



# STATE OF THE ECONOMY

AS REFLECTED IN THE CENTRAL BANK ANNUAL REPORT 2013

Economic Research Department  
Central Bank of Sri Lanka  
08<sup>th</sup> April 2014

# The economy rebounded strongly with a real GDP growth of 7.3% in 2013...

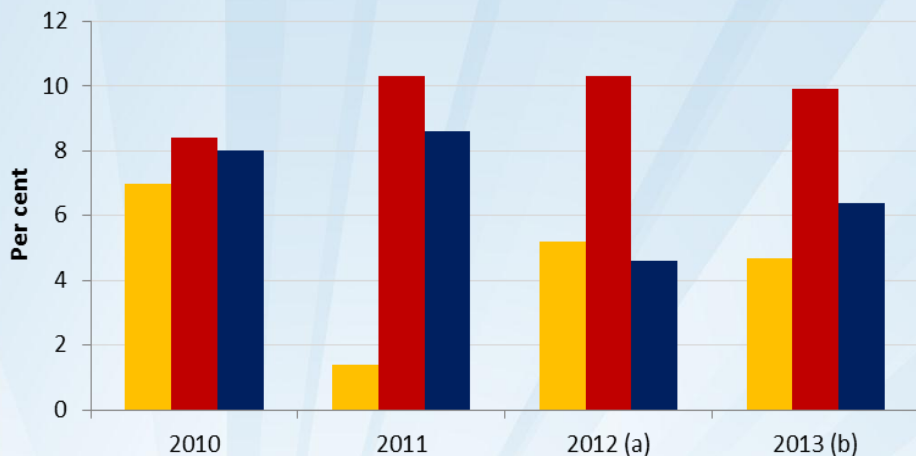
## GDP and Sectoral Growth Rates – Estimates 2011-2013

Major Sector	2011	2012(a)	2013(b)				
	Annual	Annual	Q1	Q2	Q3	Q4	Annual
Agriculture	1.4	5.2	3.4	-1.1	7.2	10.4	4.7
Industry	10.3	10.3	10.7	10.1	8.1	10.7	9.9
Services	8.6	4.6	4.3	6.6	7.9	6.5	6.4
<b>GDP</b>	<b>8.2</b>	<b>6.3</b>	6.1	6.8	7.9	8.2	<b>7.3</b>
(a) Revised			Source: Department of Census and Statistics				
(b) Provisional							



# All sectors of the economy contributed positively to growth in 2013...

Sectorwise GDP Growth (Annual)



(a) Revised  
(b) Provisional

■ Agriculture ■ Industry ■ Services

## Agriculture & Fishing sector: 4.7% ↑

- Paddy: 19.5% ↑
- Fishing: 6.2% ↑
- Tea: 3.6% ↑
- Coconut: 16.1% ↓
- Rubber: 9.1% ↓

## Industry sector: 9.9% ↑

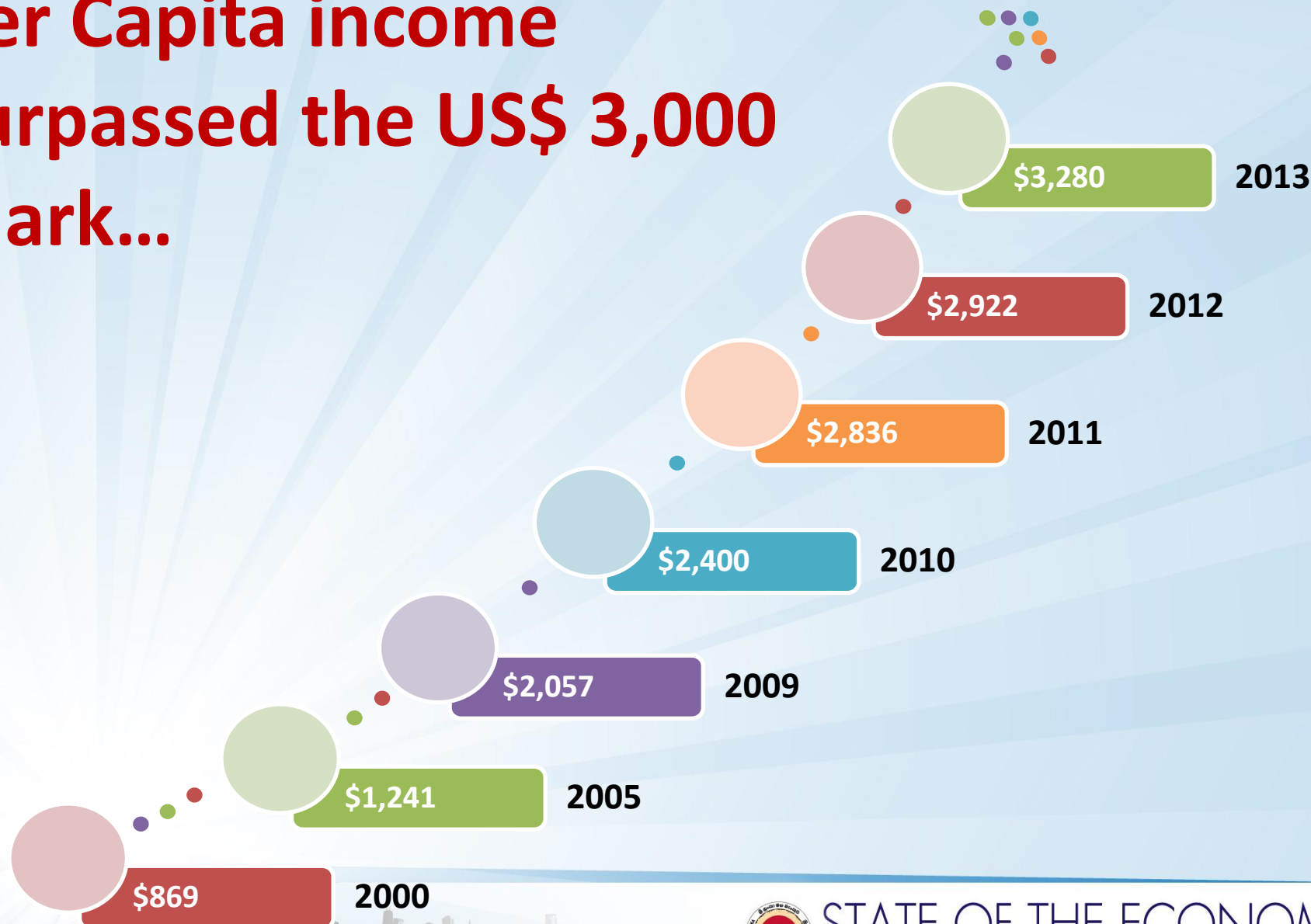
- Construction: 14.4% ↑
- Mining and Quarrying: 11.5% ↑
- Electricity: 11.3% ↑
- Factory industry: 7.9% ↑

## Services sector: 6.4% ↑

- Tourism (Hotels and Restaurants): 22.3% ↑
- Transport: 9.4% ↑
- Wholesale and Retail Trade: 5.5% ↑
- Cargo handling: 3.1% ↑



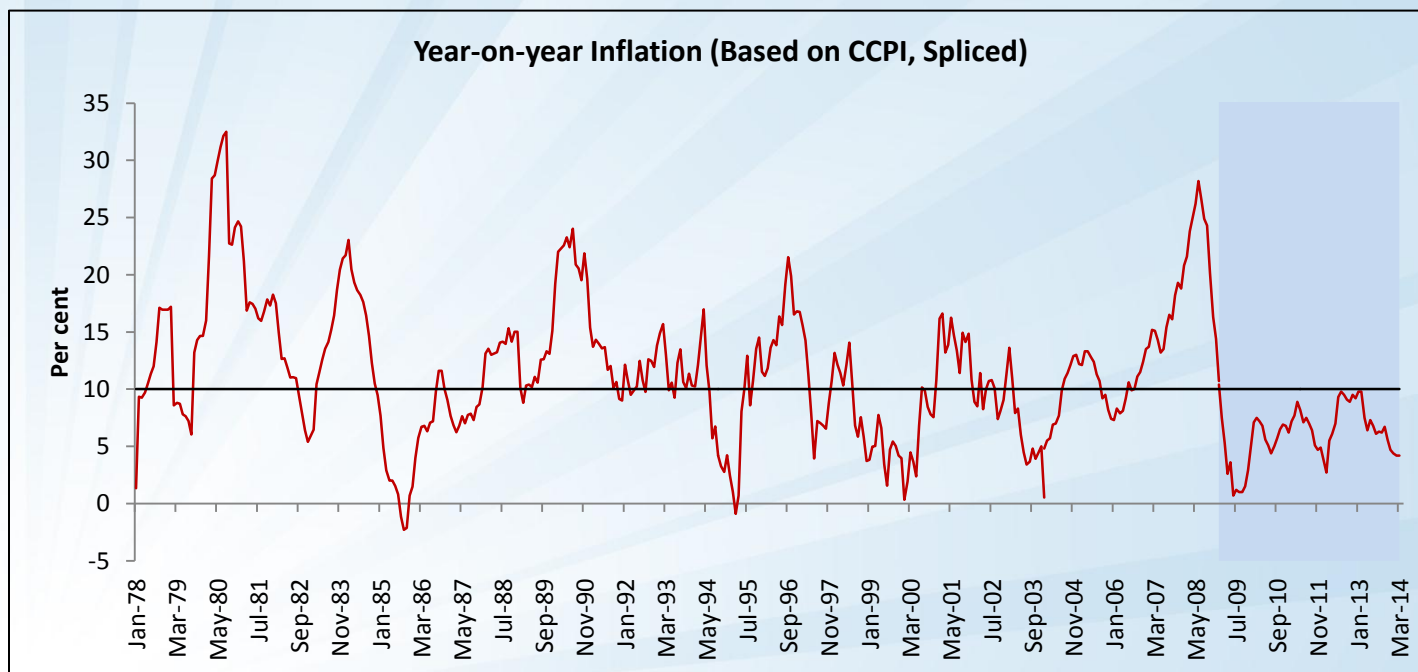
# Per Capita income surpassed the US\$ 3,000 mark...



