ANNUAL REPORT 2020

STATE OF THE SRI LANKAN ECONOMY, CHALLENGES AND OUTLOOK

AS REFLECTED IN THE ANNUAL REPORT 2020



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The Statutory Requirement



... Within four months after the end of each financial year, the Monetary Board shall submit to the Minister in charge of the subject of Finance and shall publish an annual report on the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board during the financial year and an analysis of the economic and financial circumstances which prompted those policies and measures...



This is the 71st Annual Report of the Monetary Board of the Central bank for the Year 2020



Content of the Annual Report

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Volume II	Part II	-	Accounts and Operations of the Central Bank
	Part III	-	Administrative measures adopted by the Government and the Monetary Board during the year relating to the functions and operations of the Central Bank and banking institutions in Sri Lanka
	Part IV	-	Legislative enactments of 2020 relating to the functions and operations of the Central Bank and banking institutions in Sri Lanka





Part I - State of the Economy, Its Performance, Policies and Issues

- 1. Economic, Price and Financial System Stability, Outlook and Policies
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Chapter

Economic, Price and Financial System Stability, Outlook and Policies

The complex challenges encountered by the Sri Lankan economy in 2020 were efficaciously addressed through extraordinary policy interventions by the Government and the Central Bank.

These interventions were essential to mitigate the socioeconomic impact of the spillovers of the COVID-19 pandemic and the resultant scarring of households and enterprises. Such interventions were also required to uphold the confidence in the economy, thereby averting acute stresses on macroeconomic and financial system stability...

The Sri Lankan Economy at the turn of 2020...

After having to suffer the devastating effects of the Easter Sunday Attacks...

... and a volatile political environment in 2019

the Sri Lankan economy was on a path to recovery at the onset of 2020,

while the improved political stability towards end 2019 led to a notable rise in sentiments...



Challenges at the beginning of 2020...

- Reviving the economy after several years of low growth was a major challenge faced by Sri Lanka by end 2019
- Accordingly, both the Government and the Central Bank directed policies towards reviving the economy
 - Fiscal policy was aimed at supporting businesses and growth even at the expense lower revenue
 - The accommodative monetary policy was expected to continue to support growth, given the low inflation environment
- Addressing longstanding structural issues and enhancing domestic production were essential to support the pro-growth policy environment

However, the spread of the COVID-19 pandemic and the related containment measures caused severe difficulties to all stakeholders of the economy and the process of economic recovery



The Government and the Central Bank took a multitude of policy and operational measures to combat the pandemic and its repercussions...

Health and Community measures



Movement related control measures



PCR and rapid antigen tests



Provision of healthcare facilities



Community awareness programmes



Proactive vaccination programmes

Monetary, Financial and Other measures



Fiscal stimulus and financial assistance to needy families



Monetary policy easing measures



Working capital loans



Liquidity facility to construction and other sectors



Debt moratoria and financial sector regulatory measures









These extraordinary policy interventions helped address the complex challenges in 2020 efficaciously...



The first and second waves of COVID-19 were managed successfully with comparatively less fatalities...



Both the public and private sectors adopted work from home practices, improving the resilience against the resurgence of the pandemic...



Businesses and individuals were able to weather the challenges due to debt moratoria, improved access to low cost financing as well as the low tax environment...



The economy began to show strong signs of recovery during the second half of 2020, in spite of the disruptions to the recovery process caused by the second wave during the final quarter of the year...

Yet, significant macroeconomic challenges lie ahead

- Managing the resurgence of the pandemic and its economic fallout
- Managing the sizeable external debt service payments amidst limited inflows
- Strengthening the domestic economy through far reaching reforms
- Managing the timely rollback of fiscal and monetary support once the recovery process firms up







1950-2020 Stabilit Sustainabilit Sheet Proper

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National Output, Expenditure, Income and Employment,

Economic and Social Infrastructure

Prices and Wages

&

The Sri Lankan economy contracted in 2020, reflecting the effects of the **COVID-19 pandemic... Agriculture Sector:**



Fishing Growing of oleaginous fruits Growing of tea Forestry and logging Animal production **Industry Sector :** Construction

related products

Mining and quarrying

Other personal services

service activities

Transportation of goods and

passengers, including warehousing

Accommodation, food and beverage

Growing of vegetables Growing of rice, Growing of cereals (except rice) Growing of fruits

Manufacture of textiles and apparel Manufacture of Manufacture of leather and leather food, beverages & Tobacco products

> Financial services and auxiliary financial services Telecommunication

Wholesale and retail trade

Economic Activity	Annual Growth Rate %		
	2019	2020	
Agriculture, Forestry and Fishing	1.0	-2.4	
Industries	2.6	-6.9	
Services	2.2	-1.5	
Taxes less subsidies on products	2.4	-8.0	
GDP	2.3	-3.6	

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Source: Department of Census and Statistics



Overall contraction in 2020 was driven by the y-o-y contraction of 16.4 % experienced during the second quarter of the year



Investment expenditure and net external demand weakened, while consumption expenditure grew marginally in 2020...

