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CNCI NEWS BULLETIN

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CNCI SAYS IT IS HIGH TIME TO PRESENT ECONOMIC RECOVERY PLANS BY THE GOVT

In a press release, the CNCI Chairman – Canisius Fernando stated that Sri Lanka is currently facing an unprecedented economic crisis with unhealthy socio-political environment owing to poor management of the authorities concerned who are accountable for the state's economy.

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CNCI SAYS IT IS HIGH TIME TO PRESENT ECONOMIC RECOVERY PLANS BY THE GOVT

In a press release, the CNCI Chairman – Canisius Fernando stated that Sri Lanka is currently facing an unprecedented economic crisis with unhealthy socio-political environment owing to poor management of the authorities concerned who are accountable for the state's economy. He further said that the country had been at a post pandemic era, where the country's economic growth was at a downward trend. The high inflation rate, depletion of foreign exchange reserves, investment of funds from facilities on zero ROI projects, cutting down government taxes and sovereign debt crisis can be identified as root causes for the economic crisis we are facing at present.

Today's industrialist is facing not the challenge of profit maximization but the challenge of survival in the industry. Their processes are hampered and the operations are badly constrained by a number of factors which include import restrictions, material shortage, fuel shortage, power disruptions, worker absenteeism, escalating production cost, unstable supply chain and infra-structure etc. The situation makes enormously difficult for the industrialists to plan their future which is essential to reach the destinations.

The gravest side effects brought about by the FOREX issue are the short supplies of fuel, gas and electricity. Fuel is connected with every industrial activity including process operation, supply chain moves, staff transport and end product transportation. Whenever there is a fuel/power shortage in the country, all above mentioned activities are paralyzed which in turn will increase the cost, lower the quality and drag the time against what has been planned. This brings about serious threat especially to the export oriented industries as their global buyers tend to divert their orders to other countries. The constant power disruptions drastically reduce the production efficiency making it difficult to meet the market demand which creates opportunities for the competitors to grab the space in the market.

In all social and institutional circles including the parliament, everyone speaks only about the issues, may it be general or personal but no one seems to come up with a constructive solution to the burning problems the country citizens are facing today. There are miles long queues around the gas and fuel stations and the people are waiting days and weeks in the queues with numerous physical and emotional constraints. Seriousness have been revealed with the number of deaths related to these consequences. Schools have been closed. There is a significant dearth of medicines and milk powders in the market. Prices of essential food items are determined by the market forces for which the general laymen have hardly access. Government services have been weakened. Company employees are in queues for hours and days, which affects the productivity and finally the industries should be in a queue of discontinuing their businesses.

In the midst of all these issues, the people in the country who are shouldering unbearable burdens for no fault of them eagerly expect the vision of the authorities of the government who should present their master plan to address the issues. Instead what the authorities do is that they constantly amplify the doubts and fears of the people every fortnight saying that the future is critical, with which the general public have no choice than starving in every angle. If the situation persists longer there may be uncontrollable situations among the groups of people in their struggle to seek essential needs of their daily life and survival.

Being the general public what we believe is that the government should expedite the matters to receive IMF concurrence to restructure the facilities, take strategic moves to attract FDIs, promotion of tourism and encourage Exporters by providing facilities to a conducive environment rather than disrupting their operations, seeking opportunities for foreign employments, timely projects for power generation and industrial development etc etc. Unfortunately the Government is yet to extend policy responses/formulations and create plans for economic recovery.

Under the circumstances we urge the government to present the government's vision to the nation along with short term and long term plans/proposals for economic recovery which is essential for all the citizens in the country to move forward in the same direction to rise as one country – one nation.

Cabinet nod to liberalize petroleum industry

- **Companies from oil-producing countries to be allowed to undertake imports, distribution, and retail**
- **Minister Kanchana Wijesekara says firms will be selected based on their ability to import fuel without needing forex from banks**
- **CPC to remain as service provider for logistics, storage, and distribution, and will charge a service fee from the companies**
- **Says selected outlets among existing 1,190 Ceypetco stations will be given to LIOC and to new fuel importers**
- **Assures Sapugaskanda oil refinery will continue to be operated by CPC**

The Cabinet of Ministers at its meeting on Monday decided to liberalise the petroleum industry by allowing companies from oil-producing countries to engage in importation, distribution, and retail activities.

The move comes as the Government struggles to secure $ 500 million monthly to import fuel amidst the worst foreign reserves and currency crisis faced by the country.

"Companies will be selected based on their ability to import fuel and operate without needing to obtain foreign exchange from the Central Bank of Sri Lanka or other commercial banks, during the first few months of their operations," Power and Energy Minister Kanchana Wijesekera said yesterday.

At present, the State-run Ceylon Petroleum Corporation (CPC) contributes around 90% of the total fuel supply to the country, while the remaining 10% is supplied by the Lanka Indian Oil Company (LIOC).

"Ensuring an uninterrupted fuel supply to the country has become a challenge due to the current foreign exchange crisis in Sri Lanka. Therefore, it seems appropriate to enter into long-term agreements with companies in the oil-producing countries to enable them to import and sell fuel using their funds so as not to put pressure on the country's foreign exchange problem," a statement comprising weekly Cabinet decisions issued by the Government Information Department noted.

Minister Wijesekara also said the CPC will remain as a service provider for logistics, storage, and distribution and will charge a service fee from the companies.

In addition, he pointed out that a decision was taken to establish new filling stations, whilst selected outlets among the existing 1,190 Ceypetco stations will be given to the LIOC and new fuel importers.

The Minister assured that the oil refinery in Sapugaskanda will continue to be operated by the CPC.

