

# Break From The Past



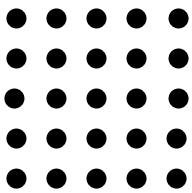
The appointment of Dr P B Jayasundera as the Secretary to the President has given confidence to the country that the economy would be directed in the right direction. Previously as the Secretary to the Ministry of Finance and Planning, and Secretary to the Treasury, Dr Jayasundera navigated the economy through many storms. Currently as the head of the public service, he has many responsibilities. He believes that Sri Lanka has great potential with President Gotabaya Rajapaksa clearly articulating his vision, 'Saubagyaye Dekma', which through the Budget of 2021 will see implementation in the coming year. Dr Jayasundera's outlook for Sri Lanka is positive and is confident that the country will begin to see economic development and growth, which is inclusive taking into account the needs of the people. The growth will be visible and sustainable for the future.

*By Udeshi Amarasinghe. | Photography Menaka Aravinda.*

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**'saubagyaye dekma' will facilitate a growth that is inclusive and a development that is as desired by the people of this country. this is the manifesto of President Gotabaya Rajapaksa and the Government. can you elaborate on this vision?**

It is a paradigm shift in my view because it is the first time that a Presidential candidate has been involved in working on his own strategies, programs and vision over a long period of time through a wide consultation process. There was a 100 percent ownership on his part to take the country on a new path. Soon after he was elected, he presented the manifesto to the cabinet to adopt as the national development policy framework of the Government. He has consistently traveled on that path. The cabinet was structured to suit this thinking and to recognize specific priorities within the 'Saubagyaye Dekma'.

The President was directly involved in consultation with line ministries, and

agencies, to translate policies into actions. He took a serious engagement with the Budget making process itself, where there was consultation with the ministries. His focus was to get everyone onboard with the development process.

There are fundamental questions that the President keeps asking such as, why do we have so many poor people if Sri Lanka has reached middle income stage? Why does not Sri Lanka have food security despite having large agricultural resources? The country has many infrastructure and irrigation systems but they are not fully utilized. Agricultural products are not drawing attractive prices for the growers. They are not competitive and there are no technology applications. Rural Sri Lanka has become marginalized in terms of its agricultural base. Nearly 60-70 percent of the population live in rural Sri Lanka and why are they poor? Why aren't they migrating to cities like it has happened in other countries? Therefore, the President thought that something was wrong in trade and agricultural policies, and also land use. He says that his first priority will be empowering the poor. Even the simple examples that he keeps saying is that every Government every year recruits about 50-60,000 people for low rank unskilled jobs, which could be earmarked for the poor. Because these are jobs that do not require educational qualifications but specific skills. The logic behind the provision of 100,000 jobs is that the President conceptualized to uplift 100,000 families, which would have a reach of 400,000 people. This would create more stable permanent incomes while engaging them in productive activities.

Despite most of the infrastructure development that the country has seen; many rural villages have been marginalized through this network, including many locations in the greater Colombo area. In his program, the President recognizes the need to create access to people. One of the critical objectives is to create opportunities and empower these people. Naturally that is the inclusive growth that he is speaking about.

Seeing the protests on the roads he asked us what is the purpose of our education system if the country's most talented youth have to resort to such actions. What is the use of creating such a graduate from our education system if they are unemployable? Is it their fault or the fault of the system? The Government can employ them now but how do we prevent another accumulation of such graduates in time to come? That is why the President thought that education reform is a must. There are demands for certain skills, which the Sri Lanka education system is not producing other than world class doctors, lawyers, engineers, architects

and other such professionals. The country demands more diversified skills. Housemaids employed in large numbers overseas are not going as skilled and trained people. Though we have widespread education in Sri Lanka it does not serve the poor. Sri Lanka has a small population of 21 million and our main resource is human resources, which is not empowered through free education. Therefore, education has been given very serious thought in the 'Saubagyaye Dekma'.

There is no use of having high GDP or investment unless it generates jobs and increases production. We will have growth but no benefits to the people. The 20 plantation companies are owned by corporate organizations but they do not see much private sector style outcomes in some of the company performances. By and large if not for the smallholder plantations Sri Lanka's tea production would not have reached 350 million kilos. 75 percent of the tea is produced by the smallholder plantation sector. Therefore, something has gone wrong somewhere. As described in the Budget speech, basic education, health facilities, infrastructure, and fertilizer subsidies are all provided to the plantations by the Government. Yet, the country has not seen significant diversification for 30 years. In fact, today Sri Lanka's lowest paid workforce is in the plantation sector. In our villages hardly one finds an unskilled laborer for below 1,500 rupees in daily wage, whereas in the plantation sector it is still about 600-700 rupees, basic wage. Payments are made on performance basis but to perform there must be a plantation. The Government wants to alleviate poverty in the plantation economy, we have to create income generating employment and sustainable growth in that sector.

Consider the country's largest manufacturing industry, apparel, which is almost 40-50 years. The apparel industry has moved from around 30 percent value addition to about 50-55 percent by having more local activities. However, other than the apparel sector the country has not seen any single industry generating one billion dollars from each production sub sector to generate exports. The rest of the industries are generating small revenues of about 200-300 million dollars. Therefore, the economy is not diversified and people are employed in the low paid jobs. Foreign exchange income is basically coming from plantation, apparel and overseas employment. We need to consider whether these are enough. Samurdhi is not the answer. 50 billion rupees is spent each year on Samurdhi beneficiaries. Two million households are in Samurdhi. If you take 50 billion rupees for five

years, it is 250 billion rupees. But having spent such a large sum does the country see an improvement in their living and lifestyles? Or do we need to promote gainful engagement?

