



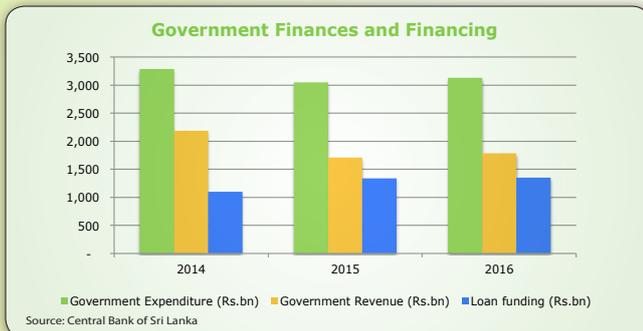
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Monthly Bulletin: October 2015

In Economic news:

Government expenditure to reach all time high in 2016's "revolutionary" budget. According to the Appropriation Bill, government expenditure is to rise to Rs.3,138.0bn in 2016 (+2.7% YoY) with large allocations to defence remaining and education spending increasing almost three fold.

Expenditure will be funded through tax and grants of Rs.1,789bn (+4.3% YoY), and borrowings of Rs.1,349bn (+0.7% YoY). Rise in



expenditure is amidst government's effort to reduce the budget deficit which according to Mr. Ravi Karunanyake, Minister of Finance, is to reach 6.5-6.8% of GDP in 2015, significantly missing the target of 4.4% due to higher spending and weak revenue.

Main allocations in 2016;

- Defence - Rs.306.0bn. 2015 defence & urban dev. - Rs.285bn
- Local Govt. and Provincial Councils - Rs.237.0bn (+1.0% YoY)
- Education - Rs.185.9bn (+290.5% YoY)
- Health, Nutrition and Indigenous Medicine - Rs.174bn (2015 n/a)
- University education and highways - Rs.171bn (2015 n/a)

An interesting feature is a reduction in allocation to the President to Rs.2.3bn from Rs.9.6bn in 2015. Speaking at a pre-budget private sector brainstorming forum Mr. Karunanyake promised a "revolutionary" budget, stating;

- "I can assure you on 20 November, the country will see a revolutionary budget where the monopolistic approach of the Government will be reduced and competitive element emerging with a level playing opportunity given to all stakeholders.



• We also want the private sector to take risks and maximise from new opportunities for the betterment of the economy under a new era where both the President and the Prime Minister have a clear mandate and vision for it.

• Help us to help you all. That's the basis we want to open the system. We are there with you all to take your problems, be the solution provider, but let's go forward together".

He further indicated new policies in open skies, vehicle importation and land ownership. The Budget speech is on November 20.

On a separate note, noting the burgeoning fiscal deficit Ms. Dushni Weerakoon, deputy director, Institute of Policy Studies stated;



• "Sri Lanka's budget should focus almost entirely on the revenue side and not on one off taxes. The signal should be a serious intention for revenue reform agenda, while rationalising of the spending side can come later.

• What needs to be done are fiscal policy reforms to address Sri Lanka's weak revenue generation and to rationalize our expenditure in terms of public sector salaries and pensions, state owned enterprises, subsidies and debt management. But once again you need to prioritize what fiscal policy can do."



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Monthly Bulletin: October 2015

In Economic news:

Sri Lanka improves to 107th in Doing Business and gains five places in competitiveness. Sri Lanka gained six places to 107th in the World Bank (WB)'s Doing Business 2016 index, among 189 countries.



DOING BUSINESS

According to the WB the country improved on;

- Starting a business – Sri Lanka made starting a business easier by eliminating the requirement to notify the Registrar of Companies of the payment of stamp duty for the initial issuance of shares.
- Dealing with construction permits - Sri Lanka made dealing with construction permits less time-consuming by streamlining the internal review process for building permit applications.

The report covers only Colombo and is current as of June 1, 2015.

WB highlights upcoming challenges to Sri Lanka with growth to be below regional pace; SCB expects 6.8% GDP growth. The World Bank (WB) urged Sri Lanka to improve its fiscal management, measures to boost Foreign Direct Investments and exports, whilst commending the newly-elected government's commitment to carry out needed political and economic reforms.