The proposal to this effect submitted by Power and Energy Minister Wijesekara was approved by the Cabinet of Ministers to provide long-term agreements with selected companies following the formal procedure to enter the local market.

Source: Daily FT – 29th June,2022

UN calls for over US$ 47 million for life-saving assistance

UNITED NATIONS SRI LANKA
TOGETHER FOR SUSTAINABLE DEVELOPMENT

The United Nations team in Sri Lanka and non-governmental organisations launched a joint Humanitarian Needs and Priorities (HNP) Plan calling for US$ 47.2 million to provide life-saving assistance to 1.7 million persons worst-hit by the economic crisis from June to September.

This directly responds to the Government of Sri Lanka's request for a United Nations-backed multi-sector international assistance to respond to the most urgent needs arising from the recent crisis, particularly focusing on health care and essential medicines, food and agriculture -including targeted nutrition services- safe drinking water, emergency livelihoods and protection.

Development and humanitarian partners in Sri Lanka estimate that nearly 5.7 million women, children and men are in need of immediate life-saving assistance. The 1.7 million people targeted under the HNP are among those whose livelihoods, food security and access to health services are most at risk and need immediate support.

Source: Daily News – 10th June,2022

An analysis of Sri Lanka's external debt patterns

By: Soumya Bhowmick

The key contributors to Sri Lanka's current economic crisis is the country's nature of borrowing and foreign debt obligations

The present economic crisis in Sri Lanka is a major fallout of the nation's habitual borrowing tendencies from creditor nations as well as multilateral organisations, characterised by a precarious sovereign debt structure. The external debt service payments for Sri Lanka stood at US$ 7 billion for what remains of this year, against the foreign reserves of US$ 1.9 billion at the end of March 2022. On April 12, the country revealed that it was defaulting on its external debts to the tune of US$ 51 billion, awaiting a bailout from the International Monetary Fund (IMF). The Finance Ministry declared that an approximate amount of US$ 3 million worth of external assistance would be required over the next six months, to restore the supplies of essential goods, and at the same time lay down the recovery path for the distressed economy.

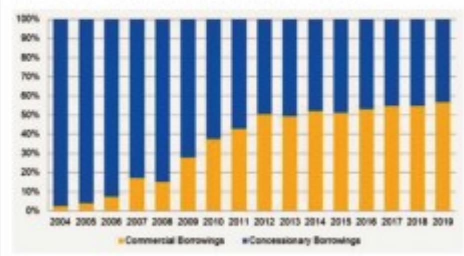
Foreign Exchange Reserves

The roots of Sri Lanka's current sovereign debt crisis dates back to the early-2000s, when the World Bank promoted the nation from a low-income country to a low-middle-income country. Before Sri Lanka made the ascent to a middle-income country, a large share of the foreign debt came through concessionary funding from multilateral organisations such as the World Bank, Japan International Cooperation Agency, and the Asian Development Bank (ADB). These borrowings were characterised by favourable loan conditions such as low-interest rates (1% or less) and the longer periods for its repayment (25–40 years) which assisted in the systematic management of foreign exchange reserves.

Even though Sri Lanka's foreign debt-to-GDP ratio has witnessed reductions over the last two decades, the change in the total structure of the external debts have made the economy more at risk of currency crises in the last few years. As the nation became a middle-income country, the access to concessionary funding became scarce, and the Sri Lankan economy shifted towards an increasing proportion of commercial loans in its external debt structure. These commercial loans were mostly in the form of International Sovereign Bonds (ISBs)—instruments of capital market borrowings, and carried interest rates that were high (above 6 percent) with shorter durations of repayment (5–10 years) and no grace period.

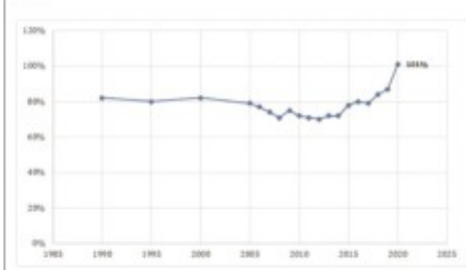
In 2007, the country issued its first ISB worth US$ 500 million, followed by large rounds of borrowing from international capital markets in the form of ISBs. From 2004 to 2019, the country's commercial loans have increased from 2.5% to 56 percent of its total foreign loans, respectively (See Figure 1), thereby, increasing the macroeconomic instability.

Figure 1: Sri Lanka's Foreign Debt Composition (2004 – 2019)



Source: The Diplomat, data from the Central Bank of Sri Lanka and the Department of External Resources, Sri Lanka

Figure 2: Total Government Debt (as percentage of GDP) in Sri Lanka (1990 – 2020)



Source: Author's own, data from World Bank

Despite the levels of domestic public debt remaining mostly stable, the foreign debt-to-GDP ratio (comprising of mostly commercial borrowings) has surged from 30 percent in 2014 to 42.6 percent in 2019. The latter has mainly contributed to Sri Lanka's rising total debt-to-GDP ratio (domestic and external debt) which reached an all-time high of approximately 101percent of GDP in 2020 (See Figure 2). Statistical estimations by a World Bank study shows that the ideal threshold for total debt-to-GDP ratio is 64 percent for emerging market economies such as Sri Lanka; and for each additional percentage point beyond this threshold is estimated to cost the annual real growth of the economy by 0.02 percentage points.

