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Emerging Sovereign Debt Markets NEWS

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ASIA

Gulf Cooperation Council

Moody's forecasts Gulf sovereign sukuk issues to hit $34 bln in 2020

11-Aug-2020

DUBAI, Aug 11 (Reuters) - **Sukuk issuance by Gulf sovereign borrowers is expected to rise to around $34 billion this year, from $25 billion in 2019, as funding needs rise as a result of lower oil prices and the coronavirus crisis, Moody's said.**

Although global issuance of Islamic bonds is expected to snap a four-year growth streak in 2020, Moody's said it is still expected to be at the second-highest volume, with the rise in the Gulf partly offsetting a drop from Southeast Asia.

"We expect sukuk issuance to rally to $90 billion in the second half of 2020, driven by sovereigns in the GCC (Gulf Cooperation Council), Malaysia and Indonesia," Moody's said in a report.

Thaddeus Best, lead analyst at Moody's sovereign risk group, said on Tuesday the forecasted increase in Gulf sukuk issuance is primarily driven by Saudi Arabia, which Moody's expects to issue $27 billion in sukuk this year, up from $19 billion.

"We also could see a bit of an increase from Oman to $3 billion this year and Bahrain to $1.5 billion. As you can see, it's really Saudi there which is increasing," Best added.

Global sukuk issuance fell 12% to $77.4 billion in the first half of 2020 while issuance from the six GCC states increased 7% to $28.5 billion, Moody's said.

Overall sukuk issuance from the UAE, Bahrain and Kuwait increased to a combined $15 billion in the first half of 2020 from $10.8 billion a year earlier, supported by higher issuance by Bahrain.

The UAE was the fifth largest sukuk issuer in the first half, particularly due to increased sukuk sales by corporate and financial institutions.

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Bahrain

Fitch cuts Bahrain rating on combined

impact of lower oil prices, coronavirus

14-Aug-2020

Aug 14 (Reuters) - **Credit rating agency Fitch said it has downgraded Bahrain's long-term foreign-currency issuer default rating to 'B+' from 'BB-', with the cut reflecting the combined impact of lower oil prices and the coronavirus outbreak on the country.**

Bahrain's outlook is stable, Fitch Ratings said in a statement on Friday.

The pandemic and the lower oil prices have marked increases in the budget deficit and government debt, and caused a sharp gross domestic product contraction for Bahrain, Fitch said.

Bahrain's government revenue fell 29% in the first half of 2020, the country's state news agency said on Monday.

Fitch said it forecast the state budget deficit to widen to 15.5% of GDP in 2020 from 4.6% of GDP in 2019.

The small oil producing Gulf state was bailed out in 2018 with a $10 billion aid package from wealthy Gulf neighbours to avoid a credit crunch and had been working to plug its budget deficit.

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China

China's new bank loans fall more than expected but broad credit growth quickens

11-Aug-2020

- **July new loans 992.7 bln yuan vs f'cast 1.20 trln yuan**
- **July M2 money supply +10.7% y/y, vs f'cast of +11.1%**
- **July TSF growth quickens to 12.9% from 12.8% in June**
- **PBOC to keep policy accommodative amid virus pandemic**

By Judy Hua and Kevin Yao

BEIJING, Aug 11 (Reuters) - **New bank lending in China fell more than expected in July from the previous month, but broad credit and liquidity growth quickened as the central bank sought to support a gradual economic recovery.**

Chinese banks extended 992.7 billion yuan ($142.82 billion) in new yuan loans in July, down sharply from 1.81 trillion yuan in June and falling short of analysts' expectations, according to data released by the People's Bank of China (PBOC) on Tuesday.

Analysts polled by Reuters had predicted new yuan loans would fall to 1.20 trillion yuan in July. The new loans were lower than 1.06 trillion yuan a year earlier.

Wen Bin, senior economist at Minsheng Bank in Beijing, said banks tend to lend less into the second half after rapid credit expansion in the first half due to policy stimulus.

Household loans, mostly mortgages, fell to 757.8 billion yuan in July from 978.8 billion yuan in June, while corporate loans dipped to 264.5 billion yuan from 927.8 billion yuan.

A stronger-than-expected rebound in activity in the second quarter has reduced the urgency for the PBOC to ease policy further, but it will keep conditions accommodative to support the recovery, sources have told Reuters.

The central bank has already rolled out a raft of easing steps since early February, including cuts in reserve requirements and lending rates and targeted lending support for virus-hit firms.

China dropped its annual growth target this year for the first time since 2002 and pledged more government spending as the COVID-19 pandemic badly hurt the world's second-biggest economy.

Broad M2 money supply in July grew 10.7% from a year earlier, central bank data showed on Tuesday, below estimates of 11.1% forecast in the Reuters poll. It rose 11.1% in June.

Outstanding yuan loans grew 13.0% from a year earlier compared with 13.2% growth in June. Analysts had expected 13.2% growth.

QUICKENING TSF GROWTH

Annual growth of outstanding total social financing (TSF), a broad measure of credit and liquidity in the economy that includes off-balance sheet forms of financing, quickened to 12.9% in July from 12.8% in June.

Analysts watch the annual change in the TSF closely to gauge the underlying support for economic activity, given the volatile new lending figures.

Julian Evans-Pritchard, at Capital Economics, expected a further acceleration in broad credit growth in coming months.

"Admittedly, the deceleration in bank loans suggests that loan quotas are no longer being loosened, which could remain a drag on broad credit growth," Evans-Pritchard said in a note.

"But stronger investment demand on the back of the ongoing economic recovery should prop up issuance of corporate bonds and equity, and government bond issuance will remain rapid for the remainder of the year."

Authorities have been leaning more heavily on fiscal stimulus to weather the downturn, cutting taxes and issuing local government bonds to fund infrastructure projects.

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India

India Bond Yields Little Changed Ahead Of State Debt Supply

11-Aug-2020
By Dharam Dhutia
NewsRise
MUMBAI (Aug 11) **-- Indian federal government bond yields were little changed ahead of a state debt auction and as traders awaited retail inflation data due tomorrow.**
The benchmark 5.79% bond maturing in 2030 changed hands at 99.22 rupees, yielding 5.89% at 10:35 a.m. in Mumbai, unchanged from yesterday. The Indian rupee was at 74.84 to dollar against 74.89 yesterday. Indian states aim to sell at least 150.50 billion rupees of bonds today, with a greenshoe option to sell another 20 billion rupees.
"State debt auction is key to gauge the investor demand as last week's federal bond auction did not enthuse," a trader with a private bank said. "If the cutoffs are bearish, we may see an attempt at breaking the 5.90%-5.91% levels on the benchmark yield."
Bond yields have risen over the past few sessions after the rate-setting Monetary Policy Committee held policy rates steady amid concerns of quickening inflation.
A Reuters poll pegs July inflation will rise to 6.15% on year against 6.09% in June and also higher than the upper tolerance level of the central bank's target.
The Reserve Bank of India has yet to announce further steps to soothe market concerns over excess supply after New Delhi hiked its annual gross borrowing target for this fiscal year to a record 12 trillion rupees. Traders expect the federal government to raise the borrowing aim again to make up for the shortfall in revenue generation amid the escalating coronavirus crisis. The RBI had conducted only two special open market operations this year.
The number of coronavirus cases in India stands at 2.27 million, resulting in 45,257 fatalities. India's economy is expected to shrink this year as the continuing slowdown in economic activity due to the pandemic takes its toll.
Meanwhile, crude oil prices rose on expectations of stimulus in the United States and a rebound in Asian demand as economies reopen. The benchmark Brent crude oil contract was 0.4% higher at $45.18 per barrel, adding to yesterday's 1.3% climb. India imports nearly 85% of its crude oil requirements.

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Government to switch Rs. 28,000 crore of bonds for longer term securities

14-Aug-2020
New Delhi, Aug. 13 **-- The Reserve Bank of India on Thursday said that the government will be switching some of its short-term securities, worth Rs.28,000 crore, into existing long term bonds on 17 August.**
RBI notified on its website that the government will be switching six bonds maturing over the next two years in favour of four longer ended bonds maturing in 2030, 2033 and 2060.
During this switch the government has decided to replace a 6.17% GS 2021 bond with a floating rate bond maturing on 22 September 2033. Floating rate bonds are linked to the 6 month Treasury bill (T-bill) and the coupon keeps floating with interest rate.
Switching of government securities happens to enable the government to repay the loans at a later date to ease the pressure on the exchequer in the immediate term. The switching also increases volumes in the already issued long term securities and enables more secondary market liquidity. Typically, switching is regularly done by the governments at the beginning of the year.
The government has hiked its borrowings programme for this fiscal from the budgeted Rs.7.8 trillion to Rs.12 trillion on account of Covid-19 pandemic. As per the revised calendar, the government will borrow Rs.6 trillion from the market during the first half of the year.

Indonesia

Fitch Affirms Indonesia at 'BBB'; Outlook Stable

10-Aug-2020
Fitch Ratings has affirmed Indonesia's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook.
KEY RATING DRIVERS
Indonesia's rating balances a favourable medium-term growth outlook and a low government debt/GDP ratio against a high dependence on external financing, low government revenue, and lagging structural features compared with 'BBB' category peers, such as governance indicators and GDP per capita.
Fitch forecasts economic activity in Indonesia will contract by 2% in 2020, largely attributable to the impact of the coronavirus. The contraction is exacerbated by the effects of

social-distancing measures on consumption and investment, a temporary deterioration in Indonesia's terms of trade and the sudden stop in foreign tourism inflows. The strong, broad-based impact of the pandemic on economic activity was illustrated by the 5.3% yoy contraction in 2Q20, which we had largely anticipated in our projections. Fitch forecasts a rebound to 6.6% growth in 2021, partly driven by a low-base effect, and expects growth momentum to continue at 5.5% in 2022, supported in part by the government's renewed focus on infrastructure development. Our forecasts are subject to considerable risks, in particular due to a continued spread of COVID-19 within Indonesia.

The government has responded swiftly to the crisis with a broad range of relief measures to support households and companies, including small and medium-sized enterprises. Total COVID-19-related government support amounted to IDR695 trillion, or 4.4% of GDP, and included direct cash transfers, provision of basic foods, guarantees and tax incentives.

The authorities have also taken some exceptional, temporary measures, which include a three-year suspension of a self-imposed deficit ceiling of 3% of GDP and direct central bank financing of the deficit. In Fitch's view, prudent fiscal policy in past years has provided headroom for the relief measures. **Fiscal deficits were well below the ceiling over the past decade, illustrating support for prudent fiscal policy across the political spectrum. Hence, we believe the government is likely to resume adhering to the 3%-of-GDP deficit ceiling by 2023, in line with its stated intention.**

Higher government spending and lower revenue due to the slowdown should cause the fiscal deficit to rise to around 6.0% in 2020 from 2.2% in 2019. We expect the deficit to narrow to 5.0% in 2021 and 3.5% in 2022, as most of the pandemic-related expenditure should be temporary. We forecast general government debt to rise to 36.7% of GDP in 2020 from 30.6% of GDP in 2019, and to peak at 39.1% of GDP in 2022. Both the debt burden and its increase this year (6% of GDP) are still significantly smaller than the 'BBB' category median of 51.7% (9.5% of GDP higher than in 2019).

