NEWS ROUND UP

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Sri Lanka rupees closes firmer, stocks down

Sri Lanka's rupee closed stronger at 181.55/65 to the US dollar in the spot market Monday, while bond yields were largely unchanged, and stocks closed 0.08 percent weaker, dealers said.

The rupee closed at 182.60/65 levels to the US dollar Friday.

Bond yields were mostly around the levels seen at closing time Friday, dealers said, after gaining in early morning trade on Monday.

Dealers said there were foreign purchases in government securities.

One year bills were quoted at 10.70/80 percent at close, slightly up from 10.67/77 percent.

A bond maturing on 15.12.2021 closed at 10.97/11.05 percent, up from Friday's 10.85/95 percent.

A bond maturing on 15.12.2023, was quoted at 11.32/37 percent, down from the previous close of 11.35/45 percent.

A 7-year bond maturing 01.08.2026 was quoted at 11.57/65 percent, from the previous close of 11.52/62 percent.

A bond maturing on 01.06.2026 was quoted at 11.55/63 percent, slightly narrower from 11.55/65 percent on Friday.

A bond maturing on 01.09.2028 was quoted at 11.60/70 percent, compared to the previous close of 11.58/68 percent.

At the Colombo Stock Exchange, the All Share Price Index closed down 0.08 percent or 4.84 points to 5973.46.

The more liquid stocks in the S&P SL20 Index were up 0.20 percent or 6.02 points to 3052.25 from Friday.

Market turnover was 465.3 million rupees, with foreign purchases. Net foreign inflows were 192.2 million rupees.

Selling in Hatton National Bank drove the index down, with the bank's share trading 4.90 rupees lower at 200.30 rupees.

Lanka IOC share closed at 20.90, down 2.10 rupees and Cargills share fell 3.70 rupees to 200 rupees.

Buying interest was seen in John Keells Holdings, with the share gaining 2.50 rupees to close at 157 rupees.

Overall, 50 stocks gained in price, while 71 stocks were down. (EconomyNext)

Sri Lanka's November trade gap narrows, imports fall

A sharp slowdown in spending on imports, especially cars, helped narrow Sri Lanka's trade deficit in November 2018 from a year ago with exports growing by 4.1 per cent to 980 million US dollars, the central bank said.

Spending on imports contracted by 9.1 per cent in November 2018 to 1.77 billion dollars, a statement said.

"The deficit in the trade account narrowed significantly in November 2018 in comparison to November 2017 due to a sharp decline in import expenditure and a modest increase in export earnings."

However, on a cumulative basis, the deficit in the trade account expanded during the first eleven months of 2018 to 9.64 billion dollars from 8.6 billion dollars in the same 2017 period.

Earnings from merchandise exports increased moderately by 4.1per cent (year-on-year) to 980 million dollars in November 2018.

"The growth in exports was driven by industrial exports while agricultural exports continued to decline," the statement said.

Under industrial exports, export earnings from textiles and garments increased notably in November 2018 mainly driven by exports to the USA.

In addition, garment exports to non-traditional markets such as India, Canada and Australia as well as the EU market increased along with textile and other made up textile articles.

Earnings from agricultural exports fell during the month due to poor performance in almost all sub categories except the categories of unmanufactured tobacco and vegetables.

"Reflecting lower average export prices and exported volumes, export earnings from tea declined in November2018. Export earnings from spices also declined during the month due to the lower volumes in most categories of spices."

The central bank said the growth in exports was driven mainly by the increased volume, rather than the price, compared to the volume and unit value indices in November 2017.

Expenditure on merchandise imports declined by 9.1 per cent (year-on-year) for the first time since June 2017 to 1,765million dollars in November 2018.

“The decline in consumer and investment goods contributed to the decline reflecting mainly the impact of restrictions on personal vehicles and non-essential consumer goods imports, while the relatively larger depreciation of the Sri Lankan rupee may also have contributed to curtailing imports.”

Expenditure on personal vehicle imports showed a significant decline of 34.8 per cent in November 2018 from the previous month, reflecting the impact of policy measures put in place to curtail personal vehicle imports. (EconomyNext)

Sri Lanka plantation stocks fall after new pay deal

Sri Lanka's publicly traded commercial farms which grow tea, rubber and oil palm, saw prices fall after a new pay deal which industry spokesman said may increase wages by 350 million to 450 million a year for each company.

The regional plantation companies announced a collective agreement with trade unions over the weekend which will raise the daily wage of a plantation worker from 500 rupees to 700 rupees.

Voting shares of 10 of 18 listed plantation companies fell Monday.

