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Emerging Sovereign Debt Markets NEWS

Number 11 Week 7 – 13 March 2020

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Pandemic panic hits Asian markets

13-Mar-2020

● **CORONAVIRUS: Oil price slump and virus fears trigger global sell-off**

By Thomas Blott

HONG KONG, March 13 (IFR) - **Shares in Asia nosedived last week amid widespread panic over the global economic impact of the coronavirus, even as analysts played down comparisons with the 2008 global financial crisis.**

Stock prices plummeted globally last Monday after Saudi Arabia announced plans to ramp up oil production following the collapse of OPEC's supply agreement with Russia, piling more pressure on investors already wary of the fate of the global economy following the coronavirus outbreak.

Practically all major indexes in Asia fell with the commodities-heavy markets of Australia and Indonesia faring particularly poorly. The S&P/ASX 200 tumbled 7.3% in the second-worst session in its history at the time, topped only by an 8.3% fall in October 2008 at the height of the global financial crisis.

Ten-year US Treasury yields fell to a record low of 0.32% on Monday before finishing the day at 0.54%.

Any hopes of stability were dashed again on Thursday, after US President Donald Trump announced restrictions on European travel to the US.

The S&P/ASX 200 plunged 7.4%, sending shares firmly into bear market territory. South Korea's Kospi index fell 3.9% with trading briefly halted after the Korea Exchange activated its five-minute sidcar circuit-breaker for the first time since 2011.

FRANTIC FRIDAY

Volatility continued on Friday with Australia experiencing the wildest intraday swing, finishing the day up 4.4% having earlier plummeted as much as 8.1%. The Hang Seng Index also hit bear market territory as it opened down 7.4% before closing the day 1.1% lower.

The Kospi index closed down 3.4% after the exchange's circuit breaker mechanism was triggered for the first time since 2001 when shares fell more than 8%. Japan's Nikkei 225 also fell more than 10% before closing the day down 6.1%, to a more than three-year low.

"Collapsing bond yields maintain a high and attractive equity risk premium, but it is too early to call a trough in equity markets," said Michael Strobaek, global chief investment officer at Credit Suisse, in a research note to clients.

"However, we do expect that Europe and the US will eventually be able to contain the outbreak in a way that avoids pushing the global economy into an outright recession. This should allow equities to regain lost ground as confidence is slowly restored over the next 3 to 6 months."

CRISIS PARALLELS

Despite the obvious parallels with 2008, analysts were quick to dismiss any comparisons, with most anticipating the coronavirus outbreak to lead to a short, sharp shock as supply chains are disrupted rather than a full-blown economic crisis.

"One of the few crumbs of comfort amid the turmoil in financial markets over recent days is that the global banking system does not appear to be in imminent danger," said Neil Shearing, chief economist at Capital Economics.

"This reduces the risk that a severe global downturn morphs into a full-blown financial crisis and economic depression."

Analysts also pointed to some positive news in the fight against the pandemic. Just five new cases were reported in Wuhan, the centre of the outbreak in China, on Friday, while no locally transmitted infections were reported in the rest of the country.

Indeed, Chinese A-shares performed better than their peers last week with the CSI300 index, comprising the 300 largest stocks on the Shanghai and Shenzhen bourses, down just 5.9% this week, although analysts have attributed this in part to the historically high interest rate spreads between China and the US. The People's Bank of China, which last month cut its benchmark one-year loan prime rate by 10bp to 4.05%, has more room to use monetary policy to buttress its economy than most of its peers globally with most countries likely to resort to fiscal stimulus instead, according to analysts.

In Australia, Prime Minister Scott Morrison unveiled a A\$17.6bn (US\$11.4bn) stimulus package on Thursday, the country's first since 2008, which will see small businesses given up to A\$25,000 and welfare recipients receiving one-off cash payments.

Regulators also tightened trading rules last week to stave off some of the volatility. In South Korea, the Ministry of Economy and Finance toughened short-selling rules, before announcing on Friday it would ban short selling on the Kospi and Kosdaq for six months from March 16.

Meanwhile, the Indonesia Stock Exchange also tightened its circuit breakers to halt trading if the Jakarta Stock Exchange Composite Index falls by more than 5%.

The bourse would then halt trading for a further 30 minutes if the index falls more than 10%. If the index falls by more than 15%, trading will be halted until the end of the trading session, or more than one trading session if OJK, Indonesia's financial regulator, approves.

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GCC Gulf Cooperation Council

Gulf government bonds fall on weaker global markets, lower oil

12-Mar-2020

DUBAI, March 12 (Reuters) - **International bonds issued from Gulf government weakened on Thursday, tracking general softness in global markets as the oil price war between Saudi Arabia and Russia intensifies and fears over the spread of the new coronavirus escalate.**

Abu Dhabi dollar bonds due in 2047 shed over 4 cents in early trade, Refinitiv data showed, after the United Arab Emirates followed Saudi Arabia in promising to boost oil production.

Saudi Arabia's bonds due in 2046 shed 2.8 cents, Aramco bonds maturing in 2049 lost 1 cent, and weaker regional credits like Oman and Bahrain posted significant losses on their long-dated bonds.

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China

China debt risk simmers

09-Mar-2020

China's efforts to stimulate the coronavirus-hit economy are expected to aggravate a higher leverage level that has accumulated over US\$40 trillion (HK\$312 trillion) of debt as of the third quarter last year, adding to the possibility of more defaults.

Concerns had grown even before the epidemic, with China's total debt surpassing 308 percent of its GDP ended last September, and is expected to reach 310 percent of the economy in the coming months, according to the Institute of International Finance.

A pickup in local government and corporate issuance for a counter-virus purpose has raised market fears of financial risks. Mainland local governments issued 1.22 trillion yuan (HK\$1.37 trillion) worth of new bonds in the first two months this year, surging 76 percent from a year ago, Ministry of Finance data shows, and the MOF has allocated 1.85 trillion yuan worth of local government bonds ahead of schedule this year to shore up the economy.

What's worse, about US\$2.1 billion of high yield offshore notes are due in March, most of which sold by property developers, making up the biggest monthly maturity wall this year. And both Fitch Ratings and S&P Global expect corporate bonds default to hit a record high this year.

Although market watchers believed it would

not trigger systemic risk, the surge of non-performing loans has to be watched out. S&P predicts that China's non-performing loans this year could triple to 10.1 trillion yuan if the epidemic does not peak in April.

Policymakers have been easing credit to provide stimulus to affected sectors and increasing the tolerance for NPL.

After a series of rate cuts and injections in the past month, the regulator provided more details to extend repayment periods, allowing qualified small- and medium-sized businesses with principal or interest due between January 25 and June 30 to apply for a delay to the end of the second quarter.

Ye Yanfei, an official of the China Banking and Insurance Regulatory Commission suggests banks writing off some bad loans.

Meanwhile, the government has been taking more steps to support debt financing for local governments and suffered companies. "Green channels" were set up for corporates to issue counter-coronavirus bonds, with the first batch of three companies raising a total of 2.1 billion yuan, mainland Securities Times reported. Among them, state-backed developer China South Mountain Development issued 300 million yuan of ultra-short-term bonds for hospital-building and logistics in Hubei and transit services for emergency supplies.

Chinese companies, ranging from property developers to financial companies, have issued US\$51 billion offshore bonds so far this year, surging more than 30 percent from the previous peak seen a year ago, according to Bloomberg.

Pessimists are worrying that the surge in issuance of corporate bonds will cause a debt crisis as China's corporate bonds are under much higher default risk than other bonds.

Private companies defaulted on about 12.5 percent of matured bonds in 2018 and for the first 10 months last year, hard hit by China's deleveraging campaign and the crackdown on the shadow banking sector in the past three years, data from S&P showed.

Even the state-owned enterprises are not default-proof, analysts warn. Tewoo Group, owned by Tianjin government, and Qinghai Provincial Investment Group, backed by Qinghai government, requested bondholders to receive reduced coupons for their billions worth of US dollar bonds recently.

But corporate bond defaults are not expected to trigger a huge systemic risk because the size of corporate debt is relatively smaller than national debt and local government debts, says Billy Mak Sui-choi, associate professor at School of Business of Hong Kong Baptist University.

"Even if some indebted private companies will finally shut down, driving up the unemployment rate and reducing tax revenue of local governments, it won't trigger a huge systemic risk, as what we have seen in the United States and Europe," he says.

Private enterprises might issue corporate bonds, which are under higher default risks as they are usually with higher yields, but the core problem



is who will be the creditor, Mak says. If they are Hong Kong-listed companies and issue offshore bonds in foreign currencies, the major investors, who are usually foreign institutional investors, will absorb losses after these companies fail to make repayments, he adds.

A debt crisis will be caused only if defaults upset the financial system, he says, for example, if major banks and insurance companies become the major creditors, the default may drag down banks' capital adequacy ratio and insurers' solvency to overstep the bottom line, that will lead to a crisis.

However, major banks, which have already sacrificed profit for national objectives, are more willing to lend money to private companies instead of buying their bonds because they can take greater control, he says.

But the expected surge of bad loans will put intense pressure on banks, that could force them to raise provisions for loan losses.

Analysts expect banks' asset quality will further deteriorate as the banking system already has a record amount of NPL, when the interest margin is believed to narrow amid monetary easing.

Goldman Sachs has raised its estimate of Chinese banks' bad-to-total loans ratio from 5.4 percent to 8.1 percent.

Elsewhere, around US\$240 billion of local government financial vehicles bonds, comprising around 1.6 trillion yuan onshore debt and US\$12 billion offshore debt, will fall due in 2020, according to Fitch Ratings. The institution expects the authorities will provide more support during the current outbreak, which could temporarily set back its longer-term efforts to stabilize the local government debt market. But the risk of LGFV defaults could re-emerge once the economy recovers, it warns.

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Mnuchin says IMF and World Bank funds won't repay debts to China

12-Mar-2020

To view this story on Eikon, click here
WASHINGTON, March 11 (Reuters) - **The U.S. Treasury is working with the International Monetary Fund and the World Bank to gain full transparency of countries' debts from China's Belt and Road infrastructure initiative and ensure that funds from the institutions are not used to repay China, Treasury Secretary Steven Mnuchin said on Wednesday.**

"We think this is critically important," Mnuchin told a hearing of the U.S. House of Representatives Appropriations Committee. "We're not ever going to be using money from these international organizations to pay back China."

Some countries saddled by debt from Belt and Road Projects, such as Pakistan, have turned

to the IMF for assistance. Pakistan entered a \$6 billion loan program with the Fund in July 2019.

At a regular news conference in Beijing on Thursday, China's Foreign Ministry spokesman Geng Shuang responded to questioning about Mnuchin's comments by saying international financial institutions were not "political tools" and had assessed the Belt and Road initiative positively.

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India

India Bonds Stay Lower Tracking Rupee Fall; Inflation Data Eyed

12-Mar-2020

By Dharam Dhutia

NewsRise

MUMBAI (Mar 12) -- **Indian government bonds slipped in afternoon session, as a plunging rupee raised risks of more foreign fund outflows, while traders awaited February retail inflation data, due later today, for further cues.**

The benchmark 6.45% bond maturing in 2029 changed hands at 101.82 rupees, yielding 6.19% at 1:00 p.m. in Mumbai, against 102.32 rupees, yielding 6.13% yesterday.

Foreign investors net sold Indian government bonds worth over 72 billion rupees yesterday, with majority exits in 2022 and 2023 maturity papers, data from Clearing Corp of India showed.

The Indian rupee tumbled to 74.33 against the dollar, its lowest level since Oct. 31, 2018, as global risk aversion intensified after U.S. President Donald Trump announced a temporary travel ban from Europe to curb the spread of the coronavirus. The currency was last at 74.14 against 73.63 at 5:00 p.m. yesterday.

Global risk sentiment weakened after the United States banned travel from Europe for 30 days after a declaration from the World Health Organization yesterday that the coronavirus outbreak is now a pandemic. The virus has so far claimed over 4,200 lives worldwide, and impacted over 118,000 people. India has so far reported 60 cases of the virus. **"There is consolidation in bonds, as the rally was clearly overdone, and market was front-running action from the central bank," a trader with a private bank said. "With rupee seen falling to fresh record low, bond yield should not see any immediate fall, unless RBI acts."**

India's February retail inflation data will be released post market hours today. A Reuters poll sees retail inflation easing to 6.80% from



January's print of 7.59%, but above the upper band of the central bank's inflation target.

The rate-setting Monetary Policy Committee had held rates for the second consecutive time in February due to higher inflation levels, but had retained its accommodative stance to support growth.

The MPC is now widely expected to lower policy rates by at least 25 basis points, amid widespread fears that the coronavirus outbreak may impact global growth and stunt economic activity.

The clamour for coordinated global monetary action grew after the Federal Reserve, in an emergency move, cut interest rate by 50 basis points last week. The Bank of England, too, followed suit yesterday. Investors have fully priced in monetary easing of up to 75 basis points at the Fed's meeting next week, and some policy easing by the European Central Bank today.

Reserve Bank of India Governor Shaktikanta Das last week said the MPC has room to cut rates in the wake of rising fears from the coronavirus, and that liquidity measures to support financial markets were still an option. The RBI has so far infused one trillion rupees through long-term repo operations.

