NEWS ROUND UP

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Cabinet approves Appropriation Bill

Cabinet yesterday approved the Appropriation Bill for 2019 that was presented by Finance Minister Mangala Samaraweera that allocates Rs.2.2 trillion for debt payments, which is the highest the Sri Lankan government has ever had to pay.

Finance Minister Mangala Samaraweera
Accordingly, this year's annual State Expenditure will be Rs.4.5 trillion and State revenue Rs.2.4 trillion. The State revenue which was 11.5% of GDP in 2014 has gradually increased after the Coalition Government came into power and is expected to be raised to 15.12% of GDP in 2019, the Finance Ministry said in a statement.

The National Budget for the year 2019 will be prepared under the Medium Term Fiscal Framework (MTFF) by adopting the performance-based budgeting approach with the aim of strengthening the ongoing fiscal consolidation programs, the statement added. The Government is also aiming to achieve the target of increasing State revenue to 17% and limiting recurrent expenditure to 15% of GDP by 2021.

"Rs.2.2 trillion has been allocated for debt servicing in 2019. This is the largest amount of money a government in the history of this country is compelled to bear for debt servicing. The recurrent expenditure inclusive of the payment of interest will include Rs.2.36 trillion while the capital expenditure will cost Rs.876 billion," it added.

Finance Minister Samaraweera's second Budget will have some ambitious targets including maintaining the debt to GDP ratio to just 70% and limiting recurrent expenditure to 15% of GDP. Capital expenditure will also be limited to only 3.5% of GDP

The deficit target is in line with the Government's plans, which were announced by Prime Minister Ranil Wickremesinghe in 2017. However, the Government has failed to hit deficit targets since 2017 with the 2018 target of 4.6% likely to be about 5% according to the Central Bank. The deficit target for 2018 was missed largely due to weather problems and the International Monetary Fund (IMF) had indicated that it would accept the revised target. Therefore reducing the Budget Deficit to 3.5% in an election year is likely to be challenging, according to experts.

Sri Lanka's debt to GDP ratios are likely to be closer to 80% as the Government will have to borrow to repay about $2.9 billion in 2019. Ratings agencies had earlier indicated that Sri Lanka's debt to GDP ratios will remain higher than its peers in the short term as high debt repayments are likely to continue till 2022. Currently Sri Lanka's debt to GDP is about 78%, according to the Central Bank.

The Appropriation Bill will be presented to Parliament by Finance Minister Mangala Samaraweera on 5 February and the Budget will be presented on 5 March. After the third reading the Budget vote will be taken on 4 April. (Daily FT)

Rupee ends firmer on mild dollar inflows; stocks down

The rupee recovered further on Monday, after hitting a record low in the previous week, helped by mild dollar inflows.

The Colombo Stock Index fell 0.74% to settle at 6,022.99. The Bourse had lost 5% in 2018.

The turnover was Rs. 405.1 million ($2.22 million), less than half of last year's daily average of Rs. 834 million, as investors awaited political cues after last year's turmoil.

Foreign investors were net sellers of Rs. 205.9 million worth of shares on Monday.

They have been net sellers of Rs. 13.7 billion worth of stocks since the political crisis began. The bond market saw outflows of about Rs. 74.3 billion between 25 October and 2 January, the Central Bank's latest data showed.

Last year until 26 December, foreign investors pulled out net Rs. 22.8 billion from stocks, and Rs. 159.8 billion from Government securities, data from the Bourse and Central Bank showed.

The rupee ended at 182.30/40 on Monday, compared with 182.60/80 in the previous session, market sources said. On Thursday, the rupee had fallen to an all-time low of 183 against the dollar.

The currency fell 19% in 2018, making it one of the worst-performing currencies in Asia, Refinitiv Eikon data showed, due to heavy foreign outflows.

The currency has declined about 5.1% since a political crisis began on 26 October.

The Central Bank last week said it will stick to an exchange rate policy of cautious intervention in times of excessive volatility in the forex market.

That policy is designed to maintain competitiveness of the exchange rate and support the rebalancing of the current account, thereby supporting a gradual build-up of Central Bank Chief Indrajit Coomaraswamy said on Wednesday, unveiling economic policies for 2019.

President Maithripala Sirisena appointed a cabinet of ministers from his rival party on 21 December after he was forced to reinstate Ranil Wickremesinghe as prime minister, 51 days after he was sacked.

The political crisis is expected to ease, though tense relations between the two men could cause fiscal problems, analysts have said. Parliament has approved Rs. 1.77 trillion ($9.39 billion) to meet the first four months of expenditure in 2019, averting a Government shutdown from 1 January.

