NEWS ROUND UP

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IMF keeps Sri Lanka's growth unchanged at 3.5% despite attacks

The International Monetary Fund (IMF) yesterday said it was keeping Sri Lanka's growth projection of 3.5% unchanged despite the Easter Sunday attacks, and did not see any fresh risks for debt repayments, but called on the Government to continue reforms to ensure growth picks up in the medium term.

IMF Mission Chief for

Sri Lanka Manuela Goretti

IMF Mission Chief for Sri Lanka Manuela Goretti told reporters that the extension of the $1.5 billion Extended Fund Facility (EFF) to June 2020 would give the chance for authorities to achieve the targets laid out in the program. IMF officials also believe Sri Lanka's economy will normalise parallel to the security situation.

"We hope that the extension will provide support to authorities to anchor their policies and complete the economic reform agenda as they take steps to stabilise the security situation in the country. In the aftermath of the attacks financial pressure has been contained and we expect the economy will stabilise parallel to the security situation. Security and policy measures by the authorities will allow the tourism sector to build on performance of the past years given Sri Lanka's strong potential as a tourist destination and avoid any lasting impact on the economy," Goretti said.

The Mission Chief said it was too early to see what impact the Easter Sunday attacks would have on the economy, especially the tourism industry, which is Sri Lanka's third highest foreign exchange earner. Goretti called for well-targeted temporary tax relief for the tourism sector that is consistent with the broad fiscal objectives of the Government.

"We think that it's too early at this stage to assess what would be the macroeconomic impact of the recent shocks on the economy, specifically on the tourism sector. It is likely that tourism will be affected this year and in the near term, but we don't have clear information to assess what could be the impact and the duration of the shock, so it would be speculative to revise our growth projection at this point. We decided to keep our baseline scenario unchanged, so growth projection for 2019 remains at 3.5%, with a gradual improvement expected in the medium term up to 5%. But we will continue to monitor developments and update once we have additional information."

The IMF projects growth to reach 5% in the medium term, supported by the Government's reform efforts. It praised the Government for having shown resolve in bringing economic reforms under the program on track this year, after it was suspended during the constitutional crisis. The IMF pointed out sustained revenue mobilisation will be needed going forward to place public debt on a downward path, supported by stronger fiscal rules and the recently launched medium debt strategy. Reforms of State Owned Enterprises (SOEs) would also help mitigate fiscal risks, Goretti said.

"Reforming of SOEs remain important, as they pose sizeable risks to the fiscal finances, and authorities last year implemented the very important fuel pricing formula, which helped reduce subsidies that disproportionately assisted the rich portion of the population. We have better targeting of social safety nets under Budget 2019. We expect authorities will continue on this reform effort, and will introduce a similar mechanism for electricity this year. Continuation of liberalisation measures and removal of para tariffs would also be beneficial."

The IMF also remained positive of Sri Lanka's debt repayment capacity, as immediately after the attacks market pressure in the country has remained contained. Officials noted there has only been a small increase in international sovereign bonds of about 40 basis points, the domestic bond market has remained stable, and the rupee had a slight depreciation but has stabilised and appreciated slightly this week.

"So we don't see any major risk to the authorities financing plans at this stage. Two large bond repayments have already been successfully financed, and the next large international bond repayment is only due in October 2020. Sri Lanka remains open to international capital markets, and we are confident that as soon as the security situation improves, authorities will be back to tap markets. We don't see any major risk at this point, given the profile of maturities and profiles of market conditions."

The IMF also praised the Central Bank for managing monetary policy prudently in the face of domestic and external shocks, and recommended it should continue pursuing a data dependent policy moving forward. The Central Bank should also continue to increase reserves as soon as market conditions normalise, the IMF said.