The benchmark Brent crude oil contract was trading 5.2% lower at \$33.94 per barrel, adding to yesterday's 3.8% fall. The 10-year U.S. Treasury yield was at 0.7805%.

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India Bonds Stay Lower On Weak Sentiment, RBI Policy

13-Mar-2020

By Dharam Dhutia
NewsRise

MUMBAI (Mar 13) -- Indian government bonds were lower in afternoon session, as sentiment remained weak and traders continued to cut positions after the rupee fell to a record low and as uncertainty over likely central bank policy action persists.

The benchmark 6.45% bond maturing in 2029 changed hands at 100.98 rupees, yielding 6.31% at 1:00 p.m. in Mumbai, against 101.52 rupees, yielding 6.24%, yesterday. The yield had posted its biggest single-session rise since Dec. 5. It has risen by 26 basis points in last three sessions including today, after falling by 31 basis points in the previous six sessions.

The Indian rupee hit a record low of 74.5075 against the dollar in morning trade as regional risk aversion intensified amid coronavirus-related panic-selling. The benchmark BSE Sensex crashed 3,000 points in opening trades,

while the Nifty 50 index hit the 10% lower circuit, which led to a trading halt.

"Though rupee has recovered, it is purely because of RBI intervention and unless there is some bond market-supportive measure, bonds should not see any major reversal," a trader with a primary dealership said.

The Monetary Policy Committee is widely expected to cut interest rates when it meets next in April, especially when global markets are feared to enter into a recession amid the widespread economic impact of the coronavirus. Many traders had expected some steps immediately after the Federal Reserve delivered an emergency rate cut last week.

India's retail inflation rate eased for the first time in seven months to 6.58% in February, lagging the 6.80% median forecast by Reuters and sharply down from a near-six-year high of 7.59% in January. Core inflation was at 3.9% in February against 4.3% in January, according to Nomura.

Barclays sees an increased risk of an inter-meeting rate cut by 25 to 40 basis points, while Nomura expects a 50bps rate cut which could be delivered before the April policy meeting. State Bank of India expects the central bank to announce more liquidity-enhancing measures in coming days and a rate cut at this stage could only happen as a by-product of global synchronized rate easing cycle.

The current level of inflation won't come between the Reserve Bank of India and its desire to cut policy rates again, Capital Economics said in a note.

The government and the central bank will take necessary steps to deal with any impact from the rapidly spreading pandemic coronavirus and the country has enough monetary space to act if needed, two senior government officials said today.

The virus has impacted more than 125,000 people with over 4,600 dead, while India has reported 75 cases of the virus so far, with one fatality.

RBI Governor and MPC Chair Shaktikanta Das said last week that there was room to cut rates and undertake liquidity measures. The RBI has infused one trillion rupees via long-term repo operations so far.

The central bank will undertake six-month U.S. dollar sell/buy swaps through the auction route in multiple tranches. The first such auction will be for \$2 billion on Mar. 16, it said yesterday. The RBI will conduct a seven-day term repo for 250 billion rupees today.

The benchmark Brent crude contract was up 3.5% to \$34.40 per barrel, after falling 7% yesterday. India imports over 80% of its crude oil requirements.

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Indonesia

Indonesia finmin sees budget deficit widening to 2.2%-2.5% of GDP

09-Mar-2020

JAKARTA, March 9 (Reuters) - **Indonesia's budget deficit will likely widen to within a range of 2.2%-2.5% of gross domestic product in 2020, compared with the government's initial plan to keep it around 1.8%, Finance Minister Sri Mulyani Indrawati said on Monday.**

The new deficit forecast had taken into account the impact of the global spread of coronavirus and the "drastic drop" in oil prices, she told reporters.

The government has announced a 10.3 trillion rupiah (\$716 million) stimulus package to fight the economic impact of the virus outbreak. Indrawati said a second policy package with more tax breaks was being designed.

(\$1 = 14,385 rupiah)

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Indonesia readying measures to stabilise financial markets

10-Mar-2020

JAKARTA, March 10 (Reuters) - **Indonesia Finance Minister Sri Mulyani Indrawati said on Tuesday that authorities are prepared to use all measures they implemented during the 2008 global financial crisis to stabilise financial markets.**

The options include buying back government bonds, she told reporters.

"We will guard the market mechanism so its integrity remains intact, while preventing excessive profit taking and excessive speculation in this abnormal situation," she said.

She said the recent dive in global markets due to plunging oil prices and coronavirus fears had been "extraordinary" and said the government will move to prevent it from hurting Indonesia's economy.

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Indonesia central bank buys 4 trln

rupiah of bonds in auction, may run 2nd auction

12-Mar-2020

JAKARTA, March 12 (Reuters) - **Indonesia's central bank has bought 4 trillion rupiah (\$276.53 million) of government bonds in an auction on Thursday morning, exceeding the targeted amount, and may conduct a second auction later, a senior official said.**

Auction bids were 8.82 trillion rupiah, more than four times the 2 trillion rupiah Bank Indonesia (BI) had targeted to buy, Nanang Hendarsah, the central bank's head of monetary management told Reuters.

"We may conduct another auction in the afternoon session," he said, adding that the second auction may be conducted at 0730 GMT.

Hendarsah earlier said the morning auction was intended to guard the rupiah amid capital outflows linked to fears of the coronavirus pandemic.

(\$1 = 14,465.0000 rupiah)

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Indonesia central bank buys 8 trln rupiah in govt bond auctions as markets fall

12-Mar-2020

JAKARTA, March 12 (Reuters) - **Indonesia's central bank bought a total of 8 trillion rupiah (\$550 million) of government bonds from two auctions on Thursday to stabilise markets, an official told Reuters, though bond yields continued to rise and the rupiah fell.**

Bids in the afternoon auction were 6.57 trillion rupiah and 8.82 trillion rupiah in the morning session, well above the 2 trillion target for each auction, said Nanang Hendarsah, Bank Indonesia's head of monetary management.

The benchmark 10-year government bond yield rose 20 basis points to 7.180%, the highest since Dec. 20, while the rupiah fell more than 1% to the weakest since May at 14,510 a dollar, amid capital outflows linked to fears the coronavirus will disrupt trade and the world economy even more.

(\$1 = 14,510 rupiah)

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Indonesia to assess weekly govt bond auction in light of market conditions

13-Mar-2020

JAKARTA, March 13 (Reuters) - **Indonesia's government will assess whether or not to conduct bond auctions it usually holds each week, a senior official said on Friday, as domestic markets fell amid capital outflows because of the spread of the coronavirus.**

"We're always alert and monitoring markets. (Auctions) will be situational," said Luky Alfirman, the finance ministry's head of the financing department, told reporters.

Indonesia's benchmark 10-year government bond yield rose to as much as 7.289% on Thursday, the highest since December 2019, while the rupiah on Friday fell 2% to 14,810 a dollar, the weakest since November 2018.

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Indonesia central bank buys \$405 mln of govt bonds, may hold another auction

13-Mar-2020

JAKARTA, March 13 (Reuters) - **Indonesia central bank bought 6 trillion rupiah (\$405.13 million) worth of government bonds from an auction on Friday, above an initial target of 3 trillion rupiah, an official told Reuters.**

Bank Indonesia will hold a second auction starting 0730 GMT if necessary, said Nanang Hendarsah, Bank Indonesia's head of monetary management.

Auction bids on Friday were 10.2 trillion rupiah, he said. The bond-buying auction is part of the central bank's effort to help stabilise the country's financial market as the rupiah dropped 2% on Friday.

(\$1 = 14,810.0000 rupiah)

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Kazakhstan

Kazakhstan to raise \$1 bln in 2020 to cover budget deficit

10-Mar-2020

NUR-SULTAN, March 10 (Interfax) - **Kazakhstan intends to borrow nearly \$1 billion in 2020,**

Deputy Finance Minister Berik Sholpankulov said.

"We are viewing all markets with the intention to borrow nearly \$1 billion," Sholpankulov said.

He said that the borrowing scheme also includes the previously announced plans to raise \$500 million from a bond placement on the Russian market. "The plan includes both the placement on the Russian market and on the AIFC in the tenge equivalent," he said.

First Deputy Prime Minister and Finance Minister Alikhan Smailov said on February 26 that Kazakhstan planned to place \$500 million in treasury bonds on the Russian stock market in the coming months.

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Laos

Moody's Says Laos' Credit Profile Balances Solid Growth Potential with Moderately High Debt, Low Foreign Reserves

13-Mar-2020

March 12 (Reuters) - Moody's:

- **Laos' credit profile balances solid growth potential with moderately high debt, low foreign reserves**

- Expects growth for Laos will rise to close to 7.0% y-o-y by 2021, notwithstanding near-term fluctuations, due to effects of coronavirus

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Lebanon

Fitch Downgrades Lebanon's Long-Term Foreign Currency IDR to 'C'

09-Mar-2020

Fitch Ratings-Hong Kong-March 09:

Fitch Ratings has downgraded Lebanon's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) to 'C' from 'CC'.

KEY RATING DRIVERS

The downgrade follows the announcement by the government that it does not intend to pay the USD1.2 billion Eurobond maturing on 9 March. The grace period for paying the principal is seven days. Failure to make the payment during the grace period will put the sovereign into 'Restricted Default' (RD) and the specific bond into 'Default'(D).

According to Fitch's ratings definition, 'C' ratings are assigned to issuers with distressed obligations that have experienced ceased or interrupted payments, including situations where

a grace period has been entered and/or the issuer has made a formal announcement of its intention to restructure debt.

The prime minister, Hassan Diab, said that, with the country's foreign reserves dwindling, Lebanon would no longer prioritise foreign debt payments over funding basic imports and that the government will negotiate with creditors to restructure the government's debt.

The government statement is not explicit on whether debt restructuring will involve local-currency debt (just over 100% of GDP), as well as the stock of Eurobonds (USD31 billion, approaching 60% of GDP). Nonetheless, the government's reference to making overall debt sustainable suggests some restructuring of local-currency debt and Fitch believes this is highly probable (along with a broader restructuring of financial sector balance sheets). But, as yet, a timeline for this is unclear.

Therefore, for now, we maintain the 'CC' rating for the local-currency IDR. We would downgrade it to 'C' as and when a timeline and plan emerges for restructuring. Until then the government plans to remain current with its local-currency debt obligations.

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

In accordance with its rating criteria, for ratings of 'CCC' and below, Fitch's sovereign rating committee has not utilised the SRM and QO to explain the ratings, which are instead guided by the ratings definitions.

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

RATING SENSITIVITIES

Fitch will review Lebanon's ratings after the expiry of the grace period (of seven days) of the upcoming Eurobond maturity, or if a payment is made before that date.

The main factors that could lead to negative rating action is:

-If, as indicated by the prime minister's announcement, the payment is not made on time, Fitch will downgrade the LTFC IDR to 'RD' and the relevant securities to 'D'.

-The rating for the Long-Term Local-Currency IDR would be downgraded to 'C' if the government announces plans to restructure its Lebanese pound-denominated debt.

The main factor that could lead to positive rating action is:

-The sovereign reversing its announced decision not to pay the Eurobond maturing on 9 March before the end of the payment grace period.

KEY ASSUMPTIONS

Fitch expects global indicators to move broadly in line with Fitch's Global Economic

Outlook forecasts.

ESG CONSIDERATIONS

Lebanon has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and is therefore highly relevant to the rating and a key rating driver with a high weight.

Lebanon has an ESG Relevance Score of 5 for Rule of Law, Institutional Regulatory Quality and Control of Corruption as World Bank Governance Indicators (for which Lebanon scores well below peers) have the highest weight in Fitch's SRM and is therefore highly relevant to the rating and a key rating driver with a high weight.

Lebanon has an ESG Relevance Score of 4 for Creditors' Rights as willingness to service and repay debt is relevant to the rating and a rating driver.

Lebanon has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as scores for the Voice and Accountability pillar of the World Bank Governance Indicators are relevant to the rating and a rating driver.

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

Lebanon; Long Term Issuer Default Rating; Downgrade; C

**Short Term Issuer Default Rating; Affirmed; C
Local Currency Long Term Issuer Default Rating; Affirmed; CC**

Local Currency Short Term Issuer Default Rating; Affirmed; C

Country Ceiling; Affirmed; CCC

Senior unsecured; Long Term Rating; Downgrade; C

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Additional information is available on www.fitchratings.com

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Moody's Says Lebanon's Decision to Withhold Debt Payments Reflects Extreme Financial and Economic Pressures

10-Mar-2020

March 10 (Reuters) -

• **Moody's says Lebanon's decision to withhold debt payments reflects extreme financial and economic pressures**

• Moody's says Lebanon's decision to defer payment will likely entail significant losses for private creditors

• Moody's says sovereign default would have serious implications for Lebanon's banking

sector

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Can't pay, won't pay: What now for Lebanon's debt crisis?

10-Mar-2020

By Marc Jones

LONDON, March 10 (Reuters) - **Lebanon has bowed to the inevitable and said it won't be honouring a \$1.2 billion bond payment that was due on Monday. It will be its first default, but what options does one of the world's most debt-strained countries now have?**

OPTION 1 - THE IMF

Lebanon has been crushed by more than \$90 billion of debt, equivalent to roughly 170 percent of the country's gross domestic product, and its prime minister has acknowledged that it has little in the way of useful foreign exchange reserves left.

