

RESURGENCE OF THE SRI LANKAN ECONOMY AMIDST THE CHALLENGES

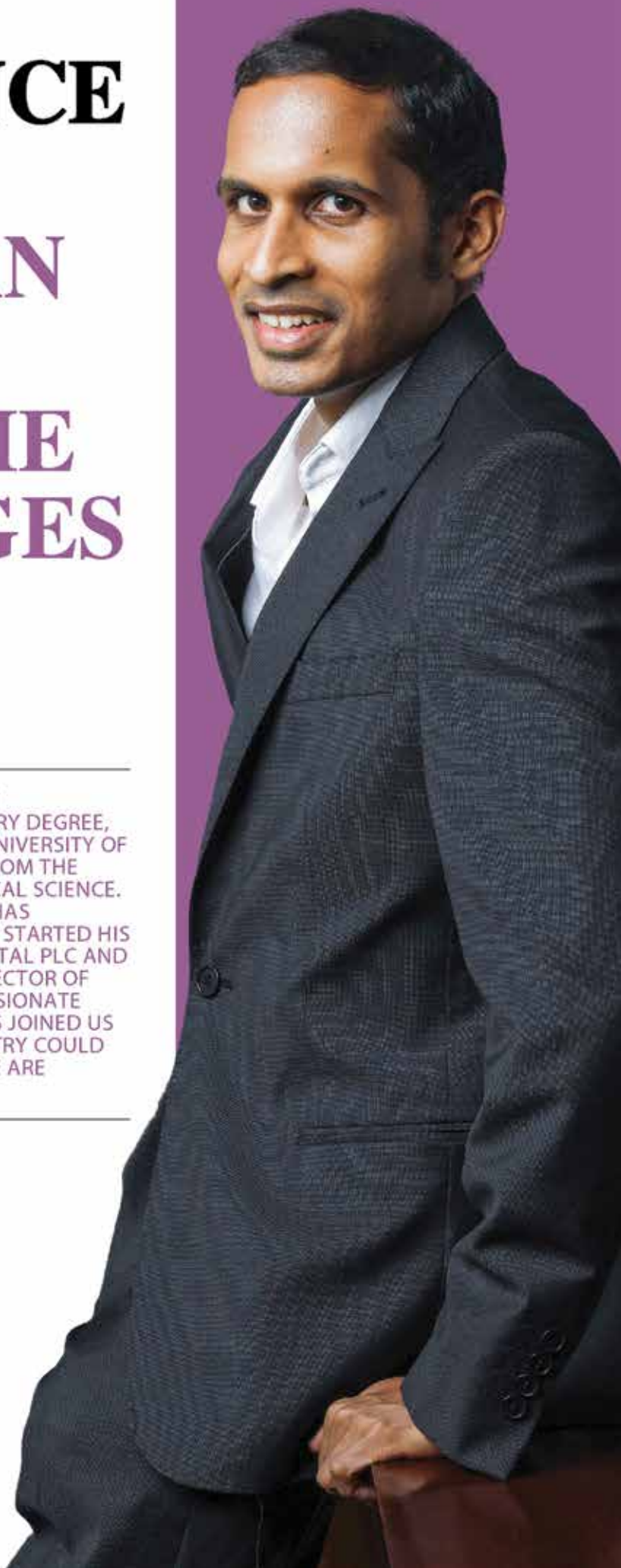
MR. TRAVIS GOMEZ

ASSOCIATE DIRECTOR OF
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MR. TRAVIS GOMEZ, A RENOWNED CORPORATE PERSONALITY IN SRI LANKA EARNED HIS PRIMARY DEGREE, BSC IN ECONOMICS AND FINANCE FROM THE UNIVERSITY OF LONDON. HE HOLDS AN MSC IN ECONOMICS FROM THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE. HE IS A CHARTERED FINANCIAL ANALYST AND HAS INDUSTRY EXPERIENCE OF OVER A DECADE. HE STARTED HIS CAREER AS A RESEARCH ANALYST AT ASIA CAPITAL PLC AND IS CURRENTLY SERVING AS THE ASSOCIATE DIRECTOR OF USABAZE SRI LANKA. AS A QUALIFIED AND PASSIONATE ANALYST, AND A RESEARCHER, MR. GOMEZ HAS JOINED US TO SHARE HIS THOUGHTS ON HOW OUR COUNTRY COULD RECOVER FROM THE ECONOMIC HARDSHIPS WE ARE EXPERIENCING NOW.

