MIMS – Research Area

Macro Research Team

Report – December 2020

Our report is focused on a restricted group of nations, usually referred as "developing countries". In the course of this report we will cover in a systematic way the peculiarities and characteristics of their economic and social environments, their reactions to the current crisis, and, in the end, we will give a snapshot of the future opportunities resting in their markets. In general, government activities and breakthroughs in the hunt for an effective COVID-19 vaccine have fed optimism over a global recovery of the economy, but the pandemic has exacerbated many structural issues in developed countries. In this report we will try to understand if developing countries represent a valuable alternative.

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Emerging Markets and COVID-19

The emerging market economies (EMEs) are generally extremely exposed to global recessions and the COVID-19 pandemic has been an incredible test of their resilience. Many EMEs have weak public health systems, poor and financially vulnerable populations, inadequate social safety nets, limited monetary and fiscal policy room, and high exposure to global trade and commodity prices. In addition, EMEs are exposed to foreign capital outflows and the subsequent currency volatility. Global recessions also increase pressure on public debt sustainability since often large share of public deficits are financed through bonds issued in foreign currency. As a result, EMEs are strongly affected by higher risk aversion and volatility. However, the V shaped recovery foreseen in capital markets fostered by western central banks has brought back liquidty at unprecedented pace.

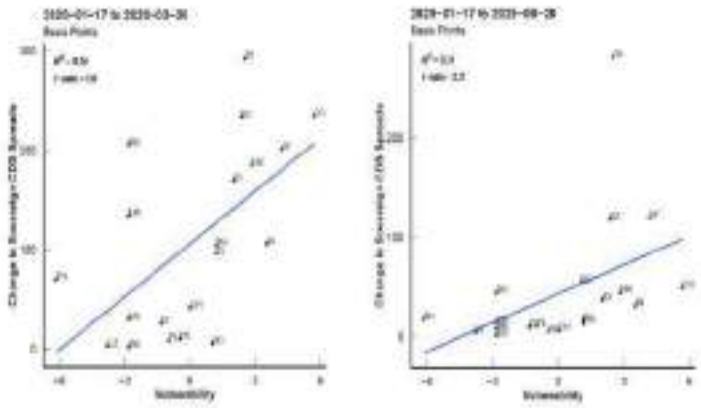
Figure 1, Source: Bloomberg

It is interesting to observe two elements that show this "state of the world":

- The coronavirus crisis sparked a record flight out of emerging market assets with more than $90bn drawing back bonds and stocks in March, according to the Institute of International Finance.
- The MSCI Emerging Markets Index, after the huge fall due to the spread of the virus, turns into positive territory for the year, up more than 50% since its March low

Goldman Sachs analysts have forecasted that these markets will move “from resilience to outperformance” next year; Renaissance Capital, an emerging and frontier market specialist, advised investors “to buy anything and everything” in the sector. EM equity funds, which suffered almost uninterrupted outflows from March to September, have attracted almost $14bn in November.
However, these predictions are connected to the activity of “the central bank of central banks”, the FED, and to the fluctuations of its currency, the dollar. Some analysts expect the dollar to fall as much as 20% next year against the currencies of its main trading partners. Many analysts forecast a weaker dollar and a “conditio sine qua non” for growth in EMEs. In particular, a weakening dollar makes it easier for debtors in the developing world to repay dollar borrowings, easing concerns about sustainability. A weak dollar also offers foreign investors the prospects of currency gains on top of often generous equity dividends and higher interest rates on local currency bonds. These bullish arguments are the result of the polices implemented by the FED and, particularly, to his capacity to provide liquidity to EMEs. In fact, as it was during the 2008 global financial crisis, EMEs were affected by sharp depreciation of currencies, with widening credit spreads on dollar-denominated debt and plunging equities.

The following graph examine the correlation vulnerability and the change in CDS spreads between mid-January and the week of March 20 (left), when global investor risk aversion was at its peak, and the week of August 28 (right). The vulnerability index is the one developed by Ahmed, Coulibaly, and Zlate (2017). These figures confirm that EMEs with greater vulnerabilities, according to our metric, exhibited greater financial instability to the pandemic shock. For example, Brazil's CDS spreads rose much more than Korea's in March, and even after global markets regained composure, their increase since pre-pandemic days remains significant.



Source: Markit North America, Inc.

Note: 5-year CDS spreads are used. Country abbreviations are as follows: BZ = Brazil, CH = China, CL = Chile, CO = Colombia, CZ = Czech Republic, HK = Hong Kong, HU = Hungary, ID = Indonesia, IN = India, IS = Israel, KO = Korea, MA = Malaysia, MX = Mexico, PH = Philippines, PL = Poland, RO = Romania, RU = Russia, SF = South Africa, TH = Thailand, TK = Turkey.

Figure 2, Source: FED

It is interesting to notice how central banks have been managing the crisis collaboratively. In general, central banks used the full range of conventional policy tools, including reductions in interest rates and reserve requirements and FX intervention in the face of volatile exchange rates. Existing tools to ensure sufficient liquidity were expanded in terms of frequency, maximum tenor, and acceptable collateral, targeting also specific sectors. Other less conventional measures included asset purchases programs providing support for corporate bond markets. Central banks also took steps to encourage lending, especially to SMEs and other key sectors, relaxing regulatory impediments to credit supply and loan moratoriums.

The importance of the US

It is well documented that developments in U.S. monetary policy and financial markets exert a strong influence on EME financial conditions, and that has been proven once again during the pandemic. Indeed, by mid-March, the tone of U.S. financial markets stabilized and rebounded in response to monetary easing action implemented by the Federal Reserve and other central banks, widespread announcements of fiscal stimulus measures, and indications that the spread of the pandemic was easing in some countries. This reversal led to a corresponding, yet still incomplete, improvement in EME financial markets.

To this end, it is also proper to see how the FED monetary policy exert a strong influence on EMEs financial conditions. The FED is essentially using currency SWAP lines. Agreements between central banks to exchange their country's currencies at a predetermined exchange rate. These instruments, repurposed during 2008 financial crisis, and initially introduced at Bretton Woods, uncover an important principle: the economy is globally connected and on one side emerging countries, even if they’re uninterruptedly growing, are still strongly dependent on US economy and dollar. On the other side, the US financial markets are the epicenter of the global economy and therefore the FED acts as lender of last resort for the world.

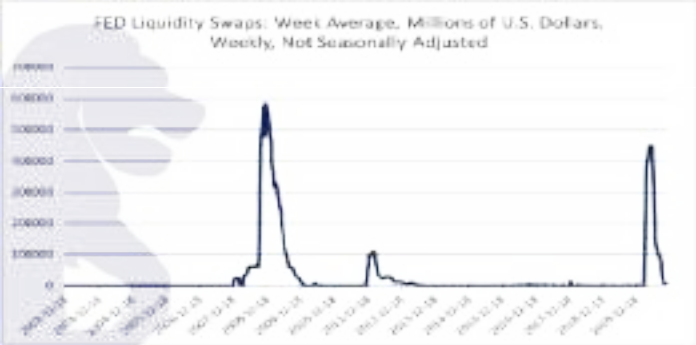


Figure 3, Source: FED St.Louis

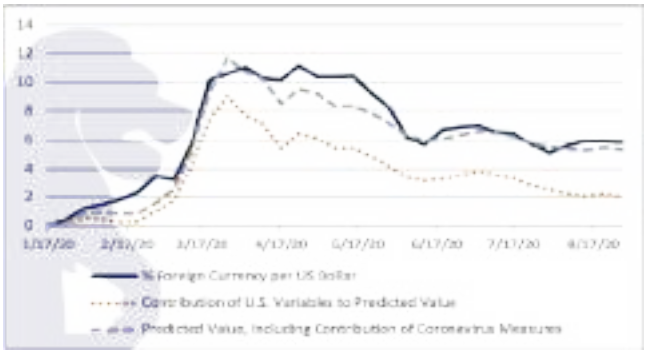


Figure 5, Source: FED

Figure 4, Source: FED

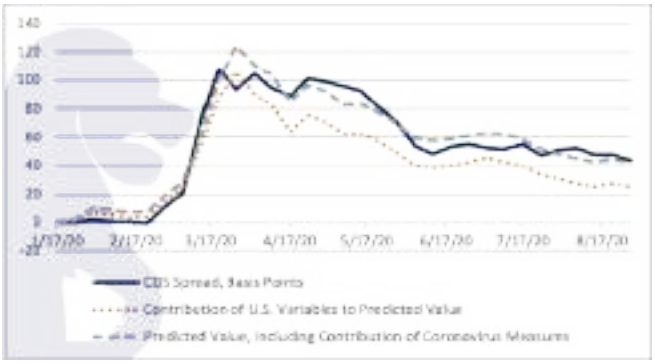


Figure 6, Source: FED

The impact of COVID-19 on EME's Financial Conditions

To address the impact of the COVID-19 crisis on emerging markets, the FED estimated a panel regressions where financial indicators in 22 emerging market economies— exchange rates, credit spreads, and equity prices— were related to three sets of indicators:

- measures of the tone of global financial markets, as captured by the VIX and U.S. high-yield corporate spreads

country-specific

- measures of EMEs' fundamental macroeconomic vulnerabilities

- country-specific measures of the spread of COVID-19 and the corresponding measures taken by authorities in the EMEs. We review such developments.

The figures below compare the average fluctuations in EMEs currencies, credit spreads, and equity prices with (1) the predictions of the estimated regression model, and (2) the contributions to those predictions, based solely on the movements in the U.S. financial variables. The difference between the two predictions represents the contributions of the country-specific COVID-19 variables.

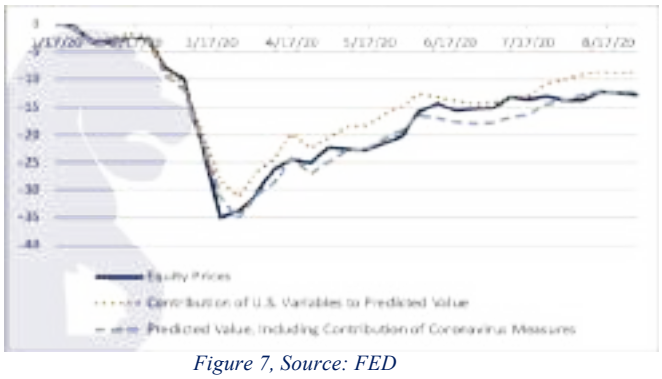


Figure 7, Source: FED

The following table shows the value of the coefficients of the panel regression used by the FED, and their statistical significance

VARIABLES	Currency	CDS	Equity
US High Yield Spread	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
US High Yield Spread x Vul	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Log VIX	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Log VIX x Vul	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Deaths	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
Deaths x Vul	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
OSI	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
OSI x Vul	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]

As the table points out, widening U.S. credit spreads were associated to a significant deterioration of EME currencies, rising CDS premiums and lower equities valuations. Such findings are stronger for more vulnerable EMEs. Similar observations apply to the VIX index, which is a relevant indicator of risk appetite in equity markets and is highly correlated with HY spreads. After controlling for the sentiment of global financial markets, the variables that directly detect the spread of the virus generally are not statistically significant or even have a counterintuitive sign, which might suggest a lack of reliable and consistent measurement of COVID-19 cases and deaths in EMEs. Nonetheless, the Oxford Stringency Index variable has a consistent and statistically significant impact on EME financial conditions: more stringent restrictions depreciate currencies, widen credit spreads, and push down equity prices.

Argentina

GDP and Inflation

Argentina's real gross domestic product (GDP) has continuously decreased since the second quarter of 2019. In 2020, the impact of the COVID-19 pandemic seems to have worsened Argentina's dwindling economic growth. From April to June of 2020, the total value of goods and services produced in Argentina fell to 607 billion pesos according to 2004 prices, the lowest value registered since the first quarter of 2009, after the global financial crisis of 2008.

The economy of Argentina shrank 19.1% yoy in the second quarter of 2020, following a downwardly revised 5.2% decline in the previous period and compared with expectations of a 19.6% drop. It was the sharpest contraction on record, as the coronavirus pandemic hit the economy. Output shrank further in manufacturing (-20.8% vs -6.3% in Q1); wholesale & retail trade (-16.9% vs -5.9%); construction (-52.1% vs -19.8%); transportation & communication (-22.5% vs -5.2%), and real estate (-14.3% vs -1.9%) and agriculture (-10.7% vs -5.2%). Also, output contracted in public administration (-12.8% vs 0.3%) and mining (-18.3% vs 0.3%). On the expenditure side, private consumption plunged 22.3%; and gross fixed investment slumped 38.4%, and public spending decreased 10.1%. On a quarterly basis, the GDP tumbled a record 16.2%, after contracting a downwardly revised 4.2% in the prior period.

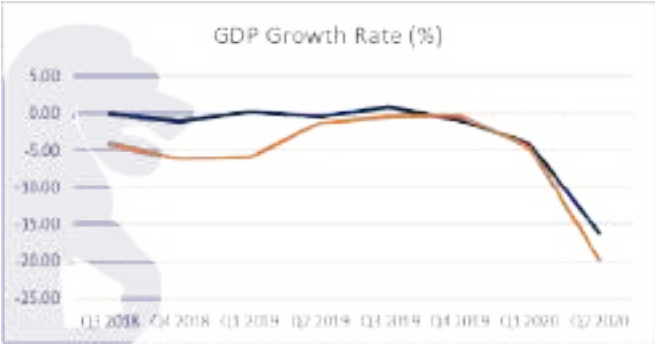


Figure 1, Source: OECD

Consumer prices increased 2.84% over the last month in September, above the 1.70% increase logged in August. September's rise was primarily driven by higher prices for clothing and footwear as well as for alcoholic beverages and tobacco. Inflation eased to 36.6% in September from August's 40.7%, continuing its downward trend for the ninth consecutive month and logging the lowest reading since August 2018. Annual average inflation fell to 46.6% in September (August: 48.0%).

The annual variation rate of the CPI in Argentina in October of 2020 was 37.2%, 6 tenths higher than the month before. The monthly variation rate of the CPI (Consumer Price Index) has been 3.8%, and thus the accumulated inflation in 2020 is 26.9%. Inflation is expected to be 41.3% at the end of 2020, which is down 0.9 %age points from last month's forecast.

Businesse Confidence

Argentina is shifting tack and has begun adopting more orthodox economic measures to try to shore up investor confidence and lure capital back into the country. It curbed growth in the money supply in October, raised interest rates and promised not to finance itself with temporary advances from the central bank in the short term, backtracking on some of the most expansionist monetary policies implemented as the pandemic hit.

The move represents Argentina's latest attempt to curb demand for dollars after the peso plunged 24% this year in official foreign-exchange markets. Restrictions on accessing greenbacks have pushed investors and local savers seeking to protect themselves from inflation into parallel markets used to skirt capital controls, where the peso has been fluctuating weaker values between 51% and 120%.

Trade

FDI inflows in Argentina have been unstable for several years. According to the 2020 World Investment Report published by UNCTAD, FDI Inflows to Argentina halved to USD 6,2 billion in 2019 (compared to USD11,8 billion in 2018) exacerbated by a deepening economic crisis. Similarly, FDI stock decreased in 2019, reaching USD 69,2 billion (a drop of USD 15 billion when compared to 2010). The domestic economic conditions have affected the attractiveness of FDI. Companies like Amazon, General Motors and Nike seem to want to freeze investment plans. The prospects for the Vaca Muerta shale gas field to develop and provide the much-needed export revenues - which appeared so prosperous two years ago - are fading as the necessary foreign investment are depleting. Uncertainty about external debt restructuring had already adversely affected inflows in 2020, before the COVID-19 outbreak.
The US, Spain and the Netherlands represent more than the half of FDI inflows. These investments were mainly oriented towards manufacturing, mine and oil extraction, trade, banking and other financial entities, information and communication and agriculture.

The Argentine government actively seeks foreign direct investment, but economic insecurity and recurring crises hamper the task. The overall openness to foreign investment is below average. Still, Argentina has definite assets: its natural resources are considerable (copper, gas and oil) and its workforce is highly skilled and competitive. On the other hand, restrictions have been placed on FDI in the agricultural sector, which is highly important for the country's food security. Moreover, more recently implemented measures (a restrictive property law and nationalizations in the energy sector, which have affected the Spanish oil giant Repsol) have discouraged potential investors. The business environment in Argentina is still rather poor. According to the World Bank's 2020 Doing Business report, the country ranked at the 126 out of 190 countries, a seven-spot decline from 2019. Even though, for the past three years, foreign companies have been announcing new investment plans worth about $33 billion in Argentina, with most coming from companies based in the United States, Germany, Canada, Spain and Brazil.

Figure 2, Source: OECD

Households

Households Debt to GDP in Argentina averaged 4.98% of GDP from 1994 until 2020, reaching an all-time high of 7.30% of GDP in the second quarter of 2018 and a record low of 2.50% of GDP in the first quarter of 2004. Demand has partly been buoyed by a surge in foreign buyers. For foreigners, the currency's devaluation means that the property market is very attractively priced, luring many buyers from the Gulf. In 2019, foreign home purchases rose by almost 15% to 45,967 units from a year earlier, following strong growth of 78.5% in 2018 and 22% in 2017.

With COVID-19, Argentina's economy is in recession once more, after a short-lived recovery. Mauricio Macri's popularity is plunging. Inflation is skyrocketing. The peso has been crashing. The government deferred payments on roughly US$100 billion of debt last month, which led Standard & Poor's and Fitch Ratings to downgrade the country's credit rating to "selective default" and "restricted default", respectively.

Argentina's economic and financial turmoil is now affecting the country's property market. In August 2019, property prices in Buenos Aires fell by 2.5% yoy to US$2,333 per square meter, based on data published by Clarín. When adjusted for inflation, prices plunged by 37%. Demand is now at its lowest level, with property sales transactions in Buenos Aires falling for 14 consecutive months. In fact, in the first seven months of 2019, sales plummeted 47.5% to 18,783 units from a year earlier, according to an article by Infobae.com using data from the Colegio de Escribanos de la Ciudad de Buenos Aires.

Coronavirus

Indicator	Value
CODID-19 Cases	1,310,491
COVID-19 Deaths	35,045
Hospital Beds (number/1000 people)	5.0

The government's responses to the pandemic were very proactive, including the mandatory lockdown and strict social distancing measures, resulting better performances in both number of cases and deaths than other countries in the region. The measures also brought some concerns with the economic impact that it could cause to the country. Even so, the way that president Fernández and his government handled the country's response to the spread of COVID-19 resulted in the best numbers of public approval since the president's assumption in December 2019. Argentina was among the Latin American countries that earned the best grades for their response to the pandemic, according to a poll conducted in the region, only behind Uruguay and Paraguay.

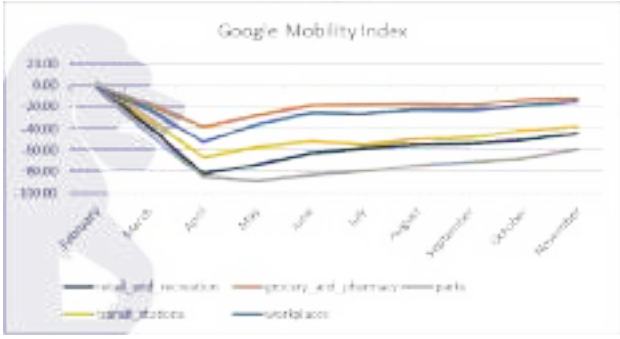


Figure 3, Source: Google

Public Finances

Argentina's public debt, which stood at near 90% of GDP at end-2019, is unsustainable. As such, the primary surplus needed to reduce public debt and gross financing needs to levels consistent with manageable rollover risk and satisfactory potential growth is not economically or politically feasible. Restoring public debt sustainability with high probability will require a decisive debt operation, with a meaningful contribution from private creditors, that brings debt and GFNs down to levels consistent with Argentina's debt-carrying capacity.

In staff's view, the needed debt relief should bring Argentina's GFNs down to an average of around 5% of GDP, and not exceeding 6% of GDP in any year, over the medium-to-long term. While this is below the debt-carrying capacity of some other emerging markets, Argentina has an especially low and narrow export base as well as a very shallow domestic financial system. Indeed, given Argentina's limited capacity to generate foreign exchange and its current low level of reserves, staff sees a need to keep FX debt service at around 3% of GDP over the medium-to-long term. In addition to satisfying the above GFN and FX debt service targets, a debt operation should also stabilize the debt/GDP ratio with a high likelihood, such that by 2030, there is a meaningful buffer relative to debt levels from which past Argentine debt crises began.

The feasible framework, which is based on data and policy announcements as of March 15, 2020, envisages a moderate economic recovery, conditional on the adverse effects of the coronavirus pandemic dissipating towards the end of this year, alongside a gradual disinflation process, and a gradual but realistic fiscal consolidation over the medium term. Specifically, after some fiscal expansion to deal with the effects of the pandemic, the framework envisages reaching a primary fiscal surplus of 0.8 % of GDP by 2023, increasing to about 1.3 % over the longer term, including to support trade surpluses and improve international reserve coverage.

The key near-term risk relates to a stronger-than-projected negative impact of the coronavirus pandemic, which could more adversely affect the global economy and Argentina than currently assumed.

In addition, staff's framework hinges critically on the steadfast implementation of the assumed policy agenda. Lastly, there are operational risks associated with the debt restructuring process that may impede reaching a restructuring deal consistent with high creditor participation. Significant materialization of these risks would require a reassessment of Argentina's macroeconomic situation, policies, and, possibly, debt-bearing capacity.

Figure 4, Source: OECD

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Less than a month after Argentina's $65 billion debt restructuring, bond prices show growing concern the government may struggle to pay its obligations. The country's yield curve has been inverted since the week since officials announced foreign-exchange restrictions to help conserve cash. Investors perceived the move as an act of desperation instead of a workable solution to stem the drain in foreign reserves, and prices for short-term bonds dropped.

