NEWS ROUND UP

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Contents

Plantation worker strike over higher wages continues

Trade union action demanding Rs. 1,000 daily wage in the plantation sector continued for the second day, dimming hopes for a breakthrough, with Regional Plantation Companies (RPCs) insisting on an alternative productivity-based wage model, and politicians calling for fair reasoning.

United National Front (UNF)-linked MPs, National Union of Workers (NUW) Leader MP Palany Thigambaram, Up-Country People's Front (UCPF) Leader V. S. Radhakrishnan, and UNP MP Vadivel Suresh yesterday called on the estate workers to think before they take part in the strike, noting that they would have to face issues in January without a proper salary.

“The union that had called for the strike hasn’t even been able to work towards in getting the arrears from the strike that took place in 2015. So, be thoughtful in taking part in this strike,” the MPs told journalists in Colombo.

Ceylon Workers Congress (CWC) Leader MP Arumugam Thondaman on 3 December requested all plantation workers to join in an indefinite strike, until plantation companies agrees to increase their daily wages to Rs. 1000, which continued to day two.

Shifting entirely into a productivity-based wage model is the only sustainable way that can benefit the industry, companies, workers and the national economy, said the plantation industry stakeholders.

“Rising productivity is an absolute must, amidst the internal and external challenges. It is critical that wage is linked to productivity for the sustainability of the industry, and the national economy as a whole,” sources told Daily FT on condition of anonymity.

It was pointed out that if the daily wage is increased to Rs. 1,000 the impact would be as high as Rs. 9.1 billion, while gratuity impact is Rs. 10.9 billion totalling to Rs. 20 billion. Furthermore, annually the companies have to absorb Rs. 9.6 billion, including the Rs. 437 million as gratuity impact.

“The future of the industry and the livelihood and sustenance of over one million people dependent on the industry are in the hands of the workers, and not in the hands of the Managers, as the Managers can only manage the industry making use of the resources and the revenue. We cannot, as responsible professionals, go and commit to something that we know for sure we cannot honour,” the sources said.

Sources said that the impact for the RPCs for the proposed wage package of Rs. 940 is, for wages alone, Rs. 6.3 billion, and for gratuity, Rs. 5.5 billion, totalling to Rs. 11.8 billion. Furthermore, annually the companies have to absorb Rs. 6.5 billion every year, as the cost of the wage increase and the annual gratuity impact of Rs. 218 million.

Currently the average annual plucking average per worker is around 21 kilos. The norm is a worker should pluck between 16 kilos to 18 kilos per day. If they pluck more than the norm, the workers are entitled to an additional payment of Rs. 28 per kilo over and above the daily wage package at present. “Therefore, the worker has to increase only one kilo output if they are to reach the Rs. 1,000 per day, based on the productivity-based wage of Rs. 46/- per kilo, including the EPF/ETF,” they pointed out. .(Daily FT)

National Tea Sales average static

National Tea Sales average for the month of November 2018 totalled Rs. 584.58 vis-à-vis Rs. 586.19 of October 2018, showing a marginal decrease of Rs. 01.61 month on month. However, in comparison to the November 2017 average of Rs. 626.85, it shows a decrease of Rs. 42.27, Forbes and Walker Tea Brokers revealed yesterday.

It said High Growns totalling Rs. 547.64, lowest since July this year, has recorded a sharp decrease of Rs. 64.40 vis-à-vis Rs. 612.04 of October 2018. When compared to November 2017 a substantial decrease of Rs. 96.42 is recorded YOY.

Mediums, averaging Rs. 516.22, has recorded a decrease of Rs. 24.02 vis-à-vis Rs. 540.24 recorded in October 2018. However against November 2017, which recorded Rs. 565.86, it shows a decrease of Rs. 49.64.

Meanwhile, Low Growns totalling Rs. 615.56 have recorded an increase of Rs. 24.57 vis-à-vis Rs. 590.99 of October 2018. When compared to Rs. 636.12 of October 2017, it shows a decrease only of Rs. 20.56 YOY.

Forbes and Walker Tea Brokers also said the January-November 2018 cumulative average of Rs. 582.55 shows a YOY decrease of Rs. 35.41 recorded vis-à-vis Rs. 617.96 of January - November 2017.