• As per the expenditure approach of GDP at current market prices

- Gross capital formation (25.2% of GDP), which registered a contraction of 5.5% in 2019, shrank further by 6.2% in 2020
- Net external demand for goods and services contracted by 3.5%, reflecting the combined effect of the slowdown in global demand, border closures that severely affected tourism and imposition of import restrictions aimed at easing pressures in the external sector
- However, consumption expenditure (81.1% of GDP) recorded an increase of 2.1% in 2020 compared to a 7.4% growth in 2019
- Domestic savings as a percentage of GDP declined to 18.9% in 2020 from 20.7% in 2019
 - Although private savings grew by 10.0%, the increase in public dissaving contributed to the decline in domestic savings
- National savings as a percentage of GDP declined to 23.9% in 2020 from 24.7% in 2019
 - Increased net current transfers from abroad helped limit the decline in national savings
 - The national savings-investment gap narrowed to -1.4% of GDP in 2020, from -2.1% of GDP in 2019, due to the larger decline in investments relative to the decline in national savings





Reflecting the subdued economic activity amidst the COVID-19 outbreak, unemployment increased to 5.5% in 2020 from 4.8% in 2019...



• The employed population decreased to 7.999 mn in 2020 from 8.181 mn in 2019. The decline in employment was mainly caused by the decline in employment in industry and services activities

Share of employment	<u>2019</u>	2020
Agriculture	25.3%	27.1%
Industry	27.6%	26.9%
Services	47.1%	46.0%

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Source: Department of Census and Statistics





The provision of health services was carried out amid COVID-19 challenges...

Although Sri Lanka faced severe challenges in containing the two waves of the COVID-19 outbreak, collaborative actions of the health sector and other stakeholders enabled the country to maintain the caseload at a manageable level during 2020

	End Dec 2020	End March 2021
Positive cases	43,299	92,706
Cases per 1 mn persons	1,946	4,229
Fatality rate	0.47%	0.61%
Vaccinations	-	4.2 doses per 100 people

The public health system pursued innovative efforts to meet the needs of NCD patients amid COVID-19 related restrictions

COVID-19 Positive Cases and PCR Tests Performed (Daily Count)



Efficacious service delivery of the health sector enabled the effective curbing of the spread of the virus, low fatality rates, and the relatively rapid restoration of normalcy to economic activity.





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Government continued its provision of education services under unprecedented challenges...

Despite intermittent school and university closures from March 2020 onwards, with the longest periods of closure seen across the Western province, several innovative initiatives were undertaken to facilitate the continuity of educational activities, such as ethaksalawa, Guru Gedara and the Learning Management System

While the rapid transition of educational activities to digital platforms is appreciable, concerns have been raised about the effectiveness of such initiatives, especially among children from low-income families, those living in remote areas and students having limited access to ICT facilities, as well as those with various learning difficulties...

There is an urgent need for the education sector to work with key public and private industry stakeholders to identify the labour market needs of the economy and focus on upskilling and reskilling efforts...

Innovative Attempts to continue Education



Adoption of Innovative Learning Solutions

Blended Learning Methods

- e-thaksalawa
- Guru Gedara
- Learning Management System
- 502,000 Zoom sessions
- 22.3 mn online participations



Managing Continuity

• Activity Worksheets

- MOE's Contingency Emergency Response Plan (CERP)
- All national examinations conducted despite delays
- Improve teachers' capacity of online teaching
- Resolve disparities in access to technology

22.2% **Desktop or Laptop Ownership of Households**









Government took measures to uplift the socio-economic wellbeing of lowincome and vulnerable households during the lockdown...

Government provided an allowance of Rs. 5,000 per vulnerable household in two rounds.

	Main Welfare Programmes - Number of Beneficiary Families and Value of Grants				
Year	Divineguma / Samu	rdhi Subsidy Programme	Nutrition Allowance Programme		Dry Ration Programme
fear	Families (No.) (a)	Value (Rs. million) (b)	Beneficiaries (No.) (a)	Value (Rs. million) (c)	Value (Rs. million)
2016	1,407,235	40,740	337,554	5,746	111
2017	1,388,242	39,707	372,407	5,408	84
2018	1,384,021	39,239	329,047	5,490	58
2019	1,800,182	44,660	300,246	5,279	105
2020	1,770,086	52,472	238,034	4,761	n.a.

Intensity Map of Poverty Headcount Index District-wise Data-2016

Despite the substantial decline in poverty during the past few decades, significant disparities in poverty levels can be observed across provinces and districts.





Government

data for 2016 to 2019 period are based on Ministry of Finance

(c) Data for 2020 are based on State Ministry of Women and Child Development,

Pre-Schools & Primary Education, School Infrastructure & Education Services but

(a) As at year end

(b) Including the kerosene subsidy

In 2020,

continued its efforts to ensure the provision of clean and safe drinking water to the entire population

Access to safe drinking water 93.2% (2019 - 91.9%) Access to pipe borne water

53.1% (2019 - 51.8%)



State Ministry of Women and Child Development, Pre-Schools &

Primary Education, School Infrastructure & Education Services

Sources: Department of Samurdhi Development

Ministry of Finance



Telecommunications sector proactively adapted to the challenges posed by COVID-19...