Angst is growing just three weeks after creditors reached a deal to cut interest rates and push back maturities, with the promise that the restructuring would stabilize Argentina's finances after the country's third default of the past 20 years. Longer-term yields have fallen below shorter-term yields on Argentina's dollar bonds issued both locally and abroad. That's the opposite of how yield curves look in most countries, where securities with a longer time horizon are perceived to carry more risk.

The current Argentina credit rating is summarized as follows:

Rating Agency	Rating	Outlook
S&P	CCC+	Stable
Moody's	Ca	Stable
Fitch	CCC	N/A

Politics

In 2019, the elections were dominated by concerns over the country's economic situation. In brief, the government is relying on tight controls to manage currency pressure amid persistent questions over the external financing position. We assume that Argentina will seal a deal with the IMF that helps to restore stability, but there are risks, bearing in mind officials' reluctance to commit to an economic consolidation plan. Meanwhile, the pandemic is far from under control and the October 2021 mid-term election is approaching, raising risks to stability and governability. Argentina's main weaknesses concern rule of law, regulatory quality, political instability, and presence of violence. The next elections will be held in 2023.

Indicator (World bank)	Global percentile rank
Control of corruption	55.37
Government Effectiveness	49.04
Political Stability and Absence of Violence	43.33
Rule of Law	37.02
Regulatory Quality	33.65
Voice and Accountability	66.50

Brazil

GDP and Inflation

Already before the Coronavirus crisis, Brazilian GDP exhibited the fragility of the growth, despite the big agricultural and natural resources, the massive population in the working age and its position as one of the biggest net exporters in the world. The country never recovered fully from the recession started in 2014, which was caused not only by falling commodity prices but by failed internal policies, a corrupted public sector and macroeconomic policy errors. Brazil's GDP shrank 9.7% on quarter during the three months ending in June 2020, officially entering a recession after a 2.5% drop registered in Q1. Almost every sector of the economy was deeply impacted by the COVID-19 crisis, although GDP from Agriculture increased 68.6% from Q4-19 to the end of June 2020, pulled by Asian demand. The Government expects the service sector to accelerate recovery starting in October and emerging from recession before 2021. However, many analysts forecast negative growth in Q3.

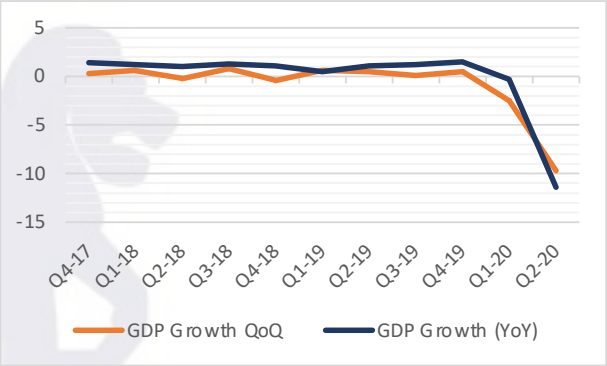

Figure 1, Source: World Bank

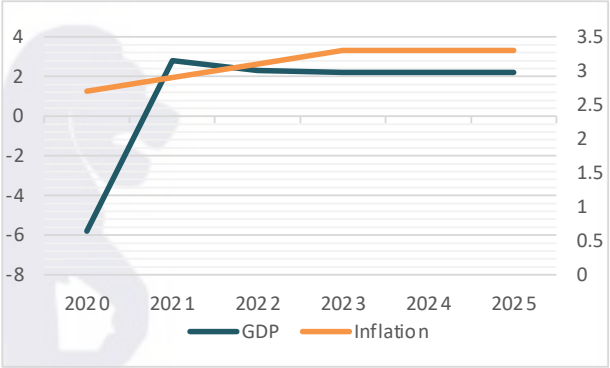

Figure 2, Source: IMF

Households

Banco do Brazil set the 2020 inflation target at 4% with a margin of 1.5% % on either side. The central bank lowered the targets for 2021 and 2022, to 3.75% and 3.5% respectively, maintaining a 1.5% margin. Nonetheless, the CB expects inflation to rise sharply in 2021, close to the 5.25% upper limit. The IPCA index, widest consumption basket and reference for the Brazilian inflation-targeting regime, however, moved outside the tolerance intervals set by the central bank already four times in the last ten years.

Business Confidence

The Industrial Entrepreneur Confidence Index (ICEI) reached the bottom in June, before rising sharply close to pre-COVID levels in September and holding steady in October. The index has two components: current perceived conditions (which improved slightly in October) and business expectations for the next six months (which fell for the first time since April). Data covers different sized enterprises on the entire national territory. Figures above 50 indicate business confidence; figures below 50 indicate lack of confidence.

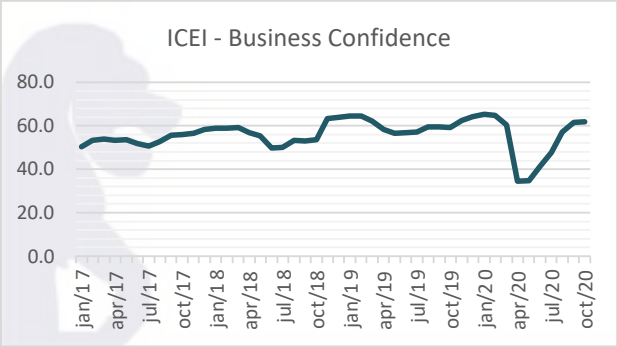

Figure 3, Source: Confederacao Nacional Da Industria CNI

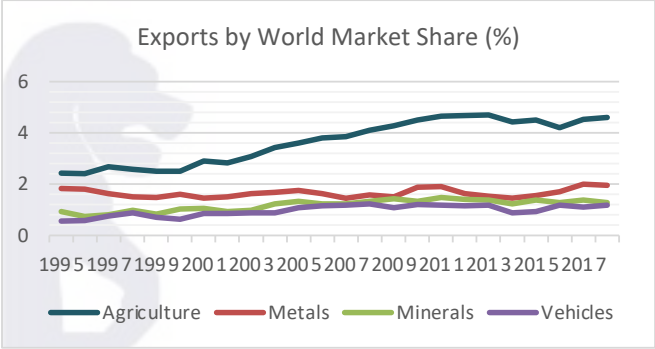

Figure 5, Source: Harvard CID

Trade

Brazil is the 11th country worldwide for dollar value on net exports, and leading producer of coffee, sugar cane, soybeans and corn. The country's trade surplus widened sharpy in the first two quarters of 2020, reaching a record high 7.9B$ in July and reverting back to 5.5B$ in October and after reaching negative level (-1.7B$) in January, for the first time since 2014. However, the lows of January have not matched the all-time lows reached in 2014, signifying the strength of Brazilian exports despite the worst global recession of record and the internal problems of the country. The overall positive situation of the last few years has been fueled also by a low Real relative to USD and to currencies of the major trading partners.

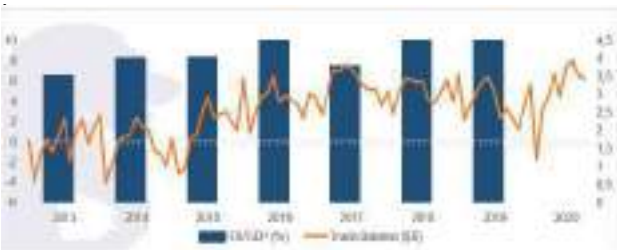

Figure 4, Sources: Ministerio Do Desenvolvimento, Industria e Comercio Exterior; World Bank

Agricultural goods and especially soybeans have had a particular role in keeping the net balance high during these last months of recession: its value is up more than 30% since January, and the export volume increased greatly driven by demand in Asian countries. The contemporary reduction in the value of imports is attributable mainly to lower demand for fuels and lubricants, consequence of the economic slowdown caused by the pandemic.

Brazil solidified its role as one of the biggest net exporters in the world from early 2000s: the value of goods exported to USA doubled on average, while the value of Brazilian goods sent into the Chinese economy quadrupled in the last twenty years. This picture already seen in other developing countries and shows the primary position acquired by China in international trade dynamics.

In addition, staff's framework hinges critically on the steadfast implementation of the assumed policy agenda. Lastly, there are operational risks associated with the debt restructuring process that may impede reaching a restructuring deal consistent with high creditor participation. Significant materialization of these risks would require a reassessment of Argentina's macroeconomic situation, policies, and, possibly, debt-bearing capacity.

Brazil is the first recipient of FDIs in Latin America and one of the biggest in the world, showing its leading role as exporter of oil, electricity and above all agricultural products, registering inflow in 2019 of $78.6B, a high portion of GDP (more than 4%) but far from the over 100B$ record of 2011, when the economy reached its peak. By 2020 the Government expected more investments: however, the Coronavirus crisis has worsened financial conditions worldwide and estimates have been revised downward.

Investments are mainly oriented towards oil and gas extraction, the automotive industry, financial services, electricity, paper production, the food industry, and mining. The strategic geographical position and the big domestic economy represent strong points, however the heavy tax rate, lacking infrastructures, political and social tensions, regulatory risk have discouraged many investors. The Government constantly takes measures to incentivize FDIs, as tax benefits, a big wave of privatizations and a large number of bilateral investment treaties.

Population and Households

The current population of Brazil is more than 212m, a 0.72% increase from 2019 (fifth largest country in the world). The growth rate is steadily declining since 1950s and the UN projects a negative growth rate starting around 2050, suggesting that the country could not rely on this lever to increase productivity. This data is coherent with a slowly aging population: 9.25% of population is 65 years and older (6.64% ten years ago) and 21% is below 14 years (25.33% in 2019). The median age is 32.6, a really low number for a developed

country, but fairly above other emerging Countries as India (28.1y), Mexico (28.3y), Indonesia(30.2y), Argentina (31.7y) and Costa Rica (31.3y).

The trend in number of households is coherent with the trends of Brazil's population. In 2019, there were approximately 72.4 million households, up from 71 million recorded a year earlier and a nearly 15% increase from 2012. Since households consumption accounts for 65% of the GDP (the Brazilian domestic market is one of the biggest worldwide), it is really important to understand if the country Gross Domestic Product could be able to rely more on investments (15.5% of GDP) and net exports (14.3% of GDP), considering the slower expected growth in population.

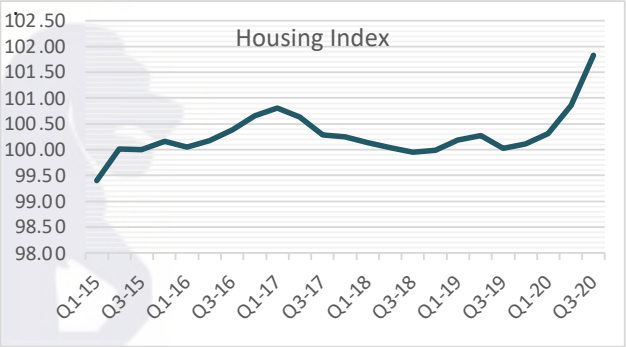

Figure 6, Source: OECD

As we can see from the OECD Housing Index, housing prices have not been impacted by the Coronavirus crisis yet and picture an expanding market.

COVID-19 Impact

Brazil has been hardly hit by the Coronavirus pandemic and is currently the third country by total cases (6.17m), after USA (13.19m) and India (9.31m). However, it is the second country by number of deaths (170.8k), passed only by US (268.9k). Although the Brazilian healthcare system is far from perfect and victim of years of underfunding and mismanagement, Jair Bolsonaro has often minimized the dangers of COVID-19 and failed to launch a health program to fight the virus in the first stages, worsening greatly the situation. The light approach of the government is also manifested by mobility indices.

Indicator	Value
Total COVID-19 Cases	6.17m
Total Deaths	170.8k
Hospital beds/1k population	2.2
Tests/1m population	98.9k

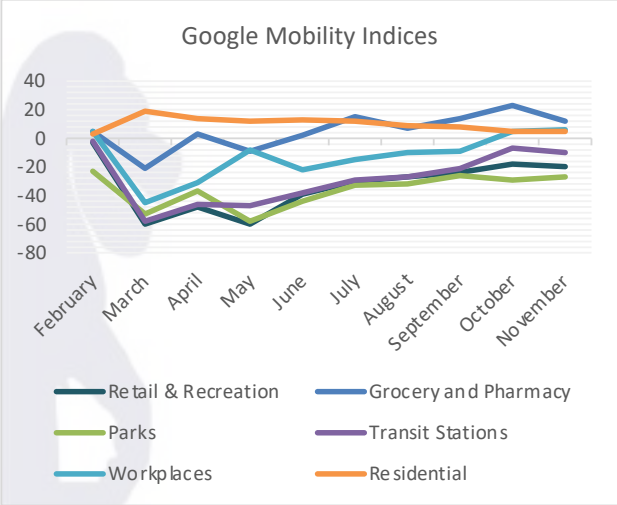

Figure 7, Source: Google

Public Finances

Brazil's Government debt accounted for 85.6% of the country GDP in Q2 2020, record high value of the last 15 years, up from 78.5% in the previous quarter and 78% in Q2 2019. It is expected to reach 89% by the end of 2020 due to higher spending to mitigate the effects of the virus. The country is therefore reaching a really high level of debt that may create a dangerous vicious cycle, as investors will expect higher return to be compensated from investing in Brazilian securities. Households Debt/GDP stands at 30.4% in Q1 of 2020, following the same trend in Government Debt. The country's Government Budget deficit reached 5.9% in 2019, after registering its highest value in 2015 (10.2%). It is set to increase substantially in 2020.

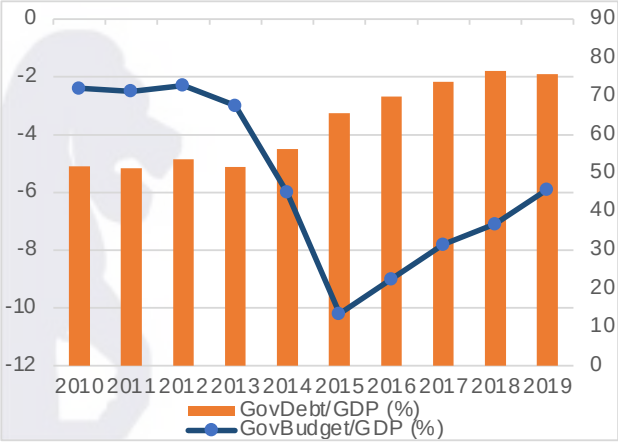

Figure 8, Sources: World Bank; Banco Central do Brasil

Government authorities announced a series of fiscal measure to mitigate the effect of Coronavirus, which are estimated to bring the 2020 deficit to 8.4% of the GDP. The fiscal measures include income support to vulnerable households, partial compensation to worker temporarily laid off, import levies on medical supplies, transfers from federal to state governments to support health spending.

Moreover, the government will back about 1% of GDP (almost 70$B) in credit lines to SMEs and large corporates to cover payroll costs and working capital.

The trend in number of households is coherent with the trends of Brazil's population. In 2019, there were approximately 72.4 million households, up from 71 million recorded a year earlier and a nearly 15% increase from 2012. Since households consumption accounts for 65% of the GDP (the Brazilian domestic market is one of the biggest worldwide), it is really important to understand if the country Gross Domestic Product could be able to rely more on investments (15.5% of GDP) and net exports (14.3% of GDP), considering the slower expected growth in population.
.Banco Central do Brasil lowered the policy rate by 225bps to the historical low of 2%, almost halved the reserve requirements to encourage lending and opened facilities to provide loans to financial institutions accepting a big range of collaterals. In addition, the Federal Reserve has arranged to provide up to $60B to Banco Central through a liquidity swap facility. With the central bank key rate currently at 2%, Banco Central has not much room left to use this policy instrument to fight worsening economic conditions. Obviously, the interbank rates are following the same downtrends, and the CB has expanded the list of eligible collaterals to protect banks activities during this recession.
Compared to emerging countries in similar situations, Brazilian Governments bills do not seem to offer sufficiently high yields. The 3m, 6m and 1y securities yield 2.07%, 2.15% and 2.48% respectively, consistently lower than, for example, Mexicans equivalents (with 4.4%, 4.38%,4.37% yields) and Russian ones (4.15%, 4.16%, 4.21%). Considering the relatively high and rising debt/GDP, the small room available to policymakers to lower rates and despite the support from the Federal Reserve through their swipe line, institutional investors simply have better opportunities to generate return on their investment using similar instruments.
Yields rise sharply for longer-maturity securities: the yield on 5y Note is 6.76% and the one on 10y Bond is 7.67%. Although it is difficult to assess a fair risk-adjusted return for government bonds with higher duration given the high number of variables at stake, these yields seem higher than most similar countries and may be reflecting more efficiently the risk embed in the securities.

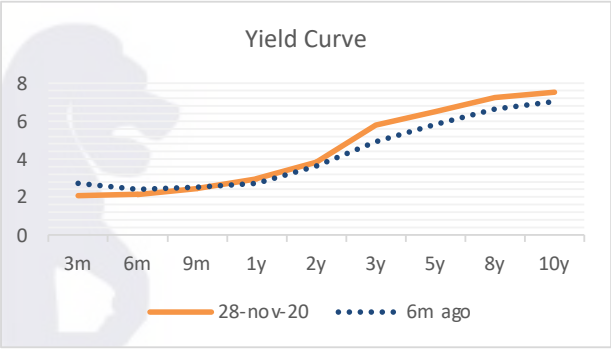

Figure 9 Source: World Government Bonds

Agency	Rating	Outlook
S&P	BB-	Stable
Fitch	BB-	Negative
Moody's	Ba2	Stable

Politics

Right-wing conservative and former army captain Jair Bolsonaro became the 38th president of the Republica Federativa do Brasil in 2019, basing his campaign on the promise of ending corruption and reforming the collapsing social security system, which was systematically consuming a big portion of the government budget. The Senate approved Bolsonaro's pension plan in October 2019, which include a series of measures to reduce government spending, among which: lower and harder-to-get disability benefits, lower starting salaries for civil service workers, and dismissing the possibility of retirement for contribution time. Although these measures can have a positive impact on government spending in the short term, they may lead to increased inequality as a dangerous long-term consequence of the reform, in a country where the gap between rich and poor is already vast.

The Gini score of 53.9 in 2018 shows the country inequality and wealth gap: Brazil consistently scores among the world's worst countries based on this metric, the worst of the Emerging World after South Africa. However, the long-term trend shows slow improvements. Other similar indicators tell the same story: Transparency International produces yearly a Global Corruption Barometer survey, which showed that in 2019 11% of the sample paid a bribe for basic public services as public transports; the rule of law index confirms this trend, with the country scoring particularly poorly on criminal justice and corruption. It is clear how these social factors influence the easiness of doing business and long-term development, and the Coronavirus crisis is likely to worsen these metrics in the next few years.

Indicator (World Bank)	Global %ile Ranking
Control of Corruption	42.31
Government Effectiveness	43.75
Political Stability & Absence of Violence	41.43
Rule of Law	47.6
Regulatory Quality	48.08
Voice and Accountability	58.62

China

GDP and Inflation

Chinese macroeconomic performances continue to be rather resilient compared with other major emerging countries. Growth rates dropped from 9%-12% to 6%-7%. GDP grew 6.3% in 2017, 6.7% in 2018, 6.1% in 2019. Considering 2019, the economic growth was the slowest in 29 years but still within the government's target of 6% to 6.5%. However, China is expected to be one of the few major economy to have a positive GDP growth of 1.8% and a GDP growth of 8.24% in 2021.

Nowadays, there are signs the expansion is finally extending to consumption. Retail sales rose 3.3% yoy in September, production went up 6.9%, also higher than expected and the biggest gain in 2020. For the first nine months of the year, the economy expanded 0.7%, recovering all the ground it lost in the first half, with the primary sector increasing 2.3%, the secondary 0.9% and the services sector 0.4%.

The People's Bank of China is an agency of the State Council, it is subject to directives from the Politburo and consequently it hasn't the typical grade of independency of western central banks. It has the dual aim of maintaining price stability and promoting growth. It also has a different responsibility: the management of renminbi. In particular, maintain the stability of the Chinese yuan against a basket of currencies, secondly it has to make the yuan more international expanding the cross-border use of it. During the annual close-door Central Economic Work Conference Chinese top leaders decide to keep the inflation target at "around 3%". The inflation target is unchanged since 2015. It is interesting to notice that the People's Bank of China has had the largest financial asset holdings of any central bank in the world since July 2017.

