Spotlight: Econ Op-eds in Summary

Week ended 05th August '20

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Economists opine Sri Lanka should focus on international market
By: Nishantha Hewage

- The lockdown due to the COVID pandemic has significantly affected the Sri Lankan economy, and may result in a fall in income equivalent to 5% of 2019 GDP and result in an economic contraction. Scarcity of jobs and deteriorating standards of living have also left the poorest most vulnerable.

- The combination of a strict lockdown strategy, breakdown of the country's international connectivity and the global economic slowdown have significant implications for Sri Lanka's economy. With limited tax revenue and fiscal constraints, the entire burden of short-term stimulus has been placed on monetary policy.

- However, in terms of long-term recovery, it's important that Sri Lanka tries to reach GDP growth rates of 5-6% by stimulating investments and achieving fast export expansion. To do this, an assessment of why Sri Lanka failed to sustain a high rate of growth in the past must be made, while also focusing on the international market.

A recent UNESCO report estimates that the Sri Lankan economy could shrink by 3% due to the impact of the Covid-19 pandemic. It further mentions if the crisis persists for a six-month-period, the incomes of the citizens in Sri Lanka may fall by LKR 803 billion averaging LKR 134 billion a month. This represents 5% of the 2019 GDP.

Disrupted Economy

Prof. Tikiri Nimal Herath of the University of Sri Jayewardenepura says that once the impact of the pandemic is analysed anybody can easily understand that the interruption of free movement, has undermined almost all economic activities in the market. "Consequently, demand as well as supply were affected and contracted. GDP also contracted steeply, income level came down and unemployment went up," Prof. Herath added. He also made it a point that since the economic transactions were confined to the domestic market, foreign investments had been negatively affected.

Referring to the GDP growth he said that the average GDP growth rate during the 2017-2019 period had been 3% in Sri Lanka. "If the second wave is so strong, in 2020, the pandemic may pull the economy backwards.

Fate of the poor

In terms of the national poverty line, 4.1% of people were poor in 2016 in Sri Lanka," Prof. Herath said. Once poverty was measured in terms of international poverty lines, the picture was different. He said The World Bank (WB) showed that in 2016, 0.8 and 10 per cent of people belonged to poor groups according to the poverty line of less than 1.9$ and 3.2$ per day respectively. He said COVID-19 led the market to impose more constraints on the poor. He also pointed out that the scarcity of job opportunities and low affordability had deteriorated the standard of living.

Role of the government

Prof. Herath said that the Government should play a vital role in acquiring growth and development. He said that first the Government had increased the public health expenditure and transferred payments to the vulnerable sections of the country. He also highlighted that the tax revenue of the Government had decreased due to the low rate of GDP. He identified broadening investment opportunities by decreasing interest rate and granting moratoriums to the entrepreneurs with regard to loan repayments as steps taken by the government to promote growth and to revive the economy. "However, to reap productive results from these attempts, the Government needs to look into other areas like combating corruption, effective enforcement of the law and controlling crimes and strengthening the efficiency of public services," he said.

"Sri Lankan economy during Covid-19 and beyond"

Impact on the economy

Prof. Sirimal Abeyratne of Colombo University said, "There are three channels which have affected the Sri Lankan economy in the context of the COVID-19 pandemic. He said that the first channel was a strict lockdown strategy. "For Sri Lanka, a strict lockdown strategy was necessary," said Prof.Abeyratne. Explaining the reason for a strict lockdown he went on to state that Sri Lanka had a weak health capacity and a lower level of infrastructure. He said that the economic impact was far greater. He noted that there had been a loss of production, decrease in consumption and distribution, loss of income and jobs.

The breakdown of the country's international connectivity as the second channel which has adversely affected the Sri Lankan economy. "Even if we are recovered it is not going to be a normal situation until and unless the rest of the world comes to that point. It is very unlikely this year. So the impact comes through the loss of trade— a reduction in both exports and imports. The economic activities related logistics such as port services and aviation services, tourism, remittances and activities of our supply chain have been adversely affected," he affirmed.

While discussing the third channel, Prof. Abeyratne said that the combined effect of all these things were heading to a far greater world economic crisis. "The USA, Euro zone, the UK, Japan and China produce two thirds of the world's income. They all have reported negative growth rate in the first quarter and the second quarter growth rate is going to be worse," he added. "We didn't face the consequences of the global financial crisis in 2009. We didn't feel it that much. Our growth rates slowed down, but we didn't come to a negative growth rate. But this time it is different. This is how the local economy is impacted," he stressed.

