

Sri Lanka Economic Outlook 2015

LBR LBO Debrief

8 December 2015

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Structure

Public Finance Management

Politics trumps professionalism

The New Political and Policy Balance

Stumbling towards democracy

Currency and Trade Management

The dance of politics and economics

Dynamics of the Economy

Growth, inflation and interest rates

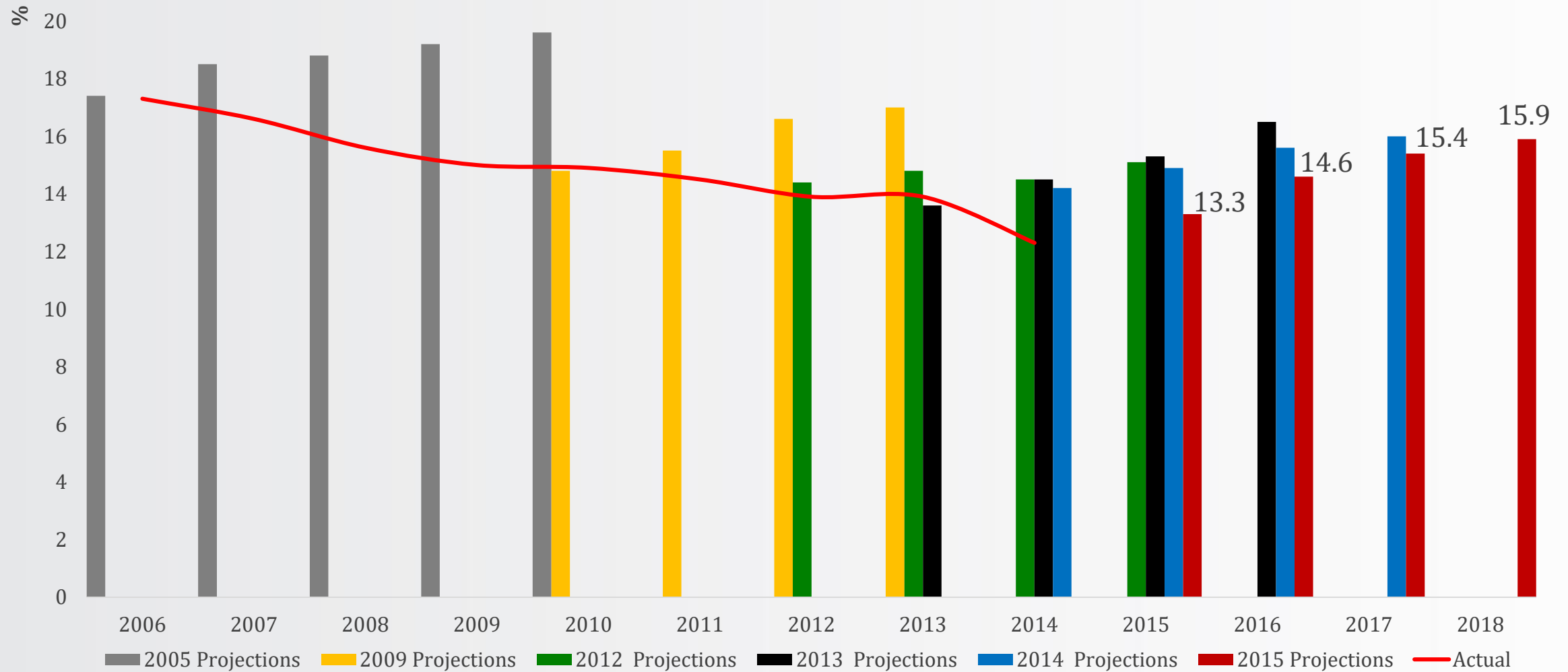
Public Finance Management

Politics trumps
professionalism

GOVERNMENT REVENUE

Upward projections, and downward outcomes

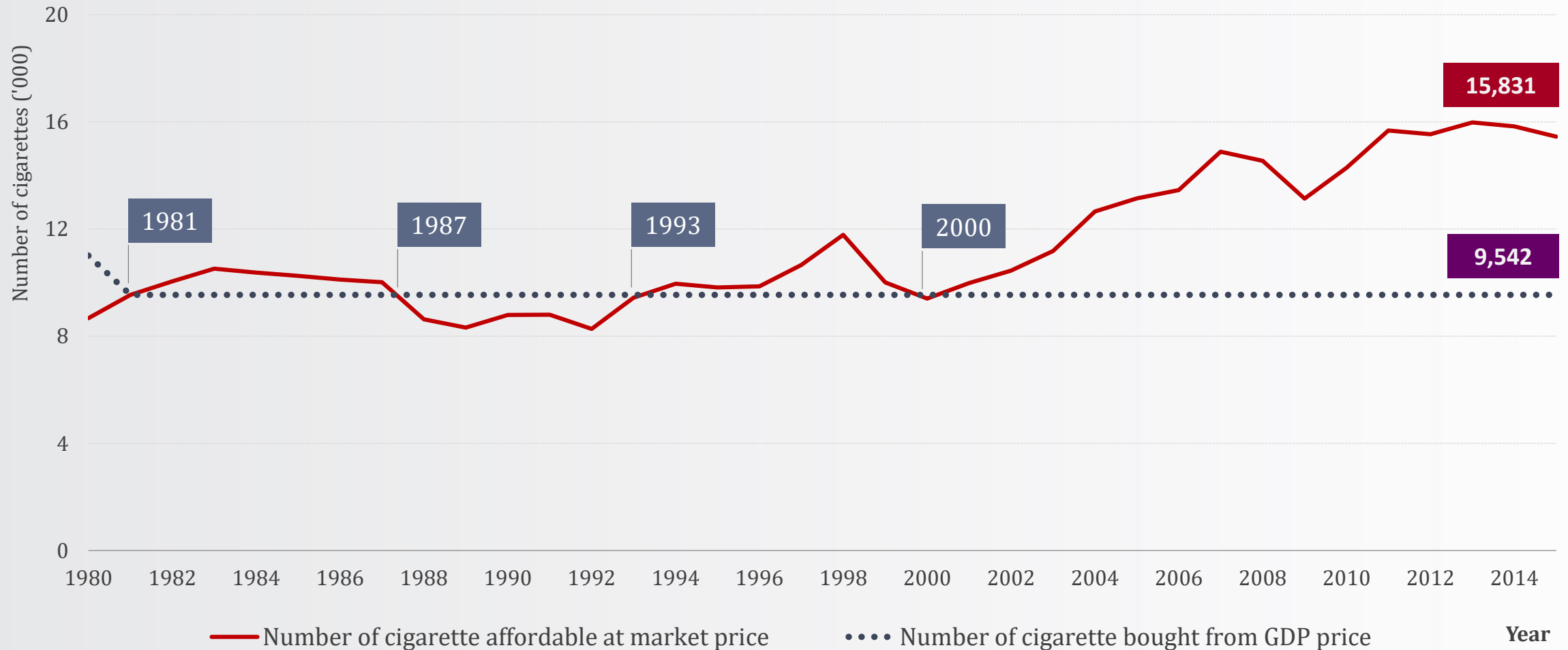
Government revenue as % of GDP



FAILING WITH CIGARETTE TAXATION

Post 2000, prices and taxes fail to keep up with growth in income

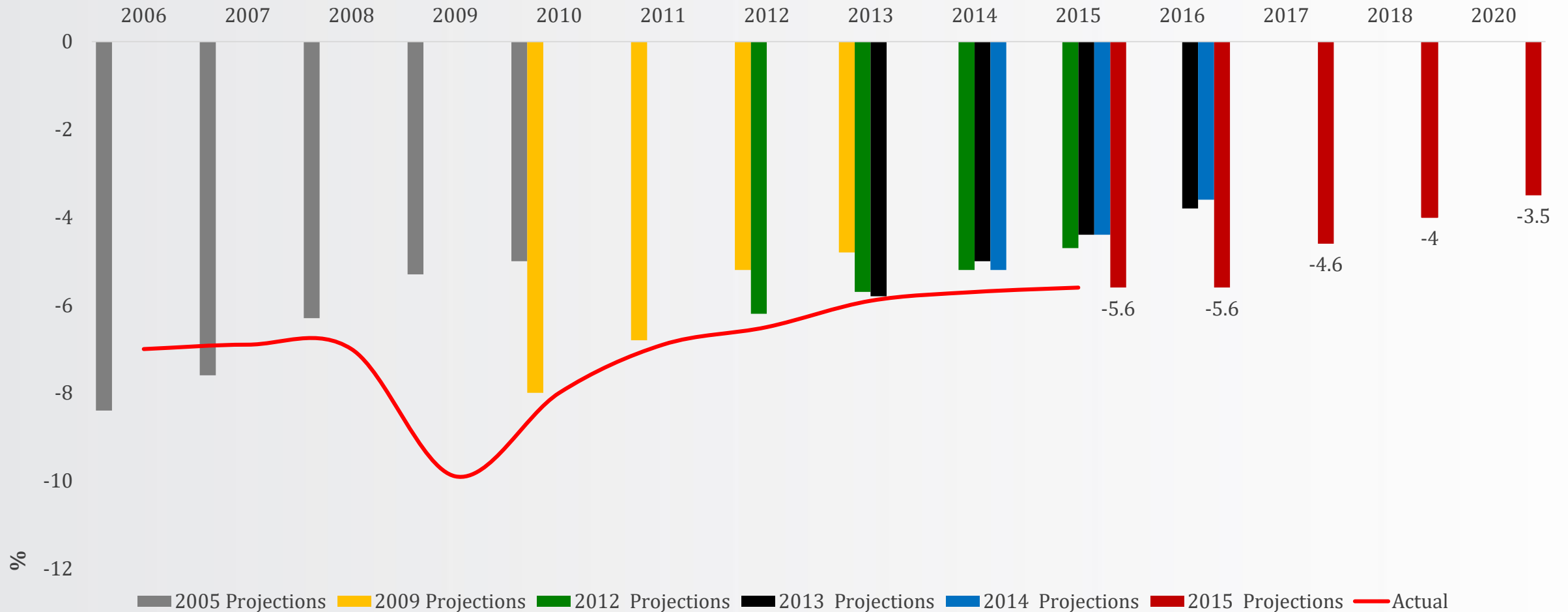
Affordability of cigarettes on average income



