

# NEWS ROUND UP

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## ***Exports static, imports soar in Oct.***

The country's external sector came under severe pressure in October as exports struggled and imports jumped, widening the trade deficit further.

The higher growth in imports was despite measures by the Central Bank in September and October to curtail waste of foreign exchange on non-essential goods.

Exports managed to grow by only 0.4% to \$ 979 million in October and failed to repeat the crossing of \$ 1 billion mark, a feat achieved four times between January and September.

Imports in October rose by 9% to \$ 1.88 billion, the highest since August.

The twin developments saw trade deficit widen by \$ 903 million, as against \$ 752 million a year earlier.

Year-to-date, exports have grown by 5.1% to \$ 9.87 billion, and imports by 10.3% to \$ 18.73 billion, expanding the trade deficit to \$ 8.85 billion, up from \$ 7.6 billion in the first 10 months of last year.

"Sri Lanka's external sector continued to be under pressure in October," the Central Bank said. However, it expects the trend of increasing imports will reduce in the coming months with the lagged impact of recently introduced restrictions on certain import categories.

Central Bank said the marginal growth of exports in October reflects mainly the decline in agricultural exports by 11.5%, which offset the 4.5% growth of industrial exports.

Under industrial exports, export earnings from textiles and garments increased marginally in October due to higher earnings from textile exports despite the slight decline registered in garment exports. The reduced earnings from garment exports was mainly driven by the lower demand from the USA, despite an increase in exports to the EU market and non-traditional markets, such as India, Canada, Japan and Hong Kong. Further, reflecting the combined impact of both volume and export prices, earnings from petroleum products increased significantly in October.

Export earnings from food, beverages, tobacco, base metals and articles increased substantially during October due to improved performance in most of their sub-categories. In addition, export earnings from animal fodder, machinery and mechanical appliances, and transport equipment rose in October, contributing towards the increase in industrial exports. However, export earnings from rubber products, gems, diamonds and jewellery, leather, travel goods, and footwear declined in October.

Earnings from agricultural exports were lower during the month owing to the poor performance in almost all sub-categories, except seafood, vegetables and rubber. Reflecting lower average export prices and exported volumes, export earnings from tea declined in October.

Export earnings from spices also reduced during the month due to the poor performance in most categories of spices. Further, despite an increase in earnings from coconut non-kernel products, earnings from coconut exports decreased due to the drop in earnings from coconut kernel products, such as desiccated coconut and coconut oil. However, owing to higher exports to the EU market, earnings from seafood exports rose during the month.

Leading markets for merchandise exports of Sri Lanka in October were the USA, India, the UK, Italy and Germany, which accounted for about 50% of total exports.

In terms of imports all three sub-categories—intermediate, consumer, and investment goods – contributed to the growth.

Expenditure on intermediate goods rose due to higher imports of textiles and textile articles – led by fabric and yarn, fuel and wheat and maize imports. Expenditure on fuel imports rose with higher import prices of both crude oil and refined petroleum products despite the reduction recorded in import volume of refined petroleum.

In addition, import expenditure on wheat and maize, chemical products, fertiliser, rubber and articles thereof, and plastic and articles thereof increased in October.

However, import of gold declined significantly, reflecting the impact of customs duty imposed since April.

Import of consumer goods rose, owing to higher imports of personal motor cars less than 1,500 CC, hybrid and electric motor vehicles.

“However, it is expected that the importation of motor vehicles would decelerate in the coming months, reflecting the lagged impact on such imports of the policy measures introduced in September,” the Central Bank said.

Expenditure on rice imports declined, indicating the availability of sufficient quantities of domestic supply. Import of categories such as clothing and accessories, telecommunication devices, household and furniture items, and home appliances, too, declined, partly reflecting the impact of restrictions on non-essential consumer goods imports while also responding to relatively larger depreciation.

Imports expenditure on investment goods rose mainly due to higher expenditure incurred on machinery and equipment, and building material imports. However, import of transport equipment reduced due to lower imports of commercial vehicles, such as tankers and bowsers, lorries, buses, and commercial cabs.

China, India, Singapore, Japan and UAE were the main import origins in October, accounting for 61% of total imports. (Daily FT)

### ***NDB goes for Rs. 6.5 b BASEL III debentures***

NDB plans to raise Rs. 6.5 billion via BASEL III compliant debentures.

