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OVERVIEW

The Sri Lankan economy, which experienced below potential growth in recent years, encountered renewed challenges amidst the outbreak of COVID-19. Reflecting the combined effects of the spread of COVID-19 locally and the introduction of lockdown measures, the slowdown in global economic activity, and the adverse weather conditions in the country, the economy contracted by 1.6 per cent in the first quarter of 2020, year-on-year, as per the provisional estimates of the Department of Census and Statistics (DCS). GDP estimates for the second quarter have not yet been released by the DCS citing difficulties in capturing the true nature of disruptions and new activities as well as novel ways of working that emerged this year with the onset of the pandemic. Nevertheless, high frequency data point towards a strong recovery in many areas of economic activity in more recent months prior to the resurgence of COVID-19 infections and resultant containment measures in October 2020. The recovery of activity was facilitated by the concerted efforts of the Government and the Central Bank. Relief measures and large scale policy stimuli were introduced to help businesses and individuals affected by the pandemic. The Central Bank initiated a series of monetary easing measures, including multiple reductions of the policy rates and the Statutory Reserve Ratio (SRR), thereby injecting ample liquidity into the market and lowering borrowing costs significantly, given the unprecedented circumstances caused by the pandemic. The adverse effects of the pandemic also prompted the introduction of concessional credit schemes to fulfil the needs of small and medium scale enterprises (SMEs), alongside debt moratoria for businesses and individuals affected by the pandemic. Responding to these measures, credit to the private sector showed a significant improvement in August and September 2020, reversing the slowdown observed in previous months. The Central Bank also provided required funds to the Government by purchasing Treasury bills at primary auctions. Increased credit flows to the public sector mainly contributed to the acceleration of broad money growth during the nine months ending September 2020. Meanwhile, the financial system withstood the adverse impact stemming from domestic and global economic slowdown, while supporting the revival of the economy. In the meantime, the external sector, which was severely affected at the initial stages of the pandemic, marked a notable rebound with an improvement in the trade balance, a revival of workers' remittances, a stable exchange rate, and a reasonable level of official reserves. The external sector stability was supported by the restrictions placed on non-essential imports and selected outflows as well as low global petroleum prices. Proactive measures taken by the Government and the Central Bank and the unexpected rebound in workers' remittances since June 2020 helped partly cushion the impact of the significant decline in earnings from tourism due to persistent global travel restrictions. The financial account of the balance of payments (BOP) experienced subdued performance as the pandemic affected cross border financial flows. However, gross official reserves remained at adequate levels, benefiting from inflows to the Government and the Central Bank, including the net purchases of foreign exchange from the domestic foreign exchange market. Amidst adverse speculation and Sovereign rating downgrades, the Government met all its debt service obligations, including the settlement of the International Sovereign Bond (ISB) that matured in early October 2020. Meanwhile, the performance of the fiscal sector was significantly affected by the decline of government revenue amidst the economic fallout, while the large amount of outstanding bills brought forward from the previous year weighed on the expenditure management efforts of the Government. The Government's plans to reduce the budget deficit over the medium term remain critical in ensuring macroeconomic stability and the sustainability of public debt in the period ahead. Meanwhile, subdued demand conditions and well anchored inflation expectations helped maintain inflation broadly within the target range of 4-6 per cent thus far during 2020, although a transitory acceleration was observed due to the rise in food prices. Inflation is expected to be maintained in this range over the medium term with appropriate policy measures, within the flexible inflation targeting framework of the Central Bank. Meanwhile, economic growth is expected to rebound in 2021, and maintain the upward trajectory over the medium term, supported by pro-growth policies of the Government. Policies to boost domestic production are also expected to ease the pressure on the external sector of the economy on a sustained basis. Nevertheless, the success of containing COVID-19 locally and globally remains critical in determining the pace and the magnitude of domestic economic recovery and revival in the period ahead.

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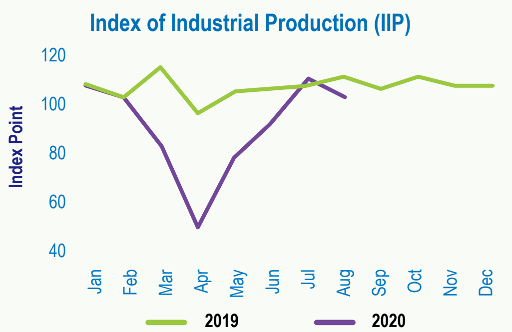
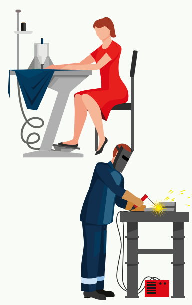
Figure 1.1
Recovery of the Sri Lankan Economy

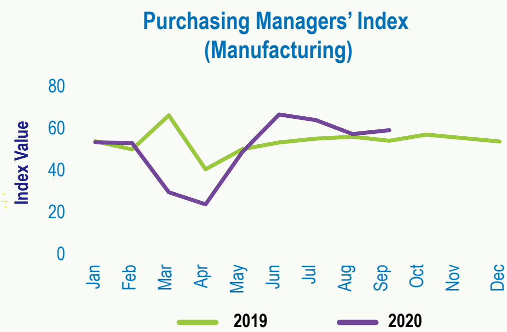
Available economic indicators show that by Q3 2020, many sectors of the Sri Lankan economy recovered from the slump in Q2...

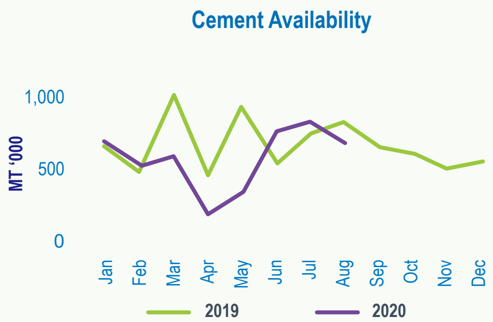
However, the resurgence of COVID-19 infections in October 2020 could challenge this momentum...

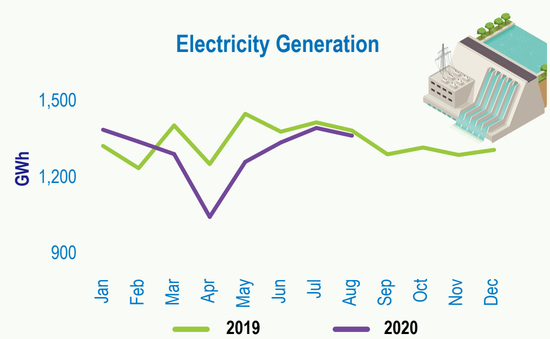
The **Industry Sector** recovered to a great extent in Q3 2020, following the setback observed during the nationwide lockdown...

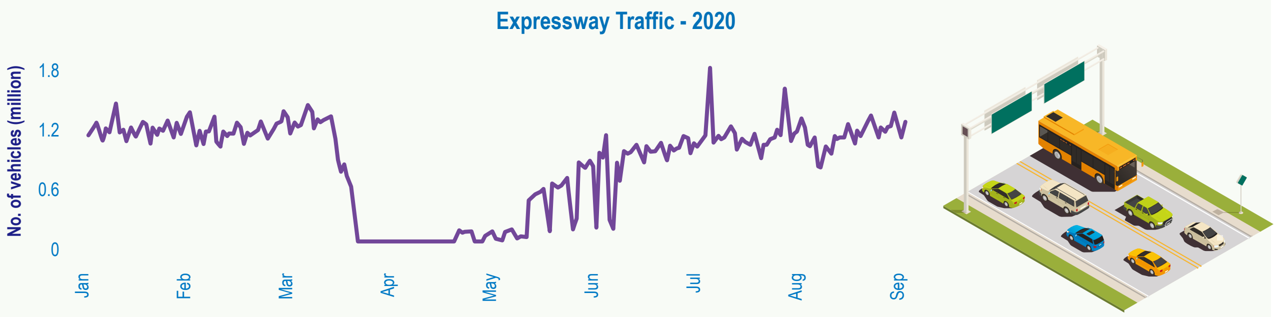




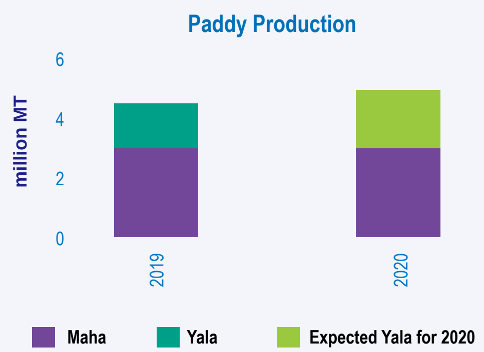


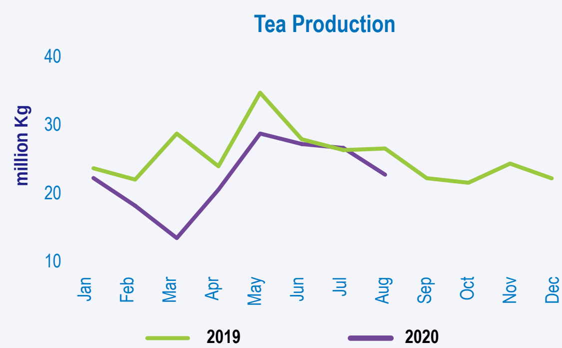






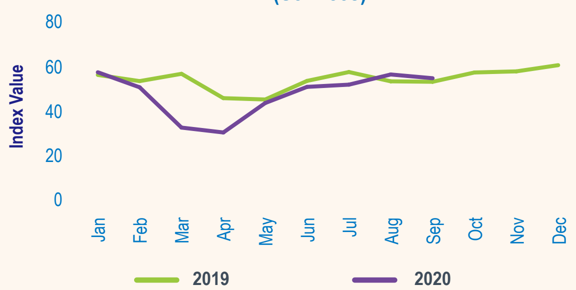
Several subsectors of the **Agriculture Sector**, such as paddy, recorded a healthy level of production...



