

Economic Capsule

August 2020

100
YEARS

 COMMERCIAL BANK



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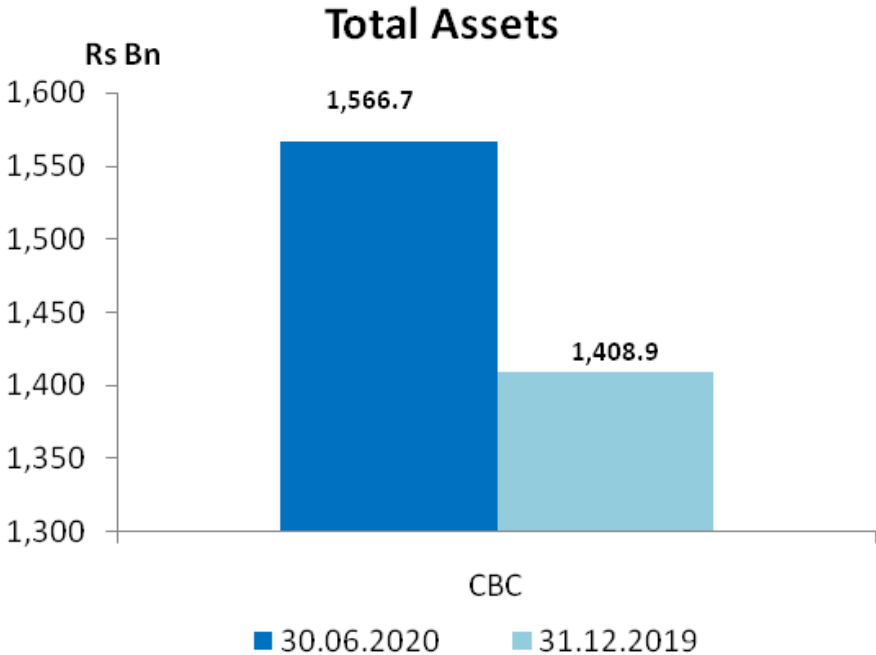
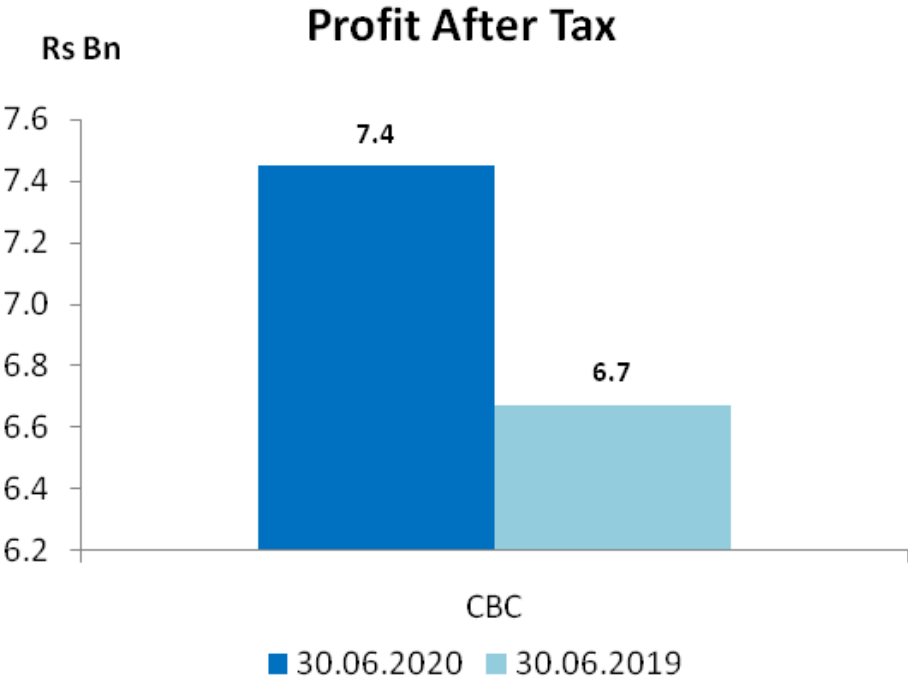
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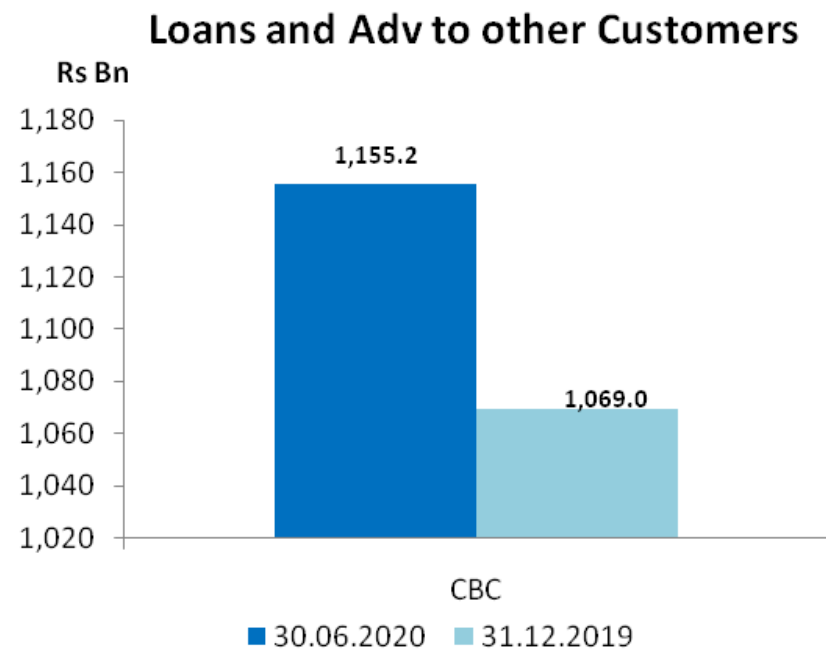
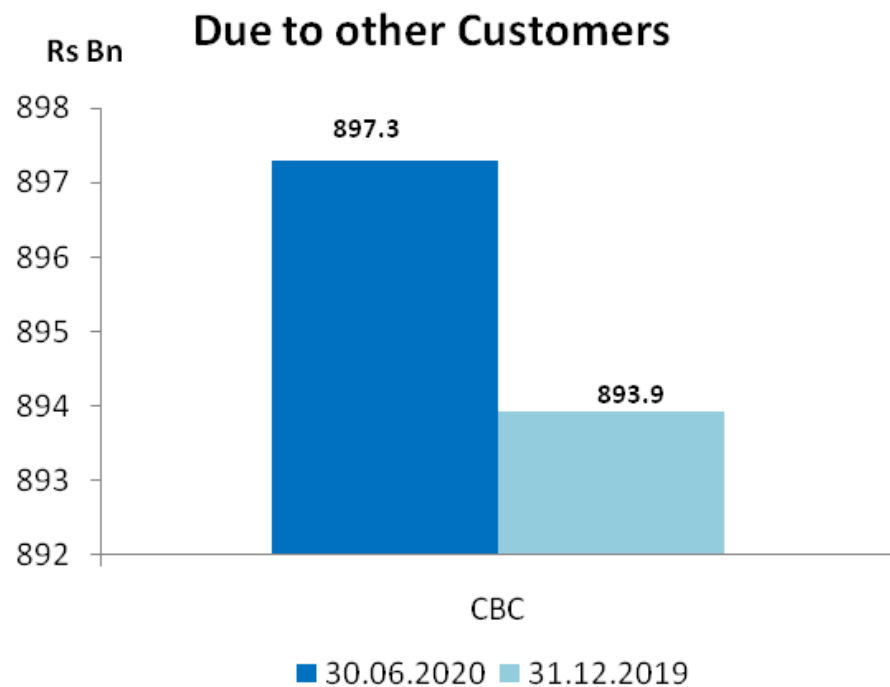
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Banking & Finance

