

# NEWS ROUND UP

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## ***ADB earmarks \$ 3 b for SL till 2021***

- \$ 1 b for nine projects including solar energy, infrastructure, health and irrigation
- \$ 75 m in SME loans under 'Enterprise Sri Lanka'
- Active portfolio of \$ 4 b for 35 projects
- Upbeat about FTAs, says trade deals not seen in isolation but as tools to boost growth
- Views National Export Strategy and Enterprise SL as initiatives significantly contribute to mobilise more private sector investments in the coming years
- Says FDIs still very low, asserts need to assist Govt. in improving Doing Business Index ranking
- Concerned over low growth, but backs Govt.'s fiscal consolidation
- Forecasts GDP to grow at 4.2% this year and 4.8% in 2019

The Asian Development Bank (ADB) yesterday reiterated its commitment to support Sri Lanka's continued development drive to achieve inclusive growth, earmarking \$ 3 billion over the next three years, in line with its renewed long-term corporate blueprint 'Strategy 2030' for a slew of projects including infrastructure, energy, health, fisheries and education.

Concluding a three-day visit to Sri Lanka, ADB Vice President Wencai Zhang reaffirmed that they would further strengthen its country-based approach to Sri Lanka. "From 2019 to 2021, our commitments will total \$ 3 billion, where we plan to disburse \$ 1 billion each year for development of ports, railways, roads, secondary and higher education, electricity transmission and distribution, fisheries, irrigation, wastewater management, drinking water, sanitation and support Small and Medium Enterprise (SME) projects in Sri Lanka," he told reporters yesterday.

ADB expectsto sign a total of \$ 1 billion to finance nine projects during this year which include rooftop solar energy, a Mahaweli water security investment program, SME line for credit (additional financing), skill sector enhancement program, health system enhancing, elevated highway, urban project – preparatory facility, a fisheries development, science and technology and human resource development project.

As at 31 July 2018, ADB's active project portfolio in Sri Lanka stands at 35 projects with a net loan of \$ 3.9 billion.

He said the country operations business plan (COBP) 2019-2021 is consistent with the strategic priorities of the country partnership strategy (CPS) 2018-2022 of ADB for Sri Lanka.

The COBP 2019-2021 reflects efforts to enhance ADB's development effectiveness in Sri Lanka by focusing on long-term engagement, ensuring project readiness, deepening partnership with line agencies and maintaining a degree of flexibility to respond effectively to the Government's evolving needs.

Based on observations, ADB expects Sri Lanka's GDP to grow at 4.2% this year and 4.8% in 2019. However, Zhang said that this growth was still relatively low compared to the regional growth of 7%.

In addition, pointing out that Sri Lanka's foreign direct investment (FDIs) was still very low, he asserted the need to assist the Government in improving the overall businesses environment, particularly the Doing Business Index ranking in the coming years.

"I think Sri Lanka has the potential. We feel that if the Government sticks to the structure of reforms in the economy and tries to improve the Doing Business Index indicators, the country will grow faster. But the drivers of growth need to come from large public investments, private sector-led growth and improved exports," he added.

The ADB Vice President believes reform initiatives such as Enterprise Sri Lanka and the National Export Strategy (NES) will significantly contribute to mobilise more private sector investments in the coming years.

It was noted that part of the approved \$ 75 million for SME credit line (additional financing) this year was also for businesses under the Enterprise Sri Lanka initiative.

More private sector investments, improved exports, employment generation and more SME financing will enable Sri Lanka to rely more on private sector-led growth which will result in high quality inclusive growth," he stated.

Zhang commended the Government's efforts in managing macroeconomic fundamentals in the areas of trade imbalance, consolidation, tax reforms and management of external debt during the past few years.

In terms of the implications of the ongoing trade wars in the world economy and its impacts on Sri Lanka's exports, he expressed caution over economic prospects, while noting that it was common to all developing nations.

"Increasing trade protectionism, volatile finance markets, trade wars and less global equity were challenging to all economies in the world. It is not easy to increase exports in these circumstances, but it is important for each and every country to look at ways and means on how best they can overcome these challenging situations. I feel that we still need to stick to open trade and investment policies," the Vice President emphasised.

Despite Sri Lanka no longer being eligible for ADB concessionary loans from 1 January 2019 given its economic progress and rising per capita gross national income (GNI), the ADB assured continued support through its ordinary capital resources (OCR).

"ADB's aspirations are aligned with major global commitments such as the Sustainable Development Goals (SDGs), Financing for Development agenda, the Paris Agreement on Climate Change and the Sendai Framework for Disaster Risk Reduction. Strategy 2030 recognises that the ambitious global development agenda must be tailored to specific local circumstances," he stressed.