Credit agencies Fitch and S&P downgraded Sri Lanka's sovereign rating in early December, citing refinancing risks and uncertain policy outlook. (Daily FT)

Govt. loses Rs. 18 b tax revenue due to illicit cigs: Research

The Government incurs an estimated loss of Rs. 18 billion tax revenue due to thriving illicit cigarettes, which are smuggling into the country through container shipments and individuals in their luggage, as per the first ever baseline research on the matter released yesterday.

According to the report findings, over 583 million illicit cigarettes, which amounts to 15.57 % of the total tobacco market, have entered the country incurring the Government a staggering revenue loss of estimated Rs. 17.98 billion in 2017.

The report titled 'A Baseline Study on the Illicit Cigarette Market and the Resulting Tax Implications for Sri Lanka' has stated that the infrastructure and human resource constraints at law enforcement level, coupled with the potential extraordinary profits to be made and low penalties, there is considerable incentive for people to engage in the illegal trafficking of cigarettes.

The large-scale smuggling is carried out through container shipments despite detections by Sri Lanka Customs, which has inadequate infrastructure facilities and human resources to detect and monitor the growing number of containers passing through the port daily, the report has stated.

“The main objective of the research is to understand the illicit cigarette market in the country and to estimate the possible consequences for the economy. The perception of the society is that Sri Lanka was becoming a hub for this illicit trade. The existence of the illicit market has implications on the tax collection functions of the government and also the law enforcement agencies and their role in combating illicit trade practices. Therefore, estimating this market is of national importance,” Open University Head of Social Studies Dr. S.N. Morais said.

The three-member research study has found that the illicit cigarette market is thriving due to limited capacities of law enforcement institutions, regulation-related constrains, intelligence information leakages, low penalties and corruption.

The small-scale smuggling of illicit cigarettes into the country by individuals through their luggage has increased significantly mainly due to the increase in foreign migrant workers in the country.

The research team has done the assessment using the butt collection, empty pack survey, test purchase and smoker survey.

“According to the butt collection survey, illicit cigarettes account for 15.6 % of the total cigarette consumption and the highest percentage was reported from Matara (26.5%). In Colombo, it is 10.7%. In the empty pack survey, the illicit cigarettes accounted for 10.8%of the total packs collected from districts and the highest is from the Kalutara District which has accounted for 14.7%,” University of Kelaniya Department of Commerce and Financial Management Senior Lecturer Dr. C.N. Wickramasinghe said.

He said that nearly 28 % of the smokers who were interviewed had consumed illicit cigarettes during the week prior to the interview and on average, one out of four smokers had consumed at least one illicit cigarette in the previous week.

The report has stated that the advancement in technology and communication networks, as well as globalisation factors, have opened new avenues in favour of smugglers, providing an ideal environment for illicit trade to thrive.

It is also said that in addition to the massive revenue losses incurred, a booming illicit trade also undermines the Government’s tobacco control policies.

The researchers said that the study had been able to clarify that the widely believed assumption that increasing taxes on legitimate cigarettes will lower the smoking rates, can be misleading.

The report states that the decline in legitimate cigarette sales is not an indication of a reduction in overall smoking, as in most cases, smokers may have switched to cheaper options and illicit cigarettes.

The report recommends the policymakers to adopt several key measures, in line with the WHO’s Framework Convention on Tobacco Control to curb the trend, including, enforcing the already existing criminal laws pertaining to the illicit cigarette trade, streamlining legislation to curb smuggling and local trading activities of illicit tobacco products through severe punishments and imposing rigorous investigation and criminal prosecutions and broadening the coverage of tobacco tax to include substitute products including beedi and cigars, improving infrastructure in customs investigations with state-of-the-art anti-smuggling equipment such as X-Ray scanners, endoscopes, mirrors, night vision equipment and advanced cameras and building capacity of law enforcement institutions, including the Customs, Excise Department and Police to control smuggling and trading of illicit cigarettes. (Daily FT)

Hunas Falls share price gains further

Share price of Hunas Falls Hotels Plc continued its upward trajectory, touching an intra-day high of Rs. 160 before closing at Rs. 155.40, up by 18% as investors took speculative positions on possible sale of controlling stake by Hayleys Group.

The Rs. 23.60 gain was after 32,434 shares changed hands via 294 trades, creating a Rs. 5 million turnover. Last week Hunas Falls topped the gainers list up 63.7% or Rs. 51.30 to close at Rs. 131.80. It hit an intra-week high of Rs. 137.40. Around 85,000 shares changed hands via 516 trades for Rs. 10 million. Net Assets per share of Hunas Falls is Rs. 60.39 as at 30 September 2018, down from Rs. 63.67 a year earlier.

Chairman of both entities, Mohan Pandithage said two major shareholders – Carbotels Ltd. and Amaya Leisure PLC – have informed that they have been approached by a prospective buyer to purchase the shareholding. This is subject to a due diligence.

Hayleys-linked companies Carbotels Ltd. holds a 50.22% stake, and Amaya Leisure has a 16% stake. The other major shareholder is Jetwing Group with 15%. The latter also managed the property until 2011.

