, and which motivated the assignment of a negative outlook last year," Moody's said.

Fitch however is more optimistic on India's return to a higher growth trajectory. Though it warned that the failure of governments to present credible medium-term strategies for stabilising or reversing the recent rise in debt-to-GDP levels after the crisis subsides, could strain ratings further, Fitch said. "After the global crisis, India's GDP growth is likely to return to higher levels than 'BBB' category peers, provided it avoids further deterioration in financial sector health as a result of the pandemic.

The credit profile is strengthened by relative external resilience stemming from solid foreign-reserve buffers, but weakened by some lagging structural factors, including governance indicators and GDP per capita," Fitch said. It has predicted India's GDP growth to bounce back to 9.5% in 2021 after contracting 5% in 2020.

India along with Australia, Japan and Malaysia are among the countries in Asia Pacific where the government debt-to-GDP ratios were already above the respective peer medians. **Among the negative sensitivities of India's rating was a possible increase in fiscal deficit.** "A material increase in the fiscal deficit, causing the gross general government debt/GDP ratio to be placed on a sustained upward trajectory.

Loose macroeconomic policy settings that cause a return of persistently high inflation and widening current-account deficits, which would increase the risk of external funding stress," Fitch said. The rating agency noted that the government has announced stimulus measures amounting to 10% of GDP, of which the fiscal component of about 1% of GDP is significantly less than many of India's peers highlighting the limited fiscal space available to the Government. However, greater confidence in a sustained reduction in general government debt over the medium-term and higher sustained investment and growth rates without the creation of macroeconomic imbalances, such as from successful structural reform implementation, are positive with respect to the country's outlook.

S&P affirms India's long-term sovereign credit rating, outlook

10-Jun-2020

MUMBAI, June 10 (Reuters) - **Standard and Poor's affirmed its rating on India's long-term foreign and local currency sovereign credit at the lowest investment-grade level and retained its stable outlook on the economy on Wednesday.**

India's long-term rating was affirmed at 'BBB-' with a stable outlook while the short-term rating was held at 'A-3'.

Earlier this month, Moody's downgraded India to a notch above junk, falling in line with other global agencies, but also cut its outlook to 'negative' on the back of rising debt and persistent stress in the financial system.

S&P's stable outlook reflects its expectation that the Indian economy will recover following the containment of the COVID-19 pandemic, and maintain its sound net external position, it said.

The agency also assumes that the government's fiscal deficit will recede markedly following a multi-year high this fiscal year.

"While risks to India's long-term growth rate are rising, ongoing economic reforms, if executed well, should keep the country's growth rate ahead of peers," analysts at the firm wrote.

S&P expects the government's fiscal deficit to touch 11% of GDP in the current year to March 2021 on the back of pandemic related spending and said the government's ability to consolidate its finances once the economy begins to recover will be key in determining the sustainability of India's debt stock.

India's ratings could be raised if the government significantly curtails its fiscal deficits, resulting in materially lower net indebtedness at the general government level, S&P said.

Downside pressure on ratings would emerge from failure of GDP growth recovering meaningfully from 2021 onwards and also net government deficit levels sharply exceeding forecasts, it added.

"India's overall external position remains a credit strength, largely owing to the economy's limited external indebtedness," the analysts wrote.

"We expect India's current account deficit to decline modestly this year, and to continue to improve over the forecast period, largely owing to its improving terms of trade on weaker oil prices".

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Editing by Chizu Nomiyama)
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Indonesia

Fitch Assigns Indonesia's USD Bonds Final 'BBB' Ratings

08-Jun-2020

Fitch Ratings has assigned Indonesia's USD1.65 billion 3.85% bonds due 2030, USD1.65 billion 4.20% bonds due 2050 and USD1 billion 4.45% bonds due 2070 final ratings of 'BBB'. This replaces the expected rating of 'BBB (EXP)' that Fitch assigned on 6 April 2020.

The issuer plans to use the net proceeds from the bond sale for general budgetary purposes, including to partially fund Indonesia's coronavirus relief and recovery efforts.

KEY RATING DRIVERS

The ratings are in line with Indonesia's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'BBB' with a Stable Outlook.

Fitch affirmed Indonesia's Long-Term Foreign- and Local-Currency IDRs on 24 January 2020.

RATING SENSITIVITIES

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

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

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

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

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance 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.

Date of Relevant Committee 22 January 2020

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 Indonesia.

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Govt mulls issuing diaspora bonds

09-Jun-2020

The government is considering whether to issue Indonesia's first-ever diaspora bonds in November to raise money from nationals living abroad as it struggles to finance the fight against the COVID-19 pandemic.

The Finance Ministry's director for government debt securities, Deni Ridwan, said the government pushed back the date of issuing the diaspora bonds from August to November because of the pandemic, adding that it was currently assessing demand for such bonds.

"Almost all countries need additional financing but demand from the market is limited. Thus, we need creative financing sources including diaspora bonds," Deni told a discussion forum on Thursday.

The issuance of diaspora bonds was aimed at widening the Indonesian investor base and diversifying existing instruments, Deni said.

The target market could include foreign nationals with an Indonesian family background and Indonesians living abroad, among others, he added.

The government is planning to issue a fixed rate three-year tranche of bonds with a minimum order of Rp 5 million (US$352.78) and with a maximum order of Rp 5 billion, he went on to say.

Indonesia's 2020 budget deficit is expected to swell to about Rp 1.03 quadrillion, 6.34 percent of GDP, as the government hikes spending on economic stimulus packages and disease prevention to Rp 677.2 trillion.

Debt financing is expected to swell to Rp 1.22 quadrillion this year, versus an initially planned Rp 1 quadrillion, to cover the growing budget deficit.

The country expects to raise Rp 989 trillion from bonds and loans in the remainder of 2020, according to estimates by the Finance Ministry's financing and risk management director general, Luky Alfirman, in late May. This figure is likely to surge further to cover the growing deficit.

The government also aims to sell samurai

bonds, or yen-denominated bonds, in the second half of this year as part of efforts to fund the fiscal gap, Deni said. "We have started to do the preparations for a samurai bond issuance in Japan," he added.
Mandiri Sekuritas fixed-income analyst Handy Yunianto said the diaspora bonds would have a positive effect in widening the investor base, adding that several other countries such as India had set an example in issuing such bonds.
"We need to look at the potential investors including who could buy the bonds and how much funds they are willing to invest," Handy told The Jakarta Post. "Expanding the investor base and adding more investment instruments is a good strategy to finance the growing deficit."

Israel

Bank of Israel - Research Department Analysis: The effect of the Bank of Israel’s intervention in the government bond market

09-Jun-2020

In the beginning of the health crisis that hit Israel and the rest of the world, there were massive withdrawals in Israel's capital market from government bond funds at institutional investors' funds in general, and at mutual funds in particular.

In that situation, temporary 'price pressures' developed, as market participants required a premium to buy the government bonds. Evidence of this can be seen in the gradual reversal of prices to the levels of early March toward the end of the month.

Using daily mutual fund data as an estimate for these flows indicates that not all of the transitory increase in yields can be attributed to the price pressures of the government bond mutual funds or to the change in yields abroad, and that it probably also derived from other frictions in this market and/or from changes in information regarding the state of the economy and risk premiums.

It is reasonable to assume that the Bank of Israel lowered the premium to investors who wanted to sell the bonds in the market by effectively becoming a liquidity provider in the secondary market.

The Bank of Israel's main impact on yields was at the time of the announcement on March 23 of its undertaking to purchase NIS 50 billion of government bonds. High frequency analysis shows that yields on the 10-year government bond have decreased by about 11 basis points right after the Bank of Israel's main announcement. This outcome is consistent with an examination conducted at the Bank regarding the Bank of Israel's intervention in the government bond market in 2009.

Indirectly, the Bank of Israel apparently also reduced the costs of issuing government bonds, companies' costs of issuing corporate bonds, and households' costs of raising funds during that period.

Background

The Bank of Israel works to maintain the stability and proper functioning of the financial system. During the course of the coronavirus crisis, the Bank adopted several policy measures to ensure the proper functioning of the financial markets, to deal with liquidity difficulties that adversely impacted the financial system, to ease the terms of credit in the economy, and to support economic activity and financial stability.

As part of this, the Bank acted through several channels, beyond reducing the interest rate to its historically lowest level-injecting liquidity into the bond market through repo transactions with bonds as the security, supporting the foreign exchange market via NIS/$ swaps, assisting with increasing the supply of credit to small and micro businesses by extending designated loans to the banking system, and reducing credit costs in the economy via the purchase of government bonds, as will be described in further detail in this document.

The Bank of Israel constantly examines the effect of the steps and continues to follow the developments, and will use additional tools to the extent necessary in order to continue supporting economic activity.

From the beginning of the health and economic crisis that occurred at first abroad and then in Israel, massive withdrawals were seen in March from government bond mutual funds, which at times serve as a safe haven for investors, at institutional investors in general and the mutual funds in particular.

Kazakhstan

Moody's Says Kazakhstan's Credit Profile Reflects Growing Economic Resilience

12-Jun-2020

June 12 (Reuters) -

- **Moody's - Kazakhstan's credit profile reflects growing economic resilience**
- Moody's - Kazakhstan's positive outlook signals that a downgrade is unlikely over the near term.
- Moody's says expects Kazakhstan's growth to remain strong over medium term, despite contraction in 2020 due to coronavirus and lower oil prices
- Moody's- Kazakhstan’s GDP should rebound and grow by around 3.0% in 2021

(Reuters.Briefs@thomsonreuters.com)

Kazakhstan may increase Russian bond volume if demand is strong

12-Jun-2020

NUR-SULTAN, June 12 (Reuters) - **Kazakhstan could double the volume of its planned Russian rouble bond issue to $1 billion if demand is strong, Finance Minister Yerulan Zhamaubayev said on Friday.**

The Central Asian nation registered a series of bond issues in neighbouring Russia this month and plans to borrow an equivalent of $500 million in its Russian market debut, which analysts say could come after an anticipated rate cut by the Russian central bank this month.

"In the case of elevated market demand we do not rule out increasing the borrowing volume to an equivalent of $1 billion," Zhamaubayev told a briefing.

The ministry plans to sell the bonds both on the Moscow Exchange and on Kazakhstan's Astana International Exchange, he said.

Kazakhstan plans to borrow a total of 2.4 trillion tenge (about $6 billion) this year, and aims to raise most of that sum -- 2.0 trillion tenge -- on the domestic market, Zhamaubayev said.

