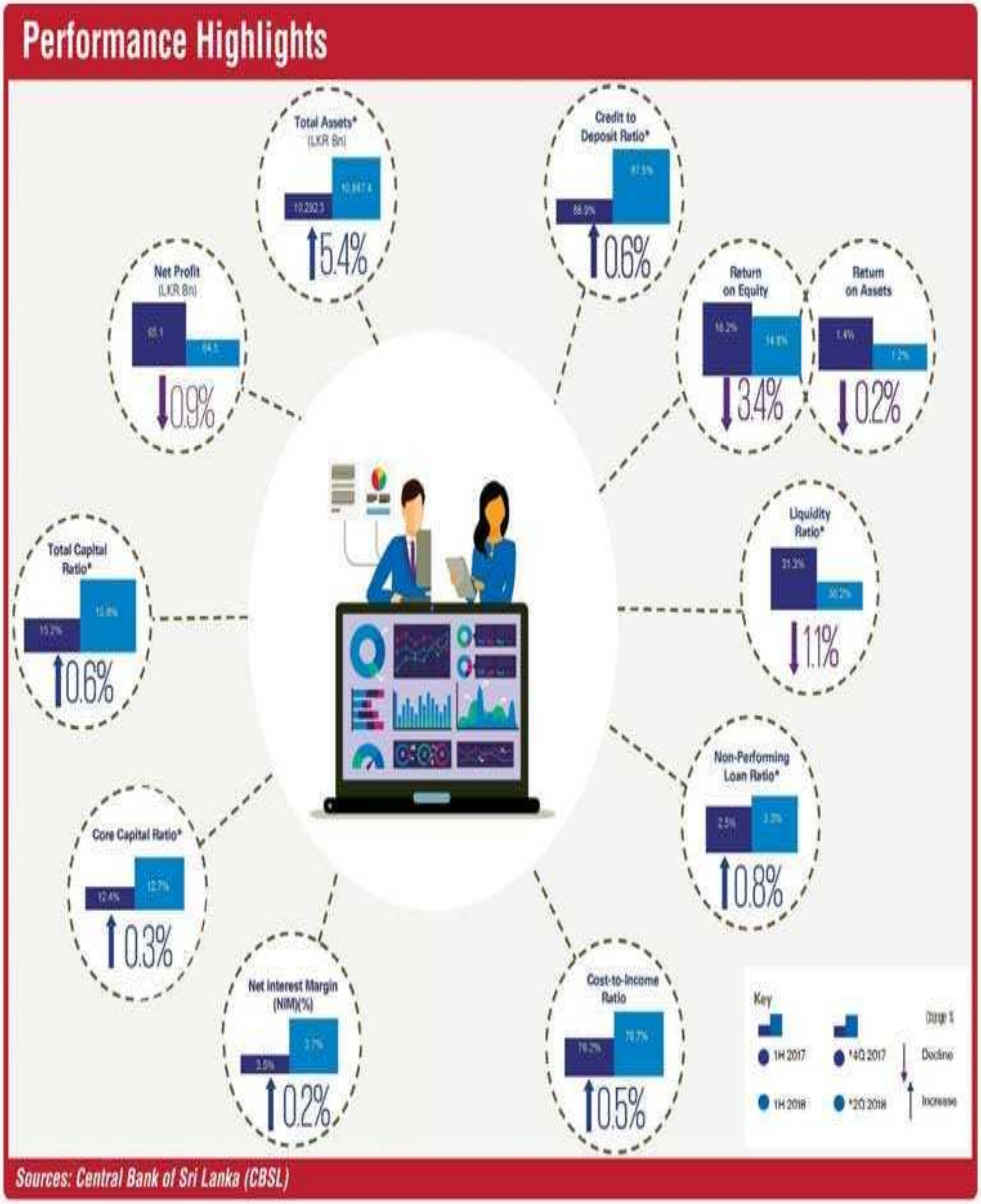
NEWS ROUND UP

Tuesday, October 16 , 2018

Contents

Sri Lanka Banking Sector: Status quo as of June 2018



KPMG Sri Lanka has come out with its second report on the country's banking sector incorporating the performance up to June 2018. This is a follow up to the first report which captured performance and challenges up to March 2018.

KPMG Partner and Head of Banking Services Ranjani Joseph notes in the report that the banking industry is undergoing a time of significant change.

She said from disruption caused by fintech and other digital challenges to an ever increasing regulatory burden and changing customer attitudes, bankers are under pressure on multiple fronts. Added to this, the changing dynamics of saving in high yielding deposits, financial and business implications of Sri Lanka Financial Reporting Standard 9 (SLFRS 9) and the volatility of the currency have thinned the margin for error to non-existent levels on re-pricing strategy and increased the pressure on getting the product mix correct for bankers. In this light, KPMG in the September 2018 report focuses on addressing some of the more pertinent implications of SLFRS 9 and how best to prepare for it as well as the importance of an effective Fraud Risk Management framework.

Joseph also pointed out that fraud occurs every day all over the world and banks lose a lot of money due to fraud. Fraud Risk Management (FRM) is an ongoing process that provides a bank with the tools to manage fraud risk in a manner consistent with the regulatory requirements as well as the bank's needs. A focused FRM scope should provide services that are aimed at helping clients prevent, detect, and respond to fraud and misconduct. It is done by working with the clients to assess, design, implement, and evaluate effective controls.

The September 2018 report discusses in detail the key issues which KPMG Sri Lanka feels could affect the sector in the second half (2H) 2018 of the year and have analysed the industry performance through a challenging first half (1H) 2018. Following is the executive summary and key highlights of the KPMG's \';>

Sector at a glance

Companies in the banking sector- 30 June 2018			
Licensed commercial banks			
	Total asset base (LKR Bn)		**Total asset base (LKR Bn)**
State banks		Foreign banks	
1.Bank of Ceylon*	1,987	14.The Hongkong & Shanghai Corporation Ltd	405
2.People's Bank*	1,633	15.Standard Chartered Bank	184
Local banks		16.Citibank	43
3.Commercial Bank of Ceylon PLC*	1,213	17.Deutsche Bank AG	35
4.Hatton National Bank PLC*	1,000	18.Indian Bank	33
5.Sampath Bank PLC*	866	19.MCB Bank Ltd	26
6.Seylan Bank PLC	429	20.Habib Bank Ltd	8
7.National Development Bank PLC	417	Others	88
8.DFCC Bank PLC	361	21.Indian Overseas Bank	
9.Nations Trust Bank PLC	301	22.Axis Bank Ltd	
10.Pan Asia Banking Corporation PLC	150	23.State Bank of India	
11.Union Bank of Colombo PLC	114	24.Public Bank Berhad	
12.Amana Bank PLC	69	25.ICICI Bank Ltd	
13.Cargills Bank Ltd	36	26.Bank of China (Banking operations are yet to commence)	N/A
Licensed specialized banks			
	Total asset base (LKR Bn)		Total asset base (LKR Bn)
1.National Savings Bank*	1,078	5.State Mortgage & Investment Bank	43
2.Pradeshiya Sanwardhana Bank	171	6.Lankaputhra Development Bank Ltd	10
3.Sanasa Development Bank PLC	91	7.Sri Lanka Savings Bank Ltd	9
4.Housing Development Finance Corporation Bank of Sri Lanka	47		

***Domestic Systematically Important Banks (D-SIBs) – Banks with asset bases higher than LKR 500Bn**

Source: *Sri Lanka Banking Report - June 2018*

We see the banking sector this year gearing up to strike a balance between meeting the new capital and leverage ratios imposed by Basel III regulation, incorporating Sri Lanka Financial Reporting Standards (SLFRS 9) while continuing with moderate loan growth.

