

Recent Economic Developments and the Way Forward

By
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Secretary to the Treasury

Presentation made to the Secretaries to Ministries
02 February 2024

Thank you!
for your support

Thank you for your support extended in 2023,
in managing fiscal operations in the face of
unprecedented and deep economic crisis....

In particular, supporting in managing Cashflow with
concurrent limitations in the budget execution process.

Looking forward your continuous support
to overcome challenges in achieving expected
economic development in 2024 and beyond....



1. Preamble



Sri Lanka hospitals issue SOS as vital drugs, equipment run out
 Doctors warn deaths could exceed COVID and other disasters combined

MUNZA MUSHTAQ, Contributing writer
 April 12, 2022 14:15 JST

CRISIS: Drug Shortage List in Sri Lanka

🕒 April 9, 2022

The country continues to suffer severe shortfalls c from fuel to electricity. But health experts caution system could drive an escalation in deaths, if immr supplies.

DONATE

13th death reported in Sri Lanka fuel queues

IAN S / Jul 5, 2022, 15:47 IST

SHARE



Sri Lanka crisis forces 13-hour blackouts, hospitals stop surgery
 Power regulator urges government employees to work from home to save fuel and hospitals suspend routine surgeries as economic crisis deepens.



A woman works inside a shop attached to her house during a power cut in Colombo [Dinuka Liyanawatte/Reuters]

31 Mar 2022



Sri Lanka Imposes Power Cuts as Cash Crisis Deepens



A child studies at her home during a power cut in Biyagama, a suburb of the capital Colombo, Sri Lanka, Feb. 2, 2022.

SRI LANKA'S FOOD EMERGENCY

As Sri Lanka faces an unprecedented economic crisis, the soaring cost of living burns hole in Sri Lankans' pockets

NEWS 18 creative



Country has long lived beyond its means....

We all are well aware of the unprecedented multiple crises faced by Sri Lanka at present.

It has deep roots: the country has long lived beyond its means – borrowing too much and taxing too little – and produced below its potential.

It is also a result of several years of populist & shortsighted policymaking, policy missteps & mismanagement, corruption vulnerabilities, political instability, and an overall lack of good governance.

Coupled with the impacts of external shocks such as the COVID-19 pandemic and the Russia – Ukraine conflict, **the country plunged into its worst-ever crisis in 2022.**

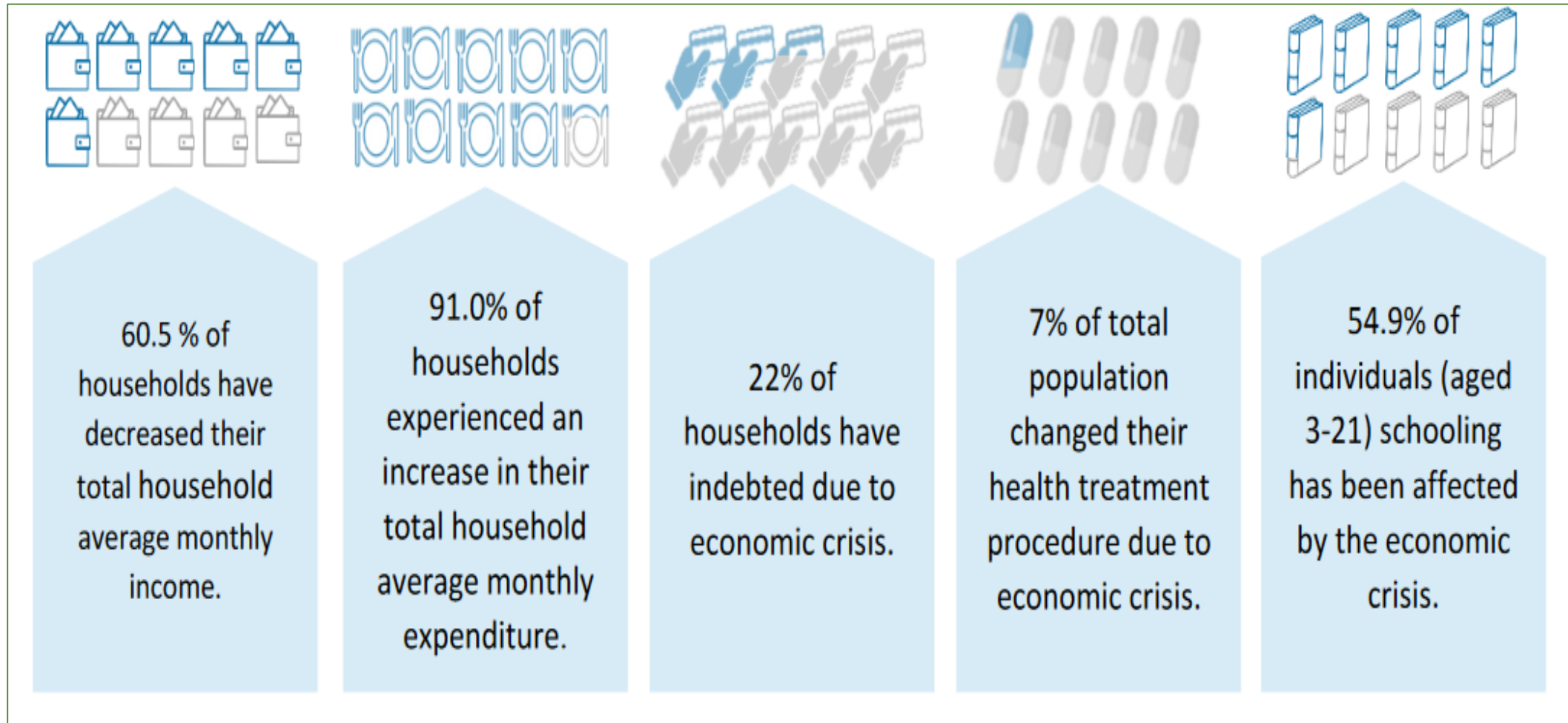
People's standards of living were devastated, with the heaviest blow to the poorest and most vulnerable and jeopardizing Sri Lanka's decades-long human capital gains with multiple challenges, including severe threats to nutrition, food security, healthcare, and education.

Widespread protests, mainly as a result of the above factors, were continuing with no clear path or hope for the future of the country.

Sri Lanka was on the brink of economic and social collapse.

Impact of the economic crisis on households....

Key strategies adopted by households to navigate economic challenges due to the ongoing



Source: Department of Census and Statistics, Sri Lanka

Sri Lanka is passing through a critical period after the economic crisis in 2022 that led to serious social and political consequences....

- The impact of the crisis is being felt by everyone in the country
- People have had to undergo tremendous difficulties
- This unprecedented crisis has to be managed very carefully
- Proper identification of the major causes of the crisis and addressing them effectively is critical, **as there is no room for any repetition of this type of crisis in Sri Lanka**
- The government is in the process of making every effort to address the crisis and bring back the economic growth on a sustainable manner
- As most senior officials of the Government machinery, you have a very important task in these efforts
- In fact for that matter, every government servant has a crucial role to play

This presentation intends to briefly provide some thoughts to facilitate this process and assist you to think about the historical role that you all will have to play in **TAKING SRI LANKA OUT OF THE CRISIS AND MOVING FORWARD STRONGLY.**

2. Major causes for the crisis and lessons learned

Major causes for the crisis.... (1)

- Having run an unsustainable macroeconomic model in tandem with the longstanding deficits in the budget balance and the external current account, **the economy had fully exhausted its buffers by early 2022 as it was straddled by a myriad of vulnerabilities that emanated from both global and domestic sources.**
- Several inherent weaknesses of the economy, further exacerbated by policy lapses, **steered the country towards a multifaceted disaster.**
 - Ill-timed tax reductions
 - An ill-equipped attempt to swiftly adopt organic agriculture
 - The depletion of the country's official reserves amidst futile attempts to maintain an untarnished debt servicing record
 - The delay in the exchange rate adjustment, and
 - **The failure to pay heed to several early warning signals**
caused tremendous shockwaves across the economy.

