



# REMEDIES AND ACTIONS FOR THE RISE OF THE NATION

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## What is your overview of the current state of the Sri Lankan economy?

**T**his is not the Research Institute's point of view. I think I will give you an analysis of the state of the economy. We have the largest negative growth in the economy. We have the largest inflation level in the country. And food inflation is also much larger. For the first time in history, we have

experienced a crisis involving this substance. All the macrodynamics of the economy today are in perhaps the worst state that they have ever been since Sri Lanka gained independence.

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

The first aspect is that Sri Lanka

has followed the path of unprofessional policymaking. So, the problems that Sri Lanka faces today could have been dealt with proper analysis and decision-making. But Sri Lanka has been making a series of irrational and adverse economic decisions. Sri Lanka isn't facing a crisis due to external events or any sort of natural disaster. It is fundamentally a policy-driven crisis, and Sri Lanka's difficulty in coming out of it is also connected to that problematic situation.





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First, Sri Lanka does not have a proper analysis to support the decisions made in terms of budgets, taxes, and economic policies. Thus, actions without analysis have gotten Sri Lanka into this crisis.

Second, decision-making authorities act in the private interests of particular groups rather than the public interest of the country.

Because of this, the consequences can be harmful to the country. I'll give you a couple of examples. The reduction in sugar taxes; that happened with a special commodity. If it had not been reduced, and the same amount of sugar had come into the country, we would have collected 45 billion more in revenue. For the government, tobacco taxes have consistently

not been properly implemented, even though there is a formula now. The government stands to lose about forty-five billion. Now, all the taxes that are not collected from vested interests—and you may have noticed that the Committee on Public Finance recently criticized the method of introducing sweeping tax holidays on a set of companies with no rationale and basis. Doing so could provide justifications for giving those tax holidays.

So, all the taxes that are not collected from vested interests will eventually have to be collected from people through consumption taxes and income taxes. So, these are the problems that Sri Lankans face today. Therefore, for the consequences. First is the decision-making that analysis shows is going to





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

It's important to get governance right and have a government that people can trust. That's the critical element.

Foreign direct investment isn't determined by the tax holidays. Mainly, if you look all over the world, it is determined by the confidence and credibility of government functions. Fundamentally, and obviously, it then considers other aspects of the country's infrastructure and environment.

So, creating an environment that is attractive rather than substituting for an unattractive environment is essential. But to create an environment that is attractive for the functioning of any business is difficult for the government.

## **In your opinion, what measures can be taken to improve foreign earnings?**

I am saying the focus should not be shifted. The emphasis should be on protecting the environment and trusting the government with export earnings. The focus should not be on trade agreements because the assumption behind trade agreements is that the difficulty for exporters lies within the borders of the country.

So there is a concept called "trade facilitation," under which lots of studies have been conducted, and measures have been identified so that Sri Lanka can improve the conditions that exporters face within the country for exports in keeping with its commitments to improve trade.

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happen, and what's the consequence of that?

Third, vested interests are essentially being favored at the expense of the public good. So, this is fundamental if I was captured by the bad governance in Sri Lanka, and if bad governance is the driver,

But economic research institutes

can really help with the lack of analytical capacity in development. But the government also keeps information very close to its chest. So sometimes, it is very time-consuming and difficult to get research done without access to open information and data. But certainly, the critical role that research institutions can play today is to provide analysis.

If Sri Lanka focuses on improving its trade facility, that will be the most significant way to help grow its exports.

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

You need to do two things to make that happen. One is there should be a well-analyzed plan for meeting targets that we have set for ourselves after another step.

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So currently, we have targets, but we don't have analysis to support the targets. Given Sri Lanka's history and the nature of our IMF programs, we have never met the targets we set for ourselves at the time. That's been the norm in Sri Lanka's history. Sri Lanka has been in sixteen programs in the last fifty-six years.

Now, if Sri Lanka does business as usual, it will get the results as usual and fairly, so it's important that this time Sri Lanka should commit to targets. It must also have an analytically designed plan to achieve it on time. I'll give you a few priorities.

The first priority is to put the debt restructuring negotiations on a fast track. It's currently on a slow trip. We know that country has renegotiated their debts recently, within the last six months. Sri Lanka has already spent so much time; instead of completing the

whole restructuring process at the end of this year. Sri Lanka should try to move it much faster to try and complete it in the next five to six months.

The next immediate remedy is to eliminate vested interests and corruption, thereby eliminating the space for corruption vulnerabilities in decision-making. So the IMF, for the first time, has actually introduced that into that program and said that corruption vulnerabilities are significantly macro-critical,

So, Sri Lanka should significantly improve its governance and stamp out its corruption vulnerabilities.

■ **By Gayan Chandima**

