



Central Bank of Sri Lanka  
October 2021

# Recent Economic Developments

## Highlights of 2021 and Prospects for 2022





# RECENT ECONOMIC DEVELOPMENTS

## Highlights of 2021 and Prospects for 2022



**CENTRAL BANK OF SRI LANKA**

October 2021

Published by the Central Bank of Sri Lanka  
30, Janadhipathi Mawatha  
Colombo 01  
Sri Lanka.

Printed by: M.D. Gunasena & Company Printers (Pvt) Ltd

ISBN 978 - 624 - 5917 - 03 - 7

## *Key Economic Indicators*

## KEY ECONOMIC INDICATORS

Recent Economic Developments - Highlights of 2021 and Prospects for 2022

Key Economic Indicators						
Indicator	2017	2018	2019	2020 (a)	First Half (a) 2020	2021
<b>DEMOGRAPHY</b>						
Mid-year population ('000 persons) (b)(c)	21,444 (a)	21,670 (a)	21,803 (a)	21,919	-	-
Growth of mid-year population (%) (b)	1.1 (a)	1.1 (a)	0.6 (a)	0.5	-	-
Population density (persons per sq.km.) (b)	342 (a)	346 (a)	348 (a)	350	-	-
Labour force ('000 persons) (d)	8,567	8,388	8,592	8,467	8,469	8,594
Labour force participation rate (%) (d)	54.1	51.8	52.3	50.6	50.6	50.4
Unemployment rate (% of labour force) (d)	4.2	4.4	4.8	5.5	5.6	5.4
<b>OUTPUT (e)</b>						
GDP at current market price (Rs. bn)	13,328	14,291 (f)	15,013 (a)(f)	14,973	6,851 (f)	7,800
GNI at current market price (Rs. bn)	12,975	13,901 (f)	14,581 (a)(f)	14,568	6,641 (f)	7,604
GDP at current market price (USD bn)	87.4	87.9 (f)	84.0 (a)(f)	80.7	36.9 (f)	39.7
GNI at current market price (USD bn)	85.1	85.5 (f)	81.6 (a)(f)	78.5	35.7 (f)	38.7
Per capita GDP at current market price (Rs.) (g)	621,531	659,479 (f)	688,573 (a)(f)	683,106	-	-
Per capita GNI at current market price (Rs.) (g)	605,076	641,500 (f)	668,748 (a)(f)	664,620	-	-
Per capita GDP at current market price (USD) (g)	4,077	4,057 (f)	3,852 (a)(f)	3,682	-	-
Per capita GNI at current market price (USD) (g)	3,969	3,947 (f)	3,741 (a)(f)	3,582	-	-
<b>REAL OUTPUT (% change) (e)</b>						
GDP	3.6	3.3 (f)	2.3 (a)(f)	-3.6	-9.1 (f)	8.0
Major economic activities of GDP						
Agriculture	-0.4	5.8 (f)	1.0 (a)(f)	-2.4	-7.3 (f)	7.1
Industry	4.7	1.3 (f)	2.6 (a)(f)	-6.9	-14.6 (f)	12.1
Services	3.6	4.6 (f)	2.2 (a)(f)	-1.5	-5.2 (f)	5.1
GNI	3.6	3.2 (f)	2.1 (a)(f)	-5.0	-10.1 (f)	9.5
<b>AGGREGATE DEMAND AND SAVINGS (% of GDP) (e)</b>						
Consumption	75.6	77.6 (f)	79.3 (a)(f)	81.1	83.0 (f)	84.9
Private	67.1	68.4 (f)	69.8 (a)(f)	70.7	72.2 (f)	74.8
Government	8.5	9.2 (f)	9.4 (a)(f)	10.4	10.8 (f)	10.1
Investment	31.6	29.9 (f)	26.8 (a)(f)	25.2	23.9 (f)	24.5
Net exports of goods and services	-7.2	-7.4 (f)	-6.1 (a)(f)	-6.4	-6.9 (f)	-9.4
Exports of goods and services	21.8	23.0 (f)	23.1 (a)(f)	16.6	17.3 (f)	18.2
Imports of goods and services	29.1	30.5 (f)	29.3 (a)(f)	22.9	24.3 (f)	27.6
Domestic savings	24.4	22.4 (f)	20.7 (a)(f)	18.9	17.0 (f)	15.1
Net primary and secondary income from rest of the world	4.6	4.3 (f)	4.0 (a)(f)	5.0	3.9 (f)	5.3
National savings	29.0	26.7 (f)	24.7 (a)(f)	23.9	20.9 (f)	20.3
<b>PRICES AND WAGES (% change)</b>						
National Consumer Price Index (2013 = 100) - annual average	7.7	2.1	3.5	6.2	5.6	5.4
National Consumer Price Index (2013 = 100) - y-o-y (end period)	7.3	0.4	6.2	4.6	6.3	6.1
Colombo Consumer Price Index (2013 = 100) - annual average	6.6	4.3	4.3	4.6	4.7	4.1
Colombo Consumer Price Index (2013 = 100) - y-o-y (end period)	7.1	2.8	4.8	4.2	3.9	5.2
Producer's Price Index (2013 Q4 = 100) - annual average	17.0	6.3	2.9	5.8	3.8	7.8
GDP deflator (e)	7.3	3.8 (f)	2.7 (a)(f)	3.4	2.5 (f)	5.5
GNI deflator (e)	7.3	3.8 (f)	2.7 (a)(f)	5.1	3.4 (f)	4.6
Nominal wage rate index for workers in all wages boards (1978 Dec = 100) (h)	0.0	0.6	2.9	0.2	1.3	29.1
Nominal wage rate index for public sector employees (2016 = 100) (h)	-	0.2	4.7	9.2	10.6	2.8
Nominal wage rate index for public sector employees (2012 = 100) (h) (i)	0.0	0.1	3.2	-	-	-
Nominal wage rate index for informal private sector employees (2012 = 100) (h)	9.5	13.2	6.2	3.3	4.0	4.1
<b>EXTERNAL TRADE</b>						
Trade balance (USD mn)	-9,619	-10,343	-7,997	-6,008	-3,262	-4,316
Exports	11,360	11,890	11,940	10,047	4,413	5,699
Imports	20,980	22,233	19,937	16,055	7,675	10,015
Terms of trade (% change)	1.2	0.02	-1.6	2.5	4.7	-8.0
Export unit value index (2010 = 100) (% change)	2.4	4.2	-6.3	-6.8	-3.7	-0.8
Import unit value index (2010 = 100) (% change)	1.2	4.1	-4.8	-9.1	-8.0	7.9
Export volume index (2010 = 100) (% change)	7.6	0.5	7.2	-9.7	-23.6	30.2
Import volume index (2010 = 100) (% change)	8.1	1.8	-5.8	-11.4	-13.1	21.0
<b>EXTERNAL FINANCE (USD mn)</b>						
Services and primary income account (net)	984	1,381	388 (f)	-1,282	-372	-408
Current private transfers (net)	6,316	6,155	5,757	6,194	2,573	3,184
Current official transfers (net)	11	8	9	13	7	3
Current account balance	-2,309	-2,799	-1,843 (f)	-1,083	-1,054	-1,536
Overall balance	2,068	-1,103	377	-2,328	-760	-1,261
Current account balance (as a % of GDP) (e)(j)	-2.6	-3.2	-2.2	-1.3	-	-
Total foreign assets (months of the same year imports) (k)	6.0	5.2	6.3	6.4	6.3	4.5
Gross official reserves (months of the same year imports)	4.6	3.7	4.6	4.2	4.5	2.6
Overall debt service ratio						
As a % of export of goods and services	23.9	28.9	29.7	33.5	32.6	28.1
As a % of current receipts	17.3	21.3	21.8 (f)	21.5	22.1	19.0
Total external debt (as a % of GDP) (e)(j)	59.0	59.5 (f)	65.3 (f)	60.9	62.7	60.4
<p>(a) Provisional</p> <p>(b) As reported by Registrar General's Department</p> <p>(c) Based on the Census of Population and Housing - 2012</p> <p>(d) Household population aged 15 and above is considered for the calculation of labour force</p> <p>(e) Rebased GDP estimates (base year 2010) of the Department of Census and Statistics have been used</p> <p>(f) Revised</p> <p>(g) Estimates updated with latest population figures</p> <p>(h) Annual average percentage change</p> <p>(i) Discontinued since April 2020</p> <p>(j) Based on GDP estimates in USD</p> <p>(k) Excludes foreign assets in the form of direct investments abroad and trade credit and advances received</p>						



## Key Economic Indicators (Contd.)

Indicator	2017	2018	2019	2020 (a)	First Half (a) 2020	2021
<b>EXCHANGE RATES</b>						
Annual average						
Rs./USD	152.46	162.54	178.78	185.52	185.68	196.45
Rs./SDR (l)	211.49	229.90	246.97	258.61	254.63	282.04
NEER (2017 = 100) (24 - currency basket) (m)	100.00	94.05	88.17	85.93	86.73	78.81
REER (2017 = 100) (24 - currency basket) (m)(n)	100.00	95.45	90.42	91.36	92.08	83.74
Period end						
Rs./USD	152.85	182.75	181.63	186.41	186.23	201.14
Rs./SDR (l)	217.69	253.51	251.17	268.48	256.20	286.91
<b>GOVERNMENT FINANCE (as a % of GDP) (e)(o)(p)</b>						
Revenue and grants	13.8	13.5	12.6	9.2	4.4	4.3
Revenue	13.7	13.4	12.6	9.1	4.4	4.3
of which Tax revenue	12.5	12.0	11.6	8.1	3.9	3.9
Grants	0.1	0.1	0.1	0.04	0.01	...
Expenditure and net lending	19.3	18.8	22.2	20.3	9.4	9.1
Recurrent expenditure	14.5	14.6	16.1	17.0	8.3	8.0
Capital expenditure and net lending	4.8	4.2	6.1	3.3	1.1	1.1
Current account balance	-0.7	-1.2	-3.6	-7.9	-3.8	-3.6
Primary balance	0.02	0.6	-3.6	-4.6	-1.7	-1.7
Overall fiscal balance	-5.5	-5.3	-9.6	-11.1	-4.9	-4.7
Deficit financing	5.5	5.3	9.6	11.1	4.9	4.7
Foreign	3.3	2.3	3.6	-0.6	-1.0	0.1
Domestic	2.2	3.1	6.0	11.7	5.9	4.6
Central government debt (q)	77.9	84.2	86.8	101.0	-	-
Foreign	35.4	41.7	41.3	40.4	-	-
Domestic (r)	42.5	42.5	45.5	60.6	-	-
<b>MONETARY AGGREGATES (y-o-y % change)</b>						
Reserve money	9.8	2.3	-3.0	3.4	-0.6	22.6
Narrow money (M <sub>1</sub> )	2.1	4.7	4.2	36.0	24.7	29.1
Broad money (M <sub>2b</sub> ) (s)	16.7	13.0	7.0	23.4	14.0	21.5
Net foreign assets of the banking system	152.6	-155.1	250.3 (f)	-308.0	-110.8	-4,012.3
Net domestic assets of the banking system	9.8	16.3	4.6 (f)	27.8	15.9	27.1
Domestic credit from the banking system to						
Government (net)	10.0	16.1	11.1 (f)	62.7	34.9	44.3
Public corporations / SOBEs	4.5	40.7	8.3	22.5	30.3	19.0
Private sector	14.7	15.9	4.2 (f)	6.5	4.2	12.9
Money multiplier for M <sub>2b</sub> (end period)	6.71	7.42	8.18	9.75	9.63	9.54
Velocity of M <sub>2b</sub> (average for the year) (e)	2.26	2.11 (f)	2.04	1.76	-	-
<b>INTEREST RATES (% per annum at end of period)</b>						
Standing Deposit Facility Rate (SDFR) (t)	7.25	8.00	7.00	4.50	5.50	4.50
Standing Lending Facility Rate (SLFR) (t)	8.75	9.00	8.00	5.50	6.50	5.50
Bank Rate (u)	15.00	15.00	15.00	8.50	9.50	8.50
Legal Rate of Interest / Market Rate of Interest (v)	7.06	9.08	11.50	11.64	11.64	10.12
Money market rates						
Average weighted call money rate (AWCMR)	8.15	8.95	7.45	4.55	5.52	4.93
Treasury bill yields						
91-day	7.69	10.01	7.51	4.69	5.50	5.18
364-day	8.90	11.20	8.45	5.05	5.66	5.23
Deposit rates						
Commercial banks' average weighted deposit rate (AWDR)	9.07	8.81	8.20	5.80	7.38	4.87
Commercial banks' average weighted fixed deposit rate (AWFDR)	11.48	10.85	10.05	7.14	9.00	5.82
Commercial banks' average weighted new deposit rate (AWNDR)	10.06	10.94	8.89	4.93	7.20	4.98
Commercial banks' average weighted new fixed deposit rate (AWNFRD)	10.65	11.27	9.17	5.08	7.37	5.10
NSB savings rate	4.00	4.00	4.00	3.50	4.00	3.50
NSB 12 month fixed deposit rate	11.00	10.50	9.83	5.25	7.25	5.00
Lending rates						
Commercial banks' average weighted prime lending rate (AWPR)-Weekly	11.55	12.09	9.74	5.81	8.48	5.51
Commercial banks' average weighted lending rate (AWLR)	13.88	14.40	13.59	10.29	12.64	9.50
Commercial banks' average weighted new lending rate (AWNLR)	14.31	14.54	12.80	8.38	11.18	7.47
<b>CAPITAL MARKET</b>						
All share price index (ASPI) (1985 = 100)	6,369.3	6,052.4	6,129.2	6,774.2	5,149.6	7,837.8
S&P SL20 index (2004 Dec = 1,000)	3,671.7	3,135.2	2,937.0	2,638.1	2,268.8	2,968.3
Value of shares traded (Rs. mn)	220,591	200,069	171,408	396,882	104,405	460,947
Net purchases by non nationals (Rs. mn)	17,655	-23,239	-11,735	-51,356	-20,954	-26,482
Market capitalisation (Rs. bn)	2,899.3	2,839.5	2,851.3	2,960.6	2,404.7	3,470.2

(l) Special Drawing Rights (SDR), the unit of account of the IMF

(m) 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

(n) 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

(o) Based on the revised GDP estimates for 2018 and 2019 released on 16 March 2021 by the Department of Census and Statistics

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

(q) 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 and outstanding ISBs of the Sri Lankan Government have been classified under foreign debt and resident holdings of outstanding SLDBs and outstanding ISBs of the Sri Lankan Government have been classified under domestic debt.

(r) Outstanding balances of Treasury bonds issued to SriLankan Airlines and Ceylon Petroleum Corporation have been included.

(s) Values from 2015 include assets/ liabilities of DFCC Bank PLC, which merged with DFCC Vardhana Bank, with effect from 1 October 2015

(t) Repurchase rate and Reverse Repurchase rate renamed as Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively, with effect from 2 January 2014

(u) The rate at which the Central Bank grants advances to banking institutions as the lender of last resort

(v) 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 Monetary 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.





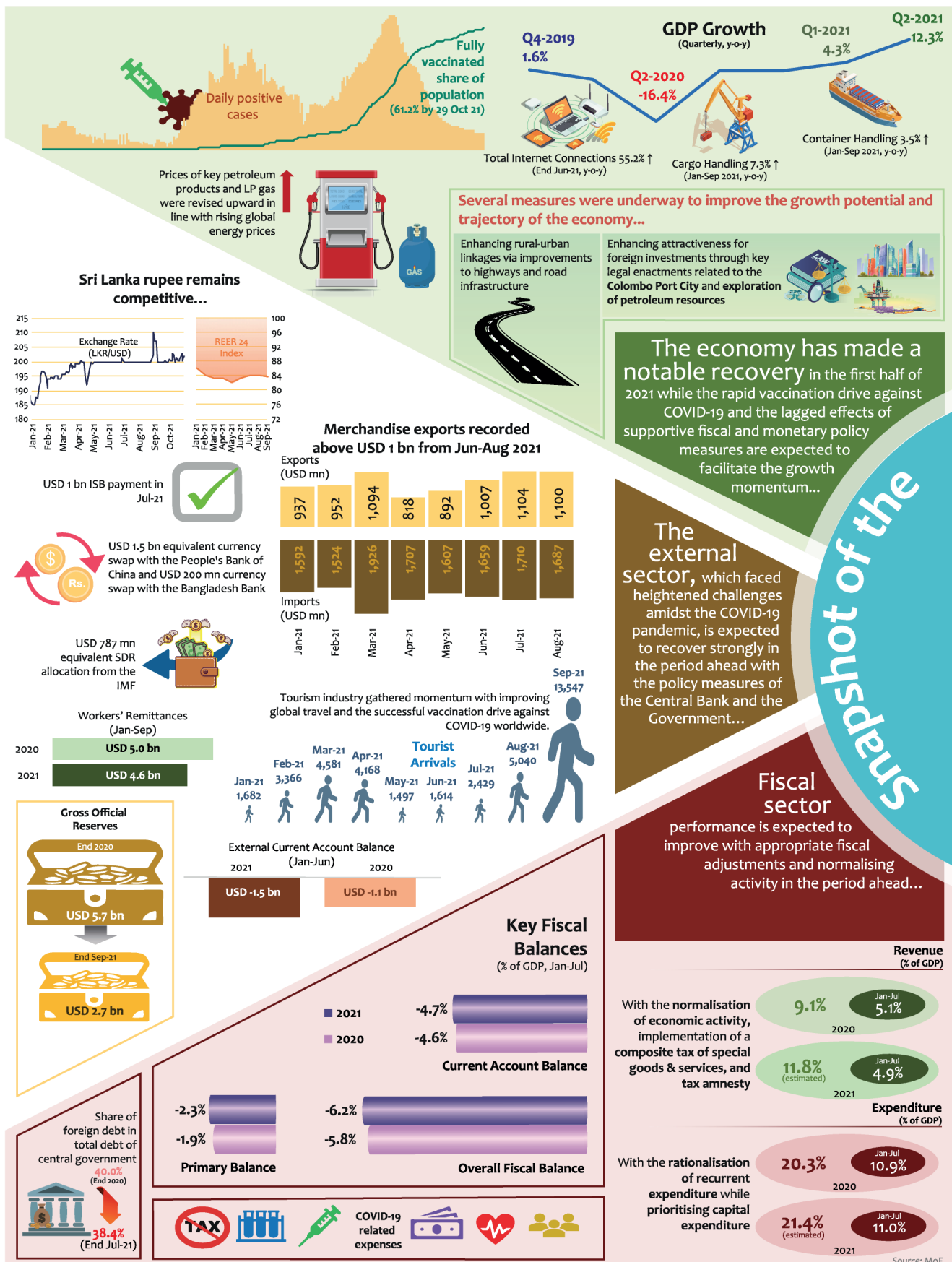
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## Economic Performance and Outlook

**T**he Sri Lankan economy rebounded strongly from the COVID-19 pandemic induced contraction in 2020. The real economy grew by 8.0%, y-o-y, in the first half of 2021, registering a broadbased recovery of the major sectors of the economy. This recovery was underpinned by the extraordinary policy stimuli provided by the Government and the Central Bank across a wide spectrum of businesses and individuals, phasing out of the selective mobility restrictions in tandem with the nationwide vaccination programme, and normalising global activity. The Government continued the fiscal stimulus measures announced in late 2019 by way of the low tax regime, among other direct financial support. The large scale debt moratoria provided to businesses and individuals were further extended during 2021, thereby smoothing the effects of cashflow disruptions faced by stakeholders amidst multiple waves of the pandemic. Due to the unprecedented monetary policy support provided by the Central Bank during 2020 and the maintenance of the same through January to mid August 2021, market interest rates declined to historically low levels, thereby facilitating credit to businesses and individuals, and supplementing investment needed to revive the economy. The low interest rate environment benefitted fiscal operations amidst restricted access to global financial markets. Further, the Central Bank provided a large amount of funds to the Government by way of purchasing Treasury bills in bridging the widened financing gap in the midst of the pandemic. However, the Central Bank implemented monetary tightening measures in mid August 2021 by raising policy interest rates and the SRR (effective September 2021) in order to preempt the buildup of excessive inflationary pressures over the medium term, while also addressing imbalances in the external sector. Merchandise exports reached pre-pandemic levels, while import expenditure also rose, reflecting the normalisation of activity as well as the escalation of prices of



Headline inflation (CCPI, y-o-y) remained in single digit levels for more than 12 years, consecutively...



With appropriate policy measures in place, inflation is expected to be maintained within 4-6% in the medium term...



**Food Inflation (y-o-y)**  
12.8% CCPI Oct-21  
10.0% NCPI Sep-21



**Non-Food Inflation (y-o-y)**  
5.4% CCPI Oct-21  
3.0% NCPI Sep-21



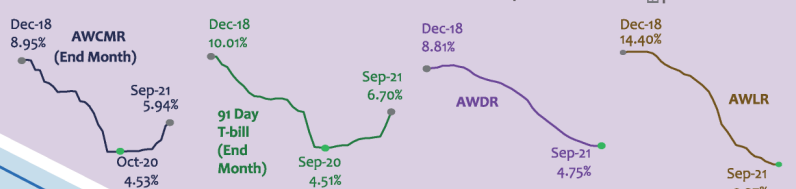
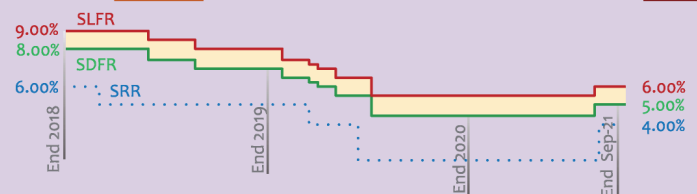
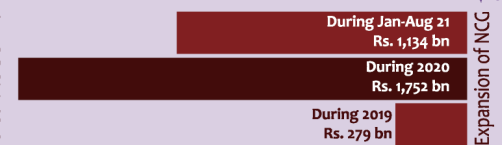
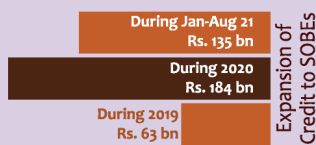
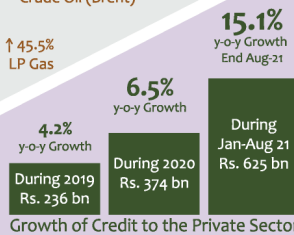
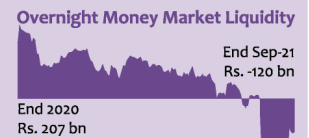
**Global Price Increases (y-t-d, by End Sep-21)**  
Crude Oil (Brent) ↑ 53.0%  
LP Gas ↑ 45.5%  
Milk Powder (Wholesale) ↑ 17.7%

Inflation followed an upward trend in recent months, driven mainly by supply side disruptions and global price movements, and also reflecting the gradual buildup of demand pressures...

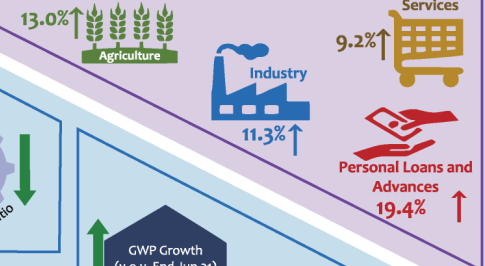
Sri Lankan Economy...

Measures were taken to rollback some of the extraordinary monetary policy stimulus in mid August 2021...

The financial system remained resilient despite challenging domestic and global macroeconomic conditions...



Growth of Sectoral Credit by End 1H 2021, y-o-y



1.8% Return on Assets (BT, End Aug-21)

4.7% Gross NPL Ratio (End Aug-21)

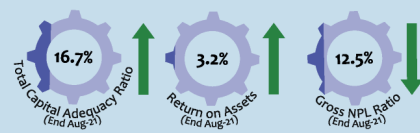
36.1% Statutory Liquid Assets Ratio (DBU, End Aug-21)

18.0% Credit Growth (y-o-y, End Aug-21)

20.6% Deposit Growth (y-o-y, End Aug-21)

Banking Sector

LFCs Sector



The CSE's ASPI surpassed 10,000 for the first time in history in Oct-21...



GWP Growth (y-o-y, End Jun-21) 10.7%

Profit (BT) Growth (y-o-y, End Jun-21) -20.1%

Total Assets Growth (y-o-y, End Jun-21) 7.9%

Insurance Sector

all key commodities in the global market. Amidst limited foreign exchange inflows under pandemic conditions, speculative activity exerted further pressure on the domestic foreign exchange market, warranting intervention by the Central Bank to impose a mandatory conversion requirement on export proceeds, provide exchange rate guidance, and ultimately provide liquidity support for essential imports. Meanwhile, the performance of trade in services remained dwarfed by the prolonged setback in the tourism industry, which is expected to rebound fast as global travel activity resumes and vaccination against COVID-19 gathers pace. Workers' remittances, which remained resilient amidst the pandemic, moderated in recent months, mainly reflecting the resumption of cross border travel, modest departures for foreign employment, and the search for exchange gains outside the banking system. Heightened near term vulnerabilities in the external sector and pressures observed in the financial system owing to the moderation of foreign inflows are being addressed by the Government and the Central Bank through coordinated efforts. Concerted measures are being taken to promote foreign exchange earnings of the country, in terms of merchandise and services exports and workers' remittances. The external current account balance is expected to improve over the medium term, supported by these efforts. FDI to large scale projects, and monetisation of non strategic assets, among others, are expected to attract sizeable non debt creating foreign inflows to the Government in the period ahead, thereby facilitating foreign currency debt servicing, along with several bridging finance facilities that are under discussion. Gross official reserves are expected to be enhanced to adequate levels in the period ahead, despite near term volatilities. The exchange rate continues to remain competitive as reflected by the real effective exchange rate indices. The Government honoured all its foreign currency liabilities, in spite of speculation by various parties, including international sovereign rating agencies, about Sri Lanka's ability to meet foreign debt service obligations. Meanwhile, the expansion of the Government budget deficit amidst the pandemic is expected to be curtailed along with the normalisation of activity and planned expenditure rationalisation measures by the Government over the medium term. Headline inflation, in the meantime, exceeded the upper bound of the target range of 4-6%, mainly due to continued high food prices, upward revisions to several administratively determined prices, and relaxation of price controls on selected imported commodities in tandem with the rising global commodity prices. Core inflation also recorded an uptick recently, indicating the strengthening of demand conditions of the economy. While headline inflation could remain above the targeted levels in the near term, the Central Bank remains committed to maintaining headline inflation at the target range over the medium term under the flexible inflation targeting framework with appropriate preemptive measures as and when required, while ensuring the support needed for the economy to reach its potential growth trajectory. Amidst measures to stabilise the economy from the effects of the pandemic, efforts of the Government towards creating an export oriented production economy and diversifying economic activities with the support of domestic and foreign investors are expected to help sustain the growth momentum of the Sri Lankan economy over the medium term and enhance its resilience.

## 1.1 Sectoral Developments

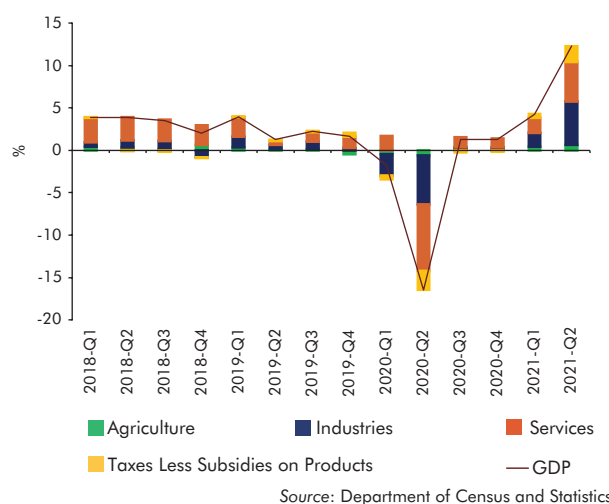
### Real Sector and Inflation

The Sri Lankan economy showed a robust recovery during the first half of 2021, over the notable pandemic induced contraction recorded in the same period last year. As per the provisional estimates of the DCS, the economy grew in real terms by 8.0%, y-o-y, in the first half of 2021, compared to the contraction of 9.1%, y-o-y, recorded during the corresponding period of 2020.

