

Spotlight: Econ Op-eds in Summary

Week ended 26th May '21

In Summary

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

1. Possible economic implication of a lockdown

By: Charith Isuru

- A lockdown similar to that of the first wave had recently met resistance considering its economic impacts. However, the collapse of the economy will not be due to a lockdown, but rather from other factors including difficulties in servicing foreign debt. In fact, implementing a lockdown will enable essential services to operate in a controlled environment with economic activity bouncing back once it is lifted.
- The reduced demand through lockdown can benefit certain macroeconomic indicators, with demand for imports dropping and the LKR stabilizing, as was witnessed in the latter half of 2020. However, this benefit will be short-lived once lockdowns are lifted, with imports recording strong growth as seen in early 2021. On the flipside, a lockdown can result in negative economic growth, reduced government revenue and adverse impacts on daily wage earners.
- Printing money can help the government stimulate economic activity, as inflation pressures will only take effect in the long term. If import controls are in place, money printing will not pressurize the exchange rate as well. A 30-day nationwide lockdown will help the economy break out of the 3rd COVID-19 wave and will result in greater economic benefits to the country in the long run.

Will Sri Lanka's economy collapse due to a lockdown? The answer is a big 'no'!

What are possible scenarios that can cause a possible economic collapse in Sri Lanka during this COVID pandemic?

1. Substantial downturn in exports
2. Sizable loss in worker remittances
3. Unexpected surge in imports to an unbearable level.
4. Lack of foreign inflows to service country's foreign debt
5. Hyper-inflation with almost no value of local currency
6. Loss of significant portion of work force due the virus

None of the above scenarios are possible due to a 30-day lockdown which has been requested by health experts. (There are many other scenarios that can lead to economic depression during an ordinary time which the writer does not want to discuss in this article).

The Sri Lankan Government has carried out a successful operation in terms of controlling the COVID pandemic since inception in March 2020 with the help of the healthcare sector

as well as Tri-forces and Police. Sri Lanka has been able to maintain a very low level of mortality rate compared to developed nations for the last 12 months. None of these achievements could have been possible without the proper guidance of the Government and efforts of the healthcare sector along with unconditional support of Tri forces and Police.

However, Sri Lanka has come to a trigger point in terms of active cases compared to its healthcare sector capacity which requires lightning-quick decision-making to contain the situation.

What are the possible implications of a lockdown?

Sri Lanka's GDP in 2020 was approximately Rs. 15,000 bn and per day economic value addition was Rs. 41 bn. It means whole SL population average daily total income per day was Rs. 41 bn in 2020.

To elaborate further, Sri Lankans collectively earn Rs. 41 billion per day from economic activities.

On a simple note, one can say that if Sri Lanka goes for a lockdown, per day loss of income can be as high as Rs. 41 bn.

Good side of a lockdown

The most important thing is a lockdown is different from an economic recession/depression.

In a lockdown, economic potential is artificially controlled whereas people's willingness for economic activities will be continued. No sooner, economy is fully opened, economic activities will bounce back within a short period. However, in an economic recession/depression, the economy will take much longer to return to normalcy due to systematic issues created during the recession/depression. The beauty of a lockdown is that we can design a lockdown in a way which will enable critical economic activities to progress amid strict controls. Actually, a lockdown can end up with more economic benefits to Sri Lanka in the short term.

For example: Per day crude oil consumption is approx. \$ 10 mn in Sri Lanka (assuming oil barrel is \$ 60). If a lockdown is announced and 80% movement is controlled, crude oil consumption will at least be reduced to \$ 5 million per day. Therefore, if Sri Lanka is locked down for 30 days, SL may save \$ 150 mn ($\$ 5 \text{ m} * 30 \text{ days}$) worth of crude oil consumption cost per month.

Actually, if Sri Lanka can go for a lockdown with the exports sector open, Sri Lankan Rupee will be strengthened and pressure on exchange rate will be reduced. This was witnessed in 2020 with the help of the ban on non-essential imports.

On the other hand, a lockdown will put temporary breaks to economic activities which will lead to slower private sector credit growth and eventually result in a lower import cost to the economy during lockdown period.

