

# MP-IDSA

## *Issue Brief*

# One Year of Ranil Wickremesinghe's Presidency and Sri Lankan Economy

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## **S***ummary*

The Ranil Wickremasinghe government has taken a series of measures to address the economic woes facing the country. These measures have yielded some positive outcomes as the economic indicators indicate. The success of the policy initiatives however will hinge on the ability of the government to execute them effectively over the longer term as well as on the evolving global economic situation.

The worst-ever economic crisis in 2022 caused major political upheaval in Sri Lanka leading to the resignation of President Gotabaya Rajapaksa. While no political leaders came forward to form the government, Ranil Wickremesinghe took on the responsibility to lead the country at a time of political and economic crisis. Despite the United National Party (UNP) lacking numerical strength in Parliament, Ranil Wickremesinghe was elected as the 9<sup>th</sup> President of Sri Lanka on 20 July 2022 with the support of the Sri Lanka Padajana Peramuna (SLPP) party.

In his inaugural speech as President, Ranil Wickremesinghe stated that the main reason for accepting the post was to restore peace and stability.<sup>1</sup> In the first year of his presidency, he has been hailed for taking measures to bring back normalcy and stability in the country. At the same time, he has also been criticised widely for suppressing political dissent and media freedom and for adopting repressive economic measures. This Brief assesses the policy measures taken by the Ranil Wickremesinghe administration to stabilise, revive and develop the Sri Lankan economy.

## State of Sri Lankan Economy under President Wickremesinghe

When Ranil Wickremesinghe took over as president on 21 July 2022, the Sri Lankan economy was in dire shape. The Sri Lankan rupee (SLR) was declared the worst-performing currency.<sup>2</sup> Foreign reserves had dried up. Inflation was at an all-time high. Revenue generation from tourism, remittances and export was minuscule. The situation however started improving from the first quarter of 2023.

Gross official reserves by July 2023 stood at around US\$ 3.7 billion (bn), compared to US\$ 1.9 bn at the end of May 2022.<sup>3</sup> Earning from tourism was US\$ 219 million (mn) in July 2023 compared to US\$ 85 mn in July 2022. Workers’ remittances in July 2022 accounted for US\$ 279.5 mn, whereas in July 2023 it was US\$ 541 mn.<sup>4</sup> Inflation came down to 12 per cent at the end of June 2023 from 69 per cent in September 2022.<sup>5</sup> Unlike the situation in the first half of 2022, people in Sri Lanka

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<sup>1</sup> [“Full Text of the Statement Made by President Ranil Wickremesinghe Presenting his Policy Statement at the Ceremonial Opening of the Third Session of the Ninth Parliament”](#), Presidential Secretariat, Government of Sri Lanka, 3 August 2022.

<sup>2</sup> [“Sri Lanka’s Currency Plunges to World’s Worst-performing in Economic Meltdown”](#), *Financial Times*, 6 April 2022.

<sup>3</sup> [“Weekly Economic Indicators”](#), Statistics Department, Central Bank of Sri Lanka, 11 August 2023.

<sup>4</sup> Ibid.

<sup>5</sup> [“Consumer Price Inflation”](#), Central Bank of Sri Lanka.

no longer have to stand in the long queues for fuel, and other essential items. In other words, the situation in Sri Lanka is relatively stable now.

