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'Debt - GDP ratio to improve with capital influx from major projects'

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With the influx of capital inflows from key projects such as Hambantota Port and Colombo Port city, in the next few years the debt to GDP rate will slowly start to decline.

"In 2018, our debt to GDP was 83% while we expect it to rise to 85% in 2019," said Head of Research, First Capital Holdings PLC, Dimantha Mathew at the launch of the Mid Year Outlook 2019 by the First Capital Research on Wednesday. The total debt repayment for 2020 is at Rs. 2.4 trillion with rollovers from the rest of the year 2019. After 2015, the total debt of the country increased by about 34% to the existing debt. About 70% of debt was used to pay the interest of the existing debt this year and thus it is important that the country should bring its nominal growth at least 10% or above to bring debt to GDP under control.

Head of Research, First Capital Holdings PLC, Dimantha Mathew, Director, First Capital Holdings PLC, Nishan De Mel and Director/CEO, First Capital Holdings PLC, Dilshan Wirasekara

"Sri Lanka should implement a debt management office in order to manage the debt of the country efficiently," said Director/CEO, First Capital Holdings PLC, Dilshan Wirasekara. He also said that accounting for the fact that debt is a critical element of rating the country's position and confidence, enormous professional focus should be given in managing it effectively. Director, First Capital Holdings PLC, Nishan De Mel said that there are certain structural problems which significantly affect the GDP growth of the country. "We don't yet see any kind of steps taken to restructure the country's economy in a way that aids it to move forward from this middle income state that we are in currently," he said.

The GDP growth of Sri Lanka is often linked to two factors: the way in which the government manages to stimulate the growth through fiscal expansion and the way in which the government can stimulate the growth through increasing imports, that is expanding the trade deficits. However these are unsustainable methods used by the government for the GDP growth. During the research, it was found that the GDP would show signs of improvement amid election fever. With the Central Bank of Sri Lanka (CBSL) continuing to adopt loose monetary policy stance, an improvement in the economic activity and GDP growth is expected towards the fourth quarter of 2019. To Page v

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The dollar index is expected to remain strong with the fed rate cut considered to be just an adjustment in the uptrend. Also it is expected that the exchange rate would record a moderate depreciation with June 2020 target at Rs183 to Rs188.

The possible extraordinary positives that could amend weaknesses in 2019-20 as per the research are exceptionally strong government, significant foreign inflows of USD 2 to 3 billion are achieved during 1H-2020 and external sector improvement in global growth and fund flows towards South Asia. In conclusion the indicators show that along with a positive political outlook, neutral economic and external outlook, the overall outlook will be neutral he said.