NEWS ROUND UP

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Trade deficit contraction tops $ 2 billion in 1H

Sri Lanka's trade deficit in the first half has contracted by a whopping $ 2.1 billion, thanks to robust exports and decline in imports.

As per the latest external trade data released by the Central Bank, the deficit in the trade account contracted by $ 2.112 billion to $ 3.6 billion during the first six months of 2019, in comparison to $ 5.7 billion in the corresponding period of 2018.

In June the trade deficit narrowed to $ 316 million, the lowest since October 2010.

Exports in June increased for the 28th consecutive month, with a 5.8% growth to $ 1.08 billion, mainly supported by improved industrial exports.

For the first half of 2019, exports were up 4.7% growth to $ 6 billion.

Imports saw a sharp decline of 23% in June (thereby extending the dip eight consecutive months) to $ 1.4 billion and by 16% to $ 9.6 billion in the first half.

The dip in June was attributed mainly to the reduction in imports of motor vehicles and fuel.

Meanwhile, the terms of trade, which represents the relative price of imports in terms of exports, improved by 3.6% YoY to 114.0 index points in June as export prices, on average, reduced at a slower pace than the decline in import prices. However, on a cumulative basis, the terms of trade deteriorated by 1.5% during the first six months of 2019 in comparison to the corresponding period of 2018.

In June earnings from industrial exports increased in June mainly due to the improved performance in textiles and garments, rubber products and transport equipment. Export earnings from textiles and garments increased by 11.4% in June benefiting from higher demand for garment exports from both the traditional and non-traditional markets.

Export earnings from rubber products increased with better performance in tyres and surgical and other gloves while export earnings from transport equipment increased notably reflecting the supply of a naval craft to Japan. However, export earnings from petroleum products and machinery and mechanical appliances declined significantly in June 2019 in comparison to June 2018.

Earnings from agricultural exports decreased, on a year-on-year basis, in June mainly due to the reduction in earnings from tea, rubber, spices and minor agricultural products. Export earnings from tea declined in June 2019 YoY mainly due to lower prices. However, export earnings from coconut, seafood and vegetables increased in June.

Export earnings from mineral exports also declined in June 2019 in comparison to June 2018.

The export volume index in June increased by 6.4% YoY while the export unit value index declined by 0.6%, indicating that the growth in exports was entirely driven by increased volumes when compared to June 2018.

In June all three major categories of imports; consumer goods, investment goods and intermediate goods contributed to the decline.

Expenditure on consumer goods imports reduced by 39.4% in June, due to lower imports of all subcategories of non-food consumer goods, particularly, personal motor vehicles. The persistent decline in import expenditure on personal motor vehicles mainly reflects the impact of the upward revision of excise duties introduced in March on the importation of hybrid and electric motor vehicles and motor cars with less than 1,000cc engine capacity.

Expenditure on food and beverages imports also decreased reflecting lower outlays in almost all subcategories except seafood, cereals and milling industry products.

Imports of intermediate goods decreased by 11.1% in June mainly due to lower fuel imports. Both crude oil and refined petroleum products declined due to the combined impact of low import volumes and prices. Imports of textiles and textile articles, fertiliser, chemical products, food preparations and paper and paper boards also contributed to the reduction in imports. However, imports of base metals increased in June.

Import expenditure on investment goods decreased in June, due to lower imports in all subcategories. Building material imports reduced mainly due to the decline in iron and steel and cement imports while transport equipment reduced mainly due to the decline in certain categories of vehicles such as commercial cabs, auto trishaws etc.

The import volume index decreased by 19.8% and the unit value index decreased by 4% indicating that the decline in import expenditure was driven by the reduction in both volumes and prices, in comparison to June 2018. (Daily FT)

SEC files action against four investors for market manipulation

The Securities and Exchange Commission of Sri Lanka (SEC) recently filed action before the Fort Magistrate's Court against four persons for market manipulation, conspiracy to commit market manipulation, and aiding and abetting with respect to the shares of Radiant Gems International PLC (RGEM), listed on the Colombo Stock Exchange during the period 2-29 September 2011.

The four are Lanka Kannangara, Fariq Furkhan, Kapila Senarath Bandara, and Raveendra Mallawarachchi.If found guilty, the Defendants shall be liable to an imprisonment of either description for a period not exceeding five years, or to a fine not less than fifty thousand rupees and not exceeding ten million rupees, or to both such imprisonment and fine.