The government debt burden, when measured as a ratio against general government revenue, is however higher than that of peers, at 307.7% in 2020 (BBB median: 138.3%), according to Fitch estimates. The government is working to improve tax compliance, including through improved IT systems to ensure optimal use of available data, which should over time improve the revenue ratio, the lowest among 'BBB' category peers at 11.9% in 2020. However, a gradual reduction in corporate tax rates between 2021 and 2023, from 25% to 20%, is likely to offset some of the revenue gains from other measures in the short run before any potential medium-term gains materialise through higher investment.

The low revenue base exacerbates the challenges of financing the large pandemic-related expenditure. The authorities have responded to the higher spending needs by implementing a "burden sharing" scheme in which Bank Indonesia (BI) will purchase government bonds in the primary market and bear part of the interest costs of additional debt issuance. The scheme will help reduce the government's direct interest costs, and in our view is unlikely to generate inflationary pressures in this year's environment of demand compression. However, the scheme raises questions about Indonesia's policy approach over the medium term. In particular, if central bank financing were to be sought repeatedly, beyond 2020, it would raise the potential for government interference in monetary policymaking, and could undermine investor confidence. This may be mitigated by Indonesia's generally disciplined monetary policy stance of the past few years, which reinforces our belief the scheme will be one-off, driven by the unusual circumstances of the pandemic, as the authorities have asserted.

Indonesia's dependence on foreign portfolio financing and commodity exports leaves it vulnerable to renewed bouts of external risk aversion and other shocks. External liquidity, measured by the ratio of the country's liquid external assets to its liquid external liabilities, is also weaker than that of 'BBB' peers. Sharp portfolio outflows and central bank intervention caused a drop in foreign-exchange reserves by USD10.7 billion to USD121.0 billion at end-March 2020. Stabilisation of the global financial environment and issuance of foreign-currency government bonds since then have facilitated BI rebuilding its reserves to USD135.1 billion by end-July, covering 7.1 months of current account payments, well above the 'BBB' median of 4.9 months. We forecast these reserve buffers will be supported by a narrowing of the current account deficit to 1.8% of GDP in 2020 from 2.7% in 2019, in light of the compression in domestic demand and a recovery in Indonesia's terms of trade since April.

BI has provided liquidity to the banking system in response to the pandemic and cut its policy rate by a total of 100bp since February 2020 to 4.0%. We expect BI to keep the rate unchanged, provided the economy does not deteriorate further, given its apparent desire to prevent volatility of the rupiah. Fitch considers the sovereign's exposure to banking-sector risks limited. Private credit represents only 36.4% of GDP and the banking sector's capital-adequacy ratio remained strong at 22.1% in May 2020.

The government is continuing to press ahead with its structural reform efforts, although in recent months the policy focus has been on the immediate crisis at hand. Parliament's discussion of the "Omnibus Laws on Job Creation" is likely to be completed in the next few months. Fitch understands the draft law contains a number of long-awaited amendments to regulations related to the business environment and reportedly aims to simplify the regulatory framework, ease land acquisition, reduce the number of items on the negative investment list, and ensure greater labour market flexibility. In Fitch's view, the reforms have the potential to lift economic growth and foreign direct investment over the medium term, depending on the details and implementation. Meanwhile, Indonesia's ranking for Ease of Doing Business has significantly improved in recent years, but at the 60th percentile, it is still below the 'BBB' median of the 71st percentile.

Social-distancing measures appear to have slightly delayed, but not fully derailed, the government's ambitious plans for infrastructure development over the next few years, which include construction of a proposed new capital in East Kalimantan. Infrastructure development was already a key policy aim during the first term of President Joko Widodo, also known as Jokowi, when progress was made on a number of projects, including an underground metro system in Jakarta. State-owned enterprises (SOE) play an important role in these plans and have been raising the leverage on their balance sheets considerably since mid-2017. The gross combined debt of SOEs increased to 7.3% of GDP in March 2020 from 4.7% two years earlier. This trend is likely to continue in the next few years and could test the ability of the government's risk-monitoring framework to contain vulnerabilities.

The Indonesian economy is less developed on a number of structural metrics than many of its peers. Indonesia's relatively low basic human development is indicated by its ranking on the United Nations Human Development Index (41st percentile versus the BBB median of 67th percentile), while average per capita GDP also remains low, at USD4,000, compared with the 'BBB' range median of USD9,878.

ESG - Governance: Indonesia has an ESG Relevance Score of 5 for both Political Stability and Rights and the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the World Bank Governance Indicators have in our proprietary Sovereign Rating Model. Indonesia has a medium ranking at the 47th percentile (BBB peer median: 58th) in the World Bank Governance Indicators, reflecting a recent record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a high level of corruption.

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

Fitch's proprietary SRM assigns Indonesia a score equivalent to a rating of 'BBB-' 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:

- Macroeconomic: We have introduced a +1 notch adjustment to offset the deterioration in the SRM output driven by the pandemic shock, in particular from the growth volatility variable. Fitch believes that Indonesia has the capacity to absorb the shock without lasting effects on medium-term macroeconomic stability.

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

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

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

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

- External Finances: A sustained decline in foreign-exchange reserve buffers, resulting, for example, from a deterioration in investor confidence.
- Fiscal Finances: A continued increase in the overall public debt burden over the next few years to levels beyond our forecasts, for example, resulting from failure to reduce the fiscal deficit back to pre-crisis levels or accumulation in the debt of publicly owned entities.
- Macroeconomic: A weakening of the policy framework that could undermine macroeconomic stability, for instance, resulting from continued monetary financing of the deficit in the next few years.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance.

KEY ASSUMPTIONS
The world economy performs broadly in line with Fitch's latest Global Economic Outlook, published in June 2020.
REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.
ESG Considerations
Indonesia has an ESG Relevance Score of 5 for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are highly relevant to the rating and a key rating driver with a high weight.
Indonesia has an ESG Relevance Score of 5 for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight.
Indonesia has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as social stability and voice and accountability are reflected in the World Bank Governance Indicators that have the highest weight in the SRM. They are relevant to the rating and a rating driver.
Indonesia has an ESG Relevance Score of 4 for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Indonesia, as for all sovereigns.
Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity (IES), either due to their nature or to the way in which they are being managed by the entity (IES). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.
Indonesia; Long Term Issuer Default Rating; Affirmed; BBB; RO: Stable
Short Term Issuer Default Rating; Affirmed; F2
Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO: Stable
Local Currency Short Term Issuer Default Rating; Affirmed; F2
Country Ceiling; Affirmed; BBB senior unsecured Long Term Rating; Affirmed; BBB

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Indonesia revises down 2020 GDP forecast

14-Aug-2020
JAKARTA, Aug 14 (Reuters) - **Indonesia's Finance Minister Sri Mulyani Indrawati said on Friday the government has revised down its forecast for gross domestic product this year to a range of 1.1% contraction to 0.2% growth.**
The government's previous 2020 GDP forecast was a range between 0.4% contraction to 2.3% growth, down from 2019's 5% expansion, due to the fallout of the coronavirus pandemic.
Indrawati attributed the revision to weaker-than-expected economic activity in the second quarter.
President Joko Widodo earlier on Friday proposed to parliament a 2021 budget that assumes GDP growth of 4.5%-5.5% next year.

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Iran

Iran plans to boost state coffers by selling oil securities to Iranians

12-Aug-2020
By Parisa Hafezi and Davide Barbuscia
DUBAI, Aug 12 (Reuters) - **Iran plans to start offering oil-backed securities to its citizens, President Hassan Rouhani said on Wednesday, as part of the government's efforts to boost state coffers hit by U.S. sanctions and the coronavirus crisis.**
Iran's economy, further strained by low oil prices, has been suffering since 2018 when the United States exited Tehran's nuclear deal with six world powers and reimposed sanctions, strangling Iran's oil trade.
"Gold and the dollar are not the places to be investing. But the stock market and oil are," Rouhani said in a televised cabinet meeting.
"The government is doing everything to control liquidity and counter oil sanctions ... the plan will help the economy and secure revenues for our people."
Iran's clerical rulers face increasing economic pressure and want to prevent a revival of protests in past years that started over economic issues but turned political.
Iranian media reported that the plan involved some 220 million barrels of oil on Iran's energy exchange, IRENEX, through Islamic "salaf" bonds.
The president's chief of staff Mahmoud Vaezi told state TV the plan would enable Iranians to buy from one barrel to 100,000 barrels of oil or more.
But analysts said that the scheme won't improve Iran's long-term ability to fund its budget amid a collapse in oil revenues.

"This strategy will create a significant debt burden that the government will have to face, raising pressure for negotiations over sanctions relief in the coming years," said Henry Rome, an analyst at Eurasia Group.
The International Monetary Fund estimated in April Iran could hit a budget deficit of nearly 10% this year from a 5.7% deficit in 2019.
"The government's budget deficit due to oil sanctions is a fact," Central Bank Chief Abdolnasser Hematti wrote on his Instagram page, adding the oil sales would contribute to managing inflation and generate profits for Iranians.
The oil scheme comes after authorities have encouraged Iranians to invest in the local stock market by selling stakes in state-owned companies, a move which analysts have said might raise the risk of a stock market bubble.
Iran's oil exports are currently estimated at 100,000 to 200,000 barrels per day (bpd), down from more than 2.5 million bpd shipped in April 2018.

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Israel

Central bank chief says ratings agencies "understand" Israel's high budget deficit

12-Aug-2020
TEL AVIV, Aug 12 (Reuters) - **Bank of Israel Governor Amir Yaron said on Wednesday that as long as increased government spending is focused on supporting the economy during the coronavirus outbreak, credit rating agencies will "understand".**
The central bank forecasts Israel's budget deficit this year will be among the highest in the world at about 13% of gross domestic product.
But increased spending has been focused on stimulating the economy, which has been crushed by the coronavirus outbreak and is forecast to contract 6% this year.
"We are in a different world right now," Yaron told a video conference when asked whether he was concerned Israel could face a credit rating downgrade. "This is a new surrounding and I think the rating agencies are fully aware and understand that. We have the confidence of the markets."
While Israel's debt to GDP ratio is estimated to grow to 78% in 2021 from 60% in 2019, Yaron said this is still relatively low in comparison internationally.
The governor also said he believes Israel will be in a relatively good position exiting the crisis.
Squabbling between Prime Minister Benjamin Netanyahu's Likud party and partner Blue and White over whether to pass a one-year budget for 2020 or a biennial budget that would also include 2021 has threatened to bring down a fragile unity government formed in May.
Yaron cautioned that the threat of going to elections adds uncertainty to the economy.
"You need a functioning government and an election obviously doesn't help," he said.

