



# ANNUAL REPORT 2022

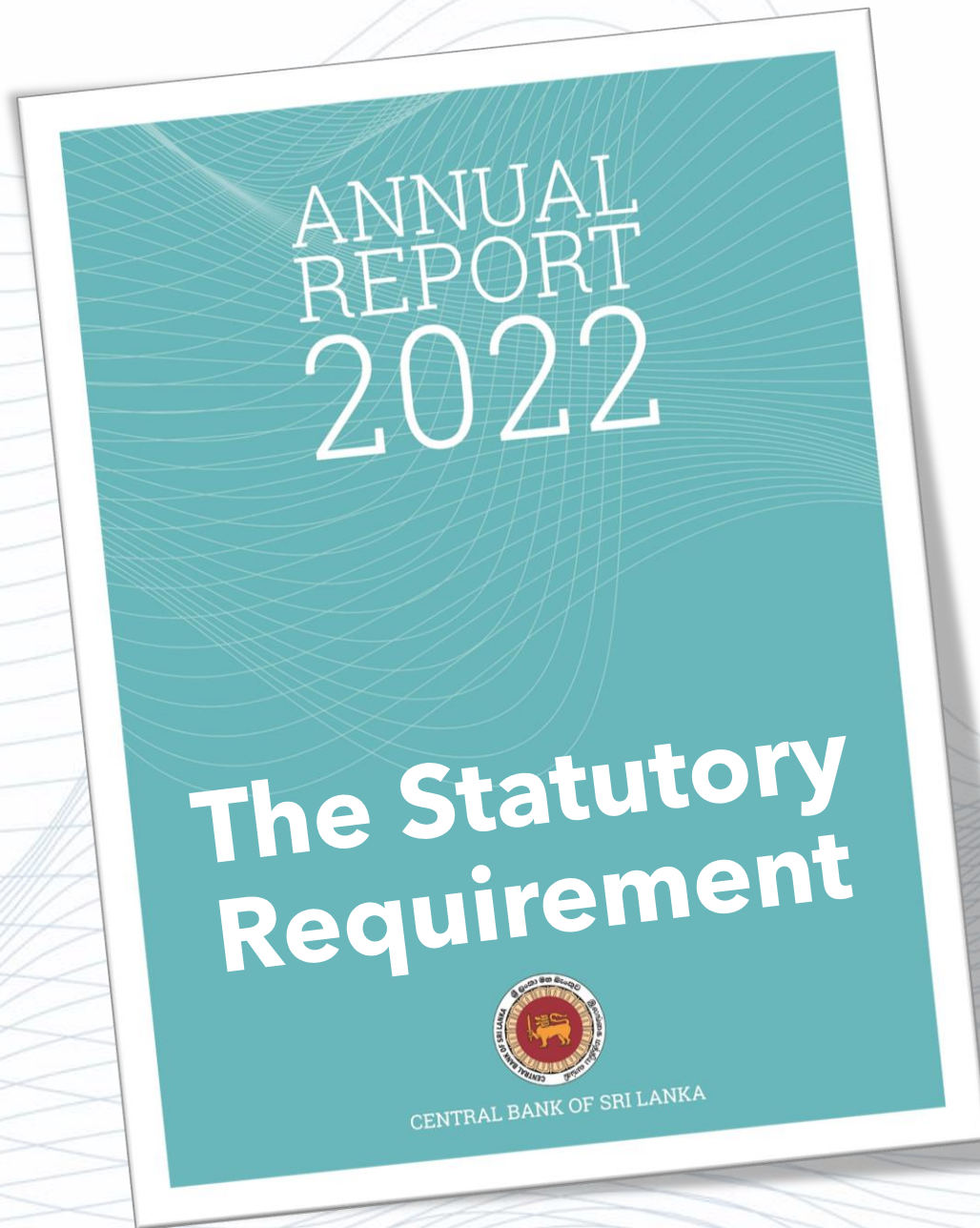
## The State of the Sri Lankan Economy

**Challenges, Policies and Outlook**  
As Reflected in the Annual Report 2022

**Dr. P K G Harischandra**

Director of Economic Research  
Central Bank of Sri Lanka  
09 May 2023





## **Section 35 of the Monetary Law Act:**

...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...

# Content of the Annual Report

## Volume 1

### Part I

- State of the economy, its performance, policies and issues
- Statistical Appendix
- Special Statistical Appendix

## Volume 2

### 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

- Major Legislative Enactments of 2022 relating to the Functions and Operations of the Central Bank and Banking Institutions in Sri Lanka

ANNUAL  
REPORT  
2022

Content



CENTRAL BANK OF SRI LANKA



**The Sri Lankan economy  
encountered its  
most onerous year in its  
post-independence  
history in 2022...**

- Rapidly deteriorating economic conditions warranted **immediate** and **coordinated** policy initiatives to preempt a further worsening of the situation
- The corrective measures **affected** the vast citizenry in the **near term**, but they were necessary to **safeguard** the economy and people from potentially devastating consequences of unrestrained economic **instability**
- The expected **outcomes** of these efforts began to **materialise** since late 2022, thereby helping to restore socio-economic **stability**
- **Challenges** remain in ensuring stability on a sustainable basis



# Real economy contracted by 7.8% in 2022, recording the deepest contraction on record...



Real GDP  
**contracted by  
7.8%** in **2022**,  
compared to the  
**growth of 3.5%** in  
**2021**

## Contraction remained broad-based in 2022...



**Services**

**-2.0%** ↓

Real estate activities => **-12%**  
Financial services => **-11%**  
Insurance => **-47%**



**Industry**

**-16.0%** ↓

Construction => **-21%**  
Manufacturing => **-13%**



**Agriculture**

**-4.6%** ↓

Growing of rice => **-13%**  
Growing of tea => **-16%**  
Animal production => **-13%**



**Taxes less  
subsidies**

**-27.1%** ↓

## Overall Size of the Economy (USD bn)

**2021**

**88.5**

Per capita GDP  
**3,997 US\$**

**-12.9%**

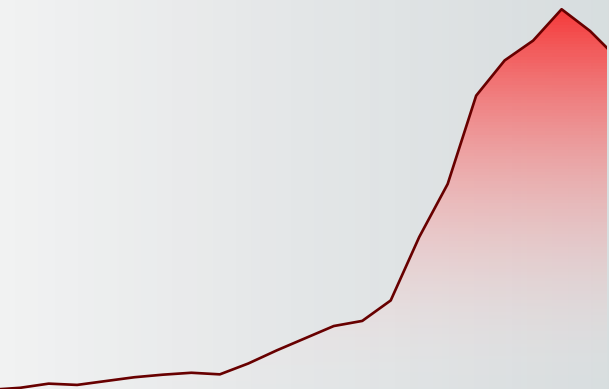
**2022**

**77.1**

Per capita GDP  
**3,474 US\$**



# Inflation reached a historic high...



Inflation (based on the CCPI)  
reached a **historic high** at  
**69.8%** in Sep 2022

- Depreciation of LKR
- Supply shortages
- Large monetary financing
- Global energy and food inflation

*caused a reverberating effect on all aspects of society, with the significant increase in inflation*

**Y-o-Y** (CCPI, 2013=100)

**Dec 2021**

**Sep 2022**

Headline

12.1%

69.8%

Core

8.3%

50.2%

Food

22.1%

94.9%

Non-Food

7.5%

57.6%



**High inflation  
and de-anchoring of  
inflation expectations**

# The external sector met with severe BOP stresses in 2022...



Forex liquidity dried, causing shortages of essentials

Workers' Remittances fell to  
**US\$ 205 mn**  
Feb 2022  
**US\$ 585 mn**  
2018 (monthly average)



Trade deficit widened

**1.1**  
**US\$ bn**  
(Dec 2021)



**USD 781 mn (avg)**  
from Jan-Apr 2022

Earnings from tourism declined  
**US\$ 41 mn**  
Sep 2022  
**US\$ 365 mn**  
2018 (monthly average)



Usable official reserves fell to  
*critically low levels*

**20**  
**US\$ mn**  
Apr 2022



Foreign  
Currency debt  
servicing  
soared

	USD bn
2021:	<b>6.8</b>
2022 (Proj.):*	<b>7.6</b>
2022: Q1:	<b>2.5</b>
2022: Q2-Q4:	<b>0.7</b>

\*before debt standstill announcement

Gross official reserves depleted  
**US\$ 1.7 bn**  
Oct 2022



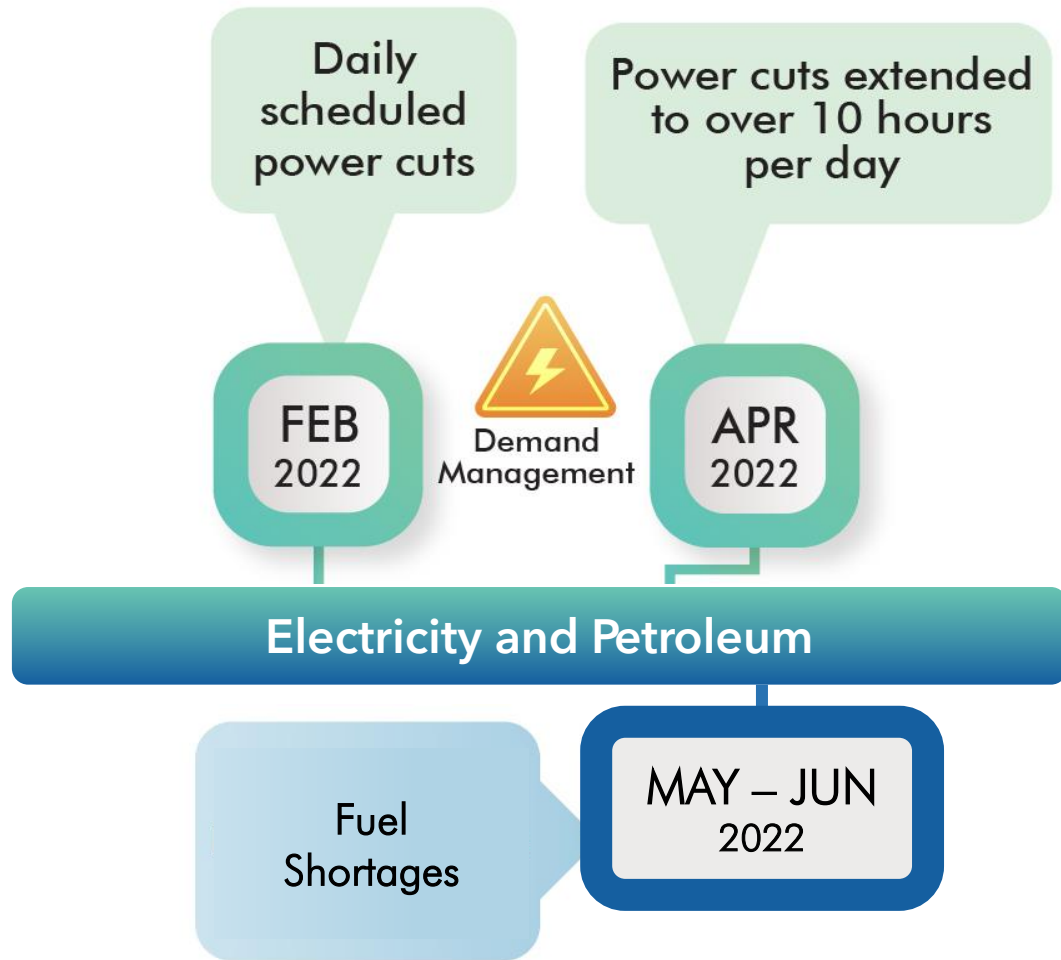
Exchange rate was allowed a measured adjustment

Market speculation caused a large overshooting

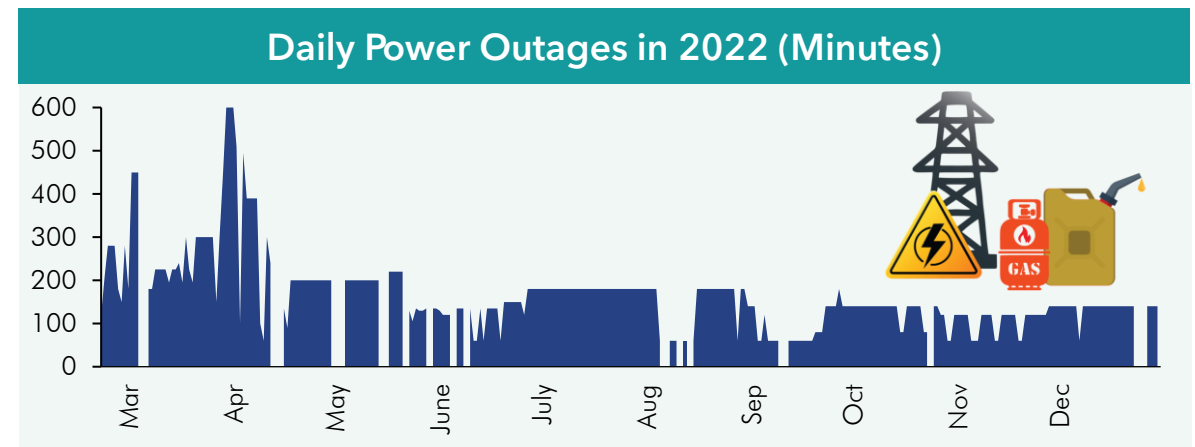
**44%**  
Depreciation LKR/USD  
08 Mar - 12 May 2022



# The vulnerabilities in the power and energy sector heightened amidst forex shortages causing significant loss of economic activity...



- **Fuel crisis in 2022 led to severe social inconvenience and unrest**
  - Worsened financial position of the CPC
  - Sparse liquidity in the domestic foreign exchange market
- **Excessive hoarding of stocks by the people and long queues for fuel due to;**
  - Inconsistency in fuel distribution
  - Uncertainty in the availability of fuel



# Fiscal sector imbalances that persisted for several decades reached a tipping point in 2022...



Government  
Revenue  
**8.2%**  
of GDP

One of the lowest  
in the world



Government  
expenditure  
**18.5%**  
of GDP

Expenditure remained  
rigid



Overall fiscal  
deficit  
**10.2%**  
of GDP

The third highest deficit  
in 20 years



Government  
debt  
**113.8%**  
of GDP

Central Government debt  
reached an unsustainable level

A series of **sovereign credit rating downgrades** by international rating agencies that started in January 2020 was **intensified** during the second half of 2021 **through early 2022, hence constrained the access to foreign financing**



# Monetary sector performance also reflected the impact of the crisis and corrective measures taken...

- Monetary financing increased
- NCG by the banking system expanded



**NCG** by the CBSL

End 2021 **1.2** Rs. tn

End 2022 **1.3** Rs. tn



Credit to the Private sector continued to contract consecutively from June 2022

**Rs -494 bn** (Jun 22 - Feb 23)



Net foreign assets of the Central Bank turned negative and recorded at lowest levels

as of end 2022

**-1.6**  $\approx$  **-4.4**  
Rs. tn US\$ bn

AWPR reached a historic high at

**29.7%**  
Nov-2022

Yields on Gov. Sec. increased to extraordinarily high levels

**33.1%**  
Nov-2022 (91d T-bills)

# The financial system weathered headwinds from the most profound economic crisis since independence...

## Banking Sector

The banking sector faced looming challenges arising from **continuously declining credit quality**, acute **pressure on liquidity**, **low level of profitability**, and **deteriorating capital levels**...

ROA (Before Tax)

1.0% ▼

2021: 1.4%

NPL (%)<sup>(a)</sup>

11.3% ▲

2021: 7.6%

Capital Adequacy (%)

15.3% ▼

2021: 17.9%

Credit Growth (%)

5.7% ▼

2021: 14.5%

(a) as indicated by stage 3 loans to total loans

## LFCs and SLCs Sector

The LFCs and SLCs sector operated amidst challenges stemming from **contraction of credit growth**, **declining profitability** and **increase in NPLs**.

ROA (Before Tax)

3.7% ▼

2021: 5.4%

NPL (%)<sup>(b)</sup>

17.5% ▲

2021: 11.0%

Capital Adequacy (%)

22.0% ▲

2021: 17.0%

Credit Growth (%)

5.0% ▼

2021: 9.9%

(b) as indicated by stage 3 loans to total loans

## CSE

...a **bleak performance** during 2022 reflecting the high yield for fixed income securities and **negative market sentiments**...