Press Release on Annual Report 2022 - CBSL

Major causes for the crisis.... (2)

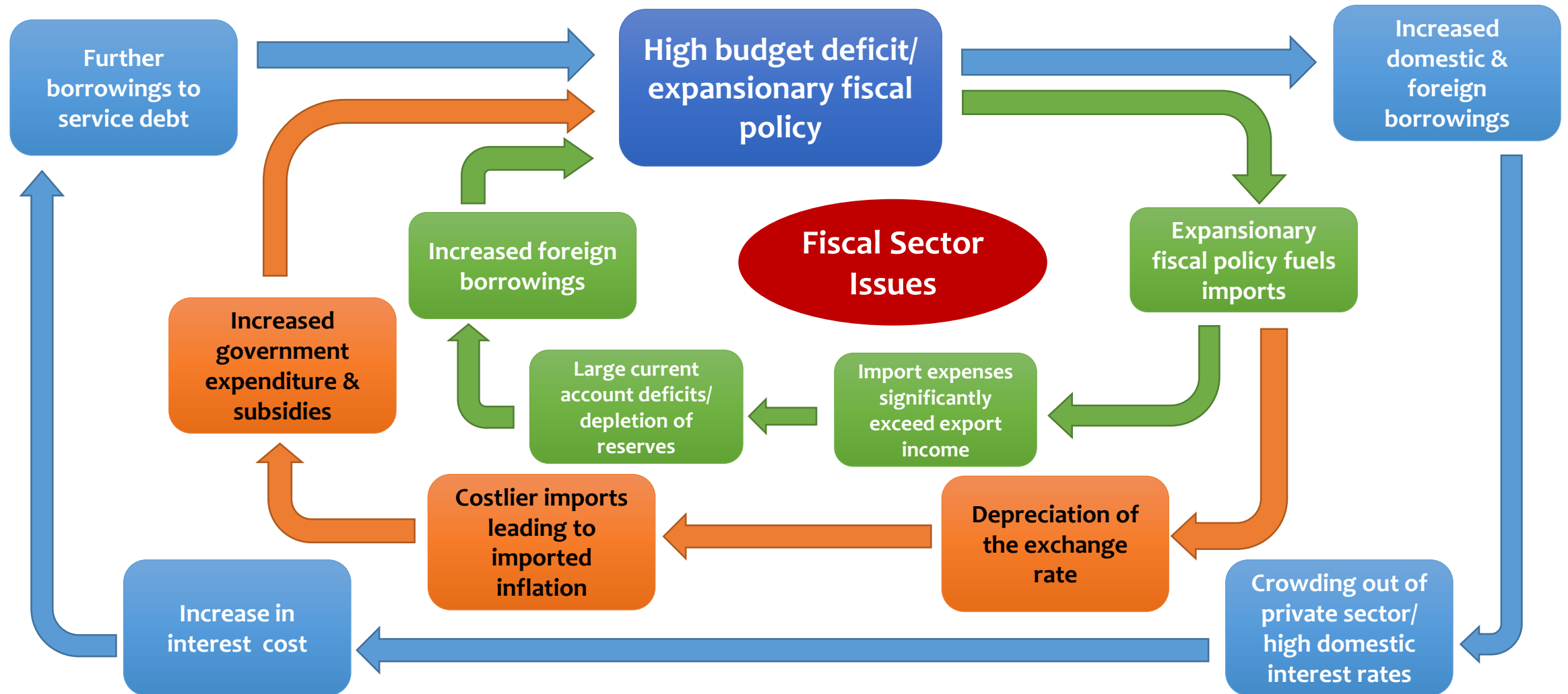
- Consequently, the economy was battered by;
 - excessive balance of payments (BOP) pressures with acute shortage of foreign exchange liquidity and pressured exchange rate,
 - spiralling inflation and dampened economic activity amidst mass loss of livelihoods,
 - large fiscal imbalances,
 - public debt reaching unsustainable levels with extraordinarily high risk premia,
 - devastating sovereign rating downgrades that constrained access to external finance,
 - unprecedented heightening of socioeconomic and socio-political tensions, and
 - rapidly deteriorating business confidence, among others.
- Businesses and the general public alike were in severe distress amidst shortages and rationing of essentials, the ballooning cost of living and cost of production, and the loss of welfare and livelihoods.
- Consequently, the rapid unfolding of social unrest resulted in political instability, **warranting an urgent need for redefining policy priorities to steer the economy away from further turmoil.**

Lessons Learned

- The socio-economic crisis in 2022 underlined many lessons that the country failed to grasp, despite the recurrence of such macroeconomic failures throughout its post-independence history.
- **This economic episode reiterated the,**
 - essentiality of data-driven policymaking
 - devastating implications of ad hoc policy experiments
 - crippling welfare impacts of myopic populist policies, and
 - the cost of policy delays, disregarding evidence-based policy analysis, well-established economic fundamentals and expert opinions.
- **The general public and businesses at large had to bear the cost of a one-time adjustment of delayed structural reforms.**

Press Release on Annual Report 2022 - CBSL

Fiscal sector issues remain the root cause for most of the problems that Sri Lanka is facing at present...



3. The response to the crisis with an IMF Programme

The IMF supported Extended Fund Facility (EFF) programme

- Unlike in the past 16 programmes, an economic stabilization programme alone was not sufficient to obtain the assistance from the IMF this time (under the 17th programme)
- Hence, Sri Lanka had to work in two parallel paths
 - Key economic stabilisation programme
 - Debt restructuring
- **It is important that much needed and much delayed reforms are undertaken with strong commitment**

This should be the last IMF programme.

The IMF – Extended Fund Facility (EFF) programme

The programme sets on 7 pillars

Revenue based fiscal consolidation	A stronger social safety net	Restoring debt sustainability	Restoring price stability/ rebuild external buffers	Safeguarding financial stability	Reducing corruption vulnerabilities	Growth enhancing reforms
<ul style="list-style-type: none"> - Progressive Tax policy and revenue administration reforms - Expenditure rationalization - Improve timeliness, accuracy, and coverage of fiscal data - Strengthening Governance and Financial Viability of SOEs - Strengthen core PFM with PFM act 	<ul style="list-style-type: none"> - Protect vulnerable through SSN Programme (Aswesuma/Samurdhi) -Strengthening SSN institutional framework 	<p style="text-align: center;">- A debt resolution in consistent with IMF program parameters in a fair and equitable manner to the creditors</p> <ul style="list-style-type: none"> - Establishment of Public Debt Management Office - Publication of debt information quarterly 	<ul style="list-style-type: none"> - multi-pronged disinflation strategy - Greater Exchange Rate Flexibility - strengthen the institutional framework to monetary and external sector reforms -Administrative measures to support BOP 	<ul style="list-style-type: none"> - Healthy and adequately capitalized banking system - strengthening financial sector supervision - strengthening the resilience and governance of state-owned banks. 	<ul style="list-style-type: none"> - Conducting a Governance diagnosis and publication of the outcomes. - Enacting the Anti-Corruption Act - Improving fiscal transparency 	<ul style="list-style-type: none"> - Rationalizing para-tariffs - Implementation of a Single Window for trade - Comprehensive labor market reforms

Progress of key stabilization measures since April 2022

Restoring the supply of essential items and eliminating power cuts

Significant Tightening of Monetary Policy

Import restrictions/margin deposit requirements

Strengthening Social Safety Net (SSN)

Continuous Financial sector oversight

Energy & and electricity price revisions and SOE Reforms, including CPC & CEB

Substantial Fiscal Tightening

Credible and Transparent Policy Measures prevented further worsening of the crisis and Restored Socioeconomic Stability

Forex and Rupee liquidity management

Stabilizing the exchange rate through market guidance

Announcement of the debt standstill and commencing debt restructuring

Negotiating an IMF-EFF Arrangement

- Many reforms are very painful, particularly to the poor and the vulnerable.
- That's why Aswesuma benefits have increased by threefold to Rs. 205 billion in 2024 to protect the poor.

Progress of the IMF – *First Review Completed*

- **The Government successfully achieved most of the targets as scheduled.** Several targets were achieved with a slight delay.
- Some targets include complex structural reforms with lengthily legislative processes.
- The first review of the program was concluded in October 2023 and both parties reached a **Staff Level Agreement (SLA) on 19 October 2023.**
- **The SLA together with financial assurances enabled the approval of the First Review in December 2023** to get the 2nd tranche of the program amounting to around USD 337 Mn.

Positive developments have begun to occur

- Sri Lanka's economy is beginning to recover following the devastating impacts of the worst economic crisis in post-independence history.
- The situation in February 2024 is better than it was in February 2023, which in turn was much better than February 2022.
- **If the country remains on this reform path, things will continue to get better year after year.**
- **However, if the reforms implemented over the last 21 months are disrupted, we will fall back to where we were in 2022, or worse.**

Looking back at the economic situation this time last year;

- Inflation was 57.2%
- Food inflation was 64.4%
- The exchange rate stood at Rs. 363/USD
- The primary deficit in the budget was 3.7% of GDP (end 2022)
- The BoP current account deficit was 1.9% of GDP (end 2022)
- GDP had contracted 7.8% (end 2022)
- Interest rate (1Y Treasury bill yield) was 29.3%
- Losses at the 52 key state owned enterprises stood at Rs. 745 billion (loss before tax) as at end 2022.
- The government overdraft in the state banks was Rs. 84 billion (**down from Rs. 832 billion in end 2021**)

Today, all of these indicators have improved dramatically;

- Inflation has declined to 6.4% in January 2024
- Food inflation has declined to 3.3% by January 2024
- The exchange rate stands at Rs. 317/USD, an appreciation of over 10% in 2023.
- The budget recorded a primary surplus in 2023, only the 6th time an annual primary surplus has been recorded since independence.
- All government payment arrears for 2023 were settled by end December
- The current account of the BoP will record a surplus in 2023 for the first time since 1977
- GDP recorded a positive growth (1.6%) in the 3rd quarter of 2023 after 6 successive quarters of negative growth
- Interest rate has declined to 12.8% (1 year Treasury bill rate)
- The 52 key SOEs made a collective profit of Rs. 313 billion up to August 2023.compared to Rs. 748 billion loss in the same period in 2022
- Improved cash management enabled the government to convert its OD into a positive Cash Buffer

