

NEWS ROUND UP

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Sri Lanka stock exchange to launch sustainability index

The Colombo Stock Exchange (CSE) will be launching a new index for listed firms in Sri Lanka which have the best environment, social, and governance (ESG) sustainable disclosures, a top official said.

"Will be launching an ESG Index," CSE Research and New Products Head Nishantha Hewavithana said.

The groundwork for the new index is already complete, and CSE is evaluating the correct time to launch it, he said.

He was speaking at a forum organized by the CSE and GRI (Global Reporting Initiative) on sustainable reporting.

"The constituents are companies with a high level of disclosure," Hewavithana said.

"In addition to size and liquidity, there will be an ESG score for disclosure with a maximum score of 800," he said.

He said the index will be formed under Standard and Poor Dow Jones Indices criteria, and will include 20 firms.

GRI has separate ESG reporting criteria, which if followed may also lead to a higher ESG score, Hewavithana said.

GRI chief executive Tim Mohim said companies with higher ESG disclosures have higher earnings per share, and return on equity.

"Some may say it's a correlation and not causation, but it has happened over a number of years," he said.

"Better managed companies would measure these (ESG) issues."

Mohim said 93 percent of the largest 250 listed firms in the world disclose their ESG indicators, with 75 percent also disclosing under GRI criteria.

The 75 percent of the 100 largest first in 49 countries disclose ESG indicators, with 63 percent disclosing under GRI.

He said in Sri Lanka, 100 firms make GRI reports, out of 297.

The CSE is a part of the United Nations Sustainable Stock Exchanges initiative. (EconomyNext)

Sri Lanka plans to compete with higher-wage countries amid currency collapse

Sri Lanka has to compete with a set of countries which have higher wages, instead of trying to beat low-wage nations like Bangladesh and Myanmar, Economic Reforms Minister Harsha de Silva said, as the Central Bank depreciated the rupee to cut real salaries of the people and lower living standards.

Two Paths

"We have two choices," de Silva told foreign correspondents in Colombo. "One is to go down and take salary cuts and say we will become a low wage producer and then compete with the Bangladeshis, compete with the Myanmar people and so on.

"Another option is to take ourselves up from where we are and compete with another group of countries. So in that group of countries, we have Malaysia, Thailand, some of the new Eastern European countries, and so on."

"Falling below is not an option. Go up is the only option."

Malaysia and Thailand are countries with exceptional central banks which gave stability and protected salaries of the people without fancy monetary policy generating instability.

After the break-up of the Bretton Woods system in 1971, the Bhat remained at the earlier parity of 20 to the US dollar until around 1980, when extreme monetary tightening by the US under Paul Volcker, who pushed policy rates to 18 to 20 percent, and similar policy in the UK put pressure on the peg.

The Bhat was re-pegged 25 and remained until the East Asian soft-peg crisis through its Asian Tiger growth period until 1997, when it fell to 46 in a float and recovered. It is now at 31 to the US dollar.

Malaysia had a currency board with Singapore and after the break-up of Britain Woods soft-peg system, it appreciated from 3.0 to 2.1 by 1980. After weakening from 1980, it was re-pegged at 2.5 until the East Asian crisis, when it fell to 4.2 in a forced float.

The Malaysian Ringgit is now at around 4.0 and has seen greater volatility than higher-income countries like Korea.

Singapore, which has a modified currency board is now a high-income country and has seen its currency has appreciate from 3.0 to 1.2 to the US dollar from 1971 to 2019.

Sri Lanka's currency on the other hand collapsed from 5.9 in 1971 to 15 by 1977. After remaining stable at 15 until 1980, it started collapsing when the US dollar started to tighten. Budgets deteriorated as the currency collapsed and inflation soared.

From 1980 to 2014, the rupee collapsed from 15 to 130 to the US dollar by 2013.

Monetary Dominance and Unsound Money

Since the current administration came to power in 2015, the rupee had collapsed to 180 from 130 to the US dollar amid unusually reckless money printing, especially in 2018, and targeting a real effective exchange rate index to cut real wages without having a floating policy rate to target any exchange rate. In March the rupee appreciated to around 177 to the US dollar.

The Central Bank's strategy of unsound money, generating monetary instability generally, and cutting real wages with REER targeting goes directly against Minister de Silva's idea of competing with high wage countries.

"You know that the Central Bank and I have not seen eye-to-eye on some issues over the years," de Silva said.

"Not this Central Bank and this government, I have been making this argument ever since I came back with training economics in 1993. From that day, I have maintained a certain position about the Central Bank.

"Where it is independence should be and how fiscal dominance should not be the reality on the ground."

"I do not believe that depreciating the currency to beyond what is necessary to become competitive ... with countries that are below us currently. That is not what we want. We want to be competitive with countries that are ahead of us. Not countries who are below us."

De Silva had campaigned to give more independence to the Central Bank and end fiscal dominance of monetary policy (the Treasury forcing the Central Bank to print money).

