Spotlight: Econ Op-eds in Summary

Week ended 15th January '20

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Central Bank's Road Map for 2020 and Beyond Government's full cooperation is needed to realise targets
By: W.A. Wijewardena

- In the Central Bank's Road Map for 2020 and Beyond, multiple weaknesses in the local economy were noted, ranging from slowing growth, to inequality, to fiscal weaknesses. Here, the CBSL noted that it's role was only supplementary, with the government needing to take proactive action to strengthen the economy.

- While the current state of the economy is thus not considered very positive, the road map addresses the necessity to adopt an effective and innovative economic policy program. Here, the government has to overcome the challenges of declining economic growth, generating sufficient foreign exchange resources and providing relief to businesses.

- For this purpose, the government needs to put in place effective incentive packages and should cooperate with the Central Bank to attain the goals of the bank's Road Map for 2020 and Beyond. For these purposes, the government is required to continue engagement with the IMF while amending the Monetary Law Act (MLA).

The practice of announcing a roadmap was started by Cabraal

Cabraal's view was that by pre-announcing the Board's policy stance and action program, the bank could manage the public's expectations effectively, a necessary condition for the success of its policies. This he did when the country was fighting a destructive internecine war and all macroeconomic factors were showing changes from bad to worse. This was welcomed by financial markets. Having realised its advantage for managing expectations, all successive Governors too continued to follow this practice.

Covering the full range of work of the Central Bank

The Road Map for 2020 and beyond presents an account of the state of the economy today before venturing into the three areas of policy it has covered:

- Monetary policy
- Financial stability policy
- Policies relating to its agency functions

The sad state of Sri Lanka's economy

The present state of the economy is exactly what independent economists had diagnosed earlier.

According to the roadmap, Sri Lanka's economy, which is at a crossroads today, is suffering from a number of ailments.

- Economic growth is below potential growth.

- There are many poverty pockets in the country despite the overall reduction of the poverty headcount.
- Productive resources are being underutilised
- There has been inadequate expansion and diversification of exports despite the policies adopted in the past.
- The country has generated foreign funding but most of such funding has added to its debt stock.
- The non-debt foreign funding flow in the form of investments in the capital market and business enterprises has also been short compared to requirements.
- There have been wide fluctuations in interest rates and credit flows.
- Budget deficits have been beyond the country's tolerable level and public debt has been inordinately high.

The path to becoming a rich country

the required growth to elevate Sri Lanka to the status of a rich economy within about 40 years has been around 8% per annum after allowing for an annual population growth of about 1%. Still, the annual average growth rate during the post-independence period has been well below this level at a meagre 4.5%. Hence, Sri Lanka has become a laggard among its peer countries. Prospectively, if Sri Lanka maintains average economic growth of 6.5% in the future, after allowing for population growth of 1%, it could become a rich country within about 20 years.

It is necessary to adopt an effective economic policy program for Sri Lanka to attain this goal. The roadmap has qualified these policies to be "innovative", emanating from and backed by "innovative" thinking. Since the economic policy framework to accelerate the economy comes within the purview of the Government, the suggestion here is that the Government should be an innovative institution.

Immediate challenge of the Government

Sri Lanka's immediate challenge has been to

- Reverse the declining trend in economic growth,
- Generate sufficient foreign exchange resources to meet the country's foreign debt repayment obligations and
- Provide relief to businesses, mainly in the small and medium enterprise (SME) sector, which has been suffering from exposure to a downswing in the business cycle.

The Central Bank can only facilitate growth

The Central Bank can only play a facilitating role in accelerating economic growth. The main responsibility in doing so rests with the Government. That is because, unlike the Government which can undertake real enterprises by taxing people or by borrowing funds, the bank is not supposed to do so by using the only weapon it has, namely, the ability to print money and acquire real resources from the economy.

The Central Bank is expected to implement its monetary policy, which is, changing interest rates and credit levels impartially without favouring any particular business enterprise. If it owns real enterprises, it may be compelled to offer favours to the enterprises that it owns. Hence, in the Monetary Law Act, the Monetary Board has been precluded from owning businesses. In this context, the bank's facilitating role comes from maintaining 'economic and price stability' – a more cogent way of describing macroeconomic stability – within the system. When the prices are stable, businesses will be able to take a longer term view of the economy and make investments for the future.

The need for a proper incentive package

One thing to remember is that macroeconomic stability in the country is a necessary condition but not sufficient to ensure high economic growth. Growth comes from the hard work of people at all levels and hard work is induced by the incentive package available in the system.

The main ingredients in the incentive package are
- Appropriate remuneration for work,
- Protection of property rights,
- Observance of the rule of law and
- Incentives for improving business practices by using new technologies.

Continued engagement with IMF a must

Road Map for 2020 and Beyond has accepted, that Sri Lanka should continue to engage with the International Monetary Fund (IMF). The country has undergone the sixth review of the present Extended Fund Facility (EFF) by the IMF and received the seventh installment of the loan it had gotten from the fund.

It is only the eighth installment which is to be disbursed in the current year.

