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The Sri Lanka economy slowly but steadily has been pulled back from the abyss over the course of 2023 and these positive developments were a result of the implementation of economic stabilisation measures and groundwork for institutional and regulatory reforms by the government to support future growth.

These measures included securing the 17th IMF bailout and implementing substantial increases in value-added taxes (VAT), personal income taxes, energy prices, and others. This was pointed out by the IPS' Annual Flagship Publication, STATE OF THE ECONOMY 2023 stated.

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Sri Lanka has faced a turbulent economic journey in recent years, with 2022 witnessing an unprecedented crisis marked by a staggering 8.7% GDP contraction. Notably, the Sri Lankan rupee has stabilised and even appreciated by 12%, inflation has dropped to 1.3%, import restrictions are being eased and interest rates are on the decline.

Differing medium term growth forecasts from the International Monetary Fund (IMF) and the Central Bank of Sri Lanka (CBSL) point to the complexities of accurately predicting the future of an economy that has suffered a sudden and sharp crisis. In 2023, the IMF predicts a contraction of -3%, while the CBSL holds a more optimistic view at -2%.

“Both anticipate a return to positive growth in 2024, but uncertainties linger due to social and political opposition to austerity policies, ongoing debt negotiations, and volatile global economic conditions driven by geopolitical tensions.”

Sri Lanka’s economic challenges are further compounded by disparities in the education and health sectors, which require substantial resources for meaningful reforms. The delicate task of balancing fiscal constraints with the need for improved social protection programmes looms large.

“To achieve sustainable economic growth, Sri Lanka must not only stabilise its economy but also address long-standing structural problems. The country’s overemphasis on infrastructure investment with borrowed funds needs to shift towards enhancing global competitiveness in exports.”

Comprehensive reforms in education, improved access to higher education, and bridging skills gaps in sectors like Science, Technology, Engineering and Mathematics (STEM) are essential to create well-paying jobs and ensure long-term economic resilience.

“Additionally, addressing corruption, enhancing accountability, and improving public service delivery are vital for building public trust and support for reforms.”

Though the Presidential elections loom on the horizon in 2024, regardless of the election outcome, the country’s fragile economic situation will likely necessitate continued adherence to fiscal, monetary, and exchange rate policies outlined in the IMF programme.”

The more contentious reforms may slow down or stall altogether between now and the 2024 elections, to be addressed afterward, depending on electoral outcomes.

“As Sri Lanka navigates its economic challenges, making the right policy choices, coupled with accountable institutions, will be key to transforming its setback into a sustainable success.”

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