CBC Group Results – 1H 2020



CBC Group Results – 1H 2020 (Cont)



ComBank launches 'Card Balance by Missed Call' Service for Credit Card holders



The Commercial Bank of Ceylon has introduced a new service for the benefit of its ComBank Credit Cardholders – 'Card Balance by Missed Call' – a Missed Call Alert Service to increase the convenience enjoyed by them.

The Missed Call Service offers a hassle-free and convenient method for Credit Card holders to check their Credit Card balances.

All Commercial Bank Credit Card holders who have their mobile numbers registered with the Bank can avail of the Card Balance by Missed Call Service by dialing 0112353111 from their registered mobile numbers.



Once dialled, the cardholder's call will be automatically disconnected after a couple of rings, following which the Bank will send the cardholder an SMS with the last four digits of the Card number, available balance, last statement balance, minimum due amount and the due date as part of the alert. If the registered mobile number is linked to more than one Commercial Bank Credit Card, separate SMS alerts will be sent for each card containing balance information of the cards specified beside the last four digits of the different Credit Card numbers.

ComBank crowned Best Bank in Sri Lanka in 2020 by Euromoney



The Commercial Bank of Ceylon has been crowned as the Best Bank in Sri Lanka in 2020 by Euromoney, one of the world's leading financial magazines, at its Asia Awards for Excellence.

This is the sixth time that Commercial Bank has been honored with this prestigious accolade by Euromoney.

The Euromoney awards are based on detailed submissions from market participants and extensive year-round research into the banking and capital markets in the region by the magazine's editors, journalists and research team.

Other criteria included the size of the organization, although size was not the emphasis, profitability, the ability to demonstrate growth, out performance of peers and the ability to adapt to changing market conditions and client needs.