Udapussellawa Plantations share closed at 29.40 rupees on Monday, down 2.50 rupees from Friday's close, after trading as low as 28.50 rupees

Talawakelle Tea Estate share fell 6.39 percent or 3.70 rupees to 54.20 rupees.

Hatton Plantation shares fell 60 cents to 7.20 rupees, Bogawantalawa Tea Estates down 70 cents to 12.90 rupees and Balangoda Plantations down 1 rupee to 16.20 rupees at Monday's close.

Plantation companies which currently have on average around 7,000-8,000 workers each, are expected to pay out an extra 350-450 million rupees annually after the pay deal, a spokesperson for the Planters' Association which represents estate managers said.

The twenty plantation companies, employing around 154,000 workers, may have to pay up to 9 billion rupees more in labour costs under the new agreement, the association said. Eighteen are publicly traded.

The latest agreement was signed at 11am Monday.

Unions had initially demanded 1,000 rupees in daily wages. Some unions had blocked roads in plantation areas in protest on Sunday and Monday morning, demanding the 1,000 rupees.

In the previous deal, workers got a basic salary of 500 rupees, an attendance allowance of 60 rupees, a productivity incentive of 140 rupees and a price share supplement of 140 rupees.

The new deal has 700 rupees in basic salary, and 50 rupees price share supplement.

A worker would also get 40 rupees for every extra kilo plucked above the 18 kilogramme 'plucking norm' of the field, up from 28.75 rupees in the earlier deal.

The farms grow a mix of crops including, tea, rubber, oil palm and coconut. Tea is the most labour intensive.

There were some concerns that incentive payments aimed at boosting productivity and attendance had been dropped.

Children of plantations worker families are leaving the sector to areas including services where labour is scarce or there had been productivity gains and pay is higher.

Sri Lanka's rupee had been depreciated from 149.80 at the end of 2016, to 182 by the end of 2018, which tends to increase the nominal price of commodities helping offset part of the increase in wages.

Sri Lanka's small holder tea farmers, who own farms and not driven by unions, produce the bulk of tea in the island now. Plantations firms are also trying out models involving contracting out fields.

Tea is mostly exported and is subject to global demand and and also the underlying strength of the US dollar to which Sri Lanka's rupee is loosely pegged.

The rupee however depreciates permanently due to the lack of a consistent monetary policy to support any exchange rate targeting. (EconomyNext)

What went wrong; Sri Lanka's illiberal economics and unsound money

Sri Lanka's United National Party has well and truly lost its reputation for economic management during three and a half years of coalition politics with President Maithripala Sirisena, who stopped reforms, but most of its troubles were of its own making.

Pushed by outside activists, the administration had lofty ideals of good governance but both Prime Minister Ranil Wickremesinghe and President Maithripala Sirisena were legacy politicians from the 1980s and 1990s and went about their arrogant and partisan ways.

Sirisena got bogged down in party politics after taking over chairmanship of the Sri Lanka Freedom Party and Wickremesinghe arrogantly protected his friends in the bondscam and went about cynically counting on a collective amnesia of a voting public.

Constitution of Liberty

Sri Lanka's main problem is not the lack of democracy, but the lack of appreciation of liberty by the people, and the lack of knowledge on the mechanics of how to ensure freedom.

Freedoms are preserved by institutions of liberty.

The main idea behind constitutions which were developed in Western Europe was to restrain the state and provide absolute guarantees of equality to the people.

In Sri Lanka the 1979 constitution was written to build a strong presidency and a strong state, which went against the basic principles of liberty. It was not a constitution of liberty.

That was the problem with both the constitution and the presidency.

The people who wrote the US constitution, also managed to get through a sentence that everyone is born equal, despite the existence of slavery in which eventually helped everyone get freedom, even non-citizens inside the US.

The 19th amendment to Sri Lanka's constitution, despite there being diluted by the likes of Dinesh Gunewardene, an expert filibusterer, had served its purpose in terms of restoring the independence of the judiciary.

An independent judiciary is a key institution preserving the freedom of the people. Liberty comes from rule of law and an independent judiciary will ensure it.

Freedoms are robbed mainly by two sections of society. It is the armed state, and armed robbers who will trample the freedoms of ordinary citizens.

The constitution will restrain the armed state and rulers, ensuring the liberty of the people. Democracy (popular vote) does not ensure freedom, neither does self-determination from Kings or Emperors.

Citizens of a nationalist state, which will get freedom from a King or Emperor will inevitably suffer far more horrors as Eastern Europe and also Sri Lanka has shown.