### **President Gotabaya Rajapaksa completed one year in office, what is the status of the economy and the country at large?**

At the time the President took office on November 19, 2019, Sri Lanka witnessed a period where economic growth had systematically declined each year from five percent in 2015 to 2.3 percent by 2019. Therefore, the President inherited a country that was losing growth momentum. It was on a declining path, which was a five-year trend. It was also reflected in the investments. Investment had been around 33-34 percent of GDP in 2014-15. That had declined to 27 percent by 2019. Net imports had reached ten billion dollars each year. Sri Lanka was relying on imports for food security, raw material for export and import industries, power generation, machinery, and equipment. The Government had not honored many commitments running into arrears affecting the supply of pharmaceutical drugs, fertilizer, construction activities and banking. The amounts were as large as 250 billion rupees. Therefore, one can see the extent of the country's vulnerability. The country also had the most unstable exchange regime. The exchange rates were depreciating every year without much attention in the export-import mix. Business confidence was eroding. Interest rates were high at double digits. With such interest rates there was no investment and the country entered a period of stagnation. That was the state of the economy that President Rajapaksa inherited. What is alarming is that even during a 30-year war period during, which time the country was also faced with destruction and civil unrest in 87-88 insurgencies, Sri Lanka had been credited for maintaining 5-5.5 percent average growth each year. The reported 2.3 percent growth is well below the country's capacity.

Consider the capacity the country had by 2015; it had a much stronger power generation capacity, better road network, access to electricity and telecommunication. Yet with such a large capacity, the country was producing a much lesser growth than when the infrastructure capacity was much less prior to 2010. There has been no new single power generation plant. Therefore, will there be sufficient electricity and will that be affordable and cost competitive?

The criticism was that the country should not have had so much borrowed

investments. What the Government saw was large number of long gestation projects that have been lined up under external borrowing. This was also not viable for the long-term. That is the legacy that President Gotabaya Rajapaksa inherited with the promise that he will create a new country with inclusive growth, less poverty, empowering the poor and focusing on a more modern development stage in Sri Lanka.

Sri Lanka now, is faced with the worst global crisis with the COVID-19 pandemic, where technically the whole world is on a lockdown form. Sri Lanka too has its own share. Tourism had a huge setback after a vibrant journey of ten years since 2009. No one thought Sri Lanka would be such a tourist attraction. I remember in 2008/9 tourist earnings were around 600 million dollars in earnings, and the country products were not that sophisticated. Sri Lanka did not have investments all around the country to accommodate diverse tourists. In less than ten years since 2009 tourism earnings increased from 600 million dollars to four billion dollars by the time the April Easter Sunday attack happened. The industry employed almost two million people, in different supply routes. With the election and the change of Government and new hope, the tourism industry started to bounce back. Then in the global economy, the entire travel trade closed down due to the pandemic. I read an article recently that about 75 percent of the air travel industry is now suspended. Without any air travel there is no tourism and people are still defining globally what is the “new normal” in the tourism industry. Thus, all the connected services have got disrupted. The industry was actually projecting a ten-billion-dollar tourism sector in Sri Lanka. These earnings are denied.

Exports generally make one billion dollars a month, which Sri Lanka saw during the pre-COVID-19 period. That export figure virtually came down to 300 million dollars in March/April. Factories were closed, and the country was closed for three months. Remittances have slowed down, and the openings for new overseas employment curtailed. Tourism earnings, which collapsed with Easter Sunday attack experienced a double blow. Therefore, the second quarter of 2020 was going through a negative growth. The same trend was experienced everywhere in the global economy. The impact of the global economy can be seen from the large economies such as India, China, EU countries, and USA, all having negative growth. Imagine the impact of the Indian economy alone experiencing 27 percent negative growth followed by a third quarter, which also had a negative growth.

Policy initiatives were taken to manage COVID-19 health issues, the Government kept agriculture buoyant, revived construction, health and public services, banking, electricity, water, domestic manufacturing and trade to mitigate the setback from the global lockdown. The emphasis placed in agriculture has mobilized the country on a new wave of production and processing activities in the economy. Many interrupted services such as education, were substituted through distance e-learning facilities. It is a new substitution for pre-COVID-19 lifestyle. Increased use and relevance of technology came to public life and delivery of goods and services.



The Treasury settled most of the arrears bringing back those affected sectors into business. Many affected sectors were assisted with Monetary Policy easing with increased volume of credit at low lending rates. New taxation strategy eliminated a multiplicity of taxes, adopting eight percent VAT and low income taxes for both personal and corporate incomes.

The President also inherited a huge debt, and as a responsible Government it has to honor commitments. Leaders are there to manage obligations; to the people, to the markets, to the investors, and to the constitution as well.

