NEWS ROUND UP

Tuesday, May 14, 2019

Contents

Banking on tourism revival

A more convinced and supportive effort by banks to help Easter Sunday terror attacks battered travel and tourism industry is likely following a top-level progressive meeting yesterday chaired by Finance Minister Mangala Samaraweera.

Given the seriousness of the crisis faced by the travel and tourism industry, yesterday's meeting saw attendance of Tourism Minister John Amaratunga, State Minister of Finance Eran Wickramaratne, Economic Reforms and Public Distribution Minister Dr. Harsha de Silva, Treasury Secretary Dr. H.S. Samaratunga, Central Bank Governor Dr. Indrajit Coomaraswamy, Bankers Association representatives among others.

Most officials and bankers present were tight-lipped about the deliberations and the outcomes of the meeting as the Finance Ministry and Central Bank are likely to make an official statement either today or tomorrow. However the Daily FT learns that at the meeting the bankers had explained their stand in extending support to the impacted businesses.

Whilst banks don't prefer existing lending to travel and tourism businesses going to default or Non Performing, hence will support the moratorium initiative of the Government, the financial institutions also carry the responsibility of safeguarding public deposits. The banks have also clarified that as per the Central Bank directive performing loans will be subject to the one-year moratorium whilst ongoing legal and recovery action on past defaults will continue.

However, it was stressed upon the banks that the 21 April Easter Sunday terror attacks on three churches and an equal number of five star hotels in the city killing nearly 260 including 45 tourists and injuring over 500 were "unprecedented shocks" and the country and in this case banking sector has to "deal with it". Banks have the capacity hence must come forward proactively to help their customers at this hour of crisis, was the message to the bankers.

The contention among the travel and tourism industry is banks being directed by the Central Bank to adopt a case-by-case approach in granting the moratorium. The industry wants across the board blanket moratorium as discussed during separate meetings with President Maithripala Sirisena, Prime Minister Ranil Wickremesinghe and seven-member Cabinet-appointed Sub-Committee tasked to spearhead revival of tourism post Easter Sunday mayhem.

It had been agreed at yesterday's meeting that all businesses registered with the Sri Lanka Tourism Development Authority, various industry, trade associations and chambers of commerce will qualify for the moratorium. Those who are not but have local authority approval will be considered with a provisional registration.

An apparent breakthrough at the meeting was near consensus to extend the moratorium to loans of travel and tourism sector employees. This was a key recommendation from the industry as with near 70% dip in tourist arrivals and less local businesses in hotels and restaurants, the otherwise considerable service charge earned by employees is at stake. Whilst employees' basic salary goes to service loans or leases, their livelihood depends on the amount of service charge earnings.

Extending the Government's moratorium to Non-Banking Financial Institutions such as finance companies from which the businesses and employees have leases was also discussed at yesterday's meeting. Sources said that a positive outcome was expected.

Premium transport service providers to tourism sector affected by the Easter Sunday disaster are also seeking a similar moratorium on their leases of luxury cars used for the movement of tourists.

With 2.3 million arrivals, the tourism industry last year earned $ 4.4 billion in foreign exchange. It employs 500,000 directly, providing a livelihood for around two million people.

The Cabinet last week approved a one-year moratorium of capital and interest repayment of all registered travel and tourism businesses' performing loans till 31 March 2020 in respect of outstanding credit facilities as at 18 April 2010. The banks shall convert the capital and interest falling due during the moratorium period into a term loan which shall be recovered from July 2020 onwards. A concessionary rate of interest may be charged for this facility. The rate hasn't been specified yet.

Banks on their part can maintain non-performing loans in the same category for classification and provisioning purpose during the moratorium and shall waive off the penal interest to be charged on non-performing loans during the period.

To tide off cashflow issues, the Government also announced all travel and tourism businesses could get a two-year working capital loan based on turnover at a concessionary interest rate of 3.4%. This is following the Treasury offering a 75% subsidy.

For a travel or tourism business with a turnover of less than Rs. 100 million, the maximum working capital available under this scheme is Rs. 20 million. Other slabs include Rs. 50 million for those with turnover of Rs. 100-250 million, Rs. 150 million for those with Rs. 250-750 million turnover, and Rs. 250 million for turnovers above Rs. 750 million.

