RECENT ECONOMIC DEVELOPMENTS

Highlights of 2015 and Prospects for 2016

CENTRAL BANK OF SRI LANKA
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KEY ECONOMIC INDICATORS

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Indicator	2011	2012	2013	2014 (a)	First Half (a)	
					2014	2015
DEMOGRAPHY						
Mid-year population ('000 persons) (a) (b)	20,869	20,424 (c)	20,579 (c)	20,771 (c)	-	-
Growth of mid- year population (per cent) (a) (b)	1.0	0.7 (c)	0.8 (c)	0.9 (c)	-	-
Population density (persons per sq.km.) (a) (b)	333	326 (c)	328 (c)	331 (c)	-	-
Labour force ('000 persons) (d) (e)	8,544	8,454	8,802	8,805	8,791	8,968
Labour force participation rate (per cent) (e)	53.0	52.6	53.8	53.3	53.5	54.0
Unemployment rate (per cent of labour force) (e)	4.2	4.0	4.4	4.3	4.3	4.6
OUTPUT (f)						
GDP at current market price (Rs. billion)	7,219	8,732	9,592	10,292	4,972	5,465
GNI at current market price (Rs. billion)	7,147	8,578	9,366	10,052	4,863	5,354
GDP at current market price (US$ billion)	65.3	68.4	74.3	78.8	38.1	41.1
GNI at current market price (US$ billion)	64.6	67.2	72.5	77.0	37.2	40.3
Per capita GDP at current market price (Rs.)	345,925	427,559	466,112	495,478	-	-
Per capita GNI at current market price (Rs.)	342,473	419,975	455,126	483,921	-	-
Per capita GDP at current market price (US$)	3,129	3,351	3,610	3,795	-	-
Per capita GNI at current market price (US$)	3,097	3,291	3,525	3,707	-	-
REAL OUTPUT (percentage change) (f)						
GNI	8.5	8.3	2.8	4.5	1.2	5.6
GDP	8.4	9.1	3.4	4.5	1.3	5.6
Sectoral classification of GDP						
Agriculture	4.6	3.9	3.2	-2.2	-0.7	3.3
Industry	9.3	9.0	4.1	1.2	-4.5	1.3
Services	8.9	11.2	3.8	6.5	4.2	7.1
PRICES AND WAGES (percentage change)						
Colombo Consumers' Price Index (2006/07 = 100) - annual average	6.7	7.6	6.9	3.3	4.9	1.7
Colombo Consumers' Price Index (2006/07 = 100) - year-on-year - end period	4.9	9.2	4.7	2.1	2.8	0.1
Wholesale Price Index (1974 = 100) - annual average	10.6	3.5	9.2	3.2	5.6	1.6
GNI deflator (f)	3.8	10.9	6.2	2.7	3.5	4.2
GDP deflator (f)	3.8	10.8	6.2	2.7	3.5	4.1
Nominal wage rate index (1978=100) for workers in all wages boards - annual average	4.6	22.2	5.7	3.7	4.6	4.7
Nominal wage rate index (2012=100) for central government employees - annual average	6.7	3.5	6.3	10.5	9.9	20.0
EXTERNAL TRADE						
Trade balance (US$ million)	-9,710	-9,417	-7,609	-8,287	-3,535	-4,086
Exports	10,559	9,774	10,394	11,130	5,450	5,415
Imports	20,269	19,190	18,003	19,417	8,985	9,501
Terms of trade (percentage change)	-8.9	-1.5	4.6	4.3	4.1	6.5
Export unit value index (2010 = 100) (percentage change)	11.1	-7.3	-0.3	2.7	4.0	-6.0
Import unit value index (2010 = 100) (percentage change)	22.0	-5.8	-4.7	-1.5	-0.2	-11.7
Export volume index (2010 = 100) (percentage change)	10.2	-0.2	6.7	4.3	12.6	5.7
Import volume index (2010 = 100) (percentage change)	23.6	0.5	-1.5	9.5	-1.1	19.7
EXTERNAL FINANCE (US$ million)						
Services and primary income account (net)	452	43	-572	41	130	164
Current private transfers (net)	4,583	5,339	5,619	6,199	2,948	3,010
Current official transfers (net)	60	53	21	28	22	7
Current account balance	-4,615	-3,982	-2,541	-2,018	-435	-905
Overall balance	-1,059	151	985	1,369	1,954	-792
Current account balance (per cent of GDP) (g)	-7.1	-5.8	-3.4	-2.6	-	-
Total foreign assets (months of the same year imports) (h)	4.7	5.4	5.7	6.1	7.2	5.6
Gross official reserves (months of the same year imports)	4.0	4.4	5.0	5.1	6.1	4.5
Overall debt service ratio (i)						
As a percentage of export of goods and services	12.7	19.7	23.5	20.2	18.7	21.9
As a percentage of current receipts	9.0	13.5	16.4	14.1	13.2	15.5
Total external debt and liabilities (per cent of GDP) (g)	50.2	54.2	53.7	54.5	-	-

(a) Provisional
(b) As reported by the Registrar General's Department
(c) Based on Census of Population and Housing 2012, covering the entire island
(d) Household population aged 15 and above is considered for the calculation of labour force
(e) Data covers the entire island
(f) Based on revised base year (2010) GDP estimates of the Department of Census and Statistics
(g) Based on GDP estimates in US dollars
(h) Excludes foreign assets in the form of 'Direct investments abroad' and 'Trade credit and advances received'
(i) Overall debt service ratios were reclassified to capture debt servicing of government: short-term debt (i.e. foreign holdings of Treasury bonds) in accordance with the External Debt Statistics Manual (2003) of the International Monetary Fund (IMF).

KEY ECONOMIC INDICATORS (Contd.)

Indicator	2011	2012	2013	2014 (a)	First Half (a)	
					2014	2015
EXCHANGE RATES						
Period average						
Rs/US$	110.57	127.60	129.11	130.56	130.59	132.93
Rs/SDR (j)	174.54	195.38	196.19	198.35	201.52	186.35
NEER (2010 = 100) (24 - currency basket) (k)	99.84	90.44	91.39	91.99	90.84	97.48
REER (2010 = 100) (24 - currency basket) (k) (l)	101.84	95.80	100.61	101.94	100.73	106.96
End Period						
Rs/US$	113.90	127.16	130.75	131.05	130.30	133.70
Rs/SDR (j)	174.87	195.31	201.36	189.86	201.43	188.04
GOVERNMENT FINANCE (per cent of GDP) (f)						
Revenue and grants	13.6	12.2	12.0	11.7	5.3	5.4
Revenue	13.4	12.0	11.9	11.6	5.2	5.4
o/w Tax revenue	11.7	10.4	10.5	10.2	4.7	4.9
Grants	0.2	0.2	0.2	0.1	0.1	...
Expenditure and net lending	19.9	17.8	17.4	17.4	9.0	8.9
Recurrent expenditure	14.2	13.0	12.6	12.9	6.3	6.8
Capital expenditure and net lending	5.7	4.9	4.8	4.6	2.7	2.1
Current account deficit (-) / surplus (+)	-0.8	-0.9	-0.7	-1.2	-1.1	-1.4
Primary deficit (-) / surplus (+)	-1.3	-0.9	-0.8	-1.5	-1.5	-1.3
Overall deficit (-) / surplus (+) (m)	-6.2	-5.6	-5.4	-5.7	-3.7	-3.6
Deficit financing	6.2	5.6	5.4	5.7	3.7	3.6
Foreign	3.0	3.3	1.3	2.1	2.4	-0.4
Domestic	3.2	2.3	4.1	3.7	1.3	3.9
Government debt	71.1	68.7	70.8	71.8	n.a.	n.a.
Foreign	32.3	31.7	30.9	30.2	n.a.	n.a.
Domestic	38.8	37.0	40.0	41.6	n.a.	n.a.
MONETARY AGGREGATES (year-on-year percentage change)						
Reserve money	21.9	10.2	0.9	18.3	1.5	19.8
Narrow money (M_1)	7.7	2.6	7.7	26.3	16.9	21.2
Broad money (M_{2b})	19.1	17.6	16.7	13.4	13.3	15.3
Net foreign assets of the banking system	-74.0	-126.3	-195.5	119.8	196.8	-225.6
Net domestic assets of the banking system	39.7	23.4	18.3	10.5	2.7	26.8
Domestic credit from the banking system to						
Government (net)	32.9	25.4	24.5	10.3	9.0	21.5
Public corporations	37.3	47.3	24.8	22.2	4.5	38.2
Private sector	34.5	17.6	7.5	8.8	2.0	19.4
Money multiplier for M_{2b} (end year)	5.67	6.05	7.00	6.71	7.08	6.81
Velocity of M_{2b} (average for the year) (f)	3.15	3.17	2.99	2.83	-	-
INTEREST RATES (per cent per annum at year end)						
Standing Deposit Facility Rate (SDFR) (n)	7.00	7.50	6.50	6.50	6.50	6.00
Standing Lending Facility Rate (SLFR) (o)	8.50	9.50	8.50	8.00	8.00	7.50
Treasury bill yields						
91 - days	8.68	10.00	7.54	5.74	6.51	6.11
364 - days	9.31	11.69	8.29	6.01	6.99	6.28
Deposit rates						
Commercial banks' average weighted deposit rate (AWDR)	7.24	10.10	9.37	6.20	7.40	6.02
Commercial banks' average weighted fixed deposit rate (AWFDR)	8.95	13.21	11.78	7.33	8.96	7.29
National Saving Bank's savings rate	5.00	5.00	5.00	5.00	5.00	5.00
National Saving Bank's 12 - months fixed deposit rate	8.50	12.50	9.50	6.50	7.50	6.50
Lending rates						
Commercial banks' average weighted prime lending rate (AWPR)	10.77	14.40	10.13	6.26	7.91	7.00
Commercial banks' average weighted lending rate (AWLR)	13.44	15.98	15.18	11.91	13.83	11.25
CAPITAL MARKET						
All share price index (ASPI) (1985 = 100)	6,074.4	5,643.0	5,912.8	7,299.0	6,378.6	7,020.8
Milanka price index (MPI) (1998 Dec =1,000)	5,229.2	5,119.1	-	-	-	-
S&P SL20 index (2004 Dec. = 1,000) (p)	-	3,085.3	3,263.9	4,089.1	3,534.4	3,908.0
Value of shares traded (Rs. million)	546,256	213,827	200,468	340,917	115,741	122,985
Net purchases by non nationals (Rs. million)	-19,039	38,661	22,783	21,217	5,891	1,509
Market capitalisation (Rs. billion)	2,213.9	2,167.6	2,459.9	3,104.9	2,673.0	2,983.0

(j) Special Drawing Rights (SDR), the unit of account of the IMF

(k) Exchange rates have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rates indices.

(l) CCPI is used for the computation of the Real Effective Exchange Rate (REER). The REER is computed by adjusting the Nominal Effective Exchange Rate (NEER) for inflation differentials with the countries whose currencies are included in the basket.

(m) Grants are classified as a revenue item

(n) Repurchase rate was renamed as Standing Deposit Facility Rate (SDFR) with effect from 02 January 2014

(o) Reverse Repurchase rate was renamed as Standing Lending Facility Rate (SLFR) with effect from 02 January 2014

(p) With effect from 01 January 2013, the MPI was replaced by a newly introduced index, namely, S&P SL 20 index. This index was introduced on 27 June 2012 and its base period is December 2004 =1,000

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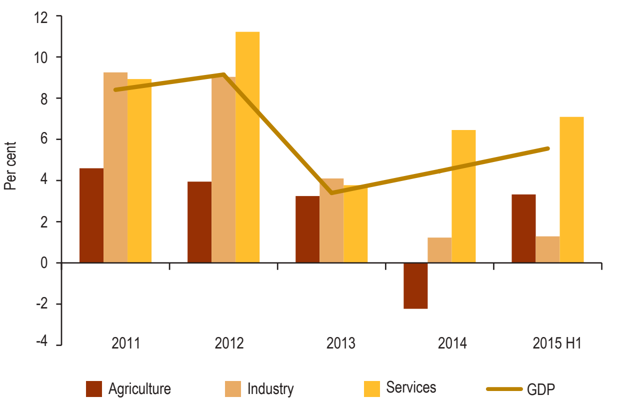
OVERVIEW

The Sri Lankan economy recorded a growth of 5.6 per cent in the first half of 2015 with positive contribution from agriculture, industry and service related activities. Inflation declined further as a result of the downward price revisions in key consumer items, including energy, low commodity prices in the global market and improved domestic supply conditions. In view of the continued low inflation environment as well as favourable inflation expectations, the Central Bank continued its accommodative monetary policy stance during 2015 to encourage a smooth flow of credit to the private sector, thereby supporting economic activity. Along with the revival of growth in credit to the private sector in a low interest rate environment, the Central Bank removed the restrictions placed on access to its Standing Deposit Facility (SDF) in March 2015, and lowered policy interest rates by 50 basis points in April 2015. Meanwhile, in the external sector, the decline in export performance as a result of weak global demand, coupled with an increase in imports, resulted in an expansion in the trade deficit. Despite increased inflows to the services account, the moderation of workers' remittances and the widening deficits in the trade and primary income accounts weighed heavily on the expansion of the external current account deficit. Net foreign inflows to the financial account of the balance of payments (BOP) also moderated, and consequently, the BOP is estimated to have recorded a deficit of US dollars 2.3 billion by the end of the third quarter of 2015. Gross official reserves were estimated at US dollars 6.8 billion (equivalent to around 4.2 months of imports) at end September 2015. The decline of the stock of external reserves during the first nine months of 2015 was mainly due to the continuous supply of foreign exchange to the market by the Central Bank in order to reduce the pressure in the foreign exchange market. The anticipated hike in US interest rates, which prompted foreign investors to move funds out of the domestic government securities market as in other emerging market economies together with the higher demand for imports, placed undue pressure on the rupee, warranting the intervention of the Central Bank. However, in September 2015, the Central Bank allowed greater flexibility in the determination of the exchange rate, based on demand and supply conditions of the market. Overall, in the first ten months of the year, the Sri Lankan rupee has depreciated by above 7 per cent against the US dollar, leading to a depreciation in the Real Effective Exchange Rate (REER) indices. In the fiscal sector, the focus of fiscal policy in 2015 was on strengthening the fiscal consolidation process and correcting fiscal imbalances on both revenue and expenditure fronts. Fiscal management continued to be challenging mainly due to the lower than expected increase in government revenue and the significant increase in the recurrent expenditure. In financing the budget deficit, the government relied largely on domestic sources, although the receipt of the proceeds of the successful issuance of the ninth International Sovereign Bond (ISB) is likely to ease pressure on domestic financing in the last two months of the year. Meanwhile, the financial sector remained stable and the performance of all key subsectors except the insurance subsector improved during the first eight months of the year.

Chart 1.1 GDP and Gross Value Added (Growth Rates) (a)



(a) Based on revised GDP estimates (2010 base) of DCS

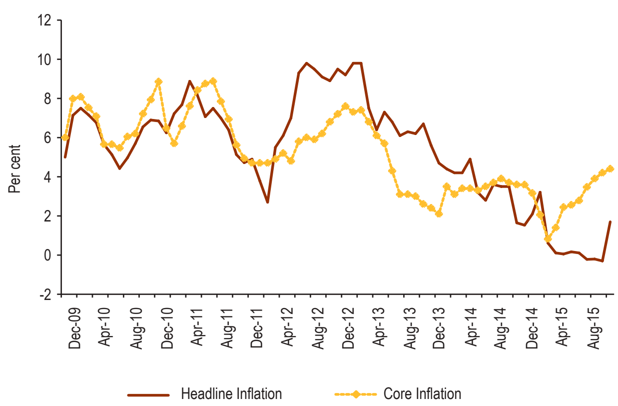
- **During the first half of 2015, the economy grew by 5.6 per cent, in comparison to the growth of 1.3 per cent recorded in the first half of the previous year.** Agriculture, Forestry and Fishing related economic activities rebounded, recording a positive growth of 3.3 per cent during the first half of 2015, compared to the contraction of 0.7 per cent in the corresponding period of 2014. The revival of agricultural activities was mainly a result of the significant improvement in the paddy sector amidst negative growth rates recorded in relation to tea, rubber and spices. Meanwhile, Industry related activities, which contracted by 4.5 per cent in the first half of 2014, recorded a growth of 1.3 per cent in the first half of 2015. The recovery in manufacturing activities mainly contributed to this growth, while construction activities as well as mining and quarrying contracted. The growth momentum of Services related activities continued, with an expansion of 7.1 per cent during the first half of 2015, compared to 4.2 per cent in the first half of the previous year. The acceleration of value added in Services was driven by real estate, financial services, and wholesale and retail trade activities as well as other personal services.

- **In comparison to the real GDP growth rate of 4.5 per cent recorded in 2014, the economy is projected to grow by 5.7 per cent in 2015, supported by increased value addition in all three sectors of the economy.** Consumption expenditure, which comprises private and public sector consumption, is projected to grow by around 11.2 per cent in 2015 in nominal terms, compared to the estimated 6.4 per cent growth in 2014. Both domestic and national savings are expected to grow at a slower pace during 2015 than in the previous year, and national savings are projected at 25.5 per cent of GDP in 2015 compared to 27.1 per cent in 2014. The nominal growth of investment expenditure, which is estimated at 8.0 per cent in 2014, is expected to slow down to around 2.9 per cent during 2015, mainly as a result of the deceleration in the progress of large scale public investment projects. Gross investment is projected at 27.8 per cent of GDP in 2015 compared to an estimated 29.7 per cent of GDP in 2014.

- **The unemployment rate was 4.6 per cent in the first half of 2015, compared to 4.3 per cent in the corresponding period of the previous year.** The number of unemployed persons during the period increased by 9.2 per cent, while the number of employed persons grew marginally by 1.7 per cent. The increase in unemployment was a result of the increased female unemployment rate of 7.6 per cent in the first half of 2015 compared to 6.4 per cent in the corresponding period of the previous year. Youth unemployment (15-24years) remained high at 21.6 per cent during the period, while in terms of the level of education, the highest unemployment rate of 9.3 per cent was recorded amongst persons with GCE (Advanced Level) and higher levels of educational attainment.

- **Inflation remained at single digit levels for the seventh consecutive year, and year-on-year headline inflation declined to negative territory during the third quarter**. The continued low inflation could be attributed to prudent demand management policies of the Central Bank, improved domestic supply conditions and low international commodity prices. Nevertheless, the very low headline inflation in 2015 was also the result of sharp downward adjustments to domestic administered prices of fuel and energy as well as the reductions in prices of selected essential food items by the government. Year-on-

Chart 1.2 Year-on-Year Inflation



year headline inflation that remained below zero levels from July to September 2015, increased to 1.7 per cent in October 2015 with the dissipation of the base effect of the domestic energy price adjustments in September/October 2014. During the months of September and October 2015, headline inflation was 0.7 per cent on an annual average basis, its lowest level since the introduction of open economy policies in 1977. Meanwhile, core inflation also remained below 5 per cent, although a continued upward trend was observed in its year-on-year change since March 2015, reflecting the gradual firming up of underlying demand pressures in the economy. In October 2015, core inflation was 4.4 per cent on a year-on year basis and 2.9 per cent on an annual average basis.

- **The external sector performance moderated in the first half of the year with a widening current account deficit and modest inflows to the financial account of the BOP**. Significantly high domestic demand for imported goods, including vehicles and consumer durables, resulted in an expansion of the trade deficit. Inflows on account of trade in services improved with a notable increase in receipts from tourism. Meanwhile, workers' remittances moderated sharply, exacerbating the pressure on the external current account during the first half of the year. Along with the deterioration of the current account, the decline in the receipt of foreign direct investments (FDIs) and portfolio investments, as well as the reversal of foreign investments in government securities, led the BOP to record a deficit of US dollars 792 million by end June 2015, and a deficit of US dollars 2,316 million by end September 2015.

- **The merchandise trade deficit widened during the first eight months of 2015 as a result of weakening global demand and significantly high domestic demand for imported goods.** Accordingly, earnings from exports during this period declined by 3.4 per cent, year-on-year, to US dollars 7,147 million, while expenditure on imports remained largely unchanged at US dollars 12,559 million. Despite the significant improvement in earnings from exports of transport equipment and spices, lower earnings from tea, seafood and rubber product exports largely contributed to the decline in exports. Earnings from textiles and garments, the main export product category of Sri Lanka, also declined marginally reflecting lower exports to the European Union (EU). The growth in import expenditure was led by a 89.9 per cent growth in vehicle imports for personal use as well as business purposes. Import expenditure on almost all consumer goods, textiles and textile articles and machinery and equipment also increased significantly. However, with the significant decline in international oil prices and a decline in the volume, the expenditure on fuel imports fell by US dollars 1.7 billion during the first eight months of 2015, a 48.1 per cent decline from the corresponding period in the previous year. As a result of these developments, the trade deficit widened by 5.0 per cent, year-on-year, to US dollars 5,412 million during the first eight months of 2015.

- **The surplus in the services account increased marginally during the first half of 2015**. In comparison to the surplus of US dollars 898 million in the first half of 2014, the services account recorded a surplus of US dollars 1,003 million during the first half of 2015. The surplus in the travel account improved further with increased earnings from tourism by 14.1 per cent to US dollars 1,321 million during the first half of the year, while inflows from transport services grew by a modest 4 per cent to US dollars 998 million during this period. The moderation of inflows from transport services mainly stemmed from the slowdown in sea and port related transportation activity, which was also reflected in the moderate increase in volumes of container and cargo handled during the first half of the year. Meanwhile, during the first nine months of the year, tourist arrivals increased by 18.8 per cent, year-on-year, to 1,315,839 tourists, and earnings from tourism during this period amounted to US dollars 2,095 million.

- **Higher dividends and interest payments resulted in an increase in the deficit in the primary income account of the BOP in the first half of 2015.** The inflows to the primary income account declined marginally in the first half of 2015 while outflows on account of dividend payments on FDIs and interest payments on account of coupons on ISB and bonds issued by licensed banks increased. Consequently, the deficit in the primary income account increased to US dollars 839 million during the first half of 2015 from US dollars 768 million in the corresponding period of 2014.

- **The growth of workers' remittances were below the expected levels during the first nine months of the year.** Workers' remittances, which account for most of the secondary income inflows, increased marginally by 1.8 per cent during this period, compared to the growth of 9.1 per cent recorded in the corresponding period of 2014. This decline could be partly attributed to the drop in income of oil exporting countries, as a result of the decline in global oil prices, and geopolitical tensions in the Middle East.

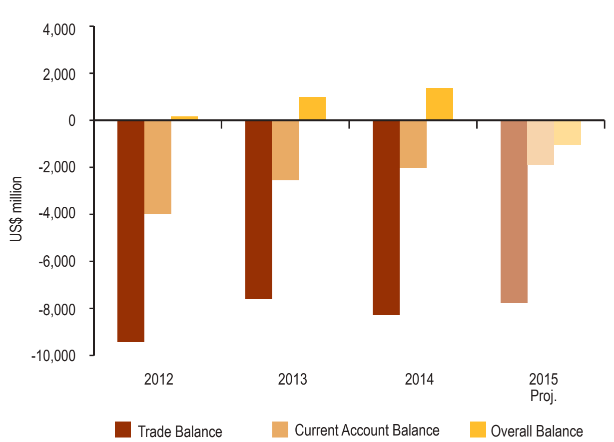
- **The country's external current account deficit widened during the first half of 2015 to US dollars 905 million from US dollars 435 million recorded during the corresponding period of 2014.** Widened deficits in the trade and primary income accounts, as well as the moderation in the growth of workers' remittances were the main contributors towards the expansion of the current account deficit during the first half of the year.

- **In the financial account of the BOP, both net incurrence of liabilities and net acquisition of financial assets were significantly lower in the first half of 2015 than in the corresponding period of 2014.** Net incurrence of liabilities in the first half of 2015 amounted to US dollars 848 million, compared to US dollars 2,908 million in the first half of the previous year. Further, net acquisition of assets amounted to US dollars 235 million in the first half of 2015, compared to US dollars 2,969 million in the first half of 2014. Total FDI related inflows declined to US dollars 544 million in the first half of 2015, from US dollars 846 million recorded during the corresponding period of 2014. Portfolio equity flows moderated recording a net incurrence of liabilities of US dollars 16 million during the first half of 2015. The settlement of the matured five year ISB of US dollars 500 million in early 2015 reduced the net effect of the issuance of the ISB of US dollars 650 million in June 2015, although the receipt of the proceeds from the ninth ISB of US dollars 1.5 billion in October 2015 will reduce the pressure on the financial account of the BOP. Further, the government rupee securities market experienced a net outflow mainly due to the anticipated policy rate hike by the United States Federal Reserve that prompted foreign investors to withdraw their investments from emerging markets. Meanwhile, net inflows to major government projects declined to US dollars 107 million during the first half of 2015, compared to a net inflow of US dollars 609 million during the first half of 2014. The Central Bank received US dollars 400 million in April 2015 under the foreign currency swap facility with the Reserve Bank of India (RBI), while a further sum of US dollars 1,100 million was received from the RBI in September 2015 under this facility.

- **The BOP, which recorded a surplus in 2014, turned to a deficit in the first half of 2015.** This was primarily a result of the widening of the current account deficit and the moderation of inflows to the financial account of the BOP. Accordingly, in comparison to the surplus of US dollars 1,954 million during the first half of 2014, the deficit in the BOP amounted to US dollars 792 million in the first half of 2015, and is estimated to have widened further to US dollars 2,316 million by the end of the third quarter.

- **The country's gross official reserves at US dollars 6.8 billion by end September 2015, were equivalent to 4.2 months of imports.** The settlement of the ISB that matured in January 2015, foreign currency debt service payments, payments under the International Monetary Fund – Stand by Arrangement (IMF-SBA), net outflows in relation to the Asian Clearing Union (ACU), valuation losses and net supply of foreign exchange to the domestic market by the Central Bank were the main reasons for the decline of gross official reserves during this period. The receipt of US dollars 1.5 billion under the swap arrangement with the RBI helped buoy the level of reserves. It is also expected that the proceeds of the ISB issuance of US dollars 1.5 billion in late October 2015 will further strengthen the reserve position of the country. The issue was oversubscribed by 2.2 times signaling continued confidence of investors in the Sri Lankan economy.

Chart 1.3 Balance of Payments



- **The Sri Lankan rupee that remained broadly stable during the first eight months of the year supported by Central Bank intervention, depreciated thereafter as the Central Bank allowed greater flexibility in the determination of the exchange rate.** The increased demand for foreign exchange mainly due to higher imports and debt service payments, the reversal of foreign investments in the government rupee securities market, the moderation of workers' remittances and modest inflows to the financial account, added pressure on the exchange rate. In this context, the Central Bank supplied US dollars 1,870 million to the domestic foreign exchange market, on a net basis, during the first eight months of the year to prevent a large depreciation of the Sri Lankan rupee. On 03 September 2015, the Central Bank decided to limit its intervention in the domestic foreign exchange market, and allowed the exchange rate to be largely determined by market forces since then. This resulted in a depreciation of the Sri Lankan rupee against the US dollar by 4.5 per cent during the period from 04 September 2015 to end October 2015. Overall, the Sri Lankan rupee depreciated by 7.0 per cent against the US dollar during the first ten months of the year. Reflecting cross currency movements, the Sri Lankan rupee depreciated against the pound sterling (5.4 per cent), the Japanese yen (5.8 per cent), and the Indian rupee (4.1 per cent), while appreciating against the euro (3.1 per cent) during this period.

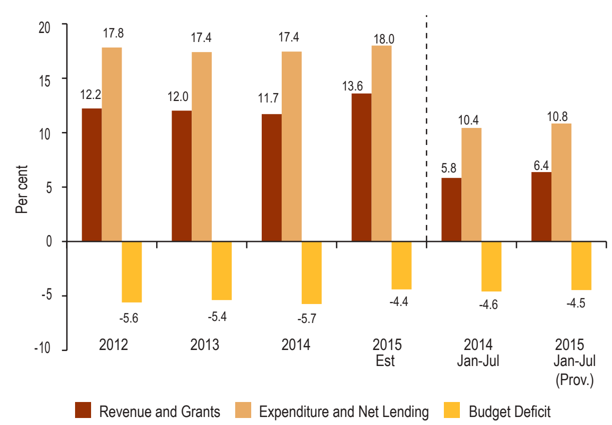
- **The 5-currency and 24-currency effective exchange rate indices depreciated during the first ten months of the year.** The 5-currency and 24-currency Nominal Effective Exchange Rate (NEER) indices depreciated by 3.0 per cent and 2.2 per cent, respectively, while the 5-currency and 24-currency REER indices depreciated by 2.2 per cent and 2.8 per cent, respectively, by end October 2015. The depreciation of the NEER indices and the relatively subdued levels of domestic inflation compared to trading partners and competitors, resulted in the depreciation of the REER indices. These changes in REER indices are expected to help Sri Lanka improve its competitiveness in the global market in terms of the exchange rate.

- **The fiscal sector showed a mixed performance during the first seven months of 2015.** Government revenue as a percentage of GDP improved slightly while recurrent expenditure increased significantly as a percentage of GDP. Government revenue as a percentage of estimated GDP increased to 6.4 per cent during the period under review, compared to 5.8 per cent in the corresponding period in 2014 mainly due to an increase in revenue from import related taxes. Revenue from import duties, and excise taxes on motor vehicles, liquor, cigarettes and tobacco as well as the Nation Building Tax (NBT) on domestic economic activities recorded an increase. A decline in revenue was observed from corporate and non-corporate income taxes and value added tax (VAT). Meanwhile, total expenditure and net lending as a percentage of GDP increased to 10.8 per cent during the first seven months of 2015, compared to 10.4 per cent in the same period in 2014, due to an overrun in recurrent expenditure as public investments recorded a decline during this period. As a result, the overall fiscal deficit during the first seven months of 2015 was 4.5 per cent of GDP, compared to 4.6 per cent of GDP in the corresponding period in 2014 and the annual target of 4.4 per cent of GDP envisaged in the Interim Budget for 2015.

- **The overall fiscal deficit of Rs. 504.8 billion during the first seven months of the year was entirely financed through domestic sources, as net foreign financing recorded a repayment during this period.** Accordingly, net domestic financing increased significantly by 195.6 per cent to Rs. 559.7 billion during the first seven months of 2015, with a majority contribution from the domestic banking sector. Net foreign financing recorded a repayment of Rs. 54.9 billion during the first seven months of 2015 compared to net foreign borrowing of Rs. 283.2 billion in the corresponding period in 2014, mainly due to relatively low disbursements of foreign project loans and the continuous outflows from foreign investments in government securities. Meanwhile in October 2015, the government successfully issued the ninth ISB of US dollars 1.5 billion with a 10 year maturity and a yield of 6.85 per cent per annum. This was in addition to the US dollars 650 million ISB issued in May 2015, which had a maturity period of 10 years and a yield of 6.125 per cent per annum.

- **The Central Bank continued to maintain a relaxed monetary policy stance during the first ten months of 2015, with a view to supporting domestic economic activity against the backdrop of benign levels of inflation and inflation expectations.** Several adjustments were made to the monetary policy stance during the year in order to provide the necessary impetus to economic activity by making adequate credit flows available to the private sector. In March 2015, with the revival of private sector credit growth, the Central Bank removed the temporary restriction placed in September 2014 on access to its Standing Deposit Facility (SDF) under open market operations (OMO). Subsequent to the removal of the restriction on access to SDF, the overnight interest rates moved upwards and settled close to the lower bound of the policy rate corridor. However, considering the intermittent

Chart 1.4 Government Revenue, Expenditure and Overall Fiscal Deficit (as a percentage of GDP)



increase in interest rates in certain market segments following the removal of restrictions on the SDF and also the sharp decline in inflation, the Central Bank signalled the continuation of the accommodative policy stance by reducing its Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis points each in April 2015. Since then, the SDFR and the SLFR remained at 6.00 per cent and 7.50 per cent, respectively. Meanwhile, as a macroprudential measure, a maximum loan to value (LTV) ratio was introduced in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and financial institutions supervised by the Central Bank, and this measure is to be effective from 01 December 2015. In addition, a minimum cash margin requirement of 100 per cent was imposed against letters of credit (LCs) opened with commercial banks for the import of motor vehicles with effect from 30 October 2015 until 01 December 2015.

- **Reserve money increased by 19.8 per cent on a year-on-year basis by end August 2015 compared to 18.3 per cent recorded at end 2014.** The expansion in reserve money during the first eight months of 2015 was entirely due to an expansion in net domestic assets (NDA) of the Central Bank, as net foreign assets (NFA) of the Central Bank contracted during this period. Accordingly, NDA of the Central Bank, which contracted during 2014, increased significantly by Rs. 296.4 billion during the first eight months of 2015. Within NDA, net credit to the government (NCG) by the Central Bank increased by Rs. 94.9 billion due to a surge in holdings of government securities amounting to Rs. 86.0 billion and provisional advances amounting to Rs. 9.1 billion. In addition, other liabilities reduced significantly by end August 2015, mainly due to the non-reliance on borrowed bonds by the Central Bank in view of increased Treasury bill holdings, contributing positively to the increase in NDA. Meanwhile, NFA of the Central Bank declined by Rs. 237.1 billion during the first eight months of the year, reflecting the impact of foreign currency sales by the Central Bank in the domestic foreign exchange market, increased foreign liabilities to international institutions and repayments made under domestic currency swap arrangements.

Table 1.1 **Recent Monetary Policy Measures**

Date	Measure
03-Feb-2012	Repurchase rate and Reverse Repurchase rate increased by 50 bps to 7.50% and 9.00%, respectively.
09-Feb-2012	Greater flexibility in the determination of the exchange rate allowed.
12-Mar-2012	Direction issued to licensed banks to limit rupee denominated credit growth to 18% or Rs. 800 mn during the year. Additional 5% (23% or Rs. 1 bn) allowed to banks that bridge the gap with funds raised abroad.
05-Apr-2012	Repurchase rate increased by 25 bps to 7.75% and Reverse Repurchase rate increased by 75 bps to 9.75%.
12-Dec-2012	Repurchase rate and Reverse Repurchase rate reduced by 25 bps to 7.50% and 9.50%, respectively.
31-Dec-2012	Ceiling on rupee denominated credit growth allowed to expire.
10-May-2013	Repurchase rate and Reverse Repurchase rate reduced by 50 bps to 7.00% and 9.00%, respectively.
26-Jun-2013	Statutory Reserve Requirement reduced by 2 percentage points to 6% with effect from 01-Jul-2013.
15-Oct-2013	Repurchase rate and Reverse Repurchase rate reduced by 50 bps to 6.50% and 8.50%, respectively.
02-Jan-2014	The Policy Rate Corridor was renamed as the Standing Rate Corridor (SRC), and the Repurchase rate and the Reverse Repurchase rate of the Central Bank were renamed as the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively. SLFR reduced by 50 bps to 8.00%. The Standing Deposit Facility (SDF) uncollateralised with effect from 01-Feb-2014.
23-Sep-2014	Access to the SDF of the Central Bank by OMO participants at 6.50% was rationalised to a maximum of three times per calendar month. Any deposits at the SDF window exceeding three times by an OMO participant was accepted at a special interest rate of 5.00%.
02-Mar-2015	The 5.00% special SDF rate was withdrawn.
15-Apr-2015	The SDFR and SLFR reduced by 50 bps to 6.00% and 7.50%, respectively.
03-Sep-2015	The exchange rate was allowed to be determined based on demand and supply conditions in the foreign exchange market (a).

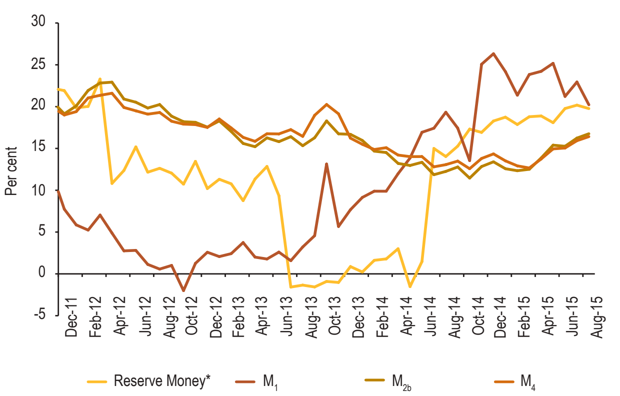
Source: Central Bank of Sri Lanka

(a) In addition, the Central Bank imposed:
  i. a maximum Loan to Value (LTV) ratio of 70 per cent in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and financial institutions supervised by the Central Bank with effect from 01 December 2015, as a macro-prudential measure, and
  ii. a minimum cash margin requirement of 100 per cent on 30 October 2015 against Letters of Credit opened with commercial banks for the importation of motor vehicles to be effective until 01 December 2015.

- **Broad money supply (M_{2b}) continued to increase during the first eight months of 2015 led by a significant expansion in domestic credit.** Broad money recorded a year-on-year growth of 16.8 per cent by end August 2015 compared to 13.4 per cent recorded at end 2014, while the average growth during the first eight months of 2015 was 14.4 per cent compared to 13.6 per cent in the corresponding period in 2014. Increases in NDA of the banking system, which include credit flows to the private sector, the government as well as public corporations, contributed entirely to the monetary expansion during the first eight months of the year, as NFA of the banking system recorded a contraction. Accordingly, NDA of the banking system increased significantly by Rs. 670.6 billion during the period under review, whereas NFA of the banking system recorded a contraction of Rs. 294.0 billion. Moreover, in addition to the decline in NFA of the Central Bank, NFA of commercial banks also declined during the first eight months of the year reflecting a decline in foreign currency placements with banks abroad, increased foreign borrowings and foreign currency deposits.

- **Net credit to the government (NCG) from the banking system increased significantly during the first eight months of 2015.** Accordingly, NCG increased by Rs. 299.7 billion during the first eight months of 2015, compared to an increase of Rs. 60.9 billion in the corresponding period of the previous year and in comparison to the annual budgetary estimate of Rs. 70 billion for bank borrowings in 2015.

Chart 1.5 Year-on-Year Growth of Monetary Aggregates



*Sudden changes in reserve money growth in particular months are due to revisions to SRR and seasonal factors

The increase in NCG was the combined out come of a significant increase in net credit granted to the government by commercial banks, amounting to Rs. 204.9 billion, and an increase in net credit granted by the Central Bank amounting to Rs. 94.9 billion. Lower than expected disbursement of foreign financing to the government and a low revenue collection led the government to resort to increased domestic financing, thereby raising NCG from the banking system. Meanwhile, credit obtained by public corporations from commercial banks increased by Rs. 36.5 billion during the first eight months of 2015, compared to the contraction of Rs. 27.2 billion observed during the same period in 2014, mainly due to an increase in borrowings by SriLankan Airlines, the Road Development Authority, and the Ceylon Petroleum Corporation. However, the Ceylon Electricity Board recorded a net repayment during the period under review.

- **The growth of credit extended to the private sector by commercial banks, which rebounded towards end 2014, accelerated further during the first eight months of 2015, driven by low market lending rates, increased real wages, as well as increased import demand**. Accordingly, credit to the private sector increased by 21.3 per cent on a year-on-year basis by end August 2015, compared to 8.8 per cent recorded at end 2014. The high year-on-year growth rate in private sector credit in 2015 is also attributed to the lower levels of credit extended to the private sector during the first eight months of the previous year. In absolute terms, credit increased by Rs. 310.5 billion during the first eight months of 2015, suggesting a strong demand for banking sector funds. Meanwhile, as per the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, credit flows to all major sectors recorded an expansion during the first half of 2015. Accordingly, credit to Industry and Services sectors on a year-on-year basis increased by 27.8 per cent and 25.6 per cent, respectively, during the first half of 2015.

Credit to the Agriculture and Fishing sectors recorded a moderate increase of 3.9 per cent, while Personal Loans and Advances increased by 3.1 per cent by end June 2015.

- **Market interest rates continued to remain at low levels in the first ten months of 2015, benefiting from prevailing relaxed monetary conditions.** The Average Weighted Call Money Rate (AWCMR) displayed somewhat mixed movements in the first ten months of 2015. Even though the AWCMR declined below the SDFR following the rationalisation of access to the SDF in September 2014, the AWCMR peaked at 7.00 per cent on 02 March 2015 with the removal of this restriction, and then remained around 6.70 per cent until mid-April 2015. However, with the reduction in policy interest rates in April 2015, the AWCMR declined immediately by 42 basis points to 6.23 per cent and continued its declining trend thereafter towards the lower bound of the policy rate corridor. By mid-August 2015, with the decline in excess liquidity in the domestic money market, the AWCMR witnessed some upward movement and stabilised at around 6.35 per cent thereafter. Although the yields on government securities continued to remain relatively low, some pressures were observed during the first ten months of 2015 due to the increased borrowing requirement of the government from domestic sources. Accordingly, compared to the yields observed at end 2014, the 91-day, 182-day and 364-day Treasury bill yields increased by 87 basis points, 115 basis points and 105 basis points, to 6.61 per cent, 6.99 per cent and 7.06 per cent, respectively, by end October 2015. With regard to other market interest rates, average lending rates continued their declining trend, benefitting from the prevailing monetary relaxation. Accordingly, the average weighted lending rate (AWLR) declined by 88 basis points to 11.03 per cent by end September 2015, from 11.91 per cent recorded at end 2014. However, the weekly average weighted prime lending rate (AWPR) increased to 7.24 per cent by end October 2015, compared to 6.26 per cent recorded at end 2014. Meanwhile, interest rates pertaining to new loans as indicated by the average weighted new lending rate (AWNLR) declined to 10.63 per cent by August 2015, compared to 10.68 per cent in December 2014. Deposit interest rates also continued their declining trend up to April 2015, although some marginal increase was witnessed in average interest rates thereafter, indicating the impact of the special interest rate of 15 per cent offered for senior citizens' deposits. Overall, the average weighted deposit rate (AWDR) declined to 6.05 per cent by end October 2015, compared to 6.20 per cent at end 2014, while the average weighted fixed deposit rate (AWFDR) remained unchanged at 7.33 per cent by end October 2015, compared to that in end 2014. However, the average weighted new deposit rate (AWNDR) increased to 6.55 per cent in August 2015, compared to 5.45 per cent in December 2014. Meanwhile, the corporate debt market witnessed some downward adjustments in rates during the first nine months of 2015.

- **The stability and soundness of the financial sector was maintained during the period under review, with improved performance in all major sectors.** The banking system as well as the non-bank financial institutions (NBFIs) regulated by the Central Bank recorded an accelerated growth in assets and profitability, while accessibility has also improved with the expansion in the branch and ATM network. The rapid growth in loans and advances, for consumption related activities as well as for Industry and Services sectors, contributed towards this improvement. Liquidity has been maintained at adequate levels, although the reliance on short-term funding has increased. Even though an increase in the volume of non-performing loans (NPL) was observed since early 2015, the NPL ratio remained relatively low with adequate provision coverage. Further, the banking system has been in compliance with the new capital requirements under Basel III. The Central Bank continued to introduce new prudential policy measures with the view of enhancing the stability and soundness of the banking system and the NBFI sector. In addition, the primary dealer industry, the unit trust industry and the superannuation funds sector continued to grow with improved operating performance. However, the stock broking sector showed a mixed performance with subdued activity in the Colombo Stock Exchange (CSE), while the operating performance of the insurance sector has been affected by low interest rates. Meanwhile, the interbank call money market experienced a sharp decline in excess liquidity levels, while some volatility was observed in short term interest rates till April 2015. Similarly, there was a gradual reduction of liquidity in the domestic foreign exchange market, with increased outflows mainly through government securities and import bills. The corporate debt securities market activities improved with increased issuances and listings during the first half of 2015, even though activities in the commercial paper market continued to slow down. Performance in the domestic equity market deteriorated with increased volatility in price indices. With regard to payments and settlements systems, an increased volume of transactions has been facilitated during the period under review, with a high degree of reliability.

International Economic Environment

- **Global economic growth is projected at 3.1 per cent in 2015 in comparison to the growth of 3.4 per cent in the previous year, as per the IMF World Economic Outlook – October 2015**. The latest growth projections by the IMF for both 2015 and 2016 are 0.2 percentage points lower than its projections in July 2015, and reflect a further slowdown in emerging market economies and a weaker recovery in advanced economies. Relative to 2014, the outlook for advanced economies has improved on account of monetary policy support and the return to fiscal neutrality. In contrast, growth in emerging market and developing economies is projected to dampen further as a result of declining commodity prices and geopolitical tensions in some regions. The slowdown in emerging market economies is expected to push the global economy into its weakest expansion since 2009, triggering concerns about the risk of a global recession. The Organisation for Economic Co-operation and Development (OECD) also downgraded its global economic growth projections for 2015 to 2.9 per cent, although OECD expects the world economy to gradually strengthen and grow at 3.3 per cent in 2016 line with projections of the IMF.

- **Divergences across major advanced economies are expected to narrow in 2015-16 with modest growth in the medium-term**. Although growth is expected to be stronger in 2016, medium-term prospects remain subdued as a result of low investments, weak growth in productivity and unfavourable demographics. Real economic growth projected by the IMF for advanced economies is 2.0 per cent in 2015 followed by 2.2 per cent in 2016. The expected recovery of growth is largely driven by the robust growth in the United States (US) and the recovery in the Euro area. Although economic activity in the US stalled during the first quarter of the year, contributing to a substantial downward revision of the global growth forecasts, the US economy is experiencing a rebound in the second half of 2015 with lower energy prices, increased household spending, increased business fixed investment and an improving housing market. Accordingly, the IMF growth projections for the US are 2.6 per cent in 2015 and 2.8 per cent in 2016, compared to 2.4 per cent in 2014. The economy of the United Kingdom (UK), which registered a growth of 3.0 per cent in 2014, is expected to grow at a slightly slower rate of 2.5 per cent in 2015 and 2.2 per cent in 2016. The Japanese economic growth is expected to return to positive territory, recording 0.6 per cent in 2015 and 1.0 per cent in 2016. The recovery in the Euro area has progressed more rapidly than expected since 2014, as a result of the weakening euro, monetary easing and lower oil prices. Accordingly, the growth projections have been revised upwards for a number of Euro area economies, although asymmetries persisted within these economies with regard to economic performance. The IMF projects growth in the Euro area to increase from 0.9 per cent in 2014 to 1.5 per cent in 2015 and 1.6 per cent in 2016.

- **Growth in emerging market and developing economies is expected to decelerate further in 2015**. This expectation reflects the slowdown of the Chinese economy, the weak economic growth of commodity exporters and geopolitical tensions. Monetary policy normalisation in the US will supplement the general trend of reduced financial inflows to emerging markets, and a reversal of capital flows in some instances, causing a further tightening of external financial conditions. Despite these concerns, emerging markets and developing economies are projected to rebound in 2016 mainly as a result of spillovers from stronger growth in advanced economies. Growth in China is envisaged to slow down to 6.8 per cent in 2015 and even further to 6.3 per cent in 2016 in spite of the recent efforts to revive the economy, including six interest rate cuts in less than a year. Domestic demand in India is projected to remain strong, and consequently a growth of 7.3 per cent is expected in 2015 and 7.5 per cent in 2016. Structural vulnerabilities, geopolitical uncertainties, falling commodity prices and economic sanctions cloud the outlook for the Commonwealth of Independent States, the Middle East and Sub-Saharan Africa. The commodity price shock also caused the sharp slowdown of economic activity in Latin America.

- **Global consumer price inflation is expected to ease as a result of falling commodity prices**. Consumer price inflation in advanced economies is expected to decelerate to 0.3 per cent in 2015 from 1.4 per cent in 2014. Even though inflation is likely to increase to 1.2 per cent in 2016, it will broadly remain below the central bank targets in most advanced economies, signalling the presence of substantial output gaps. In emerging market economies, inflation is expected to remain subdued in 2015, mainly on account of low oil prices, despite sizable nominal exchange rate depreciations. Overall, consumer price inflation in emerging market and developing economies is expected to remain at around 5.6 per cent in 2015 and 5.1 per cent in 2016, in comparison to the 5.1 per cent inflation observed in 2014.

- **Currencies of major advanced and emerging economies depreciated against the US dollar during the first nine months of 2015, due to the strengthening economic outlook of the US and the anticipated hike in the Fed funds target rate.** The euro weakened against the US dollar as a result of persistently sluggish economic conditions in some Eurozone economies and the further easing of monetary policy by the European Central Bank (ECB). The Pound sterling displayed a similar trend against the US dollar. Meanwhile, the Japanese yen continued to lose its value at a faster pace against the US dollar since launching additional quantitative and qualitative easing by the Bank of Japan. In the context of emerging economies, China devalued its currency by 1.9 per cent against the US dollar on 11 August in a surprise move in response to weakening exports and plummeting factory prices in a softening economy. Meanwhile, escalating geopolitical tensions, slow economic growth and a further round of sanctions by the US and the European Union caused the Russian ruble to depreciate against the US dollar. The Indian rupee as well as a number of other emerging market currencies depreciated against the US dollar as a result of capital flow reversals, in response to increasing yields in the US and the anticipated hike in the Fed funds target rate.

- **Prices of most commodities recorded their lowest levels in six years during the first ten months of the year**. The glut in crude oil supply amidst weak demand from emerging market economies is seen as the main driver for the sharp decline in oil prices. Oil production in the US surged during the year, while the oil cartel OPEC decided not to cut production. As increases in non-OPEC supply were expected to exceed the moderate growth in global demand for crude oil in 2015, the crude oil price that averaged at US dollars 96.3 per barrel in 2014, is estimated to decline to around US dollars 51.6 per barrel in 2015. The demand-supply gap is expected to widen in 2016, further suppressing crude oil prices to around US dollars 50.4 per barrel in 2016. The slowdown in global demand weighed on metal prices as well. Prices of food commodities also declined substantially until around August-September 2015, although some upward movements were observed thereafter.

- **According to the IMF, the distribution of risks to the projected modest global economic growth for 2015 and 2016 remains tilted to the downside as new risks related to financial stability and growth have emerged**. Financial markets have become increasingly volatile in the wake of uncertainty over monetary policy normalisation in the US and the UK, a possible increase in stimulus by the ECB and the sharp decline in commodity prices. Such conditions expose advanced economies and emerging markets to significant vulnerabilities in the short term. The main risk is the prospects of weak growth coupled with tight global financial conditions causing financial stress especially in commodity-exporting economies. Geopolitical tensions, especially the fear of spillovers of the political situation in Iraq, Libya and Syria to other major oil exporters, remain a major downside risk for the global economic outlook.

Expected Developments

- **The Sri Lankan economy is expected to return to a higher growth trajectory in the medium term, with positive contribution from all major sectors of the economy**. The slowdown in public sector construction activities and the conservative sentiment of investors in view of national elections had some impact on growth in 2015. Accordingly, the economy is expected to grow by around 5.7 per cent during 2015. Annual GDP growth is expected to accelerate thereafter with new policy initiatives of the government along with the expansion in private sector investments, encouraged by policy clarity and the improving investor friendly environment. Accordingly, the economy is projected to expand by around 6.5 per cent in 2016, and to grow at an annual rate of over 7 per cent thereafter. Growth is expected to be broad based. The envisaged expansion in the Industrial sector is expected to emanate from increased productivity through the adoption of advanced technology and investment initiatives of the private sector. At the same time, improved technology, better infrastructure facilities, and increased skilled labour would enhance the value addition of the Services and Agriculture related activities. It is also expected that improved conditions in key export markets would also support the Sri Lankan economy to realise its medium term growth projections.

- **Sustaining the benign low inflation environment, year-on-year headline inflation is projected at 2.0-3.0 per cent by end 2015 and stabilise at low single digit levels in the medium term**. Although inflation declined to negative levels in the third quarter of 2015, it rebounded in October with the dissipation of the impact of price adjustments made in the last quarter of 2014 and the impact of the depreciation of the Sri Lankan rupee against the US dollar since September 2015. Although inflation could firm up with rising aggregate demand, appropriate and preemptive monetary policy measures by the Central Bank, as well as improved supply conditions would help maintain inflation in low single digit levels in the medium term.

- **Sri Lanka's external sector is projected to strengthen in 2016**. Following a setback in 2015, earnings from exports are expected to rebound in 2016 and follow a steady growth path thereafter, mainly supported by the gradual recovery of major export destinations, improvements in bilateral trade relations with the country's key trading partners and increased competitiveness.

The possible regaining of the GSP+ facility as well as the likely removal of the ban on fish exports to the European Union are expected to strengthen earnings from exports further. At the same time, earnings from the export of services are projected to increase steadily over time. The ongoing efforts to focus on value added services such as design and brand development, parallel to the development of traditionally structured services sectors would position Sri Lanka up in the global value chain. At the same time, the annual expenditure on imports is expected to continue its expansion, with the import requirement of intermediate and investment goods to support domestic economic activity. Nevertheless, as exports are expected to increase at a higher rate than the projected growth in imports, the trade balance is expected to improve in the period ahead. Workers' remittances are expected to record a moderate growth in the medium term. Notwithstanding the slowdown in workers' remittances, expected developments in merchandise trade, and trade in services, including tourism, would lead to a gradual contraction in the external current account deficit in 2016 and in the medium term. Meanwhile, during 2016, inflows to the financial account, mainly on account of FDIs, loan capital to the government and the private sector and portfolio investments, are expected to increase substantially, thereby enhancing the financial account balance of the BOP. Overall, the external position is expected to improve, yielding a sizable surplus in the BOP and improving external reserves of the country, thus helping to maintain stability in the domestic foreign exchange market and enhance the country's resilience to external shocks.

- **The government's commitment towards maintaining greater fiscal consolidation is expected to yield enhanced revenue collection and rationalised expenditure thus resulting in a decline in the overall budget deficit**. An increase in government revenue is expected in the medium term with the expected further simplification of the tax system, rationalisation of tax exemptions, and improvements in tax compliance and tax administration. At the same time, further rationalising of recurrent expenditure will enable the allocation of necessary funds for essential capital investments by the government. Consequent to this decline in the budget deficit, the government debt to GDP ratio is also expected to decline gradually.

- **Broad money growth is expected to decelerate to fall in line with the envisaged growth of nominal GDP in the medium term**. Broad money growth is projected at around 16.0 per cent by end 2015, on a year-on-year basis, with an average growth of 15.0 per cent. This growth is expected to be a result of the expansion in credit to both the private sector as well as the public sector. By end 2016, broad money is expected to grow by around 11.0 per cent, on a year-on-year basis, mainly underpinned by the expansion in credit to the private sector, which is projected to increase by around 16.5 per cent during the period. At the same time, in 2016, net foreign assets of the banking sector are projected to increase along with enhanced foreign inflows and resultant surplus in the BOP. It is also expected that the realisation of revenue targets of the government and the improved performance of state owned enterprises would reduce the reliance on banking sector funds by the public sector, enabling the private sector to utilise financial resources effectively for investment activity. Meanwhile, in conducting monetary policy, the Central Bank will follow a forward looking monetary policy stance, increasingly relying on a flexible inflation targeting framework, while paying close attention to price stability, with due regard to macroeconomic stability. At the same time, monetary aggregates would continue to serve as key indicative variables to guide the conduct of monetary policy, while the overnight interbank interest rate will serve as the operating target of monetary policy.

- **In the context of tightening policy spaces in the fiscal as well as monetary fronts, it is essential to maintain prudent, consistent and dynamic economic policies that would guide private sector investments into more productive activities, in order to sustain high economic growth over the medium term**. The fiscal and monetary authorities are expected to co-ordinate policies closely to maintain an appropriate level of aggregate demand in the economy without giving rise to demand driven inflationary pressures, which could, in fact, trigger an adverse cycle of high inflation, high interest rates and slower economic growth. In the meantime, strengthening external and domestic policy buffers that could enhance the resilience of the economy in the midst of volatile global economic conditions would be of paramount importance to sustain the envisaged growth trajectory over the medium to long term.

2

NATIONAL OUTPUT AND EXPENDITURE

The Sri Lankan economy grew by 5.6 per cent during the first half of 2015 compared to the growth of 1.3 per cent recorded during the corresponding period of 2014 as per the rebased estimates of the Department of Census and Statistics (DCS). The strong growth observed in Services related activities and the recovery in Agriculture and Industry activities contributed to this growth. Continuation of the conducive monetary policy stance in a low and stable inflationary environment and the favourable weather conditions that prevailed during this period supported the growth amidst the slowdown in net external demand and policy uncertainty that prevailed during the first half of 2015. It is expected that the economy will benefit from the stability in the policy making environment and improvements in domestic and external market conditions during the remaining period of the year. The economic growth is expected to be broad-based where Agriculture, Industry and Services activities will contribute positively towards the economic growth. Traditional as well as emerging services activities will support the economic growth during the remaining period of the year. Further, the recovery in Industry activities, especially those of manufacturing, is also expected to continue, while the construction activities are envisaged to rebound during the second half of the year.

Developments in 2015

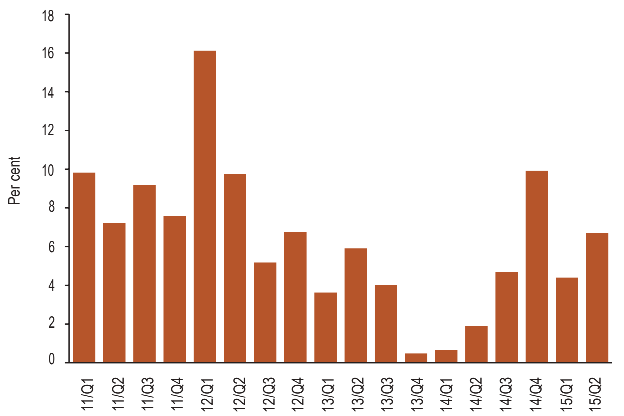
Output

- **The Gross Domestic Product (GDP) grew by 5.6 per cent (2010 constant prices) during the first half of 2015 compared to 1.3 per cent growth recorded during the corresponding period of 2014.** The recorded growth was mainly buoyed by the expansion in Services, supported by the recovery in Agriculture and Industry related activities[1]. Accordingly, Services related economic activities grew by 7.1 per cent in value added terms during the first half of the year, which is mainly attributable to the higher contribution recorded in financial, insurance and real estate services, other personal services, public services related activities, and wholesale and retail trade services. The value added in Agriculture, forestry and fishing activities grew by 3.3 per cent during the first half of the year mainly due to the expansion observed in the growing of rice, and marine fishing and aquaculture activities, while Industry related economic activities grew by 1.3 per cent in value added terms mainly with the recovery of manufacturing activities.