It is fair to say that the ever-increasing foreign debt obligations for Sri Lanka has been a major contributor to the present economic woes the nation finds itself in. Firstly, there is Sri Lanka's reliance on commercial borrowings without paying heed to the structural weaknesses in the economy—such as decreased trade levels as a percent of GDP (from 33 percent in 2000 to 13 percent in 2019), low levels of FDI (successive governments were unable to meet the targets set on the FDI front) and tax revenues that have been falling over time, amongst others—have devastated the economy in an impactful manner, due to the interactions of both the domestic and external macroeconomic factors that have turned out to be quite complicated.

Secondly, the capital inflows from China into Sri Lanka calls for a more detailed introspection before the two countries agree upon any more loan terms in the forthcoming years, especially in the context of Sri Lanka's participation in the Chinese Belt and Road Initiative (BRI). The 2017 Hambantota Port episode bears testimony to how Sri Lanka is a victim of China's vicious 'debt-trap diplomacy'. According to the official records, while China makes up 9.83% (US$3.4 billion) of Sri Lanka's total foreign debt as of 2019, China's liquidation techniques and hidden debts in various projects also exhibit the outcomes of economic imperialism shown by Beijing that are problematic for the Sri Lankan economy. The ongoing economic crisis in Sri Lanka had forced Colombo to ask for a moratorium on debt repayments in February 2022 to the visiting Chinese Foreign Minister—stirring up the matter of 'problematic Chinese debts' once again in the global diplomatic space. The island nation has also attempted to secure a new loan grant of around US$ 2.5 billion from China in March 2022.

Sri Lanka's excessive foreign borrowing in exchange of infrastructure projects that have failed to provide high returns. Additionally, the increasing external debt servicing overwhelmed an already weak economy that was left faltering from the economic costs of the 26-year-long civil war that came to an end in 2009, and was followed by the repercussions of the global financial crisis in 2007-08, alongside continual fiscal and current account deficits. In April 2022, the Governor of the Central Bank of Sri Lanka announced that there will not be any restructuring of domestic debt (such as government securities and development bonds) at the moment, while restructuring of the external debt will be prioritised given the current situation.

Economic Downturn

Although a healthy amount of sovereign capital inflow is expected to bolster the economic growth of nations; but for Sri Lanka the sovereign debts (for example the multiple IMF bailouts) were mainly used to save the economy from the successive BOP precarities in the past. Given the wreck the Sri Lankan economy is facing, the impact of the COVID-19 pandemic on the global economy, and most importantly the low sovereign credit ratings for the Sri Lankan economy will make it extremely difficult for Sri Lanka to be on the lookout for commercial borrowings from foreign sources in the near future. Going ahead, credit diversification and the restructuring of foreign debt will be of utmost importance to the island nation.

- Observer Research Foundation

Source: -Daily News – 25th June ,2022

Is Increasing Taxes The Only Way-out…?

By Ananda Ariyarathne

Central Bank of Sri Lanka

"Merry making has come to a sudden end and the joyous reveling also has stopped with the rising sounds of whimpering, wailing getting mixed with cursing and screaming, not in a house or two, but enveloping all. News has become a collection of incidents of suffering and all of a sudden all have started blaming a family of politicians of two generations and those who supported the family without questioning, brimming with overconfidence, without thinking for a moment that they are to be blamed for the final outcome, now, that it was their misfortune to be in the middle. The environment is not a pleasant one anymore. It is clear to all, what really had happened. Therefore, it is unavoidable that corrective action is taken, but it is taken very much later and life has become one miserable reality."

Historical Momentum

Sirimavo Bandaranaike

The rulers who were elected did not have much to worry about and the British Masters did not leave behind a suffering nation and the welfare measures that were used, under those Masters who were involved in a World War, preferred peace and it was not a big issue allocate provisions to provide subsidies to keep the food prices low, and as the overall burden being small, it continued, even after the Independence. But remained the hidden challenge at every election. Although there is an increasing trend in prices, it did not hit the rice prices, and it was too sensitive.

It was only during the time of Late Sirimavo Bandaranaike some improvements could be seen towards the aspiration to make Sri Lanka self-sufficient in rice. But, with the introduction of Free Marketing, the approach became very simple and clear that the Free Market would give the government a better deal as the Market would settle the issue. The result was the attitude that made paddy land owners say they would rather buy rice in the market than wasting money on cultivation. What happened was the migration of farm labour that resulted in more and more paddy lands becoming fallow.

Petroleum Comedy

It is directly connected to the Foreign Reserves and the non-availability of alternatives has caused this chaotic situation that did not fall from the sky. If the thinkers with their brand new brains, first had the capacity to understand this unavoidable reality, they would definitely have had guided the leaders when and where situations may have cropped up. But, again, if the so-called leaders did not have the presence of mind when and where necessary, or if they did not have the common sense to make use of the thinkers, this kind of a crisis would never have occurred.

If we remained a completely neutral nation, we would not have been caused to suffer due to negative influence because we would never have given justifications to those who took it as their personal as well as historical responsibility. That affected the strength of our country in a bloody aimless military conflict that drained the resources that existed and even those to be there in favour of us as the country moved on, that was where we committed. As an independent nation we could not decide on vital issues like having such arrangements to stabilize the economic growth as the base first. Under the best negotiated arrangements, we would have solved the problem of getting the crude oil in the first place. In the absence of such, it was natural to have private companies negotiating their way to the top.

If we had the presence of mind to have such mutually beneficial arrangements, we would never have had the misfortune like what we are really in. The beginning and the end of the whole process lie there. It does not have to be a case of our having or not having petroleum deposits beneath our feet. If we have it under our feet, we should know how to make the best use of it. At this very moment, we are a country playing sitting ducks with the Mannar Basin's Potential being exploited by others.

It shall be incomplete if the case of LPG is not mentioned here. LPG is not something we have naturally available here and in refinery based petroleum processing, LPG is a by-product. While the refinery belonged to us, we allowed the LPG business to others who could name their profits. Now, we are lamenting about our inability to provide this product to the people.

