

# NEWS ROUND UP

*Tuesday, December 11, 2018*

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## ***Tea estate workers continue strike for seventh day***

The strike launched by tea estate workers demanding that plantation companies increase their basic daily wage up to Rs. 1,000 continued for the seventh day today throughout the estate sector.

Other trade unions yesterday also decided to offer their support to the trade union action launched by the Ceylon Workers' Congress (CWC) in the estate sector. The leaders of the trade unions have decided to join the CWC to demand that the plantation companies increase the daily wage.

In parallel with the strike, estate workers stood in front of the tea factories and burned tires to protest against plantation companies.

Estate workers launched an indefinite strike on 4 December demanding that plantation companies increase the basic salary of plantation workers up to Rs. 1,000 a day.

Plantation companies, during discussions held with the estate workers' unions, have proposed to increase the current basic daily wage of Rs. 530 to Rs. 600, and increase other allowances to pay up to Rs. 1,012 a day. The proposal has been rejected by the joint estate trade unions saying they were not prepared to agree to a basic daily wage below Rs. 1,000.

CWC Leader and Nuwara Eliya District MP Arumugam Thondaman yesterday at a media briefing held at the party's headquarters in Kotagala said that he would meet President Maithripala Sirisena and request him to intervene to increase the basic daily salary of a plantation worker to Rs. 1,000.

Thondaman said that trade union action would continue until the plantation companies gave into demands. (Daily FT)

## ***Rupee, stocks end weaker as foreign outflows bite***

The rupee ended slightly weaker yesterday, as foreign investors continued to exit from bonds and stocks as a lingering political crisis weighed on market sentiment ahead of a key ruling by the Supreme Court.

The ruling will determine if the current Parliament can continue in the next year or if an election should be held. The decision could help end the political crisis.

Foreigners sold a net Rs. 230.9 million (\$ 1.29 million) worth of stocks yesterday, and they have been net sellers of Rs. 9.8 billion since the political crisis began on 26 October. The bond market saw outflows of about Rs. 51.2 billion between 25 October and 5 December, Central Bank data showed.

Foreign investors sold a net Rs. 17 billion (\$ 95.3 million) worth of government securities in the week ended on 5 November, the highest weekly net outflows since the third week of February 2017. The stock market had net foreign outflows to the tune of Rs. 929.1 million last week.

The rupee ended at 179.00/20 per dollar yesterday compared with 178.70/85 in the previous session.

The Colombo stock index fell 0.42% to 6,043.49 yesterday. It rose 0.83% last week after a 1.5% rise in the previous week. It has declined 4.7% so far this year.

Stock market turnover was Rs. 569.7 million, less than this year's daily average of Rs. 827.9 million.

Credit rating agencies Fitch and S&P downgraded Sri Lanka's sovereign rating last week, citing refinancing risks and an uncertain policy outlook, after President Maithripala Sirisena's sacking of his Prime Minister in October triggered the political crisis.

Last week, Fitch downgraded Sri Lanka's financial institutions and Sri Lanka Telecom, citing the sovereign downgrade.

This year, there have been Rs. 19 billion of outflows from stocks and Rs. 143.4 billion from government securities, the latest data from the Bourse and Central Bank data showed.

The rupee hit a record low of 180.85 per dollar on 28 November, surpassing its previous low of 180.50 which hit the previous day. It has weakened about 3.3% since the political crisis began. The currency fell 1.8% in November and has slid 16.5% so far this year.

Moody's downgraded Sri Lanka on 20 November for the first time since it started rating the country in 2010, blaming the political turmoil for aggravating its already problematic finances.

The political paralysis remains the main concern for investors. While MP Mahinda Rajapaksa and President Sirisena have failed to win support in Parliament for their new Government, the former Prime Minister Ranil Wickremesinghe's coalition which claims it does have majority support in Parliament has not been allowed to try to form a government. Although Rajapaksa was ousted via two no-confidence votes, he has refused to step down.

The Central Bank on 14 November unexpectedly raised its main interest rates to defend the rupee which has faltered as foreign capital outflows pick up due to the domestic crisis as well as rising US interest rates.

Five-year government bond yields have risen 60 basis points since the political crisis unfolded on 26 October while yields on Sri Lanka's dollar bonds due in 2022 have risen by more than a percentage point to 8.16% since then. (Daily FT)

### ***Sri Lanka forex reserves tumble US\$880mn in November***

Sri Lanka's forex reserves dropped by 884.9 million US dollars in November 2018, to 7,018.38 million dollars 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 into the banking system to permanently sterilize 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 reserves 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, hiked 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.

Economists and analysts have called for reforms of the central bank's domestic operations, or its 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 to boost growth. .(Economy Next)

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

### ***SriLankan Airlines carbon emissions higher in 2018***

Efficiency of SriLankan Airlines flights have fallen in 2018, and is contributing more towards carbon emissions, but was ahead of Emirates and Singapore Airlines, in an international ranking compiled by an anti-carbon group.

The Atmosfair Airline Index 2018, which tracked more than 33 million flights globally, said that SriLankan Airlines was the 72nd most efficient among 125 regional and international carriers in terms of carbon emissions, down from the 60th spot a year earlier.

Efficiency points (EPs) for SriLankan fell from 56 points in 2017 to 55.6 points in 2018, the index showed.

Overall SriLankan got a D class through the system which classifies airlines from most efficient A through the lowest G classes.

SriLankan ranked ahead of Emirates at 77th, which was classed E. Singapore Airlines was classed F at 87th position. Both Emirates and Singapore Airlines operate wide-bodied aircraft such as A380s, which are less efficient than narrow-bodied jets.

