CBSL unveils a 6 Month road map to address critical economic concerns

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The Central Bank Governor Ajith Nivard Cabraal announced "A Six-Month Road Map for Ensuring Macroeconomic & Financial System Stability" in order to address the concerns lingering over Debt & Forex, Financial sector & Macro economic stability . Proposed road map tried to address these concerns through near term, one year and medium-term strategies.

- Six-month Road Map from 01 October 2021 to 31 March 2022
  - Addresses focused efforts on macroeconomic and financial system stability, near term measures to ensure continued timely debt payment & forex liquidity and path to recovery & increase forex liquidity.
- One-year horizon from 01 January 2022 to 31 December 2022
  - Addresses how to improve the debt profile of the country, GDP recover, to meet fiscal & external targets & improve Sovereign ratings
- Medium-to long-term horizon
  - Addresses to build a stable macro fundamentals, strengthen domestic production, growth amid low inflation & achieve fiscal and monetary targets

Summary: Proposes immediate measures to address debt & forex worries

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- Over USD 3.0Bn expected before end of 2021 from G2G/ multilateral/ syndicated financing and short-term currency swaps.
- Close to USD 1.0Bn to be raised through monetizing of under-utilized assets ,FDI's, Tourism earnings, conversion of remittances and export proceeds. Raising >USD1Bn from underutilized assets in 6 months however perceived to be challenging
- Other proposals include repatriation and conversion of proceeds from both services and goods export while tax concessions proposed for exporters who repatriate earnings
- Ensures forex liquidity to finance the country's energy bill.
- Consider buying back the entire issue of ISBs maturing in Jan'22 and/or July'22 indicating SL's undisputed aim of honoring debt while targeting to reduce ISB exposure to 10% of GDP by 2024.
- Pledges to maintain inflation at mid single digit & guarantees stability in interest & exchange rates. Ensures to maintain the exchange rate at LKR 199-203/USD in the next 3M to discourage stockpiles.
- Forex liberalization efforts are underway; Cash margin deposit requirements on nonessential/non-urgent imports lifted immediately, ceiling imposed on outward investment and migration allowances to be lifted from January 2022.
- Pledges to bring the liquidity support of up to Rs. 15,000 mn to finance interest accrued in loans that have been given the moratorium support for to support. Could have pressure on reserves however if disbursed using printed money.
- Suspend Parate Execution and forced repossession of leased assets up to 31.03.2022. Unwind moratoria gradually resulting with less burden on asset quality.
- A comprehensive directory of investment has been finalized earmarking urban development, fisheries, real-estate, power & energy & Pharmaceuticals
- Assuming if all short-term inflows materialize, we expect Sri Lanka to close the reserves at USD 5.8Bn-USD 6.0Bn, covering 3.5months of imports (cf. to current 2months of import cover).

Strategies proposed to improve economic stability

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Debt & Forex Concerns

- Arrange G2G Financing and inflows
- Monetize under utilized assets & non-debt creating foreign exchange inflows
- Prepare for tourism influx
- Provide forex liquidity to finance the energy bill .
- Expected inflows via tax amnesty bill
- Attract FDI's into Port City
- Promote investments in Rupee denominated GSEC with a guarantee on the exchange rate
- Encourage import alternatives
- Increase foreign investments via GSEC & SLDB
- Diversify SLDB investor base
- Maintain exchange at LKR 199-203
- Repatriation and conversion of proceeds of services exports
- Lift cash margin deposit requirements on nonessential imports.

Financial sector concerns

- NBFI Consolidation
- Unwind moratoria gradually
- Provide liquidity support of up to Rs. 15,000 mn to finance interest accrued in loans that have been given the moratorium
- Immediately suspend Parate Execution and forced repossession of leased assets up to 31.03.2022
- SOE's diversify their borrowing sources
- Reduce dependence on state banks to finance petroleum bills
- Ensure that all FIs develop "Post-COVID" Revival Units
- Maintain capital and liquidity buffers
- Transact forex transactions in a transparent manner.
- In the near-term, possible options to convert part of maturing Treasury bills to Treasury bonds will be explored

