War condemned but private sector hopes it will be quick

Central Bank says foreign reserves enough for 5 months imports; exports, tourism, tea and industrial sectors mixed

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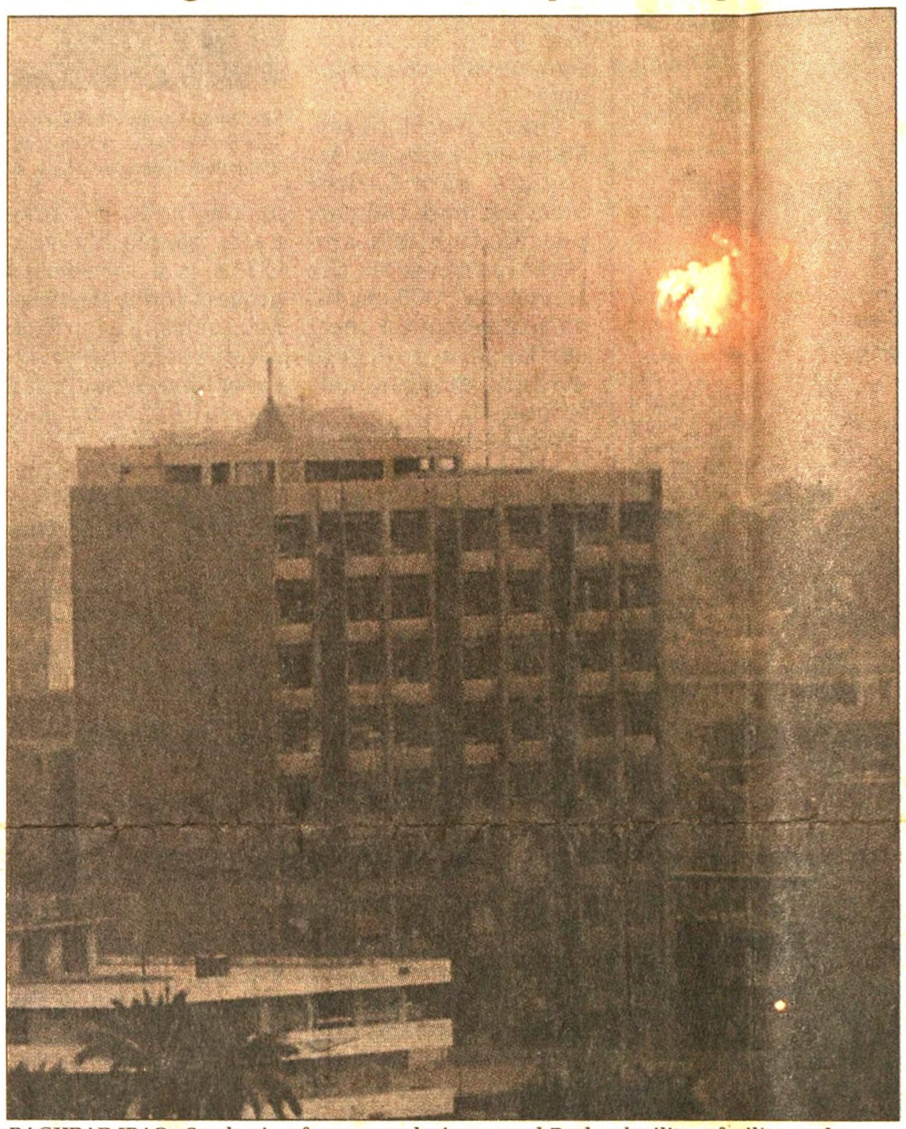
Several sections of the private sector yesterday condemned US and British strikes on Iraq but expressed hope it will be short if not the Sri Lankan economy and key sectors such as foreign employment and remittances, tourism, tea exports could have major immediate repercussions.

Though the war is only one day old (hence reactions are sketchy) expectations are of a quick war but a prolonged one coupled with possible terror attacks in US or Europe would create chaos worldwide creating impact right across the Sri Lankan economy. However some experts were of the view that in the midst of war and crisis there would be opportunities for Sri Lanka as well such as tourists and apparel buyers avoiding the Middle East. This would require proper strategies put into immediate action.

Central Bank Governor A.S. Jayawardena last night told the Daily Mirror FT that US would be under severe global pressure to make the war short and a quick end would not pose major problems. "Whilst we hope it (war) will end soon at present there's no reason to get alarmed. Currently Sri Lanka has enough foreign reserves to meet five months of imports," Mr. Jayawardena said. He also said that food supply is also good while oil prices have come down considerably compared with the period of pre-war tensions.