The ADB officials also expressed confidence that Sri Lanka would benefit from the impending Free Trade Agreements (FTAs), but urged to look at them in totality without considering them individually.

Vice President Zhang met with Prime Minister Ranil Wickremesinghe, Treasury Secretary Dr. R.H.S. Samarasinghe, Secretary to the President Udaya Senewiratne, Secretary to the Ministry of National Policies and Economic Affairs and ADB Alternate Governor for Sri Lanka K.D.S. Ruwanachandra and Central Bank Governor Dr. Indrajit Coomaraswamy.

During his three-day stay in Sri Lanka, Zhang visited ADB-funded projects, including a Technical College in Mirijjawila in the Southern Province, which offers vocational training courses in various skills including information communication technology, welding, carpentry, automobile mechanics and landscaping.

He also interacted with students who shared their career aspirations and the opportunities offered by the Technical College.

In addition, he visited the Handapanagala irrigation watershed identified under the proposed Integrated Water Productivity Improvement Project in the Monaragala District that will assure productive use of irrigation water for farmers.

In the village of Handapanagala, Vice President Zhang spoke to residents who had benefited from an ADB energy project that helped villagers meet the initial investment cost of electricity connections to their homes.

(DailyFt)

### ***Bond market yields remain mostly unchanged***

The secondary bond market yields remained mostly unchanged yesterday with activity witnessed on the 2021 maturities (i.e. 01.03.21, 01.05.21, 15.10.21 and 15.12.21), 15.03.23 and the two 2028 maturities (i.e. 15.03.28 and 01.09.28) at levels of 9.53% to 9.71%, 9.95% and 10.22% to 10.35% respectively.

The total secondary market Treasury bond/bill transacted volumes for 29 August 2018 was Rs.7.50 billion.

In the money market, overnight call money and repo rates increased further to average 7.87% and 7.97% respectively, as the Open Market Operations (OMO) Department of the Central Bank of Sri Lanka was seen draining out an amount of Rs.15.58 billion on an overnight basis at a weighted average of 7.95% by way of an overnight repo auction. The net surplus liquidity in the system increased further to Rs.28.24 billion.

Rupee losses marginally

In the Forex market, the USD/LKR spot rate depreciated marginally yesterday to close the day at Rs.161.40/50 against its previous day's closing levels of Rs.161.40/45 on the back of continued buying interest from banks.

The total USD/LKR traded volume for 28 August 2018 was \$ 64.85 million.

Some of the forward USD/LKR rates that prevailed in the market were 1 Month - 162.15/35; 3 Months - 163.70/00 and 6 Months - 166.15/45.

(DailyFt)

## ***Sunil appointed to RPC Group plantation companies***

Sunil Liyanage has been appointed to the directorates of Kegalle Plantations Plc, Namunukula Plantations Plc and Maskeliya Plantations Plc under the Richard Pieris Group.

Liyanage currently heads the local manufacturing and distribution sector of the Richard Pieris Group as its Managing Director. He is also a Director of Richard Pieris Distributors Ltd., Richard Pieris Exports Plc, Arpico Interiors Ltd. and several other Group companies.

He has over 40 years' management experience in the field of rubber and plastics. He is a Fellow of the Plastics and Rubber Institute of Sri Lanka (FPRI) and holds a Diploma in Polymer Technology (Singapore), a Diploma from the Plastics Institute London and is a Licentiate of the Institute of Rubber Industry, London. He is a Past President of the Plastics and Rubber Institute of Sri Lanka and past Chairman of the National Chamber of Industries. He is a visionary business leader who has been instrumental in launching many innovative products in the polymer category and has the honour of being the first person to commercialise flexible polyurethane foam in Sri Lanka in the form of mattresses, cushions and sheets.

(DailyFt)

## ***Plantation Ministry to launch projects to improve productivity***

The Government this week gave approval to allocate Rs. 136 million from the General Treasury to the Plantation Ministry to be utilised for projects to improve productivity in the sector.

According to the proposal the money will be allocated in stages with Rs. 45.17 million to be allocated in 2019, while another Rs. 42 million and Rs. 37.33 million to be allocated in 2020 and 2021 respectively. The final allocation of Rs. 12 million will be given in 2022.

Subject Minister Navin Dissanayake proposing to allocate the fund over a period of four years stresses on the need to develop production and cultivation practices of all three plantation crops.

Accordingly the Ministry has first proposed projects to develop coconut and rubber sectors. The Ministry plans to set up a production facility for hybrid coconut seeds to meet the requirements of planters in Kinniyama Garden while expanding the production and distribution of predatory mites for control of mite damages.

Further the money will be allocated to construct productive and efficient state-of-the-art smoke houses for the industry as well.

(DailyFt)

## ***Stock market ends higher; financial stocks lead***

Shares ended higher on Thursday, moving away from their lowest close in 17 months hit earlier this week, as reports that the main State-owned pension fund would return to the equity market boosted sentiment.

