

State of the Economy and the Impacts of the IMF Package, Particularly on the Construction Industry

Prof. Wasantha Athukorala

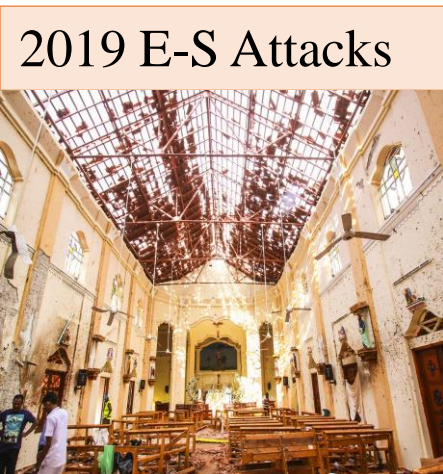
Director, PGIHS

University of Peradeniya

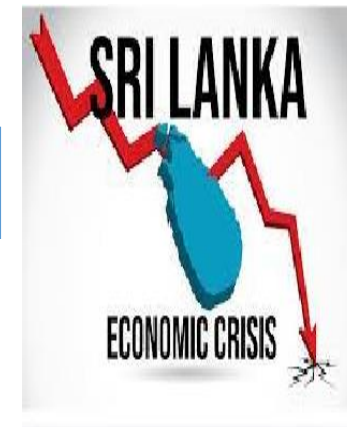


Economic Crisis

- It is a drastic fall in the **economic** performance of a country. This will inevitably result in a high level of poverty in a country.
- Internal and External Shocks (Supply or Demand) are the leading factors + Long Term Policy Failure (Man-made)
- **Economic collapse** refers to a period of national/regional economic breakdown where the economy is in distress for a long period, which can range from a few years to several decades (social chaos, social unrest, bankruptcies, reduced trade volumes, currency volatility, and breakdown of law and order)



Long Term
Policy Failure
Crisis Response
Short Term



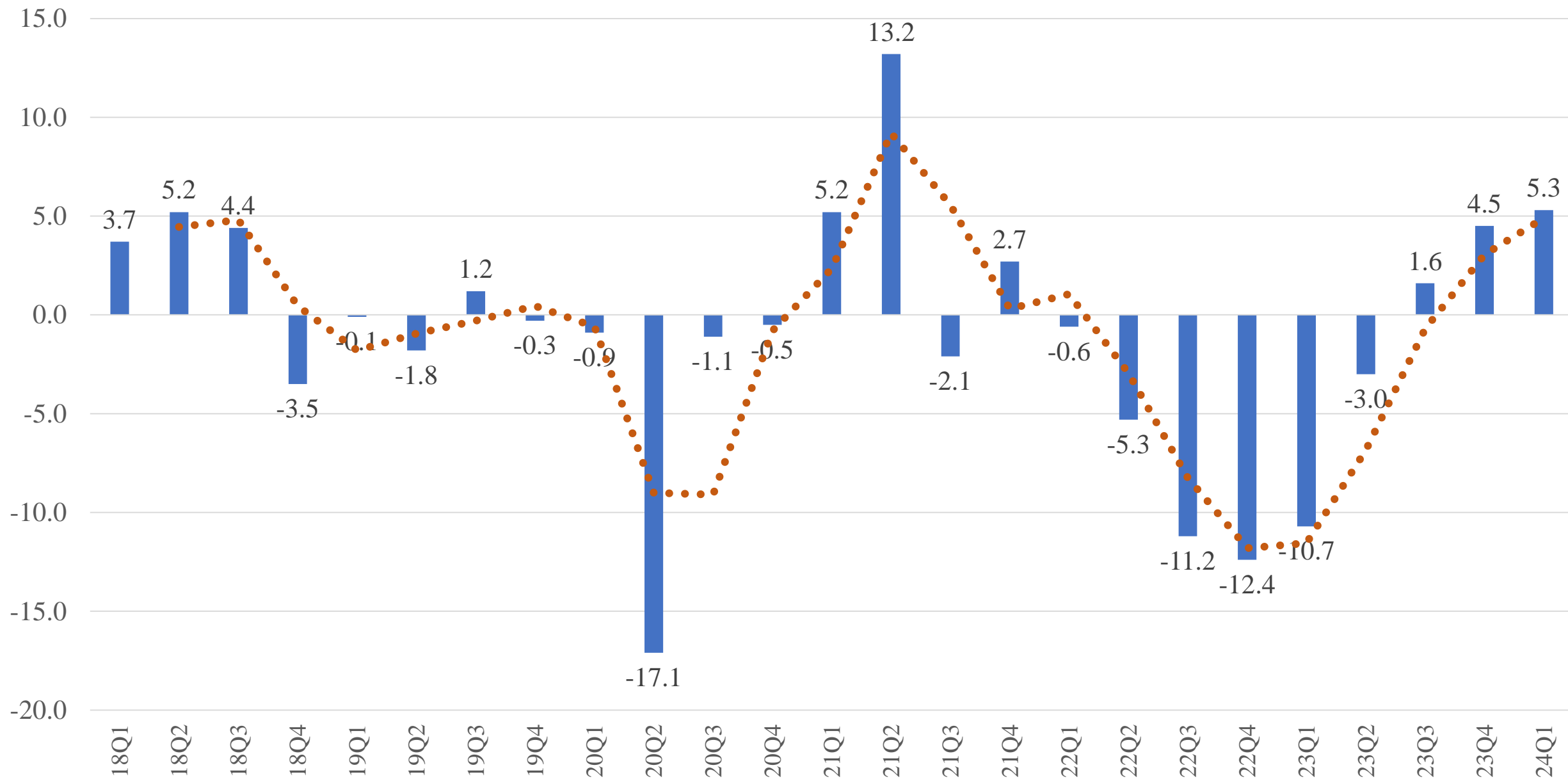
Comparison: GDP Growth Rate (2015 Constant)

Country Name	1970s	1980s	1990s	2000s	2010s	2020	2021	2022	2023
Singapore	9.20	7.83	7.22	5.37	4.99	-3.87	9.69	3.84	1.08
Malaysia	8.15	5.87	7.25	4.78	5.35	-5.46	3.30	8.65	3.68
China	7.39	9.74	9.99	10.35	7.38	2.24	8.45	2.99	5.20
Thailand	7.51	7.29	5.20	4.31	3.63	-6.06	1.57	2.46	1.88
Indonesia	7.21	5.77	4.31	5.10	5.41	-2.06	3.70	5.31	5.05
Pakistan	4.84	6.86	3.98	4.54	4.02	-1.27	6.51	4.77	0.00
Sri Lanka	4.23 (7 th)	4.15 (8 th)	5.26 (5 th)	5.00(6 th)	5.35 (6 th)	-4.62 (7 th)	4.21(7 th)	-7.35(10 th)	-2.30
India	2.93	5.69	5.77	6.28	6.64	-5.78	9.69	6.99	7.58
Nepal	2.60	4.09	4.84	4.06	5.01	-2.37	4.83	5.61	1.95
Bangladesh	1.52	3.54	4.71	5.55	6.6	3.44	6.93	7.09	5.78
South Asia	3.00	5.60	5.38	5.94	6.28	-4.58	8.76	6.31	6.35
Japan	4.45	4.30	1.50	0.46	1.20	-4.27	2.56	0.95	1.92
Low income	-	2.09	2.89	5.08	2.15	0.34	2.07	3.74	3.01
Lower M. income	4.66	2.97	3.21	5.52	5.02	-3.59	6.65	5.82	5.29
Middle income	5.74	3.7	3.31	6.17	5.34	-1.21	7.51	3.85	5.29
World	4.04	3.03	2.82	2.99	3.16	-2.93	6.26	3.09	2.72