Commercial Bank also achieved the highest profitability, highest credit rating, highest deposit base, largest lending portfolio, and the highest return on average shareholders' funds amongst all private sector banks in Sri Lanka. Furthermore, it was the largest private sector bank in Sri Lanka in terms of assets, the bank with the highest market capitalization and the best CASA rating in the country, and was the third largest listed entity overall in 2019.

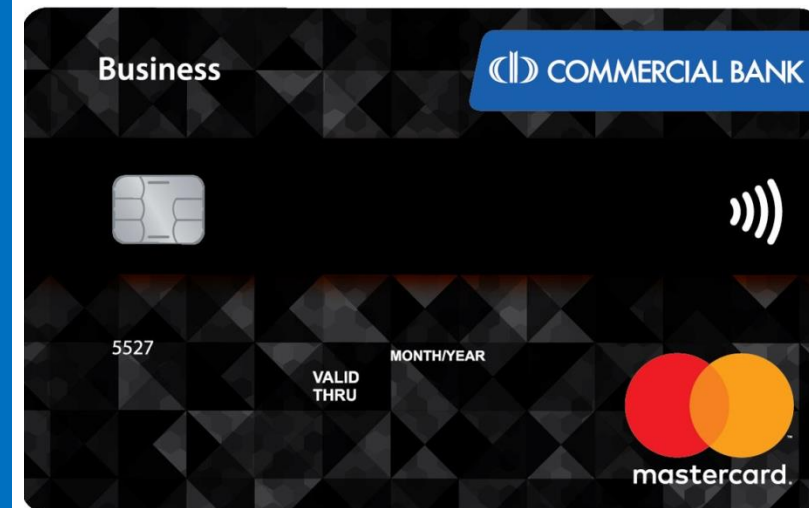
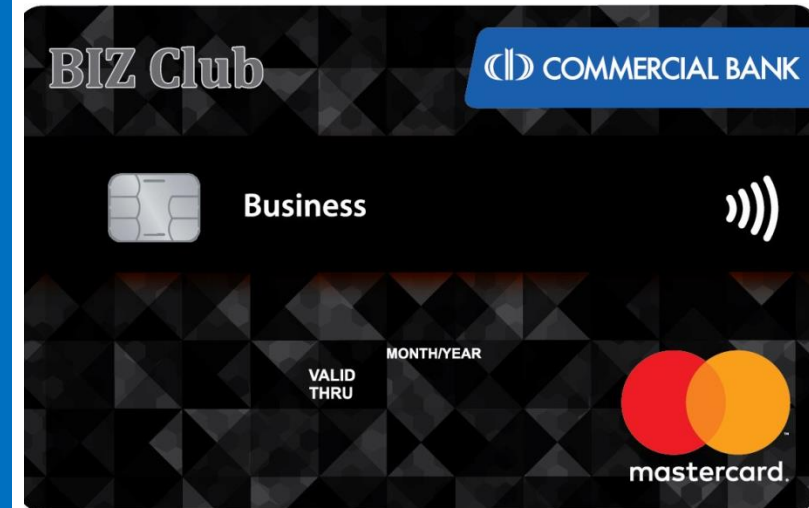
ComBank launches a Credit Card exclusively for SMEs



The Commercial Bank of Ceylon has given fresh expression to its commitment to Small & Medium Enterprises (SMEs) with the launch of an exclusive Credit Card for the sector.

One of the largest lenders to SMEs in Sri Lanka, the Bank will issue the Mastercard-branded Credit Card to entrepreneurs that fall into the SME category as defined by the Central Bank of Sri Lanka (CBSL), and meet the standard credit evaluation criteria. For members of the Bank's Biz Club, the card has been named 'ComBank Biz Club SME Credit Card' while for other SMEs of the card bears the name 'ComBank Business SME Credit Card,' the Bank said.

The card will confer several additional benefits to cardholders, such as a waiver of the joining fee and annual fee for the first year, free access to Commercial Bank's Mobile Banking (USSD and SMS) services, free registration for the Bank's Online Banking platform combined with a waiver of the annual fee for the first year of use, and free registration for Paymaster – the Bank's bulk payments platform – and a waiver of the fee for the first month of use and a travel insurance for overseas travels



Economy & Business



Economy contracts 1.6% in 1Q, 2020

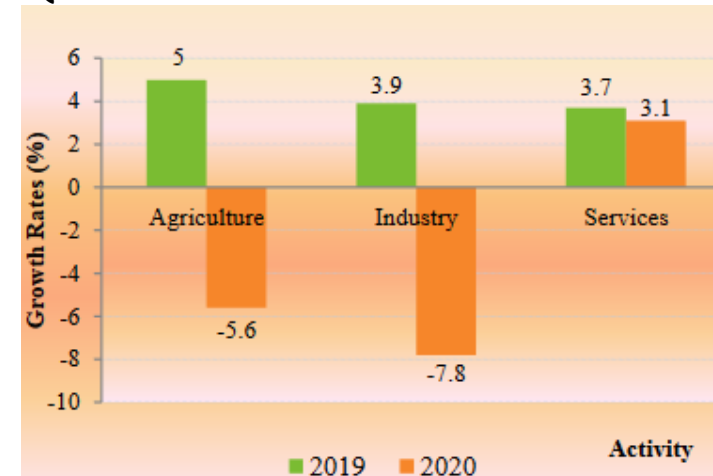
Sri Lanka's GDP contracted by 1.6 % in 1Q, 2020 compared to 3.7 % growth recorded in 1Q, 2019. This is the highest reported contraction since 2010.