BUDGET DEFICIT TRENDS

Improvements with move towards non concessionary financing

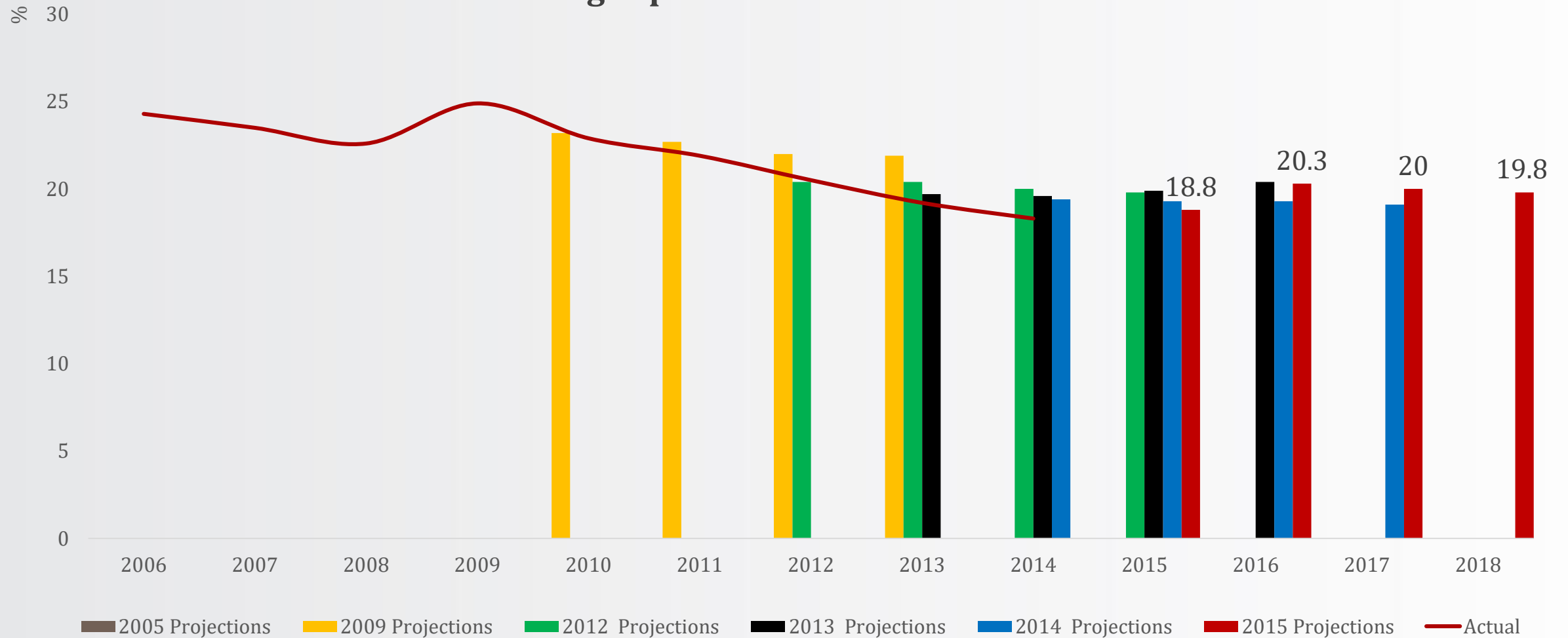
Budget deficit as a % of GDP



GOVERNMENT EXPENDITURE

Curtailed but without much accountability for what is said in the budget

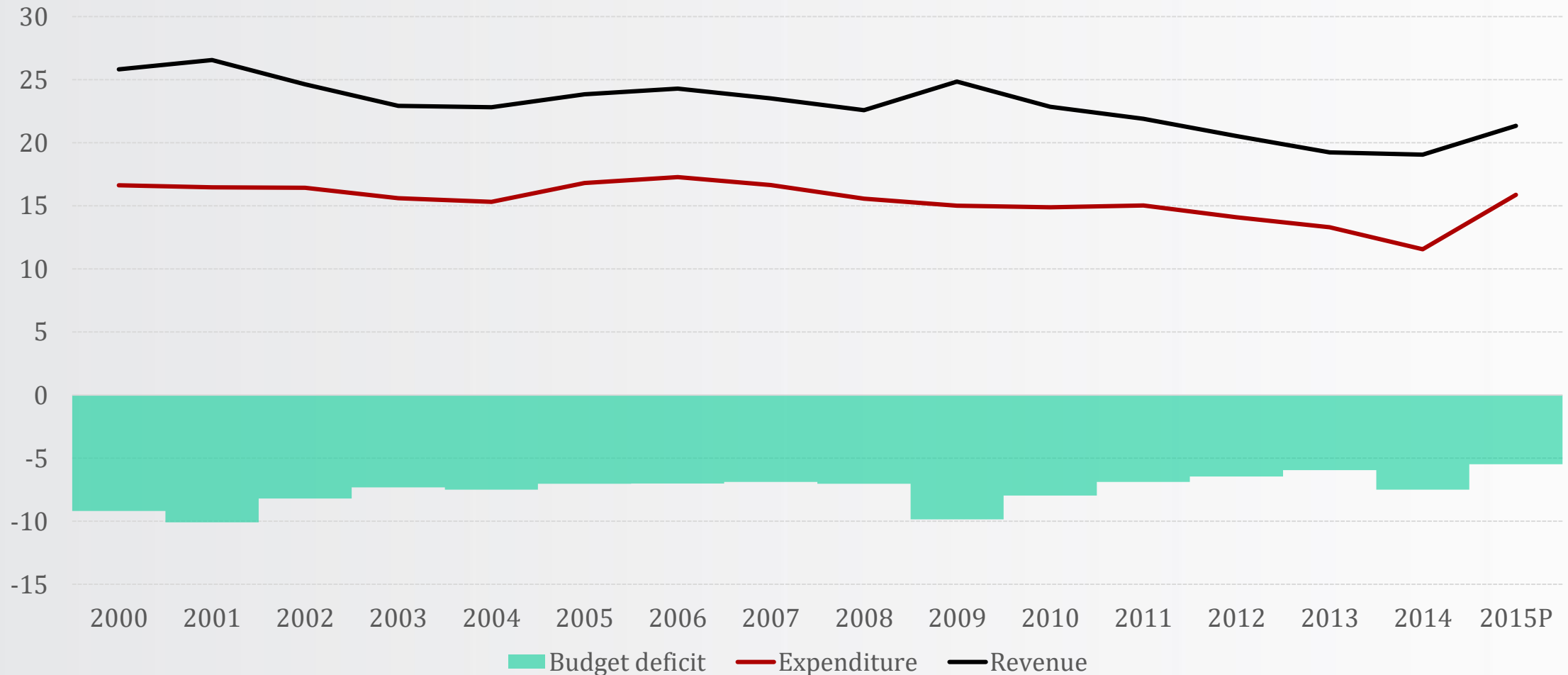
Curbing expenditure to reduce deficit



FISCAL OPERATIONS

Budget discipline has political cycles

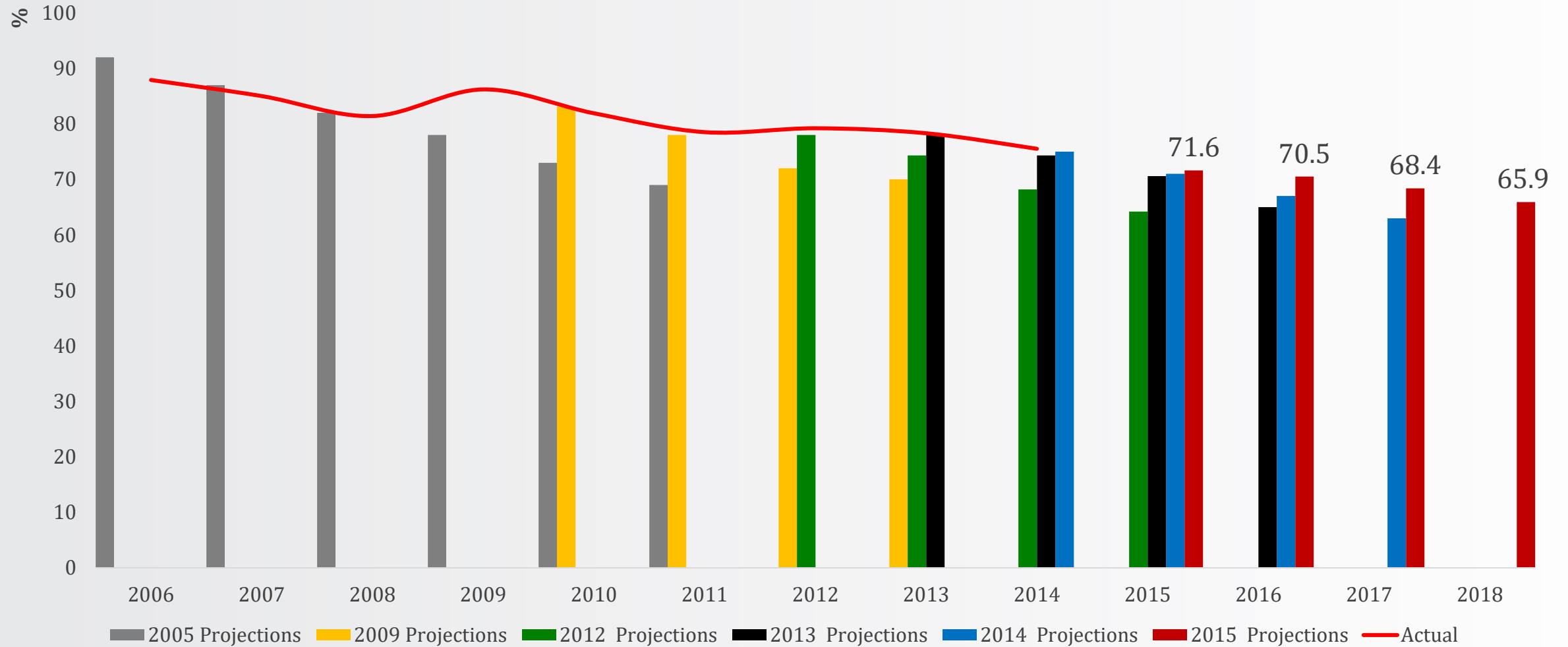
Gov. revenue and expenditure as % of GDP