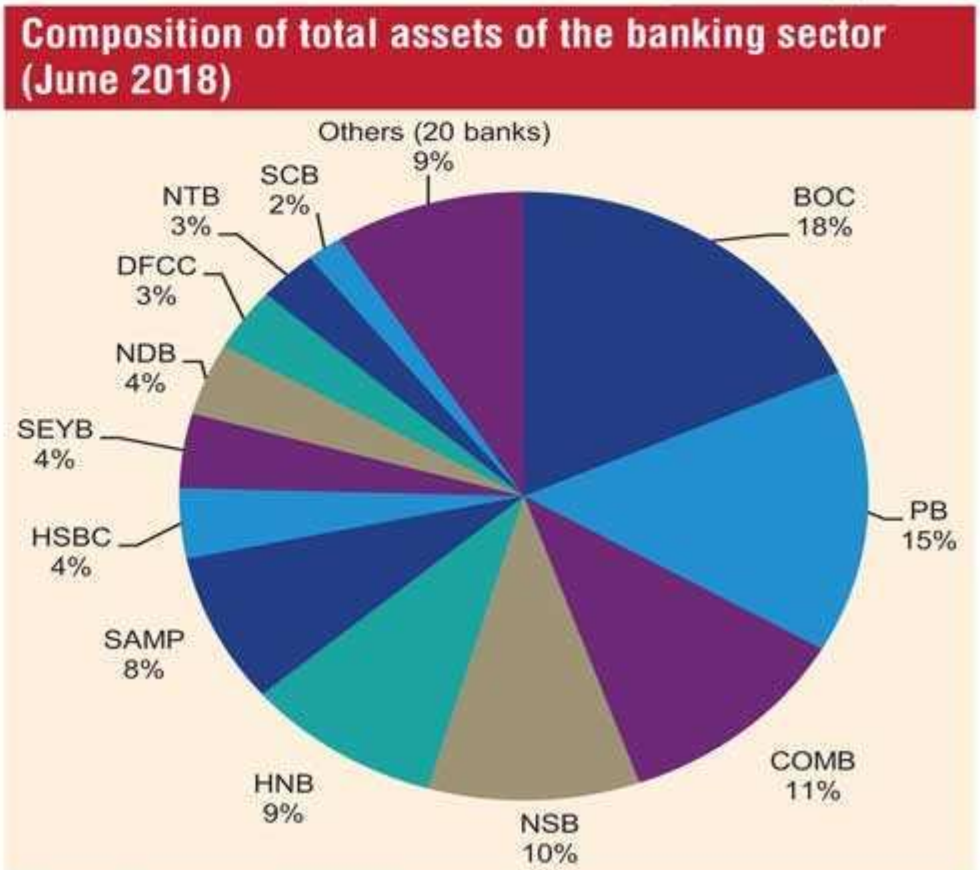
As mentioned in our last update, Basel III regulation introduced last year, fully effective beginning of 2019, led to more stringent regulation in capital, liquidity and leverage. In the past year, banks went for rights and subordinate debt issues to raise and strengthen the capital base.

During the quarter, we have seen banks in the path of refining their understanding and processes with respect to SLFRS 9. The new standard requires higher provisioning due to introduction of the expected credit loss model compared to the current incurred loss model. Hence the migration from LKAS 39 to SLFRS 9 is estimated to impact the total equity by 3% to 5%.

Hence we expect 2018 to be a transition year with the future years absorbing the effect gradually in line with the quality of loan disbursements.

The banking sector was seen recording a moderate loan growth despite a challenging business environment, sustained by the tightened monetary policy and fiscal policy coupled with political uncertainty. However, we continue to expect the mid to large banks to move into sustainable loan growth in the backdrop of increasing regulation, competition and the present economic environment.

Furthermore the challenging business conditions also led to significant provisions being made for impairment which in turn had pressure on the bottom line. Moreover, we expect a further negative impact on capital base due to increasing non-performing loans (NPLs). We expect pressure on impairment charges to continue in 2H 2018 as the business environment will continue to remain



bleak.

Sources: *Company reports, CBSL*

The major contributor in funding loans continued to be deposits in the first half (1H) 2018, despite equity and debt being raised in the recent past. However, low yielding CASA levels of banks are being witnessed to be on a short and long term downward trend with the shift towards high yielding fixed deposits. The local banks and foreign banks under review in the 1H 2018 recorded CASA levels in between 20.0% to 34.1% and 47.7% to 51.8% respectively.

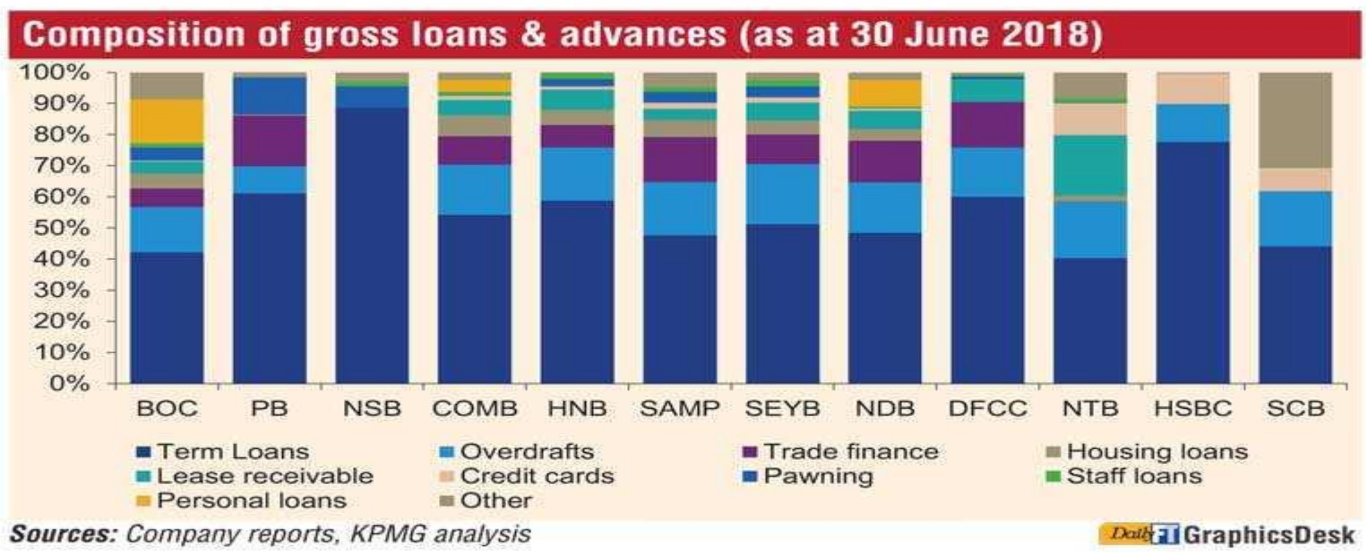
The effects of the Inland Revenue Act No 24 of 2017 (IRA) which became effective from 1 April 2018 had implications on the banking profits in the second quarter (2Q) 2018. This was mainly due to some tax exemptions being removed on various interest income sources such as USD denominated bonds, professional loans and SMEs and the removal of notional tax credit on treasury bills and bonds. Furthermore, the Government of Sri Lanka (GoSL) recently proposed a 7% Debt Repayment Levy on financial institutions. This levy effectively increases the VAT on financial services from 15% to 22%.

We observe that globally a wave of new fintech players have emerged with solutions covering most of the complex aspects of the banking value chain. Domestically, we see banks continuing to strengthen their resources and scale in the fintech space, by launching data analytics driven products and services to enhance customer experience and data security. The banks will continue to face competition not only from peer banks and large finance companies but other fintech players, which may not be as highly regulated as the banks are. Moreover with high capital requirements to be met with scarce high quality capital, the smaller banks performance will be threatened over the medium term. Hence we expect consolidation in the sector to further strengthen the banking sector.

Key highlights

The banking sector consisted of 25 Licensed Commercial Banks (LCBs), including 12 branches of foreign banks, and seven Licensed Specialised Banks (LSBs) by end of June 2018.

The total asset base of the banking sector was recorded at Rs. 10.8 t by end of 2Q 2018 compared to Rs. 10.3 t by end 4Q 2017. The total asset increase recorded was 11.1% during the 1H 2018. The report further analyses banks that currently account for total assets of more than Rs. 175 b.

