NEWS

GSP+ likely to be granted - diplomats

THE European Union is likely to let Sri Lanka keep the trade concession crucial to its apparel industry, while recommending it be revoked if the country does not improve its human rights record, Reuters reported diplomats as saying.

The European Commission is due to decide whether to recommend the Indian Ocean island nation retain the Generalised System of Preferences Plus (GSP Plus) trade concession by mid-October, which would then be voted upon by the EU Council.

"It is likely to be extended with a negative recommendation," a diplomat briefed on the EU's internal discussions told Reuters on condition of anonymity. "There would then be some targets for Sri Lanka to meet."

Meanwhile, the Chairman of MAS Holdings, warned of "very challenging times" ahead, with the prospect of GSP+ concessions being withdrawn by the European Union. "This duty-free facility is extremely vital to Sri Lanka as the country benefits significantly from these concessions to remain competitive in markets in the EU" said Mahesh Amalean of MAS holdings, South Asia's largest manufacturer of intimate apparel.

If the program is not renewed, Sri Lanka's garment industry, which sells around $3.47 billion to the EU alone, would be severely hit, he said.

Meanwhile, the team of four ministers appointed by President Rajapakse concluded that they had met all conditions laid down by the EU for the concessions to continue. "I see no reason for the EU to prevent the GSP+ facility being extended to Sri Lanka for a further period," commented Deputy Finance Minister Sarath Amunugama, who is part of the team.

The EU threatened to withdraw the GSP+ concessions after a year-long probe because of Sri Lanka's poor human rights record, and the country's refusal to cooperate with the EU investigators. The government refused to cooperate with the probe or let the EU-contracted investigators enter the country, and said doing so was tantamount to betraying its sovereignty.

Sri Lanka could no longer compete with countries such as Cambodia and Bangladesh, which also suffers concessions under a separate program, Amaleen said. Companies who regularly export goods into the EU, such as Marks & Spencer's, Next & Tesco could relocate their factories into these countries, if the GSP+ facility is withdrawn, he said.

"The cost of manufacturing in these countries is also far less than in Sri Lanka," he noted.

"If the GSP Plus is withdrawn, they will have a competitive edge in the EU marketplace."

"All these factors put together will pose a very big challenge to Sri Lanka," the MAS Holdings boss underlined. "We need to take cognizance of this."

This was echoed by the head of the Sri Lanka Apparel Exporters Association, Kumar Mirchandani. "Price pressure is so high ... people move away over a difference of 10 cents," he said. "We can't take 10 per cent off our prices - we don't have those margins."

The Sri Lankan Government has promised to pump $150 million into the apparel industry, in order to try and increase exports to countries such as India and China. The European Union however, makes up 52% of all Sri Lanka's garment exports, and 36% of all goods exports, making it an extremely hard market to replace.

"GSP Plus is crucial... withdrawing it would mean a lot of hardship," said Mr Mirchandani.

The situation has become so critical, that even UNP Deputy Leader Karu Jayasuriya pleaded with the both the Sri Lankan Government and EU to allow the concessions to continue.

"As a responsible opposition, the UNP does not wish to see all our people suffer the consequences of the sins of a few. It is in this spirit that we have appealed to the EU recently to reconsider before withdrawing the trade concessions to Sri Lanka since more than a million of our poorest people will be affected by such an action while the perpetrators of violence who are responsible for our predicament will be largely untouched," he said.

He slammed the current government and said they "must realize how serious the consequences of its actions are going to be for the people of this country. Today more than a million, direct and indirect jobs are in jeopardy."

"The people of Sri Lanka need to understand that this government has long since perfected the art of propaganda and spin doctoring... What the democratic world is asking of us is the restoration of democratic rights in Sri Lanka."

Sri Lanka's admission into the GSP Plus program has been under review since October 2008, after increasing pressure on the EU to investigate human rights abuses.

The EU is set to vote on the termination of the GSP+ tariff on October 15th.

IMF issues warning to Sri Lanka

THE International Monetary Fund has issued a statement warning Sri Lanka from building up its foreign currency reserves by borrowing from overseas investors.

