

NEWS ROUND UP

Thursday, July 19, 2018

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Govt. amends NBT

Parliament yesterday approved the Nation Building Tax (NBT) (Amendment) Bill with changes allowing several sectors to be exempted from NBT to increase entrepreneurship opportunities and foster economic growth.

Moving the Nation Building Tax (Amendment) Bill second reading debate at Parliament, State Minister of Finance Eran Wickramaratne said that NBT exemptions were one of the proposals of the Budget, and the Government was moving the amendment to allow its implementation. Under the new regulations certain aspects under tourism, imported gems for value addition, equipment for advanced agriculture and machinery for coconut oil production and related items are exempted from NBT.

The Nation Building Tax (NBT) was introduced in 2009 by the Rajapaksa administration on importers, manufacturers, retail and wholesale operators of goods and services. “Initially NBT of 2% was levied based on the turnover. Based on the 2018 Budget, this was amended to include one particular item and to release the remainder from NBT. We levied NBT on liquor. Some matters related to tourism, importing of gem stones for value addition and re-export, equipment used for advanced agricultural technology, equipment necessary for coconut oil and related industry are exempted from NBT. With effect from 1 August 2017, contracted agreements on construction were also exempted from NBT,” the State Minister said.

Exemptions on NBT is targeted at expanding and incubating entrepreneurship in Sri Lanka, according to Wickramaratne. The Minister pointed out that, compared to other countries, Sri Lanka had a smaller percentage of entrepreneurs and it was essential to expand this number to promote economic growth.

“Few large companies contribute more to the export sector of lower income countries. That is why the Minister of Finance presented Enterprise Sri Lanka concept during the budget. Today, we have 230,000 entrepreneurs in Sri Lanka and they account for 2.8% of the total workforce. In Vietnam you have 19.6% and in Thailand there is 28.5% entrepreneurs. But larger countries such as Bangladesh there is 11.6% and China has 7.5% entrepreneurs. Sri Lanka should have at least 10%. We need to encourage entrepreneurship,” he added.

Removing the barrier to become an entrepreneur, the Government has come out with loan schemes with moderate terms and conditions. New loan schemes were launched to encourage entrepreneurship. The Government has come forward to absorb the interest and reimburse the banks.

“We have introduced many loan schemes, out of which Govi Navodaya targets farmers, disbursing Rs. 500,000/- credit at 3.5%. The Vivashakthi loan scheme was launched yesterday where Rs. 4 million is given at 3.38%. Under Enterprise Sri Lanka loans can be obtained till Rs. 750 million. Madya Aruna is a loan scheme for media persons. Arambuma loan scheme is for the young graduates who would start entrepreneurship. Under this scheme they could obtain up to Rs. 1.5 million without interest and guarantors. Under Sathkara Nivasa scheme, small players could develop tourism in the rural. They could obtain up to Rs. 5 million,” explained the State Minister.

Due to floods and droughts, Sri Lanka has seen a fall in the agricultural sector, the Minister observed. Agriculture declined 3.2% but recovered to about 4.2% in the first quarter.

“The services sector has gone up from 3.3% to 4.4%. But unfortunately, the industry sector has a fall from 6.3%. Inflation has also come down during the 1Q while exports have gone up by 6%. The imports of consumable items have gone up by 15%. The arrival of foreign tourists in January – May has gone up by 15% from 887,000 to 1 million. The official reserves have appreciated by 30%,” the Minister said. (DailyFt)

NDB secures loan up to \$75 m with Commerzbank Germany

National Development Bank (NDB) has successfully negotiated a loan up to \$75 million, from Commerzbank Aktiengesellschaft Germany recently. Dubai-based Alpen Capital [ME] Limited was the lead arranger to this loan facility. The proceeds of this loan are to be mobilized in NDB's general banking business, without restrictions on any specific sector.

The signing of the Agreement between NDB and Commerzbank took place on 12 July, at the Dubai International Financial Centre (DIFC), with representation from the two entities, as well as arranger Alpen Capital [ME] Limited. Commenting on the signing of the Agreement with Commerzbank, NDB Group CEO Dimantha Seneviratne stated that NDB is privileged to be a stakeholder of this facility, proceeds of which are expected to strengthen the balance sheet, and be disbursed at competitive rates to customers. Raising of these funds at competitive rates, at an acceptable tenor with no restriction on specific sectors for disbursement, and also the appetite by Gulf-based financial institutions, shows the confidence the international financial community has placed on NDB. This Agreement also resulted in an influx of foreign currency in to the country for value added deployment.