- Telecommunications sector facilitated the continuity of economic activity through virtual connectivity amid several COVID-19 related restrictions
- Substantial growth in internet usage was observed with the introduction of 'work-from-home' arrangements and the imposition of mobility restrictions



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While the nationwide lockdown during the second quarter of the year caused a significant reduction in the demand for energy, it gradually returned to pre-pandemic levels thereafter... Average Price of Crude Oil (Brent) in the International Market and the Crude

- The average crude oil price (Brent) declined by 32.3% to USD 43.35 per barrel in 2020 compared to USD 64.04 per barrel in the previous year. *The lowest Brent crude oil price since 2000 was recorded in mid April 2020*.
- In March 2020, a Fuel Price Stabilisation Fund (FPSF) was established with a view to improving equitable distribution of the benefits of the unusual decline in international oil prices across the economy, rather than revising domestic fuel prices.
- During the year, sales volumes of petroleum products in the domestic market contracted by 16.8%.



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- Total electricity generation registered a decline of 1.3% to 15,714 GWh in 2020
- Electricity sales registered a decline of 2.2% to 14,287 GWh in 2020, largely due to the reduced demand from the industrial sector that outweighed the growth in demand from the domestic sector



Transport activities and port operations experienced setbacks during the year...









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Source: Sri Lanka Ports Authority







Despite disruptions caused by the pandemic, several physical infrastructure projects progressed during 2020...

- The extension of the Southern Expressway Project from Matara to Hambantota continued in 2020.
 - Expressway link that connects Godagama, Palatuwa, Beliatta and Barawakumbuka was opened to the public in February 2020
 - Expressway from Mattala to Hambantota through Andarawewa was completed
- Construction work of the Central Expressway continued in 2020.



- Development activities in the Colombo Port City project continued in 2020
 - Construction activities of external utility supply services were under progress during the year
 - Preliminary work on the construction of the Financial and Commercial centre commenced
 - The project is expected to emerge as a special economic zone in the South Asian region

The Colombo Port City Economic Commission Bill was gazetted on 24 March 2021





Headline inflation remained broadly within the desired range of 4-6% during 2020, while core inflation remained low throughout the year...

Subdued demand conditions, well anchored inflation expectations, and downward revisions to administered prices helped maintain inflation at the targeted level, despite upward pressures from food inflation, particularly due to elevated prices of certain essential food items and supply disruptions due to the pandemic.

- Headline inflation (y-o-y), as measured by the CCPI decelerated and was recorded at 4.2% by end 2020, compared to 4.8% recorded in December 2019
- NCPI based headline inflation (y-o-y) decelerated to 4.6% by end 2020, compared to 6.2% recorded in December 2019
- Core inflation, remained subdued throughout 2020, as per the CCPI and the NCPI







External Sector Developments and Policies

Supported by timely policy measures undertaken by the Government and the Central Bank, the external sector battled strong headwinds in 2020...

Export earnings rebounded within a relatively short span of time to reach pre-pandemic levels...

- Earnings from exports declined by 15.9% to USD 10,047 mn in 2020:
- Reductions were recorded in:
 - garments (-24.3%)
 - petroleum products (-28.3%)
- Increase in exports was driven by PPE and some agricultural exports:
 - plastics and articles (140.0%)
 - made up textile articles (110.3%)
- The USA continued to be the main buyer of Sri Lankan exports (25%) followed by the UK (9%) and India (6%)









Measures to curtail non-essential imports, together with the significantly low global petroleum prices, helped reduce the import expenditure in 2020...







US\$ 11.4 bn

2019

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Investment and Others US\$ 3.6 bn US\$ 4.6 bn

— 2020

- Import expenditure decreased by 19.5% to USD 16,055 mn in 2020:
- Lower imports were led by:
 - fuel (-34.7%)
 - textiles and textile articles (-19.7%)
 - personal vehicles (-65.3%)

• Increases were recorded in:

- oils and fats (led by coconut oil)
 (263.7%)
- sugar and confectionery (37.7%)
- medical and pharmaceuticals (7.8%)
- China (22%) and India (19%) continued to dominate as main import origins of Sri Lanka followed by the UAE (6%)

Composition of Imports - 2020





Source : Sri Lanka Customs



Accordingly, a notable improvement in the trade deficit was recorded...

The trade deficit declined by USD 1,989 mn to USD 6,008 mn compared to the previous year

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The external current account improved, while inflows to the financial account moderated...



- Major inflows to the financial account included the foreign currency term financing facility of USD 500 mn from CDB, SAARCFinance swap facility of USD 400 mn from RBI, and inflows on account of FDIs (including loans) of USD 670 mn.
- Major outflows included the outflows of foreign investments from the rupee denominated government securities and the settlement of the maturing ISB of USD 1 bn in October 2020.



