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CENTRAL BANK OF SRI LANKA

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Press Release

Issued By Economic Research Department

Date 28-04-2020

The Central Bank of Sri Lanka Releases its Annual Report for the Year 2019

In terms of Section 35 of the Monetary Law Act No. 58 of 1949, the seventieth Annual Report of the Monetary Board of the Central Bank of Sri Lanka was presented to Hon. Mahinda Rajapaksa, the Prime Minister and the Minister of Finance, Economic and Policy Development, by Deshamanya Professor W.D.Lakshman, the Governor of the Central Bank of Sri Lanka.



Deshamanya Professor W.D.Lakshman, the Governor of the Central Bank of Sri Lanka presenting the Annual Report 2019 to Hon. Mahinda Rajapaksa, the Prime Minister and the Minister of Finance, Economic and Policy Development. Dr. P. Nandalal Weerasinghe, Senior Deputy Governor, and Dr. Chandranath Amarasekara, Director of Economic Research of the Central Bank are also in the photo.

A summary of the performance of the Sri Lankan economy in 2019 as reflected in the Annual Report is given below:

Overview

During the year 2019, Sri Lanka's dismal performance continued in terms of real economic growth, although macroeconomic stabilisation measures helped correct the external sector imbalances to some extent, while inflation pressures remained muted on average. The Easter Sunday attacks had a severe impact on the tourism sector, and their adverse spillover effects were felt across the economy, worsening the sluggish growth of the economy and further dampening business confidence. Policy measures aimed at reducing pressures on the balance of payments (BOP) and the exchange rate continued in 2019, which together with steps taken to revive the economy, contributed to notable slippages in the fiscal sector. Subdued demand conditions allowed the continuation of low inflation during the year, although extreme weather conditions and resultant disruptions to domestic food supplies caused some volatility in consumer prices. Growth of credit to the private sector decelerated sharply, driven by subdued economic activity and weak business confidence, affecting the performance of the financial sector. Considering the need to support economic activity amidst muted inflation, well anchored inflation expectations and diminished pressures in the external sector, the Central Bank adopted an accommodative monetary policy stance, and took steps to expedite the transmission of monetary policy measures to the economy through regulatory action aimed at reducing market interest rates.

Macroeconomic Performance (2015-2019)

Indicator	Unit	2015	2016	2017	2018 (a)	2019 (b)
Real Sector (c)						
Real GDP Growth	%	5.0	4.5	3.6 (a)	3.3 (b)	2.3
GDP at Current Market Price	Rs. bn	10,951	11,996	13,328 (a)	14,366 (b)	15,016
Per Capita GDP (d)	US\$	3,842	3,886	4,077 (a)	4,079 (b)	3,852
External Sector						
Trade Balance (c)	% of GDP	-10.4	-10.8	-11.0 (a)	-11.7	-9.5
Current Account Balance (c)	% of GDP	-2.3	-2.1	-2.6	-3.2	-2.2
Overall Balance	US\$ mn	-1,489	-500	2,068	-1,103	377
External Official Reserves	US\$ mn	7,304	6,019	7,959	6,919	7,642
Fiscal Sector (c)(e)						
Current Account Balance	% of GDP	-2.3	-0.6	-0.7	-1.2	-2.7
Primary Balance	% of GDP	-2.9	-0.2	0.02	0.6	-0.8
Overall Fiscal Balance	% of GDP	-7.6	-5.3	-5.5	-5.3	-6.8
Central Government Debt (f)	% of GDP	78.5	79.0	77.9	83.7	86.8
Monetary Sector and Inflation						
Broad Money Growth (M _{2b}) (g)	%	17.8	18.4	16.7	13.0	7.0
Private Sector Credit Growth (in M _{2b}) (g)	%	25.0	21.6	14.7	15.9	4.3
Annual Average Inflation (h)	%	2.2	4.0	6.6	4.3	4.3

(a) Revised

(b) Provisional

(c) Based on the GDP estimates (base year 2010) of the Department of Census and Statistics

(d) Estimates are updated with the latest population figures.

(e) Based on the revised GDP estimates for 2017 and 2018 released on 31 March 2020 by the Department of Census and Statistics

(f) Includes Treasury bonds of Rs. 4,397 million issued to the Co-operative Wholesale Establishment (CWE) in November 2003 (matured on 14 November 2016) and Rs. 13,125 million issued to capitalise SriLankan Airlines in March 2013 (matured on 01 June 2018) and Rs. 78,441 million issued to the Ceylon Petroleum Corporation (CPC) in January 2012 (of which Rs. 21,778 million matured on 01 January 2017 and the current outstanding is Rs. 56,662 million).

(g) Year-on-year growth based on end year values

(h) Based on CCPI (2013=100)

Sources: Department of Census and Statistics
Ministry of Finance, Economic and
Policy Development
Central Bank of Sri Lanka

Macroeconomic Outlook

As domestic economic activity started to show early responses to the policy measures taken to revive the economy and improving business sentiments at the beginning of the year 2020, the outbreak of the COVID-19 pandemic, the containment measures adopted by all countries including Sri Lanka, and the resultant projected contraction in the global economy, triggered further uncertainties regarding the country's economic performance in 2020. In the near term, the economy is likely to be impacted severely in terms of its growth, fiscal, external, and financial sector performance, while causing hardships to all stakeholders of the economy. The monetary policy space in terms of the low inflation environment, and the banking sector space created by the maintenance of capital and liquidity buffers above industry norms, enabled the Central Bank to support the efforts of the government to ease the burden on businesses as well as individuals. Despite the temporary setback posed by the pandemic, appropriate growth supportive reforms to address longstanding structural issues and enhance domestic production, improve export orientation, attract foreign direct investment (FDI), facilitate innovation, improve factor productivity and efficiency, and improve policy buffers, if implemented without delay, would enable Sri Lanka to realise the desired outcome of achieving sustained and equitable economic growth and becoming a prosperous nation in the period ahead.