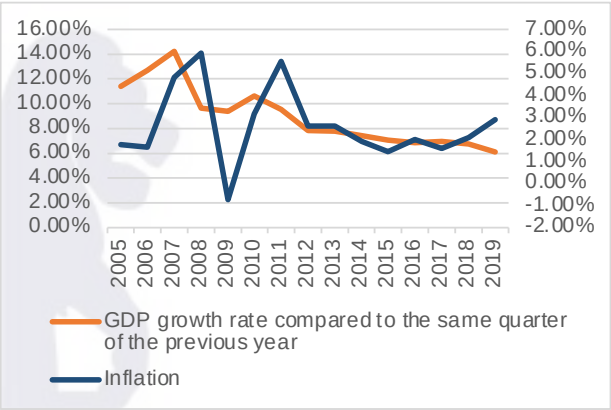

Figure 1 Source: OECD

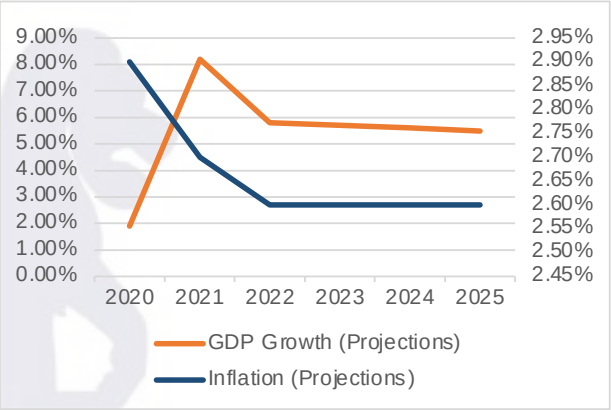

Figure 2 Source: IMF

Exchange Rate

The renminbi has been appreciating this year. That's primarily caused by the accelerated economic recovery and capital markets performance, secondly it was also supported by huge flows of foreign investments ($13.4bn capital poured into the Chinese equity market while there was an increase in investment in bonds which outdid $ 93bn). After rising in July, the Chinese currency has strengthened steadily and managed to break through seven to the dollar, it has been the biggest rally of the renminbi in 15 years. The renminbi is expected to trade at 6.85 to the dollar by the end of the year. Many analysts observe the massive purchase of foreign asset by Chinese banks, this could underlie an attempt to depreciate the currency

The Gini score of 53.9 in 2018 shows the country inequality and wealth gap: Brazil consistently scores among the world's worst countries based on this metric, the worst of the Emerging World after South Africa. However, the long-term trend shows slow improvements. Other similar indicators tell the same story: Transparency International produces yearly a Global Corruption Barometer survey, which showed that in 2019 11% of the sample paid a bribe for basic public services as public transports; the rule of law index confirms this trend, with the country scoring particularly poorly on criminal justice and corruption. It is clear how these social factors influence the easiness of doing business and long-term development, and the Coronavirus crisis is likely to worsen these metrics in the next few years.

Business Confidence and Trade

The Manufacturing Purchasing Managers Index is the main business confidence index based on five individual elements with the following weights: new orders, output, employment, suppliers' delivery times and stock of items purchased. A value above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction.

In the last five years only in 2019 and at the outbreak of coronavirus the indicator has had a value above 50. In February 2020, the indicator plunged to a record low of 35.7 from 50.0. Since then, the value has always been above 50 due to the ongoing recovery from the COVID-19 shock.

China is ranked as the world's second largest FDI recipient after United States and before Singapore. The main elements that make China so interesting for investors are: it is the largest internal market in the world, with 1.44 billion potential customers, it has a contained sovereign risk, it has a well-developed production sector (manufacturing sector and heavy industry) with a relative low workforce, it has a favorable geographic location and, at the same time, it's developing new export networks (Silk Road). However, it's also important to underline the main weak points: it has a complex bureaucratic and administrative system which shelters lack of transparency and corruption, many corporates are overindebted, especially in some sector where there is oversupply, and there is a lack of qualified middle management workers. It is also extremely important to notice that there are some sectors in which it is not possible to invest in. First, state companies and "national flagships" are protected (discriminatory practices, non-independent judicial power, selective application of regulations). Secondly there are strong restriction in these sectors: production and supply of electricity, heat, gas and water, transportation, warehousing and postal industries, information transmission, software and information technology services, leasing and business service, scientific research and technical services. In addition, the Chinese state required forced technology transfer and its system of intellectual property protection was among the weakest in most industrialized countries. However, prohibits the government from forcing transfer of technology. The law also gives the possibility to foreign investors to receive the same treatment when they apply for licenses and participate in public procurement. In addition to this, there are some incentives for foreign investors. In particular: China's Economic Development Zones (EDZs) are areas with preferential trade policies. Companies operating in EDZs can expect, among other incentives, a higher level of autonomy over their operations, a variety of tax exemptions, subsidies for land and buildings and preferential employment policies. They are primarily the 5 special economic zones and the 14 coastal cities.

This policy has promoted a positive trend in foreign investments. The stock of FDI in 2019 reached $ 1769 billion, an exponential growth compared to 2010 $ 587 billion. China's main investors have remained broadly stable. Inflows from the US and Europe have dropped, but regional investment has continued to increase as flows from ASEAN countries grow. Singapore, the Virgin Islands, South Korea, Japan, the United States, the Cayman Islands, the Netherlands, Taiwan, and Germany are other major investors.

Investments were mainly oriented towards manufacturing, computer services, real estate, leasing business and services, wholesale and retail trade, financial intermediation, scientific research, transport, electricity, and construction. A substantial number of foreign multinationals operate in China: GM, KFC, Cummins (CMI), Starbucks, Apple, Intel (INTC), Dell Computer (DELL), Texas Instruments (TXN), Walmart, Nike (NKE), Gucci, Abercrombie & Fitch, Toyota and Samsung.

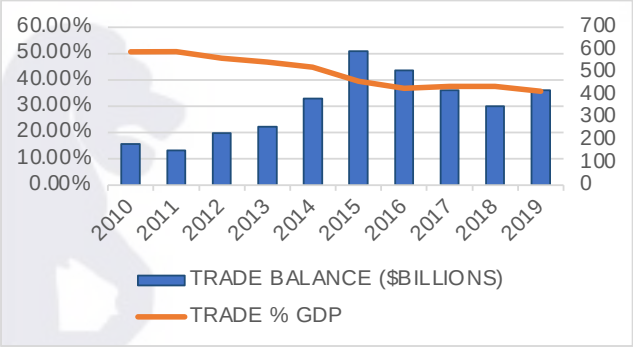

Figure 3 Source: National bureau of statistics of China

Since 1995, China has been recording consistent trade surpluses; from 2004 to 2009 has increased 10 times. This trend hasn't change in the last decade but, at the same time, we can observe that Chinese economy is less dependent on exports thanks to higher internal demand. In 2019, although the US trade war that produced $550 billion of U.S. tariffs applied to Chinese goods, China posted a trade surplus of $ 421.9 billion, the biggest since 2016. This is not something surprising, its economy is totally intertwined with the global one and this interaction has not still been impacted by tariffs.

The data show that China's share of global exports reached a record in the second quarter, reaching nearly 20%. Continued strength in exports has helped China post monthly surpluses of $58.44 billion in October 2020 from $42.3 billion in the same month the previous year and in the first ten months of the year the trade surplus is $384.5 billion. On the other hand, The U.S. trade deficit topped $60 billion in July, its highest level in many years.

The Chinese government had also signed the biggest trade agreement (Regional Comprehensive Economic Partnership (RCEP)) in history on 15 November 2020, 8 years after the initial talk during the 2012 ASEAN Summit in Cambodia. In particular, that was signed by leaders from 15 Asia-Pacific countries (Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, NewZealand, Philippines, Singapore, South Korea, Thailand, and Vietnam). It was expected to eliminate about 90% of the tariffs on imports between its signatories, and establish common rules for e-commerce, trade, and intellectual property.

It covers a third of the world's population and economic output. Economists reckon that by 2030, the deal could add almost $200 billion a year to the global economy.

Households

China's households have been among the world's greatest savers until recently. In fact, in only five years, household debt has surged to 128% of household income, and 57.2% of Chinese GDP. It is possible to notice that it is mainly driven by mortgage debt and consumer credit. China's recent household debt expansion is similar to the United States pre-crisis, within a smaller economy. Over the past five years from 2015 to 2019, China's households have added $4.6 trillion in borrowing, compared to a $5.1 trillion expansion in US household debt from Q3 2003 to Q3 2008. This huge increase is connected to different reasons: the slowing economic growth in 2014 and 2015, China's leaders encouraged household borrowing and at the same time they redirected banks' incentives to consumer lending. In addition, the still-buoyant property market facilitated and then required a rapid expansion in household borrowing. The question now is whether the rise in household debt has been too fast, given the pressure that the virus outbreak will place on employment and household incomes. In fact, low-wage industries are among those most likely to be affected by virus-related closures. This increases the risk of defaults on consumer credit, because lower-income borrowers are more likely to be impacted by the recent shutdowns. Even if the overall household debt burden appears sustainable, the distributional impact of household debt on lower-income borrowers may cause additional risks. Particularly at risk is short-term credit card debt. China's credit card debt now totals $1.09 trillion, compared to $927 billion in the United States at the end of last year.

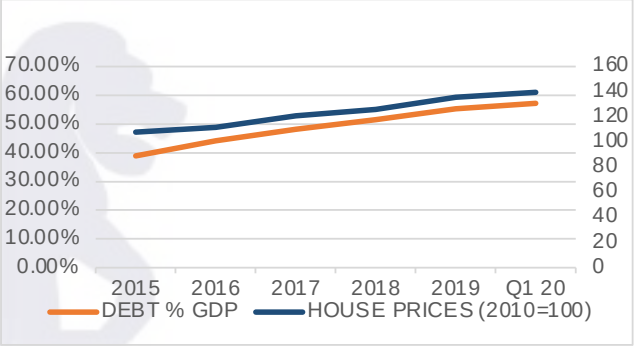

Figure 4 Sources: BIS, FED

It is possible to see that the more the debt increases the more the price of houses boosts. Price-to-income ratio in cities like Beijing and Shanghai is around 23, in Tokyo and New York, that ratio is much lower at about 13. In biggest cities demand is clearly outpacing the availability of new property and so prices are rocketing. On the contrary, in the country's smaller cities, the inventory of unused property has created a massive supply glut, which continues to exceed demand.

The concerns that a property bubble has formed inside many of China's biggest cities, particularly Shenzhen, Beijing, Shanghai and Guangzhou, is due to the fact that all of them have recorded sharp house price gains. The government is trying to reduce this trend making it more difficult to ask for mortgages and buying homes and, in the other hand, it's trying to incentivize the market where there is a lack of demand.

Coronavirus

COVID19 pandemic has originated at the beginning of 2020 with a cluster of pneumonia cases in the city of Wuhan, the capital of Hubei, China. By 29 January, the virus spread to all provinces of mainland China and then all over the world. The Chinese government, after an initial delay in the response, developed a national plan to control it. Starting from the end of January many Chinese regions went into lockdown. The Chinese government ordered to shut down all non-essential activities and each family had to appoint one family member who may leave their house to purchase essential goods. The duration of lockdown depended on the situation of the zone. Wuhan lifts its lockdown on 8 April, more than two months after its beginning.

Indicator	Value
COVID 19 cases	86,361
COVID 19 deaths	4,634
Tests/ 1milion	111,163

COVID19 pandemic has originated at the beginning of 2020 with a cluster of pneumonia cases in the city of Wuhan, the capital of Hubei, China. By 29 January, the virus spread to all provinces of mainland China and then all over the world. The Chinese government, after an initial delay in the response, developed a national plan to control it. Starting from the end of January many Chinese regions went into lockdown. The Chinese government ordered to shut down all non-essential activities and each family had to appoint one family member who may leave their house to purchase essential goods. The duration of lockdown depended on the situation of the zone. Wuhan lifts its lockdown on 8 April, more than two months after its beginning.

While other major economies have taken bold stimulus measures, the PBOC has been more measured. This is probably connected to the fact that the 2008 stimulus still casts a long, dark shadow over China as its after-effects left the country with a bloated local government debt, a red-hot housing market and hordes of zombie companies. In particular, China has lowered its interest rates by 0.2% points, from 4.05% to an annual rate of 3.85%. The central bank is focusing on the provision of liquidity. This is understandable, given the concessions that must be made by banks to avoid a deluge of non-performing loans.

The objective is to give banks greater flexibility to channel funds to small and medium enterprises (SMEs). In particular, this policy has been developed through these key measures: liquidity injection into the banking system via open market operations, reduction of interest rate for micro-, small- and medium-sized firms and the agricultural sector by 50 bps (re-lending facilities) and 25 bps (re-discounting facility); RRR cuts by 50-100 bps for large- and medium-sized banks that meet inclusive financing criteria which benefit micro- and small-sized enterprises (MSEs) and 100 bps for small- and medium-sized banks to support SMEs; reduction of the interest on excess reserves from 72 to 35 bps and the introduction of new instruments to support lending to MSEs, including a zero-interest "funding-for-lending" scheme. However, smaller banks are particularly exposed to economic shocks: a recent stress test showed that 17 out of 30 sampled banks would fail capital adequacy tests if overall economic growth were to fall to just 4.15 %. Hence, a significant increase in credit risk raises the question of how the balance between economic stimulus and financial risk will be addressed and it is also that a large part of the newly available liquidity will go into the refinancing of existing debt, as companies struggle for survival. If so, it will contribute little to economic growth.

The government had also released an estimated RMB 4.8 trillion (or 4.7 % of GDP) of discretionary fiscal measures. Key measures include increased spending on epidemic prevention and control, production of medical equipment, accelerated disbursement of unemployment insurance and extension to migrant workers, tax relief and waived social security contributions, and additional public investment. Automatic stabilizers further increase on budget support. Local governments are once again being enticed to spend. In fact, local authorities have been tasked with focusing on improving China's "new infrastructure".

Public Finances

The virus-fighting amounts around 4% of China's annual economic output, will be paid issuing special Treasury bonds for pandemic relief, as well as infrastructure-bound local government special bonds and a wider fiscal deficit. Government Budget in China is expected to reach -4.70% of GDP by the end of 2020. In the long-term, the China Government Budget is projected to trend around -4.90 % of GDP in 2021 and -4.40 % of GDP in 2022. Government Debt to GDP in China is expected to reach 55.00 % by the end of 2020. In the long-term, the China Government Debt to GDP is projected to remain stable. Most of that debt is owed by local government. The local debt is quite problematic as there are many opportunities for creative debt management. In fact, as evidenced by the national government's bank bailout strategy in 2015, China's officials seem to like to use a combination of local government financing and the lending policies of state-owned banks to channel a lot of central government actions through the accounts of local government.

The China's National Institute of Finance and Development identified 4.56 trillion dollars of hidden debts raised through the derivative markets and other "shadow banking" methods. The Institute also noted a further total of 1.5 trillion Yuan in obligations that were obscured by lease agreements and other "public-private partnership" techniques. That is another 41.6% of GDP, bringing the true debt to GDP ratio for China's national debt up to 92.8%.

The government bond market is essentially an internal issue. In fact, central government bonds are not intended for sale to the general public, but are distributed to the major Chinese banks, which are all state owned, with the exception of Qualified Foreign Institutional Investors, they are issued in Yuan, which is not convertible to foreign currencies. Similarly, municipal bonds are written in Yuan and not intended for purchase by overseas traders. The major rating firms agree on the safety of Chinese bonds, as its rating is A+/A1. In fact, current 5-Years Credit Default Swap quotation is 31.97 and implied probability of default is 0.53%. The China 10Y Government Bond has a 3.351% yield, 60bps more than 6 years ago. The yield curve has a normal convexity in the short term while its quite flat in the mid and long term.

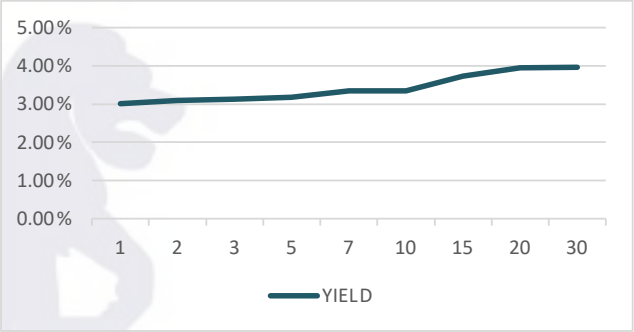

Figure5, Term Structure. Source: Marketwatch.com

Credit Agency	Rating	Outlook
S&P	A+	Stable
Moody's	A1	Stable
Fitch	A+	Stable

Politics

The Economist Intelligence Unit rated China an "authoritarian regime" in 2019.

Indicator (World bank)	Global %ile rank
Control of corruption	43.27
Government Effectiveness	71.63
Political Stability and Absence of Violence	38.10
Rule of Law	45.19
Regulatory Quality	42.79
Voice and Accountability	6.40

Indonesia

GDP and Inflation

Indonesia's economy has performed relatively solidly in the last years, but below its potential as one of the largest consumer markets in the world. Indonesia's annual economic shrank by 3.49 % in the third quarter of 2020 with respect to the previous year, worse than market consensus of a 3 % contraction and after a 5.32 % fall in the previous period. It is the first economic recession since the 1998 Asian financial crisis. Indonesia's trade with the rest of the World has dropped, as both exports and imports have decreased. Communication is the only sector which has enjoyed growth during 2020.The government's previous 2020 GDP forecast range was between 0.4% contraction to 2.3% growth, down from 2019's 5% expansion, due to the fallout of the coronavirus pandemic. Indrawati, the Prime Minister, attributed the revision to weaker-than-expected economic activity in the second quarter. President Joko Widodo proposed to parliament a 2021 budget that assumes GDP growth of 4.5%-5.5% next year.

Figure 1, Source: OECD

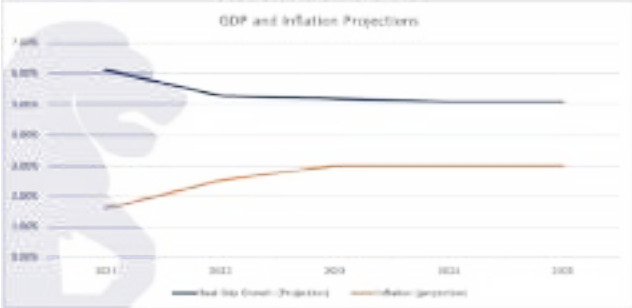

Figure 2, Source: IMF

The inflation target must be achieved by Bank Indonesia in coordination with the Government. Under the Indonesia Law, the inflation target is established by the Government. In a Memorandum of Understanding between the Government and Bank Indonesia, the inflation target is established for a three years period in a Decree of the Minister of Finance (KMK).

From 1999 onwards, the inflation target has been set in coordination with the government. This means that the Bank Indonesia does not have the usual independence of Central Banks in the western Countries, thus allowing for more discretionary monetary policies by the government and lifting up inflation expectations. The CPI inflation rate has been 3.20% in 2018, 3.03% in 2019 and lower than 2% from May 2020 onwards. During the review period, Indonesia maintained its traditionally prudent anti-inflationary monetary policies. After a spike in inflation in late 2014 and early 2015 to above 8%, as a result of the abolition of premium fuel subsidies, the government managed to lower inflation to 3% in 2016, and it maintained that level to the end of 2018. Similarly, the central bank – with the strong encouragement of the government – intervened in the market to defend the national currency, the rupiah. As the result of a growing current account deficit, the rupiah plunged to IDR 15,000 per $1 in October 2018 – its lowest level since the 1998 financial meltdown. With its interventions, central bank foreign reserves shrank from $132 billion in January 2018 to below $115 billion in September 2018.

Business Confidence

In Indonesia, the Business Tendency Index (BTI) measures the expectations of entrepreneurs about current business income, production capacity, average working hours and future domestic and foreign orders, selling prices and raw materials. The survey covers a sample of around 2000 managers from large and medium companies from almost all regions of the country and from the main sectors of the economy .The latest edition of the Business Survey performed by Bank Indonesia showed that business conditions improved across all economic sectors in the third quarter of 2020. ThIs trend was mainly driven by the recent gains in manufacturing, trade, accommodation, transportation and communication, finance, real estate and corporate services. Improvements in the agricultural, forestry and fishing sector have been supported by conducive weather conditions. Respondents predicted business activity to further improve in the fourth quarter of 2020. This recovery is also supported by OECD estimates, as the business confidence index shows in the graph below.

Figure 3, Source: OECD

Trade

Foreign direct investment into Indonesia rose 1.1 % year-on-year to IDR 106.1 trillion (USD 7.24 billion) in the September quarter of 2020, the biggest amount in 2 years, and the first increase in three quarters, after a 6.9 % shrink in the previous quarter. Singapore, China excluding Hong Kong and Japan were among the top sources of investment. Base metals and transportation, warehousing and telecommunications and utilities were main the sectors benefiting. The Investment Coordinating Board Chief said that the foreign direct investment could continue to rise next year helped by a new deregulation legislation.

Indonesia posted a trade surplus of USD 2.44 billion in September 2020, swinging from a USD 0.2 billion deficit in the same month of the previous year and beating market consensus of a USD 1.98 billion surplus. This was the fifth straight month of surplus in trade balance, mainly due to a plunge in imports, amid the coronavirus pandemic. Exports fell 0.51 % over a year, because of lower sales of oil and gas products, whilst non-oil exports rose (0.21 %). Imports tumbled 18.88 % over a year earlier to USD 11.57 billion, as purchases of both oil and gas (-26.31 %) and non-oil and gas (-17.94 %) plunged. Considering the first nine months of the year, the country recorded a trade surplus of USD 13.51 billion, shifting from a USD 2.24 billion deficit in the same period back in 2019.

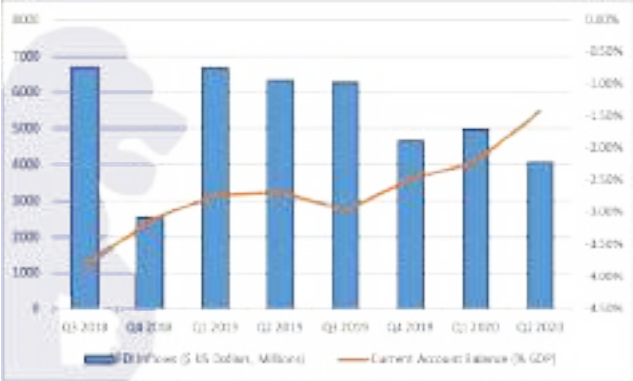

Figure 4, Source: OECD

Households

Within the domestic market, the total credit to households has been stable at 17% of GDP since 2015 and was up in the first quarter of 2020, according to the Bank for International Settlements. The housing prices have slightly decreased from 2015, according to OECD, although they are moderately rebounding from Q3 2019, in spite of the COVID-19 Crisis. However, residential property prices for new houses in big cities increased, according to the Bank for International Settlements.