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Kuwait

Kuwait closes 2019-2020 fiscal year with $18 bln deficit

13-Aug-2020
DUBAI, Aug 13 (Reuters) **- Kuwait, facing one of the worst economic crunches in the oil-exporting Gulf region, posted an actual deficit of 5.64 billion dinars ($18.44 billion) in the 2019-2020 fiscal year, it said on Thursday, a 69% increase year on year.**
Total revenues fell by over 16% in the fiscal year which ended in March to 17.22 billion, the finance ministry said on Twitter, while expenditure decreased by 3.2% to 21.14 billion dinars.
Kuwait is scrambling to boost state coffers badly hit by the coronavirus crisis and low crude prices.
Kuwait transfers 10% of total annual revenues to one of its sovereign funds, the Future Generations Fund.
In the 2019-2020 fiscal year, the transfer amounted to 1.72 billion dinars, meaning before the transfer the deficit recorded for the year was 3.92 billion dinars, the ministry said.
The government plans to issue between 4 billion and 5 billion dinars ($13 billion to $16 billion) in public debt by the end of the fiscal year ending March 2021 if parliament approves a long-debated debt law, a government document seen by Reuters showed.
The law, which was formally submitted to parliament last month, would allow it to borrow 20 billion dinars ($65 billion) over 30 years.
Legislators have been requesting more visibility from the state about use of the funds and repayment mechanisms given the government's heavy reliance on oil income. Revenue from oil made up 89% of the total in the 2019-2020 fiscal year, the finance ministry said.

($1 = 0.3058 Kuwaiti dinars)
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Laos

Laos faces material risk of default, says Moody's

14-Aug-2020
By Marc Jones
LONDON, Aug 14 (Reuters) - **Laos in South East Asia faces a material risk of default, ratings agency Moody's warned on Friday as it cut the country's credit rating heavily.**
The Laos government has $1.2 billion of debt payments due before the end of the year and $1 billion on average each year until 2025, with Moody's saying that the country - wedged between Thailand, Vietnam, Cambodia, Myanmar and China - appears to have no "credible" strategy to meet its debt obligations.
"Heightened liquidity risk is exacerbated by weak external and fiscal buffers and poor governance, and points to a material probability of default in the near term," Moody's said after cutting the country's rating two notches to Caa2 from B3.
The Laos economy is expected to show virtually no growth this year, having been expanding at an average of 6.7% over the past five years, Moody's added.
That is likely to widen the government's budget deficit to 6.7% of gross domestic product (GDP), from 3.5% of GDP last year, while pushing up its debt ratio by 6 percentage points to 64% of GDP by 2022. Reserves are now less than $1 billion.
Loans from commercial banks and Thai-baht bonds mature this year in September and October respectively and it also faces payments on a $150 million Eurobond due next June.
"The absence of a transparent financing strategy and opacity around how maturing debt obligations have and will continue to be met, raise uncertainty about the capacity for the government to secure financing in time and at affordable costs," Moody's said.

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Lebanon

IMF willing to redouble Lebanon efforts, subject to reform commitment

09-Aug-2020
WASHINGTON, Aug 9 (Reuters) - **The International Monetary Fund said on Sunday it was willing to redouble efforts to help Lebanon after the devastating blast that hit Beirut, but said all of the country's institutions needed to show willingness to carry out reforms.**
In a statement to an emergency donor conference for Lebanon, the IMF's managing director, Kristalina Georgieva, laid out reforms expected, including steps to restore the solvency of public finances and the soundness of the financial system, and temporary safeguards to avoid continued capital outflows.
Even before the massive explosion that killed 158 people and destroyed swathes of Beirut on Tuesday, a financial crisis had led Lebanon to enter negotiations with the IMF in May after it defaulted on its foreign currency debt. Those talks were put on hold in the absence of reforms.
"We are ready to redouble our efforts. But we need unity of purpose in Lebanon — we need all institutions to come together determined to carry out much needed reforms," Georgieva said.
"Commitment to these reforms will unlock billions of dollars for the benefit of the Lebanese people. This is the moment for the country's policymakers to act decisively. We stand ready to help," she said.
Georgieva also called on Lebanon to take steps to reduce the protracted losses in many state-owned enterprises and expand a social safety net to protect the country's most vulnerable people.
Lebanon's financial crisis came to a head in October as capital inflows slowed and protests erupted over corruption and bad governance.
Sunday's donor conference raised pledges worth nearly 253 million euros ($298 million) for immediate humanitarian relief after the blast, the French presidency said, adding that those commitments would not be conditional on political or institutional reform.
Pledges were also made for longer-term support that would depend on changes by the authorities.

(Reporting by Daphne Psaledakis and David Brunnstrom; Editing by Leslie Adler)
(Daphne.Psaledakis@thomsonreuters.com)

Next Lebanon government to face $30 billion reform test

12-Aug-2020
- **Estimated funding needs widen after port blast**
- **New government will have to prioritise reforms**
- **Hezbollah 'sword of Damocles' - economist**
- **Reserves could shed further $6-7 billion**
- **Financial recovery plan may be ditched -sources**

By Tom Arnold and Ghaida Ghantous
LONDON/BEIRUT, Aug 12 (Reuters) - **Lebanon**

may be in line for $298 million in emergency aid after the Beirut port blast, but the more than $30 billion that some estimate it may need to rebuild its shattered economy will not be forthcoming without reform.
Such change could be stalled by the resignation of Lebanon's government, while a financial rescue plan drawn up in April is likely to have to be reviewed and possibly even ditched by a new administration, two financial sources close to the plan said.
Forecasts for financial metrics such as debt-to-GDP and the parallel exchange rate contained in the rescue plan, which had already struggled for support before last week's deadly explosion, now look unrealistic, one of the sources added.
That is likely to push back creditor talks to restructure Lebanon's international sovereign debt.
Lebanon had begun International Monetary Fund (IMF) bailout talks in May after defaulting on its foreign currency debt. But these were put on hold due to a lack of progress on reforms and differences over the size of financial losses.
While Prime Minister Hassan Diab's cabinet remains as a caretaker government after its resignation, Lebanon's already diminishing foreign reserves are set to be eroded faster to pay for the rebuilding of Beirut's port and other infrastructure.
So devising a credible economic plan will be the main test for whoever ends up running Lebanon, which faces tumbling net capital flows amid an intensifying scramble for hard currency.
"The best gauge of the government's sovereignty will be the economic plan they draft," Carlos Abadi, an adviser to the Association of Banks in Lebanon, told Reuters.
In the wake of the Aug. 4 explosion, Lebanon's external financing needs for the next four years swelled to more than $30 billion from $24 billion, Garbis Iradian at the Institute of International Finance (IIF) estimated.
"In order to overcome the U.S. veto at the IMF, the next government will have to produce a plan which is premised on the positioning of the economy for future growth, without the possibility of billions being diverted for nefarious purposes," Abadi said.
The IMF reaffirmed its support for Lebanon on Sunday, before the government's resignation, but also the need for reforms, a point stressed by French President Emmanuel Macron last week.
With the number of Lebanese living in poverty nearing half its population, these reforms range from setting up social safety nets to protect the most vulnerable to ensuring Lebanon's wealthy elite share the burden of financial losses from bank recapitalisations.
Macron also called for an audit of the central bank and the banking system, a comment that has triggered wariness among some bankers fearful that the government may use the data to spare "family and friends".
French MP Loïc Kervran, chair of the France-Lebanon committee, told Reuters such an audit would aim to uncover "unorthodox" practices which could have led to losses.

SWORD OF DAMOCLES

Foreign donors have made it clear that apart from humanitarian aid, no money would be given to Lebanon without reforms.
President Michel Aoun pledged on Wednesday that the government's resignation would not hold up the process of a forensic central bank audit.
Some countries are particularly concerned about the influence of Iran through Hezbollah, a Shi'ite Muslim political group and guerrilla army designated as a terrorist organisation by the United States. Hezbollah helped form Diab's government.
Economist Toufic Gaspard said that as long as Hezbollah controlled the levers of power, economic recovery would be hampered as the group would not accept reforms such as border and customs controls.
"This is the sword of Damocles hanging above everybody's head...If this situation is not addressed, I don't see how we can have a sustainable solution," added Gaspard, who has advised the IMF and the Lebanese finance ministry.
Meanwhile, with limited external funding support, surging inflation and the parallel exchange rate plummeting to 9,290 pounds per U.S. dollar by 2021 under a worst-case scenario, Lebanon will continue to sink, said the IIF's Iradian.
Lebanon's central bank has told local banks to extend zero-interest U.S. dollar loans to those impacted by the blast for repairs, which analysts say will come from official reserves.
These could fall by $6 to $7 billion by the end of 2020 from around $18 billion, said Nafez Zouk at Oxford Economics.
"Lebanon would be running out of usable reserves".

(Additional reporting by Michel Rose in Paris, Pamela Barbaglia in London and Rodrigo Campos in New York; Editing by Alexander Smith/Mark Heinrich)
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Oman

Oman secures $2 billion bridge loan

12-Aug-2020
By Yousef Saba
DUBAI, Aug 12 (Reuters) **- The government of Oman has signed a one-year $2 billion bridge loan with a group of international and regional banks, two sources with knowledge of the matter said on Wednesday.**
The loan, which will be repaid with money raised from an international bond issuance, will bolster

state coffers hit by low oil prices and the economic downturn caused by the coronavirus crisis.
The Omani finance ministry did not immediately respond to a Reuters request for comment.
Sources had previously told Reuters, Oman chose First Abu Dhabi Bank and Bank Muscat to coordinate the loan.
Oman could issue a bond in the next six months to repay the loan "as long as the market is there," one of those sources said.
The pricing was "relatively cheaper than the market" and the loan's structure will see the pricing stepped up over time, the source said.
Oman is a relatively small crude oil producer burdened by high levels of debt, making it more vulnerable to oil price swings than most of its wealthier Gulf neighbours.
Oman's fiscal deficit could widen to 16.9% of gross domestic product this year from a 7% deficit last year, the International Monetary Fund has estimated.
In June, ratings agency Moody's downgraded Oman deeper into junk territory to Ba3 from Ba2, citing risks related to its financing needs and diminishing buffers.
It has over $10 billion in external debt due in 2021 and 2022 that could add pressure to foreign exchange reserves if it is not rolled over.
Oman had said it planned to raise over $5 billion in debt this year to partly cover an estimated deficit of $6.5 billion, but that was before the pandemic and the oil price crash.

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Philippines

Fitch Ratings: New Lockdowns May Further Erode the Philippines' Rating Buffers

11-Aug-2020
Fitch Ratings-Hong Kong-10 August 2020: **The continued spread of COVID-19 in the Philippines has necessitated renewed lockdown measures in and around the capital of Manila, which are likely to depress economic growth by much more than Fitch Ratings had anticipated.** However, despite a weakening in the country's public finances amid the pandemic shock, some fiscal headroom remains at the current rating level owing to its low public-debt position going into the crisis. **Downside risks to our economic projections for the Philippines, noted in our last rating review in May 2020 – when we affirmed the country's ratings at 'BBB' and revised the Outlook to Stable, from Positive – are materialising due to the country's difficulty in containing the virus.** Our forecast that the economy will contract by 4% in 2020 now appears optimistic and is likely to be revised down.