Medium Term Macroeconomic Framework (a)

Indicator	Unit	2018 (b)	2019 (c)	Projections				
				2020	2021	2022	2023	2024
Real Sector (d)								
Real GDP Growth	%	3.3(c)	2.3	1.5	4.5	6.0	6.2	6.5
GDP at Current Market Price	Rs. bn	14,366(c)	15,016	15,925	17,466	19,443	21,690	24,245
Per Capita GDP	US\$	4,079(c)(e)	3,852	3,940	4,166	4,473	4,813	5,190
Total Investment	% of GDP	30.4(c)(f)	27.4	26.8	27.3	27.8	28.1	28.4
Domestic Savings	% of GDP	23.0(c)(f)	21.3	20.7	21.3	22.5	23.6	24.5
National Savings	% of GDP	27.3(c)(f)	25.3	23.7	24.7	25.6	26.2	26.8
External Sector								
Trade Gap (d)	% of GDP	-11.7	-9.5	-7.7	-9.8	-9.7	-9.5	-9.2
Exports	US\$ mn	11,890	11,940	8,740	11,117	12,421	13,594	15,380
Imports	US\$ mn	22,233	19,937	15,415	20,135	22,092	23,815	26,135
Current Account Balance (d)	% of GDP	-3.2	-2.2	-3.1	-2.6	-2.2	-1.9	-1.6
External Official Reserves	Months of Imports	3.7	4.6	5.6	4.6	4.6	4.6	4.6
Fiscal Sector (d)								
Total Revenue and Grants	% of GDP	13.5(g)	12.6	9.8	11.8	13.5	14.1	14.5
Expenditure and Net Lending	% of GDP	18.7(g)	19.4	17.7	18.6	19.1	19.2	19.4
Current Account Balance	% of GDP	-1.2(g)	-2.7	-5.1	-3.6	-2.1	-1.5	-1.0
Primary Balance	% of GDP	0.6(g)	-0.8	-2.8	-1.0	0.5	0.7	1.1
Overall Fiscal Balance	% of GDP	-5.3(g)	-6.8	-7.9	-6.8	-5.6	-5.2	-4.9
Central Government Debt	% of GDP	83.7(g)	86.8	92.4	89.4	84.3	80.5	76.3
Monetary Sector and Inflation								
Broad Money Growth (M_{2s}) (h)	%	13.0	7.0	9.3	12.9	12.7	12.5	12.5
Private Sector Credit Growth (in M_{2s}) (h)	%	15.9	4.3	4.0	10.0	12.2	13.0	13.0
Annual Average Inflation (i)	%	4.3	4.3	4.5	5.0	5.0	5.0	5.0

(a) Based on information available up to end March 2020

(b) Revised

(c) Provisional

(d) Based on the GDP estimates (base year 2010) of the Department of Census and Statistics

(e) Estimates are updated with the latest population figures.

(f) Total investment, domestic savings and national savings as a % of GDP in 2018 were revised by the Department of Census and Statistics from 28.6%, 21.2% and 25.4%, respectively.

(g) Based on the revised GDP estimates for 2018 released on 31 March 2020 by the Department of Census and Statistics

(h) Year-on-year growth based on end year values

(i) Based on CCPI (2013=100)

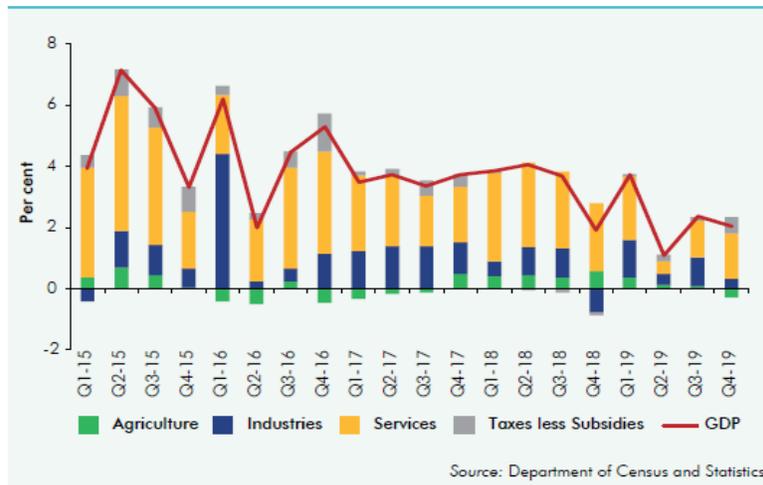
Sources: Department of Census and Statistics
Ministry of Finance, Economic and
Policy Development
Central Bank of Sri Lanka

Sectoral Developments

Real Sector Developments

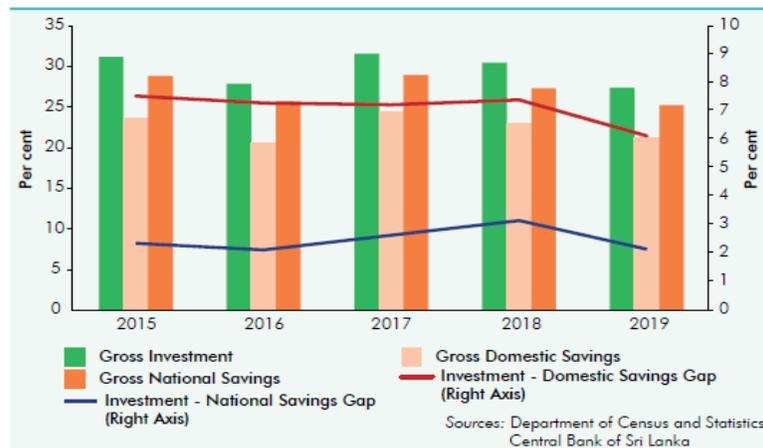
The Sri Lankan economy recorded a subdued growth of 2.3 per cent in 2019, compared to the growth of 3.3 per cent in 2018, as per the provisional estimates of GDP of the Department of Census and Statistics (DCS). All major sectors of the economy recorded positive, but modest growth rates.