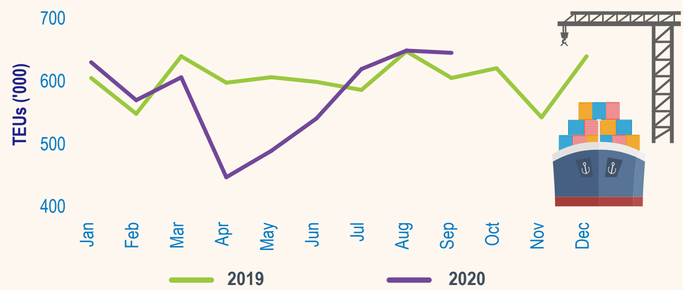


Most activities in the **Services Sector** reached pre-pandemic levels by Q3 2020, despite the immediate impact of the pandemic...

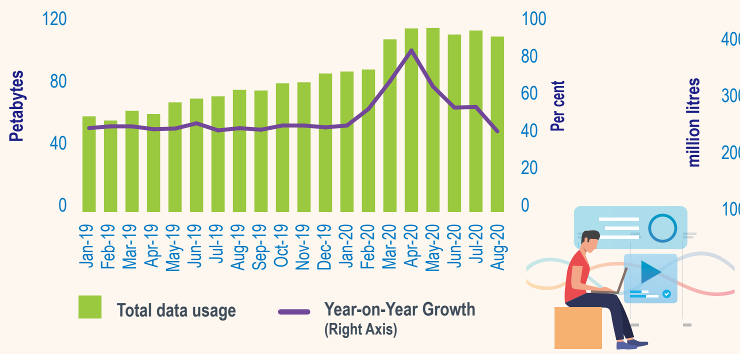
Purchasing Managers' Index (Services)



Container Handling activities

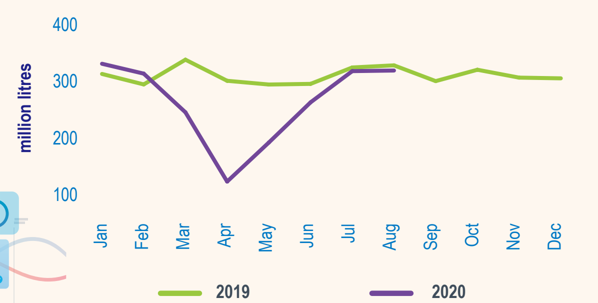


Broadband Data Usage



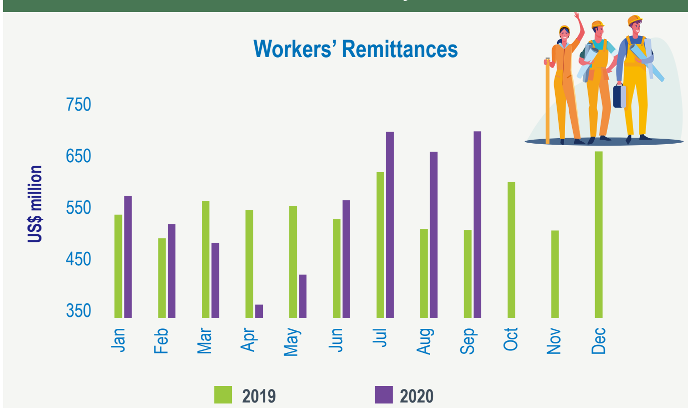
Note: 1 Petabyte (PB) = 1 million Gigabytes (GB)

CPC Petroleum Sales to the Transport Sector

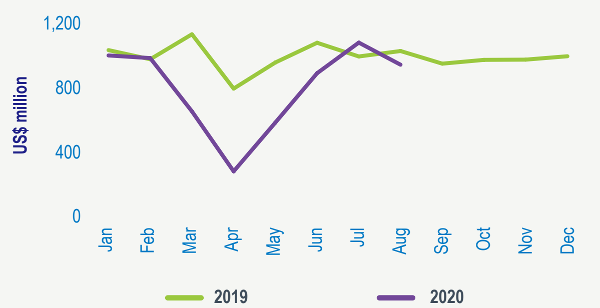


A broad based recovery was also observed in **Other Macroeconomic Indicators** during Q3 2020...

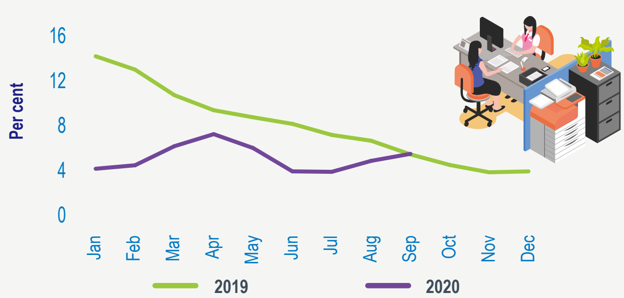
Workers' Remittances



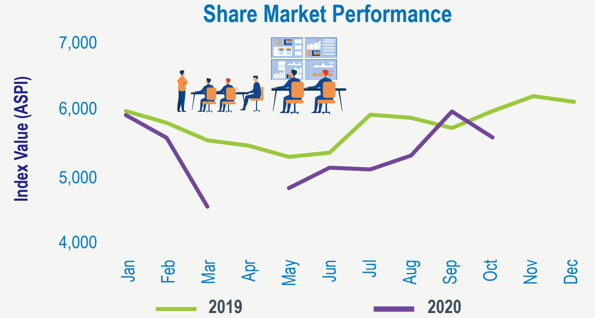
Export Earnings



Private Sector Credit Growth (Y-o-Y)



Share Market Performance



Sources: *Central Bank of Sri Lanka, Ceylon Electricity Board, Ceylon Petroleum Corporation, Colombo Stock Exchange, Department of Agriculture, Department of Census and Statistics, Road Development Authority, Sri Lanka Customs, Sri Lanka Ports Authority, Sri Lanka Tea Board and industry participants*

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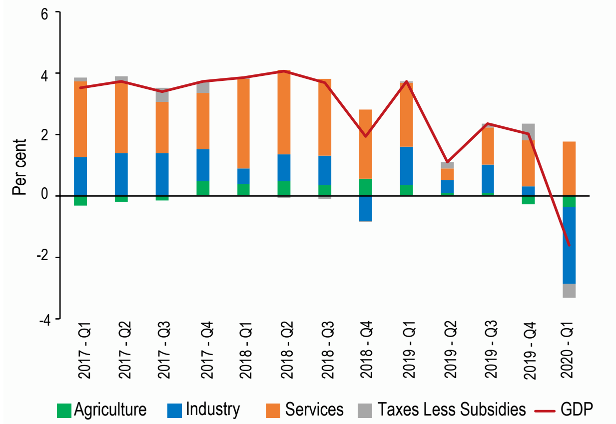
Sectoral Developments

Real Sector and Inflation

- **As per the provisional estimates of the DCS, the Sri Lankan economy contracted by 1.6 per cent, year-on-year, during the first quarter of 2020 reflecting the combined impact of disruptions caused by COVID-19 related lockdowns, subdued global demand amidst the pandemic, and adverse weather conditions.**[1] The agriculture sector contracted by 5.6 per cent in the first quarter of 2020, compared to a growth of 5.0 per cent recorded in the first quarter of 2019. The industry sector activities also contracted by 7.8 per cent in the first quarter of 2020, in comparison to the growth of 3.9 per cent registered in the same quarter of the previous year. Despite the immediate impact of the pandemic on the services sector, it recorded a moderate growth of 3.1 per cent in the first quarter of 2020, in comparison to a growth of 3.7 per cent recorded in the corresponding period of 2019.