Short and long-term measures

Prof. Abeyratne said, that the Government had already taken the short-term measures to counter the negative impact of the pandemic on the economy. "The entire burden is on the monetary stimulus and that means money printing and money pumping by the Central Bank. Even if the treasury spends, that comes from the lending from CB to the Government. Even in rich countries monetary expansion has a long history even before this issue. They have done print, issue and pump more money as unlike before in history while driving down the interest rates even into negative level. Through this they have been expecting to avoid deflation and stimulate the economic activity. But they have now reached the limits of going with these negative interest rate strategies. That is the situation in rich countries," said Prof. Abeyratne.

Referring to the Sri Lankan economy, Prof. Abeyratne said that there was no space for fiscal stimulus. "It is the very reason that even the treasury bank has to depend on the CB (Central Bank) borrowings. We have little space for money pumping and lower interest rates. We have been adopting that. We should also know that Sri Lanka unlike other countries was not performing better even before COVID-19. We have to face this with a very weak economy at hand. COVID-19 emerged during one of the worst times in history," he added.

As long as long-term solutions are concerned, Prof. Abeyratne stated that the economic revival meant going back to the pre-COVID-19 growth rate. "We need an economic revival and should go beyond that. We need to look into the opportunities even during a trying period. Economic revival is achieving 2 to 3 % growth rate. Even raising that growth rate to 5 to 6 % is important. We should have a good assessment of why Sri Lanka failed to sustain a high rate of growth and how we can stimulate investments and achieve fast export expansion," he noted. "One important economic principle that we need to know is that our progress is limited by the size of the market." Identifying the price of the market as a factor that has limited the progress, he said that if Sri Lanka wants to sustain a higher level of economic performance; it should focus on the international market.

For the full article – Refer the Daily Mirror

2. Out-of-the-box thinking is the need of the moment - Ajith Nivard Cabraal
By: Sandun A. Jayasekara

- The impacts of COVID-19 can be quite damaging to Sri Lanka's economy, according to former Governor Ajith Nivard Cabraal. Big hits to consumer demand both locally and globally, Sri Lanka's economy has caused a significant contraction this year. Creative policies will be needed to take Sri Lanka forward.

- While export sectors seem to be recovering, further capitalizing on and reaching new niche markets will be crucial for sustaining this. At the same time, several local businesses are suffering substantially, and the government might need to further support them using low interest loans, moratoriums, and even tax breaks despite the weakness in government finances.

- The whole world is in an unprecedented place right now, and will also need to take creative measures. Debt relief or delays for emerging nations will be a massive benefit to countries like Sri Lanka, especially given the inability to increase government revenue at times like this. That will be one of the most crucial and helpful actions to help countries right now.

Q What exactly is the nature of damage done to the economy by the pandemic?

As we all know, the pandemic caused a massive shut-down of economic activities, globally. As a result, many industries suffered. Transportation by air, sea and road came to an almost complete halt. Tourism was severely affected. Many factories closed without work. Many also didn't get paid for the goods they produced and sold because the buyers were so badly affected. Global oil prices plunged. In that scenario, the Sri Lankan economy suffered a serious setback because exports of apparels as well as tourism which were two of the key foreign exchange earners in our country, were seriously affected. The lockdown, while helping to control the spread of the virus, naturally led to a major slowdown in purchasing power which further affected all businesses, big and small. Many in the private sector lost livelihoods and jobs, hopefully temporarily.

Even though difficult, the government was able to prop up several sectors as well as the affected people to some extent. Nevertheless, the significant reduction in consumer demand across the board, caused a serious contraction in the economy since the advent of the COVID -19 virus. Fortunately, the recovery is finally taking place worldwide and Sri Lanka opening out gradually, and businesses beginning to pick up. In that scenario, we now hope that the resumption of at least a reasonable degree of economic activities will enable the overall economy to record a V-shaped recovery by the fourth quarter of 2020, although that's somewhat optimistic.

Q Though we have contained the pandemic, the world is yet to come out. Then, is it realistic for us, to realize the economic targets?

We need to develop some economic targets if we are to move forward. Otherwise, we will find it difficult to stay focused. We also need to make certain estimates now because such estimates would be needed to help position ourselves to meet the crisis in a reasonably professional manner. It is of course quite possible, that some of the estimates and assumptions that we make today, could later prove to be erroneous, but that is a risk that we will need to take at this time. We all need to acknowledge and understand that the entire world is moving on uncharted waters right now. The course is not clear, but yet, we have got to move forward. Otherwise, we would surely perish. The government too will have to think out-of-the-box and take some bold steps. Not every decision will be 100% accurate. But, in these circumstances, if no decisions are taken or no action is taken, business confidence will suffer and all economic stakeholders will enter into a very pessimistic mode, which will lead to disastrous results.

Even otherwise, it may slowly limp back, but that would take too long, and the social fallout could be highly dangerous.

Q The industrial sector, tourist industry, Small and Medium Enterprises, rural and domestic industries are the most affected from COVID - 19. How can these vital segments of the economy be revived in the shortest possible period of time?