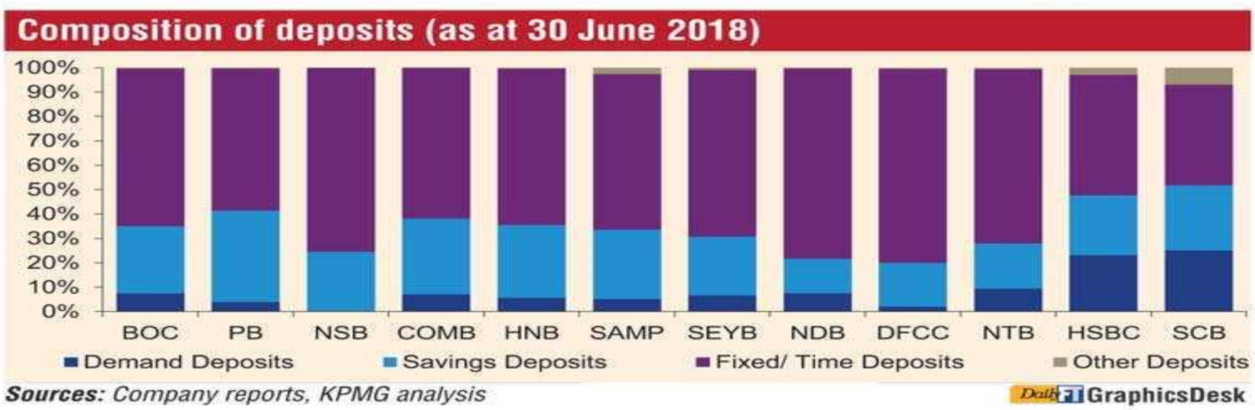


Loans and advances

Total gross loans and advances of the banking sector increased to Rs. 6.9 t by end 2Q 2018 compared to Rs. 6.4 t as at end 4Q 2017. Banks witnessed this boost in new loans despite the challenging business environment. The composition of the gross loans and advances in the banking sector showed moderate changes in terms of term loans and overdrafts during 1H 2018. However, the recent credit demand from the new construction developments impelled the gross loans and advances to increase, thus posing the risk of over exposure to the sector. Credit cards played a similar role in aiding the growth of the asset portfolio, as many banks increased the number of credit cards issued over the past few years, which was a major contributor for non-interest income. The growth in credit cards is expected to continue as banks aggressively promote credit cards to customers with different levels of income. In the light of SLFRS 9 this is a risky move as the repayments would need to be managed carefully not to incur higher provisioning.

Deposits

Total deposits of the banking sector increased to Rs. 7.9 t by end 2Q 2018 compared to Rs. 7.4 t as at end 4Q 2017. Competition from non-bank competitors led banks to offer attractive alternatives and offer better rates which aided the increase in total deposits over the period. The sector witnessed a 9.6% YTD growth in time deposits, owing to attractive rates offered by the banks during the period as well as customers shifting towards bank deposits in the light of recent finance company failures and the adverse publicity surrounding them. Therefore the CASA ratio showed a slight decline over the sector.



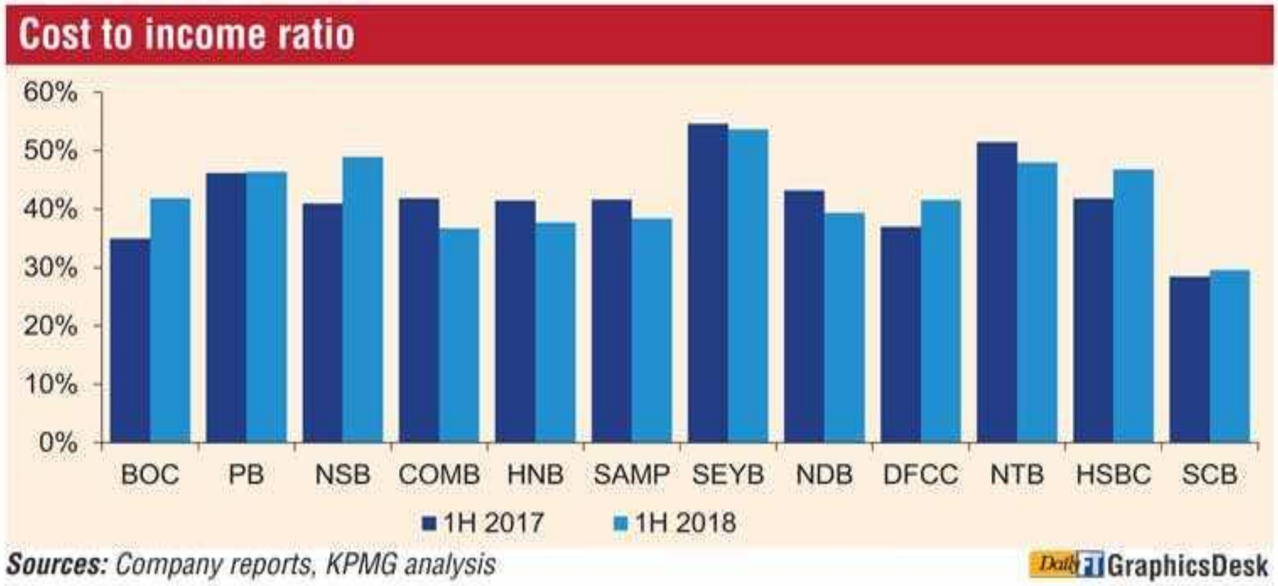
Interest earnings

A 15.1% YoY growth in interest income along with a slower 13.7% growth in interest expense in 1H 2018 helped banks record a 17.8% YoY growth in net interest income (NII) over 1H 2018. This growth was fuelled by the growth in loans and advances coupled with high interest rates that prevailed during the period. However, the interest income was affected the removal of notional tax credit of treasury bills and bonds with effect of the IRA from 1 April 2018 onwards.

Overall NIMs in the banking sector improved to 3.7% in 1H 2018 compared to 3.5% in 1H 2017. The upward movement witnessed in the interest rates over the period coupled with the timely re-pricing strategies implemented by banks enabled banks to achieve the said growth in NIMs. It was observed that the larger portion of the NIMs is NII and we expect this trend to continue in the mid to long term. The NII is expected to moderately grow with interest rate pressure coming in towards the latter part of the year.

Cost to income ratio

Most banks managed to maintain their cost to income ratios supported by growth in total operating income, amidst increasing operating expenses due to new staff recruitments and annual remuneration increments for the staff. Increase in costs of maintaining the branch network also contributed to growth in operating expenses. We expect banks to focus on forming alternative digital banking channels which will ease the cost to income ratios going forward.

