NEWS ROUND UP

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Govt. to start talks on putting IMF program back on track

The Government will kick-start discussions next week with several organisations, including the International Monetary Fund (IMF) and the Millennium Challenge Corporation (MCC), to put back on track key programs that were disrupted by recent political turmoil, a top official said yesterday. State Minister of Finance Eran Wickramaratne told Daily FT that officials had already reached out to the different organisations and were awaiting the end of the holiday season to pursue discussions in earnest.

"The constitutional crisis was resolved in a way that was positive for democracy. The outcomes showed that democratic institutions in Sri Lanka have grown stronger, and this is a positive for us. We plan to begin discussions with these organisations next week, and we are confident we can restore the situation back to normal," Wickramaratne said.

Wickramaratne added that the Government was focused on moving forward at a swift pace to set up and implement policy, and restoring the IMF program would be part of that effort. He also assured that the MCC grant, which had been postponed, would also be the focus of discussions, as the infrastructure projects it had largely been intended for were still on track.

Following the appointment of current Opposition Leader Mahinda Rajapaksa as Prime Minister on 26 October by President Maithripala Sirisena, the IMF suspended their $1.5 billion Extended Fund Facility (EFF) program with Sri Lanka, which also included the release of the penultimate tranche. The three year program is due to conclude in June.

The MCC had announced in September that it would be giving a $480 million grant to Sri Lanka and the Government was preparing to sign the necessary documents ahead of 26 October. Japan International Cooperation Agency (JICA) had also indicated it would wait till political stability had been restored before releasing project funds. JICA would also be reengaged with by the Finance Ministry and the relevant line Ministries.

The Central Bank is also focused on putting the IMF program back on track, with relevant discussions already starting this week, according to top sources. "We are awaiting political guidance on how to proceed," sources said.

The resumption of the IMF program is seen as crucial to encouraging the Government to stick to its fiscal consolidation policies and bolster confidence of the Sri Lankan economy in international capital markets. This is critical for the Central Bank to raise funds for moderate interest rates for debt repayment purposes. According to Fitch Ratings, Sri Lanka will have to repay about $12 billion from 2019 to 2022, with the first repayment of $1 billion tabled for mid-January.

"Once the IMF program is back on track, we will also request the rating agencies to reconsider their sovereign rating downgrade. The Central Bank has already responded to the downgrade, arguing that there was no fiscal slippage to justify the change, and the targets remain on track. The downgrading was more due to political challenges, and now that political stability has returned, we hope the ratings agencies will reconsider their decision," State Minister Wickramaratne said. .(Daily ft)

Sri Lanka voted by travel influencers as top destination in Asia for 2019

A panel consisting of five of the world's top travel influencers and bloggers has voted Sri Lanka as the top emerging Asian travel destination for 2019.

The awards were published last week on the site TravelLemming.com, which focuses on emerging and off-the-beaten path travel spots around the globe.

Winners for the Asian awards were selected by an expert panel consisting of five of the best renowned travel bloggers and influencers in the world, with a combined following on social media of over 750,000.In describing why Sri Lanka won, the article reads: “Sri Lanka has been poised on the edge of tourism popularity for a few years now, and 2019 might finally be the year it pops.

In fact, it was just named the #1 country in the world to travel to in 2019 by Lonely Planet. And, honestly, it’s hard to disagree with that assessment. From dreamy surf coasts to quiet jungle retreats, to incredible wildlife and history, Sri Lanka has all the makings of one of the greatest travel destinations on the planet.”

One of the judges, Meg Jerrard of the popular travel blog Mapping Megan, is quoted as saying: “Sri Lanka is a mesmerising and magical place with something for everyone, and enough diversity to keep a trip interesting. It has stunning beaches, is a haven for budget travellers, has flavourful food, and there are oodles of heritage, wildlife, and incredible landscapes just waiting to be hiked.”

