NEWS ROUND UP

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Contents

Sri Lankan shares end mixed, foreigners buy Seylan Bank non-voting

Sri Lanka’s share market indices closed mixed Friday with foreign buying interest seen in non-voting shares of Seylan Bank, while there was also buying interest in Lion Brewery Ceylon and brokers said.

The All Share Price Index closed at 6,069.22, up 36.68 points (0.61 percent) while the more liquid S&P SL20 index fell 1.07 points (0.03 percent) to end at 3,193.99. Turnover was 612 million rupees.

Crossings or off-the-floor negotiated deals accounted for 26 percent of the turnover with two crossings in Lion Brewery and one in Seylan Bank non-voting shares.

Lion Brewery Ceylon closed unchanged at 555 rupees while Seylan Bank non-voting shares closed at 47.50 rupees, up 2.70 rupees (6.03 percent).

Foreign investors were net sellers of 193.2 million worth of shares, with estimated net foreign selling mainly in John Keells Holdings which ended at 161 rupees, down 10 cents (0.06 percent).

Estimated net foreign buying was highest in Seylan Bank non-voting shares.

Janashakthi Insurance Company, in which there had been speculative buying the day before, closed at 28 rupees, down 70 cents (EconomyNext)

Foreign investors sell Rs17bn in Sri Lanka bonds in week

Foreign investors have sold 17 billion rupees of bonds with total holdings of bonds dropping to 180.9 billion rupees from 197.9 billion rupees, in perhaps the heaviest week of foreign selling in markets, central bank data shows.

Foreign investors held 324 billion rupees of bonds in April and had been steadily selling them down.

Sri Lanka's bond yields have eased after an SRR cut in mid November, making it more profitable for foreigners to exit.

Higher levels of currency defence has been seen in recent days, while overnight and longer term rates fell after the SRR cut.(EconomyNext)

Sri Lanka forex reserves down $880mn in November

Sri Lanka's forex reserves dropped by 884.9 million US dollars in November 2018, to 7,018.38 million dollars in November amid a statutory reserve cut and more liquidity injections, official data show.

In November the central bank cut the statutory reserve ratio and injected what an official said was an estimated 90 billion rupees of cash at zero interest rate in to the banking system to permanently sterilize at zero interest liquidity shortages generated by earlier interventions.

According to central bank data, interventions with commercial banks were 303.55 million US dollars in October. Meanwhile 7.0 million dollars had also been bought to stop the rupee from floating in that month.

The data does not capture forex reserve released through swap agreements to maintain a peg or transactions with the Treasury.

Sri Lanka's credit system is vulnerable to balance of payments crises, as the central bank tries to maintain artificially low interest rates whenever the economy recovers and credit demand picks up, while operating soft-peg with the US dollar and collecting forex reserves.

In 2018, balance of payments pressure was generated from the first quarter of 2018 as the central bank halted mopping up inflows, terminated existing term repos in March and cut rates and actively printed money in April to boost excess liquidity. Currency pressure then triggers capital flight.

The finance ministry has meanwhile raised unpopular taxes, cut the budget deficit and in May also market priced fuel in another unpopular move, at great political cost. The finance ministry had also generated a primary surplus in the budget.

In November the central bank cut the reserve ratio, hike policy rates to 9.0 percent and then injected money to sterilize interventions through reverse repo auctions at 8.35 percent after November 16, lower than the 8.7 percent the day before the SRR cut and lower than the earlier policy rate of 8.50 percent.

Economic and analysts have called for reforms of the central bank's domestic operations, or it abolition in favor of a currency board or dollarization to end balance of payments crises in Sri Lanka, so that the country can progress.

Sri Lanka's abolished a currency board in 1951 and set up a Latin America style soft-peg to join the Bretton Woods system, going in the opposite direction to countries like Singapore and Hong Kong and ending free trade to protect the soft peg.

The Bretton Woods system of soft-pegs also collapsed in 1971 as the US Federal Reserve tried to maintain artificially low interest rates incompatible with is peg to the US dollars to boost growth.

The US dollar was eventually floated amid massive gold reserve losses. (EconomyNext)

Sri Lanka heads for government shut down as crisis drags

The public sector could be at a standstill from the end of the month unless the political power struggle is ended and parliament makes urgent arrangements to meet expenditure in the New Year, officials warned Saturday.

President Maithripala Sirisena triggered the unprecedented crisis by sacking Prime Minister Ranil Wickremesinghe just 10 days before the unveiling of the on November 5. The disputed government he installed has failed to announce a promised vote-on-account in place of a budget.

Contrary to claims from Sirisena loyalists that the president could directly spend money from the consolidated fund for three months in the absence of a budget, the constitution makes such provision only in the event when parliament stands dissolved.