**Table: Key Economic Indicators**

	2022	2022 (1Quarter)	2023 (1 Quarter)
GDP	-7.8%	-0.5%	-11.5%
Official Revenue		Tax Revenue:SLR 710.61 bn  Non-Tax Revenue: SLR101.33 bn (Jan-May)	Tax Revenue: SLR 1029.40 bn  Non-Tax Revenue: SLR 91.23 bn (Jan-May)
Overall Budget Balance		SLR 636.69 bn (Jan-May)	SLR 1014.68 bn (Jan-May)
Gross Official Reserves	US\$ 1898 mn (at end Dec 2022)		US\$ 3694 mn (at end July 2023)
Earnings from Tourism	US\$ 1,136 mn	US\$ 764.6 mn (Jan-July)	US\$ 1,094 mn (Jan-July)
Remittances Inflow	US\$ 3,789.4 mn	US\$ 1889.4 mn (Jan-July)	US\$ 3363.6 mn (Jan-July)
Export	US\$ 13106 mn	US\$ 6,522.2 mn (Jan-June)	US\$ 5871 mn (Jan-June)
Imports	US\$ 18,291 mn	US\$ 10,028.1 mn (Jan-June)	US\$ 8,160.5 mn (Jan-June)
Trade Balance	US\$ -5,185 mn	US\$ -3506 mn (Jan-June)	US\$ -2289.5 mn (Jan-June)
Headline Inflation (Y-o-Y)	57.20 % (December 2022)	54.60 % (at End June 2022)	12 % (at End June 2023)

**Source:** [Statistics Department, Central Bank of Sri Lanka](#)

Despite these improvements in the economic indicators, concerns remain. GDP is showing negative growth. In the first quarter of 2023, economic growth was -11.5 per cent.<sup>6</sup> About 30–32 per cent of the Sri Lankan population are food insecure. Exports have declined from US\$ 6,522.2 mn during January–June 2022 to US\$ 5871 mn during January–June 2023.<sup>7</sup> Due to the economic contraction, half a million jobs

<sup>6</sup> “[Sri Lankan Economy Snapshot](#)”, Central Bank of Sri Lanka.

<sup>7</sup> “[Weekly Economic Indicators](#)”, no. 3.

were lost in industry and services; national and urban poverty rose to 25 per cent and 15 per cent respectively. The crisis led to an increase in overall inequality.<sup>8</sup>

The Sri Lankan rupee has turned into Asia’s worst-performing currency in July 2023 from being the best in the first half of 2023, according to Bloomberg News.<sup>9</sup> The exchange rate is fluctuating. The situation may look stable compared to the last year as food and fuel are available in the country, but the problem now is affordability. Even though inflation has come down, food prices are still high. The health sector is in a crisis. Many in Sri Lanka are concerned that the situation is likely to get worse in the future.

President Wickremesinghe has said that the ongoing suffering is temporary. As per the government’s estimate, there will be positive growth in GDP in 2024.<sup>10</sup> With the implementation of a series of growth-enhancing structural reforms, the government is expecting that medium-term economic growth would return towards 5 per cent.<sup>11</sup> The government is targeting to increase revenue to around 15 per cent of GDP by 2025 and reduce public sector debt from around 110 per cent of GDP to 100 per cent of GDP in the medium term. The government’s stated objective is to guarantee the complete development of Sri Lanka as a thriving nation by 2048.<sup>12</sup>

## Measures Initiated to Deal with the Economic Crisis

To deal with the crisis in the country, the Ranil Wickremesinghe government initiated two-pronged approaches: (i) to address the immediate crisis. This is basically to stabilise and recover the economy and (ii) medium- and long-term measures to revive and develop the economy at the set target and make the economic development sustainable. In this regard, President Wickremesinghe presented a ‘National Transformation Roadmap’, the framework for which is based on the interim budget passed in the Parliament in 2022, the IMF agreement and the Budget 2023.<sup>13</sup>

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<sup>8</sup> Nazly Ahmed, [“Sri Lanka Development Update 2023”](#), World Bank, 4 April 2023.

<sup>9</sup> Karl Lester M. Yap and Ronojoy Mazumdar, [“Sri Lanka Rupee Goes From Asia’s Best to Worst in Three Weeks”](#), *Bloomberg News*, 24 July 2023.

<sup>10</sup> [“Interim Budget Speech – 2022 Amendment to the Appropriation Act, No. 30 of 2021”](#), Ministry of Finance, Government of Sri Lanka, 30 August 2022.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> [“President Presents ‘National Transformation Road Map’ Government’s Objective is to Develop Sri Lanka as a Thriving Nation by 2048”](#), Ministry of Mass Media, Government of Sri Lanka, 2 June 2023.

