ANNUAL ECONOMIC REVIEW 2023

CENTRAL BANK OF SRI LANKA

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ANNUAL ECONOMIC REVIEW

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Governor

Central Bank of Sri Lanka
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Colombo 01, Sri Lanka.

10 April 2024

Honourable Ranil Wickremesinghe
President of Sri Lanka and
Minister of Finance, Economic Stabilization and National Policies
Ministry of Finance, Economic Stabilization and National Policies
The Secretariat
Colombo 01.

Dear Sir,

Annual Economic Review of the Central Bank 2023

In terms of Section 80 (3) of the Central Bank of Sri Lanka Act, No. 16 of 2023, within a period of four months after the close of each financial year, the Central Bank is required to publish, and lay before Parliament through the Honourable Minister of Finance, a report approved by the Governing Board of the Central Bank, on the state of the economy during such financial year emphasising its policy objectives and the condition of the financial system. The report shall include a review and an assessment of the policies of the Central Bank followed during such financial year.

The first Annual Economic Review of the Central Bank, as approved by the Governing Board of the Central Bank, in respect of the year 2023, is submitted herewith in fulfilment of this obligation.

Yours sincerely,

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The following general notes supplement the footnotes given below the individual tables:

1. In an attempt to bring the material up-to-date, provisional figures are included in some tables.
2. Figures in some tables have been rounded off to the nearest final digit. Hence, there may be a slight discrepancy between the total as shown and the sum of its components.
3. Differences as compared with previously published figures are due to subsequent revisions.
4. Values indicated within parenthesis are negative values.
5. The following symbols have been used throughout:-

...	=	negligible	n.e.c.	=	not elsewhere classified
-	=	nil	n.e.s.	=	not elsewhere specified
n.a.	=	not available	n.i.e.	=	not included elsewhere

List of Acronyms

ACU	Asian Clearing Union
ADB	Asian Development Bank
AIP	Agreement in Principle
AML	Anti-Money Laundering
APG	Asia Pacific Group
APTA	Asia-Pacific Trade Agreement
AQR	Asset Quality Review
ASPI	All Share Price Index
ATMs	Automated Teller Machines
AWCMR	Average Weighted Call Money Rate
AWDR	Average Weighted Deposit Rate
AWFDR	Average Weighted Fixed Deposit Rate
AWLR	Average Weighted Lending Rate
AWNDR	Average Weighted New Deposit Rate
AWNFDR	Average Weighted New Fixed Deposit Rate
AWNLR	Average Weighted New Lending Rate
AWNSR	Average Weighted New SME Lending Rate
AWPR	Average Weighted Prime Lending Rate
AWSR	Average Weighted SME Lending Rate
BFCAs	Business Foreign Currency Accounts
BoD	Board of Directors
BOI	Board of Investment
BOP	Balance of Payments
BSPA	Banking (Special Provisions) Act, No. 17 of 2023
CAR	Capital adequacy ratio
CASA	Current and Savings Account
CBA	Central Bank of Sri Lanka Act, No. 16 of 2023
CBSL	Central Bank of Sri Lanka
CCPI	Colombo Consumer Price Index
CCyB	Counter Cyclical Capital Buffer
CEB	Ceylon Electricity Board
CEFTS	Common Electronic Fund Transfer Switch
CEO	Chief Executive Officer
CFMs	Capital Flow Management Measures
CFT	Countering the Financing of Terrorism
CI	Confidence Interval
CIABOC	Commission to Investigate Allegations of Bribery or Corruption
COLA	Cost of Living Allowance
COVID-19	Coronavirus disease 2019
CP	Commercial Paper
CPC	Ceylon Petroleum Corporation
CPCs	Continuous Performance Criteria
CPIs	Consumer Price Indices
CRIB	Credit Information Bureau
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CSE	Colombo Stock Exchange
DA	Documents against Acceptance
DCS	Department of Census and Statistics
DCTS	Developing Countries Trading Scheme
DDO	Domestic Debt Optimisation
DIEs	Direct Investment Enterprises
DP	Documents against Payment
DSTI	Debt-Service-to-Income
EDB	Export Development Board
EDR	External Debt Restructuring
ELA	Emergency Liquidity Assistance
EPF	Employees' Provident Fund
EPMS	Export Proceeds Monitoring System
ETCA	Economic and Technology Cooperation Agreement
ETF	Employees' Trust Fund
EU	European Union
FATF	Financial Actions Task Force
FEA	Foreign Exchange Act
FDI	Foreign Direct Investment
FIs	Financial Institutions
FIT	Flexible Inflation Targeting
FIU	Financial Intelligence Unit
FSOC	Financial System Oversight Committee
FSSNP	Financial Sector Safety Net Strengthening Project
FTA	Free Trade Agreement
FTRA	Financial Transactions Reporting Act
FX	Foreign Currency
GDP	Gross Domestic Product
GDPP	Government Digital Payment Platform
GFN	Gross Financing Needs
GNI	Gross National Income
GOR	Gross Official Reserves
GSP	Generalised System of Preferences
GSTP	Global System of Trade Preferences
GVA	Gross Value Added
GWP	Gross Written Premium
HIES	Household Income and Expenditure Survey
IDA	International Development Association
IDR	Issuer Default Rating
IIP	International Investment Position
IIS	Inward Investments Swaps
IMF	International Monetary Fund
IMF-EFF	International Monetary Fund's Extended Fund Facility
IORA	Indian Ocean Rim Association
IPOs	Initial Public Offerings
IRD	Inland Revenue Department
ISB	International Sovereign Bond
ISFTA	Indo-Sri Lanka Free Trade Agreement
IT/BPO	Information Technology and Business Process Outsourcing
ITs	Indicative Targets
ITRS	International Transactions Reporting System
KMP	Key Management Personnel
LAF	Liquidity Assistance Facility
LC	Letters of Credit
LCBs	Licensed Commercial Banks
LCRs	Liquidity Coverage Ratios
LEAs	Law Enforcement Agencies
LFCs	Licensed Finance Companies

LKR	Sri Lanka Rupee
LMFCs	The Licensed Microfinance Companies
LFPR	Labour Force Participation Rate
LP Gas	Liquefied Petroleum Gas
LPOPP	LankaPay Online Payment Platform
LPPL	LankaPay (Pvt) Ltd
LSBs	Licensed Specialised Banks
LTV	Loan to Value
MDR	Merchant Discount Rate
MEs	Mutual Evaluations
ML	Money Laundering
MLA	Monetary Law Act, No. 58 of 1949
ML/TF	Money laundering and terrorism financing
MOU	Memorandum of Understanding
MPCC	Monetary Policy Consultative Clause
MPR	Monetary Policy Report
MSMEs	Micro, Small and Medium Enterprises/Entrepreneurs
MTMFF	Medium-Term Macro-Fiscal Framework
NCC	National Coordinating Committee
NCG	Net Credit to the Government
NCOs	Non-Commercial Obligations
NCPI	National Consumer Price Index
NCRE	Non-Conventional Renewable Energy
NDA	Net Domestic Assets
NEER	Nominal Effective Exchange Rate
NES	National Export Strategy
NFA	Net Foreign Assets
NFC	Non-Financial Corporations
NFIS	National Financial Inclusion Strategy
NIR	Net International Reserves
NPC	National Payments Council
NPCI	National Payment Corporation of India
NRA	National Risk Assessment
NSFR	Net Stable Funding Ratio
OCC	Official Creditors Committee
OIAs	Outward Investment Accounts
OMO	Open Market Operations
OPEC+	Organization of the Petroleum exporting Countries Plus
OTP	One-Time-Password
PAL	Ports and Airports Development Levy
PAT	Profit After Tax
PBOC	People's Bank of China
PDs	Primary Dealers
PDCs	Primary Dealer Companies
PDMO	Public Debt Management Office
PFCAs	Personal Foreign Currency Accounts
PSFTA	Pakistan-Sri Lanka Free Trade Agreement
PTA	Preferential Trade Agreement
QPC	Quantitative Performance Criteria
QPM	Quarterly Projection Model
QR	Quick Response
RAs	Regulatory Authorities
RAMIS	Revenue Administration and Management Information System
RBI	Reserve Bank of India
RD	Restricted Default
RDs	Restricted Dealers
REER	Real Effective Exchange Rate
RHS	Right Hand Side
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SBs	Structural Benchmarks
S&P SL20	Standard & Poor's Sri Lanka 20
SAFTA	South Asian Free Trade Area
SAPTA	SAARC Preferential Trading Arrangement
SCL	Special Commodity Levy
SD	Selective Default
SDF	Standing Deposit Facility
SDFR	Standing Deposit Facility Rate
SDR	Special Drawing Right
SFCA	Special Foreign Currency Accounts
SLA	SriLankan Airlines
SLAR	Statutory Liquid Assets Ratio
SLC	Sri Lanka Customs
SLC	Specialised Leasing Company
SLDB	Sri Lanka Development Bond
SLDIS	Sri Lanka Deposit Insurance Scheme
SLF	Standing Lending Facility
SLFR	Standing Lending Facility Rate
SLTB	Sri Lanka Transport Board
SLTFTA	Sri Lanka-Thailand Free Trade Agreement
SMEs	Small and Medium scale Enterprises/Entrepreneurs
SOBEs	State Owned Business Enterprises
SOEs	State Owned Enterprises
SRC	Standing Rate Corridor
SRDSF	Sovereign Risk and Debt Sustainability Framework
SRR	Statutory Reserve Ratio
SSCL	Social Security Contribution Levy
STR Act	Secured Transaction Registry Act
STRs	Suspicious Transaction Reports
SVAT	Simplified Value Added Tax
TCN Act	Trading Clearing and Netting Act
TIFA	Trade and Investment Framework Agreement
TEUs	Twenty-foot Equivalent Units
TF	Terrorist Financing
TMU	Technical Memorandum of Understanding
UAE	United Arab Emirates
UK	United Kingdom
UPI	Unified Payments Interface
USA/US	United States of America
USD/US$	United States Dollar
UTs	Unit Trusts
VAT	Value Added Tax
WBB	Welfare Benefit Board
WEO	World Economic Outlook

KEY ECONOMIC INDICATORS

	2017	2018	2019	2020	2021	2022	2023 (a)
DEMOGRAPHY							
Mid-year population ('000 persons) (b)(c)	21,453 (d)	21,670	21,803	21,919	22,156	22,181	22,037
Growth of mid- year population (per cent) (b)	1.1	1.1	0.6	0.5	1.1	0.1	-0.6
Population density (persons per sq.km.) (b)	342	346	348	350	353	354	351
Labour force ('000 persons) (e)	8,567	8,388	8,592	8,467	8,553	8,547	8,408
Labour force participation rate (per cent) (e)	54.1	51.8	52.3	50.6	49.9	49.8	48.6
Unemployment rate (per cent of labour force) (e)	4.2	4.4	4.8	5.5	5.1	4.7	4.7
OUTPUT (f)							
GDP at current market price (Rs. billion)	14,387	15,352	15,911	15,646 (d)	17,612 (d)	24,064 (a)(d)	27,630
GNI at current market price (Rs. billion)	14,034	14,962	15,470	15,223 (d)	17,217 (d)	23,433 (a)(d)	26,734
GDP at current market price (US$ billion) (g)	94.4	94.7	89.0	84.4 (d)	88.6 (d)	76.8 (a)(d)	84.4
GNI at current market price (US$ billion) (g)	92.0	92.4	86.5	82.1 (d)	86.6 (d)	74.9 (a)(d)	81.7
Per capita GDP at current market price (Rs.)(h)	670,644	708,442	729,761	713,821 (d)	794,926 (d)	1,084,882 (a)(d)	1,253,785
Per capita GNI at current market price (Rs.)(h)	654,196	690,463	709,516	694,520 (d)	777,073 (d)	1,056,424 (a)(d)	1,213,159
Per capita GDP at current market price (US$) (g)(h)	4,398	4,372	4,082	3,851 (d)	3,999 (d)	3,464 (a)(d)	3,830
Per capita GNI at current market price (US$) (g)(h)(i)	4,290	4,263	3,968	3,747 (d)	3,910 (d)	3,378 (a)(d)	3,706
REAL OUTPUT (percentage change) (f)							
GDP	6.5	2.3	-0.2	-4.6	4.2 (d)	-7.3 (a)(d)	-2.3
Major economic activities of GDP							
Agriculture	-1.8	6.3	0.5	-0.9	1.0 (d)	-4.2 (a)(d)	2.6
Industry	13.0	-1.1	-4.1	-5.3	5.7 (d)	-16.0 (a)(d)	-9.2
Services	3.6	4.3	2.9	-1.9	3.4 (d)	-2.6 (a)(d)	-0.2
GNI	6.6	2.2	-0.5	-4.5	4.7 (d)	-7.6 (a)(d)	-3.0
AGGREGATE DEMAND AND SAVINGS (per cent of GDP) (f)							
Consumption	67.0	68.9	71.7	73.3 (d)	70.7 (d)	75.0 (a)(d)	76.2
Private	59.1	60.3	62.7	62.9 (d)	61.2 (d)	67.8 (a)(d)	69.3
Government	7.9	8.6	9.0	10.4 (d)	9.5 (d)	7.2 (a)(d)	6.9
Investment	39.7	38.1	34.1	32.9 (d)	36.7 (d)	28.6 (a)(d)	25.3
Net exports of goods and services	-6.7	-6.9	-5.8	-6.2 (d)	-7.4 (d)	-3.6 (a)(d)	-1.5
Exports of goods and services	20.2	21.4	21.8	15.5 (d)	16.9 (d)	21.6 (a)(d)	20.4
Imports of goods and services	26.9	28.4	27.6	21.6 (d)	24.3 (d)	25.1 (a)(d)	21.9
Domestic savings	33.0	31.1	28.3	26.7 (d)	29.3 (d)	25.0 (a)(d)	23.8
Net primary and secondary income from rest of the world	4.2	4.0	3.7	4.7 (d)	3.6 (d)	2.2 (a)(d)	3.4
National savings	37.3	35.1	32.0	31.3 (d)	33.0 (d)	27.2 (a)(d)	27.2
PRICES AND WAGES (percentage change)							
Colombo Consumer Price Index (2021 = 100) - annual average	-	-	-	-	-	-	17.4
Colombo Consumer Price Index (2021 = 100) - year-on-year (end period)	-	-	-	-	-	-	4.0
Colombo Consumer Price Index (2013 = 100) - annual average (j)	6.6	4.3	4.3	4.6	6.0	46.4	-
Colombo Consumer Price Index (2013 = 100) - year-on-year (end period) (j)	7.1	2.8	4.8	4.2	12.1	57.2	-
National Consumer Price Index (2021 = 100) - annual average	-	-	-	-	-	-	16.5
National Consumer Price Index (2021 = 100) - year-on-year (end period)	-	-	-	-	-	-	4.2
National Consumer Price Index (2013 = 100) - annual average (k)	7.7	2.1	3.5	6.2	7.0	50.4	-
National Consumer Price Index (2013 = 100) - year-on-year (end period) (k)	7.3	0.4	6.2	4.6	14.0	59.2	-
Producer Price Index (2018 Q4 = 100) - annual average	-	-	-	5.8	10.9	74.0	11.5
GDP deflator (f)	5.5	4.3	3.9	3.1 (d)	8.0 (d)	47.5 (a)(d)	17.5
GNI deflator (f)	5.4	4.4	3.9	3.0 (d)	8.1 (d)	47.3 (a)(d)	17.6
Nominal Wage Rate Indices							
Formal Private Sector Employees (1978 Dec = 100) - annual average (l)	0.0	0.6	2.9	0.2	74.4	9.8	0.4
Public Sector Employees (2016 = 100) - annual average	-	0.2	4.7	9.2	0.0	16.1	0.0
Informal Private Sector Employees (2018 = 100) - annual average	-	-	-	6.4	9.2	24.5	11.4
EXTERNAL TRADE							
Trade balance (US$ million)	-9,619	-10,343	-7,997	-6,008	-8,139	-5,185	-4,900
Exports	11,360	11,890	11,940	10,047	12,499	13,106	11,911
Imports	20,980	22,233	19,937	16,055	20,637	18,291	16,811
Terms of trade (percentage change)	1.2	0.02	-1.6	2.5	-8.6	-11.6	-0.6
Export unit value index (2010 = 100) (percentage change)	2.4	4.2	-6.3	-6.8	5.4	0.9	-11.3
Import unit value index (2010 = 100) (percentage change)	1.2	4.1	-4.8	-9.1	15.2	14.1	-10.8
Export volume index (2010 = 100) (percentage change)	7.6	0.5	7.2	-9.7	18.0	3.9	2.4
Import volume index (2010 = 100) (percentage change)	8.1	1.8	-5.8	-11.4	11.5	-22.4	3.0
EXTERNAL FINANCE (US$ million)							
Services and primary income account (net)	984	1,381	388	-1,386	-373	240 (d)	841
Current private transfers (net)	6,316	6,155	5,757	6,194	5,221	3,493	5,599
Current official transfers (net)	11	8	9	13	6	3	20
Current account balance	-2,309	-2,799	-1,843	-1,187	-3,284	-1,448 (d)	1,559
Overall balance	2,068	-1,103	377	-2,328	-3,967	-2,806	2,826

(a) Provisional
(b) As reported by Registrar General's Department
(c) Based on the Census of Population and Housing - 2012
(d) Revised
(e) Household population aged 15 and above is considered for the calculation of labour force.
(f) GDP estimates (base year 2015) released in March 2024 by the Department of Census and Statistics have been used.
(g) Based on quarterly GDP/GNI in US$ terms calculated using quarterly average exchange rate from 2015 onwards
(h) Estimates are updated with the latest population figures
(i) These values may differ from DCS published values due to differences in the use of quarterly average exchange rates in comparison to annual average exchange rate for derivation of GNI in US$ terms.
(j) Compilation of this index was discontinued since February 2023.
(k) Compilation of this index was discontinued since January 2023.
(l) Nominal wages of formal private sector employees, whose wages are governed by the wage boards are measured by the minimum wage rate index (1978 December = 100) compiled by the Department of Labour.

KEY ECONOMIC INDICATORS (Contd.)

	2017	2018	2019	2020	2021	2022	2023 (a)
Current account balance (per cent of GDP) (f)(m)	-2.4	-3.0	-2.1	-1.4	-3.7	-1.9(d)	1.8
Total foreign assets (months of the same year imports) (n)	6.0	5.2	6.3	6.4	3.6	3.9	6.7
Gross official reserves (months of the same year imports)	4.6	3.7	4.6	4.2	1.8	1.2	3.1
Overall debt service ratio (o)							
As a percentage of export of goods and services	23.9	28.9	29.7	35.2	30.7	15.4	14.9
As a percentage of current receipts	17.3	21.3	21.8	22.6	22.3	12.3	10.9
Total external debt (per cent of GDP) (f)(m)	54.7	55.3	61.6	58.1(d)	58.4(d)	64.6(d)	65.0
EXCHANGE RATES							
Year end							
Rs/US$	152.85	182.75	181.63	186.41	200.43	363.11	323.92
Rs/SDR (p)	217.69	253.51	251.17	268.48	280.53	483.24	434.60
Annual average							
Rs/US$	152.46	162.54	178.78	185.52	198.88	324.55	327.53
Rs/SDR (p)	211.49	229.90	246.97	258.61	283.18	431.91	436.88
NEER (2017 = 100) (24 - currency basket) (q)	100.00	94.05	88.17	85.93	78.64	53.99	53.30
REER (2017 = 100) (24 - currency basket) (q)(r)	100.00	95.45	90.42	91.52	83.58	77.49(d)	71.39
GOVERNMENT FINANCE (per cent of GDP) (f)(s)							
Revenue and grants	12.8	12.6	11.9	8.8	8.3	8.4	11.1
Revenue	12.7	12.5	11.9	8.7	8.3	8.2	11.0
o/w Tax revenue	11.6	11.2	10.9	7.8	7.4	7.3	9.8
Grants	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Expenditure and net lending	17.9	17.5	21.0	19.4	20.0	18.6	19.4
Recurrent expenditure	13.4	13.6	15.2	16.3	15.6	14.6	17.0
Capital expenditure and net lending	4.5	3.9	5.7	3.1	4.4	4.0	2.4
Current account balance	-0.7	-1.1	-3.4	-7.5	-7.3	-6.4	-6.0
Primary balance	0.0	0.6	-3.4	-4.4	-5.7	-3.7	0.6
Overall fiscal balance	-5.1	-5.0	-9.0	-10.7	-11.7	-10.2	-8.3
Deficit financing	5.1	5.0	9.0	10.7	11.7	10.2	8.3
Foreign	3.1	2.1	3.4	-0.5	-0.1	1.8	1.8
Domestic	2.0	2.8	5.6	11.2	11.8	8.5	6.5
Central government debt (t)	72.2	78.4	81.9	96.6	100.0	114.2 (u)	103.9 (u)
Foreign	32.8	38.8	39.0	38.7	37.0	51.8 (u)	42.1 (u)
Domestic (v) (w)	39.4	39.5	42.9	57.9	63.0	62.5 (u)	61.7 (u)
MONETARY AGGREGATES (year-on-year percentage change)							
Reserve money	9.8	2.3	-3.0	3.4	35.4	3.3	-1.5
Narrow money (M_1)	2.1	4.7	4.2	36.0	24.0	-0.4	14.1
Broad money (M_{2b})	16.7	13.0	7.0	23.4	13.2	15.4	7.3
Net foreign assets of the banking system	152.6	-155.1	250.3	-308.0	-368.8	-79.9	74.2
Net domestic assets of the banking system	9.8	16.3	4.6	27.8	20.9	20.9	-2.9
Domestic credit from the banking system to							
Government (net)	10.0	16.1	11.1	62.7	28.2	28.1	10.9
Public corporations/SOBEs	4.5	40.7	8.3	22.5	18.6	47.3	-56.0
Private sector	14.7	15.9	4.2	6.5	13.1	6.2	-0.6
Money multiplier for M_{2b} (end year)	6.71	7.42	8.18	9.75	8.15	9.11	9.93
Velocity of M_{2b} (average for the year)(f)	2.43	2.27	2.16	1.84	1.73	2.04(d)	2.19
INTEREST RATES (per cent per annum at year end)							
Standing Deposit Facility Rate (SDFR)	7.25	8.00	7.00	4.50	5.00	14.50	9.00
Standing Lending Facility Rate (SLFR)	8.75	9.00	8.00	5.50	6.00	15.50	10.00
Bank Rate (x)	15.00	15.00	15.00	8.50	9.00	30.22	14.50
Legal Rate of Interest / Market Rate of Interest (y)	7.06	9.08	11.50	11.64	10.12	7.48	16.97
Money market rates							
Average weighted call money rate (AWCMR)	8.15	8.95	7.45	4.55	5.95	15.50	9.24
Treasury bill yields							
91-day	7.69	10.01	7.51	4.69	8.16	32.64	14.51
364-day	8.90	11.20	8.45	5.05	8.24	29.27	12.93
Deposit rates							
Commercial banks' average weighted deposit rate (AWDR)	9.07	8.81	8.20	5.80	4.94	14.06	11.64
Commercial banks' average weighted fixed deposit rate (AWFDR)	11.48	10.85	10.05	7.14	5.94	18.49	14.88
Commercial banks' average weighted new deposit rate (AWNDR)	10.06	10.94	8.89	4.93	6.45	23.07	11.06
Commercial banks' average weighted new fixed deposit rate (AWNFDR)	10.65	11.27	9.17	5.08	6.67	23.73	11.33
NSB savings rate	4.00	4.00	4.00	3.50	3.50	3.00	3.00
NSB 12 month fixed deposit rate	11.00	10.50	9.83	5.25	5.50	12.00	8.00
Lending rates							
Commercial banks' average weighted prime lending rate (AWPR)-Weekly	11.55	12.09	9.74	5.81	8.61	27.24	12.13
Commercial banks' average weighted lending rate (AWLR)	13.88	14.40	13.59	10.29	9.87	18.70	14.21
Commercial banks' average weighted new lending rate (AWNLR)	14.31	14.54	12.80	8.38	9.48	26.20	14.38
CAPITAL MARKET							
All share price index (ASPI) (1985 = 100)	6,369.3	6,052.4	6,129.2	6,774.2	12,226.0	8,489.7	10,654.2
S&P SL20 index (2004 Dec = 1,000)	3,671.7	3,135.2	2,937.0	2,638.1	4,233.3	2,635.6	3,068.4
Value of shares traded (Rs. million)	220,591	200,069	171,408	396,882	1,173,157	686,602	410,629
Net purchases by non nationals (Rs. million)	17,655	-23,239	-11,735	-51,356	-52,648	30,625	4,363
Market capitalisation (Rs. billion)	2,899.3	2,839.5	2,851.3	2,960.7	5,489.2	3,847.2	4,248.9

(m) Based on GDP estimates in US dollars
(n) Excludes foreign assets in the form of direct investments abroad and trade credit and advances received
(o) Overall debt service ratios were reclassified to capture debt servicing in accordance with the External Debt Statistics Manual (2003) of the International Monetary Fund (IMF).
(p) Special Drawing Rights (SDR), the unit of account of the IMF
(q) Exchange rates have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is reflected by a rise/fall in the values of the effective exchange rate indices.
(r) CCPI is used for the computation of the Real Effective Exchange Rate (REER). The REER is computed by adjusting the Nominal Effective Exchange Rate (NEER) for inflation differentials with the countries whose currencies are included in the basket.
(s) According to the Ministry of Finance, some fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020
(t) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics published by the IMF in 2014, non resident holdings of outstanding SLDBs have been classified under foreign debt and resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt from 2019 onwards. Further, debt statistics are presented on net basis (net of deposits).
(u) The outstanding central government debt excludes several debt service payments that became overdue after April 12, 2022, the date of which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Economic Stabilization and National Policies. These debt service payments comprise of overdue interest payments of affected debt which deemed to be capitalised as per the Interim Policy and several overdue interest payments in relation to Sri Lanka Development Bonds.
(v) Outstanding balance of Treasury bonds issued to State Owned Business Enterprises (SOBEs) has been included.
(w) Liabilities of the central government to commercial banks reported in the Monetary Survey of the Central Bank was used to compile domestic debt until 2022. From 2023 onwards, domestic debt compilation method was changed and is based on the data confirmed by the Ministry of Finance, Economic Stabilisation and National Policies.
(x) The rate at which the Central Bank grants advances to banking institutions as the lender of last resort.
(y) The Legal Rate is defined under the Civil Procedure Code (Amendment) Act No. 6 of 1990 and is applicable to any legal action for the recovery of a sum of money. The Market Rate is defined under the Debt Recovery (Special Provisions) Act No. 2 of 1990 and is applicable only in relation to legal actions instituted by lending institutions for the recovery of debt exceeding Rs. 150,000 arising out of commercial transactions, where there is no agreed rate of interest. The Governing Board of the Central Bank determines the Legal Rate and Market Rate for each year and publishes in the Government Gazette in the month of December to be applicable for the forthcoming year. The Legal Rate and the Market Rate for the year 2024 is 15.15 per cent per annum.

KEY SOCIAL INDICATORS

PHYSICAL FEATURES AND CLIMATE

Location
Between 5° 55′ & 9° 50′ North Latitude
Between 79° 31′ & 81° 53′ East Longitude

Distance
433 km (269 miles) North to South
226 km (140 miles) West to East

Elevation
2,525 metres (8,284 ft.) Highest

Area

Total area	: 65,610 sq.km.
Land area	: 62,705 sq.km.
Inland waters	: 2,905 sq.km.

Climate

Low country	: min. 24.8° C - max. 32.1° C
Hill country	: min. 18.8° C - max. 27.4° C
Annual rainfall (average) mm	: 2023 : 2,536
	2022 : 1,966

POPULATION AND VITAL STATISTICS

Population Statistics (a)

Mid-year population ('000) (2023)	: 22,037
Age distribution ('000) (2023)	
0 - 14 years	: 5,568
15 - 64 years	: 14,742
65 years and over	: 1,727
Population density (2023)	: 351 persons per sq.km.
Crude birth rate (2023)	: 11.2 per 1,000 persons
Crude death rate (2023)	: 8.2 per 1,000 persons
Rate of natural increase (2023)	: 3.0 per 1,000 persons
Infant mortality rate (2019)	: 7.4 per 1,000 live births (revised)
Dependency ratio (2023)	: 49.4%
Average household size (2019) (b)	: 3.7 persons

Employment (2023)

Employed persons ('000) (d)	: 8,010
Agriculture	: 26.1%
Industry	: 25.5%
Services	: 48.4%
Public sector employees ('000) (e)	: 1,354
Government sector	: 84.7%
State Owned Enterprises	: 15.3%

Income Distribution (b)

Gini coefficient of household income (2019)	: 0.46
Mean household income (2019)	: Rs. 76,414 per month
Median household income (2019)	: Rs. 53,333 per month

Poverty (b)

Average daily kilo calorie intake (2019)	: 2,120
Poverty Head Count Index (c)	: 14.3 (2019)
	: 16.0 (2016)
	: 22.5 (2012/13)

Human Development Index (2022)	: 0.780
Rank among 193 countries	: 78
Sri Lanka Prosperity Index (2021)	: 0.796
Economy and Business Climate Sub-Index	: 0.825
Well-being of the People Sub-Index	: 0.786
Socio Economic Infrastructure Sub-Index	: 0.777
Expectation of Life at Birth (2017)	: 75.5 years
Literacy Rate (2021) (d)	
Average	: 93.3%
Male	: 94.3%
Female	: 92.3%

PHYSICAL, SOCIAL AND FINANCIAL INFRASTRUCTURE FACILITIES

	Unit	2023
Transport		
Length of national roads (A & B)	km	12,225
Length of expressways	km	312.6
Length of operating railway track (2021)	km	1,607.3
Electricity		
Electrification level (2016)	per cent	99.3
Per capita electricity consumption	kWh	642.2
Communication		
Telephone penetration		
Fixed lines	per 100 persons	10.5
Including cellular phones	per 100 persons	142.0
Internet penetration (f)	per 100 persons	103.8
Average population served by a post office	number	5,317
Financial Infrastructure		
Banks		
Branches of LCBs (g)	number	2,929
Branches of LSBs (g)	number	706
Credit cards in use	per 100,000 persons	8,507
Banking density	branches per 100,000 persons	16
Other financial institutions		
Branches of LFCs	number	1,828
Branches of SLCs (h)	number	05
Branches of LMFCs	number	129
ATMs, CRMs and CDMs	per 100,000 persons	32

	Unit	2023
Water Supply and Sanitation		
Access to safe drinking water	per cent	97.3
Access to pipe borne water	per cent	61.6
General Education (2022)		
Area covered by a school (i)	sq. km.	6.5
Student/teacher ratio (i)	number	16.8
Age specific enrolment ratio (grade 1-9)	per cent	90.6
Primary net enrolment ratio	per cent	85.1
University Education (j)		
Student/teacher ratio	number	22.5
Age specific enrolment ratio (age 18-22 yrs) (k)	per cent	9.9
Progression to university from GCE (A/L)		
Eligible for university admission	per cent	63.3
Admission as a percentage of eligible (2021)	per cent	25.2
Government expenditure on education (l)	per cent of GDP	1.6
Public Health (m)		
Hospital beds	per 1,000 persons	4.1
Persons per doctor	number	985
Nurses	per 10,000 persons	17.8
Government expenditure on health	per cent of GDP	1.5

Sources: Relevant institutions and United Nations Development Programme Statistics

Note : Data for 2023 are provisional
(a) Registrar General's Department
(b) Based on Household Income and Expenditure Survey (HIES) (2019), Department of Census and Statistics (DCS)
(c) In the 2019 survey round of HIES of the DCS, the Official Poverty Line (OPL), which was previously based on the 2002 HIES data, has been revised using the 2012/13 HIES data. With the revision in the OPL, Poverty Head Count Index data has also been revised.
(d) Based on Quarterly Labour Force Survey conducted by DCS
(e) Based on data of Department of Management Services, MoF
(f) Including mobile internet services
(g) All banking outlets excluding student savings units
(h) Including other outlets
(i) Government schools only
(j) Details of the universities under University Grants Commission's purview
(k) Only includes internal enrolment of students
(l) Government expenditure on general and higher education
(m) As of end June 2023

EXECUTIVE SUMMARY

The Sri Lankan economy witnessed a gradual revival in 2023 from the deepest economic downturn in its post-independence history. Decisive policy adjustments and structural reforms implemented by the Government and the Central Bank helped restore macroeconomic stability to a great extent, despite the short run hardships faced by economic stakeholders. These measures were essential to prevent further deepening of the crisis and to navigate the economy along a sustainable path of recovery. With risks abound, the unwavering commitment of policymakers along with wider public acceptance remains imperative to continue with the economic reform agenda and efforts to regain debt sustainability.

The economic adjustment programme has already yielded promising outcomes in 2023. Inflation was contained at single-digit levels by end 2023 from its highest level recorded in 2022, enabling the commencement of monetary policy normalisation. The economy recorded an expansion in the second half of 2023 bringing an end to the longest streak of economic contraction of six consecutive quarters. The persistent twin deficit of the overall government budget and the external current account, which was the root cause of the economic downturn, showed signs of correction in 2023. While a surplus was recorded in the primary balance of the Government, the external current account also recorded a surplus in 2023. External buffers, which were almost exhausted during the crisis, were gradually rebuilt during the year. Improved foreign exchange inflows received from tourism and other services exports as well as workers' remittances, amidst subdued import demand, supported the country in alleviating the severe foreign exchange crunch that prevailed at the time of the crisis. The Central Bank's net purchases from foreign exchange inflows along with receipts from the multilateral partners helped augment the country's international reserves. In light of these developments, along with enhanced confidence in the market, the Sri Lanka rupee witnessed a strengthening in 2023 and early 2024. Concerted efforts to restructure the Government's external debt portfolio would provide the required space for the country to make a sustainable recovery, once the process is completed. Meanwhile, domestic market interest rates declined substantially with the easing of monetary policy and reduction of risk premia attached to yields on government securities following the successful finalisation of the Domestic Debt Optimisation (DDO) operation. This downward adjustment in the market interest rate structure and improved market sentiments reversed the contractionary spell of credit extended to the private sector since June 2023. Meanwhile, the financial sector demonstrated its resilience stemming from the proactive and prudent policies of the Central Bank and the greater crisis preparedness of the financial institutions.

Moving towards international best standards and capitalising on lessons learnt, the Central Bank's mandate was redefined with the enactment of the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA) in September 2023, marking a significant milestone in enhancing the Central Bank's independence and accountability towards the Parliament and the public. The Central Bank implemented an array of policies in 2023, initially to bring stability to the economy and then to buttress the economic recovery. This encompassed the shift from a tight monetary policy stance to an accommodative stance since June 2023, allowing greater flexibility in exchange rate determination and progressive removal of administrative restrictions imposed on certain foreign exchange transactions. The Central Bank guided the financial sector with prudential regulatory measures, preserving domestic financial system stability. With the enactment of CBA, in addition to its strengthened role as the supervisory and resolution authority of financial institutions, the Central Bank's role in macroprudential policy formulation was solidified, while its contribution to improving financial inclusion was recognised. Meanwhile, several policy measures were introduced to strengthen the safety and soundness of the banking and non-bank financial sector. At the same time, the Central Bank continued its efforts to develop digital payment systems in the economy, which would help enhance the efficiency and accessibility of payment methods for the public.

The economic progression witnessed in the latter half of 2023 is expected to continue in the years ahead, supported by the continuation of the reform agenda under the International Monetary Fund's Extended Fund Facility (IMF-EFF) arrangement. While a broadbased economic expansion is envisaged across all sectors, domestic price stability is expected to be preserved with greater independence and accountability of the Central Bank in monetary policymaking and the prohibition of monetary financing of the government budget deficit. The external sector is anticipated to retain its stability, supported by augmenting external buffers, normalisation of foreign inflows and completion of the restructuring of the foreign debt portfolio of the Government. Reinforced by the legislative amendments and greater consolidation, the financial sector is expected to remain resilient. While continuing the implementation of much needed institutional and policy reforms aimed at enhancing productivity and efficiency, the Government is expected to strive with its fiscal consolidation efforts to ensure the transition of the economy towards a sustainable path. However, the formidable recovery of the Sri Lankan economy hinges on the continuity of the reforms implemented thus far, and as part of this process, the successful continuation of the IMF-EFF arrangement and completion of the debt restructuring process remain paramount. Since the country has not fully exited the crisis, there is no space available for any slippages from the committed path. Recent experiences proved the devastating socioeconomic costs of uncharted policy experiments. Moreover, backtracking from the implemented and planned critical reforms will tip the economy to a state of instability. Thus, continuing with the broader political and social consensus on economic reforms will be critical to avoid recurring policy reversals and resultant economic downturns, to ensure uplifting the welfare of the general public through sustained growth.

Chapter 1

MACROECONOMIC DEVELOPMENTS AND CONDITIONS OF THE FINANCIAL SYSTEM

Summary

The Sri Lankan economy entered a path towards recovery in 2023 following its deepest economic catastrophe encountered in the preceding year. The recovery was buttressed by rapid disinflation, improved external resilience, stronger fiscal balances, and preserved financial system stability. Prompt and coordinated implementation of a suite of policy measures by the Government and the Central Bank and the structural reform agenda alongside the International Monetary Fund's Extended Fund Facility (IMF-EFF) arrangement reinforced overall macroeconomic stability. Having benefited from restored stability, the economy commenced transitioning to a growth trajectory. After six consecutive quarters of contraction, the economy recorded an expansion in the second half of 2023, limiting the annual economic contraction during the year. The growth in aggregate demand was driven by both domestic demand and net external demand. Although unemployment remained unchanged in comparison to the preceding year, labour force participation declined further in 2023. Inflation that had peaked at an all-time high in September 2022 reverted to single-digit levels within a year and continued to remain in the vicinity of the target by end 2023. With the adoption of accommodative monetary policy stance by the Central Bank since mid-2023 and the decline in risk premia following the finalisation of the Domestic Debt Optimisation (DDO) operation, market interest rates including yields on government securities recorded a notable decline in 2023. Credit to the private sector experienced a positive shift from mid-2023, ending the longest streak of monthly contractions. The external current account recorded a surplus in 2023 supported by a significant contraction in the trade deficit amidst increased services exports and improved workers' remittances. Gross official reserves improved with the support of net purchases of foreign exchange by the Central Bank and financing support from multilateral partners. Despite intermittent volatility, the Sri Lanka rupee recorded an overall appreciation in 2023, which broadly reflected the market behaviour and sentiments, as the Central Bank adopted a market-based exchange rate policy. Notwithstanding a series of domestic and external shocks, the financial sector demonstrated its resilience stemming from the proactive and prudent policies and greater crisis-preparedness. Amidst challenges, the banking sector, which dominates the

financial sector, was able to maintain stability by preserving capital adequacy level, supported by the decline in risk weighted assets, while liquidity was maintained above the regulatory minimum. Total assets of the banking sector improved along with profitability, while credit risk as indicated by the Stage 3 loans ratio increased during 2023. The fiscal performance in 2023 was commendable, driven by rigorous consolidation measures for revenue enhancement and expenditure rationalisation. The primary balance showed a surplus in 2023, while the overall budget deficit declined compared to previous year. The Government continued to rely primarily on domestic sources to finance the budget deficit, amidst constraints in accessing foreign sources. The central government debt as a percentage of GDP declined by end 2023, primarily due to the growth in nominal GDP and partly due to the impact of rupee appreciation on foreign debt.

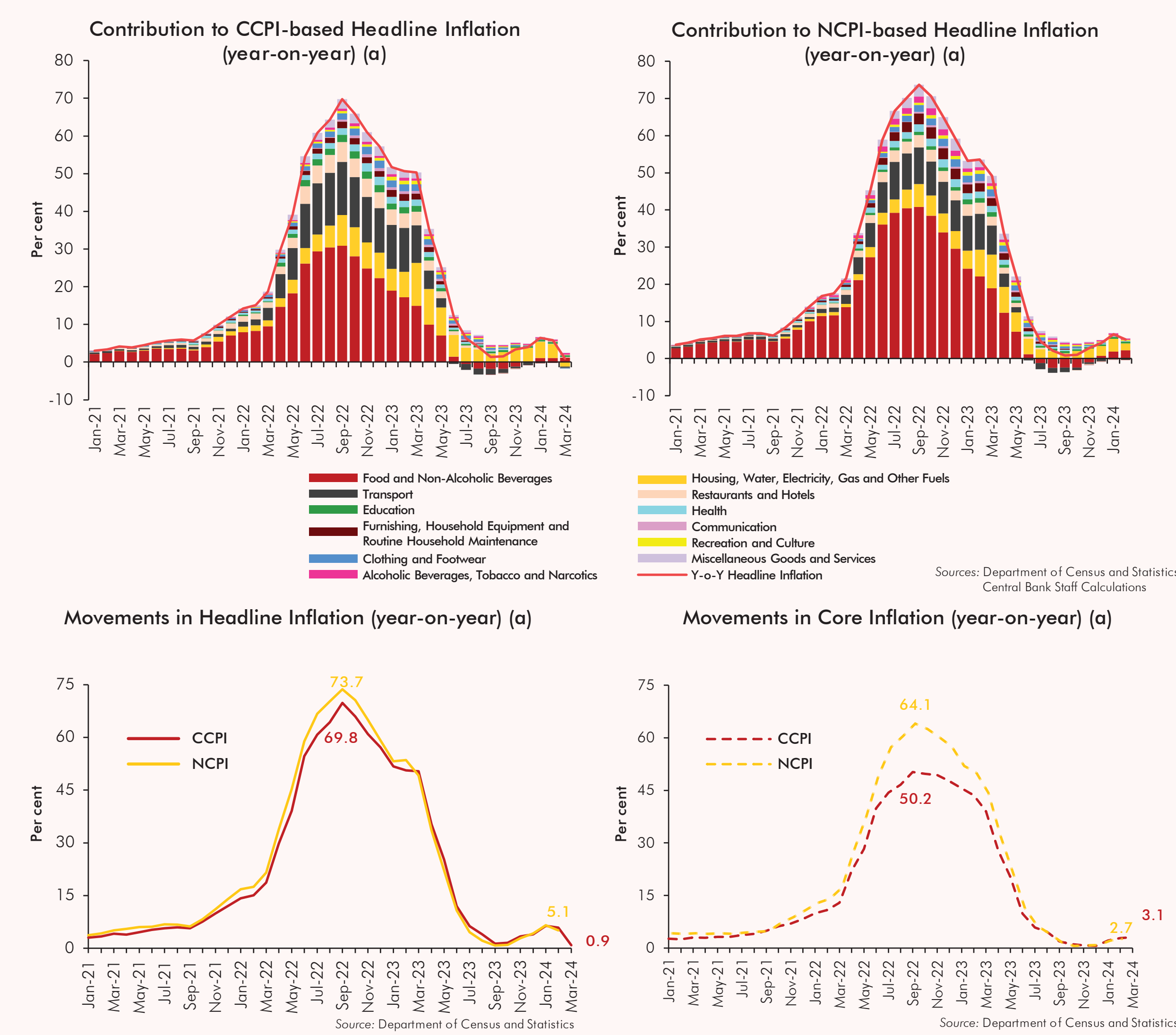
1.1 Inflation and Price Developments

1.1.1 Inflation

Inflation, which reached the historically highest level in September 2022, recorded a rapid disinflation process since then, reaching lower single-digit levels towards end 2023. Subdued demand due to the gradual transmission of the effects of the tight monetary conditions to the wider economy was the major contributor to this transition on the demand side that prevented the escalation of price pressures. This was further complemented by tight fiscal measures. Further, the normalisation of domestic supply conditions, moderation of global commodity prices, and the strengthening of the Sri Lanka rupee, alongside the favourable statistical base effect created by the large month-on-month increases in prices seen in 2022 also contributed to this rapid disinflation process. Consequently, year-on-year headline inflation, measured by the Colombo Consumer Price Index (CCPI, 2021=100), decelerated to 1.3 per cent in September 2023. The prices of food items and the transport sector, which were two of the largest contributors to the high inflation episode during the preceding year, recorded deflation during several months in 2023. This was primarily due to the normalisation of supply bottlenecks and cost-reflective fuel price adjustments, amidst the normalisation of global crude oil prices, together with the impact of the appreciation of the exchange rate. The frequent changes in electricity tariffs, due to the implementation of cost-reflective pricing, also contributed to the dynamics of inflation during 2023. In particular, the pace of disinflation slowed during the first quarter of 2023 due to the upward adjustment to the electricity tariffs, while the subsequent reduction of tariffs in July 2023 supported the decline in inflation. However, since September 2023, inflation has been moving upward towards the targeted level, as anticipated, due to energy price hikes, particularly the electricity tariff increase, while weather related disruptions to the agriculture sector also contributed to the pickup in inflation, particularly towards the end of the year. Accordingly, CCPI-based year-on-year headline inflation was recorded at 4.0 per cent (2021=100) by end 2023 compared to 57.2 per cent (2013=100)[1] by end 2022, while

1 The Department of Census and Statistics (DCS) commenced publishing NCPI and CCPI with the new base year, 2021=100, from the data releases of January 2023 and February 2023, respectively, and discontinued the publication of NCPI and CCPI with the old base year, 2013=100.

Figure 1.1 **Recent Inflation Dynamics in Sri Lanka**



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

CCPI-based annual average headline inflation in 2023 decelerated to 17.4 per cent (2021=100) from 46.4 per cent (2013=100) recorded in 2022. The National Consumer Price Index (NCPI) based year-on-year headline inflation also followed a similar path, dropping to 4.2 per cent (2021=100) by end 2023, compared to 59.2 per cent (2013=100) recorded at end 2022, while NCPI-based annual average headline inflation in 2023 decelerated to 16.5 per cent (2021=100), compared to 50.4 per cent (2013=100) in 2022. Meanwhile, the increase in the Value Added Tax (VAT) rate from 15 per cent to 18 per cent alongside the removal of certain exemptions at the beginning of 2024, led to a brief surge in inflation from January 2024. However, the reduction of electricity tariffs in early March 2024 and several subsequent responsive price reductions are expected to partly negate the immediate impacts as well as spillovers of the tax amendments. This was evidenced through the large reduction of inflation in March 2024, which was partially due to these reasons, along with a favourable statistical base effect.

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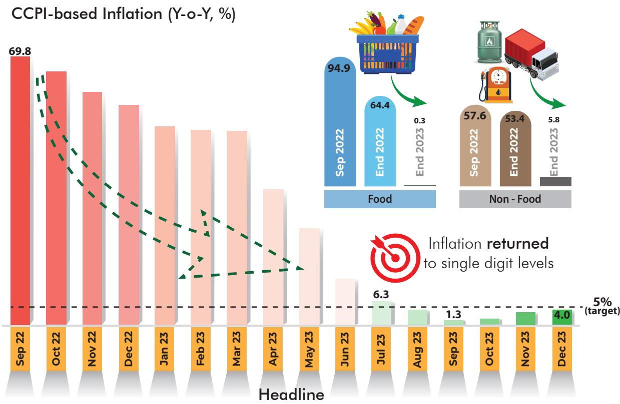
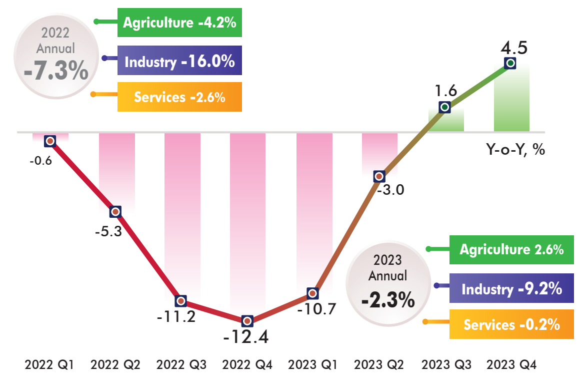
SNAPSHOT OF THE

Inflation registered a rapid disinflation process...

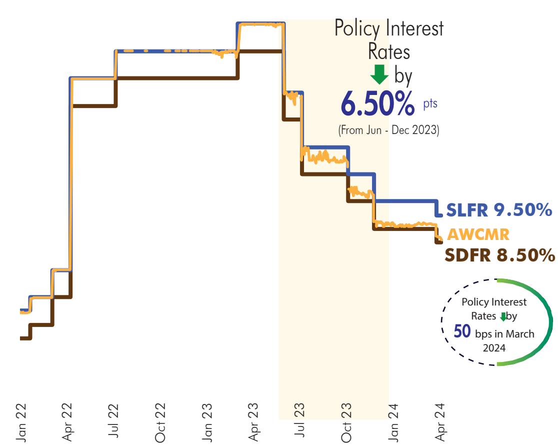
CCPI-based Inflation (Y-o-Y, %)



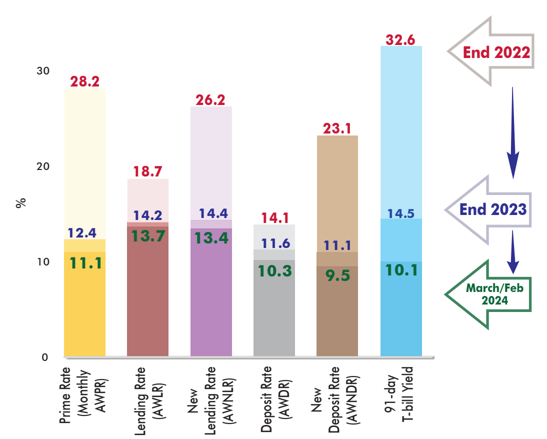
Steady rebound in real GDP growth...



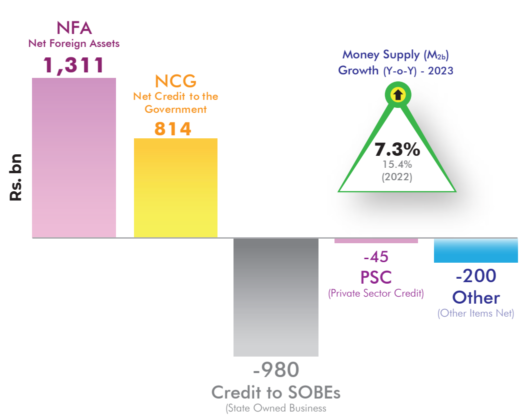
Policy interest rates were reduced...



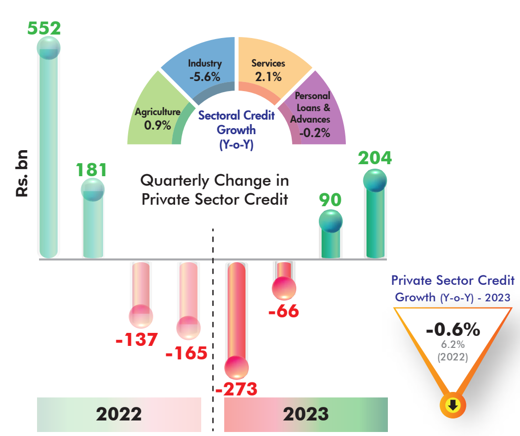
Notable decline in market interest rates...



Monetary expansion remained subdued...



Private sector credit recovered in 2H-2023...



Progress of the IMF-EFF Programme

Sep 2022
Staff-level agreement with the IMF on EFF programme

Mar 2023
IMF Executive Board approval and receipt of the first tranche

SRI LANKAN ECONOMY 2023

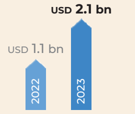
Sri Lanka's external sector rebounded strongly in 2023...

Current Account Balance

recorded a surplus in 2023

Exports
2022 USD 13.1 bn
2023 USD 11.9 bn

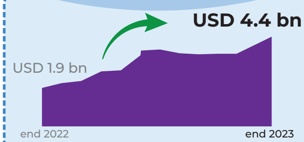
Imports
2022 USD 18.3 bn
2023 USD 16.8 bn



Earnings from Tourism

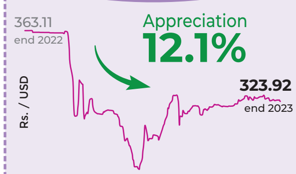
Workers' Remittances
2022 USD 3.8 bn
2023 USD 6.0 bn

Gross Official Reserves



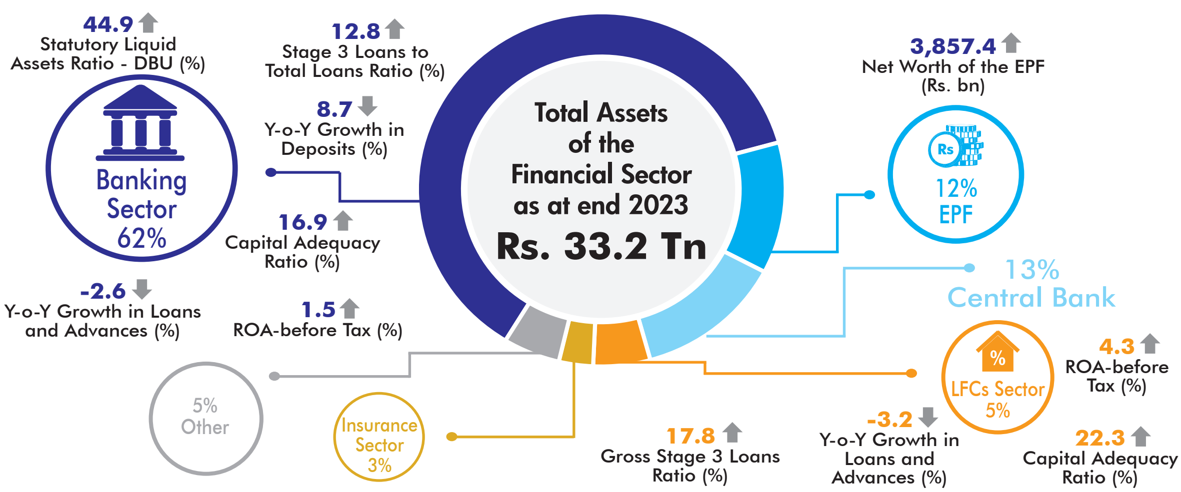
GOR increased with,
CBSL Net Intervention
2023 USD 1.7 bn
(based on value date)
and
Receipts from multilateral institutions
IMF World Bank ADB

Exchange Rate



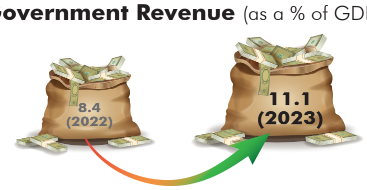
appreciation was **supported by,**
Higher inflows
Lower outflows
and
Market sentiments

Overall financial sector stability was maintained in 2023...

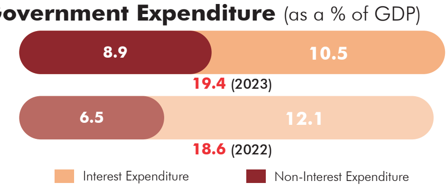


Pronounced fiscal adjustments towards sustainability...

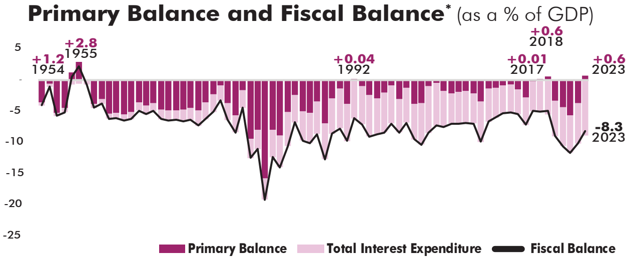
Government Revenue (as a % of GDP)



Government Expenditure (as a % of GDP)

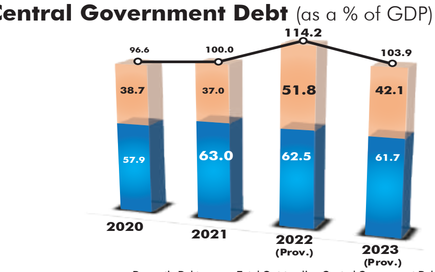


Primary Balance and Fiscal Balance* (as a % of GDP)



*The fiscal balance equals to primary balance minus interest expenditure

Central Government Debt (as a % of GDP)



Oct 2023
Staff-level agreement with the IMF on the first review

Dec 2023
IMF Executive Board approval and receipt of the second tranche

Mar 2024
Staff-level agreement with the IMF on the second review

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Table 1.1

Macroeconomic Performances (2018-2023)

Indicator	Unit	2018	2019	2020	2021 (a)	2022 (a)	2023 (b)
Real Sector (c)							
Real GDP Growth	%	2.3	-0.2	-4.6	4.2	-7.3 (b)	-2.3
GDP at Current Market Price	Rs. bn	15,352	15,911	15,646 (a)	17,612	24,064 (b)	27,630
Per Capita GDP (d)(e)	USD	4,372	4,082	3,851 (a)	3,999	3,464 (b)	3,830
External Sector							
Trade Balance (c)	% of GDP	-10.9	-9.0	-7.1	-9.2	-6.7	-5.8
Current Account Balance (c)	% of GDP	-3.0	-2.1	-1.4	-3.7	-1.9	1.8
Overall Balance	USD mn	-1,102.9	376.6	-2,327.7	-3,966.6	-2,806.1	2,825.6
External Official Reserves	USD mn	6,919.2	7,642.4	5,664.3	3,139.2	1,897.6	4,392.1
Fiscal Sector (c)							
Current Account Balance	% of GDP	-1.1	-3.4	-7.5	-7.3	-6.4	-6.0
Primary Balance	% of GDP	0.6	-3.4	-4.4	-5.7	-3.7	0.6
Overall Balance	% of GDP	-5.0	-9.0	-10.7	-11.7	-10.2	-8.3
Central Government Debt (f)	% of GDP	78.4	81.9	96.6	100.0	114.2	103.9
Monetary Sector and Inflation							
Broad Money Growth (M_{2b}) (g)	%	13.0	7.0	23.4	13.2	15.4	7.3
Private Sector Credit Growth (in M_{2b}) (g)	%	15.9	4.2	6.5	13.1	6.2	-0.6
Annual Average Inflation (h)	%	4.3	4.3	4.6	6.0	46.4	17.4

(a) Revised
(b) Provisional
(c) GDP estimates (base year 2015) released in March 2024 by the Department of Census and Statistics have been used.
(d) Estimates updated with latest population figures
(e) Based on quarterly GDP in USD terms calculated using quarterly average exchange rate.
(f) Debt statistics are presented on net basis (net of deposits).
(g) Year-on-year growth based on end year values.
(h) Based on CCPI (2013=100) until 2022, and based on CCPI (2021=100) in 2023

Sources: Department of Census and Statistics
Ministry of Finance, Economic Stabilization and National Policies
Central Bank of Sri Lanka

Core inflation also underwent a substantial disinflation process in 2023. The fall in core inflation mirrored the underlying subdued demand conditions in the economy, amidst the tight monetary conditions until June 2023 and prevailing tight fiscal conditions, and the persistent impact of the erosion of the purchasing power of the public. Unlike headline inflation, which picked up during the latter part of 2023, CCPI-based core inflation continued to decelerate throughout 2023 and has accelerated somewhat since then. This behaviour reflects that the acceleration in headline inflation in late 2023 was mainly due to the price increases in energy and volatile food items, which are excluded when calculating core inflation. Accordingly, CCPI-based year-on-year core inflation fell to 0.6 per cent (2021=100) by end 2023 compared to 47.7 per cent (2013=100) by end 2022, while CCPI-based annual average core inflation in 2023 was recorded at 14.5 per cent (2021=100) compared to 34.6 per cent (2013=100) in 2022. Meanwhile, NCPI-based year-on-year core inflation decelerated to 0.9 per cent (2021=100) by end 2023, compared to 57.5 per cent (2013=100) at end 2022, whereas NCPI-based annual average core inflation in 2023 slowed to 15.8 per cent (2021=100) compared to 43.9 per cent (2013=100) recorded in 2022. In the meantime, the impact of increased prices due to VAT adjustments in early 2024 was visible in core inflation as well since most items in the core consumer basket were subject to VAT.

As indicated by the inflation expectations survey of the Central Bank during the year, inflation expectations of both corporate and household sectors declined from the elevated levels observed in 2022. Meanwhile, medium term inflation expectations remained broadly anchored despite some volatility observed in the near term. The downward adjustment in inflation

BOX 1

The Effects of Supply Side Inflation on Monetary Policy

Supply side inflation, often referred to as cost push inflation, is typically driven by changes in production costs, caused by factors such as disruptions to the availability of inputs, changes to global commodity prices, revisions to taxes and regulatory measures of the Government, unfavourable weather conditions, supply chain disruptions due to global economic conditions and geopolitical tensions, and inefficiencies of production processes. In the Sri Lankan context, irregular weather patterns are a major factor affecting inflation through the supply side, causing frequent volatilities in food inflation. Similar to many other countries, Sri Lanka is also threatened by the effects of climate change on economic activity and social wellbeing. Additionally, changes in global supply chains, as well as the increase of production costs amidst supply bottlenecks are the main causes for the recent volatility in inflation through the supply side. If these supply side pressures are short lived, they may not pose any major monetary policy implications. However, persistent acceleration of inflation due to supply factors could complicate the conduct of monetary policy, mainly due to the possible de-anchoring of inflation expectations and it can have an adverse impact on a central bank's credibility. Literature shows that when the supply shock is transitory, inflation returns to the equilibrium without the need for any monetary policy action, while repeated supply shocks trigger second round effects, warranting pre-emptive monetary policy action (John, Kumar and Patra, 2022).

The Impact of Weather Patterns and Climate Change on Inflation in Sri Lanka

Climate change encompasses enduring alterations in temperature and various facets of the earth's climate system, largely attributed to human activities. Its impacts are extensive and diverse, spanning environmental, social, economic, and health implications. Irregular weather patterns and climate change can result in significant fluctuations in food inflation. In turn, it could lead to higher volatility in headline inflation, particularly in a country like Sri Lanka, where food items account for a large share of the consumption basket.[1] The agricultural sector could be affected mainly by changes in rainfall patterns and rising temperatures. Major crops in Sri Lanka, including rice and coconut, are significantly affected[2] by variations in temperature and rainfall. An increase in nighttime temperatures, particularly due to global warming, significantly decreases rice yields. For example, based on the field experiments conducted at the International Rice Research Institution in the Philippines, rice yields are found to decline by 10 per cent for every 1°C increase in the minimum temperature during the dry season (Peng et al., 2004). Although the trend of vegetable and fruit prices can be usually predicted during normal weather seasons, the impact of climate change or the abnormal weather patterns on rice, vegetables, and fruits make their pricing unpredictable. In addition to the above, prolonged drought conditions could impact electricity prices due to a shift from low cost hydro power to costly fuel based electricity generation, thus transmitting weather and climate related disturbances to the wider economy, creating large supply disruptions.

Therefore, extreme weather events can have significant macroeconomic effects. These effects were perceived to be largely transitory and less of a concern for central banks in the past. However, the increased frequency and intensity of weather fluctuations, such as heatwaves, prolonged droughts, or flooding, can lead to a more persistent impact on inflation and inflation expectations through the combined impact of direct and second round impacts. This remains a major concern for policymakers and makes forecasting inflation increasingly challenging. Meanwhile, given the enhanced emphasis placed on climate change, central banks are gradually incorporating climate related variables and/or climate specific scenarios into their macroeconomic models to better capture the potential impacts of climate change on key economic indicators.

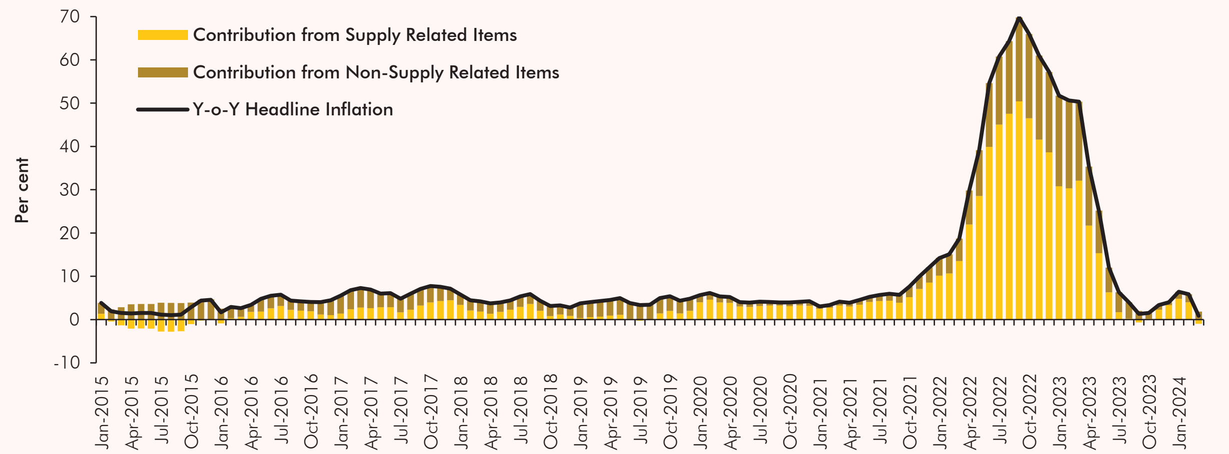
The Impact of Other Supply Side Factors and Government Policies on Inflation

As an oil importing country for both transportation and electricity generation, the impact of global oil prices on Sri Lanka is substantial and alters inflation dynamics through direct and indirect channels. In Sri Lanka, energy, oil, and gas prices are now revised regularly and are determined broadly on a cost recovery basis. As a result, changes in global commodity prices and shipping costs due

1 The Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI) are the measures of inflation in Sri Lanka. Out of 12 categories, the food category has the most significant weight in both indices, accounting for 26.2 per cent in CCPI and 39.2 per cent in NCPI.

2 The weight for the rice category in the CCPI basket is 2.72 per cent, and for the coconut category, it is 1.38 per cent.

Figure B 1.1 **Contribution to Headline Inflation: Supply vs. Non-Supply Related Items (CCPI-based, year-on-year) (a)**



(a) Supply items contain the set of items in CCPI whose prices are predominantly determined by supply factors, while the remaining items are considered as non-supply items (based on staff judgement).

Sources: Department of Census and Statistics
Central Bank Staff Judgement

to geopolitical tensions and global economic conditions affect domestic prices and may now have a greater impact on domestic prices than before.[3] Based on recent experiences, the indirect impact of price changes in electricity, fuel, and gas on inflation could be greater than the direct impact amidst uncertainty. However, such regular adjustments to domestic prices of energy will eliminate the risks of one time drastic corrections to domestic prices, similar to the domestic fuel price adjustment and electricity price adjustments in 2022 and 2023. This would help mitigate large swings in inflation in the period ahead and would promote forward looking economic decisions by the stakeholders of the economy, thereby assisting the anchoring of inflation expectations.

Further, frequent changes to the tax structure can significantly affect inflation volatility, even if they are one off events. The recent adjustments in the Value Added Tax (VAT) had a notable direct impact on the prices of many items in the consumer basket, including fuel prices, thereby having a greater impact on inflation. Moreover, the direct and indirect impacts of these policies can be unpredictable, as businesses could use these tax amendments to arbitrarily change prices. Further, the lack of competition for essential items, along with downward price rigidities could lead to persistent price pressures. An oligopoly in markets for essentials, such as rice and eggs, could exert considerable pressure on the prices of these items directly and several other prices indirectly.

3 This impact was earlier absorbed by the relevant State Owned Business Enterprise (SOBE), which in turn had implications on the fiscal sector or the financial sector, thereby burdening the public indirectly.

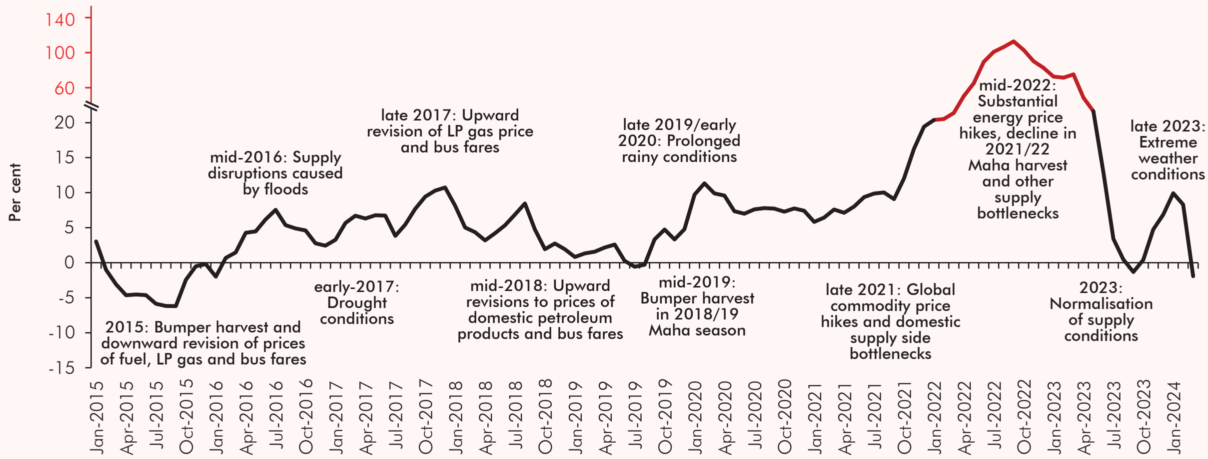
The Contribution from Supply Side Factors on Overall Inflation

Disentangling demand and supply factors behind inflation dynamics is a challenging process due to the complexity of identification. Food inflation is generally considered to be largely driven by supply side factors. In addition to the food category of the Colombo Consumer Price Index (CCPI) basket, prices of certain items in the non-food category could also be classified as supply/cost driven contributors to inflation, given the increased frequency and magnitude of price adjustments in these categories.[4]

Supply side inflation is often characterised by its increased volatility (Table B 1.1) compared to non-supply inflation. Given the transitory nature of supply side inflation in general, central banks may adopt a cautious approach in using monetary policy actions to address it. Moreover, supply disturbances move output and prices in opposite directions, and the central bank may not be able to maintain both output and price stability (Amarasekara, 2009). In such circumstances, extreme policies aimed purely at price stability aggravate the effect of the supply disturbance on the real economy. Certain supply side shocks may be better left to correct themselves over time without the need for immediate and aggressive policy responses. For instance, if the impact stems from transitory weather related factors, it will gradually diminish. Conversely, if it results from adjustments to taxes on goods and services or

4 In this estimate, the supply/cost driven category represents food and non-alcoholic beverages and selected administered price categories such as fuels for personal transport equipment; electricity, gas and other fuels; water bill; and transport services categories of the CCPI basket of goods and services, whereas non-supply driven category represents all other subcategories of the CCPI basket.

Figure B 1.2 Supply Side Inflation (CCPI-based, year-on-year) (a)



(a) Based on the aggregate price movements of the set of items in CCPI whose prices are predominantly determined by supply factors.

Sources: Department of Census and Statistics
Central Bank Staff Judgement

administrative changes, the direct impact of it will be mainly a one time occurrence. Even in the case of transitory or one off supply shocks, central bank communications play a key role by providing clarity, assurance, and guidance on the future trajectory of inflation and anchoring inflation expectations.

Why are Central Banks Less Aggressive in Handling the Supply Side Issues of Inflation?

Central banks usually do not respond to supply side shocks as their primary control lies with affecting demand side inflationary pressures. Supply side issues can have an immediate effect on prices and inflation. In addition, many supply side factors are essentially structural and weather related, and not simply a consequence of the business cycle. Addressing these may necessitate longer term policy measures or structural reforms, such as supply side policies of the Government aimed at improving the productive capacity and efficiency of the economy. Central banks, which aim at addressing business cycle fluctuations through demand driven policies, may not be able to tackle underlying structural issues. Therefore, attempting to address supply side price pressures through monetary policy may result in adverse consequences. Raising interest rates to ease inflation could slow down economic activity, thereby further worsening the supply side pressures.

Table B 1.1 Standard Deviation of Supply Side and Non-Supply Side Inflation (CCPI-based, year-on-year, %)

Year	Headline Inflation	Supply	Non-Supply
2015	1.3	2.8	1.3
2016	1.1	2.5	0.8
2017	0.9	2.2	1.0
2018	1.0	2.1	0.2
2019	0.6	1.7	0.5
2020	0.8	1.3	0.5
2021	2.6	3.9	1.6
2022	20.3	32.0	11.0
2023	20.1	29.9	12.9

Source: Department of Census and Statistics
Central Bank Staff Calculations

However, central banks closely monitor supply side inflation, as persistent or severe disruptions could have broader implications for overall price and economic stability. In some cases, where supply side shocks have secondary effects on inflation expectations or lead to a more persistent inflationary environment, central banks may consider appropriate actions to mitigate these impacts. In this regard, the optimal monetary policy response to a single supply shock depends on the nature and duration of the shock, its second round effects, and the impact on real incomes (Bandera et al., 2023). These factors, taken together, determine whether monetary policy should be 'looked through' (no policy response) or 'lean against the shock' (policy adjustment). A sequence of inflationary supply shocks would call for a tighter policy response. In such instances, responding to each shock individually, trading off near term over medium term inflation deviations from target, could result in undesirable outcomes. Therefore, any monetary policy response to a series of supply shocks should be based on the overall macroeconomic impact of such shocks and should also incorporate a careful assessment of the dynamics of inflation expectations. Moreover, amidst larger and persistent supply shocks, frontloading of monetary policy actions can keep inflation expectations firmly anchored thus maintaining the credibility of the central bank (John et al., 2022).

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The Government's Role in Managing Supply Side Inflation

Governments play a crucial role in managing supply side inflation through various policies and interventions. By prioritising investments in infrastructure like transportation and energy, the Government could enhance productivity and efficiency of the economy. In addition, the Government, together with the private sector, could focus on increasing investments in agricultural infrastructure, such as storage facilities, to boost domestic food production while preventing post harvest losses and stabilising food prices. On the other hand, regulatory measures can be implemented to bolster market competition, dismantle barriers for businesses, and streamline bureaucratic processes, fostering an environment conducive to investments. In the short run, to address sudden price pressures emanating from supply side shocks, the Government could take proactive measures to facilitate the importation of food items that are in short supply due to supply disruptions and shortages, as and when required, and take preventive measures to minimise the upward price movements. The Inflation Reduction Act of 2022 in the USA is an example of a recent Government initiative to address supply side issues. The Act aims to curtail inflation by lowering drug prices, and investing in domestic energy production while promoting clean energy.

Conclusion

There is an intricate interplay between supply side dynamics, such as weather patterns, global commodity prices, and Government policies, and their profound impacts on inflation. The complexities surrounding supply driven inflation present significant challenges for monetary policymaking, particularly in small open economies like Sri Lanka, where a multitude of factors originating from the domestic and global environment contribute to volatility in prices. While transitory supply shocks may not necessitate immediate monetary policy action, persistent disruptions can complicate the task of maintaining price stability. Moreover, the structural nature of some supply side issues demands longer term policy measures and structural reforms, often beyond the scope of traditional monetary policy tools. Despite the limitations in directly addressing supply driven inflation, central banks remain vigilant, aiming to mitigate adverse impacts on economic stability and inflation expectations. Ultimately, navigating the intricacies of supply driven inflation requires a balanced strategy that considers both short term stabilisation and long term economic sustainability. Clear and proactive communication by a central bank on the impact of supply side disturbances on inflation is expected to manage expectations and ensure domestic price stability, along with appropriate monetary policy actions to manage demand pressures on inflation.

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Table 1.2

Movements of Inflation (year-on-year)

Per cent

		2013=100					2021=100				
		Dec-2019	Dec-2020	Dec-2021	Sep-2022	Dec-2022	Sep-2023	Dec-2023	Jan-2024	Feb-2024	Mar-2024
Headline	CCPI	4.8	4.2	12.1	69.8	57.2	1.3	4.0	6.4	5.9	0.9
Inflation	NCPI	6.2	4.6	14.0	73.7	59.2	0.8	4.2	6.5	5.1	
Core	CCPI	4.8	3.5	8.3	50.2	47.7	1.9	0.6	2.2	2.8	3.1
Inflation	NCPI	5.2	4.7	10.8	64.1	57.5	1.7	0.9	2.2	2.7	
Food	CCPI	6.3	9.2	22.1	94.9	64.4	-5.2	0.3	3.3	3.5	3.8
Inflation	NCPI	8.6	7.5	21.5	85.8	59.3	-5.2	1.6	4.1	5.0	
Non-Food	CCPI	4.3	2.0	7.5	57.6	53.4	4.7	5.8	7.9	7.0	-0.5
Inflation	NCPI	4.2	2.2	7.6	62.8	59.0	5.9	6.3	8.5	5.1	

Note: The Department of Census and Statistics (DCS) commenced publishing NCPI and CCPI with the new base year, 2021=100, from the data releases of January 2023 and February 2023, respectively, and discontinued the publication of NCPI and CCPI with the old base year, 2013=100.

