Click the links below for more info:

>> PDM Network

>> Emerging Markets Weekly Newsletter

>> Bimonthly Newsletter

Emerging Sovereign Debt Markets NEWS

Number 7 Week 8 – 14 February 2020

Table of contents

ASIA 2

Bahrain 2

Bahrain deficit shrinks to 4.7% of GDP in 2019 2

China 3

China 2019 fiscal spending up 8.1%, faster than economic growth 3

S&P Says Estimates Coronavirus Will Lower China'S GDP Growth By 0.7 of Pct Point to 5.0% this Year 3

China allocates 848 bln yuan of local gov't bonds quota 3

India 3

S&P Says India Ratings Affirmed At 'Bbb-/A-3' Outlook Stable 3

India Bonds Gain as Investor Sentiment Positive 4

India Willing To Make Policy Tweaks outside Budget, Finance Minister Says 4

Indonesia 5

Indonesia Q4 current account deficit widens to 2.84% 5

Indonesia to boost spending, incentives as virus fears hit tourism 5

Kazakhstan 5

Foreigners increase holdings of Kazakh central bank, govt debt 5

Laos 6

Fitch Assigns Laos a First-Time 'B-' Rating; Outlook Stable 6

Lebanon 8

Lebanon creditors form "informal discussion group" as debt crunch looms 8

Lebanon studying its options on Eurobonds, finance minister says 8

Lebanon needs economic structural reforms to shore up confidence 9

Lebanon may need 70% debt write off, 50% currency drop, say economists 9

Philippines 10

Fitch Revises Philippines' Outlook to Positive; Affirms at 'BBB' 10

Philippines: PH T-bill rates decline across-the-board 12

South Korea 13

Fitch Affirms Korea at 'AA-'; Outlook Stable 13

South Korean bonds lead foreign inflows into Asian bonds in January 14

Sri Lanka 15

IMF Staff Concludes Visit to Sri Lanka 15

United Arab Emirates 16

Abu Dhabi in talks with banks for new debt issues 16

EUROPE 17

CIS Commonwealth of Independent States 17

Fitch Ratings: CIS and Black Sea Sovereign Rating Momentum Likely to Slow 17

Belarus 18

Belarusian Finance Ministry intends to issue at least 10 bln rubles of bonds in Russia in Q2 18

Bulgaria 18

Moody's completes periodic review of Bulgaria's ratings 18

IMF: Bulgaria could spend more to support growth, reforms 18

Croatia 19

Croatia gears up to refinance two domestic bonds 19

Croatia to offer 1 bln kuna (134.2 mln euro) of 1-yr T-bills on Feb 18 19

Georgia 19

Fitch Affirms Georgia at 'BB'; Outlook Stable 19

Hungary 21

Hungary cuts 2020 GDP forecast to four-year-low of 3.5% 21

Fitch Affirms Hungary at 'BBB'; Outlook Stable 22

Says Hungary Outlook Revised To Positive

on Solid Economic Growth Prospects; 'BBB/A-2' Ratings Affirmed 23
Kosovo...24
Kosovo to sell 25 mln euro of 5-yr T-notes on Feb 19..24
North Macedonia..24
North Macedonia sells 3 bln denars (48.4 mln euro) of govt paper..........................24
Poland 24
Poland surprises with strong December C/A surplus 24
Romania 25
Romania's end-2019 foreign debt rises ..25
Serbia 25
Serbia mulls issuing Chinese yuan-denominated securities 25
Slovenia..25
Slovenia sells 110 mln euro of 3-mo, 6-mo T-bills 25
LATIN AMERICA AND CARIBBEAN 25
Argentina...25
Crunch time for Argentina's debt revamp as IMF mission due this week.................25
Argentina to delay $1.47 billion bond payment amid debt crisis........................26
Argentina sees 'deep debt restructuring' ahead, rejects fiscal austerity.................27
Argentine bonds could take another beating if restructuring talks drag on 27
Brazil 28
Brazil govt holds 2020 GDP call despite "strange" data 28
Brazil deficit outlook dims slightly on lower revenue forecasts 29
Mexico 29
Mexico to issue $425 mln in catastrophe bonds in coming weeks 29
Puerto Rico...29
Puerto Rico's financial oversight board says deal reached to cut Puerto Rico's debt by $24 bln......................................29
AFRICA 29
Algeria..30
Algeria's public debt rises to 45% of GDP, economy "delicate" 30
Egypt 30
Egyptian pound strengthens to three-year high 30
Egypt's net government debt issues increase 12% in first half of 2019-20 30
Ghana 30
Fitch Rates Ghana's USD Notes Final 'B' .30
Nigeria..31
Nigeria considers Eurobond issue, president to seek approval 31
Somalia 31
IMF, World Bank move pushes Somalia closer to debt forgiveness 31
South Africa..32
Fitch Ratings: South Africa President's Speech Highlights Challenges to Credit Outlook...32
GLOBAL 33
Moody's Says Governments Most Exposed to Economic Impact of Coronavirus Tend to Have Strong Buffers to Withstand Transitory Shock....................................33

ASIA

Bahrain

Bahrain deficit shrinks to 4.7% of GDP in 2019

10-Feb-2020

DUBAI, Feb 10 (Reuters) - **Bahrain's budget deficit shrank to 4.7% of gross domestic product (GDP) in 2019 from 6.3% a year earlier, the ministry of finance said on Monday citing preliminary fiscal results.**

The small Gulf state aims to deliver a balanced budget by 2022 as part of a programme of fiscal reforms linked to a $10 billion financial aid package received in 2018 from its Gulf allies.

Reforms so far included a spending review, a voluntary retirement scheme for public sector workers and the introduction of a value added tax.

Bahrain saw its primary budget deficit - which excludes interest payments - decrease 85% year-on-year in 2019, it said on Monday.

It expects the economy to grow 2.7% this year, from an estimated 2.1% in 2019.

Saudi Arabia, the United Arab Emirates and Kuwait gave Bahrain $10 billion in 2018 after low oil prices pushed its public debt to almost 93% of gross domestic product.

(Reporting by Davide Barbuscia; Editing by Jon Boyle and Alex Richardson)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

China

China 2019 fiscal spending up 8.1%, faster than economic growth

10-Feb-2020

BEIJING, Feb 10 (Reuters) - **China's fiscal spending climbed 8.1% in 2019 from the previous year, the finance ministry said on Monday, outpacing economic growth as policymakers sought to ward off a sharper slowdown.**

Fiscal revenues increased an annual 3.8% last year, dragged by a 1.0% rise in tax receipts due to huge tax cuts, the finance ministry said a statement.

Fiscal expenditures were 23.89 trillion yuan in 2019, while revenues were 19.04 trillion yuan, the ministry said.

Tax and fee cuts exceeded 2.3 trillion yuan ($329.5 billion) in 2019, the ministry said, adding that it would continue to implement tax and fee reductions this year.

The ministry said it would closely watch changes in tax burdens on firms in various sectors, especially in light of the impact from the coronavirus outbreak.

Non-tax revenues, including incomes from state-owned firms, fines and confiscations, jumped 20.2%, the ministry said.

The finance ministry has allocated the 2020 local government special bond quota worth 1.29 trillion yuan, including 1 trillion yuan front-loaded in November, it said.

Local governments have completed 55.4% of the bond quota, the ministry said.

China's economy grew 6.1% in 2019, the weakest pace in nearly three decades.

($1 = 6.9808 Chinese yuan)
(Reporting by Kevin Yao; Editing by Jacqueline Wong)
((kevin.yao@thomsonreuters.com; +8610 5669 2128))

S&P Says Estimates Coronavirus Will Lower China'S GDP Growth By 0.7 of Pct Point to 5.0% this Year

12-Feb-2020

Feb 11 (Reuters) - S&P Global Ratings:

- **S&P says estimates coronavirus will lower China's GDP growth by 0.7 of a percentage point, to 5.0%, this year with a peak effect in q1**
- S&P says expect a rebound in China's GDP to begin in third quarter, with all lost output recovered by end-2021
- S&P says estimate the coronavirus will trim a 0.3 percentage point from global GDP growth in 2020
- S&P says see new coronavirus as a "high" risk to global credit conditions in Asia-Pacific and more particularly china
- S&P says see new coronavirus as an "elevated" risk for rest of the world given lower infection and fatality rates outside china
- S&P says speed and spread of coronavirus in past two months poses an emergent risk to global economy and credit
- S&P says economic hit from coronavirus (including travel restrictions) to be felt most keenly in sectors exposed to Chinese household-related spending
- S&P says expect a lag in lifting travel restrictions, return of more normal behavior by Chinese consumers, firms and to a lesser extent, Asia-Pacific

((Reuters.Briefs@thomsonreuters.com)

China allocates 848 bln yuan of local gov't bonds quota

12-Feb-2020

BEIJING, Feb. 12 (Xinhua) -- **China has allocated 848 billion yuan (about 122 billion U.S. dollars) worth of new local government bonds quota, according to the Ministry of Finance.**

Of the total, 290 billion yuan worth of quota were allocated for special bonds, said the ministry.

So far this year, a total of 1.85 trillion yuan of local government bonds quota has been allocated ahead of schedule.

China has accelerated local government bond issuance and expanded the new bond quota in recent years to finance infrastructure construction and shore up the economy.

Enditem

India

S&P Says India Ratings Affirmed At 'Bbb-/A-3' Outlook Stable

13-Feb-2020

Feb 13 (Reuters) - S&P-

- **S&P says India ratings affirmed at 'BBB-/A-3'; outlook stable**
- **S&P says India's stable outlook reflects view that India's growth will stabilize and begin to recover from its current low ebb**
- S&P says India's fiscal deficits will remain broadly in line with our forecasts over the next two years
- S&P says expect India's economy to continue to outperform peers at a similar level of income, despite a recent slowdown in real GDP growth

- S&P says India's ratings reflect the country's above-average real GDP growth, sound external profile, and evolving monetary settings.
- S&P says believe India is experiencing a cyclical, rather than a structural, economic slowdown

((Reuters.Briefs@thomsonreuters.com))

India Bonds Gain as Investor Sentiment Positive

14-Feb-2020
By Mumbai Newsroom
NewsRise
MUMBAI (Feb 14) -- **India's federal government bonds rose in early trade, as investors expected the central bank to continue taking steps to manage the yield curve.**
The benchmark 6.45% bond maturing in 2029 changed hands at 100.17 rupees, yielding 6.43%, at 10:00 a.m. in Mumbai, against 100.16 rupees and a 6.43% yield at close yesterday. The second most-traded bond maturing in 2033 was up 31 paise. The Indian rupee was little changed at 71.30 to the dollar against 71.32 at 5.00 p.m. yesterday.
"The central bank is expected to continue its liquidity injections and bond market operations to keep the cost of funding low," a dealer at a state-owned bank said. "In case inflation subsides due to government's steps to manage food prices, we might even see a rate cut as soon as April."
While India's rate-setting Monetary Policy Committee did not cut its policy rates at the December and February policies, it announced a plan to infuse funds into banks through one- and three-year repos at the key policy rate to enable banks to lend more. It has also been conducting so-called 'Operation Twist', where it buys long-term bonds in lieu of short-term notes.
The policy stance will be kept accommodative as long as needed to revive growth, the rate-setting panel has said.
The forward guidance is meant to harmonise the 10-year part of the yield curve, a person familiar with the monetary policy committee's deliberations told NewsRise.
India's MPC will be keenly looking for definitive signs of the inflation trajectory trending downwards as its focus remains on bridging the negative output gap and on the financial stability, Nomura said in a note. Given the house's view that inflation has peaked while growth is likely to disappoint, it expects a 25-basis-point repo rate cut in second quarter of 2020, which could get delivered as early as April.
The inflation rate quickened to 7.59% in January from a year earlier, against December's 7.35% annual price gain pace. This was the sixth straight month of rise in inflation, which accelerated at its fastest pace since May 2014. The print hovered above the central bank's upper tolerance ceiling for the second month.
India's federal government used an escape clause under fiscal rules to widen its current year fiscal deficit by 50 basis points to 3.8% of the gross domestic product. It aims to narrow the deficit to 3.5% of GDP next year.
S&P Global Ratings yesterday kept India's sovereign ratings at investment grade BBB- with stable outlook, citing structural growth outperformance remains intact in the South Asian country.
Foreign investors net bought $433.80 million of Indian bonds yesterday. Overseas investors have bought net $1.76 billion of Indian debt so far this month.
The benchmark Brent crude oil contract was little changed at $56.33 per barrel, after rising 0.99% yesterday. India imports over 80% of its crude oil requirements.

- By Mumbai Newsroom; editorial@newsrise.org; 91-22-6135 3300
- Edited by Mrigank Dhaniwala
- Send Feedback to feedback@NewsRise.org

India Willing To Make Policy Tweaks outside Budget, Finance Minister Says

14-Feb-2020
By Meghna Mittal and Shivangi Acharya
NewsRise
NEW DELHI (Feb 14) -- **India's federal government is willing to make policy tweaks when required even outside the budget, Finance Minister Nirmala Sitharaman said today.**
"As and when any tweaks have to be made after the budget, or as and when more has to happen, we are willing and open to hear more," Sitharaman said in an interactive session with officials of the top federal think-tank NITI Aayog.
The minister also said that the impact of the federal budget for the next fiscal year has been "positive" on the equity, bond and currency markets.
Indian benchmark bond yield has eased by 17 basis points since the budget announcement on Feb. 1, as the government kept this year's borrowing plan unchanged and the target for the next financial year was in line with estimates. Indian rupee has remained steady after the budget. The stock indices are up around 1.7% so far this month, but equities had fallen sharply post the budget announcement amid lack of growth-supportive measures.

- By Meghna Mittal and Shivangi Acharya; meghna.mittal@newsrise.org; 91-11-66767700
- Edited by Gourab Das
- Send Feedback to feedback@NewsRise.org

Indonesia

Indonesia Q4 current account deficit widens to 2.84%

10-Feb-2020

JAKARTA, Feb 10 (Reuters) - **Indonesia's current account deficit widened in the fourth quarter, data from the central bank showed on Monday.**

Southeast Asia's largest economy booked a $8.1 billion current account deficit in October-December, equivalent to 2.84% of gross domestic product (GDP), from a 2.7% gap in the previous quarter, Bank Indonesia said.

The balance of payments, representing all transactions with foreign counterparts, swung to a $4.3 billion surplus in the fourth quarter, compared with $46 million deficit in the previous three months.

The current account deficit for all of 2019 was equal to 2.72% of GDP. There was a surplus of $4.7 billion for the full-year balance of payments.

(Reporting by Tabita Diela; Editing by Kim Coghill)
((tabita.diela@thomsonreuters.com; +622129927621))

Indonesia to boost spending, incentives as virus fears hit tourism

11-Feb-2020

BOGOR, Indonesia, Feb 11 (Reuters) - **Indonesia will increase public spending and provide incentives to the tourism industry to support domestic consumption and shield the economy from the impact of the coronavirus outbreak in China, the finance minister said on Tuesday.**

The coronavirus epidemic in China may knock 0.1 to 0.3 percentage point off Indonesia's GDP growth assuming a 1 to 2 percentage points reduction in China's economic expansion, according to Indonesian government estimates.

The virus has killed more than 1,000 people, while 42,000 others were infected mostly in China, but also in more than two dozen countries. Indonesia, the world's fourth-most populous country, has not confirmed any cases.

"We understand that some sectors are already affected, including tourism, and we saw a drop in industrial (activities) and commodity prices," Minister Sri Mulyani Indrawati told reporters.

