

Emerging Sovereign Bond Markets NEWS

Number 40 - Week 2-8 October 2010

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ASIA

East Asia govt bond yield curves to stay flat-ADB

4 October 2010

Provided by: [Reuters News](#)

HONG KONG, Oct 4 (Reuters) - **Emerging East Asia's local currency government bond yield curves are set to flatten further as regional central banks turn cautious about tightening monetary policy further, the Asian Development Bank said in a report issued on Monday.**

The flattening trend has sustained since end-2009 on the back of low global interest rates and flush liquidity conditions with foreign ownership surging in most markets with yield-hungry investors extending their portfolio duration, it said.

The development bank defines emerging East Asia as including China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam.

"The near-term outlook for government bond yields is that they may flatten further out along the curve," the ADB said while adding the growth outlook for the second half of 2010 and 2011 had turned cautious.

"Most central banks in the region seem to have concluded their normalisation phase."

The ADB also said central banks in the region were likely to wait before making further adjustments to their monetary policy stance, following rate hikes in Malaysia, South Korea and Thailand.

Buying in government bonds, which has resulted in curve flattening, has been stoked by the region's high yields and robust economic performance, reserve diversification demand, expectations of currency appreciation and better hedging tools.

The report said foreigners had raised their stakes in government bonds in Indonesia, Malaysia, South Korea and Thailand in the year to July.

Foreign ownership stood at 27.4 percent in Indonesia, 18.1 percent in Malaysia, 7.4 percent in South Korea and 4.2 percent in Thailand as at the end of July.

As of Dec. 2009, their stakes were 18.6 percent in Indonesia, 11.6 percent in Malaysia, 6.6 percent in South Korea and 3.3 percent in Thailand.

The local currency bond markets in the region had grown at a pace of 18.8 percent year-on-year in the second quarter of 2010 and registered a quarter-on-quarter expansion of 5.1 percent.

The region accounted for 7.4 percent of the global bond market as of March-end, up from

6.7 percent at the end of September and much higher than the 2.1 percent in 1996.

New local debt issuance in the quarter had risen 6.5 percent year-on-year but fell 11.7 percent from the previous quarter as central banks' sterilisation issuances fell following stability in currencies like the Philippine peso and the South Korean won.

It said the foreign currency bond issuance from the region was on track to equal or exceed 2009's tally of \$63.2 billion, having reached \$46.3 billion up to Aug. 20.

Returns in the local-currency bond markets had been strong too -- the Asian Bond Fund Pan Asian Bond Index had gained 7.9 percent in 2010, compared with 5 percent in 2009, with Indonesia, the Philippines and Thailand leading the gains, the report said.

But the ADB warned that risks to the market outlook in emerging East Asia include a sharp slowdown in mature economies, destabilising capital flows and a rise in inflationary pressures.

(Reporting by Umesh Desai, Editing by Ron Popeski)

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China

China MOF's bond notice hints interest rate adjustment

8 October 2010

Provided by: [ET Net News](#)

8 October 2010 (China's Ministry of Finance (MOF) hints the People's Bank of China (PBoC) may adjust the deposit interest rate of financial institutions later in October, according to its state bonds announcement issued today.

The MOF said it will issue two batches of electronic savings bonds later this month with an aggregate value of Rmb20 billion. If the PBoC revises the savings interest rate, the issuance will be terminated immediately.

National Bureau of Statistics of China will release September's figures on 21 October. The market expected if CPI hit a record-high, PBoC may raise the interest rate.

BOCOM macroeconomic researcher Li Miaoxian told ET Net that the notice only reflects present uncertainties in interest hike but without giving out a concrete signal.

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ET Net News

China offers to buy Greek debt

7 October 2010

Provided by: [Times Of Oman](#)

ATHENS: China offered on Saturday to buy Greek government bonds when Athens resumes issuing, in a show of support for the country whose debt burden pushed the euro zone into crisis and required an international bailout.

Premier Wen Jiabao made the offer at the start of a two-day visit to Greece, his first stop on a tour of Europe, and also said he wanted to boost shipping and trade ties with Athens, underscoring Beijing's use of economic strength to win friends.

"With its foreign exchange reserve, China has already bought and is holding Greek bonds and will keep a positive stance in participating and buying bonds that Greece will issue," Wen said, speaking through an interpreter.

"China will undertake a great effort to support euro zone countries and Greece to overcome the crisis."

Wen and his Greek counterpart George Papandreou said in a statement the world's nations need to coordinate their economic policies for global recovery to find a sure footing.

"The global economy shows signs of gradual recovery but many uncertainties remain," the two leaders said in the statement, issued on Saturday by Papandreou's office after the two men met in Athens.

In addition to seeing economic opportunities in Greece, China may calculate its support of a struggling European country will help deflect international criticism of its trade policies and its refusal to let its yuan currency appreciate sharply.

Wen did not specify how much Greek debt China would be willing to buy or which Chinese entities would buy the bonds.

Chinese state entities have been generally conservative about investing in foreign financial markets and the Chinese government faces domestic political criticism over losses incurred by these entities during the global financial crisis.

HIGH BORROWING COSTS

A senior Greek government official said Wen made clear his offer concerned buying bonds only when the country returned to markets.

Greece, which is currently funded through a 110 billion euro (\$150 billion) EU/IMF bailout, is only issuing short-term T-bills for the time being.

Since the true scale of its debt burden emerged late last year, investors have shunned its bonds. The yield they demand to hold 10-year Greek debt has shot up to 10 percent, compared with just 2.3 percent for similar bonds from the euro zone's biggest economy Germany, making it too expensive for Greece to seek long-term funding in international markets.

It has said it wants to return to markets some time next year to sell longer-term debt.

China, at loggerheads with the United States over the yuan and likely to face similar complaints during this European tour, emphasised its willingness to cooperate with the 27-nation EU on financial issues.

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Times Of Oman

India

Indian bond yields steady on weak global cues

6 October 2010

Provided by: [Reuters News](#)

*** 10-yr yield seen in 7.88-7.94 pct in near term: traders**

*** U.S. yields down on fresh quantitative easing prospects**

*** Fitch's Irish downgrade renews euro zone fiscal worries**

By Neha D'silva

MUMBAI, Oct 6 (Reuters) - **Indian federal bond yields ended steady on Wednesday as domestic concerns on inflation were offset by weak global economic cues. The benchmark 10-year bond yield ended at 7.93 percent, little changed from Tuesday's 7.94 percent after trading in a 7.92-7.95 percent range intra-day.**

Volumes were heavy at 108.90 billion rupees (\$2.4 billion) on the central bank's trading platform.

