

Spotlight: Econ Op-eds in Summary

Week ended 20th October '21

In Summary

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

1. Fresh economic thinking and pragmatic policies imperative **By Nimal Sanderatne**

- Drawbacks in past economic policies and reforms seems to negatively affect Sri Lanka's present economic environment. Recently, the government has identified these issues and seems to be taking measure to reverse certain decisions such as the fertilizer ban. While this is a step in the right direction, a pragmatic approach is needed in policies relating to monetary, fiscal, agriculture and trade.
- Government's alternate economic policies and MMT has led to high inflation, fiscal, trade and BOP deficits. Thus, Budget 2022 will need to include policies on trade liberalization and a more realistic exchange rate, as low foreign reserves in the country has created parallel exchange rates as well as shortages of food and essential items.
- Further, despite import restrictions, imports are on rise. While exports have also increased compared to last year, the trade deficit is expected to remain increasing. Given these circumstances, though foreign assistance and swaps provide temporary relief, economic reforms are vital to stabilize the economy.

Economic difficulties reaching crisis proportions are clear evidence that the Government's policies have failed. Some commentators have said that we are in a predicament that can lead to situations like in Myanmar, Argentina or Lebanon. Fitch Ratings has downgraded the economy to a cc- level, close to one of insolvency.

Recognition of crisis

Recognizing the problem and the need for economic reforms is the first step towards the resolution of the crises of multiple dimensions. Fortunately, there has been an acknowledgement of this recently and consequently significant policy reversals such as on organic fertilizer.

Fresh look

A fresh look at the failed economic policies and the adoption of pragmatic monetary, fiscal, agricultural, trade and other policies are vital for economic stabilization, economic recovery and growth.

Rice and fertilizer imports

The recent decision to allow the free import of rice and chemical fertilizer for tea is blatant admissions of the folly of the sudden switch to organic agriculture, which the scientific community had forewarned of and farmers protested against.

Alternate economic policies and NMT

Similarly, the Government's undefined alternate economic policies and the New Monetary Theory (NMT) pursued by the government have led to unprecedented inflation, a huge fiscal deficit, large trade and balance of payments deficits, depletion of foreign reserves and depreciation of the currency. No doubt external factors such as increasing oil prices impacted adversely on the economy.

Time to change

Clearly, the time is opportune to take a fresh look at these policies and undertake reforms that would resolve the pressing problems of the country. Foreign assistance from whatever quarter coupled with economic reforms is urgent and imperative.

Budget 2022

The Budget for 2022 to be presented on November 12 is the appropriate occasion to make a break from recent policies and charter a pragmatic economic policy framework.

This would include a more selective restriction of imports, trade liberalization, a realistic exchange and interest rate policies and a phased implementation of organic agriculture to a limited extent, as in most countries. Fiscal consolidation is unquestionably vital to achieve economic stability, but difficult and painful to achieve, yet essential.

Economic crisis

The current economic crisis has many dimensions. The most focused issue has been the severe shortage of foreign currency. The country's reserves have depleted to as low as US\$ 2.5 bn at the end of September. The depreciation of foreign currency, has led to unavailability of foreign exchange for essential imports owing to a wide margin between the official and unofficial or black market rates.

Shortages of food and other essential items have been the outcome. These are symptomatic of the critical shortage of foreign currency. The depreciation of the rupee and the reduction or elimination of the wide margin between the administered and market rates of exchange that should be narrowed and, if possible, eliminated are among the needed changes.

Fiscal deficit

Less recognized, but underlying problems are the burgeoning fiscal deficit and monetary expansion. The folly of the imprudent large expansion of money supply justified by the Government and Central Bank by its advocacy of New Monetary Theory has proved catastrophic. It has led to inflation and weakening of the currency.

Foretold

This was pointed out repeatedly by economists, but stubbornly pursued by the Government's economic advisors to create inflation and increased pressures in the balance of payments. This has had widespread economic ramifications and repercussions. Fiscal and monetary policy reforms are essential to stabilize the economy.

Expanding trade deficit

Despite stringent import controls, the trade deficit expanded in the first seven months of this year to US\$ 4.9 bn compared to US\$ 3.5 bn - an increase of as much as 40% from that of the same period last year. Based on this trend, the projected trade deficit may exceed US\$ 10 bn for 2021.

Imports and exports

What is surprising about the trade performance this year is that the widening trade deficit was brought about by imports increasing despite increasing import controls. This clearly demonstrates that **the country's trade imbalance cannot be resolved by import controls.**

Growth in exports

Despite constraints posed by COVID-19 and import restrictions, **exports increased by 24% to US\$ 6.9 bn in the first seven months.** Both **agricultural and manufactured exports increased.**

Moreover, exports exceeded US\$ 1 bn in June, July and August, lending expectations of exports exceeding the export target of US\$ 12 bn this year.

Balance of payments

With remittances showing a decline in recent months, tourist earnings small and net capital outflows, the **balance of payments deficit is likely to be about US\$ 5-6 bn.**

In the first seven months of this year, the BOP deficit was US\$ 2.75 bn. May be **foreign assistance and foreign currency swaps would relieve the situation, but not resolve the foreign currency crisis.**

Conclusion

We may be able to tide over the critical difficulties in foreign finances by assistance from foreign countries and multilateral organizations. However, the need of the hour is recognition that the policies pursued have been inappropriate at best and faulty at worst.

