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2 things you need to know to start your day

Budget 2019 targets 3.5% deficit

The Finance Ministry has outlined ambitious targets for the delayed Budget 2019 with plans to increase public revenue to 17% of Gross Domestic Product (GDP) and shrink the Budget deficit to 3.5% of GDP, with the Appropriation Bill expected to be presented to Cabinet this week.

Finance Minister Mangala Samaraweera's second Budget will have some ambitious targets, including maintaining the debt-to-GDP ratio to just 70% and limiting recurrent expenditure to 15% of GDP. Capital expenditure will also be limited to only 3.5% of GDP, the Finance Ministry said in a statement.

"Since government expenditure will be limited in 2019, the Ministries have been instructed to limit their expenditure proposals to projects with active plans," the statement added.

The deficit target is in line with the Government's plans, which were announced by Prime Minister Ranil Wickremesinghe in 2017. However, the Government has failed to hit deficit targets since 2017 with the 2018 target of 4.6% likely to be about 5%, according to the Central Bank.

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Yield curve reflects parallel shift downwards

The first trading week for the year saw the secondary bond market yield curve recorded a parallel shift downwards during the week ending 4 January 2019 on the back of local buying interest driven by the outcome of the weekly Treasury bill auction. The 364 day bill recorded a drop of 21 basis points to 10.99%.

Activity centred on the liquid maturities of 15.12.21 and 01.08.26 as its yields were seen decreasing to weekly lows of 11.25% and 11.55% respectively against its previous weeks closing levels of 11.50/58 and 11.75/82. In addition, the 2023's (i.e. 15.05.23 and 15.07.23), 15.03.25 and 15.06.27 was seen changing hands within the range of 11.50% to 11.72%, 11.59% to 11.80% and 11.62% to 11.82% respectively as well. In the secondary bill market the 364 day bill was seen dipping to a low of 10.80%, subsequent to the auction.

Nevertheless, the reduction in the foreign holding of Rupee bonds was witnessed for an 18th consecutive week recording an outflow of Rs. 6.68 billion for the week ending 2 January 2019.

The daily secondary market Treasury bond/bill transacted volume for the first four days of the week averaged Rs. 6.82 billion.

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Supplementary News

Economy

Lanka will be struck off 'grey list' - CB Governor

Central Bank Governor Dr. Indrajit Coomaraswamy yesterday expressed his confidence that Sri Lanka will be taken off the Financial Action Task Force's (FATF) "grey list" by mid-2019.

CBSL Governor Dr. Coomaraswamy further said that Sri Lanka has recorded considerable progress in completing the Action Plan agreed with the FATF.

He further said that the CBSL has taken steps in strengthening the national Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) policy framework of the country.

"We have also expanded our reach by way of entering into a Memoranda of Understanding with several agencies such as the Securities and Exchange Commission, Insurance Regulatory Commission and the Department of Motor Traffic. Moving ahead, several progressive policies will be adopted with the coordination of all stakeholders to deepen financial intelligence services," Coomaraswamy added.

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SLPA tariff revision in New Year rattles exporters, importers

The Sri Lanka Ports Authority (SLPA) has landed an upward tariff revision on 1 January, increasing cost for exporters and importers allegedly without notifying the trade or the new Minister.

Industry sources said the Port's wharfage tariff for export containers and import containers and handling of their LCL (Less than Container Load) cargo has been exorbitantly increased by more than double, which is a dollar-based calculation. Additionally, demurrage free times have been reduced, too.

The 20ft rate has been increased to $35 from $16, and 40ft price to $70 from $32. In addition, the LCL charges have been abolished and a box rate has been introduced, which is an increase with a new mechanism making small exporters' and importers' costs indirectly vulnerable for a greater increase than published.

Exporters and importers said that they have already informed the relevant authorities and questioned why the hike was effected at a time when the SLPA was increasing its revenue through massive transshipment growth and record profits with debt burden over Hambantota Port relieved by the Government. In 2017, SLPA recorded its highest profit of Rs. 13.1 billion whilst the figure for last year is pending.

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Govt. steams ahead to boost exports, FDIs

The Government is steaming ahead in developing three new export processing zones (EPZ), while introducing investor-friendly policies to bolster trade and attract fresh foreign direct investments.

Development Strategies and International Trade Minister Malik Samarawickrama said they were progressing with two zones, particularly in Millaniya and Bingiriya, in the near future.

"Apart from Hambantota, we are working on developing two other zones in Millaniya and Bingiriya. We are still discussing and ironing out the land issues in the southern zone while Millaniya has already started its infrastructure work, and by the end of this month, we will commence the first phase of development in the Bingiriya EPZ as well," the Minister told Daily FT.

Samarawickrama said around Rs. 2.5 billion will be allocated from the upcoming Budget to build the new zones.

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NS down to Rs 108.93B

The market enjoying an uplift in net excess liquidity (NEL) by an amount of Rs 4,880.99 million during the course of Friday's trading led by flexibility exercised by commercial banks in respect of their statutory reserves ratio (SRR) requirements which have to be in order only at the middle and end of each month.

That and money printing (MP) helped reduce market's net shortfall (NS) by 6.43% (Rs 7,482.55 million) to Rs 108,931.46 million by the weekend over its Thursday's figures.

Consequently, Government of Sri Lanka's (GoSL's) face value (FV)MP liabilities increased by Rs 2,601.55 million (1.18%) to Rs 223,588.95 million on Friday as Central Bank of Sri Lanka (CBSL) lent to GoSL in the absence of adequate revenue for the latter to meet its domestic commitments.

However, CBSL's lending to GoSL to meet its domestic monetary needs may cause cost push inflationary and cost of living pressures. MP also increases GoSL's debt. Meanwhile, GoSL's MP borrowing costs (BCs) Friday over Thursday increased by 4.21% (Rs 108.69 million) to Rs 2,691.34 million, compounded by the weekend, where such costs are prorated for three days instead of the usual one day.

