NEWS ROUND UP

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Contents

Export growth outpaces import gain in May

Exports growth in May outpaced that of imports, though the latter weighed heavily in the cumulative first five months performance, widening the trade deficit further.

Exports in May were up 9.8% to $ 924 million and in the first five months, the figure rose 6.7% to 4.7 billion. Imports in May grew by only 7.7% to $ 1.85 billion, bringing the Jan-May figure to $ 9.6 billion, up by 12% from a year earlier.

Although the deficit in the trade account continued to expand in May, the rate of expansion decelerated as export growth outpaced that of imports. The cumulative trade deficit expanded during the first five months to $ 4.9 billion from $ 4.2 billion a year earlier.

Central Bank said on Friday Sri Lanka's external sector demonstrated a modest performance in May. The deficit in the trade account continued to expand at a comparatively slower rate in May, as export growth outpaced import growth.

Tourist earnings continued to increase while workers' remittances declined during the month. Inflows to the financial account of the balance of payments (BOP) moderated with net outflows from the government securities market and a reduction in net inflows to the Colombo Stock Exchange (CSE).

The country's level of gross official reserves at the end May stood at $ 8.8 billion. Meanwhile, reflecting the developments in the domestic and global foreign exchange markets, the rupee depreciated by 3.3% against the dollar by end May and by 4.5% so far during the year up to 20 July.

Earnings from merchandise exports increased to $ 924 million in May, mainly driven by industrial exports, despite a reduction recorded in agricultural exports. Under industrial exports, earnings from textiles and garment exports increased significantly due to the higher demand from the EU and the USA, while exports to non-traditional markets also increased moderately. Export earnings from petroleum products increased significantly in May due to the combined effect of high exported volumes of bunker and aviation fuel together with increased export prices. Earnings from food, beverages and tobacco exports also increased notably during the month owing to the increase in manufactured tobacco and coconut-related products. Further, earnings from all other main categories under industrial exports, except wood and paper products, and leather, travel goods and footwear, contributed towards the increase in industrial exports in May. However, earnings from agricultural exports declined in May due to poor performance in almost all categories except spice and seafood exports. Benefiting from the positive impact of the removal of the ban on fisheries exports to the EU and the restoration of GSP+ facility, earnings from seafood exports increased significantly during the month due to higher prices and volumes of seafood exported. In addition, export earnings from spices increased in May owing to the combined impact of higher prices and volumes of cinnamon and pepper exports. However, export earnings from tea declined due to the reduction recorded in both volumes and prices of tea exported. Leading markets for merchandise exports of Sri Lanka in May were the USA, the UK, India, Germany and Italy, accounting for about 49% of total exports.

Expenditure on merchandise imports rose to $ 1.857 billion in May due to high expenditure incurred on fuel and vehicle imports. Expenditure on non-fuel imports declined marginally indicating the higher contribution of fuel expenses to import growth. Expenditure on fuel imports categorised under intermediate goods increased considerably in May owing to higher import prices and volumes of crude oil and refined petroleum products. In addition, expenditure on textiles and textile articles imports increased, reflecting higher expenses on all sub categories, particularly fabric imports. Expenditure on chemical products, base metals and plastics and articles thereof contributed towards the increase in intermediate goods imports. Import expenditure on personal vehicles, under consumer goods, rose significantly by 120% to $ 149 million. This was owing to substantial increase in the import of small engine capacity vehicles, hybrid and electric vehicles.

In the context of investment goods, building materials imports rose, led by higher imports of cement and aluminium articles. Expenditure on gold imports, which rose considerably since early 2016, declined notably to $ 0.1 million. Import expenditure on machinery equipment and transport equipment also declined.

Under consumer goods, rice, sugar, dairy products, seafood, clothing and accessories, and telecommunication devices contributed largely towards mitigating the pressure on the overall import expenditure in May. China, India, the UAE, Japan and Singapore were the main import origins in May, accounting for 60% of total imports. (Daily FT)

China's Xi offers fresh $ 295 m grant to Sri Lanka

Chinese President Xi Jinping has offered Sri Lanka a fresh grant of CNY 2 billion ($ 295 million) as Beijing tries to expand its influence in the country.

