Sri Lanka's apparel sector shows signs of recovery amidst mixed export performance

Earnings from the apparel sector in June expanded 4 percent Year-on-Year (YoY), a move towards the growth trajectory after witnessing a contraction for two consecutive months. Data compiled by the Joint Apparel Association Forum (JAAF) showed that in June, export earnings increased to $417 mn from last year's $401 mn. However, this is a contraction when compared with the $536 mn recorded in 2022, the year of the economic crisis.

As per the available statistics, the expansion is due to increased exports to the United States. In June, the US accounted for $174 mn of total exports, a 12.78 percent growth YoY. However, exports to the Europe Union, and the United Kingdom contracted by 12.65 percent YoY, and 3.52 percent YoY, to $116 mn, and $55.91 mn. Exports to other markets grew 27 percent YoY to $71 mn.

While the month of June shows an improvement in Sri Lanka's apparel exports, cumulative analysis shows a dip. For the first six months of the year, the apparel sector fetched earnings of $2.2 bn, which is a marginal dip of 1.18 percent YoY. When compared to the 1H22 earnings, the contraction is about 19 percent. For the January to June period, exports to the US and EU dropped by 2.87 percent YoY and 4.42 percent YoY to $857 mn and $659 mn. Exports to the UK and other markets grew by 7 percent YoY and 1.84 percent YoY.

Meanwhile, a recent analysis by Capital Alliance (CAL) noted that Sri Lanka's textile and apparel stocks are on the mend.The sector, which had been struggling due to challenging global economic conditions, weak consumer spending and excessive inventory by retailers, is now showing signs of improvement.

According to CAL, three key factors contribute to this positive shift. First, US data for the first quarter of 2024 shows that apparel inventory levels are lower than they have been since 2022, which indicates the need for increased orders from retail stocks that has to be replenished, CAL said. The second factor is an uptick in US retail sales for clothing, which has been mirrored by an increase in apparel imports. This improvement reflects the anticipated rise in demand.

The third factor is the significant drop in cotton prices, which have decreased by 27 percent since peaking in February 2024. CAL attributed this price reduction to the strong supply from countries such as Brazil and the US, noting that this key raw material's cost reduction helps the sector improve margins.

CAL pointed out that lower cotton prices and better factory capacity utilisation are leading to reduced costs, improved margins, and increased production volumes."Based on these factors, we believe the outlook for apparel and textiles is promising," CAL said ■

TESTEX joins ITMF as a Corporate Member

TESTEX, an official representative and founding member of OEKO-TEX®, is a globally operating and independent Swiss testing and certification institute. Founded in 1846 and originally known as the "Seidentrocknungsanstalt Zurich" (Silk Conditioning Institute), its expertise lies in testing, analyzing, and certifying textiles and leather. In addition to the headquarters in Switzerland, the TESTEX Group, including its subsidiary OETI, now operates with 40 branches and around 400 employees worldwide.

TESTEX®

Christian Schindler, Director General of ITMF: "ITMF is delighted to welcome TESTEX as its latest member. Testing and certifying is an integral part of the textile value chain. It is important for ITMF to have TESTEX actively participate in ITMF. This step does not only strengthen ITMF's position as a unique international platform for the global textile value chain, it also helps ITMF and its members to discuss topics related to testing and certification in close partnership with the leading testing and certifying organization".

Marc Sidler, Group CMO of TESTEX: "By becoming a member of ITMF, TESTEX is joining an organisation that brings together the entire textile value chain from fibre producers to manufacturers of garments and home textiles. Having access to the ITMF's publications, statistics, and surveys as well as events like workshops, conferences, and webinars enables us to better understand the global dynamics of the textile value chain as well as to strengthen the network with associations and companies around the world" ■

Bangladesh textile sector faces crisis over delayed LC payments

Bangladesh's textile sector is going through a financial crisis as banks are delaying payments amounting to Tk420 cr against letters of credit (LC), even after more than six months of maturity. The issue has left 52 textile mills in a difficult situation, prompting urgent appeals for intervention from the central bank. A letter has been sent to the Bangladesh Bank governor recently in this regard by the Bangladesh Textile Mills Association (BTMA).

The letter signed by Mohammad Ali Khokon, President of BTMA, cited instances where banks have failed to release payments even six months past the maturity date of an LC. The letter said, "Despite providing goods on back-to-back LCs, some banks are not settling the bills promptly."

According to BTMA sources, after a meeting with the Bangladesh Bank governor on 11 June, a list of affected mills was submitted as per his instructions, highlighting instances where banks failed to clear bills even after the maturity dates of nearly $36 mn dollars in LCs for about 52 mills.

NZ Tex Group, one of the country's largest textile mills, faced a payment delay of around $2 million after supplying goods. Saleudh Zaman Khan, Managing Director of NZ Tex Group, told, "Some of our LCs against bills is already overdue with banks. LCs is supposed to mitigate risks, yet banks charge commissions without ensuring timely payments."He further added, "If banks cannot disburse payments on time, why issue LCs and charge commissions? I can directly supply goods by managing risks myself."

Basically, when an exporter receives a Letter of Credit (LC) against a foreign order, they can purchase goods from the local market on credit using that LC. This process is known as a back-to-back LC. Local raw material suppliers are supposed to receive payment from the bank within 90 to 120 days after accepting the back-to-back LC from the local buyer. This period is known as the maturity date. If this time frame is exceeded, it is considered overdue. Currently, in some cases, the maturity date has been surpassed by anywhere from one month to even over a year.Given the situation, stakeholders have expressed concerns over potential shutdowns if the current crisis persists.

A textile mill entrepreneur, requesting anonymity, told, "Production is severely affected due to a twofold increase in gas prices. Combined with unpaid payments from banks, it's becoming increasingly difficult to pay employees' salaries and bonuses before Eid."

Syed Mahbubur Rahman, Managing Director of Mutual Trust Bank Limited, told, "This problem has existed for a long time. Often, this happens because the textile millers who supply the products face delays in receiving their payments."

"While bills from foreign buyers (typically RMG entrepreneurs) for imported raw materials are settled promptly, local textile mills often face delays in LC payments from banks and garment owners," he added. Noting that local textile millers are always on the back foot, he said, "Due to payment delays, their loans sometimes become classified as well" ■