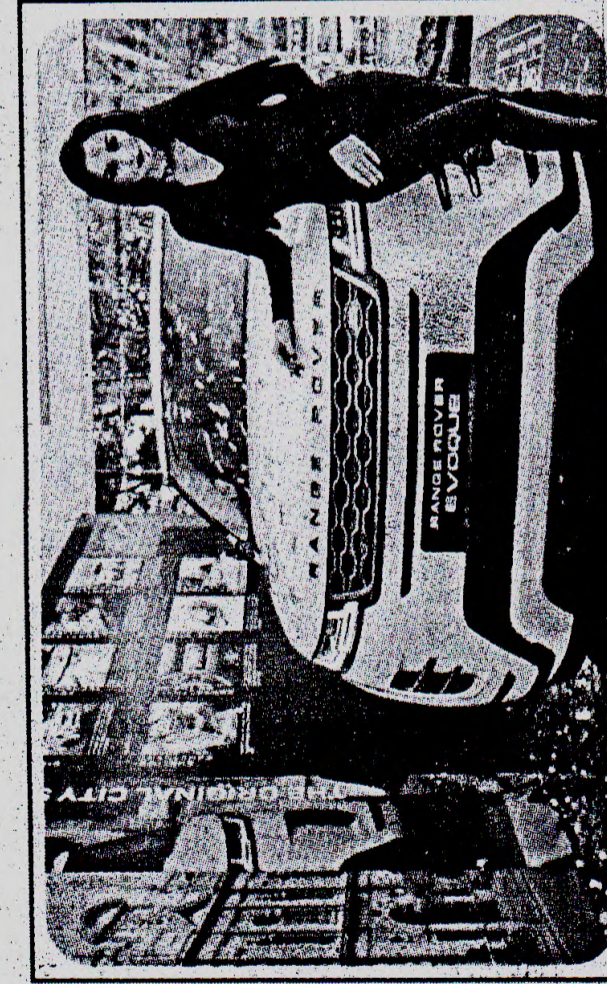


THE MINISTERS WOULD BE ALLOWED TO PROCEED TO JAFFNA

# Sri Lanka budget deficit to expand to 5.4 to 5.6-pct in 2019



Access Motors launched the latest Range Rover Evoque with a 2.0 litre engine priced at Rs. 25 million in Sri Lanka on Thursday. The company said it expects to boost revenues in 2020, with a strong recovery in Land Rover and Jaguar sales helped by a new plug-in hybrid range. (See story inside)

**ECONOMYNEXT -**  
Sri Lanka's budget deficit may reach 5.6 percent of gross domestic product in 2019, Treasury Secretary R H Samararatunga said, which would be around the same levels as in 2018.

The revised deficit could be 5.4 to 5.6 percent, Samararatunga said. Sri Lanka was originally targeting 4.4 percent of GDP for 2019.

But the 5.6 percent out-turn would be around the same levels as the 5.4 to 5.6 percent seen in the last three years.

Up to July 2019, Sri Lanka's revenues fell 4.4 percent to Rs. 1,031.9 billion from 1,079.0 billion in 2018.

Current spending grew 10 percent to 1,218.9 percent, pushing the deficit to around 4.4 percent of GDP.

Samararatunga said in September there were signs of a recovery in revenues.

Revenues generally move up in the second half of the year. In the first half of the year arrears are also sometime settled and state salary hikes and other new spending also occurs.

However, large volumes of dollars are bought including from the Treasury at a

convertibility undertaking at market prices with no 'disorderly' rise.

The central bank also injects base money in using forward dollar contracts of the type used by speculators to hit East Asian currencies, with Treasury as the counterparty, critics have said.

The rupee collapsed from 153 to 182 to the dollar from the latest 'flexible, exchange rate' crisis, involving injections from both speculative swaps and injections from lender of last resort windows.

Money was injected in 2018, just as the credit system was recovering from another crisis in 2015/2016 triggered by sustained releases of liquidity and money printing to depress short term rates as the economy was recovering from yet another crisis in 2012/2013.

In the 2015/2016 flexible exchange rate crisis the rupee fell from 131 to 150 to the US dollar.

In 2012 crisis when liquidity management was worse, but convertibility undertakings were tighter, the rupee fell from around 113 to 131 to the US dollar.

Under the flexible exchange rate, the gap between crises is becoming narrower, critics have warned.

There have been calls to reform the central bank to rein in its ability to practice discretionary or flexible policy and move to a consistent peg or an inflation targeting framework with a genuine floating rate to that the country will have longer periods of stability and will be able to practice free trade.

Nixon shock-style trade restriction were slammed in 2018, in the wake of monetary instability and the state revenues and economic output are under pressure. In April matters were further complicated by Easter Sunday blasts which hit tourism.