US-based RM Parks to start fuel supply in Sri Lanka soon; United faces delay



No more QR code



Asia&Pacific Saturday, October 28, 2023

Sri Lanka removes import restrictions on all items except vehicles

Source: Xinhua | 2023-10-10 00:05:00 | Editor: huaxia



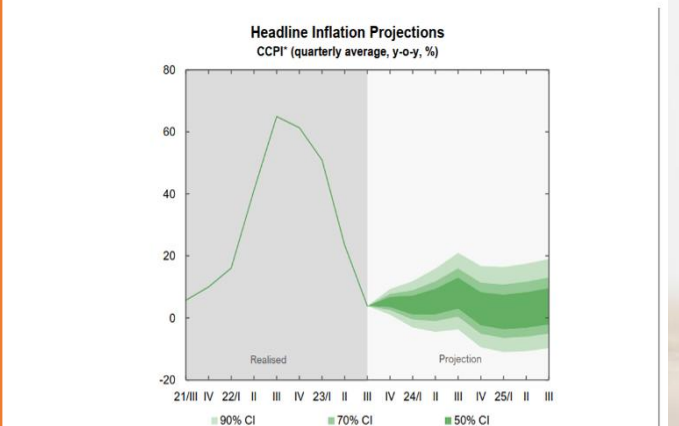
Sri Lankan overseas workers remit US\$4.35 billion in 9 months 2023

Oct 8, 2023 | 88 | 0

Inflation



Sri Lanka cuts policy rate 100bp to drive up inflation, 'potential' growth



*Note: Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100), while data after this period are based on the CCPI (2021=100). Projections are based on all available data.



Sri Lanka Real GDP Annual Percentage Change



IMF Economic Outlook Report - October 2022

Sri Lanka: Strengthening Social Protection



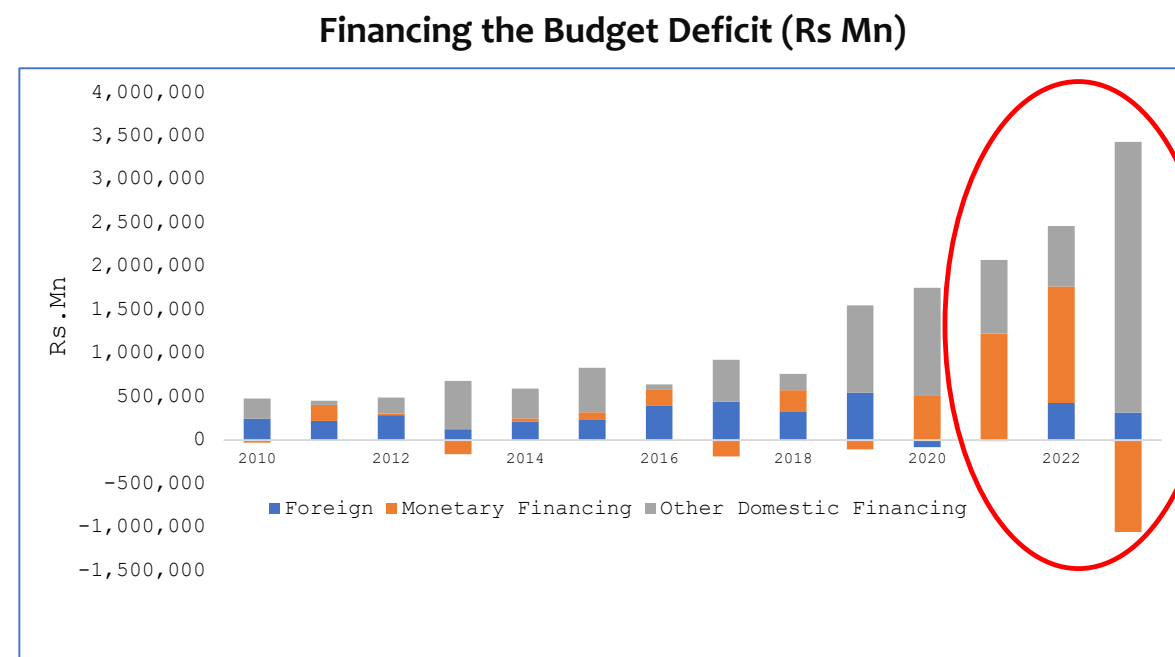
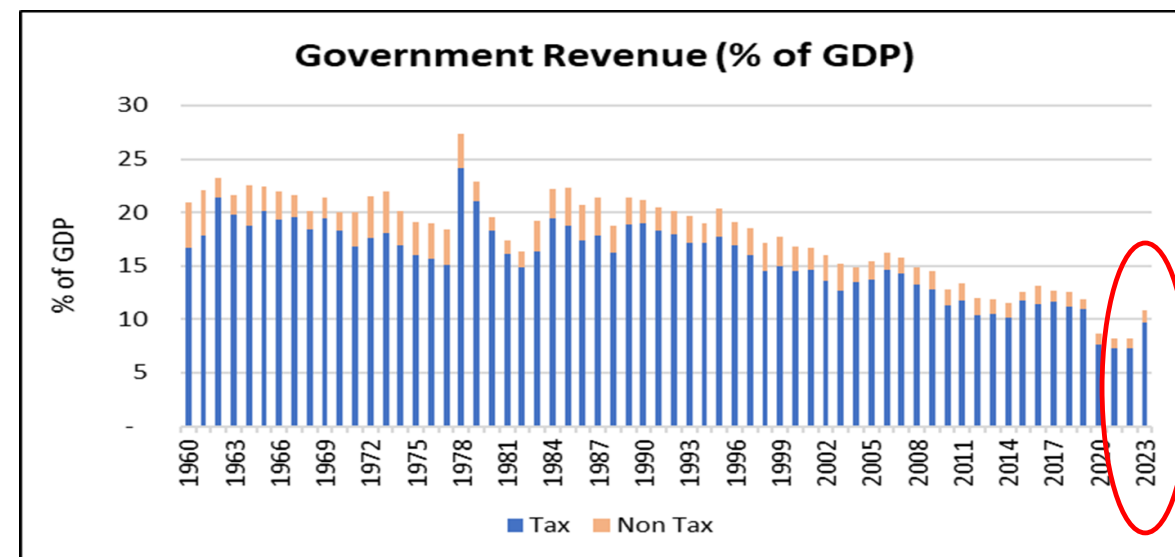
Power Cut Ends!



4. Key areas related to fiscal sector

Managing the budgetary targets and ensuring deficit financing

Summary of Government Fiscal Operations		
Item	2022	2023
Rs. Million		
Total Revenue & Grants	2,012,589	3,052,371
Total Revenue	1,979,184	3,030,271
Tax Revenue	1,751,132	2,720,411
Non-Tax Revenue	228,052	309,860
Grants	33,405	22,100
Expenditure and Net Lending	4,472,556	5,424,707
Recurent	3,519,633	4,783,595
Capital and net lending	952,923	641,112
Public Investments	1,014,293	917,974
Current Account Balance	(1,540,448)	(1,753,324)
Primary Balance	(894,777)	164,247
Overall Fiscal Balance	(2,459,967)	(2,372,337)
Total Financing	2,459,967	2,372,337
Total Foreign Financing (Net)	424,822	315,226
Total Domestic Financing (Net)	2,035,145	2,057,111
As a Percentage of GDP (%)		
Total Revenue & Grants	8.3	10.9
Total Revenue	8.2	10.8
Tax Revenue	7.3	9.7
Non-Tax Revenue	0.9	1.1
Grants	0.14	0.08
Expenditure and Net Lending	18.5	19.3
Recurent Expenditure	14.6	17.0
Capital & Net Lending	3.9	2.3
O/w Public Investments	4.2	3.3
Current Account Balance	(6.4)	(6.2)
Primary Balance	(3.7)	0.6
Overall Fiscal Balance	(10.2)	(8.4)
Total Financing	10.2	8.4
Total Foreign Financing	1.8	1.1
Total Domestic Financing	8.4	7.3



Medium Term Macro-Fiscal Framework: 2023-2028

Medium Term Macro Fiscal Framework : 2023-2028 (As a percentage of GDP)

