NEWS ROUND UP

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June trade deficit hits $ 795 m

topping $ 1 billion in June Sri Lanka's external sector delivered a mixed performance with the trade deficit climbing to $ 795 million year-on- year amidst increased imports of vehicles, fuel and transport equipment, the Central Bank said yesterday.

Even though the lowest trade deficit so far during the year in absolute terms was recorded in the month of June, the trade deficit widened significantly in comparison to June 2017 as the growth in import expenditure outpaced the increase in export earnings, the Central Bank said in its monthly External Sector report. Export earnings grew 3.8% to $ 1,024 million in June from the previous year while imports rose 18.1% to $ 1,819 million.

The financial account of the Balance of Payments (BOP) was supported by the fifth tranche of the Extended Fund Facility of the International Monetary Fund (IMF-EFF) and the third tranche of the divestiture of the Hambantota Port, however, outflows of foreign investment from the Government securities market and the secondary market of the Colombo Stock Exchange (CSE) exerted some pressure on the BOP.

Reflecting developments in the domestic and global foreign exchange markets, the Sri Lankan Rupee depreciated by 3.45% against the US Dollar by end June and by 5% during the year up to 27 August. The country's gross official reserves as at end June were $ 9.3 billion.

The deficit in the trade account continued to expand in June in comparison to June 2017, driven by the higher growth in imports. On a cumulative basis, the trade deficit expanded significantly during the first half of 2018 in comparison to the first half of 2017.

Earnings from merchandise exports surpassed $ 1 billion for the second time during the year to $ 1,024 million in June, mainly driven by industrial 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.

Export earnings from petroleum products increased significantly in June 2018 due to the combined effect of higher export prices and volumes of bunker and aviation fuel. Export earnings from rubber products increased mainly due to higher earnings from tyre exports. Earnings from exports of machinery and mechanical appliances also increased notably during the month owing to the increase in earnings from electrical machinery and equipment and electronic equipment exports.

Meanwhile, export of base metals and articles increased due to higher exports of iron and steel articles and aluminium articles. However, earnings from transport equipment exports declined significantly mainly due to the effect of higher earnings recorded in June 2017 following the export of two ships. In addition, food, beverages and tobacco and leather, travel goods and footwear exports also declined notably in June 2018 in comparison to June 2017.

Meanwhile, earnings from agricultural exports declined in June due to the poor performance in almost all categories except seafood, unmanufactured tobacco and rubber exports. Export earnings from tea declined as both prices and volumes exported reduced in June. In addition, export earnings from spices declined marginally in June as the growth in cinnamon, and nutmeg and mace was outperformed by the decline in pepper, cloves and other spices.

However, 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. Leading markets for merchandise exports of Sri Lanka in June were the USA, the UK, India, Italy and Germany, which accounted for about 48% of total exports.

Expenditure on merchandise imports increased to $ 1,819 million in June mainly due to high expenditure incurred on fuel, vehicles and transport equipment. Expenditure on fuel imports, categorised under intermediate goods, increased considerably during the month owing to higher import prices and volumes of crude oil and refined petroleum products.

In addition, expenditure on textiles and textile articles imports increased in June reflecting higher expenses on all sub categories, particularly fabric and yarn imports. Also, import expenditure on base metals, wheat and maize, fertiliser and food preparations contributed towards the increase in intermediate goods imports during the month.

However, expenditure on the importation of gold, which increased considerably since early 2016, declined notably for the second consecutive month in June. Meanwhile, import expenditure on personal vehicles, categorised under consumer goods, increased significantly in June owing to the substantial increase in imports of vehicles with less than 1,000 cylinder capacity (cc), hybrid and electric vehicles.

As taxes applicable on small vehicle imports were revised upward with effect from 1 August vehicle imports are expected to decelerate to some extent in the coming months. However, the reduction in import of seafood, rice and sugar under consumer goods, contributed towards mitigating the pressure on import expenditure during the month.

Meanwhile, higher expenditure on transport equipment driven by the importation of four ships and road vehicles such as commercial cabs and auto trishaws, led to an increase in investment goods imports despite a decline in machinery and equipment and building material. China, India, Japan, UAE and Singapore were the main import origins in June, which accounted for about 58% of total imports.

