

May 19, 2021

The Weekly Macro Forecast from Washington

Edition #100: Infrastructure Progress, ACGA
Risk Snapshot (South Africa, Peru)

*Please join ACGA's **Chris Czerwinski**, **John East** and **Bart Oosterveld** on Thursday at 2:00 p.m. EDT to discuss the Macro Forecast from Washington and ACG Analytics' views on the macro and sovereign risk outlook.*

Add event to calendar

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The Big Picture

Following talks between President Biden, Congressional leadership and a group of bipartisan lawmakers, infrastructure negotiations appear to be holding together and advancing slowly. Despite this, we continue to lean towards bipartisan talks falling apart and Democrats passing 1 large reconciliation bill without Republican support. Progressive Democrats are tiring of Biden's efforts and are calling on him to push a single bill. However, we cannot discount the outreach that Biden is making to Republicans, or that this outreach appears to be well received. While we lean towards a single reconciliation bill, we have increased the likelihood of Congress passing 1 bipartisan "hard infrastructure" bill and 1 "social infrastructure" bill through reconciliation.

ACG Analytics Risk Snapshot

ACG Analytics Risk Index Scale attempts to measure political and economic risk endemic to each country, with equal weighting assigned to both.

1 (least risk) - 10 (most risk)

South Africa

Market Risk: South Africa's S&P rating will be updated this Friday and currently stands at BB- with a stable outlook. Even in a benign global and regional growth scenario, the country is walking a debt sustainability tightrope. The government's finances are constrained by rigid

expenditures on public sector salaries driven by political necessity, limited revenue-raising



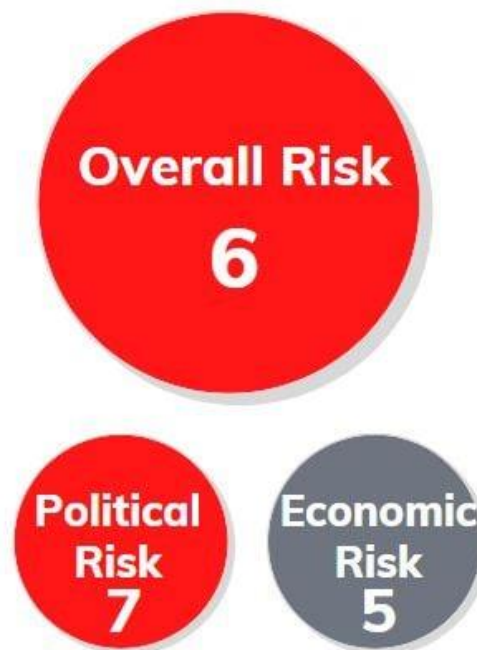
capacity, and debt/GDP above 80%. Contingent risks also emanate from state-owned enterprises including Eskom.

Central Bank: This year has been fairly uneventful for the South African Reserve Bank (SARB). The combination of booming global growth, a short term reduction in fiscal risk premium and an abundant amount of global liquidity have all contributed to a rally in the South African Rand (ZAR). With that said, this will be an interesting meeting for SARB. Its Quarterly Project Model (QPM) is forecasting 2 hikes this year, one in Q2 and one in Q4. Given the balance of current risk assessments, which has only improved since the last meeting, it will be interesting to see how SARB communicates the next 2 hikes to the market.. This will be particularly interesting as inflationary pressures that have manifested themselves in other deficit EM countries have been less severe in South Africa. This was seen in the March QPM forecast where SARB was able to move its second forecasted hike this year to Q4 following a somewhat lower 2022 inflation forecast. This meeting will be a balancing act for SARB and likely favor a somewhat more "*hawkish*" outcome relative to the balance of risks.

Peru

Political Risk: Peru is again the victim of a low-threshold impeachment statute that has made the procedure for removing the President a staple of the country's political "*order.*" In a run-off to succeed Martin Vizcarra, impeached in November 2020, the race has narrowed to a choice of the far-left candidate Pedro Castillo and the far-right candidate Keiko Fujimori. Castillo leads the polls but they are narrowing in anticipation of the June 6th run-off election.

Regardless of how long the eventual winner will last in office, the policy instability inherent to inaugurating the 5th President in as many years dampens the country's otherwise healthy growth prospects. Candidate Castillo says transnational corporations are going to have to renegotiate their contracts under conditions that can be



confiscatory. His proposal to tax these companies at 70% and to renegotiate all contracts is impacting sentiment in the mining and other key sectors. Additionally, Castillo has proposed that Peru denounce free trade and investment agreements, so Peru would likely experience a deluge of international protest and be the subject of many dispute settlement mechanisms with trading partners.

Economic/Central Bank Risk: The Banco Central de Reserve del Peru (BCRP) has been in wait and see mode. Despite a rise in domestic political risks and increasing inflationary pressures, the BCRP has stayed at its effective lower bound of 25bps. In terms of inflation, the BCRP has written much of the pressure off due to transitory factors and has noted that the trend of inflation "*remains in the lower part of the target range.*" The BCRP has been slack driven and has said that it will maintain "*a strong expansionary monetary stance for as long as the negative effects of the pandemic on inflation and its determinants persist.*"

Global Developments

Europe: The European Parliament will decide today to indefinitely pause the ratification process of the EU-China bilateral investment agreement which was finalized late last year. A mix of human rights and geopolitical concerns on the part of the Parliament inform this decision. The indefinite delay will exacerbate a difference between EU and US investors and firms. While U.S. rhetoric towards Beijing is unfailingly strong, U.S. investors hold more than \$1 trillion of portfolio investment in China, directly or through offshore havens like the Cayman Islands.