Singapore

Fitch Affirms Singapore at 'AAA'; Outlook Stable

14-Aug-2020
Fitch Ratings has affirmed Singapore's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.
KEY RATING DRIVERS
Singapore's 'AAA' rating reflects its exceptionally strong external and fiscal balance sheets, high per capita income, favourable business environment and sound macroeconomic policy framework. These strengths have remained intact under the stress of the coronavirus pandemic, and mitigate Singapore's vulnerability to external shocks emanating from its high trade dependence and financial sector's global linkages. To counter the economic effects of the pandemic, the authorities have implemented sizeable relief measures financed through the drawdown of accumulated financial buffers, which remain substantial.
Fitch projects GDP to contract by 6% in 2020, within the government's latest -7% to -5% forecast range, as a result of the pandemic's effect on domestic demand, tourism and exports. Containment measures introduced in April, when the spread of the virus was at its peak, have weighed on consumption and investment. Since June the measures have been relaxed in stages as the virus has waned, and there are signs of an economic rebound. After a contraction in 1H20 of 6.7% yoy, we expect growth to recover gradually in 2H20 and rebound to 6.7% in 2021. The recovery in growth next year partly reflects base effects and is in line with our expectations for the global economy, which are subject to a higher than usual degree of uncertainty.
The authorities acted swiftly at the onset of the virus outbreak and have implemented unprecedented fiscal relief measures to cushion the economy. Support measures aim to prevent job losses, and include direct cash transfers to households, and support for corporates and SMEs. The first budget for the fiscal year ending March 2021, presented in February, included COVID related expenditure of SGD6.4 billion, which was followed by three additional budgets, taking combined relief measures to SGD92.9 billion or about 19.7% of estimated 2020 GDP. Fitch expects the central government deficit to widen to 15.7% of GDP from 0.3% of GDP in 2019, in line with the authorities' forecast of a deficit of SGD74.3 billion.
The financing of the relief package consists entirely of the use of fiscal reserves accumulated

during the terms of the current and previous governments. **Singapore's combined fiscal and foreign-exchange reserves will remain substantial at between 200% and 300% of GDP, according to Fitch's estimates, even after this financing.** Based on the publicly disclosed information, including assets managed by the Monetary Authority of Singapore (MAS) and Temasek Holdings Private Limited, Singapore will remain a large net external creditor of around 300% in 2020, far stronger than the -20.4% of the 'AAA' median. (Singapore does not disclose the overall size of its official external assets, notably those of GIC Private Limited, a sovereign wealth fund; GIC states publicly that it manages over USD100 billion of assets, but Fitch believes the size of its external assets is much larger).

The government continues to adhere to its policy of issuing debt only to develop the local bond market and create savings vehicles for residents, and facilitate investment by the Central Provident Fund as part of the pension system mechanism; hence the increase in the budget deficit will not lead to a corresponding rise in government debt. As the crisis subsides, we expect the authorities to revert to their policy of maintaining fiscal balance over the cycle of the government's five-year term.

MAS has also announced several measures to cushion sectors affected by the pandemic and to ensure financial and monetary stability. Monetary policy was eased in April by re-centering the SGDNEER band at the prevailing exchange rate and adopting a 0% annual appreciation path from a previous slight appreciation. There are no inflationary pressures and we expect average headline inflation of -1% for 2020, at the lower end of the monetary authority's forecast range of -1% to 0%. We expect a sharp increase in the unemployment rate for 2020 to 4.7%, from 2.3% in 2019. However, in line with our expectation of gradual economic recovery, this is forecast to decline to 3.7% in 2021 and 3.0% in 2022.

All three major Singaporean banks' Long-Term Issuer Default Ratings (IDRs) and Viability Ratings (VRs) are high, at 'AA-', but on Rating Watch Negative. We expect the banks' operating environments to deteriorate as a result of the pandemic, which will exert pressure on asset quality, profitability and capital, representing a significant near-term risk to the ratings. Funding and liquidity have been a strength for Singaporean banks, and we do not expect this to change. The banks remain substantially more deposit funded than other large and highly rated peers. There has also been support from MAS in terms of a USD60 billion swap facility, and we would expect the banks to benefit from depositors' flight to quality, not only domestically but also from around the region.

Singapore continues to confront the challenges of an ageing population and structural shifts in the composition of growth and employment towards more automated and technology-driven sectors. The ruling People's Action Party (PAP), which was re-elected in the general election last month, has reiterated it will continue to focus on greater digitalisation of the economy, promote new growth sectors such as biomedicals and support the employment of older Singaporeans through various re-skilling programmes. The PAP indicated in its election manifesto it still plans to raise the Goods and Services Tax (GST) rate from 7% to 9% during its term, but not before 2022. Higher GST revenues would help to finance healthcare expenditure associated with the ageing population.

ESG - Governance: Singapore has an ESG Relevance Score of 5 for both Political Stability and Rights and the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Singapore has a high WBGI ranking in the 89th percentile, reflecting its long track record of stable and peaceful political transitions, well-established rights for participation in the political process, strong institutional capacity, effective rule of law and a low level of corruption.

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

Fitch's proprietary SRM assigns Singapore 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:

External Finances: +1 notch, to capture Singapore's very strong net external creditor position which we estimate at around 300% of GDP and is not fully captured in the SRM score

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

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

- Macroeconomic: A prolonged and severe shock, (likely well beyond the impact of the coronavirus) that causes a substantial worsening of the sovereign balance sheet.
- Structural: A severe banking system crisis that has a major spillover effect on the economy.

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

- The ratings are at the highest level on Fitch's scale and cannot be upgraded.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance.

KEY ASSUMPTIONS

The world economy performs broadly in line with Fitch's latest Global Economic Outlook, published in June 2020.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

Singapore does not publish information on the government's assets held abroad. Fitch estimates the size of the government's reserves basing it on the net investment returns contribution, which is included in the annual government budget statement and using its own assumptions of the rate of return. Fitch has sufficient confidence in the accuracy of its estimates to maintain the rating.

ESG Considerations

- Singapore has an ESG relevance score of '4' for human rights and political freedom as World Bank governance indicators have the highest weight in Fitch's Sovereign Rating Model and are relevant to the rating and a rating driver.

- Singapore has an ESG relevance score of '5' for political stability and rights as World Bank governance indicators have the highest weight in Fitch's Sovereign Rating Model and is therefore highly relevant to the rating and a key rating driver with a high weight.

- Singapore has an ESG relevance score of '5' for government effectiveness, rule of law and regulatory quality as World Bank governance indicators have the highest weight in Fitch's Sovereign Rating Model and is therefore highly relevant to the rating and a key rating driver with a high weight.

- Singapore has an ESG relevance score of '4' for creditors' rights as willingness to service and repay debt is relevant to the rating and a rating driver.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity (IES), either due to their nature or to the way in which they are being managed by the entity (IES). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Singapore; Long Term Issuer Default Rating; Affirmed; AAA; RO: Stable

Short Term Issuer Default Rating; Affirmed; F1+

Local Currency Long Term Issuer Default Rating; Affirmed; AAA; RO: Stable

Local Currency Short Term Issuer Default Rating; Affirmed; F1+

Country Ceiling; Affirmed; AAA senior unsecured;

Long Term Rating; Affirmed; AAA

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Additional information is available on www.fitchratings.com

Thailand

PDMO applauds terms of $1.5bn extended by ADB

11-Aug-2020

The US$1.5 billion borrowed from the Asian Development Bank (ADB) comes with favourable conditions for Thailand, says the Public Debt Management Office (PDMO). On Aug 4, the cabinet approved the Finance Ministry's proposal to borrow $1.5 billion from the ADB to stimulate and rehabilitate the economy.

The borrowing scheme is part of the government's plan to issue a royal decree to borrow 1 trillion baht to revive the virus-hit economy. The interest rate, instalment period and grace period for principal payment represent a good deal for Thailand, said PDMO director Patricia Mongkhonvanit.

The conditions help to diversify the risk of borrowing, while the ADB is also offering technical assistance to borrowers, Mrs Patricia said. Repayment reportedly will be divided into two tranches, with the first worth $500 million and carrying a term of 10 years, with a three-year grace period.

The second tranche worth $1 billion carries a term of five years, with a three-year grace period. The Finance Ministry is required to disburse the borrowing by June 30, 2021. The ADB loan will be taken out on a gradual basis depending on the Covid-19 remediation programme and in accordance with the 1-trillion-baht loan decree, which prohibits financing of infrastructure projects, Mrs Patricia said.

The public debt level will rise to 57% of GDP from June's 44.8% upon borrowing the full amount under the loan decree. Public debt is capped at 60% under the fiscal sustainability framework.

A 50% cap applies to the medium-term fiscal plan. Separately, Japan Credit Rating Agency Ltd (JCR) affirmed the credit ratings of Thailand's long-term government bonds at A- and the baht at A, with a stable outlook.

Though the state will incur a greater fiscal deficit and public debt from fiscal and monetary policies this year, JCR believes that the government will continue to maintain fiscal discipline and keep public debt at a manageable level.

Thai PM says economic crisis will not go away quickly amid pandemic

13-Aug-2020
By Orathai Sriring and Panarat Thepgumpanat
BANGKOK, Aug 13 (Reuters) - **Thailand's prime minister said on Thursday the economic crisis will not disappear quickly amid the coronavirus pandemic as his new cabinet faces the tough task of reviving an economy expected to shrink by a record this year.**
The entire world is suffering one of the worst economic challenges in modern times, and Thailand is caught up in that global storm because it is dependent heavily on exports and tourism, Prayuth Chan-ocha said in a televised address.
"We cannot escape the storm. We are a small boat in a big ocean, and our economy can only start returning to normality when the rest of the world starts returning to normality," he said after his new cabinet members were sworn in on Wednesday.
In a cabinet shake-up, veteran banking executive Predee Daochai was picked as finance minister and Supattanapong Punmeechaow was named energy minister and deputy prime minister in charge of the finance ministry and the state planning agency.
"The economy is as big a threat to our lives as is the health threat, and which is why I have appointed non-politician, outside experts to manage the essential financial portfolios," Prayuth said.
He said he had some guidelines for his ministers to follow, including providing short-term pain relief to the people and ensuring right programmed are rolled out.
Incentives must be provided to help people stay employed and businesses to be competitive and there must be a plan for youth employment, he said, adding all of these must be done with transparency and integrity.
Earlier on Thursday, Prayuth approved to set up an economic centre with two committees tasked with preparing economic measures and driving them.
The finance ministry has forecast the economy to contract by a record 8.5% this year, although the government has introduced stimulus measures, including a 1.9 trillion baht ($61.21 billion) package, in a bid to mitigate the outbreak impact.