With the country's economy also on its knees the usual approach would be to ask the International Monetary Fund for support while at the same time trying to broker a deal with the creditors that it has just reneged on.

It had a "technical" visit from the IMF last month which the Fund said was "very informative and productive" but that won't cut it. It needs cash and quickly, otherwise the risk is more violence on the streets as the money begins to run out completely.

The IMF would need to see a credible economic plan but that is hard right now. Beirut is a banking hub and the banks now need recapitalising and the Country's other main revenue earner, tourism, is being hammered by the coronavirus.

The politics are difficult too. Hezbollah, a heavily armed Shi'ite group which is backed by Iran and designated a terrorist organization by Washington, is one of the main backers of the new Lebanon government.

Hezbollah's leaders have been arguing against IMF involvement, saying the likely terms of a bailout would be so painful that they would spark "a popular revolution".

Lebanon doesn't have many bilateral and multilateral loans so even if all those debts were written off it would only reduce the debt burden by 3.5% of GDP according to Capital Economics. The country's commercial banks hold the bulk of its Lebanese pound-denominated debt and 16% of its foreign currency debt, so a restructuring would risk wiping out their capital.

OPTION 2 - BEG, STEAL AND BORROW

Beirut could try and manage without the IMF but it would still need to do what no previous government has been able to do - slash government spending and start a longer-term programme of tax hikes to get the finances back in shape.

Credit rating agency Fitch has said the government may even raid the deposits and

savings held in the country's banks like Cyprus did at the height of its crisis, though the government is saying that won't happen.

Either way it would still have to renegotiate the rest of its debts with its international creditors.

Recent defaulters like Ukraine convinced their lenders to write-off some of their money and agree to push back remaining payments and lower interest rates, though that was with the assistance of the IMF.

Lebanon's bonds also lack legal wording known as 'enhanced collective action clauses', meaning its bonds might need to be renegotiated almost one at a time rather than in one or two big hits as other countries might do.

And if any bond holder or group of bond holders with 25% or more of a bond doesn't like the terms the government is offering they could potentially block the whole process.

As Lebanon's economy minister Raoul Nehme explained, "we are proposing to them (bondholders) to work hand-in-hand to find a solution, which is always better than litigation. But it is their choice to decide whether to cooperate."

OPTION 3 - THE ARGENTINA ROUTE

The final option would be to try and strongarm any resistant bond holders into a deal by effectively locking their money in the country, but it would come with extreme risk. Sovereign debt lawyers warn it could end up like Argentina. A litigious group of funds took the country's government to a New York court when it refused to pay. That court effectively banned international banks from buying any new Argentina bonds while the case went on and Argentina found itself locked out of international debt markets for the best part of a decade.

If it does end up in a legal battle the funds involved might make claims for the country's remaining assets which could include anything from government-owned property to state-owned firms or infrastructure.

"I just cannot see how they can offer any sensible debt reduction plan," said Aberdeen Standard Investments' portfolio manager Viktor Szabo. "If it ends up as a legal battle it could be worse than Argentina."

(Additional reporting by Tom Arnold

Editing by Alexandra Hudson)

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Starved of dollars and drowning in debt, Lebanon's economy sinks fast

12-Mar-2020

- **More than 220,000 jobs shed since October - survey**
- **Hundreds of businesses countrywide shutting down**



- **Importers of critical goods losing access to dollars**

- **Prices rising as currency slumps on parallel market**

By Eric Knecht and Ellen Francis

BEIRUT, March 12 (Reuters) - **After importing medical supplies to Lebanon for 20 years, Hassan Hamdan shut his business in December. Sales were plummeting, clients couldn't pay, and the dollars he needed to buy imports had dried up. Now he drives an Uber.**

Businesses such as Hamdan's have been shutting at a rapid rate since a financial crisis exacerbated by months of political instability has brought much of Lebanon's economy to a halt.

"Everyone is in debt - even me - because of what's happening. But I'm able to afford food for the house and a few bills. Without Uber, I would be begging," said Hamdan, 37.

While Lebanon produces little hard, up-to-date economic data, interviews with two dozen business owners, union leaders, industry groups and traders paint a picture of an economic and financial crisis without precedent since independence in 1943.

More than 220,000 jobs in the private sector have been shed since mid-October when protests fuelled by worsening economic conditions erupted against the political elite, according to a survey in February.

"It's a social catastrophe," said Ramzi El Hafez, general manager of InfoPro, the research firm behind the survey. "This is the heaviest one-shot drop since the end of the civil war ... There is no end in sight. It is an open-ended crisis."

A fifth of workers in the hotel industry, a traditional engine of the economy, have been laid off and in the southern city of Sidon, one in five shops has already shut down.

The job losses since October are a major blow to Lebanon's employed workforce, which the International Labour Organisation estimated at just 1.59 million in a 2019 report.

Importers of critical goods such as medical supplies say their requests for dollars have gone almost entirely unmet since February, leaving many hospitals dangerously low on everything from heart stents to dialysis equipment.

"Almost all the work has come to a halt. We're unable to do anything," said Mohamad Sukkar, who owns a contracting company.

His business is frozen, stuck between banks that will not cash cheques and suppliers demanding payment in dollars he cannot get. "We've had to close down all the work and we're not taking up any new work," said Sukkar.

Hard hit businesses were dealt yet another blow this week as Lebanon ordered malls, restaurants and other venues to close to stop the spread of the coronavirus, as well as halting flights from the worst hit countries.

'AFRAID TO BRING IN GOODS'

Lebanese banks have attracted huge foreign inflows for years by offering some of the region's highest interest rates, allowing the country to pay for imports despite low exports.

But inflows have fallen sharply in recent years along with economic growth, dragged down by regional turmoil, a nine-year war in Syria and strained relations with wealthy Gulf States.

Lebanese expats who had been propping up the economy with remittances, meanwhile, started to hold back funds as banks began imposing strict controls which now limit withdrawals for regular customers to as little as \$100 a week.

The situation has deteriorated since the political crisis to the point where Lebanon said this month it can't repay its sovereign debt as well as pay for essential imports.

Virtually locked out of the banking system, importers have struggled to keep up with the rising price of dollars. The Lebanese pound has lost about 40% of its value since October, hiking the price of everyday imported goods.

As dollars grow increasingly scarce, the country's import-dependent supply chain has slowed to a crawl.

Traders of foodstuffs say they have slashed imports by 30%-40%. Industrialists say they're struggling to source raw materials. Consumers and businesses gripe about rising prices and slumping sales.

"We're getting to the stage where we're afraid to bring in goods," said Mohammed Yakoub, who supplies restaurants. His sales have slumped 70% since October as the economic crisis takes its toll on businesses.

At least 785 restaurants, cafes and nightclubs went belly-up from September through February, with 240 shut in January alone, according to the sector's main union.

"There will be more unemployment, there will be a big exodus, people will look for work abroad, we are already seeing this. We will lose yet another batch of good workers that we would have liked to retain in the country," said union general secretary Maya Bekhazi.

RUNNING OUT OF WHEAT

Among the tell-tale signs that dollar flows are getting even more critical is what traders describe as a near halt in a central bank process launched in September to secure foreign currency for critical goods - medicine, fuel, and wheat.

"The central bank has stopped transfers for all operations related to importing wheat for about a month. It is completely shut down, so now we are in the process of running out of stocks," said Crown Mills flour mill owner Paul Mansour.

Mansour said mills unable to pay foreign suppliers were considering asking the government to import grain: "The stocks have decreased and within 40 days will be depleted."

Many cities outside Beirut appear harder hit. South of the capital in Sidon, its once bustling market is lined with empty storefronts up for rent.

"Even the shops you still see open are unable to sell anything," said shopkeeper Abdullah Merzoub. "Things are getting harder".

The head of the Sidon trade association, Ali al-Shareef, said 120 of the city's 600 shops have closed since October and he expected the

number to double in the next few months. "We're headed toward a bigger and bigger collapse," he said. Emptied of guests, hotels have laid off 20% of their workforce and put the rest on half-time, said Pierre Achkar, head of Lebanon's hotel federation. "This is the lowest occupancy rate I've seen in 50 years," he said. "If the summer is bad, I think we will have a lot of hotels that will close." Many companies, such as Chip, which provides security systems, said they were staying in business despite heavy losses only because shutting down and reopening would be more costly. Chip chief executive Hady Nahas said he was keeping his 72 employees on even though turnover was only 15% of what it was a year ago - but he would be forced to do something dramatic by the end of the year if things don't improve. "We're draining our personal resources as owners. There's a limit, and I don't know if the situation will be resolved ... before we break," said Nahas.

(Reporting by Eric Knecht, Ellen Francis and Reuters TV; Editing by Tom Perry and David Clarke) ((eric.knecht@thomsonreuters.com; Reuters Messaging: eric.knecht.thomsonreuters.com@reuters.net)) (c) Copyright Thomson Reuters 2020. ©Refinitiv 2020. All rights reserved.

Lebanese crisis plan ready in weeks, will meet IMF recommendations

12-Mar-2020

- **Lebanon's plan will meet IMF recommendations**
- **Plan to be ready in weeks, to be presented to creditors**
- **Currency peg to be kept for 'foreseeable future'**

By Tom Perry and Ellen Francis
BEIRUT, March 12 (Reuters) - **Lebanon's plan to tackle a financial and economic crisis will meet IMF recommendations and will be ready in weeks, the finance minister said on Thursday, adding that any recourse to an IMF programme must be politically agreed and its terms should not cause suffering.**

Speaking days after the heavily indebted state declared it could not meet coming debt payments, Finance Minister Ghazi Wazni also told Reuters the official exchange rate of the Lebanese pound would be maintained for the "foreseeable future", saying this helped control inflation among other factors.

The plan being drawn up by Prime Minister Hassan Diab's government will form the cornerstone of efforts to pull Lebanon out of the worst financial crisis since independence in 1943. It will cover banking, financial and other economic reforms.

Lebanon has so far requested technical assistance from the IMF but not financial aid that

would typically come as part of a programme of reforms. A team of IMF experts visited Lebanon last month.

IMF spokesman Gerry Rice, speaking before Wazni's remarks, underscored the need for Lebanon to draft a comprehensive plan.

"Given the severity of economic conditions in Lebanon, it's important that the government designs and implements properly a comprehensive package of reforms to effectively address the economic challenges and improve Lebanon's economic prospects," he said.

Wazni said the IMF was ready to send experts back to Lebanon once the plan was ready. The government's plan would meet "the recommendations of the IMF" and include a plan that Beirut is drawing up with the World Bank.

Wazni said Lebanon was in need of \$25 billion to \$30 billion of assistance over the next five years to get out of the crisis.

"Lebanon welcomes all international financial assistance without exceptions. But when it comes to the IMF, this depends on several matters: that the understanding with the IMF - if Lebanon resorts to it - ... does not negatively affect the political situation in Lebanon," Wazni said.

The terms should also not affect "the social situation and livelihoods" and there should be "political understanding" on any programme, he said. The Fund should not impose "traditional conditions" such as tax increases or privatisation.

Many analysts believe an IMF programme is the only way for Lebanon to secure financial support, but it has been opposed by the powerful Hezbollah group, which backs the government.

There has been no sign of a bailout for Lebanon from states that have provided support in the past. They say the government must reform before any assistance is forthcoming this time.

KEEPING THE LEBANESE POUND RATE Lebanon has suspended payment of a \$1.2 billion Eurobond that was due on March 9, saying foreign currency reserves are critically low and needed to pay for essential imports, and called for debt restructuring talks with creditors.

Wazni said the government plan would also be presented to bond holders with whom preliminary contacts had started via its financial adviser, U.S. investment bank Lazard.

"When you want to communicate on the issue of the public debt or its restructuring, you have to present the creditors a convincing, credible, comprehensive programme," he said.

"If the negotiations reach an orderly path ... and there is agreement with creditors, then we can avoid lawsuits," Wazni said.

The long-brewing crisis came to a head last year as capital inflows slowed and protests erupted against the ruling elite over decades of state corruption and bad governance.

The Lebanese pound has lost around 40% of its value on a parallel market relative to the official exchange rate pegged at 1,507.5 pounds to the

dollar, which is still used for the purchase of fuel, wheat and medicine.

"Currently, we will keep (the currency peg) in order not to increase inflation ... and we will consider a flexible policy later on," Wazni said.

But it was "very difficult to determine the time frame" for when Lebanon would move away from the peg, he said.

"This depends on Lebanon's ability to improve public finances, debt, the situation of the banking sector and the capital inflows that will come," he said.

Wazni said the government took a step last week in the direction of reforming the electricity sector, a major drain on state coffers, by approving the construction of facilities that will switch power generation to natural gas from more expensive fuel oil.

Costs of servicing the debt in Lebanese pounds had also been reduced by 25%, he said.

Wazni also said central bank governor Riad Salameh, who has faced criticism from some politicians over central bank policies, would remain in his post. "He is staying," he said.