GOVERNMENT DEBT TARGETS

Pension debt is not even calculated – Verité estimates it at around 25% of GDP

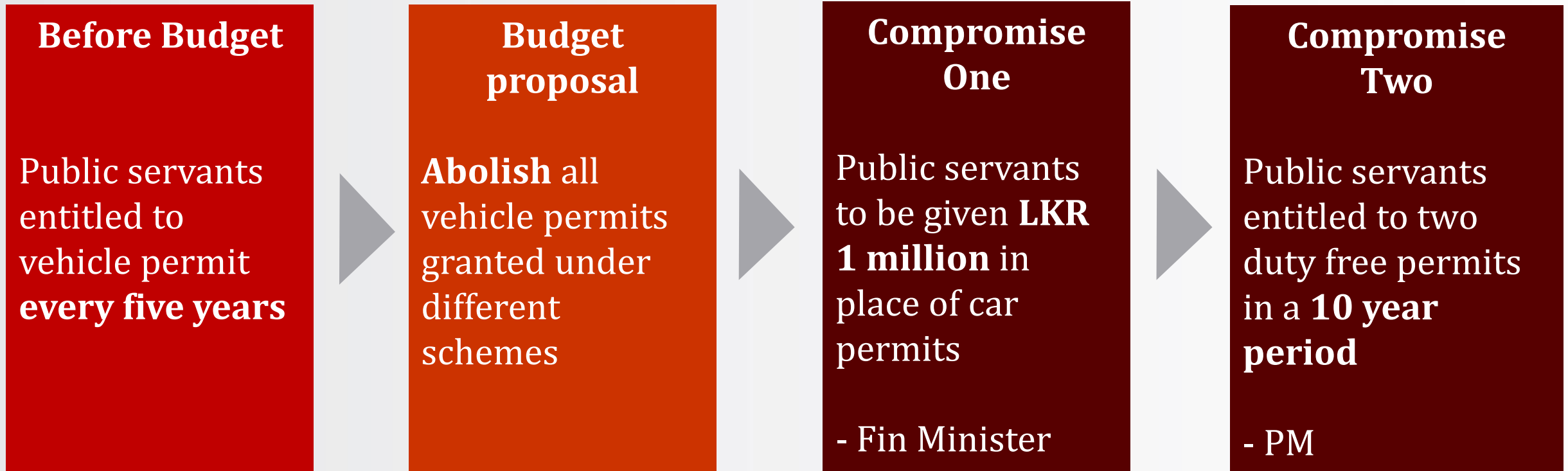
Gov. debt as % of GDP



The New Political and Policy Balance

Stumbling towards
democracy

Vehicle permit policy



BUDGET 2016

Revisions to revenue and expenditure proposals

Weak on fiscal consolidation and fiscal management

Revenue Proposals

Proposal

Abolish all the vehicle permits granted under different schemes
(saving expected LKR 40 Bn a year)