ASPI<sup>(c)</sup>

-30.6%

S&P SL20<sup>(c)</sup>

-37.7%

Market Capitalisation<sup>(c)</sup>

-29.9%

(c) y-o-y % changes







**Economic crisis led to  
severe hardships to  
individuals and  
businesses**

# Rising inflation led to severe deterioration of living conditions of the public and substantial hardships to businesses...

Highest Y-o-Y Inflation (CCPI, 2013=100) of Selected Categories During 2022

Increasing Prices	
Gas	240% (Aug)
Fuels For Personal Transport	207% (Jul)
Bread and Bakery Products	183% (Aug)
Passenger Transport By Road	145% (Aug)
Materials For Household Maintenance	120% (Aug)
Water Supply	120% (Oct)
Meat	119% (Oct)
Personal Hygiene Products	116% (Dec)
Electricity	114% (Nov)
Fruits	108% (Dec)
Fish and Sea Food	99% (Sep)
Milk, Cheese and Eggs	98% (Aug)
Meals Bought From Outside	97% (Sep)
Spices and Other Foods	94% (Jul)
Rice	94% (Sep)
Vegetables	90% (Jun)

Businesses and the general public alike were in severe distress amidst shortages and rationing of essentials, the **ballooning cost of living** and **cost of production**, and the loss of welfare and livelihoods.

High Production Costs

Negative Real Returns

Falling Real Wages

Public Sector

Nominal	Real
↑ 16.1%	↓ 20.6%

Formal Private Sector

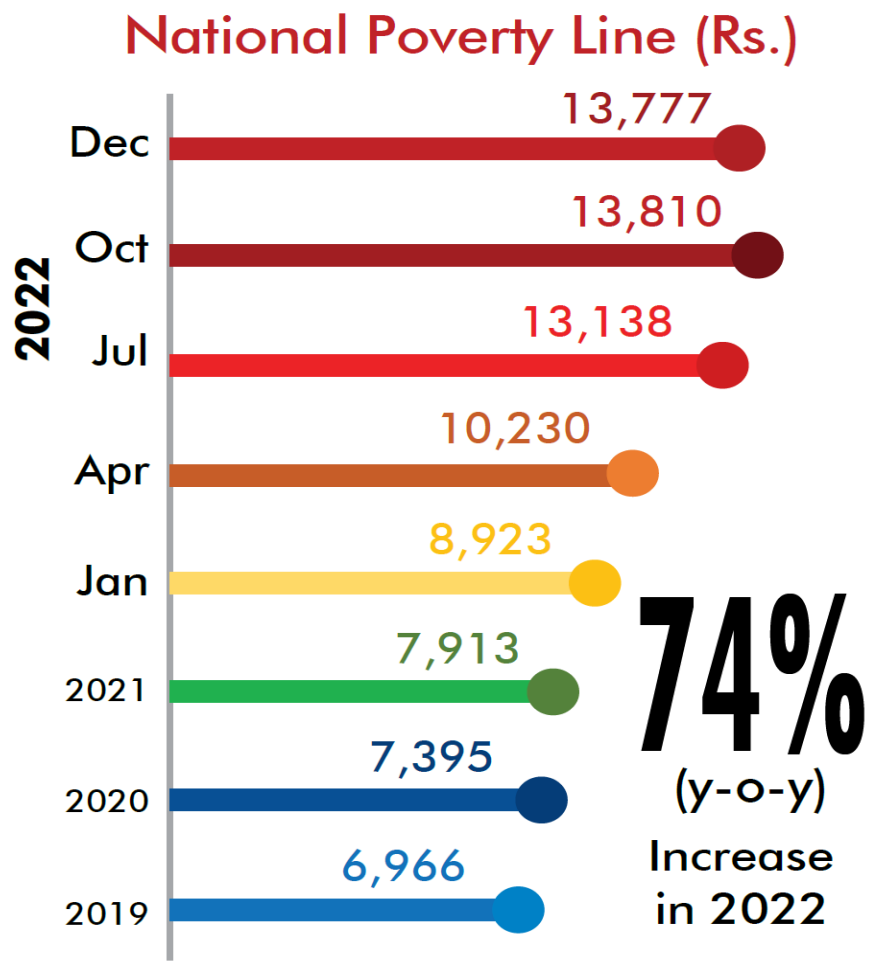
Nominal	Real
↑ 9.8%	↓ 22.7%

Informal Private Sector

Nominal	Real
↑ 24.8%	↓ 17.5%



# The acceleration in consumer prices had a severe impact on vulnerable households, exacerbating pre-existing income inequalities...



**Scarcity of essential items amidst dearth in foreign exchange liquidity caused significant social suffering**  
*(Pharmaceuticals, fuel, LP Gas, food items, industrial raw materials etc.)*

Sri Lanka's progress in eradicating poverty has stalled with heightened economic vulnerabilities from multiple fronts during the crisis

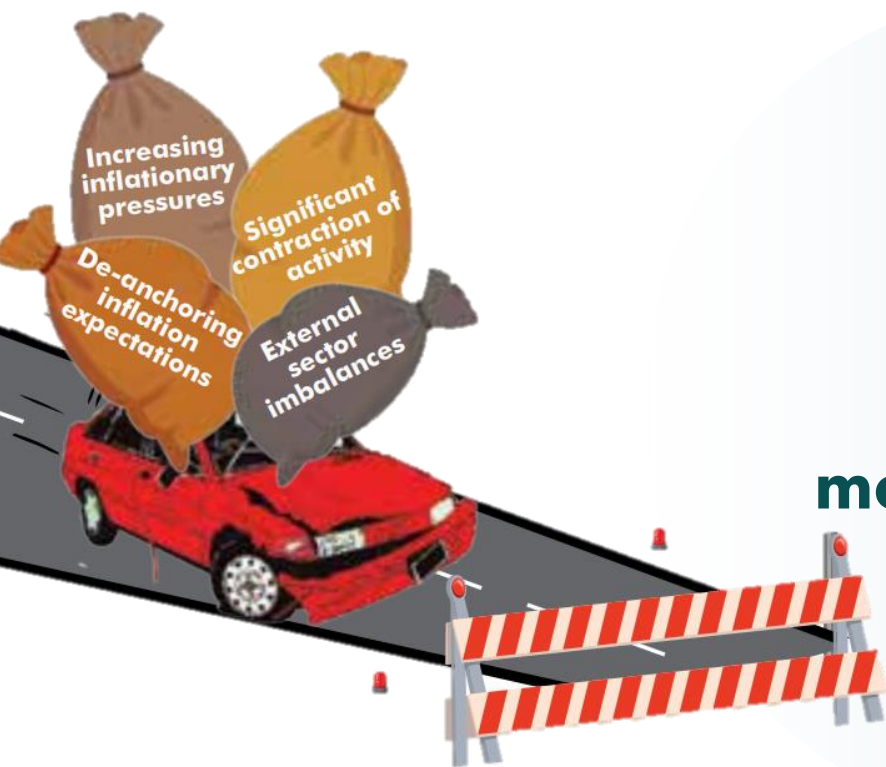
**Severe economic hardships led to both public anxiety and political upheaval**

**Credible and transparent  
policy measures prevented  
further worsening of the  
crisis and helped reviving  
socio-economic stability...**



The Central Bank adopted **aggressive** monetary policy tightening in April 2022 to rein in demand pressures, complemented by a robust communication strategy aimed at **anchoring** inflation expectations, while taking measures to **stabilise** the exchange rate amidst exhausted levels of useable reserves, and **preserve** financial system **stability**...

# Mounting inflationary pressures warranted a swift and sizeable policy intervention to ensure economic and price stability...



## The need for large and persistent monetary policy tightening

Contain rising inflationary pressures and its adverse impact on domestic economic stability

Unwind the lagged impact of accommodative monetary policy measures adopted during the pandemic

Contain the de-anchoring of inflation expectations

Reduce the magnitude of negative real interest rates

Address external sector imbalances

Correct anomalies in the interest rate structure



# The tight monetary policy stance, which was in place from August 2021, was tightened further from early 2022...

- **Policy interest rates:**

**950 bps** ↑ (2022)

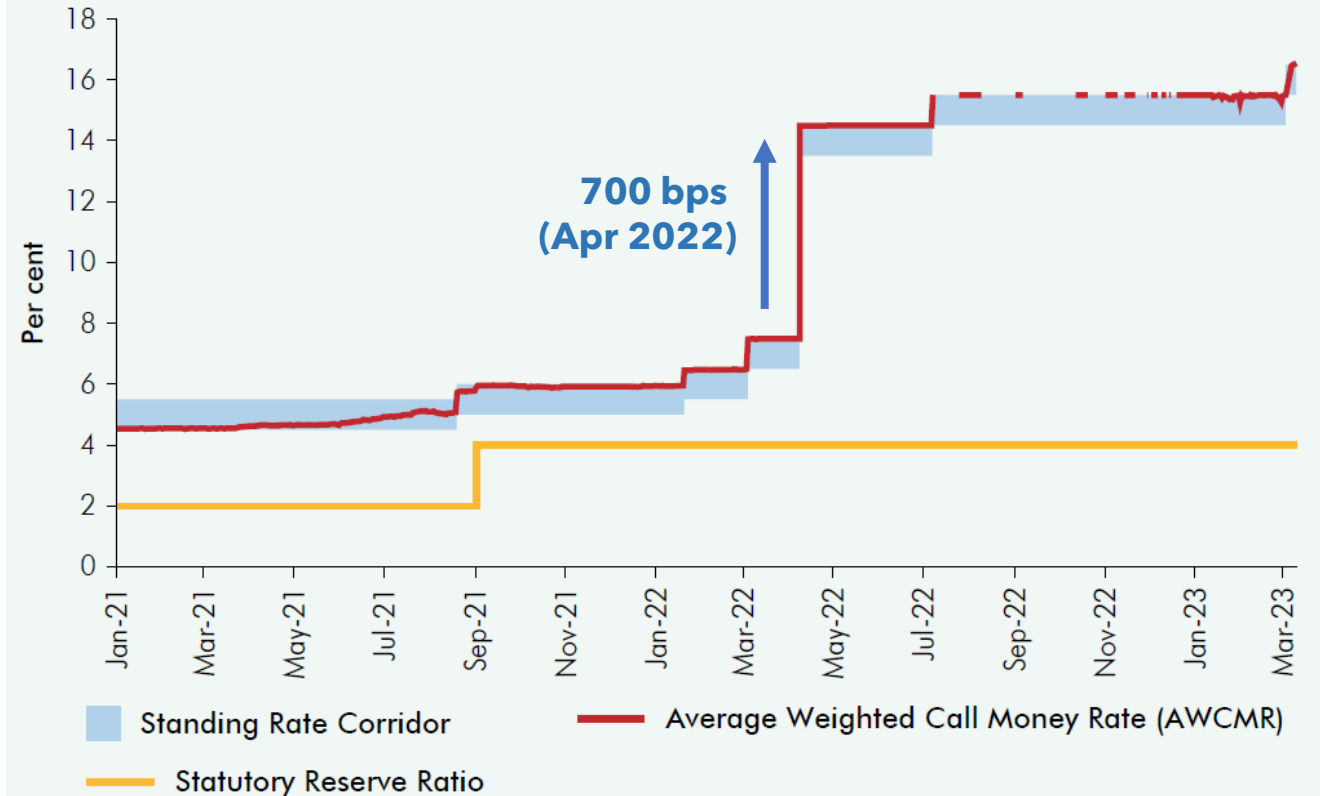
**100 bps** ↑ (so far in 2023)

- **SRR:**

**2 % pts** ↑ (Sep 2021)

- **Caps on interest rates were removed**

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

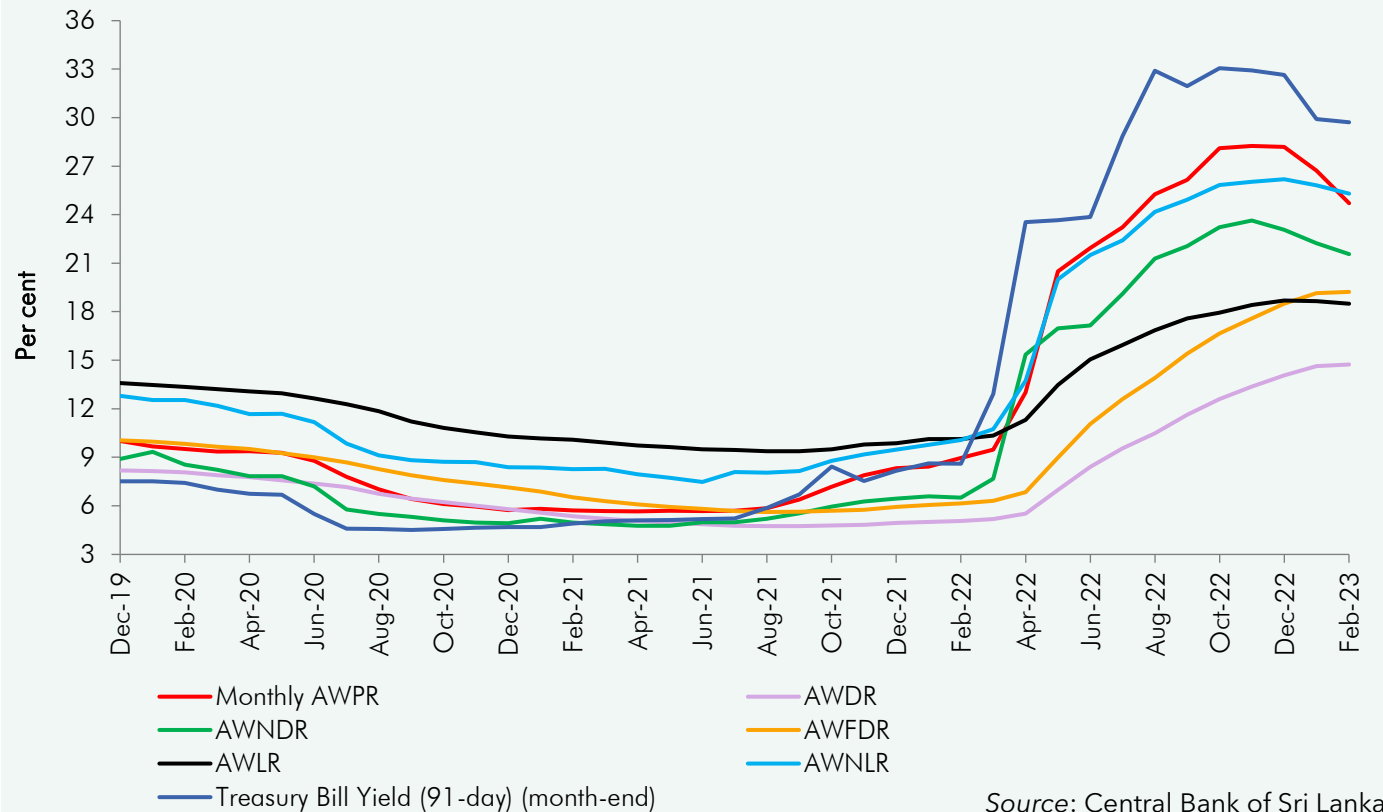


(a) AWCMR is not available for the days on which the interbank call money market was inactive.