($1 = 404.0700 tenge)
(Reporting by Tamara Vaal
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Lebanon

Lebanon agrees on government's financial loss figures as `starting point', presidency says

08-Jun-2020

BEIRUT, June 8 (Reuters) - **Lebanon agreed on Monday that the government's figures on losses in the financial system will form a "good starting point" for talks with the International Monetary Fund, the presidency said.**

Discrepancies between the government and the central bank on estimated losses have complicated IMF talks, which began last month.

President Michel Aoun's office said last week that the country would provide unified figures by Monday, seeking to reconcile different approaches.

Differences arose because the government and the bank used different approaches to measuring the losses. The result was figures that aren't comparable.

The heavily indebted state hopes to enlist the Fund's help to climb out of its financial crisis, which is considered the biggest threat to Lebanon's stability since its 1975-90 civil war.

IMF spokesman Gerry Rice said last week that fund staff view estimated losses in the Lebanese government's plan as "broadly in the right order of magnitude, given the assumptions presented," but more refinement of the estimates was needed.

The U.N. special coordinator for Lebanon, Jan Kubis, has said the differing figures, along with other factors, "only weaken" the country's position in the IMF talks.

"The attendees agreed that the numbers in the government's financial reform plan are a good starting point for continuing the negotiations," Aoun's office said on Monday after a meeting that of the prime minister, finance minister and central bank governor.

The government's economic recovery plan sets out holes in the financial system, including $83 billion of projected losses in the banking system. The banking association, which rejected the government plan, subsequently has developed its own proposals.

(Reporting by Ellen Francis, editing by Larry King)
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Lebanon banking association criticises government stats given to IMF

09-Jun-2020

BEIRUT, June 9 (Reuters) - **Lebanon's banking association said on Tuesday that government figures being presented to the International Monetary Fund in talks for a reform programme do not form a "valid basis" for rescuing the economy.**

Discrepancies between the government and the central bank on estimated financial sector losses have complicated the IMF talks, which began last month as the heavily indebted country looks to climb out of a deep economic crisis.

The banking association has strongly criticised Beirut's rescue plan, which envisions using bank capital and deposits to cover tens of billions of dollars in losses, and has offered proposals of its own, which it says the government has ignored.

"The association is surprised by the government's insistence on excluding the banking sector from financial talks that are supposed to lead to decisions with certain and profound implications for Lebanon's economic future," it said in a statement.

"The figures presented by the government to the International Monetary Fund... do not constitute, from our perspective, a valid basis for financial rescue," it added.

The association urged the government to open a broader dialogue on the plan amid fears that the reform programme will entail painful haircuts on Lebanese deposits and taxes.

(Reporting by Eric Knecht
Editing by Gareth Jones)

Lebanese central bank to inject dollars to stop pound's slide

12-Jun-2020

- **Rapid pound slide renewed countrywide protests**
- **Financial crisis since October has seen dollars dry up**
- **Lebanon in talks with IMF for reform programme**
- **President Aoun says depositors should not bear cost of crisis**

By Eric Knecht and Tom Perry

BEIRUT, June 12 (Reuters) - **Lebanon's central bank will begin injecting dollars into the market on Monday, President Michel Aoun said on Friday, as it tries to stop a sharp fall in the local pound currency which has led to economic hardship and sparked unrest.**

The Lebanese pound had slumped to about 5,000 to the dollar from around 4,100 a week earlier, igniting protests in several cities on Thursday against the deteriorating economic conditions.

One dealer who was buying dollars at 5,000 pounds before the announcement said the price had now fallen to 4,500, indicating the move may help the local currency to steady.

In total, the pound has lost some 70% of its value since October, when Lebanon plunged into a financial crisis that has seen businesses close, prices and unemployment soar, and the introduction of capital controls that have severed Lebanese from their hard currency savings.

Finance Minister Ghazi Wazni also said the pound was starting to gain ground after the announcement and would continue to do so, according to broadcaster LBCI.

Parliament speaker Nabih Berri said earlier that the government had agreed steps to reduce the dollar price to about 3,000-3,200 pounds.

The heavily indebted country has maintained an official dollar peg of 1,507.5, but dollars at this level have been rationed exclusively for imports of fuel, medicine, and wheat.

In a bid to rein in the parallel market, the central bank began a unified pricing system last week with the goal of lowering the price to 3,200. However, importers said dollars at the lower rate, which was set at 3,940 on Friday and will be gradually lowered each morning, have been unavailable.

Berri also said agreement was reached on speaking to the International Monetary Fund in "one language", amid disagreement between MPs, the central bank and government officials engaged in talks with the Fund for an economic reform programme.

Beirut is hoping to secure billions of dollars in financing, but the talks have been stalled by internal disagreements over the value of huge losses in the financial system and proposals for how to cover them.

Aoun said that financial sector losses should not be borne by depositors but instead by the government, central bank, and commercial banks.

(Reporting by Eric Knecht and Tom Perry
Editing by Alison Williams, Kirsten Donovan)

Malaysia

Government debt a lynchpin of financial market stability

12-Jun-2020

DUE to the impact of Covid-19, governments the world over, including Malaysia, have had to ramp up spending with borrowing or issuance of public debt. In practice, printing money is followed by printing of more money, as in the case of Zimbabwe and the Weimar Republic of post-World War One Germany. We still need to issue Malaysian Government Securities (MGS) alongside Government Investment Issues (GII) and sukuk to cover our development and infrastructural expenditure. This will not only maintain the integrity of our ringgit but may also fuel fresh demand from foreign investors or buyers. The last time Bank Negara could be said to print money was during the Asian Financial Crisis of 1997/98 when Danaharta issued triple-A zero-rated coupon bonds to institutional investors, such as the Employees Provident Funds, Khazanah, pension funds and insurance companies that were later to be exchanged for the non-performing loans from participating banks. While some worry about the burden of government debt passing on to future generations in the form of higher taxes, it has to be highlighted that it is customary for governments to roll over their maturing debt with issuance of fresh debt. Even during the recession of 2008, which did not particularly affect Malaysia as our financial system was sound and stable due to high levels of capital adequacy ratio, our budget deficit was 7.0 per cent and was even higher before that. **With the government aiming to reduce the budget deficit to 3.0 to 3.5 per cent of gross domestic product (GDP) just prior to Covid-19, we have ample room and historical precedent to increase our borrowing and by extension our expenditure to double that amount, as confirmed by the finance minister.**

But what are the other benefits of government borrowing or public debt issuance? Firstly, government debt is simply an extension of the governmentâ□™s monetary policy stance, i.e. the Overnight Policy Rate (OPR) set by Bank Negara. We know that the OPR is meant to influence the market interest rate. Now, while MGS yields or rates do not influence the market interest rate directly, they do influence the pricing of private sector debt securities, such as corporate bonds and money markets. In turn, this will factor into the balance sheet of banks and therefore, their base rate calculations used for loans. Secondly, and just as important, is the fact that government bonds, and it cannot be strongly emphasised enough, provide a safe haven for investment in risk-free, sovereign assets. Approximately 97 per cent of our debt is in ringgit, therefore the chances of the government defaulting are nearly zero. Of course, this begs the question of money printing at the end. However, we don't have to resort to this position. Remember that the government is always in a position to roll over its maturing debt perpetually. Thirdly, the necessity of government debt can be seen in its role and value as a provider of liquidity for the financial markets, albeit recycled. Funds obtained by private sector lenders through direct fiscal injection is sucked out of the economy and goes back into the coffers of the government. At the same time, the bonds themselves become part of the financial system a" ready to be traded or used as collateral for borrowings. This is how the liquidity of the financial system is enhanced. As such, government debts act and serve as a lynchpin of stability of financial markets by ensuring ample liquidity without the need for the central bank to resort to quantitative easing (QE), which is the creation of fresh reserves in exchange for high-quality assets. Bank Negara is too cautious and careful to engage in QE and rightly so. **Our government of whatever political stripe has always been acutely aware of the need to be prudent in expenditure and borrowings, hence the 55 per cent ceiling of the debt-to-GDP ratio.** At the end of the day, government debt is necessary. The government is not about to gamble away the future of our public finances by unnecessarily printing money and also in no danger of over-borrowing while ensuring the debt raised is used for productive yield that has multiplier effect.

Pakistan

Pakistan economy to shrink, deficit to widen in year to end of June, govt says

11-Jun-2020
By Asif Shahzad
ISLAMABAD, June 11 (Reuters) - **Pakistan's economy will shrink the most in decades while its fiscal deficit will likely widen to 9.4% of gross domestic product by the end of the financial year on June 30, a government report showed on Thursday.**

Prime Minister Imran Khan's government, which will present its second budget for 2020-21 on Friday, had missed almost all economic targets by a wide margin even before the global new coronavirus pandemic, according to the Economic Survey 2019-20 report.
Gross domestic product for the year ending this month will likely contract 0.4% instead of growing 3.3% as previously forecast, Abdul Hafeez Shaikh, the de facto finance minister, told a news conference in Islamabad.
That contraction would be the deepest in decades.
The IMF and World Bank have projected that the economy will shrink by up to 2.6%.
"The range of estimates we have given, this shows that we're not in a position at present that we could say with confidence what would be its result," Shaikh said.
He said the IMF and World Bank were making bleaker assumptions keeping in view the severity and duration of the coronavirus pandemic. "In my view, we will have a better estimation when this year ends on June 30."
The budget deficit is expected to reach 9.4% of GDP, exceeding the 7.5% target, the government said in its report.
Pakistan had been implementing reforms as part of its three-year, $6 billion IMF stabilization plan when the global pandemic struck its flagging economy.
The country has collected revenue of 3.9 trillion Pakistani rupees ($24 billion), below its downwardly revised target of 4.8 trillion.
It has now reversed almost all of its lockdown measures, mainly due to fears of an economic meltdown. The WHO has recommended that it restore lockdown measures intermittently to curb the spread of the virus.
Pakistan has reported 119,201 cases of infection and 2,356 deaths, including 101 over the last 24 hours.