The one-year swap ended down 4 basis points at 6.61 percent while the benchmark five-year swap ended down 6 basis points at 7.20 percent, Thomson Reuters data showed.

"Global cues will exert downward pressure on yields while the central bank will try to arrest this to exert upward pressure," said J. Moses Harding, head of global markets at IndusInd Bank.

On Tuesday, bond yields and swaps had risen after Subir Gokarn, a deputy governor at the Reserve Bank of India (RBI), said inflation was well above the central bank's comfort zone, fanning expectations of more monetary tightening.

"Positive cues from external sector has been factored in and any rally because of this will stay short-lived," Harding said.

After the Bank of Japan eased monetary policy on Tuesday, markets have been factoring in the prospect of the U.S. Federal Reserve announcing new asset purchase plans to support a flagging U.S. economic recovery.

Two-year U.S. T-Note yields hit a record low on

Wednesday and 10-year Treasury futures climbed to their highest since January 2009 as expectations of fresh quantitative easing grew. Fitch Ratings downgraded Ireland's credit rating to A+ from AA- and placed it on a negative outlook, pointing to the bigger-than-expected cost of cleaning up the country's banks and uncertainty over its economic recovery.

Traders see the Indian benchmark 10-year bond yield in the range of 7.88-7.94 percent in the near-term.

A continuous flow of debt supplies was also keeping traders from adding positions aggressively. The government is due to sell 110 billion rupees of bonds on Friday. (\$1 = 44.5 rupees)

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Philippine

Philippines local bond swap in next month or so-govt

4 October 2010

Provided by: [Reuters News](#)

*** First local debt swap since Jan 09 possible in next month**

*** Local bond market growing as source of corporate funding**

By Erik dela Cruz

MANILA, Oct 4 (Reuters) - **The Philippines could launch a planned local bond swap over the next month and was looking at issuing 20- to 25-year bonds, although details were still to be finalised, the finance secretary said on Monday.**

Asia's largest issuer of sovereign debt has been capitalising on investor appetite for the returns offered by emerging markets to lengthen the maturity profile of its outstanding debt.

In September, the Philippines completed a \$3 billion dollar bond swap, sold \$200 million of new 10-year dollar bonds and sold \$1 billion of 10-year local currency bonds in global markets, the first such issue by an Asian country. Finance Secretary Cesar Purisima said the government wanted to extend its maturity profile, and could offer to swap 20-year and 25-year bonds for existing shorter-dated bonds.

"In a month, or so," Purisima told reporters when asked about the timing of the local bond swap.

"We want the 20-year and 25-year more liquid," he said when asked what maturities the government was looking at.

National Treasurer Roberto Tan said the government had not yet requested underwriting proposals from banks for the issue.

As well as debt, investors have also been buying stocks, with foreign portfolio inflows hitting a 15-month high in August.

The Philippines stock market hit the latest in a run of record highs on Monday. The market rose 15 percent in September and is up 37 percent so far this year.

YIELD CURVE FLATTENS

The Philippine yield curve has flattened as investors have started lengthening duration on expectations that inflationary pressures won't flare up as much despite strong economic growth.

Yield spreads between 2- and 10-year tenors narrowed 121 basis points between end December and mid-August, the Asian Development Bank said in its quarterly Asia Bond Monitor on Monday.

The previous domestic bond swap was in Jan. 2009, when the government issued 144.5 billion pesos (\$3.3 billion) of 5-year and 7-year bonds.

Treasurer Tan had previously said the government would like to make local bond swaps a regular feature of its debt plan to boost liquidity, and the government has said it plans to issue more peso debt to cut foreign exchange exposure.

The local bond market has become an important source of funding for both the private and public sectors, with the peso bond market seeing an 11.6 percent expansion as of end June from the same period last year, the ADB said.

Local debt issues by the government reached 2.7 trillion pesos at the end of June, up 9.8 percent from a year ago, while corporate issues jumped 26.8 percent to 376.2 billion pesos from the same period last year.

(Writing by Karen Lema; Editing by John Mair)

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South Korea

S.Korea to halve currency stabilization bond sale in 2011

4 October 2010

Provided by: [Asia Pulse](#)

SEOUL, Oct 4 Asia Pulse - **South Korea plans to halve the issuance of foreign exchange stabilization bonds in 2011 compared to this year in anticipation of improved global financial market conditions, the government said Sunday.**

The finance ministry said it may sell up to US\$1 billion worth of monetary stabilization bonds

next year, down sharply from the maximum limit of \$2 billion set for 2010. The bonds are designed help the inflow of foreign currency and stabilize the value of the Korean won.

The decision comes as the government has not issued any foreign stabilization bonds so far this year and Seoul's foreign reserves reached \$285.9 billion in late July.

"Present conditions do not warrant the issuing of the bonds that can lead to state debt down the road," a government official said.

South Korea currently has \$7.0 billion worth of foreign exchange stabilization bonds that it must buy back in the coming year, with \$3.5 billion due by 2014.

The ministry, meanwhile, said that it will issue a maximum of 83.9 trillion won (\$74.5 billion) worth of Treasuries in 2011, up from 77.7 trillion won in state debts that Seoul said it could sell this year.

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Asia Pulse

S. Korea's state-guaranteed debt to top 41 tln in 2011: report

3 October 2010

Provided by: [Organisation of Asia-Pacific News Agencies](#)

SEOUL, Oct. 3 (Yonhap) -- **South Korea's state-guaranteed debt is expected to reach 41.3 trillion won (US\$36.6 billion) in 2011, a government report showed Sunday, raising concerns it could pose a burden on fiscal health down the road.**

The report by the finance ministry showed that debt that must be paid by the government if the borrower defaults could account for 3.3 percent of the country's gross domestic product in the cited year.

This represents a gain of 13.2 trillion won from 2008, when state-guaranteed debt stood at 28.1 trillion won. The total moved up to 29.8 trillion won in 2009 and may balloon to 34.9 trillion won by the end of this year.

State-guaranteed debt is not officially classified as money that the government has to pay back since the borrower is primarily responsible for payment. It can, however, become a liability if there are unforeseen problems with the economy that could trigger wide-scale defaults.

The ministry, meanwhile, said that the recent increase is mainly due to the government moving to guarantee payment on borrowing by local financial institutions that were hard-pressed to secure foreign exchange during the recent global financial crisis.