If we can see that there is no problem that does not have an answer, why do we try to solve our problems through taxation only?

Rice Comedy

In the middle of this, the new breed of Paddy Buyers started playing with the poor man's daily meal. It became a total comedy with the new breed of Paddy Buyers who had all the support from the 'Banks', and the harvests vanished into thin air. On the other hand, the underground network kept the farmers, all the time, obliged for the fertilizer they received. Cycle became complete, and those ruthless rice tycoons started hoarding and scarcities became a normal seasonal feature. Government gave Guaranteed Prices and those tycoons somehow got the farmers to give their harvests only to them. Then the next 'act' in the 'Rice Comedy' was the scarcity followed by the new set of prices. Then, the benevolent government, represented by a clever Minister, sanctions the import of rice committing valuable foreign exchange. Then even the imported rice, the government's brainy advisors think, is an opportunity to slam a good margin and we have an exorbitant piece level for the consumers. And the comedy is complete. Imagine levies the government would charge. We have very passively and patiently watched this drama and started admitting and avoided taking the right kind of action. Obvious outcome: higher prices.

Price hiking is everywhere for obvious reasons. Due to unfavourable trading balances, our Rupee Value has gone down and therefore, we are compelled to pay more Rupees for Dollars. When a commodity like rice is imported, the government mechanism should be competent enough to steer the available resources in such a way that relief for the people shall not become a distant target.

Solution

Rather than trying to find money when a need arises, let us have a shock absorbing facility, which will take up the burden and then keep on improving on the financial achievements to recover all those commitments. It can be done by recovering the large debts and getting a joint guarantee from all the Business Giants in the economy to support the government, in a system strictly monitored by the Central Bank, based on a Futy Guarantee / Duty Rebate system, so that the people shall not be burdened anymore.

We should create the right environment, not just slamming taxes.

Source: -Daily News – 29th June ,2022

Ministry relaxes restrictions on 369 imported items

The Finance Ministry has relaxed restrictions imposed on 369 items through a Gazette Extraordinary published on March 9, 2022.

This was announced in a special gazette notification issued on Tuesday by Prime Minister Ranil Wickremesinghe, in his capacity as the Finance, Economic Stability and National Policies Minister.

The relevant items can now be imported without an Import Control Licence effective from June 1, subject to applicable rules and regulations including duties and taxes a release issued by the Finance Ministry said.

The statement said that considering the recent development in the country and measures that have been taken, the Ministry of Finance, Economic Stabilization and National Policies has taken two actions under the Imports and Exports Control Act, No. 01 of 1969 as follows.

(i) Postponement of Effective date of the Imports Control Regulations on Payment Terms No.07 of 2022 published on May 6, 2022.

Imports Control Regulations on Payment Terms No. 09 of 2022 has been promulgated and published in the Gazette No. 2281/22 dated May 31, 2022 giving effect to the postponement of the effective date of the Imports Control Regulations No. 07 of 2022 from May 20, 2022 to June 07, 2022. Thereby, any cargo/ consignments, imported under the Open Account Payment Terms, Documents against Payment or Documents against Acceptance can be released from the Sri Lanka Customs as per general practice applicable prior to May 7, 2022 until June 6, 2022.

(ii) Termination of Imports and Exports Control Regulations No. 05 of 2022 and No. 06 of 2022 effective from June 1, 2022.

Imports and Exports Control Regulations No. 08 of 2022 has been promulgated and published in the Gazette No. 2281/21 dated May 31, 2022. Accordingly, a total of 369 HS Codes, which were regulated by the said Regulations above can be imported without Import Control License effective from June 1, 2022 subject to applicable rules and regulations including duties and taxes at the time of Customs clearance of cargo and consignments.

Given the difficult economic situation in the country, the Finance, Economic Stabilization and National Policies Ministry requests all stakeholders to rationalise their importation on the basis of importance and urgency to save the limited foreign exchange for the purpose of importation of essential commodities to ensure their uninterrupted supply.

Source: Daily News – 02nd June, 2022

World Bank/S&P Ranks Colombo as 'Most Efficient Port In South Asia'

The Port of Colombo has been ranked as the most efficient port in South Asia and the Indian Sub-Continent, third in the Indian Ocean rim and 22nd among 370 ports globally, in the second edition of the Global Container Port Performance Index (CPPI) 2021, ranking developed by the World Bank and S&P Global Market Intelligence and Financial Services.

Sri Lanka Ports Authority (SLPA) Chairman Dr. Prasantha Jayamanna stated that "The World Bank/ S&P Administrative (subjective/expert) and Statistical rankings of Colombo among the top 7% of the ports in the world and the best in South Asia, is a testament to the Port's position as the primary transhipment hub in South Asia."

"In addition to the valuable contribution made by our own JCT, the ranking acknowledges the significant role played by our partner terminals, Colombo International Container Terminal (CICT) and South Asia Gateway Terminals (SAGT), who together have made the port what it is today".

Dr. Jayamanna went on to say that "Given SLPA's role as Regulator and facilitator of port development of Sri Lanka, it is important to record that the Port of Colombo will continue to develop ahead of projected demand and towards this, construction has already begun on two new deep water terminals, the East Container Terminal (ECT) by the SLPA and the West Container Terminal (WCT), by a consortium led by Adani Ports and including John Keells Holdings. These developments will progressively add over 7 million TEU of throughput capacity over the next 2-5 years."

