

What the budget 2016 and Prime Minister's policy statement would mean to the industry and economy?

More progress towards a positive path in the longer term

The budget and the PM policy statement signaled a broad move forward on reforms, and tax simplification. There were some very interesting ideas along with specifics of how they will move forward with them. While the success of it comes down to implementation, across a broad range of areas, clearly more visibility was seen in terms of how the government hopes to carry out its reform agenda.

Some of these reforms in the longer term can transform Sri Lanka's Economic trajectory with strong and much more sustainable growth. However, it will only materialize following a period of adjustment which is required to address some underlying issues in the economy

The success of these policies will largely depend on implementation, but many broad steps seem to be in the right direction in terms of sector policies. However, some specific areas and directions have concerning implications and sometimes clear contradictions to a liberal reform agenda, for example, the increasing use of price controls.

The problem with pushing forward a strong reform agenda with a benefit to be expected in the medium to long term is the political realities. An example is the debate we are now seeing around the proposal to cancel vehicle permits in the 2016 budget. Given context of the political realities and the context of the kind of policy direction we had earlier, it would be hard to expect more than what was outlined in the budget and the PM statement. However, any hope of short term fiscal adjustments were not met

The issue though is the fiscal trajectory in the near term

It is clear that the focus of this Government is on the longer term, rather than addressing the immediate need of containing the budget deficit and dealing with the imbalances that we believe are likely to cause a macro shock in the near term. With a budget deficit target of 5.9% (as a % of GDP) in 2016, only 0.1 percentage point below its 2015 estimate, the Government does not communicate a notable fiscal tightening but rather suggests complacency with regard to the fiscal situation. Furthermore, as experienced in the past, it is the norm for the Government to overestimate revenue figures and underestimate the budget deficit. The broad fiscal trajectory is not the "bitter pill" needed to deal with the near term imbalances.

Which can lead to an adverse impact in near term.

As a result of this, the economic issues are prolonged and could lead to a further adverse impact on the economy leaving behind uncertainty and shocks for businesses in the near term. Though reforms will benefit businesses in the long-term, the short-term adversity we will face as a result of not tightening the deficit and monetary policy, can worsen the likely shock for business in 2016.