The Employees' Provident Fund, which had halted equity investments in 2015, is set to resume buying and selling shares, local papers reported on Wednesday, citing Central Bank Governor Indrajit Coomaraswamy's remarks at an event.

The Colombo stock index ended 0.53% higher at 6,076.68 on Tuesday, moving further away from its lowest close since 28 March 2017. The bourse posted its third gain in 14 sessions.

The day's turnover was at Rs. 337.9 million (\$ 2.09 million), less than half of this year's daily average of Rs. 814.4 million.

"Market is still on positive sentiment after the Central Bank Governor's comment. That gave some confidence to local investors, but we don't expect the positive sentiment to last long," said First Capital Holdings PLC Assistant Manager – Research Atchuthan Srirangan.

"Foreign selling is continuing – which is a worrying sign."

Foreign investors sold a net Rs. 76.9 million of shares on Thursday, extending the net foreign selling so far this year to Rs. 4.1 billion worth of shares.

Shares in Commercial Leasing and Finance PLC ended 20% firmer, while Ceylinco Insurance PLC ended 5% up, and the biggest listed lender, Commercial Bank of Ceylon PLC closed 0.9% higher.

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

The economy is unlikely to grow more than 4% in 2018, falling short of an earlier estimate of 5%, Coomaraswamy said early this month.

Rupee weakens further to fresh record low

Reuters: The rupee dropped to an all-time low on Thursday, marking its eighth straight session of setting fresh record lows, as dollar demand from importers remained strong amid sluggish inflows.

The rupee, which hit a fresh record low of 161.50 early in the day, closed steady at 161.40/50 per dollar, compared with Wednesday's close.

The local currency surpassed its earlier record of 161.43 hit in the previous session. The rupee has declined 1.1% so far this month and 5.2% so far this year.

"There was importer dollar demand continuously today also. There were some remittances but the importer demand was high," a dealer said, requesting anonymity.

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 and government securities also pushed the rupee lower, said analysts.

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 fresh record low on Thursday, is one of the worst performers in Asia this year.

Foreign investors sold government securities worth a net Rs. 7.5 billion Sri Lankan (\$ 46.5 million) in the week ended 21 August, bringing the outflow so far this year to Rs. 47.4 billion, Central Bank data showed.

(DailyFt)

## ***ADB-funded Capital Market Development Program stalled***

- Only one out of 17 conditions completed by Govt.
- \$ 125 m second tranche stuck till more conditions met
- SL has till August 2019 to complete program

The \$ 250 million Capital Market Development Program funded by the Asian Development Bank (ADB) has stalled with the ADB refusing to release the second tranche until Government agencies fulfil a majority of the conditions set out by the donor agency, a top official confirmed yesterday.

“The Capital Market Development Program is progressing slowly as the Government agencies have only fulfilled one condition out of 17 conditions that were set out before releasing the second tranche of \$ 125 million for the program,” ADB Country Director Sri Widowati said.

The Government entered into a loan agreement with the ADB in 2016 to obtain a loan of \$ 250 million from the Ordinary Capital Resources Fund of ADB to implement the Capital Market Development Program (CMDP) in Sri Lanka.

The proposed loan of \$ 250 million will be disbursed in two tranches of approximately \$ 125 million each based on the accomplishment of the policy actions relevant for each of the tranches.

According to her, Sri Lanka has to meet the second tranche conditions before 31 August next year to obtain the second tranche of the funding for the contention of the program.

The main objective of the CMDP is to ensure that the capital market in Sri Lanka is more effective in mobilising resources for the economy’s financing requirements to better promote growth and development.

The Finance Ministry will be the executing agency of the program, whereas the Central Bank, Securities and Exchange Commission (SEC), Insurance Board of Sri Lanka (IBSL), and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) will be the implementing agencies.

(DailyFt)

## ***COMBank reaches Rs. 10 b in SME lending under ‘Enterprise Sri Lanka’***

The Commercial Bank of Ceylon has received registrations for a whopping Rs. 10 billion in loans to small and medium enterprises (SMEs) under the Government’s ‘Enterprise Sri Lanka’ initiative launched in June this year to stimulate the national economy.

In a statement Commercial Banks said concessionary interest loans were disbursed under four designated schemes: ‘Jaya Isura’ for SMEs; ‘Ran Aswenna’ for farmers and those in the agro-processing industry; ‘Govi Navoda’ for entrepreneurs involved in farm mechanisation; and ‘Rivi Bala Savi’ for domestic users to install solar panel units. Notably, Commercial Bank leads all lending banks under the ‘Jaya Isura’ loan scheme, having processed a record 300 Jaya Isura loans by mid-August. In total, the Bank has processed over 400 interest-subsidised loans under the four different categories, amounting to

a cumulative total of Rs. 10billion. “Since its inception, Commercial Bank has been committed to supporting SMEs and the national economy, and its contribution has grown progressively as the Bank’s operations expanded,” the Bank’s Managing Director S. Renganathan said.

