

NEWS ROUND UP

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Foreign investors sell more Sri Lanka rupee bonds

Foreign investors have sold about 10.8 billion rupees in the week to Wednesday May 08, taking their total holding down to 143.7 billion rupees, official data showed.

There strong heavy foreign selling in bonds towards the end of the previous week, but not so much up to Wednesday this week, dealers said.

Sri Lanka's private credit fell sharply in the first quarter, after the monetary instability generated by the central bank in March/April and July/September from two liquidity spikes just as the economy recovered.

The recovery has been since killed due to a currency collapse and prolonged liquidity shortages, which are now ending.

Weak credit has reduced imports and pressure on the currency.

In May liquidity spiked partly from dollar conversions by the government, but there have also been forex purchases by the central bank in the open market as private credit fell.

Analysts who have studied Sri Lanka's unstable soft-peg say as soon as there are capital outflows, excess liquidity has to be mopped up and the rupee allowed to float, so that the currency does not collapse.

The room for a currency collapse however is limited if the steep fall in private credit persists. The banking system could easily absorb bond sales if private credit is weak.

Sri Lanka's rupee tends to weaken partly because government dollar inflows are sold to the central bank for new money (expanding reverse money through a convertibility undertaking to maintain a dollar peg), instead of being traded for old money like in a floating rate.

Neither floating currencies nor hard pegged currencies (there is no fixed policy rate and short term rates float) depreciate permanently because monetary and exchange rate policies are not in conflict.

Sri Lanka's central bank has mopped up part of the excess liquidity over the last three days with repo auction, stopping overnight rates from falling before 8.40 percent. (EconomyNext)

Sri Lanka Overseas Realty March profits up on apartment sales

Profits at Sri Lanka's Overseas Realty, a real estate company which has built a war chest of retained earnings nearly the size of its property portfolio, grew 17 percent from a year earlier to 1.4 billion rupees in the March 2019 quarter on growing apartment sales.

The company which owns Colombo's iconic World Trade Centre and Havelock City, a condominium and commercial real estate project, reported earnings of 1.12 rupees a share for the quarter, according to interim financial results filed with the Colombo's stock exchange.

The stock was trading 50 cents higher at 15 rupees.

Revenue in the quarter grew 67 percent from a year earlier to 2.3 billion rupees with apartment sales surging 119 percent to 1.63 billion rupees.

Rental income was up 9 percent to 605 million rupees. The company has 185 condominium units from which it earns rental income.

Market rates for rent per square foot was between 250-375 rupees in 2018, easing up to 260-385 rupees in 2019 and is expected to increase 5 percent annually over the next 3-10 years, the company said.

Cost of apartment sales grew 141 percent to 951.2 million rupees while direct operating expenses were steady at 157 million rupees, leading to gross profits growing 45 percent to 1.2 billion rupees.

Administration expenses had grown 15 percent to 117.3 million rupees and net finance income declined 27 percent to 72.8 million rupees.

The company reported a forex loss of 26 million rupees compared to a gain of 72.5 million rupees a year earlier.

It also booked a gain of 275.8 million rupees on valuation of property, down 5 percent from a year ago.

The company's investment properties were valued at 27.3 billion rupees at end March 2019, gaining a marginal 1 percent from end December 2018.

Total assets fell 2 percent over the three-month period to 48.7 billion rupees but Overseas Realty's war chest of retained earnings grew 7 percent to 22.6 billion rupees. (EconomyNext)

Sri Lanka mulls possible relief for leased vehicles used in tourism

Sri Lanka is considering a request made to give debt relief for owners of leased vehicles used in tourism, State Minister Harsha de Silva said.

The tourist industry has said many third party vehicle owners who provided transport to tourists will face difficulty in meeting lease payments after Easter Sunday bombings.

The request will be considered at a ministerial committee appointed to look into problems facing the tourism sector when it meets Friday (today), de Silva told parliament.

Sri Lanka has already announced relief for bank borrowings, of the hotels and tourism companies, involving a moratorium on debt until March 31 and working capital support.

The exposure of the banking sector to tourism is about 280 billion rupees, an officials said.

Most leases are given by non-bank finance and leasing companies.

Due to monetary instability in 2018 which led to a collapse of the rupee, many domestic firm are facing lower demand. Banks and finance companies usually face bad loans after currency collapses.

Finance companies generally deal with riskier clients than banks. (EconomyNext)

Sri Lanka private credit weak in March

Loans to the private borrowers from commercial bank in Sri Lanka picked was 23 billion rupees in March 2019, sharply below the 50 to 60 billion rupees seen in 2018, official data shows but has picked up from 7.6 billion rupees in February, official data shows.

Private credit was negative in January and expanded only 7.6 billion rupees in February, indicating a sharp downturn in economic activities after the collapse of the currency in the last quarter of 2018.

In March, private credit rose to 5,587 billion rupees, up 11.3 percent from a year earlier, slowing from 13.6 percent a year earlier, central bank data showed.

Weak credit has reduced economic activity and imports, allowing the currency to appreciate and the central bank has been a net buyer in forex markets in the first quarter of 2018.

Some of the liquidity from dollar conversions has also been mopped up, pushing up reserves.

As a result central bank credit to government which measures the printed money stock contracted to 503 billion rupees from 510.2 billion rupees in March from 510.2 billion rupees in February.

A steep fall in imports may reduce government revenues and is indicative of a downturn in economic output.