Source: World Bank, 2022

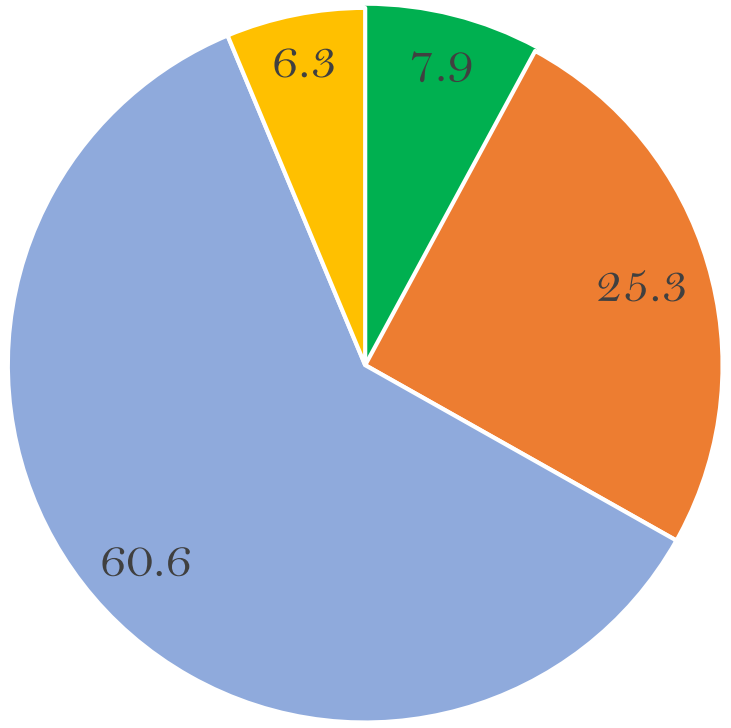
Economic Crisis: GDP Growth

Expectation, Not real growth



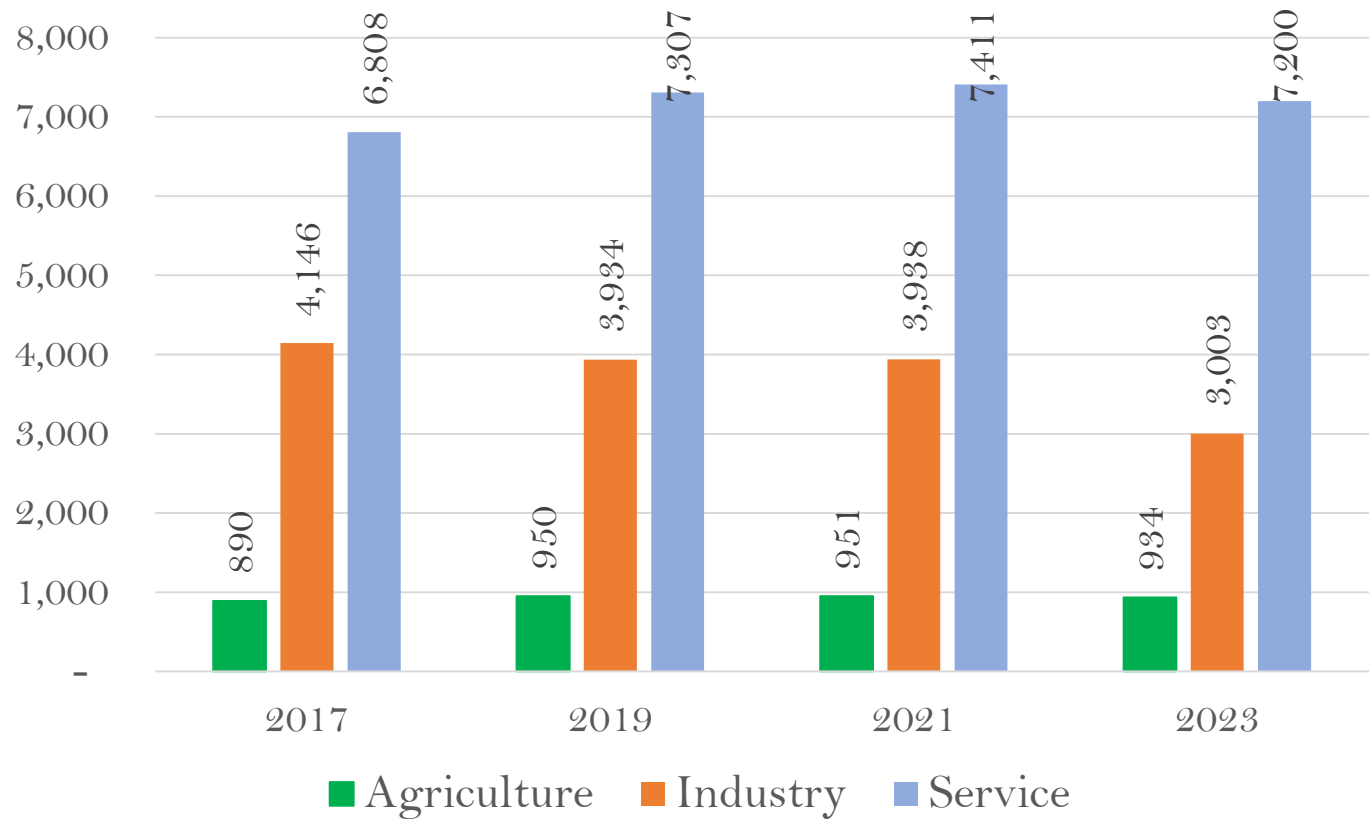
GDP Composition and Values

Composition of GDP: 2023



- Agriculture
- Industry
- Service
- Tax and Subsidies

GDP at Constant Prices – Based 2015 (Rs.bn)



Changes to the base of the Economy

	2018	2019	2020	2021	2022	2023	Change (%)
Nominal GDP	15,351	15,910	15,646	17,612	24,063	27,629	79.98
Real GDP	13,235	13,206	12,595	13,125	12,161	11,881	-10.23
Ratio(Based)	0.86	0.83	0.81	0.75	0.51	0.43	-50.12

Visible Economy: Stability and Growth

CB Monetary Policy

- Low inflation level (July 2.5 % Average)
- Low interest rate (SDR 8.25 %)
- Normal money transfer (Undiyal/hawala)
- Low risk level of the banks (Capital Adequacy Ratio 17.7 %)

Debt optimization and Restructuring

- Local Debt Optimization : Completed
- Foreign Debt Restructuring : Almost done
Released the short term burden with a cost of working class

Fiscal Policy

- Normal energy supply (no power cut, no shortage of gas or fuel)
- Government revenue increased (41 % by June)
- Low budget deficit (Rs.1,242 to Rs. 598 bn- until June, 2024)
- Social Protection (Aswasuma 2.4 mn)
- Sectoral recovery (Agriculture 1.1 %, Industry 11.8 % and Service 2.6 % - 2024Q1)

DDO = EPF Rs 2,668 bn + CB Rs. 2,712 bn
DDO Total = Rs. 5,380 bn

FDR : Grace Period from 2024 to 2027 (5 bn)
Interest rate reduced to 2.1%
Debt settlement period goes until 2043

Invisible Economy: Stability and Growth

- 2021 – 2024 June: Price level has increased by 106 % (Foods 134% and Non Foods 89 %)
- 20 % of SMEs were either permanently or temporarily closed (260,000 SMEs)
- 61 % of households have decreased their total household average monthly income
- 22% of households have indebted due to economic crisis
- 55% of Individuals (aged 3-21) schooling has been affected by the economic crisis
- Approx. 486,838 loss their jobs between (2022Q1 and 2024Q1)
- 66 % work more than 40 hours per week (increased by 700,000)
- Increased malnutrition among children
- Changed the fuel and gas queue to passport queue
- Poverty has increased to 26 % (5.8 million people)
- OPL has increased to Rs. 16,373 (135 % since 2019)

Structural Issues

Revenue (Rs.bn)	2023 (Jan-Jun)	2024 (Jan-Jun)	Change	%
Tax	1,198.85	1,709.31	510.46	42.58
Non Tax	116.03	151.33	35.30	30.42
Total	1,314.89	1,860.63	545.74	41.50
Expenditure (Rs. bn)	2023 (Jan-Jun)	2024 (Jan-Jun)	Change	%
Recurrent	2,325.54	2,218.44	(107.10)	(0.00)
Capital	234.08	244.86	10.78	0.00
Total	2,559.62	2,463.31	(96.31)	(0.00)

Total Imports (Rs. mn) 2024 (Jan-Jun)	2,667,453
Per Capita (Rs.)	120,153
Per Capita/per month(Rs.)	20,025
Per Capita/Per day(Rs.)	667
Per Family(Rs.)	2,670

Total Exports (Rs. mn) 2023	1,886,986
Per Capita(Rs.)	84,899
Per Capita/per month(Rs.)	14,166
Per Capita/Per day(Rs.)	472
Per Family(Rs.)	1,888

Daily Government Operation (Jan-Jun, 2024)

	Receipts	Expend.	Borr. Req.
2023	7.23	14.06	6.83
2024	10.24	13.53	3.29

Imports dependency = Rs. 2,670

Exports dependency = Rs. 1,888

Net Gain = Rs. -781

Treasury Bills and Bonds Borrowing (Rs. million)

2024	Borrowing (Rs.mn)
January	878,649
February	641,488
March	843,202
April	720,029
May	813,250
June	1,195,817
July	608,988
August	814,139
Total	6,515,562
Average	814,445

