


Emerging Sovereign Bond Markets NEWS Week 19-25 September 2009 Number 26

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ASIA

Bond Outlook

24 September 2009

Provided by: [The Nation \(Thailand\)](#)

Rising financial markets do not necessarily signal a recovering real sector.

The anniversary of Lehman Brothers' collapse last September is a stark reminder of Murphy's Law: "What can go wrong will go wrong".

On September 15 of last year, the day Lehman Brothers filed for Chapter 11, the most watched stock index, the Dow Jones Industrial Average, was at 10,917.51 points. By March of this year, it reached its trough of 6,469.95. As of this week, it is trading roughly at 9,778.86 points - only about 10 per cent shy of pre-Lehman levels. By just referencing this barometer, many are lulled into thinking that the global economy has recovered.

One should note that the rise in financial asset prices, in itself, could be merely a sign that these markets are awash with liquidity and do not necessarily hold bright economic prospects.

Prices of stocks are up as well as prices of bonds, at least for US treasuries during the past month. This could mean that money is finding its way to support financial asset prices rather than being deployed towards the real economy.

Lending to US consumers continues to contract, raising doubts about where final demand, including for Thai exports, will come from.

China, in an endeavour to support its exporters, seems to be resisting the rebalancing of the global imbalances. It has, over the past year, repegged its currency by buying US dollars, selling the yuan. With purchased US dollars, China is again recycling its trade surplus to provide the US with more liquidity.

As of July, China has added \$73 billion this year alone to its nearly \$800 billion in US treasuries. As a function, this is helping to keep a lid on rising US bond yields. This also encourages the US government to continue borrowing more as long as its major lender - China - continues to provide funds.

This is merely postponing the inevitable, in our view. China's savings in the form of US treasuries and the US dollar are at risk and this risk is rising the longer the cycle persists.

Negative interest rates in the US, judging by consumer inflation expectations, which are higher than nominal rates, would suggest that China is actually paying the US to take its savings, along with the fact that the US is inflating away its debt burden.

Also, the principal of China's savings, as well as of other countries that hold large amounts of US dollar assets in their foreign currency reserves, stands to lose in a big way once postponed US dollar adjustment resumes.

With interest rates near zero, the US dollar is now the currency of choice, replacing the Japanese yen for carry trades, whereby investors borrow low interest rate currencies and invest in higher interest rate currencies.

For the Thai yield curve, the Public Debt Management Office released details on its funding requirements for the next fiscal year, which should keep the bearish steepening bias on the yield curve.

The total funding requirement is budgeted at slightly over Bt800 billion, earmarked for financing the budget deficit, refinancing maturing debts and funding the SP2 stimulus package.

The weighted average maturity for benchmark bonds is around 11 years, hence the propensity for such a curve bias.

If that is not enough reason to remain cautious on local fixed income, do not forget that the Thai central bank expects inflation of 3.5-5.5 per cent next year. Yields on many bonds are trading below these levels, which is seen as unsustainable.

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The Nation (Thailand)

ASIA LOCAL BONDS-Philippine yields up as debt sale drains funds

25 September 2009

Provided by: [Reuters News](#)

HONG KONG, Sept 25 (Reuters) - **Philippine bond yields inched up for a third session on Friday to their highest in two weeks, after the government's retail treasury bond (RTB) sale drained funds from the market, Manila-based traders said.**

VIEWS AND FLOWS

"There's a temporary squeeze in liquidity as yesterday was the settlement for the RTBs," one trader said.

Banks and other investors on Thursday paid 115 billion pesos (\$2.4 billion) for 3-, 5- and 7-year RTBs.

Yields also went up after the treasury agency said it will offer 7 billion pesos in Treasury bills at an auction on Monday, traders said. The Sept. 22 auction was cancelled to avoid settlement problems because the sale coincided with the last day of the retail bond sale.

"The market is disappointed with the resumption of the auction. We thought it was already cancelled. It signifies that the government really needs to raise a lot of funds," another trader from a Philippine lender said.

The yield on the 7-year debt rose 3 basis points (bps) to 7.18 percent, while the 5-year bond yield was up 1 bp to 6.22 percent, traders said. Both yields were at their highest since Sept. 10.

The rise in yields will probably continue next week, with traders expecting the T-bill yields to rise by 5 to 10 bps at the government auction next Monday.

The market will be waiting for the release of the government's borrowing plan for the fourth quarter.

THAI YIELDS SEEN UP

Thai bond yields were seen higher next week ahead of a government's auction of 8 billion baht (\$237 million) of bonds due in 2021, Bangkok traders said.

"The market remains cautiously bearish," one trader said. "More supply is still the top concern."

Yields in the previous auctions have gone up, as the government's plan to borrow more in the next fiscal year starting Oct. 1 spooked the market. At a recent central bank auction of three-year debt, the yield went up by 28.4 bps. Yields were flat in the morning session, with the 10-year bond trading at 3.96/4.01 percent, while the 5-year debt yield was at 3.26/3.27 percent, traders said.

(Reporting by Jun Ebias; Editing by Tomasz Janowski)
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China

China issues 30 bln yuan bond to finance railway expansion

22 September 2009

Provided by: [Xinhua News Agency](#)

BEIJING, Sept. 22 (Xinhua) -- **China's Ministry of Railways (MOR) has begun to raise 30 billion yuan (4.41 billion U.S. dollars) to support railway construction through floating the first batch of bonds this year on the inter-bank bond market.**

The bond issue comprised 20 billion yuan of 10-year bonds and 10 billion yuan of 15-year bonds, with a bidding yield rate range of 4.8 percent to 5 percent, said the MOR Tuesday.

Proceeds would be used to construct 32 new rail lines including a passenger line linking the two northeastern cities of Dalian and Harbin, which will boast a speed of 350 kilometers an hour, said the MOR.

Six securities brokerages, including Citics Securities, will underwrite the bonds sale.

Last year, State planner National Development and Reform Commission gave the green light to the MOR to issue 100 billion yuan of bonds, mainly to facilitate construction of 43 railway construction projects and locomotive purchases. China plans to extend its rail network to 100,000 km by 2020 from 76,600 km in 2006, at an estimated 2 trillion yuan cost.

Enditem

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China yields rise after lukewarm 5-year bond sale

23 September 2009

Provided by: [Reuters News](#)

*** Yields seen facing upward pressure even after holidays**

*** Bond curve may steepen after holding steady over past month**

*** Profit-taking by funds, brokerages, insurers calms down**

By Karen Yeung

SHANGHAI, Sept 23 (Reuters) - **Chinese bill and bond yields mostly edged up on Wednesday after a lukewarm auction of five-year bonds by the finance ministry that partly reflected market concerns about long-term inflation.**

Bond yields have dropped by as much as 20 basis points in the past month in response to repeated affirmation of China's loose monetary policy stance by several top officials, including by President Hu Jintao as recently as Tuesday.

But traders have become increasingly negative in the bond market in recent days because of concerns over the inflation outlook, and given a minor funding squeeze caused by a string of small and medium-sized IPOs this week and a week-long national holiday beginning on Oct. 1.

Even after the holidays, when the squeeze has ended, bond yields may continue facing slight upward pressure, with the curve gradually steepening back, traders said.