Foreign investments in the CSE, including both primary and secondary market foreign exchange flows, recorded a marginal net inflow of $0.3 million during the month of June. Consequently, cumulative net inflows to the CSE in the first half of 2018 amounted to $53 million.

Meanwhile, the Government securities market recorded a net foreign investment outflow of $74 million in June, thus raising the net cumulative outflow to $176 million by end June. Further, long-term loans to the Government recorded a net outflow of $115 million during June.

With the receipt of the fifth tranche under the IMF-EFF of $252 million and proceeds of the third tranche from the divestiture of Hambantota Port amounting to $ 585 million, the level of gross official reserves of the country increased to $9.3 billion at end June from $8.8 billion recorded at end May. This level of reserves was equivalent to five months of imports. Total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, were estimated at $11.3 billion as at end June which was equivalent to 6.1 months of imports.

The Sri Lankan rupee depreciated by 5% against the US Dollar during the year up to 27 August. Furthermore, reflecting cross currency movements, the Sri Lankan Rupee depreciated against the euro, the pound sterling, the Japanese yen and the Canadian dollar while appreciating against the Australian Dollar and the Indian Rupee during this period. (Daily FT)

Financial Intelligence Unit signs MoU with insurance regulator

In terms of the provisions of the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), the Financial Intelligence Unit (FIU) of Sri Lanka entered into a Memorandum of Understanding (MOU) with the Insurance Regulatory Commission of Sri Lanka (IRCSL) recently to establish a framework for sharing information on supervisory findings based on comprehensive risk-based supervision focused on Anti-Money Laundering (AML)/Countering the Financing of Terrorism (CFT) in the Insurance sector.

IRCSL Director General Damayanthi Fernando and FIU Director D.M. Rupasinghe signed the MOU on behalf of the respective institutions in the presence of Central Bank of Sri Lanka Governor and AML/CFT National Coordinating Committee Chairman Dr. Indrajit Coomaraswamy and IRCSL Chairman Mano Tittawella.

Compliance with the AML/CFT framework of the country is essential for the Insurance sector participants too in the prevention of money laundering, terrorist financing and connected financial crimes which could threaten the stability of domestic as well as global economic and financial systems.

The IRCSL, as the regulatory and supervisory body of the Insurance sector will conduct risk-based AML/CFT supervision and share supervisory findings with the FIU to ensure sector compliance with the AML/CFT framework.

The FIU has already entered into MOUs with 37 foreign counterparts as well as 6 domestic government agencies such as Sri Lanka Customs, Department of Immigration and Emigration, Inland Revenue Department, Department for Registration of Persons, Sri Lanka Police and Securities and Exchange Commission of Sri Lanka in order to share information to strengthen AML/CFT framework.

The MOU with the IRCSL would help to improve regulatory/supervisory capacity of the two institutions by sharing information relating to AML/CFT supervision. (Daily FT)

Rupee hits record low on importer dollar demand

The rupee hit an all-time low of 161.10 per dollar on Monday, dragged down by importer dollar demand and less inflows of the greenback, dealers said.

The rupee closed at 161.05/20 per dollar, compared with Friday's close of 160.85/161.00.

The local currency surpassed its earlier record of 160.96 hit in the previous session. The rupee declined 0.9% so far this month and 4.9% so far this year. "There was demand today mainly for bond outflows and also some dividend payments," a dealer said, requesting anonymity.

"With the currency under pressure, people might not sell until they see a clarity. The inflows are slow, may be, because of the Hajj Festival holidays. The Central Bank does not seem to be concerned. We can't see them

intervening."

The rupee will be under depreciation pressure with the year-end seasonal importer demand, dealers said.

Absence of dollar conversions by exporters and outflows from equities also pushed the rupee lower, said analysts.

Foreign investors sold shares worth a net Rs. 888.8 million ($ 5.54 million) in the last five sessions through Tuesday.

Exporters are holding on to dollars as they expect the local currency to decline further, dealers said.