Source: Department of Census and Statistics

expectations was driven by a variety of factors, including the deceleration in realised inflation supported by stringent fiscal and monetary policies. In addition, the appreciation of the Sri Lanka rupee against the US dollar, eased supply side disruptions, moderation of global commodity prices, and relaxation of import restrictions contributed to driving inflation expectations downward. Accordingly, the inflation expectations of the corporate sector reached single digit levels by August 2023. Subsequently, inflation expectations declined further with the exception of marginal increases in October 2023 attributed to the electricity tariff adjustments and in December 2023 following the announcement of VAT amendments. Meanwhile, inflation expectations of the household sector reached single digit levels by November 2023 followed by a slight uptick in December 2023.

1.1.2 Prices

The general price level, measured by both CCPI and NCPI, exhibited a modest increase in 2023 from substantially high levels in the preceding year. Prices of both domestically produced and imported food items increased, though at a slower rate compared to the substantial price hikes witnessed in 2022. Moreover, price movements of non-food items were primarily impacted by the cost-reflective pricing adjustments made throughout the year. In line with these developments, the cost of living of the economy, as indicated by the consumer price indices, continued to increase in 2023, but at a slower rate compared to 2022.

Prices of food items, which were primarily driven by supply side factors, albeit with periodic influence from demand side factors during festive seasons, exhibited a modest increase compared to the substantial price hikes witnessed in 2022. With the adequate supply of chemical fertiliser and decreased input costs, in line with reductions in fuel prices, a favourable harvest was realised. This translated into a decline in the prices of certain domestically produced food items during the year. Nevertheless, in the latter part of the year, extreme weather conditions across the entire island coupled with festive demand, led to substantial increases in volatile food prices. Meanwhile, prices of imported food items, which recorded significant increases in 2022, moderated to some extent during 2023, which is attributable to the strengthening of the Sri Lanka rupee and the softening of global commodity prices despite export restrictions imposed by some countries.

The cost-reflective pricing formula played a pivotal role in shaping the price movements of non-food items. The prices of items in the non-food category exhibited an overall increasing trend in 2023, yet at a moderate pace compared to the substantial increases observed in 2022. Accordingly, non-food prices increased until March 2023 primarily due to the upward revision to electricity tariff by 146 per cent for bills consuming 90 units[2] effective from 16 February 2023, while domestic consumers experienced a tariff hike of 66 per cent on average. However, starting from March 2023, non-food prices experienced a decrease until July, followed by an increase until November 2023, primarily driven by price adjustments in several administrative items. There was a downward adjustment to the electricity tariff by 24 per cent for bills consuming 90 units effective from 01 July 2023 followed by an upward revision of 18 per cent effective from 20 October 2023. Further, water tariffs underwent an upward price revision of 102 per cent for bills consuming 22 units effective from 01 August 2023, partially reflecting the changes in electricity tariff revisions. During 2023, the prices of Petrol (92 Octane), Auto Diesel, and Kerosene

2 The expenditure related to using 90 units is considered in the CCPI basket.

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exhibited overall downward trends, although there were intermittent increases observed in February and during the period from July to October 2023. These adjustments were made adhering to the cost-reflective pricing formulas amid fluctuating global crude oil prices. Further, LP Gas prices demonstrated an overall decline in 2023, despite increases in the months of February, September, October, and November. Aligning with changes in fuel prices, bus fares were reduced by 7 per cent effective from 31 March 2023 and subsequently increased by 4 per cent effective from 03 September 2023. However, no revision was made to train fares in 2023.

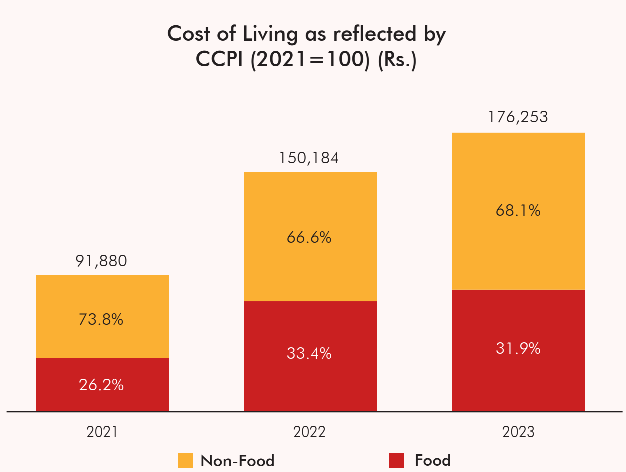
In addition, prices of alcoholic beverages and tobacco increased following the upward revision to Excise Duty effective from 01 July 2023.

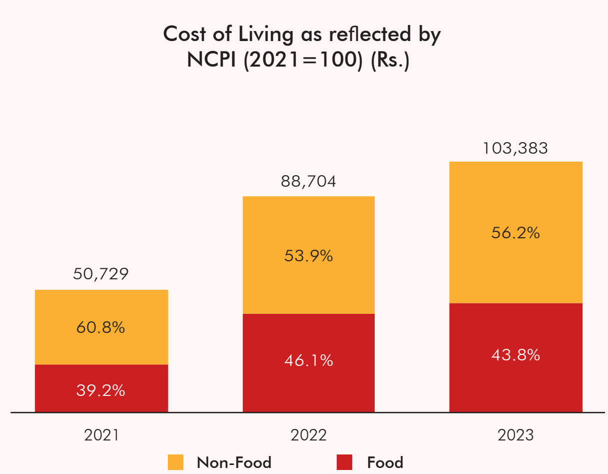
1.1.3 Consumer Price Indices and Cost of Living

Against this backdrop, it was observed that both official Consumer Price Indices (CPIs), which measure changes in the general price level, exhibited a modest rise throughout 2023. Accordingly, CCPI (2021=100) increased at a slower pace during 2023 compared to the previous year, recording 195.1 index points in December 2023. The movement in CCPI was largely in line with the movement of prices of

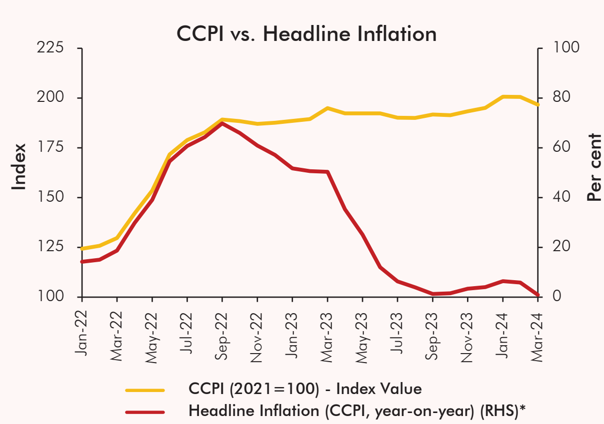
Figure 1.2

Cost of Living, Consumer Price Index and Inflation





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



Source: Department of Census and Statistics

*Note: Year-on-year Inflation for 2022 is based on CCPI (2013=100)

Following the high inflation episode in 2022, the role of monetary policy has been to minimise further increases in the general price level, thereby bringing headline inflation (year-on-year) to the targeted level, in line with the Central Bank's primary objective of achieving domestic price stability. Without such appropriate policy measures, the sharp escalation in price levels observed in late 2021 and 2022 could have continued further, leading to hyperinflation. By ensuring price stability, the Central Bank supports the overall health and stability of the economy, which is necessary for sustainable economic growth over the long run.

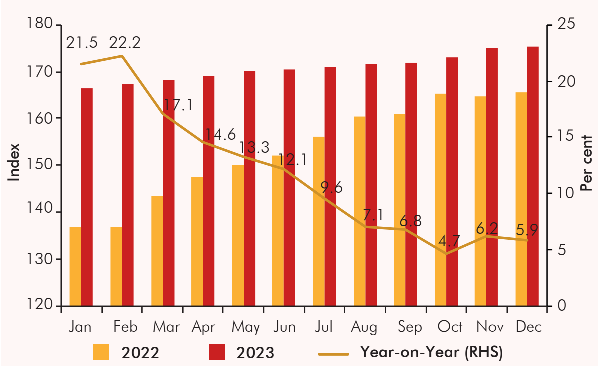
items in the non-food category except for June, August, October and December 2023. The NCPI (2021=100) also increased at a slower pace during 2023 compared to 2022 recording 208.8 index points in December 2023. The movement of NCPI was mainly attributed to fluctuations in prices of items in the non-food category except for May, June, September, November and December 2023.

The cost of living, as reflected by the consumer price indices,[3] continued to increase in 2023, although at a slower pace compared to the surge witnessed in 2022. The estimated average monthly consumption expenditure for a household,[4] based on CCPI (2021=100), increased from Rs. 150,184 in 2022 to Rs. 176,253 in 2023 by 17.4 per cent. This indicates a considerable slowdown compared to the 63.5 per cent increase recorded in 2022 compared to 2021. Similarly, based on NCPI (2021=100), the estimated average monthly household[5] consumption expenditure increased from Rs. 88,704 in 2022 to Rs. 103,283 in 2023 by 16.5 per cent highlighting a notable easing from the 74.9 per cent increase recorded in 2022. Considering the distribution of consumption expenditure between food and non-food items, it is evident that a major share is allocated to non-food items. Further, the notable increase observed in the share of monthly household consumption expenditure allocated to the food category in 2022 moderated in 2023 due to the improved supply conditions in the country.

1.1.4 Wages

Available information[6] shows that wages remained largely stagnant throughout 2023 except in the informal private sector, which recorded an increase during the year compared to 2022. This increase in nominal wages of employees in the informal private sector was mainly attributable to the demand for higher wages by daily wage earners, due to the rising cost of living and shortage of labour supply. Meanwhile, on an annual average basis, real wages recorded an erosion during the year across both the private and public sectors. Nevertheless, available wage indices i.e., informal private sector wage rate index (2018=100), formal private sector minimum wage rate index (1978 December=100), and public sector wage rate index (2016=100) exhibit certain limitations in capturing the overall wage developments of the economy.

Figure 1.3 Movements of the Informal Private Sector Wage Rate Index during 2023 (Nominal)



Source: Central Bank of Sri Lanka

Private Sector Wages

Nominal wages of informal private sector employees, as indicated by the informal private sector wage rate index (2018=100), exhibited an increasing trend throughout 2023. Notably, the index increased in nominal terms by 11.4 per cent in 2023 compared to the previous year. In terms of the sub-activities, namely, agriculture, industry, and services, the informal private sector wage rate index increased in nominal terms by 13.0 per cent, 9.9 per cent and 13.1 per cent, respectively, in 2023,

3 Consumer price indices are based on fixed consumption baskets derived from Household Income and Expenditure Survey (HIES) (2019) conducted by DCS. Hence do not reflect the changes in the household consumption patterns over the period.

4 An average household in Colombo District consists of 3.8 persons based on the HIES (2019) conducted by DCS.

5 An average household in Sri Lanka consists of 3.7 persons based on HIES (2019) conducted by DCS.

6 Information in this section is primarily based on the public sector wage rate index (2016=100) and informal private sector wage rate index (2018=100) compiled by CBSL, and the formal private sector minimum wage rate index (1978 December=100) compiled by the Department of Labour.

compared to 2022. This was driven by the continuous demand from daily wage earners for higher compensation in response to the rising cost of living. As a result, employers were compelled to increase daily wages to retain particularly experienced workers ensuring continuity of their business operations. Further, a significant labour shortage across all sectors, attributed to the migration of workers to other countries, created a competitive environment for experienced workers, resulting in wage increases. However, owing to the high inflation environment that prevailed until early 2023, employees in the informal private sector experienced a real wage erosion of 7.1 per cent in 2023, compared to the previous year.

Nominal wages of employees in the formal private sector, as measured by the minimum wage rate index (1978 December=100) compiled by the Department of Labour, of employees whose wages are governed by wage boards, recorded a slight increase in 2023. Accordingly, the nominal minimum wage rate index increased by 0.4 per cent in 2023 compared to the previous year. Nevertheless, the minimum real wage rate index decreased by 17.6 per cent in 2023 compared to 2022.

Public Sector Wages

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), remained unchanged in 2023, recording a real wage erosion of 17.5 per cent compared to the previous year. Nevertheless, as proposed by the Budget 2024, the Cost of Living Allowance (COLA) for public sector employees was increased by Rs. 10,000.00 from January 2024. Due to fiscal constraints, public sector employees were given a partial payment of Rs. 5,000.00 from January to March 2024. The full payment of Rs. 10,000.00 will be made from April 2024 onwards. Meanwhile, arrears for the initial three months will be paid in three equal instalments, starting from January 2025.

1.2 Real Sector Developments

1.2.1 Economic Growth

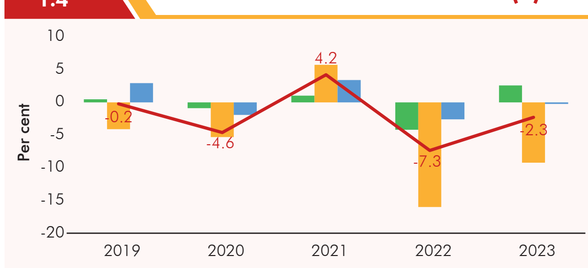
In 2023, the Sri Lankan economy showed signs of rebound with a moderate contraction of 2.3 per cent, in comparison to a significant contraction of 7.3 per cent observed in 2022. The gradual yet steady rebound in 2023 was evident, particularly in the second half of the year, during which the Gross Domestic Product (GDP)[7] recorded positive growth rates. This was underpinned by renewed macroeconomic stability amidst softening inflation and easing of external sector pressures.

GDP at current market prices grew by 14.8 per cent to Rs. 27,629.7 billion in 2023, owing to the price impact, as reflected by the GDP deflator of 17.5 per cent. Further, Gross National Income (GNI), estimated by adjusting GDP for the net primary income from the rest of the world, grew by 14.1 per cent at current prices in 2023. In US dollar terms, GDP increased to 84.4 billion in 2023 from 76.8 billion in 2022, supported by the appreciation of the Sri Lanka rupee during the year.

Driven by the growth in nominal GDP and the decline in mid-year population, GDP per capita increased to Rs. 1,253,785 in 2023, compared to Rs. 1,084,882 in 2022. Meanwhile, GNI per capita also increased to Rs. 1,213,159 in 2023, compared to

7 DCS estimates GDP in production, expenditure and income approaches.

Figure 1.4 Annual GDP Growth Rates (a)



(a) Based on the GDP estimates (base year 2015)

Source: Department of Census and Statistics

Rs. 1,056,424 in 2022. In US dollar terms, GDP per capita in 2023 was 3,830, compared to 3,464 in 2022, while GNI per capita was 3,706, compared to 3,378 in 2022.

1.2.2 Production

Agriculture

Agricultural activities exhibited a notable resurgence, with a 2.6 per cent increase in value added in 2023, marking a significant turnaround from the 4.2 per cent contraction witnessed in 2022, mainly driven by the improved supply conditions, especially fertiliser, other agrochemical inputs and fuel. The growing of rice, fruits, vegetables, and fishing activities were the main contributors to this growth. However, the growing of tea, rubber and coconut contracted during the year, largely due to the adverse impact of weather anomalies.

Industry

Although a gradual recovery in supply conditions was observed throughout the year, the subdued demand conditions continued to impact all industry activities, resulting in a 9.2 per cent contraction in Industry activities during 2023. This was driven by the notable decline in the construction industry, which is highly vulnerable to economic downturns, mainly due to the holdback of construction projects. Further, manufacturing activities, the largest segment of the Industry sector, contracted during the year mainly due to the significant decline in global demand for the manufacture of textiles, wearing apparel and leather-related products. However, most of the other manufacturing activities recorded a strong recovery in the latter part of the year, mainly supported by the manufacture of food, beverages and tobacco products, and the manufacture of coke and refined petroleum products.

Services

A notable growth in accommodation, food and beverage services, and transport activities, mainly attributable to the gradual revival of the tourism sector and the uninterrupted provisioning of power and energy, played a pivotal role in limiting the

Table 1.3

Gross National Income by Industrial Origin at Constant (2015) Prices (a)(b)

Economic Activity	Rate of Change (%)		Contribution to Growth (%)		As a Percentage of GDP (%)	
	2022 (c)	2023	2022 (c)	2023	2022 (c)	2023
Agriculture, Forestry and Fishing	- 4.2	2.6	- 0.3	0.2	7.5	7.9
Manufacturing, mining and quarrying and other industry	- 13.9	- 4.7	- 2.9	- 0.9	19.6	19.1
Of which: Manufacturing activities	- 12.7	- 3.2	- 2.2	- 0.5	16.1	16.0
Construction	- 20.9	- 20.8	- 1.9	- 1.6	7.6	6.2
Wholesale and retail trade, transportation and storage, accommodation and food service activities	2.4	3.1	0.6	0.8	26.5	28.0
Information and communication	- 0.4	- 13.2	- 0.0	- 0.5	3.4	3.0
Financial and insurance activities	- 18.3	- 5.3	- 1.0	- 0.3	5.0	4.8
Real estate activities (including ownership of dwelling)	- 12.1	- 6.0	- 0.6	- 0.3	4.6	4.4
Professional, scientific, technical, administration and supporting service activities	- 17.7	2.4	- 0.4	0.0	2.0	2.1
Public administration, defense, education, human health and social work activities	- 0.3	- 0.6	- 0.0	- 0.1	9.6	9.8
Other services (excluding own-services)	0.3	0.4	0.0	0.0	8.2	8.4
Equals Gross Value Added (GVA) at Basic Price	- 7.0	- 2.6	- 6.6	- 2.5	94.1	93.7
Taxes less subsidies on products	- 12.4	2.8	- 0.8	0.2	5.9	6.3
Equals Gross Domestic Product (GDP) at Market Price	- 7.3	- 2.3	- 7.3	- 2.3	100.0	100.0
Net primary income from rest of the world	- 4.5	- 23.7				
Gross National Income at Market Price	- 7.6	- 3.0				

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

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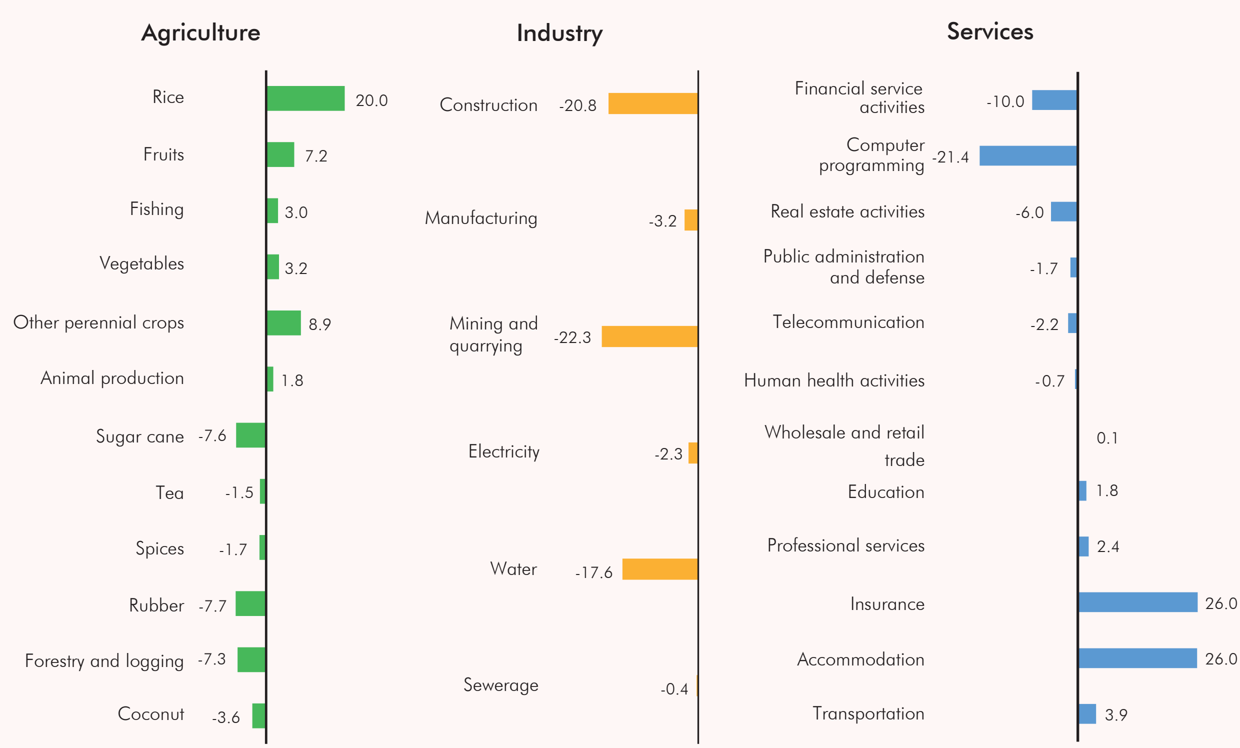
Figure 1.5
Growth in Economic Activities - 2023 (a)



(a) Based on the GDP estimates (base year 2015)

Source: Department of Census and Statistics

contraction in overall Services activities to 0.2 per cent in 2023. However, financial services and real estate activities, which were largely affected by the high-interest-rate environment, particularly during the first half of the year, and the continued contraction in computer programming activities, weighed negatively on the growth of services activities during the year.

1.2.3 Expenditure

From an expenditure perspective, the growth in the total demand of the economy at current prices was contributed positively by both domestic and net external demand. In terms of domestic demand, consumption expenditure, the dominant expenditure component, grew by 16.7 per cent, while investment expenditure grew by 1.6 per cent in 2023. The overall growth in consumption expenditure is attributable to the increase in both private and government consumption expenditures, driven by the price impact. Despite the increase in investment expenditure during the year, fixed capital formation contracted, led by the decline in expenditure on construction activities. Further, the growth in expenditure on goods and services exports alongside the stagnation in expenditure on goods and services imports, resulted in a substantial improvement in net external demand.

Considering expenditure estimates at constant prices in 2023, consumption expenditure contracted due to decreased purchasing power, while investment expenditure contracted owing to the unfavourable investment climate. Meanwhile, the net external demand recorded a significant growth at constant prices during the year, helping to limit the GDP contraction in real terms to 2.3 per cent.

Table 1.4

Aggregate Demand and Savings at Current Market Prices (a)(b)

Item	Rs. billion		% Change		As a Percentage of GDP	
	2022 (c)	2023	2022 (c)	2023	2022 (c)	2023
1. Domestic Demand	24,921.2	28,042.4	31.8	12.5	103.6	101.5
1.1 Consumption	18,038.2	21,051.6	45.0	16.7	75.0	76.2
Private	16,311.0	19,158.5	51.3	17.5	67.8	69.3
Government	1,727.3	1,893.1	3.8	9.6	7.2	6.9
1.2 Investment (Gross Capital Formation)	6,883.0	6,990.8	6.4	1.6	28.6	25.3
Gross Fixed Capital Formation	5,724.1	4,859.6	23.4	-15.1	23.8	17.6
Changes in inventories and Acquisitions less disposals of valuables	1,159.0	2,131.2	-36.7	83.9	4.8	7.7
2. Net External Demand	-857.5	-412.7	34.1	51.9	-3.6	-1.5
Export of Goods and Services	5,187.9	5,634.2	74.1	8.6	21.6	20.4
Import of Goods and Services	6,045.4	6,046.9	41.2	0.0	25.1	21.9
3. Total Demand (GDP) (1+2)	24,063.8	27,629.7	36.6	14.8	100.0	100.0
4. Domestic Savings (3-1.1)	6,025.5	6,578.1	16.6	9.2	25.0	23.8
Private	7,566.0	8,228.9	17.1	8.8	31.4	29.8
Government	-1,540.4	-1,650.9	-19.4	-7.2	-6.4	-6.0
5. Net Primary Income from Rest of the World (d)	-631.2	-895.3	-59.6	-41.8	-2.6	-3.2
6. Net Current Transfers from Rest of the World (d)	1,159.4	1,836.2	12.1	58.4	4.8	6.6
7. National Savings (4+5+6)	6,553.7	7,519.0	12.8	14.7	27.2	27.2
8. Savings Investment Gap						
Domestic Savings - Investment (4-1.2)	-857.5	-412.7			-3.6	-1.5
National Savings - Investment (7-1.2)	-329.3	528.2			-1.4	1.9
9. External Current Account Balance (2+5+6) (d)	-329.3	528.2			-1.4	1.9

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised
(d) Any difference with the BOP estimates is due to the time lag in compilation.

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

In 2023, the country's domestic savings grew by 9.2 per cent at current prices, while national savings grew by 14.7 per cent. The higher growth in national savings was attributable to the notable increase in net current transfers from the rest of the world in rupee terms, while net primary income from the rest of the world continued to contract. As a percentage of GDP, domestic savings was recorded at 23.8 per cent in 2023, while national savings stood at 27.2 per cent. Further, the national savings-investment gap turned positive in 2023, owing to relatively higher growth in national savings compared to investment, with the notable improvement in external sector performance.

1.2.4 Income

Considering the income estimates in 2023, the Gross Operating Surplus, the largest income component of the economy, grew by 21.2 per cent at current prices during the year, compared to the growth of 39.8 per cent recorded in 2022, accounting for 37.9 per cent of Gross Value Added (GVA). Gross Mixed Income, the second largest income component, grew by 13.8 per cent in 2023, compared to the growth of 43.4 per cent in 2022. In terms of other major sources of income, Other Taxes less Subsidies on Production continued to expand during the year, while Compensation of Employees, driven by the Non-Financial Corporations (NFC), contracted during the year. Considering the institutional sector classification of GVA, NFC was the largest income generator, followed by Household and Non-Profit Institutions Serving Households, Financial Corporations, and General Government, respectively.

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Table 1.5

Income Components by Economic Sector at Current Market Prices (a)(b)

Item	Percentage Share (%)									
	2022 (c)					2023				
	Non-Financial Corporations	Financial Corporations	General Govern-ment	Households and Non-Profit Institutions Serving Households	Gross Value Added at basic price	Non-Financial Corporations	Financial Corpora-tions	General Govern-ment	House-holds and Non-Profit Institutions Serving Households	Gross Value Added at basic price
Compensation of Employees	48.2	10.3	23.4	18.1	27.0	44.7	11.1	23.7	20.6	23.8
Gross Operating Surplus	85.7	12.0	2.3	-	35.4	84.3	13.8	2.0	-	37.9
Gross Mixed Income	-	-	-	100.0	37.3	-	-	-	100.0	37.6
Other Taxes less Subsidies on Production	71.2	11.1	-	17.7	0.2	64.1	14.6	-	21.3	0.7
Gross Value Added at basic price	43.5	7.1	7.1	42.3	100.0	43.0	7.9	6.4	42.6	100.0

(a) Based on the GDP estimates (base year 2015)
(b) Provisional
(c) Revised

Source : Department of Census and Statistics

1.2.5 Population, Labour Force and Employment

As estimated by the Registrar General's Department, the mid-year population in Sri Lanka in 2023 declined by 0.6 per cent to 22.037 million, due to a decrease in births and increases in both deaths and net migration. In line with this decline in population, the country's population density decreased to 351 people per square kilometre in 2023 from 354 people per square kilometre recorded in 2022.

As shown in the Sri Lanka Labour Force Survey conducted by the Department of Census and Statistics (DCS), the economically active[8] population (labour force) decreased to 8.408 million in 2023 from 8.547 million recorded in 2022. The Labour Force Participation Rate (LFPR), which is the ratio of the labour force to the household population, also decreased to 48.6 per cent in 2023, compared to 49.8 per cent in 2022.

The unemployment rate remained unchanged at 4.7 per cent in 2023, compared to the previous year, as a combined outcome of the decline in both the unemployed population[9] and labour force during the year. In 2023, the unemployed population decreased marginally to 0.398 million compared to 0.399 million in 2022. Further, the employed population[10] also decreased in 2023 to 8.010 million, compared to 8.148 million in the previous year.

Departures for foreign employment remained high, but recorded a decline of 4.3 per cent to 297,656 in 2023 from 311,056 in 2022. The departures of males and females for foreign employment accounted for 55.3 per cent and 44.7 per cent, respectively, of the total departures for foreign employment during the year.

8 This is the current economically active population, i.e., the number of persons (aged 15 years and above), who are employed or unemployed during the reference one-week period.

9 Persons available and/or looking for work, and who did not work and took steps to find a job during the last four weeks and are ready to accept a job given a work opportunity within next two weeks are said to be unemployed.

10 Persons who worked at least one hour during the reference period, as paid employees, employers, own account workers or contributing family workers are said to be employed. This also includes persons with a job but not at work during the reference period.

Table 1.6

Household Population, Labour Force and Labour Force Participation

Item	2022	2023 (a)
Household Population '000 Persons (b)	17,162	17,306
Labour Force '000 Persons	8,547	8,408
Employed	8,148	8,010
Unemployed	399	398
Unemployment Rate	4.7	4.7
Male	3.7	3.6
Female	6.5	7.0
Labour Force Participation Rate (c)	49.8	48.6
Male	70.5	68.6
Female	32.1	31.3

Source: Department of Census and Statistics

(a) Provisional
(b) Household population aged 15 years and above
(c) Labour force as a percentage of household population

1.2.6 Economic Infrastructure

Power and Energy

Petroleum

Although geopolitical tensions exerted upward price pressures during the latter part of the year, the overall downward trend observed in global prices of crude oil in 2023 together with the appreciation of the Sri Lanka rupee translated into lower domestic prices of petroleum products, compared to 2022. Global crude oil prices recorded declines in 2023, when compared to 2022, largely on account of subdued global demand offsetting voluntary production cuts by OPEC+ countries. Accordingly, the average Brent crude oil price decreased by 17.0 per cent to US dollars 82.22 per barrel in 2023 from US dollars 99.06 per barrel in 2022. In line with this downward trend in global crude oil prices, the annual average import price of crude oil of the Ceylon Petroleum Corporation (CPC) decreased to US dollars 89.60 per barrel in 2023, while the gradual appreciation of the Sri Lanka rupee also supported the decline in import prices in rupee terms. Throughout the year, monthly adjustments were made to domestic prices of petroleum products in line with the cost-reflective pricing formula. Consequently, by the end of the year, the prices of Petrol 92, Auto Diesel, and Kerosene retailed by the CPC recorded overall reductions of 6.5 per cent, 21.7 per cent, and 32.3 per cent, respectively, compared to the end of 2022. However, further reductions were capped due to the imposition of an Excise Duty of Rs. 25.00 per litre, on imports of key refined petroleum products, in two rounds in January and June 2023 by the Government.[11]

Petroleum sales increased in 2023, reflecting the gradual restoration of economic activity in the aftermath of the economic crisis and the improved availability of fuel with the improved foreign currency liquidity status. Sales volumes of petroleum products recorded a year-on-year growth of 7.1 per cent in 2023. Moreover, with the abatement of supply constraints, the Government took measures to relax demand management strategies, which were in place since mid 2022, by increasing the weekly quotas under the National Fuel Pass QR code system in the months of April and May 2023 and subsequently abolishing these quotas with effect from 01 September 2023.

CPC saw a significant turnaround in its financial performance during the year. The implementation of the cost-reflective pricing formula paved the way to improve the financial performance of CPC, with the entity recording a profit of Rs. 120.3 billion in 2023, in comparison to the loss of Rs. 617.6 billion recorded in 2022. At the end of 2022, the Government decided to transfer government guaranteed foreign currency debt stock of CPC amounting to around US dollars 2.5 billion to the government balance sheet as a measure to improve the financial viability of CPC. The CPC's outstanding trade receivables from government entities decreased by Rs. 206.0 billion to stand at Rs. 17.7 billion by the end of December 2023, with the restructuring of the CPC's trade debt receivables from SriLankan Airlines (SLA) and Ceylon Electricity Board (CEB) in December 2023. Meanwhile, the settlement of dues from SLA and CEB enabled CPC to settle its liabilities in relation to the Indian credit line by end December 2023.

Several reforms were undertaken in 2023 to liberalise the domestic petroleum market with the view of improving the competitiveness and efficiency of the petroleum sector in Sri Lanka. In March 2023, the Cabinet of Ministers granted approval to

11 VAT exemptions on major petroleum products of Petrol 92, Petrol 95, Auto Diesel, and Super Diesel were removed with effect from 01 January 2024, while the VAT exemption on Kerosene was continued.

award contracts to three private companies for the importation, storage, distribution, and sale of petroleum products through a predetermined dealer-operated distribution network in Sri Lanka. Accordingly, two foreign suppliers commenced their retail business operations in 2023 and in early 2024. Under the new arrangement, retail prices of petroleum products sold by the CPC, which are determined by the Ministry of Power and Energy through the cost-reflective pricing formula, serve as a ceiling price in the market and new suppliers may determine their prices subject to the same.

Electricity

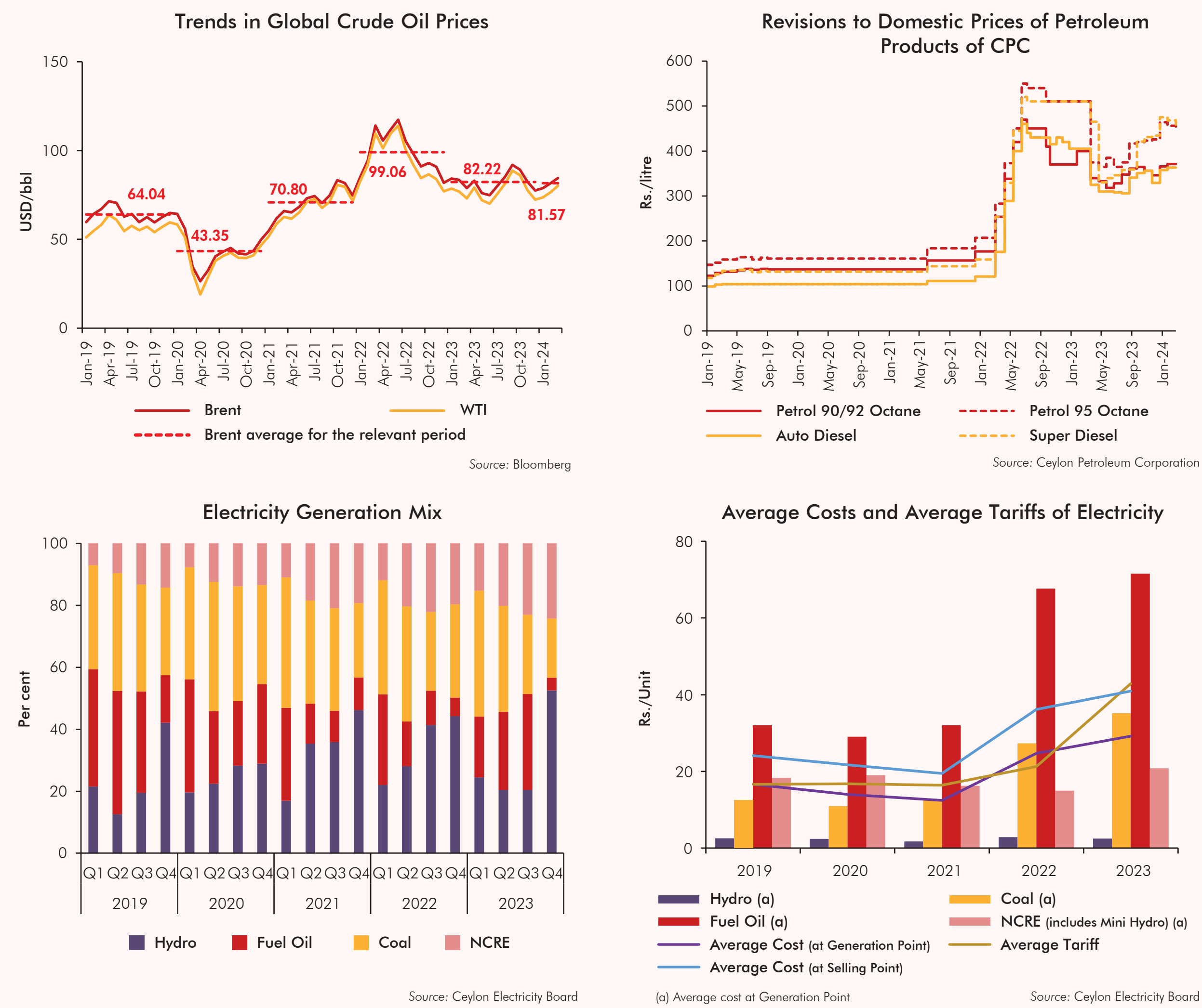
The daily scheduled power cuts that were undertaken from February 2022 as a demand management strategy amidst fuel and coal shortages on account of foreign exchange liquidity crunch and the poor reservoir levels, were phased out and uninterrupted supply of electricity resumed from mid-February 2023, supported by the sufficient availability of thermal sources for electricity generation. Despite the favourable statistical base impact stemming from a low level of electricity generation amidst scheduled power outages in 2022, electricity generation witnessed a year-on-year contraction of 2.2 per cent in 2023. This reflected the weak energy demand in the economy stemming from the combined impact of cost-reflective electricity tariffs and subdued economic activity. The power sector faced pressures during the second and third quarters of 2023 due to the delayed onset of the South-West monsoon as a result of the *El Niño* effect. This resulted in an increased usage of expensive thermal sources for electricity generation. However, this trend reversed towards the end of the third quarter of 2023, with improved reservoir levels amidst unusually high rainfall reported from the latter part of September 2023. During the year, hydro, fuel, coal, and Non-Conventional Renewable Energy (NCRE) sources contributed to 29 per cent, 20 per cent, 30 per cent, and 21 per cent, respectively, of overall electricity generation.

Cost-reflective pricing in electricity resulted in improvements in the financial performance of CEB. In 2023, the Government established a semi-annual tariff revision mechanism to address the financial woes of CEB through cost-reflective pricing. However, due to the volatility in the generation mix, electricity tariffs were revised three times during the year, with two upward revisions in February and October, and a downward revision in July 2023. Accordingly, the average electricity tariff was revised upward by around 66 per cent and 18 per cent, respectively, in February and October 2023, while it was revised downward by around 14 per cent in July 2023. Further, based on these developments, the Government decided to reduce the tariff revision cycle to three months, commencing from the first quarter of 2024. Accordingly, electricity tariffs were revised downward effective from 05 March 2024. Regular tariff revisions contributed to a notable improvement in CEB's cash flow, leading to a sizeable profit of Rs. 61.2 billion in 2023, subsequent to recording continuous losses for around seven years since 2016. This improved financial performance of CEB in 2023 was also supported by the increased share of hydro in total generation, particularly in the latter part of 2023.

The Government initiated several policy measures to reform the domestic power sector with a view to improving its competitiveness and efficiency to cater to emerging demand. Amid the ongoing reforms of State Owned Business Enterprises (SOBEs), the proposed new legislation for the power sector is expected to catalyse necessary reforms within the sector, thereby paving the way for an efficient

Figure 1.6

Energy and Power Sector Developments



While the downward trend in global crude oil prices and appreciation of the Sri Lanka rupee translated into lower domestic prices of petroleum products, electricity tariffs were higher on account of volatilities that were observed in the generation mix during the year.

and financially viable sector that will ensure energy security. Moreover, the Government's priority to diversify energy sources and expand generation capacity through various power projects, especially renewable energy initiatives, which are financed through foreign investments, is expected to facilitate the country's commitment to source 70 per cent of energy from renewable sources by 2030, while enabling the meeting of growing energy demand in a cost-effective and sustainable manner. Recent improvements in the financial performance of CPC and CEB have helped reduce the burden on the fiscal sector to some extent. The improved financial performance of these key SOBEs has, however, reduced their excessive reliance on the financial system. In turn, this is expected to enable the rechannelling of valuable resources of the financial system, that were previously locked in the losses of SOBEs, into productive sectors across the economy. However, the Government's commitment to the continued implementation of cost-reflective pricing along with continued reforms towards diversification, improved competition, and

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transparency across the power and energy sectors will be vital to preventing any crisis in these sectors in the future.

Transport Sector

During the year, transportation activities regained their momentum as fuel availability normalised and economic activity began to recover. The operations of the Sri Lanka Transport Board (SLTB), in terms of operated kilometrage, reported a year-on-year growth of 11.2 per cent, while passenger kilometrage reported a contraction of 4.6 per cent during the year. Meanwhile, both passenger kilometrage and operated kilometrage of private bus operators witnessed notable year-on-year growth rates of 23.7 per cent and 94.3 per cent, respectively, in 2023. In the rail transportation sector, the estimated passenger kilometrage and goods kilometrage recorded year-on-year increases of 6.7 per cent and 15.0 per cent, respectively, in 2023. Across the civil aviation sector, there were 7.5 million passenger movements (excluding transit passengers) in 2023, reflecting a notable year-on-year growth of 35.8 per cent. However, cargo handling recorded a contraction of 5.0 per cent during the year. Meanwhile, the Government continued the restructuring of SLA with the calling for Expressions of Interest from potential investors for the divestiture of SLA in October 2023. The port sector, which experienced a significant setback in early 2023, gathered pace during the period thereafter supported by the gradual relaxation of import restrictions and increased trade activity. Accordingly, container handling and cargo handling activities reported year-on-year growth rates of 1.3 per cent and 3.4 per cent, respectively, while ship arrivals also recorded a year-on-year growth of 18.4 per cent in 2023. This positive performance was also driven by the surge in transshipment volumes due to the diversion of vessels away from the Red Sea, particularly towards the latter part of the year.

Other Developments

Other infrastructure development activities gradually resumed in 2023. The Colombo Port City reached the final stages in relation to Phase I, pertaining to the construction of ground infrastructure, including roads and utilities, and is expected to attain completion by mid-2024. Further, several measures were undertaken during the year to continuously strengthen the legal framework of the Colombo Port City, and a key milestone in this regard was the establishment of the International Commercial Dispute Resolution Centre. Infrastructure development activities in the Port of Colombo pertaining to the East Container Terminal Phase II and West Container Terminal Phase I continued during the year and are expected to enable capacity expansion by around 6 million TEUs by 2027. During the year, through the Urban Infrastructure and Township Development Programme *Siyak Nagara*, the Urban Development Authority completed several regional development projects that sought to convert regional town centres into citizen centric cities, including those in Nuwara Eliya, Kurunegala, and Galle. The National Housing Development Authority took steps to restart the *Mihindupura* housing project under a public-private partnership in 2023. Several water supply projects were completed during the year by the National Water Supply and Drainage Board. Meanwhile, initiatives under the *DIGIECON 2030* programme of the Government were also underway, and these are expected to contribute to the acceleration of Sri Lanka's transformation into a digital economy.

1.2.7 Social Infrastructure

Education

Despite the seeming return to normalcy, inequalities in the education system which were aggravated during the crisis period remain unaddressed. Education sector activities recommenced 'in-person' in 2023 after approximately three years of hybrid learning, with the dissipation of disruptions caused by the COVID-19 pandemic and the economic crisis. The Government continued to conduct all national level exams, despite the delay of an academic year continuing to remain unaddressed resulting in two overlapping batches of students for Grades 11 and 13 with those facing the exam potentially disadvantaged in terms of availability of resources to them from their respective schools. As per the findings of the survey of the DCS, schooling of 54.9 per cent of individuals aged 3-21 years has been affected by the crisis. In light of this, the Government continued to invest in student welfare and subsidy programmes during 2023 with a view to minimising student dropout from school education, and improving access to and participation in quality education. These measures include the continuation of the school meal programme, provision of free textbooks, and free school uniforms and school shoes. However, it must be reiterated that these measures can only mitigate the scarring impact of the aftermath of the crisis on academic outcomes, especially among the vulnerable segments of the population for whom education is of even more importance to break generational cycles of vulnerability and poverty.

Health

The health sector continued to grapple with the burden of both communicable and non-communicable diseases, facing additional financial strains to treat these diseases amid limited resources, necessitating comprehensive strategies and resources for efficient management and prevention of these diseases. In 2023, the number of dengue cases in Sri Lanka increased substantially, with the country reporting its third largest outbreak of 89,799 cases, following the substantially large outbreaks in 2017 (186,101 cases) and 2019 (105,049 cases). Further, Sri Lanka reported 62 imported malaria cases in 2023 raising concerns about a potential malaria resurgence. Recent nutrition related indicators highlight the disconcerting and worsening nutritional status of the country, particularly among children and women, amid existing socioeconomic challenges and particularly among those belonging to vulnerable groups. In this context, authorities continued to provide child nutrition services during the year with the collaboration of development partners in an attempt to curb the long lasting impact of such issues. However, a more comprehensive and better targeted strategy is essential in this regard as the effects of malnutrition are long term and can trap individuals across generations in the vicious circle of poor productivity and thereby, poverty.

Lapses in the health sector are becoming increasingly disconcerting raising serious concerns about the efficacy of the sector. Service delivery in the public health sector had been severely impacted by the economic crisis with the foreign exchange liquidity affecting the procurement of medicines and required equipment, alike. While pressures in this regard have been alleviated to a great extent, issues pertaining to the quality of medicines have been recurring regularly in recent times on account of poor quality controls and the lack of a stringent regulatory mechanism in relation to the same. Further, there are growing concerns of negligence in the provisioning of health services. Both aforementioned developments have resulted in casualties which are reprehensible in light of the country's long standing commitment to universal health care. These developments threaten to underestimate the health outcomes that have been achieved thus far. This underscores the critical need to focus on strengthening the country's healthcare system, as it is an essential pillar of the human capital base of the economy. In addition to urgent prioritisation of adequate budgetary allocations for investments in the health sector, stringent regulatory mechanisms at every stage of the supply chain pertaining to pharmaceutical products and medical equipment are of utmost importance considering that the sector deals with the wellbeing and lives of individuals. The timely implementation of sustainable health financing policy is also an essential measure that needs to be undertaken in the short term. Over the medium term, sustainable healthcare provisioning will hinge on the active encouragement of public-private partnerships in relation to not only service delivery but also other aspects of healthcare provisioning, including infrastructure development, production of medicines and medical equipment and even research and development in this sector. Meanwhile, there is also an urgent need for action to address issues pertaining to the loss of human capital as well as the lack of infrastructure for the production of necessary personnel to ensure that achievements made thus far are not wounded by these recent developments.

Social Safety Nets

Considering the disproportionate and prolonged effect of the economic crisis on vulnerable households, measures were taken to strengthen the country's social safety nets in line with the macroeconomic adjustment programme under the IMF-EFF. Accordingly, the *Aswesuma* welfare benefit scheme was initiated in July 2023 under the purview of the Welfare Benefits Board (WBB) with the intention of replacing the Samurdhi Development Programme. The programme was designed after developing the welfare benefit information system, considering multidimensional parameters, with an improved verification approach to ensure the effective targeting of needy sectors, while providing opportunities for appeals in the event of non-inclusion in the benefit scheme. At the outset, around 1.4 million applicants out of 3.7 million applicants were selected to receive benefits under four major categories, namely, transitional, vulnerable, poor, and severely poor, as classified under the Aswesuma programme. Further, several measures were taken to strengthen the selection criteria, along with data recertification and verification procedures as well as regular reviews, to improve the targeting of the programme. Under this programme, around Rs. 53.8 billion was disbursed in 2023. Meanwhile, the Cabinet granted approval in July 2023 to continue the Samurdhi Subsidy Programme until the appeal process under the new benefit scheme was completed. Accordingly, as at end 2023, the number of beneficiary families under the Samurdhi Programme stood at 363, 214 families compared to 1.7 million families at the beginning of the year. While the Government's efforts to improve the efficacy of social assistance programmes are commendable, the lack of post crisis national statistics on the status of poverty, vulnerability and inequality is disconcerting as it hinders timely poverty alleviation and social assistance efforts.

1.3 Monetary Sector Developments

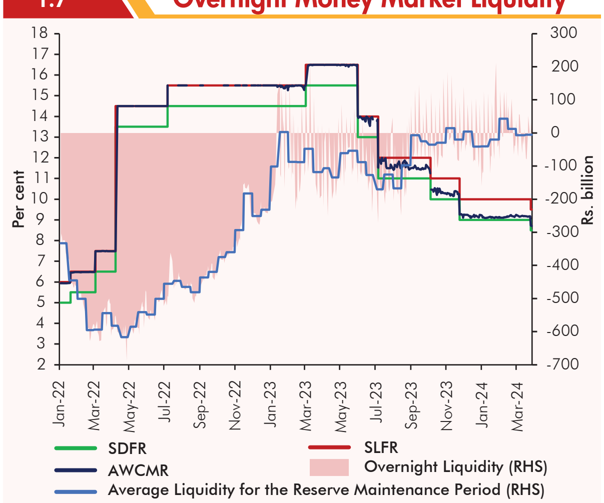
1.3.1 Domestic Money Market Liquidity and Short Term Interest Rates

Overnight liquidity in the domestic money market improved notably in 2023 from deficit levels to broadly balanced levels. Liquidity provision to the market through term reverse repo auctions under open market operations (OMO), in addition to the overnight liquidity provision, in line with the accommodative monetary policy stance and provision of special liquidity assistance to certain licensed banks, which had experienced persistent liquidity deficits were the measures taken by the Central Bank to improve market liquidity. In addition, substantial net purchases of foreign exchange by the Central Bank also released rupee liquidity. Further, the reduction of the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) by 200 basis points to 2.00 per cent with effect from 16 August 2023 injected additional liquidity of around Rs. 200 billion into the domestic money market. Consequently, domestic money market liquidity, which remained in deficit, on average, of around Rs. 450 billion during 2022, improved to an average deficit of around Rs. 70 billion during 2023. Overnight liquidity remained volatile during the period under consideration due to restrictions imposed on the Standing Facilities by the Central Bank.[12] However, the volatility and uncertainty on liquidity are expected to normalise in the period ahead as a result of the removal of the aforementioned restrictions[13] in February/March 2024. The asymmetric distribution of liquidity among LCBs continued, with foreign banks maintaining large liquidity surpluses. In response to the easing of the monetary policy stance[14] and the gradual improvements in domestic money market liquidity conditions, the Average Weighted Call Money Rate (AWCMR),[15] which hovered around the upper bound of the Standing Rate Corridor (SRC) during the period of significantly tight monetary policy, adjusted downwards towards the lower bound of SRC. In turn, this facilitated the overall downward adjustment in the market interest rate structure.

12 Effective from the reserve maintenance period commencing 16 January 2023, the Standing Deposit Facility (SDF) was limited to a maximum of five (5) times per calendar month, while the Standing Lending Facility (SLF) was limited to 90% of the Statutory Reserve Ratio (SRR) of each LCB on any given day.

13 The restrictions on the Standing Facilities were relaxed/ removed in two stages. Initially, with effect from the reserve maintenance period commencing 16 February 2024, the restriction on SLF was removed and the restriction on SDF was relaxed from five times (5) to ten times (10) during a calendar month. Finally, the remaining restriction on SDF was removed with effect from the reserve maintenance period commencing 01 April 2024.

Figure 1.7 Key Policy Interest Rates, AWCMR and Overnight Money Market Liquidity



Source: Central Bank of Sri Lanka

1.3.2 Market Interest Rates

Market interest rates declined significantly in 2023 from notably high levels recorded in 2022. The reduction of market interest rates was driven by the accommodative monetary policy measures implemented since June 2023, supported by several other factors.[16] Administrative measures and moral suasion that targeted the reduction of excessive market interest rates supported by the rapid disinflation process and moderation of inflation expectations, and the decrease in risk premia attached to yields on government securities following the Domestic Debt Optimisation (DDO) operation are other important factors that contributed to the broad based reduction in market lending rates. The administrative measures introduced in August 2023 to reduce excessive lending interest rates, and broader guidelines that were introduced to induce a gradual reduction in other market lending

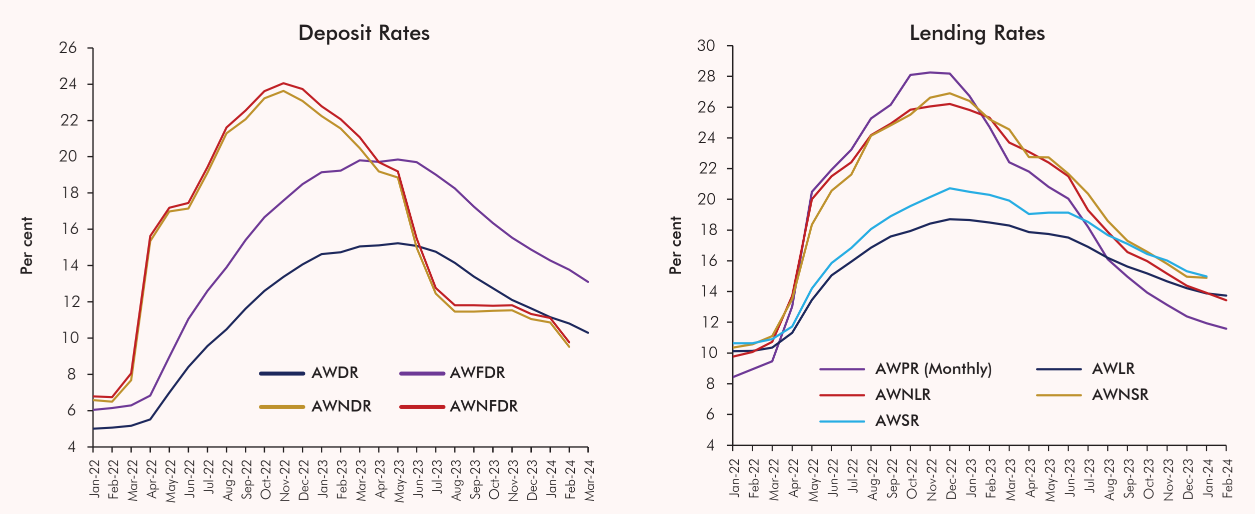
14 Since the commencement of the monetary policy easing cycle in June 2023, policy interest rates of the Central Bank were reduced by 650 basis points in 2023, and a further 50 basis points thus far in 2024, totalling a cumulative reduction of 700 basis points.

15 The short term interest rate closely monitored by the Central Bank as the operating target to guide the market interest rates under the Flexible Inflation Targeting (FIT) framework.

16 The Central Bank increased its policy interest rates by 100 basis points in March 2023 marking it as the last policy interest rate hike in the tight monetary policy cycle which started in August 2021.

interest rates on rupee loans and advances during the latter part of the year resulted in a decline in market lending rates reflecting an appreciable passthrough. Market lending interest rates displayed some downward stickiness as yields on government securities remained at relatively elevated levels. The interest rates based on the outstanding stock of interest bearing rupee deposits held with LCBs (Average Weighted Deposit Rate (AWDR) and Average Weighted Fixed Deposit Rate (AWFDR)) declined by a range of 2.42 – 3.61 percentage points, while the interest rates on new interest-bearing rupee deposits mobilised by LCBs (Average Weighted New Deposit Rate (AWNDR) and Average Weighted New Fixed Deposit Rate (AWNFDR)) during a particular month declined by a range of 12.01 – 12.40 percentage points during 2023. Lending rates, particularly interest rates applicable on short term rupee loans and advances granted by LCBs to their prime customers during a particular week (Average Weighted Prime Lending Rate (AWPR)), which is one of the benchmark interest rates in the retail market, declined notably by 15.11 percentage points in 2023. Meanwhile, the lending interest rate based on all outstanding rupee loans and advances extended by LCBs (Average Weighted Lending Rate (AWLR)), and the lending interest rate based on all new rupee loans and advances extended by LCBs (Average Weighted New Lending Rate (AWNLR)) during a particular month declined by 4.49 and 11.82 percentage points, respectively, in 2023. The interest rates applicable on loans to Small and Medium Sized Entrepreneurs (SMEs) also declined during the year in line with the moderation of other market lending interest rates. Accordingly, the interest rate based on all outstanding rupee loans and advances extended by licensed banks to the SME sector (Average Weighted SME Lending Rate (AWSR)) and the interest rate based on all new rupee loans and advances extended by licensed banks during a particular month to the SME sector (Average Weighted New SME Lending Rate (AWNSR)) declined by 5.40 and 11.95 percentage points, respectively. Although, there was an overall reduction in lending interest rates to SMEs, interest rates charged from SMEs remained relatively high, particularly for smaller loans, due to the nature of lending and risks associated.

Figure 1.8 **Movement of Selected Market Interest Rates**



Source: Central Bank of Sri Lanka

The downward trend in market interest rates continued in early 2024, highlighting the space available for market interest rates to decline further in response to accommodative monetary conditions. In spite of these developments, real market interest rates remained positive, given the low level of inflation, indicating that monetary conditions from an interest rate perspective remained somewhat tight. Meanwhile, interest rates offered on foreign currency deposits recorded a moderation during 2023 compared to the previous year owing to improvements in foreign exchange balances in the banking sector supported by inflows from the merchandise and services sector exports as well as workers' remittances, although the global stance of monetary policy remained tight.

Yields on government securities, which declined notably with the announcement of the DDO operation in July 2023, reduced further underpinned by the easing of monetary policy and the gradual dissipation of risk premia associated with government securities. Further, fiscal consolidation efforts and improvement in government revenue, the buildup of buffer funds for cashflow operations by the Government, the deceleration of inflation and reduction in inflation expectations, and improved market sentiments also supported the normalisation of yields on government securities. Accordingly, yields on Treasury bills across all maturities decreased by 16.34 – 18.13 percentage points during 2023, while Treasury bond yields also moderated. In the meantime, the secondary market yield curve, which had shown unusual movements since April 2022 triggered by uncertainties that arose from domestic debt restructuring concerns and the heightened borrowing requirement of the

Table 1.7

Movements of Interest Rates

Per cent per annum

Interest Rate	End 2022	End 2023	Change in % pts
Key Policy Interest Rates			
Standing Deposit Facility Rate (SDFR)	14.50	9.00	-5.50
Standing Lending Facility Rate (SLFR)	15.50	10.00	-5.50
Average Weighted Call Money Rate (AWCMR)	15.50	9.24	-6.26
Yield Rates on Government Securities			
Primary Market (a)			
Treasury bills			
91-day	32.64	14.51	-18.13
182-day	32.20	14.16	-18.04
364-day	29.27	12.93	-16.34
Treasury bonds			
2-year	33.01 (b)	13.87 (c)	-19.14
3-year	31.36 (b)	14.07 (c)	-17.29
4-year	-	14.21 (c)	-
5-year	31.78 (b)	14.32 (c)	-17.46
10-year	30.86 (b)	-	-
Secondary Market			
Treasury bills			
91-day	30.75	14.13	-16.62
182-day	29.50	13.86	-15.64
364-day	28.39	12.71	-15.68
Treasury bonds			
2-year	28.19	13.52	-14.67
3-year	28.32	13.62	-14.70
4-year	27.60	13.66	-13.94
5-year	26.78	13.74	-13.04
10-year	26.18	13.10	-13.09
Interest Rates on Deposits			
Licensed Commercial Banks (d)			
Savings Deposits	0.25-6.00	0.25-13.00	-
1 Year Fixed Deposits (e)	4.50-30.00	1.00-22.00	-
AWDR (f)	14.06	11.64	-2.42
AWFDR (f)	18.49	14.88	-3.61
AWNDR (f)	23.07	11.06	-12.01
AWNFDR (f)	23.73	11.33	-12.40
Other Financial Institutions (g)			
National Savings Bank			
Savings Deposits	3.00	3.00	-
1 Year Fixed Deposits	12.00	8.00	-4.00
Licensed Finance Companies (h)			
Savings Deposits	4.63-8.03	4.33-6.62	-
1 Year Fixed Deposits	20.48-27.15	11.88-13.56	-
Interest Rates on Lending			
Licensed Banks (i)			
AWSR	20.73	15.33	-5.40
AWNSR	26.91	14.96	-11.95
Licensed Commercial Banks (d)			
AWPR (Monthly)	28.19	12.39	-15.80
AWLR	18.70	14.21	-4.49
AWNLR	26.20	14.38	-11.82
Licensed Specialised Banks (g)			
National Savings Bank	28.00-32.00	15.00-20.00	-
State Mortgage and Investment Bank (j)	18.00-27.25	9.50-21.00	-
Licensed Finance Companies (h)			
Finance Leasing	21.53-35.37	14.98-32.48	-
Loans against Immovable Properties	26.80-28.43	14.18-23.86	-
Corporate Debt Market			
Debentures	15.42-28.00	13.50-29.50	-
Commercial Papers	11.00-36.00	17.00-26.50	-

(a) Weighted average yield rates at the latest available auction
(b) Last primary auction during 2022:
2 yr - 13 Dec | 3 yr - 29 Dec |
5 yr - 28 Oct | 10 yr - 11 Nov
(c) Last primary auction during 2023:
2 yr - 28 Dec | 3 yr - 12 Dec | 4 yr - 28 Dec | 5 yr - 12 Dec
(d) Based on the rates quoted by LCBs
(e) Maximum rate is a special rate offered by certain LCBs
(f) Since July 2018, AWDR and AWFDR were calculated by replacing senior citizens' special deposit rate of 15% with relevant market interest rates to exclude the impact of special rates. Same method was applied to calculate AWNDR and AWNFDR since June 2018. However, senior citizens' special deposit rate of 15% was discontinued from 01.10.2022.
(g) Based on the rates quoted by other selected Financial Institutions
(h) Interest rate ranges are based on the average maximum and average minimum rates quoted by LFCs which are applicable for deposits mobilised and loans granted during the respective months. Data for 2023 are provisional
(i) Based on the rates quoted by LCBs and LSBs
(j) Lending for housing purposes only

Sources: Respective Financial Institutions
Colombo Stock Exchange
Central Bank of Sri Lanka

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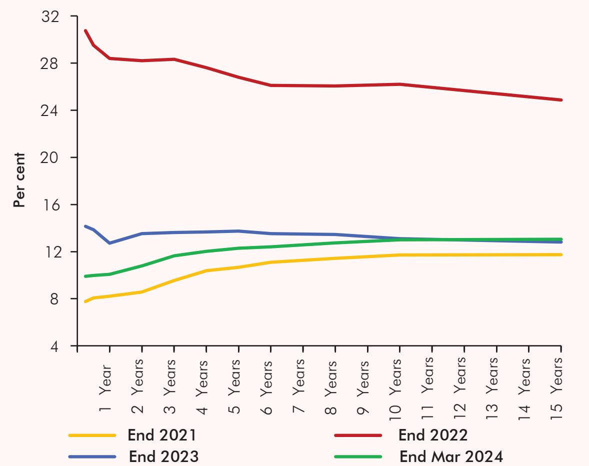
Figure 1.9 Secondary Market Yield Curve for Government Securities



Source: Central Bank of Sri Lanka

Government, continued to exhibit a double humped inverted yield curve during the most part of 2023. However, with the moderation of yields on government securities following the DDO operation and improved fiscal outturn, it transitioned to a normal upward sloping yield curve since early 2024.

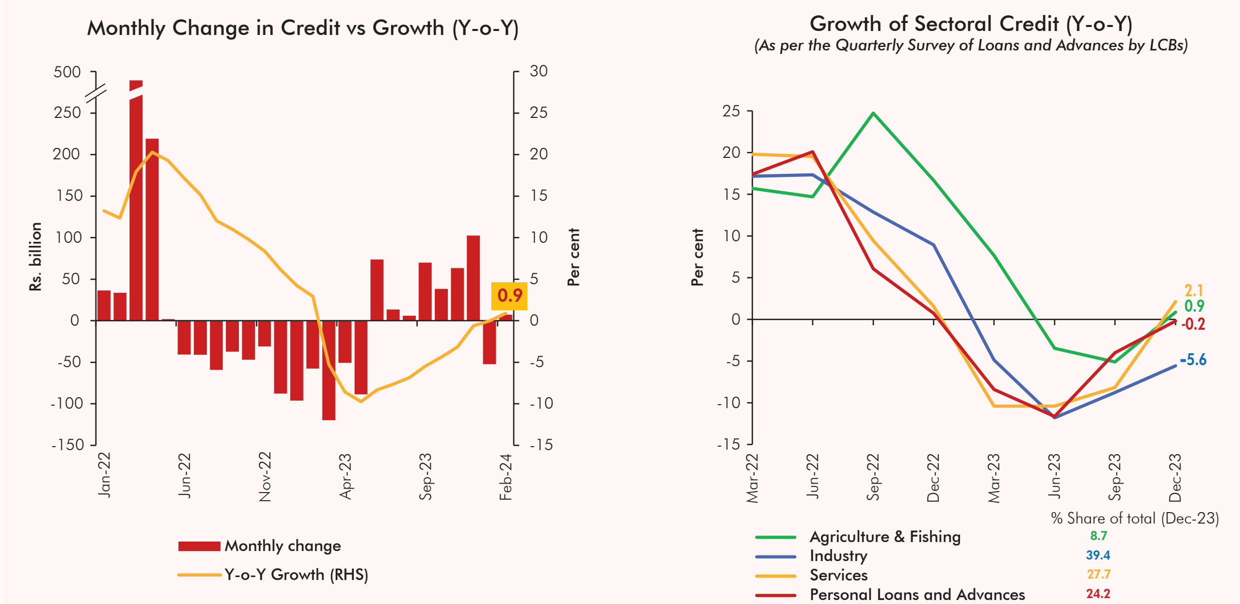
1.3.3 Credit Aggregates

The turnaround of credit to the private sector by LCBs recorded in June 2023 ended the longest streak of monthly contractions of credit to the private sector. The turnaround was supported by the gradual relaxation of the monetary policy stance and improvements in economic activity and market sentiments. Accordingly, the cumulative increase in outstanding credit to the private sector by LCBs during June-December 2023 was Rs. 367.4 billion. Despite the recovery during the second half of 2023, credit to the private sector by LCBs recorded a cumulative contraction of Rs. 45.0 billion during 2023, registering a year-on-year contraction of 0.6 per cent by end 2023 compared to the growth of 6.2 per cent (year-on-year) recorded at end 2022. However, the increasing trend in credit to the private sector by LCBs experienced an unexpected monthly contraction in January 2024 (a contraction of Rs. 52.2 billion) partly due to the advancing of spending in view of the implementation of VAT adjustments effective January 2024 and the settlement of short term borrowings obtained by businesses during the end-year festive season. Further, the valuation impact arising from the appreciation of the Sri Lanka rupee exacerbated the contraction in January 2024. Nevertheless, credit to the private sector expanded in February 2024 to some extent and is anticipated to expand in the period ahead, aligning with the envisaged further reduction in market interest rates and improvements in economic activity. Meanwhile, credit to the private sector by Licensed Specialised Banks (LSBs) contracted by Rs. 32.9 billion during 2023, recording a year-on-year contraction of 2.8 per cent by end 2023 amidst relatively tight liquidity conditions of those banks and comparatively high interest rates. Private sector credit by Licensed Finance Companies (LFCs) also contracted by Rs. 24.2 billion during 2023, recording a year-on-year contraction of 1.8 per cent by the end of 2023.

Credit to the major sectors of the economy[17] suffered contractions during the first half of 2023 but commenced recovering thereafter. During the year, an improvement was observed in credit extended to productive sectors, excluding credit to the Industry sector, which experienced a setback. Accordingly, on a year-on-year basis, credit to the Agriculture and Services sectors grew by 0.9 per cent and 2.1 per cent, respectively, during 2023. Within the Agriculture sector, the tea, paddy, and fisheries subsectors recorded credit expansions during the year, reflecting a broad based expansion in

17 Findings are based on the Quarterly Survey on Loans and Advances extended to the Private Sector by LCBs.

Figure 1.10 Credit Extended to the Private Sector by LCBs



Source: Central Bank of Sri Lanka

agriculture activities. In the Services sector, the wholesale and retail trade, communication and information technology, and shipping, aviation and freight forwarding subsectors recorded expansions in credit during the year, showing signs of a rebound in service related economic activity in the economy. However, credit granted to the Industry sector remained weak on account of the construction subsector being severely affected by the lack of government and private sector projects stemming from fiscal constraints, rising raw material prices, and associated finance costs due to the high interest rate environment in 2022 and early 2023. A contraction in credit was also observed across the textiles and apparel, and food and beverages subsectors, followed by some recovery during the second half of the year. However, on a year-on-year basis, credit to the Industry sector contracted by 5.6 per cent in 2023. Meanwhile, credit extended in the form of personal loans and advances suffered a marginal contraction of 0.2 per cent in 2023, although a resumption was observed in the second half of the year driven by the substantial increase in pawning related credit, which has been growing continuously since the onset of COVID-19.

Credit obtained by SOBEs from the banking system contracted in 2023, in contrast to the notable expansion recorded during 2022. Credit to SOBEs by LCBs contracted by Rs. 979.9 billion during 2023 mainly due to the Government taking over the government guaranteed foreign currency debt obligations of CPC, provided by LCBs, and improved financial performance of key SOBEs following the implementation of cost-reflective price adjustments thus reducing their reliance on bank financing.

Net Credit to the Government (NCG) by LCBs continued to increase in 2023 as the banking system was one of the main sources of domestic financing of the Government. NCG by the banking system

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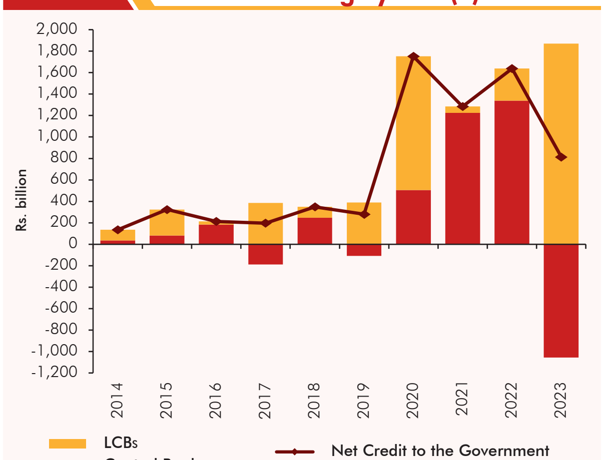
increased by Rs. 813.9 billion during 2023 but remained lower than the expansion recorded during 2022 (an expansion of Rs. 1,638.7 billion). NCG by LCBs recorded an increase of Rs. 1,870.1 billion during the year reflecting the increase in investments in government securities by LCBs amidst the reduction in credit provided to the private sector, and the transfer of government guaranteed outstanding foreign currency debt of CPC to the Government. In contrast, NCG by the Central Bank recorded a significant reduction of Rs. 1,056.3 billion during 2023 mainly due to the offloading of Treasury bills held by the Central Bank and reduction in the use of SLF of the Central Bank by LCBs with the gradual improvements of the liquidity position of LCBs. The reduction in NCG by the Central Bank was partly due to the restrictions on monetary financing introduced in the Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA), which prohibited monetary financing and created a commitment to reduce the government securities holding of the Central Bank. Meanwhile, the expansion of NCG based on the Financial Survey (M_4)[18] amounted to Rs. 1,038.6 billion during 2023, of which Rs. 140.7 billion was through LSBs and Rs. 84.0 billion was through LFCs.

Figure 1.11 Annual Change in NCG from the Banking System (a)



(a) With the approval of the Cabinet of Ministers at its meeting held on 30 January 2023, the outstanding foreign currency guaranteed debt of CPC was absorbed into central government debt with effect from December 2022. Accordingly, this adjustment was implemented in two phases, first in April 2023 and subsequently in December 2023, hence, was reflected in the balance sheets of the particular state owned commercial banks, which caused a reduction in credit to public corporations/ SOBEs and a corresponding expansion in NCG.

Source: Central Bank of Sri Lanka

1.3.4 Money Aggregates

Reserve money recorded a marginal contraction in 2023, although high volatility was observed in its levels since early 2023 due to the impact of administrative measures taken by the Central Bank to reduce the overdependence of LCBs on the standing facilities of the Central Bank. The restricted access to Standing Deposit Facility (SDF) resulted in LCBs maintaining large excess reserves with the Central Bank at irregular intervals. This created daily volatility in LCBs' deposits with the Central Bank causing reserve money to be volatile. With the reduction in SRR by 200 basis points in August 2023, LCBs' deposits with the Central Bank declined notably, although volatility continued as restrictions were still in force during 2023. Meanwhile, currency in circulation, which declined significantly after the festival season of April 2023, recorded some expansion towards end June 2023, mainly reflecting the uncertainties surrounding the DDO operation. However, with the public gaining greater clarity on DDO, a return of currency to the banking system was observed since mid-July 2023, albeit moderately. As in the past, currency in circulation increased notably towards the end of the year due to festive demand, although part of the seasonal demand for currency returned to the banking system. However, currency in circulation continued to increase thereafter as the preference to hold currency remained elevated as recent tax related measures are likely to have increased cash based transactions,

18 The Financial Survey provides a broader measure of money supply, covering all deposit taking institutions, including LSBs and LFCs, in addition to LCBs and the Central Bank.

Table 1.8

Developments in Money Aggregates

Rs. billion

Item	End 2019	End 2020	End 2021	End 2022	End 2023 (a)
1. Reserve Money	933	964	1,306	1,349	1,329
(% change Y-o-Y)	-3.0	3.4	35.4	3.3	-1.5
Net Foreign Assets of the Central Bank	896	527	-387	-1,614	-837
Net Domestic Assets of the Central Bank	37	438	1,693	2,963	2,166
2. Narrow Money (M_1)	865	1,177	1,460	1,454	1,658
(% change Y-o-Y)	4.2	36.0	24.0	-0.4	14.1
3. Broad Money (M_{2b})	7,624	9,406	10,647	12,290	13,189
(% change Y-o-Y)	7.0	23.4	13.2	15.4	7.3
3.1 Net Foreign Assets (NFA)	101	-209	-982	-1,767	-456
Monetary Authorities (b)	896	527	-387	-1,614	-837
Licensed Commercial Banks (LCBs)	-795	-736	-595	-153	381
3.2 Net Domestic Assets (NDA)	7,523	9,615	11,629	14,056	13,645
Domestic credit	9,411	11,721	14,002	16,632	16,421
Net Credit to the Government (NCG)	2,796	4,548	5,832	7,471	8,285 (c)
Central Bank	363	869	2,094	3,432	2,376
Licensed Commercial Banks (LCBs)	2,433	3,679	3,738	4,039	5,909
Credit to Public Corporations / SOBEs	818	1,002	1,188	1,750 (d)	770 (c)
Credit to the Private Sector	5,797	6,171	6,981	7,411 (d)	7,366
(% change Y-o-Y)	4.2	6.5	13.1	6.2	-0.6
Other Items (net)	-1,887	-2,106	-2,373	-2,576	-2,776
4. Broad Money (M_4)	9,445	11,462	12,985	14,840	15,829
(% change Y-o-Y)	8.2	21.4	13.3	14.3	6.7
4.1 Net Foreign Assets (NFA)	89	-217	-999	-1,767	-456
Monetary Authorities (b)	896	527	-387	-1,614	-837
Licensed Commercial Banks (LCBs)	-795	-736	-595	-153	381
Licensed Specialised Banks (LSBs)	-12	-8	-17	0	0
4.2 Net Domestic Assets (NDA)	9,356	11,679	13,984	16,607	16,285
Net Credit to the Government (NCG)	3,483	5,366	6,769	8,469	9,507 (c)
Central Bank	363	869	2,094	3,432	2,376
Licensed Commercial Banks (LCBs)	2,433	3,679	3,738	4,039	5,909
Licensed Specialised Banks (LSBs)	614	742	845	881	1,022
Licensed Finance Companies (LFCs)	73	75	92	116	200
Credit to Public Corporations / SOBEs by (LCBs)	818	1,002	1,188	1,750 (d)	770 (c)
Credit to the Private Sector	7,793	8,285	9,339	9,917 (d)	9,815
(% change Y-o-Y)	3.9	6.3	12.7	6.2	(1.0)
Licensed Commercial Banks (LCBs)	5,797	6,171	6,981	7,411 (d)	7,366
Licensed Specialised Banks (LSBs)	814	936	1,094	1,159	1,126
Licensed Finance Companies (LFCs)	1,182	1,177	1,264	1,347	1,323
Other items (net)	-2,738	-2,973	-3,312	-3,529	-3,807
Memorandum Items:					
Money Multiplier (M_{2b})	8.18	9.75	8.15	9.11	9.93
Velocity (M_{2b} average) (e)	2.16	1.84	1.73	2.04 (d)	2.19

(a) Provisional

(b) This includes NFA of the Central Bank as well as the Government's Crown Agent's balance reported by the Department of State Accounts

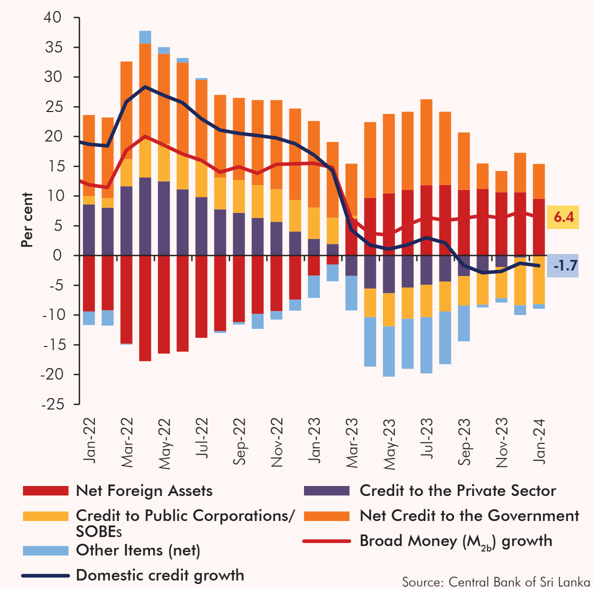
(c) With the approval of the Cabinet of Ministers at its meeting held on 30 January 2023, the outstanding foreign currency guaranteed debt of the Ceylon Petroleum Corporation (CPC) was absorbed into central government debt with effect from December 2022. Accordingly, this adjustment was implemented in two phases, first in April 2023 and subsequently in December 2023, hence, was reflected in the balance sheets of the particular state owned commercial banks, which caused a reduction in credit to Public Corporations/ SOBEs and a corresponding expansion in Net Credit to the Government (NCG).

