

'Structural reforms need to be implemented speedily'

● 'NPLs in State banks not an issue' ● 'Macroeconomic fundamentals in good shape'

By Lalin Fernandopulle

The macroeconomic fundamentals of the economy are in pretty good shape with inflation well anchored and within target, Central Bank Governor Dr. Indrajit Coomaraswamy told the media on the Monetary Policy stance of the Central Bank on Friday.

"We could be happy that the macroeconomic fundamentals are in good shape with inflation within range. While there could be some uptick in inflation in the coming months it will yet be well within range," the Governor said.

Year-on-year headline and core inflation measured by the Colombo Consumer Price Index (CCPI) declined in June while those based on the National Consumer Price (NCPI) were expected to decline dur-



Dr. Indrajit Coomaraswamy

ing the same month. Inflation is projected to remain well anchored in the 4-6 percent range.

However, the challenge to the economy is the low growth rate in recent years and the measures to spur growth which according to internal and external factors is turning out to be a tough call.

"Stability is in pretty good shape but growth is the problem. Structural reforms need to be implemented speedily and one needs to look at the

sentiments after the April 21 attacks. Tourism being a major contributor to the economy is the worst affected sector," the Governor said.

The Central Bank revised its growth forecast following the exposure of the economy to the Easter Sunday bomb explosions, to 3 percent. The initial projections by the Bank was for growth to be within the 4-5 percent range.

The economy grew at a relatively healthy rate of 3.7 percent year-on-year during the first quarter this year compared to 1.8 percent in the fourth quarter of last year. Economic growth slowed down to a 17-year low of 3.2 percent in 2018.

The regulator notes that weaker than initially envisaged growth in tourism and related services in the aftermath of the Easter attacks ...

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could affect economic growth in the near term while subdued global growth is likely to hamper medium term growth prospects of the economy.

However, the Central Bank notes that the faster than expected recovery in the tourism industry as well as export sector performance provide some confidence of speedy recovery with the support of measures taken by sectoral authorities backed by fiscal and monetary policies. When asked about the impact of the drought early to make an assessment of the weather on agricultural output.

"Certainly hydro-power generation is down to about 13 percent and that is a concern. Hopefully oil prices will come down as the US is becoming a net exporter of shale oil. We anticipate the US\$ 74 per barrel average price to remain this year," the Governor said.

The Central Bank also noted that it will not go for another dollar denominated sovereign bond this year. The Central Bank raised US\$ 2 billion from five and 10-year sovereign bonds issued last month.

However, according to the Governor, the Bank has obtained approval from Parliament to raise Rs. 450 billion locally and abroad under ALMA to face liability management.

"We thought of raising this money because in an election we do not know when we could go to the international markets. That is why we had two issuances. We are going to Tokyo to explore the possibility of a Samurai Bond for a 10-year tenor which is the best period," Dr. Coomaraswamy said.

The improvement in the external sector backed by satisfactory performance in the export sector was commended by the Central Bank.

The external sector recorded a significant improvement due to the reduction in imports by around 17 percent and exports increasing by four percent.

"The increase of exports and reduction in imports is a good move and is vital to bridge the trade deficit and get over the debt burden," Dr. Coomaraswamy said. On the moratorium for the small and medium

sector of the tourism industry, the Governor said the moratorium offered to the tourism sector covers all sectors big and small if they have been registered at the Sri Lanka Tourism Development Authority.

"The current moratorium covers the entire tourism eco system. There is wide coverage for all in the industry. The challenge is in providing working capital loans to cover leases. The Central Bank has issued directives to the banks to comply with the moratorium program to support the industry," the Governor said.

Responding to a question raised by journalists whether the moratorium would help bring down the number of bad loans in the banking and non-banking sectors, the governor said the number of bad loans will not come down with the moratorium.

Of around 3,641 requests for moratorium around 945 have been approved which is about 25 percent of the total under tourism. The total loan value in the tourism industry is about Rs. 285 billion.

"We need to get the growth rate going and when the environment for growth is set NPLs will come down," the governor said.

Responding to the NPLs in State banks, Dr. Coomaraswamy said NPLs in State banks is not at a serious situation.

The value of NPLs in the two State banks amounts to around Rs. 109 billion.

Financial experts said political interference, mismanagement and loans granted on their whims and fancies are reasons for the NPL ratio in the banking sector to rise.

The current NPL ratio in the first quarter this year declined to 4.2 percent and it is around 4.8 percent at present.

Meanwhile, the Central Bank kept its standing deposit facility rate (SDFR) and standing lending facility rate (SLFR) steady at 7.50% and 8.50%.

The Monetary Board arrived at this decision due to softening global economic growth triggered by increased trade and geo-political tensions and monetary policies in advanced economies turning dovish since the start of the year.