Gross official reserves declined, amidst foreign debt service payments and limited foreign exchange inflows...



Source: Central Bank of Sri Lanka

The overall balance, which is equal to the change in net international reserves, recorded a deficit in 2020 following the surplus recorded in 2019.

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2020 : USD 5.7 bn (4.2 months of imports) 2019 : USD 7.6 bn (4.6 months of imports)





Sri Lanka's total outstanding external debt declined in 2020...



Total External Debt Stock at end 2020 : USD 49.2 bn (60.9% of GDP) at end 2019 : USD 54.8 bn (65.3% of GDP)

External Debt Service Payments 2020 : USD 4.4 bn 2019 : USD 5.8 bn

External debt stock declined in 2020 mainly due to

- repayment of the ISB of USD 1 bn that matured in October 2020
- reduction in outstanding foreign loans obtained by the Government
- decline in the non-resident holding of rupee denominated government securities
- the increase in the resident holdings of Sri Lanka's outstanding ISBs
- significant decline in market prices of Sri Lanka's outstanding ISBs

Despite the challenges in mobilising external financing, Sri Lanka continued to maintain its unblemished record of debt servicing...



The depreciation of the rupee against the US dollar was contained at 2.6% in 2020...

- Despite pressures experienced during March-April 2020, and in late 2020, significant volatilities in the exchange rate were
 prevented with timely measures
- Overall, the Central Bank absorbed foreign exchange from the domestic foreign exchange market on a net basis (USD 283 mn) during 2020
- The Real Effective Exchange Rate (REER) indices remained well below the base year level (2017=100), indicating external competitiveness



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Fiscal Policy and Government Finance

Fiscal policy was reoriented towards supporting an ailing economy at the turn of the year. However, fiscal operations were faced with significant challenges during 2020 amidst the pandemic, and the overall fiscal outcome was weaker than initially expected... Amidst numerous challenges, the Government continued to support businesses and individuals affected by the pandemic to ensure a fast recovery of economic activity and return of the economy to a high growth path...

• The significant challenges during 2020 amidst the pandemic resulted in lower-than-expected revenue mobilisation and high recurrent expenditure.



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 Reflecting the increased pressure on fiscal operations, key fiscal balances deteriorated in 2020, thereby increasing the outstanding central government debt as at end 2020.





Source: Ministry of Finance

Government revenue as a percentage of GDP declined to 9.1% in 2020 from 12.6% in 2019, reflecting the sharp decline in tax revenue collection...

 This outcome was a result of weakened revenue streams owing to the contraction of economic activity as well as the fiscal stimulus measures implemented via tax revisions since late 2019



Source: Ministry of Finance

ltem	2019 (a)	2020 (b)		
Rs. million				
Tax Revenue	1,734,925	1,216,542		
Income Taxes	427,700	268,249		
VAT	443,877	233,786		
Excise Taxes	399,478	321,932		
Import Duties	98,427	114,183		
Other Taxes	365,443	278,392		
Non Tax Revenue	155,974	151,417		
Total Revenue	1,890,899	1,367,960		
As a perc	centage of GDP (c)			
Tax Revenue	11.6	8.1		
Income Taxes	2.8	1.8		
VAT	3.0	1.6		
Excise Taxes	2.7	2.2		
Import Duties	0.7	0.8		
Other Taxes	2.4	1.9		
Non Tax Revenue	1.0	1.0		
Total Revenue	12.6	9.1		

announced in the Budget Speech for 2020.

(c) For 2019, revised GDP estimates were used, as released by the Department of Census and

Statistics on 16 March 2021.

(b)

Provisional



Total expenditure & net lending declined due to the notable decline in capital expenditure...

- On the expenditure front, the MOF made an adjustment to fiscal statistics by shifting the expenditure incurred on payment of arrears amounting to Rs. 422.6 bn from 2020 to 2019.
- Accordingly, total expenditure and net lending were recorded at 20.3% of GDP in 2020, compared to 22.2% in 2019
 - Recurrent expenditure rose to 17.0% of GDP in 2020 from 16.1% of GDP in 2019, mainly on account of increases in salaries and wages, subsidies and transfers, and interest payments.
 - Capital expenditure contracted notably to
 3.3% of GDP in 2020, compared to 6.1% of
 GDP in 2019.





The effects of the pandemic caused the key fiscal balances to deteriorate notably in 2020...



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- After the adjustment for arrears, the overall budget deficit increased to 11.1% of GDP in 2020 from 9.6% of GDP in 2019.
- The current account deficit increased to 7.9% of GDP in 2020 from 3.6% of GDP in 2019.
- The primary balance recorded a deficit of 4.6% of GDP in 2020, compared to the deficit of 3.6% of GDP in 2019.





Financing of the budget deficit was met from domestic sources in 2020...

 The outstanding central government debt increased to 101.0% of GDP by end 2020 from 86.8% of GDP at end 2019, reflecting the combined impact of the increase in the outstanding debt stock as well as the contraction of GDP during the year.