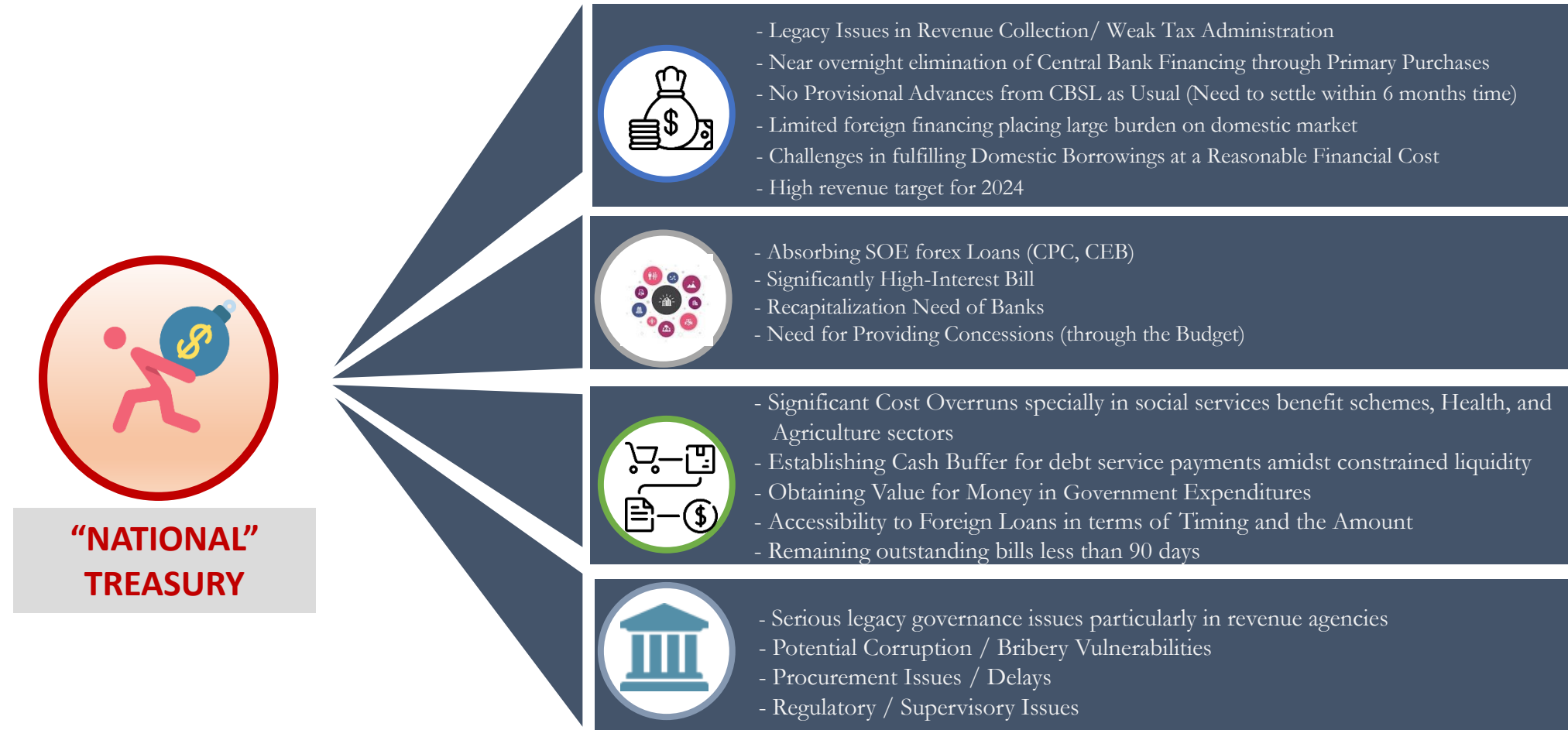
Indicator	As a percentage of GDP						
	2022	2023	2024	Projections			
	Actual	Revised Estimate	Est.	2025	2026	2027	2028
Total Revenue and Grants	8.3	10.1	13.1	15.0	15.0	15.1	15.2
Total Revenue	8.2	10.1	13.0	14.9	15.0	15.1	15.2
Tax Revenue	7.3	9.2	12.1	14.0	14.0	14.1	14.2
Non Tax Revenue	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Grants	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Total Expenditure	18.5	18.9	20.7	20.3	19.7	19.3	19.4
Recurent Expenditure	14.6	16.0	16.9	15.9	15.4	14.9	14.9
Interest Payment	6.5	8.0	8.4	7.6	7.0	6.5	6.5
Capital Expenditure and Net Lending	3.9	2.9	3.8	4.4	4.4	4.4	4.5
Public Investment							
Current Account Surplus (+)/ Deficit (-)	-6.4	-5.9	-3.9	-1.0	-0.4	0.2	0.3
Primary Balance Surplus (+)/ Deficit (-)	-3.7	-0.7	0.8	2.3	2.3	2.3	2.3
Budget Deficit Surplus (+)/ Deficit (-)	(10.2)	(8.7)	(7.6)	(5.3)	(4.7)	(4.2)	(4.2)

Sources: Department of Fiscal Policy and Department of National Budget

Outstanding Bills as at 31.12.2023 (updated as at 31.01.2024)
Age analysis

	Recurrent	Capital	Total
Less than one month	2,620	2,866	5,486
Between 01-02 months	0	0	0
Between 02 – 03 Months	0	0	0
More than three months	0	0	0
Total	2,620	2,866	5,486

Unprecedented burden on the General Treasury

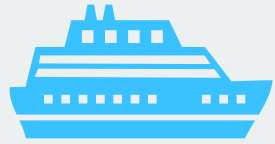


- **The Treasury is working to find new ways to manage new challenges in the post crisis environment.**
- **Careful and efficient expenditure management is critical**, considering the repercussions of mis-management of expenditure.
- **There is no room for EXTRAWAGANCE / OSTENTATION**
- **Prioritizing spending on essential services such as healthcare, education, social welfare, digitalization etc., and essential infrastructure, while cutting back on non-essential expenses is crucial.**

5. Way forward for solidifying the stability and economic growth

The way forward....

Medium Term Objectives



Export oriented competitive economy



Environmentally friendly green economy



A digital economy; through economic reforms, reorganisation and economic modernisation

- ✓ Higher economic growth of 7% to 8%
- ✓ Increasing international trade as a percentage of GDP by more than 100%
- ✓ Annual growth of USD 3 Bn from new exports from 2023 to 2032

- ✓ Foreign direct investment of more than USD 3 Bn in the next 10 years
- ✓ Creating an internationally competitive workforce with high skills in the next 10 years.

Economic growth to be inclusive too....



Commitment to implement much needed reforms....

The crisis is very severe and deep so Sri Lanka needs to continue to implement strong reforms with commitment to address it.



- Enhanced domestic resource mobilization has a critical role to play.

- Strengthening tax administration is critical to get the maximum yield from tax policy changes.

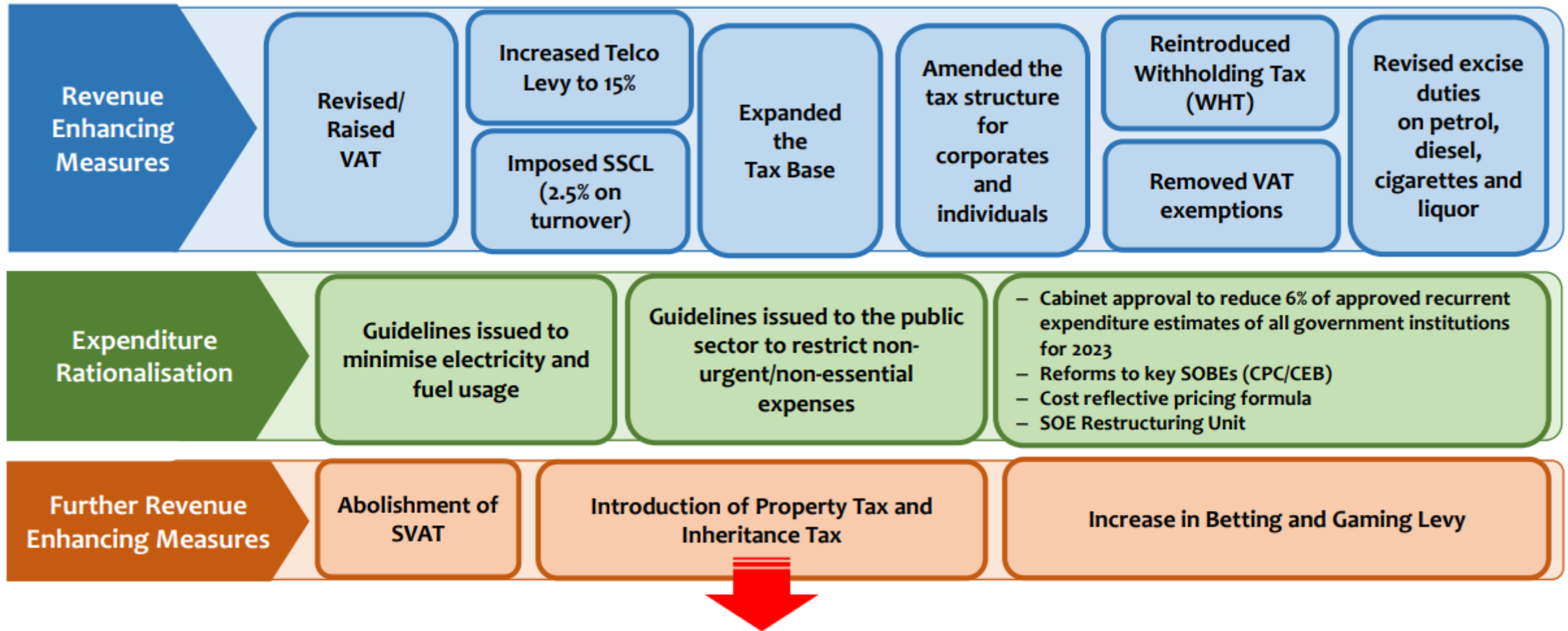
- Completion of the debt restructuring process is critical with substantial relief from creditors, which will enable to restart projects, given the unsustainable level of debt.

