Emerging Sovereign Debt Markets NEWS

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Nigeria overnight rate drops to 20 percent as cash squeeze bites

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South Africa to woo investors at IMF meetings

Zambia

IMF says Zambia public debt rising at unsustainable pace

EMERGING MARKET

Emerging market debt to GDP declines for first time since 2011

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ASIA

Bahrain

Fitch: Rising Bahrain Debt Costs Add to Fiscal Pressures

11-Oct-2017

LONDON, October 11 (Fitch) External borrowing to meet government financing needs is increasing pressure on Bahrain’s budget, Fitch Ratings says. We forecast annual interest costs to rise 46% from 2017 to 2019, highlighting Bahrain’s vulnerability to rising global interest rates.

September’s three tranche issuance of sukuk, 12-year and 30-year bonds raised USD3 billion and completes the Bahrain government’s external financing needs for this year, coming after the USD600 million tap of its 2028 bond in February and almost BHD165 million (USD440 million) of net new local issuance in the first eight months of 2017.

We now forecast the Bahrain government’s 2017 total net financing requirement (which corresponds to the fiscal deficit) at nearly USD4.5 billion, with the remainder of around USD500 million likely to be met through more domestic issuance and some use of the government’s cash reserves.

Our revised oil price forecasts in our latest Global Economic Outlook, and the passage of the 2017/2018 budget, mean we now forecast a similar government financing requirement in 2018 and only a marginal decline in 2019, to USD4.3 billion.

An increase in debt coming due will add to total issuance. Medium- and long-term debt maturities in 2019 will rise to USD1.8 billion and short-term maturities to USD6.5 billion, both increases of around 38% relative to 2017.

Rising government interest payments are taking a toll on Bahrain’s budget. Last year’s USD250 million increase in annual interest costs almost completely offset reductions in subsidy and capital spending. We see the annual interest burden (on both local and foreign government debt) rising to USD1.8 billion in 2019 from USD1.2 billion this year, reflecting rising debt and higher rates. Interest costs will exceed 20% of revenues, well above the ‘BB’ median.

We expect the government deficit (including extra-budgetary spending) to fall to 12.8% of GDP in 2017 from 16% as oil revenues rise and subsidy and price reforms feed through to GDP in

The absence of a comprehensive medium-term strategy to tackle high deficits and rising debt was a key driver of our revision of the Outlook on Bahrain’s 'BB+' Long-Term Foreign Currency Issuer Default Rating to Negative from Stable in June. Since then, the authorities have passed the two-year budget for 2017 and 2018, which projects that revenue will rise 25% and spending just 4% over the two-year period.
China fin min says upcoming dollar debt sale to consist of $1 bln of 5-yr bonds, $1 bln of 10-yr bonds
11-Oct-2017
BEIJING, Oct 11 (Reuters) - China's finance ministry on Wednesday said its planned $2 billion dollar-denominated sovereign bond issue will consist of $1 billion of five-year bonds and $1 billion of 10-year bonds. The Ministry of Finance in June announced the planned $2 billion bond issue, which will take place in Hong Kong, and said the bonds would be sold in the second half of this year. The finance ministry on Wednesday said it would announce the issue date for the bonds later. IFR said previously that the sale will be China's first dollar bond offering since October 2004.

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Global investors raise China bond holdings the most in a year in Sept despite yuan drop
11-Oct-2017
SHANGHAI, Oct 11 (Reuters) - Offshore institutions increased their holdings of Chinese bonds for a seventh consecutive month in September, indicating resilient overseas demand for the securities despite a weakening yuan. Holdings of all forms of Chinese bonds held by offshore investors and cleared by China Central Depository and Clearing Co (CCDC) rose by 38.7 billion yuan ($5.89 billion) in September, to 896 billion yuan, according to Reuters calculations based data from the clearing house. It was the largest increase in holdings by offshore investors since September 2016, and contrasted with a 1.7 trillion yuan decrease in overall Chinese bond holdings by all investors. "Regulatory tightening forces domestic institutions to deleverage and stock up on cash. Currently, short-term rates are high, so repos are better investments than bonds," said a Shanghai-based trader at an asset-management company, explaining why domestic investors had unloaded bonds in September. Market observers have pointed to strong gains in the yuan, as well as high yields, to help explain offshore interest in Chinese bonds in recent months. By early September, the yuan had gained 7.5 percent against the dollar year-to-date, but authorities allowed it to pull back a bit later in the month, possibly out of concerns that its rapid run-up could hurt exporters. The rise in foreign holdings in September came despite the Chinese currency losing about 1 percent of its value against the U.S. dollar over the month, its weakest monthly performance in percentage terms since November 2016. However, the attraction of China's bond market increasingly outweighs "tactical" factors such as currency fluctuations, said Frederic Neumann, co-head of Asian Economics Research at HSBC in Hong Kong. "Partly ... because of low yields elsewhere in the world, Chinese yields look attractive. But also because China is too big to ignore as an asset market," he said. "If you're a big money manager, you need to take China's bond market seriously." CCDC did not release a breakdown for September of foreign holdings by bond type, which it had done in previous months. Previous months' data showed foreign holdings concentrated in government and policy-bank bonds.

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China to issue 2 billion USD-denominated sovereign bonds in HK
12-Oct-2017
BEIJING, Oct. 12 (Xinhua) -- Chinese Ministry of Finance (MOF) said Wednesday it plans to issue U.S. dollar-denominated sovereign bonds worth two billion dollars in Hong Kong, the first such sale in 13 years. The ministry is preparing to sell one billion U.S. dollars' worth of five-year notes and one billion in 10-year notes in the near future, the ministry said. The specific date will be released ahead of the issuance, the MOF added. This is the first time that the MOF will issue dollar-denominated sovereign bonds in Hong Kong, which will offer a pricing benchmark for mainland businesses' bond sales overseas, according to Shen Jianguang, chief economist with Mizuho Securities Asia Limited.
The sovereign bonds will be listed and traded at the Stock Exchange of Hong Kong Limited after the official launch. This will also be China's first U.S.-dollar sovereign bond sale since October 2004, when the country raised a total of 1.7 billion U.S. dollars by issuing dollar- and euro-denominated bonds with maturities of five and ten years. The Chinese currency, the yuan, has appreciated more than 5 percent against the U.S. dollar since the beginning of the year. Enditem

Emirate of Abu Dhabi

Abu Dhabi says $10 billion bond three times oversubscribed

11-Oct-2017

Abu Dhabi's US$10bn bond sale was three times oversubscribed with more than 75 per cent of the orders coming from investors in developed markets, where bond yields are relatively low.

"The strong reception of the offering in the international debt capital markets is a clear testament to Abu Dhabi's solid and strong credit story," said Riyad Abdulrahman Al Mubarak, the chairman of the Department of Finance. "As we look ahead, we will continue to prudently manage our indebtedness levels, which are currently one of the lowest globally."

The issue, scheduled to settle on October 11, is Abu Dhabi's second foray into the international debt market in less than two years. The emirate, which accounts for about 6 per cent of the world's proven oil reserves, last tapped the market with a $5bn in April 2016. Abu Dhabi, like its GCC peers is seeking to diversify its sources of funding amid lower oil prices.

Saudi Arabia, Opec's biggest oil producer, also secured $12.5bn from its second bond sale this year. Oman, Qatar, Bahrain and Kuwait have shored up their finances through domestic and international bond deals over the last two years. The Abu Dhabi takes bond deals from the Middle East and North Africa to a record $89 billion this year, according to data compiled by Bloomberg. The Abu Dhabi sale, which attracted about 500 orders worth $30bn , was 78 per cent allocated to foreign investors with the remaining 22 per cent going to investors from the Middle East.

Bank of America Merrill Lynch, Citigroup, First Abu Dhabi Bank, HSBC and JP Morgan were joint lead managers and bookrunners. Abu Dhabi Commercial Bank and Union National Bank were the co-lead managers.

The bonds were sold in three tranches. The first 2.5 per cent $3bn tranche that matures in 2024 was sold at 130 basis points above treasuries. The second 3.125 per cent $4bn tranche that matures in 2027 was priced at 85 basis points over the US benchmark, while the third $3bn tranche offering 4.125 per cent which matures in 2047 was sold at 130 basis points above treasuries.

In terms of the geographical spread of the foreign investors, the US took the lion's share if the paper with American buyers making up 41 per cent of those who purchased the 5-year bond, 31 per cent of the 10-year bonds, and 47 per cent of the 30-year bonds.

Fund managers were the biggest buyer of the bonds, followed by banks and private banks, according to the Department of Finance. Investors from developed markets like the US and Europe are particularly interested in emerging market dollar bonds from highly rated states like Abu Dhabi because of the low yields they get on bonds issued in their domestic markets.

"We are pleased to witness investors' high confidence in the Emirate's fundamentals – namely, our wise leadership, focused growth strategy and high buffers. These strengths have collectively created a diverse, robust and sustainable economy."

The National/Gulf base

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India

India Bonds Steady Amid Value Buying; Debt Supply Weighs

09-Oct-2017

By Dharam Dhutia

News Rise

MUMBAI (Oct 09) -- Indian government bonds were little changed in early session as some investors increased purchases after the benchmark yield rose by nine basis points last week.

However, underlying sentiment remained negative amid a rise in U.S. Treasury yields, while heavy supply of notes in the local market will further weigh on demand, traders said.

The benchmark 6.79% bond maturing in 2027 was last traded at 100.23 rupees, yielding 6.76%, at 10:00 a.m. in Mumbai, against 100.22 rupees at the previous close. It had earlier hit an intra-day low of 100.18, the lowest since its issuance on May 12.

"There is some buying over 6.75%, but we may not see any major rally as the fundamentals are negative," said a trader with a primary dealership. "As the week progresses, bonds may further weaken due to the supply."

Bond yields had risen sharply, with the benchmark yield rising by nine basis points, its largest weekly advance since the week ended Apr. 21 after the Monetary Policy Committee held the policy rate at 6% as expected. The MPC raised its inflation projection, hurting expectations of a near-term rate cut.

The Reserve Bank of India Governor and MPC Chairman Urjit Patel said the central bank will...
need to watch inflation trajectory over the next six to seven months. The MPC said that inflation is expected to rise from its current level and range between 4.2%-4.6% in the second half of this year, against the earlier projection of 4%-4.5% released in August. The central bank is mandated to keep retail inflation at 4% with a band of two percentage points on either side. Market was also cautious as U.S. Treasury yields rose as traders expect a December rate hike by the Fed. The 10-year yield ended at 2.37%, its highest since Jul. 10, on Oct. 6. Interest rate future traders have now assigned over 93% probability for a rate hike in December, according to CME FedWatch tool. Meanwhile, data showed U.S. non-farm payrolls decreased by 33,000 jobs in September against expectations of a rise by 90,000. However, unemployment rate hit a more-than-16-year low of 4.2%, and annual wage growth accelerated to 2.9%.

Heavy supply in the local market will put pressure on bond prices. India is scheduled to borrow 150 billion rupees by selling bonds on Oct. 12. The government borrowed 140 billion rupees instead of an earlier plan to raise 150 billion rupees through a similar auction on Oct. 6, while it exercised the greenshoe option to retain additional amount in 2031 security. Indian states will borrow around 1.29 trillion rupee in October-December against 1.13 trillion rupees in July-September, according to the borrowing calendar published by the Reserve Bank of India. Eleven states will raise at least 104.70 billion rupees tomorrow. The central bank will also sell bonds worth 100 billion rupees under open market sale on Oct. 12. This would be its seventh such auction in this fiscal. It has already sold notes under OMO worth 600 billion rupees so far.

