

Sri Lanka's Economy - Tourism Sector



SECTOR OUTLOOK

Promoted by the Government since the 1970s, the industry has grown to be a core sector in the Sri Lankan economy. In 1996 gross forex receipts were Rs 10.6b and the sector provided employment for over 82,000 people -33,131 directly and 49,697 indirectly. Sri Lanka has established itself as a popular tropical tourist destination; with its sandy beaches, rich cultural heritage and beautiful hill country, the nation boasts a variety of attractive destinations. However, because of the protracted ethnic conflict, the fortunes of the industry have fluctuated widely.

* Tourism to pick up

Plagued by escalation of the conflict and a leftist insurgency, arrivals remained around 180,000 from 1987 to 1989. However subsequent to crushing of the JVP insurgency in early 1990 and containment of violence to the North and East, the industry recorded a strong recovery. In 1990 arrivals jumped 65% to reach 297,888. Arrivals exceeded the 400,000 mark in 1994 and 1995. However terrorist attacks in the heart of Colombo City in late 1995 and early 1996 hurt the sector. Arrivals declined 30% to 302,000 last year. Helped by relative calm over the past 8 months, optimism has returned to the industry and arrivals for Q1 in 1997 grew 20%. Bookings for the winter season-rooms are contracted during summer- have also seen significant improvement. Barring any major incidents, arrivals are expected to pick up to around 375,000 in 1997.

* Strong long-term prospects

Prospects for the sector are strong and arrivals are expected to exceed 750,000 by 2001. Per capita tourist expenditure - presently US \$ 550 is expected to double over the same period. The strong medium-term prospects have attracted heavy investment. In 1994 and 1995 two five-star hotels were constructed on the South West coast. Eden Hotel (158 rooms) and Palm Garden (142 rooms). International operators such as Hilton and Taj have also invested in large resort hotels. Another five-star hotel, the 60 roomed Lighthouse, has just been completed in Galle.

* Increased room supply - will keep rates soft

At present resort room availability is estimated at 9,000. However with the completion of the hotels in the sector, room supply is expected to increase by 15% to 10,350. It is estimated that tourist arrivals should exceed 500,000 for average occupancy levels to reach 60%, a comfortable level of profitability. Thus given the modest recovery in the sector (tourism picking up to 375,000 arrivals) average occupancy in the sector is expected to be around 45% (average occupancy in 1996 was 40%). Competition among hotels is also expected to be fierce and rates are likely to be soft in 1997.

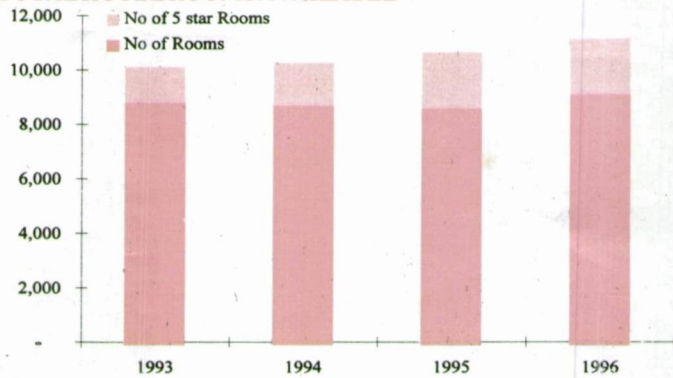
* Intensifying regional competition

The country faces stiff competition from its neighbours in the Maldives and India. Further, aided by their respective Governments, Thailand, the Philippines, Indonesia and Malaysia have been aggressively promoting the industry. Also in the running are other tropical destinations such as Mauritius and the Seychelles who have been attracting considerable volumes of tourist traffic. A prolonged downturn in the local industry will put the country in danger of losing its established niche - scenic beauty and golden beaches.

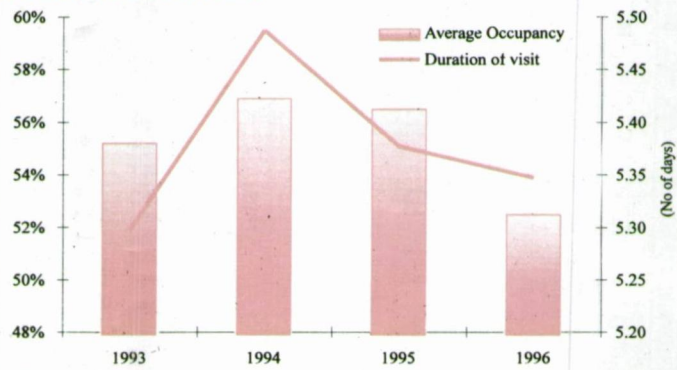
TOURIST ARRIVALS & ROOM SUPPLY

	1993	1994	1995	1996
Tourist Arrivals (Nos)	393,669	392,250	407,511	302,265
Average Occupancy (%)	57.00	56.60	52.60	40.30
No of Rooms	10,365	10,742	11,255	11,292
No of 5 star Rooms	2,402	2,426	2,333	2,306
Per Capita expenditure (Rs)	22,420	25,588	27,913	28,396

TOTAL HOTEL ROOMS AVAILABLE



AVERAGE OCCUPANCY



TOURIST ARRIVALS