The elected ruling class is inherently more prone to sow injustice than a king or emperor, since nationalism is the easiest path to power.

Institutions of Liberty

An independent public service is another institution of liberty.

Sri Lanka got an independent public service from British liberals, who transferred the institution from their home country.

The British Civil Service was a product of the learning from their possessions in Asia. The British East India Company learned it from China.

The civil service came on to its own with the Northcote-Trevelyen report of 1854. In Sri Lanka the President and Prime Minister are appointing ministry secretaries as if they are contract workers. Interstingly both Northcote and Trevelyen had served in India and saw some of the problems in the existing system to which they suggested remedies.

It can be safely said that a Grama Sevaka has more security of tenure in Sri Lanka than a ministry secretary who is no longer permanent.

It is significant that when the Northcote-Trevelyen report was presented, Queen Victoria was against it, just like Presidents and Prime Ministers of independent Sri Lanka.

Without security of tenure, no secretary can stand up to what is right. Those who did, ended up in the pool. Like some of the Rajapaksa-era judges, those who remained had to be willing to do the wrong thing.

A bigger danger of the system of impermanent secretaries was that relatives could be brought in.

Gotabhaya Rajapaksa, was effectively the head of the military when his brother was President.

Economic Freedom

In Sri Lanka the third cog in the freedom robbing triangle is the central bank.

The administration had high hopes of a 'social market economy' but lacked the basic tool make it work; which is sound money.

The central bank started busting the currency as soon as the new administration came in. The first Governor under Arjuna Mahendran claimed that the rupee was overvalued as soon as he started to print money and lost control.

But later he got some wisdom, that money printing has to stop for the rupee to stop falling. From where the wisdom came it is not known.

This is what the President Commission report on a 'bondscam' said later.

"In this connection, Mr. Rodrigo (Head of Domestic Operatins of the Central Bank) said that the “Governor telephoned me in the morning, and said to immediately stop conducting of reverse REPO Auctions.”

"When the Commission of Inquiry asked the witness why Mr. Mahendran had issued such instructions, he said, that Mr. Mahendran had mentioned that the CBSL had earlier increased the Statutory Reserve Requirement in an effort to reduce Liquidity and that the intention of the CBSL was to “drain liquidity.”

"Mr. Mahendran had said that, in this background, Liquidity should not be injected into the market by CBSL and that the CBSL wanted Interest Rates to move up."

This is exactly the opposite of what happened in November 2018, when the central bank lost 500 million dollars in reserves.

The current Governor Indrajit Coomaraswamy went about his task with the deliberate intention of busting the currency. According to public statements he wanted to target it along a path to keep the Real Effective Exchange Index at 100.

However he did not have a currency board (floating interest rate) to target the exchange rate at any percentage.

Unsound Money

President Sirisena claimed in public statements that Wickremesinghe had extreme neo-liberal strategies. But in a fact check does not find much evidence to support this.

This deliberate destruction of the rupee was perhaps the most vicious illiberal policy of the current administration.

Then the central bank went about robbing economic freedoms done in the form of trade controls just like it had done in the past.

After printing massive amounts of money to keep interest rates artificially low, Sri Lanka is now in the midst of a balance payments crisis, with one credit downgrade already in.

Sri Lanka was recovering in the first quarter of 2018. All the central bank had to do was to mop up the inflows that were still coming in February with a little higher interest rates.

But that was not done. Instead rates were cut and money was printed. Is this neo-liberal?

Instead of the economy recovering, steadily in 2018, the credit system was pushed into a crisis. The currency collapsed.

Is soft-pegging a free market or liberal economic system? A free floating regime is free market. A hard peg is free market.

But a soft-peg is a contradictory mish-mash of interventions where free trade, which is the foundation of liberalism is not possible.

The central bank is the third institution that has to be built and restrained either through a floating rate and a low inflation target, or a hard peg.

The lack of freedom of the people, and the criticism of 'neo-liberalism' whatever that is, is symptomatic of the statolatry or Stockholm syndrome that is prevalent among the urban intelligentsia of the country.

That certain people who get benefits from state worship, lucrative posts, contract commissions and they like it is understandable. But why do other people believe all this?

Unsound money in the form of permanent currency depreciation, robbing real of savings of the poor, was the foundation of economiic illiberalism under this administration.

The 1980s reforms failed for the same reason and people went to the streets to get a living wage.

But there was a litany of others.

Economic Illiberalism and the 2015 budget

Ravi Karunanayake's 2015 budget was a textbook document of vicious illiberalism. The demand from the people was not for subsidies but good governance.