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Organisation of Asia-Pacific News Agencies

Thailand

Bond Futures: A new era for Thai hedging and trading

venerdì 8 October 2010

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

On October 18, the Thailand Futures Exchange (TFEX) will launch the 5-Year Government Bond Futures (or "TGB5 futures"), its first interest rate-based derivatives product. As readers may be aware, put simply, if interest rates rise, bond prices will fall, and vice versa. Thus, buying bond futures will certainly help those investing in the Thai debt market to hedge their interest rate risk.

The TGB5 futures is an index bond futures contract. Instead of being based on a particular issue of bond, for example, LB167A or LB155A, the TGB5 have as an underlying asset a basket of Thai government bonds that range in time to maturity from four to six years. In addition, the outstanding amount of each bond issue must be at least Bt5 billion. One TGB5 futures contract is equivalent in value to a government bond, 5 per cent coupon, or Bt1 million.

While bonds traded over the counter are quoted in terms of yields, the TGB5 futures will be quoted in terms of price per 100. For example, if an investor would like to take a long position on TGB5 futures which has three months to maturity at a yield of 2.5 per cent, he or she will bid Bt111.33 per Bt100 face value. The price of TGB5 futures moves up or down by 0.01 point which is equivalent to Bt100. The trading session ends at 4pm, or 45 minutes earlier than for other TFEX products, due to the low level of cash transactions after 4pm.

TGB5 futures are cash-settled. On its last trading day, a given contract will be settled at the price announced by the TFEX. These calculations will be based on the quoted prices of the bonds in the basket provided by primary dealers appointed by the Bank of Thailand. After deleting the highest and lowest values, the rest will be used to calculate the final yield of the basket and then converted into the settlement price.

So, what are the benefits of holding TGB5 futures? This instrument will be of value to investors seeking to hedge their bond portfolio or to gain an exposure to the bond market efficiently. With this kind of instrument available, investors in the Thai bond market can manage their existing risk with more confidence, thus furthering development of the capital market.

In addition to the long-term interest rate TGB5, TFEX will introduce two more short-term interest rate-based futures by the end of this year.

Rinjai Chaiyasut is head of the Derivatives Product Department at the Stock Exchange of

Thailand.

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The Nation (Thailand)

Thailand: Public Debt Management Office to issue zero percent bond to Bank of Thailand

6 October 2010

Provided by: [Thai News Service](#)

Section: Business News - **The Public Debt Management Office plans to issue zero-interest bonds to the Bank of Thailand to reduce the financial institutions' debt rehabilitation and development fund.**

The office will also find a way to manage the 400 billion baht in treasury reserves so that they generate returns.

Finance Minister Korn Chatikavanij presided over a ceremony to mark the eighth anniversary of the Public Debt Management Office or PDMO.

He has tasked the office with managing four billion baht worth of treasury reserves so that they generate returns.

The treasury reserves are deposited with the Bank of Thailand, and the Finance Ministry has tasked the PDMO with amending regulations so the funds can be invested.

Jakkrit Parapantakul, director of the PDMO, said the fund has incurred 1.1 trillion baht in debt and the Finance Ministry has set aside a budget worth 65 billion baht every year to deal with the interest rate burden.

He expects that the BOT will agree to the zero-percent bond plan.

Previously, the BOT was unable to repay debt capital, resulting in high interest rate costs.

Although the proposed bond is zero percent, the BOT will have to pay interest to the ministry which purchases bonds from the fund.

The PDMO director said there are two possibilities for generating returns from the treasury reserves.

The law governing treasury reserves must be amended so that they can be deposited at other agencies besides the BOT to generate interest rate returns.

The second option is to change the law so that the BOT can pay the Finance Ministry some returns for depositing the reserves with the BOT.

He added that both possibilities are included in capital market development plan and will be realized during the next fiscal year. - Thai-ASEAN News Network

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EUROPE

Reuters Summit-Debt, growth in question for east EU

8 October 2010

Provided by: [Reuters News](#)

*** Surge in portfolio investments boosting CEE assets * Investors differentiating -- bullish on Poland and Czechs**

*** Policymakers, CEOs to discuss at Oct. 11-13 Reuters Summit**

By Michael Winfrey, Economics Correspondent, Central Europe and the Balkans

PRAGUE, Oct 8 (Reuters) - **A surge in portfolio inflows is flooding into emerging central Europe, although yield-hungry investors are picking solid policy and higher growth over countries still struggling to put the crisis behind them.**

After deep contractions across the region, a two-speed recovery is underway, with countries boasting better debt fundamentals like Poland and the Czech Republic for the moment ahead of those who depend on foreign lending.

Investors are also dipping into countries like Hungary, but struggles by the new centre-right Fidesz government to get its budget deficit under control mean it is lagging for now, along with fellow International Monetary Fund benefactor Romania.

"There has... been clear differentiation between the more robust and the weaker economies of the region," Goldman Sachs wrote in a research note on the region.

"We believe that the region's stronger economies -- namely, Poland, Turkey, Israel and the Czech Republic -- will be the first to see an acceleration in financial inflows both in debt and, increasingly, equity." Turkey and Israel are often grouped with emerging European markets.

Extremely easy monetary policy in the world's developing economies, including expectations the Fed will push ahead with more asset-buying, plus continued worries over debt in troubled euro zone countries like Greece and Ireland have helped push investors into these higher-yielding countries.

But these new, more volatile, portfolio flows carry risks.

Having supplanted the greenfield projects, reinvested dividends, and bank lending that fuelled export and consumer spending booms earlier this decade, they are more exposed to selloffs in the event of a Lehman-style global shock, which wiped 30 percent off the zloty's value versus the euro.

Regional pressures, from budget battles to whether Germany's exports will continue to fuel recovery, will also weigh.

More than a dozen policymakers, bankers and corporate officials will discuss this and other issues at the Reuters Central European Investment Summit in exclusive interviews in Vienna, Warsaw, London and New York from Sept. 11 to Sept. 13.

FLOWS, RISKS

With slower growth and hard-to-escape ties to the EU's ailing periphery, Emerging Europe has lagged Asia and Latin America in luring investors, but that has picked up since July.

According to the Institute of International Finance, capital flows to Emerging Europe, including Turkey and Russia, are likely to triple to \$180 billion this year, even if they remain at a third lower than the 2004-2008 average.

Boosted by the victory of an austerity-minded government and low national debt, the Czech crown has led the region since July, rising 7.4 percent versus the euro. Poland's zloty has climbed 4.28 percent and Warsaw's WIG index 12 percent.

Hungary has benefitted too, despite concerns that the government is not matching its promises on reducing the deficit with appropriate policy measures. The forint has jumped 4.5 percent since July, and its .BUX index has jumped 13 percent.

