Remarks made by Mr. K. M. Mahinda Siriwardana, Secretary to the Treasury and the Ministry of Finance, Economic Stabilisation and National Policies in the discussion on the Economic Transformation Bill (ETB) at the Committee on Public Finance (COPF) of the Parliament of Sri Lanka - 23rd July 2024

As many of us are aware, **Sri Lanka has had a long history of incomplete economic stabilisation programmes.** The country's macroeconomic framework has historically been characterised by persistent budget deficits and deficits in the current account of the balance of payments (BOP). **This twin deficit leads to frequent balance of payments crises, reserve depletion, and bouts of inflation.**

When faced by crisis in the past, Sri Lanka has undertaken some initial painful reforms. However, as soon as a degree of stabilisation sets in, the country has a tendency to unwind the reforms and revert to past habits of fiscal excess, accommodated by monetary policy.

Given the depth, complexity and severity of the most recent crisis, Sri Lanka no longer has the luxury of returning to past habits now that a degree of stabilisation has been re-established. Fiscal and external buffers were completely exhausted in the lead up to the recent crisis. Therefore**, a new mechanism is necessary to prevent the country from repeating policy errors of the past.**

Why Does Sri Lanka Need the Macroeconomic Targets in the ETB?

Sri Lanka has been to the IMF 16 times in the past. This is because every time a programme ends, the country reverts to bad practices in the absence of an external anchor of discipline. During the programme period, Sri Lanka often achieves its macroeconomic targets such as primary balance, revenue, inflation, and so on. This is due to the external discipline brought about by the IMF programme. **For this 17th programme to be the last programme, it is necessary for the country to continually behave as if there is such an anchor of discipline. The mechanism for such an anchor is effective legislation, and the targets set out in this legislation.**

What guarantee does Sri Lanka have that these targets will not be breached like the Fiscal Management (Responsibility) Act (FMRA of 2003)?

Simply put, there is no such guarantee. However, Sri Lanka as a country fell into a crisis due to the failure to adhere to such targets in the past. Does that mean that we should continue to repeat the same mistakes of the past? At some point, it is necessary that the country transforms from the indiscipline that got us into crisis in the first place. **The public has called for System Change, the Economic Transformation Bill provides one element of that by creating a framework for macroeconomic policy discipline that eluded the country in the past.**

It is also well understood that legislation alone is not sufficient to drive meaningful change. Institutions also matter. That is why the government is strengthening institutions, such as the Central Bank of Sri Lanka, establishing new institutions, such as the Public Debt Management Office (PDMO), and the Parliamentary Budget Office (PBO), which can support the implementation of durable economic stabilisation**. Going forward, the economy also requires the establishment and strengthening the institutions that can drive sustainable economic recovery and growth. The Economic Transformation Bill establishes institutions that create the enabling environment for a competitive, outward oriented economy** where growth is driven by non-debt creating inflows. Investment is supported by the Economic Commission and Zone Sri Lanka, trade is supported by the Office for International Trade (OIT), and underlying productivity and competitiveness enhancement is supported by the Productivity Commission.

Why doesn't the Economic Transformation Bill address other important issues such as governance and social equity?

Any piece of legislation has its objectives and also its limitations. While the ETB is broader in scope than past legislation, such as the FMRA, its primary objective is to establish a common set of macroeconomic objectives that will prevent the recurrence of an economic crisis in the country and establish key legislative and institutional arrangements to support inclusive and sustainable economic growth.

But this does not mean that the ETB can solve all of the country's problems and challenges**. The ETB is one piece of legislation amongst a number of other reforms that are intended to collectively provide a policy framework that establishes economic stability and prosperity.** For instance, the Public Financial Management Bill provides the legal framework to establish fiscal reforms. The Central Bank of Sri Lanka Act enables monetary policy discipline and inflation targeting. The Public Debt Management Act creates a legal and institutional framework to enable professional debt management to prevent the recurrence of unsustainable debt.

When it comes to governance, the Anti-Corruption Act and associated legislation addresses a number of gaps in the existing governance framework. Parallel measures have been taken to establish anti-corruption units in key institutions, such as the revenue collection agencies as well as e-procurement. Institutions established through the ETB will also be subject to laws such as the Anti-Corruption Act and other national legislation.