- **The islandwide lockdown imposed from mid March to mid May amidst the spread of COVID-19 resulted in a low labour force participation rate (LFPR) and high unemployment rate in the first half of 2020 as per the DCS**. The unemployment rate increased to 5.6 per cent in the first half of 2020, compared to the unemployment rate of 4.8 per cent in the corresponding period in 2019. The male unemployment rate increased from 3.4 per cent in the first half of 2019 to 3.9 per cent in the same period in 2020, and the female unemployment rate increased to 8.9 per cent in the first half of 2020 from 7.2 per cent in the corresponding period of the previous year. Unemployment among youth aged 20-29 years rose to 18.5 per cent in the first half of 2020 from 14.8 per cent in the same period of the preceding year. Further, unemployment among females with an educational attainment of GCE Advanced Level or above, increased from 12.3 per cent in the first half of 2019 to 14.5 per cent in the first half of 2020. Meanwhile, the LFPR declined to 50.6 per cent in the first half of 2020 from 52.6 per cent in the corresponding period of the preceding year. The male LFPR reduced from 73.4 per cent in the first half of 2019 to 72.1 per cent in the same period of 2020, while the female LFPR declined to 32.0 per cent in the first half of 2020 from 34.7 per cent recorded in the same period of the preceding year. Amongst the employed population, the shares of employment in agriculture, industry and services sectors in the first half of 2020 were 26.8 per cent, 27.0 per cent and 46.2 per cent, respectively. In relation to quarterly estimates, the unemployment rate, which was estimated at 5.7 per cent in the first quarter of 2020, declined to 5.4 per cent in the second quarter, suggesting that economic activity remained without much deterioration in the second quarter.

Figure 1.2
Contribution to Quarterly Real GDP Growth (Y-o-Y)

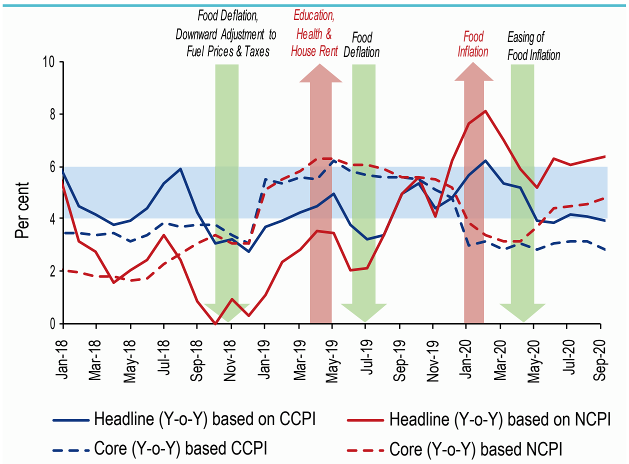


Source: Department of Census and Statistics

- **Subdued demand conditions and well anchored inflation expectations helped maintain inflation broadly within the 4-6 per cent range thus far in 2020, in spite of the frequent escalation of food inflation.** Year-on-year headline inflation based

1 National accounts estimates of the first quarter of 2020 published by the DCS could entail large measurement errors as data collection was affected by the lockdown, while the conventional data collection methods were unable to capture new activities that emerged during the pandemic, such as work from home, door-to-door service delivery, etc. These deficiencies are likely to underestimate GDP in the second quarter of 2020 to a great extent, resulting in a worse than actual statistical representation of the contraction, as the impact of the lockdown was larger during April and May 2020. Against this backdrop, the DCS announced that a further review is needed on the methods of estimating the value added in certain activities during the pandemic, and has consequently delayed the publication of national accounts estimates for the second quarter of 2020.

Figure 1.3
Movements of Headline and Core Inflation (Y-o-Y)



Source: Department of Census and Statistics

on the Colombo Consumer Price Index (CCPI, 2013=100), which accelerated to 6.2 per cent in February 2020 from 4.8 per cent at end 2019 driven by food inflation, gradually moderated to 4.0 per cent by September 2020 with the gradual easing of food inflation and the favourable base effect. Headline inflation based on the National Consumer Price Index (NCPI, 2013=100) also showed a similar trend although remaining relatively high due to the large weight attached to the food category in the NCPI. On a year-on-year basis, NCPI based headline inflation peaked at 8.1 per cent in February 2020, before moderating to 6.4 per cent in September 2020. In the meantime, core inflation, which reflects the underlying trend in inflation, remained low thus far during the year, reflecting subdued demand conditions. The moderate level of core inflation also reflected the impact of a decrease in prices of telecommunication and data services due to the reduction of the telecommunication levy in December 2019, while the reduction of VAT in December 2019 also supported the deceleration in core inflation. Accordingly, on a year-on-year basis, CCPI based core inflation slowed to 2.9 per cent in September 2020 from 4.8 per cent at end 2019, while NCPI based core inflation eased to 4.8 per cent by September 2020, from 5.2 per cent at end 2019.

External Sector

- **Sri Lanka's external sector, which experienced heightened vulnerabilities at the onset of the COVID-19 pandemic, recovered to a great extent thereafter, supported by timely policy measures of the Central Bank and the Government**. The deficit in the trade account contracted notably, compared to the same period of 2019, reflecting the impact of the large reduction of merchandise imports that outpaced the decline in merchandise exports during the period from January to August 2020. The decline in monthly export earnings observed during early 2020 reversed from May, enabling monthly export earnings to reach US dollars 1 billion, on average, in the third quarter of the year. The surplus in the services account declined considerably in the first half of 2020, compared to the first half of 2019, mainly reflecting the low earnings from tourism. However, the computer services sector continued to record a healthy growth with undisrupted functioning of information technology and business process outsourcing (IT/BPO) companies during the lockdown period. Accordingly, the surplus in the services account reduced to US dollars 901 million in the first half of 2020, in comparison to US dollars 1,545 million in the first half of 2019. The deficit in the primary income account declined to US dollars 1,041 million in the first half of 2020, compared to the deficit of US dollars 1,119 million in the corresponding period of 2019. This was mainly due to the reduction of reinvested earnings on foreign direct investment (FDI), the marginal reduction of dividends repatriated by Direct Investment Enterprises (DIEs), and the reduction in interest expenditure on foreign loans. In the secondary income account, workers' remittances declined by 8.9 per cent to US dollars 2,980 million in the first half of 2020 from US dollars 3,270 million in the first half of 2019. However, workers' remittances recovered at a faster pace from June 2020 to record a growth of 2.4 per cent, year-on-year, for the nine months ending September 2020. The substantial reduction of earnings from tourism along with the

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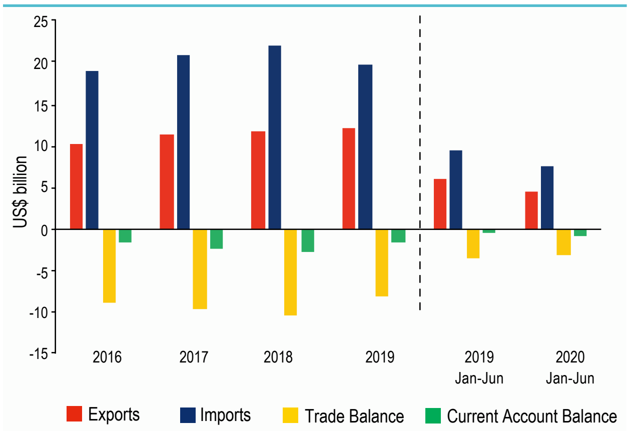
Figure 1.4
Trade Balance and Current Account Balance



Source: Central Bank of Sri Lanka

moderation of workers' remittances amidst the spread of COVID-19 widened the external current account deficit considerably during the first half of 2020 to US dollars 792 million, compared to the deficit of US dollars 351 million in the corresponding period of 2019.

- **The deficit in the trade account contracted in the eight months ending August 2020, compared to the corresponding period of 2019, as the expenditure on imports contracted more than the decline in exports.** All main sectors of import expenditure and export earnings recorded a decline during the period from January to August 2020, compared to a year earlier. Accordingly, expenditure on imports declined by US dollars 2,628 million (20.4 per cent) to US dollars 10,257 million, while earnings from exports declined by US dollars 1,585 million (19.7 per cent) to US dollars 6,445 million, compared to the corresponding period of 2019. As a result, the trade deficit in the eight months ending August 2020 improved by US dollars 1,043 million to US dollars 3,812 million over the same period of 2019. The reduction in import expenditure was driven by low expenditure on petroleum, and textiles and textile articles, along with the impact of restrictions imposed on non-essential imports from March 2020. However, import expenditure on food and beverages, and pharmaceuticals increased during the period under consideration, from a year earlier. Affected by subdued global demand and disruption to supply chains, major export items recorded a decline, including apparel (by US dollars 950 million), tea (by US dollars 109 million), and rubber products (by US dollars 102 million) during the period from January to August 2020, compared to the corresponding period of the previous year. However, a notable recovery was observed in monthly export earnings since May 2020, supported by earnings from apparel and rubber products. The expansion of export earnings from personal protective equipment (PPE), along with some improvement in tea prices, also contributed to the revival of export earnings. Provisional data suggest a continuation of the recovery in export earnings in September 2020 as well.