"We are in uncharted waters. There is no way the president can order spending when parliament is in session," a senior finance ministry official said asking not to be named. "Unless some emergency measure is taken, there will be no legal way to finance government spending from January 1."

Article 150 (3) of the constitution allows the president to spend money from the consolidated fund for three months only at a time when he has dissolved parliament before a budget has been approved by the House.

Sirisena's sacking of the legislature on November 9 is currently being challenged before the Supreme Court and a verdict is expected tomorrow or this week at the latest.

The court suspended Sirisena's gazette notification dissolving parliament and calling a snap election for January 5. The Supreme Court ruling will have far reaching ramifications not only for the bitter power struggle but also public finances.

-Secretaries have no authority-

Even the state spending after November 30 is highly questionable given that parliament with an absolute majority voted to stop all non-essential spending of the state. A day earlier, it voted to block any spending by the Secretary to the Prime Minister.

On Monday, President Sirisena met with ministry secretaries he had appointed recently and ordered them to continue with their work to ensure public services were maintained, but legal experts noted that the president did not have such powers as the secretaries were no longer in office.

Under Article 52 (3) of the constitution, the secretaries to all ministries lose their jobs when the prime minister is defeated in a no-confidence motion, resigns or otherwise removed from his position. The purported prime minister lost a no-confidence motion (NCM) on November 14.

The Court of Appeal on December 3 issued an interim order suspending Mahinda Rajapaksa from exercising the powers of the prime minister until he can prove on what authority he is holding office after losing a NCM.

Senior treasury officials last week alerted government suppliers that they may not get paid on time unless the political crisis was resolved and a government was re-established before the end of the year.
Many ministry secretaries avoided signing any documents. When they did it was mostly backdated to avoid any future prosecution.

“The Secretary to a ministry shall cease to hold office upon the dissolution of the cabinet of ministers under the provisions of the constitution…,” according to Article 52 (3) which applies in this case, officials noted.

The Court of Appeal decision on the Quo Warranto demanding on what basis Rajapaksa and his cabinet were holding office after losing an NCM is due this week. The court upholding the petition by 122 Members of parliament could leave all ministry secretaries exposed to criminal prosecution.

President Sirisena noted last week that he would end the power struggle by Tuesday (December 11) but did not say how. He could be banking on the Supreme Court ruling in his favour over the legality of his dissolving parliament.

Should the Supreme Court hold against him, Sirisena could become exposed to impeachment as well as criminal prosecution soon after he leaves office. The immunity of the president is for himself against prosecution while in office, but the day he leaves he could be charged for any action committed while in office.

Former President Chandrika Kumaratunga had to pay fine three million rupees over an unlawful land acquisition and subsequent sale of such land for the Water’s Edge development while she was in office.
While faulting her for the transaction, the court held that the fine on her was a token that was expected to serve as a deterrent to others.

“We believe such a token payment of the real loss to the state of several hundreds of millions, will serve to "remind" present and future state actors and agencies (i) of their paramount duty to further the Public Trust and (ii) that their actions are subject to the Rule of Law,” the three-judge bench said in its judgement SC 352/2007.

This landmark judgement could be used in respect of many state officials and politicians, including Sirisena.(EconomyNext)

Tokyo stocks open lower on trade war fears

Tokyo stocks opened sharply lower on Monday, taking a negative lead from New York where unease over the US-China trade war prompted a fresh sell-off late last week.

The benchmark Nikkei 225 index was down 2.20 percent or 476.53 points at 21,202.15 in early trade, while the broader Topix index was down 1.88 percent or 30.51 points at 1,589.94.

"The sharp decline in US shares on Friday is weighing on the Tokyo market," said Toshikazu Horiuchi, a broker at IwaiCosmo Securities.

"Trading is sluggish as investors are on the sidelines ahead of Britain's vote on Brexit," Horiuchi told AFP.

On Friday, major US stock indices slumped more than two percent to conclude a bruising week for markets rattled by the US-China trade clash.

The Dow Jones Industrial Average ended down 2.2 percent and the broad-based S&P 500 slumped 2.3 percent.

The declines followed hawkish comments from White House trade advisor Peter Navarro, who told CNN that US President Donald Trump would "simply raise" tariffs on $200 billion worth of Chinese goods if trade talks fail.

The dollar changed hands at 112.71 yen in early Asian trade, against 112.68 yen in New York late Friday.

Nissan was down 1.75 percent at 956.2 yen in early trade as ousted chairman Carlos Ghosn is expected to be charged and face new allegations for alleged financial misconduct later in the day.

Steelmakers slumped on concerns over a US-China trade war. Nippon Steel & Sumitomo Metal lost 1.58 percent to 1,954 yen with JFE Holdings down 1.92 percent at 1,888 yen. (AFP)