Further, WB forecast Sri Lanka's GDP to grow 5.3% in 2015 and 5.6% in 2016, lower than 7.4% estimated for South Asia. It noted;

Moreover, Sri Lanka improved five places to 68th in the Global Competitiveness Report 2015/2016 among 140 countries. In the South Asian region, Sri Lanka was behind India (55th) but ahead of Nepal (100th), Bhutan (105th), Bangladesh (107th), and Pakistan (126th). Switzerland topped the table for the seventh consecutive year followed by Singapore. The index assesses a range of factors under;

- Basic requirements (institutions, infrastructure, macroeconomic environment and health and education).
- Efficiency enhancers (higher education and training, labour market efficiency, financial market development, technological readiness)
- Innovation and business sophistication.



Source: World Economic Forum

- Growth is mainly due to higher public sector wages and disposable incomes, however loose fiscal stance behind this strong domestic demand is putting pressure on the external balance.
- Maintaining the growth momentum will require higher tax revenue, rationalised public spending and greater competitiveness
- Public debt is rising, fiscal revenue is low, and the external current account is in deficit. Much needs to be done to attract FDI, improve external sector competitiveness and arrest declining fiscal revenues to adopt an export-led growth path.
- Promoting inclusive growth by targeting disadvantaged areas and boosting social protection programs can hasten further declines in moderate poverty. Low tax revenue (10.2% of GDP) a concern.

Moreover, Standard Chartered Bank (SCB) estimates 2015 and 2016 GDP growth at 6.3% and 6.8% on rising consumption, increased investment, and an improvement in net trade. Consumption likely to be buoyant in 2015, driven by healthy remittance inflows, low inflation and rising wages.



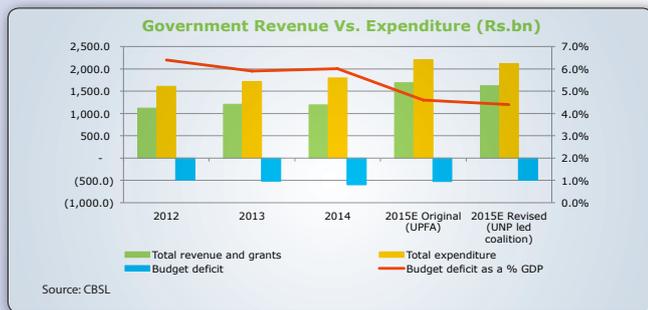
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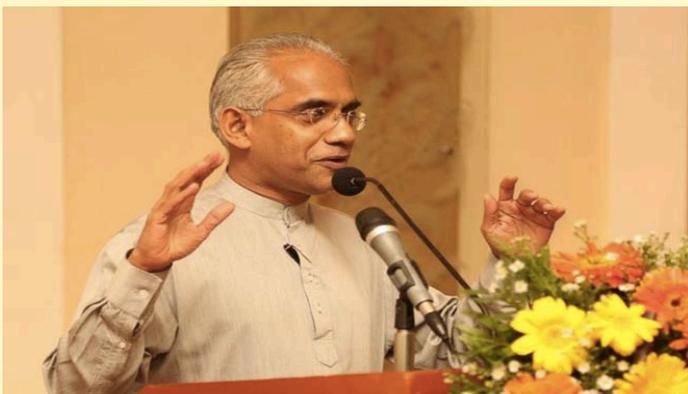
More borrowings approved as China urged to restructure its loans to Sri Lanka. Parliament increased the government's treasury bill local borrowing limit by Rs.400.0bn to Rs.1,250.0bn. Approval comes after the initial proposal submitted in August 2015 by the then interim government was defeated.

Several other bills to raise government revenue by around Rs.60bn through tax, including from a retrospective corporate tax on companies with more than Rs.2.0bn of profit, was also approved.



Further, Mr. Ravi Karunanyake sought support from China to review terms of its loans to Sri Lanka. He noted;

Eran outlines plans to bring about SOE profitability. Mr. Eran Wickramaratne, Deputy Minister, State Enterprises outlined three key pillars, best management, innovative structures and investments to convert state owned enterprises (SOEs) into profit making organisations.



•“Chinese loans are a big part of our problem. A bulk of the government expenditure goes into servicing them. I urge China to put the acrimony of the past behind us and come and help us by adjusting the terms of the loans to make them more viable.

•“The focal point of our coming budget will be FDI. We need foreign participation and we will give very specific incentives to encourage FDI. It's a good opportunity for Chinese companies to invest here,.

• We did not create the problem, we inherited it. But it has to be fixed all the same.”