But the Central Bank's recent conduct where it persuaded the Treasury to bring in trade restrictions on gold and other imports, discrediting a free trade agenda of the current administration to cover its own policy errors have brought the question of monetary dominance of fiscal policy in to the forefront.

The IMF, which gave it a contradictory program involving a forex reserve targeting, which requires pegging, and an inflation target, which requires floating, however, has put conditions to halt trade restrictions for 'balance of payments purposes' in a failed bid to stop monetary dominance of fiscal policy.

De Silva is hopeful that planned reforms to the central bank law will help bring stability to the country.

Boosting Skills

De Silva says Sri Lanka has to make more complex and advanced products, which needs skills.

Currency depreciation makes it more expensive for young people to gain skills from abroad. De Silva says the 2019 budget is giving student loans for higher education and education reforms are key planks of helping Sri Lanka compete at a higher level.

Importing skills is another strategy to fast-track activity.

"We can organically grow the skillset or we can purchase it," he said.

"Like New Zealand purchased it. Or Dubai purchased it. Or like Malaysia is purchasing its skill set or America is purchasing its skill set.

"So we've got to create that environment where people could come here and engage in activity and they can benefit from themselves and the nation."

Dubai is a country which circulated Indian rupees at 4.70 to the US dollar just like Sri Lanka had a currency board at independence at 4.70 to the US dollar until the money-printing Central Bank was created in 1950, generating instability, inflation, trade controls, exchange controls, and import substitution.

Dubai's Dirham, which was created after the Reserve Bank of India was nationalised and was used by Prime Minister Nehru to print money and finance his 5-year Soviet style program and a separate Gulf Rupee also became unstable, has appreciated since its creation.

After gaining from 4.74 in 1971 to 3.7 by 1980, it fell to 4.2 by 1984. From 2000, the Dirham had been tightly pegged at 3.67 to the US dollar. The monetary authority of the UAE also does not follow fancy policy but simply piggy-backs on US policy.

Dubai also has no direct tax which has allowed it to generate jobs in a multiple of its own population while countries with income tax have unemployment.

Better Environment

De Silva says Sri Lanka wants to create an environment where Sri Lankans who had migrated abroad will come back with a good education.

At the moment, Sri Lankan expatriates with foreign or foreign passport-holding spouses do not want to return as part of the family income is lost.

De Silva says the administration is planning reforms to the visa system including spouse visas to remove obstacles to people returning.

"We want to be competitive with Israel, with Malaysia, with Latvia," de Silva says.

Israel had severe monetary instability amid several wars. After inflation hit 450 in 1984, Israel went through a stabilisation program, involving strong central bank reform, where among other people, famed Israeli-American economist Stanley Fischer was an advisor.

After a stint at the International Monetary Fund, as First Managing Director where he saw the problems with soft-pegs during the East Asian crisis ([Exchange Rate Regimes: Is the Bipolar View Correct?](#)), Fischer became governor of Bank of Israel in 2005, making it a First World-style agency.

The Israeli Shekel hit 4.7 in 2006 and is now at 3.5 to the US dollar.

Latvia has a currency board like system with the Euro. Latvia dumped the inflating Ruble after gaining independence from the Soviet Union. The Lat has been at 0.7 to the Euro for years.
(EconomyNext)

Sri Lanka firms eye converted residences to cut costs amid slowdown

Some Sri Lankan firms are likely to move from high-end office buildings to residential units within or outside Colombo as they get hit with a sluggish economy and political uncertainty, a property developer said.

"Some companies aren't getting high revenue with the current economic conditions," RIL Property Plc Executive Director Hiroshini Fernando said.

"Last year was very volatile. due to political conditions. This year; it's hard to predict anything in our economy."

"Companies would become conservative in their spend," she said. "Some may go for residential units which are converted to office spaces."

Some may even move into Colombo's suburbs, Fernando said.

RIL Property develops high-end 'Grade A' office space.

Fernando however said most firms are used to the prestige linked to high-end office spaces, and would try to remain in them, as they have better usable areas, security, common facilities, environment, ambiance and location.

"A client, even if they move out, would need to ensure that these integral services are present to continue their business," said.

"So there are very few available options for them to move to."

However, there are likely to be less firms willing to move up to Grade A spaces from current lower grade offices, she said.

"Though they would like to move into Grade A offices, the affordability is now less," she said.

There has been a long-standing requirement for around 500,000-1,000,000 square feet of Grade A space in Colombo, Fernando said.

Cutting rental prices for offices is not an option, she said, as Grade A service providers have to maintain service standards.

Fernando said her clients are so far happy with the services provided, as the flagship Parkland property has 100 percent occupancy.

Parkland 1, formally known as the READYWEAR building, was recently refurbished and expanded with part of the funds raised through a listing on the Colombo Stock Exchange, and is now 70 percent occupied, she said.

