NEWS ROUND UP

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Sri Lanka impermanent Treasury secretary takes up duties

H H R Samaratunga who was re-appointed as impermanent Treasury Secretary by President Maithripala Sirisena had assumed duties on Monday, the finance ministry said.

Samaratunga was Treasury secretary until October 26, when President Maithripala Sirisena appointed Mahinda Rajapaksa as Prime Minister and purportedly dissolved a cabinet.

A second cabinet also stood dissolved after Rajapaksa lost a vote of no-confidence. Under the constitution secretaries also lose office, as the institution of apolitical permanent secretaries was broken after independence from British rule. (EconomyNext)

Sri Lanka's Colombo Port container volumes up 13-pct to 7mn

Sri Lanka’s Colombo port handled seven million twenty foot equivalent container units (TEUs) in 2018, a new high and up 13.2 percent from a year ago, Sri Lanka Ports Authority (SLPA) said.

By December 30 Colombo port had handled 7,027,300 containers, up from 6,209,000 in 2017.

Colombo had been the fastest growing major container port in the world in the first half of 2018, clocking up 15.6 percent growth.

The seven millionth TEU was brought by MV CPO Hamburg of the MSC Line, a statement said.

By the end of this year the transshipment volumes of the Port of Colombo has increased by 19.3 percent, Secretary of the Ministry of Ports, Shipping and Southern Development and the Chairman of SLPA Parakrama Dissanayake said.

The one million TEU increase took only a year compared with longer periods earlier, he told a ceremony to mark the occasion.

The Port of Colombo handled 7 million containers with joint marketing strategies by three terminals, Jaya Container Terminal (JCT), the South Asia Gateway Terminal (SAGT), and the Colombo International Container Terminal (CICT).

Minister of Ports, Shipping and Southern Development Sagala Rathnayake, speaking on the occasion, said that helping to establish democracy was absolutely essential to help industries like shipping to grow.

“If there is no confidence in judiciary and if there is no confidence in the institutions, these industries cannot grow as then there would be no confidence in the country,” he said.

He said the present government was working on a comprehensive marketing policy for the entire shipping industry of Sri Lanka. (EconomyNext)

Sri Lanka maize output expected to be up 61-pct

Sri Lanka's maize output for 2018 is estimated to top 300,000 metric tonnes, up 61 percent from 2017 when the country went through a severe drought.

The maize output for the 'Yala' minor agricultural season which falls in the second half of the year was estimated to be 32,402 metric tonnes up 22 percent from 46,533 metric tonnes of 2017, by the Department of Agriculture.

Most of the maize is produced in the Maha or main agricultural season, where cultivation is currently underway for 2019.

In 2018, Sri Lanka was estimated to have produced 273,951 metric tonnes of maize in the Maha seaons, up 67 percent from a year earlier.

Total output for 2018 is forecasted at 306,353 tonnes, up 61 percent from 190,268 in 2017. (EconomyNext)

Sri Lanka's Horton Place to see US$5mn serviced apartment

A 5.17 million US dollar serviced apartment will be build in Horton Place, an upmarket suburb in Sri Lanka's capital Colombo, the state investment promotion agency said.

The Board of Investment said it the serviced apartment will be built by a company called ARC Estate (Private) Ltd.

The project will provide employment for 100 people.(EconomyNext)

Sri Lanka looks to resume deal with IMF

Sri Lanka is looking to resume talks with the International Monetary Fund after a three year deal was suspended as the central bank failed to meet forex reserve targets and a constitutional crisis erupted.

"We have indicated that we would like to commence talks," State Minister for Finance Eran Wickremeratne said.

Sri Lanka had said it was about to sign the next section of the deal in late October when President Maithripala Sirisena de-stabilized the economy further by triggering a constitutional crisis.

The IMF said it was watching developments. The constitutional crisis ended in December with court ruling against the actions of President Sirisena.

However the program was already suspended by October, as the central bank failed to meet forex reserve targets in 2018 amid money printing that began around the end of the first quarter of 2018.

Sri Lanka has gone to the IMF multiple times as the country was hit by balance of payments crises due to contradictory policy of the central bank, involving defending a peg and printing money (sterilized forex sales) since it was set up in 1951.