- **The economy is projected to grow by 5.7 per cent in 2015 compared to the growth of 4.5 per cent recorded in 2014.** The overall growth is projected to be broad-based where Services, Industry and Agriculture are expected to contribute positively towards this growth. The growth momentum in the Services activities is expected to continue with significant contributions from financial, insurance and real estate, public services, and other personal services. Meanwhile, construction activities are expected to recover gradually, contributing to the Industry related growth along with growth in manufacturing activities. Further, Agriculture, forestry and fishing related economic activities are expected to grow further with the higher contribution from the growing of rice, other cereals and oleaginous fruits.

1 Under the rebasing exercise, methodological changes have been introduced in relation to compilation of GDP. Accordingly, the gross value added of economic activities is compiled using the basic price. Thus, Taxes less Subsidies on Products is added to the gross value added in order to obtain the GDP at market price. During the corresponding period under concern, Taxes less Subsidies on Products grew by 13 per cent due to higher contribution from taxes on products compared to the subsidies granted.

Chart 2.1 Quarterly GDP Growth Rates (a)



(a) Based on the revised base year (2010) GDP estimates of the DCS

Growth in Economic Activities

Agriculture, Forestry and Fishing

- **The Agriculture, forestry and fishing activities grew by 3.3 per cent in value added terms during the first half of 2015, recovering from 0.7 per cent contraction posted in the corresponding period of 2014.** The conducive weather conditions that prevailed during the period supported the revival of Agriculture activities. The growing of rice, and marine fishing and aquaculture activities mostly contributed to this recovery. Meanwhile, growing of other perennial crops, other cereals, oleaginous fruits, other beverage crops, and forestry and logging activities also contributed positively towards the growth in Agriculture activities. However, contraction recorded in the growing of tea, rubber, and spices, aromatic, drug and pharmaceutical crops, and fresh water fishing dampened the overall growth in Agriculture related activities.

Production Trends and Institutional Support: Agriculture

Agriculture Production Index (API)

- **The Agriculture Production Index (API), which measures the output of Agriculture and Fishing activities, recorded a growth of 6.6 per cent during the first half of 2015.** The Paddy subsector recorded a growth of 28.7 per cent benefitting mainly from the favourable weather conditions. Livestock and other crops subsectors contributed positively to the overall agriculture output recording a growth of 8.9 per cent and 4.2 per cent, respectively. However, the rubber subsector witnessed a pronounced decline of 17.4 per cent particularly due to the reduction of tapping operations in response to low market prices prevailed during the period. The coconut subsector recorded a growth of 5.2 per cent while the tea subsector declined marginally by 0.6 per cent during the first half of 2015. Further, the fishing subsector also declined by 1.1 per cent in the first half of 2015 owing to a significant decline in inland fish production.

Paddy

- **Paddy production in 2015 is expected to increase by 41 per cent to 4.8 million metric tons.** The increase in paddy production in the year would be a combined outcome of an in crease in production by 28.7 per cent to 2.9 million in the 2014/15 Maha season and the estimated increase of around 65 per cent (1.9 million metric tons) in 2015 Yala season. The bumper harvest recorded in the Maha season, which accounts for about 60 percent of total annual production, can be attributed to improved paddy harvest resulting from favourable weather conditions and an increase in the extent cultivated. Meanwhile, increased guaranteed purchasing price of paddy also motivated farmers to convert marginal lands for paddy cultivation. The extent sown during the 2014/15 Maha season increased by 18.6 per cent while the extent harvested increased by 26.6 per cent over the corresponding season of the last year. Meanwhile, the Paddy Marketing Board (PMB) purchased 153,996 metric tons of paddy from the 2014/15 Maha harvest compared to 4,563 metric tons in 2013/14 Maha season in an effort to stabilise paddy prices. Further, the PMB is expected to procure around 180,000 metric tons of paddy from the 2015 Yala harvest. The estimated annual paddy production, equivalent

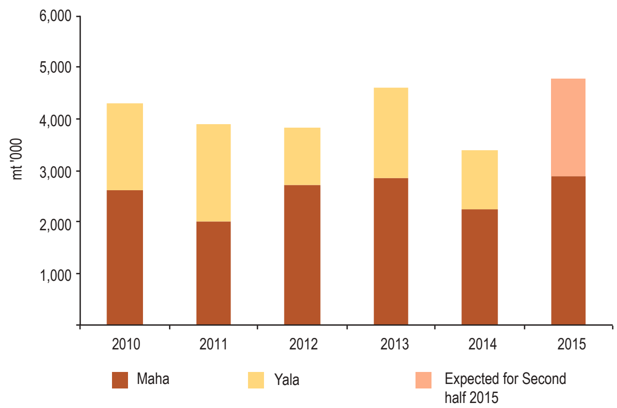
Table 2.1 Agriculture Production Indices Index Points (2007-2010=100)

Item	2014 First Half (a)	2015 First Half (b)	Rate of Change (%)
Agriculture and Fishing	**130.6**	**139.2**	**6.6**
1 Agriculture	**125.5**	**136.2**	**8.6**
Tea	111.4	110.8	-0.6
Rubber	90.9	75.1	-17.4
Coconut	100.7	105.9	5.2
Paddy	119.6	153.9	28.7
Other Crops	153.9	160.4	4.2
Livestock	145.6	158.5	8.9
2 Fishing	**155.1**	**153.5**	**-1.1**

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Chart 2.2 Paddy Production



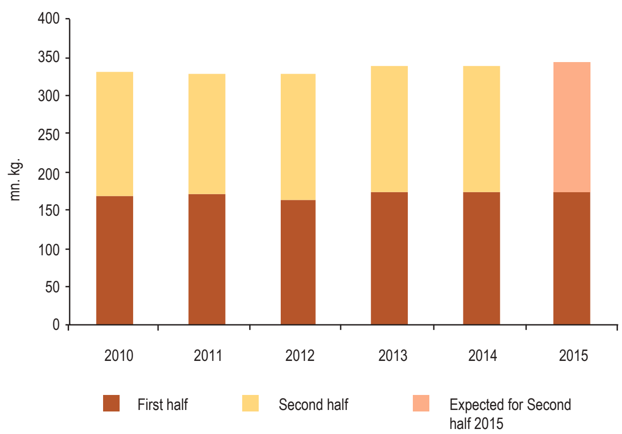
to 2.9 million metric tons of rice, would be sufficient to meet the rice demand of the country for approximately 14 months.

- **The increased Maha paddy harvest resulted in lower paddy prices in the open market leading to a reduction in retail rice prices.** The average retail prices of Samba and Nadu decreased in the second quarter of 2015 by around 3 per cent and 9 per cent to Rs. 89.3 and Rs. 77.2 per kilogram, respectively compared to the first quarter of 2015. Consequently, the government increased tariffs on rice imports with the imposition of a customs duty of Rs. 35 per kilogram and other taxes in place of the Special Commodity Levy (SCL) with effect from May 2015 to stabilise rice prices and safeguard farmers' income. Subsequently, the quantum of rice imports, which recorded a significant growth since April 2014, decreased during the second quarter of 2015.

Tea

- **Tea production decreased marginally by 0.6 per cent (year-on-year) to 172.6 million kilograms during the first half of 2015.** This is a combined effect of 7.1 per cent growth in the first quarter owing to favourable weather conditions in all tea growing regions and 6.3 per cent decline during the second quarter of the year. Both high grown and low grown tea, which collectively accounts for around 85 per cent of the total tea production, declined by 1.7 per cent and 1.4 per cent, respectively during the first half of 2015. However, the output of medium grown tea grew by 1.7 per cent supported by favourable weather conditions in major medium tea grown areas. Meanwhile, as most of the prime export destinations of Sri Lanka are currently experiencing economic setbacks mainly owing to declined oil prices, the demand for tea at the global market has not shown a significant growth thus far during the year.

Chart 2.3 Tea Production



- **Tea prices continued to decline at the Colombo Tea Auction (CTA) in response to declining tea prices in the global market.** The average tea prices during the first half of 2015 declined by 14.3 per cent to Rs. 409.6 per kilogram over the corresponding period of the last year. The highest decrease (year-on-year) in average tea prices at the CTA was recorded for low grown tea (16 per cent), followed by medium grown tea (12.5 per cent) and high grown tea (10 per cent). The drastic fall in domestic tea prices is part of a broader global trend of decline in tea prices as demand from Russia and the Middle East slowed down due to the significant decline in petroleum prices and the imposition of sanctions. In line with the continuous decline in tea prices, the average price received by smallholders for green leaves reduced to Rs. 60 per kilogram during the first half of 2015 from Rs. 70 per kilogram in the first half of 2014. The government implemented a green leaf subsidy scheme in order to maintain a guaranteed price for smallholders. Accordingly, arrangements were made to pay Rs. 80 per kilogram for green leaf supplied by smallholders since March 2015. Moreover, with a view to stabilising tea prices, the government also took measures to release funds up to Rs.1 billion to the Sri Lanka Tea Board (SLTB) to purchase tea at the Colombo tea auctions.

Rubber

- **Rubber production declined by 17 per cent to 50,394 metric tons during the first half of 2015 largely due to the reduction of tapping days owing to a continuous decline in rubber prices at the international market.** Unfavourable weather conditions experienced during the second quarter of the year also affected the domestic rubber production where smallholders slowed down their tapping operations. During the first half of 2015, crepe rubber production declined by 36.6 per cent to 6,108 metric tons while sheet rubber production declined by 19.9 per cent to 25,305 metric tons. Meanwhile, the production of unspecified category, which accounts for 40 per cent of the total rubber production, declined by around 4 per cent to 18,981 metric tons during the first half of 2015 from 19,776 metric tons over the corresponding period of the last year. As per the World Rubber Industry Outlook, the total world rubber demand is expected to grow by 1.8 per cent in 2015 and 4.1 per cent in 2016.

- **Natural rubber prices continued their downward trend during the first half of 2015 in both global and domestic markets**. The declining trend of natural rubber prices at the global market was largely due to the slowdown in global demand and the accumulation of large stockpiles in major rubber consuming countries. Meanwhile, the average price of Ribbed Smoked Sheet 1 (RSS1) at the Colombo Rubber Auction declined by 16.3 per cent to Rs. 252 per kilogram while latex crepe 1X declined by 12.9 per cent to Rs.277 per kilogram during the period under review. Further, measures to promote the rubber industry continued targeting a rubber production up to 200,000 metric tons by 2020. The government introduced a guaranteed purchase price scheme for rubber smallholders through the interim Budget 2015 in order to encourage the production of rubber while helping small holders who were adversely affected due to low market prices. Accordingly, measures were undertaken to pay the difference between the monthly average price of RSS rubber in the Colombo Rubber Auction and the guaranteed purchase price (Rs. 350 per kilogram) to smallholders since March 2015.

Coconut

- **Coconut production increased by 5.2 per cent to around 1,500 million nuts during the first half of the 2015.** The lagged effect of drought conditions experienced in all major coconut growing areas during February to April 2014 adversely impacted the coconut production in the first quarter of 2015. However, production in the second quarter rebounded with a growth of 6.8 per cent in comparison to the corresponding quarter of the last year. Meanwhile, the production of Desiccated Coconut (DC) declined by 38.3 per cent to 16,108 metric tons. The decline was largely due to the usage of fresh nuts for the production of Virgin Coconut Oil (VCO) and coconut milk which had a higher demand in the international market. However, the VCO production, which increased significantly during the first quarter of the year, slowed during the second quarter largely due to the shutting down of mills to adopt ISO certification. In addition, reduced prices at the global market also contributed to the lower VCO production during the second quarter of the year. Coconut oil production increased by 16.7 per cent to around 27,167 metric tons during the first half of 2015. Further, coconut cream, milk powder and liquid coconut milk production also grew by 14 per cent to 14,010 metric tons during the period under review. It is also observed that there is a huge demand in the international market for king coconut and coconut water, where king coconut exports during the first half of 2015 increased by 77 per cent to 1,820 metric tons from 1,027 metric tons in the corresponding period of the last year.

- **Prices of coconut and coconut based products remained high in comparison to the corresponding period of the last year, driven by the emerging industrial demand for raw coconut nuts.** The average retail price of fresh coconuts during the first half of 2015 remained at around Rs. 53 per nut compared to Rs. 46 recorded in the corresponding period of the last year. However, prices of fresh coconuts in June 2015 declined drastically to Rs 42 per nut due to low demand for DC and VCO production. Meanwhile, the average price of coconut oil during the first half of the year decreased to Rs. 281.7 per litre from Rs. 289.7 per litre recorded in the corresponding period of the last year, supported by increased domestic production of coconut oil and increased palm oil imports. Further, the average price of DC at the Colombo Coconut Auction increased by 11 per cent to Rs. 327.2 per kilogram from Rs. 294.8 per kilogram in the corresponding period of 2014. In the international market, the average export price of DC during the first half of 2015 increased to US dollars 2.8 per kilogram from US dollars 2.1 per kilogram in 2014. Meanwhile, restrictions on fresh coconut exports, which was introduced to increase the availability of fresh coconuts to local industries and curtail increasing local nut prices, have been removed with effect from 1 June 2015 considering the improvements in the domestic coconut supply during the year. Further, the SCL on palm oil imports was increased to Rs. 105 per kilogram from Rs. 90 per kilogram with effect from 18 June 2015 to bolster the domestic coconut oil industry. However, the SCL on palm oil imports was reduced subsequently to Rs. 90 per kilogram with effect from 21 July 2015.

Other Field Crops

- **Production of Other Field Crops (OFCs) increased marginally by 1 per cent to 655,615 metric tons in the 2014/15 Maha season despite high crop damages recorded in the early part of 2015 caused by heavy rain and floods.** Production of crops such as big onion, chillies, cowpea, green gram, kurakkan and potatoes increased during the 2014/15 Maha season partly supported by remunerative prices fetched for selected commodities due to high levels of SCL on imports of such commodities. Meanwhile, maize production increased by around 15 per cent to 276,349 metric tons in 2015, which is an excess production compared to the estimated annual requirement of maize (181,872 metric tons). Further, the production of ground nuts and cowpea also exceeded the national demand in 2015. Meanwhile, it is expected that the production of black gram, red onion, and gingelly would meet around 80 per cent of the total domestic requirement for this year. However, the production of selected OFC items recorded a declining trend partly due to the lesser extent of land cultivated compared to the last year. In this regard, promoting off-seasonal production, expanding storage capacity and strengthening research and development activities on post harvest technology and seed production are important.

Vegetables

- **Vegetable production increased by 2.3 per cent to 744,683 metric tons in the 2014/15 Maha season.** Weather related setbacks experienced during the latter part of the last year resulted in crop damages thereby reducing the market supply and escalating vegetable prices during the early part of this year. Further, Maha cultivation was also delayed due to the reestablishment of crops in the weather affected areas. However, the increased supply of vegetables during the month of March helped curtail the pressure on vegetable prices. Meanwhile, the market supply of vegetables declined during May to mid-June resulting in an increase in vegetable prices. However, the Yala harvest, which reached the market mid-July, helped decelerate vegetable prices there after.

Sugar

- **Sugar production declined by 8.2 per cent to 11,231 metric tons during the first half of 2015.** This is the combined outcome of a 16 per cent increase in production at the Pelwatta sugar factory and a decline in production at the Sevenagala and Gal Oya sugar factories by 0.1 per cent and 0.2 per cent, respectively due to severe drought conditions that affected the planting of sugar cane. However, with the view of enhancing sugarcane production, the government increased the purchasing price of sugarcane to Rs.4,500 per metric ton from Rs.4,100 per metric ton. Given the increased purchasing prices, it is expected that total sugar production would increase by 15 per cent to 60,000 metric tons in 2015, which would be equal to around 10 per cent of the total sugar requirement of the country.

Fisheries

- **Fish production declined by 1.1 per cent to 256,000 metric tons during the first half of 2015 mainly due to the significant decline in inland fish production.** Inland capture and shrimp farm production declined by 25 per cent and 36 per cent, respectively while aquaculture increased by 44 per cent. The significant decline in inland fish production was mainly driven by adverse weather conditions experienced during the early part of 2015 where the high level of water in major reservoirs reduced the fish netting areas which led to a less fish harvest. Further, the reduction of releasing fingerlings to the tanks in 2014 also contributed to the lower production. However, it is expected that inland fish production would increase with the seasonal tank harvesting in the second half of the year. Meanwhile, marine fish production increased marginally by 3 per cent during this period. The growth in marine fish production was largely driven by deep sea fish production which recorded a growth of 4.6 per cent during the first half of the year. In the meantime, the Government undertook several policy measures to establish a Vessel Monitoring System (VMS) with the view of lifting the ban imposed by the European Union (EU), the major market for Sri Lankan sea food exports, on Illegal, Unreported and Unregulated (IUU) fishing concerns. It is noted that around 570 multiday boats were equipped with transponders during the first half of 2015. The cost of the installation of necessary equipment, such as transponders in multiday boats, is provided to fisherman through a payment plan. The introduction of VMS would help to strengthen the international standards and compliance applicable for deep sea fishing while eliminating IUU fishing. Meanwhile, in order to strengthen the national fishing fleet, around 39 boats with outboard engines and 85 multiday boats were added during the first half of 2015. Furthermore, in order to increase the inland fish and aquaculture production, the Ministry of Fisheries in collaboration with the Food and Agriculture Organisation (FAO), undertook several measures, including increase of fish fingerling and fresh water prawn post larvae stocking, proper management of water bodies with community participation and the establishment of community based mini-hatcheries during the first half of the year.

Livestock

- **Milk production increased by around 4 per cent to 213 million litres during the first half of 2015 over the corresponding period of the last year.** The slow growth was attributed to the long term effects of the Foot and Mouth Disease epidemic that prevailed the last year. Meanwhile, total milk collection of large scale milk product manufacturers increased significantly by 30 per cent to 128.9 million litres in the first half of 2015. This improvement was particularly pronounced due to the progress of the modernisation of Polonnaruwa, Digana and Ambewela milk factories of MILCO. Further, Ridiyagama farm of NLDB received the first consignment of pure and cross bred cattle from Australia during the month of July in the last year, and the farm was further developed to expand its capacities and converted to a modern dairy farm where European type cattle could be nurtured under an intensive management system. Given the current situation, it is expected that milk production would increase by 2 per cent to 426 million litres in 2015, which would be sufficient to meet around 56 per cent of the total domestic demand. Meanwhile, egg production increased by 11 per cent to 1,171 million, while poultry meat production increased by 13 per cent to 80,750 metric tons during the first half of 2015. Further, Broiler parent chick production recorded a growth of around 22 per cent during the first half of 2015 which largely contributed to the growth in the chicken production.

Industries

- **The Industry related economic activities grew by 1.3 per cent in value added terms during the first half of 2015 recovering from the contraction of 4.5 per cent recorded in the first half of 2014.** The recovery in the Industry related activities is broadly in line with the rebound in manufacturing activities. Further, construction activities witnessed a recovery during the second quarter thereby partially offsetting the negative growth in construction recorded during the first quarter of the year. Electricity supply related activities, and sewerage, waste treatment and disposal activities maintained a higher growth during this period compared to the corresponding period of 2014. Water collection, treatment and supply activities also contributed positively, yet at a slower pace compared to the first half of 2014. However, mining and quarrying activities continued to contract, affecting the Industry related growth.

- **The manufacturing activities picked up during the first half of the year contributing to the Industry related growth, while the setback in construction, and mining and quarrying activities continued.** Manufacturing activities, the largest segment of the Industry activities, grew by 4.5 per cent during this period recovering from the stagnant performance recorded in the corresponding period of 2014. This growth was mainly attributable to the manufacture of food, beverages and tobacco products, the major sub category of manufacturing activities, which grew by 6.5 per cent during the period under review, recovering from the 0.4 per cent contraction recorded during the first half of 2014. Meanwhile, sewerage, waste treatment and disposal activities continued to expand by 22.4 per cent during the period in comparison to 9.9 per cent growth observed during the corresponding period of 2014. Electricity supply related activities, and water collection, treatment and supply activities also grew by 4.1 per cent and 3.2 per cent, respectively, during the first half of 2015 compared to 0.3 per cent and 5.7 per cent growth recorded, respectively, during the same period of 2014.

However, construction activities, which is the second largest segment of the Industrial activities, contracted by 5.1 per cent during the period compared to 15.1 per cent contraction recorded in the corresponding period of 2014 with a positive growth during the second quarter of the year. Further, mining and quarrying activities contracted by 5.7 per cent during the period in comparison with 4.4 per cent contraction recorded in the first half of 2014, dampening the Industrial growth.

Production Trends and Institutional Support: Industry

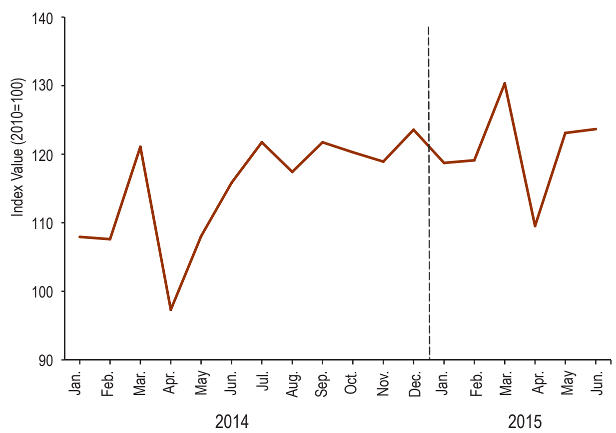
- **The industrial activities comprises mining and quarrying, manufacturing, electricity, gas and water and construction sub categories.** Among these, manufacturing activities provide the highest contribution to industry activities accounting for more than 54 per cent of total industry activities. The Factory Industry Production Index which is computed covering 17 major activities using the International Standard Industrial Classification (ISIC), Revision 4, measures the performance of manufacturing activities of the economy[2].

Factory Industry Production Index

- **Factory Industry Production Index (FIPI), a leading indicator of industrial output, showed a year-on-year growth of 10.1 per cent during the first half of 2015.** Wearing apparel, beverages, tobacco products, chemicals and chemical products and other non-metallic mineral products are the major subsectors that contributed positively to factory industry output during the period. However, textiles, rubber and plastic products, refined petroleum products, leather and related products, basic metals and fabricated metal products subsectors recorded a decline in the first half of 2015 against the corresponding period of 2014.

- **Food products subsector, a major subsector in FIPI, which showed a positive performance since June 2014, continued its growth momentum during the first half of 2015 as well.** Food products subsector showed a growth of 4.3 per cent during the first quarter of 2015, and a marginal growth of 0.4 per cent during the second quarter of 2015, hence recorded a year-on-year growth of 2.4 per cent during the first half of 2015. This was mainly supported by a considerable increase in production of bakery products, prepared meals and dishes, macaroni, noodles and similar products along with a notable increase in dairy products and prepared animal feed. However, the processing and preserving activities of fish showed a negative growth of 1.2 per cent which was mainly due to the decline in inland fish production due to adverse weather conditions. Also, the manufacture of sugar declined by 66.1 per cent mainly due to decline in production of the Sevenagala factory, which was affected by adverse weather conditions. Meanwhile, government took initial steps to introduce a 50 per cent tax reduction for the entrepreneurs

Chart 2.4 Factory Industry Production Index (FIPI)



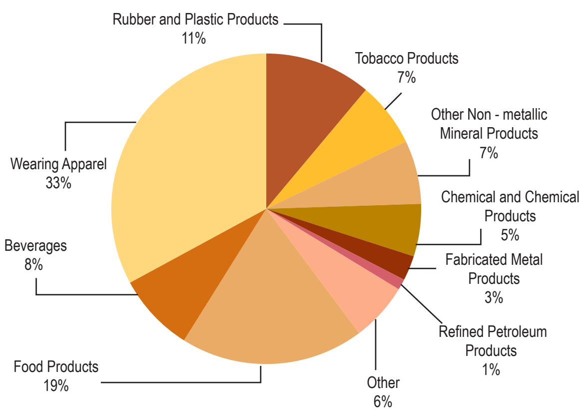
2 The weights in the FIPI are assigned for each industry using 2010 as the base year. Significant structural changes seen in the economy since then have resulted in emerging new industries with relatively higher weights, while the significance of some of the existing industries in the sample has declined. This will be taken into account in the next revision to the FIPI.

who commence businesses in vegetable and food processing industry, in line with its Budget for 2015, which will contribute further expansion of the food industry in the period ahead.

- **The beverages subsector showed a noteworthy growth of 13.7 per cent during the first half of 2015.** The considerable 12.9 per cent growth of production of liquor, the largest subsector in the beverages subsector was the main contributor towards this performance. Similarly, the manufacture of soft drinks, mineral water and bottled water also grew by 19.9 per cent supporting the expansion of beverages subsector further However, the manufacture of malted beverages, including malted milk products showed a setback recording a negative growth of 0.4 per cent. Increased demand from the tourism sector has supported the expansion of food as well as beverages subsectors during the period.

- **Wearing apparel subsector which is a leading subsector in FIPI performed at a very healthy rate during first half of 2015.** The subsector recoded a significant year-on-year growth of 22.6 per cent for the first half of 2015. Sri Lanka's international reputation as a reliable and a quality apparel manufacturer under the principles of ethical working conditions, environmental friendly green manufacturing and the availability of competent and literate workforce continued to support the industry to remain competitive in the international market.

Chart 2.5 Composition of Factory Industry Production Index (FIPI) - First Half 2015



- **The chemicals and chemical products subsector expanded by 5.3 per cent during the first half of 2015 benefiting from increased output in related industries such as fertilizer, paints and varnishes, soaps and detergents.** The production of fertilizer which is the leading output in the chemicals and chemical products subsector reported an overall growth of 0.9 per cent during first half of 2015. Further, production of paints and varnishes showed a significant growth rate of 27.3 per cent during the first half of 2015.

- **Non-metallic mineral products subsector performed well during the first half of 2015.** The output of non-metallic mineral products which reflected a slower year-on-year growth of 5.3 per cent during the first quarter of 2015 largely due to the lower level of construction activities, recorded an improved performance during the second quarter with a year-on-year growth of 22.8 per cent thereby achieving a year on year growth of 13.0 percent for the first half of this year. Increased production of cement, lime and plaster which accounts for nearly 50 per cent of output of this subsector recorded a year-on-year growth of 16.2 per cent along with an increase in the production of articles of concrete which grew by 29.8 per cent supported the favourable performance of this subsector. However, the manufacturing of clay building materials such as clay tiles, reflected a decline in performance reporting a negative growth of 12.4 per cent during the first half of 2015.

- **Further, the output of tobacco products subsector also recorded a year-on-year growth of 15.3 per cent during the first half of 2015.** Increased demand due to higher disposable income resulting from salary increases during the reference period has supported the growth of this sector.

- **Rubber and plastic products subsector showed a mix performance during the first half of 2015**. Even though, this subsector contracted by 2.6 per cent during the first quarter of 2015, it reported a positive growth by 2.8 per cent during the second quarter of 2015. Overall, the subsector reflected a marginal contraction of 0.1 per cent during the first half of 2015 compared to the corresponding period of 2014. Lower manufacture of rubber tyres and tubes as well as other rubber products such as gloves, rubber compounds has caused this performance during this period. Continuously declining domestic raw rubber production was attributed to this performance. Further, lower rubber prices in the world market, which make imported rubber products much cheaper, have also affected the tyre manufacturing industry unfavourably. In addition, advanced economies like USA have imposed antidumping and countervailing duties on tyres manufactured in China that are imported to the USA and as a result, those production flows may divert to developing countries, including Sri Lanka, at a lower price than domestic market prices.

- **The textile subsector too showed a weak performance recording a contraction of around 4.6 per cent during the first half of 2015.** Severe competition from imports of textile and textile articles during the period at cheaper prices adversely affected the local textile manufacturing subsector. Given the stiff competition from low cost suppliers to traditional markets like USA and Europe, the industry should consider exploring new export markets.

- **Factory production of refined petroleum based products which entirely comprises the production in refinery of Ceylon Petroleum Corporation reported a negative performance during the period.** The subsector showed a negative growth of 39.2 per cent during first quarter and 5.2 per cent during second quarter of 2015. The overall reduction in the refined petroleum based products sector during the first half of 2015 was 23.7 per cent when compared with the corresponding period of 2014. Lower refinery process due to closure of the refinery for repairs and maintenance resulted in a contraction in refined petroleum products.

- **The output of basic metals which reflected a slight growth of 0.6 percent during the first quarter of 2015 declined by 5.5 per cent during the second quarter of 2015 leading to a decline of 2.4 per cent during the first half of 2015.** The contraction in manufacturing of basic iron and steel products was the main factor affecting this performance. Further, the decline in manufacturing of footwear related products resulted in a negative growth of 14.7 per cent in leather and related products subsector during first half of 2015 compared to the corresponding period of the previous year.

- **The government continued to facilitate industrial sector development through its Ministries and state institutions**. The Ministry of Industry and Commerce continued the regional industrial development programme to promote regional industrialisation. Currently, there are 27 industrial estates covering 17 districts and 8 provinces providing 17,347 employment opportunities. The work relating to Stage II of the Trincomalee Industrial Estate and Thiraimadu Industrial Estate continued during this year. Further, two more industrial estates are to be developed at Welioya in Mullaitivu district and Musali in Mannar district to promote the garment industry.

- **Institutional support for the development of Small and Medium Enterprises (SMEs) sector of the country continued during first half of 2015.** Ministry of Industry and Commerce developed the National Policy Framework for SME Development with the objective of strengthening the SMEs sector. The National Enterprise Development Authority (NEDA) continued to strengthen Regional Enterprise Forums at Divisional Secretariat level and currently, there are 34 Regional Enterprise Forums. In addition, a number of programms such as Women Entrepreneurship Development Programme, "Upadidhari Vyavasayake Udanaya" Programme and Moratuwa Wood Furniture Entrepreneurs Development Programme continued to enhance entrepreneurship, marketing, technical and financial management skills of SMEs at regional level. Further, NEDA plans to hold Business Development Services (BDS) fairs in selected districts in order to create linkages/ interaction between SMEs and BDS providers at regional and national level.

Services

- **The Services related economic activities, the highest contributor to the first half 2015 growth, grew by 7.1 per cent in value added terms, compared to the growth of 4.2 per cent recorded in the corresponding period of 2014.** This growth was largely attributable to the substantial expansion in financial, insurance and real estate activities including ownership of dwellings. Further, wholesale and retail trade, public administration services, and other personal service activities also recorded a noteworthy contribution to the Services growth. However, IT programming related activities, education and professional services contracted during this period while all the other services related activities witnessed a positive growth.

Wholesale and retail trade, transportation and storage, and accommodation and food service activities

- **Wholesale and retail trade, transportation and storage, and accommodation and food service activities, the largest segment of the Services activities, grew by 4.6 per cent during the first half of 2015 in value added terms in comparison with 1.8 per cent growth recorded in the corresponding period of 2014.** Wholesale and retail trade activities, which grew by 5.8 per cent during the first half of 2015 compared to 12.8 per cent growth recorded during the corresponding period of 2014, mainly contributed to the overall growth in these activities. Meanwhile, transportation of goods and passengers including warehousing activities rebounded with a 2.2 per cent growth during the period, recovering from the 8.7 per cent contraction recorded in the first half of 2014. Moreover, accommodation, food and beverage service activities also recovered during the first half of 2015 recording an 8.6 per cent growth compared to 3.6 per cent contraction recorded in the same period of 2014. Further, postal and courier activities grew significantly by 20.1 per cent during the period under review against the 9.0 per cent contraction recorded during the first half of 2014.

Information and communication

- **Value added of the information and communication activities grew by 11.8 per cent during the first half of 2015 in comparison with 18.0 per cent growth recorded in the first half of 2014.** This growth was mainly buoyed by the continuous expansion in telecommunication activities, which grew by 17.7 per cent during the first half of the year, compared to 22.2 per cent growth recorded in the corresponding period of 2014. Further, programming and broadcasting activities and audio/video productions grew by 8.4 per cent within the period recovering from 0.6 per cent contraction recorded during the first half of 2014. However, IT programming consultancy and related activities contracted by 4.7 per cent during the first half of the year compared to 11.6 per cent growth in the first half of 2014.

Financial, insurance and real estate activities including ownership of dwellings

- **Financial, insurance and real estate activities including ownership of dwellings grew by 14.0 per cent during the first half of 2015 compared to 8.2 per cent growth recorded during the same period of 2014.** This growth was mainly attributable to 16.2 per cent growth in real estate activities including ownership of dwellings compared to 1.9 per cent growth recorded in the corresponding period of 2014. Meanwhile, financial service activities and auxiliary financial services grew by 12.7 per cent during the first half of 2015 compared to 16.2 per cent growth recorded in the first half of 2014. Further, activities of insurance, reinsurance and pension funding also posted a growth of 7.5 per cent during this period in comparison with 2.2 per cent growth recorded in the first half of 2014.

Professional services and other personal service activities

- **Professional services and other personal service activities grew by 7.8 per cent during the first half of 2015 compared to 2.5 per cent growth recorded in the first half of 2014.** This growth was mainly buoyed by the substantial growth in other personal service activities, the main contributor to the segment, which grew significantly by 11.6 per cent during the period compared to 2.4 per cent growth observed in the first half of 2014. However, professional, scientific, technical, administration and supporting services activities recorded a contraction of 11.5 per cent during the period against the 2.9 per cent growth recorded in the corresponding period of 2014.

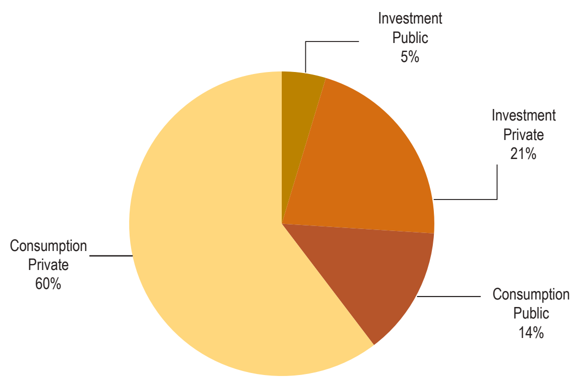
Public administration, defence, education, human health and social work activities

- **Public administration, defence, education, human health and social work activities grew at a slower pace of 3.3 per cent during the first half of 2015 in value added terms compared to 7.8 per cent growth recorded in the corresponding period of 2014.** This growth was mainly attributable to public administration and defence, and compulsory social security activities, which grew by 7.5 per cent during the period in comparison with 4.9 per cent growth recorded in the same period of 2014. Meanwhile, human health activities, residential care and social work activities grew marginally by 0.9 per cent during this period in comparison with 7.4 per cent growth posted in the first half of 2014. However, education services contracted by 4.0 per cent against 14.7 per cent growth posted during the corresponding period of 2014.

Expenditure

- **Gross Domestic Expenditure (GDE), which includes the demand generated from domestic consumption and investment expenditure, is projected to grow by 8.7 per cent in nominal terms during 2015 compared to the estimated growth of 6.8 per cent in 2014.** Accordingly, the value of the GDE is projected to be Rs. 12,091 billion in 2015 compared to Rs. 11,128 billion in 2014.

Chart 2.6 Composition of Domestic Demand-2015 (a)



(a) CBSL projections based on the medium term macroeconomic framework

This growth is expected to be driven by the consumption expenditure amidst the slowdown in investment expenditure of the economy. Meanwhile, GDP at current market prices, which is the sum of GDE and the net external demand, is expected to increase by 9.9 per cent to Rs. 11,313 billion with a real growth of 5.7 per cent and an implicit GDP deflator of 4.0 per cent during 2015. Further, the growth in net external demand of the economy is expected to be favourable in nominal terms during the year compared to 2014. It is anticipated that prevailing low global commodity prices, especially that of oil, would reduce the import cost, while the depreciation of the rupee and some macro-prudential and fiscal measures introduced recently would discourage imports dampening the imports growth in nominal terms.

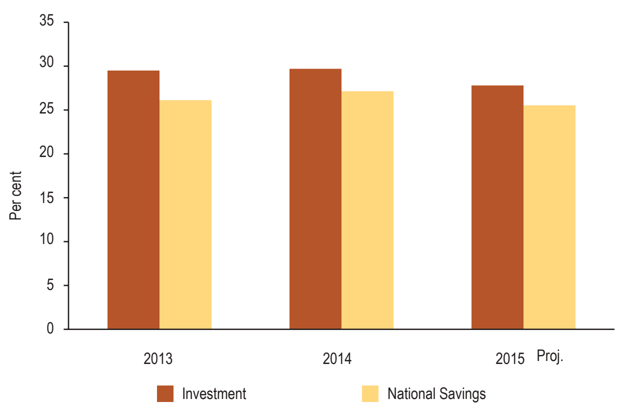
Consumption

- **Consumption expenditure, which comprises private and public sector consumption, is projected to grow by 10.8 per cent in 2015 compared to an estimated 6.4 per cent growth for 2014 in nominal terms.** This growth is expected to be supported by significant expansion in both private and public consumption expenditure.

- **Private consumption, the main contributor to the consumption expenditure, is projected to grow by 8.0 per cent during the year, compared to estimated growth of 4.7 per cent in 2014.** The growth in private consumption activities is expected to be driven by the increase in disposable income of the consumers benefiting from the low inflationary environment and the salary increases, especially in the public sector. Further, external trade statistics also reveal an increasing trend in expenditure on consumer goods as reflected by the significant growth in import trade indices, both in nominal and real terms, during the first eight months of the year.

- **In line with the approved budget estimates for 2015, public consumption expenditure is projected to grow by 25.3 per cent compared to 15.9 per cent growth recorded in 2014.** The major contributor to the public consumption is the expenditure on salaries and wages, which represents a greater portion of government recurrent expenditure. Accordingly, the increase in salaries of the public sector employees during the year is expected to contribute mostly on the projected increase in public consumption. As per the budgetary estimates, expenditure

Chart 2.7 Investment and Savings as a Percentage of GDP (a)

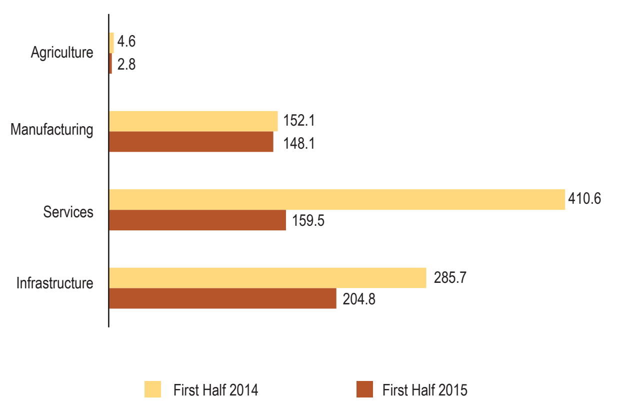


(a) CBSL estimates based on the medium term macroeconomic framework on salaries and wages is expected to increase by 29.3 per cent, while the expenditure on other purchases of goods and services is expected to increase by 14.6 per cent during the year compared to the last year.

Investment

- **Investment expenditure, which includes private and public investments, is projected to grow by 2.9 per cent during 2015 compared to the estimated growth of 8.0 per cent for 2014.** This projected slowdown in investment activities in the economy is broadly in line with the rationalization of public investment activities, while private investment is expected to improve with the relatively low interest rates and improving business environment. A slowdown is observed in construction activities, which represents a greater portion of investment expenditure, during the first half of the year. However, the gradual growth in construction activities recorded during the second quarter of the year is expected to continue during the remaining period of the year. As revealed by the trade indices, imports of investment goods witnessed a significant improvement during the first eight months of the year recovering from the contraction observed during the corresponding period of 2014.

Chart 2.8 Foreign Direct Investment* of BOI Enterprises (US$ million)



* Including loans

- **Private investments, which are estimated to account for around 80 per cent of the total investments, is projected to increase by 8 per cent in 2015**. Supporting the private sector investment activities, private sector credit for personal housing including purchasing/ construction/repairs from commercial banks has increased by 32.5 per cent by end June 2015 compared to the corresponding period of the previous year. This development is expected to continue during the second half of the year as well, benefiting from the prevailing low interest rates and improving business environment.

- **Public sector investment expenditure is projected to contract by 15.4 per cent during 2015 compared to the estimated 12.3 per cent growth in 2014.** This decline is largely attributable to the comparative slowdown in large-scale infrastructure development projects pending financial and environment impact review during the first half of the year. Reflecting the setback in public investments, government capital expenditure and net lending witnessed a 20.9 per cent decline during the first seven months of the year. However, capital expenditure is expected to increase gradually during the remaining period of the year benefiting from the political stability and realisation of targeted disbursement cycle of external funded activities enabling public investments to be maintained around 5 per cent of GDP in 2015.

- **Inflows of Foreign Direct Investments (FDI), including loans to the Board of Investment (BOI) registered companies, in the first half of 2015 amounted to US dollars 515.1 million compared to US dollars 853.0 million in the first half of 2014, reflecting a year-on-year decline of 39.6 per cent.** The main reason for the contraction in FDI during the period was the decrease in FDI inflows relating to infrastructure projects by 28.3 per cent and services by 61.2 per cent. Majority of FDI during the period was on account of infrastructure related projects representing around 39 per cent of total FDI (US dollars 204.8 million). FDI in the services sector amounted to around 31 per cent of total FDI inflows (US dollars 159.5 million) whereas FDI in the manufacturing sector amounted to US dollars 148.1 million representing about 29 per cent of total FDI during the first half of 2015.

Savings

- **Both domestic and national savings are expected to slowdown during the year.** Increase in both public and private consumption expenditure is expected to dampen the domestic savings. Further, the public sector is expected to maintain a current account deficit albeit at a lower level than recorded in 2014. Dissavings of the public sector reflect the increase in public consumption expenditure amidst the effort to improve government revenue collection. Meanwhile, expected significant deterioration in net factor income from abroad and the slowdown in net current transfers would also dampen the national savings.

Prospects for 2016

- **As projected under the medium term macroeconomic framework, the economy is expected to grow by around 6.5 per cent in 2016.** The major economic activities namely, Agriculture, Industry and Services are envisaged to contribute positively towards the economic growth. The growth is anticipated to be driven by conducive developments in the domestic front supported by the improvement in external demand. The persistent contribution from consumption expenditure, coupled with expected revival in investment expenditure would drive the domestic demand.

- **Agriculture activities are envisaged to rebound strongly in 2016.** Although the continuous decline in the tea prices and rubber prices at the global market in the recent period deteriorated the domestic production, it is expected that the external demand for these exports would be rebounded driven by the recovery in the world economy. Meanwhile, the strong growth in global demand for coconut based commodities is also expected to provide the impetus to the development of domestic production while helping to continue its growth momentum in 2016. Further, it is expected that the domestic production of many field crops such as maize, potato, red onion, black gram and big onion etc, would continue to grow triggered by favourable weather conditions. It is expected that the domestic dairy industry would meet up to around 55 per cent of the domestic milk requirement during 2016 given the modernisation of milk factories and imports of new cattle which would enhance the domestic production capacities. Further, domestic sugar production also expected to meet around 15 per cent of total domestic demand of sugar in 2016. Meanwhile, total fish production in the country is expected to show an improvement in 2016 with the expected expansion of deep sea fish production and inland fish catch. With these supply side developments in the domestic agriculture fronts, it is expected that the agriculture sector to contribute overall growth positively in 2016.

- **Manufacturing activities are expected to continue supporting the growth momentum in the remainder of the year 2015 and in 2016.** Improvements in both the domestic and external economic conditions and enhanced economic and political stability in the country are expected to affect favourably towards the achievement of this growth. Resumption of government infrastructure development projects as well as the enhancement of the private sector construction activities are expected to boost manufacturing activities. Export oriented industries, such as textile and wearing apparel, rubber and leather based products are expected to perform favourably facilitated by the healthy external conditions and with increased opportunities in non-traditional markets. Lower inflation and interest rates, development of infrastructure, economic and political stability are expected to enhance investor confidence and stimulate investments both locally and internationally expanding manufacturing activities. However, lower commodity prices in the international market can have a mixed impact on the performance of manufacturing sector activities.

- **The drive in the Services related economic activities is expected to continue during 2016, boosting the overall economic growth.** This growth is projected to be broad-based with the contribution from traditional economic activities such as trade and transport related activities coupled with dynamic sectors including IT programming, telecommunication, financial services etc. The financial activities are expected to gain from the conducive monetary policy stance that prevailed during the recent years, providing a favourable financial market condition for the acceleration in other economic activities in the short and medium term. As global industries become more and more information-intensive, IT programming and consultancy activities are expected to boost the services exports of the country. Further, services exports are expected to benefit from the expected recovery in the global economy, especially in advanced economies. Meanwhile, professional and other personal services, which have emerged as high value added services, are also expected to remain as prominent services contributing to the overall activities related to Services.

- **Both public and private investments are expected to improve in 2016.** With the gradual stability in the policy making environment, public expenditure on investment activities is expected to increase. Accordingly, infrastructure development activities, which slowed down during 2015, would regain its momentum during 2016. Meanwhile, the continued improvement in investor confidence would boost private investment activities further in 2016.

- **In maintaining the expected growth momentum in the economy during 2016, improvement in national savings is important.** The investment demand of the economy is projected to be around 29 per cent of GDP in 2016 contributing to a higher economic growth. In this regard, both private and public savings have to be encouraged to further facilitate reducing reliance on external financing to bridge the savings–investment gap of the country. From the fiscal front, improving the current account balance through fiscal consolidation efforts in order to achieve and sustain a positive level of public savings would contribute to improving domestic savings and investment climate.

3

ECONOMIC AND SOCIAL INFRASTRUCTURE

The provision of essential economic and social infrastructure continued while the development of mega scale physical infrastructure slowed during the first nine months of 2015. The government continued to review the economic and financial viability of all projects that were in the pipeline in order to ensure maximising social benefits of public spending on infrastructure development. Of the mega scale projects that were commissioned in previous years, the Northern railway line was completed in January 2015 while Phase II of the Outer Circular Highway was opened for traffic in September 2015. The government paid more attention on improving social infrastructure during the period under review to ensure that the increased level of per capita GDP is reflected in the standards of living of the general public. In addition to the provision of health and education needs by the government alongside the private sector, increased demand for high quality urban housing and transport facilities has attracted attention of the government. Going forward, although Sri Lanka has achieved much through economic and social infrastructure development, there are several challenges looming in the horizon. These include the need to develop strategies to optimise the utilisation of the infrastructure already in place, devise strategies to finance continued development of economic and social infrastructure with less burden on the public, and reorient policies to meet the demographic challenges ahead. In addition, fulfilling the growing demand for soft infrastructure, including access to finance, law enforcement, cultural activities, recreation facilities, environmental protection and the provision of emergency services, are also indispensable in the drive towards achieving an inclusive and holistic growth.

Developments in Economic Infrastructure

Communication Services

- **The telecommunication industry continued to expand during the first half of 2015 with improved telephone density and rapid growth in internet services.** The number of mobile telephone connections increased by 15.3 per cent, while fixed wireline telephone connections recorded a 3.1 per cent growth during the first half of 2015 in comparison to the corresponding period of 2014. However, fixed wireless connections continued their declining trend recording a drop of 3.3 per cent in the first half of 2015, thereby resulting in a decline in total fixed telephone connections by 0.7 per cent in comparison to the corresponding period of 2014. The fixed telephone penetration (connections per 100 persons) and the mobile telephone penetration stood at 12.8 and 115.5, respectively. With regard to internet services, the total internet connections grew by 30.6 per cent during the first half of 2015 raising internet penetration (connections per 100 persons) to 17.4. This was largely supported by the accelerated growth of 35.2 per cent in mobile internet connections.

Chart 3.1 New Telephone Connections (Fixed Access and Cellular) and New Internet Connections

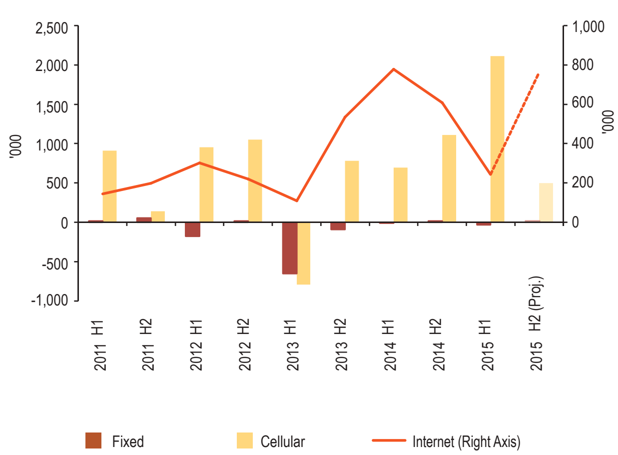


Table 3.1 Telecommunication Services

No. of Subscribers	End June 2014	End June 2015 (a)	Change %
Fixed Access Telephones ('000)	2,696	2,677	-0.7
Cellular Telephones ('000)	21,012	24,235	15.3
Internet Connections ('000) (b)	2,788	3,641	30.6
Total Telephone Penetration	114.14	128.28	12.4
Mobile Telephone Penetration	101.16	115.52	14.2

Sources: Telecommunications Regulatory Commission of Sri Lanka
Department of Census and Statistics

(a) Provisional
(b) Including mobile internet connections

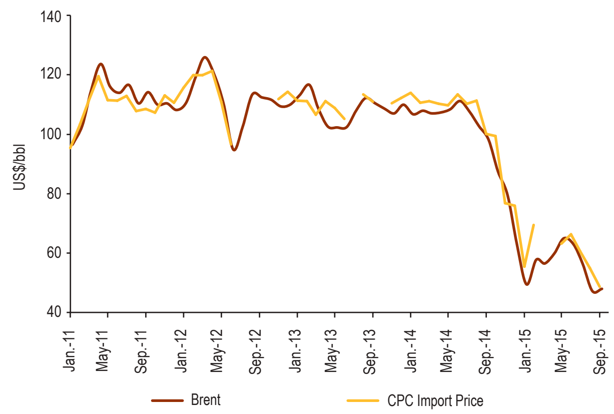
- **The government and Google Inc. signed an agreement to cover the entire island with 4G internet under the 'Google Loon project'.** This was launched towards end July 2015 in partnership with the Information and Communication Technology Agency (ICTA). The successful implementation of this project will provide Sri Lanka with universal internet access, and is expected to enhance accessibility to high-speed, affordable internet across the island. This project, which uses high-altitude balloons placed in the stratosphere, will reduce network infrastructure cost of domestic internet service providers, enabling the provision of low cost internet access. The project is expected to be completed by March 2016 and ICTA plans to establish 10,000 WiFi hotspots across the country coupled with this project.

- **The promising developments in the country's telecommunication industry will enhance economic activities and the doing business environment while opening up the industry for competition based on innovation and service delivery rather than on coverage.** This will effectively eliminate the access network and coverage superiority as the differentiation determinant in the industry, and the service providers are likely to focus more on new business models with high value addition such as end-to-end solutions and further improvements in mobile payments technology. Universal internet access would significantly enhance financial inclusion, while enabling increased socio-economic integration. In addition, it will lead to the evolution of e-learning solutions, facilitating improved access to education opportunities for underprivileged communities. Financial institutions will also be able to offer simple and secure services with enhanced consumer awareness regarding different financial products on offer leading to more convenient and cost effective service delivery. Eventually, this may result in substantial savings in terms of labour and other resource inputs, which may be used for other productive endeavors. Further, the universal access to internet will facilitate expanding the Information Technology Enabled Services (ITES) such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) around the country, which have a high growth potential in the period ahead.

Petroleum

- **Prices of petroleum in the international market have nearly halved in the first nine months of 2015 compared to the corresponding period in the previous year.** The daily average of international crude oil price (Brent) during the period under review stood at US dollars 56.6 per barrel compared to US dollars 107.1 per barrel in the corresponding period of 2014. During the first nine months, Brent prices showed significant volatility with prices ranging from US dollars 43.07-67.79 per barrel. Crude oil prices continued their declining trend from the second half of 2014 until January 2015, but increased thereafter until May 2015, mainly due to geopolitical uncertainties in the Middle East. However, prices declined since then with Libya resuming oil exports, the OPEC group maintaining its production levels unchanged, increased US oil production, the slower pace of recovery in the US, which is the world's largest petroleum consumer, as well as the slowdown of the Chinese economy, which is the second largest consumer. Low levels of oil prices were further supported by the easing of sanctions against Iran. Meanwhile, the average price of crude oil imported by Ceylon Petroleum Corporation (CPC) decreased by 46.6 per cent to US dollars 59.10 per barrel during the first nine months of 2015 compared to US dollars 110.67 per barrel during the corresponding period of 2014.

Chart 3.2 Average Price of Crude Oil (Brent) in the International Market and Crude Oil Import Price of CPC



- **Domestic retail prices of petroleum products were reduced substantially at the beginning of 2015, passing the benefit of lower international oil prices to domestic consumers.** In January 2015, domestic prices of petrol, diesel and kerosene were reduced by Rs. 33, Rs. 16 and Rs. 22 per litre, respectively. Further, the price of Low Sulphur Furnace Oil was revised downward from Rs. 90 to Rs. 80 per litre while keeping the price of High Sulphur Furnace Oil unchanged at Rs. 80 per litre. The implementation of the proposed cost reflective transparent pricing formula will ensure that the domestic prices respond to international oil prices appropriately while reducing the financial burden on state owned business enterprises (SOBEs).

- **Substantial downward revisions in domestic petroleum prices along with the increased vehicle fleet as a result of low tariffs applicable on certain categories of imported**

vehicles and low interest rates, increased the domestic demand for petroleum from the transportation sector. During the first eight months of 2015, domestic sales of super diesel increased significantly by 45 per cent while auto diesel sales increased marginally by 0.4 per cent, in comparison to the first eight months of 2014. However, total diesel sales declined by 14 per cent during this period, owing to lower demand for thermal power generation caused by increased hydro and coal power generation. Super petrol sales (Octane 95) and Octane 92 petrol sales grew by 44 per cent and 16.5 per cent, respectively, in the first eight months of 2015 reflecting increased usage of private vehicles. Kerosene sales also registered a 7 per cent growth during the first eight months of 2015, compared to the same period in 2014.

- **Around two thirds of petroleum consumed in the local market is imported as refined products owing to the capacity limitation of CPC's oil refinery at Sapugaskanda.** Further, the amount of crude oil processed by the refinery also declined by 4.8 per cent during the first nine months of 2015 in comparison to the corresponding period of 2014 due to maintenances more than a month. Therefore, it is essential to expedite and prioritise the Sapugaskanda Oil Refinery Expansion and Modernisation (SOREM) Project. A land area of 35 acres surrounding the oil refinery was acquired and a draft report on the Environmental Impact Assessment (EIA) was prepared in 2012. Expediting the SOREM project would increase the output of high quality, more profitable products from different types of crude oil and facilitate bunkering activities in the ports and aviation sectors, while supporting the retention of a significant amount of foreign exchange within the economy. It would also be necessary to expedite the efforts to commercialise the oil and gas discoveries in the Mannar basin.

Electricity

- **Total electricity generation increased by 5.7 per cent to 8,675 GWh during the first eight months of 2015 from 8,207 GWh in the corresponding period of 2014.** Hydropower generation (excluding mini hydro generation) during the first eight months of the year increased by 57.8 per cent to 2,908 GWh. Increased rainfall during the first few months of 2015 raised the share of hydropower in total power generation, although some decline in the share of hydropower was observed during the middle of the year with drought conditions prevailing in the main reservoir areas. Coal power generation increased substantially by 72.5 per cent to 3,328 GWh during the first eight months reflecting the enhanced capacity of the Norochcholai coal power plant. The cumulative effect of increased hydro and coal power generation helped to limit power generation through fuel oil by 59.0 per cent to 1,541 GWh during the first eight months of the year. Meanwhile, generation of electricity through non-conventional renewable energy (NCRE) sources, including mini hydro generation, increased by 31.9 per cent to 899 GWh. Accordingly, the share of hydro, fuel

Chart 3.3 Electricity Generation Mix (Jan-Aug)

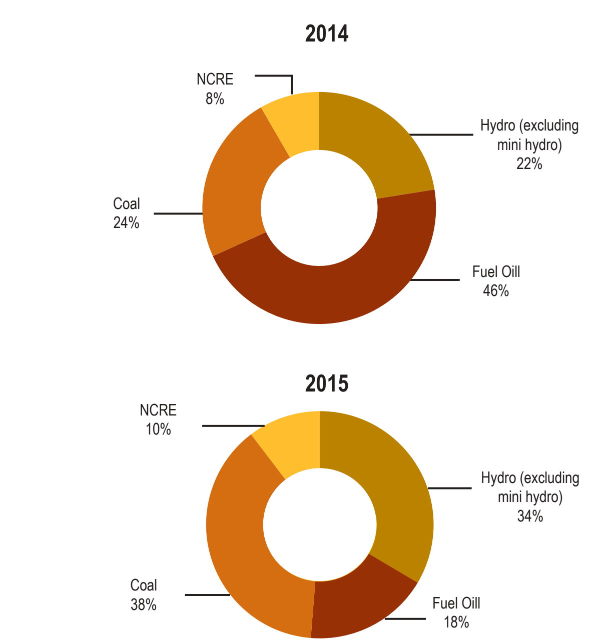


Table 3.2 **Electricity Sales**

Item	2013	2014	2014 Jan-Aug	2015 Jan-Aug (a)	Change %
Total Sales by CEB (GWh)	10,621	11,063	7,314	7,781	6.4
Domestic	3,488	3,521	2,334	2,556	9.5
Religious	58	63	42	44	5.1
Industrial	3,344	3,498	2,290	2,377	3.8
General Purpose (b)	2,148	2,328	1,545	1,633	5.7
Hotel	168	192	127	140	10.0
Bulk Sales to LECO	1,308	1,352	904	960	6.1
Street Lighting	108	108	72	72	-0.2

Source: Ceylon Electricity Board

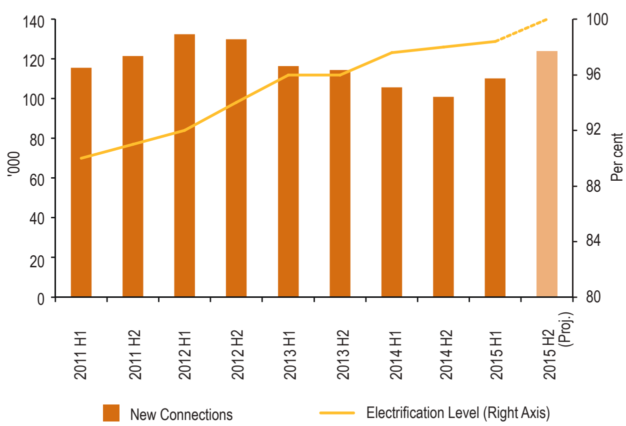
(a) Provisional
(b) Data from 2013 include sales to government category

oil, coal and NCRE power generation during the first eight months of 2015 stood at 34 per cent, 18 per cent, 38 per cent and 10 per cent, respectively. Meanwhile, the financial position of Ceylon Electricity Board (CEB) improved significantly during the period as a result of the favourable power generation mix. Electricity consumption in the domestic, industrial, general purpose (including government) and hotel sectors increased by 9.5 per cent, 3.8 per cent, 5.7 per cent and 10.0 per cent, respectively, during the first eight months of 2015 reflecting the continued growth of economic activity. Thus, the total electricity sales increased by 6.4 per cent to 7,781 GWh during the first eight months of 2015 from 7,314 GWh in comparison to the corresponding period of 2014. Further, the transmission and distribution losses, as a percentage of total generation, stood at 10.3 per cent.