Source: Central Bank of Sri Lanka

# In response to tight monetary policy, market interest rates rose notably within a span of a few months...

Movement of Selected Market Interest Rates



**In addition to the substantial increase in policy interest rates, market interest rates were driven by:**

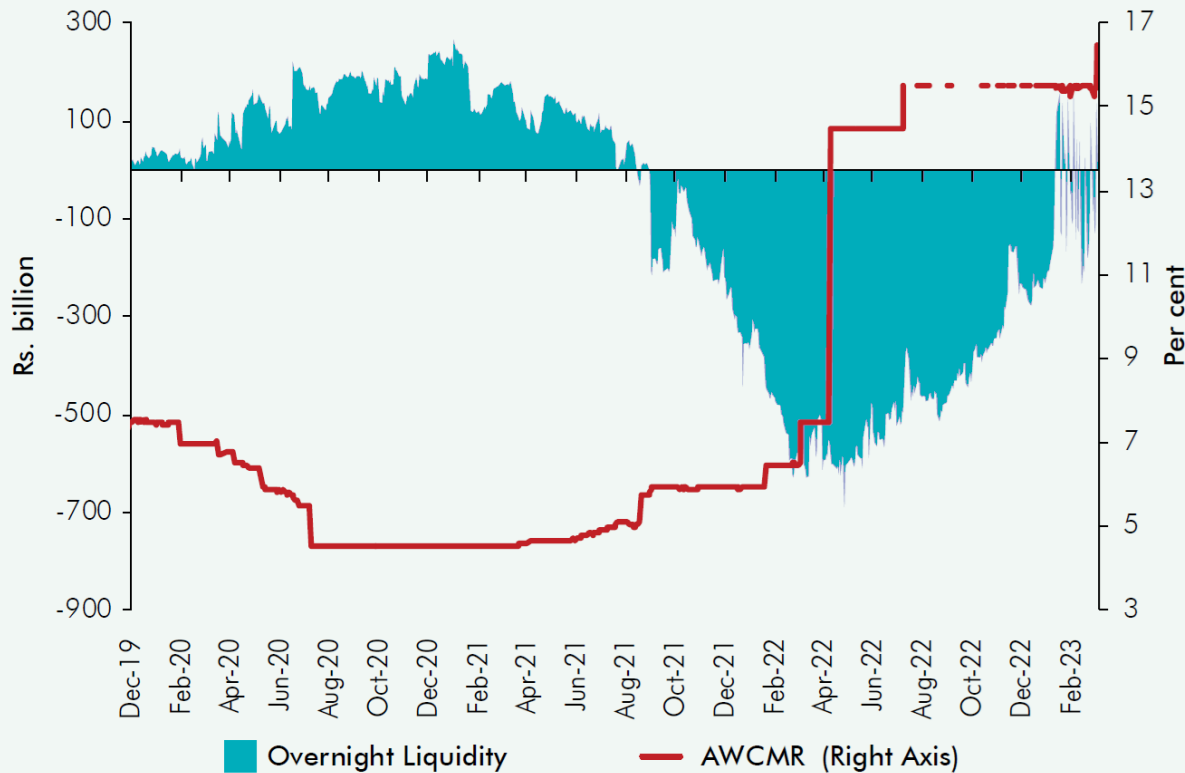
- 1** The surge in the yields on G-secs driven by increased risk premia
- 2** The large and persistent liquidity deficit in the domestic money market

However, excessive market interest rates are gradually decreasing...



# Liquidity in the domestic money market was allowed to remain at negative levels, thereby supporting the tight monetary policy stance...

Rupee Liquidity in the Domestic Money Market and AWCMR<sup>(a)</sup>



(a) AWCMR is not available for the days on which the interbank call money market was inactive.

Source: Central Bank of Sri Lanka

**The need for maintaining tight monetary conditions amidst high inflation rates**

...the Central Bank used a wide range of conventional and unconventional liquidity management tools to ensure both monetary and financial stability...

- Large volume of market interventions
- Imposing restrictions on SFs (SDF: < 5 times per month, SLF: < 90% of SRR)
- Term reverse repos
- Introducing the Liquidity Assistance Facility
- Strengthening the ELA facility

# The BOP pressures were contained by measures on multiple fronts...

**Widening trade deficit resulting from high import expenditure needed import compression measures amidst the dearth of forex inflows**

Established the export proceeds monitoring system to ensure conversion

Tightening of monetary policy

**Restrictions on certain payment terms for imports**  
(in May 2022)

- Open accounts
- Consignment accounts
- Documents against Acceptance (DA)
- Documents against Payments (DP)

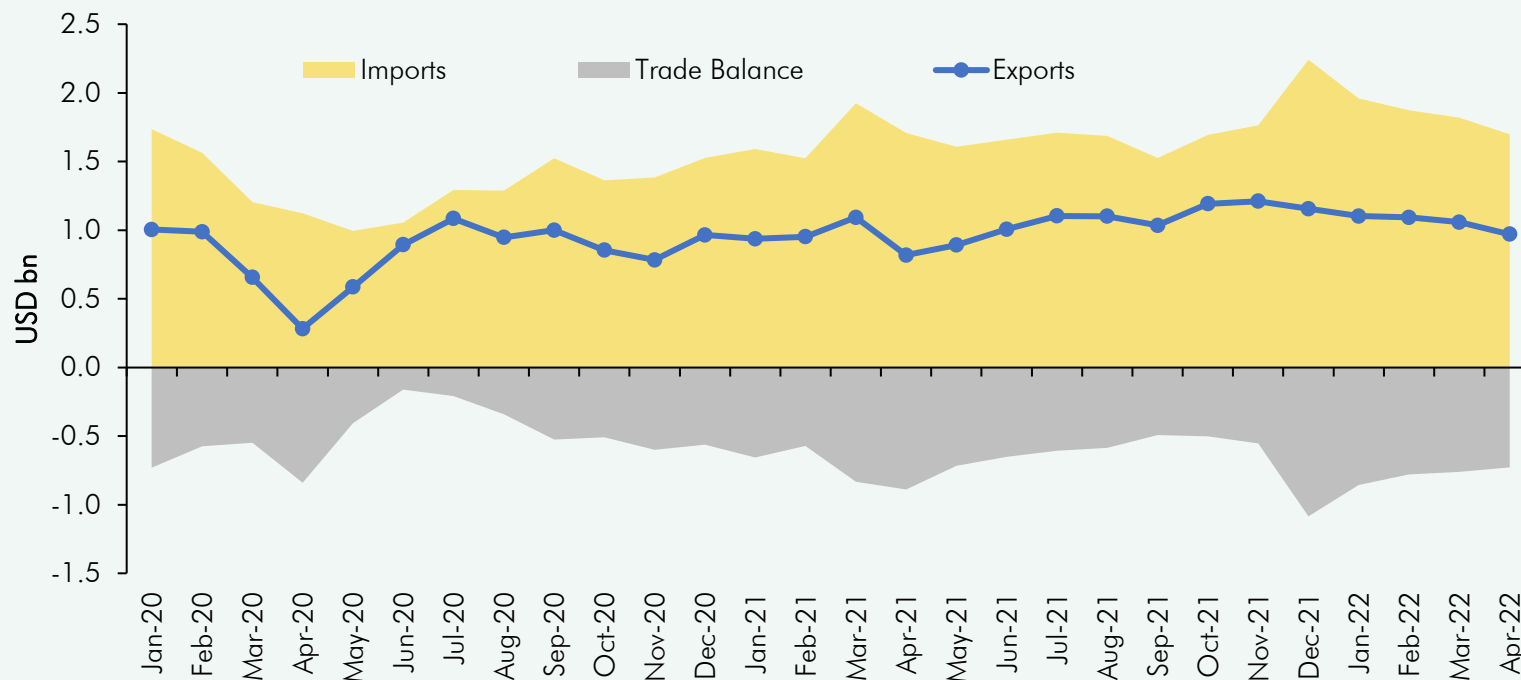
**Introduction of margin deposit requirement**

- 779 items in May 2022
- 64 items in Feb 2023

**Temporary suspension of selected imports**

- TS in August 2022 (1,400 HS codes)
- Relaxation of TS initiated during Sep - Nov 2022
- Consolidated TS (1,220 HS codes)

Imports, Exports and Trade Balance





# Policy measures were also taken to improve worker's remittances by introducing several incentive schemes to migrant workers...

## Additional Incentive Schemes

- Continuation of the "Additional Incentive Scheme on Inward Workers' Remittances" scheme

## Reimbursing transaction costs

- Scheme to reimburse the transaction costs borne by migrant workers up to Rs. 1,000 per each transaction over Rs. 20,000 when remitting money

## Lanka Remit

- The CBSL launched "Lanka Remit", the National Remittance Mobile Application, to encourage the use of formal remittance channels

## Duty Concessions

- Additional duty concession and electric vehicle import allowance to migrant workers based on the amount they remit to the country through official channels

# Capital flow measures were in place to manage forex outflows in both 2021 and 2022...

## OIA Accounts

- Limits on outward remittances through an Outward Investment Account (per calendar year)

## BFCA Accounts

- Limit outward remittances on capital transactions through Business Foreign Currency Accounts or/and Personal Foreign Currency Accounts

## Migration Allowance

- Limit repatriation of funds under the migration allowance and limit on allowance for the emigrants who are claiming the migration allowance for the first time

## Temporary Residence visa holders

- Limit on outward remittances/ issuance of foreign exchange for any Sri Lankan individual who has obtained Temporary Residence Visa of another country

## Outward Remittances

**USD 296 mn in 2022**  
**USD 270 mn in 2021**  
USD 910 mn in 2020

## Travel outflows

**USD 244 mn in 2022**  
**USD 239 mn in 2021**  
USD 449 mn in 2020



# Measure was taken to safeguard official reserves, while providing forex to finance essential imports, thereby reducing the suffering of the people...

## CBSL Intervention, Foreign Currency Debt Servicing and Gross Official Reserve

Item	US\$ million	
	2021	2022(a)
<b>CBSL Absorption</b>	<b>506</b>	<b>2,148</b>
Workers' Remittances Related Absorption	213	550
Exports Proceeds Related Absorption	214	1,184
Market Related Absorption	79	68
Financing Fuel Bills	-	68
Financing Coal Bills	-	278
<b>CBSL Supply</b>	<b>1,253</b>	<b>2,716</b>
<b>Net Absorption</b>	<b>-747</b>	<b>-568</b>
<b>Foreign Currency Debt Service Payments (Interest + Capital)</b>	<b>6,836</b>	<b>3,237</b>
Government (b)	6,354	3,077
Central Bank	481	160
<b>Gross Official Reserves</b>	<b>3,139</b>	<b>1,898</b>

Source: Central Bank of Sri Lanka

(a) Provisional

(b) Includes foreign currency debt service payments to both residents and non-residents.

## Considerable support was received from Sri Lanka's bilateral and multilateral partners during these difficult times:

Several humanitarian **credit lines from India** facilitated importation of fuel, fertilizer and medicines

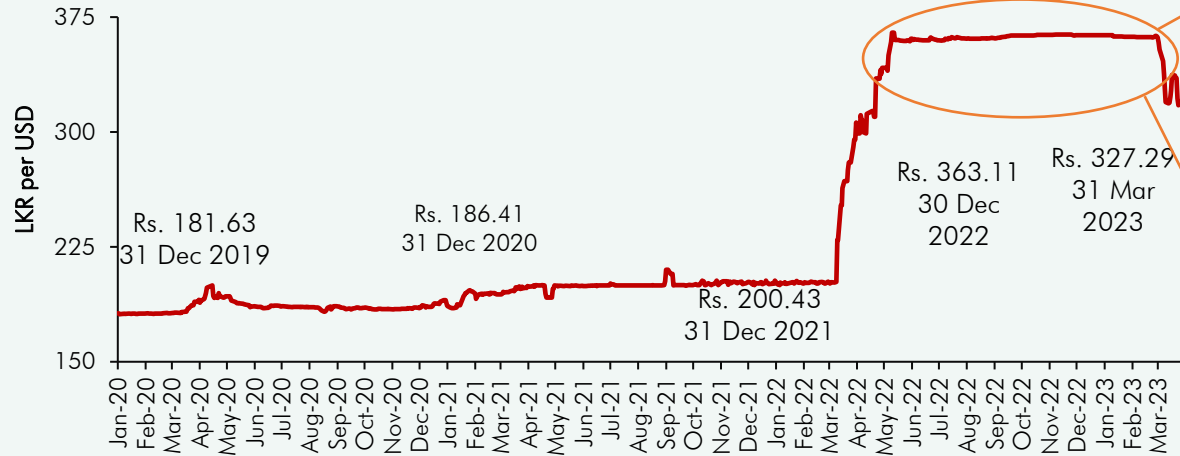
Bilateral **international swap arrangements** with Central Banks of India and Bangladesh strengthened reserves, in addition to the swap facility from China

Proceeds from the **Asian Clearing Union (ACU)** facility from India were utilised for debt servicing and import financing

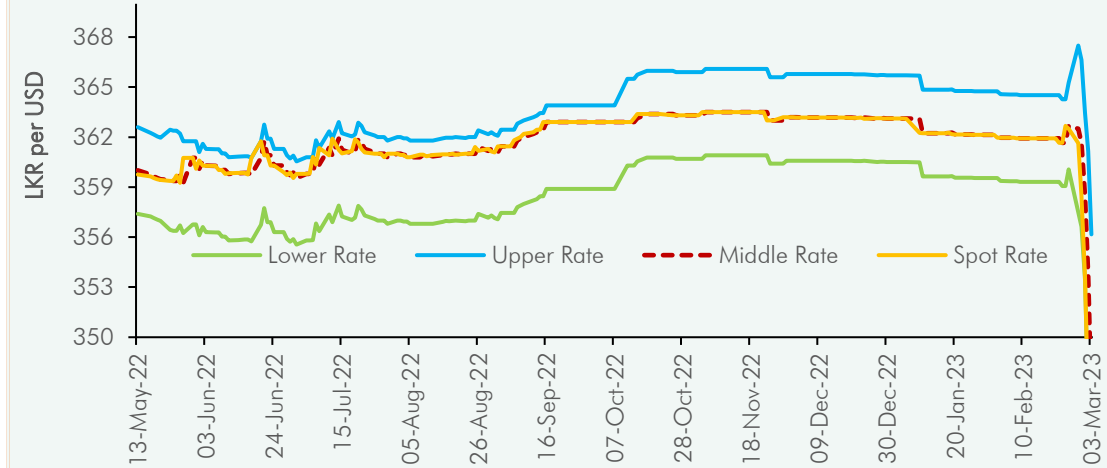
The **World Bank** and the **Asian Development Bank** continued to provide financial support

# The Central Bank commenced market guidance to stabilise the exchange rate...

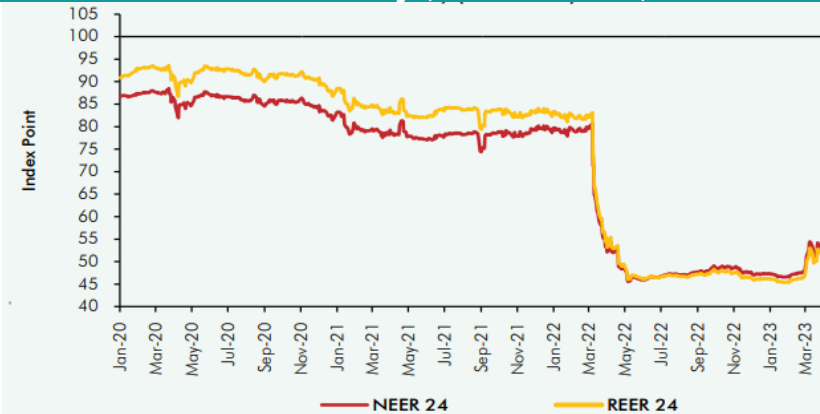
Exchange Rate since the Introduction of the Guidance Band



Exchange rate began to stabilise around the guidance band...



Effective Exchange Rate Index  
24 currency (2017 = 100)



## Impact on Exports

- The depreciation of the currency supported the competitiveness of exports

## Impact on imports

- Non urgent imports were discouraged



# Several prudential policy interventions, including the issuance of regulations and strengthening of the supervisory approach to maintain the resilience of the Financial Sector...