(Additional reporting by Andrea Shalal in Washington; Editing by Timothy Heritage and Dan Grebler) ((thomas.perry@thomsonreuters.com; Reuters Messaging: thomas.perry.reuters.com@reuters.net)) (c) Copyright Thomson Reuters 2020 ©Refinitiv 2020. All rights reserved.

Hezbollah: Not against aid, even from IMF, but depends on terms

13-Mar-2020

BEIRUT, March 13 (Reuters) - **Hezbollah does not oppose foreign aid to Lebanon, even from the International Monetary Fund, as long as the help does not impose conditions that harm the national interest, its leader said on Friday.**

In a televised speech, Sayyed Hassan Nasrallah said his Shi'ite movement, which backs the government, refused conditions "that would make the country explode". He said it was against raising the value-added tax (VAT), particularly for the poor.

"If the conditions do not breach Lebanese sovereignty, or at least do not contradict Lebanese law... Any assistance within logical conditions is possible. There is no problem with this," Nasrallah said.

Lebanon declared last week it could not pay debt maturities as it faces an unprecedented financial crisis that has weakened the local currency, hiked prices and fuelled unrest.

Finance Minister Ghazi Wazni told Reuters on Thursday that the country's crisis plan would meet IMF recommendations and be ready in weeks. Wazni said any recourse to an IMF programme must have political agreement and terms that do not cause suffering.

The heavily armed Iran-backed Hezbollah has said it rejects letting the IMF manage Lebanon's crisis.

(Reporting by Ellen Francis and Laila Bassam; Editing

by Leslie Adler and Alex Richardson) ((Ellen.Francis@thomsonreuters.com)) (c) Copyright Thomson Reuters 2020. ©Refinitiv 2020. All rights reserved.

Malaysia

Fitch Ratings: New Malaysia Govt Confronts Coronavirus and Oil Price Shocks

12-Mar-2020

Fitch Ratings-Hong Kong-March 12: **The challenges posed by Malaysia's recent political volatility and the global coronavirus epidemic are being exacerbated by a sharp drop in oil prices that will add to the strains on the nation's public finances, says Fitch Ratings.**

How much these factors affect Malaysia's sovereign outlook will depend on their impact on the country's economic metrics and the policy approach that the new government adopts, in particular with respect to public finances and governance reforms.

Oil prices have plunged in recent weeks, with the decline accelerating sharply after the collapse of OPEC+ talks on 6 March led to a shift in Saudi Arabia's supply policy. Malaysia is a net oil exporter, and these price developments will have an adverse effect on its oil revenue. The budget had assumed an average oil price of USD62 per barrel in 2020. We estimate that government revenue could be about 0.4% of GDP lower than the budget assumed, all other things being equal, should oil prices stabilise at around USD40 a barrel in 2020.

The medium-term fiscal outlook is an important rating driver for Malaysia as public debt, at 62% of GDP, is high relative to the median of its 'A' rated peers (50%). The previous Pakatan Harapan (PH) coalition government had sought to consolidate the public finances over the medium term, but had shown a willingness to tolerate wider deficits in the near term, to counter the domestic growth impact of the coronavirus.

The new administration under Prime Minister Muhyiddin Yassin has announced its new cabinet lineup, but has yet to publicise its fiscal plans, including whether public spending in 2020 may go beyond the coronavirus-driven stimulus package that was recently announced by the previous prime minister, Mahathir Mohamad.

Another important factor to watch is the new government's approach to governance reforms. The previous administration made progress on this front, as evidenced by an improvement in Malaysia's World Bank governance scores for 2019. Whether such progress will be sustained remains to be seen, and will be a factor in our credit assessments. The government's approach to the trials of former officials launched under the PH coalition may provide an indication of its broader stance on governance.

The transition to the new government



occurred relatively quickly and smoothly, and some policies - such as a focus on infrastructure development - are likely to remain intact. Nevertheless, the political volatility surrounding the transition illustrates heightened policy uncertainty and may dampen investor sentiment, constraining economic growth. This effect will be particularly marked in the next few weeks, as the new administration's support in the legislature will remain unclear until parliament reconvenes in May, but may also endure over the medium term. Foreign investors' perceptions of Malaysia's political stability will be significant, all the more so against bouts of global risk aversion. Foreign holdings of domestic government bonds amount to around 24% of the total, down from a high of 33% in 2016.

These challenges will add to the pressures facing Malaysia's economy in the short term from the coronavirus. As a small open economy, Malaysia could be badly hit by the pandemic. Its significant tourism and commodity export earnings add to its potential exposures. Our previous growth forecast of 4.3% for 2020 now looks unattainable, and could be as much as a percentage point lower.

Nevertheless, the economic effects of the virus could be short term, and other economic metrics point to strength. **Malaysia continues to run current account surpluses and its foreign-exchange buffers are larger than those of many of its rating peers. These buffers are important given foreign investors' role in financing Malaysia's public debt.**

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Oman

Oman in talks with banks for around \$2 bln in loans

10-Mar-2020

By Davide Barbuscia and Yousef Saba
DUBAI, March 10 (Reuters) - **Oman is in talks with banks to raise around \$2 billion in loans, sources familiar with the matter said, as part of plans to manage an estimated \$6.5 billion fiscal deficit that may widen due to plunging oil prices.**

Oman, one of the weakest economies in the oil-rich Gulf region, has piled up debt in recent years to offset the impact of falling crude revenues.

Its debt to GDP rate soared to nearly 60% last year from around 15% in 2015, and according to S&P Global Ratings it could reach 70% by 2022.

The rapid pace of debt accumulation has raised concerns over its sustainability in view of the

slow pace of fiscal and economic reform. This has triggered downgrades by all major credit agencies, which now rate Oman below investment grade.

An Omani official confirmed that the Sultanate was talking with banks but declined to give details, citing confidentiality. The finance ministry did not immediately respond to a request for comment.

The two sources said the government was in talks for around \$2 billion in loans. One source said it issued a request for proposals to banks, which are expected to submit responses by the end of this week.

Oman has projected a deficit of 2.5 billion rials (\$6.49 billion), or 8% of GDP, this year and planned to cover some 80% of that amount through foreign and domestic borrowing.

Its new ruler Sultan Haitham bin Tariq al-Said, who assumed power in January, said last month the government would work to reduce public debt and restructure public institutions and companies to bolster the economy.

His predecessor, Sultan Qaboos, who ruled for nearly 50 years, held back on austerity measures that could have caused unrest.

Raising debt via bank loans rather than public bonds could potentially shield Oman from market volatility which could trigger higher borrowing costs.

A plunge in oil prices triggered by a price war between Saudi Arabia and Russia, after they failed to agree on production cuts, is likely to further aggravate the sultanate's finances.

Monica Malik, chief economist at Abu Dhabi Commercial Bank, said she expected all Gulf Cooperation Council states to incur a significant fiscal deficit at the current oil price of \$37 per barrel, with Oman worst exposed along with Saudi Arabia.

Oil prices jumped by 5% on Tuesday after the biggest one-day rout in nearly 30 years on Monday.

(\$1 = 0.3850 Omani rials)

(Additional reporting by Aziz El Yaakoubi; editing by John Stonestreet)

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Fitch joins Moody's in lowering Oman's rating deeper into junk

12-Mar-2020

March 12 (Reuters) - **Fitch on Thursday joined Moody's in cutting Oman's rating further into junk territory, citing continued erosion of the country's fiscal and external balance sheets.**

The deterioration of balance sheets could accelerate amid lower oil prices despite prospects for faster implementation of fiscal consolidation measures, Fitch said, lowering its ratings by a notch to 'BB'.



The small oil-producing country has relied heavily on debt to offset a widening deficit caused by lower crude prices.

"We believe there is a real prospect for acceleration of fiscal reform under Oman's new sultan, Haitham bin Tariq, who ... has made debt reduction a policy priority," Fitch said.

Reuters reported, citing sources, on Tuesday that Oman is in talks with banks to raise around \$2 billion in loans to manage an estimated \$6.5 billion fiscal deficit that may widen due to plunging oil prices.

Moody's last week cut Oman's rating to 'Ba2' from 'Ba1' and changed its outlook to stable, citing the country's lower fiscal strength.

(Reporting by Shivani Singh in Bengaluru; Editing by Maju Samuel)

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Saudi Arabia

Saudi Arabia asked state agencies to implement big budget cuts

11-Mar-2020

- **Saudi officials were anticipating difficult talks with Russia**
- **Foreign ministry has already cut its budget by 20% - source**
- **IMF says Riyadh needs oil at \$80 a barrel to balance the budget**

By Marwa Rashad, Saeed Azhar and Stephen Kalin

RIYADH/DUBAI, March 11 (Reuters) - **Saudi Arabia has asked state agencies to submit proposals for cuts of at least 20% to their budgets in a fresh austerity drive to cope with a sharp drop in oil prices, four sources familiar with the matter said.**

The requests were made more than a week ago due to concerns about the impact of the coronavirus epidemic on crude markets, and ahead of the collapse of an oil output deal between OPEC and its allies on Friday, according to the sources.

One of the sources told Reuters that when the budget requests were sent, Saudi officials had been anticipating difficult talks with Russia over the need for deeper output curbs to stabilise markets. Moscow did reject the proposal, triggering a war for market share between the two countries which has sent crude prices plummeting.

The finance ministry instructed government agencies to submit proposals for cuts of between 20% and 30% in their 2020 budget, according to the four sources, who declined to be identified as the reductions have not been made public.

The foreign ministry has already implemented a 20% cut, one of the sources said, adding that the cuts will not impact salaries but projects could be postponed and contracts yet to be

awarded could be delayed.

The Saudi foreign ministry referred Reuters requests for comment to the finance ministry which did not respond.

Saudi Arabia, OPEC's de facto leader and the world's top oil exporter, relies heavily on crude revenues. The International Monetary Fund has said Riyadh needs oil at \$80 a barrel to balance its 2020 budget, which carries a deficit of 187 billion riyals (\$50 billion).

Crude prices stood at \$38.48 a barrel at 0418 GMT Wednesday.

Economists expect Saudi Arabia's budget deficit to climb from 4.7% of GDP in 2019 to double-digit percentage territory this year. In December, the government projected a deficit of about 6.5% for 2020.

"Saudi Arabia needs an oil price of about \$85 per barrel to balance the government's budget deficit, but only \$50 per barrel to balance the current account," Capital Economics said in a research note on Tuesday. "Both will be in deficit at the current oil price, but the budget deficit will be much larger at 15% of GDP."

Thanks to ample foreign reserves, Saudi Arabia can live with lower crude prices if the face-off with Russia continues, but may need to increase borrowing in addition to spending cuts, analysts have said.

Riyadh ratcheted up the standoff with Moscow on Tuesday by announcing it would raise its crude supply to a record high in April and appeared to reject Russian overtures for new talks.

Even before the directive, the kingdom had reduced spending in its 2020 budget, reversing three years of expenditure increases intended to spur growth. It has also taken measures to narrow the gap by diversifying revenue streams with taxes and economic reforms.

Saudi Arabia has been running a budget deficit since oil prices plunged in 2014, when it scrapped a strategy of supporting prices in favour of a drive for market share.

Mohammed al-Suwayed, a Saudi asset manager and financial commentator, said that with oil prices falling, additional spending cuts were to be expected.

"For Vision 2030 to work, the government has to stop relying on an irresponsible increase in spending and rely more on organic growth from the economy itself," he said, referring to the reform agenda championed by Crown Prince Mohammed bin Salman.

(Reporting by Marwa Rashad and Stephen Kalin in Riyadh and Saeed Azhar in Dubai; Additional reporting by Davide Barbuscia; Editing by Ghaida Ghantous, Edwina Gibbs and Pravin Char)

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Singapore

Singapore weighs tapping reserves for virus fight in rare move

12-Mar-2020

SINGAPORE, March 12 (Reuters) - **Singapore is considering tapping its national reserves to fund a second economic package to weather the impact of the coronavirus pandemic on businesses and workers, the city-state's president said.**

It would be the first such move to bankroll economic stimulus since 2009, when the global financial crisis rocked the Asian financial hub, although reserves are used selectively for land acquisitions.

"Many of our companies, particularly those related to the tourism industry, but more broadly other sectors as well, are bleeding because of disrupted supply chains, rapidly falling demand and tightening cash flows," President Halimah Yacob said on Facebook.

"We must do our utmost to support our people and our businesses, including considering using the Past Reserves if necessary," said Halimah, referring to funds accumulated during previous terms of government.

Although mostly ceremonial, Singapore's president must approve the use of government reserves. The government drew down S\$4 billion (\$2.9 billion) in 2009 from the reserves, the full size of which it does not disclose to protect national interests.

Singapore's finance minister said on Wednesday it is preparing another stimulus package for businesses and workers impacted by the pandemic, just weeks after it unveiled billions of dollars in virus-fighting schemes in its annual budget.

Singapore, which has over 170 coronavirus cases, has won international praise for its containment efforts but officials have warned that infections will rise in the global transit hub as the disease spreads around the world.