The benchmark Brent crude oil contract was at $55.77 per barrel against $55.62 per barrel in the previous session.

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**India's Benchmark Bond May See Strong Bids At Debt Sale**

13-Oct-2017
By Dharam Dutia
News Rise
MUMBAI (Oct 13) -- India’s weekly debt auction likely to see strong demand from all segments of market participants after lower-than-expected September inflation print boosts sentiment and as traders will look to cover short positions. RBI auctioning four government notes worth INR150 billion today including INR80 billion of benchmark. Other notes include floating rate bond maturing in 2024, 7.73% 2034 and 7.06% 2046. "We will see strong demand today and cutoff is likely to be around market levels," says dealer at state-run bank. "If some large player or state-run banks corner the benchmark, there will be a rally after the result," he adds. Benchmark note cutoff seen in INR100.42 - INR100.46 band; now at INR100.46, yielding 6.72%, against INR100.25 previous close.

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**Lebanon**

Lebanon passes disputed tax hikes to fund public sector pay rise

09-Oct-2017
• Tax increases passed after legal challenge
• PM says hikes necessary to fund public sector pay rise
• No "substantive amendments” to law - official
• Party leader says intends to challenge law again

By Lisa Barrington
BEIRUT, Oct 9 (Reuters) - Lebanon’s parliament approved contentious taxes needed to finance a public sector pay rise on Monday and Prime Minister Saad al-Hariri warned the alternative was a collapse of the Lebanese pound in six months.

"Without taxes it would have been better in popular terms, but six months later the lira would have collapsed," Hariri said after the parliament session.

"If we carried out the (public sector salary law) without revenues it would be a disaster for the country."

Lebanon has a debt-to-GDP ratio of 148 percent, one of the highest in the world, and recorded a fiscal deficit of $4.9 billion last year.

Parliament approved a $917 million rise in public sector salaries and a series of tax increases to fund it in July.

Despite objections from business and some political groups, President Michel Aoun ratified the laws in late August and people have since begun receiving increased salaries. But in September the constitutional council annulled the tax law after a political party brought a legal challenge and the council referred it back to parliament for amendments. A Lebanese official told Reuters the taxes approved on Monday remained “mostly as they were before being challenged in the Constitutional Council and do not contain any substantive amendments”.

A key argument of those opposing increased taxes is that the Lebanese government offers little in return.
The country's infrastructure has been awaiting repair since the 15-year civil war ended in 1990 - roads are clogged with cars, beaches are littered with waste, internet links are slow or patchy and cuts to power and water supplies are frequent.

**ANOTHER CHALLENGE?**
Sami Gemeyal, leader of the Christian Kataeb party which filed an appeal against the earlier version of the law, said it would do all it could to challenge it again.

"We will study it and see if it is possible to contest the law at the constitutional council," said Gemeyal. Kataeb is the only major political party not part of Lebanon's coalition government.

Lebanon expects to hold a general election next year and the public sector pay rises have proved a popular move.

But the business community has warned higher taxes could damage Lebanon's fragile economy, which has been battered by conflict in neighbouring Syria. Growth fell from 8-9 percent to below 2 percent after war began in 2011.

Business leaders say Lebanon instead needs better tax collection, a credible economic plan and a budget to be passed for the first time since 2005.

**CONTENTIOUS**
The banking sector, the cornerstone of Lebanon's economy, objected strongly to the law.

The changes raised corporation tax to 17 percent from 15 percent and also applies taxes on bank transactions in a way bankers say amounts to double taxation.

The effective tax rate on banks currently stands at around 15 percent, but would rise to around 50 percent if the proposed tax changes are enacted. Freddie Baz, Group Strategy Director of Bank Audi and board member of the Association of Banks in Lebanon (ABL) lobby group, told Reuters.

The laws have provoked a number of street protests, with people asking for pay rises and also protesting hikes which raised value-added tax (VAT) by 1 percentage point to 11 percent.

The head of Lebanon's General Labour Union Beshara al-Asmar said before the vote on Monday there would be a "complete strike" which would ground the country to a halt if positive results were not achieved.

(Reporting by Lisa Barrington, Laila Bassam and Ellen Francis; Editing by Mark Heinrich)

Qatar

Qatar discussing idea of dollar bond with market, no decision
09-Oct-2017
By Davide Barbucia

DUBAI, Oct 9 (Reuters) - Qatar has been discussing with banks the idea of issuing an international bond this year, but no decision has been made yet, a Qatari finance ministry official told Reuters on Monday.

Regional and international commercial bankers confirmed that the Qatari government had been asking banks how a potential dollar bond issue might be received by the market.

They said discussions were in the nature of regular contacts which many governments maintain with the market to gauge their fundraising options, rather than preparatory talks for an issue.

Qatar issued a $9 billion bond in June last year with maturities of five, 10 and 30 years. The bonds were yielding 2.9 percent, 3.5 percent and 4.4 percent respectively on Monday, Thomson Reuters data showed.

But the country's access to the international bond market has been complicated by the decision of Saudi Arabia, the United Arab Emirates, Bahrain and Egypt to cut diplomatic and transport ties with Qatar in June this year.

The four states accused Doha of supporting terrorism, which Doha denies.

"Logic would dictate that the government would have to pay some premium" for the current political uncertainty, said a debt capital markets banker at a Qatari bank.

"The investor base that they had in 2016 would not be the same - some accounts would not be there for sure, but global demand for Middle East high," he added.

Qatar’s potential deal would follow Saudi Arabia’s $12.5 billion bond in September and Abu Dhabi’s $10 billion bond earlier this month. Both the deals were heavily oversubscribed, receiving a combined demand of around $70 billion.

Given the high level of global demand, Qatar might only pay a premium of as much as 10 basis points over its last issue, a banker at an international bank said.

Qatar’s international reserves and foreign currency liquidity fell sharply after the sanctions were imposed, but partially rebounded in August, official data showed last week.

Bankers said this may have been the result of a liquidity injection into the reserves by Qatar’s sovereign wealth fund, which has enough money to support the balance of payments for years.

(Additional reporting by Tom Arnold in Dubai and Sudip Roy in London; Editing by Andrew Torchia/Jeremy Gaunt)

Boycotted Qatar plans to raise at least $9bn through bond sale
09-Oct-2017
Qatar is considering raising at least $9bn from international bond markets as the gas-rich nation boycotted by its neighbours seeks to...
replenish state coffers, people familiar with the matter said.

Government officials are in talks with banks to decide on the best time for a possible sale, the people said, declining to be identified because the talks are private. The bond is likely to be in line with or more than Qatar's last issuance of $9bn in 2016, they said.

The finance ministry and government communications office didn't respond to requests for comment.

Qatar will target investors in Asia, the US and Europe to make up for a shortfall of regional investors, the people said. Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut diplomatic relations and closed transport routes with Qatar on 5 June, accusing it of funding terrorism, a charge it denies. Some banks in those countries have since cut their exposure to Qatar.

"Investor interest for Qatar exposure from within the region will be subdued," said Doug Bitcon, Dubai-based head of credit strategies at Rasmala Investment Bank. "However, there will be demand from international investors out of the US, Europe and Asia, particularly if an attractive new issue premium is on offer."

The world's largest exporter of liquefied natural gas, like other oil-exporting countries across the region, is using international debt markets to bolster public budgets since energy markets slumped. Abu Dhabi raised $10bn last week, shortly after Saudi Arabia sold $12.5bn of bonds.

The Saudi-led boycott is weighing on the Qatari economy, with economists expecting gross domestic product to grow at the slowest pace since 1995. The country is also preparing to host the 2022 football World Cup and is spending $200bn to build infrastructure.

Bloomberg
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Saudi Arabia

Saudi balances recession, deficit in tough decision on energy reform

09-Oct-2017
• Saudi aimed to hike energy prices around mid-2017
• But economic growth has been slower than expected
• Decision on timing expected by end-October
• Some reforms may be delayed into 2018
• Riyadh still preparing household payments to ease impact

By Reem Shamseddine and Andrew Torchia
KHOBAR, Saudi Arabia/DUBAI, Oct 9 (Reuters) - Saudi Arabia is expected to decide by the end of this month on the timing of domestic fuel and electricity price hikes that could risk pushing the economy further into recession, sources familiar with the matter told Reuters.

The dilemma over energy prices shows economic reforms, designed to eliminate a huge state budget deficit caused by low oil prices while weaning the economy off dependence on oil exports, are running into a difficult phase.

Austerity steps so far, including an initial round of energy price hikes announced in December 2015, have begun to reduce the deficit. But this has come at a high cost to the economy: data last week showed Saudi Arabia in recession during the second quarter, and unemployment among Saudis at 12.8 percent.

That means further austerity will be hard to introduce without risking a sharp economic slowdown which would deter the private investment that the reforms aim to attract. A prolonged recession could turn public sentiment against reforms.

A government official said Riyadh was delaying a decision on energy prices until it had finished designing a system of cash payments to lower- and middle-income households, which would partially compensate citizens for the pain of austerity.

"There are still some discussions over who is going to be compensated and who is not," he said. "The government has to consider the implications of higher taxes and ways to mitigate risks for both gross domestic product growth and the budget."

DELAY

At the end of 2016, officials indicated rises in heavily subsidised energy prices would occur around mid-2017. Along with water price reforms, the changes would save the government 29 billion riyals ($7.7 billion) in 2017, according to a long-term fiscal plan which Riyadh released in December.

But since then, the economy has slowed more than expected. The non-oil sector expanded only 0.6 percent year-on-year in the second quarter, casting doubt on the International Monetary Fund's forecast of 1.7 percent non-oil growth this year.

The economy's weakness has already caused Riyadh to partially reverse one austerity step: this year it restored financial allowances for civil servants that it had abolished last year, although it is now disbursing allowances much less generously than previously.

The timing of energy price increases may be another casualty of the recession. Although some sources said they still expected hikes to occur this year, others said they could be delayed into 2018.

One thing which could force a delay is the government's plan to introduce a 5 percent value-added tax in January. The tax will hit domestic demand; if it is closely preceded by fuel price hikes, the impact could be severe.

Energy Minister Khalid al-Falih implied last week that the hikes were still on the cards for 2017, telling a Moscow conference: "We in Saudi Arabia are putting a lot of emphasis on energy efficiency. We will be reforming our energy prices in due course this year..."

Major Saudi newspaper Okaz, quoting

KSA:

"In the next stage, the government is considering extending the tax to all value added on services and commodities, and its impact on energy price hikes should not be underestimated."

The timing of energy price increases may be another casualty of the recession. Although some sources said they still expected hikes to occur this year, others said they could be delayed into 2018.
anonymous sources, reported last month that gasoline prices would rise 80 percent by end-November, with 95 octane climbing to 43 U.S. cents a litre. Even then, Saudi prices would remain among the lowest in the world. Sources said that hike was not set in stone, however. The IMF has been urging Riyadh to delay fuel price rises to protect the economy; it said last week that Saudi officials were not yet convinced, but were reconsidering the speed of austerity steps. "The authorities indicated that they were considering the appropriate pace of fiscal adjustment given the weak growth," the IMF said. Even if gasoline prices rise sharply, other energy reforms may be watered down or delayed. Diesel prices - key for Saudi Arabia's fleet of trucks - would increase only moderately, and prices of jet fuel would be raised only cautiously for fear of hurting the aviation industry, the sources said. Under the fiscal plan, Riyadh intended to raise electricity prices for households this year. It is not clear if this will occur in 2017, however, partly because electricity prices are linked to restructuring and partial privatisation of utility Saudi Electricity Co, still under consideration. The government's plan to sell shares in oil giant Saudi Aramco by the end of 2018 may limit any delays to energy reforms. Riyadh is keen to get a high valuation for the company - officials have talked of at least $2 trillion - and investors will want to see the new structure of energy price regulation before committing themselves.