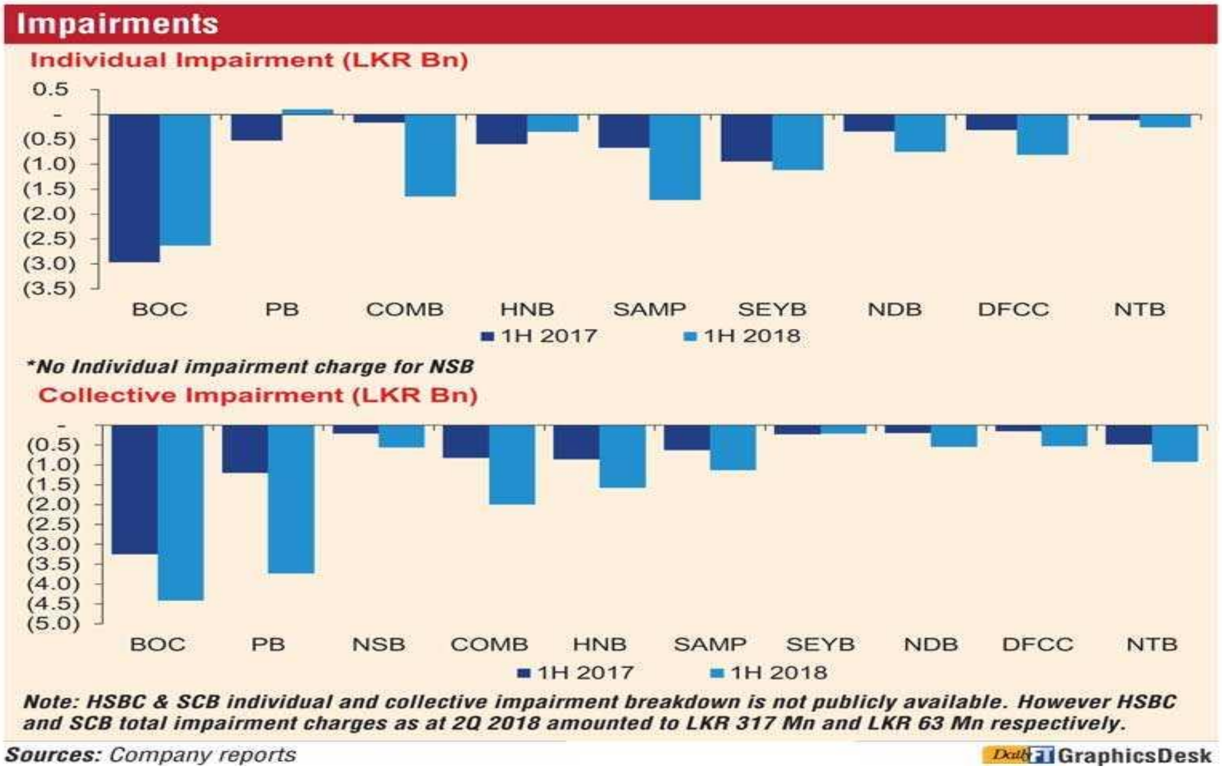


Impairments

Impairment charges of the banking sector increased drastically over 1H 2018 compared to 1H 2017 as banks made hefty provisions amidst deteriorating asset quality of the loan book. Higher NPLs recorded in agriculture, construction and SME sectors affected both individual and collective impairments. The implementation of SLFRS 9 which introduces the expected credit loss (ECL) model replacing the incurred loss model of LKAS 39 is expected to increase the total impairment provision. It is estimated that the increase in impairment provision based on ECL model due to transition will account to 3% to 5% of total equity. However, with respect to foreign banks under review, we do not expect significant consequences to occur due to their parent backing. Furthermore, we expect their migration to the new standard to be along with their regional peers, where timelines are expected to be confirmed by the end of this year.

Non performing loans and advances

The overall gross NPL ratio of the banking sector increased to 3.3% in 2Q 2018 compared to 2.5% as at end 4Q 2017, recording a 3 year high. However, it is to note that the gross NPLs were at a 10 year low in 4Q 2017. NPLs have significantly risen due to adverse weather conditions throughout the period under review, which hampered the performance of the agricultural sector. The construction sector was also affected due to the GoSL lagging on loan payments for most of the undergoing construction projects. We expect the NPLs to continue to follow the rising trend due to the challenging business environment, consumption related loan exposure and egulatory implications.



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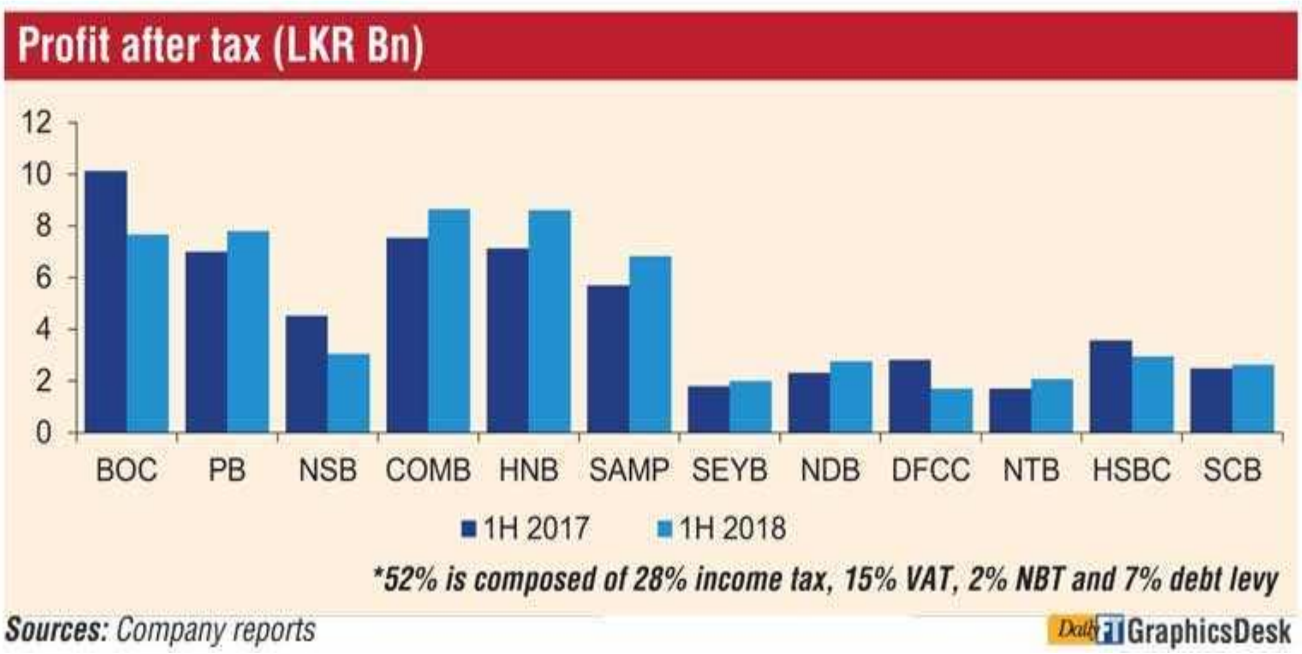

Porfitability

Net earnings of the banking sector deteriorated 0.9% YoY in 1H 2018 to Rs. 65.1 b. Higher impairment charges coupled with a higher income tax expense recorded over the period contributed towards this decline. Inland Revenue Act No 24 of 2017 (IRA) effective from 1 April 2018 also negatively affected the banking profits in the 2Q 2018. The removal of tax exemptions on various interest income sources such as USD denominated bonds, professional loans and SMEs enjoyed by banks under the previous IRA saw the industry undergo a statutory income tax rate of 28%. Further the VAT and NBT on financial services coupled with the proposed debt levy of 7% would see the direct and indirect tax rate on banks increase from 45% to 52%. (52% is composed of 28% income tax, 15% VAT, 2% NBT and 7% debt levy). In addition SLFRS 9 will require banks to recognise losses early as it will no longer be suitable for banks to wait for an incurred loss event to maintain higher provisions, ultimately affecting their profitability.

Banking sector ROE decreased 341bps from 18.2% in 1H 2017 to 14.8% in 1H 2018. Due to the introduction of BASEL III, several banks raised rights issues in the recent past which impacted their ROEs during 1H 2018 compared to 1H 2017. Banking sector ROA affected by the largest bank, BoC declined by 18bps from 1H 2017 to 1.2% in 1H2018.

The Statutory Liquid Asset Ratio (SLAR) of domestic banking units reduced to 30.2% as at end 2Q 2018 compared to 31.3% as at end 4Q 2017. However the SLAR of the banking sector was significantly higher than the regulatory minimum of 20.0%. The credit to deposit ratio of the banking industry increased to 87.5% as at end 2Q 2018 compared to 86.9% as at end 4Q 2017. Local banks excluding NDB and DFCC (which transformed from being development banks into LCBs) maintained credit to deposit ratios below 100%.