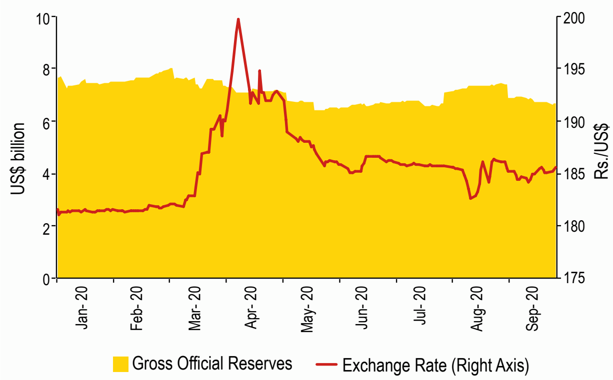
- **Inflows to the financial account remained modest in the first half of 2020, reflecting the dampened sentiments in global financial markets and the slowdown in global economic activity amidst the pandemic.** A major inflow to the Government recorded in the financial account during the first half of 2020 was the foreign currency term financing facility of US dollars 500 million from the China Development Bank (CDB) received in March 2020. Foreign investment in the government securities market and the Colombo Stock Exchange (CSE) recorded net outflows amounting to US dollars 492 million and US dollars 108 million, respectively, during the period from January to June 2020. FDI, including foreign loans, remained moderate, amounting to US dollars 345 million in the first half of 2020, compared to US dollars 535 million in the first half of 2019. However, net foreign loan inflows in the financial account increased during the first half of 2020, compared to a year earlier, with net loan inflows to both the Government and deposit taking corporations.

- **Gross official reserves declined during 2020 up to September, but remained at adequate levels.** Gross official reserves stood at US dollars 6.7 billion by end September 2020, compared to US dollars 7.6 billion recorded at end 2019.

Major inflows to gross official reserves during the period from January to September 2020 included the receipt of foreign currency term financing facility of US dollars 500 million from the CDB, foreign currency banking unit (FCBU) loans of US dollars 670 million, and the receipt of the SAARCFINANCE swap facility of US dollars 400 million from the Reserve Bank of India. Meanwhile, the purchases of foreign exchange by the Central Bank on a net basis from the domestic foreign exchange market also cushioned the level of official reserves. By end September 2020, official reserves provided an import cover of 4.7 months. In early October 2020, the Central Bank facilitated the repayment of the ISB of US dollars 1 billion by utilising gross official reserves. Total international reserves, which consist of gross official reserves and foreign assets of licensed banks, declined marginally to US dollars 10.3 billion by end August 2020 from US dollars 10.4 billion at end 2019. By end August 2020, total international reserves were equivalent to 7.2 months of imports.

- **The exchange rate remained broadly stable thus far in 2020, despite the sharp depreciation during March and April, in the immediate aftermath of the pandemic outbreak in the country**. The Sri Lankan rupee depreciated significantly, recording Rs. 199.75 per US dollar on 09 April 2020, with a depreciation of 9.07 per cent, compared to end 2019. In order to ease the pressure on the exchange rate during this period, the Central Bank intervened in the domestic foreign exchange market by supplying foreign currency liquidity and executing short term sell-buy foreign exchange swaps with licensed commercial banks. Further, measures implemented by the Government and the Central Bank to restrict non-essential imports and limit foreign exchange outflows from the market also helped abate the pressure in the domestic foreign exchange market and stabilise the exchange rate. The resultant improvement in liquidity conditions in the domestic foreign exchange market enabled the Central Bank to absorb foreign exchange on a net basis thus far during the year. Accordingly, the depreciation of the Sri Lankan rupee against the US dollar was limited to 1.4 per cent by 23 October 2020. Reflecting cross currency movements, the Sri Lanka rupee depreciated against the euro (6.4 per cent), the Japanese yen (5.0 per cent), and the pound sterling (1.0 per cent), while appreciating against the Indian rupee (1.8 per cent) by 23 October 2020. Reflecting the nominal depreciation of the Sri Lankan rupee against the currencies of major trading partners together with the movements in cross currency exchange rates, 5-currency and 24-currency Nominal Effective Exchange Rate (NEER) depreciated by 2.69 per cent and 1.09 per cent, respectively, at end September 2020, compared to end 2019. Meanwhile, the Real Effective Exchange Rate (REER), which takes into account inflation differentials in addition to the variation in nominal exchange rates, depreciated by 0.61 per cent based on the 5-currency basket and appreciated by 1.10 per cent based on the 24-currency basket, by end September, compared to end 2019. Meanwhile, both REER indices remained below the threshold of 100 index points by end September 2020, indicating the overall depreciation of REER, compared to the base year level.

Figure 1.5
Gross Official Reserves and Exchange Rate



Source: Central Bank of Sri Lanka

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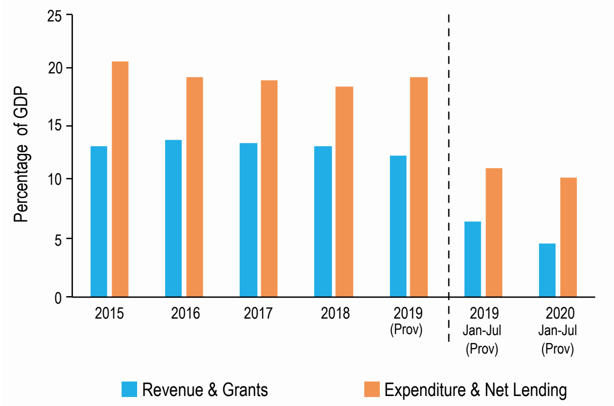
Fiscal Sector

- **Fiscal policy measures in 2020 focused on mitigating the impact of the COVID-19 outbreak, amidst the delay in presenting the national budget for 2020 caused by developments in the political sphere.** Fiscal operations during January-April 2020 were planned under a Vote-on-Account (VoA) approved in October 2019, in view of insufficient time for presenting an annual budget following the presidential election in November 2019. As the Parliament was dissolved on 03 March 2020 prior to approving an annual budget or a VoA, and the general elections were delayed amidst the COVID-19 outbreak, expenditure on public services was facilitated under the authorisation of His Excellency the President from the Consolidated Fund. Following the general elections in August 2020, the Parliament approved another VoA on 28 August 2020 for the last four months of the year.[2] Meanwhile, the Government initiated several stimulus measures to support businesses and individuals affected by the pandemic, in addition to the already announced measures following the Presidential elections in November 2019 aimed at enhancing disposable incomes and supporting the revival of economic activity. Accordingly, major tax revisions that were implemented since January 2020 included the reduction of personal and standard corporate income tax rates, the increase of the tax free threshold and tax slabs of income tax, and the abolition of the Pay-As-You-Earn (PAYE) tax, the Economic Service Charge (ESC), and most withholding taxes (WHT). Further, measures were taken to grant tax exemptions on the importation of selected health related equipment, while extending the payment deadlines for WHT liable payments, stamp duty, and VAT due for February and March 2020, until 30 April 2020. Meanwhile, exemptions were granted on penalty payments for all taxes during the lockdown period, and penalty provisions for late payments commenced only in July 2020. Furthermore, small and medium scale enterprises (SMEs) were granted various tax relief measures in the form of waivers of income tax arrears on assessments issued up to the 2018/2019 assessment year, non issuance of additional assessments for the year 2019/2020, provision of a grace period to settle taxes in arrears, the extension on seizure notices and provision of extended timelines for tax payments and filing tax returns. Meanwhile, the Government's welfare programmes continued to support the needy segments of the society affected by COVID-19, while taking measures to streamline the pension payment process.

Figure 1.6
Government Revenue Vs. Expenditure (a)



Sources: Ministry of Finance
Central Bank of Sri Lanka

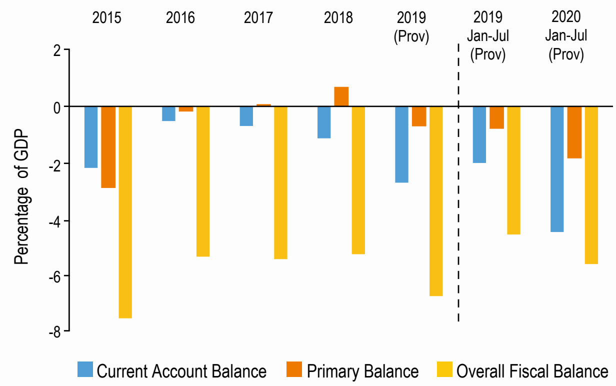
(a) 2020 figures are based on the GDP projections of the Central Bank.

