NEWS ROUND UP

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Govt. to call RFPs for $ 500 m Samurai bond

The Government will soon issue Request for Proposals (RFPs) to raise $ 500 million via Samurai bonds, which will be used to bolster reserves and finance debt repayment, Central Bank Governor Dr. Indrajit Coomaraswamy said yesterday.

To call for RFPs, a tender board approved by the Cabinet has to be appointed. “We are about to call for RFPs for the $ 500 million Samurai bond. For that, the tender board has to be approved by the Cabinet, and it may take one or two weeks to get through all the administrative procedures before we call for RFPs,” Dr. Coomaraswamy told journalists on the sidelines of the inaugural Sri Lanka Forum of Junior Business Economists Economic Summit.

The Governor expressed hope that they will be able to borrow at below the cost of the recent successful International Sovereign Bond (ISB) issuance, through which Sri Lanka raised $ 2 billion at 6.85% on 5-year tenure, and 7.85% on 10-year tenure. The 10-year $ 500 million Samurai bond is to raise funds for debt repayment.

Delivering the keynote address at the summit, organised by the Department of Business Economics Faculty of Management Studies and Commerce of the University of Sri Jayawardenepura, Dr.Coomaraswamy pointed out that despite economic growth remaining low, the macroeconomic fundamentals have improved.

“Macroeconomic fundamentals have improved. The Monetary Board is also in the process of relaxing the monetary policy to support growth,” he added.

According to him, inflation has been maintained at low single-digit levels of about 3.3% on average. However, because of the Easter Sunday terror attacks, the current account deficit has now been revised to 2.6%, which is marginally higher than the original 2.3%.

The Governor insisted on the importance of getting out of the ‘stop-go policy cycle’ in order to increase macroeconomic stability,so the economy can grow at a much faster pace of around 7%.

Dr.Coomaraswamy believes Sri Lanka’s official foreign reserves will be around $ 8 billion by the end of the year.

Managing debt clearly remains the biggest risk associated with the economy, he said, adding it is critical to maintain the Budget deficit at around 3% to 3.5%. However, to finance the deficit, Sri Lanka needs to have a revenue of about 15% to 16.5% of GDP, he stressed.

“We have seen our debt grow, particularly, our external commercial borrowings. It sounds like we are entirely relying on foreign bond holders, bankers and so on — this makes it more important that we maintain discipline so that markets have confidence in us,” he said.

Sri Lanka has to pay almost $ 6 billion this year, over $ 5 billion next year and $ 4 billion in 2021 and beyond.This means the Government will have to raise around $ 3 billion each year going forward for debt repayment.

Given the country’s situation, the Governor stressed it was critical that political leaders also understand the fact that the economy has very little room to manoeuvre.

Despite the challenging fiscal situation, Dr.Coomaraswamy expressed confidence that Sri Lanka could manage the debt situation through its Active Liability Management Act (ALMA) and Debt Management Strategy.

To maintain growth at sustainable levels, he outlined, it was important to maintain sound macroeconomic fundamentals, export transformation to drive foreign investment, improvement in business management, trade facilitation, as well as leveraging on Sri Lanka's strategic geographical location. (Daily FT)

AG tells Police to expedite investigations on high profile cases

Attorney General yesterday wrote to the Acting Inspector General of Police, advising against submission of "incomplete files" to the AG Department, issuing directions to submit completed investigations on five high profile cases "without delay" after advising carrying out an "expeditious conclusion".

The AG Dappula De Livera, in a letter addressed to acting IGP Chandana Wickremeratne, took "serious note" that investigations on five high profile cases has not been concluded "so far, despite reminders."

The letter, which comes hot on the heels of the hard-hitting letter by slain editor Lasantha Wickrematunge's daughter Ahimsa Wickrematunge accusing Prime Minister Ranil Wickremesinghe's government of inaction over investigations on her father's murder, was followed by another letter criticising the conduct of the Police for delays in the investigations of five cases, including the attack on the Sunday Leader Editor.

The AG in his letter lists long delays in investigations on the "murder case of Lasantha Wickramatunge", "murder of seven persons of an aid group", "murder of Waseem Thajudeen", the abduction of Keith Noyahr and the abduction and disappearances of 11 youth.

The letter has advised the acting IGP to ensure an "expeditious conclusion" of the cases and has directed him to submit completed investigative material for the Department to consider taking action against suspects in the cases "without delay."