(d) Revised

(e) Based on rebased GDP estimates (base year 2015) by the Department of Census and Statistics

Source: Central Bank of Sri Lanka

Figure 1.12 Contribution to Y-o-Y Growth of Broad Money (M_{2b})



Source: Central Bank of Sri Lanka

together with lower opportunity cost of holding currency due to reduced deposit interest rates. Accordingly, reserve money contracted marginally to Rs. 1,328.7 billion by end 2023, recording a year-on-year contraction of 1.5 per cent. Meanwhile, with the relaxation of the restrictions imposed on the standing facilities in February and March 2024, the volatility of daily reserve money reduced somewhat.

On the assets side of the Central Bank's balance sheet, a contraction of reserve money was recorded during 2023 entirely due to the contraction in Net Domestic Assets (NDA) of the Central Bank surpassing the expansion of its Net Foreign Assets (NFA) during the year. NDA of the Central Bank declined by Rs. 797.2 billion during 2023 mainly due to the decline in net claims on the Government, particularly the decline in the government securities holdings of the Central Bank (net of repo). Nevertheless, this decline was somewhat negated as retained earnings turned negative from September 2023 as a result of accounting for the upfront day one loss incurred following DDO, and reduction in the SDF placements by LCBs, which led to the expansion of other items (net). Meanwhile, NFA of the Central Bank, which turned negative in August 2021, gradually improved in 2023, reflecting the combined effect of increased foreign assets with the accumulation of foreign reserves and decreasing foreign liabilities of the Central Bank. During 2023, NFA of the Central Bank improved by Rs. 776.5 billion, albeit remaining negative by the end of the year.

Despite the expansions recorded in NCG and NFA of the banking system, the growth of broad money (M_{2b}) supply remained moderate during 2023 mainly due to the contractions recorded in credit extended by LCBs to the private sector and SOBEs. NFA of the banking system improved notably by Rs. 1,310.7 billion during 2023 due to the decline in foreign liabilities and the build-up of foreign assets, reflecting an improvement in external sector performance and gross official reserves (GOR). Settlement of foreign currency liabilities by the Central Bank as well as LCBs, helped reduce foreign currency liabilities of the banking system, while the receipts from multilateral agencies as well as the retention of foreign exchange within the banking system due to lower demand for foreign exchange augmented the foreign currency assets of the banking system. Accordingly, driven by these developments, the year-on-year growth of broad money (M_{2b}) decelerated gradually to 7.3 per cent by end 2023 and further to 6.4 per cent by end January 2024 from 15.4 per cent at end 2022. On the liabilities side of M_{2b}, the increase in time and savings deposits held by the public with LCBs contributed 77 per cent to the year-on-year expansion of M_{2b} during 2023. Meanwhile, an expansion of currency and demand deposits held by the public with

LCBs was also recorded during 2023, partly due to increased holdings of currency and demand deposits amidst increased cost of living and declining interest rates which reduced the opportunity cost of holding currency and demand deposits. Following the similar trend observed in M_{2b}, the growth of M_4 broad money supply, as measured by the Financial Survey, remained moderate during 2023.

1.4 External Sector Developments

Sri Lanka's external sector rebounded strongly in 2023 and demonstrated greater stability, having recorded positive developments on many fronts towards the latter part of the year. The commencement of the IMF-EFF programme in March 2023 and its successful continuation thus far have been instrumental in achieving stability in the external sector. The external current account recorded a surplus in 2023. This was supported by the notable contraction in the trade deficit and significant inflows in terms of services exports and workers' remittances. The merchandise trade deficit for 2023 recorded its lowest since 2010, supported by a larger contraction in import expenditure than that of export earnings. The increase in services account surplus is mainly attributed to the notable improvement in earnings from tourism with the robust recovery in tourist arrivals after facing repeated challenges over the past four years. The deficit in the primary income account, compiled on an accrual basis, widened in 2023 due to higher interest payments on foreign loans, including arrears. Further, workers' remittances recorded a notable improvement as a result of continuous departures for foreign employment and higher inflows through official channels. On the other hand, the financial account performance

Table 1.9 **Current and Capital Account**

Item	USD million 2022 (a)	USD million 2023 (b)
Current Account (net)	**-1,448**	**1,559**
Receipts	20,228	23,780
Payments	21,677	22,221
Trade Balance	**-5,185**	**-4,900**
Exports	13,106	11,911
Imports	18,291	16,811
Services (net)	**2,110**	**3,404**
Receipts	3,062	5,416
Of which;		
Transport	676	1,550
Travel	1,136	2,068
Computer Services	1,066	795
Construction Services	9	355
Payments	953	2,012
Of which;		
Transport	333	732
Travel	244	152
Computer Services	133	198
Construction Services	11	111
Primary Income (net)	**-1,870**	**-2,564**
Receipts	266	463
Compensation of employees	30	53
Investment Income	237	410
Direct Investment	15	12
Portfolio Investment	-	-
Other Investment	217	349
Payments	2,136	3,027
Compensation of employees	69	30
Investment Income	2,068	2,997
Direct Investment	549	888
Portfolio Investment	778	866
Other Investment	741	1,243
Secondary Income (net)	**3,496**	**5,619**
Receipts	3,793	5,989
Of which;		
Workers' Remittances	3,789	5,970
Payments	296	371
Capital Account (net)	**19**	**63**
Receipts	38	94
Payments	19	31
Current and Capital Account (net)	**-1,429**	**1,622**
As a Percentage of GDP		
Trade Balance	-6.7	-5.8
Goods and Services	-4.0	-1.8
Current Account	-1.9	1.8

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

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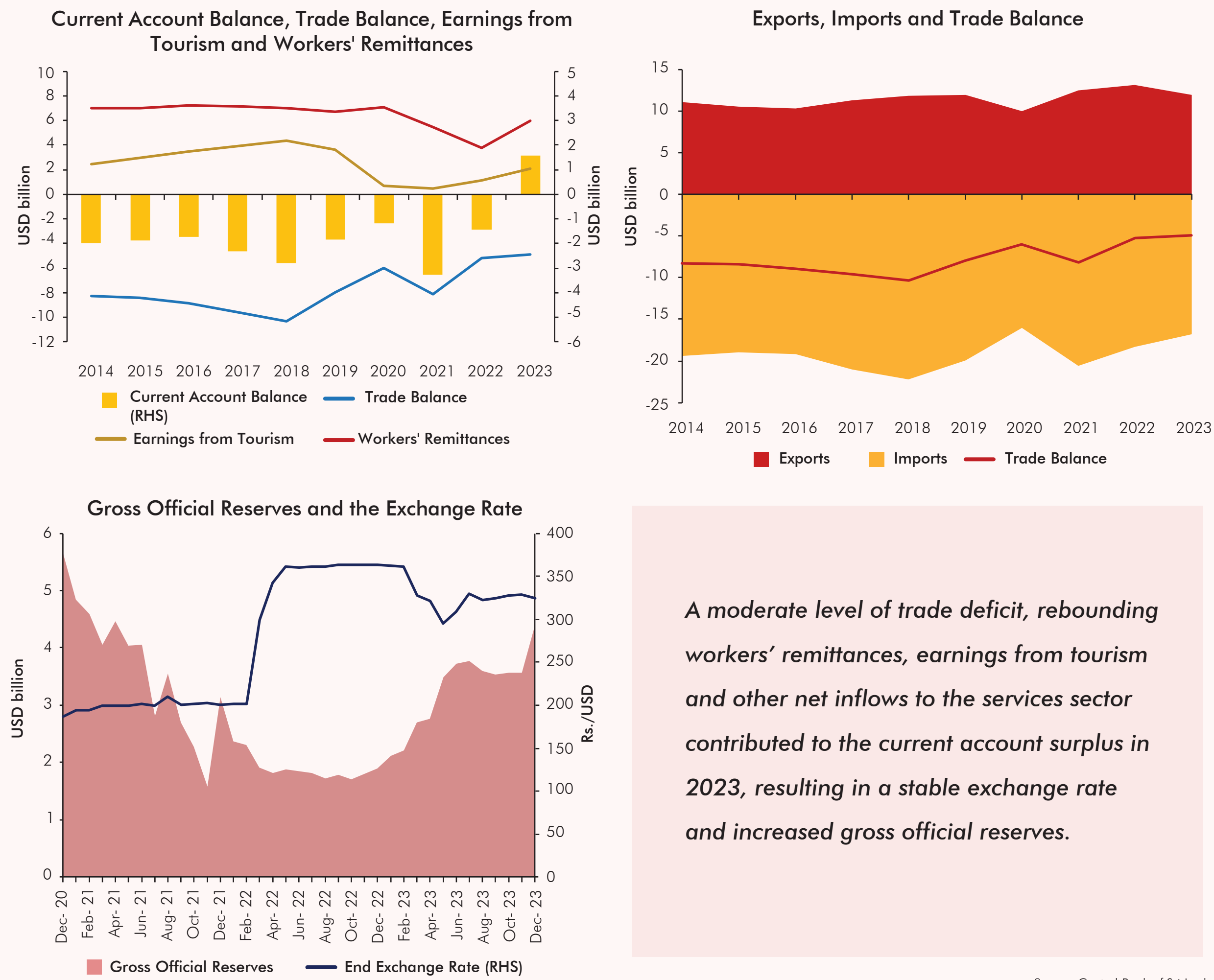
Figure 1.13

Highlights of the External Sector



A moderate level of trade deficit, rebounding workers' remittances, earnings from tourism and other net inflows to the services sector contributed to the current account surplus in 2023, resulting in a stable exchange rate and increased gross official reserves.

Source: Central Bank of Sri Lanka

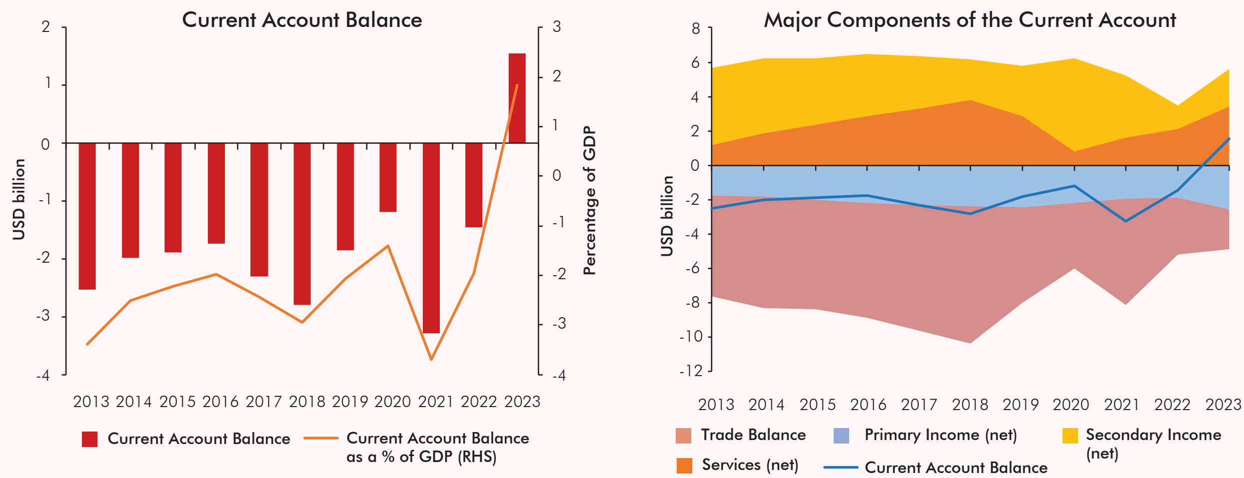
remained subdued with modest foreign direct investment (FDI) inflows. However, foreign investments in the government securities market and the stock market recorded net inflows in 2023. Meanwhile, notable net forex purchases by the Central Bank from the domestic forex market, disbursements under the IMF-EFF, and foreign financing from multilateral agencies such as the World Bank and the Asian Development Bank (ADB) helped augment GOR substantially by end 2023. As opposed to the significant depreciation recorded in 2022, the Sri Lanka rupee appreciated notably during 2023 due to improved liquidity conditions and market sentiments in the domestic foreign exchange market.

1.4.1 Balance of Payments

Current and Capital Account

The external current account recorded a surplus of US dollars 1,559 million in 2023, compared to a deficit of US dollars 1,448 million in 2022. This surplus was mainly driven by a lower trade deficit of US dollars 4.9 billion in 2023, compared to a trade deficit of US dollars 5.2 billion recorded in 2022, improved trade in services, particularly earnings from tourism, and a higher surplus in the secondary income account, despite a notable widening of the primary income account deficit.

Figure 1.14 **Current Account Balance and its Composition**



Source: Central Bank of Sri Lanka

Merchandise Trade Account

The merchandise trade deficit for 2023 reached its lowest level since 2010, largely driven by a notable decline in import expenditure relative to the decline observed in export earnings. Export earnings dipped in 2023, with a sizeable contraction of industrial exports, driven by garment exports. Meanwhile, a significant drop in import expenditure was observed due to subdued economic activity, lower disposable income, import restrictions, and tight monetary and fiscal conditions. Accordingly, the deficit in the trade account narrowed to US dollars 4,900 million compared to US dollars 5,185 million recorded in 2022. As a percentage of GDP, the trade deficit narrowed to 5.8 per cent in 2023 from 6.7 per cent in 2022. Terms of trade, i.e., the ratio of the price of exports to the price of imports, deteriorated marginally, since both export and import unit value indices deteriorated close to similar levels in 2023, compared to 2022. Meanwhile, total trade, i.e., the total of export earnings and import expenditure, declined significantly by 8.5 per cent (year-on-year) in 2023.

Table 1.10 **Summary of Merchandise Trade Performance**

Category	2022 Value (USD million)	2023 Value (USD million)	Y-o-Y Change %
Exports	**13,106.4**	**11,910.7**	**-9.1**
Industrial	10,465.3	9,277.7	-11.3
Agricultural	2,568.0	2,566.5	-0.1
Mineral	50.0	38.5	-23.1
Unclassified	23.2	28.0	20.8
Imports	**18,291.0**	**16,811.1**	**-8.1**
Consumer	2,813.0	3,043.9	8.2
Food and beverages	1,607.9	1,693.0	5.3
Non-food consumer	1,205.1	1,350.9	12.1
Intermediate	12,438.8	11,006.6	-11.5
Investment	3,030.5	2,744.6	-9.4
Unclassified	8.8	16.0	82.9
Trade Balance	**-5,184.6**	**-4,900.4**	
Total Trade	**31,397.4**	**28,721.8**	**-8.5**

Sources: Sri Lanka Customs
Petroleum Exporters and Importers
National Gem and Jewellery Authority
Central Bank of Sri Lanka

Export Performance

The performance of merchandise exports was subdued in 2023. Earnings from exports recorded US dollars 11,911 million in 2023, which declined by 9.1 per cent compared to 2022. This decline was influenced by global factors, including high cost of living and economic downturn in major export destinations and geopolitical tensions, which resulted in reduced demand for Sri Lankan exports. On the other hand, domestic factors, such as higher operating expenses and supply constraints of intermediate goods adversely impacted the overall competitiveness of exports. Further, as a percentage of GDP, export earnings in 2023 declined to 14.1 per cent from 17.1 per cent in 2022.

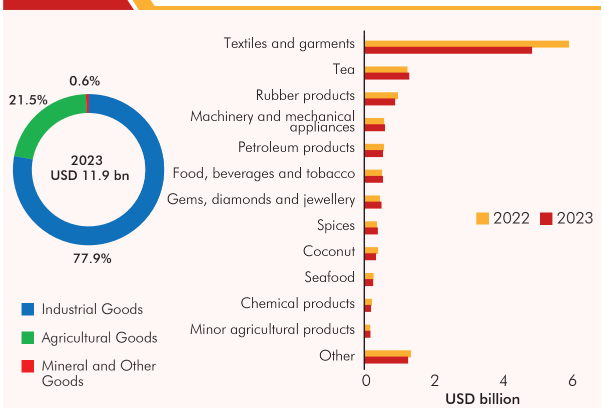
The decline in industrial exports largely contributed to the contraction in export earnings, though the decline was broad-based. The export of textiles and garments, the single largest export of Sri Lanka, registered an 18.0 per cent decline in 2023 compared to 2022, thereby emerging as a key contributor to the overall decline in exports. A notable decline was observed in petroleum product exports in 2023, attributed to the lower prices of bunker and aviation fuel. Earnings from most other industrial goods also experienced subdued performance. However, gems, diamonds and jewellery, transport equipment and machinery, and mechanical appliances exports recorded a growth in 2023. Meanwhile, agricultural exports reported a marginal dip in earnings in 2023 compared to 2022. Of the agricultural exports, the increases in mainly tea, spices, and unmanufactured tobacco were offset by weaker performances in coconut, rubber, and seafood exports. The notable increase in earnings from tea exports reflected higher export prices despite a decline in export volumes. Mineral exports recorded a decline compared to 2022, led by lower titanium ores exports in 2023.

Import Performance

A notable contraction in import expenditure was observed in 2023. Expenditure on imports declined by 8.1 per cent to US dollars 16,811 million in 2023 compared to 2022, driven by several factors, including restrictions on non-essential imports, subdued economic activity, and constrained spending capabilities of the public due to tight monetary and fiscal policies. As a percentage of GDP, import expenditure declined to 19.9 per cent in 2023 compared to 23.8 per cent in 2022.

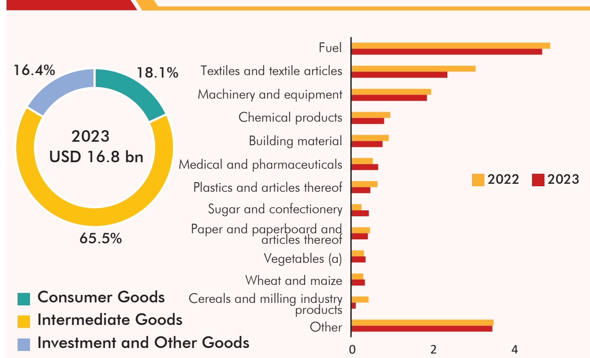
The decline in import expenditure was a result of lower intermediate and investment goods imports, while expenditure on both food and non-food consumer goods imports increased. Expenditure on rice imports declined significantly due to lower volumes of rice imports in 2023 compared to 2022 although this decline was offset by higher expenditure on imports of most other food commodities, such as sugar, oils and fats, and milk powder. Meanwhile, expenditure on non-food consumer goods increased largely due to imports of

Figure 1.15 Composition of Exports



Sources: Sri Lanka Customs
Central Bank of Sri Lanka

Figure 1.16 Composition of Imports



(a) Includes lentils, onions, potatoes, leguminous and other vegetables.

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

medical and pharmaceutical products, and mobile phones. In addition, most other items categorised under non-food consumer goods showed an increasing trend during the latter part of 2023 due to the relaxation of import restrictions. Expenditure on intermediate goods declined with textiles and textile articles accounting for a significant portion of the decline, in line with the reduction of apparel exports. Expenditure on fuel imports, the largest item in the import basket, declined primarily due to lower import prices across all products: crude oil, refined petroleum (including LP gas), and coal, though import volumes of crude oil and coal recorded an increase. Reflecting lower economic activities, expenditure on most other intermediate goods declined in 2023. Expenditure on imports of investment goods declined with notable reductions in all three main categories of investment goods, namely machinery and equipment (mainly engineering equipment), building material (mainly iron and steel), and transport equipment, and most of their subcategories, in 2023 compared to 2022, mainly attributable to import restriction and lower levels of economic activity, especially in the construction sector.

Terms of Trade

The terms of trade, which is the ratio of export prices to import prices, deteriorated marginally in 2023. Export price and import price indices declined by 11.3 per cent and 10.8 per cent to 82.7 index points, and 96.6 index points, respectively, causing the terms of trade to deteriorate by 0.6 per cent in 2023 compared to 2022. The decline in the price indices of industrial exports and mineral exports contributed to the decline in export prices, while lower prices of the importation of intermediate goods and investment goods, accounted for the decline in the overall import price index. The volume indices for all main categories of exports deteriorated, except industrial exports, whereas the import volume indices of all main categories, except for consumer goods, showed improvement during 2023.

Table 1.11 Summary of Terms of Trade (2010=100)

Category	Y-o-Y change 2022/ 2023 (%) Value Index	Volume Index	Unit Value Index
Total Exports	**-9.1**	**2.4**	**-11.3**
Agricultural goods	-0.1	-0.3	0.3
Industrial goods	-11.3	3.0	-13.9
Mineral goods	-23.1	-15.0	-9.5
Total Imports	**-8.1**	**3.0**	**-10.8**
Consumer goods	8.2	-1.4	9.7
Intermediate goods	-11.5	0.7	-12.1
Investment goods	-9.4	10.6	-18.1
Terms of Trade			**-0.6**

Source: Central Bank of Sri Lanka

Direction of Trade

Bilateral trade with most major trading partners declined significantly, in line with lower total trade in 2023. India continued to be the major trading partner of Sri Lanka, followed by China and the USA. Accordingly, these three key trading partners together contributed to around 37 per cent of the total trade of Sri Lanka in 2023. During the year, total trade with India was around US dollars 4 billion, while trade with both China and the USA exceeded US dollars 3 billion each. Total trade with most countries declined in line with the decline in imports in general. The major countrywise trade balances in 2023 remained almost unchanged, with notable trade surpluses recorded with the USA, the UK, Italy, Germany, and the Netherlands, while significant trade deficits were recorded with China, India, the UAE, Malaysia, and Singapore.

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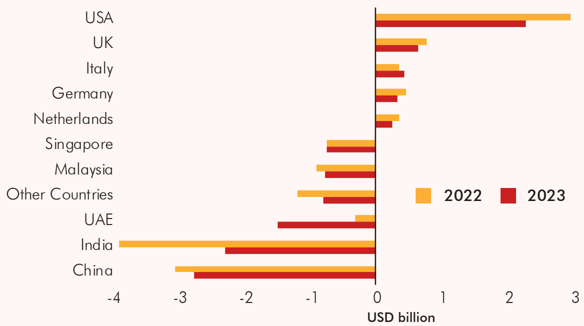
Figure 1.17 Countrywise Trade Balances



Source: Central Bank of Sri Lanka

External Trade Policies, Developments, and Institutional Support

Amidst subdued merchandise trade sector performance, the trade policy sphere moved ahead with renewed momentum during 2023. Negotiations of Free Trade Agreements (FTA), which were on hold since October 2018, were fast tracked in 2023. As a result, FTA between Sri Lanka and Thailand (SLTFTA) was signed in February 2024. Most of the import restrictions imposed in 2020-2022 were eased in 2023 with the improvement in liquidity conditions in the domestic foreign exchange market. Accordingly, the 100 per cent cash margin deposit requirement, imposed by the Central Bank in May 2022, on the importation of selected non-essential items was removed in May 2023. Meanwhile, import restrictions to temporarily suspend selected non-essential items were also gradually relaxed by the Government in June, July, and October 2023. Thereafter, only motor vehicles remained on the suspended list. The restriction on payment terms that was imposed in May 2022 mainly on open account terms continued throughout 2023, although the requirement to obtain prior approval from commercial banks for Documents against Acceptance (DA) and Documents against Payment (DP) terms imports was removed in February 2024.

Sri Lanka signed its fourth bilateral FTA with Thailand, while negotiations of several other FTAs were fast tracked. Negotiations on SLTFTA were resumed in January 2023 for the 3rd round and the negotiations concluded at the 8th round held in November 2023. This comprehensive FTA covers both trade in goods and services, in addition to investments, customs procedures, intellectual property rights, etc. Negotiations on the Economic and Technology Cooperation Agreement with India (ETCA) resumed with the 12th round taking place during October 2023 in Sri Lanka, and the 13th round in January 2024. ETCA has a broader scope than the Indo-Sri Lanka Free Trade Agreement (ISFTA) and these negotiations are expected to deepen the current trade of goods, technology cooperation, economic cooperation, liberalising services and investments. In line with lower export earnings, exports under ISFTA, Pakistan-Sri Lanka Free Trade Agreement (PSFTA) as well as most other regional trade agreements

Table 1.12 Exports under Preferential and Free Trade Agreements of Sri Lanka

Preferential Agreement	2022 Value (USD million)	2023 (a) Value (USD million)	2023 (a) Growth (%)	2023 (a) Share (%)
GSPs	4,314.7	3,803.5	-11.8	79.7
o/w EU (including GSP+)	2,440.3	2,094.5	-14.2	43.9
USA (b)	719.0	663.4	-7.7	13.9
UK	659.0	562.4	-14.7	11.8
Russian Federation (c)	125.7	127.9	1.7	2.7
Australia	97.0	93.3	-3.8	2.0
Canada	86.2	72.9	-15.4	1.5
Japan	80.7	68.3	-15.3	1.4
Turkey	45.3	62.6	38.1	1.3
Other GSP	61.6	58.2	-5.5	1.2
ISFTA	561.5	536.4	-4.5	11.2
APTA (d)	228.4	213.9	-6.4	4.5
SAFTA	75.2	93.2	23.9	2.0
GSTP	62.5	79.1	26.7	1.7
PSFTA	56.6	46.1	-18.6	1.0
SAPTA	1.5	1.1	-24.5	0.0
Total	**5,300.4**	**4,773.4**	**-9.9**	**100.0**
As a Share Total Exports	**40.4**	**40.1**		

(a) Provisional
(b) Shows GSP eligible exports since the US-GSP expired on 31.12.2020
(c) Includes Russia, Belarus and Kazakhstan
(d) Earlier known as the Bangkok Agreement (1975)

Sources: Department of Commerce
Sri Lanka Customs

declined in 2023. However, exports under the Global System of Trade Preference (GSTP) increased, driven by cinnamon exports to Mexico, and exports under the South Asian Free Trade Area (SAFTA) increased due to pepper exports to India. Negotiations on a Preferential Trade Agreement (PTA) with Bangladesh completed 4 rounds, while negotiations on several other PTAs with Indonesia, Malaysia, and Vietnam are in the pipeline. In other trade related arrangements, the 14th US-Sri Lanka Trade and Investment Framework Agreement (TIFA) Council Meeting was held in September 2023 in Colombo, while in October 2023, Sri Lanka assumed the chairmanship of Indian Ocean Rim Association (IORA) for the period 2023 to 2025.

Despite the subdued performance of garment exports, and other major export items to the EU, the UK, and the USA, Sri Lanka continued to benefit from the Generalised System of Preference (GSP) schemes offered by these key trading partners. The EU GSP scheme was set to expire on 31 December 2023 with a proposed new EU GSP+ 10-year scheme to be in effect from 01 January 2024 until 31 December 2033, which contains six additional International Conventions, that Sri Lanka has already ratified. However, in September 2023, the European Commission extended the validity period of the current EU GSP scheme until the end of 2027. The new GSP Scheme of the UK named "Developing Countries Trading Scheme" (DCTS) came into effect in June 2023, under which Sri Lanka would benefit from its Enhanced Preferences Scheme for 3 years. The US GSP scheme, which expired on 31 December 2020 has not yet been reauthorised by the US Government, although it is expected to be reauthorised on a retroactive basis as per the general practice of the US Government. Export performance under most other GSP schemes remained weak during 2023.

Institutional support was the cornerstone of progress in trade policy initiatives during 2023. In this regard, an International Trade Office was established under the Presidential Secretariat to deal with all international trade negotiations. The Office also spearheaded the combined efforts of several line agencies to conclude negotiations of the SLTFTA in an expeditious manner. The Department of Commerce took necessary steps for the continuation of GSP schemes and other existing FTAs, while supporting trade negotiation processes. The Export Development Board (EDB) launched the National Export Brand "Your Vital Island - Sri Lanka" in November 2023 to position Sri Lanka as a recognised sourcing destination to increase exports. The implementation period of the National Export Strategy (NES) expired at end 2022 and a revitalisation of the NES project is currently in progress. Meanwhile, Sri Lanka Customs (SLC) initiated its Strategic Plan for 2024-2028, focusing on four strategic areas: revenue, trade facilitation, eco-social protection, and organisational development. To create a more favourable environment for investment and export promotion, the Cabinet of Ministers granted approval in November 2023 to establish the Sri Lanka Economic Commission with the expectation to consolidate the Board of Investment (BOI) and the EDB. Meanwhile, to provide the overall policy direction, a new National Trade Policy is being drafted by the Ministry of Trade, Commerce and Food Security. Such initiatives are key for the sustainable development of the tradable sector of the economy.

Services Account

The surplus in the services account recorded a notable increase in 2023. The surplus in the services account amounted to US dollars 3,404 million in 2023, compared to US dollars 2,110 million in 2022. The performance of the services sector, including the travel, transport, construction and telecommunications services sectors improved significantly. Net inflows to insurance and pension services and other business services remained modest, while inflows to the other sub sectors including computer services contracted significantly. Having commenced data collection under the International Transactions Reporting System (ITRS) in January 2023, the Central Bank initiated publishing monthly services sector data based on ITRS for the first time in January 2024. Notably, under the newly established ITRS, there has been a significant refinement of already existing data series such as computer services, air transport, sea transport, and construction services. Tourism continued to recover in 2023 recording 1,487,303 arrivals, which is more than double the arrivals recorded in 2022. Accordingly, earnings from tourism increased to US dollars 2,068 million in 2023 compared to US dollars 1,136 million in 2022.

Primary Income Account

Deficit in the primary income account widened in 2023. All interest payments, including arrears accrued as a result of the debt standstill, and interest payments made by the Central Bank on account of outstanding liability of Asian Clearing Union (ACU) and international currency swap arrangements with the Bangladesh Bank and Reserve Bank of India (RBI) mainly contributed to outflows in the primary income account. Accordingly, the primary income account deficit amounted to US dollars 2,564 million in 2023 compared to US dollars 1,870 million in 2022. Despite an increase in the dividends paid out by direct investment enterprises (DIEs) during the year, an increase was observed in reinvested earnings in 2023 compared to 2022. However, interest payments on account of debt securities remained at similar levels. Nevertheless, there was a notable increase in interest payments on foreign loans, including arrears of the Government and the Central Bank, particularly due to the new swap arrangement under which the swap liabilities of RBI and payment arrears of the ACU were combined. Meanwhile, the income from reserve assets increased with the notable increase in gross official reserves during 2023.

Secondary Income Account

The surplus in the secondary income account increased in 2023 with continuous improvement in workers' remittance inflows since the second half of 2022. Increased workers' remittances were supported by the continued departures for foreign employment abroad. Increased inflows through official channels, supported by the correction in the large disparity that prevailed between the official exchange rate and informal rates, also supported the improved levels of remittances. Hence, workers' remittances increased notably by 57.5 per cent to US dollars 5,970 million in 2023, compared to US dollars 3,789 million in 2022. Consequently, the secondary income account recorded a surplus of US dollars 5,619 million in 2023, compared to US dollars 3,496 million in 2022.

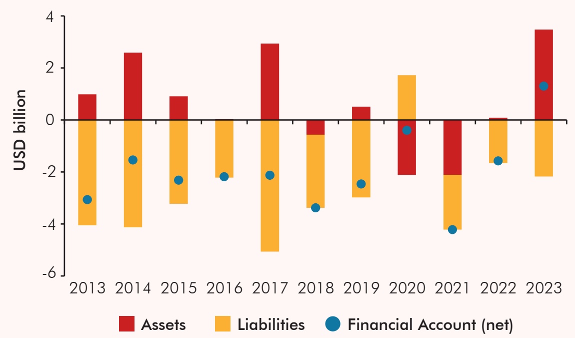
Capital Account Balance

Net inflows to the capital account increased in 2023. Capital transfers to both the Government and private sector increased in 2023, with capital grants to the Government remaining modest. Accordingly, the capital account recorded a surplus of US dollars 63 million in 2023, compared to a surplus of US dollars 19 million in 2022.

Financial Account

In the financial account of the Balance of Payments (BOP), both the net incurrence of liabilities and net acquisition of financial assets recorded notable increases during 2023. Net incurrence of liabilities recorded an increase of US dollars 2,171 million in 2023

Figure 1.18 Financial Account



Source: Central Bank of Sri Lanka

compared to US dollars 1,652 million in 2022. Main inflows to the financial account during 2023 included the receipt of the proceeds of the IMF-EFF arrangement amounting to around US dollars 670 million and the receipts from the World Bank and ADB amounting to around US dollars 500 million and US dollars 550 million, respectively.

Direct Investments

FDI inflows, including foreign loans to DIEs, remained modest during the year. Although equity investments and reinvestment of earnings recorded an increase in 2023, related party loans to DIEs recorded a notable decline. Meanwhile, foreign loan inflows to BOI companies moderated in 2023. Accordingly, FDI, including foreign loans, amounted to US dollars 758 million in 2023, compared to US dollars 1,167 million in 2022. Further, FDI, excluding loans, amounted to US dollars 712 million in 2023, compared to US dollars 884 million in 2022. On a sectoral basis, FDI inflows to BOI registered companies were mainly to logistics services, telecommunications, hotels and manufacturing sectors, while FDI inflows to companies listed in the Colombo Stock Exchange (CSE), but not registered with BOI, were mainly to the telecommunications and, fuel, gas, and petroleum sectors.

Table 1.13 Financial Account

Item	USD million	
	2022 (a)	2023 (b)
Financial Account (net)	-1,569	1,304
Net Acquisition of Financial Assets	84	3,474
Net Incurrence of Liabilities	1,652	2,171
Direct Investment: Assets	15	34
Equity	11	29
Debt Instruments	5	5
Direct Investment: Liabilities	884	712
Equity	275	496
Debt Instruments	610	216
Portfolio Investment: Assets	-	173
Debt Securities	-	173
Portfolio Investment: Liabilities	370	931
Equity	151	8
Debt Securities	218	923
General Government	212	910
Short Term (Treasury Bills)	30	132
Long Term	183	778
Treasury Bonds	21	78
Sri Lanka Development Bonds	2	-27
Sovereign Bonds	159	727
Other Sectors	6	12
Long-term	6	12
Financial Derivatives	-	-
Other Investment: Assets	1,302	1,022
Currency and Deposits	514	114
Trade Credit and Advances	282	186
Other Accounts Receivable	506	721
Other Investment: Liabilities	398	528
Currency and Deposits	-583	-143
Loans	385	1,056
Trade Credit and Advances	-895	-555
Other Accounts Payable	1,492	171
Special Drawing Rights (SDRs)	-	-
Reserve Assets	-1,234	2,245
Net Errors and Omissions	-139	-318
Overall Balance (c)	-2,806	2,826

(a) Revised
(b) Provisional
(c) Refer Table 1.15 for the derivation of overall balance

Source: Central Bank of Sri Lanka

Portfolio Investment

Portfolio investment, in the form of equity and investment fund shares in CSE, remained modest, while foreign investment in government securities increased notably during 2023. The notable increase in foreign investment in government securities was primarily due to the accrued interest on International Sovereign Bonds (ISBs), the repayment of which was suspended temporarily since early 2022. Non resident investments in the government securities market, particularly in Treasury bills increased substantially in 2023. Arrears due to non-payment of coupon payments and interest on foreign loans were added to the outstanding liability of the relevant instrument. Accordingly, US dollars 727 million of coupon payments of ISBs were recorded as accrued interest of ISBs. Further, during 2023, US dollars 12 million was recorded as accrued interest on international bonds to non-residents, which were issued by SOBEs.

Other Investment and Reserve Assets

Meanwhile, trade credits and advances recorded a decline in liabilities as CPC continued to repay its trade credit liabilities throughout the year, while being unable to secure new trade credit facilities during the year. The banking industry's exposure to foreign loans decreased during 2023 as a result of obtaining fewer new foreign borrowings while paying off previous borrowings, especially in light of the banking system's higher foreign exchange liquidity in 2023. In the meantime, borrowings by the corporate sector continued to be constrained, resulting in insignificant net inflows into the sector during the year.

Net acquisition of financial assets recorded a notable increase during 2023 amounting to US dollars 3,474 million, compared to a marginal net increase of US dollars 84 million in 2022. This was mainly due to the increase in GOR by US dollars 2,245 million in 2023 compared to the decline of GOR by US dollars 1,234 million in 2022. The increase in GOR was mainly due to the substantial net purchases of forex from the domestic market by the Central Bank and the receipts from IMF, World Bank, and ADB. However, net acquisition of assets in terms of currency and deposits, trade credits and advances and other accounts receivable increased in the banking sector in 2023.

1.4.2 International Investment Position, Reserve Assets, and Overall Balance

International Investment Position (IIP)

Sri Lanka's net international investment position deteriorated in 2023. There was a notable increase in both the total external liability position and total external asset position of the country by end 2023 compared to end 2022. However, the increase in the total liability position exceeded the increase in the total asset position by end of 2023, compared to end 2022.

In terms of the outstanding external liability position of the country, the Central Bank entered into a special swap arrangement with RBI to issue a new debt instrument, replacing the outstanding RBI international swap arrangement and the outstanding liability of ACU. This instrument was reflected in outstanding currency and deposits of the Central Bank and replaced ACU outstanding amount classified under other accounts payable as at end 2023. The outstanding liability position as direct investments increased only modestly during the year, as FDI inflows remained low and market prices of publicly listed companies remained subdued. The increase in liability position of the debt securities was a result of the increased market prices[19] and accrued coupon payments of ISBs. The increase in foreign loans was due to the receipt of IMF, World Bank and ADB funding by the Government as well as the increase in accrued interest of unpaid foreign loans by the Government. Consequently, the country's total external liability position increased

19 The market prices of ISBs are based on market prices available in international trading platforms and may not necessarily be attributed to secondary market trades in international markets during the year.

from US dollars 58.1 billion as at end 2022 to US dollars 64.0 billion as at end 2023.

The country's external asset position improved during 2023. The external asset position in the form of reserve assets and banking sector external assets increased during the year. The reserve asset position of the Central Bank more than doubled during the year. Further, the external asset position of the banking sector also increased due to increases in banks' currency and deposits and other accounts receivable. Accordingly, the country's total asset position increased from US dollars 8.8 billion as at end 2022 to US dollars 12.5 billion as at end 2023. As the increase in the total liability position was higher than the increase in the total asset position, the country's net liability position as reflected by the IIP increased to US dollars 51.4 billion as at end 2023 from US dollars 49.3 billion as at end 2022.

Table 1.14 International Investment Position (Summary) (a)

USD million (End period position)

Item	2022 (b) Assets	2022 (b) Liabilities	2023 (c) Assets	2023 (c) Liabilities
Direct Investment	**1,534**	**14,047**	**1,560**	**14,831**
Equity and Investment Fund Shares	1,489	8,103	1,511	8,671
Debt Instruments	45	5,944	50	6,160
Portfolio Investment	**0.1**	**4,366**	**174**	**7,744**
Equity and Investment Fund Shares		332		484
Debt Securities	0.1	4,035	174	7,260
Other Investment	**5,399**	**39,689**	**6,420**	**41,412**
Currency and Deposits	1,656	5,880	1,770	7,941
Loans		29,497		31,721
Trade Credit and Advances	1,493	1,020	1,679	464
Other Accounts Receivable / Payable	2,250	2,028	2,971	-
Special Drawing Rights (SDRs)		1,265		1,285
Reserve Assets	**1,898**		**4,392**	
Total Assets / Liabilities	**8,830**	**58,102**	**12,546**	**63,986**
Net International Investment Position		**-49,272**		**-51,440**
Memorandum Items				
IIP- Maturity-wise Breakdown	8,830	58,102	12,546	63,986
Short Term	7,091	7,957	9,330	5,516
Long Term	1,739	50,145	3,216	58,471

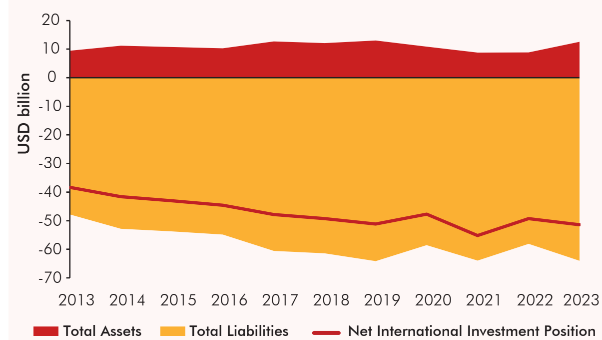
Source: Central Bank of Sri Lanka

(a) Refer Appendix Table 12 for a detailed breakdown of the IIP

(b) Revised

(c) Provisional

Figure 1.19 International Investment Position



Source: Central Bank of Sri Lanka

Reserve Asset Position

GOR[20] improved and reached a healthy level of US dollars 4,392 million as at end 2023, compared to US dollars 1,898 million as at end 2022, reflecting favourable developments in the external sector observed during 2023. The buildup of GOR was mainly due to the absorption of foreign exchange by the Central Bank from the domestic foreign exchange market and the receipt of other foreign exchange inflows, such as the first and second tranches of the ongoing IMF-EFF arrangement and financing support from the World Bank and the ADB. The Central Bank's intervention in the domestic foreign exchange market by way of absorbing foreign exchange amounted to US dollars 1,683 million on a net basis (based on value date) during the year, while net foreign exchange swap arrangements with domestic banks amounted to around US dollars 861

20 These levels of GOR at the end of 2022 and 2023 also included the international swap facility of Chinese Yuan 10 billion from the People's Bank of China (PBOC) which was valued at US dollars 1,433 million and US dollars 1,420 million, respectively.

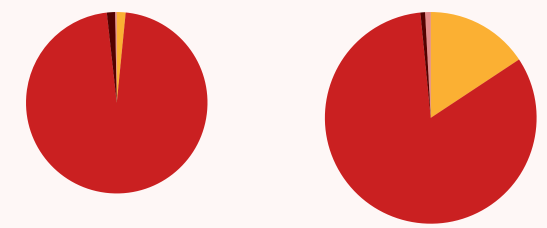
1

million (based on value date). The buildup of GOR through direct absorption of foreign exchange from the domestic foreign exchange market enabled the Central Bank to overperform on the net international reserve targets under the IMF-EFF arrangement. Net foreign asset position of the banking sector stood at a positive level as a result of recording a higher foreign assets position than foreign liabilities position. The foreign asset position of the banking sector increased to US dollars 4,981 million by end 2023 from US dollars 3,976 million as at end 2022. Consequently, total international reserves, which comprise both GOR and foreign assets of the banking sector, increased significantly by end 2023.

Overall Balance

The overall balance of the BOP, which represents the change in net international reserves, recorded a significantly higher surplus by end 2023, after recording higher deficits in previous years since 2020. GOR increased significantly mainly due to the significant net absorption of foreign exchange by the Central Bank from the domestic foreign exchange market and receiving significant inflows from multilateral institutions.

Figure 1.20 Major Components of Reserve Asset Position



Source: Central Bank of Sri Lanka

Consequently, there was an improvement in the net international reserve position by end 2023 compared to the previous year, resulting in the overall balance recording a surplus of around US dollars 2,826 million in 2023, compared to a deficit of US dollars 2,806 million in 2022.

1.4.3 External Debt and Debt Service Payments

External Debt

Sri Lanka's external debt expressed in terms of market value,[21] increased in 2023. There was a notable increase in the external debt of

21 Since 2012, external debt statistics for official publication purposes are calculated in terms of market value in line with international standards on BOP compilation as per the 6th edition of the Balance of Payments and International Investment Position Manual (BPM6).

Table 1.15 Gross Official Reserves, Total Foreign Assets and Overall Balance

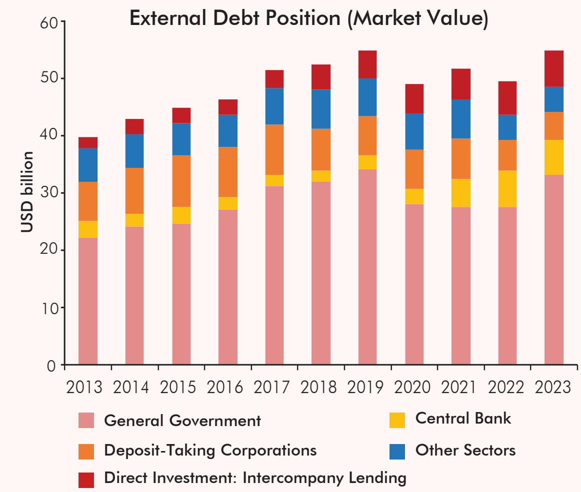
USD million
(End period position)

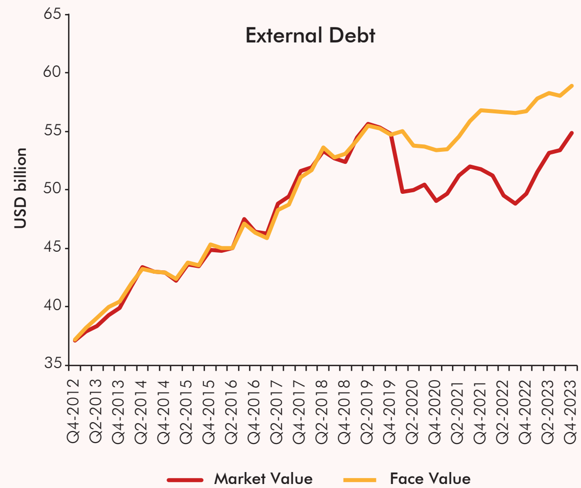
Item	2019	2020	2021	2022	2023 (a)
1. Government Foreign Assets	386	155	177	39	875
2. Central Bank Foreign Assets	7,256	5,510	2,962	1,858	3,517
3. Gross Official Reserves (1+2)	**7,642**	**5,664**	**3,139**	**1,898**	**4,392**
4. Foreign Assets of Deposit-taking Corporations	2,760	2,856	2,983	3,976	4,981
5. Total Foreign Assets (3+4) (b)	**10,402**	**8,521**	**6,122**	**5,874**	**9,373**
6. Reserve Related Liabilities (c)	1,771	2,121	3,562	5,127	4,796
7. Net International Reserves (NIR) (3-6)	**5,871**	**3,543**	**-423**	**-3,229**	**-404**
8. Overall Balance (d)	**377**	**-2,328**	**-3,967**	**-2,806**	**2,826**
9. Gross Official Reserves in Months of Imports of Goods	4.6	4.2	1.8	1.2	3.1
10. Total Foreign Assets in Months of Import of Goods	6.3	6.4	3.6	3.9	6.7

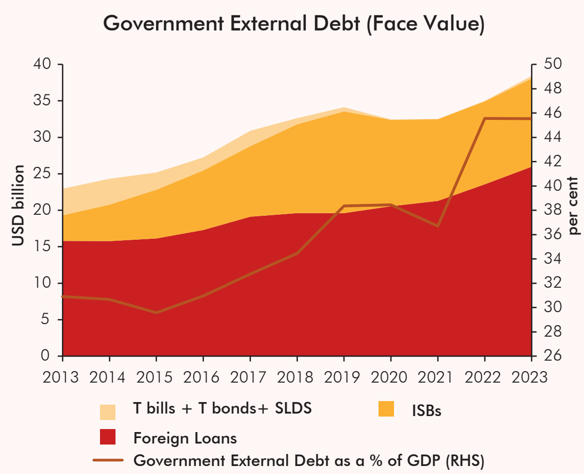
(a) Provisional
(b) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'
(c) The total outstanding debt of the Central Bank, excluding outstanding Special Drawing Rights (SDRs)
(d) Change in NIR position during the period

Source: Central Bank of Sri Lanka

Figure 1.21 **Outstanding External Debt**







"Sri Lanka's external debt, based on market value terms, amounted to USD 54.8 bn as at end 2023, which is significantly lower than the external debt at face value of USD 60.2 bn. The reduction in market value of external debt is due to the significantly lower market valuation of ISBs issued by the Government"

Source: Central Bank of Sri Lanka

the Government in 2023 compared to 2022 mainly due to an increase in market value of ISBs issued by the Government compared to the significantly lower market values that prevailed in 2022. Further, the external debt of the private sector and SOBEs and DIEs recorded a moderate increase. Meanwhile, external debt of the Central Bank and the banking sector recorded a decline.

The external debt of the Government recorded a marked increase in 2023. The increase in the market value of ISBs issued by the Government, increase in accrued coupons of outstanding ISBs, increase in outstanding foreign loans of the Government associated with the receipts from multilateral partners, increase in accrued interest of bilateral foreign loans of the Government, and a modest increase in foreign investments in Treasury bills and Treasury bonds contributed to the increase in outstanding external debt of the Government. Consequently, the outstanding external debt of the Government, expressed in market value for tradable debt instruments, amounted to US dollars 33.1 billion as at end 2023, compared to US dollars 27.5 billion as at end 2022. In terms of face value, the external debt of the Government was around US dollars 38.4 billion as at end 2023.

The outstanding external debt of the Central Bank decreased modestly with the gradual repayment of the IMF-EFF obtained in 2016

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Table 1.16 **Outstanding External Debt Position**

USD million (End period position)

Item	2022 (a)	2023 (b)
General Government	**27,518**	**33,117**
Treasury Bills (based on book value)	31	210
Treasury Bonds (based on book value)	34	124
Sri Lanka Development Bonds (based on face value)	27	-
International Sovereign Bonds (based on market price including accrued interest)	3,866	6,794
Outstanding Foreign Loans (including accrued interest)	23,562	25,988
Central Bank	**6,391**	**6,081**
Currency and Deposits (short term)	0.2	0.3
Asian Clearing Union (ACU) Liabilities	2,028	-
Special Drawing Rights (SDRs) Allocation	1,265	1,285
RBI Swap Arrangement	400	-
RBI and ACU Combined Swap Arrangement (RBI Special Swap)		2,451
Bangladesh Bank Swap Arrangement	200	-
PBOC Swap Arrangement	1,434	1,420
Accrued Interest Applicable to Swap Arrangements	3	20
Credit and Loans with the IMF	1,062	904
Deposit-taking Corporations	**5,370**	**4,933**
Currency and Deposits (c)	3,843	4,050
Loans - short term	704	307
Loans - long term	823	576
Other Sectors (d)	**4,443**	**4,542**
Trade Credit and Advances (e)	1,020	464
Debt Securities (based on market price and including accrued interest)	78	132
Loans by Private Sector Corporations	2,361	2,966
Loans by State Owned Business Enterprises and Public Corporations	985	980
Direct Investment: Intercompany Lending (f)	**5,944**	**6,160**
Gross External Debt Position	**49,667**	**54,832**
As a Percentage of GDP		
Gross External Debt	64.6	65.0
Short Term Debt	9.9	6.0
Long Term Debt	54.7	59.0
As a Percentage of Gross External Debt		
Short Term Debt	15.4	9.2
Long Term Debt	84.6	90.8
Memorandum Items		
Non-Resident Holdings of Debt Securities - Sectorwise	**11,622**	**12,615**
Breakdown at Face Value		
General Government	11,447	12,440
Treasury Bills	34	233
Treasury Bonds	36	130
Sri Lanka Development Bonds	27	-
International Sovereign Bonds	10,800	10,800
Accrued Interest of ISB Coupons due to Non-Residents	551	1,278
Other Sectors	175	175
Face Value of Total Outstanding ISBs	**12,550**	**12,550**
Outstanding ISBs held by Non-Residents	10,800	10,800
Outstanding ISBs held by Residents	1,750	1,750

Source: Central Bank of Sri Lanka

(a) Revised
(b) Provisional
(c) Includes deposits of personal foreign currency account holders
(d) Includes private sector and State Owned Business Enterprises
(e) Includes trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies
(f) Includes inter-company borrowings and shareholder advances of BOI registered companies

and the commencement of repayment of the special swap arrangement with RBI. Meanwhile, the outstanding external debt of the banking sector decreased with a significant decline in outstanding short term and long term loans. Although there was a notable reduction in the outstanding trade credits of the private sector, the outstanding foreign loans of the private sector increased and the outstanding foreign loans of SOBEs remained at similar levels. Outstanding foreign loans with related parties by DIEs also increased during 2023.

The country's external debt position as a percentage of GDP remained at similar levels as at end 2022 and 2023. The external debt position as a percentage of GDP was 65.0 per cent as at end 2023, compared to 64.6 per cent as at end 2022. Further, the proportion of loans that are short term in nature recorded a reduction during the year. Moreover, as the government debt standstill continued, there was no change in the face value of outstanding ISBs to non-residents during the year.

Foreign Debt Service Payments

Sri Lanka's external debt service payments remained modest in both 2022 and 2023 since the announcement of the debt standstill on selected government debt in April 2022. The country's external debt service payments, which averaged close to US dollars 5.0 billion per year in 2019, 2020, and 2021 reduced to US dollars 2.5 billion in 2022 and US dollars 2.6 billion in 2023. External debt service payments in 2023 were marginally higher than 2022 due to increased external debt servicing of the Central Bank. Government external debt servicing was significantly lower in 2023 as there were no repayments of ISBs in 2023 due to the debt standstill. However, external debt servicing of foreign loans of the Government increased as capital and interest

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Table 1.17 External Debt Service Payments

USD million

Item	2022 (a)	2023 (b)
1. Debt Service Payments	**2,483**	**2,589**
1.1 Amortisation	**1,714**	**1,869**
General Government	1,236	1,043
Project Loans	845	1,041
Debt Securities	391	2
Central Bank	140	522
IMF	140	172
International Swaps	-	350
Private Sector and Deposit-taking Corporations	339	304
Foreign Loans	339	304
1.2 Interest Payments	**769**	**720**
General Government	465	405
Project Loans	273	377
Debt Securities	192	28
Central Bank	57	118
IMF	20	57
International Swaps	36	60
Private sector and Deposit-taking Corporations	216	185
Foreign Loans	204	173
Debt Securities	12	12
Intercompany Debt of Direct Investment Enterprises	31	12
2. Earnings from Export of Goods and Services	**16,169**	**17,327**
3. Receipts from Export of Goods, Services, Income and Current Transfers	**20,228**	**23,779**
4. Debt Service Ratio		
4.1 As a Percentage of 2 above		
Overall Ratio	15.4	14.9
Excluding IMF Transactions	14.4	13.6
4.2 As a Percentage of 3 above		
Overall Ratio	12.3	10.9
Excluding IMF Transactions	11.5	9.9
5. Government Debt Service Payments		
5.1 Government Debt Service Payments (c)	1,701	1,448
5.2 As a Percentage of 1 Above	68.5	55.9

Source: Central Bank of Sri Lanka

(a) Revised
(b) Provisional
(c) Excludes transactions with the IMF

payments of the multilateral institutions were repaid during 2023. The Central Bank repaid an international swap facility of US dollars 200 million owed to the Bangladesh Bank and started repaying outstanding liabilities on account of the special swap arrangement with the RBI. Further, the Central Bank continued to repay IMF-EFF liabilities initiated in 2016. Debt service payments of private sector corporations in 2023 remained around similar levels to that of 2022.

1.4.4 Exchange Rate Movements

The Sri Lanka rupee appreciated sharply in 2023 under a market based exchange rate policy implemented by the Central Bank despite some intermittent volatility. The Sri Lanka rupee, which depreciated by 44.8 per cent against the US dollar in 2022, appreciated by 12.1 per cent in 2023. During the first two months of 2023, the Sri Lanka rupee remained stable at around Rs. 362 per US dollar as the Central Bank continued to provide daily guidance on the spot exchange rate by publishing a middle spot exchange rate and a variation margin, which helped stabilise the exchange rate from significant intraday volatility. The Sri Lanka rupee appreciated notably thereafter, helped by the policy measures taken by the Central Bank to enhance forex liquidity in the market and to provide greater flexibility in the determination of exchange rate. From 27 February 2023, the Central Bank commenced gradually relaxing the requirement imposed on licensed banks on mandatory sales of foreign exchange to the Central Bank out of the converted export proceeds and workers' remittances and later revoked the said requirement with effect from 07 March 2023 with a view to enhancing forex liquidity in the banking system. Further, the Central Bank discontinued the provision of daily guidance on exchange rates with effect from 07 March 2023, in order to allow greater flexibility in the determination of the exchange rate and encourage market driven activity in the domestic forex market in line with the flexible inflation targeting framework of the Central Bank. Subsequently, liquidity in the domestic forex market improved and spot market activity picked up. Favourable market sentiments subsequent to the commencement of the IMF-EFF arrangement in March 2023 also helped the exchange rate to appreciate.

A notable appreciation of the Sri Lanka rupee was registered during the second quarter, particularly in May and early June 2023 due to several favourable developments. Improved market liquidity as a result of increased forex inflows in the form of export proceeds, workers' remittances

Table 1.18

Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change over Previous Year (a)			
	End Year Rate			Annual Average Rate			End Year		Annual Average	
	2021	2022	2023	2021	2022	2023	2022	2023	2022	2023
Euro	226.86	386.93	358.75	235.10	339.04	354.11	-41.37	7.86	-30.66	-4.26
Indian rupee	2.69	4.39	3.90	2.69	4.11	3.97	-38.59	12.57	-34.57	3.63
Japanese yen	1.74	2.74	2.29	1.81	2.44	2.34	-36.41	19.53	-25.92	4.54
Pound sterling	270.60	437.35	412.61	273.51	396.89	407.07	-38.13	5.99	-31.09	-2.50
US dollar	200.43	363.11	323.92	198.88	324.55	327.53	-44.80	12.10(b)	-38.72	-0.91(b)
Special Drawing Rights (SDRs)	280.53	483.24	434.60	283.18	431.91	436.88	-41.95	11.19	-34.43	-1.14

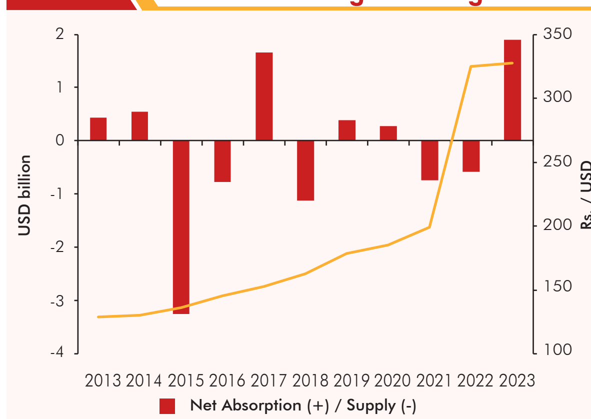
Source: Central Bank of Sri Lanka

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. The sign (-) indicates depreciation of the Sri Lanka rupee against each currency.
(b) For analytical purposes, the appreciation/depreciation of the Sri Lanka rupee is calculated by the Central Bank based on the year end exchange rate. Accordingly, the Sri Lanka rupee recorded an appreciation in terms of end 2023 exchange rate compared to that of end 2022. However, the Sri Lanka rupee recorded a marginal depreciation in 2023 based on the annual average exchange rate compared to 2022.

and foreign investments to the government securities market along with subdued demand for imports, reflecting tight monetary conditions, were the major factors that contributed to this appreciation. Further, the receipts of the special policy based loan for budget support from ADB in May 2023 and the World Bank financing in June 2023 were conducive to the improvement in market sentiments. Overall, the Sri Lanka rupee recorded the highest appreciation of 24.8 per cent against the US dollar since the beginning of the year by 08 June 2023. Thereafter, the Sri Lanka rupee showed some volatility and recorded a depreciation during the third quarter of 2023, reflecting relatively tight liquidity conditions that prevailed in the domestic foreign exchange market. The main factor that contributed to the depreciation pressure was the drain in liquidity due to increased demand from banks to cover their foreign currency position associated with rupee settlement of the Sri Lanka Development Bonds (SLDBs). Consequently, the Central Bank intervened by providing liquidity support to the affected bank and to the market from time to time during the third quarter of 2023. However, pressure on the exchange rate that was expected to have arisen out of the pent up demand for imports at the commencement of the gradual relaxation of import controls from June 2023 onwards did not have a major impact. In the latter part of the year, improved workers' remittances and services sector inflows were observed. Market sentiments continued to improve, mainly as a result of receiving the second tranche of the IMF-EFF arrangement and receipts from ADB and the World Bank, towards the latter part of the year. Accordingly, the rupee recorded an appreciation in the latter part of the year despite some intermittent volatility. Meanwhile, the intervention of the Central Bank in the domestic foreign exchange market resulted in an absorption of US dollars 1,896 million, on a net basis (based on trade date), in 2023. This included an absorption of US dollars 2,722 million and a supply of US dollars 826 million. In contrast, in 2022, the Central Bank supplied foreign exchange amounting to

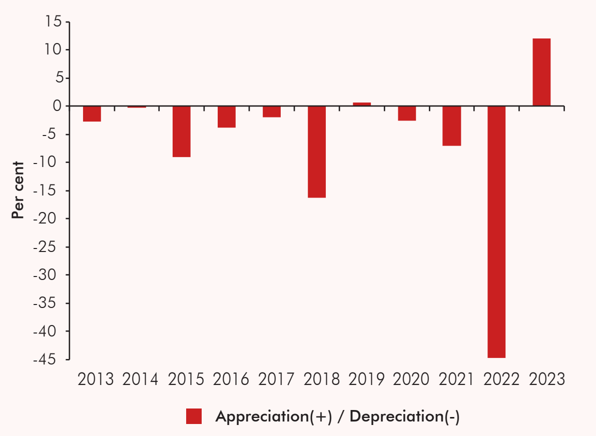
Figure 1.22

CBSL Intervention and Annual Average Exchange Rate



Source: Central Bank of Sri Lanka

Figure 1.23 Exchange Rate Appreciation / Depreciation



Source: Central Bank of Sri Lanka

US dollars 2,726 million to the market while purchasing US dollars 2,147 million.

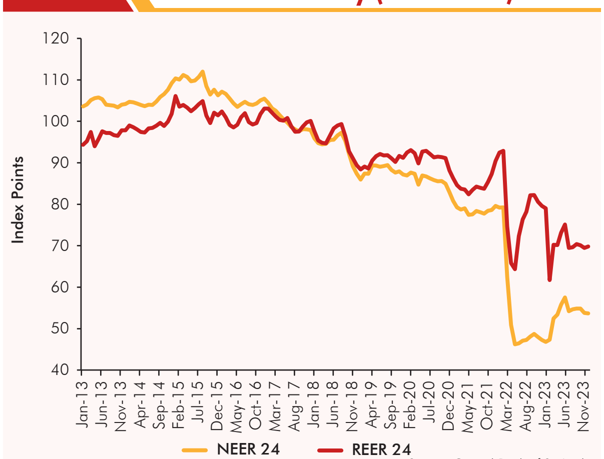
The appreciation trend of the Sri Lanka rupee continued in 2024 as well. Accordingly, the Sri Lanka rupee appreciated by 7.6 per cent against the US dollar as of end March 2024. This appreciation was mainly due to robust inflows in the form of earnings from tourism, workers' remittances, and reduced import expenditure. Consequently, the Central Bank has also been able to purchase a significant amount of foreign exchange of around US dollars 1,200 million on net basis (based on the trade date) during the first quarter of 2024 which helped prevent excessive appreciation pressure that prevailed in the market.

Reflecting movements in cross-currency exchange rates against the US dollar in international markets, the rupee appreciated markedly against all other major currencies in 2023, in comparison to the previous year. Accordingly, the Sri Lanka rupee appreciated against the euro (7.9 per cent), the pound sterling (6.0 per cent), the Japanese yen (19.5 per cent) and the Indian rupee (12.6 per cent) during 2023. With the combined effect of the appreciation of the rupee against major currencies, the Sri Lanka rupee also appreciated against the Special Drawing Rights (SDR) by 11.2 per cent during the year.

Nominal and Real Effective Exchange Rates

During 2023, the Nominal Effective Exchange Rate (NEER) indices increased while the Real Effective Exchange Rate (REER) indices decreased. The 5-currency NEER index increased by 10.52 per cent while the 24-currency NEER index increased by 13.39 per cent. The increase in NEER indices reflects the nominal appreciation of the Sri Lanka rupee against the selected major currencies together with the movements in cross currency exchange rates. Further, 5-currency REER index decreased by 12.87 per cent and the 24-currency REER index decreased by 12.42 per cent. Overall, both REER indices remained significantly below the level that prevailed in the base year 2017, indicating the continued competitiveness of the Sri Lanka rupee.

Figure 1.24 Effective Exchange Rate Indices 24-Currency (2017=100)



Source: Central Bank of Sri Lanka

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Table 1.19

Nominal and Real Effective Exchange Rates

Effective Exchange Rate Indices (a) (b) (2017=100)	End Year Index			Annual Average Index			Percentage Change over Previous Year			
							End Year Index		Annual Average Index	
	2021	2022	2023	2021	2022	2023	2022	2023	2022	2023
NEER - 24 currencies	79.65	47.32	53.66	78.64	53.99	53.30	-40.59	13.39	-31.34	-1.28
REER - 24 currencies	90.51	79.74	69.84	84.76	77.49	71.39	-11.90	-12.42	-8.58	-7.87

Source: Central Bank of Sri Lanka

(a) The Nominal Effective Exchange Rate (NEER) is a weighted average of nominal exchange rates of 24 trading partner and competitor countries. Weights are based on the trade shares reflecting the relative importance of each currency in each of the currency baskets. The Real Effective Exchange Rate (REER) is computed by adjusting the NEER for inflation differentials with respect to each currency in the basket. A minus sign indicates depreciation. CCPI was used for REER computation.

(b) The exchange rate has been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rate indices, respectively.

1.5 Financial Sector Developments

During 2023, overall financial sector stability was maintained amidst challenging conditions particularly emanating from the economic crisis. The banking sector which dominates the financial sector was able to maintain stability by preserving capital supported by the decline in risk weighted assets while liquidity was maintained above the regulatory minimum with increased investments in government securities. Moreover, total assets of the banking sector improved along with profitability while default risk as indicated by the Stage 3 loans ratio increased during 2023 compared to 2022. Similarly, the asset base of the LFCs sector also improved while the default risk of the sector recorded an increase in terms of the Stage 3 loans ratio in 2023. Accordingly, elevated credit risk as reflected by the Stage 3 loans ratio remained a concern for both the banking and LFCs sectors. Meanwhile, the insurance sector, which includes long term and general sub-sectors, showed varying financial performance during the year. Within financial markets, liquidity shortage in the domestic money market declined considerably by the end of the year while liquidity conditions in the domestic foreign exchange market also improved. Moreover, the yields of the government securities market witnessed a decline in both primary and secondary markets. The domestic equity market recorded mixed performance in terms of price indices, market capitalisation and daily turnover while foreign participation declined in 2023, compared to 2022. The Central Bank continued to engage in activities relating to financial inclusion and in ensuring the provisioning of robust financial infrastructure for the smooth functioning of the financial sector. Further, new regulations on Financial Consumer Protection aimed at fortifying the financial consumer protection framework for Financial Service Providers under the regulatory purview of the Central Bank were issued during 2023. Further details about the conditions of the financial system could be obtained from the Financial Stability Review 2023.[22]

1.5.1 Banking Sector

The banking sector, which dominates the financial sector, accounting for 61.5 per cent of total assets as at end 2023, managed to withstand challenges that emanated from the economic crisis and adverse global conditions, with the support of preserving capital and liquidity above the regulatory minimum. By end 2023, the banking sector comprised 30 banks, i.e., 24 LCBs including 11 branches of foreign banks, and 6 LSBs. The banking sector continued to support financial intermediation by expanding the banking network and enhancing banking

22 *https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/financial-system-stability-review*

BOX 2
International Monetary Fund's Extended Fund Facility (IMF-EFF) Programme – A Progress Update

Sri Lanka commenced discussions with the International Monetary Fund (IMF) on obtaining a funding arrangement linked to a macroeconomic adjustment programme to restore macroeconomic stability, debt sustainability and to rebuild the linkages with the world, following the historic socio-economic and political crisis in 2022. In September 2022, the IMF staff and the Sri Lankan authorities reached a staff level agreement for a 48-month arrangement under the EFF amounting to SDR 2.286 billion (about US dollars 3 billion). Subsequently, on 20 March 2023, the Executive Board of the IMF approved the EFF as budget support to assist Sri Lanka's economic policies and reforms denoting the commencement of the seventeenth IMF programme in Sri Lanka. Accordingly, the first and second tranches of the IMF-EFF totaling SDR 508 million (about US dollars 670 million) were disbursed in March and December 2023, respectively. The IMF and relevant authorities regularly monitor the progress under the EFF in terms of Quantitative Performance Criteria (QPCs), Continuous Performance Criteria (CPCs), Monetary Policy Consultative Clause (MPCC), Indicative Targets (ITs), and Structural Benchmarks (SBs) as set out in the EFF programme. Achievement of these targets on behalf of Sri Lanka is the responsibility of the Government and the Central Bank. In terms of performance, all QPCs and ITs for end December 2023 were met except for the IT on social spending, while most SBs falling due before end February 2024 were either met or implemented with delay. On 21 March 2024, a staff level agreement was reached on economic policies to conclude the second review of the IMF-EFF programme. Once the review is approved by the IMF Executive Board, Sri Lanka will have access to a further SDR 254 million (about US dollars 337 million) in financing.

To restore macroeconomic stability and public debt sustainability in Sri Lanka, the IMF-EFF programme was designed as a comprehensive economic reform programme that rests on several key pillars. These pillars include revenue based fiscal consolidation, a stronger social safety net to protect the most vulnerable, a sovereign debt restructuring strategy aimed at restoring public debt sustainability, a multi-pronged strategy to restore price stability and rebuild international reserves under greater exchange rate flexibility, policies to safeguard financial stability, focused reforms to address governance and corruption vulnerabilities, and growth enhancing broader structural reforms.

The key targets and elements of the current IMF-EFF programme, are discussed below.

Net International Reserves (NIR) Target

The NIR target is a QPC under EFF to gauge the reserve level maintained by the Central Bank excluding the reserve related liabilities. The reserves remained at depleted levels in 2022 and early 2023 as GOR declined notably, due to the continued moderation of inflows to the financial account, external debt service payments to the multilateral creditors, and net sales to the domestic foreign exchange market by the Central Bank primarily for importation of essential imports during the year. At the beginning of the programme, as at end March 2023, the reserve related liabilities were far higher than the reserve assets and thus NIR stood at largely negative levels. The primary aim of achieving the NIR target under EFF is to ensure that the gross official reserve assets increase surpassing the liabilities and thereby maintaining NIR at positive levels. Thus far in the EFF programme, the Central Bank has continued to build up reserves by purchasing foreign exchange from the domestic foreign exchange market on a net basis. As a result, the gross official reserve level also witnessed a notable increase from US dollars 1.9 billion as at end 2022 to around US dollars 4.4 billion by end 2023, and further to around US dollars 5.0 billion by end March 2024.

The Central Bank's Net Credit to the Government (NCG) Target

Historically, successive Governments have resorted to monetary financing from the Central Bank, which was one of the main causes for the elevation of inflation to significantly high levels in 2022. The Central Bank's NCG is measured as the difference between the Central Bank's claims against the central government and deposits made by the central government in rupees at the Central Bank. Prior to the IMF programme, the Central Bank was compelled to regularly engage in monetary financing of the budget deficit of the Government. One of the main purposes of the IMF programme is to prevent any avenues that would enable the Government to obtain monetary financing from the Central Bank, and this was achieved through the enactment of the Central Bank of Sri Lanka Act No. 16 of 2023 (CBA). With no new monetary financing and gradual offloading of existing holdings of the government securities of the Central Bank, end December 2023 NCG target set out by the IMF was also achieved.

Monetary Policy Consultation Clause (MPCC)

Sri Lanka's inflation escalated to historically high levels in 2022. The MPCC has been set to closely monitor the developments in inflation to ensure that Sri Lanka achieves the targeted level of inflation in line with its objective of maintaining domestic price stability. It monitors quarterly inflation on predetermined target dates. Accordingly, quarterly average year-on-year inflation calculated based on the Colombo Consumer Price Index (CCPI) (2021=100), as per the method specified in the Technical Memorandum of Understanding (TMU) of the IMF Staff Report was at 3.0 per cent by December 2023. Hence, realised inflation by December 2023 was within the lower outer band of MPCC of 2.0-3.5 per cent.

Primary Balance Target, Revenue, and Overall Budget Balance

Sri Lanka's central government revenue collection is identified to be one of the lowest in the world and has led to significant primary balance deficits historically. The IMF-EFF programme requires Sri Lanka to implement revenue based fiscal consolidation measures and introduce reforms to social safety nets, fiscal institutions, and State Owned Enterprises (SOEs) that are aimed at enhancing the efficiency and reducing the burden on government coffers. Supported by stringent fiscal consolidation efforts, the Government achieved a primary surplus in 2023, which is well over the primary deficit target set under the IMF-EFF for 2023. Meanwhile, the overall budget deficit for 2023 improved as a result of the significant increase in revenue despite an increase in government expenditure.

In addition, the central government tax revenue is specified as an indicative target under the IMF-EFF programme. During the recently concluded programme review mission of the IMF, the notable improvement in tax revenue collection was commended.

Continuous Performance Criteria (CPCs) and Indicative Targets (ITs)

The IMF-EFF programme has specified two CPCs. These include (i) non-accumulation of new external payments arrears by the nonfinancial public sector and the Central Bank and (ii) no new Central Bank purchases of government securities in the primary market. These CPCs have been met by the Sri Lankan authorities so far. In addition, the programme has specified ITs related to central government tax revenue, social spending by the central government, cost of non-commercial obligations (NCOs) for fuel and electricity, and Treasury guarantees. All ITs except for social spending by the central government have been met under the programme as of December 2023.

Progress on Debt Restructuring

The Government has been engaging with the external creditors to negotiate relief on external debt with the intention of bringing down the debt trajectory towards a sustainable path as envisaged by the IMF-EFF arrangement. There is significant progress in the external debt restructuring process. In November 2023, an agreement in principle was reached between the authorities and the Official Creditors Committee (OCC) and a preliminary agreement with the China EXIM Bank and Sri Lanka was also reached to restructure its claims on Sri Lanka. Currently, Sri Lanka is engaging closely with OCC and China EXIM Bank to reach debt agreements consistent with the programme parameters and in a comparable manner. Sri Lanka is also engaging closely with external commercial creditors in good faith through continuous dialogues and information sharing, aiming to reach a consensus on the debt treatment at the earliest.

Additionally, the Government launched its Domestic Debt Optimisation (DDO) programme in July 2023 and its key aspects were concluded in September 2023. The debt exchanges that were initiated were geared towards providing significant liquidity relief to the Government, while contributing to reducing future annual gross financing needs of the Government to sustainable levels.

Key Structural Benchmarks (SBs)

The ongoing IMF-EFF programme includes SBs in areas such as fiscal, SOEs, and social safety net reforms, financial sector and governance. Significant progress has been made thus far with respect to achieving these SBs. Major SBs applicable to the Central Bank that have been met include the enactment of the CBA, completion of the asset quality review component of the bank diagnostic exercise for the two largest state owned banks and the three largest private sector banks, the development of a roadmap for addressing banking system capital and forex liquidity shortfalls and recapitalisation plan. Further, Parliamentary approval for the amendments to the Banking Act was obtained although with a delay. With respect to SOE reforms, setting cost-reflective fuel pricing and electricity tariff schedules with formula based adjustments among others are important SBs that were met. These efforts have already shown successful outcomes with improved profitability of chronically loss making entities such as the Ceylon Electricity Board (CEB) and the Ceylon Petroleum Corporation (CPC). Parliamentary approval of the 2024 Appropriation Act, obtaining Cabinet approval of a reduction in the limit on government guarantees to 7.5 per cent of GDP, obtaining Cabinet approval on a strategy to build a Value Added Tax (VAT) refund system and to achieve a full repeal of Simplified Value Added Tax (SVAT) and introducing key performance indicators for tax compliance are some of the fiscal sector related SBs that have been met so far.