President Maithripala Sirisena, a partner in Beijing's multi-country Belt and Road infrastructure push, made the announcement on Saturday at a ceremony to mark the start of construction of a Chinese-funded kidney hospital in Polonnaruwa, 230km from Colombo.

"When the Chinese Ambassador visited my house to fix the date for this ceremony, he said that Chinese President Xi Jinping sent me another gift," Sirisena told the gathering.

"He has gifted CNY 2 billion to be utilised for any project I wish. I'm going to hand over a proposal to the Chinese Ambassador to build houses in all the electorates in the country," he added.

Reuters could not immediately contact officials from the Chinese Embassy in Sri Lanka for comment.

The grant offer comes at a time when a Chinese firm is facing heavy criticism for allegedly financing the last election campaign of former President Mahinda Rajapaksa.

Last month, the New York Times reported that China Harbour Engineering Company Ltd. (CHEC) gave $ 7.6 million for Rajapaksa's re-election bid, which he lost to Sirisena in early 2015.

Rajapaksa, the Chinese Embassy in Colombo and State-owned CHEC have all denied the allegation, but Sirisena's Coalition Government held a Parliament debate last Thursday over the report and called for an investigation into the alleged funding.

Sirisena had, at the start of his term, suspended most of the Chinese-backed infrastructure projects started under Rajapaksa over suspected corruption, overpricing and for flouting government procedures.

But more than a year later, the Sirisena Government allowed Chinese projects to resume after a few changes in some of them.

China was among the first countries that stepped in to help the reconstruction of Sri Lanka after the 26-year-long Civil War ended in 2009.

Many of Beijing's projects, backed by loans from the Chinese Government and initiated by the Rajapaksa Government, have faced opposition in Sri Lanka amid concerns raised by the United States, India and Japan that China might use Sri Lanka as a military base.

The 2014 docking of a Chinese navy submarine in Colombo raised an alarm in New Delhi, prompting Indian Prime Minister Narendra Modi to boost ties with Sri Lanka and claw back influence in the Indian Ocean region.

Both the Sri Lankan Government and Chinese Embassy in Colombo have denied any plans to use a southern port now handled by a Chinese firm for military purpose. (Daily FT)

VIASL calls on Govt. to abolish monopoly for vehicle tenders

The Vehicle Importers Association of Sri Lanka (VIASL) recently called on the authorities to remove the current monopoly enjoyed by franchise dealers in bidding for Government tenders, while issuing a clarion call urging the authorities to consider a series of concerns detrimental to the industry.

The association pointed out that the agents had an unfair advantage as new vehicles imported by parallel importers did not receive the applicable 'brand new' status despite the vehicles not being previously used, which is a detrimental qualification for VIASL members pitching for Government tenders.

"Removing the monopoly enjoyed by agents in bidding for tenders is on the cards for the 2019 Budget proposals," VIASL President Ranjan Peiris told the Daily FT.

He said that they urged the authorities to consider this matter not just because agents enjoy a tender monopoly but because the Government was being forced to purchase certain vehicles at a higher price resulting in the wastage of public money.

Stating that there were around 20 franchise dealers in the industry that the Government had to rely on for tenders, Peiris stressed that if the monopoly was eliminated there were over 1,500 parallel importers to get down good quality vehicles at competitive prices.

Noting that many of the practical proposals submitted by VIASL got a noteworthy response from the Government, such as introducing relevant safety features and emission standards, the association expects that the authorities will heed their concerns.

"We had a preliminary meeting last week with the Finance Ministry and they are now in the process of setting up a special committee comprising the Central Bank, Treasury and Customs. This year we want to understand the Government's concerns and submit our proposals accordingly. The Central Bank wants to control the dollar outflow and we want to support them, not go against them or look at our business. We are hoping to submit our Budget proposals by next month," he added.

"We have informed the authorities to consider permitting a 'brand new status' for zero mileage vehicles because we get down brand new vehicles. It is well-known by the Customs as well as the Registrar of Motor Vehicles (RMV). They can physically check and we have all the mechanisms to verify. However, certain people don't want to do it because they want to have the entire supply of vehicles to the Government," he stated.

