



**EMBASSY OF SRI LANKA
COUNTRY INFORMATION UPDATE
MARCH 02, 2010**

**INTERNATIONAL MONETARY FUND: SRI LANKA'S ECONOMY
IMPROVING, POISED FOR RECOVERY**

Statement at the Conclusion of an IMF Staff Mission to Sri Lanka

Press Release No. 10/63

February 25, 2010

The International Monetary Fund (IMF) office in Colombo issued the following statement today at the conclusion of a 10-day visit by a staff team from IMF headquarters:

“An IMF mission led by Brian Aitken visited Colombo during February 16-25 to hold discussions on performance and policies under the \$2.6 billion Stand-By Arrangement, approved by the Board on July 24, 2009. The mission met with officials from the Central Bank, the Ministry of Finance & Planning, the Presidential Tax Commission, and other government ministries and departments, as well as representatives of civil society and the private sector.

“Overall economic conditions are improving as expected, and the economy is poised for a recovery this year. External balances are strong, remittance inflows continue at a high rate, tourism prospects are rapidly improving, and gross reserves remain at comfortable levels.

“For end-December, the government has met the targets agreed under the program for net international reserves and reserve money. Final data for the overall budget balance are not yet available, but the ceiling on domestic budget borrowing – consistent with the government’s overall deficit target of 7 percent of GDP – was exceeded by a substantial amount. This mainly

reflects faster-than-expected infrastructure project implementation, higher interest payments, and sluggish fourth-quarter revenue growth. We are currently assessing the implications of this outturn for bringing the underlying budget deficit to a sustainable level.

“Despite this higher borrowing, as well as a recent uptick in year-on-year headline inflation, we continue to assess the central bank’s monetary policy stance as appropriate. With bank lending only slowly beginning to rebound, and economic growth remaining below its potential, we see little sign of emerging demand-driven inflationary pressures. The central bank has acted appropriately through its monetary operations by not allowing higher budget spending to be financed through the creation of additional liquidity. The upward trend in inflation in recent months – reflecting the temporary effects of increases in food and other international commodity prices from low levels in 2009 – is in line with our expectations and should peak somewhere mid-year before reversing itself in the second half of 2010. This phenomenon is not unique to Sri Lanka and is currently taking place in many other countries as well. Overall, we expect average inflation for the year as a whole to stabilize in the high single digits.

“We remain engaged in a constructive dialogue with the government, with the aim of agreeing on policies to support staff’s recommendation to IMF Management and the IMF’s Executive Board for the completion of the second review of the Stand-By Arrangement. The next step in this process would entail an IMF staff visit to Colombo, following parliamentary elections and the formation of the new cabinet, to discuss with the government its plans for a full-year 2010 budget, including tax reform measures.”

SRI LANKA HOTEL ARRIVALSON THE UPSWING

By Srilal Miththapala, Tourist Hotels Association of Sri Lanka

The January performance of Sri Lankan hotels has been excellent, with arrivals reaching 50,750, which is a 32 percent increase on last January.

The main contribution to this increase has been the British market (24.6 percent increase), Germany (54 percent) and India (73.5 percent). January

and February are two of the most busy months in the tourism calendar, which is the peak of the high season.

The resort hotels have had occupancies close upon 70-80 percent for the month. Even the circuit hotels in the Cultural Triangle area, which were relatively low, have picked up and are now doing well with about 65 percent occupancy levels.

These high occupancies, coupled with enhanced high season room rates, has resulted in almost all resort hotels having very high revenues for the month, and consequently, returning a net profit for the month. Many hotels are also facing an over-booking situation, a "problem" which Sri Lankan hotels have not experienced for a long time.

In the city, the five-star hotels have also done very well, reaching occupancy levels of 55-60 percent, indicating a 25 percent on year-on-year growth.

This increase has come from the leisure and corporate segment and not necessarily from convention and incentive travel. The lower category city hotels have done much better, with an occupancy percentage closer to 80 percent.

All in all, the rapid increase in tourist arrivals continues strongly, and it is expected that February will be even better.

With the contracting season for room sales for next winter now underway, most hoteliers will be looking to adjust their rates to reflect a more realistic price level, from the current rate structures which were in place during the war situation.

Some of the bigger hotel companies will be undertaking several refurbishing and upgrading programs during the forthcoming months of summer, and as a result, there will be some room stock reduced from the inventory for the summer period.

The Negombo area, in particular, will see several hotels partially reducing their operations to undertake substantial refurbishing activities.

(Source: ETN 14.2.10)

COURTS TO BE RE-ESTABLISHED IN NORTHERN DISTRICTS

Over a year after liberating Kilinochchi and Mullaitivu from the LTTE, Sri Lanka will reestablish judicial system in the two districts from next month replacing two decades of 'Kangaroo Courts' run by the now vanquished Tamil Tigers.

Jaffna High Court authorities are working towards reestablishing the judicial system in Kilinochchi on March 1 and in Mullaitivu later.

Kilinochchi and Mullaitivu -- the former de-facto capital of the Tamil Tigers and headquarters of the outfit's naval wing respectively -- had 'Kangaroo Courts' administered by the LTTE with its own judges and police force since 1987.