(Reporting by Andrew Torchia; Editing by Richard Balmforth)

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South Korea

South Korea's forex reserves slip for first time in 7 months in Sept

11-Oct-2017

SEOUL, Oct 12 (Reuters) - South Korea's foreign exchange reserves edged down for the first time in seven months in September to $384.67 billion, the central bank said on Thursday, as the U.S. dollar strengthened in global markets. Total foreign exchange reserves held by the Bank of Korea (BOK) fell by $170 million in September, from $384.84 billion a month earlier. The BOK said the broader strengthening of the dollar lowered the value of the assets held in other currencies including euro and yen when converted into dollars. South Korea had the world's ninth-largest foreign exchange reserves as of end-August.

(Reporting by Dahee Kim; Editing by Anrutha Gayathri)

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Fitch Affirms Korea at 'AA-'; Outlook Stable

12-Oct-2017

HONG KONG, October 11 (Fitch) Fitch Ratings has affirmed Korea's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Fitch's affirmation of Korea's sovereign ratings with a Stable Outlook balances robust external finances and a strong macroeconomic performance with geopolitical risk related to the tense relationship with North Korea and longer-run challenges of rapid population ageing and low productivity.

Geopolitical risk resulting from the longstanding standoff on the Korean peninsula continues to weigh on the rating. The heightened tensions over North Korea's nuclear weapons program and the escalated rhetoric from both North Korea and the US imply an increased risk that confrontation could be triggered by an unexpected event or miscalculation. Even in the absence of outright conflict, the tensions also have the potential to negatively affect the South Korean economy if currently strong business and consumer sentiment start to worsen or if exports weaken as a result of a deterioration in trade relations between the US and Korea's main trade partner, China.

Affirmation of the ratings, nonetheless, is in line with Fitch's belief that an outright war on the Korean peninsula will be averted. While the current level of tensions is high, strains on the Korean peninsula are not new, and have followed a familiar pattern of rise-and-fall cycles in the past. In Fitch's view, it remains important to differentiate between the recent escalation of missile testing and aggressive rhetoric on the one hand, and the likelihood of war on the other. The geopolitical risk to South Korea's sovereign balance sheet relates not only to the potential for conflict, but to a long-term scenario of reunification as well. An assessment of the potential impact of reunification would depend heavily on the assumptions made, for instance about the policy measures taken to rein in spending, and possible foreign financial contributions. Reunification would not be only a cost for the sovereign but would also provide opportunities in terms of political stability and relatively cheap labour during a transition period of integration for manufacturing export-led growth.

Korea's macro performance continues to be strong compared with many of its peers. Fitch expects GDP growth to be close to potential at 2.7% for 2017, 2.8% for 2018 and 2.6% for...
2019. Exports of Korean semiconductors support economic activity, even though the high import component of this sector limits the net contribution to growth. However, exports in other sectors, such as the car industry, continue to lag. Domestic demand is expected to support growth after a long period of political uncertainty ended with the election of President Moon Jae-in in May 2017.

The new administration’s economic policy focus on job creation and income-led growth is likely to strengthen demand. The government is planning new supply-side policies to strengthen innovation and create a better level-playing field between the large conglomerates (chaebol) and SMEs. However, the extent to which these measures will improve Korea’s relatively low productivity depends on the details, which are in the process of being developed. Some measures, eg an increase in government jobs and subsidies to SMEs, do not necessarily point to enhanced productivity.

Reforms to increase transparency and encourage greater separation between the government and the corporate sector could improve governance standards, and hence support Korea’s credit profile. Broad public support for change in this regard suggests good prospects for progress. In the meantime, the close ties between business and politics that became apparent in the recent political crisis that culminated in the removal of President Park Geun-hye in March 2017 illustrate Korea’s relatively weak governance standards compared with its peers, as well as a weaker score (72nd percentile) for the World Bank’s governance indicator than the ‘AA’ median (80th).

Korea’s robust external finances form a clear rating strength and are indicated by persistent current-account surpluses since 1998, foreign exchange reserves at 7.3 months of current-account receipts (versus a median of 3.5 months for sovereigns rated in the ‘AA’ category) and a net external creditor position, even though net external assets of 29.4% of GDP are slightly lower than the ‘AA’ median of 32.1%.

The government’s targeted slight fiscal easing in the coming few years does not significantly alter the neutral impact of the fiscal finances on Korea’s credit profile. The general government debt of 39.2% of GDP, as forecast by Fitch for 2017, is marginally below the ‘AA’ median of 42.3%. In the absence of policy measures, a fiscal deterioration could be expected in the longer run as a result of the challenging demographics. In this light, parliament will discuss draft legislation aiming to set out clear fiscal policy rules, including ceilings for the deficit (3% of GDP, excluding social security funds) and the debt burden (45% of GDP).

Implicit contingent liabilities are significant, as the debt of state-owned enterprises amounts to 21% of GDP (excluding debt owed to the government), although it has gradually declined from 24.8% in 2012.

Inflation reached a five-year high in August, at 2.6% yoy, largely driven by increased prices of fresh vegetables and electricity. These effects proved temporary, and inflation fell back to close to the Bank of Korea’s 2% inflation target in September. Core inflation, a better gauge of demand-pull pressures in the economy, remains quite muted at around 1.5%, which should allow the Bank of Korea to retain an accommodative bias. We expect the central bank to start tightening cautiously before the end of 2018. The Bank of Korea may decide to hike earlier in case of strong capital outflows, for instance related to stronger Fed tightening than expected by the market or an increase in geopolitical risk. Household debt is high (96.5% of the rolling four-quarter GDP in 2Q17) and rising fast (11.4pp of GDP in just three years). This dampens households’ propensity to consume and increases Korea’s vulnerability to shocks, although household assets are also relatively high, which mitigates the risk to financial stability and the economy.

Korea’s expected per capita income at USD29,050 in 2017 is one of the lowest in the ‘AA’ category and well below the ‘AA’ median of USD41,375. However, its broader level of development is higher than income levels would suggest and its business environment is generally strong, as indicated by its fifth position out of 190 countries in the World Bank’s ranking for Ease of Doing Business.

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

Fitch’s proprietary SRM assigns Korea a score equivalent to a rating of ‘AA’ on the Long-Term Foreign-Currency (LT FC) IDR scale. Fitch’s sovereign rating committee adjusted the output from the SRM to arrive at the final LT FC IDR by applying its QO, relative to rated peers, as follows:

- Structural Features: -1 notch, to reflect ongoing geopolitical risk related to the tense relationship with North Korea.
- 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 LT FC IDR. Fitch’s QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

RATING SENSITIVITIES

The main factors that, individually or collectively, could trigger negative rating action are:

- Significant escalation of tensions on the Korean peninsula that would severely worsen Korea’s economic metrics or the level of security
- An unexpected large rise in the public-sector debt burden caused by a deviation from the current prudent fiscal-policy framework or crystallisation of contingent liabilities
- Evidence that medium-term GDP growth will be structurally lower than expected, potentially reflecting challenges for Korea’s economic model
The main factors that, individually or collectively, could trigger positive rating action are:
- A structural easing of geopolitical risk to levels more in line with rating peers
- Implementation of a convincing strategy to improve overall debt dynamics for the government and state-linked enterprises
- Evidence that the economy can grow at a relatively high rate over time without deterioration in the aggregate household balance sheet, for instance resulting from enhanced governance standards or successful reform implementation that would spur productivity growth

KEY ASSUMPTIONS
The global economy performs broadly in line with Fitch’s Global Economic Outlook (September 2017).

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Taiwan

Fitch Affirms Taiwan at 'AA-'; Outlook Stable
11-Oct-2017
HONG KONG, October 11 (Fitch) Fitch Ratings has affirmed Taiwan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook.

A full list of rating action is at the end of this commentary.

KEY RATING DRIVERS
Taiwan’s ratings are supported by its exceptionally strong external finances, credible policy framework, supportive business environment and high governance standards as measured in international surveys. The ratings are constrained by high GDP volatility, per capita income of USD23,573 that falls below the 'AA' category median of USD41,375 and complex relations with mainland China that raise the potential for economic and political shocks.

The strength of Taiwan’s external finances is exemplified by its status as the eighth-largest net external creditor among Fitch-rated sovereigns (188% of GDP), large foreign reserve holdings and a more than 30-year track record of current-account surpluses despite numerous external shocks. The current account balance was recorded at 13.6% of GDP in 2016, and we expect a similar outcome in 2017. Foreign-reserve buffers are projected by Fitch to remain sizeable at 15.7x current high external payments at end-2017, the fourth highest globally and well above the 'AA' and 'A' category medians of 3.5x and 4.9x, respectively.

Fiscal policy has become more expansionary, but Fitch expects budget deficits to remain in line with the 'AA' category median of 1.3% of GDP.

The agency projects Taiwan’s general government deficit will rise to 1.2% of GDP by 2018, up from 0.7% in 2017, due to higher capital expenditure associated with the government’s recently approved TWD420 billion infrastructure stimulus programme. The four-year programme aims to spur domestic demand and promote industrial reform and will increase expenditure by approximately 0.5% of GDP per year through 2021. Other proposed fiscal policy changes, including amendments to individual and corporate tax rates, appear broadly revenue neutral.

Fitch forecasts gross general government debt (GGGD) to rise by 0.3pp to 42.4% of GDP in 2017, a level consistent with the 'AA' category median of 42.3%. Our baseline forecasts suggest GGGD/GDP will remain broadly stable through to at least 2020, assuming GDP growth is 2% and the primary deficit remains below 0.7% of GDP. Taiwan’s medium-term fiscal discipline is anchored through various policy measures, including a public-debt ceiling of 50% of GDP enshrined in the Public Debt Act and a more recent fiscal rule that limits the growth rate of public debt to the three-year average nominal GDP growth rate.

Growth momentum has improved, but remains lower and more volatile than for 'AA' category peers. Fitch forecasts GDP growth to accelerate to 2.1% in 2017, from 1.5% in 2016, as an improvement in global trade volumes and strong growth in mainland China have had a positive spill over on Taiwan’s export-oriented industrial sector. Net exports contributed 0.9pp to overall growth in 2Q17, compared with a negative contribution of -0.4pp in 2016; a development also reflected in a notable rebound in export orders this year. Fitch expects growth to average approximately 2% over 2018-19, a view that balances the recent shift towards a more supportive fiscal policy with ongoing headwinds to private consumption from Taiwan’s high household debt burden and adverse demographic profile.

The central bank left its discount rate unchanged at 1.375% during its late-September 2017 board meeting, citing uncertainties over the global economic outlook, subdued price pressures (CPI has averaged 0.7% year-to-date) and soft domestic demand. Fitch expects monetary policy to remain accommodative through 2018, despite the improved growth momentum, given our benign inflation outlook and the central bank’s own assessment that the economy continues to perform below potential.

