

NEWS ROUND UP

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Sri Lanka bank NPLs highest in tourism

Non-performing loans in Sri Lanka's banks, which are below recent and historic highs, were highest in tourism, a sector which has seen the most dynamism and new investment in recent years, a central bank report said.

Sri Lanka's bad loans had grown by 93.9 billion rupees to 254.6 billion rupees in the eight months to August 2018, which was 3.6 percent of total loans, up from a low of 2.5 percent in 2017.

Bad loans ratio was higher at 6 percent in 2016, the central bank said.

Sri Lanka's credit grew rapidly in 2015 and 2016 amid money printing. Periods of rapid credit growth, tends to reduce the overall bad loan ratio as new loans expand, but bad loans then catch-up as brakes are put on money printing and the economy slows.

In Sri Lanka the rupee has also fallen, due to the operation of a soft-pegged exchange rate, further hurting spending power.

By June 2018, the highest share of bad loans were reported from tourism, which had seen dynamism and new investment.

On one hand new operators with no previous experience in tourism jumped into the sector. While some of the new operators had blazed new trails, innovating the sector, others are now consolidating.

Some established operators are also under pressure, from newer properties.

The central bank said NPL ratio of 5.5 percent was reported from tourism, 5.4 percent from manufacturing, 5.1 percent from information technology & communication services, 4.7 percent from wholesale and retail trade and 4.4 percent from forestry and fishing. (Economy Next)

Tokyo stocks open lower as yen edges higher

Tokyo stocks opened lower on Thursday as fresh concerns emerged over the prospects for the Chinese economy with a firmer yen also weighing on the market.

The benchmark Nikkei 225 index was down 0.15 percent or 32.59 points at 21,887.87 in early trade, while the broader Topix index was down 0.09 percent or 1.50 points at 1,644.62.

The dollar fetched 112.86 yen in early Asian trade, unchanged from New York, but lower than above-113 yen levels in Tokyo late Wednesday.

Chinese factory activity slowed in October, official data showed Wednesday, adding to a growing list of bad news for the Asian giant as it struggles to maintain economic momentum in the face of US tariffs and a weakening yuan.

The Purchasing Managers' Index (PMI), a key gauge of factory conditions, came in at 50.2 for the month, down from 50.8 in September, the National Bureau of Statistics said.

The official PMIs "were the latest downbeat indicators," Mark Williams of Capital Economics said in a note to clients.

"The Markit manufacturing PMI due on Thursday is the next indicator to watch," he said.

The fall in Japanese shares is in part a rebalancing, in "reaction to a rise of more than 460 yen in the Nikkei index yesterday," Toshiyuki Kanayama, senior market analyst at Monex in a commentary.

In Tokyo, telecoms nosedived after the industry leader NTT Docomo said it would cut fees under government pressure, with its shares down 10.14 percent at 4,268 yen.

Its smaller rivals were also down: KDDI plummeted 14.97 percent to 2,393 yen and SoftBank was off 7.13 percent at 8,402 yen.

Panasonic dropped 9.80 percent to 1,127 yen after it reported its first-half to September net profit fell 4.5 percent on-year to 113.6 billion yen (\$1 billion).

Some carmakers were lower, with Toyota down 0.78 percent at 6,563 yen and Nissan off 0.53 percent at 1,022 yen.

On Wall Street, the Dow ended up 1.0 percent at 25,115.76. (Economy Next)

Sri Lanka's Pan Asia Bank Sep net down 13-pct

Profits at Sri Lanka's listed Pan Asia Bank fell 13 percent from a year earlier to 260.7 million rupees in the September 2018 quarter, on higher bad loans provisioning and rising operational costs, interim accounts showed.

The bank reported earnings of 2.34 rupees a share in the quarter. For the nine months to end September 2018, earnings were 3.26 rupees a share on a profit of 1.08 billion rupees, up 18 percent from a year earlier, interim accounts filed with the Colombo Stock Exchange showed.

Pan Asia Bank closed 40 cents lower Wednesday at 13.50 rupees.

In the September quarter, net interest income grew 25 percent from a year earlier to 1.6 billion rupees as interest income rose 22 percent to 4.8 billion rupees and interest expenses increased 20 percent to 3.3 billion rupees.

Net fees and commission income rose 28 percent to 2.2 billion rupees.

Bad loans provisioning rose 159 percent to 584.6 million rupees.

Operating costs increased by 14.5 percent to 1 billion rupees.

Pan Asia Bank's deposit base expanded 8 percent from nine months earlier to 116.3 billion rupees at end September, while its loan book grew a faster 12 percent to 122.7 billion rupees.

Non-performing loans were 4.83 percent of total loans at end September 2018, up from 4.36 percent nine months earlier.

Pan Asia Bank reported a net interest margin of 4.01 percent in the quarter, up from 3.61 percent at end December 2017.

At end September 2018, the bank's Tier I Capital Ratio was 10.65 percent, higher than the regulatory minimum of 7.875 percent, but was down from 11.38 percent nine months earlier.