"Executions by firing squads and imprisonments in undisclosed areas deep in the jungles were carried out by the LTTE Court houses during that time," the state-owned Sunday Observer reported.

Jaffna High Court Judge R T Vicknaraja termed re-establishing judicial system in the two districts as "remarkable" and said this will pave the way for enforcement of law and order there.

Kilinochchi and Mullaitivu were captured by the Sri Lankan Army on January 2 and 25 respectively in the last phase of the 30-year-old civil war curtains on which came down with the death of Velupillai Prabhakaran in May last year.

(Source: Hindustan Times)

SRI LANKA STRONGLY PROTESTS BRITISH FOREIGN SECRETARY'S PARTICIPATION AT MEETING OF GLOBAL TAMIL FORUM, AN LTTE FRONT ORGANIZATION

Foreign Minister Rohitha Bogollagama summoned the British Acting High Commissioner in Colombo Mark Gooding to the Foreign Ministry today to express Sri Lanka's strong protest with regard to the British Secretary of State for Foreign and Commonwealth Affairs David Miliband's intent to

address the London Conference of the pro-LTTE 'Global Tamil Forum' (GTF) today (24/2). The Foreign Minister informed the Acting High Commissioner that the GTF brings together under one umbrella, several LTTE front organizations based mostly in the western countries, and that its objective is to create a separate state of Tamil Eelam. The Foreign Minister in this context emphasized that Foreign Secretary Miliband, by participating at today's GTF Meeting in London, would unfortunately lend credibility to an organization which is propagating the separatist agenda of the LTTE, and would be acting in a manner inimical to the national interest of Sri Lanka and its legitimate government.

U.S. SUPREME COURT WEIGHS FREE SPEECH AGAINST AID TO TERRORISTS

By Robert Barnes

Washington Post Staff Writer

Wednesday, February 24, 2010; A03

The Supreme Court on Tuesday explored the tension between Americans' right to free speech and a federal law that prohibits aid to terrorist groups, and hardly anyone seemed clear about the lines of demarcation.

The case stems from a challenge to an antiterrorism act by American advocates who say they want to support only the peaceful efforts of groups that the State Department has deemed to be terrorist organizations.

"This is a difficult case for me," allowed Justice Anthony M. Kennedy, whose vote often is the one that decides closely divided cases.

Georgetown law professor David D. Cole, who represents the Humanitarian Law Project, said his clients do not want to provide material support to the groups, but only to help them pursue peaceful ways to end conflict. "The government has spent a decade arguing that our clients cannot advocate for peace, cannot inform about international human rights," Cole told the court.

The project wants to support the lawful activities of the Kurdistan Workers' Party, a militant group in Turkey known as the PKK, and a Sri Lankan group known as the Liberation Tigers of Tamil Eelam (LTTE). Both are among dozens of organizations on the State Department list, along with better-known groups such as al-Qaeda, Hamas and Hezbollah.

Solicitor General Elena Kagan countered that, as individuals, Cole's clients can advocate whatever they want. But Congress was within its rights, she said, to determine that it was impossible to separate support of any terrorist group's peaceful activities from its violent goals.

"Hezbollah builds bombs. Hezbollah also builds homes," Kagan said. "What Congress decided was when you help Hezbollah build homes, you are also helping Hezbollah build bombs. That's the entire theory behind this statute, and it's a reasonable theory."

Kagan called the law "a vital weapon in this nation's continuing struggle against international terrorism." The government has brought about 150 prosecutions under the law -- half of them successfully.

But the Humanitarian Law Project and its president, Ralph Fertig, a professor at the University of Southern California and a longtime civil rights activist, said it prohibits him and others from giving lawful advice to the PKK about pursuing peaceful means to ending conflict, such as taking disputes to the United Nations.

The case has raised comparisons to McCarthy-era hearings about Americans' association with the Communist Party. The present-day implications of the law, said former president Jimmy Carter, could hurt the Carter Center's efforts to resolve ongoing foreign conflicts.

"Our work to end violence sometimes requires interacting directly with groups that have engaged in it," Carter said in a statement. "Unfortunately, efforts like ours, and those of the many other human rights groups . . . are hindered by the extremely vague 'material support' law that leaves us guessing whether our work to encourage peace could actually be considered illegal."

The U.S. Court of Appeals for the 9th Circuit, based in San Francisco, agreed with Fertig that parts of the law are unconstitutionally vague, singling out those that make it a crime, punishable by up to 15 years in prison, to provide "training," "services" and "expert advice or assistance." Both Fertig's group and the government have asked the Supreme Court to review the decision.

The law's restrictions, Cole argued, intrude on the right to political speech. "There's no dispute, Your Honor, that the government has a compelling interest in cutting off aid to terrorism," he told Kennedy. "The question is whether it can do so by criminalizing pure speech."

Cole immediately ran into trouble with Justice Antonin Scalia, one member of the court who did not appear to be conflicted about whether the law meets constitutional standards.

"It hasn't criminalized speech. It has criminalized providing aid and assistance to these organizations," Scalia said. "Most of that aid and assistance that is prohibited is not in the form of speech, but it happens to include speech as well." He added that is "quite different from a law that is directed explicitly at speech."

(Source: Washington Post)