Figure 5, Sources: OECD and BIS

Coronavirus

Indicator	Value
CODID-19 Cases	429,574
COVID-19 Deaths	14,442
Hospital Beds (number/1000 people)	1.01

As of 7 November, Indonesia has reported 433,836 cases, the highest in Southeast Asia. In terms of death numbers, Indonesia ranks third in Asia and 15th in the world. The central government has not been able to coordinate the policy strategy with regional governments. After Indonesia announced its first three COVID-19 cases in March, several regions immediately manifested their intention to implement their own lockdowns. As regards the mobility, most of the relevant places, spanning from transit stations to workplaces, are still below the baseline set at 0, i.e., the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

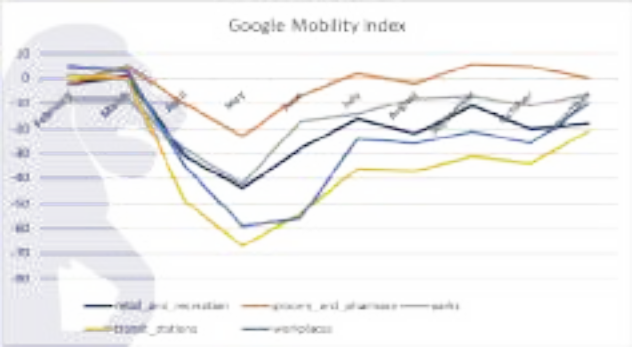

Figure 6, Source: Google

Public Finances

In the most recent IMF Article 4, a debt sustainability assessment was prepared which found Indonesia's domestic and external debt to be sustainable. According to the IMF, "Indonesia's external and public debt remain moderate and sustainable. Nonetheless, potentially weaker-than-expected revenue, contingent liabilities from state-owned enterprises (SOEs) and public private partnerships (PPPs) should be carefully monitored.

Reliance on foreign investors remains sizable, which could leave Indonesia susceptible to capital flow reversals". Government Debt to GDP in Indonesia is expected to reach 32.20 % by the end of 2020. In the long-term, the Indonesia Government Debt to GDP is projected to trend around 34.50 % in 2021 and 33.50 % in 2022. The Government Budget in Indonesia is expected to reach -6.50 % of GDP by the end of 2020. In the long-term, the Indonesia Government Budget is projected to trend around -5.50 % of GDP in 2021 and -4.00 % of GDP in 2022

Figure 7, Source: IMF

The government has continued to put great emphasis on maintaining fiscal stability, with the budget deficit at the end of 2018 standing at 2% (the current legislation allows up to 3%). This is lower than in previous years and significantly lower than analysts had projected. This has been a significant achievement of Sri Mulyani Indrawati, Indonesia's finance minister and former World Bank managing director, who is a fiscal conservative. But debt has been rising, because of the government's large-scale infrastructure program and its government spending efforts to keep inflation low. The government's external debt growth slowed compared to the previous quarter. At the end of Q3/20, the government's external debt was registered at USD 197.4 billion or grew by 1.6% (yoy), declining from 2.1% (yoy) in Q2/20. Such development was a consequence of capital outflows in the government securities (SBN) market by foreign investors in response to elevated global financial market uncertainty. Nevertheless, the government issued Samurai Bonds in Japan's financial market as part of its strategy maintaining an ongoing funding to handle the multi stage COVID-19 pandemic and support the National Economic Recovery Program.

Figure 8, Source: Bank of Indonesia

The bond yields are expected to increase due to the impacts of the COVID-19 outbreak, with the cost of capital rising through the EMEs. For state-owned enterprises bond issues at higher yields may significantly affect future profits. The current Indonesia credit rating is summarized as follows:

Agency	Rating	Outlook
S&P	BBB	Negative
Moody's	Baa2	Stable
Fitch	BBB	Stable

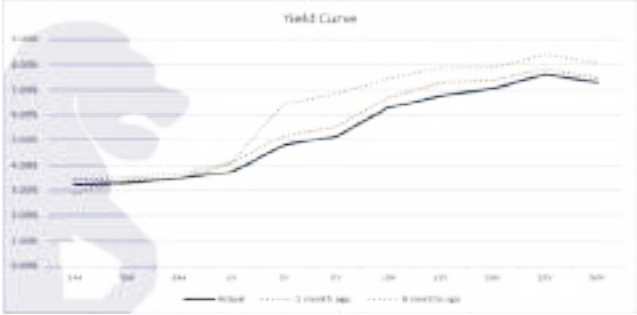

Figure 9, Source: Bank of Indonesia

The Asian Development Bank conducted several tests to analyze alternative macroeconomic assumptions regarding key variables driving central government debt dynamics. The combined effect of these shocks reduces the central government debt to GDP ratio from 37.8% to 36.7% of GDP in 2020. This result is driven by the decline in oil price, which decreases government energy subsidy expenditures and supports domestic consumption through lower prices. The results of the stress test indicate that central government debt is resilient to a broad range of shocks.

Politics

Between 2017 and 2019, the quality of democracy in Indonesia continued a slow but noticeable decline. It is important to note, however, that despite this decline in democratic quality, Indonesia remains an electoral democracy – albeit an increasingly defective one. The Economist Intelligence Unit rated Indonesia a "flawed democracy" in 2019. Indonesia's main weaknesses concern corruption, political stability, and rule of law. The next elections will be held in 2024.

Indicator (World bank)	Global percentile rank
Control of corruption	37.98
Government Effectiveness	60.09
Political Stability and Absence of Violence	28.09
Rule of Law	42.30
Regulatory Quality	51.44
Voice and Accountability	52.70

India

GDP and Inflation

Indonesia's economy has performed relatively solidly in the last years, but below its potential as one of the largest consumer markets in the world. Indonesia's annual economic shrank by 3.49 % in the third quarter of 2020 with respect to the previous year, worse than market consensus of a 3 % contraction and after a 5.32 % fall in the previous period. It is the first economic recession since the 1998 Asian financial crisis. Indonesia's trade with the rest of the World has dropped, as both exports and imports have decreased. Communication is the only sector which has enjoyed growth during 2020.The government's previous 2020 GDP forecast range was between 0.4% contraction to 2.3% growth, down from 2019's 5% expansion, due to the fallout of the coronavirus pandemic. Indrawati, the Prime Minister, attributed the revision to weaker-than-expected economic activity in the second quarter. President Joko Widodo proposed to parliament a 2021 budget that assumes GDP growth of 4.5%-5.5% next year.

Indian economy was witnessing a pre-pandemic slowdown and the pandemic has magnified pre-existing risks to India's economic outlook. In fact, the economy deeply shrank 23.9% yoy in the Q2 of 2020, worse than market forecasts of a 18.3% drop. This fall follows an expansion of only 3.1% yoy in the Q1, the slowest GDP growth in more than 20 years, and an annual increase of 4.7% in Q4 2019, the weakest growth rate since Q1 2013.
The Q2 contraction is the biggest since 1996. There are a series of data that show this shock: construction (-50.3%), hotels and transportation (-47%) and manufacturing (-39.3%) recorded the biggest drops, mining and quarrying (-23.3%), finance, real estate and business services (-5.3%), utilities (-7%) also suffered. On the expenditure side, gross fixed capital formation recorded the largest decrease of 47.1%, private spending shrank 26.7%, inventories fell 20.8%, exports went down 19.8% and imports sank 40.4%. In contrast, government consumption jumped 16.4%. In addition to that, unemployment rose from 6.7% on 15 March to 26% on 19 April and then back down to pre-lockdown levels by mid-June. During the lockdown, an estimated 140 million people lost employment while salaries were cut for many others. More than 45% of households across the nation have reported an income drop as compared to the previous year.

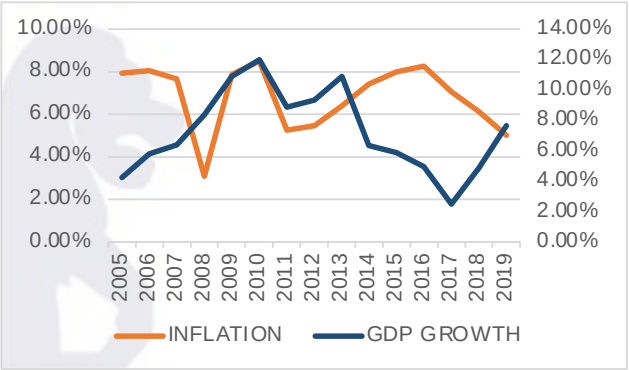

Figure 1, Source: OECD

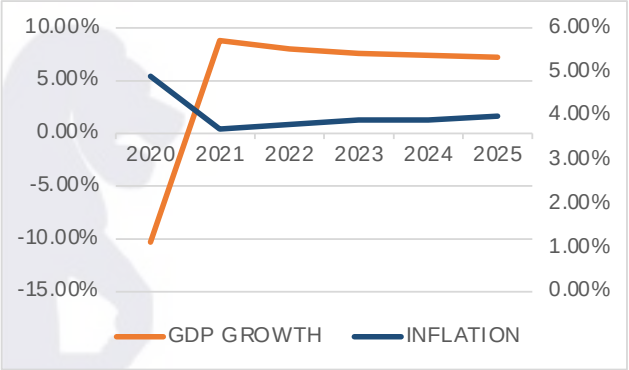

Figure 1, Source: IMF

Due this new framework the economy did not witness double digit inflation as prior to 2014. However, one the most negative elements of COVID-19 crisis has been an increasing inflation. In fact, annual consumer price inflation in India increased to 7.61% in October of 2020. It is the highest rate since May 2014, remaining above the central bank 2%-6% target range for the 7th straight month. Food inflation went up to 11.07%. It is so important to analyze food prices because of the composition of the Indian CPI. The most important category in the CPI is food and beverages 45.86%, housing accounts for 10.07 %, fuel and light for 6.84 %, clothing and footwear for 6.53 %, and pan, tobacco, and intoxicants for 2.38 %. Consumer price changes in India can be very volatile due to dependence on energy imports and the uncertain impact of monsoon rains on its large farm sector.
Despite the better management of inflation compared to the past, many politicians and economists are proposing changes ahead of the next inflation target review. Some argue in abandoning the inflation targeting framework as it is bad suited for central banks. Namely advanced economies fail to raise consistently the inflation rate since the global financial crisis. They suggest a need to move back to "multiple indicator approach" followed between 2008 and 2013 or target a variable like credit growth. Others, instead, want to revise the inflation target, increasing the inflation tolerance limit and not targeting a core inflation. Despite the instances stated above, the flexible inflation targeting regime should continue with some minor tweaks for the next 5 years as well.

In India, the Business Expectations Index (BEI) is calculated as a weighted net response of nine business indicators. Those are: overall business situation, production, order books, inventory of raw material, inventory of finished goods, profit margins, employment, exports, and capacity utilization. BEI gives a snapshot of the business outlook in every quarter and takes values between 0 and 200, with 100 being the threshold separating expansion from contraction. In the last decades, the BEI has been largely positive but decreasing. Naturally, due to the outbreak of COVID19 crisis the indicator is negative, decreasing to 99.50 points in the second quarter of 2020, the first time it is below 100 from the 2008 financial crisis.

Trade

India is going to be the most attractive emerging market for global partners investment for the coming 12 months according to recent market attractiveness survey conducted by EMPEA, the global industry association for private capital in emerging markets. Annual FDI inflow in the country is expected to rise to $75 billion over the next five years and the Government of India is aiming to achieve $100 billion worth of FDI inflow in the next two years. According to UNCTAD's 2020 World Investment Report, FDI inflows hit an all-time high of $51 billion in 2019, an increase of 20% if compared to 2018. FDI equity inflow in India stood at $469.99 billion during April 2000, which represents a rise of more than $260 billion when compared to 2010. In fiscal year 2020, the service sector received the highest FDI equity inflow reaching a share 17% of the total FDI equity inflows into the country. This was followed by the computer software and hardware sector , while the telecommunications and trading sector's share ranked third and fourth respectively. This strong trend is due to different elements. First, there are high degree of specialization in services, with a skilled, English-speaking and inexpensive workforce and a potential market of one billion inhabitants. Secondly, the Government has recently relaxed FDI policy in a variety of sectors raising the foreign investment limit, easing conditions for investment and putting many sectors on the 'automatic route' (as opposed to the 'Government route', which requires approval from the Foreign Investment Promotion Board). Sectors that have benefited from the expansion include real estate, private banking, civil aviation, single-brand retail, television news, PSU oil refineries, telecom, power exchanges, and stock exchanges

Because of the pandemic crisis, on 18 April 2020, India changed its foreign direct investment policy to avoid opportunistic takeovers/acquisitions of Indian companies. In fact, with the fall in global share prices, there is concern that China could take advantage of the situation, leading to hostile takeovers. While the new FDI policy does not restrict markets, the policy ensures that all FDI from countries that share a land border with India will now be under scrutiny of the Ministry of Commerce and Industry.

The total FDI inflow into India in the first five months was $35.73 billion, 13% higher than in last fiscal year. Singapore, Mauritius, the Netherlands, the U.S., Japan, the U.K., Germany, France, the U.A.E. and South Korea are the main investing countries in India.

India has bilateral investment treaties with the United Kingdom, France, Germany, Canada, Malaysia, and Mauritius.

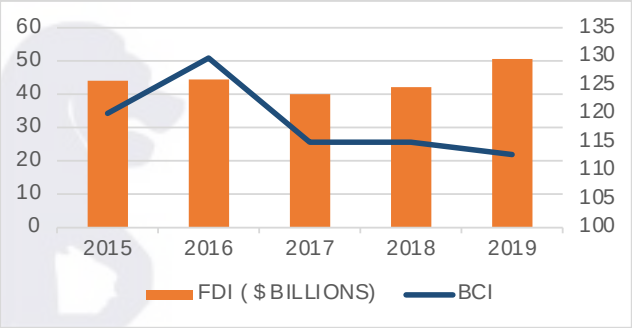

Figure 3, Source: Reserve Bank of India

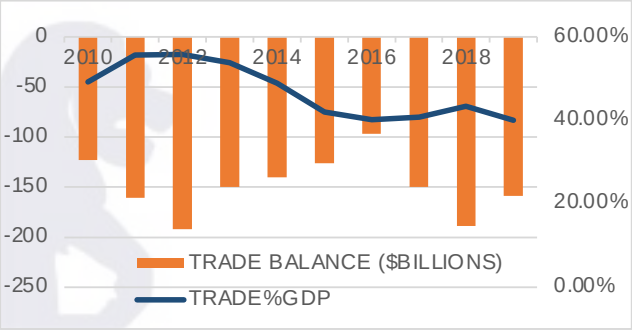

Figure 4, Source: World Bank

India has historically a trade deficit. However, it is possible to notice a decreasing trade balance from 2018 to 2019 (- $189.3 billion to - $159.5 billion) and a continuous fall of the trade balance deficit as a %age of GDP in the last decade from a maximum of 6.72% in 2012 to the 2.69% of last year. We can say that the main causes of this deficit are the heavy demand for raw materials and intermediate imports of the domestic industry. In particular, the dependence on oil, which is structural and chronic as there are no internal alternative to import. In general, India's main imports are chemicals, crude oil, and machinery. Because of this high deficit it is important to observe the movement of rupee against US dollar. Although there has been a continuous depreciation, we have noticed a decreasing trade deficit, this is due to the contemporary fall in oil prices. During the 2020 there has been a high contraction in both imports and exports with a strong narrowing of the deficit. This can be explained by the weak consumer confidence and consequently low imports of non-oil-non-gold imports and, on the other hand, the still stable export of food products, medicines, ceramic products, and iron. During this year, India even posted a USD 0.79 billion trade surplus in June 2020, the first since 2002.

The top exports of India are refined petroleum, diamonds, packaged medicaments and rice. The top imports of India are crude petroleum, gold, coal briquettes, diamonds, and petroleum gas. India exports mostly to United States, United Arab Emirates, China, Hong Kong, and Germany, and imports mostly from China, United States, Saudi Arabia, United Arab Emirates, and Iraq.

Households

Household Debt in India increased to 12.60 % of GDP in the first quarter of 2020 from 12.20 % of GDP in the fourth quarter of 2019. This is surely related to population reaction to an economic shock. The reaction depends on whether they see it as a temporary shock or a permanent one. In general, agents will diminish consumption by borrowing in case they think the shock is temporary and vice versa. As said before, this time, people are borrowing more. In fact, RBI data shows that borrowings have spiked in the first months of 2020. In general, India's household savings rate is consistently falling over the years. To be more precise, more than half of personal loans in India are housing loans, which have shown a growing trend in the last two years. This could be the result of government's push on welfare housing program. However, the trend in consumer durable loans in the last year is the opposite: a decline of 75% between August 2018 to July 2019. These trends suggest that several Indian households are saving on what can be described as lifestyle spending. Bottom line is, while households are still buying houses on credit, which brings tax benefits, they are unwilling to spend on cars, durables, even education using debt.

As it is usual, the increasing debt for mortgages has produced a rise in house prices. We can see that from India Residex House Price Index, its value was equal to 92 at the beginning of 2016 and it rose to its maximum of 114 at the end of 2019. The coronavirus pandemic has caused a huge drop in the demand, it has wiped off any chances of value appreciation in the property market and, indeed, a poll conducted by Reuters also shows average house price is expected to fall 6% this year and 3% in 2021.

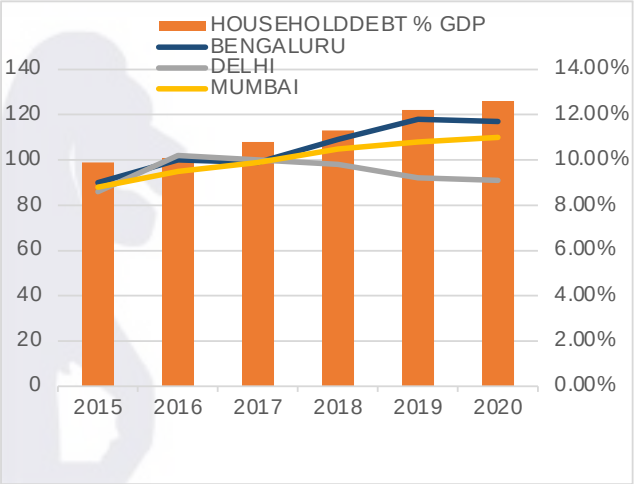

Figure 5: Householddebt-to-GDP (%), NHB Residex for Delhi, Mumbai, Bengaluru.
Sources: Bank for International Settlements, National Housing Bank

Coronavirus

It is important to underline some elements characterizing Indian society to understand how the government has acted against COVID19 crisis. The pandemic has caused a huge spike in migrations flows within the country with almost 10 million workers returning to their homes. The pandemic has exhibited the fragility of Indian economy agriculture is the largest employer, 42 % of the workforce, produces just 18% of GDP. Only 10% of the workforce is formally employed with safe working conditions and social security. This attitude is not only linked to agricultural sector but is noticed also in the modern one. The share of formal employment in the modern sector fell from 52% in 2005 to 45% in 2012. During this period, non-agricultural informal employment increased from 160.83 million to 204.03 million (about 25 %). Most of these people work for micro, small and medium enterprises (MSMEs) that gives input and services to bigger ones.

Indicator	Value
COVID19 cases	8,912,704
COVID19 deaths	131,031
Tests/ 1milion population	91,359

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The first COVID-19 case in India was detected on January 30 but the state had already implemented surveillance as early as January 17. This was followed by a series of travel advisories and restrictions, and efforts to repatriate and quarantine Indian nationals arriving from abroad. Low testing rates have always been a serious drawback. India, in the end, went into lockdown on the March 25. On June 8, after 10 weeks of lockdown, India started reopening. With a series of different "Unlock", the country has tried to balance attempts to revive the economy while dealing with the pandemic.

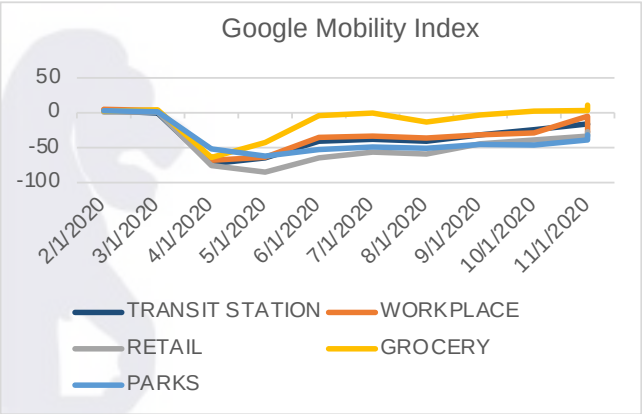


Figure 6, Source: Google

The Indian government developed an economic stimulus of $280 billion, equal to 10% of Indian's GDP, to react against the increasing unemployment. 36 million people sought work in May 2020 (25 million in May 2019). The economic package consisted of a mix of reforms, infrastructure plans, support measures to stressed businesses, subsides and "collateral-free loans" to resume business activity and safeguard jobs. It is important to underline the huge government activity related to the poor. Various state governments announced financial assistance for those in the unorganized sector, such as daily wage laborers in the state, street vendors and rickshaw pullers. Below Poverty Line families received rations (including rice, wheat, mustard oil, sugar) free of cost. In addition to that, a special scheme of free supply of 5 kilograms of wheat/rice per person, covering 800 million people.

India combined fiscal and monetary strategies. In particular, the Reserve Bank of India (RBI): cut the repo rate by 115 bps to 4% and the Reverse Repo rate by 115 bps to 3.35%, it also cut the Cash Reserve Ratio (CRR) by 100 bps to 3%, in a massive relief for the middle class, the RBI Governor also announced that lenders could give a moratorium on term loans and, in the end, it undertook Long Term Repo Operations.