**The unprecedented policy support from the Government and the Central Bank helped a faster recovery of activity, alongside the expeditious containment of the pandemic through the rapid rollout of the COVID-19 vaccination programme...**

All major sectors of the economy recorded an impressive growth during the first half of 2021, compared to the same period last year. Agriculture, forestry, and fishing activities reported a substantial expansion of 7.1%, y-o-y, particularly tea, oleaginous fruits, rubber, and fruits growing activities expanded, owing to the favourable weather conditions experienced during the period. The value addition in the industry related activities grew notably by 12.1%, y-o-y, during the first half of 2021, compared to the 14.6% contraction recorded in the corresponding period of the preceding year. Growth in all sub-activities of the industry sector remained positive, except the manufacturing of coke and refined petroleum products, and sewerage, waste treatment, and disposal activities. Construction and mining and quarrying subsectors grew by 9.9%, y-o-y, in the first half of 2021, supported by the easing of mobility restrictions. Further, manufacturing activities registered a growth of 14.0%, y-o-y, in the first half of 2021, supported mainly by the manufacturing of textiles, wearing apparel and leather related products, food, beverages and tobacco products, rubber and plastic products, furniture and other non-metallic mineral products subsectors. The services activities recorded a healthy recovery with a real growth of 5.1%, y-o-y, in the first half of 2021, compared to a 5.2% contraction in the first half of 2020. The growth of the

**Figure 1.1**  
Contribution to Quarterly Real GDP Growth (y-o-y)



services sector was mainly driven by financial services and auxiliary financial services activities, transport of goods and passengers, including warehousing activities, wholesale and retail trade, real estate activities, including ownership of dwelling, other personal services activities, and telecommunication services. However, accommodation, food and beverage services activities recorded a decline of 13.4%, y-o-y, in the first half of 2021, owing to dampened tourism activities amidst the mobility restrictions.

In nominal terms, the Sri Lankan economy expanded by 13.8% in the first half of 2021, compared to a year earlier. According to the expenditure approach of GDP estimates, economic growth in the first half of 2021 was mainly driven by the expansion in consumption expenditure. Consumption expenditure, which accounted for 84.9% of the GDP, recorded a growth of 16.5% in the first half of 2021, compared to the contraction of 2.9% in the corresponding period of the preceding year. This expansion was mainly observed in household expenditure, which grew by 17.9% in the first half of 2021, compared to the 4.3% contraction recorded in the same period of the previous year. Government consumption grew by 6.7% in the first half of 2021 over the growth of 6.9% recorded in the first half of 2020. Investment expenditure, which recorded a y-o-y contraction of 11.4% in the first half of 2020, expanded by 16.7%, y-o-y, in the same period of 2021, owing to the notable growth of fixed capital formation by 17.3%. Investment, as a percentage of nominal GDP, increased to 24.5% in the first half of 2021, compared to 23.9% of nominal GDP in the corresponding period of the previous year. Net external demand on account



### Economic Effect of Lockdowns

Unlike previous episodes of epidemics, such as SARS, H1N1 or Ebola, the rapid evolution of the COVID-19 outbreak into a pandemic within a short period required countries across the globe to introduce lockdowns and other types of mobility restrictions in an unprecedented manner. The effect of such restrictions is reflected in the global economic contraction of 3.1% in 2020 as per the estimates of the IMF.

In Sri Lanka also, the socio-economic effects of the pandemic and the associated lockdowns and mobility restrictions have been substantial. The first wave of the pandemic during March-May 2020 was addressed by a strict nationwide lockdown, which was relaxed in a phased manner thereafter. The nationwide lockdown resulted in the Sri Lankan economy contracting by 16.4%, y-o-y, during the second quarter of 2020. The second wave during October-November 2020 was addressed by selective lockdowns and mobility restrictions, which reduced the economic fallout to some extent. Yet, the recovery process was disrupted, and the economy recorded a growth of only 1.3%, y-o-y, in the fourth quarter. Accordingly, these resulted in Sri Lanka recording its highest economic contraction of 3.6% in 2020, in contrast to the initial expectation of a real GDP growth rate of around 5%. The third wave of the pandemic since April 2021 has been, by far, its largest wave. Mobility restrictions during the third wave were also selective.

While lockdowns and mobility restrictions were necessary to prevent the spread of the pandemic, their impact in terms of macroeconomic performance was severe. According to projections made by the Central Bank in April 2019, Sri Lanka's nominal GDP was expected at Rs. 17.39 tn in 2020 and Rs. 19.17 tn in 2021. However, with the pandemic, the economy recorded a nominal GDP of only Rs. 14.97 tn in 2020 and is likely to record a nominal GDP of about Rs. 16.5 tn in 2021. This indicates a staggering annual loss of GDP in nominal terms of about Rs. 2.5 tn.

While the COVID-19 pandemic has not spared any key economic sector, it must be mentioned that key foreign exchange earning sectors pertaining to trade and tourism related activities have been hard-hit by the pandemic. In turn, this has been reflected in the decline in the foreign exchange flows to the country, thereby negatively weighing on the stability of the exchange rate and having negative spillover effects on investor confidence. On the fiscal front, the slowdown in economic activity contributed to the reduction in government revenue amidst rising expenditure, thereby exerting significant pressures on the fiscal sector and warranting additional borrowing.

The impact of the lockdowns and mobility restrictions may also be assessed from a labour market perspective. According to the Labour Force Survey Quarterly report for the fourth quarter of 2020 published by the DCS, out of the 8.03 mn of the employed population, own account workers and contributing family workers and those employed in the private sector accounted for 82% of total employment. Further, according to the Labour Force Survey Annual Report for 2019, informal sector employment accounted for 57.4% of total employed. This highlights that even among those engaged in employment, the majority are vulnerable in the wake of such disruptions. Furthermore, Sri Lanka has recorded unemployment rates above 5% since the onset of the pandemic, compared to the average unemployment rate of 4.4% since the end of the conflict. In this regard, such loss of livelihoods results in increased vulnerability and increased poverty, especially in relation to those who are just above the poverty line and those who are outside the ambit of social safety nets.

The recovery observed during the first half of 2021 has been on the back of the extraordinary support provided by the Central Bank to all stakeholders of the economy, via various channels since the onset of the pandemic in March 2020. This includes support to the private sector, the banking sector and the Government. The financial sector has also extended broadbased support to borrowers, including businesses and individuals, to smoothen the negative effects of COVID-19 related disruptions. The Central Bank also took steps to protect affected businesses and individuals from undue penalties and forced acquisitions. However, such stimulus cannot be continued indefinitely without adverse macroeconomic repercussions and financial system stability concerns. At the same time, going forward, it is necessary in future credit evaluation to recognise the pandemic effects on relationships between financial institutions and their clientele.

The above highlights that the COVID-19 pandemic and the lockdowns that it entail create a vicious cycle that can have a scarring impact on businesses and households in the near term and thereby the overall growth trajectory and potential of the Sri Lankan economy in the medium term. Going forward, it is imperative that the Government continues to proactively and holistically strike a balance between minimising the human toll of the pandemic while also minimising the economic toll of these circumstances on the Sri Lankan economy which had already been struggling to recover from a long period of sub-par growth. The cornerstone of maintaining this balance is the ongoing COVID-19 vaccination drive spearheaded by the Government. The much-acclaimed progress that has been observed especially since July 2021 is expected to minimise any disruptions stemming from COVID-19 in the period ahead. However, the public's close adherence to prescribed health guidelines will also be vital to the recovery of the economy. Only then can a virtuous cycle of macroeconomic stability, improved economic growth and enhanced resilience be established to pave way for the creation of an inclusive and sustainable growth trajectory for the Sri Lankan economy.

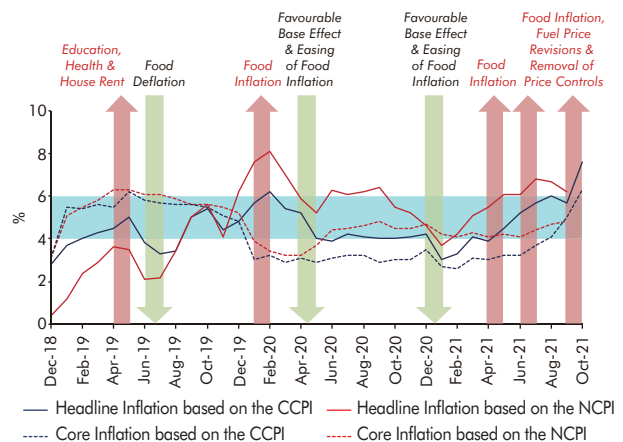
of goods and services deteriorated in the first half of 2021, from a year earlier. Despite the notable growth of exports of goods and services by 19.1%, y-o-y, import expenditure expanded at a faster pace of 29.4%, y-o-y, at current prices. Consequently, net external balance of goods and services, as a percentage of nominal GDP, declined from -6.9% in the first half of 2020 to -9.4% in the same period of 2021.

Reflecting the effects of the pandemic, continued disruptions to the labour market were observed, resulting in relatively low LFPR and higher unemployment rates. The LFPR marginally increased to 50.9% in the first quarter of 2021 from 50.1% in the fourth quarter of 2020. However, with the emergence of the third wave of the pandemic, the LFPR declined to 49.8% in the second quarter of 2021. Meanwhile, the unemployment rate remained above 5% for six consecutive quarters since the onset of the pandemic, registering unemployment rates of 5.7% and 5.1% in the first quarter and the second quarter of 2021, respectively. Accordingly, the unemployment rate during the first half of 2021 stood at 5.4%.

**Supply side disruptions during the third wave of the COVID-19 outbreak and adverse weather conditions caused high food inflation...**

Inflation, which remained subdued during early 2021, accelerated thereafter, driven mainly by high food inflation. Administratively determined prices of several commodities, including that of fuel, were revised upward in line with elevated global prices, and price controls on selected imported commodities were also removed. Accordingly, headline inflation as measured by the CCPI (2013=100), accelerated during recent months and exceeded the upper bound of the desired 4-6% range of inflation in October 2021. Headline inflation as measured by the NCPI (2013=100), also accelerated and remained at relatively high levels due to its higher weight on food items. Core inflation, which measures demand driven inflationary pressures, also accelerated moderately in recent months, indicating the buildup of demand pressures in the economy, with the gradual normalisation of economic activity.

**Figure 1.2**  
**Movements of Headline and Core Inflation (y-o-y)**



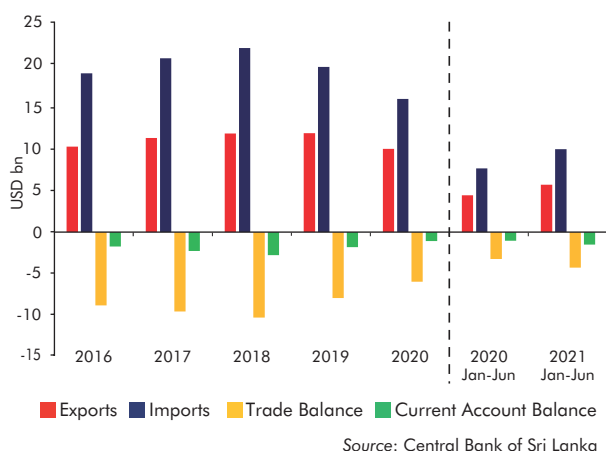
## External Sector

The challenges posed by the COVID-19 pandemic heightened vulnerabilities in the external sector, while the timely measures adopted by the Government and the Central Bank helped the external sector to remain resilient thus far in 2021. The trade deficit widened in the eight months ending August 2021 due to the substantial increase in expenditure on imports, despite the recovery in earnings from merchandise exports. The trade deficit in the eight months ending August 2021 widened to USD 5.5 bn, compared to USD 3.8 bn in the comparable period in 2020. Export performance recorded a faster than expected recovery in almost all subsectors, including industrial, agricultural, and mineral exports, recording a healthy growth.

**Trade deficit widened so far in 2021 as the increase in imports offset the notable growth in exports...**

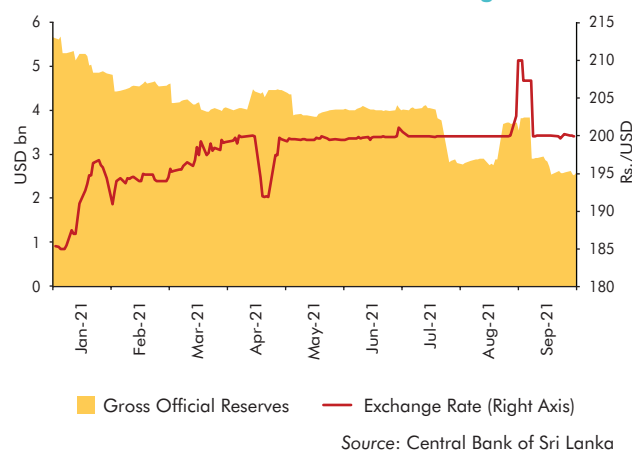
Despite the maintenance of some restrictions, import expenditure also grew as a result of increased domestic activity as well as increased global prices. The growth momentum of workers' remittances moderated with the decline in departures for foreign employment, the resumption of global travel activity, and a possible shift towards informal channels to remit money. However, an increase in migrant registration for foreign employment was observed in recent months, with the gradual opening up of migrant source countries.

**Figure 1.3**  
Trade Balance and Current Account Balance



The deficit in the primary income account moderated during the first half of 2021 as dividend payments by DfEs as well as interest payments on government foreign loans were relatively low, compared to the first half of 2020. The tourism industry, which remained severely affected by the pandemic, recorded only a modest number of arrivals. However, the IT/BPO sector contributed to the services sector with a healthy growth. Earnings from the transportation sector also grew in the first half of 2021, supported by increased transshipment and cargo handling activities amidst the recovery of global and domestic economic activity. The current account recorded a deficit of USD 1.5 bn in the first half of 2021, compared to the deficit of USD 1.1 bn recorded in the first half of 2020. Inflows to the financial account remained limited during the first half of 2021. FDI, including foreign loans to DfEs, remained modest in the first half of 2021. The relatively low FDI inflows reflect the uncertainty caused by the intermittent COVID-19 outbreaks, globally and domestically. The main inflow to the financial account during the first half of the year was the receipt of a syndicated loan facility from CDB in April 2021. Further to these inflows, notable inflows to financial account were the SDR allocation from the IMF, the international swap facility with the Bangladesh Bank and the balance of the syndicated loan from the CDB in August 2021. In addition, the Central Bank secured an international currency swap facility with the PBOC, equivalent to approximately USD 1.5 bn, of which the proceeds are yet to be drawn. Outflows from the financial account remained significantly high due to large external debt service payments so far in 2021, including the maturity of an ISB

**Figure 1.4**  
Gross Official Reserves and Exchange Rate



of USD 1.0 bn in July 2021. Gradual foreign investment outflows were recorded in both the government securities market and the CSE. Consequently, the overall balance of the BOP recorded a notable deficit during the nine months ending September 2021. With limited foreign exchange inflows to the Government amidst the pandemic, and continued external debt service payments, the gross official reserves declined to USD 2.7 bn by end September 2021. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to USD 6.1 bn at end September 2021. Sri Lanka's total outstanding external debt, based on the market value, increased by end June 2021, compared to the beginning of the year, mainly due to the changes stemming from an increase in market prices of Sri Lanka's outstanding ISBs.

**Despite limited foreign exchange inflows, Sri Lanka continued to honour all external debt obligations...**

The Sri Lanka rupee depreciated during January-April 2021 due to inadequate inflows to the domestic foreign exchange market amidst large outflows. The exchange rate reached to Rs. 199.54 per USD at end April 2021 from Rs. 186.41 per USD at end December 2020. Subsequently, the weighted average spot exchange rate in the interbank market was maintained at around Rs. 200 per USD with a high degree of moral suasion. The Central Bank intervened significantly in the domestic foreign exchange market recently by way of providing liquidity in order to meet payments for

essential imports, as announced in the 'Six-Month Road Map for Ensuring Macroeconomic and Financial System Stability' on 01 October 2021. Such intervention helped stabilise the exchange rate at current levels of around Rs. 200 per USD. The rupee depreciated against the USD by 7.7% from the beginning of the year to end October 2021. Reflecting cross currency exchange rate movements, the Sri Lanka rupee also depreciated against the pound sterling, the euro and the Indian rupee, while appreciating against the Japanese yen by end October 2021. The NEER and REER indices, which measure the movement of the Sri Lanka rupee against a basket of currencies, declined during the ten months ending October 2021. The REER indices remained below the base year level (2017=100), signalling that the exchange rate remains sufficiently competitive.

## Fiscal Sector

Fiscal operations continued to face significant challenges during the seven months ending July 2021, mainly reflecting the adverse effects of the pandemic. Government expenditure increased by 10.8%, y-o-y, to Rs. 1,814.4 bn during the seven months ending July 2021, while government revenue and grants increased only by 4.5%, y-o-y, to Rs. 799.8 bn during the same period. The resultant expansion of the budget deficit elevated the outstanding debt of central government. Access to foreign financing, particularly from commercial sources, remained restricted, thereby exerting pressures on foreign currency debt servicing of the Government. Nevertheless, the Government duly repaid all maturing central government debt with the assistance of the Central Bank.

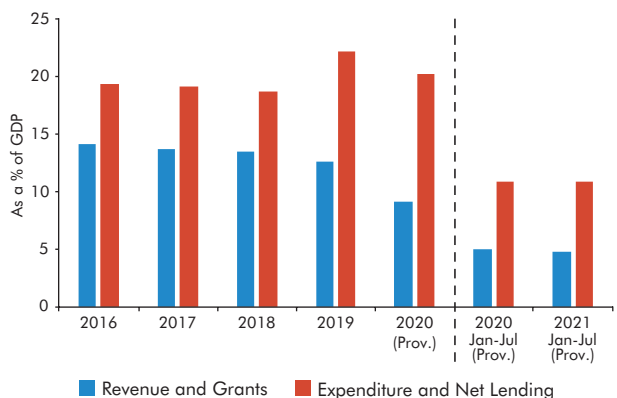
**Despite the limited fiscal space, extraordinary fiscal stimulus measures were implemented by the Government...**

Despite these challenges, the Government continued with the low tax regime and social welfare schemes, while providing direct financial support to individuals amidst the pandemic, thereby providing extraordinary fiscal stimuli, which helped to minimise the impact of the pandemic on the economy. Moreover, the Government successfully rolled out COVID-19 vaccines nationwide, thereby containing the pandemic to a great extent, while ensuring a faster recovery of the economy.

Government revenue mobilisation for the period from January to July 2021 increased to Rs. 798.9 bn (4.9% of estimated GDP) from Rs. 763.2 bn (5.1% of GDP) in the corresponding period of 2020. The increase in government revenue during the seven months ending July 2021 was benefited by the high revenue collection from PAL, VAT and CESS levy, reflecting the recovery of economic activity, compared to the same period in the preceding year. However, the current level of government revenue remains substantially below pre-pandemic levels.

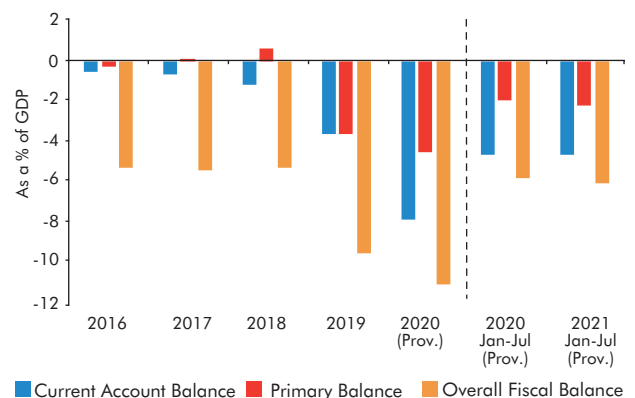
Meanwhile, expenditure and net lending rose to Rs. 1,814.4 bn (11.0% of estimated GDP) during the seven months ending July 2021 from Rs. 1,637.9 bn (10.9% of GDP) in the corresponding period of 2020. This increase

**Figure 1.5**  
**Government Revenue vs Expenditure (a)**



(a) 2021 figures are based on GDP projections of the Central Bank. Sources: Ministry of Finance, Central Bank of Sri Lanka

**Figure 1.6**  
**Key Fiscal Balances (a)**



(a) 2021 figures are based on GDP projections of the Central Bank. Sources: Ministry of Finance, Central Bank of Sri Lanka



reflects the escalated recurrent expenditure mainly due to the pandemic, as well as the rise in interest payments, and salaries and wages. Public investment increased to Rs. 242.7 bn (1.5% of estimated GDP) during the seven months ending July 2021 from Rs. 192.3 bn (1.3% of GDP) in the corresponding period of 2020. The increase in government expenditure offset the nominal increase in government revenue, causing the budget deficit to expand to Rs. 1,014.5 bn (6.2% of estimated GDP) during the period from January to July 2021 from Rs. 872.6 bn (5.8% of GDP) in the corresponding period of 2020. The current account deficit, which reflects the dissavings of the Government, increased to Rs. 779.1 bn (4.7% of estimated GDP) during the seven months ending July 2021 from Rs. 694.5 bn (4.6% of GDP) recorded in the same period of 2020. The primary balance, recorded a higher deficit of Rs. 377.2 bn (2.3% of estimated GDP) during January-July 2021 in comparison to the deficit of Rs. 288.9 bn (1.9% of GDP) during the corresponding period of 2020.

**The relative share of outstanding foreign debt of central government declined further by end July 2021, from the levels observed at end 2020...**

In financing the budget deficit, the Government relied entirely on domestic sources, reflecting the expectation of the Government to reduce exposure to foreign liabilities over the medium term, while the access to conventional global markets remained limited amidst rating downgrades by sovereign rating agencies. Net domestic financing amounted to Rs. 1,204.6 bn during the seven months ending July 2021, compared to Rs. 1,067.0 bn during the corresponding period of 2020, while foreign financing recorded a net repayment of Rs. 190.1 bn during the period under review, compared to a net foreign repayment of Rs. 194.5 bn recorded in the corresponding period of 2020. The Central Bank's contribution to net domestic financing rose to 45.6% in the seven months ending July 2021, compared to 17.5% in the same period last year. The Central Bank supported the Government in terms of providing financing in an unprecedented scale to meet the rising expenditure and debt servicing requirement. The central government debt, which stood at Rs. 15,117.2 bn at end 2020, increased to Rs. 16,751.7 bn

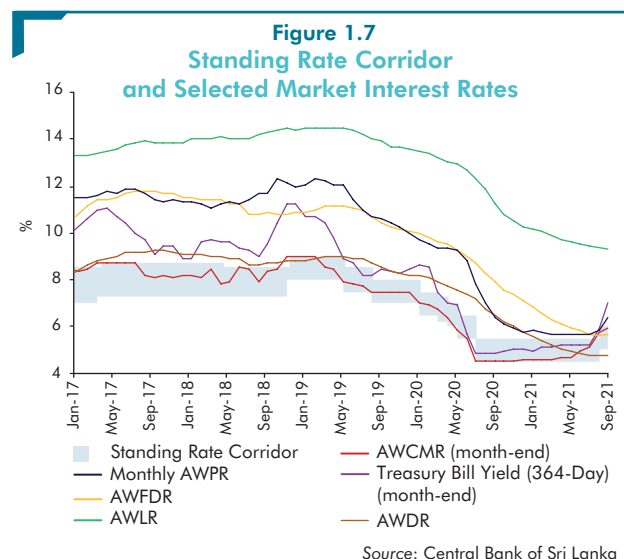
at end July 2021. However, foreign exposure of central government debt declined with maturing ISBs, among other net repayments of foreign debt. By end July 2021, the relative share of outstanding foreign debt of the Central Government decreased to 38.4% of total central government debt, compared to 40.0% at end 2020.

## Monetary Sector

The Central Bank continued the unprecedented monetary stimulus measures, which were deployed since early 2020 through a major part of 2021, in order to support the businesses and individuals affected by the pandemic, while facilitating the economic recovery. Low interest rates and surplus liquidity levels in the domestic money market resulted in a significant expansion in credit to the private sector. Further, the Central Bank introduced priority sector lending targets

**Supported by the low lending rates and reflecting the increased demand for credit, credit extended to the private sector expanded notably during January-August 2021...**

for licensed banks on lending to MSMEs in April 2021, with a view to providing further impetus to the needy and productive sectors of the economy. Accordingly, credit extended to the private sector expanded notably by 15.1%, y-o-y, by end August 2021, which, along with the rapid expansion in credit to the public sector, resulted



## Monetary Expansion during the COVID-19 Pandemic

The outbreak of the COVID-19 pandemic and its unprecedented impact on economies and financial markets forced central banks around the world to adopt extraordinary monetary policy measures, including unconventional policies at an unparalleled scale, to mitigate its impact on their economies and financial markets and prevent those economies from precipitating into a pandemic-driven crisis. The Sri Lankan case was no different. The spread of COVID-19 in Sri Lanka led to a nationwide lockdown during March-May 2020 sending tremors across all segments of the economy, followed by partial lockdowns and mobility restrictions with the resurgence of the pandemic in multiple waves thereafter, thus affecting the lives and livelihoods of millions. Restrictions on mobility, the closure of factories, and the halting of domestic production were set to amplify uncertainty and trigger a massive shock on domestic demand. A swift and substantial policy intervention was required to minimise the impact of the shock on the markets and the economy.

Accordingly, the Central Bank of Sri Lanka adopted a series of policy easing measures at the onset of the pandemic. With a view to reducing the cost of borrowing, the Central Bank reduced its key policy interest rates, while reducing specific lending rates through the imposition of caps as well as the introduction of special low interest rate loan schemes. Further, the reduction of the SRR, provision of required financing to the Government through the purchase of Treasury bills, and the implementation of concessional credit schemes such as the Saubagya COVID-19 Renaissance Facility infused liquidity to the domestic financial market, thereby easing strains in the financial markets, while also encouraging lending to the needy sectors of the economy. The Central Bank provided further relief to distressed businesses and individuals affected by the pandemic by implementing several debt moratoria schemes, while also supporting financial institutions through regulatory forbearance. In addition, the Central Bank continued to fulfill the currency requirements to facilitate transactions in the domestic economy and the increased precautionary demand for currency amidst pandemic-related uncertainties.

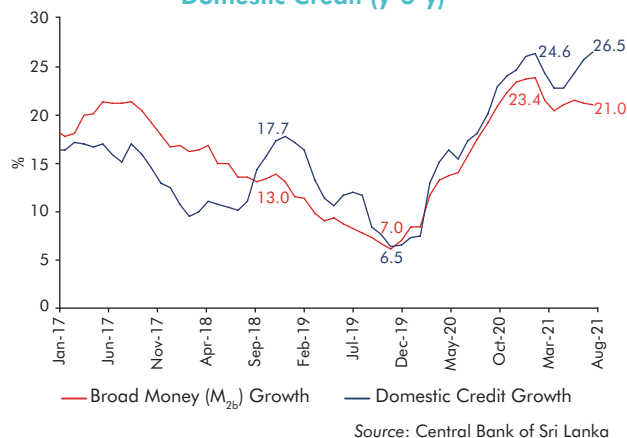
Reinforced by these stability-focused and growth-supportive measures implemented by the Central Bank, the domestic economy managed to avert a major economic catastrophe, made gradual headway, and recorded a noteworthy recovery in economic activity and sentiments. Moreover, a notable increase in the provision of low cost credit to the needy and more productive sectors of the economy was also observed, thereby further enhancing its growth prospects. The World Economic Outlook of the IMF also suggested that if not for the swift policy support globally, the severity of the global economic downturn could have been at least three times as large, which signifies the importance of policy stimuli and the possible economic loss if not for such policy support.