"That's why all government institutions were asked to accelerate spending, including spending that would support tourism," she said, after attending a cabinet meeting led by President Joko Widodo.

Jakarta disbursed 30.9 trillion rupiah ($2.26 billion) in central government spending in January, mostly for social programmes and salaries for civil servants, the minister said.

Fiscal transfers to Indonesia's nearly 1,500 villages had been accelerated, with a total of 586 billion rupiah already wired as of Feb. 10, more than 80% larger than the amount transferred in the same period last year, she said.

Indrawati also said the government was considering incentives to support tourism, such as subsidies for airlines to cut airfares, among the options being considered.

Indonesia's GDP growth in 2019 slowed to 5.02%, the weakest in three years, as falling export earnings and soft investment hit household consumption amid a worldwide economic slowdown. The government's growth target this year is 5.3%

Economists say the growth data and the impact of the virus outbreak on the economy may pressure the central bank to start cutting interest rates again, following four rate cuts in 2019.

($1 = 13,660.0000 rupiah)
(Reporting by Maikel Jefriando; Writing by Gayatri Suroyo; Editing by Jacqueline Wong)
((gayatri.suroyo@thomsonreuters.com; +622129927609; Reuters Messaging: gayatri.suroyo.thomsonreuters.com@reuters.net))

Kazakhstan

Foreigners increase holdings of Kazakh central bank, govt debt

11-Feb-2020

NUR-SULTAN, Feb 11 (Reuters) - **Foreign investors have sharply increased their holdings of securities issued by Kazakhstan's central bank and government, the National Bank of Kazakhstan said on Tuesday.**

Foreigners held 254 billion tenge ($672 million) in Kazakh treasuries and central bank notes as of Feb. 6, Deputy National Bank Governor Akylzhan Baimagambetov told a government meeting.

This compares with just 54 billion tenge last December, according to the central securities depository data.

The inflows, driven by attractive yields, helped send the local currency tenge 0.9% higher against the dollar last month despite a decline in the price of oil, Kazakhstan's main export, Baimagambetov said.

In its most recent auction, Kazakhstan's finance ministry sold 15-year bonds with a yield of 9.5% this week, while on the shorter end of the spectrum, 28-day central bank notes with a yield of 9.35% were sold on Monday.

(Reporting by Tamara Vaal
Writing by Olzhas Auyezov; Editing by Aditya Soni)
((olzhas.auyezov@thomsonreuters.com; +7 727 2508 500; Reuters Messaging:

olzhas.auyezov.thomsonreuters.com@reuters.net))

Laos

Fitch Assigns Laos a First-Time 'B-' Rating; Outlook Stable

12-Feb-2020
Fitch Ratings-Hong Kong-February 12:
Fitch Ratings has assigned Laos a first-time Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Stable Outlook.
KEY RATING DRIVERS
Laos' 'B-' rating reflects weak external and public finances, potential financing and liquidity pressures in the context of very low foreign-exchange reserves and an under-developed policy framework. These factors are balanced by a record of consistent and robust economic growth, low inflation, strong medium-term growth potential and political stability.
In Fitch's assessment, the low level of international reserves represents a key vulnerability considering the country's managed currency regime, large import bill and rising external debt-servicing costs. Fitch estimates gross international reserves of the Bank of Lao PDR (BoL) rose slightly to USD925 million by end-2019, covering just 1.2 months of current external payments (CXP), and expects them to rise steadily to around USD1.2 billion by end-2020. (The authorities target a measure of reserves to non-FDI related imports, which stands at approximately three months).
The BoL manages the currency (kip) within a crawling band to the US dollar, and allowed the currency to depreciate by 3.7% against the US dollar and by 10.5% against the Thai baht in 2019. However, movements in the parallel exchange market indicate stronger depreciation pressures that appear to have been managed with foreign-exchange intervention, as the gap between the commercial bank US dollar rate and the parallel rate reached 5% in August and remained just below this level in subsequent months.
In our view, the sovereign has high external financing risks because of high debt maturities in 2020 and our assessment that the capacity for increased funding from traditional sources of government financing has declined. Public external debt service is set to rise to USD1.15 billion in 2020 and remain around USD1 billion a year over the next several years, according to government estimates, against current reserves of around USD925 million.
The sovereign's debt structure is mainly on concessional terms over long maturities with bilateral and multilateral creditors, which helps to limit servicing costs, and it also has a record of successful issuance in the Thai bond market. The authorities also tapped international markets for the first time in December 2019, with a private placement of USD150 million 18-month bridge notes. However, these financing options alone appear insufficient to meet financing needs over the next year, prompting the government to seek additional market financing. As a result, a shift in investor sentiment or reduction in bilateral financing could strain external liquidity.
Fitch estimates that Laos' current account deficit rose to 8.1% of GDP in 2019, from 7.9% in 2018 (estimates and forecasts are based on the authorities' data, whereas the IMF uses an alternative estimate showing a 12% of GDP deficit in 2018), before narrowing modestly to 7.6% in 2021, due to an improvement in the trade balance. Exports are likely to accelerate as two new hydropower plants came on-line in late-2019 and agricultural exports rise. Import growth will also remain robust due to ongoing infrastructure construction. Much of the deficit will continue to be financed by large FDI inflows of roughly 7% of GDP a year.
Net external debt, which Fitch estimates at 76.9% of GDP in 2019, is well above the 'B' median of 17.6%, exposing Laos to debt sustainability risks in the event that economic returns on large infrastructure projects fail to materialise. Private external debt comprises roughly 40% of total external debt, a large portion of which is from public-private partnership (PPP) investments in the hydropower sector. Many of the hydropower producers have guaranteed 25-year income streams through long-term power purchase agreements, offsetting some risks around external debt sustainability, although any future risks or disputes related to these contracts could reduce their value to the government.
Public and publically guaranteed (PPG) debt is high at 58.2% of GDP in 2019, based on Fitch estimates, and modestly above the 'B' median of 50%. However, the composition of this debt may be broader than our standard general government debt definition, and our estimate may therefore be overstated in the absence of details on publically guaranteed debt. External PPG debt is 54.2% of GDP, with 47% of the total owed to China. Roughly 65% of PPG debt is on concessional or semi-concessional terms from multilateral and bilateral sources. In addition, the government is exposed to possible contingent liabilities (estimated by the IMF at up to 30% of GDP) from PPPs and the Kunming-Vientiane Railway, although these are not explicitly guaranteed.
We project the government PPG debt ratio to begin declining after 2019, reaching 55.6% of GDP by 2021. This is based on our expectations of fiscal consolidation, suspension of some infrastructure projects and the government's plans to finance only projects with high economic and social returns on concessional terms.
The government is making headway on its fiscal consolidation efforts, with the fiscal balance narrowing to 4.6% of GDP in 2018, from 5.6%

in 2017. We estimate a further narrowing of the deficit in 2019 to 4.4% of GDP. Much of the consolidation has come from current expenditure compression. The government is implementing tax administration and electronic payment measures to raise revenue by 2pp of GDP over the next several years from the current low level of 15.8%. Fitch anticipates more gradual revenue improvement, which would reduce the deficit to 3.8% of GDP by 2021.

Consistent and strong GDP growth is a core rating strength for Laos. GDP growth has averaged 6.7% over the past five years compared with a 'B' median of 4.6%. Fitch estimates growth in 2019 slowed to 5.8%, due to droughts and flooding weighing on agricultural production. However, we forecast growth to rebound to 6.2% by 2021, as new hydropower export capacity comes on-line and infrastructure investment continues.

Medium-term growth prospects also compare well with the 'B' median. Ample investment in the hydropower sector, increased regional rail and road connectivity, natural resource wealth and a young population provide the basis for a strong growth outlook. It remains to be seen whether an overarching strategy can be put in place to maximise growth potential from these opportunities. In this regard, the government is implementing some initiatives, such as building up electrical transmission networks, creating special economic zones and developing human capital.

Inflation has been low and stable in recent years, but came under upward pressure in 2019, reaching 6.3% in December, as a result of kip depreciation against the Thai baht and US dollar. Fitch forecasts inflation to average 5.4% in 2020, up from 3.2% in 2019, although we expect the rise to be temporary, before coming down to around 2.5% by the end of the year.

Laos is politically stable, but scores below the median for World Bank governance indicators, reflecting considerable weaknesses in institutional capacity and control of corruption. Under Prime Minister Thongloun Sisoulith, who took office in 2016, the government has made efforts to address these weaknesses. Over the past year, a number of laws were passed to enhance fiscal and debt management, and strengthen the banking system. However, these policies remain in their initial implementation stages.

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

Fitch's proprietary SRM assigns Laos a score equivalent to a rating of 'B+' 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: -1 notch, to reflect potential external liquidity pressures in light of very low levels of foreign-exchange reserves against rising external debt-servicing needs. A high level of net external debt poses risks to external debt sustainability.
- Fiscal: -1 notch, to reflect increasingly constrained financing options for the government to meet its rising near-term debt maturities.

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 or not fully reflected in the SRM.

RATING SENSITIVITIES

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

- An increase in foreign-exchange reserves, potentially from unlocking new sources of financing, reducing vulnerability to external shocks and liquidity risks.
- Continuation of fiscal consolidation efforts, resulting in a sustained downward trajectory of the PPG debt/GDP ratio.
- An improvement in governance and institutional capacity, for instance, through an increase in the World Bank governance indicators or enhancements to macroeconomic management.

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

- Increasing signs of external financing strains for the sovereign, for instance, from the inability to mobilise sufficient external financing from bilateral creditors or market funding sources to meet upcoming debt maturities.
- Sustained rise in the PPG debt/GDP ratio, resulting from insufficient fiscal consolidation or a materialisation of contingent liabilities.

KEY ASSUMPTIONS

- Fitch assumes that, notwithstanding its narrowing financing options, the government will be able to use existing bilateral and multilateral borrowing relationships, potentially in tandem with market funding, to repay or refinance debt maturing in 2020.
- The global economy performs in line with Fitch's global economic outlook, particularly China, which is a key source of external financing and trade.

Date of Relevant Committee
24 January 2020

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Laos 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.
Laos has an ESG relevance score of '5' for rule of law, institutional and 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 a key rating driver.
Laos 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.
Laos has an ESG relevance score of '4' for international relations and trade, in light of its high reliance on China for external financing, FDI inflows, and trade.
Laos 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, as for all sovereigns.
Laos; Long Term Issuer Default Rating; New Rating; B-; RO:Sta;
Short Term Issuer Default Rating; New Rating; B;
Local Currency Long Term Issuer Default Rating; New Rating; B-; RO:Sta;
Local Currency Short Term Issuer Default Rating; New Rating; B;
Country Ceiling; New Rating; B-;

Media Relations: Peter Hoflich, Singapore, Tel: +65 6796 7229, Email: peter.hoflich@thefitchgroup.com; Leslie Tan, Singapore, Tel: +65 6796 7234, Email: leslie.tan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Lebanon

Lebanon creditors form "informal discussion group" as debt crunch looms

12-Feb-2020
By Marc Jones
LONDON, Feb 12 (Reuters) - **A group of Lebanon's international creditors have organised an "informal discussion group" as the country's debt situation continues to deteriorate, two of the firms involved, Greylock Capital and Mangart Advisors, said on Wednesday.**
The group is to "begin evaluating options for how lenders will manage the developing situation in Lebanon," a statement from the two firms said.
"This group will facilitate communication between disparate creditors and stands by to engage with the Lebanese Republic in any discussions."
Lebanon is one of the world's most indebted states with a public debt-to-GDP ratio of 150%. Its new government, which took office last month, is under growing pressure to tackle the debt burden and must quickly decide what to do with a $1.2 billion Eurobond that is due for repayment in March.
With urgency growing, a government source told Reuters on Wednesday the country would ask the International Monetary Fund for 'technical' help with its plan to escape financial collapse, including how to restructure its debts.

(Reporting by Marc Jones, editing by Karin Strohecker and Catherine Evans)
((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Lebanon studying its options on Eurobonds, finance minister says

13-Feb-2020
BEIRUT, Feb 13 (Reuters) - **Lebanon is studying options for dealing with its forthcoming Eurobond maturities, including whether to pay the debt, the finance minister said on Thursday after meeting with the President and central bank governor.**
The heavily indebted country is in deep financial trouble and must decide whether to repay its maturing foreign currency debt on time, including a $1.2 billion Eurobond due on March 9.
Sources familiar with the matter told Reuters on Wednesday the mood in government was leaning towards negotiating a restructuring of the debt.
On Wednesday, Lebanon formally requested the International Monetary Fund's technical help in tackling its unprecedented financial and economic crisis.
Finance Minister Ghazi Wazni, speaking after Thursday's meeting, said numerous options for dealing with the Eurobonds were discussed.
"These options, each of them was studied in depth - whether to pay or not to pay - and everyone expressed their view frankly in this matter," Wazni said in a news conference.
"The decision ... was that we will continue to study in the coming period so we can take this decision," he said.
A decision should be taken by the end of the month but may come sooner, Information Minister Manal Abdel Samad said after a cabinet meeting.
The financial crisis, worse than any Lebanon endured in its 1975-90 civil war, erupted last year as slowing capital inflows led to a liquidity crunch and protests erupted against the ruling elite.
Banks have since curtailed depositors' access to their savings in foreign currencies and blocked most transfers abroad since October. The Lebanese pound has lost more than a third of its

value.
Wazni said a circular in coming days would regulate the banks' informal capital controls to bring "clarity" and protect depositors. Banks could no longer deal with depositors in a way that was "illegal and unclear", he said.
A new circular from the central bank set an interest rate cap of 4% on dollar bank deposits and a cap of 7.5% on Lebanese pound deposits, according to several Lebanese news outlets.
The circular, published by al-Jadeed, LBC and MTV on Thursday, set a cap of 2% on dollars deposited for a month and a 4% cap on dollars deposited for a year or more. The rates apply on deposits made or renewed from Feb. 12.
The central bank in December capped deposit interest rates at 5% on U.S. dollars and 8.5% on Lebanese pounds.
The new government, which won a vote of confidence in parliament this week, has urged banks to slice interest rates to spur economic activity and ease the strain on the public finances.

(Reporting by Tom Perry, Eric Knecht and Ellen Francis; editing by Hugh Lawson, Larry King)
((thomas.perry@thomsonreuters.com; Reuters Messaging: thomas.perry.reuters.com@reuters.net))

Lebanon needs economic structural reforms to shore up confidence

13-Feb-2020
WASHINGTON, Feb 13 (Reuters) - **Lebanon needs to undertake a series of economic structural reforms to shore up confidence and contain inflation as it moves to shore up its economy, a spokesman for the International Monetary Fund said on Thursday.**
IMF spokesman Gerry Rice told reporters that Lebanon had requested technical assistance from the Fund, but had not asked for any financial assistance.
Any decisions on debt restructuring would have to be made by the Lebanese government in consultation with its creditors, but the IMF had no role in that, he said.
The government of heavily indebted Lebanon is grappling with an economic crisis that has fueled violent protests, and must urgently decide on how to deal with fast-approaching debt payments, including a $1.2 billion Eurobond due on March 9.
Rice said the IMF was ready to help Lebanese authorities as they worked on a needed package of economic and structural reforms to address the issue of public confidence.
"Our sense of (what) the Lebanese authorities need to take ... is a package of economic and structural reforms," Rice told a regular IMF briefing.
"At this stage, what has been requested from Lebanon authorities is our technical assistance and advice to help them with the reforms that they want to put in place to restore stability and growth," he said.
"There are some long-standing structural problems in many sectors of the economy that need to be addressed, and we believe these steps would help improve conditions for everyone, most notably the poor and the middle class," he said.
But any decisions on debt restructuring would be up to Lebanese authorities and their creditors, not IMF officials.
"Those are decisions and negotiations that they undertake in consultation with their own legal advisers and financial advisers," Rice said.
An IMF technical team is expected to arrive in Beirut in the next few days to help draw up an economic, financial and monetary plan, a senior Lebanese government source said on Wednesday.
It was not immediately clear whether the technical assistance would involve a plan for debt restructuring. Some politicians have expressed support for consulting the IMF before any plan is put forward to manage the debt payments.