“Today, Commercial Bank has a significant impact on the Sri Lankan economy in terms of its assets, market capitalisation, taxes paid to the Government, import and export volumes it channels, and its lending to SMEs.”

Commercial Bank of Ceylon is one of the highest lenders to the SME sector in Sri Lanka.

Under Enterprise Sri Lanka, the Jaya Isurascheme is applicable to SMEs in agriculture, fisheries, livestock, floriculture, horticulture, light engineering, printing, tourism, handicrafts, apparel, IT, renewable energy, and manufacturing industries. The first category under this scheme enables entrepreneurs to borrow between Rs. 50 million and Rs. 100 million, with a reduced interest rate of 6.75% per annum. Subsequently, category two under the scheme offers loans between Rs. 200 million and Rs. 400 million at a 10.12% interest rate per annum.

The Ran Aswennascheme is for small-scale farmers, farmer organisations, floriculture and ornamental fish-related businesses, agro and fish processing establishments, and commercial scale farmers. Under this scheme, borrowers can obtain loans from Rs. 5 million to Rs. 750 million, according to their respective categories, at an interest rate of 6.75% per annum.

Govi Navoda is for small-scale farmers and farmer organisations, and offers loans of up to Rs. 500,000 with an applicable interest rate of 3.38% per annum. Rivi Bala Savi, the loan scheme facilitating the purchase of solar panels, allows households to borrow up to Rs. 350,000 at an interest rate of 6.75% per annum.

There are 15 tailor-made local-funded and donor-funded financial and non-financial schemes under the umbrella of Enterprise Sri Lanka. The Government launched this initiative with medium term targets to achieve a per capita income of \$ 5000, create one million new job opportunities, increase exports, and to achieve a continuous GDP growth rate of 5%.

Other goals of the initiative include SME development, promotion of green energy, empowerment of the farmer community, poverty reduction, empowerment of youth, empowerment of women, and promotion of tourism.

(DailyFt)

### ***Asian Stocks Slip on Tariff Plan; Yen Holds Gains: Markets Wrap***

Asian stocks declined on the final trading day of the month as President Donald Trump’s plans to impose new tariffs on China and renewed turmoil in emerging markets weighed on investor sentiment. Treasuries, the dollar and the yen held on to gains.

Stocks slipped from Tokyo to Hong Kong after the S&P 500 declined as Trump was said to be moving ahead with a new trade plan as soon as next week. Emerging-market equities remained under pressure and currencies declined, with the Bank of Indonesia intervening to contain the knock-on effect of weakening currencies in Argentina and Turkey on the rupiah.

Caution is creeping into markets as global stocks round out a month that’s seen a strong rally from mid-August. While the Federal Reserve remains on its tightening path and Chinese authorities have moved to loosen policy and stem declines in its currency, the threat of global growth being hit from a souring of

U.S.-China relations remains front and center. There's also the deepening turmoil in Argentina and Turkey.

On trade, the U.S. president wants to move ahead with a plan to impose tariffs on \$200 billion in Chinese imports as soon as a public-comment period concludes next week, according to people familiar with the matter.

Elsewhere, crude pared gains though remained above \$70 a barrel after breaking through for the first time in a month as shrinking stockpile levels in the U.S. pointed to supply constraints. Declines at Tencent weighed on shares in Hong Kong after China proposed restrictions on games.

The Takeaways From President Trump's Interview With Bloomberg News

These are the main moves in markets:

#### Stocks

- Japan's Topix index fell 0.3 percent as of 10:15 a.m. in Tokyo.
- The Shanghai Composite lost 0.3 percent.
- Hong Kong's Hang Seng Index slipped 1.3 percent.
- South Korea's Kospi index slid 0.2 percent.
- Australia's S&P/ASX 2000 dropped 0.1 percent.
- Futures on the S&P 500 Index were down 0.1 percent. The cash index Thursday fell 0.4 percent.

#### Currencies

- The yen was at 111.04 per dollar after strengthening 0.6 percent.
- The Bloomberg Dollar Spot Index climbed 0.2 percent Thursday.
- The offshore yuan was up 0.1 percent to 6.8585 per dollar after dropping 0.7 percent.
- The euro bought \$1.1672.

#### Bonds

- The yield on 10-year Treasuries was at 2.86 percent.

#### Commodities

- West Texas Intermediate crude stayed above \$70 a barrel after rising 2 percent this week.
- Gold held at \$1,200.26 an ounce.

(Boomberg)