With the depreciation table being abolished, he said traders who import vehicles which are up to three years old are also required to pay the same tax as that imposed on brand new vehicles. Thus, the association called on the authorities to urgently look into this matter.

He refuted claims by franchise dealers that VIASL members were paying reduced taxes for the brand new vehicles imported. Highlighting that the tax on a vehicle is based on the engine capacity, he clarified that the parallel importers register or deregister them due to the export regulations of relevant countries.

Peiris also said that the engine capacity tax was mainly instituted by the Finance Ministry with a view to prevent errors in calculating import tax based on valuation and to prevent any revenue leakage from Government coffers.

According to him, parallel importers bring down domestic models as opposed to the export models that the agents import. “All manufacturers produce the highest quality model for their domestic market, hence customers in Sri Lanka get a better value when purchasing a vehicle from a parallel importer rather than buying it from an agent. The domestic models have various additional options and are rich in safety and emission standards,” he added.

Furthermore, he stressed that parallel importers provided a better platform for permit-holders and end consumers in terms of the delivery of the vehicle.

“Franchise dealers place bulk orders with principal manufacturers resulting in long delays of up to six to 18 months for vehicle delivery, while we deliver within two to eight weeks. This also prevents the end consumer from getting caught in the volatile exchange rates as well as changes in taxation,” Peiris said.

VIASL Secretary Arosha Rodrigo noted with dismay the complaints of the agents of brand new vehicle importers to the Government regarding their shrinking profit margins and market share as a result of parallel importers.

“We would like to remind the stakeholders of this industry that consumers seek importers’ used vehicles due to their competitive price and quality. Franchise dealers can only bring the export vehicles, they can’t bring the domestic version. The consumers are much educated now and this is why franchise dealers are upset because they have now understood that domestic cars are far superior to the export version. That is why they try to talk about the market share and low profit margins. Liberalising the market not only leads to a thriving and healthy competitive marketplace but it allows all citizens to benefit,” he pointed out.

He also claimed that the proposal put forward by some franchise dealers on applying the break horsepower (BHP) as the basis for calculating the duty of motor vehicles without applying the engine capacity was an ancient method, cautioning that if implemented various malpractices could occur when calculating duty amounts.

“Implementing BHP is not a good proposal as it could be adjusted using various methods. This could result in heavy revenue leakages and a severe drop in expected revenue by the Treasury,” Rodrigo added. (Daily FT)

Port of Colombo transshipment volumes increase by 19.8 %

Establishing a record in transshipment operations, the Port of Colombo has witnessed the highest growth of 19.8% in transshipment container throughput for the first half in 2018 as against the corresponding period in 2017. During the first half of 2018, the Port of Colombo handled 2,733,906 TEUs of transshipment containers as against 2,281,636 TEUs handled in the corresponding period in 2017.

The State-owned Jaya Container Terminal (JCT) of Sri Lanka Ports Authority (SLPA) also witnessed the highest growth of 20.6% in transshipment container throughput for the first half in 2018 as against the corresponding period in 2017. During the first half of 2018, the transshipment volume handled by JCT reached 935,848 TEUs compared to 776,002 TEUs handled for the same period in 2017.

The Port of Colombo expects to reach the 7 million TEU target by the end of this year. In a recent statement, Minister of Ports and Shipping Mahinda Samarasinghe said that the Port would take new initiatives to promote the Port of Colombo internationally, together with all stakeholders, and to attract new shipping lines that work in alliances.

SLPA signed a Memorandum of Understanding (MOU) with the terminals of the Port of Colombo, which includes the State-owned Jaya Container Terminal (JCT), South Asia Gateway Terminals (SAGT), and the Colombo International Container Terminals (CICT), to operate collectively to promote the Port. Expressing his views, the Chairman of SLPA Dr. Parakrama Dissanayake said that the terminals would compete with each other but would also cooperate with each other, moving between competition and cooperation. “In the Asia to Europe sector, there are 17 loops of which only 3 are calling Colombo. Therefore, obviously, we have got challenges to ensure that, collectively, we attract more loops into the Port of Colombo. This means we have to go beyond the partisan approach of promoting our terminals to protect the Port of Colombo,” the Chairman said.