Public Finances

Through the last two decades Indian government has been able to control and reduce its government debt. The government fiscal deficit decreased at the beginning of the century and consequently the relative debt to GDP ratio followed the same trend. From the value of 82.6% in 2002 it was stabilized to 70% even if there was an average government deficit of 4.6% after the financial crisis. Fiscal deficit had soared to a seven-year high of 4.6% of the GDP in 2019-20, mainly on account of poor revenue realization, which dipped further towards the end of March because of a nationwide lockdown; it is furtherly expected to reach 10.00% of GDP by the end of 2020. India recorded a government debt equivalent to 69.62 % of GDP in the 2019-20 fiscal year, it is expected to reach 75.00 % by the end of 2020 and it is projected to trend around 80.00 % in 2021 and 84.00 % in 2022.

The Indian credit rating is BBB-/Baa3 according to the main credit rating agencies.

So, it is slightly higher than non-investment grades one. Its Current 5-Years Credit Default Swap quotation is 107.14 and implied probability of default is 1.79%. India 10Y Bond Yield was 5.88 % on Wednesday November 18. Its fluctuation is naturally strongly linked with the expansionary monetary policy of the central bank. In particular, the yield curve started decreasing from the end of 2018 (more than 8.00%) and it plummeted after the outbreak of the COVID19. The yield curve has a normal convexity.

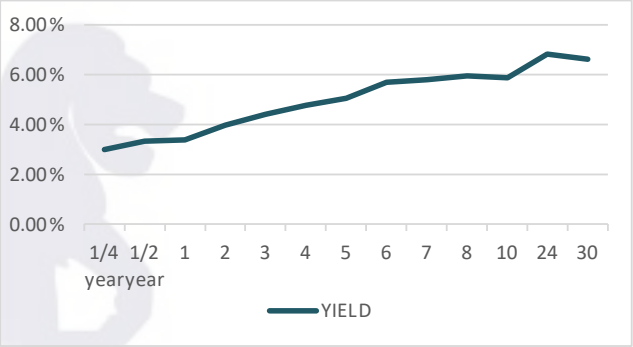


Figure 7: Term Structure. Source: Marketwatch.com

Credit Agency	Rating	Outlook
S&P	BBB-	Negative
Moody's	Baa3	Negative
Fitch	BBB-	Negative

Politics

The Economist Intelligence Unit rated India a "flawed democracy" in 2019.

Indicator (World bank)	Global percentile rank
Control of corruption	47.60
Government Effectiveness	59.62
Political Stability and Absence of Violence	21.43
Rule of Law	52.40
Regulatory Quality	48.56
Voice and Accountability	57.64

Messico

GDP and Inflation

In 2019 the economy of Mexico recorded an estimated growth rate of -0.1%, compared to 2.1% in 2018,due to the uncertainty following President López Obrador's first year in office, as well as reduction in domestic demand and investment. According to the updated IMF forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to fall to -6.6% in 2020 and pick up to 3% in 2021, subject to the post-pandemic global economic recovery.
If we consider 2020 more in detail, GDP shrank 8.6% on an annual basis in the third quarter, after collapsing a record-breaking 18.7% in the second quarter. The result was broadly in line with market expectations. On a seasonally adjusted quarter-on-quarter basis, economic activity surged 12.0% in Q3, the sharpest increase on record, following the unprecedented 17.1% recession logged in Q2

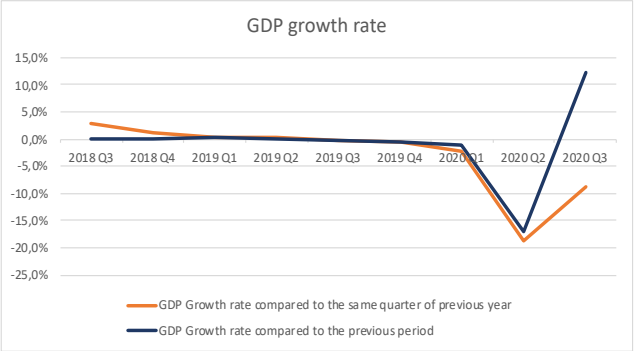


Figure 1, Source: IMF

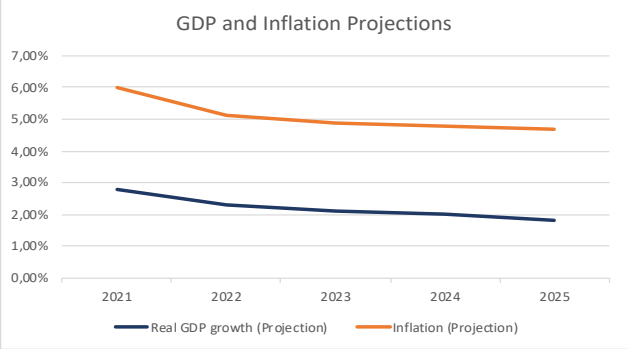


Figure 2, Source: IMF

We can observe sharp improvements across the major sectors as the economy gradually emerged from lockdowns starting in June. The industrial sector contracted 8.8% yoy in Q3 (Q2: -25.7%), supported by strengthening external demand and the reopening of key industries such as auto and construction. Similarly, services activity declined 8.8% on an annual basis, after plummeting 16.2% in Q2. Agricultural sector jumped 7.8% year-on-year, rebounding strongly from the 0.5% slip logged in Q2.

Inflation slowed down to 3.6% in 2019 but remaining above target (since 2017). Due to lower fuel prices and COVID-19 pandemic, inflation should drop to 2.7% this year and 2.8% in 2021, boosting purchasing power and private consumption (April 2020 World Economic Outlook IMF). However, annual inflation rate rose to 4.09 % in October 2020 from 4.01 % in the previous month and slightly above market expectations of 4.07 %. It was the highest inflation rate since May last year, as prices increase further for food & non-alcoholic beverages (8.09% vs 7.55% in September); and furnishings (5.56% vs 5.14%). In contrast, prices slowed for housing & utilities (3.29% vs 3.36%); miscellaneous goods & services (3.85% vs 4.04%); restaurants & hotels (3.94% vs 4.12%); recreation & culture (2.11% vs 2.34%) and health (4.65% vs 4.75%). Additionally, cost of transport dropped (-0.16% vs 0.06%) while inflation was steady for clothing & footwear (at 0.63%).

Business Confidence

The Business Confidence Index in Mexico reached 96.26 points in March 2020, which shows a decline of 1.7 points in comparison to the previous month. On February 29, 2020 the first two cases of coronavirus (COVID-19) were reported in Mexico, leading authorities to take containment measures in the following weeks. These measures impacted the country's economy. Mexico's business confidence experienced its second month of increases in October, after the collapse registered in August, when the effects of the coronavirus pandemic were already latent in the country's economy. Confidence grew as the peso improved, easing of coronavirus lockdown restrictions and ahead of the US Presential elections, Mexico's largest trading partner.

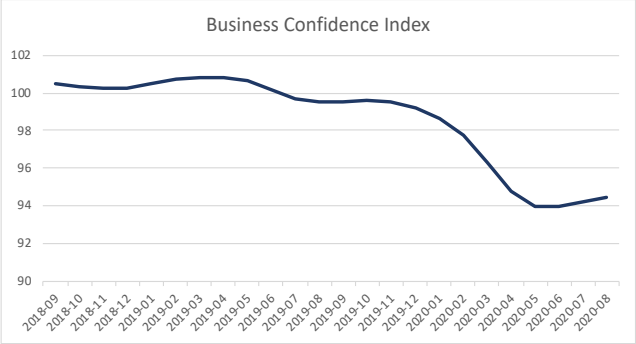


Figure 3, Source: OECD

Trade

Among all the emerging economies, Mexico is one of the most open to foreign direct investment and today Mexico represents the world's fifteenth largest FDI recipient. According to UNCTAD's 2020 World Investment Report, FDI inflows slowed down to USD 33 billion, from USD 35 billion a year earlier (-5%). The total stock of FDI is estimated at USD 628 billion in 2019. Investments mostly come from the United States, Spain, and Canada.

The sectors receiving significant foreign investment are manufacturing (especially the automobile industry representing 21% of FDI), electricity, water and gas supply finance, retail and wholesale trade, and financial services. Foreign investments are mostly concentrated in towns neighboring the U.S border (where many assembly factories are located), as well as in the capital. Thanks to its robust tourism industry, the Yucatan Peninsula also receives substantial foreign investment. FDI flows to the country fluctuate strongly depending on the arrival and departure of large international groups. The economic contraction in the United States due to COVID-19 will badly affect Mexico. In recent years, Mexico's competitiveness has suffered from the rise of organized crime and lack of reforms in the energy sector and tax regulations. Corruption and administrative inefficiency have also been major issues.

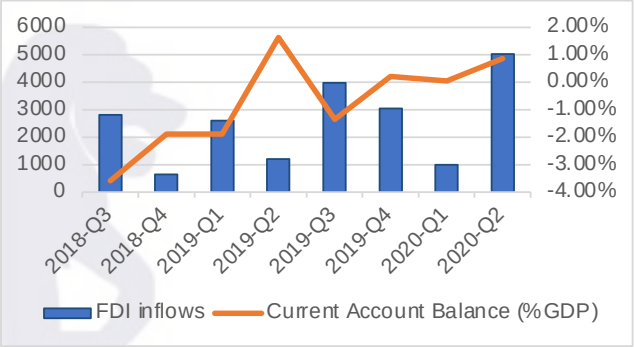


Figure 4, Source: OECD

Mexico is highly dependent on foreign trade, which represented 77.6% of its GDP in 2018 (World Bank). The country mainly exports vehicles and their parts, automatic data processing machines, mineral fuels, oil, and machinery. As for imports, Mexico's main purchases include petroleum oils, other than crude, vehicle parts, and electronic integrated circuits.

Exports dropped 1.6% year-on-year in March, contrasting February's 0.6% increase. The fall was mainly driven by a collapse of oil exports and a moderate decline in shipments of vehicles and auto parts. Similarly, imports contracted 6.7% over the same month of 2019 in March, following the 3.9% drop logged in February and marking the eighth consecutive month of declining imports. The sharper downturn reflected an across-the-board decline in the purchase of oil, consumer, intermediate and capital goods compared to February.

Mexico depends mainly on its commercial relations with its main trading partner – the United States – which account for more than three-quarters of the country's exports (76.5% in 2018 according to WTO). NAFTA renegotiation with President Donald Trump placed Mexico's trade at risk in recent years, with the newly signed United States–Mexico–Canada Agreement (USMCA) ratification facing some difficulty in the US Congress and in the Canadian parliament (while it has already been ratified by Mexico).

Both Mexico and the USA benefit from production sharing, a process in which a good can sometimes be designed in the USA, assembled in Mexico, and returned back to the USA for the final part of the production. The country has signed a dozen free-trade agreements with about forty different countries of the world. Other trade advantages of Mexico include its free-trade agreement with the European Union since 2000, a trade agreement with Japan since 2005 and the 2012 foundation of the Pacific Alliance along with Colombia, Chile, and Peru. Other destinations for Mexican exports include the EU (4.7%) and Canada (3.1%). As per imports, the main origins include the US (46.6%), China (18%), the EU (11.4%) and Japan (3.9%).

Mexico's trade balance is structurally negative, a trend that has been accentuated by the trade tensions with the U.S. and the fluctuations in world oil prices. In 2018, exports of goods grew by 10% year-on-year, reaching USD 450.6 billion; while imports followed a similar trend (10.2%), at USD 476.5 billion. Mexico is also a net importer of services (USD 28.3 billion of exports vs USD 37 billion of imports - data by WTO), for 2018 the trade deficit was estimated at 1.9% of GDP by the World Bank.

Households

Households Debt to GDP in Mexico increased to 16.4 % in the first quarter of 2020 which represents a relatively low level. To expand household access, the regulatory framework could be revised to facilitate agent networks and enable payment service providers.

The Mexican government has been insufficient in its response to the coronavirus. With poorly communicated and inconsistent messaging that offers no clear guidelines, their federal government's inaction has given rise to widespread rumors that are beginning to stoke panic and insecurity.

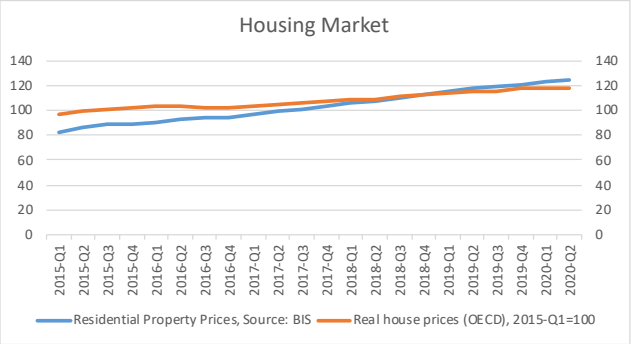


Figure 5, Sources: OECD, BIS

Coronavirus

The first case in the kingdom was confirmed by the Ministry of Health on 2 March 2020 and in the following months, the kingdom held the highest number of confirmed cases in the Arab states of the Persian Gulf.

Indicator	Value
COVID-19 Cases	1,100,683
COVID-19 Deaths	105,459
Hospital Beds (number/1000 people)	1,38

The mobility is still far from the baseline level of the first weeks of the year, even for grocery and pharmacy.

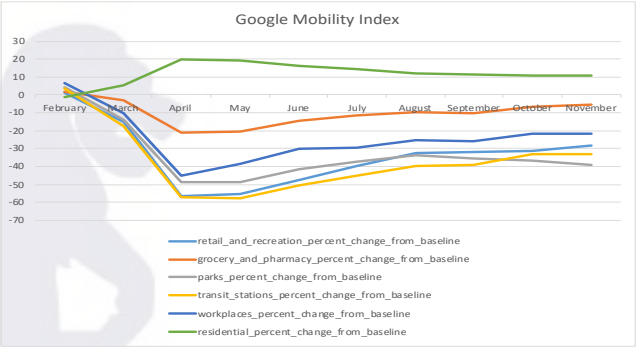


Figure 5, Source: Google

The Mexican government has been insufficient in its response to the coronavirus. With poorly communicated and inconsistent messaging that offers no clear guidelines, their federal government's inaction has given rise to widespread rumors that are beginning to stoke panic and insecurity.

Public Finances

When looking at the public sector, debt balance shows a negative trend standing at 46.1% of GDP in 2018, down from 46.3% of GDP in 2017. The current government through the National Development Plan, which runs from 2019 until 2024, is trying to foster macroeconomic stability by balancing public finances without raising tax rates or introducing new taxes.

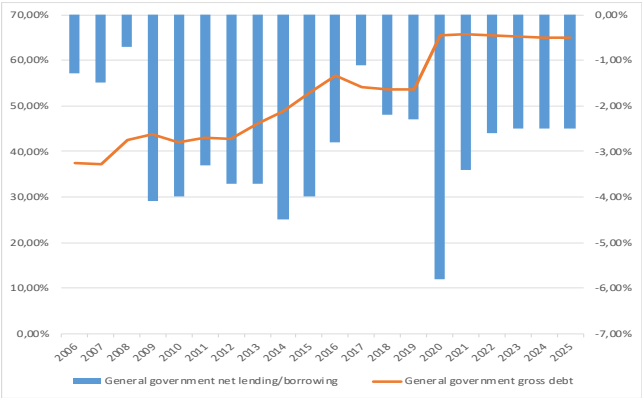


Figure 6, Source: OECD

If we compare Mexico to the rest of Latin America, Mexico has one of the most-developed and second-largest local bond markets, after Brazil. Historically, the country's market has been one of the most important among emerging countries. In addition, Mexico has long been included in the community of world government bond indices, owing to its investment-grade credit quality and full market access for international investors adding to the potential attractiveness of Mexico's bond market is a series of reforms undertaken by President Nieto since his inauguration in December 2012. Mexico has announced and completed the legislative process underpinning its comprehensive reforms agenda, which covers energy, telecommunications, anti-trust, labor markets, education, and the financial sectors. In its latest report from November 2014, the IMF noted that these reforms could potentially boost the annual growth in output over the medium term to 3.5%-4%, compared to the previous estimate of 3%-3.25% growth. In expectation of improving growth prospects and fiscal flexibility in the medium term, rating agencies raised Mexico's sovereign rating from 'BBB' to 'BBB+' (Standard & Poor's Ratings Services) in December 2013, and from 'Baa1' to 'B3' (Moody's) in February 2014. The Mexico 10Y Government Bond has a 5.762% yield. Central Bank Rate is 4.25% (last modification in September 2020). The Mexico credit rating is BBB, according to Standard & Poor's agency. Current 5-Years Credit Default Swap quotation is 95.08 and implied probability of default is 1.58%.

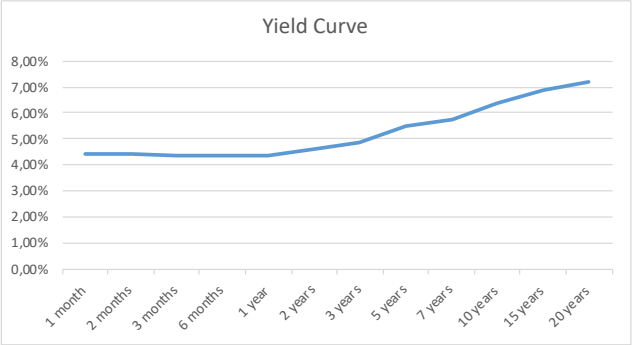


Figure 7, Source: World Government Bonda

Rating Agency	Rating	Outlook
S&P	BBB	negative
Moody's	Baa1	negative
Fitch	BBB-	stable

Politics

Andrés Manuel López Obrador's administration popularity has consistently fallen as a result of his ineffective policies to tackle the pandemic, worsening insecurity, and the economic crisis. The new administration has also been unable to contain a wave of violence that it inherited from its predecessors and AMLO 'Transformation' has been a disaster for Mexico's Economy.

According to Mexico's finance minister, Arturo Herrera, Mexico will have "the strongest crisis since 1932". Over the past few months, at least 12 million jobs were lost. Without help from the government, which has insisted in a policy of austerity, thousands of small companies have gone underwater. Wages were also reduced dramatically.

By the time the crisis ends, experts predict 25 percent of the country will be poor, with 10 million more Mexicans sinking below the poverty line. Optimistic analysts expect it will take four years for Mexico's economy to recover; other say closer to a decade.

Indicator (World bank)	Global percentile rank
Control of corruption	22.6
Government Effectiveness	47.7
Political Stability and Absence of Violence	21.0
Rule of Law	27.4
Regulatory Quality	59.6
Voice and Accountability	45.3

Russia

GDP and Inflation

The impact of the global pandemic on economic activities in Russia was limited in Q1 2020 and represented just a prelude to collapse in productivity in Q2. Following the introduction of COVID-19 containment measures at the end of March, Russia slipped into recession hit by domestic supply and demand shocks: stringent lockdowns measures caused business activities to halt (supply shock) and the majority of households could not realize their demand for goods and services in full because of the fear of becoming infected (demand shock). An increase in unemployment and a fall in income exacerbated even further these demand effects.

In April, contraction in the output of five basic sectors (Agriculture, industrial production, transportation, construction, and retail trade) totaled 9.9 %, yoy, which is almost equal to the decline during the global financial crisis of 2009. In April and May, high-frequency statistics pointed to negative growth in all sectors except for agriculture. Manufacturing shrank by 10%, yoy, in April and 7.2%, yoy, in May with severe negative impacts in metals production and transport vehicles. However, the production of medical goods and pharmaceuticals grew by 13.5%, yoy. The transportation sector has been hit by falling trade volumes and diminished demand for travel, falling 6%, yoy, in April 2020 and 9.5 %, y/y, in May. In April, mineral-resource extraction decreased by 3.2%, yoy.

OPEC cartel countries (led by Saudi Arabia) and Russia proved to be instrumental in maintaining market stability during the COVID-19 pandemic. In the framework of the OPEC+ agreement, in May, Russia cut oil production to 8.59 million barrels per day. The agreement required cuts to 8.492 barrels per day for May-June, which weighted on mineral-resource extraction (-13.5%, yoy).

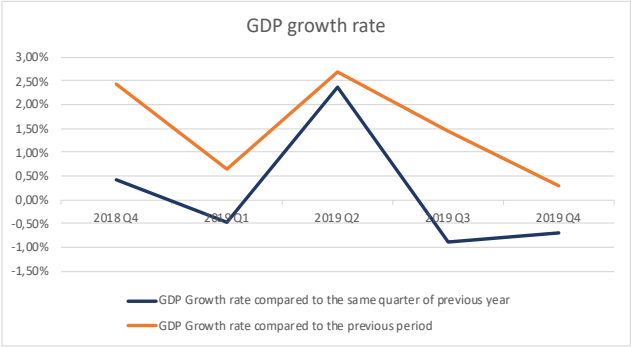


Figure 1, Source: OECD

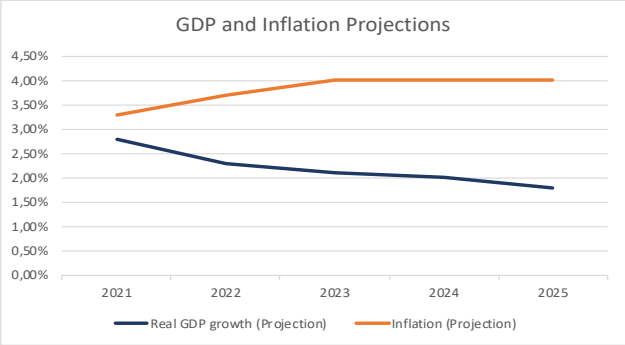


Figure 2, Source: IMF

According to the IMF forecast from September 2020, Russia's annual GDP would decrease by 6.6 % in 2020 and rise by 4.1 % in 2021.

