State of the national economy

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Part I

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I am not an economist nor do I profess to be an economic analyst. The views expressed in this presentation are those of a layman who has always been interested in the economic progress of Sri Lanka. Some of the statistics quoted are from newspaper articles and other information is mainly from the Annual report 2018 of the Central Bank. Further, I have expressed my personal views which are not based on original research and as such my views may be subject to criticism and may be challenged.

The present state of the economy can be best illustrated by the budget summary appeared on a national daily which indicates a total expenditure for 2019 at Rs.3.149 billion and the total revenue to be Rs. 2.464 billion thus indicating a budget deficit of Rs. 685 billion. The budget deficit had been of the same order from 2015 onwards. It should be noted that the budget deficit indicated does not include the payments provided for the redemption of overall government debt which makes the situation far worse. From the budget proposal giving gross borrowing requirements for 2019, total gross borrowing requirements amount to Rs. 2079 billion which is only Rs. 324 million less than the total revenue receipts and grants to the country at Rs.2403 billion. This indicates that almost the entire revenue of the country is been utilized to meet the debt redemption which reflects the present serious situation of Sri Lanka's economy.

Despite the parlous state of the economy, the government in its last budget gave numerous handouts as it was expected to be an election oriented budget.

- Rs. 2,500 for all state worker's - Rs. 20 billion-plus pension revision Rs. 12 billion.
- Free milk for rural student's - Rs. 1 billion.
- More concessionary loans for youth.
- Soft loans for higher education.
- Housing loans for newly married couples.
- Bus fleet to be augmented –Rs. 1.5 billion.
- Allocating provisions to "Disaster Management Contingency Fund".
- Boost for Gamperaliya Project.
- *Ran mawath* rural roads and maintenance project – Rs. 10 billion.
- *Sukithapurawara* Township Development Programme – Rs. 2 billion.

mune and Samanthurai – Rs. 1 billion.

- *Praja Jala Abhiman* Water Supply Scheme – Rs. 1.5 billion.
- Sahasara Bus Modernised Programme – Rs. 1 billion.
- Seed Capital for Palmyra Fund.
- 'Nan Gamuwa Lanka' Micro and small enterprise development programme.
- Providing sanitary facilities for needy people – Rs. 4 billion.
- Improving sanitary facilities in bus terminals and railway stations – 1 billion.
- Brick and Mortar type Housing Scheme in North and East – Rs. 5.5 billion.
- Establish Industrial Zones – KKS, Manthaii, East, Paranthan, Hondathi, Kinniya, Samanthurai, and Trincomalee – Rs. 1 billion.

More recently, it was announced that the government had appointed 300 or more sports instructors to schools presumably all supporters of the government as many of them were reported to be unqualified. Samudhri benefits were extended to six hundred thousand new beneficiaries claiming that they had been discriminated as earlier that they were UNP supporters. Even more recently there was a move to recruit unemployed graduates to monitor so-called Development Programmes.

To carry out these projects, considerable additional funds will be obtained from additional borrowings making the debt situation even worse than what it is now.

Continuous budget deficits and borrowing money to achieve the budgeted targets has been the order of the day for many years in our country. A famous quotation by the late Lee Kwan Yew that 'Sri Lanka Politicians are always in the habit of auctioning unavailable resources especially before elections", is most appropriate.

GDP Growth Trends

In a critical article, C.A. Chandraprema states:

"For example, the growth rate declined precipitously after the Yahapalana Government took over. In the first 4 years of the Rajapaksa Era, from 2006 to 2009 the average growth rate was 6%. In the five post-war years from 2010 to 2014, the average growth rate was 7.4%. Sri Lanka per capita income was US$ 1,242 US$ at the end of 2005 and that had increased three-fold to US$ 3,821 by the end of 2014. That's was quite a remarkable performance because no government before or since has managed to maintain an average growth rate of 6% during his tenure much less one of 7.4%.

In contrast, the growth rate, after the Yahapalana government came into power dwindled to 5% in 2015, 4.5% in 2016, 3.1% in 2017 and 3.2% in 2018. All predictions made after the events of April 21st indicate that it may be between 2.5% to 3% in 2019.

