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Emerging Sovereign Debt Markets NEWS

Number 20 Week 9 – 15 May 2020

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ASIA

GCC-Gulf Cooperation Council

Fitch Says Oil Production Cut Deepens GCC Fiscal Deficit, Hinders Growth

12-May-2020
May 12 (Reuters) - Fitch Ratings:

- **Fitch says oil production cut deepens GCC fiscal deficit, hinders growth**
- **Fitch says now expect most GCC sovereigns to post fiscal deficits of 15%-25% of GDP in 2020**
- Fitch says oil production cuts will also contribute to a stark contraction in economic output, along with a recession in non-oil economies in GCC
- Fitch says oil production cuts announced so far may prove to be insufficient to support prices
- Fitch says forecast a non-oil recession ranging from a decline of 1% in Kuwait to 5% in Oman
- Fitch says expect GCC governments with weakest balance sheets to press ahead with spending cuts sufficient to outweigh fiscal effect of stimulus

((Reuters.Briefs@thomsonreuters.com))

China

China local government issues 1.9 trillion in bonds in 2020

11-May-2020
BEIJING, May 11 (Reuters) - **Local governments in China issued 286.8 billion yuan ($40.55 billion) worth of bonds in April, of which 120.2 billion yuan were in new bonds and 166.6 billion yuan were refinanced, according to a statement from the Ministry of Finance on Saturday.**
In April, local governments issued 69.3 billion yuan of special bonds, which are used to fund major infrastructure projects. In the first four months of the year, local governments issued 1.15 trillion yuan in special bonds, which is 50.3% of the advanced quota for special bonds this year.
Last month officials announced another 1 trillion yuan in advance quota for local government special bonds.
As of end April, local governments have issued 1.9 trillion yuan in bonds in 2020, vs 1.54 trillion yuan in bonds at March-end. New local bond issuance is now 58.4% of the advanced quota.

($1 = 7.0730 Chinese yuan renminbi)
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China's outstanding local gov't debt rises in April

11-May-2020
BEIJING, May 11 (Xinhua) -- **China's outstanding local government debt amounted to 23.04 trillion yuan (about 3.26 trillion U.S. dollars) by the end of last month, the Ministry of Finance said on Monday.**
The figure was up from 22.82 trillion yuan by the end of March, according to a statement on the ministry's website.
Local governments issued 286.8 billion yuan worth of bonds last month, down from the 387.5 billion yuan issued in March.
China has accelerated the local government bond issuance this year to help the timely implementation of various projects to mitigate the impacts of the novel coronavirus epidemic.
During the first four months of the year, the local government bond issuance totaled nearly 1.9 trillion yuan.

Enditem

China will step up policy support to offset pandemic impact

13-May-2020
BEIJING, May 13 (Reuters) - **China will use tools such as RRR cuts, interest rate cuts and relending to keep liquidity reasonably ample**

and guide market rates lower, the head of the state planning agency He Lifeng said on Wednesday.
On the fiscal policy front, the budget deficit ratio would be raised appropriately this year while the quota for local government special bonds would be increased significantly, said He from the National Development and Reform Commission (NDRC). China would also issue special treasury bonds dedicated to virus-fighting efforts, said He.
Authorities will firmly expand domestic demand and step up investment in infrastructure projects, said He in a statement on NDRC's website.

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Unexpected China central bank liquidity drain sparks further bond selloff

14-May-2020
By Andrew Galbraith and Winni Zhou
SHANGHAI, May 14 (Reuters) - **China's central bank surprised investors on Thursday by not issuing new medium-term loans, draining liquidity from the banking system and prompting investors to extend a sell-off in Chinese government bonds.**
The move puzzled traders after days of pledges by top officials to step up support for companies hurt badly by the coronavirus outbreak and to support liquidity. More measures are expected soon.
But some market watchers said the People's Bank of China (PBOC) may have decided to conduct the fresh fund injection the next day, adding that continued economic uncertainty makes it too early to call an end to a bond bull market.
The PBOC had been widely expected to issue medium-term lending facility (MLF) loans on Thursday to rollover a batch of 200 billion yuan ($28.18 billion) loans maturing on the day, and to cut interest rates on the policy tool for the third time this year to drive borrowing costs lower.
The central bank said in a statement early in the day that it would not conduct open market operations, and that banking system liquidity was "reasonably ample". It did not mention MLF loans.
"Many people said there would likely be (MLF operations)," said a trader at an Asian bank in Shanghai. "Though really even if this money is lent out, we wouldn't know what to buy with it."
Yields on benchmark 10-year government bonds rose to at 2.700% on Thursday afternoon, according to Refinitiv data, up more than 20 basis points (bps) from lows on April 29. Chinese treasury futures slumped, with 10-year futures for June delivery, the most traded contract, falling as much as 0.44%.
"From traders' point of view, there are no more positive factors and there's a big pile of negative factors," said a senior brokerage source in Shanghai.
Worsening economic fundamentals and easy monetary policy drove benchmark bond yields down 55 bps between Jan. 23, when China first imposed lockdowns in the central city of Wuhan, where the coronavirus was first detected, and April 29.
The bull run paused after China announced May 22 as the date for a key annual session of the National People's Congress, seen as an indication of Beijing's confidence that the worst of the pandemic's effects had passed.
Selling quickened after stronger-than-expected export numbers for April, which raised hopes for economic recovery. Strong government bond issuance, which strategists at Standard Chartered said this week could reach a record-high 1.6 trillion yuan in May, has also helped to depress prices.
But rising yields are not likely to last long.
"The recent recovery in domestic demand has more been driven by extraordinary stimulus policies like consumer vouchers ... These are not sustainable," Qu Qing, chief economist at Jianghai Securities, said in a note. He added that the central bank's recent economic forecasts are much more pessimistic than the market's.
"The turning point in rates has not yet arrived. A short term correction doesn't change the mid-term downward trend."
China's economy will slowly recover from its first quarterly contraction in decades, economists predicted in a recent Reuters poll, but they warned of a likely recession if conditions worsen again from the global coronavirus pandemic.

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Local debt likely to hit record high as Beijing front-loads more bonds

14-May-2020
Local government borrowing on the mainland is likely to hit record highs this year, as Beijing ¬continues to shovel money into infrastructure projects to keep ¬regional ¬economies afloat.
Debt at local governments came to 286.7 billion yuan (HK$313.3 ¬billion) last month, down 26 per cent from 387.5 ¬billion yuan in March.
However, the Ministry of ¬Finance said on Monday it would bring forward a further 1 trillion yuan in advance quota of local government special-purpose bonds to fund infrastructure projects.
The move could swell local government debt to a record high of nearly 3 trillion yuan for the first

five months of the year, ¬compared with 1.9 trillion yuan a year ¬earlier.
Beijing is banking on ¬infrastructure spending to help curb the economic fallout from the ¬coronavirus crisis, with local authorities asked to raise money through special-purpose bonds to minimise the growth of -"hidden" off-budget debt, a ¬financial risk that has plagued the mainland for more than a decade.
"The key benefit of using ¬special-purpose bonds is that it's more transparent. You can see exactly how much new funding local governments are taking on and you can see how that would affect their direct debt," said Jack Yuan, assistant vice-president at ratings agency Moody's Investors Service.
Special-purpose bonds were introduced in 2015 to fund ¬infrastructure and public welfare projects. Interest on the debt ¬security is to be paid for by income generated by a specific project, in contrast to general bonds, which can be paid back out of fiscal ¬revenue.
Before 2015, many regional governments borrowed through local government financing ¬vehicles (LGFVs), which were ¬created to provide off-balance-sheet borrowing that skirted ¬restrictions on local government fundraising. The debt of these vehicles is often held by state-owned and commercial banks.
However, as borrowing ¬spiralled and economic growth cooled, some projects funded by LGFVs have struggled to produce returns, leading to defaults on debt ¬repayment.
"LGFVs tend to be less ¬transparent. There are often many forms of hidden debt," Yuan said. "This is one of the areas that financial regulators have been trying to remedy in the past few years."
The State Council, China's cabinet, has said it will increase its fiscal budget deficit, boost the quota for special-purpose bonds and launch a special treasury bond for the first time since 2007.
Local governments have ¬increased borrowing in the past few months and are close to using up the early allocation of 2020 bond quota worth 1.8 trillion yuan, after it was brought forward by the Ministry of Finance.
The new quota will be ¬announced at the National ¬People's Congress, ¬which is ¬expected to start on May 22.
The mainland issued 4.36 ¬trillion yuan in local government bonds last year.

India

India to See Some Degree of Monetisation to Fund Fiscal Package

13-May-2020
By Dharam Dhutia
NewsRise
MUMBAI (May 13) -- **India will see some degree of monetisation to fund the recently-announced fiscal package and the central bank has the tools to manage bond yield curve and guide it down, the principal economic adviser to the federal finance ministry said today.**
India’s Prime Minister Narendra Modi late yesterday announced a 20-trillion-rupee economic package, which will be aimed at migrant labour, the middle class and industry. Finance Minister Nirmala Sitharaman is scheduled to share details of the package at 4:00 p.m. today.
Monetisation is a process that is followed across the world and there is a case for lowering the entire yield curve from the current levels, Sanjeev Sanyal told CNBC-TV18. The 10-year bond yield should be near 5%, he added.
India's benchmark bond yield was at 6.12%, while new 10-year 5.79% 2030 bond yield was at 5.78%.
Sanyal said that the government is still looking to be part of global bond indices, which is important but will take time.
India will have ‘somewhat’ larger borrowing programme and there is a case for structurally lowering cost of capital in the economy, he added.

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Indian bonds gain after early fall; fiscal package details awaited

13-May-2020
By Swati Bhat
MUMBAI, May 13 (Reuters) - **Indian bonds recovered from early falls on Wednesday as investors chose to wait for details of the government's 20 trillion rupee ($266 billion) fiscal package aimed at supporting an economy ravaged by a weeks-long coronavirus lockdown.**
Prime Minister Narendra Modi said on Tuesday night that the package was equivalent to nearly 10% of India's gross domestic product, and was aimed at the multitudes out of work and the businesses reeling under the prolonged shutdown.
The benchmark 10-year bond yield opened 12 basis points (bps) higher at 6.28% but retreated quickly to trade down 6 bps at 6.10% by 0755 GMT.
Expectations are high that the Reserve Bank of India (RBI) could help support the market by way of a pre-set open market operation

calendar, operation twist to manage the maturity curve, or presence in primary auctions or private placements if required, DBS Bank economist Radhika Rao said.
Most analysts said the government would now be looking at a fresh stimulus of roughly 10-12 trillion rupees, after deducting the first stimulus package of 1.7 trillion rupees and the measures taken by the RBI so far.
Traders said market positioning was light, and shorting bonds was not working amid a lack of details on the economic package, helping the pull-back in yields.
Yields are expected to hold in a tight range ahead of the finance minister's press conference scheduled for 1030 GMT, which could throw more light on specifics of the stimulus package.
Market participants however said they did not expect the government to further increase market borrowings beyond the 4.2 trillion rupees hike announced earlier this month.
The government is scheduled to borrow a record 12 trillion rupees from the market in the current fiscal year to March 2021, and analysts project the fiscal deficit could rise to at least 5.5% of the gross domestic product, sharply above the budgeted deficit of 3.5%.
"The measures that the government has taken to ensure sufficient liquidity are substantial and welcomed and will provide relief," said Nikhil Kamath, co-founder & chief investment officer at brokerage firm Zerodha.
"However, the source of the funds and ensuing impact on the fiscal deficit and currency are to be seen."

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Govt to switch Rs. 30,000 crore of bonds for longer tenure securities

14-May-2020
Mumbai, May 14 -- **Reserve Bank of India (RBI) on Thursday said that the government will be converting some of its short-term securities, worth Rs.30,000 crore, into existing long term bonds on May 18.**
RBI notified on its website that it will be switching three bonds maturing in June this year in favour of three bonds maturing in 2024, 2030 and 2060.
Switching of government securities happen to enable the government to repay the loans at a later date to ease the pressure on the exchequer in the immediate term. The switching also increases volumes in the already issued long term securities and enables more secondary market liquidity. Typically, switching is regularly done by the governments at the beginning of the year.
The government has hiked its borrowings programme for this fiscal from the budgeted Rs.7.8 trillion to Rs.12 trillion on account of Covid-19 pandemic. As per the revised calendar, the government will borrow Rs.6 trillion from the market during the first half of the year. Published by HT Digital Content Services with permission from MINT.

Indonesia

Govt scraps plan to issue $30b worth of 'pandemic bonds'

10-May-2020
Adrian Wail Akhlas, The Jakarta Post, Jakarta
The Finance Ministry has decided to cancel its plan to issue "pandemic bonds", which were initially prepared as a part of the country's efforts to fund the COVID-19 response.
The Finance Ministry's financing and risk management director general, Luky Alfirman, said on Friday that the government would now rather issue debt papers through regular auctions, adding that it could rely on Bank Indonesia (BI) as a last resort to absorb the offered bonds if the market response was cool.
Regulation in Lieu of Law No. 1/2020 allows the central bank to purchase government bonds directly through auctions. Previously, BI could only buy the bonds through the secondary market.
"We will not issue specific bonds, including the pandemic bonds or others," Luky told reporters in a media briefing. "BI has been allowed to buy bonds through the primary market as a last resort, so we will issue bonds with a regular series instead."
The government planned in early April to raise Rp 450 trillion (US$30.05 billion) in "pandemic bonds" on top of issuing Rp 549.6 trillion worth of sovereign debt papers, according to Presidential Regulation No. 54/2020 on the state budget revision. BI was likely to dominate the bonds' purchases.
However, in a new strategy unveiled on Friday, it would instead issue Rp 856.8 trillion worth of government bonds from the second quarter through to the end of year to finance the widening budget deficit, which is expected to reach 5 percent of GDP this year. The Finance Ministry raised Rp 221.4 trillion worth of bonds in the first quarter of this year.
Finance Minister Sri Mulyani Indrawati said the government would raise the funds through regular auctions in the domestic market, private placements and foreign-exchange-denominated bonds and retail bonds issuances.
"We need to upsize the bonds issuance to finance the deficit," Sri Mulyani told House of Representatives Commission XI overseeing

financial affairs on Wednesday. "We will prioritize credibility and transparency to maintain a good track record in order to capitalize on the market when the opportunity arises."

The government is hoping to raise Rp 132 trillion from the global bonds, Rp 60 trillion from retail bonds and the remainder from weekly auctions of government debt papers and sharia bonds.

The government needed to raise at least Rp 35 trillion to Rp 45 trillion every two weeks to meet the financing needs, Luky said.

The government recently unveiled Rp 436.1 trillion worth of stimulus packages to boost healthcare spending, social spending and tax incentives amid the pandemic.

Meanwhile, BI has allocated Rp 125 trillion (US$8.25 billion) to buy government bonds in the primary market to support state financing needs amid the COVID-19 outbreak, BI Governor Perry Warjiyo said.

Perry estimated that the government would sell back Rp 506.8 trillion of the bonds in the second to fourth quarter, adding that the market would absorb most of the bonds.

"BI will buy Rp 125 trillion worth of government bonds in the primary market for above the line financing needs," Perry told House Commission XI on Wednesday, during a heated debate on how far the central bank could intervene on the economy.

The government will offer Rp 856.8 trillion worth of bonds from the second quarter through to the end of the year to finance a widening budget deficit of 5.07 percent caused by extra spending for COVID-19 mitigation programs. It will need at least Rp 1.4 quadrillion in total financing this year.

BI has been allowed to buy government bonds from the primary market as a non-competitive bidder and Perry has said it will act as a buyer as a last resort to support budget financing.

The central bank has bought up to Rp 173.1 trillion worth of government bonds as of April 29, including at least Rp 6.95 trillion bought during auction in the primary market, to stabilize the rupiah and support the government's financing needs.