Inflation is developing in line with the Bank of Russia's forecast and is expected to lie within the range of 3.9-4.2% at the end of 2020.

Due to higher uncertainty surrounding commodity and financial markets and of the depreciation of the ruble, both household inflation expectations for the twelve months ahead and corporate-sector price expectations for the next three months significantly increased in April. The monthly change in the consumer price index (CPI) rose in March for the first time in a year, reaching 2.5%, yoy, and accelerated further in April, to 3.1%, yoy. The higher CPI inflation was driven by the increased demand for food and essential products that followed the imposition of containment measures, and by a ruble weakened by collapsing global demand for oil and plummeting prices for the commodity.

However, in May, Russia experienced a gradual drop in inflation, this was due to a steep decline in demand. The disinflationary effect of weak demand that was reinforced by both the current and deferred economic effect of restrictive measures and the ruble exchange-rate appreciation. Inflation slowed down in May to 3.0%, yoy, as disinflationary pressures from a decrease in aggregate demand outweighed the impact of the FX passthrough.

Business Confidence

Russia's composite Purchasing Managers' Index (PMI) grew to 57.3 in August (vs 56.8 in July). A positive trend was observed both in services (58.2 in August) and manufacturing (51.1 in August vs 48.4 in July). This sustained recovery and growth in the Russian economy was due to the cancellation of the restrictions in most Russian regions and a revival of consumer demand.

Rosstat's Business Confidence Indices also continued to recover in August, with mining and quarrying being the main driver. According to the monitoring of companies carried out by the Bank of Russia, the Business Climate Index slightly declined in August but remained in positive territory. The estimates of the current situation and expectations improved most markedly among agro-industrial and trade enterprises. Contrastingly, business sentiment continued to deteriorate in construction.

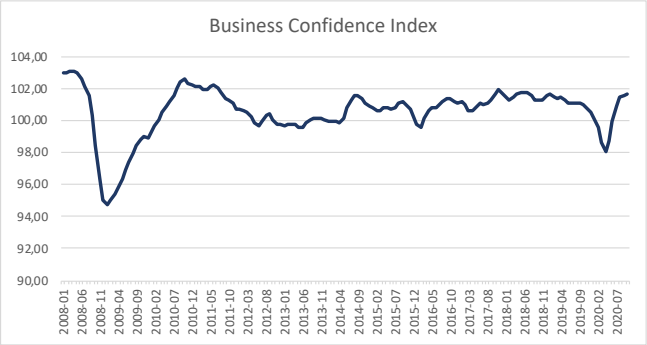


Figure 3, Source: OECD

Trade

According to the latest annual survey of foreign firms presented by The Moscow Times, European investors consider Russia's arduous regulations to be a bigger obstacle to doing business in the country than the COVID-19. Almost 70% of the Association of European Businesses (AEB) members consider regulations to be a significant challenge to operating in Russia, and over a half doesn't expect the situation to improve in the next few years. The coronavirus pandemic is cited as the main obstacle by 57% of AEB members. Although increased investment is among President Vladimir Putin's goals, companies point out that state policies are designed to support domestic companies and import substitution.

Nonetheless, according to UNCTAD's World Investment Report 2020, FDI inflows to Russian Federation increased enormously in 2019, reaching USD 31,7 billion, up from USD 13 billion in 2018 (+139,9). The main investing countries are Cyprus, the Netherlands, Luxembourg, the Bahamas, Ireland, Bermuda, and the United Kingdom. The main sectors receiving FDI are the extractive industry, metallurgy, financial and insurance activities, administrative and service activities, manufacturing of vehicles and transport equipment, energy, and real estate.

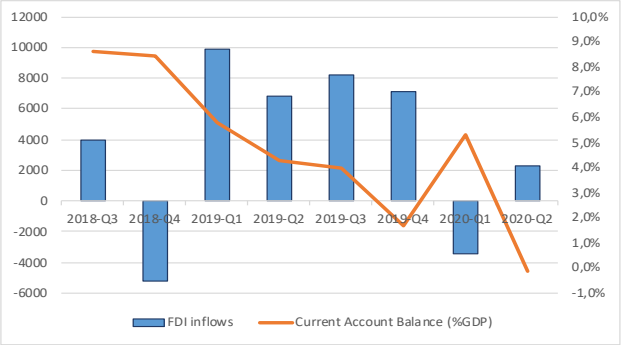


Figure 4, Source: OECD

Russia's current account balance gets back to be positive mainly due to exports of commodities such as crude oil and natural gas. The 3Q20 current account improved despite OPEC+ imposing a supply limit. The current account was preliminarily estimated at $2.5bn in 3Q20, which suggests an improvement compared to the $0.5bn deficit recorded for 2Q20 (the latter has been downgraded from the initial $0.6bn estimate).

The improvement in the current account would seem to be easily foreseeable given the rebound in the Urals oil price from $29 per bbl. in 2Q20 to $43/bbl. in 3Q20; however, the effect of higher oil prices has been upset by the diminishing physical volume of exports. As a result of OPEC+ commitments, Russia's quarterly fuel export revenues per $1/bbl. dropped to a 12-year low of $0.7bn from the previous $0.9-1.0bn range.

The decline in the value of goods and service exports decelerated to 27% in 2020 Q3 (vs -32% in 2020 Q2). The annual decrease in global energy commodity and aluminum prices slowed down. The value of oil and petroleum product exports decreased by 50% in 2020 Q3 (vs -52% in 2020 Q2). The decline in the Urals crude price slowed down from 57% to 30% as global demand rebounded and oil supply shrank, as required by the OPEC+ deal. The decline in the value of exports of natural gas in the gaseous state decelerated to 42% (vs -55% in 2020 Q2) owing to the dynamics of both prices and quantities. The annual decrease in the gas price in the European market (which is the main one for Russia) slowed down to 25% (vs -58% in 2020 Q2) owing to the contraction of LNG exports from the USA.

Service exports shrank by 37% (vs -38% in 2020 Q2), primarily due to the situation in the travel and transportation industries. The exports of services in the 'Travels' item stayed close to zero amid the remaining restrictions to enter Russia from several countries. In these conditions, the exports of transport services decreased by 35%, primarily due to the decline in passenger transportation. The exports of other services demonstrated better dynamics, with the decrease slowing down to 12%.

Goods and service imports declined by 22% on 2020 Q3 (vs -24% in 2020 Q2) due to the downturn in the Russian economy, the weakening of the ruble, and the suspension of travels to numerous countries.

The decrease in the value of goods imports decelerated to 8% in 2020 Q3 (vs -13% in 2020 Q2) as domestic demand bounced back gradually following the termination of the lockdown. In September, goods imports from non-CIS countries4 even expanded (by 0.3%), for the first time since winter. The value of service imports decreased by 52% in 2020 Q3 (vs -51% in 2020 Q2). This was primarily explained by an 89% reduction in imports in the 'Travels' item, rebounding quite slowly due to the decline in international tourism caused by the effective restrictions for foreign travels.

Coronavirus

Currently, Russia has the highest number of confirmed cases in Europe, after France temporarily had more cases than Russia for a few weeks, and the fourth highest in the world after the United States, India, and Brazil.

Indicator	Value
COVID-19 Cases	2,064,748
COVID-19 Deaths	35,778
Hospital Beds (number/1000 people)	9

The mobility index is not as negative as the one of the other Countries under consideration. However, workplaces and retail are still far below from the baseline level, set at 0, of the first weeks of the year

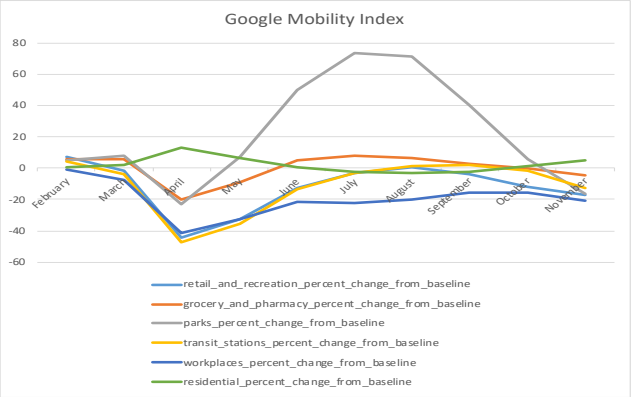


Figure 5, Source: Google

The expected negative impact of COVID-19 on economic activity caused the Central Bank of Russia (CBR) to turn monetary policy from neutral to accommodative. The CBR lowered its key rate by 50 bps to 5.5 % in late April, in expectation that the restrictive measures introduced by the government to contain the spread of the pandemic, as well as the global recession, would lead to a weaker economic activity and aggregate demand. Further, in June, on the back of the prevailing disinflationary factors (above expectations) and sluggish economic activity, the CBR cut the key rate by 100 bps down to a record low of 4.5 %. Given the high level of volatility, the CBR communicated that it stands ready to further ease monetary policy in the coming months, taking into account the inflation dynamics relative to the target of 4 % and economic developments over the forecast horizon.

The CBR is using all available policy tools, in addition to changes in the key rate, to ensure that markets continue to operate smoothly. The expected pick-up in inflation will likely be contained by a large decrease in aggregate demand, as the pass-through of exchange-rate depreciation to goods inflation will be limited by compressed profit mark-ups. In this context, it is uncertain to what extent the recent (and future) reductions of policy rates will stimulate the economy. In order to reduce the long-term damage to the economy, the CBR has already implemented several measures, including temporary measures to increase incentives for banks to issue and extend loans such as: special refinancing rates, favorable conditions for specific types of loans, postponing the introduction of tighter rules, and reducing regulatory and supervisory burdens for financial institutions. Moreover, the CBR has introduced a Rub 500 billion facility to support SMEs lending and approved measures to ease liquidity regulations for systemically important financial institutions. The CBR also announced measures to maintain the availability of insurance services, to support professional participants in the securities market and the trading and clearing infrastructure, and to support collective investment market participants. For households affected by the COVID-19, the CBR allowed banks and microfinance organizations to restructure their loans, forgo penalties, and avoid foreclosures on collateral.

Public Finances

The Russia 10Y Government Bond has a 5.830% yield. High yields and the country's relatively strong financial status compared with its emerging-market peers make Russian bonds attractive to foreign investors.

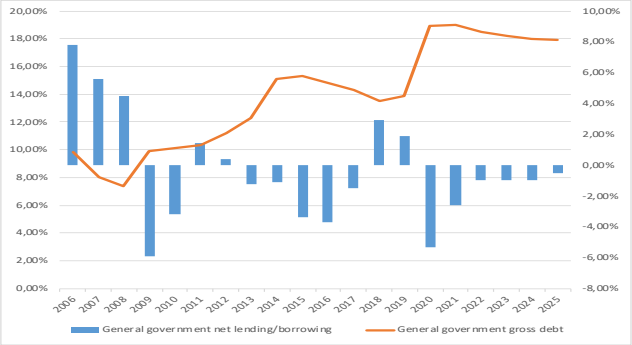


Figure 6, Source: IMF

The prospect of President Vladimir Putin staying in the Kremlin until 2036 does not seem to be affect investor appetite in Russia's high-yielding sovereign bonds as investors focus on economic fundamentals and political stability rather the risk of policy stagnation. Investors in Russia are quite used to shocks, having seen the country's markets roiled in recent years by sanctions and oil price collapses.

Yet very little of these events has made rouble-denominated government debt (OFZs) less attractive thanks to the Russia's low indebtedness, prudent monetary and fiscal rules, and the world's fourth largest FX reserves. Foreign investors currently hold $43 billion worth of OFZs or around a third of sovereign rouble bonds.

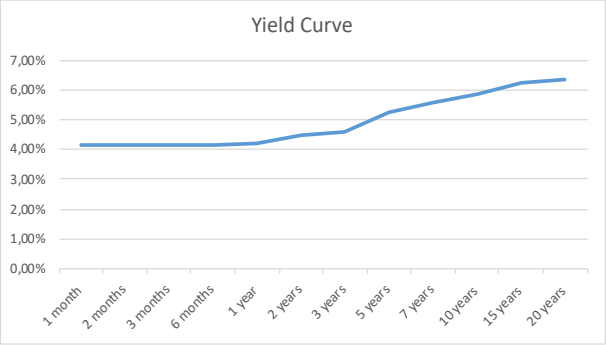


Figure 7, Source: World Government Bonds

Rating Agency	Rating	Outlook
Standard & Poor's	BB+	Stable
Moody's	Baa3	Positive
Fitch	BBb-	Stable

Politics

This year is a challenging time for Vladimir Putin, who started a new six-year presidential term in May 2018. The decade was a period of stagnating living conditions (GDP to grow by no more than 1–2% per year), on-going military conflicts in Syria and Ukraine, and the COVID-19 global pandemic. The international economic sanctions imposed on Russia since 2014 and increasing turbulence on the international energy and financial markets, also represent a threat for the Russian government. The standard of living of Russian people is deteriorating, not only due to incomes falling in real terms in the years 2014–2019, but also due to the poor health service and new environmental problems. The potential for protest among the Russian people is on the rise (although not yet on a scale that poses a threat to the Kremlin), and sociologists are observing growing public demand for change and increasing ineffectiveness of state propaganda. Putin's approval rating is still fluctuating at above 60%, while the number of respondents who would not like to have him as president after 2024 is increasing. Continuing from his previous term, Putin politics promotes conservative values, anti-Westernism and the nationalism of the great powers. The tight control of civil society, the media and the Internet was reinforced in 2019 with for example the adoption of a law on "fake news".

Indicator (World bank)	Global %ile rank
Control of corruption	21.6
Government Effectiveness	58.2
Political Stability and Absence of Violence	25.7
Rule of Law	25.0
Regulatory Quality	36.1
Voice and Accountability	18.2

Saudi Arabia

GDP and Inflation

Saudi Arabia's economy was facing a contraction since the third quarter of 2019. The pandemic and the oil plunge have exacerbated this downward performance. In March 2020, the oil price decreased by 65% in comparison to their January standing. These two factors lead to a contraction of GDP by 6,10% in the second quarter of 2020 compared to the same quarter of the previous year. Due to the coronavirus pandemic Oil deemed plummeted around the world. This was especially harmful to Saudi Arabia as its economy is primarily based on Oil production, as Oil accounts for 42% of their GDP and 90% of their exports.

Figure 1,2, Source: IMF

The Saudi Arabian Monetary Agency, unlike many other central banks, does not establish a target inflation rate. It rather considers other economic indicators and adjusts its policy to promote stability and growth. Currently the inflation rate is at 5,8% up from 5,7% in October mainly due to an increase in VAT which increased the prices of food and beverages.

Still the IMF projects that Saudi Arabia can expect a lower inflation rate next year at 3,7% and later a further drop to a stable 2%. This is a positive outlook as many central banks and economists agree that 2% is a desirable inflation rate.

Trade

Saudi Arabia experienced a huge influx of foreign direct investment in 2018 when it reached 4247 million dollars from just 1419 million dollars in 2017. In 2019 FDI also increased to 4562 million dollars. Since then, it has remained stable; looking at quarterly data until the first quarter of 2020 when it reached 1613 million dollars in first quarter. Still investors are not fully convinced whether to invest in Saudi Arabia due to its political structure, lackluster laws for commercial disputes and an economy strongly dependent on government spending and fossil fuels. The main investors in Saudi Arabia are UAE, USA, and France.

Saudi Arabia posted a trade surplus of 2735 million dollars in the second quarter of 2020. Down from 227,200 million dollars in the first quarter. This can be mainly attributed to the drastic drop in oil demand worldwide due to decrease in travel and economic activity, a result of the COVID-19 pandemic. This was especially impactful on Saudi Arabia as crude oil accounts for 90% of their exports.

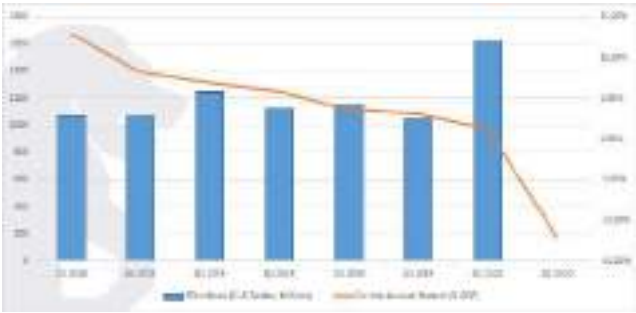


Figure 3, Source: OECD

Households

As regards to the domestic market, the total credit to households has been slowly increasing from 2015 when it was at 11,4% of GDP reaching 12,1% of GDP in the first quarter of 2020, the last available data from the Bank for International Settlements. The housing prices have slightly decreased from 2015, according to OECD. There is also no difference in new houses and existing property prices. still high.

Indicator	Value
COVID-19 Cases	357000
COVID-19 Deaths	5870
Hospital Beds (number/100 people)	2,2

As of 28th of November Saudi Arabia has reported 357 thousand COVID-19 cases and 5870 deaths . The country ranks 34th in the world in regard to the number of COVID-19 deaths and 9th in Asia.

The country experienced its worst COVID-19 wave in June and since the situation has been improving. The kingdom introduced lockdown measures back in March and lifted them on June 21st when the country started to experience more recoveries than cases, although the number of new daily cases was still high.

Figure 4, Source: Google

Public finances

Government Debt to GDP in Saudi Arabia is expected to reach 33.40 % by the end of 2020. In the long-term, the Saudi Arabia Government Debt to GDP is projected to trend around 34.30 % in 2021 and 34.10 % in 2022..

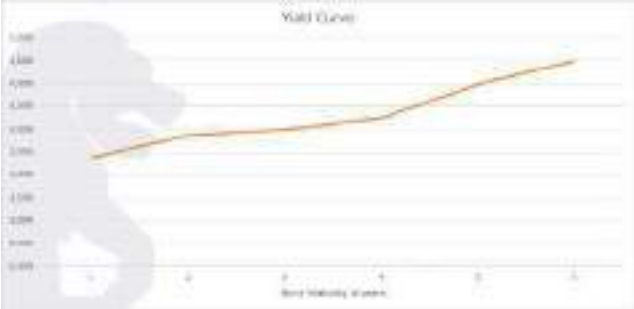


Figure 5, Source: World Government Bonds

Rating Agency	Rating	Outlook
S&P	A-	Stable
Moody's	A1	Negative
Fitch	A	Negative

Politics

Saudi Arabia is a totalitarian absolute monarchy. The king is the head of state and has almost absolute power. The state is also closely connected to the Islamic religion and the Quran is the kingdom's constitution. This leads to limited freedoms for citizens that have no influence on the country's policy.

Indicator (World bank)	Global percentile rank
Control of corruption	63.0
Government Effectiveness	64.4
Political Stability and Absence of Violence	29.5
Rule of Law	58.7
Regulatory Quality	51.9
Voice and Accountability	5.9

South Africa

GDP and Inflation

The South Africa GDP shrank an annualized rate of 51% in the three months to June of 2020, after a downwardly revised 1.8% contraction in the prior period exceeding the estimated 47.3% decline. It was the steepest economic contraction since 1990, as the COVID-19 pandemic blow extended the recession into the fourth quarter, the longest period of consecutive quarterly contractions since 1992. Steep output declines were seen across almost all of the country's sectors, in particular construction (-76.6% vs -4.7% in Q1); manufacturing (-74.9% vs -8.5%); mining (-73.1% vs -21.5%); transport, storage & communication (-67.9% vs 0.5%) and trade, catering & accommodation (-67.6% vs -0.7%). The only exception was agriculture, forestry, and fishing (15.1% vs 26.8%), amid higher production of field crops and horticultural products. Year-on-year, the economy shrank 17.1%, following a revised 0.1% growth in the previous period and compared with market expectations of a 16.5% slump.

Right now, 2020 GDP annual growth is forecasted to be -7.1% and +2.9 in 2021 according to the World Bank, while respectively -5,8% and +4% according to Statista's South Africa report. The economy is seen contracting 7.8% in 2020 from an earlier estimate of 7.2% according to the National Treasury of South Africa.

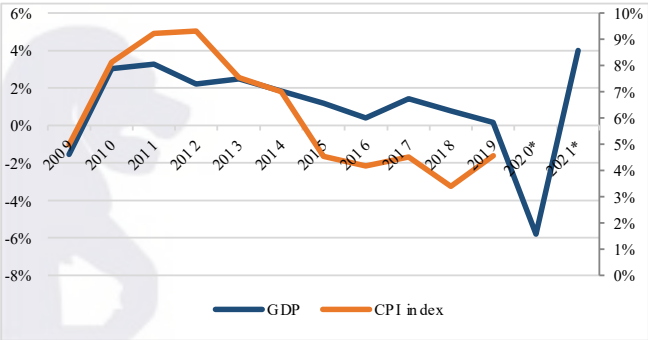


Figure 1, Sources: Statista , World Bank

Inflation moved up back into the central bank's target band in July, ending its first stint in 15 years below the 3% lower boundary of the range, i.e. it was 2,1% in May and 2,2% in June. The central bank cut its price-growth forecast for this year and 2021 and said the rate will remain "well contained" and below 4,5% until 2022.

The inflation rate in South Africa slowed to 3 % in September of 2020 from 3.1 % in August and market expectations of 3,1 %. The inflation remains well below its level before the coronavirus crisis, i.e. 4,6 % recorded in February. Main upward pressure came from the cost of food and non-alcoholic beverages (3.9 %); housing and utilities (2.8 %); and miscellaneous goods and services (6.5 %).

