Lankan growth prospects positive, but inflation greatest risk

Published : 2:31 am May 6, 2011 | No comments so far |

By Uditha Jayasinghe

Inflationary pressure is one of the biggest threats to Sri Lanka's economic growth this year, which is poised at 8%, a new United Nations (UN) report says. The UN Economic and Social Survey of Asia and the Pacific 2011 (ESCAP), which was launched in Sri Lanka yesterday, warns that broad-based policies and reforms need to be implemented for growth momentum to continue.

Institute of Policy Studies Deputy Director Dr. Dushni Weerakoon speaks at the launch. UNESCAP Economic Affairs Officer Dr. Muhammed Hussain Malik, UNDP Country Director aDouglas Keh and former Central Bank Deputy Governor W.A. Wijewardena are also present

It ranks Sri Lanka's development as positive, but points out that higher levels of remittances, tourism and exports revenue as well as possible credit growth of the private sector and high capital inflows could trigger strong inflation. "There are risks to macroeconomic stability," conceded Institute of Policy Studies (IPS) Deputy Director Dr. Dushni Weerakoon, observing that strains of "demand pull" inflation can already be seen.

"There is excess liquidity of around Rs. 120 to Rs. 130 billion in the first quarter of the year, which prompted the Central Bank to increase statutory reserve requirements, but inflation still persists. Higher volumes of foreign exchange could lead to the rupee appreciating; while this could hurt exports it could help with debt servicing."

She insisted that financing fiscal debt needs to be monitored along with the commercial borrowing rates that the Government has focused on. With Sri Lanka's economic status growing, the amount of concessional loans available has reduced, prompting the Government towards high interest commercial loans, she said.

Dr. Weerakoon also stressed on the need for exports to grow in line with borrowings and stated that the decline of exports as part of GDP was of concern. She advocated broad-based reforms in several sectors including the labour market, education and public service to increase efficiency and attract Foreign Direct Investment.

Introducing the survey, ESCAP Bangkok Economic Affairs Officer Dr. Muhammed Hussain Malik maintained that inflation was a common problem across the Asia Pacific, but brought forward several policy changes that could assist its reversal.

"If these high oil and food prices continue, it will reduce up to 1% of GDP. It is estimated that around 42 million extra people will become poor. This is in addition to 19 million who became poverty-stricken in 2010. Such a situation could seriously delay the achievement of the Millennium Development Goals."

He advised that governments should maintain buffer stocks of essential foods, strengthen the public distribution system and social protection for the poor. Focus on agriculture and regional food banks as well as increased trade between south-south partners was recommended.

Globally the ESCAP report calls on the G20 countries to regulate commodity markets to prevent sudden price fluctuations and discipline the conversion of food to bio-fuels.

"Oil producing countries need to benchmark their prices. The medium term challenge is to boost demand within developing countries and this can be done by encouraging the poor to consume more, thus increasing their standard of living as well. Governments should establish institutions and infrastructure for regional trade and lower trade costs. Preferential trade agreements need to promote trade across sub-regions and not just within them."