The Bank is presently driven on an ambitious mid-term growth strategy, and proceeds of this nature are expected to provide much impetus in expanding the Bank's balance sheet and steering towards its goals.

NDB is committed to the development of the country and its citizens, as a trusted financier with a track record nearing 40 years. It is of the firm conviction that the disbursement of these funds across individual, micro financing, SME and corporate clients will further contribute to NDB's mission in ensuring the success of its customers, and the country at large.

(DailyFt)

BPPL begins first-ever polyester yarn production facility

Signifying a breakthrough in Sri Lanka's industry, the country's first state-of-the-art polyester yarn plant was inaugurated on Tuesday by BPPL Holdings, a top brush maker in Asia. The facility is another milestone for BPPL, directed by wholly-owned subsidiary Eco-Spindles Ltd., aimed at promoting innovative sustainability where yarn is produced entirely from Polyethylene Terephthalate, commonly known as PET flakes.

The raw material for the plant's yarn is sourced through post-consumer waste PET bottle collections.

BPPL Managing Director Anush Amarasinghe stated, "We recycle nearly 200,000-250,000 tons of PET each month. That's approximately 20% of what Sri Lanka imports. While we are using such large quantities of PET waste, we reduce the need for new PET."

Amarasinghe speaking on the investment for the production plant said: "Both the yarn spinning plant and the washing plant cost us about Rs.400m. Our main clients are the fabric mills industry people like the MAS Group, Hirdaramani Group and we're also looking at exporting this yarn. Our main target is to double the collection to 400,000 tons per month within the next 12 months and we have bottle collection points and sectors spread across the country to achieve this goal. To double the production we will have to expand the plant too."

He said that the initial response to the yarn that the plant has produced had been very positive. He also spoke of the increasing demand for yarn and how they are going to address it. "Sometimes the demand exceeds supply, which means that we have to expand, and we will be doing that in a few months' time," he added.

In an effort to set new standards in the industry, Eco Spindle's technologically advanced new yarn facility, located in Horana BOI Zone, has a 13,000 sq. meter area and a capacity to produce 960 tons of synthetic yarn per annum for local and globally renowned fabric manufacturers.

The state-of-the-art polyester yarn plant is one of two plants in the world which create yarn directly from flakes, circumventing the polymerisation process where flakes are converted to chips and then to yarn.

The PET bottles are then sorted, hot, and cold washed prior to being transformed into flakes finally, into recycled draw textured polyester yarn. This polyester yarn is available in both raw white and dope dyed yarn forms.

Another value addition is the plant's dope dyeing capabilities offering colour pigmentation insertion as part of the extrusion process.

Amarasinghe also added that the plant would assist the local apparel industry. "Sri Lanka, as you know, has a very big apparel industry. It has a huge number of apparel manufacturing plant operations in the country. It now has a very large number of fabric mills. MAS Group, Hirdaramani Group, Brandix, they all have big fabric mills. But all those fabric mills import yarn from countries including Taiwan, China and Hong Kong into making the fabric. So this is the first yarn spinning mill in the country. So it basically means that you don't need to import yarn anymore and this is another major step in the apparel industry of the country," he said.

He also mentioned the differences between the Sri Lankan plant and yarn spinning plants in other countries. According to him, the Sri Lankan plant can produce recycled yarn and virgin yarn.

"We have added a little twist to this in being able to reproduce recycled yarn. Most of the recycled yarn comes from countries like Taiwan, it requires more sophisticated equipment, a more complex manufacturing process. This is a plant that can produce recycled yarn as well as virgin yarn depending on the customer requirement," he added.

Amarasinghe noted that the amount of PET bottles imported was damaging the environment, adding that this initiative was a step in the right direction to lessen the impact that imported PET bottles have on the environment.

"If you think about the whole magnitude of this operation, the fact is that Sri Lanka imports 1,200 tons of PET every month for making different types of soda bottles. Some of that gets exported, but a large part of that remains within the country. The fact that we are collecting 200-250,000 tons every month, that's 20% of what the country imports. If we didn't do this you can only imagine the amount of PET bottles that would go into landfills and get burnt, the problems that they would create. By recycling such a large quantity we reduce the amount of virgin PET that is required, which will contribute to the betterment of the environment," he elaborated.

(DailyFt)

KPMG launches first-ever report on SL's banking sector

KPMG has launched its first-ever report on Sri Lanka's banking sector, highlighting industry trends, challenges and opportunities.