Further, a second letter sent by the AG has noted the submission of "incomplete files" by the Police Department.

The Acting IGP was informed that submission of incomplete files for "for the consideration of legal advice and presentation of charges" to the AG Department was in violation of section 393 (6) of the Criminal Procedure Code.

According to the section 393 (6), when reporting to the AG, the Police is required to supply "a full statement of the circumstances; copies of the statements of all witnesses, such other information, documents or productions as may be relevant or as may be called for by the Attorney-General; and where an inquest has been held, a copy of the inquest proceedings."

The AG notes that the failure by the Police to strictly comply with these requirements in the Criminal Procedure Code when submitting matters to the AG Department for advice will only result in the return of the file "for due compliance with the relevant provision of the law." (Daily FT)

Private sector should be involved in deciding price controls: Harsha

In an effort to improve data-based policy making,Non-Cabinet Minister of Economic Reforms and Public Distribution Dr. Harsha de Silva yesterday said an Analytics Unit has been established to act as the "brain of the Government",to find solutions to deal with cost-of-living issues, beyond slapping arbitrary price controls.

Dr. de Silva, speaking to media, pointed out that the Government's preferred method of dealing with high cost-of-living was to introduce price controls on random goods, without considering the market dynamics that were causing the problem and providing long-term solutions. In order to combat that, as the convener of the Government's Cost-of-living Committee, he had looked at ways to intervene in the market, but with a more inclusive approach.

With that in mind, the Analytics Unit has been established to crunch data and come up with viable solutions, which will then be provided to political leaders in the future to be rubber-stamped, Dr. de Silva said.

Connected to that is finding better ways to impose price controls, with the Ministry working with the Consumer Affairs Authority (CAA), which decides prices on a range of goods including gas, milk powder, and cement. Dr. de Silva noted that as part of efforts to establish a legal pricing formula for gas, representations have already been made before the Supreme Court, and the decision is likely to be given soon. The Ministry is also engaged in attempting to upgrade the Census and Statistics Department with a panel appointed to present a report on how it can be transformed into an independent national statistics office.

"Prices of goods should ideally be decided by the market. The Minister should not be deciding prices. This is where data becomes so important. If we are making decisions without data, we are likely to get things wrong most of the time. The private sector deserves to be consulted, and the process needs to be inclusive," he said.

Considering the data, Dr. de Silva said he had realised that as much as 50% of the cost of the basket of goods used by the Consumer Price Index to decide inflation was based on rice and coconut. Therefore the Ministry decided to concentrate on these two goods, especially rice, to reduce prices through market management. As a result of that, the Government allocated Rs.1 billion to revive about 100 small and medium rice mills, through a co-operative system that produced lower-cost rice, thereby increasing competition in the market. The rice, which is released to market under the brand 'Shakthi', will also be released to all major supermarket chains and is likely to be delivered by Daraz, the online store.

"I'm a great believer in co-operatives. They have been successful in many developed countries. Fonterra is run as a co-operative, and is the biggest company in New Zealand. In the US, their agriculture sector is dominated with co-operatives, and they are hugely successful. Unfortunately, in Sri Lanka co-operatives have become politicised, but they have the capacity to provide fair returns to both the consumer and the farmer. By encouraging co-operatives in key sectors, we can increase market competitiveness."

In another step, Dr. de Silva said the first 5000 MT humidity and climate-controlled warehouse will be opened in Dambulla in October, to allow farmers to store their produce for longer periods of time, which will also help improve market dynamics. The Minister acknowledged this had been a long-felt need, and was regretful it had not been done earlier, despite successive Governments championing agriculture. The climate-controlled warehouse is partly funded by a grant from India.

"We need to do more of these things. We need to step up warehouses for potatoes, for example, and have potato chip factories, or make dehydrated mangoes so that these can be exported. We need to find new ways to bring produce to the market, and infuse technology at strategic points. "

As part of this measure, Cabinet this week gave approval for the proposal presented by President Maithripala Sirisena, upon the request of Dr. de Silva, to provide 2MT Mobile Driers worth Rs. 3 million excluding taxes, and 6 MT Fixed Driers worth Rs. 6 million excluding taxes, to five farmer organisations in Polonnaruwa, as selected by the Department of Agrarian Services with the assistance of the All Island Paddy Millers Association, with a mechanism to recover the cost incurred by the Government. (Daily FT)

Documents on GR renouncing citizenship will be presented if needed: NR

Parliamentarian Namal Rajapaksa yesterday said that proof of Sri Lanka Podujana Peramuna (SLPP) presidential candidate Gotabaya Rajapaksa's renunciation of citizenship will be presented "when needed."