(Reporting by Andrea Shalal; editing by Jonathan Oatis)
((andrea.shalal@tr.com; +1 202-815-7432))

Lebanon may need 70% debt write off, 50% currency drop, say economists

13-Feb-2020
By Marc Jones
LONDON, Feb 13 (Reuters) - **Lebanon's bond holders may have to write off 70% of their investments and the value of the country's currency might be cut in half in an International Monetary Fund rescue, analysts crunching the numbers on its debt woes estimate.**
Lebanon formally requested the IMF's technical help on Wednesday as it tries to avoid a full-blown economic collapse. Whether that turns into a formal bailout remains to be seen, but analysts have started to evaluate possibilities.
"Past experience suggests that this will involve haircuts of up to 70%," Capital Economics' Jason Tuvey wrote in a note, referring to debt write-offs.
That would wipe out banks' capital, and the cost of re-capitalising them would come to around 25% of Lebanon's gross domestic product, though IMF technical assistance could help limit the strains.
A cut in government spending of 3% to 4% of GDP will also be needed to prevent the debt burden from growing. Austerity will focus on reining in public-sector wages and overhauling the state electricity company.
As in Egypt in 2016, the IMF would be likely to insist that – as a pre-condition to a deal – authorities devalue the Lebanese pound, Tuvey said.
Black-market exchange rates are now around

30% below the country's official rate, but the IMF's most recent review of Lebanon estimated the currency was over-valued by 50%.
"We think the currency could fall by 50% against the dollar," Tuvey said. "And in the meantime, the economy is likely to fall into an even deeper recession. Overall, we expect GDP to contract by 5% this year. Our forecast lies right at the bottom of the consensus range."
Mikhail Volodchenko, an emerging markets portfolio manager at AXA Investment Managers, also thinks a 50% currency devaluation is needed. AXA sold their Lebanon holdings last year.
"Lebanon has all the makings of a full blown banking, economic, liquidity, solvency crisis all in one," he said, highlighting how the country currently spends around half of its revenues just paying the interest on its huge debt load.
"With every year you essentially accumulate more and more debt, so it is a slow-moving car crash... If the IMF has to come in and clean up Lebanon, the recovery (for bond holders), just based on pure maths, is much less than say Argentina."
Apart from its next-to-pay-out debt in March and April, Lebanon bonds are currently trading at between 32 and 36 cents on the dollar.
However, BlueBay Asset Management's emerging market veteran Timothy Ash said it was difficult to put firm numbers on how much of a debt writedown or how much of a cash injection Lebanon would ultimately need.
He said there was little clarity on the true state of the country's currency reserves, its economic prospects or how its super-sized banking sector would hold up where assets are roughly four times the size of its economy.
"It is not only about the debt ratios, in the end you have to ask why Lebanon got into the situation it is in. It was years of bad policies," Ash said. "The IMF will want to see that there is a willingness to reform."

(Reporting by Marc Jones; editing by Larry King, Kirsten Donovan)
((marc.jones@thomsonreuters.com; +44 (0) 207 542 9033; Reuters Messaging: marc.jones.thomsonreuters.com@reuters.net Twitter https://twitter.com/marcjonesrtrs))

Philippines

Fitch Revises Philippines' Outlook to Positive; Affirms at 'BBB'

11-Feb-2020
Fitch Ratings-Hong Kong-February 11:
Fitch Ratings has revised the Philippines' Outlook to Positive from Stable and affirmed its Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BBB'.
Philippines; Long Term Issuer Default Rating; Affirmed; BBB; RO: Pos;
Short Term Issuer Default Rating; Affirmed; F2;
Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO: Pos;
Local Currency Short Term Issuer Default Rating; Affirmed; F2;
Country Ceiling; Affirmed; BBB+;
Senior unsecured; Long Term Rating; Affirmed; BBB;

KEY RATING DRIVERS

The Outlook revision reflects Fitch's expectations of continued adherence to a sound macroeconomic policy framework that will support high growth rates with moderate inflation, progress on fiscal reforms that should keep government debt within manageable levels and continued resilience in its external finances.
Fitch expects growth to accelerate to 6.4% and 6.5% in 2020 and 2021, respectively, after slowing to 5.9% in 2019, supported by strong private consumption and rising public infrastructure investment. Overseas remittance inflows and favourable job prospects, evident from a falling unemployment rate, alongside accommodative monetary policy should support continued private consumption demand. On current projections, the Philippines will remain among the fastest-growing economies in the Asia-Pacific region in 2020-2021, well above the current 'BBB' median.
Our macroeconomic projections are subject to downside risks, however, from the evolving coronavirus outbreak. Moreover, the Philippines is vulnerable to natural disasters that can disrupt economic activity from time to time. It is still early to evaluate the effects of the outbreak, but the economy appears somewhat less vulnerable than regional peers as tourism accounts for less than 3% of GDP. **In addition, the Philippines retains room in our view for monetary and fiscal easing to offset the potential short-term impact on growth.**
Recent reforms to strengthen institutional effectiveness, human capital and the business environment should lead to a further improvement in the Philippines' structural metrics over time. These reforms include passage of the Philippine Identification System Act of 2018, which aims to improve the delivery of public services, the New Central Bank Act to strengthen the Bangko Sentral ng Pilipinas' (BSP) capacity to promote financial stability, increased coverage under the National Health Insurance Program and establishment of the Presidential Anti-corruption Commission.
Fitch expects the Philippines' fiscal profile to improve over the coming year, supported by continued progress on tax reforms, which should lead to higher government revenues. Package 2+ was passed in January 2019, raising excise taxes on alcohol, heated tobacco, and vapor products. We expect revenue gains from this package and tax package 1A, passed in 2017, to raise central government revenues to about 16.9% of GDP from an estimated 16.7% in 2019.

The authorities expect to pass an additional package, package 2, this year. It has been passed by the House of Representatives, and awaits passage by the Senate. The package is designed to be broadly revenue neutral, but aims to boost investment activity and growth over the medium term by lowering the corporate income tax rate gradually from 30% to 20% and redirecting and narrowing fiscal incentives to more strategic industries.

Progress on tax reforms would keep the general government deficit at about -1.2% of GDP until 2020, according to our projections, helping to contain the Philippines' government debt levels even as the administration's infrastructure programme continues. The government has increased allocation for infrastructure in the 2020 budget to PHP972.5 billion, about 6.9% higher than the previous year. Under our baseline assumptions, we expect the general government debt-to-GDP ratio to decline to about 35.7% by 2021 from an estimated 36.5% in 2019.

Foreign-exchange reserves increased to about USD88 billion in 2019 from about USD80 billion in the previous year mainly through a combination of the government's external borrowings and generally stable FDI inflows. We expect reserve coverage to remain strong, at about 7 months of current external payments in 2020-2021. The Philippines also remains less vulnerable to large capital outflows compared with some of its neighbours in the region due to lower non-resident holdings of domestic government debt. We expect the Philippines to remain a net external creditor compared with the peer median's net debtor position.

The 'BBB' IDR also reflects the following key rating drivers:

Structural indicators such as per capita income, governance standards and human development are weaker than that of peers, but are improving. The Philippines' per capita income, estimated by Fitch at USD3.330 at end-2019, is far below the 'BBB' median, and it also scores much lower than peer medians on the World Bank's governance indicators.

Fitch assumes policy continuity in the near term as the president's term expires in 2022. A decisive victory in the mid-term elections last year should continue to support the administration's ability to implement its policy agenda.

The Philippines improved to 94th place from 124th a year earlier in the latest Ease of Doing Business Index ranking. The government's recent decision to review certain contracts with private companies may create some uncertainty, but Fitch believes the overall business environment will be unaffected, and FDI flows remain strong for the time being.

Inflation slowed to 2.5% in December 2019, after peaking at 6.7% in April 2019, which was facilitated by passage of the rice tariffication law that lifted import restrictions on rice. The BSP cut its policy rate by 25bp on 6 February 2020 which, after the 75bp cut in 2019, brings the rate to 3.75%. We think there may still be room, although very limited, for further easing in light of the uncertainties over the growth outlook due to the coronavirus outbreak, and the likelihood inflation will stay within the central bank's target range of 2%-4%.

We expect the current account deficit to widen to about 2.4% of GDP in 2020 from an estimated 1.5% in 2019. Import demand will rise with the government's infrastructure push. However, rising service exports related to the business-process outsourcing sector and steady remittances should keep the deficit from widening substantially. The impact of the coronavirus outbreak may have a negative impact on tourism receipts, depending on the severity and duration, but at less than 3% of GDP tourism is a relatively small part of the economy. We estimate that 2019 net FDI remained solid at USD7.5 billion, or about 2.1% of GDP, and we expect equity FDI flows to continue to finance about a third of the current account deficit.

The Philippine banking sector's asset-quality metrics remain relatively benign, notwithstanding some modest deterioration in 2019. Nonetheless, domestic private-sector leverage has increased in recent years. A sustained surge in property prices, especially if coupled with a significant acceleration in credit growth, could pose downside risks to the banks.

That said, the economic environment is likely to remain broadly supportive in the near term, and underpins our stable banking sector outlook. The commercial banks' sector-wide consolidated total capital-adequacy ratio of 16% as of September 2019 also provides satisfactory loss-absorption buffers against moderate credit stresses.

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

Fitch's proprietary SRM assigns the Philippines a score equivalent to a rating of 'BBB' on the Long-Term Foreign-Currency (LT FC) IDR scale.

In accordance with its rating criteria, Fitch's sovereign rating committee decided not to adopt the score indicated by the SRM as the starting point for its analysis at this stage because the SRM output migration to 'BBB' is marginal, and has the potential to be temporary.

Assuming an SRM output of 'BBB-', Fitch's sovereign rating committee adjusted the output to arrive at the final Long-Term IDR by applying its QO, relative to rated peers, as follows:

- Macro: +1 notch for strong and sustainable GDP growth combined with a sound policy framework

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

RATING SENSITIVITIES

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

- Continued strong growth while maintaining macroeconomic stability
- Strengthening of governance standards towards those of the rating category peer median
- Sustained broadening of the government's revenue base that enhances fiscal finances and improves debt dynamics.

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

- Reversal of reforms or a departure from the existing policy framework that leads to macro instability
- Deterioration in external indicators, including foreign-exchange reserves, the current account deficit and net external debt, that reduces the resilience of the economy to shocks.
- Instability in the financial system, possibly triggered by a sustained period of high credit growth.

KEY ASSUMPTIONS

- Global economic assumptions are consistent with Fitch's latest Global Economic Outlook published on 5 December 2019

ESG CONSIDERATIONS

- Philippines 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 therefore highly relevant to the rating and a key rating driver with a high weight.
- Philippines has an ESG relevance score of '5' for rule of law, institutional and 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 a key rating driver with a high weight.
- Philippines 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 SRM and are relevant to the rating and a rating driver.
- Philippines 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, as for all sovereigns.

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Philippines: PH T-bill rates decline across-the-board

14-Feb-2020

Average rates of all the three tenors of the Philippine government-issued treasury bills (T-bills) fell Monday following last week’s reduction of the Bangko Sentral ng Pilipinas (BSP) key policy rates.

Rate of the 91-day T-bill dropped to 3.115 percent from 3.187 percent during the auction last February 3.

Deputy Treasurer Erwin Sta. Ana attributed the decline to the 25-basis-point slash in the central bank’s key rates last week, the first for the year after the total of 75-basis-point reduction last year.

The Bureau of the Treasury (BTr) offered this tenor for PHP6 billion and investors submitted bids totaling to PHP18.405 billion. The auction committee made a full award.

Average rate of the 182-day paper declined to 3.461 percent from last week’s 3.523 percent.

Tenders for this tenor reached PHP16.82 billion, more than twice the PHP6-billion offer. This tenor was also fully awarded.

Rate of the 364-day paper slipped to 3.908 percent from 3.964 percent in the previous auction.

It was offered for PHP8 billion and received PHP21.08 billion worth of tenders. The auction committee also made a full award for this tenor.

Sta. Ana said the decline in the T-bills average rate was expected given hopes for additional cuts in the BSP rates within the year as hinted by BSP Governor Benjamin Diokno.

It is reported that the inflation outlook is quite manageable hence, the reduction in the rates, he said.

Meanwhile, Sta. Ana said they have secured all the requirements for a US dollar bond issuance but have not determined the offer period and the possible volume as they continue to monitor market developments.

The planned issuance came right after the BTr gained PHP310.8 billion from the offering of three-year retail Treasury bond (RTB) during the shortened offer period from January 28 to February 4.

The offer period was supposed to be until February 6, 2020, but Treasury officials reduced it ahead of the original deadline after receiving strong demand for the debt paper.

Sta. Ana said settlement for the debt paper has been set for Tuesday.

The government issued EUR1.2 billion worth of Euro-denominated bond, at EUR600 million each for the three- and six-year paper, last January.

This issuance is part of the government’s diversification program for its debt issuances.

South Korea

Fitch Affirms Korea at 'AA-'; Outlook Stable

12-Feb-2020

Fitch Ratings-Hong Kong-February 11:

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

KEY RATING DRIVERS

Korea's rating balances robust external finances, steady macroeconomic performance, and a record of sound fiscal management against evolving geopolitical risks related to North Korea and medium-term structural challenges from ageing demographics and low productivity.

The 2020 budget, enacted in December, implemented significant fiscal stimulus to confront sluggish growth prospects. Fitch forecasts fiscal deficits of 1.5% of GDP (3.5% deficit excluding social security) in 2020 and 2021, the largest deficits since 2009. This marks a major change in fiscal stance from an estimated deficit of 0.2% of GDP in 2019 and a surplus of 1.6% in 2018.

There has been a considerable shift to a more expansionary fiscal approach over the medium-term under President Moon Jae-In's administration, in addition to the near-term stimulus. **The projections in the administration's August 2019 budget proposal sees sustained deficits through 2023 at levels slightly higher than the 2020 deficit, as the government seeks to advance its income-led growth strategy and boost productivity.**

We believe Korea has the fiscal space to utilise near-term fiscal stimulus. We forecast government debt/GDP to increase to 40.7% in 2020, from an estimated 38.0% in 2019, modestly above the 'AA' median of 39.5%. However, plans for wider deficits through 2023 raise debt/GDP to about 46.0% in 2023 under Fitch's forecasts. This could exert more meaningful pressure on the rating over the medium-term, depending on how productivity and growth responds to higher spending. **In the meantime, Korea's record of prudent fiscal management and the government's stated desire to manage debt/GDP within the mid-40% range provides some buffer against fiscal risk.**

Fitch expects GDP growth to strengthen in 2020 to 2.3%, from 2.0% in 2019, supported by the fiscal stimulus, gradually rising semiconductor prices, and reduced trade policy uncertainty. However, the spread of the novel coronavirus poses new downside risks to the outlook through its impact on tourism, retail sales, and potential supply-chain disruptions. Near-term indicators are pointing to a recovery in manufacturing activity and exports. The semiconductor cycle also appears to be turning upward, which should provide support for exports and investment. Public spending was a key growth driver in 4Q19 and we expect this to continue in 1H20, as the government seeks to frontload its budget expenditure.