"The lower risk profile of our region relative to others, such as peripheral European countries, is making the asset class a more mainstream investment option," said Marcin Fiejka, Senior Portfolio Manager, Pioneer Funds - Emerging Europe and Mediterranean Equity.

Romania, which is struggling to sell bonds at yields under a self-imposed 7 percent ceiling, is fighting public discontent and a combative opposition to push through an austerity plan key to keeping its own IMF aid programme on track.

Ahead of an autumn, 2011 election, Poland's government is eschewing austerity and a sharp worsening in its forecasts for the broad public sector deficit this year could push it past constitutional debt safeguards.

But it is expected to grow up to 3.5 percent this year and its central bank expected to raise interest rates from its current 3.5 percent -- well over western levels.

The industry-heavy Czech Republic is expected to grow 1.6 percent this year and 2.3 percent in 2011, although like Slovakia and Hungary its recovery is heavily dependent on its main export market Germany. Its centre-right government also aims to balance the budget by 2016 if growth allows.

A Reuters poll this week showed analysts expect the zloty to firm 4.4 percent in the next 12 months, and the Czech crown 0.9 percent. But the forint, buffeted by conflicting signals from Fidesz, was seen weakening 2.4 percent.

"You've got have a reason to think you're going

to do significantly better than G4 (developed) economies on a sustained basis," said Barclays Capital analyst Koon Chow.

"I think Poland and Czech can do it. Hungary and Romania, I'm not sure they can."

(Additional reporting by Sebastian Tong; editing by Patrick Graham)

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Belarus

Belarus eyes October rouble bond issue in Russia

4 October 2010

Provided by: [Reuters News](#)

*** Placement possible this month**

*** Plans to borrow up to 15 bln roubles**

MOSCOW, Oct 4 (Reuters) - **Belarus may place up to 15 billion roubles (\$491.6 million) worth of bonds in Russia this month, first deputy finance minister Vladimir Amarin told Reuters on Monday.**

"As soon as there is an order, we are ready for the placement...It could be October," he said. Belarus has been hit by economic woes in key trading partners Russia and the European Union. Finances are likely to be hit further as Alexander Lukashenko seeks to be re-elected in a Dec. 19 presidential poll. He has already come under IMF criticism for promises of big wage rises.

Minsk already raised a total of \$1 billion in its debut Eurobond this summer -- with strong demand enabling it to raise the volume of the original issue by \$400 million. Capitalising on investor appetite for the region's bonds, Belarus has also said it would issue the rouble bonds.

The issue -- organised by Sberbank -- may face competition, as Russia plans to issue up to \$3 billion in its own rouble-denominated bonds to foreign investors later this year or in early 2011.

(Reporting by Andrey Makhovsky; Writing by Toni Vorobyova)

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Romania

Romania rejects all debt bids, IMF-led aid to help

7 October 2010

Provided by: [Reuters News](#)

*** Rejects all bids, sticks to yield cap as expected**

*** Funds from IMF-led aid deal help finance ministry**

BUCHAREST, Oct 7 (Reuters) - **Romania**

rejected all bids at a tender to sell three-year treasury bonds on Thursday as funds received from a 20 billion euro IMF-led aid package enable it to stick to a policy of capping yields.

Despite upward pressure on yields due to uncertainty over Romania's fiscal tightening measures, the finance ministry has refused almost all bids above 7 percent since May, which has led to lower issuance and failed bond tenders.

The ministry, which had planned to sell 300 million lei (\$98.23 million) of three-year paper on Thursday, last sold the maturity in April, when yields averaged 6.8 percent. It has since rejected all bids.

On the secondary debt market, three-year paper currently trades at around 7.2 percent.

Analysts said European Commission funds recently disbursed as part of Romania's aid deal would help the ministry cover its needs while it refuses bids for above 7 percent.

But they added that the ministry's failure to sell longer-dated maturities was unsustainable.

"There still doesn't seem to be a lot of demand for long-term paper. But thanks to European Commission funds, the ministry's position allows them to continue capping yields," said Vlad Muscalu, an economist at ING Bank in Bucharest.

"I would say ... it is concerning. This thing has lasted for a long time, it's not just an episode."

The ministry has said it plans to sell 4.6 billion lei in leu currency bills and bonds this month, more than double the amount sold in September. It has sold 28.27 billion lei so far this year. For more details of the tender see.

(Reporting by Luiza Ilie; Editing by Hugh Lawson)
(\$1=3.054 Lei)

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Russia

Russian government debt to stay under 20% of GDP says Putin

5 October 2010

Provided by: [RIA Novosti](#)

MOSCOW, October 5 (RIA Novosti) - **Russia's government debt will be kept under 20% of GDP in the next few years, Prime Minister Vladimir Putin said on Tuesday.**

The debt will only be 11% of the country's GDP by the yearend, Putin told a VTB-Capital forum in Moscow.

The debt will rise to 13.6% of GDP by the end of 2011, 15.7% by the end of 2012, and 17.4% by the end of 2013, according to the Finance Ministry.

The leading world economies' debts will continue

to mount, the International Monetary Fund (IMF) has said, citing figures for the United States, where government debt will rise to 97% of GDP. Other nations' debt figures include the UK with 84.8%, France with 88.6%, and Germany with 79.6%.

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RIA Novosti

Slovakia

Slovak 15-yr euro bond sees high demand, price improves

6 October 2010

Provided by: [Reuters News](#)

* **Final price at 150 bps over swaps, low end of guidance**

* **Latest issue in CEE to take advantage of rising demand**

* **Will help finance large budget gaps**

By Jason Hovet

BRATISLAVA, Oct 6 (Reuters) - **Slovakia sold 2 billion euros in 15-year government bonds on Wednesday, pricing its second syndicated issue this year on the low end of guidance at 150 basis points over mid-swaps.**

The bond adds to a stream of borrowing on international markets by central European countries over the last month as lower debt levels and better growth prospects in the region lure investors seeking higher yields away from more indebted euro zone periphery states.

Debt agency ARDAL chief Daniel Bytcanek said demand for the 4.35 percent coupon bond topped 4 billion euros at midday.

The reoffer yield was 4.373 percent.

The funds will help Slovakia finance yawning budget gaps that are expected to near 8 percent of economic output in 2010 and 4.9 percent in 2011.

HSBC , SG CIB , Raiffeisen's Tatra Bank and Unicredit Bank Slovakia managed the issue. The price was on the low end of initial guidance of 150 to 155 basis points over swaps reported earlier by Thomson Reuters market research group IFR.