The spread between the two-year and 10-year government bond yield widened by 1 basis point to 178.6 bps on Wednesday, near a one-and-a-half-month high of 178.8 bps hit in early September.

The finance ministry sold 26 billion yuan of five-year bonds at a yield of 2.90 percent, near the top end of forecasts which had centred around 2.87 percent and ranged from 2.80 to 2.95 percent.

The result came in slightly above Tuesday's indicative secondary market yield of 2.8717 percent for five-year government bonds, according to Reuters Reference Rates. In response, the secondary market yield rose to a two-week-high of 2.8900 percent on Wednesday.

In the bills market, profit-taking by fund firms, securities houses and insurers calmed down, prompting the 90-day central bank bill yield to rise at a slower pace, to 1.3291 percent bid on Wednesday from 1.3282 percent on Tuesday.

But traders believe the market's IPO-triggered funding squeeze was unlikely to ease much further in coming days because banks are now setting aside funds for the holiday.

Defying the rise in most money market rates, however, the weighted average seven-day repo rate slipped for a second straight day to 1.5758 percent by midday from 1.5925 percent on Tuesday, although it remains well above the 1.2

to 1.4 percent range that confined it in late August.

"The slip in repo rates does not mean they are forming a longer-term downtrend, given that they have been so volatile recently," said a trader at a major Chinese bank in Shanghai.

The weighted average one-month repo rate rose for a second straight day, to 1.7101 percent from 1.7011 percent, as banks set aside funds before the holiday. (\$1 = 6.82 yuan)

(Editing by Edmund Klamann)
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China bond yields edge up on pre-holiday tightness

24 September 2009

Provided by: [Reuters News](#)

*** Zhou inflation comments do little to reassure bond market**

*** DBS predicts further curve steepening in Q4**

*** 7-day repo rebounds to two-and-a-half-month high**

By Karen Yeung

SHANGHAI, Sept 24 (Reuters) - **Chinese bill yields were mixed and bond yields mostly rose on Thursday because of a temporary funding squeeze and concern over future monetary tightening despite central bank governor Zhou Xiaochuan's comments that China could tolerate inflation above 2 percent.**

"Generally speaking, developed countries hope to target inflation at 2 percent; in other words, the price rises each year are no higher than 2 percent," Zhou was quoted as saying in a posting on Wednesday on the Chinese state radio website.

"But for developing countries and economies in transformation, generally speaking, our target can be a little bit higher than those in the market-economy countries."

Traders said the remarks were aimed at suggesting the central bank would not raise official interest rates even with a return of consumer price inflation, widely expected in October or November.

But market concerns over future monetary policy tightening are unlikely to ease much as the bank did not specify the maximum level of inflation that could be tolerated, while signs are rising that the global and Chinese economic recovery will avoid a setback that could lead to W-shaped rebound, traders said.

"Bond yields face upside pressure in coming months but the pace of rises will be very slow because there are both upside and downside risks to next year's growth," said an analyst at a mid-sized Chinese bank in Shenzhen.

DBS Bank said in a research note on Thursday that it was uncertain whether inflation would accelerate considerably in 2010 but there were risks of demand-pull inflation from wage growth and hot money inflows.

The bank predicted a steepening of the bond curve in the fourth quarter with the two-year government bond yield consolidating above 1.5 percent and 10-year yields above 3.5 percent.

The indicative two-year government bond yield slipped to 1.6819 percent bid on Thursday from 1.6824 percent on Wednesday, but the 10-year yield rose to 3.4703 percent from 3.4684 percent, Reuters Reference Rates show.

In the money market, the weighted average seven-day repo rate, which had dropped for two straight days, rebounded sharply to a two-and-a-half-month high of 1.7716 percent by midday from 1.5777 percent on Wednesday.

That was within market expectations, however, given a funding squeeze ahead of a week-long holiday starting from Oct. 1. But the 90-day central bank bill yield dipped to 1.3283 percent from 1.3291 percent on expectations that the squeeze would ease by mid-week next week.

"Bill yields are likely to move sideways in coming days," said a trader at a mid-sized bank in Shanghai.

(Editing by Edmund Klamann)
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India

India 5-yr swap rate up on bond yields, global cues

22 September 2009

Provided by: [Reuters News](#)

MUMBAI, Sept 22 (Reuters) - **Indian five-year interest rate swap edged higher on Tuesday, after a higher-than-expected borrowing target for the week pushed domestic bond yields higher, with lower bond yields elsewhere also helping the sentiment.**

At 4:55 p.m., the benchmark five-year rate was at 6.61/66 percent, above Friday's close of 6.58/63 percent. The market was shut on Monday for a religious holiday.

"Investors were offering to pay fixed rates on five-year swaps at the opening itself, probably on the back of strong hawkish signals from South Korea, and there were more offers after seeing the domestic trend," said trader at a private bank.

South Korea's central bank said it was ready to raise interest rates to help calm property prices, a clear signal it might soon tighten policy despite heavy pressure from the government for caution. Traders said while heightening global recovery hopes keep investors upbeat for a policy rate hike in India within a horizon of three months or so, easy cash conditions helped the near end of the swaps curve remain less pressured.

"People were largely interested to receive in the one-year tenure, which remained little changed

for most of the day," said a trader at a primary dealership.

The one-year swap rate was at 4.80/85 percent, from Friday's close of 4.81/86 percent. The spread between the five-year and one-year swaps was at around 181 basis points from near 177 basis points as of previous close.

Traders said investors are concerned about domestic bond supplies, especially ahead of the release of a second half borrowing calendar, expected in the coming days.

A finance ministry official said last week the government will stick to its full-year borrowing plan of 4.51 trillion rupees and the borrowing calendar for October to March would be released on Sep 29. The government is due to sell 120 billion rupees of federal debt on Friday, 50 percent more than what was due as per a calendar.

The RBI, which sold about 91.1 billion rupees of state loans on Tuesday, will sell 60 billion rupees of treasury bills on Wednesday.

As of 4:55 p.m., total volume in swaps was at 19.5 billion rupees with more activity at the one-year counter, according to central bank's reporting platform.

(Reporting by Bobby Michael; Editing by Sunil Nair)
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Indian bond yields edge down ahead of auction

25 September 2009

Provided by: [Reuters News](#)

*** Traders eye \$2.5 bln bond auction results for cues**

*** Hopes of change in accounting rules for banks supports mkt**

*** 7 pct on the 10-yr benchmark around the corner - IDBI Gilts**

MUMBAI, Sept 25 (Reuters) - **Indian federal bond yields inched down on Friday ahead of the \$2.5 billion bond sale, with hopes of easing mark-to-market rules for banks' debt purchases also supporting prices.**

At 10:56 a.m. (0526 GMT), the benchmark 10-year bond yield was at 7.09 percent, slightly lower than Thursday's close of 7.11 percent.

Volumes were a moderate 38.05 billion rupees (\$793 million) on the central bank's trading platform.

"Trading could be volatile during the day being an auction day," said Srinivasa Raghavan, treasury head at IDBI Gilts.

He said overall sentiment was bullish on hopes that the central bank would increase the hold-to-maturity (HTM) limit for bank's debt holdings from 25 percent, so the 10-year yield could soon test 7 percent.

An increase in the HTM limit move would help banks hold more bonds free of mark-to-market requirements, which should help support demand.