The new government placed several Chinese funded infrastructure projects on hold alleging graft, thus straining relations. In 2010, foreign debt was about 35% of GDP rising to 65% in 2013.

In a sign of further deteriorating finances the govt. issued 10-year USD 1.5bn sovereign bonds at 6.85%, lower than 7% initial price guidance. However the rate is higher than 6.125% paid in May 2015 to raise USD 650m. The bond was rated B1/B+/BB- by Moody's, S&P and Fitch.

Moreover the Public Debt Department of Central Bank of Sri Lanka (CBSL) will issue USD 75m in Sri Lanka development bonds at a rate of either US Dollar six month LIBOR plus a margin (floating rate) or at a fixed rate to be determined through competitive bidding.

He noted;

•“The Ministry has been given a challenge to reduce the burden on the treasury and the burden on tax payer.

• The key reason why these institutions were put together was to see its performance, management and thereby reduce the political interference leaving more space for improvement for the managers to focus on the economic and financial goals.

• The immediate problem we face at present is the Issue of ownership and the issue of management.

• Personally, with my corporate experience, I strongly believe that the secret to any enterprise success is ultimately its labour capital and technology.

• We have to look at innovative structures and investments to address these problems that are stuck in the SOEs for many years. We have under-invested in the public sector.”



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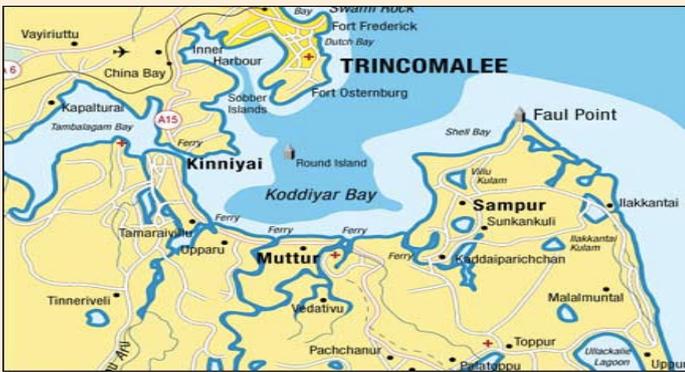
In Economic news:

Sri Lanka requests India to relocate coal plant. Sri Lanka made a request to India to shift the proposed USD 500m coal power plant to be built in Sampur, Trincomalee, to Foul (Faul) point.

clearance; and expected litigations going forward.

The country made a first relocation request in 2007 to shift the proposed plant from south of Trincomalee to the North. The current request was made by Mr. Ranil Wickremesinghe, Prime Minister on his visit to India in August.

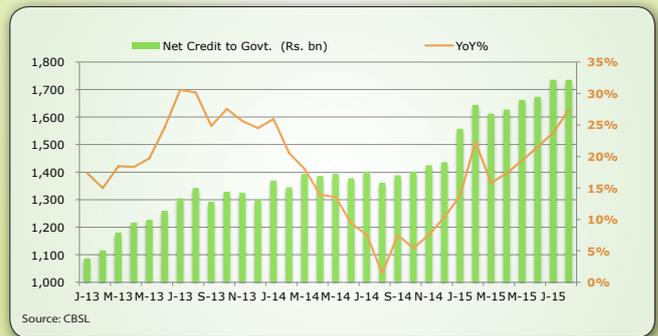
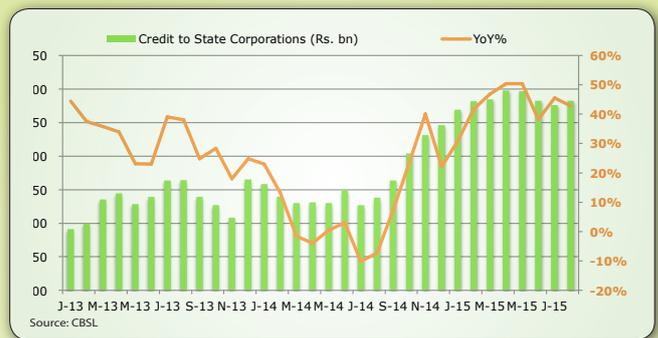
The plant is to be built by NTPC Ltd. NTPC signed an agreement with CEB and the Sri Lankan government in December 2006 and the project was initially expected to be commissioned and start generating power in 2011.