Total Capital ratio was at 12.11 percent, down from 13.53 percent nine months earlier, but higher than the regulatory minimum of 11.875 percent. (Economy Next)

Sri Lanka ready to repay US\$1.5bn bonds maturing in 2019: Central Bank

Sri Lanka's government has already made arrangements to repay international bonds worth 1.5 billion US dollars maturing in January and April 2019, the Public Debt Department of the Central Bank said.

"The Government of Sri Lanka (GOSL) has been issuing International Sovereign Bonds (ISBs) since 2007," a statement said.

"GOSL has maintained an unblemished record on servicing of its debt obligations timely, including ISBs, since independence."

ISBs issued in January and April 2014 of 1,000 million in US dollars and 500 million dollars are due to mature in January and April 2019.

"The government has already made pre-funding arrangements for meeting the maturing ISB obligations in 2019 through proceeds of divestment of non-strategic assets and funding through syndicate arrangements," the statement said.

"While exploring an ideal window to further access international capital markets, GOSL and Central Bank of have already initiated necessary actions to further diversify international market based foreign funding sources to jurisdictions outside conventional Eurodollar ISB issuances." (Economy Next)

Sri Lanka rupee breaches Rs175 to US dollar; stocks run out of steam

The Sri Lanka rupee ended Wednesday weakening sharply to a new low of 175.60/80 rupees against the US dollar, while stocks ended a three-day rally to close 0.18 percent lower, market participants said.

The currency traded at an intraday low of 175.65 rupees against the greenback, market participants said amidst importer demand and exporters not converting their earnings.

The rupee closed Tuesday at around 174.50/80 rupees against the US dollar.

Colombo's All Share index ended 0.18 percent lower, down 10.85 points to 5,953.47, and the S&P SL20 of more liquid stocks gained a marginal 0.03 percent, up 0.88 points to 3,084.08.

Market turnover was 1.3 billion rupees as 110 stocks declined in the day compared to 34 that gained.

Hatton National Bank (down 6.30 rupees to 205.10 rupees), Dialog (down 30 cents to 11.60 rupees) and Melstacorp (down 70 cents to 49.30) contributed to the benchmark index decline.

Commercial Bank closed 3.90 rupees higher at 117.90 rupees and John Keells Holdings gained 1.80 rupees to 149.70 rupees.

Net foreign selling was 139.4 million rupees, down from selling of 155.3 million rupees the previous day.

Foreign selling in John Keells Holdings was 177 million rupees, according to Asia Securities. Foreign buying in Commercial Bank was 70 million rupees.

Crossings, or off-market negotiated trades, totalling 783 million rupees accounted for 58 percent of market turnover.

There were two crossings each in Chevron Lubricants for 367.1 million rupees and Commercial Bank for 177.8 million rupees.

Chevron Lubricants ended 80 cents lower at 70.90 rupees.

Five crossings in John Keells Holdings totalled 176.5 million and there was a crossing each in NDB Bank for 36.7 million rupees and Dialog for 24.9 million rupees.

NDB closed 1.50 rupees lower at 105 rupees.

Gilt yields ended steady in the secondary market.

A three-year bond maturing in 2021 closed at 11.10/30 percent in two-way quotes, up marginally from Tuesday's closing of 10.90/11.20 rupees.

A five-year bond maturing in 2023 ended at 11.30/40 percent, from the previous day's 11.32/40 percent closing.

(Economy Next)

Sri Lanka jumps 11 places to 100th rank in World Bank's Doing Business index

Sri Lanka rose 11 notches in the World Bank's 2019 Doing Business index, being ranked 100 among 190 economies in the ease of doing business, up from 111 in 2018.

According to the latest World Bank annual ratings, the island's ease of doing business score, rating from 0 to 100, rose to 61.22 from 59.42 last year.

"Sri Lanka carried out four reforms which included making Dealing with Construction Permits easier, while the introduction of online systems made it easier to pay taxes in Sri Lanka and Bhutan," a statement said. "Sri Lanka advances to a global rank of 100 this year."

India, in 77th place in the Doing Business rankings, is the highest ranked economy in South Asia, followed by Bhutan (81) and Sri Lanka (100).

"Sri Lanka made dealing with construction permits more streamlined and less time-consuming by launching a single window counter and improving the efficiency of obtaining certificates required to undertake a construction project," the World Bank said.

"Half of all regional economies, Afghanistan, Bhutan, India and Sri Lanka streamlined the process of paying taxes." (Economy Next)

MR backs populist policies

In a predictable policy U-turn, former President Mahinda Rajapaksa, who was appointed as Finance Minister by President Maithripala Sirisena yesterday, backed promoting populist and protectionist economic policies that would give subsidies to farmers, do away with the fuel formula and possibly reduce taxes.

Rajapaksa, addressing the staff of the Finance Ministry after assuming duties, also supported moving away from liberalisation policies championed by Finance Minister Mangala Samaraweera under the Sirisena-Wickremesinghe Cabinet that focused on promoting exports of tradable goods, removing uncompetitive tariffs and formulating Free Trade Agreements. Fiscal consolidation measures that were spearheaded by Samaraweera to reduce Budget deficits were also criticised by Rajapaksa as having increased pressure on rural masses.