- The relative share of foreign debt in total debt declined to 40.0% by end 2020 from 47.6% at end 2019
- This reflected the expressed preference of the Government for domestic financing over foreign financing as well as the limited access to foreign financing amidst unfavourable global market conditions.



Amidst adverse speculation, the Government continued to maintain its impeccable debt service record...






Monetary Policy, Interest Rates, Money and Credit

The Central Bank implemented an extremely accommodative monetary policy stance in 2020, focusing on lowering cost of funds, ensuring adequate liquidity in the money market, and facilitating the smooth functioning of the financial system under challenging circumstances caused by the pandemic...

The Central Bank continued to relax the monetary policy stance during 2020 with a view to supporting the economy to recover from the effects of the pandemic and to regain the growth momentum, given the subdued inflation conditions...

The Standing Rate Corridor (SRC), the Average Weighted Call Money Rate (AWCMR), the Statutory Reserve Ratio (SRR) and the Bank Rate



- Policy interest rates reduced by a total of 250 bps and the SRR reduced by a total of 3 percentage points
- Bank rate was allowed to automatically adjust in line with the SLFR, resulting in a reduction of 650 bps during 2020 with a margin of +300 basis points
- Introduced concessional credit schemes under the Saubagya COVID-19 Renaissance Facility
- Implemented regulatory measures in order to reduce excessive interest rates
- Introduced a maximum interest rate of 7% per annum on mortgage-backed housing loans
- Decided to introduce priority sector lending targets for banks on lending to micro, small and medium scale enterprises (MSME)
- Considering the cashflow difficulties of the Government amidst the pandemic, the Central Bank extended financial support to the Government

Monetary Policy Tools Deployed by the Central Bank of Sri Lanka during 2020 are discussed further in a box article...



Reflecting the impact of these policy, operational and regulatory measures, aggregate market lending rates declined to historic lows...

Adjustments in Interest Rates



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-426

-330

-442

-290

-282

-322

-340

-240

-291

-396

-409

A gradual recovery in credit to the private sector by LCBs was observed towards late 2020...

The expansion

of credit to

the private

2020 was

sector in the

second half of

mainly driven

by Personal

Loans and

Advances



Source: Central Bank of Sri Lanka

• Credit to the private sector increased by Rs. 374.1 bn during 2020, recording a growth of 6.5%, y-o-y, by end 2020

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The behaviour of interest rates and credit to Micro, Small and Medium Sized Enterprises (MSMEs), as measured in a new survey by the Central Bank, are discussed in a box article...

Mar-20



15.1

Dec-20

Y-o-Y Growth of Private Sector Credit to Key Sectors (%)

2.6

3.1

3.1

1.4

3.9

3.9

4.7

5.0

5.4

Jun-20

6.

6.5

6.6

7.7

9.8

Sep-20

11.9

12.2

Source: Central Bank of Sri Lanka

Agriculture and Fishing

Personal Loans and Advances

Dec-19

Industry

Services

Net credit to the government from the banking system increased substantially during 2020...



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Source: Central Bank of Sri Lanka

The Central Bank and the banking sector provided necessary financing to the Government to carry out fiscal operations in an undeterred manner amidst the pandemic

Expansion of Credit to the Public Sector (Annual Change, Rs. bn)

	Net Credit to the Government	Credit to SOBEs
2019	279	63
2020	1,752	184



Domestic credit growth resulted in a rapid expansion of broad money supply, amidst a decline in net foreign assets of the banking system...





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Chapter

Financial Sector Performance and System Stability

The Central Bank ensured the maintenance of financial system stability by introducing several measures aimed at safeguarding the interests of financial institutions as well as those of depositors, while enabling the financial sector to provide the extraordinary support required by the economy due to the pandemic...

The banking sector exhibited moderate growth in 2020...

- The banking sector exhibited moderate growth despite risks emerging from the challenging economic environment due to the effects of the pandemic.
- The deterioration in credit quality and the moderation of foreign exchange inflows due to the pandemic remained the major macroprudential concerns on banking sector operations.







Performance of the LFCs and SLCs sector deteriorated in 2020...

The sluggish performance of the LFCs and SLCs sector was reflected through the decline in the asset base, credit
and deposits, and profitability, and the increase in NPLs during the year, mainly due to the pandemic related
impediments and the deterioration in public confidence.



• The Central Bank provided a number of regulatory forbearances with a view to managing the adverse impact of the above outcomes on the banking sector and the LFCs and SLCs sector, while enabling the financial system to provide relief to COVID-19 affected businesses and individuals.



The CSE recovered from the significant decline recorded at the onset of the pandemic, to record a notable improvement since mid-July 2020...

• This was supported by the improved appetite of domestic investors for equity investment, despite net outflows of foreign investment from the CSE in 2020.