On the trade front, the US-China Phase One trade deal eases policy uncertainty, but could divert some trade away from Korea given China's commitment to increase imports from the US. Of the manufactured goods covered in the US-China agreement, Korea is among the most exposed globally, exporting about USD136 (25% of total exports) of specified products to China. Meanwhile, spillovers from Japan's export licensing requirements imposed in July 2019 have been limited. There have been no clear supply chain disruptions, though it has probably dampened business confidence.

We forecast inflation to remain low, averaging 0.5% in 2020 (2019: 0.4%). We expect the Bank of Korea to cut its policy rate by 25bp in 2020 to offset downside risks to the economic outlook and firm up inflation. This is in addition to its two 25bp cuts last year, and would lower the policy rate down to a historic low of 1.0%.

High household debt, at 96.6% of GDP in 3Q19, increases the economy's vulnerability to shocks and weighs on medium-term consumption prospects. The speed of household debt accumulation has moderated in recent years, in line with the authorities' objective of eventually equalising credit and nominal GDP growth. A further rise in household debt could emerge from the low interest rate environment, but the authorities are mindful of these risks and we expect macroprudential policies to guard against increased vulnerabilities. The government also introduced measures in December 2019 to curb house-price growth, including an outright ban on loans for homes over KRW1.5 billion.

Geopolitical risks around relations with North Korea weigh on the rating. Diplomatic efforts have stalled and remain highly uncertain. Negotiations between the US and North Korea have been on hold since the last working-group level meeting in October 2019 and North Korea has resumed testing short-range missiles. However, North Korea's self-imposed end-2019 deadline for restarting negotiations passed without a ratcheting up in tensions, indicating that scope remains for continued diplomatic initiatives. Efforts to deepen inter-Korean cultural ties have also faltered and UN sanctions are a barrier for any progress on economic integration.

Legislative elections are scheduled for 15 April 2020. The Democratic Party, which is aligned with President Moon, holds a majority in the National Assembly with associated smaller political parties. If the election results in a Democratic Party victory, we expect the policy direction to remain in line with current plans. However, if the opposition, led by the Liberty Korea Party, gains a majority in the National Assembly, it could complicate President Moon's efforts to advance his income-led growth strategy and negotiations with North Korea during the remainder of his tenure through 2022.

Strong external finances, underpinned by a large net external creditor position and sustained current account surpluses since 1998, provide a buffer to global financial market volatility. Fitch forecasts the current account surplus to remain relatively stable at around 3.5% of GDP in 2020 and 2021, down from 4.5% in 2018. Foreign exchange reserves are elevated at 7.3 months of external payments, compared with the 'AA' median of 2.9 months. The Korean won has been volatile during the past year around risk-off periods in global markets, but there have not been signs of sharp, sustained capital outflows by non-residents.

Korea's weaker governance standards relative to 'AA' peers are illustrated by a lower score (77th percentile) in the World Bank's governance indicator than the 'AA' median (85th). Its business environment is generally strong, as indicated by its fifth position in the World Bank's rankings for Ease of Doing Business, though the dominance of chaebols in the corporate sector likely weighs on economic dynamism.

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

Fitch's proprietary SRM assigns Korea a score equivalent to a rating of 'AA' on the Long-Term Foreign-Currency IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final Long-Term Foreign-Currency IDR by applying its QO, relative to rated peers, as follows:

- Structural Features: -1 notch, to reflect geopolitical risks related to the evolving relationship with North Korea, and the higher financial buffers required to offset them.

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

RATING SENSITIVITIES

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

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

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

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

KEY ASSUMPTIONS

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

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Korea has an ESG Relevance Score of '5' for Political Stability and Rights, as World Bank Governance Indicators have the highest weight in the SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. Heightened geopolitical risk related to North Korea is also a rating driver.

Korea has an ESG Relevance Score of '5' for Rule of Law, Institutional and Regulatory Quality, and Control of Corruption, as World Bank Governance Indicators have the highest weight in the SRM and are therefore highly relevant to the rating and a key rating driver with a high weight.

Korea has an ESG Relevance Score of '4' for Human Rights and Political Freedoms, as World Bank Governance Indicators have the highest weight in the SRM and are relevant to the rating and a rating driver.

Korea has an ESG Relevance Score of '4' for Creditors Rights, as willingness and ability to service debt are relevant to the rating and a rating driver, as for all sovereigns.

Korea; Long Term Issuer Default Rating; Affirmed; AA-; RO:Sta;
Short Term Issuer Default Rating; Affirmed; F1+;
Local Currency Long Term Issuer Default Rating; Affirmed; AA-; RO:Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; F1+;
Country Ceiling; Affirmed; AA+;
Senior unsecured; Long Term Rating; Affirmed; AA-;

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

South Korean bonds lead foreign

inflows into Asian bonds in January

13-Feb-2020
By Gaurav Dogra
Feb 13 (Reuters) - **South Korean bonds garnered most of Asia's foreign inflows in January, as investors sought safer havens, preferring an economy with strong forex reserves and credit ratings after the onset of the coronavirus epidemic in China.**
Foreigners purchased a net $3.87 billion worth of South Korean bonds, the most since June 2019, data from Korea Financial Supervisory Service showed.
The large net inflows into South Korean bonds for January are mostly risk aversion trades due to the coronavirus outbreak, said Duncan Tan, a strategist at DBS Bank.
"Investors typically see South Korean Treasury bonds as a safe haven and use it to hedge risk in times of volatility. The country has a high credit rating with large current account surplus and sizable fx reserves," he said.
Thanks to the strong inflows into South Korean bonds, the region received the highest foreign money in seven months in January, data from regional banks and bond market associations in Indonesia, Malaysia, Thailand, South Korea and India showed.
Foreigners bought a net $4.54 billion worth of bonds in the five markets, the data showed.
Indonesian, Malaysian and Thai bonds received inflows of $1.11 billion, $871 million and $315 million, respectively, last month. Analysts said the rate cut expectations boosted money flows into the three markets last month.
Both the Malaysia and Thai central banks have cut their policy rates by 25 basis points this year.
Bank Indonesia is slated to conduct its monetary policy meeting on Feb. 20.
Bucking the trend, Indian bonds faced an outflow of $1.63 billion, the highest since May 2018.
Indian bonds faced the third straight month of net selling as inflation surprised further on the upside, breaching the upper limit of the RBI’s 2%-6% target band, Khoon Goh, head of Asia research at ANZ Banking Group, said in a report.
India's retail inflation accelerated to 7.59% in January from 7.35% in December. (Full Story) (Full Story)

(Reporting by Gaurav Dogra and Patturaja Murugaboopathy in Bengaluru; Editing by Aditya Soni) ((patturaja.muruga@thomsonreuters.com; +91-80-6749-6540; Reuters Messaging: patturaja.muruga.thomsonreuters.com@reuters.net))

Sri Lanka

Central Bank of Sri Lanka - IMF Staff Concludes Visit to Sri Lanka

08-Feb-2020

IMF Staff Concludes Visit to Sri Lanka
February 8, 2020
End-of-mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. This mission will not result in a Board discussion.

- The economy is recovering from the terrorist attacks last April, with GDP growth projected at 3.7 percent in 2020.
- Ambitious structural and institutional reforms are needed to anchor policy priorities, bolster competitiveness and foster inclusive growth in Sri Lanka.
- **Fiscal prudence remains critical to support macro-economic stability and market confidence, amid high levels of debt and refinancing needs.**

A staff team from the International Monetary Fund (IMF) led by Manuela Goretti visited Colombo during January 29 - February 7, 2020 to meet with the new administration and discuss its policy agenda. At the conclusion of the staff visit, Ms. Goretti issued the following statement:
"The IMF staff team had constructive discussions with the Sri Lankan authorities on recent economic developments and the country's economic reform agenda. Given the high level of public debt and refinancing needs in the country, ensuring macroeconomic stability calls for fiscal consolidation, prudent monetary policy, and sustained efforts to build international reserves. Ambitious structural and institutional reforms remain critical to raise the country's growth potential and promote inclusiveness.
"The economy is gradually recovering from the terrorist attacks last April. Real GDP growth is estimated at 2.6 percent in 2019. The recovery is supported by a solid performance of the manufacturing sector and a rebound in tourism and related services in the second half of the year. High frequency indicators continue to improve and growth is projected to rebound to 3.7 percent in 2020, on the back of the recovery in tourism, and assuming that the Novel Coronavirus will have only limited negative effect on tourism arrivals and other economic activities. Inflation is projected to remain at around 4½ percent, in line with the Central Bank of Sri Lanka (CBSL) target. After a sharp import contraction in 2019, the current account deficit is expected to widen to nearly 3 percent of GDP in 2020.
"Preliminary data indicate that the primary surplus target under the program supported by the Extended Fund Facility (EFF) was missed by a sizable margin in 2019 with a recorded deficit of
0.3 percent of GDP, due to weak revenue performance and expenditure overruns. Under current policies, as discussed with the authorities during the visit, the primary deficit could widen further to 1.9 percent of GDP in 2020, due to newly implemented tax cuts and exemptions, clearance of domestic arrears, and

backloaded capital spending from 2019. Given risks to debt sustainability and large refinancing needs over the medium term, renewed efforts to advance fiscal consolidation will be essential for macroeconomic stability. **Measures to improve efficiency in the public administration and strengthen revenue mobilization can help reduce the high public debt, while preserving space for critical social and investment needs.** Advancing relevant legislation to strengthen fiscal rules would anchor policy commitments, restore confidence, and safeguard sustainability over the medium term.

"The CBSL should continue to follow a prudent and data-dependent monetary policy and stand ready to adjust rates to evolving macroeconomic conditions. Net International Reserves fell short of the end-December target under the EFF-supported program in 2019 by about $100 million amid market pressures after the Presidential elections and announced tax cuts. However, conditions have since stabilized. Renewed efforts are needed to rebuild reserve buffers to safeguard resilience to shocks, under a flexible exchange rate. Approval of the new Central Bank Law in line with international best practices is a critical step to further strengthen the independence and governance of the CBSL and support the adoption of flexible inflation targeting.

"The financial system remains broadly stable, although some pockets of vulnerability remain, especially among non-bank financial institutions. Caps on lending rates and the loan repayment moratorium for small and medium enterprises should be temporary, to avoid unintended distortions and inefficiencies in financial intermediation. Modernizing the Banking Act, with a view to strengthening and harmonizing regulation, supervision, and resolution frameworks for deposit-taking financial institutions would help safeguard financial stability.

"The authorities should move ahead with growth-enhancing structural reforms to fully harness Sri Lanka's economic potential and foster greater social inclusion. The team welcomed the authorities' plans to enhance the efficiency of state-owned enterprises, enabling them to operate on a sound commercial basis. These plans would need to be supported by a visible commitment to strengthen governance and transparency, notably in the energy sector, and renewed efforts to tackle corruption. Concerted initiatives are needed to foster the business climate, promote trade openness and investment, and strengthen infrastructure sustainably, including to respond to the challenges from climate change. Sri Lanka stands to gain from greater female labor participation, enhancements in social protection, and further investment in education and skills."

The team met with the Secretary to the President P B Jayasundera, CBSL Governor W D Lakshman, Secretary to the Treasury S R Attygalle, Senior Deputy Governor P N Weerasinghe, other public officials, representatives of the business community, civil society, and international partners.

United Arab Emirates

Abu Dhabi in talks with banks for new debt issues

09-Feb-2020

By Davide Barbuscia and Yousef Saba

DUBAI, Feb 9 (Reuters) - **Abu Dhabi has been in talks with banks for potential debt sales in the international markets this year as the oil-rich emirate plans to engage global fixed income investors on a more regular basis amid low oil prices, sources said.**

Abu Dhabi, which has one of the best credit ratings in the region, issued its latest international bonds in September last year, raising $10 billion for budgetary purposes and garnering almost $20 billion in demand.

After a reshuffling at its finance department last year, the government has been in talks with banks on several fundraising options, taking a more proactive approach to debt financing, said the sources.

"They want to issue more regularly and in smaller sizes, rather than huge $10 billion deals like last year," one of them said.

"As part of its mandate, the Abu Dhabi Department of Finance constantly evaluates options under the existing bond issuance programme," it told Reuters in an emailed statement.

"However, as a matter of policy, the Department does not respond to market rumours," it added.

Rated AA by S&P and Fitch and Aa2 by Moody's, Abu Dhabi's finances are backed by one of the world's largest sovereign net foreign asset positions and low levels of debt.

But its ratings are also constrained "by dependence on volatile oil and gas revenue, an underdeveloped economic policy framework and weak governance indicators relative to 'AA' peers," said Cedric Berry, associate director at Fitch Ratings.

In its talks with banks, Abu Dhabi has said it plans to modernise its approach to raising financing and to improve transparency when it engages with fixed income investors, said one of the sources.

"They want to pay less for their borrowing. They're rated double A but they pay some 10-15 basis points more than their peers and they want to fix that."

Abu Dhabi's fiscal balance depends almost entirely on revenue from hydrocarbon royalties and taxes and dividends received from ADNOC, its national oil company.

After oil prices collapsed in 2014 and 2015, it reduced public spending and increased dividends from state-owned entities. Still, it had forecast a

deficit of 27.2 billion dirhams ($7.41 billion) for 2019, according to its latest bond prospectus.
Abu Dhabi, the capital of the United Arab Emirates, is also the largest contributor to the federal government budget, with contributions expected to account for 40% of the emirate's expenditure last year.
The UAE government - which passed a law in 2018 allowing it to issue debt at federal level - plans to sell federal bonds for the first time in 2020, an official said last year.
Last year, Emirates Development Bank, owned by the UAE federal government, sold $750 million in bonds, becoming the first federal entity to tap the international capital markets under the new debt law.