- **The completion of the Norochcholai coal power plant has strengthened the low cost power generation capacity of the country**. Currently, coal power, which is around four times cheaper than the fuel oil power generation, can meet more than 50 per cent of the total electricity requirement of the country when the plant is operated at full capacity. The resultant lower average unit cost of electricity helped to sustain the reduction of electricity tariffs effected in late 2014, supporting the competitiveness of the economy. However, optimal use of hydro and coal power sources through minimised overflows in reservoirs and improved timing of maintenance stoppages would be vital in enhancing the financial viability of CEB. Meanwhile, coal power generation is currently facing issues in relation to storage capacity limitations, which needs to be addressed on a priority basis.

- **CEB continued its efforts to reach the target of 100 per cent electrification in the country through the implementation of several new electrification projects, particularly in remote areas.** CEB's efforts have helped the completion of 223 rural electrification projects covering all districts, providing electricity to 34,967 houses during the first half of the year and raising the level of electrification of the country to 98.4 per cent by end June 2015 compared to 97.6 per cent at end 2014. The construction of 500 MW coal power plant in Trincomalee is expected to be completed and added to the national grid by end 2019. In relation to the developments in NCRE generation, 4 mini hydro power plants and 1 wind power plant have been commissioned during the first half of 2015, adding approximately 9 MW and 10 MW, respectively, to the national grid. As at end June 2015, there were 89 ongoing NCRE projects with a total capacity of 222 MW that CEB had signed contracts with. Meanwhile, an optional tariff on time of use was introduced with effect from September 2015 for domestic

Chart 3.4 New Electricity Connections and Electrification Level



users of 3-phase (30 A or above) power supply with the view of encouraging the utilisation of electricity during off peak hours for purposes such as charging electric vehicles.

Road Development

- **The government continued to review the terms and conditions of the contracts relating to new major road development projects, while expediting overdue payments to the construction sector involved in the development of road infrastructure.** The government partly settled overdue payments to domestic contractors and instructed them to resume work of the ongoing projects. For 2015, Rs. 179.4 billion has been allocated to Road Development Authority (RDA) for carrying out road related development activities compared to Rs.136.7 billion allocated for 2014. However, net expenditure on road development stood at Rs.70.6 billion during the first half of 2015 compared to Rs.92.4 billion incurred during the corresponding period of 2014. Total expenditure on the maintenance of the national road network (including bridges) during the first half of 2015 stood at Rs. 2.6 billion.

- **The extension of the national expressway network continued while the construction of new expressway projects was commenced.** Phase II of the Outer Circular Highway (OCH) was opened to the public in September 2015. The consultants and contactors have already been mobilised for the construction of phase III of the OCH, which runs from Kadawatha to Kerawalapitiya. Once the OCH is completed, it will connect all expressways radiating from Colombo to different directions, reducing traffic congestion in the city of Colombo. The construction of the Central Expressway Project (CEP) was inaugurated in August 2015. The Central Expressway that extends to 178.8 kilometres has been proposed from Kadawatha to Dambulla via Gampaha, Mirigama and Kurunegala with an expressway link to Kandy at Pothuhera. The extension to the Southern expressway linking Matara and Hambantota (96 km) was launched in July 2015. This extension is to be completed in four phases connecting Matara, Beliatta, Wetiya, Andarawewa and Hambantota.

- **A number of road construction and rehabilitation projects continued, with special emphasis on the conflict affected regions in the Northern and Eastern provinces.** The rehabilitation of roads under the Road Sector Assistance Project II (phase II), National Highways Sector Project, Southern Road Connectivity Project and China Development Bank funded Priority Roads Project-3 continued during the first half of 2015. In addition, bilateral assistance has been received from Japan, Korea, Saudi Arabia, and Kuwait on different road sector development projects. A number of multilateral arrangements, such as the OPEC Fund for International Development (OFID), along with international financial and development agencies, such as the World Bank and the ADB, also provided financial assistance for road projects. Meanwhile, the assistance of the United Kingdom and France on the reconstruction and rehabilitation of bridges continued during the first half of 2015. In the conflict affected areas, all commissioned road projects are expected to be completed under the Northern Road Connectivity Project (NRCP). Most of the roads under the Northern Road Rehabilitation Project (NRRP), including the Puttalam-Marichchikade-Mannar road, have been completed. In the Northern and North Central Provinces, around 61 km of 'A' class roads and around 56 km of 'B' class roads are expected to be rehabilitated with additional financing.

Road Passenger Transportation

- **The service quality of the road passenger transportation system remained weak, in spite of quantitative improvements**. The total operated kilometerage of buses owned by Sri Lanka Transport Board (SLTB) increased by 22 per cent while their total passenger kilometerage also increased by 18.5 per cent during the first half of 2015 compared to the corresponding period of 2014. The total number of buses owned by SLTB increased by 1,232 to 8,255 during the first six months of 2015, partly due to the importation of the last consignment of buses under the project to purchase 2,200 new buses. The bus fleet was further increased through the procurement of small buses to serve the remote areas. The average number of buses operated per day improved by 734 to 5,127 during the first six months of the year. The bus fleet owned by private operators also increased to 20,628 by end June 2015 compared to 19,994 at end June 2014. Correspondingly, the average number of buses operated also increased to 18,566 by end June 2015 compared to 17,142 at end June 2014. The operated kilometerage of private buses increased by 18.5 per cent, while passenger kilometerage also increased by 7.5 per cent, during the period under review.

- **The SLTB and the National Transport Commission (NTC) continued its efforts to improve the provision of selected transport services, which are otherwise neglected**. Under the Sisu Seriya service, which aims to provide reliable, safe, cost effective and dedicated service to school children and parents, 1,243 private sector buses and 750 SLTB buses were in operation as at end June 2015. The government has allocated Rs.580 million for the Sisu Seriya project in 2015. In addition, the Nisi Seriya and Gami Seriya projects for uneconomical routes and time slots continued, while season tickets were issued to school children, university students and students in vocational educational institutes. The amount of subsidy allocated to NTC on account of Nisi Seriya and Gami Seriya projects was Rs.35 million while the amount of subsidy allocated to SLTB on operations in uneconomical routes, subsidised season tickets and passes for armed forces amounted to Rs. 7.1 billion during 2015. In addition, SLTB commissioned 900 more electronic ticketing machines, increasing the total number of electronic ticketing machines to 3,700 as at end June 2015. NTC embarked on a project to promote the usage of bicycles by school children as a safe, reliable, and low cost transport option in light of the inadequacy of public transportation services in rural areas. Under this programme, Rs. 40 million has been allocated from the budget and 500 bicycles were distributed during the first half of 2015.

- **The registration of new motor vehicles recorded a significant growth during the first nine months of 2015 compared to the corresponding period of 2014**. During this period, the total number of vehicles registered increased by 82.4 per cent to 491,632. The registration of motor cars and buses increased by 200.1 per cent and 60.7 per cent, respectively, while the registration of three wheelers increased by 69.6 per cent. This increase in vehicle registration is largely driven by low interest rates applicable on leasing facilities and reduced taxes on the importation of motor cars with an engine capacity below 1,000cc. Consequently,

Table 3.3 New Registration of Motor Vehicles

Item	2013	2014	2014 Jan-Sep	2015 Jan-Sep (a)	Change %
New Registration of Motor Vehicles	326,651	429,556	269,550	491,632	82.4
Buses	1,805	3,851	2,031	3,264	60.7
Motor Cars	28,380	38,780	24,982	74,966	200.1
Cars Less than 1,000cc	4,186	5,781	3,307	38,922	1,077.0
Three Wheelers	83,673	79,038	57,202	96,987	69.6
Dual Purpose Vehicles	24,603	20,799	14,819	29,442	98.7
Motor Cycles	169,280	272,885	160,890	273,691	70.1
Goods Transport Vehicles	5,872	5,121	3,648	5,459	49.6
Land Vehicles	13,038	9,082	5,978	7,823	30.9

Source: Department of Motor Traffic

(a) Provisional

the registration of motor cars with an engine capacity below 1,000cc increased by 1,077 per cent in the first nine months of 2015 compared to the corresponding period in 2014.

Rail Transportation

- **Improvements to rail transportation continued during the first half of 2015 although the quality of the service still remains below the desired levels.** During the first half of the year, the rail passenger kilometerage increased by 9.1 per cent while the goods kilometerage declined by 3.1 per cent. The length of the railway system in Sri Lanka expanded to 1,567 km by end June 2015 with the completion of Northern railway line during the first quarter of 2015, in comparison to 1,449 km at end 2014. The completion of the Northern railway line enabled railway operations on the Northern and Thalaimannar lines connecting Madhu to Thalaimannar and between Pallai and Kankesanthurai. Further, the installation of a new railway signalling system for the Northern railway line was also completed while the construction of railway stations along the Northern line continued with the restoration of stations in Jaffna, Chunnakam and Kankesanthurai and the restoration of Thalaimannar pier railway station on Mannar line. Sri Lanka Railways (SLR) continued the improvement of railway platforms and overhead bridges. In addition, SLR is in the process of preparing a strategic railway development plan for 2016-2020 while initiating discussions to carry out feasibility studies in association with ADB for the railway electrification project, the establishment of an Internal Container Depot (ICD) and the construction of a new railway track from Dematagoda to Battaramulla.

Civil Aviation

- **The country's civil aviation sector displayed a healthy growth during the first half of 2015.** Air passenger movements through the Bandaranaike International Airport (BIA) increased by 7.5 per cent to 4.1 million reflecting the increase in tourist arrivals, while transit passengers increased by 10.6 per cent to 0.6 million during the first half of 2015 compared to the corresponding period of the previous year. The total volume of cargo moved through the BIA increased by 20.1 per cent to 107,020 MT and the total number of aircraft handled at BIA increased by 11.0 per cent to 28,205 during the first half of 2015. Since the suspension of regular operation of SriLankan Airlines (SLA) to Mattala Rajapaksa International Airport (MRIA) in February 2015, MRIA handled only 536 aircraft during the period under review. MRIA handled 1,566 passenger movements while handling 2,074 transit passengers during this period. The country was being served by 27 international airlines (including three charter airlines, one cargo airline, SLA and Mihin Lanka (ML)) by end June 2015, while six domestic airlines are also in operation.

- **Re-fleeting of the national carrier continued during the first half of 2015**. Under this programme, one new A330-300 airbus was added to the fleet during the first half of 2015 while three more A330-300 airbuses are expected to be delivered by end 2015, which will replace the existing A340-300 aircraft. The gradual replacement of the existing aircrafts by acquiring a new fleet would result in superior service quality and enhanced fuel efficiency. Meanwhile, SLA's operating loss has declined significantly as an outcome of the drop in operating expenditure supported by declined fuel prices and an increase in total revenue supported by expansions in operations to key routes and increased passenger load factor.

- **Construction work of the Phase II Stage 2 of the BIA expansion project is expected to commence in early 2016 and scheduled to be completed by early 2019**. Total estimated cost of the project is Rs 74 billion, and would be funded by the government of Japan. A world class multilevel terminal with two pier passenger terminals is expected to be built under the project, which will enhance the current capacity of 6 million passenger movements per annum to 15 million. This also includes the construction of a multi-story car park and a new railway terminal linking BIA to the city of Colombo. Meanwhile, a project for overlaying the runway improving the surface condition for the safe operation of aircrafts is in the pipeline as per the recommendations of the International Civil Aviation Organisation (ICAO). The project includes widening and overlaying the existing runway and taxiways, building new rapid exit taxiways and bypass taxiways, installing a new airfield ground lighting system and modifying the existing apron of the aerodrome of BIA.

Port Services

- **The growth of port sector activities continued during the first nine months of 2015, mainly reflecting the increased activities of the newly commissioned Colombo International Container Terminal (CICT)**. Container throughput handled by the port of Colombo increased by 6.1 per cent to 3,888,185 TEUs during the first nine months of 2015 from 3,665,879 TEUs in the corresponding period in 2014. The port of Colombo recorded a growth of 9.6 per cent in domestic container throughput and a growth of 5.0 per cent in transhipments during the period under review. Total cargo handled during the first nine months of 2015 increased by 3.9 per cent to 57.9 million MT from 55.7 million MT in the first nine months of the previous year. Ship arrivals to the major four ports during January- September 2015 compared with the corresponding period in 2014 showed a growth of 11.9 per cent to reach 3,529 ships. The number of container ships arriving at the Colombo Port also increased by 12.6 per cent to 2,710 during the first nine months of 2015. Total vehicle handling at the Hambantota port increased by 14.6 per cent to 140,609 during the first nine months in 2015 compared to the same period in 2014. Domestic vehicle handling increased by 137.3 per cent in the first nine months compared to the same period in the previous year, although vehicle transhipments, which are handled only at the Hambantota port, declined by 13.4 per cent during the first nine months of 2015.

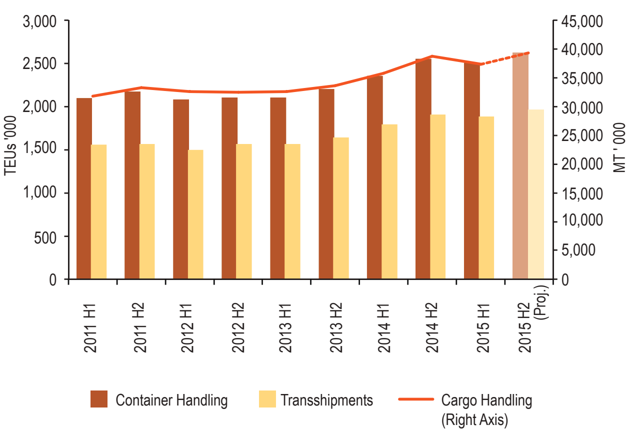
Table 3.4 Performance of Port Services

Item	2014 Jan-Sep	2015 Jan-Sep (a)	Change %
Ships Arrivals at Ports of Sri Lanka	3,155	3,529	11.9
Total Cargo Handling (MT '000)	55,682	57,858	3.9
Total Container Handling (TEUs '000)	3,666	3,888	6.1
Transhipments (TEUs '000)	2,842	2,985	5.0

Source: Sri Lanka Ports Authority

(a) Provisional

Chart 3.5 Container Handling, Transshipments and Cargo Handling



- **The expansion of port sector infrastructure in Sri Lanka facilitated the improvement in container volumes amidst competition from regional ports while catering to increasing demand for services in the international shipping industry.** As per the Master Plan of the Colombo Port Expansion Project, 98 per cent of the construction of a berth was completed under the Phase I of the East Container Terminal (ECT) development plan by end June 2015. ECT development plan consists of 3 container berths alongside a water depth of 18 metres. The container handling equipment is yet to be installed and it may be appropriate to adopt a Public-Private Partnership (PPP) arrangement for terminal development in line with the experience of other countries. Meanwhile, proposals have been called to widen the existing access roads and internal roads in the Colombo Port. The installation of port handling equipment, which includes gantry cranes, has been completed under Phase I of the Hambantota Port Development Project. The ongoing construction of Phase II of Hambantota port is expected to be completed by November 2015. Magampura Port Management Company (MPMC), a subsidiary of SLPA that provides bunkering facilities, served bunker fuel only to 7 ships during the first half of 2015, forcing SLPA to call for Expressions of Interest (EOI) from international strategic partners to operate bunkering facilities at the Hambantota Port as a joint venture. Meanwhile, the Port of Galle, which is being developed as a tourist port to attract more yachts and pleasure crafts, saw the completion of stages I and II of the construction of a Yacht Marina, and the construction of revetment while the excavation of marina basin under the stage III are in progress.

- **The Colombo Port City Project (CPCP), which is a flagship foreign direct investment project, was put on hold by the government due to certain environmental concerns.** The Agreement on CPCP was entered into between the government and the China Harbour Engineering Company Ltd (CHEC) in September 2014 and the construction work of the project was commenced immediately afterwards. The approval for the Environmental Impact Assessment (EIA) for the construction and infrastructure development has been granted by the Coast Conservation and Coastal Resource Management Department (CC&CRMD) subject to 42 conditions. At the beginning of 2015, the government appointed a project review committee on the proposed (CPCP) to evaluate the viability of the project and to ensure that the necessary environmental approvals are in place.

Developments in Social Infrastructure

Health

- **The government continued to support its long standing policy of providing free universal health services to the nation.** This policy has resulted in a steady improvement in Sri Lanka's health indicators since independence, particularly in relation to maternal and infant mortality and life expectancy. Limiting the maternal mortality rate to 32.5 per 100,000 live births by 2013 and the infant mortality rate to

8.6 per 1,000 live births by 2014 are significant achievements for an emerging economy like Sri Lanka, although further improvements in these indicators as well as in reducing neonatal mortality are necessary. Life expectancy has risen steadily to around 74.3 years by 2013 while the total fertility rate has declined to around 1.9 per family which is below the replacement level. These indicate the rising challenge of demographic transition and the need to reorient the focus of social infrastructure provision, including health services, to serve the emerging structure of the population in an efficient manner.

- **Improvements in human resources and physical infrastructure in the health sector continued during the first half of 2015**. In government hospitals, there were 18,792 qualified doctors, a doctor for every 1,116 persons, and 32,225 qualified nurses, a nurse for every 651 persons, by end June 2015. There were 601 government hospitals with 76,781 beds in the country, recording 3.7 beds for 1,000 persons by end June 2015. Several physical infrastructure development projects were in progress in the health sector during the first half of 2015. The construction of a cardiology and cardiothoracic complex at the Lady Ridgeway Hospital and the construction of a four storied theatre complex at the Kegalle District General Hospital were completed while two regional blood centres at Mullaitivu and Killinochchi District General Hospitals were declared open during the period. In addition, the construction of a bunker for the linear accelerator at Karapitiya Teaching Hospital to control radioactive exposure and an accident service and trauma care building complex at the Ragama Teaching Hospital are two of the large scale projects that are ongoing. Meanwhile, there were 93 government Ayurvedic Hospitals with 4,763 beds, with 22,455 registered Ayurvedic physicians as at end June 2015.

- **Several policies were formulated by the Ministry of Health with the view of improving the quality of health services during the first half of 2015**. National Medicines Regulatory Authority Act (NMRAA) was approved by the Parliament in March 2015 with a view to ensuring the availability of high quality medicinal drugs and safe and effective devices to the general public at affordable prices. Further, a national policy on the prevention and control of cancer was approved by the Cabinet of Ministers during the first half of 2015. This policy prioritises addressing the leading causes of preventable cancers in Sri Lanka, emphasises the need to improve awareness of possible cancer symptoms and signs among the general public and primary care practitioners. Meanwhile, the decision to display pictorial warnings covering 80 per cent of cigarette packets in order to enhance awareness among the public on the hazards of cigarette smoking was enforced by the government during this period. In addition, a national policy on alcohol control was approved by the Parliament, which focuses on regulating the promotion of consumption and production of alcohol.

- **With the rapid ageing of the population and success in combatting major communicable diseases, the disease burden of the country is moving rapidly towards non communicable diseases (NCDs)**. Considering the socioeconomic implications of the rising prevalence of NCDs, nearly 742 healthy lifestyle centres (HLCs) have been established island wide. HLCs provide screening facilities for persons in an age range of 40-65 years for fasting blood sugar, Body Mass Index (BMI), cholesterol and blood pressure. However, the unavailability of a policy on marketing and advertising of unhealthy food items to children, opening of unhealthy food outlets at the boundaries of schools, and the exam-oriented education system, which discourages physical activity, have been identified as major challenges in improving health conditions amongst school children and youth. Meanwhile, major outbreaks of any communicable disease were not reported during the first half of 2015, except the ongoing dengue and measles epidemics, but both were in lesser magnitude when compared to 2014. The suspected dengue cases declined to 23,139 during the first ten months of 2015 in comparison to 36,659 cases reported during the corresponding period of 2014. The Epidemiology Unit of the Ministry of Health introduced a web based national communicable disease surveillance system in January 2015, which would contribute immensely to improving the efficiency and accuracy of the communicable surveillance data leading to effective control and prevention of diseases.

- **The private sector continued to play a vital role in healthcare service delivery.** There were 223 registered private hospitals with 5,381 beds in the country, including 6 Ayurvedic hospitals with 72 beds. Further, there were 433 registered medical and channelling centres, 793 registered medical laboratories, and 1,901 full time and part time medical clinics operational in Sri Lanka. The regulation and assessment of the quality of service delivery of private institutions engaged in health services need to be strengthened as the demand for such services has increased with increased per capita income levels and limitations of the government health service. The changing preferences with ease of accessibility to leading medical consultants and advanced technologies as well as the increasing popularity of health insurance have raised the demand for private sector health services.

Education

- **The Ministry of Education (MoE) continued to develop the medium-term strategic plan for 2016-2020, using a rolling planning approach and based on the Education Sector Development Framework Programme (ESDFP).** In addition, the government took initial steps to form a national education policy covering school education, university education, and vocational and technical education. Accordingly, a Cabinet subcommittee has been formed to consider essential reforms to the entire education system of the country in accordance with current and emerging needs. Meanwhile, the indicators of general education continued to improve. Accordingly, the net enrolment ratio of age group 5-14 in primary education, improved to 99.2 per cent as per the School Census conducted by MoE for 2014 compared to 98.4 per cent recorded in 2013. The gross survival rate, which measures the participation in primary and secondary education (through grade 1 to grade 11), improved to 85.1 per cent in 2014 compared to 84.3 per cent recorded in 2013. Continuous efforts have been made to improve the school curricula, in particular in implementing rationalised curricula for grades 6 to 10 in the school system. Meanwhile, a number of foreign assisted projects continued in 2015, including Transforming the School Education Programme (TSEP) by the World Bank, Education Sector Development Programme (ESDP) by the Asian Development Bank (ADB), Education for Social Cohesion by German Development Cooperation (GIZ), and Child Friendly School Approach by the UNICEF.

- **Further improvements in human and physical infrastructure development were observed in the general education sector during the first half of 2015.** Under the 1,000 secondary schools development programme, 28 new technological laboratories were completed during the period, increasing the total number of completed laboratories to 976. These laboratories consist of ICT facilities with network and other components such as printers and multimedia projectors. Further, 53 technology faculties were completed at selected schools during the period, increasing the total technology faculties to 62. These faculties will be established in 251 schools within the said 1,000 secondary schools and facilitate the recently introduced technology stream at GCE Advanced Level. With regard to human resources, 5,264 teachers, including 133 teachers for Advanced Level technology stream, were recruited during the first half of 2015. The schools evaluation programme, based on the indicators of educational standards, continued during the first half of 2015 under the guidelines modified in 2014. Under the programme, approximately 9,350 teachers have been evaluated externally in the first half of 2015.

- **The Ministry of Higher Education (MoHE) continued to engage in facilitating the transformation of the higher education system, enabling the operation of state and private sector universities simultaneously through quality-driven competition**. During the first half of 2015, approval was granted to KAATSU-Highly Advanced Medical Technology Training Centre to award Bachelor of Science degrees in Medical Science, Acupuncture and Nursing, while the South Asian Institute of Technology and Medicine (SAITM) has been approved for the granting of Bachelor of Science degrees in mechatronic engineering and civil engineering. Accordingly, 52 degree programmes at basic, postgraduate diploma, and master's level by 15 institutes have been recognised by the MoHE by end June 2015. Another seven institutions have applied for degree awarding status and individual institutional review panels have been appointed to examine the capacity of these institutions before awarding the accreditation by the University Grants Commission (UGC). Meanwhile, a number of undergraduate degree programmes, external degree programmes and postgraduate degree programmes to be conducted by government universities have been approved by the UGC in 2015. In addition, UGC approved the establishment of the Department of English and Linguistics and Department of Public Policy in the Faculty of Humanities and Social Sciences at University of Ruhuna.

- **The progress of Technical and Vocational Education sector has been challenged by the lack of skilled trainers**. As at end June 2015, there were 940 vocational training centres registered with the Tertiary and Vocational Education Commission (TVEC), offering 2,277 accredited courses. TVEC issued 25,476 National Vocational Qalification (NVQ) certificates during the first six months of 2015. There were 117,818 students registered with public Technical and Vocational Education and Training (TVET) institutions in 2014 and 95,735 students were undergoing training. A large number of students registered and completed TVET programmes at private sector institutions as well. In addition to the lack of skilled training personnel, skills mismatch in the vocational front and the lack of female participation continue to be the issues in the TVET sector. Introduction of the Technology stream at the Advanced Level examination and the provision of NVQ certificates at level 2 and 3 for successful school children, could address these issues over time.

Safety Nets and Poverty Alleviation

- **Over time, Sri Lanka has witnessed a declining trend in poverty supported by various poverty alleviation programmes, such as Janasaviya/Samurdhi/Divinaguma subsidy programme and Nutrition Allowance programme.** According to the Household Income and Expenditure Survey (HIES) 2012/13, the poverty head count ratio (PHCR), which is the percentage of population earning less than the official poverty line (OPL) of Rs. 3,624 per person per month for the survey year, has fallen to 6.7 per cent from 8.9 per cent recorded in HIES 2009/10. In spite of these developments, the level of poverty in some remote areas, particularly in the Northern, Eastern and Uva provinces, remains a major concern, requiring urgent targeted intervention. Further, as highlighted in the CBSL Annual Report 2014, although the PHCR has improved, the number of families that are just above the poverty line remains high. According to the World Bank, the percentage of population that earn less than US dollars 2 per day stood at 19.6 per cent in 2012/13. Therefore, the formulation of suitable strategies specifically designed to prevent such persons from slipping back to poverty is essential.

- **The Department of Divineguma Development (DDD) steers the Samurdhi/Divineguma subsidy programme as the foremost social safety net programme in the country**. This programme aims to provide financial assistance to low income families, while encouraging them to uplift their income levels through the creation of opportunities enabling them to integrate with mainstream economic activities. Under the Samurdhi/Divinaguma subsidy programme, Rs. 19.3 billion was granted during the first half of 2015, which supported 1.48 million households. The Samurdhi Social Security Fund, which aims at reducing the vulnerability of the poor in exigencies, also granted Rs. 142 million among 28,435 families during the first half of 2015. The Nutritional Allowance Programme, which was initially granted to pregnant and lactating mothers of low income families, was extended to cover all income levels, granting nutrition packs to the value of Rs 1.5 billion among 385,000 beneficiaries from March to June 2015.

- **Better targeting of poverty alleviation programmes would accelerate the eradication of poverty, thus increasing the overall standards of living of the population**. Although the country has made substantial progress in surpassing the Millennium Development Goal (MDG) of halving the level of poverty by 2015, the government still provides Samurdhi/ Divineguma benefits to over 28 per cent of households. Strengthening the screening processes in relation to enrolment as well as the possible exit from these programmes is necessary to enhance their effectiveness and to ensure that the most vulnerable segments of the population would get the maximum benefit through such programmes.

Chart 3.6 Poverty Headcount Ratio (Per cent)

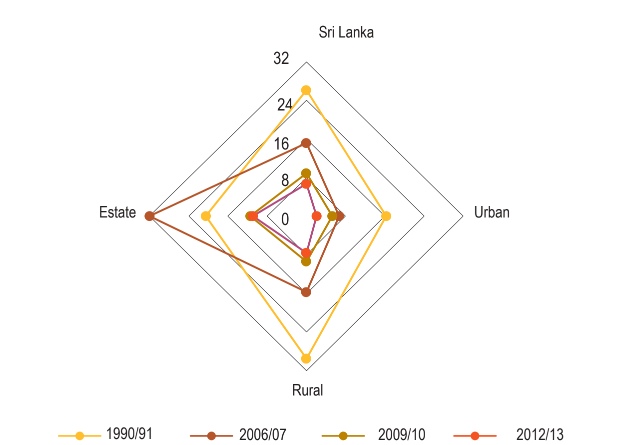
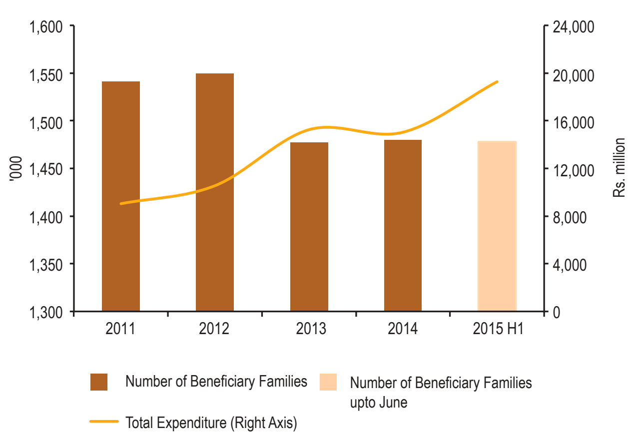


Chart 3.7 Performance of the Samurdhi / Divineguma Subsidy Programme



Expected Developments

- **Electricity generation is expected to grow by around 6 per cent in 2016 due to increasing economic activities and prevailing low tariffs.** With increased low cost power sources, particularly coal power, the average generation cost is expected to remain low. Further, a supply shortage of electricity is not expected in the remaining months of the year and in 2016 due to increased coal power generation. The financial performance of the CEB is expected to remain favourable if coal power generation operates at its full capacity and normal weather conditions prevail during the remaining part of 2015 and in 2016.

- **During the remaining period of 2015 and in 2016, international oil prices are expected to remain at low levels mainly due to increase in supply supported by higher production levels of the OPEC group and easing of sanctions against Iran**. This will be further supported by the drop in demand due to the slowdown of the Chinese economy and the slow pace of global economic recovery. The CPC's financial position is expected to improve during the upcoming period mainly in the presence of low international oil prices.

- **The successful implementation of the 'Google Loon' project is expected to boost access to internet across the country while supporting economic activities through improved doing business environment**. Mobile telephone connections are also expected to grow in line with internet growth. However, the total fixed telephone connections are expected to stagnate as the fixed wireless connections are expected to continue their declining trend. With these developments, Information Technology Enabled Services (ITES) such as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) will expand further enabling Sri Lanka to improve its position as an IT service destination.

- **The development of economic and social infrastructure is expected to continue while enhancing the utilisation of the infrastructure that is already in place.** Ongoing expansion of major ports, airports and expressways is expected to continue while new strategies are expected to improve the utilisation of recently completed ports and airports. Further, introducing reforms to the education and health sectors and implementing other policy initiatives, which have already been announced by the government, are crucial in the social infrastructure provision. In addition, more emphasis is needed on developing soft infrastructure, which is indispensable in the drive towards all-inclusive economic growth.

4

PRICES, WAGES, EMPLOYMENT AND PRODUCTIVITY

Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI) (2006/07=100) which is compiled by the Department of Census and Statistics (DCS), remained at low single digit levels on both annual average and year-on-year basis during the first nine months of 2015. The downward adjustment of administered prices of several key items with effect from January 2015 and the effect of high base that prevailed in the corresponding months of 2014 helped maintain year-on-year inflation below the mid single digit level. The benign general price level was further supported by prudent monetary management, well contained inflation expectations and favourable supply side developments in domestic and international markets. Meanwhile, core inflation, on an year-on-year basis increased gradually from January to September 2015, but remained at low single digit levels. Inflation is expected to remain at low single digit levels during the remainder of 2015, albeit with an increasing trend due to the dissipation of high base effect of downward administrative price revisions effected during several occasions in the fourth quarter of 2014.

Supported by the increase in nominal wages and low inflation that prevailed, employees in all sectors enjoyed increases in their real wages. The Labour Force Participation Rate (LFPR) in the first half of 2015 increased with the expanding labour force. Increase in the LFPR was driven mainly by the increase in the female LFPR, while the male LFPR declined during the period. Increasing trend in the LFPR among elderly and youth is a salient feature observed in the recent past. Meanwhile, employment opportunities in the economy increased marginally during the period. Consequent to these labour market developments, the unemployment rate increased. High unemployment rates among females, youth and persons with GCE (A/L) or higher education levels is a persistent trend observed over the years. Foreign employment, which is a major channel of foreign exchange and a way of easing unemployment pressure, declined as reflected by a decline in departures for foreign employment. Meanwhile, labour productivity in the economy increased, amid a negative contribution from the Agriculture sector.

Developments in 2015

Prices

- **The general price level, as measured by the movement in CCPI, decreased significantly from January to March, increased moderately from April to July and again declined thereafter.** The upward price pressure caused by supply shortages of fresh agricultural items which was observed during the fourth quarter of 2014, continued until January 2015. However, significant downward price adjustments of fuel and LP gas in January 2015 and improved local supply of fresh agricultural commodities in February contributed largely to bring down the general price level from February onwards.

- **Price movements of the food category were inflationary, while that of the non-food category were non-inflationary as reflected in the year-on-year inflation during the period concerned.** As the combined effect was marginal, year-on-year inflation remained at low levels during the period. Since the negative effect from the non-food category surpassed the positive effect from the food category during the period from July to September 2015, the year-on-year change of CCPI was negative during these three months. In the food category, the prices of agricultural commodities, especially that of rice and vegetables, remained high at the beginning of the year as a result of supply shortages continuing from the latter part of 2014 due to adverse weather conditions. Within the non-food category, Housing, water, electricity, gas and other fuels; and Transport sub-indices contributed negatively to the increase in year-on-year inflation during this period. The impact of downward revision of administered prices effected at several occasions since September 2014 led these two sub-indices to move on a declining path and thereby contribute negatively towards the year-on-year change in CCPI during the period.

Table 4.1 Movements of the CCPI (2014 - 2015)

2006/07=100

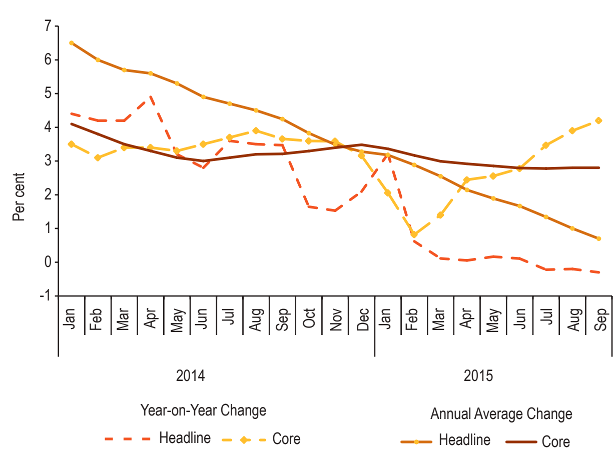
Period		Year-on-Year Change (%)		Annual Average Change (%)	
		Headline	Core	Headline	Core
2014	January	4.4	3.5	6.5	4.1
	February	4.2	3.1	6.0	3.8
	March	4.2	3.4	5.7	3.5
	April	4.9	3.4	5.6	3.3
	May	3.2	3.3	5.3	3.1
	June	2.8	3.5	4.9	3.0
	July	3.6	3.7	4.7	3.1
	August	3.5	3.9	4.5	3.2
	September	3.5	3.7	4.2	3.2
	October	1.6	3.6	3.8	3.3
	November	1.5	3.6	3.5	3.4
	December	2.1	3.2	3.3	3.5
2015	January	3.2	2.1	3.2	3.4
	February	0.6	0.8	2.9	3.2
	March	0.1	1.4	2.5	3.0
	April	0.1	2.4	2.1	2.9
	May	0.2	2.6	1.9	2.9
	June	0.1	2.8	1.7	2.8
	July	-0.2	3.5	1.3	2.8
	August	-0.2	3.9	1.0	2.8
	September	-0.3	4.2	0.7	2.8

Source: Department of Census and Statistics

Price Movements in the Food Category

- **On average, food prices increased, exhibiting mixed movements in line with the supply conditions of fresh food items during the first nine months of 2015.** Within the food category, the weighted average price of rice

Chart 4.1 Movements of the CCPI (2014-2015)



increased by 10.5 per cent during the first nine months of 2015 compared to the corresponding period of the previous year. The decline in paddy production of previous Yala season due to adverse weather conditions as well as the insufficient rice stocks due to low harvests during several preceding seasons, resulted in high average prices of rice at the beginning of the year. With the arrival of Maha harvest to the market from February 2015, recording a 28.7 per cent growth over the previous Maha season, the price of rice started to decline causing the weighted average price of rice to decline by 13.3 per cent from January to September 2015. Further, to discourage rice imports and protect local farmers, the Special Commodity Levy (SCL) on rice was increased to Rs. 20 per kg from January 20, 2015 and further to Rs. 40 per kg from March 26, 2015. In addition, Customs duty of Rs. 35 per kg , Value Added Tax (VAT) of 11 per cent, Ports and Airports Development Levy (PAL) of 5 per cent and Nation Building Tax (NBT) of 2 per cent were imposed on rice in place of SCL with effect from May 06, 2015.

- **The weighted average price of vegetables increased by 19.1 per cent during the first nine months of 2015 compared to the same period of the previous year.** The prices of almost all the vegetable varieties were peaked in January and remained relatively high in February due to the continuation of supply shortages caused by crop damages and transport disturbances consequent to adverse weather conditions that prevailed towards the latter part of 2014. However, favourable weather conditions that prevailed during the early months of 2015 led to a decrease in the weighted average price of the vegetable sub group by 25.8 per cent in September compared to January 2015. Meanwhile, to safeguard the farmers cultivating potatoes and big onions, Special Commodity Levy (SCL) on imports was increased during the harvesting periods of respective crops. During the period under consideration, the average price of coconut increased while that of coconut oil decreased compared to the same period of 2014. The price of coconut remained at relatively high levels from January to March 2015 and exhibited a moderate decline due to seasonal factors thereafter. The decline in the coconut price during the season was relatively low due to the reduction in supply as a result of the lagged effect of drought conditions that prevailed in the previous years and the increased demand for coconut from coconut processing industries. These price developments resulted in a 13.8 per cent increase in coconut prices during the first nine months of 2015 compared to the corresponding period of 2014. Meanwhile, the price of coconut oil declined moderately by 2.7 per cent during the first nine months of the period under review, along with the decline in prices of palm oil, which is a close substitute. The weighted average price of fresh fish and seafood recorded an increase of 6.9 per cent during the first nine months of 2015. A decrease of 1.8 per cent was observed in marine fish production during the first seven months of the year compared to the same period of 2014. The weighted average price of fresh fish increased by 9.2 per cent from January to September 2015. The price of chicken increased by 9.9 per cent from January to September 2015, while the price of eggs also increased by 12.8 per cent during this period. These price increases were led by the increased cost of production, including prices of chicken feed. However, since the weights assigned for chicken and eggs in the CCPI basket are relatively low, the impact of these price developments on CCPI was marginal during the period. Prices of some imported food items decreased during the first nine months of 2015 due to the imposition of a maximum retail price and also in line with price movements in the international market. Accordingly, the price of milk powder, sugar, green gram and wheat flour declined by 8.4 per cent, 15.2 per cent, 14.4 per cent and 10.0 per cent, respectively, during the first nine months of 2015 compared to the same period of 2014. The price of a loaf of bread also decreased by 7.6 per cent during the period under review, subsequent to the price reduction in wheat flour. However, the price of dhal increased by 14.0 per cent in the first nine months of 2015, compared to the same period of the previous year. Meanwhile, the impact of rupee depreciation is expected to exert some pressure on the prices of imported commodities.

Price Movements in the Non-food Category

- **The significant downward revisions of administrative prices of liquid fuel, LP gas and bus fares contributed heavily towards moderating the general price level during the period under consideration.** The prices of diesel, petrol and kerosene were reduced by Rs.16, Rs. 33 and Rs. 16 per litre, respectively, with effect from January 22, 2015. The price of kerosene was reduced further by Rs. 6 per litre with effect from January 30, 2015. Meanwhile, the price of 12.5 kg cylinder of LP gas was revised downward by Rs. 300 and Rs. 100, respectively, with effect from January 30, 2015 and July 15, 2015. In line with downward adjustments in fuel prices, bus fares were also reduced by 8.2 per cent with effect from February 01, 2015.

Core Inflation

- **Core inflation decelerated from 3.4 per cent in January to 2.8 per cent in June 2015 on an annual average basis extending the declining trend observed since June 2013 and stabilised at the same level of 2.8 per cent during the period from June to September 2015.** Meanwhile, the year-on-year core inflation decreased from January to February and increased gradually thereafter to reach 4.2 per cent in September 2015.

Wages

Public Sector Wages

- **The nominal wage rate index (2012=100) of public sector employees increased significantly by 31.8 per cent during the first eight months of 2015, compared to the increase of 9.8 per cent recorded during the corresponding period of 2014.** This increase was due to the total Interim Allowance of Rs. 10,000 paid to all public sector employees, out of which Rs. 3,000 was initially granted from the 2015 Budget with effect from November 2014, while increases of Rs. 5,000 and Rs. 2,000 were granted by the Interim Budget, with effect from February 2015 and June 2015, respectively. As a result, employees in the Senior Level, Tertiary Level, Secondary Level and Primary Level received significant nominal wage increases of 21.4 per cent, 28.1 per cent, 32.3 per cent and 36.9 per cent, respectively, during the first eight months of 2015, compared to increases of 6.6 per cent, 9.4 per cent, 10.0 per cent and 10.5 per cent, respectively, during the same period in 2014.

- **Overall, the real wages of public sector employees also increased significantly by 31.2 per cent during the first eight months of 2015.** The significant increase in nominal wages and the low inflation that prevailed during this period resulted in this substantial increase in real wages, compared to a real wage increase of 5.8 per cent recorded in the corresponding period of 2014. Accordingly, Senior Level, Tertiary Level, Secondary Level and Primary Level employees received real wage increases of 20.8 per cent, 27.5 per cent, 31.7 per cent and 36.3 per cent, respectively, during the first eight months of 2015, compared to increases of 2.7 per cent, 5.4 per cent, 5.9 per cent and 6.4 per cent, respectively, during the same period of 2014. There was a significant increase in public sector real wages in 2014 and 2015 compared to some erosion in real wages during 2010 to 2013 period.

Formal Private Sector Wages

- **Nominal wage rate index of the formal private sector increased by 4.3 per cent in the first eight months of 2015, compared to 2.9 per cent during the corresponding period of 2014.** These wage movements are measured by the minimum wage rate indices (1978=100) of employees whose wages are administered by regulations under the Wages Boards Trades. Nominal wages of the employees in Industry and Commerce; and Services sectors remained unchanged during the first eight months of 2015 subsequent to the 11.2 per cent and 4.9 per cent increases during the same period in 2014. Hence, the overall increase in the formal private sector nominal wages was solely due to the increase of 5.7 per cent in the minimum wages of workers in the Agriculture sector during this period compared to the increase of 1.0 per cent during the corresponding period of 2014. Considerable increases in minimum wages of employees in rubber growing and manufacturing sectors were recorded in October 2014.

- **Overall, formal private sector employees experienced a real wage increase of 3.8 per cent during the period under review, compared to a real wage erosion of 0.9 per cent recorded during the corresponding period of 2014.** Real wages of workers in the Agriculture sector also increased by 5.2 per cent during the first eight months of 2015, subsequent to a real wage erosion of 2.7 per cent in the corresponding period of 2014. Real wages of workers in both Industry and Commerce; and Services sectors declined marginally by 0.5 per cent in the first eight months of 2015, as their nominal wages remained unchanged during the period.

Informal Private Sector Wages

- **Workers in the informal private sector received a nominal wage increase of 8.0 per cent during the first eight months of the year, compared to 5.8 per cent during the corresponding period of 2014, as measured by the average daily wages collected under the Country-Wide Data Collection System (CWDCS) of the Central Bank.** Within the informal private sector, employees engaged in agricultural activities enjoyed an increase of 8.1 per cent in their daily wage during the first eight months of 2015, compared to a 5.9 per cent increase during the same period of 2014. Average daily wages of employees in Tea, Rubber, Coconut and Paddy sub sectors in the Agriculture sector increased by 9.5 per cent, 6.0 per cent, 5.5 per cent and 12.3 per cent, respectively, during the period. Masons and carpenters in the Construction sector enjoyed wage increases of 6.6 per cent and 7.2 per cent, respectively, in nominal terms, leading to a 6.9 per cent overall daily wage increase in the Construction sector.

- **In real terms, wages of employees in the informal private sector increased by 7.5 per cent during the first eight months of 2015 compared to the increase of 1.9 per cent recorded in the corresponding period of 2014.** When sub categories in the informal private sector are considered, employees in Tea, Rubber, Coconut, Masonry and Carpentry sub sectors enjoyed increases in their real wages by 9.0 per cent, 5.5 per cent, 5.1 per cent, 6.1 per cent and 6.7 per cent, respectively. Employees in the Paddy sector experienced a sizable increase of 11.8 per cent in their real wages, subsequent to a real wage erosion of 0.7 per cent during the corresponding period of 2014.

Labour Force

- **According to the Quarterly Labour Force Survey (QLFS) conducted by the Department of Census and Statistics (DCS), covering the entire island, the labour force, which consists of the economically active population aged 15 years and above, increased by 2.0 per cent**

Table 4.2 Labour Force, Employment and Unemployment (a)

Item	2014 H1	2014 Year	2015 (b) H1	2015 (b) Projections
Household Population, '000				
(Age 15 years and above)	16,437	16,532	16,623	16,664
Labour Force, '000	8,791	8,805	8,968	8,999
Employed, '000	8,410	8,424	8,552	8,594
Unemployed, '000	381	381	416	405
Labour Force Participation Rate (% of Household Population)	53.5	53.3	54.0	54.0
Unemployment Rate (% of Labour Force)	4.3	4.3	4.6	4.5

(a) Data covers the entire island
(b) Provisional

Sources : Department of Census and Statistics
Central Bank of Sri Lanka

to 8.968 million persons in the first half of 2015, from 8.791 million in the corresponding period of 2014. The increase in the labour force was mainly due to the higher number of entries of females in to the labour force. This increase in the economically active female population was observed in all sectors, namely; urban, rural and estate. Meanwhile, the economically active male population declined on an overall basis, as a result of a significant decline recorded in the urban sector and a marginal decline in the rural sector.

- **The labour force participation rate (LFPR), which is the ratio of the labour force to the household population aged 15 years and above, increased marginally to 54.0 per cent in the first half of 2015 compared to 53.5 per cent in the corresponding period of the last year.** The increase is mainly due to the increase in female LFPR from 35.1 per cent in the first half of 2014 to 36.6 per cent in the first half of 2015. This increase emanated from the increased participation of females in the age groups of 15-29 years, 35-39 years and 50 years and above. Male LFPR declined from 74.8 per cent in the first half of 2014 to 74.4 per cent in the corresponding period of 2015, owing to the decline in male LFPR in the age group of 30-44 years. Nevertheless, notable increases in both Male and Female LFPRs are observed in the age category of 60 years and above, indicating that an increasing proportion of elderly are employed or willing to be employed. LFPR among youth (age between 15-24 years) also shows an increasing trend over the time.

Employment

- **The number of employed persons increased marginally by 1.7 per cent to 8.552 million in the first half of 2015 compared to 8.410 million in the corresponding period of 2014.** The increase in the number employed was mainly due to the 7.7 per cent increase in the number of employees engaged in the Agriculture sector, with the recovery of economic activities during the period under review compared to that in the first half of 2014. Meanwhile, the number employed in the Services sector increased marginally by 0.7 per cent while that of the Industry sector declined by 2.7 per cent. Economic activities in the Industry sector recovered from a negative growth observed in the corresponding period of the previous year, limiting employment opportunities in the sector. However, activities in the Services sector increased amid a marginal increase in the number employed, signaling an improvement in labour productivity in the sector.

- **In terms of employment status, the number of employees in the private sector, employer and self-employed categories increased, while that of the public sector and unpaid family worker categories declined**. Public sector employment declined by 1.3 per cent, accounting for 15.2 per cent of the share in total employment in the country. The number of employers increased by 3.8 per cent, with a decline in the agriculture category. The employer category accounted for 2.9 per cent of the total employment. The number employed in the private sector, which holds the largest share of 41.1 per cent in total employment, increased by 2.0 per cent, mainly due to the increase in employment in agriculture related private sector activities. The number of self employed persons increased in both agriculture and non-agriculture categories, resulting in a total increase of 4.4 per cent and consisted of a share of 32.5 per cent in total employment. The number of unpaid family workers declined by 5.1 per cent, with the decrease in activities in both agriculture and non-agriculture categories.

Unemployment

- **The unemployment rate increased to 4.6 per cent in the first half of 2015 compared to 4.3 per cent in the corresponding period of the previous year.** The total number of unemployed persons during the period under review was estimated at 0.416 million compared to 0.381 million recorded during the same period in the last year, which is an increase of 9.2 per cent. This increase was mainly due to the increase in the number of unemployed females by 25.3 per cent in the first half of 2015. This led to an increase in the female unemployment rate to 7.6 per cent in the first half of 2015 from 6.4 per cent recorded in the corresponding period of the previous year. The number of unemployed males declined by 8.0 per cent, resulting in a decline in the male unemployment rate from 3.2 per cent to 3.0 per cent, from the first half of 2014 to the first half of 2015, respectively.

- **Increases in unemployment rates were observed across all age categories, except for persons between 25-29 years of age**. Youth (age between 15-24 years) unemployment continued to remain at an extremely high level reaching 21.6 per cent during the period. Labour force participation from this age group was more than one million persons. Age groups between 30-39 years and 40 years and above recorded 2.9 per cent and 1.0 per cent unemployment rates, respectively, during the period. Labour force participation of the age group of 40 years and above was the highest at around 4.8 million persons.

- **In terms of education level, the highest unemployment rate of 9.3 per cent was reported among persons with GCE (A/L) and higher level of educational attainment, which is a significant increase from 7.8 per cent recorded in the corresponding period of the previous year.** It is pertinent to note that this age group usually records highest unemployment rates, partly reflecting the prevailing skills mismatch in the labour market. Meanwhile, the unemployment rate among persons with 6-10 years of schooling remained unchanged at 3.4 per cent, while it increased to 6.5 per cent from 6.2 per cent among those who have passed GCE (O/L).

Foreign Employment

- **Foreign employment continued to be one of the main foreign exchange earners for the country amid a considerable decline in departures for foreign employment during the first half of the year**. Departures for foreign employment declined by 14.8 per cent in the first half of 2015 compared to the corresponding period of the previous year. This decline is observable in both male and female worker departures, which declined by 13.9 per cent and 16.3 per cent, respectively, during the period under review. The overall decline in departures observed during the period was driven partly by the economic slowdown in the Middle East with the decline in oil prices in the international markets and the social and security concerns resulting from spillover effects of regional conflicts in the region, which is the largest Sri Lankan migrant worker destination.

- **Worker departures under all categories, except for Skilled and Semi-skilled categories declined during the first half of 2015**. Worker departures under Middle Level and Clerical and Related categories declined significantly, which is a matter that needs attention as workers in higher skill categories earn more foreign exchange. Nevertheless, exhibiting the success of measures taken by authorities to streamline worker departures under the housemaid category, housemaid departures declined by 17.2 per cent during this period.

Labour Relations

- **The total number of strikes and the number of workers involved in strikes in the private sector declined during the first half of 2015.** The number of strikes in the private sector declined from 25 to 9 while the number of workers involved in strikes declined from 4,063 to 2,939 in the first half of 2015 compared to the corresponding period of the previous year. These declines were observed in both Plantation and Other sectors. Nevertheless, on an overall basis, labour relations deteriorated in terms of the number of man-days lost due to strikes, which increased by 20.8 per cent to 19,110 during the first half of 2015 from 15,818 in the first half of 2014 . This increase was mainly due to the elongation of strikes in the plantation sector.

Labour Productivity

- **Labour productivity, as measured by value added (in 2010 prices) per hour worked, increased by 2.1 per cent to Rs. 417.52 in the first half of 2015 compared to Rs. 409.00 in the corresponding period of 2014.** The Services sector exhibited the most efficient use of the labour resource with a 6.0 per cent growth in labour productivity. Although, the value added growth was marginal and the number of hours worked declined in the Industry sector, it registered a productivity growth of 3.5 per cent. While the number employed and consequently the number of hours worked in the Agriculture sector increased, growth in value added was not sufficient to register a growth in productivity. Hence, labour productivity in the Agriculture sector declined by 8.9 per cent during the first half of 2015.

Prospects for 2016

Prices

- **Inflation is expected to remain below mid single digit levels during the remainder of the year based on the likely movement of CCPI (2006/07=100) which is the official measure of inflation**. Well contained inflation expectations, prudent monetary management, moderation of international commodity prices, especially crude oil prices as well as favourable domestic supply conditions will help in maintaining the general price level at benign levels. Meanwhile, a certain level of price pressure is anticipated on imported items with the recent depreciation of the rupee and if a reversal of the downward trend of prices occur in international markets. Any unpredictable supply shortages of agricultural commodities could be managed through timely fiscal policy measures that encourage imports in the short term. Furthermore, along with these developments and the dissipation of high base effect of downward administrative price revisions that effected during several occasions in the fourth quarter of 2014, inflation is expected to move upward from the fourth quarter of 2015 and in to the year 2016.

Wages and Productivity

- **Real wages in the economy are expected to grow during the coming months.** Growth in real wages should be matched with the growth in productivity over the long run to ensure cost competitiveness for producers as it could cause inflationary pressure in the domestic market, and ultimately leading to wage price spirals in the long run. Real wage increases without productivity growth is particularly hindering competitiveness in the Agriculture sector. Hence, wage rate determination needs to be associated with productivity linked incentives in the future. Public sector wages also gradually need to be linked with productivity as a productive public sector facilitates the momentum of the private sector.

Labour Force and Employment

- **The increased labour force participation by females and elderly could possibly exert some upward pressure on the unemployment rate.** This situation could be further worsened by any skills mismatch in the labour market, as reflected by the high unemployment rates among more educationally qualified persons. As revealed by the Business Outlook Survey conducted by the Central Bank, employers at times find it difficult to match suitable employees to fill existing job opportunities in their firms. Their intention to hire labour has been mostly positive in the recent past since there has been a shortage of employees in their firms over the period. This clearly indicates that there is a supply and demand mismatch in the labour market, which needs to be corrected through proper skill alignment programmes to avoid potential economic and social issues.

- **Along with the anticipated increase in the elderly population, the increase in LFPR among the elderly (age 60 and above) also points out an increase in the economic and social vulnerabilities of elderly people who do not have any or sufficient means of income to live.** This situation could be further aggravated with the imminent aging population, lack of proper superannuation benefits, social security nets, health insurance schemes and the existing mismatch in the labour market. Income earning methods for elderly such as community gardening, handicrafts and consultancy services programmes that have already been initiated by the Elders' Secretariat should be promoted further with state level attention to ensure social security and decent living for elderly people.

- **High level of unemployment among youth and those who are with higher levels of educational attainment is also an issue that had been raised continuously, which could lead to social unrest, underutilisation of the human resource and the creation of an incapable and inexperienced workforce in the country in the near future.** The expected continuous growth drive in the Services sector can be bolstered by carefully channeling this idle educated and young labour force, if proper steps are taken to correct the existing skill mismatch. The mismatch in the labour market points out that their skills need to be realigned with the skills desired by the employers. The education system in the country, including higher education, needs to be realigned so that it would not simply produce an output, but a quality workforce with proper skills, competencies and self confidence, employable by the private sector.

5

EXTERNAL SECTOR DEVELOPMENTS

Sri Lanka's external sector performance moderated in the first half of 2015 amidst a strong demand for imports and less than expected foreign exchange earnings. The merchandise trade deficit, which widened in the second half of 2014, weakened further in the first half of 2015 as well. The slow growth in advanced economies and Sri Lanka's major export destinations reduced the demand for exports, resulting in a marginal decline in exports during the period. Despite the sharp drop in the fuel import bill, the significantly high domestic demand for imported goods, especially vehicles and other consumer goods, caused a substantial increase in expenditure on imports, resulting in the widening of the trade deficit. However, a notable increase in earnings from tourism helped raise the surplus in the services account amidst marginal growth in earnings from other service exports such as transportation and computer and information services. Meanwhile, the deficit in the primary income account continued to widen due to increased interest and dividend payments. These developments in merchandise trade, services and primary income accounts, together with an unexpected moderation in workers' remittances, resulted in a current account deficit of US dollars 905 million during the first half of 2015, compared to the deficit of US dollars 435 million in the corresponding period of 2014. Meanwhile, inflows to the financial account moderated during the first half of 2015. Net inflows of Foreign Direct Investment (FDI) and foreign investment in the Colombo Stock Exchange (CSE) remained weak during this period, while the anticipated policy tightening by key Central Banks in the world prompted a gradual reversal of foreign investments in government securities. Inflows to the government by way of long term loans also remained low. These developments, together with scheduled debt service payments and the supply of liquidity to the foreign exchange market, resulted in a decline in gross official reserves to US dollars 7.5 billion, equivalent to 4.5 months of imports, by end June 2015. Consequently, the Balance of Payments (BOP) registered a deficit of US dollars 792 million by end June 2015. Meanwhile, the Sri Lankan rupee, which depreciated only by 2.4 per cent against the US dollar during the first eight months of the year, depreciated by 4.5 per cent during the period from 4th September to end October, due to the accommodation of greater flexibility in the determination of the exchange rate. Accordingly, the rupee depreciated against the US dollar by 7.0 per cent during the year up to end October 2015. Following this trend, the Real Effective Exchange Rate (REER) indices also depreciated, indicating an improvement of the country's external competitiveness.