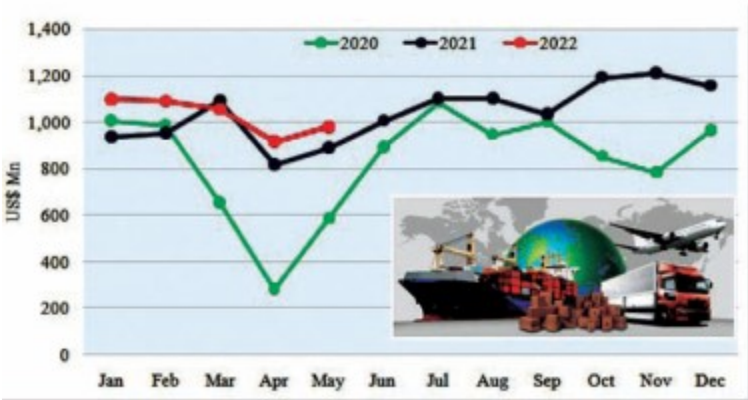
CICT Chief Executive Officer Jack Huang, said "CICT has won multiple accolades for exceptional performance over the past five years and we continue to offer our customers who are the world's leading container shipping lines, a best in class service for their transhipment and gateway requirements."

SAGT Chief Executive Officer Romesh David, a consortium led by John Keells Holdings and the AP Moller Maersk Group said, "SAGT has played a catalyzing role in launching and contributing to maintaining Colombo's global standing as the preeminent transhipment hub in the region."

The Port of Colombo recorded an all-time high throughput of 7.25 million TEUs in 2021 and continues its growth story, recording a year on year growth of 2% for the first 5 months of 2022 ending in May.

Page Source : Daily News : 06th June 2022

Sri Lanka Exports record USD 5 bn mark in 5 months



Merchandize Export Performance, 2020 - May2022 in USSD millions

Earnings from the merchandise exports increased by 9.9 % y-o-y to US$ 980.2 million in May 2022 and this was mainly due to the increase in earnings from export of Apparel and Textiles, Coconut based products and Electrical & Electronic Components.

Major product sectors except Spices & Concentrates, Tea and Rubber-based products; Apparel &Textiles, Coconut based products, Electrical & Electronic components and Food & Beverages, Seafood and Ornamental fishas.

Exports of Apparel & Textiles increased by 30.1% y-o-y to US$ 482.7Mn in May 2022. The increase was driven by both Apparel and Textiles.

On monthly analysis, export earnings of kernel products, fiber products and shell products categorized under the Coconut based products increased by 5.37%, 4.93% and 12.97% respectively in May 2022 compared to May2021.

Export earnings from Seafood increased by 11.8% to US$ 16.8 Mn in May 2022 compared to May 2021. The expansion was contributed mainly by higher exports of Fresh fish (4.9%) and Shrimps (90.74%).

Export earnings from the Electrical & Electronics Components increased by 18.8 % y-o-y to US$ 41.8 Mn in May 2022 with strong performance in exports of Insulated Wires & Cables (18.78%) and Electrical Transformers (16.5%).

However, export earnings from Rubber and Rubber Finished products have decreased by 15.9% y-o-y to $ 76.7 million in May 2022, with poor performance in exports of Pneumatic & Retreated Rubber Tyres& Tubes (-5.41%).

Export earnings from tea in May 2022 which made up 12% of merchandise exports, decreased by 14.2% y-o-y to US$ 93.7 Mn. Export of tea packets and bulk tea decreased by 9.75% and 18.83% respectively in May 2022 compared to May 2021.

In addition, export earnings from Spices and Essential Oils decreased by 14.9% to US$ 21.5Mn in the month of May 2022.

For the first five months of 2022, merchandise exports increased by 9.7% to US$ 2,400.6 Million compared to the corresponding period of 2021.

Apparel & Textile exports increased by 16.3% to US$ 2,400.6Mn during the period of January to May2022 compared to the same period of 2021. Except Gloves, Mitts & Mittens of Textile (-2.61%) and Made-up Clothing Accessories (-9.99%), Yarn (-32.7%) and Made-up Textile Articles (-3.04%), exports of other sub categories of Apparel & Textiles sectorincreased.

For the period of January to May 2022, export earnings from Coconut & Coconut based products expanded by 10.4% to US$ 350 Mn from the same period last year.

Meanwhile earnings from export of Electrical and Electronic Components (EEC) increased by 14.6 % to US$ 188.3 Mn in the period of January to May 2022 compared to the corresponding period of 2021..

Export earnings from Seafood increased by 16.7% to US$ 105.8 Mn in the period of January to May 2022 compared to year 2021 due to the better performance in all the sub categories; Frozen Fish (8.64%), Fresh Fish (45.92) and Prawns (56.55%).

Further, earnings from export of ornamental fish increased by 19.7% to US$ 7.1 Mn during the period of January to May 2022 compared to year 2022.

Strong Export Growth recorded for top 5 export markets in the month of May 2022 and the period of January to May 2022. During the month of May 2022, exports to United States, Sri Lanka's single largest export destination, increased by 25.02% to US$ 266.42Mn compared to the month of May 2021.

The single largest export destination of United States of America recorded US$ 1,364.08Mn worth of exports in the period of January to May 2022 – a significant year on year increase of 20.32 % in comparison to US$ 1,133.71Mn recorded in 2021.

During the period of January to May 2022, exports to Free Trade Agreement (FTA) partners accounted for 7.2% of total merchandise exports increased by 17.67 % to US$ 398.98Mn.

Although Exports to India increased by 20.61% y-o-y to US$ 364.99Mn, exports to Pakistan decreased by 6.75% to US$ 33.99 Mn during the period of January to May 2022.