Juraj Kotian, Erste Bank's co-head of macroeconomic and fixed income research, said the syndicated issue would help diversify Slovakia's borrowing and take pressure off borrowing on local markets, keeping demand healthy.

"This is the reason they went for high volume and long (maturity)," he said, adding the country's relatively low debt was also attractive for investors.

Slovakia's public debt-to-GDP ratio is expected to hit around 44 percent this year, up sharply

from 27.7 in 2008 but still far below the European Union average.

Slovakia had sold 6.96 billion euros in bonds and treasury bills by the end of September.

The country's gross borrowing requirement this year is 9.1 billion euros, up from 6.9 billion euros in 2009, according to a presentation by ARDAL which accompanied the bond offering. Borrowing is planned at around 8 billion in 2011.

ARDAL told Reuters last week that the 15-year issue would be aimed at pre-financing next year.

CEE ATTRACTIVE

Slovakia's ruling coalition introduced a 1.75 billion euro austerity package in September and approved on Wednesday a tight 2011 budget draft.

Finance Minister Ivan Miklos, speaking at a press conference held before final pricing, said 150 basis points over swaps would be a good result and better than other euro zone members like Italy or Spain.

"It is confirmation that the budget is realistic," he said.

Yields on central European debt have dropped since April as investors, rattled by high debt levels in euro zone members like Greece, Ireland and Spain, piled into the region. Spring election victories by austerity-minded centre-right coalitions in Slovakia and the Czech Republic also assured investors.

The Czech Republic sold 2 billion euros in Eurobonds due in 2021 at 105 basis points over swaps last month, rounding out 2010 financing needs and pre-financing 2011. Slovakia sold 1.5 billion euros of 10-year benchmark bonds in syndicate in April at 80 basis points over mid-swaps.

A Slovak domestically-auctioned benchmark bond due in 2026 was quoted with a 4.266/093 percent yield on Wednesday, down from 4.82 percent in April and similar to yields in Italy. A German bund maturing in 2027 was quoted at 2.722/713 percent.

(Reporting via Prague newsroom; Editing by Hugh Lawson and Susan Fenton)

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Ukraine

Ukraine state debt to reach 40% of GDP by 2011 – deputy premier

5 October 2010

Provided by: [ITAR-TASS World Service](#)

MOSCOW, October 5 (Itar-Tass) — **Ukraine's state debt to reach almost 40 percent of the Gross Domestic Product (GDP), Ukrainian Deputy Prime Minister and Economic Minister Sergei Tigipko told an investment forum**

"Russia Calling" organized by the VTB Capital bank.

Two years ago Ukraine's foreign debt was estimated at about twelve percent of the GDP, but it doubled over the past two years, the Prime Tass economic news agency quoted him as saying.

In his words, the growth of the country's foreign debt forced the Ukrainian government to cut state budget deficit, Prime Tass said.

In 2010, the deficit of the Ukrainian budget is expected to be at 4.9 percent of the GDP, while it will be at 3.5 percent of the GDP in 2011.

"This will be the last year, when we have such a big deficit," the deputy prime minister said.

In addition, Tigipko is confident that Europe will have no problems with transit of Russian natural gas via Ukraine.

"While having a ten-year contract, we can have confidence in the future. I hope we will never face problems of the kind," he said, adding, "In December, the Europeans can be absolutely calm regarding the transit of Russian gas via Ukraine."

Recently, Russia's gas monopoly Gazprom and Ukrainian oil and gas company Naftogaz Ukrainy have often had disputes over gas supplies, which sometimes resulted in disruptions of Russian transit via Ukraine to Europe, Prime Tass said.

The Ukrainian minister also reaffirmed that his country is considering a set of investment projects with Russia. "I would like to emphasize that Russia's proposals are more interesting than those of Western partners," Tigipko said, stressing, "There are no priorities. All proposals will be considered on the basis of a contest."

At the same time, partnership with the European Union remains the top priority task in Ukraine's foreign policy, the deputy prime minister said.

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ITAR-TASS World Service

Ukrainian foreign debt may top 40% of GDP by yearend - deputy premier

4 October 2010

Provided by: [Interfax: Ukrainian General Newswire](#)

Moscow, October 4 (Interfax) - **Ukraine's foreign debt may top 40% of GDP by the end of this year, Ukrainian Deputy Prime Minister Sergiy Tigipko told the Russia 24 TV Channel.**

"The foreign debt grew from 12% of GDP to 36% of GDP in two years. The debt will reach 41-42% of GDP by the end of the year," he said.

"The of 60% is a limit but not for such a country as Ukraine. We must stop at 40%," he said.

The Ukrainian government needs "strict consolidation of public funds," Tigipko said.

Naftogaz Ukrainy is "a key hole in the budget," he said.

It is planned to cut the tax burden on certain industries, Tigipko said. For instance, Ukraine is reducing the tax revenue from 25% to 19%, and the VAT rate will drop from 20% to 17% two years from now. The tax revenue will be levied at the zero rate on aircraft and ship builders, hotels and light industry for a period of ten years.

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Interfax: Ukrainian General Newswire

LATIN AMERICA

Argentina

Argentina: debt talks should look at foreign firms

6 October 2010

Provided by: [Reuters News](#)

BERLIN, Oct 6 (Reuters) - **Argentina wants the tax benefits and loans enjoyed by foreign companies in Argentina taken into account in negotiations with its Paris Club creditors, President Cristina Fernandez said in Berlin on Wednesday.**

She told a joint news conference with Germany's Angela Merkel that "Argentina's intention has always been to pay its debts", and that its "position on the participation of the International Monetary Fund in the negotiations is well known".

The government in Buenos Aires has refused an IMF review of its economy since 2006, arguing that IMF mismanagement helped to precipitate the 2001-2002 economic crisis that led to a default on about \$100 billion of sovereign debt. Argentine officials have denied media reports that they are divided on whether to mend fences with the IMF to refinance its Paris Club debt and further improve access to financing after a \$12.3 billion swap of defaulted debt earlier this year.

The country is trying to restructure debts of about \$7 billion to the Paris Club which includes Germany, other major European powers and the United States among others, but Fernandez said this should take into account foreign firms' activities in Argentina.

"We believe the renegotiation of this debt with the Paris Club should also contemplate investments by Paris Club countries in Argentina, where companies get fiscal benefits and loans that allow these European companies

to send profits home," she said.

"We think this should be taken into account because unlike bonds which are really financial loans, we all know the Paris Club loans are aimed above all at company activities via investment agencies," said the Argentine president.

She did not elaborate any further on the proposal.