Revision 1

Public servants to be given LKR 1 million in place of car permits
(new expenditure item added)

Revision 2

Two permits within a ten year period

Outcome

Increase the probability of overshooting the planned government expenditure

Expenditure Proposals

Proposal

Emission levy LKR 5000/- a year on all motor vehicles
(expected revenue LKR 18 Bn)

Revision

The levy will not apply to three wheelers and motorbikes
(will significantly reduce the expected revenue)

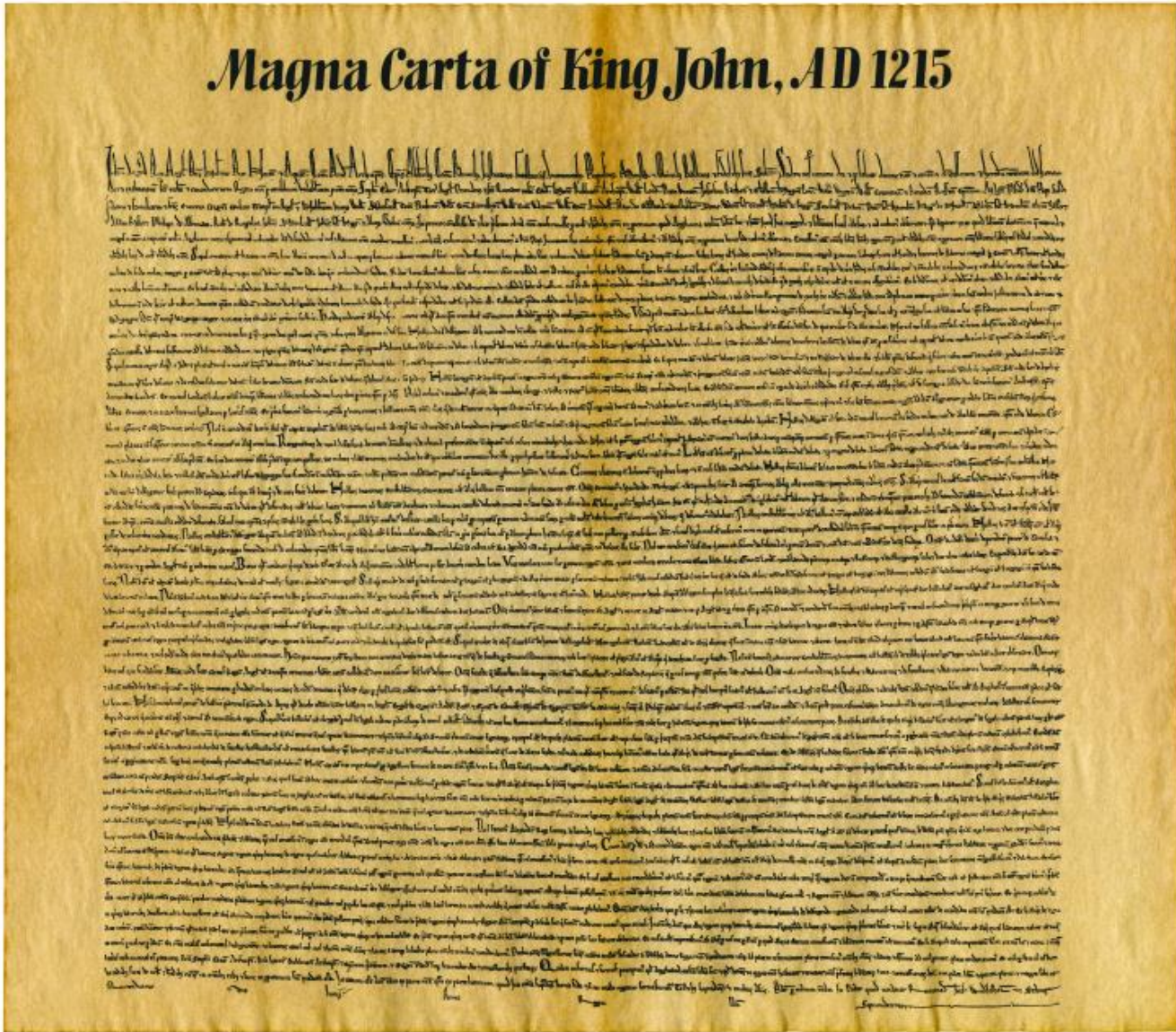
Outcome

Reduce the probability of achieving the expected government revenue

WEAK GOVERNMENT

Policy instability, or better for democracy?

