

4th CBSL-ADBI-APAEA Workshop
“Monetary Policy and Central Banking Issues in Asia and the Pacific”

Inaugural Remarks

delivered by

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- Professor Tetsushi Sonobe, Dean, Asian Development Bank Institute (ADBI), Japan,
- Professor Paresh Narayan, President, Asia-Pacific Applied Economics Association (APAEA),
- distinguished guests of the ADBI and APAEA,
- researchers from various institutions,
- distinguished academics,
- fellow colleagues of the Central Bank of Sri Lanka,
- ladies and gentlemen.

It gives me a great pleasure to address you at this CBSL-ADBI-APAEA Joint Workshop held under the theme “Monetary Policy and Central Banking Issues in Asia and the Pacific”. I understand that this is the fourth consecutive year that the Central Bank of Sri Lanka is collaborating with the ADBI and APAEA to hold an event of this nature. I make this an opportunity to thank and congratulate Prof. Tetsushi Sonobe, Dean of the ADBI, Prof. Paresh Narayan, President of the APAEA and my colleagues from the Economic Research Department of the Central Bank of Sri Lanka, for continuing this important research endeavor.

As you may already know, the global economic recovery from the COVID-19 pandemic has been slow and uneven. Despite some economic

resilience and progress in reducing inflation from last year's peak, economic activity lags behind pre-pandemic levels. Forces hindering the global recovery include the long-term consequences of the pandemic, the Russia-Ukraine conflict, geopolitical tensions in the Middle East, and the resultant geoeconomic fragmentation. In addition, cyclical factors such as monetary policy tightening and reduced fiscal support amidst high levels of public debt also contribute to this slow and uneven global recovery. Against this backdrop, global growth is forecast to decline further in 2023 and 2024, compared to the growth recorded in 2022, and is expected to remain below the historical average. On the inflation front, global inflation is expected to moderate somewhat in the forthcoming period. However, in most economies, inflation is not expected to reach the targeted levels until 2025. Therefore, central banks globally should continue their efforts to restore price stability, and there is little margin for error on the policy front. At the same time, central banks should be ready to use the appropriate policy tools to relieve potential financial stress when needed.

Amidst the developments mentioned above, the global economic environment has become increasingly challenging and volatile. Therefore, the theme for this year's conference "Monetary Policy and Central Banking Issues in Asia and the Pacific", bears large relevance to the policy questions faced by many central banks, academia, and research institutions in the region. The Asia-Pacific region is crucial to the global economy for several reasons. Some of the world's largest and fastest-growing economic powerhouses are located in the Asia-Pacific region. Moreover, given the existence of large manufacturing capabilities, a high degree of technological innovation, growing consumer markets, the

presence of major financial centers, and its pivotal role in global supply chains, developments in this region have profound implications for the world economy.

Monetary policy and central banking issues in Asia and the Pacific are diverse and multifaceted due to the varying economic landscapes and challenges across the region's countries. Therefore, the contribution of academic and policy-oriented research to addressing these diverse issues is particularly important during the challenging times that we live in today. Another aspect that I need to highlight is the importance of collaborative research, which is becoming the norm in modern academic circles. The collaboration of experts in regional economies enables more insightful and broad-based findings. Therefore, collaborative research among academics and policymakers, such as at today's conference, is of immense importance, and conventions of this nature need to be encouraged further. I understand that the research work expected to be presented today is focused on a wide array of topical questions related to some of the challenges faced by policymakers in Asia and the Pacific region, and I am sure that all participants would be able to benefit from these deliberations.

Let me also very briefly delve into Sri Lanka's recent experience with its worst-ever economic crisis and the sharp rise in inflation. The crisis that Sri Lanka experienced in 2022 was a crisis that had been in the making for many years, triggered by policy errors and exacerbated by other exogenous factors. Failure to build fiscal and external buffers over time made the nation vulnerable to domestic and external shocks, and the COVID-19 pandemic and the related shocks unearthed the vulnerabilities

in the Sri Lankan economy. The country experienced intense pressures on its balance of payments, leading to a shortage of foreign exchange and a weakened exchange rate. Headline inflation rose to a historically high level of around 70 per cent, year-on-year, driven by numerous global and domestic factors. On the other hand, economic growth stalled, recording the highest contraction in economic activity ever experienced during the post-independence era. Several policy measures have been taken jointly by the Central Bank and the Government to stabilise the economy. With a view to countering rising inflationary pressures and anchoring inflation expectations, the Central Bank tightened monetary policy significantly. The Central Bank also implemented a series of policy measures aimed at maintaining external sector stability. In parallel, the Government has initiated a wide range of economic reforms, with the support of the IMF's Extended Fund Facility (EFF), to address the long-standing structural issues of Sri Lanka, thereby enabling the country to reach its growth potential. The outcomes of the policy efforts have eventuated since late 2022.

Sri Lanka entered an impressive disinflation path, eventually bringing inflation down to the targeted levels within a period of one year from its peak in September 2022. The external buffers of the economy are being rebuilt, and the stability of the financial system has been safeguarded. Furthermore, the legislative framework introduced by the Central Bank of Sri Lanka Act would reinforce price stability in the period ahead while ensuring that inflation expectations remain well anchored. In parallel, the Government implemented an array of policies aimed at revenue-based fiscal consolidation, while measures are progressing to restore public debt sustainability. More importantly, Sri Lanka's recent experiences and

policy responses highlight the importance of continued and renewed efforts to study the dynamics of our economies as an integral element in macroeconomic management. In that context, today's proceedings will undoubtedly be helpful to the researchers from the Central Bank of Sri Lanka as well as from various other institutions.

With that note, I would like to conclude my brief remarks and invite all of you to enjoy today's proceedings. On behalf of the Central Bank of Sri Lanka, I welcome all of you to this 4th CBSL-ADBI-APAEA Joint Workshop under the theme "Monetary Policy and Central Banking Issues in Asia and the Pacific". We look forward to continuing collaborative research programmes of this nature in the future as well, thereby contributing towards effective policymaking in the region.

Thank you!