"We are targeting Rp 45 trillion in bonds issuance every two weeks. This means that BI will need to buy around Rp 106 trillion to Rp 242 trillion based on market capacity in 2019," Sri Mulyani clarified to lawmakers during the same meeting.

"That is how much we pay with the market rate as BI uses the market mechanism, including greenshoe option and private placement," the minister added.

Indonesia finmin proposes 2021 budget deficit at 3.21%-4.17% of GDP

12-May-2020

JAKARTA, May 12 (Reuters) - **Indonesia's finance minister on Tuesday proposed to parliament a budget deficit of 3.21%-4.17% of gross domestic product for 2021, with the aim of supporting economic recovery after the coronavirus pandemic is over.**

Sri Mulyani Indrawati also proposed basing that budget on the assumptions that the yield of the benchmark 10-year bond would be within a range of 6.67%-9.56% and the rupiah exchange rate would average at 14,900-15,300 a dollar next year.

Indonesia's 2021 economic growth is assumed at 4.5%-5.5%, with inflation rate at 2%-4%, Indrawati said, matching figures she has announced last month.

The country's oil lifting in 2021 is expected at 677,000-737,000 barrels per day, while gas lifting is seen at 1.085 million-1.173 million barrels of oil equivalent per day, Indrawati said.

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Indonesia's parliament backs plan for emergency coronavirus spending of $25 bln

12-May-2020

JAKARTA, May 12 (Reuters) - **Indonesia's parliament passed an emergency regulation on Tuesday backing a plan by President Joko Widodo's government to spend at least $25 billion to tackle the coronavirus pandemic and its impact on the economy.**

The regulation allows a three-year waiver of a deficit ceiling of 3% of GDP in every fiscal year, which Finance Minister Sri Mulyani Indrawati has said gives the administration room for the spending and more stimulus in 2021 and 2022.

Parliament speaker Puan Maharani said all but one of Indonesia's political parties had voted in favour of the regulation, which required parliamentary approval although it had taken effect immediately after being issued in late March.

It was an "extraordinary measure to save the people and the economy" amid the rapid spread of the virus, Indrawati told parliament after the vote.

Widodo's governing coalition controls nearly three quarters of the seats in parliament.

Southeast Asia's largest economy has a tally of 14,749 virus infections with 1,007 deaths. The government has forecast a fiscal deficit of 5.07% of GDP for this year, wider than an original figure of 1.76%.

Earlier on Tuesday, Indrawati proposed a 2021 fiscal deficit of 3.21% to 4.17% to parliament, with the aim of supporting economic recovery

after the pandemic ends.
The regulation also backs a cut in corporate tax and sets out a new protocol for financial crisis management.
The Constitutional Court is hearing several petitions seeking judicial review of the regulation, on grounds that it hands too much power to the executive branch as there is no immediate urgency.

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Indonesia central bank to directly fund $10 bln recovery programme

13-May-2020
By Tabita Diela and Gayatri Suroyo
JAKARTA, May 13 (Reuters) - **Indonesia's central bank is set to fund part of the government's economic recovery programme via more bond buying, officials said on Wednesday, even as its direct purchases of sovereign debt at auctions have stirred controversy.**
Bank Indonesia (BI) will fund part of the estimated 150 trillion rupiah ($10.11 billion) programme via private purchase of government bonds with lower yields, according to finance ministry officials.
The programme is part of efforts to help Southeast Asia's largest economy bounce back from the impact of the coronavirus pandemic, with economic growth this year forecast to be the weakest since 1999.
Nanang Hendarsah, the central bank's head of monetary management, said BI would buy the bonds with a higher return than the central bank pays for its monetary operations, but much lower than the market rate.
He gave an example of BI buying 10-year bonds with a yield of 4.9%, or similar to BI's 12-month term-repo rate, which is below the 8.08% offered in auctions.
"So BI is sharing the burden by about 3.2 percentage points," Hendarsah told Reuters, stressing that this meant BI would be able to absorb excess liquidity in the future in case of inflationary pressures.
Febrio Kacaribu, head of the finance ministry's fiscal policy office, said the government is still finalising the scheme with BI and other authorities, including the amount the government would sell to the central bank.
"The principle of this economic recovery programme is sharing burden and risks," Kacaribu said during a news conference online.
The economic recovery programme could include subsidising interest payments, capital injections into state companies, placement of funds in troubled banks to help with loan restructuring, direct investment into private companies or government guarantees on new working capital loans, he said.
BI made its first direct purchase of government bonds in an auction in late-April, after rules were relaxed on such operations to help keep yields steady and finance a ballooning government fiscal deficit.
But the move has raised questions in parliament, where BI Governor Perry Warjiyo was pressed about its inflationary impact. Warjiyo responded to MPs by pledging BI would be cautious, and denied the move was equivalent to printing money.
Kacaribu of the finance ministry said authorities would consider all potential macroeconomic risks, including on inflation and the rupiah's exchange rate.

($1 = 14,835.0000 rupiah)
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Indonesia's foreign debt reached US$389.3 billion in Q1 2020

15-May-2020
Jakarta (ANTARA) - **Indonesia's external debt at the first quarter (Q1) end of 2020 was recorded at US$389.3 billion, a 0.5-percent growth year-on-year (yoy), representing a slowdown in annual growth rate, from the previous quarter's 7.8-percent yoy growth.**
Indonesia's foreign debt comprised public sector debt (government and central banks) of $183.8 billion and private sector debt, including SOEs, of $205.5 billion.
"This was caused by a decrease in public external debt and a slowdown in private external debt growth," the Department of Communication of Bank Indonesia (BI) stated in its latest info in Jakarta, Friday.
The government foreign debt at the end of the first quarter of 2020 contracted 3.6 percent yoy to $181.0 billion, thereby reversing the condition of the previous quarter that grew 9.1 percent yoy.
The decline in the government's external debt was influenced by capital outflows from the bond market and payments of matured sovereign debt papers.
According to BI, the government's external debt is being managed in a careful and accountable manner to support priority spending on productive sectors that bolster economic growth and public welfare.
The productive sectors comprised the health service sector and social activities, 23.1 percent of the total government external debt; construction sector, 16.3 percent; the education service sector, 16 percent; the financial services sector and insurance, 13.3 percent; as well as the government administration, defense and

mandatory social security sectors, 11.5 percent.
Meanwhile, the slowing trend in private external debt is ongoing. Private external debt at the end of Q1 of 2020 grew 4.5 percent yoy, lower than the previous quarter's growth of 6.6 percent yoy.
"This is owing to contraction of external debts in non-financial institutions and slower expansion of external debt in financial institutions," BI stated.
At the end of Q1 of 2020, the external debt of financial institutions contracted 2.3 percent yoy, reversing the previous quarter growth of 3.6 percent yoy. Non-financial institutions' foreign debt also slowed down, from 7.6 percent yoy in the fourth quarter of 2019 to 6.7 percent yoy in the first quarter of 2020.
Some sectors with the largest share of foreign debt, accounting for 77.7 percent of the total private external debt, are mining, manufacturing, financial services & insurance and electricity, gas, and steam procurement, and the industrial sector processing.
BI views Indonesia's overall external debt level as healthy, supported by applying the principle of prudence in its management.
This condition was mirrored in the ratio of Indonesia's external debt to gross domestic product (GDP) at the end of Q1 of 2020 recorded at 34.5 percent, down from the previous quarter's 36.2 percent.
In addition, long-term loans constitute 88.4 percent of Indonesia's current outstanding debt.
In a bid to maintain a healthy foreign debt structure, BI and the government are constantly striving to enhance coordination in monitoring the development of external debt, supported by the application of the principle of prudence in its management.
"The role of foreign debt will also continue to be optimized in supporting development funding by minimizing risks that can affect economic stability," the BI stated.

Iran

Iran to hold regular bond auctions to boost gov't finances

14-May-2020
TEHRAN, May 14 (Xinhua) -- **The Central Bank of Iran (CBI) plans to launch a platform for auctioning bonds to raise funds for government's budgetary needs, Financial Tribune daily reported Thursday.**
According to the report, the CBI will hold auctions regularly at the start of each week.
The CBI's special interbank trading platform will assist lenders in placing purchase orders for government bonds, it said.
Orders will then be processed by the CBI brokerage and sent to the Ministry of Economy for selection.
The initiative aims to boost government finances, reduce trading costs in the interbank market and facilitate access of banks and credit institutions to the bonds.

Enditem

Laos

Fitch Revises Laos' Outlook to Negative, Affirms Rating at 'B-'

15-May-2020
Fitch Ratings-Hong Kong-May 15:
Fitch Ratings has affirmed Laos' Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' and revised the Outlook to Negative from Stable.
A full list of rating actions is at the end of this rating action commentary.
KEY RATING DRIVERS
The Negative Outlook reflects the economic and financial-market effects of the coronavirus shock, which have compounded Laos' external financing risks associated with its forthcoming external debt maturities and low foreign-exchange buffers. Public finances will also deteriorate from a combination of slower nominal GDP growth, fiscal relief measures and restrictions to contain the pandemic. GDP growth in 2020 will be hit severely by the coronavirus shock, although Laos has reported relatively few cases of the virus at just 19 as of mid-May, and a one-month lockdown expired on 3 May 2020.
Laos faces a challenging external debt repayment profile. About USD900 million in public external debt-service payments (interest and amortisation) are due over the remainder of 2020, including baht-denominated maturities in the Thai bond market of roughly USD150 million in June and USD100 million in October, against foreign-exchange reserves of about USD1 billion at end-March 2020. The capacity to roll over or refinance upcoming maturities over the next few months will be an important indicator of the authorities' ability to meet their financing obligations during the remainder of the year. Roughly USD1 billion in external debt servicing will be due annually from 2021-2023.
The capacity for increased funding from traditional financing sources has declined in recent years and the authorities' plans to access international market financing in 2020 are hampered by the current environment. Our baseline projections of Laos' external finances do not incorporate proceeds from global bond issuance in 2020 based on our view that market conditions will remain challenging. In addition to the scope for refinancing the upcoming baht-denominated bonds, Fitch understands that the

Lao government has lined up additional commercial bank loans to help meet external payments over the next several months. We also expect the government to roll over much of the USD200 million in bank loans with various financial institutions maturing in September.

Fitch anticipates that additional bilateral and multilateral financing, particularly from China, could be forthcoming to fill the financing gap. Geopolitical considerations and economic interests are likely to spur further bilateral lending or debt relief in the absence of sufficient financing from other sources. The government could also request financing with multilateral institutions through the various facilities established to manage the coronavirus shock.

Laos' foreign-exchange reserves remain inadequate, considering the country's managed currency regime, large import bill, and external debt-servicing requirements. Gross reserves rose to USD1.0 billion (1.5 months of current external payment coverage) by end-March 2020 from USD887 million (1.3 months of coverage) at end-2018. We expect gross reserves to decline to USD750 million (1.1 months of coverage) by end-2020 and remain around that level through 2021. The authorities target a measure of reserves to non-FDI related imports, which stands at approximately three months.

Laos continues to face pressure on the exchange rate and the availability of domestic US dollar liquidity. The Bank of Lao, which manages the currency in a crawling band against the US dollar, has allowed the Lao kip reference rate to depreciate about 4% over the past year against the US dollar. The exchange rate in the parallel market reached 8% above the reference rate in recent weeks, indicating stronger depreciation pressure on the local currency. Meanwhile, the kip has appreciated considerably against the Thai baht since January 2020 due to the baht's broad depreciation earlier in the year.

We forecast the current account deficit to widen to 7.6% of GDP in 2020 from 4.5% in 2019, before narrowing slightly to 7.3% in 2021 (estimates and forecasts are based on the authorities' data, whereas the World Bank uses an alternative estimate showing an 11.3% of GDP deficit in 2019). The larger deficit in 2020 will be largely driven by our expectations of a decline in current account receipts from tourism exports and remittances, though these will be partially offset by increased electricity exports. Much of the deficit will continue to be financed by FDI inflows.

The coronavirus shock will also weigh on public finances. Revenues, which are already low as a share of GDP, are forecast to contract sharply by about 25% due in part to economic stimulus measures including tax exemptions and tax payment deferrals. The government plans to further reduce administrative spending by 10% and cut some non-critical spending to offset the revenue decline. Fitch revised our 2020 forecast for the fiscal deficit to about 7.1% of GDP from our February forecast of 4.0%, a widening from an estimated 4.5% in 2019, as we believe it could be challenging to fully offset the revenue contraction. We forecast public and publically guaranteed (PPG) debt to rise to 64.9% of GDP in 2020 from an estimated 58.9% in 2019, which stands slightly above the 2020 'B' median of 60%.

We expect revenues to recover in 2021, reducing the fiscal deficit to 5.5% of GDP. However, the shock marks a setback to the government's recent progress in narrowing the fiscal deficit and efforts to improve medium-term revenue prospects through its tax administration and electronic payment measures. Weak revenue performance presents a challenge to debt sustainability. Under our forecasts, PPG debt as a share of revenues rises to 539% in 2020, before improving modestly to 446% in 2021. PPG debt as a share of GDP will continue rising, reaching 66.5% in 2021.

In addition, the government is exposed to possible contingent liabilities, estimated by the IMF at up to 30% of GDP, from public-private partnership (PPP) projects and the Kunming-Vientiane Railway, although these are not explicitly guaranteed. However, debt sustainability risks are partly offset by the high share of PPG debt that is on concessional or semi-concessional terms from multilateral and bilateral sources, roughly 65% of the total, which reduces debt-servicing costs.

The 'B-' rating also reflects the following factors:

GDP growth will take a significant hit due to the response to the coronavirus pandemic. We forecast GDP growth to slow to 0.5% in 2020 from an estimated 5.5% in 2019, which is a revision from a 2020 forecast of 6.1% when we assigned the rating in February. The lifting of lockdown restrictions in early May should help spur domestic activity. However, remaining border restrictions, which are likely to be lifted only gradually, could disrupt exports and are driving a large drop in tourism inflows and related economic activity this year. Construction on major infrastructure projects, including the Lao-China railway and the Vientiane-Vang Vieng highway, has continued through the last several months, though some hydropower projects and mining operations were temporarily disrupted. Improved prospects in China, a key trading partner, should provide some support to growth in the coming quarters.

Under our baseline projections for the global economy, Fitch expects the coronavirus shock to economic activity in Laos to be temporary, with GDP growth rebounding to 6.1% in 2021. Sustained infrastructure and hydropower construction activity and increasing electricity and gold exports will support growth. Tourism inflows should also improve gradually beginning in the final quarter of 2020 through 2021.

However, there are considerable risks to the macroeconomic outlook and our baseline projections, given the uncertain evolution of the pandemic globally and domestically. A pick-up in growth beginning in the second half of the year is contingent on Laos avoiding a second wave of infections and a re-imposition of domestic social distancing restrictions, which would further hit domestic economic activity. A slow-paced emergence from lockdown measures in major economies could lead to a more gradual global recovery than we currently expect or a second wave of infections could drive a further deterioration in the global economy, posing risks to Laos' growth outlook in the next two years.

Nevertheless, Laos' medium-term growth prospects continue to compare well with the 'B' median, despite the shock in 2020. 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.

Net external debt, which Fitch forecasts to reach 85.9% of GDP in 2020, is well above the 'B' median of 32.9%, exposing Laos to debt sustainability risks in the event that economic returns on large infrastructure projects fail to materialise. Private external debt comprises roughly 45% of total external debt, a large portion of which is from 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.

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

ESG

ESG - Governance: Laos has an ESG Relevance Score of '5' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. Theses scores reflect the high weight that the World Bank Governance Indicators have in our proprietary Sovereign Rating Model. Laos has a low World Bank Governance Indicator ranking in the 24th percentile, reflecting relatively weak rights for participation in the political process, weak institutional capacity, and a high level of corruption.

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 Finances: -1 notch, to reflect potential external liquidity pressures in light of very low levels of foreign-exchange reserves and external financing constraints against rising external debt-servicing needs. A high level of net external debt poses risks to external debt sustainability.