Capital adequacy

Capital adequacy requirements were introduced by the CBSL under Basel III with effect from 1 July 2017. The implementation is taking place where the full requirement will come into effect by 1 January 2019. To comply with Basel III, most banks have raised capital through rights issues over the period. This will further strengthen the equity base of the banks and thereby help achieve the required capital adequacy ratio. To maintain and fulfil the Tier II capital requirement, banks have issued debentures during the reported period. However, implementation of SLFRS 9, increasing impairment charges and tax increments are expected to put pressure on capital
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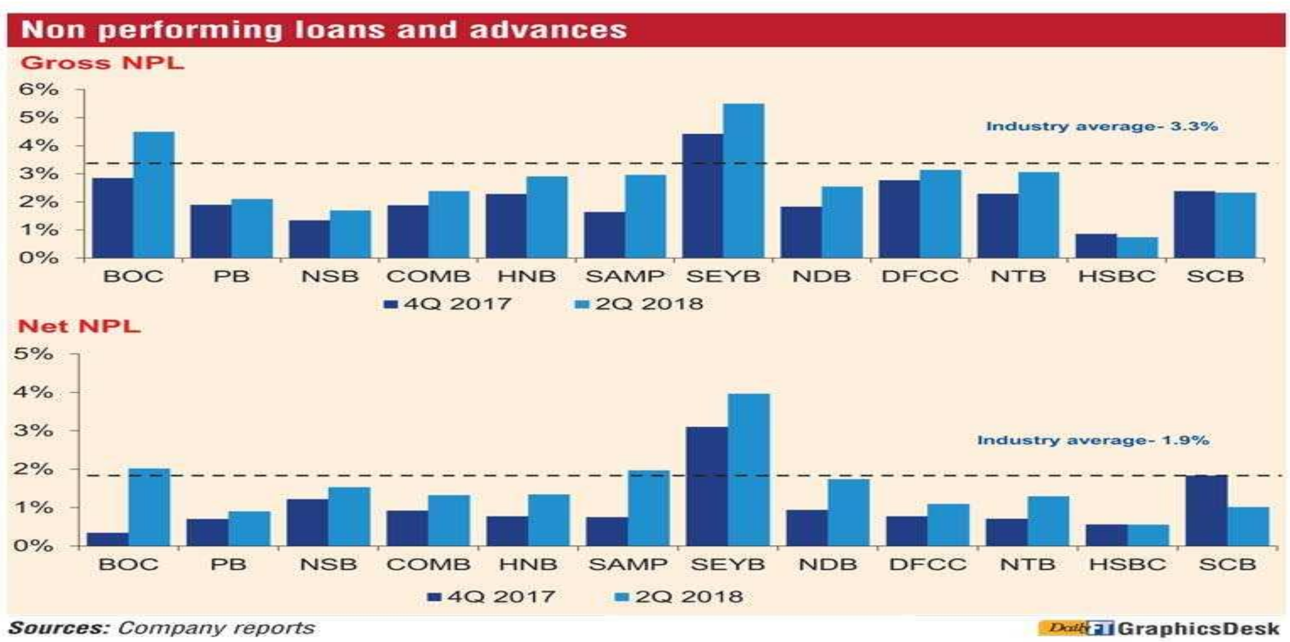
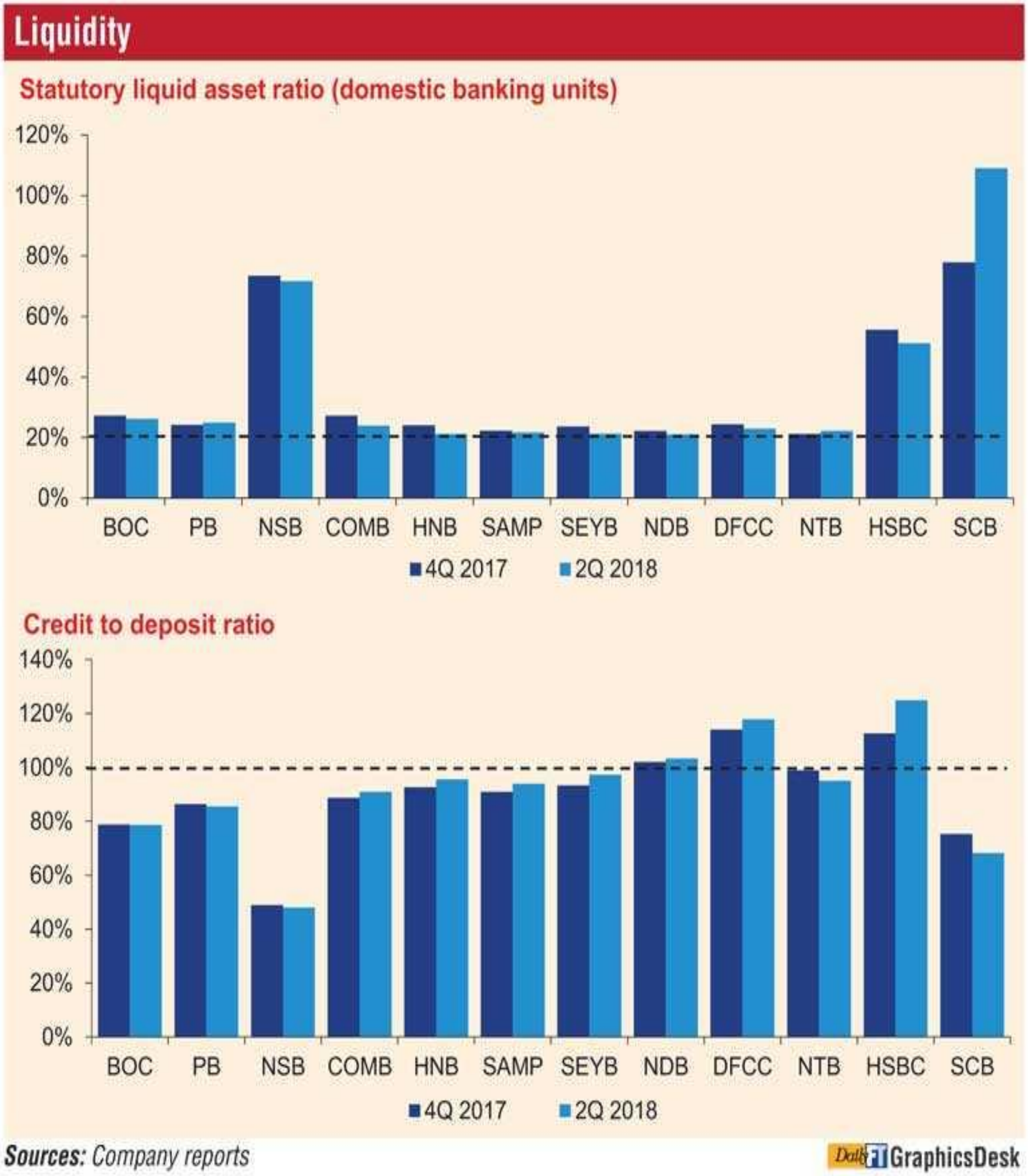
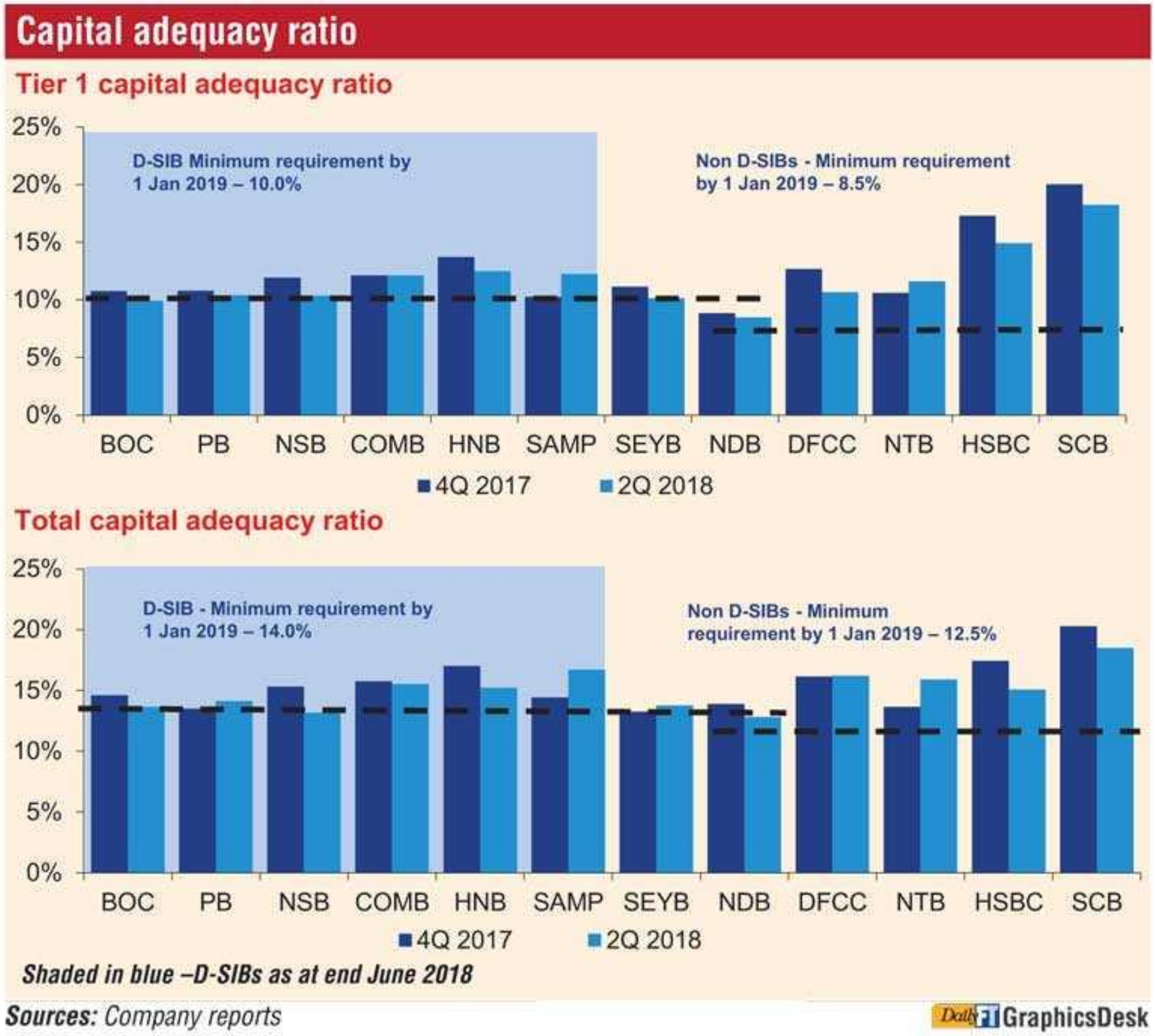
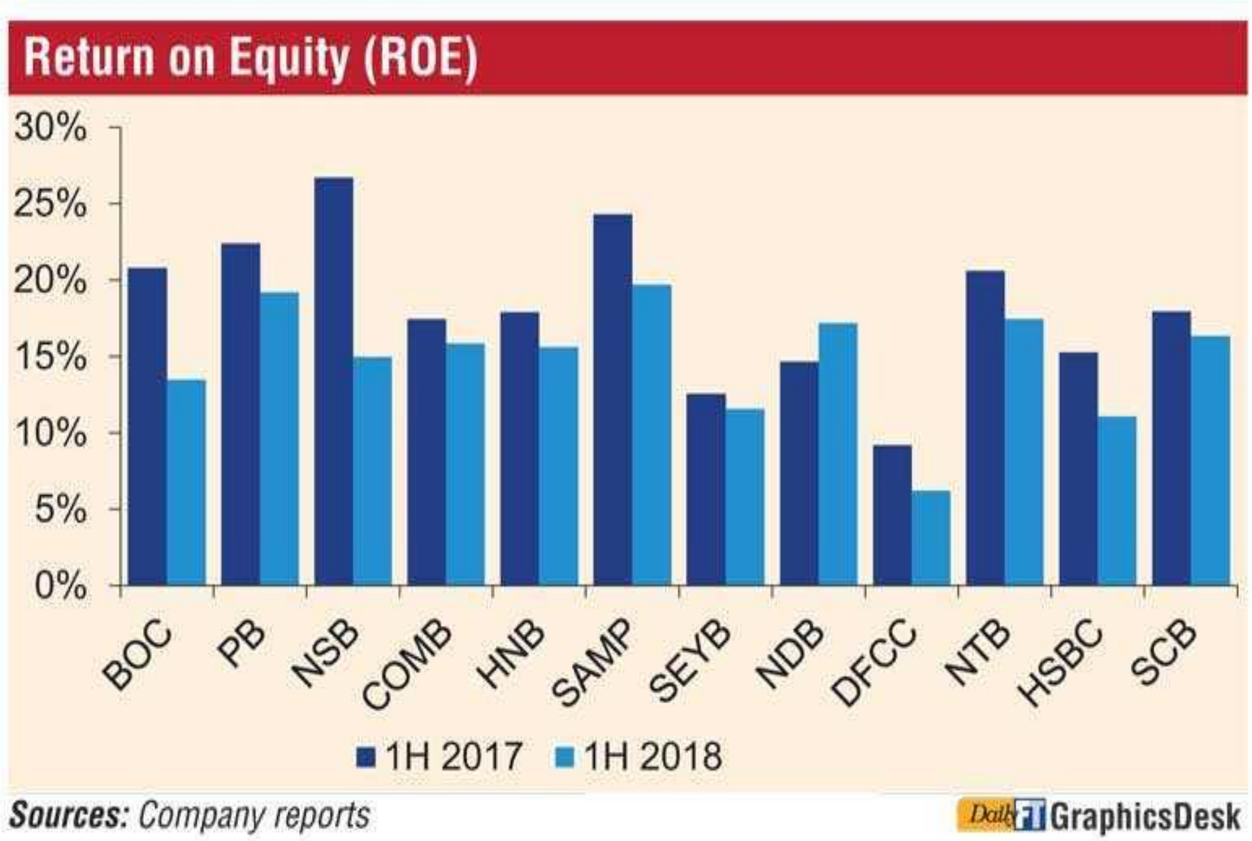