High Growns for the period January-November 2018 with an average of Rs. 571.95 has shown a decrease of Rs. 26.65 vis-à-vis Rs. 598.60 of January-November 2017. Mediums, too, averaging Rs.563.87, has shown a decrease of Rs. 40.95 vis-à-vis Rs. 563.87 of January-November 2017. Meanwhile, Low Growns totalling Rs. 601.32 for January-November 2018 has shown a decline of Rs. 37.05 vis-à-vis Rs. 638.37 of January-November 2017.

"Both the month and cumulative averages continues to show a greater decrease in USD terms, compared to the corresponding periods of 2017, with the Sri Lankan Rupee depreciating sharply particularly in the months of September, October, and November ," Forbes and Walker added. .(Daily FT)

Poor financial literacy in Sri Lanka helping scammers

Ignorance about risks and a focus on rewards only making it easy for people to fall victim for scammers despite having high general literacy and education, a financial professional who is pushing to boost financial literacy said.

Ravi Abeysuriya, who is advocacy chair of the Chartered Financial Analysts Society in Sri Lanka said a survey by Standard and Poor's found that South Asia had the lowest share of financial literacy.

"On average about 65 percent of adults are financially literate in advanced countries," Abeysuriya said.

"In Sri Lanka it was about 35 percent according to this study."

Abeysuriya said financial literacy was low despite the country high levels of literacy. This was seen not just among the poor or less educated but also among doctors, lawyers and other professionals.

He said a key problem was that people in Sri Lanka were ignorant of risks and simply went by the promise of high interest rates.

Abeysuriya said he had personal knowledge of people like judges who went for illegal deposit schemes due to ignorance and lack of awareness of risks.

"They do not understand that rewards go with risks," he said.

Abeysuriya said poor people were also being victimized by loan sharks and unscrupulous lenders.

Abeysuriya had written a book 'Financial Literacy to Achieve Your Financial Wellbeing' to promote financial literacy which is available for download free from the CFA website.

The book would soon be translated to Sinhalese and Tamil.

Books published by the central bank were also made available in the same page, as well as a book on entrepreneurship written by Sidath Kalyanaratne, a CFA.(Daily FT)

Sri Lanka debt still manageable, through political crisis raised costs: CB Governor

Sri Lanka can still manage its debt problem though a political crisis which has triggered downgrades has pushed up costs, Central Bank Governor Indrajit Coomaraswamy said.

Moody's, Standard and Poor's and Fitch have downgraded Sri Lanka's already speculative grade B+ debt to B+.

Even before the downgrades, foreign investors were selling down Sri Lanka's sovereign bonds.

"Clearly the political developments have increased the risk premium," Coomaraswamy said.

"We have to undertake significant borrowing going forward. And their costs would be higher, the tenor is likely to be shorter".

Sri Lanka has to repay a billion US dollar bond in January, and Coomaraswamy has said the bond can be repaid.

The central bank also has got parliamentary approval to raise up to 310 billion rupee equivalent to managed debt, under which it could raise and repay debt, he said.

In addition to short term measures the central bank and Treasury had devised a medium term strategy to put debt on a sustainable path.

"Now we still have those plans but the costs would be higher," he said. "The progress towards achieving sustainable external debt dynamics have been slowed down

"But the situation is still manageable provided the government maintains fiscal discipline and continues with the trajectory of fiscal consolidation they have set out.

"But room to maneuver we have had become less".

At the moment Sri Lanka is operating without a cabinet of ministers, with the President authorized by the constutution to hold only three ministries. Sri Lanka no longer has permanent secretaries under the current constitution and they lose office along with the cabinet.

Under the authority given by the parliament through the Active Liability Managment Act, the central bank could raise funds to repay both principle and interest of debt, Coomaraswamy said.

Sri Lanka followed a state-led investment strategy in the last 10 years with heavy borrowing from international capital markets and also China where some projects appear to have been done without proper feasibility studies.

Due to the state-led strategy the country sideline private and foreign investors putting restrictions on land ownership and also expropriating investments which reduced foreign direct investments.

Critics say a new administration which came to power in 2015 also failed to reverse the expropriations and slammed retrospective taxes compounding the problem.

There were also no privatizations to draw in competitive private investments only a government to government deal involving a port with China.

Sri Lanka had about 7.0 billion dollars of reserves by November, which is vulnerable to contradictory policy coming from sterilized forex sales.

Sri Lanka has an unstable soft-pegged exchange rate, which has not been reformed, and the country is vulnerable to artificially low interest rates generated by money printing though the central bank is simultaneously trying to collect forex reserves by pegging. (Economy Next)

Sri Lanka's top military officer gets conditional bail

Sri Lanka's highest-ranking military officer, Admiral Ravindra Wijegunaratne, was granted bail Wednesday under strict conditions that he will not interfere with witnesses and investigator probing his cover up war-time murders of 11 young men.