Friday's auction is the final of the first half of the 2009/10 fiscal year, and will take borrowings to about two-thirds of the record full-year target of 4.51 trillion rupees.

Next week, the government is due to release the auction schedule for October-March. The benchmark five-year interest rate swap was at 6.54/57 percent, from a previous close of 6.56/61 percent.

In interest rate futures trade on the National Stock Exchange (NSE), the December contract rose to 7.9363 percent from the previous close of 7.8820 percent. The March contract was at 8.1789 percent, up from 8.1468 percent. (\$1=48 rupees)

(Reporting by Neha D'silva; Editing by John Mair)
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India 1-yr swap rate near 2-wk low on finmin comment

23 September 2009

Provided by: [Reuters News](#)

MUMBAI, Sept 23 (Reuters) - **Indian one-year interest rate swap fell to a near two-week low on Wednesday, after comments of two policy makers suggested Asia's third largest economy will still take time to recover.**

A later-than-expected economic turnaround would give more room for the central bank to continue its accommodative monetary policy, leaving the banking system with ample cash for quite some time, traders said.

"After the comments, people were more comfortably receiving, mostly at the lower end of the curve," said a trader at a foreign bank.

"People are now pricing in a longer stay on easy money," he added.

Indian finance minister Pranab Mukherjee said on Wednesday that Indian economy will still take time to recover. Prime Minister Manmohan Singh said the global economy and markets have improved but still not out of the woods. At 4:50 p.m., the one-year swap rate was at 4.75/80 percent, a level last tested on Sept. 11, according to Thomson Reuters data, and below its previous close of 4.79/84 percent.

Swaps at the lower end move on liquidity conditions, while those at the far end mostly track interest rate expectations.

The benchmark five-year swap was at 6.59/64 percent, a shade below 6.61/66 percent at close on Tuesday.

As of 4:50 p.m., total volume in swaps was at 19.5 billion rupees with more activity at counters one-year and below, according to central bank's reporting platform.

(Reporting by Bobby Michael; Editing by Sunil Nair)
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Indonesia

Indonesian Govt to pay \$11.56 bln in Debt Interest

24 September 2009

Provided by: [Asia Pulse](#)

JAKARTA, Sept 24 Asia Pulse - **The Indonesian government will pay Rp115.6 trillion (US\$11.56 billion) in debt interest in 2010, up from Rp109.6 trillion this year, the working committee of the House of Representatives for government spending said.**

The payments will include Rp77.4 trillion in interest on domestic debts and Rp38.2 trillion on foreign debts, committee coordinator Harry Azhar Azis said.

Separately, Anggito Abimanyu, head of the fiscal policy at the finance ministry, said the government's outstanding debts are estimated to reach Rp1,676 trillion in 2010 and Rp130 trillion of which will be due for repayment.

Meanwhile, Rahmat Waluyanto, the director general of debt management, said by July, the outstanding debts of the government totaled US\$159.87 billion including US\$62.99 billion in foreign loans and US\$96.87 billion in state bonds.

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Philippine

Philippines Treasurer to announce details of bond sale

23 September 2009

Provided by: [Asia Pulse](#)

MANILA, Sept 23 Asia Pulse - **National Treasurer of the Philippines Roberto Tan on Tuesday declined to confirm that they sold a total of P114 billion (US\$2.397 billion) worth of retail treasury bond (RTB) at the end of the seven-day offer period Tuesday.**

"We will have final amount tomorrow and settlement on Thursday," he told PNA.

Tan said that as of last Friday, they already sold a total of P94 billion from government corporations and the public.

"This will augment our cash reserves and we would likely reduce fourth quarter borrowings in lieu of funds received," he said.

Earlier, Tan said they plan to cap the bond sale at P90 billion after noting great demand for the RTBs.

The government's domestic borrowing program this year was pegged at P451.7 billion, or about 68 per cent of the governments total financing needs this year.

Data from the Department of Finance (DOF) show that as of end-July this year, total domestic borrowings reached P135.9 billion.

The government decided to increase both its foreign and domestic borrowing this year on account of the higher budget gap due to larger impact of the global slowdown.

The budget deficit ceiling was raised several times and now at P250 billion.

As a result, the government again tapped the foreign fund sources in July through the issuance of the US\$750 million Republic of the Philippines (ROP) bond.

Last July's global bond issuance is the second for the government this year after the programmed US\$1.5 billion issuance last January.

After the issuance of the dollar-denominated debt paper last July, the government said it will source the additional financing needs from the domestic market.

Issuance of the RTB, which is intended for small investors as minimum placement is P5,000, is not included in the government's borrowing program this year.

Tan cancelled the Treasury bill (T-bill) auction for the day to pave the way for the closing of the RTB sale.

"In view of the ongoing 7-year RTB offering and to ensure a smooth and orderly settlement of the said RTB 11th Tranche, today's auction of T-Bills is hereby cancelled," Tan said in a memorandum dated September 22, 2009.

Tapped as arrangers for the bond sale are First Metro Investment Corp., BPI Capital Corp, BDO Capital, Rizal Commercial Banking Corp., Metropolitan Bank & Trust Co., Land Bank of the Philippines and Development Bank of the Philippines.

Relatively, the government is also mulling to issue yen-denominated Samurai bond before year-end but Tan reiterated that this would be for pre-funding next year's funding needs.

"As to samurai bonds, we are studying whether to issue this year but such would be for pre-funding 2010 budget," he added.

The government has signed a memorandum of understanding (MOU) with the Japan Bank for International Cooperation (JBIC) for a 95 per cent guarantee fee for the samurai bond issuance but requested the fee to be lowered.

Tan earlier said issuance of samurai bond is more preferable for the National Government (NG) to pre-funding next year's borrowing requirements than issuance of global bonds.

The government is eyeing to issue up to US\$1 billion worth of the Japanese debt paper up to 2010.

A samurai bond is a debt instrument issued in Japan by a foreign government or company.

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Philippines says studying 2009 global bond issue

24 September 2009

Provided by: [Reuters News](#)

*** Manila studying proposals for global bond issue this year**

*** Philippines 2020 dollar bonds dip on news**

*** Maintains plan to issue yen bonds to fund 2010 budget**

*** Traders say government may re-open 2020 dollar bond (Adds traders comments, background)**

By Karen Lema

MANILA, Sept 24 (Reuters) - The Philippines, one of Asia's largest sovereign debt issuers, said on Thursday it was studying investor advice for the sale of a global bond this year to fund next year's budget.

Officials said a decision would not be made anytime soon but Philippines sovereign bonds edged down as the market absorbed the potential for more supply on top of the \$2.25 billion already issued by the government this year.

However, officials reiterated that any further issuance this year would be to fund the 2010 budget and not the 2009 budget.

"The Philippine government is looking into suggestions from investment banks and hedge funds for the issuance of global bonds for pre-funding requirements next year in view of ample market liquidity and lower financing costs even for longer maturities," said Finance Secretary Margarito Teves.

Teves is on a non-deal roadshow in New York and issued his comments via a mobile SMS message to reporters.

The Philippines' main plan to raise funds for next year's budget is still to sell at least \$500 million in Samurai bonds during the fourth quarter, said National Treasurer Roberto Tan in Manila.