The above scenario was witnessed in 2020 and exchange rate was stabilised around 185 level during the second half of 2020. (Ban on non-essential imports and mandatory credit on import settlement also helped the sentiment in 2020).

Lockdown in Sri Lanka has almost zero correlation with foreign worker remittances volumes. However, Sri Lanka should facilitate services relating to foreign employment with a view of increasing remittance volumes.

Further, the export sector has been allowed for business during the lockdown periods with the help of other essential services such as banking, ports, airfreight services, etc. Lockdown means less economic activities. Less economic activities mean lower consumption of both imported and locally produced resources. These will result in lower inflation and less pressure on exchange rate. Further, lower economic activities will lead to lower private sector credit demand and thereby ease pressure on interest rates.

Therefore, 30 days' lockdown will help Sri Lanka to stabilise macroeconomic factors such as exchange rate, interest rate and inflation rate since supply side is protected as essential services (agriculture, estates, food production, exports, banking, etc. are protected and running as essential services during lockdowns).

All the above economic benefits of a lockdown will be short-lived (maximum up to 1-3 months) and once the economy is fully-opened, imports will surge and credit growth will pick up as economic activities return to normalcy.

When the economy is fully-opened for business, Sri Lanka will face challenges in stabilising macroeconomic factors such as exchange rate due to zero foreign currency income from tourism.

This was witnessed in early 2021 where imports hit around \$ 1,500 mn per month, private sector credit growth was Rs. 218,000 mn during Jan-Mar 2021 on the back of gradual easing of health restrictions relating to COVID-19. Moreover, surge in spending with the help of private sector credit caused more imports together with Government spending on infrastructure projects.

The writer believes that managing Sri Lanka's economy during a lockdown is easy compared to managing macroeconomic factors without a lockdown with zero foreign currency income from tourism.

Disadvantage of a lockdown

The main disadvantage is negative economic growth. If a lockdown is imposed it will lead to less economic activities. Less economic activities will lead to loss of income to economic participants.

Main concern of the Government is daily wage workers in the country. Daily wage workers earn Rs. 20,000 minimum per month. Lockdown means they do not have job opportunities.

However, Sri Lanka has a rich culture where poor people are protected within the community during a disaster period. We saw it during aftermath of Tsunami/floods where people of this country did not allow any death due to hunger. Rich and able people helped the poor via various programs conducted through temple/church/kovil after each and every disaster.

Same strategy can be applied at this crucial moment where rich and able people in the community help the poor in the community. Nationwide programs can be implemented with the help of 'religious leaders' and media organisations.

On the other hand, Government can continue with its Rs. 5,000 monthly allowance targeting poor people. Government spent around Rs. 25-30 bn per month for Rs. 5,000 allowance. On the face of it, one may see spending Rs. 25-30 bn per month is a huge burden on Government. But as discussed in the previous section, Sri Lanka can save up to \$ 300 million worth of much needed foreign currency due to lack of demand during a lockdown. (\$ 300 mn is equal to Rs. 60 bn). Therefore, spending 25-30 bn on subsidies

backed by \$ 300 mn saving on imports per month will not create any adverse economic impact to the economy. Moreover, providing Rs. 5,000 allowance to a person who earned Rs. 20,000 will not likely to create any inflationary pressure in the short term.

There is another disadvantage arising from a lockdown. Government tax income will be disturbed during a lockdown due to lack of economic activities. On a normal year Government collects more than Rs. 150 bn per month via taxes. This can reduce drastically during a lockdown where money printing will only be the alternative.

This is inevitable in a lockdown scenario. However, Government has the option to print money. Since 'money multiplier' impact is lower due to lack of economic activity during a lockdown period, Government money printing will not create any adverse inflationary pressures in the short term. However, Government will have to carefully manage inflation after the pandemic since money multiplier will be fully operative with printed cash. Spiral impact can be seen after one to two years.

As long as import restrictions are in place, Government money printing will not create unnecessary pressure on exchange rate. However, Government will have to be very careful when easing restrictions on imports after the pandemic since printed money within the system can create import demand. There are tools which can be used to manage macro-economic fundamentals after the pandemic which will enable Sri Lanka to put economy back on track.

