

# NEWS ROUND UP

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## Contents

China's BRI massive economic opportunity for SL: PM .....	2
Sirisena to contest 2020 Presidential elections: Duminda .....	2
SCB sees big scope for Colombo Port City .....	3
Crucial evaluation of SriLankan Airlines restructuring progress under way.....	4
VAT on imported fabric reduced to 5% .....	4
Rupee hits record low for 4th straight day.....	5
Sri Lanka's regulations, multiple state agencies blocking progress.....	5

## ***China's BRI massive economic opportunity for SL: PM***

China's Belt and Road Initiative (BRI) will be a massive economic opportunity for Sri Lanka, assured Prime Minister Ranil Wickremesinghe, while also allaying concerns surrounding the country's sovereignty.

"As long as we do not allow security issues to come in, there should not be a problem with BRI. We have told this to the Chinese Government and they appreciate it. Both countries are looking at BRI as an economic project," the Premier said, during a panel discussion at the closing session of the Sri Lanka Economic Summit last week.

He pointed out that while for many countries the BRI has mainly been a project to fund infrastructure, Sri Lanka he explained has moved beyond that and reached the next stage - that of reaping economic benefits.

"We have done the infrastructure, we have gotten the Hambantota Port going as a public private partnership (PPP) with China Merchants and Sri Lanka Ports Authority (SLPA). Now we have got to focus on attracting foreign direct investments (FDIs) similar to Colombo Port City," he said.

The Premier also emphasised that the Government is keen on pursuing Japanese and Indian investments in these key major projects.

"Let us focus on these two projects, which is the next stage of bringing in FDIs to the country. Let this be a start. We are not stopping anyone else. It will make Sri Lanka that much more attractive," he stated.

Meanwhile in reference to Sri Lanka's outstanding foreign debts - roughly \$ 50 billion - which were incurred in building up the country's infrastructure, he said they were relying on meeting necessary FDI targets in order to service them. And while some 10% of the debt is owed to China, Wickremesinghe noted that a majority of it has been incurred via international sovereign bonds, which he said is a more pressing concern in terms of repayment. (Daily FT)

## ***Sirisena to contest 2020 Presidential elections: Duminda***

President Maithripala Sirisena would be contesting the 2020 Presidential elections, a senior SLFP Minister revealed yesterday.

Irrigation, Water Resources and Disaster Management Minister Duminda Dissanayake told the Daily FT that President Sirisena would definitely contest the next Presidential election. "President Sirisena will most definitely contest the upcoming Presidential election. We will reveal our strategy at a later date." He said that President Sirisena is expected to be President till 2025.

President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe at the inaugural ceremony of EvalColombo2018, held in Colombo yesterday

Furthermore, Minister Dissanayake said that the issue of SLFP members supporting other political parties would be discussed at the next Central Committee meeting.

“The matter of SLFP members supporting and canvassing for other political parties, such as the Sri Lanka Podujana Peramuna (SLPP), will be addressed at the next Central Committee meeting. We will decide on a firm stance on this matter,” he said.

Soon after the ‘Janabalaya Kolambata’ protest organised by the Joint Opposition and the SLPP earlier this month, Minister Dissanayake told the Daily FT that disciplinary action should be taken against the SLFPers who took part in the protest.

“According to the Constitution of our Party, promoting another Party, aiding or helping another Party is not allowed. Those who engage in such action can be expelled from the Party,” Dissanayake told Daily FT.

However, he claimed that the Party did not take ‘harsh decisions’ against the group with intention of reuniting the Party.

“But we cannot hold them back if they really want to break away. They have been appearing for the new Party, and then they took part in the rally. So, now we have to understand that they are no longer members of SLFP,” he claimed.

The next SLFP Central Committee meeting is scheduled for tomorrow. (Daily FT)

### ***SCB sees big scope for Colombo Port City***

The Colombo Port City has the potential to be a key catalyst for foreign direct investments in Sri Lanka for a long time to come, believes Standard Chartered Bank Sri Lanka CEO Jim McCabe, but only if essential legislation is put in place to facilitate Sri Lanka as a regional hub.

“We must catapult Sri Lanka into a regional centre and break down barriers that prevents it reaching its full potential. If the required legislation is put in place for the Port City, it will become incentivised and will facilitate this project, which will definitely prevent it from being a ghost city,” he told the Sri Lanka Economic Summit organised by the Ceylon Chamber of Commerce last week.

With the project set to be involved in important transfers of technology and innovation, he pointed out that this will be a significant source of employment and skill-building. In addition, he noted, it will attract large value creators for Sri Lanka in areas such as education, health services, research and development centres, MICE (meetings, incentives, conferences and exhibitions) activity, and financial services.

