State of the national economy

Part II

Although the government has initiated steps in an attempt to restructure the economy, political constraints have stilled this process. The SOEs continue to be a huge burden on the economy with some 230 billion total losses in 2017. The Secretary Finance Dr. Samarasinghe had stated at a conference by the Public Enterprise Department of the Finance and Mass Media Ministry that successive governments have pumped in a colossal amount of Rs. 1,150 billion for the upkeep of the strategically state-owned enterprises (SOEs) up to 2017. He revealed that Sri Lanka has about 400 SOEs of which 5% are considered strategically important and generally referred to as State Owned Business Enterprises (SOBEs). In 2017 alone the Treasury had to inject Rs. 41 billion in the SOBEs, which recorded a turnover of Rs. 1,755 billion (about 13% of Sri Lanka GDP), while their total asset base grew by 13.0% over the previous year. Only 39 of these SOBEs made profits which amounted to Rs. 1.6 billion while the remaining 16 made a cumulative net loss of Rs. 8.7 billion. The return on assets of these 59 SOBEs was merely 0.64%.

Sri Lankan Airlines is one of the biggest problems with a continuing debt burden and no partner being identified despite numerous efforts globally. The April 21st turbulence resulting in tourist arrivals declining dramatically further affected the income streams of the airline.

CBR and CPC continue to run at losses and very little appears to be done other than the introduction of a new formula for fuel. The government delayed the introduction of this formula which should have been introduced much earlier so that the impact would have been gradual with the gradual increases in fuel prices. Any increase in kerosene, which is the fuel most used by poor people for cooking purposes always causes problems.

Increasing tourist arrivals, a boon to the economy.

Headline Inflation as measured for the year 2019 was estimated at 4.3% by the Central Bank of Sri Lanka. This is lower than the 4.5% inflation rate recorded in 2018. The slow down witnessed in many products and services in 2019 is attributable to the sharp reduction in fuel prices and the weakening of the rupee against the dollar.

The tourism industry has been facing a challenging period due to the political instability and economic uncertainty in the country. However, the government has been taking steps to improve the tourism sector. The Tourism Development Authority has been taking steps to promote Sri Lanka as a destination through international marketing campaigns. The government has also been working to improve the infrastructure in the tourism sector, including the renovation of hotels and airports. The government has also been working to improve the safety and security of tourists in the country.

The Lonely Planet had declared Sri Lanka as the best tourist destination. The tourism industry has the potential to become the highest foreign exchange earner in Sri Lanka. However, it has to be supported by addressing the barriers to which future growth is exposed. Sri Lanka has positioned itself as one of the best tourist destinations in the region, with an annual average growth of 20% on tourist arrivals during the post conflict era, compared to the low growth of 1% during 2000 to 2009. The average daily spending by tourists has increased substantially while the average duration of stay has also increased.

noted that when global institutions lend money for large scale projects, they normally assess the feasibility of the project and the ability to repay the loan. However, the unsolicited bid to build an Airport in Mattala in the middle of the jungle, in traditionally elephant homeland, was not effectively assessed by the Exim Bank of China which lent the contractor US$ 100 MN out of a total cost of around US$ 250 MN.

It appears that the Chinese Government through the Exim Bank very often lends money not on the feasibility of the project but for other strategic reasons. Furthermore, even the investment in the Hambantota Harbour development which ultimately cost around US$ 400 MN was not based on a detailed feasibility study and it was again an unsolicited contract. Both these projects have become white elephants for Sri Lanka. The Yahapalana Government has managed to finally call the Mattala Airport off.
There were numerous protests especially by the fishermen and the government has been forced to reduce it.

One solution to reduce the financial burdens of carrying SOS’s privatization which will be strongly objects by the Opposition and many independent parties. Furthermore, certain economic sectors would have to be considered as critical and should be under the control of the state for strategic and other reasons. However, another solution, which is not feasible and could cause a major source of foreign exchange to the country supported by healthy growth in tourist arrivals in 2018. Arrivals grew by 10.3% to 2,339,796, recording the highest tourist arrivals in a year. Earnings from tourist arrivals increased by 7.6% to US$ 4,341 million in 2018 in comparison to US$ 4,031 million in 2017. Furthermore, the average spending per tourist rose to US$ 175.08 per day from US$ 170.03 in 2017. April arrivals at three five-star hotels and two churches have very adversely affected tourist arrivals. Arrivals are due to the government policy for travel to the Gulf. However, the tourism sector has been made available to tourist from some 30 countries, thereby incurring a revenue loss of Rs. 700 crores. The government and the tourism industry, it is unlikely that the industry will recover in 2019 and 2020, winter season. The debate in the tourist industry caused by the events of April 21, 2019 will have a very serious impact on the overall economy of the country. Unless the government presents a plan that will politicians from the country visit, however, unless security is ensured.

AGRICULTURE AND INDUSTRY

The deficit in Trade Account widened in 2018 although at a slower pace reflecting the impact of prudent policy measures introduced by the Central Bank and the Government. Furthermore, the ratio between Sri Lanka’s Export Prices and Import Prices remained broadly unchanged in 2018, the global production of rice increased by 4.6% to 100.4 index points, while the Import Price Index increased by 4.1% to 110.1 Index Points.

DEBT TRAP

The country is in a serious debt trap with new debts being contracted to amortize existing debts. It was reported that the Central Bank extended Rs. 2.4 billion after loaning its first International Sovereign Bond (ISB), which will be largely used for debt repayments. These bonds were rated “BB” and “BB+” by Moody’s. Although these bonds were issued just after the ISB extended its US$ 1.5 billion loan, the government presented its budget for 2019, these ratings are highly misleading. As such, interest payments were around 4%, on the year-tranche and 7% on the year-ten-tranche coupons. We can see that there are both growing at high-interest rates to pay outstanding loans. Unfortunately, it will be very difficult and almost impossible for Sri Lanka to get out of this Debt Trap.

It is mentioned often that the Debt Trap has been caused by borrowing from China which was also indicated in a report in the New York Times. The CEO of China Harbour Engineering Company which was involved in the construction of the Hambantota Port and the Mattala Airport. He claimed that the Debt Trap is a fabrication of the Western World and emphasized that the total Chinese loans amounted to 10.6% for US$ 10.3 billion of the total debt. The debt amount of US$ 151.824 million, besides, that the Chinese Loans of US$ 3.38 billion were at a much lower interest rate than International Market Rates. It should, however, be