Governance

Addressing corruption vulnerability is critical to ensure sustainable and inclusive economic recovery in Sri Lanka. Sri Lanka remains committed to advancing governance and anti-corruption reforms as a main central pillar of the programme. In this regard, Sri Lanka published the Governance Diagnostic Report in September 2023 making Sri Lanka the first country in Asia to undergo the IMF Governance Diagnostic exercise. Further, Sri Lanka recently published the Action Plan to implement the key recommendations of the Governance Diagnostic Report, and this was commended by the IMF at the recent review. The IMF has emphasised the need for sustained efforts to implement these reforms to address corruption risks, rebuild economic confidence, and make growth more robust and inclusive.

Table 1.20

Total Assets of the Financial System

	2022 (a)		2023 (b)	
	Rs. bn	Share (%)	Rs. bn	Share (%)
Banking Sector	**23,928.0**	**76.2**	**24,611.5**	**74.1**
Central Bank	4,510.3	14.4	4,205.4	12.7
Licensed Commercial Banks (LCBs)	17,226.3	54.9	18,121.0	54.6
Licensed Specialised Banks (LSBs)	2,191.4	7.0	2,285.0	6.9
Other Deposit Taking Financial Institutions	**1,812.1**	**5.8**	**1,914.1**	**5.8**
Licensed Finance Companies (LFCs)	1,610.2	5.1	1,692.0	5.1
Co-operative Rural Banks (c)	201.2	0.6	221.3	0.7
Thrift and Credit Co-operative Societies	0.8	0.0	0.9	0.0
Specialised Financial Institutions	**328.9**	**1.0**	**728.7**	**2.2**
Specialised Leasing Companies (SLCs)	1.0	0.0	1.2	0.0
Licensed Microfinance Companies	9.9	0.0	11.7	0.0
Primary Dealers	131.7	0.4	270.8	0.8
Stock Brokers	24.8	0.1	24.3	0.1
Unit Trusts / Unit Trust Management Companies	153.5	0.5	411.6	1.2
Market Intermediaries (d)	8.0	0.0	9.1	0.0
Venture Capital Companies	N/A	N/A	N/A	N/A
Contractual Savings Institutions	**5,320.3**	**16.9**	**5,945.5**	**17.9**
Insurance Companies	947.3	3.0	1,086.9	3.3
Employees' Provident Fund	3,491.8	11.1	3,895.1	11.7
Employees' Trust Fund	465.0	1.5	520.5	1.6
Approved Pension and Provident Funds	330.4	1.1	347.2	1.0
Public Service Provident Fund	85.9	0.3	95.8	0.3
Total	**31,389.4**	**100.0**	**33,199.8**	**100.0**

(a) Revised
(b) Provisional
(c) Due to unavailability of data, asset base of Co-operative Rural Banks as at end 2023 was taken to be same as the asset base as at end 2023 Q3.
(d) Excluding Licensed Banks, Licensed Finance Companies & Specialised Leasing Companies, which are registered as Market Intermediaries

Sources: Central Bank of Sri Lanka
Department of Co-operative Development
Department of Labour
Department of Pensions
Employees' Trust Fund Board
Insurance Regulatory Commission of Sri Lanka
SANASA Federation
Securities and Exchange Commission of Sri Lanka
Unit Trust Association of Sri Lanka

1

Table 1.21 Composition of Assets and Liabilities of the Banking Sector

Item	2022 (a)		2023 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2022	2023
Assets						
Loans & Advances	11,312.5	58.3	11,017.6	54.0	5.5	-2.6
Investments	5,931.7	30.5	7,314.0	35.8	19.4	23.3
Others (c)	2,172.4	11.2	2,074.4	10.2	92.1	-4.5
Liabilities						
Deposits	15,298.7	78.8	16,623.6	81.5	18.8	8.7
Borrowings	1,871.6	9.6	1,389.0	6.8	-13.9	-25.8
Capital Funds	1,598.1	8.2	1,766.9	8.7	18.5	10.6
Others	648.2	3.3	626.5	3.1	52.2	-3.4
Total Assets/Liabilities	**19,416.6**	**100.0**	**20,406.0**	**100.0**	**15.4**	**5.1**

(a) Revised
(b) Provisional
(c) Includes cash and bank balances, placements, reverse repurchase agreements and fixed assets

Source: Central Bank of Sri Lanka

Table 1.22 Composition of Deposits of the Banking Sector

	2022 (a)		2023 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2022	2023
Demand Deposits	1,060.0	6.9	1,079.0	6.5	19.4	1.8
Savings Deposits	3,713.0	24.3	4,293.0	25.8	-7.4	15.6
Time Deposits	10,393.0	67.9	11,042.3	66.4	32.2	6.2
Other Deposits	133.2	0.9	209.3	1.3	12.0	57.2
Total Deposits	**15,299.1**	**100.0**	**16,623.6**	**100.0**	**18.8**	**8.7**

Source: Central Bank of Sri Lanka

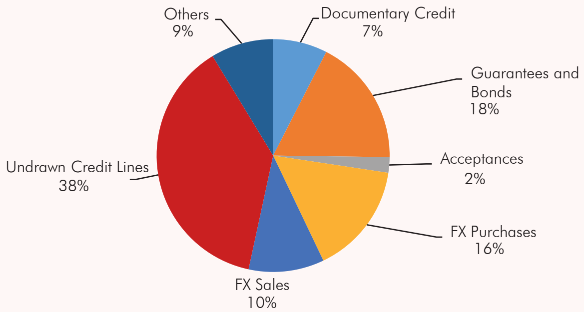
(a) Revised
(b) Provisional

services, thereby promoting financial inclusion. In 2023, 07 bank branches and 272 ATMs were established, while 04 bank branches and 31 ATMs were closed. Accordingly, the total number of banking outlets and ATMs had increased to 7,517 and 6,943, respectively, by the end of 2023. Total assets of the banking sector increased by Rs. 989.4 billion during the year and surpassed Rs. 20.0 trillion by end December 2023. Year-on-year growth of assets recorded 5.1 per cent as at end 2023 compared to that of 15.4 per cent as at end 2022. This slowdown in growth was mainly due to the conversion of foreign currency denominated loans and receivables and investments to Sri Lanka rupee, with the appreciation of the exchange rate. The tight monetary policy stance that prevailed during the first half of 2023 led to a year-on-year contraction of loans and receivables by 2.6 per cent as at end 2023 compared to a growth of 5.5 per cent as at end 2022. Meanwhile, the year-on-year growth in investments accelerated from 19.4 per cent at end 2022 to 23.3 per cent as at end 2023. The increase in investments during the period under review was mainly due to an increase in financial assets at fair value through other comprehensive income by Rs. 828.2 billion and financial investments at amortised cost by Rs. 311.2 billion.

Deposits continued to be the main source of funding in the banking sector, representing 81.5 per cent of total on-balance sheet liabilities as at end 2023, while borrowings accounted for 6.8 per cent. The share of time deposits accounted for 66.4 per cent, while the savings and demand deposits accounted for 25.8 per cent and 6.5 per cent, respectively, of total deposits as at end 2023. Accordingly, the Current and Savings Account (CASA) ratio increased from 31.2 per cent in 2022 to 32.3 per cent in 2023. Total borrowings of the banking sector decreased by Rs. 482.5 billion (negative 25.8 per cent) in 2023 compared to a decrease of Rs. 301.4 billion (negative 13.9 per cent) in 2022. This decrease was mainly attributed to foreign currency borrowings which reported a negative growth of 40.8 per cent (US dollars 514.5 million) reflecting the impact of sovereign rating downgrades, while rupee borrowings decreased by 19.4 per cent (Rs. 256.0 billion) during 2023.

Off-balance sheet exposures of the banking sector reported a growth of 15.6 per cent (increase of Rs. 724.4 billion) during 2023 compared to a negative growth of 0.6 per cent (decrease of Rs. 26.3 billion) recorded during 2022. Significant increases were observed in foreign currency (FX) related off-balance sheet purchases (Rs. 415.0 billion), FX related off-balance sheet sales (Rs. 261.0 billion), undrawn credit lines (Rs. 118.4 billion) and documentary credit (Rs. 52.3 billion), while guarantees and bonds (Rs. 223.8 billion), and acceptances (Rs. 3.8 billion) reported decreases during 2023.

Figure 1.25 Off-Balance Sheet Exposure of the Banking Sector as at end 2023



Source : Central Bank of Sri Lanka

As indicated by the Stage 3 Loans Ratio, credit risk of the Banking Sector remained at an elevated level at end 2023. Stage 3 Loans Ratio of the banking sector increased to 12.8 per cent at end 2023, compared to 11.3 per cent at end 2022 mainly due to increased Stage 3 loans and contraction of loans and receivables, indicating concerns about the credit quality of the sector. However, impairment for Stage 3 loans (including undrawn amounts) grew by 18.4 per cent (year-on-year), improving the Stage 3 Impairment Coverage Ratio to 49.3 per cent at end 2023 compared to 44.9 per cent at end 2022.

Liquidity of the banking sector, as indicated by the Statutory Liquid Assets Ratio (SLAR) and Liquidity Coverage Ratios (LCRs), improved during 2023, mainly due to the high growth in liquid assets in the form of rupee-denominated government securities. The SLAR increased to 44.9 per cent at end 2023 and remained well above the minimum regulatory requirement. Furthermore, Liquid Assets to Total Assets also improved to 35.9 per cent at end 2023 compared to 23.6 per cent at end 2022. A considerable improvement was observed in LCRs of the banking sector during 2023. The Rupee and All Currency LCRs of the banking sector stood at 340.9 per cent and 286.4 per cent, respectively, at end 2023. In addition, the Net Stable Funding Ratio (NSFR) introduced in 2019, which requires banks to maintain sufficient stable funding sources, stood at 158.4 per cent at end 2023, well above the regulatory requirement of 100 per cent.

Profitability improved during the year mainly due to the decline in new impairment charges. Interest income of the banking sector increased by 25.5 per cent, while the interest expenses increased by 42.7 per cent during 2023, resulting in a decrease in net interest income by 4.9 per cent. As a result, the net interest margin decreased from 4.0 per cent at end 2022 to 3.6 per cent as at end 2023. Non-interest expenses increased by Rs. 49.2 billion, largely due to the increase in staff costs by Rs. 16.8 billion, while impairment for loans and other losses decreased by Rs. 305.0 billion during 2023. As a result, profit before tax was Rs. 294.4 billion in 2023 as per the regulatory reporting, which was Rs. 116.6 billion higher than the previous year. Profit after tax of the banking industry was Rs. 188.9 billion during 2023 which was an increase of 22.8 per cent compared to the previous year. The increase in profits was reflected in the Return on Assets (ROA) before tax, which increased from 1.0 per cent as at end 2022 to 1.5 per cent as at end 2023, while Return on Equity (ROE) after tax increased from 10.2 per cent in 2022 to 10.6 per cent in 2023. Further, the efficiency of the banking sector deteriorated from 31.5 per cent as at end 2022 to 40.5 per cent as at end 2023, mainly due to the increase in operating costs.

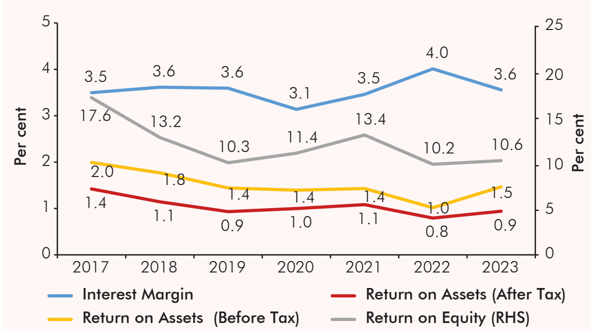
Table 1.23 Profit of the Banking Sector

Item	2022 (a) Amount (Rs. bn)	2022 (a) As a % of Avg. Assets	2023 (b) Amount (Rs. bn)	2023 (b) As a % of Avg. Assets
Net Interest Income	**750.8**	**4.0**	**713.8**	**3.6**
Interest Income	2,079.4	11.0	2,609.0	13.0
Interest Expenses	1,328.6	7.0	1,895.2	9.4
Non-Interest Income	**280.6**	**1.5**	**206.8**	**1.0**
Net Fee & Commission Income	127.0	0.7	132.1	0.7
Non-Interest Expenses	**324.0**	**1.7**	**373.2**	**1.9**
Staff Cost	173.2	0.9	190.0	0.9
Impairment for Loans & Other Losses	**468.8**	**2.5**	**163.8**	**0.8**
Profit Before Tax (after VAT)	**177.8**	**0.9**	**294.4**	**1.5**
Profit After Tax	**153.8**	**0.8**	**188.9**	**0.9**

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

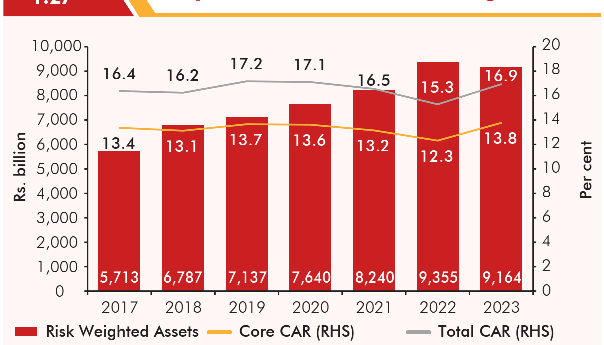
Figure 1.26 **Profitability Ratios of the Banking Sector**



Source: Central Bank of Sri Lanka

The banking sector was largely in compliance with the minimum capital requirements during 2023. Capital adequacy of the sector recorded an improvement at end 2023 compared to end 2022, as risk weighted assets declined during the period, mainly due to the overall credit contraction, increased investments in government securities, and the appreciation of the Sri Lanka rupee. Banks were encouraged to raise high quality capital buffers to absorb the potential losses from the risks arising from challenging business conditions and impact due to external sovereign debt restructuring. As a result, banks increased Tier I capital through retention of profits (Rs. 82.7 billion), issuance of new shares (Rs. 18.6 billion), and increase in reserves (Rs. 17.2 billion) during 2023. The regulatory capital of the banking sector reported a growth of 8.5 per cent during the year, of which Tier I capital contributed 89.7 per cent of the increase.

Figure 1.27 **Capital Ratios of the Banking Sector**



Source: Central Bank of Sri Lanka

Table 1.24 **Composition of Regulatory Capital of the Banking Sector**

Item	Rs. bn 2022 (a)	Rs. bn 2023 (b)	Composition (%) 2022 (a)	Composition (%) 2023 (b)
Tier I: Capital	**1,152.0**	**1,261.6**	**100.0**	**100.0**
Share Capital	366.7	385.3	31.8	30.5
Statutory Reserve Funds	74.3	81.1	6.4	6.4
Retained Profits	544.5	627.2	47.3	49.7
General and Other Reserves	295.2	312.4	25.6	24.8
Others	67.2	77.2	5.8	6.1
Regulatory Adjustments	(195.9)	(221.6)	(17.0)	(17.5)
Tier II: Capital	**277.7**	**290.2**	**100.0**	**100.0**
Revaluation Reserves	35.4	42.4	12.7	14.6
Subordinated Term Debt	135.4	148.8	48.8	51.3
General Provisions and Other	107.3	99.6	38.6	34.3
Regulatory Adjustments	(0.5)	(0.6)	(0.2)	(0.2)
Total Regulatory Capital Base	**1,429.6**	**1,551.8**		

(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Meanwhile, the banking sector increased its Tier 2 capital through issuance of subordinated debentures.

1.5.2 Non-Bank Financial Institutions Sector

Licensed Finance Companies (LFCs)

Despite the challenges stemming from adverse economic conditions, the LFCs sector remained resilient with adequate capital and liquidity buffers throughout the year. The sector recorded growth in terms of assets, deposit base, and profitability. However, the asset quality of the sector deteriorated as reflected by increasing Stage 3 loans. The LFCs sector comprised 33 LFCs[23] accounting for 5.1 per cent of total assets as of end 2023. There were 1,827 branches, of which 1,198 branches (65.6 per cent) were located outside the Western Province. The asset base of the sector recorded growth of 5.1 per cent (Rs. 81.8 billion) reaching Rs. 1,692.0 billion by end 2023, compared to the 10.9 per cent growth in 2022. This was mainly driven by the significant growth of the investment portfolio with increased investments in government securities.

Loans and advances accounted for 68.6 per cent of the total assets of the LFCs sector. During 2023, the loans and advances portfolio

23 Excluding ETI Finance Limited (The Commercial High Court of Colombo ordered that the winding up of ETI Finance Limited be carried out subject to the Supervision of the Court on the 15th day of December 2023).

BOX 3

The Establishment of Business Revival Units in Licensed Banks to Support Sustainable Economic Recovery

Background

The challenging macroeconomic environment that prevailed during the recent years disrupted many business entities limiting their income-generating capabilities and hence forcing them to avoid making timely payments of loans, which resulted in impairing the recovery process of licensed banks (LBs)[1]. As evidenced by the increase of non-performing loans[2] of LBs from 5.2 per cent at end-2019 to 13.6 per cent by the end of Quarter 3 in 2023, which marginally improved later to 12.8 per cent by the end of 2023, the credit quality of the banking sector has deteriorated significantly. The revival of such businesses would enhance economic activities and employment opportunities and hence, contribute to the rebound of the national economy.

With the negative impact of the Easter Sunday attacks in 2019, COVID-19 pandemic and adverse macroeconomic conditions that prevailed during the economic crisis, the Central Bank of Sri Lanka (CBSL) issued multiple guidelines from time to time to LBs to provide relief to the affected borrowers whose debt servicing capacities were impaired. Currently, LBs have established Post COVID-19 Revival Units, and it is a timely requirement for considering a more standardised framework with an enhanced scope in reviving fundamentally viable borrowers, by guiding LBs on eligibility criteria for selection of borrowers, revival mechanisms, corporate workout frameworks and governance framework.

With the onset of slowing down of economies owing to multiple reasons, the business revival frameworks became widely accepted in many countries. The "Out-of-Court Workouts" are negotiated restructurings between the borrower and lender/s with or without the administrative guidelines. The main advantages of "Out-of-Court Workouts" are the expeditious implementation, relatively low-cost, preservation of confidentiality and greater flexibility with respect to the terms and conditions of the restructuring.

Alternatively, some countries practice the business revival processes through the involvement of judicial procedures usually within the legal framework provided by the insolvency laws.

By considering the above factors, to facilitate the sustainable economic revival of businesses affected by the extraordinary macroeconomic circumstances and to ensure a transparent and effective resolution policy framework on reviving the stressed borrowers of LBs, the CBSL issued a Circular in March 2024 on "Guidelines for the Establishment of Business Revival Units in Licensed Banks". The Circular includes broad guidelines to give effect to further strengthen the already established Post COVID-19 Revival Units of LBs on Governance Framework and Resources, Eligibility Criteria for Selection of Borrowers, Revival Mechanisms, Framework for Corporate Workouts, Accounting Considerations and Regulatory Reporting.

Objectives of Establishing Business Revival Units in Licensed Banks

The purpose of Business Revival Units is to identify and assist performing and non-performing borrowers of LBs who are facing challenges or may face potential financial (and/or business) difficulties due to a reduction of income, cash flows or sales, reduction or impairment of business operations or temporary closure of business emanating from extraordinary macroeconomic circumstances.

The Unit aims to revive businesses that are facing actual or potential financial difficulties but are fundamentally viable, intending to provide benefits to such borrowers, leading to the revival of such businesses, enhancing economic activities and contributing to the development of the national economy.

Governance and Operational Framework of Business Revival Units

With a view to reviving viable businesses of borrowers of banks, LBs shall formulate a revival and rehabilitation policy for borrowers who are facing actual or potential financial difficulties but are fundamentally viable, and these policies need to be reviewed and updated, at least annually.

A Business Revival Unit is expected to work in an orderly and an independent manner with Loan Origination, Legal, Risk Management and Credit Enforcement units to ensure that all relevant information and system access for the loans that may fall under the purview of the Business Revival Unit are shared effectively. Further, LBs are required to provide the necessary staff and other resources to establish Business Revival Units, and LBs whose operations are geographically spread across the island are encouraged to have the units regionally, based on the effectiveness of the operation.

Fundamental viability assessment will be a crucial task under the business revival process as the viability assessment procedures should be both effective and transparent. Under the fundamental viability assessment, both quantitative and qualitative indicators will be considered on a prudential basis. These indicators may include the assessment regarding the profitability, leverage, liquidity, maturity profile of liabilities and other relevant qualitative criteria. The viability assessment, to the extent possible, needs to be based on the audited financial statements of the borrower. However, in the absence of audited financial statements for the borrower owing to justifiable reasons, LBs may use appropriate and credible sources of information at the discretion of the bank. In this regard, it will be important for LBs to ensure that borrowers are cooperative, as LBs will consider only such borrowers for revival.

Further, LBs are encouraged to disclose their governance framework, operational procedures and viability assessment methodologies in their Annual Report or any other published reports to enhance accountability and transparency.

Revival Mechanisms: Financial and Operational

The Business Revival Unit shall use financial and/ or operational restructuring tools and techniques or any combination thereof to revive distressed but viable businesses.

- Financial restructuring tools would include debt forgiveness, debt rescheduling including grace periods for the payment of principal and interest, adjustment of interest rates, maturity extensions, and provision of new financing, including interim financing and exit financing.

- Under operational restructuring, the Business Revival Unit may consider proposing fundamental changes in the business's operations or assets to restore commercial viability, developing a new business plan/strategy, and enhancing operational efficiency and profitability of such businesses, improving cash management systems, reviewing pricing strategy, and reviewing customer retention and/or acquisition strategies. Moreover, the Unit may also conduct awareness programmes on rehabilitation initiatives, and provide credit counselling and business advisory services, in reaching out to potential investors.

A Framework for Corporate Workouts

Under the business revival process a Framework for Corporate Workouts is a newly introduced mechanism as an overarching framework for a mutually agreeable business revival plan between a borrower and multiple banks as creditors. Since this is a mutual agreement between parties, a court intervention would not be required. LBs may adopt a collaborative approach to develop a common model for a Framework Agreement for Corporate Workouts that will govern negotiations of a workout agreement between LBs and any eligible corporate borrower that seeks to avail of the Corporate Workout Framework. Currently, a common model is being developed by LBs. Given due consideration to the possible complexities and cost involvement that may arise in the process of negotiating mutually agreeable conditions, this framework is recommended for corporate borrowers.

Way Forward

As per the proposed business revival mechanism of LBs, it is expected that distressed borrowers who are engaged in business activities will be able to revive their businesses with the guidance of LBs, and improved cash flows will be utilised to repay their non-performing loans and thereby improving asset quality of the banking sector.

Further, with the improvement in the macroeconomic environment of the country, the revival of businesses, especially the Micro, Small & Medium Enterprises (MSMEs), would promote sustainable economic growth and employment opportunities and hence, contribute to the sustained development of the national economy. In addition, the other measures, which are in progress, such as establishment of National Credit Guarantee Institution (NCGI), implementation of an enhanced legal framework through the Secured Transactions Act and the expansion of MSME definition to cover a wide scale of businesses will be conducive to revive the affected businesses and accordingly, to contribute the enhancement of economic activities.

Notes

1. Licensed Banks include both licensed commercial banks and licensed specialised banks, licensed under the Banking Act No.30 of 1988, as amended.
2. Non-performing loan means where contractual payments of a customer are past due for more than 90 days or have remained in excess of the sanctioned limit for more than 90 days and any other credit facilities classified as Stage 3 credit facilities under Sri Lanka Accounting Standard 9 (SLFRS 09) (based on potential risk and impaired status at origination).

Figure 1.28 Total Loans and Advances (Gross) by Productwise for 2022 and 2023

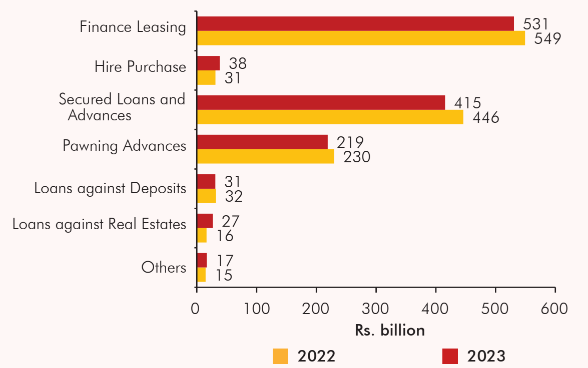


Figure1.28 has been replaced due to a labelling error in the printed version.

Source: Central Bank of Sri Lanka

of the sector recorded a contraction of 3.2 per cent (Rs. 38.0 billion) and amounted to Rs. 1,160.4 billion compared to a growth of 7.7 per cent in 2022. Finance leases dominated the loans and advances portfolio of the sector and accounted for 41.5 per cent of total loans and advances by end 2023, compared to 41.6 per cent by end 2022. Other secured loans including vehicle loans accounted for 32.5 per cent of total loans and advances by end 2023, compared to 33.8 per cent by end 2022. Loans against gold and loans against deposits also contracted by 4.7 per cent and 3.2 percent, respectively, during the year. Meanwhile, other assets that mainly include cash and balances with banks and financial institutions increased by 3.2 per cent in 2023 compared to the 23.2 per cent growth in 2022.

The asset quality of the LFCs sector deteriorated as indicated by the elevated Gross Stage 3 Loans Ratio of 17.8 per cent at end 2023 compared to 17.4 per cent at end 2022. Stage 3 Loans classification where LFCs were required to adopt 120 days past the due date for classification of Stage 3 loans was tightened to 90 days instead of the earlier classification of 120 days on 01 April 2023. Meanwhile, the sector reported an impairment coverage ratio of 32.5 per cent for Stage 3 loans at end 2023. Accordingly, the net Stage 3 Loans Ratio improved to 12.0 per cent by end 2023 from 12.3 per cent as at end 2022.

The LFCs sector's Profit After Tax (PAT) increased by 11.3 per cent from Rs. 42.8 billion in 2022 to Rs. 47.7 billion in 2023, due to increased net interest income and non-interest income. The increase in profitability was reflected in increased ROA to 4.3 per cent in 2023, compared to 3.7 per cent in 2022. However, ROE of the sector marginally reduced to 12.4 per cent in 2023, compared to 12.7 per cent in 2022, due to a comparatively higher increase in equity capital. The cost to income ratio increased to 81.1 per cent in 2023, from 79.9 per cent in 2022.

The capital base of the LFCs sector improved marginally by 3.9 per cent (Rs. 12.3 billion) to Rs. 329.0 billion by end 2023 compared to Rs. 317.0 billion recorded by end 2022. The sector's core capital and total capital ratios increased to 21.1 per cent and 22.3 per cent, respectively, by end 2023 from the levels of 20.6 per cent and 22.0 per cent, respectively, by end 2022. However, 6 LFCs[24] were non-compliant with the minimum core capital requirement and/or capital adequacy requirement.

On an aggregate basis, the LFCs sector maintained liquidity well above the minimum required level during 2023. The overall regulatory liquid assets available in the sector was Rs. 254.9 billion as at end 2023, against the stipulated minimum requirement of Rs. 103.4 billion recording a liquidity surplus of Rs. 151.5 billion as at end 2023, compared to Rs. 86.9 billion recorded as at end 2022.

Customer deposits continued to dominate the liabilities of the LFCs sector accounting for 55.3 per cent. The deposits increased by 8.2 per cent (Rs. 70.8 billion) to Rs. 935.3 billion, while borrowings declined by 17.9 per cent (Rs. 57.8 billion) to Rs. 264.6 billion during 2023.

24 Regulatory restrictions such as deposit caps, lending caps, freeze acceptance of new deposits, and caps on granting new loans have been imposed on LFCs which were non-compliant with the minimum core capital requirement and/or capital adequacy requirements.

1

Specialised Leasing Company (SLC)

There was only one SLC with an asset base of Rs.1.2 billion and loans and advances of Rs. 0.7 billion by end December 2023. Its gross and net Stage 3 loans ratios stood at 57.8 per cent and 33.6 per cent, respectively. PAT of this SLC reduced by 94.3 per cent from Rs. 1.1 billion in 2022 to Rs. 0.1 billion in 2023 due to reduced net interest income.

Primary Dealer Companies in Government Securities

By end 2023, there were 5 LCBs[25] and 5 Primary Dealer Companies (PDCs)[26] active in the government securities market as Primary Dealers (PDs). Total assets of PDCs increased by 105.7 per cent to Rs. 270.8 billion in 2023, compared to Rs.131.7 billion in 2022. The total investment portfolio of government securities amounted to Rs. 261.9 billion by end 2023, which recorded a year-on-year increase of 107.7 per cent from that of Rs. 126.1 billion recorded in 2022.

PDCs reported a PAT of Rs. 35.8 billion during 2023 compared to that of Rs. 1.7 billion reported during 2022, indicating a significant increase in profitability due to increase in interest income, capital gains and increased revaluation gains. ROA and ROE of PDCs enhanced to 25.7 per cent and 139.3 per cent, respectively, by end 2023 from 3 per cent and 19.9 per cent, respectively, recorded in 2022. Equity of PDCs increased by 142.4 per cent mainly due to profits earned during the year. The Risk Weighted Capital Adequacy Ratio of PDCs was well above the minimum required amount of 10 per cent despite a marginal reduction in the ratio to 22.3 per cent by end 2023 from 23.2 per cent reported by end 2022.

Licensed Microfinance Companies

The Licensed Microfinance Companies (LMFCs) sector consisted of 4 companies and reported 18.2 per cent growth of its asset base, reaching Rs. 11.7 billion by end 2023. Micro loans accounted for the largest share of total assets and amounted to Rs. 8.9 billion by end 2023 in comparison to Rs. 7.4 billion by end 2022, reporting a growth of 8.4 per cent. The total deposit base of the sector grew by 31.7 per cent in 2023 to Rs. 812.8 million in 2023 from Rs. 648.3 million in 2022. The core capital level of the sector was Rs. 2.6 billion and all LMFCs were in compliance with the minimum prudential regulations.

Unit Trusts

The number of Unit Trusts (UTs) in operation increased to 84 as at end 2023 from 80 reported as at end 2022 while recording a significant increase in total assets. The number of UT management companies remained unchanged at 16 as at end 2023 compared to end 2022. The funds of the UTs were dominated by Money Market Funds and Income Funds jointly accounting for 84.9 per cent of the UT industry. Total assets of the UTs increased significantly by 171.0 per cent to Rs. 406.5 billion by end 2023 from Rs. 150 billion at end 2022. The number of units issued also increased to 13,371 million as at end 2023 from 6,283 million reported as at end 2022. In addition, the total number of unit holders increased to 93,450 at end 2023 from 67,912 reported as at end 2022. The share of investments in government securities by UTs as a percentage of total assets significantly increased to 77.2 per cent as at end 2023 from 56.7 per cent reported as at end 2022. Meanwhile, investment in equity as a share of UT assets

25 Excluding Pan Asia Banking Corporation (participation in government securities at primary auction was suspended w.e.f. 15.08.2017).

26 Excluding Entrust Securities PLC (participation in government securities at primary auction has been restrained w.e.f. 24.07.2017. A creditor winding up was filed by one of the unsecured investors and on 17.06.2022 the winding up order was given by the courts. However, the winding up case is still pending before the courts due to other legal proceedings), and Perpetual Treasuries Ltd. (business was initially suspended on 06.07.2017 and extended for a further period of 06 months w.e.f. 05.01.2024)

decreased to 4.5 per cent as at end 2023 compared to 7.9 per cent as at end 2022.

Insurance Sector

The insurance sector, which comprises long term and general subsectors, showed mixed performance during 2023. The sector comprised 28 companies in operation as at end 2023, of which 14 operated as exclusive long term insurance companies and 12 as exclusive general insurance companies, while 2 as long term and general insurance businesses. In addition, 78 insurance brokering companies were in operation as at end 2023. The insurance sector recorded an increased gross written premium (GWP) in 2023 compared to 2022. During the year, GWP in the long term and general insurance sectors grew by 12.9 per cent and 3.4 per cent, year-on-year. Insurance penetration in the country, measured by annualised GWP as a percentage of GDP was only 1.0 per cent by end 2023. Assets of the long term insurance sector expanded whilst assets of the general insurance sector contracted. Asset growth of the long term insurance sector was 22.6 per cent (year-on-year) whilst the assets of general insurance contracted by 4.2 per cent (year-on-year) at end 2023. However, given the higher asset base of the long term insurance sector, total insurance sector assets grew by 14.7 per cent, year-on-year, in 2023. Profitability of general insurance sector was low in 2023 compared to 2022. Profit before tax of the long term insurance sector grew by 30.6 per cent in 2023 compared to 2022. However, profit before tax of general insurance sector decreased by 25.6 per cent during this period. Similarly, return on assets and return on equity of general insurance deteriorated during 2023 compared to the previous year whilst the same indicators for long term insurance improved. During the period under review, the capital position of both long term and general insurance sectors improved. Capital Adequacy Ratio (CAR) of general insurance increased to 252.0 per cent by end 2023 from 210.0 per cent a year ago. In long term insurance, CAR improved to 358.0 per cent from 303.0 per cent, a year ago.

Employees' Provident Fund

The net worth of the Employees' Provident Fund (EPF) significantly increased by 11.5 per cent, year-on-year, by end 2023 compared to end 2022. This growth is attributed to the income generated through the prudent investments of the Fund. The total liability to the members also increased by 12.9 per cent during this period. Meanwhile, total contributions received for the year 2023 increased by 8.2 per cent, while the total amount of refunds disbursed to the members and their legal heirs significantly increased by 32.4 per cent. Consequently, the net contribution of the Fund was reported at a negative Rs. 5.3 billion in 2023, compared to a positive contribution of Rs. 31.6 billion recorded in 2022.

The total investment income of the Fund amounted to Rs. 469.3 billion in 2023, registering a notable increase of 48.6 per cent compared to Rs. 315.8 billion in 2022. Interest income continued to be the predominant source of income for the Fund, growing by 26.7 per cent to Rs. 442.4 billion in 2023 from Rs. 349.3 billion in 2022. However, dividend income witnessed a decline of 60 per cent to Rs. 3 billion in 2023, compared to Rs. 7.5 billion in 2022. Despite a substantial increase in the prices of goods and services, the Fund successfully maintained the operating expenses to gross income ratio at 0.49 per cent in 2023. Nevertheless, the tax expenditure of the Fund increased due to increased investment income during 2023.

EPF chose to pursue the Debt Exchange option after carefully considering the two alternatives provided under the DDO operation. On 04 July 2023, the Ministry of

Table 1.25 Five-year Performance Summary of EPF

Item	2019	2020	2021	2022	2023*
Net Worth of the Fund (Rs. bn)	2,540.4	2,824.3	3,166.1	3,459.9	3,857.4
Total Liability to the Members (Rs. bn)	2,497.6	2,767.8	3,066.9	3,380.6	3,817.9
Total Contributions (Rs. bn)	157.2	150.7	165.7	194.6	210.6
Total Refunds (Rs. bn)	126.3	109.7	118.2	163.0	215.9
Net Contribution (Rs. bn)	30.9	41.0	47.5	31.6	(5.3)
Interest Rate on Member Balance (%)	9.25	9.00	9.00	9.00	13.00
Total Number of Member Accounts (mn)	19.4	19.8	20.3	20.4	20.9
Active Number of Member Accounts (mn)	2.9	2.6	2.5	2.7	2.7

* Provisional

Source: EPF Department, Central Bank of Sri Lanka

Finance, Economic Stabilization and National Policies announced the DDO operation, offering two options for Superannuation Funds. The first option allowed EPF to exchange a minimum required amount of its existing Treasury bonds for 12 new series maturing between 2027 and 2038. This exchange would subject EPF to an income tax rate of 14 per cent per annum on its taxable income derived from the Treasury bond portfolio. Alternatively, if EPF chose not to exchange its existing Treasury bonds, a fixed 30 per cent tax rate would be applied to the taxable income generated from its Treasury bond portfolio. After carefully considering these options, the Monetary Board of the CBSL, acting as the custodian of the EPF, chose to pursue the Debt Exchange offer. This decision, made with a long-term perspective and in the best interest of the Fund's members, involved the EPF tendering Rs. 2,667.5 billion face value of Treasury bonds for Debt Exchange.

Employees' Trust Fund

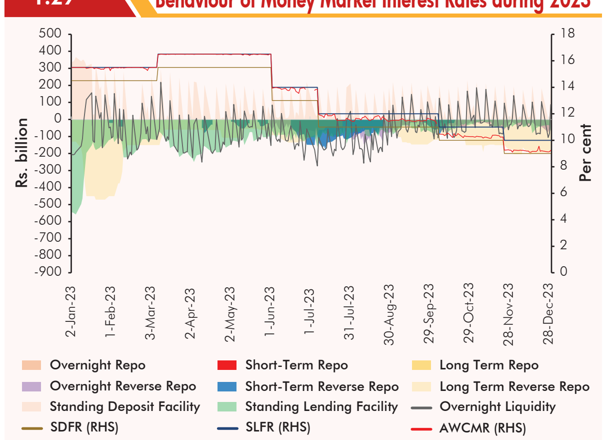
The total assets of the Employees' Trust Fund (ETF) increased by 11.9 per cent, year-on-year, to Rs. 520.5 billion at end 2023. Investments made by the ETF increased by 8.3 per cent. Out of these investments, 93.8 per cent was invested in government securities as at end 2023. ETF managed to earn a return on investment of 12.3 per cent on its member balances in 2023. Out of 15.5 million member accounts of the ETF, only 2.5 million accounts were active as at end 2023. The number of employers contributing to the fund increased to 75,485 as at end 2023 from 68,488 as at end 2022. The total member balance of the ETF decreased by 0.2 per cent and reached Rs. 458.5 billion as at end 2023. The total contributions received to ETF increased by 7.4 per cent (year-on-year) and reached Rs. 37.1 billion, while total benefits paid to members increased by 53.0 per cent (year-on-year) and reached Rs. 38.3 billion during 2023.

1.5.3 Performance of Financial Markets

Domestic Money Market

Liquidity shortage in the domestic money market declined considerably by end 2023. This was due to liquidity injections through foreign exchange purchases of the Central Bank, liquidity provision through term reverse repurchase auctions to LCBs, reduction in the SRR and liquidity provision through the Liquidity Assistance Facility (LAF) to certain licensed banks. The permanent liquidity injection through SRR reduction during 2023 was around Rs. 200 billion. In addition, the Central Bank conducted outright auctions to purchase Treasury bonds from secondary market and injected Rs. 8.5 billion liquidity on a permanent basis. Therefore, the market liquidity indicated an asymmetric distribution in 2023, where certain domestic banks recorded liquidity deficits while most

Figure 1.29 Open Market Operations, Standing Rate Corridor and Behaviour of Money Market Interest Rates during 2023



Source: Central Bank of Sri Lanka

foreign banks recorded a notable liquidity surplus. Daily average transaction value in the call money market decreased to Rs. 8.6 billion in 2023 from Rs. 15.7 billion in 2022. However, daily average transaction value in the repo market increased to Rs. 14.4 billion in 2023 from Rs. 6.8 billion in 2022 indicating increased preference for collateralised lending by financial institutions.

Domestic Foreign Exchange Market

The rupee appreciated by 12.1 per cent against the US dollar during 2023. The USD/LKR exchange rate, which was 363.11 at end 2022, was at 323.92 at end 2023. The Central Bank has allowed the exchange rate to be determined by market forces since 07 March 2023. Meanwhile, domestic FX market liquidity conditions improved following the gradual relaxation of the mandatory FX sales requirement by licensed banks to the Central Bank and inflows under the IMF-EFF. These developments caused market participants' anticipation of further appreciation and induced more conversions of remittances and export proceeds. However, rupee depreciation pressures surfaced during the early part of the second half of 2023 as banks bought FX in the domestic market to cover their FX liabilities as the Government was settling US dollar denominated Sri Lanka Development Bonds held by banks in rupees under the DDO programme. However, Central Bank interventions in the FX market reduced the pressure on the rupee, and the exchange rate stabilised. Further, trading volumes in the domestic FX inter-bank market increased by 56.7 per cent to US dollars 15.0 billion in 2023 compared to US dollars 9.6 billion recorded in 2022.

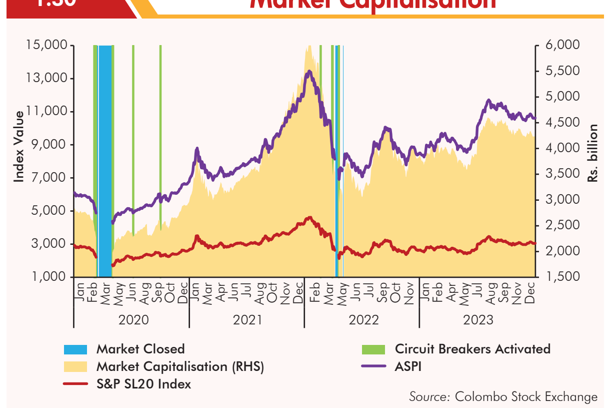
Government Securities Market

In line with policy rate reductions, secondary market yields also decreased resulting in a downward shift in the yield curve. The secondary market yield curve indicated signs transitioning to the regular shaped curve by the end of 2023. Further, liquidity in the secondary market of government securities marginally improved during 2023 which was observed through increased daily average trade volumes and daily average number of trades in the market. Accordingly, during 2023 daily average trade volumes and daily average number of trades increased to Rs 25.7 billion and 80.6 respectively, from Rs 12.5 billion and 39 recorded in 2022. However, the secondary market transactions were skewed towards short term maturities. During 2023, a net foreign inflow of US dollars 210 million into the government securities market was recorded despite a net foreign outflow of US dollars 216 million during the second half of 2023.

Equity Market

The domestic equity market demonstrated a mixed performance during 2023 in terms of price indices, market capitalisation and daily turnover. Overall, both All Share Price Index (ASPI) and Standard & Poor's Sri Lanka 20 (S&P SL20) indices demonstrated positive momentum throughout the year. The increase in price indices was significant following the announcement of the DDO perimeter excluding the banking sector during July-August period. However, the movement of the indices stalled towards the end of 2023 with a negative

Figure 1.30 Movements of Price Indices and Market Capitalisation



Source: Colombo Stock Exchange

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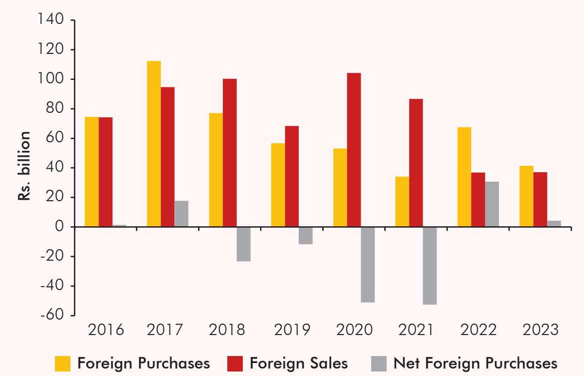
Figure 1.31 Foreign Participation in CSE



Source: Colombo Stock Exchange

movement in ASPI owing to proposed tax amendments, increased food inflation and upward revision of energy prices. Accordingly, ASPI and S&P SL20 indices grew by 24.9 per cent and 15.7 per cent respectively, during the year 2023 while market capitalisation enhanced by 9.7 per cent and stood at Rs. 4,233.3 billion by end 2023. The Colombo Stock Exchange (CSE) recorded an average daily turnover of Rs. 1,696.81 million in 2023, which was a 43 per cent decline compared to Rs.2,972.3 million recorded in 2022. Foreign participation in the domestic equity market in terms of net foreign purchases declined in 2023 compared to the previous year. Accordingly, the market recorded Rs. 4.3 billion (approximately US dollars 13.27 million) net foreign inflows during the year 2023 compared to an inflow of Rs. 30.6 billion (approximately US dollars 74.3 million) recorded during the previous year.

Corporate Debt Securities Market

Commercial Paper (CP) issues were less in 2023 compared to 2022. During 2023, only Rs. 1.3 billion was raised through CPs compared to Rs. 2.0 billion raised through CPs in 2022. The interest rates of CPs varied between 17.0 and 26.5 per cent during 2023 compared to the range of 11.0 to 36.0 per cent reported in the previous year. Throughout 2023, 16 IPOs of corporate debentures were launched by 5 companies in the CSE, collectively raising Rs. 34.6 billion. This marked a notable increase from the Rs. 12.7 billion raised in 2022, spread across 10 IPOs by 4 companies. Notably, debentures featuring both fixed and floating interest rates were issued during the year. The fixed interest rates varied from 13.50 to 29.50 per cent, compared to the previous year's range of 15.42 to 28.00 per cent.

1.5.4 Financial Inclusion

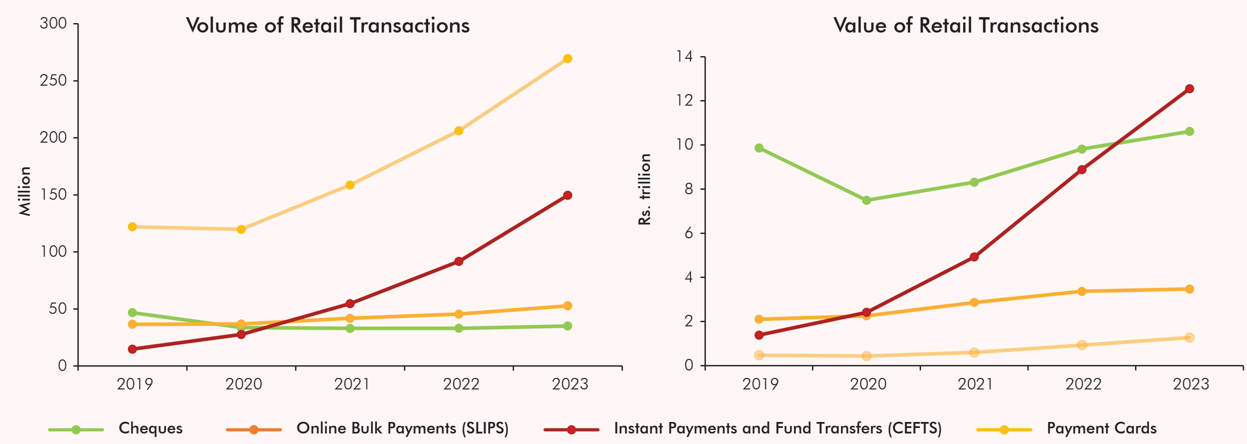
The Central Bank continued to promote financial inclusion during 2023. However, the enactment of the CBA resulted in a discontinuation of the Central Bank funded loan schemes for Micro, Small and Medium Sized Entrepreneurs (MSMEs) and the decision of the Governing Board to phase-out loan schemes carried on behalf of the Government will further scale down the MSME lending activities of the Central Bank. Promoting financial inclusion has become one of the statutory functions of the Central Bank. Further, Phase I of National Financial Inclusion Strategy (NFIS) will be concluded in 2024 and the Central Bank expects to implement the Phase II of the NFIS from 2025. A comprehensive Financial Literacy Roadmap for Sri Lanka has been developed and will be launched in May 2024 with the objective of improving the financial behaviour of the public. Moreover, the Central Bank conducted awareness programmes during the year to enhance financial literacy throughout the country.

1.5.5 Financial Infrastructure

Payment and Settlement Systems

In 2023, Sri Lanka's economy witnessed a significant acceleration in digitalisation, evident from sustained high growth in retail payment systems. This trend reflects a growing preference for digital payment methods in the country. The success of this shift can be attributed to the Central Bank's digital payment

Figure 1.32 Retail Transactions



promotion policy as well as strategies developed by the National Payments Council (NPC), the industry consultative committee on payment and settlement systems.

To ensure the smooth functioning of payment systems, the Central Bank implemented policies to ensure continuous system availability and sufficient liquidity in order to meet the growing demand for digital payment channels. The increasing popularity of online real time fund transfers among the public led to the country's Instant Payment System, i.e., Common Electronic Fund Transfer Switch (CEFTS), recording the highest growth among digital payment systems in 2023. Accordingly, CEFTS based payment channels including LankaPay Online Payment Platform (LPOPP), which facilitates payments to government institutions such as tax payments and customs duties directly from bank accounts, LANKAQR transactions, and JustPay, which allows customers to pay by linking multiple bank accounts to any mobile payment app, including Fintech apps, as well as payment card use experienced a significant growth in 2023.

During the year 2023, there was a notable shift towards online instant payments via CEFTS, as value of instant payments and fund transfers surpassed transactions carried out through more traditional other payment instruments such as payment cards and cheques. Transactions carried out through the Real Time Gross Settlement (RTGS) system, which enables large value transactions for individuals and corporates, as well as interbank transactions, continued to increase. Due to the significant improvement in market liquidity observed in 2023, transactions related to the Intraday Liquidity Facility, which facilitates participants intraday liquidity requirements for RTGS operations and the Standing Lending Facility, which is settled through the RTGS system, decreased in both value and volume. Further, embarking on a policy of regional integration of payment systems, LANKAQR was integrated with Unified Payments Interface (UPI) in India and UnionPay International in China in 2023, enabling visitors using those systems to seamlessly pay via LANKAQR in Sri Lanka.

The Central Bank ensured payment and settlement systems stability via closely monitoring market trends, taking swift policy decisions when necessary and increasing stakeholder awareness as appropriate to mitigate the emerging risks in the payment sector in the country. Accordingly, the Central

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Bank continues to develop the digital payment infrastructure in close coordination with the industry. This effort aims to ensure that Sri Lanka possesses an inclusive and competitive payment industry that supports both the stability of the financial system and the economic recovery.

Anti-Money Laundering and Countering the Financing of Terrorism

Money Laundering and Terrorism Financing (ML/TF) present substantial risks to a nation's financial stability, causing distrust, market distortions, regulatory complexities, reputational damage, and systemic hazards. In 2023, the Central Bank through the Financial Intelligence Unit (FIU) carried out its duties mandated by the Financial Transactions Reporting Act, No. 6 of 2006 (FTRA), by receiving and analysing 1,369 Suspicious Transaction Reports (STRs) and disseminating 236 STRs to LEAs/RAs. Under the risk based supervisory approach, FIU conducted 23 onsite inspections, resulting in issuance of 15 show cause letters and 13 penalty letters to Financial Institutions (FIs), collecting Rs. 21.2 million as penalties. Further, in September 2023, FIU published the 2021/22 National Risk Assessment (NRA) on ML/TF, outlining significant threats, vulnerabilities, and risks encountered by Sri Lanka. Following the NRA findings, the National AML/CFT Policy for 2023-2028 was prepared and approved by the Cabinet of Ministers. Aiming at preparing the key stakeholders for the AML/CFT Mutual Evaluation in 2025, Institution-wise Action Plans were prepared and shared among the stakeholders for implementation. Furthermore, a Task Force for AML/CFT was appointed by the Cabinet of Ministers to monitor the progress of the implementation of these Action Plans.

Legal Reforms Related to the Financial Sector

During September/November 2023, CBA and Banking (Special Provisions) Act, No. 17 of 2023 (BSPA) were enacted and came into operation. Amendments to the Banking Act No. 30 of 1988 were introduced for further strengthening and streamlining the provisions and currently it is under submission to the Parliament. Further, during the year 2023, the Central Bank provided technical assistance to the Ministry of Finance in drafting of the Micro Finance and Credit Regulatory Act and Financial Asset Management Companies Act. Other legal reforms undertaken during the year 2023 include drafting of amendments to the Finance Business Act, No. 42 of 2011; Finance Leasing Act, No. 56 of 2000; Payment and Settlement Systems Act, No. 28 of 2005; Foreign Exchange Act, No. 12 of 2017; and drafting of a new law, namely, Trading Clearing and Netting Act (TCN Act) for development of the Capital Market.

Financial Consumer Protection

In 2023, the Central Bank implemented a significant initiative aimed at fortifying the financial consumer protection framework for Financial Service Providers under its regulatory purview. The new Regulations on Financial Consumer Protection, No. 1 of 2023 was issued under Section 10(c) of the Monetary Law Act, No. 58 of 1949 (MLA) on 8 August 2023. The strengthened framework encompasses comprehensive measures designed to enhance transparency, fairness, and responsible business conduct within the financial sector, thereby fostering a more resilient and consumer-centric financial system. In addition to the robust two-tier complaint handling procedure, these Regulations also provide necessary authority and framework for the Central Bank to carry out market conduct supervision, which is one of the effective mechanisms available for the regulators in supervising financial consumer protection and the Regulations will come into force gradually in 2024. These steps by the Central Bank are aimed at maintaining the integrity and stability of the financial system while prioritising the welfare of financial consumers in Sri Lanka.

Deposit Insurance and Resolution Authority

The Central Bank has been designated as the authority responsible for the resolution of financial institutions under Section 62 of CBA. Accordingly, the Central Bank contributed to the enactment of the BSPA and established the Deposit Insurance and Resolution Department for the efficient exercise of its resolution powers strengthening the Central Bank's resolution authority and enhancement of the financial system stability framework through the administration of a Deposit Insurance Scheme, aligning with global standards.

The Sri Lanka Deposit Insurance Scheme (SLDIS) was re-established under the provisions of BSPA to uphold the public confidence in the financial system and to promote and contribute to the stability of the financial system. The SLDIS comprised 63 Member Institutions and had paid compensation of Rs. 505.0 million during 2023 upholding the confidence of the depositors in the financial system safety net. Further, the Government of Sri Lanka, the World Bank and the Central Bank are engaged in the Financial Sector Safety Net Strengthening Project which aims at strengthening the financial and institutional capacity of SLDIS in line with international best practices for development of an effective deposit insurance system which is vital for financial sector performance and system stability.

Regulation and Supervision of Foreign Exchange

As the government agent for implementing the provisions of the Foreign Exchange Act, No. 12 of 2017, the Central Bank is held responsible for regulating and promoting foreign exchange transactions of the country. Throughout the year, significant enhancements were made to the Export Proceeds Monitoring System (EPMS), a collaborative effort with the Sri Lanka Customs, Licensed Banks and selected large exporters aimed at capturing relevant information to monitor repatriation of export proceeds into Sri Lanka, as per the Rules on "Repatriation of Export Proceeds into Sri Lanka" issued under the Monetary Law Act No. 58 of 1949. These measures helped in reaching an export proceed repatriation figure of US dollars 14,997 million, of which US dollars 4,009 million was converted into Sri Lanka rupees, thereby providing liquidity to the domestic foreign exchange market.

Further, the activities of Restricted Dealers (RDs) who are authorised to engage in money changing business, underwent stringent monitoring. As a result, the performance of such RDs notably improved, with a figure of US dollars 388 million deposited into the banking system as compared to that of US dollars 159.8 million in 2022.

Credit Information

The CRIB continued to play a pivotal role in mitigating default risk of the Financial Institutions and fortifying the financial sector's resilience. Accordingly, CRIB credit scoring provides a holistic assessment of individuals' creditworthiness beyond traditional metrics which empowers borrowers to proactively manage their credit profiles and enables lenders to expedite lending decisions

BOX 4

Market Conduct Supervision: Upholding Trust in the Financial System

Introduction

Recent financial debacles and crises, even in several advanced and well-regulated economies over the past couple of decades, have highlighted the criticality of upholding the trust and confidence of public, especially financial consumers, on financial institutions, financial authorities and the financial system as a whole. Hence, financial authorities around the world have been compelled to reinforce and reshape the scope and approaches to the financial system oversight function with an increased focus on widening financial inclusion and strengthening the financial consumer protection provided to the financial consumers by Financial Service Providers (FSPs). In this context, strengthening the financial consumer protection framework through effective regulations, supervision, and consumer empowerment is becoming one of the priorities of financial authorities worldwide. For example, as per the 2022 Global State of Financial Inclusion and Consumer Protection Survey conducted by the World Bank, out of 113 responded jurisdictions, 109 jurisdictions have regulations on financial consumer protection.

Market Conduct Supervision

Market Conduct Supervision (MCS) is one of the pillars of financial consumer protection and is used by regulators in achieving the overarching goal of market integrity and trust among depositors, borrowers, investors, stakeholders, and the public, contributing to financial system stability and economic growth. A comprehensive or full scope MCS involves a continuous review of FSPs' products, services, systems and procedures, and practices with prompt corrective and enforcement actions. Despite some similarities in its goals, approach process, MCS is different from prudential supervision of financial institutions in terms of its concepts and focus areas and tries to provide fair outcomes for both financial consumers and FSPs.

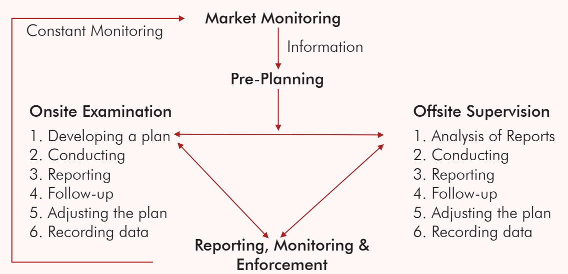
MCS Approaches

As MCS is designed and implemented under different operating environments and structures, two main approaches can be adapted to suit the regulatory objectives, resources, and skill levels as well as the development of the industry and economy as a whole. In a compliance-based approach, supervisors focus on non-compliance with laws and regulations of FSPs and take appropriate enforcement actions to ensure full compliance. In the risk-based approach, supervisors focus on risk analysis and mitigations. Accordingly, the risk-based approach of MCS is more forward looking and the supervisory activities are fine tuned according to the risk levels identified prior and during the supervisory cycle.

Main Supervisory Tools

MCS encompasses a range of supervisory tools such as media watch and product reviews, thematic reviews, mystery shopping and calls, self-assessments by FSPs and direct engagement with FSP leadership focusing on market conduct risks and controls to emerging issues, validating specific practices, and gauging control adequacy. These tools collectively facilitate supervisors to have an effective MCS.

Figure B 4.1 The Market Conduct Supervision Process



Source: Central Bank of Sri Lanka

The Market Conduct Supervision of the Central Bank

Pursuing the development of global financial consumer protection regulations, the Central Bank established the Financial Consumer Relations Department (FCRD) in 2020 and issued the Regulations on Financial Consumer Protection, No. 01 of 2023, under Section 10(c) of the then Monetary Law Act in August 2023, covering all financial institutions under its purview. The Regulations, which will be fully effective from August 2024, integrate and strengthen the existing customer protection frameworks issued under different statutes and empower the Central Bank to supervise the market conduct of FSPs regulated by it.

With the empowerment by the Regulations, the Central Bank has arranged to commence its MCS under a risk-based approach while giving due consideration to the reported non-compliances and malpractices of FSPs. As a precursor to MCS, FCRD conducted a thematic review on the complaint handling mechanism of FSPs. The assessment helped set the background for the MCS process while providing an opportunity for FSPs to improve their internal redress mechanism.

Conclusion and Way Forward

As countries navigate through increased risk and complexities of modern financial products and services, upholding public confidence in the financial system is a key element in achieving financial inclusiveness and system stability. A robust MCS as the main mechanism in regulating financial consumer protection always fosters fair treatment for financial consumers and responsible market conduct of FSPs. This will pave the way for increased public trust in the overall financial system.

In this regard, the Central Bank is developing the necessary mechanisms, competencies, and procedures for conducting MCS of FSPs in terms of the Regulations No. 01 of 2023. As of 2023, the Central Bank has developed a market conduct supervisory manual integrating its supervisory approach, tools, and process with required details and is expected to commence the first full scope MCS during second half of 2024. Going forward, the Central Bank expects to have greater co-operation from market conduct supervisors in other countries and international networks such as Alliance for Financial Inclusion (AFI) and the International Financial Consumer Protection Organisation (FinCoNet) to gain necessary experience and expertise for effective implementation of MCS contributing to a more resilient and stable financial system upholding the trust and confidence of the financial consumers.

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based on reliable predictive models. CRIB also focuses on leveraging advanced technology to analyse lending market data, providing insights into future market developments, changes in consumer behaviour, and evolving societal needs. Users of lending institutions have full access to this value-added analytical product offered by CRIB for objective and structured evaluation of SMEs and MSMEs. Further, to enhance financial inclusivity and encompass the informal sector, which lacks comprehensive credit data and documentation, CRIB is exploring alternative data sources. These sources, such as insurance data, utility payments and telecommunications payments, and e-commerce data are considered formal data sources for assessing reputational collateral. Moreover, the enactment of the Secured Transactions Act (STR Act), will create a secure transaction lending framework to mortgage movable assets in Sri Lanka. This framework will protect the rights of all types of regulated financial institutions, encouraging them to provide financing on moveable collateral.

1.6 Fiscal Sector Developments

1.6.1 Key Fiscal Balances

Despite the challenging socio-political environment, the stellar fiscal performance in 2023, driven by stringent consolidation measures such as revenue enhancement and expenditure rationalisation, noticeably enhanced key fiscal balances, ensuring the continuation of the IMF-EFF programme and bolstering overall macroeconomic stability. Accordingly, the primary balance, which excludes interest payments from the overall deficit and reflects the discretionary component of fiscal policy, recorded a surplus of 0.6 per cent of GDP (Rs.173.3 billion) in 2023,

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Table 1.26
Summary of Government Fiscal Operation

Item	2022	2023 (a)	2023/2022 Absolute Change	2023/2022 % Change
	Rs. million			
Total Revenue and Grants	2,012,589	3,074,324	1,061,735	52.8
Total Revenue	1,979,184	3,048,822	1,069,638	54.0
Tax Revenue	1,751,132	2,720,563	969,431	55.4
Non Tax Revenue	228,052	328,259	100,207	43.9
Grants	33,405	25,502	(7,903)	(23.7)
Expenditure and Net Lending	4,472,556	5,356,591	884,035	19.8
Recurrent	3,519,633	4,699,679	1,180,046	33.5
Interest Payments	1,565,190	2,455,600	890,410	56.9
o/w Domestic	1,436,569	2,332,208	895,639	62.3
Foreign	128,621	123,391	(5,230)	(4.1)
Capital and Net Lending	952,923	656,912	(296,011)	(31.1)
o/w Public Investment	1,014,293	932,745	(81,548)	(8.0)
Current Account Balance	-1,540,448	-1,650,857		
Primary Balance	-894,777	173,332		
Overall Fiscal Balance	-2,459,967	-2,282,267		
Total Financing	2,459,967	2,282,267	(177,700)	(7.2)
Foreign Financing	424,822	494,655	69,833	16.4
Domestic Financing	2,035,145	1,787,612	(247,533)	(12.2)
	As a Percentage of GDP (b)			
Total Revenue and Grants	8.4	11.1		
Total Revenue	8.2	11.0		
Tax Revenue	7.3	9.8		
Non Tax Revenue	0.9	1.2		
Grants	0.1	0.1		
Expenditure and Net Lending	18.6	19.4		
Recurrent	14.6	17.0		
Interest Payments	6.5	8.9		
o/w Domestic	6.0	8.4		
Foreign	0.5	0.4		
Capital and Net Lending	4.0	2.4		
o/w Public Investment	4.2	3.4		
Current Account Balance	-6.4	-6.0		
Primary Balance	-3.7	0.6		
Overall Fiscal Balance	-10.2	-8.3		
Total Financing	10.2	8.3		
Foreign Financing	1.8	1.8		
Domestic Financing	8.5	6.5		

(a) Provisional
(b) GDP estimates (base year 2015) released by the Department of Census and Statistics on 15 March 2024 have been used.

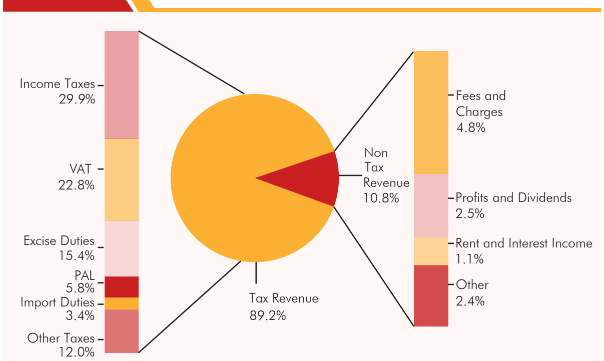
Source: Ministry of Finance, Economic Stabilization and National Policies

compared to the deficit of 3.7 per cent (Rs. 894.8 billion) recorded in 2022, overachieving the Quantitative Performance Criteria (QPC) set under the IMF-EFF arrangement. A primary surplus was recorded last in 2018, and since 1950 the country has registered a primary surplus only in six years. Maintaining a positive primary balance is crucial for fostering fiscal sustainability and effectively controlling the accumulation of debt. In the meantime, although the current account[27] deficit widened in nominal terms on account of higher interest payments, the same in GDP terms narrowed marginally. The overall budget deficit narrowed to 8.3 per cent of GDP (Rs. 2,282.3 billion) in 2023, in comparison to 10.2 per cent of GDP (Rs. 2,460.0 billion) recorded in the preceding year. The initial estimate for the overall deficit was 7.9 per cent of GDP (Rs. 2,404.0 billion).

1.6.2 Government Revenue, Expenditure, and Net Lending

Reflecting Government's commitment to fiscal consolidation, a substantial increase in government revenue was recorded in both nominal terms and as a percentage of GDP in 2023, compared to 2022. Accordingly, in nominal terms government revenue recorded a year-on-year growth of 54.0 per cent, while in GDP terms revenue increased by 2.8 percentage points to 11.0 per cent of GDP in 2023. Numerous tax reforms implemented in the second half of 2022 and in 2023 supported the expansion in revenue collection. The significant rise in tax revenue was mainly due to the increased collections from income taxes, VAT, excise duties, import duties, and Special Commodity Levy (SCL). The Social Security Contribution Levy (SSCL) that was introduced in October 2022 also contributed to this increase in government revenue. The significant increase in income taxes in 2023 was

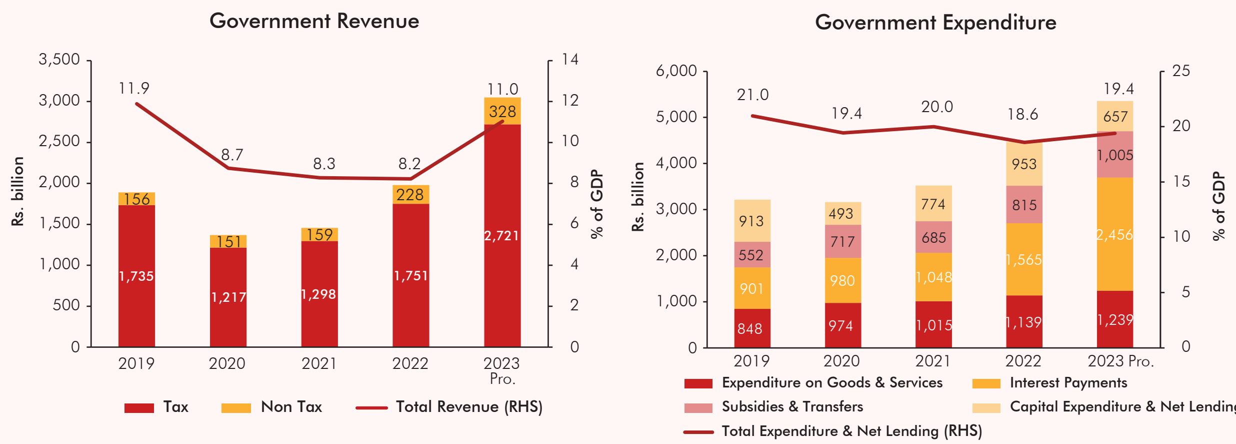
Figure 1.33
Composition of Government Revenue - 2023

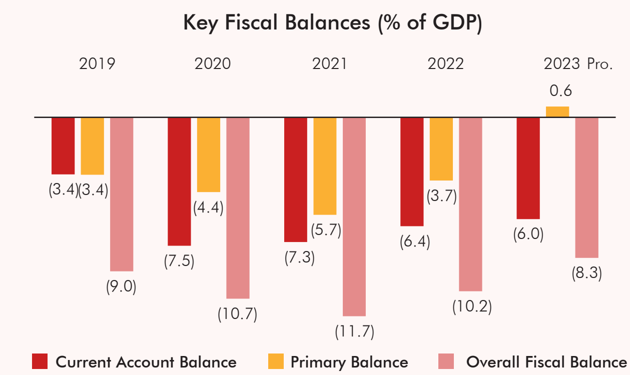


Source: Ministry of Finance, Economic Stabilization and National Policies

27 The current account balance represents the difference between the total revenue and the total recurrent expenditure.

Figure 1.34 **Government Revenue, Expenditure and Key Fiscal Balances**





Tax reforms implemented in the second half of 2022 and in 2023 resulted in a notable growth in government revenue in 2023, while rationalisation measures enabled the Government to rein in expenditure to some extent, despite the increased domestic interest payments. Fiscal consolidation measures led to a notable improvement in fiscal balances, especially with a primary surplus being recorded after a five years period and for the sixth time since 1950.

Source: Ministry of Finance, Economic Stabilization and National Policies

achieved through key policy measures including revisions to the personal income tax structure in terms of the tax-free threshold, tax rates, and tax brackets, mandatory registration requirement for specific professionals under the Inland Revenue Department (IRD), upward revision of the standard corporate income tax rate, and the elimination of concessionary rates related to corporate income taxes. Consequently, income tax collection increased from 2.2 per cent of the GDP in 2022 to 3.3 per cent of GDP in 2023. Meanwhile, the incremental adjustment of the VAT rate in two phases during 2022, coupled with the downward revision to the VAT registration threshold in the latter part of the same year that widened the tax net related to VAT, contributed to the notable growth in VAT collection in 2023. Accordingly, VAT revenue collection increased to 2.5 per cent of GDP in 2023 from 1.9 per cent of GDP in the preceding year. Excise duty structures on liquor, cigarettes, petrol, and diesel were revised several times during 2023 leading to the revenue collection from excise duties to increase from 1.4 per cent of GDP in 2022 to 1.7 per cent of GDP in 2023. International trade related taxes, including import duties and SCL, exhibited a substantial year-on-year growth in nominal terms due to upward revisions to the rates during 2023. However, when measured in GDP terms, their increase was only marginal, constrained by subdued imports due to restrictions on non-urgent imports maintained during most part of 2023, and reduced affordability. At the same time, the collection from SSCL amounted to 0.8 per cent of GDP in 2023. Revenue from Ports and Airports Development Levy (PAL) and Cess levy experienced a decline during the year under review due to the steps taken in 2023 to gradually phase out both para tariffs.

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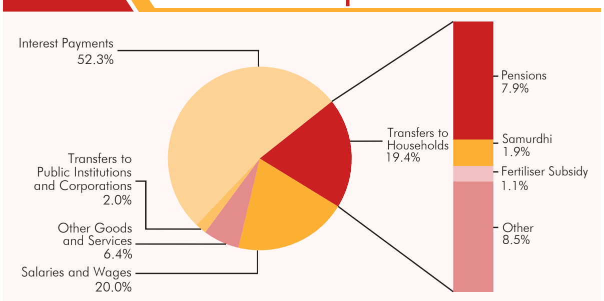
Meanwhile, non-tax revenue also increased during 2023 both in nominal and real terms, mainly driven by higher revenue collection from sources such as fees and charges, as well as profit and dividend transfers from State Owned Enterprises (SOEs). According to the initial budget estimates for 2023, total revenue was projected to be 12.5 per cent of GDP, with tax revenue and non-tax revenue estimated at 11.3 per cent and 1.2 per cent of GDP, respectively. Despite the notable improvement in revenue collection in 2023 compared to the previous year, there was an underperformance of revenue relative to the initial ambitious budget estimates for 2023. The realised revenue for 2023 amounted to 88.4 per cent, with realised tax revenue standing at 86.9 per cent of the initial projections. This shortfall could be attributed to faster deceleration in inflation than anticipated in the budget, continued subdued import demand, exchange rate appreciation, and issues related to revenue administration. Tax measures such as the upward revisions to the income tax structure have led to an increase in the share of direct tax collection, reaching 33.5 per cent in 2023 compared to 30.5 per cent in 2022.

The total expenditure and net lending increased both in nominal terms and as a percentage of GDP, mainly driven by the substantial escalation in domestic interest expenditure, despite the notable reduction in capital expenditure and net lending. Accordingly, in nominal terms, government expenditure recorded a year-on-year growth of 19.8 per cent, while in GDP terms expenditure increased only by 0.8 percentage points in 2023. The significant nominal rise in domestic interest expenditure was influenced by elevated domestic interest rates stemming from tight monetary conditions prevailed until June 2023 and high risk premia attached to government securities amidst uncertainties over DDO. In addition, overreliance on domestic financing due to the Government's limited access to foreign financing also contributed to the rise in domestic interest cost. Interest cost accounted for 80.5 per cent of the total government revenue and 45.8 per cent of total government expenditure in 2023 compared to 79.1 per cent and 35.0 per cent recorded in 2022, respectively. Meanwhile, expenditure on pension payments rose considerably during 2023, with the increased retirements during the year due to revisions implemented in the preceding year in relation to reducing retirement age for public sector employees from 65 to 60. Further, free medicine, and implementation of the Aswesuma Welfare Benefit Scheme contributed for the increase in subsidies and transfers. On the other hand, salaries and wages declined marginally in nominal terms as well as in GDP terms, as a result of freezing of new recruitments to the public sector and sizeable retirements of public servants from the workforce. Meanwhile, capital expenditure and net lending recorded a notable decline both in nominal terms as well as GDP terms. This reduction was primarily attributed to a significant decrease in net lending, caused by the settlement of the on-lending facility provided to CPC in 2022 through the Indian Credit Line. Capital expenditure excluding the impact of net lending as a percentage of GDP increased to 3.3 per cent in 2023 from 3.0 per cent in 2022. According to the initial budget estimates

Figure 1.35 **Composition of Government Recurrent Expenditure - 2023**



Source: Ministry of Finance, Economic Stabilization and National Policies for 2023, total expenditure was projected to be 21.2 per cent of GDP, with recurrent expenditure and capital expenditure and net lending estimated at 16.8 per cent and 4.4 per cent of GDP, respectively. The Government's efforts in curbing non-urgent and non-essential expenditure through the continuation of expenditure rationalisation measures kept total expenditure in check, preventing recurrent expenditure rising far above the budget estimates, despite higher than expected domestic interest payments.

1.6.3 Financing the Budget Deficit

In 2023, the Government continued to rely primarily on domestic sources to finance the budget deficit, largely due to existing constraints in accessing international capital markets. Accordingly, net domestic financing accounted for 78.3 per cent of the total debt financing during the period under review. Although this share has slightly reduced compared to the past two years, where it exceeded 100 per cent in 2021, the current percentage still remains relatively high in comparison to the 62.3 per cent and 57.5 per cent recorded for 2019 and 2018, respectively, when similar restrictions were not in effect. Once the impact of the transactions in relation to the DDO operation is eliminated, the total net domestic financing was predominantly sourced through Treasury bills, reflecting a strong market preference for short term instruments over long term instruments due to uncertainties and higher Treasury bill rates prevailed during the first half of the year.[28] In 2023, net financing from Treasury bills amounted to 7.5 per cent of GDP (Rs. 2,058.6 billion), up from 6.7 per cent of GDP (Rs. 1,608.2 billion) recorded in 2022. Conversely, net financing from Treasury bonds decreased to 2.5 per cent of GDP (Rs. 692.3 billion) in 2023, down from 6.0 per cent of GDP (Rs. 1,440.2 billion) in 2022. Net domestic financing from the banking sector experienced a significant contraction, with a net prepayment of 0.02 per cent of GDP (Rs. 6.4 billion).[29] This reduction was offset by non-bank sources, which accounted for 6.5 per cent of GDP (Rs. 1,798.5 billion) in 2023. Meanwhile, the share of net foreign financing in total net financing increased to 21.7 per cent in 2023, in comparison to 17.3 per cent in the preceding year. The net foreign financing in 2023 includes gross funds received under the two tranches of the IMF-EFF facility, which was granted as budget support. Additionally, notable receipts were received from other multilateral agencies such as ADB and the International Development Association (IDA) of the World Bank. These funds were provided in support of the Government's economic stabilisation programme and to support expenditure on social safety nets.