With economic activity around the globe gradually reaching normalcy supported by policy stimuli and the successful rollout of the COVID-19 vaccination programmes, central banks around the globe have signalled the need to tighten monetary policy, with some already having taken measures to rollback the support extended since the onset of the pandemic. In the same vein, the Central Bank of Sri Lanka, having observed the gradual normalisation of domestic economic activity and the resultant buildup of demand driven inflationary pressures in the future, allowed monetary conditions to tighten since mid 2021 and signalled the end to its easing monetary policy stance in mid August 2021 by raising its key policy rates, while raising the SRR with effect from 01 September 2021. Furthermore, the maximum yield rates for acceptance at primary auctions of government securities were also removed mid September 2021 onwards, allowing yields on government securities to adjust and be market-determined, while also limiting the need for the Central Bank's purchases of Treasury bills at the primary market auctions. In addition, the Central Bank has continued to conduct overnight and term repurchase (repo) auctions amidst deficit liquidity levels in the domestic money market with a view to maintaining the prevailing tight monetary conditions. Lastly, having identified the need to rollback the notable levels of financing extended to the Government during the pandemic, the Central Bank would work towards gradually unwinding such monetary stimulus as enunciated in *'The Six-Month Road Map for Ensuring Macroeconomic and Financial System Stability'*, with a view to preserving macroeconomic and financial system stability without affecting the ongoing recovery of the domestic economy.

in broad money supply ( $M_{2b}$ ) to grow by 21.0%, y-o-y, by end August 2021. However, the Central Bank implemented monetary tightening measures in mid August 2021, due to the imbalances that emerged in the domestic financial markets and the external sector, while also considering the possible buildup of inflationary pressures resulting from the lagged effects of large fiscal and monetary stimuli already provided

to the economy. Accordingly, the key policy interest rates, i.e., SDFR and SLFR, were raised by 50 bps to 5.00% and 6.00%, respectively, and SRR was raised by 2 pps to 4.00%, effective from September 2021. Market interest rates, which declined notably since early 2020 reflecting the passthrough of extraordinary monetary easing measures, commenced responding to monetary and liquidity tightening measures of the Central Bank.

**Figure 1.8**  
Growth of Broad Money ( $M_{2b}$ ) and Domestic Credit (y-o-y)



**Table 1.1**  
Recent Monetary Policy Measures

Date	Measure
30 Jan 2020	SDFR and SLFR reduced by 50 bps to 6.50% and 7.50%, respectively.
17 Mar 2020	SDFR and SLFR reduced by 25 bps to 6.25% and 7.25%, respectively.
17 Mar 2020	SRR reduced by 1.00 pp 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 a cumulative value of Rs. 50 bn at an interest rate of 4.00% to support the businesses affected by COVID-19.
03 Apr 2020	SDFR and SLFR reduced by 25 bps 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 bps to 10.00% and allowed to automatically adjust in line with the SLFR, with a margin of +300 bps.
06 May 2020	SDFR and SLFR reduced by 50 bps 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 pps to 2.00% to be effective from the reserve period commencing 16 Jun 2020.
16 Jun 2020	Extended the concessional loan scheme introduced on 27 Mar 2020 up to Rs. 150 bn at an interest rate of 4.00% to support the businesses affected by COVID-19 (the Saubagya COVID-19 Renaissance Facility - Phase II)
09 Jul 2020	SDFR and SLFR reduced by 100 bps to 4.50% and 5.50%, respectively. Bank Rate automatically reduced to 8.50%.
19 Aug 2021	SDFR and SLFR increased by 50 bps to 5.00% and 6.00%, respectively. Bank Rate automatically increased to 9.00%.
19 Aug 2021	SRR increased by 2.00 pps to 4.00% to be effective from the reserve period commencing 01 Sep 2021.

Source: Central Bank of Sri Lanka

Note: The Central Bank imposed caps on interest rates and lending targets as follows:

- 27 Apr 2020 : Imposed interest rate caps on pawning advances of licensed banks
- 24 Aug 2020 : Tightened interest rate caps on selected lending products
- 26 Nov 2020 : Introduced maximum interest rates on mortgage-backed housing loans
- 21 Apr 2021 : Introduced priority sector lending targets for licensed banks on MSMEs

## Financial Sector

Amidst challenging global and domestic macroeconomic conditions stemming from the pandemic, the financial sector remained resilient during the period under review. Assets of the banking sector grew together with increasing profitability. However, the banking sector faced challenges due to declining foreign currency liquidity and deteriorating credit quality. Meanwhile, the LFCs and SLCs sector recorded a marginal increase in the asset base. Despite some LFCs and SLCs making losses, profitability of the sector as a whole increased, although the rise in NPLs remained a concern. Nevertheless, licensed banks and LFCs and SLCs reported adequate provisioning, capital and liquidity buffers, thereby ensuring their soundness. The Central Bank renewed the Master Plan for Consolidation of the financial sector to overcome the longstanding issues in the sector. The consolidation process is in progress, aimed at encouraging mergers and acquisitions, and new capital infusion to the sector. Other subsectors in the financial sector, such as insurance, stockbrokers, unit trusts, and provident funds, recorded a mixed performance during the period under consideration. With regard to financial markets, liquidity in the domestic money market declined considerably in July 2021 and turned negative by August 2021, reflecting mainly the effects of monetary policy and operations, while the domestic foreign exchange market encountered pressures due to large outflows amidst subdued inflows. However, the equity market recorded a remarkable performance, despite some volatilities and foreign investment outflows. The financial infrastructure ensured a smooth functioning of the financial sector, despite heightened uncertainties due to the COVID-19 pandemic.

### 1.2 International Economic Environment

The global economy recorded a gradual recovery from the effects of the pandemic, despite notable disparities across economies. According to the WEO of the IMF released in October 2021, the global economy, which contracted by 3.1% in 2020, is projected to grow by 5.9% in 2021 and 4.9% in 2022. Large disparities in access to vaccines and policy support remain major concerns due to their impact on economic prospects. Aggregate output for advanced economies is expected to rebound to its pre-pandemic growth path in 2022 and exceed it by 2024, while the projected growth of emerging



market and developing economies (excluding China) is expected to remain below the pre-pandemic forecast in 2024. Accordingly, advanced economies are projected to grow by 5.2% and 4.5% in 2021 and 2022, respectively. The United States is projected to grow by 6.0% in 2021 and 5.2% in 2022, compared to a contraction of 3.4% in 2020. Economic activity in the euro area is projected to pick up markedly from a contraction of 6.3% in 2020 to a growth of 5.0% in 2021 and 4.3% in 2022. Emerging market and developing economies, which contracted by 2.1% in 2020, are expected to grow by 6.4% in 2021, followed by 5.1% in 2022. Strong growth of 7.2% and 6.3% projected for 2021 and 2022, respectively, for emerging and developing Asia, is mainly based on the expected high growth in China and India. Despite the reduction in public investment, the Chinese economy is expected to grow by 8.0% in 2021 before slowing to 5.6% in 2022. Growth prospects for India remain robust where the economy is projected to grow by 9.5% in 2021 and 8.5% in 2022.

Inflation rates have increased rapidly across economies so far in 2021, partly fuelled by the strengthening of economic activity as well as global supply chain disruptions amidst the pandemic. Consumer prices in some advanced economies and emerging market and developing economies have increased at a faster pace, reflecting the combined effect of pandemic induced supply-demand mismatches, rising commodity prices, and policy related developments, such as the expiration of temporary tax cuts introduced last year in some countries.

Uncertainties about global inflation remain high, as some major central banks predict that the pressures on global commodity prices could last longer than previously anticipated. Price pressures in emerging market and developing economies are also expected to persist due to high food prices, lagged effects of high energy prices, and currency depreciation, among others. Accordingly, consumer price inflation in advanced economies is projected at 2.8% in 2021, while that of emerging market and developing economies is expected to be 5.5% in 2021. With the expected economic recovery in advanced economies, oil prices are expected to increase by almost 60% in 2021. Non-oil commodity prices are expected to rise by nearly 30% above 2020 levels, particularly reflecting the recent spike in metal and consumer food prices. However, the price pressures are projected to ease to some extent

**Table 1.2**  
**Changes in Policy Interest Rates of**  
**Selected Central Banks**

Country	Key Policy Rate	End 2018	End 2019	End 2020	15 Oct 2021
Sri Lanka	SDFR	8.00	7.00	4.50	5.00
	SLFR	9.00	8.00	5.50	6.00
<b>Emerging Market Economies</b>					
India	Repo Rate	6.50	5.15	4.00	4.00
Malaysia	Overnight Policy Rate	3.25	3.00	1.75	1.75
Thailand	1-day Bilateral Repo Rate	1.75	1.25	0.50	0.50
China	1-year Loan Prime Rate	4.35	4.15	3.85	3.85
Indonesia	7-day Reverse Repo Rate	6.00	5.00	3.75	3.50
Philippines	Overnight Reverse Repo Rate	4.75	4.00	2.00	2.00
<b>Advanced Economies</b>					
USA	Federal Funds Rate	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25
UK	Bank Rate	0.75	0.75	0.10	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	1.75	1.75	0.25	0.25
Australia	Cash Rate	1.50	0.75	0.10	0.10
Sweden	Repo Rate	-0.50	-0.25	0.00	0.00

Source: Websites of respective central banks

over the medium term, supported by preemptive actions by central banks, as well as the expected improvement in global supply chains.

Significant uncertainties associated with the evolution of the pandemic, the inflation outlook and shifts in global financial conditions would continue to affect the resilience of the global economic recovery. Further, persistent supply-demand mismatches and resultant inflationary pressures leading to faster than anticipated monetary policy normalisation in advanced economies could tighten the global financial conditions. In addition, volatilities in financial markets, social unrest in some countries, adverse climate shocks, cyber attacks, and intensification of trade and technology tensions, etc., could weigh on the global economic recovery. Nevertheless, expediting the vaccination drive and the acceleration of productivity growth driven by technology would help strengthen the global economic recovery in the period ahead.

### 1.3 Expected Developments

Proactive measures aimed at the expeditious containment of the pandemic, rapid progress of the vaccination drive and continued policy commitment to creating an export oriented production economy are expected to help the economy to rebound during 2021 and to maintain a high growth trajectory thereafter. In 2021, the economy is expected to grow by about 5.0%, which is a downward revision over the initial projection of 6.0%, due to the moderation in economic

activity, particularly during the period from April to September 2021, owing to the imposition of mobility restrictions to contain the spread of the pandemic. However, the mobility restriction measures thus far in 2021 were less stringent, compared to the strict lockdown imposed in the first half of 2020. In addition, the Government's COVID-19 vaccination drive, which is aimed at vaccinating all citizens above the age of 18 years by the end of 2021, will further facilitate the continuation of economic activity. Meanwhile, the 'Six-Month Road Map', announced by the Central Bank on 01 October 2021, introduced multiple measures to be implemented in collaboration with all stakeholders in the economy, targeting the revival of economic activity in the short run, as well as the medium to long run, thereby complementing the measures being implemented by the Government. These measures will help bolster investor confidence and improve the doing business environment, while fostering macroeconomic and financial system stability.

**Implementation of structural reforms remains crucial in strengthening the medium to long term growth trajectory of the economy...**

The medium term growth trajectory centres on the ongoing thrust of the Government towards creating an export oriented production economy, with greater diversification of economic activity. Large scale investments, such as the Colombo Port City project and the development of industrial zones such as the Hambantota Industrial Zone, are expected to attract much needed foreign capital in the period ahead. The Government's regional development initiatives are expected to minimise income disparities in the country and promote inclusive growth. Once near term stabilisation objectives are achieved, the envisaged high growth trajectory in the post-pandemic economy is expected to translate into increased employment opportunities, high living standards, and sustainable growth. Supported by these policy endeavours, economic growth is expected to rebound and steadily progress above 5.0% in the medium term, thereby ensuring the shared benefits of growth in the country. However, effective implementation of the long awaited and growth inducing structural reforms is important for the country to overcome heightened vulnerabilities witnessed amidst the pandemic.

The resilience of the external sector is expected to improve in the period ahead, supported by the measures undertaken for export promotion and attracting non debt creating foreign inflows, alongside the revival of the tourism industry. The rising energy and other commodity prices, driven by the global economic recovery as well as supply chain disruptions, together with the recovery of domestic activity and the gradual relaxation of import compression measures, could raise import expenditure in the period ahead, although the observed rise in import alternative production

**The external sector resilience is expected to be reinforced in the period ahead with the expected foreign exchange inflows...**

processes is likely to help reduce import expenditure to some extent. However, the notable growth in merchandise exports, witnessed thus far in 2021, is expected to continue in the period ahead, thereby cushioning the trade deficit to some extent. The emphasis placed by the Government on promoting certain industries is expected to provide the impetus needed to sustain the growth momentum in the export sector in the period ahead. In addition to merchandise trade sectors, the Government is in the process of actively promoting trade in services and inflows on account of workers' remittances. Further, the development of the national trade policy, ongoing infrastructure improvements, establishment of special economic zones, and strengthening economic diplomacy with major trade partnering countries/regions are expected to broaden the potential for Sri Lanka's exports in the medium term.

The tourism sector is expected to mark a strong recovery with the successful rollout of the national vaccination drive, and the gradual phasing out of the mobility restrictions, alongside the improved momentum in global travel. Workers' remittances are expected to improve from the levels observed in August and September 2021, as the departures for foreign employment are expected to rise with improving global travel and firming demand for labour as global activity normalises. Further, the stabilisation of the exchange rate in the domestic foreign exchange market, and the narrowing differential of exchange rates between the official and the grey markets would help attract more foreign remittances through formal channels.

Improved competitiveness of the Sri Lanka rupee, as reflected in the REER indices, alongside the efforts of the Government, particularly through the sectoral task forces, to promote merchandise exports and trade in services, the trade balance as well as the external current account balance, as a percentage of GDP, are expected to improve in the medium term.

**The recently announced 'Six-Month Road Map' sets out strategies to reinforce the stability of the external sector in the near to medium term, and is also aimed at restoring confidence of all stakeholders in the economy...**

Financial flows are expected to strengthen in the period ahead with the envisaged inflows in the form of international swap arrangements, foreign currency term loans, project loans to the Government, and monetising of non strategic assets. Further, several FDI projects are currently in the pipeline and are being expedited. The expected improvements in the BOP would bolster foreign assets of the country, while improving gross official reserves and strengthening exchange rate stability in the period ahead. Gross official reserves are expected to remain at around USD 3.5 bn at end 2021, and around USD 4.0 bn on average in 2022.

With appropriate adjustments, fiscal sector performance is expected to improve over the medium term, despite the envisaged expansion of the budget deficit in 2021 amidst the cashflow disruptions due to the pandemic. Government revenue mobilisation is expected to improve in the medium term as economic activity normalises. Further, the envisaged expenditure rationalisation efforts would help create much needed fiscal space for productive public investment over the medium term. In line with improved revenue and rationalised expenditure of the Government, the budget deficit is expected to reduce gradually over the medium term, as enunciated in the medium term policy framework of the Government. In line with the reduction of the budget deficit, the current account and primary balances are also expected to improve over the medium term, thereby supporting debt consolidation efforts of the Government. Accordingly, the outstanding central government debt to GDP ratio is expected to decline

in the medium term, supported also by improvements in economic growth. The financing strategy of the Government is expected to lower the foreign exposure of government liabilities, thereby helping to reduce vulnerabilities associated with foreign debt service payments. The exposure to ISBs is expected to decline to 16.0% of estimated GDP by end 2021 from 17.9% of GDP recorded at end 2019, and it is projected to reduce further to around 10% of GDP over the medium term.

Reflecting the tight monetary and liquidity conditions since mid August 2021, market interest rates are expected to stabilise at a higher level in the period ahead. However, tightening of the monetary policy stance is not expected to result in a return to the excessively high interest rates that prevailed in the past. The market lending rates are expected to be at competitive levels to support sustainable credit flows to the private sector, while deposit rates are expected to provide real returns to savers. Despite the increase in market lending rates, the momentum in credit expansion is expected to continue in the period ahead, with increasing credit flows to productive and needy sectors of the economy.

The upward adjustments in retail market prices of some commodities, mainly driven by supply side factors and increased global commodity prices, are likely to increase inflationary pressures in the near term, causing a deviation of headline inflation from the targeted levels. Accordingly, inflation is projected to remain high at around 8-9% in the next few months, before gradually reverting to the desired 4-6% level thereafter. Addressing near term transitory supply side pressures require timely measures by the Government, thereby preventing such inflationary pressures from affecting the medium term inflation expectations. Measures taken by the Central Bank will help alleviate the buildup of demand side inflationary pressures, alongside the gradual unwinding of the Central Bank's holding of government securities, and the Central Bank remains committed to maintaining headline inflation in the 4-6% range over the medium term, within the flexible inflation targeting framework by taking preemptive measures, as and when required.

With the economy gradually adjusting towards a new normal from the adverse effects of the pandemic, the banking sector is envisaged to maintain its growth momentum in the period ahead. The scaling back of

debt moratoria could affect NPLs, while it will also impact positively on the liquidity levels of the banking system. Pressures on foreign currency liquidity in the banking sector are expected to ease with the implementation of measures to enhance the foreign reserves of the country. Measures implemented to enhance the stability and resilience of the banking sector by way of retention of profits and raising new capital to meet the increased minimum capital requirements by end 2022 will improve capital levels of the banks and provide necessary capital buffers for future growth of the banking sector. In the non-bank financial institutions sector, the Finance Business Act and the Finance Leasing Act are being amended to strengthen the resolution framework and to address the concerns raised on leasing business related laws. Further, regulatory framework will be strengthened to promote good governance and facilitate technology driven financial intermediation through the LFCs sector. Successful implementation of the Master Plan for Consolidation is expected to build 25 strong and stable LFCs, while strengthening the capital levels of the sector in the medium term.

The extraordinary fiscal and monetary policy stimulus provided to the economy, the rapid

**Post-pandemic economic recovery will depend largely on the ability of the economy to adapt fast to the new normal, and this adaptation will require bold measures from all stakeholders of the economy...**

rolling out of the national vaccination programme against COVID-19 and the expected revival in global economic activity are expected to support Sri Lanka's near term growth prospects. However, the envisaged post-pandemic economic recovery and achievement of a high and sustainable growth path while maintaining macroeconomic and financial system stability depend largely on the ability of the economy to adapt fast to the new normal. This adaptation will require bold measures from all stakeholders to enable the economy to swiftly implement evidence based policies aimed at improving efficiency, productivity and resilience of the economy. Although reform policies may entail near term adjustment costs, long term benefits accruing to the wider economy would exceed such costs in the period ahead.

### Abbreviations and Acronyms

ASPI	: All Share Price Index	M <sub>2b</sub>	: Consolidated broad money supply
AWCMR	: Average Weighted Call Money Rate	mn	: Million
AWDR	: Average Weighted Deposit Rate	MSMEs	: Micro, Small, and Medium scale Enterprises
AWFDR	: Average Weighted Fixed Deposit Rate	NCG	: Net Credit to the Government
AWLR	: Average Weighted Lending Rate	NCPI	: National Consumer Price Index
AWPR	: Average Weighted Prime Lending Rate	NEER	: Nominal Effective Exchange Rate
bn	: Billion	NPL	: Non Performing Loans
BOP	: Balance of Payments	PAL	: Ports and Airports Development Levy
bps	: Basis Points	PBOC	: People's Bank of China
BT	: Before Tax	pps	: Percentage Points
CCPI	: Colombo Consumer Price Index	Prov.	: Provisional
CDB	: China Development Bank	REER	: Real Effective Exchange Rate
CESS	: Commodity Exports Subsidy Scheme	Rs./LKR	: Sri Lanka Rupee
CSE	: Colombo Stock Exchange	SDFR	: Standing Deposit Facility Rate
DBU	: Domestic Banking Unit	SDR	: Special Drawing Rights
DCS	: Department of Census and Statistics	SLC	: Specialised Leasing Companies
DIEs	: Direct Investment Enterprises	SLFR	: Standing Lending Facility Rate
FDI	: Foreign Direct Investment	SOBES	: State Owned Business Enterprises
GDP	: Gross Domestic Product	SRR	: Statutory Reserve Ratio
GWP	: Gross Written Premium	T-bill	: Treasury bill
IMF	: International Monetary Fund	tn	: Trillion
ISB	: International Sovereign Bond	USD	: United States Dollar
IT/BPO	: Information Technology and Business Process Outsourcing	VAT	: Value Added Tax
LFC	: Licensed Finance Companies	WEO	: World Economic Outlook
LFPR	: Labour Force Participation Rate	y-o-y	: Year-on-Year
LPG	: Liquefied Petroleum Gas	y-t-d	: Year-to-Date





## National Output, Expenditure and Employment

**T**he Sri Lankan economy grew by 8.0% during the first half of 2021, recovering from the contraction of 9.1% recorded during the corresponding period of 2020, amidst the headwinds from the renewed flare-ups of the COVID-19 pandemic. Higher growth recorded during the first half of the year was largely supported by focused restrictive measures, which provided more room for conducting economic activities and the favourable base effect, which resulted from the significant contraction in the economy during the corresponding period of 2020 due to the stiff restrictions on mobility imposed countrywide. Accordingly, all three major economic activities, namely Services, Industry and Agriculture expanded during the first half of 2021. Further, both investment and consumption expenditure increased during this period while net external demand deteriorated. Reflecting the increase in economic activities, several labour market indicators showed improvements during the first half of 2021, compared to the corresponding period of 2020.

### 2.1 Output

The economy grew at a healthy rate of 8.0% during the first half of 2021 amidst the disturbances which emanated from the third wave of the pandemic, compared to the contraction of 9.1% recorded in the corresponding period of 2020. This higher growth was fuelled by the favourable growth recorded in the first quarter of 2021 and the double digit economic growth recorded in the second quarter of 2021. All three major economic activities recorded substantial growth rates during the first half of the year with Industry activities being the major contributor. Accordingly, Industry, Services and Agriculture activities grew by 12.1%, 5.1% and 7.1%, respectively, during the first half of the year.

**Industry activities drove the economy during the first half of the year, followed by the favourable contribution of Services and Agriculture activities...**

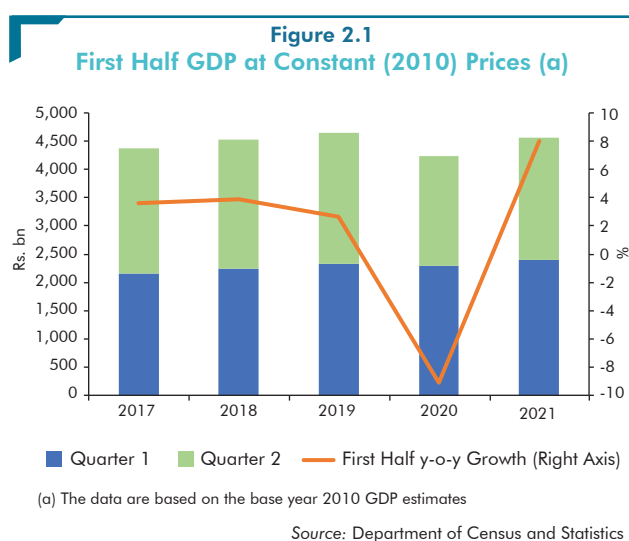
#### Services

Services activities were largely supported by the expansion in financial services, transportation, wholesale and retail trade, real estate and other personal service activities. Further, telecommunication, and IT programming and consultancy activities also recorded favourable double digit growth rates during the period. However, accommodation, food and beverage services contracted during the first half of the year.

Wholesale and retail trade, transportation and storage, accommodation, food and beverage service activities grew by 3.7% during the first half of 2021, compared to 8.6% contraction recorded in the corresponding period of 2020. This growth was mainly attributable to the expansion in transportation of goods and passengers including warehousing activities by 8.1% per cent during the first half of 2021. Meanwhile, wholesale and retail trade activities also expanded by 2.3% during this period. However, accommodation, food and beverage service activities contracted by 13.4% during the first half of 2021, due to continuous disturbances that prevailed worldwide for tourism activities with the recurring waves of the pandemic.

Information and communication activities grew by a higher rate of 18.9% during the first half of 2021, compared to 13.4% growth recorded in the corresponding period of 2020. This higher growth was mainly attributable to the significant growth of 19.3% recorded in telecommunication activities during the first half of 2021, supported by greater demand for telecommunication services amidst the continuation of working-from-home and learning-from-home arrangements. Further, IT programming consultancy and related activities grew at a higher rate of 19.9% during the first half of 2021, reflecting the resilience of the IT/BPM industry, especially benefitting from higher demand owing to digital transformation under the new normal.

**The growth in Services activities was mainly driven by financial services, transportation, and wholesale and retail trade activities...**



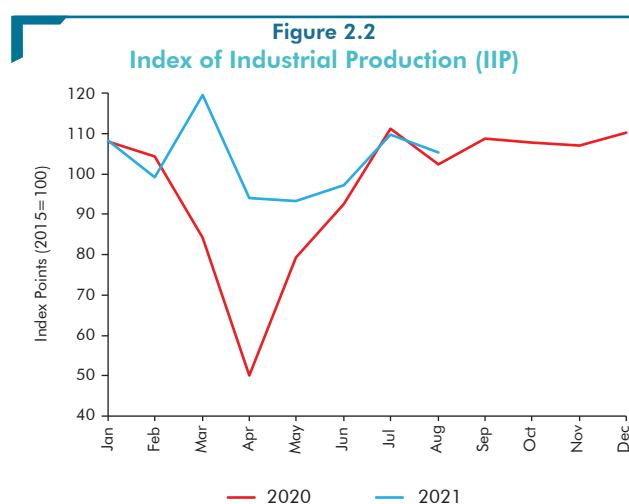
Financial, insurance, and real estate activities, including ownership of dwellings grew at a higher rate of 10.1% during the first half of 2021, compared to 1.3% growth in the corresponding period of 2020. This was mainly driven by higher growth of 13.8% recorded in financial service activities and auxiliary financial services during the first half of 2021. Further, real estate activities, including ownership of dwellings grew by 4.6% during this period.

Considering other Services related activities, other personal services, professional services, public administration, defence, education, human health and social work activities grew during the first half of 2021, compared to the corresponding period of 2020. Accordingly, other personal service activities recorded a growth of 2.2% during the first half of 2021, which recorded a substantial contraction during the same period of 2020. Further, human health activities, residential care and social work activities grew by 3.6% while public administration and defence related services recorded a growth of 1.2% during this period continuing the growing trend which prevailed during the first half of 2020, partly supported by the Government's involvement in managing the COVID-19 pandemic.

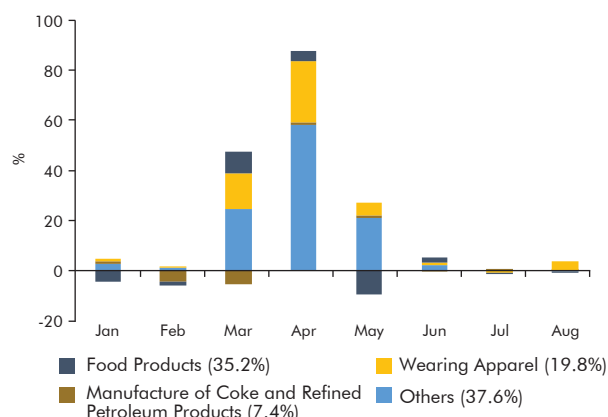
## Industry

The expansion in Industry activities was mainly driven by the favourable growth in manufacturing activities. In the meantime, the recovery in construction, and mining and quarrying activities also contributed to the overall growth of Industry activities.

