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Ukraine has delivered the legislation required to secure a new IMF program and alleviate funding pressures amid the CV-19 economic emergency; countries across EM are facing various risks as they start to implement gradual reopening strategies for their economies, as illustrated by Mexico and Chile’s examples.

Ukraine finalized the last condition for a new IMF program that unlocks a sizable pool of concessional financing, but investor confidence going forward hinges on renewed strong reform momentum by the Zelenskiy Administration

Market Relevance: Ukraine’s parliament finalized legislation designed to prevent the reversal of earlier bank nationalizations that were achieved at significant costs to taxpayers. Passing of the banking law was the last remaining prior action for Ukraine’s new IMF program and thus, had material credit implications.

Gramercy View: The IMF’s Executive Board is now set to approve the new IMF program for Ukraine and disburse the first tranche by the end of May. The new program will likely take the form of a shorter (1.5 years) and smaller Stand-By Arrangement (SBA) as opposed to the previously discussed three-year Extended Fund Facility (EFF). A SBA would generally come with less stringent conditionality attached, which we think is justified by the extraordinary situation amid the CV-19 economic and social emergency. In any case, taking the final step toward the long-awaited successor program with the Fund was a very important step for Ukraine as it unlocks a total of around $7bn of external concessional budget financing this year from the IMF, World Bank and European Union. Additional bi-lateral loans are being negotiated by the authorities to cover as much of Ukraine's large gross funding needs (~ $22bn) as possible. As a result of the pandemic, the fiscal deficit is projected to reach ~7.5% of GDP in 2020, from ~2.0% forecasted prior to the crisis. On the public health side of the pandemic, Ukraine has been relatively less impacted compared to some of its neighbors, with around 17K cases, 500 fatalities and 4K recoveries according to official data as of mid-May. As of May 11, the government started easing some restrictions in line with most other European countries, but a quarantine order remains in place until May 22. Going forward, in addition to the economic and social impact of the pandemic, investor focus will shift on the new IMF program implementation and the continuation (or lack thereof) of reform momentum under president Zelenskiy's Administration.

Mexico faces risks amid reopening while Chile endures a surge of new cases following its less restrictive approach

Market Relevance: Some countries are beginning to consider and implement gradual reopening strategies, while others are battling surges of new cases. In Mexico, President Andres Manuel Lopez Obrador (AMLO) announced this week that he plans to reopen the economy in three phases beginning on May 18 with areas that have minimal cases (roughly 10% of municipalities) followed by resumption of construction, auto, and mining activities nationwide. Thereafter, the rest of the economy will be reopened and monitored in stages. Meanwhile, Argentina lifted its lockdown on May 10 while Chile has just implemented its first full quarantine for the greater Santiago area following a spike in new cases.

Gramercy View: There are ample risks to Mexico's approach given its limited testing and response to the virus thus far. Data is incomplete and has not yet indicated a definite flattening of the curve. Regardless, the economic picture remains bleak and is unlikely to rebound swiftly, even absent a surge in new cases. Additionally, while the federal government is ready to move forward with the loosening of already fairly lax restrictions, governors, particularly of the opposition party, may adopt a more conservative approach. Broader policy and PEMEX challenges will continue to weigh on any recovery. As a result, the market consensus growth forecast for this year of -6.4% likely faces downside risks.

Chile's attempt to utilize a more targeted strategy to lockdowns with rolling closures in most affected areas appears to be facing challenges following a large spike in cases and occupation of intensive care units (close to 90%) this week. This provides some indication of the risks that other economies, particularly those even less equipped to deal with the crisis, face as they try to restart activity. As restrictions are loosened across the globe, it will be imperative to monitor how respective administrations and economies cope in the event of accelerated spread of the virus.

Please contact our Co-Heads of Sovereign Research with any questions:

Kathryn Exum, Senior Vice President, Sovereign Research Analyst kexum@gramercy.com

Petar Atanasov, Senior Vice President, Sovereign Research Analyst
patanasov@gramercy.com