On average Rs. 815 bn are borrowed from domestic market per month

Daily Rs. 27 bn

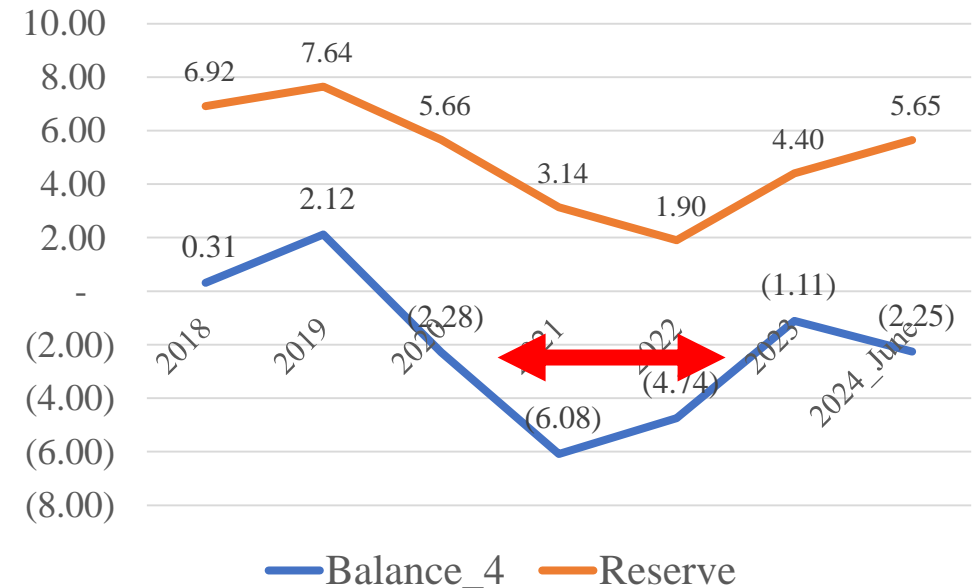
Economic Crisis and Recovery Process:

USD Reserve Crisis (USD, billion)

	Trade Balance		[1]	Other Inflow		[2]	[1+2]	Outflow [3]	[1+2+3]
Year	Exports	Imports	Balance_1	Tourism	Remittances	Receipts	Balance_2	FD Debt Repay	Balance_3
2018	11.89	22.23	-10.34	4.38	7.02	11.40	1.05	-3.25	-2.19
2019	11.94	19.94	-8.00	3.61	6.72	10.32	2.33	-4.61	-2.28
2020	10.05	16.06	-6.01	0.68	7.10	7.79	1.78	-4.06	-2.28
2021	12.50	20.64	-8.14	0.51	5.49	6.00	-2.14	-3.94	-6.08
2022	13.11	18.29	-5.18	1.14	3.79	4.93	-0.26	-4.48	-4.74
2023	11.91	16.81	-4.90	2.07	5.97	8.04	3.14	-4.25	-1.11
2024_June	6.14	8.68	-2.54	1.56	3.14	4.70	2.16	-4.41	-2.25

	[1+2+3]	Borrowing		CB Reserves
Year	Balance_3	ISB	Balance_4	
2018	-2.19	2.50	0.31	6.92
2019	-2.28	4.40	2.12	7.64
2020	-2.28	0.00	-2.28	5.66
2021	-6.08	0.00	-6.08	3.14
2022	-4.74	0.00	-4.74	1.90
2023	-1.11	0.00	-1.11	4.40
2024_June	-2.25	0.00	-2.25	5.65

Balance and Reserve (USD)



Crisis Management: No Magic

By the end of 2022, Sri Lanka achieved natural economic equilibrium.

Key factors contributing to this included:

- Implementation of the IMF Stabilization Arrangement.
- Increased inflow of foreign currency from tourism and remittances.
- Debt default, which helped reduce the outflow of USD.

2022 April 12: Stopped paying foreign debt

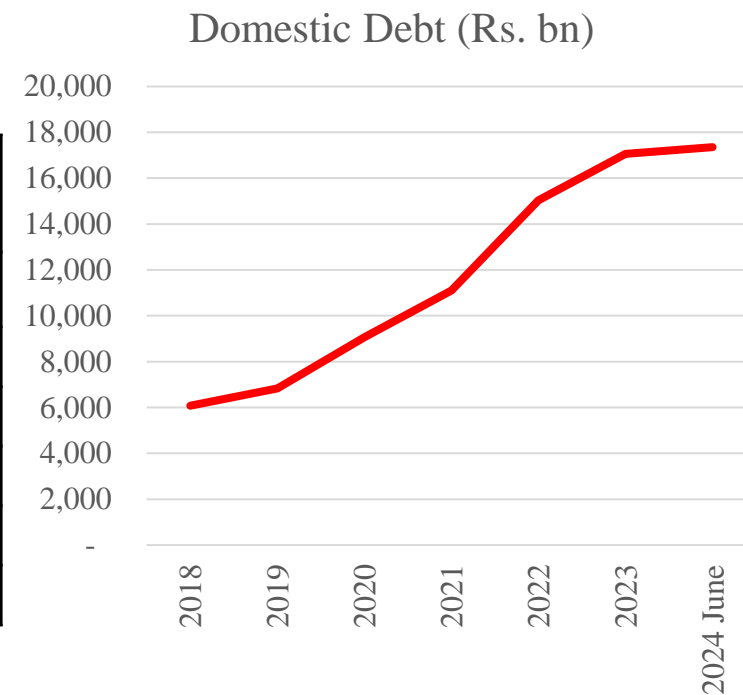
Resulted in a surplus due to less outflow

No shortages of foreign currency

Sufficient funds are available to import essentials

Strategies with default Reliefs and IMF EFF (USD, Billion)

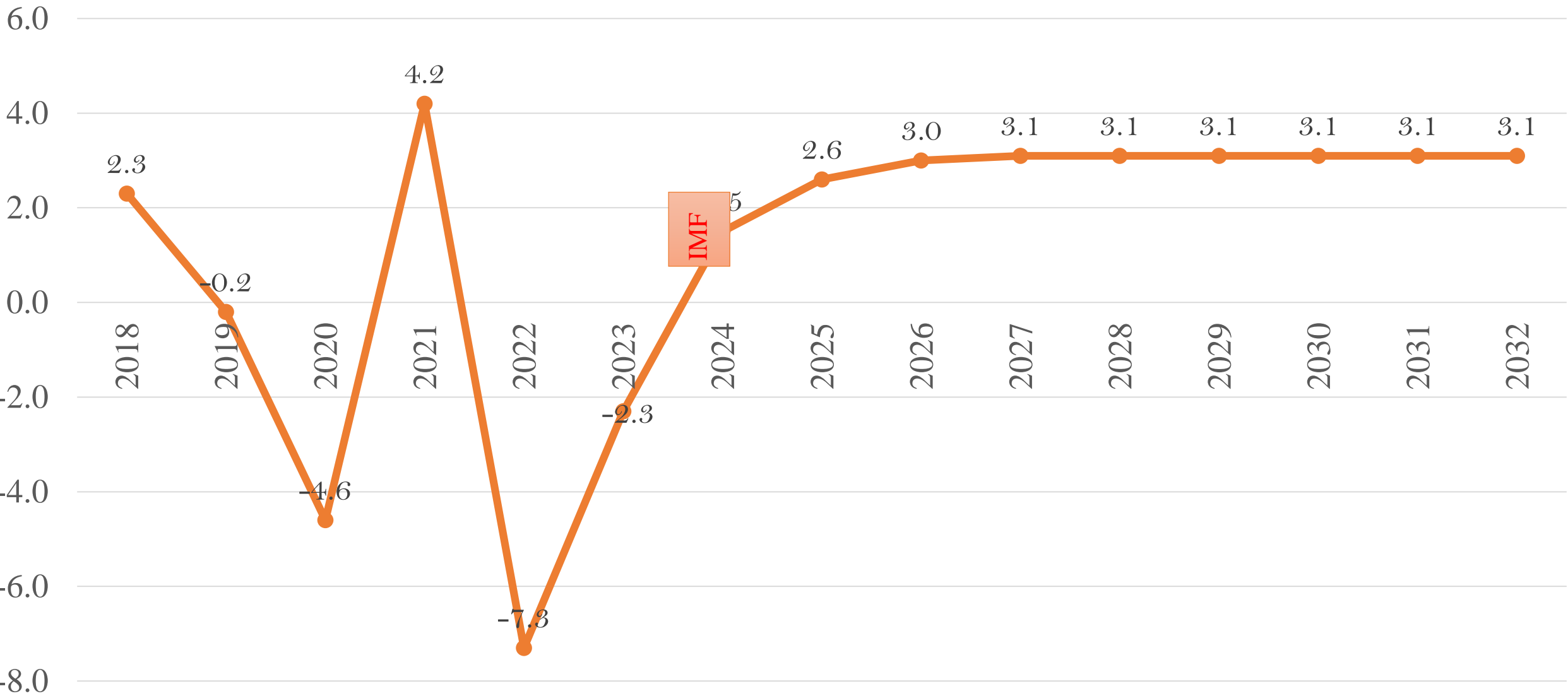
Year	Balance_4	CB Reserve	Default Relief	Balance 5	India+ China + IMF+WB	Recovered
2019		7.64				
2020		5.66				
2021	(6.08)	3.14				
2022	(4.74)	1.89	2.50	(2.24)	3.00	0.76
2023	(1.11)	4.40	2.50	1.39	2.00	3.39
2024_June	(2.25)	5.65	1.50	(0.75)	2.00	1.24



