

Lanka's growth solid in region

PRIVATE SECTOR INVESTMENT PICKING UP:

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There was broad based economic rebound in 2010 in all three sectors and Sri Lanka recorded solid growth compared to the region. The robust growth will be moderating this year, Institute of Policy Studies Director Dr. Dushni Weerakoon said.

The global economic recovery assisted Sri Lanka and the strong growth recovery in exports, remittances and tourism contributed towards significant growth, she said at the launch of ESCAP Economic and Social Survey of Asia and the Pacific 2011 yesterday.

She emphasized on sustaining dynamism and inclusive development through connectivity in the region and productive capacity in least developed countries.

Export earnings grew by 17.2 percent, remittances by 23.6 percent and tourism by 64.6 percent. This enabled the off setting of higher import expenditure. There was a moderate inflationary environment in 2010 recording an annual rate of 5.9 percent.

The healthy foreign reserve position of overall US \$ 6.6 billion saw nominal rate appreciation in the exchange rate by three percent to support six months of imports.

"Though, there were potential risks to macroeconomic stability the growth momentum was driven by the higher level of public investment. However, the weaker private sector investment is picking up," she said.

The credit growth was slow to pick up and there was a sharp recovery in credit growth in the private sector. The easing of monetary policy has created a conducive environment.

However Dr. Weerakoon cautioned that there is a threat of building inflationary pressure in 2011. There are signs of cost-push inflation rising due to the increase in food and oil prices.

There is excess rupee liquidity in the Sri Lankan economy. This hurts exports, but helps external debt servicing.

The Central Bank needs to use regulatory measures to take off excess liquidity out of the system. The Central Bank intervened to mop up foreign currency by expansion of domestic monetary base. The country's fiscal situation improved in 2010 due to sharper cuts in spending and efforts to raise tax revenue. The borrowings to finance infrastructure can be justified as higher growth can raise revenue to pay debt.

The composition of borrowings has changed rapidly and foreign borrowings being the dominant source where there is an increase in non-concessionary and commercial borrowings.

The country needs to look at broad based reforms to improve productivity and sustain growth momentum. "It needs to encourage more FDIs and introduce complementing reforms in the areas of labour market, education and the public sector to help fiscal consolidation," Dr. Weerakoon said.



ESCAP Economic Affairs Officer Dr Muhammed Hussain Malik, Institute of Policy Studies Director Dr Dushni Weerakoon, Central Bank former Deputy Governor Dr W.A. Wijewardena and United Nations Information Centre Director Douglas Keh were present. Picture by Nissanka Wijeratne