In 2018, the pressure on the rupee emerged mainly after a rate cut and liquidity releases in March and April, which led to monetary instability and uncertainty among exporters and rupee bond investors.

Monetary instability was triggered despite cutting the budget deficit and market pricing fuel, which were politically difficult.

The finance ministry had generated a primary surplus in the budget by March.

Unlike in the past both Finance Minister Mangala Samarawera and State Minister for Finance Eran Wickremeratne had pointedly stayed away from interfering in the central bank, giving it full independence.

However the finance ministry had been pushing an enterprise credit scheme through the banking system and there was also an incident involving rupee dollar swaps with the central bank, which could be termed fiscal dominance of monetary at a stretch, analysts say.

The central bank had also made the finance ministry place controls on vehicle imports, hurting tax revenues, instead running consistent policy to prevent the re-emergence of balance of payments trouble through an unstable peg.

The IMF program was due to end in April 2019. The year end gross reserves were expected to be 9.7 billion rupees. But since liquidity injections began in March, the central bank was unable to collect reserves.

Forex reserves have fallen to about 7 billion US dollars. The central bank had spent 1.1 billion US dollars over the past three months in a cycle of peg defence and money printing.

Sri Lanka operates what is labeled a 'flexible exchange rate'.

The 'flexible exchange rate' has turned out to be an unusually unstable soft-peg, where, with a loosely defined convertibility undertaking based on a real effective exchange rate, preventing a disorderly adjustment, giving forward exchange cover through swaps.

However monetary instability is now emerging just as several large debt repayments are coming.

There have been calls to reform the central bank to make it more difficult for the agency to generate monetary instability and currency depreciation.

Analysts had warned before the current three year program, that it would fail unless there was serious reform to the central bank. (EconomyNext)

Brexit 2019: UK will choose between recession and relief

Britain has a stark economic choice to make in 2019: Recession or relief.

The United Kingdom is set to leave the European Union on March 29. Crashing out of the bloc without an exit agreement would result in turmoil; striking a deal would minimize damage to the economy.

UBS economists led by Arend Kapteyn say their outlook for the UK economy is "binary." The disruption to trade caused by a disorderly Brexit would "plunge the UK into recession," they warn. A deal would postpone difficult decisions and provide certainty to business.

Prime Minister Theresa May has negotiated a divorce deal with the European Union, but it faces long odds in parliament. UK lawmakers are expected to vote on the agreement in January.

Abruptly leaving the European Union without a deal in place would spell disaster for companiesin the United Kingdom. They would face new trade barriers and an uncertain legal environment. Business lobby groups have warned that many companies are unprepared for a messy Brexit.

"The United Kingdom would only have time to reestablish the most critical of the hundreds of international trade and regulatory treaties that it is currently party to via its EU membership," said Andrew Goodwin, associate director at Oxford Economics.

Government studies predict the UK economy would be 7.7% smaller 15 years after a disorderly Brexit than if it stuck with current trading arrangements. The damage would be even greater if immigration from the European Union drops.

Economists expect the damage to show up quickly.

Research firm Capital Economics forecasts that a disorderly Brexit would lead to the economy shrinking 0.2% in 2019. It said the pound would likely plummet to $1.12 against the dollar, from its current level of $1.26. According to Oxford Economics, the economy would be 2.1% smaller by the end of 2020 than in a scenario where an exit deal is finalized.

While the UK economy would be worse off under all Brexit scenarios studied by the government, agreeing a deal would provide certainty to companies who have spent the past two years in the dark about future terms of trade with the European Union. Business groups have urged UK lawmakers to approve May's deal.

High levels of uncertainty contributed to a significant slowdown by the UK economy in the second half of 2018. Consumer spending and business investment have also taken a hit since voters chose to leave their biggest trading partner in 2016.

"While the long-term risks to UK potential growth from Brexit loom large, the prospect of a deal presents considerable upside potential for the UK economy over the medium-term," said Kallum Pickering, a senior economist at Berenberg.

Companies that had been most at risk, such as carmakers, would see the greatest benefits from a deal, according to Pickering. Wages would also increase at a quicker pace.

Leaving under May's deal or crashing out without it aren't the only options.

There are two more scenarios that would leave the UK economy better off than a disorderly Brexit: Postponing the exit, or calling it off altogether. (CNN)