Fort Magistrate Ranga Dissanayake freed the admiral on two sureties of one million each. He was warned not to interfere with witnesses or use his official position to intimidate investors.

Wijegunaratne was brought to the magistrate's court in a prison bus where he spent nearly four hours till his case was called in the afternoon.

Last week, he was remand in custody for a week pending investigations into the abduction and murder of young men between 2008 and 2009.

He was denied bail at the time after the Criminal Investigation Department reported that he had attempted to abduct a key witness over the weekend and also tried to get lead investigator Inspector Nishantha Silva removed from the case.

On Wednesday, the court ordered that an intimidation case be transferred out of the Colombo Fort police because they showed very poor progress in their investigations.

Police detectives have told court that Wijegunaratne shielded a naval intelligence officer accused of 11 murders in the closing stages of Sri Lanka's bloody separatist war that ended in May 2009.

Pprosecutors also told the court last week that Wijegunaratne and his bodyguards tried to abduct a key witness, another navy officer Lt. Commander Laksiri Galagamage, who had previously testified against him.

Investigators say Wijegunaratne helped Chandana Prasad Hettiarachchi, a navy intelligence officer and chief suspect in the murders, escape arrest. Hettiarachchi, who is separately accused of involvement in the 2006 murder of a Tamil legislator, was captured in August.

Police believe the 11 victims were murdered while in the illegal custody of the navy. Their bodies were never found. The victims belonged to all three main communities in Sri Lanka.

Military figures were accused of abductions and extrajudicial killings during the 37-year war against the Tamil Tiger separatist movement.

Several intelligence officers are facing prosecution over the murder of journalists critical of Mahinda Rajapakse, the former president whose tenure was marred by allegations of war crimes and grave rights abuses. (Economy Next)

China Energy Fund official convicted in US over Africa bribe

Hong Kong's former home affairs secretary Patrick Ho Chi Ping was convicted by a New York court Wednesday over a multimillion dollar bribery scheme in Africa on behalf of a top Chinese energy company.

Ho, 69, was convicted by a jury of seven out of eight charges of violating the Foreign Corrupt Practices Act and money laundering for bribes allegedly directed to top officials in Uganda and Chad to support projects of CEFC China Energy, the Shanghai-based rising star of China's energy industry.

Some of the deals were arranged in the halls of the United Nations, leading to the US arrest in November 2017 of Ho and a co-conspirator, former Senegalese top diplomat Cheikh Gadio.

In the Justice Department complaint, the two men allegedly offered a $2 million bribe to the president of Chad "to obtain valuable oil rights," and a $500,000 bribe to an account designated by the minister of foreign affairs of Uganda, who had recently completed his term as the President of the UN General Assembly.

Ho, who led a Hong Kong-based organization called the China Energy Fund Committee, also known as CEFC and funded by CEFC China Energy, also provided Uganda's president and foreign minister with gifts and promises of future benefits -- including a share in the profits of a potential joint venture, authorities said.

The conviction could lead to a sentence of up to five years in prison for each FCPA violation, and up to 10 years for the money laundering charges.

In addition, Ho could face substantial fines for each charge. The case against Cheikh Gadio was dismissed on September 14. (Economy Next)

Sri Lanka legislature gives up on pandering to a hostile president

Sri Lanka's parliament Wednesday defied a hostile president and decided not to proceed with a de facto no-trust resolution against the disputed government and instead moved closer to an impeachment.

Maithripala Sirisena had asked the largest single party, the United National Party, to bring another resolution reconfirming the previous no-trust votes against Mahinda Rajapaksa and his purported cabinet.

The parliament's action came a day after Sirisena vowed he will never reinstate Ranil Wickremesinghe who was controversially sacked on October 26. "Even if all 225 members of parliament want it, I will not reappoint Ranil," Sirisena announced on Tuesday.

UNP made it clear Wednesday that there was no point in pandering to requests from Sirisena who remains adamant and shows no signs of wanting to end the power struggle.

JVP's Vijitha Herath said there was no point in proceeding with another no-confidence against Rajapaksa after the Court of Appeal on Monday upheld that the November 14 no-trust resolution against Rajapaksa was valid and since then there is no government in the country.