Trade in Goods and Trade Balance

- **The trade deficit, which began to widen from the second half of 2014, continued to expand further in the first eight months of 2015, largely due to weak global demand and significantly high domestic demand for imported goods.** On a cumulative basis, earnings from exports reached US dollars 7,147 million during the first eight months of 2015, while expenditure on imports amounted to US dollars 12,559 million, resulting in a trade deficit of US dollars 5,412 million up by 5.0 per cent, year-on-year.

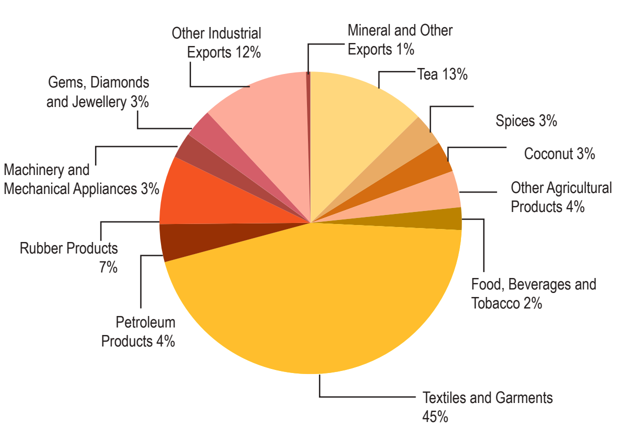
- **Earnings from exports continued its slow growth momentum during the first eight months of 2015 that began in the fourth quarter of 2014.** As a result of the significant drop recorded in both industrial and agricultural exports, overall earnings from exports during the year until August decreased by 3.4 per cent, year-on-year, to US dollars 7,147 million. The continued appreciation of REER indices, political and economic uncertainty in Russia and some countries in the Middle East, that mainly affected tea exports as well as restrictions imposed by the European Union on Sri Lankan fish exports, reduced the demand for Sri Lankan exports. Further, the significant drop in commodity prices in the international market had an adverse effect on the export earnings of Sri Lanka.

Chart 5.1 External Trade Performance

- **Industrial exports, which account for about 76 per cent of total exports, remained volatile during the first eight months of 2015.** Accordingly, earnings from industrial exports declined marginally by 0.8 per cent, year-on-year, to US dollars 5,446 million during the period under review. The decline recorded in export earnings from textiles and garments, rubber products, and gems, diamonds and jewellery, which account for about 45 per cent, 7 per cent and 3 per cent of total export earnings, respectively, contributed to the decline in exports of industrial products. Accordingly, earnings from the textiles and garments declined by 1.1 per cent, year-on-year, to US dollars 3,219 million during this period. This was mainly due to the 12.9 per cent decline recorded in textiles and garment exports to the EU market despite the 10.5 per cent and 3.4 per cent growth recorded in exports to USA and non-traditional markets, respectively. Export earnings from rubber based products recorded a drop of 12.4 per cent, year-on-year, during the first eight months of 2015, mainly due to lower earnings from the export of tyres. Export earnings from gems, diamonds and jewellery declined significantly by 18.6 per cent. However, export earnings from transport equipment increased by more than two fold, mainly due to the export of a dredger vessel. Export earnings from petroleum products, which mainly comprise bunker and aviation fuel also increased by 21.7 per cent amidst intense competition from major regional players such as India and Singapore.

- **Weak performance in agricultural exports contributed to more than 70 per cent of the overall decline in export earnings.** During the first eight months of 2015, earnings from agricultural exports declined by 9.8 per cent, year-on-year, to US dollars 1,668 million, mainly due to the significant drop in tea and sea food exports. Earnings from tea exports during the first eight months of 2015 declined significantly by 16.8 per cent to US dollars 901 million, due to the considerable decline of demand recorded for Ceylon tea from major buyers such as Russia and the Middle East, as a result of the significant depreciation of the Ruble and the substantial decline in oil revenue of those countries. Accordingly, the average price of tea exported from Sri Lanka during this period decreased to US dollars 4.47 per kilogram from US dollars 5.04 per kilogram recorded in the corresponding period of 2014. Export earnings from sea food declined substantially by 36.2 per cent during the first eight months of 2015, mainly due to the decline in sea food exports by 72.8 per cent to the EU market, owing to the restrictions on the access to the EU market, with effect from mid-January 2015. Earnings from rubber exports, which declined last year, continued to weaken during this period, reflecting the impact of the continuous decline in global rubber prices led by lower global demand. However, earnings from exports of spices and coconut kernel products increased, partly offsetting the overall decline in other agricultural exports. Export earnings from spices increased significantly by 54.8 per cent as exports of a majority of the spices, including

Chart 5.2 **Composition of Exports (January-August 2015)**



cloves and pepper, increased. The earnings from exports of coconut kernel based products increased by 10.9 per cent mainly due to the increase in the export of coconut oil.

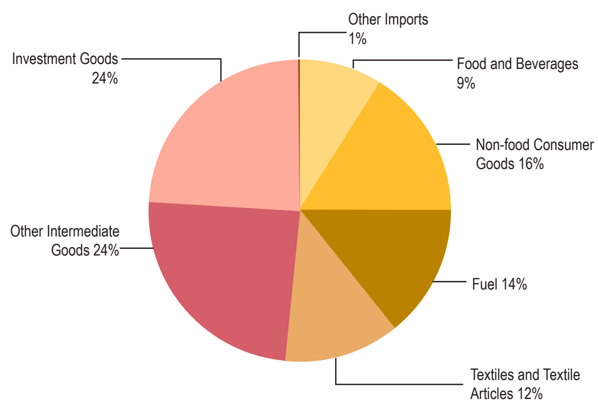
- **Expenditure on imports during the first eight months of 2015 remained at the same level recorded in the corresponding period of the previous year, despite the significant drop in international commodity prices, especially fuel.** The substantial increase in demand for imported goods, particularly vehicles for investment purposes and personal use, and increased demand for other durable goods, offset the gain from lower international commodity prices. As a result, expenditure on imports during the year up to August amounted to US dollars 12,559 million, compared to US dollars 12,555 million recorded during the same period of 2014.

- **Import expenditure on consumer goods, which accounts for approximately 25 per cent of total imports, increased by 37.3 per cent, year-on-year, to US dollars 3,142 million during the first eight months of 2015.** Import expenditure on food and beverages increased by 12.9 per cent to US dollars 1,124 million, reflecting increases in all sub categories except sugar and confectionary and dairy products. Rice imports recorded a significant growth of 67.8 per cent during the first eight months of 2015 as a result of the shortfall experienced in domestic rice production since April 2014. However, rice imports declined from May 2015 due to the increase of the import related tariff, with effect from May 2015, with the increase of domestic production. Import expenditure on vegetables increased by 33.9 per cent due to the increases recorded in the importation of major categories such as lentils, onions and leguminous vegetables. Meanwhile, expenditure on import of non-food consumer goods increased by 56.1 per cent to US dollars 2,018 million, largely due to the increase in the importation of motor vehicles by 89.9 per cent to US dollars 905 million during the first eight months of 2015. Reduction of import related taxes on motor vehicles, especially for motor vehicles with an engine capacity of less than 1000 cc in early 2015, depreciation of the Japanese Yen, low interest rates for leasing facilities and increase in salaries of government employees were the main reasons for the upsurge in motor vehicle imports during the first eight months of the year. Meanwhile, the importation of all other categories of non-food consumer goods, such as clothing and accessories, medical and pharmaceutical products, telecommunication devices and home appliances also increased during this period.

- **The importation of investment goods increased by 19.4 per cent to US dollars 3,007 million during the first eight months of the year, led by higher expenditure on imports of transport equipment and machinery and equipment.** Transport equipment imports increased by 117.7 per cent mainly due to the higher level of imports of road vehicles, particularly, auto trishaws and buses. Machinery and equipment imports increased by 8.3 per cent mainly due to the increase in imports of machinery and equipment parts, agricultural machinery, telecommunication devices and other industrial machinery. Meanwhile, import expenditure on building material expanded marginally by 1.0 percent during this period.

- **Expenditure on intermediate goods imports declined by 17.3 per cent, year-on-year, to US dollars 6,397 million during the first eight months of 2015 mainly due to a substantial decline in expenditure on fuel imports.** The non-importation of crude oil in March and April 2015 due to the shutting down of the refinery for maintenance purposes and the record low level of fuel prices prevailing in the international market resulted in a substantial decline in the expenditure on fuel imports. The average import price of crude oil declined to US dollars 61.24 per barrel during the first eight months of 2015, from US dollars 111.45 per barrel recorded during the corresponding period of 2014. Accordingly, expenditure on fuel imports declined by 48.1 per cent to US dollars 1,789 million during the first eight months of 2015, compared to US dollars 3,448 million recorded in the corresponding period of 2014. Further, fuel imports as a share of total imports declined to 14.2 per cent during this period compared to 27.5 per cent recorded in the corresponding period of 2014. Expenditure on wheat and maize and mineral product imports also declined by 20.1 per cent and 10.4 per cent, respectively, year-on-year, mainly due to the decline of prices in the international market. However, the import of textiles and textile articles, chemical products, diamonds, precious stones and metals, and rubber and articles thereof increased during this period. Textiles and textile articles imports grew by 5.3 per cent to US dollars 1,547 million partly due to the domestic demand. Meanwhile, expenditure on chemical imports increased by 14.3 per cent to US dollars 586 million, as a result of a significant growth in the import of inorganic chemical elements. Import expenditure of diamonds,

Chart 5.3 **Composition of Imports (January-August 2015)**

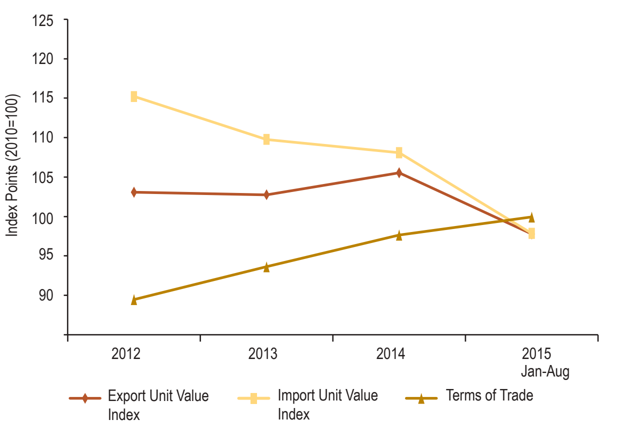


precious stones and metals increased by 37.8 per cent to US dollars 131 million, mainly due to the significant increase in gold imports. Import of rubber and articles thereof increased by 81.3 per cent due to the substantial decline in rubber prices in the international market compared to domestic prices.

Terms of Trade

- **The larger decline in the import price index in proportion to the lower decline in the export price index resulted in an improvement in terms of trade during the first eight months of 2015 compared to the same period in 2014.** The substantial decline in the international market price of fuel, the largest import commodity of Sri Lanka, mainly contributed to the decrease in overall import price index by 11.6 per cent, year-on-year, to 97.8 index points. Meanwhile, the export price index declined by 6.1 per cent, year-on-year, during this period, reflecting declines in the prices of all major export categories. Accordingly, the terms of trade rose by 6.2 per cent, on average, to 99.9 index points during the first eight months of 2015, from 94.1 index points recorded during the corresponding period in 2014.

Chart 5.4 Terms of Trade and Trade Indices



Trade in Services

- **The surplus on trade in services account increased marginally during the first half of 2015, as earnings from services outgrew expenditure on services imports.** Accordingly, the services account of the BOP recorded a surplus of US dollars 1,003 million during the first half of 2015, compared to a surplus of US dollars 898 million during the corresponding period of 2014. Higher inflows to the services account were mainly received from tourism.

- **Both inflows and outflows on account of transport services grew moderately during the first half of 2015.** Inflows from transport services grew by 4 per cent to US dollars 998 million during this period. Earnings from sea and port related transportation activity moderated with the slowdown in goods exports during the period. The increase in passenger arrivals, however, contributed favourably towards the increase in inflows from transportation services. Meanwhile, outflows on account of transportation services grew by 6 per cent during the first half of 2015, to US dollars 771 million, largely due to the increased port and airport related service payments, particularly the higher spending on freight and air travel services. The higher spending on freight also coincides with the increase in goods imports during the period.

- **Higher growth momentum observed in the tourism industry after the dawn of peace in 2009, continued during the first nine months of 2015 as well, reflecting a substantial increase in tourist arrivals.** The number of tourists visited Sri Lanka during the first nine months of 2015 grew by 18.8 per cent to 1,315,839 over the corresponding period in 2014, led by increased arrivals from India and China. During this period, tourist arrivals from China increased by 73.6 per cent, becoming the second largest tourist origin country surpassing United

Chart 5.5 Tourist Arrivals and Earnings from Tourism

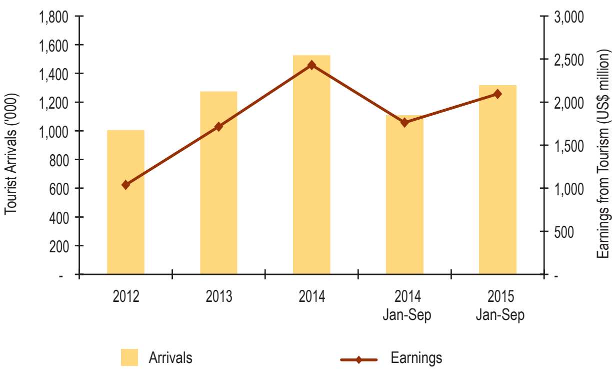
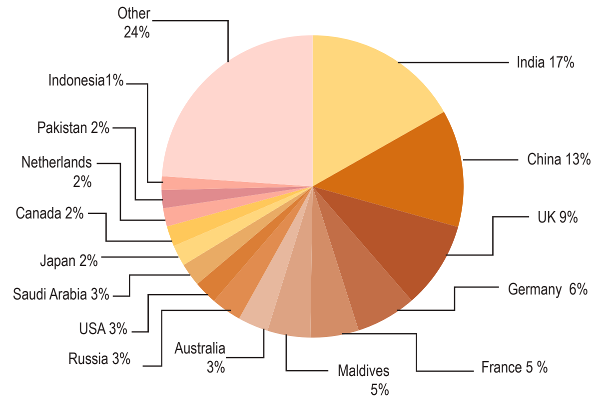


Chart 5.6 Tourist Arrivals by Country (January-September 2015)



Kingdom, while contributing for around 34 per cent of the overall growth in tourist arrivals. India, the largest tourist generating country, recorded a significant growth of 29.4 per cent in tourist arrivals, contributing for about 24 per cent for the overall growth during this period. Western Europe continued to be the largest tourist generating market for Sri Lanka with the number of tourist arrivals increasing by 16.3 per cent to 413,069 during the first nine months of 2015. Tourist arrivals from East Asia and South Asia also increased by 32.5 percent and 24.2 per cent, respectively, during this period. However, tourist arrivals from Eastern Europe declined by 5.5 per cent during the first nine months of 2015 with lower arrivals from Russia and Ukraine due to the lower income as a result of the significant decline in oil prices and geo-political uncertainties.

- **Earnings from tourism accounted for the largest share of inflows from trade in services.** Inflows on account of tourism amounted to US dollars 1,321 million during the first half of 2015, recording a growth of 14.1 per cent over the corresponding period of 2014.[1] Based on the latest data, cumulative earnings from tourism grew by 18.8 per cent to US dollars 2,095 million during the first nine months of 2015, in comparison to US dollars 1,763 million earned during the same period in 2014. The growth in earnings from tourism can be attributed to the increase in tourist arrivals and expenditure, supplemented by high-spending tourists. The gradual diversification of the tourism industry into niche markets and the development of non-traditional areas such as MICE (Meetings, Incentives, Conferences and Exhibitions) tourism are also expected to have contributed towards the growth of the sector. Meanwhile, outflows also grew, albeit at a lower rate than inflows, with the increase in foreign travel by Sri Lankans for leisure, education and health purposes.

- **Investment in the tourism sector also expanded further during the first nine months of 2015.** Sri Lanka Tourism Development Authority (SLTDA) continued to develop three new Tourism Resort Projects, namely Yala Wildlife Resort, Kuchchaweli Beach Resort and Kalpitiya Island Resort. In addition, new tourism zones in the areas of Nuwara Eliya, Mannar and Jaffna are proposed to be established. Further, in order to accommodate the increasing tourist arrivals,

1 These provisional estimates may be revised once the Sri Lanka Tourism Development Authority releases its survey results on average stay period and average spending per day estimates for 2015.

investment proposals were received for 40 hotel projects during the first nine months of 2015, to add 1,835 rooms to the tourism industry. During the same period, final approvals were granted for 28 hotel projects from the investment proposals received up to September 2015 with a room capacity of 1,784. Meanwhile, 11 new hotel projects commenced their operations adding 362 rooms to the industry during the first nine months of 2015. In addition, 24 projects were under construction by end September 2015. The Tourism Marketing Plan 2015 prepared by the Sri Lanka Tourism Promotion Bureau (SLTPB), included the push strategy of marketing, which consisted of Sri Lanka's participation at key travel and tourism exhibitions together with the private sector, and business to business meetings coupled with road shows in the key cities of focused countries. In terms of the pull strategy, the visiting journalist programme from key markets was implemented on the theme "08 wonderful experiences in 08 wonderful days" by the journalists who came to Sri Lanka and shared their experience in the chosen media. The key persons of the tourism sector, including the Minister of Tourism for each country have begun visiting the respective country for a one to one dialogue with the tourism hierarchy, key media personalities and tour operators, in order to market Sri Lanka as a destination of choice for global travelers. Cutting edge product developments such as "Sri Lanka - Colombo city rated as No. 1 tourism growth city in the world", the identification of approximately 350-500 blue whales on shores of Kalpitiya by a whale expert, the visit of Miss World 2014 to Sri Lanka and the drive towards increasing the forest cover in the country, were highlighted in the global press.

- **Continued inflows from telecommunications, computer and information services also supported trade in services during the first half of 2015.** The growth momentum in the sector continued with an inflow of US dollars 413 million during the first half of 2015 in comparison to US dollars 397 million received during the first six months of 2014. The brand recognition received by a number of companies, particularly in software development, highlights the emerging importance of the sector. Meanwhile, outflows on account of telecommunications, computer and information services also grew by 5 per cent to US dollars 216 million during the first half of the year.

Primary Income

- **The deficit in the primary income account increased in the first half of 2015 mainly due to higher outflows on account of dividend and interest payments.** The deficit in the primary income account increased to US dollars 839 million during this period, from US dollars 768 million recorded in the first half of 2014. Inflows to the primary income account declined marginally, mainly due to the decline in earnings on investment of reserve assets. Nevertheless, outflows on account of dividend payments on direct investments increased significantly to US dollars 167 million, indicating increased profits earned by direct investment enterprises during the period. Interest payments increased primarily on account of coupon payments on the International Sovereign Bonds and bonds issued by the licensed banks. However, interest payments on loans obtained by the government remained broadly unchanged during the first half of 2015. Reinvested earnings of BOI companies declined to US dollars 119 million during the period, compared to US dollars 143 million in the first half of 2014. Consequently, total outflows in the primary income account increased to US dollars 909 million in the first six months of the year, compared to US dollars 845 million in the corresponding period of 2014.

Secondary Income

- **The surplus in the secondary income account, which comprises workers' remittances and government transfers, grew at a slow pace in the first half of 2015 with the slowdown in workers' remittances.** Inflows to the secondary income account amounted to US dollars 3,440 million during the first half of 2015, a growth of 2.0 per cent compared to the growth of 11.0 per cent in the corresponding period of 2014. Government transfers were virtually unchanged, but workers' remittances which account for most of the secondary income inflows, recorded an increase of only 2.0 per cent, a sharp moderation from the growth of 10.6 per cent observed in the first half of 2014. This deceleration could be partly attributed to the decline in petroleum prices and the resultant drop in the income of oil exporting Middle Eastern countries. Further, a decline in labour migration by 14.8 per cent during the first half of 2015, due to the discouragement of migration of workers in unskilled categories and the prevailing geopolitical developments in the Middle East might have also contributed to the deceleration in remittance inflows from the Middle Eastern region. Data released by the Sri Lanka Bureau of Foreign Employment illustrates that labour migration under the skilled category, including professionals, had increased by 8.3 per cent during the first half of 2015 although migration under the semi-skilled and unskilled categories, including house-maids, had declined by 22.7 per cent during this period. The continuation of this trend in labour migration would lead to a composition change in workers' remittances in coming years. On a cumulative basis, workers' remittances up to September 2015 amounted to US dollars 5,182 million, registering a growth of 1.8 per cent, over the corresponding period of 2014.

Current Account Balance

- **The external current account deficit remained elevated during the first half of 2015.** In nominal terms, the current account deficit widened to US dollars 905 million in the first half of 2015, from a deficit of US dollars 435 million during the corresponding period of 2014. Widening deficits in the trade and primary income accounts, as well as the sharp moderation in the growth of workers' remittances in the secondary income account were the main contributors to the large current account deficit during the first half of the year. However, inflows to the services account and the surplus in the secondary income account cushioned the deficits in the trade and primary income accounts, thereby easing the pressure on the external current account to some extent. With the envisaged expansion in economic activity and policy measures taken by the Central Bank and the government, an improvement in the current account balance is expected during the latter part of the year. Accordingly, the current account is expected to record a lower deficit of 2.3 per cent of GDP in 2015 compared to the deficit of 2.6 per cent of GDP recorded in the previous year.

Capital Account Balance

- **The surplus in the capital account declined in the first half of 2015.** Capital grants received by the government decreased to US dollars 24 million in the first half of 2015 from US dollars 51 million in the corresponding period of 2014. As a result, net inflows to the capital account declined from US dollars 41 million in the first half of 2014 to US dollars 16 million during the first half of 2015.

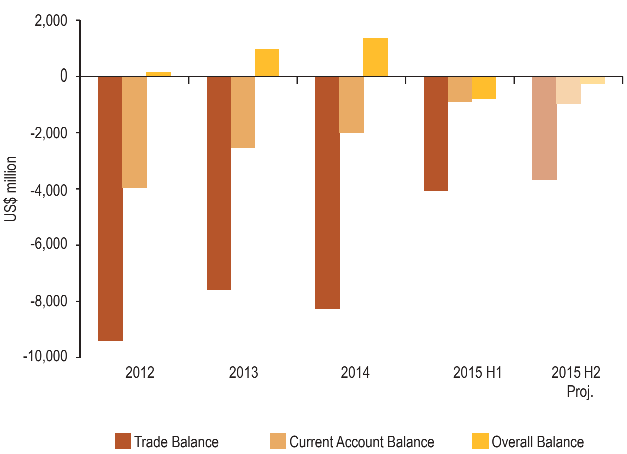
Financial Account

- **Both the net incurrence of liabilities and the net acquisition of financial assets in the financial account were considerably lower in the first half of 2015 than in the corresponding period of 2014.** However, the net incurrence of liabilities was significantly higher than the net acquisition of financial assets, which resulted in the financial account recording a net inflow of US dollars 613 million during the first half of 2015. The net incurrence of liabilities in the first half of 2015 amounted to US dollars 848 million compared to US dollars 2,908 million in the corresponding period of 2014, and the net acquisition of assets amounted to US dollars 235 million in the first half of 2015 compared to US dollars 2,969 million in the first half of 2014. Net inflows to the financial account, which finance the current account deficit, were supplemented primarily by sources other than net foreign borrowing by the government. Foreign borrowings by the government remained low during the first half of 2015 with the main source of borrowing being the International Sovereign Bond issued in June 2015, amounting to US dollars 650 million. However, the five year Sovereign Bond of US dollars 500 million which matured in January 2015, reduced the net inflows to the financial account. The other primary source of financing of the current account deficit during the first half of the year, was the foreign currency swap arrangement of US dollars 400 million entered into with the Reserve Bank of India (RBI).

- **Net inflows to the government, by way of foreign investments in government securities and foreign loans, declined during the first half of the year, while reserve related transactions remained moderate.** The anticipated rate hike by the US Federal Reserve prompted many foreign investors to withdraw their investments from emerging markets, the effect of which was felt by Sri Lanka as well. Consequently, foreign investments in Treasury bills and Treasury bonds recorded a net outflow of US dollars 237 million in the first half of 2015, compared to a net inflow of US dollars 196 million in the first half of 2014. Meanwhile, net inflows to major public investment projects decelerated to US dollars 107 million during this period, compared to a net inflow of US dollars 609 million recorded in the first half of 2014. The low levels of foreign loan inflows were mainly due to the policy adopted by the government to review investment projects and foreign loan facilities. Further, reserve assets related transactions were significantly less when compared to the first half of 2014, with transactions of reserves amounting to a net inflow of US dollars 222 million in the first half of 2015, compared to a net inflow of US dollars 2,463 million in the first half of 2014.

- **Non-debt creating financial flows of the BOP also moderated during the first half of 2015.** Non-debt creating financial flows, which primarily comprise FDI and equity investments in the CSE, were below expectations mainly due to the subdued global capital flows. Foreign investments in listed companies in the CSE moderated further with a net inflow of US dollars 16 million in the first half of 2015 compared to US dollars 51 million a year earlier. Total FDI related inflows, which include foreign borrowings of BOI companies for investment purposes, declined by 35.6 per cent to US dollars 544 million during the first half of 2015. Excluding foreign borrowings of BOI companies, FDI inflows amounted to US dollars 278 million during the period, a deceleration of 5.6 per cent over the corresponding period in 2014. The deceleration in FDI flows could also be attributed to investors delaying investments until the end of national elections. As in the previous years, a larger share of FDI related inflows during this period were channeled to the infrastructure and services sectors. Meanwhile,

Chart 5.7 Balance of Payments



FDI outflows in the first half of 2015 amounted to US dollars 28 million compared to US dollars 34 million recorded in the corresponding period of 2014.

Balance of Payments (BOP)

- **The country's BOP recorded a deficit of US dollars 792 million during the first half of 2015.** The widening of the current account deficit and the comparatively low level of inflows to the financial account during the period under review contributed to the deterioration of the BOP position to a deficit of US dollars 792 million, in comparison to the surplus of US dollars 1,954 million recorded during the corresponding period of 2014. Meanwhile, the BOP is estimated to have recorded a deficit of US dollars 2.3 billion by end September 2015.

International Investment Position (IIP)

- **Sri Lanka's external asset position, as well as the liability position moderated as at end June 2015 from the positions observed as at end 2014.** The total external liability position as at end June 2015 amounted to US dollars 52.8 billion, a decline from US dollars 53.2 billion as at end 2014. The total asset position declined from US dollars 10.9 billion as at end 2014 to US dollars 10.3 billion as at end June 2015. Out of the total liability position as at end June 2015, foreign loans, portfolio investments and direct investments accounted for 49 per cent, 24 per cent and 19 per cent, respectively. The remainder was in the form of currency and deposits, trade credits received, other accounts payable and special drawing rights (SDRs). Despite a net inflow of US dollars 278 million in transactions, as recorded in the BOP, the total stock position of direct investments declined by US dollars 505 million during the first half of the year. This was due to the valuation adjustments in relation to publicly listed companies, as a result of changes in their share prices during the period. As the effect of the new issuance of an International Sovereign Bond of US dollars 650 million was dampened by the repayment of a matured International Sovereign Bond of US dollars 500 million, the outstanding portfolio investment position remained largely unchanged during the first half of 2015. Meanwhile, the net loan inflows to the government amounted to US dollars 107 million during the first half of the year. Consequently, the outstanding position of government loans increased only marginally during the period. Repayments by the Central Bank to the IMF on account of the SBA facility obtained in 2009 resulted in the outstanding Central Bank liability position to the IMF decreasing to US dollars 969 million as at end June 2015. Despite this, the Central Bank experienced an increase in its foreign liability position during this period, by US dollars 400 million due to the foreign currency swap arrangement between the Central Bank and the RBI.

- **The reserve asset position managed by the Central Bank accounted for 73 per cent of Sri Lanka's total foreign assets.** The total asset position declined to US dollars 10.3 billion as at end June 2015 from US dollars 10.9 billion as at end 2014. However, a moderate decline in the reserve asset position was witnessed from US dollars 8.2 billion as at end 2014 to US dollars 7.5 billion by end June 2015. Other variations in the asset positions were due to changes in the direct investment asset position, outstanding position of trade credit and advances extended by exporters, and fluctuations in outstanding currency and deposit position in the banking sector.

Outstanding External Debt Position

- **Sri Lanka's total outstanding external debt position increased marginally during the first half of 2015.** As at end June 2015, the outstanding total external debt position as a percentage of estimated GDP remained broadly unchanged from the level recorded at end 2014, indicating the growth of external debt in tandem with the nominal GDP growth. As at end June 2015, the outstanding external debt of the government amounted to 56 per cent of the total external debt of the country. The structure of external debt of the government has changed during the past few years with the government meeting more of its foreign financing requirements through the issuance of International Sovereign Bonds, and more recently by promoting Sri Lanka Development Bonds amongst foreign investors. Both outstanding Treasury bills and Treasury bonds held by non-residents declined during the first half of the year, with continued outflows of foreign investments from the government securities market. The impact of these were reduced to some extent by the government issuing SLDBs to foreign investors and issuing the new International Sovereign Bond of US dollars 650 million, while repaying the matured Sovereign Bond of US dollars 500 million that was issued in 2009. The outstanding foreign loans of the government increased only marginally as the inflow of government loans remained subdued and scheduled repayments continued during the period. However, the total outstanding liability position is estimated to have increased with the issuance of the International Sovereign Bond of US dollars 1.5 billion by end October 2015.

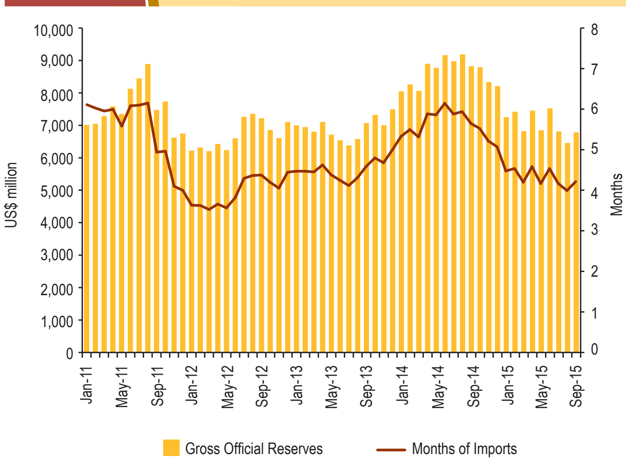
- **Despite scheduled repayments under the IMF-SBA arrangement, the outstanding liability position of the Central Bank increased with the new currency swap arrangement with the RBI.** The outstanding liability of the Central Bank on the IMF-SBA reduced with the continuation of scheduled repayments by the Central Bank. The repayments under the IMF-SBA will be completed by July 2017. Meanwhile, the receipt of US dollars 400 million, out of the currency swap arrangement of US dollars 1,500 million with the RBI, created an additional outstanding currency and deposit liability during the first half of the year. The remainder of this arrangement amounting to US dollars 1,100 million was obtained in early September, 2015. The ACU liabilities of the Central Bank remained relatively unchanged at US dollars 424 million by end June 2015, compared to the position recorded at the beginning of the year.

- **Outstanding liabilities of deposit taking corporations increased while the outstanding debt stock of the private sector declined during the first half of 2015.** The outstanding liability position of deposit taking corporations increased primarily due to an increase in short term loans obtained by licensed commercial banks (LCBs) during this period. A large portion of the long term outstanding debt of deposit taking corporations comprised international bonds issued by the Bank of Ceylon (US dollars 1 billion), the National Savings Bank (US dollars 1 billion) and the DFCC Bank (US dollars 100 million). The outstanding debt liability of the private sector lessened during the period, as trade credit and advances obtained by the CPC reduced considerably with the settlements of oil bills being higher than new purchases during the period. However, long term loans obtained by the private sector, particularly by companies registered with the BOI, increased during the first half of 2015. Further, intercompany lending of BOI companies recorded a gradual increase during the period. The main characteristic of intercompany lending of BOI companies is that most loan liabilities can be regarded as permanent debt liabilities by parent companies, most of which have no specific loan repayment schedules.

Reserve Asset Position

- **Gross official reserves amounted to US dollars 6.8 billion by end September 2015, compared to US dollars 8.2 billion at end 2014.** In the first nine months of the year, foreign exchange outflows, which were primarily driven by the settlement of the matured International Sovereign Bond, IMF-SBA repayments, foreign currency debt service payments and the supply of liquidity to the domestic foreign exchange market had an impact on the level of gross official reserves. However, in terms of the number of months of imports, this level of reserves was equivalent to 4.2 months of imports, well above the internationally accepted benchmark of 3 months of imports. Meanwhile, with the proceeds of the ninth International Sovereign Bond issuance of US dollars 1.5 billion in late October, 2015, gross official reserves are estimated to have improved further. Total international reserves, which comprise gross official reserves and foreign assets of deposit taking corporations, stood at US dollars 8.4 billion as at the end of September 2015. This was equivalent to 5.2 months of imports.

Chart 5.8 Gross Official Reserves and Months of Imports



Exchange Rate Movements

- **During the first eight months of the year, the Sri Lankan rupee remained at relatively stable levels with increased intervention by the Central Bank, until the recent decision of the Central Bank to allow greater flexibility in the determination of the exchange rate.** Throughout this period, the pressure on the exchange rate continued with increased demand for foreign exchange, primarily driven by high expenditure on imports and lower than expected inflows to the current and financial accounts as well as scheduled debt service payments. Meanwhile, the expectation of policy normalisation of the United States aggravated the situation for emerging market currencies to depreciate against the US dollar. Despite this, the supply of liquidity to the foreign exchange market by the Central Bank helped prevent a significant depreciation of the Sri Lankan rupee. Accordingly, the Central Bank had supplied US dollars 1.9 billion, on a net basis, during the first eight months of the year, and the Sri Lankan rupee depreciated by only 2.4 per cent against the US dollar by end August 2015.

- **At the beginning of September 2015, the Central Bank limited its intervention in the domestic foreign exchange market and decided to allow more flexibility in determination of the exchange rate.** This policy decision is expected to curtail the import demand and

Chart 5.9 Effective Exchange Rate Indices: 24 - Currency (2010 = 100)

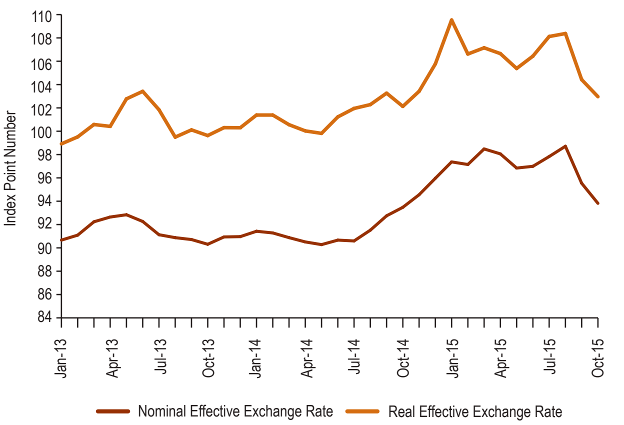
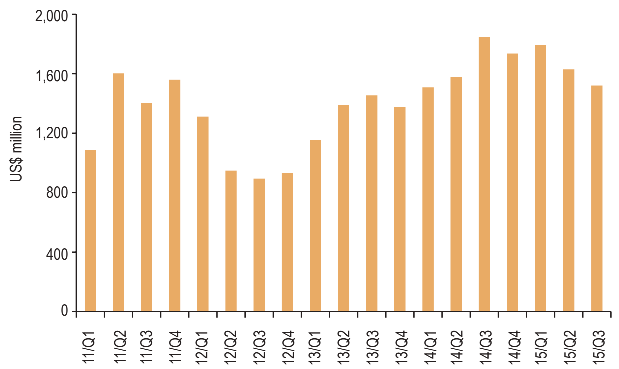


Chart 5.10 Quarterly Inter-Bank Forward Transaction Volumes



facilitate the maintenance of gross official reserves at a healthy level. The adjustments in trade and investment flows caused by this decision are expected to improve external sector stability significantly towards the end of the year and thereafter. Since this policy adjustment on 04 September 2015, the rupee has depreciated against the US dollar by 4.5 per cent, leading to a depreciation of 7.0 per cent against the US dollar during the year, by end October 2015. Meanwhile, reflecting the cross currency exchange rate movements, the Sri Lankan rupee has depreciated against the pound sterling (5.4 per cent), the Japanese yen (5.8 per cent) and the Indian rupee (4.1 per cent), while appreciating against the euro (3.1 per cent) during the year, by end October 2015.

- **The 5-currency and the 24-currency effective exchange rate indices depreciated during the first ten months of 2015.** The depreciation of the Sri Lankan rupee against some of the major currencies as well as movements in cross currency exchange rates resulted in the 5-currency and the 24-currency Nominal Effective Exchange Rate (NEER) to depreciate by 3.0 per cent and 2.2 per cent, respectively, by end October 2015. The Real Effective Exchange Rate (REER), which takes into account the inflation differential of respective countries in addition to variations in the nominal exchange rates, also depreciated during this period. Accordingly, both the 5-currency and the 24-currency REER indices depreciated by 2.2 per cent and 2.8 per cent, respectively, by end October 2015. This depreciation of the REER indices reflected the depreciation of the NEER indices and the relatively low levels of domestic inflation compared to those of trading partners and competitors. The depreciation of the REER indices reflect that Sri Lanka is regaining its competiveness in terms of exchange rates in the international market.

- **The domestic foreign exchange market displayed a mixed performance during the first ten months of 2015.** The total volume of spot transactions declined to US dollars 5.4 billion by end October 2015, compared to US dollars 7.9 billion during the corresponding period of 2014. This may be attributed to the moderation of inflows to the foreign exchange market as a result of the decline in exports, moderate growth of workers' remittances and slow growth in inflows to the financial account. Meanwhile, the total volume of forward transactions increased marginally to US dollars 5.6 billion during the year up to end October 2015 from US dollars 5.5 billion during the corresponding period of 2014.

- **The movements in forward premia and net open positions (NOP) of commercial banks during the first ten months of the year reflected continued pressure in the foreign exchange market.** The one-month and three-month forward premia remained above the interest rate differential on average, while commercial banks maintained their NOP at positive levels on most occasions.

Expected Developments

- **Sri Lanka's external sector performance is expected to improve during the latter part of 2015 and beyond.** The policy decisions taken by the Central Bank and the government, especially to address the pressure on the external sector due to the increased demand for foreign exchange and lower than expected foreign exchange inflows, are expected to support the improvement in the balance of payments. Specific policies such as the Central Bank's decision to accommodate greater flexibility in the determination of the exchange rate from early September 2015 and the reduction in loan to value ratio (LTV), as well as the initiative taken by the government to change the custom valuation method for motor vehicles are expected to strengthen the external sector. This will mainly be realised through the improvement of the trade account and financial account, leading to the strengthening of the country's gross official reserves position during the remaining period of 2015. With the realisation of envisaged improvements in the current and financial accounts of the BOP, Sri Lanka's external sector performance is expected to gather momentum in 2016. Overall, the BOP is projected to record a surplus of around US dollars 700 million in 2016, thereby augmenting the country's gross external reserves to US dollars 8.4 billion. However, the recovery of advanced economies, stability in commodity prices including oil, improvement of foreign investor confidence, realisation of project related foreign financing, attraction of FDIs and effective utilisation of available foreign assistance are critical in ensuring the realisation of these expectations.

- **Exports are projected to grow by around 1.1 per cent in 2015 and by around 8.5 per cent in 2016, mainly supported by the expansion in industrial exports.** The deceleration in agricultural exports is projected to continue during the latter part of the year due to the lower performance of tea and seafood exports, resulting from geopolitical issues and economic sanctions in main markets. Industrial exports are projected to grow due to the expected increase in exports of textiles and garments, albeit at a lower rate, petroleum products and leather, travel goods and footwear. The expected growth and improvements in bilateral trade relations with main trading partners, especially with the EU, will support the growth in exports in 2016. Garment exports are projected to record a healthy growth with the expected restoration of the GSP+ facility, which provides concessional access to the EU market. Tea exports, which were adversely affected by lower demand from the Middle East and Russia in 2015, are expected to grow in 2016 as a result of the removal of economic sanctions against Iran and the expected gradual increase in demand for tea from the Middle East. The ban on fish exports to the EU by the European Commission is expected to be lifted by end 2015, favouring fish exports in 2016. These factors, together with the strong growth projected for main export markets, such as the US and the EU, are expected to help enhance the performance of exports. With the saving of around US dollars 2 billion on the importation of fuel, resulting from lower international oil prices, the expenditure on imports is expected to decline by around 2.1 per cent in 2015. The growth in vehicle imports is expected to decline during the last two months of 2015 due to the recent policy measures adopted by the government to curtail vehicle imports. Meanwhile, expenditure on imports is projected to grow at around 4.1 per cent in 2016 mainly as a result of the expansion in intermediate goods imports with the expansion in domestic economic activity. Accordingly, the trade balance is projected to improve by around 2.2 per cent in 2016, year-on-year, which is estimated to be around 8.5 per cent of GDP.

- **The services account is expected to perform well during the remaining period of 2015 and 2016.** The growth momentum in the tourism sector is anticipated to continue during the latter part of the year 2015, due to the expected increase in tourist arrivals from the start of the peak tourist season in November and with the support of various tourism promotion activities which are currently being conducted by the Sri Lanka Tourism Development Authority (SLTDA). The growth momentum in the tourism sector is also expected to continue in 2016 and beyond, supporting the services account of the BOP. Passenger air fares are also projected to increase with the expected growth in arrivals of high spending tourists. Ongoing mega projects in the hotel sector are expected to gradually raise the capacity of the industry to meet the requirements of the projected tourist arrivals. Further, promotional campaigns in untapped potential markets are expected to attract tourists from a wider geographical base, thereby strengthening the resilience of the industry. Meanwhile, outflows on account of travel are projected to increase at a higher rate due to the expected increase in travel by Sri Lankans for education, health, business and leisure purposes. The expected establishment of the nationwide LTE(4G)-speed internet connectivity and the launch of Google's balloon-based Internet network (Google Loon) are likely to lead to further reductions in the cost of provision of IT services, thereby facilitating the expansion of the IT and telecommunication industry in 2016 and beyond.

- **Workers' remittances, which witnessed a high growth during the recent years, are expected to moderate during the balance period of 2015 in line with developments in the domestic and foreign labour markets.** Further, workers' remittances are expected to grow, albeit at a slower pace in 2016, due to relative conditions in domestic and foreign labour markets. Policies to discourage women's migration under the unskilled category, due to associated social issues and increased geo political uncertainty in the Middle East, while encouraging the migration of skilled and semi-skilled persons to high income economies, such as South Korea and Singapore, would contribute to a change in the composition of workers' remittances in the medium term. Although the increase in migration of professionals for employment is expected to contribute towards higher foreign exchange inflows by way of workers' remittances in the medium term, the decline in the unemployment rate to record low levels and the opening up of alternative employment opportunities, especially in emerging sectors such as tourism, construction and IT-BPO and KPO sectors, are expected to reduce the number of workers seeking employment abroad.

- **The current account deficit is projected to be around 2.3 per cent of GDP in 2015 and is expected to reduce to around 1.8 per cent of GDP by end 2016.** The continued increase in earnings from tourism, other service exports and workers' remittances are expected to significantly contribute to the narrowing of the external current account deficit in 2016, although the improvement in the trade balance is expected to be moderate. However, the anticipated moderate growth in remittances in the medium term suggests that excessive dependence on remittances to curtail the current account deficit would not be sustainable in the long run. Therefore, the adoption of more sustainable measures is vital to reduce the current account deficit. Such measures include improvement of trade balance through the enhancement of exports and improvement in services exports, with greater focus on tapping the unutilised resources in goods and services exports, enhance productivity and the diversification of products and export destinations.

- **Inflows to the financial account are projected to increase with improving business confidence following the expected implementation of broader macroeconomic policy.** Inflows to the government in the form of foreign loans are estimated to increase with the implementation of new projects, reversing the decline observed during 2015. Inflows to the private sector, including FDI, are expected to increase in 2016 with the realisation of focused efforts of the government to attract non-debt creating capital flows. However, attracting and retaining a sufficient amount of FDI to finance the savings-investment gap depends on the implementation of a prudent medium term national strategy to promote Sri Lanka as an attractive destination for foreign investments.

6

FISCAL POLICY AND GOVERNMENT FINANCE

The fiscal sector showed a mixed performance during the first seven months of 2015. Government revenue as a percentage of estimated GDP increased slightly to 6.4 per cent during the first seven months of 2015, compared to 5.8 per cent of GDP in the corresponding period in 2014, mainly due to an increase in revenue from import related taxes. Total expenditure and net lending as a percentage of estimated GDP increased to 10.8 per cent during the first seven months of 2015, compared to 10.4 per cent of GDP recorded in the same period in 2014 as a combined outcome of the overrun in recurrent expenditure and a decline in public investment. As a result, during the first seven months of 2015, the overall budget deficit is estimated to have declined to 4.5 per cent of estimated GDP from 4.6 per cent of GDP in the corresponding period in 2014. In financing the overall fiscal deficit during the first seven months of the year, the government relied entirely on domestic sources as net foreign financing recorded a repayment during this period, mainly due to comparatively low disbursement of foreign project loans and net outflow of foreign investments in Government securities. In domestic financing, net borrowings from the banking sector increased significantly to Rs. 299.2 billion compared to the annual estimate of Rs. 70.0 billion in the Budget for 2015. In this context, meeting the budget deficit target of 4.4 per cent of GDP in 2015 would be a challenging task.

Fiscal Policy Measures

- **Fiscal policy in 2015 has been directed at supporting growing economic activity while strengthening the fiscal consolidation process to reduce the budget deficit further to 4.4 per cent of GDP and to reduce the government debt to GDP ratio to 72.0 per cent in 2015.** In order to achieve these targets, several policy measures were introduced by the government to enhance government revenue and rationalise recurrent expenditure.

- **Several revenue measures were introduced in the original Budget for 2015 presented in October 2014 and in the Interim Budget presented in January 2015 to address the continued declining trend in revenue to GDP ratio**. In the original Budget, several taxes were streamlined in order to maintain uniformity and simplicity in the tax system. In the Interim Budget, new taxes such as Mansion tax, Migrating tax and Super Gain tax were proposed as revenue enhancing measures. Further, few other measures were also taken to streamline the direct tax collection while improving the compliance and promoting selected sectors. Accordingly, the low income tax rate of 16 per cent on employment income, which was introduced for professionals, was extended to cover other employment categories as well. Moreover, as a relief to Pay-As-You-Earn (PAYE) taxpayers, the present exempted amount of annual employment income of Rs. 600,000 was increased to Rs. 750,000. In addition, a pioneering industry allowance was introduced by applying an income tax deduction by 10 per cent for local manufacturers who have commenced businesses of manufacturing during the 1970s. In addition, a 12 per cent concessionary income tax rate was introduced for the local sugar industry with a view to expand it. Further, the present withholding tax regime applicable for interest income of individuals and charitable institutions was revised by introducing single withholding tax rate of 2.5 per cent of interest income, irrespective of the amount of interest.

- **In the Budget for 2015, the Value Added Tax (VAT) base was expanded and the applicable rate was lowered.** Accordingly, the quarterly turnover applicable for the imposition of VAT on wholesale and retail trade was reduced from Rs. 250 million to Rs. 100 million, while the VAT rate was reduced to 11 per cent from 12 per cent with effect from January 2015. In addition, threshold of liable supplies for the registration for VAT purposes was increased to Rs. 15 million per annum from Rs. 12 million per annum to encourage Small and Medium Enterprises (SMEs). Similarly, the threshold of liable turnover of the Nation Building Tax (NBT) was also increased to Rs. 15 million per annum from Rs. 12 million per annum.

- **Special Commodity Levy (SCL) on importation of several food items was changed periodically in order to adjust the market prices and quantity imported with the view of reducing the cost of living and protecting the income of domestic farmers during the harvesting period**. Accordingly, SCL on several food items was revised downwards as proposed in the Interim Budget with effect from 30 January 2015. SCL on the importation of rice, which was reduced to a lower level to increase the market availability of rice due to low paddy production in 2014, was increased twice during this period to Rs. 40 per kg. Further, in May 2015, a Customs duty of Rs 35 per kg, VAT at a rate of 11 per cent, Ports and Airports Development Levy (PAL) at a rate of 5 per cent and NBT at a rate of 2 per cent was introduced in place of SCL of Rs. 40 per kg of rice. Further, SCL on importation of potatoes and b' onions was changed several times considering the domestic supply conditions.

- **Greater emphasis was placed on expediting the process of automating revenue agencies to improve tax administration and thereby enhance the revenue collection**. The Revenue Administration Management Information

System (RAMIS), which is being introduced with technical assistance from the government of Singapore, is expected to expedite the automation process of the Inland Revenue Department (IRD). This project mainly includes the conversion of taxpayer services in to self-services, the establishment of an integrated system on tax payer information and tax liabilities across the taxes, the creation of a centralised taxpayer database, the implementation of a unique identification number for both individual and corporate taxpayers and the establishment of an integrated system to facilitate exchange of information between IRD and other key stakeholders. In addition, a new web portal has been launched by the IRD from end May 2015, while User Acceptance Testing (UAT) was initiated in October 2015. Meanwhile, Sri Lanka Customs (SLC) was engaged in introducing further improvements and developments to the 24 hour fully automated system, which was started in 2014, as well as the scanning facilities at SLC.

- **On the expenditure front, several measures were introduced in order to ensure the proper management of public expenditure in 2015**. Under the National Budget Circular No. 02/2015, all spending agencies were instructed to manage the expenditure within provisions allocated for the year 2015 and thus maintain a proper control over the expenditure heads. It was announced that new vehicles would not be provided to government institutions during the year 2015 and vehicles available at present were expected to be managed efficiently. Expenditure on publicity and sponsorship was not allowed in order to prevent misappropriation of public funds. In terms of capital expenditure management, instructions were issued to settle the commitments of the previous year from the provisions allocated for the year 2015 and prioritise the balance provisions by looking at the possibility of implementing less priority projects through the Medium Term Budgetary Framework.

- **Salaries and wages of public sector employees and pension payments were revised upwards during 2015**. The monthly interim allowance of Rs. 3,000 per month granted for the government sector employees with effect from November 2014 was increased by Rs. 7,000, of which Rs. 5,000 was given with effect from February and the balance was granted with effect from June 2015. In addition, a special allowance was introduced for the executive category in the public service with effect from July 2015. The interim allowance of Rs. 2,500 per month granted for pensioners with effect from November 2014 was also increased to Rs. 3,500 per month with effect from April 2015. In addition, pension anomalies of public servants who have retired before the implementation of Public Administration Circular No. 06/2006, were rectified and the adjusted pension was paid with effect from July 2015.

- **Implementation of infrastructure development projects under the public investment programme was slow during the first seven months of 2015 due to lower disbursement of foreign funded project loans, reflecting ongoing Environmental Impact Assessments (EIAs) for some infrastructure development projects and the renegotiation of loan agreements**. However, ongoing irrigation schemes such as Moragahakanda and Kaluganga projects were continued during the year. Meanwhile, development of expressways and widening and improvement of national roads and bridges continued. Accordingly, the Northern Road Connectivity Project (NCP), Hatton-Nuwara Eliya Road Project, Badulla Chenkaladi Road Improvement Project and the construction and improvement of bridges islandwide were continued during the first seven months of 2015. Further, Phase II of the Outer Circular Highway from Kaduwela to Kadawatha was opened on 17 September 2015. Meanwhile, the construction of Phase I of the Central Expressway from Kadawatha to Mirigama commenced in August 2015.

- **The government continued to channel resources to livelihood development initiatives through Samurdhi and Maganeguma**. Accordingly, Samurdhi relief was increased by 100 per cent to Rs. 3,000 per month from Rs. 1,500 per month commencing from January 2015. This was further increased to Rs. 3,500 per month with effect from April 2015. 'Divineguma Diriya Saviya', a special loan scheme that was implemented through Divineguma Community Based Banks was further strengthened to support low income families in order to improve their living standards. Further, allocations were also made for the development of sectors such as agriculture, livestock, fisheries and micro enterprises under the Divineguma programme. In addition, the Maganeguma programme also continued during the first seven months of the year with a view of further developing rural and regional infrastructure facilities.

- **Several reform initiatives were taken to strengthen the operations of major State Owned Business Enterprises (SOBEs) during the first seven months of 2015**. Accordingly, the re-fleeting programme of SriLankan Airlines (SLA) that was initiated in 2014, by replacing the entire wide body fleet with a new fleet in order to improve operational efficiency and to provide modern passenger comforts, was continued during the first seven months of the year. Further, with the approval of the Cabinet of Ministers, SLA prepared a viable and comprehensive restructuring business plan for SLA and Mihin Lanka Ltd., which includes the amalgamation of both airlines.

- **The public debt management strategy continued to focus on ensuring the availability of funding for the government financing needs at the lowest possible cost, while minimising the risks associated with the public debt in an appropriate manner**. During the year, the acceptance of investment in government securities through direct placements was abandoned and replaced with a fully auction based system. Steps were taken to maintain a proper mix of domestic and foreign debt and to reduce maturity mismatches in the debt portfolio. Accordingly, maturing Treasury bills were replaced with medium to long-term Treasury bonds mainly to reduce the debt rollover risk, and to increase the Average Time to Maturity (ATM) of the domestic debt portfolio. Sri Lanka Development Bonds (SLDBs), which is an instrument that makes foreign currency denominated borrowing through the domestic banking system, were also used to reduce the pressure on domestic market interest rates. The government successfully issued US dollars 650 million of International Sovereign Bonds (ISBs) in May 2015 with a maturity period of 10 years at a progressively lower yield rate of 6.125 per cent per annum. In addition, in October 2015, another US dollars 1.5 billion of ISBs was raised at a yield of 6.85 per cent per annum with a maturity period of 10 years.

- **International sovereign rating agencies affirmed Sri Lanka's existing sovereign credit ratings in 2015**. The Fitch Ratings affirmed its existing rating of 'BB-' and the stable outlook for the Sri Lankan economy, having observed the country's favourable GDP growth, clean external debt servicing record and the level of human development compared to its peers, while citing relatively weak balance of payments and weak public finances as areas of concern. Moody's Investors Service affirmed Sri Lanka's 'B1' sovereign rating with a stable outlook, supported by the high and robust growth over the rating horizon. Similarly, Standard & Poor's Ratings Services affirmed its 'B+' long term and 'B' short term sovereign credit ratings with a stable outlook, citing a relatively low level of wealth, moderately weak external liquidity and higher levels of government debt and interest burden as concerns.

Government Budgetary Operations

Revenue and Grants

Revenue

- **According to the budget for 2015, total government revenue in 2015 is estimated to increase by 25.9 per cent to Rs. 1,504.7 billion.** As a percentage of estimated GDP, the total revenue is expected to increase to 13.3 per cent from 11.6 per cent recorded in 2014. Tax revenue as a percentage of GDP is expected to increase to 11.8 per cent from 10.2 per cent in 2014, while non tax revenue is expected to increase marginally to 1.5 per cent of GDP from 1.4 per cent in 2014.

- **During the first seven months of 2015, government revenue as a percentage of estimated GDP increased to 6.4 per cent from 5.8 per cent in the corresponding period of 2014.** The total revenue collection during this period was 47.9 per cent of the annual estimate of Rs. 1,504.7 billion in comparison to 41.6 per cent in the corresponding period of 2014. Total government revenue in nominal terms increased by 20.7 per cent during this period to Rs. 721.5 billion from Rs. 597.9 billion in the corresponding period of the previous year. This was mainly due to the increase in revenue from excise tax on motor vehicles, liquor, cigarettes and tobacco, import duties and NBT on domestic economic activities. However, a decline in tax revenue was recorded from withholding tax revenue, VAT and NBT revenue on import related activities and from PAL. On the non tax revenue front, profit and dividend transfers from SOBEs as well as fees and charges which showed a considerable increase during the first seven months of 2015 compared to the corresponding period of the previous year also contributed to the increase in revenue.

Table 6.1 Economic Classification of Government Revenue

Rs. billion

Item	2013	2014 (a)	2015 Approved Estimates	2014 Jan - Jul (a)	2015 Jan - Jul (a)
Tax Revenue	**1,005.9**	**1,050.4**	**1,337.0**	**538.1**	**663.3**
Income Taxes	205.7	198.1	310.6	116.0	98.0
VAT	250.8	275.4	296.0	133.3	123.2
Excise Taxes	250.7	256.7	343.4	112.4	256.3
Import Duties	83.1	81.1	85.0	40.4	53.7
PAL	62.0	68.6	81.0	36.2	30.0
NBT	40.9	44.6	50.6	22.7	24.0
SCL	46.7	48.0	65.0	28.9	31.0
Cess	36.1	38.7	48.5	21.3	23.7
Other taxes	30.0	39.2	56.9	26.9	23.3
Non Tax Revenue	**131.6**	**144.8**	**167.7**	**59.7**	**58.2**
Total Revenue	**1,137.4**	**1,195.2**	**1,504.7**	**597.9**	**721.5**

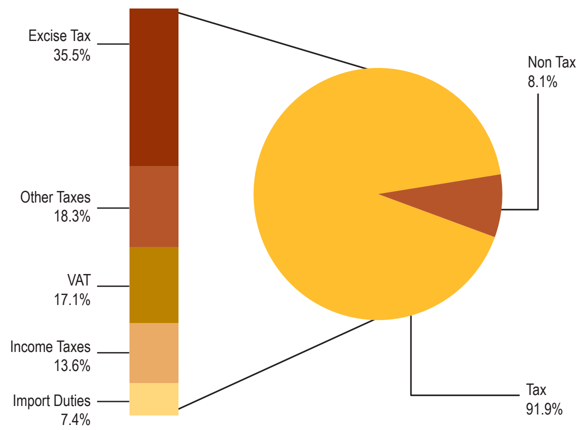
Source: Ministry of Finance

(a) Provisional

- **The revenue from income taxes as a percentage of estimated GDP declined to 0.9 per cent during the first seven months of 2015 from 1.1 per cent in the corresponding period of 2014.** Revenue from income taxes in nominal terms also declined by 15.5 per cent during the first seven months of 2015 mainly due to the decline in revenue from all income tax categories except for PAYE tax. Revenue from PAYE tax increased to Rs. 16.2 billion during the first seven months of 2015 in comparison to Rs. 13.3 billion during the same period of the previous year. However, revenue from corporate and non corporate income tax, Economic Service Charge (ESC) and withholding tax on revenue declined during the first seven month of 2015 in comparison to the corresponding period of 2014. Accordingly, revenue from withholding taxes declined by 36.5 per cent to Rs. 34.7 billion during this period mainly due to the decline in tax on interest as a result of the decline in interest rates in the domestic market. Further, revenue from corporate and non corporate income tax declined by 1.5 per cent to Rs. 43.0 billion while revenue from ESC also declined by 4.4 per cent to Rs. 4.1 billion from Rs. 4.3 billion in the first seven months of 2015.