($1 = 163.3200 Pakistani rupees)
(Writing by Asif Shahzad; Additional Reporting by Gibran Peshimam and Syed Raza Hassan in Karchi, Pakistan; Editing by Hugh Lawson)
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Pakistan targets ambitious growth, revenue despite coronavirus struggles

12-Jun-2020
- **Government sets targets of 2.1% GDP growth, 7% fiscal deficit**
- **Targets unrealistic, say economic analysts**
- **Pakistan faces acceleration of new coronavirus infections**

By Asif Shahzad and Syed Raza Hassan
ISLAMABAD, June 12 (Reuters) - **Pakistan on Friday announced its annual budget for financial year 2020-21, setting ambitious targets of 2.1% GDP growth, a 7% fiscal**

deficit and an increase in tax revenues, even as it reels from a surge in novel coronavirus cases.
The GDP target is much higher than a recent World Bank projection that Pakistan will have another year of negative growth at -0.2%, while the fiscal deficit is much lower than the 9.4% it is expected to hit in the current year.
Headline inflation that hit a decade-high of 14.56% in January is estimated at an average rate 6.5% in the next year.
Economic analysts termed the targets unrealistic, forecasting that the government will need to introduce a mid-year supplementary budget given the economic disruptions caused by the pandemic.
"It looks unlikely that they will meet the fiscal deficit target," said Saad Hashemy, Executive Director at BMA Capital.
Total expenditure for the next fiscal year will be 7.136 trillion Pakistani rupees ($43.45 billion), said Minister for Industries and Production Hammad Azhar as he introduced the budget in a rowdy session of parliament.
Only 25% of members were in attendance in an attempt to ensure social distancing.
"Corona is a flu!" shouted one opposition member, taking a jibe at Prime Minister Imran Khan, who in his initial response to COVID-19 had played down the respiratory disease.
Pakistan has struggled to contain the virus and the World Health Organization has warned that the acceleration of infections could overwhelm the under-funded healthcare system.
Official statistics showed a record 6,397 new cases and 107 deaths on Thursday, taking the tally to 125,933 cases and 2,463 fatalities.
Azhar said in his speech that the outbreak has caused Pakistan's nearly $300 billion economy a loss of 3.3 trillion Pakistani rupees ($20.09 billion).
"The long lockdown, a countrywide shutdown of business, travel restrictions and social distancing have diminished economic activities, which have had a negative impact on growth rate and investment," Azhar added.
On the expenditure side, debt servicing will take up 2.946 trillion Pakistani rupees ($17.94 billion) - 41% of the Country's spending.
The next largest spending head, 18% of expenditures, will be on defence, for which 1.29 trillion Pakistani rupees ($7.85 billion) have been allocated. Defence spending is up 12% from last year's allocation despite Pakistan's financial crunch.
Little is left to spend in other areas, and even the current expenditure of running the government requires local and international borrowing.
Pakistan plans to collect 4.96 trillion Pakistani rupees ($30.22 billion) in tax through its revenue board - which is around a trillion rupees, or 25%, more than the last year's collection.
"We believe the tax collection target looks highly over optimistic in prevailing economic conditions," said analyst Mohammed Sohail of Topline Securities.
To plug the spending and revenue gap, Pakistan will look to access $2.2 trillion Pakistani rupees ($13.5 billion) in gross external finances, including loans, aid and grants - much of which will be used for repayment of outstanding external credit.
Pakistan last year entered a three-year, $6 billion IMF bailout programme.

($1= 164.2500 Pakistani rupees)
(Writing by Asif Shahzad and Charlotte Greenfield; Reporting by Syed Raza Hassan in Karachi; Editing by by Kevin Liffey, Gibran Peshimam and Grant McCool)
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Pakistan/Philippines

Pakistan/Philippines: ADB lends US$1bn to sovereigns

11-Jun-2020
The Asian Development Bank has approved US$1bn in loans to the governments of the Islamic Republic of Pakistan and the Republic of the Philippines, according to press releases on Wednesday.
The multilateral agency approved a US$500m loan for Pakistan to help it fight the coronavirus pandemic through delivering of social protection programmes to the poor and vulnerable, and a pro-poor fiscal stimulus to boost growth and create jobs.
The ADB's Covid-19 Active Response and Expenditure Support (CARES) Program will support the Pakistan's initiatives, including cash assistance payments to 3 million daily wage workers, of whom approximately 23% are women, and cash grants to 7.5 million families under the Kifalat social protection program.
The program will also help fund buy additional ventilators and Covid-19 protective kits for medical staff, including appropriately sized personal protective equipment for women.
The loan will support young entrepreneurs, including at least 25% women, through the government's youth entrepreneur scheme, Kamyab Jawan.
The ADB's CARES Program will facilitate parallel financing of US$500m from the Asian Infrastructure Investment Bank and another US$500m from the World Bank's Securing Human Investments to Foster Transformation development policy credit program.
This follows a US$300m emergency assistance loan from the ADB to Pakistan announced in May to tackle the virus outbreak.
The CARES Program, totalling a US$20bn package, has also assisted the ADB's developing member countries such as Afghanistan, Bangladesh, Bhutan and Mongolia. (May 13 story

The ADB has also approved a US$500m loan to support the Philippine government's conditional cash transfer program that helps keep children healthy and in school.
The Expanded Social Assistance Project will help families maintain health and educational gains for their children achieved under the country's Pantawid Pamilyang Pilipino Program (4Ps).
Introduced in 2008, the 4Ps program provides cash payments every two months to about 4.3 million households – as long as the children meet school attendance targets and go for regular health checkups, women avail of pre- and post-natal care, and the parents participate in family development sessions.
With this loan, the ADB's total lending to the Philippines has reached US$2.6bn so far this year, exceeding its record lending of US$2.5bn in 2019.
This follows a US$750m loan to the country from the Asian Infrastructure Investment Bank to tackle the impact of coronavirus pandemic announced in May.

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(Editing by Prakash Chakravarti)

Uzbekistan

S&P Says Uzbekistan Outlook Revised to Negative on Rising External Debt

06-Jun-2020
June 5 (Reuters) - S&P:

- **S&P says Uzbekistan outlook revised to negative on rising external debt; 'BB-/B' ratings affirmed**
- S&P says expect Uzbekistan's fiscal borrowing and the current account deficit will remain high in 2020
- S&P says by year-end 2020, estimate that economy's liquid external assets will no longer cover gross external debt in Uzbekistan

(Reuters.Briefs@thomsonreuters.com)

EUROPE

Albania

Albania's gross foreign debt slightly down in Q1

10-Jun-2020
TIRANA (Albania), June 10 (SeeNews) – **Albania's gross foreign debt totalled 8.21 billion euro ($9.3 billion) at the end of March, down 0.6% compared to the value recorded at the end of December, the country's central bank said.**
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 on Wednesday.

($ = 0.8798 euro)

Bosnia

Bosnia's Federation plans to sell up to 235 mln euro govt paper

11-Jun-2020
SARAJEVO (Bosnia and Herzegovina), June 11 (SeeNews) - **Bosnia's Federation government said it has approved plans to auction up to 460 million marka ($267 million/235 million euro) worth of government paper in order to finance this year's budget spending.**
The Federation plans to issue four issues of Treasury bonds in the total amount of 260 million marka - one 60 million marka, one 100 million marka and two 50 million marka issues, the entity government said in a statement on Wednesday.
Under the decision, the Federation plans to offer a further three Treasury note issues in the total amount of 200 million marka, made up of two issues of 50 million marka and one 100 million marka issue.
The Federation is one of two autonomous entities forming Bosnia and Herzegovina. The other one is the Serb Republic.

(1 euro = 1.95583 marka)

Croatia

Croatia plans to borrow at least $1.25 bln on intl markets this week

09-Jun-2020
ZAGREB (Croatia), June 9 (SeeNews) - **Croatia aims to borrow at least $1.25 billion (1.11 billion euro) on international financial markets in the coming days in order to meet part of its fiscal needs, finance minister Zdravko Maric has said.**
The volume of the planned new borrowing has not been precisely determined yet but the objective is to raise at least $1.25 billion which is the size of a bond issue maturing next month, Maric said in a statement on Monday.
Apart from tapping international markets, the government will be still looking at issuing debt on the domestic market, as well as borrowing from international financial institutions and the

new EU mechanisms and instruments in the coming period to meet higher-than-planned expenditure related to the coronavirus crisis, Maric said.
Local media quoted Maric as saying last month that the finance ministry plans to issue a Eurobond in June, and had already hired Deutsche Bank, JP Morgan, Barclays and Intesa/PBZ as agents on the planned sale.
On July 14, Croatia is due to repay a $1.25 billion bond issued in July 2010 with a 6.625% coupon, according to data by the finance ministry.
In April, Maric said that Croatia will need some 65-70 billion kuna ($9.7-10.4 billion/8.6-9.2 billion euro) in the next three months to cover the cost of the government's anti-coronavirus economic stimulus measures.
Also in April, the government gave the green light to the finance ministry to make an additional borrowing of up to 24 billion kuna above the 26.9 billion kuna debt ceiling set in the 2020 budget bill in order to tackle the coronavirus crisis.

($=0.885679 euro)

Croatia to launch 11-year international bond worth 2 bln euros

10-Jun-2020
ZAGREB, June 10 (Reuters) - **Croatia has launched an 11-year international bond worth 2.0 billion euros ($2.28 billion), a source close to the deal said on Wednesday.**
Croatia aims to refinance a 10-year international bond worth $1.25 billion that matures on July 14. It also wants to use the proceeds to finance the budget gap set at 6.8% of gross domestic product this year due to a coronavirus pandemic.
The bond has a fixed coupon of 1.5%. The price was set at 98.572 yielding 1.64%.
Bids for the bond amounted to some 9.0 billion euros.

($1 = 0.8791 euros)
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Czech Republic

Czechs decide to raise 2020 budget gap again to $21 bln

08-Jun-2020
PRAGUE, June 8 (Reuters) - **The Czech government has decided to raise the 2020 central state budget deficit to 500 billion crowns ($21.3 billion) from 300 billion, CTK news agency said on Monday.**
The increase needs the approval of parliament.
The deficit had already been raised twice from the original plan of 40 billion crowns due to the economic slump caused by the coronavirus. The central state budget has borne the brunt of a drop in revenue and jump in spending in the public sector.
The 500 billion threshold would mean an overall public budget deficit getting into high single digits relative to gross domestic product, depending on how much nominal GDP falls this year from last year's 5.6 trillion crowns.
Public and private sector analysts polled by the Finance Ministry in May expected a GDP drop of around 7.6% in real terms this year, followed by a 5.8% growth next year.
The central European country had driven government debt down in the past years to 30.8% of GDP in 2019 versus an EU average of 79.3%, giving the government scope to borrow in the market for the time being.
It has sold record volumes of bonds in the past few months to build up a cash reserve.
Finance Minister Alena Schillerova had earlier signalled that a third increase in the 2020 gap would be necessary to keep the economy going.