## **Immediate Measures**

### *Facilitating resumption of economic activities*

The *Aragalaya* movement since March 2022 severely affected the economic activities in the country. The first move of President Wickremesinghe after assuming power was to declare a national emergency to prevent public protests on the street by force. This resulted in the weakening of the *Aragalaya* movement and the suppression of political violence. Though the emergency was lifted on 21 August 2022 as normalcy came back in the country, political protests continued to be suppressed by force. Ranil Wickremesinghe’s approach has been severely criticised by human rights groups and social activists.<sup>14</sup> Nevertheless, he managed to bring normalcy to the country to facilitate economic activity. Consequently, the tourism sector has started gaining momentum. In the first six months of 2023, the earning from tourism was around US\$ 1 bn.<sup>15</sup>

### *Meeting the daily needs of the people*

Addressing the fuel, food, medicine, cooking gas and fertiliser crisis was the main priority of the government. Measures were taken to ensure the availability and supply and distribution of essential items. Special attention was given to ensuring the import of essential items. India had been supplying essential items since the beginning of 2022. In addition to India, Sri Lanka also entered into several arrangements with other countries.

To reduce the queues at the fuel stations and ensure fair distribution, a new National Fuel Licence (QR-based) mechanism was introduced.<sup>16</sup> The rationalisation of fuel has reportedly reduced the monthly expenditure on fuel imports from US\$ 500 million to US\$ 230 million.<sup>17</sup> The Sri Lankan Parliament approved legislation allowing foreign companies to enter into the local fuel market as retail operators in October 2022.<sup>18</sup> China’s Sinopec is expected to start its operation in Sri Lankan market from September 2023.

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<sup>14</sup> [\*\*“Sri Lanka: End Government Crackdown on Peaceful Protesters”\*\*](#), *Human Rights Watch*, 5 August 2022.

<sup>15</sup> [\*\*“Weekly Economic Indicators”\*\*](#), no. 3.

<sup>16</sup> [\*\*“Only a Technology-based System Can Stop Irregularities in Fuel Distribution: Bandula”\*\*](#), *Daily FT*, 27 July 2022.

<sup>17</sup> [\*\*“Dialog Axiata, MIT ESP and ICTA Recognised by the Ministry of Power and Energy for Implementation of the National Fuel Pass Platform”\*\*](#), *Daily Ft*, 20 August 2022.

<sup>18</sup> [\*\*“Crisis-hit Sri Lanka Opens Fuel Market to Foreign Firms”\*\*](#), *The Economic Times*, 18 October 2022.

### *Resumption of negotiation with the IMF*

Negotiation with the IMF for loans was resumed in September 2022. Measures were adopted to meet the conditions of the IMF. Satisfied with the government of Sri Lanka’s commitment to economic policy reforms, IMF approved the Extended Fund Facility (EFF) of around US\$ 3 bn for four years in March 2023.<sup>19</sup> IMF immediately released around US\$ 300 bn as the first tranche. The release of the second tranche will depend on Sri Lanka’s progress on debt restructuring negotiation with international creditors. Meanwhile, the government has already initiated domestic debt optimisation to facilitate the successful conclusion of debt restructuring negotiation. Approval of the IMF facility has unlocked loan facilities from other international organisations including the World Bank and the ADB.

### *Ensuring Food Security*

As Sri Lanka is going through a severe food security crisis, the government approached the UN for food security. It has also signed agreements with the US, Japan Food Fund and the ADB. Assistance was provided to the farmers to increase production and grow more food domestically. US\$ 110 million was allocated for the import of Urea required for paddy cultivation in the 2022/2023 *Maha* season.<sup>20</sup>

### **Long-term Measures**

As for long-term policy measures, Ranil Wickremesinghe is looking for a “system change” based on a “social market economy” and by entrusting modern and sustainable efforts. The ‘National Transformation Roadmap’ presented by the President focuses on four primary pillars including fiscal and financial reforms, investment drive, social protection and governance, and state-owned enterprises transformation.