The performance of the Industry sector, as reflected in the y-o-y growth of the IIP, was largely facilitated by selective less-rigid mobility restrictions imposed from the latter part of April 2021 that allowed major industrial activity to continue without disruptions. Further, the COVID-19 vaccination drive that picked up pace especially from July 2021 also enabled the continuity of industrial activity, amid the third wave of the pandemic.



**Figure 2.3**  
**Contribution to y-o-y Change in IIP**



Source: Department of Census and Statistics

Despite disruptions related to COVID-19, with the exception of February and July 2021, industrial production showed a y-o-y growing trend during the eight months ending August 2021.

**The recovery in manufacturing, construction and mining activities induced the expansion in Industry activities...**

Notably, the highest value of the IIP since its inception was reported in March 2021. Accordingly, the IIP for March 2021 stood at 119.6. Of the key sectors in the IIP, the manufacture of wearing apparel and manufacture of textiles categories were the key contributors to the upward trajectory of the index during this period. Overall, other key categories relating to the manufacture of food products, coke and refined petroleum products, rubber and plastic products and other non-metallic mineral products also contributed positively during this period, despite some minor occasional declines.

During the period thus far in 2021, there have been several initiatives spearheaded by the Government to uplift the Industry sector, especially in relation to improving the sector's contribution to the productive capacity of the economy while also improving its export orientation. Recognising the need for a comprehensive and holistic policy document for industrial sector development, the Ministry of Industries initiated the formulation of the National Policy for Industrial Development. The document is expected to serve as a guiding framework for public and private industries



while also ensuring that the industrial development process is aligned with the Government's National Policy Framework and gives due consideration to the SDGs.

The Ministry of Industries and the EDB were also engaged in policy initiatives targeted at industries that had been already earmarked by the Government. In this regard, approval was granted by the Cabinet of Ministers for the Standard Operating Procedure for the Automobile Manufacturing/Assembly Industry and Automobile Components Manufacturing Industry, while the preparation of the regulatory framework for the Boat Building industry was underway. Initiatives have also been taken to identify the skill gaps and training required to develop the Electrical and Electronics Industry in Sri Lanka.

The recent establishment of the National Innovation Agency is a welcome initiative to enable the harnessing and commercialisation of innovation across all spheres of the economy, which can pave way for the effective positioning of Sri Lanka in Global Value Chains.

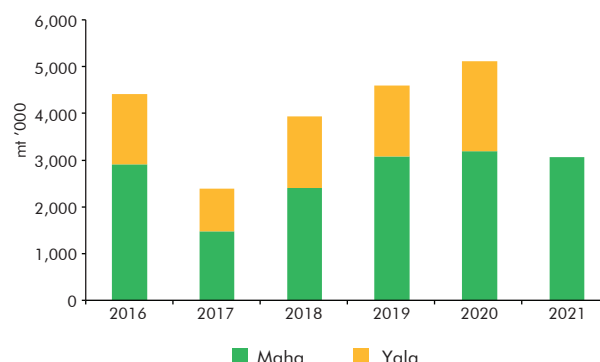
### Agriculture

The expansion in Agriculture activities was driven mainly by the significant increases in growing of tea, animal production and growing of oleaginous fruits (including coconut) during the first half of the year. Further, growing of fruits, rubber, spices, other cereals, vegetables, and forestry and logging activities also contributed positively towards the expansion in overall Agriculture activities. However, growing of rice and other perennial crops contracted during this period.

**The expansion in Agriculture activities was mainly driven by the growth in tea and animal production activities...**

Paddy production in the 2020/21 Maha season declined by 4.2% in comparison to the bumper harvest recorded in the previous Maha season. On the other hand, tea and rubber production recorded a significant recovery in the eight months ending August 2021, supported by the favourable weather conditions and low base effect of last year. Accordingly, on a y-o-y basis, tea and rubber production grew by 17.9% and 12.1%, respectively, during the period from January to

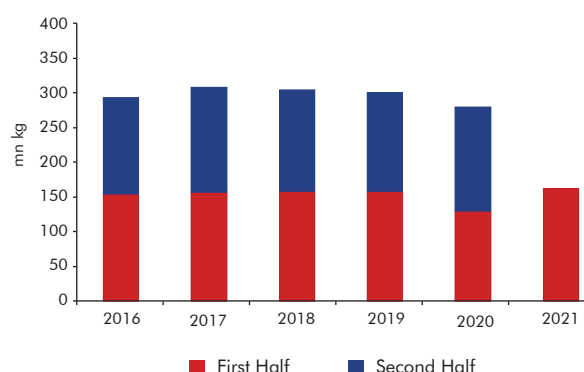
**Figure 2.4**  
Paddy Production



Source: Department of Census and Statistics

August 2021. Tea production in all three elevations, namely, high grown, medium grown and low grown, increased during the eight months ending August 2021. Meanwhile, with the escalation of tea and rubber prices in the global market, FOB prices increased, y-o-y, for both tea and rubber. During January to August 2021, coconut production expanded by 10.1% supported by the lagged effects of favourable weather conditions that prevailed in the preceding year. However, fish production declined marginally by 0.2% on a y-o-y basis during the eight months ending August 2021 on account of the reduction in marine fish production by 2.2%. This was due to the disruptions that occurred in marine fish supply chains, particularly during the second wave of the pandemic, as well as due to the incident of a large vessel catching fire off the coast of Colombo, causing severe damage to marine resources. However, inland fishing activities registered a y-o-y growth of 6.8% during the eight months ending August 2021. Although vegetable production marginally declined in the first half of 2021, other field crop production recorded a notable y-o-y expansion of 39.6% with the increased production of big

**Figure 2.5**  
Tea Production



Source: Sri Lanka Tea Board

onion, maize, black gram and green gram. The livestock sector fared well in the first half of 2021, with increased production of milk, eggs and poultry meat.

Amid the COVID-19 pandemic, with due consideration to supporting the livelihood of farmers while also ensuring food security and addressing longstanding environmental issues related to agriculture, the Government has undertaken several interventions during the year, thus far. One of the longstanding initiatives in this regard was the paddy purchasing programme, which was continued with the imposition of guaranteed prices of Rs. 50.00/kg for Nadu, Rs. 52.00/kg for Samba and Rs. 55.00/kg for Keeri Samba categories in order to provide fair prices for farmers. Meanwhile, the PMB applied a deduction of Rs. 8.00/kg from the guaranteed price for wet paddy. The PMB purchased around 45,000 mt of paddy stocks from the 2020/2021 Maha harvest while only around 6,786 mt were purchased in the 2021 Yala season. Meagre warehouse facilities, drying facilities, and transportation facilities of the PMB have weakened the Government's paddy purchasing programme, limiting the Government's ability to intervene and stabilise the prices in the market. With the concentration of market power among few millers and the MRPs for rice, shortages in rice supplies and sharp price escalations were observed in the local markets. Although an extraordinary gazette was issued on 02 September 2021 imposing MRPs of Rs. 103.00/kg for Samba and Rs. 98.00/kg for Nadu, the gazette was revoked at end September to avoid any further shortages and ensure consistent rice supply.

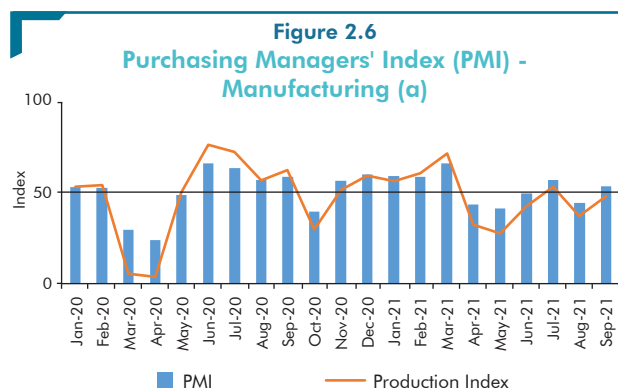
In line with the Government's National Policy Framework, '*Vistas of Prosperity and Splendour*', a ban was imposed on the importation of chemical fertilisers and other agrochemicals in May 2021 while promoting domestic organic fertiliser production with the aim of shifting the economy towards organic agriculture. Accordingly, farmers who produce and use organic fertiliser for their own paddy cultivation will be given an incentive of Rs. 12,500 per hectare, with a maximum of two hectares from the 2021/22 Maha season. However, considering widespread concerns among stakeholders on possible loss in food production, lower income for farmers, potentially higher food import costs and loss of foreign exchange earnings, and food security issues, particularly due to limited availability of organic fertiliser in the country, the Government has taken steps to import

advanced types of inorganic fertilisers, mineral fertilisers and agrochemicals for several crops, such as paddy, tea and coconut from the 2021/22 Maha season. Meanwhile, a Presidential Task Force for Green Agriculture was appointed in October 2021 with the aim of promoting organic agriculture especially via the formulation of a systematic programme for the sustainable maintenance of green agriculture, identification of suitable organic fertiliser for various crops and improving the quality of crops, and the production of pesticides and weedicides locally.

### Production Side Developments as Reflected by the Purchasing Managers' Index (PMI) Surveys

The PMI for manufacturing activities denoted increases during the first half of 2021, except in the months of April, during which the seasonal demand normally declines, and in May, within which the resurgence of the third wave of the pandemic affected the economy. The expansion in the Manufacturing PMI during the first half was mainly driven by the m-o-m expansions in sub-indices related to Production and New Orders, especially driven by food and beverages, and textiles and wearing apparel sectors. During the third quarter, Manufacturing PMI increased in the month of

**Both Manufacturing and Services PMIs expanded up to September during 2021, except in April, May and August while the expectations for the rest of the year remain favourable...**



(a) PMI is based on a perception survey which captures monthly developments compared to the previous month. This is a diffusion index ranging from 0-100 where an index value above the neutral level of 50 denotes an expansion, while a value below 50 denotes a contraction in the respective activity in general.

Source: Central Bank of Sri Lanka

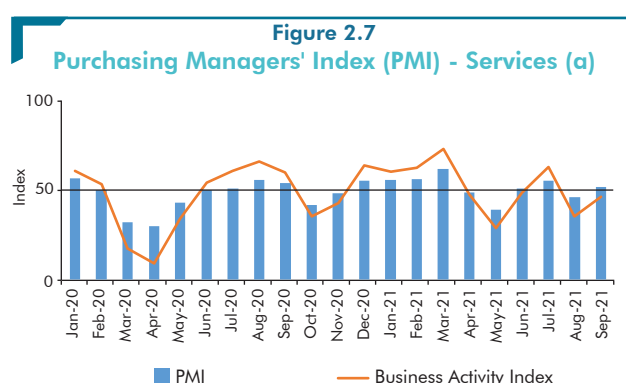
July at a higher rate particularly due to the expansion in the textiles and wearing apparel sector benefitting from the increase in export orders. However, the PMI contracted in August with the spread of the virus, and it bounced back in September to positive territory indicating an expansion on a m-o-m basis, mainly owing to an increase in new orders, particularly in the manufacture of textiles and wearing apparel and food and beverages sectors. Further, expectations for manufacturing activities for the next three months as per the September survey round remained at elevated levels, anticipating further improvements in economic conditions locally and globally with the gradual relaxation of restrictions and lessening of the pandemic situation.

Meanwhile, PMI for Services activities recorded increases during the first half of the year, mainly underpinned by the expansion observed in New Businesses and Business Activities, besides the declines recorded in the months of April and May. During April, extensive holidays amidst the impact from the onset of the third wave of the COVID-19 pandemic towards the latter part of the month led to this moderation in Business Activities. In May, the drop in demand for non-essentials and constraints to business operations amid travel restrictions imposed to contain the spread of the third wave of the COVID-19 pandemic affected the growth of Services activities. Financial services denoted a healthy performance throughout the period while transportation, other personal services, and wholesale and retail activities benefitted from the favourable environment that prevailed during the first quarter. During the second quarter,

health services improved with the resurgence of the pandemic while transportation and accommodation services were unfavourably affected. At the beginning of the third quarter, business activities across most of the sub sectors increased in line with the relaxation of the travel restrictions while in August, Business Activities such as wholesale and retail trade, real estate, insurance and other personal activities, reported considerable declines indicating the adverse effects of reimposition of travel restrictions. However, the Services PMI returned to the expansionary path in September with improvements observed in transportation, solely related to freight forwarding, and financial services, education and telecommunication sub sectors. Further, Expectations for Business Activities for the next three months increased in September, indicating a favourable outlook for the fourth quarter of the year.

### 2.2 Expenditure

GDE, which is the aggregate of consumption and investment expenditure of the economy, grew at current market prices by a higher rate of 16.5% during the first half of 2021 in comparison to the contraction of 5.0% recorded in the corresponding period of 2020. This growth was largely driven by the 16.5% expansion observed in the consumption expenditure, which recorded a contraction of 2.9% in the corresponding period of 2020. Further, recovering from 11.4% contraction recorded during the first half of 2020, the investment expenditure grew by 16.7% during the corresponding period in 2021, contributing favourably to the growth achieved as well as the expected economic recovery. In the meantime, net external demand contracted significantly by 55.2% during the first half of 2021 due to the increase of import of goods and services at a higher rate of 29.4% in comparison to the 19.1% increase in export of goods and services during the period. Subsequently, GDP at current market prices grew by 13.8% during the first half of 2021, compared to the contraction of 6.8% recorded in the corresponding period of 2020.

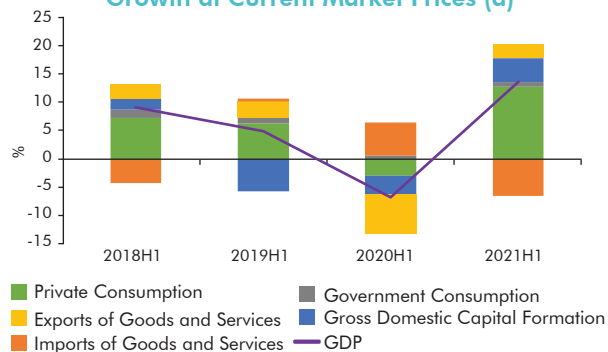


(a) PMI is based on a perception survey, which captures monthly developments compared to the previous month. This is a diffusion index ranging from 0-100 where an index value above the neutral level of 50 denotes an expansion, while a value below 50 denotes a contraction in the respective activity in general.

Source: Central Bank of Sri Lanka

**GDE expanded during the first half of the year with a higher growth in both Consumption and Investment while Net External Demand deteriorated...**

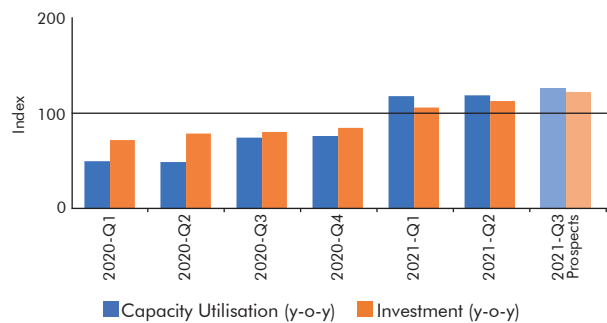
**Figure 2.8**  
Expenditure Category-wise Contribution to GDP Growth at Current Market Prices (a)



(a) The data are based on the base year 2010 GDP estimates

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

**Figure 2.10**  
Investment and Capacity Utilisation Indices (a)



(a) These indices are derived from the Business Outlook Survey and ranges from 0-200 where an index value above the neutral level of 100 denotes an improvement, while a value below 100 denotes a deterioration in the business sentiment.

Source: Central Bank of Sri Lanka

## Demand Side Developments as Reflected by the Business Outlook Survey (BOS)

As per the results of the BOS conducted by the CBSL on a quarterly basis, the balance of opinion on both demand and sales recorded an expansion during the first quarter as well as in the second quarter of 2021, compared to the corresponding periods of 2020. Further, the balance of opinion on capacity utilisation and investment also improved during the first and second quarters of 2021, compared to the corresponding periods of 2020, in line with the increase in sales and demand. Accordingly, the balance of opinion on demand, sales, investment and capacity utilisation improved, reflecting the higher economic growth achieved during the first half of the year. This improvement was mainly due to the strong seasonal demand that prevailed during the first quarter of 2021 compared to 2020 and the favourable developments in the economy during the second quarter of 2021 in comparison to the second quarter of last year where

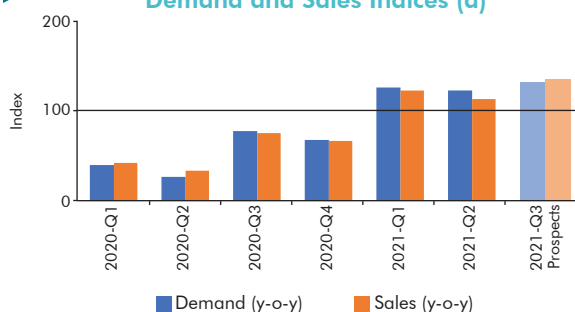
the demand side indicators were adversely affected owing to the islandwide lockdown. Moreover, demand and sales, investments as well as capacity utilisation are anticipated to increase during the third quarter, compared to the relevant period in the previous year reflecting the improved business prospects.

**As per the BOS, key demand side indicators improved during the first half of the year, compared to the previous year, while prospects for the third quarter also remain elevated...**

## 2.3 Employment

Most of the labour market indicators showed improvements in the first half of 2021, compared to the corresponding period of 2020, despite the resurgence

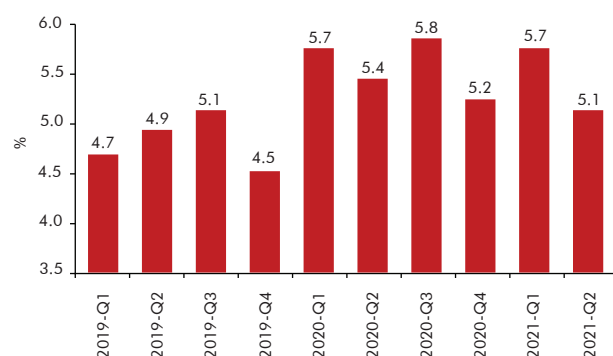
**Figure 2.9**  
Demand and Sales Indices (a)



(a) These indices are derived from the Business Outlook Survey and ranges from 0-200 where an index value above the neutral level of 100 denotes an improvement, while a value below 100 denotes a deterioration in the business sentiment.

Source: Central Bank of Sri Lanka

**Figure 2.11**  
Unemployment Rate



Source: Department of Census and Statistics

of the third wave of the pandemic during the second quarter of the year. Accordingly, the labour force, which is the economically active population, increased by 1.5% to 8.594 mn in the first half of 2021 from 8.469 mn recorded in the first half of 2020. However, the economically inactive population also increased at a higher pace to 8.466 mn in the first half of 2021 from 8.272 mn recorded in the corresponding period of the previous year due to the decrease in active job search amidst the spread of the third wave of the pandemic during the second quarter. Accordingly, the labour force participation rate, which is the ratio of the labour force to the household population, declined slightly to 50.4% in the first half of 2021 from 50.6% recorded in the first half of 2020. Nevertheless, the employed population increased by 1.7% to 8.131 mn in the first half of 2021 from 7.999 mn recorded in the corresponding period of 2020 reflecting an improvement in the creation of new employment opportunities during the period, yet remained below pre-pandemic levels. Consequently, the unemployment rate declined to 5.4% in the first half of 2021 from 5.6% recorded in the first half of 2020 also supported by the working age population moving out of the labour force amid the resurgence of COVID-19 and the imposition of travel restrictions. Accordingly, the unemployed population also declined to 0.463 mn in the first half of 2021 from 0.471 mn recorded in the first half of 2020. Following the trend observed during the first half of 2021, a further recovery in the labour market is expected in 2021 amid the anticipated growth in the economy.

***Labour force and employed population increased, while the unemployment rate declined during the first half of 2021 compared to the corresponding period of the previous year...***

Departures for foreign employment declined by 24.1% to 30,797 in the first half of 2021 from 40,581 in the corresponding period of the previous year due to the higher number of departures that occurred during the first quarter of 2020. Male and female departures for foreign employment contributed by 63.8% and 36.2%, respectively, to the total departures for foreign employment in the first half of 2021. Meanwhile, in line with the decline in departures for foreign employment, departures under most skill categories, namely, middle level, clerical and related, skilled, semi-skilled, unskilled and housemaid, except for the professional category, declined during the first half of 2021, compared to the corresponding period of 2020.

***An improvement in departures for foreign employment was observed during the first half of 2021 compared to the second half of 2020, yet remained below pre-pandemic levels...***



**Table 2.1**  
**Agriculture Production Index (2007-2010=100) (a)**

Item	2020 First Half (b)	2021 First Half (c)	Change %
<b>Agriculture and Fishing</b>	<b>120.7</b>	<b>122.1</b>	<b>1.2</b>
<b>1. Agriculture</b>	<b>120.3</b>	<b>121.1</b>	<b>0.7</b>
1.1 Agriculture Crops	113.9	112.0	-1.7
Paddy	171.0	163.7	-4.2
Tea	83.7	103.7	23.9
Rubber	56.0	64.9	15.8
Coconut	95.3	105.3	10.5
Other Crops	110.7	89.1	-19.6
o/w Vegetables	150.1	144.8	-3.6
Other Field Crops	168.6	214.0	27.0
1.2 Livestock	170.5	193.2	13.3
<b>2. Fisheries</b>	<b>122.7</b>	<b>127.0</b>	<b>3.5</b>

(a) Excluding fruits sub sector  
(b) Revised  
(c) Provisional

Source: Central Bank of Sri Lanka

**Table 2.2**  
**Trends in Paddy and Rice Production**

Category	Unit	2020 First Half (a)	2021 First Half (b)	Change %
1. Paddy Production	mt '000	3,197	3,061	-4.2
2. Net Extent Harvested	hectares '000	663	682	2.8
3. Yield Per Hectare (c)	kg/hectare	4,821	4,492	-6.8
		2020 Jan-Aug (a)	2021 Jan-Aug (b)	Change %
4. Paddy Price				
Samba	Rs./kg	49.07	60.58	23.5
Nadu	Rs./kg	46.84	52.75	12.6
5. Rice - Retail Price				
Samba	Rs./kg	101.97	132.20	29.6
Nadu	Rs./kg	99.20	112.72	13.6
6. Rice Imports	mt '000	11	10	-11.4

(a) Revised  
(b) Provisional  
(c) Yield per hectare is calculated by dividing total production by net extent harvested.

Sources: Department of Census and Statistics  
Hector Kobbekaduwa Agrarian Research  
and Training Institute  
Sri Lanka Customs  
Central Bank of Sri Lanka

**Table 2.3**  
**Trends in Tea, Rubber and Coconut Production**

Item	Unit	2020 Jan-Aug (a)	2021 Jan-Aug (b)	Change %
<b>1. Tea</b>				
1.1 Production (c)	kg mn	179	211	17.9
High Grown	kg mn	41	47	14.4
Medium Grown	kg mn	31	37	18.8
Low Grown	kg mn	107	127	18.9
1.2 Average Price				
Colombo Auction	Rs./kg	630.80	620.20	- 1.7
Export (FOB)	Rs./kg	858.25	925.90	7.9
<b>2. Rubber</b>				
2.1 Production	kg mn	50	56	12.1
Sheet	kg mn	25	28	12.1
Crepe	kg mn	9	10	11.7
Other	kg mn	16	18	12.3
2.2 Average Price				
Colombo Auction (RSS 1)	Rs./kg	309.24	448.60	45.1
Export (FOB)	Rs./kg	347.09	511.46	47.4
<b>3. Coconut</b>				
3.1 Production (d)	nuts mn	1,848	2,035	10.1
Desiccated Coconut (e)	nuts mn	157	182	15.8
Coconut Oil (e)	nuts mn	37	148	298.3
Virgin Coconut Oil (e)	nuts mn	124	130	4.4
Copra Exports (e)	nuts mn	5	2	-64.1
Fresh Nut (e)	nuts mn	11	9	-18.3
Coconut Cream, Milk Powder and Milk (e)	nuts mn	295	341	15.3
Domestic Nut Consumption (f)	nuts mn	1,218	1,223	0.4
3.2 Average Price				
Colombo Auction	Rs./nut	48.18	57.26	18.8
Retail	Rs./nut	70.20	84.74	20.7
Export (FOB) (g)	Rs./nut	49.69	66.45	33.7

- (a) Revised  
(b) Provisional  
(c) Elevational categories - Low grown - 0 to 610 metres above Mean Sea Level (MSL)  
Medium grown - 610 to 1,220 metres above MSL  
High grown - over 1,220 metres above MSL  
(d) Estimate (breakdown does not add up to total production due to adjustment for changes in stocks)  
(e) In nut equivalent, converted at  
1 mt Desiccated Coconut 8,960 nuts  
1 mt Coconut Oil 9,250 nuts  
1 mt Virgin Coconut Oil 13,700 nuts  
1 mt Copra 5,500 nuts  
1 mt Coconut Milk Powder 16,000 nuts  
1 mt Coconut Cream 8,960 nuts  
1 mt Coconut Milk 4,000 nuts  
(f) Per capita consumption during 2010 - 2011 is estimated at 95.52 nuts per annum while that from 2012 onwards has been revised to 87.20 nuts per annum (excludes industrial usage)  
(g) Three major coconut kernel products only

Sources: Sri Lanka Tea Board  
Rubber Development Department  
Coconut Development Authority  
Department of Census and Statistics  
Colombo Tea Brokers' Association  
Ceylon Chamber of Commerce  
Sri Lanka Customs  
Central Bank of Sri Lanka

**Table 2.4**  
**Trends in Fish Production**

Category	Unit	2020 Jan-Aug (a)	2021 Jan-Aug (b)	Change %
<b>Production</b>	<b>kg mn</b>	<b>283</b>	<b>283</b>	<b>-0.2</b>
<b>Marine</b>	<b>kg mn</b>	<b>222</b>	<b>217</b>	<b>-2.2</b>
Coastal and Lagoon	kg mn	126	117	-7.2
Off-shore	kg mn	96	100	4.5
<b>Inland Fisheries</b>	<b>kg mn</b>	<b>61</b>	<b>65</b>	<b>6.8</b>
Capture	kg mn	50	53	4.5
Aquaculture	kg mn	6	3	-49.4
Shrimp Farms	kg mn	4	9	115.1

- (a) Revised  
(b) Provisional

Source: Ministry of Fisheries



**Table 2.5**  
**Trends in Vegetables, Other Field Crops and Sugar Production**

Category	Unit	2020 First Half (a)	2021 First Half (b)	Change %
<b>1. Vegetables</b>				
1.1 Production	mt '000	894	884	-1.1
1.2 Extent Cultivated	hectares '000	68	67	-1.5
<b>2. Other Field Crops</b>				
2.1 Production	mt '000	421	587	39.6
2.2 Extent Cultivated	hectares '000	110	149	34.6
<b>3. Sugar</b>				
3.1 Production	mt '000	32	28	-12.4
3.2 Extent Cultivated	hectares '000	13	14	11.5

(a) Revised  
(b) Provisional

Sources: Department of Census and Statistics  
Lanka Sugar Company (Pvt) Ltd. – Pelwatte Unit  
Lanka Sugar Company (Pvt) Ltd. – Sevanagala Unit  
Galoya (Hingurana) Sugar Industries Ltd.