Other judges on the panel included popular gay travel bloggers Nomadic Boys, hipster travel star Travels of Adam, the San Diego-based Instagram star Hackerette, and the acclaimed travel blogger Otts World.

Travel Lemming CEO Nate Hake said: “One of the biggest trends in travel these days is the desire of tourists to get off the beaten path. Our six winning destinations in Asia are all great options for wonderful places to explore without the crowds!”

The site TravelLemming.com is dedicated to the promotion of travel to emerging travel destinations. The name lemming derives from the Scandinavian rodent, which is rumoured (falsely) to engage in such mindless group behaviour that it will literally follow fellow lemmings of a cliff to death. Travel Lemming encourages travellers to think beyond the popular destinations and to forge their own path.

Travel Lemming was started by its founder Nate Hake, an American traveler from Denver, Colorado who is most famous for visiting 43 countries in a single year. .(Daily ft)

Lighthouse Hotel goes for first major revamp with Rs. 450 m investment

The Lighthouse Hotel, one of the most sought-after in the Southern coast, is going for its first major revamp since opening 21 years ago, with an investment of over Rs. 450 million.

The refurbishment of the famous Geoffrey Bawa-designed hotel will include an upgrade of rooms, public and service areas, and plant and equipment.

The main hotel, consisting of 63 rooms, will be closed during May to July next year. The adjacent and relatively new Jetwing Lighthouse Club, with 22 rooms, will be in operation. Company estimates the revamped hotel to be fully operational by August 2019.

“This is our first comprehensive refurbishment, which will be done whilst retaining the originality of Bawa’s architecture,” Chairman Hiran Cooray told the Daily FT.

The revamp, costing Rs. 450 million excluding Government taxes, will be funded by a mix of debt and internally generated cash.

The Group sees tremendous opportunity to position Jetwing Lighthouse and its affiliated properties above and beyond the competitors, and thereby attain higher average rates and increased occupancy levels. The mega investment to renovate is in order to achieve this level of positioning, and to reinforce that Jetwing Lighthouse will remain as the leading property in the South over the foreseeable future.

In FY2018, The Lighthouse Hotel PLC recorded a profit before tax of Rs. 149 million, down marginally by 2% from the previous year. Total revenue grew by 5% to Rs. 836 million.

The Lighthouse Hotel PLC is also a holding company, making several strategic investments in subsidiaries that it grooms to embellish the Jetwing brand.

Its latest investment under the umbrella of fully-owned subsidiary Unawatuna Properties Ltd., a hotel chain which operates under the brand Hotel J, commenced operations on 1 December 2017. This is a select service hotel, offering 31 beds and 22 dorm-style beds.

The Lighthouse Hotel PLC also operates Jetwing Kurulubedda, a 6-room luxury resort – a hot favourite with honeymooners and couples for its intimate ambience and natural environment, Galle Heritage Villa by Jetwing, a 4-room luxury, colonial style property within the Galle Fort premises, and Era Beach by Jetwing, a 7-suite operated under the Jetwing Lighthouse portfolio.

Jetwing Lighthouse also holds an 18% stake in Rainforest Eco Lodge, which is a model ecotourism pilot project situated in Deniyaya adjoining the famous Sinharaja Forest, which is a UNESCO certified World Heritage site. .(Daily ft)

Laugfs Gas to invest Rs. 1.15 b in subsidiary's LPG terminal venture

Laugfs Gas PLC is to invest Rs. 1.15 billion into its subsidiary engaged in building South Asia's largest LPG transhipment terminal in Hambantota.

Of the total amount, Rs. 130 million has been infused immediately, and the rest will be utilised as required. Laugfs said once commissioned, it will both pave way for recognising Sri Lanka as a commercial hub, which will create an inflow of foreign currency into the country and would allow LPG to be imported to Sri Lanka at very competitive prices, thereby benefitting local LPG operators and end users.

It said since the project is nearing completion, there is a requirement for funds to be utilised for the final disbursements, which are to be provided by Laugfs Gas as an equity infusion.