Whilst the ETB cannot be expected to address all of these objectives, to the extent possible the **Bill provides a framework to support inclusive growth by providing targets for Multi-dimensional Poverty reduction and enhanced women's participation in the labour force.** The ETB ensures that future government's policy framework should find mechanisms for achieving these common objectives in terms of reducing poverty and enhancing women's economic participation.

Some of the targets in the ETB are not directly addressed through measures in the Bill itself. However, these objectives are addressed in other legislation. For instance, the supportive legislation for the achievement of the targets relating to female labour force participation and unemployment are found in amendments to the Shop & Office Act and the proposed unified Labour Law. However, there is value in having the targets unified in a single piece of legislation in the form of the ETB.

There are also many aspects of the effective implementation of this legislation that will be outlined and enabled through regulations. **Many of the specific nuances around aspects such as selection criteria, competitive processes, checks and balances, and so on will be spelled out in regulations that form an inherent part of the legislation itself.**

Why Doesn't the ETB address the industrial and services sector?

It has also been said that the ETB does not directly address measures to enhance the industrial and services sector. **However, the targets relating to exports of goods and services and export oriented FDI, require clear policy measures to enable a globally competitive and productive industrial and services sector that is able to compete in global markets to achieve the said targets.** Here again, the Bill does not intend to be overly prescriptive in how a future government would set about achieving these targets, but the Bill simply defines what these macroeconomic objectives are. **Regardless of how these objectives are achieved, the achievement of these targets would enable a robust economic outcome and minimize the risk of a repeat of a crisis.**

Was the ETB rushed through with insufficient public engagement?

The government's intention of drafting new legislation and institutional reform pertaining to investment, trade, and productivity has been clearly articulated in budget speeches of November 2022 (page 10 proposals 5 and 6), and November 2023 (page 37 proposal 77 and 78). Subsequently, the government has followed the standard procedure for enactment of legislation. The Cabinet of Ministers approved the initial drafting of legislation by the Legal Draftsman which was cleared by the Attorney General and published in the Gazette on 22nd May 2024 – exactly 2 months ago. The Bill was open to public challenge and several cases regarding the ETB were heard by the Supreme Court. Taking these hearings into account, in consultation with the Attorney General, the appropriate Committee Stage Amendments to the bill were drafted and approved by the Cabinet of Ministers. The Bill will next be subject to debate by representatives of the public and put to vote on the 25th of this month. **Therefore, due process has been followed in the drafting and scrutiny of this piece of legislation.**

Concluding Remarks

The ETB plays a crucial role in filling a gap in Sri Lanka's legislative architecture. The Bill intends to provide legislative discipline that anchors a common minimum macroeconomic framework for the country to avoid a repeat of the crisis in the future. For several decades, Sri Lanka has failed to adhere to a disciplined macroeconomic path, resulting in a series of shocks and incomplete stabilisation programmes. It is time to bring about discipline in macroeconomic management, and the ETB provides the legislative tool to enable this.

At the same time, it is important to understand that the ETB is not the single solution to all of Sri Lanka's economic ills. This Bill is one of many pieces of legislation that have been introduced to address various economic challenges**. The foundation for sound macro-economic management and discipline is established by the Central Bank of Sri Lanka Act, the Public Debt Management Act, and the forthcoming Public Financial Management Act. The Economic Transformation Bill is envisaged to build on this foundation, and establish key targets and a supportive institutional framework to catalyze the transition from economic stability to sustainable, and inclusive economic growth that creates prosperity for all Sri Lankans. This legislative architecture, along with the associated institutional framework, should be considered in a holistic manner as mechanisms to support economic prosperity and to prevent recurrence of crises.**

Finally, any piece of legislation is only as good as the legislature and executive responsible for implementation of it. The failure of past legislation, such as the FMRA, is due to the collective failure in implementation. **It is up to all stakeholders to ensure that the ETB fulfils its potential as an anchor of macroeconomic policy stability that is key to enable inclusive prosperity in our country, going forward.**