Fitch's rating committee removed a -1 QO notch adjustment to the Public Finances analytical pillar. This reflected the committee's view that risks around public finances were now more fully captured in the SRM and that limited public financing flexibility was sufficiently reflected in the -1 notch on External Finances.

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

RATING SENSITIVITIES

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

- Indications that the sovereign is facing near-term external financing strains, for instance, if there is insufficient financing from multilateral or bilateral creditors or the sovereign is unable to roll over bond and commercial-bank financing in order to meet upcoming debt maturities.
- Sustained rise in the PPG debt/GDP ratio, resulting from the government's fiscal policy stance or a materialisation of contingent liabilities.

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

- An increase in foreign-exchange reserves, potentially from unlocking new sources of financing, reducing vulnerability to external shocks and liquidity risks.
- Fiscal consolidation sufficient to stabilise 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.

Best/Worst Case Rating Scenario

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

- Fitch assumes that, notwithstanding its narrowing financing options, the government will be able to use bilateral and multilateral borrowing relationships, in tandem with issuance in the Thai market and commercial-bank borrowing, to repay or refinance debt maturing in 2020.
- The global economy performs in line with Fitch's 22 April 2020 global economic outlook, particularly China, which is a key source of external financing and trade.

LIMITED INFORMATION

Lack of an international investment-position dataset means that there is no authoritative data on non-bank, private-sector net assets. This does not affect the indicators that feed into the SRM, but may lead to an overstated level of net external debt.

Fitch uses public and publically guaranteed debt in lieu of the standard general government debt definition. 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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG Considerations

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.

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

Laos; Long Term Issuer Default Rating; Affirmed; B-; RO: Negative
Short Term Issuer Default Rating; Affirmed; B
Local Currency Long Term Issuer Default Rating; Affirmed; B-; RO: Negative
Local Currency Short Term Issuer Default Rating; Affirmed; B
Country Ceiling; Affirmed; B-

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Lebanon

Lebanon to start IMF negotiations in next two days

12-May-2020

BEIRUT, May 12 (Reuters) - **Lebanon will start negotiations with the International Monetary Fund (IMF) in the next two days, Finance Minister Ghazi Wazni said on Tuesday, as Beirut seeks aid to deal with its financial crisis.**

Lebanon, which officially requested IMF assistance on May 1, is grappling with a crisis seen as the biggest threat to its stability since the 1975-90 civil war.

"There is contact with the IMF and in the coming two days we will start the negotiation sessions," Wazni told reporters after a cabinet session.

Turning to the IMF is widely seen as the only way for Lebanon, one of the world's most heavily indebted nations, to secure the financial assistance it urgently needs.

A source close to the government said the two sides held an introductory meeting on Monday ahead of Wednesday's detailed talks. Wednesday's talks via video conference will include officials from the prime minister's office, central bank and presidency.

Lebanon defaulted on its foreign currency debt in March, while its currency has lost more than half its value since October. Savers have largely been shut out of foreign exchange deposits as the supply of dollars has grown scarce.

Wazni said last week that Lebanon hoped to secure IMF financial support of $9 billion-$10 billion.

A government economic recovery plan, which outlines steps that would result in vast losses for Lebanon's financial system, will form the basis for the IMF talks.

Donors, which have supported Lebanon in the past, say the government must enact long-delayed reforms to address state waste and corruption, widely seen as root cause of the economic crisis, before they will consider any fresh aid.

(Reporting by Tom Perry and Samia Nakhoul; Editing by Raissa Kasolowsky and Edmund Blair)
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Lebanese government and IMF have completed first stage of talks

13-May-2020

BEIRUT, May 13 (Reuters) - **Lebanese Finance Minister Ghazi Wazni said on Wednesday that the government and the International Monetary Fund had completed the first stage of talks for an aid programme and that Beirut was "comfortable" with the atmosphere of discussions.**

"We are comfortable with the atmosphere of these initial discussions, and we expect that the upcoming discussions will be equally constructive," Wazni said in a statement.

(Reporting by Eric Knecht and Laila Bassam; Editing by Jon Boyle)
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Lebanon launches IMF talks to rescue economy; more talks in coming days

13-May-2020

BEIRUT, May 13 (Reuters) - **The International Monetary Fund on Wednesday said it has begun remote discussions this week with Lebanon, which is seeking some $10 billion of aid to help it out of the worst financial crisis in its history.**

Tough negotiations lie ahead for Lebanon, which will be expected to enact economic reforms its sectarian leaders have long avoided if Beirut hopes to secure international aid, analysts say.

With Lebanon in a coronavirus lockdown, the first round of talks began via videoconferencing.

"The aim is to reach a comprehensive framework that can help Lebanon address the current challenging economic and social conditions and restore sustainability and growth," an IMF spokeswoman said of the talks that began on Monday.

She said the discussions would continue in coming days.

"We are comfortable with the atmosphere of these initial discussions, and we expect that the upcoming discussions will be equally constructive," Lebanon's Finance Minister Ghazi Wazni said in a statement.

Beirut officially asked for IMF assistance earlier this month, in what Prime Minister Hassan Diab called a "historic moment" for a country facing the biggest threat to its stability since the 1975-90 civil war.

The talks will be based on a government rescue plan which maps out tens of billions of losses in the financial system.

An international support group including the United States and France said in a statement the decision to request an IMF program was "a first step in the right direction".

Domestic political support was "necessary for successful conduct and rapid completion of negotiations with the IMF", the support group noted, hinting at the need for consensus among Lebanon's fractious politicians.

Foreign donors, which have helped Lebanon in the past, say they will not think about giving any fresh aid before the state enacts reforms to address rampant corruption and waste - root causes of Lebanon's economic problems.

"Whilst there are no quick and easy fixes to economic reconciliation given that there will inevitably be losers in a likely fraught reform process, the crisis has become so complex that the need for sweeping action is now," said Ehsan Khoman, head of MENA research and strategy at MUFG.

None of Lebanon's main parties are opposed to going to the IMF, widely seen as the only way for the country to secure support. However some groups, including the powerful, Iran-backed Shi'ite group Hezbollah, have warned against conditions that would violate the country's sovereignty.

Lebanon descended into crisis late last year as capital inflows dried up and protests erupted against the ruling elite over decades of bad governance and corruption.

The crisis has more than halved the value of the local currency and fuelled unrest, as inflation, unemployment and poverty soar.

Cash-strapped banks have largely frozen depositors out of their savings for months as dollars have grown ever more scarce.

After defaulting on its sovereign debts in March, Lebanon hopes an IMF program will help in talks with its creditors.

Some economists see the plan as a good first step but remain sceptical about Lebanon's ability to enact reforms to cut public sector spending and overhaul the banking sector after years of dragging its feet and political wrangling.

"We are certainly nowhere near out of the woods yet, but a coherent, credible and coordinated IMF rescue package will, over time, reassure investors that Lebanon is on a more sustainable footing," said Khoman.

The plan has also faced strong pushback from banks that are projected to sustain losses of some $83 billion. The banks, major lenders to the government for decades, are working on their own plan that seeks to keep some of their capital.

(Additional reporting by Tom Arnold in London; Writing by Ellen Francis; Editing by Tom Perry, Alison Williams and Alex Richardson)
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Oman

Oman likely to meet sizable funding needs through 2023- S&P

11-May-2020

DUBAI, May 11 (Reuters) - **S&P Global Ratings expects funding conditions for Oman to improve in the second half of 2020, allowing it to raise the almost $50 billion it needs through 2023, and with almost two-thirds of that through external debt issuance.**

Oman, rated sub-investment grade or "junk" by all three major ratings agencies, is one of the weakest economies in the oil-rich Gulf region and has built up debt in recent years to offset the impact of falling crude revenues.

S&P said on Monday it expected Oman to raise the nearly $50 billion it requires between 2020 and 2023 with 63% through external debt issues, 18.5% from drawdowns of domestic and external liquid assets, 15% from domestic debt and 3% through other transactions.

"Nonetheless, if Oman were to consider the pricing of funding in international capital markets prohibitive, or foreign investors were unwilling to roll over maturing debt, the country's depletion of external assets would accelerate and confidence in the Omani rial's peg to the U.S. dollar could diminish," the ratings agency said.

"Our ratings on Oman are supported by our expectation that support from GCC countries would be forthcoming if the country were to experience significant external liquidity pressures, particularly those that could threaten the peg."

Oman has kept away from the international debt so far this year as its 10 and 30-year bonds have weakened and offer a yield of more than 9%.

Bahrain, the only other junk-rated sovereign in the region, tapped the public debt markets last week, raising $2 billion.

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Pakistan

Moody's Places Pakistan's B3 Rating under Review for Downgrade

14-May-2020

May 14 (Reuters) - Moody's:

- **Moody's places Pakistan's B3 rating under review for downgrade**
- Moody's expects Pakistan's economy to contract by around 1% in fiscal 2020 (ending June 2020), and to grow by 2-3% in fiscal 2021 -below potential

((Reuters.Briefs@thomsonreuters.com))

Pakistan's deficit and poverty rate to soar due to coronavirus

14-May-2020

- **Pakistan fiscal deficit to hit at least 9.4% - govt estimates**
- **The figure could breach 10% - officials**
- **GDP to contract up to 1.5% - estimates**
- **Poverty estimated to rise from a quarter to almost a third**
- **At least 3 million people estimated to lose jobs**
- **External financing, debt relief to lend fiscal support**

By Asif Shahzad

ISLAMABAD, May 14 (Reuters) - **Pakistan's fiscal deficit will be significantly worse than projected this fiscal year, with the fallout from the novel coronavirus pandemic pushing millions into unemployment and poverty, according to government estimates reviewed by Reuters.**

Pakistan began a phased lifting of its countrywide lockdown last week despite a rising rate of cases – a move pushed primarily by fears of an economic meltdown. The country has reported 35,788 COVID-19 cases and 770 deaths.

Due to "a shortfall in revenues; re-prioritising of expenditures and increase in public spending," the post-pandemic fiscal deficit could reach as high as 9.4% against an earlier projection of 7.4%, one of the finance ministry documents seen by Reuters said.

Two government officials told Reuters on condition of anonymity that in recent meetings on the financial situation there were fears the deficit could even hit double digits.

That is higher than the previous upper estimate of 9% predicted by Pakistan's finance chief Abdul Hafeez Shaikh in a May 8 interview with Reuters.

Shaikh said on Thursday it is hard to give specific numbers given the pandemic's uncertainty, although the economy is to likely contract -1% to -1.5%.

"We think that right now where we're is likely to worsen," he said addressing a webinar.

The impact on workers and poorer people is also stark, with estimates that the poverty headcount will rise from 24.3% to a base case of 29%, and a worst-case scenario of 33.5%, the documents said.

At least 3 million people will lose their jobs - 1 million in the industrial sector and 2 million in services.

The documents noted that Pakistan Institute of Development Economics, an autonomous research organisation set up by the government,

has projected job losses could reach 18 million.
Tax collection dropped sharply by 16.4% in April, the internal estimates showed.
They also stated that exports are likely to fall by $2.8 billion to $3.8 billion, with a negative impact on remittances from the Middle East, United States and Europe, which are likely to remain around $20 billion to $21 billion against $21.8 billion in 2019.
However, a slump in imports will cut Pakistan's current account deficit to $4.5 billion in the fiscal year, from $13.8 billion in 2019.
The estimates say the economy will contract 1.5% for financial year 2020 against a rise of 3.29% in 2019.
Pakistan has already rolled out a 1.24 trillion Pakistani rupee ($7.71 billion) stimulus to support the economy and cash handouts to the poor.
Moody's on Thursday placed Pakistan's local and foreign currency long-term issuer B3 ratings under review for downgrade, citing a potential default on private sector debt.

EXTERNAL HELP

Officials say Pakistan is confident of getting at least $5.4 billion in external financial help, including $1.386 billion already received from the IMF as rapid financing to mitigate the coronavirus losses, and a debt rescheduling of $1.8 billion from G20 countries.
That is aside from money expected from the IMF's three-year $6 billion support programme the country entered last year, according to two officials familiar with the situation.
"Our external finance outlook appears to be very good at the moment," one of the top officials told Reuters. "Our expectation and our assessment is very positive."
The officials said Pakistan was receiving $500 million in coronavirus-related support from the Asian Development Bank, and around $1 billion from the World Bank, that will also carry forward another $700 million in projects from last year.
Pakistan has also requested long-time ally China to roll over payments related to the power projects set up as part of Belt and Road initiative.
Finance chief Shaikh is to present a budget in two weeks aimed at finding ways to generate revenues and cut expenditures.

($1 = 160.7500 Pakistani rupees)
(Reporting by Asif Shahzad in Islamabad; Editing by Alasdair Pal, Alexandra Hudson and Lisa Shumaker)
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Qatar

S&P Says Qatar Ratings Affirmed At 'AA-/A-1+'; Outlook Remains Stable

09-May-2020
May 8 (Reuters) - S&P Global Ratings:

- **S&P says Qatar ratings affirmed at 'AA-/A-1+'; outlook remains stable**
- S&P, on Qatar, says covid-19 pandemic, low hydrocarbon prices will cause a sharp contraction of growth and push fiscal and external flows into deficit
- S&P says believe Qatar's government and external balance sheets provide sufficient buffers to withstand shocks to growth, flows into deficit
- S&P, on Qatar, says expect a timely policy response from government in context of continued liquidity challenges in international capital markets
- S&P says project Qatar will continue to generate surpluses in its budgetary accounts on the general government level from 2021
- S&P says despite current account deficits through 2021, Qatar's external balance sheet remains strong

(Reuters.Briefs@thomsonreuters.com)

Saudi Arabia

Saudi bonds outpace most Gulf sovereigns after VAT hike

11-May-2020
DUBAI, May 11 (Reuters) - **Saudi government bonds rallied more than most other Gulf sovereigns on Monday in response to austerity measures announced by the country's finance minister, including a tripling of the value-added tax rate.**
Saudi Arabia's 35- and 40-year bonds maturing in 2055 and 2060 gained 1.1 cents to trade at 92.4 cents and 101.4 cents on the dollar respectively, Refinitiv data showed.
The 2055 bonds as well as those due in 2029, 2047 and 2049 reached their strongest levels since March 11.
Under the austerity measures, Saudi Arabia will triple value added tax as well as suspend a cost of living allowance for state workers, part of efforts to bolster government finances hit by low oil prices and a drop in oil demand as measures around the world to curb the coronavirus hit economic activity.
"Saudi Arabia is outperforming. The market is seeing the actions as being supportive of fiscal discipline, even though the impact appears minimal," a fund manager said.
Another fund manager said a strong factor in Monday's rally was a general strengthening in the Gulf's debt markets.
The Gulf's primary debt market has also shown signs of recovery, with Bahrain becoming the first sub-investment grade issuer to tap the public markets last week.
Sources told Reuters last week that several non-sovereign issuers would tap the markets soon, including Abu Dhabi's state fund Mubadala, which hired banks to arrange investor calls on

Monday for a potential bond deal.

(Reporting by Yousef Saba; Editing by Jane Merrimanth)
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Promise of future prosperity fades as austerity hits Saudis' pockets

13-May-2020

- **State spending remains engine of growth**
- **But economy squeezed by low oil prices, coronavirus**
- **"No one is spending" - retailer**
- **Reforms seek to expand small private sector**
- **But private companies struggle with weak demand**

By Marwa Rashad and Davide Barbuscia

RIYADH/DUBAI, May 12 (Reuters) - **Saudi Arabia's austerity drive will squeeze a private sector vital to its plan to diversify away from oil and may cost its powerful crown prince some prestige as citizens see their spending power shrink.**

Several businessmen and economists said the tripling of value added tax (VAT) and suspension of a cost of living allowance for state employees could deepen a downturn in the Arab world's largest economy and delay job creation.

The changes are set to ripple through most areas of business life, already struggling with weak demand due to a coronavirus lockdown, and weigh on living standards of ordinary Saudis.