- **The revenue from VAT declined to 1.1 per cent of estimated GDP in the first seven months of 2015 from 1.3 per cent of GDP during the**

Chart 6.1 Composition of Government Revenue (Jan - Jul 2015)



corresponding period of the previous year. In nominal terms also, it declined by 7.6 per cent to Rs. 123.2 billion during this period from Rs. 133.3 billion recorded during the corresponding period of the previous year. Decline in VAT revenue was mainly due to the reduction of VAT rate from 12 per cent to 11 per cent with effect from January 2015 and the imposition of excise tax as a composite tax on motor vehicles, cigarettes and liquor instead of VAT and other taxes. Accordingly, during this period, revenue from VAT on import related activities declined significantly by 18.1 per cent to Rs. 46.8 billion from Rs. 57.1 billion in the first seven months of the previous year, although revenue from VAT on domestic economic activities increased marginally by 0.3 per cent to Rs. 76.4 billion in comparison to Rs. 76.2 billion recorded in the first seven months of 2014. During this period, VAT revenue as a percentage of total tax revenue declined significantly to 17.1 per cent from 22.3 per cent recorded during the corresponding period of 2014.

- **Excise tax revenue as a percentage of estimated GDP increased significantly to 2.3 per cent during the first seven months of 2015 in comparison to 1.1 per cent of GDP recorded in the corresponding period of 2014 mainly reflecting the impact of composite excise tax on motor vehicles, liquor and cigarettes.** In nominal terms also, revenue from excise tax increased significantly by 128.1 per cent to Rs. 256.3 billion compared to the same period in 2014. Excise tax revenue on motor vehicles largely supported this increase, while excise tax revenue on tobacco, cigarettes and liquor also recorded a considerable growth during this period. With the increased importation of motor vehicles during the first seven months of 2015 due to the reduction of taxes on selected motor vehicles and the charge of the excise tax in lieu of VAT, NBT, Cess, Customs duty and PAL on motor vehicles from the latter part of 2014, excise tax revenue collection from motor vehicles increased significantly by 256.0 per cent to Rs. 143.1 billion compared to Rs. 40.2 billion recorded in the corresponding period of 2014. The revenue from excise tax on liquor increased by 51.4 per cent to Rs. 57.2 billion during the first seven months of 2015 mainly due to the duty imposed on the manufacture of liquor in place of VAT and NBT and the increase in liquor production during the first seven months of 2015. Meanwhile, revenue from tobacco and cigarettes also increased by 51.2 per cent to Rs. 46.9 billion in the first seven months of 2015 due to the increase in tax rates and increase in demand mainly with the increased salaries and wages. However, excise tax revenue from petroleum products declined to Rs. 2.4 billion from Rs. 3.4 billion recorded during the first seven months of 2014.

- **Revenue from NBT increased by 5.6 per cent to Rs. 24.0 billion from Rs. 22.7 billion in nominal terms during the first seven months of 2015, though it remained unchanged at 0.2 per cent of estimated GDP as in the corresponding period of the previous year.** This nominal increase in revenue collection from NBT was mainly due to the increased revenue collection from domestic economic activities by 60.1 per cent to Rs. 15.3 billion compared to Rs. 9.6 billion during the first seven months of 2014 mainly due to improvements in the domestic economic activities. Meanwhile, revenue from NBT on import related activities declined by 34.3 per cent to Rs. 8.6 billion in comparison to Rs. 13.1 billion in the first seven months of 2014 due to the removal of the NBT from motor vehicles, liquor and cigarettes.

- **The revenue from all other import related taxes and levies such as import duties, SCL, and Cess except revenue collection from PAL, increased during the first seven months of 2015 compared to the corresponding period of 2014**. The revenue from import duties increased by 32.8 per cent to Rs. 53.7 billion from Rs. 40.4 billion recorded in the first seven months of 2014. The revenue from Cess increased by 11.4 per cent to Rs. 23.7 billion while the revenue from SCL also increased by 7.3 per cent to Rs. 31.0 billion in comparison to the corresponding period of the previous year. The revenue collection from PAL declined during the first seven months of 2015 by 17.2 per cent to Rs. 30.0 billion mainly due to imposition of excise tax as a composite tax on motor vehicles instead of PAL and other taxes.

- **Non tax revenue declined by 2.6 per cent to Rs. 58.2 billion during the first seven months of 2015 compared to Rs. 59.7 billion in the corresponding period of 2014.** This nominal decline was mainly due to the non availability of Central Bank profit transfers and decline in rent and interest income. However, the revenue from fees and charges increased by 33.1 per cent to Rs. 23.9 billion from Rs. 18.0 billion recorded in the first seven months of 2014. Profit and dividend transfers from SOBEs during this period recorded a 44.3 per cent increase to Rs. 21.3 billion compared to the same period in 2014 mainly due to the improved performance in state banks and other SOBEs.

Grants

- **Foreign grant disbursements declined in nominal terms during the first seven months of 2015**. Accordingly, the realised amount of foreign grants in the first seven months of 2015 was Rs. 0.2 billion compared to the annual estimate of Rs. 30.0 billion and Rs. 3.5 billion recorded in the same period of 2014.

Expenditure and Net Lending

- **As per the Budget for 2015, total expenditure and net lending is estimated to increase to 18.0 per cent of GDP compared to 17.4 per cent of GDP in 2014.** Recurrent expenditure is estimated to increase to 13.7 per cent of GDP from 12.9 per cent in 2014 while capital expenditure and net lending is estimated to decrease to 4.3 per cent of GDP in 2015 from 4.6 per cent recorded in 2014. In nominal terms, total expenditure and net lending in 2015 is estimated to increase by Rs. 238.2 billion to Rs. 2,034.0 billion in comparison to Rs. 1,795.9 billion recorded in 2014. Recurrent expenditure is expected to increase by Rs. 229.1 billion to Rs. 1,552.0 billion in 2015, while capital expenditure and net lending is expected to increase by Rs. 9.1 billion to Rs. 482.0 billion.

- **Total expenditure and net lending during the first seven months of 2015 increased to 10.8 per cent of estimated GDP from 10.4 per cent of GDP during the same period in 2014 due to increased recurrent expenditure.** In nominal terms, government expenditure and net lending increased by 14.2 per cent to Rs. 1,226.5 billion during this period compared to Rs. 1,073.9 billion recorded during the corresponding period in 2014.

- **During the first seven months of 2015, recurrent expenditure increased significantly to 8.7 per cent of estimated GDP from 7.5 per cent of GDP recorded during the same**

Table 6.2 Economic Classification of Expenditure

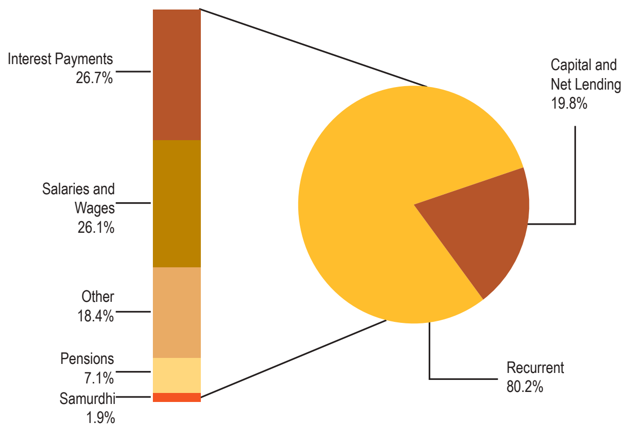
Rs. billion

Item	2013	2014 (a)	2015 Approved Estimates	2014 Jan - Jul (a)	2015 Jan - Jul (a)
Recurrent Expenditure	**1,205.2**	**1,322.9**	**1,552.0**	**767.0**	**983.6**
o/w Salaries and Wages	393.2	441.0	570.0	245.6	319.6
Interest Payments	444.0	436.4	425.0	298.8	326.9
Foreign	101.0	108.5	76.0	52.3	75.1
Domestic	343.0	327.9	349.0	246.6	251.8
Samurdhi	15.3	15.0	41.0	9.2	23.1
Pensions	122.8	126.1	159.9	71.6	87.0
Fertiliser Subsidy	19.7	31.8	35.0	18.4	18.3
Capital and Net Lending	**464.2**	**473.0**	**482.0**	**306.9**	**242.8**
Total Expenditure and Net Lending	**1,669.4**	**1,795.9**	**2,034.1**	**1,073.9**	**1,226.5**

Source: Ministry of Finance

(a) Provisional

Chart 6.2 Composition of Government Expenditure (Jan - Jul 2015)



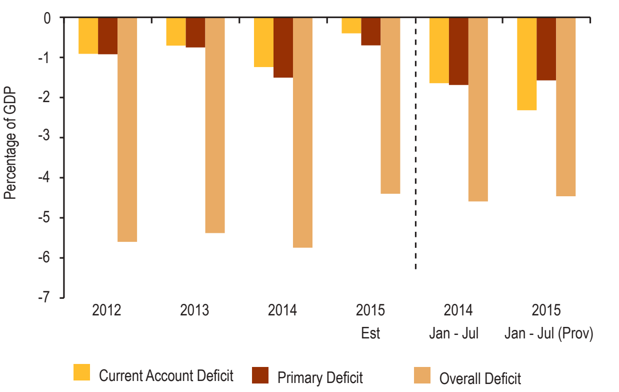
period in 2014. In nominal terms, recurrent expenditure increased by 28.3 per cent to Rs. 983.6 billion compared to Rs. 767.0 billion during the corresponding period in 2014. Expenditure on salaries and wages increased by 30.2 per cent to Rs. 319.6 billion mainly due to the grant of an interim allowance of Rs. 3,000 per month with effect from November 2014 and its' increase by Rs. 5,000 per month with effect from February 2015 and by Rs. 2,000 per month with effect from June 2015. Pension payments also increased significantly by 21.5 per cent with the increase in monthly allowance for pensioners by Rs. 2,500 with effect from November 2014 and Rs. 1,000 per month with effect from April 2015 compared to the corresponding period of 2014. Further, the rectification of pension anomalies of public servants who have retired before the implementation of Public Administration Circular No. 06/2006, with effect from July 2015, also contributed to the increase in the pension bill. Expenditure on interest payments increased by 9.4 per cent to Rs. 326.9 billion during the first seven months of 2015 compared to Rs. 298.8 billion during the corresponding period in 2014. Meanwhile, expenditure on the Samurdhi programme increased significantly by 152.4 per cent to Rs. 23.1 billion during the first seven months of 2015 compared to Rs. 9.2 billion during the corresponding period in 2014. This was mainly due to the 100 per cent increase in Samurdhi allowance to Rs. 3,000 per month from Rs. 1,500 per month commencing from January 2015 and the further increase of Rs. 500 to Rs. 3,500 per month with effect from April 2015. Meanwhile, the expenditure on the fertiliser subsidy during this period declined marginally by 1.0 per cent to Rs. 18.2 billion in comparison the corresponding period of the previous year.

- **Capital expenditure and net lending as a percentage of GDP declined to 2.1 per cent during the first seven months of 2015 from 3.0 per cent recorded in the corresponding period in 2014.** In nominal terms, it declined by 20.9 per cent during this period to Rs. 242.8 billion from Rs. 306.9 billion recorded in the same period in 2014. This was mainly a result of the slow progress in the implementation of the infrastructure projects due to the renegotiation of selected loan agreements and ongoing EIAs, which in turn reflect a lower disbursement of foreign funds related to projects. The realised capital expenditure and net lending in the first seven months of 2015 accounted for 60.2 per cent of the annual estimate for the year.

Key Fiscal Balances

- **The overall budget deficit and primary deficit as a percentage of GDP improved slightly, while the current account deficit deteriorated during**

Chart 6.3 Major Fiscal Indicators



the first seven months of 2015 compared to the levels recorded during the corresponding period of 2014. Accordingly, the overall budget deficit declined to 4.5 per cent of GDP during the first seven months of 2015 from 4.6 per cent in the same period of 2014. However, in nominal terms, the overall budget deficit increased to Rs. 504.8 billion during the period under consideration from Rs. 472.5 billion in the corresponding period of 2014. The current account deficit increased to 2.3 per cent of GDP in the first seven months of 2015 from 1.6 per cent of GDP during the same period of 2014 due to a higher increase in recurrent expenditure rather than the increase in government revenue. The primary deficit (overall deficit net of interest payments) declined slightly to 1.6 per cent of GDP in the first seven months of 2015 from 1.7 per cent of GDP recorded during the same period in 2014.

Financing the Budget Deficit

- **The government relied entirely on domestic sources for financing the overall budget deficit of Rs. 504.8 billion during the first seven months of 2015 as net foreign financing recorded a repayment during this period.** Net domestic financing increased significantly by 195.6 per cent to Rs. 559.7 billion compared to the corresponding period in 2014. Net foreign financing recorded a repayment of Rs. 54.9 billion during the period under consideration in comparison to Rs. 283.2 billion of net financing recorded during the first seven months of 2014.

- **The reliance on borrowings from both the domestic banking sector and the non bank sector increased significantly during the first seven months of 2015 compared to the same period of 2014 mainly due to the non realisation of foreign disbursements as expected.** Accordingly, borrowings from the banking sector increased significantly to Rs. 299.2 billion during the first seven months of the year from Rs. 86.4 billion during the same period in the previous year. Substantial increase in financing from the commercial banking sector to Rs. 230.1 billion in the first seven months of 2015 from Rs. 59.0 billion in the same period of 2014 and the notable increase in financing from the Central Bank by 152.6 per cent to Rs. 69.1 billion contributed to the significant increase in financing from the banking sector. Of the total domestic financing, net bank financing contributed to 53.5 per cent during the first seven months of 2015, which was 45.6 per cent in the same period of 2014. Meanwhile, borrowings

Table 6.3 Sources of Financing

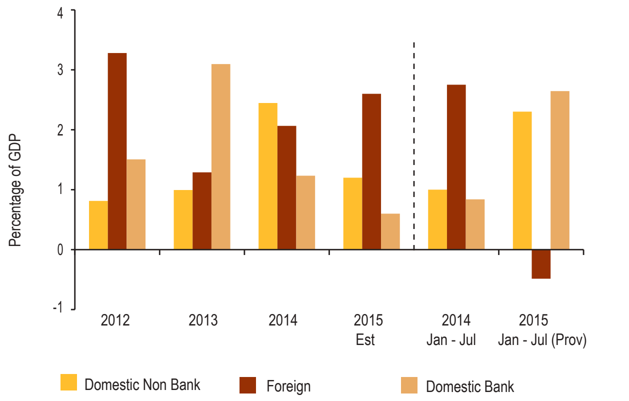
Rs. billion

Item	2013	2014 (a)	2014 Jan-Jul (a)	2015 Jan-Jul (a)
Domestic Financing (b)	**392.4**	**378.7**	**189.3**	**559.7**
Bank	297.0	126.9	86.4	299.2
Non Bank	95.4	251.8	103.0	260.4
Foreign Financing	**123.7**	**212.5**	**283.2**	**-54.9**
Loans	67.9	211.7	249.6	-10.6
Non Resident Investments in Treasury Bonds	62.5	15.0	21.2	-11.4
Non Resident Investments in Treasury Bills	-6.7	-14.2	12.4	-32.9
Total	**516.1**	**591.2**	**472.5**	**504.8**

Sources: Ministry of Finance
Central Bank of Sri Lanka

(a) Provisional
(b) Excludes funds raised through Treasury bonds issued for restructuring of SOBEs in 2014 and 2015.

Chart 6.4 Deficit Financing



from the non bank sector also increased to Rs. 260.4 billion during the first seven months of 2015, from Rs. 103.0 billion recorded during the same period in the previous year.

- **Net foreign financing during the first seven months of 2015 recorded a repayment of Rs.** 54.9 billion compared to net borrowings of Rs. 283.2 billion recorded in the corresponding period of 2014. This was mainly due to the comparatively lower disbursement of foreign project loans, net outflow of foreign holding of rupee denominated Treasury bills and bonds, repayment of the matured International Sovereign Bond in the early part of the year and lower utilisation of the proceeds from the International Sovereign Bond during the period under review. Net foreign financing comprised Rs. 12.0 billion of project loans, Rs. 44.3 billion net repayment of Treasury bills and bonds, and Rs. 22.6 billion net repayment of International Sovereign Bonds which is the difference between US dollars 500 million repayment (Rs. 65.8 billion) and the lower utilisation of US dollars 323 million (Rs. 43.2 billion) out of the International Sovereign Bond of US dollars 650 million (Rs. 87.0 billion) issued in May 2015.

Government Debt and Debt Service Payments

Government Debt

- **The total outstanding central government debt stock increased by Rs. 599.9 billion to Rs. 7,990.8 billion as at end July 2015 from Rs. 7,390.9 billion as at end 2014.** The decline in the total debt stock due to exchange rate variation amounted to Rs. 2.9 billion as the Sri Lankan rupee appreciated against Japanese Yen and euro although it depreciated against US dollar and other major foreign currencies during the first seven months of 2015. However, the discount factor (which is the net difference in the book value and the face value of issues and maturities of Treasury Bills and Treasury Bonds) contributed to a decline in the debt stock by Rs. 6.5 billion due to the issuance of government securities at a premium during the period under review. Domestic debt increased by Rs. 573.2 billion to Rs. 4,851.0 billion, while foreign debt increased by Rs. 26.8 billion to Rs. 3,139.9 billion.

- **Of the total domestic debt, short term debt as at end July 2015 increased by 16.2 per cent, while medium and long term debt also increased by 12.6 per cent from the end 2014.** The share of short term debt in the total domestic debt stock increased marginally to 22.5 per cent at the end of July 2015 from 22.0 per cent at the end of 2014. The share of medium and long term debt in the total domestic debt stock declined slightly to 77.5 per cent at the end of July 2015 compared to 78.0 per cent as at end 2014. The share of Treasury bills in the total domestic debt as at end July 2015 increased slightly to 16.3 per cent from 16.2 per cent at the end of 2014. Treasury bonds, which dominated the outstanding domestic debt portfolio, declined to 64.3 per cent of the total domestic debt as at end July 2015 compared to

Chart 6.5 **Outstanding Government Debt**

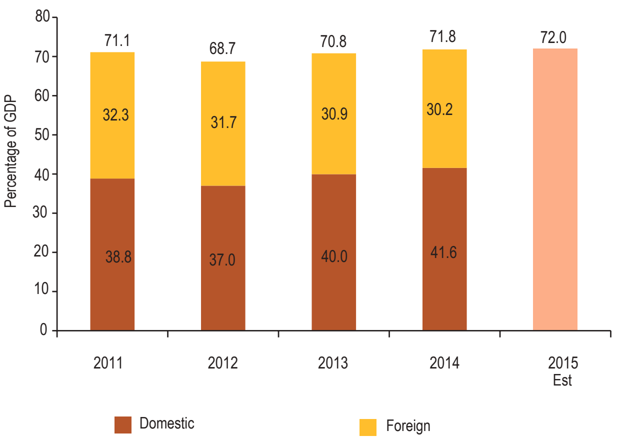


Table 6.4 **Outstanding Government Debt**

Rs. billion

Item	2013	2014 (a)	2014 End Jul (a)	2015 End Jul (a)
Domestic Debt (b)	**3,832.8**	**4,277.8**	**4,128.1**	**4,851.0**
By Maturity Period				
Short Term	909.2	941.2	936.6	1,093.6
Medium and Long Term	2,923.7	3,336.6	3,191.5	3,757.4
By Institution				
Banks (c)	1,433.8	1,669.9	1,563.2	1,864.3
Non Bank Sector	2,399.1	2,607.9	2,564.9	2,986.7
Foreign Debt	**2,960.4**	**3,113.1**	**3,259.8**	**3,139.9**
Concessional	1,492.8	1,491.0	1,546.2	1,540.6
Non Concessional	1,467.6	1,622.1	1,713.6	1,599.3
Total Government Debt	**6,793.2**	**7,390.9**	**7,387.9**	**7,990.8**

Sources: Ministry of Finance
Central Bank of Sri Lanka

(a) Provisional
(b) Excludes Rs. 4,397 million of Treasury bonds issued to CWE in November 2003, Rs. 78,447 million of Treasury bonds issued to settle dues to CPC in January 2012, Rs. 13,125 million of Treasury bonds issued to capitalise SriLankan Airlines in March 2013 and rupee denominated Treasury bonds held by foreign investors from 2007and the Sri Lankan diaspora and migrant workers from 2009.
(c) Includes outstanding balance to OBUs of LCBs.

66.5 per cent as at end 2014. However, the share of SLDBs in the total domestic debt as at end July 2015 increased to 11.7 per cent from 9.1 per cent at end 2014 due to a higher reliance on SLDBs to finance the budget deficit.

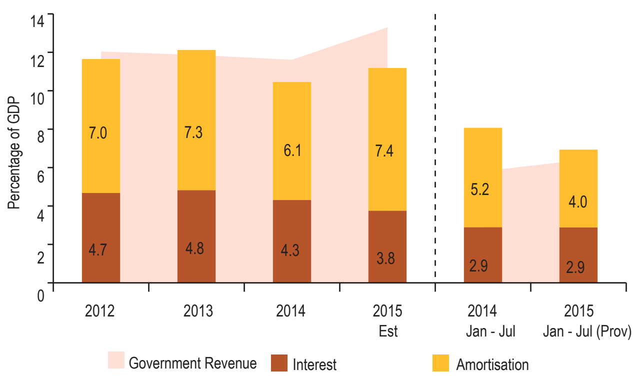
- **The outstanding foreign currency denominated domestic debt as at end July 2015 increased by Rs. 178.9 billion to Rs. 589.6 billion (US dollars 4,413.5 million) from Rs. 410.7 billion (US dollars 3,134 million) as at end 2014.** This was entirely due to the increase in SLDBs amounting to US dollars 978 million on a net basis. Meanwhile, the share of foreign currency denominated domestic debt to total domestic debt increased to 12.2 per cent as at end July 2015 from 9.6 per cent by end 2014.

- **The share of non concessional debt in the total foreign debt stock declined to 50.9 per cent by end July 2015 from 52.1 per cent at end 2014.** In contrast, the share of concessional loans in the total foreign debt stock increased to 49.1 per cent by end July 2015 from 47.9 per cent at end 2014. The decline in the non concessional debt by 1.4 per cent to Rs. 1,599.3 billion was mainly on account of a decline in foreign investments in government securities.

Debt Service Payments

- **As per the original estimates, total debt service payments in 2015 amounted to Rs. 1,265.0 billion, which is considerably higher than Rs. 1,076.3 billion recorded in 2014.** This consists of amortisation payments of Rs. 840.0 billion and interest payments of Rs. 425.0 billion. Amortisation payments on domestic debt is estimated to be Rs. 635.9 billion, while amortisation payments on foreign debt is estimated to be Rs. 204.1 billion in 2015. Interest

Chart 6.6 **Government Debt Service Payments vs Revenue**



payments in 2015 on domestic and foreign debt are estimated to be Rs. 349.0 billion and Rs. 76.0 billion, respectively.

- **Total domestic and foreign debt service payments amounted to Rs. 784.3 billion during the first seven months of 2015.** This consisted of amortisation payments of Rs. 457.5 billion (58.3 per cent) and interest payments of Rs. 326.9 billion (41.7 per cent). Further, debt service payments to domestic and foreign sources amounted to Rs. 578.6 billion and Rs. 205.8 billion, respectively. During the first seven months of 2015, total debt service payments amounted to 62.0 per cent of the annual estimate, comprising of amortisation payments accounting for 54.5 per cent of the annual estimate and interest payments accounting for 76.9 per cent of the annual estimate.

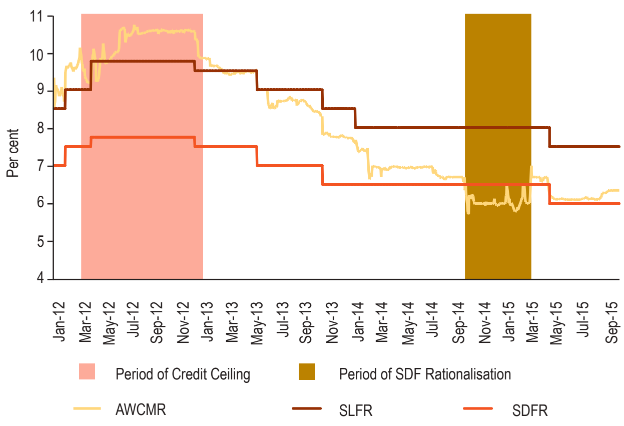
7

MONETARY POLICY, MONEY, CREDIT AND INTEREST RATES

In the first nine months of 2015, the Central Bank continued to pursue a relatively relaxed monetary policy stance in an environment of continued low inflation and subdued inflation expectations, with a view to support the growth momentum of the economy. As private sector credit growth revived gradually, in March 2015, the Central Bank removed the restrictions placed on access to its Standing Deposit Facility (SDF) under open market operations that have been in effect since September 2014. To dampen the impact of this adjustment on short term interest rates, the Central Bank lowered its policy interest rates by 50 basis points in April 2015. In the domestic money market, the excess rupee liquidity, which was significantly high throughout 2014, declined gradually during the year. Even though some upward pressure on interest rates was observed in certain periods of the year, particularly on short term interest rates due to changing liquidity levels as well as on the yield rates of the government securities, market interest rates broadly continued to remain low. Benefiting from the low interest rate environment, credit flows to the private sector increased substantially during the first eight months of 2015. The sustained increase in credit provided by commercial banks to key sectors of the economy such as Industry and Services, together with high borrowings by the public sector caused broad money supply to expand at a higher than projected rate during the first eight months of the year. Meanwhile, headline inflation declined further into the negative territory during 2015 mainly due to the favourable supply side developments and the impact of significant downward adjustments of domestic administered prices, although trends in core inflation reflected the gradual firming up of aggregate demand in the economy.

Monetary Policy

Chart 7.1 Policy Rate Corridor and Average Weighted Call Money Rate (AWCMR)

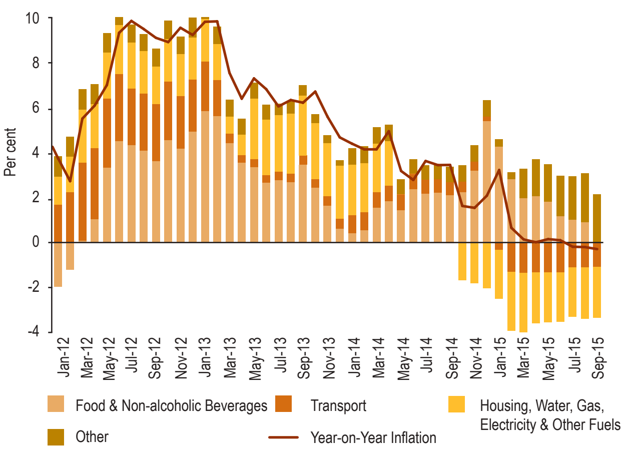


- **During the first nine months of 2015, the Central Bank continued to maintain a relatively relaxed monetary policy stance with the view of supporting economic activity in the backdrop of persistently low levels of inflation.** During the early part of 2015, the Central Bank actively engaged in managing high levels of excess liquidity in the domestic money market. Accordingly, with the view of maintaining interest rate stability, the Central Bank conducted auctions for outright sale of Treasury bills to absorb excess market liquidity on a permanent basis, while overnight repurchase auctions were also conducted. The low interest rate environment driven by the continuously relaxed monetary policy stance encouraged the demand for bank credit by the private sector reflecting the effective pass-through of monetary policy actions into the broader economy. The sustained increase in credit flows to the private sector enabled the Central Bank to remove the temporary restriction placed in September 2014 on access to its Standing Deposit Facility (SDF) under open market operations (OMO) with effect from 02 March 2015. Following this move, the overnight interest rates moved upwards and settled within the policy rate corridor close to the lower bound. However, considering the intermittent increase in interest rates in certain market segments in the aftermath of the removal of restrictions on the SDF and also the sharp decline in inflation, in April 2015 the Central Bank reduced its Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis points to 6.00 per cent and 7.50 per cent, respectively. This downward adjustment was expected to provide greater stability to market interest rates, thereby supporting the continued flow of funds to the economy. As expected, the undue increase observed in certain short term interest rates reversed following the downward adjustment in policy interest rates. Meanwhile, with the decline in market liquidity levels, the Central Bank allowed a gradual upward adjustment in overnight interest rates towards end August 2015. Nevertheless, despite such increases in short term interest rates, including the yield rates on government securities, retail interest rates have continued to remain low so far during the year. In the meantime, the Central Bank conducted reverse repurchase auctions occasionally to provide liquidity to market participants under OMO who experienced a shortage of funds, and accordingly to maintain interest rate stability. The Central Bank continued to monitor developments in inflation and output of the economy vis-à-vis the monetary developments for the early identification of possible threats to economic and price stability. Meanwhile, as a macro-prudential measure, the Central Bank imposed a maximum Loan to Value (LTV) ratio of 70 per cent in September 2015 with effect from 01 December 2015 in respect of loans and advances granted for the purpose of purchase or utilisation of motor vehicles by banks and financial institutions supervised by the Central Bank. This measure, along with the other demand management policies, was expected to facilitate the maintenance of monetary and credit expansion at a tolerable level.

- **During 2015, the Central Bank conducted monetary policy in an enhanced framework aligning increasingly towards a flexible inflation targeting (FIT) framework, while monetary aggregates continued to remain as key indicative variables.** Under this enhanced policy framework of the Central Bank, inflation is expected to be stabilised in a range of 3-5 per cent in the medium term, while supporting the growth momentum in the economy. Considering the importance of money supply as a key indicative variable to guide monetary policy, the Central Bank continued preparing its monetary programme, which originally envisaged an annual growth of 12 per cent in broad money (M_{2b}). Nevertheless, the actual broad money growth, on a year-on-year basis, was 16.8 per cent by end August 2015. Higher than expected growth in broad money on account of increased domestic credit provided to both public and private sectors necessitated a revision to monetary projections of the Central Bank. Accordingly, as per the revised projections, broad money is expected to increase by around 16 per cent by end 2015.

- **Inflation continued to remain at single digit levels for the seventh consecutive year, reflecting prudent demand management policies of the Central Bank, while it declined to the negative territory mainly due to the favourable supply side developments and the impact of significant downward adjustments to domestic administered prices.** Headline inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), declined sharply from 2.1 per cent recorded at end December 2014 to negative levels by July 2015 and continued to be in the negative territory during the months of August and September as well. Accordingly, by September 2015, headline inflation, on a year-on-year basis, remained at -0.3 per cent, and consequently annual average inflation also moderated to 0.7 per cent in September 2015 compared to 3.3 per cent recorded in December 2014. While sustained low inflation is a reflection of the effectiveness of the monetary policy conduct of the Central Bank, the significant decline in inflation in 2015, even towards negative levels, was mainly caused by the downward revisions to domestic energy prices as well as the impact of the reduction in the prices of certain food items by the Government's Interim Budget for 2015. Meanwhile, core inflation, which directly measures the demand driven component of inflation, also continued to remain in low-single digit levels. Nevertheless, some upward movement in core inflation was observed during the last seven months due to price pressures in the non-food items of the CCPI basket such as expenses related to health care, clothing and footwear, indicating the gradual firming up of underlying inflation in the economy. Year-on-year core inflation remained at 4.2 per cent in September 2015 compared to 3.2 per cent recorded at end 2014, while annual average core inflation was at 2.8 per cent compared to 3.5 per cent recorded in 2014.

Chart 7.2 Contribution to Year-on-Year Headline Inflation

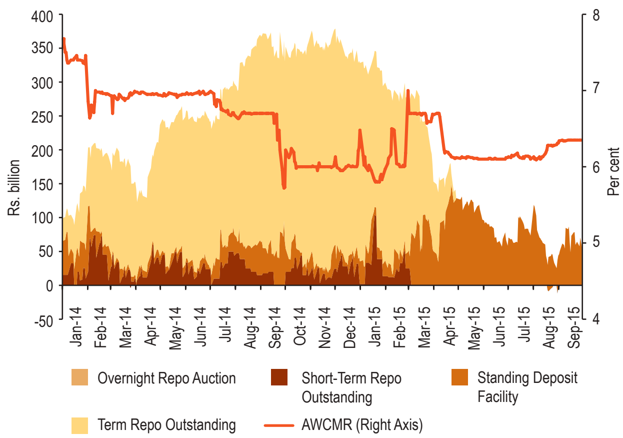


- **The Central Bank pursued its communication strategy with an aim of providing greater clarity about policy decisions among market participants and the general public.** The policies and the decisions of the Central Bank were communicated to the market participants and the general public on a regular basis and in a timely manner by way of issuing regular and occasional communiqués, conducting press conferences, seminars and lectures as well as speeches by the Governor and the senior officials of the Central Bank. The Central Bank held a continuous dialogue with market participants in order to provide a high degree of predictability with regard to policy actions of the Bank, while implementing several measures to improve the data dissemination. The Central Bank subscribed to the Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF) for disseminating economic and financial data to the public, while continuing to publish useful economic information in weekly and monthly economic indicators, monthly bulletins as well as the macroeconomic chart pack. The effectiveness of the Central Bank's communication strategy along with its move towards greater transparency was evident by well aligned perceptions and expectations of the public as reflected in favourable inflation expectations.

Money Market Liquidity

- **High excess liquidity that prevailed throughout 2014 in the domestic money market, gradually declined during the year up to end September 2015.** During the first nine months of 2015, overnight excess liquidity ranged from Rs. 3.3 billion to Rs. 149.4 billion, and averaged to Rs. 70.8 billion. At the same time, total excess liquidity remained at Rs. 62.4 billion by end September 2015 compared to Rs. 325.6 billion at end 2014. The substantial decline in excess liquidity during 2015 was a combined outcome of net sales of foreign exchange by the Central Bank in the domestic foreign exchange market, retirements and outright sales of Treasury bills held by the Central Bank, foreign loan repayments and currency withdrawals from the Central Bank during the year as well as the pickup in domestic credit expansion. Nevertheless, a substantial amount of rupee liquidity was injected to the market through the purchases of Treasury bills by the Central Bank as well as through the purchase of part of the proceeds of the Sri Lanka Development Bonds (SLDBs) by the Central Bank. During the early part of 2015, the Central Bank actively engaged in managing excess liquidity in the domestic money market on overnight, short term and long term bases, while encouraging commercial banks to utilise high excess liquidity to increase credit flows to the private sector. In the meantime, all outstanding term repurchase (repo) agreements were allowed to mature by end April 2015. Hence, the remaining excess liquidity in the money market was largely absorbed on an overnight basis through the SDF to maintain the stability of short term interest rates. During 2015, the Central Bank also conducted auctions for outright sales of Treasury bills to absorb liquidity, while conducting overnight reverse repurchase auctions occasionally to inject liquidity to the market considering the uneven distribution of excess liquidity among market participants and thereby preventing excessive volatility in short term interest rates.

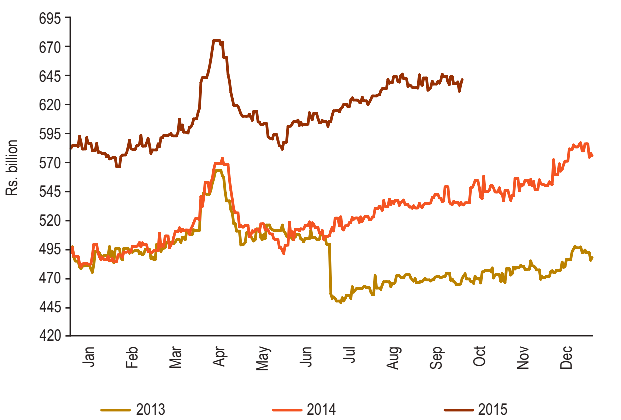
Chart 7.3 Absorption of Market Liquidity by Instruments



Reserve Money

- **Reserve money grew at a high pace in the first eight months of 2015.** On a year-on-year basis, reserve money increased by 19.8 per cent by end August 2015 compared to the growth of 18.3 per cent recorded at end 2014. The average growth of reserve money during the first eight months of 2015 was 19.0 per cent. On the liabilities side, the expansion in reserve money was mainly due to the increase in currency in circulation and the commercial banks' deposits with the Central Bank. In addition to the substantial increase in currency in circulation observed in 2015 as a result of the high demand for currency in view of the national elections and the sluggish return of currency to the banking system due to low interest rates on deposits, currency in circulation displayed similar historical patterns indicating a significant increase due to the higher demand for currency during festive seasons. Accordingly, currency in circulation increased by Rs. 47.1 billion during the first eight months of the year, in comparison to the increase of Rs. 34.3 billion in the corresponding period of 2014. The outstanding currency in circulation amounted to Rs. 464.0 billion by end August 2015.

Chart 7.4 Movements in Daily Reserve Money*



*Sudden changes in the movements of reserve money in particular months are due to revisions to statutory reserve ratio and seasonal factors.

- **On the assets side, the expansion in reserve money during the first eight months of 2015 was entirely due to the increase in net domestic assets (NDA) of the Central Bank.** NDA of the Central Bank, which contracted during 2014, increased considerably by Rs. 296.4 billion during the first eight months of 2015. Within NDA, net credit to the government (NCG) by the Central Bank increased by Rs. 94.9 billion due to the surge in holdings of government securities, which increased by Rs. 86.0 billion to Rs. 92.1 billion and an increase in provisional advances extended to the government by Rs. 9.1 billion to Rs. 153.0 billion. Further, the contraction in net other liabilities of the Central Bank, which is included in NDA, declined significantly by Rs. 207.3 billion by end August 2015 mainly due to non-reliance of borrowed bonds by the Central Bank in view of increased Treasury bill holdings. Meanwhile, net foreign assets (NFA) of the Central Bank declined significantly by Rs. 237.1 billion during the first eight months of the year. The significant decline in NFA was mainly due to foreign currency sales by the Central Bank in the domestic foreign exchange market along with the decline in holdings of foreign securities and increased foreign liabilities of the Central Bank due to international swap arrangements.

Narrow Money (M_1)

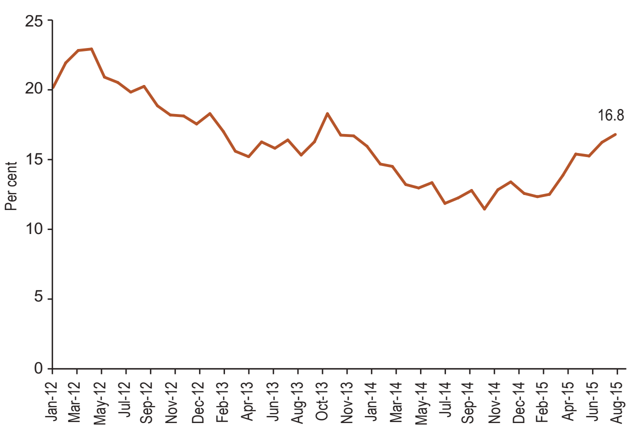
- **Following the increasing trend observed in 2014, narrow money supply (M_1) continued to expand considerably during the first eight months of 2015, albeit at a lower rate compared to end 2014.** Narrow money, which comprises currency and demand deposits held by the public, expanded by 20.2 per cent on a year-on-year basis by end August 2015, compared to 26.3 per cent recorded at end 2014. Currency held by the public grew by

22.9 per cent, year-on-year, in August 2015, compared to 24.5 per cent recorded at end 2014. The increase in currency held by the public during the period under consideration is mainly attributed to the high currency demand related to two national elections held in 2015, while the increase in currency in circulation during the festive season did not fully return to the Central Bank. In addition, the continuation of the low interest rate environment has led to lower opportunity cost of holding currency, thereby raising the demand for currency. Meanwhile, the year-on-year growth of demand deposits held by the public at commercial banks was 17.0 per cent in August 2015, compared to the growth of 28.5 per cent recorded at end 2014. The low interest rate environment along with the seasonal effects led to the relatively high increase in demand deposits held by the public during the period under review although the expansion was slower compared to end 2014.

Broad Money (M_{2b})

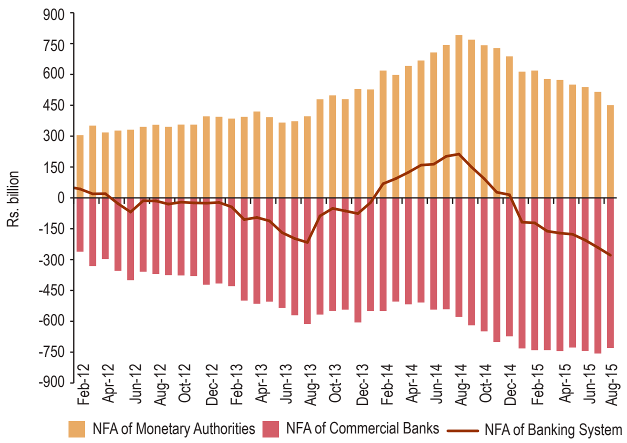
- **Reflecting the relaxed monetary conditions in the economy, the growth of broad money supply (M_{2b}) accelerated further during the first eight months of 2015.** Broad money recorded a year-on-year growth of 16.8 per cent by end August 2015 compared to 13.4 per cent recorded at end 2014, while the average broad money growth during the first eight months of 2015 was 14.4 per cent compared to 13.6 per cent in the corresponding period of 2014. The significant increase in domestic credit, which includes credit flows to the private sector, the government as well as public corporations from the banking system, entirely contributed to the monetary expansion during this period, as the NFA of the banking system recorded a contraction. From the liabilities side, the increase in time and savings deposits held by the public accounted for around 82 per cent of the year-on-year growth of broad money in August 2015, while the remainder could be attributed to the growth of narrow money. The growth of time and savings deposits held by the public, which decelerated to 11.3 per cent on a year-on-year basis by end 2014, increased to 16.2 per cent by end August 2015 led by time and savings deposits held in the domestic banking units (DBUs) of commercial banks.

Chart 7.5 Year-on-Year Growth of Broad Money (M_{2b})



- **On the source side of broad money expansion, NFA of the banking system contracted substantially during the first eight months of 2015 on account of the diminution in NFA of both the Central Bank and commercial banks.** The decline in NFA of the Central Bank amounting to Rs. 237.1 billion was a combined outcome of increased foreign currency sales in the domestic foreign exchange market, declined investments in foreign securities and increased foreign liabilities of the Central Bank as well as repayments in domestic currency swap arrangements. NFA of commercial banks also declined by Rs. 56.9 billion by August 2015, of which NFA from DBUs declined by Rs. 18.6 billion. The contraction in NFA of commercial banks was mainly due to a reduction in foreign currency placements with foreign banks and an increase in both non-resident foreign currency account (NRFC) and resident non-national

Chart 7.6 Net Foreign Assets (NFA) of the Banking System



foreign currency account (RNNFC) balances of commercial banks. At the same time, NFA of offshore banking units (OBUs) also declined by Rs. 38.2 billion during the period under review, reflecting a significant reduction in foreign currency placements by OBUs with foreign banks. Accordingly, during the first eight months of the year, NFA of the banking system contracted by Rs. 294.0 billion, contributing negatively to the expansion in broad money.

- **Reflecting the sustained growth in domestic credit, NDA of the banking system, which increased towards the latter part of 2014, continued to expand in the first eight months of 2015 as well.** During the year up to August 2015, domestic credit provided by the banking sector, which is the main component of NDA, increased due to the expansion in credit to the private sector as well as to the government and public corporations. As a result, NDA of the banking system increased significantly by Rs. 670.6 billion, contributing entirely to the expansion in broad money.

- **NCG from both the Central Bank and commercial banks increased significantly during the first eight months of 2015.** During this period, NCG increased by Rs. 299.7 billion compared to the Rs. 60.9 billion increase in the corresponding period of the previous year and also compared to the annual budgetary estimate for bank borrowing of Rs. 70 billion for 2015. The delay in foreign financing flows to the government during the period under review led the government to resort to increased domestic financing, thereby raising the level of NCG from the banking sector. The increase in NCG during the reference period was mainly due to the significant increase in credit granted to the government by commercial banks amounting to Rs. 204.9 billion. Contributing to the increase in NCG by commercial banks, investments in SLDBs by commercial banks increased significantly by around Rs. 151.3 billion. Also, reflecting a shift in the appetite to short term government securities, Treasury bill holdings of commercial banks (net of repurchase transactions) increased by around Rs. 23 billion by end August 2015, whereas Treasury bond holdings (net of repurchase transactions) declined by around Rs. 19 billion. In addition, the outstanding government overdraft balance with the two state commercial banks increased by around Rs. 28 billion to Rs. 142.2 billion during the first eight months of 2015.

- **Credit obtained by public corporations increased by Rs. 36.5 billion during the first eight months of 2015 compared to the contraction of Rs. 27.2 billion observed during the corresponding period of 2014.** This was mainly due to increased bank borrowings by SriLankan Airlines (SLA), the Road Development Authority (RDA) and the Ceylon Petroleum Corporation (CPC). Credit obtained by SLA amounted to Rs. 14.7 billion during the first eight months of the year. In addition, RDA obtained credit amounting to Rs. 10.2 billion during this period. In spite of the substantial reduction in domestic petroleum prices, the benefit of low international oil prices was reflected in reduced borrowings by CPC. During the

Chart 7.7 Credit Granted by Commercial Banks to the Private Sector

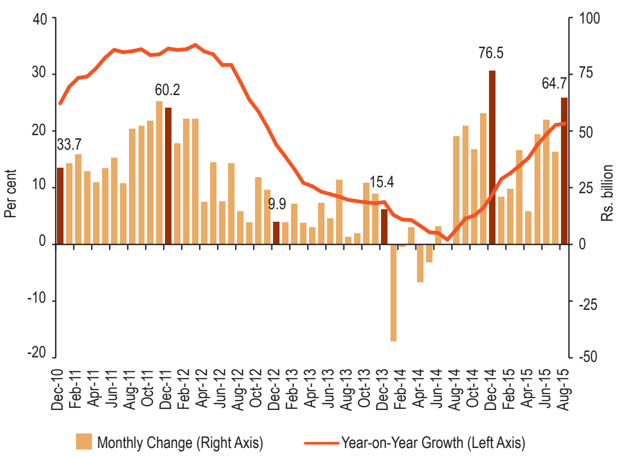
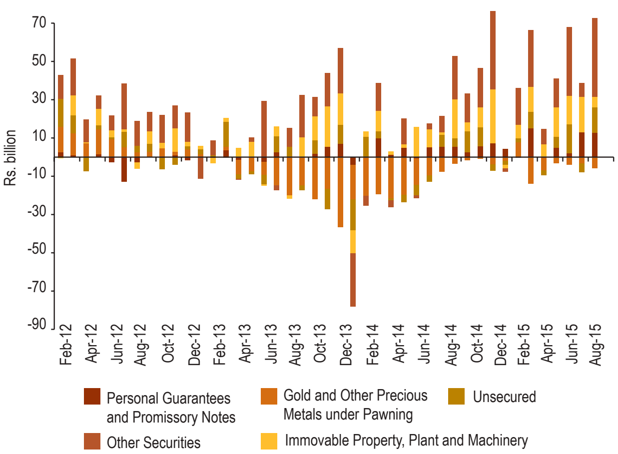


Chart 7.8 Monthly Change in Security-wise Advances of DBUs of Licensed Commercial Banks



first eight months of the year, liabilities of CPC to the banking system increased only by Rs. 9.7 billion. Meanwhile, the Ceylon Electricity Board (CEB) repaid Rs. 8.3 billion from its dues to the banking sector during the first eight months of 2015.

- **The growth of credit extended to the private sector by commercial banks, which rebounded towards end 2014, sustained its momentum in the first eight months of 2015.** The declining impact of the contraction in pawning advances on overall credit, continued low market lending rates as well as high import demand underpinned by increased real wages led to an expansion in credit extended to the private sector by commercial banks. Accordingly, credit to the private sector increased by 21.3 per cent on a year-on-year basis in August 2015 compared to 8.8 per cent recorded at end 2014. The existence of a lower base due to the contraction in credit extended to the private sector during the first eight months of 2014 caused a higher year-on-year growth rates in 2015. Nevertheless, on average, credit to the private sector increased by around Rs. 39 billion per month, thereby recording a cumulative increase of Rs. 310.5 billion during the first eight months of 2015.

- **As per the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, credit flows to all major sectors recorded an expansion during the first half of the year.** According to the latest available information at end June 2015, credit to the Industry and Services sectors increased by 27.8 per cent and 25.6 per cent, respectively, on a year-on-year basis. In the Industry sector, major sub sectors of Construction, and Textiles and Apparel reported a healthy expansion in credit. Similarly, key sub sectors in the Services sector, such as Wholesale and Retail Trade, Financial and Business Services, and Tourism, received high credit flows, whereas the substantial increase in credit flows to the Financial and Business Services sub sector was mainly underpinned by increased lending to leasing companies in view of high demand for finance facilities related to motor vehicles. Meanwhile, by end June 2015, credit to the Agriculture and Fishing sectors increased by 3.9 per cent, on a year-on year basis, compared to the decline of 5.8 per cent reported in December 2014. Even though the growth in Personal Loans and Advances declined by 11.1 per cent by end 2014, credit flows for such purposes increased by 3.1 per cent by end June 2015. The marginal increase in credit to the Agriculture and Fishing sectors as well as Personal Loans and Advances indicates that the impact of pawning related

Table 7.1 Classification of Outstanding Loans and Advances Granted by Commercial Banks (a)(b)

Rs. billion

Sector	End June 2014	End June 2015 (c)	Year-on-Year Change	
			Amount	%
Agriculture and Fishing	**280.2**	**291.2**	**11.0**	**3.9**
of which, Tea	62.6	69.0	6.4	10.2
Rubber	20.0	20.3	0.4	1.8
Coconut	6.8	9.8	3.1	45.1
Paddy	16.2	16.6	0.4	2.3
Vegetable, Fruit and Minor Food Crops	13.9	16.2	2.3	16.5
Fisheries	9.9	10.3	0.3	3.3
Industry	**929.9**	**1,188.0**	**258.1**	**27.8**
of which, Construction	406.8	528.5	121.8	29.9
Food and Beverages	64.8	73.5	8.7	13.5
Textiles and Apparel	101.1	131.8	30.7	30.4
Fabricated Metal Products, Machinery and Transport Equipment	86.7	105.2	18.5	21.3
Services	**626.6**	**787.0**	**160.4**	**25.6**
of which, Wholesale and Retail Trade	207.6	232.0	24.4	11.8
Tourism	70.9	88.8	17.9	25.2
Financial and Business Services	102.7	165.3	62.6	60.9
Shipping, Aviation and Supply, and Freight Forwarding	11.0	12.7	1.7	15.5
Personal Loans and Advances (d)	**624.9**	**644.1**	**19.2**	**3.1**
of which, Consumer Durables	84.0	108.2	24.2	28.8
Pawning	200.9	153.3	-47.7	-23.7
Safety Net Scheme Related Advances	**34.1**	**50.2**	**16.1**	**47.2**
Total	**2,495.7**	**2,960.5**	**464.7**	**18.6**

(a) Based on the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector
(b) Includes loans, overdrafts and bills discounted and excludes cash items in the process of collection
(c) Provisional
(d) Excludes personal housing loans, which have been included under 'construction' classified under 'Industry'

Source: Central Bank of Sri Lanka

credit contraction has now ended. The gradual decline in the contraction in pawning related credit is also reflected in the Monthly Survey on Security-wise Advances.

Broad Money (M_4)

- **As per the Financial Survey, the year-on-year growth of broad money (M_4)[1] was 16.4 per cent in August 2015 compared to 14.3 per cent at end 2014.** Among monetary liabilities of broad money as measured by M_4, the growth of quasi money, comprising time and savings deposits in all licensed banks and licensed finance companies (LFCs) increased by 15.8 per cent in August 2015 compared to 12.7 per cent recorded in December 2014. However, the year-on-year growth of quasi money held with licensed specialised banks (LSBs) and LFCs declined to 11.9 per cent and 14.3 per cent by August 2015 compared to 15.0 per cent and 22.5 per cent, respectively, recorded at end 2014 reflecting the impact of low interest rates of these financial institutions and the offer of higher interest rates by commercial banks for deposits held by the senior citizens. On the assets side, the growth in M_4 was solely driven by the expansion in NDA, which increased by Rs. 792 billion, while NFA declined by Rs. 299 billion during the first eight months of 2015. Increased credit disbursements to both the private and public sectors contributed to the significant expansion in NDA during this period.

- **Credit disbursed to the private sector in M_4 followed a similar trend that was observed for credit growth in M_{2b}.** According to M_4,

1 M_4 provides a broader measure of liquidity covering licensed specialised banks (LSBs) and licensed finance companies (LFCs), in addition to licensed commercial banks (LCBs) and the Central Bank.

Table 7.2

Sources of Broad Money (M_4)
(Computed as per the Financial Survey)

Rs. billion

Item	End August 2014	End 2014	End August 2015 (a)	Year-on-Year Change Dec - 2014 Amount	Dec - 2014 %	Aug - 2015 Amount	Aug - 2015 %
Financial Survey (M_4)	**4,630.6**	**4,897.7**	**5,390.7**	**614.4**	**14.3**	**760.1**	**16.4**
Underlying Factors							
Net Foreign Assets	**94.5**	**-136.7**	**-435.7**	**63.3**	**31.6**	**-530.2**	**-561.2**
Monetary Authorities	791.4	688.0	450.9	158.9	30.0	-340.5	-43.0
LCBs	-578.7	-672.9	-729.7	-67.4	-11.1	-151.0	-26.1
LSBs and LFCs	-118.2	-151.9	-156.9	-28.2	-22.8	-38.7	-32.7
Net Domestic Assets	**4,536.1**	**5,034.4**	**5,826.5**	**551.2**	**12.3**	**1,290.3**	**28.4**
Domestic Credit	**5,723.4**	**6,291.9**	**7,161.8**	**723.1**	**13.0**	**1,438.4**	**25.1**
Net Credit to the Government	**1,888.2**	**2,010.4**	**2,349.3**	**223.2**	**12.5**	**461.1**	**24.4**
Monetary Authorities	145.7	149.7	244.5	35.7	31.3	98.9	67.9
LCBs	1,216.6	1,286.2	1,491.1	98.9	8.3	274.5	22.6
LSBs	479.2	514.8	552.1	56.8	12.4	72.9	15.2
LFCs	46.8	59.7	61.5	31.8	114.3	14.7	31.5
Credit to Public Corporations (LCBs)	**337.9**	**446.0**	**482.5**	**80.9**	**22.2**	**144.7**	**42.8**
Credit to the Private Sector	**3,497.3**	**3,835.5**	**4,330.0**	**419.0**	**12.3**	**832.7**	**23.8**
LCBs	2,529.6	2,758.2	3,068.7	223.9	8.8	539.1	21.3
LSBs	410.0	474.4	534.2	94.3	24.8	124.2	30.3
LFCs	557.7	602.9	727.0	100.9	20.1	169.4	30.4
Other Items (net)	**-1,187.2**	**-1,257.5**	**-1,335.3**	**-172.0**	**-15.8**	**-148.1**	**-12.5**

(a) Provisional

Source: Central Bank of Sri Lanka

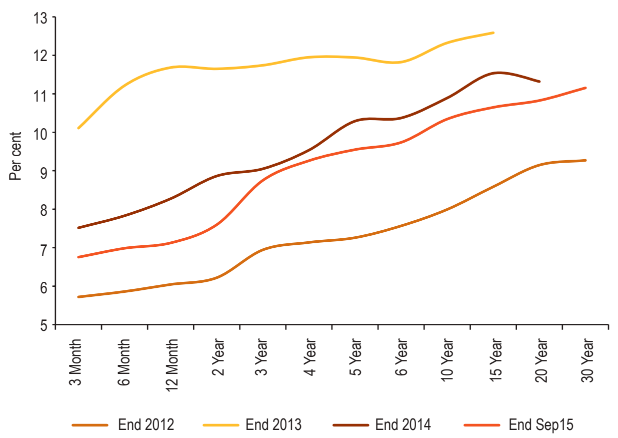
the growth of credit disbursed to the private sector accelerated to 23.8 per cent, on a year-on-year basis, during the first eight months of 2015 from 12.3 per cent recorded at end 2014. Accordingly, during the first eight months of 2015, credit to the private sector increased by Rs. 494.5 billion compared to the increase of Rs. 80.8 billion recorded during the same period of 2014. In addition to the increase in credit to the private sector by commercial banks as observed in M_{2b}, both LSBs and LFCs also contributed to the significant expansion in credit flows. Credit disbursed to the private sector by LSBs grew by 30.3 per cent by end August 2015 compared to the growth of 24.8 per cent recorded at end 2014. In absolute terms, credit extended to the private sector by LSBs increased by Rs. 59.8 billion during the first eight months of 2015 contributing 12 per cent to the overall expansion in private sector credit. At the same time, the year-on-year growth of credit to the private sector by LFCs also increased to 30.4 per cent in August 2015 from 20.1 per cent growth at end 2014. In absolute terms, credit extended to the private sector by LFCs increased by Rs. 124.2 billion during the first eight months of 2015 contributing 25.1 per cent to the overall increase in private sector credit. The significant increase in credit flows provided by LFCs was mainly driven by credit facilities on account of leasing of motor vehicles, which increased by around 53 per cent, on a year-on-year basis, contributing around 76 per cent to the credit growth in LFCs during the first eight months of 2015. Meanwhile, NCG by LSBs and LFCs reported an expansion of Rs. 39.2 billion mainly due to increased investments in government securities.