China: As China faces more determined and coordinated geopolitical strategies out of both Washington and Brussels, it is starting to actively shore up its trade position in the region. In recent weeks, China has engaged in a diplomatic effort to eventually join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Nord Stream 2: The Nord Stream 2 gas pipeline between Russia and Germany is nearing completion in the upcoming months. Talk of suspension of U.S. sanctions against the project company suggests that ongoing talks between the Biden Administration and the

German government are nearing a resolution. In our view, the most likely outcome is completion of the pipeline, followed by an extended freeze or severe limitation on its operations.

Global Markets Recap

Please contact ACG Analytics for a more in-depth discussion on any of these topics.

France: [2022 Elections: Dates, Candidates, and the 2nd Round](#)

Executive Summary: France will hold elections in April of next year and the next presidential term starts almost exactly a year from today. The outcome will drive France's position in Europe for the next 5 years.

Peru: [Heatmap May 17, 2021 - Peru's Prospects Amid Political Uncertainty](#)

Executive Summary: The global 2-week growth rate of the pandemic is at 7% this week, down from 8% last week. Among the countries in our dataset, the Peru is set to outperform regional and global peers assuming reasonable political stability.

Sovereign Risk

Defaults/Restructurings:

ACG Analytics is tracking 6 ongoing or highly likely sovereign restructurings, affecting approximately \$160 billion of debt. We are in close contact with investors, government officials in the affected countries and their advisors, the IMF, and other relevant entities.

Please contact us at research@acg-analytics.com for an in-depth discussion.

| | FX debt | Offer & Timeline | Moody's | Prior Defaults on FX Debt | IMF Program/Relationship | IDA |
|----------|----------|---|-----------------------------|---------------------------|--|-----|
| Angola | ~45 bn | Government has finalized negotiations with lenders in China (\$20 bn in bilateral debt) for 3 year payment relief. Agreement reached with Paris Club. | Caa1/STA (losses <10%) | 1985 | Angola has now drawn down \$3 billion of the 4.5 billion available under Extended Fund Facility with the Fund, which was expanded in September. | No |
| Belize | ~1.4 bn | Agreement to defer interest for three payment dates on the 2034 global bond with over 80% of bondholders. Government and bondholder committee have clashed in recent weeks over need for an IMF program and lack of transparency of government plans. | Caa3/STA (losses up to 35%) | 2006, 2012, 2017 | Belize last had a standby arrangement in the 1980s and is not likely to request support from the IMF. In its recent mission-concluding statement, the Fund concludes that the country's debt burden is unsustainable. | No |
| Laos | ~10 bn | Discussions with China (\$5 bn in bilateral debt) have resulted in some debt-to-equity conversions, including transferring the electric transmission grid to a Chinese firm. Ongoing balance of payment pressures. | Caa2/NEG (losses 10-35%) | No | Laos's last IMF facility ended in 2005. It has a small amount of overdue payments to the Fund. | Yes |
| Lebanon | ~\$90 bn | In default since early March. | C (losses greater than 65%) | No | Profound political and institutional reforms necessary for support from IMF and international community. | No |
| Suriname | ~4 bn | Country has asked for further deferrals from bondholders as its initial deferral window closed recently. Bondholders have asked for more data access. Lazard advising the government. | Caa3/NEG (losses up to 35%) | No | Talks concluded last week, just ahead of a deadline at the end of April that would have ended the debt standstill with bondholders. Suriname has secured a 3-year, \$690 million IMF Extended Fund Facility with significant conditions. | No |
| Zambia | ~11 bn | In payment default since mid-November on \$3bn eurobond. Government strategy apparently involves seeking payment deferrals on bilateral loans. Discussions with China have already resulted in 6-month deferral of interest. | Ca/STA (losses 35% to 65%) | 1983 | IMF officials indicate that substantial progress is being made in discussions about a prospective Extended Credit Facility. Zambia qualifies for IDA lending and is participating in the G-20 debt relief program. It has also received debt relief from Paris Club creditors. | Yes |

Catalysts: Impactful Dates

May 21st –Eurogroup of Finance Ministers

May 26th –IMF releases Italy Article IV report

May 27th – Korea central bank monetary policy meeting

May 27th – IMF releases Turkey Article IV report

May 28th – Colombia central bank monetary policy meeting

June 6th– Mexico chamber of deputies election

June 10th – ECB Governing Council monetary policy meeting

Key Rating Agency Dates

Rating agencies publish forward-looking annual calendars of potential sovereign and sub-sovereign rating actions pursuant to EU regulations. As a rule, the calendars address rating actions out of the agencies' European offices only. The agencies can deviate from the calendars as needed if there are extraordinary credit circumstances.

May 21st – Fitch Croatia, Switzerland; Moody's Albania, Faroe Islands, Greece, Namibia, Uganda; S&P South Africa

May 28th – Fitch Seychelles; Moody's Belgium, Switzerland; S&P Abu Dhabi, Bahrain, Bulgaria, Ireland, Liechtenstein

June 4th – Fitch Italy, Malta, Sweden; Moody's Russia, Saudi Arabia, Turkey; S&P Senegal, Uzbekistan

Questions?

**Please reach out to Chris Czerwinski -
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