

PRESS RELEASE

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 இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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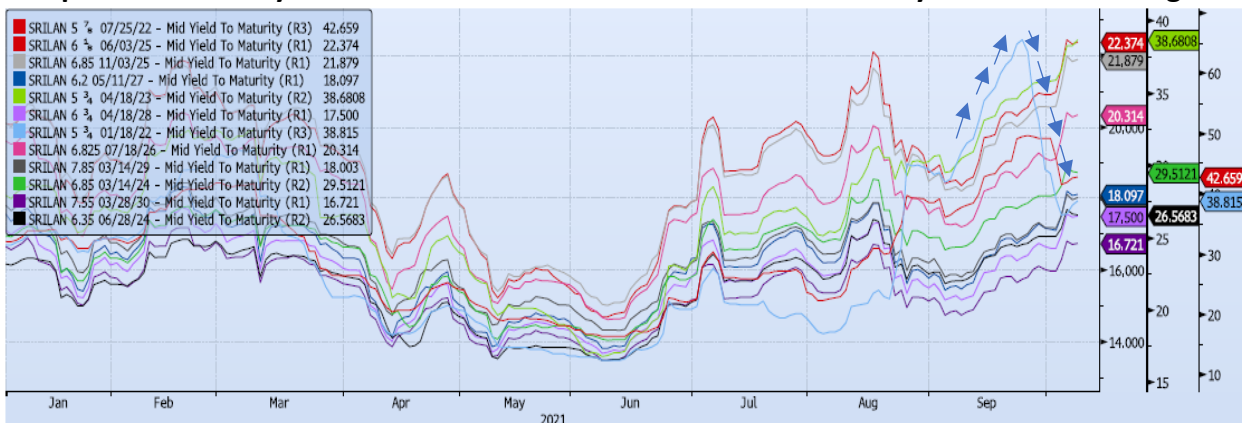
Information Series Note

Sri Lanka’s International Sovereign Bonds maturing in 2022 quoted at discounted prices, but volumes not available for purchase

As per the “6-month Road Map for Ensuring Macroeconomic and Financial System Stability” presented by the Central Bank of Sri Lanka on 01.10.2021, the International Sovereign Bond (ISB) exposure is to be gradually reduced to around 10 per cent of Gross Domestic Product (GDP) over the next 3 years. In line with this objective, having observed the discounted prices at which the upcoming January and July 2022 ISB maturities were trading during the month of September 2021, the Central Bank explored the possibility of executing a buy-back exercise in consultation with a number of International Banks and Lead Arrangers.

The graph below highlights the secondary market yield rate movements of all outstanding ISBs issued by the Government of Sri Lanka (GOSL). According to the graph, the January 2022 ISB maturity which peaked to 69 per cent yield levels on 24.09.2021 gradually reduced to 47 per cent levels on 01.10.2021 and currently trades at 40 per cent levels (marked in ➤ to depict the yield movements).

Graph 1 – Secondary Market Yield Rates Movement of ISBs Issued by GOSL so far during 2021



Source: Bloomberg

Nevertheless, based on market information, it was observed that there was no tangible interest from the bond holders to sell the January 2022 ISB maturities at the discounted price that prevailed during the latter part of September 2021, thereby indicating that buying back a significant volume in order to enjoy a reasonable cost benefit to the issuer would not be possible. The inquiries also revealed that not even 5 per cent of the outstanding January 2022 ISB maturity was available for sale at the discounted prices that were quoted.

Overall, the Central Bank observations on the attempted buy-back initiative are as follows:

- The volume of ISBs that would be sold by ISB investors at the discounted prices that prevailed towards the latter part of September 2021, is highly insignificant. Hence, any attempt by the issuer to buy the very small volume available will not be fair by the large number of ISB holders who wish to hold the ISBs to maturity.
- It is clear that the large majority of ISB holders are not ready to part with the above GOSL ISBs unless prices are at par or closer to par. Hence, a buy-back initiative will also not result in any significant price or coupon benefit to the issuer.
- The above mentioned investor behaviour signifies the continuing confidence of the ISB holders regarding the ability of the issuer (GOSL) to honour its obligations and maintain its unblemished record of debt servicing. Therefore, the concerns raised by certain quarters regarding a possible vulnerability in 2022 are clearly not reflected by this investor sentiment.
- The continuing investor preference seems to be to hold the above GOSL ISBs. Hence, the Central Bank's initiative to proceed with a buy-back of the 2022 ISBs will not yield a successful outcome, given the appetite of ISB holders to hold the GOSL ISBs.