Sri Lanka is one country that has managed debt, whether it is sovereign debt or otherwise, or even a financial obligations by way of a trade document, a letter of

credit, Sri Lanka has never defaulted. The biggest achievement of President Rajapaksa during this time is that in a lockdown economy, despite there being no earnings from tourism, exports, limited inflows from remittances, reduced market access, capital outflows, and limited international reserves, his Government has been able to honor the debt obligations of the country, despite many dooms and glooms. That is the biggest achievement. People may not see the benefit now, but will see the results with the global community having confidence in Sri Lanka. Repairing a damage of a default takes years at a huge cost. The President gave a message to the domestic and international financial community that Sri Lanka will manage itself in a manner that is affordable to the country, and that debt obligations will remain a prime responsibility of the Government, sovereign debt risks in Sri Lanka is a myth.

Except for the agriculture and financial sector, there were not much growth drivers in 2020. Country had four Vote on Accounts. I may not be wrong to say that this was the only year in Sri Lanka's post-independence period that it had four Votes on Accounts. The country was basically operating on a Vote of Account. A Vote on Account is a short-term instrument in which the Government is permitted to accommodate obligations but there are no provisions to do anything new. Therefore, the Saubagye Dekma Policy Framework itself could not be translated into full scale action through a decent fiscal framework, enabling institutional support and incentive structure until the 2021 Budget was passed in November this year. That was the situation.

IMF in its World Economic Outlook has predicted that Sri Lanka's 2020 growth could be minus four percent. ADB is predicting seven percent negative growth. Central Bank is expecting 1.5 percent positive growth probably considering some recovery during the second half of the year. But to me, President Rajapaksa is starting from either negative or zero growth. The achievements have been to arrest the decline by cleaning the national balance sheets, settling arrears, getting the numbers in correct perspectives, honoring the debt obligations, and re-engineering the entire economic policy focusing on production, exports and imports to achieve a sustainable development meaningful to its citizens.

Reflecting these new dynamics, exports bounced back to a level of near USD 950-1,000 million a month. Remittance flows of around USD 250 million has been sustained. Government revenue by the end of the third quarter has hit 70 percent of anticipated revenue. Therefore, a new balance sheet on a new economy is



emerging.

**Many countries have realized the geopolitical significance of our country, with India, china and several other asian countries being among the most powerful economies in the world. how significant is this for sri Lanka?**

The whole world is now powerful unlike say 15 years ago where we spoke of so called LDCs. Today they are much stronger countries. If we look at South Asia, the poorest South Asian countries, Bangladesh and Nepal are no longer poor countries. They are at the graduation stage of becoming lower middle income countries with South Asia's highest growth rates. India was emerging as one of the top ten global economies. China is a global economic superpower. Asia Pacific is rich. It is in fact very difficult to find an economy that is not promising. Even countries such as Laos, Myanmar, Cambodia, Vietnam all these countries are becoming emerging nations, and moving towards middle income status.



Sri Lanka moved into lower middle income status in 2005; when President Mahinda Rajapaksa took office, it was just on the threshold of USD 1,000 per capita. During the subsequent ten-year period. Sri Lanka had shown that it can increase four-fold of its per capita income in ten years. Sri Lanka was still at war during the first five years of President Mahinda Rajapaksa's Government; it was during the second five years that he was able to put economic development on the

right direction. Investment had increased at that time. Yet, 2015 to 2019 per capita income level remained at 4,000 dollars, it has stagnated. In 2013-2014, during President Mahinda Rajapaksa's Government, the prediction was that per capita income would reach 7,000 dollars' by 2020. The country has actually lost 3,000 dollars while many other countries have been doing much better. Even Afghanistan is reporting over 2.5 percent growth despite them going through the same difficulties that Sri Lanka went through prior to 2009.

In the more promising Asian economy, which is more than two thirds of the global population, it means larger consumer markets are in Asia. India, China, and Indonesia are large emerging nations in Asia where India and China will be among the top seven if not top five largest economies in the world in the next decade or so. Asia's developed nations such as Japan, South Korea, Singapore, Hong Kong, and Malaysia are progressing with advanced technology. Asia has a large population and they are becoming rich and predominantly middle income. Therefore, huge markets, which were previously with poor and low income population is in transition. They are graduation from 'Third World' to 'First World'. They have commanding heights in technology, science, education, healthcare, money and capital market and gained equal footing with Western First World, which is equally large in size and high value GDPs.

Sri Lanka needs to relook its entire development strategy, and refocus our comparative advantage. How does Sri Lanka regain what it has lost? In fact, I remember President was explaining that in this five-year period we have to complete 15 years of work. Recently, he had a meeting with the construction industry to build low, middle and high income housing complexes similar to how he did when he was the Secretary of Urban Development. He requested contractors to work fast. He said if Dubai could build 100 story buildings in one year, and if Qatar is building the stadium for the next FIFA in two years; why is our construction industry taking so much time to build a 20-30 story building utilizing today's technology? The message he was trying to communicate to everyone in Sri Lanka whether it is small farms or rich corporate leaders is that firstly Sri Lankans have to regain five years of lost opportunity, then to deliver what he has promised in 'Saubagyaye Dekma' within the five-year term, and also to do five more years of work to make development irreversible. Then only would people take ownership, reap the benefits, and ensure inclusive development. If we have done 15 years of work in five years, then we have recovered. Sometimes in a

race, one could lag behind and sometimes lead but at some point you will have to catch up. Sri Lanka has plenty of opportunities to catch up under the President's leadership and policy vision and this is that opportunity for Sri Lanka.