Sovereign rating agencies maintained their downgraded rating status for Sri Lanka due to the standstill on selected foreign debt service payments. Accordingly, Fitch Ratings and S&P Global Ratings maintained the long term foreign currency Issuer Default Rating (IDR) for Sri Lanka at RD (Restricted Default) and SD (Selective Default), respectively. Moody's Ratings maintained the long term foreign currency issuer credit rating at 'Ca' (Stable). In the meantime, the announcement of the DDO operation prompted the international sovereign credit rating agencies to downgrade the ratings of local currency domestic debt of the Government, while the same were upgraded with the successful completion of the DDO operation.

28 During the year, Sri Lanka Development Bonds and Central Bank Provisional Advances were settled as part of the DDO operation.

29 In contrast to the contraction recorded in net domestic financing from the banking sector under this section, NCG figures given under the Monetary Sector Developments of this Chapter show an expansion. This discrepancy can be attributed to the timing of recording the debt transfer associated with CPC's public guaranteed debt to the central government debt stock which was accounted for in the banking sector records only in 2023, despite being transferred by end 2022 as per the records of Ministry of Finance.

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1.6.4 Central Government Debt and Public Debt [30]

Central government debt as a percentage of GDP declined to 103.9 per cent by end 2023 from 114.2 per cent in 2022, primarily due to the notable growth in nominal GDP driven by high inflation and the impact of currency appreciation on foreign debt. Accordingly, domestic debt and foreign debt as a percentage of GDP declined from 62.5 per cent and 51.8 per cent, respectively, in 2022 to 61.7 per cent and 42.1 per cent, respectively, in 2023.[31] However, nominal value of the total debt[32] increased by 4.4 per cent driven solely by a rise in domestic debt, while outstanding foreign debt, valued in domestic currency, decreased from the levels observed in 2022. The nominal increase in total domestic debt reflects the substantial financing needs fulfilled from the domestic market amidst limited foreign financing options. The share of medium and long term domestic debt as a percentage of total domestic debt increased to 74.2 per cent by the end of 2023 from 65.7 per cent at the end of December 2022. This change was primarily due to the conversion of the Central Bank's Treasury bill holding and provisional advances to the Government into longer term Treasury bonds under the DDO operation, increasing the share of medium to long term debt, thereby extending the maturity period of the debt stock, assist in lowering the Gross Financing Needs (GFN) for the Government. This is crucial in achieving debt sustainability targets agreed with the IMF. Furthermore, during the first half of 2023, the Government settled the outstanding stock of Rupee Loans, while the outstanding balance of the government guaranteed foreign currency debt stock of CPC, which was absorbed into central government debt by end December 2022, remains unchanged by end of 2023. Meanwhile, the decrease in foreign debt in nominal terms by end 2023 compared to end 2022 was due to the appreciation of the rupee against major foreign currencies. The parity related reduction of foreign debt in 2023 amounted to Rs.1,431.4 billion. However, the decline in the rupee value of the foreign debt stock was partially offset by funds received from multilateral organisations, including the two tranches of the IMF-EFF facility received in March and December 2023. In previous IMF programmes, IMF financing was treated as a liability of the Central Bank. However, in the latest arrangement, which focused on providing budget support to the Government, proceeds are transferred to the Government, thereby being treated as a liability of the Government, increasing the overall central government debt. As of end 2023, the relative share of outstanding foreign debt of the central government decreased to 40.6 per cent of total central government debt, compared to 45.3 per cent recorded at the end of 2022.

The outstanding public debt[33] decreased to 110.8 per cent of GDP at end 2023 from 119.2 per cent of GDP at end 2022, in line

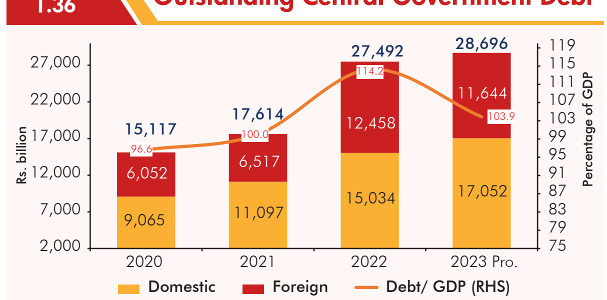
30 Government Debt Statistics are presented net of bank deposits of the Government.

31 As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics 2014 of the IMF, non-resident holding of debt have been classified as foreign debt while resident holdings of debt have been classified as domestic debt.

32 In the context of ongoing discussions on external debt restructuring, the outstanding central government debt as at end 2022 and end 2023 excludes several debt service payments that became overdue after 12 April 2022, the date on which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Economic Stabilization, and National Policies. These debt service payments comprise overdue interest payments of affected debt, which are deemed to be capitalised as per the Interim Policy. Further, the balance as at end December 2022 excludes the value of certain coupon payments in relation to Sri Lanka Development Bonds that became overdue from April 2022 till end 2022.

33 The outstanding public debt includes debt of the central government and public guaranteed debt.

Figure 1.36 Outstanding Central Government Debt



Sources: Ministry of Finance, Economic Stabilization and National Policies
Central Bank of Sri Lanka

Table 1.27

Outstanding Government Debt (a) (b)

Rs. billion

Item	2022	2023 (c)
Domestic Debt (d)	**15,033.9**	**17,051.9**
By Maturity Period		
Short Term (e)	4,267.7	3,616.2
Medium and Long Term (f)	9,882.1	12,646.9
Other Domestic (g)	884.1	788.7
By Institution (h)		
Bank (h)	8,525.7	9,102.8
Non Bank (h)	6,164.0	7,506.3
Repurchase Transaction Allocations (i) (j)	344.1	442.7
Foreign Debt (k) (l)	**12,458.2**	**11,644.1**
Multilateral	3,611.6	3,817.0
Bilateral and Commercial	8,846.6	7,827.1
By Currency		
SDR	1,604.7	1,737.1
US Dollars	8,716.9	7,943.9
Japanese Yen	979.6	819.4
Euro	417.4	396.6
Other	739.6	747.1
Total Outstanding Central Government Debt	**27,492.0**	**28,695.9**
Public Guaranteed Debt (m) (n)	**1,180.7**	**1,931.3**
Public Debt	**28,672.7**	**30,627.3**
As a percentage of GDP (o)		
Total Outstanding Central Government Debt	**114.2**	**103.9**
Domestic Debt	**62.5**	**61.7**
Foreign Debt	**51.8**	**42.1**
Public Guaranteed Debt	**4.9**	**7.0**
Public Debt	**119.2**	**110.8**

Sources: Ministry of Finance, Economic Stabilization and National Policies
Central Bank of Sri Lanka

(a) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics 2014 of the IMF, non resident holdings of outstanding SLDBs have been classified under foreign debt and resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt. Further, debt statistics are presented on net basis (net of deposits).

(b) The outstanding central government debt as at end 2022 and end 2023 excludes several debt service payments that became overdue after 12 April 2022, the date on which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Economic Stabilization and National Policies. These debt service payments comprise of overdue interest payments of affected debt which are deemed to be capitalised as per the Interim Policy. Further, the balance as at end December 2022 excludes the value of certain coupon payments pending settlement in relation to Sri Lanka Development Bonds that became overdue from April 2022 till end 2022.

(c) Provisional

(d) From 2023 onwards, domestic debt compilation method was changed and is based on the data confirmed by the Ministry of Finance, Economic Stabilization and National Polices.

(e) Excludes Treasury bills held by non resident investors

(f) Excludes Treasury bonds held by non resident investors

(g) Data from 2022 includes outstanding balance of the government guaranteed foreign currency debt of the Ceylon Petroleum Corporation that was absorbed into central government debt.

(h) Institution wise classification was revised from Annual report 2022 based on the records of the Central Depository System

(i) Includes security holdings under Repurchase agreements for which absolute ownership could not be established

(j) Holdings under repurchase transactions with respect to Open Market Operations, have been allocated to the respective Licensed Commercial Bank or Standalone Primary Dealer

(k) Foreign loan debt statistics and classification of foreign debt for 2022 and 2023 are prepared based on the data sourced from the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) maintained by the Ministry of Finance, Economic Stabilization and National Policies, and extracted on 09 March 2023, 10 March 2023 and 26 February 2024.

(l) From December 2022 onwards, several outstanding project loans which were previously classified under Ceylon Electricity Board, Airport and Aviation Services Ltd. and Sri Lanka Ports Authority were absorbed into central government debt.

(m) Compilation of public guaranteed debt is based on data received from the Ministry of Finance, Economic Stabilization and National Policies as of 29 February 2024.

(n) Includes an international bond amounting to US dollars 175 million issued by the SriLankan Airlines in June 2014. This was matured in June 2019 and re-issued for a period of 5 years.

(o) GDP estimates (base year 2015) released by the Department of Census ad Statistics on 15 March 2024 have been used.

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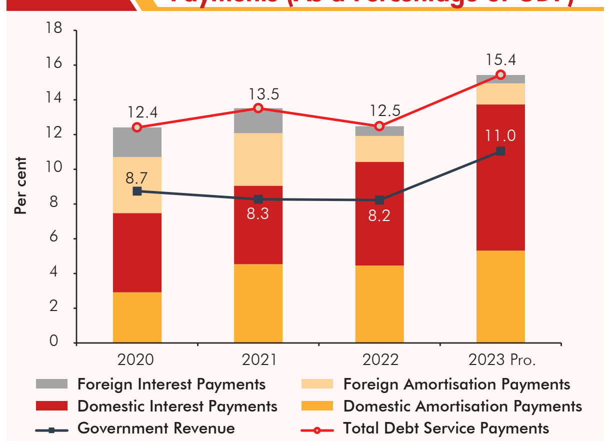
with the reduction in central government debt in GDP terms. In absolute terms, the total outstanding public debt increased to Rs. 30,627.3 billion at end 2023 from Rs. 28,672.7 billion at end of 2022, which was an increase of 6.8 per cent, year-on-year.

The Government successfully implemented the DDO operation in 2023 with the aim of achieving debt sustainability alongside other measures in this regard. Accordingly, eligible Sri Lanka Development Bonds (SLDBs) holdings were converted into five new variable coupon Sri Lanka rupee denominated Treasury bonds while Treasury bonds held by Superannuation Funds were converted into new Treasury bonds featuring medium to long term maturities. Furthermore, outstanding Treasury bill holdings of the Central Bank and outstanding provisional advances from the Central Bank to the Government were converted into ten new step down fixed coupon Treasury bonds and into twelve existing Treasury bills. The successful implementation of the DDO operation has led to the conversion of short term debt maturities into medium to long term maturities, thereby mitigating refinancing risk while lengthening the average time to maturity of the domestic debt portfolio. Spreading repayment obligations over an extended period alleviates immediate financial pressures and facilitates the establishment of a more manageable and sustainable debt structure. Meanwhile, the Government is actively engaging with external creditors to negotiate relief on external debt. Accordingly, an Agreement in Principle (AIP) has been reached with the Official Creditors Committee (OCC) and China EXIM Bank, leading to the current process of signing a Memorandum of Understanding (MOU). The Government also continues its efforts in negotiating with private debt holders to restructure external commercial debt, complying with comparability of treatment and the agreed debt sustainability targets.

1.6.5 Central Government Debt Service Payments

The total debt service payments increased to 15.4 per cent of GDP in 2023 from 12.5 per cent of GDP in 2022, mainly driven by the increased domestic interest payments. Domestic debt services rose to 13.7 per cent of GDP in 2023 compared to 10.4 per cent in 2022, marking a nominal increase of Rs. 1,283.1 billion. At the same time, the rise in domestic amortisation payments was associated with increased settlement of Treasury bonds, an increase of Rs. 468.7 billion during 2023 compared to 2022. In comparison, a decrease in foreign debt service payments to 1.7 per cent of GDP in 2023 from 2.0 per cent of GDP in 2022 was recorded due to continued suspension of certain foreign debt commitments following the Government's debt standstill announcement in 2022.

Figure 1.37 Central Government Debt Service Payments (As a Percentage of GDP)



Sources: Ministry of Finance, Economic Stabilization and National Policies
Central Bank of Sri Lanka

Chapter 2

REVIEW OF CENTRAL BANK POLICIES

Summary

The Central Bank's mandate of achieving and maintaining domestic price stability and securing financial stability is reinforced by the Central Bank of Sri Lanka Act No. 16 of 2023 (CBA) that came into effect in September 2023. CBA stipulates price stability as the prime objective of the Central Bank and financial stability as the other objective. It recognises Flexible Inflation Targeting (FIT) as the monetary policy framework supported by a flexible exchange rate regime. Moreover, the Central Bank has been designated as the macroprudential authority. CBA was enacted amidst a myriad of economic challenges that emerged with the severe economic crisis in the country in 2022. The crisis response and prudent policy measures implemented by the Central Bank and the Government, supported by the IMF-EFF programme, helped restore macroeconomic stability to a great extent in 2023. On the monetary front, in view of benevolent inflation developments and improvements in the external sector, there was a shift from a tight monetary policy stance to an accommodative stance since June 2023. The imposition of interest rate caps on selected lending products, effective monetary policy communication amidst uncertainty, and measures taken to improve liquidity conditions in the market resulted in accelerated monetary policy transmission and a notable downward adjustment in market interest rates by end 2023. Showing signs of spillover of easing monetary conditions to the real economy, a reversal of the trend of private sector credit contraction was observed since June 2023. On the external front, the Central Bank, having discontinued the daily guidance given to the market since mid-2022, allowed greater flexibility in the determination of the exchange rate in March 2023. In line with improved foreign exchange liquidity in the market, the exchange rate was allowed to be determined by market forces thereafter. Intervention by the Central Bank in the domestic foreign exchange market was only aimed at preventing any unwarranted excessive volatility and accumulating Gross Official Reserves (GOR). Reflecting the improved external sector position and the return of confidence, the Sri Lanka rupee appreciated, while GOR improved notably. In the meantime, the majority of the administrative controls that the Central Bank and the Government had put in place during the foreign exchange crunch were progressively loosened in 2023. In the financial sector, prudential regulatory measures and crisis-preparedness of the Central Bank enabled financial institutions to weather the impact of economic turmoil, thus safeguarding domestic financial system stability. During 2023, an Asset Quality Review (AQR) was completed for nine key banks to identify structural weaknesses in

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the banking sector and build resilience. Meanwhile, frameworks and methodologies are being prepared along with strengthening interorganisational coordination for the Central Bank to effectively play the role of the macroprudential authority of the country. Complying with the requirements under CBA, the promotion of financial inclusion in Sri Lanka emerged as a policy priority of the Central Bank pertaining to regional development. Further, the Central Bank forged ahead with promoting digital payments and e-money services, while actively facilitating cross border transactions. Regulations enabling the Central Bank to start market conduct monitoring were released in order to guarantee effective financial consumer protection. Meanwhile, the Sri Lanka Deposit Insurance Scheme was strengthened through a financing mechanism offered by the World Bank, while backstop funding arrangements were established with the Ministry of Finance.

2.1 Monetary Policy Framework

The Central Bank's mandate of maintaining domestic price stability is reinforced by the newly enacted Central Bank of Sri Lanka Act, No. 16 of 2023 (CBA) in September 2023. CBA stipulates achieving and maintaining domestic price stability as the primary objective of the Central Bank. CBA formally recognises Flexible Inflation Targeting (FIT) as the monetary policy framework and requires the signing of a monetary policy framework agreement by the Minister of Finance and the Central Bank, setting out the inflation target to be achieved. Although the Central Bank gradually moved towards FIT as its monetary policy framework over time, the legislative enactments required to formally adopt FIT as the monetary policy framework came into effect only with the enactment of CBA. Accordingly, the Central Bank entered into an agreement with the Minister of Finance in October 2023 to maintain headline inflation at a target of 5 per cent.[1] The target for inflation is to be reviewed every three years, or before that if exceptional circumstances warrant it. CBA includes provisions for enhanced transparency and public accountability by the Central Bank. Accordingly, if the Central Bank fails to meet the inflation target,[2] the Monetary Policy Board of the Central Bank shall submit a report to the Parliament, which shall also be made available to the public. The report will set out the reasons for the failure to achieve the inflation target, the remedial actions proposed to be taken by the Central Bank, and an estimate of the time period within which the inflation target shall be achieved. Meanwhile, CBA allows increased operational and financial independence to the Central Bank, thereby strengthening policies targeted at fulfilling its mandate effectively. Accordingly, monetary financing of the budget deficit is prohibited with the exception of circumstances specified by the CBA. Limits were also introduced on provisional advances to finance government expenditure. The provisions in CBA would help ensure that inflation in Sri Lanka would be maintained at low and stable levels in the period ahead, while ensuring that inflation expectations remain well anchored, thereby benefiting all stakeholders of the economy. Meanwhile, CBA provides for the coordination of fiscal, monetary, and financial stability policies through the establishment of the Coordination Council, where the Governor of the Central Bank, who also acts as the Chairperson, and the Secretaries to the Treasury and the Ministry of the Minister assigned the subject of Economic Policy[3] serve as members.

1 Communicated to the public under the Extraordinary Gazette Notification No. 2352/20 dated October 5, 2023.

2 If quarterly average (year-on-year) headline inflation (CCPI-based) misses the target rate by a margin of ±2 percentage points for two consecutive quarters.

3 In the event that such subject is assigned to a Minister other than the Minister of Finance.

The Coordination Council meets quarterly to exchange views on recent macroeconomic developments, outlook, and risks.

2.2 Monetary Policy Stance and Measures

The Central Bank's monetary policy stance in 2023 saw a gradual transition from the significant tightening of monetary policy in 2022 to an accommodative stance in the latter half of 2023. The notable moderation of inflation and well anchored inflation expectations, subpar economic activity amidst subdued domestic demand conditions, and the easing of external sector pressures paved the way for the Central Bank to pursue a relaxed monetary policy stance during the year. As inflation peaked in September 2022, in line with the anticipated disinflation trajectory, the Central Bank initiated moral suasion to reduce interest rates from their peak levels in late 2022. Despite the gradual moderation of excessive market interest rates from late 2022, the Central Bank was compelled to raise policy interest rates, i.e., the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 100 basis points in early March 2023 to fulfil the 'prior action' that was required to be met to finalise the International Monetary Fund - Extended Fund Facility (IMF-EFF) arrangement. However, the magnitude of this increase was notably below the level of adjustment envisioned in the initial round of negotiations. Despite this increase in policy interest rates, active communication by the Central Bank alleviated the impact of such increase on market interest rates. Upon observing signs of a sustained moderation of inflation, the Central Bank commenced easing monetary policy in early June 2023, and policy interest rates were reduced by a total of 650 basis points over four occasions during the year. Considering the somewhat sluggish downward adjustment in overall market lending interest rates, caps on interest rates of selected lending products were imposed by the Central Bank in late August 2023, forcing a reduction in excessive interest rates of those products in line with the accommodative monetary policy stance. In order to induce a downward adjustment in overall market interest rates on rupee loans and advances, broader guidelines were issued for banks requiring lending interest rates to be reduced by at least 350 basis points by end 2023 compared to the levels that prevailed at end July 2023. These measures were reinforced in frequent dialogue with the banking sector to ensure that overall market lending interest rates declined to levels consistent with the policy interest rates. In March 2024, measures were taken to loosen monetary policy further by way of reducing the policy interest rates by 50 basis points, which is expected to support credit growth and revival of economic activity through the expected further reduction in market lending interest rates in the backdrop of low inflation.

Measures were taken to improve liquidity conditions in the domestic money market in 2023. Overall liquidity in the domestic money market remained largely at deficit levels during the period leading up to August 2023, which is expected to have hindered the effective transmission of monetary policy easing measures to market interest rates. Accordingly, in line with the easing of the monetary policy stance, the Central Bank implemented several policy measures to address the persistent liquidity deficit in the domestic money market. Consequently, the Statutory Reserve Ratio (SRR) applicable to licensed commercial banks (LCBs) was reduced to 2.00 per cent from 4.00 per cent with effect from 16 August 2023, which released around Rs. 200 billion of liquidity to the domestic money market. Further, the Central Bank provided special liquidity assistance facilities with a view to improving the liquidity positions of stressed licensed banks. Furthermore, as a precaution, the Central Bank strengthened its Emergency Liquidity Assistance (ELA) Framework enabling it to provide funds to licensed banks in the event of any imminent financial panic. The Central Bank also conducted active open market operations (OMOs) injecting liquidity on a term basis through term reverse repo auctions as needed in addition to the overnight reverse repo auctions. Moreover, with a view to injecting liquidity on a permanent basis, auctions for outright purchase of Treasury bonds were conducted in 2023, which followed into the first few weeks of 2024.

Measures were also taken to reactivate the money markets by reducing LCBs' overreliance on the overnight funding facilities of the Central Bank. With effect from 16 January 2023, restrictions were imposed on the accessibility of the standing facilities to LCBs. Accordingly, the usage of the Standing Deposit Facility (SDF) was limited to a maximum of five (05) times per calendar month, while the Standing Lending Facility (SLF) was limited to 90 per cent of SRR of each LCB on any given day. These restrictions prompted licensed banks to explore alternative options for liquidity management. As a result, a reactivation in domestic money market activity was observed, while LCBs reduced their reliance on Central Bank facilities. In view of the improvements observed in the money markets, steps were taken to ease restrictions on the usage of the standing facilities gradually, where the restriction on SLF was removed, while the restriction on SDF was initially relaxed to ten (10) times during a calendar month with effect from the reserve maintenance period from mid-February 2024 and a policy decision was taken to remove it completely with effect from April 2024.

Supported by the aforesaid monetary policy measures and operations, market interest rates eased, and overall credit conditions improved in 2023. The Average Weighted Call Money Rate (AWCMR), which is the short term interest rate closely monitored by the Central Bank as the operating target to guide the market interest rates under the FIT framework, declined towards the lower bound of the Standing Rate Corridor (SRC) during 2023. With these developments and the finalisation of the Domestic Debt Optimisation (DDO) operation and the associated decline in risk premia, yields on government securities declined significantly during the year paving the way for the notable reduction in overall market interest rates. As a result, the interest rate structure of the economy normalised with retail market lending rates reducing to levels supporting some expansion of credit to the private sector. Accordingly, credit to the private sector, which suffered continued contractions since mid-2022, marked a turnaround from June 2023, recording an expansion of credit on a monthly basis until the end of the year supporting the recovery of domestic economic activity. Despite the recovery, credit to the private sector recorded a contraction of 0.6 per cent, year-on-year, by end 2023, as credit declined significantly during the period from January to May 2023. Meanwhile, credit granted by the banking system to the public sector comprising the Government and State Owned Business Enterprises (SOBEs) also witnessed a contraction in 2023. The Central Bank's policy on monetary financing underwent a complete overhaul with the enactment of CBA. Despite the transitional provisions allowing for monetary financing to continue for 18 months from the enactment of CBA, the Central Bank phased out the outstanding Net Credit to the Government (NCG) by reducing its holdings of government securities, which is also in line with the IMF-EFF arrangement. With the gradual unwinding of the Central Bank's holdings of government securities and the reduction in funds obtained by LCBs and Primary Dealers (PDs) from the SLF owing to improvements in domestic money market liquidity and restrictions on the usage of SLF, NCG by the Central Bank contracted in 2023. At the same time, to build up the Gross Official Reserves (GOR), the Central Bank's purchases of foreign exchange from the domestic foreign exchange market contributed to enhancing the Net Foreign Assets (NFA) of the Central Bank.

The monetary policy communication strategy of the Central Bank during 2023 was focused on the continuation of the disinflation process, reduction of market interest rates in line with the reduced risk premia following the DDO operation and effecting a faster transmission of the accommodative monetary policy stance during the second half of the year. During the first half of 2023, the Central Bank's communication strategy focused on ensuring the continuation of the disinflation process by anchoring inflation expectations and persuading financial institutions to reduce the large spread between market interest rates and policy interest rates, which was caused by the substantial premium that persisted on yields on government securities amidst the uncertainties associated with the DDO operation. During the second half of the year, the Central Bank's communication was focused on expediting the transmission of accommodative monetary policy for the benefit of the masses. A mix of conventional channels and social media was used by the Central Bank to enhance monetary policy communication during the year. Monetary policy announcements were communicated via press releases in all three languages, and they were complemented by press conferences chaired by the Governor of the Central Bank. These press conferences were livestreamed via social media, and important messages were made available on the Central Bank's social media channels as short video snippets. The practice of publishing the inflation fan chart in the press releases on monetary policy and inflation was continued throughout the year, in order to guide the stakeholders of the economy about the anticipated developments of inflation, thereby helping the anchoring of medium term inflation expectations. This approach marked an important development in the monetary policy communication strategy of the Central Bank, consistent with the FIT framework, where forward-looking information plays a major role. Meanwhile, the Governor and senior officials of the Central Bank participated in various events and programmes to raise awareness on monetary policy. Simultaneously, regular publications of the Central Bank, including the Annual Report, were completed in a timely manner. The publication of the first Monetary Policy Report (MPR) of the Central Bank in July 2023 marked an important step in the monetary policy communication strategy of the Central Bank. The main aim of this publication is to communicate the rationale for the monetary policy decisions taken during the relevant period, thereby contributing to enhancing the accountability of monetary policymaking of the Central Bank. In addition, MPR serves a key purpose in the FIT framework by providing an important means of communicating anticipated developments of key macroeconomic variables, thereby helping the stakeholders of the economy to make informed economic decisions, incorporating forward-looking information. As per the statutory requirement in CBA, the Central Bank is required to publish the MPR bi-annually, and accordingly, the first MPR as a statutory publication was published in February 2024. Along with the publication of this MPR, short non-technical video clips highlighting the key messages of the publication were made available via the Central Bank's social media channels with the aim of improving the reach of the content of the Report to a wider audience. In addition, the releases of the two MPRs were also complemented by separate technical awareness sessions for journalists, and the academia and professionals. Effective monetary policy communication helps in anchoring inflation expectations, enhancing policy transmission, and reducing uncertainty, all of which are essential for achieving the Central Bank's prime objective of maintaining domestic price stability. Moreover, clear communication enhances the credibility and effectiveness of monetary policy, contributing to economic stability and resilience. Accordingly, among other factors, the efforts of the Central Bank during 2023 to enhance the effectiveness of monetary policy communication contributed to the disinflation process, reduction in risk premia in market interest rates, and faster transmission of the accommodative monetary policy stance to the financial sector and the real economy.

2.3 External Sector Policies

2.3.1 Exchange Rate Policy

Sri Lanka followed a flexible exchange rate regime during most of 2023. The Central Bank allowed greater flexibility in the determination of exchange rate with effect from 07 March 2023 by discontinuing the daily guidance given to the market since May 2022, considering the improvement in the liquidity in the domestic foreign exchange market. Accordingly, the exchange rate was allowed to be determined based on the demand and supply conditions in the domestic foreign exchange market only with limited interventions by the Central Bank aimed at preventing any excessive volatility in the exchange rate and accumulating GOR through purchases of foreign exchange from the market. Previously, during 2021 and in early 2022, the Sri Lanka rupee was maintained at stable levels before being allowed a measured adjustment in the exchange rate in early March 2022. However, the outcome of this adjustment fell short of expectations due to the large overshooting of the exchange rate. Accordingly, the Sri Lanka rupee depreciated significantly by end April 2022. Due to this instability, the Central Bank commenced providing daily market guidance to the interbank foreign exchange market from 13 May 2022 onwards that helped stabilise the exchange rate from significant intraday volatility. This was implemented by publishing a middle spot exchange rate and a variation margin on either side (+/-) of the middle spot exchange rate on a daily basis. The margin varied in a range of Rs. 1.00 – Rs. 10.00 and was set either symmetrically or asymmetrically on the middle spot exchange rate from time to time. With these measures, greater stability of the exchange rate was observed during the period reflecting the effectiveness of this policy. With a view to encouraging activity in the domestic foreign exchange market and restoring a market-driven exchange rate in line with its FIT framework, the Central Bank commenced a gradual relaxation of the daily variation band, while loosening the mandatory sales requirement. By early March 2023, the daily guidance given to the market was discontinued while the policies relating to forex conversions implemented in 2022, such as the mandatory requirement imposed on licensed banks (to sell foreign exchange to the Central Bank on a weekly basis) on account of converted inward workers' remittances and service sector related export receipts and the residual value of converted export proceeds of goods, were revoked in March 2023. Accordingly, the liquidity conditions and sentiments in the domestic foreign exchange market improved notably. Moreover, operating instructions issued in 2020 to licensed commercial banks on the Inward Investments Swaps (IIS) Scheme were also revoked in 2023. The above measures helped improve foreign exchange liquidity conditions as well as market sentiments leading to appreciation of the Sri Lanka rupee in 2023.

The enactment of CBA reiterated the importance of a flexible exchange rate regime to complement the FIT framework. According to CBA, the Central Bank is charged with the implementation of a flexible exchange rate regime in line with the FIT framework in order to achieve and maintain domestic price stability. A flexible exchange rate regime is also expected to foster a deeper and more liquid foreign exchange market. With the adoption of the flexible exchange rate policy mandated by CBA, the anti-export bias that prevailed in the past through an overvalued currency would be eliminated in the future and the exchange rate would move in line with the demand for and supply of foreign exchange in the domestic foreign exchange market. With the adoption of the flexible exchange rate policy, the market confidence improved notably, resulting in significant net inflows to the domestic foreign exchange market. Consequently, the exchange rate appreciated against the US dollar by 12.1 per cent in 2023 and by 7.6 per cent by end March 2024 in line with market fundamentals. These developments enabled the Central Bank to purchase, on a net basis (based on value date), US dollars 1.7 billion in 2023 and around US dollars 1.1 billion during the first quarter of 2024. Further, this policy will safeguard the country from the extreme impacts of external shocks to Sri Lanka, since the exchange rate will be allowed to adjust in response to shocks, thus external sector stability will be restored eventually through the Balance of Payments (BOP) adjustments.

2.3.2 Exchange Restrictions and Capital Flow Management Measures (CFMs)

Most administrative measures introduced at the time of the foreign exchange crunch were gradually relaxed in 2023. During the time preceding and during the economic crisis in 2021 and 2022, the Government, in consultation with the Central Bank, imposed a number of exchange restrictions and capital flow management measures to overcome the severe shortage of foreign exchange in the domestic foreign exchange market. In addition, the Central Bank itself implemented several measures to limit foreign exchange outflows from the country, while encouraging more inflows. Most of such exchange restrictions and other limitations were eliminated in 2023 in line with the gradual improvement in the liquidity conditions in the domestic foreign exchange market and in view of improving the external sector outlook on multiple fronts. In May 2023, the unremunerated cash margin deposit requirement imposed a year earlier on imports of certain items on payment terms of Letters of Credit (LC), Documents against Payment (DP), and Documents against Acceptance (DA) were removed. Other such restrictions that were withdrawn include the rationing of foreign exchange by the Central Bank and the Central Bank's informal guidance to authorised dealers to prioritise access to foreign exchange for the imports of essential items. The Minister of Finance and the Central Bank issued necessary regulations and directions under the provisions of the Foreign Exchange Act (FEA) No. 12 of 2017 for the purpose of removing certain restrictions on the conversion of Sri Lanka rupees into foreign exchange for certain current international transactions and for removing certain limits on the repatriation of proceeds derived from current transactions by emigrants. The previous regulations that were in place under the repealed Exchange Control Act No. 24 of 1953 on mandatory requirement to repatriate goods export proceeds were reissued, under FEA in October 2019. In February 2021, the mandatory conversion requirement on such repatriated export proceeds was introduced. In addition to goods exports, proceeds of services exports were also included in the requirement of repatriation and mandatory conversion of export proceeds in October 2021. However, the conversion requirement in relation to services export proceeds was removed in August 2022.

Certain suspensions and limitations on capital transactions imposed as CFMs were also relaxed during 2023. During the crisis period, several CFMs were rolled out by the Government and the Central Bank to discourage the outflows of foreign exchange in order to support BOP conditions in the country. Once BOP conditions started to improve, some of the previously imposed CFMs were gradually relaxed. Accordingly, the temporary suspension of payments made through Outward Investment Accounts (OIAs) for the purpose of making overseas investments by persons resident in Sri Lanka was relaxed up to a certain level. However, limitations on making payments through OIAs for selected capital transactions continue to remain. In addition, limitations on outward remittances for capital transactions made via Business Foreign Currency Accounts (BFCAs) held by persons resident in Sri Lanka were also further relaxed. However, temporary restrictions imposed on outward remittances for capital transactions made via Personal Foreign Currency Accounts (PFCAs) held by persons resident in Sri Lanka continue. In addition, limitations on the transfer of funds outside Sri Lanka by emigrants under the migration allowance were further relaxed. The Government and the Central Bank have formulated a plan for the phased removal of remaining CFMs, subject to reaching some milestones in the external sector conditions.

In addition, the Central Bank introduced further policy measures during the year considering current and expected developments in the domestic foreign exchange market. As a measure for encouraging foreign exchange inflows into the country, authorised dealers were permitted to open and maintain Special Foreign Currency Accounts (SFCA) – Investee, for companies in Sri Lanka, out of the proceeds received as equity. Directions were also issued in relation to the BFCAs and accommodations to BFCAs, broadening certain foreign currency transactions between the entities engaged in the business of marine fuel (bunker), transport and logistics. Moreover, the automated export proceeds monitoring system which was implemented in June 2022 was further improved during the year to give access for selected exporters to reconcile their exports with remittances as an avenue to strengthening the monitoring of the repatriation of export proceeds to the country. In addition, measures such as (i) unremunerated cash margin deposit requirement on imports of certain items made under payments terms of LC, DA and DP payment terms; (ii) the use of the weekly volume weighted average rate for Central Bank's foreign exchange sales in bilateral non-request for quote outright spot transactions with authorised dealers; (iii) providing an incentive for inward workers' remittances such as the reimbursement of transaction cost of workers' remittances that result in a more favourable effective exchange rate for such transactions, which were identified by the IMF as multiple currency practices, were eliminated in 2023.

2.3.3 Relaxation of Import Restrictions

The Government removed import restrictions in 2023, on the broad recommendation from the Central Bank to effect relaxation on a priority basis, apart from restrictions on vehicle imports. The Central Bank recommended to the Ministry of Finance in May 2023 to relax the restrictions on imports of temporarily suspended items, except personal motor vehicles after careful consideration of the improvements observed in the domestic foreign exchange market and the gradual buildup of GOR, while also considering the dampening impact of continued import restrictions on economic activity. Accordingly, restrictions on imports of temporarily suspended items were removed in three stages in June, July, and October 2023, keeping only motor vehicles under temporary suspension. The restrictions on imports under certain payment terms that were imposed in May 2022, mainly on open account terms, were continued throughout 2023. However, the requirement to obtain prior approval from LCBs for imports under DA and DP terms was removed by the end of February 2024. These relaxations, together with the easing of import restrictions by the Government from mid-2023, resulted in a gradual increase in imports that supported the revival of economic activities and a reduction in price levels of import items.

The above policy measures adopted in 2023 helped the external sector achieve greater stability during the year. These market-driven policy measures encouraged more foreign exchange inflows to the country and as a result, the liquidity conditions and market sentiments in the domestic foreign exchange market improved notably, leading to a sharp appreciation of the Sri Lanka rupee. These conditions enabled the Central Bank to buildup international reserves substantially during the year by purchasing forex from the domestic market.

2.4 Financial Sector Policy Measures

2.4.1 Designation of the Macroprudential Authority

CBA designates the Central Bank as the Macroprudential Authority in Sri Lanka. The Act empowers the Central Bank with a mandate to exercise, perform and discharge powers, duties, and functions in pursuing the macroprudential objectives to achieve financial stability. Three intermediate macroprudential objectives are articulated in the Act as maintaining the resilience of the financial system in a manner that supports the provision of financial services even under adverse economic and financial conditions; containing risks from unsustainable increases in credit and leverage; containing risks from interconnectedness within the financial system and control the risk of failure of individual systemically important institutions. The Central Bank, as the macroprudential authority, is vested with powers, amongst other things, to monitor, identify or assess the buildup of risks and vulnerabilities in the financial system; request, collect, compile, analyse or publish data, information and statistics in order to achieve the macroprudential objectives; conduct stress testing and simulation exercises; designate systemically important financial sector participants; adopt and apply the macroprudential instruments to financial institutions regulated and supervised by the Central Bank; formulate strategies and policies to mitigate or address identified systemic risks; identify gaps in regulation that could pose systemic risks. Furthermore, the Act outlines provisions for the establishment of the Financial System Oversight Committee (FSOC) to contribute to securing the stability of the financial system in line with the macroprudential policy by bringing aspects of the sector that are not under the direct supervision or regulation of the Central Bank and ensuring a coordinated approach in policy recommendations. In addition to the suite of quantitative and qualitative macroprudential instruments identified by CBA, novel instruments and measures may be adopted as necessary to safeguard the resilience of the financial system.

During 2023, the Central Bank continued to develop its macroprudential instruments to be implemented as part of broad policy actions to mitigate or eliminate systemic risks. Accordingly, the Central Bank has developed methodologies and frameworks to introduce a Debt-Service-to-Income (DSTI) ratio for the household sector; caps on Loan to Value (LTV) for credit facilities for housing purposes and the Counter Cyclical Capital Buffer (CCyB). The DSTI and LTV, which are borrower based macroprudential instruments, are envisaged to curb excessive credit demand and to mitigate the buildup of systemic risks while curtailing potential credit losses of banks and minimising the risks associated with excessive indebtedness. The CCyB aims to address the procyclicality in the financial system, thereby shielding the banking sector from excessive credit growth during the upswings in the cycle and facilitating the supply of credit to the economy during a downturn. The Central Bank will vigilantly monitor macrofinancial developments to implement macroprudential instruments designed and calibrated in 2023 when required to address systemic imbalance to enhance the resilience of the financial system.

2.4.2 Policies Related to Licensed Banks

During 2023, the Central Bank continued to introduce policy measures and regulations to strengthen financial and operational resilience, thereby ensuring the safety and soundness of the banking sector. Banking Act Directions on Restrictions on discretionary payments of Licensed Banks were introduced to mitigate the possible adverse impact on liquidity and capital position of Licensed Banks stemming from macroeconomic conditions that prevailed at the time, while seeking to ensure the maintenance of appropriate levels of liquidity and capital. As per these directions, Licensed Banks were required to defer payments of cash dividends and profit repatriation for 2023 until the completion of the external audit of financial statements/interim financial statements for 2023. Further, Licensed Banks were also required to refrain from engaging in share buybacks, increasing management allowances, and payments to Boards of Directors (BOD), and incurring non-essential and/or non-urgent expenditure, while exercising extreme due diligence and prudence when incurring capital expenditure until end 2023. Licensed Banks were further required to form a Board-Level Sub Committee, to operate during the year and in 2024, to evaluate and approve non-essential, non-urgent and/or capital expenditure to be incurred by the bank. Amendments were subsequently made requiring Licensed Banks to refrain from increasing management allowances of Chief Executive Officers (CEO), Key Management Personnel (KMP), and payments to BODs, unless the increase is recommended by the Human Resource and Remuneration Committee and approved by BOD, subject to the considerations stipulated therein.

Several microprudential measures were also targeted at addressing issues pertaining to the liquidity conditions of banks. To proactively address probable liquidity constraints and their impact on the stability of individual banks and the overall financial sector, a Banking Act Determination was issued determining qualifying non-financial corporate debt securities and qualifying non-financial common equity shares, as defined in the Banking Act Directions on the Liquidity Coverage Ratio under Basel III liquidity standards, to be treated as liquid assets in the computation of the Statutory Liquid Asset Ratio of Licensed Banks.

Amendments were made to the Banking Act Direction on 'Regulatory Framework on Technology Risk Management and Resilience for Licensed Banks' during the year with the aim of enhancing the information security and resilience requirements for critical information systems while establishing a higher risk management measure for the banking sector. The amendments were pertinent to the identification of critical information systems, requirements related to the recognition of third party service providers, frequency of user access privilege reviews, criteria for determining ownership, and management of information system infrastructure. Further, with a view to encouraging Micro, Small and Medium Enterprises (MSMEs) and individuals with the potential to revive their businesses or income streams to commence repayment of loans, while preventing any elevated strain on the financial sector, licensed banks were requested to provide appropriate concessions on a case-by-case basis through their branch network to the affected borrowers due to extraordinary macroeconomic conditions that prevailed during the year.

2.4.3 Policies related to Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs)

A guideline on the declaration of dividend/ repatriation of profits was issued during the year to streamline the existing approval process of LFCs when declaring dividends considering the profitability, capital adequacy and shareholder returns. It is envisaged to strengthen the resilience and capacity of LFCs to absorb economic shocks that could arise during times of uncertainty, while ensuring their ability to facilitate the credit needs of customers.

The LFCs and SLCs sector was requested to grant concessionary measures with the view of safeguarding MSMEs and individuals amid the challenging macroeconomic conditions that were prevalent in recent years. These measures were focused on facilitating the recovery of MSMEs and individuals who possessed the potential to revive their business or income streams and thereby would be able to commence repayment of loans. Such concessions extended by the LFCs and SLCs encompassed restructuring and rescheduling of credit facilities of performing and non-performing borrowers, suspension of recovery actions against non-performing credit facilities on a case-by-case basis and encouraging early settlement of existing performing or rescheduled credit facilities by applying reduced rates for early settlement charges and recovery of future interest.

The Masterplan for the Consolidation of Non-Bank Financial Institutions, which was unveiled in 2020, will continue to create strong, dynamic, and resilient LFCs over the medium term, thereby safeguarding the interest of depositors and preserving financial system stability. Further, LFCs that are unable to comply with the directions and rules issued under the Finance Business Act No. 42 of 2011 and adhere to the Masterplan will be directed to exit from the market upon cancellation of their licences.

Regulatory and resolution actions were initiated during the year in an expeditious manner, on companies, which were non-compliant with prudential directions and whose licences had been cancelled or suspended. These early interventions during the year mitigated the likelihood of financial distress or failure and helped curb any undue burdens on the deposit insurance fund. The regulatory actions implemented in this regard included the imposition of restrictions on non-compliant LFCs regarding deposits and borrowings, extension of the business suspension of a primary dealer, and appointment of liquidators in accordance with the orders given by the Commercial High Court for four failed LFCs, whose licences have been cancelled or suspended.

2.4.4 Public Debt Management Policies

The Ministry of Finance, Economic Stabilization and National Policies announced its policy on Sri Lanka's Domestic Debt Optimisation (DDO) operation on 04 July 2023. The DDO operation is a key initiative in efforts to restore Sri Lanka's public debt sustainability under the IMF-EFF arrangement. Accordingly, eligible Treasury bonds held by eligible holders, Treasury bills held by the Central Bank, Provisional Advances made by the Central Bank to the Government of Sri Lanka, Sri Lanka Development Bonds (SLDBs), excluding those held by individual investors and foreign currency denominated bank loans of the Government

Table 2.1 Summary of the Domestic Debt Optimisation (DDO) Operation

Item	Execution Date	Volume Optimised (Rs. Billion)
SLDBs	15 August 2023	252
Treasury bonds	14 September 2023	3,204
Treasury bills held by the Central Bank and Provisional Advances provided by the Central Bank to the Government	21 September 2023	2,713

Source: Central Bank of Sri Lanka

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issued under the local law were converted or exchanged into longer term Treasury bonds, as applicable. The DDO operation was executed in several phases. All outstanding SLDBs were either converted or settled in full by the end of November 2023. The restructuring of remaining foreign currency denominated bank loans issued under local law is currently underway. The execution of the DDO operation helped create much needed fiscal space for the Government in the short to medium term. The recent local currency credit rating assessments by international credit rating agencies also acknowledged these developments in their forward looking opinion about Sri Lanka's creditworthiness on local currency obligations, following the completion of the DDO. In the meantime, the Central Bank continued to support the Government and the appointed financial and legal advisors on the external debt restructuring process.

2.4.5 Policies for Financial Inclusion

Following the enactment of CBA, the promotion of financial inclusion in Sri Lanka, in line with the need for a more inclusive and sustainable financial system has emerged as a policy priority of the Central Bank pertaining to regional development. The National Financial Inclusion Strategy (NFIS) Action Plan is successfully in operation in collaboration with stakeholders. Phase I of NFIS, which commenced in 2021, is expected to be concluded in 2024. Meanwhile, the Financial Literacy Roadmap for Sri Lanka will soon be launched to nurture the creation of a financially literate community.

The Central Bank envisages to continue existing MSME loan schemes, which were implemented on behalf of the Government and donor agencies, until the conclusion of such loans despite its policy decision to phase out new loan schemes, following the enactment of CBA. The operational periods of several loan schemes were extended during the year considering the funding needs of the youth segment of the market and smallholder agribusinesses. Operating Instructions were amended to expand the scope of the definition of community based financial intermediaries aiming to extend the reach of loan schemes that were previously provided on behalf of the Government. Further, on behalf of the Government, a loan scheme was introduced for Sri Lankan migrant workers in 2023, in collaboration with the Sri Lanka Bureau of Foreign Employment, to encourage migrant workers to remit foreign exchange earnings to the country through formal channels.

2.4.6 Policies on Payments and Settlements

The Central Bank implemented various policy measures to promote digital payments, while ensuring the safety and stability of payment systems during the year. The Central Bank continued its efforts to promote and enhance digital payments, focusing on transactions made through the Instant Payment System, the Common Electronic Fund Transfer Switch (CEFTS). Accordingly, the Multi-tiered Liability Manager Limit structure applicable to CEFTS was revised to accommodate a larger volume of transactions.

The Central Bank directed Licensed Banks to integrate with the LankaPay Online Payment Platform (LPOPP) in 2024 to facilitate online payments to government institutions, enhancing efficiency and accessibility for the public. Additionally, the Central Bank instructed Licensed Banks to join the Government Digital

BOX 5

Financial Literacy Roadmap of Sri Lanka (2024-2028): Towards A Financially Literate Sri Lanka

1. Introduction

Financial literacy that encompasses the knowledge and skills required to make informed financial decisions, is integral to individual and societal economic well-being across the globe. The significance of financial literacy extends across various dimensions. It influences the economic outcomes of individuals by empowering them to navigate the complex world of financial services, make prudent investment choices, manage debts effectively, and plan for future financial stability (Lone & Bhat 2022). Beyond personal financial well-being, it plays a critical role in shaping the macroeconomic landscape by fostering informed consumer behaviour, enhancing the efficiency of financial markets, reducing systemic risks, promoting financial inclusion, and supporting sustainable economic growth (Lusardi & Mitchell 2013).

2. Global Advocacy and Experience in Improving Financial Literacy and its relevancy for Sri Lanka

The global advocacy for enhancing national financial literacy levels is a multifaceted endeavour, which signifies a collaboration of innovative strategies, professional alliances, and a commitment to sustainable development. International entities such as the Organisation for Economic Cooperation and Development (OECD), United Nations Development Programme (UNDP) World Bank, International Finance Corporation (IFC) and Alliance for Financial Inclusion (AFI) play pivotal roles in setting international standards and providing guidelines, resources, and support to countries aiming to enhance their financial education frameworks.

Overall, these entities emphasise the importance of tailored, targeted and inclusive financial literacy programmes that cater to the diverse needs of the general public, especially vulnerable groups (AFI 2021; OECD 2005). As a holistic tool, National Financial Literacy Strategies or Financial Literacy Roadmaps have been utilised globally by governments and policymakers to drive a positive change towards enhanced financial inclusion landscapes through improved financial literacy levels (World Bank 2014).

In the context of Sri Lanka, the advantages which could be obtained by the implementation of this kind of a national initiative are substantial and multifaceted. With the introduction of the Central Bank of Sri Lanka Act No.16 of 2023 (CBA), the Central Bank is vested with the statutory obligation to promote financial inclusion. Thus, on a broader footing, a national scale financial literacy initiative could be considered as the most appropriate tool to reach higher financial inclusion levels.

3. Current Financial Literacy Landscape of Sri Lanka

In order to identify the financial literacy landscape of Sri Lanka, in 2021, the Central Bank jointly with the IFC of the World Bank Group (WBG) conducted the first ever nationally representative Financial Literacy Survey in Sri Lanka under the Action Plan of the National Financial Inclusion Strategy (NFIS).

Results of the Financial Literacy Survey revealed that when compared to the other countries with comparable survey results, Financial Knowledge of Sri Lankans are at satisfactory levels. However, Financial Behaviour is lagging behind, demanding careful consideration of the policymakers. Translating financial knowledge into actual financial behaviour, is a multifaceted issue stemming from a range of reasons such as issues in financial attitudes, behavioural biases, lack of practical experience, socioeconomic barriers, and emotional factors. These elements collectively contribute and widen this gap, making it challenging for individuals to apply their understanding of financial principles in real-world scenarios effectively. Poor financial behavior intensifies the vulnerability of individuals to economic shocks, contributes to macroeconomic instability through reduced savings and higher debt, increases inequality, and also impacts public resources due to increased reliance on government assistance programmes.

Moreover, even though there is no gender gap observed in financial inclusion, a modest gender gap was observed in the financial literacy levels of Sri Lanka (CBSL 2021a; 2021b). Accordingly, gender sensitive approaches should be introduced to bridge the gender divide. Thus, introducing targeted behavioural interventions to support the translation of financial literacy, i.e., financial knowledge and skills, into positive financial behaviour of Sri Lankans should be considered a policy priority in the current context.

4. The Policy Framework: Financial Literacy Roadmap of Sri Lanka

Based on the findings of the Financial Literacy Survey 2021, the Central Bank in collaboration with over 40 stakeholders, including financial sector regulators, ministries, academia and other public and private sector institutions, led the development of the first ever Financial Literacy Roadmap of Sri Lanka (the Roadmap).

5. Operationalisation of the Financial Literacy Roadmap: Action Plan and Operational Pillars

The Roadmap consists of a 05-year Action Plan to be implemented from 2024 to 2028 with the fundamental objective of improving the financial behaviour of Sri Lankans. The Action Plan currently consists of 48 actions developed to reach 10 objectives across the 04 Strategic Priorities of the Roadmap.

These actions will be mainly focused on, inter alia, strengthening the coordination, standardising the financial literacy materials used by the stakeholders, supporting the transformation of the school children to financially capable individuals by the time they leave school in collaboration with national level public and private education partners, and utilising existing resources for the effective delivery of the financial literacy interventions. The NFIS Secretariat established in the Regional Development Department of the Central Bank supports to operationalize the Action Plan. The existing governance structure of the NFIS is to oversee and ensure effective implementation of the Roadmap.

Addressing the changing and dynamic financial literacy needs of the economy is of paramount importance for the successful implementation of such national level financial literacy initiatives. Thus, the Action Plan of the Roadmap would be a living and open document that could be updated to address such requirements, as necessary.

6. The Way Forward

Despite the remarkable policy commitment and the successful development of the Roadmap, the path ahead is fraught with challenges albeit promising opportunities awaiting to be optimised. The success of the Roadmap depends on several critical factors; aligning with national policies, adapting to the evolving financial landscapes and global trends, creating accessible and

Policy Framework of the Financial Literacy Roadmap of Sri Lanka (2024-2028)

Vision	"A Financially Literate Sri Lanka"
Mission	Empower all Sri Lankans towards greater financial inclusion with requisite financial knowledge, skills and confidence to make well-informed and responsible financial decisions to increase financial wellbeing of the people
Strategic Priorities	(i) Effective Coordination and Harmonised Content (ii) Increased Positive Financial Behaviour (iii) Vigilant and Protected Financial Consumers (iv) Generational Behaviour Change
Target Groups	(i) Youth and School Children (ii) Identified vulnerable groups (Women, Migrant Workers, etc.) (iii) MSMEs (iv) Professionals and Government Employees
Key Contents	(i) Economic and Financial Environment (ii) Digital Financial Literacy (iii) Financial Management (iv) Consumer Protection

inclusive financial literacy interventions, fostering partnerships, and establishing effective monitoring and evaluation frameworks, etc. These steps are crucial to maximise the impact and sustainability of financial literacy interventions, ultimately leading to a financially literate and empowered population. Moreover, leveraging existing resources such as current levels of financial knowledge and skills, widespread access to financial services, and increased digital penetration can catalyse the impact of the interventions.

Utilising the already established delivery channels and networks like the Community Health Network, Network of Women Development Officers, and Agrarian and Samurdhi Societies to deliver the financial literacy programmes under the Roadmap, will optimise the resource utilisation. Further, with the participation of over 40 national level stakeholders, the outreach of the Roadmap is expected to be significantly wide. In this regard, long-term commitment of the stakeholder institutions is required to ensure the effectiveness and the continuity of the Roadmap implementation. More importantly, the commitment of the multilateral development partners is used to obtain much needed technical and financial assistance, considering the unprecedented nature of this national endeavour.

Nonetheless, the implementation process is challenging, as harmonised efforts towards successful implementation are critical. As a national level programme, aligning the Roadmap with broader economic and social policies demand effective coordination among key stakeholders including the Government, financial institutions, and educators, to ensure the Roadmap is given high priority. Addressing the diverse needs of the audience, keeping pace with the rapid advancements of financial innovations and ensuring effective engagement of the target groups and their accessibility to the interventions can threaten the effective implementation.

In light of the above, it is evident that significant attention of all the stakeholders is needed for advancing the efforts put forward through the Financial Literacy Roadmap, since there is an unwavering promise for substantial economic and social advantages by effectively combating financial scams, reducing over indebtedness, alleviating poverty, and breaking poverty traps. It further encourages greater savings and investments on both individual levels and national scales, which in turn, encourage internal capital formation and facilitate economic growth.

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Payment Platform (GDPP), facilitated by LankaPay through LPOPP. This integration will enable government institutions, without existing internal IT systems, to accept digital payments from the public, particularly at the local government level.

In order to promote digital transactions in remote areas, the Central Bank implemented measures to enhance the use of e-money services for transactions and remittances. These measures entailed raising the maximum value permitted for basic and enhanced e-money accounts, aiming to promote greater financial inclusion and convenience for individuals in remote areas and fostering the adoption of digital payment methods. Further, the Central Bank decided to maintain the LANKAQR Merchant Discount Rate (MDR) at 0.5 per cent to encourage small and medium-sized merchants to accept digital payments at a minimal cost.

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To facilitate cross border retail payments, the Central Bank granted approval for LankaPay (Pvt) Ltd (LPPL), the national payment network operator, to integrate with payment networks in China and India considering their importance as source destinations of tourists visiting Sri Lanka. These integrations allow tourists from China and India to make payments to merchants who have LANKAQR codes in Sri Lanka. With the view of creating a level playing field to balance the higher interchange fee to be paid by Sri Lankan merchants to financial institutions in India and China, a maximum MDR per transaction amount has been decided for LANKAQR transactions initiated through such foreign payment apps.

The Central Bank implemented several measures to enhance the safety of digital payments, aiming to improve the overall quality of digital transactions and encourage greater adoption of digital payment methods. These measures include mandating real time notifications for credit and debit transactions, as well as ensuring immediate updates for credit card settlements made through digital channels. Additionally, Licensed Banks were instructed to make the reference field mandatory for digital transactions, and Licensed Financial Acquirers were advised to instruct their merchants not to pass the MDR to customers. The Central Bank mandated that mobile payment applications facilitating JustPay transactions request a One Time Password (OTP) from the issuer of the linked account if the transaction amount equals or exceeds Rs.10,000. JustPay enables users to link accounts at any financial institution to their mobile payment application and make payments by retrieving funds from these linked accounts.

2.4.7 Anti-Money Laundering and Countering Financing of Terrorism

During 2023, the Financial Intelligence Unit (FIU) in line with the recommendations of the Financial Actions Task Force (FATF), coordinated and concluded the National Risk Assessment (NRA) 2021/22 with the aim to identify, assess and better understand the Money Laundering (ML) and Terrorist Financing (TF) risks faced by the country. The NRA highlighted the most significant ML/TF threats, vulnerabilities, and risks faced by Sri Lanka. The NRA assessed the overall ML/TF risk for the country as 'Medium'. Based on the findings of the NRA, the National AML/CFT Policy for 2023-2028 was prepared and approved by the Cabinet of Ministers. Aiming at preparing the key stakeholders for the Mutual Evaluation of AML/CFT framework, which is scheduled to commence in March 2025, the Stakeholder-wise Action Plans for 24 relevant stakeholder institutions were also approved by the Cabinet of Ministers to improve the effectiveness and technical compliance level of AML/CFT framework of the country. The FIU conducted a series of follow-up meetings to discuss the progress of the Action Plans with the relevant stakeholders. A Task Force for AML/CFT was appointed by the Cabinet of Ministers to follow up on the progress of implementation of the said Action Plans and to ensure that identified gaps are addressed comprehensively, timely and effectively, while effectively coordinating among relevant stakeholders.

In addition to risk based supervision, the FIU continued to maintain its joint supervision policy in 2023. In order to strengthen the AML/CFT supervision process and institutional compliance, the FIU issued circulars and guidelines to Reporting Institutions, namely Licensed Banks, LFCs, Real Estate Institutions, Licensed Insurance Companies, Licensed Stockbrokers, and Attorneys-at-Law and Notaries. Furthermore, during the year, 5 red-flag indicator lists were issued, which included the identification of suspicious transactions relating to bribery or corruption, drug trafficking, and red flags for the insurance sector, securities sector and money or value transfer services sector.

BOX 6

Mutual Evaluation of Sri Lanka 2025: Its National Significance

1. Introduction

Money Laundering (ML) and Terrorist Financing (TF) pose significant challenges to the world's financial systems, as well as to national security and economic stability. ML and TF affect countries around the world by weakening their economies and societies. While some countries are at higher risk due to weak governance and corruption, no country is entirely free from the risks associated with ML and TF. Given the increasing prevalence of financial crimes worldwide, fighting against ML and TF has become a global priority. It requires cooperation among governments and law enforcement agencies, financial institutions, designated non-finance businesses and professions, and international organisations to protect the financial system and combat the risks of these crimes.

The Financial Action Task Force (FATF), the global policy setter in Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), plays a vital role in combatting ML and TF by establishing global standards and promoting collaboration among nations.

As a proactive step, FATF and FATF-Style Regional Bodies (FSRBs) conduct Mutual Evaluations (MEs) to assess countries' technical compliance with the FATF standards and their effective implementation of AML/CFT measures. This evaluation process has significant national importance for member countries as it identifies weaknesses in national systems and identifies areas for improvement within their AML/CFT frameworks. At the same time, it promotes a level playing field among countries and encourages them to implement AML/CFT measures on a consistent basis, globally.

Sri Lanka will face its third ME in 2025. Given the country's past experience of two MEs which resulted in it being included in the FATF "Grey List" and subsequent economic and financial repercussions, the upcoming ME will be a significant event in the country's economic and financial progression.

2. Mutual Evaluation Process

The ME process involves an in-depth analysis of a country's AML/CFT system undertaken as a peer review. MEs are conducted over a period of 14 – 18 months and consist of two main components: technical compliance assessment and effectiveness assessment.

- **Technical compliance:** *Implementation of the specific requirements of FATF Recommendations, including the framework of laws and enforceable means; and the existence, powers and procedures of competent authorities.*
- **Effectiveness assessment:** *Effectiveness is the extent to which financial systems and economies mitigate the risks and threats of money laundering, and financing of terrorism and proliferation. This could be in relation to the intended result of a given (a) policy, law, or enforceable means; (b) programme of law enforcement, supervision, or intelligence activity; or (c) implementation of a specific set of measures.*

The stages in the ME process throughout which the technical compliance and the effectiveness are assessed, are outlined below.

i. **Assessing technical compliance (4 months):** The country provides information about its laws and regulations.

ii. **Scoping:** In preparation for the effectiveness assessment and the on-site visit, assessors undertake a preliminary scoping exercise to determine the areas of focus of the on-site visit.

iii. **On-site visit (2 weeks):** The assessors travel to the country for the on-site visit.

iv. **Report drafting:** Immediately following the on-site visit, the assessors finalise the mutual evaluation report with the findings of the effectiveness and technical compliance assessment.

v. **Plenary discussion (15 months after technical compliance assessment):** The assessors present the draft report to the FATF Plenary at one of the three meetings it holds every year.

vi. **Final quality review (2 months after approval):** Following Plenary approval, the report is reviewed for technical quality and consistency before it is published on the website.

vii. **Follow-up:** After adoption, the countries are required to address the shortcomings identified in the report which are followed-up annually until the next ME.

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3. National Significance of Mutual Evaluations

The ME process requires countries to implement the AML/CFT framework efficiently and effectively ensuring a safe and robust financial system. Accordingly, achieving a favourable outcome in the ME process ensures a secure financial system by protecting the country's position in the global financial system and thereby accelerating economic growth.

The following are some of the factors which show the national significance of MEs:

i. **Preserving Financial Stability:** Effective AML/CFT measures play a vital role in preserving the integrity and stability of the financial system. By adhering to FATF recommendations, countries mitigate the risk of being a high-risk jurisdiction, which could adversely affect their access to international banking services and capital markets.

ii. **Enhancing National Security:** A robust AML/CFT regime is essential for national security, preventing the use of illicit funds for financing terrorism and other criminal activities. By undergoing MEs and rectifying identified weaknesses, countries strengthen their capacity to disrupt illicit financial flows, thereby safeguarding national security interests.

iii. **Compliance with International Standards:** Participation in MEs is vital for countries to showcase their commitment to adhering to international AML/CFT standards. Maintaining these standards enhances a country's reputation in the global financial community while promoting trust among international partners and investors.

iv. **Facilitating International Cooperation:** Successful MEs promote greater international cooperation and information sharing among countries in combating financial crime. Enhanced compliance with the FATF standards improves a country's standing within the global financial system, facilitating efficient collaboration with other jurisdictions in investigations and enforcement actions. This collaboration strengthens the collective efforts to combat ML and TF on a global scale, leading to more effective outcomes in preventing and deterring financial crimes.

v. **Identification of Weaknesses:** MEs enable countries to identify weaknesses and gaps in their AML/CFT frameworks. Countries are informed of vulnerabilities such as legislative gaps or deficiencies in enforcement which is crucial for preventing exploitation by criminals and enhancing the effectiveness of AML/CFT measures.

4. Sri Lanka's Past Experience of Facing Mutual Evaluations

Sri Lanka has undergone two MEs by the Asia/Pacific Group on Money Laundering (APG), the regional FSRB for the Indo-Pacific. The two MEs were in 2006 and 2014/15. Both these evaluations resulted in Sri Lanka being listed by the FATF as a "jurisdiction with strategic deficiencies" in its AML/CFT framework, commonly referred to as "Grey Listing". The grey-listing resulted in adverse economic and financial consequences on both occasions.

Subsequent to Sri Lanka's "Grey Listing" by the FATF after 2015, the European Commission also listed Sri Lanka as a high risk third country with AML/CFT strategic deficiencies in February 2018, which affected Sri Lanka's correspondent banking relationships.

As Sri Lanka took steps to significantly improve its AML/CFT system subsequent to 2015, Sri Lanka was delisted by the FATF and the European Commission in October 2019 and May 2020, respectively.

5. Sri Lanka's Preparedness for the Upcoming Mutual Evaluation

Given the adverse impacts of past evaluations, the upcoming ME will require Sri Lanka to further strengthen the country's AML/CFT regime. This requires collective action from stakeholders including the government and law enforcement agencies, financial institutions, designated non-finance businesses and professions, coordinated by the Financial Intelligence Unit of Sri Lanka (FIU-SL).

In this context, the country's preparedness is vital to showcase its dedication to combating financial crimes. This evaluation provides a thorough assessment of Sri Lanka's AML/CFT frameworks, highlighting strengths, weaknesses, and areas for future improvement. Accordingly, several key initiatives have been taken by the FIU-SL, in preparation for the ME.

i. **Establishing an AML/CFT Task Force:** A task force for AML/CFT was appointed by the Cabinet of Ministers, comprising five members under the chairmanship of a retired Supreme Court Justice, to oversee the progress of implementation of the stakeholder-wise action plans to address the identified gaps and coordination among relevant stakeholders.

ii. **Collaboration with the National Coordinating Committee:** The AML/CFT National Coordinating Committee (NCC) is the advisory body that maintains national level coordination among stakeholders in implementing AML/CFT measures in Sri Lanka. With the leadership of the NCC and AML/CFT task force, all work relating to the upcoming ME is being coordinated.

iii. **Conducting National Risk Assessment (NRA) in 2021/22:** In line with the FATF recommendations, the FIU coordinated the completion of the second NRA in 2021/22 to identify, assess and understand the ML/TF risks faced by the country. Accordingly, the country's overall ML/TF risk was assessed as "medium" which is a combination of medium level of threat and medium level of vulnerability.

iv. **Development of AML/CFT National Policy 2023 – 2028:** Based on the findings of the NRA, the National AML/CFT Policy for 2023 – 2028 was prepared, which was approved by the Cabinet of Ministers, to address the gaps identified to effectively combat ML and TF in the country.

v. **Developing stakeholder-wise action plans:** With the purpose of preparing the key stakeholders for the next ME, the stakeholder-wise action plans for relevant 24 stakeholder institutions were approved by the Cabinet of Ministers to improve the effectiveness and technical compliance level of AML/CFT framework of the country. The action plans were distributed among stakeholders with regular updates being provided by them to the NCC and to the AML/CFT task force.

vi. **Carrying out legislative amendments:** In order to further strengthen the legal framework on AML/CFT and to ensure adherence to the international standards, the FIU is in the process of amending key legislations which includes the Financial Transactions Reporting Act, No. 06 of 2006; the Prevention of Money Laundering Act, No. 05 of 2006; the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005. The FIU is also assisting in making the amendments to the Companies Act, No. 07 of 2007. These amendments are expected to be completed by the third quarter of 2024.

6. Conclusion

FATF MEs are events of national significance for member countries, as they play a vital role in assessing compliance with international AML/CFT standards, identifying weaknesses in national frameworks, enhancing national security, facilitating international cooperation, and preserving financial stability. By actively participating in the ME process, countries can strengthen the measures against financial crime and contribute to a safer and more secure global financial environment. Accordingly, collective efforts of all key stakeholders will ensure that Sri Lanka's AML/CFT framework is implemented efficiently and effectively, enabling the country to achieve a better compliance level at the upcoming ME while strengthening its position within the global financial community.

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2.4.8 Policies for Financial Consumer Protection

The Central Bank took initiatives to strengthen the financial consumer protection framework in 2023. Regulation on Financial Consumer Protection was issued during the year for Financial Service Providers. The regulation underscores the commitment of the Central Bank to uphold the interests and rights of financial consumers, while emphasising transparency, fairness, and responsible business practices across the financial sector. Alongside the prescribed two-tier complaint handling procedure, the Regulation empowers the Central Bank to initiate market conduct supervision, a crucial mechanism for ensuring effective financial consumer protection. The Central Bank envisages to rollout consumer protection regulations throughout 2024 to maintain the integrity and stability of the financial system, while prioritising the welfare of financial consumers in Sri Lanka. Contemplating the need to safeguard the rights and interests of the financial consumers and promoting ethical standards among financial service providers, the Central Bank envisages to commission Market Conduct Supervision as a strategic priority in 2024.

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2.4.9 Policies on Deposit Insurance and Resolution of Financial Institutions

CBA designates the Central Bank as the resolution authority of licensed financial institutions. The Banking (Special Provisions) Act No. 17 of 2023 defines the resolution authority of the Central Bank and stipulates the measures that can be implemented to resolve a licensed financial institution in a timely manner; to revive such financial institutions as a going concern to ensure the interests of the depositors and creditors thereof ensuring the financial system stability and winding up process for such licensed banks. The Central Bank initiated preparatory measures to implement the provisions of the Banking (Special Provisions) Act and to operationalise the resolution function. These measures include the development of a Resolution Handbook, the establishment of resolution triggers, the creation of a database for licensed financial institutions and the formulation of data templates for resolution planning during 2023. These steps are aimed at facilitating the preparation of resolution plans for licensed financial institutions, ultimately ensuring alignment with global standards and bolstering the stability of the financial system in Sri Lanka.

CBA and the Banking (Special Provisions) Act recognise the establishment of the Sri Lanka Deposit Insurance Scheme (SLDIS) as a means of upholding public confidence and promoting and contributing to the stability of the financial system in Sri Lanka. The Banking (Special Provisions) Act articulates operational procedures for the administration and management of SLDIS and entrusts powers, duties and functions related to the Deposit Insurance Fund. The Financial Sector Safety Net Strengthening Project (FSSNP), which was initiated with the collaboration of the Government and the World Bank, seeks to fortify the financial and institutional capacities of SLDIS in accordance with international standards. Under the FSSNP initiative, SLDIS was strengthened through a financing mechanism offered by the World Bank and backstop funding arrangements were established with the Government. A new investment policy is being drafted to expand SLDIS' investment portfolio across a range of instruments in both local and international financial markets. These policy driven enhancements aim to align SLDIS with the Core Principles for Effective Deposit Insurance Systems outlined by the International Association for Deposit Insurers, fortifying Sri Lanka's financial sector safety net.

2.4.10 Financial Sector Policy Reforms

The financial sector is undergoing significant policy reforms as part of the IMF-EFF arrangement and in collaboration with multilateral agencies, with the view of addressing structural weaknesses, building resilience, and maintaining stability in the financial system. Independent Asset Quality Review (AQR) components of bank diagnostic exercise for nine domestic banks accounting for 90 per cent of the domestic bank assets were completed during the year. The scope of the AQR encompassed rupee loans and advances, foreign currency loans, advances, and foreign currency denominated financial instruments. The Central Bank developed a roadmap for addressing banking system capital and foreign currency liquidity shortfalls for five large banks subject to AQR through a careful assessment of the findings of AQR, forward looking stress testing and envisaged impact of sovereign debt restructuring. A similar process is underway for the other four banks subject to AQR. Strategies have been formulated for government recapitalisation of viable banks that are unable to close the capital shortfalls from private sources. Accordingly, under Budget 2024, an allocation of Rs. 450 billion has been made to support the capital augmentation process of the banking sector. Further, amendments to the Banking Act No. 30 of 1988 were introduced for further strengthening and streamlining the provisions which are under submission to the Parliament.

The Financial Sector Crisis Management Committee and Technical Committee on Financial Management were established to strengthen the crisis preparedness frameworks of the sector. These committees consisted of officials from the Central Bank and the Ministry of Finance to facilitate interagency coordination and communication. The committees are vested with the responsibility of addressing potential systemic crises in the financial sector and their effects on the real economy and to minimise possible damages to the financial sector. Two committees will operate in two phases. The committees will closely monitor the liquidity risks and capital levels of regulated financial institutions during the first phase. During the second phase, a permanent framework will be established for crisis preparedness, crisis management and to minimise the impact of a financial crisis.

2.4.11 Other Policies

Several measures were undertaken during the year to improve public awareness regarding both positive and negative developments in the financial system. To address customer concerns regarding digital payment methods, the Central Bank has taken proactive steps. A trilingual web form was introduced on the Central Bank's website to create public awareness regarding unsafe, unsound, or unfair practices relating to payment services. The Central Bank also remains active on all forms of social media to ensure that essential messages, not only on monetary policy, but also those related to the financial system, including scams and prohibited financial schemes, are disseminated promptly.

During the year, steps were taken to improve stakeholder engagement. In addition to monitoring engagement on all media platforms, several surveys and other focus groups were undertaken to continuously assess the effectiveness of strategies that were already in place. The establishment of these feedback loops has helped to identify areas for improvement, gauge public sentiment, and fine-tune communication strategies to meet evolving needs. Building confidence in the financial system via prudent communication strategies is crucial for maintaining stability. Several educational outreach programmes were also conducted to a wide range of audiences to supplement the aforementioned efforts.

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Featured Box Article
Major Economic Policy Measures Implemented by or Related to the Central Bank of Sri Lanka[1]

Central Banking

15 September 2023	Enactment of the Central Bank of Sri Lanka Act, No. 16 of 2023, to provide for the establishment of the Central Bank of Sri Lanka; for the repeal of the Monetary Law Act (Chapter 422); and to provide for matters connected therewith or incidental thereto.
03 October 2023	The Monetary Policy Framework Agreement between the Minister of Finance and the Central Bank, gazetted on October 5, 2023, sets an inflation target for the Central Bank, requiring it to maintain the Colombo Consumer Price Index (CCPI) based quarterly headline inflation rate at 5 per cent.

Monetary Policy

02 January 2023	Effective 16 January 2023, the availability of the Standing Deposit Facility (SDF) to a particular Licensed Commercial Bank (LCB) was limited to a maximum of five (05) times per calendar month, while the availability of the Standing Lending Facility (SLF) to a particular LCB was capped at 90 per cent of the Statutory Reserve Ratio (SRR) of such LCB at any given day.
03 March 2023	Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 100 basis points to 15.50 per cent and 16.50 per cent, respectively.
01 June 2023	SDFR and SLFR were reduced by 250 basis points to 13.00 per cent and 14.00 per cent, respectively.
06 July 2023	SDFR and SLFR were reduced by 200 basis points to 11.00 per cent and 12.00 per cent, respectively.
09 August 2023	The Statutory Reserve Ratio (SRR) was reduced by 2.00 percentage points to 2.00 per cent to be effective from the reserve maintenance period commencing 16 August 2023.
05 October 2023	SDFR and SLFR were reduced by 100 basis points to 10.00 per cent and 11.00 per cent, respectively.
24 November 2023	SDFR and SLFR were reduced by 100 basis points to 9.00 per cent and 10.00 per cent, respectively.
09 February 2024	Effective 16 February 2024, the restriction on SLF was removed and the restriction on SDF was relaxed from five times (05) to ten times (10) during a calendar month.
26 March 2024	SDFR and SLFR were reduced by 50 basis points to 8.50 per cent and 9.50 per cent, respectively.
	Effective 01 April 2024, the restriction on SDF was removed.

Special Credit Schemes

15 September 2023	The Central Bank discontinued operations of the Saubagya Loan Scheme and Domestic Agriculture Development Loan Scheme, with the enactment of the Central Bank Act No 16 of 2023.
03 January 2024	The Governing Board of the Central Bank took a policy decision not to implement new Government and Donor funded loan schemes in future.

Payments and Settlements

01 February 2023	LankaPay (Pvt) Ltd (LPPL) linked with UnionPay International Co., Ltd (UPI), China and NPCI International Payments Ltd (NIPL), enabling Chinese and Indian tourists to use their payment wallets via LANKAQR for transactions in Sri Lanka. Transactions for Chinese tourists were enabled since February 2023 and transactions for Indian tourists were initiated from 12 February 2024.
08 May 2023	A Merchant Discount Rate (MDR) of 1.8 per cent was approved for payments made through LANKAQR using foreign payment apps. MDR of 0.5 per cent remains for domestic LANKAQR transactions.
31 August 2023	A trilingual web form to collect information from the public was developed on unsafe, unsound or unfair practices relating to payment practices or services.
29 December 2023	The Central Bank mandated Licensed Banks (LBs) to participate in various digital transaction initiatives including LankaPay Online Payment Platform (LPOPP), Direct Debit facility, Shared Know-Your-Customer

[1] Includes major economic policy measures implemented since 01 January 2023 until 28 March 2024 and the policy measures that are to be implemented in the near future.