($1 = 23.5210 Czech crowns)
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Hungary

Hungary's budget deficit swells in May, 2020 budget goal achievable

08-Jun-2020
BUDAPEST, June 8 (Reuters) - **Hungary's state budget posted a 324.1 billion forint ($1.07 billion) deficit in May, an increase over last year's same period due to health care spending amid the coronavirus pandemic, the Finance Ministry said in a statement on Monday.**
In May 2019 the budget gap was 137.4 billion forints.
The ministry said the accumulated deficit in the first five months was 1.05 trillion forints, adding that despite the extra expenses due to the coronavirus defence effort, the 3.8% of GDP deficit target for 2020 can still be maintained.
In this period, expenses related to EU-funded projects were over 967 billion forints, while disbursements from the EU totalled 486.7 billion.
By the end of May, Hungary spent over 450 billion forints on purchasing ventilators, masks and other healthcare equipment related to the coronavirus pandemic.

($1 = 304.0200 forints)
(Reporting by Marton Dunai)
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Hungary says EU's economic rescue plan "unfair"

09-Jun-2020

BUDAPEST, June 9 (Reuters) - **The European Union's planned 750 billion-euro economic stimulus plan is unfair towards Hungary, Finance Minister Mihaly Varga said on Tuesday.**
"In its present form, the economic rescue plan is unfair towards Hungary, as in essence it has been tailor-made to help southern member states," Varga said in a video on his official Facebook page.
Varga said the EU should adopt a "fair and proportionate" plan to alleviate the economic damage caused by the novel coronavirus pandemic.

(Reporting by Krisztina Than; Editing by Alex Richardson)
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Poland

Poland's PM hopes economy will shrink by less than 4% this year

06-Jun-2020

WARSAW, June 6 (Reuters) - **The Polish economy could shrink by less than 4% this year, while the unemployment rate will likely remain below 10%, Poland's Prime Minister Mateusz Morawiecki said on Saturday.**
Poland has announced a rescue package worth over 300 billion zlotys ($76 billion) to help its economy survive the coronavirus crisis.
"I have a serious not only hope but also macro basis to believe that (the unemployment rate) will not be double-digit, and even that it will be lower than economists had expected a month ago," Morawiecki told RMF radio.
"The fall in GDP expected by most financial institutions is 4%. I hope it will be lower than forecasts," he also said.

($1 = 3.9248 zlotys)
(Reporting by Agnieszka Barteczko and Anna Wlodarczak-Semczuk; Editing by Mark Potter)
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Romania

S&P Global Ratings affirms Romania at BBB-/A-3, outlook remains negative

06-Jun-2020

BUCHAREST (Romania), June 6 (SeeNews) - **Standard & Poor's maintained Romania's rating at BBB-/A-3, with a negative outlook, but said it expects significant fiscal consolidation after the 2020 general elections.**
The outlook is negative because the agency see risks to Romania's fiscal and external balances over the next 18 months if policymakers cannot stabilize and consolidate the budgetary stance after this COVID-19-induced recession, it said in a statement late on Friday.
S&P added that although we expect the economic and fiscal fallout induced by COVID-19 to push Romania's net government debt to 43% of GDP in 2020, and interest spending to increase to just below 5% of fiscal revenue, it assumes significant fiscal consolidation after the 2020 general elections.
"We believe that Romania's access to external financing and still moderate external debt levels mitigate pressures from a reduction in foreign direct investment (FDI) and remittances in 2020," the rating agency also said.
In a statement issued shortly after S&P press release, Romania's finance minister Florin Citu said the rating reflects Romania's moderate level of public debt and the sound measures enforced by the liberal government in order to mitigate the economic effects of the coronavirus pandemic.
"The Standard & Poor's announcement reaffirms that the current government's measures to combat the socio- economic effects of the COVID-19 crisis and ensure sustainable public finances have been the right ones given the current global context," Florin Citu added.
S&P also said in the statement:
"Overview
Although we expect the economic and fiscal fallout induced by COVID-19 to push Romania's net government debt to 43% of GDP in 2020, and interest spending to increase to just below 5% of fiscal revenue, we assume significant fiscal consolidation after the 2020 general elections. We believe that Romania's access to external financing and still moderate external debt levels mitigate pressures from a reduction in foreign direct investment (FDI) and remittances in 2020. We are affirming our 'BBB-/A-3' sovereign credit ratings on Romania and maintaining the negative outlook.
Rating Action
On June 5, 2020, S&P Global Ratings affirmed the 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on Romania. The outlook remains negative.
Outlook
The outlook is negative because we see risks

to Romania's fiscal and external balances over the next 18 months if policymakers cannot stabilize and consolidate Romania's budgetary stance after this COVID-19-induced recession.

Downside scenario

We could lower our rating on Romania if:

Fiscal and external imbalances remain elevated for longer than we currently anticipate, with the absence of fiscal consolidation resulting in higher public and external debt or a wider interest bill than we currently forecast. A lack of economic policy synchronization increased exchange rate volatility, with potential negative repercussions on public- and private-sector balance sheets.

Upside scenario

We could revise the outlook to stable if the government makes headway in anchoring fiscal consolidation, leading to a stabilization of Romania's public finances and external position.

Rationale

We affirmed the rating, given Romania's comparatively low net general government and external debt. We believe Romania will have the ability to absorb the level of deterioration we now expect for 2020. Romania has solid market access, which mitigates risks associated with the elevated short-term public-sector financing need. We furthermore expect measured monetary policy execution, and recognize Romania's EU membership as a key policy anchor, which benefits the country's institutional framework, in our opinion, and will likely bring in financing support from extraordinary structural funds being deployed in 2020.

Although we believe the current fiscal fallout will provide political leeway to significantly roll back the costly hikes of public sector pensions legislated to take place in September this year, we still see significant risks. In particular, the fluid political landscape and what is likely to be a confrontational run-up to general elections in December continue to cloud the visibility of the consolidation trajectory, in our view.

Institutional and economic profile: Highly politicized environment clouds policy visibility

We project Romania's economy will contract by 5.5% in 2020. We expect the government will roll back significant parts of this year's planned pension hike. Parliamentary elections will be pivotal to determining fiscal trajectory.

Romanian authorities introduced a national state of emergency in mid-March with strict constraints on the movement of people and the closure of its international borders. Relaxation of the lockdown measures commenced on May 15 as society moved from a state of emergency into a state of alert, in practice meaning that the economy is gradually reopening with certain sectors continuing to be subject to social distancing restraints.

We now estimate that Romania's output will contract by 5.5% in 2020 compared with our previous expectation of 3.5% growth. In particular, we expect the firm lockdown measures to take a significant toll on domestic demand, primarily in the second quarter. Furthermore, weak external demand from key trading partners will eat into Romanian full-year exports, of which over 20% go to Germany and 10% to Italy, countries also facing deep recessions in 2020. We currently estimate Romania's economic activity will gradually recover from midyear 2020 and rebound to 4.0% growth in 2021. That said, we recognize that our current projections are subject to high uncertainty because the relaxation of containment measures could be a protracted exercise and subject to setbacks.

Romania's confrontational politics and highly politicized discourse cloud predictability of policy. The COVID-19 pandemic has fostered some political unity, however. It seems to have catalyzed formation of a government after months of disagreements, which included two no-confidence votes and a few failed attempts to force early elections. That said, we anticipate the underlying confrontational dynamics of Romanian politics will likely re-emerge as the unifying COVID-19 context is replaced by the divisive election mode in the latter half of 2020. We assume that parliamentary elections will be held before 2020 is over. We continue see elections being held as central to providing visibility on medium-term policy choices.

We believe the COVID-19-induced fiscal fallout will provide the government a political context to reduce the cost of pension hikes legislated for September 2020. But as elections loom, we believe it will stop short of fully retracting the increase and still raise pensions by about 10% (instead of the 40% agreed in earlier legislation). This will add about 1% of GDP to the fiscal deficit in 2021. The remainder of the budgetary allocation in 2020 will be re-distributed among regular expenditure, but higher owing to COVID-19 effects.

We continue to regard Romania's EU membership as an important policy anchor, and we expect the excessive-deficit procedure the EC initiated in February 2020 will help instill fiscal discipline and facilitate the budgetary re-balancing that we envision in our base case for 2021-2023. We do not rule out that Romania will seek additional international cooperation to support fiscal balancing measures while at the same time unlocking access to cheap financing. We do not expect Romania to make any progress on such cooperation until elections are held.

Flexibility and performance profile: An increasingly problematic structural budget composition and deteriorating financing composition of the external deficit amid reduced FDI

Rising interest costs add further strain to an already rigid budget. The external deficit's financing mix continues to deteriorate as remittances reduce in 2020 and net FDI weakens. We expect inflation will remain steady and foreign exchange pressures contained as the central bank conducts measured policy easing over 2020.

Policy choices in recent years have weakened the foundations for sustainable public finances. Since 2018, and despite buoyant private demand and rising wage inflation, Romania has been running expansionary fiscal policy, resulting in twin deficits among the highest for any major emerging market sovereign and rendering Romania vulnerable to potential domestic and external shocks.

The contracting economy, alongside planned stimulus and falling fiscal revenue will lead to a further widening of Romania's budgetary deficit this year. In response to effects of the COVID-19 lockdowns, the authorities have launched a series of fiscal and economic measures to shield companies and workers from the necessary economic standstill. We estimate the overall size of the fiscal stimulus package thus far announced at 3.0% of GDP, among the weakest in the region. Including the budgetary effect of automatic stabilizers, such as from unemployment insurance, we anticipate that the measures introduced will increase fiscal expenditure by 1.2% of GDP and include:

Social assistance expenses, including payroll subsidies for furloughed workers worth 0.7% of GDP. An appropriation of 0.3% of GDP to supplement the health and unemployment budgets for expense related to COVID-19. An additional 0.1% of GDP of health expenditure increases via central government transfers to hospitals, as well as salary increases for health workers. Credit support in the form of government guarantees on bank lending to small and midsize enterprises for working capital and investment purposes will add a total 1.5% of GDP to the state's guarantee commitments.

Although the measures can effectively cushion some effects of the downturn, we believe that they will also result in a significant fiscal deficit of about 8.0% of GDP, including a decline in revenue due to the economic contraction, pushing net general government debt past 40% of GDP.

With spending on wages and pensions now standing at about 90% of tax revenue, Romania's budget structure is rigid. Furthermore, yields on government securities have edged up in 2020 amid the political and fiscal instability in combination with the COVID-19 context and with surging short-term financing needs, the interest bill could rise further.