While the Services Sector expanded by 3.1% during the 1Q, 2020 both Agriculture and Industry Sectors contracted by 5.6% and 7.8%.

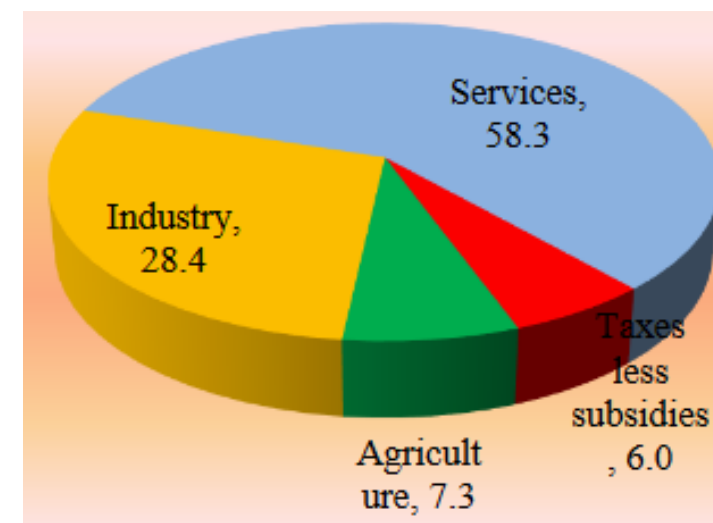
Economic Activity	Growth
Growing of Tea	(27.5 %)
Construction' sector	(16.0 %)
Manufacture of textiles, wearing apparel and leather related products	(13.6 %)
Telecommunication	15.2%
IT programming consultancy and related activities	9.6%
Financial service activities	9.0%

Source: DCS

Comparison of Growth Rates in
Q1 – 2019 & 2020



Share of main components to the GDP in
2020 Q1



Sri Lanka's Manufacturing PMI - July 2020



Reflecting that manufacturing activities are gradually approaching the pre-COVID levels with the normalization of business activities, the Manufacturing PMI declined in July 2020 to 64.6

PMI

Index Value

64.6

Decrease of

2.7 index points

compared to

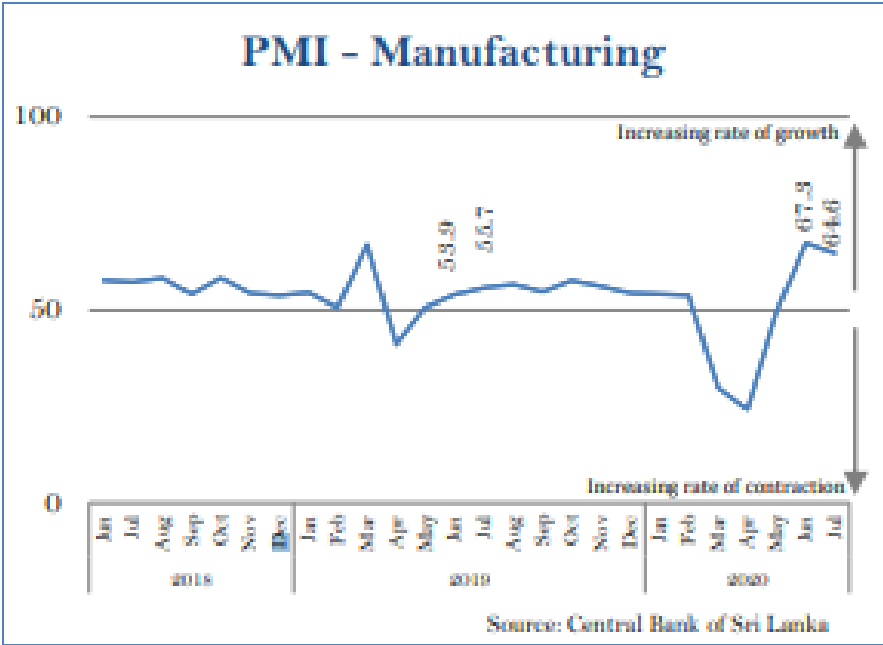
June 2020

Variable	Jun	Jul	+/-	Summary
PMI	67.3	64.6	-	Rising, Slower Rate
Sub-Indices of PMI				
New Orders	73.7	69.5	-	Rising, Slower Rate
Production	77.4	73.7	-	Rising, Slower Rate
Employment	51.6	51.6	=	Rising, Same Rate
Stock of Purchases	61.1	61.6	+	Rising, Higher Rate
Suppliers' Delivery Time	63.2	58.9	-	Lengthening, Slower Rate

Source: Central Bank of Sri Lanka

The New Orders and Production sub-indices expanded, yet at a slower rate, benefitting from new orders received in July 2020. Meanwhile, Employment remained expanded in line with these developments.