($1 = 31.04 baht)
(Reporting by Orathai Sriring and Panarat Thepgumpanat
Editing by Nick Zieminski)
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Thailand makes sustainability bond debut

14-Aug-2020
By Kit Yin Boey
SINGAPORE, Aug 14 (IFR) - **The Kingdom of Thailand yesterday raised Bt30bn (US$966.7m) from an inaugural sustainability bond that builds on growing demand for the asset class and helps fund its response to the Covid-19 crisis.**
The long 15-year bonds, due on December 17 2035, priced at par to yield 1.585% in a deal managed by the Ministry of Finance’s Public Debt Management Office (PDMO).
This will be the first issuance in the government’s overall plan to sell Bt100bn of green and social bonds over the next two years to ensure sufficient liquidity and deepen awareness among local investors.
“We made it very clear to the investors that the bond will become the new 15-year benchmark in the Thai government bond yield curve,” said a government official close to the deal.
The new bond priced slightly inside the current 15-year TGB benchmark, which was quoted at 1.59% on Thursday.
As part of its goal to diversify and expand its investor base, the Thai government reached out to global investors in addition to local investors during the roadshows. Demand was healthy with books reaching Bt60bn. Foreign investors, including foreign banks, made up 20% of final allocations, said the government source.
The offering was split into two tranches. The proceeds from a Bt10bn tranche will be on-lent to a government-owned mass rapid transit project, while the other Bt20bn tranche will partially fund the government’s Covid-19 economic stimulus programme. Both tranches fall under Thailand’s sustainable financing framework which covers both green and social projects.
Bangkok Bank, Bank of Ayudhya and Standard Chartered Bank Thai were joint sustainability structuring advisers and joint lead managers.
The transaction initially took shape as a green bond to help refinance capital expenditure on the Bt113.3bn Bangkok MRT orange line. The electric trains will reduce the city's infamous traffic snarls and reduce road pollution – both environmentally-friendly features.
The outbreak of the coronavirus, however, forced the government to take action. Ministers announced a Bt1.9trn stimulus package in May to support an economy that has been badly hit by the coronavirus outbreak, especially from the collapse of the tourism industry. It estimated it needed to raise Bt1trn to fund the stimulus package and this gave rise to the idea of packaging the green and social elements into the sustainability bond.
Funds from the second tranche under the social category will be used to partly finance or refinance expenditure in public health-related spending, financial support and cash handouts to

SMEs and people affected by the pandemic, as well as the restoration of economic activities and public infrastructure facilities.
A second-party opinion for the sustainable bonds was obtained from independent ESG and corporate governance provider Sustainalytics.
PDMO is also issuing savings bonds, benchmark long-term bonds, promissory notes and term loans, among other products, to raise the financing needed to support the stimulus programme. Another idea being explored is a US dollar bond, but this is more costly than a baht-denominated one under current market conditions. PDMO told IFR that the plan was still on the table and it would wait for more conducive conditions.
The Thai government is the latest issuer to take advantage of growing appetite among local investors for green and sustainable instruments.
State-owned oil and gas company PTT sold its debut green bond at end-June, pricing the Bt2bn three-year note at 2.25%. The company followed in the footsteps of other issuers, including TMB Bank in June 2018, Kasikornbank in October 2018 and Energy Absolute in October last year.

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EUROPE

Belarus

Sanctions threat adds "downside risks" to Belarus credit rating

12-Aug-2020
LONDON, Aug 12 (Reuters) **- The threat of international sanctions on Belarus following the disputed election win of its authoritarian President Alexander Lukashenko on Sunday adds to the risks to its credit rating, S&P Global said on Wednesday.**
European Union foreign ministers will meet on Friday to discuss targeted sanctions after claims of widespread vote rigging and a fierce crackdown on protests.
"Prospects of international sanctions in response to the (Belarus) authorities' handling of the situation are rising, in our view," S&P's two main sovereign analysts for the country said in a report.
"Even though there is no immediate effect on our sovereign credit ratings on Belarus, we consider that downside risks are rising."
S&P currently rates Belarus in the non-investment grade B category and has a 'stable' outlook on the rating.
Official results handed Lukashenko, in power for more than a quarter of a century, an 80% share of the vote in Sunday's election. Svetlana Tikhanouskaya, who emerged from obscurity to become his main rival, took just 9.9%.

(Reporting by Marc Jones; editing by Sujata Rao)
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Bosnia

Bosnia's Serb Republic to offer 10.2 mln euro of 1-yr T-bills on Aug 17

10-Aug-2020
SARAJEVO (Bosnia and Herzegovina), August 10 (SeeNews) – **Bosnia's Serb Republic will offer 20 million marka ($12 million/10.2 million euro) worth of one-year Treasury bills at an auction on August 17, the entity's finance ministry said.**
The T-bill issue will mature on August 17, 2021, the finance ministry said in an auction notice on Friday.
At the last auction of one-year Treasury bills, held on July 5, 2017, the Serb Republic sold 23.8 million marka worth of government paper, above its 15 million marka target. The yield fell to 0.75%, from 1.0% at the previous auction of one-year T-bills held on January 30, 2017.

(1 euro = 1.95583 marka)

Bulgaria

Bulgaria's economy contracts 8.2% y/y in Q2

14-Aug-2020
SOFIA, Aug 14 (Reuters) - **Bulgaria's economy contracted by 8.2% on an annual basis in the second quarter compared to 2.4% expansion in first quarter due to coronavirus that hit on business activity, a flash estimate from the statistics office showed on Friday.**
On a quarterly basis, the small and open economy fell 9.8% from April to June in seasonally adjusted terms from 0.3% increase in the first quarter, the statistics office said.
The European Commission estimates Bulgaria's annual GDP drop at 7.2% because of the coronavirus crisis.

(Reporting by Tsvetelia Tsolova)
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Croatia

Croatia to offer 800 mln kuna (106.5 mln euro) of 1-yr T-bills on Aug 18

13-Aug-2020
ZAGREB (Croatia), August 13 (SeeNews) - **Croatia's finance ministry said on Thursday it will offer 800 million kuna ($126.2 million/106.5 million euro) worth of one-year Treasury bills at an auction on August 18.**
The government securities will mature on August 19, 2021, the finance ministry said in a notice.
The finance ministry sold 586 million kuna worth of government securities, above its 500 million kuna target, at the last auction of one-year Treasury bills held on June 23. The yield was 0.06%, unchanged in comparison with the previous auction of one-year T-bills held on May 26.

(1 euro = 7.50740 kuna)

Georgia

Fitch Affirms Georgia at 'BB'; Outlook Negative

14-Aug-2020
Aug 14 (Reuters) -
- **Fitch affirms Georgia at 'BB'; outlook negative**
- Fitch says negative outlook reflects significant impact of coronavirus pandemic on Georgia's economy

(Reuters.Briefs@thomsonreuters.com)

Hungary

Fitch Affirms Hungary at 'BBB'; Outlook Stable

14-Aug-2020
Aug 14 (Reuters) -
- **Fitch affirms Hungary at 'BBB'; outlook stable**
- Fitch says Hungary's 'BBB' rating balances strong structural indicators, a stable banking system

(Reuters.Briefs@thomsonreuters.com)

Poland

Poland's C/A surplus beats estimates on export growth

13-Aug-2020
Aug 13 (Reuters) - **Poland posted a bigger-than-expected current account surplus for June on Thursday, central bank data showed, with exports rebounding as the economy reopened after the coronavirus pandemic, while imports fell.**
The data was the latest in a series of readings that have surprised to the upside, signalling that the largest economy in the European Union's eastern wing may recover faster than expected from the coronavirus lockdown.
"This confirms the V-shaped recovery scenario," said Piotr Bielski, director of the economic analysis department at Santander Bank Polska.
The current account surplus amounted to 2.842 billion euros ($3.36 billion) in June, compared to a revised surplus of 2.321 billion euros in the previous month. Economists polled by Reuters had expected a surplus of 2.005 billion euros in June.
"From the macro point of view, the data is still heavily influenced by the pandemic," said Grzegorz Maliszewski, chief economist at Bank Millennium.
"Unblocking the economy has triggered exports, but imports have not kept up, which may be the result of lower prices of raw materials, but also problems in the supply of components from abroad."

($1 = 0.8450 euros)
(Reporting by Gdansk Newsroom, Anna Koper and Alicja Ptak, writing by Alan Charlish
Editing by Gareth Jones)
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Romania

Romania's foreign trade gap widens in June

10-Aug-2020
BUCHAREST, Aug 10 (Reuters) - **Romania's foreign trade deficit widened by 12.1% on the year in the first half of this year to 8.67 billion euros ($10.22 billion), the National Statistics Board said on Monday.**
The June deficit was 1.321 billion euros, it said.
The statistics board said January-June CIF (cost/insurance/freight) imports were 37.26 billion euros, down 12.6% on the year, while exports were 28.59 billion euros, down 18.1%.

($1 = 0.8479 euros)
(Reporting by Radu Marinas)
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Romania to run a budget deficit of 8.6% of GDP in 2020, finance minister says

13-Aug-2020

BUCHAREST, Aug 13 (Reuters) - **Romania's consolidated budget deficit will jump to 8.6% of gross domestic product this year while the economy will contract by 3.8%, as a result of the coronavirus crisis, Finance Minister Florin Citu said on Thursday.**

The country has reported 66,631 infections and 2,860 deaths since the virus reached it in late February and the centrist minority government is expected to extend a state of alert until mid-September at a meeting on Friday.

The government is also expected to approve a budget revision incorporating the new figures, which are larger than the 1.9% economic contraction and 6.7% of GDP budget shortfall estimated in a first revision in April.

The cabinet will allot more funds to the health and education ministries to support measures to curb the pandemic, as well as to transport infrastructure to support investment, Citu told reporters. He added the government has spent 20 billion lei ($4.89 billion) on investment projects by end-July.

The government has also allotted funds to raise child benefits and state pensions, a contentious issue for Prime Minister Ludovic Orban's Liberal cabinet ahead of a local election in late September and parliamentary polls later this year.

The Social Democrats, in power until last November and still parliament's biggest party, had initially approved last year a massive 40% hike in all state pensions from Sept. 1 and a doubling of child benefits, prompting warnings of ratings downgrades.

The government has scaled that back, approving a decree which raises child benefits by only 20% this year, doubling them in stages by 2022.

Finance Minister Florin Citu told Reuters on Thursday state pensions will rise by 14% in September, a move that will cost 3.6 billion lei ($880.63 million).

The Social Democrats have said they will file a no-confidence vote against the government later this month. While it is unclear whether the motion could pass, the party could garner enough votes to reject the smaller pension hike.

The Romanian leu was 0.1% higher versus the euro.

($1 = 4.0880 lei)
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Russia

Finance minister hails Russia's low debt after deficit spikes in July

13-Aug-2020

MOSCOW, Aug 13 (Reuters) - **Russia's debt burden remains low compared with other countries, Finance Minister Anton Siluanov said on Thursday, the day after preliminary data showed the country's deficit spiking in July amid higher state spending.**

Russia had to boost spending and step up borrowing to steer through an economic crisis sparked by a drop in prices for oil, its main export, and the coronavirus pandemic.

Siluanov said Russia's debt-to-gross domestic product ratio was well below the International Monetary Fund's forecast for world public debt, which it forecasts will reach 101.5% of global GDP in 2020.

"The size of public debt is kept at a safe level - below 20% of GDP - and remains one of the lowest in the world," said Siluanov in a statement

Siluanov's comments come after data showed Russia's budget deficit reached 1.5 trillion roubles ($20.65 billion) in the first seven months of 2020, nearly doubling from January-June levels, as Russia sought to deal with its stuttering economy, bruised by the COVID-19 pandemic.

In July alone, Russia's budget deficit was 699 billion roubles. That is a record high, said Evgeniy Suvorov, an economist at Loko-Invest, adding that state borrowing via OFZ treasury bonds will remain the main source for plugging budget holes this year.

Siluanov also said restrictions on business activity, caused by coronavirus-induced lockdowns, and lower oil prices had strained federal budget revenues, but that gold and foreign exchange reserves at close to $600 billion were testament to Russia's financial and economic stability.

($1 = 73.6050 roubles)
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Slovenia

Slovenia seeks 1.1 bln euro under EU's SURE instrument

13-Aug-2020

LJUBLJANA (Slovenia), August 13 (SeeNews) - **The Slovenian government said it has applied for 1.1 billion euro ($1.3 billion) financing from the European Union's temporary Support to mitigate Unemployment Risks in an**

Emergency (SURE) instrument aimed at protecting jobs amid the ongoing Covid-19 crisis.
The government has sent a formal application for financial support for some of the measures it has started implementing during the pandemic, including reduced working hours, securing of basic income and exemption from social contributions for self-employed, among others, it said in a statement earlier this week.
The exact amount and the other terms of the EU loan will be determined in the approval process.
SURE is a temporary financing scheme designed to provide up to 100 billion euro of loans under favourable terms to EU member states. The instrument enables member states to request EU financial support to help finance the sudden and severe increases of national public expenditure.