**Table 2.6**  
**Livestock Sector Statistics**

Sub sector	Unit	2020 First Half (a)	2021 First Half (b)	Change %
<b>1. National Milk Production</b>				
Cow Milk	mn litres	199	218	9.5
Buffalo Milk	mn litres	174	187	7.5
	mn litres	25	31	23.3
<b>2. National Egg Production</b>	mn	1,161	1,534	32.1
<b>3. National Poultry Meat Production</b>	mt '000	102	113	10.8

(a) Revised  
(b) Provisional

Source: Department of Animal Production and Health

**Table 2.7**  
**Index of Industrial Production (IIP) (2015=100)**

Item (a)	First Half 2020 (b)	First Half 2021 (b)	Change %	
			First Half 2019/20 (b)	First Half 2020/21 (b)
1. Manufacture of Food Products (35.2%)	106.8	105.9	3.4	-0.9
2. Manufacture of Beverages (3.8%)	80.9	105.8	-23.9	30.8
3. Manufacture of Tobacco Products (1.7%)	64.2	70.3	-21.2	9.5
4. Manufacture of Textiles (3.3%)	77.4	127.7	-24.9	65.0
5. Manufacture of Wearing Apparel (19.8%)	67.8	93.3	-42.2	37.7
6. Manufacture of Leather and Related Products (0.3%)	55.4	79.5	-49.2	43.6
7. Manufacture of Wood and Products of Wood and Cork, Except Furniture; Manufacture of Articles of Straw and Plaiting Material (0.2%)	68.1	88.2	-28.2	29.5
8. Manufacture of Paper and Paper Products (1.7%)	66.2	91.1	-29.2	37.5
9. Printing and Reproduction of Recorded Media (1.4%)	86.0	122.9	-14.8	43.0
10. Manufacture of Coke and Refined Petroleum Products (7.4%)	82.5	66.5	-20.3	-19.3
11. Manufacture of Chemicals and Chemical Products (4.1%)	78.8	89.2	-22.5	13.2
12. Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations (0.1%)	96.8	116.1	5.0	19.9
13. Manufacture of Rubber and Plastic Products (5.7%)	60.0	102.0	-46.0	69.9
14. Manufacture of Other Non-metallic Mineral Products (7.8%)	92.6	131.2	-18.2	41.7
15. Manufacture of Basic Metals (2.4%)	94.3	134.0	-21.6	42.0
16. Manufacture of Fabricated Metal Products (Except Machinery and Equipment)(1.3%)	91.1	132.3	-15.9	45.2
17. Manufacture of Electrical Equipment (2.0%)	60.5	84.4	-31.0	39.5
18. Manufacture of Machinery and Equipment n.e.c. (0.7%)	87.4	120.7	-8.4	38.1
19. Manufacture of Furniture (0.8%)	59.6	79.7	-37.0	33.8
20. Other Manufacturing (0.3%)	56.6	69.6	-10.2	23.0
<b>Index of Industrial Production</b>	<b>86.4</b>	<b>101.9</b>	<b>-19.0</b>	<b>18.0</b>

(a) Weights applicable for each division are in parenthesis

Source: Department of Census and Statistics

(b) Provisional

Note: IIP is compiled by the Department of Census and Statistics with the base year 2015 and classified in accordance with the International Standard Industrial Classification (ISIC) Revision 4

**Table 2.8**  
**Expenditure on Gross Domestic Product at Current Market Prices (a)(b)**

Rs. mn

Item	2019 (c)	2020		2021	Change %	
		First Half (c)	Annual	First Half	First Half 2019/20 (c)	First Half 2020/21
1. Private Consumption Expenditure	10,485,180	4,949,351	10,589,745	5,837,538	-4.3	17.9
2. General Government Consumption Expenditure	1,416,989	737,789	1,556,489	787,317	6.9	6.7
3. Gross Domestic Capital Formation	4,030,195	1,638,583	3,778,482	1,911,599	-11.4	16.7
4. Exports of Goods and Services	3,472,337	1,188,516	2,483,056	1,415,818	-32.7	19.1
5. Less: Imports of Goods and Services	4,391,746	1,662,814	3,434,777	2,152,012	-21.9	29.4
<b>Gross Domestic Product</b>	<b>15,012,953</b>	<b>6,851,425</b>	<b>14,972,995</b>	<b>7,800,259</b>	<b>-6.8</b>	<b>13.8</b>

(a) The data are based on the base year 2010 GDP estimates

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

(b) Provisional

(c) Revised

**Table 2.9**  
**Labour Force, Employment and Unemployment**

Item	2019	2020		2021 (a)	
		First Half	Annual	First Half	Annual (Projections)
Household Population, '000 (Aged 15 years and above)	16,424	16,741	16,739	17,060 (b)	17,066
Labour Force, '000	8,592	8,469	8,467	8,594	8,576
Employed, '000	8,181	7,999	7,999	8,131 (b)	8,117
Unemployed, '000	411	471	468	463 (b)	458
Labour Force Participation Rate (% of Household Population)	52.3	50.6	50.6	50.4	50.3
Unemployment Rate (% of Labour Force)	4.8	5.6	5.5	5.4	5.3

(a) Provisional

(b) Estimated based on the data published in Special Data Dissemination Standard

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

## Abbreviations and Acronyms

bn	: Billion	mn	: Million
BOS	: Business Outlook Survey	m-o-m	: Month-on-Month
CBSL	: Central Bank of Sri Lanka	MRP	: Maximum Retail Price
DCS	: Department of Census and Statistics	MSL	: Mean Sea Level
EDB	: Export Development Board	Mt	: Metric Tonne
FOB	: Freight on Board	PMB	: Paddy Marketing Board
GDE	: Gross Domestic Expenditure	PMI	: Purchasing Managers' Index
GDP	: Gross Domestic Product	R&D	: Research and Development
H1	: First Half	SDGs	: Sustainable Development Goals
IIP	: Index of Industrial Production	VAT	: Value Added Tax
IT/BPM	: Information Technology/Business Process Management	y-o-y	: Year-on-Year





## Economic and Social Infrastructure

**T**he Government continued its efforts to consistently provide economic and social infrastructure, despite the plethora of challenges posed by the ongoing COVID-19 pandemic. With the gradual recovery in world demand amid lack of supply increases, energy prices soared in global markets, warranting a revision of domestic prices of key petroleum products after a hiatus of over one and a half years. The recovery in domestic economic activity led to an increase in demand for electricity in the first half of 2021, compared to the same period in the previous year. The Ceylon Petroleum Corporation (CPC) and the Ceylon Electricity Board (CEB) continued to experience financial challenges due to the absence of timely market-reflective adjustments to prices and tariffs. In the midst of setbacks caused by COVID-19 related restrictions, the Government continued its infrastructure development drive with the aim of improving rural-urban linkages and the quality of living environments. Meanwhile, recent enactments of legislation relating to the Colombo Port City project and the exploration of Petroleum resources are expected to pave the way for improved foreign investments into these areas. In relation to social infrastructure, although the health sector faced significant challenges in containing multiple waves of the pandemic, imposition of mobility restrictions alongside the efficacious COVID-19 vaccination drive of the Government helped ease the third wave of the COVID-19 pandemic towards the latter part of September. Despite the transition of educational activities to digital platforms since the onset of the pandemic, the questionable efficacy of these online educational activities alongside disruptions caused by trade union activity are likely to have lingering effects on education outcomes.



### 3.1 Progress of the Energy Sector

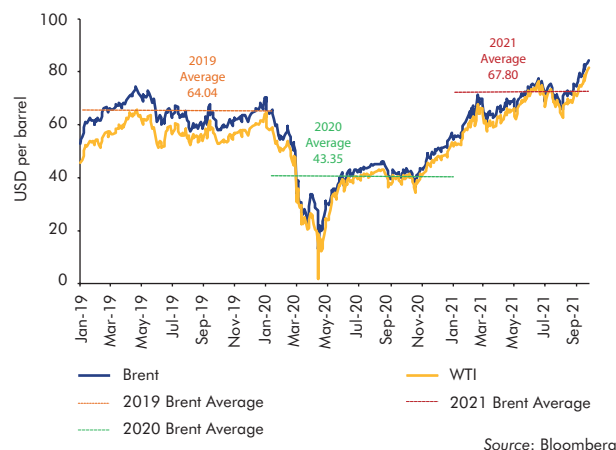
#### Crude Oil and Petroleum Products

The favourable demand outlook for the global economy alongside the supply conditions maintained by the OPEC and its allies led to global crude oil prices rising to their highest levels since October 2018. The average Brent price increased to USD 67.80 per barrel during the nine months ending September 2021, reflecting a 58.3% increase over the corresponding period of 2020. Following the trends in global markets, the average price of crude oil imported by the CPC increased by 47.8% to USD 66.96 per barrel during the period from January to September 2021, compared to the average import price of USD 45.31 per barrel recorded in the corresponding period of 2020. Meanwhile, responding to the rise in global crude oil prices, domestic retail prices of key petroleum products were revised upward with effect from 12 June 2021. However, the recent rising trend of global prices of crude oil and forecasts that this trend is likely to continue during the remainder of the year highlight that this revision is likely to be inadequate in the period ahead. A suitable cost-reflective pricing mechanism is essential for the financial viability of the CPC and thereby the stability of the banking sector. Such a mechanism can also improve transparency and thereby improve the general public's acceptance of much needed regular price revisions in relation to these imported products. Needless to say, a pre-determined formula can also pave the way for a quick pass-through of the benefits of any price declines in global markets.

**Cost-reflective pricing mechanisms for petroleum products are essential to ensure the financial viability of the CPC and thereby the stability of the banking sector while also improving transparency and the general public's acceptance of these much needed regular price revisions...**

When considering the overall domestic sales of petroleum products, there was only a marginal growth during the eight months ending August 2021.

**Figure 3.1**  
Trends in Global Crude Oil Prices



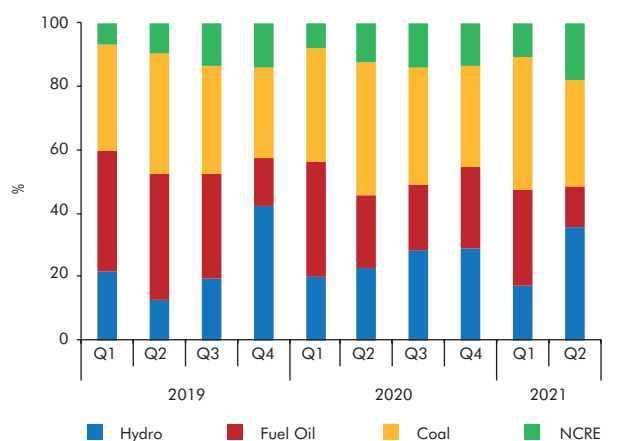
CPC's sectoral sales data highlight an improvement in demand from the transport sector. However, sales of petroleum products by the CPC to the aviation sector recorded a y-o-y decline of 22.2%, reflecting the subdued performance of travel and tourism across the globe. Also, demand from the power generation sector contracted due to increased hydropower generation during the period under review.

In 2021, several milestones in relation to offshore hydrocarbon exploration, development and production were achieved with the Petroleum Resources Development Secretariat (PRDS) proactively working towards oil and gas exploration initiatives. A key achievement was the enactment of the Petroleum Resources Act No. 21 of 2021. The Act paves way for the establishment of the Petroleum Development Authority of Sri Lanka and the formulation of a National Policy on Upstream Petroleum Industry. Further, it will also serve as the legal framework for the regulation of all processes pertaining to the exploration, development, production and management of petroleum resources in Sri Lanka.

#### Electricity

During the eight months ending August 2021, total electricity generation registered a y-o-y growth of 5.2% to 10,946 GWh, owing to the low base of the corresponding period of 2020. Importantly, the share of hydropower in total power generation gradually increased towards the end of the first half of 2021, supported by heavy rainfalls received in the catchment areas during May-June 2021. Accordingly, during the eight months ending August

**Figure 3.2**  
**Electricity Generation Mix**



Source: Ceylon Electricity Board

2021, Hydro, Fuel Oil, Coal and NCRE sources accounted for 29%, 19%, 37%, and 15% of total electricity generation, respectively.

In this regard, CEB's reliance on coal based power generation, especially during dry months, renders it vulnerable to soaring coal prices in global markets. This highlights the urgent need for the implementation of initiatives to increase the generation capacity of cost-effective energy sources, including NCRE.

### 3.2 Progress of Other Economic Infrastructure

#### Transportation

On an overall basis, activities across the transport sector depicted a slowdown during the first half of 2021. Although domestic public passenger transport indicators showed some signs of recovery during the first quarter of 2021, reflecting a gradual recovery in economic activities, this trend reversed during the following quarter with the outbreak of the third wave of the pandemic in late April 2021. Despite the absence of any nationwide lockdown, as imposed from mid-March till end April 2020, mobility restrictions during the second quarter of 2021 entailed a lower provision of domestic public transportation services. The operated kilometrage of the Sri Lanka Transport Board (SLTB) declined marginally by 0.7% during the first half of 2021, as SLTB continued to undertake limited operations in relation to the transportation of essential workers. The slowdown recorded by private bus operators was more severe with the operated kilometrage of private bus operators recording a y-o-y decline of 32.7%, during

**Table 3.1**  
**Performance of the Transportation Sector**

Item	2020 Jan-Jun (a)	2021 Jan-Jun (b)	Change %
<b>Road Passenger</b>			
<b>Sri Lanka Transport Board (SLTB)</b>			
Operated Kilometrage (mn)	137	136	-0.7
Passenger Kilometrage (mn)	4,324	4,345	0.5
No. of Buses Owned	7,273	6,983	-4.0
Average No. of Buses Operated	3,618	3,591	-0.7
<b>Private Sector</b>			
Operated Kilometrage (mn)	454	305	-32.7
Passenger Kilometrage (mn)	23,042	15,554	-32.5
No. of Buses Owned	21,049	19,977	-5.1
Average No. of Buses Operated	15,097	10,072	-33.3
No. of Inter Provincial Permits Issued	3,034	3,132	3.2
No. of Intra Provincial Permits Issued	18,035	16,922	-6.2
<b>Sri Lanka Railways</b>			
Operated Kilometrage (mn)	3.7	2.4	-35.0
Passenger Kilometrage (mn)	1,980	1,211	-38.8
Freight Ton Kilometrage (mn)	42	57	33.8

(a) Revised  
(b) Provisional

Sources: Sri Lanka Transport Board  
National Transport Commission  
Sri Lanka Railways

the first half of 2021. Meanwhile, the Sri Lanka Railways also registered a sharp y-o-y decline of 35.0% in operated kilometrage. In relation to the aviation sector, cross-border mobility restrictions and dampened appetite for travel led to a y-o-y decline in the passenger kilometrage of SriLankan Airlines by 81.8% in the first half of 2021.

The Government continued to undertake initiatives to improve the road infrastructure with the intention of enhancing rural-urban linkages. Several projects were underway to not only improve and rehabilitate the existing road network but also to construct new infrastructure. Key projects that are in progress, as spearheaded by the RDA, include the Integrated Road Investment Program (i-Road), Southern Road Connectivity Project, Port Access Elevated Highway Project and the New Kelani Bridge Project. Completion of these projects will pave way for improved regional connectivity, alleviation of congestion and a reduction in transport costs that can translate into productivity improvements across the economy, particularly if concurrent improvements are made to the public transport system.

#### Ports

The ports sector showed signs of recovery during the nine months ending September 2021 with cargo handling and container handling, recording y-o-y growth rates of 7.3% and 3.5%, respectively, although ship arrivals recorded a y-o-y contraction of 5.3%. Despite

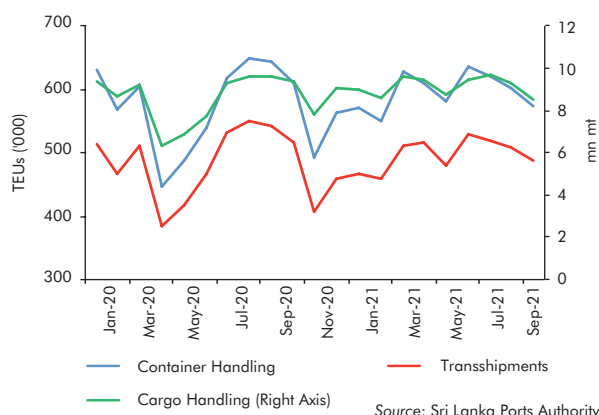
**The Colombo Port, ranked at the 18th position on the Port Liner Shipping Connectivity Index of UNCTAD, was the only South Asian port to be featured within the top 25 spots highlighting the immense potential to spearhead the country's emergence as a logistics hub...**

the restrictions on the importation of motor vehicles, handling of vehicle transshipments at the Hambantota Port grew by 90.9% leading to an overall y-o-y growth of 77.3% in total vehicle handling activities in Sri Lankan ports.

Importantly, the SLPA continued to engage in the process of developing the ECT while a Build-Operate-Transfer agreement was signed with one foreign investor, one local investor and the SLPA to develop the WCT. Accordingly, the ECT and WCT are expected to be completed by 2025 and 2026, respectively.

The Colombo Port ranked at the 18th position on the Port Liner Shipping Connectivity Index, as compiled by the UNCTAD. With the first and only deep water terminal in South Asia, the Colombo port is the only South Asian port to be featured among the top 25 positions highlighting the unexploited potential of Sri Lanka within the ports sector. Timely development and completion of the ECT, WCT and Colombo Port City projects will ensure Sri Lanka's ability to derive benefits from its existing and upcoming port infrastructure and its strategic geographical location, amid increasing competition from regional ports.

**Figure 3.3**  
**Performance of Port Activities**



## Urban Development

Amid the disruptions caused by COVID-19, the Government remained committed to continuing other infrastructure development projects. One of the notable milestones in recent times has been the development of the Colombo Port City project. With much of the internal infrastructure nearing completion, Phase I is expected to be completed in mid-2022. The Yacht Marina area and the newly developed beach are expected to be opened before the end of 2021. The enactment of the Colombo Port City Economic Commission Act No. 11 of 2021 is also a welcome development, considering its essentiality in attracting much needed foreign investment into the country.

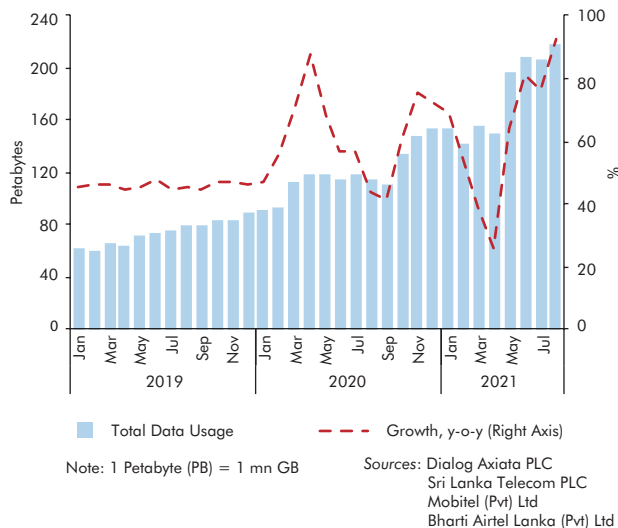
**The enactment of the Colombo Port City Economic Commission Act No. 11 of 2021 is also a welcome development, considering its essentiality in attracting much needed foreign investment into the country...**

The Government continued to undertake initiatives focused on improving the quality of living environments. Accordingly, key projects of the UDA, such as the Colombo City Development Project, Sustainable Township Development Programme, Colombo Beautification Initiative Programme and Industrial Estate Development Programme were underway during the period under review. The Government continued to focus its efforts on the provision of decent housing facilities for underserved communities through the Affordable Housing Project, China Grant Housing Project, Indian housing project in central and uva provinces and Colombo Urban Regeneration Project, as spearheaded by the UDA. Further, the UDA initiated steps to introduce a computerised 'Land and Property Information System' to monitor and track private land acquisitions, vesting of state lands, relocation, and disposal of land and related properties.

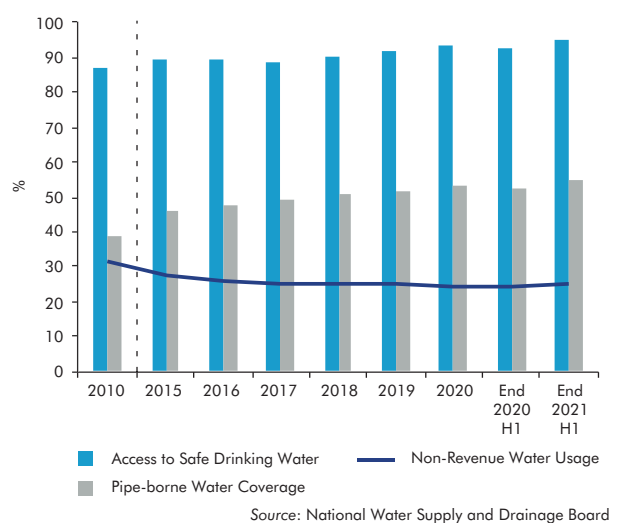
## Telecommunication Services

Another of the most important sectors, especially amid the COVID-19 pandemic, is the telecommunications sector, which continued to expand due to its growing importance in economic activities amidst mobility restrictions. With the continuation of education,

**Figure 3.4**  
**Broadband Data Usage**



**Figure 3.5**  
**Status of Water Supply**



**The dynamism shown by the telecommunications sector in the midst of the COVID-19 pandemic is remarkable and will remain pivotal to a steady recovery process...**

trading, and other work-related activities through online platforms, total internet connections recorded a significant y-o-y growth of 55.2% as at end June 2021. The increased reliance on the internet for everyday activities was also reflected in the continued growth in data usage during the first half of 2021. Total fixed line connections and mobile phone connections also continued to grow during the first half of the year. Considering the unique circumstances of the pandemic, telecommunications providers introduced several innovative value-for-money packages to cater to work, education, and leisure needs of the population, greatly facilitating a relatively smooth transition of economic activity to online platforms while ensuring affordability to all. Under the *Gamata Sannivedanaya* project initiated by the TRCSL, several telecommunications providers have also been actively engaged in upgrading their infrastructure to improve internet coverage in several 'dark spots' located across the country to ensure connectivity for all. The recent granting of legal approval for number portability is a welcome move towards enhancing quality-driven competition within the sector. Accordingly, the facility is expected to be available to users in 2022.

## Water Supply

As part of improving living standards of the people, the NWS&DB continued to expand the coverage of pipe-borne water in line with the Government's target to ensure the provision of clean and safe drinking water to the entire population by 2025. At the end of the first half of 2021, total pipe-borne water coverage stood at 55.0% while access to safe drinking water in Sri Lanka stood at 95.1% of the population. Further, the percentage of island-wide non-revenue water usage increased marginally to 24.9% at the end of the first half of 2021 from 24.6% at end 2020. Meanwhile, by end June 2021, piped sewage coverage stood at 2.05%. During the year, several water supply projects were underway to improve the provision of clean and safe drinking water while also improving pipe-borne water coverage. Notable developments in this regard include the recent initiation of the Thalaiyadi Sea Water Treatment Plant and the Jaffna City water distribution network under the broader Jaffna-Kilinochchi Water Supply Project.

**Several water supply projects are underway aiming to achieve the Government's target to ensure the provision of clean and safe drinking water to the entire population by 2025...**



### 3.3 Progress of Social Infrastructure

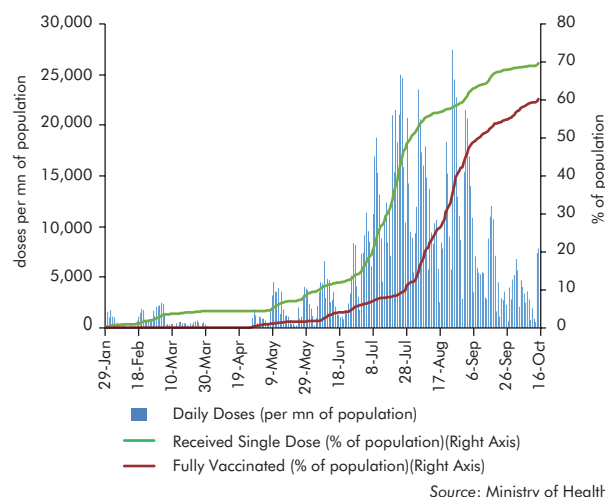
#### Health

The third wave of the pandemic entailed significant health costs with the caseload and deaths escalating to levels that were not seen in the previous waves of the COVID-19 pandemic. Accordingly, the daily new confirmed COVID-19 cases (smoothed) per one million population in Sri Lanka increased to 277 by end August 2021 at the peak of the third wave, though the same did not exceed 42 cases per one million population until 20 April 2021.

Unlike the nationwide lockdown implemented during the first wave of the pandemic in March and April 2020, the Government imposed mobility restrictions during the subsequent waves with increased attention on the impact of pandemic curtailment measures on economic activities and livelihoods. During the initial stages of the third wave, all identified patients were either hospitalised or quarantined at designated centres, while contacts of patients were quarantined either at quarantine centres or at their residences. However, the highly contagious nature of the Delta variant led to the rapid spread of the virus and thereby an upshoot in daily reported cases from the last week of July 2021. This posed a severe burden on available resources in hospitals and designated quarantine centres. To control overcrowding in hospitals, the Government decided to hospitalise COVID-19 patients on a priority basis. The rapid spread led to a marked increase in the fatality rate during August 2021, warranting an increase in resources allocated for pandemic management and decisive steps for mobility restrictions. Accordingly, an island-wide curfew was imposed from 21 August till end September 2021, though essential economic activities were allowed during the period. These restrictions, coupled with the COVID-19 vaccination drive, contributed to the continued decline in caseload from mid September 2021 onwards. The daily new confirmed COVID-19 cases (smoothed) per one million population reduced significantly to 48 by end September 2021 and further reduced to 36 by mid October 2021.

Despite the stresses on the health sector due to the COVID-19 pandemic, it must be recognised that

**Figure 3.6**  
**COVID-19 Vaccination Status**  
**(as at 22 October 2021)**



investments that had been made over several decades in the provision of universal health had played a key role in mitigating the negative impact of the pandemic. The expansion of this universal provisioning of healthcare services to encompass free COVID-19 related care, including testing, treatment and quarantining, has been instrumental in curbing the human toll of the pandemic, in comparison to several peer countries. As at mid October 2021, the pandemic-related government expenditure for the year amounted to Rs. 134.8 bn. Of this, health sector related expenditures, such as on vaccines, quarantine facilities, health sector infrastructure and medical supplies, stood at Rs. 86.8 bn.

Despite the shift in focus to the COVID-19 pandemic containment, public hospitals strived to provide healthcare services to the patients who were receiving monitoring and care from hospitals on a long-term basis, especially by providing medical advice via telephones. Private sector healthcare services also played a vital role in the fight against the COVID-19 pandemic through the timely provision of Intermediate Care Centres, in addition to COVID-19 related testing and treatment.

A key milestone in the fight against COVID-19 has been the Government's commitment to forge ahead with 'Operation Freedom', the islandwide COVID-19 vaccination programme. The programme, which commenced in January 2021, received much worldwide acclaim for the commendable progress that has been made owing to the concerted efforts of health officials, tri-forces, and other regional public officials.