Activity-wise Contribution to GDP Growth

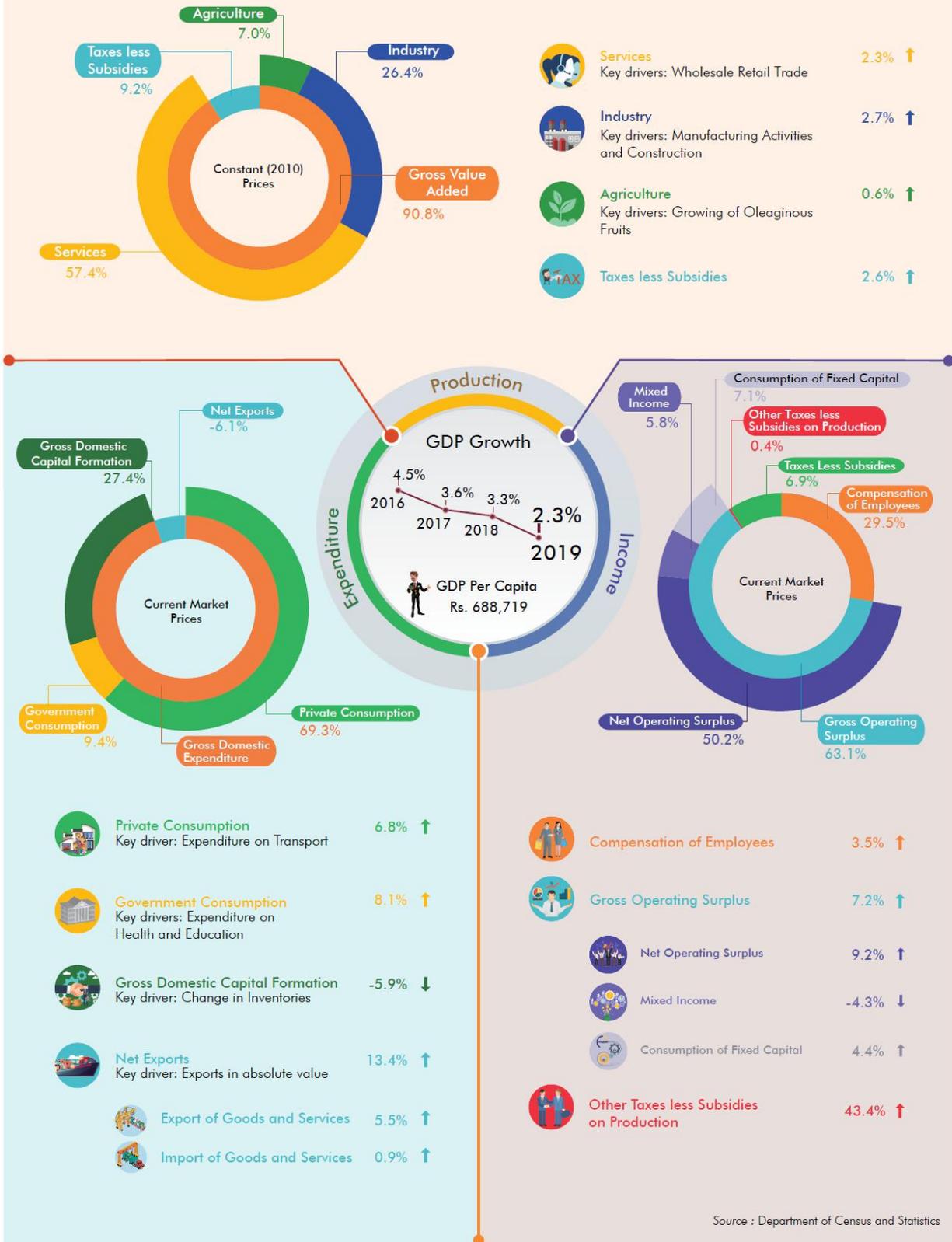


According to GDP estimates based on the expenditure approach, growth in 2019 was driven by consumption growth and the improvement in the external balance of goods and services.

Savings, Investment and the Savings-Investment Gap (as a percentage of GDP)



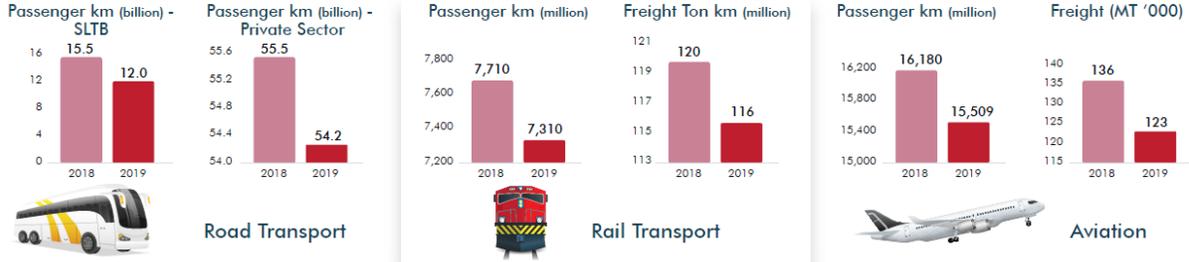
Snapshot of National Output, Expenditure & Income - 2019



The **GOVERNMENT**, in collaboration with the **PRIVATE** sector, continued to provide economic and social infrastructure in 2019

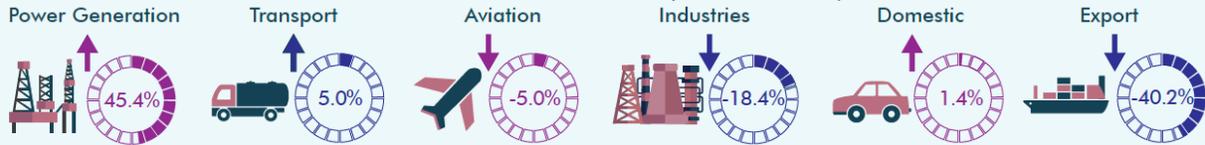
ECONOMIC INFRASTRUCTURE

The Easter Sunday attacks exerted a notable impact on the overall transport sector...

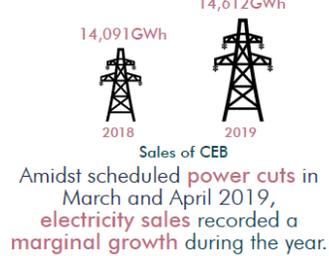


Petroleum sales to the power generation sector grew notably due to higher reliance on fuel based power generation amidst dry weather conditions...

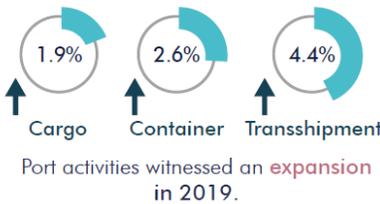
Y-o-Y Growth in Petroleum Sales of the Ceylon Petroleum Corporation



Electricity



Port Activities



Telecommunication



SOCIAL INFRASTRUCTURE

Government expenditure on health and education as a percentage of GDP amounted to 1.6 % and 1.9 %, respectively.



- 3.6 beds per 1,000 persons
 - 1 doctor per 1,203 persons
 - 1 nurse per 570 persons
- in government hospitals

SAMURDHI SUBSIDY



Total subsidy payments increased from Rs.39.2 bn in 2018 to Rs.44.7 bn in 2019.

Number of Samurधि recipient families increased from 1.4 mn in 2018 to 1.8 mn in 2019.



The literacy rate in 2018 slightly decreased compared to 92.6 per cent recorded in 2017.