($1 = 3.6730 UAE dirham)
(Editing by Ros Russell)
((Davide.Barbuscia@thomsonreuters.com; +971522604297; Reuters Messaging: davide.barbuscia.reuters.com@reuters.net))

EUROPE

CIS Commonwealth of Independent States

Fitch Ratings: CIS and Black Sea Sovereign Rating Momentum Likely to Slow

11-Feb-2020
Fitch Ratings-London-February 11: **Improved economic policy frameworks have helped Commonwealth of Independent States (CIS) and Black Sea sovereigns recover from the 2014 commodity price slump and Ukraine crisis, Fitch Ratings says in a new report. However, recent positive rating momentum is likely to slow as they confront deeper structural challenges.**
The CIS and Black Sea region has seen six sovereign upgrades in the last three years, including four in 2019, enabling the average rating to recover to its end-2013 level of 'BB'. Ratings came under pressure in 2014-2016 as oil exporters were hit by lower prices, as the West imposed sanctions on Russia, and as Russia's economic slowdown and policy response spilled over to other sovereigns.
Generally stronger policy frameworks have improved macroeconomic stability, most notably in Russia, which retained its investment grade status despite the commodity and sanctions shocks. Central banks have focused on reducing inflation, and most sovereigns have abandoned currency-stabilising regimes. Resilience amid intra-regional and global trade and financial volatility has improved. For example, Georgia absorbed shocks from the Turkish lira's fall in mid-2018. Ukraine and Belarus have seen the biggest improvements in their current accounts.
However, some factors that led to ratings declines in 2014-2016 persist, such as high commodity dependence and exposure to currency risk. Underlying structural weaknesses in governance, growth, and banking sectors, also weigh on creditworthiness. **Only Ukraine is on Positive Outlook, signalling that positive sovereign rating momentum is likely to slow.**
Our subdued commodity price assumptions do not point to significant balance-sheet strengthening for commodity exporters. Instead, our focus for Kazakhstan, Azerbaijan, and Uzbekistan will be on whether they can enhance policy predictability and effectiveness.
Energy importers have reduced external imbalances through exchange rate adjustments and improved terms of trade. Nevertheless, external liquidity and reserve coverage remains relatively weak. Reducing external vulnerabilities is a positive rating sensitivity for Armenia, Belarus, Georgia and Ukraine.
Government debt remains on average 10pp higher than at end-2013. As the impact of devaluations, counter-cyclical fiscal policies, commodity revenue shocks and supporting banks has eased, most sovereigns in the region have achieved primary surpluses and are reducing debt, while fiscal rules have been updated. But currency risk is a key vulnerability. More than 90% of Uzbekistan, Belarus, and Azerbaijan's government debt is foreign currency denominated, and for Armenia and Georgia the figure is close to 80%.
Reducing currency risk depends on developing local currency domestic capital markets, which would also support de-dollarisation. Most countries in the region have a Banking System Indicator of 'b', reflecting 'highly speculative fundamental credit quality.' Non-performing loans are high and often understated in official data.
Achieving higher growth, while preserving macro-stability gains, is among the most important policy challenges for Russia, Belarus, and Ukraine. Georgia has made the most progress on structural reforms and its governance indicators are the strongest relative to regional and ratings peers. Political stability is affected by unresolved regional conflicts. Highly centralised decision-making in several countries creates uncertainty around succession, although recent transitions have been orderly. Major social instability has not occurred, but political outsiders have used popular dissatisfaction to take power in Armenia and Ukraine, with both new leaderships committing to meaningful programmes.
Improved policy frameworks support a generally stable sovereign rating outlook for the region, but failure to address remaining credit weaknesses would prevent further rating improvements and could lead to pressures on creditworthiness.

Belarus

Belarusian Finance Ministry intends to issue at least 10 bln rubles of bonds in Russia in Q2

13-Feb-2020

MINSK. Feb 13 (Interfax) - **The Belarusian Finance Ministry is planning to place sovereign bonds worth at least 10 billion Russian rubles in the Russian market in Q2 2020, Deputy Belarusian Finance Minister Andrei Belkovets told journalists at a CBonds conference on the Belarusian debt market in Minsk.**

"We'll most likely place at least 10 billion rubles of sovereign bonds in the Russian market in the second quarter," Belkovets said.

The new bonds will mature in five years, while the bonds placed last year had a three-year term. When pricing the bonds "we will be guided by the current yield of bonds placed last year," Belkovets said.

But the yield of the new bonds could rise slightly due to the longer maturity. "Yield will remain at the present level plus a certain premium for the longer term," he said.

Belarus placed two tranches of three-year bonds series 03 and 04 worth a combined 10 billion Russian rubles on the Russian financial market on August 7, 2019. The bid book, which closed on July 30, was 4.5-times oversubscribed.

The bonds were priced at 8.65% per annum. Nonresidents - global funds from the United States and Western Europe - bought 7% of the offering and Russian residents bought 93%. Russian individuals bought 15%, banks 54% and management and investment companies the rest. Gazprombank, Bank Otkritie and Sovcombank arranged the offering and European Development Bank was co-organizer.

(Our editorial staff can be reached at eng.editors@interfax.ru)

Bulgaria

Moody's completes periodic review of Bulgaria's ratings

10-Feb-2020

SOFIA (Bulgaria), February 10 (SeNews) - **Moody's Investors Service said that it has completed a periodic review of Bulgaria's ratings, reassessing their appropriateness in the context of the relevant methodology, recent developments, and a comparison of the financial and operating profile to similarly rated peers.**

The review did not involve a rating committee, so the publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future, Moody's Investors Service said in a statement on Friday.

Moody's Investors Service also said in its statement:

"Bulgaria (issuer rating Baa2) reflects a "baa3" economic strength, balancing the relatively low size of the economy and lower wealth per capita (vs the EU average) and the clear improvement trend of the country's ranking in the World Economic Forum Global Competitiveness Index; "baa2" institutions and governance strength, capturing still weaker than peers results in terms of Government effectiveness, Rule of Law and Control of Corruption although the EU accession provides an important anchor; "a1" fiscal strength, mirroring healthy public finances (fiscal surplus, public debt approaching 20% of GDP) and a clear commitment to the stability of the currency board arrangement in order to join the Exchange Rate Mechanism II (ERM II) in 2020; and "ba" susceptibility to event risk assessment, driven by the country's banking system risks although recent developments point to higher liquidity and a stronger capitalization.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period."

IMF: Bulgaria could spend more to support growth, reforms

14-Feb-2020

SOFIA, Feb 14 (Reuters) - **Bulgaria can allow small fiscal deficits and spend more to overhaul its education system and address labour market shortages and spur economic growth, the International Monetary Fund said on Friday.**

The Balkan country, which hopes to join the euro zone's precursor, the ERM-2 mechanism, and the European Union's banking Union in April, targets balanced budgets through 2022.

Bulgaria's Finance Ministry expects economic growth to slow to 3.3% this year from an expected 3.6% growth in 2019.

"Balanced budgets are an appropriate objective. But small deficits that serve growth-enhancing spending measures would also be appropriate, provided public debt remains around its present low level," said Jaewoo Lee, head of the IMF's annual mission to Bulgaria.

(Reporting by Tsvetelia Tsolova)
((tsvetelia.tsolova@thomsonreuters.com; +359-2-93-99-731))

Croatia

Croatia gears up to refinance two domestic bonds

12-Feb-2020

ZAGREB, Feb 12 (Reuters) - **Croatia is preparing new local issues later this month to refinance two domestic bonds that mature in early March, a market source said on Wednesday.**

Two 10-year bonds mature on March 5, one worth 5 billion kuna ($731.99 million) and another worth one billion euros ($1.09 billion).

"It is likely that the new papers to refinance the maturing bonds will be issued in the last week of February. This time we expect two issues of different maturity, one of five years and another of 15 years," the source said.

In the second quarter, Croatia will also tap international markets to refinance a 10-year bond worth $1.25 billion which matures on July 14.

The conservative-led government, which faces a general election in the autumn, runs a balanced budget policy in an effort to prepare the country for the euro adoption in 2023 or 2024.

($1 = 6.8307 kuna)
($1 = 0.9164 euros)
(Reporting by Igor Ilic; Editing by Kim Coghill)
((igor.ilic@thomsonreuters.com; +385 1 4899 970; mobile +385 98 334 053))

Croatia to offer 1 bln kuna (134.2 mln euro) of 1-yr T-bills on Feb 18

13-Feb-2020

ZAGREB (Croatia), February 13 (SeeNews) - **Croatia's finance ministry said it will offer 1 billion kuna ($145.8 million/134.2 million euro) worth of one-year Treasury bills at an auction on February 18.**

The securoties will mature on February 18, 2021, the finance ministry said in a notice.

The finance ministry sold 1.6 billion kuna worth of government securities, above its 800 million kuna target, at the previous auction of one-year Treasury bills held on February 11. The yield was 0.06%, unchanged in comparison with the previous auction of one-year T-bills held on January 28.

(1 euro = 7.45273 kuna)

Georgia

Fitch Affirms Georgia at 'BB'; Outlook Stable

14-Feb-2020

Fitch Ratings-Frankfurt am Main-February 14:

Fitch Ratings has affirmed Georgia's Long-Term Foreign Currency (LTFC) Issuer Default Rating (IDR) at 'BB' with a Stable Outlook.

KEY RATING DRIVERS

Georgia's ratings are supported by governance and business environment indicators that are above the current medians of 'BB' category peers, and a track record of macroeconomic resilience against regional shocks. Confidence in the authorities' economic strategy is also anchored by an IMF Extended Fund Facility (EFF) programme. These credit strengths are balanced by government debt's significant exposure to foreign-currency (FC) risk, high financial dollarisation, and external finances that are significantly weaker than the majority of 'BB' category rated peers'.

Georgia's economy has been resilient against a testing external environment. Real GDP growth in 2019 is estimated by Fitch at 5.2%, outperforming the agency's 4.3% projection, and up from 4.8% in 2018. The impact on Georgia's tourism sector (7.6% of GDP in 2018) from Russia's flight embargo (in place since June 2019) has been weaker-than-expected as higher visitor numbers from Turkey and the EU have offset the fall in visitors from Russia. Despite weak economic growth in some major export partners (e.g Azerbaijan, Russia and Turkey), total export growth remained positive, supported by a diverse base of export markets and depreciation of the Georgian lari. Meanwhile, revised national accounts data, starting from 2010, lifted nominal GDP by 8.6% as of 2018.

Economic growth is forecast by Fitch to ease to 4.4% in 2020; just above the five-year average growth rate (4.2%) of 'BB' category peers. The slower growth mainly reflects a weaker outlook for domestic demand due to a tighter monetary policy. Downside risks are significant. Ongoing uncertainty in global trade markets, in addition to recent domestic social and political unrest, could weigh on growth prospects, particularly investment. Inflows of foreign direct investment (FDI) have slowed since mid-2018, partly due to the winding down of the TANAP gas pipeline project, but also due to a weak Turkish economy. The recent termination of contracts to construct the Anaklia deep-sea port project has led Fitch to lower its FDI projections.

Political uncertainty continues in the run-up to October's parliamentary elections. Failure by the ruling Georgian Dream (GD) party in November 2019 to pass promised legislative changes to the electoral code has led to a boycott of parliament by the main opposition party, United National Movement (UNM), as well as public protests. Fluidity of developments leaves the election outcome highly uncertain.

However, Fitch does not expect a material diversion away from existing economic policy direction regardless of the election result. The extension of the IMF programme until April 2021 will help maintain policy credibility and direction of structural reform through the electoral cycle.

Relations with Russia remain fragile. Notwithstanding the imposed flight ban, sensitivity from geopolitical risks on domestic politics and the economy remains a risk.

Headline inflation averaged 4.9% in 2019, reaching 7% in December 2019. Inflation in January 2020 eased slightly to 6.4%. Inflationary pressures have been mainly driven by higher food prices and a strong exchange rate pass-through as the lari depreciated against the US dollar 7.1% in 2019 (affected by domestic politics and the Russian flight ban). Georgia's real effective exchange rate (REER) depreciated 5.3%.

Since September 2019, the National Bank of Georgia (NBG) has hiked its benchmark rate four times (by a combined 250 bp), and in keeping with its commitment towards maintaining exchange-rate flexibility, interventions in the FX market have been small. At 9%, the benchmark interest rate is currently at its highest since 2008. The slowdown in domestic demand should help abate inflationary pressures. Fitch does not envisage headline inflation to converge towards the NBG target of 3% until 2021. We forecast inflation to average 4.5% in 2020 and 3.2% in 2021. We expect that the NBG will likely maintain a proactive policy approach should further price pressures from lari depreciation arise.

External vulnerabilities are a key rating weakness. **The gross external financing requirement was equivalent to 70% of international reserves in 2019 and is set to rise in 2021 when a USD500 million Eurobond matures.** External liquidity, as measured by the ratio of the country's liquid external assets-to-liquid external liabilities, is weaker than peers' at 100.4% (vs 149% for the 'BB' median) and net external debt-to-GDP is six times the current 'BB' median ratio of 9.6% (estimate for 2019).

Georgia's current account deficit (CAD) in 2019 reached a historical low of 4.5% of GDP by Fitch estimates; largely on account of a smaller trade deficit as a result of weaker export growth and contraction in imports. We forecast the CAD to reach 4.1% in 2020 and 4.2% in 2021, still significantly wider than the median 2.6% of 'BB' category peers. Financing of the CAD is expected to be covered by sustained net inflows of FDI, averaging 5% of GDP.

Fiscal performance has remained broadly in line with IMF programme targets. Georgia's fiscal deficit-to- GDP (including budget on-lending) is estimated to have reached 2.2% in 2019, within the government target of 2.3%, and below the median 2.7% deficit of 'BB' category peers. For 2020, an augmented fiscal deficit target (excluding budget on-lending) of 2.7% has been agreed, with a ceiling on net budget on-lending of 0.2% of GDP for 1H20. This follows an augmented fiscal deficit outturn of around 2% of GDP in 2019. Fitch considers that gains from improved revenue administration and increase in excise duties will help partially offset lower revenues from increased VAT refunds and lower grants. Meanwhile, government expenditure will increase in education, social benefits and pensions.

Government debt rose to 40.1% of GDP in 2019, as the impact from a weaker lari offset a narrowing of the primary fiscal deficit. The revised national accounts put debt/GDP closer to the 'BB' peer median of 38.4%. IMF quantitative targets should help provide a policy anchor to place debt on a downward trajectory in the medium term, further supported by a moderate recovery of the domestic currency. However, sensitivity of government debt to exchange-rate shocks remains high given Georgia's large share of FC-denominated debt (78%).

Georgia's banking sector is sound as reflected by Fitch's BSI score of 'bb'. Capitalisation is high at 19.5% in 4Q19 and non-performing loans account for 1.9% of total loans, according to IMF methodology. Fitch's MPI score of 2* reflects a period of rapid credit growth. New macro-prudential measures have slowed annual household credit growth to 12% in December 2019, from 25% in January 2018. However, lending to non-financial corporates remains on an upward trend, with annual growth of 30% in December 2019, compared with 12% in January 2018. Meanwhile, dollarisation remains elevated at 61.2% of total deposits and 56.5% of loans (end-2Q19).

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

Fitch's proprietary SRM assigns Georgia a score equivalent to a rating of 'BB+' on the LTFC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to rated peers, as follows:

- External finances: -1 notch, to reflect that relative to its peer group, Georgia has higher net external debt, structurally larger CADs, and a large negative net international investment position.

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

RATING SENSITIVITIES

The main factors that may, individually or collectively, lead to positive rating action are:

-A significant reduction in external vulnerability, stemming from decreasing external indebtedness and rising external buffers.

-Fiscal consolidation leading to a faster reduction in general government debt and improvements in debt composition.

-Stronger GDP growth prospects consistent with preserving macro stability leading to higher GDP

per capita.
The main factors that may, individually or collectively, lead to negative rating action are:
-An increase in external vulnerability, for example a sustained widening of the CAD not financed by FDI.
-Worsening of the budget deficit, leading to a sustained rise in public indebtedness.
-Deterioration in either the domestic or regional political environment that affects economic policy-making, economic growth and/or political stability.

