

# FT View

## No space for excuses

PRIME Minister Mahinda Rajapaksa was sworn into his second term yesterday, and the rest of the Cabinet is expected to follow later this week. Resounding as the Sri Lanka Podujana Peramuna (SLPP) victory has been, it also comes loaded with the highest level of expectations.

As much was acknowledged by SLPP Chairman Prof. G.L. Peiris on Friday as the party celebrated its triumph. Sixty-six Parliamentarians, one-third of the former Parliament, were sent home by the people, which sends a clear message to the new one. MPs who are not working in the public's interest will have short careers. The SLPP has been elected on a mandate of security, economic growth and development, and now, it is time to start delivering.

This has become all the more imperative given the latest data released by the Census and Statistics Department, which showed the economy has contracted by 1.6% in the first quarter (1Q) of 2020. What is worrying is that not only is this against a 3.7% improvement a year earlier, but the economy has posted negative growth ahead of the COVID-19 lockdown which began in late March. The four major components of the economy, 'Agriculture', 'Industry', 'Services' and 'Taxes less subsidies on products', have contributed their share to the GDP at current prices by 7.3%, 28.4%, 58.3%, and 6%, respectively, in the 1Q. However, the department also said as a result of the COVID-19 outbreak, many sectors in the economy suffered much, and it led to a slow-down in the country's economic performance. Accordingly, GDP estimates of the 1Q have reported contraction in agriculture and industrial activities by 5.6% and 7.8%, respectively. Only the Services sector activities continued to expand further by 3.1%. This suggests that the 2Q numbers may be worse than expected. Ratings agency ICRA Lanka, which is a subsidiary of Moody's Investment Services, in their mid-year review released earlier this week, projected that the 1Q contraction would only be 0.2% but the 2Q contraction is expected to be much severe at about 6.9%.

The Central Bank also recently said they were awaiting the 1Q growth numbers before adjusting projections for 2020. In the Central Bank's Annual Report, the economy was estimated to grow 1.5% this year but given the latest numbers, this appears to be an unrealistic expectation. With key sectors, such as Agriculture - which employs about 28% of the population - and industries being hit, there is a clear need for the Government to redouble their efforts to rebalance the economy. While the pressure to provide stimulus is intense, the Government already has to contend with a fiscal deficit that is likely to reach 9% this year and cannot afford to pump money into wasteful efforts. As it mulls how to repay significant levels of debt both this year and next, which includes a \$1 billion repayment in October, it will also have to find ways to bolster reserves and keep the currency stable. Championing local industries will boost growth in the short-term, but without greater exports and investment, Sri Lanka will struggle to put its growth on a sustainable path. The writing on the wall has been clear for some time, and while it is important for the country to focus on the makeup of the next Parliament and follow democratic process, the time has now come to focus on economic reforms to fix economic issues. Despite the economic hardships and COVID-19 concerns, many districts had a higher-than-expected voter turnout - especially in relatively underserved areas, which shows that the people remain committed to voting in representatives. It is now time for them to start delivering.



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No 41, W.A.D. Ramanayake Mawatha, Colombo 2.

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