
Subsidies Mania Strikes Sri Lanka

Contributed by
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The Sri Lankan economy is on a precipice as a result of prolonged drought, soaring world oil prices, absence of clear and tangible economic policy framework, and lack of progress in kick starting the peace talks.

In the domestic sector of the economy, agricultural output is on the decline due to prolonged severe drought throughout the country. Output and exports of the industrial sector are on the decline due to lack of demand in major export markets. Interest rates are on the rise reflecting demand for money is greater than the supply. Further, inflation is also on the rise as a result of declining output, depreciation of the rupee, and soaring oil prices. While public expenditures rise and government revenues fall budget deficit is anticipated to be larger than planned for in the budget. Public expenditures are on the rise due to increased subsidies provided for fertiliser, wheat flour, petroleum products, and LP gas

In the external sector of the economy, export values are on the decline whilst import values are on the rise resulting in larger trade deficit. Moreover, remittances and income from tourism are on the decline. Hence, foreign exchange reserve of the country is depleting primarily due to soaring world oil prices and depreciation of the rupee. Data for the foregoing observations are in the Quarterly Review of the Economy of Sri Lanka: 2nd & 3rd Quarters 2004 by the author[1]. The GDP (in real terms) grew by 5.2% during the second quarter 2004, which was lower than the corresponding quarter last year (5.6%) and the 1st quarter of this year (6.2%). Besides, this is the lowest quarterly growth rate in the past two years.

These are some of the outcomes of "mixed economy" policies of the six-month old UPFA government. It appears that the "mixed economy" policies have messed up the economy in such a short period of time. Though drought and world oil prices are beyond the control of the government economic policies and the peace process are within its control. If the government had sound policies on the latter two the negative impacts of the former two could be mitigated. The so-called mixed economy policies are nothing but rehash of the failed policies of the 1970s both in India and Sri Lanka.

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