# Consumer price inflation remained in single digits for the 5<sup>th</sup> consecutive year...

By end 2013...

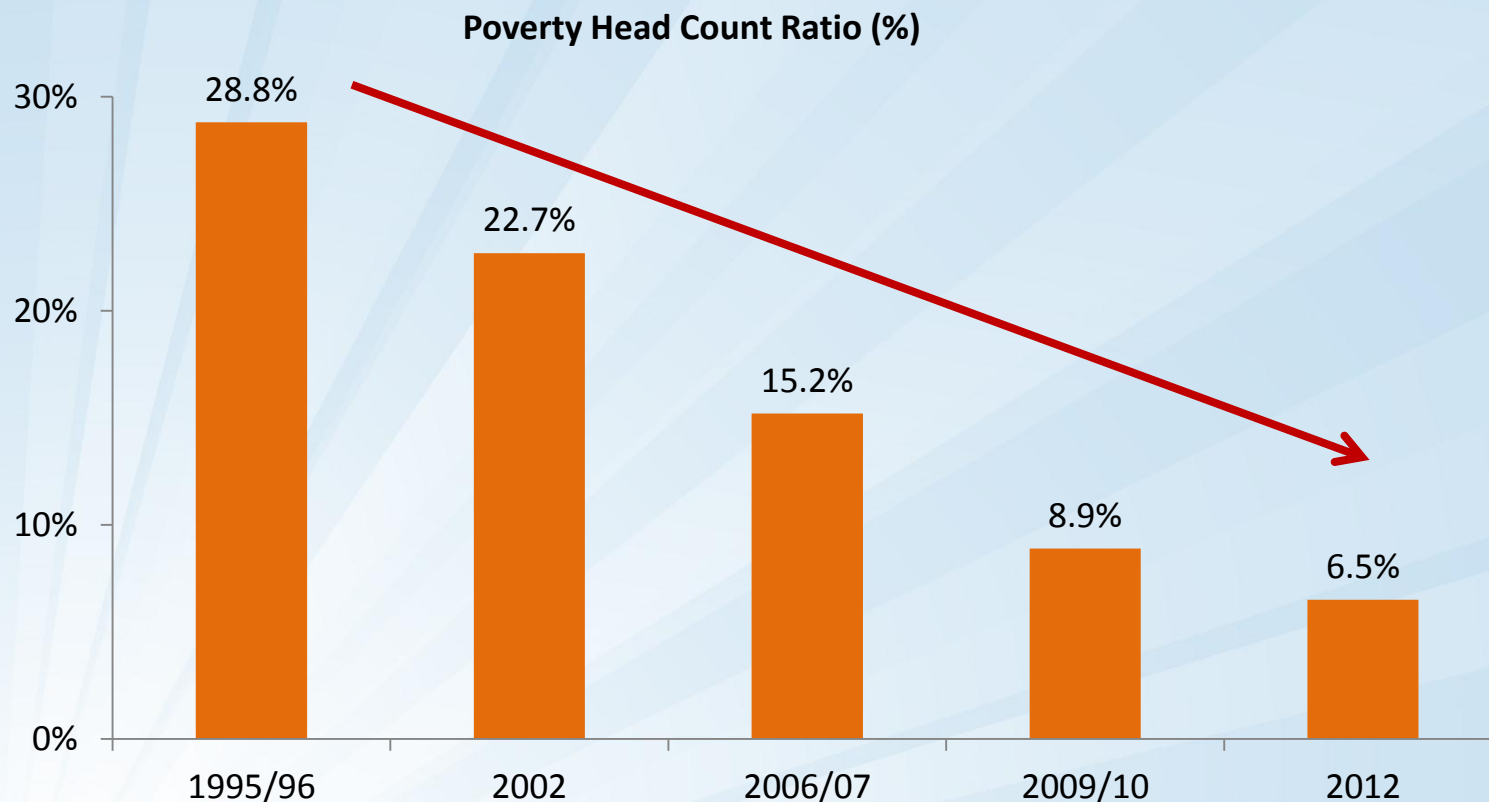
- Headline inflation (year-on-year ): 4.7% *(down from 9.2% at end 2012)*
- Annual average headline inflation: 6.9% *(down from 7.6% in 2012)*
- Core inflation (year-on-year): 2.1% *(down from 7.6% at end 2012)*



**GDP deflator decelerated to 6.7% compared to 8.9% in 2012**



# Poverty levels have continued to decline....



Source: Household Income and Expenditure Surveys, DCS

- Gini coefficient also improved to 0.48 in 2012 from 0.49 in 2009/10 reflecting a reduction in income inequality



# The unemployment rate remained at low levels...

### Unemployment Rate

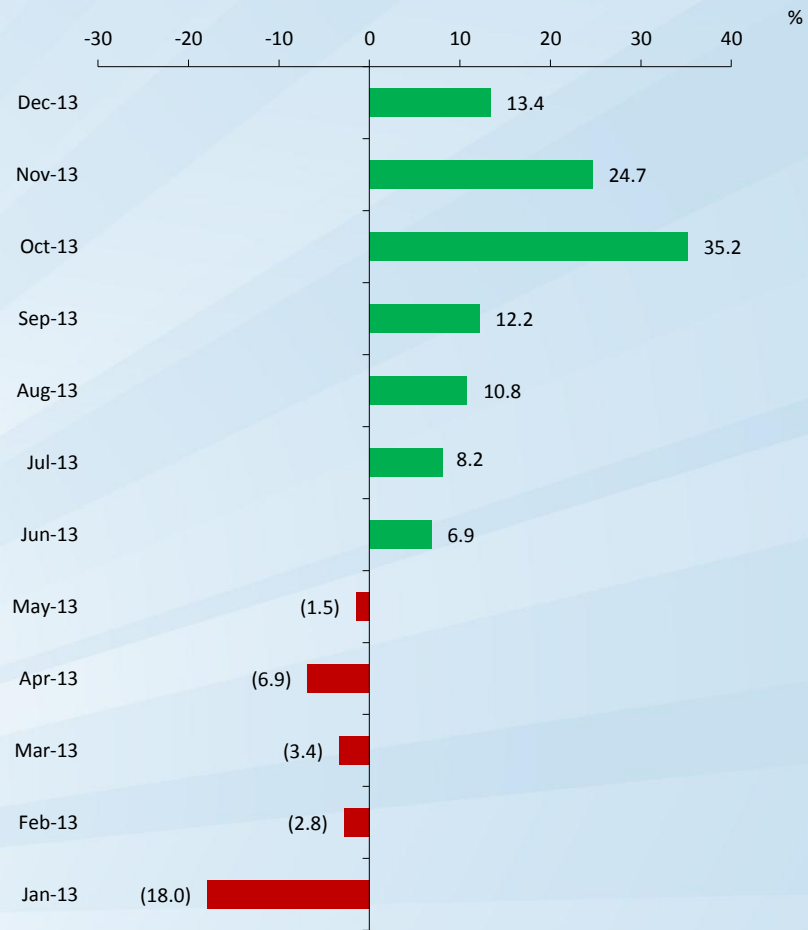


# Earnings from Exports improved by 6.4% in 2013 over a contraction of 7.4% in 2012...

Export Performance (US\$ mn)

Category	2012	2013	Growth (%)
<b>Agricultural Products</b>	2,331.5	2,581.1	10.7
of which,			
Tea	1,411.9	1,542.2	9.2
<b>Industrial Products</b>	7,371.2	7,749.4	5.1
of which,			
Textiles and Garments	3,991.1	4,508.3	13.0
Rubber Products	859.4	887.8	3.3
Food, Beverages and Tobacco	284.3	235.2	-17.3
<b>Mineral Products</b>	61.3	51.6	-15.9
<b>Total Exports</b>	<b>9,773.5</b>	<b>10,394.3</b>	<b>6.4</b>

Exports Growth (Y-o-Y)