Increased Exports to India is mainly supported by increased exports of Animal Feed (7.92%), Arecanuts (79.74%), Woven fabrics (162.24%) andOther Textile Articles (83.42%) in January - May 2022.

Exports to the European Union (EU) which represented 20% of Sri Lanka's exports increased by 11.39 % y-o-y to US$ 234Mn during the month of May 2022.

During the period of January to May 2022, exports to the top five EU markets accounted for 80% of Sri Lanka's total exports.

Page Source : Daily News : 28th June 2022

VAT increase to crush demand - First Capital

The decision to increase VAT rate from 8% to 12.% will increase prices of goods and services, causing consumer demand to decline.

Moreover, the decision to increase the Telecommunication levy from 11.25% to 15 % will Increase in cost of data and voice shall negatively impact affordability and volumes. Recent tax reforms which include the reduction of personal income tax relief from Rs. 3 million to Rs. 1.8 million and reduction of tax slabs on taxable income from Rs. 3 million to Rs. 1.2 million and impose tax rates of 4 %-32 % for each slab will have an impact on the consumer services sector, retailing sector, food, beverage and tobacco sector, supermarket chains, and the construction sector.

This will reduce disposable income negatively and impact demand, according to First Capital Research's recent report on 'Proposed Tax Reforms and Impact'. Recent Tax reforms announced by the Government, also makes withholding Tax (WHT) mandatory, consider WHT on interest and dividends as final payments and reintroduce a relief on interest income of Rs. 1.5 million for senior citizens. In addition, it has been proposed to Impose WHT on service payments exceeding Rs. 100,000 per month made to individuals such as professionals. This will have a negative impact on all sectors due to contraction in profitability.

"Decision to increase corporate income tax rate from 24% to 30 % and increase concessionary tax rate from 14 % to 15 % will have a negative impact on all sectors due to contraction in profitability."

Moreover, the decision to decrease the VAT registration threshold from Rs. 300 million per annum to Rs 120 million per annum will increase prices of goods and services causing consumer demand to decline. The Prime Minister's office previously said that the low tax regime introduced by the government in late 2019 combined with the COVID-19 pandemic in 2020/2021 and related developments, led to the significant loss of tax revenues to the state coffers. Lack of revenue generation process has led to the critical situation prevailing today, the Prime Minister's Office said.

At present,the General Treasury has to increasingly obtain Central Bank financing to make the government expenditures, including a substantial part of interest, salaries and wages, Samurdhi payments and pensions, etc.

Hence it is essential to implement a strong fiscal consolidation plan through revenue enhancement as well as expenditure rationalization measures in 2022 and beyond to ensure macroeconomic stability to support the medium to long-term economic growth objectives of the country.

Meanwhile, Director General - Chamber of International Trade and Information Centre and Head of Tax at K. Rajanathan & Co, Dr. H.I.P. Imaduwa said proposed tax reforms would badly affect inflationary pressures, add pressure on exchange rates, and economic growth too will be seriously affected.

Source: Daily News : 02nd June, 2022

Cartoons

Source:cartoon-themorning.lk– 26-06-2022

Source: Daily News-02-06-2022

New 2.5% Social Security Fund tax introduced

The Government has decided to introduce a Social Security Fund by imposing a new 2.5 percent tax on importers, manufacturers, service providers, wholesalers and retailers whose total turnover exceeds Rs.120 million per annum.

The proposal was first introduced through the 2022 Budget. Parliament has passed a resolution in the 2022 Budget proposals to introduce a Social Security Fund. It was decided to introduce a new tax at the rate of 2.5% for importers, manufacturers, service providers, wholesalers and retailers whose total turnover exceeds Rs.120 million per annum.

The Attorney General's clearance has been received for the Bill prepared by the Legal Draftsman for this levy.

The proposal made by the Prime Minister in his capacity as the Finance, Economic Stabilisation, and National Policies Minister to publish the said Bill in the Government Gazette and submit the same thereafter in Parliament for approval, was approved by the Cabinet of Ministers on Monday.

Forex reserves rise to US$ 1.92 bn in May

(Bloomberg) - Sri Lanka's foreign exchange pile rose for the first time in five months, likely due to deferment of payments to India under an Asian Clearing Union, even as the nation scrambles for credit lines to ease shortages.

The stockpile rose to US$1.92 billion at the end of May, from US$1.81 billion the previous month, according to data released by the Central Bank.

The figure includes a swap facility from the People's Bank of China equivalent to about US$1.5 billion, which remains largely unusable due to conditions.

Sri Lanka had requested China to lift conditions on the swap but is yet to hear back on its request. President Gotabaya Rajapaksa, in a Bloomberg interview on Monday, said China seems to have shifted its strategic focus and didn't seem interested in giving as much attention to crisis-ridden South Asian countries.

The country needs nearly $6 billion in the next six months to tackle shortages of essentials from food, fuel and medicines.

Source:Daily News – 10th June 2022

'Export orientation shows better growth than import substitution'

By: Indunil Hewage

.The logic behind the import substitution argument is impeccable and strong; nevertheless economists who promote the import substitution idea have ignored the political, economic aspects of its implementation.

Noting that the implementation of import substitution strategy requires a strong government, import substitution would not work until industries were carefully selected and at the same time incentives are given in a time bound fashion, Professor Premachandra Athukorala told at a webinar held under the theme, 'Is Import Substitution Good For Our Economy'. The event was organized by Advocata Institute. In the 1950s Prof. Athukorala said when the present-day developing countries emerged as independent nations from the colonial era and production structure or the export structure of these countries was dominated by primary products.