## Indirect Scarring of Health and Educational Outcomes by COVID-19

### Health

Sri Lanka has made commendable progress in curbing the COVID-19 pandemic through the rapid and swift implementation of mobility restrictions and especially its strong nationwide vaccination drive. However, since long, Sri Lanka has been struggling with the burden of Non-Communicable Diseases (NCDs), such as diabetes, chronic respiratory diseases, cancers, and cardiovascular diseases, which remain a leading cause of mortality and morbidity issues in the population. In 2019, before the pandemic, 82.5% of the deaths in Sri Lanka were caused by NCDs. With the COVID-19 pandemic, the vulnerability of those who suffer from NCDs has increased, not only because they are more prone to develop complications from COVID-19 but also because their regular medical care has been disrupted and because of sedentary lifestyles due to mobility restrictions. In the wake of COVID-19, certain measures had been undertaken to ensure continuity of care of such patients through telemedicine and by supplying regular medicines to door-step via postal services, though the effectiveness of such care is questionable. Further, due to overcrowding of hospitals with the surge of COVID-19 cases, less priority is being given for elective surgeries and, clinical procedures, and seemingly mild ailments, especially with patients opting not to visit hospitals. Therefore, continued commitment to the containment and subsequent surveillance of the COVID-19 pandemic is essential not only in terms of its direct impact but also due to its indirect impact on those suffering from NCDs. Meanwhile, suicide rates in Sri Lanka were high even before the pandemic, with mental health issues such as depression, despite being common, most often being neglected. The prolonged impact of mobility restrictions and social isolation, sudden loss of family members, and loss of livelihoods due to the economic downturn could create a long-lasting impact on the mental health of those affected by the pandemic. Mental health issues are also likely among frontline workers who have been working under immense pressure for a prolonged period under difficult working conditions, while facing traumatic experiences on a daily basis. Therefore, measures should be taken to provide mental healthcare support to pandemic-affected families and frontline workers, to ensure their mental health wellbeing during the pandemic period as well as during the post-pandemic period.

### Education

The COVID-19 crisis has exposed many inadequacies and inequalities in the country's education system. Despite the rapid transition of educational activities to online platforms, it is essential to be wary of the efficacy and equity of online education outcomes as these can lead to inequalities related to opportunities and social mobility. In turn, these outcomes can lead to perpetuating inequities that will negatively affect economic growth and socioeconomic wellbeing in the long term. With the onset of the COVID-19 pandemic in March 2020, the rapid adoption of blended learning approaches by schools and other educational institutions has been remarkable and has been pivotal to the continuity of educational activities over the last year and a half. However, well before the pandemic, there had been significant disparities in education infrastructure with much of it being concentrated in urban centres and rural areas lagging even in basic infrastructure facilities, including sufficient teachers, let alone other technological infrastructure. This dearth of infrastructure required to achieve sufficient educational outcomes is not only at the school level but also prevalent at the household level as reflected in the computer literacy rate of just 32.3% in 2020 and computer ownership being limited to just 22.2% of households in 2020. It is even more disconcerting that only 3.8% of households in the estate sector owned a desktop or a laptop as against 37.1% in the urban sector, and that computer literacy and digital literacy levels in the estate sector were almost only one third that of the urban sector. The rural sector is also lagging behind its urban counterpart, although better than the estate sector. Notable inequalities are also observed across regions. Accordingly, with the increased reliance on technology, especially for educational purposes, these statistics highlight that significant disparities in education outcomes are highly likely in the period ahead due to this 'digital divide', which in turn will have detrimental effects on long term earning potential and living standards of those affected. Further, in the midst of the strike of schoolteachers over the last three months, online tuition classes and fee levying private schools have continued their education activities. Amid this continued provisioning of education services by the private sector, the disruptions observed in public provisioning of education services can pave way for disparities in educational outcomes of these two groups of students. However, some notable initiatives in the education sector during recent months have been the Ministry of Education's initiatives to broadcast educational programmes on television channels and also the 'Gamata Sanniwedanaya' programme launched by the TRCSL and telecom service providers to address issues of internet coverage and 'dark spots'. These programmes are expected to create some qualitative improvements in education outcomes. However, the sector is still in dire need of a holistic and multi-pronged approach to the inclusive delivery of education services amid these unique circumstances. Certain essential policies include increased awareness and training for teachers on how to facilitate and support students' learning process rather than simply delivering content. This will require improvements to syllabi and pedagogy, both of which needed improvements even before the COVID-19 pandemic. At this point, existing 'open' content can be curated and aligned to the national curriculum rather than trying to develop new content. Small yet timely efforts by education policymakers and teaching staff are of utmost importance to minimise any 'learning poverty' arising from the pandemic, especially among young children and students with special needs, both of whom tend to derive higher benefits from face-to-face pedagogy.

***Sri Lanka's COVID-19 vaccination drive has received much acclaim with the country being ahead of many other countries...***

As at 22 October 2021, 88% of the population above 20 years was fully vaccinated and 100% of this population segment had received at least one dose of the vaccine. Moreover, 59.5% of the total population was fully vaccinated. As at 22 October 2021, 129 COVID-19 vaccine doses had been administered per 100 persons in Sri Lanka, which is notably higher than the world average of 87 COVID-19 vaccine doses per 100 persons. Notably, Sri Lanka's vaccine deployment status is among the highest in the South Asian region. The COVID-19 vaccination programme is now being gradually rolled out to school students as well.

## Education

Another key aspect of social infrastructure is the education sector which was severely affected by the COVID-19 pandemic. Despite the closure of schools, universities, and other tertiary education institutions, educational activities were continued through online platforms. School and universities were opened for a short period in March and April 2021 until the onset of the third wave of COVID-19. Despite the availability of online education platforms and educational television programmes, education activities of students of low-income households, students in areas with poor telecommunication services, children with special needs, and preschool and primary school children, who generally need special teacher attention, are likely to have experienced significant difficulties. This will have a prolonged impact on their educational attainment and future economic opportunities. Although the Ordinary Level examination, which was postponed from December 2020, was successfully held in January 2021, due to the recent COVID-19 wave, the Advanced Level and Scholarship examinations, which are generally held in August, have been postponed for the second time. Amidst these difficulties, educational activities of Government schools were affected by the protest of schoolteachers demanding the resolution of salary anomalies, while online tuition classes and educational activities of fee levying private schools continued. From 21 October 2021 onwards the Government has begun to gradually reopen schools.

During the first half of 2021, approval of the Cabinet of Ministers was granted for the campuses established in Vavuniya and Gampaha to be elevated to university status. Accordingly, the public higher education system was expanded with the addition of the University of Vavuniya and Gampaha Wickramarachchi University of Indigenous Medicine.

Despite several setbacks from COVID-19, the TVET sector strived to continue its activities. As of end June 2021, there were 1,100 training institutes in operation, of which 494 were operated by the Government. Notably, during the period, there were approximately 56,561 new enrolments. During the first half of 2021, the TVEC was engaged in the development of an online system to collect data on students' training performance. The TVEC also launched the eRPL system to digitalise the processing of Recognition of Prior Learning (RPL) applications.

## Poverty and Safety Nets

Considering the disproportionate impact of the COVID-19 pandemic on needy segments of the society, the Government continued to widen its existing social assistance programmes. Under the Samurdhi subsidy programme, approximately Rs. 25.9 bn was distributed by the Department of Samurdhi Development (DSD) among 1.8 mn beneficiary households during the first half of 2021. Further, the DSD also continued to carry out other socioeconomic development programmes, including livelihood development, marketing development, social development as well as community development programmes, to uplift the living conditions and livelihoods of beneficiary families. In addition to the Samurdhi safety net, an allowance of Rs. 5,000 per family was paid to all low income and vulnerable families during the New Year season and another allowance of Rs. 2,000 per family was paid to vulnerable families who do not receive any other government assistance but had lost their livelihood due to the imposition of mobility restrictions in August 2021. As observed globally, dampened economic activity due to the spread of COVID-19 as well as the containment measures are bound to increase poverty levels in the country, but updated indicators on either poverty or household incomes and expenditures are unavailable from the DCS.

**Table 3.2**  
**Performance of the Power Generation Sector**

Electricity Generation and Installed Capacity			
Item	2020 Jan - Aug	2021 Jan - Aug (a)	Change %
<b>Installed Capacity (MW- End Period)</b>	<b>4,275</b>	<b>4,124</b>	<b>-3.5</b>
CEB	2,953	2,968	0.5
Private	1,322	1,156	-12.6
<b>Total Power Generation (GWh)</b>	<b>10,406</b>	<b>10,946</b>	<b>5.2</b>
Hydro (b)	2,322	3,215	38.5
Fuel Oil	2,999	2,063	-31.2
Coal	3,960	4,020	1.5
NCRE (c)	1,125	1,648	46.5
<b>Share of Hydro Power in Total Generation (%)</b>	<b>22</b>	<b>29</b>	<b>31.7</b>
Electricity Sales (GWh)			
Item	2020 Jan - Jul	2021 Jan - Jul (a)	Change %
<b>Total Sales by CEB (GWh)</b>	<b>8,218</b>	<b>8,753</b>	<b>6.5</b>
Domestic	3,018	2,990	-0.9
Religious	48	47	-1.4
Industrial	2,273	2,774	22.0
General Purpose	1,643	1,688	2.7
Government	120	125	3.5
Hotel	116	120	3.7
Bulk Sales to LECO	936	950	1.6
Street Lighting	63	59	-7.0
Average Cost and Average Tariff of Electricity (Rs./kWh)			
<b>Overall Average Cost (at Generation Point)</b>	<b>14.01</b>	<b>11.56</b>	<b>-17.5</b>
CEB - Hydro	2.73	1.86	-31.9
CEB - Coal	8.53	8.51	-0.2
CEB - Fuel Oil	29.73	28.05	-5.7
Private	24.65	21.18	-14.1
<b>Overall Average Cost (at Selling Point)</b>	<b>20.08</b>	<b>17.29</b>	<b>-13.9</b>
<b>Overall Average Tariff</b>	<b>16.79</b>	<b>16.26</b>	<b>-3.2</b>

(a) Provisional

(b) Excluding mini hydro power plants

(c) Refers to NCRE, including mini hydro and rooftop solar generation

Source: Ceylon Electricity Board

**Table 3.3**  
**Sector wise Sales of Petroleum Products by the Ceylon Petroleum Corporation**

Sectors	2020 Jan - Aug			2021 Jan - Aug (a)		
	Amount (mn Ltrs)	Share (%)	y-o-y Growth (%)	Amount (mn Ltrs)	Share (%)	y-o-y Growth (%)
Power Generation	698	20.7	-32.7	491	14.9	-29.6
Transport	2,106	62.5	-15.6	2,287	69.2	8.6
Aviation	191	5.7	-51.4	149	4.5	-22.2
Industries	61	1.8	-33.1	100	3.0	63.9
Other	311	9.2	60.5	279	8.5	-10.1
<b>Total</b>	<b>3,367</b>		<b>-20.0</b>	<b>3,307</b>		<b>-1.8</b>

(a) Provisional

Source: Ceylon Petroleum Corporation

**Table 3.4**  
**Performance of the Aviation Sector**

Item	2020 Jan - Jun	2021 Jan - Jun (a)	Change %
<b>Passengers (No.)(b)</b>	<b>2,229,347</b>	<b>292,173</b>	<b>-86.9</b>
SriLankan Airlines	1,166,203	151,411	-87.0
Foreign Airlines	1,063,144	140,762	-86.8
<b>Freight Handling (mt)</b>	<b>69,437</b>	<b>79,310</b>	<b>14.2</b>
SriLankan Airlines	30,513	39,425	29.2
Foreign Airlines	38,924	39,885	2.5
<b>Aircraft Movements (No.)(c)</b>	<b>15,321</b>	<b>9,462</b>	<b>-38.2</b>
BIA	15,179	9,119	-39.9
MRJA	60	337	461.7
JIA	82	6	-92.7

(a) Provisional

(b) Excludes transit passengers

(c) Includes domestic aircraft movements

Source: Civil Aviation Authority of Sri Lanka

### Abbreviations and Acronyms

BIA	: Bandaranaike International Airport	OPEC	: Organisation of Petroleum Exporting Countries
bn	: Billion	PB	: Petabyte
CEB	: Ceylon Electricity Board	PRDS	: Petroleum Resources Development Secretariat
CPC	: Ceylon Petroleum Corporation	RDA	: Road Development Authority
DCS	: Department of Census and Statistics	RPL	: Recognition of Prior Learning
DSD	: Department of Samurdhi Development	SLPA	: Sri Lanka Ports Authority
ECT	: East Container Terminal	SLTB	: Sri Lanka Transport Board
eRPL	: e-Recognition of Prior Learning	TEUs	: Twenty-foot Equivalent Units
GB	: Gigabyte	TRCSL	: Telecommunications Regulatory Commission of Sri Lanka
GWh	: Giga Watt Hours	TVEC	: Tertiary and Vocational Education Commission
i-Road	: Integrated Road Investment Programme	TVET	: Technical and Vocational Education and Training
JIA	: Jaffna International Airport	UDA	: Urban Development Authority
kWh	: Kilo watt hours	UNCTAD	: United Nations Conference of Trade and Development
Ltrs	: Litres	WCT	: West Container Terminal
mn	: Million	WTI	: West Texas Intermediate
MRIA	: Mattala Rajapaksa International Airport	y-o-y	: Year-on-Year
mt	: Metric Tonnes		
MW	: Mega Watt		
NCDs	: Non-Communicable Diseases		
NCRE	: Non-Conventional Renewable Energy		
NWS&DB	: National Water Supply & Drainage Board		



## Prices and Wages

**T**he general price level, as measured by the official price indices, followed an overall increasing trend during the nine months ending September 2021. Global commodity price hikes and domestic supply side bottlenecks particularly made a considerable impact on domestic food prices. Within the Food category, the major contribution to the increase in the general price level was from the prices of items in the Volatile Food category, which mostly exhibited increases in 2021. Prices of items in the Non-Food category increased during the reference period, yet generated a smaller impact on the general price level, compared to the Food category. Reflecting these developments, the CCPI followed an overall increasing trend from 138.7 index points in January to 144.1 index points in September 2021, and the NCPI, which recorded 142.1 index points in January increased to 147.5 index points by September 2021. Accordingly, headline inflation as measured by the y-o-y change in the CCPI and NCPI followed an overall increasing trend thus far during 2021, remaining at an elevated level, especially towards the latter part of the period under review. Meanwhile, nominal and real wage rate indices of the informal private sector increased during the eight months ending August 2021 compared to the corresponding period of 2020. Further, the nominal and real wage rate indices of the formal private sector employees, whose wages are governed by the wage boards recorded a significant increase owing to the upward revision of the minimum wages of plantation sector workers. In the public sector, nominal wage rate index remained unchanged, while real wage rate index decreased during the eight months ending August 2021 compared to the corresponding period of 2020.



## 4.1 Prices

### Movements in the General Price Level

The general price level, as measured by both CPIs, namely, the CCPI and NCPI,<sup>1</sup> followed an overall increasing trend during the year until September 2021. Both Food and Non-Food categories also exhibited overall increasing trends, although the Non-Food category's impact on the general price level was smaller compared to the Food category. Moreover, global price hikes, production shortages, and logistical bottlenecks made a considerable impact on the general price level.

**The general price level followed an overall increasing trend during the period from January to September 2021, mainly driven by Food prices...**

Prices of items in the Volatile Food<sup>2</sup> category have increased thus far during 2021. In January and February 2021, prices of volatile food items increased mainly due to price increases observed in rice, coconut, and vegetables. However, prices of items in the Volatile Food category declined in March and April 2021 owing to declines observed in the prices of coconut, vegetables, and potatoes. The observed downward trend saw a reversal thereafter, with a prominent increase in June, contributed by the price rises observed in rice, vegetables, and fresh fish. Meanwhile, price decreases seen in rice, vegetables, and potatoes mainly contributed to the decline recorded in September 2021. During the year, rice prices increased continuously up to July 2021, including the months, during which the 2020/2021 Maha harvest reached the market. However, in response to the several steps taken by the Government, rice prices decreased in August and September 2021. Furthermore, MRPs of Samba, Nadu, Kekulu White, and Kekulu Red were revised to Rs. 103, Rs. 98, Rs. 95 and Rs. 95 per kg, respectively, w.e.f. 02 September 2021 and remained effective until 29 September 2021, when the gazette notifications on MRPs were rescinded in order to prevent a rice shortage in the market. Vegetable prices demonstrated mixed movements with supply disruptions instigated by travel

restrictions imposed due to the COVID-19 pandemic, limited trading activities in major economic centers, and adverse weather conditions being the major influences. As a result of the overall decreasing trend observed in coconut prices thus far during 2021, the Government rescinded the gazette notification on MRP w.e.f. 18 June 2021. The price of chicken increased considerably during the period under review mainly due to the rising cost of production that resulted from elevated prices of poultry feed, such as maize, and antibiotics. Meanwhile, fish prices increased until September 2021 remaining mostly unaffected by the marine disaster caused by the sunken MV X-Press Pearl cargo ship. Further, prices of potatoes, steadied during the reference period, mainly due to the downward revision to the SCL on imported potatoes from Rs. 55 per kg to Rs. 15 per kg w.e.f. 12 February 2021. However, the same was revised upwards to Rs. 50 per kg w.e.f. 27 April 2021 to discourage imports during the harvesting seasons for the benefit of local farmers in anticipation of a favourable local harvest. Meanwhile, prices of red onion and big onion demonstrated overall declines during the period under review.

**Rice, vegetable, fresh fish and coconut prices have made a substantial impact to the behaviour of the Volatile Food category so far during 2021...**

Prices of food items excluding Volatile Food increased continuously during the nine months ending September 2021. Accordingly, dhal prices increased continuously during the period remaining above the prices observed in the corresponding period of 2020, mainly due to price increases in the global market. Moreover, a gazette notification was issued to maintain the SCL of Rs. 100 per kg on dried fish w.e.f. 12 August 2021 to encourage local dried fish producers. Sugar prices, which increased between April and August, decreased in September as a result of MRPs of Rs. 122 and Rs. 125 imposed on unpacked and packed white sugar, respectively, w.e.f. 02 September 2021. Meanwhile, the price of imported milk powder which remained unchanged throughout 2020, increased by Rs. 100 per 400g packet w.e.f. 09 October 2021 due to price increase in the global market and higher freight

<sup>1</sup> The Department of Census and Statistics (DCS) compiles the Colombo Consumer Price Index (CCPI, 2013=100) and the National Consumer Price Index (NCPI, 2013=100) on a monthly basis.

<sup>2</sup> Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potatoes, onions, and selected condiments.

**Table 4.1**  
**Price Revisions in LPG and Fuel in 2021**

Item	Unit	Revised Price (Rs.)	Effective Date
<b>LPG</b>			
Litro Gas Lanka Ltd.	9.6kg	1,150.00	25.07.2021
	12.5kg	2,675.00	10.10.2021
Laugfs Gas PLC	12.5kg	1,856.00	12.08.2021
	12.5kg	2,840.00	10.10.2021
<b>Fuel</b>			
Petrol (92 Octane)			
CPC and LIOC	1l	157.00	12.06.2021
LIOC	1l	162.00	22.10.2021
Auto Diesel			
CPC and LIOC	1l	111.00	12.06.2021
LIOC	1l	116.00	22.10.2021
Kerosene			
CPC and LIOC	1l	77.00	12.06.2021

Source: Central Bank of Sri Lanka

charges along with the liberalization of price controls. In line with that, the price of a 400g packet of local milk powder also increased by Rs. 90 w.e.f. 15 October 2021. Moreover, wheat flour price also underwent an upward price revision of Rs. 10 per kg w.e.f. 10 October 2021, resulting in an increase of Rs. 5 per 450g loaf of bread w.e.f. 11 October 2021, in addition to increased prices of other bakery products.

Prices of items in the Non-Food category increased during the period ending September 2021, albeit generating a lesser impact on the general price level compared to the Food category. International school fees and fees to private medical practices and payments to private hospitals increased during the period under review. Further, prices of some prepared food items in the Restaurants and Hotels subcategory recorded increases in March and July 2021. Furthermore, in adherence to rising global LPG prices, both Litro Gas Lanka Ltd and Laugfs Gas PLC significantly increased the price of a LPG cylinder weighing

12.5kg w.e.f. 10 October 2021. These revisions caused upward adjustments in domestic prices of prepared food. Further, domestic petroleum prices, which remained at the same levels for more than a year, were increased, with prices of petrol (92 octane), auto diesel, and kerosene being revised upwards w.e.f. 12 June 2021. However, as opposed to the observed pre-pandemic trends, housing rent remained at stable levels thus far during the year.

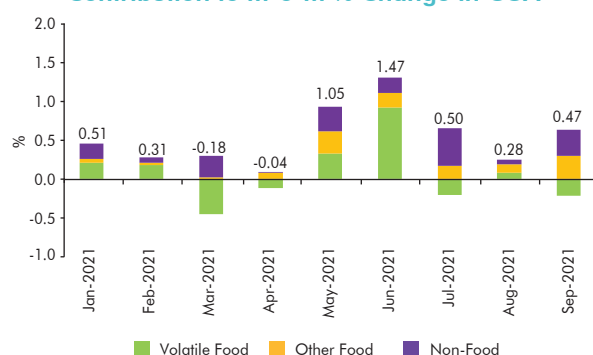
**Generating a substantial impact to the prices of Non-Food items, fuel and LPG prices, which remained unchanged from 2020, increased towards the second half of 2021...**

## Consumer Price Indices

### Colombo Consumer Price Index

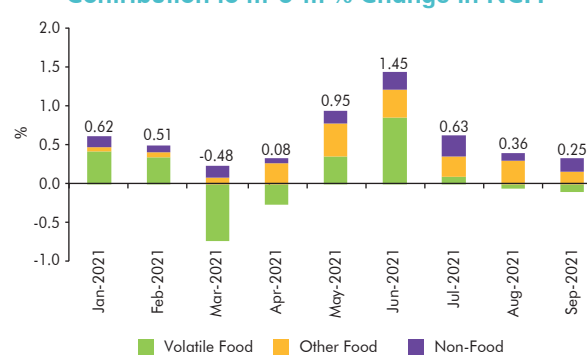
The CCPI followed an overall increasing trend during the period from January to September 2021, from 138.7 index points in January to 144.1 index points in September 2021. The monthly increases observed in January and February 2021 were supported by the movement of the prices of items in both the Food and Non-Food categories. However, monthly declines observed in the CCPI during the following two consecutive months were solely driven by the movement of prices of the Food category. Afterwards, the movement of prices of items in both Food and Non-Food categories contributed towards the increases observed in May and June 2021 with a higher contribution from the Food category. The increase

**Figure 4.1**  
**Contribution to m-o-m % Change in CCPI**



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

**Figure 4.2**  
**Contribution to m-o-m % Change in NCPI**



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

in the CCPI observed in July 2021 was contributed entirely by the movement of prices of items in the Non-Food category, yet the increases observed in both August and September 2021 were driven by the prices of items in both Food and Non-Food categories.

**Both CCPI and NCPI followed an overall increasing trend during the nine months ending September 2021...**

## National Consumer Price Index

The NCPI, which recorded 142.1 index points in January, increased continuously to 147.5 index points in September 2021, except in March, which recorded a monthly decline. Movements in prices of both Food and Non-Food categories contributed towards the increase observed in the NCPI in January and February 2021. This increasing trend reversed in March 2021 solely due to price decreases of items in the Food category. However, from April, when the third wave of the COVID-19 pandemic surfaced, the NCPI increased until September 2021 as a result of the increases observed in prices of items in both Food and Non-Food categories.

towards the latter part of the period. Accordingly, CCPI based headline inflation which stood at 3.0% in January, increased until March recording 4.1% before declining to 3.9% in April 2021. Afterwards a continuous increase in headline inflation was observed from May to August 2021 recording 4.5% and 6.0%, respectively, amidst the rise of the third wave of COVID-19 pandemic. Subsequently, the y-o-y change in the CCPI reversed its increasing trend and declined to 5.7% in September 2021. Meanwhile, throughout the period, CCPI based food and non-food inflation followed an overall increasing trend while food inflation remained mostly at double-digit levels. Movement of NCPI based headline inflation, remained above CCPI based headline inflation during the nine months ending September 2021. Consequently, y-o-y NCPI inflation that stood at 3.7% in January, increased to 6.8% in July, and reversed its trend and declined to 6.2% by September 2021. NCPI based food and non-food inflation has increased so far in 2021, while food inflation accelerated from 5.9% in January to 10.0% in September 2021.

**Headline inflation remained elevated, with food inflation remained mostly at double-digit levels...**

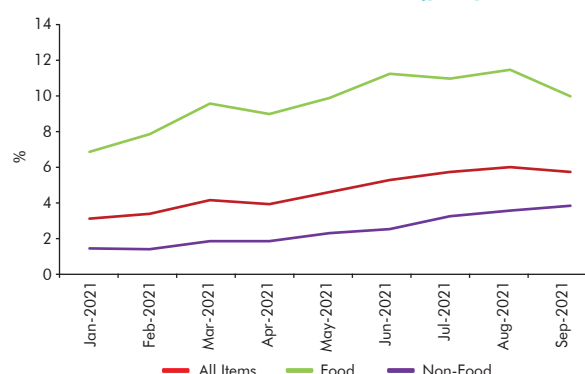
## Headline Inflation

During the nine months ending September 2021, headline inflation as measured by the y-o-y change in the CCPI followed an overall increasing trend, moving to the upper bound of the target range of 4.0-6.0%,

## 4.2 Wages

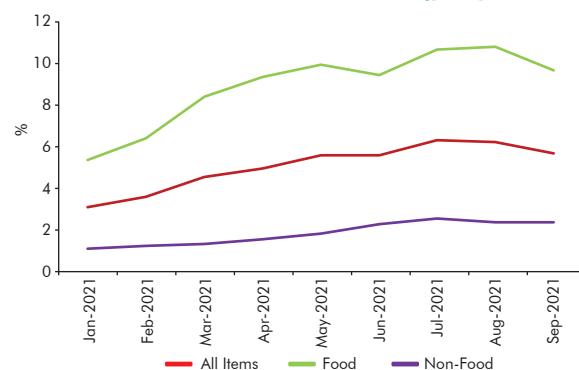
Nominal wages of informal private sector employees, as measured by the informal private sector wage rate index (2012=100), followed an overall increasing trend during the eight months ending August 2021, except for the decline recorded

**Figure 4.3**  
Movement of CCPI based Inflation (y-o-y % Change)



Source: Department of Census and Statistics

**Figure 4.4**  
Movement of NCPI based Inflation (y-o-y % Change)



Source: Department of Census and Statistics

in April 2021 which was led by the decline in wages of small industries. Nominal wage rate index of the informal private sector increased by 5.9% during the eight months ending August 2021 compared to the same period of 2020. In terms of the sub-activities, namely, agriculture, industry and services, nominal wage rate index increased by 3.4%, 6.6% and 6.5%, respectively, during the eight months ending August 2021 compared to the same period of 2020. Meanwhile, real wage rate index of the informal private sector increased marginally by 0.4% during the eight months ending August 2021 compared to the same period of 2020.

**Nominal wage rate index of informal private sector displayed an overall increasing trend during the eight months ending August 2021...**

Nominal wages of employees in the formal private sector,<sup>3</sup> as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by wage boards, increased significantly by 66.0% during the eight months ending August 2021 compared to the same period of 2020. The significant increase was attributed to the increase in the daily wage of tea and rubber plantation workers to Rs. 1,000 w.e.f. 05 March 2021, through respective wage boards for the tea and rubber growing and manufacturing trade. Further, the increase in the

minimum monthly salary of the private sector from Rs. 10,000 to Rs. 12,500 and the minimum daily wage from Rs. 400 to Rs. 500, due to the amendment made to the National Minimum Wage of Workers Act, No. 03 of 2016 w.e.f. 16 August 2021 also contributed to this increase. Accordingly, real wage rate index of the formal private sector also increased significantly by 58.6% during the eight months ending August 2021 compared to the corresponding period of the previous year. Meanwhile, the tripartite agreement on paying 50% of the last paid basic salary or Rs. 14,500 per month, whichever was more favourable to the employee, in situations where employees were required to stay at home due to the COVID-19 pandemic, was extended until December 2021 for the tourism sector.

**Nominal wage rate index of formal private sector trended upwards during the eight months ending August 2021, especially with the increase in daily wage of plantation workers and the increase in minimum wages...**

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), remained unchanged during the eight months ending August 2021 compared to the same period of 2020. On the other hand, public sector employees experienced a real wage erosion of 5.2% during the same period compared to the corresponding period of 2020.