92.5%

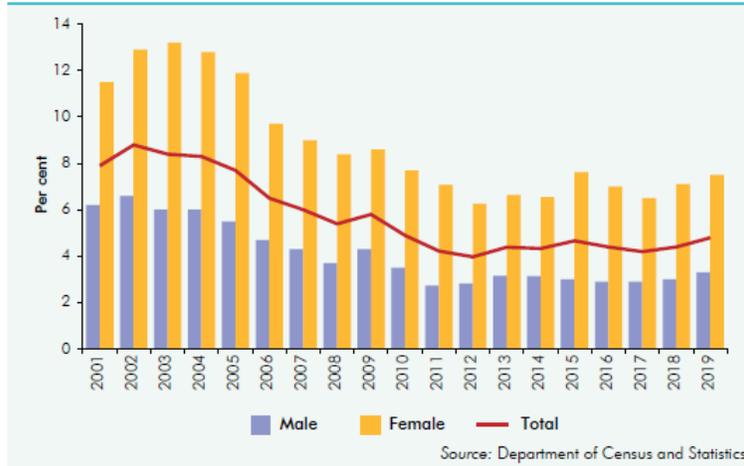


LITERACY

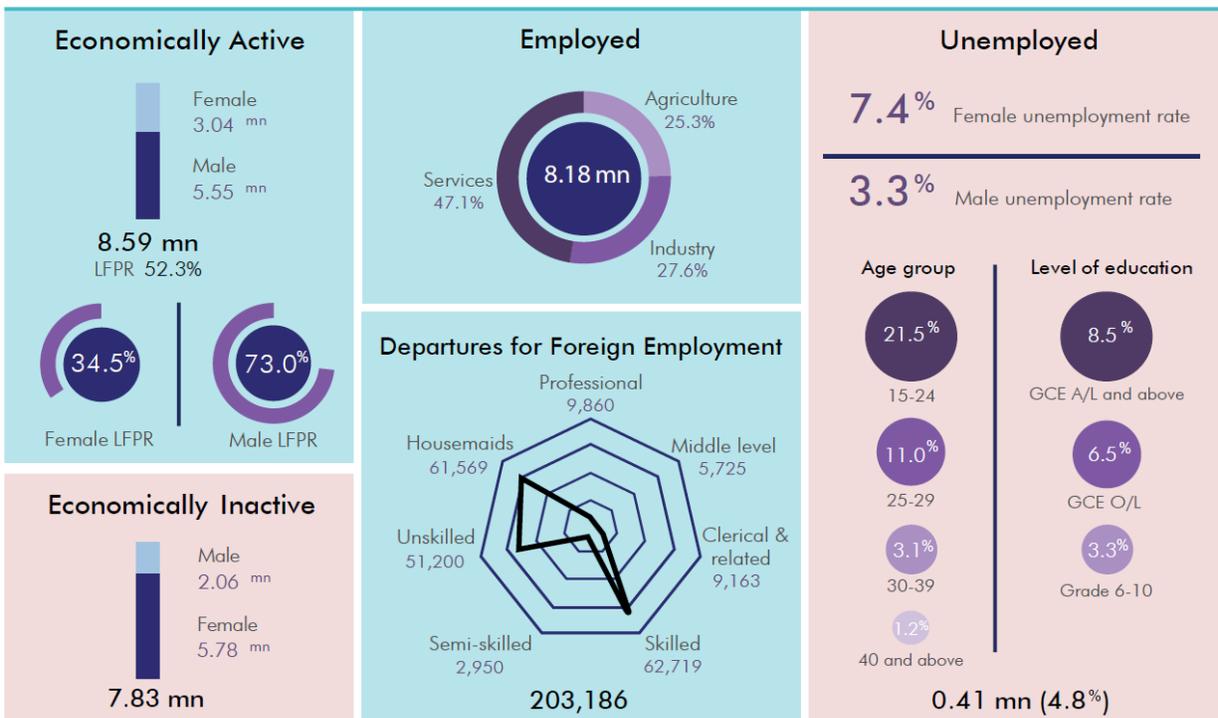


Reflecting subdued economic activity, the unemployment rate increased to 4.8 per cent in 2019 from 4.4 per cent in 2018. Male and female unemployment rates rose to 3.3 per cent and 7.4 per cent, respectively, during 2019, from 3.0 per cent and 7.1 per cent, respectively, in the previous year.

Unemployment Rate



Labour Market - 2019 (a)



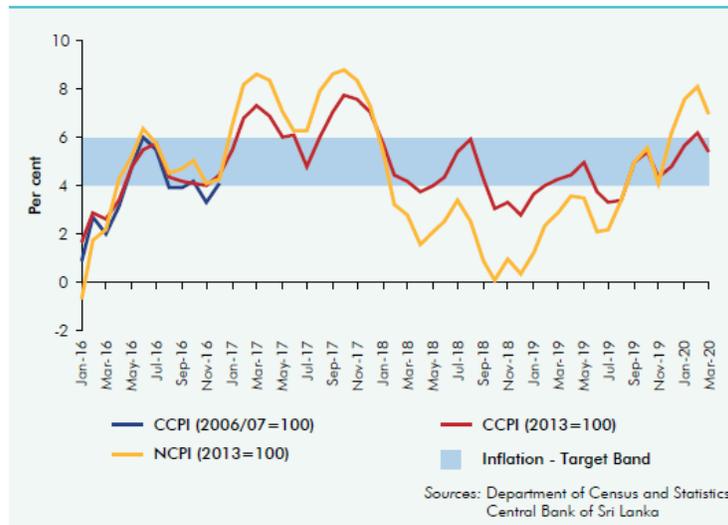
(a) Provisional

Sources: Department of Census and Statistics
Sri Lanka Bureau of Foreign Employment

Inflation

Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range of 4-6 per cent during 2019, mainly as a result of subdued demand conditions and well anchored inflation expectations.

Headline Inflation (Year-on-Year)



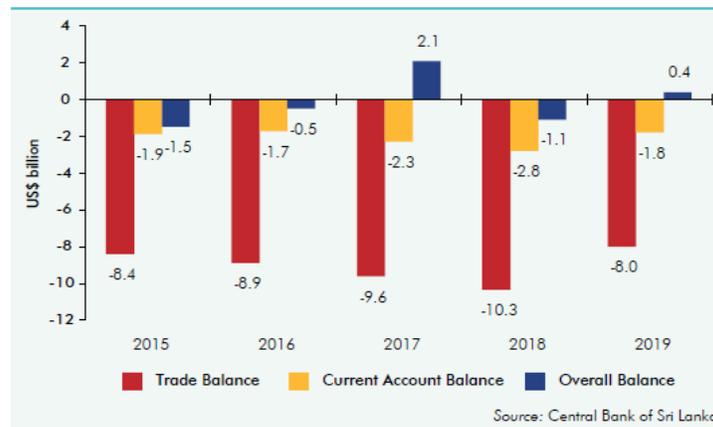
Price Movement of Selected Food and Non-food Items - 2019



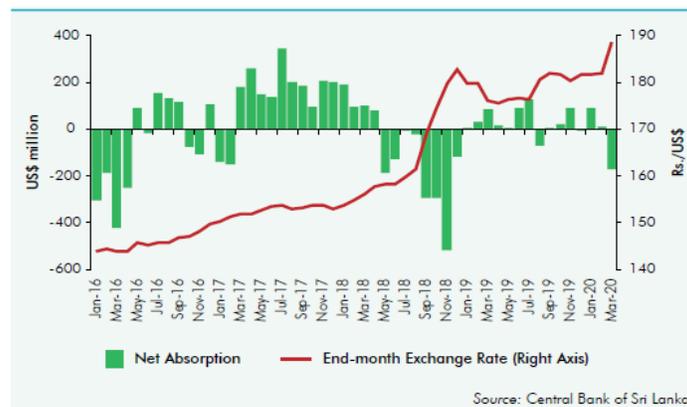
External Sector Developments

Policies to curtail import expenditure resulted in a notable improvement in the trade and current account balances. Gross official reserves improved by end 2019, supported by significant inflows to the government and the Central Bank, despite large foreign currency debt service payments by the government in 2019. The exchange rate remained broadly stable during 2019, supported by a significant improvement in the current account, despite some transient volatility experienced amidst outflows of portfolio investment, responding to domestic and global developments.