Fitch sees Taiwan’s large banking sector as a risk to its sovereign balance sheet, illustrated by the fact that the average stand-alone rating of Fitch-rated banks (‘bbb’) falls two rating categories below the sovereign. Nevertheless, asset quality and capitalisation remain strong. Impaired loans remained at a low 1.2% of total loans as of end-1H17. The weighted-average capital adequacy ratio of 13.3% at end-2Q17 is below the ‘AA’ category median of 16.4%, but we expect it will rise ahead of the full phase-in
of Basel III requirements at end-2018. The banking sector is also liquid and predominantly deposit-funded. Fitch estimates the mainland China exposure of Taiwanese banks at 6.2% of system assets at end-2016, down from a peak of 8.4% in 2014 and well below other regional banking systems, including Macao (33%), Hong Kong (30%) and Singapore (14%). Cross-strait relations remain frayed since President Tsai Ing-wen took office in May 2016. President Tsai has continued to reiterate the government’s desire to maintain peace and stability in cross-strait relations, but her refusal to accept the so-called "1992 Consensus" basis of "one China, with respective interpretations" prompted Beijing to suspend high-level communications between the two governments and has also triggered a 34% decline in mainland Chinese tourists. Critical trade and investment linkages nevertheless remain unaffected, underscored by the 21% rebound in Taiwan exports to mainland China during the first eight months of 2017. Fitch believes a significant deterioration in cross-strait relations over the next two to three years is unlikely, given that status-quo relations are favoured by the majority of Taiwan's population.

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

Fitch's proprietary SRM assigns Taiwan a score equivalent to a rating of 'AA' on the Long-Term Foreign-Currency IDR scale. Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final Long-Term Foreign-Currency IDR by applying its QO, relative to rated peers, as follows:

- Structural Features: -1 notch to reflect complex relations with mainland China that raise the potential for economic and political shocks.
- 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 Long-Term Foreign-Currency IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable or not fully reflected in the SRM.

RATING SENSITIVITIES

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

- An adverse macroeconomic or financial shock that weakens medium-term growth prospects and negatively affects public-debt dynamics, such as a hard landing in mainland China.
- A deterioration in cross-strait relations sufficient to undermine Taiwan's basic economic stability.

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

- A return to high economic growth that brings per capita income closer in line with peers.

KEY ASSUMPTIONS

- The global economy performs broadly in line with Fitch's latest Global Economic Outlook.

The full list of rating actions is as follows:

- Long-Term Foreign-Currency IDR affirmed at 'AA-'; Outlook Stable
- Long-Term Local-Currency IDR affirmed at 'AA-'; Outlook Stable
- Short-Term Foreign-Currency IDR affirmed at 'F1+'
- Short-Term Local-Currency IDR affirmed at 'F1+' Country Ceiling affirmed at 'AA-'

Issue ratings on long-term senior unsecured local-currency bonds affirmed at 'AA-'

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EUROPE

Bosnia

Bosnia’s Federation to offer 10.2 mln euro in 9-mo T-bills on Oct 17

09-Oct-2017

SARAJEVO (Bosnia and Herzegovina), October 9 (See News) – The Federation of Bosnia and Herzegovina will offer 20 million marka ($12 million/10.2 million euro) in nine-month Treasury bills at an auction on October 17, the finance ministry said on Monday.

The T-bills will have a par value of 10,000 marka each and will be offered to investors on the Sarajevo Stock Exchange, the finance ministry said in a bourse filing.

The government paper will mature on July 18, 2018. This is the Federation's first 9-month T-bill auction this year. The last similar auction was held last October, when the entity raised 30 million marka at a yield of a negative 0.0167%. The Federation is one of the two autonomous entities forming Bosnia and Herzegovina. The other one is the Serb Republic.

(1 euro=1.95583 Bosnian marka)

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Bulgaria

Bulgaria says 2018 fiscal deficit will be narrower than forecast

08-Oct-2017

SOFIA, Oct 8 (Reuters) - Bulgaria's fiscal deficit next year will be narrower than its target of 1.0 percent of gross domestic product, Finance Minister Vladislav Goranov said on Sunday.

The Balkan country, which aims to achieve a balanced budget by 2020, also expects to run a smaller than targeted shortfall of 1.4 percent this year.
"The state is doing well, the next budget will have a smaller than planned deficit," Goranov told a news conference, adding his ministry would deliver a detailed 2018 budget draft in the second half of October.

The Black Sea state has pegged its lev currency to the euro, leaving fiscal policy as one of the few tools it has to influence the economy.

On Thursday, the ministry increased its forecast for 2017 economic growth to 4.0 percent from 3.0 percent, mainly due to strong domestic demand. It sees growth of 3.9 percent in 2018.

(Reporting by Angel Krasimirov; editing by John Stonestreet)

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**Georgia**

**IMF lifts Georgia's economic growth forecast to 4.3 pct in 2017**

09-Oct-2017

By Margarita Antidze

TBLISI, Oct 9 (Reuters) - The International Monetary Fund lifted its forecast for Georgia's economic growth for this year and next, citing improving tourism, investment and domestic consumption.

The IMF said on Monday that it now expected the former Soviet republic to grow 4.3 percent this year, up from a previous forecast of 3.5 percent, and sees economic growth of 4.2 percent in 2018, against 4.0 percent previously. Mercedes Vera Martin, head of an IMF mission visiting Georgia, said that the IMF had also agreed in principal to release the second tranche of the loan programme was subject to approval by the IMF's executive board, which is expected to consider it in November. The first tranche of $40.7 million was disbursed in April.

One of the challenges for Georgia was "to improve the potential for gross domestic product (GDP) growth over the medium term as well as to upgrade infrastructure and to improve the skills of the labour force," she said.

Another challenge is to narrow the current account deficit, which is projected at 10.4 percent in 2017, down from 12.8 percent in 2016, she said.

"We see it reaching a benchmark level of 8 percent over the medium term, but for that we need to see implementation all of the reforms and improving competitiveness," Vera Martin said.

"One more challenge for Georgia is to make growth more inclusive," she added.

Vera Martin said that the IMF estimated a budget deficit of 3.6 percent of GDP this year, narrowing to 3 percent of GDP in 2018, supported by robust revenue growth and contained current spending.

(Editing by Susan Fenton)

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**Moody's says Georgia's reform efforts help mitigate ongoing key credit weaknesses**

12-Oct-2017

Oct 12 (Reuters) - Moody's - Georgia's reform efforts help mitigate ongoing key credit weaknesses. Moody's on Georgia says material banking sector and external vulnerability risks continue to constrain the country's rating.

Moody's on Georgia - continuing reforms will further strengthen the economy and institutions and help to mitigate the two key credit weaknesses.

Moody's - Georgia's external vulnerability is due to its large and persistent current account deficit.

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**Hungary**

**Hungary launches C1bn 10-year bond at MS+100bp**

04-Oct-2017 14:44:09

By Robert Hogg

LONDON, Oct 4 (IFR) - The Republic of Hungary has set final terms for C1bn notes due October 2027 at 100bp over mid-swaps, according to a lead.

The bonds were initially marketed at plus 125bp...
area, before pricing was revised to plus 110bp (+/-5bp).
The order books went subject in excess of €5.75bn.
The trade is for today's business via BNP Paribas, Citigroup, Deutsche Bank and ING.
The sovereign is rated Baa3/BBB-/BBB-.

(Reporting by Robert Hogg; editing by Sudip Roy)
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Ministry of National Economy of Hungary - IMF predicts higher growth rate in Hungary
11-Oct-2017
In the latest World Economic Outlook, the International Monetary Fund expects faster economic growth in Hungary than they did in the prior study, published in spring 2017.
The institution prognosticates economic growth of 3.2 percent and 3.4 percent this year and next, respectively. Although the Government's estimates are more optimistic than that, the IMF still revised the former forecast by 0.3 percentage points and 0.4 percentage points, respectively.
The IMF has left the unemployment rate prognosis unchanged, with 4.4 percent predicted for 2017 and 4.3 percent for 2018. The rate of inflation is expected to be 2.5 percent this year (unchanged since April) and 3.2 percent next year.
IMF experts also predict a global economic upturn, and they have accordingly upwardly revised some indicators of emerging European countries (among them those of Hungary, Turkey and Russia). The study noted that - contrary to predictions in the spring -- raw material prices have not picked up and thus low inflation still persisted.
International organizations, investors and credit rating agencies have come to acknowledge the performance of the Hungarian economy. The Hungarian Government believes that the new economic growth model, based on the improving of competitiveness, the raising of wages and the reduction of taxes, is leading to lasting economic convergence. Consequently, the Government is expecting further credit rating upgrades, improving analyst forecasts, falling bond yields and country risk indicators.
The IMF is scheduled to hold its annual meeting on 13-15 October in Washington DC, where the Hungarian delegation will be headed by Economy Minister Mihály Varga.

IMF lowers Moldova's 2017 GDP growth forecast to 4%
11-Oct-2017
CHISINAU (Moldova), October 11 (See News) - The International Monetary Fund (IMF) has lowered Moldova's economic growth forecast for 2017 to 4.0% from 4.5% predicted in April, according to the latest edition of the global lender's World Economic Outlook (WEO) report released on Tuesday.
The forecast for Moldova's 2018 economic growth is maintained at 3.7%, the IMF said in the October edition of the WEO report posted on its website.
In 2016, Moldova's economy grew by 4.3%, according to the report.
Moldova's inflation is seen slowing down to 5.3% in 2018 from 6.5% projected for this year, the IMF said.
Moldova's annual consumer price inflation quickened to 7.6% in September from 7.3% in August, according to the latest data available from the country's statistical office, BNS. At its last monetary policy meeting held in September, Moldova's central bank, BNM, decided to maintain its key rate at 7.5%, striving to keep inflation close to its 5.0% target.
Moldova's central bank now projects 6.5% inflation in 2017 and 4.4% in 2018.
The IMF expects Moldova’s current account deficit to increase to 4.0% of GDP in 2017 from an estimated 3.8% of GDP in 2016.
Moldova's unemployment is seen at 4.3% in 2017 and at 4.2% in 2018, the IMF said.
Moldova has built its 2017 budget bill on a projection of 3.0% economic growth, to 142.8 billion lei ($7.15 billion/6.74 billion euro).
Budget deficit is forecast at 14.1 billion lei (€7.15 billion/6.74 billion euro).

Moldova's centr...
Romania

S&P affirms Romania at BBB-/A-3 with stable outlook, warns on economy overheating

09-Oct-2017

BUCHAREST (Romania), October 9 (See News) - Standard & Poor's maintained Romania's rating at BBB-/A-3, with a stable outlook, and said that the country's budget and trade deficits will widen due to the consumption-focused growth. "Romania's procyclical budgetary stance is amplifying wage pressures in an already overheating economy. While wage convergence is desirable, pay increases that significantly outpace underlying productivity have historically led to boom-bust cycles," S&P said in a statement on Saturday.

S&P also said it expects the consumption-focused growth to generate wider fiscal and external deficits, increasing the economy's vulnerability to an abrupt downturn over the medium term, though public and external debt is modest.

The stable outlook reflects the analysts' view that general government and external debt is likely to increase only gradually over the coming two years, S&P added.

S&P last reviewed Romania's rating on April 7, 2016, when it affirmed it at BBB-, with a stable outlook and also warned on excessive fiscal loosening.

In July, Fitch Ratings affirmed Romania's long-term foreign and local currency issuer default ratings (IDR) at 'BBB-', with stable outlooks, but warned on a growing budget deficit and economy overheating.

In April, Moody's Investors Service has changed the outlook on Romania's Baa3 government bond rating to stable from positive due to deterioration in public finance and debt outlook for government of Romania.

In March, Japan Credit Rating Agency (JCRA) has affirmed the outlook on Romania's long-term government debt in foreign currency and local currency to BBB/BBB+ stable.

Standard & Poor's also said in the statement:

"RATING ACTION"


OUTLOOK

The stable outlook reflects our expectation that while Romania's twin deficits will widen as a result of the government's procyclical fiscal stance, general government and external debt will increase only gradually in the coming years--barring a major economic slowdown.