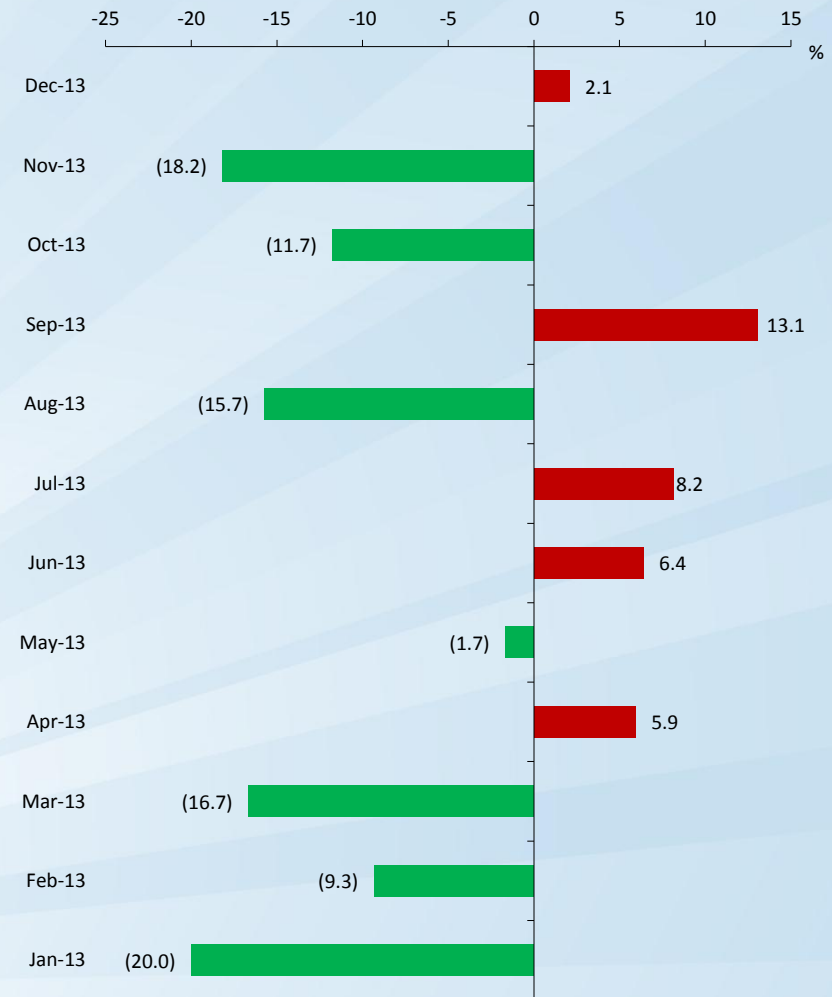


# Expenditure on imports contracted by 6.2% in 2013...

Expenditure on Imports (US\$ mn)

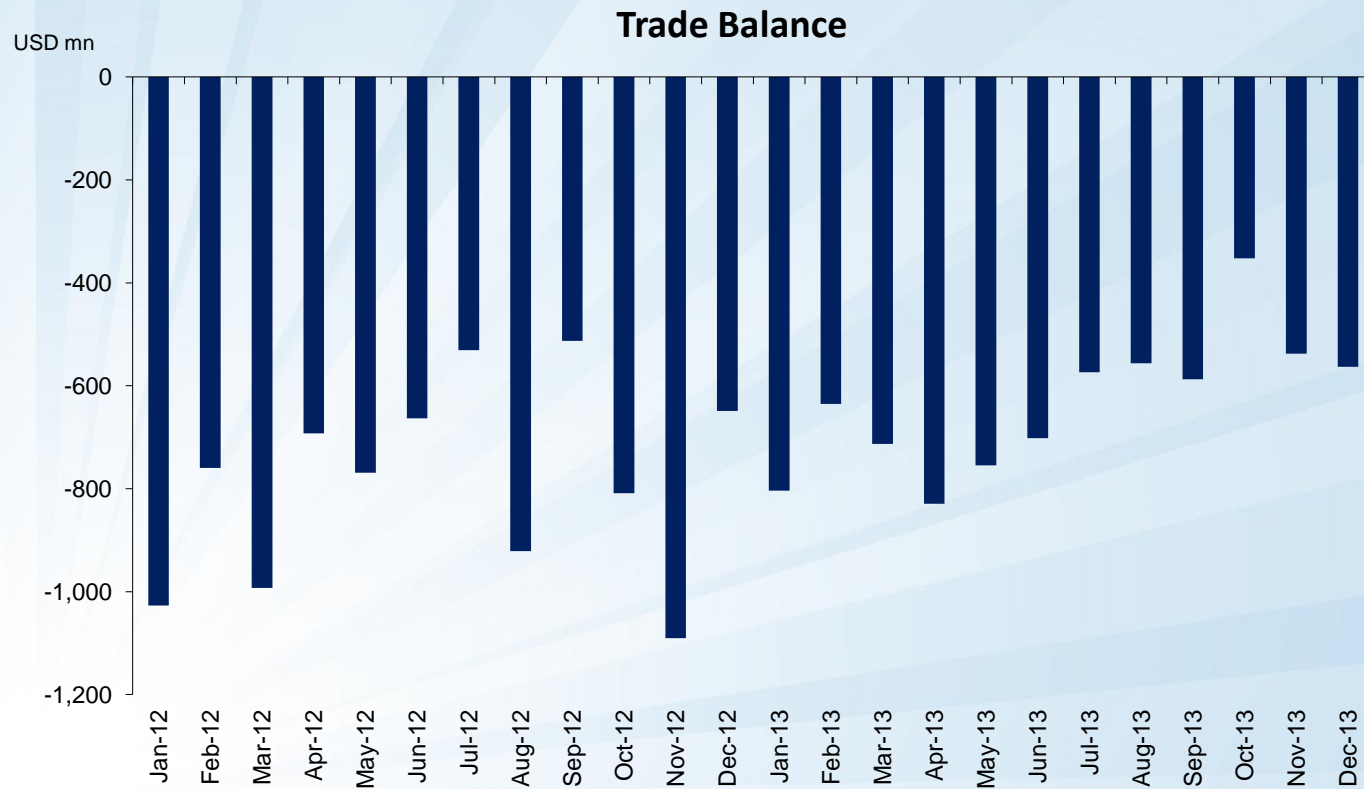
Category	2012	2013	Growth (%)
<b>Consumer Goods</b>	2,995.2	3,182.5	6.3
<i>of which,</i>			
Food and Beverages	1,304.4	1,368.1	4.9
Other Consumer Goods	1,690.8	1,814.4	7.3
<b>Intermediate Goods</b>	11,577.6	10,553.7	-8.8
<i>of which,</i>			
Fuel	5,044.6	4,308.2	-14.6
Textiles and Textile Articles	2,266.4	2,045.8	-9.7
<b>Investment Goods</b>	4,589.8	4,252.7	-7.3
<i>of which,</i>			
Machinery and Equipment	2,356.0	2,221.9	-5.7
Transport Equipment	991.9	667.8	-32.7
Building Materials	1,237.4	1,357.2	9.7
<b>Imports</b>	<b>19,190.2</b>	<b>18,002.8</b>	<b>-6.2</b>

Imports Growth (Y-o-Y)



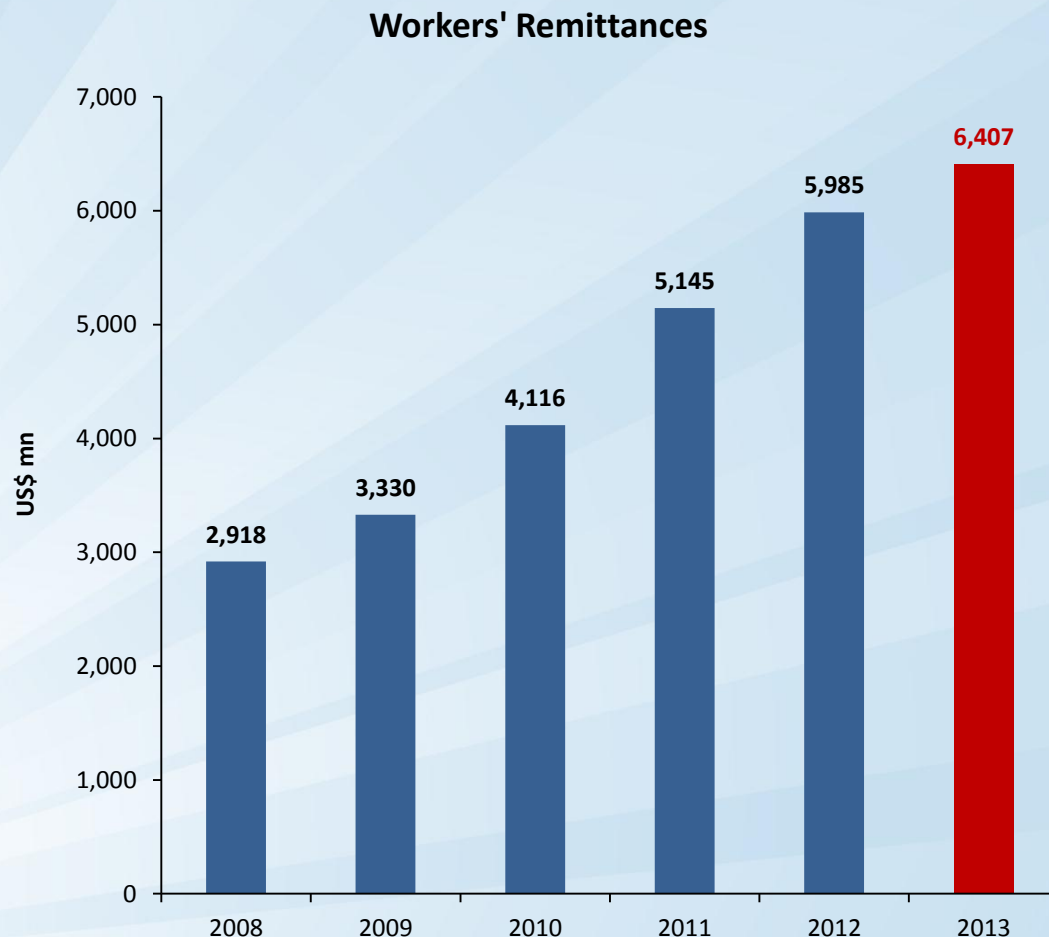
# A notable reduction in the trade deficit was observed in 2013...