(\$1 = 1.3980 Singapore dollars)

(Reporting by Aradhana Aravindan and John Geddie in Singapore)

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Thailand

Thailand unveils \$12.7 bln stimulus package to ease coronavirus impact

10-Mar-2020

- **Govt will offer 180 billion baht of soft loans**
- **Will give tax breaks, set up a fund**
- **Ready to introduce additional steps if**

needed -official

- **Measures will help but not sufficient - economist**

By Kitiphong Thachareon and Orathai Sriring BANGKOK, March 10 (Reuters) - **Thailand's cabinet approved a stimulus package on Tuesday worth an estimated \$12.7 billion to help alleviate the impact of the coronavirus epidemic on already-faltering domestic activity.**

Thailand is heavily reliant on global demand but its exports have been hurt by global trade tensions, and tourism, which was a bright spot, is being hit hard by the outbreak.

Fifty-three coronavirus cases have been confirmed in Thailand and one person has died.

The package includes soft loans, a fund, and tax benefits for those affected by the outbreak. But there were no cash handouts for low-income earners and independent workers as previously announced.

The package is expected to inject about 400 billion baht (\$12.74 billion) into the economy to get it get going, Lavaron Sangsnit, a senior finance ministry official, told reporters.

"We are ready to introduce more if necessary," he said.

The stimulus includes 150 billion baht of soft loans at 2% interest rates, plus another 30 billion baht of lending from the security fund at a rate of 3%, Finance Minister Uttama Savanayana told a news conference after a cabinet meeting.

The government will offer relaxed debt repayments and lower interest rates for businesses, while the central bank has also asked banks to help debtors, he said.

Withholding taxes for businesses will be reduced to 1.5% from 3.0%, and they will be offered 1.5-times tax deductions on interest rates, and 3-times tax deductions on wage expenses, Uttama said.

There will be support for utilities costs, and higher tax benefits from some long-term fund investments to boost the stock market.

The government will set up a 20 billion baht fund to help firms or workers affected by the coronavirus outbreak, and will exempt import duties on materials for making face masks, Uttama said.

"We think this will help but not sufficient to counter the rising negative COVID-19 impacts," said Charnon Boonnuch, economist at Nomura in Singapore.

Thailand's economy grew 2.4% last year, the weakest pace in five years. Growth this year is likely to be much lower, with Kasikornbank's research center predicting it at just 0.5%, the lowest since 2009.

(\$1 = 31.40 baht)

(Additional reporting by Satawasin Staporncharnchai; Editing by Catherine Evans)

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Thailand's economic fundamentals strong despite virus, no VAT cut

12-Mar-2020

- **Says no cuts to VAT or taxes to spur market**
- **Thai bourse offers fee reductions**
- **Govt plans stock market fund, additional stimulus**
- **Consumer confidence hits nearly 21-year low**

By Kitiphong Thachareon and Satawasin Staporncharnchai

BANGKOK, March 12 (Reuters) - **Thailand's economic fundamentals remain strong and the government has no plans to cut its value-added tax(VAT) to boost activity hit by the coronavirus outbreak, the finance minister said on Thursday.**

Thailand is heavily reliant on global demand but its exports have been hurt by global trade tensions, and more recently its key tourism sector has been knocked by the pandemic.

On Tuesday, the cabinet approved a stimulus package set to inject 400 billion baht (\$12.67 billion) into the economy as authorities stepped up efforts to fight the broadening fallout of the coronavirus.

Deputy Prime Minister Somkid Jatusripitak said the government is preparing additional stimulus to help consumers as well as a fund to support the stock market, which is tumbling on global recession fears and on the rising number of worldwide infections.

However, the government has no immediate plans to lower taxes to support investment in the stock market, but will wait to see if any measures are needed, Uttama Savanayana told reporters.

"I understand that investors are concerned about the virus and maybe too concerned sometimes despite the market's solid fundamentals," he said.

"The market has been through several situations and the index had managed to come back," he said of the benchmark index which triggered a circuit breaker after diving 10% on Thursday to its lowest since June 2012.

Earlier in the day Thailand reported 11 new cases of coronavirus, the single biggest jump.

The Stock Exchange of Thailand (SET) on Thursday announced fee reductions, which is about 500 million baht a year, for listed firms, securities, asset management firms and custodians to weather the disruptions. Businesses are also urging the government to cut the VAT, currently at 7%, to help boost domestic spending as the outbreak has left shopping malls, resorts and beaches deserted.

Consumer confidence in February hit its lowest level in nearly 21 years, according to the survey by the University of the Thai Chamber of Commerce, which on Thursday cut its forecast for economic growth this year to 0.6-1.6% from 2.8%, with a contraction in the first quarter.

(\$1 = 31.57 baht)

(Additional reporting by Chayut Setboonsarng; Writing by Orathai Sriring; Editing by Shri Navaratnam) ((orathai.sriring@thomsonreuters.com; +662 0802309; Reuters Messaging: orathai.sriring.thomsonreuters.com@reuters.net))

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EUROPE

Albania

Albania to offer 9.6 bln leks (77.2 mln euro) of 1-yr T-bills on March 17

12-Mar-2020

TIRANA (Albania), March 12 (SeeNews) - **Albania's finance ministry will offer 9.6 billion leks (\$86.4 million/77.2 million euro) worth of one-year Treasury bills at an auction on March 17, the ministry's debt issuance calendar shows.**

The finance ministry sold 10 billion leks worth of government securities at the last auction of one-year T-bills held on March 3.

The average weighted yield edged up to 1.92% from 1.89% at the previous auction of one-year T-bills held on February 18, according to auction results published by the finance ministry.

(1 euro = 121.701 leks)

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Bosnia

World Bank ready to provide \$20 mln to help Bosnia fight coronavirus

12-Mar-2020

SARAJEVO (Bosnia and Herzegovina), March 12 (SeeNews) - **Bosnian Prime Minister Zoran Tegeltija said that the World Bank is ready to support Bosnia with \$20 million (17 million euro) to help it prevent, detect and mitigate the impact of the coronavirus infection spread.**

The money will be used to finance disease monitoring, strengthening the capacity of public health institutions, and supporting the work with the private sector in order to reduce the impact of the epidemic on the Bosnian economy, Tegeltija said in a statement on Wednesday.

The funding will be used, among others purposes, for the procurement of coronavirus test equipment, hospital equipment and development of emergency medical centres.

Tegeltija also said he has informed the prime ministers of Bosnia's two entities - the Serb Republic and the Federation, about the pledged financial support of the World Bank.

As of Thursday morning, Bosnia has reported 11

cases infected with the novel coronavirus - 8 in the Serb Republic and 3 in the Federation.

(\$= 0.888612 euro)

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Czech Republic

Czech central bank governor: no immediate need for rate cut

11-Mar-2020

PRAGUE, March 11 (Reuters) - **The Czech National Bank can cut rates to help the domestic economy that is likely to be hit by the global coronavirus outbreak although such a move is not immediately needed, Governor Jiri Rusnok said on Wednesday.**

Rusnok also said the central bank was ready to take steps alongside the government to mitigate the expected impact but it was too early to estimate damage.

He told a news conference after meeting Prime Minister Andrej Babis that, from a fiscal and monetary policy standpoint, the readiness of the country was good.

(Reporting by Jan Lopatka, writing by Robert Muller)

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Hungary

Hungary central bank accepts 241 mln euros worth of bids for swaps, above offer

09-Mar-2020

BUDAPEST, March 9 (Reuters) - **Hungary's central bank has accepted total bids worth 241 million euros from commercial banks for its swaps providing forint liquidity at a Monday tender, well above its offer of 92 million euros, the National Bank of Hungary said on its page.**

Bids were the highest for the 1-month swaps at 464 million euros. It provided 172 million euros of the one-month swaps, and 23 million euros each of 3-month, 6-month swaps, and also of the 12-month tenor.

(Reporting by Krisztina Than)

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Hungary government ready to intervene in economy to offset virus impact

10-Mar-2020

By Gergely Szakacs and Krisztina Than
BUDAPEST, March 10 (Reuters) - **Hungary's government is ready to intervene in the economy to offset the economic impact of the spread of the coronavirus, Finance Minister Mihaly Varga said on Tuesday.**

"The economic consequences will be much longer term, than its human impacts," Varga told a business conference, adding that the budget had adequate reserves to tackle the economic difficulties.

"We are prepared to help economic players with an intervention in the economy...if the crisis deepens," Varga said.

The government reduced its economic growth forecast to 3.5% from 4.0% earlier this year, partly due to the impact of the spread of the coronavirus globally.

Varga said the 2020 budget was planned with a 1% deficit and sufficient reserves. He said tourism would soon be affected by the global spread of the coronavirus.

Varga also said close cooperation was needed between fiscal and monetary policy in order to boost economic growth.

Hungary has 12 confirmed cases of the coronavirus as of Tuesday, according to the government's official website.

(Reporting by Krisztina Than and Gergely Szakacs, editing by Ed Osmond)

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Hungary PM says budget needs to be redrawn as "brutal change" looms

10-Mar-2020

By Gergely Szakacs and Krisztina Than
BUDAPEST, March 10 (Reuters) - **Hungary will need to redraw its budgets for 2020 and 2021 and offer major assistance to economic sectors worst hit by the spread of the coronavirus, which threatens "brutal change," Prime Minister Viktor Orban said on Tuesday.**

Orban told business leaders uncertainty and caution in the economy would run high in coming months, adding he expected a pandemic, and the tourist season this year would "go down the drain."

He said funds worth several billions of euros would be needed to help the sectors hardest hit by the global impact of the spread of coronavirus, and he expected proposals from business leaders by the end of April on concrete steps.

Last week the head of the Confederation of Hungarian Employers and Industrialists said Hungarian firms faced component shortages because of the coronavirus's impact on supply chains, which could aggravate a slowdown that had already begun.

The government reduced its economic growth forecast to 3.5% from 4.0% earlier this year, partly due to the impact of the spread of the coronavirus globally.

Finance Minister Mihaly Varga told the same conference that the 2020 budget was planned with a 1% deficit and sufficient reserves. He also said tourism would soon be affected by the global spread of the coronavirus.

Varga said close cooperation was needed between fiscal and monetary policy in order to boost economic growth.

Hungary has 12 confirmed cases of the coronavirus as of Tuesday, according to the government's official website.

Orban, a nationalist who has often clashed with European Union authorities over his clampdowns on immigration and a perceived erosion of the rule of law, has pursued a mix of go-it-alone economic policies, shifting Hungary's debt financing towards domestic borrowing while keeping the budget deficit low.

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Hungary's economy could stagnate under worst-case virus scenario

11-Mar-2020

BUDAPEST, March 11 (Reuters) - Hungary's economy could stagnate or even contract slightly this year under the worst-case scenario if the global impact from the coronavirus outbreak deepens and lasts a long time, Finance Minister Mihaly Varga said late on Tuesday.

"We reckon with scenarios between -0.3% and plus 3.7% (in terms of economic growth)," Varga told local Inforadio.

"It is always worth examining the worst case possibility as ... then we can only be surprised positively."

He said if everything returned to normal in the global economy soon, then Hungary's economy - which relies heavily on exports to the euro zone -- could expand by 3.5% to 4% this year.

Varga also said that as a small silver lining, inflation was expected to ease as oil prices have plunged. This would also be positive for the trade balance.

Hungarian headline inflation came in at 4.7% in January and 4.4% year-on-year in February, driven by fuel, alcohol, tobacco and food prices.

"A very significant element in January inflation was that oil prices rose substantially in the past year," Varga said.

"We can expect that the level of inflation will decline and will not bring along an increase in the level of interest rates which is important for managing state debt."

Hungary will need to redraw its budgets for 2020 and 2021 and offer major assistance to economic sectors worst hit by the spread of the coronavirus, which threatens "brutal change," Prime Minister Viktor Orban said on Tuesday.

Orban told business leaders that uncertainty and caution in the economy would run high in

coming months, adding he expected a pandemic, and the tourist season this year would "go down the drain."

Hungary has 13 confirmed cases of the coronavirus, according to the government's official website.

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Editing by Shri Navaratnam and Kim Coghill)
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Lithuania

Lithuania: Lithuania is the first in the world to have green bonds already on the Nasdaq Sustainable Bond Network

13-Mar-2020

The Government of the Republic of Lithuania became the first in the world among government issuers to issue green bonds listed on the Nasdaq Sustainable Bond Network. This will open up opportunities for Lithuania to attract new investors to Government securities, increase their awareness and attractiveness.

The Nasdaq Stock Exchange Sustainable Bond Network is a global, publicly accessible online platform where issuers, whether public or private, issue their bonds and encourage investment in sustainable bonds, knowing that the funds raised will be used to develop a more sustainable future.

Currently, government green bonds are issued for \$ 40 million euros. The public funds received from the green bonds are lent to the Public Investment Development Agency (VIPA) in the framework of the project "Apartment Modernization Fund". The aim of the project is to help apartment owners to modernize their homes, increase energy efficiency and reduce heating costs. At the end of 2019, modernization of 49 buildings started, funded by green bonds.

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Moldova

IMF approves \$20 mln loan tranche to Moldova

12-Mar-2020

KIEV, March 12 (Reuters) - The International Monetary Fund approved on Thursday a loan tranche of around \$20 million to Moldova.

"A key objective achieved was the rehabilitation of the banking sector, which - alongside other reforms - helped entrench macroeconomic and financial stability," the Fund said in a statement.