"I don't understand how this will help the private sector that is already hit by low demand," said a Saudi retailer, who requested anonymity to speak freely.

"People are already holding on to their cash and no one is spending at all."

He said if business remains weak by the end of the year "I will have no other way than cutting jobs to minimize the cost".

Authorities had until now avoided steps affecting citizens directly, acutely aware that Saudis' ability to tolerate such measures is vital in a country without elections and where political legitimacy rests partly on distribution of oil wealth.

While many Saudis have rallied around their leaders on social media, others posted pictures of late King Abdullah under the hashtag "livelihood", recalling a time of high oil prices and state largesse.

Crown Prince Mohammed bin Salman shook up the conservative kingdom in 2016 with an ambitious vision to wean the economy off oil income, create a thriving private sector and generate millions of jobs in new industries and mega projects.

"DOUBLE SHOCK"

But low oil prices and the coronavirus have battered the finances of the world's largest oil exporter at a time when state spending remains its economic engine and large foreign capital inflows have proven elusive. Unemployment among Saudis stands at 12%.

Finance Minister Mohammed al-Jadaan said the measures, including cuts to state operating and capital expenditure, were "painful but necessary".

While Saudi bonds rallied as investors saw the measures as a sign Riyadh was ready to take tough steps to contain the deficit, business owners are bracing for more pain.

"Is this the right time? It is a disaster and now a double shock, the coronavirus impact was severe and now we guarantee business is down for a longer time," said a businessman in the construction sector.

Saudi Arabia's decision was likely based on the fact that the private sector still plays a marginal role, analysts said.

"The farce of a strong Saudi private sector is put aside. There may be growth over the longer term, but the state was always going to guide that process," said Karen Young, resident scholar at the American Enterprise Institute in Washington.

The state encouraged Saudis to buy shares in oil giant Aramco when it went public last year. But since March they have been trading below the IPO price, frustrating many.

"We have to support the government of course but I wish they made it (measures) gradual," said Fatima, a 24-year-old Saudi saleswoman.

"It was great to spend some extra money on cinemas, gym and dining and save for concerts, but now one has to be careful where to spend money," she said on activities only recently made available under social reforms in the conservative kingdom.

"SUPRESSED ANGER"

As Saudis feel the pinch, the prince may see his support base weaken and rumblings of discontent grow, though unrest is unlikely, one diplomat said.

Prince Mohammed has cracked down on dissent by detaining clerics, activists and intellectuals, as well as members of the royal family and Saudi elite as he consolidated power.

"The problem is these measures touch citizens ... everyone's salary got cut by 10%," said the diplomat, adding that the posting of King Abdullah's picture was a "negative indication".

"Nothing will happen on the street, it will be supressed anger," the diplomat said, noting that the hashtag "we will heed you in good times and bad" launched after the measures were announced did not gather steam as usually happens.

The government's media office did not immediately respond to a Reuters request for comment.

The economy is expected to shrink 2.3% this year versus 0.3% growth in 2019, according to the International Monetary Fund. Central bank foreign exchange reserves fell in March at their fastest rate in 20 years as the kingdom recorded

a $9 billion budget deficit in the first quarter.
Dubai-based economist Nasser Saidi said any additional revenues from the VAT hike would be negligible and the move will likely sharpen the recession.
"It would add an unnecessary shock to the system at a time when businesses are struggling to stay afloat, households are experiencing lower incomes and expatriates without jobs are returning home," he said.

(Reporting by Marwa Rashad and Davide Barbuscia; Additional reporting by Alexander Cornwell; Editing by Ghaida Ghantous and William Maclean)
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Saudi Arabia raises 5.755 bln riyals in local sukuk

14-May-2020
CAIRO, May 14 (Reuters) - **Saudi Arabia has raised 5.755 billion riyals ($1.53 billion) in sukuk, or Islamic bonds, the Finance Ministry said on Thursday.**
The first tranche of the sukuk issue is 3.8 billion riyals, and the total tranche size is 6.549 billion, maturing in 2025, a ministry statement said.
The second tranche has a size of 1.95 billion riyals, and a total tranche size of 10.296 billion, maturing in 2030.

(Reporting by Hesham Abdul Khalek
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South Korea

Moody's Affirms South Korea's AA2 Rating, Maintains Stable Outlook

12-May-2020
May 12 (Reuters) - Moody's:
- **Moody's affirms Korea's AA2 rating, maintains stable outlook**
- South Korea's long-term foreign currency bond ceiling remains unchanged at AA1.
- Projects South Korea's government debt to remain contained at less than 45% of GDP, preserving South Korea's high fiscal strength
- Stable rating outlook reflects limited risks to Korea's credit profile
- Over at least next 2 to 3 years does not expect South Korea's general government fiscal balances to return to a surplus position

((Reuters.Briefs@thomsonreuters.com))

South Korean bonds lure foreign money in April, rest of Asia see outflows

13-May-2020
By Gaurav Dogra and Patturaja Murugaboopathy
May 13 (Reuters) - **South Korean bonds attracted net foreign inflows for a fourth successive month in April, thanks to their higher yields and the country's strong finances, while other Asian fixed income markets suffered outflows due to worries over the economic impact of the coronavirus pandemic.**
Foreigners bought a net $6.09 billion worth of South Korean bonds in April, while they sold a combined net total of $3.05 billion of Indonesian, Malaysian, Thai and Indian bonds, data from regional banks and bond market associations showed.
South Korea's stronger current account position, lower fiscal deficit and better yields, compared to other countries with the same sovereign ratings, were factors behind the continued inflows into its bond market, analysts said.
"Amongst the low yielders, we prefer South Korea based on relative valuations. Spreads of South Korea local bond yields against peer low yielders are close to their widest levels in many years," said Duncan Tan, strategist at DBS Bank.
A 1.42% yield on 10-year Korean government debt makes it an attractive trade, compared with a yield of 1.13% in Thailand and 0.249% in Britain, which have the same credit rating.
Foreigners sold a net $1.66 billion of Indian bonds, the highest in the region, as the Reserve Bank of India cut its reverse repo rate to revive a flagging economy amid the coronavirus lockdown.
India's benchmark bond yield spiked briefly on Wednesday morning following news of a 20 trillion rupees economic package, before retracing most of the losses due to the absence of details.
Cross-border investors sold $788 million of Thai bonds and $461 million of Malaysian bonds in the last month.
However, the outflows from Asian bonds in April were much smaller compared to March, as the regional assets were bolstered by annoucement of stimulus measures by Governments, and optimism over some countries partially opening up their economies after lockdowns.
"Considering growth risks are tilted to the downside, the outlook for portfolio flows into the region remains one of weakness and persistent volatility," said Khoon Goh, head of Asia research at ANZ Banking Group. Geopolitical risks may also return to the picture if U.S-China relations continue to deteriorate, Khoon added.

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Thailand

Finance Ministry to issue savings bonds soon

11-May-2020

The Finance Ministry plans to offer special savings bonds worth 50 billion baht to the public to give taxpayers more investment alternatives to earn higher income as low interest rates and economic uncertainty prevail.

The savings bonds, part of the government's 1-trillion-baht borrowing plan to alleviate the damage from the pandemic, will be divided into five- and 10-year maturities, said Finance Minister Uttama Savanayana.

The five-year bonds carry an average coupon rate of 2.4%, effectively 1.9% after tax, while the longer-dated bonds have an average rate of 3%, netting 2.55% after tax.

Under the royal decree for 1 trillion baht in borrowing, 550 billion baht is for financial aid for affected informal workers and farmers, 45 billion baht is for healthcare-related expenditure and 400 billion baht is for economic and social rehabilitation through projects aimed at creating jobs, strengthening communities and building infrastructure.

The borrowing plan is part of the government's third phase of relief measures for the pandemic.

Patricia Mongkhonvanit, director-general of the Public Debt Management Office (PDMO), said the special savings bonds will be sold to Thais aged 60 or above residing domestically during May 14-20, with a minimum subscription of 1,000 baht and a maximum of 2 million baht each and per bank.

The leftover bonds will be offered to those who have either Thai nationality or were living in Thailand between May 21 and 27, with a minimum subscription of 1,000 baht and a maximum of 2 million baht each and per bank.

These sub-segments and foundations are eligible to subscribe to the savings bonds without limit from May 28 to June 10.

Interested investors can subscribe to the savings bonds through the PDMO's Bond Direct app and the ATMs, counters, and the internet and mobile banking apps of four banks: Siam Commercial Bank, Kasikornbank, Bangkok Bank and Krungthai Bank.

Mrs Patricia said the special savings bonds yield higher returns than the five- and 10-year bonds available in the market, by 150 and 180 basis points respectively.

Thai cabinet approves $12.5 bln spending plan to help virus-hit economy

12-May-2020

BANGKOK, May 12 (Reuters) - **Thailand's cabinet approved on Tuesday a plan to spend 400 billion baht ($12.45 billion) to create jobs and strengthen southeast Asia's second-largest economy, which appears headed for recession because of the coronavirus pandemic.**

The plan is part of a larger package of measures worth 1.9 trillion baht as Thailand's central bank has warned the economy could contract 5.3% this year for its worst shrinkage since the 1997-98 Asian financial crisis.

"We will try to get the money into the system in July or the third quarter of this year," Thosaporn Sirisumphand, secretary general of state planning agency, the National Economic and Social Development Council, told a briefing.

The government will not focus on boosting quick economic growth but rather on ensuring security and sustainability, he added.

Last week, Deputy Prime Minister Somkid Jatusripitak said the government planned spending to help lift community activity and aid jobless workers to return to the farm sector.

Up to 10 million people, or 26% of the total workforce, may lose their jobs due to outbreak, the Thai Chamber of Commerce says.

Thailand reported two virus infections but no deaths on Tuesday, taking its tally to 3,017 and 56 deaths since its outbreak started in January.

($1=32.12 baht)
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Editing by Clarence Fernandez)
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United Arab Emirates

Abu Dhabi's Mubadala hires banks for bond issues

11-May-2020

DUBAI, May 11 (Reuters) - **Abu Dhabi's state fund Mubadala has hired banks for a potential three-tranche bond issue consisting of six-year and 10-year conventional bonds and 30-year dual-listed Formosa bonds, sources said on Monday.**

Mubadala has hired Banca IMI, BNP Paribas, BofA Securities, First Abu Dhabi Bank, HSBC, Natixis and Societe Generale to arrange investor calls on Monday, to be followed by the issuance, subject to market conditions, the sources said.

One banking source said Mubadala was looking to raise $3 billion to $4 billion and that it made sense for the state fund to raise extra liquidity now ahead of a potential worsening of conditions

in international markets later this year.
A second banking source said Mubadala would launch the deal on Tuesday and would probably increase the size to $5 billion to $6 billion as order books grow during the deal's execution.
The extra cash could give Mubadala more firepower to buy stakes in companies later this year when many are expected to seek liquidity due to the economic crisis, the first source said.
"We're continually looking for ways to optimise our capital structure, as part of how we manage the overall portfolio," a Mubadala spokesman said.
"Our amount of debt is currently relatively conservative, and with a strong credit rating and solid balance sheet, we want to build upon the good liquidity position we have to take advantage of future investment opportunities across the portfolio as they arise," he said.
Sources told Reuters last week that Mubadala could issue bonds as soon as this week.
Bahrain sold $2 billion in dual-tranche bonds last week, the first sub-investment grade issue in the Gulf since a massive sell-off of debt in the wake of a crash in oil prices and the spread of the new coronavirus.
It was a further sign of revival in the region's battered debt market following large deals by Qatar, Abu Dhabi and Saudi Arabia last month that ended the public issuance drought that lasted from late February to early April.
Dollar bonds issued by Gulf states rallied on Monday. One fund manager said this was because of higher oil prices and the U.S. Federal Reserve buying high-yield bonds, which has led to spreads compressing.
A fixed-income strategist said: "Investors seem to have gotten their confidence back following Bahrain's successful bond issuance last week. Debt investors also appear to have taken Saudi Arabia's VAT decision as a positive step towards bolstering the kingdom's finances."
Saudi Arabia said on Monday it will triple its value-added tax rate.

(Reporting by Davide Barbuscia and Yousef Saba; Editing by David Clarke)
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Abu Dhabi in talks with Dubai for support through state fund Mubadala

15-May-2020

- **Dubai faces most severe downturn since 2009 debt crisis**
- **Dubai is Middle East's tourism, trade and business hub**
- **Abu Dhabi is the political capital of the UAE**

By Davide Barbuscia, Saeed Azhar and Pamela Barbaglia
DUBAI/LONDON, May 15 (Reuters) - **The governments of Abu Dhabi and Dubai are discussing ways to prop up Dubai's economy by linking up assets in the two emirates, with Abu Dhabi's state fund Mubadala likely to play a key role in any deal, three sources familiar with the matter said.**
Some economic sectors have come to a near standstill in Dubai during the coronavirus outbreak, and it faces its most severe downturn since a 2009 debt crisis. It lacks the oil wealth of Abu Dhabi to cushion the blow.
Abu Dhabi bailed out Dubai after the 2009 crisis with a $10 billion government loan, which was subsequently rolled over, and $10 billion in bonds that Dubai issued to the central bank.
One of the sources said any support from Abu Dhabi agreed now would be "orchestrated through mergers of assets where Abu Dhabi and Dubai compete directly or where they have joint ownerships".
"The most likely deal to happen in the near term is a merger of the local stock markets," the source said, adding that bank mergers were also possible.
A second source confirmed the talks and said Mubadala, which manages around $230 billion in assets, would make "a big move into Dubai", but gave no details.
Mubadala declined comment. Abu Dhabi did not respond to requests for comment on the talks.
The Dubai media office said on its official Twitter account late on Friday that Dubai denied being in talks with Abu Dhabi for support from Mubadala.
The two emirates have a quiet rivalry. Dubai has developed quickly to become the Middle East's tourism, trade and business hub, while Abu Dhabi is the UAE's political capital because of its size and immense oil wealth. The consolidation of political power in Abu Dhabi began with the 2009 bailout.
The first source said talks were happening in an "elegant way," without the appearance of a direct bailout.
The UAE said on Wednesday it would review the structure and size of its government to make it "more agile and flexible".
"We may merge ministries and alter bodies. We will make changes," UAE Vice President Sheikh Mohammed bin Rashid al-Maktoum, who is also ruler of Dubai, said following three days of virtual meetings on the country's post-coronavirus strategy.
A third source said Mubadala was likely to be involved "at some stage" because the state fund was always involved whenever there was consolidation between the two emirates in the past.

STRATEGIC ASSETS

Mergers took place after Abu Dhabi bailed out Dubai following the 2009 crisis, during which Dubai's property market crashed, almost forcing some state-linked firms to default on billions of dollars of debt.
The UAE merged Dubai and Abu Dhabi aluminium firms to create Emirates Global Aluminium, held jointly by Mubadala and the Investment Corporation of Dubai.
"You have already seen a pattern of mergers

and this will now accelerate," the first source said. "Essentially these bailouts will be engineered by having Abu Dhabi taking stakes in strategic assets owned by Dubai. It will happen over time."
London-based Capital Economics has said Dubai is the most vulnerable of the economies in the Middle East and North Africa to the economic damage caused by measures to curb the spread of the coronavirus, and it has said Dubai's economy could contract by at least 5-6% this year if the measures last into the summer.
Economic growth in Dubai was sluggish before the pandemic and hopes of benefiting from hosting the Expo world fair in October collapsed when the event was postponed to 2021.
Dubai has in recent weeks been in discussions with banks for several fundraising options including loans and privately placed bonds, sources familiar with the discussions have said.
It has also considered raising funds backed by road toll revenue, sources have said. (Full Story)

(Reporting by Davide Barbuscia, Saeed Azhar, Pamela Barbaglia; Additional reporting by Hesham Abdul Khalek; Editing by Timothy Heritage)
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EUROPE

Bosnia

Bosnia's Federation sells 10.2 mln euro of 7-yr

13-May-2020
SARAJEVO (Bosnia and Herzegovina), May 13 (SeeNews) – **Bosnia's Federation entity sold out a 20 million marka ($11.1 million/10.2 million euro) issue of seven-year Treasury notes at an auction on May 12, the Federation's finance ministry said.**
Bids placed at the auction held on the Sarajevo Stock Exchange (SASE) totalled 44.8 million marka, the finance ministry said in a statement filed with SASE on Tuesday.
The government securities were sold at an average accepted price of 99.8454% of par, yielding 1.275%.
The T-notes will mature on May 13, 2027.
At the last auction of seven-year T-notes held on October 15, 2019, the Federation sold 40 million marka worth of government securities at a yield of 0.35%.
The Federation is one of two autonomous entities that form Bosnia and Herzegovina. The other one is the Serb Republic.