**The Central Bank introduced several measures for banks to maintain stability, including the following:**



- Permitted to draw down on the Capital Conservation Buffer
- Reduce the regulatory minimum requirements for the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
- Permitted to stagger the mark-to-market losses on government securities over two years
- Extended the deadlines to meet the minimum capital requirements, and the required documentation
- Restrictions on discretionary payments



The Masterplan for consolidation of NBFIs is being implemented with the objective of establishing strong and stable LFCs in the medium term



Debt moratoria and concessions on loan repayments were extended to affected individuals and businesses in certain sectors due to persistent unfavorable business conditions

**The stability of the financial sector was maintained despite the looming challenges arising from continuously declining credit quality, acute pressure on liquidity, low level of profitability due to high impairments, and deteriorating capital buffers to absorb unexpected losses.**

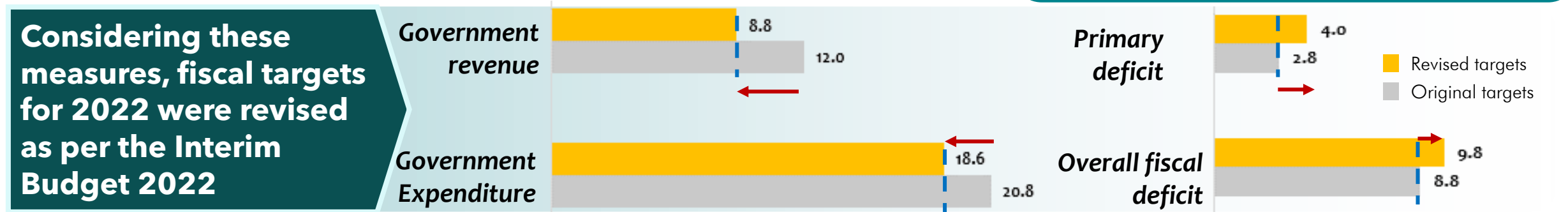
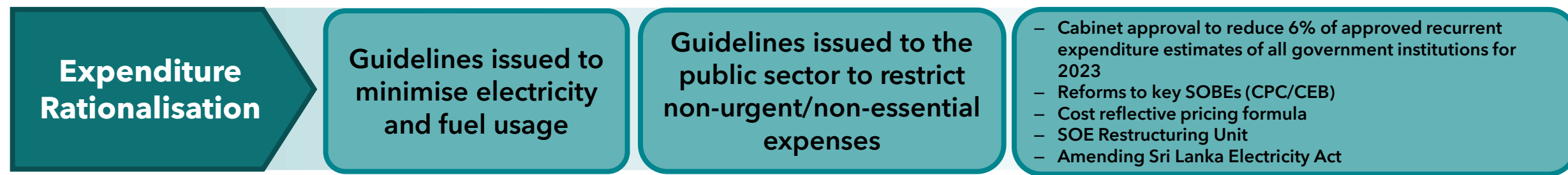
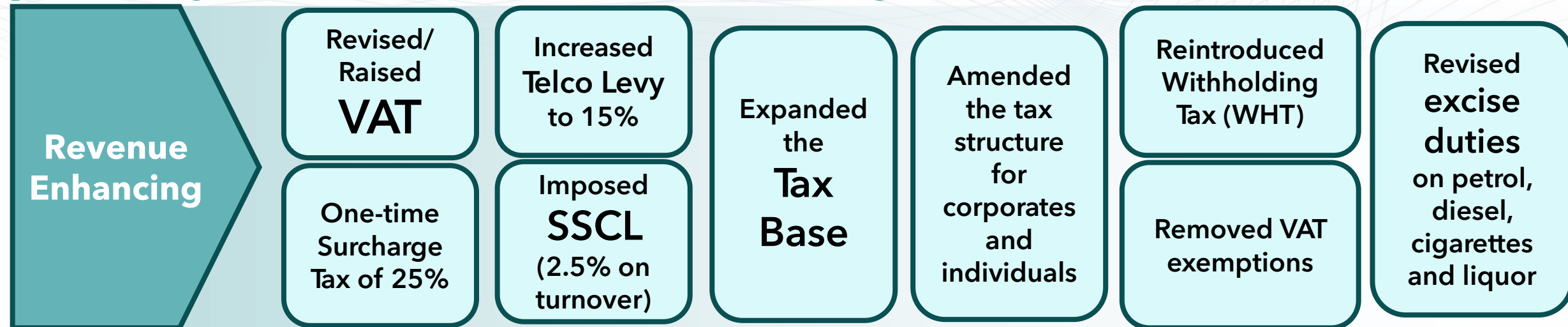
As fiscal sector **pressures** mounted during 2022, the Government was compelled to **frontload** unparalleled fiscal reforms and policy measures aimed at regaining **confidence** and **stability**....

The Government initiated measures in early 2022 to seek assistance from the **IMF**...

and announced a **debt standstill** in mid-April 2022...

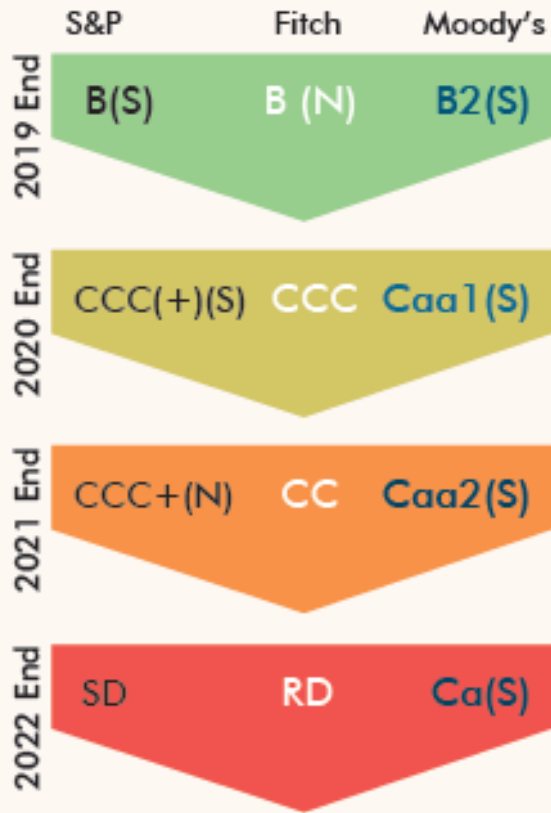


# The Government embarked on a strong fiscal consolidation path, primarily based on revenue enhancing...



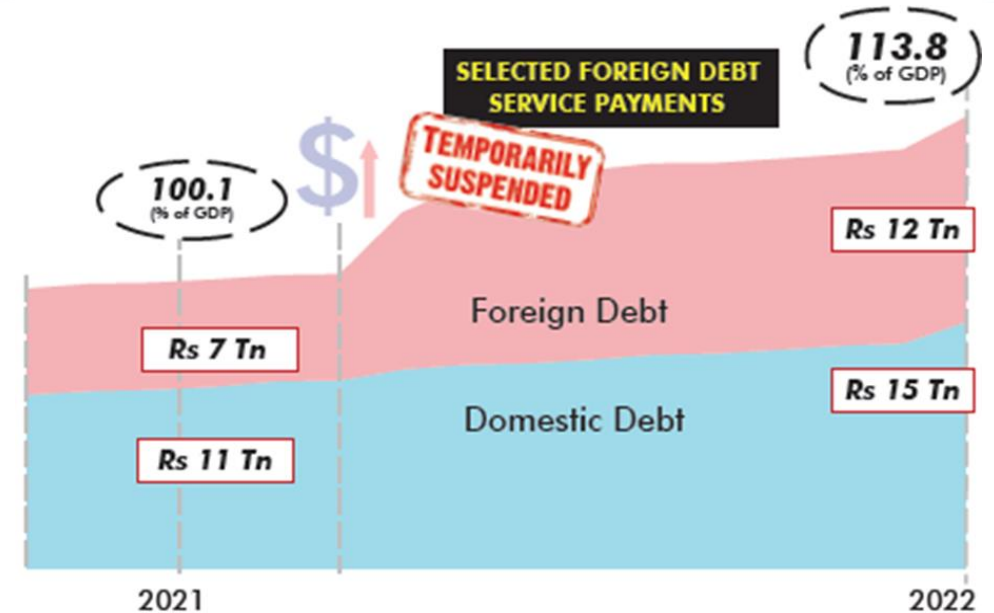
# The Government announced a temporary suspension of selected foreign debt servicing from 12 April 2022, and initiated a debt restructuring process...

## Sovereign Credit Rating Downgrades



A series of sovereign credit rating downgrades by international rating agencies posed a formidable challenge for the Government in mobilising foreign financing required for servicing foreign debt

Lack of access to foreign financing and the depletion of usable official reserves to near-zero levels in early 2022 constrained foreign debt servicing by the Government

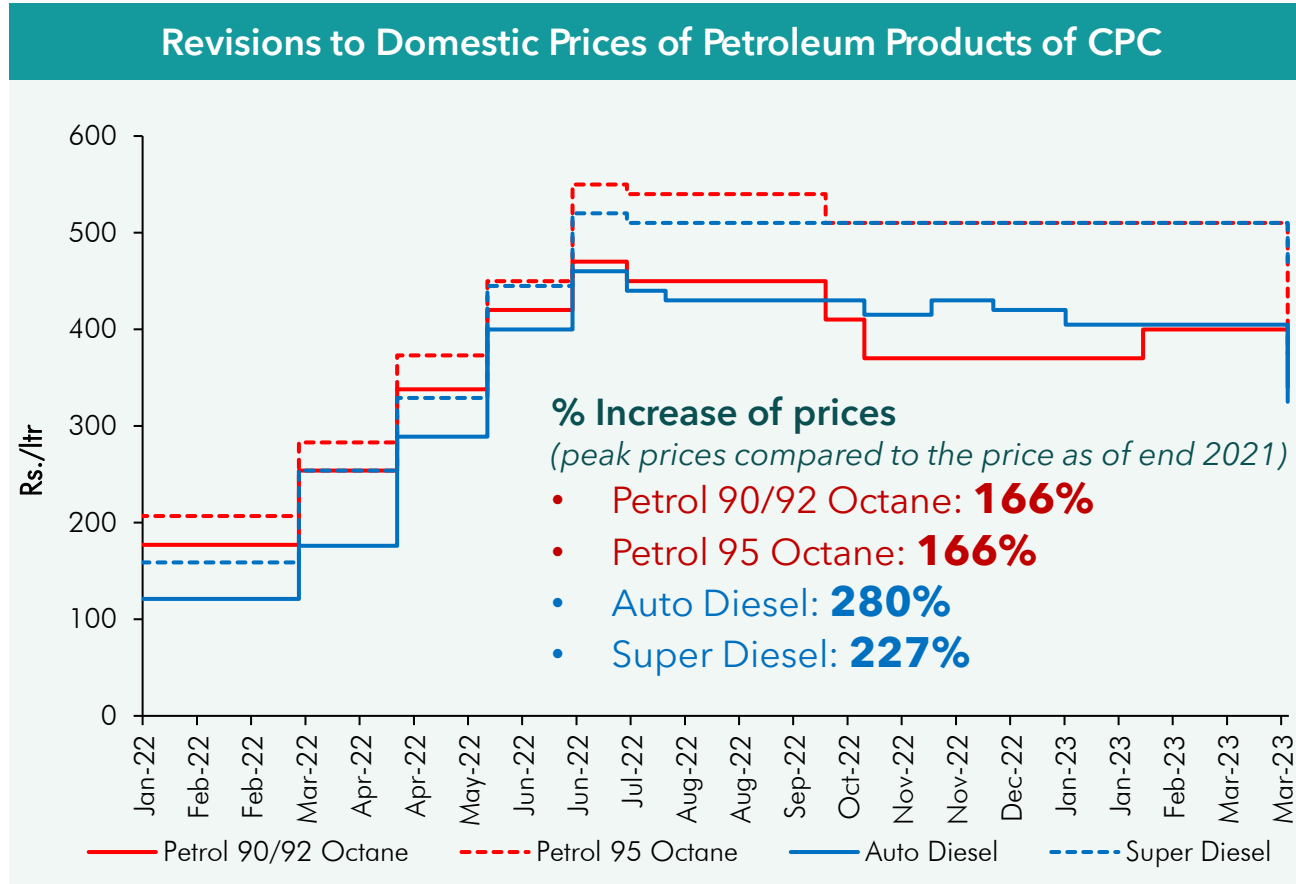


**The estimated saving** of foreign currency outflows through the suspension of bilateral and commercial debt during **April to December 2022** amounted to **USD 2.8 bn**



# The escalation of vulnerabilities in the power and energy sector warranted immediate and decisive actions...

- Domestic petroleum product prices were revised **upwards** in multiple rounds from Jan-2022 by the CPC in line with the global price movements...



Source: Ceylon Petroleum Corporation

- Further measures were taken to improve financial viability of SOE's**

- As a measure to improve the financial viability of CPC, government guaranteed foreign currency debt stock of CPC amounting to **USD 2.5 bn** were **transferred to the government** balance sheet
- Further, **CEB's liabilities of Rs. 146.6 bn** were also **transferred to the Government**

The coordinated policy measures have delivered expected **outcomes**, while helping to achieve a **workable equilibrium** until the assistance from the international financial institutions began to materialise...

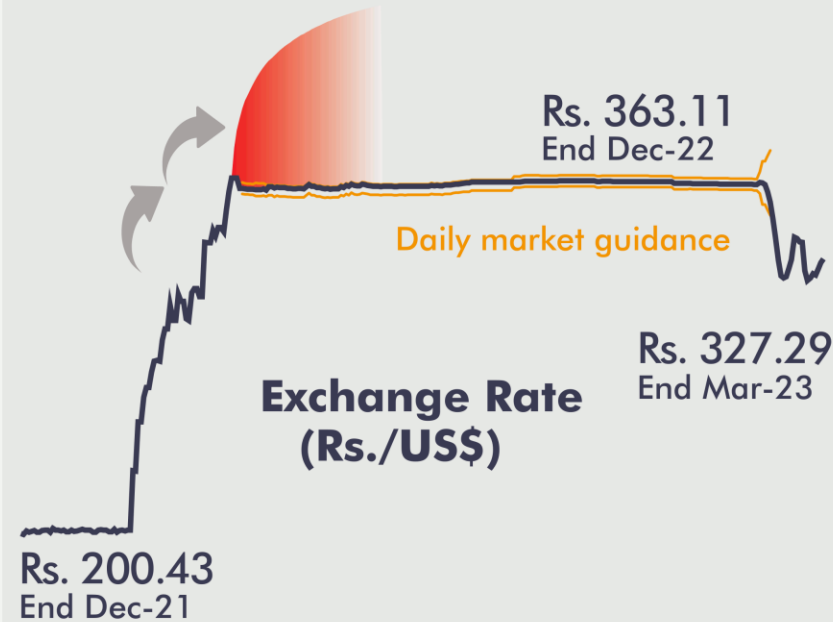


**The corrective policy measures were costly and painful, but without them, the crisis could have aggravated further, thereby prolonging the suffering of the people and businesses...**

### Headline Inflation (%)



### Exchange Rate (Rs./US\$)

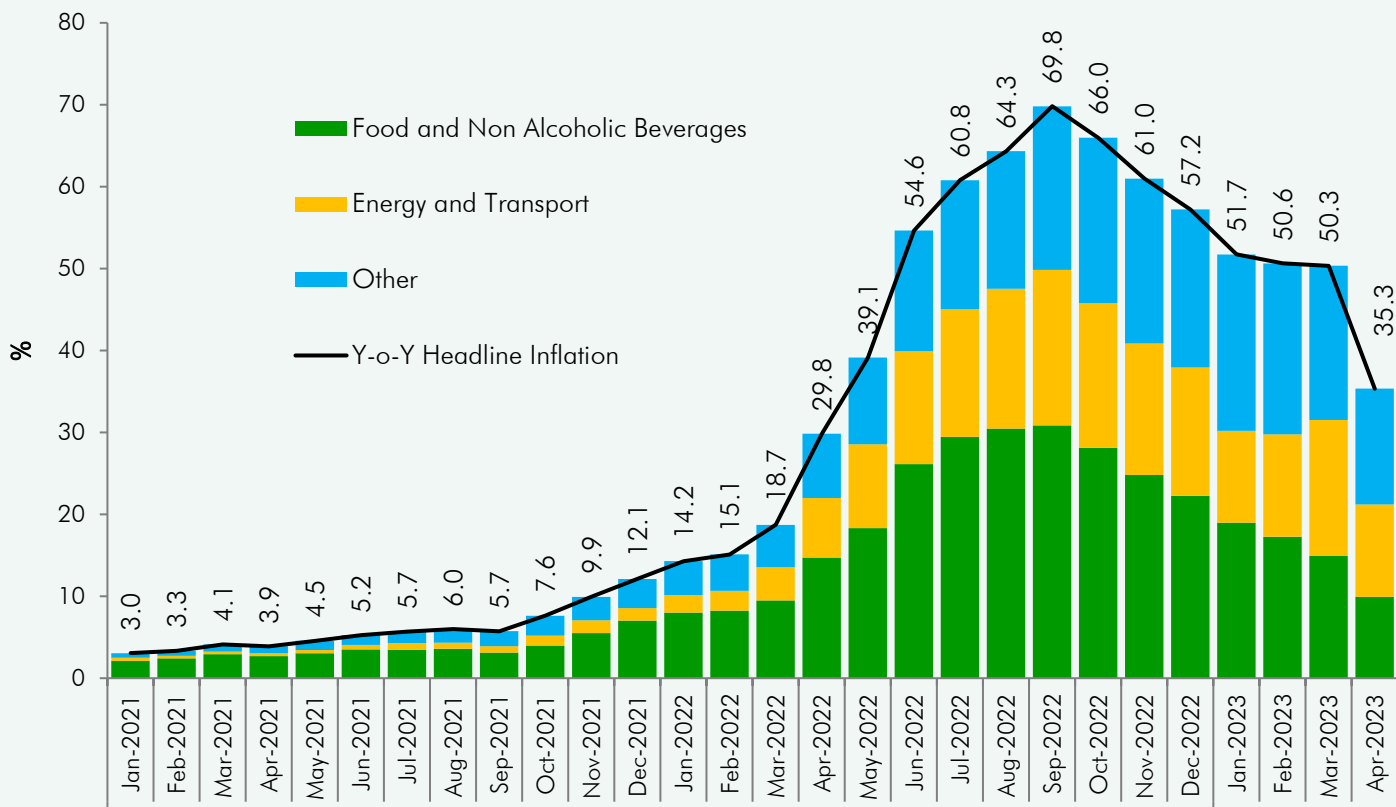


### Real GDP Growth (%)



# Inflation has returned to a faster disinflation path...

Headline Inflation (Year-on-Year) (a)



(a) The Department of Census and Statistics (DCS) commenced publishing the CCPI with the new base year, 2021=100, from the data release of February 2023 and discontinued the publication of the CCPI with the old base year, 2013=100. Accordingly, data commencing January 2023 in the chart are based on the series with the new base year, 2021=100.