Cost of the Crisis Management (again policy failure)

- Depreciated exchange rate (cost) + Expectation [USD 1 = 202....363..... 300]
- Increase interest rate (cost) [**2022 = Rs 1,565 bn, 2023 = Rs 2,193bn, 2024 = Rs. 2,651bn**]
- Increase inflation (cost) - NCPI 106 %
- Increase gov. debt (cost) - Domestic Debt 2021 = Rs. 11,097 bn , 2022 = Rs. 15,034 bn, 2023 = Rs. 17,052bn
- Domestic debt (no sensitive to exchange rate) 2024 June = Rs.17, 349 bn (growth 56 %)

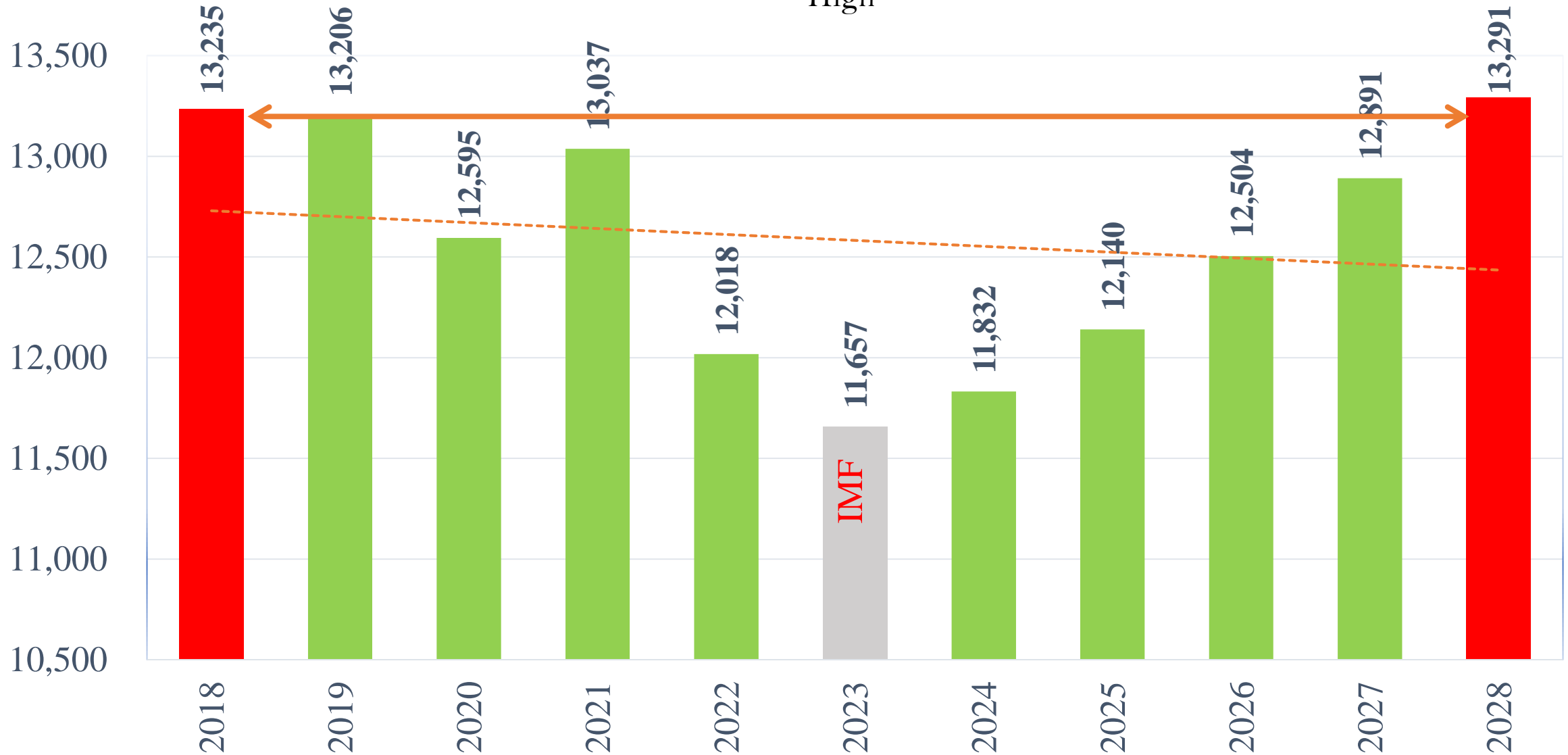
IMF and Future: Real GDP Growth Rate



■ Meeting IMF targets is insufficient to bring the economy back to a satisfactory level.....

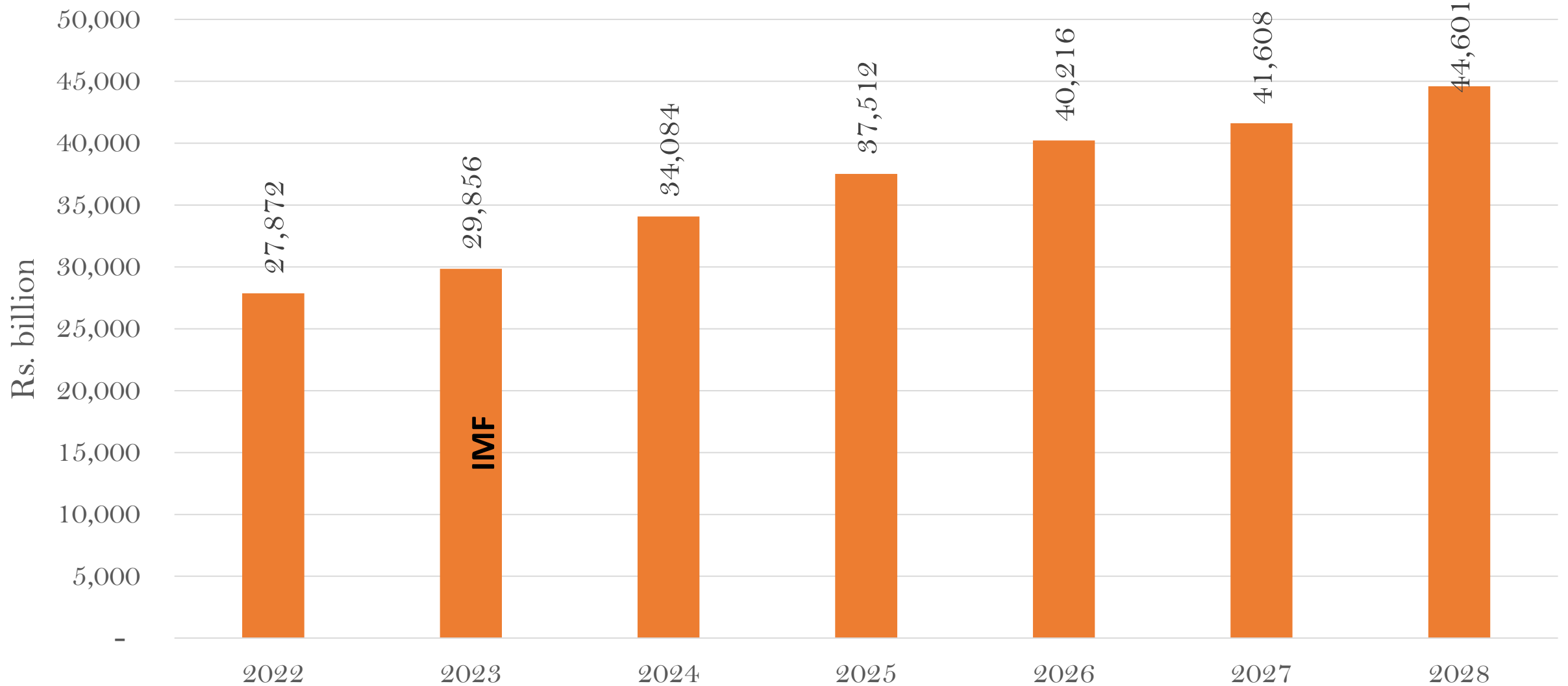
IMF: Real GDP (Rs. billion)