Tweeting in response to Non-Cabinet Minister of Economic Reforms and Public Distribution Dr. Harsha de Silva's query on twitter after Rajapaksa's name was not included in the official US Government publication 'Quarterly Publication of Individuals, Who Have Chosen To Expatriate', or renounce US citizenship, in the 2nd quarter of 2019, covering 1 March to 30 June.

"Don't worry about SLPP candidate. If his documentation is the issue, will present if needed. Worry abt governing the country for next few months, to salvage frm this sorry state. Also perhaps worry about who you can put forward to contest," Namal Rajapaksa tweeted.

His response was to a tweet by Dr. de Silva that flagged reporting on the publication and seeking clarification on the issue.

"Well this is just breaking. We were told @GotabayaR had completed all documentation wrt renunciation of his US citizenship. I for one believed it. But in t last hour or so we are told that his name is NOT in t list as at 30 June. So, yes, I am confused. Need more info."

"Well I agree w you that people wish to know what each side can do to make Sri Lanka better. No question. But no matter how 'big' one is they cannot be above the law of the land. That's all. If he has got his documents right I have no problem. In fact I only asked?" he added. (Daily FT)

ADB approves $160 m in first loan to railway sector

The Asian Development Bank (ADB) has approved a $160 million loan to modernise the operations and improve the efficiency of Sri Lanka Railways, the country's railway operator, by upgrading its infrastructure and technical capacity, it said in a statement yesterday.

This is ADB's first loan in Sri Lanka's railway sector. "There is a need to improve public transportation in Sri Lanka to serve a growing population, expected to reach 25 million by 2050," said ADB Transport Specialist Johan Georget.

"An improved railway system will help promote the development of services and industries across Sri Lanka, as well as put the railway as a viable transportation mode of choice for the people. This is particularly the case in suburban Colombo, where the impacts of traffic congestion are strongly felt by all road commuters as vehicle numbers have doubled between 2008 and 2018, while rail commuters often face overcrowded trains."

Sri Lanka Railways moves 136.7 million passengers and two million tons of goods annually. However, the market share of the railway sector has progressively declined over the years, while the country's railway infrastructure is overdue for significant upgrades and modernisation. The network's signalling and telecommunication systems are outdated, and the paper tickets are manually printed for all ticket classes and station pairs. Sri Lanka Railways owns 250 diesel locomotives and multiple units, but only about three-quarters of them are operational and half of the fleet is more than 30 years old.

The Railway Efficiency Improvement Project will finance the modernisation of the country's railway system in several aspects to improve the operations, maintenance, safety, skills development, and technical capacity of Sri Lanka Railways. The project will provide a modern multichannel—paper, mobile, and smart card—ticketing system, and will also install a state-of-the-art telecommunications system, which will replace the original system installed in 1985, and allow for two-way communications with train drivers and reduce train delays.

The project will also finance a new operations headquarters and train control centre, provide infrastructure and equipment for the maintenance of track and rolling stock, and improve railway safety. The technical training centre of Sri Lanka Railways will be upgraded and new courses will be developed to provide future graduates with knowledge of modern railway technologies.

The project will also strengthen the capacity and readiness for future railway projects. This will include a detailed study for the Kandy suburban railway network; a study on transit-oriented development and land value capture; the preparation of a railway asset inventory and a land management strategy; and the modernisation of the information technology and maintenance capacity of Sri Lanka Railways.

The total cost of the project is $192 million, with the Government of Sri Lanka providing $32 million. The expected project completion date is the end of 2024. (Daily FT)

ComBank improves Q2 earnings despite mounting challenges

The Commercial Bank Group has reported operating profit before impairment charges and taxes of Rs. 19.476 billion for the first half of 2019, a 9.45% increase over same period of 2018.

Sri Lanka's benchmark private bank, the Commercial Bank of Ceylon PLC, its subsidiaries and associates, recorded gross income of Rs. 73.587 billion for the six months ending 30 June 2019, an increase of 13.31% over the figure for the corresponding period of 2018, restated as Rs. 64.944 billion in line with the requirements of SLFRS 9 which was implemented from the fourth quarter of that year.