The Sri Lankan currency is also hurt by weakness in the Indian rupee. India is Sri Lanka's biggest trading partner and the country's currency, which hit a record low on 16 August, is one of the worst performers in Asia this year.

Foreign investors sold government securities worth a net Rs. 7.5 billion ($ 46.77 million) in the week ended 21 August, bringing the outflow so far this year to Rs. 47.4 billion, Central Bank data showed. (Daily FT)

Eastern Merchants PLC buys rubber products giant Microcells for Rs. 575 m

Eastern Merchants PLC has acquired a 100% shareholding of Microcells Ltd., one of the premier rubber products manufacturers in Sri Lanka for Rs. 575 million.

The acquisition the biggest by Eastern Merchants PLC and was funded by a mix of equity and short-term debt.

Eastern Merchants PLC Deputy Chairman Harin de Silva said: "The acquisition is timely and in line with the company's strategic plans to become a fully integrated rubber player."

Eastern Merchants move also comes at a time when the Government is keen on boosting the rubber products exports sector. Last year the value-added rubber products sector earned a record $ 845 million last year.

Established in 1945, Eastern Merchants PLC is one of the major trading houses in Sri Lanka and a major exporter of natural rubber. Its portfolio also includes coconut fibre, desiccated coconut and

Sri Lankan spices.

"Given the deep experience with natural rubber, the well placed sourcing networks and strong supply chain, Eastern Merchants PLC is certain of its ability to realise the synergistic value of this acquisition," the company's Managing Director Channa de Silva said.

Founded in 1978 by entrepreneur Anil Wickremeratne, Microcells Ltd. manufactures and exports technical rubber matting and sheeting products to a global client base. The products of award-winning Microcells has applications in multiple sectors ranging from the agricultural to industrial sectors. A Board of Investment approved venture, Microcells has its factory and office complex in Piliyandala and employs over 150 personnel.

The Board of Eastern Merchants PLC also believes that through this acquisition the company will be able to reach new heights and fulfil its fullest potential while continuing to create shareholder value.

In FY18 as per interim accounts, Eastern Merchants Plc's consolidated revenue was Rs. 1.4 billion, up 19% from the previous year. However the Group posted a post-tax loss of Rs. 10.9 million, down by 11% from a year earlier.

The Board of Directors of Eastern Merchants Plc comprises J.B.L. de Silva (Chairman), H.J. de Silva (Deputy Chairman), C.S.L. de Silva (Managing Director), S. Jayakody, N.K.L. Tilakaratna, C.I. Tilakaratna, F. Mushin and R. Pradeep. (Daily FT)

CSE ends lower as tax proposals hit sentiment

Shares ended weaker on Monday to post their tenth session of declines in 11, as worries over new tax proposals weighed on investor sentiment.

However, foreign investors bought beaten-down stocks, limiting the downside. Foreign buying accounted for about 30% of the day's turnover of Rs. 246.2 million ($1.54 million), which was less than a third of this year's daily average of Rs. 818.3 million.

Foreign investors purchased a net Rs. 20.6 million of shares, making them net buyers for a third straight session after five consecutive sessions of sales. They have sold a net Rs. 3.4 billion worth of shares so far this year.

The Colombo stock index ended 0.14% lower at 6,044.14. The Bourse hovered near their lowest close since 30 March 2017, hit last week. It closed marginally higher last week after four straight weekly falls. "It was a bit of a slow day. Overall, the turnover was on the slower side as there were not much of activities. Because of the tax uncertainties the local investors are on the sidelines," said Dimantha Mathew, Head of Research at broker First Capital Holdings.

"We have seen some foreign interest in the last few days as the prices have come down."

Banking and telecom stocks have been under pressure after a media report last week stated the government planned to impose new levies on these sectors to boost revenue, analysts said.

Lacklustre corporate results and a Moody's report saying Sri Lanka could face significantly tighter external refinancing conditions in the next five years, have also dented investor appetite for riskier assets, analysts added.

Shares in Dialog Axiata Plc ended 0.8% lower, while Lion Brewery Plc closed 2.6% down, Overseas Realty Plc ended down 0.7% and Sri Lanka Telecom Plc closed 0.4% weaker.