"Under the IMF program, Sri Lanka is making important progress in reforming its economy, including by reforming its tax system, strengthening social safety nets and transitioning to inflation targeting. At this juncture, a joint effort by all stakeholders to sustain the reform momentum and maintain a prudent policy mix will assist to mitigate the impact of the recent attacks, but it is critical to strengthen the country's reliance to shocks, support market confidence, and ensure strong and inclusive growth going forward," Goretti said. (Daily FT)

Banks, tourism industries reach consensus

The tourism and banking industries yesterday reached consensus over the much-needed relief package at a meeting chaired by the Finance Ministry.

The banks agreed that they will do away with "case by case" basis approach in deciding the one-year moratorium on capital and interest repayment on all performing facilities, but opt for "eligible" and "approved/registered" travel and tourism businesses. Those with trade licences can avail of the offer via a provisional registration with the Sri Lanka Tourism Development Authority, as well as those who supply products and services to registered companies.

The authorities are scheduled to release the list of eligible and approved sectors that can avail themselves of the relief package as a means to survive, following the setback caused by the Easter Sunday terror attacks on three churches and an equal number of five star hotels, which killed nearly 260 people including 45 tourists and injured over 500.

The decision at yesterday's meeting is a big breakthrough for the travel and tourism industry, who protested against an earlier Central Bank directive to banks, which gave discretion to financial institutions to consider relief on a "case by case" basis, whereas the industry wanted across the board blanket support.

Another breakthrough was extending the support via finance companies with whom hotel and travel firms have existing leasing commitments as well.

It was also agreed that banks will extend the moratorium to loans of travel and tourism industry employees.

The Central Bank will issue a fresh directive to banks, either tomorrow or by Tuesday next week, to operationalise the relief.

The banking sector to travel and tourism is estimated to be nearly Rs. 300 billion. Since the Easter Sunday attacks, tourist arrivals have declined by nearly 70%, with hotel occupancy plunging to 10% from 75% previously.

Banks will also offer two year concessionary (interest rate of 3.4%) working capital to all eligible companies.

Ministers Eran Wickramaratne and Dr. Harsha de Silva, Central Bank Governor Dr. Indrajit Coomaraswamy and his officials, industry leaders Sanath Ukwatte, Sanjiv Gardiner, Ashok Pathirage, and M. Shanthikumar, and Tourism Task Force member Dinesh Weerakkody, were among those who were present at the meeting. (Daily FT)

Kishu tasked with overall tourism recovery effort: John

Minister of Tourism Development, Wildlife and Christian Religious Affairs John Amaratunga said yesterday that the reason behind the recent changes at Sri Lanka Tourism is for Kishu Gomes to be able to devote his full time to re-build the battered tourism brand and head the recovery effort following the terrorist attacks on 21 April that has led to a massive decline in tourist arrivals.

"Therefore, Gomes who was heading both SLTDA and SLTPB, will now focus on SLTPB to lead Sri Lanka out of the current crisis," Minister Amaratunga said, responding to a query by the Daily FT. Johanne Jayaratne assumed duties as SLTDA Chairman earlier this week. (Daily FT)

Galadari Hotel starts $ 15 m refurbishment

Looking at opportunities through the crisis period, Galadari Hotel is investing a total of $ 15 million to refurbish its property completely by 2021.

It is the first time the hotel is undergoing a refurbishment since its opening in 1986.

"We are making maximum use of this low occupancy period to go ahead with our refurbishment which was already on our cards. The refurbishment will be done in two phases where we hope to complete the entire project by 2021," Galadari Hotel General Manager Sampath Siriwardena told the Daily FT.

According to him, the hotel has already started refurbishing its 427 rooms, which is slated to be completed by January 2020.

The second phase of the refurbishment includes the lobby, reception, shops and the restaurants, which the management believes will commence by February 2020 and be completed by the latter part of March or early April 2021.

Siriwardena said the total investment, which is around $ 15 million, is funded fully by Galadari Brothers,

Dubai, and that they have no intentions of going to any bank facility or using the Government announced financial relief package in this regard.

With the refurbishment project of the hotel, they hope to have an all-day dining, one bar and three restaurants with different concepts.

