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## EUROPE MARKETS

# Sri Lanka Looks to Chinese Offshore Bond Market

*Sri Lanka Has Tapped the Capital Markets Four Times This Year*

By ANJANI TRIVEDI

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Sri Lanka may become the next country to take advantage of the burgeoning Chinese offshore bond market.

“We are considering the tapping of the renminbi bond market and have obtained some preliminary advice on this matter from investment banks,” Ajith Cabraal Governor of the Central Bank of Sri Lanka told The Wall Street Journal.

Sri Lanka’s potential offering would follow deals by the U.K. and the Canadian province of British Columbia.

Dealogic data show \$32.5 billion of bonds have been issued in the entire offshore renminbi bond market so far this year, more than twice last year’s total.

Sri Lanka has tapped the capital markets four times so far this year, issuing U.S. dollar-denominated bonds totaling \$1.9 billion.

In a Dec. 4 report, rating agency Moody’s Investors Service warned that Sri Lanka had a large government debt burden and “high reliance on external borrowing.”

While the country’s credit rating is three notches below investment grade, the currency has proved to be one of the more stable in the region.

“For sovereigns and quasi-sovereigns, issuing in [offshore renminbi] helps to diversify their foreign exchange reserves, while promoting bilateral ties is also strategically important,” said Devesh Ashra, head of Asia debt syndicate at Bank of America Merrill Lynch in Hong Kong.

Mr. Ashra said this isn’t a short-lived trend and issuance will only rise.

“To have a sovereign come in and issue [in the renminbi bond-market] is very interesting, and it would be a huge diversification play,” said Teresa Kong, an Asia-focused portfolio manager at Matthews International Capital Management, which has \$27.9 billion under management.

The recent slide in oil prices is set to benefit Sri Lanka, a large oil importer, says Ms. Kong. Her fund holds Sri Lankan rupee-denominated government bonds. “This is a good time for Sri Lanka for sure,” Ms. Kong added.

To be sure, investors say they will demand a premium to potentially hold these bonds, as trading in and out of them is sometimes difficult.

Still, the country has produced healthy growth following its civil war. In the second quarter of 2014, it posted 7.4% gross domestic product growth, compared with the same period in the previous year.

“You’re seeing a lot more of this cross-border issuance taking place and obviously, China is trying to encourage it,” said Kenneth Akintewe, a portfolio manager at Aberdeen Asset Management, which has \$525.9 billion under management. “

For Sri Lanka, Mr. Akintewe said a large part of [issuing a renminbi bond] will be “to diversify away from U.S. dollar debt.” Sri Lanka has been trying to encourage some of its banks and quasi-sovereign institutions to issue their own bonds and develop the capability of being able to use multiple sources of finance, even if it may be cheaper to launch sovereign paper.

Mr. Akintewe’s fund holds U.S. dollar-denominated and local currency Sri Lankan government bonds, and he said they have performed well, as inflation has collapsed and the central bank is easing policy, while the currency has remained stable.

If the Sri Lanka deal succeeds, there is a good chance of other sovereigns following in its steps. Investors sources have said that both Malaysia and South Korea may be eying the market.

Eswar Prasad, Professor of Trade Policy at Cornell University said that the renminbi market helps countries to forge closer economic ties with the major economic power in the region.

Additionally, he said, sovereign issuance could “serve as a catalyst for corporate issuance of such bonds, further strengthening linkages with China.”

That said, it is getting late for much more capital markets activity this year, according to Spencer Lake, global head of capital financing for HSBC. “But January and February are when the sovereigns and supranationals are most busy,” he said.

“They tend to get the more mainstream deals out of the way first and later focus on the more bespoke transactions. We’re bracing for a busy year.”

— [Chiara Albanese](#) and [Josie Cox](#) contributed to this article

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