The Central Bank left its key policy rates unchanged, as expected, on 3 August, citing its goals of stabilising inflation and fostering sustainable economic growth.

The economy was unlikely to grow more than 4% in 2018, falling short of an earlier estimate of 5%, Central Bank Governor Indrajit Coomaraswamy said. (Daily FT)

Sri Lanka and India discuss fast tracking Indian Ocean naval, security deal

Sri Lanka's Prime Minister Ranil Wickremesinghe and India's Foreign Minister Sushma Swaraj had discussed the need to fast track an agreement on freedom of navigation and security during bilateral talks on the sidelines of a conference on the Indian Ocean held in Vietnam.

Swaraj and Wickremesinghe had agreed that the Indian Ocean Conference, which is being held for the third successive year, is the best forum to hammer out an agreement on freedom of navigation, peace and security in the Indian Ocean, a statement from the Prime Minister's office said.

The discussion had noted that in addition to the annual conference, more rounds of discussions are needed among stakeholders to reach their objectives quickly and in a more systematic way.

The main conference was initiated by India, Bangladesh, Sri Lanka and Singapore.

The conference in Ha Noi is being held on the theme of developing a regional architecture.

Sri Lanka has already become a key cog in the Belt and Road architecture developed by China.

China is jointly owning and operating Hambantota port on a long term lease, for which it loaned over billion US dollars, but Sri Lanka was not able to operate profitably.

China also operates a container terminal in Colombo Port.

Though Sri Lanka called bids to operate a third terminal for which top international shipping lines, with Indian firms as consortium members responded the shipping ministry did not go ahead with the deal.

India is nervous about increasing Chinese investment in Sri Lanka's port.

India is expected to take a stake in Mattala Airport, which was also built with Chinese debt and is making losses.

The third Indian Ocean Conference is being held in Vietnam, which has seen freedom of navigation restricted by China in the East Sea in what it says is its exclusive economic zone.

China has pressured Vietnam to stop oil exploration and regularly rams fishing boats operating off Lý Sơn island in international waters that China has claimed. (Economy Next)

State-run Bank of Ceylon requests early repayment of loans from SriLankan

State-run Bank of Ceylon had requested early repayment of a 12.9 billion rupee loan taken by SriLankan Airlines while the Treasury wants the loans to be extended for another year, until an investor is found, a witness told a commission of inquiry.

The Treasury had given 'Letters of Comfort' to cover the principal of the loans in arrears, while the airline keeps paying interest.

Bank of Ceylon (BOC) Offshore Banking Division Chief Manager Upul Wijegunawardena testified at the Presidential Commission of Inquiry into irregularities at the national carrier.

"The government wants to extend the Letters of Comfort for one year," he said. "The board of directors have decided to extend the debt for only another 6 months," he said.

The Letters of Comfort for the loans expired on 30 June 2018, he said.

Wijegunawardena said that although the Treasury wants to issue new Letters of Comfort, which are less acceptable for the bank than Treasury Guarantees, BOC wants the payments in full.

He said letters have been written to the Public Enterprise Development Ministry as well as the Treasury requesting repayment.

Wijegunawardena said that the government has requested BOC to fund SriLankan until an investor can come in through a public-private partnership.

In the past the government had given Treasury Guarantees, but since 2015, only Letters of Comfort have been issued for SriLankan Airlines debt, he said.

For three loans totalling 12.9 billion rupees extended since 2014, the airline had repaid 4.2 billion rupees of interest, while the principal amount has been renewed through Letters of Comfort, he said.

“We can’t do portfolio matching,” Wijegunawardena said in response to a question on the effect of SriLankan not repaying the loans.

“We can’t extend the funds to another company since SriLankan hasn’t repaid them.”

BOC has provided another 100 million US dollars of foreign currency loans to SriLankan, of which Letters of Comfort have yet to expire, he said. For these loans, SriLankan had repaid 7.6 million US dollars of interest, he said.

Last week Wijegunawardena testified that BOC was giving special treatment for SriLankan as it was a state owned entity, since other clients are not allowed to just repay interest and continuously renew their principal loans.(Economy Next)