A detailed version of policy measures implemented by or related to the Central Bank of Sri Lanka and major fiscal policy measures implemented since 01 January 2023 until 28 March 2024 are available online

Path - Main Menu → Publications → Economic and Financial Reports → Annual Economic Review → Annual Economic Review 2023 → Major Economic Policy Measures

Link - https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-economic-review/annual-economic-review-2023/major-economic-policy-measures

	(KYC) facility, and Government Digital Payment Platform (GDPP), while emphasising priorities such as enabling real-time notifications for transactions, promoting digital transactions in remote areas, ensuring immediate updating of credit card settlements via digital channels, and mandating the reference field for digital transactions, with Licensed Financial Acquirers instructed not to pass MDR to customers.
29 December 2023	Promoting foreign remittances together with digital transactions via e-money wallets, the enhanced and basic e-money wallet limits were raised from Rs. 50,000.00 and Rs. 10,000.00 to Rs. 150,000.00 and Rs. 20,000.00, respectively, with effect from 01 January 2024.
17 January 2024	The Central Bank mandated mobile payment applications using JustPay to request a One-Time-Password (OTP) from the linked financial institution for transactions equal to or exceeding Rs. 10,000/- starting from April 1, 2024. JustPay facilitates users to link accounts from any financial institution and make payments by pulling funds from linked accounts through the mobile application.
01 February 2024	Approval was granted for LankaPay (Pvt) Ltd (LPPL) to join with the Nepal Clearing House Ltd for the acceptance of LANKAQR transactions made by Nepali tourists through NEPALPAY QR mobile applications.
Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)	
03 March 2023	Circular No. 01 of 2023 was issued on calling for due vigilance on compliance lapses to all LBs and LFCs.
07 June 2023	Circular No. 02 of 2023 was issued on institutional compliance of real estate sector under the Financial Transactions Reporting Act, No. 06 of 2006 to Real Estate Institutions.
13 June 2023	Guideline No. 01 of 2023 was issued on reporting domestic Electronic Fund Transfer (EFT) threshold transactions to the goAML System of the Financial Intelligence Unit.
07 August 2023	Approval of the Cabinet of Ministers was received for adoption of the National Policy on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) of Sri Lanka for 2023-2028.
01 September 2023	Guideline No. 02 of 2023 was issued on AML/CFT compliance for the Attorneys-at-Law and Notaries.
Foreign Exchange Management and International Operations	
26 January 2023	Revocation of Operating Instructions issued on "Inward Investments Swaps - IIS Scheme".
	Issuance of instructions to LBs on participation at the USD/LKR buy-sell and sell-buy, foreign exchange swaps auctions of the Central Bank.
24 February 2023	Reduction of weekly mandatory foreign exchange sales to the Central Bank by LBs on account of converted inward workers' remittances, converted service sector related exports proceeds/receipts, and the residual value of mandatorily converted export proceeds of goods from 25 per cent to 15 per cent, effective from 27 February 2023.
27 February 2023	Directions No. 01 of 2023 were issued permitting Authorised Dealers (ADs) to open and maintain Special Foreign Currency Accounts (SFCAs) - Investee
03 March 2023	Revocation of the Operating Instructions issued by the Central Bank to LBs on "Managing Intraday Volatility of the Exchange Rate", "Incentive Scheme on Inward Worker Remittances" and "Repatriation of Export Proceeds into Sri Lanka" - with effect from 07 March 2023.
28 June 2023	Order under Section 22 of the Foreign Exchange Act No.12 of 2017 (FEA), published in the Extraordinary Gazette Notifications No. 2338/40 dated 28 June 2023 to suspend/limit outward remittances with respect to selected capital transactions for six months commencing from the date of the order.
04 December 2023	Directions No. 02 of 2023 were issued on Business Foreign Currency Accounts (BFCAs), including enterprises permitted to sell goods/products to domestic market in terms of the Finance Act - Commercial Hub Regulations No. 1 of 2019.
	Directions No. 03 of 2023 were issued on Accommodations to BFCA Holders, permitting the payments to the enterprises engaged in business activities in Sri Lanka which are permitted to sell goods/products to the domestic market in terms of the Finance Act - Commercial Hub Regulations No.01 of 2019.
20 December 2023	Order under Section 22 of the FEA, published in the Extraordinary Gazette Notifications No. 2363/26 dated 20 December 2023, progressively easing some of the suspensions/ limitations relating to outward capital and current transactions imposed by the Orders issued earlier for six months commencing from the date of the Order.
01 January 2024	Directions No. 01 of 2024 were issued on Special Foreign Currency Accounts - Investee to facilitate current transactions, by extending the validity of the same until 30 June 2024.
Debt Management	
13 February 2023	The offering of Sri Lanka Development Bonds (SLDBs) under the Direct Issuance Arrangement was suspended.
16 March 2023	"Registered Stock and Securities (Disclosure of Information) Regulations, No.1 of 2023" was issued.

04 April 2023	In instances where the Monetary Policy announcement of the Central Bank is due during the normal Phase II window, Phase II of the respective Treasury bill auction is executed for a period of one hour immediately post a Treasury bill auction or close of business of the auction day whichever falls later.
12 May 2023	A resolution to increase the limit on issuance of Treasury bills from Rs. 5,000.0 billion to Rs. 6,000.0 billion in terms of the Local Treasury Bill Ordinance No. 08 of 1923 was approved by Parliament.
19 June 2023	The new web-based Treasury bill issuance system was introduced with effect from 21 June 2023.
04 July 2023	The Ministry of Finance (MOF) announced a policy on Sri Lanka's Domestic Debt Optimisation (DDO), consistent with the Extended Fund Facility, to contribute to meeting the Debt Sustainability targets agreed upon with the International Monetary Fund.
21 August 2023	The Appropriation (Amendment) Bill to amend the maximum borrowing limit of the Government from Rs. 4,979.0 billion as set out in Section 2(1)(b) of the Appropriation Act, No. 43 of 2022, to Rs. 13,979.0 billion, was approved by the Parliament.
14 September 2023	As per the Exchange Memorandum for Treasury bonds issued under the DDO programme, the settlement of the Treasury bonds exchange was carried out. Accepted offers were converted into new Treasury bonds amounting to Rs. 3,204.5 billion which had longer maturities. Furthermore, an accrued interest of Rs. 110.9 billion was paid to investors for their accepted Treasury bond amounts.
20 September 2023	The new web-based system for Direct Issuance Window for Treasury bonds was introduced with effect from 25 September 2023.
21 September 2023	Outstanding credits (the "provisional advances") of Rs. 344.7 billion from the Central Bank to the Government and outstanding Treasury bills amounting to Rs. 2,368.4 billion of the Government purchased by the Central Bank in the primary market were converted into ten (10) step-down fixed coupon new Treasury bonds denominated in LKR amounts to Rs. 2,492.3 billion and twelve (12) existing Treasury bills amounts to Rs. 220.8 billion and settled on 21 September 2023 in terms of the section 129 (2) of the CBA and the Appropriation (Amendment) Act, No. 12 of 2023.
03 November 2023	The Foreign Currency Banking Unit (FCBU) Loan exchange under the DDO programme was executed for People's Bank in terms of the Memorandum of Understanding (MOU) for restructuring of the FCBU loan balance of People's Bank signed on 18 August 2023. The loan amount of Rs.27.7 billion was allocated to five existing Treasury bonds that were issued under DDO.
11 March 2024	The amount offered at Phase II of Treasury bill auctions was reduced to the aggregate auction shortfall and 10 per cent of the aggregate amount offered or Rs. 5.0 bn whichever is higher in terms of the amended Directions issued on 07 March 2024 which were in force effective from 11 March 2024.
	The amount offered at Direct Issuance Window (DIW) of Treasury bond auctions was reduced to 10 per cent of the amount offered from ISINs which are fully accepted at Phase I in terms of the amended Directions issued on 07 March 2024 which were in force effective from 11 March 2024.
Financial Sector	
Licensed Banks	
02 January 2023	A Circular was issued with effect from 03 January 2023 adjusting the Bank Rate in line with the latest available Average Weighted New Deposit Rate (AWNDR) published by the Central Bank with a margin of +300 basis points.
31 January 2023	Banking Act Determination was issued determining qualifying non-financial corporate debt securities and qualifying non-financial common equity shares as liquid assets in the computation of the Statutory Liquid Asset Ratio of LCBs and Licensed Specialised Banks (Licensed Banks - LBs), given that such instruments shall satisfy the conditions specified in the Banking Act Directions on the Liquidity Coverage Ratio under Basel III liquidity standards.
02 February 2023	Banking Act Directions were issued restricting discretionary payments of LBs considering the prevailing macroeconomic conditions and the importance of maintaining appropriate level of liquidity and capital to ensure sustainability in LBs.
16 February 2023	In addition to the existing list of HS Codes covered by the Order dated 19 May 2022, an Order was issued to all LCBs on the requirement of maintaining a 100 per cent Cash Margin Deposit Requirement against Letters of Credit for newly added 64 HS Codes.
17 February 2023	Amendment to the Banking Act Directions No. 03 of 2022 on Margin Requirements Against Imports was issued, extending the applicability of the cited Directions to 64 new HS codes.
07 March 2023	LBs were requested to provide appropriate concessions to affected borrowers on a case-by-case basis with a view to encouraging Micro, Small and Medium Enterprises (MSMEs) and individuals with a potential to revive their businesses/income streams.

21 April 2023	A circular was issued to LBs informing to discontinue the recognition of ICRA Lanka Ltd as an eligible/ acceptable credit rating agency for regulatory purposes pertaining to LBs.
25 April 2023	Amendments to the Banking Act Directions No. 01 of 2023 on Restrictions on Discretionary Payments of LBs were issued. Accordingly, LBs were required to refrain from increasing management allowances of Chief Executive Officers (CEO), Key Management Personnel (KMP) and payments to the Board of Directors, without meeting the cited requirements.
17 May 2023	A Circular was issued to withdraw the minimum cash margin deposit requirements against Letters of Credit, imposed on 19 May 2022 and 16 February 2023.
18 May 2023	Banking Act Directions were issued, revoking the Banking Act Directions No. 03 of 2022 and the Banking Act Directions No. 02 of 2023 on Margin Requirements Against Imports.
25 August 2023	A Monetary Law Act Order was issued on the interest rates applicable on Sri Lankan Rupee (LKR) denominated lending products of LBs, imposing maximum interest rates on certain lending products and requiring LBs to reduce the interest rates of all other new and existing rupee denominated lending products by specific percentages on target dates.
15 November 2023	The Banking (Special Provisions) Act No. 17 of 2023 (BSPA) was certified by the Parliment on 14 September 2023 and by order published in the Gazette No. 2358/46, the provisions of the aforesaid Act came into operation effective from 15 November 2023.
	The Banking (Special Provisions) Act Directions No. 01 of 2023 was issued to Member Institutions of the Sri Lanka Deposit Insurance Scheme.
23 November 2023	A Banking Act Determination on annual license fee was issued to LBs informing the new license fee structure applicable for the years 2024 and 2025.
27 November 2023	Determinations made under the BSPA were issued to the general public under the Gazette Notification No. 2360/02.
08 December 2023	Amendments to the Banking Act Directions No. 16 of 2021 on Regulatory Framework on Technology Risk Management and Resilience for LBs were issued *inter alia* extending the general deadline and certain specific timelines, considering the extraordinary circumstances prevailed during the recent past.
29 February 2024	Amendments to the Circular No.08 of 2019 on "List of Qualified Auditors to Audit the Accounts of Licensed Commercial Banks and Licensed Specialised Banks" were issued by replacing Picewaterhouse Coopers and SJMS Associates as Deloitte Partners and Deloitte Associates, respectively with the changes of names of aforesaid audit firms.
25 March 2024	Banking Act Directions were issued on "Large Exposures of Licensed Banks", to be implemented with effect from 01 January 2026, with a view to mitigating the credit concentration risks, ensuring safety and soundness of the banking sector.
28 March 2024	A circular was issued on "Guidelines for the Establishment of Business Revival Units in Licensed Banks", with a view to facilitating the sustainable revival of businesses affected by the extraordinary macroeconomic circumstances and to improve the asset quality of LBs.
Forthcoming	Banking (Amendment) Act
	Revised Directions on Corporate Governance

Licensed Finance Companies (LFCs), Specialised Leasing Company (SLC), Licensed Microfinance Companies (LMFCs), and Primary Dealer Companies (PDCs)

05 January 2023	The Monetary Board of the Central Bank, in terms of the Regulations made under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance, extended the suspension of Perpetual Treasuries Limited (PTL) from carrying on the business and activities of a Primary Dealer for a further period of six months with effect from 05 January 2023, in order to continue with the investigations being conducted by the Central Bank.
18 January 2023	The registration of Swarnamahal Financial Services PLC as a registered finance leasing establishment was cancelled in terms of Section 9.1. (h) of the Finance Leasing Act, No.56 of 2000 (FLA).
31 January 2023	Subsequent to the amalgamation of the LOLC Development Finance PLC (LDFP) with LOLC Finance PLC (LOFP) as a part of the Masterplan for Consolidation of Non-Bank Financial Institutions (the Masterplan), the Monetary Board of the Central Bank cancelled the licence issued to LDFP to carry on finance business under the Finance Business Act, No.42 of 2011 (FBA). Further, the registration of LDFP issued under the FLA was cancelled by the Director, Department of Supervision of Non-Bank Financial Institutions (D/DSNBFI).
	Guideline on declaration of dividends or repatriation of profits was issued to LFCs as a measure to strengthen resilience and capacity of LFCs to absorb economic shocks that could arise in the time of uncertainty and continue to support credit needs of customers, by maintaining sufficient capital.

02 February 2023	LFCs were informed that ICRA Lanka Ltd. was removed as an acceptable credit rating agency for specified purposes.
08 February 2023	The Commercial High Court of Colombo ordered to appoint a liquidator to The Standard Credit Finance Limited whose license cancelled by the Monetary Board on 25 July 2018 under FBA subject to supervision of court.
03 March 2023	LFCs and SLC were requested to provide appropriate concessions to micro, small and medium enterprises and individuals affected by the present macroeconomic conditions.
21 March 2023	The Commercial High Court of Colombo ordered to appoint a liquidator to The Finance Company Ltd of which licence cancelled by the Monetary Board on 22 May 2020 under FBA subject to supervision of court.
25 April 2023	Notice of cancellation of the finance business licence of Bimputh Finance PLC (BFP) was issued with effect from 25 April 2023 as directed by the Monetary Board of the Central Bank under section 37 (1) of FBA.
09 June 2023	The Commercial High Court of Colombo ordered to appoint a liquidator to Central Investments and Finance Ltd whose licence cancelled by the Monetary Board on 05 March 2018 under FBA subject to supervision of court.
05 July 2023	The Monetary Board of the Central Bank, in terms of the Regulations made under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance, extended the suspension of PTL from carrying on the business and activities of a Primary Dealer for a further period of six months with effect from 05 July 2023, in order to continue with the investigations being conducted by the Central Bank.
31 July 2023	As a part of the Masterplan, Kanrich Finance Ltd was merged with Nation Lanka Finance PLC (NLFP) with effect from 31 July 2023 and the remaining entity is NLFP.
01 September 2023	Finance business licence issued to BFP was cancelled with effect from 01 September 2023 as directed by the Monetary Board of the Central Bank due to no satisfactory progress made by BFP to revive the critical condition faced by BFP.
15 December 2023	The Commercial High Court of Colombo ordered to appoint a liquidator to ETI Finance Ltd under FBA subject to supervision of court.
05 January 2024	The Governing Board of the Central Bank, in terms of the Regulations made under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance, extended the suspension of PTL from carrying on the business and activities of a Primary Dealer for a further period of six months with effect from 05 January 2024, in order to continue with the investigations being conducted by the Central Bank.
13 February 2024	A Direction was issued on periodic reporting requirements with the objective to obtain timely, accurate, consistent and complete information of LFCs to ascertain the manner in which the business and corporate affairs of LFCs are being conducted or for any other specified purpose.
Forthcoming	Implementing Phase II of the Masterplan ensuring long term sustainability of small to medium scale LFCs in the medium term.
	Amending the existing regulatory framework in line with the current market developments, including amendments to the FBA and FLA.
	Introducing rules and regulations to improve stability of the non-banking sector while strengthening the supervisory review process.

Other Financial Sector Related Policy Measures

08 August 2023	Regulations on Financial Consumer Protection were issued under Section 10 (c) of Monetary Law Act, No. 58 of 1949 (MLA), which are applicable to Financial Service Providers (FSPs) regulated by the Central Bank to promote fair, transparent, and ethical business conduct of FSPs and provide the basis for the Central Bank to carry out market conduct supervision and enforcement.
31 January 2024 01 February 2024 06 February 2024	Loan Agreements were signed between the International Development Association (IDA) which is a member of the World Bank Group, MOF and the Central Bank under the Financial Sector Safety Net Strengthening Project of the World Bank.

Chapter 3

MACROECONOMIC OUTLOOK

Summary

The Sri Lankan economy is expected to continue to recover and reach its potential in the coming years, bolstered by the return of greater macroeconomic stability. Assuming the uninterrupted continuation of ongoing ambitious reforms and economic adjustments underpinned by the Extended Fund Facility (EFF) programme of the International Monetary Fund (IMF), stability is envisaged on multiple fronts. Following the swift disinflation process, inflation is expected to remain around the target of 5 per cent on average during 2024, despite intermittent fluctuations caused by supply side shocks amid lower demand conditions. Inflation is expected to stabilise around the target over the medium term, supported by appropriate policy measures. The Central Bank's independence coupled with greater public accountability in monetary policymaking would be instrumental in maintaining domestic price stability over the medium term. Early signs of economic recovery that were observed in the second half of 2023 are expected to translate into a broadbased recovery across all sectors in the ensuing period. Despite a possible widening in the trade deficit driven by the revival of imports along with increased economic activity, the external sector is anticipated to build upon the favourable developments in 2023, with the revived tourism sector, elevated levels of workers' remittances, and expected non-debt creating inflows, while augmenting external buffers. With the waning of vulnerabilities that were profound in 2023, the financial sector is expected to expand its service provision in the period ahead, with improved resilience bolstered by the strengthening of the legislative structure. On the fiscal front, the Government is expected to persevere with its fiscal consolidation efforts, while continuing the much needed reform drive to ensure the transition of the economy towards a sustainable path. Amidst longer term challenges arising from climate change, population ageing and geopolitical tensions, the overall outlook for the Sri Lankan economy in the medium to long term will be conditional on the continuation of the IMF-EFF programme with the successful completion of the debt restructuring process and uninterrupted execution of productivity and efficiency enhancing reforms with broader political and social consensus.

3

3.1 Global Economic Environment and Outlook

The global economy showed signs of resilience in 2023 and is expected to recover from a multitude of economic woes including sluggish growth, stubbornly slow disinflation, and risks emanating from geopolitical uncertainties, going forward. According to the World Economic Outlook (WEO) update of the IMF released in January 2024, global growth is estimated to have slowed down from 3.5 per cent in 2022 to 3.1 per cent in 2023. Global growth is projected to remain around 3.1 per cent in 2024 and accelerate to 3.2 per cent in 2025 on account of the stronger rebound in several large economies, including the United States (US), and fiscal stimulus in China. However, the projected global growth rates for 2024-2025 are below the historical average (2000-2019) of 3.8 per cent, reflecting the impact of restrictive monetary policies to curb inflation, fiscal tightening amidst high debt weighing on economic activity, and low underlying productivity growth. Advanced economies are expected to experience a slowdown, with growth dropping from 2.6 per cent in 2022 to 1.6 per cent in 2023 and 1.5 per cent in 2024, before rising to 1.8 per cent in 2025. Although Eurozone economies and the United Kingdom are expected to recover from their low rates of growth in 2024, owing to waning effects of the war in Ukraine, the moderate growth in advanced economies is mainly attributed to the slowdown in the US with lagged effects of monetary policy tightening as well as contractionary fiscal policies. This anticipated growth moderation in advanced economies could have an adverse impact on Sri Lanka's export performance as the US and the European Union are the largest export destinations for Sri Lanka. Also, subdued economic growth in advanced economies may also have a bearing on the much anticipated resurgence of high-spending tourist arrivals to Sri Lanka. Meanwhile, emerging markets and developing economies are expected to maintain a stable growth of 4.1 per cent in 2023 and 2024, the same as in 2022, which is expected to rise to 4.2 per cent in 2025. The resilience in these economies mainly reflects the strong growth rates in India and China. The Indian economy is estimated to have grown by 6.7 per cent in 2023 and projected to remain strong at 6.5 per cent in both 2024 and 2025 reflecting robust domestic demand. Economic growth in China is estimated at 5.2 per cent in 2023 and it is projected at 4.6 per cent and 4.1 per cent in 2024 and 2025, respectively, considering the increased fiscal support to build capacity against natural disasters. Higher anticipated growth rates in China and India are expected to have a favourable impact on the Sri Lankan economy, given the strong economic and geopolitical linkages with these economies, particularly in terms of merchandise trade, tourism, Foreign Direct Investment (FDI) and financial assistance.

Table 3.1 Global Economic Developments and Outlook (a)

	2022 (b)	2023 (c)	2024 (Proj)	2025 (Proj)
World Output	**3.5**	**3.1**	**3.1**	**3.2**
Advanced Economies	2.6	1.6	1.5	1.8
United States	1.9	2.5	2.1	1.7
Euro Area	3.4	0.5	0.9	1.7
United Kingdom	4.3	0.5	0.6	1.6
Japan	1.0	1.9	0.9	0.8
Emerging Market and Developing Economies	4.1	4.1	4.1	4.2
Emerging and Developing Asia	4.5	5.4	5.2	4.8
China	3.0	5.2	4.6	4.1
India	7.2	6.7	6.5	6.5
World Trade Volume (Goods and Services)	**5.2**	**0.4**	**3.3**	**3.6**
Price Movements				
Consumer Prices				
Advanced Economies	7.3	4.6	2.6	2.0
Emerging Market and Developing Economies	9.8	8.4	8.1	6.0
Commodity Prices				
Oil	39.2	-16.0	-2.3	-4.8
Non-fuel	7.9	-6.1	-0.9	-0.4

(a) Annual percentage change unless otherwise indicated
(b) Revised
(c) Provisional

Source: World Economic Outlook (January 2024), IMF

Global headline inflation is falling faster than expected due to monetary policy tightening, softening labour markets and passthrough effects of the relative decline in energy prices, thus creating conducive conditions for the envisaged easing of global monetary conditions. Global inflation is expected to have gradually decelerated from 8.7 per cent in 2022 to 6.8 per cent in 2023 and projected to moderate further to 5.8 per cent in 2024. Although commodity prices, mainly oil prices, are expected to decline over the next two years contributing to faster disinflation, new commodity price spikes resulting from geopolitical shocks, including possible escalation of the conflict in Gaza to the Middle East region as well as continued attacks in the Red Sea, could accelerate global inflation. Higher global energy prices may result in increased import expenditure thereby widening the trade deficit while also weighing on inflation in many countries, including Sri Lanka. Meanwhile, weather related shocks such as floods and droughts together with the El Niño phenomenon could cause food price hikes and jeopardise efforts to restore price stability globally. Additionally, many economies face significant debt distress risks due to escalating debt service costs necessitating fiscal consolidation measures which could hinder growth prospects further.

The global monetary policy stance which was gradually tightened in 2022 in view of rising inflationary pressures, was further tightened to significantly high levels during 2023 as inflation remained excessively stubborn. Supply disruptions due to geopolitical tensions, lagged effects of monetary and fiscal stimulus during the pandemic, high inflation expectations, and wage pressures were key factors that contributed to the persistence in inflation in many advanced and emerging market economies. Despite some early signs of inflation moderating, incoming data and other unfavourable global developments such as the economic decoupling where Western economies have loosened ties with China, and tensions in the Red Sea and its impact on global and regional supply chains, together with downward rigid core inflation levels have led central banks globally to remain cautious in easing their monetary policy stance in 2024. Meanwhile, the US dollar strengthened against other major currencies so far in 2024. This can be attributed to robust economic performance in the US, including higher than expected surge in new job additions to the US economy. Further, the delay in normalisation of interest rates amidst persistent inflationary pressures is also expected to contribute towards a stronger US dollar in the near future.

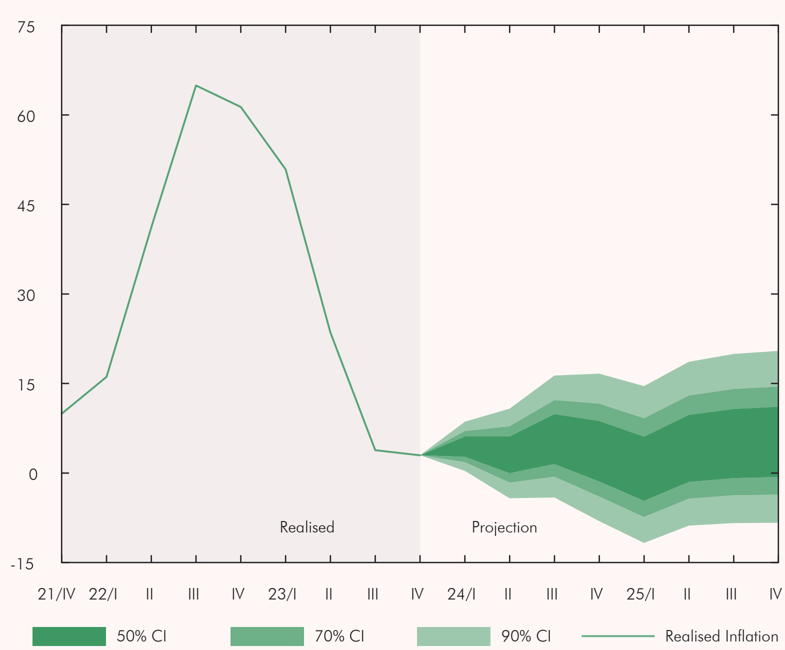
3.2 Domestic Economic Outlook

3.2.1 Inflation Outlook

Despite intermittent fluctuations caused by supply side deviations amid lower demand conditions, inflation is expected to stabilise around the targeted level over the medium term, supported by appropriate policy measures. Following the rapid disinflation process, inflation reached lower single digit levels towards end 2023. However, a temporary uptick in inflation was observed during early 2024, mainly driven by the Value Added Tax (VAT) adjustments implemented in January 2024. Nevertheless, the realised data thus far in 2024 indicates that the direct impact of the VAT change on inflation and its second round effects may not be as large as initially envisaged amidst subdued demand. Moreover, the effects of this tax increase are anticipated to be partly offset by the notable downward revisions to electricity tariffs effective from March 2024 and the moderation in food prices. These effects partially accounted for the considerable reduction of inflation observed in March 2024, and as per the current projections of the Central Bank,[1] they are expected to contribute to inflation remaining below the target of 5 per cent during the second quarter of 2024. The trajectory for headline inflation during the latter half of the year could be somewhat impacted by the next round of revisions to electricity tariffs and cost reflective monthly revisions to fuel and gas prices. However, inflation is expected to remain around the target of 5 per cent, on average, during 2024. As per currently available information, inflation is expected to decline for a short period in early 2025, mainly due to the favourable base effect associated with the increase in inflation due to tax adjustments and notable food inflation in early 2024 in the absence of aggregate demand pressures. Meanwhile, core inflation is projected to rise in the upcoming quarters, largely due to changes in the VAT structure, despite subdued demand conditions. This projected path of core inflation is also contributed by the fact that it may not benefit from the direct impact of reduced electricity tariffs as energy related expenses are not included in the core consumption basket, and the relatively high persistence that is usually observed in core inflation. Similar to headline inflation, core inflation is expected to follow a declining trend in early 2025, partly contributed by the favourable base effect, albeit at a lower

1 The Central Bank uses a Quarterly Projection Model (QPM), which is a semi-structural macroeconomic model, to arrive at medium term macroeconomic projections. Projections are updated during each monetary policy round, using data on the latest economic developments, including, but not limited to, monthly releases of inflation data and quarterly releases of GDP data by the Department of Census and Statistics (DCS) and global macroeconomic forecasts. In addition to data updates, forecast near term movements of key macroeconomic variables together with staff judgements, are taken as key inputs for QPM based medium term projections. The projections discussed in the Annual Economic Review 2023 are based on the March 2024 forecast round.

Figure 3.1 **Headline Inflation Projections CCPI* (quarterly average, year-on-year, %)**



*Realised data up to Q4 2022 shown in the fan chart are based on CCPI (2013=100, seasonally adjusted), while data after this period are based on CCPI (2021=100, seasonally adjusted).

Note: A forecast is neither a promise nor a commitment

The projections reflect the available data, assumptions and judgements made at the forecast round in March 2024.

The fan chart illustrates the uncertainty surrounding the baseline projection path using confidence bands of gradually fading colours. The confidence intervals (CI) shown on the chart indicate the ranges of values within which inflation may fluctuate over the medium term. For example, the thick green shaded area represents the 50 per cent confidence interval, implying that there is a 50 per cent probability that the realised inflation outcome will be within this interval. The confidence bands show the increasing uncertainty in forecasting inflation over a longer horizon.

Source: Central Bank Staff Projections

Table 3.2

Near term Macroeconomic Projections (a)

Indicator	Unit	2022 (b)	2023 (c)	Projections 2024
Real Sector (d)				
Real GDP Growth	%	-7.3 (c)	-2.3	3.0
GDP at Current Market Price	Rs. tn	24.1 (c)	27.6	29.9
Per Capita GDP (e) (f)	USD	3,464 (c)	3,830	4,075
Total Investment	% of GDP	28.6 (c)	25.3	25.8
Domestic Savings	% of GDP	25.0 (c)	23.8	22.4
National Savings	% of GDP	27.2 (c)	27.2	26.3
External Sector (d)				
Trade Balance	% of GDP	-6.7	-5.8	-7.8
Exports	USD bn	13.1	11.9	12.9
Imports	USD bn	18.3	16.8	20.0
Current Account Balance (g)	% of GDP	-1.9	1.8	0.5
External Official Reserves	Months of Imports	1.2	3.1	3.4
Fiscal Sector				
Total Revenue and Grants	% of GDP	8.4 (h)	11.1 (d)	13.0 (i)
Expenditure and Net Lending	% of GDP	18.6 (h)	19.4 (d)	22.3 (i)
Current Account Balance	% of GDP	-6.4 (h)	-6.0 (d)	-3.2 (i)
Primary Account Balance	% of GDP	-3.7 (h)	0.6 (d)	0.8 (i)
Primary Account Balance (With Bank Recapitalisation)	% of GDP	-	-	-1.3 (i)
Overall Budget Deficit	% of GDP	-10.2 (h)	-8.3 (d)	-7.3 (i)
Overall Budget Deficit (With Bank Recapitalisation)	% of GDP	-	-	-9.4 (i)
Central Government Debt	% of GDP	114.2 (h)	103.9 (d)	110.3 (i)
Monetary Sector and Inflation				
Broad Money Growth (M_{2b}) (j)	%	15.4	7.3	15.0
Private Sector Credit Growth (in M_{2b}) (j)	%	6.2	-0.6	8.5
Annual Average Inflation	%	46.4 (k)	17.4 (l)	5.0 (l)

(a) Based on information available up to mid-March 2024
(b) Revised
(c) Provisional
(d) GDP estimates (base year 2015) released in March 2024 by the Department of Census and Statistics have been used
(e) Estimates updated with the latest population figures
(f) Based on quarterly GDP in USD terms calculated using quarterly average exchange rate
(g) Based on accrual basis
(h) Revised based on the latest GDP data published by the Department of Census and Statistics on 15 March 2024
(i) Projections for 2024 are based on 2023 December IMF staff report
(j) Year-on-year growth based on end year values
(k) Based on CCPI (2013=100)
(l) Based on CCPI (2021=100)

Sources: Department of Census and Statistics
Ministry of Finance, Economic Stabilization and National Policies
Central Bank of Sri Lanka

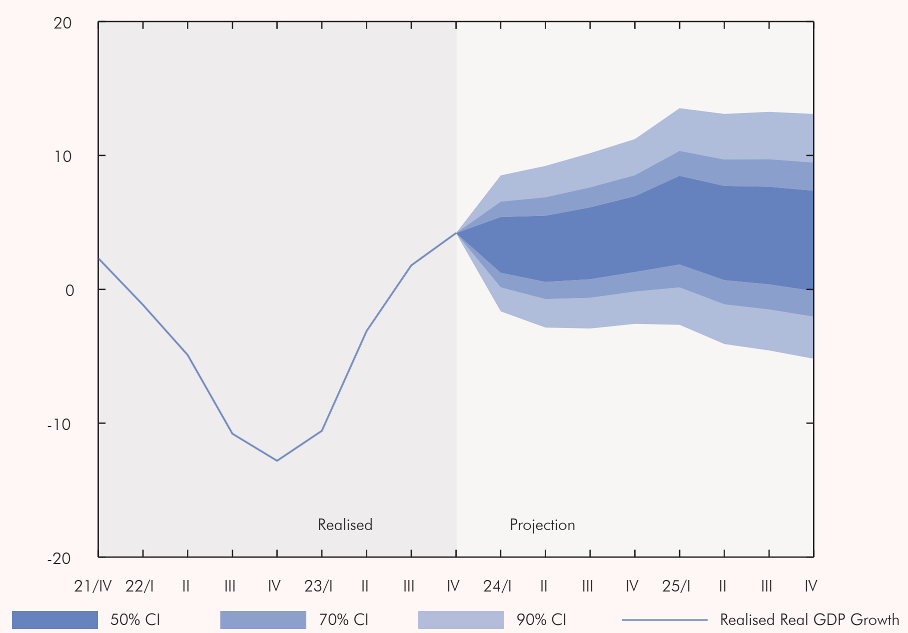
magnitude than that of headline inflation. However, core inflation is expected to stabilise around mid-single digit levels over the medium term with appropriate policy measures.

Given the prevailing domestic and global economic uncertainties, adverse weather conditions, and geopolitical tensions, the risks associated with the current projections are higher than in normal times. Current projections are conditional on the forecasts of global energy and food prices, gradual growth recovery of Sri Lanka's major trading partners, the anticipated domestic fiscal path in line with the IMF-EFF projections under the debt restructuring scenario, and global financial conditions implied by the monetary policy stance of the USA. Further, the projections are conditional on the model-consistent interest rate path and resulting macroeconomic responses. Any notable change in these assumptions could lead to the realised inflation path deviating from the projected path. Risks to the projection arise due to the possibility of various factors deviating from the levels already internalised in projections, either explicitly or implicitly, and due to any unforeseen developments. In particular, there are substantial upside risks to inflation projections stemming from factors such as the impact of the possible upward pressures on global food and energy prices amidst uncertainties; the impact of adverse weather on agricultural production and in turn on food prices; the possible upward revision to electricity prices more than initially anticipated, for which weather anomalies can also be a contributing factor, among others, that could affect the electricity generation mix, requiring the use of costlier sources; and the possible realisation of the demand for higher wages. Meanwhile, downside risks to inflation projections include a faster recovery of supply conditions and the sustained impact of diminished purchasing power of the public. The Central Bank will continue to communicate to the public the possible deviations in the inflation outlook based on upcoming changes to domestic and global economic conditions at each monetary policy round, underpinned by data driven monetary policy formulation under the Flexible Inflation Targeting (FIT) framework.

3.2.2 Growth Prospects

Following six quarters of year-on-year contractions, the economy recorded a positive performance in the second half of 2023 and a sustained recovery is expected in the period ahead. The economy is expected to grow by 3 per cent in 2024 as the benefits of the eased monetary policy stance and low inflation environment continue to be gradually channelled into the economy. The faster than expected recovery of the tourism sector is expected to support the growth momentum in the near term with positive spillover effects on other related sectors. The industry sector is expected to benefit from recent positive developments such as the lifting of import restrictions, declining cost of credit and raw material prices. Leading indicators also show a revival in construction sector activities in light of the aforementioned developments coupled with the resumption of several previously halted infrastructure development projects of the Government. The recently concluded 2023/24 Maha season is expected to have recorded positive yields across major crops highlighting the improved performance of the agriculture sector and based on available information, this positive trend is expected to sustain during the remainder of the year, unless disrupted by

Figure 3.2 Projected Quarterly Real GDP Growth (year-on-year, %)



Note: A forecast is neither a promise nor a commitment

The projections reflect the available data, assumptions and judgements made at the forecast round in March 2024.

The fan chart illustrates the uncertainty surrounding the baseline projection path using confidence bands of gradually fading colours. The confidence intervals (CI) shown on the chart indicate the ranges of values within which real GDP growth may fluctuate over the medium term. For example, the thick blue shaded area represents the 50 per cent confidence interval, implying that there is a 50 per cent probability that the realised real GDP growth will be within this interval. The confidence bands show the increasing uncertainty in forecasting macroeconomic variables over a longer horizon. Given the volatile global environment and the uncertainties in the domestic economy, the baseline forecasts are exposed to various potential upside and downside risks. Any notable change in the underlying assumptions and judgements could lead to the realised growth path deviating from the projection.

Source: Central Bank Staff Projections adverse weather conditions. The noteworthy rise in remittances also may support in boosting aggregate demand. The near term economic growth trajectory is expected to be supported by the improved fiscal space that is envisaged with the completion of debt restructuring. Expected gradual adjustment in wages would also help improve demand. Notwithstanding the renewed sense of macroeconomic stability, policy certainty and continuity will remain vital to the growth trajectory of the economy during 2024, amid expected elections. External demand for domestic services, particularly through tourism, is expected to remain elevated and some renewed demand for exports may emerge if ongoing initiatives to strengthen exports materialise amid the improved growth prospects of Sri Lanka's key trading partners in the medium term. The economy's positive growth trajectory in the near and medium term continues to hinge on Sri Lanka's continuation of the IMF-EFF programme, timely completion of debt restructuring, and the Government's commitment to forge ahead with the structural reform agenda. Freeing up resources through these reforms, especially in relation to State Owned Business Enterprises (SOBEs) and rechannelling them into productive sectors can help induce the long overdue improvements to productivity and further strengthen the potential of the economy. However, a key fragility in the economic recovery process is the notable continued outflow of human capital, especially highly skilled professionals, amidst adverse demographic developments with ageing. The rapidly materialising impact of climate change may also take a larger than expected toll in the near to medium term through frequent supply shocks, not only on agricultural production but also on other aspects of the economy such as power generation, construction, and tourism, among others. The lack of economic diversification continues to be not only a drag on economic potential but also a source of economic vulnerability, especially considering the rapidly evolving global environment. Further, focused initiatives to improve overall productivity and efficiency across all key economic sectors are imperative at this juncture. At the micro level, ongoing initiatives to strengthen social safety nets, by improving efficiency and adequate budgetary allocations, must be expedited to build near term resilience and enable individuals to seize opportunities for economic empowerment and sustainable development in the period ahead. While expenditure rationalisation is vital for fiscal sustainability, effectiveness of government spending on key social infrastructure, such as health and education, should be enhanced to ensure equitable provision of such services with the aim of sustaining long term growth. Further, timely implementation of identified measures to address governance weaknesses and corruption vulnerabilities are macro-critical for the progress of both the economy and its people.

3.2.3 Monetary Sector Outlook

Given the favourable inflation dynamics and outlook, as reflected by available data, the monetary policy stance of the Central Bank is expected to remain accommodative in the period ahead, which would help stimulate economic activity. Supported by the monetary policy easing measures, improving domestic money market liquidity conditions and the reduction in the risk premia attached to government securities, market interest rates, particularly lending interest rates, are expected to normalise further providing the required relief for businesses and households in terms of reduced financing costs. The expansionary momentum observed in credit extended to the private sector by the banking sector since June 2023 is expected to continue supported by normalising lending interest rates and the improvements in business sentiments, thereby fuelling the envisaged rebound of domestic economic activity. Meanwhile, the banking sector's exposure to the public sector is expected to be lower than in previous years due to the implementation of decisive fiscal reforms along with the restoration of debt sustainability that would reduce the financing needs of the Government. Further, the resumption of foreign financing from the multilateral development partners and bilateral partners in the period ahead would reduce the Government's excessive reliance on domestic resources for debt financing, thus availing resources for use by productive sectors of the economy. Credit to SOBEs by the banking sector is expected to record a moderate expansion, although the reliance of the key SOBEs on bank funding is likely to be low amidst the implementation of cost-reflective pricing mechanisms. Similarly, going forward, Net Credit to the Government (NCG) by the banking system is expected to remain low, while the Central Bank of Sri Lanka Act No. 16 of 2023 (CBA) prohibits any future monetary financing. Net Foreign Assets (NFA) of the banking system is expected to improve further in the period ahead with the envisaged foreign currency inflows to the country and purchases of foreign exchange by the Central Bank from the domestic foreign exchange market for building official reserves. With the envisaged expansion in domestic credit and the improvement in NFA, year-on-year growth of broad money supply is expected to accelerate to around 15.0 per cent in 2024 and record a moderate growth of around 10.0-11.0 per cent annually over the medium term in line with the envisaged expansion of the domestic economy and medium term inflation target.

The monetary policy stance of the Central Bank will continue to be data-driven and forward-looking. Timely adjustments to the policies and strategies of the Central Bank will be made under the FIT framework, in line with incoming data. With the intention of enhancing transparency, the Central Bank will continue to communicate its policies, the envisaged macroeconomic outcomes and the likely monetary policy actions and the rationale behind them, which will be instrumental in managing the expectations of the public, thus contributing to achieving overall price and macroeconomic stability. As a part of this process, the Central Bank will continue publishing the Monetary Policy Report (MPR) bi-annually to better inform the public on the outlook of the economy, thereby further improving the transparency of the monetary policy actions taken by the Central Bank.

Preserving the independence of the Central Bank is imperative to ensure that the economy and its stakeholders continue to reap the benefits of farsighted policies. The sharp disinflation and the return to a low interest rate environment, achieved within a short period of time, are predominantly attributable to the independent and timely monetary policy interventions by the Central Bank. Therefore, it is in the best interest of the economy and its stakeholders that such enhanced central bank autonomy is preserved and any fiscal dominance of monetary policy is prevented, going forward.

3.2.4 External Sector Outlook

The external sector outlook for 2024 and beyond will be contingent on the successful completion of External Debt Restructuring (EDR) and the perseverance with the reform path set out in the IMF-EFF supported programme. These will be vitally important in eliminating the prevailing uncertainties and sustainably improving global partners' confidence in the country. The merchandise trade deficit is expected to widen in 2024 due to the possible increase in import demand, reflecting the relaxation of import restrictions, improved economic activity, and increased

BOX 7

Making Sri Lanka's External Current Account Outcomes More Sustainable

Sri Lanka recorded a surplus in the current account of the Balance of Payments (BOP) in 2023. This surplus can mainly be attributed to the notable reduction in merchandise imports, significant increase in earnings from tourism and healthy growth in workers' remittances. Over the years, Sri Lanka has been experiencing persistent external current account deficits mainly driven by large deficits in the merchandise trade account. Although the trade in services account and secondary income account recorded surpluses, such surpluses were not sufficient to cushion the impact of merchandise trade and primary income account deficits on the current account (Figure B 7.1).

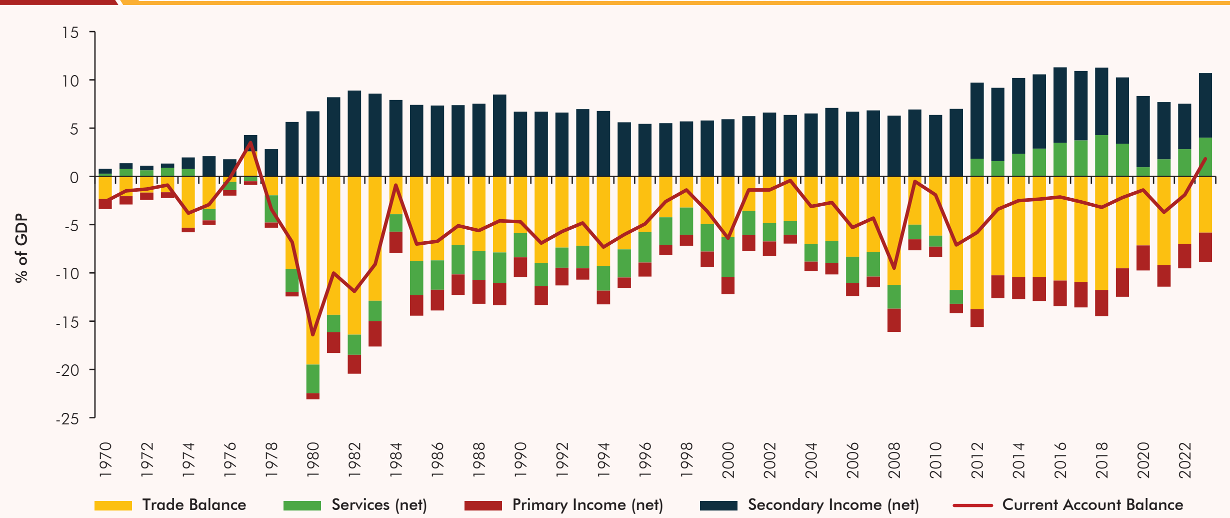
Historically, global experiences show that after a significant economic shock, such as a BOP crisis leading to a debt default, the subsequent adjustment in the exchange rate and corrective policy measures result in an immediate current account surplus. In this context, historical experiences show that some countries were able to sustain a surplus in the current account in the medium to long term following a period of economic distress. At the same time, there were countries that reverted to their historical trend of recording deficits (Figure B 7.2). Generally, countries that have been able to sustain such surpluses in the long run were able to stabilise the exchange rate at an elevated level compared to that of pre-crisis level, supporting export competitiveness, while managing inflation at lower levels. Sustaining these surpluses was supported by policies aimed at gradually accelerating real GDP growth and improving fiscal performance (i.e., improved primary balance and lower budget deficit). In this context, it is important to explore the factors influencing the sustainability of current account surpluses post-economic shocks and economic implications of maintaining persistent current account surpluses or deficits.

The current account balance mirrors the savings-investment gap in the country. A current account surplus reflects a positive savings-investment gap whereas a deficit reflects a negative savings-investment gap. In Sri Lanka, along with the current account surplus, the national savings-investment gap took an upturn to record a positive value in 2023. This surplus can be attributed to the combined effect of reduced domestic investment and a notable increase in net current transfers from the rest of the world, leading to an increase in national savings.

Country Experiences

During the East Asian Financial Crisis of 1997-1998, countries such as Thailand, South Korea, Indonesia, Philippines and Malaysia experienced BOP distress that led to a multitude of macroeconomic shocks, including sharp depreciation of local currencies. In response, these countries implemented structural reforms, including

Figure B 7.1 **Composition of the Current Account: 1970 - 2023**



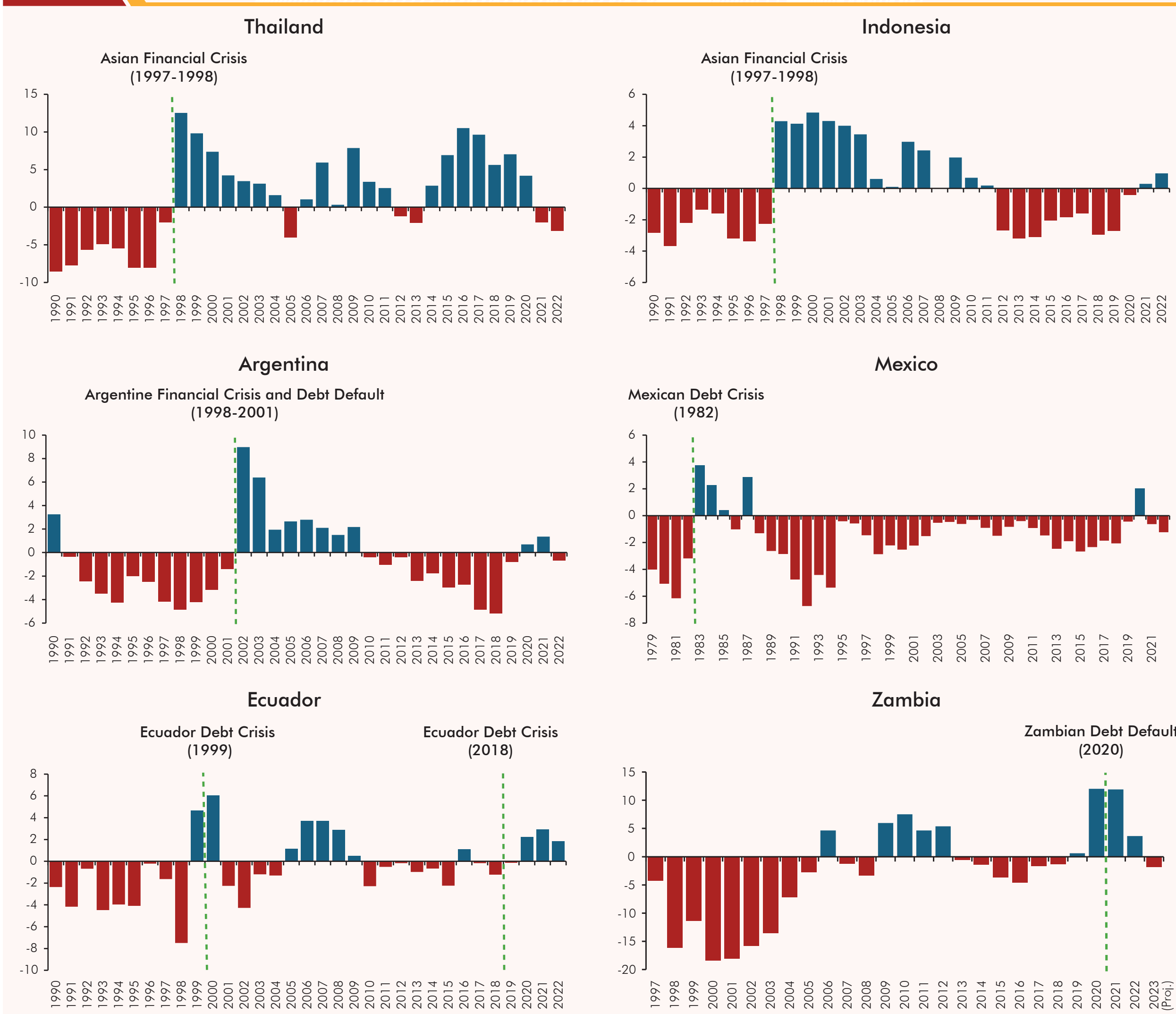
Source: Central Bank of Sri Lanka

3

fiscal consolidation, strengthening the regulatory framework for the financial sector, adoption of inflation targeting frameworks, implementation of export promotion policies, and reinforcing external buffers by transitioning to flexible exchange rate regimes (Wellisz 2022). As a result, these economies were able to witness V-shaped recoveries characterised by large current account surpluses. However, only some countries were able to sustain these surpluses over the medium to long term. The persistent current account surpluses achieved by these countries could be attributable to export led growth strategies, diversification of export markets, and prudent macroeconomic management executed by these economies. For example, South Korea's export oriented growth policies and diversification of export markets enabled it to maintain current account surpluses, contributing to its economic resilience post-crisis. Thailand transitioned from a fixed exchange rate regime to an independently floating exchange rate regime post-crisis by allowing its currency to float which facilitated an adjustment in its external balances (Sharma 2003). After achieving a current account surplus in the aftermath of the crisis, Thailand was able to maintain a current account surplus for decades by adopting appropriate policy measures including the promotion of services exports, particularly tourism.

Although Indonesia was able to sustain the post-crisis current account surpluses over a decade, the country started to record current account deficits since 2012 due to the sharp fall in commodity prices adversely affecting Indonesia's commodity exports (IMF 2016). Considering elsewhere in the world, Zambia encountered an external debt

Figure B 7.2 **Current Account Balance (as a percentage of GDP): Selected Countries**



Sources: World Bank, International Monetary Fund crisis in 2020 resulting in a sharp exchange rate depreciation and BOP challenges. Although Zambia was able to experience temporary current account surpluses in the aftermath of the crisis, the current account is estimated to have reverted to a deficit in 2023 due to a significant contraction in copper exports and imports returning to high levels (IMF 2023). Similar experiences can be observed in the cases of Argentina, Mexico and Ecuador where the current account deficits turned into surpluses in the aftermath of the debt crises followed by debt restructuring. However, these surpluses did not persist. Therefore, it is evident that countries have had mixed experiences with respect to sustaining post-crises current account surpluses, depending on a multitude of factors, including structural reforms, diversification strategies, prudent macroeconomic management as well as the country's ability to withstand external vulnerabilities.

Are current account surpluses always good?

A current account surplus may be considered favourable for the purpose of building up reserves. However, a persistent surplus may lead to significant appreciation of the local currency which would necessitate the Central Bank to intervene in the domestic foreign exchange market to avoid undue appreciation of the currency to ensure maintenance of trade competitiveness. However, adopting such practices for extended time periods may lead to such countries being labelled as stereotypical "currency manipulators" who maintain their currencies undervalued, akin to an export subsidy, to boost their trade surpluses. Moreover, if the current account surplus is achieved as a result of low domestic demand or compressed imports due to restrictive trade policies, it can hinder domestic consumption and investment affecting future economic growth. In order to achieve a sustainable current account balance in the aftermath of an economic crisis, adopting an appropriate policy mix is required while ensuring that there will be no disruptive adjustments. In this regard, adopting a flexible exchange rate policy, where the exchange rate is determined based on demand and supply conditions in the domestic foreign exchange market, maintaining low and stable inflation, and focusing on export promotion and diversification are essential.

Conclusion

There is no agreement among academia or policymakers on an optimal level of current account balance or whether a country should maintain a persistent current account deficit or a surplus (Ghosh and Ramakrishnan 2006; Devadas and Loayza 2018; World Economic Forum 2023). Neither a current account deficit nor a surplus alone could be interpreted as favourable or unfavourable for an economy. A current account is considered to be sustainable if external deficits do not necessitate an immediate change in monetary or fiscal policy or do not result in a BOP crisis leading to a strain on the country's international reserve level or having adverse implications on its ability to service external debt. Although recording a current account surplus is interpreted as favourable for an economy which had recorded persistent deficits historically, a persistent current account surplus may reflect an undervalued currency so that it may subsequently necessitate an appreciation of the country's local currency leading to a loss of trade competitiveness. In conclusion, if Sri Lanka could adopt and maintain an appropriate policy mix with export promotion and diversification, which would result in a stable exchange rate, lower inflation levels and gradual economic growth path, the country would be able to maintain a sustainable current account balance over the medium to long term.

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spending capacity of the public and businesses due to easing monetary conditions, despite the expected moderate growth in export earnings in 2024. Even with the continued growth in import expenditure, the trade deficit is expected to reach manageable levels in the medium term, supported by the expected revival and expansion of earnings from exports. The services account surplus is likely to increase in 2024 and beyond with the projected upswing in earnings from tourism as well as the envisaged improvement in competitiveness of other services exports.

Sri Lanka is likely to benefit from the booming tourism industry in the medium term with the gradual normalisation of the global economy and continued strategic drive to reap the full potential of this sector. However, the expected surge in tourism should also accompany alignment with international standards and sustainable tourism measures while ensuring that estimated revenue is realised fully for the country to reap the benefits. The services account surplus is also expected to strengthen over the medium term with the expected rebound in activities in transport services and high growth in the Information Technology and Business Process Outsourcing (IT/BPO) services subsector. The deficit in the primary income account is expected to narrow in 2024 after the completion of the EDR process and the subsequent scale down of interest payments. The primary income account deficit is expected to widen thereafter over the medium term due to continued interest and dividend payments. Workers' remittances are expected to continue to remain at elevated levels in 2024 and beyond. Consequently, the current account, which recorded a surplus in 2023, is expected to record a surplus in 2024 as well, but at a lower level. During the medium term, the current account deficit is expected to be maintained at sustainable levels following the restoration of debt sustainability and the anticipated adoption of policies in favour of the tradeable sector. The exchange rate will act as a stabiliser in the context of any large trade or current account imbalances.

Inflows to the financial account are expected to be supported by positive investor sentiments owing to the successful continuation of the IMF-EFF programme and debt restructuring process. Also, foreign financing assistance from multilateral agencies such as the IMF, Asian Development Bank (ADB), and the World Bank along with the envisaged resumption of bilateral funding projects are expected to enhance inflows to the financial account while also strengthening gross official reserves in 2024 and beyond. Further, the IMF-EFF supported programme is fully financed with firm commitments of financing for 2024 and strong prospects for financing for the rest of the programme period. Programme financing gaps up to 2027 are expected to be fulfilled through debt restructuring and new financing.

Moreover, non-debt creating foreign inflows to the financial account such as FDI are expected to strengthen over the medium term, particularly to the Colombo Port City and Hambantota Industrial Zone. Proposed improvements to the institutional arrangement for investment promotion and efforts to address longstanding issues on doing business conditions are expected to alleviate any negative perceptions of Sri Lanka among investors. Foreign investments in the government securities market and in the Colombo Stock Exchange (CSE) are also expected to strengthen over the medium term due to the above developments. The Central Bank remains committed to maintaining a market determined and flexible exchange rate and building reserves through net purchases of foreign exchange from the domestic foreign exchange market which are expected to serve as a buffer against external shocks. Moreover, any intervention in the domestic foreign exchange market by the Central Bank would be limited only for the purposes of reserve buildup and curtailing any excessive short term volatility in the exchange rate.

3.2.5 Financial Sector Outlook

The financial sector, which navigated through challenging macro-financial conditions during recent years showed signs of recovery and stabilisation in 2023 and the resilience of the financial

sector is expected to improve further with the dissipation of macroeconomic vulnerabilities in the period ahead. Fragilities and uncertainties in the financial sector that surfaced warranted the Central Bank to take a range of policy measures and initiate structural reforms to maintain and strengthen the resilience of the economy and the financial sector. With the easing of monetary conditions as reflected through downward interest rate movement and dissipating the uncertainty priced in interest rates, credit to the private sector is expected to rebound in 2024 from the contraction it registered in 2023. Banks are expected to rebalance the asset allocation with the normalising yield curves on government securities, which were once inverted, and the correction of the anomaly in the risk-free rates being higher than the lending rates. With the probable restructuring of the Government's foreign currency loans, which may entail an exchange of sovereign loans with sovereign securities, the impending EDR may result in a one-off dip in financial intermediation due to a contraction in the loan book, albeit partially correcting the tilt towards lending to the sovereign. Measures are underway through moral suasion and appropriate regulations to address key elements of sovereign-bank nexus. Reflecting the gradual revival of economic activities, the expected easing of strained borrower capacities and the correction in market interest rates, credit to the private sector is expected to gather momentum. The envisaged credit growth and the gradual easing of trade-related restrictions and improving repayment capacities are expected to improve the credit quality of the banking sector. Liquidity levels of the banks are expected to improve with the envisaged EDR as net foreign currency credit to the sovereign and illiquid foreign currency sovereign instruments are likely to be exchanged with liquid sovereign instruments. The Government endeavours to achieve a smooth EDR operation with minimal macro-financial impact through pre-emptive policy interventions and behavioural responses. The banking sector is formulating comprehensive recapitalisation plans for its top tier domestic Licensed Commercial Banks (LCBs) with the view of strengthening the resilience to enable a smooth sovereign debt restructuring while averting the transmission of negative spillovers across the economy. The credit growth of the Licensed Finance Companies (LFCs) sector is expected to resemble a trajectory similar to that of the banking sector with continued diversification amidst limited growth opportunities for conventional loan products. The credit risk in the LFCs sector is expected to ease with the envisaged recovery in macro-financial conditions and credit rebound.

An array of structural, legal and policy level reforms and innovations will continue to be mobilised to ensure the stability of the financial system. Consolidation endeavours are expected to continue in 2024, enhancing the resilience and efficiency of the LFCs sector. A robust growth in digital transactions is expected in the landscape of payments and settlements due to increased transactions through Instant Payment System facilitated by online banking and mobile payment apps. Awareness campaigns on digital transaction methods will be conducted to increase the uptake of digital payments by customers and merchants. The Central Bank will closely collaborate with financial institutions to support the expansion of safe, efficient and reliable digital payment mechanisms in the country. The Central Bank as the Macroprudential Authority of the country envisages to implement its suite of macroprudential tools when the need arises to contain systemic imbalances with the view of maintaining financial sector resilience and to support the smooth provision of financial services even under adverse economic and financial conditions.

The instigation and timely implementation of well sequenced-consistent policies are expected to ensure the stability of the financial system. The continued advancement along the policy reform agenda envisaged in the IMF-EFF programme is expected to address the shortfalls and weaknesses of the financial sector and to further strengthen the resilience and confidence in the system. Despite all such efforts, if political uncertainties exert significant pressure on the reform agenda going forward, which could lead to departure from the intended policy reform trajectory, it may result in adverse and potentially irreversible impacts on both the financial system and the economy.

3.2.6 Fiscal Sector Outlook

The Government is expected to continue the fiscal consolidation path and its efforts to restore debt sustainability in line with the IMF-EFF supported programme, showcasing the Government's commitment to prudent fiscal management and implementation of long overdue structural reforms. As per the revised Medium Term Macro Fiscal Framework (MTMFF) outlined in the Fiscal Management Report 2024, the Government aims to achieve an ambitious revenue target, surpassing 15 per cent of GDP by 2027. Simultaneously, efforts are directed towards containing the overall budget deficit to below 5 per cent of GDP starting from 2026, while striving to achieve a primary surplus of at least 2.3 per cent of GDP by 2025 and beyond. Aligned with this stance, the Government implemented robust revenue enhancement measures since mid-2022, and the impact of these fiscal policy reforms has been reflected in the Government's finances since 2023, resulting in a significant increase in tax revenue collection. Furthermore, the envisaged introduction of a property tax as well as a gift and inheritance tax, is expected in 2025, further augmenting tax collection if implemented as scheduled. Revenue enhancement in the forthcoming periods is also expected through the strengthening of revenue administration measures. Compulsory registration of individuals for personal income taxes, strengthening of large taxpayers and high wealth taxpayers units, upgrading the Revenue Administration and Management Information System (RAMIS), and the abolishment of the Simplified Value Added Tax (SVAT) system are expected to improve revenue administration efforts of revenue collecting agencies.

Recent efforts by the Government mandating information sharing by the financial institutions, CSE, Registrar General's Department, Registrar General of Companies and Department of Motor Traffic with the Inland Revenue Department, is a welcoming move to build interlinkages with government institutions and the revenue authority to improve tax administration and minimise tax evasion. However, any reversal of hard earned fiscal sector achievements prior to or after the upcoming elections will derail the IMF programme and destabilise the economy, thereby triggering a deeper socioeconomic and political crisis than that was observed in 2022. Additionally, the Government aims to manage expenditure within 20 per cent of GDP over the medium term. While streamlining government expenditure, making appropriate allocations to priority areas such as health, education, public transport, and social protection, as outlined in MTMFF, is pivotal for equitable and faster economic recovery. The implementation of the new legislations related to Public Financial Management and Public Procurement is expected to strengthen fiscal discipline through the establishment of a framework of fiscal rules, enhanced transparency, monitoring mechanisms, and stricter discipline on government procurement. In addition, the Government is implementing a stringent project appraisal and prioritisation process with regard to capital projects to align capital expenditure with development priorities in a cost effective manner. At the same time, the transfer of public debt management to a separate Public Debt Management Office (PDMO) is expected with the implementation of a new debt management law.

Meanwhile, the debt restructuring process continues to progress, guided by quantitative targets established under the IMF Sovereign Risk and Debt Sustainability Framework (SRDSF), while simultaneous efforts are underway to tackle longstanding issues of SOBE reforms and address other corruption and transparency vulnerabilities. In this regard, the Government completed key aspects of the Domestic Debt Optimisation (DDO) operation in 2023 to complement the foreign debt restructuring efforts and meet debt sustainability targets. The completion of the restructuring of the foreign debt portfolio and adherence to the fiscal consolidation path that the Government has committed under the IMF-EFF programme are expected to bring down the debt trajectory to a sustainable level in the medium term. In the meantime, the implementation of cost reflective pricing mechanisms helped alleviate the longstanding financial stresses experienced by SOBEs, limiting the possibility of SOBE losses translating into government debt. Continuation of such policies, along with ongoing SOBE reforms, including the divestment of non-strategic SOBEs, are anticipated to reduce the burden they exert on the Budget. Furthermore, the publication of details regarding procurement contracts, disclosure of certain tax exemption information in the public domain, and the appointment of Commissioners to the Commission to Investigate Allegations of Bribery or Corruption (CIABOC) are commendable steps towards enhancing transparency, increasing accountability, and addressing bribery concerns. The publication of the Government Action Plan, derived from recommendations in the recently concluded Governance Diagnostic Assessment by the IMF, offers transparency and details progress of these recommendations. Successful completion of these recommendations will strengthen public and civil sector confidence in good governance, essential for preventing Sri Lanka from becoming a failed state. Concerted efforts by the Government, supported by domestic and foreign stakeholders, are expected to address the challenges in the fiscal sector and implement broad based economic reforms, thereby restoring fiscal sector sustainability in the medium term.

STATISTICAL APPENDIX[1]

Table No.

[1] The online version of the Statistical Appendix is availabale in Excel spreadsheet format and contains additional data.

Path - Main Menu → Publications → Economic and Financial Reports → Annual Economic Review → Annual Economic Review 2023 → Statistical Appendix

WEIGHTS AND MEASURES
Conversion Factors

British to Metric Units

1 acre	=	0.405	hectares (ha)
1 pound (lb)	=	0.454	kilogrammes (kg)
1 long ton (2,240 lbs)	=	1.016	metric tons (mt)
1 hundred weight (cwt)	=	50.802	kg
1 mile	=	1.609	kilometres (km)
1 long ton mile	=	1.635	mt km
1 lb/acre	=	1.121	kg/ha
1 cwt/acre	=	125.535	kg/ha
1 imperial pin	=	0.568	litres
1 imperial gallon	=	4.55	litres

Metric to British Units

1 hectare	=	2.471	acres
1 kilogram	=	2.205	lbs
1 mt (1,000 kg)	=	0.984	long ton
1 metre	=	3.281	feet
1 kilometre	=	0.612	mile
1 mt kilometre	=	0.612	long ton mile
1 litre	=	1.76	imp. pints = 0.220 imp. gallons
1 kg/ha	=	0.892	lb/acre

Paddy/Rice Conversions

1 bushel of paddy (46 lbs)	=	20.87	kg
1 mt paddy	=	47.92	bushels paddy
	=	0.7	mt rice
1 mt rice	=	68.46	bushels paddy
	=	1.43	mt paddy
1 bushel paddy/acre	=	51.55	kg paddy/ha

Coconut and Coconut Product Conversions

1 mt of desiccated coconut	=	8,960	nuts
1 mt of coconut oil	=	9,250	nuts
1 mt of copra	=	5,500	nuts
1 mt of coconut milk	=	4,000	nuts

TABLE 1

Rs.million

Economic Activity	Current Market Prices			Constant (2015) Prices		
	2021 (b)	2022 (b)(c)	2023 (c)	2021 (b)	2022 (b)(c)	2023 (c)
<u>Production Approach</u>						
Cultivation of Crops	1,092,133	1,367,845	1,423,553	644,773	619,434	641,080
Animal production	169,970	258,931	386,121	94,039	83,322	84,812
Forestry & logging, plant propagation and agricultural supporting activities	98,006	143,234	160,305	74,181	84,958	81,518
Fishing	188,007	274,710	318,041	137,555	123,128	126,839
Mining & quarrying	355,214	450,745	400,852	287,969	198,612	154,291
Manufacturing of food, beverages & tobacco products	1,097,498	1,704,133	1,924,359	1,014,150	869,373	899,777
Manufacturing of textile, wearing apparel & leather products	953,158	1,516,831	1,433,732	473,911	511,863	450,498
Other manufacturing	1,113,427	1,508,296	1,592,902	759,090	581,223	550,106
Electricity generation, water supply and sewerage	184,103	71,461	298,262	230,014	220,187	213,563
Construction	1,572,211	1,921,624	1,421,045	1,172,761	927,321	734,859
Wholesale and retail trade	2,254,632	3,344,708	3,863,407	1,675,083	1,675,534	1,677,928
Transportation and storage	1,644,942	2,644,080	3,633,369	1,344,119	1,384,459	1,438,759
Accommodation and food service activities	164,560	350,895	517,732	130,743	166,030	209,140
Information and communication	475,127	575,547	559,248	418,083	416,328	361,295
Financial and insurance activities	1,120,638	1,687,303	2,165,247	744,764	608,635	576,239
Real estate activities, and Professional, scientific, technical, administration and support service activities	1,203,953	1,461,518	1,714,004	932,460	802,924	775,825
Public administration, defense, education, human health and social work activities	1,770,239	1,947,566	2,055,478	1,172,791	1,169,143	1,162,374
Other services (excluding own-services)	1,206,712	1,708,257	2,048,824	992,662	995,154	998,877
Gross Value Added (GVA) at Basic Price	**16,664,532**	**22,937,682**	**25,916,480**	**12,299,149**	**11,437,626**	**11,137,782**
Taxes less subsidies on products	947,839	1,126,080	1,713,185	826,356	723,576	743,954
Gross Domestic Product (GDP) at Market Price	**17,612,370**	**24,063,762**	**27,629,665**	**13,125,505**	**12,161,201**	**11,881,736**
<u>Expenditure Approach</u>						
Consumption Expenditure	12,443,651	18,038,220	21,051,610	9,297,802	9,279,727	9,078,316
Private	10,779,024	16,310,959	19,158,507	7,959,371	7,922,720	7,795,132
Government	1,664,627	1,727,261	1,893,103	1,338,431	1,357,007	1,283,184
Gross Capital Formation	6,469,768	6,883,029	6,990,752	4,627,584	2,872,361	2,644,879
Gross Domestic Expenditure at Market Price	18,913,420	24,921,249	28,042,363	13,925,386	12,152,088	11,723,195
Export of Goods and Services	2,980,263	5,187,912	5,634,247	2,159,760	2,380,525	2,649,808
Import of Goods and Services	4,281,313	6,045,399	6,046,945	2,959,641	2,371,412	2,491,267
Gross Domestic Product (GDP) at Market Price	**17,612,370**	**24,063,762**	**27,629,665**	**13,125,505**	**12,161,201**	**11,881,736**
<u>Income Approach</u>						
Compensation of Employees	4,846,606	6,204,469	6,159,055	3,421,335	3,382,269	2,981,040
Gross Operating Surplus	5,806,619	8,116,619	9,833,760	4,335,046	3,737,065	3,838,854
Net Operating Surplus	5,008,924	7,148,973	8,739,599	3,708,116	3,143,429	3,278,404
Consumption of Fixed Capital	797,695	967,327	1,094,161	626,930	593,636	560,449
Gross Mixed Income	5,967,807	8,560,202	9,741,337	4,503,363	4,281,197	4,235,566
Net Mixed Income	5,698,277	8,209,465	9,359,281	4,308,378	4,112,656	4,073,869
Consumption of Fixed Capital	269,530	350,737	382,056	194,985	168,542	161,697
Other taxes less subsidies on production	43,500	56,711	182,329	39,405	37,094	82,322
Gross Value Added (GVA) at Basic Price	**16,664,532**	**22,937,682**	**25,916,480**	**12,299,149**	**11,437,626**	**11,137,782**
Taxes less subsidies on products	947,838	1,126,080	1,713,185	826,356	723,575	743,954
Gross Domestic Product (GDP) at Market Price	**17,612,370**	**24,063,762**	**27,629,665**	**13,125,505**	**12,161,201**	**11,881,736**

(a) Based on the GDP estimates (base year 2015)
(b) Revised
(c) Provisional

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

Population, Labour Force and Foreign Employment

Item	2019	2020	2021	2022	2023 (a)
Demography					
Mid-Year Population, '000 (b)	21,803	21,919	22,156	22,181	22,037
Male	10,556	10,613	10,727	10,740	10,670
Female	11,247	11,306	11,429	11,441	11,367
Growth of mid-year Population, %	0.6	0.5	1.1	0.1	-0.6
Density of Population, Persons per Sq.Km.	348	350	353	354	351
Labour Force Trends (c)					
Labour Force, '000	8,592	8,467	8,553	8,547	8,408
Labour Force Participation Rate (d)	52.3	50.6	49.9	49.8	48.6
By Gender					
Male	73.0	71.9	71.0	70.5	68.6
Female	34.5	32.0	31.8	32.1	31.3
Status of Employment					
Public Sector Employees	14.9	14.8	15.2	15.2	14.6
Private Sector Employees	43.0	42.7	42.0	42.8	44.5
Employers	2.6	2.5	2.7	3.0	2.6
Self Employed	32.5	33.2	33.4	33.0	32.8
Unpaid Family Workers	7.0	6.8	6.6	6.0	5.5
Total	100.0	100.0	100.0	100.0	100.0
Employment by Economic Activity (e)					
Agriculture	25.3	27.1	27.3	26.5	26.1
Industry	27.6	26.9	26.0	26.5	25.5
Services	47.1	46.0	46.7	47.0	48.4
Unemployment, % of Labour Force	4.8	5.5	5.1	4.7	4.7
By Gender					
Male	3.3	4.0	3.7	3.7	3.6
Female	7.4	8.5	7.9	6.5	7.0
Youth Unemployment (age 15-24 years)	21.5	26.5	26.5	22.8	23.0
Foreign Employment					
Total Placements	203,087	53,711	122,264	311,056	297,656
By Gender					
Males (%)	60.2	60.5	66.3	60.1	55.3
Females (%)	39.8	39.5	33.7	39.9	44.7
By Manpower Category					
Skilled Labour (%)	74.8	74.0	74.1	66.1	70.1
Low Skilled Labour (%)	25.2	26.0	25.9	33.9	29.9

(a) Provisional
(b) Data are based on the Censes of Population and Housing - 2012
(c) Household Population aged 15 years and above
(d) Labour force as a percentage of household population
(e) Based on the International Standerd Industrial Classification (ISIC) - Revision 4

Sources: Registrar General's Department
Department of Census and Statistics
Sri Lanka Bureau of Foreign Employment

TABLE 3

Colombo Consumer Price Index (CCPI, 2021 = 100)

Period		Index		Month-on-Month Percentage Change		Year-on-Year Percentage Change	
		CCPI	CCPI (Core)	CCPI	CCPI (Core)	CCPI	CCPI (Core)
2023	January	188.6	172.4	0.5	0.5	-	-
	February	189.5	172.3	0.5	-0.1	50.6	43.6
	March	195.0	171.9	2.9	-0.2	50.3	39.1
	April	192.3	171.5	-1.4	-0.2	35.3	27.8
	May	192.3	171.0	0.0	-0.3	25.2	20.3
	June	192.3	169.9	0.0	-0.6	12.0	9.8
	July	190.2	170.4	-1.1	0.3	6.3	5.9
	August	190.1	171.2	-0.1	0.5	4.0	4.6
	September	191.8	172.0	0.9	0.5	1.3	1.9
	October	191.4	172.4	-0.2	0.2	1.5	1.2
	November	193.4	172.4	1.0	0.0	3.4	0.8
	December	195.1	172.5	0.9	0.1	4.0	0.6

Source: Department of Census and Statistics

TABLE 4

National Consumer Price Index (NCPI, 2021 = 100)

Period		Index		Month-on-Month Percentage Change		Year-on-Year Percentage Change	
		NCPI	NCPI (Core)	NCPI	NCPI (Core)	NCPI	NCPI (Core)
2023	January	201.8	189.8	0.7	1.0	53.2	52.0
	February	204.1	189.4	1.1	-0.2	53.6	50.1
	March	204.8	188.1	0.3	-0.7	49.2	44.2
	April	202.7	188.2	-1.0	0.1	33.6	31.8
	May	203.1	187.8	0.2	-0.2	22.1	21.6
	June	203.3	186.5	0.1	-0.7	10.8	11.3
	July	201.9	188.0	-0.7	0.8	4.6	6.3
	August	201.9	188.7	0.0	0.4	2.1	4.1
	September	203.5	189.0	0.8	0.2	0.8	1.7
	October	203.6	189.2	0.0	0.1	1.0	0.6
	November	206.0	189.3	1.2	0.1	2.8	0.8
	December	208.8	189.7	1.4	0.2	4.2	0.9

Source: Department of Census and Statistics

Wage Rate Indices

	Index		Annual Average Percentage Change	
	Nominal	Real (a)	Nominal	Real (a)
Public Sector Employees' Wage Rate Index (2016=100) (b)				
2020	114.6	94.8	9.2	2.9
2021	114.6	88.7	0.0	-6.4
2022	133.1	70.5	16.1	-20.6
2023 (c)	133.1	58.1	0.0	-17.5
Formal Private Sector Employees' Minimum Wage Rate Index (December 1978=100) (d)				
2020	4,282.0	88.8(e)	0.2	-4.2
2021	7,469.5	146.0(e)	74.4	64.3
2022	8,198.6	112.9(e)	9.8	-22.7
2023 (c)	8,232.9	93.0(e)	0.4	-17.6
Informal Private Sector Employees' Wage Rate Index (2018=100) (f)				
2020	112.7	102.6	6.4	0.2
2021	123.1	104.7	9.2	2.0
2022	153.3	88.3	24.5	-15.7
2023 (c)	170.8	82.0	11.4	-7.1

(a) Based on NCPI (2013=100)

(b) Public sector wage rate index was rebased to 2016 (from 2012) in order to capture the changes introduced to public sector salary structure by the Public Administration Circular No. 03/2016 issued by the Ministry of Public Administration and Management on 25 February 2016. The data relating to the base period employment structure was obtained from the Census of Public and Semi Government Sector Employment conducted by the Department of Census and Statistics in November 2016.

(c) Provisional

(d) The Index numbers are calculated on fixed weights based on the numbers employed as at 31 December 1978. The wage rates used in the calculation of Index Numbers are minimum wages for different trades fixed by the Wage Boards.