Balance of Payments



Exchange Rate and the Central Bank Intervention in the Domestic Foreign Exchange Market



External Sector Performance

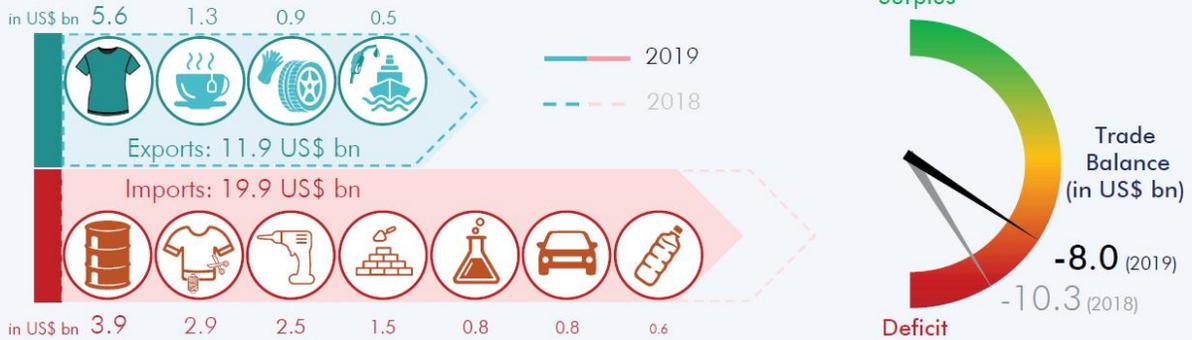
The external sector remained resilient in 2019 with a stable exchange rate and a reduced current account deficit...



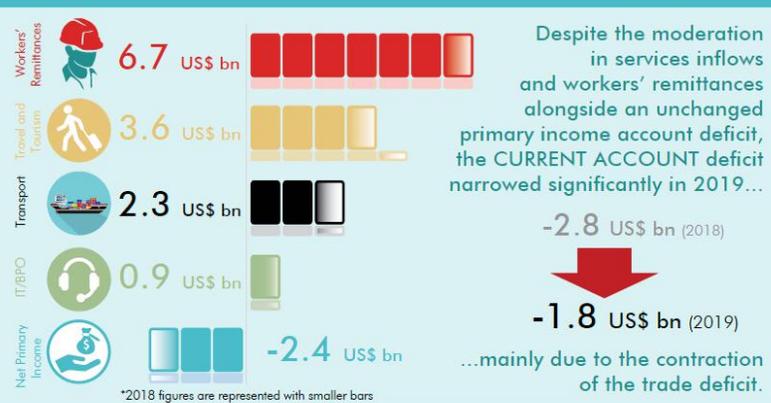
Sri Lanka's trade performance showed a notable improvement in 2019...

- Imports slowed significantly
- Exports improved marginally

...resulting in a significant reduction in the TRADE DEFICIT by US\$ 2.3 bn, compared to 2018.



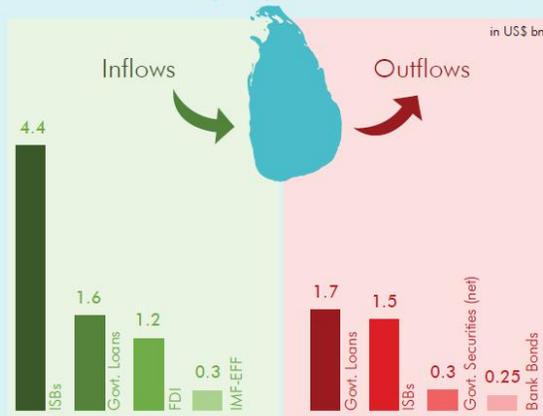
TOURISM suffered a major setback due to the Easter Sunday attacks, but observed a faster than expected recovery...



Despite the moderation in services inflows and workers' remittances alongside an unchanged primary income account deficit, the CURRENT ACCOUNT deficit narrowed significantly in 2019...

...mainly due to the contraction of the trade deficit.

Significant inflows to the FINANCIAL ACCOUNT were observed during the year...



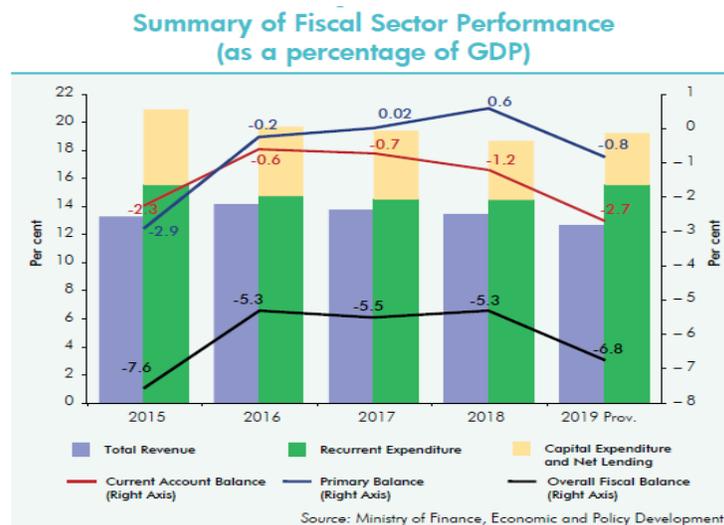
...accordingly, GROSS OFFICIAL RESERVES increased.



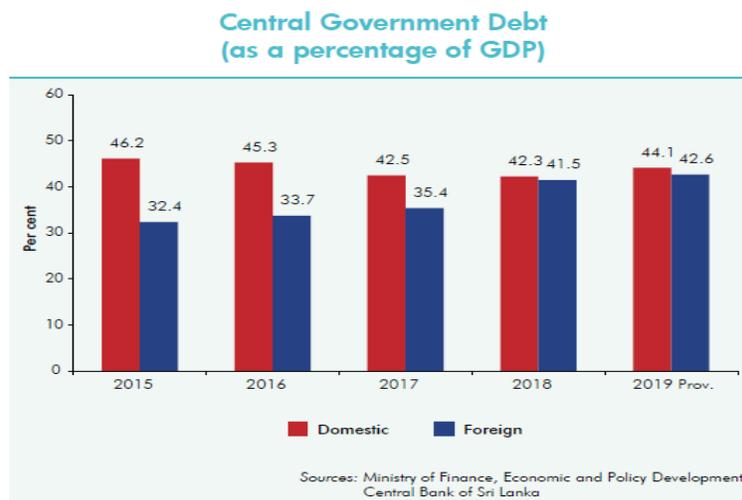
The outbreak of COVID-19 could pose significant challenges to the external sector in 2020, particularly impacting exports, tourist earnings and workers' remittances.