It will issue 50 million five-year BASEL III compliant Tier 2, listed, rated, unsecured, subordinated, redeemable debentures (with a non-viability conversion) at Rs. 100 each with an option to offer a further 15 million of said debentures in the event of an oversubscription of the original amount.

The issue is subject to regulatory and other approvals. (Daily FT)

### ***NDB abandons strategic investor move***

The National Development Bank (NDB) has abandoned the move to have a strategic investor in to the company.

In a filing to the CSE, NDB said the decision was in view of the current market conditions and since no finality has been reached with a strategic investor who is/was in the process of carrying out a detailed evaluation with a view to investing in the unsubscribed shares arising from the recent Rights Issue.

“The Board has decided that it will cease to further pursue exploring avenues in terms of powers vested in the Board under Articles 7 (v) and 7 (vi) of the Articles of Association in this respect,” NDB said.

Consequently, the allotment of shares in excess of the single shareholding restrictions imposed under the Banking Act which was stayed in respect of some affected existing shareholders of NDB (with their consent) will not be allotted. Steps will be taken by NDB to return the funds retained in lieu of such unallotted shares to the respective shareholders in due course, NDB added.

NDB’s Rights Issue last month was one for three (amounting to 59.15 million shares) at Rs. 105 per share with an aim to raise Rs. 6.2 billion. However, only 32.854 million shares worth Rs. 3.45 billion were allotted/listed, taking into consideration the restrictions placed by the Banking Act. (Daily FT)

### ***Workers’ remittances rebounds to 10% gain***

Workers’ remittances in October saw a welcome gain of nearly 10% to \$ 599 million in October.

In September, it had declined by 7% to \$ 500 million. Remittances in the first 10 months, however, were still marginally short (by 0.5%) at \$ 5.87 billion as against \$ 5.9 billion the previous year. By end September, the cumulative figure was down by 1.5% to \$ 5.27 billion.

In October, last year remittances were down 12% year-on-year to \$ 533 million and the cumulative figure was down 8%.(Daily FT)

### ***Rupee down 15.5% so far this year***

The rupee has depreciated by 15.5% against the dollar during the year up to 21 December, the Central Bank revealed.

“The weakening of the rupee against the dollar mostly reflects a broad-based strengthening of the dollar globally, outflows from the government securities market, and demand for import-related payments in the foreign exchange market,” it added. Central Bank also said, reflecting cross-currency movements, the rupee depreciated against other major currencies during this period as well.

Between January and October, the rupee depreciation was 12.3%. The major inflow to the financial account during October was a foreign currency term financing facility of \$ 1 billion obtained by the Government. However, the trend of foreign investments outflows from the financial account continued during October, with notable outflows from the Colombo Stock Exchange (CSE) and the government securities market.

Central Bank said the government securities market recorded a net outflow of \$ 172 million in the month of October, thus raising the net cumulative outflow to \$ 640 million by the end of the first 10 months of 2018.

Foreign investments in the CSE, including both secondary and primary markets, recorded a net outflow of \$ 36 million during the month of October. On a cumulative basis, the CSE recorded a net inflow of \$ 1 million in the first 10 months of 2018, which comprised an inflow of \$ 77 million to the primary market and a net outflow of \$ 76 million from the secondary market.

Gross official reserves were estimated at \$ 7.9 billion, equivalent to 4.2 months of imports as at end October. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to \$ 10.4 billion at end October, equivalent to 5.5 months of imports. (Daily FT)

## ***Inflation up 1% in November***

Headline inflation, as measured by the year-on-year change in the National Consumer Price Index (NCPI), reversed its declining trend, recording 1% in November from 0.1% in October.

Central Bank said the increase observed in year-on-year inflation in November is mainly driven by the increase of the prices of food items.

Year-on-year Food inflation increased to -3.9% in November from -6.6% in October. However, year-on-year Non-food inflation decreased from 5.8% in October to 5.2% in November.

The change in the NCPI measured on an annual average basis decreased to 2.7% in November from 3.3% in October. The month-on-month change of the NCPI increased by 2.2% in November due to increase in the prices of the items in the Food category, particularly that of vegetables, green chillies, rice, limes and potatoes.

Central Bank also said prices of the items in the Non-food category also increased during the month where the Health sub-category reported the highest increase. However, prices of items in the Transport (Petrol and Diesel) sub-category reported a decrease during the month.