- **The fiscal sector recorded subdued performance during the seven months ending July 2020, compared to the same period of 2019, reflecting the impact of the pandemic on revenue and expenditure, and the settlement of unpaid bills spilling over from the previous year.** During the seven months ending July 2020, government revenue as a percentage of estimated GDP moderated to 4.9 per cent from 6.9 per cent of GDP in the corresponding period of 2019, largely due to subdued economic activity following the COVID-19 outbreak as well as reduced tax rates. This decline in revenue mobilisation was

2 The Appropriation Bill for the financial year 2020 was gazetted on 06 October 2020. Accordingly, certain expenditure and advances made under Resolutions passed under Articles 150(2) and authorised under 150(3) of the Constitution are to be included in the First Schedule, Second Schedule and Third Schedule, of the Appropriation Act for 2020, while borrowings made in terms of Resolutions passed under Articles 150(2) are to be included under Section 2(1)(b) of the Appropriation Act for 2020. The Appropriation Bill for the financial year 2021 was also gazetted on 06 October 2020.

observed in major tax categories of income taxes, excise duties, VAT, Nation Building Tax (NBT), Ports and Airports Development Levy (PAL) and CESS. However, non tax revenue increased by 6.1 per cent to Rs. 92.8 billion during the period under review, compared to the same period of the previous year, mainly due to the transfer of distributable profits of the Central Bank to the Government amounting to Rs. 24.0 billion based on the financial statements of 2019. On the expenditure front, total expenditure and net lending during the seven months ending July 2020 declined to 10.6 per cent of estimated GDP from 11.4 per cent of GDP in the corresponding period of 2019, due to the sharp decline in capital expenditure despite the rise in recurrent expenditure. During the seven months ending July 2020, recurrent expenditure as a percentage of estimated GDP increased to 9.4 per cent from 8.9 per cent of GDP recorded in the same period of 2019, mainly due to the increase in salaries and wages, and subsidies and transfers. Capital expenditure and net lending declined sharply, both in nominal terms and as a percentage of estimated GDP, during the period from January to July 2020, reflecting the limited space available for capital expenditure. Nevertheless, as the moderation of government revenue outweighed the decline in government expenditure, the overall budget deficit increased to 5.6 per cent of estimated GDP (Rs. 872.6 billion) during the seven months ending July 2020, compared to 4.6 per cent of GDP (Rs. 684.1 billion) in the corresponding period of 2019. The settlement of outstanding bills brought forward from 2019 added pressure on fiscal operations and contributed to widen the budget deficit during the period from January to July 2020, compared to the year earlier. In the meantime, the primary balance weakened and recorded a deficit of 1.9 per cent of estimated GDP during the period under review, compared to the deficit of 0.8 per cent of GDP recorded in the same period of 2019. Also, the current account deficit, which reflects the dissaving of the Government, increased to 4.5 per cent of estimated GDP during the seven months ending July 2020 from 2.1 per cent of GDP in the same period of 2019.

Figure 1.7
Key Fiscal Balances (a)



Sources: Ministry of Finance
Central Bank of Sri Lanka

(a) 2020 figures are based on the GDP projections of the Central Bank.

- **The budget deficit was financed through domestic sources, while foreign financing recorded a net repayment during the period from January to July 2020**. Domestic financing comprised substantial borrowings from the banking sector, including the Central Bank, during the seven months ending July 2020. Net bank financing increased significantly to Rs. 867.0 billion during January-July 2020, compared to Rs. 170.9 billion in the same period of 2019. Net financing through non bank sources, on the other hand, declined to Rs. 200.0 billion during January-July 2020 from Rs. 400.5 billion in the corresponding period of 2019. Meanwhile, financing from foreign sources recorded a net repayment of Rs. 194.5 billion, compared to the net financing of Rs. 112.7 billion in the corresponding period of 2019. The rise in deficit financing, along with the impact of the depreciation of the Sri Lankan rupee against most other currencies, resulted in an increase in the outstanding central government debt by Rs. 1,229.5 billion to Rs. 14,261.0 billion at end July 2020, compared to end 2019. Domestic and foreign debt of the central government stood at Rs. 7,708.0 billion and Rs. 6,553.1 billion, respectively, at end July 2020. Debt service payments decreased by 17.0 per cent to Rs. 1,190.9 billion during the seven months ending July 2020, in comparison to the corresponding period of 2019 that included the repayment of an ISB. The Government took measures to promptly settle all maturing obligations, including the ISB that matured in October 2020, despite adverse speculation and concerns raised by international rating agencies, which downgraded Sri Lanka's Sovereign rating in 2020.

Monetary Sector

- **With a view to minimising the economic impact of the spread of COVID-19 and the resultant containment measures, the Central Bank eased monetary conditions substantially and continued the accommodative monetary policy stance thus far in 2020, supported by muted inflationary pressures and well anchored inflation expectations**. The Central Bank commenced an accommodative monetary policy stance in 2019 aimed at reviving subdued economic activity, given the modest level of inflation. The outbreak of COVID-19 resulted in a notable setback in economic activity, which required substantial policy accommodation to support businesses and households affected by the pandemic and to ensure a speedy recovery. Accordingly, the Central Bank reduced the policy rates, namely, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR), by 50 basis points each in January 2020. Amidst the lockdown measures and considering their impact on the economy, the Central Bank reduced policy rates by a further 100 basis points, in three steps in March, April and May 2020. In response to the series of monetary easing measures, market deposit rates declined sharply, while the market lending rates remained downward rigid. Therefore, the Central Bank reduced policy rates in early July 2020 by a further 100 basis points bringing the SDFR and SLFR to a historic low level of 4.50 per cent and 5.50 per cent, respectively. Further, in view of expediting the monetary policy transmission process and helping marginal borrowers, the Central Bank imposed maximum interest rates on specific lending products, namely, credit cards, pawning, pre-arranged temporary overdrafts as well as penal interest rates. In addition to the policy

Table 1.1
Monetary Policy Measures 2020 (a)

Date	Measure
30 Jan 2020	SDFR and SLFR reduced by 50 basis points to 6.50% and 7.50%, respectively.
17 Mar 2020	SDFR and SLFR reduced by 25 basis points to 6.25% and 7.25%, respectively.
17 Mar 2020	SRR reduced by 1.00 percentage point to 4.00% to be effective from the reserve period commencing 16 Mar 2020.
27 Mar 2020	Introduced a concessional loan scheme, the Saubagya COVID-19 Renaissance Facility (Phase I - Refinance Scheme), up to Rs. 50 billion at an interest rate of 4.00% to support the COVID-19 hit businesses.
03 Apr 2020	SDFR and SLFR reduced by 25 basis points to 6.00% and 7.00%, respectively, to be effective from the close of business on 03 Apr 2020.
16 Apr 2020	Bank rate reduced by 500 basis points to 10.00% and allowed to automatically adjust in line with the SLFR, with a margin of +300 basis points.
06 May 2020	SDFR and SLFR reduced by 50 basis points to 5.50% and 6.50%, respectively, to be effective from the close of business on 06 May 2020. Bank Rate automatically reduced to 9.50%.
16 Jun 2020	SRR reduced by 2.00 percentage points to 2.00% to be effective from the reserve period commencing 16 June 2020.
16 Jun 2020	Extended the concessional loan scheme introduced on 27 Mar 2020 up to Rs. 150 billion at an interest rate of 4.00% to support the COVID-19 hit businesses (the Saubagya COVID-19 Renaissance Facility - Phase II).
09 Jul 2020	SDFR and SLFR reduced by 100 basis points to 4.50% and 5.50%, respectively. Bank Rate automatically reduced to 8.50%.

Note: The Central Bank imposed interest rate caps on pawning advances of licensed banks on 27 April 2020 and tightened interest rate caps on selected lending products on 24 August 2020.