“I think we need to embrace it and not be fearful. I believe the benefits are in a parallel manner and it is not in competition with the rest of this country.”

McCabe also suggested implementing some other large projects, including power plants, airport expansions, an oil refinery, as well as the East Container Terminal at Colombo Port that has been in the pipeline for a while, to boost public and investor confidence in the economy.

“We have many projects that are pending right now around the country. We need to take a bunch of the RFPs responded to by large numbers of local and global partnerships and make all of them happen. These are the types of actions, if carried out in a short period of time, which will truly create an important change in the minds of the local and global communities.”

With the extent of the potential gains out there for Sri Lanka, McCabe called on both the public sector and private sector to work together to grab the opportunity. (Daily FT)

## ***Crucial evaluation of SriLankan Airlines restructuring progress under way***

The Committee overseeing the restructuring efforts of national carrier SriLankan Airlines has called for an evaluation of reforms carried out, with plans to make recommendations to the Cabinet, top Ministry source said.

Both the Finance and Public Enterprise Ministries met last week to discuss ways of offloading the debt burden of the airline, in a bid to find new investor. Although discussion has focused on creating a Special Purpose Vehicle to absorb all the debt, no final decision has been made on the matter until an evaluation on the restructuring has been completed by the two committees, Officials Committee and the Ministerial Committee, Daily FT learns.

The meeting to discuss the debt burden included members of the Board of Directors of SriLankan Airlines, members of the Officials Committee, and officials from Bank of Ceylon and People's Bank. Finance Mass Media Ministry Senior Advisor Mano Tittawella were also present, along with the two ministers.

At the meeting, the committees decided that a proper evaluation needed to be carried out to understand progress made under restructuring efforts.

"The restructuring board claim that progress have been made in route rationalisation, internal cost cutting, and in other departments, but this has not been quantified. So we are trying to understand to what extent the restructuring has happened," one source told Daily FT.

The evaluation will also take into consideration the restructuring plan given by British consultant Nyras Consulting Company, specialising in the global aviation sector, which was appointed to lead the restructuring of the carrier.

The evaluation will require the committees to meet at least three to four times to finalise, one source told Daily FT. Once the evaluation is done the committees will formulate a set of recommendations to the Cabinet on the future plan for the Airline, Daily FT learns. (Daily FT)

## ***VAT on imported fabric reduced to 5%***

Finance Minister Mangala Samaraweera, considering the requests made by the stakeholders in the fabric industry, has reduced the Value Added Tax (VAT) on imported fabric to 5%.

The Minister signed the Gazette notification in this regard yesterday. Earlier, the fabric was subject to Rs. 100/kg CESS at the time of imports.

The Budget 2018 had proposed to impose a 15% VAT on goods, the Value Added Tax Act No. 14 of 2002 was amended accordingly, and the new VAT scheme came into effect from 16 August.

As fabric was also subject to this 15% VAT, the importers, traders and industrialists engaged in using fabric as raw material for making readymade garments had appealed to the Minister of Finance to provide them some relief as small-scale traders and industrialists who are not covered under VAT Act suffer adverse effects.

The Minister made this decision to amend the VAT Act further to reduce the VAT on imported fabric to 5% considering the possibility of giving a helping hand to proposed small-scale industrialists under the enterprise Sri Lanka scheme. Enterprise Sri Lanka, the subsidised loan scheme by the Ministry of Finance and Mass Media has introduced an interest subsidised loan scheme for medium and small-scale manufacturing industrialists and they can obtain fabric as raw material at a low cost. (Daily FT)

## ***Rupee hits record low for 4th straight day***

The rupee touched a fresh low of 165.10 per dollar on Monday due to higher dollar demand from importers and banks to facilitate foreign bond outflows amid exporters who were reluctant to sell the US currency, market sources said.

Exporters expect the rupee to be under pressure due to continued importer dollar demand and less exporter dollar sales.

Emerging market currencies were mostly weaker after a strong run last week following the Turkish Central Bank's decision to sharply raise interest rates to shore up confidence in the lira.

The rupee touched a fresh low of 165.10 per dollar, Reuters data showed, surpassing its previous low of 163.60 hit in the previous session. It ended at 165.00/30 per dollar, weaker from Friday's close of 163.60/70.

The sources said an illiquid market for dollars, dollar buying by foreign banks to facilitate bond outflows and importer demand weighed on the currency.

The Finance Ministry would not intervene in exchange rate management, Junior Finance Minister Eran Wickramaratne said last Thursday at an economic forum, adding that the Central Bank would intervene as and when necessary to curb excess volatility in the exchange rate and also punish speculators.

The country's Central Bank cut the net open positions of the banks on 6 September to increase dollar liquidity, forcing commercial banks to sell dollars.