What is your overview of the current state of the Sri Lankan Economy?

At the moment the current state is that we are facing these multiple challenges. Therefore, if you start from a Macroeconomic level, particularly when it comes to the Forex market, we're going through this Forex crisis. And right now, I think the top-of-the-mind issue is regarding restructuring. How are those negotiations going to





work out, especially with the IMF?

That is one area that we think would be the most critical one in terms of really determining the future confidence in the economy and the future trajectory that the economy can go in. This is a key underlying factor that we need to sort out in terms of those negotiations with the creditors and getting an IMF program in place.

Then, I think the other major challenge we're facing is on the fiscal side, pertaining to the government budget. In my opinion, one of the main factors that prompted this crisis has been the steep drop in the tax base, resulting in the ballooning of the fiscal deficit.

Perhaps right now, given the negotiation that we are undergoing with the IMF as well, one of the key milestones we need to achieve is to try to increase the tax base from what it currently is. A key challenge would be how to operationalize that in terms of tax collection. So

that would be another.

In addition to that, we need to find ways to cut down on expenditure, because you have 2 sides to it. You have the increasing revenue, but also you need to look at the areas that we can try to cut down on the expenditure, and one area the government seems to be looking at is the restructuring of some of those State-owned enterprises.

Those are the big challenges that we are currently facing, and those challenges have unfortunately filtered down to the individual. At the corporate level, it has become evident via the freezes on people's salaries, and we are beginning to see it filtering down at a social level too, and importantly, the significant increase in food prices and inflation in general. That is like the current state that we are dealing with at a company level. I think the main challenge would be how the employees are handling this situation.

As a research organization, we

have these challenges happening at a local level. But the company I am at, Uzabase, we are a global

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company. It's a Japanese-based company. And in Sri Lanka, we one of the leading teams that provides a lot of research for the global organization.

Our performance is very dependent on global factors as well. And right now, it's not just in Sri Lanka. Globally, there are challenges that are taking place. There is a slowdown that is also taking place in Europe, and across the world. So that's another factor that is affecting us as well.

As far as you think, what are the main factors contributing to the current crisis and the resultant hardships?

This kind of crisis is not really something new to Sri Lanka. We have both a fiscal deficit and an external deficit, there is some correction that needs to take place, and usually, that involves going into the IMF.

There are 2 sides that have pushed us to this current situation. So, one is in terms of internal policies. There have been some missteps that happened. So one is, I think, the most critical one in terms of the tax policy.

After this tax thresholds were revised after the tax basis was cut down, that's severely reduced. It's very hard to get them back on it. It's not an ideal sort of situation. One is that significant drop in the tax revenue which then led to a ballooning of that fiscal deficit management that the Government had to take on more they had to go for more money printing or for taking on more external financing.

The other sort of issue, which also has a significant impact in terms of some of the policy measures



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around, for instance, the fertilizer policy which again had a severe impact on the supply side of the economy in terms of food production. Usually, what happens in an economy is when food production is affected, it cascades to the entire economy.

I think the other policy mistake that was made was in terms of the delay in commencing the IMF program. So usually in the past, when such unprecedented financial situations occur, we always go to the IMF. And in time, we'd be able to get the bailout because the benefit of having the IMF on board is that that provides confidence to the external investors, and supplies reassurance in terms of the funding that they provided.

Delays in doing that have really pushed us into this situation, which then resulted in the very significant depreciation of the currency, the interest rates shooting up, and inflation also rising rapidly.