A reversal of faulty policies and adoption of comprehensive economic reforms are the only means of stabilizing the economy and placing it on a path of economic recovery. Fiscal, monetary and trade reforms are imperative. Are we on the threshold of policy reforms?

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

2. How do we market Sri Lanka globally as a unique country – green socio-economic system

By: Jayampathy Molligoda

- It has been five months since the prohibition of chemical fertilizer imports with the government now allowing the importation of potassium chloride– which isn't an organic material, though it can still be used for organic farming. With regards to the tea sector, Analysis reveals no significant yield declines from the prohibition of fertilizer imports so far, with cumulative tea production being higher compared to last year.
- According to the government proposal, stakeholders need not immediately convert tea production into organic products and would therefore not result in income losses for farmers during this transitional period. Farmers are allowed to use non-hybrid chemically bond fertilizer till self-sufficiency in the production of organic fertilizer is realized.
- Currently, organic fertilizer imports have been approved for the tea sector, with domestic production of it increasing as well, although the government must support this by providing sufficient levels of nitrogen and potassium to maintain product

quality. From a bureaucratic perspective, state policies should be viewed as positioning Ceylon Tea as a unique product to customers globally to be on par with the Tea Strategy Roadmap for 2030.

Introduction:

One consignment of 'Potassium Chloride' fertiliser arrived on September 14, presumably, to be applied for the paddy sector. The potassium chloride is not an organic material. However, the input materials approved for organic farming need not only be organic. Potassium Chloride is a mineral and not organic, but it's permissible to be used for organic farming under international and SLS standards. Even some chemicals such as copper based chemical mixtures are allowed to be used for organic farming under international standards.

Tea sub sector:

As for the tea sector, what we have been saying is the government policy change as per Cabinet decision on 27th April, will enable us to arrest the tea land degradation and improve soil quality and thus moving towards green agriculture-plantation economy. As stated in the Cabinet paper, the state policy change is 'migrating into green socio-economic pattern; this can be termed 'regenerative agriculture' or the green economic system. One of the milestones in the Tea strategy 2030 road map is improving soil quality and air and water quality through an integrated soil fertility management and balanced nutrient management.

Nevertheless, SLTB officials are closely watching and monitoring the entire tea supply chain – five months have lapsed from the government policy change prohibiting fertilizer imports and up to end September, a detailed scientific analysis on statistics of production, auction sales data and physical inspection of factories/estates have not revealed any major drop in quantity, however there will be issues if no nutrients are provided at the earliest.

Tea Production:

Cumulative tea production for the period January to September 2021 shows an increase of 16% respectively against last year.

Addressing tea growers' concerns:

In fact, the tea production to date is higher than the average of the corresponding period during the last five years. This shows that good weather conditions, especially water and sunlight, are equally important, along with providing required nutrients. Therefore, it is important to address the adverse effects of 'climate change' through mitigating and adaptation strategies. The confusion here is that the majority of the people have misunderstood the word 'organic' in the government proposal, thinking the stakeholders are required to immediately convert tea production and exports into organic. We need to educate the farmers and there should not be loss of income for efficient growers even during the transitional period. At the same time, malpractices and underutilization of land and over use of inputs without following GAPs need to be arrested by the authorities. The name of the game is 'green agricultural system' as stated in the said Cabinet paper and the President's address at the General Assembly, United Nations, recently – green energy, green agriculture - this is how I understood the vision.

The positive feature is the emergence of R&D initiatives mooted by the tea sector hitherto not happened and the admission that there has been an excessive usage of chemical fertilizer and decline in yields. There has been hardly any soil analysis undertaken during the last couple of years and lack of site- specific fertilizer application. Scientists have

concluded that beneficial microbes in the soil are disturbed with excessive application of chemicals.

In order to address farmers concerns and genuine grievances, there is nothing wrong in using nano-hybrid chemically bonded, 'slow release' fertilizer until we are self-sufficient in the production and supply of 'organic' fertilizer. Based on approvals received from the government, the private sector importers have already been allocated ordering sufficient quantities of Ammonium sulphate last week (under Import control licence scheme-07/05/21) to be mixed with minerals such as ERP and potassium for tea estates. The production and supply of organic fertilizer is also increasing.

However, if they don't provide with sufficient N and K, there will be issues both in quantity and quality. Another issue for exporters is lack of shipping space and shortage in containers more than other Issues- that's being sorted out.

Conclusion:

My understanding is the vision of The Head of the State is; How do we reposition and market 'Sri Lanka' globally as a unique country? As for Ceylon Tea marketing strategy- how do we position 'Ceylon Tea' in the minds of discerning tea consumers globally as a unique product? The State policy change should be viewed in that perspective. Our 'Ceylon Tea' Brand story; the cleanest tea in the world is being reinforced with this state policy change: 'green socio- economic pattern'. This is on par with the Tea strategy road map 2030 prepared by CTTA, the private sector apex body for tea industry, in consultation with Tea Board, Ministry and other stakeholders. Let us work together to realise true potential to obtain higher net foreign exchange, so that the benefits will trickle down to the farmers in accordance with the Tea Control Act No. 51 of 1957. The way forward strategy should be communicated to everyone.

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

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](#).