

NEWS ROUND UP

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Sri Lanka's average prime lending rate drops 38-bp in a week

Sri Lanka's average prime lending rate has dropped 38 basis points in the week to June 07, the central bank data showed, following a 50 basis point rate cut a week earlier.

The average weighted prime lending rates fell to 11.44 percent, the central bank said from 11.82 percent on May 31. In the week to May 31, the AWPLR had fallen 11 basis points.

Central Bank Governor Indrajit Coomaraswamy has asked banks to cut lending rates, and has warned of price controls if rates are not brought down quickly.

Price controls have already been imposed on customers, giving higher-than-market profits to banks. Banks however are seeing higher bad loans after monetary instability in 2018 from a soft-pegged exchange rate.

In bond markets where a freer market operates, with secondary market trading leading to price discovery, rates have fallen faster after private credit turned negative in the first quarter and capital flight stopped.

On June 07, the central bank cut its floor policy rate, which is now active after a private credit slowdown from 8.00 to 7.50 percent and started to mop up excess liquidity from money markets around 8.0 percent of lower, allowing short term rates to fall.

Unlike in 2018, the central bank is not printing money (injecting liquidity) to artificially enforce a pro-cyclical rate cut (of its ceiling rate or a mid-corridor rate) as credit demand increased and the economy recovered but is allowing market rates to fall, by lowering the rate at which excess liquidity is mopped up.

Excess liquidity was generated mostly in April by a peg with the US dollars which is now at the strong side of its convertibility undertaking due to weak credit (the central bank is buying dollars to enforce a peg, preventing the appreciation of the rupee and is generating new money).

The central bank was mopping up one week money at rates of over 8.50 percent keeping short term rates, artificially above market in the run up to the rate cut.

Without a rate cut, overnight rates can now fall to 7.50 percent, if the peg continues to be on the strong side, and there are no persistent outflows.

However analysts had welcomed the cautious stance, in the wake of Easter bomb attacks and the tendency of the rupee to fall in May in earlier years, after a spike in reserve money in April.

After the April bomb blast however some outflows were expected.

The rate cut may also prompt outflows, analysts have said, which requires caution.

(EconomyNext)

Hambantota Port's Rs170bn China debt in no man's land: Sri Lanka AG

Sri Lanka's Auditor General has said 170 billion rupees of debt taken to build Hambantota Port from China, which is about 1.2 percent of gross domestic product, has disappeared from state accounts.

Following the lease of Hambantota Port to a Chinese firm, the debt was to be taken off Sri Lanka Port Authority accounts.

The cabinet had decided to on July 20, 2017 the Treasury had taken responsibility to make payments on the Hambantota Port loans.

But the debt had not been included in the financial statement.

"Similarly the above balance had also been eliminated from the financial statements of Sri Lanka Ports Authority as at 31 December 2018," the Auditor General said.

Adding to the confusion the International Monetary Fund said in a May report said the debt was treated in a different way.

"Hambantota port related debt is recorded under the Sri Lanka Ports Authority (SLPA)," the report said.

"Following the agreement on the long lease of the Hambantota Port, the Treasury will make an annual transfer payment to SLPA for meeting the related debt obligations until SLPA becomes profitable and can service the debt."

The Auditor General had said that Sri Lanka's central government debt was about 87 percent of gross domestic product and not 8.29 percent of GDP as officially claimed.

Sri Lanka Tourism Alliance roots for PPP in promotions

The Tourism Alliance, a travel industry group formed after the Easter Sunday attacks, will start talks with the government to form a public-private partnership (PPP) to conduct market research and promotions, an official said.

"The Tourism Alliance will be proposing to the government to undertake promotions as a PPP," Malik J Fernando, Managing Director at Resplendant Ceylon said.

The Tourism Alliance moved fast to set up the [Love Sri Lanka](#) website to provide accurate, centralized information on safety to tourists following the Easter Sunday attacks, as such a source was then not available.

The organization is made up of the Sri Lanka Inbound Tour Operators Association, most major hotel chains as well as independent hotels and tourism businesses.

Fernando said that private sector market research and promotional expertise could benefit

national tourism campaigns.

Tourism promotions in the US operates as a PPP, but the states control tourism promotions in most countries, including France, New Zealand, Britain, Australia and Spain, which are also some of the world's top performing tourism destinations.

However, in Sri Lanka, Tourism Development Minister John Amaratunga has said in the past that tourists had increasingly arrived over the recent decade through word of mouth, instead of any state-run tourism campaigns.

Fernando said the Tourism Development Fund could be used to attract top corporate talent to boost tourism campaigns.

"There are public funds available for which the industry is paying," he said.

All hotel and tourism businesses pay one percent (0.5 percent for smaller businesses) of their revenue to the Tourism Development Fund, to which a third of the Embarkation Levy is also added.

Fernando said promotions should be based on in-depth research.

Hotels too are not receiving enough data to make decisions, he said.

"Currently, hotels are not getting good feedback. We need to move towards a research-based approach."

Chamindra Goonewardene, Chief Operating Officer of Santani, an upmarket wellness resort which is also part of the Tourism Alliance, said currently, hotels are depending mostly on the limited market information provided by online booking platforms.

"We live in a data driven world. Hotels need to cater to niches and sub-niches based on segmentation carried out through constant market research," Goonewardene said.

Tourism promotion agencies in most top performing countries conduct and use market research and analytics.

Many are hoping for a better performance, after marketing expert and corporate leader Kishu Gomes, who previously headed Chevron's Sri Lanka Unit, was appointed as the Chairman of the Sri Lanka Tourism Promotions Bureau (SLTPB) with industry approval.