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Sector News

Journey of Nations Trust Bank and WSO2 to become front-runner in Open Banking for Sri Lanka

From introducing 365-day banking in Sri Lanka, to becoming the pioneers of open banking in Sri Lanka and introducing the country's first digital bank (FriMi), Nations Trust Bank isn't new to innovation or introducing new concepts. Their open banking journey was not driven by any regulatory requirements unlike for banks in regions such as the EU, where regulators demand that banks open up their systems through open banking. Rather, it was the ever increasing importance of forming partnerships with fintechs, expanding business opportunities, and staying relevant and competitive in the future.

"Nations Trust Bank is now at the forefront in Sri Lanka by aligning strategies to cater to changing customer expectations of financial services.With Nations Open API Banking, we have enabled collaboration and data sharing in the financial services industry in the country within a framework of trust and security, and in keeping with global standards in information and data security," says Nations Trust Bank Chief Information Officer Nisala Kodippili.

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Telecom sector profits down despite revenue growth

The Telecommunications sector of the Colombo Stock Exchange (CSE) has recorded a 12% year-on-year growth in revenue across the sector for the third quarter (Q3 FY 2018 ending on 30 Sep). However, the sector recorded opposite results for the bottom line, at a 36% year-on -year reduction. The index of the sector slumped 17% from 179.37 to 149.75 quarter-on-quarter reflecting the bottom line weight.

In the listed sphere, the Telecommunications sector comprises the two counters Dialog Axiata PLC (DIAL) and Sri Lanka Telecom PLC (SLTL).

According to the latest statements DIAL Q3 revenue was up by 15% to Rs 27.95 billion supported by growth in the subscriber base while SLTL revenue spiked by 9% to Rs 20.64 billion year-on -year. DIAL recorded nine months total revenue of Rs 80.64 billion at a 16% year-on-year increase while SLTL recorded a 7% nine months year-on-year increase reaching Rs 60.09 billion aggregating to a total industry revenue of Rs 140.73 billion at an individual contribution of 57% and 43% from DIAL and SLTL respectively for FY 2018.

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Sri Lanka hydro power up 87% amid rain

Sri Lanka's hydro power output rose 87 per cent from a year earlier to 3,428 Giga Watt hours in the nine months to September 2018, amid strong rainfall, official data showed.

Total generation expanded 3.9 per cent to 11,436 GWh, in the nine months, the central bank said.

Electricity generated from coal fell 9.2 per cent to 3,725 GWh, while power from fuel oil fell 22.9 per cent to 1,518GWh.

Purchases from the private sector fell 11 per cent to 2,764 GWh. Private renewable power purchases, mostly mini hydro were up 23 per cent to 1,256GWh as rains improved.

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Business News

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Company News for Analysts

Hunas Falls share price soars with talks of controlling stake sale

The share price of Hunas Falls Hotels PLC rose sharply last week with talks of the controlling stake held by Hayleys Group being up for sale.

Chairman of both entities, Mohan Pandithage said two major shareholders – Carbotels Ltd. and Amaya Leisure PLC – have informed that they have been approached by a prospective buyer to purchase the shareholding. This is subject to a due diligence.

Hayleys-linked companies Carbotels Ltd. holds 50.22% stake, and Amaya Leisure has 16% stake. The other major shareholder is Jetwing Group with 15%.

Speculation over the sale propelled Hunas Falls to be the highest gainer, up 64%, or Rs. 51.30, to Rs. 131.80. It hit an intra-week highest of Rs. 137.40 and a low of Rs. 76.10. Around 85,185 shares changed hands via 516 trades for Rs. 10 million.

On 2 January, it gained by 16%, or Rs. 12.80, to close at Rs. 91.80 with 10,541 shares traded. On Thursday, it gained by 20%, or Rs. 18.60, to close at Rs. 110.40 with 18,337 shares traded. On Friday, Hunas topped the gainers list with stock up 19%, or Rs. 21.40, to close at Rs. 131.80 with 55,242 shares changing hands via 354 trades.

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Politics

New Constitution draft to be presented to Parliament – Rajitha

Most of those who levelled allegations against the new Constitution are not aware of what power devolution truly means, Health Minister Rajitha Senaratne said yesterday.

"This country was dragged into a war because of the politicians who manipulate every opportunity to come or stay in power.

This was the case since the 1950s. Most of these people who make allegations against the drafting of the new Constitution know nothing of power devolution,a Unitary State or a Federal State," Minister Senaratne said.

The Minister also said that a two thirds majority is needed to dissolve Parliament and hold a General Election. Just because the Opposition wants an election, that does not mean we have provisions to do so," Minister Senaratne pointed out.

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Global News of Local Interest

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Events

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'10 Years After Lasantha: Whither Investigative Journalism in Sri Lanka?' forum tomorrow
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Opinion

Sri Lanka's deep economic crisis:Wasted four years and a wasting election year

By: W. A. Wijewardena

Taking over a sick patient by the new Government

By the time the present Government came to power in 2015, Sri Lanka was in a deep economic crisis.

Its growth had slowed down from a peak of 9% in 2012 to 3.4% in 2013 before recovering temporarily to 5%, still a low rate, in 2014. Exports had been stagnant at around $ 10 billion during the five year period from 2010 to 2014, while imports had been on average at about $ 18 billion giving rise to a trade deficit of about $ 8 billion annually.

Since the net amount of monies sent by Sri Lankans working abroad, known as remittances, had been around $ 5 billion on average, Sri Lanka's foreign exchange payments over receipts, categorised as the current account of the balance of payments, had yielded on average a deficit of about $ 3 billion.

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