

Summary of the Keynote Speech

The Economic Crisis in SL – Challenges to the Business World and its Strategic Response

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An economy struck down by one of its worst crises since independence presents a unique opportunity for the country to deliver on much needed reforms. Sri Lanka should take advantage of the prevailing economic crisis to do fundamental corrections that it could never attempt before such as; dependence on imports for basic needs, regressive subsidies that are grossly misused by the politicians, restructuring loss making state-owned enterprises and tax reforms etc. As the economy teeters on the brink, navigating the crisis will require long overdue extensive tough economic reforms, which could very well be the silver lining to Sri Lanka's economic recession. Not long ago; past several months have seen extreme fuel and gas shortages, currency depreciation leading to near hyperinflation, shortage of medicines, and long power cuts largely due to a shortage of foreign exchange. While things are a bit stable now as compared to the beginning of 2022, Sri Lanka still has a long way to go to come out of this crisis, which has been a long time in the making. Decades of fiscal deficits, current account deficits, a bloated public sector, diminishing tax revenue, and subsidized prices have led to this pathetic state. One of the international sovereign bond holders taking the Sri Lankan government to courts sets a dangerous precedent for the country. Restructuring of loans has hit loggerhead contrary to the initial expectations delaying the IMF bailout package.

The tax cuts given in 2019, when Sri Lanka was already seeing low tax revenues, led to larger fiscal deficits, resulting in international ratings agencies downgrading Sri Lanka, effectively shutting the country out of international capital markets. The COVID-19 pandemic, which led to a fall in tourists and in remittance sent home by Sri Lankans working abroad, further exacerbated the situation. The chemical fertilizer ban was another mistake, which led to agricultural output decreasing significantly. Fixing the currency exchange rate at 203 Sri Lankan rupees to the U.S. dollar by using up foreign reserves and deferring engagement with the IMF led the economic crisis to spiral out of control.

Faculty of Social Sciences and Languages

Strategic options to revive the local economy

The solution is fairly clear in terms of strategic direction to revive the economy.

Strong political leadership and attitude of people towards politics to stabilize the political scenario for hard but forward-looking decision making in the parliament.

Support the growth of agro-industry to be self-sufficient on basic food and expand the export income of export of crops. While promoting organic farming, continue to use chemical fertilizer to increase crop

Tourism industry friendly eco-system to raise foreign revenue up to USD 10 billion in 4 years

Promote the exportation of intellectuals vs unskilled labor to double the expatriate remittances over the next 3 years (from USD 7 billion to 14 billion)

Bring about reforms in the energy sector to make investors inspired to invest in green energy and thereby reduce import bill of fuel by 50%.

Encourage FDI's with investor friendly efficient facilitation process and consistent regulatory and policy environment.

Restructure the SOEs to minimize the burden on public funds generated thru taxes and duties. Government to move away from managing commercial entities.

Minimize the expenditure on public sector employees (1.4 million) thru productivity enhancement

Educate the public on the importance of buying Sri-Lankan products & services to substitute the usage of imported alternatives. The environment created by default is the best platform for people to understand the fundamental importance of maintaining a stable local currency vs USD.

Use the country's human capital strategically and within that the total workforce of 8+ million with more aligned demanded knowledge with high commercial value to generate real income.

Build brands as opposed to selling generic products and services to fetch the right margins given that Sri-Lanka has no economies of scale to have an edge over larger geographies that are competing against SL.

The success of business will solely depend on the success of the above. We will discuss these strategic options when we meet up on the 11th of Jan 2023.

Looking forward to a meaningful discussion.

Dr. Kishu Gomes