

RE-STRATEGIZING THE LOCAL ECONOMY WITH SRI LANKANS AT ITS CENTRE

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As we know, you are an economist and an international consultant. So, to begin with, we would like to have an overview of your current engagements.

I currently work overseas and in Sri Lanka. Overseas, I primarily work with international organizations like the International Trade Centre, which is a joint body of the UN and WTO. I work with them on economic competitiveness and trade strategy initiatives, advising the governments of Pakistan, Iran, and previously Myanmar. I also work with them on improving the government's ability to implement effectively together with their private sectors. In Sri Lanka, I started a new public policy think tank called the Centre for a Smart Future (www.csf-asia.org) where we produce new knowledge and solutions in areas ranging from

“ *BEFORE WE CONSIDER THE LONG-TERM, WE MUST LOOK AT THE SHORT-TERM – NEGOTIATING WITH OUR CREDITORS OF ALL TYPES FOR A RESTRUCTURING OF DEBT* ”

inclusive economic growth, to technology, to cities and urbanization, and the environment and natural capital. I also have some roles in the private sector, as a Director at Seylan Bank, HNB Finance, and Fairfirst Insurance.

On 08th March 2022, the Central Bank of Sri Lanka announced that they had to abandon

the pegged exchange rate and enter into a floating exchange rate regime again. What are your comments on this action?

It was much needed but was done too late and too rapidly. We saw the currency slide sharply after that, but it should not have been held artificially for so long – totally disconnected to market realities and was completely unsustainable.

Theoretically, we know that depreciation encourages exports and discourages imports. But in accordance with statistics in Sri Lanka, the results are irregular with the theory. Why isn't depreciation strengthening the trade balance in Sri Lanka?

“CORPORATES SHOULD FIRMLY TAKE A NATIONAL INTEREST PERSPECTIVE ON ALL MATTERS AND BE FEARLESS IN THEIR STATEMENTS AND ACTIONS”

Actually, the long-term results do stack up to this theory, but on average, Sri Lanka has historically had overvalued exchange rates and has had an anti-export bias. There was more emphasis placed on what a weaker currency would do to the cost of imports than the benefit of exports. However, right now, what we see is that even though the LKR has substantially depreciated and should help export competitiveness, due to the current economic crisis, there is a severe domestic production shock. This is driven by raw material shortages, intermediate goods shortages, sharp price hikes in inputs, lack of fuel and electricity, difficulties for workers to come to factories and offices, etc. So, exporters cannot fully benefit from the depreciation because their production is affected and also the cost of production has gone up due to domestic inflation (now at nearly 30%!).

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 08th April 2022, decided to increase the Standing Deposit Facility Rate (SDFR) and the



Standing Lending Facility Rate (SLFR) with the expectation of stabilising the exchange rate and the price level. What do you think would be the real impact of this decision?

It is clear – market interest rates would rise, increasing borrowing costs and slowing lending. It would curb demand-pull inflation and support the rest of the macro-stabilization efforts.

According to your point of view, what could be done in the long-term especially to help Sri Lanka to regain its debt sustainability?

Before we consider the long-term, we must look at the short-term – negotiating with our creditors of all types for a restructuring of debt – possibly a haircut and/or an extension of tenor. Without this, we cannot look beyond. Once that is completed, we must do the following: implement long-overdue economic reforms to liberalize and deregulate the economy in order to attract export-oriented FDI; improve human resource skills capabilities to boost exports and innovation in order to drive foreign earnings; privatize unproductive state assets that are a drain on public finances and generate some cash, but in a transparent manner; and introduce tighter governance around what we consider future investments and increase the economy's overall competitiveness and dynamism so that, it is led by the private sector, trade, exports, and investment rather than the public sector and non-tradable sectors.



As you think, what is the responsibility of the public and the corporate sector to be more resilient amidst this situation?

There are several aspects in your question here – the public, the corporate sector, responsibility, and resilience. Since it is a lot to respond to, I will speak mainly on the corporate sector's responsibility – their responsibility is to the people of the country, and they should firmly stand behind the people's struggle for

accountability and good governance. They should provide a strong, coherent, and credible voice calling for change, beyond the usual narrow-interest approach. They should firmly take a national interest perspective on all matters and be fearless in their statements and actions. There is no point in winning various CSR and corporate citizenship awards if they do not stand by justice, democracy, equality, and good governance at this historic moment in the country.

Finally, as an economist, what are your thoughts on the best solutions the government has to reset the economic strategy?

There are many thoughts I could share on this, but I will keep to just one – ensure people are at the centre. This crisis, coming on the back of two previous crises – Easter Sunday bombings and then COVID-19, has severely hurt people – households, workers, children, urban poor, and other vulnerable population groups. The myopic decision to ban agrochemicals further aggravated people's plight. So, as you say, any 'economic strategizing' should put people first – decision-making should consider the impact on people; austerity measures under an IMF program should consider the impact on people, and new economic plans should consider how they will impact and benefit people. Forgetting this would risk hard-socio-economic and human development gains made since independence and would risk a "lost decade" in terms of inclusive growth in Sri Lanka.

**By Janith Iddawala
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