Company analysts said at least three parties are vying for the stake with Hayleys signing Non-Disclosure Agreements. A few months ago Jetwing had made a bid but Hayleys hadn't found it attractive enough.

The public holding of Hunas Falls is 31.06% held by 2,193 shareholders and if the deal goes through the eventual buyer will trigger the mandatory offer.

Last year (FY18) Hunas Falls reported a loss of Rs. 13 million as against a profit of Rs. 3.2 million in the previous year. Industry analysts said any new buyer would be required to invest further in revamping Hunas Falls which is popular for weddings and honeymoons. (Daily FT)

CSE amends listing rules to make Multi Currency Board a reality

The Colombo Stock Exchange (CSE) has amended the Listing Rules to facilitate the listing of the shares by foreign companies on the Multi Currency Board (MCB) of the CSE, under the Alternate Market Segment.

In this regard, the CSE has also amended the ATS Rules and the CDS Rules to facilitate the MCB.

As per the amended Listing Rules, a foreign entity may list its shares denominated in a currency approved by the Central Bank on the MCB of the CSE. Investing and trading in such shares will be permitted only to non-resident investors who operate through a Custodian Bank of the CDS.

A foreign entity referred to herein is defined as: a body duly incorporated or established outside Sri Lanka, which has its shares listed in a stock exchange of the country of its incorporation and seeking a secondary listing of its shares on the Multi Currency Board of the Exchange." (Daily FT)

Consortium to invest Rs. 700 m in MBSL Insurance

A consortium of investors is to infuse Rs. 700 million in to MBSL Insurance Ltd., as part of an overall initiative to recommence the business.

The Merchant Bank of Sri Lanka and Finance Plc (MBSL) insurance subsidiary is currently suspended due to failure to comply with minimum capital requirements stipulated by the insurance regulator IRCSL.

Daily FT learns the investor is United Capital Holdings Ltd., which includes a consortium comprising institutions and individuals.

MBSL will invest a further Rs. 500 million bringing the capital infusion to Rs. 1.2 billion.

MBSL said it has entered into an investment agreement on 31 Dec. 2018 with a strategic investor for the purpose of capital infusion of Rs. 700 million and MBSL will invest the balance Rs. 500 million.

The relevant approval from IRCSL has been obtained and the MBSL and strategic investor intends to conclude the proposed capital infusion of Rs. 1.2 billion in insurance venture before 31 January this year.

As at 31 December 2017, MBSL has made an impairment provision of 95.9% of the investment in the insurance subsidiary. MBSL shares are currently in the Watch List by the CSE as the FY17 audited accounts contained an emphasis of matter on going concern pertaining to insurance subsidiary.
(Daily FT)

Oracle on course to be #1 in Apps

Oracle, the global leader in business software, is forging ahead with innovative and industry leading solutions on its path to be world's undisputed number one in applications.

To its credit, Oracle commands industry leadership in banking, communications, engineering and construction, financial services, healthcare, insurance, public sector, retail and utilities among others.

It is also the world's number in application server, applications development and deployment, business analytics, business software, database, database management tools, database on Linux and UNIX, database warehouse, deployment-centric applications platform, engineered systems and integrated platforms, enterprise performance management, human capital management, identity governance

and administration, lead management and marketing automation, logistics, middleware, project and portfolio management, supply chain execution, talent management and transportation management.

This achievement is impressive but is buttressed by Oracle having over 18,000 patents worldwide and empowered by 137,000 employees including 38,000 developers and engineers, 14,000 support and services specialists and 19,000 implementation consultants.

A key testimony of Oracle's success is the growing customer base, estimated at 430,000 in 175 countries and revenue of $ 40 billion in FY2018. Oracle customers include 10 of the 10 top aerospace and defence companies; 20 of the 20 top auto companies; 20 of the 20 top banks; 9 of the 10 top consumer goods companies; 9 of the 10 top engineering and construction companies; 20 of the 20 top governments; 20 of the 20 top high tech companies; 20 of the 20 top insurers; 20 of the 20 top manufacturers; 20 of the 20 top medical device companies; 20 of the 20 top oil and gas companies; 20 of the 20 top pharmaceutical companies; 20 of the 20 top retailers; 20 of the 20 top supply chains; 20 of the 20 top telcos; 20 of the 20 top universities and 10 of the 10 top utilities.

Leader in ERP

Oracle is the clear leader in cloud Enterprise Resource Planning (ERP) with ERP been the largest segment of the enterprise applications business for the Company.

Oracle’s two cloud ERP businesses, Fusion ERP and NetSuite ERP, in the just concluded second quarter of FY19 had delivered a combined revenue growth rate of 32%.