We could raise the ratings if Romania's government made more sustained headway with budgetary consolidation and put net general government debt firmly on a downward trajectory, including by successful restructuring or privatization of public enterprises; and if Romania's governance framework improved, translating into more predictable and stable macroeconomic growth and government finances.

We could lower the ratings on Romania if we considered that policy reversals could cause general government deficits, debt, and borrowing costs to deteriorate significantly. Moreover, we would consider a negative rating action if Romania's external imbalances re-emerged, in particular if an uncertain political environment led to lower foreign direct investment (FDI) inflows, implying that Romania's widening current account deficit would increasingly have to be financed with debt-creating inflows.

RATIONALITY

The ratings are supported by Romania's moderate external and government debt, amid strong growth prospects. However, we estimate Romania's GDP per capita at just over $10,000 in 2017, the second-lowest in the EU. Low income and wealth levels therefore constrain the rating, alongside Romania's widening budget deficit and its weak institutional and governance effectiveness and continued political uncertainty. Institutional and Economic Profile: A booming economy is weathering political volatility

Romania's economy is booming amid continued fiscal stimulus and a favorable external environment. During the first half of 2017, consumption was by far the largest contributor to GDP, while net exports detracted from growth (by 1.4 percentage points of GDP during second-quarter 2017). The political environment remains volatile. Structural reform efforts remain weak, while fiscal policy is expedient and consumption focused.

A reversion to a loose fiscal policy stance amid a favorable external environment and pent-up demand is likely to make Romania the fastest-growing economy in the EU during 2017, according to our forecasts. We expect real economic growth will reach 5.5% this year, supported by strong consumption growth on the back of lower unemployment and, more importantly, strong wage increases and tax cuts that have lifted disposable incomes.

Given high levels of net emigration, wage increases are one means of retaining skilled workers; hourly industrial and service sector labor costs in Romania averaged €5.50 in 2016, according to Eurostat's estimate, the second-lowest in the EU after Bulgaria, and less than one-fifth of euro area labor costs. Nevertheless, despite the low starting point, recurrent double-digit increases well above productivity levels could put at risk Romania's strong gains in competitiveness over the past 10 years.

This year, public sector wages and the minimum wage have again increased by double digits, while the government reduced the standard value-added-tax (VAT) rate to 19% from 20%. Further public sector wage increases, which in
turn will put upward pressure on private sector wages, will continue to support consumption growth in 2018. While export growth should remain strong over our forecast horizon to year-end 2020, import growth has overtaken export growth during 2017. The transport and information and communications technologies sectors continue to perform well, while we observe some diversification toward service sector exports in the tourism sector, as well. Lastly, we expect private sector investments will offset the drag from public sector investments this year, leading to positive investment growth. **Overall, Romania’s average per capita growth exceeds that of its peers. However, we expect this momentum to be transitory, albeit fairly long lasting,** given that the increased absorption of EU funds should bolster solid investment growth—leading to average real GDP growth of close to 4% over 2018-2020.

That said, continued uncertainty regarding fiscal and macroeconomic policies and potential changes to the judiciary represent a downside risk to our growth forecast. On the institutional front, the government backtracked from an earlier emergency ordinance that decriminalized potentially corrupt behavior by public officials after public protests and objections from the country’s resident and judicial institutions. Still, we note that draft laws are under discussion by parliament that could transfer important tasks, such as appointing chief prosecutors and the head of the anti-corruption agency (DNA) or judicial inspections to the Minister of Justice, thus opening the door to a politicization of the process. Currently, these tasks are carried out by the independent Superior Council of Magistracy, a body consisting of 19 members from the judiciary and executive branch, as well as from civil society. We note positively the progress Romania has made in its anti-corruption efforts over recent years, not least because of the work by the DNA, but see a risk that some of this progress will be reversed should these bills pass.

Moreover, the no-confidence vote against the first Social Democratic Party-led government under Prime Minister Grindeanu, brought forward by his own party and ultimately leading to his ousting, highlights the still-volatile political environment. This volatility is further underlined by the lack of visibility on future fiscal policies, which restricts the private sector's ability to make long-term investment and strategic plans. **While the government has already decided on a further 25% wage hike in the public sector,** it is currently debating a range of other measures, such as shifting all social security contributions to employees. Moreover, a proposed corporate turnover tax and a higher band of income tax had to be scrapped shortly after they were announced this summer, after strong protests from the business community. To some extent, this volatility distracts the government from pursuing more important reforms, such as improving the country's infrastructure or reforming the health and education sector. In the medium term, these structural factors could weigh on growth and act as a deterrent for foreign investors.

**Flexibility and Performance Profile: Widening twin deficits amid remaining fiscal and external buffers**

Public finances remain heavily dominated by fiscal loosening measures, including wage increases and tax cuts. The current account deficit is widening, and we expect that external deleveraging is likely to come to an end shortly, as we forecast the current account deficit will widen beyond 4% of GDP from next year (though much of this will be funded by a capital account surplus and buoyant net FDI). Inflation is gradually moving back into the central bank’s target range and will move toward its upper target range by next year.

**As a result of continuous fiscal easing,** we expect the fiscal deficit will stay elevated this year and may even surpass the 3% of GDP deficit target set out by the EU’s Maastricht criteria, a degree of stimulus that is partly masked by expected nominal GDP growth of 7.3% this year and next. Although we note the authorities’ commitment to stay at or below 3%, we forecast a deficit of 3.1% due to a slightly lower growth forecast; in any case, our projections reflect the government’s track record of spending windfall revenues primarily on public wage increases (including for state-owned enterprises [SOEs]), a tendency that is reminiscent of large real increases in the net wage bill of the general government sector, including SOEs, in 2002-2005.

**At the same time,** we flag some measures the government has already implemented to remain around the 3% fiscal deficit level in 2017, which in our view are not sustainable. First, the government has repeatedly asked SOEs for dividend payments to the state budget, including from the companies' reserve buffers. Second, during the budget revision this summer, the government reversed a cut in fuel excises, which in our view are not sustainable. Third, as in previous years, the government continues to underspend on capital expenditures. Moreover, the government has already announced further fiscal easing measures for 2018, including further wage and pension increases. **As a result, we forecast a deficit of 3.5% of GDP in 2018 that will only gradually narrow to about 3.1% in 2020.** Romania continues to post the largest VAT gap—the difference between VAT owed and VAT collected— in the EU according to data from the European Commission. In the first half on 2017, despite very strong and tax-rich consumption growth, VAT revenues actually declined compared with 2016. While some of this trend can be explained by the reduction of the standard VAT rate, it also shows the failure to address Romania’s large VAT gap. Closing this gap will be key to ensuring the sustainability of public finances in the medium term.

**In line with our deficit forecast, we also expect Romania’s general government debt to**
continue to increase gradually. While still modest in an EU comparison, we forecast Romania's debt will surpass 40% of GDP by 2020. Moreover, its debt profile remains constrained by a relatively high share of foreign currency-denominated debt, as well as the domestic banking sector's high exposure to the government. Should the government decide to lower contribution rates to the second pension pillar or make these contributions optional, it could affect the sovereign's ability to refinance itself on the domestic market, given the banks’ already high exposure to the government. We note positively, however, that domestic auctions are frequently oversubscribed, which could mitigate the impact of lower demand from second pillar pension funds. Moreover, the government continues to cover a large part of its financing needs on the domestic market at low yields—the average yield on five-year bonds is currently 2.47%—and at long maturities. Lastly, the government maintains a hard currency buffer covering four months of gross financing needs, which provides an additional safeguard during periods of market turbulence. We do not expect any significant impact on government debt from potential privatizations in the medium term. The Romanian government is in the process of setting up the so-called Sovereign Development and Investment Fund (FSDI). According to draft legislation that is currently being publicly debated, the fund will pool the state's shares in a number of SOEs, such as Hidroelectrica, and is supposed to more efficiently carry out and finance larger investment projects. Together, with a to-be-established development bank, it could give a boost to investments. The government aims to create the FSDI outside the general government sector as defined by the European system of national and regional accounts (ESA).

Strong and increasing domestic demand and rising import prices will also have a negative impact on Romania's current account balance in our view, notwithstanding strong export growth. We forecast an average current account deficit just above 4% of GDP over our forecast horizon, significantly higher than the 1.3% average over 2013-2016. Still, we expect that this current account deficit will remain funded by surpluses on the capital and financial account as EU fund absorption accelerates and FDI remains steady. That said, we expect that the strongly improving trend of Romania's external debt metrics over the past seven years will slow down. Over our forecast through 2020, gross external financing needs will gradually increase toward 100% of current account receipts (CARs) and usable reserves, while narrow net external debt could climb above 30% of CARs.

Overall, Romania's predominantly foreign-owned banking sector remains sound, since the system's loan-to-deposit ratio declined to just over 80% at end-2016, down from its peak of 137% in 2008. Liquidity and solvency ratios remain strong. Moreover, banks have maintained their profitability, and overall lending growth has remained positive, with loans to households and loans denominated in Romanian leu growing particularly strongly, so that the share of foreign currency loans declined further to less than 43% of total loans at end-2016, down from almost 64% in 2011. Credit growth is particularly driven by mortgage loans that benefit from the government’s Prima Casa program, designed to support first-time homebuyers through a 50% guarantee by the government. Nonperforming loans declined further to 8.3% of total loans by mid-year 2017 from 9.5% at year-end 2016. Romania continues to operate a managed float of the Romanian leu under an inflation-targeting regime. While inflation has remained outside the National Bank of Romania’s (NBR’s) target band for the past three years, we expect it will gradually increase and reach the upper end of the target by year-end 2018. The fading out of the effects from cuts to administered prices and imported prices, paired with strong wage growth, should drive up inflation."

1 euro=4.5775 lei
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IMF lifts Romania's 2017 GDP growth forecast to 5.5%

11-Oct-2017
BUCHAREST (Romania), October 11 (See News) - Romania's real GDP growth is projected to reach 5.5% in 2017 before it decelerates to 4.4% in 2018, the International Monetary Fund (IMF) said in the October edition of its World Economic Outlook (WEO) report released on Tuesday.

In its previous WEO report published in April, the IMF said it expected Romania's economy to expand by a real 4.2% in 2017 and by 3.4% in 2018.

Romania's GDP grew by 4.8% last year and the country's consolidated budget showed a deficit equivalent to 2.41%, compared to a shortfall of 1.47% of GDP in 2015, according to finance ministry data.

The IMF's latest forecast for Romania's 2017 economic growth is now closer to the government's projection of a 5.6% increase.

In September, Romania's prime minister Mihai Tudose held a meeting with representatives of the IMF in what he said was an attempt to prevent another 'wrong' economic forecast of the global lender. The IMF responded by saying its projections reflect data available at the time of making them, while the final results are often influenced by subsequent decisions.

Tudose said at the time he did not mean to criticize the IMF. "They are a huge organization and the world is interested in their forecasts, which in our case turned out to be incorrect the last couple of times. I did not accuse them of ill intent, but I told them to be a bit more careful."
Romania's annual economic growth accelerated to 6.1% in the second quarter of 2017, above the initial estimate of 5.9% made in September, preliminary official data showed on Tuesday. Romania's consumer prices are seen rising 1.1% year-on-year in 2017 before they increase by 3.3% in 2018, the IMF said in the October edition of its WEO report.

Unemployment rate is projected to fall to 5.2% in 2018 from 5.3% this year and 5.9% in 2016, according to the IMF forecast. Romania's annual inflation rate was 1.8% in September, up from 1.2% in August, according to data from the national statistical board, INS.

