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Post COVID-19 economic recovery: FDI in real estate temporary solution – IPS

By Rajiेश Seetharam | Published: 2:00 AM Oct 17 2020



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Import and capital outflow restrictions, monetary measures like rate cuts, though essential at this point of time, however, could only be a temporary solution for Sri Lanka’s economic issues stated Institute of Policy Studies Executive Director Dr. Dushni Weerakoon. Speaking on a virtual conference at the release of its annual report ‘Sri Lanka: State of the Economy 2020’, Dr. Weerakoon stated “Without any effort, Sri Lanka may receive strategic FDI’s due to its strategic location. We also received FDI’s in real estate and construction during the same period. In the post COVID-19 economic recovery period, FDI’s in real estate could be temporary relief, however, Sri Lanka needs technology driven FDI in manufacturing, service sectors which indulges in technology and skills transfer as a long-term solution to Sri Lanka’s economic woes.”

Dr. Weerakoon further stated, fiscal consolidation is a key measure in the post COVID-19 economic recovery; however, it should be systematically structured for at least a three-year period. “We need to look at tax and spending to put the public finance in shape. We have taken up huge debts which we would have to pay in the coming decade. We need to build non borrowed foreign reserves. Even if we control expenditure, we still need to spend on education, social protection, health. Rising Fiscal deficit may lead ratings downgrade, which may result in higher costs of borrowings increasing to service roll over debts. Sri Lanka is high on the watch-list given its back-to-back foreign debt settlements to the tune of US \$ 3-4 billion with only US \$ 6.7 billion official reserves in hand as of September 2020. Thus we need to raise the revenue, which also should be done carefully with a proper medium to long-term plan, as raising taxes within a short period in the post COVID-19 period may lead to lower demand and consumption.”

Dr. Weerakoon agreed that import restriction was essential in the short-term during COVID-19, however said Sri Lanka should come up with a new tariff strategy in the post COVID-19 period, which is in line with the business environment in that period where global supply chains are expected to change.

IPS Executive Director opined that the COVID-19 stimulus package offered by many countries looked similar, however, cautioned Sri Lanka to be mindful of exchange rate fluctuations while injecting liquidity to support businesses. “Excess liquidity may lead to Rupee depreciation. Since Sri Lanka has a large foreign currency denominated debt, it may lead to expansion of debt,” stated Dr. Weerakoon.

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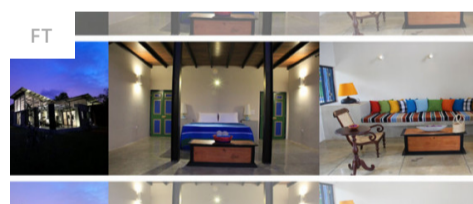
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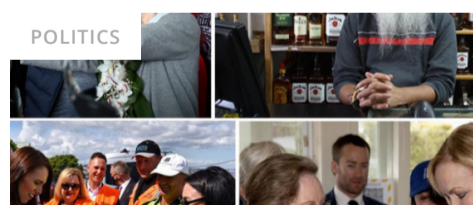
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