These are some internal reasons, but we also had some external shocks that affected us. You have the Easter Sunday bombings that happened which severely affected the tourism sector and numerous other key sectors, including the property sector. And immediately after that, we also faced the Covid pandemic that we are still dealing with, since 2020. And now we are also currently seeing a global slowdown. This slowdown is going to affect some of our export industries, particularly large garment companies, as key markets like the USA, UK, and Europe are also dealing with this inflationary situation, which will in turn affect us. Therefore, it's a combination of both internal reasons, as well as some shocks, and external shocks that have



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pushed us to this situation.

In your opinion what are the different mechanisms that can be implemented to attract FDIs?

Attracting FDIs has been critical. That is, I think, a critical thing for Sri Lanka to improve the resilience of the economy because right now, you know the challenge we have is that our economy is not very diverse. It's reliant on a few sectors.

As well as even up-and-coming sectors that we have, like the KPO or the BPO type of operations like

the company. They're very small, all account for a small part of the economy. So, our focus really should be on trying to diversify that, you know, attract, and one way to do that is by attracting FDI's.

There are numerous benefits to bringing in FDIs because this means you're bringing in foreign capital, and with it, foreign expertise. This will help build good networks and partnerships with some global brands and help provide access to those global markets.

I think there are a couple of things that we require to attract

FDI's in order to ensure that we have set things in motion and arranged a conducive space for us to be able to successfully do that.

One is in terms of the ease of doing business because any company is looking to set up here. They need to see how attractive the environment is. There are a couple of different factors they're looking at. So, one is how easy it is to operate in the country if the legal system is stable. Another factor is if there is political stability in the country. Moreover, such investors require the utmost transparency, in all business transactions and dealings.



The above are but some of the factors that a foreign investor would be looking for, in addition, they would also be looking at the various benefits the destination can offer. So, when I say benefits, I think a critical thing is, do we have the necessary human capital to cater to and do we possess workers with the necessary technical skills for the industry in question, can we offer more productivity, or perhaps a better

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cost advantage, for instance. Bottom line is, there must be some sort of lucrative and tangible benefit that they need to see by coming here.

That's the kind of thing that we need to look at if you are hoping to attract more FDIs to the country.

In your opinion what are the measures that can be taken to improve foreign earnings?

I think, the other area we need to really focus on, and where Sri Lanka has an actual advantage, is the tourism sector, it's important to promote the tourism sector. One is in terms of getting foreign earnings into the country and getting more visibility, as more tourists come in. Once tourists go back, they talk about Sri Lanka, which opens up more opportunities for FDIs to come in as well. Bringing in more tourists can really be a catalyst for promoting that sort of region and having more regional growth across the country.

If you compare it with other destinations, we may not be the cheapest destination to visit, and

currently given the challenges, it's difficult for us to position ourselves as such, so really, we need to see where and what our strengths are, and what is the main thing we can offer. This can be in terms of the experiences, and the diversity of people and cultures. Either way, we need to come up with some sort of coherent strategy.

According to your point of view, who are the key stakeholders who should come forward to play a major part in this rebuilding stage

I would say it's pretty much all of us. Everyone must be a part of this. However, just to highlight some main groups.

When it comes to dealing with the more macro-related issues because a lot of the problems stem from that in terms of the fiscal side of things, as well as the external debt-related one. So naturally, you need the government and the political system to be involved there.

The most critical aspect is the negotiations with the creditors. To make sure that you can lead

gain an amicable settlement, by maintaining clear communication with the IMF and gaining the advice and support of other people who have experience. There are some objectives that they need to meet, and we need to make sure that we can carry those out in terms of those key reforms that need to be made, in certain sectors. So, we need to make sure that policy consistency is maintained.

Moreover, as we are indeed in a crisis, there are very vulnerable groups that the government needs to provide some support. But it becomes important in this case to identify what sort of support is required, and within what area, sectors and contexts. Furthermore, tough questions like what areas or scope must be reduced or cut down in order to reallocate funds to contexts of necessity, would have to be investigated as well.

