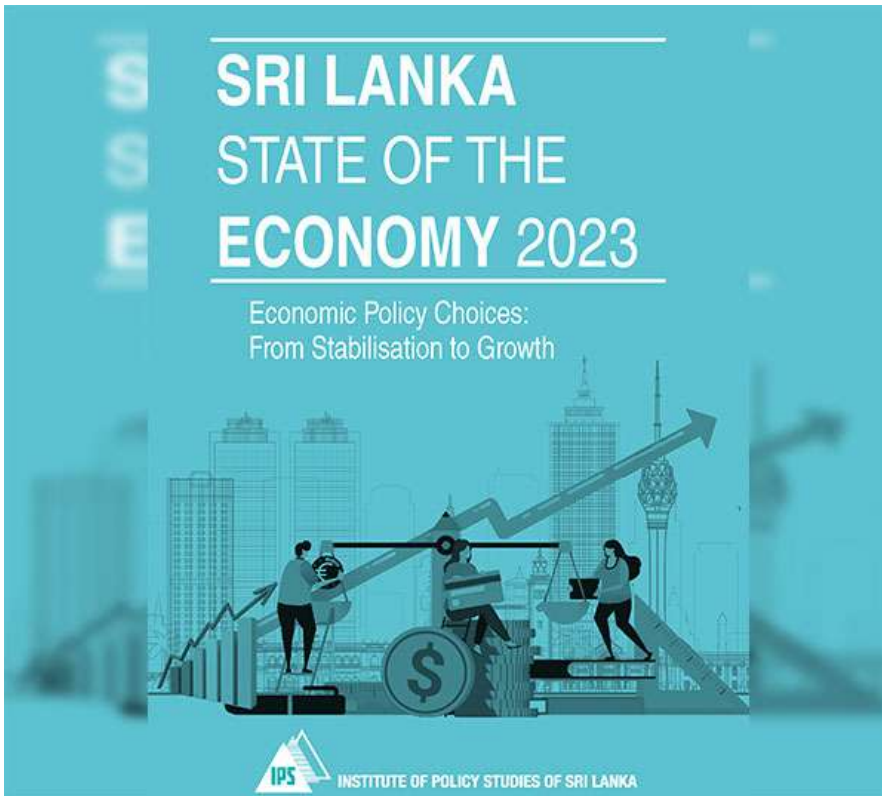


BUSINESS

Economic policy choices: From stabilisation to growth

Published 3 months ago on 2023/10/17



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Sri Lanka: State of the Economy 2023

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.

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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 faces years of weak growth, the Institute of Policy Studies of Sri Lanka's (IPS') Sri Lanka: State of the Economy 2023 report, explores the 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, energy prices, and a freeze on public sector wages. With shortfalls in anticipated revenue collections, further fiscal tightening measures cannot be 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 country's overemphasis on infrastructure investment with borrowed funds needs to shift towards enhancing global competitiveness in 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 pursuit of votes. However, 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. 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 economic challenges, making the right policy choices, coupled with accountable institutions, will be key to transforming its setback into a sustainable success.

These and many other issues are discussed in the IPS' annual flagship publication Sri Lanka: State of the Economy 2023 under the theme 'Economic Policy Choices: From Stabilisation to Growth' which focuses on the policy choices and debates in key areas of reform for a country that is emerging from a deep crisis.

The IPS report will be released on Tuesday, 17th October 2020 and will be available for sale at IPS, No. 100/20, Independence Avenue, Colombo 07, and at leading bookshops island-wide.

Sri Lanka: State of the Economy 2023 Economic Policy Choices: From Stabilisation to Growth

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President affirms trust in new investments for rebuilding Sri Lanka's economy

Published 7 hours ago on 2024/01/18

[File pic] President Ranil Wickremesinghe

At a discussion at the **World Economic Forum (WEF)** stakeholder dialogue titled '**Pulling back from the brink**,' held in Kurpark Village, Aspen, President Ranil Wickremesinghe outlined short-term strategies aimed at revitalizing Sri Lanka's economy. Emphasizing tourism promotion, agricultural modernization and a focus on renewable energy, the President expressed the country's eagerness to attract new investments.

During the panel discussion, a question was posed regarding Sri Lanka's outlook after negotiating debt relief and the approach to repaying borrowed funds. President Wickremesinghe responded optimistically, highlighting the country's performance and anticipating a 3 percent growth this year with projections reaching 4 to 5 percent in the next

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Manufacturing and Services PMIs rise in December 2023

Published 9 hours ago on 2024/01/18

Manufacturing PMI recorded an index value of 52.7 in December 2023, indicating an expansion in manufacturing activities. This improvement was attributable to the increases observed in all the sub-indices except Employment.

The increases in New Orders and Production were driven by the manufacture of food & beverages sector with the seasonal demand. However, New Orders and Production in manufacture of textiles & apparel sector declined during the month, which mainly contributed to the decline in Employment as well. Meanwhile, Stock of Purchases increased during the month due to the increase in Production and New Orders. Further, Suppliers' Delivery Time continued to lengthen in December.

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ComBank & UnionPay invite cardholders to ascend to culinary heights

Published 9 hours ago on 2024/01/18

Commercial Bank's UnionPay cardholders are in for an exclusive treat – a banqueting experience at Colombo's newest dining sensation, the revolving restaurant at the Lotus Tower.

This special reward is part of a promotion by the Bank for Credit and Debit Card holders of UnionPay, the leading global card payment network.

Any ComBank UnionPay cardholder who spends a minimum of Rs 50,000 per month in December 2023 and January and February 2024 will be among those eligible for selection for

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