The COVID-19 pandemic while it has resulted in many setbacks, it has provided opportunities as well, because all other countries are going through the same or more challenges. Their public health services and other services have not been effective in guaranteeing the public's safety. That is fundamental. In that context Sri Lanka has an advantage. It also gives us the opportunity to revisit production priorities. Why not get agricultural resources into productive use? Primary agriculture, livestock, fisheries, pharmaceutical, food exports, rubber, coconut and much more have gained great significance in the global economy. Today virgin coconut oil is almost competing with olive oil. That is that level of comparison. While the Government has contained COVID-19, it should also improve the new generation of health and education standards because Sri Lanka has been doing well in human resource development index globally for years. This is due to free health and free education. High literacy, more productive workforce, longevity in life, and low infant mortality are all achievements that the country could capitalize on.

In fact, in the Budget there is a proposal to introduce a COVID-19 insurance scheme because with such viruses' people temporarily lose livelihoods. Therefore, it is essential to have an insurance scheme to ensure that they can maintain their daily lives. Today, the apparel industry will have more instruments to take their production facilities to the next level and be of a higher standard than their competitors. The Government is looking at the next stage of apparel industry in this spirit.

Therefore, I believe that we did not have to look for debt relief. President has the confidence that he did not have to default debt, Government managed to clear all arrears that were outstanding in the country, and able to utilize agricultural and developmental resources to be more productive during COVID-19. Recognizing food security is an important strategy. Those are the advantages that the Government can take.

Sri Lanka is also addressing challenges such as drugs, because our nation has become a huge victim as the country was becoming a hub for the international drug trade. Crimes, corruptions, and collapsing institutions, are areas that the

Government had to address. It is not easy to fix these issues. But the country has made progress. In the emerging Asian development scenario Sri Lanka should come back with the predicted 5.5 percent growth for 2021, and then slowly to move on to a sustainable six percent growth with broad-based production activities. Restructuring of the financial sector, restructuring in the taxation system and reforms in the retirement policies, legal system, land use, deregulation and doing business have received attention in the Budget. Look at the retirement arrangement, people are retiring at the age of 50-55 years. This was the retirement age prescribed in 1957, when the life expectancy of men and women were around 57 years, whereas today the life expectancy of women is 75 plus. Therefore, by people retiring at 50-55 the country is displacing its productive workforce and life cycle savings. I believe we will be able to get the country on a much stronger growth rate and Sri Lanka can still lead as a small emerging country in Asia, in trade, logistics, ports, and other sectors such as tourism under the “new normalcy” which is being defined.

The world economy is much richer, diversified and balanced in economic powers. Sri Lanka is at the center. We have a rich West and a richer East. They need us and we need them to prosper. President Rajapaksa’s Foreign Policy that stipulates neutrality, economic diplomacy, re-engineering of foreign missions is a reflection of this appreciation of mutual coexistence and new economic architecture for Sri Lanka.

**our national policies should have a long-term strategic vision, protecting our sovereignty, to garner the development opportunities that arise as a central hub, in the new economic order of the world, to both the conventional western advanced economies and the powerful emerging eastern economies. Your thoughts?**

The long-term is shaped by short-term strategies and actions however much the difficulty. For instance, the best would have been if we had been able to avoid the leasing of the Hambantota Harbor. Now that it has happened, we need to make it work in the best commercial interest that will not harm our sovereignty and security as well. Sri Lanka’s strategic assets need to be managed with this in mind. Shifting from debt financing to investment financing, providing equal recognition to the East and West on Sri Lanka’s interests, building local entrepreneurship and local production economy are crucial aspects instead of blindly pursuing conventional strategies. Time has come to act fast and decisively,

where we adopt technology and innovation in the national production process to exploit Sri Lanka's strategic investment in the emerging new economic order.

**through the 'Gama samaga Pilisandarak' program it was identified that the people want an economy based on local farm products and agro industrialization and not a trade economy based merely on imports. can you elaborate on this?**

It is not just an outcome from 'Gama Samaga Pilisandara', people centric dialogue, alone. The President prior to his election engaged professionals, from all areas of public interest through 'Viyathmaga'. His election manifesto was a product of such a wider consultation with people as well as professionals. Since he was elected, he engaged the Government machinery, its officials and private sector on the National Policy making process. In all such dialogue one common consensus was to make Sri Lanka a production economy. President has grasped many complex economic issues, thoughts, and alternatives to be in command of economic management.

It is also a global trend in recent times; BREXIT has placed the EU and UK on a new trade framework, and the US has recognized the need for US based business in its economic strategy. China last week removed 200 percent tariff on imports from Australia on agricultural products. Thus, the COVID-19 pandemic has opened eyes of policy makers to think of food security. Technology has made renewable energy as a good import substitution Industry for Sri Lanka. Global environmental concerns gives us opportunity to make environmental friendly development, which has a premium value. Organic fertilizer use provides the opportunity for our agriculture to gain new advantages. Import scale such as pharmaceuticals with USD 500 million, electronics of USD 250 million, animal feed of USD 150 million, food grain, dry vegetable, and dry fish in excess of USD 1,000 million, provide the opportunity for the import trading community to migrate to local production to replace some imports. This does not mean Sri Lanka will not import. It has to import technology, heavy machinery equipment, advanced medical equipment, pharmaceuticals, essential raw material and other requirements. But we need to create the space for it. Therefore, this is not a protectionist policy. This is a direction of trade and business when technology drives the production process. We must apply lessons here as well as elsewhere to get our economy competitive and to have a sound profit story.