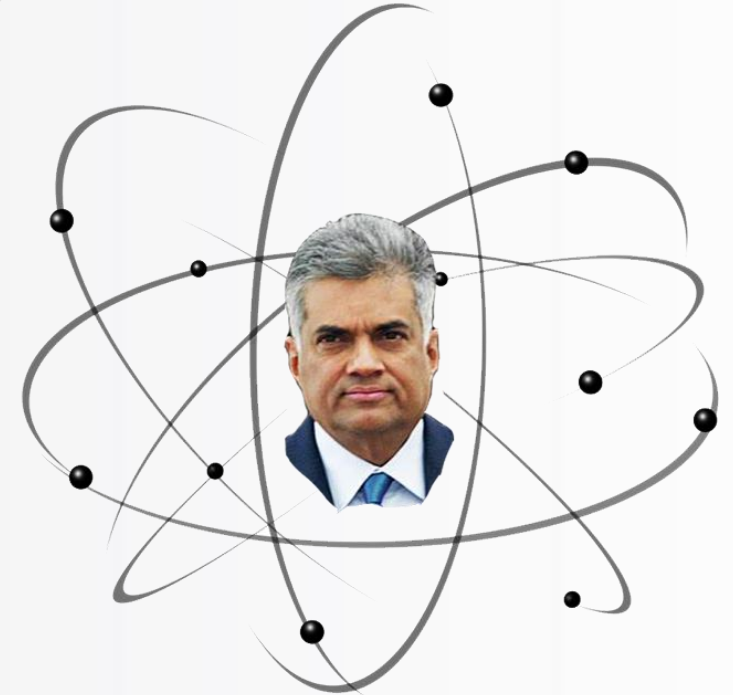
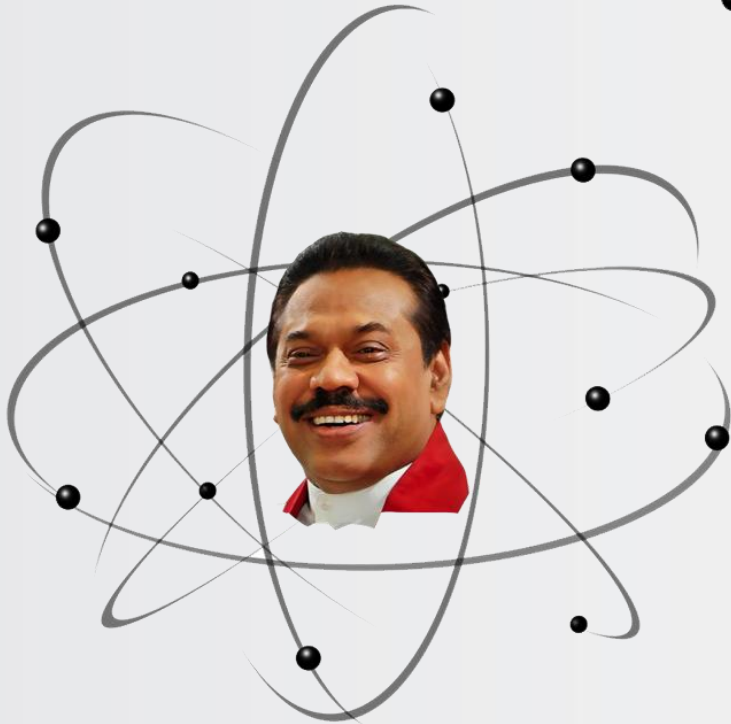
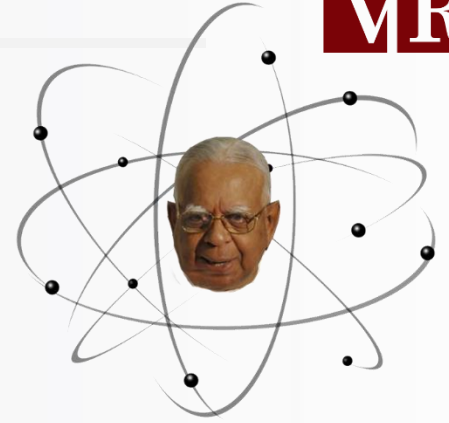
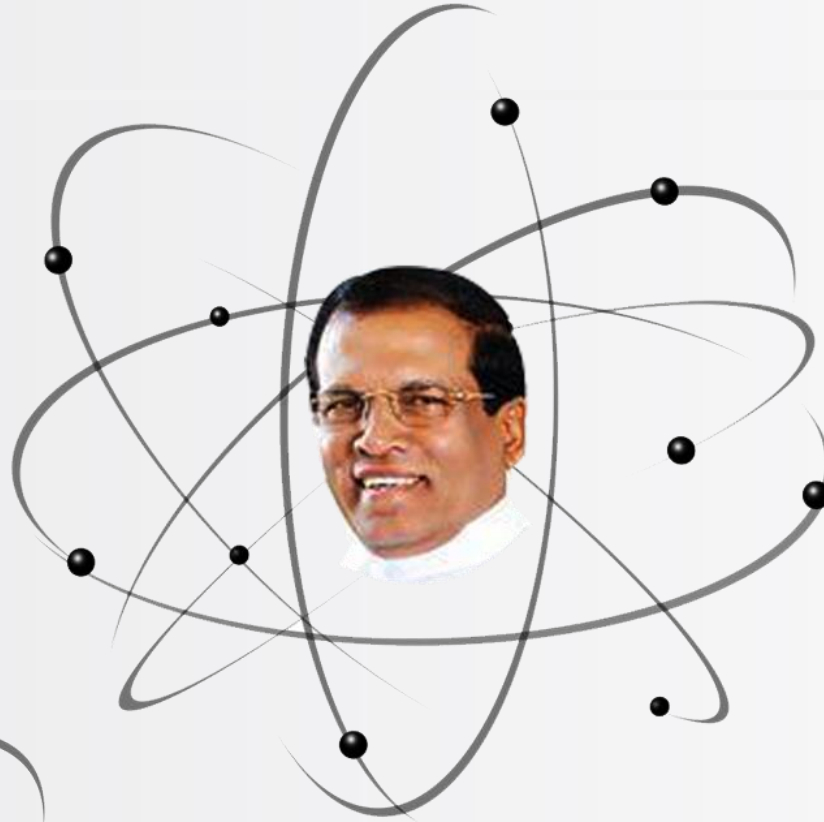
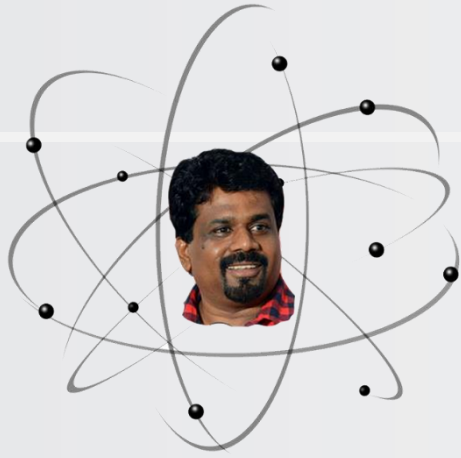
Magna Carta of King John, AD 1215



The Magna Carta

The foundation of parliamentary democracy is born and nourished out of weakness of the executive

Sri Lankan political history underscores that democracy is not nourished by strong government