Fiscal Sector Developments

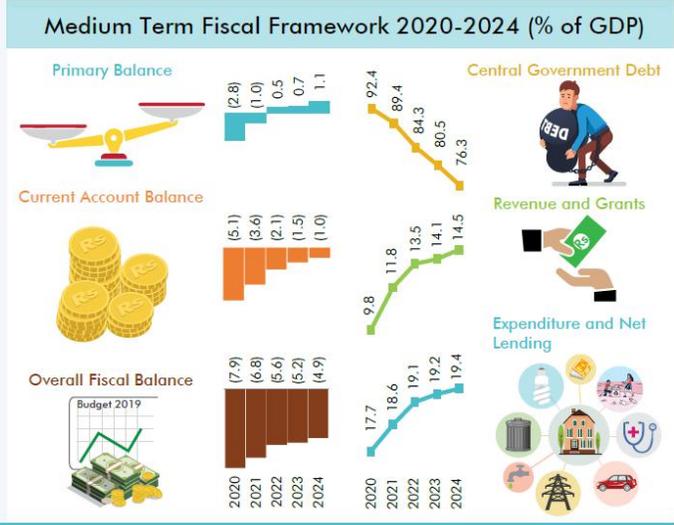
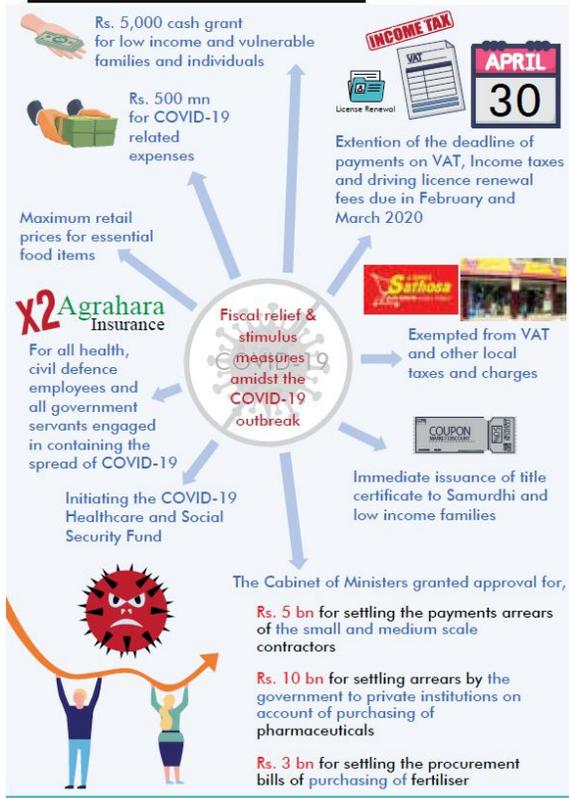
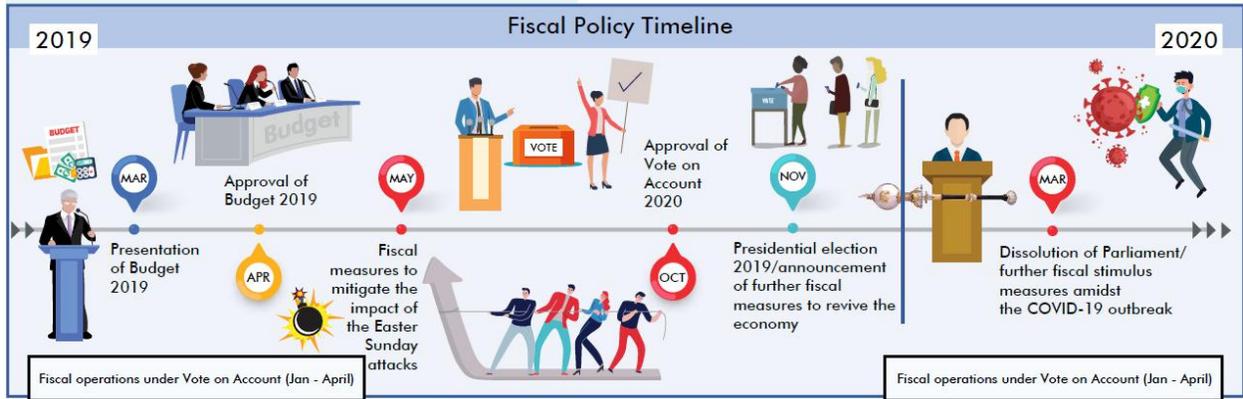
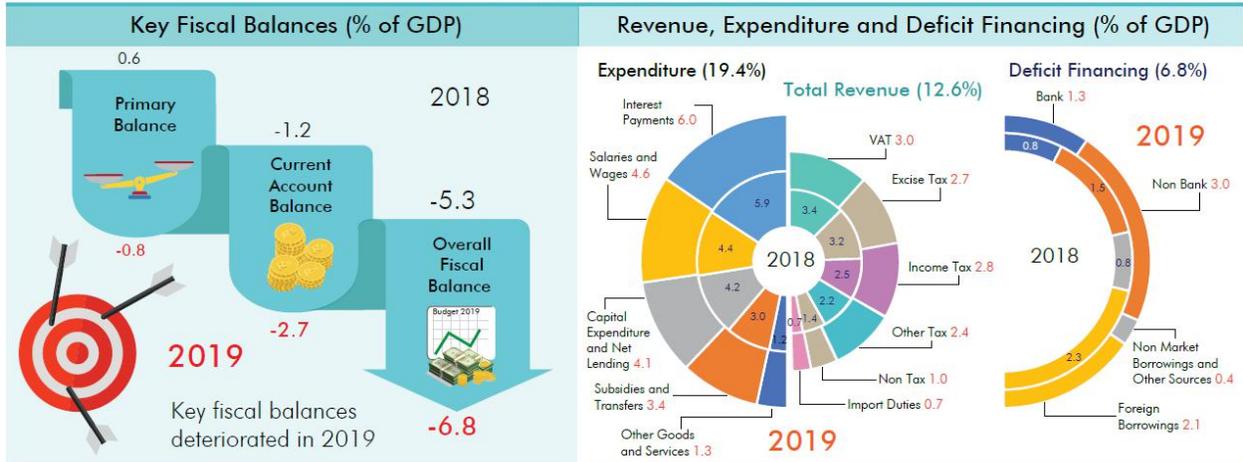
The process of fiscal consolidation faced significant challenges in 2019, amidst the notable decline in government revenue and the rise in government expenditure.



Central government debt as a percentage of GDP rose to 86.8 per cent by end 2019 from 83.7 per cent at end 2018, reflecting the impact of higher net borrowings to finance the budget deficit and the relatively modest growth in nominal GDP in 2019.