(Reporting by Stephen Brown; editing by Patrick Graham)

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Brazil

Brazil tax in line with Treasury debt strategy

5 October 2010

Provided by: [Reuters News](#)

*** Rise in IOF tax in line with Treasury strategy**

*** Treasury aims to attract long-term investment**

BRASILIA, Oct 5 (Reuters) - **Brazil's decision to increase its tax on foreign bond purchases is in line with the Treasury's strategy of attracting more long-term investors, Treasury Secretary Arno Augustin said on Tuesday.**

Brazil on Monday doubled the so-called IOF tax on foreign investment in local bonds to 4 percent from 2 in a bid to curb a rapid rise in the country's currency and protect exporters who have struggled to sell their goods abroad.

"The IOF deters the short-term (investor), who is looking more at changes in the exchange rate. But our opinion is that the long-term (investor) will keep on coming," Augustin told reporters.

Brazil's Treasury has sought to improve its debt profile in recent years by increasing the amount of fixed rate bonds it issues and extending the bond yield curve by issuing debt with longer maturities.

The idea is to attract more long-term funds, since short-term investment is considered more volatile and vulnerable to the whims of global financial markets.

The tax rise will only apply to fixed-income securities, while the government left unchanged the IOF tax for the purchase of Brazilian stocks by foreigners at 2 percent.

With Brazilian interest rates among the world's highest at 10.75 percent, foreign investors are pouring cash into Latin America's largest economy in search of steep returns.

Brazil has been among many emerging economies globally struggling to cope with hot investment inflows, which they blame on ultra-low interest rates in the United States and other

developed countries.

(Reporting by Isabel Versiani; Writing by Ana Nicolaci da Costa; Editing by Andrew Hay)

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Colombia

Colombia TES bond yields fall on inflation data

6 October 2010

Provided by: [Reuters News](#)

BOGOTA, Oct 6 (Reuters) - **Yields for Colombia's benchmark peso-denominated TES bonds fell 13 basis points on Wednesday after the Andean nation released data showing lower-than-expected consumer prices for September, traders said.**

The nation's consumer prices fell 0.14 percent in September versus a drop of 0.11 percent in the same month last year, the government said on Tuesday, while a Reuters poll of 33 analysts had expected an increase of 0.07 percent last month. For details, see.

Yields for the July 2020 TES bonds fell to 7.17 percent at the close of trading compared with Tuesday's close of 7.30 percent.

David Aldana, head of economic research at the brokerage Ultrabursatiles, said the data "definitely had an effect."

"It was unexpected by the market, which won't be worried about inflation for this year," he said, Analysts say weak consumer prices had boosted expectations the central bank would maintain its benchmark interest rate at 3 percent going forward.

Trading volumes for Colombia's debt instruments rose 236 percent in the second quarter to \$35.56 billion versus \$10.5 billion in the same period last year, and were \$26.2 billion in the first quarter of 2010, according to trade group EMTA.

(Reporting by Nelson Bocanegra; Writing by Jack Kimball; Editing by Andrea Ricci)

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Mexico

Mexico to issue \$1.8 bln 10-year samurai bond

6 October 2010

Provided by: [Reuters News](#)

*** Mexico to return to samurai market this month**

*** Ten-year bond seen at 150 billion yen**

* Government wants to pay off maturing debt

By Luis Rojas Mena

MEXICO CITY, Oct 6 (Reuters) - **Mexico will issue a \$1.8 billion yen-denominated bond this month, officials said on Wednesday, as Latin America's No. 2 economy seeks to cash in on global investors' rush into emerging markets.**

News of the samurai bond, expected to be about 150 billion Japanese yen, comes after Mexico priced on Tuesday Latin America's first 100-year sovereign bond.

Investors jumped at the century offering, priced with a relatively modest yield of 6.10 percent, in another sign of appetite for riskier emerging market debt promising higher returns than fixed income assets in the developed world. For an analysis of the century bond sale see.

"In an environment of low rates, it's natural that investors seek alternative investments that can pay them a little more," Gerardo Rodriguez, head of public debt at Mexico's finance ministry told Reuters in a telephone interview.

Strong investor demand for emerging market debt has lowered Mexico's borrowing costs as has this month's inclusion of more than \$100 billion in Mexican debt on the Citigroup World Government Bond Index (WGBI).

The budget crisis that swept across Europe earlier this year has also shaken investor faith in some developed economies and prompted some to take another look at emerging markets.

"Emerging economies, particularly those in Latin America, are in a position of relative strength vis-a-vis other sovereign debt - such as in Europe - because we took more timely anti-crisis measures," Rodriguez said.

IFR, a Thomson Reuters service, reported the yen bond would be priced around Oct. 20.

Last year, Mexico's credit rating was downgraded but it remains investment grade with a stable outlook. Mexican Central Bank Governor Agustin Carstens said last week that Mexico's economy, which shrank by 6.5 percent in 2009, will grow between 4.5 and 5.0 percent this year.

The century bond attracted 2.5 times more demand than the bond size from roughly 113 U.S. institutional investors in Asia, Europe, South America and Mexico, the finance ministry said on Tuesday night in a statement.

In December 2009, Mexico tapped the samurai market with a 10-year bond of the same size as the bond now being contemplated, according to IFR.

At the end of 2010, Mexico will have net public debt equal to 30.8 percent of gross domestic product or 9.8 percentage points higher than at the end of 2000, the government predicts.

Conservative President Felipe Calderon, who took over at the end of 2006, is seeking to

fortify public coffers while helping lift the economy whose fate is closely tied to the whims of U.S. consumers who absorb roughly 80 percent of Mexican exports.

"We have appropriate and manageable debt levels compared to what has been seen in other countries particularly in Europe," Rodriguez said.

(Additional reporting by Atanas Dinov in Tokyo and Lizbeth Salazar in Mexico City; Writing by Cynthia Barrera and Mica Rosenberg; Editing by James Dalglish and Diane Craft)

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AFRICA

Zambia

Government approves agreement settling Zambia's \$100 million debt

4 October 2010

Provided by: [Interfax: Russia & CIS General Newswire](#)

MOSCOW. Oct 4 (Interfax) - **The Russian government has approved the signing of an agreement on settling Zambia's debt through funding of Zambian development projects.**

Prime Minister Vladimir Putin issued an ordinance to that effect on September 24, 2010.

The Finance Ministry, the Foreign Ministry, the Economic Development Ministry and Vnesheconombank will hold negotiations with Zambia and sign an agreement on the Russian government's behalf.