($=0.848364 euro)

Turkey

Turkey to miss budget deficit target

12-Aug-2020
ISTANBUL, Aug 12 (Reuters) - **Turkey will miss its budget deficit target this year and the deficit will likely be around 5-6% of gross domestic product, Turkish Finance Minister Berat Albayrak said on Wednesday in an interview with broadcaster CNN Turk.**
He also said that in terms of economic growth Turkey will end the year better than it did during a 2008-2009 financial crisis.

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Turkish lira hits record low as CA deficit grows

14-Aug-2020
ISTANBUL, Aug 14 (Reuters) - **The lira fell to a record low on Friday as data showed Turkey accumulated a nearly $20 billion current account deficit in the first half of the year, and President Tayyip Erdogan said his economic council would meet in coming days.**
Separate data showed factory output returned to year-over-year growth in June, but it fell short of expectations. The economy is emerging from a coronavirus lockdown only to be hit with a volatile selloff in the currency.
The government has downplayed the exchange rate volatility and Erdogan said Turkey remains on "solid ground" despite what he called "attacks". His economic council would convene this week to discuss developments, he said.
Expectations have risen for Ankara to hike interest rates and take other decisive steps to halt the three-week slide in the lira, which is down nearly 20% and among the worst emerging market performers this year.
The currency touched a record of 7.3825 versus the dollar, surpassing last week's low point, and was down 0.4% at 7.376 at 1239 GMT.
Analysts and investors say further depreciation risks import-driven inflation, further depleted FX reserves and a rising current account deficit that makes servicing debt more difficult.
Central bank data showed the country's current account deficit was $2.934 billion in June, more than a poll forecast of $2.825 billion, but down from the previous month.
Citigroup analysts said it shows a "visible deterioration in the services balance which may continue (through) the year due to weak tourism revenues," which have been hit by the pandemic, and they predicted a deficit of 3% of GDP by year end.
Many Turks and local businesses have turned to hard currencies and gold in recent weeks, piling more pressure on the lira. Some firms said they could delay investments and continue converting FX loans.
Industrial production rose 0.1% in June from a year ago, expanding for the first time since February, before the lockdown. A Reuters poll forecasted 1.1% growth.
The central bank has halted cheap credit lines to stabilize the lira via backdoor tightening and on Friday it did not open a repo auction.
Money market prices implied traders were raising bets the bank would raise its 8.25% policy rate next week, while dollar-denominated **Turkish sovereign bonds dropped by their most in a week according to Tradeweb data.**
A monthly survey of business leaders and economists, published by the central bank, showed the lira was expected to end the year around current levels.
The Institute of International Finance sees lira "fair value" at 7.5 versus the dollar.
Its chief economist, Robin Brooks, said: "Much as in the wake of the 2018 sudden stop, we anticipate a correction in the current account deficit that widened earlier in 2020 due to the large credit expansion."

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LATIN AMERICA AND CARIBBEAN

Argentina

IMF to start negotiating new Argentine lending deal over coming weeks

08-Aug-2020
By Hugh Bronstein
BUENOS AIRES, Aug 8 (Reuters) - **Argentina will start talks with the International Monetary Fund in the coming weeks aimed at clinching a new program to replace a defunct $57 billion standby lending deal from two years ago, a top IMF official told Reuters on Saturday.**
In 2018, Argentina received the biggest lending package in IMF history in an ill-fated bid to halt a slide in the local peso currency. About $44 billion of the allotted cash has been paid out so far.
"Within the next few weeks Argentina plans to formally request the initiation of conversations for a new program that would succeed the derailed and canceled 2018 program," said Sergio Chodos, IMF executive director for the Southern Cone.
"There is no stringent deadline for conclusion of the upcoming talks because the calendar of maturities of principal owed to the fund does not start until Sept. 21, 2021. So the discussion process can be well thought out," Chodos said in a telephone interview.
New lending from the IMF will not be part of the upcoming accord, he added. The government has had to renegotiate about $65 billion in bonds as the country sinks into what is expected to be a 12.5% recession this year.
"We stand ready to support Argentina, including engaging with the authorities on a new IMF-supported program when the authorities so desire. However, at this stage no request has been made," a fund spokesman said in an emailed statement.
The government is talking with undecided bondholders about supporting a sovereign debt restructuring deal it reached several days ago with key creditors groups. The government had said it would finalize the bond restructuring before setting out to revamp its IMF agreement.
Argentina's previous government ran into a cash crunch two years ago after President Mauricio Macri's austerity drive, which included cuts to energy subsidies, jacked up electricity bills paid by businesses. Vendors increased consumer prices to help cover their rising energy costs, fueling inflation.
The foreign direct investment that Macri promised would be attracted by his market-friendly policies never materialized.
Macri was voted out of office last year and succeeded by Peronist Alberto Fernandez, who has vowed not to impose fiscal austerity while the country grapples with the fallout from the coronavirus pandemic.

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Zen monk, Zoom and virus: inside Argentina's $65 bln debt deal

10-Aug-2020
BUENOS AIRES/LONDON/NEW YORK, Aug 10 (Reuters) **- As the clock ticked past midnight on Aug. 4, Argentine negotiators knew a deal was close to break the deadlock on a $65 billion debt deal, one of the biggest ever sovereign restructurings which has tested global financial markets.**
The talks, on a knife-edge as tensions rose between officials and creditors, had been dragged back on course by last-ditch calls between government advisers, major creditors including BlackRock, which clashed openly with Argentina earlier this year, and Economy Minister Martin Guzman.
Guzman and BlackRock's key negotiator Jennifer O'Neil, in weekend talks, had arrived by Sunday night at the framework of a deal bridging the gap between the two sides. It needed to be cleared with other creditors, but the involvement of the world's largest asset manager was key to getting it across the line.
Guzman gave the green light to advisers, including top executives from Bank of America and HSBC, saying: "Get it finished", one person close to the talks recalled.
Talks had twisted since the start of the year in a process hindered by the coronavirus pandemic, sailing past multiple deadlines as key creditors clashed with Guzman, a 37-year-old economist with close ties to Nobel laureate Joseph Stiglitz.
In mid-June, two of the major creditor groups slammed the negotiations as having failed. A "final" government offer made in early July was rejected too and that same Sunday Guzman warned creditors a no deal would see talks stall for months.
Now, with the political will behind a deal, advisers including Bank of America's country chief Sebastián Loketek sat across the digital negotiating table from O'Neil and Pablo Federico from Ayres Capital, another important creditor.
Guzman was on a constant direct line.
"The negotiation that started on Sunday was intense, it was tough," the first person said. "We slept two or three hours between Sunday to Tuesday at 3 a.m."
Calls went on between the creditors to rally behind the proposal which settled at around 54.8 cents on the dollar, a compromise between what had become entrenched positions of the government and the three creditor groups that unified in July.
On Monday morning creditors held a 9 a.m. call to discuss the proposal, a second person close to the talks said. An outline of what the groups would accept was sent back on WhatsApp, a third person said, before lawyers for both sides

worked on Monday afternoon to bulletproof a final statement.
Graham Stock, an emerging markets strategist at creditor BlueBay Asset Management, part of the so-called Ad Hoc group with BlackRock, said everything had been "fluid" right up until Monday. But the concessions got "unanimous" support.
"They managed to craft a midway point between our latest proposal and the government's latest offer that was satisfactory to other members of the group and to the government."
At 3.01 a.m. on Tuesday Guzman wrote on Twitter that Argentina and the three key creditor groups had reached a deal.
"Right up until the press release was sent I was never 100% certain," said the second person. "There was tension all the way until the end."

'PERSONAL CONNECTION'

At times a deal had looked a distant prospect, raising fears of legal battles that Argentina's creditors recalled only too well from a messy restructuring after a default in 2001-02 that left the country as a pariah in global markets.
At a low-point in the talks in May, government officials aimed barbs, especially at another of BlackRock's negotiators Gerardo Rodriguez, a former Mexican finance undersecretary who had been key to raising BlackRock's exposure in the grains powerhouse during the previous government of Mauricio Macri.
Creditors criticized Guzman for side-lining people in talks.
A source close to the government recalled an early exchange during which Rodriguez told Guzman creditors may "just wait for the next government, however soon that may be".
As talks progressed, officials and creditors said Rodriguez took a less prominent role while O'Neil, an expert on corporate restructuring, came to the fore.
During increasingly frequent phone calls in English - O'Neil speaks no Spanish - she and Guzman discussed their shared interests in running and New York City, where the minister had spent some time, before diving into technicalities over debt.
"There was a personal connection which helped establish some level of trust," said a person close to the talks.
BlackRock declined to comment and Reuters could not reach Rodriguez, its portfolio manager for emerging markets.

'ZEN-LIKE CALMNESS'

Guzman, though politically untested, was an academic expert on sovereign restructurings. Since taking office he has helped Argentina get strong support from prominent economists and built a close relationship with the IMF and even Pope Francis.
Stiglitz, Guzman's mentor at Columbia University and co-author of many papers including one on economic crises published during the talks, said the minister carries "Zen-like calmness, laser focus and expertise."
"He brought in a knowledge set and analytic ability that was unusual," Stiglitz told Reuters. "The Alpha males in the credit world are used to dealing with countries that don't have that degree of confidence."
Riccardo Grassi, risk manager at creditor Mangart Capital Advisors, agreed the minister was usually calm but said he could at times become irritated. The person close to the government and with direct knowledge of the talks described Guzman as "like a Zen monk warrior."
Guzman did not respond to requests for comment.
After sweeping into power in December, Fernandez and Guzman made their first offer to creditors in April. At around 40 cents on the dollar it was an aggressive opening gambit.
Gorky Urquieta, co-head of emerging markets debt at Neuberger Berman, a holder of Argentine bonds, echoed many creditors, calling the initial offer "absolutely unacceptable."
"It needed five minutes to reject it," he said.
Since then, Urquieta said, the talks had been "very Argentina style, a lot of drama around it, a big, long saga that seems to be coming close to a resolution."

'MOMENT OF HAPPINESS'

That drama was heightened by the pandemic. Argentina imposed a nationwide lockdown on March 20 and closed its borders, meaning negotiations that once would have been face-to-face suddenly had to be done on video platforms like Zoom.
As the endgame neared, creditors said advisers like UBS and Mens Sana helped eased tensions, helping navigate local politics and facilitate easing communication between the creditors themselves, who were at time fragmented.
Others identified important go-betweens like Sergio Massa, the well-connected head of Argentina's lower house of Congress.
"Sergio helped a lot to prevent people from exploding," the first source said, adding that Massa's role was to assure his markets contacts "that Argentina wanted to fix things."
In mid-July creditors rallied behind their own proposal, demanding changes to legal clauses and around 3 cents on the dollar more in value. The groups - that together could block a deal - rejected the government's 'final' proposal.
Carl Ross at GMO, who was on the steering committee of the Argentina Creditor Committee, said the groups combining was vital for leverage, but also there was growing recognition that backing the government into a corner came with risks.
"It was clear that politically it was going to be impossible (for Argentina to raise the offer) and there was a risk the more radical elements would win out," he said.
When the final Zoom calls were made to seal the agreement, Marcelo Delmar, an advisor from Mens Sana, said there was more a sense of relief than euphoria.
Creditors still have to formally accept the deal by an Aug. 24 deadline, though three of the people close to the talks said it looked like at least 85-90% would take part, maybe more.

