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Every Lankan shoulders Rs.300, 000 debt: CBSL data

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The average national debt shouldered by each Sri Lankan has risen by 25% to reach Rs. 308,171 (US $ 2,371), from end of last year's Rs.245, 980 (US $ 1,892), the monthly economic statistics released by the Central Bank of Sri Lanka (CBSL) showed.

Referred to as 'Debt Per Capita', in economic terms is calculated as total outstanding government debt divided by the mid-year population of an economy. According to the latest figures by the Department of Census and Statistics, the population in 2012 is 20,277,597.

The total outstanding government debt which stood at Rs. 5,133 billion last December increased by Rs. 1,115.6 billion to reach Rs.6,248.9 billion during the first eight months of this year. The total domestic debt increased by Rs. 449 billion, up 16 percent to reach 3,253 billion and foreign debt by Rs. 666.5 billion, up by 28.6 percent to record Rs. 2,995.8 billion during the period.

According to economists, high debt cost amid slow growth in export earnings (8.3% YoY) against growth in imports (11.2% YoY) in the first nine months could lead the country in to a foreign debt trap situation, as the country might opt for foreign borrowings to service earlier debt, and as a result the foreign debt servicing cost (capital + interest) is also expected to surge substantially.

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Every Lankan...

The Budget 2013 projected a fiscal deficit of 5.8% of GDP proposing to rely heavily on domestic sources (83% of total deficit which amounts to Rs.507.4 billion) to finance the deficit while Rs.143 billion and Rs.445 billion is expected to be incurred as capital repayment and interest respectively.

Nevertheless according to the budget 2012, the government has exceeded the borrowing target for the full year which was Rs. 1,104 billion. This demonstrates the poor fiscal performance where the budget deficit reached to 6.44% of GDP last September whereas the full year target is to achieve 6.2%.

On the banking sector, based on economic indicators released for October 2012 by CBSL's Statistics Department, the total loans & advances of commercial banks have grown by 26.5 percent YoY in September to reach Rs.2, 205 billion. This is a reduction from the 28.5 percent YoY growth in August.

The banking sector credit grew at a rapid pace in 2011 above 34% and as a result interest rates were raised and 18% credit ceiling was imposed in February 2012 to contain growth and avoid the overheating of the economy. However in a surprised move, CBSL last week cut policy rates by 25 basis points and announced the lifting of the credit ceiling by the year end to probably oil the wheels of economic growth.

Police arrests...

Thousands of Chinese work in Chinese-funded development projects across the island. Many more arrive on tourist visas and work in the hospitality industry.

"The fraud-affected people (live) in China," Jayakodi said. The fraud has been carried out in Sri Lanka through the Internet. Police said the Chinese nationals accused in the currency scam were in the country on tourist visas.

Lanka needs...

USA has started to exploit its natural energy reserves and emerging to be the biggest natural gas producer. At the moment, Shell gas production accounts for 50% of the domestic gas requirements. In the near future, US will also rival Saudi Arabia in producing crude oil. Revenue obtained from the royalties of crude oil and gas would amount to US $ 100 billion per annum by 2020. In addition, USA is also experiencing a manufacturing revolution with the use of advanced material and technologies. The services sector in the US is also displaying enormous progress. The best services companies are American owned. For example, in Apple, all of the value addition regarding pre and post production work is still done in the US. Professor Sally stated that the next leverage of growth is in services sector, not in the manufacturing."

"Trends in both EU and China are not positive. Decreasing current account balances and slowing down of the growth of external reserves would affect the Chinese economy negatively. Professor Sally contended that if things are to improve the unsustainable practice of pumping money to public sector enterprises which are inefficient from the public sector, banks will have to be stopped. In addition, negative demographics will also compound on the Chinese growth rates. Therefore, the Professor claimed that China will have to move to a new growth model in order to overcome the challenges caused by the systemic ills. However, such a transformation is very unlikely since these decisions are very closely connected to Chinese politics. With the decelerating growth rates, there will be increasing conflicts between the middle class society and the unreformed political system which will eventually lead to the downfall of the Chinese Communist Party.

"Negative trends in the EU and China alerts the need to make contingency planning in Asia. In addition, geopolitical rivalries between US and China will also intensify along with the deepening rivalries between other rising powers in Asia like India, China and Japan. Professor Sally also argued that effectiveness of multilateral forums and global governance will also reduce with the increasing multi-polarity and increasing membership."

Speaking on what Sri Lanka ought to be doing, Professor Sally stated that establishing more links with the four states of South India would be the quickest way for Sri Lanka to integrate with the global economy. Given that China accounts only for a very small faction of the Sri Lanka's exports, Prof. Sally also said that Sri Lanka will have to focus more on making the right connections. Finally, Prof. Sally stated that the image of Sri Lanka will have to be of a multi-ethnic one and about reconciliation which goes beyond markets and investments.

Euro survives...

Now, "the likelihood of a member state leaving the eurozone is gone," said Janis Emmanouilidis of the European Policy Centre (EPC) think-tank.

Reflecting the change, Standard and Poor's raised Greece's sovereign debt rating by a massive six notches because of what it termed the "strong determination of ... (eurozone) member states to preserve Greek membership."

Greek Finance Minister Yannis Stournaras said the decision "was a very important one that created a climate of optimism. But we know that the road is still long and hard, the hour is not one for easing up."

Analysts also highlighted agreement on the eurozone's Single Supervisory Mechanism (SSM) to regulate its banks, a first step in ring-fencing lenders who get into trouble and threaten financial disaster. Perhaps the key breakthrough, giving purpose and backing to the other reforms, was A commitment by European Central Bank head Mario Draghi over the summer months to do anything necessary to save the euro.

In September, Draghi said the ECB would buy up the sovereign debt of any eurozone member state without limit, if that is what it took to keep the financial markets in check.

This pledge of 'Outright Monetary Transactions' meant markets could no longer enjoy a one-way bet against a member state as the ECB could step in on its side.

The immediate result was a sharp easing in borrowing costs, especially for Spain and Italy which had been tipped to follow Greece, Ireland and Portugal in needing a bailout.

That change, backed up a 100 billion euros eurozone lifeline for its banks, allowed the Spanish government to hold the line.

By year-end, few were talking of Madrid as the next debt crisis casualty, with its banks also being stabilised at a much lower-than-expected cost of some 40 billion euros. Some analysts said it was important not to get too carried away, however.

The outlook for the next two years "looks less unsettled and will be concerned above all with implementing the new supervisory regime and winding up mechanism for the banks," CM-CIC Securities analysts said in a note.

For Barclays, talks on closer integration in the eurozone could prove heated and even chaotic, with the emergence of deep differences running the risk of stoking fresh tensions on the markets.

Above all, the uncertainties for the coming year are political, with elections due in Italy and then Germany, while the situation in "Greece is still on a knife-edge," said Emmanouilidis at the EPC.

The economic outlook is also clouded, with the eurozone in recession and expected to slow further while unemployment runs at a record 11.7 percent, rising to unprecedented levels around 25 percent in Spain and Greece.

Against that background, German Chancellor Merkel's guarded words on the outlook seem appropriate. "We have already achieved a lot but I think we still have a very difficult time ahead," Merkel said after the last EU leaders summit of the year earlier this month. **(AFP)**