Living condition is completely different
High



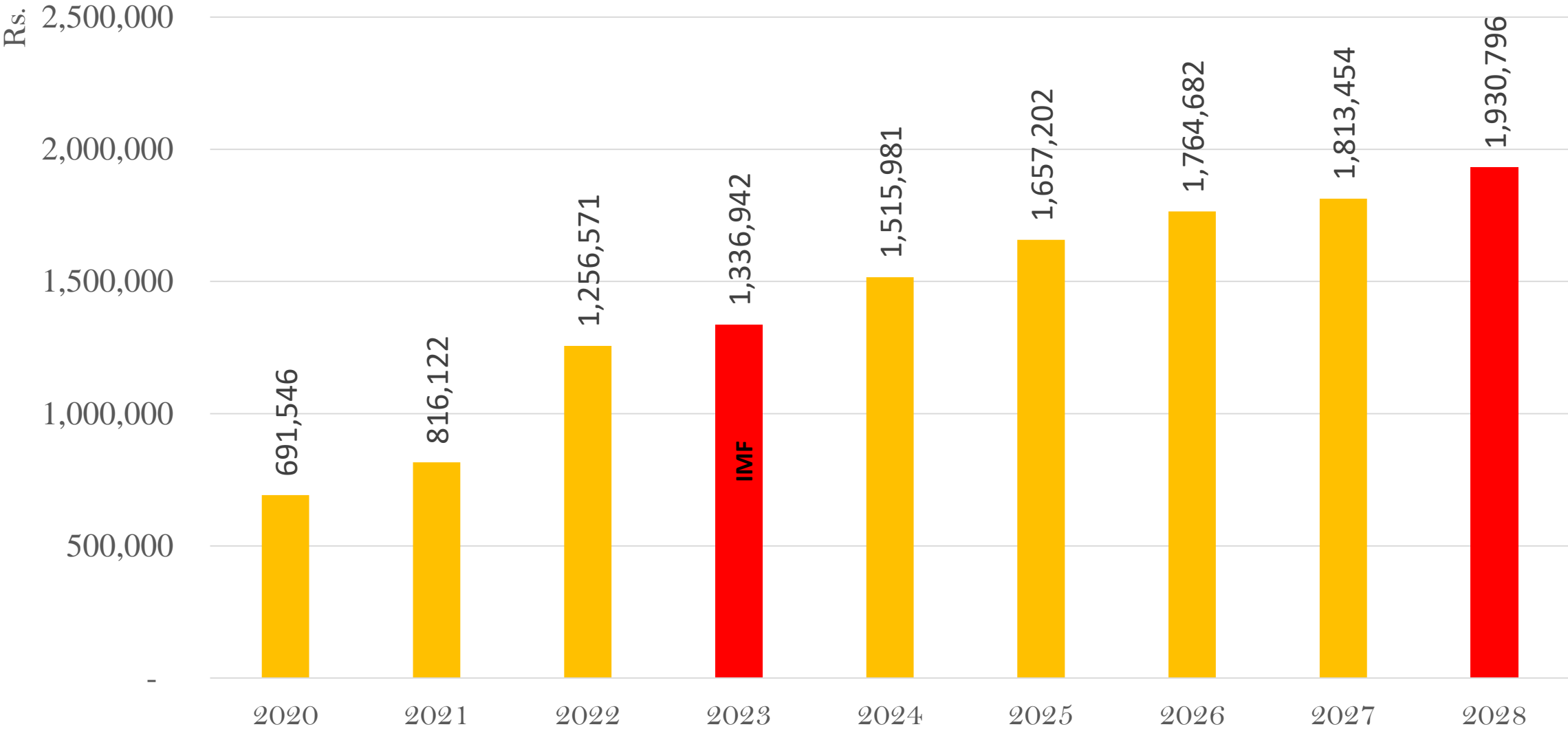
- By 2028, real GDP will have reached the level seen in 2018
- The country's economy will regress by ten years and **Risks are exceptionally high**

IMF: Central Government Debt (Rs. billion)



- Central government debt will increase by 60 % between 2022 and 2028
- Nominal GDP growth (15.1%) vs debt stock (14.8%)

IMF: Per Capita Central Gov. Debt (Rs.)



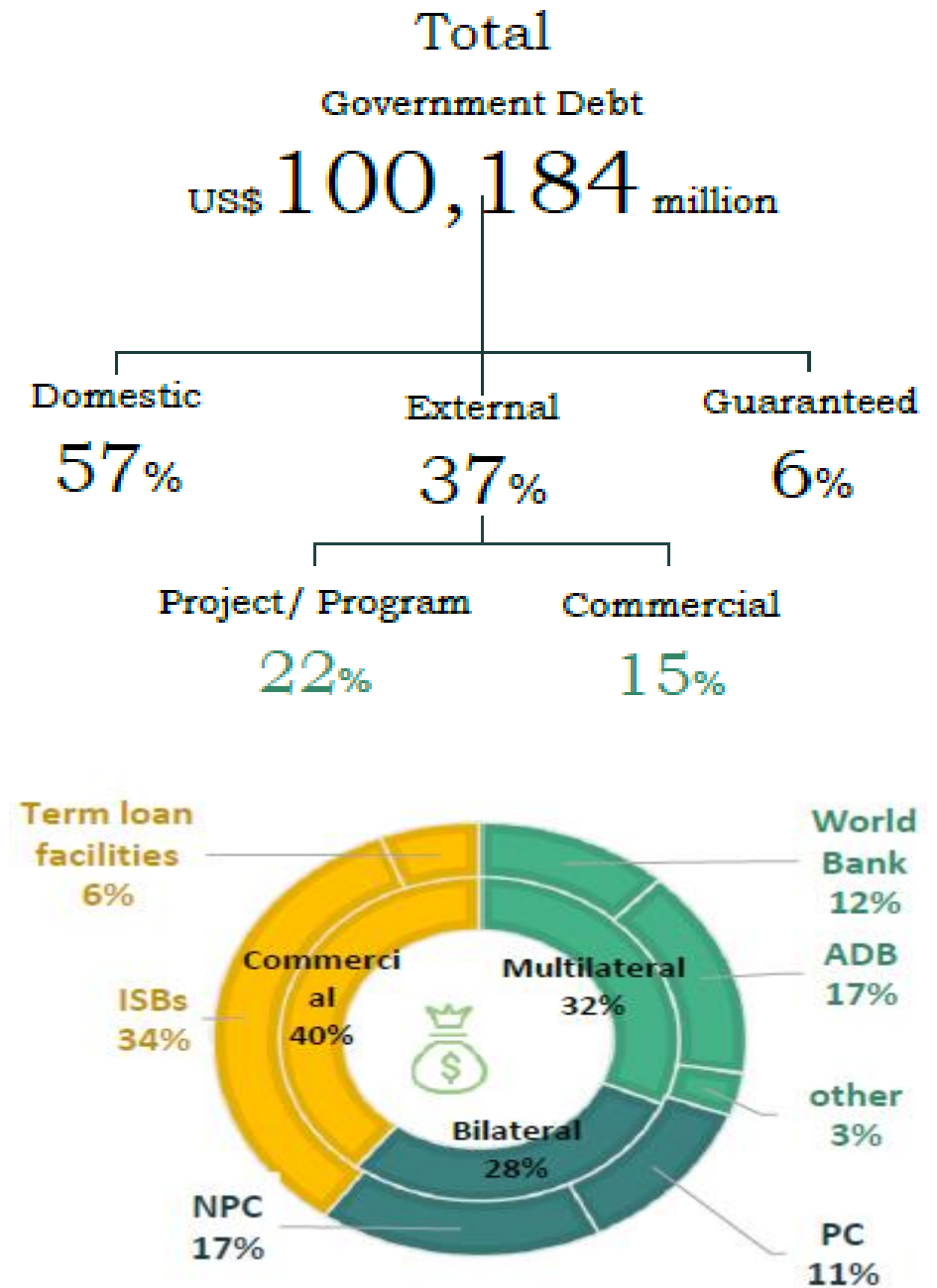
- Per Capita Central government debt will increase by 179 % between 2020 and 2028
- Per Capita Central government debt will increase by 44 % between 2023 and 2028