Source: Department of Census and Statistics

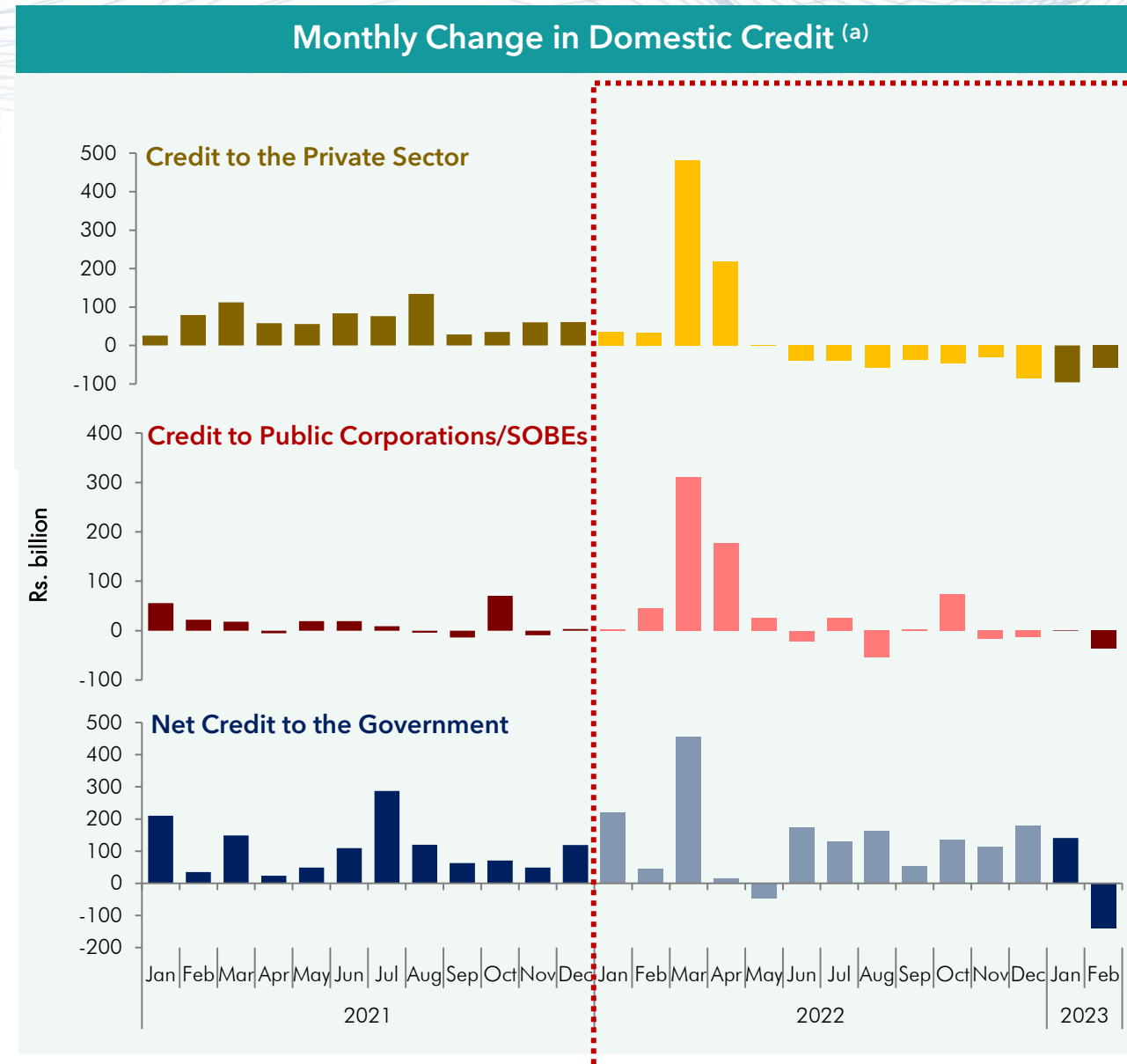
The easing of demand pressures owing to the **lagged effects of monetary policy tightening** as well as the **softening of food and energy inflation** caused headline inflation to decelerate from late 2022....

Y-o-Y (CCPI)	Dec 2021	Sep 2022	Apr 2023
Headline	12.1%	69.8%	35.3%
Core	8.3%	50.2%	27.8%
Food	22.1%	94.9%	30.6%
Non-Food	7.5%	57.6%	37.6%



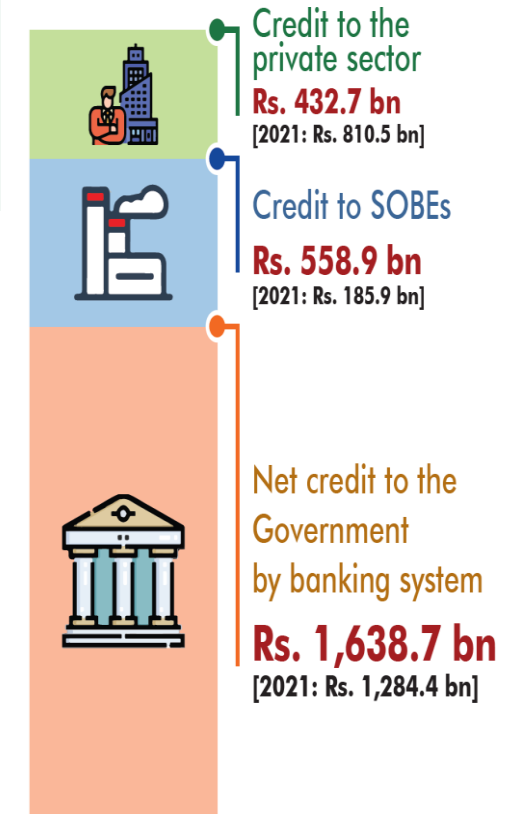
The high interest rate environment dampened the expansion of credit to the private sector and SOBEs, which was necessary to tame inflation...

However, NCG remained high, reflecting the cashflow pressures of the Government under the debt standstill and elevated risk premia...

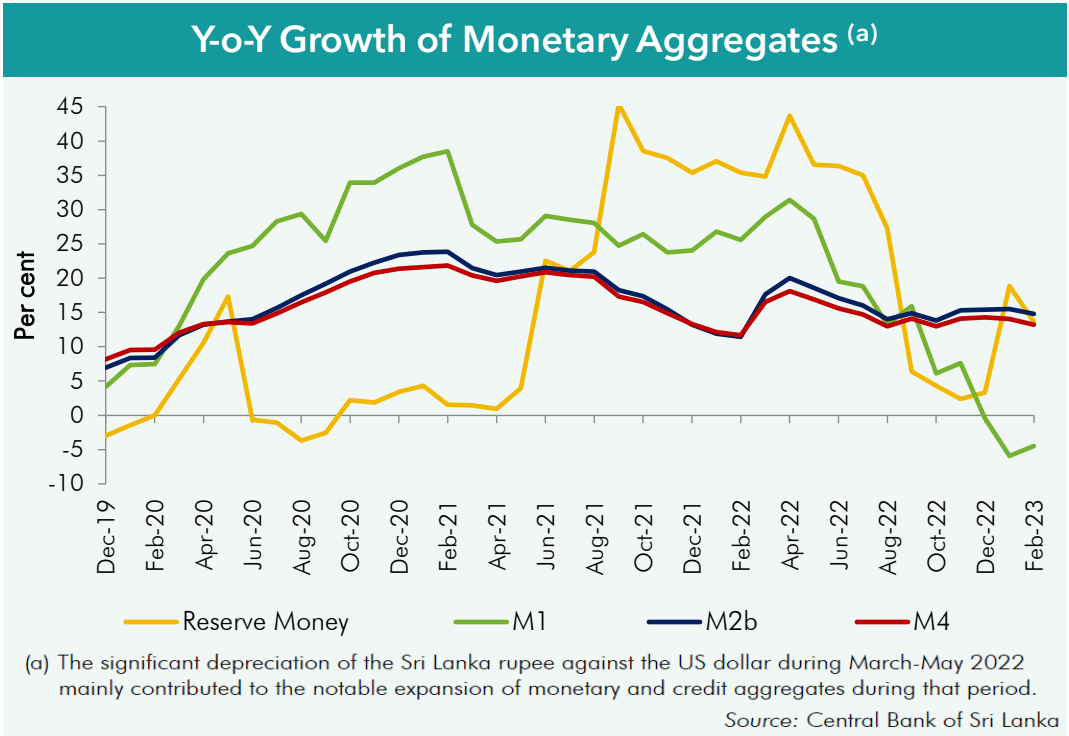
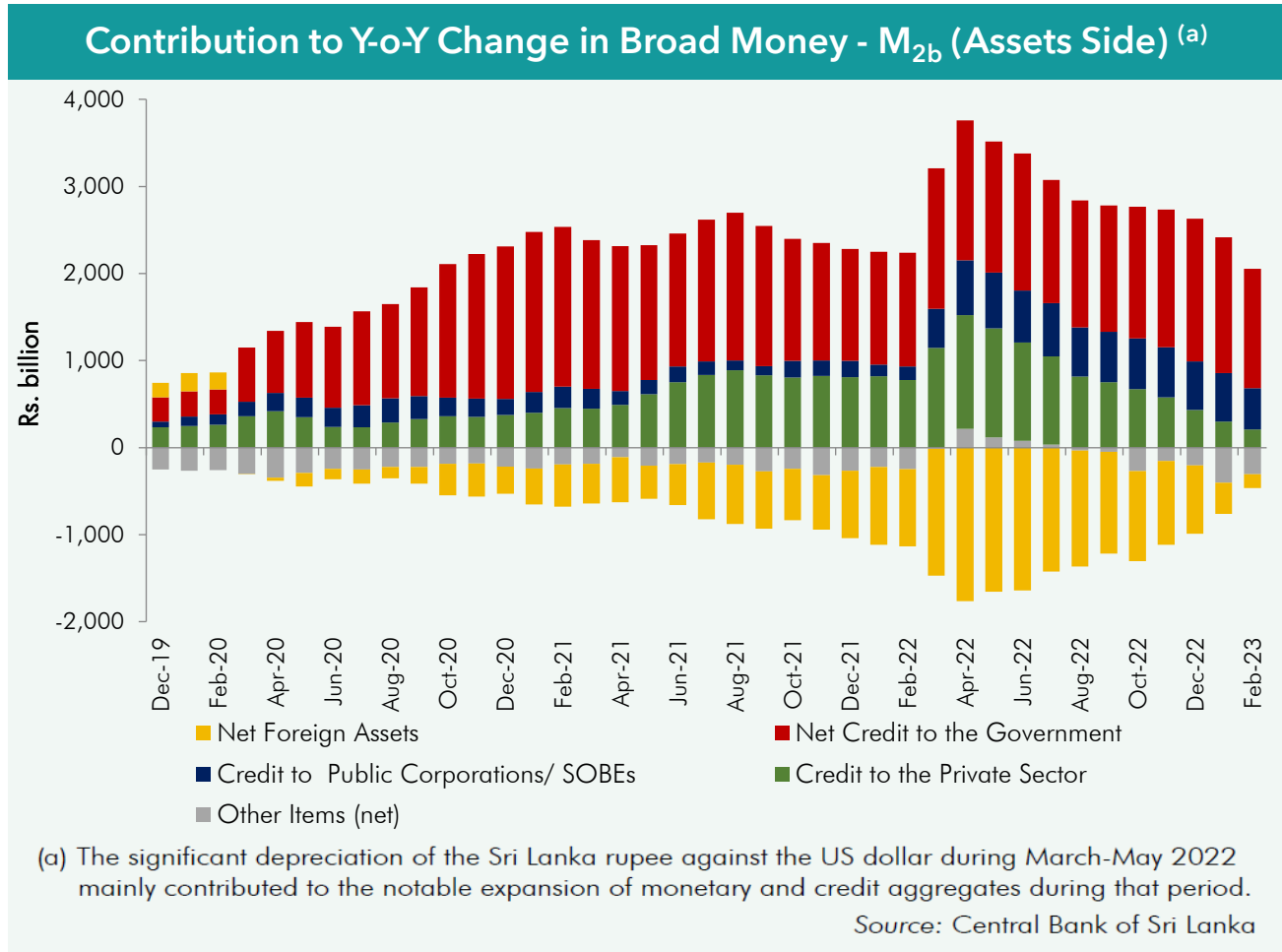


(a) The significant depreciation of the Sri Lanka rupee against the US dollar during March-May 2022 mainly contributed to the notable expansion of monetary and credit aggregates during that period.

## Annual change in domestic credit During 2022



# Despite the elevated levels of NCG, monetary expansion slowed, driven by the significant contraction of credit to the private sector and the decline in NFA of the banking system...