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Medium Term Macroeconomic Framework

Medium Term Macroeconomic Framework: 2021-2025^(a)

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In Branker	11-th 2010 (h)	0000()	Projections					
Indicator	Unit	2019 (b)	2020 (c)	2021	2022	2023	2024	2025
Real Sector (d)								
Real GDP Growth	%	2.3 (c)	-3.6	6.0	5.2	5.8	6.5	7.0
GDP at Current Market Price	Rs. tn	15.0 (c)	15.0	16.6	18.4	20.7	23.2	26.1
Per Capita GDP	US\$	3,852 (c)(e)	3,682	3,873	4,092	4,420	4,784	5,178
Total Investment	% of GDP	26.8 (c)(f)	25.2	27.5	28.0	28.5	29.0	29.5
Domestic Savings	% of GDP	20.7 (c)(f)	18.9	23.1	24.6	26.2	27.4	28.5
National Savings	% of GDP	24.7 (c)(f)	23.9	27.3	28.2	29.0	29.8	30.5
External Sector								
Trade Gap (d)	% of GDP	-9.5	-7.4	-6.2	-5.5	-4.6	-3.7	-3.5
Exports	US\$ bn	11.9	10.0	12.5	14.0	15.5	17.0	18.9
Imports	US\$ bn	19.9	16.1	17.8	19.0	20.0	21.0	23.0
Current Account Balance (d)	% of GDP	-2.2	-1.3	-0.2	0.2	0.5	0.8	1.0
External Official Reserves	Months of Imports	4.6	4.2	3.2	3.7	4.3	4.7	5.0
Fiscal Sector (d)(g)								
Total Revenue and Grants	% of GDP	12.6 (h)(i)	9.2	11.8	13.0	13.5	14.3	15.1
Expenditure and Net Lending	% of GDP	22.2 (h)(i)	20.3	21.2	20.4	19.1	19.0	19.2
Current Account Balance	% of GDP	-3.6 (h)(i)	-7.9	-3.1	-1.3	0.0	1.2	2.3
Primary Balance	% of GDP	-3.6 (h)(i)	-4.6	-4.2	-2.3	-0.6	0.2	0.9
Overall Fiscal Balance	% of GDP	-9.6 (h)(i)	-11.1	-9.4	-7.5	-5.6	-4.7	-4.0
Central Government Debt	% of GDP	86.8(h)	101.0	98.0	95.0	91.0	86.0	80.0
Monetary Sector and Inflation								
Broad Money Growth (M _{2b}) (j)	%	7.0	23.4	21.0	12.5	12.5	12.5	12.5
Private Sector Credit Growth (in M _{2b}) (j)	%	4.2	6.5	12.2	11.6	11.7	12.0	12.0
Annual Average Inflation (k)	%	4.3	4.6	4.3	5.8	6.0	5.5	5.0

(a) Based on information available at the time of going to press

(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 percentage of GDP in 2019 were revised by the

Department of Census and Statistics from 27.4%, 21.3% and 25.3%, respectively.

(g) Fiscal sector projections are based on the inputs from the Ministry of Finance.

(h) Based on the revised GDP estimates for 2019 released on 16 March 2021 by the Department of Census and

Statistics

 (i) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.

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

(k) Based on CCPI (2013=100)

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



Risks to the envisaged path



- The medium term path presented in the Annual Report 2020 were finalised in mid-April 2021...
- However, the spread of the COVID-19 pandemic has picked up dramatically since then, reflecting the continued uncertainties affecting projections...
- Therefore, the envisaged path published in the Annual Report is likely to be subject to revisions in the period ahead...

Furthermore, DCS is expected to publish rebased national accounts estimates in mid-2021. With 2015 as the new base year, this rebasing will require reinterpretation of associated ratios and analyses from 2015...



The Medium Term Macroeconomic Framework presented in the Annual report...

- The Sri Lankan economy is expected to rebound strongly in 2021 and sustain the high growth momentum over the medium term, buoyed by growth oriented policy support
 - Monetary and financial measures by themselves cannot ensure economic revival and regaining the growth momentum
 - This requires wide-ranging economic reforms undertaken by the Government

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- While cautious management of external sector pressures in the near term is crucial in maintaining macroeconomic stability, the implementation of policies to strengthen non debt creating foreign exchange inflows is expected to improve the resilience of the sector in the medium term
- In line with the Government's policy agenda, the fiscal sector is expected to improve over the medium term, underpinned by the envisaged revival of economic activity
- With proactive policies to rollback any excessive policy stimulus when aggregate demand conditions normalise, inflation is anticipated to be maintained within the targeted range over the medium term
- The envisaged low inflation environment will help the maintenance of the low interest rate structure, facilitating credit flows to the private sector at reasonable cost and thereby supporting the expected high economic growth, while providing a reasonable real return to savers







01 Sluggish improvement in productivity remains a major challenge for sustained economic growth of Sri Lanka.







Innovative strategies to entice both international and domestic tourists are necessary to **keep the tourism sector functioning in the new normal** that has been created by the pandemic.



The Colombo Port City, the first of its kind in South Asia, is expected to bring numerous socioeconomic benefits to the country, conditional on the country's ability to attract strategic investments by offering an investor friendly atmosphere expeditiously.