Interest Rates

- **As a result of persistently relaxed monetary conditions, market interest rates continued to remain at low levels in the first nine months of 2015.** With the recovery of the growth in credit to the private sector by commercial banks since the latter part of 2014 and in view of the signs of sustained credit growth in 2015, the restrictions placed on the SDF of the Central Bank were removed in March 2015. As a result, overnight interest rates, which had declined below the SDFR, stabilised within the policy rate corridor despite some volatility observed immediately after the removal of restrictions on SDF. Benefitting from the policy rate reduction in April 2015, average lending rates for loans continued their declining trend. At the same time, deposit interest rates also continued their declining trend up to April 2015, although some marginal increase was witnessed in average interest rates indicating the impact of the special interest rates offered on deposits maintained at banks by the senior citizens.

- **The Average Weighted Call Money Rate (AWCMR) displayed somewhat mixed movements in the first nine months of 2015.** Following the rationalisation of access to the SDF in September 2014, the AWCMR declined below the SDFR stabilising at around 6.00 per cent throughout the remaining period of 2014 as well as in the first two months of 2015. However, with the removal of the rationalised access to SDF, the AWCMR peaked at 7.00 per cent by 02 March 2015 and then hovered around 6.70 per cent level until mid-April 2015. With the reduction in policy interest rates in April 2015, the AWCMR declined immediately by 42 basis points to 6.23 per cent and continued its declining trend thereafter towards the lower bound of the policy rate corridor reaching 6.10 per cent by end July 2015. However, by mid-August 2015, with the decline in excess liquidity in the domestic money market, AWCMR witnessed some upward movement and stabilised at around 6.35 per cent thereafter. Meanwhile, the Sri Lanka Inter Bank Offered Rates (SLIBOR) also moved in line with the movements in the AWCMR. Accordingly, by end September 2015, overnight and 12-months SLIBOR remained at 6.35 per cent and 7.65 per cent, respectively, compared to 6.10 per cent and 7.15 per cent, respectively, recorded at end 2014.

Chart 7.9 Secondary Market Yield Curve for Government Securities

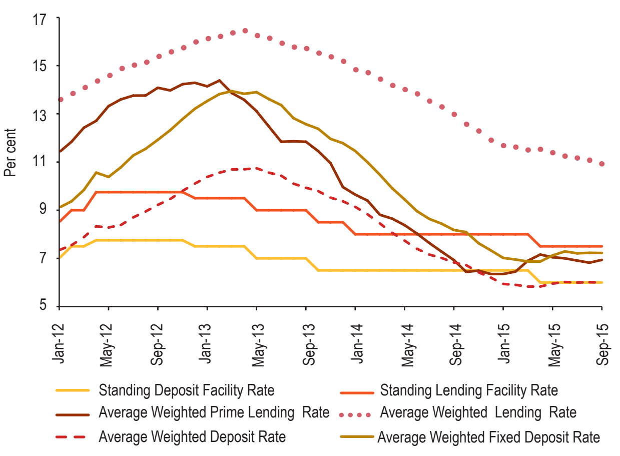


- **Yield rates on government securities indicated an upward trend during the first nine months of 2015.** With the removal of restrictions placed on the SDF by the Central Bank and reflecting the market anticipation of the government's high domestic funding requirement, the yields on Treasury bills, which remained below the SDFR in the preceding seven months, increased significantly from March 2015. Accordingly, compared to the yields observed at end 2014, the 91-day, 182-day and 364-day Treasury bill yields increased by 104 basis points, 123 basis points and 117 basis points, to 6.78 per cent, 7.07 per cent and 7.18 per cent, respectively, by end September 2015. The yields pertaining to Treasury bonds also exhibited an upward trend during the first nine months of 2015. The government continued to issue Treasury bonds with longer maturities during this period with the view of maintaining an extended yield curve. Accordingly, Treasury bonds with maturity periods of 20 years and 30 years were issued in the primary market during February-March period at average yields of 11.20 per cent and 11.73 per cent, respectively. The government also issued US dollar denominated SLDBs at various floating rates, where these issuances helped to maintain an orderly adjustment in the government securities market and to ease the pressure on yields of domestic debt instruments to some extent.

- **The secondary market yield curve for government securities shifted upwards during the first nine months of 2015 in comparison to end 2014.** Reflecting the low interest rate environment, the secondary market yield curve for government securities displayed a gradual downward adjustment during the past two years, and this trend has reversed somewhat in 2015. Accordingly, the yields on Treasury bills of all maturities in the secondary market increased by 103 to 112 basis points, while the yields on Treasury bonds of all maturities increased by 138 to 235 basis points by end September 2015 in comparison to the yields observed at end 2014.

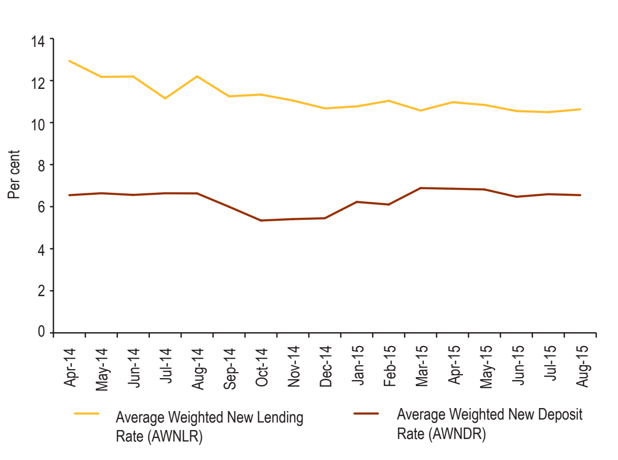
- **Reflecting the low interest rate environment, interest rates offered on deposits by commercial banks also remained low during the first nine months of 2015.** The Average Weighted Deposit Rate (AWDR), which reflects the movements in interest rates pertaining to all outstanding interest bearing deposits held with commercial banks, declined by 20 basis points to 6.00 per cent by end September 2015, compared to end 2014. The Average Weighted Fixed Deposit Rate (AWFDR), which is computed in respect of outstanding term deposits held with commercial banks, also declined by 11 basis points to 7.22 per cent by end September 2015 compared to end 2014. However, both AWDR and AWFDR increased marginally since April 2015 due to the impact of the special interest rate provided for the deposits of senior citizens maintained at licensed banks.

Chart 7.10 Movements in Selected Market Interest Rates



- **Low levels of lending rates of commercial banks continued despite irregular movements observed for some lending rates.** The Average Weighted Lending Rate (AWLR), which reflects interest rates pertaining to the stock of all loans and advances extended by commercial banks to the private sector,

Chart 7.11 New Deposit and Lending Rates of Licensed Commercial Banks



declined by 88 basis points to 11.03 per cent by end September 2015 from 11.91 per cent recorded at end 2014. Security-wise average weighted lending rates were in the range of 8.17-13.73 per cent by end September 2015 compared to the range of 8.24-15.39 per cent at end 2014. Bank-wise average weighted lending rates remained in the range of 6.80-12.98 per cent by end September 2015, compared to 5.66-16.57 per cent by end 2014. Meanwhile, the weekly Average Weighted Prime Lending rate (AWPR), which reflects interest rates applicable to loans and advances granted by commercial banks to their prime customers, increased by 78 basis points to 7.04 per cent by end September 2015 compared to 6.26 per cent recorded at end 2014 reflecting the upward pressure in short term interest rates. The monthly AWPR also increased by 59 basis points to 6.94 per cent by end September 2015 compared to end 2014.

- **Interest rates pertaining to new loans declined, while interest rates on new deposits displayed some upward adjustment thus indicating gradually narrowing interest spreads.**[2] The Average Weighted New Lending Rate (AWNLR), which is based on all new loans and advances extended by commercial banks to the private sector, declined by 5 basis points to 10.63 per cent by August 2015 compared to 10.68 per cent in December 2014. AWNLR remained lower than the AWLR indicating that commercial banks continued to reduce lending rates charged for new loans in an environment of eased monetary conditions. Meanwhile, the Average Weighted New Deposit Rate (AWNDR), which reflects the movement of interest rates pertaining to all new interest bearing deposits held with commercial banks during a month, increased by 110 basis points to 6.55 per cent in August 2015 compared to 5.45 per cent in December 2014.

2 The Central Bank commenced the compilation of average interest rates on new deposits and new loans in April 2014.

Table 7.3 Movements in Interest Rates

Per cent per annum

Interest Rate	End 2014	End September 2015 (a)
Policy Interest Rates (b)		
Standing Deposit Facility Rate	6.50	6.00
Standing Lending Facility Rate	8.00	7.50
Average Weighted Call Money Rate (AWCMR)	6.21	6.35
Yield Rates on Government Securities		
Primary Market (c)		
Treasury bills		
91-day	5.74	6.78
182-day	5.84	7.07
364-day	6.01	7.18
Treasury bonds		
2-year	-	6.70
3-year	-	8.18
4-year	-	9.50
5-year	8.93	9.58
10-year	7.88	10.38
Secondary Market		
Treasury bills		
91-day	5.72	6.75
182-day	5.86	6.98
364-day	6.04	7.12
Treasury bonds		
2-year	6.22	7.60
3-year	6.94	8.75
4-year	7.14	9.26
5-year	7.26	9.55
10-year	7.99	10.34
Licensed Commercial Banks (d)		
Interest Rates on Deposits		
Savings Deposits	0.50-8.00	0.50-8.50
1 - year Fixed Deposits (e)	3.95-12.00	3.50-15.00
Average Weighted Deposit Rate (AWDR)	6.20	6.00
Average Weighted Fixed Deposit Rate (AWFDR)	7.33	7.22
Interest Rates on Lending		
Average Weighted Prime Lending Rate (AWPR)	6.35	6.94
Average Weighted Lending Rate (AWLR)	11.91	11.03
Other Financial Institutions		
Interest Rates on Deposits		
National Savings Bank		
Savings Deposits	5.00	5.00
1 - year Fixed Deposits	6.50	6.50
Licensed Finance Companies (f)		
Savings Deposits	5.17-6.81	4.83-6.81
1 - year Fixed Deposits	8.56-10.27	8.69-10.47
Interest Rates on Lending		
National Savings Bank (g)	8.00-13.00	8.00-13.00
State Mortgage and Investment Bank (g)	7.59-14.25	7.07-13.50
Licensed Finance Companies (f)		
Finance Leasing	15.45-23.26	14.81-24.23
Hire Purchase	16.36-20.42	14.75-21.21
Loans against Real Estate	17.00-24.33	17.31-19.52
Corporate Debt Market		
Debentures	6.88-15.50	7.60-10.50
Commercial Paper	6.44-12.50	7.00-12.00

(a) Provisional
(b) The Repurchase rate and the Reverse Repurchase rate of the Central Bank were renamed as the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively, w.e.f. 02 January 2014.
(c) Weighted average yield rates at the latest available auction
(d) Based on the rates quoted by commercial banks and other selected financial institutions.
(e) Maximum rate is a special rate offered by certain commercial banks.
(f) Average rates, based on the maximum and minimum rates quoted by LFCs
(g) Lending for housing purposes

Sources: Colombo Stock Exchange
Respective financial institutions
Central Bank of Sri Lanka

- **Interest rates on foreign currency deposits held with commercial banks declined marginally by September 2015 compared to the rates prevailed at end 2014.** Interest rates on US dollar denominated savings deposits were in the range of 0.02-3.00 per cent by end September 2015 compared to the range of 0.01-3.25 per cent recorded at end 2014. Meanwhile, interest rates pertaining to US dollar denominated time deposits were in the range of 0.10-5.25 per cent by end September 2015 compared to the range of 0.06-4.25 per cent recorded at end 2014. Interest rates on savings deposits in pound sterling denomination were in the range of 0.10-2.26 per cent by end September 2015, whereas the rates for the same product was in the range of 0.05-2.25 per cent by end 2014. Interest rates applicable on pound sterling denominated time deposits were in the range of 0.09-4.00 per cent by end September 2015 compared to the range of 0.20-4.25 per cent by end 2014. The low interest rates applicable on foreign currency deposits reflect the continued low interest rate environment prevalent in advanced economies.

- **Interest rates applicable on debt instruments issued by the corporate sector showed some downward adjustment.** Amongst debt instruments, interest rates pertaining to commercial papers were in the range of 7.00-12.00 per cent during the first nine months of 2015 compared to the range of 6.44-12.50 per cent that was observed at end 2014. Meanwhile, during the first nine months of the year, there were 29 listings of debentures by 16 corporates with maturities ranging from 3 to 5 years. Interest rates offered on these issues, payable quarterly, semi-annually and annually, were in the range of 7.60-10.50 per cent by end September 2015, compared to 6.88-15.50 per cent reported at end 2014.

Monetary Policy in Other Countries

- **Central Banks of many advanced economies continued their accommodative monetary policies with the view of supporting economic activity while lifting inflation back to target levels.** In the United States, the target for the Federal funds rate has remained within the 0-0.25 per cent interval since December 2008. Nevertheless, the Federal Reserve of the United States is expected to continue to normalise its monetary policy stance gradually in the period ahead since inflation is expected to rise over the medium term with the ongoing recovery of the economy. The Bank rate of the Bank of England (BOE) continued to remain at 0.5 per cent in order to meet the 2 per cent inflation target, indicating the continuation of relaxed monetary conditions into 2015 as well. In addition, the BOE continued to maintain the stock of purchased assets financed by the issuance of central bank reserves. However, with the recovery of the economy, an interest rate hike is also expected in the United Kingdom in the months ahead. In September 2015, inflation in the Euro area was negative 0.1 per cent, where a deflationary situation was also experienced in the first quarter of the year. The European Central Bank (ECB) maintained its relaxed

Table 7.4 Changes in the Policy Interest Rates of Selected Central Banks

Per cent

Country	Policy Rate	End 2012	End 2013	End 2014	Sep 2015
Emerging Economies					
India	Repo rate	8.00	7.75	8.00	6.75
Malaysia	Overnight policy rate	3.00	3.00	3.25	3.25
Thailand	1-day bilateral repo rate	2.75	2.25	2.00	1.50
China	1-year yuan lending	6.00	6.00	5.60	4.60
Advanced Economies					
USA	Federal funds rate	0-0.25	0-0.25	0-0.25	0-0.25
UK	Bank rate	0.50	0.50	0.50	0.50
ECB	Refinance rate	0.75	0.25	0.05	0.05
Japan	Overnight call rate	0-0.10	0-0.10	0-0.10	0-0.10
Canada	Overnight funding rate	1.00	1.00	1.00	0.50
Australia	Cash rate	3.00	2.50	2.50	2.00
Sweden	Repo rate	1.00	0.75	0.00	-0.35
South Korea	Base rate	2.75	2.50	2.00	1.50

Source: Websites of respective central banks monetary policy stance for an extended period to support credit provision to the Eurozone and hence to revive the weaker economic conditions amidst the continued crisis in Greece. Further, the ECB is likely to continue with its ongoing programme of providing short-term liquidity through its main refinancing operations until 2016 with the view of reducing volatility in financial markets, while maintaining its deposit rate at negative levels. Moreover, the monthly asset purchase programme of the ECB is expected to continue until next year or until inflation in the Euro area increases up to its target level of 2 per cent. Following a contraction in the economy in the second quarter of 2015, it is expected that Bank of Japan will continue its qualitative and quantitative easing programme until mid-2016. In the meantime, the Reserve Bank of New Zealand lowered its policy interest rates by 75 basis points and the Reserve Bank of Australia and the Bank of Canada also reduced their policy rates by 50 basis points so far during the year to support the economy amidst falling commodity prices. In Sweden, the Riksbank reduced its repo rate to negative 0.35 per cent in July 2015, while extending its programme to purchase government bonds.

- **The growth outlook in emerging market and developing economies is generally weakening, requiring them to maintain relaxed monetary conditions to support economic activity**. Among major emerging market economies, the Reserve Bank of India (RBI) and the People's Bank of China (PBC) have adopted several measures to ease monetary policy since late 2014 to spur economic activity. In particular, the RBI has reduced its policy interest rates by 125 basis points so far during 2015 and the PBC has lowered its policy interest rate by 100 basis points during the first nine months of 2015. Moreover, the reserve ratio for commercial banks was also reduced by 50 basis points in August 2015 by the PBC amidst a sharp decline in the Chinese stock market indices. In August 2015, China devalued its currency with the view of supporting the export sector. Meanwhile, Russia reduced the policy rate by 600 basis points during 2015 as the economy contracted by 2.2 per cent in the first quarter of 2015 followed by a further contraction of 4.6 per cent in the second quarter.

Expected Developments

- **The current relaxed monetary conditions along with continued low interest rates are expected to further induce private sector credit growth during the period ahead**. Indicating the lagged effect of monetary policy actions, market lending rates, particularly medium to long term interest rates, have adjusted downwards since end 2014. Benefiting from such low interest rates, it is expected that private sector credit would continue to flow into the economy during the remainder of the year as well as in 2016, facilitating investment activity and the growth momentum in the economy. Nevertheless, past episodes indicate that credit flows to the private sector could pick up sharply subsequent to a period of credit contraction. Therefore, the Central Bank is vigilant of the current trends in private sector credit and will adopt timely monetary policy measures in the event of continued excessive credit growth beyond the expected levels. Further, given the expected expansion in private sector credit during the ensuing period, there is a strong need for the public sector to restrict its borrowings to budgeted levels in order to avoid undue expansion in money and credit aggregates, while enabling the private sector to obtain adequate financial resources for investment activity.

- **Prevailing low inflation is expected to continue in the medium term with appropriate policies, thereby enabling a conducive**

environment for investment and economic activity while preserving the purchasing power of the general public. Reflecting the impact of significant downward adjustments in fuel and energy prices and the reduction in the prices of certain essential food items announced in the Interim Budget 2015, the year-on-year headline inflation continued to remain at low levels thus far in 2015 and even recorded negative levels. Sustaining its trend seen in last several years, it is projected that headline inflation is likely to remain at low single digit levels by end 2015. In the medium term, in an event of a rise in trend inflation due to demand side pressures, the Central Bank would pursue preemptive policy actions in a forward looking framework to ensure continued price stability.

- **The Central Bank would continue its efforts to strengthen the monetary policy framework in the period ahead**. As the country moves towards the upper middle income levels gradually, the Central Bank is of the view that the envisaged flexible inflation targeting (FIT) framework would be more effective in the context of enhanced fiscal consolidation of the government, improved monetary-fiscal coordination and better institutional arrangements to ensure central bank independence. Also, in order to strengthen the efficacy of the monetary policy framework, the Central Bank expects to further improve its communication policy through various initiatives to enhance policy transparency and predictability. The Central Bank would also continue its efforts to upgrade the technical capabilities, particularly with regard to macroeconomic modelling and forecasting in order to devise sound economic analysis and forecasts for the purpose of formulating effective policies, which would ensure macroeconomic stability on a sustainable basis.

8

FINANCIAL SECTOR PERFORMANCE AND SYSTEM STABILITY

The financial sector stability continued to remain healthy with improved performance. All the subsectors, except the insurance subsector, have recorded improved operating performances for the eight-month period which ended in August 2015, while the financial conditions of all sub sectors remained healthy and stable without major stability concerns. However, international and domestic developments, emanating from lingering uncertainty due to the growing divergence in policy actions by advanced and emerging market economies, are expected to affect the performance, financial conditions and the underlying risk profile of the Sri Lankan financial system.

Licensed Banks (LBs) and Non-bank Financial Institutions (NBFIs) regulated by the Central Bank of Sri Lanka (CBSL) have recorded accelerated growth in assets, as well as profitability with increased branch and ATM network. This has been due to the rapid acceleration in loans and advances, in consumption related activities, backed by low interest rate regimes and the availability of relatively short-term funding from domestic and foreign sources. Even though the volume of non-performing loans (NPL) increased since beginning of 2015, the NPL ratio remained relatively low with adequate provision coverage. LBs and NBFIs have maintained adequate liquidity, but with increased reliance on short-term funding. The profitability of LBs and NBFIs sectors further improved during the period under review, while the capital position continued to be well above the minimum regulatory requirement, reflecting its loss-absorbing capacity in times of distress. Moreover, the LBs sector has been in compliance with the new capital requirements under Basel III. The CBSL continued to introduce new prudential policy measures with a view to enhancing the safety and soundness of the LBs and NBFIs sectors.

With regard to other subsectors, the Primary Dealer (PD) industry recorded improved operating performance. The unit trust (UT) sector recorded a healthy growth. The stock broker sector showed a mixed performance with subdued activities of the Colombo Stock Exchange (CSE). The superannuation funds sectors continued to record improved operating performance and growth. The operating performance of the insurance sector, however, has been affected by low interest rates.

In terms of financial markets' development during the period under review, the international and domestic developments associated with lingering uncertainties over the normalization process of the Fed's monetary policy and increased government borrowing from domestic sources have led to increased volatility and pressure on exchange rates and market interest rates, while leading to a gradual reduction of rupee liquidity. Meanwhile, payment and settlement systems facilitated transactions in increased volumes without any major systemic risk.

Developments in Financial Institutions

Banking Sector

- **The banking sector continued to expand its asset base during the first eight months of 2015.** Increased demand for credit from both the state and private sectors steered asset growth and improved financial performance of banks during this period. During the first eight months of 2015, the total assets of the banking sector surpassed Rs. 7.0 trillion, recording an increase of 7.4 per cent. Accordingly, the total assets increased from Rs. 6,972.0 billion as at end 2014 to Rs. 7,490.9 billion as at end August 2015.

- **Total loans and advances reported an increase of 11.4 per cent during the first eight months of 2015 and stood at Rs. 4,337.1 billion at the end of August 2015.** The year-on-year growth in loans and advances was 23.7 per cent at end August 2015. Growth in loans and advances was driven by a higher demand for credit due to lower interest rates. However, the pawning portfolio contracted during the first eight months, continuing the trend prevalent in the previous years, due to the decline in global gold prices. Meanwhile, increase in loans and advances were mainly reflected in the sectors of construction, infrastructure, trading, and financial and business services.

Chart 8.1 Assets of the Banking Sector

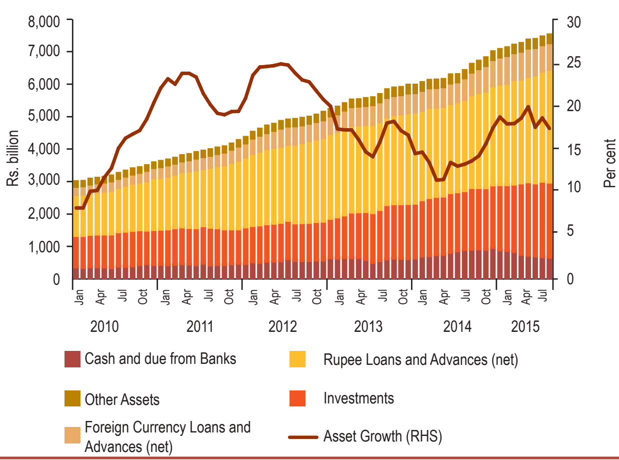
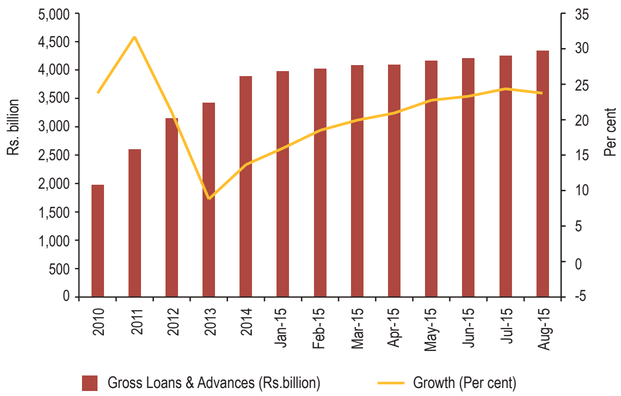


Chart 8.2 Loans and Advances of the Banking Sector



- **Deposits were the main source of funds for the lending activities during the first eight months of 2015 and contributed to 73.4 per cent of the total assets of the banking sector.** The deposit base of the banking sector grew by Rs. 380.9 billion and primarily consisted of rupee deposits. Further, the share of current and savings deposits as a percentage of total deposits improved to 39.9 per cent at end August 2015, compared to 36.6 per cent during the corresponding period in 2014. During the first eight months of 2015, increase in borrowings was mainly from rupee borrowings, which represented 42.8 per cent of total borrowings as at end August 2015.

Chart 8.3 Sources of Funding of the Banking Sector

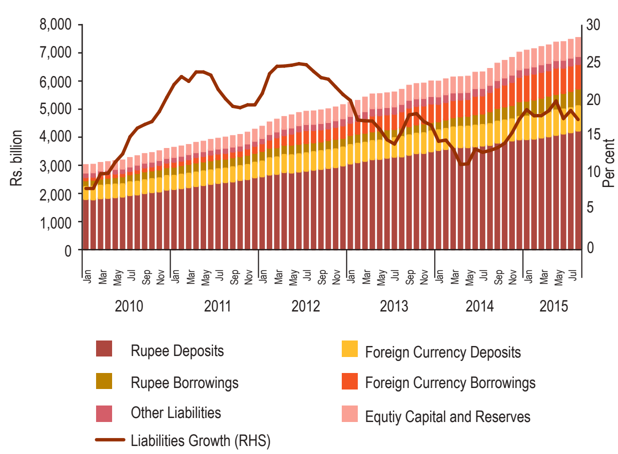


Chart 8.4 Non-performing Loans of the Banking Sector

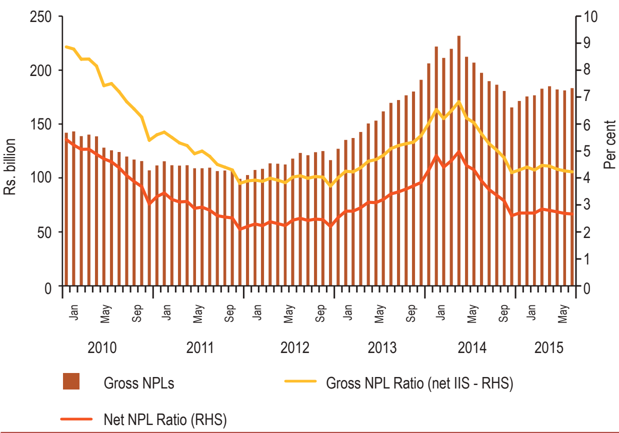
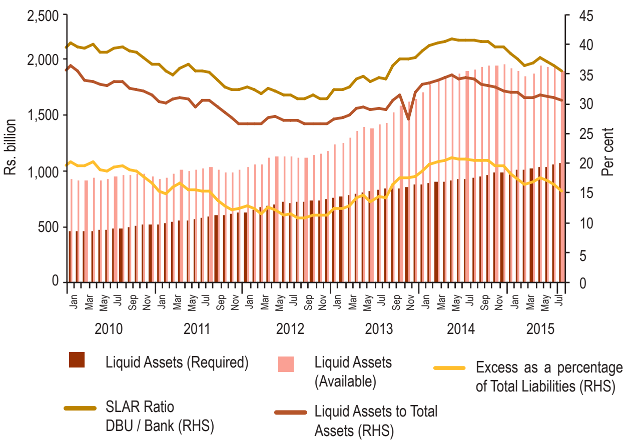


Chart 8.5 SLAR and Composition of Liquid Assets of the Banking Sector



- **Asset quality of the banking sector deteriorated slightly during the first eight months of 2015.** The total Non-performing Loans (NPLs) increased by Rs. 17.8 billion to Rs. 183.0 billion. Despite the increase in NPLs, the NPL ratio stood unchanged at 4.2 per cent at end August 2015, as in December 2014, mainly due to a higher growth in loans and advances. Increase in NPLs was recorded in all key lending sectors such as tourism, agriculture and fishing, services, as well as in products such as term loans and pawning advances. However, the NPL ratio is expected to improve in the latter part of 2015 as a result of increased loan books of banks.

- **The liquidity position of the banking sector continued to be maintained at healthy levels.** The Statutory Liquid Assets Ratios (SLAR) were well above the minimum statutory requirement of 20.0 per cent, while the ratio of liquid assets to total assets stood at 30.6 per cent and was lower than that of end 2014. However, the loans to deposits ratio increased from 83.1 per cent at end 2014, to 85.6 per cent at end August 2015 due to the increase in lending activities. The cumulative one year maturity gap widened to 23.8 per cent in June 2015, compared to a maturity gap of 18.7 per cent at end 2014.

- **The moderation of market interest rates during the first eight months of 2015 resulted in capital gains of Rs. 5.5 billion in Treasury bonds.** Further, the equity risk of the banking sector was minimal, as exposure to the equity market of Rs. 21.5 billion was only 0.3 per cent and 4.0 per cent of total assets and investments held for trading of the banking sector.

- **The banking sector reported an increase in profits during the first eight months of 2015, when compared with the corresponding period of 2014.** This performance was mainly due to the higher net interest income, which reported an increase of Rs. 39.0 billion. Overall

Chart 8.6 ROA and ROE of the Banking Sector

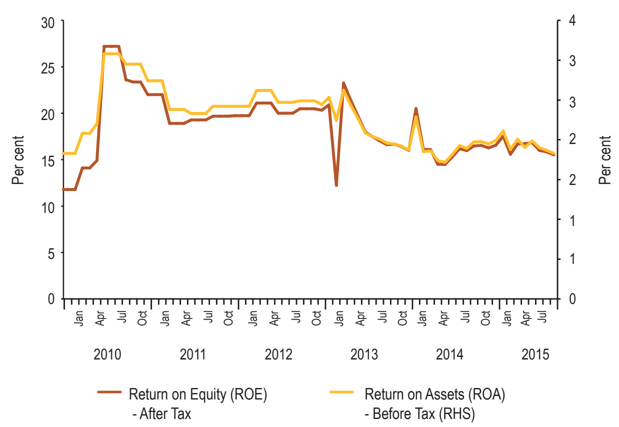
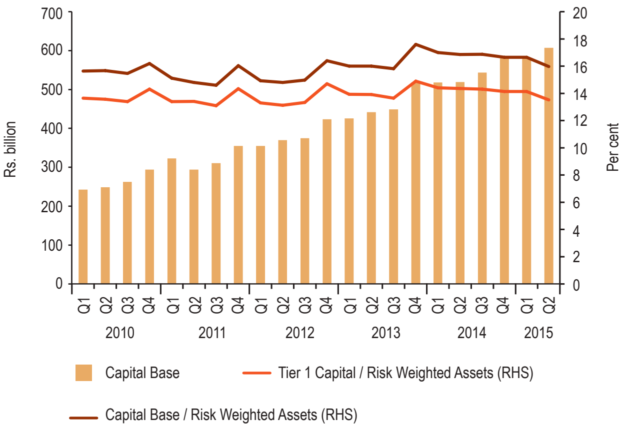


Chart 8.7 Capital Adequacy of the Banking Sector



business expansion, higher margins, increased lending and investment activity resulted in a favourable increase in net interest income. Profits after tax of the banking sector was Rs. 60.5 billion, an increase of Rs. 6.6 billion during the first eight months of 2015. Return on Assets (ROA) before tax slightly deteriorated to 1.8 per cent at end August 2015, compared to 1.9 per cent in the corresponding period of 2014. Further, Return on Equity (ROE) deteriorated to 15.5 per cent at end August 2015, compared to 16.2 per cent in the corresponding period of 2014.

- **The banking sector continued to maintain sufficient capital in order to absorb any adverse shocks.** The Core Capital Adequacy Ratio (CAR) and total CAR as at end June 2015 were 13.5 per cent and 16.0 per cent, respectively, and maintained at healthy levels well above the regulatory minimum of 10.0 per cent.

- **The bank branch network expanded during the first seven months of 2015, improving financial accessibility.** The total number of banking outlets increased to 3,548 during the first eight months of 2015, with 18 new banking outlets having opened during this period. Further, 60 new automated teller machines (ATMs) were installed during the first eight months of 2015.

- **The CBSL continued to introduce prudential policy measures and regulations with a view to enhancing the safety and soundness of the banking sector.** Accordingly, Directions on Liquidity Coverage Ratio (LCR) under Basel III Liquidity Standards were issued, requiring banks to maintain a minimum LCR of 60.0 per cent, commencing 1 April 2015. In order to encourage the receipt of export proceeds in a timely manner, the enhanced interest on

Table 8.1 Banking Sector - Selected Indicators

Item	End Aug 2013	End Aug 2014	End Dec 2014	End Aug 2015 (a)	Y-O-Y Change (%) Aug 2014	Y-O-Y Change (%) Aug 2015 (a)
Total Assets (Rs.billion)	5,646.4	6,388.2	6971.8	7490.9	13.1	17.3
Loans & Advances (Rs.billion)	3,335.3	3,505.8	3894.5	4337.5	5.1	23.7
Investments (Rs.billion)	1,568.1	1,812.2	1927.5	2318.9	34.9	28.0
Deposits (Rs.billion)	3,970.8	4,432.2	4686.3	5067.2	15.5	14.3
Borrowings (Rs.billion)	938.3	1,164.4	1448.2	1520.2	24.1	30.6
Capital Funds (Rs.billion)	471.4	534.6	568.5	613.2	13.4	14.7
Tier 1 Capital Adequacy Ratio (%) (b)	13.9	14.4	14.1	13.5		
Total Capital Adequacy Ratio (%) (b)	16.1	16.9	16.6	16.0		
Gross Non-Performing Loans Ratio (%)	5.1	5.6	4.2	4.2		
Net Non-Performing Loans Ratio (%)	3.4	3.9	2.6	2.7		
Return on Assets (Before Tax) (%)	2.0	1.9	1.9	1.8		
Return on Equity (After Tax) (%)	17.0	16.0	16.2	15.5		
Statutory Liquid Assets Ratio (DBU) (%)	34.1	40.6	40.6	35.4		
Liquid Assets to Total Assets (%)	29.1	34.2	34.3	30.6		

(a) Provisional
(b) As at end June

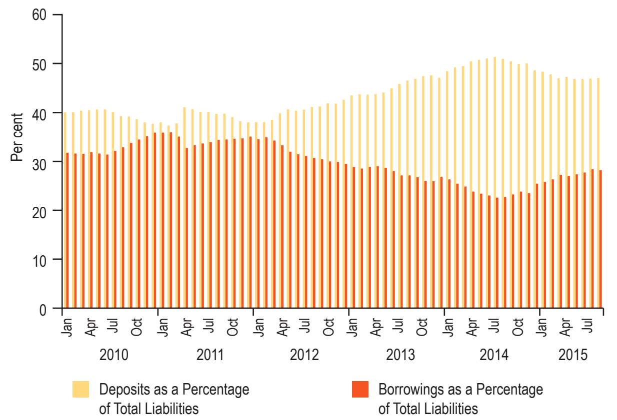
Source: Central Bank of Sri Lanka

accommodation to exporters was re-imposed. A maximum loan-to-value ratio of 70.0 per cent was imposed on loans and advances granted by licensed banks for the purpose of purchase or utilisation of motor vehicles, as a macro-prudential measure to avoid any excessive risk accumulation in the banking sector. Further, a Consultation Paper on the Implementation of Basel III Minimum Capital Requirements and Leverage Ratio was issued to banks and the regulations on the same will be issued in due course. Existing limits on share ownership of banks and assessment criteria of fitness and propriety of Board of Directors are being reviewed to further strengthen the governance and resilience of the banking sector. Benefiting from enhanced regulatory and supervisory framework and conducive macroeconomic factors, the banking sector is expected to enhance its performance and resilience during the remainder of 2015.

Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs)

- **The performance of LFC and SLC sector was notable during the first eight months of 2015**. This sector represents 7.0 per cent of assets of the Sri Lanka's financial system and consists of 47 LFCs and 7 SLCs, with a network of 1,187 branches. The LFC and SLC sector growth continued to show positive momentum since the second half of 2014, mainly on account of improved credit demand in a lower interest rate regime. Total assets of the sector expanded by 13.3 per cent (Rs. 113.8 billion) to Rs. 966.9 billion in the first eight months of 2015, compared to the growth of 8.8 per cent (Rs. 63.5 billion) in the corresponding period of 2014. Moreover, the low interest rate regime that prevailed in the market enabled the LFC and SLC sector to record a notable profit and maintain non-performing loans at a manageable level.

Chart 8.8 Total Deposits and Borrowings of LFCs and SLCs



- **Deposits grew at a slower rate.** Deposits grew by 9.8 per cent (Rs. 40.4 billion) to Rs. 454.5 billion in the first eight months of 2015, compared with the growth of 17.8 per cent (Rs. 60.1 billion) in the corresponding period of 2014. This is mainly due to the competitive interest rates of the banking sector and also availability of wholesale borrowings at relatively low rates from domestic financial institutions.

- **Credit growth momentum continued.** Credit provided by LFCs and SLCs increased notably by 17.9 per cent (Rs. 115.1 billion) to Rs. 756.5 billion in the first eight months of 2015, compared to the growth of 7.4 per cent

Chart 8.9 Total Loans and Advances of LFCs and SLCs

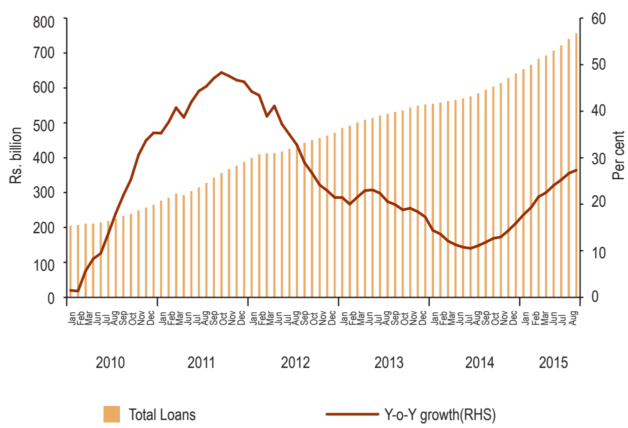
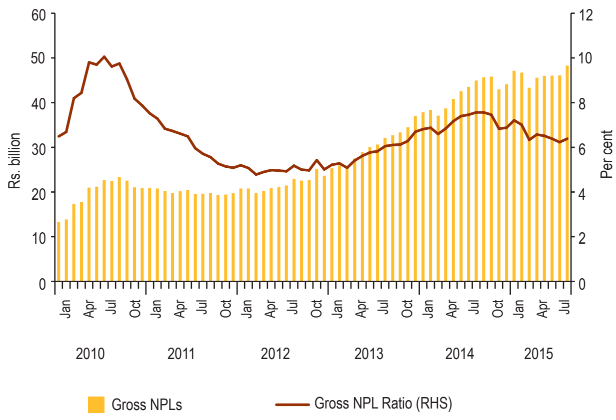


Chart 8.10 Non-performing Loans of LFCs and SLCs



in the corresponding period of 2014. The core businesses of LFCs and SLCs, namely, finance leases and hire purchase portfolio grew by 15.5 per cent in the first eight months of 2015, compared with the marginal growth of 2.2 per cent in the corresponding period of 2014. Further, the secured loan category recorded a growth of 25.8 per cent in the first eight months of 2015, which mainly comprised micro finance loans.

- **NPL ratios improved mainly due to the fast growth in loans and advances.** The NPL ratio decreased to 6.4 per cent as at end August 2015, from 6.9 per cent as at end December 2014.

Chart 8.11 Total Liquid Assets and Liquidity Ratio of LFCs and SLCs

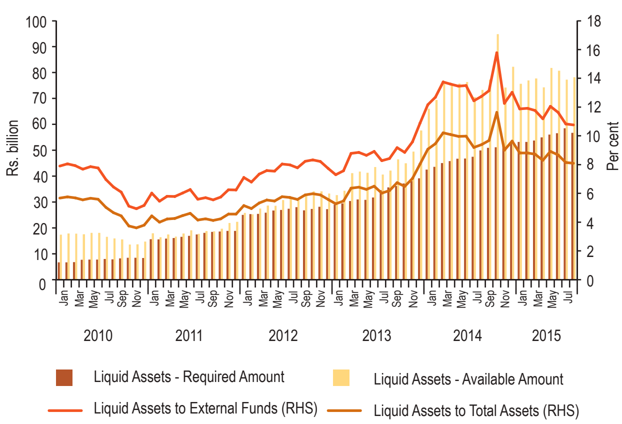
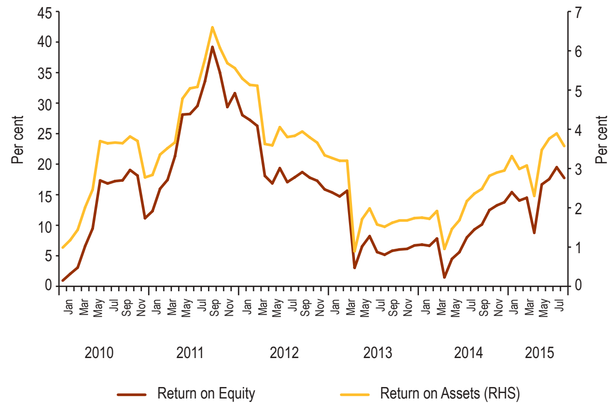


Chart 8.12 ROA and ROE of LFCs and SLCs



However, the total amount of NPLs increased by 8.9 per cent to Rs. 48.3 billion during the first eight months of 2015. When the loan loss provision is considered, the net NPL ratio decreased to 1.9 per cent as at end August 2015, from 2.3 per cent as at end December 2014. The main portfolios that contributed to increase in NPLs were finance leasing (32.0 per cent), and hire purchases (19.0 per cent).

- **The overall liquidity position of LFCs and SLCs improved despite credit growth.** The overall statutory liquid assets as at end August 2015 were a surplus of Rs. 21.5 billion, over the stipulated minimum requirement of Rs.

Chart 8.13 Capital Position of LFCs and SLCs

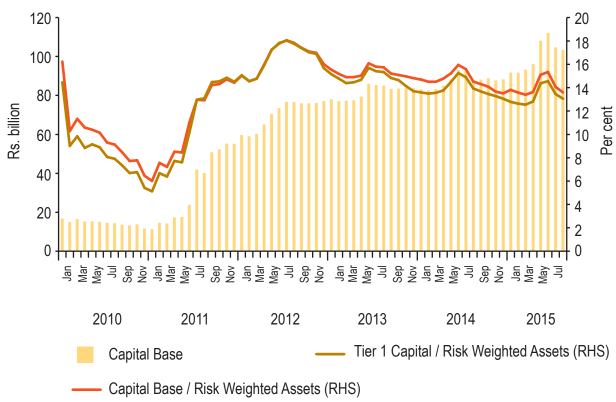


Table 8.2 LFCs and SLCs - Selected Indicators

Item	End Aug 2013	End Aug 2014	End Dec 2014	End Aug 2015 (a)	Y-O-Y Change (%)	
					Aug 2014	Aug 2015 (a)
Total Assets (Rs.billion)	680.3	781.1	853.2	966.9	14.8	23.8
Loans & Advances (Rs.billion)	531.1	594.2	641.3	756.5	11.9	27.3
Deposits (Rs.billion)	315.9	397.4	414.1	454.5	25.8	14.4
Borrowings (Rs.billion)	184.4	177.6	217.1	272.8	-3.7	53.6
Capital Funds (Rs.billion)	95.9	108.6	114.5	126.9	13.2	16.9
Tier 1 Capital Adequacy Ratio (%)	15.1	13.7	13.1	12.9		
Total Capital Adequacy Ratio (%)	15.7	14.5	13.5	13.6		
Gross Non-performing Accommodations Ratio (%)	6.0	7.6	6.9	6.4		
Net Non-performing Accommodations Ratio (%)	2.3	2.9	2.3	1.9		
Return on Assets (Before Tax) (%) - Annualised	2.1	2.5	2.9	3.9		
Return on Equity (After Tax) (%) - Annualised	8.5	10.1	13.8	18.3		
Liquid Assets to Total Assets (%)	6.2	9.4	9.6	8.1		

(a) Provisional

Source: Central Bank of Sri Lanka

56.8 billion. However, the liquid assets to total assets ratio decreased to 8.1 per cent as at end August 2015, from 9.4 per cent in the corresponding period of 2014.

- **Profitability improved significantly**. Profits of LFCs and SLCs sector were Rs. 14.9 billion during the first eight months of 2015, compared to the profit of Rs. 6.8 billion in the corresponding period of 2014. The re-pricing of assets and liabilities has positively impacted the net interest income of the sector mainly derived from the ability to obtain lower cost deposits. Accordingly, the annualized ROA and ROE ratios were at 3.9 per cent and 18.3 per cent, respectively, for the eight months period ending August 2015, compared with the 2.5 per cent and 10.1 per cent as at end August 2014.

- **Overall capital position of LFCs and SLCs maintained at healthy levels**. Capital funds increased by 10.9 per cent in the first eight months of 2015 to Rs. 126.9 billion. Furthermore, the capital adequacy ratios of LFC and SLC sector were above the minimum regulatory requirement despite a marginal deterioration when compared to the previous corresponding period. As at end August 2015, the core capital ratio was 12.9 per cent and the total capital ratio was 13.6 per cent and well above the statutory minimum of 5.0 per cent and 10.0 per cent, respectively.

- **The CBSL continued to introduce prudential policy measures and regulations with a view to enhancing the safety and soundness of the LFCs and SLCs sector**. A maximum loan-to-value ratio of 70 per cent was imposed on loans and advances granted by LFCs and SLCs for the purpose of purchase or utilisation of motor vehicles, as a macro-prudential measure to avoid any excessive risk accumulation in the sector with effect from 1st December 2015.

Insurance Companies

- **The premium income of insurance companies increased significantly, while total assets showed a moderate growth**. Total assets of the insurance sector recorded a growth of 0.8 per cent on year-on-year basis, by end June 2015, in comparison to the growth of 13.0 per cent recorded as at end June 2014. The gross written premiums (GWP) of the insurance sector grew by 11.7 per cent in the first half of 2015, when compared with the increase of 3.1 per cent in the corresponding period of 2014. Relatively high

Table 8.3 Insurance Sector - Selected Indicators

Item	End Jun 2013	End Jun 2014	End Dec 2014	End Jun 2015 (a)	Y-O-Y Change (%)	
					Jun 2014	Jun 2015 (a)
Total Assets (Rs.billion)	345.9	390.9	413.7	394.2	13.0	0.8
Total Income (Rs.billion) (b)	**62.6**	**65.8**	**134.2**	**68.0**	**5.2**	**3.3**
Gross Premium Income (Rs.billion) (b)	47.7	49.2	99.9	55.0	3.2	11.7
Investment Income (Rs.billion) (b)	14.9	16.6	34.3	13.1	11.5	-21.5
Profit Before Tax (Rs.billion) (b)	5.9	5.9	8.2	3.9	0.9	-34.4
Solvency Margin Ratio (Times)						
Long-term Insurance	7.2	8.7	9.7	9.3		
General Insurance	2.2	2.2	2.4	2.2		
Retention Ratio (%)						
Long-term Insurance	96.0	96.3	97.1	96.0		
General Insurance	78.5	78.5	83.3	80.6		
Claims Ratio (%)						
Long-term Insurance	41.9	42.4	48.4	40.1		
General Insurance	62.0	59.2	65.4	63.0		
Combined Operating Ratio (%)						
Long-term Insurance	89.5	89.7	100.1	88.0		
General Insurance	105.4	105.1	109.7	107.6		
Return on Assets (%)						
Long-term Insurance	3.4	2.9	1.9	2.0		
General Insurance	4.1	3.5	2.4	1.8		
Return on Equity (%) - General Insurance	7.2	6.0	4.1	2.9		
Underwriting Ratio (%) - General Insurance	15.7	18.1	13.3	14.6		

(a) Provisional
(b) During the period

Source: Insurance Board of Sri Lanka

growth in the premium income of the general insurance sector, particularly motor insurance, has largely contributed toward the high growth of overall GWP. This was mainly due to the significant increase in new vehicle registrations, primarily due to the reduction of tax on small motor cars. The premium income from motor insurance, which constitutes about 63.2 per cent of the general insurance premium, grew at a relatively high rate of 16.0 per cent in the first half of 2015, compared with the 3.7 per cent increase in the corresponding period of 2014. Further, the premium income from marine (share of 3.2 per cent), miscellaneous (19.8 per cent) and fire (13.7 per cent) increased by 9.7 per cent, 7.6 per cent and 0.03 per cent, respectively, year-on-year, in the first half of 2014.

- **Overall profits of the insurance sector declined, notably in investment income during the period under consideration.** The aggregate profits before-tax decreased by 34.9 per cent in the first half of 2015 when compared to the slight increase of 1.6 per cent in the corresponding period of 2014. The decline in investment income and higher claims negatively affected profits in the insurance sector. The investment income declined by 21.5 per cent, while claims increased by 12.5 per cent during the first half of 2015, when compared to the levels recorded in the corresponding period of 2014. In the case of low interest rates, the interest income of insurance companies was adversely impacted, as investments in government securities remained the main investment, representing 38.0 per cent of the total assets. Moreover, underwriting profits of the general insurance sector also declined during the period under consideration, reflecting a high intense price competition in the sector.

- **Insurance sector maintained its soundness.** Insurance Companies (ICs) met the statutory solvency margin requirement as at end June 2015. The solvency ratios for long-term and general insurance sectors were 9.3 per cent and

2.2 per cent, respectively, as at end June 2015. Moreover, the requirement of investing 20 per cent of the technical reserves in respect of general insurance and 30 per cent in respect of the long-term funds in government securities was complied with as at end March 2015. Accordingly, investments in government securities by the long-term and general insurance sectors accounted for 49.0 per cent and 28.6 per cent, respectively, of their total investment portfolio.

Primary Dealers in Government Securities

- **Total assets and total portfolio of the Primary Dealer (PD) industry increased during the first eight months of 2015**. The total assets of the PD industry increased by 28.4 per cent to Rs. 245.4 billion, while the total portfolio of government securities held by PDs increased by 29.0 per cent to Rs. 241.2 billion during the first six months of the year. This increase was mainly attributed to the increase in the held for trading portfolio. Borrowings under repo agreements increased by 12.3 per cent to Rs. 133.4 billion by end June 2015 when compared to end 2014.

- **Profitability has been maintained**. The profitability of the PD industry, measured in terms of ROA and ROE of standalone PDs, stood at 3.0 per cent and 34.8 per cent, respectively, during the first six months of 2015. Overall, the PD industry recorded a profit of Rs. 3.3 billion over the six month period ended June 2015 compared to the profit of Rs. 3.7 billion in the corresponding period of 2014. The PD industry recorded a total profit (realised and unrealised) of Rs. 1.7 billion for the six months that ended in June 2015, which was similar to the amount recorded in the corresponding period in 2014.

- **Capital was maintained at healthy levels**. All standalone PDs maintained their capital base above the minimum requirement of Rs. 300 million as at end June 2015. The Risk Weighted Capital Adequacy Ratio (RWCAR) of the industry was above the minimum RWCAR of 8.0 per cent, although the ratio decreased to 19.7 per cent by end June 2015, from 21.8 per cent at the end of 2014, owing to the increase in risk weighted assets due to investments in long term Treasury bonds.

- **Risk profile improved**. As the proportion of trading portfolio to total portfolio decreased from 71.3 per cent as at end June 2014 to

Table 8.4 Primary Dealers - Selected Indicators

Item	End Aug 2013	End Aug 2014	End Dec 2014	End Aug 2015 (a)	Y-O-Y Change (%)	
					Aug 2014	Aug 2015 (a)
Total Assets (Rs.billion)	215.4	194.4	191.1	245.5	-9.7	26.3
Total Portfolio (Rs.billion)	211.9	189.5	187.0	241.2	-10.6	27.3
Total Capital (Rs.billion) (b)	5.7	9.5	9.5	10.6	67.3	11.6
Profit before Tax (Rs.billion) (c)	4.5	6.3	8.7	3.8	40.0	-39.7
Tier 1 Capital Adequacy Ratio (%) (b)	22.3	13.9	21.8	19.7		
Total Capital Adequacy Ratio (%) (b)	22.3	13.9	21.8	19.7		
Return on Assets (%)	3.1	4.5	4.3	2.5		
Return on Equity (%) (b)	23.8	56.9	44.1	21.1		
Leverage Times (b)	8.6	7.1	6.6	6.1		
Operating Expenses to Total Income (%) (d)	2.8	5.8	6.0	6.5		
Total Cost to Total Income (%) (c)	71.1	61.1	60.9	68.7		
Duration of Assets and Liabilities (years)	1.1	1.7	1.3	1.3		

(a) Provisional
(b) Standalone PDs only
(c) During the period
(d) Revised

Source: Central Bank of Sri Lanka

Table 8.5 **Unit Trust Sector - Selected Indicators**

Item	End Jun 2013	End Jun 2014	End Dec 2014	End Jun 2015 (a)	Y-O-Y Change (%)	
					Jun 2014	Jun 2015 (a)
Total Assets (Rs.million)	33,298	75,906	126,531	133,849	128.0	76.3
Net Asset Value - NAV (Rs.million)	33,101	75,383	125,985	133,141	127.7	76.6
Investments (Rs.million)	33,165	75,944	126,499	133,647	129.0	76.0
Equity	9,174	11,695	13,575	13,486	27.5	15.3
Government Securities	9,229	23,443	56,146	55,446	154.0	136.5
Other (E.g.,Commercial Papers, Debentures, Trust Certificates & Bank Deposits)	14,762	40,806	56,778	64,715	176.4	58.6
Investments in Equity as a % of NAV	28.0	16.0	10.8	10.1		
Investments in Government Securities as a % of NAV	27.9	31.1	44.6	41.6		
Other Investments as a % of NAV	44.6	54.1	45.1	48.6		
Total No. of Unit Holders	28,168	29,797	32,584	35,660		
No. of Units in Issue (million)	2,362	5,516	9,382	9,585		
No. of Unit Trusts	44	53	63	70		

(a) Provisional

Source: Unit Trust Association of Sri Lanka

53.6 per cent as at end June 2015, the exposure of the industry to the market risk has decreased. In view of the large proportion of risk free government securities holdings of PDs, as well as the ability of PDs to use such government securities as collateral for obtaining funds to bridge any unforeseen liquidity gaps, the liquidity risk profile of PDs industry remained low. Further, most PDs had stand-by contingency funding arrangements to bridge liquidity gaps, if emerged.

Unit Trusts

- **The unit trust (UT) sector continued to expand with the formation of new funds.** Total number of unit trusts, managed by 14 unit trust management companies, increased to 70 funds by the end of June 2015, reflecting a further expansion of the sector. Meanwhile, the total number of unit holders and the number of units in issue also significantly increased to 35,660 and 9,584 million, respectively, as at end June 2015. At the same time, the net asset value (NAV) of the UT sector increased by 76.6 per cent, year-on-year, as at end June 2015, following a significant growth of 127.7 per cent as at end June 2014. The reduction in interest rates and the slow performance of the equity market negatively affected the growth of NAV of UTs. As at end June 2015, the share of equities in investment portfolios of unit trusts further declined to 10.1 per cent, from 15.4 per cent as at end June 2014, while the share of government securities in investment portfolios increased to 41.5 per cent, from 30.9 per cent, despite the low interest rates in the market. The setting up of new funds with more investments in government securities has largely contributed to upsurge the share of investment in government securities. The share of other investments, such as commercial paper, debentures, trust certificates and bank deposits, in the investments portfolio declined to 48.4 per cent at end June 2015 from 53.7 per cent as at end June 2014.

- **The National Budget proposal of income tax exemption on unit trusts encourages the progress of the unit trust sector.** Income tax exemptions on profits and income arising or accruing in any unit trust from investments made in US dollar deposits or US dollar denominated securities listed on any foreign stock exchange, with effect from 01 January 2015, will have a positive impact on the performance of unit trusts.

Table 8.6 Stock Broker Companies - Selected Indicators

Item	End Jun 2013	End Jun 2014	End Dec 2014	End Jun 2015 (a)	Y-O-Y Change (%)	
					Jun 2014	Jun 2015 (a)
Total Assets (Rs. million)	12,370	11,040	11,334	11,032	-10.8	-0.1
Total Liabilities excl. equity (Rs. million)	6,213	5,073	4,924	4,581	-18.4	-9.7
Net Capital (Rs. million)	5,050	4,550	4,966	4,750	-9.9	4.4
Income (Rs. million) (b)	1,034	1,231	3,087	1,196	19.0	-2.9
Net profit/(Loss) before tax (Rs. million) (b)	-273	-59	728	-87	-78.4	48

(a) Provisional
(b) During the period

Source: Securities and Exchange Commission of Sri Lanka

Stock Brokers

- **The stock broker sector showed a mixed performance with subdued activities that prevailed in the CSE.** The income of stock brokers slightly declined in the first half of 2015. Consequently, the extent of losses before tax of stock brokers marginally increased during the period under consideration. The total assets marginally declined as at June 2015, while the net capital of stock brokers improved when compared to the first half of 2014. The slow performances experienced in the CSE have negatively affected the activities of the stock brokers. However, the stock brokering industry has shown overall progress in terms of the provision of services introduced in the recent past with the formation of a number of new funds.

Superannuation funds

- **The Employees' Provident Fund (EPF) is the largest superannuation fund in Sri Lanka with an asset base of over 1.59 trillion rupees as of August 2015.** The total number of member accounts of EPF reached the 15.4 million mark in June 2015, having increased by 2.7 per cent when compared with the previous year. Total contributions during the first eight months of the year increased by 15.2 per cent to Rs. 66.7 billion, while refund payments increased by 28.4 per cent to Rs. 49.8 billion, compared to the corresponding period in the previous year. However, for the first eight month period ending August 2015, the net contributions (contributions minus refunds) stood at Rs. 16.9 billion, which is a marked decline of 11.5 per cent when compared to the corresponding period of 2014. The total assets of the EPF increased by 12.2 per cent to Rs. 1,594.5 billion as at end August 2015. The total investment portfolio of the EPF consists of 92.1 per cent government securities, 6.2 per cent equity and 2.2 per cent corporate debt and reverse repo. Investment income, which is the major source of income to the fund, increased by 7.6 per cent to Rs. 112.1 billion. The capital gains, from secondary market transactions in government securities and equities, also increased during the period under consideration.