It said the parent will reap many benefits as a result of this project, both via its equity in Laugfs Terminals Ltd., as well as commercially by the terminals operations. .(Daily ft)

Rupee hits record low; extends year to date fall to near 19%

The Sri Lankan rupee fell to a record low on Thursday amid dollar demand by State banks and continued outflows of foreign funds, mainly from Government bonds, as political uncertainty dented investor sentiment.

The rupee hit an all-time low of 182.35 to the dollar in early trade, surpassing its previous record of 181.85 marked in the prior session. It has weakened about 5% since Sri Lanka's political crisis began on 26 October, and lost 18.7% so far this year.

The rupee ended at 182.10/60 per dollar, compared with 181.80/182.00 in the previous session.

President Maithripala Sirisena appointed the Cabinet of Ministers from his rival party last week, after he was forced to reinstate Ranil Wickremesinghe as Prime Minister, 51 days after he was sacked.

The political crisis was expected to ease, though uneasy relations between the two men could cause fiscal problems, analysts have said. Parliament approved Rs. 1.77 trillion ($9.39 billion) to meet four months of expenditures and avert a Government shutdown from 1 January. The Colombo stock index ended 0.02% weaker at 6,018.19 on Thursday. Turnover was Rs. 338.1 million, less than half of this year's daily average of Rs. 840 million.

Foreigners were net sellers of Rs. 6.4 million of stocks on Thursday. They have been net sellers of Rs. 13.3 billion since the political crisis began.

The bond market saw outflows of about Rs. 56.7 billion between 25 October and 19 December, Central Bank data showed.

Five-year Government bond yields have risen 35 basis points since the political crisis began.

Credit agencies Fitch and S&P downgraded Sri Lanka's sovereign rating in early December, citing refinancing risks and an uncertain policy outlook. .(Daily ft)

Govt. to set up five modern agri-produce storage facilities

The Government has planned to set up five temperature-controlled storage facilities around the country, with the first one to be established in Dambulla in mid-January 2019, to help reduce volatility in supplies and prices of perishable farm produce, and to bolster the farming community.

Economic Reforms and Public Distribution Minister Dr. Harsha de Silva

"We are starting the construction of the first ever six-chamber 5,000 metric ton capacity climate-controlled warehouse in Dambulla next month. The facility will be established in a 6.5 hectare land next to the Economic Centre, funded largely by an Indian grant, to minimise its post-harvest loss of fresh produce," Economic Reforms and Public Distribution Minister Dr. Harsha de Silva told Daily FT.

He said that this initiative will benefit the farming community by reducing wastage, particularly in the peak season when there is surplus production, while also helping them check the price fluctuation as well, and ensuring delivery of good quality agro-produce to consumers.

According to Dr. de Silva, the first computer-assisted storage facility will be constructed by the Government, funded largely by an Indian grant of $2 million, while the warehouse will be privately managed once completed in mid-2019 as a public-private-partnership (PPP).

The Minister said he will soon propose to Cabinet to remove all taxes included for this venture, to attract more entrepreneurs and investors to develop other climate-controlled storage facilities the Government has planned to run as PPPs.

"I am going to propose to remove all types of taxes included in setting up climate-controlled warehouses and related industries from the upcoming Budget. I am also building a plan for new businesses and investors, such as independent logistic operators, temperature-controlled trucks, climate-controlled storage facilities, and call for business proposals," said Dr. de Silva.

The Minister also noted that they hoped to set up the other four facilities by the end of 2019, after a proper data analysis on the harvest periods, movement of perishable goods in the market, consumer patterns, and demand.

