

Sri Lanka settles USD 1Bn ISB

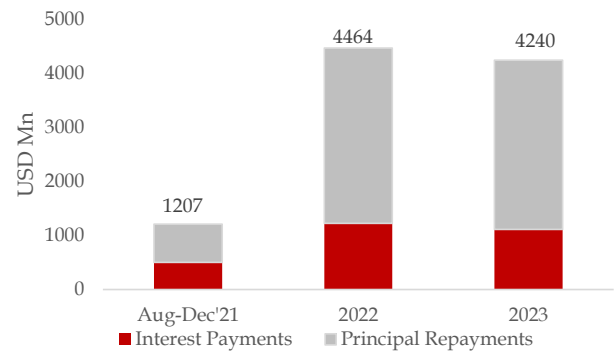
Amid widespread fears of default, Sri Lanka Government completed the settlement of USD1Bn worth of International Sovereign Bond (ISB) maturing today. The repayment was done out of the reserves which stood at USD 4.0Bn by June'21 whilst approximately 30% of the ISB repayment will remain in Sri Lanka since the quantum was owned by local institutions.

Amid these mounting concerns CBSL has also secured some solid funding lines to the tune of ~USD 4.0Bn, which we believe would be sufficient to meet the rest of the debt obligations for the year (~USD 1.2Bn) and USD 500Mn ISB payment due in January 2022. The challenge could arise thereafter in our view, where external debt obligations is mounting up to ~USD 4Bn in FY 22 (excluding USD 500Mn in Jan 22) which includes a USD 1Bn ISB payment in July and USD 4.2Bn obligation thereafter.

Future Funding lines

Funding Lines	USD Mn
SWAP arrangement with India	400
SWAP arrangement with Bangladesh	250
SWAP arrangement with China	1,500
Loan from China Development Bank	300
Special Drawing Rights allocation from the IMF	800
CBSL purchases from forex market	200
ISB's held by local banks	300
Inflows from the utilization of under-utilized assets.	400
Total	4,150

Interest & Capital payments due



However, we see some silver lining despite GOSL repeatedly declaring its unwillingness to seek IMF assistance. Sri Lanka's exports up to May 2021 have recorded a notable 33%YoY jump from 2020 levels and is now only 5% away from pre pandemic level, which is encouraging. The trade deficit too has narrowed down to USD 3.6Bn during this period amid strict imposition of imports of non-essential items and is just 12% above the pre pandemic level notwithstanding the increasing global commodity prices.

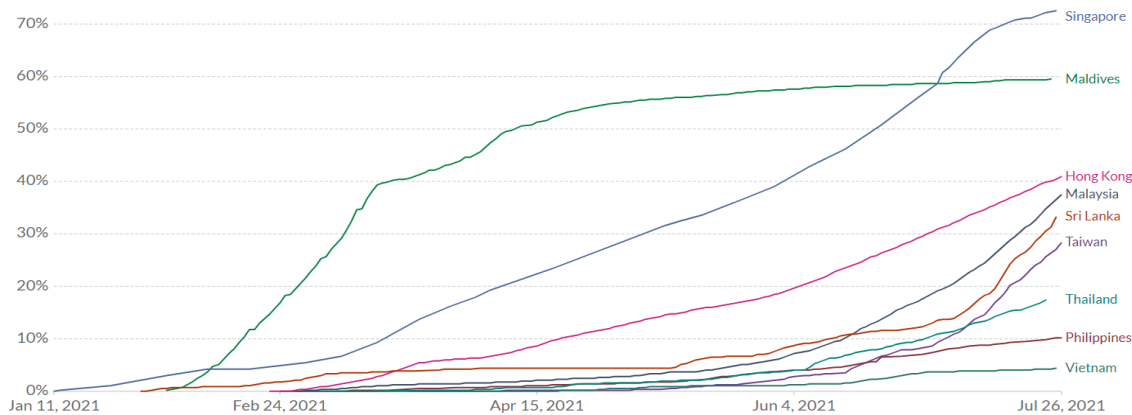
Subsequently Trade deficit, which is usually around USD 8Bn-10BnBn a year, was comfortably covered by remittance income (average USD 7.0Bn) and tourism income (USD 4.0Bn on average) in any other year. However, in this pandemic struck year, it was only remittances (up by 18% YoY) that managed to cushion the deficit as rock-bottom tourism income (down 97% YoY) failed to cover the rest, which is the same reason why Sri Lanka is trying to expedite opening up of borders at its earliest.

USD Mn	Jan- May 2019	Jan- May 2020	Jan- May 2021	2021 vs 2020	2021 vs 2019
Exports	4915	3,519	4,692	33%	-5%
Imports	8196	6619	8356	26%	2%
Trade Deficit	-3,281	-3,100	-3,664	18%	12%
Tourism	1775	682	21	-97%	-99%
Remittances	2733	2,407	2,846	18%	4%
FDI	262	188	198	5%	-24%
Overall balance	-127	-797	-1053	32%	729%

Source: CBSL, NLE Research

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Sri Lanka's rapid vaccine roll out, administering over 400,000 persons per day is expected to relax the curbs and provide a welcoming platform for the tourists to the country soon. Sri Lanka has administered over 33% of its population while other tourist hot spots like Taiwan (28%), Thailand (17%), Philippines (10%) and Vietnam (4%) trailing behind. With Sri Lanka aiming to vaccinate 60% of the population by September, it could relax covid curbs further and fast track quarantine-free travel which is already open for fully vaccinated tourists. Authorities could ease measures, including allowing larger gatherings and be able to start reopening borders with other countries that have infections under control too. Maldives is a classic example here where it managed to get over 550,000 tourists during the first six months of the year while driving up to vaccinate 59% of its population.



Sri Lanka is well ahead
on the vaccine rollout
race

Source: ourworldindata.org

If Sri Lanka too manage to crawl through these difficult times, we are confident that the country would be in a comfortable position to least generate approximately USD 1.-1.5Bn worth of tourism income by 1H'2022 and increase to around USD 2.5Bn by end 2022. We could also expect some FDI inflows into the country specially from the Port city that would comfort the external debt obligations, cause if not country would be in a dire situation by 2H'22 even after considering all funding lines (except SWAPS) .

However, if things do not pan out as planned given the uncertainties surrounding Covid, and if Sri Lanka fails to attract new foreign income through FDI/Tourism or any other form, we think that IMF driven bailout could be inevitable to address Sri Lanka's forex crisis.

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