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Czech Republic

Reopening in Czech Republic

Question:

Have you heard any recent developments on the economy's reopening?

Answer:

There hasn't been a lot of news yet, but there may be some this week. PM Babis said yesterday (Apr 4) that state of emergency would not be extended after it ends the coming Sunday (Apr 11). It means that restrictions on movement and curfew will be lifted as of next week. Also, primary schools and kindergartens are reopening on Apr 12, though schools may remain closed in some regions.

Babis said that as of next week, the government would fall back to the pandemic law that was adopted in February. That law allows for most existing restrictions to be maintained, like limiting mass events and public gatherings, closing certain businesses, etc. Babis mentioned nothing about a reopening schedule, but the cabinet is yet to meet this week (today is still a public holiday, Easter Monday), so there might be a development. Health minister Blatny suggested last week that services could be allowed to reopen, as long as their clients produced a negative Covid test, but this idea is yet to be discussed officially (it was left for after Easter).

The general vibe we are getting is that this time the Czech government wants to be careful with reopening, to avoid a new peak in infections as it happened in December. we don't expect businesses will be allowed to reopen before Apr 19 (that is two weeks from now), as new cases are still relatively high (just over 800 per 100,000 over the past 14 days), though they have certainly decreased since peaking in March. Hospitalisations are just under 6,000 at the moment, and according to prior statements of senior government officials, they would feel comfortable to reopen when hospitalisations are under 3,000. On the bright side, just under 70% of hospital beds earmarked for Covid patients are currently in use, down from 90% in mid-March, which is some improvement. I believe reopening schools will serve as a pilot project, as authorities intend to test pupils with non-invasive tests twice a week. If that works, it could be the blueprint to allow non-essential businesses to reopen, but it is only a speculation at this point, no one has said anything about it.

So to sum up, not a lot about reopening yet, but we may hear something in the coming days.

Russia

Domestic banks OFZ purchases

Question:

In your story on the latest OFZ auction you say that large state-owned banks came to the rescue? Is this based on any specific information?

Answer:

The opinion was not based on specific reports from Wednesday, but rather on previous statements by officials and the fact that although there have been significant disposal of OFZ holdings by foreign investors, the FinMin managed to sell the biggest volume of OFZ since Nov 11, tangibly higher than those on the previous auctions in Q1. After reports on possible new US sanctions on Russian sovereign debt, FinMin Anton Siluanov said that his ministry reached agreement with the CBR to provide liquidity to local banks to buy OFZs, in case this scenario materializes. Moreover, officials from the two biggest lenders - state-owned Sberbank and VTB, also expressed readiness to buy more domestic bonds. Local banks (mainly Sberbank and VTB) accounted for RUB 2.6tn of the RUB 3.1tn placed by the FinMin in Sep-Nov and Siluanov already admitted this was part of agreement, which also envisaged higher placement of long-term floaters. The CBR should give more details in its next reports on banking sector developments.

On Thusday, business daily Kommersant quoted market sources that the large state-owned banks indeed accounted for most of OFZ purchases, attracted by the higher yields. Other media outlets such as RBC and profinance.ru are quoting local analysts who also express the view that local lenders were behind the biggest part of the bids. Asked on the matter, VEB said it did not participate on the last auction, Sberbank declined to comment, while VTB said it bought OFZ worth RUB 68.2bn and does not intend to sell them for the time being.

Egypt

JP Morgan EM bond index

Question:

When do you expect JP Morgan Government Bond Index-Emerging Markets (GBI-EM) inclusion? What weighting are you expecting? Do you have an estimate on the amount on USD inflows this is likely to generate?

Answer:

The government hopes it will be included in the index this year. Taking into account the strong progress in reforms, the IMF and WB backing and the fact that Egypt has been very attractive for portfolio investors, we believe the country will be included this year. According to JP Morgan's criteria, a bond should have remaining maturity greater than 2.5 years. Looking at the profile of the outstanding T-bonds (kindly find attached) and assuming Egypt's bonds are added around September 2021, about EGP 450bn (USD 28.6bn) worth of bonds would be eligible based on the maturity criteria. This is a rough estimate and the date of inclusion is somewhat arbitrary, although it seems most analysts expect Egypt to be included in the index in the second half of 2021. This should give Egypt around 2% weight in the index, resulting in about USD 5bn inflow.

Tunisia

Probability and timing of IMF deal

Question:

How material is this agreement in your view in terms of 1) probability of an IMF deal and 2) timing of the same? Any news from the press?

Answer:

It is hoped that this agreement could open the scope for a deal with the IMF but, of course, there could not be much certainty. FinMin Ali Kooli will be discussing the reform plans with the IMF at the Spring Meetings and he is hoping that the delegation could present a strong and united position. Kooli said on Express FM today that the situation was critical. Local commentators note the government's unsuccessful trip to Qatar last week and the lack of a positive statement from the trip. I have not seen any comments about the timelines of a potential agreement with the IMF. In my view, the outlook is not very good, considering the deep political divisions. Ennahdha leader, Rached Ghannounci, said the party stands behind the government and PM Mechichi but it is very clear that the current so-called national dialogue is nothing of the kind that lifted the country out of the 2013 political crisis that endangered the transition to democracy.

Pakistan

FinMin Shaikh's sacking

Question:

Was Shaikh a market friendly name? And was this always on the cards? Wondering how this will impact Pakistan's intention to issue a Eurobond in the market today.

Answer:

We believe Shaikh's removal came as a surprise as the events that preceded his ouster indicate that PM Imran Khan was adamant to keep him as a FinMin. For instance, the government's decision to field Shaikh in the Senate elections from Islamabad earlier this month was primarily to retain him on the post of FinMin. We note that the order through which he was made FinMin in Dec. last year allowed him to remain in this position until June 11 unless he got elected to the Parliament. Moreover, even after Shaikh lost the election, the ruling PTI was reportedly contemplating making another attempt at getting him elected as senator either from Punjab or Khyber-Pakhtunkhwa.

However, while we may not exactly know what might have prompted PM Khan to remove Shaikh (the Information Minister said he was ousted for failing to contain rising inflation), the Express Tribune, citing a cabinet source, said that Khan was not happy with Shaikh for the past few days for poorly negotiating with the IMF to revive the loan program. This could be a reasonable possibility, in our view, considering the commitments given to the IMF are tough and politically challenging (such as power price hike, autonomy to the central bank, additional taxation measures), which would be even more hard to achieve amidst the opposition's struggle to oust the government.

Due to being an unelected member of the cabinet, Shaikh was always seen as an 'outsider' (politically speaking), who "would hold his bag and just depart once the job is done," as Lahore High Court Chief Justice remarked about Shaikh after he lost the Senate elections. He is also known for switching political allegiances; he was also the FinMin (between 2010 to 2013) of Yousaf Raza Gillani (to whom Shaikh lost Senate election) when the latter was the PM. However, how he was viewed politically is not consistent with how the market saw him as a FinMin. There are no indications that suggest that Shaikh did not enjoy the goodwill of the market.

We do not think that the Shaikh's removal would have any impact on the government's plan to float Eurobonds. Much progress has already been made in this regard and the bonds are likely to be issued next month. Similarly, foreign investors' sentiments would remain largely unshaken by this latest development, we believe, although Shaikh's removal could raise questions on the government's ability to maintain stable economic team and policies amid the IMF's reforms program since two FinMins have been replaced so far during the incumbent government. Having said that, Fitch has assigned B-/stable rating to the Eurobonds, and this is what we believe would mainly determine the appetite of the investors for the proposed foreign currency bonds.

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