

**ANALYSIS-Sri Lanka's economy does not take tsunami lying down.**By **Chaitanya Kalbag**

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COLOMBO, Jan 7 (Reuters) - More than 30,000 Sri Lankans lost their lives when the tsunami hit their island the day after Christmas, but perversely the economy looks like it will gain from the destruction, analysts said on Friday.

The Sri Lankan rupee has been the best-performing currency so far in 2005, said Joseph Tan, economist at Standard Chartered Bank in Singapore. The rupee has risen over 5 percent against the U.S. dollar and was trading on Friday at 99.30 per greenback, up from 104.30 just before the tsunami hit.

"The impact on the economy can actually be positive," Tan said by telephone. "You could be looking at a v-shaped rebound, a short-term dip but a longer-term recovery as infrastructure spending comes in and jobs are created."

The rupee's rise could be short-term, analysts said, due to inflows in aid dollars.

Colombo's benchmark all-share index was one of Asia's top performers in 2004; it rose 42 percent during the year and has dipped only marginally since the tsunami.

"All disasters provide opportunities to countries and individuals," said Indrajith Aponsu, a lecturer in economics at the University of Colombo. "It is a revival, it offers opportunities for rebuilding."

"Our gut feeling is that once reconstruction gets underway, the benefits (to the economy) will be positive," said Alastair Corera, Vice-President at Fitch Ratings Lanka Ltd.

He noted that aid inflows have also impacted money markets and interest rates have been trending down.

**DISASTER BRINGS PREDICTABILITY**

Corera said the disaster had, if anything, brought predictability to the economy. Just before the tsunami, efforts to forge lasting peace between the government and Tamil Tiger rebels were faltering and a three-year truce appeared to be in danger of unravelling.

The balance of payments situation had also looked uncertain. At end-October, Sri Lanka's total foreign exchange reserves had fallen to \$3.07 billion from \$3.22 billion at end-Dec.2003.

The Jan-Oct 2004 trade deficit had risen to \$1.7 billion from \$1.14 billion in the year-earlier period.

"But it's a different ball-game now. The momentum is definitely going to be a plus. Whether it is going to kick in in three months or six months is the only question," Corera said.

Central Bank Governor Sunil Mendis said on Wednesday the cost of reconstruction and rehabilitation in 2005 could be between \$1.3 and \$1.5 billion.

Mendis also said relief from the International Monetary Fund could add up to \$300 million, half of it as emergency relief and the other half in deferments of loan repayments for one year.

The central bank had forecast that Sri Lanka's gross domestic product (GDP) would grow by between 5.0 and 5.5 percent in 2004 after 5.9% in 2003.



"At this stage it would not be unreasonable to assume a negative impact on 2005 GDP growth of around one percentage point," a Fitch report issued on Thursday said.

Analysts said tsunami reconstruction would boost the construction and transportation sectors.

"But the rupee's rise could affect the export sector," said Colombo University's Aponso. "That will be balanced somewhat by the expected boost to construction and domestic demand."

He said the expiry of the Multi-Fibre Agreement and the abolition of textile quotas could also help Sri Lankan manufacturers, who had been ramping up to meet newly anticipated demand.

#### HOTELS LOOKING TO BOUNCE BACK

Ajit Gunewardene, Managing Director of John Keells Holdings Ltd, (JKH.CM) Sri Lanka's largest company by market capitalisation, said the tsunami had only affected the conglomerate's leisure division but not disastrously.

He said one of the group's hotels in the Maldives would need major reconstruction, and three damaged properties in the south of the island were already up and running again.

"We are recovering pretty fast," he said.

John Keells has interests in hotels, tourism, transportation, financial services, food and beverages, plantations and real estate.

Gunewardene said the fall-off in inbound tourist traffic was not likely to be long-term.

"Strangely enough, the large inflow of aid workers and relief agencies is filling up hotels," he said.

John Keells' stock closed on Friday at 116.75 rupees, down from 126 rupees on Dec.23, the last trading day before the tsunami hit.

"But we expect to outperform (in financial 2004/05 ending March 31) over last year," Gunewardene said. "We have had very, very positive feedback from our principals. We are pretty confident that we can come through this."

John Keells's group profit rose to 1.22 billion rupees (\$12.29 million) in the first half ended Sept.30 2004 from 0.47 billion rupees in the corresponding 2003 period.

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