

Covid-19 Policy Responses

A note to policy makers

At the time of writing there are more than 1,100,000 cases worldwide and more than 64,000 deaths.¹ Humanity faces a global crisis on a scale never seen before. Health sector, security and emergency services personnel deserve praise and gratitude for their dedication.

In a crisis situation like this, safeguarding human lives is of the first priority. This is reflected in the actions that have been taken in the country. Schools and workplaces are closed, and with a lock down in force in the form of a curfew across the island, economic activity has come to a near standstill. The Western Province in particular, which accounts for nearly [30% of our population](#)² and [38% of GDP](#) has been identified as high risk, and is under an indefinite curfew.³ The economic strain and the human toll caused by the pandemic and the response will reverberate across the island. Whilst public health should be of primary concern, economic pressure will cause an almost equally desperate situation.

We understand that those at the forefront of the battle will have the clearest understanding of the actions to be taken, yet history shows that policy decisions in an emergency situations such as these will have lasting consequences.

We offer the following for policymakers as input to make the difficult decisions in front of us as Sri Lanka deals with the COVID-19 pandemic.

An overview of Sri Lanka's economic position

Sri Lanka came into the crisis with weak economic conditions. In 2019 our GDP growth was 2.6%,⁴ with important sectors like tourism still recovering from the Easter Attacks. The short run expenditure hike will result in large scale imbalances in the medium to long term. Earnings from tourism are substantially low after the 2018 Easter Sunday bombings. The immediate future for tourism does not look good, with revenue in 2019 dropping by 10%.⁵

Overall our exports have not risen enough to help with the Current Account in the Balance of Payments. Meanwhile our foreign exchange reserves have remained low at around \$ 7.0 billion including a part of borrowed funds.⁶ Finally, we have to meet large debt repayments around US \$ 16 .0 billion in the coming four years 2020-2023.⁷

There is little doubt that COVID 19 will have a substantial economic impact on the Sri Lankan economy. This impact will include direct reduction in output due to the loss of working days and

the necessary physical distancing to prevent the spread of the virus, medical and other expenses to deal with the immediate emergency. While there will be an immediate effect on incomes, there will be medium and long term effects following from policies used to prevent the spread of the virus. We have begun to see the economic costs created by Covid-19 when looking at the apparel sector. Accounting for 42% of total exports⁸ from Sri Lanka, this sector is expected to face revenue losses amounting to USD 1.5 bn⁹. Inward remittances, which amount to roughly 8% of GDP, are also expected to fall¹⁰, increasing pressure on the government. Commodity prices are also expected to take a hit.

The impact this will have on livelihoods is difficult to estimate, but it is clear that those in the informal sector, which accounts for 66% of our working population¹¹ will be among the worst hit. According to the Department of Census and Statistics Sri Lanka's working population of 8 million, 2.6 million¹² are own-account workers in the agricultural and non-agricultural sectors. As agricultural activity is currently allowed to continue in the country, the 1.5 million¹³ non-agricultural own-account workers are likely to be hardest hit by this lockdown. The 3.5 million¹⁴ private sector wage earners will also have to face an economic shock as companies look to restructure and down-size in the face of limited cash-flow.

This shock to the economy is larger and perhaps deeper than that we encountered with the Global Financial Crisis (2008-2012). In the case of the financial crisis, countries that were directly impacted were far fewer than in the case of Covid-19, and this pandemic comes on the back of the Easter Sunday bombings from which the Sri Lankan economy had not fully recovered.

To deal with the short-term problems, use existing mechanisms

A recent survey by *Vanguard Survey*, a local polling company has indicated that at least quarter of the population was finding it difficult to access needed food or medicine.¹⁵ With a large elderly population, Sri Lankans suffer from ailments that require regular medical attention.

The government's centralized and controlled approach to the delivery and distribution of goods has meant consumers, traders and producers have been squeezed at every node of the supply chain.

Given the current crisis, immediate safety of society takes priority. Yet the economy works when people are free to exchange. As days turn into weeks of the lockdown, citizens will have more complex needs than essential items.

In order to allow some parts of the economy to run at minimal risk, and reduce incentives for people to break curfew, the government should consider expanding the definition of essential services.