KEY ASSUMPTIONS

The global economy performs in line with Fitch's Global Economic Outlook, which forecasts eurozone growth at 1.1% in 2020 and 1.2% in 2021

ESG CONSIDERATIONS

Georgia 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. Unresolved conflict with Russia represents a risk to political stability.
Georgia 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.
Georgia has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as strong 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.
Georgia 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 Georgia, as for all sovereigns.
Georgia; Long Term Issuer Default Rating; Affirmed; BB; RO:Sta;
Short Term Issuer Default Rating; Affirmed; B;
Local Currency Long Term Issuer Default Rating; Affirmed; BB; RO:Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; B;
Country Ceiling; Affirmed; BBB-;
Senior unsecured; Long Term Rating; Affirmed; BB

Media Relations: Julia Belskaya von Tell, Moscow, Tel: +7 495 956 9908, Email: julia.belskayavontell@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Hungary

Hungary cuts 2020 GDP forecast to four-year-low of 3.5%

14-Feb-2020

- **Hungary no longer immune to slowdown in German car sector**
- **Coronavirus could hurt tourism sector, global supply chains**
- **Some companies in Hungary have already flagged problems**
- **Hungary needs stable and predictable exchange rate -minister**

Releads, adds more comments on impact of coronavirus, factors of growth and forint's exchange rate
By Gergely Szakacs
BUDAPEST, Feb 14 (Reuters) - **Hungary has cut its 2020 economic growth forecast to 3.5% - the slowest pace in four years - as the impact of the coronavirus, Brexit and high levels of global debt have damaged its growth prospects, the finance minister said on Friday.**
The government had previously forecast 4% growth this year.
Fuelled by tax cuts, a housing boom, strong bank lending and investments, Hungary's economic growth peaked at 5.1% in 2018. But it then slowed to 4.9% in 2019 according to data published earlier in the day.
The economy expanded just 4.5% in the fourth quarter of last year as global headwinds to economic growth began to slow the Hungarian economy.
"The world has never been so indebted as today," Finance Minister Mihaly Varga told a news conference. "What modest growth we have seen so far in the world economy was funded with debt and this is building up risks that we need to reckon with.
"Therefore, we are adjusting out economic growth forecast for this year. We now expect the economy to grow by 3.5% in 2020," Varga said.
He said the spread of the coronavirus could damage growth through its impact on tourism and global supply chains, with a number of large companies in Hungary, which he did not name, already signalling problems.
"For the time being, stocks are available but unless production capacities (in China) rebound ... this could create problems in the first half of the year," Varga said.
Varga added that December industrial output data, which showed a 1.2% decline in output due to a fall in car sector production, also showed that Hungary was no longer immune to a slowdown in the German car sector.
However, he expressed hope that new investments, such as a factory being built by BMW in eastern Hungary, could help the economy in Hungary, where production costs were still cheaper than in western Europe.
Varga also said high levels of employment, strong wage growth, investments by large companies and European Union funds would

continue to support the economy, which he said would continue to outpace the European average.
He added that January figures, which showed a jump in headline inflation to a multi-year-high of 4.7%, came as a surprise, but said price growth would probably slow in the next two months.
The minister said recent falls in the forint were broadly neutral for the government budget. However, he reiterated his view that Hungary needed a stable and predictable exchange rate.

(Reporting by Gergely Szakacs; Editing by Hugh Lawson)
((gergely.szakacs@reuters.com; https://twitter.com/szakacsg; +36 1 882 3606; https://www.reuters.com/journalists/gergely-szakacs))

Fitch Affirms Hungary at 'BBB'; Outlook Stable

14-Feb-2020
Link to Fitch Ratings' Report(s):
Fitch Ratings-Frankfurt am Main-February 14: Fitch Ratings has affirmed Hungary's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook.
KEY RATING DRIVERS
Hungary's 'BBB' rating balances strong structural indicators and stronger and more stable macroeconomic performance than peers against high general government debt and risks from policy unpredictability and pro-cyclicality.
Economic growth has been strong in recent years, and declined slightly from a cyclical peak of 5.1% in 2018 to an estimated 4.9% in 2019 (current peer median 2.8%). Private consumption and investment have been the main growth drivers. Growth is set to slow as the cyclical boost from EU fund inflows fades and external demand remains sluggish. Fitch expects growth to slow to 3.5% in 2020 and 2.8% in 2021, with investment growth falling sharply to 5% in 2020 (3Q19: 16.1% yoy), as public investment declines.
Hungary appears well-positioned to manage a shift to electric and hybrid car production over the medium term. The auto sector, which accounts for 5% of Hungarian GDP, is attracting significant greenfield investment, including a planned BMW plant in Debrecen, which will commence production in 2021-2022. Hungary is also set to receive about 1.4% of GDP in foreign direct investments (FDI) in electric car battery production in the coming years.
Wage growth reached 13.9% yoy in November 2019 (2018: 11.3%), given a still tight labour market (unemployment stabilised at 3.3% as of end-2019). Wage growth is likely to ease as the economy slows, although the growth will still be among the highest in the EU. Nevertheless, Hungary will benefit from a competitive labour market given that absolute wage levels are still low compared with most western European economies.
In line with trends in central and eastern Europe , inflation has risen sharply since 4Q19, reaching a seven-year high of 4.7% yoy in January 2020, driven largely by food price growth (6.9% yoy), and base effects for fuel prices. Core inflation was 4% in January. Fitch expects inflation to temporarily remain above the central bank's target (3% +/-1pp) in 1H20 before falling to an annual average of 3% in 2020 and 2021, still well above the current peer median. Fitch expects monetary policy to remain accommodative, despite the temporary inflation spike and weakness in the currency.
The general government deficit has been largely in line with rating peers' in recent years. Revenue growth outpaced expenditure growth in 2019, resulting in an estimated deficit of 1.7% of GDP (government target: 1.8% and 2018: 2.3%). However, as GDP growth slows and EU transfers decline, Fitch expects the deficit to widen to 1.9% in 2020 (government target: 1%) and 2% in 2021. The government's policy stance has been pro-cyclical in recent years, leading to a widening of the structural deficit to 3.8% of GDP in 2018 (European Commission estimate). Fitch considers that the medium-term objective of a structural deficit of 1.0% of GDP from 2020 will be difficult to meet.
High general government debt (estimated at 66.5% of GDP at end-2019), well above the current peer median of 41.1%, is a rating weakness. While debt is on a declining trajectory, the pace of reduction has been slow, at only 14.1pp in the last decade. The proportion of FX-denominated central government debt is decreasing steadily, from a peak of 52% in 2011 to just below 18% at end-2019. This trend has recently been supported by the launch of government securities targeted at resident households (notably MAP+; launched in 2Q19 and worth 7.6% of estimated 2019 GDP as of end-January 2020) and some repurchases of FX-denominated debt. Currency composition is likely to become more favourable, but MAP+ will raise the cost of debt servicing in the medium term, given higher interest rates on these securities, and could cause other distortions.
The current account deficit is set to widen to 0.6% of GDP in 2020 (current peer median: deficit of 0.9%) from an estimated 0.3% in 2019, reflecting both stable domestic consumption as well as higher imports of capital goods associated with investments in automobile manufacturing facilities, before reverting to a small surplus in 2021. Net FDI, along with EU capital transfers, will be sufficient to cover the deficits and, combined with greater domestic holdings of government debt, will reduce net external debt to 6.8% of GDP by 2021 from an estimated 10.3% in 2019, outperforming the current peer median.
The banking sector is stable, liquid and well-capitalised (Total Capital Ratio: 17.9% at end-3Q19) with stable asset quality (3Q19: non-

performing loan ratio of 3.6%), and profitable. Household credit growth has been strong over the last year (15.6% yoy; 2018: 5.8%), driven in part by government incentives to borrow (such as subsidised home loans), and strong employment and wage growth. However, overall household indebtedness is low, at 17.6% of GDP at end-2Q19, and household savings remain robust (2018: 11.6%), mitigating risks.

House price growth slowed to 14.8% yoy (in nominal terms) in 3Q19 compared with 16.5% in 4Q18. This slowdown likely reflects tighter macro-prudential regulations and a diversion of funds for house purchases into retail government debt securities. **Macro-prudential measures since 2017 have led to a steady expansion of the stock of mortgages with fixed interest rates to minimise interest-rate risk.** As of January 2020, almost 100% of new mortgages were at fixed rates (for a minimum period of five years).

Hungary outperforms its rating peers in the World Bank Governance Indicators, although the gap has reduced in recent years. Perceptions of corruption and undue state influence remain high for an EU country. Hungary is likely to face a significant cut in the size of its allocation for its next Multi-Annual Financial Framework, although the final amount is still the subject of negotiations at present.

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

Fitch's proprietary SRM assigns Hungary a score equivalent to a rating of 'BBB+' on the LTFC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to rated peers, as follows:

- Macroeconomics:-1 notch, to reflect policy credibility that is assessed to be weaker than peers' in view of a track record of unorthodox, unpredictable and pro-cyclical policy moves that have contributed to a position in the economic cycle that is flattering Hungary's SRM output, and weak growth potential partly reflecting adverse demographics.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR.

Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

RATING SENSITIVITIES

The main factors that could, individually or collectively, lead to positive rating action, are:

- Further sustained decline in and improvement in currency composition of general government debt
- Increased confidence in macroeconomic policy management over the economic cycle
- Improved business environment that would support stronger medium-term growth prospects without the emergence of macroeconomic imbalances

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

- Deterioration in the policy framework that could pose risks to macroeconomic stability
- Worsening of fiscal metrics that leads to adverse debt dynamics
- Weakening of the institutional framework that leads to a deterioration in governance indicators

KEY ASSUMPTIONS

Fitch assumes that the eurozone will grow 1.1% in 2020 and 1.2% in 2021 (in line with its December 2019 Global Economic Outlook).

Fitch assumes that under severe financial stress, support from Hungarian subsidiary banks would come first and foremost from their foreign parent banks.

ESG CONSIDERATIONS

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

Hungary 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 is therefore highly relevant to the rating and a key rating driver with a high weight.

Hungary has an ESG Relevance Score of 4 for Human Rights and Political Freedoms as World Bank Governance Indicators, which have the highest weight in Fitch's SRM, are relevant to the rating and a rating driver.

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

Hungary; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta;
Short Term Issuer Default Rating; Affirmed; F2;
Local Currency Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta;
Local Currency Short Term Issuer Default Rating; Affirmed; F2;
Country Ceiling; Affirmed; A;
Senior unsecured; Long Term Rating; Affirmed; BBB;

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Says Hungary Outlook Revised To Positive on Solid Economic Growth

Prospects; 'BBB/A-2' Ratings Affirmed

14-Feb-2020
Feb 14 (Reuters) - S&P:

- **Hungary outlook revised to positive on solid economic growth prospects; 'BBB/A-2' ratings affirmed**
- Hungary's economy has grown at an average 5% in 2018-2019 and is set to expand by 3.5% in 2020 in the face of external weakness
- Outlook revision reflects Hungary's strong economic growth outlook with macroeconomic imbalances remaining contained
- Absent external shock, sees Hungary's economy will expand by about 3.5% in 2020 on back of strong domestic demand, accommodating monetary policies

((Reuters.Briefs@thomsonreuters.com))

Kosovo

Kosovo to sell 25 mln euro of 5-yr T-notes on Feb 19

12-Feb-2020
PRISTINA (Kosovo), February 12 (SeeNews) – **Kosovo's finance ministry will offer 25 million euro ($27.3 million) worth of five-year Treasury notes at an auction on February 19, it said.**
The government securities will mature on February 20, 2025, the finance ministry said in its first-quarter debt issuance calendar.
At the last auction of five-year T-notes held on December 3, the average weighted yield on the government securities fell to 1.89%, from 2.18% at the previous auction of five-year T-notes held in September, according to figures published by the finance ministry.

($ = 0.91616 euro)

North Macedonia

North Macedonia sells 3 bln denars (48.4 mln euro) of govt paper

11-Feb-2020 15:27:21
SKOPJE (Macedonia), February 11 (SeeNews) – **North Macedonia's finance ministry sold 3 billion denars ($52.9 million/48.4 million euro) worth of government securities at auctions on February 11, the central bank said on Tuesday.**
The finance ministry sold 1.8 billion denars of one-year T-bills and 1.2 billion denars of 15-year T-bonds, the central bank said in a statement.
The central bank sells government securities on behalf of the finance ministry through volume tenders in which the price and coupon are set in advance and primary dealers bid with amounts.

(1 euro = 61.07 denars)

Poland

Poland surprises with strong December C/A surplus

13-Feb-2020
Feb 13 (Reuters) - **Poland's December current account data released on Thursday showed a surplus of almost one billion euros, while economists had expected a hefty deficit.**
Poland's C/A surplus amounted to 990 million euros ($1.08 billion) in the last month of 2019, compared to a revised surplus of 1.564 billion euros in November. Economists polled by Reuters had expected a deficit of 261 million euros in December.
The central bank said in a statement that goods export rose by more than 10% in December, while import inched up by a mere 0.3%. Poles imported fewer new cars and less steel and oil, while export of parts for rail vehicles, optical fibres and cosmetics jumped.
"We discussed a lot today about this surprising data. There is a number of hypotheses explaining the difference between the consensus and the official release," Andrzej Krzeminski, an economist with Bank Millennium said.
"It might have been that Poland paid less contribution to the European Union's budget, while foreign companies sent abroad less money from their profits generated in Poland," he also said, adding that strong export could explain the rest of the difference.
Grzegorz Ogonek, an economist with Santander Bank Polska, said that it might have happened that one of Polish rail vehicles producers delivered a big contract in December to its foreign customer, positively influencing data.
"But indeed, we were caught by a surprise," he said.
The zloty strengthened on Thursday rising over the course of the day to 4.2530 to the euro from almost 4.26 in the morning.
($1 = 0.9203 euros)
Full C/A data are available here:
http://www.nbp.pl/homen.aspx?f=en/statystyka/bilans_platniczy/wstepne.html

(Gdansk Newsroom and Marcin Goclowski; Editing by Toby Chopra)
((gdansk.newsroom@thomsonreuters.com; +48 58 7785110))

Romania

Romania's end-2019 foreign debt rises

13-Feb-2020
BUCHAREST (Romania), February 13 (SeeNews) **- Romania's foreign debt increased to 106 billion euro ($115 billion) at the end of 2019 from 99.841 billion euro at the end of 2018, the central bank, BNR, said on Thursday.**
The end-December figure includes 72.740 billion euro in long-term foreign debt, up from 68.286 billion euro at the end of 2018, BNR said in a monthly balance of payments report.
Long-term external debt service ratio fell to 18% at end-December, compared to 22.3% at end-2018.
Goods and services import cover fell at 4.6 months at end-December, from 4.8 months at end-2018.
The ratio of the BNR's foreign exchange reserves to short-term external debt by remaining maturity came in at 72.2% at end-2019, against 74.1% at end-2018.

($= 0.9191 euro)

Serbia

Serbia mulls issuing Chinese yuan-denominated securities

13-Feb-2020
BELGRADE (Serbia), February 13 (SeeNews) - **Serbia is considering the issuance of Chinese yuan-denominated financial instruments to finance public debt, finance minister Sinisa Mali has said.**
The government is looking into the option of issuing a green bond on domestic or international markets in 2021 and Chinese yuan-denominated securities in the coming years, Mali said in a statement on Wednesday.
Serbia's local currency bonds, in turn, may be included on the widely tracked JPMorgan Government Bond Index Emerging Markets (GBI-EM) in the coming two months after making it onto the index provider's watchlist, Mali said.
The Serbian government plans to borrow 2 billion euro ($2.2 billion) through the sale of government securities on international markets in 2020. The borrowing through the issuance of domestic government debt is planned at about 312 billion dinars ($2.9 billion/2.7 billion euro), Mali added.
In 2017, former finance minister Dusan Vujovic said Serbia may finance its public debt at low cost via financial instruments in yuan.
"First of all, I think the panda bonds would enable Serbia to finance its debt and to continue reducing not only the debt to GDP ratio but also the cost of borrowing," Vujovic said back then.

($ = 0.918697 euro)

Slovenia

Slovenia sells 110 mln euro of 3-mo, 6-mo T-bills

12-Feb-2020
LJUBLJANA (Slovenia), February 12 (SeeNews) – **Slovenia's finance ministry said it sold 110 million euro ($120 million) worth of three-month and six-month Treasury bills on February 11, as the two issues were heavily oversubscribed.**
Three-month Treasury bills worth 48 million euro were sold at a negative yield of 0.49%, compared with a negative yield of 0.51% at the prevous auction of three-month government securities held in January, according to figures published by the finance ministry on Tuesday.
The ministry also auctioned 62 million euro worth of six-month Treasury bills at a negative yield of 0.49%, compared with a negative yield of 0.48% achieved at the previous auction in January.