The aforesaid Defendants, being investment advisors of different stockbroker firms, had placed orders in the RGEM share using the CDS accounts of certain clients of such stockbroker firms during the period 2-29 September 2011, by the use of several manipulative devices. Such share trading executed by the aforesaid Defendants has created a false and misleading appearance of active trading, with respect to the market and the price of the RGEM share, in contravention of Rule 12 of Securities and Exchange Commission of Sri Lanka Rules, published in 2001 (SEC Rules).

Charges against the Defendants are for market manipulation, conspiracy to commit market manipulation, and aiding and abetting under provisions of Sections 102, 113A of the Penal Code of Sri Lanka, read with Rule 12 of the SEC Rules and Section 51(1) (a), punishable under Section 51(2) of the Securities and Exchange Commission of Sri Lanka Act No.36 of 1987 (as amended).

Ranga Dissanayake, the Learned Magistrate, having taken cognizance of the submissions of Deputy Solicitor General of the Attorney General's Department Sudarshana De Silva, who appeared on behalf of the SEC, issued summons on the Defendants to appear before the Magistrate on 28 August. (Daily FT)

Mahindra Finance and Ideal Finance form NBFI joint venture in Sri Lanka

Mahindra & Mahindra Financial Services Ltd. (Mahindra Finance), India's leading Non-Banking Finance Company (NBFC), has entered into a joint venture with Ideal Finance Ltd. (IFL), a fully-owned subsidiary of the leading Sri Lankan conglomerate Ideal Group.

Mahindra Finance will invest Rs. 2 billion until March 2021 for up to 58.2% stake in Ideal Finance.

The joint venture will capitalise on Mahindra Finance's 25-year expertise in the financial services domain and Ideal Finance's domestic market knowledge to build a leading financial services business in Sri Lanka.

Mahindra Finance, India's leading NBFC focused on rural and semi-urban markets, has been looking at expanding its market overseas as part of its global growth strategy. Sri Lanka, with its cultural and geographical similarity to India and its vibrant financial services market, emerged as the first choice.

With this joint venture, Mahindra Finance aims to replicate in Sri Lanka its successful, socially-inclusive business model. The company has created unique products designed around the evolving needs of the customer, and delivers these through a wide network of branches and the optimum use of technology. Mahindra Finance has fuelled the entrepreneurial aspirations of over 6.2 million customers in over 370,000 villages in India, and manages an asset under management of over $ 10 billion.

IFL, a non-banking financial Institution registered with the Central Bank of Sri Lanka, commenced operations in March 2012 with a clear focus on the rural and semi-urban sector. Its lending portfolio consists of commercial trucks, motor cars, three-wheelers, two-wheelers, gold loans and personal loans, reflecting the representation of the market segment focused on by IFL.

A unique feature of IFL is that as a financial institution, it has grown over the past seven years with a quality lending portfolio, and an annual sustainable growth in profitability.

IFL has an asset base of Rs. 4.4 billion and an equity base of Rs. 1.1 billion. It has 10 branches, of which nine are outside the Western Province, located in Jaffna, Anuradhapura, Kurunegala, Bandarawela, Embilipitiya, Monaragala, Elpitiya, Matara, and Kandy. Its current staff strength is 142, a majority of whom are based in the branches.

Mahindra Finance Vice Chairman and Managing Director Ramesh Iyer said: "Mahindra Finance, with its strong financial services expertise and innovative products, has added value to the lives of millions of customers, both in India and in a developed market like the US. We believe that the Sri Lankan market holds great potential for growth.

"Ideal Finance, with its knowledge, highly experienced team, and widespread network, is the right partner to help us create a leading financial services company in Sri Lanka. We see a strong, long-term growth opportunity in this market, and are committed to bringing in the required capital and expertise to fuel this growth."

IFL Chairman Nalin Welgama said: "At a time where NBFIs are pressured by low economic growth and flagging vehicle sales, I welcome the timely entry of Mahindra Finance to Sri Lanka. They bring with them most invaluable sector exposure, vision, and life blood in terms of capital infusion to Ideal Finance.

"All NBFIs are required to have Rs. 2.5 billion in core capital by 1 January 2021. No doubt Ideal Finance shall be elevated to a Tier 1 category with this partnership in a short span of time. Ideal Group are proud to be associated as the partner of the Mahindra Group in Sri Lanka, in both the auto sector and now the financial services sector."