**as the head of the public service, the Budget identifies the requirement of a people-centric public service with pragmatic systems that addresses the ground level requirements rather than complex administrative and regulatory methods in discharging the duties of the Government. can you elaborate on this?**

Public service in democratic society by definition has to be people centric and people friendly. The people elect a Government for a given term. Public servants are paid by the people through taxes. We are employees of the Government for the people and public service. The emphasis in 'Saubagyaye Dekma', connected Government policies and the 2021 Budget Speech, is that the Government is committed to an inclusive development and not simply a development measured by GDP growth rates alone on development for a few. The Government provides multifaceted services to the society. The market takes care of those who can afford. Market access is not evenly distributed. For example, formal banks take care of around 40 percent of finance needs of the people. Thus, there is no financial inclusiveness. Take sectors such as health, education, and agriculture extension, and care for the vulnerable, these must be people centric.

Public servants must be at the doorsteps of the people, not in headquarters and offices. We cannot be happy of some of our services, prolonged delays, lack of timely responses, lethargy, inaction, too much document processing, and our regulations are common concerns of the people. Simple systems can deliver while there should be no regulation in areas where the Government has to intervene.



**according to the macro-economic program of 'saubagyaye dekma', a growth rate of six percent, inflation at around five percent, Budget deficit reduced to four percent, will be maintained. how will this be achieved?**

Growth in the economy depends on many. Investment must take place to exploit existing production capacity as well as to create new capacity. As, you know, investments, consisting of public, private and foreign funds depend on many complex considerations. Total investment has declined from 33.2 percent of GDP in 2015 to 27.4 percent in 2019. Public investment has declined to about four to five percent. This means private investment has declined from about 28 percent of GDP to 23 percent - five percentage points. The downturn in growth rate from five percent to 2.3 percent during 2015 - 2019 may be partly explained by this. The country needs to regain investment. It is equally important to get key growth sectors moving. Investment must take place in those areas. That is why the 2021 Budget recognizes its thrust areas as agriculture, tree and crop plantation, processing and manufacturing industries, solar and wind power, IT and software economy, electricity, pharmaceuticals, machinery and equipment, apparel and leather, poultry, dairy, aquaculture and fisheries, construction and high-end tourism, and sports in the context of post COVID-19 new normal as key growth drivers in the economy. A wide range of incentives for the business community and households for savings and investments have been offered in the Budget to guide resource allocations in to these priority areas.

Fiscal and Monetary Policy will be complementary. Both policy thrust, strategy and instruments have been designed to revive the economy from its currently underutilized capacity. The 2021 revenue figure is estimated at around 1,961 billion rupees as against 1,528 billion rupees. It looks a huge increase of about 500 billion rupees. On a normal annual growth, it cannot be this large. But 2020 was very low base due to COVID-19 hitting the economy and the impact of Tax and Trade Policy changes brought about to shift the gear towards a production economy. If one compares the 2019 actual figure of 1,898 billion rupees, the 2021 revenue growth is not enough and it grows only by about 60 billion rupees. Therefore, 2021 revenue growth is a reflection of bouncing back to base revenue. However, the underlying economy and emerging new balance sheet of the national economy will be conducive to improve revenue elasticity in response to GDP over time. Revenue deficit of about 500 billion rupees is lower from 865 billion rupees in 2020 and almost as 2019. Again we are getting back to base.

Public investment is projected at one trillion rupees, little more than twice the amount in 2020. You can see that the National Budget has been designed to get public investment, which is the need of the hour. The Budget deficit of 8.9 percent of GDP or 1,565 billion rupees is hence explained by large public investment that is growth friendly as well. The new tax regime and public expenditure priorities are to get the economy back on track, through public and private sector to generate new growth dynamics in the country. It is the economy that drives revenue growth supported by public expenditure management that will reduce the Budget Deficit by 500 billion rupees during 2021 - 2025 in absolute terms and from 8.9 percent of GDP in 2020 to four percent of GDP in 2025.





Several initiatives have been incorporated in the 2021 Budget such as financial sector reforms, judicial and legal reforms, SOE reforms, commitment control and public expenditure management, retirement age changes, debt and capital market support to provide improvements in the supply side. Therefore, the reform content must be implemented on a fast track basis to get a business development and investment friendly environment.

**can you elaborate on the new perspective that the central Bank should have on monetary policy regarding money and liquidity management?**

Central Banks all over the world have not only changed their mindsets to have monetary easing but also recognized the need for new instruments and innovation in conducting Monetary Policy. In my view, our Central Bank needs to think differently on how the Monetary Board works, conduct its Monetary Policy and reform its regulatory role in respect of the banking system. Our commercial banks have not diversified enough. They are largely deposit based lending institutions. Intermediate cost is too high. They are more like debt recovery agencies than banks. They are comfortable with import financing than business development, and investment banking. Foreign exchange market has not deepened and diversified. There is no development banking. Commercial banks should be strengthened and supported to manage the foreign exchange market instead of

Central Bank doing this. These are areas the Central Bank should look at and the dialogue is taking place to make these changes. Despite virtually negative growth with the COVID-19 pandemic shocks on the economy, non-performing loans in our banks are not bad and I am sure they will also declare handsome profit at the end of the year. Exchange rate devaluation has not promoted exports. It has raised only the cost of production and debt servicing of both Government and private sector in addition to uncertainties for everyone.

