NEWS ROUND UP

Thursday, September 13 , 2018

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SL not in Chinese debt trap: PM

Prime Minister Ranil Wickremesinghe yesterday denied that Sri Lanka was in danger of spiralling into a debt trap from excessive Chinese borrowing, and insisted the country was not "under threat" from trade tensions between US and China.

Speaking at the World Economic Forum in Vietnam, Wickremesinghe noted Sri Lanka had not given control of the Hambantota port to China, and strove to provide a balanced view of Sri Lanka's debt situation.

"There is a fair amount of Chinese investment, there are China loans, but I can't see it as a threat and the amount is not big. Our largest loans are still dollar-denominated. As far as the loan-debt portfolio is concerned, our biggest chunk today would be the international sovereign bonds. With China, we did have short term issues regarding the Hambantota Harbour and the Mattala Airport, but that has been sorted out and at least we are turning them into profitable projects," he said.

He pointed out that China had lent significantly to a number of countries, not just Sri Lanka, but the Government was focused on managing its debt-servicing challenges, which were largely from borrowings linked to international financial markets. "China was lending money in the period from 2008 to 2014/2015. At that time, China was the main lender. There was no objection when China was lending to all the countries. We did point out that too much of borrowings can cause issues for us, but the biggest segment of debt is what we have raised on the international financial markets, and we are committed to paying them. We cannot be negotiating or renegotiating it. With China or some other country, we may have some room, but certainly not with international sovereign debt."

Wickremesinghe also insisted the Government was focused on maintaining the currency at practical levels, and said Sri Lanka was focused on building reserves by encouraging exports and investment.

"We are staying within the fiscal limits that have been set. We have borrowed sufficient money and we are pushing export earnings. Last year, $11.7 billion was the highest export earnings we have ever had, and this year I think it's going to be more."

"We and many others are running deficits in Asia, and that certainly would be a matter of concern, but so far we have been able to negotiate with the rating agencies, and it has certainly not affected our borrowing capacity," he added.

Pharma industry delivers bitter pill on pricing cap

In the backdrop of the Government attempting to expand price controls on drugs, the pharmaceutical industry yesterday called for a transparent and sustainable pricing mechanism inclusive of all stakeholders, along with a stronger quality assurance mechanism, warning of serious risks if the situation is not addressed immediately.

"In Sri Lanka, what we lack is a quality lab and testing mechanism, we don't have any way of testing what is registered and sold. Having price control, whether it is sustainable in terms of efficacy and safety, is our biggest concern. We do not test what comes in at the registration point either," Sri Lanka Chamber of The Pharmaceutical Industry Senior Vice President Kasturi Chellaraja Wilson said.

Wilson, warning that price controls imposed by the Government may lead to compromises in quality of imported products, stressed the "dire need" for the country at present is "to make sure that efficacy and safety wouldn't be impacted."

"You cannot expect a company which is investing in high quality plants as per standards outlined, plus research, to sell at this price and continue to supply to Sri Lanka," she warned, adding that if the country is to ensure that high quality products remain in the market, a proper pricing mechanism has to be followed.

Pix by Indraratne Balasuriya

Further, she warned that the price cap now in place and instability in the industry may lead to brands and suppliers pulling out of the market, as Sri Lanka is relatively a small market in the global scenario.

Faced with a four-year price freeze after pharmaceuticals were declared an essential good in 2014, pharmaceutical industry leaders claimed the pricing cap imposed on selected drugs by the regulator, National Medicines Regulatory Authority, have put a further strain on a sector which is already affected by fluctuations in exchange rates.

"Pricing has been frozen for the last four years, and there was a significant reduction of close to 60 products, which we believe is unsustainable for all the stake holders in the industry, across manufacturers, importers, distributors and retailers," SLCPI President Shyam Sathasivam said.

The Chamber, despite having reached out to both the NMRA and the Health Ministry to devise a sustainable pricing mechanism for medical drugs and devices, said that their requests have not been heard.

"What we continue to ask for is something within the NMRA act, a transparent process where all stakeholders are involved, where there is clarity regarding the choices of products and the choices of formula that goes towards this. This has been an issue that we continue to work with NMRA," Sathasivam claimed.

Calling for a systematic procedure to implement price reductions, the Chamber said that it was a challenge to understand the basis of the "drastic price reductions" of 48 molecules (drugs) which the Ministry announced in December 2016, causing serious exchange losses for the industry.

"Our challenge was the base of the 48 molecules, and on the basis on how the reductions were done. At that point, the only clarification was that it was very similar to the model that has been followed in South Asia," Sathasivam said.

Noting that the price control mechanism switched from a cost plus base to a consumer plus base, he claimed that the second round of reductions announced a month ago, "came as a surprise", where selection of drugs and devices were done on a more individual basis.

However, the controls imposed have failed to take into consideration the exchange rate fluctuations, despite having a significant influence on the pricing, Sathasivam said.

Sri Lanka imports 85% of its medicinal drug market, with 50% of the supply met through private sector importers. Any price mechanism implemented by the regulator should have a strong exchange fluctuation component, Wilson stressed.

