IPS flagship report warns policy makers of challenging test ahead

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The IPS launching its flagship report this year warned policy makers that they would have to face their most challenging test in 2018.

The IPS report, 'Sri Lanka State of the Economy 2017' highlighted that whilst the economy at present has had a more robust macroeconomic base than it has had for the past two years, it still faced, "slow growth, weak export earnings, low foreign investment flows and thin foreign reserve cover".

This year, the economy was also hit by "sluggish global economic conditions, inclement weather and fiscal austerity at home" which has led to the dip in the economy to 3.9 percent growth in GDP during the first half of 2017.

"We have also seen excess liquidity in the market squeezed and interest rates gone up but also stabilized within the last 4-5 months….At present however inflation is the biggest problem, arising from high food inflation prices, the Central Bank would have to find a balance between price stability and not choking growth", explained the Deputy Director at Institute of Policy Studies (IPS), Dr.Dushni Weerakoon presenting the IPS report at the Saman Kelegama Auditorium yesterday.

She added that country's trade deficit has expanded by over 12 percent in the first seven months, tourism earnings have relatively remained stagnant, earnings from remittances were contracting and growth came from a narrow base concentrated in non-tradeable goods.

The appetite for foreign borrowings have not changed with the government, said Dr Weerakoon as she highlighted that the government would face a rising debt servicing ration of 30 percent of GDP in the next 2-3 years.

Dr.Weerakoon however stated that the government would need to implement both quick fixes and long term economic reforms in labour markets, education and land to drive growth. She added that at present an economic upturn seemed dim given the fact that the government would have to overcome the three challenges of, "implementing a reform initiative closer to an election cycle, economic conditions tighter especially with high food prices and having growing backlash against notions of freer movement across borders of people, goods and capital".

Deputy Minister of National Policies and Economic Affairs, Dr Harsha de Silva who was also present at the event was more optimistic of the economy and explained that growth had been slow due to the government having to concentrate on working out a lasting political solution to the national question. "We need a peaceful and stable democracy for growth and the political reforms we are pursuing will be worth the slow economic growth rate", said the Deputy Minister.

He also stated the government was moving away from uncontrolled government spending to more targeted, result oriented expenditure which will yield better results.

Former Deputy Governor of the Central Bank, W.A. Wijewardena who commended the government's education initiative of having a technical stream in schools said the government would also need to look at, "structural problems such as skills deficits, regulatory bottlenecks, inefficient public services, failure to harness technology and need for improvements in ease of doing business". The main problem in the economy, he further explained was lack of innovative human capital but he said he had confidence that the current government would lay the much needed foundation for long term economic growth.