According to www.daily.ft the government's concerns of the Sampur site focus on local socioeconomic conditions due to settlements by the displaced Tamil population; its reluctance to give environmental

Strong private sector credit growth continues in August. Credit to private businesses and personal customers grew 21.3% YoY to Rs.3,068.7bn in August, fastest pace in over five years. CBSL left policy rates unchanged, which it cut by 50 bps in April 2015 lowering repo rate to 6.0% and reverse repo to 7.5%.

In August, credit to state corporations increased a staggering 42.8% YoY to Rs.482.5bn. Net credit to the government also rose 27.4% YoY to Rs.1,735.6bn.





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Monthly Bulletin: October 2015

In Economic news:

Trade deficit in August 2015 contracts to USD 724.3m (-1.1% YoY). Exports in August declined for the sixth consecutive month falling a staggering 19.5% YoY to USD 799.0m with imports decreasing 11.7% YoY to USD 1.52bn.



The resulting trade deficit was partially funded by USD 566.0m (+3.3% YoY) of worker remittances.

- Agriculture exports (~22% of exports) declined for the sixth straight month, down 25.7% YoY to USD 177.8m with tea exports falling (USD 91.8m, -33.9% YoY) on lower export volumes and prices. Sea food exports were USD 11.5m (-41.9% YoY); such exports during Jan-Aug is now only USD 112.6m (-36.2% YoY).

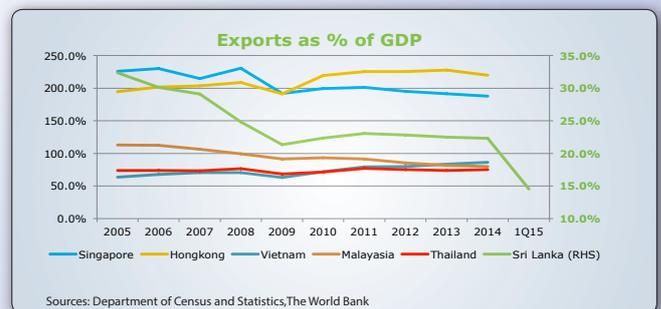
- Industrial exports (~77% of exports) were USD 618.3m, down 17.5% YoY as apparel exports declined to USD 400.1m, -6.6% YoY, rubber products to USD 55.1m (-33.1% YoY). Petroleum products exports were USD 25.3m (+0.1% YoY).

- Consumer goods imports (~18% of imports) were USD 420.3m, up 28.2% YoY, driven by vehicle imports of USD 160.3m (+56.8% YoY), such imports during Jan to Aug was USD 744.4m (+13.5% YoY).



- Intermediate goods imports (~59% of imports) were USD 738.7m, down 30.4% YoY. Textile and textile article imports declined (USD 154.2m, -28.0% YoY) and fuel imports reduced to USD 186.5m (-60.5% YoY).

- Investment goods imports were USD 363.8m, up 8.9% YoY. Imports of machinery and equipment were USD 161.1m, -5.5% YoY and transport equipment were USD 80.5m, +94.9% YoY.





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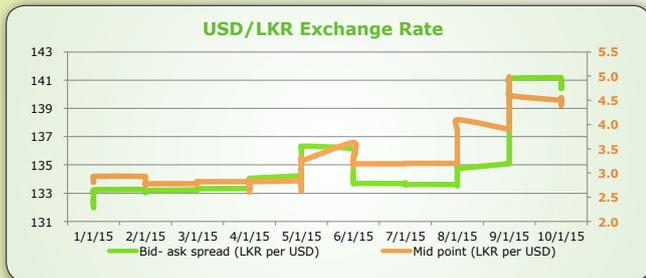
Monthly Bulletin: October 2015

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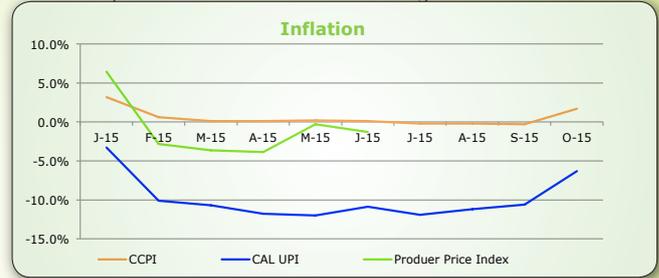
Rupee ended October at 138.56/143.05 vs. USD (Rupee weaker 0.2% MoM).