Another relief is VAT for the industry being reduced to 5% from 15% until 31 March 2020. Last year VAT collection from the industry was Rs. 18 billion.

The Cabinet-appointed Sub-Committee for revival of tourism is led by Tourism Minister John Amaratunga and comprises Finance Minister Mangala Samaraweera; International Trade and Development Strategies Minister Malik Samarawickrama; Transport and Civil Aviation Minister Arjuna Ranatunga; Internal and Home Affairs Minister Vajira Abeywardena; Minister of Primary Industries Daya Gamage and Non-Cabinet Minister of Economic Reforms and Public Distribution Dr. Harsha de Silva. (Daily FT)

HNB Group records PBT of Rs. 3.4 b in 1Q

Amidst challenging market conditions, Hatton National Bank (HNB) posted a profit before tax of Rs. 3.3 billion and a profit after tax of Rs. 2 billion for the first quarter of 2019.

HNB Chairman Dinesh Weerakkody

HNB Managing Director and CEO Jonathan Alles

HNB Chairman Dinesh Weerakkody commenting on the performance noted: "Amidst macroeconomic gains, Sri Lanka's economic growth trajectory remains underwhelming and meandering below 4%. This has occurred due to a combination of tepid domestic demand, reduced government expenditure towards managing its deficit, tightening monetary policy, the political upheaval during the final quarter of 2018 and the overwhelming debt burden. Most of all this continues to exert enormous pressure on the performance of the Financial Sector."

During the 12-month period ended 31 March, advances and deposits of the bank grew by 11.4% to Rs. 749.8 billion and 11% to Rs. 799.7 billion respectively. The bank was also successful in maintaining a CASA base of Rs. 279.6 billion, enabling the bank to record a 22.1% growth in Net Interest Income (NII) of Rs. 13 billion for the period.

Net Fee Income amounted to Rs. 2.2 billion for the first quarter and constituted 14.9% of Total Operating Income. Income from credit cards and guarantee commission which are key contributors to fee income, demonstrated robust growth.

Commenting on the performance, HNB Managing Director and CEO Jonathan Alles stated: “The slowdown in economic growth, collection difficulties experienced by many industries as well as the impact from the extreme weather conditions experienced in previous years has resulted in higher non-performing assets in the banking industry and it continues to affect the current portfolio. In addition, the introduction of the stringent SLFRS9 requirements on impairment on performing loans as well as on investments in other financial instruments has contributed to an increase in impairment charges for the period.”

Accordingly, impairment charges for the bank amounted to Rs. 4.2 billion for the three months ended March.

Total Operating Expenses increased by 17.9% YoY to Rs. 5.9 billion and the bank reported a cost to income ratio of 39.6% for the period.

The introduction of the debt repayment levy in 4Q 2018 as well as the removal of certain exemptions on income from investments with effect from April 2018, resulted in an increase in the total effective tax rate to a significant 58.6%. Accordingly, the bank’s total tax charge was at Rs. 2.9 billion for the period.

All Group companies contributed to Group Total Operating Income of Rs. 18.7 billion for the first quarter, recording a 9.6% YoY growth. HNB Group made a profit before tax of Rs. 3.4 billion and a profit after tax of Rs. 2 billion during the first three months of 2019.

Alles added that: “The prevalent uncertainty in the market, rising debt collection challenges, the resultant negative impact on many industries led by tourism, in particular following the tragic events of 21 April, the knock-on effect on value chain business – supply, distributor and related as well as unfavourable taxation policies could inhibit growth of the banking sector. In our 130-year history, HNB has gone through multiple such cycles and has always demonstrated resilience and emerged stronger. We remain committed and confident as always to drive the transformational journey that HNB has embarked upon and to support the revival of the wider fortunes of our motherland.”

During the first quarter of 2019, HNB was awarded as the Best Bank for SME in Sri Lanka by the Asian Banker Magazine while Asiamoney recognised HNB as ‘the Best Bank’ in SME, Cash Management, Trade Finance and Corporate Social Responsibility.