- **The Employee's Trust Fund (ETF) has about 12.2 million accounts, of which about 2.4 million are active accounts.** Total contributions and benefits paid to members during the first six months of 2015 increased to Rs. 8.8 billion, an increase of 13.8 per cent, and Rs. 6.1 billion, an increase of 5.9 per cent, respectively, from Rs. 7.7 billion and Rs. 5.7 billion during the corresponding period of 2014. Consequently, the net contributions of the ETF significantly increased by 36.4 per cent to Rs. 2.7 billion during the period under consideration. The total assets of the ETF increased by 11.7 per cent to Rs. 210.6 billion as at end June 2015. As in the case of the EPF, the investment portfolio of the ETF is highly

Table 8.7 Superannuation Funds - Selected Indicators

Item	Employees' Provident Fund (EPF)			Employees' Trust Fund (ETF)		
	End Aug 2014	End Aug 2015 (a)	Change (%) (a)	End Jun 2014	End Jun 2015 (a)	Change (%) (a)
Total Contributions (Rs. billion)	57.9	66.7	15.2	7.7	8.8	14.3
Total Refunds (Rs. billion)	38.8	49.8	28.4	5.7	6.1	7.0
Total Assets (Rs. billion)	1,422	1,595	12.2	188.6	210.6	11.7
Total Investment Portfolio (Rs. billion)	1,562	1,387	-11.2	177.4	196.0	10.5
o/w, Government Securities (%)	91.6	92.1	0.5	90.1	92.6	2.8
Gross Income (Rs. billion) (b)	112.3	104.5	-6.9	8.8	9.4	6.8

(a) Provisional
(b) During the period

Sources: Central Bank of Sri Lanka
Employees' Trust Fund Board

concentrated in government securities, which account for 92.6 per cent of the total portfolio. Investments in equities and corporate debt securities accounted for 4.5 per cent and 1.0 per cent, respectively.

- **The Public Service Provident Fund (PSPF) had 231,908 members as at end June 2015.** The total assets of the PSPF amounted to Rs. 43.6 billion as at end June 2015. Total contributions and refunds of the PSPF during the first six months of 2015 amounted to Rs. 689 million and Rs. 192 million, respectively.

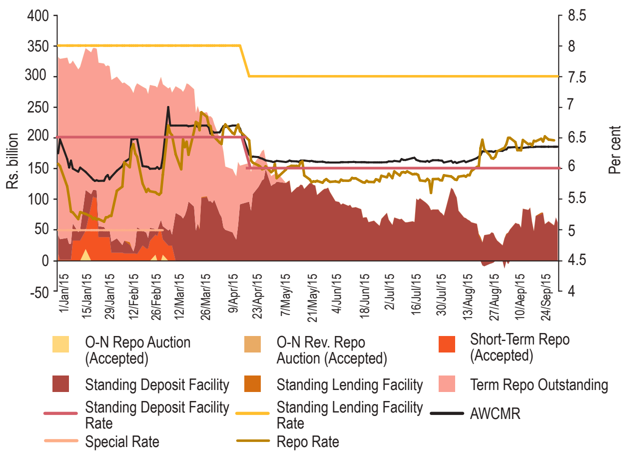
- **There were 156 privately managed Approved Provident Funds (APFs) with about 168,900 members as at end June 2015.** The total assets and investments of APFs increased by 11.0 per cent and 5.2 per cent, respectively, to Rs. 151.2 billion and Rs. 116.7 billion as at end June 2015.

Developments in Financial Markets

Inter-bank Call Money Market

- **High excess liquidity that prevailed throughout 2014 in the inter-bank domestic money market declined significantly during the first nine months of 2015.** Excess liquidity in the domestic money market, which stood as high as Rs. 325.6 billion by end December 2014, has declined to Rs. 62.4 billion by end September 2015. This was mainly due to the net sales of foreign currency by the Central Bank, maturing of Treasury bills held by the Central Bank and the outright sales of Treasury bills to absorb liquidity on a permanent basis. During this period, foreign currency sales of the Central Bank amounted to about US dollars 2,334.3 million, thereby absorbing about Rs. 314 billion. Meanwhile, liquidity absorbed by way of the outright sale of Treasury bills, maturating Treasury bills and currency withdrawals by the Central Bank, were Rs. 84.9 billion, Rs. 66.5 billion and Rs. 46.8 billion, respectively. Although, the Central Bank actively engaged in absorbing excess liquidity in the money market on overnight, short term and long term basis during the year 2014, auctions for outright sale of Treasury bills were conducted after 27 February 2015, in order to mitigate associated risks by permanently absorbing liquidity. In the meantime, all outstanding short term repos matured by 04 March 2015, while all outstanding long term repos matured by 30 April 2015. Hence, market liquidity during the first half of the year was largely absorbed on overnight basis through the Standing Deposit Facility (SDF), in keeping with the desired path for the inter-bank call money rate.

Chart 8.14 **Inter-bank Call Money Market**



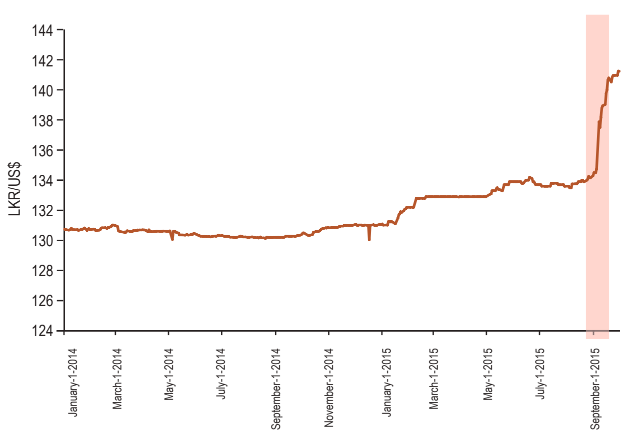
- **The Average Weighted Call Money Rate (AWCMR) that exhibited some volatility in 2015 until end April stabilized towards the lower bound of the policy rate corridor until mid-August 2015 and showed an increasing trend thereafter.** The rationalization of SDF and the aggressive borrowings from the call money market, by a few small banks mainly, contributed to the volatility in the market during the first nine months of 2015. The recovery of the growth in credit to the private sector by commercial banks since the latter part of 2014, as well as the signs of re-emergence of sustained credit growth in 2015, resulted in the removal of the ceiling on SDF with effect from 02 March 2015. Although the AWCMR increased to 7.0 per cent on 2 March 2015, it declined thereafter and stabilized around 6.7 per cent until mid-April 2015. Considering the low inflation environment and investment needs of the economy, the Central Bank reduced policy interest rates by 50 basis points with effect from 15 April 2015. Accordingly, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were reduced to 6.0 per cent and 7.5 per cent, respectively. As a result, the AWCMR decreased to 6.2 per cent by 16 April 2015, declining 47 basis points and continued the declining trend thereafter and stabilized around 6.1 per cent, being closer to the lower bound of the policy rate corridor. However, the concentration of liquidity among a few market participants in the midst of declining liquidity level and increasing yield rates in the government securities market, exerted pressure on the call money rate, resulting in the gradual increase in the AWCMR to 6.35 per cent by the beginning of September 2015.

Domestic Foreign Exchange Market

- **The USD/LKR exchange rate depreciated by 1.98 per cent over the first half of 2015, reaching Rs. 133.7 by 30 June 2015, with increased outflows mainly through government bonds and import bills.** During this period, the rupee depreciated against the Sterling Pound due to the expectation of recovery of the UK economy and the market anticipation on a rate hike by the Bank of England. The rupee also depreciated against the Indian Rupee during this period. However, the Rupee appreciated against the Euro and Yen due to the uncertainty relating to economic recovery, debt repayment capacity of Greece, and the bond buying program of Japan to meet their inflation target.

- **The Central Bank intervened in the buying and selling of US dollars in the domestic foreign exchange market.** The purpose of such interventions was to curb excess volatility in the

Chart 8.15 **Movement of Rupee Per US$**



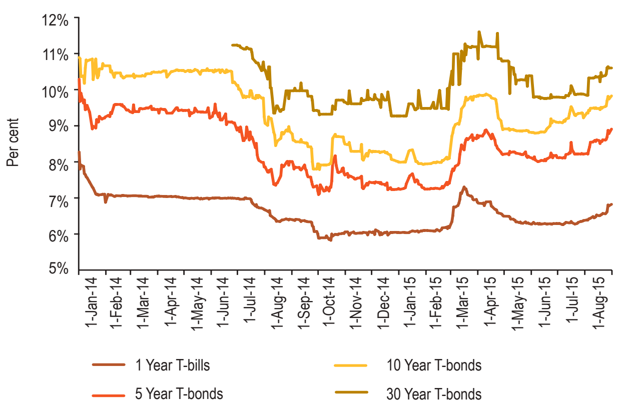
exchange rate. Accordingly, the Central Bank purchased US dollars 151.8 million and sold US dollars 1,221.8 million resulting in a net sale of US dollars 1,070 million during the first eight months of 2015. However, with effect from 4 September 2015, the CBSL decided to allow greater flexibility to the market in determining the exchange rate which resulted in a rapid depreciation of the rupee during the month of September 2015. During the first seven months of 2015, the rupee depreciated by about 7.0 per cent.

- **Trading volumes in the domestic foreign exchange market decreased by 21.9 per cent during the first half of 2015, compared with the corresponding period of the previous year.** The total volume of inter-bank foreign exchange transactions during the period under consideration in 2015 stood at US dollars 6.0 billion, as against US dollars 7.7 billion in the corresponding period of 2014. Accordingly, the daily average turnover in the inter-bank foreign exchange market decreased to US dollars 51.8 million as against US dollars 65.7 million in the corresponding period of 2014. However, the total volume of forward transactions up to 30 June 2015 increased to US dollars 3.4 billion, compared to US dollars 3.1 billion recorded in the corresponding period of 2014.

Government Securities Market

- **Yield rates of government securities declined, while average time to maturity increased during the first half of 2015, compared to the same period of 2014.** This was mainly attributed to the proactive public debt management, issuance and instrument strategies adopted during the period under review. Further, in the first half of 2015, majority of borrowing was sourced from domestic sources. The strategies adopted for debt issuance in the first half of 2015 included gradual diversification of foreign investments in government securities and sourcing of new funding through Sri Lanka Development Bonds (SLDBs). This was in order to offset any possibilities of crowding out of the available domestic funds while issuing a mix of maturities to meet investor preference. As a result, yield rates in the first half of 2015 remained at levels below that of 2014 and issued SLDBs amounting to US dollars 1,522.8 million.

Chart 8.16 Secondary Market Yield Curve of Government Securities



- **In the first quarter of 2015 yield rates were higher than the second quarter of 2015, even though the larger proportion of the debt service payments were executed during the second quarter of 2015.** Additionally, the easing of monetary policy by the Central Bank in April 2015, increased participation of domestic investors in the government securities market and the excess liquidity that prevailed in the money market during this period also contributed to the reduction in yield rates. Yield rates pertaining to 91 day, 182 day and 364 day Treasury bills declined by 45, 60, and 62 basis points, respectively, while those pertaining to Treasury bonds in the secondary market decreased by around 35 basis points to 115 basis points across the actively traded yield curve (2–10 years), in the first half of 2015. Treasury bill and Treasury bond holdings of foreigners declined to Rs. 425.6 billion by end June 2015, from Rs. 457.2 billion at end 2014, mainly due to the depreciation of the rupee.

Corporate Debt Securities Market

- **Comparatively low volumes in the commercial paper market in the first half of 2015.** The value of commercial paper (CP) issued with the support of banks amounted to Rs. 4.9 billion in the first six months of 2015, in comparison to the Rs. 5.4 billion in the same period of 2014. The interest rates on CPs decreased to a range of 7.0 per cent to 11.0 per cent in 2015 from a range of 8.5 per cent to 15.0 per cent in 2014. CPs with a maturity of up to 3 months accounted for 9.4 per cent of the market, while the shares of CPs with 6 month and 12 month maturities were 30.8 per cent and 59.8 per cent, respectively. The total outstanding value of CPs amounted to Rs. 6.0 billion as at end June 2015, compared to the Rs. 4.8 billion as at end June 2014.

- **The volumes in the corporate bond market continued to improve with increased issuances and diversified investor base.** During the first eight months of 2015, there were twenty nine listings of corporate debentures by fifteen institutions, amounting to Rs. 43.4 billion, compared with fifteen issues (by six companies) totalling Rs. 7.5 billion in the corresponding period of 2014. Funds raised through the corporate bond market have been on the increase since end 2013, mainly due to the removal of withholding tax on the interest income of corporate debt securities by the government. The finance and leasing arms of banks were the main issuers during the first eight months of 2015, at rates varying from 8.25 per cent to 10.50 per cent, primarily to meet their regulatory capital requirements. Local corporate bond issuances proceeded with attractive investment opportunities, together with healthy returns and relatively low risks, mainly due to the low interest rate environment in the domestic market and most of the regional countries, as well as the moderation of excess liquidity in the money market, which restricts the availability of bank credit. However, the turnover of debentures listed on the Debt Securities Trading System (DST) of CSE was Rs. 3.8 billion during the first eight months of 2015 when compared to the Rs. 5.3 billion recorded in the corresponding period of 2014, despite the availability of a positive environment for corporate debt market.

Equity Market

- **The equity market exhibited a slow performance with volatile movement in price indices during the first nine months of 2015.** The price indices, market capitalisation and turnover levels declined, while net foreign sales increased. Increased investor uncertainty over future policy directions and political changes, pressure on the exchange rate and global developments that resulted in significant foreign outflows from the market, seem to have created a negative

Chart 8.17 Movements of Share Price Indices

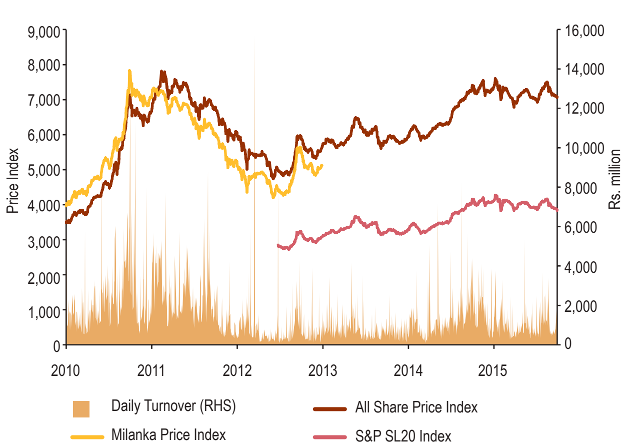


Table 8.8 **Equity Market - Selected Indicators**

Item	End 2013	End July 2014	End 2014	End Sep 2015
All Share Price Index	5,912.8	6,813.9	7,299.0	7,059.9
Year to date change (%)	4.8	15.2	23.4	-3.4
S&P SL 20 Index (From 26 June 2012)	3,263.9	3,772.5	4,089.1	3,826.2
June to date change (%)	5.8	15.6	25.3	-6.4
Market Capitalisation (Rs.Bn)	2,459.9	2,856.9	3,104.9	2,990.8
As a Percentage of GDP (%)	28.4	32.9	35.8	30.6*
Market Price Earning Ratio	15.9	18.4	19.7	18.4
Average Daily Turnover (Rs. million)	828.0	1,087.4	1,415.0	1,115.4
Net Cumulative Foreign Purchases (USD million)	178.7	11.0	22.1	-3.2
Number of Companies Listed	289.1	295.1	294.1	296.1
Number of Right Issues	9.1	3.1	13.1	9.0
Amount raised through Right issues (Rs. billion)	25.6	1.8	11.3	9.9
Initial Public Offers	1.1	0.0	5.1	2.0
Amount raised through IPOs (Rs. billion)	0.5	0.0	3.3	0.3

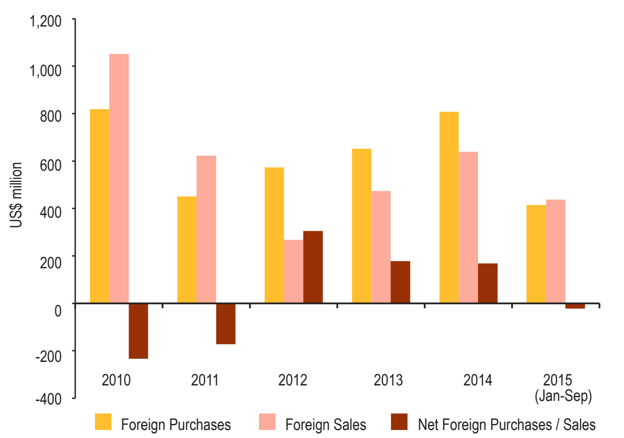
*Based on actual GDP for 2014 (Rs.9,785 billion)

Source: Colombo Stock Exchange

impact on the equity market despite a low interest rate environment in the market. Consequently, the All Share Price Index (ASPI) and S&P SL 20 index dropped by 3.4 per cent and 6.4 per cent, respectively, during the period under review. In line with the movement of the ASPI, the market capitalisation also dropped to Rs. 2,991 billion as at end September 2015 from Rs. 3,104 billion at end December 2014. The price indices of the majority of sub-sectors recorded losses, while others registered gains during the period under consideration. The overall Price Earnings Ratio (PER) of the market stood at 18.4x as at end September 2015, which is relatively higher than the average PER (15.4x) of other Asian Stock exchanges.

- **Business volumes in the equity market were moderated in terms of value and volumes.** The total turnover for the period amounted to Rs. 264.7 billion, indicating a significant decline of 16.2 per cent, while the total number of trades and shares traded declined to 1.2 million and 7.4 billion, respectively, charting a decrease of 15.6 per cent and 38.7 per cent, respectively, when compared to the relevant values registered in the corresponding period of 2014. Moreover, the average daily turnover declined by 15.2 per cent to Rs. 1.1 billion during the first nine months of 2015, from Rs. 1.3 billion in the corresponding period of 2014, while turnover velocity ratio (annualised share turnover to average market capitalization) decreased to 8.7 per cent during the first nine months of 2015, from 11.8 per cent in the corresponding period of 2014. During this period, domestic investors accounted for about 70.4 per cent of the turnover, compared to the 58.0 per cent recorded in 2014. Among the domestic investors, retail investors accounted for around 37.8 per cent of the turnover, while the corporate sector accounted for about 32.6 per cent only.

Chart 8.18 **Foreign Participation at the CSE**



- **Continued increase in foreign participation over the last three years slowed down during the first nine months of 2015, mainly due to the market anticipation of an interest rate hike in advanced economies and increased investor uncertainty over the recent political changes in the country.** Consequently, foreign investors in the equity market were net sellers, resulting in a cumulative net foreign outflow of Rs. 3.2 billion during the first nine months of 2015, when compared to Rs. 22.1 billion of net foreign inflows during 2014. Foreign purchases accounted for 29.5 cent of the total turnover. Further, foreign corporates accounted for 93.0 per cent of the total foreign purchases, while foreign individuals accounted for 7.0 per cent.

- **There were two Initial Public Offerings (IPO) at the CSE during the first eight months of 2015, which raised Rs. 0.3 billion.** A further Rs. 9.9 billion was raised through nine right issues.

Development Finance and Access to Finance

- **During the first half of 2015, the Central Bank continued to channel credit through many concessionary credit schemes.** The main focus of these schemes was to promote strategic economic sectors, lagging regions and vulnerable social groups with a view to increase regional development and thereby achieve inclusive and balanced growth of the economy. In this process, the Central Bank implemented 11 credit schemes targeting the development of Agriculture, Livestock, as well as Micro, Small and Medium Scale Enterprises (MSMEs) sectors through Participating Financial Institutions (PFIs). Under these schemes, refinance facilities, credit guarantees and/or interest subsidies were provided to PFIs. Altogether, the Central Bank disbursed Rs.11,827.0 million loans to 128,928 beneficiaries through loan schemes implemented during the first eight months of 2015.

- **The Central Bank continued to assist the MSMEs sector through five credit schemes, namely, the Saubagya Loan Scheme (SLS), Self-Employment Promotion Initiative Loan Scheme (SEPI), Small Holder Plantation Entrepreneurship Development Program (SPEnDP), Dry Zone Livelihood Support and Partnership Programme (DZLiSPP-RF) and Awakening North Loan Scheme – Phase II (ANLS - II), which disbursed a total of Rs. 2,221.0 million loans among 11,124 beneficiaries.** Of the total, SLS, the flagship Scheme which operates island-wide to provide loans to the Small and Medium Enterprises (SME) sector, disbursed Rs. 1,967.0 million or 88.6 per cent of loans among 82.0 per cent of the borrowers. Overall, the loan disbursements during the first half of 2015 to the SME sector

Table 8.9 Loan Disbursements to the MSME Sector

Loan Scheme	Loan Disbursements				Share (%)		Growth (%)	
	2014 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug	
	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.
Saubagya	9,115	2,312.7	9,136	1,967.0	82.1	88.6	0.2	-15.0
SEPI	176	38.3	60	20.5	0.5	0.9	-65.9	-46.4
SPEnDP	366	43.4	414	60.7	3.7	2.7	13.1	39.7
DZLiSPP-RF	1,001	73.9	111	11.8	1.0	0.5	-88.9	-84.1
ANLS - II	4,603	504.5	1,403	160.0	12.6	7.2	-69.5	-68.1
Total	**15,261**	**2,972.8**	**11,124**	**2,220.9**	**100.0**	**100.0**	**-27.1**	**-25.3**

Source: Central Bank of Sri Lanka

Table 8.10 Loan Disbursements under the Microfinance Loan Schemes

Loan Scheme	Loan Disbursements				Share (%)		Growth (%)	
	2014 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug	
	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.
PAMP II RF	17,945	1,177.2	14,311	962.8	54.9	61.7	-20.3	-18.2
PAMP RF	8,516	401.3	8,346	410.9	32.0	26.3	-2.0	2.4
SFLCP RF	4,143	162.5	3,414	186.0	13.1	11.9	-17.6	14.4
PAMP II	3,284	246.0	-	-	-	-	-	-
Total	**33,888**	**1,987.0**	**26,071**	**1,559.7**	**100.0**	**100.0**	**-23.1**	**-21.5**

Source: Central Bank of Sri Lanka

were less than that of the corresponding period of 2014. The funds disbursed under these loan schemes between the two corresponding periods of 2014 and 2015 are given in Table 8.9.

- **Three microfinance loan schemes were in operation with a view to broadening the financial outreach among the masses and promoting poverty alleviation.** These loan schemes, namely, the Poverty Alleviation Micro-Finance Project II- Revolving Fund (PAMP II–RF), the Poverty Alleviation Micro-Finance Project - Revolving Fund (PAMP-RF) and the Small Farmers and Landless Credit Project - Revolving Fund (SFLCP-RF) together disbursed loans amounting to Rs. 1,560.0 million among 26,071 beneficiaries during the first half of the year. Of the total disbursements, 64 per cent of loans were granted to the Small Industries and the Agriculture Sectors, followed by Livestock (15.0 per cent) and Trade and Services (15.0 per cent) and Fisheries and others sectors (5.0 per cent). The performance of the microfinance loan schemes during the first half of 2015, compared to the corresponding period of the previous year, are given in Table 8.10.

- **Of the total disbursements, a bulk of credit was directed towards the Agriculture and Livestock Sectors.** Funds released to these sectors accounted for about 68.0 per cent of the total disbursements during January to August 2015. These loans were mainly delivered through the New Comprehensive Rural Credit Scheme (NCRCS), which provides loans to meet working capital requirements of the small scale farmers for 32 crop varieties. Among all districts, Anuradhapura (19.0 per cent) received the highest amount of agriculture loans disbursed

Table 8.11 Loan Disbursements to the Agriculture and Livestock Sector

Loan Scheme	Loan Disbursements				Share (%)		Growth (%)	
	2014 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug		2015 Jan - Aug	
	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.	No. of Loans	Amount Rs. Mn.
NCRCS	78,261	6,162.5	90,327	7,120.8	98.5	88.5	15.4	15.5
CSDDLS[1]	158	572.0	1,374	918.8	1.5	11.4	769.6	60.6
Tea Development Project-RF	52	10.7	32	7.0	0.0	0.1	-38.5	-34.8
Total	**78,471**	**6,745.3**	**91,733**	**8,046.6**	**100.0**	**100.0**	**16.9**	**19.3**

Source: Central Bank of Sri Lanka

under the NCRCS, followed by Pollannaruwa (12 per cent), Badulla (9.0 per cent), Jaffna (9.0 per cent) and Ampara (8.0 per cent) districts. Paddy, being the major crop item, received the highest share of 66.0 per cent of the total loan disbursement.

- **The Credit Guarantee Scheme for Pawning Advances (CGSPA) also continued to operate during the first eight months of 2015**. The Scheme, which was introduced in June 2014 to increase the credit growth in the Agriculture and SME sectors and reduce the risk exposure of PFIs due to the decline in gold prices, guaranteed pawning advances totaling Rs. 22,634.0 million by the Central Bank, by end August 2015.

- **The Central Bank has taken a number of policy measures to strengthen effective credit delivery through concessionary loan schemes**. The rate of interest applicable for borrowers under the SPEnDP, and that of refinance to PFIs from the Central Bank was reduced to 7.0 per cent and 3.0 per cent per annum, respectively, with effect from 29 May 2015. At the same time, fund allocation was increased by the International Fund for Agricultural Development (IFAD) to SDR 2.6 million from SDR 1.75 million. The operational period of CGSPA was extended again from 01 July 2015 to end December 2015, in view of the global forecasts of gold prices, which was observed to be on a declining trend in the short run. Operating instructions were also issued to PFIs to include the warehouse receipts financing system under the NCRCS, to enable small scale farmers to obtain short-term credit from the registered financial institutions, by pledging the warehouse receipts issued by the government owned warehouse as a collateral. Under this scheme, it is expected to provide farmers access to modern warehouses, which are established by the government with the assistance of the World Bank.

- **With the strategic objective of awareness building, the Central Bank continued to promote financial literacy/inclusiveness through a number of programmes and workshops conducted during the reference period**. These programmes mainly covered the areas of financial literacy, entrepreneurship development and training of trainers and project appraisal workshops for entrepreneurs. Formation of self-help groups and educating them about financial management was also given priority. Further, the information on banking and finance was disseminated to the general public through print and electronic media.

Developments in the Payment and Settlement Systems

- **The Central Bank continued the operations of the LankaSettle system, which is the systemically important electronic payment and settlement system for high value, time critical interbank payments and government securities transactions**. Accordingly, the LankaSettle System recorded a system availability of 99.9 per cent during the first eight months of 2015. Further, in order to ensure the readiness of the system to operate during contingency events, the Central Bank successfully conducted live operations from its disaster recovery site on 08 May 2015.

- **The Central Bank facilitated the establishment of the Common Card and Payment Switch (CCAPS) in order to provide a nation-wide common platform for electronic retail payment systems**. The Common ATM Switch (CAS) which is the first phase of CCAPS, started live operations in July 2013. At present, twelve licensed banks have joined CAS, connecting about 80 percent of ATMs in the country. The Common Electronic Funds Transfer Switch (CEFTS), the second phase of CCAPS, facilitate real time retail fund transfers, was implemented in August 2015. The CEFTS will provide common infrastructure to clear payments effected through multiple payment channels such as ATM, Internet Banking, Mobile Banking, Kiosks and over-the-counter on real time basis. The shared ATM switch was launched with the Pradeshiya Sanwardhana Bank in August 2015.

- **The Central Bank continued the regulation of service providers of payment cards and mobile payment systems in relation to the provisions of the Payment Cards and Mobile Payment Systems Regulations No.1 of 2013.** Accordingly, during the first nine months of 2015, the Central Bank issued two licences to a licensed commercial bank and a finance company to function as issuers of Payment Cards, and a licence to a licensed commercial bank to function as a financial acquirer of payment cards. Approval was granted to a licensed service provider operating a custodian account based mobile payment system, to provide an inward remittance service through the e-money scheme operated by the service provider.

Prospects for 2016

- **Capital levels of banks will remain at healthy levels with enhanced minimum capital requirements, whereby existing domestic licensed commercial banks will be required to maintain Rs. 10.0 billion while licensed specialised banks and foreign banks will be required to maintain Rs. 5.0 billion as core capital commencing from 01 January 2016.** The increased capital requirement is expected to result in some consolidation among the banks. Basel III Minimum Capital Requirements and Leverage Ratio will be implemented on a staggered basis commencing 01 January 2016, in line with international timelines.

- **The credit growth is expected to continue at a stable rate in the medium term due to favorable macroeconomic conditions.** The prevailing low interest rate regime is expected to continue in the medium term, which in turn will create a conducive environment to promote Small and Medium Enterprises (SME) and entrepreneurship in the country. There has been a gradual improvement in the relative level of performing loans with the decline in low quality assets. However, banks should always be cautious of the increase in NPLs that are associated with increase in credit and ensure that proper risk management mechanisms are in place to mitigate such risks.

- **The liquidity position of banks which is over and above the minimum statutory requirement of 20 per cent will continue to be maintained at a healthy level.** Banking Act Directions on Liquidity Coverage Ratio under Basel III Liquidity Standards were issued in the first quarter of 2015, which would strengthen the short-term resilience of banks' liquidity risk profile. Further, it is expected to improve the ability of the banking sector to absorb shocks arising from financial and economic stress, reducing the risk of spill over from the financial sector to the real economy in the coming years. Under the potential implementation of leverage ratio, banks may need to reassess the balance sheet size and business expansion, as the proposed minimum leverage ratio does consider assets growth regardless of the relative risk of different assets classes. Further, impact on maturity mismatches of assets and liabilities will be assessed and monitored in order to ensure the stability of the banking sector.

- **The banking sector is expected to enhance access to banking to all citizens while increasing financial inclusion and supporting economic activities throughout the country.** Banks are also expected to upgrade and strengthen their management information systems and related technological platforms to enhance banking access through digital initiatives such as mobile/ phone banking and online banking.

- **Increase in foreign exchange exposure will be closely monitored, including potential risks and adverse effects that may arise when raising foreign funds from the international capital markets.** Large commercial banks will also look into avenues of regional expansion, which will lead to an increase in the geographical reach of the banking sector.

- **Macro-economic changes in the region, as well as the global trends will be monitored in order to take appropriate proactive measures to strengthen the stability of the financial system of the country.** The banking sector is set to adopt various policy measures in line with macroeconomic policies in the medium term. The supervisory framework will be further strengthened in line with Basel Core Principles on Effective Bank Supervision and other international and regional best practices, while closely interacting with other local and regional regulators.

- **The resilience of the LFC and SLC sector is expected to improve and continued to complement the banking system in financial intermediation.** When considering the projected economic growth, the sector is expected to record notable growth rates and continue to be a major player in the financial landscape. With sustainable economic growth projected for sectors such as agriculture, construction, trading and tourism, LFCs and SLCs too could augment their core business activities. Further, the sector is expected to play a key role in the microfinance sector, catering to customers at the grass root level of the economy.

- **LFCs and SLCs are encouraged to review their existing models.** The LFC and SLC sector would experience intense competition due to the increased number of players currently existing in the sector. Further, competition from the banking sector too would be significant as banks are entering into product segments such as finance leasing and hire purchase. The financial sector needs to structure itself in such a way that the grass root level customers are catered to by the banking sector and the LFC/SLC sector will be able to work closely with the banking sector either through absorption or partnership. LFCs and SLCs take a higher risk by catering to the bottom of the pyramid customers, whilst banks operate with benign risk models in the economy. In many developed countries all these segments in the economy are addressed by the banking sector.

- **A restructuring process is underway aiming at strengthening distressed LFCs.** At present there are a few financial institutions facing liquidity constraints due to the liquidity crisis created through the collapse of the Ceylinco group. These LFCs are still operating either as negatively capitalized entities or cash strapped entities mainly due to large amounts of non-performing and non-earning assets. Such entities pose a threat to the financial system, with possible systemic and contagion risks that may spill over to other financial entities. Therefore, these companies are currently undergoing a restructuring process aimed at strengthening their balance sheets.

- **Small entities to be consolidated: The LFC/ SLC sector has been driven mainly by the top tier institutions of the sector while this tier continued to innovate and dominate the sector with their synergies and economies of scales.** The prognosis is that the group of large sized LFCs and SLCs will grow further, with the elevation of these institutions from medium to the large category in terms of the asset base, with the expansion of business. Hence, peer pressure on LFCs and SLCs in the small sized category with lower asset and capital bases may give rise to liquidity constraints due to lack of funding. Hence, consolidation would be necessary for these entities to compete with the large LFCs and SLCs.

- **The outlook of the insurance sector is stable with on-going regulatory changes**. The segregation of long-term insurance and general insurance from 2015 will promote greater transparency and policyholder protection in the insurance sector. However, some insurance companies could face operational uncertainties due to factors such as increased cost in relation to the duplication of some functions after the segregation and long-drawn-out nature of legal procedures required in effecting the split. The proposed risk based capital (RBC) model for the supervision of the insurance sector is expected to create better risk management in the sector. Moreover, the increased minimum capital requirement of the insurance sector is expected to promote efficient capital allocation among insurance companies. However, prevailing intense price competition in the motor insurance sector, leading to weak technical results and significant reduction in investment income, due to falling interest rates and subdued performance in the equity market, is likely to moderate the performance of the sector.

- **The low interest rate environment coupled with higher growth in expected earnings, will be continued to complement the equity market in the medium term**. Further, several reforms have been introduced to develop the activities of CSE and these projects are expected to finalise over the next three years. These reforms include; promoting listing, introducing new investment tools, attracting new funds, demutualising of CSE, increasing capital adequacy requirement of stock brokers and implementing Central Counter Party (CCP) and Delivery vs Payment (DVP) systems.

- **Implementation of first and second phases of CCAPS and strengthening of the regulatory framework will enhance the efficiency and soundness of the national payment and settlement system in the country**. The common ATM Switch marked a remarkable progress and is expected to increase usage with more financial institutions obtaining membership in the switch. CEFTS, which provides clearing and settlement facilities for interbank transactions effecting through electronic payment channels, is expected to contribute to popularizing electronic payments. These new retail payment products will offer customer convenience at a relatively low cost. On the other hand, regulations, directions and guidelines on payment and settlement systems will ensure smooth operations of the payment and settlement systems in the country.

APPENDIX 1

Appendix 1

Major Economic Policy Changes and Measures: January - October 2015[1]

Real Sector[2]

22 January 2015 - The retail prices of major petroleum products were reduced as follows:

- Petrol (92 Octane) by Rs. 33 to Rs. 117 per litre
- Petrol (95 Octane) by Rs. 30 to Rs. 128 per litre
- Auto Diesel by Rs. 16 to Rs. 95 per litre
- Super Diesel by Rs. 23 to Rs. 110 per litre
- Kerosene by Rs. 16 to Rs. 65 per litre
- Industrial Kerosene by Rs. 16 to Rs. 94 per litre

30 January 2015 - The retail price of kerosene was reduced by Rs. 6 to Rs. 59 per litre.

- The price of a 12.5 kg cylinder of LP gas was reduced by Rs. 300 to Rs. 1,596.

01 February 2015 - Passenger bus fares were reduced by 8.2 per cent on average.

20 February 2015 - The maximum retail price of certain items were set as follows:

- Ordinary Portland, Portland Limestone and Masonry cement at Rs. 840 per 50 kg bag
- White sugar (unpacketted) at Rs. 87 per kg
- Full cream milk powder at Rs. 325 per 400 g pack and Rs. 810 per 1 kg pack
- Sustagen at Rs. 1,500 per 400 g pack
- Wheat flour (unpacketted) at Rs. 87 per kg
- Green gram (Moong) at Rs. 265 per kg
- Dried sprats (imported) at Rs. 385 per kg
- Canned fish at Rs. 140 per net weight of 425 g or drained weight of 280 g and Rs. 70 per net weight of 155 g or drained weight of 105 g
- Seeds of coriander, neither crushed nor ground, at Rs. 350 per kg
- Black gram at Rs. 300 per kg
- Maldives fish at Rs. 1,740 per kg
- Turmeric crushed or ground at Rs. 800 per kg
- Chillies crushed or ground at Rs. 400 per kg

15 July 2015 - The price of a 12.5 kg cylinder of LP gas was reduced by Rs. 100 to Rs. 1,496.

1 This includes major economic policy changes and measures implemented from January to October 2015. Policy changes and measures that have been announced and are yet to be implemented during the remaining period of 2015 are also included.

2 Details of fiscal incentives granted for the development of the real sector are included in policy measures under the fiscal sector.

15 September 2015 - The electricity tariff based on Time of Use (TOU) for domestic consumers connected with 3-phase 30A or above was introduced as an optional tariff. The new tariff structure is as follows:

Time of Use (TOU)	Energy Charge (Rs./kWh)	Fixed Charge Rs./month)
Off peak (22:30 – 05:30 hrs)	13.00	
Day (05:30 – 18:30 hrs)	25.00	540.00
Peak (18:30 – 22:30 hrs)	54.00	

External Sector

Trade and Tariff

01 January 2015 - Special Commodity Levy (SCL) on the importation of b'onions was decreased to Rs. 10 per kg from Rs. 50 per kg for a period of four months.

22 January 2015 - SCL on the importation of rice was increased to Rs. 20 per kg from Rs. 1 per kg for a period of four months.

30 January 2015 - Excise (Special Provisions) duty on motor vehicles with less than 1,000 cc was revised downwards and excise duty on hybrid motor vehicles was revised upwards.

- The importation of Portland cement and semi-finished products of iron or non alloy steel was exempted from Customs duty.

- SCL on the importation of the following food items was reduced for a period of six months:

  - Maldives fish from Rs. 302 per kg to Rs. 102 per kg
  - Sprats from Rs. 26 per kg to Rs. 11 per kg
  - Green gram (Moong) from Rs. 40 per kg to Rs. 10 per kg
  - Black gram from Rs.110 per kg to Rs. 60 per kg
  - Chillies (crushed or ground) from Rs. 150 per kg to Rs. 125 per kg
  - Coriander (seeds) from Rs. 46 per kg to Rs. 26 per kg
  - Coriander (crushed or ground) from Rs. 202 per kg to Rs. 52 per kg
  - Turmeric (neither crushed nor ground) from Rs. 202 per kg to Rs. 102 per kg
  - Turmeric (other) from Rs. 510 per kg to Rs. 360 per kg
  - Black gram flour from Rs. 300 per kg to Rs. 200 per kg
  - Canned fish from Rs. 102 per kg to Rs. 50 per kg
  - Sugar from Rs. 28 per kg to Rs. 18 per kg

15 February 2015	-	SCL on the importation of potatoes was increased to Rs. 40 per kg from Rs. 10 per kg for a period of four months.
	-	SCL of Rs. 10 per kg on the importation of mackerel was extended for a period of four months.
25 February 2015	-	SCL on the importation of peas, chickpeas, cowpeas, Masoor dhal, kurakkan, millet and margarine was extended for a period of six months.
18 March 2015	-	SCL on the importation of mackerel was reduced to Rs. 6 per kg from Rs. 10 per kg for a period of six months.
26 March 2015	-	SCL on the importation of rice was increased to Rs. 40 per kg from Rs. 20 per kg for a period of four months.
02 April 2015	-	SCL on the importation of fresh or chilled fish, dried fish, yogurt, butter, dairy spreads, red onions, garlic, fresh oranges, grapes, apples, cumin seeds, fennel seeds, mathe seeds, kurakkan flour, ground nut, mustard seeds, vegetable oils and salt was extended for a period of six months.
24 April 2015	-	SCL on the importation of potatoes was increased to Rs. 55 per kg from Rs. 40 per kg for a period of four months.
	-	SCL on the importation of b'onions was increased to Rs. 30 per kg from Rs. 10 per kg for a period of four months.
06 May 2015	-	Customs duty of Rs 35 per kg, Value Added Tax (VAT) of 11 per cent, Ports and Airports Development Levy (PAL) of 5 per cent and Nation Building Tax (NBT) of 2 per cent were imposed on the importation of rice, in place of SCL of Rs. 40 per kg.
06 June 2015	-	SCL on the importation of potatoes was decreased to Rs. 30 per kg from Rs. 55 per kg for a period of three months.
	-	SCL on the importation of b'onions was decreased to Rs. 10 per kg from Rs. 30 per kg for a period of three months.
17 June 2015	-	SCL on the importation of Masoor dhal (red lentils-split and yellow lentils-split) was decreased to Rs. 0.25 per kg from Rs. 5 per kg for a period of four months.
	-	SCL on the importation of crude oils of soya-bean, palm and sunflower was increased to Rs. 105 per kg from Rs. 90 per kg for a period of four months.
	-	SCL on the importation of other vegetable oils was extended for a period of four months.
29 June 2015	-	SCL of 10 per cent on the importation of maize and grain sorghum was extended for a period of four months.
21 July 2015	-	SCL on the importation of crude oils of soya-bean, palm and sunflower was decreased to Rs. 90 per kg from Rs. 105 per kg for a period of six months.
	-	SCL on the importation of Maldives fish, dried sprats, green gram, black gram, chillies, seeds of coriander, turmeric, black gram flour, vegetable oils except crude oil, canned fish and sugar was extended for a period of six months.

08 September 2015 - SCL on the importation of potatoes was increased to Rs. 40 per kg from Rs. 30 per kg for a period of six months.

- SCL on the importation of b'onions, peas, chickpeas, cowpeas, Masoor dhal (red and yellow lentils – whole), millet, kurakkan, margarine and sugar was extended for a period of six months.

18 September 2015 - SCL of Rs. 6 per kg on the importation of mackerel was extended for a period of six months.

23 September 2015 - SCL on the importation of the following items was increased for a period of six months:

  - Soya-bean oil, palm oil and sunflower oil and their fractions, whether or not refined, but not chemically modified (crude oil) from Rs. 90 per kg to Rs. 110 per kg
  - Soya-bean oil, Sunflower seed, safflower or cotton seed oil, palm oil and fractions whether or not refined, but not chemically modified (other) from Rs. 110 per kg to Rs. 130 per kg
  - Coconut (copra), palm kernel or babassu oil and fractions whether or not refined, but not chemically modified (crude oil) from Rs.110 per kg to Rs. 130 per kg
  - Palm kernel or babassu oil and fractions thereof (other oil) from Rs.125 per kg to Rs. 145 per kg

02 October 2015 - SCL on the importation of fresh or chilled fish, dried fish, yogurt, butter, dairy spreads, red onions, garlic, fresh oranges, grapes, apples, seeds of cumin, seeds of fennel, mathe seeds, kurakkan flour, ground nut, mustard seeds and salt was extended for a period of six months.

03 October 2015 - Excise (Special Provisions) duty rates on the importation of cigarettes was revised upwards.

- Excise duty on any liquor made from any cereal molasses, palmyrah, coconut and processed arrack, country made foreign sprits and malt liquor manufactured in Sri Lanka was revised upwards.

19 October 2015 - The method of computation for the Custom value of motor vehicles for the purpose of calculation of excise duty payable at the time of Customs, was revised.

Fiscal Sector

Government Revenue

01 January 2015 - VAT rate was reduced to 11 per cent from 12 per cent.

- The importation of machinery, equipment and spare parts by Sri Lanka Ports Authority (SLPA) to be used exclusively within specified ports was exempted from VAT and NBT.

- The limit of the value of imported samples for the exemption from the VAT and NBT of Rs. 25,000 was increased to Rs. 50,000.

	-	The quarterly turnover of Rs. 250 million applicable for the imposition of VAT on wholesale or retail trade was reduced to Rs. 100 million.
	-	The threshold of liable supplies for the registration for VAT purposes was increased to Rs. 15 million per annum, from Rs. 12 million per annum.
	-	The threshold of liable turnover of NBT was increased to Rs. 3.75 million per quarter from Rs. 3 million per quarter.
	-	Betting and Gaming levy applicable on gross collection was increased to 10 per cent from 5 per cent.
	-	Casino entrance levy of US dollars 100 was imposed on every person who enters casino entertainment place.
01 April 2015	-	Profits and income of the following persons/institutions were exempted from income tax:

- Unit Trust from investments made on or after 01 January 2015, in US dollar deposits or US dollar denominated securities listed in any foreign stock exchange
- Company, partnership or body of persons outside Sri Lanka from any payment made by way of royalty as a specific requirement of any IT/BPO company in Sri Lanka for a period of 2 years from the commencement of such IT/BPO company
- Investment made on or after 01 January 2015 in any Corporate Debt Security, issued by the Urban Development Authority (UDA)

- Concessionary income tax rates were introduced as follows:

- A deduction of 10 per cent of income tax payable by any local manufacturer who has commenced the business of manufacturing during the 1970s.
- 12 per cent on the local sugar industry
- The annual turnover limit of small and medium undertakings qualifying for the concessionary rate of 12 per cent was increased from Rs. 500 million to Rs. 750 million
- One half of the profits and income from the production of films or dramas of any individual who produces an award winning cinema or a drama at an international film/drama festival was exempted for a period of 5 years from the year in which such award is received
- 16 per cent applicable for certain categories of employment income was extended to cover other employment categories
- New undertakings, with not less than US dollars 2 million and engaged in the manufacture of products for export were granted a frontloaded depreciation allowance and the dividend distributed out of such profits will be exempted for five years
- The applicable tax rate on the profits and income of an existing enterprise outside the Western Province and carrying on a business of manufacture of products other than liquor or tobacco was reduced by 50 per cent not exceeding Rs. 500 million for a period of 5 years subject to certain conditions

  - Any company, which registers with the Inland Revenue Department (IRD) for tax purposes on or before 31 December 2015 with a committed investment in excess of Rs. 500 million, to be made in any manufacturing business, was entitled for a reduction of 50 per cent of the applicable tax rate for a period of 7 years

- A single withholding tax rate of 2.5 per cent was introduced irrespective of the amount of interest.
- Interest income of senior citizens was exempted from withholding tax.
- A triple deduction was granted to any person registered with the Tertiary and Vocational Education Commission (TVEC) on expenditure incurred on standard skill development training provided to trainees.
- The exempted amount from the employment income (annual) on Pay-As-You-Earn (PAYE) tax was increased to Rs. 750,000 from Rs. 600,000.

One off Levies

- A levy of Rs. 250,000 was imposed per tavern or liquor sales outlet.
- A levy of Rs. 1,000 million was imposed on all Casino operators.
- A levy of Rs. 250 million was imposed on all licensed mobile telephone operators in Sri Lanka.
- A levy of Rs. 1,000 million was imposed on satellite owners who utilise the Sri Lankan satellite locations.
- A levy of Rs. 1,000 million was charged on dedicated sports channels operating island wide using more than 5 transmitting locations.
- A Mansion Tax of Rs. 1 million was imposed on owners of all houses valued not less than Rs. 150 million or on houses above 10,000 square feet, on an annual basis.
- A Super Gains Tax at a rate of 25 per cent was imposed on profits over Rs. 2,000 million on individuals/companies profit in the tax year 2013/2014.

Forthcoming

- A 20 per cent tax will be imposed on all foreign exchange released to be taken out of the country by migrants at the point of immigration with effect from 01 November 2015.
- An import license fee of Rs. 1.5 million per annum will be charged with effect from 01 January 2016, on all importers engaged in the business of importing and selling motor vehicles.

Government Expenditure

01 February 2015 - Salaries of government employees were increased by Rs. 7,000 per month of which Rs. 5,000 was given in February and the balance was given in June 2015.

01 April 2015 - Monthly interim allowance paid to pensioners was increased by Rs. 1,000 per month to Rs. 3,500 per month.

01 July 2015 - A special allowance was granted for the officers in the Executive Service Category in the Public Sector as follows :

Category	Monthly Allowance (Rs.)
Active service period of less than 6 years	3,000
Active service period of 6 or more years, but less than 11 years	5,000
Active service period of 11 or more years, but less than 19 years	10,000
Officers of Grade I or above having an active service period of 19 or more years	15,000

Debt Management

12 January 2015 - Consultancy and project management work was commenced for the electronic trading of government securities and the establishment of a Central Counterparty (CCP).

19 January 2015 - Issuance of Sri Lanka Development Bonds (SLDBs) up to a limit of US dollars 1,500 million for the year 2015 was authorised.

10 June 2015 - The authorised limit on the issuance of of SLDBs was increased up to US dollars 2,500 million for the year 2015.

05 October 2015 - Multi-currency functionality in LankaSettle system was enabled in order to facilitate the scripless trading and recording of legal ownership of SLDBs denominated in US dollars to promote the secondary market for SLDBs.

20 October 2015 - The authorised limit on the issuance of Treasury bills was increased up to Rs. 1,250 billion from Rs. 850 billion.

Monetary Sector

02 March 2015 - The 5.00 per cent special Standing Deposit Facility (SDF) rate was withdrawn while the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) continued to remain at 6.50 per cent and 8.00 per cent, respectively.

15 April 2015 - The SDFR and SLFR were reduced to 6.00 per cent and 7.50 per cent, respectively.

30 October 2015 - The minimum cash margin requirement of 100 per cent against Letters of Credit (LCs) opened with commercial banks for the importation of motor vehicles was imposed until 01 December 2015.

Financial Sector

Licensed Banks

01 January 2015	-	Deposit insurance coverage per depositor per institution under the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) was increased to Rs. 300,000 from Rs. 200,000.
01 February 2015	-	A 50 per cent waiver was granted on the capital of the cultivation loans up to a maximum amount of Rs. 100,000 granted by state banks to farmers and transferred to non performing category on or before 31 January 2015.
13 March 2015	-	An interest rate of 15 per cent per annum was granted for the savings of senior citizens (above 60 years of age) who opened one year rupee fixed deposits up to Rs. 1.0 million with effect from 16 January 2015 and an interest rate of 12 per cent per annum for the savings of senior citizens (above 60 years of age) who opened rupee fixed deposits up to Rs. 2.5 million prior to 16 January 2015.
15 March 2015	-	Interest payments in excess of 12 per cent on pawning advances were waived up to a maximum amount of Rs. 200,000, granted by state banks and transferred to the non performing category on or before 31 January 2015, at the point of settlement of pawned advances on or before 30 June 2015.
31 March 2015	-	Directions were issued to licensed banks to implement the Liquidity Coverage Ratio under Basel III Liquidity Standards, from 01 April 2015.
15 April 2015	-	A circular was issued to apprise licensed banks to expand access to banking as outlined in the Interim Budget for 2015.
01 June 2015	-	The Circular issued on 16 October 2014 to Licensed Commercial Banks (LCBs) on recovery of accommodation to exporters was rescinded, and the previous Circulars came in to effect with an amendment to reduce the applicable enhanced interest rate from 1,000 basis points to 500 basis points.
28 July 2015	-	Payment and Settlement Systems Circular No. 01 of 2015 on Maximum Limits on Transaction Value and Fees of Common Electronic Fund Transfer Switch (CEFTS) was issued to impose maximum per transaction value limit and maximum fees chargeable on transactions effected through CEFTS.
06 August 2015	-	Payment and Settlement Systems Circular No. 02 of 2015 on Maximum Limits on Transaction Fees of Sri Lanka Interbank Payment System was issued to impose maximum transaction fee that can be charged from customers for fund transfers effected through Sri Lanka Interbank Payment System.
07 August 2015	-	Payment and Settlement Systems Circular No. 03 of 2015 on Operator Charge and Maximum Limits of Transaction Fees of LankaSettle System was issued to impose maximum transaction fee for fund transfers effected through Real Time Gross Settlement (RTGS) System and to reduce transaction fee charged by Central Bank of Sri Lanka (CBSL) as the operator of the RTGS System.

15 September 2015	-	Directions were issued to licensed banks, Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) to maintain a maximum loan to value ratio of 70 per cent on loans and advances granted for the purpose of purchase or utilisation of motor vehicles.
29 October 2015	-	Directions were issued to licensed banks, LFCs and SLCs informing the applicability of the maximum loan to value ratio of 70 per cent shall come into force with effect from 01 December 2015.

Other Financial Institutions

23 June 2015	-	The annual licensing fee of finance companies was increased.

Other

26 March 2015	-	The Insurance Board of Sri Lanka (IBSL) issued a direction to all insurance companies to settle their insurance claims amount due within sixty days of the admission of liability and upon the establishment of the identity of the claimant.
24 April 2015	-	The Colombo Stock Exchange (CSE) listing rules were amended pursuant to the Securities Exchange Commission (SEC) Directive (SEC/LEG/14/12/41) on the mandatory disclosure in respect of the basis of an offer price at an Initial Public Offer (IPO) of shares.
29 May 2015	-	The rate of interest applicable for loans granted to borrowers by Participating Financial Institutions (PFIs) under the Smallholder Plantation Entrepreneurship Development Programme (SPEnDP) was reduced to 7 per cent per annum from 9 per cent per annum and the rate of interest applicable for refinance facilities granted to PFIs by the CBSL was reduced to 3 per cent per annum from 4 per cent per annum.
	-	The Automated Trading rules (ATS rules) of the CSE, relating to the methodology of computing the closing price of securities traded on the automated trading (except debt securities) were amended.
01 July 2015	-	The period of operation of the Credit Guarantee Scheme for Pawning Advances was extended for further six months, commencing from 01 July 2015 to 31 December 2015.
06 July 2015	-	Operating Instructions of the New Comprehensive Rural Credit Scheme (NCRCS) were amended to incorporate the implementation of warehouse receipts financing under the scheme to provide short term credit to small farmer producers.
10 July 2015	-	The application fees for entities licensed/ registered by the SEC were revised pursuant to the Circular No. SEC/Stamp duty/2015/03 issued by the IRD.
07 August 2015	-	Operating Instructions were issued to implement the "Working Capital Loan Scheme for Tea Factories," introduced by the government.