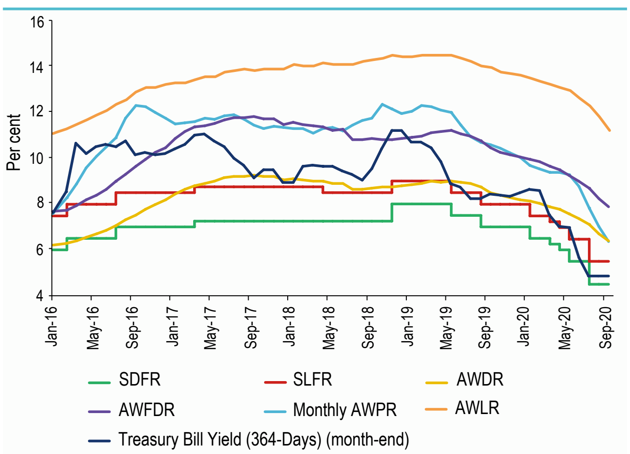
(a) Up to 23 October 2020

Source: Central Bank of Sri Lanka

rate reductions, the Central Bank also reduced the SRR applicable on rupee deposit liabilities of commercial banks by 3.00 percentage points during the year in two steps, in March and June, to 2.00 per cent, thus injecting a large amount of liquidity to the domestic money market. In addition, indicating the availability of emergency funding to banking institutions at reasonable interest rates, the Central Bank lowered the Bank Rate, by 500 basis points in April 2020, while allowing it to be determined automatically with a margin of 300 basis points above the SLFR. Accordingly, the Bank Rate declined in 2020 by end September by a total of 650 basis points to 8.50 per cent. Meanwhile, the Central Bank, at the request of the Government, took steps to ease the financing burden of the Government stemming from the exceptional circumstances caused by the pandemic by providing funds through the purchase of Treasury bills from the primary market, thus far in 2020. Further, following the provisions of the Monetary Law Act (MLA), the Central Bank facilitated special credit schemes to provide finance to the needy sectors of the economy, particularly to SMEs, at a concessional interest rate of 4.00 per cent per annum. These monetary measures were taken by the Central Bank while maintaining inflation and anchoring inflation expectations in the range of 4-6 per cent, under its flexible inflation targeting framework.

- **In response to the reduction in policy interest rates and the surplus liquidity maintained in the domestic money market, market interest rates declined notably thus far during 2020**. The Average Weighted Call Money Rate (AWCMR) adjusted downward and remained at the lower bound of the policy rate corridor since mid June 2020. Yields on government securities in the primary market also declined substantially thus far during 2020, despite some upward pressure on yields observed at auctions held in August and September 2020 owing to increased domestic borrowings by the Government and adverse market speculation. Reflecting the reduction in yields across all maturities in the primary market, the secondary market yield curve on government securities also adjusted downward sharply by end September 2020, compared to end 2019. Responding to significant monetary easing measures, interest rates on deposit products declined markedly during the nine months ending September 2020, resulting in negative real returns for some deposit products. Meanwhile, the decline in market lending rates accelerated gradually over the period from January to September 2020. Accordingly, the weekly Average Weighted Prime Lending Rate (AWPR) declined to its lowest levels recorded in history, while a notable reduction was also observed in new lending rates, compared to end 2019.

Figure 1.8
Movements in Selected Interest Rates



Source: Central Bank of Sri Lanka

- **Reserve money, which expanded gradually and peaked in mid April 2020, declined substantially thereafter as a result of the reduction in the SRR in June 2020**. Reserve money increased gradually in early 2020 as the festive season approached, but declined somewhat with the reduction in the SRR in March 2020. However, as the precautionary demand for currency increased amidst uncertainties surrounding the domestic spread of COVID-19, reserve money expanded rapidly towards mid April 2020. Slower than anticipated return of currency to the banking system amidst the pandemic, along with the reduced opportunity cost of holding currency due to low market interest rates, caused reserve money to remain elevated towards mid June 2020. However, reserve money declined substantially since then with the reduction in the SRR. Accordingly, during the eight months ending August 2020, reserve money declined by Rs. 52.8 billion, recording a year-on-year contraction of 3.7 per cent. Viewed from the assets side, the contraction of reserve money during this period was entirely due to the decline in net foreign assets (NFA) of the Central Bank by Rs. 73.6 billion since end 2019, outweighing the increase in net domestic assets (NDA) of the Central Bank, which expanded by Rs. 20.8 billion during the period from January to August 2020. NFA of the Central Bank decreased due to the expansion of foreign currency liabilities, and the expansion of NDA of the Central Bank was largely driven by the increase in net credit to the

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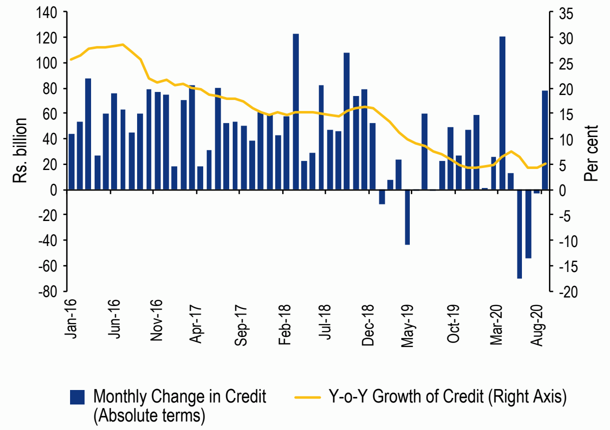
government (NCG), while claims on commercial banks also increased with the disbursement of concessional credit via the Saubagya COVID-19 Renaissance Facility implemented amidst the pandemic.

- **Growth of broad money (M_{2b}) continued to accelerate during the eight months ending August 2020 driven by the growth of NDA of the banking system, mainly due to the notable expansion of credit to the public sector**. Accordingly, the year-on-year growth of M_{2b} accelerated to 17.5 per cent by end August 2020, compared to the growth of 7.0 per cent at end 2019. The increase in NDA of the banking system by Rs. 1,164.5 billion contributed to the overall monetary expansion during the period from January to August 2020, while NFA of the banking system contracted by Rs. 96.6 billion during the period under review. The significant expansion of NDA during the period under review was driven by the increase in NCG as well as credit to the State Owned Business Enterprises (SOBEs) by the banking system. NCG by the banking system increased substantially by Rs. 1,014.1 billion during the period from January to August 2020, compared to the increase of Rs. 235.3 billion during the same period of the previous year. The increased reliance of the Government on domestic financing amidst limited foreign financial flows and the shortfall in government revenue collection caused this unprecedented rise in NCG during the period from January to August 2020. Reflecting the deteriorated financial positions of most SOBEs, which were aggravated by the pandemic, credit extended to SOBEs by the banking system increased by Rs. 205.0 billion during the period from January to August 2020, compared to the net repayment of Rs. 8.5 billion during the same period of the previous year. Credit extended to the private sector, which remained weak until July 2020, showed a noteworthy expansion during August, supported by low lending rates, along with credit extended through concessional loan schemes. Accordingly, the year-on-year growth of credit to the private sector accelerated to 5.2 per cent by end August 2020, compared to the growth of 4.3 per cent recorded at end 2019. Total credit extended to the private sector recorded an expansion of Rs. 110.6 billion during the eight months ending August 2020. Preliminary estimates suggest a healthy expansion of credit to the private sector during the month of September 2020 as well.

Figure 1.9
Credit Granted by Commercial Banks to the Private Sector



Source: Central Bank of Sri Lanka

Financial Sector

- **The financial sector remained resilient, weathering the domestic and global economic disruptions stemming from the COVID-19 pandemic and the challenging business environment**. The banking sector recorded a moderate expansion in its asset base with an increase in loans and advances and investment, funded mainly through deposit mobilisation. The increasing trend in non-performing loans (NPLs) remained a concern in credit risk management of the banking sector. Despite increased credit risk, the banking sector operated with adequate capital, liquidity and provision coverage. The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector recorded subdued performance during the eight months ending August 2020. The slowdown in the sector was reflected in the contraction in assets, credit and deposits as well as the rise in NPLs and the decline in profitability. Other sub sectors in the financial sector such as insurance and provident funds recorded mixed performance during this period, while the equity market, which was adversely affected by the COVID-19 outbreak, showed signs of recovery since May 2020. Meanwhile, uninterrupted operations were ensured in the payment and settlement systems even during the COVID-19 related lockdown, thereby facilitating the carrying out of transactions in the economy.

International Economic Environment

- **The global economy and financial markets witnessed heightened uncertainties amidst the COVID-19 pandemic, causing a sharp contraction in global activity thus far in 2020**. The World Economic Outlook (WEO) of the International Monetary Fund (IMF) released in October 2020, projects the global economy to contract by 4.4 per cent in 2020, compared to a growth of 2.8 per cent in 2019. Global growth is projected to rebound to 5.2 per cent in 2021 and moderate thereafter.

