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Thursday January 18th, 2024

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ECONOMY

f **Sri Lanka's IPS 2023 economic report on choices ahead**

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Monday October 16, 2023 2:56 pm

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ECONOMYNEXT – Sri Lanka’s Institute of Policy Studies is to release its annual State of the Economy Report for 2023, as the country recovers from the worst case of macro-economic policy deployment in its history.

Sri Lanka defaulted in 2022 and its currency collapsed to 360 from 184 after two years of tax and rate cuts to close what growth-happy state economic bureaucrats said was a ‘persistent’ output gap.

Instead, the economy was hit by the worst contraction in post-independence history amid a loss of monetary stability and the stabilization policies that usually follow mis-targeted rates.

“Sri Lanka’s journey from economic turmoil to stability is fraught with challenges, but it also offers opportunities for meaningful reform,” the IPS said in a statement.

“While macro-stabilisation measures are laying the foundation, the path to recovery must prioritise quality GDP growth that creates high-quality jobs.

“Achieving this requires addressing structural issues, strengthening social safety nets, and fostering cross-party

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institutions, will be key to transforming its setback into a sustainable success.”

The report is to be released on October 17

The full statement is reproduced below:

SRI LANKA: STATE OF THE ECONOMY 2023

Economic Policy Choices: From Stabilisation to Growth

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. The economy slowly but steadily pulled back from the abyss over the course of 2023. 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.

These positive developments are a result of the implementation of economic stabilisation measures and groundwork for institutional and regulatory reforms to support future growth. These measures have critics concerned about the intense economic pain that falls on those least able to cope with the fallout. As a country that

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complex policy choices Sri Lanka faces as it navigates the path to economic recovery.

The Rocky Road to Recovery

In 2023, Sri Lanka's economy is expected to contract further, though at a slower pace compared to the previous year. Differing medium term 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.

Following the severe 8.7% GDP contraction in 2022, Sri Lanka embarked on immediate and stringent measures to stabilise its economy. These measures included securing the 17th IMF bailout and implementing substantial increases in value-added taxes (VAT), personal income taxes

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ruled out.

Addressing Socioeconomic Challenges

Faced with growth-inhibiting tough austerity measures, concerns persist regarding the potential exacerbation of inequality and poverty. Sri Lanka witnessed a doubling of national poverty rates to 25% and a tripling of urban poverty to 15% in 2022.

Escalating inflation has eroded household savings and real wages, prompting many skilled professionals to seek opportunities abroad, potentially resulting in a brain drain and the loss of a generation of young workers.

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.

Paving the Way for Sustainable Growth

To achieve sustainable economic growth, Sri Lanka must not only stabilise its economy but also address long-standing structural problems. The

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exports. In a world marked by US-China tensions, forging partnerships and aligning industrial and trade policies is vital. Currently, Sri Lanka lags in global value chain (GVC) activity, posing a challenge to economic diversification.

Over-reliance on low-skilled, informal jobs, where more than half of the workforce is engaged in low-skilled jobs, hampers progress towards a competitive and productivity-driven economy. 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.

Building Consensus for Transformation

As Sri Lanka grapples with its economic challenges, presidential elections loom on the horizon in 2024. Traditional politics may drive opposition to austerity and reforms in

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fiscal, monetary, and exchange rate policies outlined in the IMF programme. What remains uncertain is the fate of complementary reforms aimed at enhancing economic efficiency and productivity, which might be delayed or abandoned due to political compulsions.

The more contentious reforms may slow down or stall altogether between now and the 2024 elections, to be addressed afterward, depending on electoral outcomes. These possibilities introduce significant uncertainty at a time when economic confidence has already been severely undermined. The solution and best hopes are to build cross-party consensus on areas that do need fixing.

Conclusion

Sri Lanka's journey from economic turmoil to stability is fraught with challenges, but it also offers opportunities for meaningful reform. While macro-stabilisation measures are laying the foundation, the path to recovery must prioritise quality GDP growth that creates high-quality jobs. Achieving this requires addressing structural issues, strengthening social safety nets, and fostering cross-party consensus. As Sri Lanka navigates its

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DEBT RESTRUCTURING

IMF team meets Sri Lanka finance and energy ministers

Thursday January 18, 2024 2:30 pm

ECONOMYNEXT – The International Monetary Fund team in Sri Lanka, headed by Peter Breuer, met with the country’s state finance minister and other officials on

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BUSINESS

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By **NETHMI RAJAWASAM**
Thursday January 18, 2024 1:43 pm

ECONOMYNEXT – Nu Life Biotech Pvt Ltd started construction work on its Carbapenem injectables manufacturing facility at the ‘Suwa Siri Pura’ pharmaceutical production

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TOURISM

Sri Lanka plans to draw higher spending tourists with Southern cultural events

Thursday January 18, 2024 12:43 pm

ECONOMYNEXT – Sri Lanka is planning to attract higher spending tourists with cultural and culinary events strung along the main resort towns of the Indian Ocean island’s

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