Since last week, currency dealers have been refusing to speak to the media, citing instructions from the Central Bank. However, Central Bank Governor Indrajit Coomaraswamy said late on Tuesday that he was unaware of any such move.

The rupee has weakened 2.1% this month after a 1.2% drop last month, and has declined 7.4% so far this year.

It will be under pressure due to year-end seasonal dollar demand from importers, dealers have said.

The currency has also been 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, is Asia's worst performing currency this year.

Foreign investors sold government securities worth a net Rs. 2.6 billion (\$ 15.78 million) in the week ended 12 September, extending the net outflow so far this year to Rs. 55.9 billion worth of securities, Central Bank data showed. (Daily FT)

## ***Sri Lanka's regulations, multiple state agencies blocking progress***

Sri Lanka's multiple ministries and agencies and regulations is making it difficult to implement policy and red tape was hindering trade and investment, and reform are required to unlock growth, officials said.

"Sri Lanka compared to other emerging markets has more restrictive FDI and trade regulatory environment," Eteri Kvintradze resident representative of the International Monetary Fund said.

"There is much more to be gained if this environment is more open and less regulated."

#### Frozen in Time

Sri Lanka lost its trade competitiveness and its trade structure has not changed in the last 25 years, while East Asian economies moved very fast in export diversification and moving up global value chains, she said.

"Sri Lanka's export structure is frozen it's because it is highly protected and regulated and there is no space for innovation. To be competitive and innovative Sri Lanka needs a less restrictive regulatory environment," Kvintradze urged.

"Sri Lanka's next growth platform is institutional reforms," she said.

Growth opportunities require competitiveness and innovation and this requires reducing regulatory burdens and streamlining institutional processes.

"What surprises me about Sri Lanka is that whenever there is a problem the solution is another commission, or an institution or another agency.

"There are so many institutions and so many strategies it's very hard to do anything. There should be less regulation and fewer institutions," Kvintradze said.

Planned reforms are getting stuck due to multiple agencies, she said.

Automation on top of more institutions is not a solution, but consolidating and streamlining institutional processes and getting ridding of unnecessary regulations and paperwork were critical, she said.

"Sri Lanka knows where it's going and has set ambitious goals for itself to be a regional hub in trade and development. Sri Lanka also knows how to get there.

"These reforms have been discussed many times, and strategies designed but where it ends depends on implementation."

#### Reforms bound to fail

Macroeconomic reform efforts could be futile without institutional and structural reforms, economists argue.

About 43 government agencies overlook various aspects of trade in Sri Lanka.

There are 207 procedures and 204 non-tariff measures, and 252 forms that need to be filled and 269 legal documents that explain various trade measures, a recent World Bank study showed.

Sri Lanka has introduced a trade information portal bringing all these institutions and processes under a single website hoping to improve ease of doing business by reducing regulatory costs.

"The trade portal will be a failure because non-of the institutions are under obligation or incentivised to provide information," Subhashini Abeysinghe, Research Director at Verite Research, speaking at the summit warned.

Many government agencies have their own websites.

"There is no information on their websites because they don't want to give information," she said.

Another problem identified by Verite Research is the absence of documented processes for many of the procedures.

Bloated bureaucracy

Sri Lanka's next president's mandate should be public sector reforms in order to take the economy to the next stage of development, , Eran Wickramaratne, State Minister of Finance and Mass Media, told the Sri Lanka Economic Summit.

"We need a new constitution that says Sri Lanka has 25 ministries and no more. No political leader in this country should be given any discretion to decide what the ministries of this country".

Sri Lanka has committed to removing para-tariffs to foster a rules-based trading system and improve competition. The minister said he was surprised to learn the number of regulatory processes and procedures when the online trade portal was being developed.

But reforms can be challenging.

"We are going in that direction, despite hiccups in implementation, we are moving towards a rules-based system taking discretion away from politicians and bureaucrats," he said.

"There are so many reforms to be done, but the challenge is what do we prioritise?"

"How do you rollback the social welfare state when people expect free education, a government job and then a pension after retirement?" Sri Lanka has 1.4 million public servants. Japan has 850,000.

Sri Lanka's population is 21 million, Japan's 120 million.

"The next big reform that this country needs is public sector reforms or there will be no development," Wickramaratne said.

Critics also say a fundamental problem with Sri Lanka's state sector is the lack of permanent secretaries which has made officials act arbitrarily to the tune of politicians and engage in corruption without implementing rules fairly and quickly.

Officials who act justly by the people and refuse to engage in corrupt or unjust acts may be sent to the 'pool'.

Sri Lanka also has a licensing regime, which has bred corruption.(Economy next)