### *Fiscal and Financial Reforms*

As part of its commitment to the IMF, and to ensure the long-term sustainability of public debt, stability of the economy, and to rebuild confidence in the Sri Lankan market, the government is focussing on fiscal and financial reforms. Approval from the Parliament has already been obtained in this regard.

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<sup>19</sup> [\*\*“IMF Executive Board Approves US\\$3 Billion Under the New Extended Fund Facility \(EFF\) Arrangement for Sri Lanka”\*\*](#), Press Release No.23/79, International Monetary Fund, 20 March 2023.

<sup>20</sup> [\*\*“Interim Budget Speech – 2022 Amendment to the Appropriation Act, No. 30 of 2021”\*\*](#), no. 10.

As part of these reforms, the government has initiated revenue expansion and expenditure rationalisation measures. As far as revenue expansion is concerned, the government is focussing on tax and non-tax revenue generation. Several reforms pertaining to Income Tax, Value Added Tax (VAT), Telecommunication levies and Betting and Gaming levies have been implemented. The VAT rate was increased to 15 per cent from 12 per cent with effect from 1 September 2022. As a result, the tax revenue has increased to SLR 1029.40 bn during January–May 2023 compared to SLR 710.61 bn during January–May 2022.

Remittances are an important source of revenue for Sri Lanka. To encourage remittance inflow through legal channels, several schemes were launched including Lanka Remit, an ‘additional incentive scheme on inward workers’ remittances’. A scheme to reimburse the transaction costs borne by migrant workers up to SLR 1,000 per transaction over SLR 20,000 when remitting money was launched. Additional duty concessions and electric vehicle import allowance were given while a national remittance mobile application was also launched. In the first quarter of 2023, remittances sent by foreign workers increased by 80.6 per cent compared to 2022.

Revenue generation through export has been a priority for Wickremesinghe’s ‘National Transformation Roadmap’. The policy focuses on improving trade relations with bilateral partners like India which is considered beneficial to enter into American and European Markets, and accessing other Asian markets through Regional Comprehensive Economic Partnerships. Digital transformation and empowering and facilitating the private sector have been prioritised to expand trade.<sup>21</sup>

Special emphasis has been given to uplifting the tourism sector to address the dollar crisis in the country. The Ministry of Tourism has formulated a sustainable policy for tourism and forwarded it for Cabinet’s approval.<sup>22</sup>

Focus has been given to expenditure management by halting unnecessary expenditures and streamlining government activities to reduce costs. The need to leverage automation and digitalisation to reduce costs while delivering quality services is being flagged. As part of efficient expenditure management, the government proposes to rationalise the number of government employees. The government has allowed public servants who are willing to take no pay leave for five years or so and go abroad or engage in educational activities in the country. The

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<sup>21</sup> [\*\*“President Urges Modernization for Rapid 21st-Century Economic Growth and Efficient Bureaucracy”\*\*](#), Presidential Secretariat, Government of Sri Lanka, 8 August 2023.

<sup>22</sup> [\*\*“Minister Reveals Several Plans for Tourism Sector”\*\*](#), *Newswire*, 15 August 2023.

government has proposed to reduce the retirement age of public sector and semi-governmental employees to 60 years.

#### *Investment Drive*

In addition to the tax revenue, the government is also focussing on non-tax revenue generation. In this regard, the government is trying to attract foreign investors with advanced technologies to establish joint ventures with Sri Lankan partners and increase value addition and promote sustainable use of resources.<sup>23</sup> Emphasis is also being given to collaboration between the public and private sectors. Eight task forces consisting of heads of the public and private sectors were established at the President’s Office to create good investment opportunities and secure investors.

#### *Social Protection and Governance*

The measures the government initiated particularly under the pressure of the IMF are extremely harsh and are hurting the poor and socially marginalised groups. President Wickremesinghe has acknowledged the fact and has taken measures to mitigate the impact by providing safety nets. A new consolidated welfare benefits scheme *Aswesuma* was initiated to create a poverty-free Sri Lanka by 2048.<sup>24</sup> A special task force is being established to combat corruption across all sectors, including regulation, procurement and political corruption. An anti-corruption bill has been passed by the Parliament.<sup>25</sup> To ensure transparency, government is focussing on digitisation.

