

# NEWS ROUND UP

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## ***China clocks in \$ 989 m as SL's largest lender in 1Q***

China was the largest lender to Sri Lanka in the first quarter of 2019 with commitments amounting to \$ 989 million, far ahead of development agencies such as the World Bank, Asian Development Bank, and others, the latest mid-year fiscal report released by the Finance Ministry said.

The Government has made arrangements to mobilise foreign financing of \$ 2,439 million by entering into 19 Agreements with foreign development partners and lending agencies from 1 January to 30 April, to support the public investment program, the Mid-Year Fiscal Position Report released by the Finance Ministry said.

This mobilisation consists of \$ 2,431 million in the form of loans, that is, Official Development Assistance (ODA), and \$ 8 million by way of ODA grants and technical assistance.

China led the ODA commitments during this period, amounting to \$ 989 million, followed by the World Bank (\$ 352 million), Asian Development Bank (\$ 310 million), Asian Infrastructure Investment Bank (\$ 280 million), Japan (\$ 270 million), France (\$ 85 million), HSBC-Hong Kong (\$ 72 million), United Kingdom (\$ 64 million), Austria (\$ 10 million), Korea (\$ 6 million), Food and Agriculture Organisation (\$ 0.3 million), and United Nations High Commissioner for Refugees (\$ 0.02 million), respectively.

Of the commitments made in the form of ODA during the first four months of 2019, the highest amount was committed for the roads and bridges sector (\$ 1,053 million), while the ground transport sector received commitments of \$ 570 million.

In addition to the funds raised from ODA development partners, \$ 2,400 million was raised through International Sovereign Bonds (ISB) during the period under review, of which \$ 1,000 million was raised at a fixed interest rate of 6.85% with a five-year tenure while the balance \$ 1,400 million was raised at a fixed interest rate of 7.85% with a 10-year tenure.

Total foreign financing disbursements made for development projects and programs during the period from 1 January to 30 April amounted to \$ 539 million, of which \$ 535 million was disbursed as loans while nearly \$ 4 million was disbursed by way of grants. The majority of the disbursements were from the loan agreements signed with China, which was almost 40% followed by World Bank (14%), Asian Development Bank (13%), and Japan (12%).

The majority of the disbursements was in lieu of the projects implemented under the roads and bridges sector, accounting for almost 52% followed by the water supply and sanitation sector at 15%, ground transport sector at 6%, and SME sector at 5.5%. (Daily FT)

## ***CSE gains to 1 1/2-week closing high; rupee strengthens***

Shares ended steady on Monday, hitting their highest close in more than a week, while the rupee edged up on dollar sales as month-end inward remittances surpassed greenback demand from importer, market sources said.

The benchmark stock index ended up 0.08% at 5,376.67, its highest close since 19 June. The index rose 0.16% last week and posted its first monthly gain for the year in June, rising 1.15%. However, the bourse is down 11.16% so far this year.

Foreigners sold on a net basis for 15 sessions in 16, the bourse data showed.

Monday's stock market turnover was Rs. 252.6 million (\$ 1.43 million), well below this year's daily average of about Rs. 542.7 million.

Last year's daily average was Rs. 834 million.

Foreign investors sold a net Rs. 162.9 million worth of shares on Monday, extending the year-to-date net foreign outflows to Rs. 6.5 billion.

The currency edged up at 176.25/35 per dollar, compared with Friday's close of 176.40/50, market sources said. The rupee rose 0.17% last week and is up 3.6% so far this year.

The island nation raised \$ 2 billion via five-year and 10-year sovereign bond sales last week, tapping global capital markets for the second time in three months.

Analysts expect the rupee to weaken further as money flows out of stocks and government securities. The rupee dropped 16% in 2018 and was one of the worst-performing currencies in Asia.

Foreign investors bought a net Rs. 2.26 billion worth of government securities in the week ended 26 June, but the island nation's net foreign outflow was at Rs. 18.4 billion so far this year, Central Bank data showed. (Daily FT)

### ***Fitch rates Sri Lanka's \$ bonds final 'B'***

Fitch Ratings has assigned Sri Lanka's \$ 500 million 6.35% bonds due 2024 and \$ 1.5 billion 7.55% bonds due 2030 a final rating of 'B'.

The final rating is in line with the expected rating assigned on 24 June.

The bonds ratings are in line with Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B' with a Stable Outlook.

The ratings would be sensitive to any changes in Sri Lanka's Long-Term Foreign-Currency IDR.

Fitch downgraded Sri Lanka's Long-Term Foreign- and Local-Currency IDRs to 'B' from 'B+', with a Stable Outlook, in December 2018.