According to internationally recognised global ranking indexes, the Port of Colombo is positioned as the world’s 23rd best container port and the 13th best connectivity port in the world at present.

Following Minister Mahinda Samarasinghe assuming office as the Minister of Ports and Shipping, an exclusive three-year plan was introduced to develop the entire port sector to establish Sri Lanka as the most preferred maritime gateway to South Asia.

Shipping Minister details P’ment of CMPort payments on Hambantota
By Ashwin Hemmathagama

Based on the provisions of the concession agreement signed, China Merchants paid a sum of $ 973,658,000 to the Government to continue the public private partnership (PPP) at the Hambantota Port.

In addition, the Hambantota International Port Group Ltd. is expected to pay the Sri Lanka Ports Authority royalty within the first 25 years. According to this royalty payment schedule, the SLPA will receive $ 100,000 per annum during the first 1-5 years, $ 200,000 per annum during the 6 – 10 year period, $ 300,000 per annum during 11 – 15 years, $ 400,000 per annum during 16 – 20 years, and $ 500,000 per annum during 21 – 25 years.

After completion of the period of 25 years, a sum of $2.25 is to be paid as a royalty for each container and this amount will increase by 3% every five years. Further, Rs.10per ton is to be paid as royalty for break bulk cargo and this amount will also increase by 3% every five years, the Government told the Parliament on Friday.

Rejecting the Opposition charges of privatising the Hambantota port, Ministry of Ports and Shipping in a statement to the Parliament clarified that the Hambantota port was not privatised but has received two proposals for a PPP as a result of the high-level discussion that took place between the Sri Lankan and Chinese governments.

"A special secretariat committee was appointed to review these proposals by the Cabinet Committee on Economic Management and to carry out discussions with the aim of entering into the agreement and considering the recommendations of the said committee. And considering suggestions made by the Cabinet Sub Committee on Economic Management, the Cabinet of Ministers have made the relevant selection, and according to a decision taken by the Cabinet on 6 December 2016, permission was granted to enter into a framework agreement with the company selected. As a result, the framework agreement was signed on 8 December 2016, and the concessions agreement on 29 July 2017 with the two companies selected," the Ministry explained in a statement. (Daily FT)

AIA goes for voluntary delisting from CSE

AIA Insurance Lanka Plc has announced its intention to delist from the Colombo Stock Exchange (CSE) subject to obtaining requisite approvals.

AIA Insurance Lanka Director and Chief Officer Legal Chathuri Munaweera said: "The Regulation of Insurance Industry (Amendment) Act No. 23 of 2017 enables local subsidiary insurance companies of foreign companies listed on a stock exchange outside Sri Lanka to be exempted from their obligation to be listed, if the Insurance Regulatory Commission of Sri Lanka is satisfied that such subsidiary meets specified statutory criteria. As already disclosed to the CSE on 20 July, AIA Insurance Lanka's application for exemption from being listed on a licensed stock exchange, (based on the strength of its ultimate holding/parent company AIA Group Ltd, AIA Group, which is listed on the Hong Kong Stock Exchange Ltd.), has been approved by the Insurance Regulatory Commission of Sri Lanka."

AIA Insurance Lanka CEO Pankaj Banerjee added: "As disclosed by AIA Group in its Voluntary Offer during 2013, it has been AIA Group's ultimate objective, subject to legal and regulatory requirements and having obtained all necessary regulatory approvals, to delist AIA Insurance Lanka from the CSE. This is consistent with the target operating model followed by AIA Group, where its insurance operating units are held as wholly-owned subsidiaries wherever possible and permissible, with the parent company being the only publicly listed entity. AIA Company Ltd, the principal operating company of AIA Group and an existing shareholder of AIA Insurance Lanka, will make an offer to purchase all other existing shares at a price of Rs. 1,000 per share for purposes of the proposed delisting of AIA Insurance Lanka. The company will convene an Extraordinary General Meeting in relation to this matter shortly.