Sri Lanka's central bank last year printed money to artificially lower interest rates, de-stabilizing a soft-pegged exchange rate regime triggering two runs on the rupee, which ended with the

currency collapsing to 180 from 153 to the US dollar at the beginning of the year.
(EconomyNext)

Budgets defeated at Sri Lanka Megapolis, Home Affairs ministries debate

Several expenditure heads were defeated at the end of a debate on Sri Lanka Megapolis and Home Affairs ministries on Thursday with most government members absent at vote taking in a major embarrassment to the administration.

A number of expenditure heads were defeated with 38 voting against and only 24 government MPs present to vote.

"Two key ministries have been defeated. Where are the bigwigs of the government? Members eat breakfast and lunch at parliament but they are not present in parliament to vote" an elated Aluthgamage crowed after defeating the vote," a opposition member Mahindananda Aluthgamage crowed after defeating the votes, moving a motion for an adjournment debate on ongoing power cuts said.

"Power Minister Ravi Karunanayake is absent at the time of the vote. He is living within a hoo kiyana (within shouting distance) distance of parliament but he is also absent."

The government will have to bring a fresh motion tomorrow to pass the votes, political analysts said.

"You are just getting some temporary fun by defeating the votes," Mujibur Rahman, a government member said, trying to save face. "Try and beat the third reading of the budget if you can."

Sri Lanka is facing a power crisis because a planned 500 MegaWatt power plant was cancelled by President Maithripala Sirisena amid opposition from environmental and LNG lobbies and the administration delayed a contract for a stop-gap 300MW diesel plant for the past three years.

The contract was mired in controversy and corruption allegations and there was no quick resolution or re-tendering amid back and forth criticism that the cheapest bidder was not fully responsive and had questionable record in delivering efficient plants, and the second bidder was too expensive. (EconomyNext)

Pound falls on Brexit 'labyrinth'

The pound dropped on Thursday, weighed down by ongoing chaos in Brexit proceedings, while global stocks were mixed.

London's stock market rose, however, buoyed by the weaker currency.

Eurozone markets, having enjoyed modest gains earlier in the session, slipped towards the close, while Wall Street pushed higher as Treasury bond yields stabilized.

British Prime Minister Theresa May will renew attempts to push through her Brexit plan on Friday, after she dramatically offered to quit to save her deal and MPs failed in their own bid to break the deadlock.

"The pound has remained under pressure today," said XTB analyst David Cheetham.

"The decline has been fairly steady and not too dramatic in its nature, but the move could well gather momentum in the next few days if the current political impasse shows no sign of abating with no-deal prospects seemingly being resurrected," Cheetham said.

Sterling's fall against the dollar exceeded one percent, and the currency lost ground against the euro.

- 'No clear way out' -

Connor Campbell, analyst at Spreadex, said there was "no clear way out of the Brexit labyrinth in sight".

Meanwhile top Chinese and US negotiators held their latest round of trade talks in Beijing, with hopes the two economic superpowers can find a deal to end their long-running tariffs row, though it may take time.

White House economic adviser Larry Kudlow said the negotiations are not "time dependent" and could be extended.

The talks are "policy and enforcement dependent" so "if it takes a few more weeks or if it takes months, so be it," Kudlow said in a speech in Washington.

The broad-based S&P 500 advanced 0.4 percent after the yield on the 10-year US Treasury bond rose. Declines in yields in recent sessions raised concerns about slowing economic growth.

"The market was fearful that the Treasury yields were falling because of recession fears," said Karl Haeling of LBBW.

"The end of the treasury rally took away some of the panic fear."

Earlier Thursday, Asian stock markets were gripped by volatility as investors grow increasingly worried about the state of the global economy, sending them rushing to haven assets and fueling talk of possible recession.

Tokyo's main stocks index sank 1.6 percent, with exporters hit by a jump in the haven yen currency, while Shanghai shed almost one percent.

- Key figures around 2100 GMT -

New York - Dow: UP 0.4 percent at 25,717.46 (close)

New York - S&P 500 UP 0.4 percent at 2,815.44 (close)

New York - Nasdaq: UP 0.3 percent at 7,669.17 (close)

London - FTSE 100: UP 0.6 percent at 7,234.33 (close)

Frankfurt - DAX 30: UP 0.1 percent at 11,428.16 (close)

Paris - CAC 40: DOWN 0.1 percent at 5,296.54 (close)

EURO STOXX 50: DOWN 0.1 percent at 3,320.29 (close)

Tokyo - Nikkei 225: DOWN 1.6 percent at 21,033.76 (close)

Hong Kong - Hang Seng: UP 0.2 percent at 28,775.21 (close)

Shanghai - Composite: DOWN 0.9 percent at 2,994.94 (close)

Pound/dollar: DOWN at \$1.3054 from \$1.3189 at 2100 GMT

Euro/pound: UP at 86.03 pence from 85.26 pence

Euro/dollar: DOWN at \$1.1226 from \$1.1244

Dollar/yen: DOWN at 110.62 yen from 110.51 yen

Oil - Brent Crude: DOWN 1 cents at \$67.82 per barrel

Oil - West Texas Intermediate: DOWN 11 cents at \$59.30 per barrel. (AFP)