The core inflation, which reflects the underlying inflation in the economy, decreased to 3.1% in November from 3.4% in October on year-on-year basis. The annual average core inflation remained unchanged at 2.4% in November. (Daily FT)

## ***MAS Holdings partners with SL Air Force to launch nation's first ever aerial reforestation project***

MAS Holdings recently announced that it has launched Sri Lanka's first ever Aerial Reforestation Project in collaboration with Sri Lanka Air Force.

Since June 2018, MAS has experimented on a new tool to curb deforestation, by conserving the country's rapidly dwindling forest cover and growing its future forests. Seeds balls have been used since ancient times as a technique for propagating plants without ploughing the earth with tools. Philosopher Masanobu Fukuoka and organic farmers in Japan spearheaded the rediscovery and popularisation of seed balls in the contemporary world.

MAS Holdings integrated the seed-balling project into its Sustainability Action Plan in June 2018, with the expertise of the University of Peradeniya. Prof.D.K.N.G. Pushpakumara, the Dean of the Agriculture faculty at Peradeniya University and his teams have been carrying out years of research into the aerial reforestation method, which drops hundreds of seeds wrapped in clay or soil balls across a designated area to encourage the growth of new saplings and vegetation.

"This was a delicate task – there was a lot to consider, measure and create. First, we reached out to the Forest Conservation Department, and was given a five-acre plot in Nochchiyagama, Anuradhapura. It was a degraded plot of land that had lost the entire forest cover. Our challenge was to create these seed bombs which required a combination of the right forest trees to fit the climate zone, the right clay, soil

and compost combination to suit the chosen seeds,” MAS Holdings Director of Environmental Sustainability Sharika Senanayake said.

The Air Force, under the leadership of the Commander of the Air Force, has been actively involved in a number of efforts to restore the forest cover of Sri Lanka. Our involvement in the pioneering Seed Bombing Project is a continuation and reaffirmation of our commitment to this endeavour. As we are entrusted with the protection of national security through judicious use of Air Power, we are happy to be able to bring that Air Power to bear in a timely and essential enterprise, in order to do our part to ensure a truly green environment for our future generations - Group Captain Gihan Seneviratne, Sri Lanka Air Force Media Spokesman

MAS approached Sri Lanka Air Force, who have been proactively researching on the techniques of incorporating seed bombing for reforestation, where they immediately agreed to partner with MAS and provide essential aerial assistance for the project.

Expressing his views on the project, Group Captain Gihan Seneviratne, Sri Lanka Air Force Media Spokesman noted, “The Air Force, under the leadership of the Commander of the Air Force, has been actively involved in a number of efforts to restore the forest cover of Sri Lanka. Our involvement in the pioneering Seed Bombing Project is a continuation and reaffirmation of our commitment to this endeavour. As we are entrusted with the protection of national security through judicious use of Air Power, we are happy to be able to bring that Air Power to bear in a timely and essential enterprise, in order to do our part to ensure a truly green environment for our future generations.”

Inside the plant nursery of the MAS Fabric Park in Thulhiriya MAS conducted trial runs on the seed ball composition with a limited amount of seed bombs where germination and growth rate were studied in-house. Together with the Air Force, the teams also carried out drop tests on a limited amount of seed balls from designated heights.

“This was a delicate task – there was a lot to consider, measure and create. First, we reached out to the Forest Conservation Department, and was given a five-acre plot in Nochchiyagama, Anuradhapura. It was a degraded plot of land that had lost the entire forest cover. Our challenge was to create these seed bombs which required a combination of the right forest trees to fit the climate zone, the right clay, soil and compost combination to suit the chosen seeds - MAS Holdings Director of Environmental Sustainability Sharika Senanayake

MAS picked three types of seeds: Kumbuk (*Terminalia arjuna*), Karanda (*Pongamia pinnata*) and Mee (*Madhuca longifolia*) for the pilot drop.

“By November, the teams finalised the research methodology which included determining the different compositions of the seed balls, tagging system, sampling system and monitoring schedule. The allocated land in Nochchiyagama was inspected, prepared and demarcated to ensure follow up observations can be conducted at the site. Wednesday was a landmark day for us all to be able to finally let these colourful bombs free fall and settle in their new home. Now we wait and monitor their germination,” Senanayake added. Sri Lanka is losing over 8,000 hectares of forest cover each year. Our future forests will depend on powerful partnerships that bring creative reforestation ideas to life. (Daily FT)