"Yes it was a moment of happiness," said Delmar. "But then life goes on."

(Reporting by Adam Jourdan, Nicolas Misculin and Hugh Bronstein in Buenos Aires, Marc Jones, Tom Arnold and Karin Strohecker in London and Rodrigo Campos in New York; Additional reporting by Eliana Raszewski and Cassandra Garrison in Buenos Aires and Stefanie Eschenbacher in Mexico City; Editing by Daniel Wallis)
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Argentina looks to IMF for more breathing space

11-Aug-2020
By Rodrigo Campos
NEW YORK, Aug 11 (Reuters) **- After reaching a $65 billion restructuring agreement in principle with its creditors earlier this month, Argentina must now turn to relief from the International Monetary Fund to free up cash in the near term, the IIF said on Tuesday.**
"We think external financing will be comfortable if the IMF rolls over its exposure," the Institute of International Finance said in a note.
The agreement with creditors gives Argentina much-needed breathing space.
Cash flows into and out of the country have ground to a halt, partly due to capital controls and the non-payment of obligations during the debt negotiations.
"As long as capital controls remain in place, resident capital flight will not be a source of pressure," said the IIF note.
Payments to the IMF could quickly become unsustainable under the current schedule.
The large payments due to the IMF stem from having received the largest-ever program from the Fund in 2018.
Beyond that new agreement expected with the IMF, investors are focused on Argentina's medium-term economic plan, according to Sergi Lanau, deputy chief economist at the IIF.
Prudent fiscal policy has been hard to come by for Argentina, Lanau said, adding that the government has done "a lot" on the tax side and now it is "more likely that it's unavoidable to look for savings on the spending side.
"That's always politically and socially complicated, but it needs to be done."

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Belize

Belize debt amendment deal with creditors prompts ratings downgrade

13-Aug-2020
By Rodrigo Campos
NEW YORK, Aug 12 (Reuters) **- A deal between Belize and its creditors to amend the terms of bonds due in 2034 triggered a downgrade on Wednesday of the Central American country's sovereign debt rating.**
The government said on Monday that holders of 82% of the outstanding bonds voted in favor of the amendment, more than the required 75% under collective action clauses (CAC).
The amendment defers and capitalizes quarterly interest payments due from Aug. 20 through Feb. 20 of next year, without affecting the bonds' final maturity.
Having reached the CAC thresholds, all holders are bound to the amendments.
Belize, which is heavily dependent on tourism, launched the proposal last month. It told its creditors it could not afford the next three interest payments, partly due to the economic hit from the COVID-19 pandemic.
"This is a case of bondholders being constructive when faced with a situation where they recognize a country has some short-term liquidity constraints due to the coronavirus pandemic," said Thomas Laryea at Orrick, Herrington & Sutcliffe, legal counsel to the bondholders' steering committee.
Standard & Poor's cut Belize's foreign currency rating to "selective default" on Wednesday, and lowered the rating on Belize's 2034 bond to 'D'.
"We will consider raising the ratings once the new terms and conditions of the 2034 bonds come into effect," S&P said in a statement.
The 2034 bond had over $526.5 million outstanding, according to Refinitiv data.

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Bermuda

Bermuda preps new dollar bond to fund debt tender

11-Aug-2020
By Miluska Berrospi
NEW YORK, Aug 11 (IFR) - **The government of Bermuda is eyeing a potential dollar issuance in the primary market as soon as next week, say banking sources.**
Banks on the deal are holding investor calls throughout the week to market a 144A/Reg S deal to fund a cash tender for outstanding bonds.
Bermuda, rated A2/A+, is looking to buy back up to US$500m of its outstanding 4.138%

2023s, 4.854% 2024s, 3.717% 2027s and 4.750% 2029s. Results from the tender offer are expected on Monday.
This will mark the country's first transaction in the primary dollar market since 2018, when it sold a 4.75% 10-year note.
Those bonds have since rallied to a bid price of 117 for yield of 2.52%.
Goldman Sachs and HSBC Securities are acting as leads.

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Brazil

Brazil can live with record debt, deficits despite the noise

12-Aug-2020
By Jamie McGeever
BRASILIA, Aug 12 (Reuters) **- Brazil is amassing a record debt that has evoked memories of crises past in South America's largest economy, but some economists say rock-bottom interest rates and low foreign debt mean the government can continue to spend its way out of recession.**
The debate in Brazil about getting the public finances in order is cranking up, with a key government fiscal rule looking set to be broken.
Brazil is on course to post a record 800 billion reais ($115 billion) budget deficit this year due to crisis-fighting expenditure, swelling the national debt to a high of around 95% of gross domestic product - an exceptional level for an emerging market economy.
Barring a dramatic surge in revenues or an expenditure squeeze, the spending cap - which limits growth in non-obligatory government outlays to the rate of inflation - will be broken next year.
The government will present its 2021 budget later this month. The ceiling is 1.485 trillion reais ($275 billion), only 31 bln reais more than this year. That leaves hardly any room for maneuver in normal times, never mind the extra social, health and investment spending needed in a pandemic.
Economy Minister Paulo Guedes and many economists say the cap, passed during the presidency of Michel Temer in 2016, is the foundation on which Brazil's fiscal credibility is built. The belief that it will not be breached has compressed market-based interest rates and given the central bank room to cut official rates to a record low of 2.00%, they say.
But several market-based rates show scant evidence of these fears, and the case for maintaining or even increasing deficit spending to mitigate the biggest economic crash on record is compelling, many others say.
Congress already passed an emergency 'war budget' this year worth around 600 billion reais, which is exempt from normal budget rules like the spending cap.
"Just as the market has learned to live with an 800 billion reais deficit, it can learn to live with a conversation about modifying the spending cap. It's inevitable it will be changed in some way," said Jose Francisco Goncalves, chief economist at Banco Fator in Sao Paulo.
Crucially, just 3 percent of Brazil's total $1.45 trillion debt is in foreign currency, according to the Bank for International Settlements. That is one of the lowest levels in emerging markets - leaving the government less exposed to currency fluctuations than in the past.
Within that, over 90% is owed to its own citizens, according to Treasury figures, meaning the government is also less exposed to changes in sentiment among foreign investors.
And if a debt crisis were to arise, Brazil has a warchest of $334 billion in foreign currency reserves to fight it. That is more than 20% of GDP, high by international standards.
As long as Brazilians are prepared to lend to the government - and there is no evidence to the contrary - it can bend its rules, help millions of its citizens through a savage recession, and provide much-needed economic stimulus.
"People said there was no money. Then 600 billion reais appeared from nowhere, and it's all right. Money creation is just a question of what it is for," said Goncalves.
RETHINKING DEFICITS
Some analysts say the fixation with deficit and debt reduction is a legacy of crises past. As recently as the 1990s Brazil experienced hyperinflation of 7,000%, and a painful currency and debt crisis.
"People in Brazil think that big deficits will create a confidence crisis which will lift short-term interest rates and then you can't finance your budget. But what we are seeing is the opposite," said a budget analyst in Brasilia, speaking on condition of anonymity.
"People think big deficits will create inflationary pressures. But this doesn't make any sense because right now we have massive unemployment and huge spare capacity," he said.
For many economists, Brazil is part of the global trend since the Great Financial Crisis of tepid growth, low inflation, and plunging interest rates, despite ballooning budget deficits.
The real yield on Brazil's five-year inflation-linked bonds is just 1.55%, less than pre-coronavirus levels of over 2%. The real interest rate on January 2022 rate futures, accounting for market inflation forecasts, is negative. The real benchmark 'Selic' rate is also now negative.
This suggests financial markets believe the record budget deficit poses little inflation, interest rate or government financing risk, despite the public and often noisy debate.
The government insists Brazil cannot afford to keep the fiscal taps running. But it may be that it cannot afford not to, according to a working paper by PhD student Marina Sanches and professor Laura Carvalho at the University of

Sao Paulo, which looks at current fiscal policy in the wake of the 1997-2018 period.

They found that if government investment had been held constant since its fiscal consolidation plan started in 2015, GDP in 2017 would have been 1.4% higher. If federal investment had expanded at the same average pace as in the 2006-10 period, GDP would have been 6.7% higher.

Output would be 2.5% lower if social benefits had not grown in 2016 and 2017 due to tight spending controls, they said.

($1 = 5.45 reais)
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Why Brazil is on course to shatter its fiscal 'ceiling'

13-Aug-2020
By Jamie McGeever

BRASILIA, Aug 13 (Reuters) **- Brazil's constitutional spending cap, a cornerstone of fiscal policy in recent years, is on course to being broken in 2021.**

Government officials insist it will not be altered, warning that to do so would dent the government's credibility and rattle investor confidence in Brazil, pushing up interest rates and hurting growth.

But with Brazil's economy on track for its biggest annual crash ever due to the coronavirus pandemic, the need for fiscal support has never been greater. A growing number of economists argue the spending cap must be raised, tweaked or abolished.

WHAT IS THE FISCAL 'CEILING'?

In December 2016, Congress passed a 20-year 'ceiling' to slow public spending growth, control a ballooning budget deficit and bring public finances back to long-term health.

The constitutional amendment limits the growth in federal government expenditure to the previous year's rate of inflation.

WHY SO LITTLE ROOM TO MANEUVER?

Obligatory spending, such as public-sector pensions, salaries, social security and education, account for more than 90% of all outlays, leaving little room for discretionary expenditure, such as infrastructure and other public investment.

Pensions alone make up half the pie. An aging population and ample coverage for public pensions are expanding that bill faster than inflation, forcing the other half of the pie to shrink in nominal terms, never mind real terms.

However, that second half includes health and education expenditure, which have their own spending 'floors' guaranteeing minimum outlays. It also includes public-sector salaries, which are constitutionally prevented from falling.

WHERE ARE CRACKS APPEARING?

The orthodox view shared by the Economy Ministry, central bank, many lawmakers, most investors and mainstream economists is that the cap is virtually sacrosanct.

However, the COVID-19 crisis has brought the fragility of the budget rule into sharp focus. A growing number of economists say it must be changed to prevent a disastrous collapse in public investment.

Next year's budget is capped at 1.485 trillion reais ($275 billion), only 31 billion reais more than this year. That would give very little room to maneuver in normal times, let alone during a pandemic that has tanked the economy.

Congress passed a parallel 'war budget' of about 600 billion reais this year as part of a nationwide "state of public calamity" - emergency spending not subject to the spending cap.

With some lawmakers now pushing to extend that pandemic stimulus into next year, Brazil's budget is on a collision course with the constitutional 'ceiling.'

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Brazil central bank bond buys would only be to ensure smooth market functioning

13-Aug-2020

BRASILIA, Aug 13 (Reuters) - **Any future bond purchases by Brazil's central bank would be to ensure the market functions smoothly, and not to assist fiscal policy, the bank's Economic Policy director Fabio Kanczuk said on Thursday.**

In an online event hosted by the Rio de Janeiro banking association Aberj, Kanczuk's presentation made no mention of short-term monetary policy, interest rates or the bank's latest strategy of 'forward guidance'.