**Foreign earnings will be increased by the diversification of exports through value addition to local resources. trade and production processes will be aligned so as to minimize the reliance on foreign imports in order to reduce the trade deficit. how will this be achieved?**

We cannot continue another five years relying on the export of garment and tea only as we have done for the past 50 years. We need a diversified export industry while building further on apparel and tea. Similarly, Sri Lanka cannot go on as we did for 40 years with importing twice of what the country exports. While we need to create space for new imports of high-tech machinery, equipment, value creating raw materials, advance medicine and medical equipment, we also must think of producing turmeric, ginger, maize, onion, potato, cereal, black gram, green gram, pepper, and cinnamon instead of importing them wholesale. There are prospects in Sri Lanka for making pharmaceutical products, dairy, sugar and ethanol, ship and boat manufacturing, vehicle assembling, railway coach refurbishment, aluminum, and cosmetics products. If Sri Lanka managed to produce what it can, then only Sri Lanka can import what it cannot produce locally.

Think of the exceptionally rare minerals resources such as graphite, gem, phosphate, and mineral sand that are globally in high demand. Pettah trading community imports sugar, lentil, and canned fish of which values are very high. The annual import value of these are well in excess of USD 500 million. Why not they maintain buffer stocks and enter transshipment trade in the region to become global businesses. Multinationals who imports wheat, milk powder, can do the same. The Government has provided incentives to move in this direction.

**It is also important for us to increase our external resources, the supply of goods and services must be maintained at an elevated level with income earnings from tourism, foreign employment, ports and airport services**

## **being a priority. Your thoughts?**

Yes, Sri Lanka's service account explains its earning though it is well below the potential. Overseas employment earnings, which increased from USD 4,000 million in 2005 to USD 7,000 million in 2014 declined below USD 6,500 million by 2019. Prospects for this source is huge. Tourism may take a while but is equally a potential earning source with huge employment and domestic value creation. Potential ports and airport services are another source. Its net earnings are still below USD 750 million. The Government strategy is to make port and airport transportation services a priority growth sector to create high supply chain business based in Sri Lanka. Sri Lanka Port is currently ranked at the 11th position in the Global Index and must work towards improving its ranking to the top five to be an international transportation hub and become a solid foreign earning source.

## **there is greater focus on foreign investment as opposed to foreign loans. Why is this important to Sri Lanka?**

Our nation needs a good balance of debt and investment. It is similar to the debt equity mix in businesses. It is equally important to have a balance mix of domestic and foreign debt. Allow the lenders to take investment risk assessment as opposed to lending to the Government. Beside our foreign debt has multilateral as well as bilateral and market aspects. Multilateral debt needs to be in support of the Government's priority for the next three years and it is easy to have high domestic contents. They can support the country's efforts towards a diversified export economy, inclusive growth and poverty free Sri Lanka.

Bilateral debt should be towards high priority, quick yielding investments that will be supportive of our critical long-term infrastructure requirements. Within bilateral too the Government's desire is to have high domestic content in their project financing arrangements. After all Sri Lanka needs to service all such debt. Hence, debt financed projects must be conducive to generate foreign earnings through exports of goods and services. Many bilateral loans also can be replaced with investments such as in ports and logistics, and power generation, which are commercial. The next component is market borrowings that are raised through sovereign bonds, which need to be rolled over at low cost to create a debt market to attract foreign investments and confidence in the economy. The road map from aid to loans and then to trade and investment is essentially a graduation process

in development. After all there is no “free lunch” so let’s not get carried away with foreign aid.

**agriculture is a key sector of the country. With the current situation growing locally has become essential. What are the inputs of this sector?**

Sri Lanka is a blessed land. Despite climate change being a global concern, we have good rain and sun to do all. A good monsoon for Maha cultivation season from October to March fills all our tanks and supports cultivation of irrigated and non-irrigated lands with rice, maize, cereal, fruits, vegetables, livestock, and inland fisheries. There are areas Sri Lankan farmers can make export surpluses. Then it generates electricity at virtually no cost, hydro capacity of 1,800 MW. Rain provides the key natural resource for drinking water. We have about 348 water supply schemes providing access to pipe borne water for 52 percent of our people. Water for all is the target. A favorable weather underwrites three to four percent growth in GDP. Value addition to wildlife, biodiversity, forestry and environment benefits are equally large.

Sri Lanka’s food, energy and environmental security sources are from the rain and sun. People, entrepreneurship and Government need to add value to it. That is why water should be conserved in all aspects of its use. Therefore, agriculture, aquaculture, and animal husbandry - the “Triple A Economy” - are Sri Lanka’s strengths. It may be our weakness as well, because, people may not give a value when resources are abundant in supply. Value for water and sunlight provide food and energy security today for Sri Lanka and are two main sources with which the country can replace its imports.

**the tax policy was simplified and Vat will remain at eight percent for businesses with turnover of more than 25 million rupees, can you elaborate on the tax revisions and also on how tax collection would be made more efficient?**

A simple, broad based tax is logical economics. After all taxes must also be affordable and in line with ability of people to pay. In this country, 80 percent of tax revenue comes from 20 percent of tax payers and 50 percent comes from less than ten commodities. Let’s concentrate on big ticket items and let others to graduate to become a responsible tax payer as they progress. Technology has replaced the collection mode and made payment systems online. The Government

is committed to go in this direction and I am sure the Commissioner Generals of Inland Revenue and Excise will live up to this expectation.