HNB is the first local bank in Sri Lanka to receive an international rating on par with the sovereign from Moody’s Investor Services and has a national long term rating of AA- (lka) from Fitch Ratings. HNB is the number one bank in Sri Lanka in the Top 1000 World Banks ranking by the prestigious UK-based ‘The Banker’ magazine. (Daily FT)

Stocks, rupee extend falls in dull trade

Sri Lankan shares fell yesterday for an eight straight session, closing at their lowest in more than six-and-a-half years, and the rupee slipped for a third day in dull trade, as the Easter bombings drove off investors.

Sri Lanka widened a curfew yesterday after attacks on mosques and Muslim-owned businesses in the worst unrest since Easter bombings by Islamist militants and blocked Facebook and WhatsApp to stop people inciting violence.

Sri Lanka's economic growth is expected to slump to its lowest in nearly two decades this year, a Reuters poll showed. Tourism, foreign investment and overall business activity have all dropped after the bombings.

The benchmark stock index ended 0.38% weaker yesterday at 5,307.20, its lowest close since 3 September 2012.

Turnover was Rs. 179.5 million ($ 1.02 million), lower than this year's daily average of around Rs. 557.6 million. Last year's daily average was Rs. 834 million.

Foreign investors bought a net Rs. 20 million worth of shares on Friday, but they have been net sellers of Rs. 4.4 billion worth of equities so far this year.

The rupee closed weaker on dollar demand from banks in dull trade.

The rupee dropped 0.3% to close at 176.60/70 per dollar, compared with Friday's close of 176.10/60, market sources said.

Analysts expect the currency to weaken further as money flows out of stocks and government securities. The rupee gained 0.6% last week and is up 3.4% for the year. Exporters had converted dollars as investor confidence stabilised after a $ 1 billion sovereign bond was repaid in mid-January.

The rupee dropped 16% in 2018 and was one of the worst-performing currencies in Asia.

Foreign investors sold a net Rs. 10.8 billion worth of government securities in the week ended 8 May, extending net foreign outflow to Rs. 20.8 billion so far this year, Central Bank data showed. (Daily FT)

Airlines call for lower charges at airport to boost flights

With Easter Sunday terror attacks impacting tourist traffic, the airlines last week called for reduction or removal of charges slapped on their operations to Sri Lanka, failing which a scaling down was imminent.

This concern and suggestions to rectify the precarious situation came up for discussion at the meeting between airlines and travel and tourism industry on Friday chaired by Minister John Amaratunga.

The meeting, the second since the 21 April mayhem, was to assess how airlines could support a quicker revival of tourism via a cohesive recovery plan.

The airlines in order to drive up arrivals requested the Government in the short term to offer concessions on aviation fuel, landing and parking, ground handling and revision of the Embarkation Tax. They also requested the Government to urgently lobby and remove adverse travel advisories to support and protect flight bookings from key markets such as China and India which are currently holding for June and July travel. Sources said as part of support for a quick revival, airlines proposed to offer special fares to Sri Lanka (post travel ban removals), invite tour operators and agents on familiarisation trips, invite media from different markets and focus on new markets where they would have seats available.

The travel and tourism industry representatives present at the meeting thanked the Government for the financial package and committed to build security at hotels for the safety of guests. They requested the

Government to arrange safety audits to be carried out and stringent procedures implemented for the safety and security of all.

Another suggestion was writing to the diplomatic missions, building confidence amongst the diplomatic community and getting the Sri Lankan ambassadors overseas to sell the destination.

The industry pointed out that there were less ticket cancellations in June compared to May.

It was emphasised that President and Prime Minister must come together on a common platform and assure the improved security situation post-Easter Sunday attacks and outline measures underway to further strengthen safety and security of citizens and tourists.

It was agreed that a subcommittee with representatives from Board of Airline Representatives (BAR), Tourist Hotels Association (THASL) and Inbound Tour Operators (SLAITO) would meet this week with specific proposals to objectively drive the action plan to ensure immediate implementation when travel advisories are relaxed and removed. (Daily FT)

High-priced Sri Lanka condo sales slow down: central bank

Sales of high-prices condominium apartments in Sri Lanka have been slowing down while the cheapest ones continue to remain in demand, the central bank said.