- The trade deficit narrowed by 19.2% to US\$ 7,609 mn in 2013 from US\$ 9,417 mn in 2012



## Workers' remittances grew by 7.0% to US\$ 6.4 bn...

- Departures for foreign employment in 2013 stood at 293,105 an increase of 3.8% over 2012
- Increase of migrant workers of the professional and skilled category by 24.6%



# Earnings from tourism surpassed US\$ 1.7 bn in 2013

## ■ Tourist arrivals in 2013
















- Increased by 26.7% to 1.27 million arrivals

## ■ Earnings from tourism

- Grew by 65.1% to US\$ 1,715 mn

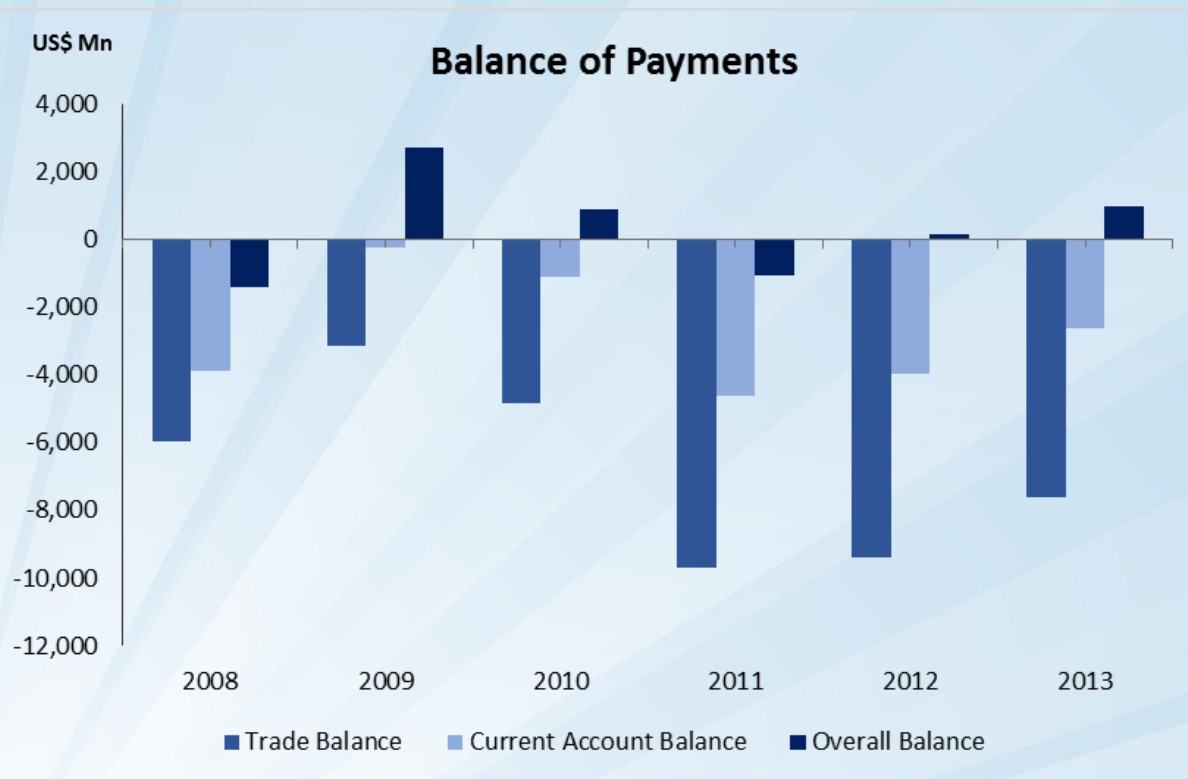
Tourism Performance



Country	2008	2013
India 	85,238	208,795
U.K. 	81,331	137,416
Germany 	30,625	85,470
Maldives 	31,564	79,474
France 	10,594	64,388
China 	9,812	54,288
Australia 	19,536	54,252
Russia 	15,797	51,235
Ukraine 	952	38,607
USA 	14,053	34,690
Japan 	10,075	31,505
Canada 	10,258	30,926
Pakistan 	7,885	25,336
Netherlands 	13,030	22,281
Other 	97,725	355,930
<b>Total</b>	<b>438,475</b>	<b>1,274,593</b>



# BOP recorded a notable surplus ...



	End Dec 2012		End Dec 2013	
	US\$ mn	As a % of GDP	US\$ mn	As a % of GDP
<b>Trade Balance</b>	<b>-9,417</b>	<b>-15.9</b>	<b>-7,609</b>	<b>-11.3</b>
<b>Current Account Balance</b>	<b>-3,982</b>	<b>-6.7</b>	<b>-2,607</b>	<b>-3.9</b>
<b>Overall Balance</b>	<b>151.2</b>		<b>985.4</b>	



# Gross Official Reserves increased to US\$ 7.5 bn in 2013...

### Gross Official Reserves and Months of Imports

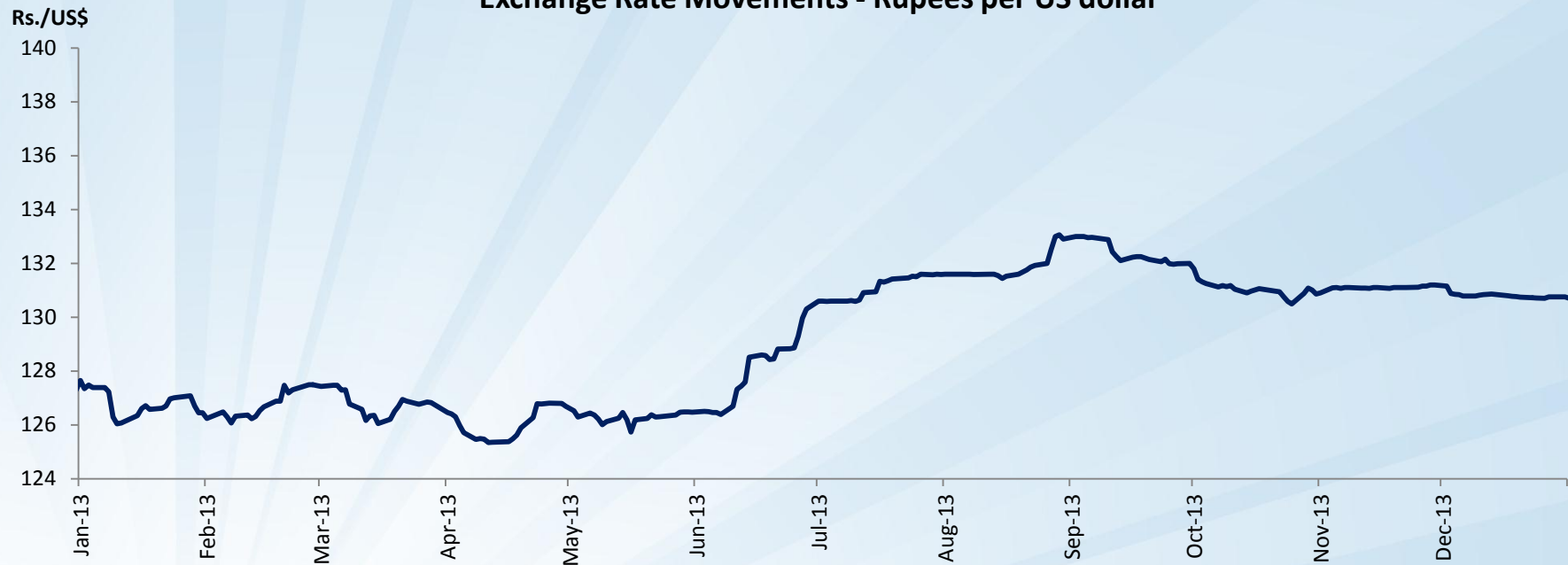


	End Dec 2012	End Dec 2013
<b>Gross Official Reserves (with ACU) (US\$ mn)</b>	<b>7,105.9</b>	<b>7,495.3</b>
<b>Months of Imports</b>	<b>4.4</b>	<b>5.0</b>