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Brazil's Bolsonaro reiterates support for spending cap rule

14-Aug-2020

SAO PAULO, Aug 14 (Reuters) **- Brazilian President Jair Bolsonaro said on Friday he is committed to keeping his government on a path of strict fiscal discipline, in particular giving his full support to a key spending rule that he had previously indicated is up for**

debate.
In a post on Facebook, Bolsonaro said the spending ceiling rule that limits the growth in government expenditure to the rate of inflation is a critical policy for his administration, and slammed the press for reporting otherwise.
Bolsonaro's comments follow a weekly livestreaming broadcast on Thursday evening in which he said there was a debate among ministers about breaking the cap, something which would likely spook investors and roil financial markets.
Bolsonaro denounced what he called "absurd" reports that "the president admitted that the ceiling could be pierced."
In his broadcast on Thursday, Bolsonaro had said "The idea of breaking the ceiling exists. What's the problem? We are discussing this because everyone wants it. The market has to give us a break too."
The constitutional spending cap is widely seen as a cornerstone of fiscal policy, but is on course to being broken in 2021.
Government officials insist it will not be altered, warning that to do so would dent the government's credibility and rattle investor confidence in Brazil, pushing up interest rates and hurting growth.
But with Brazil's economy on track for its biggest annual crash ever due to the coronavirus pandemic, the need for fiscal support has never been greater. A growing number of economists argue the spending cap must be raised, tweaked or abolished.
Bolsonaro met on Wednesday with Economy Minister Paulo Guedes and lower house speaker Rodrigo Maia, both staunch defenders of the cap.
"We respect the spending ceiling, we want fiscal responsibility," Bolsonaro said after that meeting.

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Chile

Chile passes law allowing central bank to buy national Treasury debt

13-Aug-2020
By Aislinn Laing
SANTIAGO, Aug 12 (Reuters) - **Chile's Congress has approved a law to allow the central bank to buy bonds issued by the country's treasury in the secondary market, potentially giving the bank added firepower to help offset fallout from the COVID-19 crisis.**
Finance minister Ignacio Briones said in a statement that the measure was a "tool of exceptional use" that would help ensure the country was better placed to withstand future financial shocks.
The move represents a shift for Chile. The central bank previously was prohibited from acquiring debt issued by any state organization or from financing public spending through direct or indirect credit.
Chile, the world's top copper producer, has been hit hard by the pandemic. The central bank has forecast that the economy would contract between 5.5% and 7.5% this year, which would be the deepest decline in 35 years.
The finance ministry said in a statement that any bond purchase had to be approved by four out of five of the central bank's directors, and the bonds would be resold by the bank in the open market once the "extraordinary circumstances" passed.
"In no case may debt securities issued by the Treasury, state agencies or companies be acquired in the primary market," it said.
It also highlighted that central banks in developed economies habitually buy and sell Treasury debt instruments in the secondary market as part of their core mandate, using the tool to influence long-term interest rates through unconventional policies.

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Venezuela

Venezuela wins grace period on China oil-for-loan deals, sources say

12-Aug-2020
By Mayela Armas and Corina Pons
CARACAS, Aug 12 (Reuters) - **Venezuela's government has negotiated an agreement with Chinese banks for a grace period until the end of the year on some $19 billion in loans that are paid off with oil shipments, according to three sources in Caracas with knowledge of the situation.**
The government of late socialist leader Hugo Chavez borrowed more than $50 billion from China through the oil-for-loan arrangements, which were mainly underwritten by the state-owned China Development Bank. Chavez's successor, President Nicolas Maduro, stopped making the associated payments as the South American OPEC nation's economy unraveled.
The grace period was the result of talks that Caracas sought with Beijing earlier this year to seek financial support amid the tumble in oil prices and the coronavirus pandemic, according to the sources, who asked not be identified.
"This (arrangement) will be in place until at least December, and then they will re-evaluate it," said one of the sources.
Venezuela's information ministry and state oil company PDVSA, along with China Development

Bank, did not reply to requests for comment.
The spokesperson's office at China's foreign ministry, in a faxed reply to Reuters' questions, said: "I am not aware of the situation that you are saying. I would like to stress that China and Venezuela have a long history of practical cooperation."
Without the grace period, Maduro's government would have to make some $3 billion in payments this year - equivalent to a quarter of 2019 crude exports. Local economists estimate Venezuela's 2020 oil export revenue will be around $4 billion.
Ecuador last week said it had won a grace period on a credit line with the China Development Bank, allowing it to postpone $417 million in payments for one year.
Venezuela since last year has been unable to meet its obligations on the loans, in part due to U.S. sanctions meant to force Maduro from power that create penalties for companies that buy Venezuelan crude.
Chinese state oil company CNPC has stopped buying crude directly from PDVSA as a result of the sanctions, according to three other Venezuelan sources with knowledge of the situation.
"This helps, but it does not alleviate the cash flow problem," said one of the sources.
In 2016, Maduro's government negotiated a grace period that allowed it to make interest-only payments on the debt a deal that lasted for at least a year, according to the sources.
China, which was Venezuela's largest financier during the Chavez era, stopped delivering fresh funds to Venezuela seven years ago.
Maduro earlier this year said Venezuela was receiving personal protection equipment and medical advice from China to confront the COVID-19 pandemic, part of a broader Chinese effort to provide assistance in Latin America.

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AFRICA

Lesotho

Fitch Revises Lesotho's Outlook to Negative Affirms at 'B'

13-Aug-2020
- **Fitch revises Lesotho's outlook to negative; affirms at 'B'**
- Fitch says revision of outlook to negative reflects significant impact of coronavirus pandemic on Lesotho's economy's and public finances
- Fitch says expects that Loti's peg to South African rand, a support for Lesotho's macroeconomic and financial stability, will remain in place

São Tomé and Príncipe

São Tomé and Príncipe eligible for debt relief

12-Aug-2020
PARIS, Aug 12 (Reuters) - **The African country of São Tomé and Príncipe is eligible for debt relief, said the Paris Club of creditor nations on Wednesday.**
The Group of 20 leading world economies and the Paris Club, an informal group of state creditors co-ordinated by the French finance ministry, agreed in April to freeze debt payments of the 77 poorest countries this year.

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South Africa

S. Africa's economic woes bigger than monetary policy

12-Aug-2020
JOHANNESBURG, Aug 12 (Reuters) - **Formally adding unemployment or economic growth to the South African central bank's mandate would risk policy mistakes and hurting its credibility, Governor Lesetja Kganyago said on Wednesday.**
The Reserve Bank (SARB) has long been under pressure to take more drastic measures to revive growth in Africa's most advanced economy, with calls for the bank to slash lending rates and finance government through quantitative easing (QE).
The bank has cut rates by 300 basis points in 2020 to a record-low 3.50%.
And in March it launched a bond-buying program, purchasing government debt in the secondary market to ease a liquidity collapse in the capital markets prompted by the COVID-19 pandemic.
But with the economy already in recession before the coronavirus and set to contract by more than 7% this year, and the government budget nearing double-digits deficit, labour leaders and some politicians have called for more drastic action, including a widening of the bank's mandate.
"The problem is that formally adding an extra mandate, in the context of our propensity to stagflation, could encourage policy mistakes and

weaken credibility," Kganyago said in a speech broadcast virtually by the University of Pretoria.

"While we would all like South Africa to reach permanently high growth, this is beyond the powers of a central bank," Kganyago said, adding the bank would stick to inflation-targeting policy.

"We are in very difficult circumstances, but QE isn't the answer. We need to focus on real solutions."

Razia Khan, chief emerging markets economist at Standard Chartered, said the governor's emphasis on the "deeply negative" output gap suggested the bank was "in no rush to remove the level of policy accommodation".

"But interestingly, there was also a significant emphasis on the signalling importance of the QPM, which should be noted by market participants," Khan said.

The Quarterly Projection Model (QPM) is the bank's main forecasting tool. At the July policy meeting, it indicated one more rate cut of 25 bps in the fourth quarter.

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GLOBAL

World shares sink as data points to tepid economic revival

14-Aug-2020 14:21:46

- **China data misses expectations**
- **Travel stocks sink on British quarantine move**
- **Treasury yields remain high after 30-year auction**

By Tom Arnold

LONDON, Aug 14 (Reuters) - **Global shares dipped on Friday as euro zone data offered little cheer for investors already worried about lacklustre Chinese economic numbers and a delay in U.S. fiscal stimulus.**

European shares were also dragged lower by a hit to travel stocks after Britain added more European countries to its quarantine list, including neighbouring France.

The pan-European STOXX 600 was down 1.2%, although still on track to gain for a second straight week.

MSCI's world index was 0.3% lower, drifting further from all-time highs touched in February. The index has still rallied close to 50% from March's trough in the wake of the COVID-19 pandemic.

"The rally was over-extended and most of the good news is already priced in," said Francois Savary, chief investment officer at Swiss wealth manager Prime Partners.

"There are no more positive than expected earnings, and we're back to the macro background and the checking of the data regularly to see if the recovery is sustainable. Markets are pricing a lot of good news and we will be entering a period of volatility with the U.S. elections coming up."

The euro zone reported the biggest drop it had ever recorded in employment in the second quarter. Data also confirmed a record drop in gross domestic product last quarter and a widening in the euro zone's trade surplus with the rest of the world.

Investors focus next switches to U.S. retail sales figures at 1230 GMT.

Data showing a slower-than-expected rise in Chinese industrial production and a surprise fall in retail sales put Asian shares on the defensive.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.2%, although shares in Japan rose 0.2%.

Chinese shares rose 1.5% in choppy trade, with the data suggesting domestic demand is still struggling after the coronavirus outbreak.

E-mini futures for the S&P 500 were 0.1% negative.

The benchmark German 10-year Bund yield fell to -0.42% after rising for three sessions and having touched a six-week peak in early trade.

Yields on U.S. Treasuries remained elevated after an auction of 30-year bonds on Thursday met weak demand.

Further equity gains are likely to be limited as investors await progress in negotiations over U.S. economic stimulus, which is necessary to prevent a nascent recovery in the world's largest economy from sliding into reverse.

Some traders stuck to the sidelines before a meeting between U.S. and Chinese officials about their Phase 1 trade deal on Saturday.

Spot gold fell 0.3% to $1,948.12 as high U.S. Treasury yields prompted investors to reassess their positions. Bullion has declined more than 4% so far this week, its biggest weekly percentage fall since early March.

Data on Thursday showed the number of Americans seeking unemployment benefits dropped below one million for the first time since the start of the pandemic, but was not enough to change economists' views that the jobs market is faltering.

U.S. Treasury yields also supported the U.S. dollar, which held steady and was close to snapping a seven-week losing streak against the risk-sensitive Aussie. The yen was set for its worst week against the greenback in two months and down about 0.9% at 106.74 from last Friday's close.

The dollar was headed for an eighth consecutive week of losses, its longest weekly losing streak since June 2010, according to a Refinitiv index.

Oil recovered from early losses, with Brent crude flat at $44.96 and U.S. West Texas Intermediate also largely unchanged at $42.24.

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