The Easter Sunday terror attacks on 21 April severely affected the tourism industry, and hoteliers are now facing a major blow with hardly any tourists visiting the country.

“As there are hardly any guests at the hotel, the noise factor is not there, and we can complete our refurbishments much faster than we anticipated,” he added.

The General Manager said his team was able to convince its investor Galadari Brothers, Dubai that as a resilient nation, chances are that Sri Lanka will bounce back with greater vigour in the next few months.

“At the last Board meeting, we thought it was a good time to go ahead with our pre-planned refurbishment project during this low occupancy time. We are hopeful that the country will be ready in about 18 months’ time, and by that time, we will come up with a brand new property for all our guests,” Siriwardena stressed.

He said the revamped design of the property was done by Architect Philip Weeraratne.

Based in the UAE for over 50 years, Galadari Brothers has become an expert in global business, having successfully introduced over 30 global brands into the region. They invested in Sri Lanka in the Galadari Hotel Colombo in 1984 and commenced operations in 1986. (Daily FT)

EU condemns communal violence, urges action

The Delegation of the European Union yesterday condemned recent communal violence in Sri Lanka and called for urgent action to ensure rule of law.

Following is the statement issued by the Delegation of the European Union (EU) in agreement with the Embassies of France, Germany, Italy, Netherlands, Romania and the UK High Commission, as well as the Embassies of Norway and Switzerland:

We are concerned about the recent incidents of communal violence that have occurred following the Easter Sunday terrorist attacks.

We welcome the arrests made in connection with the violence, and call on the Government to ensure that the rule of law is upheld and that the law is applied equally to all instigators and perpetrators of communal violence.

Many European countries have experienced terror attacks and hate crimes in recent years. We understand the toll it takes on communities and the possible long-term repercussions such incidents could have on a country’s social fabric.

Clear leadership as well as the wholesale rejection of hate and violence are of paramount importance, and we encourage the Government to take all appropriate measures to reassure all citizens that it will protect and uphold their safety and their rights.

We call on political, religious and other community leaders to continue to speak out against violence and all those inciting unrest and distrust and to make every effort to promote understanding and harmony between communities.

We also note the responsibility of the media and the country’s citizens in ensuring that misinformation does not spread and lead to more incidents of violence. (Daily FT)

Teejay ends positive 2018-19 with 6th straight quarter of profit growth

Sri Lanka's multinational textile manufacturer Teejay Lanka PLC has ended FY 2018-19 on an impressive note, with consistent sales and profit gains of the preceding months bolstered by robust growth in the final quarter, the Group's sixth consecutive quarter of profit growth.

Teejay Chairman Bill Lam

CEO Shrihan Perera

Economy of scale benefits generated by record production volumes from its expanded manufacturing facilities in India and cost-control and process improvement initiatives combined to enable the Weft knit fabric specialist to post profit before tax of Rs. 2.17 billion for the 12 months ending 31 March 2019, an improvement of 19.5% on revenue of Rs. 31.7 billion, which was up 29%.

Group profit after tax grew by 17% to Rs. 1.86 billion consequent to income tax for the year increasing by 40%, Teejay Lanka said in a filing with the Colombo Stock Exchange (CSE).

Revenue in the fourth quarter of 2018-19 at Rs. 8.82 billion reflected an improvement of 35% over the corresponding quarter of the previous year, while net profit for the quarter grew by 19% to Rs. 605.7 million, the Company said.

Teejay Lanka Chairman Bill Lam described the year as 'a very successful' one for Teejay, in which the Group overcame challenging global market conditions through capacity expansion and internal measures.

"Prices of our main raw material, cotton yarn, increased in the beginning of the year and stabilised during Q4. Dyes and chemical costs increased significantly due to the challenges faced by the suppliers. We also saw utility prices increase during the year which was directly attributable to the global movement of fuel prices. Through process improvements and price revisions on finished goods, we were able to mitigate part of the cost escalation," he said.