**certain sectors have been given tax exemptions? (including sri Lankan companies listed in the cse)**

As you can see from the Budget Speech it is development centric and several sectors, institutional reforms and macro fiscal policy dimension have been identified to incentivize investments to get the maximum capacity use from existing businesses as well as new capacity creation through the investments in supportive infrastructure like technology, electricity, Colombo Port City, port and transport. Debt and equity markets are too among such sectors that have been incentivized. A USD 1,000 million investment has been already granted for a business center, gold exchange, duty free shopping facilities in the Colombo Port City under the Strategic Investment Law. The consultative process led by SEC and proposals submitted by them have contributed to include such incentives in the Budget. The tax exemptions granted to Sri Lanka Real Estate Investment Trust for its capital gain and profit aims at promoting investments in the housing market. Local companies have been provided a three-year company tax rate of 14 percent in order to attract local businesses to list in the Colombo Stock Exchange. The Government also intends to introduce Government owned hotels and property businesses to list in the Colombo Stock Exchange before June 2021 for which preparatory work is underway.

Annual dividend payout of foreign shareholders and foreign companies are around USD 500 million. The Budget has offered a three-year tax holiday for this group to invest dividends in their own businesses, debt or equity or in Sri Lankan sovereign bonds. Investment in excess of USD ten million in export industries, dairy and related businesses, fabrics, tourism agriculture, processing industries, and IT industries, will be eligible for tax concessions under the Strategic Investment Law for a maximum period of ten years. Therefore, you can see a range of incentive offers to push economic activities that matters directly and indirectly to capital markets. I hope the Securities and Exchange Commission, Colombo Stock Exchange and private sector make use of these provisions in the best interest of economic progress.



**Import duty on vehicle spare parts will be reduced and import restrictions in this sector will be relaxed. Why is this?**

Motor vehicle imports of Sri Lanka have become a heavy foreign exchange outflow. As per the trade statistics published by the Central Bank vehicle imports between 2015 to 2019 have taken over USD five billion. That amount is despite the 100 percent deposit requirement by the Central Bank imposed in 2017/18 under the IMF supported program. The outflow per year was bigger than the three year EFF lending by the IMF to Sri Lanka to the tune of USD 2.5 billion. At the same time, the country still has a large vehicle stock. As at December 2019, the registered car totaled to 875,864. The other types include three wheelers, motor bikes, buses, vans and jeeps as well. At a time of foreign exchange difficulties, big ticket items need to be managed better. The vehicle industry can move on to maintenance, assembling, and reconditioning. At least motor bikes, and three wheelers can be made here as the domestic market is large as revealed in the statistics.

**there are further plans to develop colombo and hambantota Ports?**

The Colombo and Hambantota Ports will be Sri Lanka's new scale of economic zones and global logistic support locations. The BOI economic zones, which Sri Lanka has developed over the past 40 years were essentially to have factory

industries in a scale that were common in 1980's and 1990's. The Hambantota Port will focus on attracting bunkering, cement, tyres and a range of processing industries while Colombo Port will function to complement the Port City economic zones, which accommodates much larger transshipment trade, shipping logistics conventions, businesses, gold and high-end duty free shopping as well as high-end residential and business facilities. As announced in the 2021 Budget Speech, draft legislation on the Colombo Port City Law will be placed before Parliament in January 2021.

**the current situation has shown the importance of technology, and the Budget has special provision for the development of this sector. can you elaborate on this?**

In the backdrop of an emerging technology driven global economy, Sri Lanka's competitive advantage to exploit its growth potential for development has significantly improved. Our labor force is technology savvy and the new generation is techno friendly. They also have a unique advantage because of English. Investors are hungry for technology applications, client centric service needs and technologically inclusive society to expand education, health, and finance, logistics, public services, research through technological solutions that are real time and corruption free. Investors are also looking for 'readymade' infrastructure and factories (plug and play) as against to old fashion economic zones where investment spend time in building construction for two to three years before starting commercial operations. That is why the Budget proposes to set up five techno parks in five districts to benchmark a new wave of economic development where new investors come and operate in these techno parks from day one. The President is also working himself to set up a state-of-the-art technological university in Matara with an investment of around USD 100 million.

**National security and Public security will be further strengthened. Why is this important?**

Having experienced 30 long years of conflict and the recent Easter Sunday attack in 2019, Sri Lanka needs no reason as to why National Security is strategic for development. I still remember studies by IPS and Central Bank those days quantifying the cost of war and impact of GDP during war time. Tourism industry lost its momentum with the Easter Sunday attack. Furthermore, the people in Sri Lanka expect President Gotabaya Rajapaksa to liberate millions of people of

which 80 percent are poor and low income people who have become victims of drug use, widespread crimes, unsafe streets, smuggling, illicit liquor and cigarette trade, financial crimes, and cyber security risks all of which are concerns of our society whether you live in villages or cities. The country is looking forward to seeing an end to these evils. These activities deny public welfare, Government revenue, investor and business confidence and the country's reputations. Therefore, National Security and Public Security are pivotal prerequisites for development at this time.

