

“The numbers have come in,” exclaimed *Arthika*, my nonsensical economist friend better known as ‘good-for-nothing *Somey*’, on Friday morning.

He woke me up with his call after I had spent a long night listening to the parliamentary election results in which the Sri Lanka Podujana Peramuna (SLPP) swept the polls, while the once-dominant United National Party (UNP) was virtually wiped out, coming in a poor fourth in the race. For the first time at a poll, UNP leader and former Prime Minister Ranil Wickremesinghe ended up without winning a seat in the preferential count.

“Hi...hi, what numbers are you talking of?” I asked, rubbing my bleary eyes. “Why, the gross domestic figures (GDP or economic growth) have come in for the first quarter of 2020 and they are not at all positive. Growth is minus for this period and shows a GDP contraction of 1.6 per cent according to the Department of Census and Statistics (DCS),” he said, reading from *Thursday’s newspaper*.

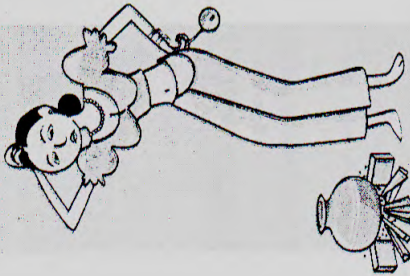
The DCS has said that the growth estimates in the first quarter reflect the continuing negative effects of the Easter attack in April 2019, compounded by the deep impacts of the onset of the COVID-19 pandemic.

Data collection to compute these figures was difficult this time, the DCS said. While normally the first quarter data are released on June 19, this time the DCS faced many difficulties and challenges in gathering data and information during May and June from government, semi-government and private sector institutions in the country.

“In addition, the data availability of many institutions and the quality of the data, were not at satisfactory levels due to the operational impediments at ground level due to the restrictions imposed by the government and the regulations provided by the Ministry of Health regarding the spread of COVID-19 such as limiting the number of staff for normal work,” it said in a statement.

“With the exception of the service sector which continued to expand by 3.1 per cent, the remaining three sectors – agriculture, industry and taxes, less subsidies on products, which contracted – contributed to an overall economic downturn. Impact of the pandemic was felt severely in this quarter, as the economy which operates at the maximum capacity before the dawn of the Sinhala and Tamil New Year, failed to function at peak level due to the lockdown conditions which commenced at the end of the first quarter,” it said.

‘KUSSI AMMA’ SERA’ (the kitchen files)



by Feizal Samath



No. 8,
Humupitiya Cross Road,
Colombo 2.
Tel: 0112 479 319
Email: bt@sundaytimes.wml.lk

Sliding economy

“This means that this year we are most likely to report negative growth as the next three quarters will be heavily affected by the pandemic and its after-effects,” I said, continuing the conversation with *Arthika*.

“Yes... it’s going to be a tough time and even tourism is unlikely to pick up this year,” he said, adding: “Many challenges for the new government.”

For the record, Sri Lanka’s economic growth has been sliding since it grew by 5 per cent in 2015. Growth was slower in the following years with the economy growing by 4.5 per cent in 2016, 3.6 per cent in 2017, 3.3 per cent in 2018 and 2.3 per cent in 2019. While the Central Bank expects the economy in 2020 to grow by 1.5 per cent after contracting in the first three quarters, economists and rating agencies believe the country will end up with negative growth in 2020.

The double whammy on the economy – the 2019 Easter Sunday attacks and the COVID-19 pandemic – is seen worsening in the second and third quarters with tourism responding slowly to the recovery and as the country prepares for a possible second wave of infections, which cannot be totally ruled out, once the airport reopens for normal tourist traffic.

As I wound up my conversation with *Arthika*, I turned to the discussion under the margosa tree. “*Janadhipathi Gotabaya Rajapaksa pakschaya udinna dinala* (President Gotabaya Rajapaksa’s party has won an astounding victory),” said *Kussi Amma Sera*, sipping tea from her mug. “*Ape gamuuala okkoma kattiya eh pakscheta chande dala thiyenne* (Most of the people in the villages have voted for his party),” noted *Serapina*.

“*Eka hetthuwaak ne jayaggrahanayata, aanduwa vairasaya paalanaya karapu viditha* (I think one of the reasons for this victory was how the government handled the COVID-19 situation),” added *Mabel Rasthiyadu*. “*Viruddha pakscha walath prashna godak thibuna-ne* (There were also many problems in the opposition parties),” countered *Kussi Amma Sera*.

While victory at the polls is sweet music to the ‘*Pohottuwa*’, the new government nevertheless has daunting challenges to put the economy on track in the midst of a global recession and rising job losses at home. With negative growth predictions, no budget for

the entire 2020 (with revenue figures from taxes also in reverse gear), another hurdle amidst mounting tax problems is the 2021 budget which is expected to be presented in November 2020 by the new government. The only consolation is that Parliament resumes on August 20 according to a presidential decree and would provide some breathing space in finding sources of expenditure and formalising the three Vote on Accounts presented this year.

So far, at least 500,000 workers – directly and indirectly – have lost their jobs largely in tourism and garment-industry related sectors.

According to recent data, Sri Lanka’s apparel exports in the first half of this year reduced to US\$1,834.88 million compared to \$2,620.40 million in the first half of the previous year, a drop in earnings of \$785.52 million or 40.28 per cent.

Apparel exports for the whole of 2020 are likely to be \$2 billion lower than last year, a 40 per cent drop in a worst-case scenario, according to some reports. Industry officials have said that the toughest period would be from September to December, while exporters expect orders to pick up from January 2021 onwards.

The situation is worse in the case of tourism, a sector that is the first to get hit in a natural or man-made disaster but the fastest to recover too. Plagued by the Easter Sunday attacks which immediately led to a sharp drop in arrivals, earnings from tourism dropped by 18 per cent to \$3,592 million in 2019 from \$4,381 million the previous year. The industry had seen a gradual improvement by early 2020 until COVID-19 crippled all these early-recover efforts and a possible turnaround.

Even if Sri Lanka is to reopen its borders by end August or early September, tourist arrival numbers would be much lower since many of the country’s source markets in Europe and Asia are still closed for regular outbound traffic.

As I completed the column, sipping with relief my second mug of tea – after a long night, my reflections were on the path that lies ahead where tax revenue will shrink and expenditure (largely due to non-productive spending like subsidies and compensation and relief payments for job losses) will rise: A formidable task for any incoming governing party.