SriLankan's medium haul flights were the most efficient, with 57.8 points, improving from 54.2 points a year earlier.

Short Haul flights got 57.3 EPs, more efficient from a year earlier at 55.1.

The airline has been switching to Airbus A320neo aircraft for short and medium haul flights over the past two years, which are more fuel efficient.

However, long-haul flights, which were most efficient a year earlier at 57.9 EPs, were found to be most harmful for the environment, at 53.2 points in 2018.

No airline achieved the top A and B classes in 2018.

Charter operator TUI Airways which operates Boeing 737-800 fuel efficient jets with maximized loads to distribute carbon emissions among passengers was ranked first with a C class and 77.7 EPs.

Rest of the top five carriers TUIfly, Alaska Airlines, KLM and Vietnam Airlines also got a C class.

Cathay Pacific came ahead of SriLankan at 27th with a D class.

Lion Air and SpiceJet were among the most efficient budget carriers, with a B class while AirAsia got a C class and FlyDubai D.

Atmosfair is a nonprofit organization for combating climate change, founded in 2004 from a research project of the German Federal Ministry for the Environment. .(Economy Next)

## ***India central bank chief quits after spat with government***

New Delhi, India | AFP | The head of India's central bank resigned on Monday following a public spat with Prime Minister Narendra Modi's administration about alleged government interference.

Reserve Bank of India (RBI) governor Urjit Patel cited "personal reasons" for his decision, but media reports have said that he was annoyed by repeated government efforts to influence central bank policy.

It comes after Patel's deputy, Viral Acharya, warned the government in a strongly worded speech in October that undermining the bank's independence could be "potentially catastrophic".

Patel's short statement Monday made no mention of the rift, highlighting only what he called the RBI's "considerable accomplishments in recent years".

"On account of personal reasons, I have decided to step down from my current position effective immediately," Patel said in the statement which was posted on the bank's website.

The governor and finance ministry officials were reported to be at loggerheads in recent months over claims that the government was trying to influence the bank's decision-making.

Indian business dailies reported in October and November that Modi's government had invoked never-before-used powers to send at least three letters to Patel seeking to direct policy.

Newspapers suggested that Patel was close to quitting over the issue at the time, but the tension was believed to have been diffused following clear-the-air talks three weeks ago.

"The RBI and the government had numerous differences but Patel's resignation is shocking," Sujan Hajra, an economist at Anand Rathi securities, told AFP.

"There was a belief both were ironing out their differences but the resignation raises issues about the RBI's independence," he added.

The government is believed to be unhappy with the RBI over a number of issues including interest rates, how to deploy reserves and how to respond to India's sliding rupee.

The rupee has been one of Asia's worst performing currencies this year, although it has bounced back in the past fortnight, while economic growth slowed to under eight percent in the last quarter.

It is understood the government is pressuring the bank to enact policies to help spur growth ahead of next year's elections, when Modi will run for a second term.

The government would like the RBI to lower interest rates and free up more of its cash reserves to invest in Asia's third-largest economy, analysts say.

- 'Looked the other way' -

Finance minister Arun Jaitley in October hit out at the RBI over a multi-billion-dollar bank loan crisis that is hampering India's corporate sector.

Jaitley accused the RBI of failing to stop indiscriminate lending from 2008 to 2014, saying it had "looked the other way" while banks issued loans that turned sour.

The rift flared up again when economic hardliners from a powerful Hindu nationalist group linked to Modi's ruling Bharatiya Janata Party (BJP) told Patel to fall in line with the government or quit.

Patel served as a deputy governor at the bank for three years before succeeding Raghuram Rajan in the top job in August 2016.

His term at the helm was due to end in September 2019.

Jaitley tweeted Monday that the government "acknowledges with deep sense of appreciation" Patel's time at the bank.

"It was a pleasure for me to deal with him and benefit from his scholarship. I wish Dr. Patel all the very best and many more years of public service," he wrote.

Modi described Patel as a "thorough professional with impeccable integrity".

"He leaves behind a great legacy. We will miss him immensely," he wrote on Twitter. .(Economy Next)

### ***Sri Lanka President faces fresh challenge over his mental health***

President Maithripala Sirisena Monday faced a new challenge from an unexpected source questioning his mental condition to govern the country as a political crisis triggered by him dragged without any sign of resolution.

A public interest case was filed by a woman activist identified as Thakshila Jayawardena who argued that "irrational" behavior of the president was due to severe stress of adjusting to an urban life style, depression caused by the recent arrest of his chief of staff while taking a bribe and genetics.

Attorney Sisira Kumara Siriwardena said he hoped the Court of Appeal will take up the case, although many in the legal fraternity casts doubts if it will be entertained as the president enjoyed immunity.

"We are asking that he be subjected to an examination by a board of doctors at the Angoda mental hospital to establish if he is of sound mind," Siriwardena told reporters outside the court.

He said Sirisena's daughter's book entitled "Janapathy Thaatha – President father" spoke of mental illness running in the family. That could be the explanation for some of his controversial actions and statements recently, the lawyer argued.

He said the case was filed as a public interest litigation and they expected to be heard by the courts which are currently hearing several other action against Sirisena's recent decisions to sack parliament as well as his prime minister Ranil Wickremesinghe.

A decision on the legality of Sirisena dissolving parliament on November 9 is due to be delivered later this week. The hearing in that case ended on Friday and a decision was expected on Monday, but lawyers said they now expect a judgment anytime between Wednesday and Friday.

Another decision on the legal authority of Mahinda Rajapaksa and his cabinet to hold office is also expected later this week.(Economy Next)