"That's still the plan right now," he said, noting that the Philippines receives bond proposals from banks regularly.

"I understand that there has been a proposal made to the secretary and we will study it," he said.

The government has projected that its 2010 budget deficit will be 233 billion pesos (\$4.9 billion), or 2.8 percent of GDP. That would be slightly smaller than this year's projected record gap of 250 billion pesos, or 3.2 percent of GDP.

TIMING ISSUE

Referring to offshore financing of this year's budget, Tan said: "There's no plan to issue for the rest of the year."

The Philippines' 6.5 percent bond due in 2020 fell to 107.625/108.00 cents on the dollar on Thursday, Manila-based traders said, from Wednesday's 107.875/108.25, its highest level since the bond was issued in July.

The fall came in an otherwise steady Asian bond market.

If the Philippines does decide to issue more dollar bonds this year it may opt to issue up to

\$1 billion more of its 2020 bond issue, two sovereign debt traders from big foreign banks based in Manila said.

"It is a timing issue and considering that the ROPs (Republic of the Philippines' bonds) have rallied, timing wise it is a good time, from their point of view," one of the traders said.

Central bank Governor Amando Tetangco, who was on the London leg of the roadshow, said on Wednesday in Manila that investors were eager to extend the duration of their Philippine holdings. **One motive to issue bonds in coming months is that interest rates are low, but are expected to rise in the year ahead. In addition, investors may seek a higher risk premium on Philippines bonds next year to account for presidential elections in May.**

(Additional reporting by Jun Ebias in Hong Kong)
(Writing by Rosemarie Francisco; Editing by Neil Fullick)

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South Korea

S.Korea Aug debt default ratio stays low

20 September 2009

Provided by: [Reuters News](#)

SEOUL, Sept 20 (Reuters) - **South Korea's overall debt default ratio stayed low in August and the number of failed businesses hit a record-low on an easing credit crunch and recovering economy, central bank data showed on Sunday.**

The debt default ratio, which represents the percentage of defaults against total commercial debt and corporate bonds issued from settlement, was 0.02 percent in August, staying for three consecutive months at that level, the lowest since September 2008, the Bank of Korea data showed.

The central bank said separately that South Korea's business start-up/failure ratio in August retreated to 58.6 from a near record-high of 64.0 in July, with the number of failures falling by 19 to 110, the lowest since the data began to be compiled in 1990.

(Reporting by Seo Eun-kyung; Editing by Dean Yates)

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Taiwan

Growth of government debt 'controllable': premier

19 September 2009

Provided by: [Central News Agency English News](#)

Taipei, Sept. 18 (CNA) **The central government's debt remains within a normal range and has been increasing at a controllable rate, Premier Wu Den-yih asserted Friday.**

Speaking at the first general interpellation at the Legislative Yuan since he became premier Sept. 10, Wu acknowledged that government debt had indeed increased in the wake of the global financial crisis that triggered a worldwide recession.

To counter the crisis, rekindle the sagging domestic economy and check unemployment, the government has since launched a string of stimulus measures, such as expanding infrastructure development and consumption, he said.

"The stimulus measures and new investments in turn have slightly increased government debt, but the growth of the debt has been within a controllable range," he argued.

The premier made the remarks in response to criticism from opposition Democratic Progressive Party Legislator Chai Trong-rong, who said the national debt had risen by NT\$300 billion (US\$9.24 billion) since the Kuomintang regained power in May 2008.

Wu responded that debt had grown by around NT\$222.5 billion over the past 15 months and that the administration had launched a number of measures to cut government spending, particularly unnecessary spending.

He added that the administration has suffered a budget shortfall of NT\$145 billion so far this year and the shortfall is expected to remain within NT\$190 billion for the entire year.

Outstanding government debt will not exceed the legal ceiling even after the government borrows an additional NT\$120 billion to finance reconstruction projects in the aftermath of Typhoon Morakot, Deputy Finance Minister Tseng Ming-chung said in late August.

Tseng made the statement after the Legislative Yuan passed a special statute authorizing the executive branch to raise the special budget for post-disaster reconstruction.

According to Tseng, the government's total outstanding debt was estimated at NT\$4.1498 trillion as of the end of 2009, accounting for 32.87 percent of the gross national product (GNP) over the previous three years.

Compared with many other countries, he said, the national debt remained within a normal range.

(By Deborah Kuo) ENDITEM/lis

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Central News Agency English News

EUROPE

Czech, Polish, Hungary debt to spike in 2010-Fitch

21 September 2009

Provided by: [Reuters News](#)

*** Fitch warns of debt spike in Czech, Poland, Hungary**

*** Polish public debt seen at 56 pct/GDP in 2010**

*** Hungarian debt seen at 83 pct/GDP, Czech 41 pct/GDP**

*** Fitch says elections across region raise risks**

By Michael Winfrey

PRAGUE, Sept 21 (Reuters) - **The economic crisis will cause a jump in public debt levels in Poland, the Czech Republic and Hungary by 2010 and could lead to negative rating moves if they fail to address the problem, agency Fitch said on Monday.**

The Czech and Hungarian economies have contracted sharply this year and Poland, the European Union's largest ex-communist member, is expected to eke out growth of only around 1 percent this year, a steep slowdown from growth of 4.9 percent in 2008.

The result has been a sharp fall in tax revenues and a spike in social spending due to rising unemployment across the region, which has forced budget deficits to jump and public debt levels to rise dramatically.

Fitch said in a report it expected Poland's public debt to jump past the level of 55 percent of gross domestic product that will trigger automatic spending cuts, and it said elections in all three countries posed a risk to state finances. "The marked deterioration in public finances in these countries could lead to negative rating actions if they fail to identify and implement credible medium-term fiscal consolidation programmes," said Fitch sovereign team Director David Heslam.

"In all three countries, politics and electoral cycles add to the risk of fiscal slippage."

DEBT RISING

Fitch forecast the Czech general government deficit at 6 percent of GDP in 2009 and 2010, quadruple last year's deficit of 1.4 percent. It said that could rise past 7 percent next year unless the 2010 draft budget law is changed.

Fitch said government debt to GDP would rise by 10.9 percentage points between 2008 and 2010 to 40.8 percent.

"Uncertainties related to the timing of general elections, the final size of the 2010 deficit target and ability of the next government to tighten fiscal policy constitute risks to the medium term budget outlook," Fitch said.

An interim government in the Czech Republic is pushing to slash its planned 2010 budget deficit of 230 billion crowns by about a third. The leftist Social Democrats and other parties have balked

at belt-tightening ahead of elections expected next June, although analysts expect them to come to a compromise.

Fitch said Hungary's government debt would rise 10 percentage points to 82.5 percent of GDP by end 2010.

And it forecast Poland's debt ratio to rise to 56.3 percent of GDP, up by 9.1 percentage points from 2008. It said that depended on a privatisation programme the government hopes will garner 35 billion zlotys this year and next.

Fitch's estimates for Poland's general government deficit are lower than the market consensus but the agency said a shortfall of 5.5 percent this year and 6.3 percent in 2010 meant the country's plans to adopt the euro would be delayed past 2013.

Prime Minister Donald Tusk's cabinet has resisted tax hikes or steep budget cuts ahead of a 2010 presidential election in which he is expected to run. A general vote will then follow.