# Sri Lankan rupee remained relatively stable in 2013 amidst increased volatility observed in emerging market peers...

Exchange Rate Movements - Rupees per US dollar

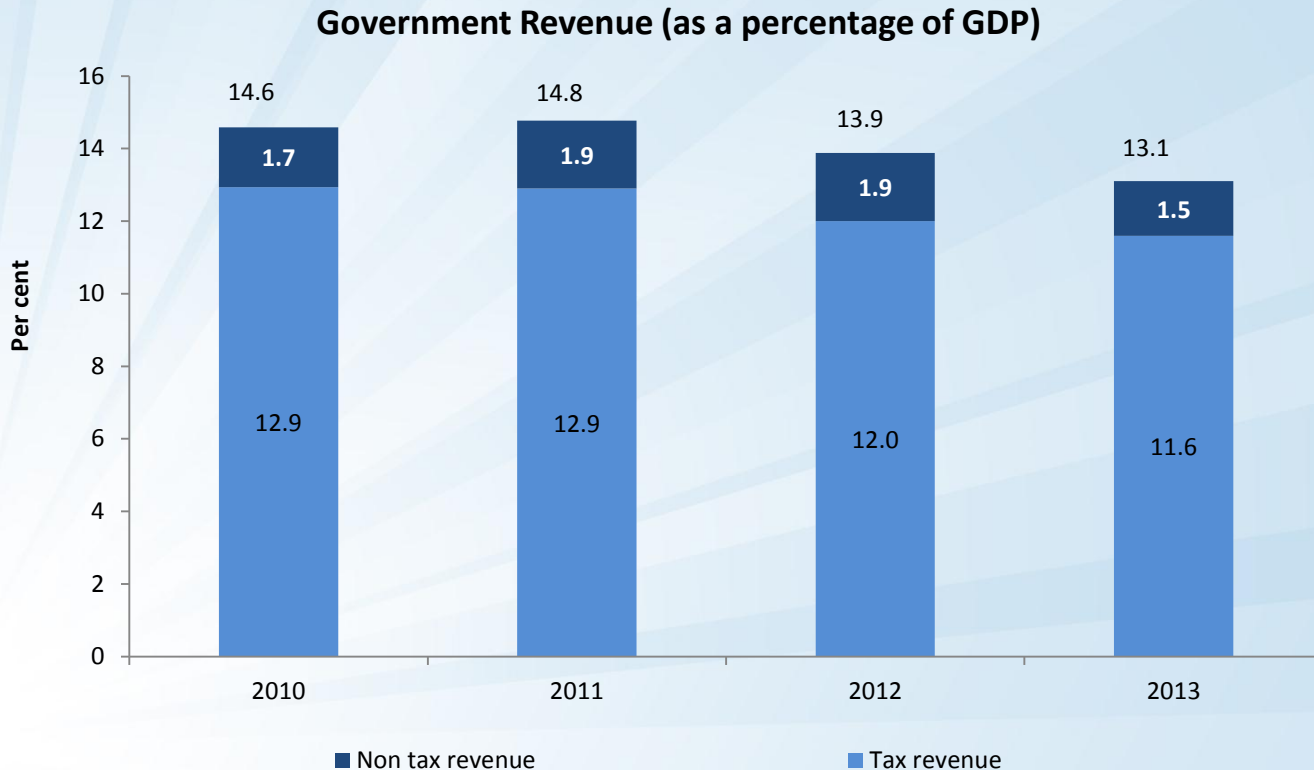


- The rupee depreciated against the US dollar by 2.75% to Rs. 130.75 in 2013
- Central Bank purchased around US\$ 436 mn from the domestic foreign exchange market



# The decline in government revenue as a percentage of GDP remained a concern...

- Government revenue increased by 8.2% in 2013 to Rs. 1,137 bn.
- Government revenue declined to 13.1% of GDP in 2013 from 13.9% in 2012.

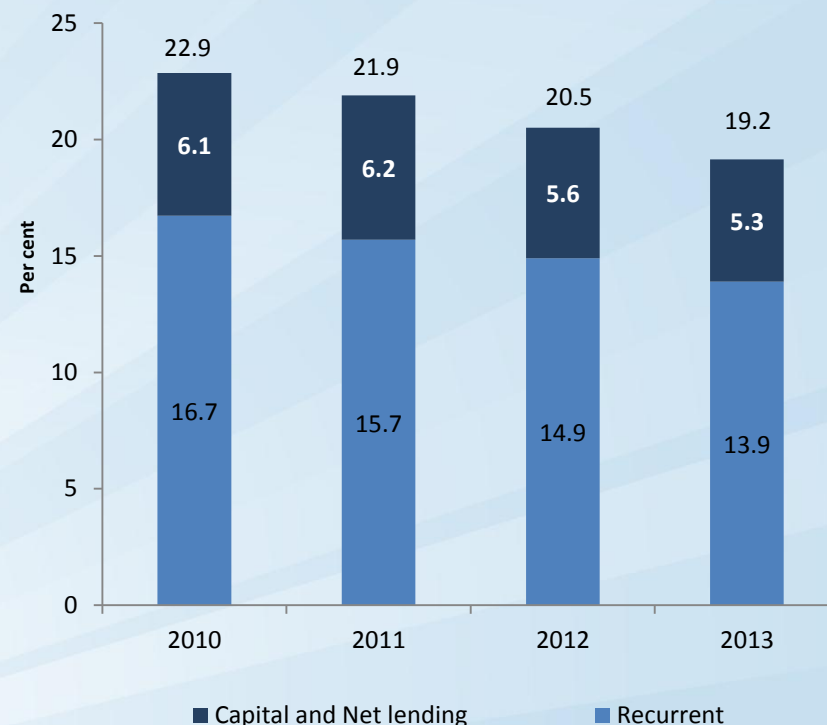




# Government expenditure was rationalised while maintaining public investment at a high level...

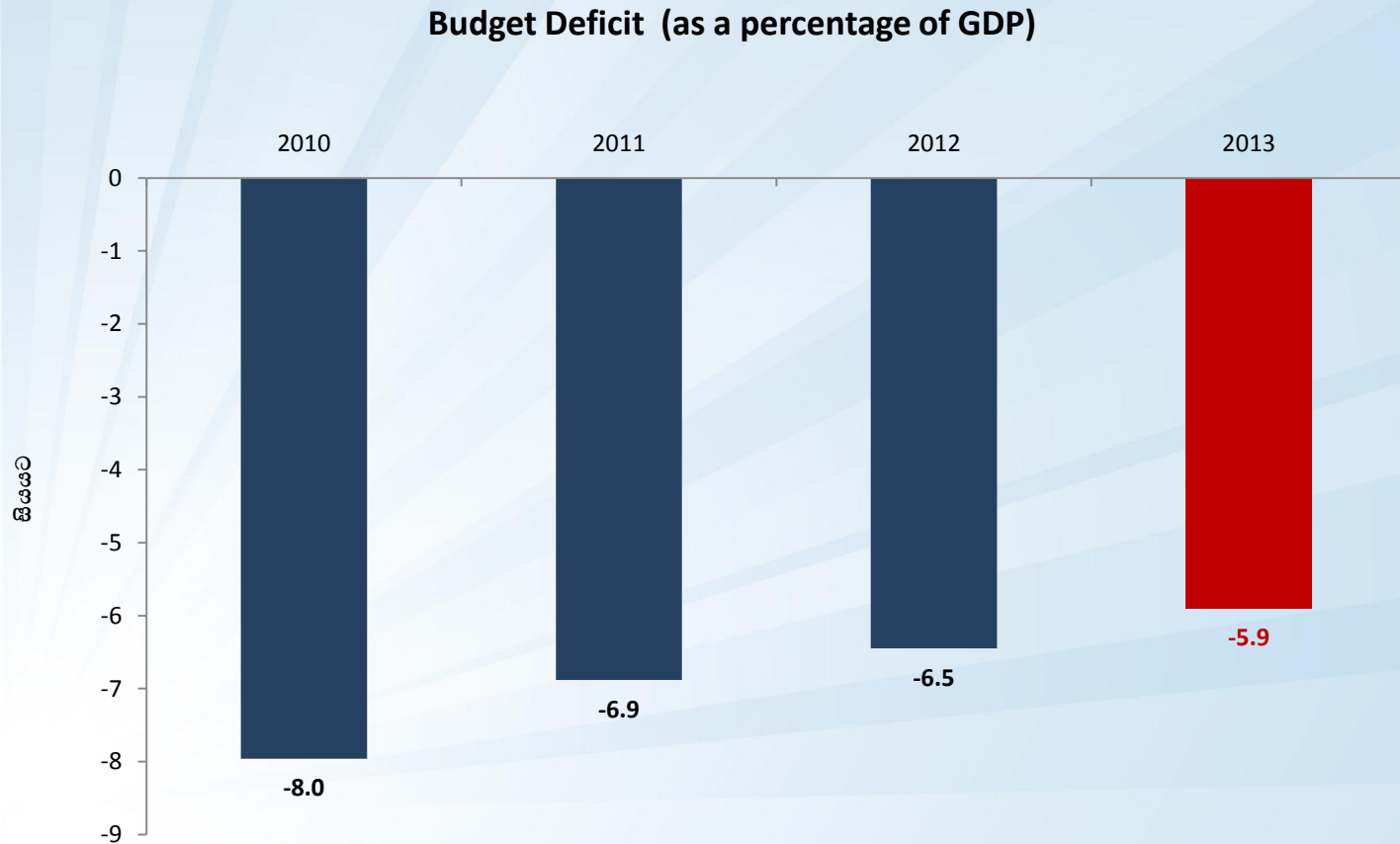
- Government expenditure declined to 19.2% of GDP in 2013 from 20.5% of GDP in 2012.
- Recurrent expenditure, declined significantly to 13.9% in 2013 from 14.9% in 2012.
- Public investment was maintained at 5.5% of GDP.