Public Debt

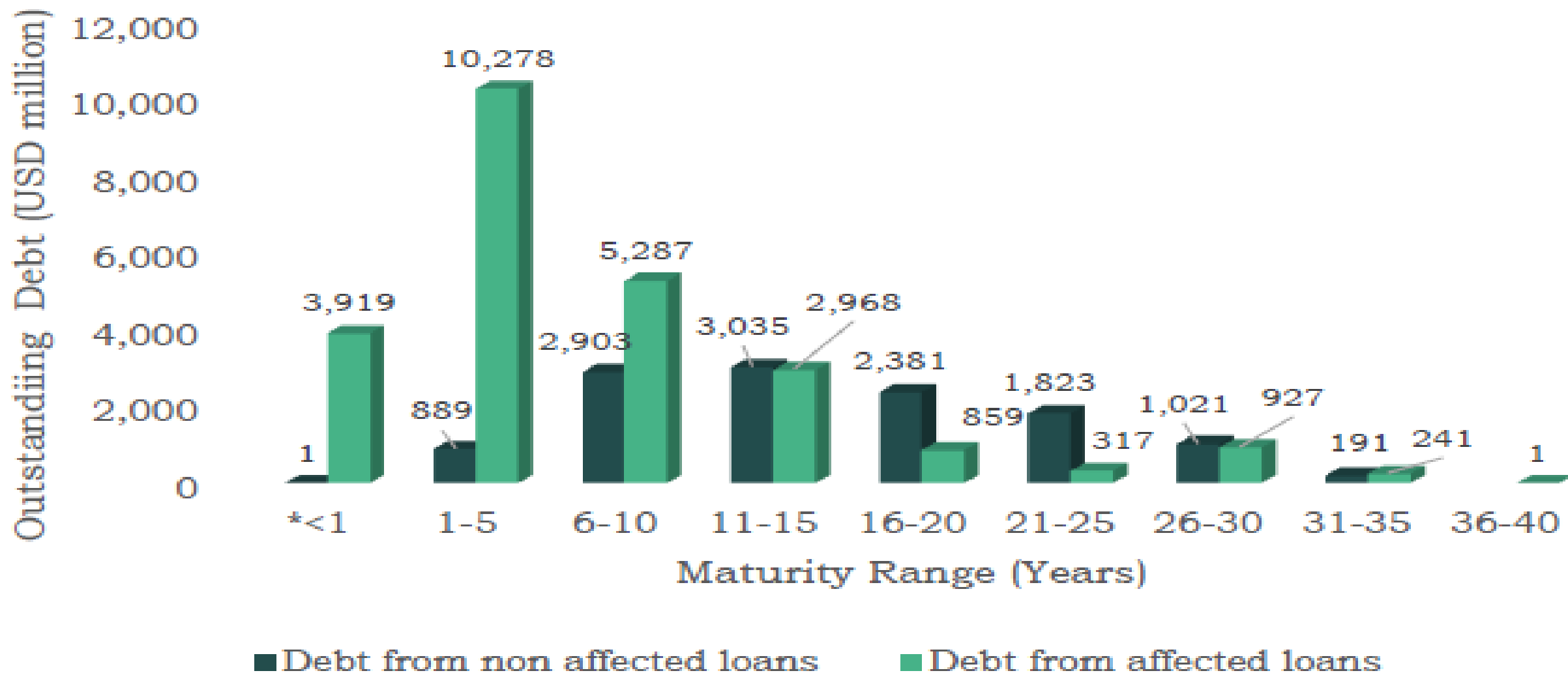
Table 1:

Summary of Public Debt as at end March 2024

Instrument Category	US\$ million	
	End December 2023*	End March 2024**
Domestic Debt	52,642	57,283
LKR Denominated ¹	52,402	57,043
FX Denominated ²	240	240
External Debt	37,342	37,041
Project/Program Loan	22,601	22,305
Bilateral	10,814	10,589
Multilateral	11,787	11,716
Commercial	14,741	14,736
ISBs***	12,550	12,550
Term Financing Facilities	2,191	2,186
Guaranteed Debt	6,185	5,860
LKR Denominated	2,009	1,924
FX Denominated	4,176	3,936
Total Debt	96,170	100,184



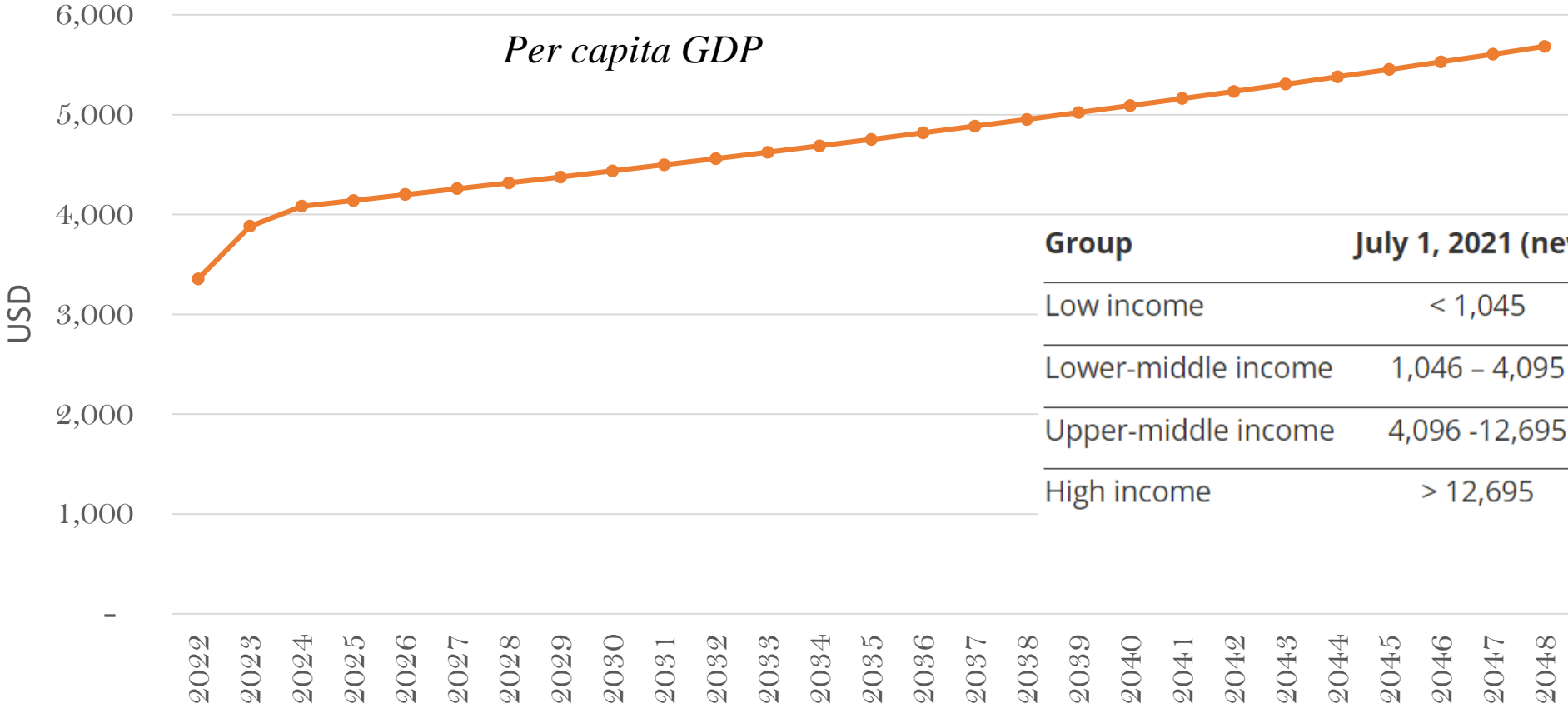
Remaining Maturity of Foreign Debt as at the end of March, 2024



2048: A year of development for Sri Lanka, says President....?

Is this claim true...? NO

Year	Per Capita Income (USD)
2022	3,354
2023	3,882
2024	4,082
2025	4,140
2026	4,200
2027	4,258
2028	4,315
2029	4,375
2030	4,436
2031	4,497
2032	4,560
2033	4,623
2034	4,687
2035	4,752
2036	4,818
2037	4,884
2038	4,952
2039	5,021
2040	5,090
2041	5,161
2042	5,232
2043	5,305
2044	5,378
2045	5,453
2046	5,528
2047	5,605
2048	5,682



Group	July 1, 2021 (new)
Low income	< 1,045
Lower-middle income	1,046 – 4,095
Upper-middle income	4,096 -12,695
High income	> 12,695

Subject to the optimistic assumptions: Nominal GDP growth is 8.3 %
FE depreciation: Last 10 year average (except 2022)
Population growth –last 10 year average