**there are special provisions for plantation companies and increase in salaries in estate sector. What is the thought process?**

As you may recall, the plantation sector privatization was announced in 1992 with the formation of 23 plantation companies. They were taken over by large corporate establishments in this country and management was vested in management companies. Twenty companies are also listed. The land area occupied by these companies is around 220,000 hectares of which around 70,000 hectares is tea cultivation and around 35,000 hectares is rubber. Statistically these cultivations are also diversified to commercial forestry, cinnamon, and palm oil. Almost 30 years have lapsed but land use, production, and value addition remain at sub optimal levels. They are unable to invest and does not reflect as good business stories. Therefore, it is in the public interest to revisit the existing business models of each plantation company to encourage those who are doing well and revisit those who cannot reform. Employees should not be the victims for the failure of managers. When the Government is introducing a new wave of economic development with agriculture being placed as a thrust area, the Government cannot neglect its attention to the plantation sector just because there is further 15 years left in terms of present lease agreements. After all shareholders of plantation companies must also look at these seriously since no shareholder would want to run loss making business models.

**Infrastructure development, including railways, expressways?**

Accelerated infrastructure development to provide a well-connected expressway and transport network, all island communication access, urban and rural housing and property development, irrigation and water, major power generation projects to provide a profitable energy mix to have competitive energy prices have been recognized in the Public Investment Strategy for 2021 - 2023. This is the strategy



to get back to a six percent growth path on an inclusive basis.

### **how will sri Lanka emerge from this coVId-19 pandemic and journey forward?**

The COVID-19 pandemic is a global challenge - every country is struggling to come out of it. The whole world has lost 2020 in terms of economic progress and human welfare with double digit negative growth and very high unemployment. There is no parallel year for 2020 in recent times. Almost after a year, medical research has finally developed a vaccine and the world is increasingly getting ready for the 'new normal'. Few countries have already defined 'new normal' and Sri Lanka is one among them. Germany has recognized that Sri Lanka is the safest destination to visit in Asia is a reflection of Sri Lanka's successful management of the COVID-19 pandemic. The Health Ministry has developed many guidelines to convince our population to comply with a healthy lifestyle. Similarly, all our factories, businesses, banking, trade and transport are being prepared to comply to COVID-19 preventive health standards. The Government has identified its priorities and has sequenced them to ensure that incrementally the economy will emerge confronting synergies of identified priority sectors such as agriculture, plantations, SMEs, construction, urban development, technology based businesses and processing and manufacturing sectors.

### **Your message to the private sector?**

This is an opportunity to break from the past. It is an opportunity for all whether they are Samurdhi families, low income household, SMEs, local private sector or foreign companies operating in Sri Lanka. It is bringing a new profit story for the private sector. Together is strong. The private sector and public sector must work together for Sri Lanka to prosper. Both must be initiators and facilitators to each other. The Government keeping in line with 'Saubagyaye Dekma' National Development Agenda has translated those initiatives into actions. The 2021 Budget has provided such initiatives and facilities. Now the private sector has to reciprocate.

### **You were the secretary to the Ministry of Finance and Planning, and secretary to the treasury during a challenging period. today you are the President's secretary. can you tell us about your experience?**

I have experienced many business cycles that Sri Lanka has gone through. The

East Asian financial crisis, which saw the economies of South Korea, Malaysia, and Indonesia crash; experience of a 30-year long conflict trapped economy and finance; the 2004 Tsunami and its aftermath; the global oil price hikes surpassing USD 120/BB; and the 2008/2009 US/ EU led financial crisis, have influenced my work experience. There have been ups and downs in my career. At present, as Secretary to the President, we are yet again faced with another challenging time with the COVID-19 pandemic affecting the global economy with Sri Lanka having its share of burden as well as new opportunities. I will do my part to the best of my ability.

**there is a story being circulated that you do not allow the secretary to the treasury to work and are responsible for the downgrading of sri Lanka by Fitch Rating. What is your response?**

I am very much surprised by this story. Hon Nivard Cabraal sent me a SMS the day before Sri Lanka's rating was to be released, informing me that he is unable to contact Secretary to the Treasury and Ms Visaka and checked whether I would be available to speak to the Fitch Team online, to which I agreed. After a while, the Secretary to the Treasury himself spoke to me and sent me a briefing note. We were all connected online and we had a very constructive interactive session, which concluded on a positive note, though Fitch had already decided on the rating.

My involvement with the Budget was on the direction of His Excellency and Hon Prime Minister. His Excellency himself conducted nearly 100 meetings involving all line ministry officials and private sector representatives to which the PM too participated. The Budget estimate and relevant documents were prepared by officials in the Treasury Departments. I was asked to assist in drafting the Budget Speech in Sinhala. All these were done in consultation with Secretary to the Treasury, Prime Minister and His Excellency. Therefore, I am truly surprised over this particularly story, since I have worked together with these officers for years.

**Personally you are engaged in agriculture. What is your experience and how important is it for individuals to engage in such activity?**

I started residential agriculture after my retirement in 2015. I grow everything on a small scale where I can manage on my own and keeps me engaged. I believe in small scale residential agrarian living. If each household can do this, they will be

healthy, self-sufficient and have a sense of fulfillment.

### **Future outlook?**

Outlook is positive and I am optimistic that Sri Lanka will make a turnaround in the next three years.