As already stated, almost all sectors of the economy have been affected due to the collapse of local and international demand. In that background, the greatest pain and vulnerability will be faced by businesses in the immediate and short term. That is why we have to give our country's businesses the necessary support to tide over that difficult period. That is not going to be easy since the government finances are also stressed at this time as tax collections in the post-COVID period would be weak while foreign inflows too, will be interrupted.

Q Who are the most vulnerable sections in society that should be given priority in the government's recovery programme?

There are several sectors that have been badly affected as a result of the fall in demand for various goods and services. The apparel and tourism sectors have been significantly affected in particular, and the persons who are involved in those sectors have become quite vulnerable. They certainly need to be supported until such time that those sectors recover. At the same time, there are several other local industries and services that have also suffered significantly as a result of the acute fall in local demand due to the lockdown and reduced purchasing power. Those persons too need to be supported by way of cash grants, tax breaks, loan and interest moratoriums, quick release of new loan facilities at concessionary interest rates. All these matters have received the consideration of the government, and solutions are being developed to provide the maximum support.

Q The largest contributions to Sri Lanka's foreign reserves come from remittances of the expatriate Sri Lankan community, garment and apparel exports, fish exports and the exports of tea and rubber. At a time all the export

revenues has dropped to a drip, what incentives could the government offer to rekindle these sectors?

If export revenue in a country drops due to quality issues or availability problems within the exporting country, then it could be fixed by taking the required management and operational remedial measures to rectify such issues. However, if the export revenue is declining due to the decreasing purchasing power of the importing nation's people and business entities, the problem would be more challenging as it would be beyond the control of the exporter or the exporting country.

As is well known, in the case of many export-market collapses experienced in the last few months, it is clear that the decline is due to consumer demand in the importing country declining as a direct result of the COVID -19 situation. In that background, it is likely that the demand would pick up after a few more months, and therefore what would be important is for the exporting country to remain resilient by following policies that would enable its exporters to keep their factories and businesses intact, and survive until such time the downward trend changes.

In the case of exports of apparels, fish, tea, rubber, etc., we have already begun to see an improvement in export revenues. Therefore, it is now time for us to strive even harder to stimulate our existing markets and find new niche markets that would provide us with the opportunity to export more.

Further, although we do observe a reduction in remittances due to the purchasing power decline in the Middle Eastern countries, it is likely that once global demand picks up, oil prices would improve, which would be a favourable outcome from the point of view of the oil exporting nations. I think the government would do well to provide some short-term relief to those affected businesses until such time demand in the importing or employing nations reaches at least the pre-COVID levels.

Q How does the government plan for debt restructuring?

I think what is most important is proper debt management. If we get that right, we don't need to think of debt restructuring. During the period I was the Governor from 2006 to 2014, we were able to reduce Sri Lanka's Debt to GDP Ratio from 91% to 71%. We were able to shave 50% off the average interest rate of our debt stock. We were able to double the average time to maturity of the debt stock. By keeping the Rupee stable, we ensured that foreign debt servicing was manageable.

The impact of the COVID -19 economic contraction has thrown fresh challenges to debt management, and I believe this is not a matter that Sri Lanka must face as an individual country only. This is an extraordinary global condition that has been caused by a global occurrence, and as I said earlier, the world community must take a global approach to deal with the fallout. That's why I have been advocating since April this year that the G7 countries get together with the IMF and the World Bank and take a holistic view and implement an across-the-board debt moratorium for all emerging nations for about two years. That would be a kind of an "economic vaccination" that would help all countries and organizations to deal with one another, without having to continuously worry as to whether the other would suffer from debt issues.

May I also say that, just like individual companies or countries, the multi-lateral institutions too must think out-of-the-box to safeguard the global economy, and I hope that realization will dawn soon.

Q How challenging is it to increase the government's revenue following tax cuts and dwindling income generation activities during the shutdown?

Increasing the Government revenue at this current time will be very challenging. The traditional methods are not going to work. That is why I have been advocating some new ways and means to achieve the same objective. If, as an emerging nation, Sri Lanka, together with the other emerging nations, could work out a "debt-standstill" on its dues for the next two years to the IMF and World Bank, that would save a large chunk of Forex from flowing out of the country. Further, if the EPF releases 20% of the member balances direct to the members themselves, about 2.5 mn persons will benefit by an important cash inflow of around Rs.500 bn at this most difficult time, which will also stimulate the economy. If several global equity and venture capital funds can be tapped and those inflows are infused into our economy, the government won't have to allocate "expensive" government funds to stimulate the economy in the post COVID -19 period. We have got to think differently now. If we go along the same beaten track and search for solutions along that track, we will not be able to deliver results. If we try to deal with the issue of dwindling income by imposing new taxes and having more restrictions on businesses, that would also be a path to certain failure.

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