<sup>3</sup> Nominal wages of the 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.

### Abbreviations and Acronyms

CCPI	:	Colombo Consumer Price Index
CPC	:	Ceylon Petroleum Corporation
CPI	:	Consumer Price Index
DCS	:	Department of Census and Statistics
LIOC	:	Lanka Indian Oil Company
LPG	:	Liquefied Petroleum Gas

m-o-m	:	month-on-month
MRP	:	Maximum Retail Price
NCPI	:	National Consumer Price Index
SCL	:	Special Commodity Levy
w.e.f.	:	with effect from
y-o-y	:	year-on-year







## External Sector Developments

**T**he external sector faced heightened challenges in 2021, reflecting the effects of the COVID-19 pandemic, which dampened foreign exchange inflows amidst large foreign currency debt servicing obligations. Earnings from merchandise exports marked a notable improvement thus far in 2021. Expenditure on imports also increased substantially, reflecting the recovery of economic activity and the surge in global commodity prices. The merchandise trade deficit widened during the eight months ending August 2021, compared to the same period in 2020 and 2019. Trade in services, particularly earnings from tourism, was significantly affected by the pandemic. Workers' remittances, which recorded a healthy growth during January to May 2021, y-o-y, moderated thereafter. Interest and dividend payments showed some moderation, resulting in a relatively low deficit in the primary income account. The deficit in the external current account widened, reflecting the expansion of merchandise trade deficit and the moderation of trade in services. The financial account recorded net foreign outflows, and gross official reserves declined. The BOP recorded a notable overall deficit during the period ending September 2021. However, with the ongoing efforts of the Government and the Central Bank, some sizeable foreign inflows are expected in the near term, including proceeds from monetisation of underutilised or non-strategic assets, bilateral swap arrangements, syndicated loans, G2G financing and FDI flows. The exchange rate witnessed some intermittent volatility during the year thus far, while remaining relatively stable in recent weeks. The Central Bank intervened in the domestic foreign exchange market to dampen excessive volatility in the exchange rate, while providing foreign exchange liquidity to meet the cost of imports of certain essential commodities.

## 5.1 Balance of Payments

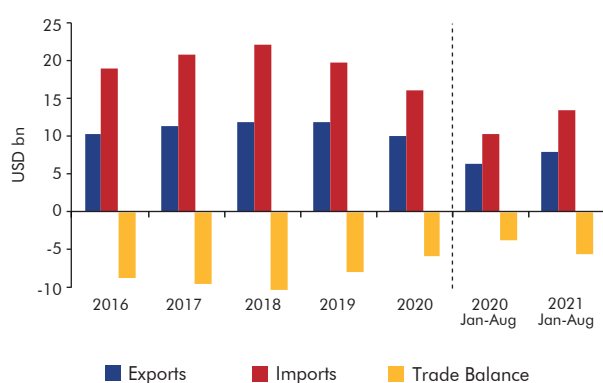
### Current Account

The current account deficit expanded due to the widening merchandise trade deficit, moderation of the surplus in trade in services amidst subdued earnings from tourism, despite the improvements in the primary income account and workers' remittances during the first half of 2021. Consequently, the current account recorded a deficit of USD 1.5 bn in the first half of 2021, compared to the deficit of USD 1.1 bn in the first half of 2020.

### Trade Account

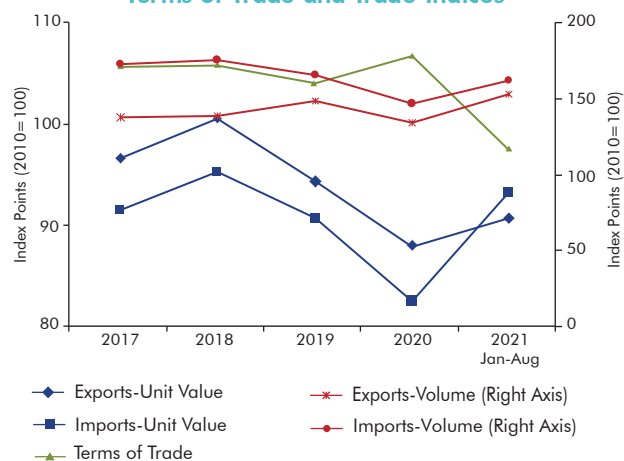
The deficit in the merchandise trade account in the eight months ending August 2021 widened to USD 5.5 bn from USD 3.8 bn and USD 4.9 bn recorded in the corresponding periods of 2020 and 2019, respectively. Earnings from exports amounted to USD 7.9 bn during the eight months ending August 2021, increasing by 22.6% compared to the same period in 2020. Import expenditure increased to USD 13.4 bn during January-August 2021, from USD 10.3 bn in the same period last year, recording an increase of 30.7%. As shown by movements in the export and import volume and unit value indices, the increase in export volumes contributed significantly to the increase in export earnings. The effect of volume and price changes varied across the different types of imports though in general, import expenditure was influenced by both volume and price increases.

**Figure 5.1**  
External Trade Performance



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

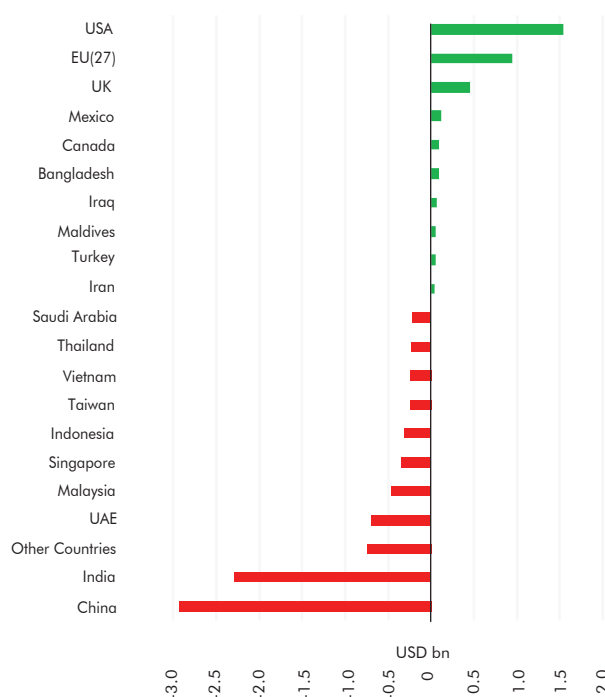
**Figure 5.2**  
Terms of Trade and Trade Indices



Source: Central Bank of Sri Lanka

**Earnings from exports recovered to pre-pandemic levels, supported by policy measures and gradual normalisation of global activity, while expenditure on imports reflected the recovery of domestic activity and the increase in global commodity prices...**

**Figure 5.3**  
Bilateral Trade Balances during Jan-Aug 2021



Source: Central Bank of Sri Lanka

**Table 5.1**  
**Developments in International Trade**

USD mn

Category	2019	2020 (a)	2020 Jan-Aug (a)	2021 Jan-Aug (a)	y-o-y Change % Jan-Aug 2020/2021	Share % Jan-Aug 2021
<b>EXPORTS</b>						
<b>Agricultural Exports</b>	<b>2,461.9</b>	<b>2,336.2</b>	<b>1,516.0</b>	<b>1,765.5</b>	<b>16.5</b>	<b>22.3</b>
Tea	1,346.4	1,240.9	805.6	882.4	9.5	11.2
Rubber	24.2	30.1	17.9	27.3	52.7	0.3
Coconut	329.5	345.2	221.5	276.9	25.0	3.5
Kernel Products	161.1	163.1	101.4	125.6	23.9	1.6
Other	168.4	182.1	120.1	151.3	26.0	1.9
Spices	312.5	333.5	194.5	282.4	45.2	3.6
Vegetables	32.0	36.6	26.1	18.4	-29.7	0.2
Unmanufactured Tobacco	34.7	25.5	16.9	21.4	26.6	0.3
Minor Agricultural Products	120.0	134.7	100.3	91.1	-9.1	1.2
Seafood	262.5	189.8	133.2	165.5	24.3	2.1
<b>Industrial Exports</b>	<b>9,426.3</b>	<b>7,672.0</b>	<b>4,905.5</b>	<b>6,093.2</b>	<b>24.2</b>	<b>77.1</b>
Textiles and Garments	5,596.5	4,423.1	2,853.1	3,434.8	20.4	43.5
Rubber Products	866.1	786.1	488.9	681.7	39.4	8.6
Petroleum Products	521.1	373.6	268.1	294.9	10.0	3.7
Food, Beverages and Tobacco	447.0	464.0	302.9	354.0	16.9	4.5
Machinery and Mechanical Appliances	400.0	337.5	209.5	329.1	57.1	4.2
Gems, Diamonds and Jewellery	305.7	181.5	102.7	178.0	73.4	2.3
Base Metals and Articles	176.5	110.9	76.0	100.1	31.8	1.3
Transport Equipment	145.9	71.4	46.2	74.8	61.8	0.9
Chemical Products	176.3	172.7	107.7	143.7	33.4	1.8
Leather, Travel Goods and Footwear	102.9	53.9	38.2	33.8	-11.4	0.4
Printing Industry Products	48.3	47.9	25.9	35.5	37.0	0.4
Plastics and Articles Thereof	73.5	176.3	72.6	50.7	-30.2	0.6
Other Industrial Exports	566.6	473.2	313.7	382.3	21.8	4.8
<b>Mineral Exports</b>	<b>33.9</b>	<b>25.1</b>	<b>14.3</b>	<b>30.7</b>	<b>115.3</b>	<b>0.4</b>
<b>Unclassified Exports</b>	<b>17.9</b>	<b>14.1</b>	<b>9.3</b>	<b>13.6</b>	<b>45.5</b>	<b>0.2</b>
<b>Total Exports</b>	<b>11,940.0</b>	<b>10,047.4</b>	<b>6,445.0</b>	<b>7,903.0</b>	<b>22.6</b>	<b>100.0</b>
<b>IMPORTS</b>						
<b>Consumer Goods</b>	<b>3,956.5</b>	<b>3,401.7</b>	<b>2,300.3</b>	<b>2,579.3</b>	<b>12.1</b>	<b>19.2</b>
Food and Beverages	1,426.9	1,554.4	1,023.7	1,151.9	12.5	8.6
Rice	12.8	10.5	6.3	8.4	34.2	0.1
Sugar	199.7	276.0	161.9	210.5	30.0	1.6
Dairy Products	311.9	333.8	228.9	231.2	1.0	1.7
Lentils	79.9	96.9	65.7	105.7	60.8	0.8
Other	822.7	837.2	560.8	596.1	6.3	4.4
Non-food Consumer Goods	2,529.6	1,847.3	1,276.7	1,427.3	11.8	10.6
Personal Vehicles	815.7	282.9	280.8	7.8	-97.2	0.1
Medical and Pharmaceuticals	552.6	595.5	385.3	532.0	38.1	4.0
Home Appliances	206.6	174.2	100.4	179.8	79.1	1.3
Clothing and Accessories	275.1	200.7	137.6	138.7	0.8	1.0
Other	679.6	594.0	372.5	569.0	52.7	4.2
<b>Intermediate Goods</b>	<b>11,369.6</b>	<b>9,076.5</b>	<b>5,692.4</b>	<b>7,942.4</b>	<b>39.5</b>	<b>59.2</b>
Fuel	3,891.6	2,542.6	1,691.2	2,395.9	41.7	17.9
Textiles and Textile Articles	2,909.4	2,335.1	1,457.2	1,943.7	33.4	14.5
Diamonds, Precious Stones and Metals	201.4	117.2	57.4	81.7	42.3	0.6
Chemical Products	831.5	831.5	518.3	732.6	41.3	5.5
Wheat and Maize	346.4	384.4	229.3	265.9	15.9	2.0
Fertilizer	221.4	258.9	124.3	104.0	-16.4	0.8
Base Metals	562.8	460.3	246.6	499.2	102.4	3.7
Plastics and Articles Thereof	612.9	540.2	323.9	518.6	60.1	3.9
Other Intermediate Goods	1,792.3	1,606.3	1,044.2	1,400.9	34.2	10.4
<b>Investment Goods</b>	<b>4,602.6</b>	<b>3,563.2</b>	<b>2,253.2</b>	<b>2,882.3</b>	<b>27.9</b>	<b>21.5</b>
Machinery and Equipment	2,489.7	2,176.1	1,324.6	1,822.5	37.6	13.6
Building Materials	1,508.7	1,035.6	671.4	803.9	19.7	6.0
Transport Equipment	596.6	348.3	255.3	252.1	-1.2	1.9
Other Investment Goods	7.6	3.2	2.0	3.7	90.6	0.03
<b>Unclassified Imports</b>	<b>8.3</b>	<b>14.0</b>	<b>11.4</b>	<b>7.6</b>	<b>-33.8</b>	<b>0.1</b>
<b>Total Imports</b>	<b>19,937.1</b>	<b>16,055.4</b>	<b>10,257.4</b>	<b>13,411.5</b>	<b>30.7</b>	<b>100.0</b>

(a) Provisional

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

Export performance showed a broad-based improvement compared to 2020. Almost all export sectors across industrial, agricultural, and mineral exports recorded increases. Although the effects of the COVID-19 pandemic have not fully dissipated globally, the growth momentum in advanced economies helped secure a faster than expected recovery for Sri Lanka's exports. Domestically, the support provided by the Government helped address issues faced by industries amidst the pandemic, and the continued provision of infrastructure facilities and support services enabled businesses to record this growth.

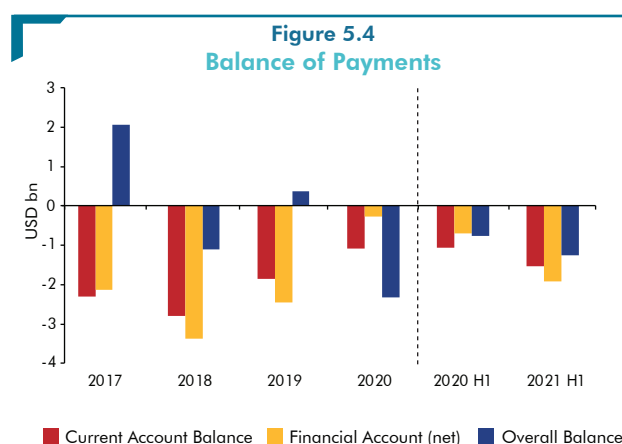
Import expenditure grew despite the continuation of some of the import restrictions imposed by the Government in 2020. The recovery of activity, alongside the increase in global prices, particularly of fuel, contributed to record an increase of import expenditure on account of all major sectors, namely, consumer goods, investment goods, and intermediate goods.

## Services Account

The services sector remained subdued in the first half of 2021 with limited earnings from tourism despite a healthy growth in the IT/BPO sector. The tourism sector witnessed a limited number of tourist arrivals. The total number of tourist arrivals from January to September 2021 amounted to 37,924 while earnings from tourism in the period were restricted at USD 51 mn. The Central Bank, the Government and tourism authorities provided significant support to the tourism sector to weather the impact of the pandemic. They included debt moratoria, working capital loans, waivers of license fees, facilities for new tourism trends, such as 'digital nomadism', promotional campaigns in target markets, development of mobile apps for tourists, improvements to hard and soft tourism infrastructure, etc.

*The surplus in trade in services moderated, mainly reflecting subdued earnings from tourism...*

The computer and information services subsector contributed mainly to earnings from services during the first half of 2021, reflecting the increased business



opportunities that became available due to the pandemic. Meanwhile, the rapid expansion of ITES, which include BPO and KPO services, continued to contribute towards the healthy growth in this sector in addition to software development services. Net earnings from the transport sector gradually increased in the first half of 2021 with container handling and cargo handling in the port services subsector recording

**Table 5.2**  
**Current and Capital Account** USD mn

Item	2019 (a)	2020 (b)	2020 H1 (b)	2021 H1 (b)
<b>Trade Balance</b>	<b>-7,997</b>	<b>-6,008</b>	<b>-3,262</b>	<b>-4,316</b>
Exports	11,940	10,047	4,413	5,699
Growth (%)	0.4	-15.9	-26.4	29.1
Imports	19,937	16,055	7,675	10,015
Growth (%)	-10.3	-19.5	-20.0	30.5
<b>Services (net)</b>	<b>2,849</b>	<b>819</b>	<b>729</b>	<b>549</b>
Receipts	7,474	3,035	2,036	1,372
of which;				
Transportation, net	630	114	145	185
Growth (%)	-16.0	-81.8	-59.2	27.4
Tourist earnings	3,607	682	682	23
Growth (%)	-17.7	-81.1	-64.1	-96.7
IT/BPO	899	971	486	576
Growth (%)	6.1	8.0	6.4	18.4
Payments	4,625	2,216	1,307	823
<b>Primary Income (net)</b>	<b>-2,462</b>	<b>-2,101</b>	<b>-1,101</b>	<b>-957</b>
Receipts	252	198	111	69
Payments	2,713	2,300	1,212	1,026
<b>Secondary Income (net)</b>	<b>5,766</b>	<b>6,207</b>	<b>2,580</b>	<b>3,187</b>
of which;				
Workers' Remittances	6,717	7,104	2,980	3,324
Growth (%)	-4.3	5.8	-8.9	11.6
<b>Current Account Balance</b>	<b>-1,843</b>	<b>-1,083</b>	<b>-1,054</b>	<b>-1,536</b>
<b>Capital Account (net)</b>	<b>23</b>	<b>28</b>	<b>16</b>	<b>11</b>
<b>Current Account and Capital Account (net)</b>	<b>-1,820</b>	<b>-1,055</b>	<b>-1,037</b>	<b>-1,525</b>

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

a continuous growth during the year, due to increased economic activity both globally and domestically and high global tariff rates for cargo handling.

### Primary Income and Secondary Income Accounts

The deficit in the primary income account moderated marginally, as dividend payments of direct investment enterprises as well as interest payments on foreign loans by the Government remained below the levels recorded in the first half of 2020. Interest payments declined, due to the limited outstanding liabilities in rupee denominated government securities held by foreigners and the repayment of maturing ISBs.

**Workers' remittances slowed down notably since June 2021, partly due to the increased use of informal channels...**

The growth in workers' remittances remained relatively high during the five months ending May 2021, y-o-y, thereby supporting the secondary income account. However, workers' remittances moderated from June 2021, y-o-y, reflecting the possible increase of the use of informal channels for remitting money amidst pressures in the domestic foreign exchange market. However, with the gradual dissipation of the pandemic, worker migration showed signs of improvement with monthly increases in migrant workers registering with the SLBFE. Further, in view of attracting more workers' remittances to the banking system, the Government continued to pay additional Rs. 2 per USD above the market rate for workers' remittances converted to Sri Lanka rupees at licensed banks. In addition, the continuation of the Special Deposit Account scheme, introduced in 2020 to attract higher inward remittances, is expected to strengthen further foreign exchange inflows to the country. The active stakeholder engagement to promote foreign employment is expected to secure more foreign employment opportunities, thereby strengthening workers' remittances in the period ahead.

### Financial Account

Limited inflows were recorded to the financial account during the first half of 2021. FDI, including foreign loans to DfEs, remained modest in both 2020 and in the first half of 2021. Gradual outflows were recorded in terms of foreign investment in both the government securities market and the CSE on a net basis. The main financial inflow during the first half of the year was the receipt of the second tranche of the syndicated loan facility from CDB in April 2021. Since then, the financial account of the BOP has been augmented with the receipt of the SDR allocation from the IMF in August, the bilateral swap facility with the Bangladesh Bank in August and the balance portion of the syndicated loan from CDB. Further, the Central Bank entered into a bilateral swap facility equivalent to approximately USD 1.5 bn with the PBOC in March 2021, which has been kept as a standby arrangement. Outflows from the financial account remained significantly high relative to inflows, mainly due to the country's foreign debt servicing obligations. Significant external debt service payments were made so far in 2021, including the maturity of an ISB. In terms of future expected inflows to the financial account, significant progress is also expected in the Colombo Port City project. The

**Table 5.3**  
**Financial Account**

USD mn

Item	2019 (a)	2020 (b)	2020 H1 (b)	2021 H1 (b)
<b>Financial Account (net)</b>	<b>-2,460</b>	<b>-260</b>	<b>-693</b>	<b>-1,920</b>
<b>Net Acquisition of Assets</b>	<b>514</b>	<b>-1,825</b>	<b>-1,566</b>	<b>-1,535</b>
Direct Investment	77	15	7	9
Other Investment	100	-136	-58	37
Currency and Deposits	-93	64	22	-52
Trade Credit and Advances	-4	-224	-137	100
Other Accounts Receivable	196	24	58	-11
Reserve Assets	337	-1,704	-1,515	-1,581
<b>Net Incurrence of Liabilities</b>	<b>2,974</b>	<b>-1,566</b>	<b>-873</b>	<b>385</b>
Direct Investment	743	434	242	302
Portfolio Investment	2,313	-2,383	-771	-84
Equity	-4	-217	-103	-116
Debt Securities	2,317	-2,166	-669	32
Other Investment	-82	383	-344	167
Currency and Deposits	167	-15	-636	-177
Loans	-245	327	723	-12
Trade Credit and Advances	-28	185	-248	238
Other Accounts Payable	24	-114	-183	118
<b>Errors and Omissions</b>	<b>-640</b>	<b>795</b>	<b>344</b>	<b>-395</b>
<b>Overall Balance</b>	<b>377</b>	<b>-2,328</b>	<b>-760</b>	<b>-1,261</b>
<b>Gross Official Reserves</b>	<b>7,642</b>	<b>5,664</b>		<b>4,060</b>
Months of Imports	4.6	4.2		2.6
<b>Total Foreign Assets</b>	<b>10,402</b>	<b>8,521</b>		<b>6,824</b>
Months of Imports	6.3	6.4		4.5

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka



Government has already secured FDI to the energy sector and efforts are also underway to monetise underutilised assets under the Urban Development Authority. Further, as detailed in the Central Bank's Road Map for the next six months, published in early October 2021, the Government and the Central Bank have identified a number of short-term funding sources as well as non debt creating or low cost long term financing in order to successfully navigate the next six months period as well as to ensure stability of the external sector in the medium and long term. Further, the Task Force to Strengthen Foreign Exchange Inflows, established under the Presidential Task Force for Economic Revival and Poverty Alleviation, continued to facilitate the stakeholders in identified sectors, including selected goods and services exports sectors, workers' remittances, foreign investment, etc. The foreign inflows on account of such identified sectors are expected to increase in the period ahead. Further, the enactment of the Securities and Exchange Commission Act is expected to attract foreign equity and portfolio investment.

## 5.2 Overall Balance and Gross Official Reserves

The overall balance of the BOP recorded a notable deficit during the nine months ending September 2021. Widening of the current account deficit, limited inflows to the financial account, and large external debt service payments, which were partly met by drawing on gross official reserves, resulted in the moderation of gross official reserves to USD 2.7 bn by

end September 2021, which was equivalent to an estimated 1.7 months of imports. This level of gross official reserves does not include the 3-year bilateral currency swap facility equivalent to approximately USD 1.5 bn between the PBOC and the CBSL. Meanwhile, the absorption of foreign exchange on account of conversion of export proceeds and workers' remittances enabled the Central Bank to buttress gross official reserves through non debt creating sources to some extent.

Total international reserves, which comprise gross official reserves and foreign assets of the banking sector amounted to USD 6.1 bn by end September 2021, providing an estimated import cover of 3.8 months.

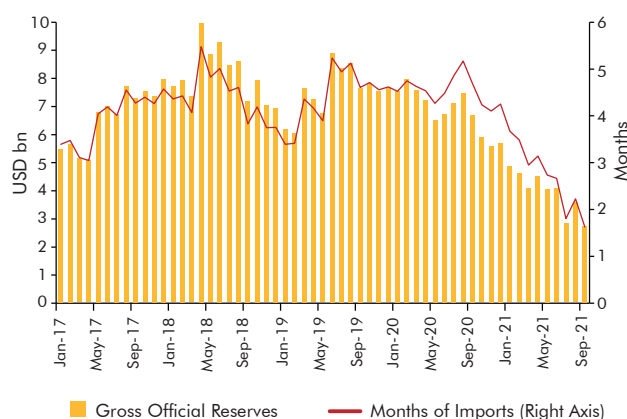
## 5.3 International Investment Position

The IIP recorded an increase in the net liability position by end June 2021. Sri Lanka's external asset position with non residents declined as at end June 2021, compared to the beginning of the year. The stock position of external assets decreased primarily as a result of the decline in gross official reserves. Sri Lanka's total liabilities position to non residents increased as at end June 2021, compared to the beginning of the year, mainly due to the increase in market prices of Sri Lanka's outstanding ISBs. The direct investment liability position of FDI companies also increased marginally during the period. Foreign loan liabilities of deposit taking corporations reduced, while foreign loan liabilities of the Government and outstanding trade credits received by the private sector and SOBEs increased. Meanwhile, the outstanding liabilities of the Central Bank declined mainly with the settlement of the swap facility with the RBI in February 2021.

## 5.4 External Debt Position

Sri Lanka's total outstanding external debt increased by end of the first half of 2021 in comparison to end 2020, mainly due to the increase in market price of Sri Lanka's outstanding ISBs. The outstanding foreign loans of the Government also increased marginally during the first half of the year. The ACU liabilities managed by the Central

**Figure 5.5**  
Gross Official Reserves and Months of Imports



Source: Central Bank of Sri Lanka



**Table 5.4**  
**Outstanding External Debt**

USD mn

Item	2019 (a)	2020 (b)	2021 H1 (b)
<b>Gross External Debt Position based on Market Value</b>	<b>54,811</b>	<b>49,212</b>	<b>50,438</b>
General Government	34,249	28,187	29,670
Central Bank	2,318	2,690	2,342
Deposit-Taking Corporations	6,997	6,657	6,511
Other Sectors	6,469	6,676	6,768
Direct Investment:			
Intercompany Lending	4,778	5,001	5,148
<b>Memorandum Items</b>			
Gross External Debt Position of the General Government Based on Face Value	34,084	32,452	32,928

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

Bank also increased. Despite the increase in currency and deposits, outstanding external debt of the banking sector declined due to the substantial reduction in outstanding short term loans. The outstanding external debt of the private sector and SOBEs increased with an increase in trade credits and advances received by SOBEs, although outstanding foreign loans of the private sector and SOBEs declined marginally. However, intercompany borrowing of DIES recorded an increase by end of the first half of the year. With the repayment of maturing ISBs in 2020 and 2021, the outstanding balance of ISBs as a share of GDP has declined significantly. A further reduction of outstanding ISBs as a share of GDP is expected in the period ahead, as per the financing strategy of the Government.