Mahindra Finance Executive Director and Chief Financial Officer V. Ravi said: "The foundations of the financial services business are trust and transparency. The Mahindra Group is known for its high standards of governance. I am certain that together Ideal Finance and Mahindra Finance will build a leading financial services business, which will be a gold standard for best governance in the NBFI industry."

Ideal Group Deputy Chairman Aravinda De Silva said: "Ideal Finance is a company which we have nurtured and developed over the past seven years with a strong asset base, profitability, culture and management team.

"Today, with the partnership with Mahindra Finance, we will begin our journey towards maturity, innovation, market leadership and above all, serving our customers with good governance and best practices in the industry. We believe this partnership will be instrumental in bringing a new dimension to the Sri Lankan NBFI sector, which is yearning for consolidation, technology and governance for the past two decades."

Mahindra Finance is the only Non-Banking Finance Company from India to be listed on the Dow Jones Sustainability Index in the Emerging Market Category. The company's Insurance Broking subsidiary, Mahindra Insurance Brokers Ltd. (MIBL), is a licensed Composite Broker providing Direct and Reinsurance broking services.

Mahindra Rural Housing Finance Ltd. (MRHFL) a subsidiary of Mahindra Finance provides loans for purchase, renovation, construction of houses to individuals in the rural and semi-urban areas of the country.

Mahindra Asset Management Company Ltd. (MAMCPL), a wholly-owned subsidiary of Mahindra Finance, acts as the Investment Manager of Mahindra Mutual Fund. The company has a JV in US, Mahindra Finance USA LLC, in partnership with De Lage Landen, a subsidiary of Rabo Bank, for financing Mahindra tractors in the US. (Daily FT)

SLASSCOM and Norway sign 2-year agreement to collaborate on ICT development and entrepreneurship

The Sri Lanka Association of Software and Services Companies (SLASSCOM) and the Norwegian Ministry of Foreign Affairs entered into a two-year agreement to foster collaboration in the ICT industry. The newly-appointed Norwegian Ambassador to Sri Lanka Trine Jøranli Eskedal and SLASSCOM Chairman Ranil Rajapakse signed the agreement.

Eskedal said: "Norway is keen on working together with private sector partners in Sri Lanka. This partnership between SLASSCOM and the Norwegian Foreign Ministry will contribute to further increase private sector collaboration between our two countries. We are also pleased that this collaboration is in line with Sri Lankan government's vision 2025 plan for the future of a digital Sri Lanka, which has an emphasis on IT education and harnessing future tech leaders."

Rajapakse stated: "This is a great testimony to the ties that have existed between our countries for many years. The knowledge solutions industry is currently our fifth-largest export earner and has the potential to play an even more significant role in the years ahead. We're delighted that this partnership will enable SLASSCOM to influence many drivers in the industry, including capacity building, learning and to position Sri Lanka as an attractive destination for knowledge solutions."

This partnership is a continuation of a previous collaboration between SLASSCOM and Norway. The areas for collaboration include encouraging entrepreneurship and knowledge exchange, increasing visibility on AI (Artificial Intelligence) awareness, and TechKids (Kids Can Code) to build future tech leaders. The program will enable three qualified Sri Lankan start-up companies to be showcased on the global stage at the Oslo Innovation Week (OIW). It will also enable two Norwegian tech start-ups to travel and work in Sri Lanka for a few weeks.

Ambassador Eskedal also noted that one of the key target groups of the project are girls between the ages of nine to 13 years who are interested in learning about coding, thus encouraging and providing girls with opportunities to start tech education from a young age.

Building business linkages between Norwegian and Sri Lankan companies is a key objective of this program, which will enable multiple networking and roundtable events to be organised to connect companies attending the OIW or during outbound missions. It will also support the AI Asia Summit planned for November 2019 by providing access to speakers from leading Norwegian educational institutes.

The TechKids program will influence the next generation by introducing coding to children between the ages of six to 15 years. From 2018, with support from ICT Norway, SLASSCOM has initiated and supported code clubs in various parts of the country and trained more than 600 schoolchildren, SLASSCOM member companies and partners. (Daily FT)

CB to keep policy rates unchanged: First Capital

First Capital Research yesterday said it expects the Central Bank to keep its policy rates unchanged when it announces its latest monetary policy stance on Friday given external vulnerabilities and time needed for previous easing to come into effect but predicts a rate cut in the fourth quarter.

