Economic Outlook: Sri Lanka

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Overview

- Macroeconomics
- Trade and Investment
- Policy Vision
Macroeconomic Overview
• Successive governments since independence have racked up unsustainable fiscal deficits

• Despite some improvements, deficits average 7-8 percent of GDP
  - fuelling high and volatile rates of inflation

• Debt also accumulated over time, peaking at 105 percent of GDP in 2002
  - narrows policy manoeuvrability and increases exposure to internal and external shocks.
Fiscal Deficits and Public Debt (2000-2016)

Source: Annual Reports, Ministry of Finance – Sri Lanka
• Government is also a continuous dis-saver, with primary deficits above 4 percent in recent years.

• Government revenue mobilization has failed to even adequately cover public recurrent expenditure.

• Fiscal Management Responsibility Act was passed in 2003, but discarded after tsunami.

• Since 2009, fiscal deficit has progressively fallen, but driven mostly by high GDP growth.
Revenue and Expenditure

- Government revenue is barely able to cover recurrent expenditure, whereas emphasis should be on capital expenditure – for future returns. Therefore, governments have depended on borrowing.
Sri Lanka in Comparison

- Sri Lanka’s fiscal position is extremely poor compared to other countries at a similar economic standing
- Urgent need to reorient the economy towards a more sustainable means of development finance

Source: Sri Lanka: State of the Economy 2016, IPS
Trade & Investment
**Sectoral Composition of GDP**

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<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>30.4%</td>
<td>27.6%</td>
<td>27.7%</td>
<td>26.3%</td>
<td>23%</td>
<td>19.9%</td>
<td>12.7%</td>
<td>8%</td>
<td>8.2%</td>
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<tr>
<td><strong>Industry</strong></td>
<td>26.4%</td>
<td>29.6%</td>
<td>26.2%</td>
<td>26%</td>
<td>26.5%</td>
<td>27.3%</td>
<td>30.2%</td>
<td>26.6%</td>
<td>27.3%</td>
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<tr>
<td><strong>Services</strong></td>
<td>43.2%</td>
<td>42.8%</td>
<td>46.1%</td>
<td>47.7%</td>
<td>50.5%</td>
<td>52.8%</td>
<td>57.3%</td>
<td>54.6%</td>
<td>57.3%</td>
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<tr>
<td><strong>Manufacturing</strong></td>
<td>13.1%</td>
<td>18.3%</td>
<td>18.2%</td>
<td>17.4%</td>
<td>20.4%</td>
<td>15.8%</td>
<td>16.3%</td>
<td>17.3%</td>
<td>15.4%</td>
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*Source: Central Bank, Annual Report, Various Issues*

- Sri Lanka’s industrial component – including manufacturing – has been effectively leapfrogged by the services sector.
- However, services sector growth has been in domestic non-tradeables like wholesale and retail trade (25% of GDP), transport, storage and communication services – that are not export revenue generating.
Foreign Direct Investment

Sri Lanka’s Trade Performance


Sri Lanka’s export basket, 1995

Source: The Observatory of Economic Complexity, 2017

Sri Lanka’s export basket, 2015

Source: The Observatory of Economic Complexity, 2017

Vietnam’s export basket, 1995

- Coffee: 14%
- Rice: 5.7%
- Crude Petroleum: 18%
- Crustaceans: 6.2%
- Molluscs: 2.7%
- Leather Footwear: 3.7%
- Rubber Footwear: 3.3%
- Textile Footwear: 3.2%
- Total: $5.07B

Source: The Observatory of Economic Complexity, 2017

Vietnam’s export basket, 2015

Source: The Observatory of Economic Complexity, 2017
Protectionism and policy inconsistency has severely affected Sri Lanka’s trade competitiveness and attractiveness as an investment destination.

Export oriented activities are still confined to low-skilled, labour intensive manufacturing (e.g. apparels, rubber based products).
Policy Vision
Post-Conflict Sri Lanka

Post-conflict growth was based on debt-led infrastructure spending

Concurrent slowdown of export sector growth and fall in FDI
Current Twin Challenge for Post-Conflict Sri Lanka

- Fiscal stabilization
- Catalyse economic growth
Thank You