Sales were still concentrated in the Colombo District with the majority of units sold belonging to single condominium projects, according to a 'Condominium Market Survey' done by the banking regulator.

"According to the analysis of the composition of sales transactions, the share of the category of condominiums priced below 25 million rupees shows an increase, while the shares of other categories have declined," the bank said in its annual report for 2018.

It showed that sales of apartments priced between 25 and 50 million rupees, those over 50 million rupees and also over 75 million rupees each all slowed down during the year.

According to information provided by property developers, the number of sales transactions reported per quarter remained relatively stable except for the first quarter of 2018, when transactions increased substantially.

This was due to a possible price rise with effect from 1st April, 2018 given the budget proposal to impose 15 per cent Value Added Tax (VAT) on condominium sales, which was later postponed by one year.

The central bank survey found that funds for condominium developments were mainly generated through bank loans, pre-sale deposits and equity.

"The majority of the condominium buyers were resident Sri Lankans and most of them have purchased condominium units for living rather than investment," the report said. "The majority of buyers have purchased condominium units using their own funds." (Economy Next)

IMF program with Sri Lanka resumes, reserves given to central bank

The International Monetary Fund has resumed and extended a program with Sri Lanka giving 164.1 million US dollars to the central bank, which has to maintain a soft-peg with the US dollar to build more forex reserves.

IMF suspended its program with Sri Lanka after the central bank missed its forex reserve target, by printing money to push down rates through two liquidity shocks as the economy recovered in early 2018.

The ensuing monetary instability has since undermined economic output.

"The Sri Lankan authorities have successfully brought the program back on track, despite important setbacks, by advancing fiscal consolidation through a well-targeted 2019 budget, rebuilding reserves, while maintaining a prudent monetary policy under greater exchange rate flexibility, and reviving structural reforms," IMF's Deputy Managing Director and Acting Chair of the Board Mitsuhiro Furusawa said I a statement.

"Sustaining policy discipline remains critical to strengthen resilience, given still sizable public debt and low external buffers, and support strong and inclusive growth."

In 2018 the currency depreciation bloated national debt and put the brakes on revenues available to repay foreign debt by despite a nominal growth.

"The Central Bank of Sri Lanka should continue to pursue a prudent and data-dependent monetary policy," Furusawa said.

"The amendments to the central bank law will be a major step in the transition to flexible inflation targeting. Efforts to build reserves should be sustained, under greater exchange rate flexibility, to protect the economy against shocks."

Analysts have pointed out that Sri Lanka's balance of payments problems primarily come from the central bank printing money to keep rates down, while trying to target the exchange rate (deploying convertibility undertakings) which is the same reason that the Bretton Woods soft-peg system and European Exchange rate mechanism also collapsed.

Sri Lanka is operating a de facto inflation targeting regime (cutting rates with printed money when inflation falls) which worsens policy contradictions in the soft-peg, leading to balance of pyaments poblems.

There are fears that a planned 'flexible inflation targeting' also involves a peg and a policy rate maintained by printed money given the frequent mentions of the need for 'reserve buffers'.

The IMF has also given tools for Sri Lanka to calculate an output gap, implicitly giving the idea that policy rates can be cut when growth is lower than the number derived by econometrics, which is incompatible with maintaining a pegged exchange rate regime.

In a peg rates can only fall if domestic credit growth slows.

The full statement is reproduced below:

IMF Executive Board Completes the Fifth Review under Sri Lanka's Extended Arrangement under the Extended Fund Facility; Grants Waivers of Nonobservance of Performance Criteria and Approves US$ 164.1 million disbursement and Extension of the Arrangement

May 13, 2019

- Sri Lanka successfully brought the EFF-supported program back on track.

- Sustaining policy discipline remains critical to strengthen resilience and support strong and inclusive growth.

- Extension of EFF arrangement by one additional year will provide a policy anchor to complete Sri Lanka's economic reform agenda.

On May 13, 2019, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review of Sri Lanka's economic performance under the program supported by an extended arrangement under the Extended Fund Facility (EFF). [1] Completion of this review, upon the granting of waivers of nonobservance for the end December 2018 performance criteria on the primary balance and net official international reserves, makes available SDR 118.5 million (about US$ 164.1 million), bringing total disbursements under the arrangement to SDR 833.73 million (about US$ 1.155 billion). The Executive Board also approved an extension of the arrangement by one additional year, until June 2, 2020, with rephasing of remaining disbursements.