Allowing economy to operate in full capacity with zero foreign income from tourism will create more issues than a lockdown scenario. This was evident during Q1 of 2021. Moreover, people of Sri Lanka request a nationwide lockdown from Government on the back of health experts' comments.

Therefore, breaking the COVID-19 cycle via a 30-day nationwide lockdown, expediting vaccination program, tourism promotion after vaccination, and securing port city investments, will be critical success factors in bringing SL economy back to normalcy.

The writer believes that a 30-day nationwide lockdown can bring health benefits such as breaking of the third wave of the COVID-19 cycle, less stress on the healthcare system and economic benefits such as short-term macro-economic stability. Therefore, a nationwide lockdown is a win-win scenario for people as well as for the Government including the healthcare sector.

[For the full article – Refer Daily FT](#)

2. Containing COVID crucial for economic survival By Nimal Sanderatne

- The containment of Covid-19 should now be considered a national priority. As such a three-pronged strategy of preventive measures, social behaviour and vaccination of a large number of citizens is key to containing the pandemic and should be implemented at the earliest.
- This year export targets may be affected adversely by dislocation of production as it is challenging to maintain production amidst travel restrictions and lockdowns. However, resilience, adaptability, and diversification of exports into new markets have helped and would continue to help the country to keep the negative effects at minimal.
- While the industrial and the services sectors are affected by restrictions, agriculture had been a sector which has shown resilience locally as well as globally. In such a

situation the ban of chemical fertilizer might negatively affect the agricultural production of the country. As such appropriate economic policies are vital to increase production of both agriculture and industrial sectors in the country.

It is increasingly clear that controlling the rapidly spreading COVID virus is vital for the nation's economic survival and a precondition to resolving the multiplicity of problems and reviving the economy.

Priority

The **containment of COVID from spreading is the national priority**. It is far more important than keeping the economy functioning. In fact, people must live and work to revive the economy. However difficult, it is essential to redouble efforts to contain the virus than risk its spreading.

Resurgence

The **premature relaxing of restrictions** for the Sinhala and Tamil New Year, **irresponsible social behaviour**, **inadequate precautions** and a **haste to activate the economy** has led to the current exponential spread of the virus.

Essential strategy

A three pronged strategy of **preventive measures, social behaviour and vaccination of a large number of citizens is the key to containing the pandemic**. While achieving zero infection is unlikely for several years, its containment to manageable proportions too may take some time as adequate amount of vaccines are not available.

Economic revival

It is also important to not hastily commence economic activities that could spread the pandemic. Especially important is the **banning of foreign tourists and closing the borders**. Many countries that have been successful in eliminating the virus, such as New Zealand and Australia adopted this successful strategy. In contrast, Sri Lanka promoted tourists from highly infected countries!

Resurgence

The recent rapid spread of COVID makes the **control of the virus far more important than keeping the economy moving**. The series of **curfews and lockdowns are an admission that the containment of the COVID from spreading is the priority** and far more important than keeping the economy functioning.

The post-New Year resurgence of COVID is a serious threat to the economy. The economy is likely to slide further this year and move into a crisis situation by the end of the year and in 2022. The economic revival that was expected in 2021 by the Government and international agencies is unlikely owing to production activities being hampered by the spreading of COVID in all parts of the island, lockdowns, emergencies and transport difficulties.

Economy next

In as much as the nation needs food and basic needs to survive, it must survive to produce them. Keeping the **country's production going, while imposing curfews and lockdowns, is a daunting task in the midst of a raging epidemic**.

Responding to economic and epidemiological problems in hasty, ill thought out, inappropriate and impractical policies have compounded the perilous state of the economy and livelihoods of the people.

In tandem

Although the government is attempting to keep the wheels of industry moving in tandem with the containment of COVID-19, economic activities are being seriously hampered by COVID and the measures to contain its spread. Containing COVID-19 is undoubtedly the priority and precondition to getting the economy functioning.

