

*Speech by Mr. K. M. Mahinda Siriwardana, Secretary to the Treasury and the Ministry of Finance, Planning and Economic Development, at the "46<sup>th</sup> Anniversary Celebration of Sri Lanka Export Credit Insurance Corporation" on 28<sup>th</sup> February 2025*

## **1. Background**

Sri Lanka's economy has now notably stabilised following a series of shocks, culminating in the devastating economic crisis since 2022. I will not elaborate on the economic reform process and the positive outcomes that have been experienced thus far, since these have been well documented in recent times. Most importantly, I believe the results of these measures speak for themselves.

Three years ago, most of us would not have even been in this room. We would more likely have been in a queue for fuel or cooking gas. International trade could barely take place since it was near impossible to open a Letter of Credit. The bankers present today will recall how the inter-bank forex market was all but frozen in early 2022. Those days are now thankfully behind us. But, I hope we never forget the pain that we went through. I hope we never forget the policy errors that led us to the crisis, and the incredible difficulty that had to be endured to get to where we are today. The words of the Spanish-American philosopher George Santayana, *"Those who do not learn from history are condemned to repeat it"*, would be true in Sri Lanka's present context.

## **2. Inclusive Growth with Stability**

With that said, today I want to focus on the future. The 2025 Budget is now being debated and it can be characterised as a milestone budget. The government had the difficult task of ensuring the budget can help catalyse economic growth, whilst ensuring that this occurs without compromising the hard-won economic stability.

Throughout Sri Lanka's past, we have seen that whenever the country goes through a crisis, the initial reforms are put in place, but as soon as a degree of stability is reached, those reform measures are promptly reversed following a change in political leadership. We saw that very clearly with the political cycle in 2019. If a similar policy reversal had taken place at the end of 2024, the outcomes would have been disastrous. By taking a pragmatic stance of ensuring continued fiscal policy discipline and reform continuity, the government has facilitated economic stability and all of the benefits arising from such stability. It is to the credit of the government that the political leadership very quickly understood the importance of macroeconomic discipline and the importance of reform continuity.

At the same time, the budget focuses on the key policy priorities of the new government as reflected in its Manifesto. There is a very significant emphasis on equity considerations in this budget. More so than in the past, there is attention provided to the most vulnerable groups of society that are often forgotten in the policy debate. Children with autism, the elderly and infirm, rehabilitation of drug abuse victims, and several others. These measures are intended to make economic expansion more inclusive, and create ways in which all members of society can productively engage in economic activity and benefit from the economy as a result. At the same time, the government provides a robust safety net, in the form of the Aswesuma programme among others, to support those who are unable to support themselves through engaging in economic activity. The allocations for Aswesuma are also significantly enhanced.

### **3. Exports and Non-Debt Creating Inflows**

A key aspect of the budget that would be of most interest to this audience is the high level of attention provided to the trade and investment sector. The budget speech spells out a clear vision regarding the need for expanding Sri Lanka's network of trade agreements to create market access for Sri Lanka's exporters. Trade facilitation measures, such as the Trade National Single Window, are emphasized along with a commitment to revamp Customs legislation and processes. The long-required need for a National Tariff policy is addressed in this budget, with a focus on ensuring readily available and affordable raw materials for exporters. Significant attention is also given to export-oriented investments and the logistics sector, with a view to fully leveraging Sri Lanka's locational advantages.

The Honourable President also emphasized the importance of facilitating the engagement of the MSME and SME sector in the export process. I believe SLECIC has an important role in this regard in terms of de-risking the export process in order to reduce market access barriers faced by these startups and new exporters. Services, such as credit insurance and credit guarantees, provided by SLECIC can reduce trade finance costs, facilitating SMEs/MSMEs in their efforts to enter export markets. I would encourage SLECIC to explore new and innovative financial products to cater to the needs of the up and coming exporters who need a helping hand and guidance.

#### **4. Improving Financial Conditions**

The government has taken all steps to ensure conducive financial conditions to support a thriving export and trade finance environment. The debt restructuring process came to a conclusion in December last year, culminating in the sovereign credit rating upgrades by both Fitch and Moody's. This will provide a major boost to the ability of Sri Lankan firms to engage with global financial markets at a lower cost. As fiscal stability and macroeconomic conditions continue to improve, we expect credit ratings to continue to improve and financial conditions to ease further. The domestic market has already experienced a steep decline in interest rates, particularly at the short end of the curve. Over and above this, the budget also provides several concessional financing and credit guarantee facilities for the SME/MSME sector. These facilities can be utilised by export-oriented SMEs as well, and SLECIC can provide further support to take these firms beyond Sri Lanka's shores.

#### **5. Importance of Reform Continuity**

It is evident that the budget sets a good platform for the economy to shift from stabilisation to robust growth. The encouraging performance thus far in terms of improved macroeconomic conditions and faster than expected economic growth should not allow us to become complacent. A reversal of policy reforms and a slippage in fiscal and monetary discipline can very easily lead to a vicious cycle which can rapidly result in a return to economic distress.

Continued revenue enhancement and meeting primary budget balance targets is central to persistent economic stability. A broad-based tax net is crucial to ensure the tax burden is shared in a fair manner that can be borne by the economy. Tax administration is being strengthened to achieve this critical objective as early as possible. In this context, the recent concerns raised by some segments of society regarding the removal of the exemption on taxes on service exports are unfortunate. In order to ensure Sri Lanka achieves a sustained recovery, all stakeholders in the economy must share the burden and contribute to this effort. All other corporates pay a 30% corporate income tax, including those that bring in foreign exchange, such as merchandise exporters, the logistics sector, and tourism. Individuals earning Rupee salaries pay up to 36% personal income tax. These rates are high – we all acknowledge and understand that. But in order to take the country out of the crisis permanently, this contribution is required.

Once fiscal targets are met and the tax net is broad-based through improved tax administration and compliance, then tax rates can be reduced for all, but in a manner that does not compromise fiscal targets being reached. Therefore, your country asks you to pay your due tax at this critical juncture, and all members of society must make their contribution to Sri Lanka's recovery and to take the country out from this deep crisis in a sustainable manner. From the government's side, every effort is being made to carefully utilise public funds with minimal wastage, a zero tolerance to corruption, and a strong emphasis on ensuring value for money in all spending. For instance, this year's budget presentation has an unprecedented level of disclosure documents as required by the Public Financial Management Act No. 44 of 2024 – this is a testament to the increased commitment to transparency and responsibility in fiscal management.

## **6. Concluding Remarks**

I believe the 2025 budget has set the tone for a new paradigm in Sri Lanka's economic journey. It sets out a vision for an inclusive, export oriented, sustainable, and digitally empowered economy. All stakeholders have a responsibility to fulfil their roles in making this vision a reality. I believe SLECIC is an important player in this agenda, particularly as a key facilitator for the expansion of exports and enabling more SMEs and MSMEs to graduate from the domestic market to become world class exporters.

I wish you all success in delivering excellence in the services you provide!