SEMINAR ON

GLOBAL ECONOMIC CRISIS & SRI LANKA

Crystal Room - Lower, Taj Samudra Hotel, Colombo

Wednesday 18 February, 2009

Organized by

Institute of Policy Studies of Sri Lanka

Introductory remarks by Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka (IPS) at the seminar on Global Economic Crisis and Sri Lanka, organized by the IPS, Taj Samudra Hotel, Colombo, 18 February 2009

1) The global economy has changed dramatically since September 2008. What began as a slump in the US real estate sector has now manifested as a global economic crisis, spreading both to rich and poor economies. Many believe that this may go down in history as the worst crisis since the Great Depression of the 1930s wiping out almost 10 trillion US dollars worth of assets from stock markets and financial markets around the world.

2) Although there were signs of an economic slow-down in the US since mid-2007, very few predicted a crisis of this magnitude. In fact, until the mid-2008 views expressed on the US slow-down and its impact always carried the term “decoupled” for all developing countries, in other words, saying that they would more or less be insulated from the crisis. But no one speaks of “decoupling” now and six countries outside the main economic blocs viz., Hungary, Ukraine, Pakistan, Iceland, Latvia, and Belarus have already gone to the IMF to bail them out of the crisis.

3) In many ways it is the global integration and inter-dependence that has led the crisis to spread from one institution to another and then to the entire economy, and then rapidly across all national boundaries. The crisis is making an impact via three key channels, viz., (i) trade in goods and services, (ii) financial inflows/other transactions, and (iv) inflows of remittances received from overseas migrant workers, though this impact is not fully evident right now. The economic slow-down is already being experienced by developing countries through one or more of these transmission channels. Continuous financial instability could adversely impact the large financing needs of developing countries’ high development objectives including infrastructure, health, and education.

4) The crisis has resulted in corporate bankruptcies while forcing others to consolidate. Commercial banks' exposure in developing countries to toxic foreign assets has been rather limited, resulting in stronger balance sheets. Central Banks across the globe have taken unprecedented measures to ease the liquidity crunch while governments across continents have unveiled stimulus packages. While the impact of these measures is yet to be seen, what is painfully evident is the steady stream of news about economies entering recessionary periods, and people losing their jobs.

5) While the fuller debate on the causes of the crisis would perhaps require more time, it is evident that weak regulatory controls leading to astounding leveraging ratios and inadequate corporate governance structures are at the heart of the present predicament.

6) World growth is projected by the IMF to fall to just ½ per cent in 2009 which is the lowest in 60 years (see latest IMF projections in attached Table). The IMF growth forecast for the world economy and individual economies around the world keeps changing. If one looks at World Economic Outlook of April 2008, October 2008 and the latest report released in January 2009, we can see these changes. If we look at the 2009 growth forecast for USA, it was 0.6 per cent in the April 2008 report, -0.7 per cent in the October 2008 report, and -2.0 per cent in the January 2009 report. Likewise, for the Euro area it was 1.2 per cent, -0.5 per cent, and -1.6 per cent in the respective reports. For Japan, it was 1.5 per cent, -0.2 per cent, and -2.6 per cent according to the respective reports. This clearly shows the gravity of the global economic crisis and that it is much deeper than what we all thought in mid-2008.

7) Ultimately, a global crisis requires a global solution. Aside from the immediate short-term actions to stabilize finance, we need a longer term plan for reforming the regulatory and institutional framework for the world's financial systems. This topic was discussed at length during the G 20 Summit at the end of last year. Last week, Ministers from the World's richest nations – G 7, met in Rome and pledged to stimulate their economies and avoid protectionism. Populist political temptation is to resort to protectionism at a time like this. But the G-7 pledge should be welcomed by all developing countries.

This seminar was organized to shed more light on these issues. We will be launching the Global Economic Prospects (GEP) 2009 report published by the World Bank today and the first copy will be presented to our Chief Guest, Hon. Sarath Amunugama, Minister of Public Administration and Home Affairs and Deputy Minister of Finance, by the Country Director of the World Bank in Sri Lanka, Naoko Ishii. This will be followed by a presentation of the GEP report and then the address by the Chief Guest.

The first session on Global Financial Crisis and Regional Economic Prospects will examine how two countries of the region are coping with and responding to the crisis, namely, Pakistan and India. Pakistan, as you all know, had a major problem with its foreign reserves in late 2008 and now has a package with the IMF. India on the other hand, has strong foreign reserves but has faced a set-back from its average 9 per cent growth experienced during the last 4-5 years. Growth forecast for India for 2009 is 5.1 per cent. This session will discuss how these two countries are adjusting to the global economic slow-down. We have five discussants to the session followed by a floor discussion.

The post-lunch session will examine the general response to the crisis and how Sri Lanka is coping with it. We intend to discuss the policy responses of various countries vis-à-vis Sri Lanka. We will examine how Sri Lanka is responding to the crisis in the short-term, and in the medium and long-term. The two presentations at this session will be followed by interventions by five discussants and thereafter a floor discussion.

At the end of the seminar, we will provide a tentative summary of the findings of this seminar. The final report will be refined and fine–tuned by the IPS and submitted to the government of Sri Lanka as a policy paper for consideration. The IPS has engaged in the economic policy debate in Sri Lanka since its inception, and this seminar is one among many seminars planned for this year. The IPS always consults stakeholders and gathers opinions, sensitize key decision makers, and disseminate its policy research to the larger public. We look forward to your valued cooperation in this process. Thank you.