RISING FROM THE ASHES:

ECONOMIC & BUSINESS PERSPECTIVE

Sri Lanka, a tropical paradise known for its lush landscapes and rich cultural heritage, has been through a tumultuous journey in recent years. The island nation has faced numerous challenges, including a prolonged civil war, devastating natural disasters, and a struggling economy. However, it is time for the nation to emerge from the ashes, phoenix-like, with a triumphant revival of its economy.

The sage words of Winston Churchill, "Never let a good crisis go to waste," could not be more fitting for the present situation in Sri Lanka. The nation's economy, hobbled by one of the most formidable crises since its independence, offers an unparalleled chance to effectuate long-overdue reforms. The examples of countries such as India and Thailand, which emerged stronger after implementing sweeping economic reforms in the wake of severe economic turmoil, serve as a beacon of hope. As the economy totters on the brink of collapse, it is imperative that a comprehensive overhaul of the economic framework be undertaken to navigate this crisis. This pivotal moment could very well prove to be the silver lining to

THE SAGE WORDS OF WINSTON CHURCHILL, "NEVER LET A GOOD CRISIS GO TO WASTE," COULD NOT BE MORE FITTING FOR THE PRESENT SITUATION IN SRI LANKA. THE NATION'S ECONOMY, HOBBLED BY ONE OF THE MOST FORMIDABLE CRISES SINCE ITS INDEPENDENCE, OFFERS AN UNPARALLELED CHANCE TO EFFECTUATE LONG-OVERDUE REFORMS

the cloud of the economic recession that has enshrouded Sri Lanka.

From an economic standpoint, the root causes of the present crisis can be traced to the persistent twin deficits of fiscal and trade. To mitigate the effects of this economic maelstrom, the government has embarked upon a mission to bring these deficits into balance. The strategy to curb the fiscal deficit involves an intense regimen of both direct and indirect taxation. However, the narrow scope of the tax net has rendered direct taxation a questionable solution, as a mere fraction of the populace bears the burden of financing a multitude of tax evaders. An alternative proposition has been advanced, advocating for the implementation of targeted indirect taxes as a more effective means of addressing the fiscal deficit.

The lagging performance in foreign direct investment and export growth constitutes a significant setback for the country. In recent years, foreign investment has only increased by a paltry few hundred million dollars annually, excluding the Port City Investment. This

lackluster influx of foreign capital, classified as "new," is largely comprised of reinvestments by current entities. The foremost obstacle to attracting foreign investment in Sri Lanka is the lack of ease in doing business.

In the midst of global economic turmoil, Sri Lanka has a unique opportunity to boost its exports from $10 billion to $20 billion in the next 3 to 5 years by attracting foreign direct investment in cutting-edge industries. The key lies in targeting technology, renewable energy, energy storage systems, and sustainable mobility products - all of which are in high demand and offer vast potential for growth. With its strategic location, Sri Lanka can establish itself as a regional and global hub for these exports.

To make this a reality, the government must prioritize restructuring its governance and engage with the business

THE LAGGING PERFORMANCE IN FOREIGN DIRECT INVESTMENT AND EXPORT GROWTH CONSTITUTES A SIGNIFICANT SETBACK FOR THE COUNTRY. IN RECENT YEARS, FOREIGN INVESTMENT HAS ONLY INCREASED BY A PALTRY FEW HUNDRED MILLION DOLLARS ANNUALLY, EXCLUDING THE PORT CITY INVESTMENT. THIS LACKLUSTER INFLUX OF FOREIGN CAPITAL, CLASSIFIED AS "NEW," IS LARGELY COMPRISED OF REINVESTMENTS BY CURRENT ENTITIES. THE FOREMOST OBSTACLE TO ATTRACTING FOREIGN INVESTMENT IN SRI LANKA IS THE LACK OF EASE IN DOING BUSINESS community to drive investment. The legislative and executive branches must work together and take action to address the country's current crisis, while businesses can support the government by advocating for policies that attract FDI. Simultaneously, efforts must be made to reduce government expenditure and streamline state-owned enterprises to reduce the fiscal deficit and create a stable investment climate.

Thus, Sri Lanka must take bold steps to recover from the economic crisis and secure long-term growth. This requires a focus on enhancing fiscal and debt sustainability, implementing structural reforms, and maintaining tight monetary policy to control inflation. The financial sector must be carefully managed, especially given its high exposure to government and SOE debt, while restoring a flexible exchange rate will support external adjustments and rebuild international reserves. It's also important to minimize the impact on the poor and vulnerable during the adjustment period.

SRI LANKA MUST TAKE BOLD STEPS TO RECOVER FROM THE ECONOMIC CRISIS AND SECURE LONG-TERM GROWTH. THIS REQUIRES A FOCUS ON ENHANCING FISCAL AND DEBT SUSTAINABILITY, IMPLEMENTING STRUCTURAL REFORMS, AND MAINTAINING TIGHT MONETARY POLICY TO CONTROL INFLATION. THE FINANCIAL SECTOR MUST BE CAREFULLY MANAGED, ESPECIALLY GIVEN ITS HIGH EXPOSURE TO GOVERNMENT

While these reforms may temporarily impact growth and poverty, they will lay the foundation for sustainable growth and regain access to international financial markets. Previous experiences of other countries have shown that recurring crises are the result of failure to address root causes. Political leadership and citizens must be resolute in their commitment to structural reforms and share the burden of recovery, with higher-income groups taking on a larger role to protect the vulnerable. Debt restructuring and international support will be crucial to closing the financing gap and maintaining progress. Sri Lanka has the potential to emerge from the crisis as a strong, resilient economy, but it will require a collective effort from all stakeholders.

By Gishan Abhayagunarathna