APPENDIX 2

STATISTICAL APPENDIX

Definitions and Explanatory Notes

The following general notes supplement the footnotes given below the individual tables:

1. In an attempt to bring the material up-to-date, provisional figures are included in some tables.
2. Figures in some tables have been rounded off to the nearest final digit. Hence, there may be a slight discrepancy between the total as shown and the sum of its components.
3. Differences as compared with previously published figures are due to subsequent revisions.
4. Values indicated within parenthesis are negative values.
5. The following symbols have been used throughout:-

...	=	negligible
-	=	nil
n.a.	=	not available

TABLE 1
Gross Domestic Product by Industrial Origin at Current Market Prices (a)

Rs. million

ECONOMIC ACTIVITY	2012 (b)	2013 (b)	2014 (b) (c)	2015 First Half (c)	% Change 13/12 (b)	% Change 14/13 (b) (c)	% Change 15/14 First Half (c)
Agriculture, Forestry and Fishing	**650,510**	**735,382**	**794,201**	**439,449**	**13.0**	**8.0**	**17.2**
1. Growing of cereals (except rice)	14,196	17,592	18,484	9,875	23.9	5.1	8.7
2. Growing of rice	61,921	66,851	84,686	42,697	8.0	26.7	81.2
3. Growing of vegetables	58,219	69,065	72,529	46,333	18.6	5.0	36.6
4. Growing of sugar cane, tobacco and other non-perennial crops	2,623	3,263	3,096	1,753	24.4	-5.1	10.0
5. Growing of fruits	40,185	44,839	45,689	31,401	11.6	1.9	43.0
6. Growing of oleaginous fruits (coconut, king coconut, oil palm)	59,795	74,654	80,391	47,535	24.9	7.7	11.9
7. Growing of tea (green leaves)	76,362	90,921	93,717	42,219	19.1	3.1	-14.7
8. Growing of other beverage crops (coffee, cocoa etc.)	1,488	1,263	1,525	953	-15.1	20.8	23.7
9. Growing of spices, aromatic, drug and pharmaceutical crops	48,960	49,507	70,473	45,057	1.1	42.3	40.6
10. Growing of rubber	46,938	31,493	16,358	7,465	-32.9	-48.1	-28.5
11. Growing of other perennial crops	18,474	19,251	22,457	14,747	4.2	16.7	32.0
12. Animal production	28,956	40,334	39,319	18,034	39.3	-2.5	-9.6
13. Plant propagation and support activities to agriculture	10,504	11,166	12,396	6,632	6.3	11.0	7.3
14. Forestry and logging	51,152	64,072	74,250	35,936	25.3	15.9	0.7
15. Marine fishing and marine aquaculture	117,495	137,651	142,789	82,331	17.2	3.7	18.7
16. Fresh water fishing and fresh water aquaculture	13,244	13,460	16,041	6,483	1.6	19.2	-11.0
Industries	**2,630,766**	**2,797,328**	**2,882,049**	**1,480,696**	**6.3**	**3.0**	**4.4**
17. Mining and quarrying	213,318	245,382	254,588	124,426	15.0	3.8	-1.3
18. Manufacture of food, beverages & tobacco products	798,849	801,748	866,147	476,299	0.4	8.0	14.7
19. Manufacture of textiles, wearing apparel and leather related products	346,377	365,685	375,118	204,869	5.6	2.6	2.5
20. Manufacture of wood and of products of wood and cork, except furniture	23,397	27,365	28,937	14,046	17.0	5.7	-1.4
21. Manufacture of paper products, printing and reproduction of media products	26,989	28,261	28,555	15,261	4.7	1.0	7.9
22. Manufacture of coke and refined petroleum products	40,339	66,064	55,686	19,043	63.8	-15.7	-34.6
23. Manufacture of chemical products and basic pharmaceutical products	54,254	62,740	76,619	41,391	15.6	22.1	10.2
24. Manufacture of rubber and plastic products	85,188	74,995	74,352	36,703	-12.0	-0.9	10.2
25. Manufacture of other non- metallic mineral products	143,788	124,831	121,633	59,464	-13.2	-2.6	-5.0
26. Manufacture of basic metals and fabricated metal products	32,086	34,300	34,794	17,586	6.9	1.4	16.7
27. Manufacture of machinery and equipment	33,735	34,584	34,877	15,667	2.5	0.8	18.0
28. Manufacture of furniture	59,516	57,966	58,587	29,385	-2.6	1.1	-2.5
29. Other manufacturing, and repair and installation of machinery and equipment	53,300	44,553	46,802	23,972	-16.4	5.0	-1.2
30. Electricity, gas, steam and air conditioning supply	78,833	90,539	75,798	35,138	14.8	-16.3	-5.2
31. Water collection, treatment and supply	9,413	11,189	13,247	6,835	18.9	18.4	4.0
32. Sewerage, waste, treatment and disposal activities	10,244	11,671	13,140	9,366	13.9	12.6	47.2
33. Construction	621,140	715,455	723,170	351,246	15.2	1.1	-0.4
Services	**4,858,292**	**5,406,544**	**5,911,373**	**3,140,175**	**11.3**	**9.3**	**10.0**
34. Wholesale and retail trade	975,056	1,047,793	1,130,915	650,121	7.5	7.9	7.1
35. Transportation of goods and passengers including warehousing	1,057,477	1,162,834	1,274,712	651,943	10.0	9.6	15.0
36. Postal and courier activities	4,517	4,695	4,821	2,507	3.9	2.7	4.2
37. Accommodation, food and beverage service activities	154,007	155,197	166,548	87,985	0.8	7.3	9.4
38. Programming and broadcasting activities and audio video productions	3,151	4,198	3,799	1,960	33.2	-9.5	6.0
39. Telecommunication	33,257	41,986	42,641	23,519	26.2	1.6	10.4
40. IT programming consultancy and related activities	9,151	11,902	13,429	6,342	30.1	12.8	-4.0
41. Financial service activities and auxiliary financial services	282,003	308,810	326,067	170,206	9.5	5.6	16.6
42. Insurance, reinsurance and pension funding	79,534	81,712	83,914	40,489	2.7	2.7	0.2
43. Real estate activities, including ownership of dwelling	424,415	512,063	562,577	315,252	20.7	9.9	17.0
44. Professional services	178,781	198,873	210,910	93,851	11.2	6.1	-10.9
45. Public administration and defence; compulsory social security	455,798	501,755	563,269	292,772	10.1	12.3	5.1
46. Education	171,532	189,298	211,960	106,831	10.4	12.0	5.7
47. Human health activities, residential care and social work activities	191,255	198,796	210,068	105,292	3.9	5.7	1.9
48. Other personal service activities	838,358	986,633	1,105,744	591,105	17.7	12.1	12.8
Equals Gross Value Added (GVA), at Basic Price	**8,139,568**	**8,939,254**	**9,587,623**	**5,060,320**	**9.8**	**7.3**	**8.9**
Taxes less subsidies on products	592,895	652,871	703,957	404,640	10.1	7.8	24.8
Equals Gross Domestic Product (GDP), at Market Price	**8,732,463**	**9,592,125**	**10,291,581**	**5,464,960**	**9.8**	**7.3**	**9.9**

(a) The data is based on the revised base year (2010) GDP estimates
(b) Annual
(c) Provisional

Source : Department of Census and Statistics

TABLE 2
Gross Domestic Product by Industrial Origin at Constant (2010) Prices (a)

Rs. million

ECONOMIC ACTIVITY	2012 (b)	2013 (b)	2014 (b) (c)	2015 First Half (c)	% Change 13/12 (b)	% Change 14/13 (b) (c)	% Change 15/14 First Half (c)
Agriculture, Forestry and Fishing	**592,443**	**611,676**	**598,042**	**299,945**	**3.2**	**-2.2**	**3.3**
1. Growing of cereals (except rice)	12,521	14,307	14,040	7,822	14.3	-1.9	10.7
2. Growing of rice	62,289	65,607	53,425	26,364	5.3	-18.6	48.9
3. Growing of vegetables	51,244	54,153	54,914	27,843	5.7	1.4	0.0
4. Growing of sugar cane, tobacco and other non-perennial crops	2,254	2,441	2,285	1,209	8.3	-6.4	6.5
5. Growing of fruits	38,248	37,385	40,880	19,658	-2.3	9.3	2.1
6. Growing of oleaginous fruits (coconut, king coconut, oil palm)	62,201	53,424	59,413	30,422	-14.1	11.2	3.0
7. Growing of tea (green leaves)	72,100	74,734	73,741	37,461	3.7	-1.3	-1.2
8. Growing of other beverage crops (coffee, cocoa etc.)	1,319	1,321	1,457	992	0.1	10.3	36.1
9. Growing of spices, aromatic, drug and pharmaceutical crops	44,426	50,833	52,421	25,475	14.4	3.1	-2.2
10. Growing of rubber	44,249	37,987	28,676	14,655	-14.2	-24.5	-17.4
11. Growing of other perennial crops	15,167	14,344	14,761	8,562	-5.4	2.9	17.1
12. Animal production	29,511	36,599	27,295	13,233	24.0	-25.4	-0.2
13. Plant propagation and support activities to agriculture	9,105	9,183	9,421	4,754	0.9	2.6	1.0
14. Forestry and logging	38,188	43,044	46,608	23,576	12.7	8.3	4.6
15. Marine fishing and marine aquaculture	97,063	103,879	104,636	52,780	7.0	0.7	4.2
16. Fresh water fishing and fresh water aquaculture	12,560	12,435	14,069	5,138	-1.0	13.1	-25.2
Industries	**2,035,601**	**2,119,080**	**2,145,131**	**1,067,677**	**4.1**	**1.2**	**1.3**
17. Mining and quarrying	184,468	198,447	202,845	95,727	7.6	2.2	-5.7
18. Manufacture of food, beverages & tobacco products	507,121	507,127	515,209	265,150	0.0	1.6	6.5
19. Manufacture of textiles, wearing apparel and leather related products	244,496	264,527	269,636	144,741	8.2	1.9	1.1
20. Manufacture of wood and of products of wood and cork, except furniture	23,472	25,258	25,970	12,499	7.6	2.8	-2.2
21. Manufacture of paper products, printing and reproduction of media products	24,738	24,925	24,763	13,141	0.8	-0.6	7.1
22. Manufacture of coke and refined petroleum products	28,858	27,514	29,602	14,123	-4.7	7.6	-5.4
23. Manufacture of chemical products and basic pharmaceutical products	75,582	81,982	83,473	44,498	8.5	1.8	7.7
24. Manufacture of rubber and plastic products	83,307	82,187	79,685	38,776	-1.3	-3.0	7.7
25. Manufacture of other non- metallic mineral products	87,090	81,037	77,101	36,730	-7.0	-4.9	-8.3
26. Manufacture of basic metals and fabricated metal products	24,591	26,589	26,922	14,092	8.1	1.2	20.6
27. Manufacture of machinery and equipment	30,849	30,845	31,445	14,918	0.0	1.9	23.5
28. Manufacture of furniture	63,922	67,488	80,989	42,073	5.6	20.0	4.5
29. Other manufacturing, and repair and installation of machinery and equipment	41,962	44,443	55,636	29,526	5.9	25.2	5.9
30. Electricity, gas, steam and air conditioning supply	75,262	76,789	78,636	40,206	2.0	2.4	4.1
31. Water collection, treatment and supply	10,554	10,975	11,475	5,884	4.0	4.6	3.2
32. Sewerage, waste, treatment and disposal activities	14,572	15,511	17,354	10,343	6.4	11.9	22.4
33. Construction	514,757	553,438	534,391	245,249	7.5	-3.4	-5.1
Services	**4,245,461**	**4,405,644**	**4,689,910**	**2,404,109**	**3.8**	**6.5**	**7.1**
34. Wholesale and retail trade	848,686	859,977	892,696	508,936	1.3	3.8	5.8
35. Transportation of goods and passengers including warehousing	805,391	849,539	888,091	385,532	5.5	4.5	2.2
36. Postal and courier activities	4,441	4,364	4,055	2,399	-1.7	-7.1	20.1
37. Accommodation, food and beverage service activities	134,160	126,392	131,409	69,346	-5.8	4.0	8.6
38. Programming and broadcasting activities and audio video productions	2,252	2,422	2,519	1,333	7.6	4.0	8.4
39. Telecommunication	26,450	27,395	30,909	18,217	3.6	12.8	17.7
40. IT programming consultancy and related activities	7,972	9,693	10,597	5,000	21.6	9.3	-4.7
41. Financial service activities and auxiliary financial services	364,688	386,009	450,925	247,381	5.8	16.8	12.7
42. Insurance, reinsurance and pension funding	69,026	70,854	72,524	29,378	2.6	2.4	7.5
43. Real estate activities, including ownership of dwelling	369,719	417,024	443,880	248,470	12.8	6.4	16.2
44. Professional services	155,741	161,963	166,420	73,973	4.0	2.8	-11.5
45. Public administration and defence; compulsory social security	385,615	382,470	402,192	198,115	-0.8	5.2	7.5
46. Education	167,107	157,477	173,529	82,589	-5.8	10.2	-4.0
47. Human health activities, residential care and social work activities	173,898	146,551	147,683	69,052	-15.7	0.8	0.9
48. Other personal service activities	730,316	803,514	872,482	464,386	10.0	8.6	11.6
Equals Gross Value Added (GVA), at Basic Price	**6,873,506**	**7,136,401**	**7,433,083**	**3,771,731**	**3.8**	**4.2**	**5.1**
Taxes less subsidies on products	715,011	709,801	762,896	257,256	-0.7	7.5	13.0
Equals Gross Domestic Product (GDP), at Market Price	**7,588,517**	**7,846,202**	**8,195,979**	**4,028,987**	**3.4**	**4.5**	**5.6**

(a) The data is based on the revised base year (2010) GDP estimates
(b) Annual
(c) Provisional

Source : Department of Census and Statistics

TABLE 3
Expenditure on Gross Domestic Product at Current Market Prices (a)

Rs. million

ITEM	2013	2014	2015 Projections
1. Private Consumption Expenditure	6,451,710	6,753,648	7,294,879
2. General Government Consumption Expenditure	1,137,291	1,317,832	1,651,238
3. Gross Domestic Capital Formation	2,829,677	3,056,599	3,145,105
4. Exports of Goods and Services	1,949,158	2,186,488	2,390,610
5. Less: Imports of Goods and Services	2,775,711	3,022,986	3,168,503
Gross Domestic Product	**9,592,125**	**10,291,581**	**11,313,329**

(a) CBSL estimates based on the medium term macroeconomic framework

Sources : Department of Census and Statistics
Central Bank of Sri Lanka

TABLE 4
Trends in Principle Agricultural Crops

CATEGORY	Unit	2011	2012	2013	2014 (a)	2015 First Half (b)	2015 Annual (c)
1. Tea							
1.1 Production (d)	kg. mn	327.5	328.4	340.0	338.0	172.6	345.1
1.2 Extent (e)	ha. '000	222	222	222	222	222	222
1.3 Cost of Production (f)	Rs/kg	355.0	390.9	422.7	475.1	-	-
1.4 Average Price							
- Colombo Auction	Rs/kg	360.7	392.4	444.4	461.9	409.7	394.0
- Export (f.o.b.)	Rs/kg	510.4	563.9	623.9	649.4	599.0	584.0
2. Rubber							
2.1 Production	kg. mn	158.2	152.0	130.4	98.6	50.4	98.0
2.2 Extent	ha. '000	129	131	134	134	134	140
2.3 Yield	kg/ha.	1,566	1,459	1247	889	950	950
2.4 Cost of Production							
- Estate Sector	Rs/kg	188.2	223.7	259.4	282.0	-	-
- Small Holding Sector	Rs/kg	129.6	136.0	150.0	160.0	-	-
2.5 Average Price							
- Colombo Auction (RSS 1)	Rs/kg	508.8	416.6	376.9	285.8	252.2	249.9
- Export (f.o.b.)	Rs/kg	535.4	420.7	389.9	363.0	318.1	319.3
3. Coconut							
3.1 Production	nuts mn	2,808	2,940	2,513	2,870	1,500	3,500
3.2 Extent	ha. '000	395	395	392	418	404	418
3.3 Cost of Production	Rs/nut	10.3	11.6	13.6	15.1	-	-
3.4 Average Export Price (f.o.b.)(g)	Rs/nut	39.2	28.8	29.4	38.9	65.9	62.5
4. Paddy (h)							
4.1 Production	mt '000	3,894	3,846	4,621	3,381	2,877	4,765
- Maha	mt '000	1,996	2,717	2,846	2,236	2,877	2,877
- Yala	mt '000	1,898	1,129	1,774	1,145	-	1,888
4.2 Area							
- Sown	ha. '000	1,223	1,067	1,227	964	773	1,265
- Harvested	ha. '000	981	883	1,067	793	659	1,097
4.3 Fertiliser Issues	mt '000	453	412	363	272	202	334
4.4 Yield	kg/ha.	3,970	4,353	4,329	4,264	4,364	4,343

(a) Revised
(b) Provisional
(c) Projections based on information available upto end August 2015
(d) Including green tea
(e) Extents under tea was revised based on the Census of Tea Small Holdings in Sri Lanka conducted by the Department of Census and Statistics in 2005.
(f) Weighted average cost of production of public sector estates and private plantation companies includes green leaf suppliers profit margin.
(g) Three major coconut kernel products only.
(h) On a cultivation year basis (Maha harvesting falls in the first half of the year).

Sources : Sri Lanka Tea Board
Rubber Development Department
Ministry of Plantation Industries
Department of Census and Statistics
National Fertiliser Secretariat
Plantation Companies
Sri Lanka Customs
Central Bank of Sri Lanka

TABLE 5
Foreign Direct Investment of BOI Enterprises by Sector (a)

US dollars million

SECTOR	2010	2011	2012	2013	2014 (b)	First Half	
						2014	2015 (b)
Manufacturing							
Food, Beverages and Tobacco Products	17.5	41.8	75.9	49.7	44.7	20.6	34.8
Textile, Wearing Apparel and Leather Products	37.6	95.0	86.7	102.6	83.1	28.2	12.3
Wood and Wooden Products	1.4	2.1	2.4	1.7	2.5	0.5	0.8
Paper, Paper Products, Printing and Publishing	8.7	3.9	4.0	2.1	36.3	31.9	0.7
Chemicals, Petroleum, Coal, Rubber and Plastic Products	44.4	66.1	59.2	114.4	91.9	41.3	31.8
Non-metallic Mineral Products	10.5	17.2	17.7	45.2	29.7	9.5	7.7
Fabricated Metal, Machinery and Transport Equipment	14.9	68.3	38.8	17.0	7.0	3.0	40.3
Manufactured Products not elsewhere specified	24.6	28.0	22.9	27.1	38.7	17.0	19.6
Agriculture	6.4	18.0	7.2	8.5	5.7	4.6	2.8
Services							
Hotels & Restaurants	5.6	215.6	117.3	67.9	68.4	27.2	140.2
IT & BPO (c)	11.5	14.1	25.9	19.3	24.7	12.1	8.3
Other Services	27.5	40.9	224.6	149.1	413.3	371.3	11.0
Infrastructure							
Housing, Property Development and Shop Office	42.1	91.5	55.7	217.6	339.2	95.8	102.9
Telephone and Telecommunication Network	205.2	196.8	242.1	359.8	152.5	69.4	45.9
Power Generation, Fuel, Gas, Petroleum and Other	58.4	166.7	96.5	44.9	12.5	5.9	4.9
Port Container Terminals	n.a.	n.a.	202.2	164.5	178.2	114.6	51.1
Total	**516.3**	**1,066.1**	**1,279.2**	**1,391.4**	**1,528.4**	**853.0**	**515.1**

(a) Includes loans, excludes inflows to non-BOI companies and direct investment in listed companies in the CSE not registered with the BOI.
(b) Provisional
(c) Information Technology and Business Process Outsourcing

Source : Board of Investment of Sri Lanka

TABLE 6
Developments in Economic Infrastructure

SECTOR	2011	2012	2013	2014	2014 For the Period	2015 (a) For the Period
1. Electricity					**Jan.-Aug.**	**Jan.-Aug.**
Installed Capacity (MW - End Period)	3,148	3,312	3,362	3,939	3,419	3,781
Total Power Generation (GWh)	11,528	11,801	11,898	12,357	8,207	8,675
Share of Hydropower in Total Generation (%) (b)	35	23	50	29	22	34
2. Transport					**Jan.-Jun.**	**Jan.-Jun.**
2.1 Sri Lanka Transport Board						
Operated Kilometerage (Million)	341	338	344	371	173	211
Passenger Kilometerage (Million)	11,907	11,909	12,201	12,700	6,084	7,209
Average No. of Operated Buses	4,365	4,314	4,373	4,596	4,393	5,127
Total Revenue (Rs. Million)	21,019	26,313	30,189	33,665	16,138	17,395
Operating Expenditure (Rs. Million)	24,326	30,122	33,684	35,528	17,161	19,488
Operating Loss (Rs. Million)	3,307	3,809	3,496	1,863	1,024	2,092
2.2 Sri Lanka Railways						
Operated Kilometerage ('000)	10,030	10,367	10,924	11,075	5,384	5,648 (c)
Passenger Kilometerage (Million)	4,574	5,039	6,257	6,842	3,211	3,505
Freight Ton Kilometerage (Million)	154	142	133	130	67	64 (c)
Total Revenue (Rs. Million)	4,235	4,852	5,423	5,909	2,788	3,114
Operating Expenditure (Rs. Million)	8,295	8,648	10,586	16,943	6,025	5,746
Operating Loss (Rs. Million)	4,060	3,796	5,163	11,034	3,236	2,632
2.3 New Registration of Motor Vehicles					**Jan.-Sep.**	**Jan.-Sep.**
Buses	4,248	3,095	1,805	3,851	2,031	3,264
Motor Cars	57,886	31,546	28,380	38,780	24,982	74,966
Three Wheelers	138,426	98,815	83,673	79,038	57,202	96,987
Dual Purpose Vehicles	33,518	37,397	24,603	20,799	14,819	29,442
Motor Cycles	253,331	192,284	169,280	272,885	160,890	273,691
Goods Transport Vehicles	14,818	12,266	5,872	5,121	3,648	5,459
Land Vehicles	23,194	21,892	13,038	9,082	5,978	7,823
Total Vehicles Registered	525,421	397,295	326,651	429,556	269,550	491,632
3. Port Services					**Jan.-Sep.**	**Jan.-Sep.**
Ships Arrived at Ports of Sri Lanka	4,323	4,134	3,976	4,264	3,155	3,529
Total Cargo Handling (MT '000)	65,069	64,970	66,243	74,410	55,682	57,858
Total Container Handling (TEUs '000)	4,263	4,187	4,306	4,908	3,666	3,888
Transshipments (TEUs '000)	3,216	3,167	3,274	3,781	2,842	2,985
4. Telecommunications Services					**End June**	**End June**
Fixed Access Telephones (No.)	3,608,392	3,449,391	2,706,787	2,709,848	2,695,526	2,676,695
Cellular Telephones (No.)	18,319,447	20,324,070	20,315,150	22,123,000	21,012,025	24,235,102
Internet Connections (No.)	844,749	1,365,655	2,009,456	3,396,295	2,788,119	3,640,847
Telephone Density (Telephones per 100 Persons)	105	116	112	120	114	128
Mobile Telephone Density (Telephones per 100 Persons)	88	100	99	107	101	116

(TEUs=Twenty-Foot Equivalent Container Units)
(a) Provisional
(b) Excluding mini hydropower
(c) Estimates

Sources : Ceylon Electricity Board
Sri Lanka Transport Board
Sri Lanka Railways
Department of Motor Traffic
Sri Lanka Ports Authority
Telecommunications Regulatory Commission of Sri Lanka

TABLE 7
Consumer Price Indices

2006/07 = 100

PERIOD		Index		Year-on-Year Change (%)		Annual Average Change (%)	
		CCPI	Core CCPI	CCPI	Core CCPI	CCPI	Core CCPI
2012	December	168.6	164.2	9.2	7.6	7.6	5.8
2013	December	176.5	167.7	4.7	2.1	6.9	4.4
2014	December	180.2	173.0	2.1	3.2	3.3	3.5
2013	January	170.0	164.4	9.8	7.3	8.1	6.1
	February	170.7	165.4	9.8	7.4	8.6	6.3
	March	170.8	165.8	7.5	6.8	8.8	6.4
	April	170.0	166.3	6.4	6.1	8.8	6.5
	May	173.9	166.6	7.3	5.7	8.8	6.6
	June	176.5	166.8	6.8	4.3	8.6	6.4
	July	176.8	166.8	6.1	3.1	8.3	6.2
	August	176.2	166.7	6.3	3.1	8.0	5.9
	September	175.8	166.8	6.2	3.0	7.8	5.7
	October	176.1	166.9	6.7	2.6	7.6	5.3
	November	176.5	167.2	5.6	2.4	7.3	4.9
	December	176.5	167.7	4.7	2.1	6.9	4.4
2014	January	177.5	170.1	4.4	3.5	6.5	4.1
	February	177.8	170.6	4.2	3.1	6.0	3.8
	March	177.9	171.5	4.2	3.4	5.7	3.5
	April	178.4	171.9	4.9	3.4	5.6	3.3
	May	179.5	172.1	3.2	3.3	5.3	3.1
	June	181.4	172.7	2.8	3.5	4.9	3.0
	July	183.2	172.9	3.6	3.7	4.7	3.1
	August	182.3	173.2	3.5	3.9	4.5	3.2
	September	181.9	172.9	3.5	3.7	4.2	3.2
	October	179.0	172.9	1.6	3.6	3.8	3.3
	November	179.2	173.2	1.5	3.6	3.5	3.4
	December	180.2	173.0	2.1	3.2	3.3	3.5
2015	January	183.2	173.6	3.2	2.1	3.2	3.4
	February	178.9	172.0	0.6	0.8	2.9	3.2
	March	178.1	173.9	0.1	1.4	2.5	3.0
	April	178.5	176.1	0.1	2.4	2.1	2.9
	May	179.8	176.5	0.2	2.6	1.9	2.9
	June	181.6	177.5	0.1	2.8	1.7	2.8
	July	182.8	178.9	-0.2	3.5	1.3	2.8
	August	181.9	180.0	-0.2	3.9	1.0	2.8
	September	181.4	180.2	-0.3	4.2	0.7	2.8

CCPI - Colombo Consumers' Price Index
Core CCPI - Core Colombo Consumers' Price Index

Source : Department of Census and Statistics

TABLE 8

Wage Rate Indices

PERIOD		Index						Year - on - Year - Change (%)						Annual Average Change (%)					
		Workers in Wages Boards Trades (a)	Government Employees (b)					Workers in Wages Boards Trades (a)	Government Employees (b)					Workers in Wages Boards Trades (a)	Government Employees (b)				
			Senior Level Officers	Tertiary Level Officers	Secondary Level Officers	Primary Level Officers	All Central Government		Senior Level Officers	Tertiary Level Officers	Secondary Level Officers	Primary Level Officers	All Central Government		Senior Level Officers	Tertiary Level Officers	Secondary Level Officers	Primary Level Officers	All Central Government
2012	December	3,662.9	100.0	100.0	100.0	100.0	100.0	0.2	3.9	3.6	3.4	3.2	3.5	22.2	3.9	3.6	3.4	3.2	3.5
2013	December	3,938.1	105.9	109.7	110.1	110.2	109.9	7.5	5.9	9.7	10.1	10.2	9.9	5.7	3.6	6.0	6.5	6.8	6.3
2014	December	4,127.0	118.1	126.3	129.4	132.5	128.8	4.8	11.4	15.1	17.5	20.2	17.3	3.7	7.0	9.8	10.7	11.6	10.5
2015 (c)	January	4,127.0	118.1	126.3	129.4	132.5	128.8	4.8	7.9	10.4	11.9	13.6	11.8	3.6	7.1	9.7	10.7	11.7	10.6
	February	4,127.2	132.5	146.1	152.4	159.0	151.4	4.8	21.1	27.6	31.8	36.3	31.3	3.6	8.3	11.2	12.5	13.9	12.3
	March	4,127.0	132.5	146.1	152.4	159.0	151.4	4.8	21.1	27.6	31.8	36.3	31.3	3.8	9.5	12.7	14.3	16.0	14.1
	April	4,126.9	132.5	146.1	152.4	159.0	151.4	4.8	21.1	27.6	31.8	36.3	31.3	4.1	10.7	14.1	16.0	18.1	15.8
	May	4,127.0	132.5	146.1	152.4	159.0	151.4	4.8	21.1	27.6	31.8	36.3	31.3	4.4	11.9	15.6	17.8	20.3	17.6
	June	4,127.0	138.2	154.0	161.6	169.6	160.4	4.8	26.4	34.5	39.7	45.4	39.2	4.7	13.5	17.7	20.3	23.2	20.0
	July	4,127.1	138.2	154.0	161.6	169.6	160.4	4.8	26.4	34.5	39.7	45.4	39.2	5.0	15.2	20.1	23.1	26.4	22.8
	August	4,127.1	138.2	154.0	161.6	169.6	160.4	0.7	26.4	34.5	39.7	45.4	39.2	4.6	17.0	22.4	25.8	29.5	25.4

(a) The Index numbers are calculated by the Labour Department on fixed weights based on the numbers employed as at 31 December, 1978. The wage rates used in the calculation of index numbers are minimum wages for different trades fixed by the Wages Boards.

(b) Recognizing the need to have a more representative Public Sector Wage Rate Index, a new Index was compiled. Old index (1978=100) covers non executive government employees and school teachers only. The new index covers all levels of public sector employees, under the disaggregation of Senior, Tertiary, Secondary and Primary levels. The base period employment structure was based on a special Annual Public Sector Employment Survey (APSES) conducted in 2012. Initial salary scales of specific occupations and due allowances as specified in the Public Administration Circular No. 06/2006 issued by the Ministry of Public Administration and Home Affairs on 25th April 2006 were used to construct the Index.

(c) Provisional

Sources : Department of Labour
Central Bank of Sri Lanka

TABLE 9

Labour Force, Employment and Unemployment (a)

ITEM	2011	2012	2013	2014	2015 (b)	
					First Half	Projections
Household Population, ' 000 (Age 15 years and above)	16,122	16,081	16,360	16.532	16,623	16,664
Labour Force, ' 000	8,544	8,454	8,802	8,805	8,968	8,999
Employed, ' 000	8,186	8,118	8,418	8,424	8,552	8,594
Unemployed, ' 000	357	336	384	381	416	405
Labour Force Participation Rate (% of Household Population)	53.0	52.6	53.8	53.3	54.0	54.0
Unemployment Rate (% of Labour Force)	4.2	4.0	4.4	4.3	4.6	4.5

(a) Data covers the entire island
(b) Provisional

Sources : Department of Census and Statistics
Central Bank of Sri Lanka

TABLE 10
Developments in External Trade

US dollars million

CATEGORY	2011	2012	2013	2014 (a)	2014 (a) Jan - Aug.	2015 (a) Jan - Aug.	Growth % Jan - Aug.
EXPORTS							
Agricultural Exports	**2,527.8**	**2,331.5**	**2,581.1**	**2,793.9**	**1,848.4**	**1,667.8**	**(9.8)**
Tea	1,490.9	1,411.9	1,542.2	1,628.3	1,083.1	901.2	(16.8)
Rubber	206.4	125.1	71.3	45.3	35.9	17.8	(50.4)
Coconut	266.0	208.9	204.6	356.4	233.9	238.0	1.8
Kernel Products	136.7	79.7	85.8	214.3	132.8	147.3	10.9
Other	129.3	129.2	118.9	142.1	101.0	90.7	(10.2)
Spices	235.2	256.1	355.4	264.6	161.0	249.3	54.8
Vegetables	16.9	13.3	24.9	40.1	26.6	19.9	(25.0)
Unmanufactured Tobacco	38.4	42.2	47.6	41.3	27.5	22.5	(18.2)
Minor Agricultural Products	88.7	76.0	101.3	165.2	104.1	106.7	2.5
Seafood	185.3	198.0	233.7	252.7	176.4	112.5	(36.2)
Industrial Exports	**7,991.7**	**7,371.2**	**7,749.4**	**8,262.0**	**5,491.6**	**5,446.1**	**(0.8)**
Textiles and Garments	4,191.2	3,991.1	4,508.3	4,929.9	3,256.0	3,218.7	(1.1)
Rubber Products	884.8	859.4	887.8	889.8	599.0	524.9	(12.4)
Petroleum Products	552.7	463.0	427.7	338.0	237.8	289.4	21.7
Gems, Diamonds and Jewellery	531.5	558.9	445.5	393.6	268.9	218.8	(18.6)
Food, Beverages and Tobacco	348.2	284.3	235.2	289.3	194.6	174.3	(10.5)
Machinery and Mechanical Appliances	312.2	297.5	312.3	342.9	224.6	197.3	(12.2)
Printing Industry Products	235.1	41.8	36.3	52.4	32.3	32.6	0.9
Transport Equipment	225.0	164.9	146.3	151.8	98.4	219.7	123.2
Leather, Travel Goods and Footwear	65.1	55.4	76.8	138.9	93.3	95.0	1.8
Ceramic Products	38.3	35.8	40.4	41.3	27.4	24.0	(12.4)
Other Industrial Exports	607.5	619.2	632.7	694.1	459.3	451.5	(1.7)
Mineral Exports	**32.9**	**61.3**	**51.6**	**59.5**	**50.2**	**22.4**	**(55.4)**
Unclassified Exports	**6.5**	**9.6**	**12.2**	**14.7**	**9.0**	**10.2**	**13.8**
Total Exports	**10,558.8**	**9,773.5**	**10,394.3**	**11,130.1**	**7,399.1**	**7,146.5**	**(3.4)**
IMPORTS							
Consumer Goods	**3,653.6**	**2,995.2**	**3,182.5**	**3,852.5**	**2,288.3**	**3,142.4**	**37.3**
Food and Beverages	1,566.9	1,304.4	1,368.1	1,633.7	995.6	1,124.4	12.9
Rice	18.4	24.4	17.9	281.7	76.5	128.4	67.8
Sugar	426.1	344.9	288.9	255.5	203.0	185.7	(8.5)
Dairy Products	345.2	307.3	291.0	339.4	237.6	169.6	(28.6)
Lentils	116.9	69.0	104.1	121.2	74.3	99.6	33.9
Other	660.4	558.8	666.1	636.0	404.0	541.2	33.9
Other Consumer Goods	2,086.7	1,690.8	1,814.4	2,218.8	1,292.7	2,018.0	56.1
Vehicles	881.0	495.1	582.2	896.7	476.4	904.6	89.9
Medical and Pharmaceuticals Items	348.2	372.2	378.3	380.5	248.1	304.7	22.8
Home Appliances	227.9	218.5	192.2	156.4	92.1	135.9	47.5
Clothing and Accessories	141.8	174.5	201.7	282.7	174.9	255.7	46.2
Other	487.9	430.5	460.0	502.5	301.1	417.1	38.5
Intermediate Goods	**12,275.3**	**11,577.6**	**10,553.7**	**11,397.7**	**7,738.9**	**6,397.2**	**(17.3)**
Fuel	4,794.9	5,044.6	4,308.2	4,597.3	3,448.5	1,789.3	(48.1)
Textiles and Textile Articles	2,320.7	2,266.4	2,045.8	2,327.6	1,469.7	1,547.4	5.3
Diamonds and Precious Stones and Metals	1,075.7	587.7	482.9	175.4	95.3	131.3	37.8
Chemical Products	702.0	669.7	734.3	808.2	512.5	585.8	14.3
Wheat and Maize	429.4	363.8	323.2	404.7	268.0	214.0	(20.1)
Fertiliser	407.2	311.0	238.7	272.4	163.2	162.0	(0.7)
Other Intermediate Goods	2,545.3	2,334.4	2,420.8	2,812.0	1,781.8	1,967.5	10.4
Investment Goods	**4,286.1**	**4,589.8**	**4,252.7**	**4,152.2**	**2,519.0**	**3,007.4**	**19.4**
Machinery and Equipment	2,141.4	2,356.0	2,221.9	2,131.0	1,369.0	1,482.9	8.3
Building Materials	1,076.1	1,237.4	1,357.2	1,308.9	837.2	845.1	1.0
Transport Equipment	1,064.6	991.9	667.8	707.3	310.7	676.3	117.7
Other Investment Goods	4.0	4.5	5.8	4.9	2.1	3.0	41.1
Unclassified Imports	**53.9**	**27.7**	**13.9**	**14.4**	**8.6**	**11.5**	**34.3**
Total Imports	**20,268.8**	**19,190.2**	**18,002.8**	**19,416.8**	**12,554.8**	**12,558.6**	**0.0**

(a) Provisional

Sources : Sri Lanka Customs
Ceylon Petroleum Corporation & Other Exporters of Petroleum
Lanka IOC PLC
National Gem and Jewellery Authority
Central Bank of Sri Lanka

TABLE 11
Balance of Payments (a)

US dollars million

ITEM	2013	2014 (b)	First Half	
			2014 (c)	2015 (b)
Current Account Balance	**-2,541**	**-2,018**	**-435**	**-905**
Trade Balance	**-7,609**	**-8,287**	**-3,535**	**-4,086**
Exports	10,394	11,130	5,450	5,415
Imports	18,003	19,417	8,985	9,501
Services (net)	**1,180**	**1,880**	**898**	**1,003**
Receipts	4,685	5,605	2,762	2,987
Payments	3,505	3,725	1,864	1,984
Primary Income (net)	**-1,751**	**-1,839**	**-768**	**-839**
Receipts	132	153	77	70
Payments	1,883	1,992	845	909
Secondary Income (net)	**5,639**	**6,227**	**2,970**	**3,018**
Secondary Income: credit	6,428	7,046	3,382	3,440
Secondary Income: debit	788	819	412	422
Capital Account (net)	**71**	**58**	**41**	**16**
Capital Account: credit	90	73	51	24
Capital Account: debit	19	15	10	8
Current and Capital Account (net)	**-2,470**	**-1,960**	**-393**	**-889**
Financial Account (net) (d)	**-3,064**	**-1,936**	**61**	**-614**
Direct Investment: Assets	**65**	**67**	**34**	**28**
Direct Investment: Liabilities	**933**	**944**	**295**	**278**
Portfolio Investment: Assets	**...**	**...**	**...**	**...**
Debt Securities	...	...	...	...
Portfolio Investment: Liabilities	**2,068**	**1,996**	**1,922**	**152**
Equity and Investment Fund Shares	226	184	51	16
Debt Securities	1,843	1,812	1,871	137
Financial Derivatives	-	-	-	-
Other Investment: Assets	**-191**	**688**	**472**	**-15**
Currency and Deposits	-459	276	128	-65
Trade Credit and Advances	225	98	58	-55
Other Accounts Receivable	42	314	285	104
Other Investment: Liabilities	**1,048**	**1,298**	**691**	**418**
Currency and Deposits	108	-292	-137	400
Loans	1,118	1,847	724	509
Trade Credit and Advances	-235	-407	50	-478
Other Accounts Payable	58	151	54	-13
Special Drawing Rights	-	-	-	-
Reserve Assets	**1,112**	**1,548**	**2,463**	**222**
Net Errors and Omissions	**-594**	**24**	**455**	**275**
Overall Balance	**985**	**1,369**	**1,954**	**-792**

(a) Presentation of the BOP conforms to the latest (sixth) edition of the Balance of Payments and International Investment Position Manual (BPM6) of the International Monetary Fund.
(b) Provisional
(c) Revised
(d) Assets - Liabilities

Source : Central Bank of Sri Lanka

TABLE 12
International Investment Position

US dollars million
(End Period Position)

ITEM	2014 (a)		June 2015 (a)	
	Assets	Liabilities	Assets	Liabilities
Direct Investment (b)	**607**	**10,511**	**635**	**10,006**
Equity and Investment Fund Shares	604	7,984	632	7,361
Debt Instruments	3	2,527	3	2,645
Portfolio Investment	**...**	**12,918**	**...**	**12,676**
Equity and Investment Fund Shares		2,192		1,901
Debt Securities (c)	...	10,726	...	10,775
Deposit-taking Corporations	...	2,263	...	2,219
General Government		8,289		8,384
Other Sectors		174		172
Other Investment	**2,108**	**29,736**	**2,093**	**30,115**
Currency and Deposits	**558**	**1,594**	**494**	**1,994**
Central Bank	-	6	-	407
Deposit-taking Corporations	558	1,587	494	1,587
Loans	-	**25,451**	-	**25,938**
Central Bank	-	1,248	-	969
Deposit-taking Corporations	-	4,282	-	4,731
General Government	-	15,762	-	15,946
Other Sectors (d)	-	4,159	-	4,291
Trade Credit and Advances	**558**	**1,681**	**503**	**1,203**
Deposit-taking Corporations	126	-	116	-
Other Sectors (e)	432	1,681	387	1,203
Other Accounts Receivable/Payable	**992**	**437**	**1,096**	**424**
Central Bank (f)	-	437	-	424
Deposit-taking Corporations	992	-	1,096	-
Special Drawing Rights		**573**		**556**
Reserve Assets	**8,208**		**7,525**	
Monetary Gold	893		839	
Special Drawing Rights	9		12	
Reserve Position in the IMF	69		67	
Other Reserve Assets	7,237		6,607	
Currency and Deposits	3,795		3,076	
Debt Securities	3,442		3,531	
Total Assets / Liabilities	**10,924**	**53,164**	**10,253**	**52,798**
Net International Investment Position		**-42,241**		**-42,544**
IIP- Maturity-wise Breakdown				
Short Term	1,937	9,462	1,974	9,353
Long Term	8,986	43,703	8,279	43,444

(a) Provisional
(b) Include direct investment stock position of BOI, CSE and other private companies
(c) Foreign currency debt issuances are based on market values while domestic currency issuances are based on book value
(d) Include loans outstanding position of project loans obtained by State Owned Business Enterprises and private sector companies
(e) Include outstanding trade credit position of Ceylon Petroleum Corporation and other private sector companies
(f) Outstanding position of ACU liabilities managed by the Central Bank

Source : Central Bank of Sri Lanka

Table 13
Outstanding External Debt Position

US dollars million
(End Period Position)

ITEM	2013	2014 (a)	June 2015 (a)
General Government	**22,290**	**24,051**	**24,330**
Short Term	**507**	**399**	**216**
Debt Securities (Treasury Bills) (b)	507	399	216
Long Term	**21,783**	**23,651**	**24,114**
Debt Securities	5,968	7,890	8,168
Treasury Bonds (b)	2,483	2,603	2,557
SLDBs (b)	-	-	299
International Sovereign Bonds (c)	3,485	5,287	5,312
Loans	15,814	15,762	15,946
Central Bank	**2,956**	**2,264**	**2,356**
Short Term	**291**	**443**	**831**
Currency and Deposits	6	6	407
Other Accounts Payable (ACU Liabilities)	285	437	424
Long Term	**2,665**	**1,821**	**1,525**
Special Drawing Rights allocation	609	573	556
Loans (IMF-SBA Facility)	2,056	1,248	969
Deposit-taking Corporations	**6,758**	**8,133**	**8,538**
Short Term	**3,884**	**4,747**	**5,202**
Currency and Deposits (d)	1,880	1,587	1,587
Loans	2,003	3,159	3,615
Long Term	**2,875**	**3,386**	**3,335**
Debt Securities (c)	1,954	2,263	2,219
Loans	921	1,123	1,116
Other Sectors (e)	**5,801**	**6,014**	**5,667**
Short Term	**2,089**	**1,681**	**1,203**
Trade Credit and Advances (f)	2,089	1,681	1,203
Long Term	**3,713**	**4,333**	**4,464**
Debt Securities (c)	-	174	172
Loans	3,713	4,159	4,291
Private Sector Corporations	1,410	1,542	1,750
State Owned Business Enterprises and Public Corporations	2,303	2,618	2,542
Direct Investment: Inter-company Lending (g)	**2,100**	**2,527**	**2,645**
Gross External Debt Position	**39,905**	**42,988**	**43,535**
As a Percentage of GDP			
Gross External Debt	53.7	54.5	58.1
Short Term Debt	9.1	9.2	9.9
Long Term Debt	44.6	45.3	48.1

Source : Central Bank of Sri Lanka

(a) Provisional
(b) Based on book value
(c) Based on market prices
(d) Include deposits of non-resident foreign currency holders
(e) Include private sector and State Owned Business Enterprises
(f) Include trade credits outstanding of Ceylon Petroleum Corporation and private sector companies
(g) Include inter-company borrowings and shareholder advances on BOI registered companies

TABLE 14
Exchange Rate Movements (Rupees per Unit of Foreign Currency)

PERIOD		End Period Rates					
		US Dollar	Pound Sterling	Euro	Japanese Yen	Indian Rupee	SDR (a)
	2010	110.9530	171.4113	147.5619	1.3611	2.4761	170.8370
	2011	113.9013	175.4479	147.4225	1.4669	2.1529	174.8690
	2012	127.1608	205.4728	168.1257	1.4799	2.3262	195.3110
	2013	130.7530	215.5790	180.4522	1.2459	2.1116	201.3550
	2014	131.0486	204.0427	159.4206	1.0979	2.0675	189.8640
2014	January	130.6957	215.4584	177.1515	1.2721	2.0890	200.5130
	February	131.0008	218.5683	179.5628	1.2859	2.1131	202.3920
	March	130.6949	217.3783	179.7382	1.2709	2.1822	201.7550
	April	130.5962	219.7281	180.3142	1.2753	2.1613	202.3840
	May	130.4631	218.2256	177.4950	1.2851	2.2142	200.9750
	June	130.3018	221.8584	177.8098	1.2862	2.1701	201.4330
	July	130.2102	220.3287	174.4686	1.2671	2.1678	199.3920
	August	130.1962	215.9239	171.6246	1.2553	2.1520	197.6880
	September	130.3707	211.7546	165.4013	1.1924	2.1178	193.2860
	October	130.8436	209.2124	164.8499	1.1961	2.1347	193.4300
	November	131.0082	206.0104	163.2493	1.1086	2.1212	191.8160
	December	131.0486	204.0427	159.4206	1.0979	2.0675	189.8640
2015	January	132.2000	199.3510	149.8090	1.1204	2.1406	186.3760
	February	132.9000	204.9983	148.9078	1.1143	2.1478	187.0430
	March	132.9000	196.5990	143.8709	1.1066	2.1242	183.3350
	April	132.9000	205.0448	147.7383	1.1185	2.0932	186.9130
	May	133.9000	205.3022	146.7410	1.0828	2.0979	186.1880
	June	133.7000	210.2967	149.6237	1.0927	2.0971	188.0350
	July	133.6000	208.4828	146.5993	1.0761	2.0905	186.2870
	August	134.3000	207.2383	150.8861	1.1082	2.0277	188.5310
	September	141.2335	214.0041	158.9159	1.1786	2.1433	198.2550

(a) Special Drawing Rights (SDRs), the unit of account of the International Monetary Fund

Source : Central Bank of Sri Lanka

TABLE 15
Government Fiscal Operations

ITEM	2011	2012	2013	2014 (a)	2014 Jan. -Jul. (a)	2015 Jan. -Jul. (a)	2015 Approved Estimates
Rs. million							
Total Revenue and Grants	**983,003**	**1,067,532**	**1,153,306**	**1,204,621**	**601,346**	**721,715**	**1,534,700**
Total Revenue	967,862	1,051,460	1,137,447	1,195,206	597,868	721,477	1,504,700
Tax Revenue	845,697	908,913	1,005,895	1,050,362	538,120	663,262	1,337,000
Non Tax Revenue	122,165	142,547	131,552	144,844	59,748	58,215	167,700
Grants	15,141	16,071	15,859	9,415	3,478	238	30,000
Expenditure and Net Lending	**1,433,183**	**1,556,499**	**1,669,396**	**1,795,865**	**1,073,869**	**1,226,479**	**2,034,076**
Recurrent	1,024,906	1,131,023	1,205,180	1,322,898	766,964	983,639	1,552,035
Capital and Net Lending	408,276	425,476	464,216	472,967	306,905	242,840	482,041
o/w Public Investment	422,300	443,973	481,203	486,610	n.a.	n.a.	492,341
Current Account Surplus (+)/Deficit (-)	**-57,043**	**-79,563**	**-67,733**	**-127,692**	**-169,096**	**-262,162**	**-47,335**
Primary Account Surplus (+)/Deficit (-)	**-93,481**	**-80,469**	**-72,083**	**-154,849**	**-173,690**	**-177,906**	**-74,346**
Overall Surplus (+)/Deficit (-)	**-450,180**	**-488,967**	**-516,090**	**-591,244**	**-472,523**	**-504,764**	**-499,376**
Total Financing	**450,180**	**488,967**	**516,090**	**591,244**	**472,523**	**504,764**	**499,376**
Foreign Financing	218,956	286,455	123,700	212,523	283,175	-54,890	291,376
Loans	193,888	180,759	67,905	211,733	249,631	-10,614	n.a.
Non Resident Investments in Tresury Bills / Bonds	25,068	105,696	55,795	790	33,544	-44,277	n.a.
Domestic Financing	231,224	202,511	392,390	378,721	189,347	559,654	208,000
Market Borrowings	236,022	202,511	379,390	392,084	202,711	559,654	208,000
Non Bank	44,171	70,984	82,414	265,155	116,341	260,434	138,000
Bank	191,850	131,527	296,977	126,929	86,370	299,220	70,000
Other Borrowings	-4,797	-	13,000	-13,363	-13,363	-	-
As a percentage of GDP (b)							
Total Revenue and Grants	**13.6**	**12.2**	**12.0**	**11.7**	**5.8**	**6.4**	**13.6**
Total Revenue	13.4	12.0	11.9	11.6	5.8	6.4	13.3
Tax Revenue	11.7	10.4	10.5	10.2	5.2	5.9	11.8
Non Tax Revenue	1.7	1.6	1.4	1.4	0.6	0.5	1.5
Grants	0.2	0.2	0.2	0.1	...	...	0.3
Expenditure and Net Lending	**19.9**	**17.8**	**17.4**	**17.4**	**10.4**	**10.8**	**18.0**
Recurrent	14.2	13.0	12.6	12.9	7.5	8.7	13.7
Capital and Net Lending	5.7	4.9	4.8	4.6	3.0	2.1	4.3
o/w Public Investment	5.8	5.1	5.0	4.7	n.a.	n.a.	4.3
Current Account Surplus (+)/Deficit (-)	**-0.8**	**-0.9**	**-0.7**	**-1.2**	**-1.6**	**-2.3**	**-0.4**
Primary Account Surplus (+)/Deficit (-)	**-1.3**	**-0.9**	**-0.8**	**-1.5**	**-1.7**	**-1.6**	**-0.7**
Overall Surplus (+)/Deficit (-)	**-6.2**	**-5.6**	**-5.4**	**-5.7**	**-4.6**	**-4.5**	**-4.4**
Total Financing	**6.2**	**5.6**	**5.4**	**5.7**	**4.6**	**4.5**	**4.4**
Foreign Financing	3.0	3.3	1.3	2.1	2.8	-0.5	2.6
Loans	2.7	2.1	0.7	2.1	2.4	-0.1	n.a.
Non Resident Investments in Tresury Bills / Bonds	0.3	1.2	0.6	...	0.3	-0.4	n.a.
Domestic Financing	3.2	2.3	4.1	3.7	1.8	4.9	1.8
Market Borrowings	3.3	2.3	4.0	3.8	2.0	4.9	1.8
Non Bank	0.6	0.8	0.9	2.6	1.1	2.3	1.2
Bank	2.7	1.5	3.1	1.2	0.8	2.6	0.6
Other Borrowings	-0.1	-	0.1	-0.1	-0.1	-	-

(a) Provisional

(b) Based on revised base year (2010) GDP estimates compiled by the Department of Census and Statistics.

Source : Ministry of Finance

TABLE 16
Developments in Monetary Aggregates and Underlying Factors

Rs. million

ITEM	End 2011	End 2012	End 2013	End 2014	End August 2015 (a)
1. Reserve Money	**439,504**	**484,362**	**488,586**	**577,912**	**637,227**
(year-on-year change in per cent)	21.9	10.2	0.9	18.3	19.8
Net Foreign Assets of the Central Bank	340,090	396,468	529,128	688,007	450,889
Net Domestic Assets of the Central Bank	99,414	87,894	-40,543	-110,095	186,338
2. Narrow Money (M_1)	**438,707**	**450,049**	**484,578**	**612,155**	**649,993**
(year-on-year change in per cent)	7.7	2.6	7.7	26.3	20.2
3. Broad Money (M_{2b})	**2,491,740**	**2,929,070**	**3,417,853**	**3,875,853**	**4,252,507**
(year-on-year change in per cent)	19.1	17.6	16.7	13.4	16.8
3.1 Net Foreign Assets	98,057	-25,831	-76,325	15,126	-278,843
Central Bank	340,090	396,468	529,128	688,007	450,889
Commercial Banks	-242,033	-422,299	-605,453	-672,881	-729,731
3.2 Net Domestic Assets	2,393,683	2,954,901	3,494,178	3,860,727	4,531,350
Domestic Credit	3,037,970	3,696,131	4,200,783	4,640,146	5,286,896
Net Credit to the Government	833,610	1,045,232	1,301,342	1,435,900	1,735,631
Central Bank	262,742	278,843	114,007	149,672	244,550
Commercial Banks	570,868	766,389	1,187,335	1,286,228	1,491,081
Credit to Public Corporations	198,500	292,477	365,098	446,047	482,524
(year-on-year change in per cent)	37.3	47.3	24.8	22.2	42.8
Credit to the Private Sector	2,005,860	2,358,421	2,534,343	2,758,199	3,068,742
(year-on-year change in per cent)	34.5	17.6	7.5	8.8	21.3
Other Items (Net)	-644,287	-741,230	-706,605	-779,418	-755,547
Memorandum Items:					
Money Multiplier	5.67	6.05	7.00	6.71	6.67
Velocity (M_{2b} Average) (b)	3.15(c)	3.17(c)	2.99(c)	2.83(c)	n.a.

(a) Provisional
(b) Based on rebased GDP estimates (2010 Prices) by the Department of Census and Statistics
(c) Revised

Source : Central Bank of Sri Lanka

TABLE 17
Commercial Banks' Loans and Advances to the Private Sector (a)(b)

CATEGORY	End June 2014		End June 2015 (c)		Growth Rate %
	Amount (Rs. mn)	As a % of Total	Amount (Rs. mn)	As a % of Total	
1. Agriculture and Fishing	**280,207**	**11.2**	**291,215**	**9.8**	**3.9**
of which					
Tea	62,588	2.5	68,979	2.3	10.2
Rubber	19,958	0.8	20,312	0.7	1.8
Coconut	6,768	0.3	9,820	0.3	45.1
Paddy	16,186	0.6	16,562	0.6	2.3
Vegetable and Fruit Cultivation and Minor Food Crops	13,936	0.6	16,239	0.5	16.5
Livestock and Dairy Farming	9,509	0.4	12,401	0.4	30.4
Fisheries	9,931	0.4	10,259	0.3	3.3
2. Industry	**929,929**	**37.3**	**1,188,002**	**40.1**	**27.8**
of which					
Construction	406,784	16.3	528,541	17.9	29.9
of which					
Personal Housing including Purchasing/Construction/Repairs	188,702	7.6	249,940	8.4	32.5
Staff Housing	50,753	2.0	60,786	2.1	19.8
Food and Beverages	64,777	2.6	73,524	2.5	13.5
Textiles and Apparel	101,074	4.0	131,767	4.5	30.4
Wood and Wood Products including Furniture	7,220	0.3	9,952	0.3	37.9
Paper and Paper Products	7,318	0.3	8,293	0.3	13.3
Chemical, Petroleum, Pharmaceutical and Health Care, and Rubber and Plastic Products	39,513	1.6	60,910	2.1	54.2
Non-metallic Mineral Products	9,731	0.4	10,510	0.4	8.0
Basic Metal Products	12,856	0.5	15,105	0.5	17.5
Fabricated Metal Products, Machinery and Transport Equipment	86,701	3.5	105,203	3.6	21.3
Other Manufactured Products	9,189	0.4	11,664	0.4	26.9
3. Services	**626,603**	**25.1**	**786,989**	**26.6**	**25.6**
of which					
Wholesale and Retail Trade	207,595	8.3	232,007	7.8	11.8
Tourism	70,922	2.8	88,809	3.0	25.2
Financial and Business Services	102,710	4.1	165,266	5.6	60.9
Transport	30,438	1.2	34,723	1.2	14.1
Communication and Information Technology	32,397	1.3	43,489	1.5	34.2
Printing and Publishing	11,524	0.5	14,320	0.5	24.3
Education	5,207	0.2	5,562	0.2	6.8
Health	13,443	0.5	17,818	0.6	32.5
Shipping, Aviation and Supply, and Freight Forwarding	10,981	0.4	12,685	0.4	15.5
4. Personal Loans and Advances (d)	**624,889**	**25.0**	**644,054**	**21.8**	**3.1**
of which					
Consumer Durables	84,027	3.4	108,197	3.7	28.8
Pawning	200,941	8.1	153,259	5.2	-23.7
Credit Cards	54,830	2.2	58,880	2.0	7.4
Personal Education	1,393	0.1	2,013	0.1	44.5
Personal Healthcare	2,139	0.1	2,458	0.1	14.9
5. Safety Net Scheme Related Advances	**34,088**	**1.4**	**50,192**	**1.7**	**47.2**
6. Total	**2,495,717**	**100.0**	**2,960,451**	**100.0**	**18.6**

(a) Based on the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, which includes loans and advances of both DBUs and OBUs of commercial banks.
(b) Includes loans, overdrafts, bills discounted and purchased and excludes cash items in the process of collection
(c) Provisional
(d) Excludes personal housing loans, which have been included under 'Construction' classified under' Industry'.

Source : Central Bank of Sri Lanka

TABLE 18
Selected Interest Rates

Per cent per annum

END PERIOD RATE	2011	2012	2013	2014	2015 September
1. Standing Deposit Facility Rate (SDFR) (a)	7.00	7.50	6.50	6.50	6.00
2. Standing Lending Facility Rate (SLFR) (b)	8.50	9.50	8.50	8.00	7.50
3. Bank Rate (c)	15.00	15.00	15.00	15.00	15.00
4. Average Weighted Prime Lending Rate (AWPR) - Weekly	10.77	14.40	10.13	6.26	7.04
5. Average Weighted Deposit Rate (AWDR)	7.24	10.10	9.37	6.20	6.00
6. Average Weighted Call Money Rate (AWCMR)	8.97	9.83	7.66	6.21	6.35
7. Treasury Bill Yield Rates (d)					
91-day	8.68	10.00	7.54	5.74	6.78
364-day	9.31	11.69	8.29	6.01	7.18
8. Treasury Bond Yield Rates (d)					
2-year	7.77	13.62	-	-	6.70
3-year	7.99	13.50	10.87	-	8.18
4-year	8.20	14.10	-	-	9.50
5-year	8.60	14.15	10.64	8.93	9.58
6-year	8.85	14.25	10.97	-	9.90
9. Rates on Foreign Currency Deposits					
Savings Deposits - US Dollar	0.02-2.80	0.02-2.70	0.02-2.68	0.01-3.25	0.02-3.00
Fixed Deposits - US Dollar (1 year)	0.15-6.00	0.15-6.00	0.15-5.00	0.06-4.25	0.10-5.25
10. National Savings Bank					
Savings Deposits	5.00	5.00	5.00	5.00	5.00
Fixed Deposits (1 year)	8.50	12.50	9.50	6.50	6.50

(a) Repurchase rate was renamed as Standing Deposit Facility Rate (SDFR) with effect from 02 January 2014.
(b) Reverse repurchase rate was renamed as Standing Lending Facility Rate(SLFR) with effect from 02 January 2014.
(c) Bank Rate: Central Bank rate on advances to commercial banks.
(d) Weighted average yield rates at the latest available auction

Sources : National Savings Bank
Central Bank of Sri Lanka

TABLE 19
Expansion of Banking Activities (a)

CATEGORY	2011	2012	2013	2014	Jan. - June 2015 (b)
1. Number of Banks	33	33	33	34	33
2. Number of Bank Branches (c)	3,249	3,389	3,484	3,545	3,547
3. Number of ATMs	2,602	2,840	3,117	3,336	3,447
4. Number of Credit Cards Issued (d)	142,512	167,424	166,181	176,750	89,431
5. Number of Credit Cards in Use	844,361	891,170	951,625	1,032,833	1,084,019
6. Number of Debit Cards Issued (d)	1,874,388	1,902,154	2,321,527	2,864,770	1,396,626
7. Number of Debit Cards in Use	8,771,558	10,374,577	12,428,583	13,570,494	14,022,970
8. Number of Tele Banking Transactions (d)	190,879	208,290	300,094	731,773	689,878
9. Number of Internet Banking Transactions (d)	5,460,648	6,972,538	8,942,384	10,817,849	6,268,244
10. Banking Density (e)	15.6	16.6	16.9	17.1	n.a.

(a) End Period
(b) Provisional
(c) All banking outlets except Student Savings Units
(d) During the period
(e) Number of branches per 100,000 people

Source : Central Bank of Sri Lanka

TABLE 20
Money and Capital Market Developments

Rs. million

CATEGORY	2011	2012	2013	2014	Jan. - Sep. 2015 (a)
Money Market					
Call Money Market					
Total Turnover	2,433,808	3,179,061	2,079,206	2,198,356	1,917,812
Treasury Bill Market					
Total Amount Issued	1,164,570	1,649,984	1,235,304	1,121,705	1,164,723
Total Outstanding (b)	661,008	709,254(c)	774,052	750,267	841,689
Capital Market					
Treasury Bond Market					
Total Amount Issued	602,951	968,221(c)	1,017,134	860,695	700,813
Total Outstanding (b)	2,023,179	2,495,495	2,951,809	3,341,727	3,600,916
Listed Corporate Bond Market					
Total Amount Issued	1,000	12,500	68,262	54,234	43,414
Total Issues (Number)	1	3	28	20	16
Total Turnover	2,691	76	2,229	7,140	3,796
Market Capitalisation (b)	37,859	46,311	107,985	168,309	205,703
Share Market (b)					
ASPI (1985 = 100)	6,074	5,643	5,913	7,299	7,051
MPI (1998 Dec = 1,000)	5,229	5,119	-	-	-
S & P SL 20 (2004 = 1,000)	-	3,085	3,264	4,089	3,826
Total Turnover	546,256	213,827	200,468	340,917	198,550
Net Foreign Purchases	-19,039	38,661	22,783	21,217	-3,915
Market Capitalisation	2,213,873	2,167,581	2,459,897	3,104,860	2,990,810

(a) Provisional
(b) End Period
(c) Revised

Sources : Colombo Stock Exchange
Central Bank of Sri Lanka