Zambian main debt and interest had reached \$99.15 million as of December 21, 2006. The interest imputed after December 22, 2006, will not be paid, and the imputing of interest will stop when the agreement enters into force.

The debt will be converted into Zambian development projects, such as reduction of energy deficiency, healthcare and social security management, accessibility and quality of education.

The money will come to a specialized account.

Vnesheconombank and the Bank of Zambia will sign an interbank agreement to open the account and to make the transfer no later than 60 days after the deal is signed.

If the money is not spent before December 31, 2014, Russia will have the right to use the money as it wishes.

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

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Interfax: Russia & CIS General Newswire

ANALYSIS

Public debt, fragile banks pose risks to growth: IMF

7 October 2010

Provided by: [The Korea Herald](#)

High unemployment, public debt and fragile banking systems pose risks to global prosperity, the International Monetary Fund said, urging policy makers to take bolder steps to assure a sustained recovery.

The world economy will expand 4.2 percent next year, the Washington-based IMF said in a report, down from its forecast of 4.3 percent three months ago. The fund projects growth of 4.8 percent this year, up from 4.6 percent.

Korea's economy will grow 6.1 percent this year, helped by China and other emerging Asian economies leading the global recovery buttressed by robust exports and resilient domestic demand, it said.

The figure is an upward revision from the IMF's July prediction of 5.75 percent growth, and higher than 5.8 percent growth envisioned by the Korean government.

But sluggish household spending, high unemployment and financial instability in advanced economies will drag down Korea's growth to 4.5 percent next year, it said.

Many advanced nations such as the U.S. have yet to adopt policies that will reduce their reliance on government spending and strengthen household demand and exports, the IMF said. At the same time, developing nations such as China are keeping their currencies weak and remain overly dependent on overseas sales to spur growth.

"The result is a recovery that is neither strong nor balanced and runs the risk of not being sustained," chief economist Olivier Blanchard wrote in an introduction to the IMF's World Economic Outlook. "If growth stops in advanced economies, emerging-market economies will have a hard time decoupling," he said. Global coordination "may be even more important today than at the peak of the crisis."

Nations such as China and Brazil are powering the return to growth, widening a gap with advanced economies from Europe to the U.S. that are struggling to revive domestic demand, the IMF said. Developing nations will grow 6.4 percent next year, unchanged from the previous forecast, while advanced economies will expand 2.2 percent, down from an earlier 2.4 percent forecast, the IMF said.

The fund urged emerging economies to allow greater exchange-rate flexibility, while their developed counterparts should reduce deficits, step up financial repair and keep accommodative monetary policies in place.

Such steps are part of two "rebalancing acts" needed to assure a sustained recovery, the IMF said. One entails a shift from public stimulus to private demand in developed countries. The second involves an external shift, with countries such as the U.S. relying more on exports, while developing nations turn to domestic sources of growth.

"Many emerging-market economies continue to run large current-account surpluses and to respond to capital inflows primarily through reserve accumulation rather than exchange-rate appreciation," Blanchard wrote. "International reserves are higher than they have ever been and continue to increase."

"With a few exceptions," emerging Asian currencies, including China's yuan, "appreciated modestly in real effective terms," with many remaining "undervalued relative to medium-term fundamentals," IMF economists said.

The IMF cut the 2011 growth forecast for every Group of Seven industrial nation except Germany and France. It kept its forecast for France next year unchanged at 1.6 percent and raised Germany's to 2 percent from 1.6 percent.

The U.S. economy is forecast to grow 2.6 percent this year, down from an earlier forecast of 3.3 percent. Next year, the world's largest economy will grow 2.3 percent instead of 2.9 percent.

Japan's gross domestic product will increase 2.8 percent in 2010, more than the 2.4 percent forecast in July, before slowing to 1.5 percent next year, the fund said.

For the euro area, the IMF raised its forecast for 2010 to 1.7 percent from 1 percent and also increased its 2011 outlook 0.2 percentage point to 1.5 percent.

Risks to financial stability increased over the past six months because of the European debt crisis that started in Greece, even though market conditions have eased in the past few months, the IMF said.

It warned that without "strong" and "credible" fiscal tightening plans over the next few years, debt markets will continue to threaten the recovery.

The IMF, which over the past 18 months has shored up economies from Greece to Ukraine, also warned that housing will remain a "drag on growth" in many parts of the world as well as a risk to lenders.

"Sluggish" growth in most advanced economies means that unemployment will stay high, which "poses major social challenges" and will contribute to low inflation.

Monetary policy "wherever private demand is weak" should continue being "accommodative," Blanchard wrote, while cautioning that "not much more can be done, and one should not expect too much from further quantitative or

credit easing."

The IMF advised South Korea and other newly industrialized Asian economies to "be responsive to the domestic cycle" in withdrawing from expansionary monetary and fiscal policies, noting, "Most economies in the region have already resumed rate hikes (Australia, India, Korea, Malaysia, New Zealand, Thailand), and tightened liquidity management (reimposition of quantitative limits)."

The Bank of Korea, estimating this year's growth at 5.9 percent, raised its key interest rate to 2.25 percent in July from the record low of 2.0 percent, which it had maintained for 17 months.

The IMF also said, "The rapid recovery in the NIEs has been driven by a rebounding inventory cycle, strong domestic activity and robust regional demand for these economies' exports (electronics for Singapore, services for Hong Kong SAR, capital goods for Korea)."

Among major emerging markets, the fastest growth will be in China, which this year overtook Japan as the world's second-largest economy.

China will expand 10.5 percent in 2010 and 9.6 percent next year. India's growth will slow to 8.4 percent from 9.7 percent, and Brazil's will cool to 4.1 percent from 7.5 percent.

Mexico's 2010 forecast was raised the most, to 5 percent this year, from a 4.5 percent. Next year, it will expand 3.9 percent, the fund said.

Inflation in emerging economies should reach about 5 percent next year, the IMF estimated.

"Central banks in emerging and developing economies must be alert to second-round effects on wages from higher food prices or upside surprises to energy prices," it said.

Still, while demand should continue to support commodity prices, the IMF expects price pressures to remain "moderate" and to "be balanced by other forces" such as moderating growth in China.

From news reports

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Poland

FinMin Rostowski on 2011 budget, deficit & debt outlook, fiscal debate

7 October 2010

Provided by: [PAP Market Insider](#)

Warszawa. October 7, 2010 (PAP) - Following are highlights from FinMin Jacek Rostowski's appearance in the parliament on Thursday, presenting the 2011 budget bill.