However, while the SLTPB conducts promotions, research is legally falling under the Sri Lanka Tourism Development Authority, which regulates the industry and develops infrastructure, creating a disconnect.

Industry leaders who control most of the formal tourism economy have been dissatisfied with the state's tourism research, according to a 2017 survey of the Ceylon Chamber of Commerce.

The SLTDA has not used even the limited allocation of funds for research fully.

The state agency had allocated only 4 million rupees for statistical surveys and market intelligence in 2016, and spent just Rs.1.31 million, according to its annual report.

The situation has not improved in 2017 or 2018, according to officials.

The last time the SLTDA published a country report was about India in 1995. Two market intelligence reports had followed in 2001 and 2002.

Since then, market research has been limited to the departure surveys at Sri Lanka, which analysts and hoteliers criticize as statistically unsound.

The state's Tourism Strategic Plan 2017-2020 (TSP), which was formed with the expertise of a Tourism Australia official, admits to major problems in Sri Lanka's research and promotions efforts.

The TSP said that there is a "lack of comprehensive visitor research and data, ongoing research into products and markets, and market intelligence".

"There is no clear segmentation model to inform the tourism planning and strategy formulation process," the plan says.

"Although the SLTPB has identified 22 priority markets, marketing activities within them are not targeted."

"The SLTDA does not adequately use existing market research and visitor profiling in regional planning and destination development."

"There are many niche market segments that could be suitable for Sri Lanka, but information on these is scarce, and further research must be completed before major marketing and product development decisions can be made."

The TSP envisions setting up a contemporary research unit with highly qualified experts.

However, implementation of the TSP has so far been slow, hoteliers say. (EconomyNext)

Sri Lanka starts forensic audits into securities scams, EPF

Sri Lanka's central bank has begun multiple forensic audits into alleged securities scams in selling bonds and managing a 2.2 trillion rupee Employment Provident Fund (EPF) of private workers, a top official said.

"There are six forensic audits that we are conducting," Governor Indrajit Coomaraswamy told reporters in Colombo.

"Five of them had started in April," he said.

"Some of them will take about two to three months and the longest will take about six to seven months."

"So, we are hopeful that before the end of this year all of them will be completed."

BDO India and KPMG are conducting the forensic audits.

"When these are completed we would have to see what actions need to be taken," Coomaraswamy said.

In 2015 and 2016, bond auctions, which were conducted by the central bank on behalf of the Treasury were rigged to issue much more bonds than were originally offered, but insiders knew that larger volumes would be taken.

However other market participants also figured out later or information leaked that that higher volumes would be taken and they also bid, creating more competition later.

Increasingly larger volumes were then accepted at auctions to push the yields up, critics say.

The biggest buyer was Perpetual Treasuries, run by Arjun Aloysius, son-in-law of then Central Bank Governor Arjuna Mahendran.

The EPF which is managed by the central bank, stayed out of some of the auctions, helping keep the yields higher.

The EPF then bought the bond at higher prices (lower yields) from Perpetual Treasuries and others after the auctions.

The Perpetual group had bought stocks at peak valuations on or around 2011, earning the EPF the doubtful accolade of 'buyer of last resort.'

The same securities dealers who bought stocks at high prices were in office during the bond purchases.

Coomarasamy, a respected former public servant who has served in the Commonwealth Office, has put in place new procedures, which are said to be better.

He also stopped the practice of misleading market participants by announcing smaller volumes and taking higher volumes.

Announcing larger volumes and taking smaller volumes may also mislead market participants by creating opportunities for insiders, if it was a deliberately intended before hand.

Probes were also called for sales of bonds prior to 2015, when large volumes of bonds were sold outside of auctions, against generating opportunity for negotiation and discretion.(EconomyNext)

Tokyo stocks open higher on speculation over rate cut

Tokyo stocks opened higher on Monday, tracking rallies on Wall Street after a weak US jobs report bolstered expectations that the Federal Reserve would soon cut interest rates.

The benchmark Nikkei 225 index gained 1.24 percent or 259.51 points to 21,144.22 in early trade, while the broader Topix index was up 1.13 percent or 17.33 points at 1,549.72.

The closely-watched US Labor Department data showed that "the US economy is slowing to the extent that a rate cut is expected, but not to the extent of prompting worries over a recession," said Masayuki Kubota, chief strategist at Rakuten Securities, in a commentary.

"In a nutshell, it is a comfortable temperature for US stocks" and for the Japanese stock market, he said.

The United States and Mexico reached a last-minute deal late Friday to crack down on migration from Central America, with President Donald Trump relenting on threats to slap potentially devastating tariffs on the neighbouring country from Monday.

"The last-minute avoidance of tariffs on Mexican goods is encouraging investors" to keep buying on Monday, Kubota also said.

The dollar fetched 108.43 yen in early Asian trade, against 108.15 yen in New York on Friday.

In Tokyo, blue-chip exporters were generally higher, with Toyota gaining 0.94 percent to 4,650 yen and Honda gaining 0.89 percent to 2,762.5 yen.

Nissan was up 0.88 percent at 767.7 percent following a report that French carmaker Renault has

warned its Japanese alliance partner that it will block Nissan's plan to overhaul its governance structure.

Sony was up 0.82 percent at 7,272 yen and industrial robot maker Fanuc was up 1.34 percent at 19,160 yen.

On Wall Street, the Dow ended up 1.0 percent at 25,983.94. (AFP)