Government Expenditure (as a percentage of GDP)



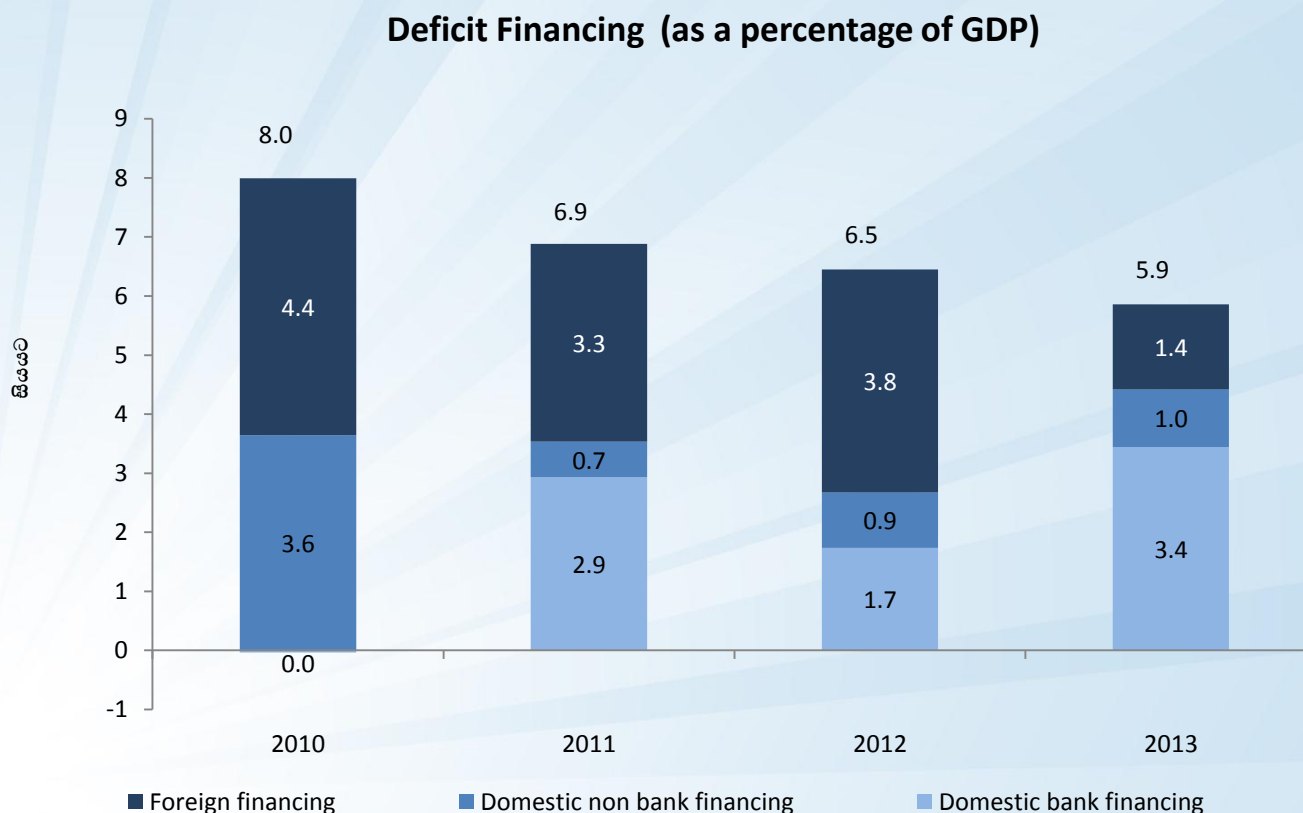
# Budget deficit as a percentage of GDP declined further...

- Budget deficit was maintained at 5.9% of GDP in 2013, marginally above the original estimate of 5.8%.



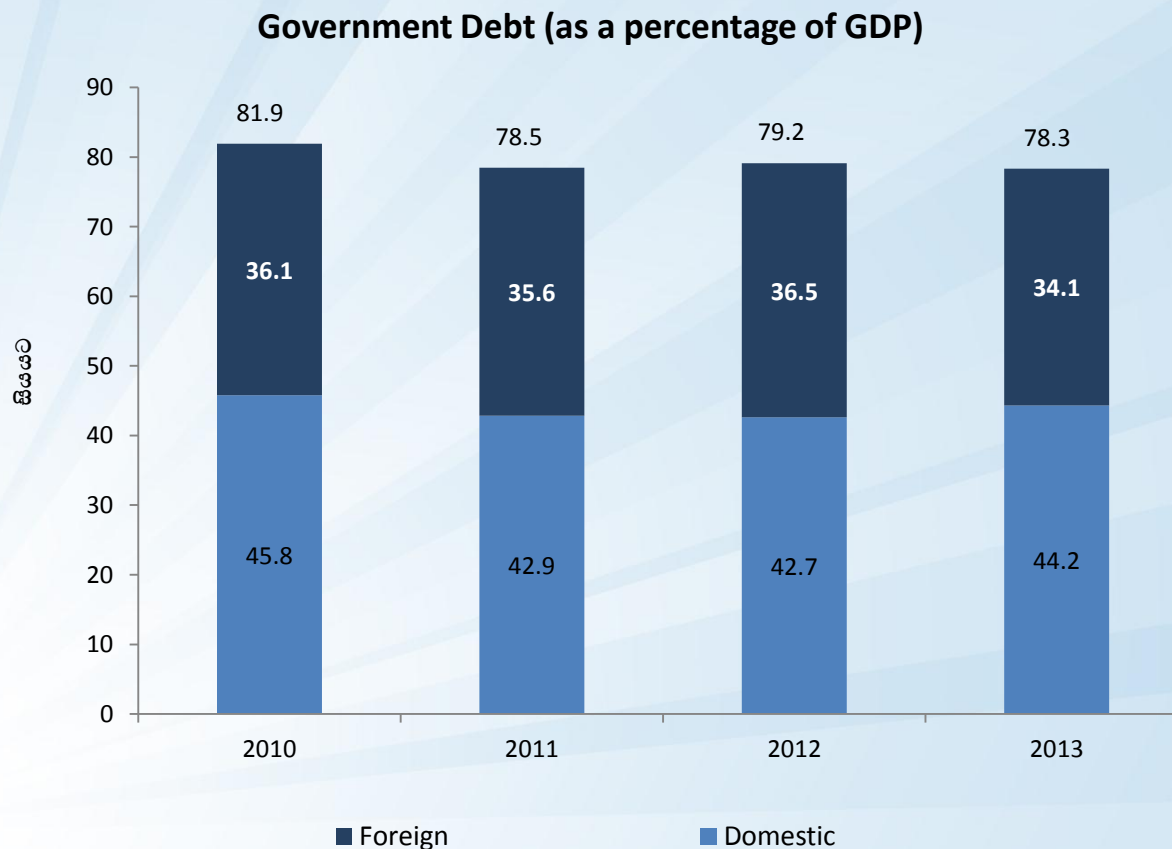
# The fiscal deficit was mainly financed through domestic sources...

- In financing the budget deficit, more reliance was placed on domestic sources contributing 76% of the total financing requirement.



# Reflecting continued fiscal consolidation, government debt to GDP ratio also declined...

- Debt to GDP ratio in 2013 declined to 78.3% from 79.2% recorded in 2012.



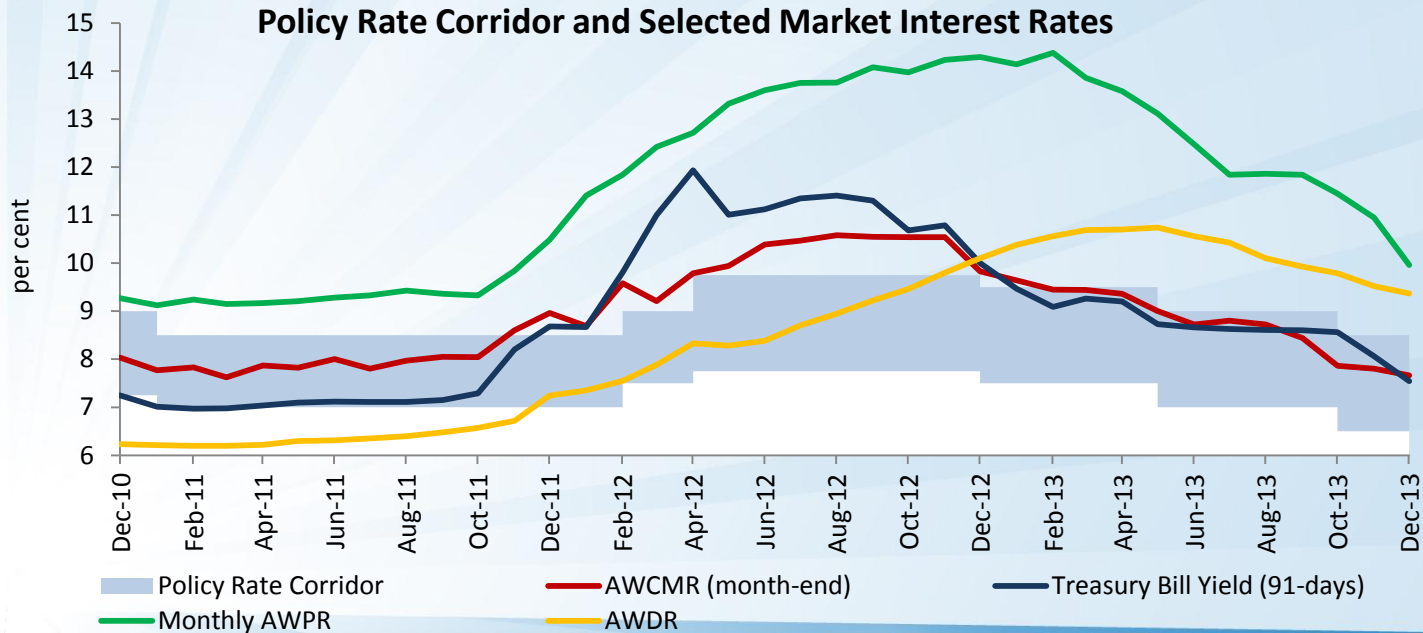
# Monetary Policy was eased further in 2013...