06

The country's continued **failure to attract sizeable FDIs** highlights the structural, institutional and policy impediments that **need to be addressed urgently**, while **maintaining a consistent policy framework** with a long term view.



Improving the external **current account balance and the fiscal balance** is **necessary to continue reversing the expansion in external debt**, in order to ensure macroeconomic stability and prevent disruptions to long term economic growth.

08

Major fiscal challenges that need to be addressed by the Government include the persistently low revenue, rigid recurrent expenditure, rising gross financing needs and the resultant elevated debt level, as well as the need to improve the financial performance of SOBEs.



Policy adjustments in the period ahead **must give due consideration** to the fact that the **COVID-19 pandemic has had a disproportionate impact on underprivileged segments** of the population and has aggravated inequalities, not only related to income, but also in relation to other aspects that affect socioeconomic wellbeing in the short run and productivity in the long run.







Increasing food self sufficiency in Sri Lanka is crucial to address food security issues and to ease external sector pressures, while boosting economic growth through increased agricultural production. (Please see Box Article)



The COVID-19 pandemic highlighted the fragilities and vulnerabilities in Sri Lanka's labour force, emphasising the need for urgent labour market reforms to pave way for the creation of a resilient and dynamic labour force that can contribute to the country's transition to a high income economy.











15

As the country's interest rate structure is expected to remain in single digit levels, the **general public needs to be more vigilant of offers and opportunities promoted by various unscrupulous parties.**

Although the usage of **digital payment methods** accelerated with the unexpected circumstances created by the pandemic, **fast evolving technology demands preparedness of stakeholders** in the financial sector and **improved financial literacy** among the general public to make use of the technology.

16 Environmental issues in Sri Lanka increasingly exert considerable macroeconomic implications, underscoring the importance of a sustainable development policy framework.



Accurate and timely data play a key role in information based societies, while poor and delayed data lead to the formation of misjudged public opinion as well as policy errors, incurring economic and social costs, thereby impacting economic progress and stability.







Bo1 Sri Lanka's Food Security in the Context of COVID-19 Pandemic

- Amongst the myriad of economic and social concerns that intensified during the COVID-19 pandemic, issues related to food security have garnered greater attention from policymakers, academics and the general public, locally as well as globally
- With unprecedented preventive measures such as lockdowns and mobility restrictions, taken globally and locally, economic activities of the country were disrupted, impacting supply chains and livelihoods of people and thereby food security, despite the measures taken to ensure uninterrupted food production and distribution during the pandemic period

Policies Adopted to Ensure Food Security amidst the COVID-19 Pandemic

- Expanding the social protection programmes
- Continuation of targeted nutritional support programmes
- Facilitating emergency financing needs of the stakeholders of the supply chain for them to remain afloat
- Government procurement and public distribution
- Promotion of domestic agriculture
- Strict adherence to health and safety regulations by the participants of food supply chains

Way Forward

- Improve productivity levels in the agriculture sector
- Improve marketing and distribution channels
- Establish food production databases and strengthening public sector distribution channels
- Improving warehousing and storage facilities, including cold storage
- Enabling income generation opportunities for the economically vulnerable group
- Educating the public in relation to nutrition and food safety, to promote healthy eating habits and healthy eating choices



Bo2 Improved Global Rankings: Steppingstone for Investors

Given the persistent gap between investment and savings, failure to attract enough foreign investments could be identified as a major bottleneck that slowed down the Sri Lankan journey towards development

- Several key areas could be identified as priorities as indicated by latest rankings of selected global indices to improve investor attractiveness
- Competitiveness can be reinstated by achieving improvements in the indices of
 - Ease of Doing Business Index
 - Global Competitiveness Index
 - Corruption Perception Index
- The establishment of the Colombo Port City Commission is expected to provide a doing business environment that is in par with investment hotspots around the world, thereby raising the prospects to enhance FDI inflows to new heights

Key areas to improve investor attractiveness

- Legal Processes
- Government Policy
- Tax Structure
- Macroeconomic Stability
- Trade Openness
- Labour market
- ICT Adoption
- Infrastructure Network
- Targeted reforms to address deficiencies in these areas will facilitate increased investments by foreign as well as domestic investors



B03 COVID-19 Instigated Paradigm Shift in Work Routines Towards Work from Home



Work from home (WFH) largely got popularised as a temporary measure of business continuity amidst unprecedented impact on the labour market during the pandemic, especially on deep-rooted work routines and cultures... B09 Implications of the COVID-19 on Technology Adoption and Cybersecurity

Cybersecurity was in the spotlight in the backdrop of surged demand for information technology related services amidst the pandemic resultant lockdown and subsequent increase in cybercrime

Advantages	Disadvantages
 Reduced commuting time and related expenses Greater flexibility Reduced operational expenses Opportunity to increase female LFPR Reduced carbon emissions, traffic congestion and oil imports 	 All industries, occupation types and job functions are not feasible under WFH arrangements Inadequate availability and quality of physical and ICT infrastructure and equipment Lower digital literacy level Threats related to data security breaches

Addressing the practical difficulties and challenges still remains a concern that require attention of the facilitators for smooth functioning and in reaping desired benefits from WFH arrangements





How to overcome the challenges?