- **Unprecedented levels of spending by governments and monetary easing by central banks globally helped support the income and employment in major economies and dampen the contraction during 2020**. Activity picked up in May and June 2020 as economies gradually reopened, while large scale policy stimulus helped economies to revive the affected businesses and individuals to a great extent. In the United States, GDP contracted by 31.4 per cent in the second quarter of 2020, year-on-year, following a contraction of 5.0 per cent in the first quarter of 2020. The United Kingdom recorded a contraction of 2.5 per cent in the first quarter of 2020 over the same period of the previous year, followed by a 19.8 per cent contraction in the second quarter of 2020. In the Euro area, the economy contracted by 11.8 per cent in the second quarter of 2020, year-on-year, following a contraction of 3.7 per cent in the first quarter of 2020. On a positive note, China recovered from the contraction in the first quarter of 2020, year-on-year, as the impact of COVID-19 faded away and the economy recorded a modest growth of 3.2 per cent in the second quarter of 2020, compared to the contraction of 6.8 per cent in the first quarter of 2020. Meanwhile, the momentum of the Chinese economy gathered pace in the third quarter of 2020 registering a GDP growth of 4.9 per cent, from a year earlier. India's economic growth slipped from a growth of 3.1 per cent in the first quarter of 2020, year-on-year, to a steep contraction of 23.9 per cent in the second quarter of 2020, reflecting the rapid spread of COVID-19 in India. Almost all emerging market economies recorded sharp declines in economic activity during the first half of the year, over the same period of the previous year.

- **Despite some signs of a rebound of the global economy, the recovery is expected to be long, uncertain and uneven among economies**. Accordingly, advanced economies are projected to contract by 5.8 per cent in 2020, followed by a growth of 3.9 per cent in 2021. Emerging market and developing economies, including China, are expected to contract by 3.3 per cent in 2020, while a strong growth of 6.0 per cent is projected for 2021. As the only major economy to record a growth in 2020, prospects for China remained strong with the economy projected to grow by 1.9 per cent in 2020, followed by a growth of 8.2 per cent in 2021. India's economy is projected to contract by 10.3 per cent in 2020, followed by a growth of 8.8 per cent in 2021.

- **Broad based policy support globally helped the world economy to revive activity to some extent thus far**. Advanced economies responded with discretionary revenue and spending measures as well as various forms of liquidity support, including equity injections, asset purchases, loans and credit guarantees. Emerging market and developing economies also responded with sizable discretionary budgetary measures amidst limited policy space in certain economies. Meanwhile, new policy initiatives in various parts of the world also helped lift the sentiments among stakeholders.

For instance, the European Union initiated a pandemic recovery package fund, and most other countries provided cash and in-kind transfers to affected firms and households, wage subsidies, expanded unemployment insurance coverage, tax deferrals, etc. The actions of central banks in advanced economies included more diverse, large scale asset purchases and refinancing facilities in addition to sweeping policy rate reductions. The US Federal Reserve announced changes to its monetary policy strategy, moving to a flexible average inflation target of 2 per cent over time, while providing forward guidance on the maintenance of low interest rates. The responses of central banks in emerging market economies mainly comprised interest rate cuts, new relending facilities and asset purchases. Responding to these policy measures, global economic and financial conditions showed some improvement since June 2020. However, risks appear to have re-emerged due to the second wave of COVID-19 globally in recent months.

- **Global inflation remained moderate due to subdued aggregate demand conditions, in spite of price pressures stemming from supply disruptions due to the pandemic**. Inflation in advanced economies continued to remain below pre-pandemic levels. Meanwhile, inflation in emerging market and developing economies declined sharply as the pandemic spread rapidly. However, some countries witnessed an acceleration of inflation reflecting supply disruptions that caused an escalation of food prices. Consumer price inflation in the advanced economy group is projected at 0.8 per cent in 2020, before rising to 1.6 per cent in 2021. In the group of emerging market and developing economies, inflation is projected at 5.0 per cent in 2020 and 4.7 per cent in 2021. In global commodity markets, gold was continued to be viewed as a safe haven asset in the face of the COVID-19 pandemic. Accordingly, international gold prices increased during the year and crossed the level of US dollars 2,000 per ounce in the first week of August 2020, and declined thereafter to remain around US dollars 1,898 per ounce by mid October 2020. Prices of crude oil, which plummeted amidst the drastic decline in demand following lockdowns and travel restrictions, demonstrated a gradual increase since May 2020. Brent crude oil prices, which fell to around US dollars 13.0 per barrel by late April 2020, gradually rose thereafter to reach US dollars 46.1 per barrel by end August 2020, primarily due to limited stocks of crude oil as well as the expansion of activity in the United States and China. However, crude oil prices declined to about US dollars 43.4 per barrel by mid October 2020. As per the October 2020 issue of the WEO, average petroleum prices per barrel are projected at US dollars 41.7 in 2020 and US dollars 46.7 in 2021.

- **The impact of the pandemic on vulnerable groups of the society is expected to be significantly high, resulting in a rise in poverty and inequality globally, thereby reversing some of the gains achieved over the past several decades**. Inequality is expected to rise due to the disproportionate impact of the crisis on various segments such as women, the informally employed, young workers, and those with relatively low educational attainment. People who rely on daily wages and those who fall outside the formal safety net, including migrant workers, faced sudden income losses due to the imposition of mobility restrictions. Further, the burden of the crisis befell unevenly across regions as well as nations. In some advanced economies, working from home arrangements were swiftly put in place, or people relied on personal savings or social security benefits. In low income economies, where adaptability was relatively slow, people often faced difficulties in withstanding the unexpected loss of income. This underscored the importance of international support for low income economies in facing the pandemic.

- **The uncertainty surrounding the evolution of the pandemic will continue to affect the assessments on the global economic outlook**.

Table 1.2

Changes in Policy Interest Rates of Selected Central Banks

Per cent

Country	Key Policy Rate	End 2017	End 2018	End 2019	23 Oct 2020
Sri Lanka	Standing Deposit Facility Rate	7.25	8.00	7.00	4.50
	Standing Lending Facility Rate	8.75	9.00	8.00	5.50
Emerging Market Economies					
India	Repo Rate	6.00	6.50	5.15	4.00
Malaysia	Overnight Policy Rate	3.00	3.25	3.00	1.75
Thailand	1-day Bilateral Repo Rate	1.50	1.75	1.25	0.50
China	1-year Loan Prime Rate	4.35	4.35	4.15	3.85
Indonesia	7-day Reverse Repo Rate	4.25	6.00	5.00	4.00
Philippines	Overnight Reverse Repo Rate	3.00	4.75	4.00	2.25
Advanced Economies					
USA	Federal Funds Rate	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25
UK	Bank Rate	0.50	0.75	0.75	0.10
ECB	Refinance Rate	0.00	0.00	0.00	0.00
Japan	Overnight Call Rate	- 0.10	- 0.10	- 0.10	- 0.10
Canada	Overnight Rate	1.00	1.75	1.75	0.25
Australia	Cash Rate	1.50	1.50	0.75	0.25
Sweden	Repo Rate	- 0.50	- 0.50	- 0.25	0.00

Source: Websites of respective Central Banks

The current projections are based on public health and economic factors that are inherently difficult to predict. Further, the extent of global spillovers from low aggregate demand, subdued tourism, and low remittances also remains uncertain, let alone heightened uncertainties in the global financial markets. Moreover, a prolonged second wave of COVID-19 infections could reduce economic activity by more than expected in the latest round of projections by multilateral agencies. As a result of cross border spillovers from weak external demand and tight financial conditions, there could be significant adverse effects on global growth. The extended economic slowdown and volatile global financial market conditions, if persisted, could have a strong bearing on debt dynamics and debt sustainability of some emerging market and developing economies. Nevertheless, upside risks to economic recovery cannot also be ruled out due to the ongoing efforts to finalise a vaccine for COVID-19 and the continuation of large scale policy support globally.

Expected Developments

- **The Sri Lankan economy is expected to rebound in 2021 as evidenced by the fast recovery of activity since the relaxation of the lockdown in May 2020, although a resurgence of COVID-19 cases, as observed in October, could affect the momentum to some extent**. The large scale policy support provided by the Central Bank and the Government is expected to facilitate a fast recovery of economic activity in the near term, while growth oriented policies of the Government are expected to sustain the recovery over the medium term. In 2020, the economy is projected to contract by 1.7 per cent reflecting the impact of the pandemic induced fallout, particularly in the second quarter of the year. The lagged effect of extensive fiscal and monetary policy stimuli provided thus far, along with improved investor confidence due to the restoration of political stability and the implementation of the growth oriented policy agenda of the Government would support sustainable and equitable growth in the period ahead. In spite of disruptions to economic activity in the near term, the pandemic also created a window of opportunity for the Government to introduce pro-growth policies with increased emphasis on domestic agricultural and industrial production. The essential infrastructure development projects are expected to be implemented with the unveiling of the national budget for 2021, thereby increasing regional connectivity and the productive capacity of the economy. Education and skill development policies are also being reoriented towards a knowledge based growth promotion strategy. Despite the adverse impact of the pandemic on the vulnerable groups of the society in the near term, inclusive growth policies of the Government are expected to better target the marginalised segments of the society, while providing near term support with the assistance of the existing welfare programmes.