(1 euro = 1.95583 marka)

Bosnia's Federation govt OKs 7.2 mln euro World Bank loan for real estate registration project

14-May-2020
SARAJEVO (Bosnia and Herzegovina), May 14 (SeeNews) - **Bosnia's Federation government said it has approved a plan to borrow 7.2 million euro ($7.8 million) from the International Bank for Reconstruction and Development (IBRD), part of the World Bank Group, to finance a real estate registration project.**
The loan has a tenor of 32 years and a grace period of seven years, and carries a six-month EURIBOR (Euro Interbank Offered Rate) interest rate plus a fixed margin, the entity government said in a press release on Tuesday.
The project aims to support the development of a sustainable real estate registration system with harmonized land register and cadastre records in the urban areas of Bosnia's two constituent entities - the Federation and the Serb Republic.

($ = 0.925065 euro)

Bulgaria

Bulgaria economic growth slows to 2.4% y/y in Q1

15-May-2020
SOFIA, May 15 (Reuters) - **Bulgaria's economic growth dropped to 2.4% on an annual basis in the first quarter from 3.1% expansion in fourth quarter, preliminary data showed on Friday as activity plunged in the middle of March due to a restrictive measures aimed at curbing the coronavirus.**
On a quarterly basis, the economic growth was 0.3% from January to March in seasonally adjusted terms, down from 0.8% increase in the fourth quarter, national statistics office said.
The finance ministry expects the small and open economy to shrink by 3% this year because of the coronavirus crisis. The European Commission estimates the annual drop to 7.2%, while the International Monetary Fund projects contraction of 4% in 2020.
Bulgaria imposed a partial lockdown since March 14, with many businesses shuttered, schools and restaurants closed and people asked to avoid any non-essential travel within the country. The country has some 2,138 cases including 102 deaths.
The government has started to ease some restrictions since late April, allowing outdoor restaurants to work and access to parks and said the economy should start recovering in the third

quarter if there would not be another wave of the contagion.

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Croatia

Budget deficit of HRK 25.34 billion

09-May-2020

The original budget for this year provided for an almost balanced budget, but the supplementary budget envisages a deficit of HRK 25.3 billion, or 7 percent of GDP.
When ten extra-budgetary beneficiaries are added to this, with a deficit of HRK 2.4 billion planned (originally a surplus of HRK 725 million was envisaged), and a local government with a deficit of HRK 1.1 billion is added, with adjustments to the ESA methodology. In 2010, primarily a projected amount of deferred public spending of just over four billion kuna, the total general government budget deficit would amount to 24.8 billion kuna, or 6.8 percent of GDP.
In line with such trends, the share of public debt in GDP is expected to increase this year by 13.5 percentage points, to 86.7 percent of GDP.
With the rebalance, receipts from financial assets and borrowing increased from the originally projected HRK 30.5 billion to HRK 63.4 billion.
However, the Minister of Finance points out that more than half, ie 35.6 billion kuna, has already been resolved.
He reminded that in February the state issued three tranches of bonds in the amount of HRK 15 billion, recently a seven-year bond in the domestic market in the amount of EUR 1.445 billion, a large treasury bill of HRK 7.8 billion maturing today, which was issued today. Individual credit arrangements with banks in Croatia.
Minister Mari also says that in the coming weeks he wants to combine the domestic and international markets to fulfill the vast majority of the financing plan. Without mentioning the exact dates, he announced that the issuance of bonds in the amount of HRK 9.5 billion (EUR 1.25 billion) is planned on the international market, and that the issuance of domestic bonds in several tranches is also planned. In addition, sources from EU funds, as well as international financial institutions are planned.

Czech Republic

Czech central bank sees public finance gap at -4.8%/GDP in 2020

11-May-2020

PRAGUE, May 11 (Reuters) - **The Czech central bank on Monday cuts its forecast for the 2020 public sector balance to a deficit of 4.8% of gross domestic product (GDP) from an earlier estimate of surplus 0.3%, as the new coronavirus pandemic hits the economy.**
In 2019, the public finance showed a surplus of 0.3% of GDP.

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Czech economy seen dropping 7.6% in 2020 before rebound

12-May-2020

PRAGUE, May 12 (Reuters) - **The Czech economy is expected to shrink by 7.6% in 2020 due to the coronavirus outbreak before seeing a 5.8% rebound in 2021, according to the average forecasts of 13 state institutions and commercial banks compiled in a Finance Ministry survey.**
Forecasts ranged from a 5.6% drop this year, given by the Finance Ministry, to a contraction of up to 11.0%.

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Estonia

Estonia says March tax incomes drop 19.9%

12-May-2020

TALLINN, May 12 (Reuters) - **Estonian state tax income dropped 19.9% in March from a year ago due to the lockdown of the economy, the Finance Ministry said in a statement on Tuesday.**
By end-March, the nominal state budget deficit had increased to 438 million euros or 1.7% of GDP, mostly due to shrinking tax income, and the deficit was set to reach 10.1% by the end of the year, it said.
Estonia's government debt totalled 7.4% of GDP at the end of 2019. It expects GDP to fall by as much as 8% this year.

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Moody's Says Estonia's Credit Strengths Include Low Debt and Strong Institutions

14-May-2020
May 14 (Reuters) - Moody's:

- **Moody's says Estonia's credit strengths include low debt and strong institutions; coronavirus to cause sharp economic contraction**
- Moody's says Estonia economy is expected to contract by 7.8% of GDP in 2020
- Moody's says Estonia's government deficit will reach its highest-ever level in 2020; debt affordability to remain comparatively strong
- Moody's says expect economic impact of coronavirus outbreak on Estonia to be concentrated in h1 2020, with economy gradually recovering in h2 2020
- Moody's says expect Estonia economy returning to full-year growth of 4.0% in 2021
- Moody's - Estonia's medium-term credit challenges include limits on labour supply & moderate susceptibility to geopolitical risk

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Hungary

Hungary central bank to use bond buy scheme only to extent necessary

10-May-2020
BUDAPEST, May 10 (Reuters) - **A government bond purchase programme launched by the National Bank of Hungary (NBH) this week has curbed long-term yields successfully, Governor Gyorgy Matolcsy said on Sunday, adding that the central bank would only use this tool to the extent necessary.**
The NBH bought 50 billion forints ($155.35 million) worth of government bonds at the inaugural tender on Tuesday, half the amount it had set as a maximum of weekly purchases.
Long-term yields have dropped since the bank announced its plans last week under a large-scale effort to shore up the economy hit by the coronavirus pandemic. Yields edged up on shorter-date bonds after the first auction.
Matolcsy told public radio in an interview that the scheme had achieved "within days" the effect that would have otherwise taken months under normal market circumstances.
"We will of course continue the programme, but this is a crisis-handling programme," Matolcsy said. "This will last only as long as and done only to the extent necessary."
Matolcsy reiterated that Hungary would recover quickly from the coronavirus pandemic, projecting 2-3% economic growth for 2020 despite the government and most institutions forecasting a sharp downturn.
Prime Minister Viktor Orban's government expects the economy to shrink by 3% this year, while economists polled by Reuters project a 4% decline due to the restrictive measures and factory shutdowns triggered by the pandemic.
Matolcsy said despite some sectors, like tourism and restaurants, grinding to a halt, the "decisive majority" of the Hungarian economy had kept working even during the worst of a lockdown in April.
Hungary had already started a phased easing of the restrictive measures outside Budapest, where most cases of coronavirus have been registered so far.
"Based on the facts so far, we consider our optimism well-founded ... that the Hungarian economy will produce positive growth this year," Matolcsy said, adding that the financial system was stable and resilient.

($1 = 321.85 forints)
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Hungary finance ministry says economy could grow 4.8% next year again

15-May-2020
BUDAPEST, May 15 (Reuters) - **The crisis that gripped the Hungarian economy amid the novel coronavirus pandemic could culminate in April, Finance Minister Mihaly Varga said in a statement on Friday after first-quarter GDP data showed marked economic slowdown.**
Varga said that due to the Hungarian government's economic stimulus package, the economy could accelerate in the second half and reverse an expected overall 3% drop in the GDP this year with a growth of 4.8% in 2021.

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North Macedonia

North Macedonia sells 2.93 bln denars (47.4 mln euro) of govt paper

12-May-2020
SKOPJE (North Macedonia), May 12 (SeeNews) – **North Macedonia's finance ministry sold 2.93 billion denars ($51.5 million/47.4 million euro) worth of government securities at three auctions held on May 12, the central bank said**

on Tuesday.
The finance ministry sold 2.03 billion denars worth of one-year Treasury bills, 600 million denars worth of three-month T-bills and 300 million denars of two-year T-bonds, the central bank said in a notice.
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 = 61.79 denars)

Fitch Says Revises Outlook on North Macedonia to Negative

15-May-2020
May 15 (Reuters) -
- **Fitch says revises outlook on North Macedonia to negative; affirms at 'BB+'**
- Fitch says it forecasts North Macedonian economy to contract by 4.2% in 2020

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Poland

Poland's C/A surplus at 2.438 bln euros in March

14-May-2020
May 14 (Reuters) - **Poland's current account surplus amounted to 2.438 billion euros ($2.63 billion) in March, compared to a revised surplus of 878 million euros in the previous month, central bank data showed on Thursday.**
Economists polled by Reuters had expected a surplus of 565 million euros in March.

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Romania

Romania's Q1 foreign trade deficit widens 19.7% y/y

11-May-2020
BUCHAREST, May 11 (Reuters) - **Romania's foreign trade deficit widened by 19.7% on the year in the first three months to 4.455 billion euros ($4.83 billion), the National Statistics Board said on Monday.**
The deficit in March was 1.855 billion euros, compared with 1.277 billion gap in February.
The statistics board said January-March CIF (cost/insurance/freight) imports were 21.53 billion euros, up 1.3% on the year, while exports were 17.07 billion euros, down 2.6%.

($1 = 0.9228 euros)
(Reporting by Radu Marinas)
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Romania's end-March foreign debt rises

14-May-2020
BUCHAREST (Romania), May 14 (SeeNews) - **Romania's foreign debt increased to 106.2 billion euro ($115 billion) at the end of March 2020 from 105.8 billion euro at the end of 2019, the central bank, BNR, said on Thursday.**
The end-March figure includes 74.8 billion euro in long-term foreign debt, up from 73.6 billion euro at the end of 2019, BNR said in a monthly balance of payments report.
Long-term external debt service ratio fell to 14.5% in March, compared to 18.6% at end-2019.
Goods and services import cover stood at 5 months at end-March, from 4.6 months at end-2019.
The ratio of the BNR's foreign exchange reserves to short-term external debt by remaining maturity increased to 77.3% at end-March, from 73.8% at end-2019.

($= 0.922 euro)

Russia

Russian sovereign Eurobonds remain most expensive among EM peers

12-May-2020
MOSCOW. May 12 (Interfax) - **Russian sovereign Eurobonds remain the most expensive among those of emerging market countries with comparable credit ratings, and this limits their potential for faster growth in the medium and long term, the Uralsib corporation said.**
"The sovereign Eurobonds of EM countries on Friday rose in price on the back of oil prices. Mexican bonds were the leaders among them, having fallen 13-15 bps in yield. Russian bonds, apparently on the eve of the long weekend, were among the laggards and finished trading at the previous day's level. The exception was medium-term RUSSIA'26 with YTM 2.65% and RUSSIA'28 with YTM 3.03%, which added 25 bps from the nominal," Uralsib analysts Irina Lebedeva and Nadezhda Bozhenko said.
The experts said that overall during the short

work week that the Russian yield curve moved down 4-14 bps, in second among its peers behind Mexican securities at minus 35-50 bps.
"At the same time, it was the only one [yield curve] that consolidated below 4%, so Russian securities remain the most expensive among sovereign Eurobonds of EM countries with comparable credit ratings. In the medium and long term, this limits the potential for their faster growth. Today, the external background is weak, and oil prices have dropped, so the [sovereign bond] issues of EM countries will be under pressure," Uralsib's analysts said.

Serbia

Serbia to refinance Eurobond issue when borrowing costs drop

13-May-2020
BELGRADE (Serbia), May 13 (SeeNews) - **Serbia plans to refinance the 2 billion euro ($2.2 billion) Treasury notes issued on international markets earlier this week under more favourable conditions in the future, central bank governor Jorgovanka Tabakovic said.**
"Certainly, when the conditions on the international market are met, Serbia will consider replacing the funds collected through Eurobonds under even more favorable conditions, as it did last year," Tabakovic said in a statement by the central bank on Tuesday.
On Monday, Serbia issued seven-year Treasury notes worth 2 billion euro, to be listed on the London Stock Exchange (LSE), carrying an annual coupon of 3.125%.
As a result of high demand, Serbia managed to reduce the borrowing cost by 50 basis points, achieving a new issue premium of 30 basis points, the same level as the premium paid by the Eurozone countries since the coronavirus outbreak, the central bank said earlier this week.
However, Serbian analysts slammed the transaction saying the government could have borrowed much cheaper loans from the European Union or the International Monetary Fund (IMF) but chose not to do so to avoid strict control over how the money is being spent.
"The problem [with loans from the EU or the IMF] is that the money must be spent in a transparent way, and the government wants to use it for the elections," local media quoted Goran Radosavljevic, a professor of economics at Belgrade University, as saying on Tuesday.
According to Tabakovic, getting funding under the IMF's Rapid Financing Instrument implies that the beneficiary has problems in financing its balance of payments, which is not the case with Serbia.
Furthermore, the terms of such loans are not so favourable, except for relatively small borrowings with a shorter timeframe, he added.
"Taking such a loan would mean that Serbia de facto enters a new three-year standby arrangement with this financial institution. This would certainly send a negative signal and could lead to an increase in the country's risk premium in the future," Tabakovic said.

($ = 0.9228 euro)

Slovenia

Slovenia sells T-bills worth total 359.3 mln euro

13-May-2020
LJUBLJANA (Slovenia), May 13 (SeeNews) – **Slovenia's finance ministry said it sold on May 12 a combined 53.3 million euro ($57.8 million) worth of three-month and six-month Treasury bills and 18-month Treasury bills worth 306 million euro.**
The ministry sold three-month Treasury bills worth 25 million euro, below the 50 million euro target, it said in a statement on Tuesday.
The issue yielded a negative 0.25%, compared with a negative yield of 0.30% at the previous auction of three-month government securities held in April.
The finance ministry also auctioned 28.3 million euro worth of six-month Treasury bills, lower than the 60 million euro target and below the 39.8 million euro demand. The issue yielded a negative 0.20%, compared with a negative yield of 0.15% achieved at the previous auction in April.
In addition, 18-month securities worth 306 million euro were sold, above the 100 million euro target but below the 481.5 million euro demand. They yielded a negative 0.01%, compared with a positive yield of 0.10% in the April auction.
In April, Slovenia sold 15 million euro worth of three-month securities, meeting demand, 28 million euro worth of six-month debt, also meeting demand, and 131.5 million euro of 18-month securities, below the 169.5 million euro demand.