Moldova's 40-month Extended Credit Facility



(ECF) and Extended Fund Facility (EFF) arrangements to support the country's economic and financial reform program were approved in 2016 and the country has received about \$178.7 million.

One of Europe's poorest countries, Moldova plunged into crisis in late 2014 after it emerged that the equivalent of one-eighth of national output had disappeared from Moldova's banking system through three banks.

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Romania

Romania's January trade deficit rises to 1.32 bln euros-stats

11-Mar-2020

BUCHAREST, March 11 (Reuters) - **Romania's trade deficit tempered its growth rate in January rising by roughly 4.0% on the year to 1.32 billion euros (\$1.50 billion), the National Statistics Board said on Wednesday.**

The shortfall in January of last year stood at 1.27 billion euros, data showed.

The statistics board said January CIF (cost/insurance/freight) imports were 7.02 billion euros, up 3.4 percent on the year, while exports were 5.7 billion euros, up 3.3 percent.

(\$1 = 0.8807 euros)
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Russia

Russian gov't proposes letting sovereign fund invest in Chinese yuan

12-Mar-2020

MOSCOW, March 12 (Reuters) - **Russia's National Wealth Fund (NWF) could be allowed to invest in Chinese state debt and in yuans, according to a draft government resolution published on Thursday, a move which would enable a diversification of the country's cash cushion.**

The NWF, a rainy-day fund made up of oil revenues accumulated over the years, is part of Russia's sovereign reserves and held 8.2 trillion roubles (\$110.5 billion), or 7.3% of the country's growth domestic product as of March 1.

Russian Finance Ministry officials have said the country will reduce the share of the U.S. dollar in the fund - which also contains euros,

pounds and roubles - and that it was considering investing in other currencies including the yuan.

Deputy Finance Minister Vladimir Kolychev said last year that the move was meant to shield Russia's reserves from external risks and would make the fund's composition closer to that of the central bank's foreign currency reserves.

In recent years Russia has stepped up what it calls a de-dollarisation process to reduce its dependence on the U.S. currency as its relations with the West have soured over Moscow's annexation of Crimea in 2014 and its role in the Ukrainian crisis.

(\$1 = 75.0928 roubles)
(Reporting by Maria Kiselyova and Gabrielle Tetrault-Farber; editing by Mark Heinrich)
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Slovenia

Slovenia sells total 251.5 mln euro of 3-mo, 6-mo T-bills

12-Mar-2020

LJUBLJANA (Slovenia), March 12 (SeeNews) - **Slovenia's finance ministry said it sold 251.5 million euro (\$284.4 million) worth of three-month and six-month Treasury bills on March 10, as the two issues were heavily oversubscribed.**

Three-month Treasury bills worth 100.0 million euro were sold at a negative yield of 0.43%, compared with a negative yield of 0.49% at the previous auction of three-month government securities held in February, according to figures published by the finance ministry on Tuesday.

The ministry also auctioned 151.5 million euro worth of six-month Treasury bills at a negative yield of 0.48%, compared with a negative yield of 0.49% achieved at the previous auction in February.

(\$=0.88425 euro)
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Turkey

Revisions cast Turkey's past current account in positive light

11-Mar-2020

ANKARA, March 11 (Reuters) - **Turkey revised its 2019 current account surplus up to \$8 billion from a previously-announced \$1.7 billion, the central bank said on Wednesday as part of a planned adjustment to calculations that could raise questions among investors and economists.**

The bank announced adjustments going back to 2013 that cast Turkey's historically problematic

current account in a more positive light. **It reduced the 2018 deficit by \$7.5 billion to \$20.8 billion, and provided expected revisions for the previous years that totaled \$44 billion in upward revisions since 2013.**

Chronic current account deficits have long been a worry for the government and investors since it leaves Turkey, which largely imports its energy needs, reliant on speculative inflows to finance the shortfall.

However, a 2018 currency crisis sent import prices soaring and resulted in a surplus in 2019, the first in 18 years.

An economist said the revisions would delay by several months an expected return to a current account deficit in 2020, adding that the changes were "justified."

"But we think the credibility of the data will be questioned due to the large positive impact of the revision," the economist added.

The revisions emerged as the central bank announced that the January current account data had shown a deficit of \$1.804 billion, less than the \$2.5 billion expected in a Reuters poll.

(Reporting by Ece Toksabay and Nevzat Devranoglu; Editing by Jonathan Spicer and Daren Butler) ((ece.toksabay@tr.com; +90 312 2927022; Reuters Messaging: ece.toksabay.reuters.com@reuters.net)) (c) Copyright Thomson Reuters 2020. ©Refinitiv 2020. All rights reserved.

Ukraine

Ukraine's new PM says cooperation with IMF is his priority

10-Mar-2020

KIEV, March 10 (Reuters) - **Ukraine's new prime minister, Denys Shmygal, said on Tuesday that the launch of a new program of the International Monetary Fund is a priority of his government, which is committed to implementing reforms needed for final approval of the program by the IMF.**

A \$5.5 billion IMF loan programme, provisionally agreed by the previous government last year, is contingent on Ukraine's passing reforms and keeping the budget deficit in check.

"The top priority is to launch the IMF Extended Financing Program, especially to support structural reforms, macroeconomic and financial stability in the country," Shmygal said in a statement following his phone talk with the head of the IMF mission to Ukraine, Ron van Rooden.

(Reporting by Natalia Zinets; Editing by Leslie Adler) ((polina.devitt@thomsonreuters.com; +74957751242)) (c) Copyright Thomson Reuters 2020. ©Refinitiv 2020. All rights reserved.

Ukraine unlikely to revise previously agreed IMF programme

12-Mar-2020

KIEV, March 12 (Reuters) - **The Ukrainian authorities are unlikely to revise the terms of a new loan programme that were preliminarily agreed with the International Monetary Fund last year, Central Bank Governor Yakiv Smoliy said on Thursday.**

Ukraine secured conditional approval for a new \$5.5 billion loan deal from the IMF in December. But a sweeping government reshuffle last week raised some concerns about whether the new cabinet would want to change the terms of the agreement.

(Reporting by Natalia Zinets; writing by Matthias Williams; Editing by Kevin Liffey) ((matthias.williams@thomsonreuters.com)) (c) Copyright Thomson Reuters 2020. ©Refinitiv 2020. All rights reserved.

S&P Says Ukraine Ratings Affirmed At 'B/B'

13-Mar-2020

March 13 (Reuters) - S&P

- **S&P says Ukraine ratings affirmed at 'B/B'; outlook stable**
- S&P says coronavirus outbreak represents downside risk--both directly and via effects on demand for & prices of Ukraine's key export commodities

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LATIN AMERICA AND CARIBBEAN

Latin American currencies rebound off record lows on coronavirus stimulus hopes

13-Mar-2020

By Susan Mathew

March 13 (Reuters) - **Latin American currencies rose on Friday, moving up from all-time lows as hopes of more central bank stimulus and government spending lifted sentiment after worries over the coronavirus outbreak drove a bruising sell-off this week.**

As an increasing number of central banks across the globe made generous liquidity injections into markets and governments ramped up fiscal measures and virus containment efforts, hopes of more policy help supported risk sentiment.

A recovery in oil prices saw Colombia's peso surge 3.4% in what could be its best day in four years, while Mexico's peso rallied 2%.

Brazil's real jumped 3% and was on course for its biggest intraday gain since June 2018. Brazil will unveil a package of measures in the next few days to combat coronavirus and the economic damage it is causing, Economy Minister Paulo Guedes said on Friday, adding

that all steps that don't affect the country's fiscal position will be considered.

As copper prices rose, Chile's peso gained 1.5% against the dollar.

The dollar regained its safe-haven appeal as investors scrambled to the most liquid currency as a rising number of new coronavirus cases outside China raised uncertainty about the impact on global growth.

Markets sold off this week on fears that measures to contain the coronavirus will cause a significant economic slowdown in United States and Europe. An oil shock added to the worries.

On the week, Colombia's currency in on course for its worst performance since 2008, and the Mexican peso since late 2016.

"The brutal sell-off caused severe damage to market confidence, and any rallies may not prove sustainable and could be followed by another leg lower," warned Piotr Matys, senior EM forex strategist at Rabobank.

All eyes are on the U.S. Federal Reserve's policy meeting next week. Investors have already priced in a 75-basis-point cut in the U.S. central bank's key overnight lending rate.

With all of its companies gaining ground, Sao Paulo's Bovespa stock index surged as much as 15.4% before paring the gains to trade 7% higher. The index lost 14.8% on Thursday and is still on track to end the week around 20% lower - its sharpest fall since the 2008 global financial crisis.

Mexico's IPC index jumped 3.2%, but weekly losses of around 8% are also its worst since 2008.

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Argentina

Argentine paves way for \$68.8 bln debt revamp as talks heat up

10-Mar-2020

By Adam Jourdan and Eliana Raszewski
BUENOS AIRES, March 10 (Reuters) - **Argentina will revamp as much as \$68.8 billion in foreign law bonds as it restructures its debt, the government said in a decree on Tuesday, paving the way for tense negotiations as the country looks to strike a deal with creditors this month.**

The decree, which follows a debt bill passed by the Senate in February, comes as Argentina battles to reach a restructuring agreement with bondholders by the end of March to avoid a damaging sovereign default.

Argentina, Latin America's No. 3 economy and a serial defaulter, is facing a major debt crisis amid stalled economic growth and a plunge in the peso currency which has driven up the

country's borrowing costs in dollars.

The country's Peronist President Alberto Fernandez, who came to power late last year, has said Argentina cannot pay back what it owes without being given more time to revive growth. It now faces a tough challenge to get creditors on board.

"We anticipate difficult negotiations ahead," financial services firm Citi said a note to clients on Tuesday.

Argentina plunged into economic crisis in 2018 and was forced to turn to the International Monetary Fund for a \$57 billion credit facility. The crisis worsened last year with recession, stubborn inflation and a tumbling peso.

The IMF has backed the government view that debt levels are unsustainable and called on private creditors to make a "meaningful contribution" to help resolve the crisis, indicating potential large haircuts on holdings.

Argentine officials met with bondholders including Pimco, Gramercy Funds Management and BlackRock Inc earlier this month, while negotiations with the IMF are ongoing, with both sides heralding "constructive" talks.

Argentina over-the-counter bonds and the local Merval stock exchange rebounded strongly on Tuesday after sharp losses on Monday that were sparked by global fears over a coronavirus outbreak and an oil price war.

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writing by Cassandra Garrison; Editing by Bernadette Baum and Nick Macfie)

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Argentina needs 'substantial' relief in \$70 bln debt talks, economy minister says

12-Mar-2020

By Hugh Bronstein and Eliana Raszewski
BUENOS AIRES, March 12 (Reuters) - **Argentina will need "substantial relief" as it restructures nearly \$70 billion in debt with international bondholders, the country's economy minister Martin Guzman told Reuters, signaling a tough tonic ahead for the country's creditors.**

In his first interview with international media since taking up his role in December, the 37-year-old U.S. trained economist, said a March 31 deadline to strike a deal with bondholders may also be affected by a global coronavirus outbreak that was hitting plans for road shows for the government's debt proposal.

In an hour-long conversation in his office in central Buenos Aires, Guzman said Argentina does not have the capacity to service its foreign currency bonds for a "few years" and that any agreement with creditors needed to put public debts on a sustainable path.

"There is need for substantial relief," he said,



adding that all options were on the table and ongoing talks sought to find a path that "maximizes creditor acceptance."

"But if anyone thinks we are going to kick the can down the road in a way that forces another restructuring later on, they should think again, because we are not going to do that."

Argentina is locked in debt restructuring talks with global creditors including Pimco and BlackRock Inc to avert a damaging sovereign default that would block the giant grain producer's access to global markets.

Guzman and his debt team have laid out a plan to strike that deal with creditors by the end of March, though he indicated that there may have to be flexibility given the current global situation, including the coronavirus outbreak.

He added road shows planned for this month for government officials to take their case to creditors had been affected and may have to be done by video conference.

"We have been on track, but now we are in a situation of global emergency that requires that every side is flexible," Guzman said, adding if the March 31 deadline was missed it should only be by "a matter of days."

Guzman said the proposal to bondholders would be made before the end of the month, but declined to give any details about what the government's offer would look like.

"We will not accept anything that is not sustainable. We will be absolutely firm on that," Guzman said, adding that any deal would have to avoid putting more fiscal austerity on Argentina's recession-hit economy.

"Clearly Argentina has no capacity to service interest over the next few years."

Government officials met with bondholders earlier this month, while negotiations are ongoing with the International Monetary Fund (IMF), which has lent around \$44 billion to the South American country.

The debt negotiations could determine Argentina's economic future and global standing in markets for years following the current period of economic turmoil that has seen high inflation, recession and rising poverty.

Argentina - a serial defaulter - settled long-standing court cases with creditors in 2016 under ex-president Mauricio Macri after a 2002 default left the country a pariah with investors.

By 2018 the country was back in debt trouble again, after Macri borrowed heavily in the bond market based on what turned out to be overly optimistic economic growth projections.

Peronist President Alberto Fernandez has said that the country cannot pay its debts until given space to revive growth and ruled out imposing fiscal austerity measures to help pay debts while poverty levels remained high.