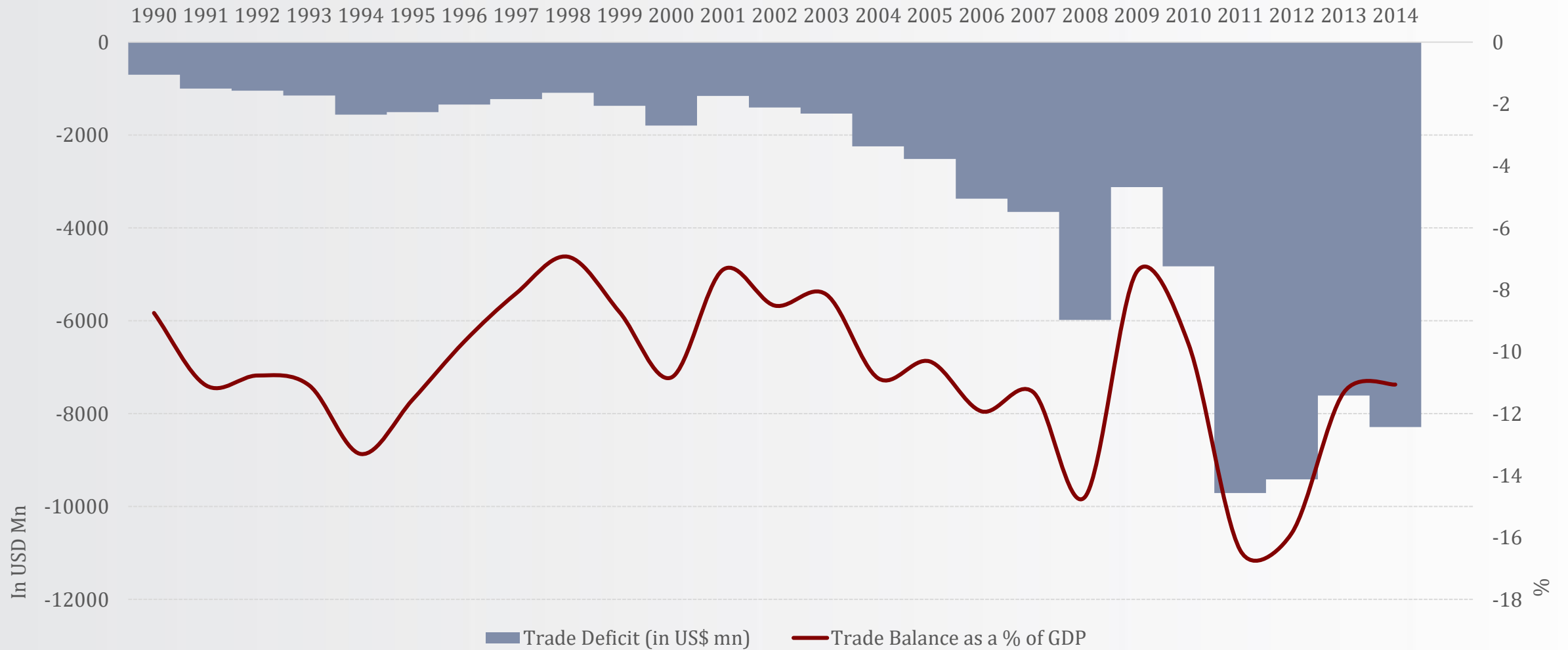
Currency and Trade Management

The dance of politics
and economics

TRADE DEFICIT

Economic pressures on exchange rate builds from trade deficit

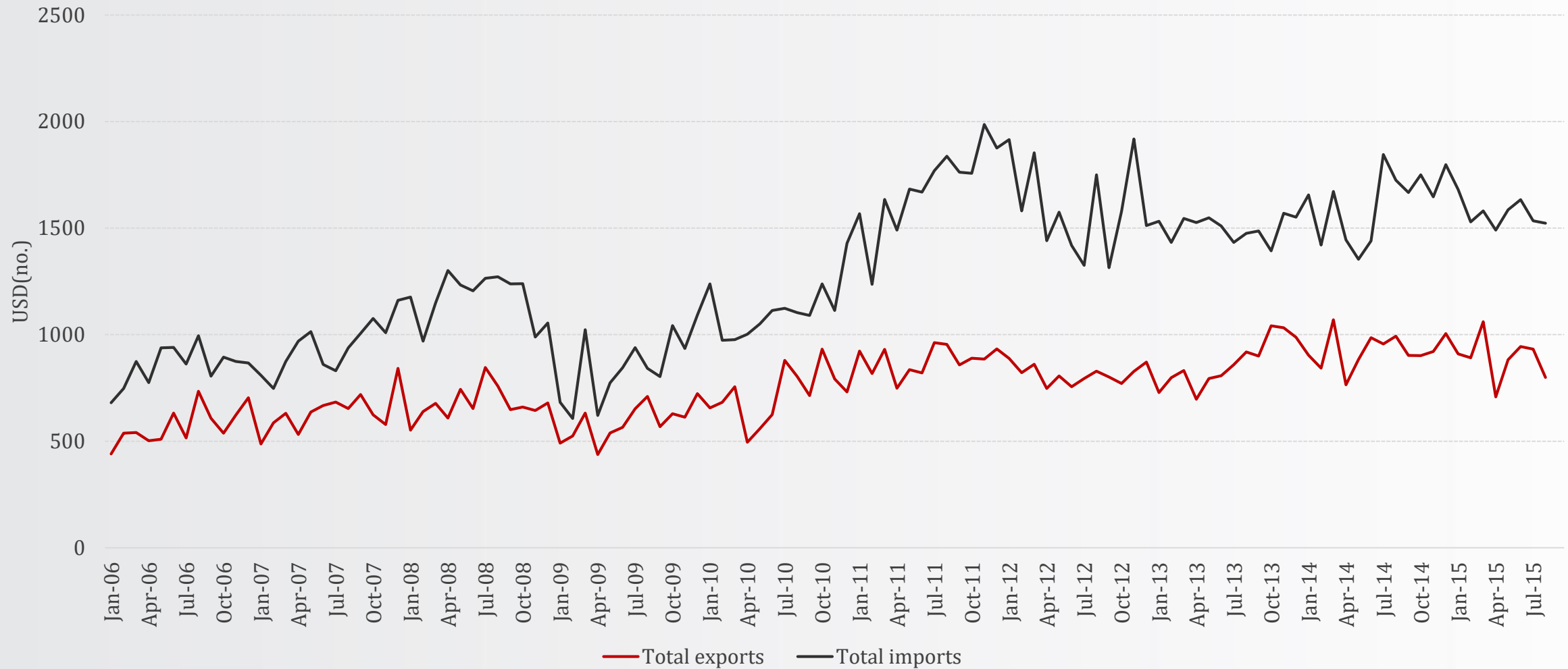
Trade deficit as a % of GDP



INTERNATIONAL TRADE

Expanding exports is the critical solution

Exports, imports and trade deficit



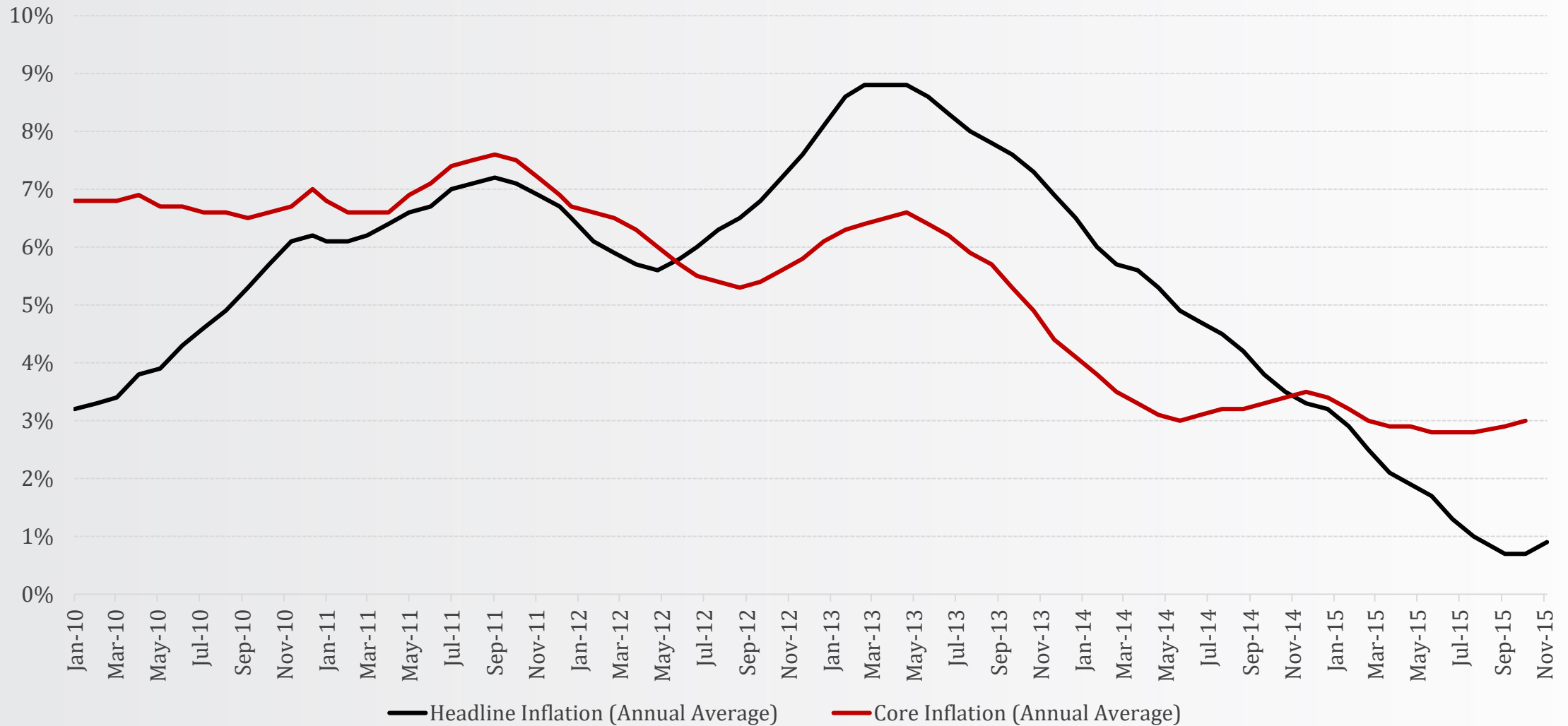
Dynamics of the economy

Growth, inflation and interest rates

INFLATION

Continues to decline

Inflation (annual average)