We estimate the public-sector financing requirement in 2020 will comprise about 11% of GDP and we expect the majority will be sourced from the domestic market. In this regard, we believe the domestic banking sector will be supportive of government financing needs, but its capacity to digest the total financing needs of the government will be constrained. Its existing exposure to the government, at more than 20% of the banking sector's assets, is already substantial. Positively, we observe that Romania successfully placed Eurobonds worth €3.3 billion on May 26, exhibiting strong subscription levels and calming yields from the elevated trades recorded through March. As per the Eurobond issuance, the Romanian Ministry of Finance has secured 50% of its revised funding need for 2020, based on its expectations of a fiscal deficit of 6.7%, a figure we believe will likely prove to be understated.

In response to the liquidity shock induced by COVID-19, financial market volatility, and a string of unsuccessful government bond auctions in the first quarter of 2020, the National Bank of Romania (NBR) announced a series of measures. These include the provision of banks with liquidity through repurchase agreements, the reduction of the reserve requirement rate, and a commitment to unlimited government bond purchases on the secondary market.

We expect the NBR will uphold its policy credibility, retain its independence, and successfully anchor inflation expectations as it assists domestic markets to digest the government's financing requirements over 2020. The NBR's bond purchases to this point have added liquidity to the market and the central bank holds a net creditor positon to the banking sector. That said, given the magnitude of the government's short-term funding need, and the risk it could expand if fiscal revenue disappoints, could mean the NBR will have to act to a greater degree than it had originally envisioned. We expect the NBR will proceed with caution to balance its inflation-targeting regime and foreign exchange rate considerations amid an expanding quantitative easing program.

We believe Romania's current account deficits will widen, reaching about 5% of GDP in 2020 as a reflection of the government's fiscal position. Pent-up demand and a solid rebound in exports in 2021 will temper the current account deficit toward 4% of GDP in our base case through 2023. We observe that the current account deficit is increasingly covered by debt-financed inflows, which pushes Romania's narrow net external debt ratio toward 45% of current account receipts in 2023. There are risks for further strains on net FDI as international companies face pressure. Most recently, automaker Dacia, subsidiary of French automaker Renault, has seen its medium-term expansion plan cut by €100 million. Additionally, we believe that remittances--Italy is the origin of about one third--will reduce notably in the short term.

The wide current account deficit and its deteriorating financing mix could exert pressures on the currency. On this note, we forecast the NBR will continue to tap its foreign currency reserves to prop up the leu through 2020, given it is an election year. We compute usable reserves at about 15% of GDP on April 30, and we believe they will remain strong over 2020. Elevated exchange rate volatility could have severe repercussions on public- and private-sector balance sheets, in particular because about half of Romania's government debt is denominated in foreign currency. Moreover, an estimated 40% of financial sector deposits are denominated in foreign currency, as well as roughly one-third of sectorwide loans.

Romania's predominantly foreign-owned banking sector remains sound, in our view, and we see it as a limited contingency risk for the government. The Romanian banking sectors enters the COVID-19 turbulence from a position of strength with a sectorwide loan-to-deposit ratio of 72% at year-end 2019, from its peak of 142% in 2010. We expect liquidity and solvency ratios have built sufficient buffers to contend with the lower profitability expected from the consequences of the Ministry of Finance's nine-month loan moratorium. The system also benefits from low levels of nonperforming loans, which, at 4%, have reduced notably from over 21% in June 2014."

(1 euro=4.8393 euro)

Romania's bonds leap after credit rating reprieve

08-Jun-2020
By Marc Jones
LONDON, June 8 (Reuters) - **Romania's 2024-2028 government bonds posted their biggest ever daily rise on Monday, after the country's credit rating was spared a downgrade to 'junk'.**
S&P Global on Friday kept Bucharest's rating at BBB-, the lowest rung of investment grade, though it also maintained its 'negative outlook', which is effectively a downgrade warning.
The government's 2024-2027 bonds, saw their biggest daily price gains since issuance, with rises of between 1.2 and 1.7 euro cents, while longer-term bonds jumped as much as 2.2 euro cents.
"We affirmed the rating, given Romania's comparatively low net general government and external debt. We believe Romania will have the ability to absorb the level of deterioration we now expect for 2020," S&P said of its decision.
Concerns about the country's investment grade status were rumbling even before the coronavirus pummelled the economy, which is now expected to contract 5.5% this year.
The crisis seems to have catalysed formation of a government but only after months of political upheaval, including two no-confidence votes and failed attempts to force early elections.
A proposed 40% hike in state pensions has been driving rating uncertainty too. Though it is expected to be reduced to a 10% rise, the country's budget deficit, which was already under EU scrutiny, looks set to balloon to 8% of GDP.
Moody's and Fitch also have 'negative outlooks' on their equivalent Romania ratings. Moody's has a scheduled rating review on October 23 and Fitch on October 30, followed by S&P again on December 4.
Rabobank called S&P's rating affirmation "a much-needed reprieve" but warned that downgrade fears had only been postponed.
"Near-term risks of a downgrade have disappeared but uncertainty about the pension hike and populistic initiatives ahead of the elections mean that downgrade fears will run high into the rating reviews in 4Q20 and beyond".

(Reporting by Marc Jones; Editing by Tom Arnold, Kirsten Donovan)
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Russia

Russian can increase state debt due to low current levels

10-Jun-2020
MOSCOW, June 10 (Reuters) - **Russia has the capacity to increase state debt because its current levels are low, Central Bank Governor Elvira Nabiullina said on Wednesday.**
The central bank does not see risks in having around one third of the government's OFZ treasury bonds owned by non-residents, she said.
Nabiullina also said that Russian banks' profits had fallen to a record low of 500 million roubles ($7.28 million) in May.

($1 = 68.6531 roubles)
(Reporting by Gabrielle Tétrault-Farber; Writing by Alexander Marrow; Editing by Alison Williams)
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Turkey

Turkey agrees deal with Euroclear to open up bond market to intl investors

10-Jun-2020
ANKARA (Turkey), June 10 (SeeNews) - **Turkey's ministry of finance has reached a deal with Belgium-based securities transactions settlement bank Euroclear that will facilitate international investment into the Turkish bond market, Euroclear said.**
The imminent launch of a Euroclearable link will enable foreign Investors greater access to the Turkish government bond market, Euroclear said in a statement on Tuesday.
Achieving Euroclearability helps to facilitate access of foreign investors into the domestic market in a more secure and standardised way. Local issuers can access wider liquidity pools and reduce the overall volatility of borrowing costs, according to the statement.
"By making our TL, USD, EUR and gold denominated domestic borrowings entirely

'Euroclearable' we have further aligned our capital market framework with the globally recognised standards," Berat Albayrak, Turkey's minister of treasury and finance said.

Government debt held by Turkey's central bank exceeds 10% of its assets

10-Jun-2020
By Nevzat Devranoglu
ANKARA, June 10 (Reuters) - **The share of government debt among the Turkish central bank's assets exceeded 10% this week, data showed on Wednesday, as it continues buying bonds as part of quantitative-easing measures since the coronavirus outbreak.**
The central bank holds some 75.6 billion lira ($11.14 billion) of government debt as of June 8, up from 19 billion lira at the end of 2019.
It has bought more than 50 billion lira of bonds since the end of March, shortly after the first coronavirus case in the country was announced. Those purchases include some 23 billion lira from the Unemployment Insurance Fund.
Muhammet Mercan, chief economist on Turkey at ING, said the bank had been "quite transparent" about its purchases of government debt since the policy changes due to the pandemic.
He said the bond purchase levels were well below levels in the early 2000s and were small compared with quantitative-easing measures by other emerging-market central banks.
The central bank has set the bond purchase limit at 10% of its assets, up from 5%, but the debt from the Unemployment Insurance Fund is not included in that quota. The move was aimed at continuing stimulus meant to backstop the economy and government finances in the face of the coronavirus fallout.
The government has tapped the insurance fund to provide support for citizens who have lost work hours or were laid off, through methods such as unemployment and short-labour pay.
President Tayyip Erdogan said on Tuesday that since March, more than 3 million people had benefited from the short-labour pay, which provides additional wages to employees whose work hours are cut short. He said around 5 billion lira had been disbursed.
At the end of February, the Unemployment Fund had 131.6 billion lira, a large part of which consisted of Treasury bonds.

($1 = 6.7894 liras)
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Ukraine

IMF board approves $5 bln lifeline for Ukraine amid coronavirus recession

10-Jun-2020
By David Lawder and Matthias Williams
WASHINGTON/KIEV, June 9 (Reuters) - **The International Monetary Fund's executive board approved on Tuesday a $5 billion loan deal for Ukraine that Kiev says is needed to stave off default as the coronavirus pandemic plunges the Eastern European country's economy into recession.**
Ukraine will receive an immediate disbursement of about $2.1 billion from the 18-month Stand-By Arrangement, the IMF said in a statement.
"That's $200 mln more than originally planned," Ukrainian President Volodymyr Zelenskiy said on his official Twitter account. "The new program funding will help us to overcome the challenges caused by #COVID19. The #IMF has proven itself to be a reliable partner to a friend in need."
The rest of the funds will be spread over four reviews during the program, which focuses more on stability than deep structural reforms, IMF Managing Director Kristalina Georgieva said in a statement.
Zelenskiy's government has trumpeted the agreement as a vote of confidence in its ability to deliver reforms, including a banking law that went against the interests of one of the country's wealthiest tycoons.
One of Europe's poorest countries, Ukraine does not have the financial firepower for major stimulus measures to keep its economy afloat after imposing a nationwide lockdown in March that has shuttered or restricted many businesses.
Securing the IMF funds also is expected to unlock financing from the European Union and other institutions.
Ukraine's economy is seen contracting around 5% this year, including a 12% second-quarter drop.
The country has recorded 27,856 confirmed coronavirus cases, with 810 deaths, although the lockdown is gradually being lifted.
To secure the IMF deal, Ukraine had to pass legislation that prevents the former owners of insolvent banks from regaining their assets. The move was viewed as aimed against the interests of Ihor Kolomoisky, who formerly owned the country's largest lender, Private Bank - nationalized in 2016 - and who has waged a legal battle to regain control or receive government compensation.

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Ukraine expects $350 mln from World Bank by end of June

10-Jun-2020

KIEV, June 10 (Reuters) - **Ukraine expects to receive $350 million from the World Bank by the end of June after securing a $5 billion loan programme from the International Monetary Fund, Finance Minister Serhiy Marchenko said on Wednesday.**

The IMF approved the new deal on Tuesday, paving the way for the European Union to disburse a 500 million euro aid tranche under its own programme on Wednesday.