### ***China leads Sri Lanka's new debt in 2019 with US\$990mn expressway loan***

China led in new loan agreements signed with Sri Lanka for the first 4 months of 2019 with a 989.5 million US dollar loan, while also leading in loans disbursed, the Treasury said.

The government had signed 19 loan agreements worth 2.4 billion US dollars during the four months, which is nine times higher from the 266.2 million US dollars year earlier.

The country also received 8 million US dollars in grants. However, there could be more grants than listed, as the Auditor General had said that state departments independently secure grants without the knowledge of the Treasury, flouting regulations.

The largest loan signed was with China, to construct the Kadawatha-Meerigama section of the Central Expressway.

The 20-year loan has a concessional fixed interest rate of 2.5 percent, with a 6-year grace period.

Chinese loans have been scrutinized internationally amid allegations that they are putting developing countries in debt traps.

Sri Lanka in 2017 signed an agreement to lease the Hambantota Port to China after the debt repayments became too heavy.

The Asian Development Bank (ADB) was the second largest financier signing loan agreements with Sri Lanka for far in 2019 with 310 million US dollars of commitments, of which 300 million US dollars is for the port access elevated highway project.

Landslide mitigation and Colombo urban regeneration projects are set to receive 280 million US dollars from the Asia Infrastructure Investment Bank.

Japan signed a 270.5 million US dollar loan for Colombo's light rail public transport system, while France partnered for a 85 million US dollar loan for waste disposal system in the Moratuwa and Ratmalana suburbs south of Colombo.

In total 66.8 percent of the new loan agreements signed were for roads, bridges and ground transport projects, while 11.2 percent was for health and social welfare, and 8.7 percent for housing and urban development.

China also led in terms of financing disbursed to Sri Lanka over the four month period.

Of the 539 million US dollars in loans and grants Sri Lanka received during the period, China provided 213.7 million US dollars (40 percent).

The World Bank provided 14 percent of the total, while the ADB provided 13 percent and Japan 12 percent.

Just over half the funds received were for roads and bridges, and ground transportation, while 15 percent were for water supply and sanitation and 5.5 percent for developing small and medium-sized businesses.

Sri Lanka has 10 billion US dollars in undisbursed loans to be used over the next 5 years, of which a quarter will be from China.

Another 18.7 percent of financing yet to receive is from Japan, with a similar amount from the ADB and 13.5 percent from the World Bank. (Daily FT)

### ***SriLankan Airlines loses Rs12.9bn up to April 2019***

State-run SriLankan Airlines has lost 12.9 billion rupees in the first four months of 2019, a finance ministry report said, up from 17.2 billion rupees for the full year 2018.

The finance ministry said the total debt of SriLankan Airlines was 750 million dollars.

The government was bearing 375 million dollars and 26,250 million rupees of contingent liabilities on account of losses piled up since 2014.

"This includes the guarantee granted for International Bonds and letters of comfort issued to obtain loans during the BIA closure in 2016," the report said.

"Therefore, it is observed that the GOSL needs to have a significant business restructuring model, owing to the high possibility for the Government to bear the loss, and also due to the high correlation between Aviation industry and the tourism sector in the country."

The current administration has failed to privatize SriLankan Airlines despite there being no significant political opposition to a sale.

The cabinet of ministers had since approved a re-structuring plan in May 05 given by an expert committee appointed by President Maithripala Sirisena. (Economy Next)

## ***Global stocks rally on Trump-Xi trade ceasefire***

Stock markets rose Monday after US President Donald Trump and Chinese counterpart Xi Jinping agreed on the sidelines of the weekend Group of 20 summit to resume trade negotiations toward a long-term deal.

Solid gains in Asian and European stock markets were followed by a winning session on Wall Street, including a fresh record for the S&P 500.

Oil prices also rose as the Organization of the Petroleum Exporting Countries and its oil producing allies agreed to extend their oil output caps.

Yet trade was at the center of the session following the long-anticipated G20 meeting.

Major US indices had opened the session more than one percent higher but pulled back as the session progressed.

Key questions remained unresolved, such as when existing tariffs could be lifted or how the two countries could resolve differences on technology-related trade and intellectual property.

"Investors heaved a massive, but exhausted, sigh of relief that both the US and China opted to push the reset button and restart trade negotiations amidst other pleasantries -- now we'll have to see whether it all sticks," said Stephen Innes at Vanguard Markets.

The broad-based S&P 500 advanced 0.8 percent to 2,964.33. That is about 10 points above the prior record but about 13 points below its peak earlier in the session.

"Obviously, it's great to hear that the imminent scare is gone but the uncertainty is still very much there," said Nate Thoof, senior portfolio manager of Manulife Asset Management.

"We have no defined date for the next discussions, no agreement on the major sticking points. The skepticism continues to be there."