AIA Insurance Lanka Chairman William Lisle reiterated AIA Group's commitment to Sri Lanka, saying: "AIA is fully committed to continued growth and investment in Sri Lanka for the benefit of our customers, as well as for the local community and economy. Our intent to delist is a reaffirmation of our commitment to the Sri Lankan market which has very good growth potential. We have invested heavily to provide our customers with leading products and services and we will continue to help many more people here live healthier, longer, better lives."

AIA Insurance Lanka's licence to carry out the life insurance business as granted by the Insurance Regulatory Commission of Sri Lanka will not be affected by the said proposed delisting of the company and the business will continue to be supervised by the Insurance Regulatory Commission of Sri Lanka.

Policyholder liabilities will not be affected and AIA Insurance Lanka will continue to serve its customers and honour its obligations as the insurer for all customers for the risks duly underwritten per policy terms.(Daily FT)

Sri Lanka to cut costs to trade with information portal

Sri Lanka launched a trade information website Friday bringing together up-to-date information on regulations and procedures relating to exports and imports across 43 different government agencies for faster and easier cross-border trade, authorities said.

Sri Lanka Trade Information Portal (SLTIP) brings together trade-related regulatory and other information across 43 government agencies such as Customs on to one single, user-friendly website.

The website is a requirement under the rules of the WTO Trade Facilitation Agreement which aims to achieve easier and faster cross-border trade by making rules transparent and predictable.

“This would facilitate our industries, especially SMEs, in expanding their trading opportunities at a lower cost and shorter time," Minister of Industries and Commerce Rishad Bathiudeen said at the launch.

"The portal is in response to a clear challenge by Sri Lanka's private sector," said World Bank Senior Trade Specialist Marcus Bartley Johns.

"There is a high cost and a large amount of time involved in getting information on regulations affecting trade," he said.

A survey of Sri Lankan business by the World Bank showed that only half of them turned to government agencies for information.

"Traders overwhelmingly rely on their own experiences and their own personal networks to gather information," Johns said.

Many businesses have expressed concern that the little information that was available online was often out of date and spread across many websites, he said.

"One company summed-up the challenge clearly by expressing its frustration that the first time that it hears about new regulatory requirements is only when the clearance of their shipments are rejected".

The portal is expected to deliver direct and immediate benefits to the trade community, especially small businesses and women.

"We are confident the portal will deliver significant gains but it is just one step in what is a much wider process of transforming Sri Lanka into a much more outward-oriented and competitive economy," Johns said.

The WTO Trade Facilitation Agreement requires member countries to publish online basic information on import, export, and transit requirements and procedures, also Customs forms and documents.

“We have identified and analysed 204 non-tariff measures, and explained 207 related procedures," said Chris Lewis Jones who headed the team that developed SLTIP on Word Bank software.

"We have also identified 252 forms related to procedures and 269 legal documents that explain various trade measures," he said.

The portal also includes information on business start-up process, an import and export guide, special economic areas and export processing zones, cross-border trade, GSP automation, and regional and bilateral trade agreements Sri Lanka has signed up for.

-Trade liberalisation-

The government is implementing an eight-fold action plan to improve the trade investment environment with the goal of raising Sri Lanka's ranking in the World Bank Ease of Doing Business Index from 110 in 2017 to 70 by 2020.

"Some of our trade procedures and requirements are complex. Procedures are duplicated across many state agencies," Bathiudeen said.

"The time has come for us to evaluate our trade regulatory regime and identify those rules that do not add value and impact our score on the Word Bank's Ease of Doing Business Index," he said.

The government is completing the blueprint for a National Single Window for trade with technical assistance from the World Bank.

The World Bank is now exploring finance and implementation options with authorities, Johns said at the launch of trade information portal.

"We're also advising authorities on trade policy reforms including tariff reductions and establishing a one-stop-shop for investors by enhancing the BOI's capacity to attract and retain foreign investment," Johns said.

"These are just a few examples and of the complex and ambitious reforms that the Sri Lanka government has embarked on," he said.

On Thursday, the government introduced its National Export Strategy aimed at facilitating Sri Lankan businesses improve competitiveness, expand global reach and find niche markets.