- Strengthen cyber resilience
- Business continuity planning (BCP)
- Allocate adequate budget to implement latest cyber security controls and technology
- Increase user awareness



In addition to the above, the Annual Report 2020 provides details of the Central Bank operations during the pandemic as well as measures adopted by authorities...

- Box 10: Major Economic Policy Measures
 - Monetary Policy
 - Special Credit Schemes
 - Financial Sector
 - Anti-Money Laundering and Countering the Financing of Terrorism
 - Foreign Exchange Management and International Operations
 - Price Revisions
 - Tax Revisions
 - Regulations of Import and Export Control Department
 - Government Expenditure
 - Debt Management
- Part II: Accounts and Operations of the Central Bank of Sri Lanka
- **Part III: Major administrative measures** adopted by the Government and the Monetary Board during the year relating to the functions and operations of the Central Bank and banking institutions in Sri Lanka



Thank You.

Macroeconomic Performance (2016-2020)

Indicator	Unit	2016	2017	2018	2019 (a)	2020 (b)
Real Sector (c)						
Real GDP Growth	%	4.5	3.6	3.3 (a)	2.3 (b)	-3.6
GDP at Current Market Price	Rs. bn	11,996	13,328	14,291 (a)	15,013 (b)	14,973
Per Capita GDP (d)	US\$	3,886	4,077	4,057 (a)	3,852 (b)	3,682
External Sector						
Trade Balance (c)	% of GDP	-10.8	-11.0	-11.8 (a)	-9.5	-7.4
Current Account Balance (c)	% of GDP	-2.1	-2.6	-3.2	-2.2	-1.3
Overall Balance	US\$ mn	-500	2,068	-1,103	377	-2,328
External Official Reserves	US\$ mn	6,019	7,959	6,919	7,642	5,664
Fiscal Sector (c)(e)						
Current Account Balance	% of GDP	-0.6	-0.7	-1.2	-3.6 (f)	-7.9
Primary Balance	% of GDP	-0.2	0.02	0.6	-3.6 (f)	-4.6
Overall Fiscal Balance	% of GDP	-5.3	-5.5	-5.3	-9.6 (f)	-11.1
Central Government Debt (g)	% of GDP	79.0	77.9	84.2	86.8	101.0
Monetary Sector and Inflation						
Broad Money Growth (M2) (h)	%	18.4	16.7	13.0	7.0	23.4
Private Sector Credit Growth (in M_{2b}) (h)	%	21.6	14.7	15.9	4.2	6.5
Annual Average Inflation (i)	%	4.0	6.6	4.3	4.3	4.6

⁽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 2018 and 2019 released on 16 March 2021 by the Department of Census and Statistics

(f) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.

(g) Includes Treasury bonds of 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)

(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 Central Bank of Sri Lanka





The COVID-19 pandemic resulted in an unprecedented disruption to the global economy and world trade, prompting the Government to take several measures to mitigate its adverse effects...

- Government focused on a trade policy that supports domestic production through the development of import alternatives and export promotion
- The reduction in expenditure on items subject to import restrictions accounted for about 36% (approximately USD 1.3 bn) of the decline in overall import expenditure during Apr-Dec 2020
- The Export Development Council of Ministers meeting was assembled in 2020 after a lapse of 28 years

Exports under Preferential Tra	de Agre	ements	of Sri L	anka
	2019 2020 (a)			
Preferential Agreement	Value (US\$ million)	Value (US\$ Growth million)		Share (%)
Generalised System of Preferences (GSP)	4,020.0	3,671.8	-8.7	83.1
o/w EU (including GSP+) (b)	2,766.3	2,597.9	-6.1	58.8
USA	709.4	585.7	-17.4	13.2
Russian Federation (c)	150.3	142.2	-5.4	3.2
Turkey	85.3	80.3	-5.9	1.8
Australia	89.7	79.2	-11.8	1.8
Japan	84.9	71.0	-16.4	1.6
Canada	73.5	61.0	-17.0	1.4
Other GSP	60.6	54.6	-9.9	1.2
India-Sri Lanka Free Trade Agreement (ISFTA) Implemented in 2000	489.6	358.4	-26.8	8.1
Asia-Pacific Trade Agreement (APTA) implemented in 1975 (d)	179.3	204.7	14.2	4.6
Global System of Trade Preferences (GSTP) Implemented in 1989	80.5	89.5	11.2	2.0
Pakistan-Sri Lanka Free Trade Agreement (PSFTA) Implemented in 2005	60.8	53.0	-12.8	1.2
South Asian Free Trade Area (SAFTA) Implemented in 2006	55.9	42.2	-24.4	1.0
South Asian Preferential Trading Arrangement (SAPTA) implemented in 1995	1.7	0.8	-55.6	0.02
Total Exports under Preferential Agreements	4,887.8	4,420.4	-9.6	100.0
As a Share of Sri Lanka's Total Exports	40.9	44.0		



