

# Resurgent Conflict Retarding Economy

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In spite of rising GDP growth rate, declining unemployment rate, and strong stock market performance the Sri Lankan economy is showing signs of severe strain in terms of rising inflation, negative real interest rate, rising budget deficit, sharp increase in broad money supply, depreciation of the rupee, increasing current account deficit, and fast depleting overall balance in the external balance-of-payments

Sri Lanka has been facing the twin problem of the ethnic conflict and the economy in the past quarter century. This is reflected in the fact that successive executive Presidents since 1989 have retained the defence and finance ministerial portfolios under them, barring 2002-2005, including the incumbent. Both the ethnic conflict and the economy have had their ups and downs throughout the past twenty-five years. In recent times the two-way relationship between the conflict and the economy was evident since about the year 2000. Economic woes in recent times began with severe drought, rising world oil price, and several military reversals in the northern battlefield in and around year 2000.

When one analyses the state of the economy it is important to look at the trend over a period of time rather than at any particular point of time. Therefore, this review is based on the trends of crucial macroeconomic indicators, such as economic growth, money supply, unemployment, inflation, budget deficit and external balance-of-payments, from 2000 to 2006 (7 year period). These indicators could gauge the health of the economy. Resurgent Conflict Retarding Economy.pdf January 2007