"There's not going to be a reduction in the primary fiscal deficit in 2020. In the most optimistic case we can achieve fiscal primary balance in 2022 or 2023," Guzman said.

Guzman said the country was looking to "roll over" its debts with the IMF, though the deal

with bondholders was more urgent, considering that bond payments were fast coming due and that the country could not keep paying debts with international reserves.

"We are running out of the reserves that the Treasury can use for servicing debt. So we need to resolve this problem quickly," Guzman said.

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Volatility complicates sovereign debt restructuring

13-Mar-2020

NEW YORK, March 13 (IFR) - The coronavirus and plummeting oil prices are likely to complicate talks between Argentina and holders of close to US\$70bn in bonds at a time when the government can ill afford to delay the debt restructuring process.

There has already been talk that the two parties will use videoconferencing to conduct negotiations as fears over the spread of the coronavirus have market participants avoiding direct contact as best they can.

But more importantly is the economic impact from the virus as well as a price war between Saudi Arabia and Russia that sent West Texas Crude to US\$30.77 on Thursday.

That is likely to upend debt sustainability calculations, potentially leaving Argentina asking creditors for deeper haircuts and putting both sides at loggerheads.

"If you are looking to create a sustainable debt burden, lower GDP would imply a lower amount of indebtedness than prior to (coronavirus outbreak)," said Michael Roche, an EM analyst at Seaport.

After some delays, the administration of President Alberto Fernandez has moved relatively quickly in recent weeks to tackle its debt burden, mandating advisers and announcing on Monday that it plans to restructure its bonds.

But as the world braces for a slowdown in growth as the coronavirus impacts industries worldwide, Argentina's fragile economy is also expected to take a hit.

And while lower oil prices could aid a country trying to contain inflation, recently imposed restrictions on crude imports to protect local producers means that companies are unlikely to benefit from the slide in prices.

Hopes to develop Vaca Muerta - the country's shale field and one of the world largest - to bolster economic growth could also fade quickly if crude prices remain low.

"You can't wait out a decline in oil price and make Vaca Muerta look attractive on paper," said Gordy Bowers, an analyst on the emerging markets debt team at Columbia Threadneedle.

"They need to get the restructuring done to bring down financing costs and they would need an oil price environment that is strong. So it is not favourable from their perspective."

The Argentine government is under some pressure to deal with its debt burden not only because it wishes to focus on economic growth ahead of mid-term elections next year, but also because it has some looming debt payments ahead.

In May, the country faces a US\$2bn Paris Club amortisation and US\$1.3bn on the Bonar 2024, which is local law but dollar-denominated and held in good part by foreign investors.

But a quick restructuring implies market-friendly terms that raises doubts about the country's repayment capacity.

"The current conditions are probably now a deal breaker on the inability to assess medium-term debt sustainability and weak policy framework to counter the external shocks," wrote Siobhan Morden, head of Latin America fixed-income strategy at Amherst Pierpont.

The sell-off in Argentine bonds in recent days from the 40s into the 30s also bring more complications.

"If prices are pushed down into the 30s, then recovery values are more attractive," said Columbia Threadneedle's Bowers. "But the counter to that is that distressed funds could get involved. And they are a lot more willing to take on litigation risks and holdout for years."

(This story will appear in the March 14 issue of IFR Magazine.)

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D Argentina 1

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Argentina swaps \$2.13 bln in notes, bonds for new debt

13-Mar-2020

BUENOS AIRES, March 13 (Reuters) - Argentina swapped a total of \$2.13 billion in notes and bonds maturing between March and April for three new instruments, the government said on Friday.

Argentina swapped two LECAP notes totaling 13 billion pesos, a statement from economy ministry said. It also exchanged 43.53 billion pesos worth of LECER notes and a fourth swap totaled \$287 million in LELINK notes.

The notes, all due to expire between March 30 and April 8, were swapped for new instruments expiring June 16 and November 13, the ministry said.

The fourth tranche of \$945 million in bonds maturing on March 18 was swapped for a new instrument maturing in 2022.

Argentina is seeking to ease a credit crunch as it continues talks with bondholders and the International Monetary Fund to restructure

about \$100 billion in sovereign debt.

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Bolivia

Moody's Downgrades Bolivia's Ratings to B1, Changes Outlook to Negative

10-Mar-2020

March 10 (Reuters) -

- **Moody's downgrades Bolivia's ratings to B1, changes outlook to negative**
- **Moody's says downgraded the government of Bolivia's local and foreign currency issuer and senior unsecured debt ratings to B1 from BA3**

- Moody's says decision to downgrade Bolivia's ratings reflects material erosion of its fiscal & foreign exchange reserve buffers in recent years

- Moody's says Bolivia's negative outlook signals new government. To likely face material sociopolitical challenges in implementing fiscal policy adjustments

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Brazil

UBS slashes Brazil 2020 GDP growth forecast to 1.3%, one of the lowest among big banks

11-Mar-2020

BRASILIA, March 11 (Reuters) - Economists at Swiss investment bank UBS have slashed their forecast for Brazil's economic growth this year to 1.3% from 2.1% previously, one of the gloomiest outlooks among a clutch of recent downward revisions from the world's big banks.

In light of the economic and financial market shocks from the coronavirus outbreak and sharp fall in oil prices, UBS cut its 2020 forecast and also revised down its estimate for official interest rates to 3.5%.

UBS economists Tony Volpon and Fabio Ramos outlined a base-case scenario where tightening financial conditions hit Brazilian growth hard in the second quarter, but the economy rebounds later in the year if China recovers, as expected.

Under this scenario, growth will snap back to 3.2% next year, up from their previous forecast of 2.8%.

In a worst-case scenario, where the coronavirus outbreak wreaks deeper and longer-lasting economic damage, Brazil's growth will shrink

this year to 0.7%, they predict. Economists at several big banks, such as JP Morgan, Bank of America Merrill Lynch, and Citi have cut their Brazilian growth forecasts in recent weeks to well below 2.0%, but not quite as low as UBS' prediction.

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Brazil's \$4 billion budget bombshell hits markets at worst possible time

12-Mar-2020

By Jamie McGeever

BRASILIA, March 12 (Reuters) - As if things were not difficult enough for markets in Brazil, whose stocks and currency are among the world's worst-performing this year, an unexpected twist in the country's fragile politics threatens to make the situation even tougher.

Brazil's Congress voted late on Wednesday to overturn an earlier veto on spending by right-wing President Jair Bolsonaro, adding an as yet unbudgeted 20 billion reais a year (\$4.2 billion) to social assistance for elderly and disabled people, known locally as "BPC."

Brazil's government is in its seventh consecutive year of budget deficit, which is pegged at 124 billion reais this year. If the 20 billion-reais additional spending cannot be clawed back from elsewhere, the budget will be blown.

Bolsonaro's administration has made it an economic priority to fix the nation's public finances, in large part via aggressive spending cuts.

While the extra spending will provide a welcome fiscal boost to the struggling economy, analysts say it puts the government's budget goals and economic reform agenda in serious peril, greatly diminishing the appeal of holding Brazilian assets.

"The economy and markets will suffer from a lack of confidence in the government, and the president's capacity to deliver at a time of crisis," said Creomar de Souza, founder of Brasilia-based consultancy Dharma Political Risk and Strategy.

"This appearance of division between the president and Congress is not good at all," he said.

Analysts at Morgan Stanley said the vote marked a major turning point and recommended clients reduce their exposure to Brazilian credit and the currency.

"The timing of this decision could not be worse. Such a serious setback for the reform agenda along with a more-than-challenging global backdrop will keep Brazilian local assets under pressure in the weeks to come," they said.

On Thursday morning, Brazil's real slumped below the 5.00 per dollar level for the first time ever, bringing its depreciation so far this year to a staggering 20%.

Only a week ago, when the real was trading around 4.60 per dollar, Economy Minister Paulo Guedes said the real could sink as low as 5.00 per dollar "if we (politicians) really mess up."

BAD BLOOD IN BRASILIA

Guedes and his team argue that shrinking the budget deficit, national debt and public sector would lay the foundation for lower borrowing costs and a surge in private-sector investment, confidence, spending and ultimately economic growth.

The government cut its 2020 economic growth forecast on Wednesday, but insisted it would not relax its fiscal discipline, particularly an existing spending cap, to give a boost to an economy hit by coronavirus outbreak and tumbling oil prices. According to Treasury Secretary Mansueto Almeida, the 20 billion-reais hole in the budget created by the BPC vote on Wednesday cannot be filled.

"We don't have the resources for new mandatory expenditures of 20 billion reais per year," he told Reuters. "To do this we would need to cut a corresponding amount of public investment, which is the only discretionary expense that could quickly be reduced that much."

Brazilian public investment, including on such key areas as infrastructure and education, is already at its lowest on record.

Analysts at Barclays said the BPC vote marked the most serious blow yet dealt by Congress to the Bolsonaro government, noting that the new expenditure, coupled with plunging oil prices, could put the deficit well above target.

They said Bolsonaro's apparent backing for a controversial public rally in Brasilia favoring his administration - and widely seen as opposing Congress - scheduled for Sunday, March 15, has not been well-received among lawmakers.

"Bad blood appears to be widespread in Brasilia. We view this significant blow as a loud signal of discontent from Congress to the President," Barclays said in a note to clients on Thursday.

Hammered by international market volatility and this latest domestic political blow, Brazilian stocks .BVSP sank 16% on Thursday, bringing their cumulative decline so far this year to 38%.

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Chile

Fitch Revises Chile's Outlook to Negative; Affirms IDR at 'A'

12-Mar-2020



March 12 (Reuters) - FITCH:

- **Fitch revises Chile's outlook to negative; affirms IDR at 'A'**
- **Fitch on Chile says has revised outlook to negative from stable**
- Fitch says rewriting Chile's constitution would be lengthy 2-year process that may dampen economic recovery & prolong political uncertainties
- Fitch on Chile says outlook revision reflects further downside risks posed by a more uncertain local political environment & global economic backdrop
- Fitch says Chile's outlook reflects significant deterioration in Fitch's baseline scenario for lower growth prospects & higher fiscal deficits & debt levels

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Ecuador

Ecuador to slash budget, seek better debt terms after oil plunges

11-Mar-2020

QUITO, March 10 (Reuters) - **Ecuadorian President Lenin Moreno on Tuesday said he will seek to improve debt payment terms and slash \$1.4 billion from the government's budget in response to the crash in oil prices and the economic effects of the coronavirus.**

The collapse of crude prices, due to falling demand as the new coronavirus spreads globally and a price war between major producers Saudi Arabia and Russia, has upended Moreno's hopes of closing Ecuador's gaping fiscal deficit and cutting debt.

"The price of oil fell more than \$20 ... that means that every day we lose just over \$8 million in revenue," Moreno said in a televised address. "A year we would have an accumulated loss of \$ 2.9 billion in revenue."

Given the circumstances, Moreno said he will eliminate and merge state agencies and cut spending.

He also plans to seek improved payment terms of bilateral debt to "reschedule and adapt to our new reality," and to seek more than \$2 billion in financing from international financial institutions, without giving further details.

Other proposals include a 5% tax on the value of vehicles worth more than \$20,000 and increased income tax withholding for large companies.

Moreno earlier said the International Monetary Fund (IMF) continues to support his government, "regardless of the difficulties we have had."

Indigenous protesters led almost two weeks of demonstrations in October after Moreno announced he would eliminate decades-old subsidies on diesel and gasoline following a financing deal with the IMF. Following the

protests, he walked back the measure and promised to find other ways to close the fiscal deficit.

The IMF has said it continues to work with the government after completing a technical visit last month.

Ecuador is still waiting for a disbursement of about \$348 million from the multilateral lender.

Moreno late on Monday named Rene Ortiz, an oil analyst and consultant, as the new energy and mines minister after the previous minister, Jose Augusto, resigned because of health problems.

The country, which produces some 540,000 barrels per day of oil, left OPEC earlier this year to free itself up to raise crude output.

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IMF's chief pledges to help Ecuador navigate oil price drop-spokesman

12-Mar-2020

WASHINGTON, March 12 (Reuters) - **International Monetary Fund Managing Director Kristalina Georgieva on Tuesday discussed the major drop in oil prices on Ecuador with the country's president, Lenin Moreno and pledged to help him navigate the difficulties caused by the coronavirus, an IMF spokesman said on Thursday.**

"The managing director recognized the implications for Ecuador for of the recent sharp fall in oil prices and the effects of the coronavirus and indicated that we will work closely continue to work closely with the Ecuador authorities to help them navigate this challenging evolving economic environment."

Rice also said the Fund views as positive steps recent economic policies that Ecuador has put in place.

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Mexico

Mexico issues 4-year, \$485 mln catastrophe bond

10-Mar-2020

MEXICO CITY, March 10 (Reuters) - **Mexico's government issued a four-year catastrophe bond worth about \$485 million through the World Bank, part of a strategy to safeguard**



the country's finances against damages caused by natural disasters, the finance ministry said on Tuesday.

Mexico is frequently hit by hurricanes and was rocked by two large earthquakes in 2017, which led to hundreds of deaths and billions of dollars in damages.