"Sirisena has already violated the constitution and the courts have held that he intentionally violated it," Herath told parliament. "He will face not only an impeachment, but he will also lose his civic rights."

In his first public reference to the conduct of the courts, Sirisena told a convention of his Sri Lanka Freedom Party (SLFP) on Tuesday that many people had reservations about recent conduct of courts.

"Some people think the judiciary is neutral and independent. Another section feels that they are one-sided and partisan." (Economy Next)

Fitch downgrades Sri Lanka financial institutions on sovereign rating cut

Fitch Ratings said it has downgraded the ratings of Sri Lanka's National Savings Bank, Bank of Ceylon, DFCC Bank and People's Leasing & Finance PLC's, all with stables outlooks, after the sovereign rating was downgraded.

A statement said the Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) downgrades were, National Savings Bank (NSB) to 'B' from 'B +', Bank of Ceylon (BOC) to 'B' from 'B +'; DFCC Bank PLC (DFCC) to 'B' from 'B +'; and People's Leasing & Finance PLC's (PLC) to 'B-' from 'B'.

"The Stable Outlook on NSB, BOC and PLC reflects the Stable Outlook on the sovereign."

Fitch has also downgraded the Viability Ratings (VR) of BOC and DFCC to 'b' from 'b+' to reflect the more challenging operating environment in Sri Lanka.

The full Fitch statement follows:

Fitch Ratings-Singapore/Colombo-05 December 2018: Fitch Ratings has downgraded the Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) of the following Sri Lanka-based financial institutions following the downgrade of Sri Lanka's sovereign rating:

- National Savings Bank (NSB) to 'B' from 'B +'; Outlook Stable

- Bank of Ceylon (BOC) to 'B' from 'B +'; Outlook Stable

- DFCC Bank PLC (DFCC) to 'B' from 'B +'; Outlook Stable

- People's Leasing & Finance PLC's (PLC) to 'B-' from 'B'; Outlook Stable

The Stable Outlook on NSB, BOC and PLC reflects the Stable Outlook on the sovereign.

Fitch has also downgraded the Viability Ratings (VR) of BOC and DFCC to 'b' from 'b+' to reflect the more challenging operating environment in Sri Lanka.

Fitch has revised our assessment of the operating environment in Sri Lanka to 'b/stable' from 'b+/negative' to reflect the likely adverse impact on the banks' credit profiles following the deterioration in the Sri Lankan sovereign's credit profile amid difficult domestic and external conditions. The National Ratings of BOC, NSB, DFCC and PLC were not covered in this review.

Fitch downgraded the Sri Lankan sovereign to 'B' from 'B+' on 3 December 2018 (see "Fitch Downgrades Sri Lanka to 'B'; Outlook Stable" at www.fitchratings.com).

KEY RATING DRIVERS

IDRS, VIABILITY RATINGS AND SENIOR DEBT RATINGS

The IDRs of NSB and BOC reflect Fitch's expectation of extraordinary support from the sovereign. The downgrades of their IDRs reflect Fitch's view that the state's ability to provide support to these banks has reduced, although the state's propensity to do so has not changed.
NSB

Fitch believes state support for NSB stems from its policy mandate of mobilising retail savings and investing them in government securities. The NSB Act contains an explicit deposit guarantee and Fitch is of the view that the authorities would support, if needed, the bank's depositors and its senior unsecured creditors to maintain confidence and stability in the system. Fitch has not assigned a Viability Rating to NSB as it is a policy bank.

The US dollar senior unsecured notes issued by NSB has also been downgraded by one notch to reflect the downgrade of its IDRs. The notes are rated at the same level as the bank's Long-Term Foreign-Currency IDR as they rank equally with other senior unsecured obligations. The notes have a Recovery Rating of 'RR4'.

BOC
Fitch expects state support for BOC to stem from its high systemic importance, quasi-sovereign status as well as its role as a key lender to the government and its full ownership by the state. BOC's Viability Rating (VR) reflects its thin capitalisation and asset quality pressures amid a difficult operating environment, but these are partly balanced by a stronger domestic funding franchise than the majority of sector peers.

DFCC
DFCC's IDRs are driven by its intrinsic strength as indicated by its VR. DFCC's VR captures its developing commercial banking franchise, and relatively weak asset quality and earnings, which are balanced against our expectation that DFCC would maintain higher capital buffers than similarly rated peers.