($=0.9162 euro)

LATIN AMERICA AND CARIBBEAN

Argentina

Crunch time for Argentina's debt revamp as IMF mission due this week

11-Feb-2020
By Hugh Bronstein
BUENOS AIRES, Feb 10 (Reuters) - **Argentina heads into do-or-die talks this week with its biggest creditor, the International Monetary Fund, fresh from a failed bond sale on Monday that augured poorly for the government's plan for revamping about $100 billion in debt.**
The country wants to postpone debt payments while honoring its promise to voters to avoid painful budget cuts. That agenda was dealt a blow on Monday when the Economy Ministry sent a one-sentence statement saying, without explanation, that the planned issue of peso-denominated debt had been abandoned.
"The government wanted to issue debt at a lower interest rate than investors were willing to accept. This unsuccessful episode is not a good sign ahead of the IMF talks and the

restructuring process," said Gabriel Zelpo, director of Buenos Aires economic consultancy Seido.
Left-leaning President Alberto Fernandez hopes to convince the Fund to rejig $44 billion in suspended loans under a program that would avoid the kind of fiscal austerity and structural reforms the IMF typically imposes to restore nations' finances.
The government also wants IMF approval of its plan to restructure tens of billions of dollars owed to bondholders.
It hopes to achieve all this before a March 31 deadline it has imposed on itself so it may refocus on restoring growth. The future of Latin America's No.3 economy hinges on the Wednesday-through-Friday discussions to be held in Buenos Aires between IMF and Argentine officials.
The week may end without a hard statement from either side about new economic or debt management policies, however.
"The government needs to make the perfect move, with a bond restructuring that the IMF can approve and that balances the need for some fiscal austerity with the political restrictions imposed by the government's leftist coalition," Zelpo said.
"If it is successful the economy will recover. If not, the recession will deepen," he said.
Analysts expect on average an economic contraction of 1.5% this year.
Fernandez's late 2019 election was a rebuke to previous leader Mauricio Macri, who killed his own hopes of re-election by imposing unpopular subsidy cuts that fueled inflation while his over-borrowing in the bond market helped weaken the local peso currency by 83% during his four-year term.
COMPLICATED PAST
The IMF and Argentina have a complicated past. Many blame the fund's policies for causing a 2001 economic meltdown that threw millions of middle-class Argentines into poverty.
A 2018 run on the peso nonetheless forced Macri into a $57 billion IMF loan agreement that included tough fiscal targets.
Only $44 billion of that money was distributed before the agreement was put on hold last year when Argentina admitted it would have to rejig a total of about $100 billion in debt.
Economy Minister Martin Guzman has approached the IMF and bondholders with talk of an investor-friendly bond revamp, while making it clear the government will neither risk worsening the recession by imposing fiscal austerity nor keep making unsustainable bond payments.
The fund and the government both say they expect a productive dialogue this week.
The ministry wants to get the IMF on board with its plan for delaying debt service payments long enough to let the economy emerge from recession and to improve its repayment capacity.
"I don't know if there will be an explicit or implicit endorsement from the IMF of the actual bond restructuring," said Siobhan Morden, head of Latin America Fixed Income Strategy at Amherst Pierpont Securities.
An IMF endorsement would signal optimism for future debt repayment capacity, Morden said, adding that Argentina was likely to miss its deadline of getting a debt revamp signed by the end of March.
"So the best case is a soft endorsement in which the IMF signals flexibility for negotiating on loan re-profiling. There is no chance of a revised IMF program in March. But there could be headlines of progress towards a future agreement," she said.

(Reporting by Hugh Bronstein; additional reporting by Gabriel Burin, Maximilian Heath and Rodrigo Campos Editing by Chizu Nomiyama, Sonya Hepinstall & Shri Navaratnam)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Argentina to delay $1.47 billion bond payment amid debt crisis

11-Feb-2020
By Eliana Raszewski and Hugh Bronstein
BUENOS AIRES, Feb 11 (Reuters) - **Argentina has decided to postpone a $1.47 billion principal payment on the country's AF20 bond until Sept. 30, the economy ministry said on Tuesday, potentially complicating a wider debt restructuring program.**
The payment had been due on Thursday. The government, in a statement, said it planned to continue making scheduled interest payments on the bond. But investors may still frown on Argentina changing payment terms without consulting the bondholders.
"It is a unilateral decision by the debtor, and not a move that creates goodwill in the market," said Goldman Sachs emerging markets analyst Alberto Ramos.
Argentine over-the-counter bonds fell an average 1% on Tuesday while country's risk spread widened 100 basis points to 1,982 over safe-haven U.S. Treasuries, according to JP Morgan's Emerging Markets Bond Index Plus.
The peso-denominated AF20 is linked to Argentina's foreign exchange rate, and was issued under Argentine law.
It was originally issued for an amount equivalent to $1.64 billion. On Feb. 4 the government swapped $164 million of the bond for three instruments due in 2021.
"The amortization will be postponed until Sept. 30 in order to allow more time for the bond to be restructured in a way that is consistent with the restructuring of the rest of our external debt," Tuesday's economy ministry statement said.
The announcement came less than 24 hours after a failed bond sale by Argentina that

augured poorly for its plan for revamping a total of about $100 billion in debt. As it stands, the government has said its debt load is unsustainable and vowed not to continue paying on current terms.
Tuesday's announcement also came on the eve of talks with Argentina's biggest creditor, the International Monetary Fund, over the government's strategy for getting out of recession. That strategy starts with re-negotiating IMF loans and sovereign bonds.
President Alberto Fernandez hopes to convince the fund to rejig $44 billion in suspended loans under a program that would avoid the kind of fiscal austerity and structural reforms the IMF typically imposes to restore nations' finances.
"Argentina is going through the initial iterations of a likely complex debt restructuring but the authorities have yet to articulate a well fleshed out macro policy plan," Ramos said. "It is also unclear what their strategy for fiscal policy and public debt are. Time will tell, but time is running out."
The discussions between IMF and Argentine officials are scheduled for Wednesday through Friday in Buenos Aires.

(Reporting by Eliana Raszewski; Writing by Hugh Bronstein; Editing by Richard Chang, Lisa Shumaker and Tom Brown)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Argentina sees 'deep debt restructuring' ahead, rejects fiscal austerity

12-Feb-2020
By Hugh Bronstein and Eliana Raszewski
BUENOS AIRES, Feb 12 (Reuters) - **Argentina is willing to pay its debts but does not have the money to do so, Economy Minister Martin Guzman said on Wednesday, warning of a "a deep debt restructuring" ahead.**
In an address to Congress, Guzman blamed austerity policies prescribed by the International Monetary Fund for the credit crisis.
But as IMF officials arrived in Buenos Aires for a week of talks about the coming revamp of loans and bonds, Guzman said there was "a growing mutual understanding" about how to handle the problem.
Argentina says it needs to rejig $100 billion in debt, including $44 billion owed to the fund, its biggest single creditor. The government, which took office in December, has vowed not to continue paying what it calls the unsustainable debt load it inherited from the previous administration.
"There will have to be a deep debt restructuring and it is clear there will be frustration on the part of bondholders," Guzman told lawmakers. He vowed to rebuff the kind of fiscal austerity policies that the IMF typically recommends to cash-strapped countries seeking loans.
"There is nothing worse for a country in recession than austerity," Guzman said, adding that the government would not try to reduce its primary fiscal deficit this year. A lower deficit had been a key part of Argentina's 2018 IMF loan deal.
Latin America's No. 3 economy is expected by private analysts polled by the central bank to shrink 1.5% in 2020 with inflation seen easing to 41.7% from over 50% currently.
Bondholders are apprehensive about the restructuring.
"Demand for local assets remains low amid ongoing debt restructuring discussions," a note from JP Morgan said on Tuesday after the government postponed a $1.47 billion principal payment on its AF20 bond until Sept. 30.
The payment had been scheduled for Thursday.
The government voided a local debt auction on Monday because of scant investor appetite, and Argentine bond prices remained down for the week despite a partial bounce-back on Wednesday.
The IMF meetings in Buenos Aires will last through Feb. 19. The government hopes not only to clinch a deal to postpone loan payments owed to the fund, but to get the lender's approval of its plan for restructuring bonds.
Former president Mauricio Macri lost his 2019 re-election bid after public utility subsidy cuts and other fiscal tightening measures weighed on the economy and hurt his popularity. The new president, Peronist Alberto Fernandez, campaigned on an anti-austerity platform.
As Guzman spoke, thousands of members of leftist social groups marched in front of Congress against the IMF's policies. Many Argentines blame the IMF for the country's 2001 economic crisis that tossed millions of middle-class people into poverty.

(Reporting by Hugh Bronstein and Eliana Raszewski; additional reporting by Gabriel Burin, Hernan Nessi and Walter Bianchi; Editing by Lisa Shumaker and Grant McCool)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

Argentine bonds could take another beating if restructuring talks drag on

14-Feb-2020
By Hugh Bronstein
BUENOS AIRES, Feb 14 (Reuters) - **Argentina's bloodied bond market could take another beating if debt renegotiations take longer than expected, analysts said on Friday, as investors digested a week full of bearish news and the economy minister's blunt comments about creditors.**
Asset prices were driven down on Monday by a sovereign debt auction that had to be canceled

due to poor investor appetite. On Tuesday the government unilaterally postponed a $1.47 billion payment on its AF20 bond from Thursday until Sept. 30.

Then on Wednesday, economy chief Martin Guzman warned that a "deep restructuring" was on the way.

"Considering what Guzman has said, we will experience a longer than previously expected debt renegotiation. And Argentina does not have enough currency reserves for that kind of process," said Gabriel Zelpo, director of local consultancy Seido.

"If that happens, prices will suffer further," he added.

While state officials met with International Monetary Fund economists to chart a way out of the country's debt crisis, over the counter government bonds were mostly unchanged on Friday after falling an average of 2% over the previous four days. Economists agreed prices still have room to move down.

"The market is looking for direction given heightened uncertainty on a number of critical issues, but it is not getting much from the authorities," said Goldman Sachs emerging markets analyst Alberto Ramos.

"Key asset price drivers in the very near future will be the specifics of the government debt restructuring proposal and signals from the IMF."

A meeting between Guzman and IMF officials on Friday took place in a "constructive climate," a ministry statement said.

The IMF mission, in Buenos Aires until Feb. 19, is expected to issue a statement about Argentina's plan for restructuring about $100 billion in loans and bonds.

Guzman has said the government will neither impose fiscal austerity on a country already in recession nor keep paying what he called unsustainable debt that President Alberto Fernandez inherited when he took office in December.

Guzman told Congress that austerity policies previously prescribed by the IMF were to blame for Argentina's predicament and warned that future policies would not be dictated by bondholders, who are likely to find the upcoming negotiations "frustrating."

"The hawkish communication about unsustainable debt, irresponsible creditors and no obvious commitment to fiscal discipline all suggest a worse recovery value for bondholders," Amherst Pierpont Securities said in a note.

Guzman has set a March 31 deadline for getting the debt revamps done.

(Reporting by Hugh Bronstein in Buenos Aires
Additional reporting by Walter Bianchi and Cassandra Garrison in Buenos Aires
Editing by Richard Chang and Matthew Lewis)
((hugh.bronstein@thomsonreuters.com; 5411 4318 0655; Reuters Messaging: hugh.bronstein.thomsonreuters.com@reuters.net))

(c) Copyright Thomson Reuters 2020.

Brazil

Brazil govt holds 2020 GDP call despite "strange" data

13-Feb-2020

By Jamie McGeever, Marcela Ayres and Isabel Versiani

BRASILIA, Feb 13 (Reuters) - **Brazil's government is sticking with its 2020 economic growth forecast of 2.4% "for now", Treasury Secretary Mansueto Almeida told Reuters, despite a string of recent indicators that suggest the recovery is losing steam.**

In an interview late on Wednesday, Almeida also said Brazil's sovereign credit rating could be raised this year, although a return to investment-grade status probably will not occur until the government posts primary budget surpluses.

While public finances continue to improve thanks to the government's fiscal discipline and growing revenue - January's revenues were "spectacular" - it will be probably be 2022-2023 before the government registers a primary surplus, Almeida said.

"That's it (2.4%) for this year. For now," Almeida said of his outlook for 2020 growth.

"The data is very strange. So, let's see how it goes ... nobody can be sure about projections for the year with one or two months' data. We hope that this year will be better than last year, but if it's 2% to 2.3% - let's wait a bit."

Economy Minister Paulo Guedes said last month that 2.5% growth this year was possible, but recent retail sales, industrial production and trade data have prompted some economists to lower their forecasts to around 2%.

Almeida said 2% growth this year would not necessarily mean the government will miss its fiscal goals, depending on the composition of its revenue stream.

"In theory, faster growth helps on the revenue side. But last year growth was low, around 1%, yet the impact of (a stronger) labor market was very positive. And revenues were stable," he said.

The government's primary deficit last year, before interest payments are factored in, was 61 billion reais ($14 billion), less than half the official target. That was the sixth straight annual deficit, but the smallest since 2014, at 0.85% of GDP.

Regarding the real's 8% slide this year to a record-low of 4.35 reais per dollar, Almeida was relaxed, saying it does not reflect weaker investor confidence in Brazil, but is a function of global trends and low domestic interest rates.

Speaking only days after Guedes said he might soon lose his highly respected Treasury Secretary to the private sector, Almeida confirmed he is staying in his post. When he does leave, he will give "plenty notice ... a few months notice," he said.

($1 = 4.35 reais)
(Reporting by Jamie McGeever; Editing by Catherine Evans)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Brazil deficit outlook dims slightly on lower revenue forecasts

13-Feb-2020
BRASILIA, Feb 13 (Reuters) - **The outlook for Brazil's public finances this year has dimmed slightly due to an expected fall in government revenues, an Economy Ministry survey of economists on Thursday showed, although official budget targets are still likely to be met.**
According to the ministry's 'Prisma' survey for February, the median forecast for this year's central government primary deficit is 86.25 billion reais ($20 billion), almost 4 billion reais more than last month's 82.345 billion reais estimate.
That is still comfortably below the government's goal of a 124.1 billion reais shortfall across the Treasury, central bank and social security system, and would be narrower than last year's 95.065 billion reais deficit.
Economists' net revenue forecast for this year dipped to 1.379 trillion reais from 1.383 trillion reais, while the outlook for expenditures held steady at 1.469 trillion reais.
Prisma projections for the 2021 primary deficit, before interest payments are taken into account, narrowed to 45.74 billion reais from 47.15 billion reais a month earlier. That is also well below the official target of 68.5 billion reais.
Brazil's national debt is expected to end this year at 76.2% of gross domestic product and next year at 76.5% of GDP, the survey showed, down sharply from 78% and 78.1%, respectively, projected a month ago.