The Stock of purchases expanded at a higher rate due to intended accumulation of stocks for future productions, anticipating higher demand with the normalization of economic activities. The Suppliers' Delivery Time continued to lengthen, at a slower pace, during the period.





Sri Lanka's Services PMI – July 2020

Services sector continued to expand for the second consecutive month with PMI reaching 51.4 in July 2020. This was underpinned by the expansions observed in New Businesses, Business Activities and Expectations for Activity compared to June 2020 indicating a further recovery in the services sector, which was affected by COVID-19 pandemic.

New Businesses, particularly in financial services and insurance subsectors, improved in July 2020 with the gradual recovery in economic activities.

Variable	Jun	Jul	+/-	Summary
PMI	50.4	51.4	+	Rising, Higher Rate
Sub-Indices of PMI				
New Businesses	53.6	53.5	-	Rising, Slower Rate
Business Activity	54.5	61.0	+	Rising, Higher Rate
Employment	34.7	40.0	+	Falling, Slower Rate
Backlogs of Work	48.4	36.8	-	Falling, Higher Rate
Expectations for Activity	60.7	65.5	+	Rising, Higher Rate

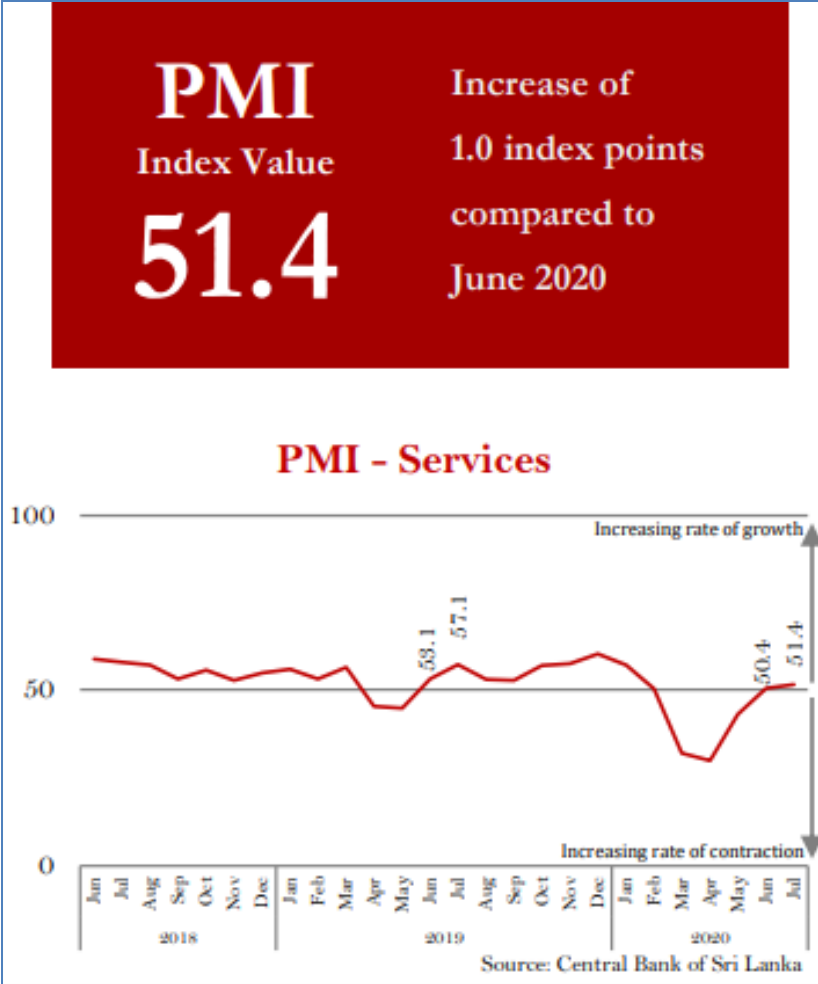
The Index

PMI is calculated as a 'Diffusion Index', where it takes values between 0 and 100.