Inflation at 1.7% YoY in October. The Colombo Consumer price index rose 1.7% in October after three months of deflation. According to CBSL the increase was mainly due to the "removal of the high base effect of downward administrative price revisions effected since September 2014. The recent price increase in several key items in the food category also contributed to the increase in year-on-year inflation in October."

Sri Lanka is to introduce a National Consumer Price Index to represent the national level changes in the inflation. The base year in 2013 and will be published from 21st of November 2015. The current Colombo Consumer Price Index is widely criticised as it does not represent the national level changes.



Source: CBSL



Source: CBSL



Source: CSE

Stock market closes at 7,042.06, down 0.12% MoM. The top three best performing sectors were footwear & textiles (+5.3% Month over Month), power & energy (+3.8% MoM) and investment trusts (+2.4% MoM). Worst performing sectors were closed end funds (-10.0% MoM), oil palms (-5.4% MoM) and construction & engineering (-4.0% MoM).

Finlays Colombo is to delist from the stock market with James Finlay to purchase the shares of shareholders who may wish to divest their shareholdings at Rs.302 per share.

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Monthly Bulletin: October 2015

In Business news:

America traffic was 5,419 (+41.3% YoY).

In tourism news;

- “Sri Lanka should have targets for source markets”

According to Mr. Karan Anand, of Cox and Kings India

“If Sri Lanka say, has a capacity for 5 million tourists, how many should come from source markets like India, China and the neighbourhood?”

How many need to come from Europe?” He said that each market requires different strategies to

face unique threats and opportunities, but stressed that Sri Lanka must focus on India and China. “If you have a good sustainable plan, Sri Lanka will not lose out to any other destination,” he added.

- The heads of the Tourism Promotion Bureau, Tourism Development Authority, Conventions Bureau and Institute of Tourism and Hospitality Management resigned following a directive from the Minister of Tourism. Positions are yet to be filled.

- Thomson, a world leading travel companies, is introducing Sri Lanka for winter 2016. Weekly, direct flights to Colombo will operate. Customers could choose from a seven or four-nights with stays including Riu Sri Lanka and the Club Hotel Dolphin.

- The process to select an agency for a new tourism marketing campaign was abruptly cancelled by the Tourism ministry, citing the need to ensure due process.

Candidates Saatchi and Saatchi, Lowe LDB, Grant McCann Ericson, Phoenix O&M, Leo Burnett Solutions, Bates Strategic Alliance and Thompson Associates Ceylon were left stunned.

- Greener Water, the leisure sector investment arm of Vallibel One is to build a 382 room USD 60m integrated resort complex on a 14 acre land area in Kochichikade, Negombo.



Tourist arrivals up 35.8% YoY in September.

Tourist arrivals in September were 143,374 up 35.8% YoY. According to Sri Lanka Tourism Development Authority key sector performance during the month;

- Indian arrivals were 27,233 (+41.5% YoY).
- Western Europe: U.K: 11,160 (+24.2% YoY), Germany: 8,292 (+18.5% YoY) and France: 4,709 (+20.8% YoY).
- East Asia arrivals: China and Hong Kong 20,502 (+54.0% YoY).
- Russian arrivals decreased 7.6% YoY to 2,788 while North





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Monthly Bulletin: October 2015

In Business news:

Vehicle registrations up 57.3% YoY in September. According to JB Securities total vehicle registrations were 63,687 in September.



- Motorcar registrations were 14,301 (+304.1% YoY). "Brand new car registrations were 9,183 units (vs 980 units in Sep. 14). Maruti accounted for 7,789 units (vs. 564 in Sep 14). Preowned car registrations recorded 5,118 units (+31% YoY).

Toyota accounted for 1,908 units, Honda 954 units and Nissan 456 units (mainly Leaf). Electric cars recorded 471 units (vs. 15

units in Sep, 14), with Nissan Leafs accounting for 458 units."

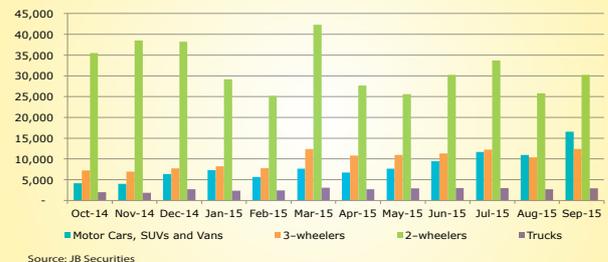
- 3 wheeler registrations were 12,375 (+64.8% YoY). "Bajaj continued to maintain its dominance claiming 86.0% share. Finance share was 91.0%."