The rupee came under pressure from March 2018, when an economic recovery pushed-up private credit demand to 122 billion rupees and the central bank printed money by unwinding temporarily mopped up liquidity instead of allowing short term rates to move up.

Sri Lanka's monetary instability comes from the central bank targeting a policy rate by printing money while operating convertibility undertakings (pegging) to collect reserves or target the exchange rate.

In March the government had repaid dollar denominated borrowings from banks, with the total stock falling to 376 billion rupees from 435 billion rupees a year earlier.

Dollar borrowings by state enterprises also fell to 266 billion rupees from 280 billion rupees a year earlier.

Total credit from the banking system to private borrowers and the government fell by 48 billion rupees, the first time total credit was negative since August 2016. (EconomyNext)

Sri Lanka eyes security audit to build tourist confidence

Sri Lanka is planning an independent security audit to build confidence among tourists, State Minister Harsha de Silva said after extremists linked to Islamic State bombed churches and hotels on Easter Sunday

"After conducting an independent security audit, embassies and tourist boards of foreign countries will encourage tourism," he told parliament

"Spending millions on advertising is worthless if we cannot be responsible for tourist safety."

De Silva said it would be worse if assurances were given too quickly and another incident took place.

Tourism officials have said 37 nations have issued travel advisories cautioning citizens.

Security authorities have said rapid progress is being made with most of the extremists directly linked to the bombings having been killed or arrested, many safe houses closed, while more action is being taken.

Sri Lanka's tourist arrivals had plunged 60 percent in the first week of March, but officials are planning a recovery campaign.

Chairman of Sri Lanka's Tourism Promotions Bureau Kishu Gomez said an international agency with experience in working with tourism-linked disasters will be hired to carry out a short and medium term campaign.

Though major travel companies have stopped selling Sri Lanka independent travelers are coming, officials said. (EconomyNext)

Trump defends tariffs after advisor admits US will suffer from protectionism

US President Donald Trump on Sunday defended his tariff policy, insisting again that China will pay billions in duties to the US, after Trump's economic advisor raised eyebrows by saying both sides will suffer.

"We are right where we want to be with China," Trump said on Twitter.

"Remember, they broke the deal with us & tried to renegotiate. We will be taking in Tens of Billions of Dollars in Tariffs from China."

In fact, research shows it is Americans that bear the brunt of the tariff impact, as the levies are paid by importers and ultimately passed on at least partially to consumers.

Trump's comments came after economic advisor Larry Kudlow earlier Sunday conceded that China is not the one paying the tariffs.

"Fair enough. In fact, both sides will pay. Both sides will pay in these things," Kudlow told "Fox News Sunday with Chris Wallace."

Trump had accused Beijing of renegeing on its commitments in trade talks and ordered new punitive duties, which took effect Friday, on \$200 billion worth of Chinese imports, raising them to 25 percent from 10 percent.

He then ordered a tariff hike on almost all remaining imports from China, which are worth about \$300 billion, according to US Trade Representative Robert Lighthizer.

"The Chinese will suffer GDP losses and so forth with respect to a diminishing export market and goods that they may need," Kudlow said, before agreeing with Wallace that even though

China may suffer consequences, US businesses and consumers are the ones who will pay the tariffs.

"Yes, to some extent. Yes, I don't disagree with that. Again, both sides will suffer on this," Kudlow said.

- No new talks scheduled -

But he also assured that because the US economy "is in a boom," it would not be damaged "in any appreciable way" by the tariffs.

Trump ordered the increased duties on Friday after two days of talks to resolve the trade battle ended with no deal, although without a breakdown.

Trump began the standoff last year because of complaints about unfair Chinese trade practices. The United States is pressing China to change its policies on protections for intellectual property, as well as massive subsidies for state-owned firms, and to reduce the yawning trade deficit.

Since last year the US and China had exchanged tariffs on more than \$360 billion worth of two-way trade, gutting US agricultural exports to China and weighing on both countries' manufacturing sectors.

Kudlow told Wallace that Trump and China's President Xi Jinping could meet next month on the sidelines of the G20 summit to discuss their differences on trade, but no new talks are scheduled.

While making it clear that the US was unwilling to settle, Kudlow sought to tamp down concerns, insisting the process was ongoing.

"We need to see something much clearer and until we do, we have to keep our tariffs on," Kudlow said, adding: "We can't accept any backtracking."

As for future negotiations, while there are "no concrete, definite plans yet," Kudlow said China had invited Treasury Secretary Steven Mnuchin and Lighthizer to Beijing -- and higher-level discussions could be possible.

The chances of Trump and Xi meeting during the Group of 20 summit in Japan in late June "are probably pretty good," he said.

The G20 summit of the world's largest advanced and emerging economies is scheduled to take place in Osaka June 28-29.

"We have to change the trading relationship between two countries for the benefit of the United States and its workforce and its ranchers and farmers and so forth. We have to do this," Kudlow

said. "The relationship has been too unbalanced."

Earlier Saturday Trump struck a more belligerent tone, urging China that it would be "wise for them to act now."

"They know I am going to win... and the deal will become far worse for them if it has to be negotiated in my second term," Trump tweeted.

While supporters laud Trump as a tough negotiator, free-trade-minded Republicans have warned that the tariffs could do real damage to the economy, and many farmers -- including Trump supporters -- say the tariffs have hit their bottom line. (EconomyNext)