The successful completion of IMF program is vital for Sri Lanka because it has to borrow from international commercial markets to gain capacity to honour the debt repayment obligations falling on the country in 2020 and beyond. Once the present EFF is completed, it is necessary to go for a new facility immediately to allow Sri Lanka to maintain its creditworthiness in the eyes of foreign lenders. This is of course a short-term measure and in the long run, necessary policy reforms should be introduced by the Government to increase the net volume of foreign exchange earnings by the country.

MLA should be amended

The roadmap has pronounced that the bank will continue to follow the easing of monetary policy in the years to come within the permissible limit of maintaining the inflation rate between 4% and 6%. This is in fact the acceptance of the inflation targeting monetary policy framework presently being followed by the bank by the new regime. It is a laudable development. However, two requirements are needed for the bank to follow this policy.

- When inflation moves above the upper limit of 6%, the bank will have to commence tightening monetary policy.
- The bank should be given full freedom to continue with this policy by appropriately amending the Monetary Law Act.

In this context, a new Monetary Law Act had already been gazetted as a Bill by the previous Government. While the roadmap is silent on this already gazetted draft bill, it has made a passing reference that the bank will make adjustments to the Monetary Law Act to align it with global best practices. It is understandable that the new Government should take time to study the proposed Act. But an amendment to the law to improve the bank's governance, enhance its independence, transparency and accountability and establish proper fiscal-monetary coordination is a must today.

Hence, the Government's cooperation is needed to attain the goals of the bank's Road Map for 2020 and Beyond.

For the full article – Refer Daily FT

2. Sri Lanka needs more education entrepreneurs
By: Dinesh Weerakkody

- While education has been viewed to generate higher incomes for individuals, it is also important knowing where the economy can specialize and develop. Existing capacities of the country's system and what positions it could possibly take up globally should also be explored.

- Sri Lanka needs to look at a range of different factors rather than simply investing more into education. Developing professionals through higher education is also important, since they play a critical role in meeting our development goals. Greater competition between education providers can also increase quality of education for a lower overall cost.

- For decades, the education system has not changed. Important factors associated with changes in the economy, labour force and business networks are ignored. Labour and education reforms are urgently required. Private sector is needed to bring this transformation in education. Therefore, encouraging more education entrepreneurs is essential.

The Government has said that it will take steps to provide every student an opportunity to receive university education in the future.

In the last decade global HR thought leaders have created a view that educated people stand a better chance of getting a job than those who don't go to university.

Next, at a political level we had a very powerful human rights argument that education is a fundamental right, and therefore we need to do something in developing countries about getting children into schooling.

Then there was the negative view that higher education was for the wealthy, the elite, and that it was very expensive. So many organisations questioned why you would put money into higher education when primary education was very much more important, and for the same amount of money could reach many more people.

Then a question that is often asked is, what is the real connection between education, innovation and economic development? If you invest in people's education, then incomes will develop. But that presupposes that people are going to get jobs and that there's something that's actually driving the development.

The more important question is, how do jobs actually get created? How do countries take on new technologies and become effective producers? In this kind of argument, it's not just thinking about supplying the education, it's saying that knowing where the possibilities for an economy to specialise and develop are going to be important in thinking about how economic development takes place.

It is not a simple universal model, where invest more in education, positive things will come out – but if you take a particular country, you can look at what capacity it already has in terms of education and training systems, its industrial system, the existing network between firms and the capacity of the state to support them, but also what positions it could possibly take up within the global system.

Planned investments

Therefore, Sri Lanka needs to look at a range of different factors rather than just invest more and more into education hoping the market will take care of the mismatch between the quality of high-skilled labour demanded and supplied and also provide the required new jobs for those coming out of the education system.

There is no doubt higher education is a key element of developing new innovations and thereby help GDP growth to accelerate. But another important role of higher education is around developing professionals.

Professionals play a key role in the picture: key factors critical for our future success meeting health, education, agricultural and water goals: engineers, doctors, nurses, teachers – the whole range of professionals who are vital for development. Therefore, producing the right professionals for our future success is key.

Also, there is a need for greater competition between education providers in a marketplace to bring about higher quality of content for a lower overall cost. Given that investing in education and leaving it to the markets will only do so much, we need a new way of looking at the relationship between higher education, economic development and employment.

The widely-adopted human capital view is that higher education increases skill and knowledge and results in higher income. In practice however, geography, sectors, available skills and education systems and networks of companies, value chains, employment patterns and policy frameworks associated with each sector are equally important factors that are often ignored.

We have spent decade upon decade surrounded by a system that is, for all practical purposes, a "one-size-fits-all" system.

The education to employment continuum and the requirement for compulsory education and the required labour and education reforms need to kick in fast to ensure our workforce is future ready and get us out of the Middle-Income Trap and for the creation and professionalisation of talent pools for specific industries.

However, any meaningful and lasting transformation in education can only come from the private sector to move us from where we are to where we could be. Therefore, we need to encourage more education entrepreneurs to disrupt the status quo.

For the full article – Refer Daily FT