"And these countries were exporting primary products and importing manufactured goods. At the same time they had identified various disadvantages of primary products compared to manufactured goods in world trade."

According to a famous economic theory, he said primary products naturally experience deterioration in terms of trade; that means their export price increases at a slower rate compared to import price. In addition, the demand for primary products grows slowly compared to world income, manufactured goods.

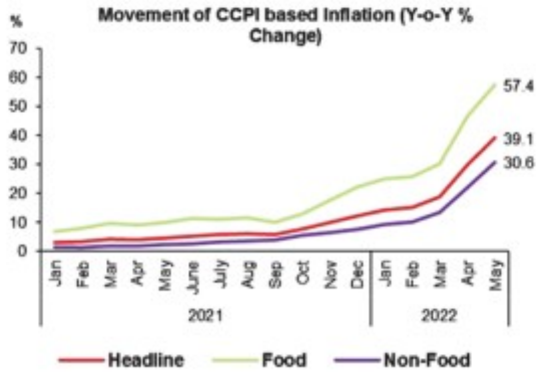
"Because of this reason if you allow this country to continue to remain primary commodity producers, the gap between developed and developing countries in the world economy can become wide .Therefore they advocate for import protection policies to encourage domestic firms to produce purely for the local market. At that time they did not consider efficiency but they were concerned about producing for the domestic market even at a cost." This idea came under scrutiny from about the late 60s. The reason was that some countries like Korea and Taiwan, which started shifting from import substitution to export orientation. These countries experienced better growth performance while manufactured exports and employment opportunities in these countries increased compared to India, Sri Lanka and many African countries which had relied on the old idea of import substitution industrialization.

"Even though the economic ideology has changed dramatically; still in the policy scene there is a big emphasis on draconian protection and promoting import substitution industries within a protection world. This view is basically determined by political reasons and companies which benefited from trade protection don't want to give up their old activities. Therefore they lobby for the government to continue with protection."

At this same time, Prof. Athukorala said there is a strong idea among policy makers about national self-sufficiency and perhaps there can be pure ignorance or they are not well aware about the advantage of export orientation. Hence Prof. Athukora said they stick to the import substitution strategy. He said further that organizations like Advocata have an important role to play in order to educate the public about the advantages of export orientation policies compared to disadvantages of draconian protectionist policy to achieve industrialization.

Source:Daily News – 29th June 2022

Inflation up to 45.3% in May



Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2013=100) increased to 39.1% in May 2022 from 29.8% in April 2022.

This increase in Y-o-Y inflation was driven by the monthly increases of both Food and Non-Food categories. Subsequently, Food inflation (Y-o-Y) increased to 57.4% in May 2022 from 46.6% in April 2022, while Non-Food inflation (Y-o-Y) increased to 30.6% in May 2022 from 22.% in April 2022.Monthly change of CCPI recorded at 8.34% in May 2022 due to price increases observed in items of both Non-Food and Food categories which were 4.87% and 3.47%, respectively.

Accordingly, prices of items in the Non-Food category recorded increases mainly due to price increases observed in the Transport (Petrol, diesel and bus fare), Housing, Water, Electricity, Gas and Other Fuel (LP gas and Materials for maintenance/ reconstruction), Restaurant and Hotels and Miscellaneous Goods and Services (Car insurance) sub-categories.

Meanwhile, annual average inflation rose to 14.2% in May 2022 from 11.3% in April 2022. The core inflation (Y-o-Y), which reflects the underlying inflation in the economy increased to 28.4% in May 2022 from 22.0% in April 2022, while annual average core inflation increased to 10.2% in May 2022 from 8.1% in April 2022.

Source: Daily News – 22nd June 2022

Committee to study possibility of granting 5 years leave to Govt. employees to work in Private Sector

Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government M.M.P.K. Mayadunne said that a Special Committee has been appointed to look into the possibility of granting five years' no pay leave to public servants to work in the private sector.

Its report is to be handed over to the Minister of Public Administration, Home Affairs, Provincial Councils and Local Government Dinesh Gunawardena within two weeks and Cabinet approval is to be obtained.

Secretary to the Ministry of Education M.N.Ranasinghe has been appointed as the Chairman of this Committee while the other members are Dr. Anil Jasinghe, Secretary to the Ministry of Environment, Mrs. Wasantha Perera, Secretary to the Ministry of Justice Prisons and Constitutional Reforms, Secretary to the Ministry of Health S.S. Chandragupta, Manjula de Silva, Secretary General of the Ceylon Chamber of Commerce, Vajira Ellepola, Director General (Acting) of the Ceylon Service Agents Association and the Director General of Managing Services or a representative of the Ministry of Finance.

Meanwhile, Circular No. 14/2022 issued by the Secretary to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, MMPK Mayadunne provides for the granting of 5 years of unpaid leave to public officers for foreign employment without compromising their seniority and pension.

Source: Daily News– 25th June 2022

SL amends limit on foreign currency possession

With the intention of attracting foreign currency in the hands of the public into the formal banking system, the Minister of Finance has ordered to reduce the amount of foreign currency retained in possession by a person in, or resident in, Sri Lanka from USD 15,000 to USD 10,000 or its equivalent in other foreign currencies.

The ministry said that the granting an amnesty period of 14 working days effective from the date of the Order (16 June 2022) for persons in, or resident in, Sri Lanka who hold foreign currency notes in possession for the following:

To deposit into a Personal Foreign Currency Account or into a Business Foreign Currency Account as specified in the Order, or

To sell to an Authorized Dealer (A Licensed Commercial Bank or National Savings Bank)

At the end of the said amnesty period, the Central Bank of Sri Lanka has the right to initiate actions against persons who hold foreign currency in possession by violating the Order, in terms of the provisions of the Foreign Exchange Act, it added.