Lam disclosed that the Teejay Group continued its strong balance sheet from the previous year with a net cash balance of Rs. 4.9 billion. "Commitment and discipline are especially evident as the Group is debt-free despite the on-going expansion projects," he said.

"The Group has been able to introduce two key global customers to its portfolio in the financial year and is on track to create strategic business partnerships for the future," he added. "We have also been able to build further on strong existing customer relationships by providing viable solutions for continuous growth."

Looking ahead, Lam said: "Amidst challenging global market conditions, Teejay Group will continue to focus on its journey towards achieving excellence through process alignment and wastage reduction. We remain optimistic that rationalisation of the cost base and continuous focus on operational excellence, product innovation and development, will help deliver sustainable profits."

With manufacturing operations in Sri Lanka and India, Teejay is one of the region's largest textile manufacturers, and supplies fabric to some of the best international brands across the world. Teejay Lanka PLC is a public quoted company with 39% public ownership. The company is backed by Sri Lanka's largest apparel exporter, Brandix Lanka which has a 33% stake and Pacific Textiles of Hong Kong which owns 28% of the company.

An ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 compliant company and the first in the industry to develop green fabric, Teejay has been listed on the Colombo Stock Exchange (CSE) since 2011 and was included in the S&P Top 20 Index in Sri Lanka. The Company has also been named among the Forbes '200 Best under a Billion in Asia' and been recognised as the 'International Textile Firm of the Year' and the 'International Dyer and Finisher' by World Textile Institute, London. (Daily FT)

Manufacturing drops to all-time low in April

Manufacturing activities contracted, recording the all-time low index value of 41.0 in April 2019 with a decline of 25.9 index points from March 2019, the Central Bank said yesterday.

The decline of manufacturing PMI is mainly driven by the significant drop in New Orders and Production, especially in manufacturing of food, beverages and tobacco and manufacturing of textiles, wearing apparels, leather and related activities products.

This decline was mainly due to the New Year holidays in April and the security concerns that arose following the Easter Sunday attacks, which affected the smooth functioning of factory operations. Most respondents, especially in the textile and apparel sector, highlighted that they had to restrict working hours in factories due to security concerns, and were unable to achieve the desired production levels.

Employment also dropped significantly, as a higher number of employees were absent after the New Year holidays. The Stock of Purchases decreased due to the decline in new orders at the end of the New Year season, and brought forward stocks of raw material from previous month.

Suppliers' Delivery Time lengthened at a higher rate due to increased security measures after the Easter Sunday attack.

All sub-indices excluding Suppliers' Delivery Time of PMI Manufacturing recorded values below the neutral 50.0 threshold, signalling an overall contraction in manufacturing activities in April 2019 compared to March 2019.

Services sector deteriorated in April 2019 compared to March 2019, underpinned by decline in all five sub-indices, namely, New Businesses, Business Activity, Employment, Backlogs of Work and Expectations for Activity. This is the first time that Services PMI recorded a value below the neutral 50.0 threshold, signalling overall deterioration in Services sector, since May 2015, when conducting of the survey began.

The deterioration in New Businesses, Business Activity, and Expectations for Activity was mainly due to Easter Sunday attack and prevailing uncertainty in the country. This was observed across a majority of the sub-sectors in the Services sector, particularly in accommodation, food & beverage, and other personal services sub-sectors, which largely depend on the tourist arrivals and wholesale and retail trade, and transportation sub sectors, which largely depend on the day-to-day activities of the people.

Respondents cited that limitation of business hours due to imposition of island-wide curfews and low productivity of the staff due to fear as reasons for deterioration in Business Activity. However, they expect this situation to be normalised by June 2019.

Prices Charged in the Services sector increased at a slower rate in April 2019 due to price increases related to the New Year festival. Also the expected Labour Cost in the Services sector increased at a slower rate due to realisation of expected salary increments in April 2019. (Daily FT)