“As the Public Distribution Minister, my primary goal is to create a unique distribution mechanism, which will allow farmers to sell their produce at a reasonable price, and households will be able to purchase them fresh as well as at a reasonable cost. This will give a huge boon to the farming community, as well as for all the related industries. It will also enable farmers to export their excess produce to overseas markets,” he pointed out. .(Daily ft)

Sri Lanka holds rates; credit up amid sterilized forex interventions

Sri Lanka's central bank held rates in December at 9.0 percent, while credit to the state and private sector accelerated amid money printed to enforce fixed interest rates after intervening in forex markets to maintain a soft-pegged exchange rate.

"In spite of the increased cost of funds and tight liquidity conditions, the year-on-year growth of credit to the private sector accelerated since September 2018, partly reflecting the private sector advancing its activities in anticipation of measures by the government and the Central Bank to curb excessive import growth," the soft-pegged central bank said in its December monetary policy statement.

Liquidity runs short when the central bank intervenes in forex markets to defend a peg when a run is triggered on the rupee.

In a soft-peg the central bank then prints money to fill the liquidity shortage (sterilize the intervention) and stop rates from going up and slowing credit, triggering 'balance of payments' pressure.

Private credit had expanded by 79 billion rupees to 5,509 billion rupees in November, growing at an annual rate of 16.2 percent, up from 16.1 percent a month earlier.

In November the central bank also dumped tens of billions of rupees in the banking system through a reserve ratio cut and expanded the ability of banks to give loans from future deposits.

A soft-pegged central bank's monetary operations may appear as credit to government because Treasuries are used to print money into the banking system, despite budget deficits falling or not expanding.

Net credit to government from the banking system accelerated at an annual rate of 9.2 percent in October to 14 percent in November, data showed.

The SRR cut dumped 90 billion rupees in to the banking system in November to sterilize earlier interventions.

But interventions in the forex markets continued generating more shortages.

"The reduction of the Statutory Reserve Ratio (SRR) at the last monetary policy review in November 2018 released around Rs. 90 billion of rupee liquidity to the banking system," the monetary authority said.

"However, the liquidity deficit has widened thereafter, and the Central Bank continued its open market operations (OMOs) cautiously to manage liquidity on overnight, short term and long term basis as appropriate."

The central bank which was injecting printed money into banks at rates around 8.47 percent in the first week of November, injected new money at rates as low as 8.35 percent after a 50 basis point 'rate hike' to 9.0 percent from 8.50 percent and a cut in the reserve ration which dumped 90 billion rupees of liquidity in to the banking system.

Sri Lanka operates a highly unstable foreign reserve collecting soft-peg with the US dollar, involving a de facto external anchor with a shifting convertibility undertaking.

The regime suddenly shifts to a floating rate with a domestic anchor made up of a wide near-double-digit inflation target with unsterilized excess liquidity collected during the pegging period intact, sending the rupee sliding down forcing currency defence.

The central bank lost control of the peg in the first quarter of 2018, when the economy recovered, as it failed to mop up inflows (sterilize dollar purchases) and injected cash to generate excess liquidity in April.

Though the peg stabilized around July and August after falling sharply, unsterilized excess liquidity was against built up including through rupee dollar swaps, triggering a renewed period of pressure. The rupee has since fallen to 180 to the US dollar.

In November interventions topped 500 million dollars, amid a political crisis, which added to uncertainty.

When a soft-pegged central bank mops up inflows (liquidity from dollar purchases9, the peg strengthens by squeezing credit and outflows.

But when it injects cash through open market operations, credit expands and imports grow beyond dollar inflows generating balance of payments pressure and forcing the currency down.

There have been calls to reform the central bank's open market operations to make it more difficult for the central bank to generate monetary instability.

Critics have pointed out that the central bank cannot take the risks it did 15 or 20 years ago because Sri Lanka is now more exposed to international capital markets, and monetary instability is amplified by panicking foreign bond holders and credit downgrades, making it more difficult to recover from such periods.