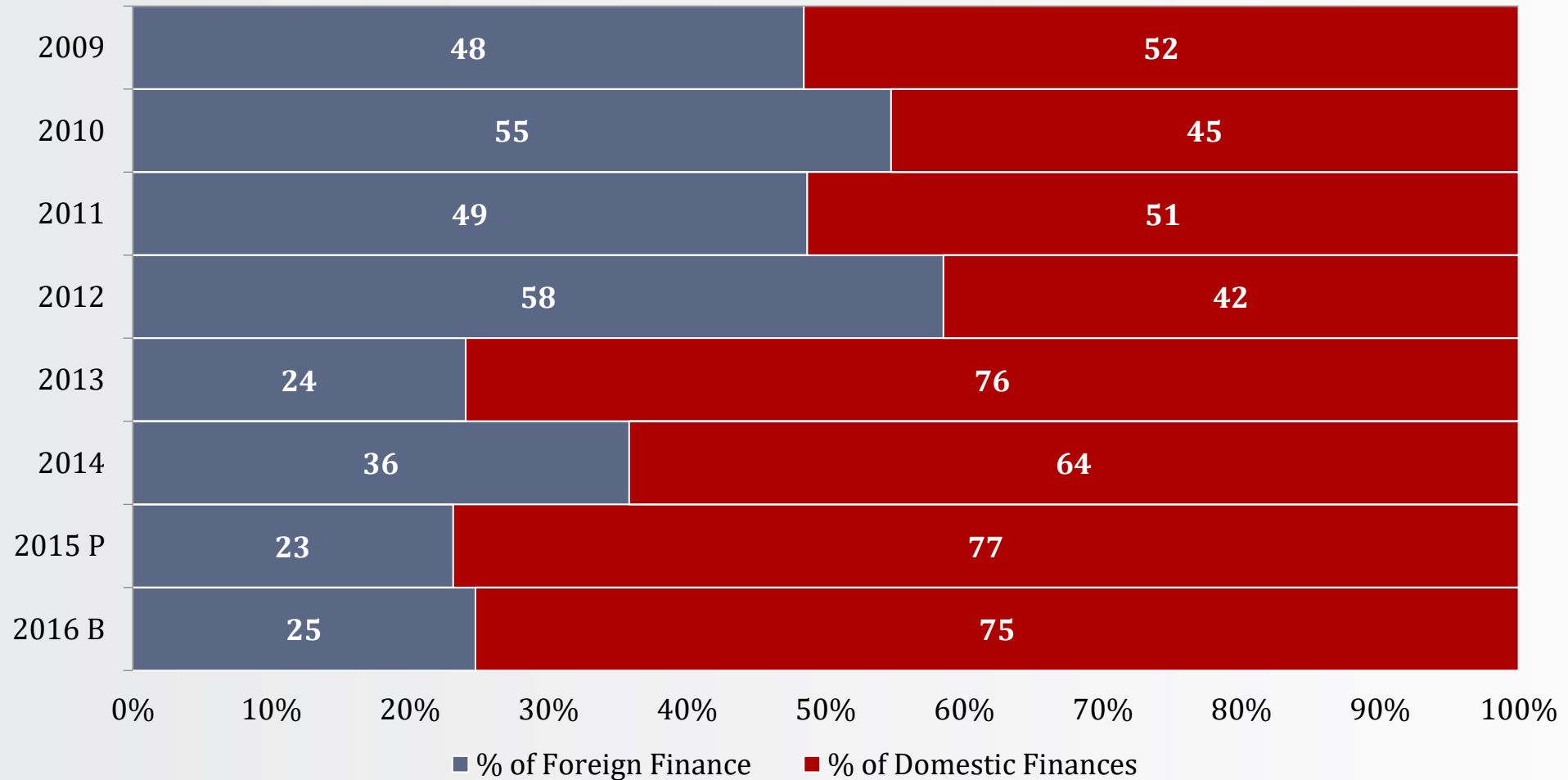
— Headline Inflation (Annual Average)

— Core Inflation (Annual Average)

SOURCING OF GOVERNMENT DEBT

Shift from foreign to domestic visible from 2013

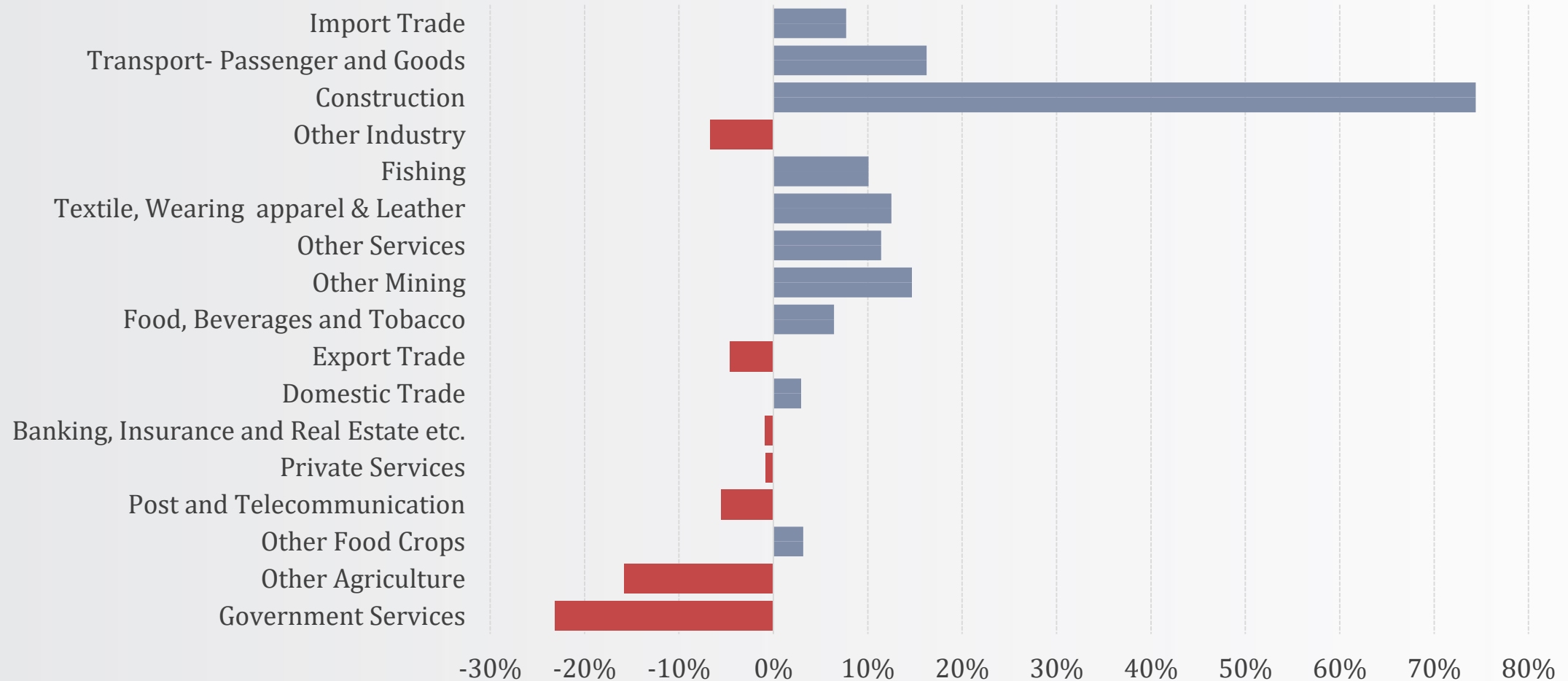
Foreign and domestic reliance on financing budget deficit



DURING WAR VS POST WAR GROWTH

What is driving growth post war?