Rajapaksa recalled what he termed as the achievements of his second term in power, highlighting the infrastructure projects, holding of multiple elections and distributing fertiliser subsidies, insisting that the currency was kept from depreciating until 2014. He also claimed that debt had reduced under his previous administration and recalled that reserves had improved to \$ 8 billion before he was voted out of power in January 2015.

In the past three years, many of these steps had been reversed, he charged, citing the rupee depreciation, higher fuel prices, and reserves being bolstered through borrowing as examples. In 2012, support from the International Monetary Fund (IMF) was sought when the Government ran into a balance of payments crisis after \$ 4 billion was spent to defend the rupee, which nonetheless depreciated by 14%. Sri Lanka also went through a currency crisis in 2008.

Delivering a statement targeted at his core voter base, Rajapaksa emphasised that he had held elections regularly and dismissed concerns over the proroguing of Parliament till 16 November, questioning why these same concerns were not raised when Provincial Council elections were postponed.

“The people who postponed elections for years are now upset that we prorogued Parliament for eleven days. They are acting like this is something that other presidents have not done. I have also done this, (President) Premadasa also did this. This is not significant. But, on the basis of this, they are trying to show that Sri Lanka is sliding towards a dictatorship. There is no issue here.”

Rajapaksa conceded that reducing the Budget deficit to about 5% was a positive development, but argued that this had been achieved by slashing capital expenditure that had stalled development countrywide. The smooth function of the Finance Ministry was central to putting the economy back on track, he said.

“This Ministry has many challenges to face. We want to create an economic system that benefits everyone. In a democracy, all people must get returns. Taxes must be simplified, which means moving away from the system we have now. Taxes on the public as well as local companies must be dependent on their capacity for payment. Taxes must be levied like bees taking nectar from the flower, this is what I believe. So, there must be a system for these taxes to be paid without depriving the people of a comfortable life,” Rajapaksa said.

Rajapaksa also called for policy consistency, slamming the much-maligned fuel price formula, which was introduced earlier this year to tackle escalating global oil prices and prevent higher losses being incurred by Ceylon Petroleum Corporation (CPC), insisting that it needs to be removed. He did, however, acknowledge that price adjustments would continue.

“Policy consistency is a must so that people have a way to budget for their needs. Currently, on the 10th of every month, there is a change to fuel prices. This creates uncertainty. This system must be changed. If fuel prices need to change, then it can be done the way it was before. We can’t put formulas that change prices frequently. When fuel prices go up, there is no sign of them reducing. We must change these things. We must see if these policies are fair. It is true that we as a Government need taxes, but this must be done without pressuring the public. We must be sensitive to the public and provide solutions,” he added.

Rajapaksa was adamant that Sri Lanka's track record of never defaulting on debt repayment should be maintained, but did not specifically outline plans on how to raise money for debt repayment.

"We must work to stabilise the rupee and protect reserves. We must find a way to attract investment. Local and international investors must take up this challenge and lead from the front."

Rajapaksa focused most of his speech on agricultural needs, appealing to public servants to support farmers and ensure harvests are purchased at a Government-mandated price. He also called for better warehousing, transport and market links so farmers would get the best possible price for their goods.

"We must ensure that money flows through the hands of our people. All 25 districts are farming now. We will give fertiliser at the right time. We need to help farmers. We have to promote organic farming and reduce exports. By February, harvesting will begin and we need warehouses and transport, and we must provide them with a fixed price. I am confident that public servants will come together to aid in this process and give agriculture the top position in our economy it deserves."

Taking a typical approach to economic growth, Rajapaksa reiterated his favoured view of promoting local products – eschewing imports, even though imports allow consumers access to goods and services at competitive prices. He insisted that local producers should be encouraged with import substitution, rather than competing in the export market. "Even joss sticks are being imported," he quipped.
(DailyFT)

Four countries issue travel advisories on SL

In response to recent political changes, the US, UK, Canada and Australia have issued travel advisories causing concern for Sri Lanka's peak tourist period. The US and UK had issued travel advisories to their citizens when traveling to Sri Lanka, with Australia and Canada joining the two countries.

"The President of Sri Lanka moved to dismiss the Prime Minister, which may lead to a period of political instability. Demonstrations could occur. Exercise vigilance and avoid all demonstrations and large political gatherings. Monitor local media for the latest information," the Canadian Government's website warned on Tuesday.

During the first nine months of the year, 42,099 Canadians had arrived in the country. A 24.7% growth was recorded in September, compared to the same period last year.

Meanwhile, the Australian Government had also issued a travel advisory this week. "There is an increased likelihood of large protests and demonstrations in Sri Lanka due to political instability. Avoid all demonstrations and large public gatherings as they may turn violent. Monitor local media for updates. The level of our advice has not changed. Exercise normal safety precautions in Sri Lanka."

From January to September this year, 78,756 Australians arrived in the island, becoming fifth highest market. The UK and US Governments had also advised their citizens on demonstrations and protests which may likely be held in Colombo.

Despite being the largest markets, India and China are yet to issue travel warnings on Sri Lanka over the recent political developments in the country. (DailyFT)