PMI=50 -sector remained neutral on month-on-month basis;

PMI>50-sector is generally expanding on month-on-month basis

PMI<50 -sector is generally declining on month-on-month basis



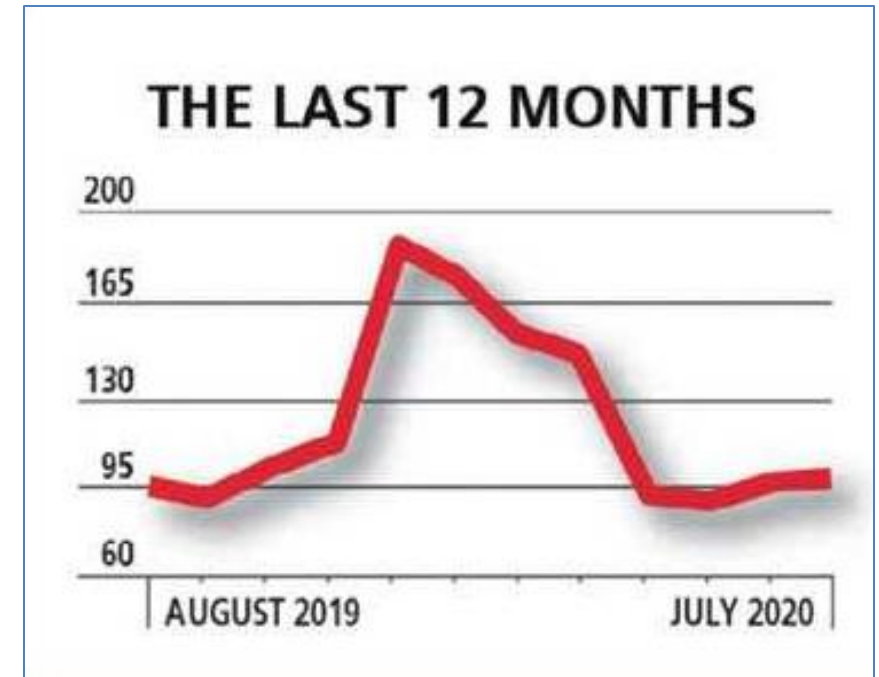
Business confidence stabilizes



The LMD-Nielsen Business Confidence Index (BCI) remained largely unchanged in July 2020, registering an increase of one base point to 97 from June.

LMD notes that this marks an improvement compared to the same period last year when the index stood at 74 although it falls shy of its 12 month and all-time averages of 119 and 127 respectively.

“Sentiment seems to be stabilising as civilians and businesses slowly begin to operate as ‘near normal’ as possible. Although businesses are not fully operational and some continue to run at a lower capacity than usual, civilian lives have more or less adjusted to ‘life with COVID’.”





Sri Lanka raises further USD 100 mn via development bonds

Sri Lanka raised USD 100 mn via development bonds at an auction held between July 22 and July 27, the second such auction since June 25, when the government raised a similar amount.

CBSL entered into a Currency Swap with the Reserve Bank of India

Under the Swap agreement, USD 400 mn will be received by Sri Lanka, initially for a period of 3 months and will be rolled over twice each with a 3 months tenor.

Further discussions are ongoing to secure an additional USD 1bn under a Special Bilateral Swap Agreement.

Repurchase Agreement with the Federal Reserve Bank, New York

CBSL has entered into an agreement with the Federal Reserve Bank, New York (FED) as a temporary source of US dollar liquidity to be used when required

CBSL has decided to pledge a sum of USD 1 bn worth of US Treasury Bonds held in the CBSL reserve and enter into the above type of Repo facility with the FED. This would permit the CBSL to raise USD 1 bn in cash form when required. When this Repo facility is settled by the CBSL, there will be no change in the CBSL Reserve position as the FED would release the pledged bonds back to the CBSL. The cost to the CBSL would be the applicable Repo fee, which is about 0.35 % per annum.

CEAT to save the country Rs. 11bn in foreign exchange via import substitution



CEAT Kelani Holdings announced that in response to the Government's policies to develop domestic industry, it has stepped up capacity utilisation across all its manufacturing plants to supply the full domestic requirement of truck and bus tyres, thereby helping to conserve much-needed foreign currency for the country.

Rising to the challenge of the temporary import restrictions in place, the company which already manufactures the majority of Sri Lanka's tyre requirements said it could supply 100% of the passenger bus and goods transport sectors' tyre needs through domestic production.

This would represent a saving of Rs. 11 bn a year in foreign exchange through import substitution, according to the company.



First consignment of locally produced vegetables and fruits flown to Oman



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A special programme to export local vegetables and fruits has been launched through the Mattala Rajapaksa International Airport (MRIA).

A consignment of 3,371 kilos of Sri Lankan grown vegetables and fruits was flown by Salam Airways flight OV 1432 to Muscat-Oman from the Mattala Rajapaksa Airport.



Tourism Chief says WTTC Safe Travels Stamp reaffirms Sri Lanka as an exemplary destination



Sri Lanka Tourism Chairperson Kimarli Fernando said the receipt of World Travel & Tourism Council (WTTC) Safe Travels stamp for Sri Lanka reaffirmed the country as an exemplary destination.