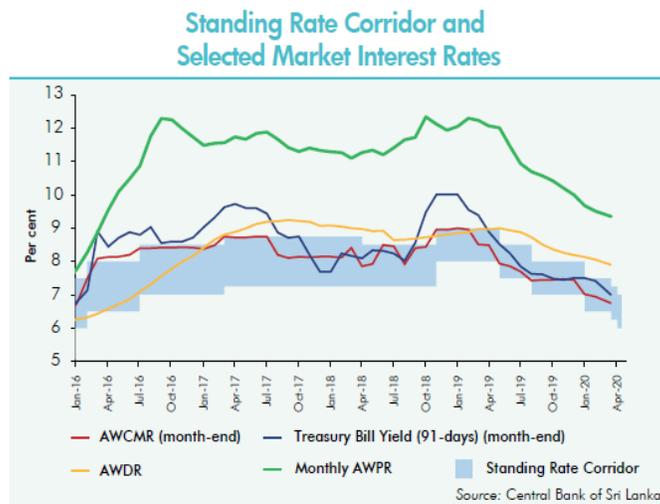


Fiscal Sector Performance

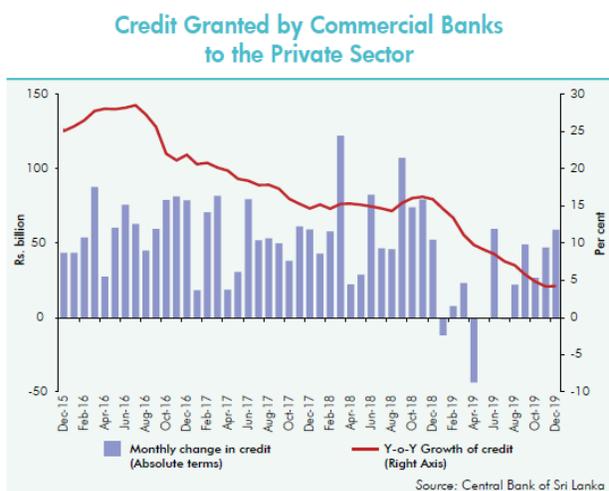
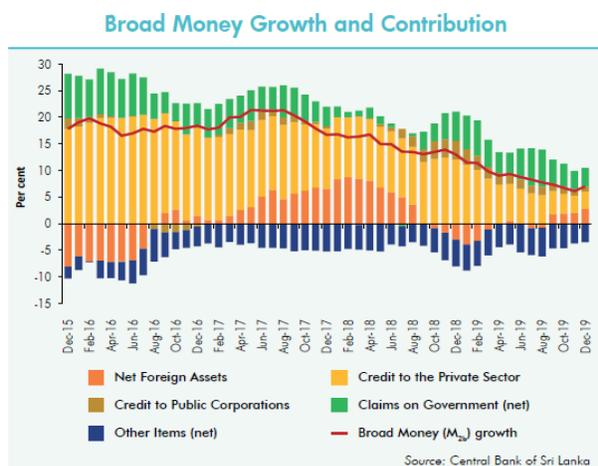


Monetary Sector Developments

In an environment of muted demand driven inflation pressures and well anchored inflation expectations, the Central Bank adopted an accommodative monetary policy stance in 2019 to support the revival of economic activity and address the sluggish growth in credit extended to the private sector.

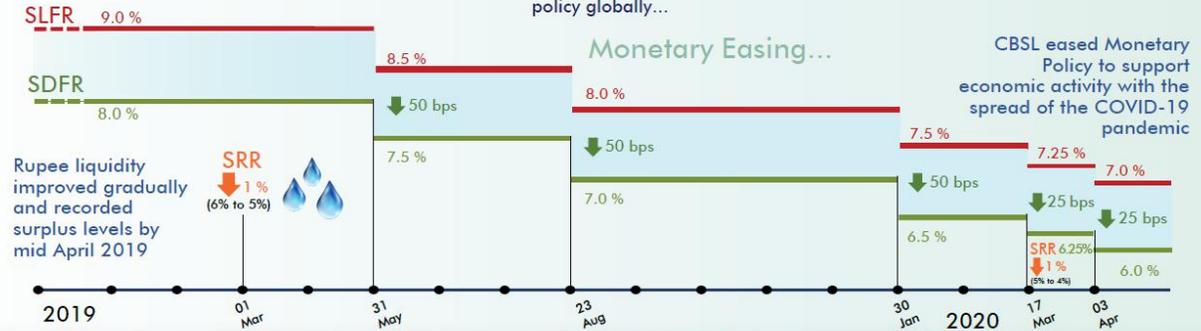


Broad money growth (M_{2b}) continued to decelerate during 2019, with the moderation of the growth of net domestic assets (NDA) of the banking system. Growth of credit to the private sector recorded a sharp deceleration in 2019 amidst high market interest rates, policy uncertainty, dented business confidence especially after the Easter Sunday attacks, and subdued economic activity during the year, although a recovery was observed in absolute credit disbursements towards the end of the year supported by the measures taken by the Central Bank to ease the monetary conditions.

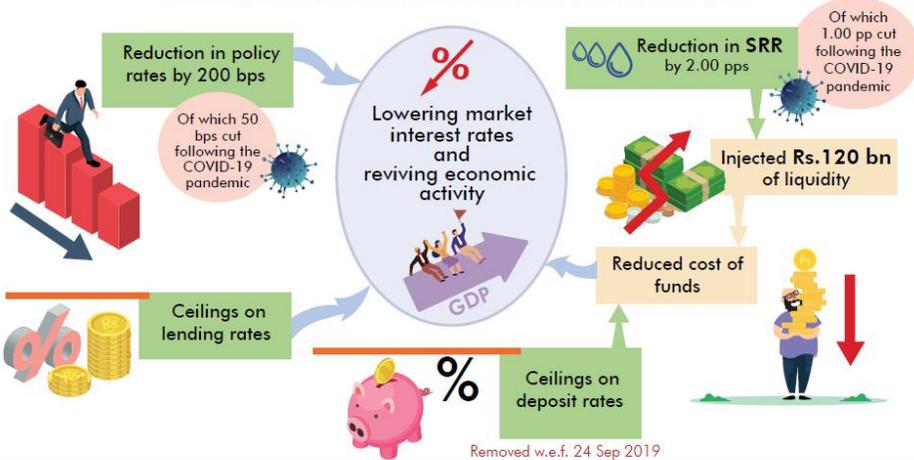


Monetary Sector Performance

The Central Bank of Sri Lanka (CBSL) adopted an **accommodative monetary policy** stance in May 2019 and reinforced the same in August 2019 and early 2020 to revive economic activity... supported by muted inflation, well-anchored inflation expectations, a relatively stable external sector and increasingly easing monetary policy globally...



Policy and regulatory measures taken during 2019 and early 2020 to revive below potential economic growth by improving credit flows...



A sizeable reduction in market interest rates observed...



Moderate year-on-year growth of credit...