State sector salaries were hiked forcing taxation and austerity on the rest of the population.

Fuel prices were cut willy-nilly, losing a chance for market pricing. Kerosene prices were cut below cost helping large industry and triggering massive mis-use, which had to be fixed a huge political cost, with fishermen protesting.

The worst were the retrospective taxes and revenge taxes on casinos and the Rajapaska TV station. It was true that the TV station was an emblematic institution of shameless patronage. But it has to be dealt with by law, not taxes.

Are retrospective taxes neo-liberal or classical liberal? If there are ill-gotten gains taxes cannot be slapped willy-nilly on everyone. It has to be dealt with by law.

The Rajapaksa's also slammed revenge taxes on the media targeting Sirasa dubbed programs. This administration increased it.

No foreign investor will come when retrospective and revenge taxes are slammed.

The 2015 budget raised state worker salaries and taxes ordinary people. Is this neo-liberal? It is blatant statism.

The minimum wages were raised. It that neo-liberal?

Then sugar taxes were raised. Is this neo-liberal? This is vicious desires of European style social engineering, practiced by rich countries.

In a bid to stop rich kids who get chauffeured about in cars, from consuming sugar, taxes are slammed on the poor, and those that get exercise because they walk home after getting off the bus.

Like any food tax or import duty, any sales reductions come from the poor, not the rich.

In fact Rajapaksa cut the tax during the so-called coup period.

Under a new foreign exchange law, barriers against foreign investors starting trading companies have been raised. It is a shame on the administration.

What Neo-liberal where?

Is progressive taxatation of individuals neo-liberal? Rajapaksas had a 16 percent proportionate person tax. This is a liberal tax regime that many in the West are calling for.

Is charging value added tax on health care neo-liberal? No liberal western country charges VAT on health care.

Are price controls neo-liberal? Ravi Karunaynayake slammed price controls even on tea.

An entire price control agency was set up by Rajitha Senaratne, for drugs while a central bank that is depreciating the currency as a declared policy was committed to making drugs more expensive. Is this neo-liberal?

Is giving purchase guarantees for pharma companies with the peoples' healthcare budget instead of calling for open tenders neo-liberal?

Karunanayake slammed import permits on cars. Is this neo-liberal?

After calling for private investment into the East Terminal, which was certainly a liberal move (container terminal investments are risk capital, where the investor is bound to pay minimum royalties to the port unlike deals like LNG terminals where the state agency bears the risk).

But that was stopped, apparently it now seems on the wishes of the President. Is this neo-liberal?

After bids were called for international private players to run a bunkering operation in Hambantota it was suddenly stopped. Is this neo-liberal?

The entire Hambantotal Port was then sold to a Chinese state corporation not a private investor. Is this government-to-government deal neo-liberal?

There were also bids called for Mattala. That was also stopped. Is this neo-liberal?

When Bank of Ceylon tried sell some shares to a Japanese investor, Wickremesinghe, Karunanayake and Kabir Hashim screamed from the rooftops and stopped it. Is this neo-liberal?

Air Asia asked for license to start a budget airline. It was not given. Is this neo-liberal? Vietnam has since given it a license.

Not a single privatization was done. Is this neo-liberal?

An LNG power plant and terminal is being pushed where there is no pure-risk capital but purchase guarantees are sought from the state agency. Is this neo-liberal? And were only Wickremesinghe cronies behind this as claimed by some?

What about ship purchases when the US is giving ships gratis?

A whole bunch of small taxes were slammed, after promising to reduce the total number of taxes. Is this neo-liberal?

Price controls were put on fertilizer, after giving cash handouts generating shortage. Is this neo-liberal or simple stupidity in policy contradictions?

Is taxing gold imports neo-liberal?

Is hiking letter of credit margins on car imports neo-liberal?

Is placing credit restriction on the import of three wheelers neo-liberal?

It may have been liberal to eliminate tax holidays and try to tax all companies equally. It was also liberal to cut import duties on foods and essential goods like footware, which helps the poor.

But currency depreciation took away the benefits of import duty cuts. Is this neo liberal?

Is appointing incompetent or corrupt cronies to cabinet and other offices neo-liberal?

Is delaying elections - partly at the behest of the president according to some - neo-liberal?

Malik Samaraweera's ministry has re-gazetted pages and pages of import permits. Is this neo-liberal?

The tourism authority imposed mandatory star ratings. Is this neo-liberal?

Other than cutting import duties and reducing the budget deficit, whose benefits were also negated by currency depreciation, there seems to be very few liberal moves by the administration on the economic front.

There was however major advancements in civil freedoms. People are no longer disappearing.