Y-o-Y growth	End 2021	Apr 2022	End 2022
M <sub>2b</sub>	13.2%	20.0%	15.4%
PSC	13.1%	20.3%	6.2%





# Forex pressures eased to a large extent with a significant reduction in the merchandise trade deficit...

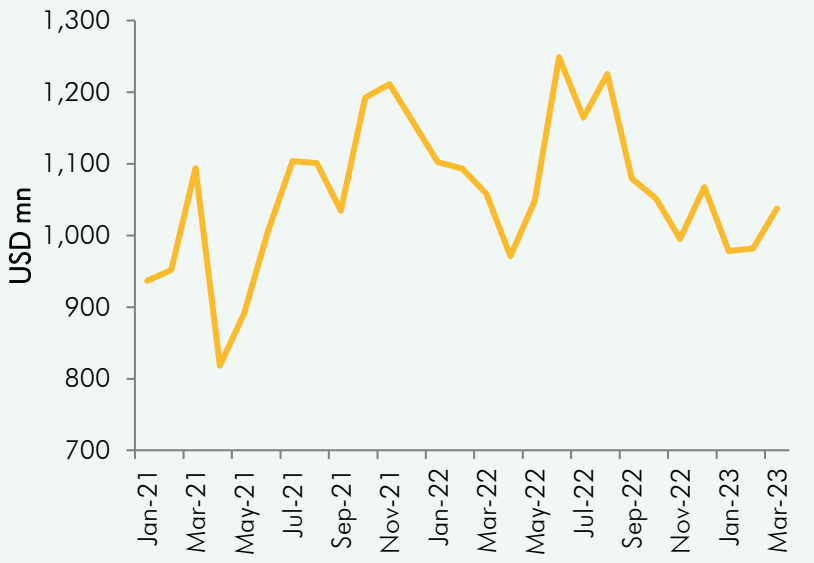
## Import expenditure declined

Imports



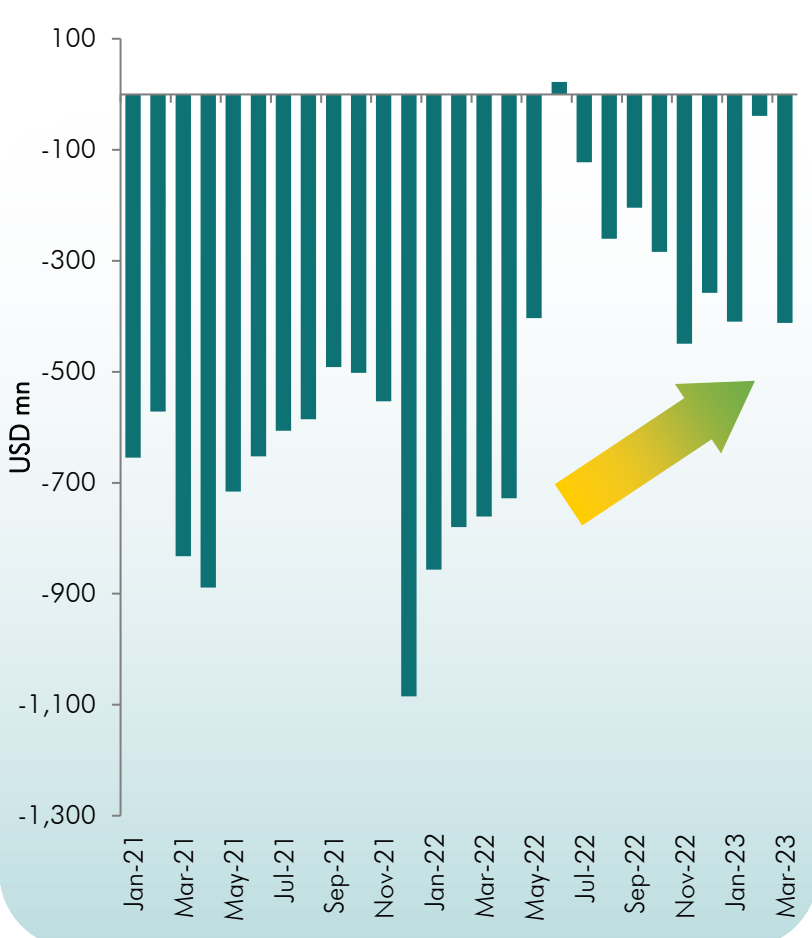
## Merchandise exports remained resilient

Exports



## Trade deficit remained low

Trade Balance



Import Category	Value (USD mn)		Growth %
	2021	2022	
<b>Consumer Goods</b>	<b>3,848.7</b>	<b>2,813.0</b>	<b>-26.9</b>
Food and beverages	1,666.5	1,607.9	-3.5
Non-food consumer goods	2,182.2	1,205.1	-44.8
Intermediate Goods	12,308.9	12,438.8	1.1
<b>Investment Goods</b>	<b>4,462.7</b>	<b>3,030.5</b>	<b>-32.1</b>
<b>Total Imports</b>	<b>20,637.4</b>	<b>18,291.0</b>	<b>-11.4</b>

Export Category	Value (USD mn)		Growth %
	2021	2022	
<b>Industrial Goods</b>	<b>9,702.0</b>	<b>10,465.3</b>	<b>7.9</b>
Agricultural Goods	2,729.5	2,568.0	-5.9
Mineral Goods	44.5	50.0	12.3
<b>Total Exports</b>	<b>12,498.6</b>	<b>13,106.4</b>	<b>4.9</b>

# The IMF Board approval for the Extended Fund Facility has bolstered confidence in the economy...

## Staff Level Agreement

Staff level agreement was reached in **September 2022**

## IMF Board Approval and the First Tranche

Upon securing financing assurances from official creditors, the EFF was approved in **March 2023**

## Financial Support from Multilateral Creditors

**The World Bank and the Asian Development Bank** are expected to provide over **USD 1.5 bn** in exceptional financing support in 2023

## Gradual Restoration of Investor Sentiments

**Investor confidence is improving** with gradual inflows to the government securities market and the Colombo Stock Exchange

Total IMF EFF approved amount

**SDR 2.3 bn**

Approx. USD 3 bn

## Prior Actions

09

SBs

18

QPCs

04

ITs

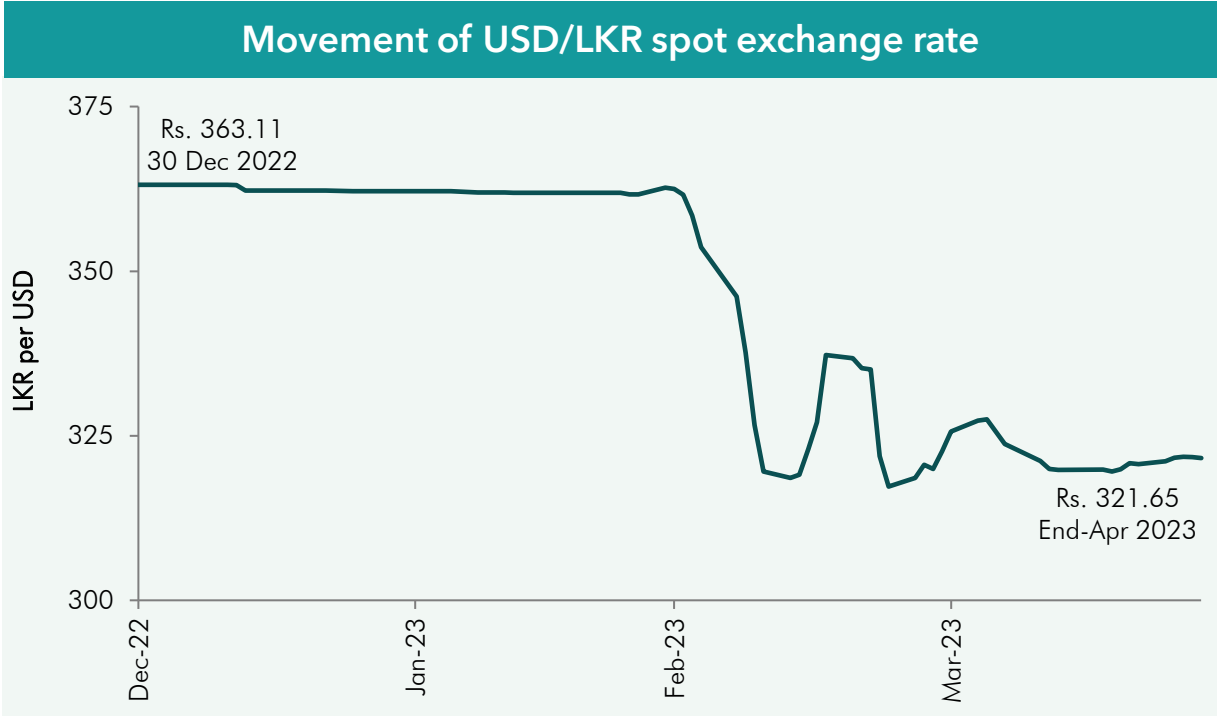
04

MPCC

01



# Gross official reserves continued to improve, while the exchange rate is allowed to be determined by the market forces...



**Inflows to the BOP  
in 2023**

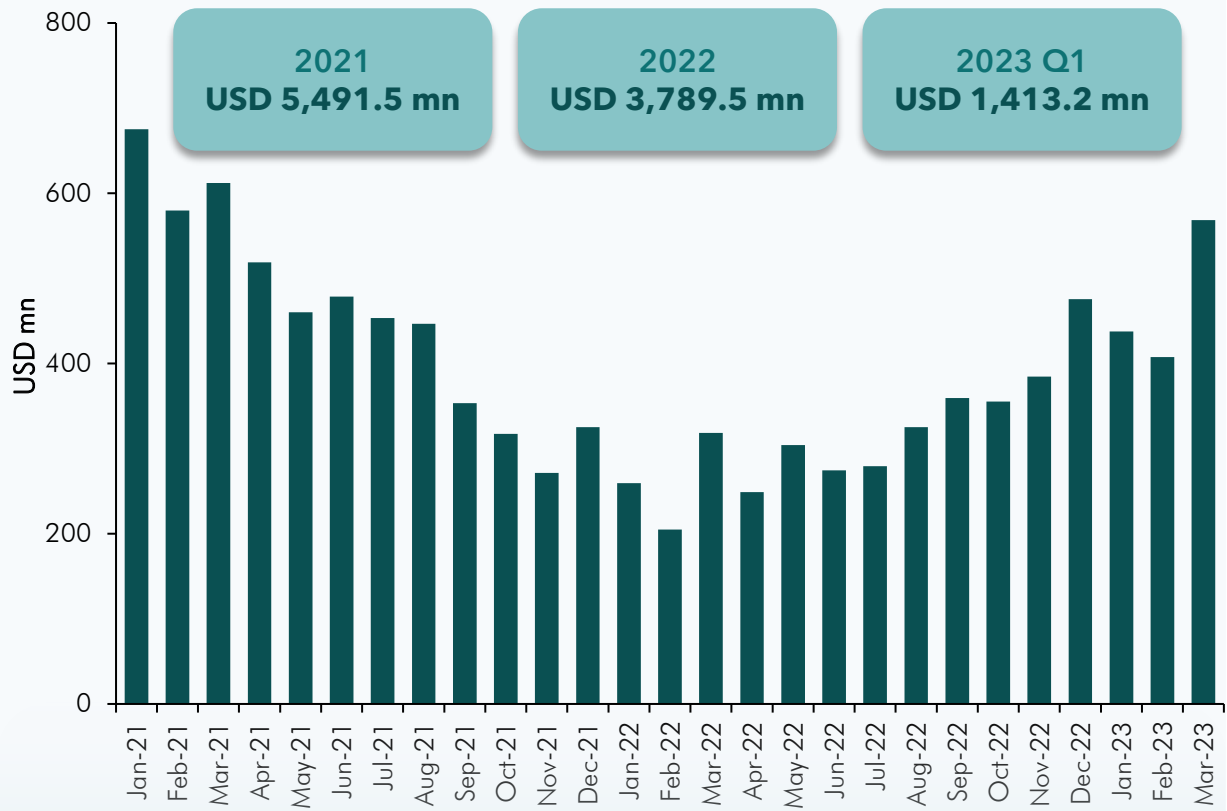
**Net Inflows to G.Sec Market**  
Around **USD 250 mn**  
Jan-Apr 2023

**Net CBSL Absorption**  
Around **USD 1.1 bn**  
Jan-Apr 2023

**First Tranche of IMF EFF**  
Around **USD 333 mn**  
March 2023

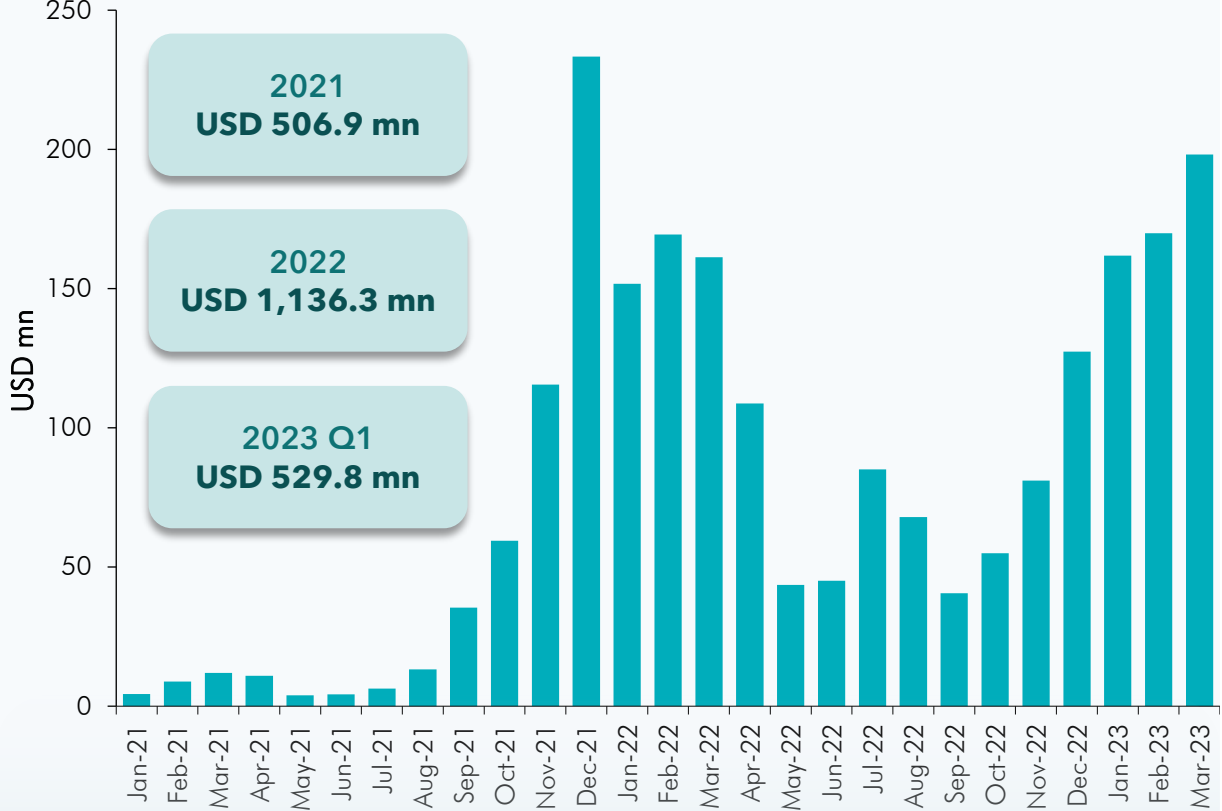
# Workers' remittances and earnings from tourism are on a rising trend...

Workers' Remittances



Workers' remittances that recorded at **USD 205 mn** in February 2022 increased to **USD 568 mn** by March 2023

Earnings from Tourism

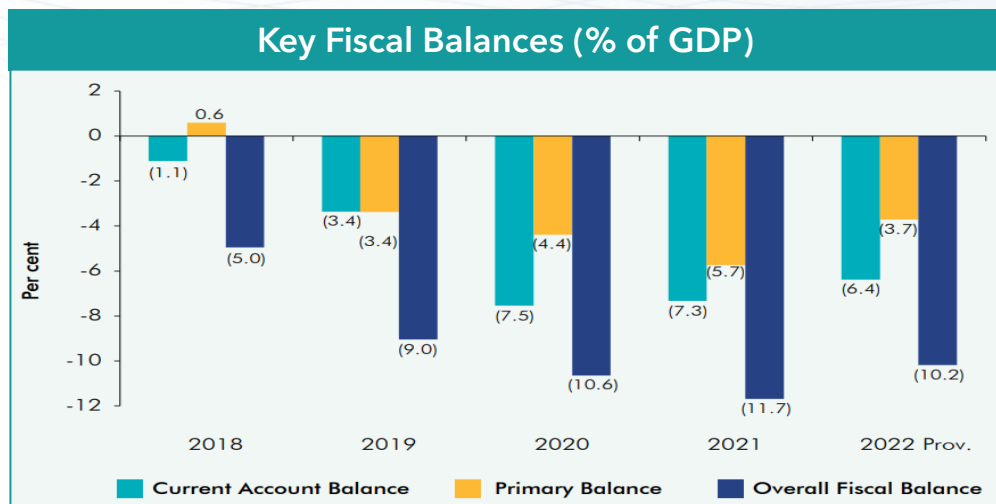


Average monthly tourist arrivals so far in 2023 is around **110,000**, compared to tourist arrivals of monthly average in 2022 around **60,000**





# Corrective policy measures helped contain the deterioration of the fiscal sector performance...



- All key fiscal balances (% of GDP) improved in 2022:

**Current Account Deficit**

**6.4%** ▼

2021: 7.3%

**Primary Deficit**

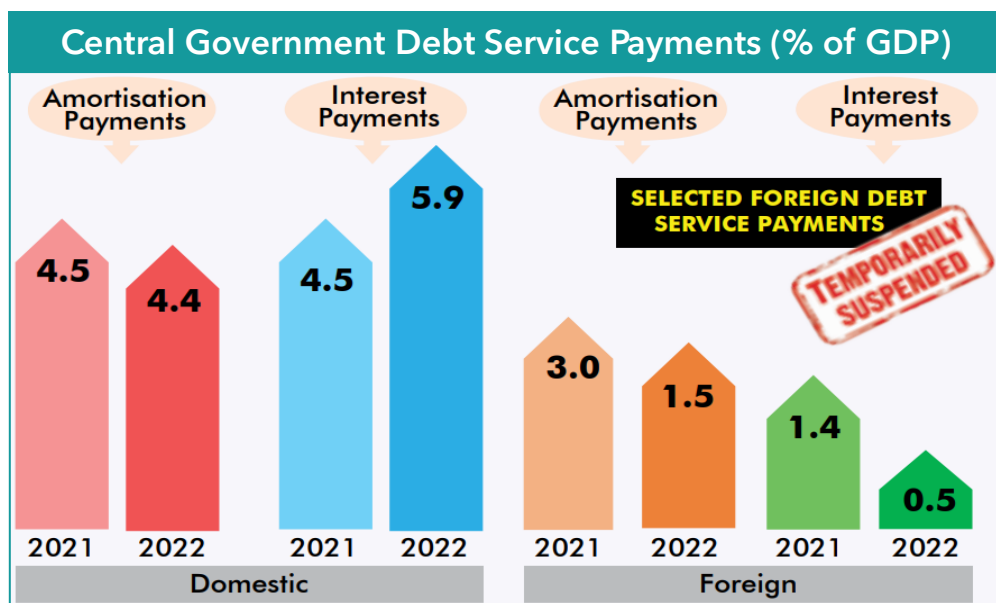
**3.7%** ▼

2021: 5.7%

**Overall Fiscal Deficit**

**10.2%** ▼

2021: 11.7%



- Suspension of these debt service payments enabled the **Government** to save a considerable amount of foreign currency outflows providing a temporary reprieve amidst the balance of payments crisis

**Domestic Debt Service Payments (Rs. bn)**

**2,510** ▲

2021: 1,594

**Foreign Debt Service Payments (Rs. bn)**

**487** ▼

2021: 786

# Commissioning of cost reflective pricing strategies for utilities, along with long delayed reforms, helped improve financial viability of key SOBEs...