($1 = 4.33 reais)
(Reporting by Marcela Ayres
Writing by Jamie McGeever; Editing by Steve Orlofsky)
((jamie.mcgeever@thomsonreuters.com; +55 (0) 11 97189 3169; Reuters Messaging: jamie.mcgeever.reuters.com@reuters.net))

Mexico

Mexico to issue $425 mln in catastrophe bonds in coming weeks

14-Feb-2020
MEXICO CITY, Feb 13 (Reuters) - **The Mexican government will issue catastrophe bonds worth about $425 million in the coming weeks, Finance Minister Arturo Herrera said on Thursday, part of a push to safeguard the country's finances against costly natural disasters.**
Mexico is frequently hit by hurricanes and was rocked by a couple of massive earthquakes in 2017, which led to hundreds of deaths and billions of dollars in damages.
"We hope these events don't happen, but we are prepared in case they occur," Herrera wrote in a post on Twitter. He said the process to begin the issuance was launched on Wednesday.
Mexico received at least $150 million in payouts from a catastrophe bond after the 2017 quakes. In 2018, it had renewed with the World Bank a catastrophe bond for earthquakes through February 2020 for coverage of up to $260 million.
Herrera said the bonds would work as a "type of insurance" and would be channeled to help impacted populations in case of emergency. Money from the bonds would also help rebuild vital infrastructure, he said.

(Reporting by Drazen Jorgic; Editing by David Alire Garcia and Leslie Adler)
((drazen.jorgic@tr.com; Reuters Messaging: drazen.jorgic.thomsonreuters.com@reuters.net))

Puerto Rico

Puerto Rico's financial oversight board says deal reached to cut Puerto Rico's debt by $24 bln

10-Feb-2020
Feb 9 (Reuters) - **Puerto Rico's financial oversight board:**
- **Financial oversight and management board for Puerto Rico says reaches new, 'more favorable' agreement to restructure $35 billion of liabilities**
- Reached agreement with certain bondholders of Puerto Rico on framework for plan of adjustment to resolve $35 billion of debt & non-debt claims
- New agreement reduces commonwealth's debt service by 56%, to $39.7 billion from $90.4 billion
- New agreement reduces $35 billion of debt, other liabilities by 70%, or $24 billion, to less than $11 billion
- New agreement was approved by majority of members of oversight board
- Oversight board agreed to settle its challenge of $6 billion of bonds that the oversight board contends exceeded the commonwealth debt limit

((Reuters.Briefs@thomsonreuters.com))

AFRICA

Algeria

Algeria's public debt rises to 45% of GDP, economy "delicate"

11-Feb-2020

ALGIERS, Feb 11 (Reuters) - **Algeria's public debt rose to 45% of gross domestic product at the end of last year from a level of 26% in 2017, and the country's economic situation is "delicate", Prime Minister Abdelaziz Djerad said on Tuesday.**

Addressing lawmakers, Djerad blamed mismanagement and corruption during the past years for worsening financial problems in the OPEC-member nation, pledging to overcome the situation through reforms.

Algeria has been under financial pressure after a fall in energy earnings and foreign exchange reserves amid growing demands from the country's 43 million people to improve living standards.

"The current financial situation is still fragile as it depends on the volatility of the oil market," he said, presenting the government action plan at the lower house of parliament.

"The difficult and delicate economic and social situation will be faced by the government with responsibility," he added.

Djerad was named prime minister in December and Abdelmadjid Tebboune was elected president in a vote largely rejected by protesters demanding the departure of the entire ruling elite and the prosecution of people involved in corruption.

Several senior officials and prominent businessmen have been jailed on corruption charges since the eruption of mass protests that ousted veteran president Abdelaziz Bouteflika who sought a fifth term in office.

"Our country has experienced catastrophic mismanagement in recent years which led to the squandering of its wealth," Djerad said. The government will carry out "deep reforms to get the country out of this critical political and economic situation," he said.

The government plan includes boosting dialogue with the opposition and seeking alternative funding sources for the economy such as issuing sukuk and developing the country's tiny stock exchange.

(Reporting by Hamid Ould Ahmed
Editing by Alexandra Hudson)
((hamid.ouldahmed@thomsonreuters.com))

Egypt

Egyptian pound strengthens to three-year high

10-Feb-2020

CAIRO, Feb 10 (Reuters) - **The Egyptian pound gained on Monday to its strongest against the dollar since the week after Egypt allowed the currency to weaken as part of an economic reform plan backed by the International Monetary Fund more than three years ago.**

The pound traded as strong as 15.66 to the dollar on Monday compared with 15.69 on Sunday.

"It is mainly portfolio-flow-driven and mainly from GCC portfolios, mainly in large purchases of Egyptian pound treasury bills," said one Cairo-based banker who asked not to be named. "That is in addition, of course, to stable consistent remittances and tourism."

The pound last traded as strong on Nov. 17, 2016, six days after it signed a $12 billion, three-year loan agreement with the IMF.

Remittances from Egyptians working abroad rose to $6.71 billion in the July-to-September quarter, the most recent for which figures are available, from $5.91 billion a year earlier.

Tourism receipts climbed to $4.19 billion in the same quarter from $3.93 billion a year before.

(Reporting by Patrick Werr, editing by Larry King)
((patrick.werr@thomsonreuters.com))

Egypt's net government debt issues increase 12% in first half of 2019-20

11-Feb-2020

CAIRO, Feb 11 (Reuters) - **Egypt's net government debt issues increased by nearly 12% in the first half of the 2019-20 fiscal year to 513 billion Egyptian pounds ($32.74 billion) from 460.1 billion in the same period a year earlier, a finance ministry report showed.**

The government expected to increase its domestic borrowing in the 2019-20 budget which started in July by 45% to 725.156 billion pounds. The first-half borrowing exceeded 70% of that target, said the semi-annual report issued on Monday.

Egypt issued bonds worth 422.6 billion pounds in the first half of the current fiscal year, up by 31% compared to 323.6 billion pounds in the same period a year ago, according to the report.

It also issued T-bills worth 90.4 billion pounds during the first half, down by 34% compared to 136.5 billion pounds in the same period a year ago.

($1 = 15.6700 Egyptian pounds)
(Reporting by Ehab Farouk,
Writing by Mahmoud Mourad,
Editing by Ed Osmond)
((mahmoud.mourad@thomsonreuters.com))

Ghana

Fitch Rates Ghana's USD Notes Final 'B'

10-Feb-2020

Fitch Ratings-Hong Kong-February 10:
Fitch Ratings has assigned the Republic of Ghana's notes a final rating of 'B' as follows:
- **USD1.25 billion notes, with a coupon of 6.375%, maturing February 2027**
- USD1 billion notes, with a coupon of 7.875%, maturing February 2035
- USD750 million notes, with a coupon of 8.75%, maturing February 2061

The final rating is in line with the expected rating of 'B (EXP)' that Fitch assigned on 28 January 2020.
KEY RATING DRIVERS
The final rating is in line with Ghana's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B', which has a Stable Outlook.
RATING SENSITIVITIES
The rating is sensitive to changes in Ghana's Long-Term Foreign-Currency IDR.
On 11 October 2019, Fitch affirmed Ghana's Long-Term Foreign- and Local-Currency IDRs at 'B' with a Stable Outlook.
Date of Relevant Committee
09 October 2019
Ghana
Senior unsecured; Long Term Rating; New Rating; B
Senior unsecured; Long Term Rating; New Rating; B

Media Relations: Alanis Ko, Hong Kong, Tel: +852 2263 9953, Email: alanis.ko@thefitchgroup.com; Peter Hoflich, Singapore, Tel: +65 6796 7229, Email: peter.hoflich@thefitchgroup.com; Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: wailun.wan@thefitchgroup.com.
Additional information is available on www.fitchratings.com

Nigeria

Nigeria considers Eurobond issue, president to seek approval

11-Feb-2020
By Chijioke Ohuocha
ABUJA, Feb 11 (Reuters) - **Nigeria is considering a Eurobond sale of between $2.8 billion and $3 billion to help partially fund its 2020 budget after President Muhammadu Buhari wins approval from parliament, the adviser to the country's finance minister said on Tuesday.**
"From the onset ... the government has made plans for a Eurobond and the president has to make application to the National Assembly," media adviser to the finance minister, Yunusa Abdullahi told Reuters.
"If the National Assembly approves then the process can commence." he said.
Nigeria's Eurobond plan comes after West African neighbour Ghana sold a $3 billion Eurobond last week that was five times oversubscribed as investors seeking high-yields demand debt despite the impact a coronavirus outbreak in China could have on its major trading partners in Africa.
In 2019, the debt office said it did not tap the international debt market because of time constraints before the end of its budget cycle. The West African country held its last Eurobond sale in 2018, its sixth outing, where it raised $2.86 billion.
The debt office has said it would first seek concessionary loans for its 2020 external borrowing of around 850 billion naira ($2.8 billion), and any shortfall might be raised from commercial sources.
Abdullahi said the government was considering concessionary loans and that discussions were ongoing.
"The Eurobond would be sought but in terms of which comes first, we don't know," he said, referring to concessionary loans which the government prefers to curb rising debt cost.
Buhari signed a record 10.58 trillion naira ($35 billion) budget for 2020 into law last December, paving the way for a likely return to the international debt market as Nigeria struggles to shake off the impact of a 2016 recession it emerged from the following year.
Nigeria's budget assumes a deficit of 1.52% of the estimated gross domestic product - representing around 2.18 trillion naira ($7.13 bln) to be financed through foreign and domestic borrowing.
The West African country has been borrowing to fund growth after the 2016 recession slashed income and weakened its currency. In December, ratings agency Moody's downgraded Nigeria's outlook to negative from stable, citing increased risk to government revenue.
Buhari has asked parliament to approve a request for $23 billion in foreign borrowings for infrastructure projects.

($1 = 305.90 naira)
(Reporting by Chijioke Ohuocha
Editing by Chris Reese and Marguerita Choy)
((chijioke.ohuocha@thomsonreuters.com; +234 703 4180 621; Reuters Messaging: chijioke.ohuocha.thomsonreuters@reuters.net))

Somalia

IMF, World Bank move pushes Somalia closer to debt forgiveness

13-Feb-2020
By Andrea Shalal
WASHINGTON, Feb 13 (Reuters) - **The World Bank and the International Monetary Fund on Thursday said they had taken a next historic step toward forgiveness of Somalia's $5.3 billion in debt, with a final decision possible by the end of March.**
The Executive Boards of the International Monetary Fund (IMF) and World Bank agreed at their respective meetings on Feb. 12 and 13 that

the East African country is eligible for assistance under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, based on a preliminary assessment.
"This assessment is an important step towards forgiveness of most of Somalia's debt, which measured $5.3 billion at the end of 2018," the two institutions said in a joint statement.
Somali Finance Minister Abdirahman Beileh welcomed the news and said Somalia would press on with its reforms.
"It's indeed a historic moment," Beileh said on Twitter. "Proud day. We remain committed to reforms & sustainable development."
Beileh in October told Reuters his country would press ahead with poverty reduction efforts and a major regional ports and corridors initiative if the debt forgiveness process continued as expected.
IMF Managing Director Kristalina Georgieva said this week's decisions provided "a clear recognition of Somalia's sustained commitment to key economic and financial reforms" under challenging circumstances.
"Helping Somalia achieve debt relief and unlock access to the needed resources to increase growth and reduce poverty is a key priority for the IMF," she said in the joint statement.
Next, Somali authorities must either clear their arrears to multilateral creditors or agree a strategy to clear them, and finalize an agreement on reforms it will implement.
World Bank staff expect to present the operation for clearing the arrears to the International Development Association (IDA) by the end of February 2020.
"Prompt action on these items could result in Somalia reaching the Decision Point by the end of March 2020," the IMF and World Bank said in the statement.
Somali officials said they expected to sign a debt relief package with World Bank on Feb. 27, followed by agreements with the African Development Bank and the IMF.
Once all the conditions are met, Somalia will be eligible for debt relief under the Multilateral Debt Relief Initiative (MDRI) from the World Bank's IDA and the African Development Fund (AfDF), together with fresh assistance from the IMF.
Paris Club creditors are also expected to provide further beyond-HIPC assistance, the IMF and World Bank said.

(Reporting by Andrea Shalal
Editing by Chizu Nomiyama and David Gregorio)
((andrea.shalal@tr.com; +1 202-815-7432;))

South Africa

Fitch Ratings: South Africa President's Speech Highlights Challenges to Credit Outlook

14-Feb-2020
Fitch Ratings-Hong Kong/London-February 14: **The scale of the challenges outlined in the South African president's state of the nation address highlights factors behind Fitch Ratings' Negative Outlook on the South Africa sovereign rating of 'BB+'.** President Cyril Ramaphosa's speech on 13 February promised progress, but offered only partial detail on key policy areas, including stabilising the electricity sector, improving public finances, accelerating growth and land reform.
The president repeated promises made by the minister of mines to more readily allow big power-consuming companies, particularly mines, to build their own electricity generation capacity. This could be transformative in eroding the monopoly of troubled state-owned electricity company Eskom, but it is still unclear whether licences will be easily obtainable. The government also promised to accelerate electricity generation by independent power producers, but we expect load-shedding to remain a problem, and concerns about stable electricity supply will continue to weigh on investment and economic growth more broadly.
Mr Ramaphosa did not explicitly back proposals by COSATU, a trade union allied to the ruling ANC, to move ZAR250 billion (5% of GDP) of Eskom's debt to the Government Employees Pension Fund and state development banks, and we believe the measure is unlikely to materialise given legal and political challenges. He did refer to ongoing discussions with stakeholders on reducing Eskom's debt burden. **However we expect any improvement in Eskom's finances to be matched by deterioration in those of the entities taking over the debt, limiting the impact on the overall public-sector balance sheet.**
On public finances, the president promised that the budget to be released on 26 February will outline spending cuts. He highlighted on-going negotiations with public-sector unions to reduce the wage bill, which accounts for 34% of consolidated government expenditure. Nevertheless, given that the current wage settlement will only expire in 2021, we do not expect any clear commitments on reducing the wage bill relative to previous plans.
Fitch revised the Outlook on South Africa's ratings to Negative from Stable in July 2019, due to the heightened difficulty of stabilising government debt/GDP over the medium term, as well as the downside risks to South Africa's already very low growth potential. The rating was affirmed in December and the Outlook remained Negative.
Mr Ramaphosa's address offered no further clarification on land reform, after statements by ANC parliamentarians raised concerns that constitutional reform could be formulated to limit judicial oversight of expropriation without compensation. Fitch sees the discussion on land reform as largely symbolic, and believes the government will make only very limited use of

any constitutional provisions for expropriation without compensation. This perspective was reinforced by the president's commitment to provide more public land to settle land restitution claims. However, the discussion will continue to be of concern to foreign investors, as it highlights policy risks associated with the country's exceptionally high level of inequality and the potential for social instability.

The president listed a number of smaller, growth-enhancing measures, but we believe their overall impact will be limited and would accumulate only over the long term. The government's continued difficulties in implementing its agenda are illustrated by the fact that the president now aims to issue licences for new mobile phone spectrum by end-2020, after already announcing the relatively uncontroversial measure in the 2018 state of the nation address. The difficulty of addressing competing priorities of reducing inequality, raising growth, improving public finances and containing populism and in-fighting within the ANC will continue to limit the government's ability to take more decisive steps to accelerate growth.

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.

GLOBAL

Moody's Says Governments Most Exposed to Economic Impact of Coronavirus Tend to Have Strong Buffers to Withstand Transitory Shock

11-Feb-2020

Feb 11 (Reuters) -

- **Moody's says governments most exposed to economic impact of coronavirus tend to have strong buffers to withstand a transitory shock**
- Moody's says APAC economies more exposed to economic impact of coronavirus than Europe and Americas, due to stronger trade and tourism links to china
- Moody's says as downside risks to China's growth forecasts increased, there to be reverberations for economies globally
- Moody's-current baseline assumption is for economic impact of coronavirus to continue for number of weeksthen normal activity to gradually resume
- Moody's-prolonged virus outbreak to disrupt supply chains, extend fall in commodity prices that could cause significant second-round economic effects

((Reuters.Briefs@thomsonreuters.com))