- Continuation of the reform agenda under the IMF-EFF.

- Introducing growth supporting structural policy changes.

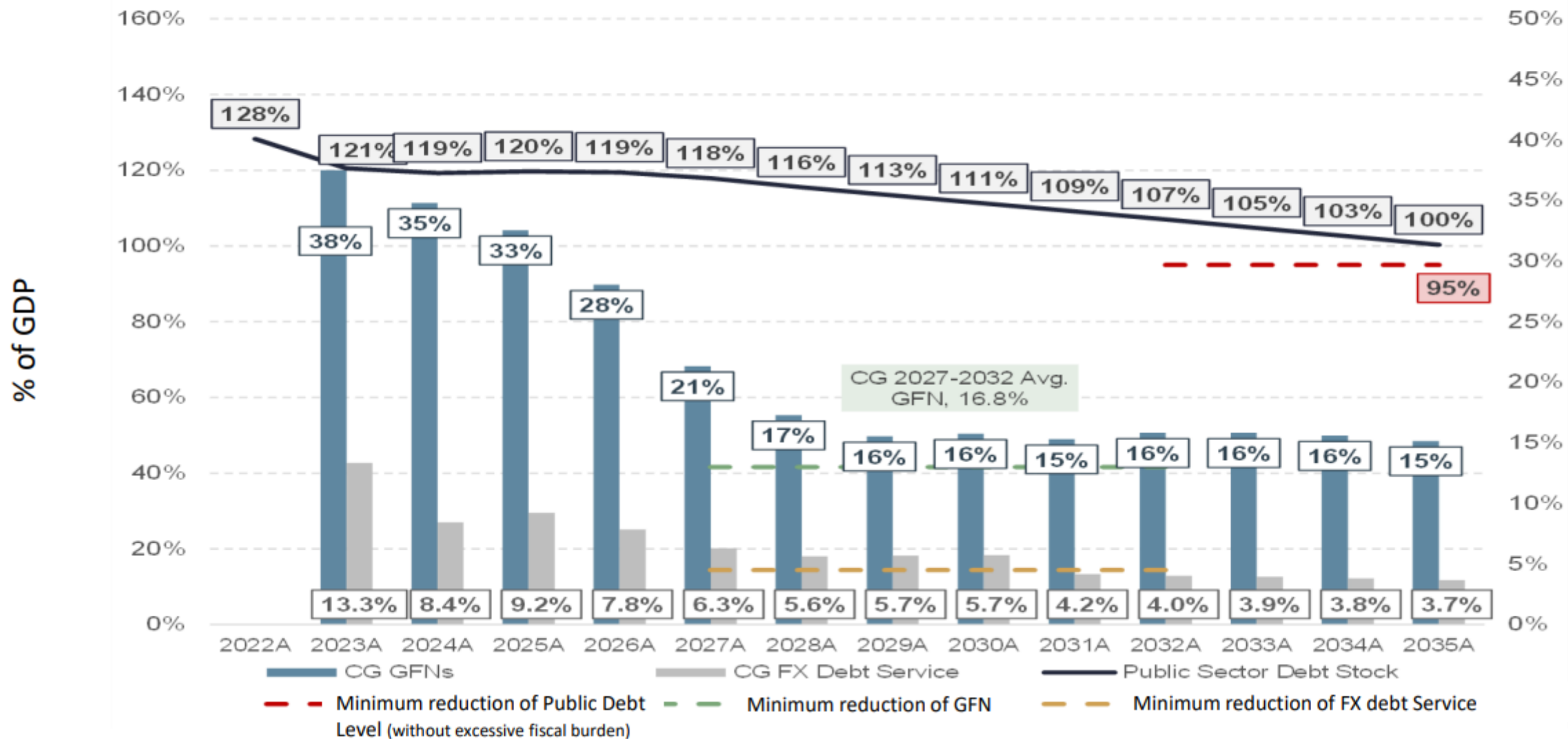
- Structural reforms beyond the IMF programme are crucial to achieve high and sustainable economic growth.

Government has already embarked on a strong fiscal consolidation path, aiming at a sustainable surplus in primary balance...



- Significant burden on businesses and households, resulting in a heavy toll on economic activity
- Therefore, further tightening of fiscal stance could be economically and socially costly...

However, a fiscal adjustment alone would not achieve Sri Lanka's public debt sustainability, in the absence of an upfront comprehensive debt treatment..



DDO has completed and the completion of the external debt restructuring is the next major goal

What is the minimum level of adjustment needed to make Sri Lanka's debt sustainable in the period ahead (DSA targets)?



Non-Debt Creating Inflows

- Non-debt creating inflows include exports of goods and services (including tourism), and **Foreign Direct Investment (FDI)**.
- **The government has resumed efforts to engage in trade agreements with strategic partners.**
 - India, China, and Thailand are the initial countries, whilst the government will in parallel seek membership in the Regional Comprehensive Economic Partnership (RCEP) which will provide comprehensive market access across East Asia.
 - This would eventually enable an investor in Sri Lanka to export to markets spanning over 3 billion consumers.
 - A Trade Adjustment framework has been mooted to support entities adversely affected by adjustment costs in the process of liberalisation.
- The government is also in the process of revamping the institutional structure to support the trade and investment agenda by merging the Export Development Board (EDB) and Board of Investment (BOI) to create an agile institution that is capable of servicing the needs of a modern economy.
- A **Trade National Single Window System**, designed to minimize human intervention and promote efficiency in international trade, is being setup.

Growth Enhancing Structural Reforms

- There is an urgent need for **unlocking land resources** to make land available for productive activity.
 - At present, almost all investment zones are at full capacity and it is challenging for a company to find suitable industrial land.
 - Therefore, identifying potential **government owned land resources** for productive economic activity would be crucial.
- **Several reforms required in the labour market** have been identified in the proposed amendments to the labour legislation.
 - These would make a significant positive impact on labour productivity and labour force participation. Improvements required in capital markets include the establishment of clear bankruptcy legislation.
- To facilitate better governing practices applicable to both public sector and State Owned Enterprises (SOEs), a new **Public Financial Management Bill** is being drafted **with stringent fiscal rules.**
- A **Revenue Authority** also will be set up to strengthen the revenue generation efforts.
- While the introduction of an **e-procurement system** to enhance transparency and accountability in public sector procurement is in progress and expected to be completed before the end 2023, a road map is being designed to rollout the e-government procurement Secretariat in 2025.

Growth Enhancing Structural Reforms....

- Other growth enhancing main structural reforms include **efforts to accelerate agricultural sector modernisation**.
 - Agriculture in Sri Lanka remains locked in low value products that generate limited income for farmers.
 - There is a need to enhance the **role of technology in agriculture**, link into higher value export value chains, and reduce post-harvest losses in the sector.
- The **energy sector** also requires significant reform to reduce generation costs and improve the generation mix with a **specific emphasis on green energy**, thereby enhancing the competitiveness of Sri Lankan enterprises.
 - Whilst unbundling the CEB is an important first step, it is also necessary to invest in upgrading transmission capacity and storage in order to accommodate higher levels of renewable energy in the grid.
- **A series of other legal reforms** will also be implemented to facilitate the stability and growth, going forward.

Key legal reforms...

- Having a comprehensive study on past experience and lessons government has initiated to introduce number of new laws / revision of laws are being introduced. Most of these new laws focus on structural changes of the existing executive and administrative structures.
- The **Central Bank of Sri Lanka Act**, amendments to the **Banking Act & Bank Special Provisions Act** as well as **Anti-Corruption legislation** have already been enacted.

Key New Laws

- a. Public Financial Management Bill
- b. Independent Debt Management Agency Bill
- c. Food Security Bill
- d. Public Asset Management Bill
- e. Microfinance and Credit Regulatory Authority Bill
- f. Secured Transaction Bill
- g. Economic Stabilization Bill
- h. Offshore Economic Management Bill
- i. Public Service Employment Bill
- j. Unified Labor Law Bill

- k. New law for facilitating proposed agricultural land lease programme
- l. Management of State Owned Enterprises Law
- m. Public Private Partnership Law]
- n. Investment Law
- o. Sri Lanka Accounting and Standard Monitoring Act
- p. Other proposals in 2024 Budget Speech

Key Revision of Laws

- a. Amendments to Agrarian Development Act
- b. Amendments to Excise Ordinance
- c. Amendments to Customs Ordinance
- d. Amendments to Finance Act
- e. Amendments to Foreign Exchange Act

Addressing governance issues....