CPC continued to record profit (before taxes) on a monthly basis, from July 2022 onwards along with price adjustments and gradual stabilisation in exchange rate

The operating loss of CEB was moderated since August 2022, partly due to the cashflow improvements along with the upward revisions to electricity tariffs

*Long term debt burden of CEB and CPC has been eased to a certain extent with the transfer of identified liabilities to the Central Government ...*

## CPC Foreign Currency Denominated Loans and Import Bills



### Petroleum Sector Reforms:

- Introduction of **cost reflective pricing formula**
- Enactment of the **Petroleum Products (Special Provisions) (Amendment) Act**
- **Competitive** domestic petroleum market

## CEB Long term Liabilities



### Electricity Sector Reforms:

- **Measures are in progress** to facilitate the restructuring of CEB
- **Sri Lanka Electricity Act, No.20 of 2009** was amended in June 2022
- Semi-Annual Cost Recovery-based **Electricity Tariff Adjustment Mechanism**



# The Government strengthened the existing safety net programmes aimed at enhancing the socioeconomic wellbeing of vulnerable households...

## Revision to Family Unit Allowance of Samurdhi Programme

Rs.3,500.00



Rs.4,500.00

Rs.2,500.00



Rs.3,200.00

Rs.1,500.00



Rs.1,900.00

## Cash transfer programme of Samurdhi Subsidy Programme

(Covering 1.7 million beneficiary families and other categorical beneficiaries)

**Rs. 120 bn**

From February 2022, average increase in Samurdhi allowance per beneficiary family

**28%**



## Emergency cash transfer programme of Rs. 3,000 - Rs. 5,000

(Samurdhi beneficiaries, and waiting listed beneficiaries under Samurdhi programme and elderly, disabled, and kidney disease subsidy schemes)

**Rs. 38.5 bn**

(World Bank)

**Rs. 45.5 bn**

(ADB)

Expedite the establishment of a social registry under the "Leave No One Behind" programme

*Planned to*

- *establish a Welfare Benefits Information System*
- *develop an Integrated Welfare Management System*

# Medium Term Outlook

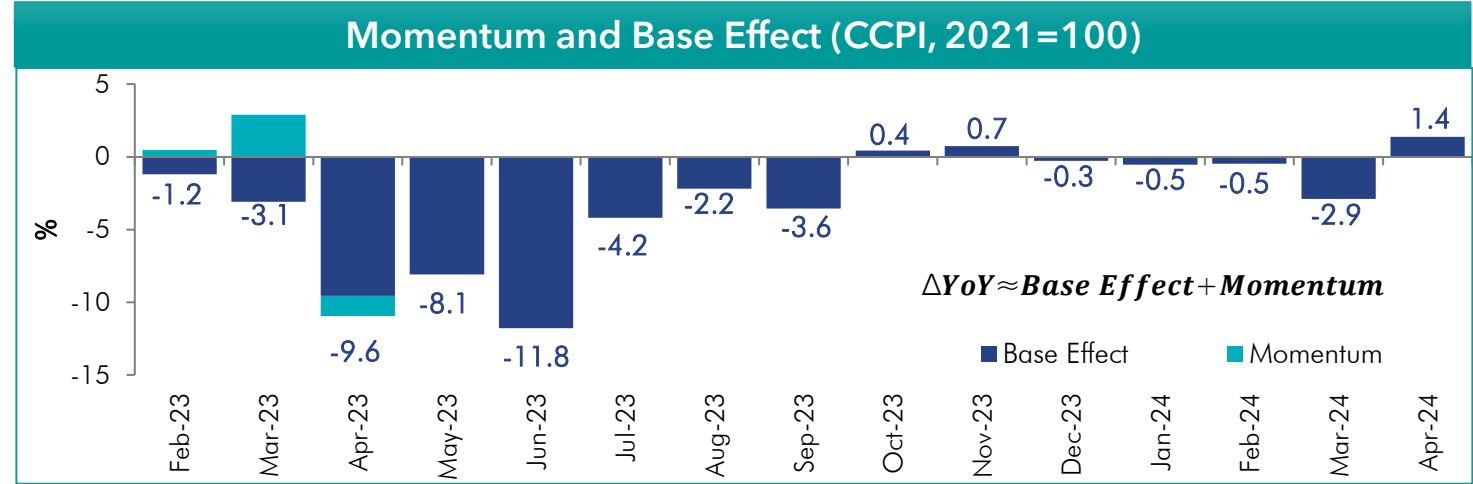
The Medium term macroeconomic framework presented here is based on the **policy scenario** with the assumption of successful continuation of the **IMF-EFF supported programme**, including the completion of the **debt restructuring process** before end of September 2023, thereby unlocking further assistance from international financial institutions.



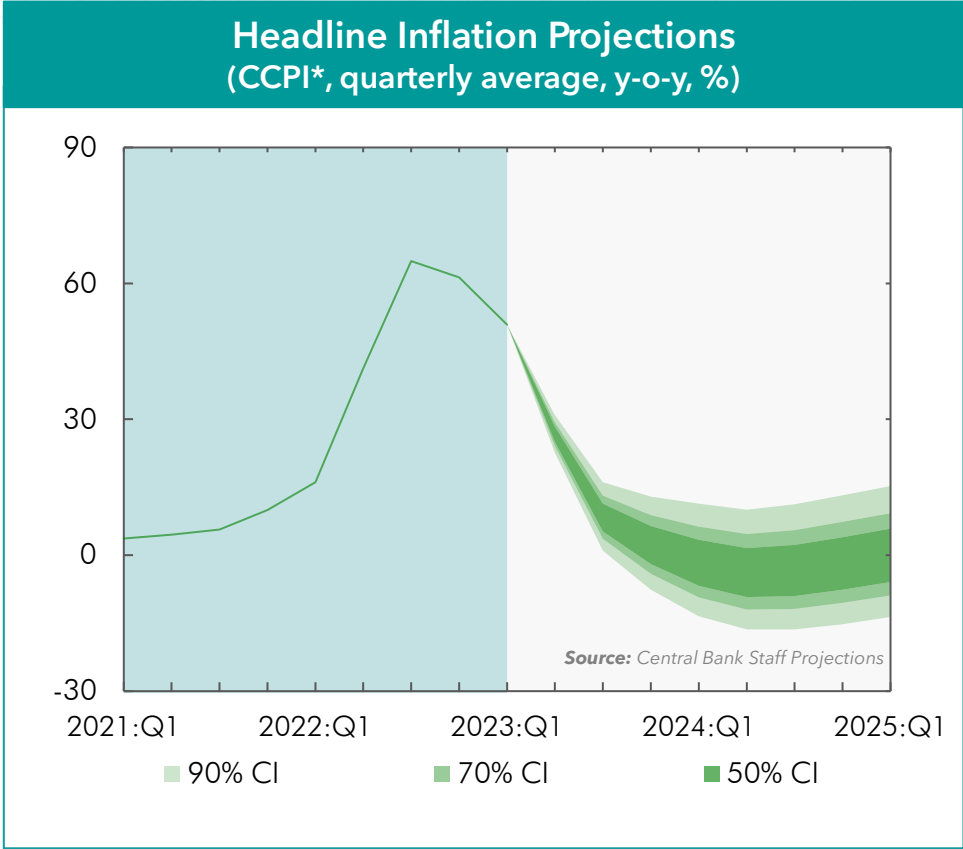
# Inflation is expected to stabilise at the targeted levels over the medium term, following the rapid disinflation in 2023...

## Supported by;

- Subdued aggregate demand, owing to tight monetary and fiscal policies
- Abating supply disruptions, both globally and domestically
- Favourable statistical base effect



The Central Bank remains committed to bringing down the prevailing high inflation towards single digit levels by late 2023



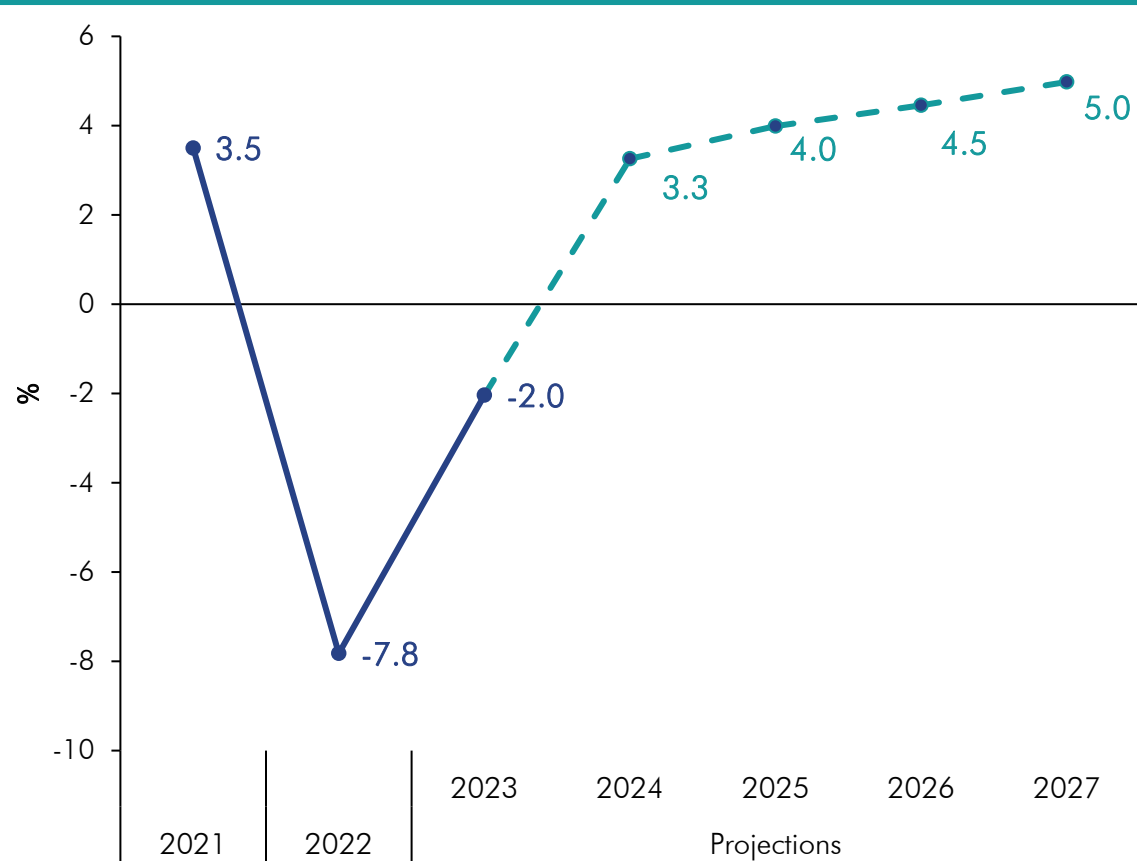
...However, the **successful continuation of the IMF-EFF supported programme**, along with **efforts to sustainably strengthen the fiscal and external buffers**, and the **implementation of the proposed structural reforms to improve the economic potential**, remain instrumental to ensuring economic and price stability over the medium term...



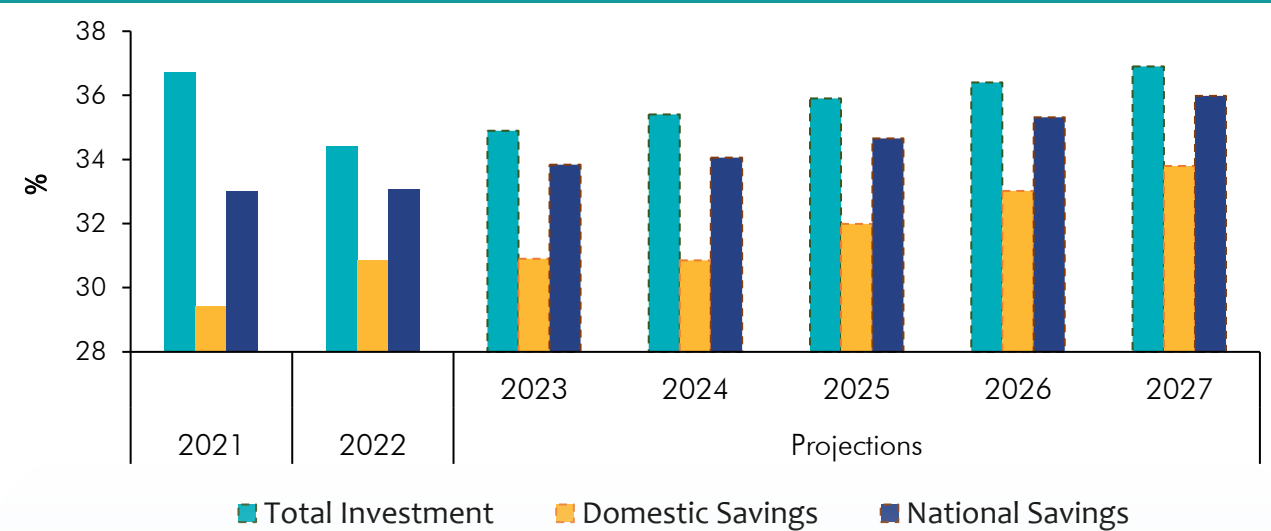
# Over the medium term, the Sri Lankan economy is expected to gradually revive from its deepest economic contraction in 2022...