(e) Based on CCPI (2006/07=100)

(f) Informal private sector wage rate index was rebased to 2018 (from 2012) in order to capture the recent changes occurred in the informal private sector wages and the employment structure.The Index numbers are calculated using wages data of informal private sector collected through the Country Wide Data Collection System. Base period employment structure was derived from the Quarterly Labour Force Survey conducted by the DCS in 2018.

Composition of Exports

Value in US$ million

Category	2019	2020	2021	2022	2023 (a)		Change (%) 2022/2023
					Value	Share (%)	
Agricultural Exports	**2,461.9**	**2,336.2**	**2,729.5**	**2,568.0**	**2,566.5**	**21.5**	**-0.1**
Tea	1,346.4	1,240.9	1,324.4	1,258.8	1,309.9	11.0	4.1
Spices	312.5	333.5	454.8	368.7	392.9	3.3	6.5
Coconut	329.5	345.2	425.2	400.3	336.8	2.8	-15.9
Seafood	262.5	189.8	274.1	269.0	262.2	2.2	-2.5
Minor Agricultural Products	120.0	134.7	148.8	178.8	180.9	1.5	1.2
Unmanufactured Tobacco	34.7	25.5	31.6	24.4	28.1	0.2	15.3
Rubber	24.2	30.1	42.2	41.4	28.0	0.2	-32.2
Vegetables	32.0	36.6	28.5	26.7	27.7	0.2	3.8
Industrial Exports	**9,426.3**	**7,672.0**	**9,702.0**	**10,465.3**	**9,277.7**	**77.9**	**-11.3**
Textiles and Garments	5,596.5	4,423.1	5,435.1	5,952.0	4,878.9	41.0	-18.0
Rubber Products	866.1	786.1	1,050.4	977.0	902.2	7.6	-7.7
Machinery and Mechanical Appliances	400.0	337.5	500.9	580.9	598.2	5.0	3.0
Petroleum Products	521.1	373.6	506.4	568.0	539.4	4.5	-5.0
Food, Beverages and Tobacco	447.0	464.0	586.9	519.5	539.3	4.5	3.8
Gems, Diamonds and Jewellery	305.7	181.5	276.7	450.6	500.0	4.2	11.0
Chemical Products	176.3	172.7	223.2	223.5	193.5	1.6	-13.4
Base Metals and Articles	176.5	110.9	156.4	176.7	178.3	1.5	0.9
Transport Equipment	145.9	71.4	148.2	129.3	149.3	1.3	15.4
Animal Fodder	129.0	102.9	149.4	170.5	145.6	1.2	-14.6
Wood and Paper Products	129.4	99.3	129.9	136.9	114.0	1.0	-16.7
Leather, Travel Goods and Footwear	102.9	53.9	58.4	85.8	71.2	0.6	-17.0
Plastics and Articles Thereof	73.5	176.3	78.6	60.9	56.3	0.5	-7.6
Printing Industry Products	48.3	47.9	50.0	53.1	55.1	0.5	3.9
Ceramic Products	30.1	24.0	37.4	38.1	34.0	0.3	-10.7
Other Industrial Exports	278.1	247.0	314.1	342.4	322.5	2.7	-5.8
Mineral Exports	**33.9**	**25.1**	**44.5**	**50.0**	**38.5**	**0.3**	**-23.1**
Unclassified	**17.9**	**14.1**	**22.6**	**23.2**	**28.0**	**0.2**	**20.8**
Total Exports	**11,940.0**	**10,047.4**	**12,498.6**	**13,106.4**	**11,910.7**	**100.0**	**-9.1**

(a) Provisional

Sources: Ceylon Petroleum Corporation and Other Exporters of Petroleum
National Gem and Jewellery Authority
Sri Lanka Customs
Central Bank of Sri Lanka

Composition of Imports

Value in US$ million

Category	2019	2020	2021	2022	2023 (a)		Change (%) 2022/2023
					Value	Share (%)	
Consumer Goods	**3,956.5**	**3,401.7**	**3,848.7**	**2,813.0**	**3,043.9**	**18.1**	**8.2**
Food and Beverages	**1,426.9**	**1,554.4**	**1,666.5**	**1,607.9**	**1,693.0**	**10.1**	**5.3**
Sugar and Confectionery	201.2	277.1	288.8	257.8	435.5	2.6	68.9
Vegetables (b)	310.0	352.9	384.3	318.4	358.6	2.1	12.6
Dairy Products	311.9	333.8	317.7	225.3	273.7	1.6	21.5
Oils and Fats	29.4	106.9	184.1	43.9	133.9	0.8	205.2
Spices	115.4	126.9	127.2	136.6	133.4	0.8	-2.4
Cereals and Milling Industry Products	36.1	33.6	97.4	430.5	116.9	0.7	-72.8
Seafood	214.6	188.6	122.3	66.4	79.4	0.5	19.6
Other Food and Beverages	208.4	134.7	144.7	128.9	161.6	1.0	25.3
Other Consumer Goods	**2,529.6**	**1,847.3**	**2,182.2**	**1,205.1**	**1,350.9**	**8.0**	**12.1**
Medical and Pharmaceuticals	552.6	595.5	882.5	533.4	667.0	4.0	25.0
Clothing and Accessories	275.1	200.7	221.3	215.6	170.0	1.0	-21.1
Household and Furniture Items	171.9	146.9	161.2	116.3	122.1	0.7	5.0
Telecommunication Devices	247.2	268.4	382.9	69.0	98.8	0.6	43.3
Home Appliances	206.6	174.2	257.1	85.5	72.4	0.4	-15.4
Personal Vehicles	815.7	282.9	12.8	11.7	27.7	0.2	136.9
Other Non-Food Consumables	260.5	178.7	264.4	173.7	192.9	1.1	11.1
Intermediate goods	**11,369.6**	**9,076.5**	**12,308.9**	**12,438.8**	**11,006.6**	**65.5**	**-11.5**
Fuel	3,891.6	2,542.6	3,742.9	4,896.8	4,702.6	28.0	-4.0
Crude Oil	970.7	583.0	625.1	483.8	1,137.5	6.8	135.1
Refined Petroleum	2,706.4	1,742.2	2,840.0	4,048.2	3,095.4	18.4	-23.5
Coal	214.6	217.3	277.8	364.8	469.8	2.8	28.8
Textile and Textile Articles	2,909.4	2,335.1	3,066.9	3,065.2	2,371.2	14.1	-22.6
Chemical Products	831.5	831.5	1,074.4	966.2	814.7	4.8	-15.7
Plastic and Articles Thereof	612.9	540.2	765.7	650.8	474.6	2.8	-27.1
Paper and Paperboard and Articles Thereof	457.3	383.1	468.9	465.9	412.4	2.5	-11.5
Wheat and Maize	346.4	384.4	418.3	303.1	338.2	2.0	11.6
Base Metals	562.8	460.3	866.4	323.2	313.8	1.9	-2.9
Diamonds and Precious or Semi stones	201.4	117.2	143.6	203.8	268.4	1.6	31.7
Fertiliser	221.4	258.9	158.2	275.9	235.0	1.4	-14.8
Agricultural Inputs	187.9	200.8	264.2	214.5	233.8	1.4	9.0
Vehicle and Machinery Parts	270.1	239.4	349.4	254.9	232.5	1.4	- 8.8
Rubber and Articles Thereof	238.9	218.7	400.7	334.7	200.2	1.2	-40.2
Food Preparations	227.7	235.1	269.9	189.7	171.3	1.0	-9.7
Mineral Products	243.3	168.9	158.9	123.7	80.9	0.5	-34.6
Other Intermediate Goods	167.0	160.3	160.4	170.4	156.9	0.9	-7.9
Investment Goods	**4,602.6**	**3,563.2**	**4,462.7**	**3,030.5**	**2,744.6**	**16.3**	**-9.4**
Machinery and Equipment	2,489.7	2,176.1	2,809.5	1,969.0	1,867.6	11.1	-5.1
Building Materials	1,508.7	1,035.6	1,248.9	926.3	775.1	4.6	-16.3
Transport Equipment	596.6	348.3	398.5	132.1	98.5	0.6	-25.4
Other Investment Goods	7.6	3.2	5.8	3.0	3.3	...	9.2
Unclassified Imports	**8.3**	**14.0**	**17.1**	**8.8**	**16.0**	**0.1**	**82.9**
Total Imports	**19,937.1**	**16,055.4**	**20,637.4**	**18,291.0**	**16,811.1**	**100.0**	**-8.1**
Non Oil Imports	**16,045.4**	**13,512.8**	**16,894.6**	**13,394.2**	**12,108.5**	**72.0**	**-9.6**

(a) Provisional
(b) Includes lentils, onions, potatoes, leguminous and other vegetables

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Sri Lanka Customs
Central Bank of Sri Lanka

TABLE 8

Direction of Trade - Exports (a)

Value in US$ million

Countries	2019		2020		2021		2022		2023 (b)	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Largest Export Destinations in 2023										
United States	3,141	26.3	2,500	24.9	3,108	24.9	3,321	25.3	2,769	23.2
India	768	6.4	606	6.0	829	6.6	860	6.6	853	7.2
United Kingdom	998	8.4	908	9.0	938	7.5	963	7.3	849	7.1
Italy	528	4.4	455	4.5	581	4.6	641	4.9	675	5.7
Germany	648	5.4	570	5.7	758	6.1	742	5.7	589	4.9
United Arab Emirates	276	2.3	190	1.9	287	2.3	355	2.7	364	3.1
Netherlands	301	2.5	290	2.9	426	3.4	428	3.3	343	2.9
France	191	1.6	184	1.8	252	2.0	249	1.9	304	2.5
Canada	241	2.0	213	2.1	316	2.5	361	2.8	294	2.5
China	240	2.0	225	2.2	277	2.2	255	1.9	279	2.3
Other Export Destinations										
Australia	200	1.7	175	1.7	260	2.1	256	2.0	228	1.9
Austria	44	0.4	33	0.3	44	0.4	51	0.4	45	0.4
Azerbaijan	56	0.5	53	0.5	49	0.4	69	0.5	51	0.4
Bangladesh	162	1.4	153	1.5	222	1.8	211	1.6	174	1.5
Belgium	356	3.0	295	2.9	341	2.7	310	2.4	223	1.9
Brazil	57	0.5	43	0.4	60	0.5	65	0.5	73	0.6
Chile	40	0.3	55	0.5	56	0.4	46	0.4	47	0.4
Hong Kong	135	1.1	108	1.1	179	1.4	168	1.3	173	1.4
Indonesia	41	0.3	35	0.3	49	0.4	50	0.4	50	0.4
Iran	112	0.9	79	0.8	78	0.6	82	0.6	43	0.4
Iraq	126	1.1	110	1.1	177	1.4	156	1.2	129	1.1
Ireland	84	0.7	60	0.6	75	0.6	96	0.7	81	0.7
Israel	119	1.0	103	1.0	234	1.9	189	1.4	180	1.5
Japan	283	2.4	188	1.9	227	1.8	231	1.8	190	1.6
Jordan	35	0.3	37	0.4	47	0.4	62	0.5	88	0.7
Kenya	24	0.2	25	0.2	40	0.3	44	0.3	44	0.4
Libya	46	0.4	29	0.3	47	0.4	42	0.3	42	0.4
Malaysia	48	0.4	57	0.6	74	0.6	66	0.5	62	0.5
Maldives	114	1.0	78	0.8	103	0.8	106	0.8	113	0.9
Mexico	161	1.3	135	1.3	205	1.6	190	1.4	183	1.5
Norway	17	0.1	16	0.2	22	0.2	29	0.2	36	0.3
Pakistan	82	0.7	74	0.7	92	0.7	78	0.6	74	0.6
Poland	67	0.6	64	0.6	81	0.7	72	0.5	62	0.5
Russia	167	1.4	163	1.6	152	1.2	139	1.1	144	1.2
Saudi Arabia	86	0.7	76	0.8	76	0.6	98	0.7	99	0.8
Singapore	120	1.0	93	0.9	101	0.8	131	1.0	123	1.0
South Africa	41	0.3	33	0.3	41	0.3	35	0.3	39	0.3
South Korea	75	0.6	71	0.7	80	0.6	82	0.6	75	0.6
Spain	69	0.6	70	0.7	93	0.7	101	0.8	89	0.8
Sweden	73	0.6	74	0.7	108	0.9	111	0.8	97	0.8
Switzerland	106	0.9	91	0.9	146	1.2	147	1.1	169	1.4
Syria	55	0.5	45	0.5	38	0.3	34	0.3	43	0.4
Thailand	101	0.8	39	0.4	62	0.5	62	0.5	62	0.5
Turkey	210	1.8	208	2.1	178	1.4	120	0.9	196	1.6
Vietnam	79	0.7	37	0.4	63	0.5	47	0.4	37	0.3
Other	1,016	8.5	901	9.0	826	6.6	1,154	8.8	1,028	8.6
European Union (EU)(c)	3,552	29.8	3,177	31.6	2,967	23.7	3,035	23.2	2,718	22.8
Asian Clearing Union (ACU) (d)	1,252	10.5	1,004	10.0	1,338	10.7	1,343	10.2	1,260	10.6
SAARC Region (e)	1,133	9.5	917	9.1	1,259	10.1	1,259	9.6	1,217	10.2
Middle East (f)	1,092	9.1	918	9.1	1,185	9.5	1,159	8.8	1,201	10.1
APTA Region (g)	1,247	10.4	1,058	10.5	1,410	11.3	1,409	10.7	1,383	11.6
BIMSTEC (h)	1,046	8.8	812	8.1	1,127	9.0	1,139	8.7	1,092	9.2
C.I.S. Countries (i)	271	2.3	265	2.6	250	2.0	245	1.9	234	2.0

(a) The countries which are not mentioned have relatively smaller value of exports.
(b) Provisional
(c) Members of the European Union are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and UK. The UK was not included in European Union since 2021.
(d) Members of the Asian Clearing Union are Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.
(e) South Asian Association for Regional Cooperation. Its members are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
(f) Middle Eastern countries are Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, UAE and Yemen.
(g) Asia-Pacific Trade Agreement. Its members are Bangladesh, China, India, Laos, Mongolia, South Korea and Sri Lanka.
(h) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. Its members are Bangladesh, Bhutan, India, Myanmar, Nepal, Thailand and Sri Lanka.
(i) Members of the Commonwealth of Independent States are Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Sources: National Gem and Jewellery Authority
Sri Lanka Customs
Central Bank of Sri Lanka

Direction of Trade - Imports (a)

Value in US$ million

Countries	2019		2020		2021		2022		2023 (b)	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Largest Import Origins in 2023										
India	3,899	19.6	3,079	19.2	4,625	22.4	4,738	25.9	3,136	18.7
China	4,034	20.2	3,579	22.3	4,756	23.0	3,285	18.0	3,030	18.0
United Arab Emirates	1,669	8.4	1,035	6.4	1,413	6.8	666	3.6	1,850	11.0
Singapore	964	4.8	692	4.3	792	3.8	871	4.8	866	5.2
Malaysia	853	4.3	611	3.8	803	3.9	969	5.3	828	4.9
United States	542	2.7	495	3.1	511	2.5	378	2.1	504	3.0
Russia	206	1.0	232	1.4	191	0.9	376	2.1	414	2.5
Indonesia	422	2.1	333	2.1	470	2.3	343	1.9	378	2.3
Oman	132	0.7	191	1.2	95	0.5	115	0.6	343	2.0
Pakistan	370	1.9	324	2.0	394	1.9	342	1.9	323	1.9
Other Import Origins										
Australia	153	0.8	123	0.8	291	1.4	182	1.0	184	1.1
Austria	118	0.6	91	0.6	61	0.3	49	0.3	52	0.3
Bangladesh	41	0.2	48	0.3	83	0.4	82	0.4	67	0.4
Belgium	74	0.4	48	0.3	117	0.6	57	0.3	58	0.3
Brazil	33	0.2	28	0.2	37	0.2	34	0.2	46	0.3
Canada	224	1.1	208	1.3	119	0.6	102	0.6	124	0.7
Denmark	40	0.2	50	0.3	36	0.2	30	0.2	33	0.2
Egypt	16	0.1	17	0.1	18	0.1	13	0.1	39	0.2
France	220	1.1	116	0.7	137	0.7	110	0.6	195	1.2
Germany	388	1.9	316	2.0	347	1.7	286	1.6	257	1.5
Hong Kong	304	1.5	221	1.4	291	1.4	247	1.3	189	1.1
Iraq	29	0.1	9	0.1	37	0.2	25	0.1	84	0.5
Israel	85	0.4	67	0.4	100	0.5	121	0.7	100	0.6
Italy	307	1.5	266	1.7	315	1.5	289	1.6	244	1.5
Japan	875	4.4	528	3.3	419	2.0	252	1.4	188	1.1
Maldives	33	0.2	35	0.2	220	1.1	157	0.9	134	0.8
Netherlands	123	0.6	82	0.5	87	0.4	79	0.4	89	0.5
New Zealand	276	1.4	301	1.9	276	1.3	164	0.9	251	1.5
Philippines	36	0.2	43	0.3	65	0.3	30	0.2	23	0.1
Poland	20	0.1	18	0.1	27	0.1	25	0.1	24	0.1
Qatar	26	0.1	27	0.2	60	0.3	24	0.1	28	0.2
Romania	16	0.1	3	...	48	0.2	53	0.3	151	0.9
Saudi Arabia	334	1.7	217	1.4	353	1.7	105	0.6	276	1.6
Slovenia	4	...	4	...	4	...	6	...	19	0.1
South Africa	191	1.0	224	1.4	484	2.3	433	2.4	246	1.5
South Korea	253	1.3	194	1.2	300	1.5	225	1.2	218	1.3
Spain	94	0.5	86	0.5	121	0.6	108	0.6	93	0.6
Sweden	51	0.3	52	0.3	49	0.2	46	0.3	36	0.2
Switzerland	109	0.5	129	0.8	99	0.5	105	0.6	98	0.6
Thailand	437	2.2	363	2.3	398	1.9	293	1.6	268	1.6
Turkey	106	0.5	91	0.6	131	0.6	164	0.9	148	0.9
Ukraine	74	0.4	76	0.5	91	0.4	48	0.3	48	0.3
United Kingdom	369	1.9	210	1.3	237	1.1	194	1.1	206	1.2
Uzbekistan	2	...	2	...	...	...	...	...	19	0.1
Vietnam	302	1.5	250	1.6	398	1.9	243	1.3	188	1.1
Other	1,081	5.4	939	5.8	729	3.5	1,825	10.0	716	4.3
European Union (EU)(c)	1,952	9.8	1,468	9.1	1,479	7.2	1,241	6.8	1,354	8.1
Asian Clearing Union (ACU) (d)	4,402	22.1	3,517	21.9	5,340	25.9	5,331	29.1	3,671	21.8
SAARC Region (e)	4,343	21.8	3,486	21.7	5,323	25.8	5,319	29.1	3,660	21.8
Middle East (f)	2,443	12.3	1,747	10.9	2,243	10.9	1,254	6.9	2,852	17.0
APTA Region (g)	8,230	41.3	6,900	43.0	9,766	47.3	8,331	45.5	6,455	38.4
BIMSTEC (h)	4,428	22.2	3,514	21.9	5,114	24.8	5,120	28.0	3,475	20.7
C.I.S.Countries (i)	319	1.6	345	2.2	324	1.6	430	2.4	495	2.9

(a) The countries which are not mentioned have relatively smaller value of imports.
(b) Provisional
(c) Members of the European Union are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Republic of Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and UK. The UK was not included in European Union since 2021.
(d) Members of the Asian Clearing Union are Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.
(e) South Asian Association for Regional Cooperation. Its members are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
(f) Middle Eastern countries are Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Oman, Palestine, Qatar, Saudi Arabia, Syria, Turkey, UAE and Yemen.
(g) Asia-Pacific Trade Agreement. Its members are Bangladesh, China, India, Laos, Mongolia, South Korea and Sri Lanka.
(h) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. Its members are Bangladesh, Bhutan, India, Myanmar, Nepal, Thailand and Sri Lanka.
(i) Members of the Commonwealth of Independent States are Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Sources: Ceylon Petroleum Corporation
Lanka IOC PLC
Sri Lanka Customs
Central Bank of Sri Lanka

Balance of Payments - Current Account

US$ million

Item	2022 (a)			2023 (b)		
	Credit	Debit	Net	Credit	Debit	Net
Goods and services	**16,169**	**19,244**	**-3,075**	**17,327**	**18,823**	**-1,496**
Goods (c)	**13,106**	**18,291**	**-5,185**	**11,911**	**16,811**	**-4,900**
General merchandise	13,106	18,289	-5,183	11,911	16,807	-4,896
Non-monetary gold		2	-2		5	-5
Services	**3,062**	**953**	**2,110**	**5,416**	**2,012**	**3,404**
Manufacturing Services	-	-	-	17	194	-177
Maintenance and repair services	-	-	-	45	8	37
Transport	676	333	343	1,550	732	818
Sea Transport	410	137	272	813	286	528
Passenger	-	-	-	0.1	3	-3
Freight	410	137	272	432	252	180
Other	-	-	-	381	31	350
Air transport	266	195	71	736	440	296
Passenger	221	180	41	304	241	63
Freight	46	15	30	81	78	3
Other	-	-	-	351	120	230
Postal services	-	-	-	0.5	6	-6
Travel (d)	1,136	244	893	2,068	152	1,916
Construction	9	11	-2	355	111	244
Insuarance and pension services	19	36	-18	35	51	-16
Financial services	92	96	-5	64	57	7
Charges for the use of intellectual property	-	-	-	15	94	-79
Telecommunication and computer services	1,097	161	936	917	251	666
Telecommunications services	31	28	3	122	53	69
Computer services	1,066	133	933	795	198	597
Other business services	15	16	-1	310	344	-33
Personal, cultural and recreational services	-	-	-	35	11	24
Government goods and services n.i.e	18	56	-38	7	7	-1
Primary Income	**266**	**2,136**	**-1,870**	**463**	**3,027**	**-2,564**
Compensation of employees	30	69	-39	53	30	23
Investment Income	237	2,068	-1,831	410	2,997	-2,587
Direct Investment	15	549	-534	12	888	-876
Dividends	12	385	-374	6	621	-615
Re-invested earnings	3	164	-161	6	267	-261
Portfolio Investment		778	-778		866	-866
Equity		17	-17		86	-86
Interest		761	-761		780	-780
short-term		1	-1		20	-20
long-term		761	-761		760	-760
Actual ISB coupon payments		191			-	
Accrued ISB coupon payments		551			727	
Actual other sectors coupon payments		12			12	
Accrued other sectors coupon payments		6			12	
Other Investment	217	741	-523	349	1,243	-894
Government - Interest Payments		273			377	
Government - Accrued Interest		133			384	
Central Bank - Interest Payments		57			282	
Central Bank - Accrued Interest		3			15	
Commercial Bank - Interest Payments	217	129		349	74	
Other Sectors - Interest Payments		130			111	
Other Sectors - Accrued Interest		16			-	
Reserve assets	5		5	49		49
Secondary Income	**3,793**	**296**	**3,496**	**5,989**	**371**	**5,619**
General Government (e)	3		3	20		20
Personal transfers	3,789	296	3,493	5,970	371	5,599
of which, worker's remittances	3,789			5,970		
Current Account	**20,228**	**21,677**	**-1,448**	**23,780**	**22,221**	**1,559**
Capital Account	**38**	**19**	**19**	**94**	**31**	**63**
Capital Transfers	38	19	19	94	31	63
General Government (f)	6		6	36		36
Private Capital transfers	32	19	13	57	31	27
Current and Capital Account	**20,266**	**21,695**	**-1,429**	**23,873**	**22,251**	**1,622**

(a) Revised
(b) Provisional
(c) Exports and imports are recorded on f.o.b. and c.i.f. valuation basis, respectively.
(d) Passenger services provided for non-residents are included in transport services.
(e) Includes outright grants received in the form of programme, food and commodity aid, cash and technical assistance.
(f) Includes outright grants received in the form of project aid.

Source: Central Bank of Sri Lanka

Balance of Payments - Financial Account

US$ million

Item	2022 (a)		2023 (b)	
	Net Acquisition of Financial Assets	Net Incurrence of Liabilities	Net Acquisition of Financial Assets	Net Incurrence of Liabilities
Financial Account	**84**	**1,652**	**3,474**	**2,171**
Direct Investment	**15**	**884**	**34**	**712**
Equity and Investment Fund Shares	11	275	29	496
Equity other than Reinvestment of Earnings	7	111	22	228
Reinvestment of Earnings	3	164	7	267
Debt Instruments	5	610	5	216
Portfolio Investment	**-**	**370**	**173**	**931**
Equity and Investment Fund Shares	-	151	-	8
Debt Securities	-	218	173	923
Deposit taking corporations	-	-	173	-
Long-term	-	-	173	-
General Government		212		910
Short Term (Treasury Bills)		30		132
Long Term		183		778
Treasury Bonds		21		78
Sri Lanka Development Bonds		2		-27
Sovereign Bonds		159		727
Maturities		-391		-
Accrued Interest		551		727
Other Sectors		6		12
Long-term		6		12
Accrued Interest		6		12
Financial Derivatives	**-**	**-**	**-**	**-**
Other Investment	**1,302**	**398**	**1,022**	**528**
Currency and Deposits	**514**	**-583**	**114**	**-143**
Central Bank		402		-350
Short Term		-1		0.1
Long Term		403		-341
International Swaps		400		-350
Accrued Interest on International Swaps		3		9
Deposit-taking Corporations	514	-985	114	207
Short Term	605	-985	-472	207
Long Term	-91	-	586	-
Loans		**385**		**1,056**
Central Bank		-140		-172
Credit and Loans with the IMF		-140		-172
Extended Fund Facility		-140		-172
Deposit-taking Corporations		-1,163		-644
Short Term		-826		-397
Long Term		-337		-248
General Government		1,679		1,845
Long Term		1,679		1,845
Credit and loans with the IMF		-		681
Disbursements		2,391		1,822
Accrued Interest		133		384
Repayments		-845		-1,041
Other Sectors (c)		9		27
Long Term		9		27
Disbursements		332		331
Accrued Interest		16		-
Repayments		-339		-304
Trade Credit and Advances	**282**	**-895**	**186**	**-555**
Deposit-taking Corporations	-27	-	-4	-
Short Term	-27	-	-4	-
Other Sectors (d)	310	-895	190	-555
Short Term	310	-895	190	-555

(a) Revised
(b) Provisional
(c) Includes State Owned Business Enterprises (SOBEs) and private sector companies.
(d) Includes trade credits received by the Ceylon Petroleum Corporation (CPC) and other private companies

Source: Central Bank of Sri Lanka

Balance of Payments - Financial Account

US$ million

Item	2022 (a)		2023 (b)	
	Net Acquisition of Financial Assets	Net Incurrence of Liabilities	Net Acquisition of Financial Assets	Net Incurrence of Liabilities
Other Investment				
Other Accounts Receivable/Payable	**506**	**1,492**	**721**	**171**
Central Bank	-	1,492	-	171
Short Term (e)	-	1,492	-	171
Deposit-taking Corporations	506		721	
Short Term	506		721	
Special Drawing Rights				
Reserve Assets	**-1,234**		**2,245**	
Monetary Gold	-152		-	
Special Drawing Rights	-118		33	
Reserve Position in the IMF	-58		-	
Other Reserve Assets	-906		2,212	
Currency and Deposits	-895		1,802	
Claims on Monetary Authorities	-526		-383	
Claims on Other Entities	-369		2,185	
Securities	-11		422	
Debt Securities	-11		422	
Long Term	-11		422	
Other Claims	-0.3		-11	
Financial Account (net)	**-1,569**		**1,304**	
Errors and omissions	-139		-318	
Memorandum Items				
Foreign Direct Investment (FDI)				
Equity		**111**		**228**
BOI companies		72		146
CSE companies (not registered with BOI)		31		10
Other Companies		8		72
Reinvestment of Earnings		**164**		**267**
BOI companies		153		179
CSE companies (not registered with BOI)		-39		38
Other Companies		50		50
Intercompany Loans		**610**		**216**
BOI Shareholder Advances		204		285
BOI Intercompany Loans		365		79
Other Companies		41		-148
Debt Repayments		**-0.1**		**-**
Total FDI (1)		**884**		**712**
Loans to BOI Companies (2)		282		46
Total FDI, Including Loans to BOI Companies (1 + 2) (f)		**1,167**		**758**
Total Net Inflows to the CSE		**182**		**18**
Direct Investment		31		10
Portfolio Investment		151		8
Net Foreign Investments in Rupee Denominated Government Securities (Treasury Bills and Bonds)		**51**		**210**
Foreign Purchases		69		824
Foreign Sales		18		614

Source: Central Bank of Sri Lanka

(e) Net transactions of Asian Clearing Union (ACU) liabilities
(f) Any difference with the BOI estimates is due to differences in coverage and compilation methodologies.

International Investment Position

US$ million
(End period position)

Item	2022 (a) Assets	2022 (a) Liabilities	2023 (b) Assets	2023 (b) Liabilities
Direct Investment (c)	**1,534**	**14,047**	**1,560**	**14,831**
Equity and Investment Fund Shares	1,489	8,103	1,511	8,671
Debt Instruments	45	5,944	50	6,160
Portfolio Investment	**0.1**	**4,366**	**174**	**7,744**
Equity and Investment Fund Shares		332		484
Other Sectors		332		484
Debt Securities (d)	0.1	4,035	174	7,260
Deposit-taking Corporations	0.1		174	
Long Term	0.1		174	
General Government		3,957		7,128
Short Term		31		210
Long Term		3,926		6,918
Other Sectors		78		132
Long Term		78		132
Financial Derivatives	-	-	-	-
Other Investment	**5,399**	**39,689**	**6,420**	**41,412**
Currency and Deposits	**1,656**	**5,880**	**1,770**	**7,941**
Central Bank		2,037		3,891
Short Term		0.2		0.3
Long Term		2,037		3,891
Deposit-taking Corporations	1,656	3,843	1,770	4,050
Short Term	1,483	3,843	1,011	4,050
Long Term	173		759	
Loans		**29,497**		**31,721**
Central Bank		1,062		904
Credit and Loans with the IMF		1,062		904
Deposit-taking Corporations		1,527		883
Short Term		704		307
Long Term		823		576
General Government		23,562		25,988
Long Term		23,562		25,988
Other Sectors (e)		3,346		3,946
Long Term		3,346		3,946
Trade Credit and Advances	**1,493**	**1,020**	**1,679**	**464**
Deposit-taking Corporations	70		67	
Short Term	70		67	
Other Sectors (f)	1,423	1,020	1,613	464
Short Term	1,423	1,020	1,613	464
Other Accounts Receivable/Payable	**2,250**	**2,028**	**2,971**	**-**
Central Bank (g)		2,028		-
Short Term		2,028		-
Deposit-taking Corporations	2,250		2,971	
Short Term	2,250		2,971	
Special Drawing Rights (SDRs)		**1,265**		**1,285**
Reserve Assets	**1,898**		**4,392**	
Monetary Gold	28		31	
Special Drawing Rights	2		34	
Reserve Position in the IMF	4		4	
Other Reserve Assets	1,864		4,323	
Currency and Deposits	1,834		3,634	
Claims on Monetary Authorities	373		597	
Claims on Other Entities	1,462		3,037	
Securities	30		690	
Debt Securities	30		690	
Total Assets / Liabilities	**8,830**	**58,102**	**12,546**	**63,986**
Net International Investment Position		**-49,272**		**-51,440**
Memorandum Items				
IIP- Maturity-wise Breakdown	8,830	58,102	12,546	63,986
Short Term	7,091	7,957	9,330	5,516
Long Term	1,739	50,145	3,216	58,471

(a) Revised
(b) Provisional
(c) Include direct investment stock position of BOI, CSE and other private companies
(d) Foreign currency and local currency debt issuances are based on market values and book values respectively, while Sri Lanka Development Bonds are based on face values.
(e) Include outstanding position of loans obtained by State Owned Business Enterprisess and private sector companies.
(f) Include outstanding trade credit position of Ceylon Petroleum Corporation and other private sector companies.
(g) Outstanding position of ACU liabilities managed by the Central Bank

Source: Central Bank of Sri Lanka

Outstanding External Debt

US$ million
(End period position)

Item	2022 (a)	2023 (b)
General Government	**27,518**	**33,117**
Short Term	**31**	**210**
Debt Securities	31	210
Treasury Bills (c)	31	210
Long Term	**27,488**	**32,907**
Debt Securities	3,926	6,918
Treasury Bonds (c)	34	124
Sri Lanka Development Bonds (d)	27	-
International Sovereign Bonds (e)	3,866	6,794
Market Price of ISBs	3,315	5,517
Accrued Interest of ISB Coupons	551	1,278
Loans	23,562	25,988
Credit and loans with the IMF	-	687
Outstanding Foreign Loans	23,413	24,784
Accrued Interest of Government Foreign Loans	149	517
Central Bank	**6,391**	**6,081**
Short Term	**2,028**	**0.3**
Currency and Deposits	0.2	0.3
Other Accounts Payable	2,028	-
Asian Clearing Union Liabilities	2,028	-
Long Term	**4,364**	**6,080**
Special Drawing Rights (SDRs) Allocation	1,265	1,285
Currency and Deposits	2,037	3,891
RBI Swap Arrangement	400	-
Bangladesh Bank Swap Arrangement	200	-
PBOC Swap Arrangement	1,434	1,420
RBI & ACU combined swap (Special Swap) Arrangement		2,451
Accrued Interest Applicable to Swap Arrangements	3	20
Loans	1,062	904
Credit and Loans with the IMF	1,062	904
Extended Fund Facility & Emergency Assistance	1,062	904
Deposit-taking Corporations	**5,370**	**4,933**
Short Term	**4,547**	**4,357**
Currency and Deposits (f)	3,843	4,050
Commercial Banks	3,843	4,050
Loans	704	307
Commercial Banks	704	307
Long Term	**823**	**576**
Loans	823	576
Commercial Banks	823	576
Other Sectors (g)	**4,443**	**4,542**
Short Term	**1,020**	**464**
Trade Credit and Advances (h)	1,020	464
Long Term	**3,423**	**4,077**
Debt Securities (e)	78	132
Market Price of International Bonds	72	113
Accrued Interest of International Bonds	6	18
Loans	3,346	3,946
Private Sector Corporations	2,361	2,966
State Owned Business Enterprises and Public Corporations	985	980
Direct Investment: Intercompany Lending (i)	**5,944**	**6,160**
Gross External Debt Position	**49,667**	**54,832**
Memorandum Items		
Non-Resident Holdings of Debt Securities - Sectorwise Breakdown at Face Value	**11,622**	**12,615**
General Government	11,447	12,440
Treasury Bills	34	233
Treasury Bonds	36	130
Sri Lanka Development Bonds	27	-
International Sovereign Bonds	10,800	10,800
Accrued Interest of ISB Coupons due to Non-Residents	551	1,278
Other Sectors	175	175
Face Value of Total Outstanding ISBs	**12,550**	**12,550**
Outstanding ISBs Held by Non-Residents	10,800	10,800
Outstanding ISBs Held by Residents	1,750	1,750

(a) Revised
(b) Provisional
(c) Based on book value
(d) Based on face value
(e) Based on market price
(f) Include deposits in Personal Foreign Currency accounts.
(g) Include private sector and State Owned Business Enterprises
(h) Include trade credits outstanding of the Ceylon Petroleum Corporation and private sector companies
(i) Include inter-company borrowings and shareholder advances of direct investment enterprises.

Source: Central Bank of Sri Lanka

TABLE 14

Exchange Rate Movements (Rupees per Unit of Foreign Currency)

Period		End Period Rates					
		US Dollar	Pound Sterling	Euro	Japanese Yen	Indian Rupee	SDR (a)
2019		181.6340	238.4582	203.6662	1.6717	2.5467	251.1689
2020		186.4082	254.3540	229.4219	1.8081	2.5467	268.4781
2021		200.4338	270.5957	226.8610	1.7415	2.6935	280.5251
2022		363.1100	437.3478	386.9300	2.7385	4.3861	483.2413
2023		323.9233	412.6135	358.7451	2.2911	3.8964	434.5982
2022	January	201.1910	269.8374	224.4990	1.7412	2.6805	280.0136
	February	201.0571	268.6223	224.5004	1.7405	2.6781	280.4465
	March	299.0000	392.5272	334.0279	2.4497	3.9432	413.3376
	April	341.8500	426.4579	359.4553	2.6140	4.4617	459.5490
	May	360.7600	455.2791	387.7448	2.8179	4.6458	486.9178
	June	359.8782	436.8741	376.2707	2.6350	4.5623	477.8391
	July	360.8000	439.0936	367.7995	2.6854	4.5305	477.5549
	August	361.1480	421.3153	361.9786	2.6067	4.5413	469.9763
	September	362.9000	402.2747	355.7872	2.5077	4.4529	464.4685
	October	363.3000	421.0284	361.4108	2.4523	4.4160	466.2193
	November	363.1875	434.8444	375.6085	2.6184	4.4494	477.5335
	December	363.1100	437.3478	386.9300	2.7385	4.3861	483.2413
2023	January	362.1400	447.5869	393.0305	2.7837	4.4393	488.3349
	February	361.6318	435.9833	383.0766	2.6549	4.3741	480.5327
	March	327.2857	405.9652	357.1014	2.4620	3.9876	440.2745
	April	321.6500	401.8052	354.5226	2.3983	3.9359	433.2658
	May	295.5211	366.1950	316.4292	2.1134	3.5719	392.2924
	June	308.8300	393.0325	337.9836	2.1449	3.7650	412.3097
	July	329.3566	423.1903	362.6546	2.3272	4.0042	442.3062
	August	322.6634	410.5569	352.5420	2.2119	3.9039	429.1230
	September	324.4478	394.0094	342.6493	2.1774	3.8966	425.4289
	October	327.3817	397.7688	347.1228	2.1896	3.9324	430.2254
	November	329.0423	417.8179	361.0910	2.2370	3.9479	438.7088
	December	323.9233	412.6135	358.7451	2.2911	3.8964	434.5982

(a) Special Drawing Rights (SDRs), the unit of account of the International Monetary Fund.

Source : Central Bank of Sri Lanka

Economic Classification of Government Fiscal Operations

Rs. million

Item	2014	2015	2016	2017	2018	2019 (a)	2020	2021	2022	2023 (b)
1. Total Revenue and Grants	**1,204,621**	**1,460,892**	**1,693,558**	**1,839,562**	**1,932,459**	**1,898,808**	**1,373,308**	**1,463,810**	**2,012,589**	**3,074,324**
1.1 Total Revenue	1,195,206	1,454,878	1,686,062	1,831,531	1,919,973	1,890,899	1,367,960	1,457,071	1,979,184	3,048,822
Tax Revenue	1,050,362	1,355,779	1,463,689	1,670,178	1,712,318	1,734,925	1,216,542	1,298,019	1,751,132	2,720,563
Taxes on Foreign Trade	198,483	244,231	302,538	311,782	288,341	280,965	312,334	277,275	273,926	335,266
Taxes on Domestic Goods and Services	539,023	724,282	747,147	921,244	959,365	843,355	555,718	629,812	857,459	1,399,126
Taxes on Net Income and Profits	198,115	262,583	258,857	274,562	310,449	427,700	268,249	302,115	534,021	911,355
Stamp Duty/Cess Levy/SRL/NBT/NSL/TL	114,742	124,683	155,147	162,591	154,162	182,904	80,241	88,817	85,726	74,816
Non Tax Revenue	144,844	99,099	222,374	161,353	207,656	155,974	151,417	159,052	228,052	328,259
Current Revenue	127,239	99,001	221,966	161,353	207,656	155,974	151,417	159,052	228,052	328,259
Capital Revenue (c)	17,604	98	407	-	-	-	-	-	-	-
1.2 Grants	9,415	6,014	7,496	8,031	12,486	7,909	5,348	6,740	33,405	25,502
2. Expenditure and Net Lending	**1,795,865**	**2,290,394**	**2,333,883**	**2,573,056**	**2,693,228**	**3,337,896**	**3,040,996**	**3,521,735**	**4,472,556**	**5,356,591**
2.1 Recurrent	1,322,898	1,701,658	1,757,782	1,927,693	2,089,713	2,424,582	2,548,359	2,747,512	3,519,633	4,699,679
Expenditure on Goods and Services	568,829	772,563	746,250	756,591	806,002	848,278	974,351	1,014,612	1,139,066	1,239,195
Interest Payments	436,395	509,674	610,895	735,566	852,190	901,353	980,302	1,048,382	1,565,190	2,455,600
Transfer Payments	317,674	419,420	400,637	435,536	431,521	551,524	717,133	684,518	815,376	1,004,884
Adjustment for Arrears as per the Ministry of Finance	-	-	-	-	-	123,428	-123,428	-	-	-
2.2 Capital and Net Lending	472,967	588,736	576,101	645,364	603,515	913,314	492,638	774,223	952,923	656,912
Capital Expenditure	459,855	588,175	577,036	638,343	612,561	619,069	795,368	767,606	715,429	913,601
Lending Minus Repayments	13,112	561	-934	7,021	-9,046	-4,933	-3,552	6,617	237,495	-256,689
Adjustment for Arrears on capital expenditure as per the Ministry of Finance	-	-	-	-	-	299,178	-299,178	-	-	-
3. Current Account Balance	**-127,692**	**-246,779**	**-71,719**	**-96,162**	**-169,740**	**-533,683**	**-1,180,399**	**-1,290,441**	**-1,540,448**	**-1,650,857**
4. Primary Balance	**-154,849**	**-319,828**	**-29,430**	**2,071**	**91,421**	**-537,736**	**-687,386**	**-1,009,542**	**-894,777**	**173,332**
5. Overall Fiscal Balance	**-591,244**	**-829,502**	**-640,325**	**-733,494**	**-760,769**	**-1,439,088**	**-1,667,688**	**-2,057,925**	**-2,459,967**	**-2,282,267**
6. Financing of Budget Deficit	**591,244**	**829,502**	**640,325**	**733,494**	**760,769**	**1,439,088**	**1,667,688**	**2,057,925**	**2,459,967**	**2,282,267**
6.1 Foreign Financing (Net)	212,523	236,803	391,914	439,243	323,535	542,641	-83,199	-13,901	424,822	494,655
6.2 Domestic Financing (Net)	378,721	592,699	248,411	294,251	437,234	896,448	1,750,887	2,071,826	2,035,145	1,787,612

(a) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(b) Provisional
(c) Sale of capital goods

Note : Social Responsibility Levy (SRL), Nation Building Tax (NBT), National Security Levy (NSL)) and Telecommunications Levy (TL)

Sources: Ministry of Finance, Economic Stabilisation and National Policies
Central Bank of Sri Lanka

Outstanding Central Government Debt (as at end year) (a)

Rs. million

Source	2019	2020	2021	2022 (b)	2023(b)(c)
Total Domestic Debt (d)	**6,830,260**	**9,065,068**	**11,097,223**	**15,033,876**	**17,051,854**
Short Term	1,270,374	2,197,594	3,139,794	4,267,724	3,616,227
Treasury Bills (e)	873,943	1,620,705	2,270,508	4,113,907	4,017,035
Provisional Advances from the Central Bank	236,609	153,079	150,129	235,639	0
Other Liabilities to the Banking Sector Net of Bank Deposits (f)	159,822	423,810	719,157	-81,822	-400,808
Medium and Long Term	5,559,887	6,867,473	7,957,430	9,882,058	12,646,945
Rupee Loans	24,088	24,088	24,088	24,088	0
Treasury Bonds	4,606,232	5,713,300	6,966,218	8,709,057	12,002,337
Sri Lanka Development Bonds (g)	559,284	486,870	455,203	382,092	0
International Sovereign Bonds (g)(h)	202,099	415,756	372,612	635,443	566,866
Offshore Banking Units	168,011	227,418	139,301	131,372	77,742
Other	173	41	7	7	0
Other Domestic (i)	n.a.	n.a.	n.a.	884,093	788,682
By Debt Instrument	6,830,260	9,065,068	11,097,223	15,033,876	17,051,854
Rupee Loans	24,088	24,088	24,088	24,088	0
Treasury Bills (e)	873,943	1,620,705	2,270,508	4,113,907	4,017,035
Treasury Bonds	4,606,232	5,713,300	6,966,218	8,709,057	12,002,337
Sri Lanka Development Bonds (g)	559,284	486,870	455,203	382,092	0
International Sovereign Bonds (g)(h)	202,099	415,756	372,612	635,443	566,866
Provisional Advances from the Central Bank	236,609	153,079	150,129	235,639	0
Other (e)(i)	328,006	651,269	858,466	933,651	465,616
By Institution (j)(k)	6,830,260	9,065,068	11,097,223	15,033,876	17,051,854
Banks (Excluding Licensed Specialised Banks)	2,737,223	4,542,155	5,247,919	8,525,718	9,102,839
Central Bank					
By Debt Instrument	310,909	876,818	1,565,494	2,833,607	2,743,621
Treasury Bills	25,873	654,611	1,391,281	2,575,717	220,797
Treasury Bonds (l)	48,872	70,575	25,471	22,461	2,522,824
Other	236,165	151,632	148,742	235,429	0
Commercial Banks					
By Debt Instrument	2,426,313	3,665,337	3,682,425	5,692,111	6,359,218
Rupee Loans	15,870	15,870	15,870	15,870	0
Treasury Bills (k)	628,846	769,946	568,597	657,308	1,997,773
Treasury Bonds (k)	727,227	1,366,883	1,459,183	3,116,024	3,338,017
Sri Lanka Development Bonds (g)	523,831	444,173	406,317	333,611	0
International Sovereign Bonds (g)	202,099	415,756	372,612	635,443	566,866
Other (i)	328,442	652,710	859,845	933,853	456,561
Non Bank Sector					
By Debt Instrument	3,825,703	4,210,099	4,822,098	6,164,063	7,506,289
Rupee Loans (m)	8,218	8,218	8,218	8,218	0
Treasury Bills	137,043	145,416	220,481	837,279	1,735,925
Treasury Bonds	3,644,981	4,013,761	4,544,506	5,270,079	5,761,309
Sri Lanka Development Bonds (g)	35,453	42,697	48,886	48,480	0
Other	7	7	7	7	9,055
By Institution (k)	3,825,703	4,210,099	4,822,098	6,164,063	7,506,289
Licensed Specialised Banks	537,175	707,538	807,352	821,593	1,008,618
Licensed Finance Companies	24,807	12,821	20,401	58,297	101,661
Corporates (n)	90,438	60,592	86,324	393,536	742,773
Insurance Companies	198,018	215,737	267,738	373,766	494,335
Superannuation Funds (o)	2,751,295	2,998,034	3,378,200	3,953,808	4,505,426
Government Institutes, Funds and State Owned Enterprises (p)	155,808	132,340	170,757	240,282	288,561
Local Individual	28,086	27,046	37,567	255,521	327,355
Other (q)	40,076	55,992	53,759	67,260	37,560

(Contd.)

Outstanding Central Government Debt (as at end year) (a)

Rs. million

Source	2019	2020	2021	2022 (b)	2023(b)(c)
Repurchase Transaction Allocations (k)(r)	267,334	312,814	1,027,207	344,096 (s)	442,727 (s)
Treasury bills	82,182	50,731	90,149	43,604	62,540
Treasury bonds	185,152	262,082	937,058	300,492	380,187
Total Foreign Debt (t)(u)	**6,201,283**	**6,052,179**	**6,516,958**	**12,458,155**	**11,644,094**
By Type	6,201,283	6,052,179	6,516,958	12,458,155	11,644,094
Project Loans	3,231,464	3,458,461	3,789,126	7,347,329	6,893,850
Non-project Loans	2,969,819	2,593,718	2,727,832	5,110,826	4,750,245
Commodity	52,312	43,023	34,904	183,082	208,724
Other	2,917,507	2,550,695	2,692,927	4,927,744	4,541,521
By Institution	6,201,283	6,052,179	6,516,958	12,458,155	11,644,094
Multilateral	1,469,867	1,601,482	1,895,340	3,611,552	3,816,950
Bilateral and Commercial	4,731,415	4,450,697	4,621,618	8,846,603	7,827,144
Of which;					
International Sovereign Bonds (g)	2,531,493	2,203,279	2,243,049	3,921,587	3,498,371
Sri Lanka Development Bonds (g)	943	4,986	4,875	9,645	0
Foreign Currency Term Financing Facilities (g)	242,191	279,612	445,521	797,589	709,741
Non Resident Investment in Treasury Bills	23,727	670	204	12,476	75,419
Non Resident Investment in Treasury Bonds	80,294	6,204	1,710	13,078	42,023
Total Outstanding Central Government Debt (Net of Bank Deposits)	**13,031,543**	**15,117,247**	**17,614,181**	**27,492,031**	**28,695,949**
Total Outstanding Central Government Debt (Gross)	**13,122,060**	**15,209,619**	**17,746,030**	**27,651,073**	**29,145,593**
Memorandum Item: Public Guaranteed Debt (v)(w)	**778,305**	**986,391**	**1,506,743**	**1,180,701**	**1,931,317**

Sources : Ministry of Finance, Economic Stabilisation and National Policies
Central Bank of Sri Lanka

(a) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics published by the IMF in 2014, non resident holdings of outstanding SLDBs have been classified under foreign debt and resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt. Further, debt statistics are presented on net basis (net of deposits)

(b) The outstanding central government debt excludes several debt service payments that became overdue after 12 April 2022, the date of which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Economic Stabilisation and National Policies. These debt service payments comprise of overdue interest payments of affected debt which deemed to be capitalised as per the Interim Policy. Further, December 2022 balances excluded certain coupon payments pending settlement in relation Sri Lanka Development Bonds from April 2022 till end 2022.

(c) Provisional

(d) From 2023 onwards, domestic debt compilation method was change and is based on the data confirmed by the Ministry of Finance, Economic Stabilisation and National Policies.

(e) Excludes Treasury bills held by non resident investors

(f) For data from 2019 to 2022 includes liabilities of the Central Government to commercial banks reported in the Monetary Survey of the Central Bank. Thereafter such liabilities were taken from the data confirmed by the Ministry of Finance, Economic Stabilisation and National Policies.

(g) Several interest payments that fell overdue after the debt standstill may not be included in the outstanding balance from 2022 onwards since recording of these debt service payments in the debt recording systems is not yet finalised. (Not applicable for SLDBs for 2023)

(h) Represents ISB outstanding owned by the Licensed Commercial Banks

(i) Data from 2022 includes outstanding balance of the government guaranteed foreign currency debt of the Ceylon Petroleum Corporation that was absorbed into central government debt.

(j) The composition of domestic debt held by the banking and non banking sectors was revised from 2016 due to the adjustment for holdings of SLDBs of businesses and individuals.

(k) Institution wise classification was revised from the Annual Report 2022 based on records of the Central Depository System and the data for 2018-2021 have been revised accordingly.

(l) The CBSL introduced outright purchase of Treasury bonds through Open Market Operations w.e.f. 06 September 2019

(m) Includes sinking fund

(n) Includes the holdings of Standalone Primary Dealers, leasing companies, private companies, mutual funds, etc.

(o) Includes the holdings of EPF, ETF, pension funds, provident funds, etc.

(p) Includes the holdings of government authorities, government departments, Ministries, etc.

(q) Includes the holdings of societies, clubs, associations, etc.

(r) Includes securities holdings under Repurchase agreements for which absolute ownership could not be established

(s) Holdings under repurchase transactions with respect to Open Market Operations, have been allocated to the respective Licensed Commercial Bank or Standalone Primary Dealers.

(t) Foreign loan debt statistics and classification of foreign debt for 2021, 2022 and 2023 are prepared based on the data sourced from the CS-DRMS maintained by the Ministry of Finance, Economic Stabilisation and National Policies, and extracted on 09 March 2023, 10 March 2023 and 26 February 2024.

(u) From December 2022 onwards, several outstanding project loan which were previously classified under Ceylon Electricity Board, Airport and Aviation Services Ltd. and Sri Lanka Ports Authority were absorbed into central government debt.

(v) Outstanding amount of loans obtained by public corporations under Treasury guarantees

(w) Includes an international bond amounting to US dollars 175 million issued by the SriLankan Airlines in June 2014. This matured in June 2019 and was reissued for a period of 05 years.

Commercial Banks' Loans and Advances to the Private Sector (a)(b)

Category	End December 2022 (c)		End December 2023 (d)		% Change
	Amount (Rs. bn)	As a % of Total	Amount (Rs. bn)	As a % of Total	
1. Agriculture and Fishing	**644**	**8.5**	**649**	**8.7**	**0.9**
of which,					
Tea	126	1.7	129	1.7	3.1
Rubber	60	0.8	51	0.7	-14.3
Coconut	29	0.4	29	0.4	-1.6
Paddy	34	0.5	41	0.5	19.2
Vegetable and Fruit Cultivation and Minor Food Crops	35	0.5	33	0.4	-6.7
Livestock and Dairy Farming	41	0.5	43	0.6	4.3
Fisheries	28	0.4	31	0.4	10.8
2. Industry	**3,117**	**41.0**	**2,943**	**39.4**	**-5.6**
of which,					
Construction	1,487	19.6	1,423	19.0	-4.3
of which,					
Personal Housing including Purchasing/Construction/Repairs	651	8.6	603	8.1	-7.4
Staff Housing	92	1.2	99	1.3	7.9
Food and Beverages	218	2.9	206	2.8	-5.7
Textiles and Apparel	316	4.2	278	3.7	-12.1
Wood and Wood Products including Furniture	19	0.3	28	0.4	48.2
Paper and Paper Products	20	0.3	27	0.4	34.1
Chemical, Petroleum, Pharmaceutical and Healthcare, and Rubber and Plastic Products	175	2.3	178	2.4	1.7
Non-metallic Mineral Products	17	0.2	35	0.5	103.4
Basic Metal Products	54	0.7	50	0.7	-7.6
Fabricated Metal Products, Machinery and Transport Equipment	143	1.9	157	2.1	9.9
Other Manufactured Products	90	1.2	80	1.1	-11.0
3. Services	**2,028**	**26.7**	**2,071**	**27.7**	**2.1**
of which,					
Wholesale and Retail Trade	555	7.3	601	8.0	8.3
Tourism	385	5.1	347	4.6	-9.8
Financial and Business Services	354	4.7	335	4.5	-5.5
Transport	67	0.9	58	0.8	-13.1
Communication and Information Technology	72	0.9	130	1.7	81.2
Printing and Publishing	27	0.4	30	0.4	10.8
Education	38	0.5	32	0.4	-15.3
Health	140	1.8	117	1.6	-16.5
Shipping, Aviation and Freight Forwarding	31	0.4	40	0.5	28.9
4. Personal Loans and Advances (e)	**1,813**	**23.9**	**1,809**	**24.2**	**-0.2**
of which,					
Consumer Durables	360	4.7	320	4.3	-11.3
Pawning	411	5.4	547	7.3	33.0
Credit Cards	150	2.0	156	2.1	4.0
Personal Education	20	0.3	25	0.3	23.7
Personal Healthcare	4	0.0	1	0.0	-69.4
5. Total (f)	**7,602**	**100.0**	**7,473**	**100.0**	**-1.7**

(a) Based on the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, which includes loans and advances of both DBUs and OBUs of Commercial Banks.
(b) Includes loans, overdrafts, and bills discounted and excludes cash items in the process of collection.
(c) Revised
(d) Provisional
(e) Excludes personal housing loans, which have been included under 'Construction' classified under 'Industry' and includes Safety Net Scheme related loans.
(f) Total credit to the private sector as per the Quarterly Survey differ from that in the Monetary Survey due to differences in the compilation methodologies.

Source: Central Bank of Sri Lanka

Financial Soundness Indicators - Banking Industry

Category	2018	2019	2020	2021	2022 (a)	2023 (b)
1. Capital Adequacy (%)						
1.1Capital Adequacy Ratio (CAR) (Regulatory Capital to Risk Weighted Assets)	16.2	17.2	17.1	17.9	16.2	16.9
1.2 Core Capital Ratio (Tier 1) (Core Capital to Risk Weighted Assets)	13.1	13.7	13.6	14.4	13.2	13.8
1.3 Core Capital to Total Assets	7.6	7.8	7.1	6.4	6.5	6.2
1.4 Stage 3 Loans Including Undrawn Amounts (net of Stage 3 Impairment) to Total Capital Funds			40.0	33.3	44.0	40.9
1.5 Borrowings to Capital Funds	171.1	148.6	134.9	148.9	117.1	78.6
1.6 Capital to Assets Ratio	8.7	9.0	8.6	8.7	8.2	8.7
1.7 Leverage Ratio		6.8	6.3	6.1	5.9	5.9
2. Assets Quality (%)						
2.1 Stage 3 Loans to Total Loans Ratio (Including Undrawn Amounts and Net of Stage 3 Impairment)			5.2	7.6	11.3	12.8
2.2 Stage 3 Loans to Total Loans Ratio (Excluding Undrawn Amounts)					11.6	12.7
2.3 Total Impairment on Loans Made against Loans and Advances (excluding undrawn amounts)			4.7	5.3	8.1	8.7
2.4 Stage 3 Impairment Coverage (Including Undrawn Amounts)			41.2	46.3	45.2	49.0
2.5 Total Impairment Coverage (Including Undrawn Amounts)			4.6	5.0	7.9	8.6
2.6 Total Impairment on Loans Made against Total Assets			3.0	3.4	4.7	4.7
2.7 Total Loans and Advances to Total Assets	65.2	64.9	64.1	63.8	58.3	54.0
2.8 Total Investments to Total Assets	22.7	23.9	29.2	29.5	30.5	35.8
2.9 Total Income to Total Assets	10.7	10.7	8.8	8.0	12.2	13.8
2.10 Net Interest Income to Total Assets	3.4	3.4	3.0	3.3	3.9	3.5
2.11 Non Interest Income to Total Assets	1.3	1.1	0.8	0.9	1.4	1.0
3. Earnings and Profitability (%)						
3.1 Return on Equity (ROE) - After Tax	13.2	10.3	9.4	13.4	10.4	10.6
3.2 Return on Assets (ROA) - Before Tax	1.8	1.4	1.1	1.4	0.9	1.5
3.3 Return on Assets (ROA) - After Tax	1.1	0.9	0.8	1.1	0.8	0.9
3.4 Interest Income to Total Income	88.2	90.2	90.8	88.6	88.1	92.7
3.5 Net Interest Income to Total Income	31.6	32.0	33.8	40.8	31.8	25.3
3.6 Non Interest Income to Total Income	11.8	9.8	9.2	11.4	11.9	7.3
3.7 Non Interest Expenses (Operating Expenses) to Total Income	20.2	19.7	18.8	19.8	13.7	13.3
3.8 Personal Expenses to Non Interest Expenses	47.8	47.8	53.6	55.1	53.5	50.9
3.9 Personal Expenses to Total Income	9.7	9.4	10.0	10.9	7.3	6.7
3.10 Impairment to Total Income			9.8	11.7	19.9	5.8
3.11 Efficiency Ratio	50.0	52.7	43.8	38.0	31.4	40.5
3.12 Interest Margin (Net interest income to Average Assets)	3.6	3.6	3.2	3.5	4.0	3.6
4. Liquidity (%)						
4.1 Total Liquid Assets to Total Assets	25.7	28.9	34.2	29.7	27.4	39.5
4.2 Statutory Liquid Assets Ratio - Domestic Banking Unit (DBU)	27.6	31.0	37.8	33.8	29.9	44.9
4.3 Statutory Liquid Assets Ratio - Off-shore Banking Unit (OBU)	45.4	47.1	43.2	34.0	44.3	54.7
4.4 Rupee Liquidity Coverage Ratio	176.5	212.8	255.9	217.8	237.5	340.9
4.5 All Currency Liquidity Coverage Ratio	152.1	178.2	202.1	171.8	191.2	288.4
4.6 Liquid Assets to Deposits	35.7	39.5	44.0	38.8	34.8	48.5
4.7 Current & Savings Deposits to Total Deposits	32.0	31.4	34.5	38.0	31.2	32.3
4.8 Liquid Assets to Short Term Outflows					36.8	52.0
4.9 Deposit to Total Loans & Advances	110.4	112.8	121.3	120.1	135.2	150.9
4.10 Net Stable Funding Ratio		130.1	136.3	135.1	141.1	158.4
5. Assets / Funding Structure						
5.1 Deposits (% of Total Assets)	72.0	73.2	77.7	76.5	78.8	81.5
5.2 Borrowings (% of Total Assets)	15.0	13.4	11.7	12.9	9.6	6.8
5.3 Capital Funds (% of Total Assets)	8.7	9.0	8.2	8.0	8.2	8.7
5.4 Other (% of Total Assets)	4.3	4.4	2.4	2.5	3.3	3.1
5.5 Credit to Deposits	90.6	88.7	82.4	83.3	73.9	66.3
5.6 Credit to Deposits and Borrowings	75.0	74.9	71.7	71.3	65.9	61.2
5.7 Credit to Deposits, Borrowings and Capital	68.2	67.8	65.7	65.4	60.3	55.7
6. Financial Infrastructure						
6.1 No. of Branches (excluding Student Savings Units)	3,576	3,607	3,615	3,621	3,632	3,635
6.2 No. of ATMs	5,211	5,797	6,176	6,439	6,702	6,943

Note: Information from 2020 are based on Sri Lanka Financial Reporting Standards based Reporting
(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka

Information on Licensed Finance Companies

	2019 December	2020 December	2021 December	2022 December (a)	2023 December (b)
Financial Position (Rs. Billion)					
Assets	**1,390.7**	**1,367.9**	**1,452.0**	**1,610.2**	**1,692.0**
Cash and Bank Balances	97.3	110.3	83.0	101.3	106.9
Investments (c)	131.7	158.6	167.1	199.6	312.7
Loans and Advances	1,066.6	1,010.2	1,112.6	1,198.4	1,160.4
Others Assets	95.2	88.8	89.3	110.9	112.0
Equity and Liabilities	**1,390.7**	**1,367.9**	**1,452.0**	**1,610.2**	**1,692.0**
Equity	187.9	232.6	289.7	363.4	408.1
Deposits	756.7	748.6	783.3	864.5	935.3
Borrowings	381.7	311.7	306.5	322.3	264.6
Other Liabilities	64.4	75.0	72.6	60.0	84.0
Financial Soundness Indicators (Per cent)					
Capital Adequacy					
Core Capital to Risk Weighted Assets (CCR) (d)	10.5	13.9	15.0	20.6	21.1
Capital Base to Risk Weighted Assets (RWCAR) (e)	11.9	15.1	16.6	22.0	22.3
Core Capital to Total Assets (Net)	10.6	13.7	14.8	18.4	18.4
Non-Performing Loans net of Stage 03 Impairment to Core Capital	26.9	25.0	14.4	54.6	49.2
Asset Quality					
Gross Non Performing Advances to Total Advances	10.8	13.9	10.8	17.4	17.8
Net Non Performing Advances to Total Advances (f)	3.4	4.2	2.5	12.3	12.0
Impairment to Total Advances (g)	6.1	8.2	7.3	7.6	7.6
Stage 03 Impairment Coverage Ratio (h)	56.4	58.9	67.3	29.6	32.5
Liquidity					
Regulatory Liquid Assets to Total Assets	8.7	9.3	9.6	10.7	14.1
Regulatory Liquid Assets to Deposits & Borrowings	11.3	13.0	13.9	15.6	21.2
Available Regulatory Liquid Assets to Required Regulatory Liquid Assets	147.0	277.0	171.8	188.7	246.6
Earnings (i)					
Net Interest Margin (NIM) (j)	7.5	7.1	8.4	6.7	7.5
Return on Assets (k)	2.0	1.6	5.3	3.7	4.3
Return on Equity (l)	7.3	6.1	20.7	12.7	12.4
Interest Income to Interest Expenses	179.7	191.1	249.1	172.8	164.1
Cost to Income Ratio (m)	89.6	90.3	69.3	79.9	81.1
Non Interest Expenses (Operating Cost) to Gross Income (n)	75.2	75.6	51.6	58.1	58.7
Distribution of Branches					
Number of Institutions	**42**	**40**	**39**	**36 (o)**	**33 (o)**
Number of Branches	**1,374**	**1,459**	**1,647**	**1,849**	**1,828**
Central Province	154	160	178	196	196
Eastern Province	112	114	137	156	146
North Central Province	95	103	107	123	118
North Western Province	150	159	174	188	183
Northern Province	84	91	114	140	150
Sabaragamuwa Province	108	111	117	128	125
Southern Province	143	154	169	195	189
Uva Province	62	65	77	91	91
Western Province	466	502	574	632	630

Source: Central Bank of Sri Lanka

(a) Revised.
(b) Provisional.
(c) Includes Investments in Government of Sri Lanka Securities, Investments in Shares and Debentures, Investment properties and Other Investments net Provision for decline in value of Investment Securities.
(d) Ratio of Core Capital (Tier 1 Capital after adjustments) to Risk Weighted Assets.
(e) Ratio of Capital Base (Tier 1 Capital after adjustments plus Eligible Tier 2 Capital after adjustments) to Risk Weighted Assets.
(f) Ratio of non performing loans net of stage 03 impairment to total advances was considered. Before 2022 ratio of non performing loans net of interest in suspense and loan loss provisions to total advances was considered.
(g) Before 2022, Ratio of total provisions to total advances was considered.
(h) Before 2022, Ratio of total provisions to total non performing advances was considered.
(i) Income and expenses related items are for the 12 months ending December of respective years.
(j) Ratio of interest income less interest expenses to average assets.
(k) Profit before tax as a percentage of average assets.
(l) Profit after tax as a percentage of average equity capital.
(m) Ratio of total of interest expenses, operating expenses and total provisions to total of interest income and operating income.
(n) Ratio of non interest expenses (operating cost) to net interest income plus non interest income less loan loss provisions and loans written off.
(o) Excluding ETI Finance Ltd.

SPECIAL STATISTICAL APPENDIX[1]

[1] The online version of the Special Statistical Appendix is available in Excel spreadsheet format and contains additional data.