- The Governance issues highlighted in the recently published “**Governance Diagnostic Report**” were initiated by various government institutions in past decade.
- New Anti-corruption law is a product of indepth studies and consultations had with many stakeholders
- New Public Financial Management Law, Public Debt Management Law and Credit Regulatory Law were initiated in 2015.
- Most of these areas have been identified as most vulnerable and will be addressed expeditiously.
- The Governance Diagnostic Report has made 15 priority Recommendations.
- **Government has already completed some of those recommendations within a short period and balance is ongoing.**

Table 1. Priority Recommendations of the Governance Diagnostic Report	
	Measure
1	Establishment of an Advisory Committee to assist in the nomination of CIABOC Commissioners and the Director General.
2	Publication of Asset Declarations for senior officials on a designated website
3	Enact Proceeds of Crime legislation
4	Amend the National Audit Act to enable the Auditor General to levy surcharges on officers,
5	Finalise and implement regulations to support the provision of beneficial ownership information
6	Enact a Public Procurement Law
7	publish report on a designated website on progress in increasing the proportion of competitive tendered procurements
8	Publish details of awarded contracts over Rs 1 Bn, list of firms that receive tax exemptions under BOI act and SDP act and tax exemptions for luxury tax imports
9	Implement the SOE Reform Policy
10	Abolish or suspend application of the Strategic Development Projects Act
11	Amend tax legislation to eliminate or restrict ministerial authority to introduce tax changes without prior parliamentary approval
12	Institute short-term anti-corruption measures within each revenue department
13	Policy decision for establishing new management arrangements for the Employee Provident Fund that terminates direct CBSL management
14	Revise legislation, regulations, and process relating to financial sector oversight in the banking sector
15	Establish an on-line digital land registry

Investing in Public Services

- Whilst the government's fiscal resources are strained, there remain important sectors where **the government needs to increase investments**.
- This is particularly true of sectors such as **education, healthcare, public transport, digitalisation and research and development (R&D)**.
- All of these sectors are crucial inputs into **productive economic activity** and require greater allocation of public resources and financing.
- Investments in **digitalisation and public transport** would deliver significant returns in productivity gains in the economy in the short term as well.
- The **education sector requires greater investment** but also significant modernisation in the wake of fast-growing trends, including Artificial Intelligence (AI).
- Public resources will also need to be set aside for **climate mitigation** and it is necessary for the country to position itself to access green financing and other global financial resources in efforts to mitigate the growing negative impacts of **climate change**, including drought and adverse weather events.
- **It is also essential to obtain the support of the private sector in these activities.**

Development Policy Operations (DPO) – World Bank

Three Pillars and Nine Reform Areas of DPO



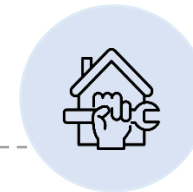
Improving Economic Governance

- Improve fiscal & debt management
- Improve tax administration
- Reduce risks in financial sector & sovereign-financial nexus Expenditure Management.
- Maintain stability & confidence in banking system



Enhance Growth and Competitiveness






- Restructure & divest SOEs
- Reduce trade & investment policy uncertainty to increase competitiveness
- Mobilize private capital & competition in the broadband market



Protecting the Poor and Vulnerable

- Strengthen social protection institutions, delivery systems & targeting
- Level the playing field and reduce barriers for female labour force participation

Asian Development Bank (ADB) – Policy Based Lending (PBL)

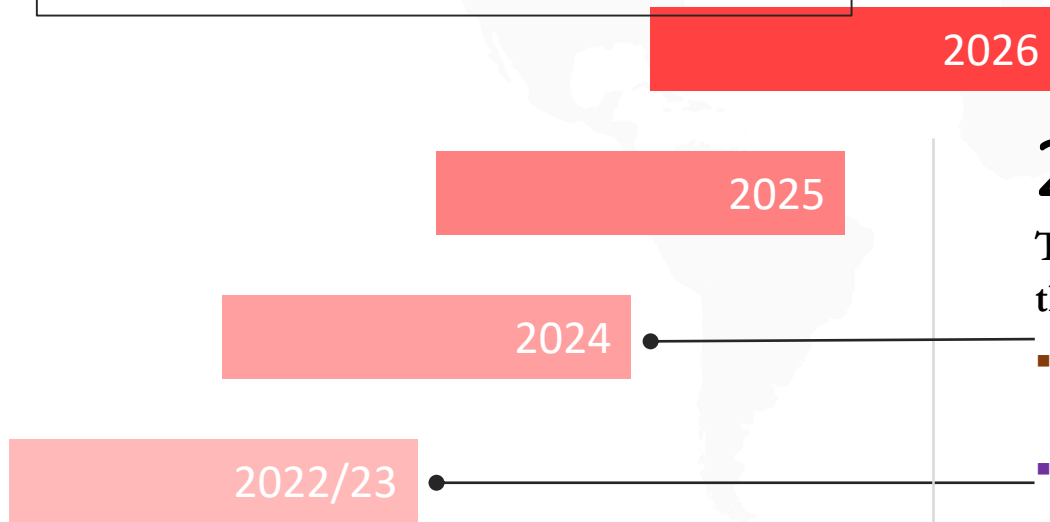
Sector	
	Public Sector Management and Governance
	Finance Sector
	Trade, Industry, Investments
	Water and Urban Sector
	Power Sector

WAY FORWARD

- Create an environment where government is an enabler of all functions but not necessarily the provider,
 - ✓ where the businesses could operate with no hassle
 - ✓ entrepreneurship is supported
 - ✓ people's rights are protected, and a decent, safe living is ensured.
- It will stabilise the economy, and then support growth to transform it into a competitive market economy.

“By the year 2048, which marks 100 years of independence, the background for the new approach and new work order to make Sri Lanka a developed country will be prepared by these budget proposals”.

Budget Speech - 2023

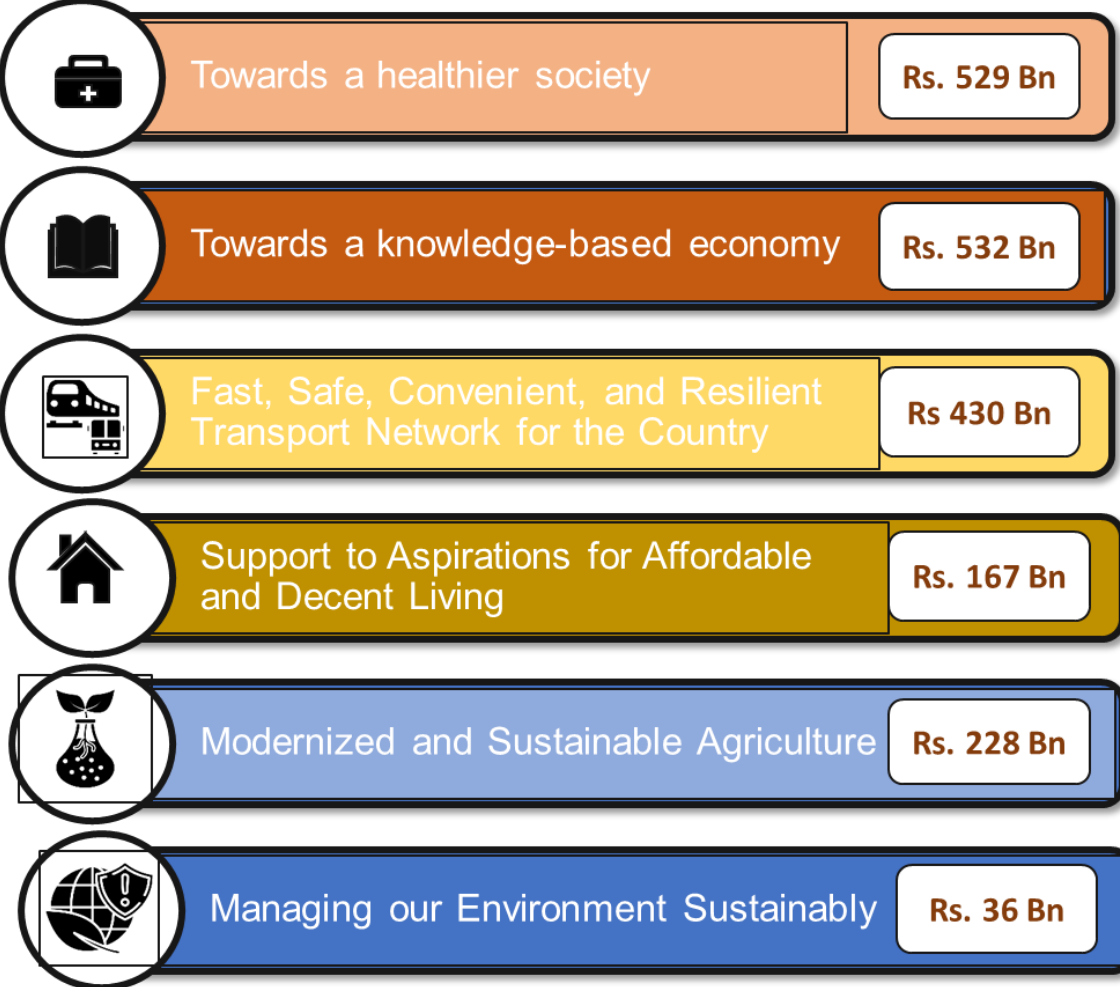


2022-24

The country is at a juncture where reforms are critical to overcome the crisis and sustain growth.