"A heavy election schedule, with presidential elections due in 2010 and general elections in 2011, add to the risks for the medium-term budget outlook" Fitch said.

Last week, a deputy finance minister said that if an emerging economic rebound lasts, Poland would be able to slash its budget deficit in 2012 to 3 percent of GDP, the level all new EU members must reach to join the euro.

Fitch rates the Czech Republic's for long-term foreign currency issuer default ratings at A+, stable and local currency at AA-, stable. It puts Hungary at BBB negative and BBB+ negative and Poland at A- stable and A stable.

(Reporting by Michael Winfrey; Editing by Victoria main)

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Bulgaria

Bulgaria foreign debt growth slows to 6.4 pct y/y

24 September 2009

Provided by: [Reuters News](#)

SOFIA, Sept 24 (Reuters) - **Growth of Bulgaria's gross foreign debt slowed to 6.4 percent year-on-year in July as banks curbed lending, central bank data showed on Thursday.**

The debt, which has made Bulgaria more vulnerable in the global financial crisis, rose to 36.3 billion euros (\$53.46 billion), or 107.2 percent of gross domestic product at the end of July.

But that was down 0.9 percent from a month earlier as tighter global liquidity made commercial banks more vigilant and limited lending.

A year ago, the European Union member's foreign debt had risen 39.7 percent on an annual

basis and economists say its huge current account deficit has undermined its ability to ride out external shocks as the global downturn unfolds, cutting investment inflows.

But gross private debt dropped 1.1 percent to 32.2 billion euros last month and public and publicly-guaranteed external debt rose 0.4 percent to 4.1 billion euros, the data showed.

The new centre-right government of the GERB party, which won July general elections, has pledged to keep fiscal policy tight and avoid tapping international markets or seek external financing to back up its public finances this year.

It has already cut public spending by 15 percent to avoid an end-year budget deficit that may put pressure on Bulgaria's currency board regime and lev currency peg to the euro.

Finance Minister Simeon Djankov has said Sofia would wait until February to see how the emerging economy is developing before deciding whether to seek aid from the International Monetary Fund.

Bulgaria plans a balanced budget for both this and next year, but the IMF has said it expected the country to end this year with a minor deficit of 0.5 percent of GDP that would expand to 2.0 percent in 2010 due to the global downturn.

Sofia paid a total of 3.9 billion euros to service its gross foreign debt at end-July, down from 4.5 billion euros in the same period a year earlier.

Reporting by Tsvetelia Ilieva; editing by Patrick Graham)

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Czech Republic

Czech Finmin to avoid FX impact of euro debt

21 September 2009

Provided by: [Reuters News](#)

PRAGUE, Sept 21 (Reuters) - **The Czech government will remove the impact of newly planned auctions of euro-denominated debt from the foreign exchange rate, the Finance Ministry said on Monday.**

The ministry said it would proceed in accordance with an agreement with the central bank, renewed last year, to hedge foreign debt issues in order to circumvent the currency market.

The ministry said last week it would start auctioning euro-denominated floating rate notes on the domestic market, starting with a 300 million 6-year issue to be offered on Sept. 30.

(Reporting by Jana Mlcochova, writing by Jan Lopatka)

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Hungary

Hungary state debt could fall from 2011, if strict fiscal policy maintained - IMF rep

21 September 2009

Provided by: [MTI - EcoNews](#)

Budapest, September 21, 2009) - **Hungary's state debt as a percentage of GDP could start falling in 2011 if strict fiscal discipline is maintained and if fiscal reforms already started as well as ones planned are carried out, Iryna Ivaschenko, the IMF's resident representative in Hungary, said in a statement to MTI.**

Ms Ivaschenko noted that Hungary's current level of state debt, at 80pc of GDP, is very high in comparison with other countries in Central and Eastern Europe.

Hungary's government has already taken many significant steps in restructuring the pension system, the social system and centrally allocated subsidies, but these reform steps must be followed by strict control of expenditures, Ms Ivaschenko said. Hungary's neighbours did not have to undertake budget austerity measures, but Hungary was hard-hit by the crisis in the autumn first of all because it was made vulnerable by its fast growing state debt and had to ask for help from the IMF, the EU and the World Bank.

The IMF approved a SDR 10.5bn (EUR 12.4bn at the time) standby loan in November 2008 as part of a EUR 20bn financial support package that also involved the EU and the World Bank.

The IMF, in close cooperation with EU experts, was flexible, so when Hungary's macroeconomic outlook worsened compared to earlier expectations, the general government debt target was changed twice, Ms Ivaschenko said. **It is important to note that mid-term structural measures were a condition for the agreement between the government and the IMF to raise the 2009 deficit target, she added.**

Hungary received a positive assessment in its latest review -- the third -- by an IMF delegation, Ms Ivaschenko said. The government is committed to achieving the 3.9pc-of-GDP deficit target for 2009, and the budget bill in its current form outlines a credible strategy for continuing to reduce the deficit to reach the 3.8pc target for 2010, although there are macroeconomic and implementation risks. Hungary's monetary policy has been appropriate so far, and important steps have been made in the area of strengthening financial regulation.

While taking into consideration uncertainty about future developments on money markets, the IMF delegation supported Hungarian officials' request to extend the deadline for drawing down the IMF loan by six months until October 5,

2010. The new deadline would cover the period until after general elections to take place in the spring and the new government's first steps. A final decision on the extension will take place at the end of September.

Taking into consideration Hungary's international reserves -- in part its SDR 991m (EUR 1.09bn) allocation and a recent EUR 1bn eurobond issue -- the IMF supports the government's request to call down EUR 55m of its standby loan when the review is completed, Ms Ivaschenko said. The rest of the loan can be called down in four equal parts.

The IMF is in agreement with the Hungarian government's projection for a 6.7pc economic contraction in 2009 and a 0.9pc drop in GDP in 2010, she said.

It is an important task that the public understand the importance of the consolidation programme in order not to put at risk results achieved thus far and to keep the country on the path toward fiscal sustainability, Ms Ivaschenko said. This is important from the view of growth too, she added.

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Romania

Public Debt-Finance Ministry / Romania's Jan-Jul Public Debt Rises To 27.9% Of GDP

22 September 2009

Provided by: [Mediafax News Brief Service](#)

BUCHAREST, 22 sep (MEDIAFAX) - Romania's public debt rose to 27.92% of the gross domestic product in January-July period from 21.78% of the GDP at the end of last year, according to Finance Ministry data released Tuesday.

In January-July, the country's public debt amounted to 138.8 billion lei (EUR1=RON4.2552), compared with RON109.7 billion at the end of 2008.

Government debt stood at 93.16% of Romanian total debt in the mentioned interval, while local authorities' debt accounted for 6.84%.

The public debt-to-GDP ratio was calculated using an estimated GDP of RON497.3 billion this year, as agreed upon with the International Monetary Fund in August.

In 2008, the GDP stood at RON503.9 billion.

The increase in the public debt was broadly driven by a EUR1.5 billion loan installment Romania received from the European Union in July. The loan is part of a larger EUR20 billion international aid package secured from the International Monetary Fund, the EU, the World Bank and the European Bank of Reconstruction and Development.

In addition, the World Bank approved early July a first loan of EUR300 million out of a total financing program for Romania worth EUR1 billion.