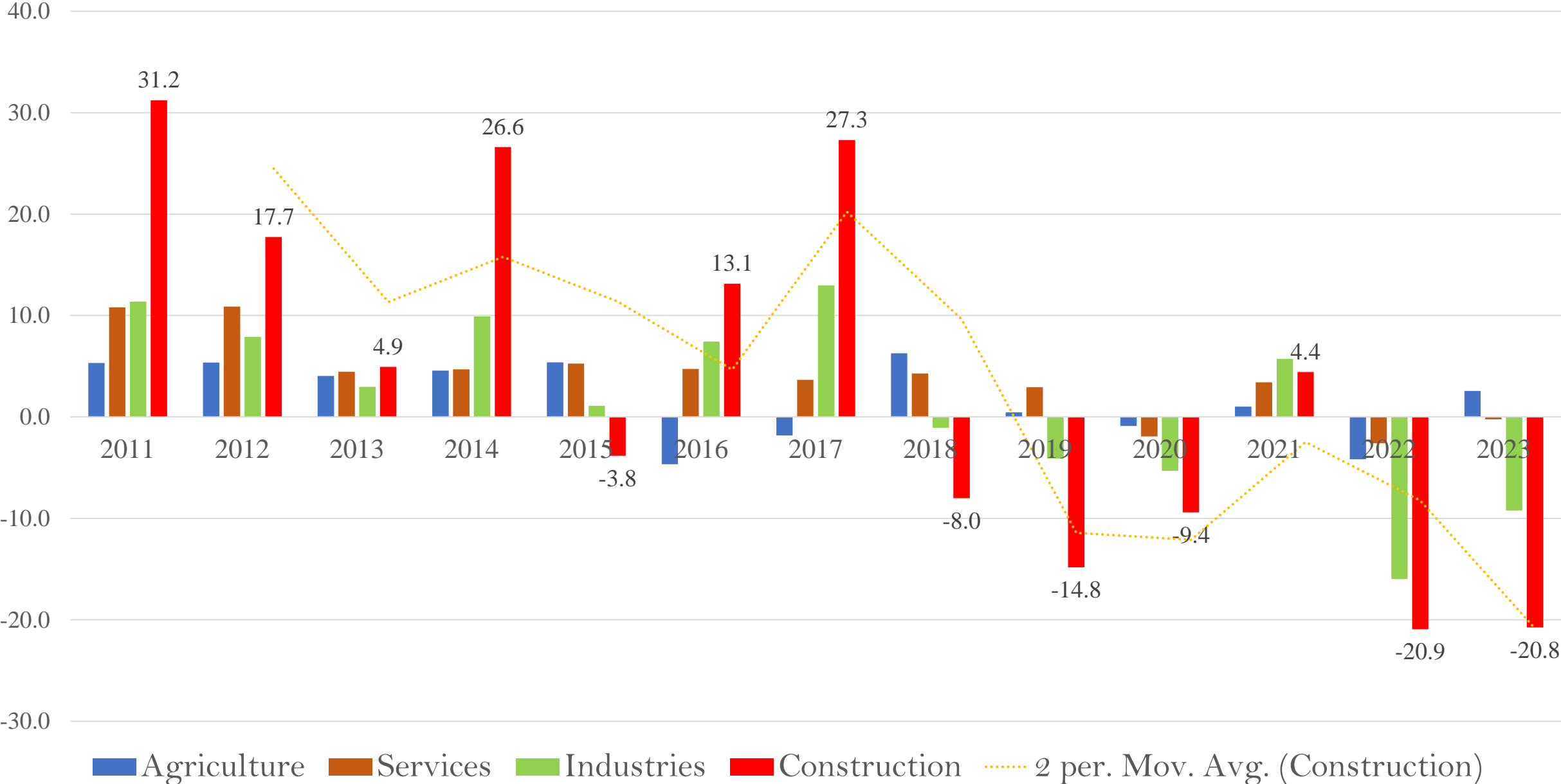
Growth of Each Economic Activities (2021-2023): **Construction Industry**

Economic activity (SLSIC) (out of 17 - 10)	Growth
Agriculture, Forestry and Fishing	-1.71
Cereals (except rice)	-22.60
Vegetables	-2.43
Suger cane, tobacco and other non-per crops	-5.95
Tea (Green leaves)	-17.01
Coffee, cocoa & Other beverage crops	-16.05
Rubber	-16.77
Animal Production	-9.81
Plant propagation	-10.58
Marine fishing and Marine Aquaculture	-11.27

Economic activity (SLSIC) (out of 15-8)	Growth
Services	-2.84
Programming and broadcasting activities	-13.31
Computer programming consultancy	-23.21
Financial Service activities	-19.97
Insurance, reinsurance and pension funding	-33.28
Real estate activities	-17.30
Professional services	-15.74
Public administration and defense	-0.53
Human health activities and Residential care	-9.36

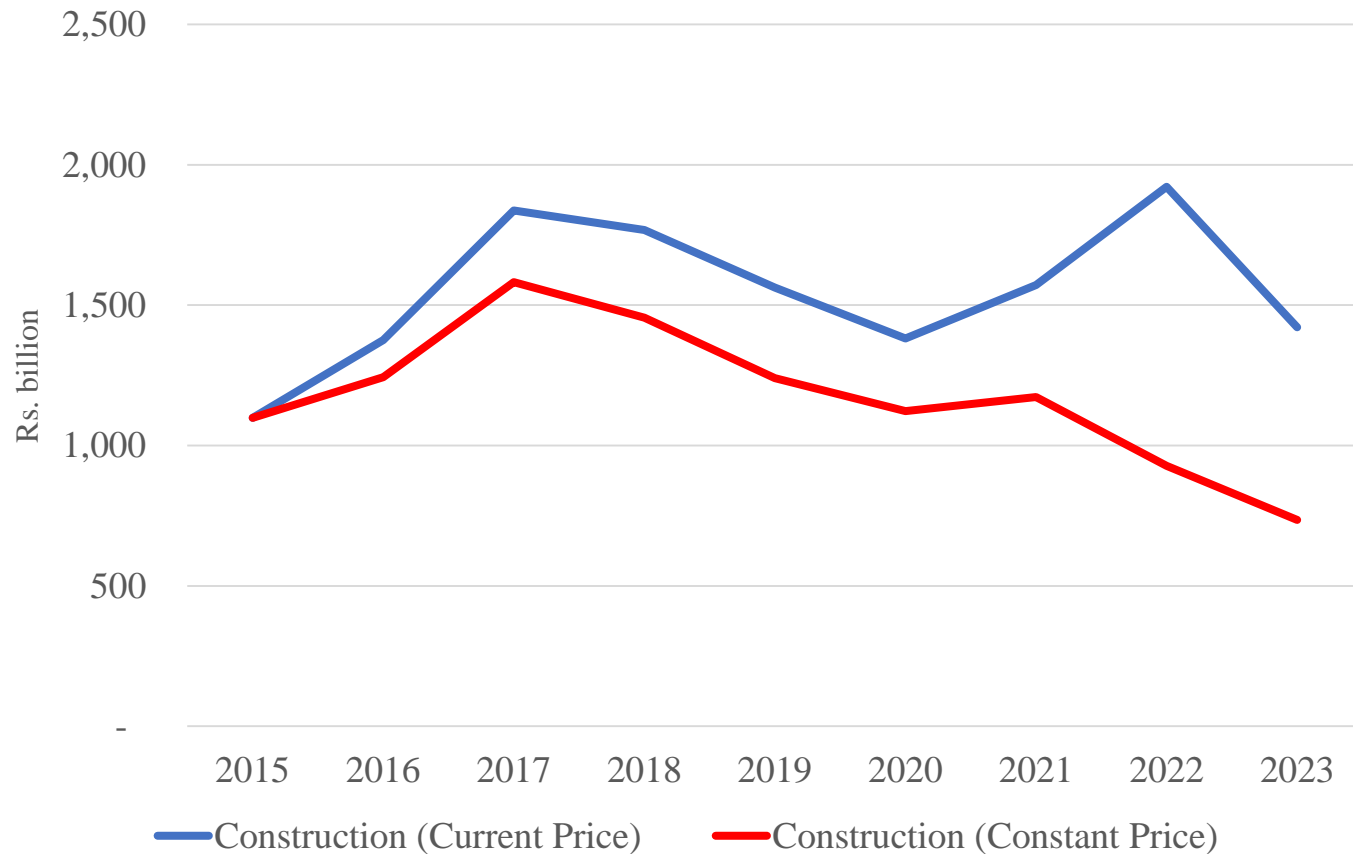
Economic activity (SLSIC) (out of 17 -16)	Growth
Industries	-23.74
Mining and quarrying	-46.42
Food, beverages & Tobacco products	-11.28
Textiles, wearing apparel, leather	-4.94
Wood and of products of wood	-33.09
Paper & paper products, printing	-16.81
Chemicals and chemical products	-13.41
Rubber and plastic products	-42.37
Other non- metallic mineral products	-29.42
Basic metals and fabricated metal products	-25.71
Machinery and equipment i.e..	-31.28
Manufacture of furniture	-32.17
Other manufacturing and Repair and installation	-33.95
Electricity, gas, steam and air conditioning supply	-7.89
Water collection, treatment and supply	-11.52
Sewerage, Waste collection, treatment and disposal	-0.13
Construction	-37.34

Comparison of the Growth with Construction Industry



Value Addition of Construction Industry (Rs. billion)