"A positive signal from the IMF gives us the opportunity to unlock cooperation with other international partners ... World Bank financing will be unlocked," Marchenko said at a televised briefing on Wednesday. "We are talking about $1 billion by the end of the year. By the end of June we will get $350 million."

(Reporting by Natalia Zinets; Writing by Matthias Williams;
Editing by Alison Williams)
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Ukraine international reserves rise to more than $27 bln after IMF loan

11-Jun-2020

KIEV, June 11 (Reuters) - **Ukrainian central bank's international reserves rose to more than $27 billion after the country received the first instalment of the International Monetary Fund loan, the bank's head said on Thursday.**

The IMF approved on Tuesday a $5 billion loan deal for Ukraine that Kiev says is needed to stave off default as the coronavirus pandemic plunges the Eastern European country's economy into recession.

Kiev has already receive about $2.1 billion from the 18-month Stand-By Arrangement.

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Moody's upgrades Ukraine's Ratings to B3 Stable Outlook

12-Jun-2020

June 12 (Reuters) - Moody's:

- **Moody's upgrades Ukraine's ratings to B3; stable outlook**
- Moody's says upgraded Ukraine's long-term issuer, senior unsecured ratings to B3 from CAA1
- Moody's says main driver of decision to upgrade ratings is easing of Ukraine's near-term funding challenges
- Moody's - main driver of decision to upgrade Ukraine's ratings is safeguards afforded to improvements in external vulnerability from IMF agreement
- Moody's on Ukraine says expect that new IMF programme will help anchor reform progress achieved in recent years

(Reuters.Briefs@thomsonreuters.com)

LATIN AMERICA AND CARIBBEAN

Argentina

Argentine wine province launches small-sized debt restructuring of its own

06-Jun-2020

BUENOS AIRES, June 5 (Reuters) - **Argentina's Mendoza province, famed for its bodegas and Malbec grapes grown in the shadows of the Andes, has formally launched a debt restructuring process after missing an initial payment deadline on a 2024 bond.**

The regional government said in a statement on Friday that it had opened an invitation to holders of around $590 million of the 2024 notes, which could see new debt instruments issued. The missed payment is still within a grace period.

The debt revamp is only a small sideshow as the South American country's national government races to seal a deal to restructure around $65 billion in sovereign debt, but underscores how the provinces are also grappling with their own debt crises.

The larger province of Buenos Aires is also looking to restructure around $7 billion in foreign debt.

Argentina has been pummeled by stubborn inflation, sky-high interest rates and a biting recession, which is now being sharpened by the impact of the coronavirus pandemic.

Mendoza's invitation will expire on June 16. The provincial government said it had engaged Credit Suisse Securities and AdCap Securities to help manage the invitation process.

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Argentina to present amended debt revamp offer to U.S. regulators this week, source says

08-Jun-2020

By Jorge Iorio and Walter Bianchi

BUENOS AIRES, June 8 (Reuters) - **Argentina will present an amended bond restructuring offer to U.S. regulators on Thursday or Friday, an economy ministry source told Reuters on Monday, as the government races to strike a deal with creditors to revamp $65 billion in sovereign debt.**

The source asked not to be named because the restructuring talks are private and highly sensitive as the country struggles to calm markets while negotiating new terms with bondholders.

Argentina's government and the holders of its foreign debt have been inching closer to an agreement that would avoid a messy and painful standoff after the recession-hit country defaulted for a ninth time last month.

However, while optimism about a deal has been rising, both sides say there is plenty of work to be done and there remains a sizeable gap between the government's offer and proposals from major creditor groups.

The country's over-the-counter bonds, which have been rising over the last month, were up around 1.3% on Monday.

Argentina's government had set Friday as a deadline for talks, although Economy Minister Martin Guzman has already indicated that the cut-off is likely to be extended once more to give creditors time to survey the latest offer.

The grains producer is facing a grim economic outlook with sky-high inflation and a central bank poll forecasting that the economy may contract 9.5% this year due to the impact of the coronavirus pandemic and nationwide lockdown.

Striking a bond restructuring deal is key for the country to avoid years of legal battles with creditors and a potential shutout from global capital markets, as happened after a major default by the crisis-prone country in 2001.

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Argentina debt talks, in tough final mile, spark hope and tension

09-Jun-2020

By Adam Jourdan, Marc Jones and Rodrigo Campos

BUENOS AIRES/LONDON/NEW YORK, June 9 (Reuters) - **Argentina's debt restructuring talks are sparking hopes and tension, with the government and its creditors in a sensitive final stretch to strike a breakthrough deal to revamp around $65 billion in sovereign bonds the country cannot pay.**

The government is preparing an amended proposal to creditors that would for a second time sweeten an original offer made in April. For their part, creditors have warily eased their demands to bring the sides closer together.

A source told Reuters on Monday that the government would unveil the sweetened offer late this week.

Argentina's bonds, which slumped last year into distressed territory, have been rising over the last month as talks have progressed, despite a gap remaining between what Argentina is willing to pay and what key creditor groups want.

"Overall, we think Argentine bonds have further room to rally," Carlos de Sousa at Oxford Economic wrote in a note on Tuesday, adding the offer should be improved in coming days.

Ahead of a moving June 12 deadline for the talks, however, tensions are stirring beneath the surface as negotiators on both sides push for the best deal possible. The deadline is expected to be extended.

One bondholder source familiar with the discussions criticized Argentina's Economy Minister Martin Guzman as trying to exclude some people from the negotiating table.

The person, who asked not be named, said the two largest bondholder groups including names like BlackRock, Fidelity and Ashmore, were "united" in refuting this behavior and that the "gamesmanship is risking derailing the process."

An economy ministry source said investors alone were responsible for who was at the negotiation table.

Alejandro Hardziej at Pala Asset Management said the firm had recently sold half its Argentine holdings as it saw limited further upside, but added that "there will be an agreement sooner or later - the difference between the parties is just too small."

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Argentine bonds edge higher as market waits on sweetened debt offer

12-Jun-2020

BUENOS AIRES, June 12 (Reuters) - **Argentina over-the-counter bonds edged higher on Friday as markets watched for signs of an expected sweetened offer from the government to restructure $65 billion in foreign debt.**

The country's sovereign bonds were up an average 0.6%, while the local Merval stock index

rose more than 4% at open, continuing a surge as investors with an appetite for risk flock to Argentine assets despite the country's crises.
Argentina is racing to restructure a painful debt load it says that it cannot pay, after its ninth sovereign default in May, with a moving deadline for talks on Friday. Striking a deal is key to averting a long and messy legal standoff with creditors.
"We remain pretty optimistic and price action underlines that," said one bondholder who is not part of the main creditor committees involved in the negotiations.
"Maybe the new offer will be a modest improvement but they will want to get reasonably high acceptance to reduce the risk of litigation," he said.
Argentine President Alberto Fernandez said on Wednesday that a deadline for the talks will likely be extended by at least 10 days and possibly more. He also reaffirmed that the country needed to strike a deal.
A government source previously told Reuters that an amended offer would likely be unveiled this week.
Argentina's bonds, which slumped last year into distressed territory, have been higher in the last month as talks have progressed, despite a gap remaining between what Argentina is willing to pay and what key creditor groups want.

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Argentina extends NDAs with creditors to allow debt talks to continue

12-Jun-2020
BUENOS AIRES, June 12 (Reuters) - **Argentina's economy minister said on Friday that the country had extended confidentiality agreements with creditors until next Tuesday to allow further negotiations as the two sides race to strike an agreement to restructure around $65 billion in debt.**
In a statement sent to reporters, Martin Guzman said the extension of the nondisclosure agreements (NDAs) meant that "talks with creditors will also continue until that date".
Argentina's government is expected to unveil an amended debt restructuring proposal to win over its foreign creditors ahead of a deadline to a reach an agreement that was pushed back earlier on Friday to June 19.

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Brazil

Brazil govt's 2020 deficit forecast already looking 'optimistic'

06-Jun-2020
By Gabriel Ponte
BRASILIA, June 5 (Reuters) - **Brazil's official budget deficit target for this year of 10% of gross domestic product is already looking optimistic, Treasury Secretary Mansueto Almeida said on Friday, a sign of the huge pressure on public finances from the coronavirus crisis.**
The government revised its primary deficit forecast, which excludes interest payments, to 10% of GDP only two weeks ago. But Almeida said that tax revenues could be lower than expected and warned against extending emergency spending programs.
"We are going for a primary deficit of 10% of GDP this year. Could it be worse? It could be worse," Almeida said in an online debate hosted by Verde Asset Management.
This target is based on postponed tax payments because of the crisis being made in the second half of the year and emergency spending measures not being extended, Almeida said.
Almeida insisted that emergency payments to informal, low-paid workers of 600 reais ($121) a month for three months, which will total around 150 billion reais, cannot be extended.
Making the program permanent would increase the government's primary expenditure by a further 8% of GDP and the tax load would have to rise by 10% of GDP.
"That makes no sense at all," he said, noting that even extending it to the end of the year would increase Brazil's debt to more than 100% of GDP.
While the government this year will stick to its spending cap rule, regarded by policymakers as the country's fiscal pillar, Almeida admitted that the situation becomes more difficult in 2021 if revenues and economic growth undershoot expectations.
"This worries us. It's something we'll have to deal with and try to reverse," he said, adding that it may be six years before federal revenues return to pre-crisis levels.

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Brazil deficit to reach $140 billion this year

12-Jun-2020
BRASILIA, June 12 (Reuters) - **Economists expect Brazil's government to post a primary**

budget deficit this year of 709 billion reais ($140 billion), about 24% wider than the 571 billion-reais shortfall forecast just a month ago, the Economy Ministry said on Friday.
The record deficit for the central government, comprising the Treasury, central bank and social security system, reflects the rapid increase in spending and fall in revenues resulting from the coronavirus crisis.
The estimate in the ministry's monthly "PRISMA" fiscal report is wider than the government's last official forecast of 675.7 billion reais, expected to be 9.4% of gross domestic product.
Officials have said in recent weeks, however, that the deficit could be even wider, given the scale of the looming recession and hit to tax revenues.
Either way, the deficit will be significantly greater than the government's original target of a 124 billion reais at the start of the year.
The PRISMA survey also showed that economists now expect a 200 billion-reais deficit next year, excluding interest payments, compared with the median forecast of a 169 billion-reais shortfall a month ago. The government expects a 150 billion-reais deficit in 2021.
As a result, Brazil's gross debt is now expected to rise to a record 92.7% of GDP this year, up from 90% in last month's survey, and 92.8% of GDP next year, also up from May's 88.6% forecast, according to the PRISMA report.