- Motorcycle registrations grew to 30,240 (+23.9% YoY) "Bajaj does not seem to be marketing a lady's bike, a category that has seen rapid growth, this may explain their drop in market share that used to be around 45-50% to 31.2%.

68% are below 130cc, a majority are the lady's bike (scooter) – Hero Pleasure 4,463 unit and Honda Dio 5,522."

- Truck registrations were 2,925 (+34.7% YoY), "Tata claimed 74.5% of the market accounting for 263 units (207Di – 104 units, Xenon – 159 units). Financing share was 83%."

Motor Vehicle Registrations (New/Used)



In other Motor vehicle news:

The maximum Loan-to-value (LTV) ratio for vehicle leasing was increased from 70% to 90%. Earlier the CBSL directed banks, finance and leasing companies to follow new leasing rates of a maximum 70% per vehicle. Previously potential vehicle owners could lease vehicles at 100% of the value of the vehicle.

Moreover, duty was increased on a range of vehicles.



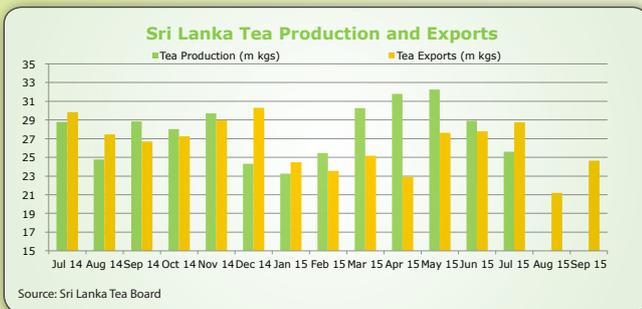


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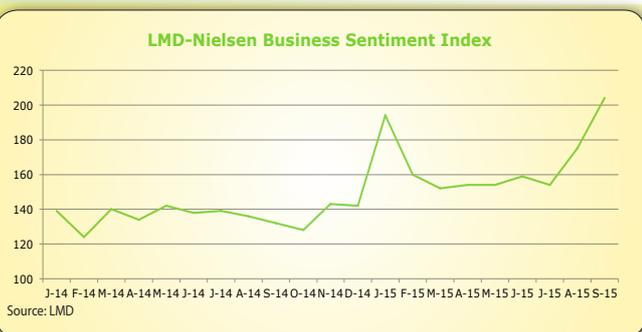
Monthly Bulletin: October 2015

In Business news:

Tea exports decline for the seventh consecutive month. Tea exports in September 2015 declined to 24.6m kgs down 7.7% YoY as demand in the



Middle Eastern markets continued to be under pressure from volatile political conditions and low oil prices affecting purchasing power. The FOB price in September was Rs.599.50



LMD-Nielsen business confidence index in September reaches a historic 204 (+29 pts MoM). According to Nielsen's Managing Director Mr. Shaheen Cader "at a macro level... businesses are optimistic about the country's economy, with 73% of respondents claiming that they expect Sri Lanka's economy to improve in the next 12 months.

However, on a micro level, both short and medium-term business prospects have remained more or less static, which

per kg significantly lower than Rs.652.43 YoY. Russia, Turkey and Iraq were the top three export destinations for Sri Lankan tea. Encouragingly China, India and Pakistan continued to increase their purchases.

The tea industry is still reeling from trade union action, who are demanding higher wages. In September an arrangement was presented to increase daily wages to Rs.770. However this is lower than the Rs.1,000 the trade unions are demanding, which tea estate companies say would be unsustainable.



may be due to the time lag in any policy implementation measures by the new Government." Selected comments;

ECONOMY - 75% of respondents say the economy will improve in the coming 12 months, while 20% expect conditions to stay the same and just 7% (versus 17%, in August) say that things 'will get worse' during this period.

BIZ PROSPECTS - The more optimistic businesspeople comment that "we expect our business activities to improve further; and we also look forward to a favourable investment climate."

