

## Budget 2005

Sunday, 04 April 2004

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A change of government in April 2004 and the onset of economic downturn coincided in Sri Lanka. The Sri Lankan economy has been experiencing turbulence during the 2nd and 3rd quarters of this year due to a variety of factors, viz. prolonged drought, world oil price hike, lack of tangible economic policy framework by the new government, and even more remote chance of the resumption of peace talks between the new government and the LTTE that has been stalled since April 2003.

Gross domestic product dropped for the second consecutive quarter during the 3rd quarter of 2004. Paddy, tea, and rubber productions during the 3rd quarter were on the decline primarily due to prolonged drought. While private sector industrial production decreased public sector industrial production increased. Industrial exports have registered a marked increase during the 3rd quarter primarily as a result of fast depreciating rupee. Interest rates are on the rise though Treasury bill rates are artificially kept low. The cost of living (aka inflation) is on the rise uninterrupted since April. Exports to a greater extent and imports to a lesser extent are on the rise primarily due to depreciation of the rupee; consequently trade deficit has dropped during the 3rd quarter compared to the 2nd quarter. Net private remittances picked up during the 3rd quarter. Tourism sector, both in terms of arrivals and income, recorded strong growth during the 3rd quarter. Yet, gross official reserves declined for the second consecutive quarter during the 3rd quarter as a consequence of low foreign aid received and delays in repatriation of export proceeds to the country by exporters. Though the economy has performed marginally better during the 3rd quarter than the 2nd quarter the economic downturn that set in since April has not turned back.

The new government that came to power in April was a minority government lack of even a simple majority in parliament. Therefore, the priority of the new government was not the economy or the peace process but securing parliamentary majority by way of luring opposition members of parliament and minority political parties into their fold. More crucially the incumbent Executive President is fighting for political survival as her second and last term of office comes to an end by December 2005 or 2006 (subject to interpretation of the Constitution). Hence, economic management of the new government has been piecemeal with the view of securing parliamentary majority and prolonging the political life of the President rather than for the good of the country. Budget 2005. PDF