- Extensive discussions already had internally and also with our partners, including the IMF, the World Bank and the ADB
- Reforms already identified in the Staff Level Agreement (SLA) with IMF, debt restructuring and proposed Development Policy Loans.
- Interim Budget 2022 and Budgets 2023 & 2024 include a series of reforms

Budget 2024 at a Glance



An important observation from the civil society on Budget 2024....

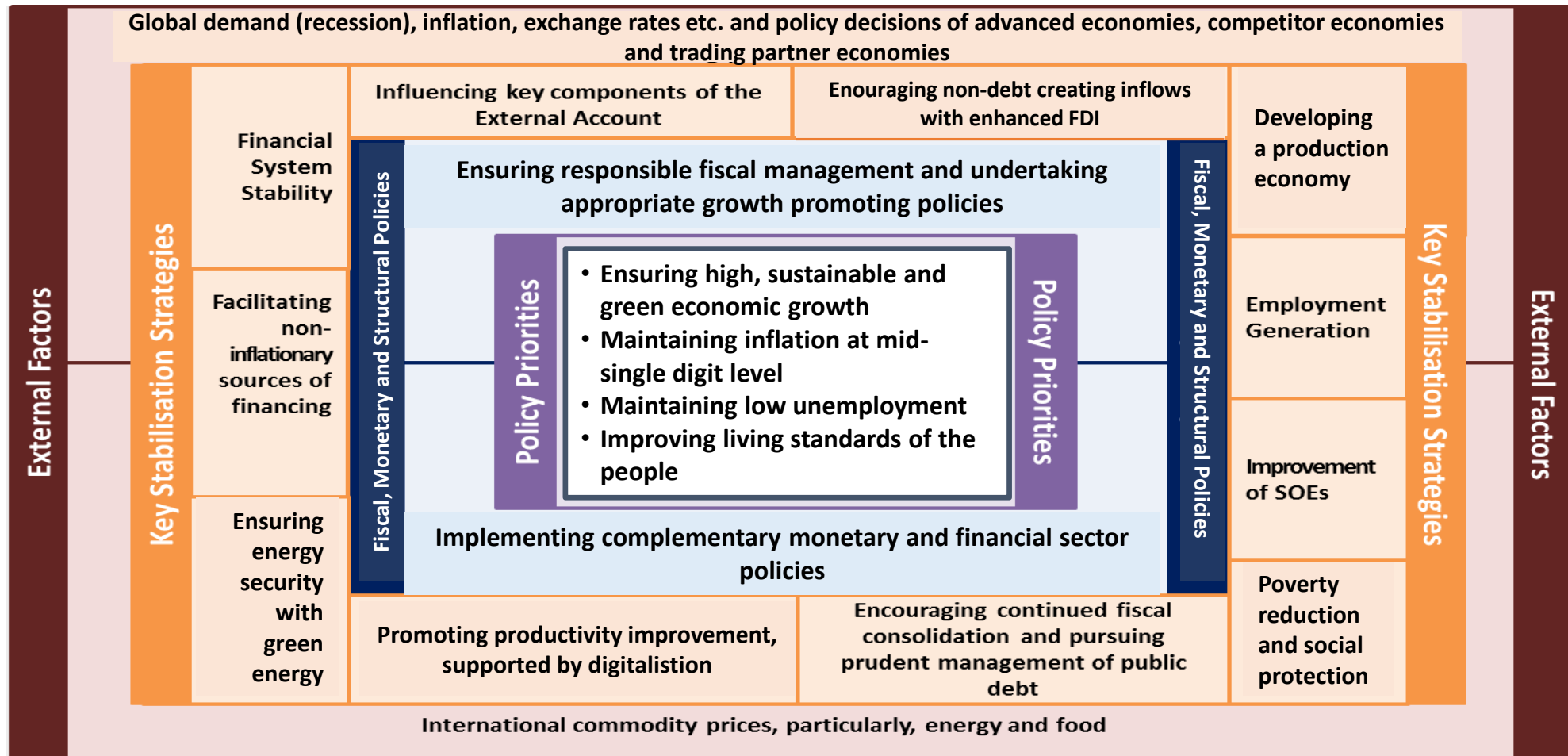
- There is nothing unique about this budget. Promises are one thing but delivering them quite another.
 - *Without ending corruption*, which has become systemic, and
 - *without introducing radical changes to improve public administration and public enterprise management*,
 - the gap between promises and delivery is set to continue.

- If anything, this budget demonstrates how difficult if not impossible for any finance minister presiding over a collapsed economy to produce at least a balance budget within the existing political and economic paradigm.

- It was only Dr. NM Perera who produced a surplus budget in 1970 with the hope of changing that paradigm but he too failed.
- Now, RW in his role as finance minister reminds the people that, *“The economic and political system of our country must be created anew. A new social consensus should be established”*.

Achievement of medium term targets needs cautious and effective policy coordination and implementation....

- Identification of inter-linkages of other sectors and policies is very important.
- A multi-dimensional approach to policymaking and implementation seems to be the optimum.



6. Role of public officials

Role of public sector officials

- The economy has broadly stabilized and economic activities are gradually improving; In particular,
 - Inflation is declining
 - Worker remittances and tourism are improving
 - Foreign exchange situation is also improving
- **However, there is a long way to go.**
- **In particular, the Fiscal Crisis is FAR FROM OVER**
- Hence, **better expenditure management** should give the **highest priority** to support revenue enhancing efforts.
- Overall fiscal reforms should be continued with other structural reforms with strong commitment to solidify the stability and bring back high, sustainable growth.

Any policy reversal or less commitment is difficult to accommodate at this point,
given the deepness of the crisis and the seriousness of the issues that the country is facing, particularly in the fiscal sector.

Proper identification & understanding of these challenges by the public officials is critical in delivering their services effectively.

Role of public sector officials (2)

- Key qualities demanded for public officials in times of crisis.
 - “Economic downturn demands public administrations: **responsive** to new challenges, **creative** and **innovative ideas** and **measures for effective implementation**”.
 - “Public teamwork and leaders, in crisis, can be **generators for public innovation**. The experiences gained ensure public leaders, that **past mistakes are not committed again**. **The primary purpose of a public leader can be to identify new innovative approaches for the future**. That is the place where the structured interaction of different ideas can prove its worth. **A team-based approach** should produce outcomes greater than the sum of its organisational parts. Collegiality is a culture of cooperative creativity, not an excuse for drawn-out process”.
 - “**Efficient execution** - a public leadership quality necessary to **all civil servants**. Once government has made decisions, **it is the task of its public administrators to provide them with firmness, accountability and great commitment**. **An excellent policy, less efficient executed, cause significant damages for governments**”.
 - “In our opinion, **valuable civil servant** has the power to **conquer the administrative obstacles and to extract every last resources from that policies they have been given to implement**. **Persistence is also a quality that serves public leaders** at a time when crisis disturb the normal development of governmental processes. Action and implementation are the ordinary words”.

Role of public sector officials (3)

- Key qualities demanded for public officials in times of crisis.
 - “The quality of authenticity comes from the top of the public management. **To be effective, public organisational leadership must be sincere; it must be authentic.** (Pearce, C., 2012)”.
 - “Finally, **the civil service requires leaders who want to be civil servants. Pride in vocation is important.** It means understanding (and conveying to others) the value of maintaining traditional values within high-performing public administrations”.
 - “Crises are nearly always accompanied by increased political pressure. At such times, there is a need to preserve values such as public accountability, the honesty and integrity of decision-making, appointments based upon merit and always acting with propriety within the law.” (Shergold, 2009)”.
 - “Today, civil service has a work that has a special meaning and purpose. Today, public work offer public value, with benefits delivered to citizens, not for consumers. This affects, in a certain extent, the well-being of the entire society. At a time of crisis, the responsibilities are heavy but the satisfactions are huge and hard to be measured”.

Role of public sector officials (4)

Ministry Secretaries should be vigilant to....

- Ensuring value for Money to taxes collected by eliminating inefficiencies of public service delivery
- **Strengthening transparent procurement by eliminating corruptions**, removing entry barriers to new suppliers
- **Simplification of cumbersome procedures**, facilitation of online payments and updating the delivery charges of the government services
- **Concentrating only on core functions** of the Ministry
- **Excluding duplicated and projects no longer required implemented** by institutions under your preview
- Assigning irrelevant tasks to appropriate institutions

Role of public sector officials (5)

Ministry Secretaries should be vigilant to....

- **Implementing development programs** by departments and institutions under the direct coordination of the Ministry
- **Sharing resources within and among the institutions** (If possible even with private sector) and efficient use of government resources/assets
- **Consulting and keeping appropriate coordination** with relevant government entities and reaching agreements prior to the commencement of activities of development projects
- **Conducting independent monitoring and evaluations of outcomes** and performances of at least on mega-projects initially and taking necessary corrective actions
- **Merging entities/divisions** that perform similar activities

Role of public sector officials (6)

Ministry Secretaries should be vigilant to....