“With nearly 6,000 Fusion ERP customers and over 16,000 NetSuite ERP customers, Oracle is the clear leader in cloud ERP,” Oracle CEO Mark Hurd said. As customers migrate from their traditional on-premise ERP to the Oracle Fusion ERP Cloud, the Company sees more room for growth in the future.

At OpenWorld 2018 in San Francisco, Oracle showcased the next era of Cloud or the second generation version that is purpose built for the enterprise and more technologically advanced and secure. Extending its lead in the cloud ERP market, Oracle also announced new artificial intelligence updates to Oracle Enterprise Resource Planning (ERP) Cloud and Enterprise Performance Management (EPM) Cloud. The latest machine learning based innovations deliver rapid, data-driven insights, which empower the office of the CFO to embrace new business models, capitalise on new market opportunities, and increase profitability.

Oracle ERP Cloud helps organisations of all sizes quickly and easily take advantage of the latest innovations in artificial intelligence, digital assistants, natural language processing, blockchain, and the Internet of Things to enable enhanced productivity, reduced costs and improved controls.

Oracle has ERP Cloud customers in over 80 countries spanning over 20 different industries. It enjoys a 21% global market share in the ERP industry.

Oracle also says cloud technology adoption worldwide is progressing faster than originally anticipated and in the future the inclusion of features like Artificial Intelligence (AI) will accelerate productivity and innovation at the enterprise level.

“Cloud is core, Cloud is foundational to modern business,” declared Oracle CEO Mark Hurd at the OpenWorld 2018. “Cloud is irrefutable and the reality is that Cloud adoption is moving faster than predicted,” he emphasised.

“It is too compelling and eventually, all will move to the Cloud. It costs less, and can get more work done apart from it being more secure,” Hurd added.

The Oracle CEO said going forward, Cloud and integrated technologies like AI would help organisations lower costs while driving innovation and improving productivity.

To reinforce its dominance and prowess at OpenWorld 2018, Oracle unveiled its Gen 2 Cloud.

Oracle Chief Technology Officer Larry Ellison said while first generation clouds are built on decade-old technology, Oracle’s Gen 2 Cloud is built specifically to help enterprises run the most demanding workloads securely.

With a unique architecture and capabilities, Oracle Cloud is able to deliver unmatched security, performance, and cost savings. Additionally, only Oracle Gen 2 Cloud is built to run Oracle Autonomous Database, the industry’s first and only self-driving database.

Autonomous database

“The 40-year old Oracle is a data company. We were born as a data company and data is our DNA. So our existence and success reinforces the fact that we have been good custodians of data. We have the world’s largest knowledge base of data, its importance and its security. So, for customers who are conscious of these concerns, Oracle is a natural choice," said Oracle ASEAN and South Asia Growth Economies (SAGE) Cluster Regional Managing Director and Vice President Cherian Varghese.

At Open World 2018, the Oracle Autonomous Database, the world's most popular and technologically advanced database came under spotlight. Revolutionising data management, Oracle Autonomous Database manages, tunes and patches itself, enabling users to innovate faster on a highly secure platform that allows users to pay for only what they use.

"The Oracle Autonomous Database lowers costs by eliminating human labour and increases reliability by eliminating human error. And Oracle is the only database that automatically patches and upgrades itself while running," according to Ellison.

Oracle Autonomous Database uses ground-breaking machine learning to enable unprecedented availability, high performance and security at a much lower cost. Running on Oracle Cloud Infrastructure, Oracle Autonomous Database is a self-driving, self-securing, and self-repairing database that automates key management processes, including patching, tuning and upgrading to keep critical infrastructures automatically running for a modern cloud experience. The cloud service is designed to uniquely scan for security threats and apply updates while running to prevent cyber-attacks and data theft. The portfolio includes Oracle Autonomous Transaction Processing and Oracle Autonomous Data Warehouse with each database cloud service tuned to a specific workload.

Extending Oracle's autonomous database capabilities, the OpenWorld 2018 saw a preview of new deployment options, including dedicated Exadata Cloud Infrastructure and Cloud at Customer.

Customers can choose to deploy their Autonomous Database on Dedicated Exadata Cloud Infrastructure for workload isolation to enable even greater security and reliability for mission-critical workloads.

Oracle Autonomous Database Cloud at Customer is ideal for customers who choose not to move to a public cloud because of regulatory requirements but want the benefits of Oracle Autonomous Database in their own data centre.

Empowerment of firms by Oracle isn't confined to the West alone but is fast embracing enterprises in the Asia Pacific as well.

CEO Hurd said that all markets in Asia, including emerging economies, are recording good growth for Oracle ERP solutions.

"We are doing extremely well in Asia Pacific and we are bullish about our growth and future prospects. Throughout ASEAN and SAGE, we see a lot of successes as we continue to make this region a key priority," added Varghese, who oversees 18 countries including Sri Lanka. (Daily FT)