End July, the public debt in Romanian lei was at 59.29% of the total debt, while euro-denominated debt stood at 31.33%.

In the first seven months, Romania's Finance Ministry sold RON48.4 billion worth of state treasuries, of which 37.36% in six-month paper, 30.47% were three-month treasuries, while one-month treasuries accounted for 18.17% of the total debt.

One-year bills and three- and five-year bonds amounted to 6.46%, 4.08% and 3.45%, respectively, of the debt sold in January-July.

Also, Romania took RON11.8 billion loans in the analyzed period.

(Florentina Dragu, florentina.dragu@mediafax.ro)
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Mediafax News Brief Service

Russia

Russian sovereign debt at \$39.0 bln on Sept 1

21 September 2009

Provided by: [Reuters News](#)

Sept 21 (Reuters) - Russia's public foreign debt fell to \$39.0 billion as of Sept. 1 from \$39.1 billion on Aug. 1, the Finance Ministry said on Monday.

Following is a breakdown of Russia's public foreign debts (in billions of dollars):

	Sept 1 2009	Aug 1 2009
Total public foreign debt	38.99	39.05
Debts to Paris Club	1.16	1.17
Other bilateral debt	3.20	3.20
Commercial debt	1.21	1.21
International financial organisation	4.04	4.08
Eurobonds	26.99	26.99
MinFin bonds	1.78	1.78
Foreign loan guarantees	0.60	0.61

NOTE - The Finance Ministry valued Russia's public foreign debt at 27.2 billion euros on Sept. 1, implying an assumed dollar exchange rate of \$1.4 to the euro.

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Turkey

Turkish economy minister: Possible IMF money to repay domestic debt

24 September 2009

Provided by: [BBC Monitoring European](#)

ANKARA (A.A) -24.09.2009 - **Turkish State Minister for economy Ali Babacan explained how the Turkish government would use a possible IMF loan if Turkey inks a deal with the Fund.**

Turkey and the International Monetary Fund (IMF), the Washington-based lender, have been holding talks on a possible loan deal for months. In May, Turkey completed a 10-billion USD stand-by arrangement with IMF. In July, Turkish Prime Minister Recep Tayyip Erdogan said his government was eager to strike a deal with the Fund ahead of an international IMF meeting in Istanbul scheduled for October.

Ali Babacan, who is also the Deputy Prime Minister, said money that could be obtained from the IMF would be used to repay domestic borrowing.

"We will put IMF loans in the Central Bank vaults. With the money in return, we will repay our domestic debts. This will be our major operation," Babacan told the state-run TRT in an exclusive from New York.

"Our domestic borrowing need will reduce so there will be money in domestic market. Every 1 billion USD from the IMF means 1.5 billion lira to be released to domestic market. It would be a resource to be used to revive consumption and investments. It would also have impacts on growth," Babacan said.

Babacan recalled that the Turkish government had recently unveiled its Medium Term Programme and said it did not forecast a deal with the Fund.

"A deal with the IMF and a loan that could be secured from IMF would make better the picture foreseen in the programme," he said.

Babacan also said that Turkey and IMF were holding talks quietly.

"We are working with a small team. Managing director and deputy managing director are our interlocutors. We are holding our talks at high level but with a small team. It has to be quiet and it requires some patience," he said. "We do not want to give a timetable."

Babacan said rejecting a deal with the Fund with populist attitudes would have consequences, adding, "we have to do the right thing for the sake of next generations. In the end, future of Turkey is at stake."

Source: Anatolia news agency, Ankara, in English 0937 gmt 24 Sep 09

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BBC Monitoring European

Ukraine

Ukraine says to guarantee Naftogaz foreign debt

21 September 2009

Provided by: [Reuters News](#)

(Adds Fitch comment)

KIEV/LONDON, Sept 21 (Reuters) - **Ukraine's finance ministry said on Monday it has government authority to guarantee all foreign debts of troubled state energy firm Naftogaz, paving the way for the restructuring and upgrade of a \$500 million Eurobond that matures at the end of September.**

In addition to the guarantee, the ministry said it wanted payment deadlines on the company's foreign debt to be extended by five years.

Ratings agency Fitch said a sovereign debt guarantee would likely lead to an upgrade of the Naftogaz Eurobond's rating to single-B, the same level as Ukraine's sovereign rating, from the current CC.

However, a sovereign debt guarantee would not lift Naftogaz' overall CC issuer default rating, Fitch analyst Anton Krawchenko told Reuters.

"This guarantee can apply to the sum of the debt and percents which is being paid out to creditors..." the ministry said in a statement on its Web site without specifically mentioning the Eurobond.

Whether Naftogaz's debt is explicitly guaranteed by the government has been the subject of intense debate among investors, especially after the company unsettled the market last month when it said it wanted to restructure \$1.6 billion in external debt.

"The guarantee does not surprise especially given that the company is pushing for restructuring. One of the main conditions for creditors was a major credit enhancement of the Naftogaz bonds," said Luis Costa, emerging markets debt strategist at Commerzbank.

Naftogaz, often at the centre of energy rows with Moscow, has been haemorrhaging money as it buys increasingly expensive Russian gas which it then sells domestically at lower prices.

Kiev has shored up the company with billions of dollars of support and for many foreign investors the fate of the state company reflects on Ukraine's creditworthiness.

Neither Naftogaz nor its appointed advisor for the restructuring, Credit Suisse, have revealed details of its debt proposal but analysts have said it could involve a planned exchange for new bonds that would have an explicit state guarantee and a five-year tenor.

Talk of a 9.5 percent coupon on the new bonds was also rife.

(Reporting by Sabina Zawadzki in Kiev and Sebastian Tong and Carolyn Cohn in London; Editing by Adny Bruce)

LATIN AMERICA

Argentina

Argentina says no deal yet with debt holdouts

21 September 2009

Provided by: [Reuters News](#)

*** No deal yet with holdouts - Boudou**

*** Hopes for Paris Club resolution this year - Boudou**

*** Argentine bonds rising on hopes a deal is imminent**

By Fiona Ortiz and Guido Nejamkis

BUENOS AIRES, Sept 21 (Reuters) - **Argentina is considering proposals from "holdouts" but has not clinched a deal to reopen its 2005 debt restructuring, the country's economy minister said on Monday.**

Argentina's sovereign bonds rallied to one-year highs on Monday on growing speculation of an imminent agreement on the defaulted debt, which would help pave the way for Argentina to return to international credit markets with a new bond.

Economy Minister Amado Boudou denied a report of a completed deal and said talks were ongoing with the so-called holdouts -- holders of defaulted Argentine government bonds who did not accept the 2005 restructuring.

Argentina remains largely excluded from credit markets some seven years after it defaulted on an estimated \$100 billion in debt during a devastating economic crisis. It later offered very low returns in a restructuring plan that was rejected by nearly a quarter of bondholders.

The country, which faces \$13 billion in debt obligations next year, is taking steps to resolve issues with holders of its defaulted debt to remove the threat of lawsuits that would hang over the issuance of a new global bond.

"We have ongoing conversations with different groups, dealing with important banks as well as funds, which are the principle holders of these bonds," Boudou told foreign correspondents in Buenos Aires, regarding the holdouts. "We still have not arrived at any definitive strategy."