"Although we are an import country, we do not have a mechanism to release exchange fluctuations for the industry, unlike in many other sectors, like in oil pricing," she said.

"Exchange is not within our control, and we cannot be forced to subsidise this for the market for so long," she said, urging the regulator to implement a pricing mechanism which took into consideration the exchange fluctuations as well.

Sri Lanka Economic Summit 2018 kicks off today

The Sri Lanka Economic Summit 2018 will be inaugurated this morning (13) at the Cinnamon Grand, Colombo. The two-day event, which is Sri Lanka's foremost economic summit and organised by the Ceylon Chamber of Commerce for the 18th consecutive year, is being held on the theme 'On the Fast Track to a Turnaround'.

"The theme 'On the Fast Track to a Turnaround' was chosen with the aim of identifying levers that can be used by key policymakers and the private sector to drive change. The six thematic sessions will feature a wide range of strategies through which Sri Lanka can build momentum and overcome the slow economic growth it has seen thus far," said Ceylon Chamber of Commerce Chairman Rajendra Theagarajah in his message to SLES 2018.

SLES 2018 will close with a dedicated session on presentation on the findings of the summit with a high-level panel discussion on taking it forward, which Prime Minister Ranil Wickremesinghe will be part of.

Fifty top expert speakers and panellists are lined up to speak at SLES 2018, forming a high standard intellectual debate on issues that relate to state and private sector efforts of driving an economic turnaround.

KPMG India Chairman and CEO Arun M. Kumar will address the summit today at its opening as the Keynote Speaker. His extensive experience in his travels around the world and engagement with senior Government and business leaders, provides the 2018 SLES an ideal and insightful speaker to kick off the two-day event.

The summit will see the attendance of 400 participants and the majority consists of chairpersons, CEOs, senior management of the corporate sector, senior public sector officials, and academics.

Standard Chartered Bank is on board as the Platinum Sponsor for the event, CHEC Port City Ltd. as Gold, Sunshine Holdings as Silver, and Tata Holdings and London Stock Exchange Group as Strategic Sponsors. Economy.lk, Dialog Axiata PLC, Echowave, Cinnamon Grand Colombo, and Omnicom Media Group are also on board as Partners of the summit.

Rupee hits fresh low; ends steady

The rupee hit a fresh low on Wednesday before ending steady as late dollar sales by banks outpaced demand for the greenback from importers early in the day.

However, the unit was still under downward pressure due to global strengthening of the US currency, traders said.

The dollar was largely unchanged on Wednesday as markets remained cautious over the likelihood of an escalation in the trade conflict between the United States and China in the backdrop of growing weakness in the renminbi, but an index for emerging-market currencies was near a 16-month low hit the day before.

The rupee touched a fresh low of 162.70 per dollar on Wednesday, surpassing its previous low of 162.65 hit on Thursday, when it hit a record low for the 13th straight session.

Junior Finance Minister Eran Wickramaratne told Reuters last week that the Government would leave it to market forces to decide the level of the rupee.

But the Central Bank on Thursday cut the net open positions of the banks to increase dollar liquidity forcing commercial banks to sell dollars to ease the pressure on the currency.

The local currency ended at 162.35/45 per dollar, unchanged from Tuesday's close.

Currency dealers have declined to speak to the media since Tuesday citing Central Bank instructions.

Central Bank Governor Indrajit Coomaraswamy, who is out of the country, late on Tuesday said he was unaware of such a move.

The currency has weakened 0.6% so far this month after a 1.2% drop last month, and has declined 5.9% so far this year. It will be under depreciation pressure due to year-end seasonal importer dollar demand, dealers added.

The currency is also hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the Indian rupee, which also hit a record low on Wednesday, has been one of the worst performers in Asia this year.

Foreign investors sold Government securities worth a net Rs. 6.44 billion ($39.68 million) in the week ended 5 September, extending the net outflow so far this year to Rs. 53.3 billion worth of securities, Central Bank data showed.

Shares fall to 2-week low on foreign selling

Shares fell for a third straight session on Wednesday and marked a two-week closing low as foreign investors sold blue-chips after a research report said the country was facing risk of an exchange rate crisis.

Analysts said investors were worried after Japanese bank Nomura Holdings ranked Sri Lanka among seven emerging market economies that were at risk of an exchange rate crisis.

However, the Central Bank in a statement said that Nomura Holdings has made a serious computational error with regard to Sri Lanka's external vulnerability and its short-term external debt is nowhere near the $ 160 billion figure that Nomura analysts quoted.

Nomura later corrected the figure to $ 7.5 billion, but said its analysts have used the same figure to calculate the country's Damocles score for the analysis and thus, it is unchanged.

The Colombo stock index ended 0.59% weaker at 6,059.00, its lowest close since 29 August. It had risen 0.6% last week in its third straight weekly gain.

"Investors were worried over the Nomura ranking, but they corrected external debt figure and accepted it was wrong. We expect people to build confidence back," said Softlogic Stockbrokers Deputy CEO Hussain Gani.