Global demand

The expected economic constraints in 2020 were the depressed demand for the country's exports. The economy, and especially exports, were expected to be affected adversely by the global economic downturn. However, the resilience, adaptability and diversification into new emerging demands enabled the export dip to be minimal. This thrust may continue this year.

In the first quarter of 2021 exports of nearly US\$ one billion was at last year's level and in fact at the pre-COVID levels compared to the first three months of 2020. However, this year's export performance may be hampered not by the lack of export demand but by the dislocation of production in the country from May.

Maintaining factory production at required levels of output amidst the spreading virus, travel restrictions and lockdowns is a challenging task. Nevertheless, export industries are finding ways and means of maintaining production under these constraints.

Exports

The Export Development Board (EDB) had an export target of US\$ 12 billion for 2021. This was a realistic expectation at the beginning of the year when it appeared that the pandemic was abating. Furthermore, there were signs that the country's pre-COVID exports of garments, leather and rubber goods and ceramic were picking up and that at the same time, the demand for personal protective equipment (PPE) were continuing.

Consequently, it was quite reasonable to expect exports to exceed the EDB's target and reach around US\$ 15 billion. This was especially so if later in the year, exports of solid tyres, electrical equipment and boats revived.

The threat to achieving the export target is not the external environment that is improving, but the spread of COVID in the country that is constraining production.

The Export Development Board (EDB) and the Board of Investment (BOI) are making valiant efforts to ensure the production of exportable goods. Their success would be dependent on containment of the virus in the community, vaccination of workers and the safety measures adopted in factories.

Much of the country's success in ensuring exports would now depend mostly on ensuring the supply of exportable goods rather than international demand. This also implies the need to ensure essential imported raw materials. There is increasing evidence of shortages of raw materials hampering manufactures.

Agriculture

Agricultural production was the least affected in the last two waves of COVID due to its nature and mode of production. A bumper harvest in this year's Yala could have eased

the cost of living and accessibility to food, on the one hand, and on the other hand, improved, livelihoods of the large rural community. Instead, the unavailability of fertiliser has crippled production of paddy and food crops and threatens the livelihoods of farmers.

Fertiliser

The decision to ban chemical fertiliser will aggravate the food supply situation, poverty and food security of a large proportion of the population. Rice production in 2021/22 is likely to halve. Other food crops and tea too have been adversely affected by shortage of fertiliser and agro-chemicals.

Economic policies

Adoption of inappropriate economic policies could bring about severe difficulties to increasing production of both agriculture and industry. The unavailability of raw materials for manufacturing and fertiliser for food crop and export agriculture are severe current threats to the economy.

Decreased food production would necessitate imports of costly food that are several-fold the value of fertilizer imports. Alternately, there would be severe food shortages and widespread food insecurity.

Tea

The unavailability of fertiliser, weedicides and pesticides for tea and rubber would diminish their production and exports and widen the country's trade deficit.

These ill-advised import control policies are likely to aggravate the country's external finances. Only foreign borrowing or assistance can redeem the country when this happens.

Concluding reflection

The containment of the exponential resurgence of COVID is the national priority. The widespread vaccination of people is the only viable solution to containing the virus to manageable proportions to get the economy functioning. We must hope for appropriate policy responses that would mitigate the spread of the virus and find ways and means of increasing production in the country. Inappropriate policies could aggravate the perilous state of the economy.

[For the full article – Refer The Sunday Times](#)

Disclaimer: Information collected/analysed is from sources believed to be reliable or from the Central Bank/Government. Frontier Research Private Limited however does not warrant its completeness or accuracy. The bullet points provided for each summarised opinion article is written by Frontier Research and has no connection to the respective author.

Furthermore, the information contained in these reports/emails are confidential and should not be shared publicly. Disclosure, copying and distribution is strictly prohibited. Frontier Research has taken every reasonable precaution to minimize the risk of viruses, but is not liable for any damage you may sustain as a result of any virus or other malware in this email. Frontier Research reserves the right to monitor and review the content of all messages sent to or from this email address for operational, business and security reasons.

This communication including any attachments contained herein is governed and bound by the "Confidentiality and Disclaimer" detailed and available for your specific reference at our [corporate website](#).