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IPS sees path ahead for Sri Lanka economic challenges mount

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Dr. Dushni Weerakoon



by Sanath Nanayakkare



Even though macroeconomic pressures and external challenges are weighing on Sri Lanka's fiscal situation, the country has a path ahead for growth and sustainability if it puts its house in order over the next three years, Dr. Dushni Weerakoon, Executive Director of the Institute of Policy Studies of Sri Lanka (IPS) said last week.

She made this remark while speaking at an online seminar after launching the State of the Economy- 2020 Report compiled by the IPS titled “Pandemics and Disruptions: Reviving Sri Lanka’s Economy COVID-19 and Beyond.”

Elaborating further she said, “Policy environment is critical to achieving resilient growth and economic stability in order to position Sri Lanka as a middle income country in the next few years”.

“Prevailing macroeconomic conditions in Sri Lanka are challenging. The debt overhang is a prime concern. This debt situation didn’t happen overnight, It crept up over the past few years. It hasn’t left room for more robust support packages for people and businesses after the COVID-19 pandemic. We need to rethink our policies not only to achieve a sustainable growth path, but we need to build a firewall to withstand any external shocks in the future”.

“Sound fiscal policy in order to put the public finances in order should be the focus of the upcoming budget and government policy in the coming years”.

“If a sovereign rating assessment goes against Sri Lanka in the offing, it could cause a devaluation of the rupee and as a result of it, the size of our foreign currency loans will balloon”.

“The pressure on our forex reserves needs to be eased. FDI needs to be attracted to the construction and real estate sector to ease the immediate pressure and thereafter move to a growth strategy driven by productivity and technology to become a middle-income country”.

“The minimizing of wasteful expenditure in the public sector won’t make much of a difference. The government will have to lead social welfare. We will have to spend more on health, education and social protection in the recovery phase”.

“The debt stock will persist in the next decade albeit a brief break in between. So, we need to shore up our forex buffers – not with borrowed funds but with investments that bring in manufacturing and services with knowledge transfer on technology”.

“The government has decided not to obtain large loans for infrastructure projects in the next 2-3 years to control the debt stock. Fiscal re-balancing and ensuring systematic tax reform would be vital for medium-term stability”.

“We needed certain monetary policy stances and import restrictions to face the current situation, but we should see them as necessary short term measures only. Beyond recovery we need a new system which is agile enough to integrate with the global supply chain and build on that success as they jump start their economies”.

“We need to raise funds through international sovereign bonds, foreign term deposits and the like. In the past one and a half decades, Sri Lanka has had experience on foreign funded projects and we have experience on capital spending, converting debt to equity in infrastructure development projects etc. We can learn from them and seek funding on our terms”.

“Wider fiscal space will also assist the government to provide better social welfare support to the poor. Sri Lanka’s budget deficit is estimated to be between 9-11% in 2020, and public revenue streams remain uncertain even in 2021, according to analysts. This together with debt sustainability was partly why Sri Lanka’s sovereign rating was downgraded earlier this month by international rating agency Moody’s”.” Sri Lanka cannot afford to lose out to protectionist measures. A seamless tariff regime is needed to join international trade chains, and as the world recovers, we must rethink our approach to trade”.

“On the back of Sri Lanka’s political stability, the country can rethink its economic policies and come through its macroeconomic challenges,” Dr. Dushni Weerakoon noted.

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