Path - Main Menu → Publications → Economic and Financial Reports → Annual Economic Review → Annual Economic Review 2023 → Special Statistical Appendix

REAL SECTOR TABLE 1

Population and Labour Force

Year	Mid Year Population ('000)	Birth Rate (per '000)	Death Rate (per '000)	Life Expectancy at Birth		Literacy Rate % (a)	Labour Force Participation Rate (%) (b) (c)			Unemployment Rate (%) (b) (c)		
				Male	Female		Total	Male	Female	Total	Male	Female
1970	12,514	29.4	7.5	-	-	-	-	-	-	-	-	-
1971	12,690	30.4	7.7	64.0	66.9	78.5	35.4	50.7	19.1	18.7	14.3	31.1
1972	12,861	30.0	8.1	-	-	-	-	-	-	-	-	-
1973	13,091	28.0	7.7	-	-	80.8	34.4	48.5	20.2	18.3	13.7	26.8
1974	13,284	27.5	9.0	-	-	-	-	-	-	-	-	-
1975	13,496	27.8	8.5	-	-	-	36.6	50.2	22.1	19.7	14.3	33.1
1976	13,717	27.8	7.8	-	-	-	-	-	-	-	-	-
1977	13,942	27.9	7.4	-	-	-	-	-	-	-	-	-
1978	14,190	28.5	6.6	-	-	-	38.0	50.4	26.2	14.8	9.2	24.9
1979	14,472	28.9	6.5	-	-	86.2	-	-	-	-	-	-
1980	14,747	28.4	6.2	-	-	-	-	-	-	-	-	-
1981	14,847	28.2	5.9	67.7	72.1	87.2	33.8	49.4	17.1	17.9	13.0	32.9
1982	15,196	26.9	6.1	-	-	-	34.3	49.7	19.4	11.7	7.8	21.3
1983	15,417	26.3	6.2	-	-	-	-	-	-	-	-	-
1984	15,603	25.1	6.5	-	-	-	-	-	-	-	-	-
1985	15,842	24.6	6.2	-	-	-	38.9	52.7	25.4	13.2	9.8	20.3
1986	16,127	22.4	6.0	-	-	-	-	-	-	15.5	11.3	23.6
1987	16,373	21.8	6.0	-	-	88.6	-	-	-	-	-	-
1988	16,599	20.7	5.8	-	-	-	-	-	-	-	-	-
1989	16,825	21.6	6.3	-	-	-	-	-	-	-	-	-
1990	17,015	20.8	6.0	-	-	-	51.9 (d)	67.7 (d)	36.2 (d)	15.9 (d)	11.1 (d)	23.4 (d)
1991	17,267	21.7	5.8	69.5	74.2	86.6	49.8 (d)	65.2 (d)	31.1 (d)	14.7 (d)	10.1 (d)	23.0 (d)
1992	17,426	21.5	5.9	-	-	-	48.2 (d)	64.3 (d)	31.1 (d)	14.6 (d)	10.7 (d)	22.8 (d)
1993	17,646	20.8	5.7	-	-	-	49.1 (d)	65.3 (d)	33.1 (d)	13.8 (d)	9.7 (d)	21.7 (d)
1994	17,891	20.8	5.9	-	-	90.1	48.7 (d)	65.4 (d)	32.0 (d)	13.1 (d)	9.7 (d)	20.1 (d)
1995	18,136	19.9	6.0	-	-	-	47.9 (d)	64.4 (d)	31.7 (d)	12.3 (d)	9.0 (d)	18.7 (d)
1996	18,336	19.5	7.0	70.7	75.4	-	48.6 (d)	65.9 (d)	31.6 (d)	11.3 (d)	8.2 (d)	17.7 (d)
1997	18,568	18.8	6.4	-	-	91.8	48.7 (d)	65.7 (d)	32.0 (d)	10.5 (d)	7.7 (d)	16.1 (d)
1998	18,784	18.2	6.2	-	-	-	51.7 (d)	67.3 (d)	36.4 (d)	9.2 (d)	6.5 (d)	14.6 (d)
1999	19,056	18.1	6.3	-	-	-	50.7 (d)	67.7 (d)	34.1 (d)	8.9 (d)	6.7 (d)	13.0 (d)
2000	19,102	18.2	6.1	-	-	-	50.3 (d)	67.2 (d)	33.9 (d)	7.6 (d)	5.8 (d)	11.0 (d)
2001	18,797 (e)	19.1	6.0	68.8	77.2	90.7	48.8 (d)	66.2 (d)	31.9 (d)	7.9 (d)	6.2 (d)	11.5 (d)
2002	18,921 (e)	19.4	5.9	-	-	-	50.3 (d)	67.9 (d)	33.6 (d)	8.8 (d)	6.6 (d)	12.9 (d)
2003	19,173 (e)	19.3	6.0	-	-	-	48.9 (f)	67.2 (f)	31.4 (f)	8.4 (f)	6.0 (f)	13.2 (f)
2004	19,435 (e)	18.8	5.9	-	-	92.5	48.6 (g)	66.7 (g)	31.5 (g)	8.3 (g)	6.0 (g)	12.8 (g)
2005	19,644 (e)	18.9	6.7	75.6	67.9	90.7	48.3 (h)(i)	67.1 (h)(i)	30.9 (h)(i)	7.7 (h)(i)	5.5 (h)(i)	11.9 (h)(i)
2006	19,858 (e)	18.8	5.9	-	-	91.5	51.2 (d)	68.1 (d)	35.7 (d)	6.5 (d)	4.7 (d)	9.7 (d)
2007	20,039 (e)	19.3	5.9	70.3	77.9	91.1	49.8 (d)	67.8 (d)	33.4 (d)	6.0 (d)	4.3 (d)	9.0 (d)
2008	20,246 (e)	18.5	6.1	-	-	91.3	49.5 (f)	67.8 (f)	33.2 (f)	5.4 (f)	3.7 (f)	8.4 (f)
2009	20,476 (e)	18.0	6.2	-	-	91.4	48.7 (f)	66.6 (f)	32.8 (f)	5.8 (f)	4.3 (f)	8.6 (f)
2010	20,675 (e)	17.6	6.3	-	-	91.9	48.1 (f)	67.1 (f)	31.2 (f)	4.9 (f)	3.5 (f)	7.7 (f)
2011	20,892 (e)	17.3	5.9	-	-	92.2	52.9 (i)(j)	74.0 (i)(j)	34.3 (i)(j)	4.2 (i)(j)	2.7 (i)(j)	7.1 (i) (j)
2012	20,425 (k)	17.6	6.0	72.0	78.6	92.7	52.5 (i)(j)	74.9 (i)(j)	32.9 (i)(j)	4.0 (i)(j)	2.8 (i)(j)	6.3 (i) (j)
2013	20,585 (k)	17.8	6.2	-	-	92.4	53.7 (i)(j)	74.9 (i)(j)	35.4 (i)(j)	4.4 (i)(j)	3.2 (i)(j)	6.6 (i) (j)
2014	20,778 (k)	16.8	6.2	-	-	93.2	53.2 (i)(j)	74.6 (i)(j)	34.6 (i)(j)	4.3 (i)(j)	3.1 (i)(j)	6.5 (i) (j)
2015	20,970 (k)	16.0	6.3	-	-	93.2	53.8 (i)(j)	74.7 (i)(j)	35.9 (i)(j)	4.7 (i)(j)	3.0 (i)(j)	7.6 (i) (j)
2016	21,209 (k)	15.5	6.2	-	-	93.1	53.8 (i)	75.1 (i)	35.9 (i)	4.4 (i)	2.9 (i)	7.0 (i)
2017	21,453 (k)(l)	15.2	6.5	-	-	92.6	54.1 (i)	74.5 (i)	36.6 (i)	4.2 (i)	2.9 (i)	6.5 (i)
2018	21,670 (k)(m)	15.1 (m)	6.4 (m)	-	-	92.5	51.8 (i)	73.0 (i)	33.6 (i)	4.4 (i)	3.0 (i)	7.1 (i)
2019	21,803 (k)(m)	14.6 (m)	6.7 (m)(l)	-	-	92.9	52.3 (i)	73.0 (i)	34.5 (i)	4.8 (i)	3.3 (i)	7.4 (i)
2020	21,919 (k)(m)	13.8 (m)	6.0 (m)	-	-	93.0	50.6 (i)	71.9 (i)	32.0 (i)	5.5 (i)	4.0 (i)	8.5 (i)
2021	22,156 (k)(m)	12.9 (m)	7.4 (m)	-	-	-	49.9 (i)	71.0 (i)	31.8 (i)	5.1 (i)	3.7 (i)	7.9 (i)
2022	22,181 (k)(m)	12.4 (m)	8.1 (m)	-	-	-	49.8 (i)	70.5 (i)	32.1 (i)	4.7 (i)	3.7 (i)	6.5 (i)
2023 (m)	22,037 (k)	11.2	8.2	-	-	-	48.6 (i)	68.6 (i)	31.3 (i)	4.7 (i)	3.6 (i)	7.0 (i)

(a) From 2006, based on Quarterly Labour Force Survey (QLFS) of the the Department of Census and Statistics (DCS). Up to 2005, data available only in census years and some survey years.
(b) From 1990, based on QLFS of the DCS. Up to 1989, based on other surveys in which the definitions may differ.
(c) Data up to 2010 are for household population aged 10 years and above and from 2011 onwards are for those aged 15 years and above.
(d) Data excluding both Northern and Eastern Provinces.
(e) Based on Census of Population and Housing - 2001.
(f) Data excluding the Northern Province.
(g) Data excluding both Mullaitivu and Killinochchi districts.
(h) QLFS was conducted as a one-off survey in August 2005.
(i) Data covers the entire island.
(j) In July 2016, DCS published a re-weighted and revised labour force data series for 2011 onwards.
(k) Based on the Census of Population and Housing - 2012.
(l) Revised
(m) Provisional

Sources: Registrar General's Department
Department of Census and Statistics

REAL SECTOR **TABLE 2**

National Output (a)

Year	GDP at Current Market Prices (Rs. mn)	GDP at Current Market Prices (USD mn) (b)	Per Capita GDP at Current Market Prices (Rs.) (c)	Per Capita GDP at Current Market Prices (USD) (b)(c)	GDP Growth Rate (%)	Share of GDP (at Current Market Prices) Agriculture (%)	Industry (%)	Services (%)	Taxes less Subsidies on products (%)	Share of GDP (at Current Market Prices) Consumption (%)	Investment (%)	National Savings (%)	GDP Deflator (1996=100) (d) Annual Index (d)	Annual Change (%)
1970	13,664	2,296	1,092	184	4.3	28.3	23.8	47.9		84.2	18.9	15.0	5.9	
1971	14,050	2,365	1,107	186	0.2	27.1	24.7	48.2		84.9	17.1	14.7	6.2	3.7
1972	15,247	2,554	1,186	199	3.2	26.3	24.2	49.5		84.3	17.3	14.8	6.4	4.1
1973	18,404	2,876	1,406	220	3.7	27.3	25.4	47.3		87.5	13.7	11.5	7.5	17.6
1974	23,771	3,575	1,789	269	3.2	33.2	25.1	41.8		91.8	15.7	7.5	9.5	25.9
1975	26,577	3,791	1,969	281	2.8	30.4	26.4	43.2		91.9	15.6	7.4	10.2	7.5
1976	30,203	3,591	2,202	262	3.0	29.0	27.1	43.9		86.1	16.2	13.1	10.8	5.9
1977	36,407	4,105	2,611	294	4.2	30.7	28.7	40.6		81.9	14.4	17.7	12.8	18.8
1978	42,665	2,733	3,007	193	8.2	30.5	27.2	42.3		84.7	20.0	15.5	13.8	7.8
1979	52,387	3,365	3,620	232	6.3	26.9	28.2	44.8		86.2	25.8	14.8	16.0	15.8
1980	66,527	4,025	4,511	273	5.8	27.6	29.6	42.8		88.8	33.8	14.0	18.9	18.1
1981	85,005	4,416	5,725	297	5.8	27.7	28.0	44.3		88.3	27.8	14.3	22.8	20.6
1982	99,238	4,769	6,531	314	5.1	26.4	26.3	47.3		88.1	30.8	15.4	25.1	9.9
1983	121,601	5,168	7,887	335	5.0	28.3	26.3	45.4		86.2	28.9	16.4	28.7	14.6
1984	153,746	6,043	9,854	387	5.1	28.7	26.3	45.0		80.1	25.8	22.2	33.6	17.1
1985	162,375	5,978	10,250	377	5.0	27.7	26.2	46.1		88.1	23.8	14.2	33.9	0.9
1986	179,474	6,405	11,129	397	4.3	27.1	26.6	46.3		88.0	23.7	14.5	35.9	5.8
1987	196,723	6,680	12,015	408	1.5	27.0	27.4	45.6		87.2	23.3	15.3	38.4	7.0
1988	221,982	6,978	13,373	420	2.7	26.3	26.7	47.0		88.0	22.8	14.2	42.8	11.5
1989	251,891	6,987	14,971	415	2.3	25.6	26.8	47.6		87.8	21.7	14.6	46.9	9.6
1990	321,784	8,033	18,912	472	6.2	26.3	26.0	47.7		85.7	22.2	16.8	56.3	20.0
1991	372,345	9,000	21,564	521	4.6	26.8	25.6	47.7		87.2	22.9	15.2	62.5	11.0
1992	425,283	9,703	24,405	557	4.3	25.9	25.6	48.5		85.0	24.3	17.9	68.8	10.0
1993	499,565	10,354	28,310	587	6.9	24.6	25.6	49.8		84.0	25.6	20.2	75.3	9.5
1994	579,084	11,718	32,367	655	5.6	23.8	26.2	50.1		84.8	27.0	19.1	82.3	9.3
1995	667,772	13,030	36,820	718	5.5	23.0	26.5	50.5		84.7	25.7	19.5	89.2	8.4
1996	768,128	13,898	41,892	758	3.8	22.4	26.4	51.1		84.7	24.2	19.0	100.0	12.1
1997	890,272	15,092	47,947	813	6.3	21.9	26.9	51.2		82.7	24.4	21.5	108.6	8.6
1998	1,017,986	15,761	54,194	839	4.7	21.1	27.5	51.4		80.9	25.1	23.4	117.8	8.4
1999	1,105,963	15,711	58,038	824	4.3	20.7	27.3	52.0		80.5	27.3	23.5	123.1	4.4
2000	1,257,636	16,596	65,838	869	6.0	19.9	27.3	52.8		82.6	28.0	21.5	131.3	6.7
2001	1,407,398	15,750	74,874	838	-1.5	20.1	26.8	53.1		84.2	22.0	20.3	147.6	12.4
2002	1,636,037	17,102	86,467	904	4.0	14.3	28.0	57.7		84.0	22.5	21.0	160.0	8.4
2003	1,822,468	18,882	95,054	985	5.9	13.2	28.4	58.3		84.0	22.0	21.5	168.2	5.1
2004	2,090,841	20,663	107,581	1,063	5.4	12.5	28.6	58.8		83.6	25.3	22.0	183.0	8.8
2005	2,452,782	24,406	124,862	1,242	6.2	11.8	30.2	58.0		82.1	26.8	23.8	202.1	10.4
2006	2,938,680	28,267	147,985	1,423	7.7	11.3	30.6	58.0		83.0	28.0	22.3	224.9	11.3
2007	3,578,688	32,350	178,586	1,614	6.8	11.7	29.9	58.4		82.4	28.0	23.3	256.4	14.0
2008	4,410,682	40,714	217,855	2,011	6.0	13.4	29.4	57.2		86.1	27.6	17.8	298.3	16.3
2009	4,835,293	42,066	236,144	2,054	3.5	12.7	29.7	57.6		82.1	24.4	23.7	315.8	5.9
2010	6,413,668	56,726	310,214	2,744	8.0	8.5	26.6	54.6	10.2	76.9	30.4	28.5	338.9	7.3
2011	7,219,106	65,293	345,544	3,125	8.4	8.8	28.0	55.1	8.0	79.8	33.4	26.3	351.8	3.8
2012	8,732,463	68,434	427,538	3,351	9.1	7.4	30.1	55.6	6.8	72.8	39.1	33.3	389.9	10.8
2013	9,592,125	74,294	465,976	3,609	3.4	7.7	29.2	56.4	6.8	75.4	33.2	29.9	414.3	6.2
2014	10,361,151	79,359	498,660	3,819	5.0	8.0	28.3	56.9	6.8	75.8	32.3	29.8	426.3	2.9
2015	11,566,987	85,110	551,597	4,059	4.2	8.2	29.5	54.2	8.0	72.9	34.3	32.0	429.1	0.6
2016	12,812,975	87,992	604,129	4,149	5.1	7.3	30.5	53.4	8.8	70.4	36.5	34.5	452.5	5.4
2017	14,387,319	94,356	670,644	4,398	6.5	7.4	31.1	52.2	9.2	67.0	39.7	37.3	477.2	5.5
2018	15,351,933	94,749	708,442	4,372	2.3	7.6	30.1	53.6	8.7	68.9	38.1	35.1	497.7	4.3
2019	15,910,976	88,989	729,761	4,082	-0.2	7.3	29.2	55.7	7.8	71.7	34.1	32.0	517.0	3.9
2020 (e)	15,646,254	84,420	713,822	3,851	-4.6	8.3	28.2	57.8	5.7	73.3	32.9	31.3	533.0	3.1
2021 (e)	17,612,370	88,611	794,926	3,999	4.2	8.8	30.0	55.9	5.4	70.7	36.7	33.0	575.8	8.0
2022 (e)(f)	24,063,762	76,845	1,084,882	3,464	-7.3	8.5	29.8	57.0	4.7	75.0	28.6	27.2	849.1	47.5
2023 (f)	27,629,665	84,403	1,253,785	3,830	-2.3	8.3	25.6	59.9	6.2	76.2	25.3	27.2	997.8	17.5

(a) National Accounts data from 1959 to 2001 are based on the estimates of the Central Bank of Sri Lanka (CBSL) and 2002 onwards are based on the estimates of the Department of Census and Statistics (DCS).
National Accounts estimates were rebased in 1970, 1982, and 1996 by CBSL and DCS in 2002, 2010 and 2015.
GDP and GNI estimates published for the relevant year before the base year revisions are given below.
1970 (CBSL estimates) : GDP (current factor cost prices) = Rs. 11,705 mn, GNI (current factor cost prices) = Rs. 12,671 mn
1982 (CBSL estimates) : GDP (current factor cost prices) = Rs. 91,943 mn, GNI (current factor cost prices) = Rs. 89,609 mn
1996 (CBSL estimates) : GDP (current factor cost prices) = Rs. 695,934 mn, GNI (current factor cost prices) = Rs. 684,676 mn
2002 (CBSL estimates) : GDP (current market prices) = Rs. 1,581,885 mn, GNI (current market prices) = Rs. 1,599,867 mn
2010 (DCS estimates) : GDP (current market prices) = Rs. 5,604,104 mn, GNI (current market prices) = Rs. 5,534,327 mn
2015 (DCS estimates) : GDP (current market prices) = Rs. 10,950,621 mn, GNI (current market prices) = Rs. 10,675,880 mn
(b) Based on quarterly GDP in USD terms calculated using quarterly average exchange rate from 2015 onwards.
(c) Estimates updated with latest population figures.
(d) This series has been computed by splicing several series of implicit GDP deflators obtained with different base years. Hence, it would differ from a series compiled using the current and constant values of GDP.
(e) Revised
(f) Provisional

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

REAL SECTOR Table 3

Prices

Year	Annual Average Price Index										Annual Average Percentage Change									
	CCPI (1952 = 100) (a)	CCPI (2002 = 100) (b)	CCPI (2006/07 = 100) (c)	CCPI (2013 = 100) (d)	CCPI (2021 = 100) (e)	NCPI (2013 = 100) (f)	NCPI (2021 = 100) (g)	WPI (1974 = 100)	PPI (2013 Q4 = 100) (h)	PPI (2018 Q4 = 100) (i)	CCPI (1952 = 100) (a)	CCPI (2002 = 100) (b)	CCPI (2006/07 = 100) (c)	CCPI (2013 = 100) (d)	CCPI (2021 = 100) (e)	NCPI (2013 = 100) (f)	NCPI (2021 = 100) (g)	WPI (1974 = 100)	PPI (2013 Q4 = 100) (h)	PPI (2018 Q4 = 100) (i)
1970	138.2										5.9									
1971	141.9										2.7									
1972	150.9										6.3									
1973	165.4										9.6									
1974	185.8										12.3									
1975	198.3							103.4			6.7									
1976	200.7							111.9			1.2							8.2		
1977	203.2							135.5			1.2							21.1		
1978	227.8							156.7			12.1							15.6		
1979	252.3							171.6			10.8							9.5		
1980	318.2							229.5			26.1							33.7		
1981	375.4							268.5			18.0							17.0		
1982	416.1							283.3			10.8							5.5		
1983	474.2							354.1			14.0							25.0		
1984	553.1							444.7			16.6							25.6		
1985	561.2							377.1			1.5							-15.2		
1986	606.0							366.0			8.0							-2.9		
1987	652.8							414.9			7.7							13.4		
1988	744.1							488.7			14.0							17.8		
1989	830.2							532.9			11.6							9.0		
1990	1,008.6							651.1			21.5							22.2		
1991	1,131.5							710.8			12.2							9.2		
1992	1,260.4							773.0			11.4							8.8		
1993	1,408.4							831.8			11.7							7.6		
1994	1,527.4							873.4			8.4							5.0		
1995	1,644.6							950.3			7.7							8.8		
1996	1,906.7							1,145.1			15.9							20.5		
1997	2,089.1							1,224.3			9.6							6.9		
1998	2,284.9							1,298.7			9.4							6.1		
1999	2,392.1							1,295.3			4.7							-0.3		
2000	2,539.8							1,317.2			6.2							1.7		
2001	2,899.4							1,471.2			14.2							11.7		
2002	3,176.4							1,628.9			9.6							10.7		
2003	3,377.0	105.8						1,679.1			6.3							3.1		
2004	3,632.8	115.3						1,889.0			7.6	9.0						12.5		
2005	4,055.5	128.0						2,105.9			11.6	11.0						11.5		
2006	4,610.8	140.8						2,351.5			13.7	10.0						11.7		
2007	5,416.1	163.1						2,924.4			17.5	15.8						24.4		
2008		199.9	129.2					3,653.6				22.6						24.9		
2009		206.8	133.6					3,500.9				3.4	3.5					-4.2		
2010		219.1	141.9					3,893.0				5.9	6.2					11.2		
2011		226.5	151.5					4,306.5				6.9	6.7					10.6		
2012			162.9					4,457.3					7.6					3.5		
2013			174.2					4,867.9					6.9					9.2		
2014			179.9	105.1		105.5		5,022.1	101.6				3.3					3.2		
2015			181.5	107.4		109.5		5,072.7	105.3				0.9	2.2		3.8		1.0	3.6	
2016			188.3	111.7		113.8		5,284.0	107.1				3.7	4.0		4.0		4.2	1.7	
2017				119.0		122.6		5,674.7	125.3					6.6		7.7		7.4	17.0	
2018				124.1		125.2		5,867.0	133.2					4.3		2.1		3.4	6.3	
2019				129.5		129.6		6,069.4	137.1	105.5				4.3		3.5		3.4	2.9	
2020				135.4		137.6		6,399.3	144.9	111.6				4.6		6.2		5.4	5.7	5.8
2021				143.4		147.2		6,744.9		123.7				6.0		7.0		5.4		10.9
2022				209.9	163.5	221.5	174.9	11,000.3		215.2				46.4		50.4		63.1		74.0
2023 (j)					191.8		203.8	12,101.2		240.0					17.4		16.5	10.0		11.5

(a) Represents the consumption basket of low income households in the Colombo Municipality. Compilation of this index was discontinued since May 2008.
(b) Represents the consumption basket of urban households within the Colombo District. Compilation of this index was discontinued since June 2011.
(c) Represents the consumption basket of urban households within the Colombo District. Compilation of this index was discontinued since January 2017.
(d) Represents the consumption basket of urban households within the Colombo District. Compilation of this index was discontinued since February 2023.
(e) Represents the consumption basket of urban households within the Colombo District.
(f) Represents the consumption basket of households in the entire island. Compilation of this index was discontinued since January 2023.
(g) Represents the consumption basket of households in the entire island.
(h) Represents the production basket of producers in the entire island. Compilation of this index was discontinued since November 2021.
(i) Represents the production basket of producers in the entire island.
(j) Provisional

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

EXTERNAL SECTOR TABLE 4

Balance of Payments

Values in USD million

Year	Current Account						Capital Account (Net)	Financial Account (c)						
	Exports	Imports	Services & Primary Income (Net)	Transfers (Net) (a)	Current Account Balance	As a % of GDP (b)		Long-term Capital (Net): Direct Investment	Long-term Capital (Net): Other Private (d)	Long-term Capital (Net): Government (e)	Short-term (Net)	Financial Account Balance (f)	Overall Balance	Terms of Trade (% change) (g)
1970	338.7	391.8	-17.5	11.8	-58.8	-2.6	-	-0.3	0.0	57.6	-0.7	-	-7.0	-6.3
1971	325.4	373.7	-2.4	14.3	-36.4	-1.5	-	0.3	0.0	74.0	-3.9	-	32.9	-5.8
1972	317.9	360.6	-2.5	12.4	-32.8	-1.3	-	0.3	-0.2	48.6	-6.4	-	69.5	-5.6
1973	366.4	412.9	8.1	13.3	-25.1	-0.9	-	0.5	-0.3	68.9	-1.7	-	45.9	-11.8
1974	511.2	701.1	11.4	42.1	-136.4	-3.8	-	1.4	-0.2	84.6	-2.3	-	-57.0	-11.4
1975	563.4	767.3	12.7	79.9	-111.4	-2.9	-	-0.1	0.0	62.7	-4.3	-	10.4	-19.8
1976	558.8	643.1	13.3	65.1	-5.8	-0.2	-	0.0	-5.7	83.1	-7.1	-	118.3	30.5
1977	767.1	726.2	34.3	69.0	144.1	3.5	-	-1.0	-3.3	51.1	-10.0	-	360.9	31.9
1978	845.1	1,025.4	7.6	79.6	-93.1	-3.4	-	1.5	0.5	157.2	7.3	-	120.1	-1.8
1979	981.4	1,449.4	47.5	192.2	-228.4	-6.8	-	47.0	9.1	156.2	0.1	-	51.9	-28.3
1980	1,064.7	2,051.2	52.0	274.6	-660.0	-16.4	-	42.9	40.3	157.5	157.5	-	-191.9	-19.0
1981	1,065.5	1,876.9	4.3	364.8	-442.3	-10.0	-	50.2	52.9	266.0	31.4	-	19.9	-21.3
1982	1,013.7	1,994.1	-15.1	427.3	-568.1	-11.9	-	63.6	194.5	261.2	7.1	-	-48.0	-5.7
1983	1,064.1	1,921.3	-60.0	444.3	-472.8	-9.1	-	37.5	94.9	281.0	37.6	-	18.0	21.6
1984	1,462.3	1,928.1	-68.2	479.4	-54.7	-0.9	-	32.6	-4.7	341.7	-25.5	-	269.3	22.4
1985	1,315.3	2,044.3	-134.3	443.8	-419.5	-7.0	-	24.4	31.2	273.0	4.4	-	-49.3	-17.8
1986	1,209.7	1,973.2	-129.1	466.4	-426.1	-6.7	-	28.2	18.3	291.7	-13.5	-	-70.3	-4.3
1987	1,395.7	2,075.1	-156.9	492.9	-343.4	-5.1	-	58.2	-13.0	198.0	39.0	-	-67.3	2.4
1988	1,477.2	2,240.2	-153.2	526.9	-389.3	-5.6	-	43.0	-43.0	245.0	16.0	-	-90.7	-10.3
1989	1,547.1	2,226.5	-157.7	518.7	-318.3	-4.6	-	17.9	-50.0	217.0	92.0	-	-88.0	0.5
1990	1,983.9	2,686.4	-97.9	423.4	-377.0	-4.7	117.5	41.6	-44.6	405.3	-5.7	-	118.7	-12.5
1991	2,039.5	3,036.6	-91.2	468.9	-619.4	-6.9	134.6	62.7	-24.4	500.2	184.6	-	290.2	1.1
1992	2,460.8	3,505.4	-32.6	522.6	-554.6	-5.7	121.6	121.1	25.4	266.2	130.1	-	189.6	19.8
1993	2,863.7	4,011.3	39.4	612.7	-495.5	-4.8	108.6	187.2	187.9	264.8	359.7	-	660.9	4.3
1994	3,208.6	4,767.3	17.8	680.6	-860.3	-7.3	113.1	158.2	294.5	252.8	124.3	-	239.7	-0.7
1995	3,806.6	5,311.1	-18.0	736.0	-786.5	-6.0	117.3	53.1	90.7	358.3	79.2	-	51.5	-0.9
1996	4,095.1	5,438.8	-92.3	759.1	-676.9	-4.9	95.9	119.9	1.6	259.2	-17.6	-	-67.8	2.3
1997	4,639.0	5,863.8	-0.4	832.3	-392.9	-2.6	87.1	429.8	47.4	238.6	-200.7	-	162.9	2.3
1998	4,797.8	5,889.5	-34.9	900.7	-225.9	-1.4	79.6	193.0	1.7	203.1	-64.0	-	36.8	13.5
1999	4,610.1	5,979.3	-106.6	912.8	-563.0	-3.6	80.3	176.9	196.0	62.1	-142.4	-	-263.2	-5.0
2000	5,522.3	7,319.8	-267.0	997.8	-1,066.0	-6.4	50.2	176.0	82.1	47.0	88.1	393.2	-521.9	-6.1
2001	4,816.9	5,974.4	-62.6	1,005.2	-215.1	-1.4	197.5	172.0	-257.1	249.0	200.5	364.4	219.8	-1.7
2002	4,699.0	6,105.6	42.5	1,128.0	-236.5	-1.4	65.0	185.0	-21.0	162.0	53.3	379.3	338.0	4.6
2003	5,133.3	6,671.9	227.0	1,241.0	-71.0	-0.4	74.0	201.0	-33.0	554.0	-73.6	648.4	502.0	-7.4
2004	5,757.2	7,999.8	215.0	1,380.0	-648.0	-3.1	64.0	227.0	14.0	439.0	-112.6	567.4	-205.0	-5.2
2005	6,346.7	8,863.2	38.2	1,828.1	-650.2	-2.7	249.8	233.8	10.8	553.5	176.0	974.1	501.4	-4.2
2006	6,882.7	10,253.0	-132.3	2,004.1	-1,498.6	-5.3	290.6	451.1	-35.0	490.5	610.8	1,517.4	203.6	-3.5
2007	7,640.0	11,296.5	-55.5	2,310.6	-1,401.5	-4.3	268.8	548.3	30.6	671.9	577.2	1,828.0	530.5	-1.0
2008	8,110.6	14,091.2	-571.1	2,666.1	-3,885.6	-9.5	290.6	690.5	73.9	252.0	466.8	1,483.2	-1,384.8	3.0
2009	7,084.5	10,206.6	-96.7	3,004.5	-214.3	-0.5	232.9	384.0	79.3	840.3	1,057.7	2,361.3	2,725.3	-2.7
2010	8,625.8	13,450.9	89.8	3,660.3	-1,075.0	-1.9	163.9	435.1	148.7	1,795.5	334.0	2,713.3	921.0	27.4
2011	10,558.8	20,268.8	451.8	4,642.8	-4,615.4	-7.1	164.4	895.9	175.3	2,236.7	790.2	4,098.1	-1,059.4	-8.9
2012 (c)(f)	9,773.5	19,190.2	42.9	5,392.0	-3,981.7	-5.8	130.3	-877.2	-718.9	-992.4	-1,674.9	-4,263.4	151.1	-1.5
2013	10,394.3	18,002.8	-571.6	5,639.5	-2,540.6	-3.4	70.9	-867.5	-605.2	-841.4	-749.6	-3,063.7	985.2	4.6
2014	11,130.1	19,416.8	72.0	6,227.0	-1,987.7	-2.5	58.3	-826.8	-428.7	-645.7	365.1	-1,536.1	1,369.1	4.3
2015	10,546.5	18,934.6	312.0	6,193.3	-1,882.8	-2.2	46.3	-626.7	-8.6	-469.6	-1,207.4	-2,312.3	-1,488.7	2.7
2016	10,309.7	19,182.8	677.7	6,453.0	-1,742.4	-2.0	25.3	-660.2	-136.3	-1,287.1	-98.2	-2,181.8	-499.8	4.0
2017	11,360.4	20,979.8	983.8	6,326.6	-2,309.0	-2.4	10.9	-1,300.9	-210.9	-1,223.3	612.3	-2,122.8	2,068.5	1.2
2018	11,889.6	22,232.7	1,381.5	6,162.6	-2,799.1	-3.0	14.4	-1,546.2	-113.8	-557.0	-1,160.7	-3,377.7	-1,102.9	0.02
2019	11,940.0	19,937.1	387.7	5,766.0	-1,843.4	-2.1	23.1	-666.1	202.6	88.8	-2,085.2	-2,459.9	376.6	-1.6
2020	10,047.4	16,055.4	-1,385.9	6,206.8	-1,187.1	-1.4	28.1	-419.5	56.2	-169.4	138.3	-394.4	-2,327.7	2.5
2021	12,498.6	20,637.4	-372.9	5,227.5	-3,284.3	-3.7	25.1	-574.8	167.1	-873.0	-2,930.3	-4,210.9	-3,966.6	-8.6
2022 (h)	13,106.4	18,291.0	239.7	3,496.4	-1,448.5	-1.9	19.4	-869.0	9.0	1,679.1	-2,387.6	-1,568.5	-2,806.1	-11.6
2023 (i)	11,910.7	16,811.1	840.7	5,618.6	1,558.9	1.8	63.1	-677.9	26.7	1,845.3	109.4	1,303.6	2,825.6	-0.6

(a) Replaced with Secondary Income (net) based on the BPM6 format, from 2012
(b) From 2015 onwards, data is based on the GDP estimates of DCS with base year 2015.
(c) Based on the BPM6 format, financial account (net) data is represented as Net Acquisition of Assets - Net Incurrence of Liabilities from 2012 onwards, resulting in a 'minus' sign for net inflows to the financial account from 2012 onwards.
(d) Replaced with 'Loans - other sector - long term ' under 'Net Incurrence of Liabilities' based on the BPM6 format, from 2012
(e) Replaced with 'Loans - government - long term' under 'Net Incurrence of Liabilities' based on the BPM6 format, from 2012
(f) Includes net increase/decrease in reserve assets and reserve related Liabilities based on the BPM6 format, and is the residual net flows to financial account from 2012 onwards.
(g) Trade indices have been calculated with a wider coverage using 2010 as the base year, from 2007.
(h) Revised
(i) Provisional

Source: Central Bank of Sri Lanka

EXTERNAL SECTOR TABLE 5

Reserves, Total Foreign Assets, External Debt and Exchange Rates

Year	Gross Official Reserves (USD million)	Total Foreign Assets (a) (USD million)	Total Foreign Assets (a) Months of Imports	Total External Debt (b) (USD million)	Total External Debt (b) as a % of GDP (c)	Debt Service Ratio(d)	Exchange Rates (Sri Lanka Rupees per Unit of Foreign Currency) Year End US dollar	Annual Average US dollar	Annual Average Pound sterling	Annual Average Euro	Annual Average Japanese yen	Annual Average Indian rupee	Annual Average Deutsche mark	Annual Average French frank	Annual Average SDR (e)
1970	42.3	67.6	2.1	419.2	18.3	20.1	5.96	5.95	14.28	-	0.02	0.79	1.63	1.07	5.95
1971	52.4	83.6	2.7	465.9	19.7	21.9	5.96	5.94	14.45	-	0.02	0.79	1.70	1.07	5.95
1972	60.6	108.5	3.6	485.1	19.0	21.8	6.70	5.97	14.94	-	0.02	0.79	1.87	1.18	6.48
1973	82.3	126.1	3.7	552.0	19.2	23.0	6.75	6.40	15.70	-	0.02	0.83	2.40	1.44	7.63
1974	73.9	132.8	2.3	648.9	18.2	17.8	6.69	6.65	15.56	-	0.02	0.82	2.57	1.38	8.00
1975	56.9	108.1	1.7	729.3	19.2	23.0	7.71	7.01	15.57	-	0.02	0.84	2.85	1.63	8.51
1976	94.0	158.8	3.0	773.2	21.5	20.1	8.83	8.41	15.19	-	0.03	0.94	3.34	1.76	9.71
1977	278.4	358.1	5.9	856.1	20.9	16.0	15.56	8.87	15.49	-	0.03	1.02	3.82	1.81	10.36
1978	397.3	482.2	5.6	1,114.3	40.8	15.5	15.51	15.61	29.97	-	0.07	1.91	7.77	3.46	19.55
1979	516.1	624.9	5.2	1,245.7	37.0	13.0	15.45	15.57	33.04	-	0.07	1.92	8.50	3.66	20.12
1980	245.5	375.9	2.2	1,666.8	41.4	12.4	18.00	16.53	38.46	-	0.07	2.10	9.10	3.91	21.52
1981	334.7	448.8	2.9	2,060.4	46.7	16.8	20.55	19.25	39.03	-	0.09	2.22	8.52	3.54	22.69
1982	358.8	526.9	3.2	2,500.0	52.4	18.6	21.32	20.81	36.43	-	0.08	2.20	8.58	3.17	22.98
1983	316.0	521.0	3.3	2,651.7	51.3	21.6	25.00	23.53	35.69	-	0.10	2.33	9.22	3.09	25.15
1984	522.2	720.8	4.5	2,983.8	49.4	17.5	26.28	25.44	33.99	-	0.11	2.24	8.94	2.91	26.07
1985	461.2	672.0	3.9	3,440.7	57.6	21.0	27.41	27.16	35.21	-	0.11	2.20	9.23	3.02	27.58
1986	362.9	606.9	3.7	4,082.4	63.7	26.2	28.52	28.02	41.10	-	0.17	2.22	12.90	4.05	32.87
1987	299.5	600.7	3.5	4,770.6	71.4	27.5	30.76	29.45	48.26	-	0.20	2.27	16.38	3.27	38.10
1988	277.5	576.0	3.1	4,908.9	70.3	28.6	33.03	31.81	56.66	-	0.25	2.29	18.11	5.34	42.76
1989	291.4	584.6	3.2	5,146.0	73.6	24.2	40.00	36.05	59.11	-	0.26	2.22	19.17	5.65	46.19
1990	435.0	856.7	3.8	5,783.1	72.0	17.8	40.24	40.06	71.50	-	0.28	2.29	24.80	7.36	54.42
1991	718.4	1,156.0	4.6	6,489.4	72.1	18.5	42.58	41.37	73.20	-	0.31	1.82	25.10	7.33	56.61
1992	936.4	1,439.9	4.9	6,831.7	70.4	17.1	46.00	43.83	77.38	-	0.35	1.69	28.14	8.30	61.75
1993	1,674.7	2,123.8	6.4	7,602.0	73.4	13.8	49.56	48.25	72.47	-	0.44	1.58	29.19	8.52	67.39
1994 (f)	2,022.0	2,874.4	7.2	8,298.0	70.8	13.7	49.98	49.42	75.68	-	0.48	1.58	30.50	8.92	70.75
1995	2,063.0	2,901.9	6.6	8,694.0	66.7	16.5	54.05	51.25	80.88	-	0.55	1.58	35.81	10.29	77.74
1996	1,937.0	2,717.0	6.0	8,486.0	61.1	15.3	56.71	55.27	86.34	-	0.51	1.56	36.75	10.81	80.23
1997	2,029.0	3,132.0	6.4	8,197.0	54.3	13.3	61.29	58.99	96.69	-	0.49	1.63	34.07	10.12	81.17
1998	1,984.0	2,907.0	5.9	8,749.0	55.5	13.3	67.78	64.59	107.05	-	0.50	1.57	36.80	10.98	87.66
1999	1,639.0	2,582.0	5.2	9,088.0	57.8	15.2	72.12	70.39	113.91	-	0.62	1.64	38.39	11.45	96.25
2000	1,049.0	2,131.2	3.5	9,031.0	54.5	14.7	80.06	75.78	114.78	74.32	0.70	1.68	35.76	10.66	99.90
2001	1,338.0	2,238.0	4.5	8,372.0	53.2	13.2	93.16	89.36	128.66	82.27	0.74	1.89	40.90	12.19	113.75
2002	1,700.0	2,495.0	4.9	9,333.0	56.3	13.2	96.73	95.66	143.74	101.38	0.76	1.97	46.37	13.79	123.93
2003	2,329.0	3,218.0	5.8	10,735.0	56.9	11.6	96.74	96.52	157.71	121.60	0.83	2.07	-	-	135.22
2004	2,195.8	3,439.0	5.2	11,346.0	54.9	11.6	104.61	101.19	185.35	125.79	0.94	2.23	-	-	149.88
2005	2,735.0	4,200.5	5.7	11,353.8	46.5	7.9	102.12	100.50	182.87	125.10	0.91	2.28	-	-	148.45
2006	2,836.7	4,005.4	4.7	11,981.4	42.4	12.7	107.71	103.96	191.53	130.63	0.89	2.30	-	-	153.00
2007	3,508.2	4,956.4	5.3	13,989.5	43.2	13.1	108.72	110.62	221.46	151.63	0.94	2.69	-	-	169.37
2008	2,560.9	3,639.8	3.1	15,106.6	37.1	18.0	113.14	108.33	200.73	159.32	1.05	2.52	-	-	171.24
2009	5,357.4	7,030.4	8.3	18,662.1	44.4	22.4	114.38	114.94	179.87	160.21	1.23	2.39	-	-	177.22
2010	7,196.5	8,620.8	7.7	21,437.9	37.8	16.7	110.95	113.06	174.81	150.10	1.29	2.49	-	-	172.50
2011	6,749.3	7,990.7	4.7	32,747.9	50.2	13.2	113.90	110.57	177.23	153.86	1.39	2.39	-	-	174.54
2012	7,105.8	8,586.8	5.4	37,098.1	62.5	19.7	127.16	127.60	202.28	164.01	1.60	2.39	-	-	195.38
2013	7,495.0	8,573.5	5.7	39,905.3	53.7	26.8	130.75	129.11	202.08	171.51	1.32	2.21	-	-	196.19
2014	8,208.4	9,884.4	6.1	42,914.1	54.1	21.7	131.05	130.56	215.16	173.47	1.24	2.14	-	-	198.35
2015	7,303.6	9,336.9	5.9	44,839.4	52.7	28.2	144.06	135.94	207.99	150.84	1.12	2.12	-	-	190.16
2016	6,019.0	8,432.9	5.3	46,418.0	52.8	25.6	149.80	145.60	197.15	161.16	1.34	2.17	-	-	202.39
2017	7,958.7	10,436.5	6.0	51,603.9	54.7	23.9	152.85	152.46	196.47	171.73	1.36	2.34	-	-	211.49
2018	6,919.2	9,582.9	5.2	52,411.8	55.3	28.9	182.75	162.54	216.67	191.71	1.47	2.38	-	-	229.90
2019	7,642.4	10,401.9	6.3	54,811.5	61.6	29.7	181.63	178.78	228.20	200.14	1.64	2.54	-	-	246.97
2020	5,664.3	8,520.7	6.4	49,041.3	58.1 (g)	35.2	186.41	185.52	238.22	212.07	1.74	2.50	-	-	258.61
2021	3,139.2	6,122.4	3.6	51,775.1	58.4 (g)	30.7	200.43	198.88	273.51	235.10	1.81	2.69	-	-	283.18
2022 (g)	1,897.6	5,873.5	3.9	49,666.9	64.6	15.4	363.11	324.55	396.89	339.04	2.44	4.11	-	-	431.91
2023 (h)	4,392.1	9,373.1	6.7	54,831.6	65.0	14.9	323.92	327.53	407.07	354.11	2.34	3.97	-	-	436.88

(a) Excludes foreign assets in the form of 'Direct investment abroad' and 'Trade credit and advances granted'.
(b) Total external debt includes banking sector liabilities, from 2011.
(c) From 2015 onwards, data is based on the base year (2015) GDP estimates of DCS.
(d) As a percentage of earnings from exports of goods and services. Debt service payments were reclassified to capture debt servicing of foreign holding of Treasury bills and bonds in accordance with the External Debt Statistics Manual (2003) of the International Monetary Fund (IMF), from 2008.
(e) Special Drawing Rights (SDR), the unit of account of the IMF.
(f) Offshore Banking Units are treated as a part of the domestic banking system, from 1994.
(g) Revised
(h) Provisional

Sources: International Monetary Fund
Central Bank of Sri Lanka

FISCAL SECTOR TABLE 6

Government Fiscal Operations (a)

Values in Rs. million

Year (b)	Revenue: Tax	Revenue: Total (Tax and Non Tax)	Grants	Revenue and Grants	Expenditure: Recurrent	Expenditure: Capital and Net Lending	Expenditure: Total	Current Account Surplus(+) Deficit(-)	Primary Account Surplus(+) Deficit(-)	Overall Surplus(+)/ Deficit(-)	Financing: Foreign	Financing: Domestic (c)	Financing: Privatisation Proceeds	Financing: Total Financing	As a % of GDP (d): Revenue and Grants	As a % of GDP (d): Expenditure	As a % of GDP (d): Overall Surplus(+) /Deficit (-)
1970	2,507	2,736	63	2,799	2,659	1,013	3,672	77	-620	-873	163	710	-	873	20.5	26.9	-6.4
1971	2,354	2,815	60	2,875	2,981	918	3,899	-166	-688	-1,024	175	849	-	1,024	20.5	27.8	-7.3
1972	2,676	3,282	75	3,357	3,386	931	4,317	-104	-548	-961	209	752	-	961	22.0	28.3	-6.3
1973	3,331	4,034	47	4,081	3,857	1,169	5,026	177	-431	-945	132	813	-	945	22.2	27.3	-5.1
1974	4,013	4,787	252	5,039	4,506	1,316	5,822	281	-203	-783	126	657	-	783	21.2	24.5	-3.3
1975	4,258	5,084	404	5,488	5,153	2,033	7,186	-69	-999	-1,698	310	1,388	-	1,698	20.6	27.0	-6.4
1976	4,726	5,739	367	6,106	5,554	3,098	8,652	185	-1,707	-2,547	591	1,956	-	2,547	20.2	28.6	-8.4
1977	5,509	6,686	501	7,187	6,148	2,665	8,813	538	-613	-1,626	754	872	-	1,626	19.7	24.2	-4.5
1978	10,320	11,688	661	12,349	10,408	7,280	17,688	1,280	-3,999	-5,339	3,292	2,047	-	5,339	28.9	41.5	-12.5
1979	11,015	11,966	1,390	13,356	10,825	8,367	19,192	1,141	-4,169	-5,836	2,348	3,488	-	5,836	25.5	36.6	-11.1
1980	12,158	13,022	2,620	15,642	12,319	16,069	28,388	703	-10,505	-12,746	3,516	9,230	-	12,746	23.5	42.7	-19.2
1981	13,696	14,775	2,721	17,496	14,649	13,365	28,014	126	-6,780	-10,518	4,880	5,638	-	10,518	20.6	33.0	-12.4
1982	14,737	16,210	3,376	19,586	18,341	15,171	33,512	-2,131	-8,822	-13,926	4,744	9,182	-	13,926	19.7	33.8	-14.0
1983	19,912	23,317	3,473	26,790	22,002	17,635	39,637	1,315	-6,241	-12,847	6,372	6 ,475	-	12,847	22.0	32.6	-10.6
1984	29,939	34,061	3,293	37,354	24,630	23,207	47,837	9,431	-3,745	-10,483	6,492	3,991	-	10,483	24.3	31.1	-6.8
1985	30,442	36,249	3,307	39,556	32,645	22,589	55,234	3,604	-8,250	-15,678	7,109	8,569	-	15,678	24.4	34.0	-9.7
1986	31,272	37,238	3,753	40,991	33,966	25,227	59,193	3,272	-9,440	-18,202	9,061	9,141	-	18,202	22.8	33.0	-10.1
1987	35,119	42,145	4,677	46,822	39,560	24,334	63,894	2,585	-6,915	-17,072	5,716	11,356	-	17,072	23.8	32.5	-8.7
1988	35,946	41,749	6,588	48,337	46,132	30,400	76,532	-4,383	-15,605	-28,195	7,128	21,067	-	28,195	21.8	34.5	-12.7
1989	47,513	53,979	6,407	60,386	56,884	25,280	82,164	-2,905	-7,426	-21,778	5,926	15,852	-	21,778	24.0	32.6	-8.6
1990	61,206	67,964	6,698	74,662	71,771	28,043	99,814	-3,807	-4,484	-25,152	11,644	13,508	-	25,152	23.2	31.0	-7.8
1991	68,157	76,179	7,870	84,049	83,756	36,613	120,369	-7,577	-14,247	-36,320	19,329	16,149	841	36,320	22.6	32.3	-9.8
1992	76,353	85,781	8,280	94,061	89,639	30,186	119,824	-3,858	177	-25,763	7,361	15,551	2,850	25,763	22.1	28.2	-6.1
1993	85,891	98,339	8,025	106,364	102,288	39,371	141,659	-3,949	-5,092	-35,295	9,855	24,241	1,200	35,295	21.3	28.4	-7.1
1994	99,417	110,038	8,257	118,295	127,084	43,680	170,764	-17,046	-14,439	-52,470	11,778	37,696	2,995	52,470	20.4	29.5	-9.1
1995	118,543	136,258	9,028	145,286	154,159	49,325	203,484	-17,901	-19,972	-58,198	21,224	33,972	3,001	58,198	21.8	30.5	-8.7
1996	130,202	146,279	7,739	154,018	175,148	43,512	218,660	-28,869	-15,719	-64,642	10,160	49,754	4,728	64,642	20.1	28.5	-8.4
1997	142,512	165,036	7,329	172,365	184,749	50,348	235,097	-19,713	-7,486	-62,732	9,958	30,275	22,499	62,732	19.4	26.4	-7.0
1998	147,368	175,032	7,200	182,232	199,648	68,531	268,179	-24,616	-31,049	-85,947	10,197	71,362	4,389	85,947	17.9	26.3	-8.4
1999	166,029	195,905	6,761	202,666	207,271	71,888	279,159	-11,366	-14,370	-76,493	1,484	74,876	134	76,493	18.3	25.2	-6.9
2000	182,392	211,282	5,145	216,427	254,279	81,544	335,823	-42,997	-48,196	-119,396	495	118,500	401	119,396	17.2	26.7	-9.5
2001	205,840	234,296	5,500	239,796	303,361	83,157	386,518	-69,065	-52,415	-146,722	14,538	123,595	8,589	146,722	17.0	27.5	-10.4
2002	221,839	261,888	7,079	268,967	330,847	72,142	402,990	-68,959	-17,507	-134,022	1,978	126,351	5,693	134,022	17.0	25.4	-8.5
2003	231,597	276,465	7,956	284,421	334,694	82,979	417,673	-58,229	-8,125	-133,251	43,117	79,911	10,223	133,251	15.6	22.9	-7.3
2004	281,552	311,473	8,681	320,154	389,679	87,228	476,907	-78,206	-36,970	-156,752	37,071	117,243	2,437	156,752	15.3	22.8	-7.5
2005	336,828	379,746	32,640	412,387	443,350	141,433	584,783	-63,603	-52,237	-172,396	47,773	123,604	1,020	172,396	16.8	23.8	-7.0
2006	428,378	477,833	30,068	507,901	547,960	165,687	713,646	-70,127	-54,968	-205,745	41,942	163,805	-	205,745	17.3	24.3	-7.0
2007	508,947	565,051	30,508	595,559	622,758	218,846	841,604	-57,707	-63,364	-246,045	100,907	145,137	-	246,045	16.6	23.5	-6.9
2008	585,621	655,259	31,222	686,482	743,710	252,416	996,126	-88,450	-97,169	-309,644	-4,643	314,287	-	309,643	15.6	22.6	-7.0
2009	618,933	699,644	25,922	725,566	879,575	322,352	1,201,927	-179,931	-166,686	-476,361	230,807	245,554	-	476,361	15.0	24.9	-9.9
2010	724,747	817,279	16,909	834,188	937,094	343,111	1,280,205	-119,815	-93,425	-446,017	243,788	202,229	-	446,017	12.6	19.3	-6.7
2011	845,697	967,862	15,141	983,003	1,024,906	408,276	1,433,182	-57,043	-93,481	-450,180	218,956	231,224	-	450,180	13.1	19.1	-6.0
2012	908,913	1,051,460	16,071	1,067,532	1,131,023	425,476	1,556,499	-79,563	-80,469	-488,967	286,455	202,511	-	488,967	11.9	17.3	-5.4
2013	1,005,895	1,137,447	15,859	1,153,306	1,205,180	464,216	1,669,396	-67,733	-72,083	-516,090	123,700	392,390	-	516,090	11.6	16.8	-5.2
2014	1,050,362	1,195,206	9,415	1,204,621	1,322,898	472,967	1,795,865	-127,692	-154,849	-591,244	212,523	378,721	-	591,244	11.2	16.7	-5.5
2015	1,355,779	1,454,878	6,014	1,460,892	1,701,658	588,737	2,290,394	-246,779	-319,828	-829,502	236,803	592,699	-	829,502	12.6	19.8	-7.2
2016	1,463,689	1,686,062	7,496	1,693,558	1,757,782	576,101	2,333,883	-71,719	-29,430	-640,325	391,914	248,411	-	640,325	13.2	18.2	-5.0
2017	1,670,178	1,831,531	8,031	1,839,562	1,927,693	645,363	2,573,056	-96,162	2,071	-733,494	439,243	294,251	-	733,494	12.8	17.9	-5.1
2018	1,712,318	1,919,973	12,486	1,932,459	2,089,713	603,515	2,693,228	-169,740	91,421	-760,769	323,535	437,234	-	760,769	12.6	17.5	-5.0
2019(e)	1,734,925	1,890,899	7,909	1,898,808	2,424,582	913,314	3,337,896	-533,683	-537,736	-1,439,088	542,641	896,448	-	1,439,088	11.9	21.0	-9.0
2020	1,216,542	1,367,960	5,348	1,373,308	2,548,359	492,638	3,040,996	-1,180,399	-687,386	-1,667,688	-83,199	1,750,887	-	1,667,688	8.8 (f)	19.4 (f)	-10.7 (f)
2021	1,298,019	1,457,071	6,740	1,463,810	2,747,512	774,223	3,521,735	-1,290,441	-1,009,542	-2,057,925	-13,901	2,071,826	-	2,057,925	8.3 (f)	20.0 (f)	-11.7 (f)
2022	1,751,132	1,979,184	33,405	2,012,589	3,519,633	952,923	4,472,556	-1,540,448	-894,777	-2,459,967	424,822	2,035,145	-	2,459,967	8.4 (f)	18.6 (f)	-10.2 (f)
2023(g)	2,720,563	3,048,822	25,502	3,074,324	4,699,679	656,912	5,356,591	-1,650,857	173,332	-2,282,267	494,655	1,787,612	-	2,282,267	11.1	19.4	-8.3

(a) Data from 1979 are based on the economic format.
(b) Financial year was from 1 October to 30 September until 1973. From 1973, it was changed to the calendar year.
(c) Includes proceeds from the long lease of Hambantota Port received in 2017 and 2018
(d) Data is based on GDP estimates compiled by DCS. From 2010 onwards, data is based on revised GDP estimates (base year 2015) of DCS.
(e) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(f) Revised based on the revised GDP estimates for 2020-2022 released on 15 March 2024 by DCS.
(g) Provisional

Sources: Ministry of Finance, Economic Stabilization & National Policies
Central Bank of Sri Lanka

FISCAL SECTOR TABLE 7

Central Government Debt (a)

Values in Rs. million

Year (b)	Domestic Debt (c)					Foreign Debt (d)(e)	Total Debt	As a % of GDP (f)		
	Treasury Bills (d)	Rupee Loans	Treasury Bonds (e)	Other	Total			Domestic	Foreign	Total
1970	1,950	3,925	-	420	6,295	2,394	8,689	46.1	17.5	63.6
1971	2,025	4,512	-	446	6,983	2,795	9,778	49.7	19.9	69.6
1972	2,325	5,103	-	498	7,926	2,936	10,862	52.0	19.3	71.2
1973	2,250	5,812	-	522	8,584	3,705	12,289	46.6	20.1	66.8
1974	2,250	6,591	-	604	9,445	2,859	12,304	39.7	12.0	51.8
1975	2,350	7,560	-	949	10,859	3,705	14,564	40.9	13.9	54.8
1976	2,700	9,001	-	990	12,691	4,968	17,659	42.0	16.4	58.5
1977	2,500	10,391	-	1,501	14,392	10,593	24,985	39.5	29.1	68.6
1978	2,635	12,049	-	1,684	16,368	14,583	30,951	38.4	34.2	72.5
1979	3,000	14,929	-	1,705	19,634	15,840	35,474	37.5	30.2	67.7
1980	9,800	17,611	-	1,659	29,070	22,276	51,346	43.7	33.5	77.2
1981	13,920	20,025	-	1,573	35,518	29,172	64,690	41.8	34.3	76.1
1982	17,320	25,800	-	2,147	45,267	35,267	80,534	45.6	35.5	81.2
1983	17,400	31,953	-	2,416	51,769	46,688	98,457	42.6	38.4	81.0
1984	14,860	33,228	-	3,564	51,652	53,681	105,333	33.6	34.9	68.5
1985	22,280	36,570	-	3,761	62,611	67,673	130,284	38.6	41.7	80.2
1986	26,173	39,130	-	4,196	69,499	86,208	155,707	38.7	48.0	86.8
1987	29,850	44,957	-	4,190	78,997	111,812	190,809	40.2	56.8	97.0
1988	43,700	49,797	-	5,099	98,596	125,657	224,253	44.4	56.6	101.0
1989	57,246	54,217	-	6,099	117,562	156,298	273,860	46.7	62.0	108.7
1990	67,968	54,677	-	11,251	133,896	176,883	310,779	41.6	55.0	96.6
1991	72,968	66,823	-	12,328	152,119	214,579	366,698	40.9	57.6	98.5
1992	87,096	69,180	-	13,744	170,020	235,539	405,559	40.0	55.4	95.4
1993	97,196	105,707	-	10,782	213,685	270,224	483,909	42.8	54.1	96.9
1994	98,896	137,554	-	12,669	249,119	301,812	550,931	43.0	52.1	95.1
1995	113,771	157,928	-	17,711	289,410	346,286	635,696	43.3	51.9	95.2
1996	124,996	205,975	-	25,731	356,703	359,685	716,388	46.4	46.8	93.3
1997	114,996	239,475	10,000	23,269	387,740	376,331	764,071	43.6	42.3	85.8
1998	119,996	250,570	48,915	43,945	463,426	461,273	924,699	45.5	45.3	90.8
1999	124,996	262,056	104,867	51,546	543,465	507,866	1,051,331	49.1	45.9	95.1
2000	134,996	263,888	204,124	73,652	676,660	542,040	1,218,700	53.8	43.1	96.9
2001	170,995	292,813	229,174	122,983	815,965	636,741	1,452,706	58.0	45.3	103.3
2002	210,995	287,701	347,128	102,562	948,386	721,957	1,670,343	60.0	45.6	105.6
2003	219,295	248,414	487,504	69,153	1,024,366	843,882	1,868,248	56.2	46.3	102.5
2004	243,886	164,758	647,746	91,396	1,147,786	996,138	2,143,924	54.9	47.6	102.5
2005	234,174	140,563	755,966	139,415	1,270,119	956,620	2,226,739	51.8	39.0	90.8
2006	257,732	116,713	890,369	218,813	1,483,627	1,103,418	2,587,045	50.5	37.5	88.0
2007	307,012	131,509	1,023,249	257,825	1,719,595	1,326,487	3,046,082	47.9	37.1	85.1
2008	402,600	130,009	1,286,375	325,641	2,144,625	1,448,734	3,593,359	48.6	32.8	81.5
2009	441,032	112,292	1,517,909	334,119	2,405,352	1,760,467	4,165,819	49.7	36.4	86.2
2010	514,442	87,709	1,648,284	319,624	2,570,059	2,024,583	4,594,642	38.8	30.5	69.3
2011	590,885	61,961	1,823,648	331,988	2,808,482	2,329,280	5,137,762	37.5	31.1	68.6
2012	629,070	58,386	2,177,892	450,303	3,315,651	2,767,299	6,082,950	36.9	30.8	67.7
2013	700,137	55,518	2,548,323	624,810	3,928,788	2,960,424	6,889,212	39.5	29.8	69.3
2014	694,767	55,518	2,940,017	683,444	4,373,746	3,113,116	7,486,862	40.6	28.9	69.5
2015	658,240	24,088	3,401,211	971,620	5,055,159	3,544,031	8,599,190	43.7	30.6	74.3
2016	779,581	24,088	3,806,353	823,051	5,433,073	4,045,796	9,478,869	42.4	31.6	74.0
2017	697,154	24,088	3,892,408	1,050,565	5,664,215	4,718,618	10,382,832	39.4	32.8	72.2
2018	746,887	24,088	4,197,323	1,102,703	6,071,001	5,959,547	12,030,548	39.5	38.8	78.4
2019	873,943	24,088	4,606,232	1,325,997	6,830,260	6,201,283	13,031,543	42.9	39.0	81.9
2020 (g)	1,620,705	24,088	5,713,300	1,706,975	9,065,068	6,052,179	15,117,247	57.9	38.7	96.6
2021	2,270,508	24,088	6,966,218	1,836,410	11,097,223	6,516,958 (h)	17,614,181	63.0	37.0	100.0
2022 (i)(j)	4,113,907	24,088	8,709,057	2,186,824 (k)	15,033,876 (k)	12,458,155 (h)(l)	27,492,031	62.5 (k)	51.8 (l)	114.2 (k)(l)
2023 (i)(j)	4,017,035	-	12,002,337	1,032,482 (k)	17,051,854 (k)	11,644,094 (h)(l)	28,695,949	61.7 (k)	42.1 (l)	103.9 (k)(l)

(a) As per the guidelines of compiling government debt statistics in the Manual of Government Finance Statistics published by the IMF in 2014, non resident holdings of outstanding SLDBs have been classified under foreign debt and resident holdings of outstanding ISBs of the Sri Lankan Government have been classified under domestic debt from 2019 onwards. Further, debt statistics are presented on net basis (net of deposits).

(b) From 1950 to 1973, the outstanding balance is reported as at end September and thereafter as at end December.

(c) From 2023 onwards, domestic debt compilation method was changed and is based on the data confirmed by the Ministry of Finance, Economic Stabilization & National Policies.

(d) Rupee denominated Treasury bills issued to foreign investors from 2008 onwards are excluded from domestic debt and included in foreign debt.

(e) Rupee denominated Treasury bonds issued to foreign investors from 2007 onwards are excluded from domestic debt and included in foreign debt.

(f) Data are based on GDP estimates compiled by DCS. From 2010 onwards, data are based on the GDP estimates (base year 2015) of DCS. GDP estimates for 2020 - 2022 are revised based on the GDP estimates released on 15 March 2024 by DCS.

(g) The central government debt statistics at end 2019 could increase should the adjustment for payment arrears in government expenditure as per the Ministry of Finance be incorporated into the net financing of the budget deficit in 2019. However, such an adjustment would have no impact on the outstanding central government debt at end 2020.

(h) Foreign loan debt statistics and classification of foreign debt for 2021, 2022 and 2023 are prepared based on the data sourced from the CS-DRMS maintained by the Ministry of Finance, Economic Stabilization & National Policies, and extracted on 09 March 2023, 10 March 2023 and 26 February 2024.

(i) Provisional

(j) The outstanding central government debt excludes several debt service payments that became overdue after 12 April 2022, the date of which the Interim Policy regarding the servicing of Sri Lanka's external public debt was announced by the Ministry of Finance, Economic Stabilization & National Policies. These debt service payments comprise of overdue interest payments of affected debt which deemed to be capitalised as per the Interim Policy. Further, December 2022 balances excluded several overdue interest payments in relation to SLDBs from April 2022 till end 2022.

(k) Includes outstanding balance of the government guaranteed foreign currency debt of the Ceylon Petroleum Corporation that was absorbed into central government debt

(l) From December 2022 onwards, several outstanding project loans which were previously classified under Ceylon Electricity Board, Airport and Aviation Services Ltd. and Sri Lanka Ports Authority were absorbed into central government debt.

Sources: Ministry of Finance, Economic Stabilization & National Policies
Central Bank of Sri Lanka

MONETARY SECTOR — TABLE 8

Monetary Survey (M_{2b})(a)(b)

Values in Rs. million

End Period	Currency	Demand Deposits (d)	Narrow Money Supply (M_1)	Broad Money Supply (M_2)	Broad Money Supply (M_{2b})	Net Foreign Assets (NFA): Monetary Authorities (e)(f)	Net Foreign Assets (NFA): Commercial Banks	Net Foreign Assets (NFA): Total	Net Domestic Assets (NDA) (c): Claims on Government (Net) (g)	Net Domestic Assets (NDA) (c): Claims on Public Corporations/ SOBEs	Net Domestic Assets (NDA) (c): Claims on Private Sector	Net Domestic Assets (NDA) (c): Total	Reserve Money	Money Multiplier M_1	Money Multiplier M_2	Money Multiplier M_{2b}	Velocity of Money (M_{2b})
1970	935	1,032	1,967	3,115	-	-	-	-	-	-	-	-	1,324	1.49	2.35	-	-
1971	1,115	1,034	2,149	3,435	-	-	-	-	-	-	-	-	1,495	1.44	2.30	-	-
1972	1,202	1,279	2,481	3,974	-	-	-	-	-	-	-	-	1,773	1.40	2.24	-	-
1973	1,437	1,341	2,778	4,154	-	-	-	-	-	-	-	-	2,158	1.29	1.92	-	-
1974	1,539	1,406	2,946	4,569	-	-	-	-	-	-	-	-	2,256	1.31	2.03	-	-
1975	1,610	1,478	3,088	4,777	-	-	-	-	-	-	-	-	2,144	1.44	2.23	-	-
1976	2,081	2,085	4,166	6,321	-	-	-	-	-	-	-	-	2,700	1.54	2.34	-	-
1977	2,792	2,574	5,366	8,717	-	-	-	-	-	-	-	-	3,840	1.40	2.27	-	-
1978	3,016	2,921	5,936	10,891	-	-	-	-	-	-	-	-	4,262	1.39	2.56	-	-
1979	3,774	3,895	7,669	15,057	-	-	-	-	-	-	-	-	5,299	1.45	2.84	-	-
1980	4,181	5,247	9,428	19,860	-	-	-	-	-	-	-	-	6,286	1.50	3.16	-	-
1981	4,823	5,202	10,024	24,447	-	-	-	-	-	-	-	-	7,505	1.34	3.26	-	-
1982	5,988	5,772	11,760	30,510	-	-	-	-	-	-	-	-	9,119	1.29	3.35	-	-
1983	7,200	7,548	14,748	37,257	-	-	-	-	-	-	-	-	11,642	1.27	3.20	-	-
1984	8,561	8,263	16,824	43,427	-	-	-	-	-	-	-	-	13,710	1.23	3.17	-	-
1985	9,816	8,946	18,761	48,409	-	-	-	-	-	-	-	-	16,895	1.11	2.87	-	-
1986	11,570	9,609	21,179	50,860	-	-	-	-	-	-	-	-	18,031	1.17	2.82	-	-
1987	13,495	11,588	25,083	58,335	-	-	-	-	-	-	-	-	19,273	1.30	3.03	-	-
1988	18,487	13,892	32,379	67,946	-	-	-	-	-	-	-	-	25,564	1.27	2.66	-	-
1989	19,650	15,688	35,338	76,434	-	-	-	-	-	-	-	-	26,791	1.32	2.85	-	-
1990(h)	22,120	17,477	39,597	90,546	-	-	-	-	-	-	-	-	31,579	1.25	2.87	-	-
1991	24,852	21,748	46,600	110,575	120,347	9,836	468	10,304	35,747	19,812	87,767	110,043	40,056	1.16	2.76	3.00	3.09 (i)
1992	27,281	22,776	50,057	129,799	143,822	18,730	-3,493	15,237	33,946	23,174	110,877	128,585	44,858	1.12	2.89	3.21	3.27
1993	32,133	27,222	59,355	160,136	180,486	51,392	-9,527	41,865	29,766	15,414	134,181	138,622	56,468	1.05	2.84	3.20	3.12
1994	38,906	31,555	70,461	191,670	214,306	64,571	-5,811	58,760	31,362	11,407	163,278	155,546	68,055	1.04	2.82	3.15	2.98
1995	42,198	33,019	75,217	228,536	259,442	73,662	-8,917	64,745	38,662	13,305	210,703	194,696	78,586	0.96	2.91	3.30	2.89
1996	42,565	35,638	78,203	253,201	288,657	73,541	-10,467	63,074	47,131	15,491	229,773	225,582	85,509	0.91	2.96	3.38	2.80
1997	45,679	40,172	85,852	288,258	333,668	89,930	565	90,495	45,250	14,598	263,198	243,172	83,736	1.03	3.44	3.98	2.89
1998	51,767	44,502	96,269	316,174	377,740	101,744	3,904	105,648	64,618	10,031	294,868	272,091	92,866	1.04	3.40	4.07	2.89
1999	58,481	50,074	108,555	358,076	428,319	89,287	12,805	102,092	93,915	13,046	325,927	326,228	100,444	1.08	3.56	4.26	2.76
2000	62,646	55,831	118,477	404,669	483,421	57,947	11,582	69,529	147,304	38,254	364,369	413,892	105,163	1.13	3.85	4.60	2.80
2001	65,536	56,674	122,210	450,726	549,138	84,346	-10,216	74,130	201,311	40,811	396,754	475,009	112,522	1.09	4.01	4.88	2.77
2002	75,292	64,069	139,361	510,395	622,495	117,376	-6,733	110,643	192,994	43,031	444,371	511,852	126,411	1.10	4.04	4.92	2.69
2003	85,601	76,034	161,635	580,747	717,855	164,596	2,497	167,093	176,236	36,192	519,444	550,760	141,447	1.14	4.11	5.08	2.74
2004	99,669	88,784	188,453	687,964	858,644	151,694	18,523	170,218	220,462	41,171	634,310	688,427	170,967	1.10	4.02	5.02	2.69
2005	114,070	116,632	230,702	822,931	1,022,277	196,925	4,405	201,330	249,565	16,672	801,149	820,948	197,932	1.17	4.16	5.16	2.63
2006	135,019	124,666	259,685	993,264	1,204,550	229,860	-58,669	171,191	357,289	31,555	993,159	1,033,360	239,863	1.08	4.14	5.02	2.66
2007	147,183	119,409	266,592	1,147,742	1,404,019	292,927	-64,935	227,992	374,101	49,167	1,184,519	1,176,027	264,419	1.01	4.34	5.31	2.73
2008	155,023	122,300	277,323	1,282,194	1,522,776	148,157	-70,457	77,700	582,907	46,991	1,267,601	1,445,076	268,425	1.03	4.78	5.67	3.01
2009	181,840	154,870	336,710	1,536,755	1,806,169	412,202	-10,323	401,880	640,326	73,233	1,194,189	1,404,288	303,537	1.11	5.06	5.95	2.90
2010	216,549	190,643	407,192	1,813,000	2,091,408	505,463	-128,021	377,442	627,185	144,578	1,491,099	1,713,966	360,511	1.13	5.03	5.80	3.45
2011	242,871	195,836	438,707	2,192,603	2,491,740	340,090	-242,033	98,057	833,610	198,500	2,005,860	2,393,683	439,504	1.00	4.99	5.67	3.27
2012	251,539	198,510	450,049	2,593,185	2,929,070	396,468	-422,299	-25,831	1,045,232	292,477	2,358,421	2,954,901	484,362	0.93	5.35	6.05	3.27
2013	264,607	219,971	484,578	3,058,793	3,417,853	529,128	-605,453	-76,325	1,301,342	365,098	2,534,343	3,494,178	488,586	0.99	6.26	7.00	3.10
2014	329,426	282,729	612,155	3,460,558	3,875,853	688,007	-672,881	15,126	1,435,900	450,924	2,753,322	3,860,727	577,912	1.06	5.99	6.71	2.97
2015	388,057	326,931	714,988	4,057,212	4,565,917	576,187	-874,350	-298,163	1,759,492	530,669	3,441,874	4,864,081	673,432	1.06	6.02	6.78	2.76
2016	429,502	347,123	776,624	4,823,559	5,405,596	558,589	-789,827	-231,238	1,972,133	513,768	4,185,777	5,636,834	856,147	0.91	5.63	6.31	2.59
2017	439,396	353,903	793,299	5,665,313	6,308,062	846,139	-724,601	121,538	2,168,517	536,982	4,799,215	6,186,524	939,793	0.84	6.03	6.71	2.43
2018	473,066	357,727	830,793	6,427,330	7,128,297	750,541	-817,548	-67,007	2,516,711	755,380	5,561,351	7,195,304	961,096	0.86	6.69	7.42	2.27
2019	494,208	371,259	865,467	6,912,710	7,624,121	895,997	-795,296	100,702	2,795,927	817,953	5,796,859	7,523,419	932,604	0.93	7.41	8.18	2.16
2020	641,010	536,140	1,177,150	8,495,788	9,405,734	526,779	-736,247	-209,468	4,548,061	1,002,174	6,170,937	9,615,202	964,440	1.22	8.81	9.75	1.84
2021	784,450	675,446	1,459,895	9,638,905	10,647,309	-387,263	-594,713	-981,976	5,832,420	1,188,103	6,981,428	11,629,285	1,305,809	1.12	7.38	8.15	1.73
2022	742,042	711,555	1,453,597	10,497,052	12,289,637	-1,613,861	-152,952	-1,766,813	7,471,108	1,749,708 (j)	7,411,456 (j)	14,056,450	1,349,389	1.08	7.78	9.11	2.04 (j)
2023	900,136	757,906	1,658,043	11,485,069	13,189,113	-837,336	381,238	-456,098	8,284,991	769,810	7,366,418	13,645,211	1,328,737	1.25	8.64	9.93	2.19

Source: Central Bank of Sri Lanka

(a) All values except Money Multiplier and Velocity of Money are in Rs. million
(b) M_{2b} is based on the aggregated data pertaining to the Central Bank, and both Domestic Banking Units (DBUs) and Offshore Banking Units (OBUs) of LCBs operating in Sri Lanka. Definitional changes have been adopted in aggregating DBUs and OBUs to avoid double counting and misclassification of assets and liabilities.
(c) NDA is equal to the sum of net credit to Government (NCG), claims on public corporations/State Owned Business Enterprises (SOBEs), claims on private sector and other items (net).
(d) Demand deposits held by the public
(e) This includes NFA of the Central Bank as well as the Government's Crown Agent's balance reported by the Department of State Accounts.
(f) The Central Bank adopted International Accounting Standards in January 2002. Accordingly, since then foreign assets are recorded at market value, which reflects its impact in NFA and NDA of Monetary Authorities. Therefore, the values for the period prior to January 2002 are not comparable with the values thereafter.
(g) Credit extended to the Government by the banking system, net of government deposits with banks and government's cash balances.
(h) Monetary data since 1990 were reclassifed to be consistent with standard international practices. Accordingly, rupee deposits held by non-residents are excluded from the total demand, time and savings deposits held by the public. The excluded amount is classified under foreign liabilities.
(i) Velocity of money, which is calculated based on annual average M_{2b} is computed based on year-end M_{2b} only for 1991.
(j) Revised

MONETARY SECTOR TABLE 9

Interest Rates

Per cent per annum

End Period	SDFR (a)	SLFR (b)	SRR (c)	Government Securities			Commercial Banks					Bank Rate (d)	Legal Rate of Interest/ Market Rate of Interest(e)
				Primary Market Yields			Average Weighted Call Money Rate	Deposit Rates		Lending Rates on Loans Secured by			
				91-day Treasury Bill	182-day Treasury Bill	364-day Treasury Bill		Savings Deposits	12-Month Fixed Deposits	Stock in Trade	Immovable Property		
1970	-	-	12.00	4.76	-	-	-	4.50	4.50-4.75	8.50-12.00	8.00-11.00	6.50	-
1971	-	-	12.00	5.00	-	-	-	4.50	4.50-4.75	8.50-12.00	8.00-11.00	6.50	-
1972	-	-	12.00	5.00	-	-	-	4.50	4.50-4.75	8.50-12.00	8.00-11.00	6.50	-
1973	-	-	12.00	5.00	-	-	-	4.50	4.50-4.75	8.50-12.00	8.00-11.00	6.50	-
1974	-	-	12.00	5.00	-	-	-	4.50	4.50-4.75	8.50-12.50	8.00-12.00	6.50	-
1975	-	-	12.00	5.00	-	-	-	5.50	7.00-7.50	8.50-13.00	8.50-12.00	6.50	-
1976	-	-	12.00	5.00	-	-	-	5.50	7.00-7.50	8.50-14.00	8.50-14.00	6.50	-
1977	-	-	12.00	9.00	-	-	-	7.20	14.00-15.00	13.00-19.00	13.00-19.00	10.00	-
1978	-	-	12.00	9.00	-	-	-	7.20	14.00-15.00	13.00-19.00	13.00-19.00	10.00	-
1979	-	-	12.00	9.00	-	-	-	5.00-9.00	14.00-15.00	13.00-20.00	13.00-19.00	10.00	-
1980	-	-	12.00	13.00	-	-	-	10.00-14.00	20.00	15.00-28.00	13.00-28.00	12.00	12.00
1981	-	-	14.00	13.00	-	-	-	10.00-14.00	20.00-22.00	15.00-28.00	13.00-28.00	14.00	12.00
1982	-	-	14.00	13.00	-	-	-	10.00-14.50	15.00-22.00	16.00-30.00	16.00-30.00	14.00	12.00
1983	-	-	16.00	12.00	-	-	-	10.00-15.00	16.00-25.00	13.00-30.00	18.00-28.00	13.00	12.00
1984	-	-	16.00	14.00	-	-	-	10.00-15.00	14.00-22.00	13.00-30.00	16.00-30.00	13.00	12.00
1985	-	-	18.00	11.50	-	-	-	10.00-13.50	12.00-18.00	13.00-28.00	11.00-30.00	11.00	12.00
1986	-	-	18.00	11.31	-	-	-	6.00-12.00	8.50-14.00	12.00-30.00	12.00-30.00	11.00	12.00
1987	-	-	10.00	10.77	-	-	-	6.00-11.00	8.50-14.00	14.00-30.00	12.00-30.00	10.00	12.00
1988	-	-	15.00	18.86	-	-	-	5.00-11.00	9.00-15.50	10.00-28.00	9.00-26.00	10.00	12.00
1989	-	-	15.00	18.10	18.20	19.10	-	5.00-14.00	11.00-20.50	9.80-30.00	9.80-28.00	14.00	12.00
1990	-	-	15.00	17.41	18.02	18.36	-	5.00-14.00	11.00-21.00	10.00-30.00	9.00-28.00	15.00	18.00
1991	-	-	13.00	16.33	16.38	17.43	-	6.50-14.00	10.00-20.00	9.80-30.00	9.80-28.00	17.00	18.00
1992	-	-	13.00	17.67	18.05	18.99	-	6.50-14.00	13.50-20.00	10.00-30.00	9.00-30.00	17.00	18.00
1993	16.50	-	15.00	18.09	18.47	19.38	-	5.50-14.00	13.50-17.50	16.50-30.00	16.50-28.00	17.00	18.00
1994	20.00	-	15.00	18.73	19.29	19.43	-	5.50-13.00	10.00-17.00	15.00-30.00	16.50-28.00	17.00	18.00
1995	16.50	-	15.00	19.26	18.91	18.97	-	5.00-13.00	10.00-17.00	17.00-30.00	17.00-28.00	17.00	18.00
1996	12.75	-	15.00	17.45	17.40	17.38	-	4.50-13.00	12.00-17.75	15.00-30.00	15.00-28.00	17.00	18.00
1997	11.00	12.85	12.00	9.97	10.09	10.21	-	3.00-11.00	8.50-15.25	14.00-28.00	14.00-29.00	17.00	12.70
1998	11.25	15.00	12.00	12.01	12.34	12.59	-	2.00-10.00	9.00-13.00	7.70-30.00	7.50-33.00	17.00	11.50
1999	9.25	13.48	11.00	11.79	12.29	12.77	-	2.00-10.00	9.00-12.50	12.00-28.00	13.00-29.00	16.00	9.70
2000	17.00	20.00	11.00	17.77	17.90	18.22	-	2.00-11.00	9.00-15.00	14.00-28.50	10.00-29.00	25.00	9.10
2001	12.00	14.00	10.00	12.92	13.27	13.74	12.65	4.00-12.00	9.50-14.50	12.00-26.50	12.00-30.00	18.00	9.21
2002	9.75	11.75	10.00	9.92	9.89	9.91	10.39	3.50-11.00	7.50-11.00	12.00-25.00	10.00-29.00	18.00	11.11
2003	7.00	8.50	10.00	7.35	7.30	7.24	7.59	2.10-7.25	5.00-7.75	7.00-23.00	7.00-29.00	15.00	9.58
2004	7.50	9.00	10.00	7.25	7.65	7.65	9.73	3.00-7.75	5.50-9.75	9.00-23.00	8.00-22.00	15.00	6.30
2005	8.75	10.25	10.00	10.10	10.32	10.37	10.73	3.00-10.25	5.50-11.50	9.00-23.00	10.00-22.50	15.00	5.16
2006	10.00	11.50	10.00	12.76	12.78	12.96	14.47	3.00-10.50	5.50-14.00	8.36-27.00	7.86-27.00	15.00	5.70
2007	10.50	12.00	10.00	21.30	19.99	19.96	24.99	3.00-16.50	8.50-20.00	10.00-30.00	10.00-30.00	15.00	6.86
2008	10.50	12.00	7.75	17.33	18.57	19.12	14.66	3.00-16.50	8.50-20.25	10.00-30.00	10.00-30.00	15.00	9.16
2009	7.50	9.75	7.00	7.73	8.73	9.33	9.07	1.50-10.50	7.25-19.00	9.50-30.00	9.15-30.00	15.00	11.32
2010	7.25	9.00	7.00	7.24	7.35	7.55	8.03	1.50-9.50	5.05-17.00	8.20-25.00	8.00-28.00	15.00	11.33
2011	7.00	8.50	8.00	8.68	8.71	9.31	8.97	1.00-8.50	5.55-11.00	5.15-24.00	4.50-26.00	15.00	7.26
2012	7.50	9.50	8.00	10.00	11.32	11.69	9.83	0.75-10.50	5.00-17.00	9.50-25.00	4.50-26.00	15.00	6.48
2013	6.50	8.50	6.00	7.54	7.85	8.29	7.66	0.75-9.14	6.00-16.00	8.50-23.00	5.00-26.00	15.00	8.59
2014	6.50	8.00	6.00	5.74	5.84	6.01	6.21	0.50-8.00	3.95-12.00	5.90-24.00	4.75-24.00	15.00	10.34
2015	6.00	7.50	6.00	6.45	6.83	7.30	6.40	0.50-8.00	3.95-15.00	6.00-24.00	4.74-24.00	15.00	7.76
2016	7.00	8.50	7.50	8.72	9.63	10.17	8.42	0.50-9.00	4.50-15.00	3.00-24.00	1.50-24.00	15.00	5.98
2017	7.25	8.75	7.50	7.69	8.30	8.90	8.15	0.50-9.50	4.89-15.00	5.25-28.00	4.00-30.00	15.00	7.06
2018	8.00	9.00	6.00	10.01	9.99	11.20	8.95	0.50-8.50	4.53-15.00	7.93-28.00	4.00-28.00	15.00	9.08
2019	7.00	8.00	5.00	7.51	8.02	8.45	7.45	0.20-7.50	3.55-15.00	4.47-28.00	4.00-28.00	15.00	11.50
2020	4.50	5.50	2.00	4.69	4.80	5.05	4.55	0.10-7.00	0.25-15.00	3.95-28.00	4.00-28.00	8.50	11.64
2021	5.00	6.00	4.00	8.16	8.33	8.24	5.95	0.05-6.35	0.15-15.00	4.00-28.00	3.02-28.00	9.00	10.12
2022	14.50	15.50	4.00	32.64	32.20	29.27	15.50	0.25-6.00	4.50-30.00	5.66-42.48	2.81-39.00	30.22	7.48
2023	9.00	10.00	2.00	14.51	14.16	12.93	9.24	0.25-13.00	1.00-22.00	5.66-28.00	1.00-34.97	14.50	16.97

Source: Central Bank of Sri Lanka

(a) Renamed w.e.f. 02 January 2014 as the Standing Deposit Facility Rate (SDFR). Previously named as the Repo Rate.

(b) Renamed w.e.f. 02 January 2014 as the Standing Lending Facility Rate (SLFR). Previously named as the Reverse Repo Rate.

(c) The Statutory Reserve Ratio (SRR) is the proportion of rupee deposit liabilities that licensed commercial banks are required to maintain as a deposit with the Central Bank, subject to an allowance for till cash balances. Prior to 2001, SRR applicable on rupee demand deposits is reported since different SRRs were applicable on different types of deposits, including foreign currency deposits.

(d) The rate at which the Central Bank grants advances to banking institutions as the lender of last resort. Up to April 2020, the Bank Rate was a fixed rate determined by the Monetary Board. Since 16 April 2020, the Bank Rate was allowed to be determined automatically with a margin of 300 basis points above SLFR. Since 03 November 2022, the Bank Rate was commensurately adjusted in line with the latest available Average Weighted New Deposit Rate (AWNDR) with a margin of +700 basis points. Since 02 January 2023, the Bank Rate was commensurately adjusted in line with the latest available AWNDR with a margin of +300 basis points, rounded off to the nearest multiple of half a percentage point. Since 01 March 2023, the Bank Rate was delisted from monetary policy instruments and considered as a policy instrument that the Central Bank uses as the lender of last resort (LOLR) to support the stability of the banking and financial system.

(e) The Legal Rate is defined under the Civil Procedure Code (Amendment) Act No. 6 of 1990 and is applicable to any legal action for the recovery of a sum of money. The Market Rate is defined under the Debt Recovery (Special Provisions) Act No. 2 of 1990 and is applicable only in relation to legal actions instituted by lending institutions for the recovery of debt exceeding Rs. 150,000 arising out of commercial transactions, where there is no agreed rate of interest. The Governing Board of the Central Bank determines the Legal Rate and Market Rate for each year and publishes in the Government Gazette in the month of December to be applicable for the forthcoming year. The Legal Rate and the Market Rate for the year 2024 is 15.15 per cent per annum.

ONLINE VERSION OF STATISTICAL APPENDIX

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Table

2. EXTERNAL SECTOR

3. FISCAL SECTOR

4. MONETARY AND FINANCIAL SECTOR

ONLINE VERSION OF SPECIAL STATISTICAL APPENDIX

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