#### *State-Owned Enterprises Transformation*

Around 430 public enterprises operating in 33 sectors of the Sri Lankan economy have turned into a national burden due to inefficient management, price fixing, poor entrepreneurship and corruption. These SOES employ six per cent of the Sri Lankan population and have garnered monopolistic positions in the market. The annual loss of these major 52 SOEs is Rs 86 billion.<sup>26</sup> SOES like the Ceylon Petroleum Corporation, Ceylon Electricity Board, and Sri Lankan Air Lines have incurred significant operating losses, equivalent to 1.6 per cent of the country’s GDP in 2021.

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<sup>23</sup> [“Interim Budget Speech – 2022 Amendment to the Appropriation Act, No. 30 of 2021”](#), no. 10.

<sup>24</sup> [“‘Aswesuma’ Welfare Benefit Payment from 01 July”](#), Presidential Secretariat, Government of Sri Lanka, 9 May 2023.

<sup>25</sup> [“The Anti-Corruption Bill Passed Without a Vote, With Amendments”](#), Parliament of Sri Lanka, 19 July 2023.

<sup>26</sup> [“2023 Budget Speech Presented by President Ranil Wickremesinghe”](#), Parliament of Sri Lanka, 14 November 2022.



Hence, the government has decided to undertake necessary reforms in the SOEs to ensure the turnaround and success of these enterprises. ‘State-Owned Enterprise Restructuring Unit’ has been tasked to facilitate the restructuring of government-owned business entities. The restructuring of eight state ventures will be a high priority for the government, including the CPC, CEB, Sri Lankan Airlines and Telecom among others. The Sri Lankan Cabinet has approved the appointment of international transaction advisors to ensure effective and transparent divestiture of these SOES.<sup>27</sup>

## Domestic Reactions<sup>28</sup>

The measures which have been implemented so far have yielded some positive outcomes as the economic indicators indicate. Nonetheless, conditions imposed by the IMF are putting a heavy toll on the people. The government’s tax policy has increased revenue, but it is extremely unpopular as it is putting a heavy burden on people at a time when there is a sharp price rise. SOE reforms have compelled the trade unions to go for public protests. The government’s decision to restructure some of the profit-making SOEs is being questioned. Concerns have been raised on the government’s decision for domestic debt optimisation as it burdens the EPF fund and affects 90 per cent of its members.<sup>29</sup> The inadequacy of safety net programmes has emerged as a major source of dissatisfaction among the people. As of now, the newly launched *Aswesuma* scheme provides subsidies only to 1.2 million people when there are seven million poor people in the country, as per the opposition.<sup>30</sup>

Thus, there is heavy resentment within Sri Lanka about Wickremesinghe’s dealing with the economic crisis. There is also a view in the country that since Wickremesinghe is not elected by the people, he is not accountable to the people and therefore, oblivious to the people’s suffering. While large-scale mass protests against the government are not being organised, small-scale protests are regularly being organised by students, trade unions and welfare scheme beneficiaries. Many of the concerns are reported because the policy measures and their impact have not been clearly communicated by the government.

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<sup>27</sup> [\*\*“Cabinet Approves Transaction Advisors for Sale of 7 SOEs”\*\*](#), *Daily FT*, 12 July 2023.

<sup>28</sup> Views gathered from opinion pieces and reports published in Sri Lankan media, and personal interviews with Sri Lankan analysts and experts. Special thanks to Dr Ramani Gunatillake, Dr Sumanasiri Liyanage and Mr Anushka Wijesinha.

<sup>29</sup> [\*\*“Eran Reveals Who Will Get Affected from Debt Reform”\*\*](#), *NewsWire*, 13 July 2023.

<sup>30</sup> [\*\*“Aswesuma Welfare Scheme Aimed to Create Poverty-free Sri Lanka by 2048: Official”\*\*](#), *Economynext*, 11 July 2023.