Dow Jones Newswires reported on Sunday a group of investors representing about \$8 billion in defaulted bond obligations had agreed with Argentina to a reopened restructuring.

The report said it would be similar to the one in 2005, but involving a new bond, due in 2016, with a 13.5 percent coupon instead of a cash deal.

Boudou said that proposal, in which Barclays Capital represents the bondholders, was only one of several the government is looking at, adding it was too early to talk about interest rates.

BONDS RISE ON DEAL EXPECTATIONS

Expectations of a holdouts deal drove up prices for Argentine sovereign bonds traded over-the-counter in Buenos Aires. Bonds on the local market rose more than 2 percent on average, led by 536870913 544499813 as much as 4.5 percent to an ask price of 28.90.

Traders said bonds were moving on talk President Cristina Fernandez would announce a deal with holdouts on Monday in a presentation at Columbia University in New York City, or later in the week during the G20 summit.

The president is in New York to attend to the United Nations General Assembly. She will head to the G20 summit in Pittsburgh on Thursday and Friday.

In September last year Fernandez announced a pending deal with holdouts in a speech in New York, but the financial crisis forced Argentina to put that agreement on ice.

"Bonds are up expecting signals over the holdouts and Paris Club," said Marcelo Trovato, analyst with Caja Social de Inversiones brokerage in Buenos Aires.

To return to international debt markets, Argentina is also trying to reach a deal with the Paris Club of wealthy creditor nations on the terms for repayment of some \$6.7 billion.

Boudou said the Paris Club issue could be resolved this year.

The minister is scheduled to meet with his French counterpart on the sidelines of the G20 summit. Boudou said he would travel to Paris after the annual International Monetary Fund meeting in October.

Argentina will easily meet its debt obligations next year, the minister said, adding it can easily swap longer-term bonds for short-term paper held by state entities such as Banco de la Nacion and the ANSES state pension fund.

But a new global bond would make things all the better, he added.

Boudou said that it was important for Argentina not to treat all holders of defaulted bonds the same way because there is a distinction between entities that held the bonds and chose not to enter the 2005 restructuring, and so-called vulture funds that bought the debt dirt cheap later on.

But when asked how Argentina would differentiate without generating legal challenges, he said the idea is to create a financial product to swap for defaulted bonds that would cause the bond holders to distinguish between themselves.

(Additional reporting by Walter Bianchi; Writing by Vivianne Rodrigues; Editing by Andrew Hay)
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Argentina to seek solution to Paris Club debt-Boudou

24 September 2009

Provided by: [Reuters News](#)

(Adds quotes from Argentina's economy minister, background)

*** Argentina says to discuss Paris Club debt in Pittsburgh**

*** Argentina not planing to tap foreign reserves to pay debt**

By Walter Brandimarte

PITTSBURGH, Sept 24 (Reuters) - Argentine Economy Minister Amado Boudou said on Thursday that he was to meet with his French counterpart, Christine Lagarde, later in the evening to discuss Argentina's debt with the Paris Club.

Boudou, who was in Pittsburgh for the summit meeting of the Group of 20 rich and developing nations, said, however, that Argentina is not considering tapping into its foreign reserves to cancel the debt because of the lessons learned from the global financial crisis.

"There was a world pre-Lehman and there is a very different world post-Lehman," Boudou told reporters, referring to the collapse of the U.S. investment bank that sent financial markets into chaos last September, triggering the global crisis.

"Argentina has shown that accumulating foreign reserves to defend its exchange rate ... was a good strategy," he said.

Boudou said Argentina wants to solve its debt problem in a way that also supports its economic development.

Argentina is seeking to return to international credit markets, but its ability to do so is hampered in part by its failure to resolve some \$6.7 billion in defaulted debt it owes to the Paris Club.

The country had also defaulted on some \$100 billion in bonds in 2002 at the height of an economic crisis. The government restructured the debt three years later, offering very low returns to creditors and nearly one-quarter of them rejected the deal.

Argentina also intends to solve the situation of those debt holdouts, but any solution "should be more favorable to Argentina than the previous (restructuring), according to the country's legislation," Boudou said.

(Editing by Leslie Adler)

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Brazil

Brazil debt raised to investment grade by Moody's

22 September 2009

Provided by: [Reuters News](#)

SAO PAULO, Sept 22 (Reuters) - Brazil's sovereign debt ratings were raised to investment grade by Moody's Investors Service on Tuesday, the last of the major ratings agencies to give Latin America's largest economy that seal of approval.

The agency raised Brazil one notch to Baa3, the lowest investment grade, and put it on positive watch, meaning it could raise the rating further.

Moody's put Brazil's foreign and local currency credit ratings on review for possible upgrade in July, citing the country's resilience to the shocks created by the global financial turmoil.

(Reporting by Elzio Barreto; Editing by Dan Grebler)
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Uruguay

Fitch Rates Uruguay's 2025 International Bond Issuance 'BB-'

22 September 2009

Provided by: [Business Wire](#)

NEW YORK - (BUSINESS WIRE) - Fitch Ratings has today assigned a long-term foreign currency rating of 'BB-' to Uruguay's 16-year USD500 million Eurobond (6.875% coupon).

The rating is in line with the sovereign's foreign currency IDR. Uruguay's credit profile is supported by manageable financing needs, relatively high GDP per capita as well as institutional integrity and political stability, which reduces the risk of a marked departure from the current macroeconomic policy framework.

Fitch recently revised Uruguay's Outlook to Positive from Stable in light of a strengthening macroeconomic policy framework along with steady improvement in fiscal and external solvency ratios in recent years. The rating agency also believes that Uruguay's resilience to external economic shocks has increased as a result of greater exchange rate flexibility, rising international reserve levels, lower external financing needs (external amortizations plus current account deficit) and prudent measures that have strengthened the banking system.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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Business Wire

AFRICA

Nigeria

Bond Market to The Rescue

21 September 2009

Provided by: [All Africa](#)

Lagos, Sep 21, 2009 (This Day/All Africa Global Media via COMTEX) -- It is obvious from the rush of fund raisers to the bond market that it may have become the proverbial house on the rock in the raging financial storm. The popular, well trodden paths used to be the money market and the stock market. But they seem to have lost their attraction and investor confidence in the year-old global financial crisis.

Much as the Central Bank of Nigeria tried, the money market is still in a liquidity drought. And with the current banking reforms hallmarked by the dramatic changes on the executive floors of five banks, confidence in the banking industry has taken a hit.

Even before the big holes in banks' balance sheets were exposed, the introduction of such measures as a common year accounting for the industry had afflicted it with some nervousness, causing the stronger banks to hold on tightly to their funds while others made desperate attempts to improve their liquidity positions.

The global financial crisis also became a key reason for the crash of the stock market, which has had share prices tumbling at heavy losses to investors. With the crash, banks were further exposed to the tune of about N1 trillion in margin loans. That seemed to have contributed to the killing of their appetite for lending.

On the part of investors, dwindling fortunes in the market have also made them weary of further investment in stocks and that explains the reluctance of firms to raise funds in the market through public offers.

In the thick cloud of financial uncertainty and apprehension, the guarantee offered by the bond market has become an attraction. At least in the bond market, investors have their capital and pre-agreed interest guaranteed against the vicissitudes of the financial market.