y ratios, going forward.


Liquidity
Statutory liquid asset ratio (domestic banking units)
120%
100%
80%
60%
40%
20%
0%
BOC PB NSB COMB HNB SAMP SEYB NDB DFCC NTB HSBC SCB
4Q 2017 2Q 2018
Credit to deposit ratio
140%
120%
100%
80%
60%
40%
20%
0%
BOC PB NSB COMB HNB SAMP SEYB NDB DFCC NTB HSBC SCB
4Q 2017 2Q 2018
Sources: Company reports
GraphicsDesk


Capital adequacy ratio
Tier 1 capital adequacy ratio
D-SIB Minimum requirement by 1 Jan 2019 – 10.0%
Non D-SIBs - Minimum requirement by 1 Jan 2019 – 8.5%
25%
20%
15%
10%
5%
0%
BOC PB NSB COMB HNB SAMP SEYB NDB DFCC NTB HSBC SCB
4Q 2017
2Q 2018
Total capital adequacy ratio
D-SIB - Minimum requirement by 1 Jan 2019 – 14.0%
Non D-SIBs - Minimum requirement by 1 Jan 2019 – 12.5%
25%
20%
15%
10%
5%
0%
BOC PB NSB COMB HNB SAMP SEYB NDB DFCC NTB HSBC SCB
4Q 2017
2Q 2018
Shaded in blue –D-SIBs as at end June 2018
Sources: Company reports
Daily FT GraphicsDesk



(Dailyft)

Govt. should guard against policy backsliding: IPS

- Warns tougher times ahead as SL heads towards higher debt repayments and elections in 2019
- Insists best way forward is to remain focused on promoting exports and investments
- Cautions of possible “sharp drop” in currency as CB has limited reserve roomto defend rupee
- Growth likely to continue around 4%, inflationary pressures show signs of rising
- Imperative to retain investor confidence through strong macroeconomic fundamentals
- Fiscally-sustainable regime essential for consistent polices and growth

Sri Lanka's Government should fight against policy backsliding and remain focused on export and investment driven growth strategies as the already beleaguered economy heads towards deepening political and economic challenges next year, hampered by high debt, growing external risks and limited reform implementation, a top think tank said yesterday.