($=0.921637 euro)

Turkey

Turkey exceeds May borrowing plan with $3-bln debt issue

12-May-2020
ANKARA, May 12 (Reuters) - **Turkey's Treasury borrowed a total of 20.5 billion lira ($2.9**

billion) on Tuesday through four debt issuance, exceeding its forecasted level for May.
Borrowing this month has neared 50 billion lira, compared to a planned 40 billion lira.
The emerging-market government borrowed a total of 11.8 billion lira with six-month and two-year sukuk issuances, while it also tapped three-year and eight-year bonds in auction.
In April, the Treasury borrowed some 65 billion lira, double its forecasted level for the month.
The Treasury's rollover ratio has neared 200% with rising appetite for bonds thanks to a regulatory adjustment to banks' asset ratios that prompted them to buy more debt.

($1 = 6.9885 liras)
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Turkish budget deficit 43.2 bln lira in April

15-May-2020
ISTANBUL, May 15 (Reuters) - **The Turkish government budget recorded a deficit of 43.2 billion lira in April, increasing 135.8% year-on-year, data from the Finance Ministry showed on Friday.**
In March, the deficit stood at 43.7 billion lira.
The budget recorded a deficit of 18.3 billion lira in April last year.
The primary balance, which excludes interest payments, showed a deficit of 26.2 billion lira in April, the data showed.

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Ukraine

Ukraine PM hopes to sign memorandum for IMF $5 bln deal by end-May

12-May-2020
KIEV, May 12 (Reuters) - **Ukraine's government hopes to sign a memorandum with the International Monetary Fund for a new $5 billion loan package by the end of May, Prime Minister Denys Shmygal said on Tuesday.**
Of that money, $3.5 billion is intended to go directly into the state budget, he said in a statement.
"It's not just financial support. This is a guarantee of receiving funds from other international financial organisations and an indicator that we are on the path of systemic reforms," he said.

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LATIN AMERICA AND CARIBBEAN

Moody's, On Latin America, Says Tightening Financial Conditions Will Increase Funding Costs, Weaken Debt Affordability

11-May-2020
May 11 (Reuters) - Moody's:
- **Moody's, on Latin America, says tightening financial conditions will increase funding costs, weaken debt affordability**
- Moody's, on Latin America, says fiscal metrics will deteriorate across the region as debt and interest burdens rise
- Moody's, on Latin America, says funding strategies to cover coronavirus response will be influenced by market conditions
- Moody's, on Latin America, expect govts to rely more extensively on multilateral financing, local borrowing, other funding sources to cover wider fiscal deficits

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Argentina

Argentina says "many" holders accepted debt deal but important creditors rejected it

11-May-2020
BUENOS AIRES, May 11 (Reuters) - **While "many" bondholders accepted Argentina's bond restructuring offer, the proposal was rejected by important creditor groups, the economy ministry said in a statement on Monday.**
Early in the morning the government announced it will extend negotiations over a $65 billion debt restructuring proposal until May 22, setting the stage for tense last-ditch talks as the South American nation races to avoid default.
"While many of our bondholders supported Argentina's invitation, other significant groups of creditors did not," said the statement, which was released at midday.
Among the creditors that rejected Argentina's

offer, several indicated that there are better alternatives that can be reconciled with the objectives that the government has set for itself, the statement said.
"We remain open to discussing all contributions designed to help Argentina achieve its goals and at the same time enhance creditor recoveries," the statement said.

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Argentina extends $65 bln debt deadline as 'hardball' talks stoke risk of default

12-May-2020
By Adam Jourdan, Marc Jones and Rodrigo Campos
BUENOS AIRES/LONDON/NEW YORK, May 11 (Reuters) - **Argentina will extend negotiations over a $65 billion debt restructuring proposal until May 22, the government said on Monday, setting the stage for tense last-ditch talks as the South American nation races to avoid default.**
The new deadline, which comes after an initial cut-off passed on Friday without the support needed for a comprehensive deal, means the offer will expire the same day Argentina could trigger default over a $500 million interest payment.
The major grains producer is racing to revamp unsustainable debts amid a painful recession, high inflation, and increasingly expensive borrowing costs, as concerns over a potential ninth sovereign default have rattled investors and hit bond prices.
The talks so far have been complex, with three major creditor groups rejecting the initial proposal and pushing for improved terms. Argentine officials have said the country cannot afford to pay more, though they are open to counterproposals.
Analysts calculate that the current offer, which includes a three-year payment halt, a large cut to coupon payments, and maturities pushed back to 2030 and beyond, amounts to a net present value of around 30-35%.
Two international bondholders involved in the talks said the level of acceptance was just over 12%. Argentine media reported that local holders of the debt had been more receptive, which they said brought the total level to around 20%.
Argentina's economy ministry declined to comment on the level of acceptance.
"Clearly, both sides are playing hardball," Capital Economics said in a note, adding that the situation was complicated by the global coronavirus pandemic.
"The government is facing ever-growing demands on its purse as the health crisis continues," it said. "Accordingly, recovery rates for foreign bondholders of around 30% are looking increasingly likely."
DISTRESSED LEVELS
Argentina's economy ministry said in the official gazette that it had extended the deadline to "increase participation."
"While many of our bondholders supported Argentina's invitation, other significant groups of creditors did not," the ministry said in a statement, adding that the government remained open to discussing the way forward.
"Among those that rejected Argentina's offer, several have indicated that there are better alternatives that can be reconciled with the objectives that this administration has set for itself and for the Argentine people."
The invitation closes on May 22 at 5 p.m. New York time (2100 GMT). The results of the offer will be announced around May 25, with a settlement date of May 27.
The bonds in question include collective action clauses, which means the government needs to meet a threshold of investor support in order to move ahead with comprehensive restructuring.
Argentina's bonds, which have fallen steeply since the middle of last year, are already at distressed levels, with most around 25-30 cents on the dollar. The country's bonds have edged up in recent days and closed 2.3% higher on average on Monday.
Goldman Sachs said in a note that without a deal, it was likely Argentina would default on May 22.
"The absence of specific official information suggests that the initial acceptance rate may have been quite low," it said.
The country's largest province, Buenos Aires, facing a separate debt crisis, extended until May 26 its own offer to creditors for a restructuring proposal for around $7 billion in debt after a deadline passed on Monday.
A major creditor group has already rejected the proposal from the province.
Siobhan Morden at Amherst Pierpont said the Buenos Aires talks could give a clue to how national negotiations would go, providing "a leading indicator for the sovereign since the two credits are aligned on their political strategy."

(Reporting by Adam Jourdan in Buenos Aires, Rodrigo Campos in New York and Marc Jones in London; Additional reporting by Hugh Bronstein and Eliana Raszewski in Buenos Aires; Editing by Cynthia Osterman and Rosalba O'Brien)
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Argentine bonds rise as debt talks race towards deadline

12-May-2020

By Walter Bianchi

BUENOS AIRES, May 12 (Reuters) - **Argentine bonds jumped on Tuesday as the South American country's government and creditors sought to strike a deal to restructure $65 billion in foreign debt by May 22 after an initial deadline passed last week without a pact.**

The extension, and Argentina's willingness to hear counter-proposals to its rejected initial offer, has raised slim hopes that an agreement could be reached in 10 days, despite the two sides remaining far apart on the terms of the deal.

Argentina's over-the-counter bonds rose 3.1% on average on Tuesday. They closed up 2.3% a day before when the government announced the extension after failing to attract sufficient support for a comprehensive deal.

"While the period of negotiation was extended to May 22, the government will need to make substantial improvements to the original offer to reach the majority it needs," Buenos Aires-based brokerage Mills Capital Markets said in a note.

"There is a gap between what the government is offering and what its creditors want," the brokerage added.

Argentina's initial proposal involved a three-year payment halt, a steep cut to coupons, a smaller reduction in capital, and maturities being pushed back to 2030 and beyond.

The new deadline means the offer will close the same day Argentina is due to pay $500 million in interest payments on bonds involved in the restructuring. Failure to pay or reach a deal in time would see the country enter default.

Kristalina Georgieva, managing director of the International Monetary Fund, said on Monday the fund was "very keen" to support Argentina as it deals with both the coronavirus crisis and its unsustainable debt level.

"What I see in Argentina is actually a government that wants to do the right thing for its own people, and for its role in the region, (and) in the world economy," Georgieva said.

Argentina owes the IMF around $44 billion after striking a record deal with the lender in 2018. The government of center-left Peronist Alberto Fernandez is in talks over a new program with the IMF to help push back payments.

The major grains producer is revamping a crippling debt pile amid recession, high inflation, and increasingly expensive borrowing costs, as concerns over a potential ninth sovereign default have rattled investors and hit bond prices.

Major province Buenos Aires is also renegotiating around $7 billion of its own foreign debt. The province, which faces bond payment deadlines this week, has also pushed back a deadline for talks with creditors until late May.

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Brazil

Bank of America cuts Brazil GDP forecast to -7.7% from -3.5%

13-May-2020

BRASILIA, May 13 (Reuters) - **Brazil's economy will shrink by 7.7% this year, according to new forecasts from economists at Bank of America, a sharp revision from their previous call of a 3.5% contraction and one of the gloomiest outlooks yet for Latin America's largest economy.**

Brazil's government will likely post a record primary budget deficit worth 9.3% of gross domestic product this year due to crisis-fighting spending measures and a huge drop in tax revenue, they added.

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Brazil's primary deficit this year could top 9% of GDP, says Treasury Secretary

14-May-2020

By Marcela Ayres

BRASILIA, May 14 (Reuters) - **Brazil's government could post a record primary budget deficit of more than 9% of gross domestic product this year on plunging revenues and increased emergency spending due to the coronavirus crisis, Treasury Secretary Mansueto Almeida said on Thursday.**

That would be around 700 billion reais ($117 billion), and even greater than recent estimates from officials, including Almeida, of around 600 billion reais.

Speaking at a virtual public hearing in Congress broadcast online, Almeida said he was not worried about the deficit this year or the size of national debt, which could exceed 90% of GDP, because the emergency measures need to be implemented.

Around half of Brazil's hefty debt load can be financed by record low nominal interest rates of 3% and real rates, after inflation is taken into account, of around zero, he said.

The trajectory of Brazil's debt matters more than its size, he said.

"It is very important that investors are sure that the country will, over time, gradually be able to repay its debt, and control the growth of its debt in relation to the size of the economy," Almeida said.

This is why a debt load of 90% of GDP becomes a concern when the economy is only growing around 1% a year, as Brazil has done for the past three years, he said. This year is likely to be Brazil's biggest annual economic crash since records began in 1900.

"That is why it is so important to grow," Almeida said.

He also said the Treasury is currently selling around 10 billion reais of debt a week, which will have to rise sharply as the country's borrowing requirements rise. The government is more likely to issue shorter-dated debt because longer-term interest rates are steepening quite a bit, he said.

But even if benchmark interest rates fell to zero, the Treasury could not borrow at 0% because investors would still demand a risk premium, he said.

Meanwhile, the government will not meet its fiscal "golden rule" of not raising debt to pay for current expenses such as public sector salaries and pensions until 2023, and so that will have to be modified somehow, he added.

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Brazil's economic fragility magnifies 'rock and a hard place' crisis dilemma

14-May-2020

By Jamie McGeever

BRASILIA, May 14 (Reuters) - **Developing countries face a delicate balancing act of responding forcefully to coronavirus-triggered recessions without causing long-term damage to public finances, currency or inflation-fighting credibility. None more so than Brazil.**

Latin America's largest economy is hurtling toward its biggest ever downturn already shouldering one of the largest debt loads, widest budget deficits and weakest exchange rates of any emerging market in the world.

Deutsche Bank estimates that Brazil's fiscal and monetary support, from deficit spending to liquidity injections in financial markets, could reach 30% of gross domestic product.

Little wonder, perhaps, that the government and central bank have given clear signals that the end is in sight for two major sources of stimulus - fresh spending and interest rate cuts.

Economy Ministry officials say some emergency measures may be extended if the crisis stretches past the three to four months now in the budget. But none will include fresh spending.

"There is no money for that," Adolfo Sachsida, special secretary to the Economy Ministry, told Reuters.

"When the pandemic is over, our debt will be more than 90% of GDP. We have to show that debt-to-GDP is falling. If not, no one will come here. Who is going to a country where debt is rising?" he said, referring to foreign investment flows.

Brazil's debt and budget deficit are significantly higher than the average of other emerging nations with a similar credit rating profile. Both are set to rise sharply this year.

That is also true of Latin American neighbors, but most are starting from a stronger position. Colombia's debt is around 50% of GDP, and Chile's and Peru's is around 30%.

By contrast, Brazil's heavy spending as a commodities boom fizzled led to a crushing 2015-2016 recession and meager recovery. The country's GDP per capita has stagnated over the past decade as public deficits exploded.

In lowering its outlook on Brazil's sovereign debt last month, ratings agency Fitch said the government deficit including interest payments will widen to 13% of GDP this year, almost double the median 6.8% for countries with the same "BB" credit rating.

Brazil's expected debt-to-GDP ratio this year of 90% is considerably higher than the current median of 58.4% across countries with a "BB" rating. Private-sector forecasts suggest the ratio could reach 100% within a couple of years.

Brazil's central bank has already taken measures worth more than 16% of GDP, according to its own estimate, to boost liquidity and lending across the financial system.

It has also been granted special emergency powers to buy public and private sector securities. But bank president Roberto Campos Neto has made clear his preference for small and targeted interventions rather than the blanket "quantitative easing" or QE bond-buying in many developed economies.

Minutes of the bank's last policy meeting showed growing concern that cutting rates much further than the current record-low 3.00% could destabilize financial markets and drive up already-high risk premiums.

"In light of the elevated uncertainty domestically, the remaining scope for monetary policy is unknown and may be small," the minutes said, even though the bank left the door open to one final rate cut next month.

RECORD OUTFLOWS

In other words, policymakers are warning they could soon turn off the taps for the fiscal and monetary stimulus, despite the looming crash that has some calling for them to do "whatever it takes," in the famous words of former European Central Bank chief Mario Draghi.

Even in the best-case scenarios, millions will lose their jobs, the poorest will suffer disproportionately and productive capacity will be ravaged. The economy will likely shrink this year at its fastest rate on record.

Yet scarred by Brazil's history of currency crises, capital flight and hyper-inflation, policymakers are wary that excessive stimulus might trigger a repeat.

The real has depreciated more than 30% against the dollar this year to its lowest level ever, in large part due to plunging interest rates and

huge capital outflows.
Brazil posted a record portfolio outflow of $22.2 billion from stocks and bonds in March, as the coronavirus crisis, oil price collapse and rising political risks in Brasilia prompted investors to flee local markets.
Interest rate spreads blew out, reflecting intensifying capital flight, market volatility and deteriorating investor sentiment stemming from the weak currency. After a period of stability, they are widening sharply again.
Julia Braga, associate professor of economics at the Universidade Federal Fluminense in Rio de Janeiro state, agrees there is a limit to how low interest rates can go without negative ripple effects in financial markets.
But she said it is not only mistaken but dangerous to say the government and central bank cannot provide further stimulus. While Brazil's debt is large, it is mostly denominated in reais, so can be financed by domestic savings without the risk of foreign investors turning sour on Brazil.
As Treasury Secretary Mansueto Almeida has noted, the debt profile can be shortened, meeting demand for shorter-dated bonds and easing any refinancing pressures the Treasury may face.
"The central bank is the lender of last resort and can - and should - buy bonds on the secondary market," Braga said.
"If the government doesn't expand fiscal policy, getting out of the hole will be much more difficult. For the good of the economy and society, the government and central bank must resist their cautious instincts and throw all their efforts into supporting the economy," she said.