The full statement is reproduced below:

Monetary Policy Review: No. 8 – 2018

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 27 December 2018, decided to maintain policy interest rates at their current levels. Accordingly, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank will remain at 8.00 per cent and 9.00 per cent, respectively. The Board considered current and expected developments in the domestic economy and the domestic financial markets as well as the global economic environment, with the broad aim of stabilising inflation at mid single digit levels in the medium term to enable the economy to achieve its potential growth.

Subpar economic growth continued in the third quarter of 2018 as well

As per the provisional estimates of the Department of Census and Statistics (DCS), the Sri Lankan economy recorded a modest real GDP growth of 2.9 per cent, year-on-year, during the third quarter of 2018, compared to the revised growth of 3.6 per cent in the second quarter of 2018. As per the available economic indicators and other economic developments, real GDP growth is likely to be low in the fourth quarter of 2018 as well, before picking up gradually in 2019. The continued low economic growth reemphasises the need for implementing broad based structural reforms without further delay. 2

Notwithstanding the elevated market interest rates and rupee liquidity deficit, private sector credit growth accelerated

The reduction of the Statutory Reserve Ratio (SRR) at the last monetary policy review in November 2018 released around Rs. 90 billion of rupee liquidity to the banking system. However, the liquidity deficit has widened thereafter, and the Central Bank continued its open market operations (OMOs) cautiously to manage liquidity on overnight, short term and long term basis as appropriate. Given high credit growth and foreign exchange market developments, overnight interest rates in the money market have been maintained close to the upper bound of the policy rate corridor. Other market interest rates remained at elevated levels, both in nominal and real terms.

In spite of the increased cost of funds and tight liquidity conditions, the year-on-year growth of credit to the private sector accelerated since September 2018, partly reflecting the private sector advancing its activities in anticipation of measures by the government and the Central Bank to curb excessive import growth. Nevertheless, with the contraction in net foreign assets of the banking system, the year-on-year growth of broad money (M2b) remained within the expected levels.

Favourable outlook for inflation in the near term

Headline inflation, based on both the National Consumer Price Index (NCPI) and the Colombo Consumer Price Index (CCPI), remained in low single digit levels. Core inflation also remained subdued thus far in 2018. Recent downward adjustments to fuel prices and selected administratively determined prices, as well as the reduction of Special Commodity and telecommunication levies, along with the ongoing recovery in the agriculture sector are expected to impact favourably on inflation in the near term. Volatile global commodity prices, possible weather related disruptions to domestic supply chains due to unpredictable weather patterns, and the possible pass-through of the effect of the rupee depreciation in recent months to domestic prices pose risks to the inflation outlook. The current projections show that inflation, on average, will remain below 5 per cent in 2019 and stabilise in the range of 4-6 per cent thereafter with appropriate policy adjustments.

External sector continues to face international and domestic headwinds

The trade deficit widened further in the first ten months of 2018 with the expansion in import expenditure outpacing the growth of export earnings. However, a moderation in import expenditure is expected, in response to the measures adopted to curb imports of motor vehicles and non-essential goods as well as the impact of the depreciation of the rupee.

While earnings from tourism continued to grow, a slowdown in workers' remittances was observed. In the financial account, both the government securities market and the Colombo Stock Exchange experienced net outflows of foreign investment, although marginal inflows have been observed in December.

The widening trade deficit, tight conditions in the global markets and excessive speculation in the domestic market exerted pressure on the exchange rate, and the Sri Lankan rupee depreciated by 15.9

per cent against the US dollar thus far during 2018 up to 27 December. Meanwhile, gross official reserves amounted to US dollars 7.0 billion at end November 2018, providing an import cover of 3.7 months.

Policy interest rates maintained at current levels

Although inflation remains subdued and economic growth remains below potential, the Monetary Board of the Central Bank was of the view that it is appropriate to continue the current monetary policy stance to stabilise overall economic conditions and domestic financial markets in a context where there has been an uptick in private sector credit as well as continued pressure on external reserves. Accordingly, the Monetary Board decided to maintain the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels.(Economy Next)