- **Reviewing all welfare/subsidy programs appropriately** for better delivery
- **Assisting in reorganizing essential beneficiaries for various welfare programmes and working closely with the Welfare Benefits Board (WBB)**
- **Conducting institutional level self-cadre reviews** to deploy staff effectively, particularly for the core functions of the concerned institutions
- **Abolishing positions where there could be a duplication of the functionality, and which are no longer required**

7. Public Expenditure Control and Budget execution and managing Cash Flow in 2024

Public Expenditure Control

- 2024 budget is an extremely tight one, prepared in a severely constrained fiscal space
- **Recurrent expenditure must be thoroughly controlled at all levels**, from the beginning of the year, in order to ensure uninterrupted public service delivery, throughout the year
- No additional allocation could be accommodated for recurrent expenditure, since the space in the Pool vote is limited
- **Tight control over expenditure on electricity, water, telecommunication, utility services and fuel is a must**, as no additional allocation would be provided, in the event of price increase

Public Expenditure Control....(2)

- **Commitments should not be made for expenditures exceeding the allocations.** Chief Accounting Officers/Accounting Officers are personally accountable for such commitments
- Provisions through Additional Allocations or FR Transfers will not be provided for the overtime/holiday/traveling allowances or other allowances
- Since there is no fiscal space remaining for allocations, Cabinet Papers should not be submitted, requesting additional expenditure
- Priority should be given to the expenditures through which general public is benefited
- New measures, such as National Operations Room (NOR) etc., will review the relevant projects/expenditures thoroughly to ensure value for money, efficient use of resources and benefits to the people

Budget execution and managing cash flow in 2024

- **Budget for the year 2024 has been done in line with the structural benchmarks agreed in the IMF-EFF program.**
- Hence, **maximum possible expenditure allocations have already provided within the approved budget**, while securing adequate funds for mandatory payments including personal emoluments, social security benefits, medical supplies etc.
- Therefore, **no room for supplementary/additional allocation for 2024.**
- Strategical approach in managing expenditure has been announced in budget circular BD/CBP/01/01/05-2023 dated 29.12.2023 and BD/CBP/01/01/01-2024 dated 10.01.2024
- Accordingly, **spending units should not enter into any commitment expecting to obtain additional provision in the future** and Chief Accounting Officers are responsible for any such expenditure incurred in excess of budgetary provisions.

8. The recent Supreme Court decision

The Supreme Court ruled government officials breached PUBLIC TRUST in management of the economy....

The Supreme Court Judgment on SC FR No. 195/2022

The Supreme Court decision on 14 November 2023 has significant bearing on Sri Lanka's macroeconomic management process.

- *“...Our attention was drawn to the issue as to whether the conduct of the respondents during the relevant period directly contributed to the economic crisis...”* (p 115).
- *“...On assumption of public office, it was their duty to ensure that the existing issues were addressed and resolved in the best interest of the country and take every possible measure to avoid an aggravation to the detriment of the people...”* (p 116).
- *“... Prolonged inaction due to the arbitrary, irrational and/or manifestly unreasonable decisions and inadequate measures over the period under consideration had heavily contributed to disastrous consequences....”* (p 117).

“... Public trust is an inherent responsibility bestowed on all officers who exercise powers which emanate from the sovereignty of the People....” (p 118).

The Supreme Court ruled government officials breached PUBLIC TRUST in management of the economy....(2)

- The Supreme Court ruled that **government officials breached the public trust** and violated Article 12 (1) of the Sri Lankan Constitution in their management of the economy.
- The bench ruled by a majority of 4-1, saying that the respondents were responsible for Sri Lanka's economic crisis between 2019-2022.
- The ruling stated, “*This situation brought in a total breakdown of economic and social life of the entire society. Such breakdown ultimately led to the collapse of the public order and the complete undermining of the rule of law.*”
- **The Supreme Court found that the actions of the respondents directly contributed to the economic crisis.**

The Supreme Court ruled government officials breached PUBLIC TRUST in management of the economy....(3)

- The court emphasized that the authorities should have been aware of and taken measures to address issues that negatively impacted the economy instead of exacerbating them
- The judgment underscored that public officials hold a responsibility to act in the best interests of the public and are entrusted with significant powers to uphold public trust, requiring them to adhere to the directives of the constitution
- The respondents' attempts to attribute their actions to policy decisions were dismissed, as the Court emphasised that they possessed the authority and knowledge to prevent such an outcome but failed to act in the public interest
- The cumulative actions and inactions of the respondents were identified as key contributors to the economic debacle

9. Concluding remarks

Concluding remarks.... Key points that we all should be very well aware of

- Sri Lanka faced a deep and unprecedented crisis.
- People as well as businesses have affected very badly.
- **Resources are limited and demands for resources is very high.**
- IMF Programme is an enabler to restore stability and put the foundation to move forward.
- Other growth supporting structural reforms are key to bring back and sustain growth.
- In doing so, **FISCAL DISCIPLINE IS PARAMOUNT.**
- Discipline in fiscal management is needed to ensure **value for money.**

Concluding Remarks(2)

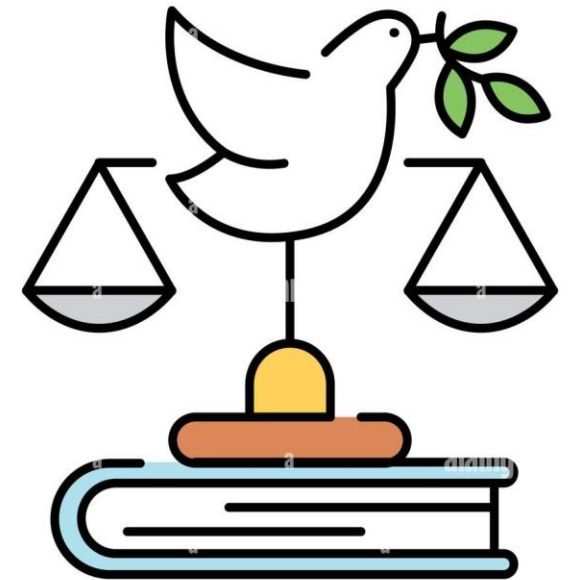
- The economy has broadly stabilized and economic activities are gradually improving; In particular,
 - Inflation is declining
 - Worker remittances and tourism are improving
 - Foreign exchange situation is also improving
- **However, the Fiscal Crisis is FAR FROM OVER**
- Hence, need to continue fiscal reforms with other overall structural reforms with strong commitment to solidify the stability and bring back high, sustainable and green growth

Any policy reversal or less commitment is difficult to accommodate at this point, given the deepness of the crisis and the seriousness of the issues that the country is facing, particularly in the fiscal sector.

Concluding Remarks(3)

Importance of reducing corruption vulnerabilities and improving governance....

- Following key areas are highlighted in this regard;
 - It is important that the **corruption be eliminated** and all stakeholders must work together to **reset Sri Lanka's governance culture**.
 - **Economic management must be underpinned by evidence based policy making** and the willingness to respond to changing economic circumstances, without being rigidly fixed to personal dogmas and political ideologies.
 - Enhanced accountability in terms of economic governance is critical.
 - This is expected to ensure that **present and future policy makers do not make the same mistakes**.



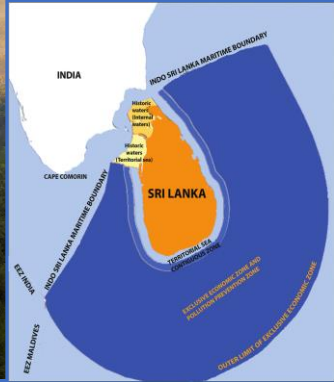
Concluding Remarks.... (4)

- The challenge for Sri Lanka will be to implement the current IMF-EFF programme well so that debt can be made sustainable, which will be a big difference from previous programmes.
- **With the implementation of other complementary reforms, the country can be put on the path to prosperity, gradually.**
- **In fact, we have come to a situation where the reform process is irreversible.**
- **Failing to execute such much-needed reforms would lead to perpetual bailouts, endless cycles of external borrowing and recurring debt restructuring alongside unsustainable and highly volatile business cycles, which would cause undue pressure on citizenry, preventing the country from achieving longstanding economic progress and prosperity.**
- Hence, in the country's efforts to emerge from the current crisis, consistent and well-coordinated policies, including those outlined in the IMF-EFF supported programme, should be executed in a timely manner to avert another crisis in the period ahead.
- **Against this backdrop, the Government and all other stakeholders need to extend their fullest support towards the implementation of essential reforms at this juncture, to resolve the structural hindrances that have rooted in the economy over the last seven and a half decades.**

Concluding remarks.... (5) *Key points to ponder*

- Public sector officials have a critical role to play.
- **As senior leaders, Ministry Secretaries have a much bigger role to play.**
- Values such as Integrity, Creativity & Honesty are the key and people expect a better quality service from the public sector.
- Self-criticism is important in moving forward effectively.
- *Think about your own past.*
 - Have you made a Good or Bad contribution in the run up to the economic crisis of the country?
 - Identify the areas that need to adjust for new realities and demands.
 - Think about your responsibility at this critical juncture of the NATION.
 - Think about a country that you would like to retire and live.
 - Think about a country that we all should create for our children and the generations to come.

Think positively and work hard. The NATION asks for it, at this critical juncture....



Thank you.