Category	2018 (%)	2019 (%)
Credit to the Private Sector	15.9	4.3
Credit to Public Corporations	40.7	8.3
Net Credit to the Government	16.1	9.9

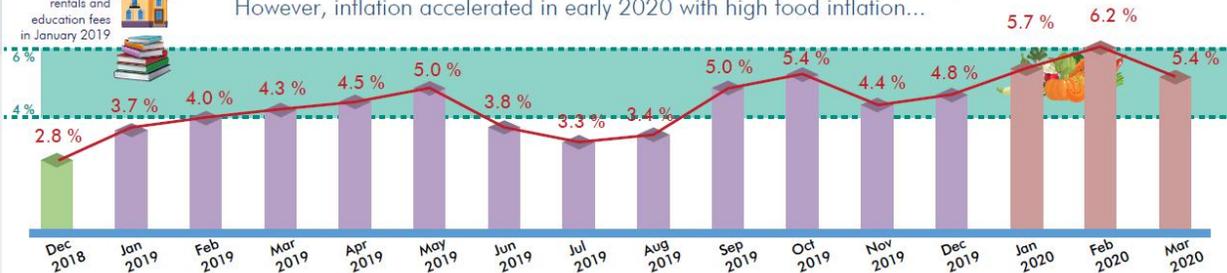
Subdued monetary aggregates...



One off revision to the house rentals and education fees in January 2019

Consumer price inflation* remained broadly in low levels during 2019...

However, inflation accelerated in early 2020 with high food inflation...



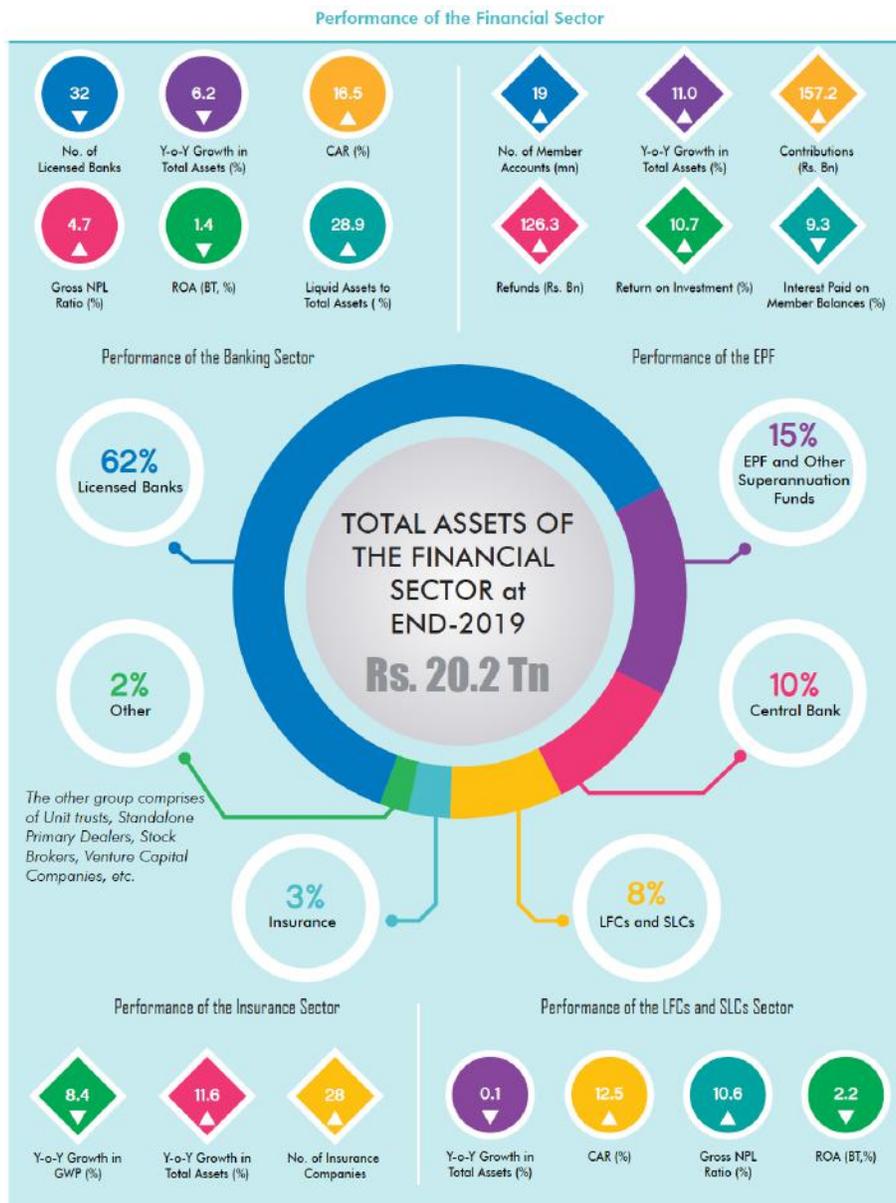
*Movements in Year-on-Year CCPI Headline inflation

Core inflation remained broadly stable in 2019...

The CBSL conducted monetary policy in line with a flexible inflation targeting framework aimed at stabilising inflation at mid single digit levels over the medium term while supporting economic growth to reach its potential.

Financial Sector Developments

Performance of the financial sector moderated in terms of assets base, credit quality and profitability of financial institutions due to the challenging business environment created by subdued economic growth, policy uncertainty, and the deterioration of investor sentiments stemming from the Easter Sunday attacks. The banking sector, which dominates the financial sector, displayed a moderate expansion during the year, compared to the previous year, reflecting the impact of the low demand for credit and tightened credit screening in an environment of deteriorating credit quality. The performance of Licensed Finance Companies and Specialised Leasing Companies deteriorated, owing to unfavourable market conditions and sector weaknesses. Meanwhile, the Financial Action Task Force (FATF) delisted Sri Lanka from its Grey List in October 2019, recognising the significant progress made by Sri Lanka in improving its Anti Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regime.



List of Box Articles on Recent Developments and Contemporary Issues

The following Box Articles contained in the Annual Report-2019 analyse recent developments and contemporary issues, in addition to the issues and challenges highlighted in Section 1.5 of Chapter 1.

1. Sri Lanka's Graduation to the Upper Middle Income Country Status
2. COVID-19 and Sri Lanka: Challenges, Policy Responses and Outlook
3. Sri Lanka's Economic Takeoff – The Need and The Readiness
4. Adoption of Modern Technologies in Agriculture
5. The Emergence of Gig Economy and Its Challenges
6. Powering Sustainable Growth and Development
7. Education Reforms to Break Free from the Middle Income Trap
8. Breaking Stereotypes: How Digitalisation will impact the Traditional Process of Statistics
9. The Impact of the Easter Sunday Attacks
10. The Importance of Effective Management of Government Expenditure amidst Subdued Revenue Mobilisation
11. Aligning Regulations with Business Models of Licensed Banks: Proportionality
12. Standardising the Market Practices for Repurchase and Reverse Repurchase Transactions in Government Securities
13. Requirement for Regulating the Informal Moneylending Business in Sri Lanka
14. Major Economic Policy Changes and Measures: 2019