($1 = 5.0416 reais)
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Colombia

Colombia's economy to grow at least 5% in 2021

08-Jun-2020
BOGOTA, June 8 (Reuters) - **Colombia's economy will grow at least 5% in 2021, Finance Minister Alberto Carrasquilla said on Monday, predicting a sharp turnaround from this year's estimated contraction.**
The government has predicted gross domestic product will shrink 5.5% this year, as a coronavirus lockdown and low oil prices batter the Andean country's economy.
The government has also predicted a more than $6 billion decrease in national income. It will seek funding via international and local bonds or use an available line of credit with the International Monetary Fund.
"We think that in 2021 this economy will grow at least 5%," Carrasquilla told lawmakers in a virtual hearing. "Growing at 6% like we had thought would happen, we won't be able to recover from the hit of 2020 and be on the favorable trajectory the country had."
"I do think we will have a quick recovery. We have businesses in Colombia that are ready to act," Carrasquilla added.
Although reduced tax collection in 2020 will affect the government's room to maneuver next year, Carrasquilla urged lawmakers to focus on economic recovery.
"This is not the time to get frightened by debt. It is not the time to get frightened because the fiscal deficit is growing. It is the time to resolve this crisis, to use the resources that are necessary and to think of recovery."
A months-long coronavirus quarantine - begun in late March and set to last until July 1 - halted much of the economy. Many sectors are gradually reopening, but business owners have complained of a slow government permitting process.
Urban unemployment spiked in April to 23.5%, more than double the rate the same month a year earlier.

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Mexico

Mexico takes out $1 billion loan from World Bank -newspaper

07-Jun-2020
MEXICO CITY, June 7 (Reuters) - **Mexico has taken out a $1 billion loan from the World Bank as the effects of the coronavirus begin to squeeze the economy, a business newspaper reported on Sunday.**
El Economista said the Mexican government asked the World Bank for the loan on May 19 to deal with the impact of the pandemic, and got the green light from the international lender on May 31.
Deputy Finance Minister Gabriel Yorio said on Twitter that the loan had not been contracted for any specific purpose.
The development policy loan (DPL) is for the government's general funding needs and fell within the debt limits already approved by Mexico's Congress, he said.

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AFRICA

Sub-Saharan Africa

Fitch Ratings: Outlook on Sub-Saharan Sovereigns is Negative

12-Jun-2020

Fitch Ratings-Hong Kong-12 June 2020: **The coronavirus pandemic and the oil price shock it triggered have had a severe impact on sovereigns in sub-Saharan Africa (SSA), which led to rating downgrades on seven of the 19 rated SSA sovereigns since the beginning of March 2020, Fitch Ratings says.** Four sovereigns in the region have Negative Outlooks on their rating, which is unusually high, pointing to continued downside risks to ratings. Four sovereigns are rated 'CCC' or below (in such cases Fitch does not assign Outlooks) while only one (Cote d'Ivoire) carries a Positive Outlook. Fitch forecasts the median real GDP for rated SSA sovereigns will contract by 2.1% in 2020, before returning to growth at 4% in 2021, which is barely above trend growth. The global shock has had a strong impact on the SSA region via commercial and financial linkages, and domestic containment measures - with many countries imposing lockdowns and curfews - have caused severe disruption to economic activity in many countries. The shock has hit the main African oil exporters - Angola, the Republic of Congo, Gabon and Nigeria - particularly hard given their high reliance on oil revenue for fiscal and external financing and the indirect dependence of the non-oil sector on oil revenue. Countries with a concentration on tourism, particularly Cabo Verde and the Seychelles, have also been badly affected. The fall in revenue, combined with additional spending from the healthcare sector will lead to a surge in deficits and debt levels in 2020; for a majority of countries debt will continue to rise in 2021. While global financial conditions have stabilised somewhat, access to commercial financing remains constrained on international markets and domestic debt markets are often shallow, raising the risk of liquidity challenges. The IMF has responded by expanding its rapid financing instruments, which 12 of the 19 sovereigns have accessed, and more countries are expected to agree regular IMF programmes that would open up other bilateral and multilateral funding. **The G20 has approved a Debt Service Suspension Initiative under which bilateral debt service payments due until end-2020 (potentially extended until 2021) can be paid later.** Cameroon, the Republic of Congo and Ethiopia have signed an agreement while others, including Cote d'Ivoire and Nigeria, have requested participation. As Fitch's Issuer Default Ratings (IDRs) only refer to defaults on commercial debt, participation would not constitute a default. While a broader private-sector moratorium could qualify as a default, this does not seem sufficiently likely to affect ratings. The full report "Sub-Saharan Africa Sovereign Credit Overview: 2Q20" is available on www.fitchratings.com or by clicking on the link above.

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Egypt

Egypt net foreign reserves drop by $1 bln in May

07-Jun-2020

CAIRO, June 7 (Reuters) - **Egypt's plunging foreign reserves declined by a further $1 billion in May, the central bank said on Sunday, as the coronavirus crisis continues to pressure the economy.**

Reserves at the end of May were $36 billion, down from $37 billion at the end of April, having already fallen by $3.07 billion in April and $5.4 billion in March as investors unnerved by the coronavirus pulled cash from emerging markets.

The May decline looks small compared with the previous months, but the extent of outflows could be higher if any proceeds from May's $5 billion Eurobond sale and $2.78 billion from the International Monetary Fund (IMF) was used to bolster reserves.

"For now we can assume capital flight," said Renaissance Capital analyst Ahmed Hafez, adding that banks may have tapped central bank funds to cover some of their net foreign liabilities.

"Overall, higher than expected, but under control," he said of the latest decline.

The central bank could not be immediately reached for comment.

The COVID-19 crisis has squeezed some of the country's main sources of foreign currency, especially tourism and remittances from workers abroad.

"With close to $8 billion of external funding raised during the month, the net international reserves drop comes as a surprise to us," said Allen Sandeep of Naeem Brokerage.

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Egypt shares jump after IMF agreement announced

08-Jun-2020

Egypt likely to reduce T-bills, bonds bids following the IMF's $2.7 loan: Finance ministry
Egypt's $2.77 bln loan to be repaid over 5 years: IMF mission chief
Egyptian shares jumped on Sunday after the International Monetary Fund (IMF) announced on Friday it had reached a staff-level agreement with Egypt for a one-year, $5.2 billion standby loan to help it grapple with the coronavirus pandemic.

Ivory Coast

Moody's Places Côte d'Ivoire's BA3 Ratings on Review for Downgrade

12-Jun-2020
June 12 (Reuters) - Moody's:
- **Moody's places Côte d'Ivoire's BA3 ratings on review for downgrade**
- Moody's says Côte d'Ivoire's participation in g20 debt service suspension initiative raises risk that private sector creditors will incur losses

(Reuters.Briefs@thomsonreuters.com)

Kenya

Kenya sets a budget deficit of 7.5% of GDP in 2020/21 financial year

11-Jun-2020
NAIROBI, June 11 (Reuters) - **Kenya's finance minister Ukur Yatani on Thursday set a budget deficit of 7.5% of GDP for the fiscal year starting in July, saying the coronavirus pandemic had upended the government's plan to reduce reliance on debt.**
"Our fiscal consolidation plan has been adversely affected by the events over the last six months," Yatani told parliament as he presented the government's budget, while also referring to the impact of a locust invasion and flooding.

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Nigeria

Nigeria's House send 10.8 trillion naira budget to Senate

10-Jun-2020
By Camillus Eboh
ABUJA, June 10 (Reuters) - **Nigeria's House of Representatives on Wednesday passed a revised 10.8 trillion naira ($30 billion) budget based on oil prices at $28 per barrel.**
The budget is 300 billion naira above the one submitted by President Muhammadu Buhari late last month, and increases the expected oil price by $3 per barrel.
The Senate will consider the amended budget on Thursday.
The government had planned to cut its record 2020 budget due to the coronavirus pandemic and an oil price plunge, but the version passed by the House is above the 10.59 trillion naira level approved by Buhari in December.
The budget also assumes oil production at 1.9 million barrels per day (bpd). Oil prices have recovered from a 20-year low of just under $16 per barrel hit in March, and were trading at $41.65 on Wednesday evening.
But Nigeria has also agreed to limit its oil output to 1.412 million bpd as part of a deal with the Organization of the Petroleum Exporting Countries and other producers. That agreement was extended through the end of July.
In a statement, Senate President Ahmad Lawan said the upper chamber would consider the revised 2020 budget on Thursday, after receiving details of some of the 500 billion naira COVID-19 intervention fund that is part of the budget.
"Tomorrow, we can receive and consider the report to ensure that we don't delay anything as important as that," Lawan said in a statement.
Nigeria expects its oil-dependent economy, which recently recovered from a 2016 recession, to shrink by 3.4% this year.

($1 = 360.0000 naira)
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Rwanda

IMF approves additional $111.06 mln to Rwanda to address COVID-19 pandemic

11-Jun-2020
NAIROBI, June 11 (Reuters) - **The International Monetary Fund said on Thursday it had approved an additional $111.06 million disbursement to Rwanda to address the effects of the COVID-19 pandemic on the country's economy**.
"Rwanda's economic outlook has worsened since

the approval of the first (Rapid Credit Facility) request on April 2, 2020, leading to a further downward revision in the 2020 GDP growth forecast from 5.1 to 2.0 percent due to deepening of the COVID-19 impact," the IMF said in a statement.
The funding brings total IMF COVID-19 support to Rwanda to $220.46 million, it said, and will help finance the country's urgent balance of payments and budget needs.
The central African country implemented one of Africa's strictest lockdowns to try to stem the spread of COVID-19, the respiratory disease caused by the novel coronavirus, including shuttering some businesses, closing borders and schools.
Authorities have since begun to gradually open up the economy, although some restrictions remain.
"The unprecedented spending needs generated by the pandemic, combined with losses of revenues, are putting significant pressures on public finances," the IMF said.
Rwanda's economy partly depends on tourism earnings, but the sector has virtually ground to a halt during the outbreak.
Rwanda has so far had 476 cases of COVID-19 and two deaths.