The lowest contribution came from the cost of household contents and services (1.5 %); health (3.9 %); and recreation and culture (1.2 %). Transport prices edged up a meager 0.3 % and housing and utilities increased 2.8 %. On a monthly basis, consumer prices edged up 0.2 %, the same as in August and below forecasts of 0.3 %.

Business Confidence

The RMB/BER business confidence index in South Africa rose to 24 in the third quarter of 2020 from a record low of 5 in the previous period. It was the highest since the last quarter of 2019, as the country gradually relaxed most of its coronavirus restrictions during the period. Across sectors, confidence rebounded the most in wholesale and retail trade, supported by the agricultural sector and a continued recovery in international trade. "The improvement in business sentiment could mean that the 51% annualized contraction in the gross domestic product in the three months through June was the worst point in this cycle", said Ettienne le Roux, RMB's chief economist.

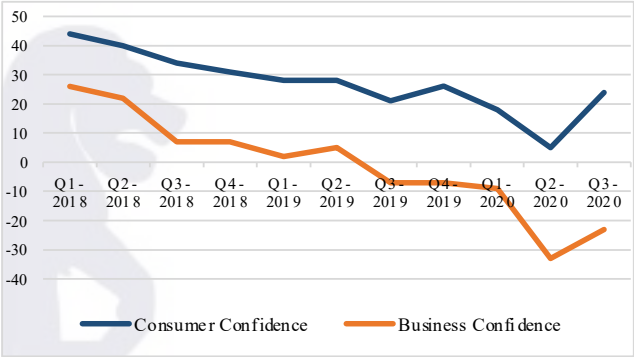


Figure 2, Source: Bureau of Economic Research

Trade

Compared to other countries in the African continent, the potential attractiveness of South Africa is high. However, its performance is relatively weak for FDI attraction, despite progress owing to investment potential in infrastructure. According to data published in the UNCTAD's 2020 World Investment Report, FDI inflows decreased by 15.1% in 2019, reaching USD 4,6 billion, compared to a high inflow of USD 5,4 billion registered in 2018. In 2019, FDI stocks increased to USD 151 billion, well above USD 127 billion in 2018.

This trend is related to the Government's campaign to attract $100 billion of FDI by 2023. The strong increase in the last few years is mainly due to intercompany financing and equity inflows. Beijing Automotive Industry holding, BMW, Nissan and Mainstream Renewable Energy have been the largest investors in recent years.

South Africa has many attractive assets for investors such as an important demography; a diversified, productive, and advanced economy; abundant natural resources; a quasi-transparent legal system, and a certain political stability

However, the country suffers a high crime rate, increasing social unrest (strikes and demonstrations), high levels of corruption, and structural issues in electricity supply and logistics. Investors are also worried about the lack of clarity concerning policy and structural reforms. Investment potential is hampered by certain legal uncertainties which discourage foreign investors.

Between 1990 and 2019 the Balance of Trade shifted from a 6,14bn of USD to 1,72bn, with a negative commercial balance between 2012 and 2015. South Africa's trade surplus shrank to ZAR 33.5 billion in September of 2020 from a downwardly revised ZAR 38.7 billion in the previous month.

Imports surged 12.1 % to ZAR 102.2 billion, mainly boosted by purchases of original equipment components (79 %); mineral products (23 %); chemicals (11 %) and wood pulp & paper (31 %). Meantime, exports advanced at a slower 4.5 % to ZAR 135.8 billion, as higher shipments of mineral products (14 %); machinery & electronics (11 %) and base metals (7 %) were partly offset by a decline in those of vegetable products (-16 %).

Figure 3, Source:World Bank

In August 2020 the top exports of South Africa were Platinum (ZAR18.2B), Gold (ZAR11.9B), Iron Ore (ZAR8.21B), Cars (ZAR6.82B), and Citrus (ZAR6.08B). South Africa exports mostly to China ($18.1B), United Kingdom ($8.81B), United States ($7.92B), Germany($7.18B), and India ($7.13B). Others include Namibia, the UK, Mozambique, and Netherlands. The top imports of South Africa are Crude Petroleum ($11B), Refined Petroleum ($4.85B), Cars ($4.16B), Vehicle Parts ($3.33B), and Broadcasting Equipment ($2.72B).In August 2020 the top imports of South Africa were Crude Petroleum (ZAR5.42B), Commodities not elsewhere specified (ZAR5.02B), Refined Petroleum (ZAR4.73B), Telephones (ZAR4.02B), and Cars (ZAR2.94B).

Households

Housing Index in South Africa increased to 544.47 Index Points in November from 539.71 Index Points in October of 2016, according to the Bank of Settlements. The Absa house price indices are based on the total purchase price of homes in the 80-400 Sq. meter size category, priced at ZAR 4,2 million or less in 2015 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. To give a sense of this measure, the EU has a value of the index of 125, while the UK's index is 432. The Household Debt indicator is measured as a %age of net household disposable income.

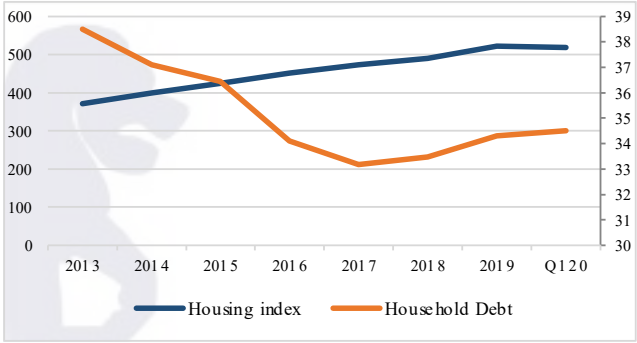


Figure 4, Source: OECD

Coronavirus

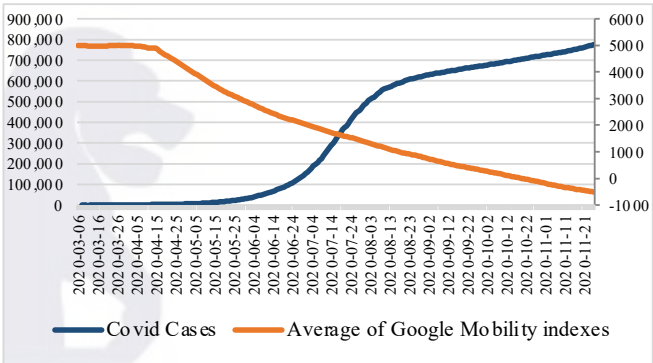


Figure 5, Source: Google

Indicator	Value
COVID-19 Cases	775502
COVID-19 Deaths	21201

The first confirmed COVID-19 case in South Africa was a traveler who had returned from Italy and was diagnosed on March 5, 2020. When 402 cases had been identified after 18 days, the government announced a national lockdown, which was implemented 4 days later when the doubling time was 2 days and there were 1170 identified cases (Figure 1A). During 35 days of strict lockdown, the doubling time slowed to 15 days, and there were 5647 cases (including 103 deaths) by April 30. As of May 19, when a less strict lockdown was in place, South Africa had recorded 17,200 cases and 312 deaths and had conducted 488,609 tests.

South Africa has been the African country hit hardest during COVID-19, with 742,394 cases (38% of African total cases) and 20,011 deaths (43% of African total deaths due to COVID19) (Statista – SA COVID) as 11th November. As 11th November, the situation seems to be under control with an average of less than 2000 cases per day.

Public Finances

The South African government's Medium-Term Budget Policy Statement (MTBPS) further raises the trajectory of government debt. Achieving debt stabilization will depend crucially on difficult negotiations with public sector trade unions, Fitch Ratings says. The government now expects gross loan debt, its main measure of public debt, to rise to 90.1% of GDP in the fiscal year ending March 2023 (FY23) from 63.3% in FY20. This largely reflects the surge in deficits due to the coronavirus crisis and the associated containment measures that hit South Africa's economy and government revenues. In its supplementary budget in June the government aimed to contain debt to 86% in FY23 with an active policy approach. The government now forecasts debt to peak at 95.3% in FY26.

The upward revisions largely reflect the expectation that expenditure for the next two years will be around 1% of GDP higher than planned in June. Both higher debt trajectory, and the debt stabilization expected for 2025, depend on a substantial improvement in the primary main budget balance by almost 10% of GDP between FY21 and FY26, which remains subject to large risks. The projections depend on expenditure reductions of 1.1% of GDP in FY22, rising to 2.5% in FY24, relative to the 2020 budget projections from February. This would largely come from highly uncertain savings on public sector compensation. The broader environment for debt stabilization is also challenging. The government expects the economy to recover next year, and it also expects output to remain below its 2019 level until at least 2023. Despite the Economic Reconstruction and Recovery Plan released by the president, Cyril Ramaphosa in mid-October, growth will remain weak. Tensions within the governing African National Congress will also hamper policymaking and exceptionally high inequality raises social pressure for additional spending.

Government Debt to GDP in SA is expected to reach 64.19% by the end of 2020, according to Statista and it is expected to increase in the next years. On 18 March, the government announced a Debt Relief Fund to help SMEs meet their debt repayment obligations. The Business Growth or Resilience Facility will provide funds for working capital, inventory, bridge financing and other purposes for SMEs involved in the manufacturing or supplying of products in short supply due to the virus.

Furthermore, it has been introduced an Employment Tax Incentive (ETI), which is a cost-sharing agreement with the government. It provides employers with an immediate cash benefit to encourage them to hire workers between 18 and 29 years of age.

The COVID-19 Temporary Employee/Employer Relief Scheme provides a special unemployment benefit for people who have lost all or part of their income because of the pandemic. South Africa's government revised its budget deficit forecast to 15.7 % of GDP in 2020/21 fiscal year from an earlier estimate of 14.6 % in June and compared to 6.4 % in 2019. That would be the largest budget shortfall since the end of apartheid, as the COVID-19 pandemic and strict lockdown measures hit severely the country's fragile economy. The Treasury plans to freeze public sector wages for the next three years to help cut its salary bill and narrow the budget. Government debt should jump to 81.8 % of GDP from 63.5 % last year, before hitting 92.9 % in 2023/24.

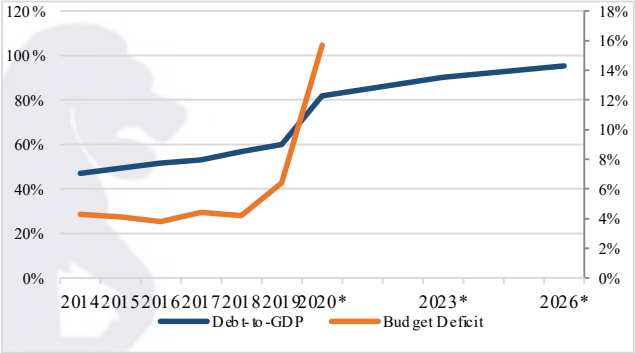


Figure 6, Sources: Statista, Trading Economics

On 20 March 2020, the South African Reserve Bank, the country's central bank, cut its benchmark repo, or repurchase, rate by 100 basis points to 5.25% from 6.25%. On 15 April it reduced it further by 100 basis points to 4.25%, and on 22 May it cut it another 50 basis points to 3.75%.

The Reserve Bank's Prudential Authority, which regulates the country's banks, insurance companies and other financial institutions, lowered liquidity coverage ratios and capital requirements for the nation's banks. It also provided capital relief on structured loans that were in good standing prior to the crisis.

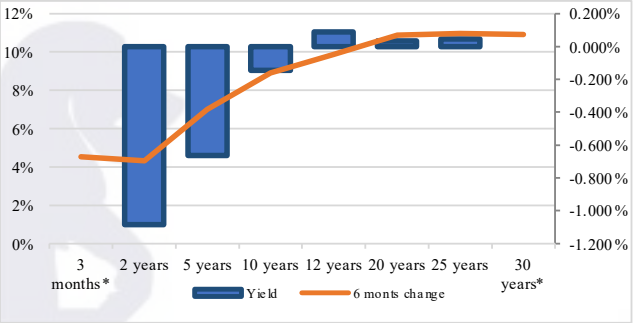


Figure 7, Source: World Government Bonds

Agency	Rating	Outlook
Standard & Poor's	BB-	Stable
Fitch	Baa2	Negative
Moody's	BB-	Negative

South Korea

The Republic of Korea has the third largest economy in Asia ($1,587 bn), according to the forecasts of the IMF of October 2020. Its GDP is expected to shrink by 1.9%, allowing South Korea to overcome Russia and Brazil, becoming the 10th largest economy in the World. It is also the 26th country in the World in GDP per capita, at $30,644, just behind Italy.

South Korea was one of the country's first hit by the pandemic, when in February 2020 the first cases started to come up in a cluster following a religious ceremony in Daegu. Its economy shrunk in the first quarter due to the stringent restrictions implemented by the government, which relied on a textbook response based on testing extensively and tracing people movement to anticipate the infection.

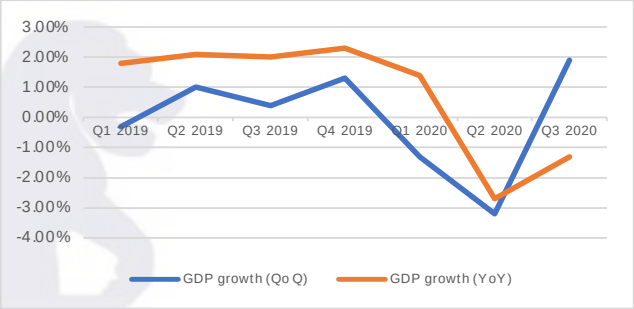
GDP and Inflation

The Ministry of economics and finance had set growth projections at +2,4% for 2020 at the end of 2019, on the back of a strong rebound of exports (+3%, especially in strong sectors such as technology and semiconductors) after the collapse of 2019, when exports shrunk by 11% and the economy grew at the slowest pace of the past 10 years, at 2%.
Nevertheless, forecasts of growth in the entire world were quickly reversed because of the pandemic. South Korea, thanks to its prompt reaction and effective containment strategy, is expected to be the best performing of the advanced economy with an annual decline between 1,1% and 0,8%. The rebound in the third quarter of about 1,9% beat expectations of +1,7% growth but was not enough to offset the negative performance of Q1 and Q2. Impacted strongly were Manufacturing (-8,85% Q2), Services (assessed at about 2% lower than in Q42019 for 2020), and Transport (-10% in Q1 YoY; -18,7% in Q2 YoY; -16,3% in Q3 YoY).

Components of GDP weighted on the growth across the board: Consumer spending drop significantly because of social distancing rules (-6,5% in Q1 on the previous one) and has not picked up given the lack of restriction on these rules (only +1,4% in Q3 vs. Q1). On the other hand, balance of trade was hit only temporarily in April and June, when it recorded a negative bimester for a country that averages a surplus of about US$ 5bn. However, a rebound was seen in the following month and the country closed the first 10 months of 2020 with a higher surplus than in 2019. Forecasts for 2021 set growth at +3,5%, lower than earlier estimates of +3,9% due to milder contraction in 2020 than expectations. Of course, all projections are strongly dependent on the evolution of the pandemic and, while South Korea showed its resilience, an uptick in infections could cause stronger restrictions and difficulties for the economy.

Figure 2. Source: IMF

The Bank of Korea adopts an inflation targeting regime for its monetary policy, on a medium-term basis. The target was set in 2019 at 2% growth of CPI index, in line with the other advanced countries in the world. Similarly, to other countries, especially in the EU, the central bank was unable to reach its goals in the last years, falling below 1% in 2019. This resulted in a swift drop at the beginning of the year, as money velocity slowed down due to restrictions. Deflation was registered in May and June 2020 and, while inflation picked up a little in the summer, prices were stable in September 2020, hinting at a possible return of deflation in the winter. Core inflation was more resilient, reaching a bottom of 0.3% in April 2020 and settling at 0.9% in September. As seen in other countries, food prices increased rapidly during 2020, increasing each month vs. the year before and reaching a high of +8.3% in September 2020.



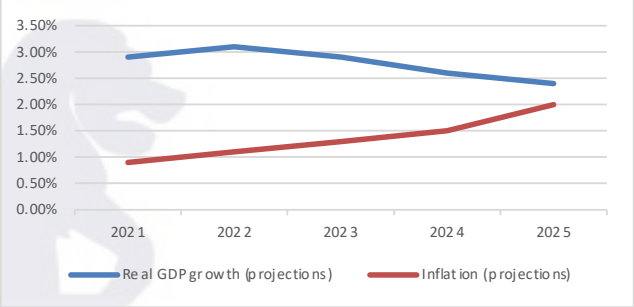


Figure 1-2. Sources: Statistics Korea, Bank of Korea, IMF

Business confidence and environment

Business Confidence plummeted during the pandemic months in South Korea, with the BSI (Business Survey Index), measuring conditions in the manufacturing sector, dropping from 76 in January 2020 to 49 in May. The index recovered swiftly in the second part of the year, reaching a high of 79 in October, exceeding the levels of 2019. Similarly, Manufacturing PMI bottomed out at 41.3 in May 2020, to then recover at 51.2 in October 2020.

On the consumer side, recovery was less brilliant. Consumer confidence recovered 20 points from the minimum in April but is still 10-15 below the end of 2019; consumer spending has recovered only slightly, remaining at 2017 levels (-5,2% from max in January 2020). Unemployment has been steady at 3-4% for the past 20 years since the Asian crisis. In 2020, the impact of

coronavirus was visible, but negligible with respect to other advanced countries (high of 4.5% in May 2020). Youth unemployment is also very low, averaging 9% in the past 4 years (with slight to no impact from COVID). Still, in the long run, South Korea faces problems similar to western countries, with rising labor costs and stagnating productivity (albeit at high levels), but retirement age is still very low, as it was raised from 55 to 60 years old in 2017. With population reaching a probable peak in the next few years, South Korea will have to find new ways to boost productivity and fuel growth.

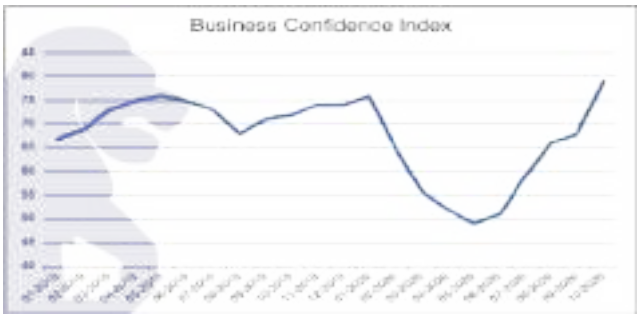


Figure 3, Source: Google

Trade and FDI

South Korea has been an exporting country since the end of the '90s when the Asian Tiger entered in the group of advanced countries. In 2020, the country recorded its lowest current account surplus in 8 years, with a deficit of USD 3,3 bn in April 2020. However, the recovery was strong and in September the deficit was reversed to a USD 10,2 bn surplus, the highest since mid-2018.
South Korea is primarily a manufacturing country, focusing on technology and transports. Exports are driven by the international-oriented chaebols, large family-owned conglomerates that diversify across sectors, such as Samsung, Hyundai, LG, SK.

Furthermore, South Korea's proximity to the largest Asian market favors exports in those areas, with 64% of exports going to Asia and more than 46% just to 4 countries (China, Vietnam, Japan, Hong Kong). The USA remains the strongest trading partner among Western countries. On the other hand, the lack of raw materials and energy sources make SK reliant on oil and fuels, imported from Middle Eastern countries (Saudi Arabia, Qatar, Kuwait, Iraq), and rare earths from Australia. China and the US remain the top 2 trading countries, but European countries reach a higher share, with respect to exports.

Foreign direct investments in South Korea are net negative. This is the result of low inflows of direct investments, typical of Asian countries, with FDI inward stock reaching just 12% of GDP (second-to-last among OECD countries, above Japan), and below OECD average outward flows, with FDI outward stock at 22% of GDP.

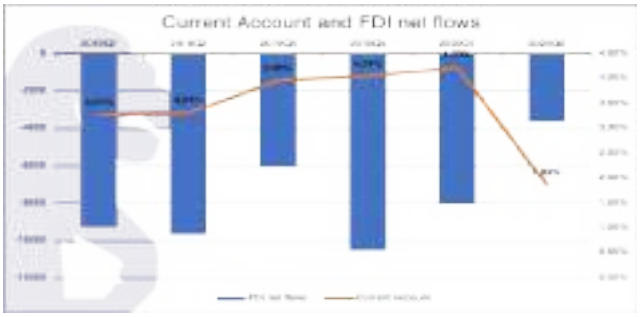


Figure 4, Source: OECD

Households

Korea's household net worth is below OECD average ($ 21,882 vs. $33,604), but the distribution highlights high inequality, with the top 20% of the population earning 5x more than the bottom 20% with a Gini coefficient of 0.35. The Housing index has increased by 5 points in 2020, from 100.6 to 106.6.

Figure 5. Sources: Bank for International Settlements

Coronavirus

South Korea is deemed as one of the best countries in managing the outbreak of the virus, despite the early spread of COVID-19. The government immediately put to work the advanced emergency health system, focusing on the first 2 Ts of the 3T approach to COVID: Testing and Tracing.

While being one of the most extensive testers in the world, the contact tracing system contributed most significantly to the containment of the pandemic. It uses data across different sources (credit card transaction, cell phone data, CCTV footage) to trace the whereabouts of people who tested positive and isolate or test all the possible contacts. The system is automated, eliminating time and personnel requirements that slowed down the process in Western countries. For South Koreans, which have been living normally since the first outbreak, allowing the collection of their data is far less intrusive of their liberty than government mandated lockdowns.