Titled "Sri Lanka Banking Perspectives", it provides a snapshot of the industry performance of last year and the first quarter, as well as dealing with a host of immediate challenges faced by the industry. They include Cyber Security and Regulation, especially IFRS9. It also provides a macroeconomic overview and key banking indicators.

KPMG Sri Lanka Managing Partner Reyaz Mihular said the Sri Lanka team was inspired by the firm's influential global publication "Frontiers in Finance", and feedback from local clients to have a country-specific version. He added that the release of the Sri Lanka Report was timely as the banking industry prepares for IFRS 9 compliance during this year, and the BASEL III regulation requirements next year. "The banking and financial services is a significant sector of the economy, hence the publication will help multiple stakeholders," Mihular added.

KPMG Partner and Head of Banking Services Ranjani Joseph said the launch of the Sri Lanka Report compliments the firm's historic local and global expertise. For example, locally, KPMG handles seven of the 11 top banks. "Going forward, we hope to issue a half-yearly perspective. This is an investment to serve our clients better with credible analysis and perspectives," Joseph added.

In terms of the industry, the report said major developments in technology and regulation are likely to have a transformative effect on the current and future landscape of the banking sector in Sri Lanka.

In her foreword in the publication, Joseph noted in Sri Lanka, as well as globally, great leaps are being taken in the technology space, be it blockchain, fintech or digital transformation.

Although this makes transactions more efficient, the risk of cyber-attacks has never been bigger than it is now. Not only individual companies but countries are also at risk. As a result, there is a greater need for vigilance and continued focus on enhancing existing regulations, and introducing new ones in response.

A fraud-risk-focused approach is necessary to mitigate the potential risk of fraud which may arise from previously benign channels. These efforts, together with existing international and local initiatives to improve the stability of the global financial system, require continued focus from both regulators and the banking sector. This gets more complicated for those with extensive operations across multiple jurisdictions.

The recent policy reforms affect the overall economy with a knock-on effect on banks, resulting in muted growth forecasts in the near term, while the outlook remains positive in the mid- to long-term.

Against this backdrop, banks are assessing how they can use new and innovative technologies to differentiate themselves from their competitors. Banks also find themselves having to invest to comply with ever more stringent and complex regulations and tax regimes. (DailyFt)

CSE dips; foreign selling continues

Sri Lankan shares slipped yesterday from their highest close in nearly three weeks recorded in the previous session as investors sold diversified and telecommunication shares.

Foreign investors sold net equities worth Rs. 34.1 million yesterday, extending the year-to-date net foreign outflow to Rs. 2.7 billion.

The Colombo stock index ended 0.31% weaker at 6,160.69.

"There is some profit-taking while foreign selling is still continuing," said First Capital Holdings Head of Research Dimantha Mathew. "We see some local buying slowly coming in to the market, which is a good sign."

Turnover stood at Rs. 543.8 million (\$ 3.40 million), less than this year's daily average of Rs. 892.3 million.

A downward revision in economic growth estimate by the Central Bank has also hurt sentiment, analysts said.

Economic growth in 2018 is likely to be between 4% and 4.5%, falling short of an earlier estimate of 5%, Central Bank Governor Indrajit Coomaraswamy said early this month.

Shares in Dialog Axiata PLC fell 1.4%, while conglomerate John Keells Holdings PLC ended 1.1% weaker and Melstacrop Ltd. lost 2.2%.

(DailyFt)

364 day bill weighted average decreases to a 22-week low

The 364 day bill weighted average at yesterday's weekly Treasury bill auction was seen decreasing to a 22-week low of 9.31%, recording a week on week decrease of 12 basis points. This was closely followed by the 91 day and 182 day maturities, recording drops of 12 and 10 basis points respectively to 8.25% and 8.75%. The total offered amount of Rs. 15 billion was fully accepted with the bids to offer ratio increasing to a six weeks high of 5.54:1.