Macro economic stability concerns

- Introduce an "investor-friendly" budget
- Consider the possibility of buying back the entire issue of ISBs maturing in January 2022 and/or July 2022, if high discounts are prevalent in the market
- Contain fiscal deficit
- Improve the business environment for domestic and foreign investors
- Ensure to maintain mid-single digit inflation
- Ensure stability of interest rates and the exchange rate
- Green financing options to mobilise domestic and foreign resources

Strategies implemented to soften pandemic driven economic blows

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Debt & Forex Concerns

- Target to increase exports to over USD 1.0Bn per month
- Convert export proceeds
- Promote the dedicated industrial zones
- Ensure conversion of export earnings
- Prepare for tourism influx
- Pay LKR2/-per USD for remittances
- Additional interest payment for Special deposit accounts
- Negotiate short term SWAPS
- Ensure repatriation of export proceeds within the stipulated periods

Financial sector concerns

- Review the NBFI's whose finance business license has been suspended
- Strengthening and safeguarding the integrity of the financial system
- Continuing to improve the Payments and Settlements platform

Macro economic stability concerns

- Present a credible medium-term debt management strategy with clear targets.
- Work towards extending the Average Time to Maturity of the debt stock

Sri Lanka to possibly end at USD 5.8Bn-6.0Bn of reserves by end of 2021, assuming all proposed inflows are met

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	Oct -Dec 2021	Jan- Mar 2022
Government		
G-2-G Loans	1,000	500
Multilateral Loans	300	400
Syndicated Loans	300	0
Investments in LKR denominated G-Secs	250	750
SLDB parcels		1000
Monetization of Under-utilized Assets	500	500
Other FDIs (excluding Colombo Port City)	300	500
Rollovers of OBU loans	200	750
Central Bank		
SWAPs with other Central Banks	1000	500
Domestic short/long-term swaps	500	500
Sales to facilitate fuel/essential imports (approxima	-600	-300
Purchases of remittances/export proceeds	150	250
Total	**3,900**	**5,350**

Reserve Position	USD Mn
Total Reserves as at August 2021	3,500
Trade deficit for the remainder of the year	(3,035)
Remaining debt payment for 2021	(1,115)
Services exports including tourism & remittances	3,400
Total proceeds from G2G, multilateral sources	2,550
FDI	300
Purchases of remittances/export proceeds	150
Total	5750
Import cover (Months)	**3.4**

Macro Economic Impact

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Proposal	Impact
Raising funds through monetizing of under-utilized assets	USD 1Bn is expected to be raised via under utilized assets with in 6months which we believe could be stiff target. Keeping the LKR rate at 199/203 against USD would also be then challenging given the shortage in USD.
Allocating Rs. 15,000 Mn to support SMEs in financing interest accrued in loans that have been given under the moratorium	If allocations are distributed using printed money, it could create an added pressure to the reserves and currency as a whole.
In the near-term, possible options to convert part of maturing Treasury bills to Treasury bonds will be explored	Positive in terms of macro stability, as interest rates could be maintained while reducing the burden on the government.
Encourage State Owned Business Enterprises (SOBEs) to diversify their borrowing sources	SOE’s are not expected to depend on state owned banks for financing, would soften the Government debt, a positive . However no strategy is stated as to how SOE’s are to cut down on costs.

Impact on listed entities

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Proposal	Impacted Counters
Ensure stability of exchange rates	Counters that import a major proportion of raw materials will benefit due to stable exchange rate. The increasing global commodity prices & rising freight charges meanwhile would still have an impact on margins. However if intended funds don't materialize, the added pressure on exchange rate together with higher global prices could have a double whammy on margins. Counters: TKYO, PARQ, KCAB, ACL, SIRA, GLAS, LALU, ALUM As opposed to our forecasts, counters which earn majority of their earnings in USD may not see the benefit stemming from weaker LKR. However, increasing volumes and unit prices may help them in maintaining their topline. Counters: DIPD, HAYC, MGT, HAYL, TJL, EXPO, BPPL, REXP
Allocating Rs. 15,000 Mn to support SMEs in financing interest accrued in loans that have been given under the moratorium & unwinding moratoria gradually.	Banking sector and leasing companies to benefit with asset quality not having a greater impact. However extensions of moratoriums would cripple the cashflows to the banking system.
Removal of cash margins on non-essential imports	These counters are expected to benefit due to the ease in their operational cash flows. Counters: DIAL, ABNS,SHL,SINS

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