BREAKING

DEBATE ON 20TH AMENDMENT COMMENCES (/2020/10/21/LOCAL/232029/DEBATE-20TH-AMENDMENT-COMMENCES)

Deploy robust policies to deal with economic uncertainties - IPS

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With Sri Lanka's recent surge in coronavirus (COVID-19) infections, the Institute of Policy Studies of Sri Lanka (IPS) said that robust policies to deal with the related economic uncertainties can help to contain the fallout without major run long costs for the Sri Lankan economy. These involve short-term emergency actions and more medium-term stabilisation measures.

"With global hyper-connectedness at an all-time high, the rapid transmission of COVID-19 across borders is no surprise. In most countries, the instinctive response has been to retreat inwards and act alone."

The vacuum in global leadership to address the health and economic fallout of COVID-19 is not helpful. All available estimates suggest that the world economy will experience its worst-ever downturn since the Second World War.

Unlike other major shocks in recent history, COVID-19 is both a supply and demand shock, with the economic effects from reduced spending expected to be larger than those coming from supply chain and labour market disruptions.

Sri Lanka earned international plaudits for its handling of COVID-19. The recent spurt in infections must not be allowed to compromise the head start, which together with an assured period of political stability, can encourage more investment, create jobs, and boost growth.

Thus, although as elsewhere, an economic contraction in 2020 seems almost inevitable, a sharp V-shaped recovery thereafter is also a very real possibility. In the IPS State of the Economy 2020 report it says that so far, the crisis-fighting economic stimulus package leans lopsidedly on monetary policy.

Credit growth to the private sector remains sluggish at 5.2% as of August 2020; this is to be expected with depressed labour markets and lower household spending as they smoothen consumption behaviour owing to economic uncertainty.

While the government has shown creditable political determination to curb spending, Sri Lanka can no longer be a low tax and low spend economy. As its population ages and growth in the labour force slows, Sri Lanka must rely on a skilled workforce and adequate infrastructure to compete with technology-driven growth as an aspiring upper-middle-income country.

Beyond the short-term, restricting trade is also self-defeating. While curbs on motor vehicle imports to deter non-essential expenditures at this point are reasonable, external sector pressures will need to be addressed directly over time.

For Sri Lanka, a high 68% of the workforce in informal employment and only 29% of the country's workforce covered by social protection, elevate the risks of widening existing income disparities.

Only 23% of Sri Lankan households own either a desktop or a laptop computer, limiting options to work from home or access alternative means of education. Thus, enacting an effective economic recovery is vital to swiftly close the gap between pre and post-COVID-19 output losses – and hence, of incomes and standards of living.