Bonds are an investment made (purchased) by lending money to whoever issued the bond in exchange for future income in the form of interest payments. At the end of the life of the bond, the investor gets the original investment back, plus the interest on it. The interest payments and principal (amount of your investment) are guaranteed by the company or government that issued the bonds.

State governments and even banks are now patronising the market, competing with the

federal government, which has been the dominant player in the market since its first bond issue in 1959.

Among the states, the Lagos state government made the first entry in recent times with an offer of N275billion. The governments of Niger and Ogun states have initiated plans to raise a total of N56billion to finance infrastructure development. Other states in the race to the market to boost their revenue profile include oil-rich Bayelsa which is planning an offer of N206billion.

The domestic corporate bond market is also active. The \$1.31billion (approx N200 billion) bond offer by GTBank already has the nod of its shareholders. First Bank is also raising N500billion of tier 2 capital purportedly to finance infrastructural projects and the United Bank for Africa Plc (UBA), has announced plans to sell N500 billion bonds. The bank in a statement to the Nigerian Stock Exchange recently stated that the bonds will have a seven-year tenor and will be issued in portions.

An active bond market is a welcome diversification, and is also commendable for its ability to stem waning confidence in the financial system. We commend the Debt Management Office of the Federal Government for promoting the use of bonds among the Nigerian public.

While we share in the joy of a booming bond market, we feel that the market could be further deepened and enlarged. For example, there is need for an ideal legal framework within which the bond market operates, and transaction cost could be reduced. Also, more work needs to be done in increasing public awareness of the market and to clear existing misconceptions about the valuation of bonds.

We are also concerned about the justification of some states to borrow from the market. While we acknowledge the pressure imposed by the declining statutory allocation on the finances of the states and the need for them to source for funds from the bond market, we are worried many states have not really been prudent with the huge revenue they received from the recent oil boom. With the same governors at the helm in the states, there is no assurance that funds borrowed from the bond market would be used to develop the states. In this case, however, it is the responsibility of the citizens of the states to challenge governors they cannot trust with borrowed funds.

More importantly, there is need for regulators of the bond market to be alive to their responsibilities considering what the lack of effective supervision and regulation has cost both the stock market and the money market recently.

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How Nigeria Spends \$3.7 Billion Debt

22 September 2009

Provided by: [All Africa](#)

Sep 22, 2009 (Daily Trust/All Africa Global Media via COMTEX) -- **Health and social welfare and agricultural sectors received \$1.17 billion out of Nigeria's total external debt of \$3.7 billion, according to the Debt Management Office (DMO).**

Daily Trust's finding shows that \$635.45 million was allocated to Health & social welfare while \$536.82 million was allocated to the agricultural sector.

According to the Debt Management Office (DMO)'s record, water supply and Education & Training received \$467.94 million and \$318.82 million respectively. This was followed by the energy sector which gulped \$308.84 million.

Scientific & Technological equipment, telecommunications and road transport were allocated \$206.54 million, \$106.84 million and \$204.47 million respectively.

Rural development and Rail transport got \$56.64 million and \$1.99 million respectively.

The analysis also revealed that manufacturing, monetary policy and multi sector received \$10.01 million, \$55.96 million and \$32.93 million.

Industrial development, investment and irrigation were respectively allocated \$20.42 million, \$16.71 million and \$58.71 million.

Air transport, ground transport and electricity respectively received \$5.32 million, \$47.66 million and \$145.25 million.

Environment, housing and urban development and others got \$177.18 million, \$73.63 million and \$230.10 million respectively.

Out of the total foreign debt, Nigeria owes the World Bank about \$3.2 billion.

The National Assembly and economists have been questioning government's rationale for borrowing after exiting from the Paris Club of Creditors, Daily Trust reports.

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ANALYSIS

From Financial Crisis to Debt Crisis?

21 September 2009

Provided by: [Maeil Business Newspaper](#)

Everyone from the Queen of England to laid-off Detroit autoworkers wants to know why more experts did not see the financial crisis coming. It is an awkward question. How can policymakers be so certain that financial catastrophe won't soon recur when they seemed to have no idea that such a crisis would happen in the first place?

The answer is not very reassuring. First, the fact is that economics tells us much more about a country's vulnerability to financial crises than it does about the timing. Second, there is every reason to worry that the banking crisis has simply morphed into a long-term government debt crisis.

After all, why exactly are most investors now so confident that it is over? Mainly because they see that the governments of the world have cast a vast and expansive safety net over the major financial institutions and markets. At the same time, policymakers have turned on all the tools of modern macroeconomic stimulus to full blast, with huge fiscal deficits and near zero policy interest rates.

But if the governments have shown they will spare no expense to backstop the financial system, who is to backstop governments, particularly with so many running out-sized deficits at the same time.

As governments pile up war-level debt burdens, when will the problem explode? One again we just don't know. Our theoretical models tell us that even a massively leveraged economy can plod along for years, if not decades, before crashing and burning. It all boils down to confidence. It is precisely when investors are most sure that governments will eventually dig their way out of huge debt holes that politicians dig their way deeper and deeper into debt. Economics theory tells us a lot about which countries are most vulnerable, but specifying exactly where and when crises will erupt is far more difficult.

Unfortunately it is a bit like predicting heart attacks. A person who is obese, with high blood pressure and high levels of cholesterol, is statistically far more likely to have a serious heart attack or stroke than a person who exhibits none of these vulnerabilities. Yet high-risk individuals can often go decades without having a problem. At the same time, individuals who appear to be 'low risk' are also vulnerable to heart attacks.

Of course, careful monitoring yields potentially very useful information for preventing heart attacks. Ultimately, however, it is helpful only if the individual is treated, and perhaps undertakes a significant change in lifestyle.

The same is true for financial systems. Good monitoring yields information that is helpful only if there is a response. Unfortunately, we live in a world where the political and regulatory system is often very weak and shortsighted.

Indeed, no economy is immune to financial crises, no matter how much investors and leaders try to convince themselves otherwise, as Carmen Reinhart and I show in our new book, ironically entitled *This Time is Different: Eight Centuries of Financial Folly*. Right now, the

latest 'this time is different' folly is that, because governments are taking all the debt on their shoulders, the rest of us don't have to worry. Unless we are taxpayers, that is.

We are constantly reassured that governments will not default on their debts. In fact, governments all over the world default with startling regularity, either outright or through inflation. Even the US, for example, significantly inflated down its debt in the 1970's, and debased the gold value of the dollar from \$21 per ounce to \$35 in the 1930's.

For now, the good news is that the crisis will be contained as long as government credit holds up. The bad news is that the rate at which government debt is piling up could easily lead to a second wave of financial crises within a few years.

Most worrisome is America's huge dependence on foreign borrowing, particularly from China - an imbalance that likely planted the seeds of the current crisis. Asians recognize that if they continue to accumulate paper debt, they risk the same fate that Europeans suffered three decades ago, when they piled up US debt that was dramatically melted down through inflation. The question today is not why no one is warning about the next crisis. They are. The question is whether political leaders are listening. The unwinding of unsustainable government deficit trajectories is a key question that G-20 leaders must ask themselves when they meet in Pittsburgh later this month. Otherwise, Queen Elizabeth II and Detroit autoworkers will be asking again, all too soon, why no one saw it coming.

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