Difference in contribution to growth during war (2005-2008) and post war (2010-2014)

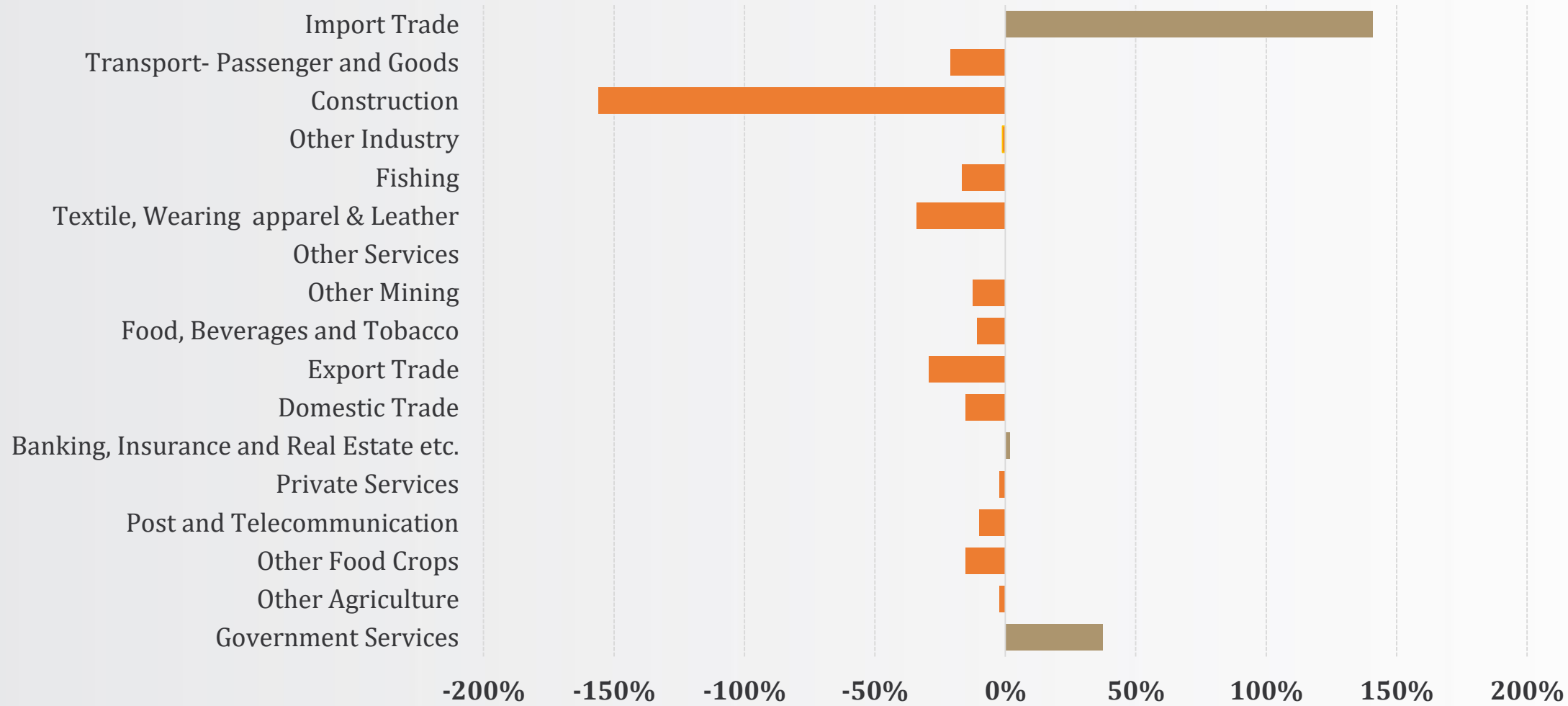


GROWTH IN 2015

Import trade driving growth



Difference in contribution to growth during 2015 first half and 2014 first half

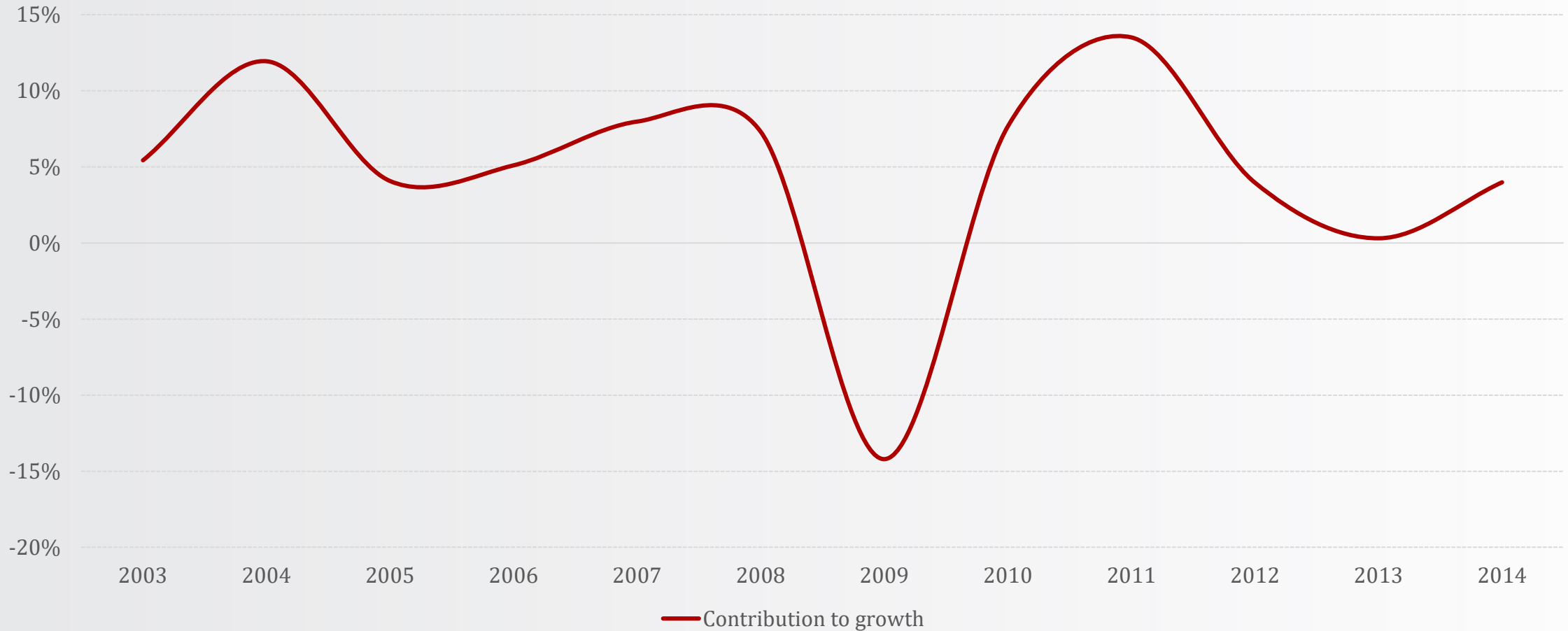


Source: Calculated using Dept. of Census and Statistics data

GROWTH IN 2015

Import contribution

Boom bust cycles



ECONOMIC GROWTH PROJECTIONS POSITIVE

What is driving growth post war?

Economic growth forecast

	2015	Revised 2015	2016
CBSL	8.2 (Jan, 14)	7.0 (May, 15)	7.5 (May, 15)
ADB	7.0 (July, 15)	6.3 (Sep, 15)	7.0 (Sep, 15)
IMF	6.5 (Oct, 15)	6.5 (Oct, 15)	6.5 (Oct, 15)
World Bank	7.5 (Jan, 15)	6.9 (Jun, 15)	6.6 (Jun, 15)

Thank you