Institute of Policy Studies (IPS) Executive Director Dr. Dushni Weerakoon speaking at the launch of the organisation's landmark 'State of the Economy' publication dwelling on the topics of economic performance, international environment as well as the issues of climate change, food security, and disaster risk management, warned Sri Lanka had little room to substantially change its economic prospects in the short term.

She pointed out that the complex combination of high debt repayments starting in 2019 and likely to continue till 2021, along with an appreciating dollar, rate tightening by the US Federal Reserve, global trade wars and sluggish investment, would continue to pose serious challenges for growth.

"In the near term it is clear that the economic environment is going to be very challenging, more challenging than it has been so far. Global growth outlook is dimming as a result of escalating trade wars, higher debt, climbing oil prices and tightening US policy. For Sri Lanka pressure on the currency is likely to continue and even though there is a rise in exports and investment, there isn't likely to be a material change enough to make a significant impact on Sri Lanka's current account. With higher borrowings needed in the next few years and given the tight macroeconomic conditions and limited time to push through structural reforms, growth is likely to continue hovering around 4%," she said.

Given looming presidential elections in 2019, local policymakers are likely to face pressure to move away from fiscal consolidation and structural reform measures that have been spearheaded by the Government over the past three years, she noted. But since Sri Lanka would have to resort to international capital markets to raise funds for debt repayments, Dr. Weerakoon insisted it remained imperative for the country to retain investor confidence by maintaining strong macroeconomic fundamentals.

"Given this situation, there is likely to be pressure for policy backsliding but Sri Lanka has to ensure that we retain investor confidence, in 2019 in particular, as we go forward to settle our external debt. Foreign investors are likely to scrutinise our economic risks more intensely along with political risks in 2019, and it is unfortunate that all of these are converging next year. Policy predictability and consistency is therefore critical and whatever growth strategy is adopted what we cannot escape from is that Sri Lanka needs to generate dollar revenue to match dollar denominated debt servicing for any strategy to be resilient and sustainable."

Dr. Weerakoon was positive of the Government's efforts to improve macroeconomic fundamentals, pointed out that they were on a much sounder footing today than two years ago. The Government has also made strides in reducing budget deficits, with the latest data showing that Sri Lanka is largely on target to meet its deficit goal of about 5% for 2018 and monetary policy has been effective in curbing credit growth and inflation.

"We now have better public finances, more prudent management of monetary and foreign exchange policy within the constraints Sri Lanka currently faces, and in terms of performance outcomes positive growth in exports and Foreign Direct Investment (FDI).

"Management of exchange rate policy has been an area of controversy, but there has been a qualitative improvement in the way Sri Lanka's reserves have been accumulated. The Central Bank has been a net purchaser for much of 2017 and into the first quarter of this year, building up Sri Lanka's non-borrowed reserves and allowing the exchange rate to gradually adjust to market fundamentals. Turnaround in exports in continuing in 2018 with growth of about 6.5%. But growth is still coming at under 4% for the sixth consecutive quarter and worryingly Sri Lanka is still increasing its external debt and debt accumulation is accelerating rather than reducing."

Warnings made by IPS in 2017 have largely become reality, noted Dr. Weerakoon, recalling Sri Lanka's excessive borrowing spree when global interest rates were low, which has presently ground to a halt as those favourable conditions unwind.

"We are witnessing the disruptions, primarily in the form of a depreciating currency, largely created by the dual problems of increasing imports and higher fuel prices. An appreciating dollar has also contributed. Given that Sri Lanka's forex markets are thin, anyone of these factors in isolation could have exerted pressure on the currency but in combination all these three have had impact on the rupee."

Even though several other countries in Sri Lanka's neighbourhood are seeing similar or higher levels of currency depreciation, the local scenario is made more serious by comparatively higher levels of debt, emphasised Dr. Weerakoon. As much as 27% of Sri Lanka's foreign debt is held by State-Owned Enterprises and the private sector, resulting in depreciation weakening balance sheets.

"Simply said, depreciation can be limited by using reserves but markets will often force a sharp devaluation. This is almost a foregone conclusion given the limited reserves that we hold. Forced devaluation is often a sharp one and is better avoided. This is what we saw in 2015, 2012, 2008 and 2001. Reserves are down to $7.2 billion with import cover reduced to four months and the danger threshold is about three months of imports. So there is very limited room for the Central Bank to use its reserves to defend the currency even if it wished to do so."

Attempts to curb imports of non-essential luxury imports, encourage exporters to repatriate their earnings may provide limited relief, acknowledged Dr. Weerakoon, who also touched on the option of temporary controls on capital outflows. However, she conceded that such a measure would be controversial and difficult to implement as it would be seen as detrimental to investor confidence. Since Sri Lanka relies heavily on international capital markets to raise funds for debt repayments and refinancing debt it is imperative to retain investor confidence.

"We must have a fiscally-sustainable regime in place. The rupee depreciation will have fiscal and revenue impact and we are likely to see reduced inflows coming into Treasury bills and bonds to help the Government finance fiscal deficit. Sri Lanka is also likely to face higher interest costs on debt. In the near to medium term fiscal risks mostly come from elections."

Dr. Weerakoon largely supported the current monetary policy stance by the Government, recognising that balancing controlled demand with fostering growth would be a tough task for the institution.

"In this situation I think it is sensible to keep a lid on interest rates because at this point raising interest rates is not going to slow the exit of foreign investors from Treasury bills and bonds, nor is it likely to lead to fresh inflows of investments and if we are to ensure that growth remains fairly buoyant at the 3.7% reported in the last quarter, then some balance between tight monetary policy and growth needs to be maintained. But the amount of space for that is also narrowing swiftly because inflation is also on the rise, partly because of the increase in fuel prices and rupee depreciation. The Central Bank will have to be watchful on price inflation and then decide on its monetary policy accordingly."
(Dailyft)

Rupee ends weaker; stocks hit near 5-year low on foreign selling

The rupee ended 0.7% weaker on Monday as banks and importers bought the dollar and as stocks declined for a fifth straight session, hitting a near five-year closing low on continued foreign fund outflow. The rupee ended at 170.60/75 per dollar, compared with the previous close of 169.40/70.

The rupee fell to an all-time low of 171.60 per dollar on Wednesday, surpassing the previous low of 171 hit on Tuesday, due to foreign selling in Government securities and exporter greenback sales, market sources said.

The Central Bank surprised financial markets on 2 October by leaving its key policy rates unchanged, despite heavy pressure on the rupee and foreign outflows from Government securities.

The Central Bank said on 2 October it purchased four million dollars from the market in the previous day, but it has sold a net 184 million dollars in the market so far this year to defend the currency.

The rupee has weakened 0.7% so far this month after a 4.7% drop in September against the dollar. It has declined 10.9% so far this year.

The Colombo stock index fell 0.7% to 5,774.37, its lowest close since 3 December 2013. It fell 3.6% last month and is down 9.3% so far this year.

Data from the Central Bank showed foreign investors sold Government securities worth a net Rs. 6.3 billion ($37.04 million) in the week ended 10 October. Sri Lanka has seen a net outflow of Rs. 80.6 billion in securities so far this year.

Stock market turnover was Rs. 1.99 billion ($11.70 million) on Monday, its highest since 7 August and more than twice this year's daily average of Rs. 771.5 million.

Foreign investors were net sellers of Rs. 1.7 billion worth of shares on Monday, extending the year-to-date net foreign outflow to Rs. 8.3 billion worth of equities.

Shares in Hatton National Bank Plc ended 3.8% weaker while Lion Brewery Plc fell 4.8%, Carson Cumberbatch Plc lost 5.0%, Sampath Bank Plc closed 2.7% lower and conglomerate John Keells Holdings shed 1.6%.
(Dailyft)

Retail Holdings exits Singer, Hayleys buys

Retail Holdings (Sri Lanka) BV yesterday exited Singer Sri Lanka Plc by selling the remaining 9.47% stake to the controlling shareholder, business leader Dhammika Perera-owned Hayleys Plc, for Rs. 1.67 billion.

