ADVISORY

JOINT APPAREL ASSOCIATION FORUM
SRI LANKA APPAREL

SRI LANKA UPDATE | 25th November – 2nd December 2022

Politics & Policy:

70% electricity tariff hike proposed by the government. The Cabinet has approved a 70% electricity tariff hike in two stages from January and June next year. However, the Public Utilities Commission of Sri Lanka (PUCSL), the island's electricity regulator denied these claims stating the move is illegal as this tariff hike is devoid of their consent or approval. The Ceylon Electricity Board's (CEB) Additional General Manager maintains that relevant measures will be taken to obtain approval from PUCSL. The state-run CEB is operating at high costs due to high prices of fuel and routinely depends on debt-strapped Ceylon Petroleum Corporation (CPC) and Lanka Coal for fuel.

In August, JAAF requested PUCSL to reassess the exponentially high off-peak and daytime industry electricity tariff rates to enable companies to plan and budget better.

Sri Lanka to purchase discounted oil. Sri Lanka has had talks with Moscow to purchase crude oil at discounted rates. The Foreign Minister expressed interest in working with Russia without violating international norms or laws while acknowledging that Sri Lanka has been disproportionately affected by the Russian-Ukraine conflict. However, the Power and Energy Minister, in September stated that under current procurement rules, Sri Lanka cannot import oil directly from Russia.

The Economy:

CCPI-based inflation slows to 61% in November. As reported by the Department of Census and Statistics, Sri Lanka's headline inflation based on the Colombo Consumer Price Index (CCPI) has decreased to 61%. Food inflation has dropped to 73.7% compared to 85.6% in October. The decline mirrors expectations that consumer prices will ease in the coming months after inflation peaked near 70%.
Bloomberg reports that Sri Lanka's inflation will cool down to about 4% to 5% by the end of 2023. The CBSL has raised borrowing costs by 950 basis points this year, taking the key rate to 15.5% to tame prices and rein in demand. The exchange rate is anchored around LKR 360-370 to the US Dollar.

Government revenue is up by 37%. The Government nets LKR 1 trillion in revenue in the first seven months of this year, reflecting a robust 37% growth from a year earlier. As per Central Bank data, from January to July 2022, Government revenue amounted to LKR 1,093 billion compared to LKR 799.8 billion in the corresponding period of last year. The hike in tax revenue is owed to increased Value Added Tax (VAT), surcharge tax, telecommunication levy and imposition of Social

Security Contribution Levy. However, the budget deficit remains unchanged, with the overall budget deficit in the first seven months amounting to Rs. 1 trillion same as a year ago.

JOINT APPAREL ASSOCIATION FORUM
SRI LANKA APPAREL

Fitch Ratings downgrades Sri Lanka as the country continues to service its local currency debt. Fitch Ratings has downgraded Sri Lanka's Long-Term Local-Currency Issuer Default Rating (IDR) to 'CC', from 'CCC', and has affirmed the Long-Term Foreign-Currency IDR at 'RD' (Restricted Default). Sri Lanka continues to service its local-currency debt, but the downgrade of the Long-Term Local-Currency IDR reflects that a local-currency debt default is probable, in view of an untenably high domestic interest payment/revenue ratio, high-interest costs, tight domestic financing conditions and rising local-currency debt/GDP in the context of high domestic fiscal financing requirements, which authorities forecast at about 8% of GDP in 2022.

The **export sector sustains resilient performance with merchandise exports recording over USD 1 billion for the fifth consecutive month**. As per provisional data released by the Export Development Board (EDB), merchandise exports in October were over USD 1.09 billion, a negative growth of 8.18% compared to a year earlier. October merchandise exports grew by over 8.2% from a year earlier, mainly due to apparel and textiles, tea, rubber-based products, coconut-based products, spices and essential oils and fisheries. Export income from apparel & textiles decreased by 13.19 per cent YoY to USD 441.89 million in October while earnings from tea, which made up 11 per cent of merchandise exports, slightly decreased by 0.76 per cent YoY to USD 108.7 million. The government is heavily dependent on exports to generate a fixed inflow of much-needed foreign exchange amidst the ongoing economic meltdown.

Sri Lanka expecting to unlock IMF deal in 2023. Securing the USD 2.9 billion IMF rescue package may prolong to January 2023 as opposed to the previously speculated timeline of reaching the four-year span rescue package by December 2022. As stated by the Central Bank Governor there is satisfactory progress on the debt restructuring front with IMF board meetings taking place at least three times a week. The majority of Sri Lanka’s bilateral credit is held by the two non-Paris Club countries China and India and the Central Bank is confident of positive negotiations with bilateral lenders. First Capital Research shows that they expect a complete normalization of the economy with the country being able to secure financing from the IMF and other multilateral creditors.

WHAT YOU NEED TO KNOW

As the world's supply chain woes thicken, new industry data reveals that **clothing firms are holding 57% more stock compared to pre-pandemic levels**. Unleashed's Manufacturers Health Check Report used data from its inventory management software to track how SMEs in the UK have fared in 2022. Their analysis revealed that companies are forced to withhold large quantities of stock as they navigate delays, shortages and record inflation. Clothing and fashion manufacturers are experiencing the seventh biggest increase in stock-on-hand levels of any sector. 2022 Q3 stock levels when compared to the same period in 2019 is up from 57%. CEO of Unleash highlighted that what started as a supply chain crisis has now evolved into an inventory crisis at individual business level.

This thirtieth Advisory, written for our partners interested in developments in Sri Lanka against the backdrop of the current crisis, is an update on the one issued last week. This document summarises developments covering significant political and economic events.
The Advisory includes economic, political, social and governance perspectives. It draws on news reports, analyses, government announcements and documents, and other sources that we may be in contact with or have access to.

This Advisory was prepared by the Strategic Communications Unit of Adfactors PR Lanka.
For inquiries, contact ganidhu.w@adfactorspr.com