THE BUDGET & PUBLIC DEFICIT OUTLOOK

"This is the first of three budgets consolidating

public finances which we plan for 2011, 2012 and 2013, of course assuming voters place their trust in us in next year's elections."

Rising deficits in 2009 & 2010 "were natural and correct. The crisis cuts budget revenues and increases spending in an unavoidable way such as for example the subsidy to the labour or social security fund to assure payments for all retirees without the slightest problem."

"The state budget deficit for 2011 planned in this budget will not exceed PLN 40.2 bln, will be more than PLN 12 bln lower than in the budget for the current year."

"In the following years the deficit of the state will decline consistently."

For the full public finance sector . . . in 2011 and according to our domestic definitions, the deficit will be 5% of GDP, in 2012 2.8% of national income and in 2013 1.4% of GDP."

"By the EU definition, the public finance sector deficit in 2011 should come to 6.5% GDP, in 2012 4.5% and in 2013 2.9%."

"The real problem of the Polish economy is the structural deficit which results from mistaken policy of 2006 and 2007 when . . . PLN 40 bln in revenue cuts were voted through and . . . spending increases came to 52 bln PLN."

PUBLIC DEBT OUTLOOK

"Starting next year the relation starts to stabilize and from 2013 it starts to fall. What is more, remember that the countries that should count their debt differently than the countries of Western Europe that have no such system . . . debt from pension reform should be excluded if we wish to make the comparison."

Debt put to pension funds "to end-2011 will be PLN 260 bln from the beginning of the reform and PLN 130 bln from the beginning of our term. And you can't get away from this fact - that money is real."

"If you count this out, public debt will be at the level of 40% of GDP, about half of the EU average, less than half the level in France and a bit above half the level in Germany."

"And if you look at how public debt rose in 2010, but you count out what we put to, the adjusted rise in public debt in 2010 will be the third lowest in the EU."

"The ratio of public debt to GDP, counted expenditures, starts to decline next year already."

POLISH ECONOMIC RESILIENCE

"In 2010 Poland will also be in the very top of EU nations in terms of GDP growth. We will be in second place. The European Commission says 3.4% economic growth. First place will belong to Sweden with 4%. We will be only, I repeat only, in second place. And together with us, Germany . . . but these two countries which will have economic growth close to that of Poland are both overcoming strong prior declines."

"Our economic strength carried over . . . and we have reason to believe that it will carry over to the next year 2011, then 2012 and 2013 - the years in which we will consolidate public finances of our nation."

"Remember not only that the economy is strong, but that this strength completely denies the claims of those who say that our state is crippled, weak and that it needs to be reformed with radical steps . . . this is not true."

CONSEQUENCES OF WOULD-BE STIMULUS

"We didn't follow the voice of the opposition. We didn't apply fiscal stimulus as proposed by the right-wing opposition . . . in contrast, we introduced a very significant package of savings."

Rostowski put the cumulative effect of revenue and spending side moves at PLN 30 bln, allowing for PLN 8 bln in additional infrastructure spending to increase the total infrastructure investment spending to PLN 2 bln or 1.8% of GDP.

"We didn't implement the stimulus package of PLN 40 bln . . . we also didn't reduce VAT rates by 3 pps as proposed by the late Lech Kaczynski . . . which would have cost PLN 15 bln . . . Had we gone down that road, then this year we certainly would have crossed the second public finance threshold at 55% of GDP. That is what would have happened had we taken the road proposed by PiS at that time . . . It is entirely possible that we would have crossed the constitutional threshold this year . . . 60% of GDP after which extremely radical reform measures are required in public finance."

THE ARGUMENT FOR GRADUAL CONSOLIDATION

"Approaching reform in a gradual manner, we are more effective."

"Throughout Europe, governments are consolidating public finances, even though many remain in recession. They do so because they have to. As a result of the type of policies presented a year ago by PiS, those countries now have no choice."

"But the fact that we belong to a group of nations that consolidate because we can, not because we have to, is a result of the model we took through the crisis."

"We chose to save money in 2009 when it was required in order to not lose credibility with our lenders. We managed to allow for a controlled rise in the deficit when it was needed in 2010, this year, in order to not squeeze growth and we know how to consolidate in 2011, 2012 and 2013 when, as we already know, the Polish economy will be able to manage the burden as it will be strong enough."

"A gradual elimination of that structural deficit requires tough spending policy and that is what we are applying since 2009. In 2009-10 we held

to the spending rule which we will put into the bill on public finance which will be presented at the latest in several weeks."

"That rule means that the rise in discretionary spending, the spending not fixed in legislation, plus the rise in new fixed spending cannot exceed 1% above inflation. We held that rule in 2009 and 2010 even though wasn't in place yet and we hold to it also in the budget we present today even though the rule isn't in place formally. And, what is more, in the three years 2009-11 we utilized only one third of the maximum rise in discretionary spending allowed by that rule."

THE NATURE OF CONSOLIDATION & VAT HIKE

"Consolidation plans always consist of two sides: in spending and revenues. It is a myth that such plans can only affect the spending side. In the budget we present and about 4/9 consists of spending and 5/9 are revenue increases. In Germany, where they also have a savings plan . . . the ratio is a similar 1:1. In Great Britain it's different, two in revenues for every one on spending. But in all these countries, also in France, Holland, Sweden, action on the spending side will increase while the revenue side will hold. That is the way it is usually and it is the standard for consolidation and that is how it will be in Poland."

"But the savings from that spending rule and the extra efforts we put in, they only affect the rising cumulative effect. That is why we need to buy time by raising VAT by one percentage point . . . We had to take this step, assuming that although it is an evil, it is a necessary evil."

Structural reforms due to end-term include: 1) the spending rule 2) a second wave of deregulation 3) a new basis for disability payments 4) universal pension system for individuals entering the uniformed services, which Rostowski says will constitute "a completion of pension reform" and 5) health care reform. "These reforms will reduce spending or increase the revenue base."

TO ECONOMISTS CALLING FOR MORE RADICAL REFORMS:

"These commentators make the opposite mistake of PiS. PiS wants a faster rise in debt. These commentators want early and overly aggressive cuts in spending. The direction they propose is right, but the model of action is wrong."

"Today I challenge them: let's meet here in one year when I hope that it will be me presenting the 2012 budget and, if it turns out that there was no disaster in public finances, then I expect they will apologize to Poles."

"We all know this new counter of the rising public debt. . . It is true: the debt counter is counting. But we also have a counter for rising national income, for rising GDP and that is

significant."

"And we should include what those counters say and also how much money we put into our pension funds . . . you can't get away from that fact. The money is real."

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