The country's current account deficit is expected to decrease to 2.9% of GDP in 2018 from 3% of GDP projected for 2017, the IMF said. This compares with a current account gap of 2.3% of GDP in 2016, according to the IMF.

Romania's current account balance showed a deficit of 3.631 billion euro ($3.22 billion) in the first seven months of 2017, compared to a gap of 2.226 billion euro a year earlier, central bank data showed. On Saturday, Standard & Poor's maintained Romania's rating at BBB-/A-3, with a stable outlook, and said that the country's budget and trade deficits will increase due to the consumption-focused growth.

"Romania's procyclical budgetary stance is amplifying wage pressures in an already overheating economy. While wage convergence is desirable, pay increases that significantly outpace underlying productivity have historically led to boom-bust cycles," S&P said in a statement.

S&P also said it expects the consumption-focused growth to generate wider fiscal and external deficits, increasing the economy's vulnerability to an abrupt downturn over the medium term, though public and external debt is modest.

In August, Fitch Ratings affirmed its projections that Romania will post economic growth of 5.1% this year but also warned of risk of overheating.

(1 euro =4.5729 lei)
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Romania raises 1 bln euro in Eurobonds sale, closes 2017 external financing plan
11-Oct-2017

BUCHAREST (Romania), October 11 (See News) - Romania’s finance minister said on Wednesday it has raised 1 billion euro ($1.17 billion) through the sale of 10-year Eurobonds at a yield of 2.114% amidst solid demand. Demand for the issue, which bears a coupon of 2.375% and matures in April 2027, was strong with 140 orders worth nearly 2 billion euro placed, the finance ministry said in a press release.

"The level of demand and the yield obtained from the Eurobond sale yesterday confirms once again the confidence of investors in the Romanian economy and its perspectives," finance minister Ionut Misa said in the statement.

According to the ministry, with the transaction, Romania closes its 2017 external financing plan.

This is Romania's second Eurobond sale this year after the country raised 1.75 billion euro in April. On April 11, Romania raised 1 billion euro from the sale of Eurobonds from the same 10-year issue at 2.41%, while an additional 750 million euro came in from a 2035 Eurobond reopening at 3.55%.

Geographically, the distribution of investors in Tuesday’s Eurobond sale was: 18% from Romania, 17% from the UK, 17% from central and eastern Europe, 14% from Germany and Austria, 10% from France and Benelux, 6% from Italy, 5% from Switzerland, 4% from the US, 3% from Scandinavia, and 6% from other countries.

According to the type of investors, fund managers predominated with 63%, followed by commercial banks with 24%, pension funds and insurance companies with 9% and central banks and official institutions with 4%.

The issue was managed by Barclays Bank PLC, Citigroup Global Markets Limited, Erste Group Bank, Societe Generale and ING Bank. At the beginning of March, the finance ministry said it plans to sell about 2.5-3.0 billion euro worth of Eurobonds on the international markets and some 48-50 billion lei worth of leu-denominated domestic debt this year.

In June, the ministry said it plans to sell 7.5 billion euro worth of Eurobonds on the international markets in 2018 and 2019.

(1 euro =0.8485 euro)
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ministry has thus limited space for rejecting additional auctions in the next months, although repayments in the fourth quarter amount to 2.3 billion lei only,” Erste analysts said.

**Slovakia**: Slovakia's finance ministry plans to auction 2.2 billion lei worth of government securities and to sell an additional 240 million lei in non-competitive offers in October.

In September, the ministry auctioned 3.35 billion lei worth of domestic debt paper and an additional 405 million lei in non-competitive offers, slightly below target.

On Wednesday, the finance ministry raised 1 billion euro ($1.17 billion) through the sale of 10-year Eurobonds at a yield of 2.114% amidst solid demand. According to the ministry, with the transaction, Romania closed its 2017 external financing plan of 3 billion euro.

So far this year, the ministry has sold some 37.5 billion lei and 340 million euro worth of government bills and bonds and has tapped foreign markets for 2.75 billion euro of 2027 and 2035 Eurobonds.

In June, the ministry said it plans to sell 7.5 billion euro worth of Eurobonds on the international markets in the following two years.

The ministry said it plans to sell some 48-50 billion lei worth of leu-denominated domestic debt this year.

In June, the ministry said it plans to sell 7.5 billion euro worth of Eurobonds on the international markets in 2018 and 2019.

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**Slovakia**

**Slovak Republic launches EUR1bn 30-year bond at 45bp over mid-swaps**

10-Oct-2017

LONDON, Oct 10 (IFR) - The Slovak Republic has launched a EUR1bn bond due October 2047 at mid-swaps plus 45bp, according to a lead.

The notes were initially marketed at low to mid 50s over, with pricing revised to plus 50bp area, before a final revision to plus 45bp-47bp, to price in range.

The order books were in excess of EUR3.25bn at the last update, including EUR125m of lead manager interest.

Timing is for today’s business via Citigroup, CSOB (KBC Group), HSBC (B&D) and Natixis.

The issuer is rated A2/A+/A+.

(Reporting by Robert Hogg; editing by Sudip Roy)

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**Slovak cabinet approves 2018 budget with wider deficit target**

11-Oct-2017

BRATISLAVA, Oct 11 (Reuters) - Slovakia's government approved a 2018 draft budget on Wednesday that envisages a slower reduction in the fiscal deficit than initially planned due to preparations for higher spending to help boost wages and some benefits.

The three-party ruling coalition of leftist Smer and two centre-right parties plans to cut the deficit 0.83 percent of gross domestic product next year, according to the draft, the lowest level ever though above the earlier 0.5 percent target.

The plan to narrow the deficit from an expected 1.63 percent of GDP this year comes at a time of fast economic growth in the euro zone country and a fall in unemployment to new lows.

The upwardly revised target for 2018 reflects a 250 million euro benefit package that includes a rise in the minimum wage and in benefits including a travel allowance for some commuters.

The draft budget is expected to be approved by the parliament next month and sees a cash deficit of 1.97 billion euros ($2.33 billion).

The plans are based on expected economic growth of 4.2 percent in 2018 - a pace that is more than double the euro zone average.

Slovakia is home to three automotive plants and a fourth one is expected to come online in 2018, cementing its position as the world’s biggest per-capita car maker.

Slovakia has been one of the better budget performers in the euro zone and its public debt is expected to fall to 49.7 percent of GDP in 2018, from 51.8 percent this year. The euro zone average stood at 89.2 percent in 2016.

But an independent fiscal watchdog has criticised the government for delaying a balanced budget goal twice in two years.

Slovakia had originally aimed to balance the budget in its 2018 plan but in April it postponed that goal to 2020.

($1 = 0.8461 euros)

(Reporting by Tatiana Jancarikova; Editing by Jason Hovet and Gareth Jones) ((jason.hovet@thomsonreuters.com; +420 224 190 476; Reuters Messaging: jason.hovet@thomsonreuters.com@reuters.net ))

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**Slovakia/Romania**

Two is the magic number for CEE sovereigns

12-Oct-2017

LONDON, Oct 12 (IFR) - Slovakia and Romania dangled yields above 2% for their respective trades this week, which is becoming the key watermark for investors considering EU sovereigns.

Both nations got deals away on Tuesday without treading on each other’s toes, Romania adding €1bn to its €1bn 2.375% 2027s and Slovakia printing a €1bn 2% 30-year.

Romania’s tap priced at 2.114%, Slovakia at 2.114%.
aid tranche in 2017
09-Oct-2017
By Marc Jones
LONDON, Oct 9 (Reuters) - Ukraine is committed to its aid programme with the International Monetary Fund and expects to receive a further tranche of funds by the end of 2017, Finance Minister Oleksandr Danylyuk told Reuters on Monday.
Danylyuk is due to travel to Washington this week for talks with the IMF on the $17.5 billion bailout amid concerns that progress under the programme has slowed.
Danylyuk also said Ukraine was willing to discuss any issues the IMF might have on pension reforms that were passed in parliament last week, which he said could be easily addressed.
"I can say we value our cooperation, we value our commitment within the programme. This is the position of the government and of the prime minister," Danylyuk said in an interview. "Our goal is to complete the programme successfully by 2019."
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Ukraine to look at its GDP-linked bonds
09-Oct-2017
• Ukraine to look at reworking potential costly GDP-linked bonds
• Hopes to sell local currency bond within a matter of months
By Marc Jones
LONDON, Oct 9 (Reuters) - Ukraine will look at whether it needs to buy back or rework the terms of the GDP-linked bonds it used to sweeten its 2015 debt restructuring, the country’s finance minister said on Monday.
Ukraine threw in $3.6 billion in GDP warrants linked bonds indexed to economic growth for matters of 2015 debt restructuring, the terms of the GDP warrants,” Finance Minister Oleksandr Danylyuk told Reuters in an interview.
"But if and when (we do this) is will depend on the situation. We keep our options open."
Danylyuk is due to travel to Washington this week for talks with the IMF on the $17.5 billion bailout amid concerns that progress under the programme has slowed.
Danylyuk also said Ukraine was willing to discuss any issues the IMF might have on pension reforms that were passed in parliament last week, which he said could be easily addressed.
"I can say we value our cooperation, we value our commitment within the programme. This is the position of the government and of the prime minister," Danylyuk said in an interview. "Our goal is to complete the programme successfully by 2019."
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Ukraine
Ukraine committed to IMF, expects one
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2.027%.
"Two percent can be a key decision maker," said a lead on Slovakia. "Anything offering a little bit more than 2% is really attractive to a lot of asset managers and insurance companies."
A banker on the Romania deal, however, thought the headline yield played more of a role in Slovakia's longer offering.
"Asset managers in particular would look at the relative value on spread terms versus peers," he said. "For maturities of 10 or 12-years it is not so much a question of yield but spread. Once you go longer, then you get the pension funds and insurance companies involved who are more yield driven."
Romania's tap came at 128bp over mid-swaps, a more attractive level for investors than where Hungary, for example, sold a €1bn 10-year earlier this month.
That priced at 100bp over swaps and had tightened to plus 83bp as Romania's trade hit the screens. Both Hungary and Romania are Baa3/BBB-/BBB+, but the latter is a much more frequent issuer.
The Slovakia trade (A2/A+/A+), for which orders peaked at over €3.25bn, was the sovereign's longest syndicated deal. Leads began marketing at low to mid 50s over mid-swaps, before tightening to guidance of 50bp area. That was refined to plus 45bp-47bp (wpir) before a print at the tight end, plus 45bp.
Various 20s/30s curves, including France, Belgium and Ireland, were used as reference points to calculate fair value. Slovakia has Mar 2037s, which trades at 30bp over swaps. Most bankers reckon the deal came with a zero to minimal concession.
"Slovakia was massively successful," said the banker on the Romania deal. Slovakia's bonds are eligible for the ECB's PSPP.
Romania started marketing at 140bp area over mid-swaps. That was 15bp back of where the notes closed on the bid side on Monday, which bankers said was a fair starting point. Guidance followed at 130bp-135bp. Final demand was over €2bn, including lead manager interest.
Fund managers were the biggest buyers with 63%, while banks and private banks took 24%, pension funds and insurers 9% and central banks and official institutions 4%.
For Slovakia, fund managers took 59%, insurers and pension funds 23%, banks 9%, central banks 5% and others 4%.
Citigroup, CSOB (KBC Group), HSBC and Natixis were leads on Slovakia. Barclays, Citigroup, Erste, ING and Societe Generale ran the Romania deal.