This would allow those able to work from home do so with greater productivity, while also creating some space for the economy to run. Developing a non-reversible and consistent policy on curfews for supply chain actors, including delivery personnel, will ease pressure on consumers and producers who at the moment can't get their produce into the hands of consumers.

Existing mechanisms and markets have been able to serve consumer needs prior to the crisis, the government should aim to facilitate the process under current conditions rather than try to replace them with state-centric solutions.

A roadmap for reopening the economy

It is useful to think of the policy responses for the pandemic in phases. In the first phase the objective is to slow the spread of the virus by using a strategy of self-quarantine for much of the population by the way of curfew. Yet the curfews cannot last forever, it comes at a significant human and economic cost. It is essential therefore the government works on an exit strategy that allows for a phase 2 of gradual opening up of the economy. This second phase will still require strict physical distancing and other safeguard until safe and effective tools for mitigating COVID-19 becomes available.

Understandably, the emergency situation has lent itself to inconsistent policy. Curfew implementation across the country has been inconsistent. Ad-hoc policy has meant that planning has become difficult, which will have ripple effects on all Sri Lankans and the country's economy.

As the short term emergency situation begins to settle, policymakers should work with epidemiologists, security personnel, private sector and other stakeholders to develop a roadmap for re-opening. This will enable people and businesses to plan their activities effectively so as to mitigate the cost to their daily lives and business operations.

An action plan for expanding testing

The "trace - test - treat" method has shown to be effective in countries such as South Korea and others which have faced up relatively well to this public health crisis. The government's

decision on 31st March¹⁶ to expand testing to check for community transmission is a step in the right direction.

Independent medical practitioners have questioned whether the government is doing enough to use its existing testing capacity, other groups such as the GMOA, as well as Sri Lanka Medical association have emphasized the need for expanded testing. Currently, guidelines for testing¹⁷ (interim case definitions) as directed by the Epidemiology Unit limit testing to individuals with acute respiratory illness who have either had contact with a confirmed Covid-19 patient, or have travelled abroad in the last 14 days. Patients with acute pneumonia (not explainable by any other aetiology) and are presenting symptoms, can also get tested, if a doctor sees fit. The definition was expanded to include individuals experiencing fever and respiratory distress, but this definition will need to be broadened, to ensure that individuals with milder symptoms also have access to testing.

It is vital policy makers develop a clear and focused action plan to utilize the country's existing testing capacity in government, universities, research institutes as well as the private sector. The government can tap into private sector access to international supply chains and engage with potential donors to acquire and expand the testing capacity in the country.

Re-examine the policy on wearing masks

Preventing a rise in cases in this scenario will depend on individuals limited outings only to the essentials, practicing strict physical distancing and wearing masks. While the official stance of the WHO is that if you are not a medical worker and you are not ill, you do not need to wear a mask, it is also clear that this recommendation is driven by a global shortage of masks.¹⁸

Most recently, the United States of America shifted their stance, with their Center for Disease Control recommending mask usage, stating

*"We now know from recent studies that a significant portion of individuals with coronavirus lack symptoms ("asymptomatic") and that even those who eventually develop symptoms ("pre-symptomatic") can transmit the virus to others before showing symptoms. This means that the virus can spread between people interacting in close proximity—for example, speaking, coughing, or sneezing—even if those people are not exhibiting symptoms. In light of this new evidence, CDC recommends wearing cloth face coverings in public settings where other social distancing measures are difficult to maintain (e.g., grocery stores and pharmacies) **especially** in areas of significant community-based transmission."*¹⁹

While it is essential that those on the frontlines are protected, we should also consider that general medical opinion is that widespread mask usage will reduce the spread of the disease. As such, while Sri Lanka should also prioritise mask supply for health care workers and others on the frontline on this crisis, the recommendation for the general public be for mask usage in

public, regardless of one's health. Revisiting the government's official position on mask wearing, and actively engaging with the private sector in rapidly increasing mask production is vital.

Letting the markets work

Managing the economic consequences of this crisis should be an important point of focus for the government. Steps have to be taken to ensure that the economic blow to the vulnerable is softened, and that Sri Lanka will be able to restart the economy over the coming months.

While immediate measures are necessary to address the short term economic impact, it is vital that the measures taken today do not exacerbate the problem in the medium to long term.