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Falling oil prices increase risk to Mexico's sovereign credit rating

11-Mar-2020

MEXICO CITY, March 11 (Reuters) - **Falling oil prices increase the risks to Mexico's sovereign credit rating, ratings agency Moody's said on Wednesday, adding that the Mexican oil hedge will mitigate the impact on government revenue this year.**

Moody's also revised down its estimate for economic growth in Mexico this year from 1% to 0.9% due to direct and indirect impacts of the coronavirus, according to comments distributed to the media.

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Mexico must minimize coronavirus economic drag, finance minister says

12-Mar-2020

By Anthony Esposito and Abraham Gonzalez
ACAPULCO, Mexico, March 11 (Reuters) - **Mexican policymakers need to implement economic measures that can minimize the expected economic headwinds caused by the spread of the coronavirus before the crisis worsens, the finance minister said.**

Finance Minister Arturo Herrera told Reuters in an interview late Wednesday that the government is determined to get ahead of any damage to the economy and soften the expected blow.

"What's clear to us is that if we want to have a stimulus that boosts the economy in a timely manner, what we have to do is start that now, and not when we are at the height of the coronavirus crisis," Herrera said.

He said the government is finalizing a plan to attract new investment in the energy sector, even as adverse financial market conditions mean that international oil auctions open to private producers are not under consideration.

The administration of President Andres Manuel Lopez Obrador is taking a cautious approach to possible measures to contain the spread of the highly contagious virus, such as mandatory school or business closings, because of the

economic harm they could cause, Herrera said. He pointed to the big hit to the Italian economy that could result from recently announced containment measures by that country's government.

"When a country decides to close schools, close restaurants, close movie theaters, or decisions like those taken by Italy now, it's clearly going to have a major impact on the economy," he said.

He added that if such measures "must be taken," Mexican health authorities will make the final determination.

Herrera, in the job since his predecessor resigned last July over disagreements with Lopez Obrador, said government agencies must purchase all necessary medicines and other equipment to combat coronavirus, and speed up spending on public health.

Mexico has reported 8 cases of the virus so far, among over 45,000 worldwide. But its manufacturing sector is vulnerable as the outbreak disrupts shipments of key parts and components from other countries such as China, while a growing number of global travel restrictions could curb tourism.

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Peru

Fitch Affirms Peru's Ratings at 'Bbb+' Outlook Stable

12-Mar-2020

March 12 (Reuters) -

- **Fitch affirms Peru's ratings at 'Bbb+'; outlook stable**
- Fitch says strong macro and public finance fundamentals will help Peru to weather covid-19 shock in 2020

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Venezuela

Venezuela removed 6 tonnes of central bank gold at turn of year

12-Mar-2020

By Corina Pons and Mayela Armas

CARACAS, March 12 (Reuters) - **The Venezuelan government removed some six tonnes of gold from the central bank's vaults between late 2019 and early 2020 to raise more hard currency for President Nicolas**

Maduro's cash-strapped administration, according to two government sources familiar with the movement.

Last year Maduro's government repeatedly withdrew monetary gold to exchange it abroad for euros in cash, sources said at the time, as falling oil production, an economic collapse and U.S.-imposed sanctions hit public income and restricted access to credit. The government has never publicly commented on this.

The new removals of gold bars worth about \$350 million lowers the central bank's reserves to about 90 tonnes, the sources said, down from 129 tonnes at the start of 2019.

Neither the central bank nor the information ministry, which handles media enquiries for the government, responded to requests to comment.

The bank's public financial records show that on Dec. 30 the reserves' value dropped by \$800 million to \$6.63 billion that day. A third source familiar with the bank's reserves said this was, in part, due to a "withdrawal of monetary gold," without detailing providing further details.

It is unclear how many withdrawals the central bank carried out between late 2019 and early 2020. The government sources declined to specify dates or where the gold was headed for.

The use of euros in Venezuela's hyperinflationary economy became more commonplace last year. Venezuelan domestic banks began to offer euros supplied by the central bank to local companies and the government paid off suppliers and contractors in the currency, sources told Reuters.

In 2019, the central bank exported gold to Turkey and the United Arab Emirates, according to Turkish government data and a confirmation from an Abu Dhabi investment firm that purchased several tonnes.

The United States, which is backing an attempt by opposition leader Juan Guaido to force Maduro to step down and call new elections, has warned bankers and traders not to deal in Venezuelan gold.

Maduro's government also has been seeking to repatriate some 31 tonnes of gold in the Bank of England's vaults on fears it could be caught up in international sanctions on the country. The bank has said it does not comment on customer relationships.

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AFRICA

Angola/Nigeria

Angola, Nigeria dollar bonds plumb

record lows as oil shock hits producers

12-Mar-2020

ONDON, March 12 (Reuters) - **Sovereign dollar-denominated bonds issued by African oil exporters tumbled to record lows on Thursday, with longer-dated Angolan and Nigerian bonds losing around 10 cents after oil prices took another hammering from a U.S. travel ban.**

Angola's 2048 issue dropped 10.95 cents in the dollar to 61.25 cents, having nearly halved in price from their mid-February peak when they traded at nearly 112 cents, Tradeweb data showed.

Bonds issued by Africa's top oil exporter Nigeria maturing in 2049 tumbled 8.6 cents to 76.6 cents, a sharp decline from the 117 cents in February.

Fellow crude producer Gabon also felt the pressure, with its 2024 dollar bonds slipping nearly 8 cents to 81.05 cents.

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Ghana

Ghana economy: Quick View - Domestic debt issued to roll over existing payments

10-Mar-2020

Event

On March 5th the government accepted GH¢1.07bn (US\$193m) from bids submitted for its latest three-year bond issuance.

Analysis

The yield was 20.75%, which is equal to the last three-year bond, issued in January 2020. The funds raised from this latest batch of debt instruments will be used mostly to retire maturing debts. The government estimates that this year it will spend GH¢22bn on interest payments on its loans. We forecast that expenditure will increase as a proportion of GDP in 2020 because of high interest payments and rising capital expenditure to deliver on ambitious industrialisation and infrastructure development promises ahead of upcoming legislative and presidential elections in December, combined with the large public-sector wage bill.

The government's 2020 debt strategy focuses on an appropriate financing mix to mitigate the costs and risks to achieve its desired composition of the public debt portfolio with a mix of external and domestic sources. The ruling New Patriotic Party administration continues to look to direct new borrowing towards rolling over existing debts alongside much-needed infrastructure development. In line with Ghana's ongoing debt management

strategy, the majority of recently issued debt instruments (including recent Eurobonds, the most recent of which were issued in February) have been used to improve the maturity structure of the existing debt portfolio, with the remainder used to undertake capital projects. Although this makes sense, capacity constraints and poor project planning are likely to remain problems.

In February the government estimated that it paid GH¢19.8bn in interest payments on loans in the first three quarters of 2019. Of this, GH¢4.6bn was spent on servicing external debt and GH¢15.2bn on servicing domestic loans. By comparison, interest payments in the same period of 2018 were estimated at GH¢19.5bn.

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Morocco

Morocco's economic growth to drop to near 2% in 2020 due to drought, coronavirus impact

10-Mar-2020

RABAT, March 10 (Reuters) - **Morocco's economic growth is expected to be revised downwards to 2% in 2020 from an initial forecast of 3.5% due to a lack of rainfall that hit agricultural output and a drop in foreign demand on the back of coronavirus outbreak, said the head of Morocco's planning agency (HCP).**

"Growth this year will witness the steepest drop in 20 years," Ahmed Lahlimi told Reuters.

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Nigeria

Nigeria to scale down budget in face of oil price crash

09-Mar-2020

- **Nigeria's finance minister hold talks with president**
- **Say budget, which assumes \$57 oil price, will be cut**
- **Petroleum minister says oil output will be raised**
- **Nigeria is Africa's top oil producer**
- **Crude sales make up 90% of its FX earnings**

By Felix Onuah

ABUJA, March 9 (Reuters) - **Nigeria, Africa's top oil producer, will cut the size of its record 10.6 trillion naira (\$34.6 billion) budget for 2020 because of a sharp decline in the price of crude, the finance minister said on Monday.**

Global oil demand is set to contract this year for the first time in more than a decade as the coronavirus outbreak causes economic activity to stall, the International Energy Agency said on Monday. The downward revision came as oil prices dropped as much as a third after Saudi Arabia launched a bid for market share following the collapse of an output pact with Russia.

Crude oil sales make up around 90% of foreign exchange earnings in Nigeria. The 2020 budget, passed in December, was calculated assuming crude production of 2.18 million barrels a day at a price of \$57 per barrel.

Benchmark Brent crude futures were down about 20% at slightly above \$36 a barrel at 1722 GMT.

"There will be reduced revenue on the budget and it will mean cutting the size of the budget," finance minister Zainab Ahmed told reporters at the presidential offices in the capital, Abuja, after a meeting with President Muhammadu Buhari.

She added that she would be part of a committee, also including the minister of state for petroleum, the head of state oil company NNPC and the central bank governor, that would determine the size of the budget cut in the coming days.

The minister of state for petroleum, Timipre Sylva, said Nigeria would increase its oil output, which stands at around 2 million barrels per day, but did not specify by how much.

Nigeria is still struggling to shake off a 2016 recession, which was caused by the oil price collapse of late 2014, with economic growth currently at around 2%.

The West African country, which has deep trade ties with China, has already felt the impact of the coronavirus due to disrupted supply chains.

Mathias Hindar, a sub-Saharan Africa analyst at consultancy Falanx Assynt, said persistently low oil prices would put pressure on the country's "rapidly diminishing" foreign currency reserves and restrict funds for capital projects.

"We could see the government's ability to protect the naira diminish, which could subsequently cause significant rises to inflation rates," he said.

(\$1 = 306.0000 naira)

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Zimbabwe

Zimbabwe to switch to managed float exchange rate in latest move

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By Nelson Banyana

HARARE , March 11 (Reuters) - Zimbabwe will adopt a "managed float" exchange rate regime, Finance Minister Mthuli Ncube said on Wednesday, abandoning strict control of foreign exchange by the central bank in the latest in a series of currency reforms that have so far failed.

The country, which has seen bouts of hyperinflation since 2008, has taken steps to ease its heavy reliance on the U.S. dollar, part of a raft of economic reforms by President Emmerson Mnangagwa, who replaced longtime leader Robert Mugabe after an army coup in 2017.

Last June it made its interim currency the country's sole legal tender, ending a decade of dollarisation and taking another step towards relaunching the Zimbabwean dollar.

The central bank has controlled the interbank forex trading market, which was introduced in February 2019.

The latest move will see banks take a bigger role in foreign currency trades, narrowing the gap with the unofficial market by allowing trade on a more transparent platform.

On Wednesday, the Zimbabwe dollar was trading at 18.26 against the U.S. dollar on the official interbank market and at around 40 to the greenback on the black market.

"Zimbabwe has had no transparent and effective foreign exchange trading platform for a long time. Consequently, official rates have not been effectively determined, while a thriving parallel market has developed," Finance Minister Ncube told reporters in Harare.

He said an electronic forex trading platform was being put in place immediately.

"This platform will allow foreign exchange to be traded freely among banks and permit a true market exchange rate to be determined."

Economic analyst Batanai Matsika of securities firm Morgan & Co described the policy shift as a desperate measure.

"This demonstrates the desperation of the authorities to deal with the widening gap between the official and parallel market exchange rates," Matsika said.

"But it does not address the fundamental issue, which is the supply of forex. In a managed float, you need reserves to intervene in the market. The government does not have that. We do not even have three months' import cover."

Economic commentator Brains Muchemwa said the latest policy might not succeed in stabilising the exchange rate if the government did not maintain fiscal discipline.

Ncube insisted that the government had managed to control its spending and had a fiscal surplus of 3.1 billion Zimbabwean dollars (\$172 million) at the end of February. Last month the International Monetary Fund (IMF) warned that delays by Zimbabwe in implementing foreign exchange and monetary reforms risked undermining the new currency and the government's reengagement internationally on debt arrears.

On Wednesday, Ncube also announced a new taskforce, which he will chair, to implement policy reforms aimed at stabilising the exchange rate and curbing inflation, which reached 521% at the end of 2019, according to the IMF.

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GLOBAL

High-yield default rate could hit 9.7% in 'pessimistic' virus scenario

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LONDON, March 12 (Reuters) - Credit ratings firm Moody's said the high-yield corporate bond default rate could spike to 9.7% - topping 2002 levels - in its worst-case scenario regarding the coronavirus outbreak. Moody's also raised its "baseline" global default rate projection for the end of the year - the scenario it deems most likely - by 0.2 percentage points to 3.6%. It cited slow global economic growth, low commodity prices and volatile markets.

The firm said its revised baseline projection "reflects our view that financial and growth conditions will weaken with the spread of the coronavirus outbreak in the next few months".

"The new forecasts assume a material increase in the U.S. high-yield spread in the coming two quarters before easing somewhat thereafter," Moody's said in its latest global monthly default report.

"In our pessimistic scenario, we assume the high-yield spread rising to 1,280 basis points (bps) and the global speculative-grade default rate increasing to 9.7%," it added.

"Such a default rate, if realized, would be comparable to the peak of 9.6% in 2002 but lower than the peak of 13.4% during the global financial crisis."

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