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Argentina likely to sell euro-denominated bonds in next issue

12-Oct-2017
Oct 11 (Reuters) - Argentina expects to issue $2.6 billion in bonds "most likely" denominated in euros by late October or early November, Finance Minister Luis Caputo said on Wednesday.
Caputo said last month Argentina would come to market with two more bond issues this year. In June, he said Argentina had $2.6 billion in bonds left to be issued in 2017 and that they could be denominated in euros, yen or Swiss francs.
The country has already sold nearly $10 billion in dollar-denominated bonds so far this year, including a surprise 100-year bond in June. It also raised 400 million Swiss francs through a March bond sale.
"The global environment is supportive and will most likely continue to be supportive," Caputo said during a press conference at the Inter-American Development Bank in Washington.
"The world is in a good place and ... it is happening with very low levels of inflation in the advanced economies. That has been very good for markets because it has maintained very low levels of interest rates, and for countries like Argentina that is very important."
Caputo said Argentine officials had been advised by "many banks" to pre-finance the country's 2018 debt this year. He said the government was not currently considering that possibility, however.
"We first want to close our financial problem, in order to do that we still have to close out this new issue in euros," Caputo said. "Once we do that and if market conditions allow it we will eventually think about it."

(Reporting by Dion Rabouin; Editing by Cynthia Osterman and Tom Brown) (( Dion.Rabouin@thomsonreuters.com ; +1 646 223 5946; Reuters Messaging: dion.rabouin.reuters.com@reuters.net ))
Brazil

Moody's to decide on Brazil sovereign outlook in first quarter of 2018

10-Oct-2017
SAO PAULO, Oct 10 (Reuters) - Moody's Investors Service is unable to say whether it will keep a negative outlook on Brazil's sovereign rating, but a decision would be "easier" if the country fails to pass a plan to overhaul its pension system this year, an executive of the company said on Tuesday.

Moody's will conduct a visit to Brazil in the first quarter of 2018 before deciding on the country's "Ba2" rating, said Mauro Leos, a senior vice president in charge of Latin American credit ratings, at an event in São Paulo.

(Moody's; Writing by Bruno Federowski; Editing by W Simon)

Mexico

Mexico to get payout from World Bank catastrophe bond in mid-Nov

11-Oct-2017
MEXICO CITY, Oct 10 (Reuters) - Mexico will receive a $150 million payout from a catastrophe bond in mid-November after the devastating Sept. 7 earthquake, the World Bank said on Wednesday.

The bank said in a statement that the quake met parameters for magnitude, location and depth, confirming an announcement by Mexico's finance ministry late Tuesday.

Reuters reported on Oct. 4 that the government expected to receive the funds and that it was looking at placing a new issue.

(Mexico's government; Writing by Michael O'Boyle and Stefanie Eschenbacher; Editing by Matthew Mpoke Bigg)

Congo Republic

Congo Republic weighing possible moratorium on debt payments

10-Oct-2017
BRAZZAVILLE, Oct 10 (Reuters) - Congo Republic is weighing the possibility of halting payments on its debt with private creditors as it seeks a bail-out with the International Monetary Fund, the prime minister said on Tuesday.

"We believe with the help of the IMF we will discuss with the traders," Clement Mouamba told reporters in the capital Brazzaville. "We are going to consider the possibility of putting in place a moratorium."

(Moody's; Writing by Bruno Federowski; Editing by W Simon)

Egypt

Yields rise on Egypt's five- and 10-year T-bonds

09-Oct-2017
CAIRO, Oct 9 (Reuters) - Average yields on Egypt's five- and 10-year treasury bonds rose at an auction on Monday, central bank data showed.

The average yield on the five-year bond rose to 15.282 percent from 15.000 percent at the last similar auction, while the average yield on the 10-year bond rose to 15.555 percent from 15.000 percent.

(Egypt's government; Writing by Nadine Awadalla; Editing by Richard Balmforth)

Egypt's FY2017/18 GDP growth projected at 4.5 pct

10-Oct-2017
CAIRO, Oct 10 (Reuters) - Egypt's economy is projected to grow 4.5 percent in the fiscal year 2017/18, the International Monetary Fund's World Economic Outlook report showed on Tuesday, below government projections of 5-5.25 percent.

Egypt's average consumer price inflation for 2017/18 is projected at 21.3 percent, according to the report.

(IMF Mission Chief for Egypt, Middle East and Central Asia Subir Lall said in an online briefing...
in September that inflation was expected to fall to "slightly above" 10 percent by the end of the fiscal year.

Finance Minister Amr El-Garhy said last month he expected inflation to drop below 15 percent by that time frame.

Import-dependent Egypt has been hit by soaring inflation since it floated its currency in November, a move which led the pound to halve in value against the dollar.

The float marked the opening salvo in a three-year, $12 billion IMF reform programme that includes tax hikes and subsidy cuts. The reforms are designed to help revive an economy hard hit by a shortage of foreign currency and investment in the turmoil that followed the 2011 uprising that overthrew long time ruler Hosni Mubarak.

Since the float, Egypt's central bank has raised key interest rates by a total of 700 basis points. Egypt hopes to secure a $2 billion IMF loan payment after a second review by the Fund at the year's end.

(Reporting by Nadine Awadalla; Editing by Catherine Evans and Jon Boyle)

Mauritius

Mauritius 3-year Treasury bond falls to 2.43 pct
11-Oct-2017

PORT LOUIS, Oct 11 (Reuters) - The weighted average yield on Mauritius' 3-year Treasury bond fell to 2.43 percent at auction on Wednesday from 2.51 percent at the previous sale in September, the central bank said.

The Bank of Mauritius sold all the 1.6 billion rupees ($47.23 million) of debt that it had offered.

Bids totalled 3.900 billion rupees, with yields ranging from 2.37 percent to 2.51 percent. The bond has a coupon rate of 2.37 percent and is due on October 13, 2020.

($1 = 33.8800 Mauritius rupees)

(Reporting by Jean Paul Arouff; Editing by Aaron Maasho)

Fitch

Fitch Affirms Morocco at 'BBB-'; Outlook Stable
10-Oct-2017

HONG KONG, October 10 (Fitch) Fitch Ratings has affirmed Morocco's Long-Term Foreign-Currency Issuer Default Rating at 'BBB-' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Morocco's ratings are supported by macro stability, a track record of prudent economic policies and a budget deficit below the 'BBB' category median. These factors are balanced against weak development and governance indicators, and high general government debt and current account deficits relative to peer medians.

GDP growth has recovered from its sharp drought-induced growth slowdown is 2016 and Fitch forecasts it will average 3.8% over 2017-2019, higher than the 'BBB' median of 2.9%. Economic activity will be mostly lifted by the rebound in agricultural production. After contracting by 63.4% the previous year due to the shortage in rainfall, cereal crop output will soar by 187% during the current season and will decline in 2018 as favourable base effects will run out. Non-agricultural growth will pick up some momentum, lifted by cyclical tailwinds, including the recovery in agricultural employment, lower food prices and firmer activity in the eurozone. Consequently, we project GDP growth to accelerate from 1.2% in 2016 to 4.6% in 2017 and slow down to 3% in 2018.

The six-month delay in the formation of a government following the October 2016 legislative elections and the deferred adoption of the 2017 budget brought active fiscal consolidation and the growth-enhancing reform drive to a temporary halt. The new six-party coalition remains committed to its predecessor's industrialisation strategy, targeting an increase in the industrial sector's share to 23% of GDP by 2020 from 18.5% in 2016. It has also confirmed the previous government's target of reducing central government (CG) debt to 60% of GDP from 64.7% in 2016, but the target now is to be achieved one year later than previously envisaged, in 2021.

The reform process may be slowed down by political challenges. Heightened social tensions have been illustrated by the wave of protests in the Northern Rif region which started in October 2016 and continued during 1H17. There are also tensions within some governing parties, including the prime minister's Justice and Development Party (PJD), the largest party in Parliament, in Fitch's view.

We expect fiscal consolidation to continue but to proceed more slowly than projected by the government. Past progress has been mostly achieved through the containment of current spending and reform of energy subsidies aided by the fall in oil prices, leading to a reduction in CG deficit from 7.2% in 2012 to 4.1% in 2016. Although of smaller magnitude, the residual consolidation could be more difficult to achieve as it hinges upon deeper tax reforms and a broadening of the tax base against the background of a large informal sector. The ongoing fiscal decentralisation reform, the recovery in oil prices and heightened social tensions could also lead to some deviations from

(Reporting by Jean Paul Arouff; Editing by Aaron Maasho)

For information, contact the PDM Network Secretariat at: Publishednet.dt@tesoro.it

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the envisaged consolidation path. We forecast the CG deficit to decline to 3.6% of GDP in 2017 from 4.1% in 2016, in line with the revised budget target (3.5%). This improvement will be mostly driven by cyclical factors, with higher growth boosting tax receipts and VAT reimbursements being normalised from their exceptionally high level in 2016. As fiscal consolidation resumes, we forecast the CG deficit to fall to 3.2% in 2018 against a government target of 3.0% - and 3.0% in 2019. The general government (GG) deficit which also includes social security, local governments and extra-budgetary units will also narrow to 1.4% in 2019 from 2.4% in 2016, reflecting the lower CG deficit. We project GG debt to decline gradually from 50.1% in 2016 to 48.1% in 2019, still higher than the ‘BBB’ median of 42.3%. CG debt will also gradually fall to 62.5% in 2019 from 64.7% in 2016. Refinancing risks are low due to a moderate interest burden and high share of dirham-denominated debt while the average maturity has been lengthened to 7.4 years in 2016 from 5.5 years in 2013. Relatively high guarantees on state-owned enterprise (SOE) debt, estimated at 13.8% of GDP at end-2016, generate significant contingent liabilities for the government. However, the risk of their materialisation on the sovereign’s balance sheet is low, in our view. The envisaged reform of the SOE governance and oversight could offer more transparency on total contingent liabilities arising from the sector. The 2016 reform has improved the sustainability of the civil servants’ pension system and reduced its long-term cost for the budget. Risks for the sovereign stemming from the banking sector are moderate. The profitability of Moroccan banks’ is sound, funding is stable and largely based on deposits and liquidity ratios are adequate according to Fitch’s assessment. However, the ratio of non-performing loans to total loans was 7.6% at end-2016, higher than the ‘BBB’ category median of 3.7% and asset quality is weakened by the high concentration of the loan portfolio. While potentially enhancing their profitability, the regional expansion of Moroccan banks in Africa will increase their exposure to riskier operating environments and debts of sovereigns that are lower rated than Morocco. The sector’s capital adequacy ratio was 14% at end-2016, lower than the ‘BBB’ median of 15.8%. Morocco’s external position will improve slowly. We forecast the current account deficit (CAD) to narrow to 3.8% in 2019 from 4.4% in 2016, reflecting the gradual improvement in the structural trade deficit. Manufacturing exports will continue to forge ahead, lifted by the expansion of emerging industries and the penetration of new markets across Africa. This will be partly offset by lower world market prices of phosphate and derived products, which accounted for 25% of exports over the last five years, a higher energy bill due to the rebound in oil prices and sustained imports of capital goods reflecting continued investments in domestic manufacturing capacities and infrastructure. Net external debt has increased rapidly, reaching 16.6% of GDP in 2016 up from -0.6% in 2010 but external financing risks are moderate, in our view. The composition of gross external debt is relatively favourable with a high share of debt owed to official creditors. Foreign-currency reserves are comfortable but will decline to 5.7 months of current account payments in 2017, down from 6.3 in 2016. This is attributable to the persistent CAD, increasing FDI outflows due to the regional expansion of domestic companies and some purchases of foreign-currency instruments in anticipation of the upcoming broadening of the dirham's floating bands. The expected gradual widening of the dirham's floating bands will have only a modest impact on macroeconomic stability and external financing conditions in our view. The current Precautionary Liquidity Line with the IMF offers a safety net against external financing stress. Morocco’s governance and development indicators are a major credit weakness. GDP per capita is well below ‘BBB’ and ‘BB’ medians. Medium-term growth prospects are constrained by barriers to competition, the large informal sector, perceived corruption and low labour force participation rate. Youth unemployment is high and there are regional disparities. SOVEREIGN RATING MODEL (SRM) and QUALITATIVE OVERLAY (QO) Fitch’s proprietary SRM assigns Morocco a score equivalent to a rating of 'BBB-' on the Long-Term FC IDR scale. Fitch’s sovereign rating committee did not adjust the output from the SRM to arrive at the final LT FC IDR. Fitch’s SRM is the agency’s proprietary multiple regression rating model that employs 18 variables based on three year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM. RATING SENSITIVITIES The Stable Outlook reflects Fitch's assessment that upside and downside risks to the rating are currently balanced. The main factors that may, individually or collectively, lead to positive rating action are as follows: • Continued fiscal consolidation leading to a material reduction in general government debt-to-GDP • Sustained improvement in the current account balance consistent with declining net external debt to GDP -Over the medium term, the implementation of structural reforms bolstering growth potential and leading to an improvement in development indicators
The main factors that may, individually or collectively, lead to negative rating action are as follows:
- A rise in government debt to GDP ratio
- Deterioration in Morocco's external position with a widening current account deficit causing further accumulation of external debt
- Weakening of medium-term growth prospects
- Security developments or social instability affecting macroeconomic performance or leading to fiscal slippages