INVESTMENT - 53% of the respondents assert that the current investment climate is healthy, while a further 42% view conditions to be 'fair'. Selected comment "We can already see several investors coming into the market, so we're hopeful that the economy will improve in time to come," says one member of the business community."



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Monthly Bulletin: October 2015

In Business news:

SAGT first in South Asia and fourth in the World. According to the Journal of Commerce (JOC) USA, Sri Lanka's first private container terminal operator, South Asia Gateway Terminals (SAGT) in the Colombo Port was ranked the best in South Asia in its annual Terminal Productivity Ranking 2014.

Most notably it was ranked fourth in the world. SAGT is owned by John Keells Holdings, APM Terminals, Sri Lanka Ports Authority and Peony investments.

JOC noted that the 14.2 meter draft, three-berth terminal accommodates on average 34 moves per hour per crane, which is among the best in the world.

Mr. Ted Muttiah, SAGT's Chief Commercial Officer, noted "Team SAGT is very pleased with the recognition by such a reputable independent global organisation.

These performance outcomes are the result of careful strategic planning involving the various stakeholders. It is a wonderful endorsement of the hard work, passion and commitment by our people dedicated to being the best.

Our customers too, make a significant contribution to these efficiencies in the manner in which vessels are presented for operation."



Dialog to invest USD 175m. Continuing to place confidence in Sri Lanka, Dialog Axiata confirmed its status as the largest foreign direct investor in the country with staggering USD 175m investment in ICT infrastructure.

Investment will focus on expansion of 3rd Generation and 4th Generation high speed broadband services and further developing fibre optic transmission network, international telecommunications network, and digital satellite television infrastructure.

Dialog's total investment in the country is almost USD 2.0bn.



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Monthly Bulletin: October

In Consumer news:

Duty on alcohol and cigarette raised. The government raised excise duties on a 1,000 cigarette block of the Gold Leaf variety by Rs.2,140 to Rs.23,750, resulting in an increase of Rs.3 per stick.

Excise duty on molasses and coconut arrack was raised by Rs.110 to Rs.1,595 per proof litre, increasing price of a bottle by Rs.60. Rise in excise duty also caused price of country-made foreign liquor to increase by Rs.125. Moreover soft beer prices rose by Rs.40 and strong beer by Rs.60.



Sugar vendors ignore Government price controls. The Consumer Affairs Authority received over 100 complaints about sugar being sold above the govt. controlled price. This was after it gave explicit instructions that the Rs.12 per kg levy imposed on sugar should not be passed to the consumer.

Currently, imported sugar trades around Rs.83-86 per kg and local sugar is about Rs.80. Sri Lanka imports about 550,000 tonnes of sugar each year costing roughly Rs.60bn.

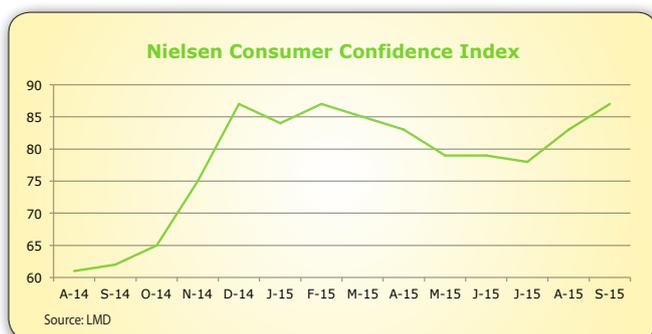
Fitch upbeat on Sri Lanka's consumer durables. Fitch Ratings notes that present conducive demand environment for consumer durables retailers in the country is likely to continue in the short to medium term despite possible headwinds from depreciation in the Sri Lankan rupee against major currencies and higher import tariffs.

It noted that strong demand trend is supported by lower energy tariffs, low interest rates, public-sector salary increases and reductions in the prices of essential food items introduced by the new government in early 2015.

Further, it expects sector margins to improve in 2016, helped by strong operating leverage resulting from top-line growth, expansion in high-margin hire purchase sales and cost-efficiency measures.

However, retailers' margins are expected to broadly settle in the high-single-digit range in the medium term, compared with the low-teens prior to 2013, owing to the shift in product mix towards IT and communication products.

Nielsen consumer confidence increases to 87 (+4 bps).



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4A, Deal Place A,
Colombo 03
Sri Lanka

M: + 94 773 619800

P: + 94 11 5786787

roshaanr@gradientalliance.com

www.gradientalliance.com