Sri Lanka's foreign currency reserves reached a high of $4 billion, as estimated by Central Bank, enough to cover four months of imports and the highest in the island's history.

This is in stark contrast to earlier in the year, at the height of the civil war, when foreign currency reserves fell to $1.7 billion, enough to cover just one month's worth of imports.

Foreign investors also withdrew over $600 million in government bills and bonds, as the climax of the war coincided with the global economic crisis. The reserves were built up by the sale of government debt to foreigners.

"Total net foreign inflows to the government Treasury bills and bonds since mid May 2009 to 11 September 2009 amounted to US$ 1.2 billion," said Central Bank governor Nivard Cabraal.

However, this has aggravated the International Monetary Fund, which is providing a $2.6 billion loan to Sri Lanka.

"We don't want Sri Lanka to borrow its way to build reserves," said head of the IMF mission to Sri Lanka, Brian Aitken. "The central bank has been building a war chest of reserves lately through debt. We would prefer if Sri Lanka built up reserves from exports and from remittances and not by borrowings."

Mr Aitken was in Colombo on a two week review of the island's economy, as the loan is to be paid in instalments, subject to quarterly reviews.

A graphic in the Daily Mirror newspaper explaining the IMF loan

After the first instalment of $322.2 million was paid in July, the second is awaiting approval from the IMF executive board.

IMF offices have also reopened in Colombo, in order to keep a close eye on its lending programme. The organisation left the country in 2007, when it decided that it would no longer lend to the island.

Meanwhile, Iran has agreed to extend an interest free credit facility to Sri Lanka for one more year, to purchase Iranian crude oil. In November 2007, after President Rajapakse's visit to Iran, this facility was first introduced, which allowed Sri Lanka to import more than $1.05 billion worth of crude oil in 2008.

"There was no denying that the country was hard pressed for foreign currency to fund the purchase of essential military hardware," an official said.

"Last year, crude oil imports exceeded US$1 billion in total value with Sri Lanka not having to pay hard cash to open Letters of Credit, while Iran provided 4 months interest free credit and a further three months at a concessionary rate of interest," he said.

Iran also agreed to supply $1.03 billion in order to fund the refurbishment and expansion of the Ceylon Petroleum Corporation owned oil refinery at Sapugaskanda.

Investors cautious

TamilNet

THE International Monetary Fund said it raised Sri Lanka's growth target and is "cautiously positive" on prospects as it reviews the island's economy for the release of a second payment in its $2.6 billion aid package.

But while investors are interested, they have not yet committed, the figures show.

The Washington-based lender expects growth of 3.5 percent in 2009, up from a July estimate of 3 percent, as the $41 billion economy is showing signs of "bottoming out," Brian Aitken, the IMF's Mission Chief for Sri Lanka, said in the capital Colombo on September 22.

"We will assess developments in the next two weeks also and if all goes well will take a decision on seeking approval for the release of the second tranche," Bloomberg report Aitken as saying.

The IMF provided Sri Lanka with $322 million when approving the 20-month package. Aitken said the second payment would likely be worth about $320 million.

In return for the IMF loan, Sri Lanka agreed to reduce its budget deficit to 5 percent of gross domestic product by 2011, from 7 percent this year, and maintain flexibility in the exchange rate in order to build foreign reserves to cover 3 1/2 months of imports and bolster the economy.

Aitken said Sri Lanka's deficit target for this year was "ambitious" and would require constraints on expenditure while raising revenue with growth.

However, while investor interest in Sri Lanka has grown since May, actual investment has not.

Last year, Sri Lanka got $889 million in foreign direct investment, according to official figures. So far this year, the country has only gotten $400 million - well off pace of the government target of $2 billion by the end of 2010.

The pillars of Sri Lanka's $40 billion economy - garments, remittances from the Middle East, and tourism - have all been hit by the global downturn. Real estate has also faltered.

Sri Lanka's Minister of Investment Promotion, Navin Dissanayake, says Hyatt halted construction on a luxury hotel

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