Analysts also said the increase in fuel prices also weighed on the market.

Sri Lankan fuel retailers raised gasoline and diesel prices for a third time in four months on Tuesday due to higher global oil prices and a weaker rupee, a Finance Ministry official said.

Turnover stood at Rs. 967.8 million ($ 5.96 million), more than this year's daily average of Rs. 793.9 million.

Meanwhile, investors are also awaiting cues from the national budget which the Government is set to unveil in November.

Shares of Ceylon Tobacco Company PLC fell 1.8%, while Distilleries Company of Sri Lanka ended 2.2% weaker. Conglomerate John Keells Holdings PLC closed 0.8% down, and Sampath Bank PLC lost 1.8%.

Sri Lanka using FTAs in multi-party system is courageous: Aussie Expert

FTAs are not a quick fix," Elizabeth Ward, Chief Negotiator for Australia in its FTA with Hong Kong said at a discussion at Lakshman Kadirgamar Institute, a Colombo-based think tank.

"Unless you're a one party government, using FTAs to do reforms will be hard. It's a courageous thing to do," she said.

Sri Lanka has run into stiff resistance on FTAs from opposition parties and their affiliated special interest groups and activists, who have benefitted from restricting consumer freedoms for decades.

After Sri Lanka liberalised trade in 1977 from a closed economy, protectionism has crept back in by the 2000s, according to the International Monetary Fund (IMF).

The International Monetary Fund has said that so-called para tariffs in Sri Lanka have effectively doubled protection on goods and services.

Protectionism is granted for effective lobbying by a few, and not to further freedoms of the poor and bring prosperity to all citizens. Import tariffs feed corporate greed by allowing producers to sell goods at artificially high prices by eliminating competition with the help of the coercive power of the state.

Ward said as long as the government doesn't communicate benefits of FTAs properly, groups will be able to manipulate public sentiment.

She said Sri Lanka should set up a trade policy which has bipartisan support, so that changes in government do not sabotage liberalisation or FTA negotiation processes.

University of Colombo Economics Department Professor Sirimal Abeyratne said that widespread trade reforms should be done before FTA negotiations, as using FTAs for reforms is inviting outsiders to fix local problems.

"Opening the economy and cleaning up internal problems should come first," he said.

"We shouldn't ask outsiders to come in and clean our house. We should clean the house and then invite them for dinner."

"FTAs should come. I have no disagreement with FTAs, but if we don't have a fairly open trade regime, even FTAs would not bring about anticipated positive outcome."

He said Sri Lanka has to improve its investment climate first.

He also said if Sri Lanka maintains protection against the rest of the world and opens up only to a few countries, natural trade flows will be affected.

"If we have FTAs in this context with a few countries, then distortions are going to be bigger," he said.

"We're not in for fair trade. We're keeping protection against others, and opening for a few. Then fundamental flows are disrupted. There should be natural trade flows."

Laugfs, ExxonMobil grab Sri Lanka lube market share in 2018 1Q

ExxonMobil and Laugfs has gained lubricant market share in Sri Lanka the first quarter of 2018 from a year earlier, but market leader Chevron Lubricants appeared to have clawed by some volumes compared to the full year 2017, official data shows.

Chevron Lubricants Lanka Plc's market share fell to 41.9 percent in the March quarter from 46.9 percent a year earlier, a report by the Public Utilities Commission of Sri Lanka shows.

According to full year 2017 Chevron's market share was down to 39.98 percent from 45.29 percent in 2016.

The lubricant market in Sri Lanka had fallen the quarter to 16,843 kilolitres sold from 17,278 kilolitres a year earlier.

Chevron, a privatized state firm, had been steadily losing market share, as the lubricants sector was progressively liberalized restoring economic freedoms lost to riders and drivers in 1961, when petroleum was made a state monopoly.

Chevron's market share nearly halved from 71 percent in 2009 to 39.9 percent in 2017.

Chevron's long-serving chief executive Kishu Gomes resigned suddenly this May without any explanation. Its slock price had also fallen.

The multi-national, then Caltex, acquired the state lubricants monopoly in 1994 and enjoyed a monopoly until 2003. A domestic blending monopoly continued for several more years.

The oil giant had been speaking against further liberalization and giving economic freedoms to citizens of Sri Lanka. It had also warned against so-called 'fake' lubricants, made up of recycled used oils.

Sri Lanka has now called for proposals to license more lubricant brands.

One of the biggest gainers during the March 2018 quarter was Laugfs, a Sri Lanka based company, with its market share increasing to 5.9 percent from 3.5 percent a year earlier. Laugfs carried out a rebranding exercise last year.

ExxonMobil grew its share to 7.2 percent from 5.4 percent a year earlier.

Second largest market player Lanka IOC Plc managed to marginally grow its market share to 16.7 percent in the first quarter, from 16.6 percent a year earlier.

The state-run Ceylon Petroleum Corporation, the third largest, saw its market share fall to 7 percent from 7.9 percent a year earlier.