With manufacturing and credit signalling signs of recovery and the subsequent vulnerabilities affecting the external outlook of Sri Lanka, First Capital Research believes that the Central Bank may delay the monetary easing while also allowing the impact of previous rate cut to materialise, it said in a policy update.

"Accordingly, we assign a higher probability of 70% for a neutral policy stance at the upcoming policy meeting. Considering the slowness in the revival of economic growth, we would not rule out a possible lending rate cut though presently at a lower probability. Thereby, we maintain our August expectation of a 30% probability for a 25 bps rate cut for the SLFR as mentioned in our previous report. However, we are more biased for a rate cut towards 4Q2019," it said. Frist Capital Research said despite the Easter Sunday attacks, Sri Lanka's economic outlook has shown signs of resilience and ability to recover as economic activities were seen returning to normalcy. As per the Purchasing Manager's Index, manufacturing activities expanded at a higher rate in June, recording an index value of 53.9 which is an increase of 3.2 index points, compared to May.

This expansion in manufacturing PMI is mainly attributable to the recovery in Employment, especially, in manufacturing of food and beverages and textiles and wearing apparels sectors, from the lower employment availability experienced after the Easter Sunday attacks.

Services sector recovered in June from its lowest level recorded in May, which was mainly caused by the Easter Sunday attack. The recovery in Service activities is mainly attributable to expansion in New Businesses and Business Activity, and Expectations for Activity. Moreover, the industrial production of the manufacturing sector for the 2Q2019 increased by 0.6% to 103.4 relative to 102.8 in 2Q2018.

Following four months of declining fortunes, the LMD-Nielsen Business Confidence Index, shored up by 19 basis points to register 81 in June as the country is gradually emerging from the events that occurred towards the end of April. However, in July it dropped to 74 and it remains below its 12-month (89) as well as all-time (127) averages as the country has already begun preparing for the Presidential Election due at the end of the year.

“Private sector credit picked up in June to Rs. 63.2 billion, the highest credit growth for the year after contracting for two months in a row. In response to the measures taken previously, market deposit rates have declined although the transmission of recent easing of monetary conditions to market lending rates, including AWPR, is not yet complete.

“The high level of NPL in the system is expected to delay the downward adjustment in lending rates. However, in order to accelerate the reduction in lending rates, we expect CBSL to impose a cap on lending rates, thus supporting the revival of demand for credit by the private sector and the recovery in economic activity. These steps, in our view, are likely to get transmitted into lower lending rates in the banking system towards 4Q2019.

“The Government is expected to issue Request for Proposals to raise $ 500 million via Samurai bonds, which may boost reserves and enable finance debt repayments. The tender board must be first approved by the Cabinet and is expected take approximately one to two weeks to get through all the administrative procedures. With the foreign reserves at $ 8.3 billion as at July, the raising of $ 500 million is likely to support to maintain reserves around the $ 8 billion mark throughout the rest of 2019.”

On the external front, The Federal Reserve cut its rates for the first time since 2008 by 25bps ranging from 2.00% -2.25% to provide more support to the economy. First Capital Research expects slower growth and rising risks will impel the Fed to cut rates further before the end of this year. The anticipation comes as Goldman Sachs just announcing that it reduced its GDP projections by 0.2% and Bank of America Merrill Lynch said it sees increasing chances of a recession in the next 12 months.

As trade tensions escalate and economic indicators weaken, Wall Street is beginning to anticipate more aggressive interest rate cuts from the Federal Reserve. Following the US rate cut, India, Philippines, and New Zealand also cut their policy rates citing growth concerns. Central banks in a number of other countries including Malaysia, Russia, Ukraine, Nigeria, South Africa, Egypt, Brazil and Paraguay also lowered interest rates recently.

“Although, lower US rates and eased monetary conditions worldwide was expected to assist Sri Lanka in attracting more foreign inflows, heavy foreign outflows have occurred in the recent two weeks with dollar bonds and rupee bonds spiking across the yield curve.

“Global trade tensions and heightened political uncertainties due to the upcoming elections are expected to have influenced foreign investors to revert back to the safe haven of the US Dollar and other less risky asset classes. Thereby, the rupee also has shown signs of weakness continuously depreciating over the last four weeks.” (Daily FT)