Speech by Mr. K.M. Mahinda Siriwardana, Secretary to the Treasury and Ministry of Finance, Economic Stabilisation and National Policies, at the Awareness Building Workshop on proposed Trade National Single Window System Project held on 03rd July 2024 at Courtyard by Marriot Colombo

1. Background

The establishment of a Trade National Single Window has been on Sri Lanka's development agenda for a very long time. Like many other critical reforms in our country, this too has been long delayed and neglected. The National Single Window is a critical component of a country's trade facilitation architecture. As border taxes are gradually reduced at a global level, trade competitiveness is increasingly driven by efficiency of trade facilitation mechanisms, such as a Trade National Single Window.

The timing of this particular reform is all the more important given the current stage of Sri Lanka's economic recovery. As all of you are well aware, Sri Lanka has been through an unprecedented, deep, and extremely complex economic crisis over the last two to three years. I deliberately use the present tense because the crisis is far from over. Whilst the reform measures implemented thus far have been successful in bringing stability to the economy, there is a long way to go until the recovery is fully established and sufficient buffers, legal and institutional frameworks have been built to prevent the country slipping back into the depths of the crisis we experienced 2 years ago. At present, Sri Lanka is in the process of shifting from stabilisation to recovery, and gearing up for a sustained return to growth, led by the private sector. Reforms such as the Trade National Single Window will play an important role in driving this growth whilst contributing to a qualitative improvement in growth, where growth is led by non-debt creating inflows, including exports and FDI.

2. Sri Lanka's Economic Recovery

During the last 2 years since mid-2022, the government has been implementing a comprehensive set of macroeconomic reforms to address the root causes of the economic crisis. At the centre of these reforms are fiscal reforms, with a focus on revenue based fiscal consolidation. Whilst these reforms have been painful, they are now beginning to yield positive results. A snapshot of data from the first 5 months of 2024 provides some insights into this improvement.

During the period January to May 2024, government revenue grew by 44% compared to the corresponding period of the previous year. During this same period, government expenditure declined by 7%. The budget deficit narrowed by Rs. 653 billion or 64% to Rs. 367 billion in the first 5 months of 2024 compared to Rs. 1,019 billion during the first 5 months of 2023. In the first 5 months of 2023, the government recorded a primary budget surplus of Rs. 42.7 billion. In the corresponding period of this year, the government achieved a primary budget surplus of Rs. 554 billion.

Central Government debt, which was Rs. 28,696 billion as at end 2023, declined in nominal terms to Rs. 28,484 billion by March 2024. The decline is more significant when considering debt as a percentage of GDP as is the appropriate instrument for comparison over time. In spite of these improvements, it is indeed unfortunate that public understanding of these matters is often distorted by incorrect analysis which is either driven by incompetence or mischief. Many of you would have seen even professional economists and finance professionals claiming that debt has increased during this period to USD 100 billion by the end of March 2024. A simple comparison of the rupee figure and the US Dollar figure should make it abundantly clear that the perceived increase in US Dollar terms is due to the translation impact of the appreciation of the Sri Lankan rupee against the US Dollar during this period. This is indeed a very pathetic situation. It is because, despite the actual decline of the debt stock by end March 2024 (mainly reflecting the appreciation of the rupee), the message that is being circulated in the society unfortunately is that the debt stock has increased by US Dollars 4 billion.

There is similarly incorrect analysis of the debt restructuring process. In this instance as well, many have interpreted debt relief as purely being determined by the size of the nominal haircut on outstanding capital. Whereas even a basic understanding of finance would make it clear that debt relief is calculated by the discounted value of cash flow relief provided through a combination of grace periods, interest rate reductions, maturity extensions, and nominal haircut on capital, if any. It is very unfortunate that even professional economists have been trying to make false comparisons on debt relief by looking only at a single restructuring component in a meaningless manner.

The seemingly malicious interpretation of data and the propagation of such incorrect information is very harmful to a democratic society like ours. It can very easily lead to the reversal of the economic reforms that have helped the country restore economic stabilisation and embark on the path of recovery. In fact, I should emphasize here the fact that it is the failure to heed to professional analyses and evidence based policy that was a major contributor to the country's deep, complex and worse ever economic crisis since the independence in the first place. I trust that at least now, we all will learn from these mistakes of the past.

3. Towards Sustainable Debt and Economic Transformation

One of the key pillars of the macroeconomic reform programme is the restructuring of public debt. Sri Lanka concluded the domestic debt optimisation process in 2023 and now is in the final stages of restructuring external debt. Last week, Sri Lanka finalised restructuring agreements with bilateral creditors and is in the final stages of reaching conclusion on the external commercial debt as well. The debt restructuring agreements provide significant cashflow relief in the short term. However, the breathing space provided through the restructuring is not perpetual, and Sri Lanka needs to effectively use the time available to build up its fiscal and reserve buffers prior to the resumption of higher debt service obligations in the future.

In addition to fiscal and reserve buffers, it is necessary to use the breathing space to build up capacity to increase non-debt creating inflows, such as exports of goods and services, and FDI. Such an increase in non-debt creating inflows would be crucial to facilitate foreign currency debt service payments. This is another reason why the Trade National Single Window has a crucial role to play in supporting the growth of exports and attracting FDI as well. With regard to FDI, a National Single Window can significantly improve the ease of doing business, particularly for export oriented FDI which is exactly the type of investment that Sri Lanka is seeking.

In addition to institutional and administrative mechanisms like the Trade National Single Window, Sri Lanka is also putting in place legislative measures to support the enhancement of exports and FDI. The Economic Transformation Bill is at present in Parliament and is expected to be passed by Parliament in the near term. This bill establishes key institutions such as the Economic Commission which will have holistic responsibility for promotion and facilitation of FDI. Similarly, the Office for International Trade established through this Act will create the institutional framework for negotiation of strategic free trade agreements which will provide impetus for both exports and FDI. The Act also establishes a Productivity Commission and an agency for operating Investment Zones, both of which will be supportive of enhancing both exports and FDI. It is very clear that a robust Trade National Single Window will effectively complement many of these initiatives, including Free Trade Agreements, investment promotion, and productivity enhancement in the economy.

4. Concluding Remarks

Given the crucial stage that has been reached in Sri Lanka's economic recovery, it is now necessary for the country to ramp up the institutional and legislative framework to enable a qualitative and quantitative shift in economic growth, led by the private sector. This is necessary for the transition from economic stabilisation to recovery and a sustainable, inclusive growth. The Trade National Single Window is a crucial element in this equation. As mentioned at the outset, this is a long neglected reform, but the time is apt to take this reform through to finalisation. I would like to place on record my appreciation for all the stakeholders that have worked hard together to bring this key reform to reality. This includes USAID, the World Bank and Government of Australia for the inputs in developing the Blueprint, Department of Trade and Investment Policy of the MoF and other different institutions in the government, and the members of the Steering Committee for driving this forward.

I wish you all a productive and successful workshop.

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