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Senegal

S&P Says Senegal Ratings Affirmed At 'B+/B'

06-Jun-2020
June 5 (Reuters) - S&P:
- **S&P says Senegal ratings affirmed at 'B+/B'; outlook stable**
- S&P says anticipate Senegal government debt to GDP will peak at around 64% in 2020

(Reuters.Briefs@thomsonreuters.com)

Moody's Says Places Senegal's BA3 Ratings on Review for Downgrade

12-Jun-2020
June 12 (Reuters) - Moody's:
- **Moody's says places Senegal's BA3 ratings on review for downgrade**
- Moody's says decision reflects its assessment that Senegal's participation in g20 DSSI raises risk that private sector creditors will incur losses

(Reuters.Briefs@thomsonreuters.com)

South Africa

Fitch sees South African economy contracting 5.5% this year

12-Jun-2020
JOHANNESBURG, June 12 (Reuters) - **Ratings agency Fitch said on Friday it expected South Africa's economy to shrink 5.5% this year, as the coronavirus lockdown batters an economy already in recession.**
Fitch downgraded South Africa's credit rating further into "junk" territory in April, citing the lack of a clear path towards government debt stabilisation and the expected impact of the COVID-19 shock on public finances and growth.
In an outlook on sub-Saharan African sovereigns, Fitch said it projected the fiscal deficit would surge to 14.4% of gross domestic product (GDP) in the current fiscal year, with government debt seen rising to 80.9% of GDP.
"Government debt was already on a sustained upward trajectory before the crisis," Fitch said.
"Consolidation measures in the February budget relied heavily on re-negotiating a public sector wage agreement that only expires in April 2021, which has so far been elusive."
The government and public sector trade unions are still locked in a dispute over wage increases that were due to come into force in April. Officials have said they cannot afford the increases agreed as part of a three-year deal in 2018, but unions are trying to force them to pay via the courts.
Africa's most industrialised economy imposed one of the world's strictest lockdowns in late March. It was eased from the beginning of June to let people outside for work, exercise or shopping, and allowing mines and factories to run at full capacity subject to health and safety controls.

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Sudan

Sudan says it has begun talks with IMF on non-funded programme

08-Jun-2020
KHARTOUM, June 7 (Reuters) - **Sudan began talks this week with the International Monetary Fund (IMF) on a non-funded programme that could pave the way for international financial support, Finance**

Minister Ibrahim Elbadawi said on Sunday.
Khartoum is in desperate need of financial help to reorganise its economy. Inflation has been running at nearly 100% and the currency tumbling as the government prints money to subsidise bread, fuel and electricity.
The talks mark a thaw in Sudan's relationship with the IMF. Until now it has been unable to tap the IMF or the World Bank for support because it is still listed by the United States as a state sponsor of terrorism and has $1.3 billion of IMF arrears.
The U.S. indicated after President Omar al-Bashir was removed from power in April 2019 that it was willing to work to remove Sudan from the terrorism list.
"This week Sudan began negotiations ... to agree on a Staff-Monitored Programme that seeks to open doors for international financing & investment in major development, infrastructure, peacebuilding & job creation projects for youth," Elbadawi said on Twitter on Sunday.
Sudanese officials recently said they expect Khartoum will be removed from the terror list soon.
Sudan has debts of around $62 billion, including arrears of around $3 billion to international financial institutions, Elbadawi said in October.
IMF communications director Gerry Rice said on Thursday that Sudan had requested talks, which he expected to be completed by around the fourth week of June.
The programme would be "a way for Sudan to show a track record of good policy implementation," Rice said. "By showing such a track record, it can help Sudan toward clearing its arrears to the IMF, which in turn, and this is the key, can unlock financing from other sources as well."

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Tanzania

Tanzania says it has begun negotiations over debt relief to shore up economy

11-Jun-2020
By Nuzulack Dausen and Omar Mohammed
DAR ES SALAAM, June 11 (Reuters) - **Tanzania has begun negotiations with creditors over a G20 nations initiative over debt relief, the finance minister said on Thursday, part of efforts to mitigate negative economic effects sparked by the coronavirus outbreak.**
The initiative is geared towards delaying debt repayments beginning in May to December 2020, freeing up cash for governments to use to ease the economic impact of COVID-19.
"The 20 richest nations in the world (G-20) have urged bilateral official creditors to provide debt relief to the world's poorest nations including Tanzania," Philip Mpango said in parliament.
"The government has began negotiations with creditors to benefit from this initiative."
Mpango told lawmakers that Tanzania and international institutions were discussing access to financing for "combating (the) COVID-19 pandemic to stabilize the economy."
The government is talking to the European Union for potentially 27 million euros' worth of support and the International Monetary Fund's rapid credit facility where Mpango said it could access up to $272 million as balance of payments support.
The African Development Bank has pledged a concessional loan of $50 million as budget support, the finance minister added.
On Wednesday, the IMF said it had approved debt relief to Tanzania worth $14.3 million over the next four months, and potentially up to $25.7 million over the next 23 months.
Neighbouring Kenya has said it will not seek debt relief under the G-20 plan because the terms are too restrictive and it might affect Kenya's credit rating.
Earlier on Thursday, Mpango said that Tanzania expects its economy to grow by 5.5% in 2020 compared with a previous estimate of 4%, after the government took steps to mitigate the economic impact of coronavirus, a much rosier outlook than the World Bank's projection of 2.5%.
"This is due to rains ruining transport infrastructure in the country and the impact of COVID-19 which hit a lot of countries that are our trade partners," he said.
In what is the last budget for this parliament before the general election in October, Tanzania plans to spend 34.88 trillion Tanzanian shillings ($15.09 billion) for the fiscal year 2020/21, up from 33.11 trillion shillings the previous year, Mpango said.
The finance minister told parliament that total public debt to GDP ratio stood at 27.1% while external public debt to GDP was at 16.3%.
Tanzania plans to borrow a total of 7.94 trillion shillings from domestic and international markets for the next fiscal year, said Mpango.

($1 = 2,311.0000 Tanzanian shillings)
(Reporting by Nuzulack Dausen in Dar es Salaam and Omar Mohammed in Nairobi; Writing by Omar Mohammed;
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Uganda

Uganda to boost external funding to shore up budget

11-Jun-2020

By Elias Biryabarema

KAMPALA, June 11 (Reuters) - **Uganda plans to draw on more external financing to shore up its 2020/21 budget, its finance minister said in a budget speech on Thursday as he outlined measures to help businesses hit by the outbreak of the new coronavirus.**

The 45.5 trillion shilling budget ($12.2 bln), up from 40.1 trillion last year, includes 12.4 trillion shillings of external project support and general budget support compared with 10 trillion in 2019/20, said Finance Minister Matia Kasaija.

"Government's approach to public debt financing ... seeks to contract only affordable external debt in preference to domestic debt," he said.

He said the government plans to cut taxes on mobile banking and mobile money transactions, give credit to small- and medium-sized firms through cooperatives, ask banks to restructure distressed loans and clear arrears to government suppliers.

The payment of taxes has also been deferred for some sectors.

Uganda's total public debt stood at $13.3 billion in December 2019, of which $8.6 billion was external debt.

Kasaija did not mention seeking to delay or restructure loan repayments in his speech.

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GLOBAL

Fitch Says It Expects There to Be A Record Number of Sovereign Downgrades in 2020

08-Jun-2020

June 8 (Reuters) -

- **Fitch says it expects there to be a record number of sovereign downgrades in 2020**
- Fitch: forecasts that for first time nearly all rated sovereigns will experience an annual fiscal deterioration
- Fitch on global economies says they will run larger deficits or smaller surpluses in 2020 compared with 2019

(Reuters.Briefs@thomsonreuters.com)

EMERGING MARKETS

Emerging market credit default swaps hit record $521 bln in 1st qtr

08-Jun-2020

NEW YORK, June 8 (Reuters) - **Trading volume for emerging market credit default swaps (CDS) rose 3% in the first quarter to a record $521 billion from $505 billion a year earlier, according to a survey of 12 major dealers released on Monday.**

The largest volumes were for Brazil at $49 billion and China at $48 billion, followed by Mexico and Turkey with $37 billion each. Total volume rose 20% from the final quarter of 2019.

CDS in Mexico's national oil company Petróleos Mexicanos, or Pemex, accounted for the biggest volume among corporate contracts at $2 billion. Pemex lost its investment grade rating earlier this year.

EMTA, the emerging markets debt trading and investment industry trade association, said quarterly volume was the highest since it began collecting the data in 2009.

Participants were asked to report their CDS volumes on 21 emerging market countries and nine emerging market corporate issuers.

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Russia to participate fully in G20 debt standstill for poor countries

08-Jun-2020

WASHINGTON, June 8 (Reuters) - **Russian Finance Minister Anton Siluanov told U.S. Treasury Secretary Steven Mnuchin on Monday that Russia intends to "participate fully" in a G20 official debt service suspension initiative to help the poorest countries fight the coronavirus, the Treasury said in a statement.**

The pledge came during a call today between the two finance ministers, during which they discussed the coronavirus pandemic and "response measures to support economic recovery in the United States and Russia," the Treasury said.

(Reporting by David Lawder)
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Paris Club debt freeze reaches $1.1 bln as Ethiopia, Pakistan get relief

10-Jun-2020

PARIS, June 10 (Reuters) - **The Paris Club of creditor nations have so far waived $1.1 billion euros of debt servicing payments due this year from some of the world's poorest countries under a G20 deal and more relief is on the way soon, the group said on Wednesday.**

The Paris Club said it had agreed to suspend interest and principal repayments from Chad, Ethiopia, Pakistan and Republic of Congo in the latest wave of countries given some financial leeway to help them focus on fighting the coronavirus pandemic.

The Group of 20 leading economies and the Paris Club, an informal group of state creditors coordinated by the French finance ministry, agreed in April to freeze debt payments of the 77 poorest countries this year.

The latest agreements bring to 12 the number of countries to receive debt relief under the deal, with a total of $1.1 billion in debt coming due this year deferred to 2022-2024, the Paris Club said.

"Another 18 are being processed and should be wrapped up quickly," Paris Club president Odile Renaud-Basso told journalists on a conference call.

G20 creditors not members of the Paris Club, including China, are supposed to waive debt payments bilaterally on the same terms under the deal with the G20.

A decision on whether to extend the payment suspensions would mostly likely come at a G20 summit in November, though some countries might need an outright reduction of their debt burdens, Renaud-Basso said.

The countries potentially eligible under the deal have $36 billion falling due this year, with $13 billion owed to other governments, $9 billion to private creditors and $14 billion to multilateral lenders, according to World Bank data.

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