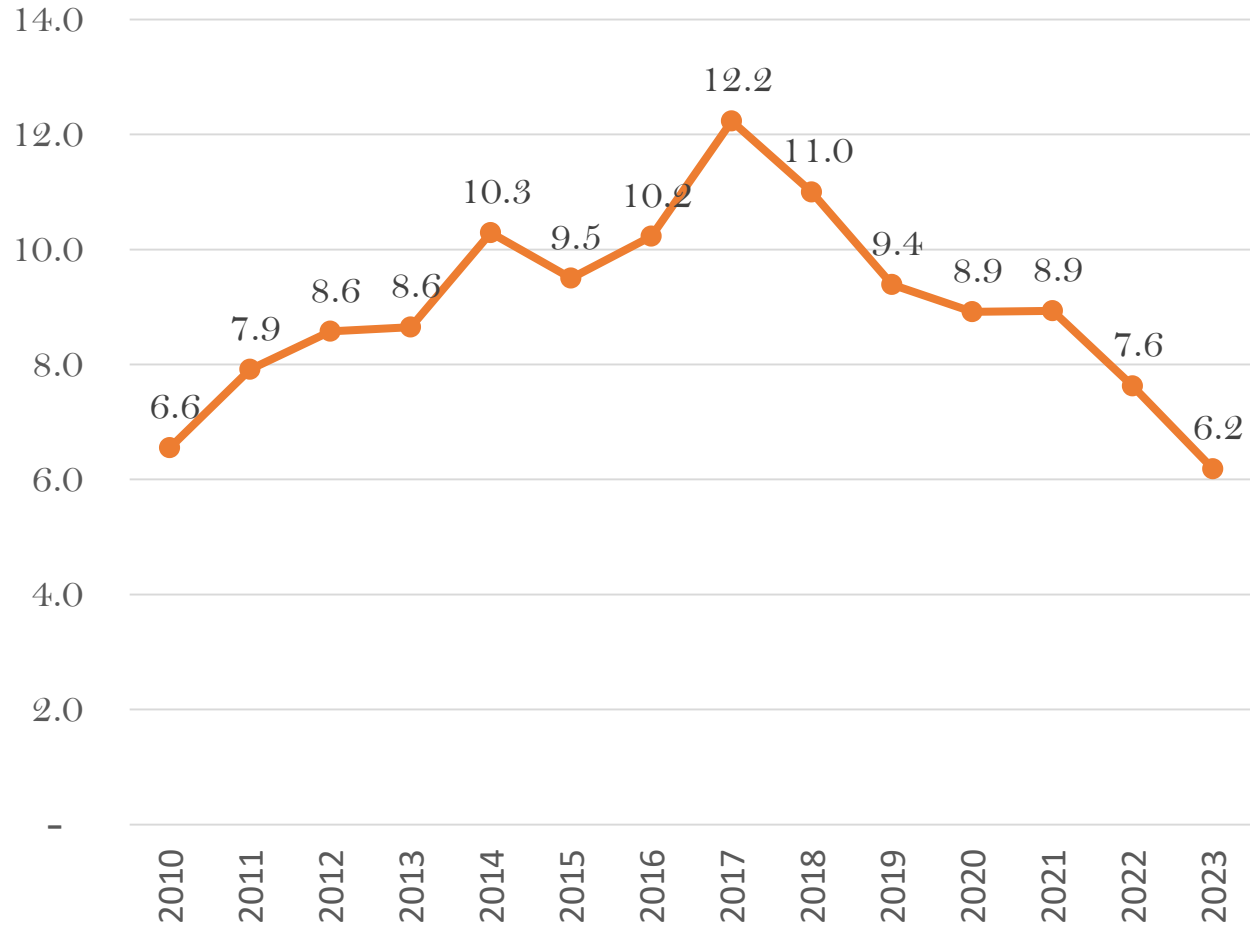
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Construction (Current Price)	1,099	1,376	1,838	1,768	1,562	1,381	1,572	1,922	1,421
Construction (Constant Price)	1,099	1,243	1,582	1,456	1,240	1,123	1,173	927	735
Base Estimates	1.00	0.90	0.86	0.82	0.79	0.81	0.75	0.48	0.52



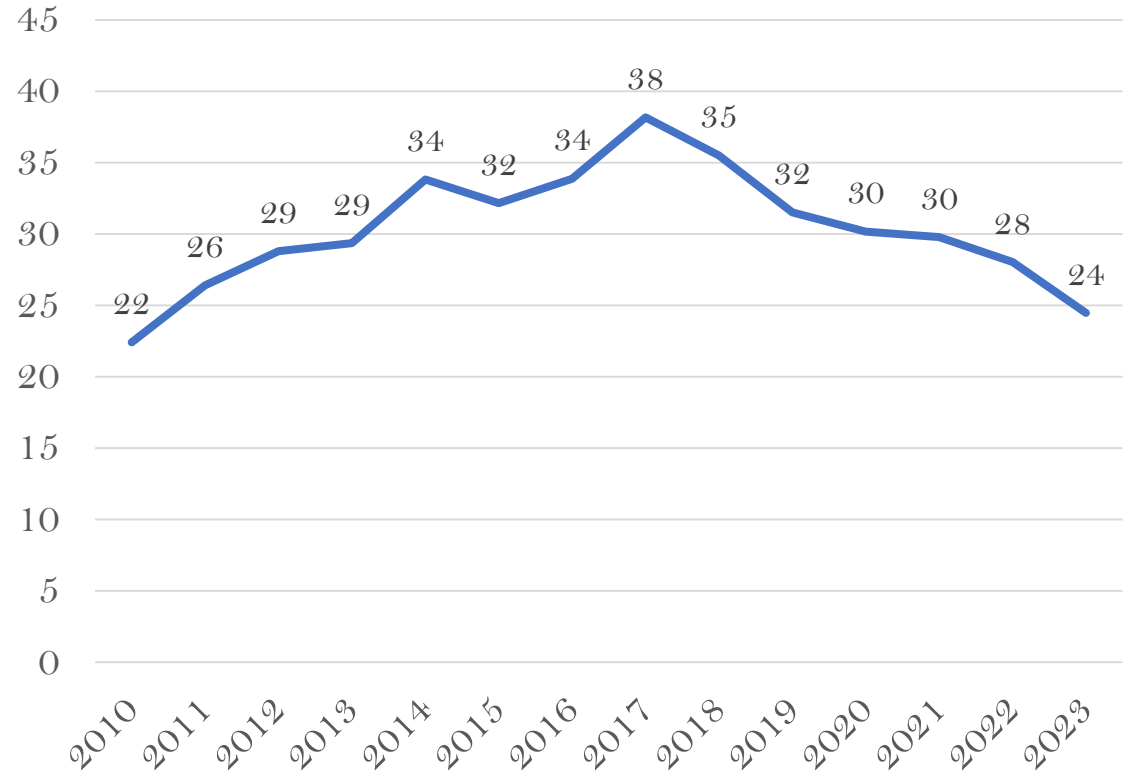
Mining and quarrying	5.14
Manufacture of food, beverages & Tobacco products	29.96
Manufacture of textiles, wearing apparel, leather	15.00
Manufacture of wood and of products of wood and cork	0.79
Manufacture of paper & paper products, printing	1.57
Manufacture of coke and refined petroleum products	0.73
Manufacture of chemicals and chemical products	2.76
Manufacture of rubber and plastic products	1.87
Manufacture of other non- metallic mineral products	2.82
Manufacture of basic metals and fabricated metal products	2.01
Manufacture of machinery and equipment i.e..	1.67
Manufacture of furniture	1.87
Other manufacturing and Repair and installation of mach.	2.22
Electricity, gas, steam and air conditioning supply	5.79
Water collection, treatment and supply	0.39
Sewerage, Waste collection, treatment and disposal activities	0.93
Construction	24.47

Construction Industry

Construction Industry (As a % of GDP)

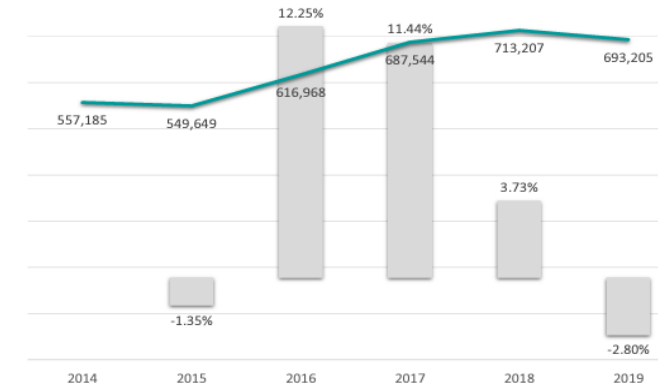


Construction Industry as a % of Industrial GDP



Construction % of GDP

- India 11 %
- Pakistan 2.5 %
- Malaysia 3.6 %
- China 6.8 %



Construction Industry in Sri Lanka: Future

- Economic crisis led to a severe setback in construction activities due to supply and demand contraction.
- Growth in the sector was subdued by shortages of raw materials and fuel, soaring input costs, lack of supplier credit, and overdue payments on government projects (85-90% of outstanding payments now settled).
- Sri Lanka's construction market was valued at \$10 billion in 2023, with expected growth over 5% annually from 2025-2028.
- Growth will be driven by public and private investment in energy, specially renewable projects from 2025 to 2028.
- The construction industry is vital for economic growth, employment, and infrastructure development.

IMF and Construction Industry

- With debt restructuring, foreign-funded projects will start again
- Government investment will remain without any progress
- Private sector investment will increase gradually
- Renewable energy, railway and hotel sector (more investment)
- The skilled and proficient individuals in the workforce (migration)
- Labour shortage and exchange rate fluctuation (risk factor)
- Prices of raw materials (risk factor)
- Political stability will be the key to show the progress

Thank You !!!