Then, I think another key macro concern and key player is the central bank. The banking sector

must certainly be investigated because another worry that is currently at hand is the case of this debt restructuring and the impact it might have on the banking system as a direct result of the IMF negotiations. Such changes might lead to some domestic restructuring as well. Then, as a result, people might be worried about that, as their savings would be affected. The Central Bank and the Government must maintain a clear dialogue and clear communication to ensure the best and most efficient outcome. If they don't, this can potentially boil into another crisis, a banking crisis would certainly worsen the situation, thus, clear and collective communication and decision making is the essence of the time.

To continue with the work we do, and particularly in our case, you know, we must face numerous challenges and require such necessary intervention to support our country, in order to support ourselves. We understand that everyone has these challenges in

terms of power cuts and fuel issues. I mean, there are challenges with running the business. But despite that, we need to find creative ways to overcome this situation.

What sort of challenges are faced by the organizations in the process of bringing back business and economic normalcy

To me, getting back to normal primarily means making sure that you can continue with your business or whatever product or

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THERE IS ONE CHALLENGE ON THE ELECTRICITY SIDE, OR RATHER THE LACK OF IT DURING PEAK WORK HOURS. THE OTHER CHALLENGE, OF COURSE, IS WITH REGARD TO TRANSPORTATION. THE COST HAS INCREASED SIGNIFICANTLY, AND MANY PEOPLE ARE, TRAVELING FROM DISTANT AREAS, SO, IT'S NOT VERY CONVENIENT. MOVING TOWARDS HYBRID WORK CAN BE AN EFFECTIVE SOLUTION, HOWEVER, IT IS IMPORTANT TO BE MINDFUL OF WHEN YOU ARE WORKING REMOTELY THAT A SENSE OF DISCONNECT MAY OCCUR BETWEEN TEAM MEMBERS AND THE ORGANIZATION. THUS, FINDING WAYS TO KEEP THEM INTERACTIVE, COULD BE VIA AN ONLINE BASE OR PLATFORM



service that you're offering. That continuation is important.

I think going forward, the focus of a lot of businesses should be to make sure that one is particularly paying attention to employees' needs, and this attempt must be transparent so that employees feel and see that their needs are also being met. I think employers need to be a bit more mindful of the challenges that their employees are facing and must find different ways in which they can support them.

I think the other side is ensuring your clients are happy. Making sure that you're serving them in the best possible way, offering excellence and high quality, whilst finding ways to be creative and innovative too. I think it's very important to focus on them as well to make sure that you know you're able to deliver the same level of service, despite the challenges and the rising costs, that retain those customers, because your underlying business mostly depends on them.

What are the measures you have taken to safeguard your employees during the crisis?

One is in terms of the practical chat. So, a couple of measures were taken to deal with some of the practical challenges that the employees are facing, giving them an allowance to pay for their data. and to buy routers and other essentials for online and remote work when required.

There is one challenge on the electricity side, or rather the lack of it during peak work hours. The other challenge, of course, is with regard to transportation. The cost

has increased significantly, and many people are, traveling from distant areas, so, it's not very convenient. Moving towards hybrid work can be an effective solution, however, it is important to be mindful of when you are working remotely that a sense of disconnect may occur between team members and the organization. Thus, finding ways to keep them interactive, could be via an online base or platform.

Then, maybe having some team meetings, online or regular, having regular contact, maintaining one-on-one contact with employees, helps make sure that they are comfortable with their work situation, and aware that they do not need to face any unnecessary stress or pressure. Therefore, I believe, in having at least a hybrid work arrangement, depending on the type of business that you are involved in, of course, can be quite effective. We are fortunate enough to be able to efficiently maneuver such a structure.

Moreover, it is also vital to support staff via various wellness programmes. For instance, one thing that the Uzabase did was to increase medical coverage, by extending it to family members and allocating further benefits under the scheme. Moreover, we also conducted online sessions on wellness and mindfulness.

All this was specifically done, as we understand that people have the potential to be disconnected when working remotely, which can lead to issues you may not be able to directly see.

 **By Gayan Chandima**