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Colombia

Colombia central bank boosts foreign reserves by $2 billion

09-May-2020
BOGOTA, May 8 (Reuters) - **Colombia's central bank has bought $2 billion from the Ministry of Finance to boost its foreign reserves, it said in a statement on Friday.**
Following the purchase, which took place last Monday, the bank increased its international reserves to $55 billion.
The bank's board has taken a plethora of liquidity measures meant to help the country weather the effects of COVID-19, including reducing reserve requirements for banks by more than $2 billion.
The Andean country's economy has been battered by the double shock caused by measures meant to stem the spread of the novel coronavirus and the fall in global oil prices.
Colombia has declared a nationwide lockdown to combat COVID-19, which is set to run until May 25.
The central bank's technical expects Latin America's fourth-largest economy will contract between 2% and 7% this year, it said late on Monday.
In the second quarter alone, the country's gross domestic product (GDP) will fall between 10% to 15% on a year-on-year basis, in comparison to the 2% growth likely seen in the first quarter, it added.
The bank will also carry out temporary liquidity expansion operations, known as Repos, with portfolio securities worth up to 6.3 trillion pesos ($ 1.61 billion).
The repos will have a term of six months and will provide organizations with access to credit. The first auction will be held on May 14, 2020 for 1 trillion pesos.

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Colombia's economy grew 1.1% in first quarter, govt says

15-May-2020
BOGOTA, May 15 (Reuters) - **Colombia's economy expanded 1.1% in the first quarter led by the agriculture sector, the government's statistics agency said on Friday, falling short of the median market expectation.**
Analysts had predicted growth of 1.5% during the quarter, as the economy was affected by the coronavirus shutdown that began in March.
The number is likely the country's last positive growth figure before it enters a recession.
Analysts surveyed by Reuters this week gave a wide range of gross domestic product estimates - from 3.2% growth to a contraction of 4.8% - for the first three months of the year, saying global economic upheaval caused by the coronavirus pandemic made the figure difficult to predict.
Colombia has been in a nationwide coronavirus quarantine since March 25, while Bogota, the capital - which represents about a quarter of the Andean country's GDP - began its lockdown several days before. The quarantine is set to end May 25.
Growth was a hearty 4.1% during January and February, DANE statistics agency Chief Juan Daniel Oviedo said in a virtual press conference.
"March was a month that from the beginning was in the economic context of COVID-19," he said. "We have a March distinct from the logical one, which had alterations both in supply and in demand."
The agriculture sector expanded 6.8% during the first quarter, followed by electricity provision

and public administration, which both expanded 3.4%.
Meanwhile, construction contracted 9.2%, the entertainment sector shrunk by 3.2% and mining by 3%.
The economy contracted 2.4% in the first quarter of 2020 compared with the fourth quarter of 2019, Oviedo said.
The economy expanded 2.9% in the first quarter of last year.
According to the median of analyst expectations, Colombia's economy will contract 2.1% this year, an optimistic prediction in comparison to the finance ministry's estimate for contraction of 5.5%, but in line with the 2.4% contraction predicted by the International Monetary Fund.
Analysts' growth expectations for the year stretched from a contraction of 6.7% to a best-case scenario of 0% growth.

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Peru

IMF says it will back Peru's request for $11 bln flexible credit line

09-May-2020
WASHINGTON, May 8 (Reuters) - **The International Monetary Fund on Friday said it would back Peru's request for a two-year $11 billion flexible credit line to be used as precautionary financing, as the copper-rich South American nation seeks to contain the coronavirus pandemic.**
Citing what it called Peru's "very strong policy frameworks and track record," the IMF said Managing Director Kristalina Georgieva intends to recommend that the Fund's executive board approve Peru's request in coming weeks.
The board discussed Peru's request during an informal meeting on Friday and will meet again to vote on the matter in coming weeks.
The world's second-largest copper producer last week said it would issue a fresh bond worth up to $4 billion to help offset the impact of the coronavirus crisis.
It is looking to underwrite an historic stimulus package worth about 12% of gross domestic product.
Peru on Friday extended a nationwide lockdown until May 24 amid a sharp rise in the number of cases of COVID-19, the respiratory illness caused by the coronavirus. More than 58,500 cases have been reported as of this week, and over 1,600 deaths.
The IMF's Flexible Credit Line is available to countries with what the Fund regards as strong policies and frameworks. It is intended to safeguard economies against external shocks by providing large, upfront access to IMF resources.

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AFRICA

Burkina Faso

S&P Says Burkina Faso 'B/B' Ratings Affirmed; Outlook Stable

15-May-2020
May 15 (Reuters) -
- **S&P says Burkina Faso 'B/B' ratings affirmed; outlook stable**
- S&P-Burkina Faso's stable outlook on view covid-19 adverse effects to not lead to long-lasting deterioration of economic growth trends, credit metrics

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Congo Republic

Fitch Affirms Republic of Congo at 'CCC'

15-May-2020
May 15 (Reuters) - FITCH:
- **Fitch affirms Republic of Congo at 'CCC'**
- Fitch says Republic of Congo's 'CCC' rating reflects liquidity pressures that have been exacerbated by fall in oil prices & scarce financing options

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Egypt

Fitch Ratings: Egypt Turns to IMF as Coronavirus Pandemic Hits External Finances

14-May-2020
Fitch Ratings-Hong Kong-May 14: **IMF financing will provide some support for Egypt's (B+/Stable) foreign reserves and portfolio flows may be stabilising, but the ongoing coronavirus pandemic shock could further pressure reserves, especially if the rigidity of the exchange rate persists, Fitch Ratings says.**
The external shock worsened the economy's external liquidity position by at least USD23 billion in March-April 2020. The central bank's official reserves, together with other deposits

not included in reserves, declined by USD6 billion in both March and April. The banking sector's foreign assets fell by USD10.5 billion in March (data for April are not yet available), pushing the sector into a net foreign liability positon.

The gross foreign reserves of the Central Bank of Egypt (CBE) are still substantial, totalling USD37 billion at end-April. Other deposits not included in reserves were USD3.2 billion. We project gross foreign reserves to decline to USD31 billion in 2020 (4.5 months of current external payments), with the current account deficit widening by USD10 billion, to 5.3% of GDP. Remaining foreign holdings of treasury bills were equivalent to USD9.5 billion at end-March.

Egypt is getting USD2.8 billion under the IMF's Rapid Financing Instrument (RFI) and has requested funds under a Standby Agreement (SBA), which could release another USD4 billion over a year (judging from the previous programme). Egypt would have been looking to issue around USD5 billion in Eurobonds in 2020, prior to the shock. In 2019 Egypt successfully completed a three-year USD12 billion IMF programme, during which the country enacted reforms to place government debt/GDP on a downward trajectory and address foreign currency shortages, including a sharp depreciation of the Egyptian pound in late 2016.

The pandemic has precipitated significant portfolio outflows, as in other emerging markets, and is denting Egypt's external receipts, in particular, tourism earnings and, probably, remittances. Foreign holdings of local-currency treasury bills tumbled by USD10.5 billion in March (April data not available yet). The bulk of portfolio outflows will have gone through the banking sector, but the CBE covered some legacy repatriation mechanism flows and may have sold foreign currency in the market to support the exchange rate. The CBE also used reserves in April to meet USD1.6 billion of external obligations, including a USD1.0 billion government bond repayment.

Global sentiment has improved somewhat for now, with portfolio outflows from emerging markets starting to reverse, according to data on large emerging markets compiled by the Institute of International Finance. Egypt's risk indicators have moderated since March; yields on 10-year dollar bonds spiked to around 12% in mid-March, but settled to 8.0% - 8.5% in early May. Renewed engagement with the IMF will boost confidence.

Monetary and fiscal policy will play an important part in how Egypt weathers the crisis and in any agreement on an SBA with the IMF (the RFI does not involve conditionality). Monetary policy has remained cautious since the end of the previous IMF programme, with the CBE maintaining comfortably positive real interest rates. However, an SBA is likely to bring renewed focus on exchange-rate flexibility, especially if foreign reserves remain under pressure. The Egyptian pound, which appreciated by 11% against the US dollar in 2019, has shown minimal volatility so far in 2020, despite the shock.

There seems to be concern at the CBE and among banks, including large state-owned banks, that exchange-rate depreciation would aggravate outflows from local-currency bond markets, increase deposit dollarisation (17% in February) and harm capital ratios. Inflation, which typically weighs on policymakers' minds, has fallen considerably, averaging less than 6% in January-April 2020.

However, the rigid exchange rate could prove a catch-22 if a perception of currency overvaluation risks stymying renewed portfolio inflows and other inflows until some depreciation has occurred. This was a cause of foreign-currency shortages in 2014-2016. Egypt's external finances are in better shape now and the economy far less imbalanced. However, the Egyptian pound has appreciated in real effective terms, eroding a chunk of the competitiveness gains from the 2016 devaluation and greater exchange-rate flexibility would be positive for the sustainability of Egypt's external finances, in our view.

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Ghana

Bank of Ghana holds key rate, surprises with bonds purchase

15-May-2020

- **Bank of Ghana keeps rate at 14.5%**
- **Reaches $1 billion repo facility with U.S. fed**
- **Surprises market with bonds purchase**

ACCRA, May 15 (Reuters) - **Ghana's central bank left its key interest rate unchanged at 14.5% on Friday and said it had concluded a $1 billion repo facility with the U.S. Federal Reserve to improve the country's foreign exchange liquidity.**

The bank said it expected Ghana's economy to grow despite the new coronavirus, with preliminary estimates showing economic growth in 2020 was likely to be 2% to 2.5%. Forecasts had been for gross domestic product to grow 6.8% in 2020.

Ghana's budget deficit widened in the first quarter compared with 2019, to 3.4% of GDP compared with a target of 1.04%, mostly due to a shortfall in revenues, Ernest Addison, the governor of the Bank of Ghana, said at a news conference.

Addison said now expected a downturn in economic growth, while the COVID-19 pandemic

had put additional strain on the budget.
The shortfall in oil and other tax revenues due to plunging crude prices had left the country with a large financing gap, he said.
"Current market conditions in the wake of the pandemic would not allow the financing of the gap from the domestic capital markets without significantly increasing interest rates," Addison said.
The bank had triggered an emergency financing provision allowing it to increase purchases of government securities, he said, and it had purchased 5.5 billion cedis ($958 million) of the government's COVID-19 relief bond.
He said the bank stood ready to continue the assets purchase programme of up to 10 billion cedis.
"To further boost foreign exchange liquidity, the Bank of Ghana has concluded a $1 billion repurchase agreement, repo facility, with the U.S. Federal reserve under its repo facility for foreign and international monetary authorities." Addison said.
Standard Chartered Bank's Razia Khan said the repo facility would provide additional reassurance on Ghana's external liquidity. She added that the bank surprised markets by announcing it had triggered an emergency measure that would allow it to buy government bonds.
"This is to help with the estimated increase in Ghana government's financing gap, as a result of the COVID-19 crisis," Khan said.

($1 = 5.7400 Ghanaian cedi)
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Kenya

IMF raises Kenya's risk of debt distress to high from moderate

12-May-2020
By Duncan Miriri
NAIROBI, May 12 (Reuters) - **The International Monetary Fund has raised Kenya's risk of debt distress to high from moderate because of the impact of the coronavirus crisis, the IMF said in an assessment published on Tuesday.**
The East African nation's debt stood at 61.7% of gross domestic product at the end of last year, up from 50.2% at the end of 2015, the IMF said, driven up by budget deficits caused by large infrastructure projects, such as a new railway line.
"The risk of debt distress has moved to high from moderate due to the impact of the global COVID-19 crisis, which exacerbated existing vulnerabilities," the fund said.
Officials at the finance ministry were not immediately available for a comment.
The debt load, however, still remained sustainable, the fund said in its debt sustainability analysis. Last week, it approved $739 million in emergency funding for Kenya to help it cope with the COVID-19 crisis.
The government has responded to the coronavirus crisis with a range of fiscal measures to try to limit the damage to the economy, including cuts to value-added and income taxes, which have worsened a number of indicators, the IMF said.
Among the worst-hit sectors in Kenya by the virus crisis are tourism and fresh produce exports, which are key sources of hard currency.
The present value of external debt to exports ratio and the external debt service to exports ratio have risen above the optimum threshold as a result, the IMF said.
"Kenya's debt indicators will improve as exports rebound after the global shock dissipates," the fund said.
There was little refinancing risk for the country's outstanding Eurobonds once the global capital markets re-open to frontier issuers, the IMF said, citing the good reception that Kenya has received when it has tapped the markets in the past.
It called for sustained fiscal consolidation by the government in the medium term to lower the debt to a prudent level.

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Kenya eschews G20 debt relief initiative over restrictive terms

15-May-2020
- **Opts to negotiate individually with bilateral creditors**
- **Minister concerned about restrictions on further borrowing**

By Duncan Miriri
NAIROBI, May 15 (Reuters) - **Kenya will not seek a suspension of debt payments under a G20 initiative aimed at helping poor countries weather the COVID-19 pandemic, its finance minister said on Friday, saying the terms of the deal were too restrictive.**
Minister Ukur Yatani told Reuters in an interview he was also concerned about the impact that debt relief might have on Kenya's credit rating.
The Group of 20 major economies last month agreed to suspend payment obligations on bilateral debt owed by their least developed counterparts through the end of the year. The goal was to free up more than $20 billion that poor governments could use to buttress their health services.
But Yatani said he was concerned that terms of the deal limiting countries' access to international capital markets during the

standstill could hinder Kenya's ability to finance its deficit later in the year.
"We fear we might unnecessarily create a crisis," he said.
The East African nation is instead engaging creditor countries including Germany, Sweden, Japan, China and France individually with the goal of securing moratoriums on debt service payments lasting around a year.
"We have not concluded (negotiations), but it is progressing well," he said.
The G20 initiative only covers official bilateral debt, though it calls for the voluntary participation of private lenders on comparable terms.
A third of Kenya's 3 trillion shilling ($28 billion) external debt is owed to private creditors including holders of the country's two Eurobonds
"The G20 debt relief initiative does not offer optimal benefit given the structure of Kenya's debt portfolio," he said. "Every country adapts to the situation based on its own circumstances."
The pandemic has caused the government's budget deficit to swell to 8.2% of GDP in the financial year to the end of June, from an initial forecast of under 7%, mainly due to reduced tax collection and foregone revenue in the form of VAT and income tax cuts.
But the deficit is projected to narrow to 7.3% - equivalent to 823.2 billion shillings - in the 2020/21 fiscal year and to 4.2% of GDP by 2023/24, Yatani said.
"Kenya is taking a cautious approach of seeking debt relief from bilateral creditors to safeguard its sovereign credit rating," he said.
Moody's downgraded Kenya's outlook to negative from stable on May 7 citing the shock caused by the COVID-19 pandemic to its tourism industry and farm exports.
On Tuesday, the IMF raised its risk of debt distress to high from moderate.
The minister sought to assure investors, saying: "We have adequate reserves to manage our payments for the next one year."
The government has included a 55 billion shillings stimulus package aimed at preserving employment and consumer demand in the budget for the next fiscal year, which will be presented to parliament on June 11.
The cash will go towards grants for small businesses such as hotels and nature conservancies hard hit by the collapse of tourism.
The economy is projected to grow by 3% this year, falling to 2.5% if the crisis worsens, down from an initial forecast of more than 6%, Yatani said.
He attributed the forecast, which is higher than that of the IMF and the World Bank, to adequate rainfall across the country which will boost food production.