Recognising the safety protocols introduced by the Government along with standards mandated by Sri Lanka Tourism Development Authority (SLTDA) to ensure the safety of domestic and international travellers, destination Sri Lanka was recently endowed with the WTTC Safe Travels stamp



- The WTTC's Safe Travels stamp is the first of its kind, specifically designed to combat the ramifications of COVID-19 and similar outbreaks. Recognised and embraced by the United Nations World Tourism Organization (UNWTO), the stamp allows travellers to trot the globe whilst ensuring their safety.
- Envisioning a future of travel that is safe, secure, seamless and authentic, whilst supporting the livelihood of millions thus sustaining economic growth of countries, the new global Safe Travel protocols issued by the WTTC is helping the sector restart and speed up recovery post COVID-19.
- The four-pillared protocols, namely Operational and Staff Preparedness, Ensuring a Safe Experience, Rebuilding Trust & Confidence and Implementing Enabling Policies, are built to reinstate confidence among travellers and initiate a consistent approach to health and hygiene

All-inclusive Sri Lanka Tourism app



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- Sri Lanka Tourism confirmed that the all-inclusive Sri Lanka Tourism app was now ready and awaiting authorization from the Immigration and Emigration Department to be linked with the online visa process.
“We have now prepared the Cabinet paper required for the app to be authorized along with the online visa procedure. It will be one of the first Cabinet papers by Sri Lanka Tourism for the new Cabinet of Ministers,” Sri Lanka Tourism Chairperson told.
- Version Zero of the travel app is being developed with funding from the UN and it will be upgraded to allow tourists to have all the necessary information required to get around the island.
- This app will help to track down the movements of the travelers entering the country post COVID-19.

SLTDA fast-tracks issuance of 'Safe and Secure' tourist hotel compliance certification



Sri Lanka Tourism has fast-tracked the issuance of the 'Safe and Secure' compliance certification to all Sri Lanka Tourism Development Authority (SLTDA) registered entities waiting to resume operations post-COVID-19.

SLTDA recently awarded KPMG Sri Lanka the contract to issue 'Safe and Secure' COVID-19 safety standard compliance certification to registered accommodation and service providers. SLTDA has received over 100 applications for the compliance certificate. KPMG has selected eight hotels in Colombo for the first group and they have been now informed.

- The compliance certification is open to all accommodation providers and travel agents registered with SLTDA — the regulatory and standards setting body of the industry.
- As part of recovery efforts, the SLTDA will roll out this compliance certification process to enhance cleanliness and hygiene practices for 650 tourism-related entities and individuals covering service providers as well as activity/attraction places in the first phase currently in operation.
- SLTDA is investing over Rs. 7 million in the first phase and first assessment will be free of charge. If the free-of-charge first inspection is failed, the hotel will have to bear the cost second time.



Government finalizes West Beira Mixed Development moves

The Government has finalized a mixed development plan to the west of Beira Lake, freeing up crown land for new investors under a public-private partnership model.

Cabinet approval has been sought to vest around 10 acres of prime land in Colombo with the Urban Development Authority (UDA), consisting of the Air Force grounds, Slave Island Police Station, and the Helitours ticketing office

The UDA's Main Planning Committee has recommended that the proposed Colombo Business District (CBD) project be implemented, subject to 50% of the space remaining as open spaces. The Beira Mixed Development project is intended to increase the potential for waterfront development, while enhancing the economic value of property in the area.



The area will be developed based on the recommendations of the Beira Lake Intervention Area Development Guide Plan, which is being revised by the UDA to guide the development trend in the area. The Sri Lanka Land Development Authority (SLLDA), the Colombo Municipal Council (CMC), and the National Housing Development Authority (NHDA) are also involved in developing the Beira Lake and surrounding area, by implementing identified projects.

Fresh finance support scheme for COVID-hit SMEs



The Finance Ministry is to introduce a new financial support scheme to small and medium enterprises (SMEs) to tide over difficulties arising from the COVID-19 pandemic.

“The Treasury has identified that there are SMEs needing capital to continue their businesses. The new scheme is focused on providing a working capital ranging from Rs. 100,000 to Rs 10mn to the SMEs negatively impacted by COVID-19,” Finance Ministry Development Finance Department Director has said.



This loan scheme is available for COVID-19 affected businesses with an annual turnover below Rs 1bn, including self-employment and individuals. The Rs 1bn limit of annual turnover will not be applicable to businesses engaged in tourism, exports, and related logistical supplies.



Sri Lanka's apparel industry, which faced a major setback due to the global health crisis, is finally beginning to witness progresses, with buyer interest showing signs of improvement.

According to Sri Lanka Apparel Exporters Association President Rehan Lakhany the sector has started to receive orders, mostly from the Europe Union (EU). However, an increase in orders is also seen from the USA.

Although the order levels are beginning to move towards a positive trajectory, it is still drastically less, compared to the levels of the corresponding period, of the previous year.

“These are improvements compared to what we were faced within the last few months, the lull period.

Furthermore, Lakhany shared that a silver lining that has emerged from the global health crisis is that the buyers are looking to move away from China as their key source. Reason being, the global apparel sector came to a standstill during the peak of the pandemic, with China closing its manufacturing plants and borders, halting the movement of products out of the country. The unavoidable move by China led to the derailment of supply chains across the world.