The Governor also does not expect a major destabilization of Lankan exports to major markets such as US and Europe though demand and slow recovery in the global economy are issues of concern. However the Central Bank officials are closely monitoring the developments. Considering the locality of the war and its impact on Sri Lankan workers in the Middle East Central Bank yesterday had an emergency meeting with commercial banks where certain decisions were made with regard to dealing with currency notes of Lankan workers returning from the Middle East. This is following Singapore not agreeing to convert certain Gulf currencies unless it is on collection basis. Central Bank has issued specific instructions to commercial banks so as to help returning migrant workers as much as possible especially with the Sinhala-Tamil New Year around the corner. A detailed notice and a press release of the new directions are to be issued by the Central Bank today. Sri Lanka receives over US$ 1 billion in remittances.



BAGHDAD IRAQ : Smoke rises from an explosion over al-Rasheed military facility on the south east of Baghdad 20 March 2003 as the US launched a war on Iraq early Thursday with air strikes on the capital, making good on threats of military action to push President Saddam Hussein out of power. AFP

The tourism sector also met at emergency sessions yesterday at the Tourism Ministry to assess the war situation and what needs to be done to reduce the impact. The tourism industry was on course to a healthy recovery in the current winter season and forecast was a good flow of tourists in the summer season as well.

Tourism Ministry Secretary P. Ramanujam told the Daily Mirror FT that the industry met to discuss contingency plans and safer routes for airlines to operate. SriLankan has already changed its route to avoid the war zone. The flow of tourists was also discussed and industry representatives including tour operators, travel agents and hoteliers had confirmed that there has been no immediate cancellation of bookings. Airlines operating out of Sri Lanka have slapped a US$ 10 fuel surcharge on single way ticket and $ 20 on a return fare.

Sri Lanka's biggest tea exporter Akbar Brothers also confirmed to the Daily Mirror FT that there have been no cancellations yet on the part of major tea buyers to the Middle East. "As of today there is no need to panic while expectations are that the war would be short," a spokesman added. It is estimated that around 3 million kilos of tea are shipped to the Middle East weekly. So far shipping lines haven't imposed a war risk surcharge to shipments to Middle East. Exporters feel it is not warranted but admit that if imposed it would be a burden.

At this week's Low Grown tea auction there was brisk buying by buyers operating for orders in hand. Asia Siyaka said that even though prices were relatively low sellers met buiyers bids and a fair weight was sold. There was speculation that overseas buyers had asked for current orders to be put on hold following the announcement by the US for its deadline for Iraq. "Buyers for the Middle East were quiet and many lots remained unsold. This trend continued on Wednesday with some buyers operating even for Western markets opting to 'wait and see'. The uncertainty is likely to continue," Asia said in its market report on this week's auctions which however may have not anticipated US to strike on Thursday. However Asia said that there were selective buying from the CIS and a few Middle Eastern destinations by buyers willing to hold for future shipments. Those operating were picking good value at reduced rates but many teas remained unsold for want of a sufficient bid.

The initial attacks involved about three dozen Tomahawk cruise missiles launched from Navy ships in the Persian Gulf and the Red Sea, as well as bombs dropped from a handful of F-117A Nighthawk stealth jets, military officials said.

"The quantity of unsold teas as a result is likely to be higher than the past few weeks and we estimate that around 25 to 30% of all teas offered at the auction will remain without a home. The market declining and high percentage of out lots is likely to have an adverse impact on the cash flow situation for producers particularly in the Low country where the need for liquidity is greater during this period of the year when smallhodlers take advances to celebrate the Sinhala-Tamil New Year," Asia Siyaka added. Plantation Minister Lakshman Kiriella said last month that the Government has agreed to offer warehouse space as well as financial assistance to the tea sector in the event war breaks out.

Financial services sector were of the view that interest rates are unlikely to go up since there was enough liquidity in the market while credit demand from private sector was lackluster.

Hayleys Chairman Sunil Mendis said that a prolonged war leading to war risk surcharges (higher freight cost) and higher oil prices would have an impact on the economy including key sectors such as exports and imports. He was of the view that whilst the war was out of control for smaller nations such as Sri Lanka it is important to diversify exports markets as well as increase value addition in addition to boost local agriculture. Apparel exporter Lyn Fernando said that a shorter war is anticipated and noted that there is no immediate threat for apparel exports, which has declined over the past two years while depressed market conditions in the US was an issue as well. However he was of the view that a prolonged war might lead buyers to get out of the Middle East and look for alternative sources and Sri Lanka should have the right strategies to cash-in if that happens.

Federation Chamber of Commerce and Industry President Nihal Abeysekera said that impact of a prolonged war would be very serious. His immediate concern is the over 1 million Sri Lankans working in the Middle East and the impact if they are to be evacuated, its cost and the loss of hard earned foreign exchange to the country. "The country must get together as a united nation and minimize the impact of a prolonged war. Conservation policy on commodities such as fuel and gas is essential," Mr. Abeysekera added.

Ceylon National Chamber of Industries President Ranjith Hettiarchchi the war would impact Sri Lanka on account of the

Contd on page 2