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Sri Lanka eyes dim sum bond issuance

James Crabtree in Colombo Author alerts



Sri Lanka is preparing plans to become the first non-Chinese Asian nation to issue a renminbi-denominated “dim sum” bond next year, in a move that would mark a further step in China’s drive to build a global currency.

Ajith Cabraal, central bank governor, said Sri Lanka was “seriously” examining proposals to issue a first tranche of renminbi debt, as it moves to diversify external holdings.

Sri Lanka’s would be only the second sovereign dim sum issue, following Britain’s move to sell renminbi debt in October, as part of attempts to position London as a financing centre for China’s currency.

Any Sri Lankan sovereign bond is likely to attract particular geopolitical attention, given concerns both in the west and neighbouring India over China’s rising economic and political ties to the strategically-located south Asian island.

Beijing has pushed deeper financial links with Sri Lanka over recent years, including a Rmb10bn (\$1.6bn) currency-swap agreement signed in September to coincide with a visit by President Xi Jinping.

Chinese banks have also provided billions of dollars worth of commercial loans to support major infrastructure projects, including port, road and airport deals.

Mr Cabraal played down concerns about Sri Lanka’s increasing reliance on Chinese funding, arguing that a future sovereign renminbi issue would provide a “hedge” against risks of volatility in other currencies.

“We have been considering that seriously,” he said. “Perhaps next year we will be looking at that option because it is a very real opportunity to diversify our funding sources.”

Economist Eswar Prasad, former head of the International Monetary Fund’s China division, said Sri Lanka’s move was likely to see other Asian economies “start lining up” for similar issues “to strengthen their financial linkages with China”.

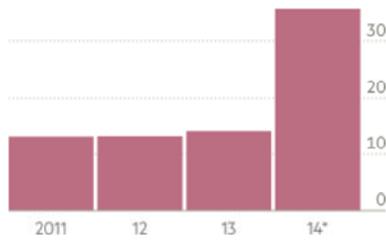
“Sri Lanka’s consideration of this step is certainly rife with symbolism and signals the government’s desire to enhance its economic relationship with China,” he said.

The market for renminbi-denominated instruments issued outside mainland China has grown rapidly since its inception in 2009, forming an important component of China’s ambition to create a truly international currency.

Offshore renminbi bond volumes

\$bn

A record \$32.5bn in dim sums have been issued this year, typically from Chinese or multinational companies, more than double the \$14bn raised during the full year of 2013, according to data group Dealogic.



* Year-to-date
Source: Dealogic

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Sri Lanka's chances of moving forward with the dim sum issue rest in part on the outcome of forthcoming national elections. Incumbent President Mahinda Rajapaksa — the architect of his country's closer ties with China — faces a tough poll battle in January.

Sri Lanka's dim sum plan would follow a handful of issues by quasi-sovereign entities, including the Canadian province of British Columbia, which sold a renminbi bond in late 2013.

Mr Cabraal stressed that no final decision had been taken on the dim sum bond, or its likely size.

Sri Lanka has increasingly tapped overseas bond markets over recent years, raising \$1.5bn of US dollar-denominated bonds last year. Mr Cabraal said further sovereign issuances were likely during 2015.

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