PLC
PLC's IDRs reflect Fitch's view that its parent, the state-owned and systemically important People's Bank (Sri Lanka), has a high propensity but limited ability to provide extraordinary support to PLC, if required. People's Bank's propensity to support PLC stems from PLC's role within the group as a strategically important subsidiary and the high reputational risk to People's Bank should PLC default, as the bank owns 75% of PLC and shares a common brand. Fitch believes People's Bank's ability to provide support to PLC is limited as indicated by the downgrade of the sovereign rating.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Ratings for the banks remain unchanged but the Support Rating Floors (SRFs) of NSB and BOC have been downgraded following the sovereign rating downgrade, which indicates the state's reduced ability to provide support and consequently, more limited probability that the banks would receive timely support, if needed. This is despite the state's strong propensity to provide support to these banks given their high importance to the state and high systemic importance.

The SRF on DFCC was revised to 'No Floor' as its systemic importance is much lower relative to larger banks such as NSB and BOC, and with the downgrade of Sri Lanka's rating, we believe sovereign support for DFCC cannot be relied upon given the sovereign's weakened financial ability.

RATING SENSITIVITIES

IDRS, VIABILITY RATINGS AND SENIOR DEBT RATINGS

Further changes to Sri Lanka's sovereign rating and/or changes in our perception of state support to NSB and BOC, could result in a change in their IDRs.

NSB
A reduced expectation of state support through, for instance, the removal of preferential support extended to NSB, or a substantial change in its policy role or deviation from mandated core activities, indicating its reduced importance to the government, could result in a downgrade of NSB's ratings. However, this is not our base case scenario.
NSB's senior debt rating is sensitive to changes in the bank's Long-Term IDRs. The Recovery Rating on the bank's notes is sensitive to Fitch's assessment of potential recoveries for creditors in case of default or non-performance.

BOC
A downgrade of BOC's IDRs would most likely result from further negative rating action on the sovereign, which would reflect a further weakening in the state's ability to support the bank. BOC's Viability Rating may come under pressure if there is a continued decline in capitalisation through a surge in lending or high dividends. Further deterioration in the operating environment, leading to deterioration of BOC's key credit metrics, could also exert negative pressures on its rating.

DFCC
An inability to replenish its capital buffers to a level that is commensurate with its risk profile could put pressure on the bank's IDRs. Fitch sees limited upside for the bank's ratings due to its weak franchise. Further deterioration in the operating environment, leading to deterioration of DFCC's key credit metrics (especially to its capital buffers which is a rating strength for the bank), could also exert negative pressure on its rating.

PLC
A downgrade of PLC's IDR would occur if People's Bank's ability to support PLC was to weaken, if People's Bank was to reduce its majority ownership in PLC or if PLC's strategic importance to its parent was to diminish over time, reflecting a reduced propensity to support PLC. However, Fitch does not anticipate People's Bank's propensity to support PLC to weaken in the foreseeable future. PLC's IDR is also sensitive to changes in the sovereign rating, as this would affect People's Bank's ability to provide support to PLC.

SUPPORT RATING AND SUPPORT RATING FLOOR

Lower propensity of the state to support systemically important banks could result in further downward pressures to the banks' Support Ratings and Support Rating Floors, but Fitch believes this to be unlikely in the medium term. Further changes in the sovereign rating could also impact the banks' Support Ratings and Support Rating Floors.

The rating actions are as follows:

National Savings Bank:
Long-Term Foreign-Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Long-Term Local Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Short-Term Foreign-Currency IDR affirmed at 'B'
Support Rating affirmed at '4'
Support Rating Floor revised to 'B' from 'B+'
US dollar senior unsecured notes downgraded to 'B' from 'B+'; Recovery Rating at 'RR4'
Bank of Ceylon:
Long-Term Foreign-Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Long-Term Local Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Short-Term Foreign-Currency IDR affirmed at 'B'
Viability Rating downgraded to 'b' from 'b+'
Support Rating affirmed at '4'
Support Rating Floor revised to 'B' from 'B+'
DFCC Bank PLC:
Long-Term Foreign-Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Long-Term Local Currency IDR downgraded to 'B' from 'B+'; Outlook Stable
Short-Term Foreign-Currency IDR affirmed at 'B'
Viability Rating downgraded to 'b' from 'b+'
Support Rating affirmed at '5'
Support Rating Floor revised to 'No Floor" from 'B-'
People's Leasing & Finance PLC:
Long-Term Foreign-Currency IDR downgraded to 'B-' from 'B'; Outlook Stable
Long-Term Local-Currency IDR downgraded to 'B-' from 'B'; Outlook Stable

(Economy Next)