Sri Lanka's three-year extended arrangement was approved on June 3, 2016, in the amount of about SDR 1.1 billion (US$1.5 billion, or 185 percent of quota in the IMF at the time of approval of the arrangement. See Press Release No. 16/262).

Following the Executive Board's discussion of the review, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"We join Executive Directors in extending our condolences to the government and people of Sri Lanka for the loss of life and suffering caused by the recent terror attacks.

"The Sri Lankan authorities have successfully brought the program back on track, despite important setbacks, by advancing fiscal consolidation through a well-targeted 2019 budget, rebuilding reserves, while maintaining a prudent monetary policy under greater exchange rate flexibility, and reviving structural reforms. Sustaining policy discipline remains critical to strengthen resilience, given still sizable public debt and low external buffers, and support strong and inclusive growth.

"Sustained revenue mobilization is needed to place public debt on a downward path, while making space for critical public investment and an expansion of the social safety net under well-defined selection criteria. Strengthening the selection and appraisal process of large-scale investment projects and assessing their fiscal affordability is critical, given Sri Lanka's high public debt. Stronger fiscal rules and a medium-term debt management strategy will support medium-term fiscal consolidation and debt reduction efforts.

"The authorities should renew their efforts to strengthen SOE governance and transparency, including by advancing a restructuring plan for SriLankan Airlines and completing energy pricing reforms, building on important progress with the implementation of the fuel pricing formula.

"The Central Bank of Sri Lanka should continue to pursue a prudent and data-dependent monetary policy. The amendments to the central bank law will be a major step in the transition to flexible inflation targeting. Efforts to build reserves should be sustained, under greater exchange rate flexibility, to protect the economy against shocks. Harmonizing regulation and supervision of financial institutions, strengthening the macroprudential policy framework, and enhancing the crisis-preparedness toolkit will help further strengthen financial sector stability.

“Continued implementation of structural reforms is essential to support strong and inclusive growth. Efforts should focus on liberalizing trade, improving the business environment and promoting investment, strengthening governance, encouraging female and youth labor force participation, enhancing social protection, and improving crisis preparedness to natural disasters.” (Economy Next)

Sri Lanka Speaker warns against 1983 repeat as nationalists riot

Speaker of Sri Lanka's parliament Karu Jayasuriya warned against a repeat of riots in 1983 that provided recruits to Tamil Tigers as anti-Muslim nationalists rioted destroying shops, houses and mosques following Easter Sunday bombings by Islamist extremists.

"Future of Sri Lanka will be decided by the way people behave in the next few days," Speaker Karu Jayasuriya said in a twitter.com message.

"If communal violence cannot be prevented, terrorists will be able to legitimize their crime, as did once in 1983."

In 1983, majoritarian nationalists rioted, with some instigation by political elements, leaving many dead and property destroyed.

The riots helped swell the ranks of the Tamil Tigers.

Opposition leader Mahinda Rajapaksa also made the same warnings as violence against Muslims erupted in several locations in his home electoral district of Kurunegala.

Easter Sunday attacks were carried out by suicide bombers who had links with Islamic State, an extremist group that is promoting a Pan-Islamic agenda that had recently suffered military setbacks at its home base in Syria.

Intelligence officials said the two local organizations JMI and NTJ, whose members had carried out the attacks were motivated mainly by external factors but domestic factors were also involved.

They said the groups were driven by shock of recent setbacks of the IS, urgings of IS linked groups abroad, attacks on mosques in Christchurch, New Zealand as well as domestic factors.

Members of the group were communicating through a platform called Telegram, and they had expressed anxiety and concerns over attacks by Nationalists on Muslims such as in Digana in the Kandy district, intelligence officials said.

Pan-Nationalists do not necessarily require discrimination against a minority (the existence of an discriminated irredenta) to promote their agenda and even a country with a majority of the ethnic or religious community could be targeted.

Sri Lanka's President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe had also publicly appealed not to create a situation similar to 1983 which led to a 30-year civil war. (Economy Next)