The Finance Minister did not explain this poor performance when he presented the last budget. Another matter the Finance Minister failed to explain was why and how the indebtedness of the country had increased by 58% in less than 4 years. At the end of 2014, the total outstanding Government debt was Rs. 7, 391 billion. By the end of October 2018, this had increased to Rs. 11,667 billion – an increase of Rs. 4276 billion. That works out to a 58% increase in total outstanding government debt during this period. How could things come to such a pass in less than 4 years? Even as the budget for 2019 was presented to Parliament the other bit of news that we heard was that the government was making a sovereign bond issue of another US$ 2.4 billion.

The all share price index of the Colombo Stock Exchange was Rs. 7,299 in 2014 and this declined to Rs. 6,894 in 2015 and further to Rs. 6, 228 in 2016. The ASPI recovered marginally to 6369 in 2017 but then declined further but there has been a recent resurgence in the stock market, perhaps due to the possibility of a Presidential Election this year. The market capitalization of CSC was Rs.3,105 billion at the end of 2014 but has since declined to Rs. 2,688 BN. This means that 417 billion in value has disappeared into thin air. When expressed in US$ terms, the decline is even more precipitous. At the end of 2014, the market capitalization of CSE was US$ 23.7 billion dollars. Today at the exchange rate of around Rs. 178 to the dollar, the market capitalization of CSE has dwindled to US$ 14.9 billion". **See Table 1**

Given below are the Per Capita GDP income and the GDP growth for the last five years.

	Per Capita GDP	GDP Growth	Annual Average Exchange Rate per $	DP Deflator
2013	$ 3,609	3.4%	Rs.129.11	-
2014	$ 3,819	5%	Rs. 130.56	5.1
2015	$ 3.842	5%	Rs. 135.94	2.1
2016	$ 3,886	4.5%	Rs. 145.60	3.6
2017	$ 4,104	3.4%	Rs. 152.46	8.2
2018	$ 4,102	3.2%	Rs. 162.54	4.3

Table -1

It should also be noted that the Per Capita GDP has decreased from US$ 4104 in 2017 to US$ 4,102 in 2018.

So as indicated by Chandraprema, during the Yahapalana regime there has been a continuous decline in the GDP growth rate of Sri Lanka.

Foreign Direct Investment (FDI)

According to the Central Bank report 2018, FDI recorded the highest inflow in history in 2018 as indicated below. The major inflows of FDI included receipts for the Hambantota Port Project and Colombo Port city Project, both are which expected to attract significant amounts of FDI in 2018 and beyond. **See Table 2**

Foreign Direct Investment

2013	US$ 1,391 mn
2014	US$ 1,528 mn
2015	US$ 961.7 mn
2016	US$ 801.0 mn
2017	US$ 1,710 mn
2018	US$ 2,366 mn

Table -2

Thus FDI in 2018 recorded the significant growth of 38.4% from 2017. There is an urgent need to increase FDI's as it is one of the major ways in which the economic imbalance of the country can be corrected. Until there is political stability and a proper long term vision established for the economy it will not be possible to attract substantial FDI's comparable to those attracted by Burma, Vietnam, Cambodia and Laos whose economies can be comparable.

Balance of payments

According to the Central Bank Report, the deficit in the primary income account widened to US$ 2355 million in 2017 from US$ 2202 million in 2016.

Worker's Remittances

Workers' Remittances continued to be moderate in 2018, resulting in a subdued performance of the secondary income account during the year.

Worker's remittances which account for the majority of inflows to the secondary income account declined by 1.1% to US$ 7164 million in 2018 as opposed to the growth of 3.7% in 2017. This can be mainly attributable due to the prevailing geopolitical uncertainties due to fluctuation in oil prices and sluggish growth.

As we all know the Sri Lankan ladies who literally kill themselves by working in the Middle East to the detriment of their families and dependents are vital to FDI receipts in Sri Lanka.

However, I believe the Government is not paying special attention to providing them proper orientation and training facilities and also sufficiently safeguarding them in many foreign countries where they are employed and where there are no acceptable labour laws. A better training before departure will not only enable them to earn a higher income compared with Philippino House Maids but also increase their FDI's remittances to the home country and improve their future quality of life.

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