- **Despite the heightened vulnerabilities amidst the COVID-19 pandemic, Sri Lanka's external sector is expected to show resilience over the medium term with appropriate policies implemented without delay**. With the recovery in global demand and the policy drive to improve domestic production and support exports, a sizable increase in earnings from exports is envisaged in the medium term. Expenditure on imports could rise in 2021, compared to substantially low levels in 2020. The normalisation of oil prices and the rise in demand for intermediate and investment goods due to the expected expansion of domestic production and exports, are expected to influence the level of expenditure on imports in the period ahead. Accordingly, the trade deficit, which is expected to decline substantially in 2020, is projected to improve over the medium term after an initial adjustment in 2021. Despite the setback in the tourism industry, the surplus in the services account is expected to improve steadily over the medium term, supported by the envisaged recovery of the tourism industry as the pandemic fears fade away in the period ahead. Moreover, the growth in transport services and IT/BPO, is also expected to support the expected improvement in services exports. Meanwhile, workers' remittances are projected to grow, albeit slowly, over the medium term. Consequently, the external current account deficit, which is expected to narrow to 1.5 per cent of GDP in 2020, is projected to increase to 2.4 per cent of GDP in 2021 and decline gradually to 1.2 per cent of GDP by 2025. The moderation of financial flows amidst the COVID-19 pandemic is expected to affect the financial account of the BOP in the near term. However, with positive investor sentiments following the restoration of political stability and the expected recovery in the global economy, an increase in FDI inflows and foreign investment to the CSE and the government securities market is expected over the medium term. Foreign investment flows are expected, particularly on account of the Colombo Port City and the Hambantota Industrial Zone project. The Central Bank is expected to maintain adequate levels of foreign reserves over the medium term, while maintaining a flexible and competitive exchange rate. The Government is expected to take appropriate measures to ensure the sustainability of Sri Lanka's external debt, through short term measures to secure adequate financing and through longer term reforms to ensure a sustained increase in merchandise and services exports, while enhancing non debt creating inflows in the form of FDI.

- **Following the inevitable expansion in the fiscal deficit and debt levels in 2020, performance of the fiscal sector is projected to improve over the medium term, supported by the envisaged recovery of economic activity**. The medium term fiscal strategy of the Government, which is to be announced with the presentation of the national budget in mid November 2020, is expected to include measures to strengthen the fiscal consolidation path through tax policy reforms, further rationalising recurrent expenditure, and improving the efficiency of capital expenditure. Meanwhile, measures to promote domestic production in several earmarked areas and to improve the performance of the SOBEs are expected to support activity, while providing more avenues of revenue for the Government in the period ahead. As enunciated in the national policy framework, "Vistas of Prosperity and Splendour", the Government is expected to achieve a budget deficit of 4.0 per cent of GDP by 2025, along with corresponding improvements in the current account and primary balances. The envisaged reduction of the budget deficit and the resulting moderation in deficit financing are expected to reduce the outstanding central government debt with greater reliance on domestic financing, and ensure sustainability of the public debt over the medium term.

- **Credit flows to the private sector are expected to accelerate in the period ahead**. As a result of the substantial monetary easing measures implemented in 2020, market lending rates reduced to significantly low levels. With the envisaged revival of economic activity in the ensuing period along with improved business confidence, the growth of credit flows to the private sector is expected to accelerate in the near term and stabilise thereafter. The large volumes of credit obtained by the public sector are expected to cause the growth of broad money (M_{2b}) to accelerate in the near term. The growth of broad money is projected to stabilise at around 12.5 per cent in the medium term mainly driven by the expansion in credit extended to the private sector.

- **Inflation is expected to be maintained within the desired range of 4-6 per cent over the medium term**. Headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI), is envisaged to be maintained broadly around mid single digit levels in the period ahead. Inflation could reach the upper level of this range in 2022 and 2023 with the expected rebound in aggregate demand, reflecting the lagged impact of the fiscal and monetary stimuli and expected normalisation of petroleum prices globally. On the supply side, the Government's efforts to achieve self-sufficiency in certain agricultural products are expected to stabilise domestic food inflation in the period ahead. The Central Bank stands ready to implement appropriate policy measures to arrest any build up of unwarranted inflationary pressures arising from the demand side, while the Government's commitment to addressing transitory supply side pressures and managing the fiscal balances along the envisaged path also remains crucial in ensuring low and stable inflation and sustained economic growth over the medium term.

Table 1.3
Medium Term Macroeconomic Framework (a)

Indicator	Unit	2018 (b)	2019 (c)	Projections (d)					
				2020	2021	2022	2023	2024	2025
Real Sector									
Real GDP Growth	%	3.3 (c)	2.3	- 1.7	5.0	4.5	6.0	6.5	7.0
GDP at Current Market Price	Rs. bn	14,366 (c)	15,016	15,462	17,054	18,864	21,205	23,822	26,773
Per Capita GDP	US$	4,079 (c) (e)	3,852	3,825	4,068	4,340	4,706	5,100	5,529
Total Investment	% of GDP	30.4 (c) (f)	27.4	26.9	27.3	27.8	28.1	28.4	28.7
Domestic Savings	% of GDP	23.0 (c) (f)	21.3	21.4	21.5	22.5	23.9	24.9	25.7
National Savings	% of GDP	27.3 (c) (f)	25.3	25.4	24.9	25.5	26.3	27.1	27.5
External Sector									
Trade Gap	% of GDP	-11.7	- 9.5	- 6.6	- 8.2	- 8.8	- 8.2	- 7.9	- 7.5
Exports	US$ mn	11,890	11,940	10,245	12,404	13,682	15,124	17,022	18,559
Imports	US$ mn	22,233	19,937	15,800	19,733	22,154	23,814	26,066	28,002
Current Account Balance	% of GDP	- 3.2	- 2.2	- 1.5	- 2.4	- 2.3	- 1.8	- 1.3	- 1.2
External Official Reserves	Months of Imports	3.7	4.6	4.8	3.7	3.8	3.9	4.0	4.0
Fiscal Sector									
Total Revenue and Grants	% of GDP	13.5 (g)	12.6	9.7	10.6	11.2	11.8	12.4	13.1
Expenditure and Net Lending	% of GDP	18.7 (g)	19.4	18.9	18.4	18.3	17.8	17.6	17.1
Current Account Balance	% of GDP	-1.2 (g)	- 2.7	- 6.3	- 4.8	- 4.0	- 2.6	- 1.7	- 0.5
Primary Balance	% of GDP	0.6 (g)	- 0.8	- 3.2	- 2.0	- 1.5	- 0.7	- 0.2	0.6
Overall Fiscal Balance	% of GDP	- 5.3 (g)	- 6.8	- 9.3	- 7.8	- 7.1	- 6.0	- 5.2	- 4.0
Central Government Debt	% of GDP	83.7 (g)	86.8	93.0	92.4	90.0	86.1	82.3	77.5
Monetary Sector and Inflation									
Broad Money Growth (M_{2b}) (h)	%	13.0	7.0	20.6	15.0	12.5	12.5	12.5	12.5
Private Sector Credit Growth (M_{2b}) (h)	%	15.9	4.3	6.0	13.9	12.5	12.0	12.0	12.0
Annual Average Inflation (i)	%	4.3	4.3	4.7	5.0	5.8	6.0	5.5	5.0

(a) Based on information available up to mid October 2020
(b) Revised
(c) Provisional
(d) Central Bank projections
(e) Estimates are updated with the latest population figures.
(f) Total investment, domestic savings and national savings as a % of GDP in 2018 were revised by the Department of Census and Statistics from 28.6%, 21.2% and 25.4%, respectively.
(g) Based on the revised GDP estimates for 2018 released on 31 March 2020 by the Department of Census and Statistics
(h) Year-on-year growth based on end year values
(i) Based on CCPI (2013=100)

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

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- **The achievement of the projected medium term macroeconomic path is contingent upon implementing the identified reforms in the period ahead**. Along with the establishment of a stable Government, the COVID-19 outbreak has created an opportunity to review macroeconomic policies and set appropriate policy priorities and long term development goals for the country. In this regard, the Government's drive to support and encourage domestic production to reach self-sufficiency in identified goods is likely to play a crucial role in Sri Lanka's economic transformation. However, the maintenance of quality standards of domestically produced goods and ensuring availability at a reasonable price are vital to derive intended benefits in the medium to long term. Adequate investment in innovation and research and development (R&D), and the promotion of export oriented FDI are needed to improve efficiency and enhance productivity, particularly in the SME sector. As envisaged high growth necessitates improved access to international markets, trade negotiations with existing and new partner economies must continue. Reforms in relation to labour, land and financial markets are also essential. The prevailing low inflation environment must be preserved, with timely, appropriate, and transparent policies, thereby facilitating informed decision making of businesses and households. Beyond the near term economic hardships caused by the pandemic, long term growth and macroeconomic stability remain key priorities that Sri Lanka must balance in its march towards shared prosperity.