- The stabilisation of macroeconomic conditions is expected to bolster the economic recovery in the near to medium term, thereby achieving the potential level of economic growth

Real GDP Growth (Y-o-Y)



Investment and Savings (as a percentage of GDP)



## Medium term growth is expected to facilitate with;

- Envisaged non-debt creating financial inflows to Colombo Port City, Colombo West Container Terminal, and the Industrial Zones such as Hambanthota Industrial Zone
- Investments in the tourism industry
- Investor Facilitation Centre established under BOI is also expected to promote FDIs



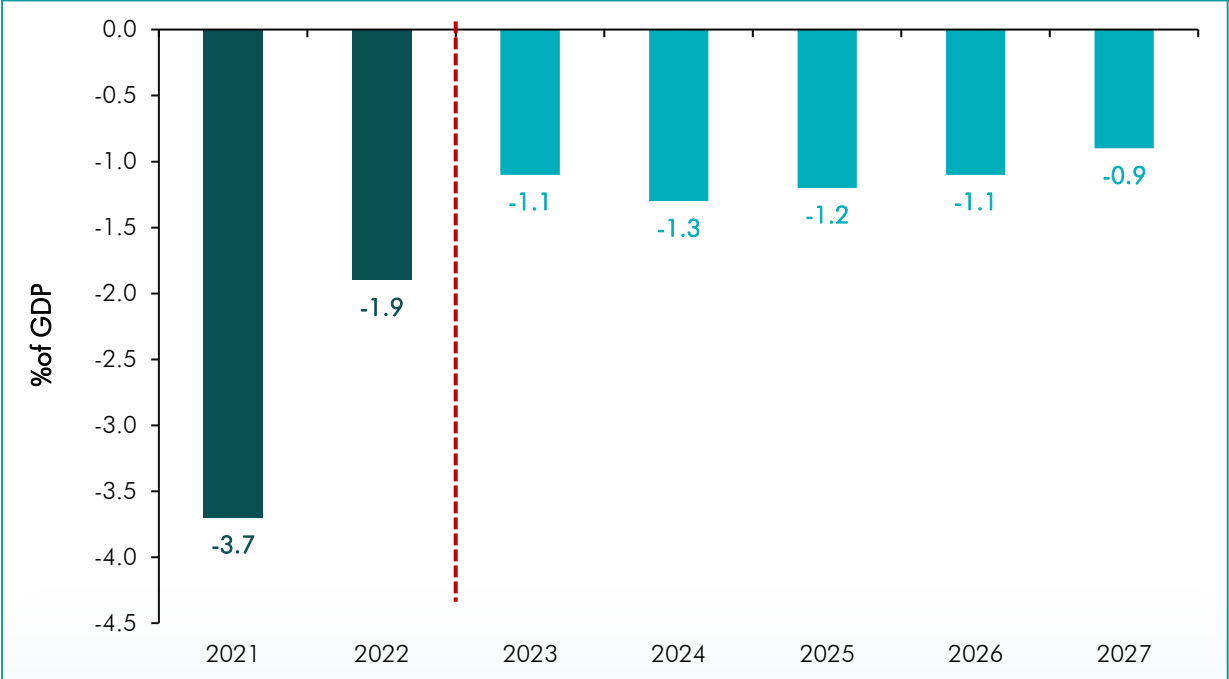
# External sector outlook remains positive, the implementation of reforms outlined in the IMF-EFF is crucial to sustain the momentum...

Exports, Imports and Trade Balance



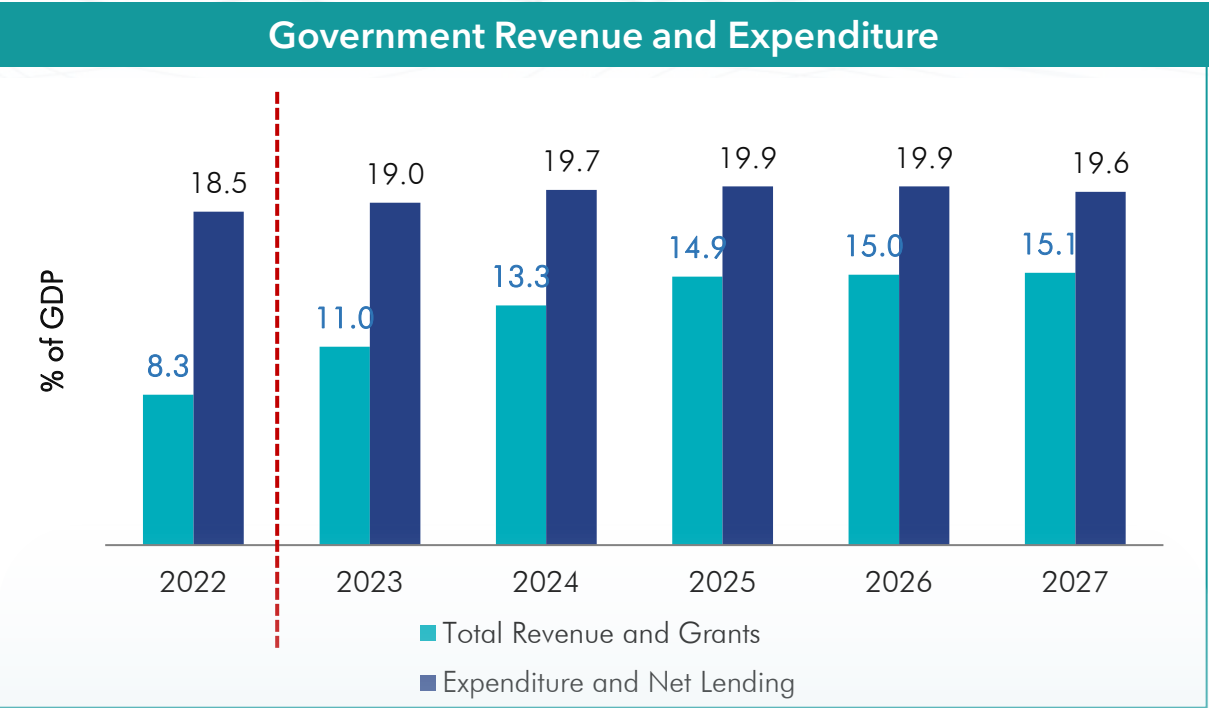
The trade deficit is expected to narrow down over the medium term as the growth in exports is expected to outpace the growth in imports.

External Current Account Balance

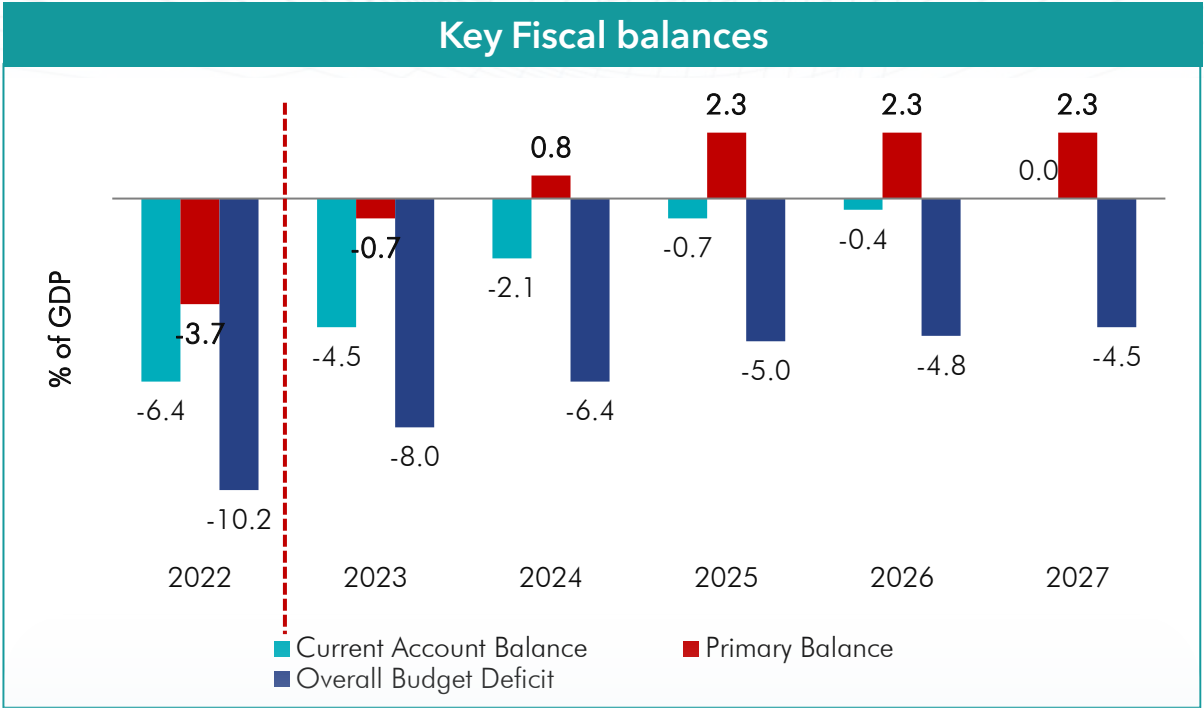


External current account deficit is expected to decline gradually to a sustainable low level over the medium term.

# Fiscal Sector Outlook...



Revenue enhancement measures implemented in 2022 and early 2023 are expected to yield benefits in the near to medium term. However, **strengthening the revenue administration measures is also crucial** to achieve medium term revenue targets of the Government

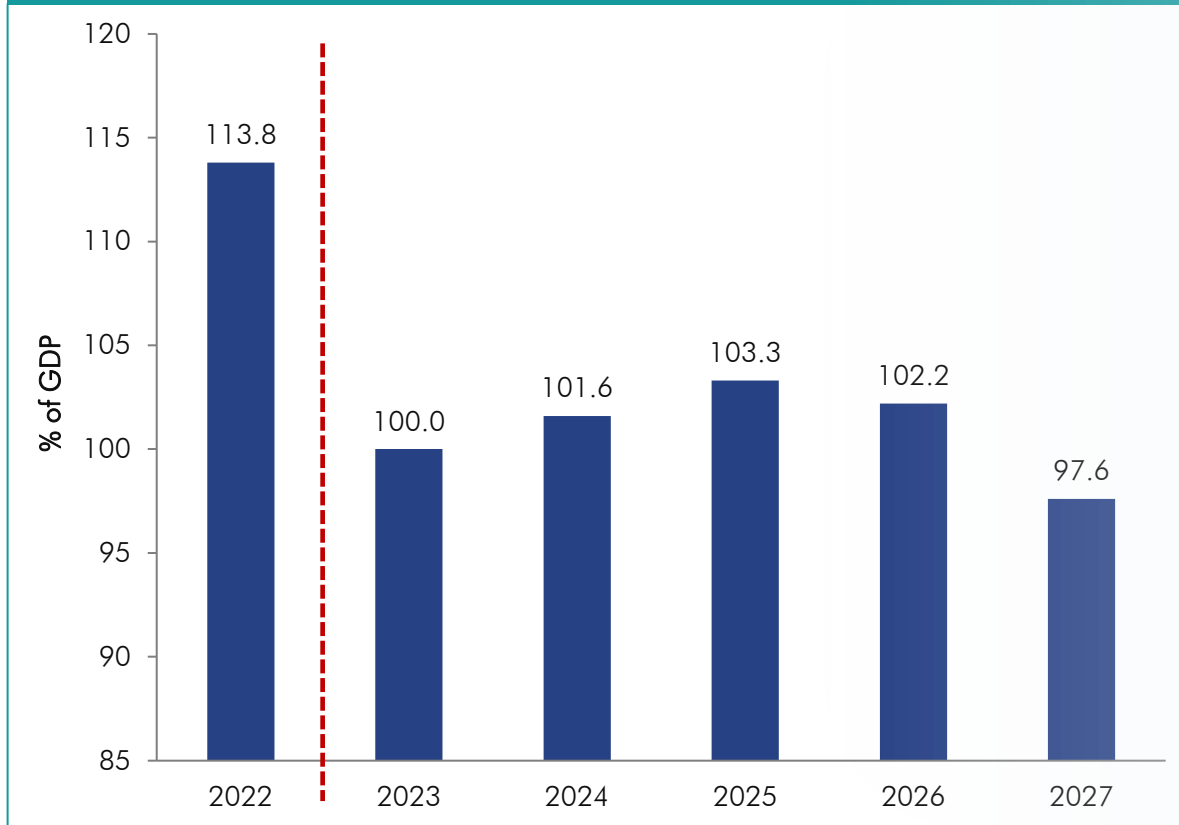


**Curtailment of recurrent expenditure, including limiting public sector recruitment and better targeting of social safety nets, and prioritizing capital expenditure are imperative** to contain government expenditure in the medium term



# Successful completion of the debt restructuring process remains crucial for ensuring public debt sustainability and sustaining the economic stability...

Central Government Debt



- The completion of the ongoing debt restructuring is expected to result in a notable reduction in the Government's debt service burden and limit the **annual gross financing needs to below 13% of GDP, on average, during 2027-2032**
- **Foreign currency debt servicing of the Central Government is expected to be maintained below 4.5% of GDP** in any year during 2027-2032
- **Public debt** is envisaged to **reduce below 95%\* of GDP** by 2032

\*Public Debt to GDP measured as per the IMFs debt perimeters

# Issues and Policies

- From being one of the most **promising nations** in the developing world a few decades ago to one that is **struggling** to overcome multiple crises in the present day, successive governments have failed to steer the island nation towards sustained socio-economic **progress** and **prosperity**.
- Despite the many initiatives taken since independence, the country has faced difficulties in thriving due to the lack of a robust and consistent **national policy framework**, resulting in poor macroeconomic performance, **persistent twin deficits** reflecting legacy issues and slow evolution, adaptability and transformation, thereby losing pace and falling behind peer economies, especially in the most recent decades.
- To overcome many of these challenges and longstanding issues, **policymakers and relevant authorities** need to urgently embark on **implementing** essential reforms.
- Most importantly, a crisis presents several **opportunities** to bring about change and implement reforms to address structural issues.





Commitment in **carrying out long overdue reforms** would be critical in shaping the economy over the medium to long term

Effective **prioritisation and utilisation of external financing** for external debt sustainability in the post-restructuring period

**Successful implementation of the debt restructuring process**, in line with debt sustainability targets outlined in the IMF-EFF

**Long overdue structural reforms to restructure lossmaking SOEs**

**Lack of consistent taxation policies and need for improving tax administration and legal compliance framework** to achieve envisaged revenue targets

**Need for efficient expenditure rationalisation strategies for sustainable fiscal consolidation** in the medium to long run



Energy insecurities of the country

Institutional and legislative reforms are warranted to strengthen the oversight of public expenditure management

Export sector policies need to focus on **improving the sophistication** of goods and services

The country needs structural adjustments to become more export oriented through a significant **reorientation of national trade policy**

Considering low FDI over the last few decades, **exploiting non-liability creating investments is critical for economic revival**

Measures to increase tourist arrivals and a proper network to **capture tourism earnings** are needed to promote tourism





**Mass migration of professionals and skilled workers is likely to lead to a substantial drop in productivity**

Importance of **improving the resilience of the Small and Medium scale Enterprises (MSME) sector** for overall economic development and welfare

The **downward rigidity in domestic prices of imported goods** remains a concern in lowering the domestic cost of living

**Urgent need to reformulate policy strategies to ensure the welfare of the most vulnerable groups**

**The national policy planning mechanism and holistic implementation** need to be strengthened in order to support strong recovery and growth

The **reliance of the public sector on the banking system** has continued over the recent years



**Policy inconsistency in the domestic  
agriculture sector**

**Long overdue factor market reforms**

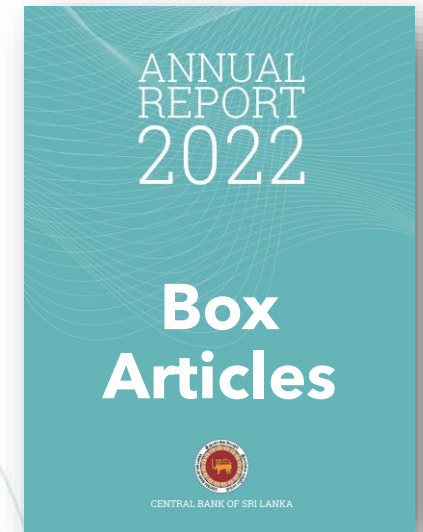
**Acceleration in digitalization of  
economy remains vital**

**Due regard to preserving the  
environment is vital for ensuring  
sustainable growth**

**Sustainable recovery hinges on  
undertaking much needed reforms  
expeditiously**



- 1. Sri Lanka's Disinflation Process**
- 2. Sri Lanka's Economic Adjustment Programme Supported by an Extended Fund Facility Arrangement of the International Monetary Fund**
- 3. Highlights of 'the Central Bank of Sri Lanka Act'**
- 4. Rebasing of National Accounts Estimates to Base Year 2015**
- 5. Fighting Child Malnutrition in Sri Lanka amidst the Economic Crisis**
- 6. Rebasing of Consumer Price Indices to Base Year 2021**
- 7. Monitoring of Export Proceeds Repatriations and Conversions**
- 8. Post-Debt Restructuring Policy Priorities for Strengthening External Sector Balance**
- 9. The Role of Central Banks in Preventing Systemic Financial Crises and Restoring Public Confidence in the Banking Sector**
- 10. Establishment of a Macprudential Authority in Sri Lanka**
- 11. The Central Bank Intervention in Addressing Systemic Liquidity Issues during Stress Periods to Ensure Monetary and Financial Stability**
- 12. Financial Consumer Protection Framework: A Way Forward**
- 13. Strengthening the Financial Safety Net in Sri Lanka**
- 14. Major Economic Policy Measures**





# ANNUAL REPORT 2022



CENTRAL BANK OF SRI LANKA

# Thank You!