For further information, the general public can contact any licensed commercial bank or National Savings Bank, or refer to the Order under Section 8 of the Foreign Exchange Act published in the Gazette (Extraordinary) Notification No. 2284/34 dated 16 June 2022 via the official website of the Department of Foreign Exchange (www.dfe.lk).

They can also contact the Department of Foreign Exchange via 011-2477255, 011-2398511 and dfe@cbsl.lk.

Source: Daily Mirror – 25th June 2022

Upcoming Training Programmes by CNCI

Date : 19th July 2022

9.00 am—12.00 pm
(Registration starts from 8.45 am)

Online : Zoom

Content

- Introduction
- Energy crisis & Demands for Energy Management
- Industrial Perspective
- Economical & Environmental Benefits
- Enhancing Energy Efficiency through Effective Energy Management
- Success Stories & Way Forward
- Q & A

Resource Person

Mr. Ruwan Wijemanne
AEA, M.Sc, B.Sc(Hons)Eng, ASNT L-II (IRT), AM-IESL, M-SLEMA, AP-GBCSL
Senior Energy Expert - National Cleaner Production Centre

Investment

For Members :	Rs. 5,000/-
For Non Members :	Rs. 5,500/-

Language

English / Sinhala

For

Directors, Engineers, Managers, Executives, Supervisors, All in Electrical / Quality / HR / Finance / Admin fields and anybody interested in Energy Management

For More Information

Contact : Sumudu / Bojaya / Nilanthi

0771 777115, 0112 339200 , 0112 452181
training@cnci.lk , cnci@slt.lk, cncihrd.training@gmail.com

Organized by :
THE CEYLON NATIONAL CHAMBER OF INDUSTRIES - CNCI
Apt. No. 20, First Floor, Galle Face Court - 2, Colombo 03, Sri Lanka

Upcoming Training Programmes by CNCI

Facilitated by Department of Commerce

Date : 28th July 2022

10.30 am - 12.00 pm
(Registration starts from 10.15 am)

Online : Zoom

Content

- Introduction
- The Preferential Certificates of Origin
- Non Preferential Certificates
- Rules of Origin
- Specific Foreign Country Requirements for Obtaining Certificates of Origin
- Q & A

Resource Person

Ms. Shirani Ariyaratne
Director of Commerce / Deputy Head (Rules of Origin Division)

Investment

For Members : Rs. 2,500/-
For Non Members : Rs. 3,000/-

Language

English

For

Directors, Managers, Executives, Supervisors and All
Those Who Are Involved in Imports / Exports & International Trade

For More Information

Contact : Sumudu / Bojaya / Nilanthi

0771 777115, 0112 339200 , 0112 452181
training@cnci.lk , cnci@slt.lk, cncihrd.training@gmail.com

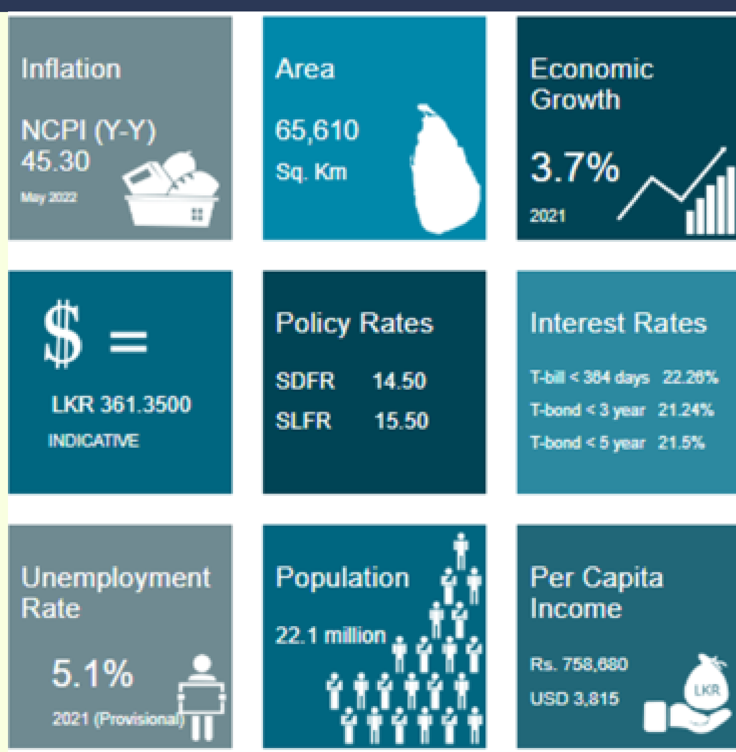
Organized by :
THE CEYLON NATIONAL CHAMBER OF INDUSTRIES - CNCI
Apt. No. 20, First Floor, Galle Face Court - 2, Colombo 03, Sri Lanka

EXCHANGE RATES AS AT 30TH JUNE 2022

Date	Buy Rate (LKR)	Sell Rate (LKR)
Australian Dollar	243.4459	255.1473
Canadian Dollar	274.2851	287.1334
Swiss Franc	371.3767	387.8168
Renminbi	52.3162	55.4148
Euro	370.4145	385.1851
British Pound	430.0380	447.0248
Yen	2.5919	2.7006
Singapore Dollar	254.5749	265.0945
United States Dollar	355.7601	367.1246

Source: https://www.cbsl.gov.lk/en/rates-and-indicators/exchange-rates/daily-buy-and-sell-exchange-rates

Sri Lanka Economy **SNAPSHOT**



Source : https://www.cbsl.gov.lk/en/sri-lanka-economy-snapshot