Re-visiting price controls and understanding their medium to long term impact

The government has already imposed price controls on a variety of items. As research by Advocata Institute shows, even in normal times these controls mostly serve as political theatre, with the government's own data showing many consumer items being sold at above the controlled rate. In a lockdown, price controls will only exacerbate the supply constraints. As economists point out, price is a signal wrapped in an incentive. It signals shortages and surpluses, if a producer can't make a profit they would not go through the trouble and risk of acquiring the item. Certainly in an emergency situation. This will only result in shortages.

In the coming months, we are likely to see a significant economic downturn, during which the government may be tempted to introduce further price controls. The fastest path to economic recovery is one where markets are allowed to operate - given that vulnerable populations will be disproportionately affected, the government could instead focus on strengthening safety nets in the short term.

Moving away from planned import restrictions

In an attempt to ease pressure on the exchange rate and protect the local agricultural industry, the government has announced the halting of all non-essential imports.²⁰ As of the point of writing, this statement has not been substantiated by either the Central Bank or the Ministry of Finance, creating policy uncertainty. As a short term measure, the introduction of a negative list of those items that will not be imported into the country, in order to protect the rupee could be considered, yet this should be a short-term time-bound measure.

Prolonged import restrictions and the government imposed 'essential lists' will create ripple effects that will harm the welfare of consumers, producers and vital supply chains. The revitalization of our export industries and manufacturing sector will be key to economic recovery in Sri Lanka. Intermediate goods and raw materials amounted to 46% of Sri Lanka's

imports in 2017²¹, and long term import restrictions will hamper the ability of local businesses to recover and recoup losses after this crisis passes. This will also make domestic incentives favourable to non-competitive import subsidies and thereby not encouraging competitive import substitutes.

Moving towards a recovery

Going forward, monetary policy and fiscal policy must work together well based on a credible macroeconomic program. While its effectiveness will be low in the short run due to COVID-19, it will signal a committed Government to surmount the present difficulties.

The state of Sri Lanka's public finances is not promising. We will see a steep rise in government expenditure in response to the Covid-19 crisis, and government revenue, which does not keep pace with expenditure on a normal year, will be woefully inadequate in this case. Public finances have taken a hit, as the government introduced a slew of new tax cuts, with an aim to kickstart a flagging economy. In the current context, this means we have a low tax base to draw from. A fact that will be exacerbated by poor business performance that can be expected over the next few months.

Leaving immediate expenditure aside, the government has to factor in debt repayments, which amount to over USD 4 billion for 2020. Our ability to make these repayments is questionable, and the President has reached out to the international donor agencies requesting for debt relief in the light of Covid-19.²²

Our economic reality is such that we need to have external funding from International Financial Institutions such as the IMF as a part of a good reform package. We should actively explore engagements with the Asian Development Bank, with an aim to speed up the disbursement of loans. The fast track World Bank project of USD 128.6 million²³ is much needed, and now having secured this, Sri Lanka should work towards a concrete engagement with the IMF. Apart from being a source of funding at a time when the treasury is under immense strain, an IMF programme will also bring much needed fiscal discipline to the country. Overall macroeconomic policy should aim to keep inflation and current account deficit in the BOP sustainable, as this would create the necessary environment to undertake real sector reforms. Trade reform to ensure free exchange of goods and services, and domestic regulatory reform to help businesses recover and restart should be priority areas of focus.

Private sector participation in the path to recovery is crucial. Clear, consistent engagement with independent minded experts, and including these individuals in an advisory capacity to the Central Bank and Ministry of Finance would lend credibility to the government, and signal that Sri Lanka is serious about laying a strong foundation for a healthy economy.

Country Comparison (as at 07.04.2020)

	Schools Closed	Workplaces closed	Public events cancelled	Public transport closed	Restrictions on internal movement	International travel controls
Sri Lanka	Require Closing	Require Closing	Require Cancelling	Require Closing	Restrict movement	Ban on high-risk regions
South Korea	Require Closing	Require Closing	Require Cancelling	No measures	Restrict movement	Ban on high-risk regions
Italy as at 19/03/2020	Require Closing	Require Closing	Require Cancelling	Recommended Closing	Restrict movement	Ban on high-risk regions
UK	Require Closing	Require Closing	Require Cancelling	No measures	Restrict movement	No measures
US	Require Closing	Require Closing	Require Cancelling	No measures	Restrict movement	Ban on high-risk regions

Notes

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