KEY ASSUMPTIONS
We expect global economic trends and commodity prices to develop as outlined in Fitch's Global Economic Outlook.
We assume that Brent crude prices will average USD52.5/barrel in 2017, USD52.5/barrel in 2018 and USD55/barrel in 2019. We assume that eurozone GDP will grow 2.2% in 2017, 1.8% in 2018 and 1.4% in 2019.
The full list of rating actions is as follows:
- Long-Term Foreign-Currency IDR affirmed at 'BBB-'; Outlook Stable
- Long-Term Local-Currency IDR affirmed at 'BBB-'; Outlook Stable
- Short-Term Foreign-Currency IDR affirmed at 'F3'
- Short-Term Local-Currency IDR affirmed at 'F3'
- Country Ceiling affirmed at 'BBB'
- Issue ratings on long-term senior-unsecured foreign-currency bonds affirmed at 'BBB-'
- Issue ratings on long-term senior-unsecured local-currency bonds affirmed at 'BBB-

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Nigeria

Nigeria's Buhari asks lawmakers to approve $5.5 bln in foreign loans
10-Oct-2017
By Alexis Akwagyiram
LAGOS, Oct 10 (Reuters) - Nigeria's President Muhammadu Buhari has sought approval from lawmakers in the upper chamber of parliament for $5.5 billion of foreign borrowing, according to a letter read in the Senate on Tuesday.
Africa's biggest economy grew in the second quarter, climbing out of its first recession in 25 years as oil revenues rose, but the pace of growth was slow, suggesting the recovery remains fragile.
Nigeria expects a shortfall of $7.5 billion in its record 7.44 trillion naira ($24.33 billion) 2017 budget, which it plans to offset with foreign loans.
The $5.5 billion of external borrowing would include $2.5 billion for plugging part of the 2017 budget deficit, and $3 billion for refinancing maturing domestic debt with dollar borrowing, to lower costs and improve the country's debt position, the president's letter said.
"Current market conditions are considered more favourable than at the time of Nigeria's last issuances of the Eurobond in March 2017," said the letter.
The government aims to raise $2.5 billion through Eurobonds, if possible, the letter said, adding that Diaspora Bonds will be issued to offset any shortfall. A further $700 million of borrowing from "multilateral sources" is being proposed, it said without specifying those sources.
The government intends to spend money on infrastructure projects such as the $5.8 billion Mambilla hydropower dam, a second runway for the capital Abuja's airport and railway and road construction.
Such projects are aimed at helping diversify Nigeria's oil-dependent economy. Crude oil sales make up about two-thirds of government revenue.
As for the planned debt refinancing through $3 billion of new dollar loans, the president's letter said it "will not lead to an increase in the public debt portfolio because the debt already exists, albeit in the form of high interest short term domestic debt."
"Urgent steps" are needed to reduce debt service costs, which account for a third of the 2017 budget, the letter said.
The government is looking at reducing local borrowing to lower interest rates, said Nigeria's Vice President Yemi Osinbajo, at an economic conference in Abuja.
"We are concerned about interest rates. Most of that has to do with government borrowing and we intend to look at that closely," he said.
The budget minister last week said the government needed to speed up budget implementation and 1.07 trillion naira worth of foreign borrowing had not been approved by parliament.

($1 = 305.8000 naira)
(Additional reporting by Paul Carsten and Chijioke Ohuocha in Abuja; Editing by John Stonestreet)

Nigeria overnight rate drops to 20 percent as cash squeeze bites
12-Oct-2017
LAGOS, Oct 12 (Reuters) - Nigeria's overnight lending rate dropped to 20 percent on Thursday on expectation that a cash squeeze will ease after money market rates more than doubled previous session.
Nigeria's central bank has kept liquidity tight to support the currency, leaving its benchmark interest rate on hold at 14 percent this year. It
South Africa to woo investors at IMF meetings
12-Oct-2017

Finance minister says political risks not that serious
But central bank head says politics blocking policy reforms
ANC leadership battle unnerving investors

By Mfuneko Toyana
JOHANNESBURG, Oct 12 (Reuters) - South Africa's finance minister and central bank governor will head to Washington this weekend to meet ratings agencies and international investors in an effort to boost growth in an economy that is emerging from recession.

The Treasury said on Thursday that Finance Minister Malusi Gigaba would use the meetings during the International Monetary Fund and World Bank annual conference to convince investors and ratings firms the economy was improving.

In a television interview in Washington with South Africa's SABC television, Gigaba said the Treasury would fall short of revenue targets it set in February and that it would have to reduce spending and plug the shortfall.

"We are in a really tight economic situation," Gigaba said, adding that he was dealing with a financial and governance crisis at state-owned companies that threatens to trigger deeper credit downgrades. "Another downgrade would be really severe for the economy," he said.

South Africa also aims to keep rates high to attract foreign inflows into its bond market to boost dollar liquidity.

"The market is a bit tight because of FX purchases which mopped up (naira) liquidity," one trader said.

The overnight rate closed at 44 percent on Wednesday after banking system liquidity hit a debit of 265 billion naira, traders said. Tight liquidity continued on Thursday with the market in debit of 243 billion naira although the central bank repaid some treasury securities.

Traders said money market rates dropped on Thursday as lenders accessed the central bank window for naira at 16 percent.

Though rates could go back up if a 60 billion naira treasury security offered by the central bank on Thursday worsened the cash squeeze. The central bank is selling $100 million weekly to meet wholesale currency demand and also a separate amount twice weekly for retail needs to keep its multiple exchange rate system stable.

(Reporting by Chijioke Ohuocha Editing by Jeremy Gaunt.)
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Zambia

IMF says Zambia public debt rising at unsustainable pace
10-Oct-2017

JOHANNESBURG, Oct 10 (Reuters) - Zambia's public debt is growing unsustainably, making the economy of Africa's No. 2 copper producer vulnerable to market swings and reversals in capital flows, the International Monetary Fund (IMF) said on Tuesday.

All three agencies have warned that low growth and state companies that rely on government bailouts pose significant risks to the country's ratings.

They are also concerned about political jostling before a conference of the ruling African National Congress party in December to replace Zuma.

"From where we stand, the political risks are not as adverse as they are being made out to be, because ultimately South Africa is a democracy," Gigaba said.

POLITICAL TURBULENCE
But in another interview, with Bloomberg television in Washington, Reserve Bank Governor Lesetja Kganyago said political turbulence was preventing policy reforms needed to revive the economy.

However, he said, improving global growth and a weaker rand had helped narrow the country's current account deficit, leaving the economy less vulnerable to money leaving the country if the Federal Reserve raises U.S. interest rates.

Last week, the bank said the economy would have grown by about 2 percent in 2016, rather than the actual growth of 0.3 percent, if two finance ministers had not been fired in two years, sapping investor confidence.

The World Bank on Wednesday kept its 2017 economic growth forecast for South Africa at 0.6 percent, and said the economy would expand below 2 percent in 2018 and 2019, warning the country needed to rein in political uncertainty.

On Tuesday, the IMF said it expected South Africa's economy to grow by 0.7 percent this year, down from a forecast of 1 percent given in July. It blamed political uncertainty for damaging consumer and business confidence.

The leadership contest to replace Zuma as head of the African National Congress party has spawned different rival factions and no frontrunner, increasing political uncertainty.

Zuma can remain head of state until an election in 2019.

(Editing by James Macharia, Larry King)
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Publicly guaranteed debt increased from 36 percent of gross domestic product at the end of 2014 to 60 percent at end of 2016, it said.

"Public debt has been rising at an unsustainable pace and has crowded out lending to the private sector and increased the vulnerability of the economy," the Fund said in a statement after its executive board concluded consultations with Lusaka.

"Directors expressed concern at the pace at which public debt, especially external debt, has increased and now put Zambia at high risk of debt distress. They commended the progress made in developing a medium-term debt strategy."

The IMF said while the government was committed to reducing its fiscal deficit from 9 percent of GDP in 2016, its cash deficit would remain "elevated" as government arrears were cleared.

"Increased participation of foreign investors in the government securities market has eased the government’s financing constraint but has made the economy more vulnerable to swings in market sentiments and capital flow reversals."

The IMF forecast growth of 4 percent in 2017, slower than the government’s forecast of 4.3 percent.

"Domestic risks to the outlook include delayed fiscal adjustment which would continue to crowd out credit to private sector and entrench an unsustainable debt situation, and unfavorable weather conditions which would affect hydro power generation and agricultural output," the Fund said.

"External risks include tighter global financial conditions and volatility in the world copper price."

(Reporting by Ed Stoddard; Editing by Richard Balmforth)

Emerging market debt to GDP declines for first time since 2011

Oct 10 (Reuters) - Government and private-sector debt in emerging markets as a percentage of gross domestic product has fallen this year, the first time since 2011, according to a report from JPMorgan released on Tuesday.

After five straight years of increases, the so-called debt overhang in emerging markets has steadied as a result of both increasing growth in the less-developed countries and smaller increases in borrowing. That should reduce the risk of financial instability, according to the report.

Overall, emerging markets debt-to-GDP level over the past year has declined to 116.5 percent of GDP, a 2.1-percentage-point decrease.

Excluding China, emerging markets saw a reduction of debt to 77.9 percent of GDP. JPMorgan analysts said the growth in private-sector credit remains 43 percent higher than it was in 2008, but that owes largely to borrowing in China, the world's second largest economy.

Analysts Jonny Goulden, Luis Oganes and Anthony Wong said in the report that the recent findings appear to mark a "post-crisis phase for this Debt Overhang as it becomes less of a systemic risk for markets."

They also noted that 87 percent of governmental debt is held by domestic borrowers, as is 93 percent of private-sector debt.

"This keeps the risk of an EM external debt crisis low, in our view," the analysts wrote.

(Reporting by Dion Rabouin; Editing by Jonathan Oatis)

Emerging Market

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10-Oct-2017

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