($1 = 107 Kenyan shillings)
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Tanzania

Tanzania central bank lowers reserve requirements due to coronavirus

12-May-2020
NAIROBI, May 12 (Reuters) - **Tanzania's central bank lowered the statutory minimum reserves requirements for commercial banks to 6% from 7% and cut its discount rate for banks, to cushion the economy from the effects of the coronavirus crisis, it said on Tuesday.**
The reduction of the reserves will come into effect on June 8 to provide additional liquidity to banks, Governor Florens Luoga said in a statement.
The bank also cut its discount rate for lending to banks to 5% from 7% to "provide additional space for banks to borrow from the Bank of Tanzania at a lower cost, thus signalling lower lending rates by banks."
The central bank will reduce haircuts on government securities to 5% from 10% for Treasury bills and to 20% from 40% for Treasury bonds to allow lenders to access funding from the central bank "with less collateral than before", Luoga said.
Lenders will also be provided with "regulatory flexibility", so they can change the terms of loans for borrowers who might fall into distress due to the crisis, the central bank said.
Tanzania has confirmed 509 cases of the coronavirus, with 21 deaths, according to the World Health Organization.
However, the government has been criticised for not providing regular updates on the spread of the outbreak, and the opposition has accused it of being secretive.
Tanzania launched an investigation after samples taken from a goat and a pawpaw tested positive for the new coronavirus, prompting President John Magufuli to question the efficacy of tests.
The WHO and the Africa Centres for Disease Control and Prevention disputed Magufuli's assertion.
The International Monetary Fund expects Tanzania's economic growth to slide to 2% this year, from 6.3% in 2019.

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Tunisia

Fitch Downgrades Tunisia to 'B';

Outlook Stable

12-May-2020

May 12 (Reuters) - Fitch Ratings:

- **Fitch downgrades Tunisia to 'b'; outlook stable**
- **Downgrade reflects aggravation in Tunisia's persistent macroeconomic imbalances and deterioration in external and public debt trajectories**
- Tunisia's economy to witness its sharpest contraction on record in 2020; current account deficit (cad) will fail to narrow
- Pandemic-related shock to cause first deterioration in Tunisia's budget balance in four years

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Tunisia to double external funding to 5 bln euros this year

12-May-2020

TUNIS, May 12 (Reuters) - **Tunisia's external funding needs will double to about 5 billion euros ($5.4 billion) this year from 2.5 billion euros previously expected due to the impact of the new coronavirus pandemic, Prime Minister Elyes Fakhfakh told France24 on Tuesday.**

Tunisia started relaxing restrictions on movement and businesses this month, allowing half of government employees to return to work, but the pandemic is hammering its tourism sector which contributes nearly 10% of gross domestic product.

Authorities in the North Africa country expect the economy to shrink by 4.3% this year, which would be its steepest contraction in more than 60 years.

Tunisia has so far recorded 1,032 confirmed cases of the new coronavirus and 45 deaths.

The International Monetary Fund (IMF) approved a $745 million emergency assistance loan in April to support Tunisia's response to the COVID-19 pandemic.

Tunisia had previously said it aimed to issue up to 800 million euros of bonds in international markets this year but Finance Minister Nizar Yaich told Reuters in March that the plan was on hold because of the virus outbreak.

($1 = 0.9216 euros)
(Reporting by Tarek Amara; Editing by David Clarke)
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Zambia

Zambia seeks IMF funding to help soften impact of coronavirus

10-May-2020

LUSAKA, May 10 (Reuters) - **Zambia has applied to the International Monetary Fund (IMF) for a COVID-19-related rapid credit facility as it starts the process of shortlisting financial advisers to help reduce its debt load, the finance ministry said on Sunday.**

Zambia was already wrestling with a growing public debt even before the new coronavirus outbreak forced lockdowns across the globe, delivering a big blow to demand for raw materials. Zambia is Africa's second biggest copper producer.

Discussions with the IMF on the rapid credit facility are continuing, the finance ministry said in a statement.

Zambia has also closed a call for tenders for financial advisers over its debt and started the process of shortlisting and selecting the winner, it said in the same statement.

The IMF in April forecast Zambia's economy would contract by 3.5% in 2020, down from growth of 1.5% in 2019, because of the impact of the coronavirus pandemic on the global economy.

Zambia's economic activity has also been hampered by widespread power shortages.

The Zambian government's external debt stock jumped to 45% of gross domestic product (GDP) in 2019, up from 37% in the previous year, while the total debt stock is estimated at 89%, according to World Bank data.

The IMF has approved requests for emergency pandemic aid from 50 of its 189 members for a total of about $18 billion, a spokesman for the Fund said on Thursday.

The number of new coronavirus cases in Zambia rose to 252 on Saturday and deaths from the highly infectious respiratory disease increased to seven, Health Minister Chitalu Chilufya said.

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GLOBAL

IMF's Georgieva downbeat on global economic forecast, warns against protectionism

09-May-2020

By Andrea Shalal

WASHINGTON, May 8 (Reuters) - **The head of the International Monetary Fund on Friday signaled a possible downward revision of global economic forecasts, and warned the United States and China against rekindling a trade war that could weaken a recovery from the coronavirus pandemic.**

Kristalina Georgieva, the IMF's managing director, told an online event hosted by the European University Institute that recent economic data for many countries was coming in below the fund's already pessimistic forecast for a 3% contraction in 2020.

"With no immediate medical solutions, more adverse scenarios might unfortunately materialize for some economies," Georgieva said. "It is the unknown about the behavior of this virus that is clouding the horizon for projections."

The IMF's April projection for a 3% contraction the global economy would mark the steepest downturn since the Great Depression of the 1930s. The IMF forecast a partial rebound would follow in 2021, but warned that outcomes could be far worse, depending on the course of the pandemic.

The U.S. economy - the largest in the world - has been particularly hard hit by widespread shutdowns aimed at containing the spread of the virus. U.S. government data on Friday showed the unemployment rate surging to 14.7% last month. The White House said joblessness could hit 20% in May.

President Donald Trump has threatened to punish China for its handling of the virus by imposing new tariffs, and on Friday suggested he could end a Phase 1 U.S.-China trade deal.

Top U.S. and Chinese trade officials on Friday said they would press ahead with implementing the initial trade deal, but some observers say China's promised purchases of U.S. goods are running far behind the pace needed to meet the first-year goal of a $77 billion increase over 2017 levels.

On Friday, Georgieva warned that a retreat into protectionism could weaken the prospects for a global recovery at a critical juncture.

Asked how concerned she was that rising U.S.-China tensions could jeopardize the global economy, Georgieva said, "It is hugely important for us to resist what may be a natural tendency to retreat behind our borders."

Reigniting world trade was critical to ensuring a global economic recovery, she said. "Otherwise," she said, "costs go up, incomes go down, and we will be in a less secure world."

Georgieva said the IMF had already provided emergency funding to 50 of the 103 countries that had requested aid. Poor countries remained at high risk given a sharp drop in remittances and falling commodity prices, even if mortality rates from the virus were lower than in some richer countries.

The IMF's chief economist, Gita Gopinath, told an event hosted by the Council on Foreign Relations on Thursday that the situation had worsened since March when the IMF projected that emerging markets and developing countries would need $2.5 trillion in external financing to manage the health and economic crisis.

"This crisis is likely to last longer," she said. "And so the needs will go up, even above that number."

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More countries likely to have credit ratings cut

11-May-2020

LONDON, May 11 (Reuters) - **Governments around the world are likely to face more credit rating cuts as the economic cost of the coronavirus continues to take its toll, S&P Global said on Monday.**

S&P has reviewed 90 countries, over two-thirds of those it rates since early March, either downgrading or cutting the outlook in almost half of the cases.

It now has 25 countries on negative outlooks - effectively a downgrade warning - compared to just six on positive outlooks and 104 on stable outlooks.

"We think more negative rating actions are likely," two of S&P's senior analysts wrote in a new report, estimating that the average
6.3%.

"Over the medium to long term, we could see negative rating pressure build up, even for some of the ratings we affirmed, if we see the effects of the pandemic becoming structural and likely to have longer-term negative implications that would make recovery of fiscal profiles slower than expected."

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Fitch Ratings sees record sovereign defaults after COVID-19, oil shocks

12-May-2020

By Yoruk Bahceli

LONDON, May 12 (Reuters) - **The economic shock of the coronavirus pandemic and the plunge in oil prices could push a record number of sovereign borrowers to default on their debt this year, Fitch Ratings said on Tuesday.**

Fitch, one of the three big credit rating agencies, said it had downgraded a record 29 sovereigns in the first four months of 2020. Three countries -- Lebanon, Ecuador and Argentina -- have defaulted this year, already matching a record set in 2017.

The most vulnerable sovereigns were those with weak credit fundamentals -- highly indebted economies or those with weak policy credibility -- or those reliant on commodity exports, tourism or external financing, Fitch said.

It currently rates Gabon, Mozambique, Republic of Congo and Suriname at CCC, where default is a real possibility, while Zambia is rated even lower at CC, where default is probable.

The average annual default rate for sovereigns rated at that level is 26.5%, including those who

receive this rating post-default, Fitch said, citing its past downgrade actions.
Also at risk are El Salvador, Iraq and Sri Lanka, it said -- all currently rated B- but under threat of a downgrade to CCC, where defaults become more probable.
Fitch said few sovereigns which are downgraded to or assigned an original rating below CCC+ avoid a default, with only five having ever avoided that outcome.
It takes a median of seven months to default after entering the ratings bracket of CCC and below, it added.

(Reporting by Yoruk Bahceli; Editing by Catherine Evans)

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Collapse in consumption dragging down global economic outlook

13-May-2020
By David Lawder and Andrea Shalal
WASHINGTON, May 13 (Reuters) - **A collapse in consumption and other data point to a downward revision of the International Monetary Fund's already pessimistic outlook for the global economy given the global coronavirus pandemic, a top IMF official said on Wednesday.**
IMF chief economist Gita Gopinath said economic data gathered since April were confirming the IMF's forecast for a 3% contraction in global economic output, and pointed toward potentially worse scenarios.
"If anything, it looks like the outlook will worsen," she told a conference hosted by the Financial Times newspaper, adding that the collapse of consumption would likely "lead to downward revisions."
In April, the IMF underscored the high level of uncertainty around its outlook, noting that a longer, deeper crisis could result in a contraction of 6% for 2020 and zero percent growth in 2021.
"No country is being spared, and the numbers that you see coming in are historical lows," she said, noting that developing countries and emerging market economies were at particular risk.
Gopinath said there was a possibility of recovery after countries began easing widespread lockdowns, as long as there was sufficient testing for COVID-19, the disease caused by the virus, contact tracing for those who got infected and appropriate quarantining of those who become ill.
She pointed to a rebound in China, where external demand remained weak but domestic demand was picking up.
In an apparent reference to increased tensions between the United States and China, Gopinath said it was imperative to de-escalate trade tensions and impairment of cross-border capital flows to avoid further harm to the global economy.
"If we want to have a recovery where we have firms reopening, production taking place (and) people being rehired ... we cannot have a further breakdown in global supply chains," she said.
Gopinath also underscored the need to provide ample liquidity for countries hit hard by the crisis, noting the needs of emerging economies and developing countries would likely exceed the $2.5 trillion the IMF had initially forecast.
All options remained on the table, she said, despite resistance by the United States to an allocation of the IMF's Special Drawing Rights currency, which is akin to a central bank "printing" new money.
"We've been very clear to the membership about what the needs will be - and they will be substantial," she said.

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Coronavirus to leave a legacy of unprecedented global debt

15-May-2020
By Dhara Ranasinghe and Karin Strohecker
LONDON, May 14 (Reuters) - **Enormous doses of stimulus spending are offering relief from coronavirus damage but their lifelong legacy of debt could seed future crises by hobbling economic growth and worsening poverty, especially in developing countries.**
Central banks and governments worldwide have unleashed at least $15 trillion of stimulus via bond-buying and budget spending to cushion the blow of a global recession tipped to be the worst since the 1930s.
But the steps will pile even more debt on countries already struggling with the aftermath of the 2008-9 financial crisis -- total global debt has risen $87 trillion since 2007, and governments, with $70 trillion, accounted for the lion's share of that increase, the Institute of International Finance estimates (IIF).
This year alone may see the global debt-GDP ratio rise by 20 percentage points to 342%, the group said, based on 3% economic contraction and a doubling in government borrowing from 2019.
Taking on that kind of debt doesn't go unpunished: the most pain will be in highly indebted states, whether relatively wealthy ones such as Italy, or those such as Zambia which were already under strain before the virus hit and are now careering towards default.
But not even the richest will be spared. Rising debt could lose Germany and the United States their triple-A credit ratings, while governments will increasingly rely on central banks to keep

borrowing costs in check or even directly finance spending for years to come.

"Historically, whenever countries step up debt levels, things change," said Mike Kelly, global head of multi-asset at PineBridge Investments. "This crisis...has taken us back to the slow-growth trap that we had just started to shake off in 2016-2019."

The challenge for policymakers in coming years will be to find a way to "grow into this massive debt-GDP structure we've found ourselves in almost overnight," he predicted.

For now, with the world economy staring at a 5-6% contraction this year, the additional borrowing and spending is a lifeline. **The International Monetary Fund estimates public deficits as a percentage of national income will jump to almost 10% this year from just under 4% in 2019.**

Even European powerhouse Germany is taking on new debt for the first time since 2013, while the U.S. Treasury's second quarter borrowing will amount to almost $3 trillion -- more than five times the previous record.

U.S. federal debt held by the public, a gauge tracked by the Congressional Budget Office, will rise to 100% of GDP this year - levels last seen in the 1940s - and approach 125% by 2030, Deutsch Bank calculates. It was 79% in the 2019 fiscal year.

Eventually though, debt can drag on economic growth if countries start to spend more and more of their annual income on paying creditors, a position developing countries have endured time and again.

Accelerating economic growth in those circumstances is like "trying to fly when we were already carrying a lot of debt and now we are adding more," OECD Secretary General Angel Gurría told an FT online conference this week.

QE NOT ALWAYS PANACEA

Low interest rates will allow some countries to live with higher debt. Japan's debt for instance exceeds 200% of GDP but it prints money to issue debt which the central bank then buys.

"The ability to control interest rates and keep rates low is a key parameter for keeping debt servicing costs low and we expect that to continue," said Eric Brard, head of fixed income at Amundi.

The trend will gather pace in the United States and Europe too, with central banks soaking up much of the excess debt.

But in some countries, average GDP growth has crawled along well below interest rates for years, meaning debt ratios were rising relentlessly even before coronavirus hit.

Italy, for instance, has not benefited from five years of low interest rates, noted Kevin Thozet, a member of the investment committee at Carmignac.

"Italy's debt, at around 135% of GDP, is likely to rise to around 170% -- those levels are not sustainable so it either needs rapid growth or debt mutualisation," he said.

He was referring to the idea of pooling European risk across all member states, something wealthier countries are resisting.

According to Pictet Asset Management, Greece had the worst debt sustainability at the end of 2019 among developed countries, followed by Italy, Japan, Belgium and Britain.

However, Italy and other southern European states have the might of the European Central Bank backstopping their borrowing, a luxury most developing countries lack.

Central banks in about a dozen emerging economies have started their own quantitative easing programmes. Yet without big domestic savings pools, most rely on foreign investors to cover balance of payment deficits and underpin currencies.

That, along with inflation risks, constrain how much money they can print to support growth. Bond buying programmes in Brazil or South Africa could see real interest rates at the back end of the yield curve push up sharply, said Manik Narain, head of EM strategy at UBS.

"How can South Africa service debt at 10%? This debt becomes unsustainable and creates a crisis - at best it will pull GDP growth down," he said.

The dynamics could put some developing economies on track for another devaluation and inflation cycle, said analysts.

"Worryingly some large developing economies – Turkey, Brazil, South Africa – are heading in this direction," said Andres Sanchez Balcazar, Head of Global Bonds at Pictet Asset Management.

Some countries such as Brazil and South Africa have for years grappled with annual growth below 2%, while interest rates were as high as 14.25% and 7% respectively.

BofA calculates public debt could hit 77.2% of GDP by year-end in Brazil and 64.9% in South Africa. A decade ago, they were around 61% and 35% respectively, IMF data showed.

Rising debt levels in turn raise borrowing costs for such issuers, noted Edith Siermann, head of fixed income solutions at NN Investment Partners.

"The long-term worry is - who is going to pay for this?"

(Reporting by Dhara Ranasinghe and Karin Strohecker; Additional reporting by Sujata Rao; Graphics by Ritvik Carvalho; Editing by Sujata Rao and Toby Chopra)
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