The stake amounting to 35.5628 million shares was done at Rs. 47 each in a deal worth Rs. 1.67 million.

With a 9.47% stake, Retail Holdings was the sixth largest shareholder of Singer Sri Lanka. As at June 2018, Hayleys and connected parties held an 81% stake in Singer Sri Lanka Plc.
(Dailyft)

Tourism digital campaign to kick off end Oct.]

The Sri Lanka Tourism Promotion Bureau (SLTPB) yesterday confirmed it was all set to launch the much-awaited digital campaign by the end of this month.

"The campaign will kick-off in two phases:Track 1, which includes footage shown on social media sites within the next 10days, while track 2 includes illustrated creative material, which will be shown from 1 November for a period of six months," SLTPB Managing Director Sutheash Balasubramanium told Daily FT.

He also said that staff at the bureau was given a special training by the experts in the field to allow them to drive the campaign successfully.

However, when contacted Tourism Development Minister John Amaratunga said he was yet to get Cabinet approval for some of the key aspects to get the digital campaign off the ground.

"I have submitted a paper, seeking Cabinet approval for some of the key elements in the tourism digital campaign. We have to get approval for all these procedures," he added.

The confident Minister promised to provide more details today after getting Cabinet approval. (CDS)
(Dailyft)

TDL won't go to Treasury: SLTPB

Upon reaching a settlement between industry stakeholders and the Finance Ministry, the Tourism Development Levy (TDL) will not be absorbed into a Consolidated Fund, the Sri Lanka Tourism Promotion Bureau (SLTPB) said yesterday.

"There was a proposal to absorb the TDL into the Consolidated Fund of the Treasury and using it for tourism promotion on a case-by-case basis. However, after industry leaders discussed the matter with Treasury officials, they agreed not to put it through," SLTPB Managing Director Sutheash Balasubramanium told Daily FT.

The Hotels Association of Sri Lanka (THASL) President Sanath Ukwatte also verified that the 1% TDL collected by the industry would not go into a Consolidated Fund.

"The 1% TDL collecting authority, the Sri Lanka Tourism Development Authority (SLTDA), has given us an assurance that the current system will remain and there is no plan to take it to a Consolidated Fund in the Treasury," he said.

However, Ukwatte pointed out that there was a new proposal by the Government to tax 0.5% TDL for the informal sector, which would be taken into a Consolidated Fund.

"After much lobbying, the Government has shown willingness to reduce tax for the informal sector. The authorities are planning to impose a 0.5% fresh TDL on unregistered tourism entities," he added.

Noting that they were content with Government's decision to bring in the informal sector to the tax net as well, Ukwatte said they were concerned as to why it was taken into a new Consolidated Fund, and not to SLTDA — the collecting authority.

"To implement this new TDL on the informal sector, a lot of paperwork needs to be done. New laws need to be introduced, it needs Parliament approval, and to be gazetted. However, we are following up on this new development very closely," he stated.
(Dailyft)

Bond yields continue to dip

The secondary bond market remained active yesterday as yields dipped across the curve on the back of continued buying interest.

Yields on the liquid maturities of 01.03.21, 15.10.21, 15.12.21 and 15.07.23 were seen dipping to intraday lows of 11.30%, 11.37%, 11.40% and 11.60% respectively in morning hours of trading.

However, profit taking at these levels saw yields edge up to daily highs of 11.38%, 11.40%, 11.50% and 11.70% while buying at these levels curtailed in further upward movement to close the day lower against its previous day's closings.

In addition, the 01.08.26 and 15.06.27 maturities were seen changing hands at levels of 11.73% to 11.80% and 11.75% respectively.

The total secondary market Treasury bond/bill transacted volumes for 12 October was Rs.8.35 billion.

In the money market, the net liquidity shortfall stood at Rs.18.92 billion yesterday with call money and repo averaging 8.45% and 8.39% respectively.

The OMO department of Central Bank was seen infusing liquidity by way of an overnight and a seven day term repo auction for successful amounts of Rs.4.15 billion and Rs.2.75 billion respectively at weighted averages of 8.31% and 8.37%.

A further amount of Rs.31.5 billion was injected by way of 14 day term repo auction at weighted average rate of 8.37%, valued today.

Rupee dips once again

The rupee on its spot contract was seen closing the day lower at Rs.170.50/70 against its previous day's closing of Rs.169.40/60 on the back of renewed importer demand.

The total USD/LKR traded volume for 12 October was $ 87.55 million.

Given are some forward USD/LKR rates that prevailed in the market: one month – 171.60/00; three months – 173.80/20; six months – 176.85/35.
(Dailyft)

Asia Stocks Pare Gains; Dollar, Yields Tick Higher: Markets Wrap

Asian stocks traded mixed Tuesday, paring initial gains, as the dollar inched higher alongside Treasury yields. U.S. equity index futures advanced and the yen retreated.

Share indexes were little changed from Tokyo to Hong Kong to Sydney amid thin volumes. Earlier in the U.S., the tech-heavy Nasdaq indexes led losses and the S&P 500 Index slipped, holding near the 200-day moving average. The dollar edged up from close to a two-week low ahead of a U.S. Treasury currency-manipulation report expected this week. Oil ticked higher amid tensions between Saudi Arabia and the U.S. over the disappearance of a prominent journalist, while gold held gains.

Traders are grappling with continuing U.S.-China trade war rhetoric and geopolitical strains, while trying to gauge the direction of the American economy and third-quarter earnings results. Investors are looking for any signal from corporates hinting of a slowdown or stronger growth that could affect the pace of Federal Reserve rate hikes. Bank of America Corp. dropped in New York Monday after posting results, while earnings from Goldman Sachs Group Inc. come Tuesday.

Elsewhere, the New Zealand dollar jumped after inflation beat all economist estimates. The Turkish lira was set for an eighth day of gains after the country released U.S. pastor Andrew Brunson on Friday.

Here are some key events coming up this week:

- APEC finance ministers meet in Port Moresby, Papua New Guinea.
- China's new yuan loans may have risen to 1.36 trillion yuan ($196 billion) in September from August's 1.28 trillion yuan as officials sought to buoy economic growth.
- Third-quarter GDP for China comes Friday, with headline growth forecast to slow to 6.6 percent year on year from 6.7 percent, in addition to last month's retail sales and factory output.
- Minutes from the Federal Reserve's latest policy meeting are due on Wednesday, with investors focused on projections for further interest rate rises.
- Goldman Sachs, Morgan Stanley and Netflix are among companies reporting this week.
- Euro-area governments, including Italy, must turn in fiscal budget proposals to the European Commission by midnight Monday.

These are the main moves in markets:
Stocks

- The MSCI Asia Pacific Index rose 0.1 percent as of 12:37 p.m. Tokyo time.
- Topix index added 0.2 percent
- Hong Kong's Hang Seng Index fell less than 0.05 percent.
- Kospi index was little changed
- Australia's S&P/ASX 200 Index gained 0.4 percent.
- Futures on the S&P 500 Index rose 0.2 percent to 2,754.75.

Currencies

- The Japanese yen decreased 0.2 percent to 111.95 per dollar.
- The offshore yuan fell less than 0.05 percent to 6.9231 per dollar.
- The euro fell less than 0.05 percent to $1.1575.
- The Bloomberg Dollar Spot Index rose less than 0.1 percent to 1,184.30.

Bonds

- The yield on 10-year Treasuries rose less than one basis point to 3.16 percent.
- Australia's 10-year yield rose two basis points to 2.71 percent.

Commodities

- West Texas Intermediate crude rose 0.1 percent to $71.87 a barrel.
- Gold fell less than 0.05 percent to $1,226.52 an ounce.
- LME copper declined 1.3 percent to $6,223 per metric ton.
  (Bloomberg)