Outlook

Global economy

Global growth is projected to rise to 3.3% in 2020 and 3.4% in 2021, and there are positive – though tentative – signs that manufacturing and global trade are bottoming out amidst encouraging news on US-China trade negotiations and a decisive Conservative Party victory in the UK general elections, diminishing anxiety over a 'no-deal' Brexit.

Nevertheless, the situation remains volatile, and elevated downside risks taint the outlook. The coronavirus outbreak originating in China has already had damaging effects, with plummeting manufacturing disrupting global supply chains and heightened anxieties over travel. Simmering tensions between the United States and Iran persist, and conflict in the middle east could disrupt oil supply, weaken market confidence, and hamper investment and growth. Furthermore, widespread social unrest in many countries across the world can erode faith in governmental and financial institutions. This is particularly significant in the case of already stressed and under-performing emerging market economies such as India, the Middle East, and Latin America, since the anticipated rebound in global growth is heavily contingent on the projected improvement of these economies.

In addition, there is widespread acknowledgement that weather and climate-related disasters can no longer afford to be discounted. Floods in eastern Africa, drought in southern Africa, bushfires in the Amazon, and, most recently, drought and bushfires in Australia all have the potential to impose significant macroeconomic stress and trigger spillover effects. The years ahead may also see the intensified manifestation of factors such as low productivity and aging demographics in advanced economies. Moreover, forecasted stagnant or moderated growth in a group of systemically important economies together comprising almost half of the global GDP – the 'Group of Four': United States, China, Euro area and Japan – means that the global economic context will remain precarious, for the near future.

Sri Lankan economy

The outlook for 2020 and beyond is contingent on the economic agenda of the newly-elected regime – along with a hoped-for climate of political and social stability. In November 2019, the new regime introduced a host of tax concessions, including reductions to the Value Added Tax (VAT) and upward revisions to the VAT registration threshold, abolition of Economic Service Charge (ESC), Nation Building Tax (NBT), Pay As You Earn (PAYE) tax, Withholding Tax (WHT) on interest, rent, service fees, dividend, widening of Income Tax slabs of individuals and reduction in Corporate Income Tax rates. These measures are intended to stimulate aggregate demand and consumption with the increase in disposable income, which accounts for roughly 70% of the GDP (2018). In addition, a bundle of incentives together with moratoriums were extended to reinvigorate the construction, tourism and SME sectors. The new regime's overarching ambition of the National Policy Framework, 'Vistas of Prosperity and Splendour', is to achieve a per capita income of USD 6,500 by 2025 and an economic growth rate of 6.5% per annum across 2020-2025 while maintaining macroeconomic stability.

Despite these initiatives, however, assessments of Sri Lanka's outlook remain sober. Forecasts for growth in 2020 by various organisations occupy a wide range between 4.5% (CBSL) to 3.3% (World Bank) with Fitch and World Bank projections for 2021 both standing at 3.7%. There is wide spread hope for short-term growth acceleration, propelled by fiscal stimulus measures, higher agricultural outputs, recovering investments, exports, and tourism, along with strong remittances.

Nevertheless, managing the debt dynamics over the next few years may prove to be a very difficult balancing act for Sri Lanka. This expectation has led Fitch Ratings to revise the Outlook on Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Negative from Stable, while affirming the IDR at "B" on December 18, 2019. S&P Global Ratings similarly downgraded its outlook on Sri Lanka's credit rating from stable to negative, affirming "B" long-term and "B" short-term foreign and local currency credit ratings for Sri Lanka. It should be noted that the CBSL strongly disputes these downwards revisions, arguing that insufficient recognition has been given to offsetting mechanisms aimed at compensating for revenue loss from the tax cuts, nor to the positive effects these stimulus measures would have on the macroeconomic environment. As such, the overall outlook seems to be one of guarded optimism.

Sri Lankan banking sector

Despite the subdued performance in 2019, the year ended with some signs of encouragement, and there is a measure of optimism for 2020. Private sector credit growth is expected to rebound to around 12-13% by the end of 2020, which augurs well for the economic revival and will also be aided by the reduction in SDFR and SLFR by a further 50 basis points from January 30, 2020.

There is some cautious hope, too, for a rise in sector profitability. As part of the new government's November 2019 stimulus initiatives, the 7% Debt Repayment Levy (DRL), imposed in the fourth quarter of 2018, was abolished.

On the other hand, the CBSL announced, with immediate effect, Higher Loss Absorbency Requirements (HLA) for designated Domestic Systemically Important Banks (D-SIBs) in December 2019. The four banks that got so classified, of which Commercial Bank is in the second highest bucket (with no bank in bucket 1), will have to contend with the effects of more stringent demands on regulatory capital relative to the rest of the other players in the industry.

A key focus for 2020 is on the recovery of small and medium scale enterprises (SMEs), driven by the implementation of a relief package launched in January 2020. This package, in which interested firms must voluntarily enroll, applies to SMEs that had an annual turnover of between Rs. 16 Mn. – 750 Mn. in 2019 and with total outstanding loans of up to Rs. 300 Mn. as

of the end of 2019. Borrowers covered by the scheme will be offered a moratorium on capital repayments on all eligible Sri Lankan rupee loans until the end of 2020 (though they will still be required to service loan interest during the year); other relief measures include concessionary short-term working capital loans, interest payment waivers, and suspension of legal action against delinquent accounts. While there are some concerns over the reduced liquidity engendered by the delay in capital repayments, observers have noted that the depressed loan growth in 2019 means that there is already sufficient liquidity in the banking system, and shortfalls are unlikely. Moreover, in an effort to direct more credit towards new entrepreneurship ventures, the CBSL has called for banks to reconsider their credit disbursement policies with a view towards a less risk-averse orientation.

Bangladesh economy

Bangladesh economy is forecasted to grow at 8% in 2020, putting it ahead of other Asian countries, including India which will help it to shed its "least developed country" status in five years. Further, a decline in population growth is also helping an increase in per capita income. The number of employed workers living below the poverty line has dropped from 73.5% in 2010 to 10.4% in 2018. The success of the IT industry will be critical to the digital transformation and ongoing economic growth of the country which exports nearly USD 1 Bn. of technology products every year. The World Bank has painted a bright picture for Bangladesh's economy for the next two fiscal years, pinning hopes on strong domestic demand, exports, investment and remittances. However, the country needs to address certain challenges such as pollution and environmental degradation, unplanned urbanisation and industrialisation leading to wetland encroachment and a more effective policy and legal framework with stronger institutions at both the national and local level to achieve and sustain the potential growth.