## Monetary Policy decisions in 2013

- Policy interest rates were reduced by 100 bps in 2013
- The SRR was lowered by 2 percentage points from 8% to 6%

	Repurchase Rate*	Reverse Repurchase Rate*
May - 2013	7.50%	9.50%
	7.00%	9.00%
Oct - 2013	7.00%	9.00%
	6.50%	8.50%
Jan - 2014		8.50%
		8.00%

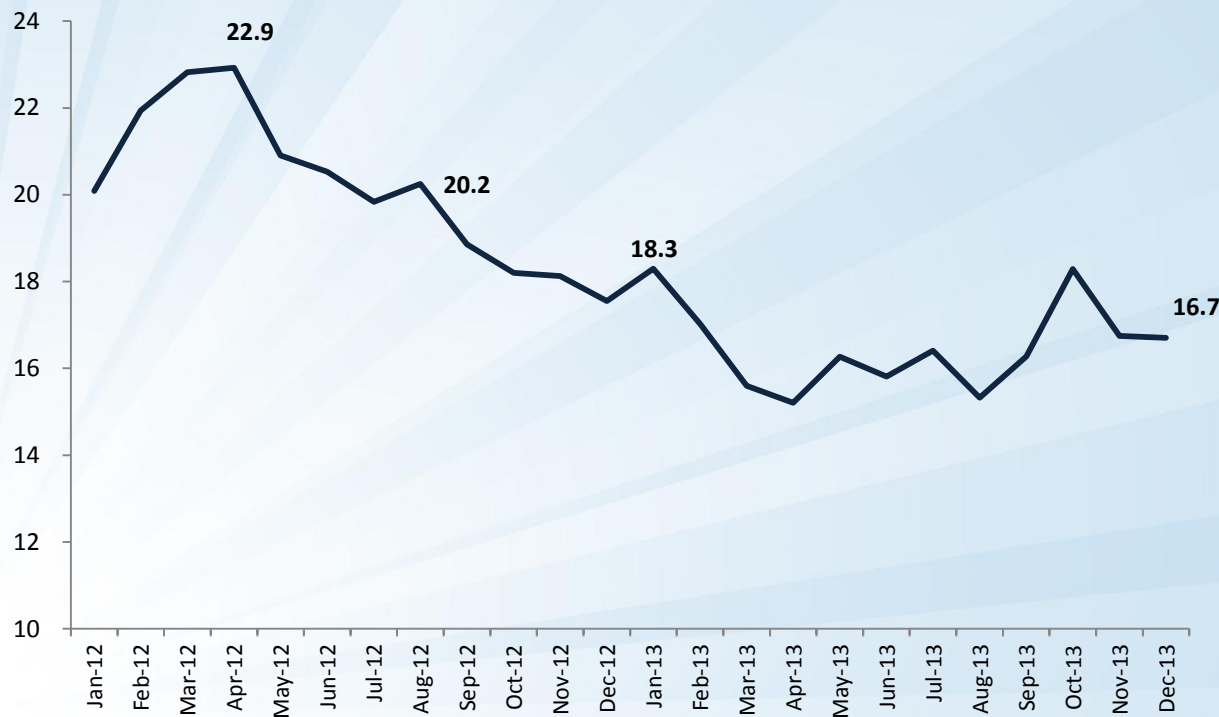
\* These policy interest rates were renamed as Standing Deposit Facility Rate and Standing Lending Facility rate, respectively, from January 2014



# The growth of money supply moderated towards desired levels in 2013...

- Average broad money growth, declined to 16.5% by end 2013 compared to 20.2% at end 2012.

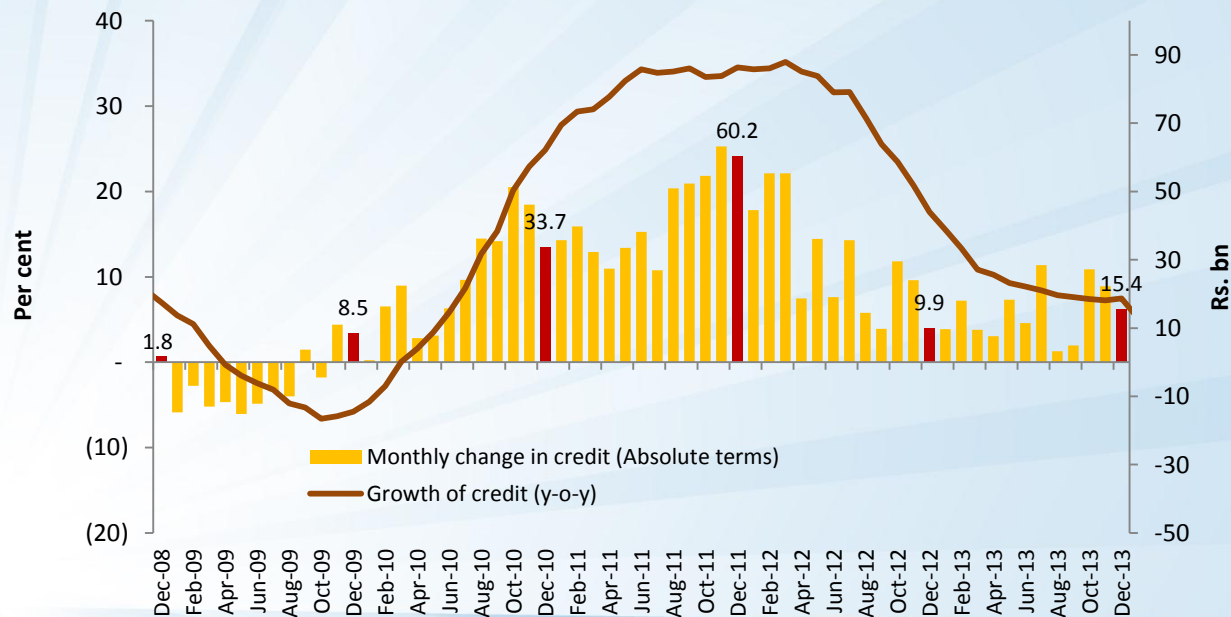
Year-on-Year Growth of Monetary Aggregates



# Expansion in private sector credit moderated in 2013...

- The year-on-year growth of credit to the private sector slowed to 7.5% in December 2013 from 17.6% at end 2012.
  - Agriculture and Personal Consumption related gold advances declined
  - However, credit disbursements to the Industry and Services sectors increased by over Rs. 200 bn

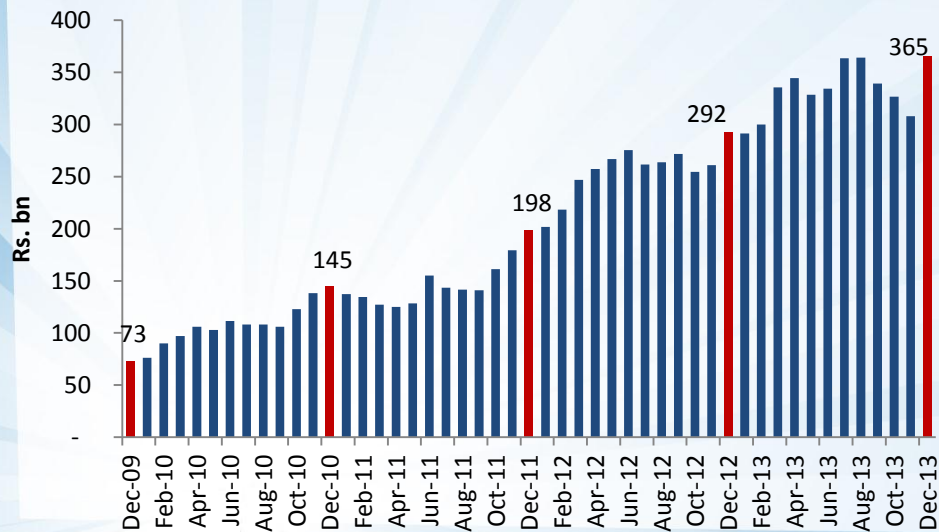
Volume and Growth of Loans and Advances granted to the Private Sector by Commercial Banks



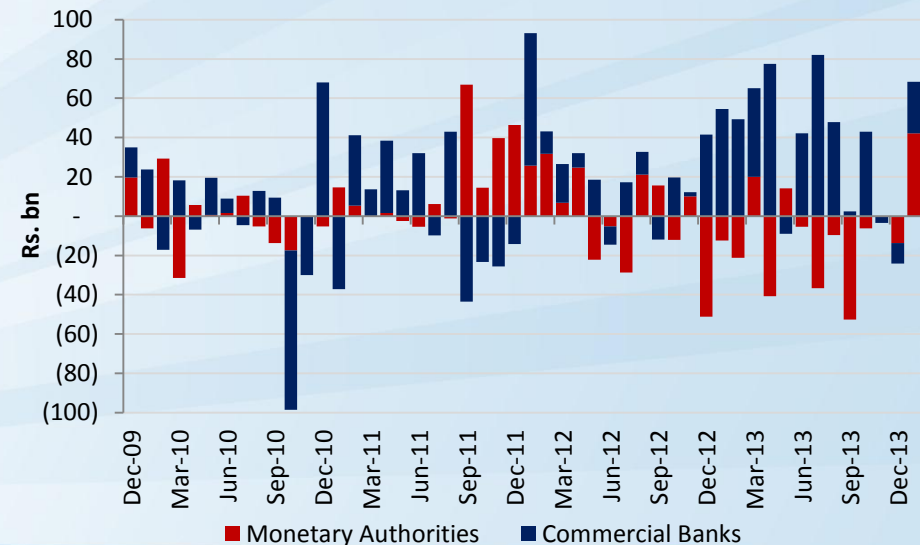
## Credit to the public sector was higher than expected, although public corporations borrowed less from the banking sector...