“An increasing number of buyers are looking at reducing their dependency on the manufacturing giant. Sri Lanka could reap the benefits of this shift for sure. It is still a wait and watch scenario but even though slow, we are seeing the situation get better,” he said.

International

UNWTO: COVID-19 Caused a 56% Year-On-Year Drop in Tourist Arrivals Between January & May



Tourism is undoubtedly one of the most affected and damaged sectors in the world, by the Coronavirus pandemic.

Data collected and studied by the World Tourism Organization (UNWTO) shows that, international tourism has been badly hit, which will consequently cost three times more than the Global Economic Crisis of 2009.



UNWTO, which is a specialized tourism agency of the United Nations, has been able to come with a comprehensive report on the impact of the pandemic in tourist numbers and lost revenues.

In a press release presenting their findings, the UNWTO explains that their latest edition of World Tourism Barometer shows that the lockdown imposed to prevent the pandemic led to a 98 % fall in international tourist numbers in May, in comparison to the same month last year.

This translates into a fall of 300mn tourists and USD 320bn lost in international tourism receipts – more than three times the loss during the Global Economic Crisis of 2009.

U.S. and European firms face USD 1tn in costs to relocate their Chinese supply chains, BofA says



Foreign firms looking to move their manufacturing processes outside of China in the wake of coronavirus could face USD 1tn in costs over five years, according to new Bank of America research.

Even before the pandemic, BofA's survey of global analysts found that companies were shifting away from globalization and towards a more localized approach when it came to their supply chains. This was due to a host of factors that threatened the network that supplies modern factories, including trade disputes, national security concerns, climate change and the rise of automation.

However, in a new study, BofA suggested that Covid-19 has catalyzed the reversal of a decades-long shift in manufacturing from the U.S. and Europe to China.

The report revealed that the pandemic had caused 80% of global sectors to face supply chain disruptions, forcing over 75% to widen the scope of their existing re-shoring plans.

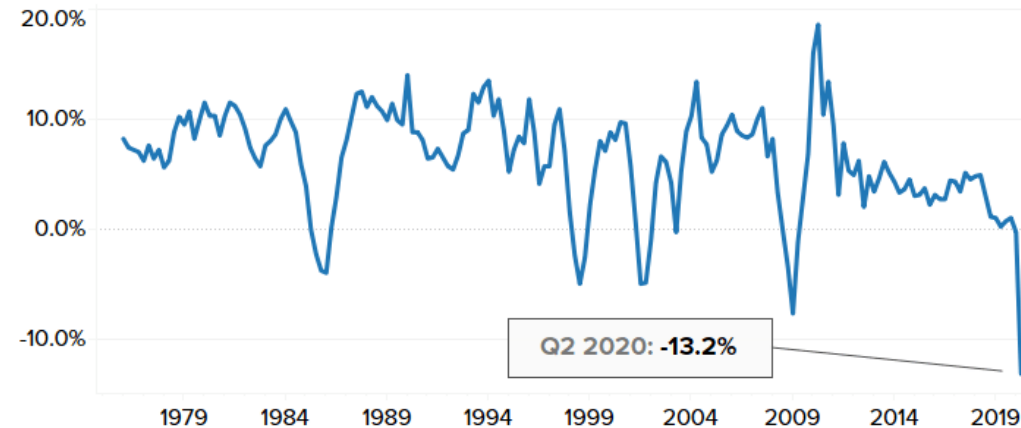
Singapore announces another USD 5.8bn to boost its coronavirus-hit economy



Singapore's government has allocated another **SGD 8bn (USD 5.8bn)** to support the economy that has come under pressure from the coronavirus pandemic, Deputy Prime Minister and Finance Minister Heng Swee Keat said.

Singapore's economic slowdown

Line shows the year-on-year percentage change in real GDP



The Southeast Asian country reported a **13.2% year-over-year contraction** in **gross domestic product** in the **second quarter** — its worst on record, according to official statistics. The Singapore government expects the economy to shrink by between **5%** and **7%** this year, which would be its worst recession.

Brazil, India and South Africa face toughest recovery among G-20 nations, study finds



Brazil, India and South Africa face the harshest road to recovery of all the G-20 (Group of 20) major economies, according to a new study.

The three nations have the second, third and fifth largest Covid-19 caseloads in the world respectively, but Verisk Maplecroft's Recovery Capacity Index also identified underlying governance issues and weaker institutions as impediments to long-term emergence from the crisis.

Brazil, India and South Africa, which cumulatively represent more than 10% of global GDP and 20% of the world's population, are projected to see their economies contract by an average of 7% in 2020, according to the IMF.

Source: CNBC

“There is no substitute for
innovation. Original,
revolutionary ideas will always
rise to the top.”

– **Richard Branson**



The views expressed in Economic Capsule are not necessarily those of the Management of Commercial Bank of Ceylon PLC

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