Despite slower loan book growth and an increase in non-performing loans, interest income grew by 12.90% to Rs. 64.622 billion. Changes in the deposit mix with a continuing shift to time deposits resulted in interest expenses rising by a higher rate of 16.08% to Rs. 40.477 billion.

Consequently, net interest income improved by 7.95% to Rs. 24.146 billion. A hefty 195.42% increase in net gains from trading due to a favourable market rate movement contributed to other income growing by 71.66% to Rs. 3.134 billion, the Bank said. As a result, total operating income for the period under review stood at Rs. 32.118 billion with a growth of 10.05% over the corresponding period of last year.

The total operating expenses of the Group for the period amounted to Rs. 12.642 billion which reflected an increase of 10.98% over the corresponding six months of 2018.

Consequently, operating profit before taxes on financial services amounted to Rs. 13.949 billion, a negative growth of 3.31% over the corresponding period of last year.

However, with taxes on financial services increasing by as much as 39.52% to Rs 3.604 billion, which included Rs. 1.168 billion as debt repayment levy (DRL), Group profit after tax reduced by 16.85 % to Rs. 6.673 billion for the six months compared to the first half of 2018. Total taxes for the period reviewed exceeded Rs. 7.282 billion, reflecting an effective tax rate of a mammoth 52%.

"Our six-month results mirror the challenges faced by key sectors of the economy and demonstrate that even a bank of the size and strength of Commercial Bank is not immune to the vagaries of the market," Commercial Bank Chairman Dharma Dheerasinghe said. "A combination of factors beyond our control continues to impact on some indicators, but the Bank has the acumen and the resilience to weather these difficulties and will emerge stronger."

The Bank's Managing Director/CEO S. Renganathan added, "Our second quarter witnessed an improvement over the first quarter of 2019, which is encouraging. While we remain concerned at the need for higher provisioning every quarter for sectors that are under the pressure of debt servicing, we are confident that our strategic responses to the needs of the period will minimise the adverse impact on our performance."

The Group's total operating income increased by 12.43% to Rs. 16.999 billion in the second quarter compared to Rs. 15.119 billion in the first quarter, despite impairment charges almost doubling during this period.

Meanwhile total assets of the Group grew by Rs. 46.174 billion or 3.50% to Rs. 1.366 trillion as at 30 June 2019, and reflected a YoY growth of Rs. 152.603 billion or 12.58%.

Net loans and advances reduced by a marginal 1.54% since end 2018 to Rs. 854.238 billion at the end of the period reviewed. Net loan book growth over the preceding 12 months amounted to Rs. 40.513 billion reflecting a YoY growth of 4.98%.

Deposits grew by Rs. 42.780 billion or 4.30% since 31 December 2018, to Rs. 1.037 trillion as at 30 June 2019. The growth of deposits over the preceding 12 months was Rs. 117.073 billion or 12.72% YoY, at a monthly average of Rs. 9.756 billion.

At bank level, Commercial Bank reported profit before tax of Rs. 10.046 billion, down 15.49%, and net profit of Rs. 6.466 billion, a reduction of 19.83% compared to the first half of 2018.

In other key indicators, the Bank's net assets value per share stood at Rs. 120.80 at the end of 2Q2019, an improvement of 4.1% since 1Q 2019. Return on assets (before tax) and return on equity improved to 1.53% and 10.75% respectively, as opposed to 1.48 % and 10.32 % reported for 1Q 2019.

The Bank's gross NPL ratio increased to 4.86% as at 30 June 2019 from 4.14 % at end 31 March 2019, while its net NPL ratio increased from 2.47 % to 2.96% for the same period.

The Bank's Total Tier 1 capital ratio (with capital buffers) at 12.467% as at 30 June was comfortably above the minimum requirement of 10% which became effective from 1 January 2019 under Basel III, while the Total Capital Ratio of 16.578% was also above the Basel III minimum requirement of 14%.

The only Sri Lankan bank to be ranked among the world's top 1000 banks for nine years consecutively, Commercial Bank operates a network of 266 branches and 846 ATMs in Sri Lanka. The Bank has won multiple international and local awards in 2016 and 2017 and over 40 international and local awards in 2018.

Commercial Bank's overseas operations encompass Bangladesh, where the Bank operates 19 outlets; Myanmar, where it has a Representative Office in Yangon and a Microfinance company in Nay PyiTaw; and the Maldives, where it has a fully-fledged Tier I Bank with a majority stake. (Daily FT)