- The expansion of credit to public corporations were contained at Rs. 73 bn compared to an increase of Rs. 94 bn in 2012.
  - Interim repayments were made by two key SOEs
- However, net credit to government was higher than expected in 2013

Credit Obtained by Public Corporations



Monthly Change in Net Credit to the Government

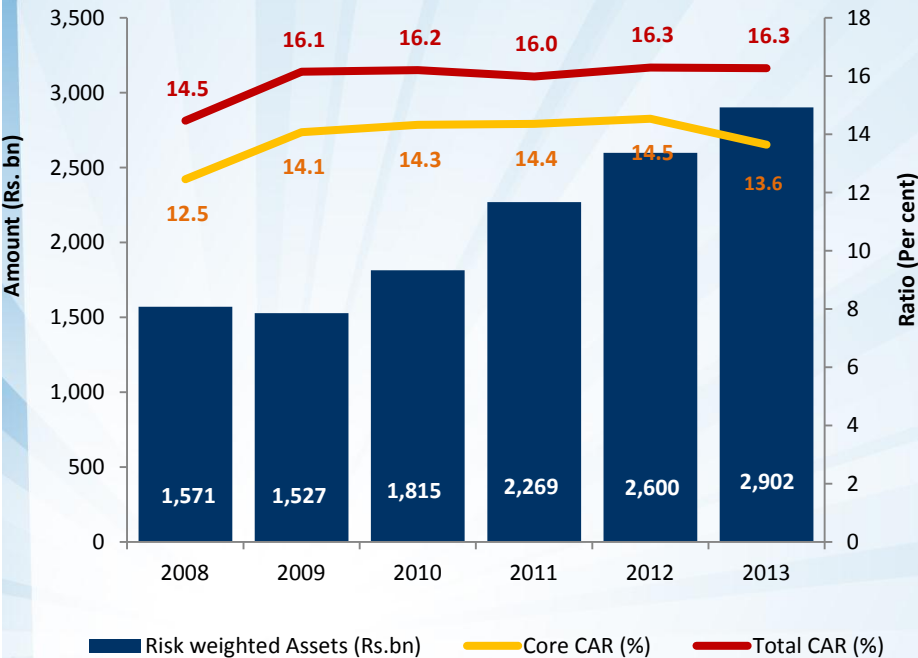




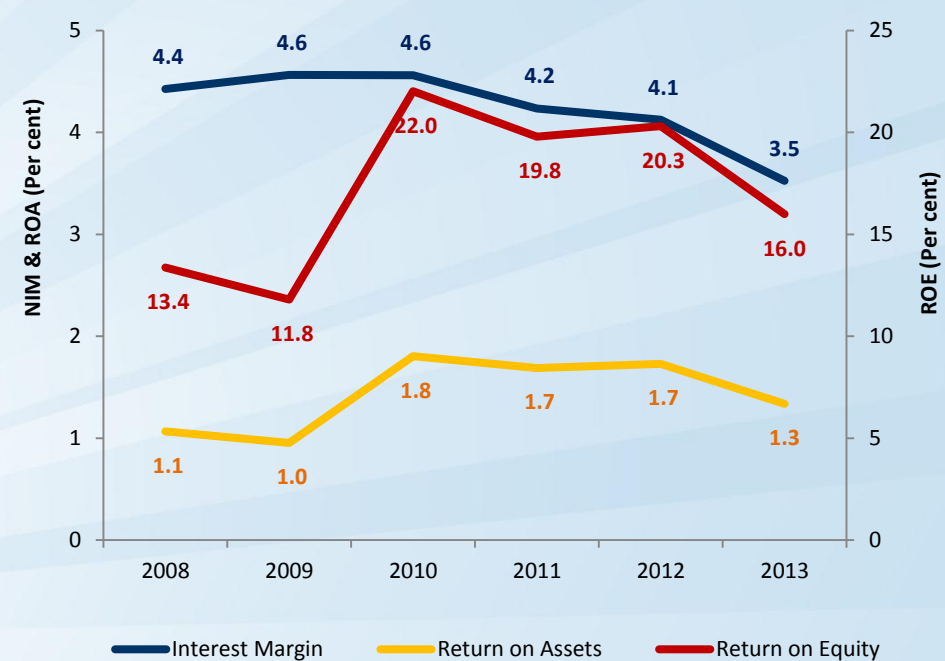
# The financial sector remained stable whilst expanding in terms of assets and improving its outreach

- Banks, Finance and Leasing companies remained sound and resilient despite a moderation in loan growth

### Capital Adequacy Ratio of Banking Sector



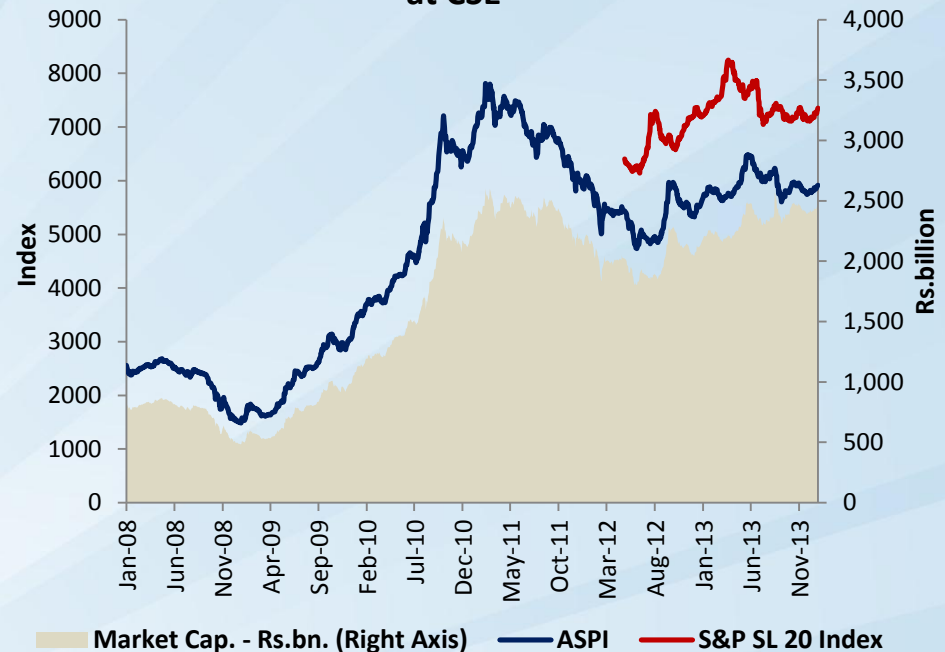
### Profitability Indicators of Banking Sector



# The Colombo Stock Exchange recorded gains in 2013, sustained by foreign inflows...

- The ASPI and S&P SL 20 Index increased by 4.8% and 5.8%, respectively, during the year, compared to end 2012
- Market capitalisation increased to Rs. 2.5 tn at end 2013 from Rs. 2.2 tn at end 2012
- Net foreign inflows to the CSE amounted to US\$ 179 mn
- Activities in the corporate debt market also improved significantly

Share Price Indices and Market Capitalisation at CSE



Performance of Corporate Debenture Market

	2011	2012	2013
Number of Debentures	1	9	83
Value of Debentures (Rs. bn)	1.0	12.5	69.1



# Medium Term Macroeconomic Framework

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Indicator	Unit	2013 (Est)	Projections			
			2014	2015	2016	2017
<b>Real Sector and Inflation</b>						
Real GDP Growth	%	7.3	7.8	8.2	8.3	8.4
Headline Inflation	%	4.7	5.0	4.5	4.0	4.0
GDP per capita	US\$	3,280	3,718	4,243	4,825	5,485
<b>External Sector</b>						
Current Account Balance	% of GDP	-3.9	-2.5	-0.9	0.1	0.2
Overall Balance	US\$ mn	985	1,510	2,185	2,967	3,606
External Official Reserves	US\$ mn	7,495	8,251	9,883	12,349	15,693
<b>Fiscal Sector</b>						
Overall Budget Deficit	% of GDP	-5.9	-5.2	-4.4	-3.8	-3.8
Government Debt	% of GDP	78.3	74.3	70.6	65.0	62.0
<b>Monetary Sector</b>						
Broad Money Growth <sub>(M<sub>2b</sub>)</sub>	%	16.7	14.0	14.0	14.0	14.0

Sources: Department of Census and Statistics  
Ministry of Finance and Planning  
Central Bank of Sri Lanka



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