- 'Exhausted sigh of relief' -

Elsewhere on Monday, WTI crude jumped back above \$60 per barrel for the first time in a month after OPEC kingpin Saudi Arabia and non-cartel producer Russia said they would extend caps on oil output.

Oil prices later gave up some of their gains, however, as analysts suspected OPEC and its allies would be unable to assuage all the markets' worries.

"As such, the new deal will probably fail to address the rising non-OPEC supplies at a time the world economy is slowing, which could mean lower demand growth," Forex.com analyst Fawad Razaqzada told AFP.

"Thus, the oil market is likely to be oversupplied again in due course, which means prices may struggle to push significantly higher from here," he added.

- Key figures around 2050 GMT -

New York - Dow: UP 0.4 percent at 26,717.43 (close)

New York - S&P 500: UP 0.8 percent at 2,964.33 (close)

New York - Nasdaq: UP 1.1 percent at 8,091.16 (close)

London - FTSE 100: UP 1.0 percent at 7,497.50 (close)

Paris - CAC 40: UP 0.5 percent at 5,567.91 (close)

Frankfurt - DAX 30: UP 1.0 percent at 12,521.38 (close)

EURO STOXX 50: UP 0.7 percent at 3,497.59 (close)

Tokyo - Nikkei 225: UP 2.1 percent at 21,729.97 (close)

Shanghai - Composite: UP 2.2 percent at 3,044.90 (close)

Hong Kong - Hang Seng: Closed for a holiday

Euro/dollar: DOWN at \$1.1283 from \$1.1373

Dollar/yen: UP at 108.44 yen from 107.85

Pound/dollar: DOWN at \$1.2637 from \$1.2696

Brent North Sea crude: UP 32 cents at \$65.06 per barrel

West Texas Intermediate: UP 62 cents at \$59.09 per barrel.  
(Economy Next)

## ***Police chief faces crimes against humanity charge over Sri Lanka attacks***

Sri Lanka's police chief and a top defence official should be tried for "grave crimes against humanity" over failure to prevent Easter bombings that killed 258, the state prosecutor said Monday.

Dappula de Livera said Inspector-General of Police Pujith Jayasundara and Defence Secretary Hemasiri Fernando failed to act on advance warnings of the deadly April 21 suicide attacks.

"The two officials should be brought before a magistrate for their criminal negligence to prevent the April 21 attacks," de Livera said in a letter to the acting police chief.

"Their negligence amounts to what is known under international law to be grave crimes against humanity."

There was sufficient evidence to prosecute both officials for murder which carries the death penalty, de Livera said. For lesser charges of negligence leading to damage of property, they could face up to 52 years in prison.

Both should be treated as "criminal suspects", de Livera said, strongly hinting that the duo should be arrested.

He ordered acting police chief Chandana Wickramaratne to record statements from both men and produce them before a magistrate without delay.

The attorney general said a presidential commission of inquiry had found "major lapses" by Fernando, who has since resigned from his position which was directly under President Maithripala Sirisena.

While Fernando is the most senior defence official to face action, Sirisena suspended police chief Jayasundara after he refused to step down over the handling of the attacks.

Another nine senior police officers have also been named by the attorney-general as suspects who should be prosecuted for their role in the security lapses.

Jayasundara and Fernando have testified before a parliamentary inquiry and accused Sirisena of failing to follow established protocols in assessing threats to national security.

Jayasundara who continues to occupy his official residence in Colombo, has petitioned the Supreme Court challenging his suspension. The case is yet to begin.

-WARNINGS IGNORED-

Authorities have admitted that warnings sent by India of an impending attack by a local group, the National Thowheeth Jama'ath (NTJ), were ignored.

Three churches and three luxury hotels in Colombo were hit by suicide bombers who pledged allegiance to the Islamic State group.

Some 45 foreign nationals were among the dead and 500 people were injured in the attacks. The tourist hotspot has been under a state of emergency since.

Sri Lanka's State Intelligence Service (SIS) has also been criticised for failing to act on the Indian warnings issues as early as April 4, nearly two and a half weeks before the attack, but no-one from the state spy service has been put under investigation.

Sirisena, who is also defence minister and law and order minister, has faced allegations that he too could have prevented the attacks if he took intelligence reports seriously.

The president has objected to a parliamentary investigation into the attacks and ordered police not to co-operate. The hearings, however, have gone ahead.

Indian intelligence shared information about the targets -- gleaned from a jihadist in Indian custody.

Local Muslim groups have also alerted both police and intelligence units to a potential threat posed by a radical cleric, Zahran Hashim, who led the suicide bombings.

The minority Muslims have faulted the authorities for not arresting Hashim when they complained his radical preachings and calls for violence against non-believers. (Economy Next)