There is a more open society, where people can speak freely, social media is free. The only net censorship has come from President Sirisena where an agency under him appeared to have blocked Lankaenews.com.

If there was liberal policy, where the exchange rate was strong, either via a true floating rate or a East Asia style consistent peg, this country would now be on a recovery path in 2018. If state firms were privatized, investors would have been excited and come into other sectors as well.

Not even Sri Lankan airlines was privatized. Instead a cronies were stuffed into it. Is this neo-liberal?

If shipping was liberalized, if warehousing was liberalized, this country would now be logistics hub for the region, may be even Amazon.com.

If Air Asia was given a license, Sri Lanka would be making the first steps to being a budget airline hub. If the East Terminal was given to Maesk or MSC or CMA CGM, the stranglehold on Sri Lanka's shipping sector would not exist and other private FDI would also have come in.

This administration's economic program went belly up, not because of freedom, liberalism neo or classical, but due to the lack of it. (EconomyNext)

Can you hear me now? Fed's Powell learns to communicate

Explaining the nuance of monetary policy to the public is always a challenge, but Federal Reserve Chairman Jerome Powell has discovered the hard way the downside of trying to be too clear.

Powell, who has been on the job for just a year, saw late last year how a single misplaced phrase can roil financial markets cause weeks of stock declines.

And starting with the policy meeting this week, he will have ample opportunity to sink or swim, since he will give a press conference after every meeting, eight times a year rather than four.

He had a bumpy ride in the final weeks of 2018 and repeatedly was obliged to walk back comments that caused heartburn on markets.

During the crisis, the Fed's communications were relatively easy: They simply had to repeat over and over that they would keep interest rates low for an extended period.

But with more and more signs the US economy has peaked, and the Fed close to the end of the current cycle of rate increases, signaling the central bank's intentions clearly is fraught with pitfalls.

It is especially challenging since markets are more skittish when Fed policy is changing, and tend to obsess over slight changes to language -- even more so when it happens amid a massive trade war with China and others, and with President Donald Trump vocally criticizing the Fed's every move.

"I don't think they've done terrifically well," longtime Fed watcher David Wessel of the Brookings Institution said of the Powell central bank.

"In part, it's a challenging moment, and in part there's a new chairman and no matter how much you think you're ready for this, it's only once you get the job do you appreciate how loud is the megaphone you've been handed," Wessel told AFP.

- R-star? Neutral? What? -

Powell, who unlike his predecessors was an investment banker, not an economist, got into trouble in early October when he said that after three rate increases last year the Fed was still "a long way from neutral."

In macroeconomic equations, R-star, or neutral, is the level at which the Fed's benchmark lending rate -- which is used to set car loans, mortgages and all other forms of borrowing -- is neither stimulating nor restricting the economy.

His comment implied there were many more rate hikes to come. Amid signs the economy was slowing, and likely to slow further amid the trade war, markets tanked.

Fed sources and later New York Federal Reserve Bank President John Williams, as well as Powell, came out publicly to walk back that statement, and clearly signaling the Fed was ready to pause its rate increases.

It happened again in December when he referred to the Fed effort to reduce the massive securities holdings built up during the global financial crisis as being on "autopilot."

Markets did not like that either, since it implied the Fed would not reconsider the procedure -- which puts upward pressure on interest rates -- even if economic conditions changed.

"It's the type of thing people say when they're really not thinking hard and the market seizes on it," former Fed economist Joseph Gagnon told AFP.

Powell prides himself on being plain spoken but clear speaking does not always mix well with a central bank.

Gagnon, a senior fellow at the Peterson Institute for International Economics, said the key point to communicate now is that the central bank will respond quickly.

In the aftermath of the crisis, it would have taken a very big surprise in economic data for them to change their path.

Now "very small changes in inflation or growth of the economy could have big effects" on policy, he told AFP.

- 'The world changed' -

Wessel of the Brookings Institution said any Fed chief would find it hard to communicate in the current environment, especially when Trump has "found ways to shoot the economy in every one of its toes."

But Powell had to change the messaging "because the world had changed."

And, while there are advantages to plain speaking, "it's hard to convey nuance," Wessel said.

Williams, the New York Fed chief and formerly head of the San Francisco branch, was prescient three years ago when he warned about trying to explain too much about complex and uncertain monetary policy.

The public "has only so much bandwidth dedicated to central bank messaging," he said.

He warned that "like a sledgehammer" Fed communications "can be a powerful tool when it's needed. But, like a sledgehammer, care needs to be taken when and where it is used." (AFP)