The secondary bond market remained active yesterday as continued buying interest on the maturities of 01.07.19, two 2021's (i.e. 01.03.21 and 01.05.21), 15.03.23, 01.08.24, 15.10.25 and 01.09.28 saw its yields dip to intraday lows of 9.30%, 9.80%, 9.85%, 10.21%, 10.28, 10.40% and 10.54% respectively against its previous day's closing levels of 9.40/45, 9.90/95, 9.95/00, 10.32/35, 10.38/45, 10.45/50 and 10.55/65. In addition the maturities of 15.01.19, 15.09.19, 01.08.20, 15.12.20, 01.10.22 and 01.08.26 changed hands at levels of 8.90%, 9.40% to 9.42%, 9.70% to 9.73%, 9.80%, 10.15% to 10.25% and 10.40% to 10.45% respectively as well. In the secondary bill market, September and November 2018 maturities along with January and May 2019 maturities changed hands at levels of 8.36%, 8.70%, 8.90% and 9.20% to 9.25% respectively. The total volume of Treasury bonds/bills transacted in the secondary market on 17 July was Rs. 4.15 billion.

In money markets, the overnight call money and repo rates remained mostly unchanged to average at 8.49% and 8.33% respectively as the OMO (Open Market Operations) Department of the Central Bank of Sri Lanka drained out an amount of Rs. 9.15 billion on an overnight basis by way of a Repo auction at a weighted average of 8.07%. The net surplus in the system decreased to Rs. 12.25 billion yesterday.

Rupee closes mostly unchanged

In Forex markets, the spot rate was seen closing mostly unchanged at Rs. 159.95/00, subsequent to trading within the range of Rs. 160.00 to Rs. 160.10.

The total USD/LKR traded volume for 17 July was \$ 53.55 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 Month - 160.75/85; 3 Months - 162.40/50 and 6 Months - 164.75/00.

(DailyFt)

Asian Stocks Climb; Aussie Jumps on Strong Jobs: Markets Wrap

Asian stocks gained as investor optimism about the earnings season took root. Australia's dollar jumped after the country's employment surged in June.

Equity indexes climbed across the region after gains in U.S. financials, spurred by results at Morgan Stanley, pushed the S&P 500 Index up to within 2 percent of its record. Ten-year Treasury yields touched

a three-week high after Federal Reserve Chairman Jerome Powell did little in a congressional hearing to shift expectations for further monetary tightening. The yen held modest gains after the Bank of Japan lowered purchases of longer-maturity bonds for the first time since January.

Investors are assessing a mixed picture from the earnings season that has taken away some of the focus from trade tensions. Powell said the U.S. economy may not yet have reached full employment, while also noting that risks to the central bank's inflation forecast were "roughly balanced."

Temasek's Vaske Says Trade War Might Present Opportunities

John Vaske, Temasek Holdings' joint head of North America, discusses the impact of a potential trade war.

Source: Bloomberg

Elsewhere, oil retained gains as investors assessed conflicting supply-and-demand signals in the world's biggest economy. Australian employment surged by more than triple economists' estimates in June, bolstering the central bank's argument that strong economic growth will spur hiring and help drive inflation to potentially open the way for the first interest-rate hike in almost eight years.

These are some key events coming up this week:

- Earnings season continues, with reports due from companies including: Microsoft, Taiwan Semiconductor Manufacturing and Unilever.
- Initial U.S. jobless claims for the week ended July 14, the Philadelphia Fed Business Outlook Survey and the Conference Board's U.S. Leading Index will be released Thursday.
- Indonesia's monetary policy decision -- here's a decision day guide.

These are the main moves in markets:

Stocks

- Japan's Topix index rose 0.4 percent as of 10:41 a.m. in Tokyo.
- Australia's S&P/ASX 200 Index rose 0.4 percent.
- South Korea's Kospi index rose 0.3 percent.
- Hong Kong's Hang Seng Index advanced 0.5 percent.
- The Shanghai Composite Index gained 0.3 percent.
- Futures on the S&P 500 Index were little changed. The S&P 500 Index rose 0.2 percent.
- The MSCI Asia Pacific Index added 0.4 percent.

Currencies

- The yen rose 0.1 percent to 112.75 per dollar.
- The euro traded at \$1.1642.
- The offshore yuan fell 0.3 percent to 6.7652 per dollar. The central bank set its daily reference rate for the yuan weaker than the psychological level of 6.7 per dollar, suggesting officials are comfortable with the pace of depreciation amid the trade dispute with the U.S.
- The Aussie jumped 0.4 percent to 74.31 U.S. cents.

Bonds

- The yield on 10-year Treasuries rose about two basis point to 2.89 percent.
- Australia's 10-year bond yield gained almost three basis points to 2.66 percent.

Commodities

- West Texas Intermediate crude was at \$68.80 a barrel.
- Gold fell 0.2 percent to \$1,224.92 an ounce.

(Bloomberg)