While it is largely believed that many of the measures initiated by the President such as an increase in tax revenue, or restructuring of loss-making state-owned enterprises are important to address the issues in the Sri Lankan economy, the way things are being done is creating angst in the country. The lower-middle-income group and the working class are especially resentful about the fact that in the process of economic reform, they are the ones who have to take the maximum brunt even though they are not responsible for the crisis.

This kind of resentment would probably subside if the government can create adequate jobs and improve the economic condition of the people. The concern, however, is that President Wickremesinghe’s roadmap is not focussing much on the growth of the real production sector including agriculture and apparel manufacturing which can positively contribute to the development and growth of the economy and create adequate jobs to improve the standard of living of people. Another concern relates to the government’s capability to implement the various reform measures over the longer term.

## Challenges

There are several internal and external challenges to the effective implementation of the economic recovery roadmap. So far, the President is not facing any roadblocks at the political level. In the absence of any other viable alternative proposals to deal with the economic crisis, nationalist and opposition political parties are not hindering much in the parliament despite the existing angst and concerns of the common people. Perhaps it is in the interests of the SLPP members to keep supporting the President for the time being, even though some aspects relating to a possible clash of interests between the President and SLPP members are being flagged in media reports. However, closer to the election time (whenever the government decides to hold it), there might be a possibility of the derailment of the reform process in the name of populism to gain votes in the elections, if the economy continues to be stable by then.

Administrative implementation of the reforms is also going to be a real challenge. Corruption, nepotism, and red-tapism are rampant in Sri Lanka. A handful of the few are benefitting from the existing corrupt and mismanaged system. Since this section is very much part of the system itself and implementation on the ground is very much dependent on them, there may be inertia to expedite the process of system change. For effective implementation, the country needs skilled manpower and a well-managed system. Nevertheless, Sri Lanka lacks skilled manpower due to excessive brain drain following the economic crisis.

President Wickremasinghe has proposed a ‘Lab Methodology’ to streamline government machinery to facilitate the implementation of future projects by removing obstacles through transparent procedures.<sup>31</sup> Under the Lab approach, government ministers, government officials, subject matter experts, and key representatives from the private sector will be brought together to collaboratively engage in detailed discussions. This methodology, if utilised, may result in effective policy formulation. However, the officials and bureaucrats may not be amenable to the policy recommendations by someone outside the system and thus, may like to hinder the implementation process.

The aim of this government is to create an “entrepreneurial state instead of a welfare state”.<sup>32</sup> Basically, the aim is to have a private sector-led, export-oriented, competitive modern economy. However, shifting from the welfare state is going to be a major challenge.

President Wickremesinghe wants private companies to take a lead role in modernising the company. Convincing the private companies particularly the foreign private companies, barring a selected few, would be a real challenge until and unless government takes drastic steps to improve the ease of doing business index.

As the global economic recession is causing depressed demand for Sri Lanka’s exports, and raising the price of essential commodities, the Sri Lankan government will find it extremely challenging to effectively implement some of its policy measures. Until and unless the global economic situation improves, it will be difficult for Sri Lanka to improve trade and investment. Revenue-earning sectors like tourism and remittances are vulnerable to external shocks. Lack of trade and investment will not only impact revenue generation but also reduce job creation opportunities.

## Conclusion

Ranil Wickremesinghe has embarked on an ambitious plan for the transformation of the nation. The roadmap has both pros and cons. Some of the measures incorporated in the roadmap have the potential to bring a positive outlook for the Sri Lankan economy if implemented effectively and in a timely manner. The focus on increasing tax revenue, restructuring loss-making SOEs, and investment drives is important but the issue is how are they being executed and implemented. Unfortunately, the combination of internal factors as well as external factors, including the global recession, can have a severe impact on the effective implementation of these measures.

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<sup>31</sup> [“President Presents ‘National Transformation Road Map’ Government’s Objective is to Develop Sri Lanka as a Thriving Nation by 2048”](#), no. 13.

<sup>32</sup> [“The Purpose of the President is to Create an Entrepreneurial State Instead Of a Welfare State”](#), Presidential Secretariat, Government of Sri Lanka, 11 July 2023.

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