A trade adjustment scheme is also being developed to help businesses that cannot compete with foreign companies as Sri Lanka looks to negotiating free trade agreements with China, Thailand, Malaysia and Indonesia.

Sri Lanka is trying to deepen an existing trade agreement with India and concluded one with Singapore earlier this year. The island has a free trade agreement with Pakistan.

Sri Lankan exports enjoy EU GSP Plus concessions, but the scheme is heavily underutilised. (Economy Next)

Sri Lanka to slam price controls on micro-finance

Sri Lanka is planning to bring law to control interest rates on micro-finance to 30 percent, the finance ministry said, raising concerns that the sector may die and unbankable poorer borrowers will only have illegal money lenders as the remaining alternative.

Finance Minister Mangala Samaraweera intends to bring a proposal to place a ceiling interest rate of micro-finance loans of 30-percent a year, when current rates range between 40 to 220 percent a year, a statement aid.

He had made the statement at a ceremony in Jaffna in the Northern Province.

Concern over micro-finance has risen after a large number of borrowers in former war torn in areas ended up in debt traps after taking too many loans.

Unlike in the rest of the island, many borrowers in the North and East have not been used to easy lending, including hire purchase schemes and had taken consumer loans without caution, economists who studied the problem has said.

Minister Mangala Samaraweera had said a recent drought had put many farming families in debt in 13 districts.

The finance ministry said a debt relief program will be implemented for borrowers of less than 100,000 rupees and a new law to regulate micro-finance institutions a price ceiling on 30 percent a year will be placed.

Micro finance however has relatively high administration and collection expenses, which require somewhat higher rates than large loans.

Unlike banks, which take assets as security, micro-finance is loaned without security, usually to people who cannot access the formal banking system.

A 30-percent rate is around the same rate charged by the formal banking system for their micro-loans, which are called credit card lending. But customers usually need a steady job with a salary to get a credit card.

Analysts say if the 30-percent rate is too low, many formal micro-finance businesses may stop lending, leaving only village money lenders (polee mudalali) who employ mafia-style tactics for recovering loans as the only available alternative.

Sri Lanka has high interest rates generally partly due to unsound money, with the central bank permanently depreciating the currency creating higher levels of inflation than the US Fed to which the rupee is loosely pegged. (Economy Next)

Sri Lanka's John Keells Plc June quarter net down 25-pct

Sri Lanka's John Keells Plc, a commodity broker, said net profits fell 25 percent from a year ago to 45 million rupees in the June 2018 quarter on falling revenues from trading in tea and rubber and stock broking unit.

John Keells Plc reported earnings of 74 cents a share in the quarter, interim results filed with the Colombo Stock Exchange showed. The share last traded at 55 rupees.

June quarter revenue fell 4 percent from a year earlier to 206.8 million rupees, but cost of sales growing at a faster 15 percent to 69.5 million rupees saw gross profits contract 11 percent to 137.3 million rupees.

Administrative expenses grew 1 percent from a year earlier to 61.9 million rupees and distribution costs grew 15 percent to 3.4 million rupees.

Other operating income fell 99 percent to 30 thousand rupees in the quarter, down from 3.73 million rupees a year earlier.

Finance costs in the June quarter was 24.4 million rupees, up marginally from a year earlier while finance income grew 3 percent to 16.4 million rupees, contracting net finance expenses by 4 percent to 8 million rupees.

The company reported a 12.6 million gain on financial assets available for sale in the June 2018 quarter, compared to loss of 11.8 million rupees the previous year.

In segment results reported by John Keells Plc, revenue from tea and rubber broking fell 1.36 percent from a year earlier to 140.2 million rupees in the June 2018 quarter and revenue from stock broking (John Keells Stockbrokers) fell 19.5 percent to 42.4 million rupees.

Revenue from tea warehousing operations grew 20.4 percent to 25.7 million rupees.

John Keells Plc is a unit of listed group of companies John Keells Holdings which reported revenues of 121.2 billion rupees for the year to end March 2018, up 14 percent from a year earlier.

A John Keells Holdings share closed Friday at 148.10 rupees. (Economy Next)