Figure 6, Source: OECD

Indicator	Value
Coronavirus cases	31,735
Coronavirus deaths	513
Hospital beds (per 1000 people)	12,48 (2018 – 2nd most)

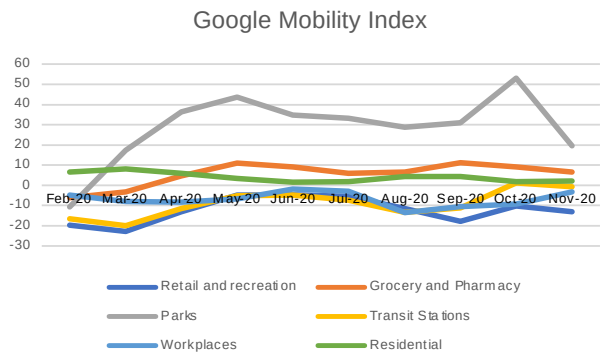


Figure 6. Sources: Google

Public Finances and Monetary policy

South Korea has one of the lowest Debt-to-GDP ratios among OECD countries, at around 40% in 2019. In the last 4 years under president Moon Jae In, the government has become very active in supporting the economy and creating new jobs, resulting in an increase of 7.5% (from 32.3% to slightly below 40%), not accounting for the pandemic. After the injection of funds into the economy to contrast the drop of 2020, the figure is set to reach an all-time high of 44%. Pressure from the conservative opposition, though, has pushed the government to set a cap on debt-to-GDP at 60%, pending approval from the assembly.

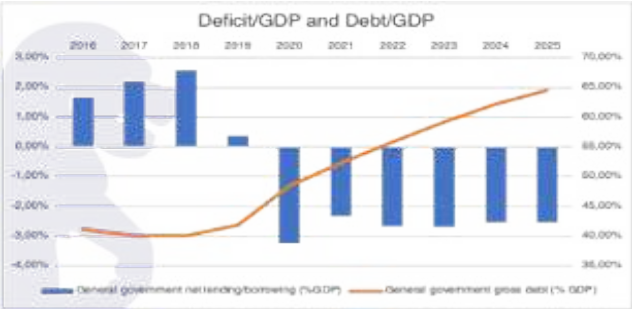


Figure 7. Sources: IMF

On the other hand, total debt is increasing rapidly (second highest increase between 2017 and 2020Q1). The low government debt is, in fact, counterbalanced by the seventh highest household debt-to-GDP among advanced countries (95.9%), below Switzerland, Canada, some Scandinavian countries and Australia, but 20 points higher than the US and 35 more than EU, China and Japan. Also, non-financial corporate debt is high at 105.1%. The yield curve of government bonds has a regular convexity, with low likelihood of continued recession in the middle-term. Rates for the 10-years bonds have shown a V shape path, decreasing in the first half of 2020 following rate cuts from the BoK, but then returning to early 2020 levels after the base rate stabilized in the second part of the year. Thanks to the support of the central bank and the efficient action of the government, agencies' ratings on South Korean debt remain solid, with stable outlooks: AA- (Fitch), AA (S&P) and Aa2 (Moody's).

Rating Agency	Rating	Outlook
S&P	AA	Stable
Moody's	Aa2	Stable
Fitch	AA-	Stable

Figure 6. Source: OECD

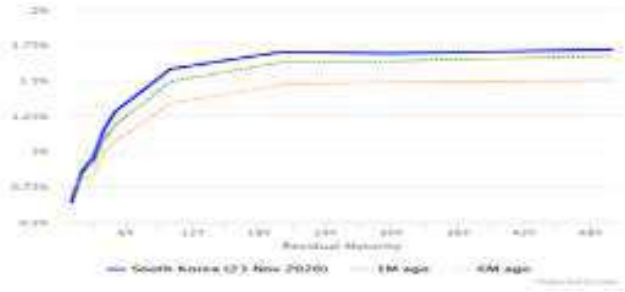


Figure 8. Korean government bond yields and yield curve.
Sources: worldgovernmentbonds.com

The Korean won, valued at around 1103.44 USD/KRW, has not been suffering during the pandemic. After a depreciation in the first part of the year (peaking at +9.43%, 1271 USD/KRW in March), the currency has regained value and overall appreciated more than 5% in one year, reaching the maximum level in 3 years.
In comparison, given that the USD has depreciated as well, the EUR/KRW exchange rate has depreciated 1% YTD (1314 from 1295), coming back to a level close to the average of the last 3 years.

Stimulus Policy

As soon as the situation deteriorated, the government announced on March 19th, 2020 an additional $39 bn package that included funding and guarantees for small businesses. On the tax side, measures regarded the reduction of income and corporate taxes in hardest hit areas, temporary relief for VAT for self-employed and simplified taxpayers and temporary reduction of individual consumption tax on car purchases.

On the monetary side, the Bank of Korea has repeatedly cut the base interest rate during 2020. At 1.25% in January (after cuts from 1.75% in 2019), the central bank has unexpectedly held rates constant in February as cases started growing. However, an emergency meeting on March 16th, 2020 has kicked off a cut of 50 bps, lowering rates to a record low of 0.75%, citing high levels of uncertainty and US FED cuts. Meanwhile, the Bank Intermediated Lending Support Facility was lowered by 50 bps to 0.25% as well, to support bank credit to SMEs. In May, the BoK cut again rates by 25 bps to 0.5% and has kept it there ever since. The accommodative monetary policy was deemed necessary to contrast weak economic growth and deflationary pressure on the demand-side. As far as the interbank rate, it has been constantly decreasing from a max of 1.9% in 2019. In 2020, it started at about 1.5% and dropped, following a lower base rate from the BoK, to 0.6% in June 2020 and stabilizing since. The central bank has also implemented a corporate debt buy-back, worth 10 trillion won, targeting bonds rated AA-BB and commercial paper rated A1-A3.

Finally, in July, the government laid out its plans for a sizable "recovery plan" to revive the economy after the pandemic and overcome the economic struggles that began in 2019. The 160 trillion won (€120 bn) plan includes:

1. Digital new deal, to increase competitiveness with stronger integration of advanced technology and economy, education, and growth; special focus on "untact" sectors, to become a first-mover economy.

2. Green new deal, to fast track the transition to a green economy, with 20% renewables goal in 2030, low carbon and decentralized energy supply and innovation in the green industry.

3. Stronger safety net, improving public facilities, investing in human resources, and strengthening the social safety net.

The joint packages will require a government deficit of 4% in 2020, increasing for the next two years (for the implementation of the recovery plan policies), to then reduce starting from 2023.

Politics

The Economist Intelligence Unit rated South Korea a "flawed democracy" in 2019. It is the 23rd most democratic country, behind some EU and Commonwealth countries but above the U.S. and Japan.

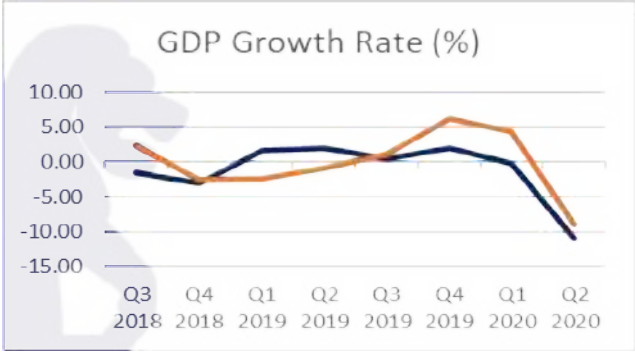
The following table use data from the Worldwide Governance Indicators elaborated by the World Bank. Last elections were in 2020 for the National Assembly and 2017 for the presidential elections. Next elections will be in 2020 and 2024, respectively.

Indicator (World bank)	Global percentile rank
Control of corruption	76.92
Government Effectiveness	88.42
Political Stability and Absence of Violence	61.43
Rule of Law	86.06
Regulatory Quality	82.21
Voice and Accountability	72.91

Turkey

GDP and Inflation

Turkey's economic and social development performance since 2000 has been impressive, leading to increased employment and incomes and making Turkey an upper-middle-income country. However, in the past few years, growing economic vulnerabilities and a more challenging external environment have threatened to undermine those achievements. Turkey's economy shrank 9.9% year-on-year in the second quarter of 2020, after a downwardly revised 4.4% growth in the previous period and compared with market expectations of a 11.8% plunge. It was the sharpest contraction since the first quarter of 2019, as the coronavirus pandemic hit the economy. Household consumption shrank 8.6%, following a 4.5% expansion in the first quarter of the year; and government spending contracted 0.8%, after growing 3.2%. Additionally, fixed investment slumped 6.1%, following a 0.3% drop in the prior period. Exports plunged 35.3% (vs 0.3% in Q1) and imports declined at a softer 6.3% (vs 21.9% in Q1). On a seasonally adjusted quarterly basis, the economy shrank 11%, the most on record, following a downwardly revised 0.1% fall in the previous quarter.



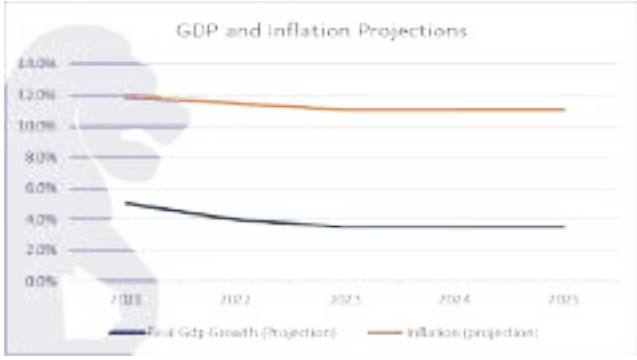


Figure1,2, Source: IMF

The inflation rate in Turkey edged up to 11.89% in October of 2020 from 11.75% in September, in line with market forecasts. Prices of miscellaneous goods and services recorded the highest increase (27.4%), followed by food (16.5%) and health (15.6%). In contrast, smaller increases were seen in alcoholic beverages and tobacco (0.7%), clothing and footwear (2.2%) and communication (5.5%). On a monthly basis, consumer prices increased 2.1%, above 1% in September and matching expectations.

In the breakdown, we see annual goods inflation rising driven by food and durables, despite favorable base effects associated with energy, as well as benign clothing prices. Durable goods, sensitive to currency developments and demand conditions, stood out as the main driver of the rise in core goods inflation. Services inflation was roughly in line with the long-term monthly average, slightly increasing mainly due to catering services and rent. Turkey thus increases its inflation risk score to 2.21, placing it in first place among emerging countries, well ahead of the second, Hungary, with its 1.20. In August 2020, Turkey suffered an inflation rate of 11.8%, ranking first among the emerging countries.

Exchange rate developments, tax adjustments and elevated services inflation will likely remain key challenges for the inflation outlook. Following the October MPC, the Central Bank of Turkey has continued with liquidity management tools and pulled the effective cost of funding close to 13.5%, while the governor noted in the recent inflation report meeting that the Bank's tightening stance would continue. However, an outright policy rate hike cannot be ruled out given the worsening inflation outlook, with deteriorating expectations and continuing volatility in the Turkish lira.

Business Confidence Index

The manufacturing confidence index in Turkey increased to 108.1 in October of 2020 from 105.3 in the previous month, reaching the highest since May of 2018. Improvements were seen in orders (86.9 vs 83.2), stocks of finished goods (103 vs 101.4), expectations for output (120.5 vs 119.3) and employment (107.1 vs 106.2). In contrast, export orders in the next 3 months are seen less positive (118.5 vs 12.8). The general business index increased to 101.4 from 94.7.

Cooling confidence came on the back of a downtick in firms' views of the general business situation. In addition, sentiment regarding export orders in the next three months also weakened. Views on the current level of finished goods turned pessimistic and optimism regarding the volume of output in the next three months dropped. That said, firms are more likely to invest. Turning to prices, producer price inflation expectations for the next 12 months rose to 14.7% in November from 13.6% in October, likely reflective of the lingering pass through effect of the recent lira slide although the currency regained some ground on the heels of the recent Central Bank action.

Figure 3, Source: OECD

Trade

Foreign Direct Investment in Turkey increased by 361 USD Million in September of 2020. The majority of FDI inflows to Turkey originated in Europe, North America, and the Gulf countries during the past 17 years while the share of Asia has been noticeably on the rise. Finance and manufacturing sectors have attracted the highest amount of FDI in Turkey, followed by Energy and ICT Services.

Turkey's trade deficit widened to USD 4.83 billion in September of 2020 from USD 1.67 billion in the corresponding month of the previous year. Exports went up 4.8% to USD 16.01 billion, with increases seen in mining and quarrying (14.6%), manufacturing (4.4%) and agriculture, forestry, and fishing (12%). Imports jumped 23.0% to USD 20.84 billion, due to intermediate (19.4%), capital (46.7%) and consumer goods (23%). Considering the first nine months of the year, the trade deficit widened to USD 37.87 billion from USD 21.09 billion as exports plunged 10.9% while imports rose 1.5%.

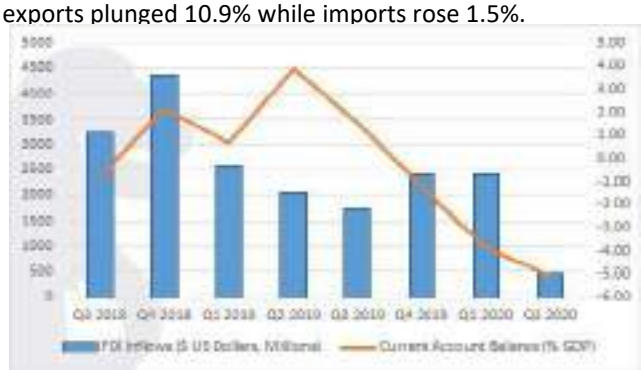


Figure 4, Source: OECD

Households

Households Debt in Turkey increased to 15.10% of GDP in the first quarter of 2020 from 14.70% of GDP in the fourth quarter of 2019. The country's nationwide house price index soared by 15.01% during the year to Q1 2020, according to the Central Bank of the Republic of Turkey (CBRT), a sharp acceleration from yoy increases of 9.93% in Q4 2019, 6.62% in Q3, 1.74% in Q2 and 3.2% in Q1. However, in real terms, the house price growth is far more modest, at 2.82% during the year to Q1 2020, due to persistently high inflation in the country.

Demand has partly been buoyed by a surge in foreign buyers. For foreigners, the currency's devaluation means that the property market is very attractively priced, luring many buyers from the Gulf. In 2019, foreign home purchases rose by almost 15% to 45,967 units from a year earlier, following strong growth of 78.5% in 2018 and 22% in 2017.

Figure 5, Source: OECD

Coronavirus

Indicator	Value
CODID-19 Cases	430,170
COVID-19 Deaths	12,084
Hospital Beds (number/1000 people)	2.81

Turkey surpassed China in confirmed total cases on 20 April 2020. The rapid increase of the confirmed cases in Turkey did not overburden the public healthcare system, and the preliminary case-fatality rate remained lower compared to many European countries. Discussions mainly attributed these to the country's relatively young population and high number of available intensive care units. On 30 September 2020, the Turkish Minister of Health Fahrettin Koca, issued a statement acknowledging that since 29 July, the reported number of cases has only included symptomatic cases, which was met with widespread criticism by the Turkish opposition and the Turkish Medical Association.

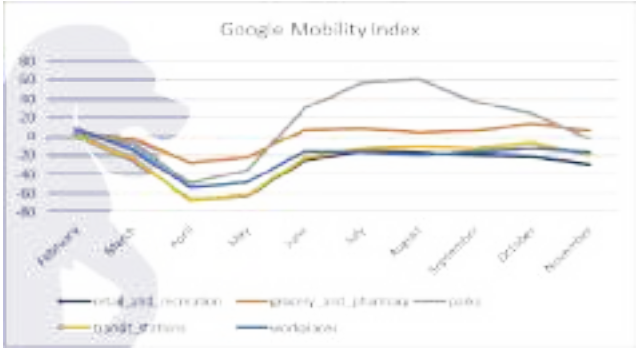


Figure 6, Source: Google

Public finances

In the most recent IMF Article 4, a debt sustainability assessment was prepared. Turkey's public debt and gross financing are currently low but set to rise over the medium term, reflecting an underlying deterioration in public finances.

The public DSA suggests that although Turkey's government debt remains below vulnerability benchmarks both under the baseline and most shock scenarios, it is on an upwards trajectory and does not stabilize over the medium term. Although the debt composition is generally low-risk, it has shifted over the past year to shorter maturity domestic borrowing and a higher reliance on external borrowing, increasing pass-through to the budget from interest rate and exchange rate shocks and vulnerability to domestic rollover risk. While all public debt profile indicators are below high-risk benchmarks, high external financing requirements point to vulnerabilities arising from the country's external debt position. Large quasi-fiscal operations in recent years as well as ongoing financial stress have increased Turkey's exposure to a contingent liability shock.

Turkey's debt-to-GDP ratio was 30.1% at end-2018 and 32.2% at end-Q2 2019 (latest data). Staff projects that the ratio will increase to nearly 38% of GDP over the medium term because of projected elevated primary deficits, a more depreciated exchange rate and a more modest growth outlook.

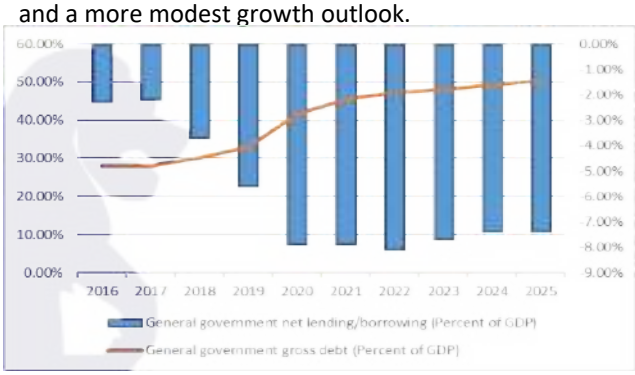


Figure 3, Source: IMF

Turkey's external debt, while sustainable under the baseline, is high and vulnerable to valuation shocks. External debt increased sharply to nearly 58% of GDP in 2018. Under the baseline scenario, external debt declines to around 44% of GDP over the medium term, as growth picks up and the real exchange rate appreciates. External debt sustainability remains sensitive to a large lira depreciation, and large external financing needs of more than 20% of GDP per year expose the economy to liquidity risk, against the backdrop of low international reserves.

Since 2008, external debt had been increasing gradually. As lira depreciation accelerated, external debt increased more rapidly, reaching 58% of GDP at end-2018. A large share of external debt, about 21% of GDP, is owed by banks who intermediate capital inflows into domestic loans. In parallel, external debt owed by nonfinancial corporations has risen significantly from 15% at end-2008 to 20% of GDP at end-2018.

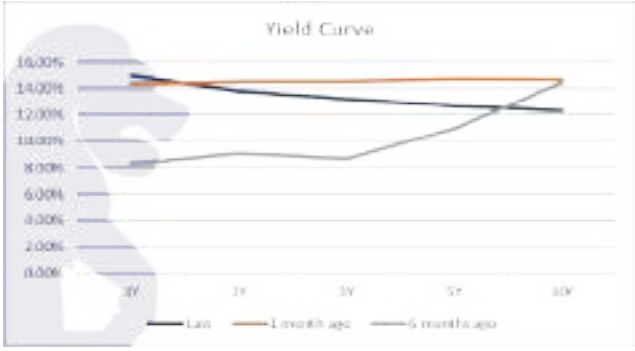
Capital flows indicate a trend towards shorter maturities, with the share of short-term external debt projected to increase from 26% in 2018 to 32% in 2024. Net non-debt creating inflows, mostly FDI, have weakened, from a long-term average of around 1.5% to 1.1% of GDP. Despite recent Eurobond issuance at shorter tenors, the average time to maturity of the government's external debt stock remains high at above nine years. In contrast, about 35% of external debt owed by the private sector is short term.

Turkey's historically high current account deficit, averaging 4.3% of GDP (excluding interest payments) over 2009–18, has narrowed sharply. Turkey's external debt trajectory declines under the baseline, which assumes continued lower current account deficits and modest rollover rates. Standard stress tests suggest that the debt level could increase substantially under a real depreciation shock given that most external debt is foreign-currency denominated. A permanent lira depreciation of 30 % over the baseline would push the external debt stock temporarily to around 90% of GDP by end-2020, before subsequently falling. A steep increase in fuel prices, which would widen the oil trade deficit by around 1% of GDP, would increase the external debt ratio relative to the baseline, leaving external debt around 50% of GDP by end-2024.

Turkey's external debt sustainability remains susceptible to liquidity risks. Around one quarter of Turkey's external debt remains short term. This implies gross external financing needs of about US$191 billion (about 23.5 % of GDP) in 2020, exposing the economy to liquidity risks, especially given that international reserves are low relative to the Fund's ARA metric.

Over the past year Turkey's yields have increased significantly and have also been volatile. The yield on domestic bonds increased by 10% in 2018 to above 25%, although they have fallen back recently, are still much higher than the levels observed in early 2018. The effective interest rate is projected to increase over the medium term because of the higher bond spreads. The current Turkey credit rating is summarized as follows

Rating Agency	Rating	Outlook
Standard & Poor's	B+	Stable
Moody's	B2	Negative
Fitch	BB-	Negative



Source: Central Bank of Turkey

Major constitutional reforms were passed by the National Assembly in January 2017 and approved by referendum in April 2017. The reforms, among other measures, abolished the position of Prime Minister and designated the President as both head of state and government, effectively transforming Turkey from a parliamentary regime into a presidential one. Turkey's main weaknesses concern corruption, absence of voice and accountability, political instability, and presence of violence. The Economist Intelligence Unit rated Turkey a "hybrid regime" in 2019. The next elections will be held in 2023.

Indicator (World bank)	Global %ile rank
Control of corruption	44.71
Government Effectiveness	54.33
Political Stability and Absence of Violence	10.00
Rule of Law	44.71
Regulatory Quality	54.81
Voice and Accountability	24.63

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