## 5.5 Exchange Rate Movements

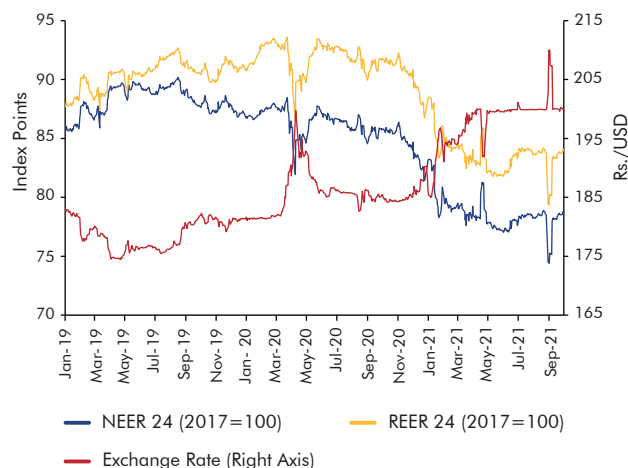
The Sri Lanka rupee, which depreciated significantly during the four months ending April of

**Table 5.5**  
**Exchange Rate Movements**

Currency	End Period Rate -In Rupees per unit of Foreign Currency		% Change
	2020	Sep - 2021	
Euro	229.42	232.10	-1.16
Indian rupee	2.55	2.69	-5.32
Japanese yen	1.81	1.79	1.10
Pound sterling	254.35	268.96	-5.43
USD	186.41	199.99	-6.79
SDR	268.48	281.75	-4.71
<b>Effective Exchange Rate Indices (2017=100)</b>			
NEER 24-currencies	83.12	78.76	-5.25
REER 24-currencies	88.37	83.99	-4.95

Source: Central Bank of Sri Lanka

**Figure 5.6**  
**Exchange Rate Movements**



Source: Central Bank of Sri Lanka

the year due to heightened pressures in the domestic foreign exchange market, showed relative stability thereafter, despite some intermittent volatility. The Central Bank's intervention in the domestic foreign exchange market and moral suasion supported stabilising the rupee. Accordingly, the weighted average spot exchange rate in the interbank market remained broadly stable at around Rs. 200 per USD. The Sri Lanka rupee depreciated against the USD by 6.8% by end September 2021. The pressures observed in the domestic foreign exchange market could be partly attributable to the inadequate conversion of foreign exchange earnings. With the continuation of the regulation on conversion requirement of export proceeds, foreign exchange liquidity condition in the domestic market is expected to improve somewhat in the period ahead. Since the announcement of the Six-Month Road Map by the Central Bank, undue speculation on the exchange rate has also subsided to a great extent. Reflecting cross currency exchange rate movements, the Sri Lanka rupee depreciated against the pound sterling, the euro and the Indian rupee, while appreciating against the Japanese yen by end September 2021.

*As reflected by  
real effective exchange  
rate indices,  
the Sri Lanka rupee  
remains undervalued...*

The NEER and REER indices, which measure the movement of the Sri Lanka rupee against a basket of currencies, declined during the nine months ending September 2021. Overall, REER

indices remained below the base year level (2017=100), indicating that the exchange rate remained supportive of the country's trade competitiveness.

### Abbreviations and Acronyms

ACU	: Asian Clearing Union	ITES	: Information Technology Enabled Services
bn	: Billion	KPO	: Knowledge Process Outsourcing
BOP	: Balance of Payments	mn	: Million
CBSL	: Central Bank of Sri Lanka	NEER	: Nominal Effective Exchange Rate
CDB	: China Development Bank	PBOC	: People's Bank of China
CSE	: Colombo Stock Exchange	RBI	: Reserve Bank of India
DIEs	: Direct Investment Enterprises	REER	: Real Effective Exchange Rate
FDI	: Foreign Direct Investment	Rs.	: Sri Lanka Rupee
G2G	: Government to Government	SDR	: Special Drawing Rights
IIP	: International Investment Position	SLBFE	: Sri Lanka Bureau of Foreign Employment
IMF	: International Monetary Fund	SOBEs	: State Owned Business Enterprises
ISB	: International Sovereign Bond	USD	: United States Dollar
IT/BPO	: Information Technology & Business Process Outsourcing	y-o-y	: Year-on-Year



## Fiscal Policy and Government Finance

**T**he COVID-19 pandemic continued to weigh on the fiscal sector performance during the seven months ending July 2021, as revenue mobilisation moderated and government expenditure increased, resulting in a widened budget deficit and an increase in the central government debt. The fiscal policy support to attenuate the impact of the pandemic on individuals and the economy added pressures onto fiscal operations. Government revenue recorded a nominal increase during January-July 2021, y-o-y, supported by increased activity, compared to relatively large economic disruptions during the first and second waves of the pandemic in the preceding year. However, the rise in government expenditure offset the nominal increase in government revenue, reflecting the need for a sustained improvement in revenue collection. The increase in government expenditure during the seven months ending July 2021 is attributable to the increase in both capital expenditure and recurrent expenditure, mainly on account of the direct expenditure induced by the COVID-19 pandemic, together with the rise in expenditure on interest payments and salaries and wages. Accordingly, key fiscal balances deteriorated during the period from January to July 2021 over the same period in 2020, resulting in a notable increase in the outstanding central government debt. Deficit financing relied entirely on domestic sources, reflecting the limited access to global financial markets, as well as the financing strategy of the Government to reduce exposure to foreign financing over the medium term. Foreign financing recorded a net repayment during the period under consideration, compared to the corresponding period of 2020, resulting in a reduction of the relative share of foreign debt by end July 2021. The Central Bank provided an extraordinary financing support to the Government in order to meet the rising expenditure requirements and maintain the unblemished debt servicing record since the onset of the pandemic.

## 6.1 Fiscal Policy Direction and Measures

The fiscal policy measures initiated since the onset of the pandemic continued in the form of immediate fiscal impulse via spending measures and foregone revenue measures, in addition to liquidity provisions through the low tax regime instituted since late 2019 to revive the stagnant economy. The Government took decisive measures to contain the spread of the pandemic and to ensure the safety of the citizens while supporting the livelihoods through the existing social safety networks, quarantine measures, and the accelerated islandwide vaccination drive. The Inland Revenue Act No. 24 of 2017 and Value Added Tax Act, No. 14 of 2002 (VAT Act) were amended in 2021, incorporating tax revisions implemented from late 2019. Measures were also taken to grant several tax exemptions and tax holidays, including various tax concessions, reduction in statutory rates, and certain income tax exemptions, to the people and businesses affected by the pandemic. In line with the comprehensive tax policy package, which was announced in the Budget 2021, measures are being taken to introduce a composite tax of SGST. Also, measures were taken to enact the legislation for tax amnesty under the provisions of the Finance Act, No. 18 of 2021, which inter alia provides for persons to voluntarily report their undisclosed taxable supplies, income and assets for any taxable period ended on or prior to 31 March 2020, or in a return of income for any year of assessment ended on or prior to 31 March 2020. Several changes were made to the tax administration process, such as the mandatory use of TIN in all tax related source documents and making e-filing compulsory for all limited liability companies. Further, expenditure rationalisation measures were continued through curtailing government expenses, while prioritising public investment and improving the productivity of the public sector. The expected improvement in the delivery of public services through digitalisation and modern practices, and the efforts to improve performance of SOEs, including revisions to domestic prices of petroleum products and LP gas in line with global price movements, would help ease the financial burden on the government budget in the period ahead. Moreover, the establishment of the Management Information System to monitor the financial and operational performance of SOEs in a

systematic method and the establishment of Cabinet Appointed Management Committee on Investments are also expected to facilitate an improvement in the performance of SOEs. Meanwhile, amendments were introduced to the Fiscal Management (Responsibility) Act No. 3 of 2003 in June 2021 to shift the debt to GDP target to 2030 from 2020, and to increase the limit on guarantees issued by the Government to 15% from 10%. Recognising increased pressures of the pandemic on fiscal operations, the Parliament approved a supplementary budget of Rs. 200.0 bn to meet contingent expenditure related to the COVID-19 pandemic within the already approved borrowing limit of Rs. 2,997.0 bn for 2021. Meanwhile, considering the rising expenditure, particularly attributable to ongoing pandemic measures and additional provisions for subsidies and transfers and other expenses following the loss of revenue of the government institutions, an Appropriation (Amendment) Bill was submitted by the Government to raise the gross borrowing limit by Rs. 400.0 bn for 2021 to Rs. 3,397.0 bn in September 2021. Further, in June 2021, the Parliament approved a resolution to increase the limit on Treasury bills to Rs. 3,000.0 bn from the previous limit of Rs. 2,000.0 bn.

**“ Notwithstanding the limited fiscal space, extraordinary fiscal stimulus measures were implemented by the Government to help businesses stay afloat, support households, preserve employment and revive the economy in the face of the economic and social catastrophe created by the pandemic...”**

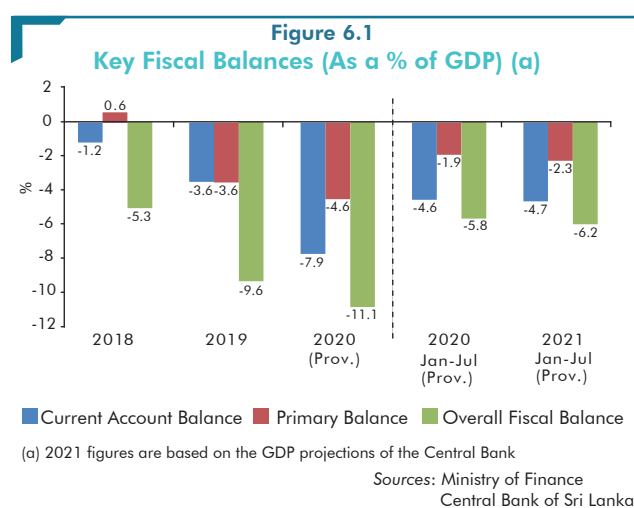
Sovereign rating downgrades by international credit rating agencies have made foreign financing a challenging task during 2021 amidst increased funding requirements with the pandemic. Moody's Investors Service, which placed the rating under "review for downgrade" in July 2021, downgraded the rating from "Caa1" to "Caa2" with stable outlook in October 2021. S&P Global Ratings, which kept Sri Lanka's rating at "CCC+" since December 2020, changed the outlook from stable to negative in August 2021. However,

Fitch Ratings maintained its credit rating of "CCC" during the year up to end October 2021. Despite the adverse speculation of the rating agencies, the Government continued to honour all its debt servicing, along with the assistance of the Central Bank, including the ISB of USD 1.0 bn, which matured in July 2021, thereby maintaining its impeccable record of timely debt servicing. The Government and the Central Bank are in the process of making necessary arrangements to improve the country's sovereign rating in the future through coordinated efforts.

## 6.2 Government Budgetary Operations<sup>1</sup>

### Key Fiscal Balances

Reflecting the impact of the pandemic on the fiscal sector, key fiscal balances deteriorated during the period from January to July 2021, both in nominal terms and as a % of estimated GDP, driven by the increase in government expenditure that offset the increase in government revenue. The budget deficit increased to Rs. 1,014.5 bn (6.2% of estimated GDP) during the period from January to July 2021 from Rs. 872.6 bn (5.8% of GDP) in the corresponding period of 2020. The current account deficit, which reflects the dissavings of the Government, increased to Rs. 779.1 bn (4.7% of estimated GDP) during the seven months ending July 2021 from Rs. 694.5 bn (4.6% of GDP) recorded in the same period of 2020. The primary balance increased its deficit to Rs. 377.2 bn (2.3% of estimated GDP) during the period under review from the deficit of Rs. 288.9 bn (1.9% of GDP) recorded in the corresponding period of 2020.



<sup>1</sup> In the absence of detailed breakdown of fiscal data for 2020 subsequent to restatement, fiscal statistics for 2021 have been compared against corresponding data in 2020 prior to restatement.

### Government Revenue

Against the backdrop of the revival of economic activity, government revenue partially recovered in nominal terms during the period from January to July 2021, compared to the previous year. Government revenue increased by 4.7% to Rs. 798.9 bn (4.9% of estimated GDP) during the seven months ending July 2021 from Rs. 763.2 bn (5.1% of GDP) recorded in the corresponding period of 2020. Tax revenue increased by 6.9% to Rs. 716.7 bn during the period under review from Rs. 670.4 bn in the corresponding period of 2020, benefiting from the high tax revenue collection from VAT, PAL and CESS. Revenue from VAT increased significantly by 46.6% during this period, compared to the corresponding period of 2020, due to the gradual normalisation of economic activity. Overall revenue

**Tax revenue increased, in nominal terms, benefiting from the high revenue collection from VAT, PAL and CESS levy, while non tax revenue declined...**

from excise duties declined by 7.1%, mainly on account of the drop in excise duties from importation of motor vehicles. However, excise duties on liquor increased by 30.1% during the period under review from a year earlier with increased liquor sales, particularly during the festive season. Revenue from PAL and CESS levy also increased during the period from January to July 2021, by 27.7% and 62.5%, respectively, over the same period of 2020. Revenue from PAL grew

**Table 6.1**  
**Economic Classification of Government Revenue**

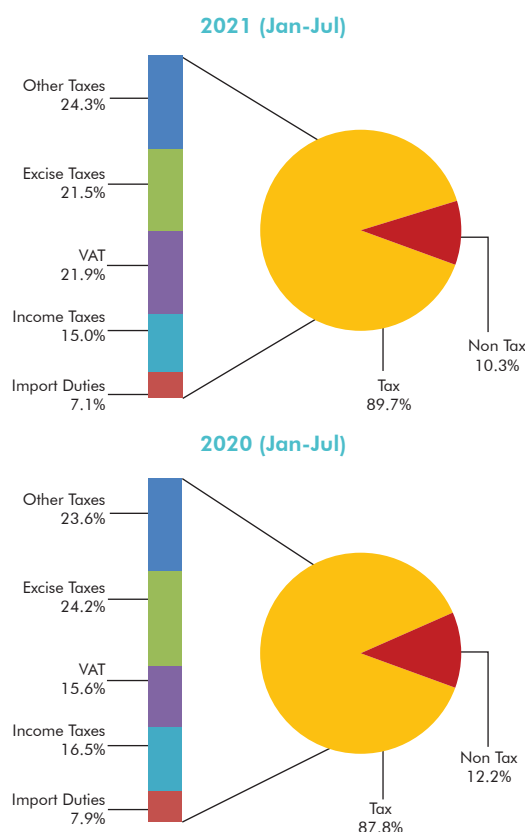
Item	2019	2020 (a)	Rs. bn	
			2020 Jan - Jul (a)	2021 Jan - Jul (a)
<b>Tax Revenue</b>	<b>1,734.9</b>	<b>1,216.5</b>	<b>670.4</b>	<b>716.7</b>
Income Taxes	427.7	268.2	126.0	119.6
VAT	443.9	233.8	119.3	174.9
Excise Taxes	399.5	321.9	184.9	171.8
Import Duties	98.4	114.2	60.4	56.4
PAL	112.2	115.4	62.4	79.7
CESS	50.7	49.3	28.1	45.6
SCL	70.4	82.7	46.5	33.8
Other Taxes	132.2	30.9	42.8	34.9
<b>Non Tax Revenue</b>	<b>156.0</b>	<b>151.4</b>	<b>92.8</b>	<b>82.2</b>
<b>Total Revenue</b>	<b>1,890.9</b>	<b>1,368.0</b>	<b>763.2</b>	<b>798.9</b>

(a) Provisional

Source: Ministry of Finance



**Figure 6.2**  
**Composition of Government Revenue**



Sources: Ministry of Finance  
Central Bank of Sri Lanka

mainly due to the increase in imports of certain items, in particular some investment goods, while revenue from CESS increased due to the upward adjustment of CESS on certain import items. However, revenue collection from income tax and several import related taxes declined during this period, mainly reflecting certain tax relief measures given to affected individuals and businesses. During the seven months ending July 2021, non tax revenue declined to Rs. 82.2 bn from Rs. 92.8 bn in the corresponding period of 2020, mainly due to the reduction in the revenue collection from rent, interest income, and fees and charges.

Foreign grants during the seven months ending July 2021 were limited to Rs. 898.2 mn, in comparison to Rs. 2,146.7 mn recorded in the corresponding period of 2020.

### Expenditure and Net Lending

In nominal terms, total expenditure and net lending during the period from January to July 2021 increased by 10.8% to Rs. 1,814.4 bn (11.0% of estimated GDP) from

Rs. 1,637.9 bn (10.9% of GDP) during the corresponding period of 2020, due to the rise in both recurrent and capital expenditure. During the period under review, recurrent expenditure rose by 8.3% to Rs. 1,578.0 bn over the corresponding period of 2020. Recurrent expenditure increased, mainly due to the pandemic related direct expenditure, including relief and livelihood support extended to the needy segments of the society

*Escalating recurrent expenditure largely contributed to the rise in government expenditure...*

and expenditure on measures to contain the spread of the virus. Further, the increase in expenditure on interest payments, and salaries and wages also contributed to the rise in recurrent expenditure.

Expenditure on salaries and wages increased by 8.7% to Rs. 490.8 bn during the period from January to July 2021 over the same period in 2020, reflecting the addition of public sector annual salary increments and new recruitments to the public sector, including the recruitment of unemployed graduates and unskilled individuals from low-income households. Absorbing 79.8% of total government revenue, interest expenditure increased by 9.2% to Rs. 637.4 bn during the period under consideration. This increase in interest expenditure was mainly due to the rise in interest payments on increased

**Table 6.2**  
**Economic Classification of Government Expenditure**

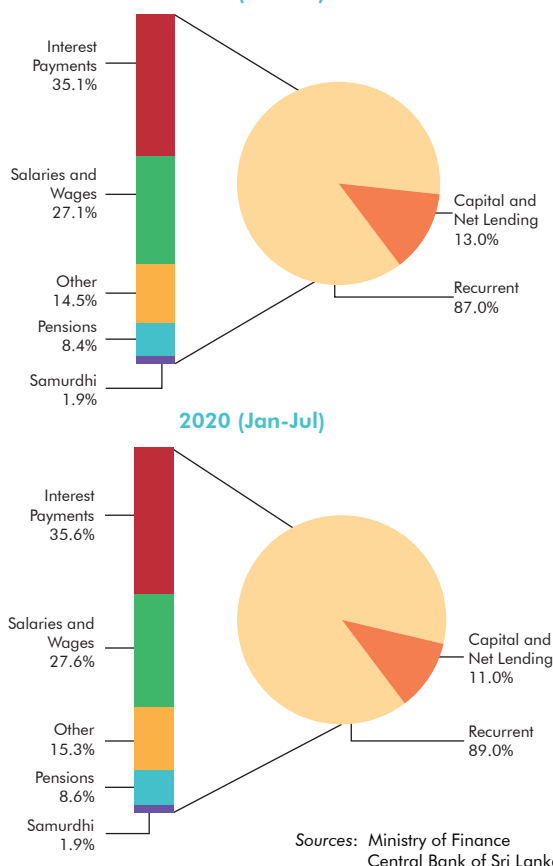
Item	Rs. bn			
	2019 (a)	2020 (b)	2020 Jan - Jul (b)	2021 Jan - Jul (b)
<b>Recurrent Expenditure</b>	<b>2,424.6</b>	<b>2,548.4</b>	<b>1,457.7</b>	<b>1,578.0</b>
Expenditure on Goods and Services	848.3	974.4	534.0	575.6
o/w Salaries and Wages	686.5	794.2	451.4	490.8
Interest Payments	901.4	980.3	583.6	637.4
Foreign	234.0	266.7	170.8	157.8
Domestic	667.4	713.6	412.8	479.6
Current Transfers and Subsidies	551.5	717.1	340.1	365.1
o/w Pensions	227.7	257.8	140.7	153.2
Samurdhi	44.7	52.4	30.7	34.6
Fertiliser Subsidy	35.0	36.7	18.6	8.8
<b>Capital Expenditure and Net Lending</b>	<b>913.3</b>	<b>492.6</b>	<b>180.2</b>	<b>236.3</b>
<b>Total Expenditure and Net Lending</b>	<b>3,337.9</b>	<b>3,041.0</b>	<b>1,637.9</b>	<b>1,814.4</b>

Source: Ministry of Finance

(a) Government expenditure and net lending in 2020 were adjusted by the Ministry of Finance by shifting a sum of Rs. 422.6 bn to 2019 in view of accounting for the payment of arrears spilled over from 2019. Accordingly, of the recurrent expenditure incurred in 2020, a sum of Rs. 123.4 bn was shifted to 2019, and of the capital expenditure and net lending in 2020, a sum of Rs. 299.2 bn was shifted to 2019.

(b) Provisional



**Figure 6.3**  
**Composition of Government Expenditure**  
**2021 (Jan-Jul)**

domestic borrowing, particularly on account of Treasury bills and Treasury bonds. During the period from January to July 2021, subsidies and transfers grew by 7.3% to Rs. 365.1 bn over the corresponding period of 2020. Capital expenditure and net lending increased by 31.1% to Rs. 236.3 bn during the period from January to July 2021 from Rs. 180.2 bn in the corresponding period of 2020.

### Financing of the Budget Deficit

The budget deficit was entirely financed through domestic sources during the seven months ending July 2021, reflecting the limited access to global capital markets and the explicit preference of the Government to reduce the share of foreign debt. Net domestic financing amounted to Rs. 1,204.6 bn during the seven months ending July 2021, compared to Rs. 1,067.0 bn during the corresponding period of 2020, while net foreign repayment amounted to Rs. 190.1 bn in the seven months ending July 2021, compared to a net foreign repayment of Rs. 194.5 bn recorded in the corresponding period of 2020. In net domestic financing, Treasury bonds accounted for a large share

**Table 6.3**  
**Sources of Deficit Financing**

Item	2020 Jan - Jul (a)	2021 Jan - Jul (a)
<b>Domestic Financing (b)</b>	<b>1,067.0</b>	<b>1,204.6</b>
Bank	867.0	932.5
Non Bank	200.0	272.1
<b>Foreign Financing</b>	<b>-194.5</b>	<b>-190.1</b>
Project Loans & Programme Loans	-140.3	-86.0
Commercial Loans	29.2	-99.9
Treasury Bonds (c)	-63.4	-3.8
Treasury Bills (c)	-20.0	-0.4
<b>Total Financing</b>	<b>872.6</b>	<b>1,014.5</b>

(a) Provisional  
(b) Excludes funds raised through bonds for restructuring of SOEs  
(c) Includes non-resident holding of government securities

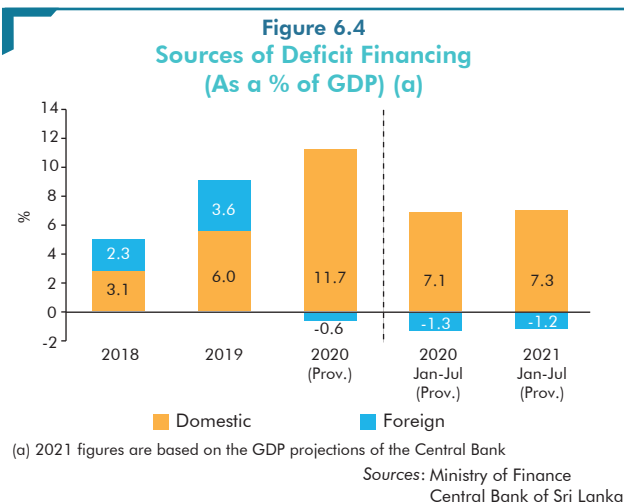
Sources: Ministry of Finance  
Central Bank of Sri Lanka

and mobilised Rs. 932.5 bn (77.4% of total domestic borrowing) from the domestic banking sector during the seven months ending July 2021, compared to Rs. 867.0 bn (81.3% of total domestic borrowing) recorded during the corresponding period of the previous year. Net

**The budget deficit was financed through domestic sources during the seven months ending July 2021, while foreign financing recorded a net repayment...**

financing from the Central Bank increased considerably to Rs. 549.1 bn during the seven months ending July 2021, from Rs. 187.0 bn during the same period of the previous year. However, a notable decline (43.6%) in financing from the commercial banking sector was recorded during the seven months ending July 2021, compared to the previous year. Meanwhile, borrowing from the non-bank sector increased to Rs. 272.1 bn during the seven months ending July 2021, from Rs. 200.0 bn during the same period of the previous year, accounting for 22.6% of the total domestic financing requirement.

Total foreign financing recorded a net repayment during the seven months ending July 2021. Net foreign financing comprised net repayments of Rs. 199.9 bn of ISBs, Rs. 86.0 bn of foreign project and programme loans, Rs. 4.1 bn of foreign holding of Treasury bills and Treasury bonds, and net borrowing of Rs. 100.0 bn on account of FCTFFs. Access to foreign capital markets remained constrained due to tight financial conditions globally as well as the downgrades of the country's sovereign credit ratings, amidst the pandemic related uncertainties.



## Government Debt and Debt Service Payments

### Government Debt

Central government debt, which stood at Rs. 15,117.2 bn at end 2020, increased to Rs. 16,751.7 bn by end July 2021. Total domestic debt witnessed an increase of Rs. 1,252.4 bn to Rs. 10,317.5 bn, while the rupee value of foreign debt increased by Rs. 382.0 bn to Rs. 6,434.2 bn from the levels recorded at end 2020. The increase

**The increase in net financing owing to the expansion in the budget deficit during the seven months ending July 2021 along with the depreciation of the exchange rate contributed to the increase of the rupee value of the outstanding debt...**

in net financing owing to the expansion in the budget deficit during the seven months ending July 2021 mainly contributed to this increase in central government debt. The depreciation of the exchange rate also resulted in an increase in the rupee value of the outstanding debt by Rs. 577.9 bn by end July 2021. The relative share of outstanding foreign debt of the central government remained at 38.4% of total central government debt by end July 2021, compared to 40.0% recorded at end 2020.

The share of short term domestic debt in the total central government debt increased, while the medium and long term domestic debt stock decreased at end July 2021, compared to end 2020, highlighting increased

rollover risk. The increase in the share of short term debt, as a % of total domestic debt, to 29.0% at end July 2021 from 24.2% at end December 2020 was mainly due to higher borrowings through Treasury bills and the increase in overdraft balances of the Government with state banks amidst the market preference towards shorter tenure domestic debt instruments. Consequently, the share of medium and long term debt declined to 71.0% at end July 2021 from 75.8% at end 2020.

Outstanding foreign currency denominated domestic debt decreased to Rs. 673.1 bn at end July 2021 from Rs. 719.3 bn at end 2020, due to net repayments to OBUs and on account of SLDBs. Accordingly, the outstanding stock of SLDBs amounted to Rs. 467.6 bn (USD 2,339.3 mn), while the outstanding debt on OBUs amounted to Rs. 205.5 bn (USD 1,028.0 mn) at end July 2021. The share of foreign currency denominated domestic debt in total domestic debt decreased to 6.5% at end July 2021 from 7.9% at end December 2020.

The share of non concessional debt of the total foreign debt of the central government increased to 51.4% by end July 2021 from 50.6% at end 2020. In nominal terms, the outstanding balance of non concessional debt of the central government increased to Rs. 3,310.0 bn at end July 2021 from Rs. 3,064.1 bn at end 2020.

**Table 6.4**  
**Outstanding Central Government Debt (a)**

Item	2019	2020 (b)	2020 End Jul (b)	2021 End Jul (b)
<b>Domestic Debt (c)</b>	<b>6,830.3</b>	<b>9,065.1</b>	<b>7,708.0</b>	<b>10,317.5</b>
By Maturity Period				
Short Term	1,270.4	2,197.6	1,860.2	2,997.1
Medium and Long Term	5,559.9	6,867.5	5,847.8	7,320.4
By Institution (d)				
Banks	2,888.5	4,735.7	3,663.6	5,580.4
Non Bank Sector	3,941.8	4,329.3	4,044.3	4,737.1
<b>Foreign Debt</b>	<b>6,201.3</b>	<b>6,052.2</b>	<b>6,553.1</b>	<b>6,434.2</b>
Concessional	2,767.5	2,988.1	2,911.6	3,124.2
Non Concessional	3,433.8	3,064.1	3,641.4	3,310.0
<b>Total Government Debt</b>	<b>13,031.5</b>	<b>15,117.2</b>	<b>14,261.0</b>	<b>16,751.7</b>

Sources: Ministry of Finance  
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 and outstanding ISBs have been classified under foreign debt and resident holdings of outstanding of SLDBs and outstanding ISBs of the Sri Lankan Government have been classified under domestic debt.

(b) Provisional

(c) Includes Treasury bonds of Rs. 78,441 mn issued to CPC in January 2012 (of which Rs. 21,778 mn matured on 01 January 2017 and the current outstanding is Rs. 56,662 mn).

(d) The composition of domestic debt held by the banking and non banking sectors was revised from 2017 due to the adjustment for holdings of SLDBs by businesses and individuals.

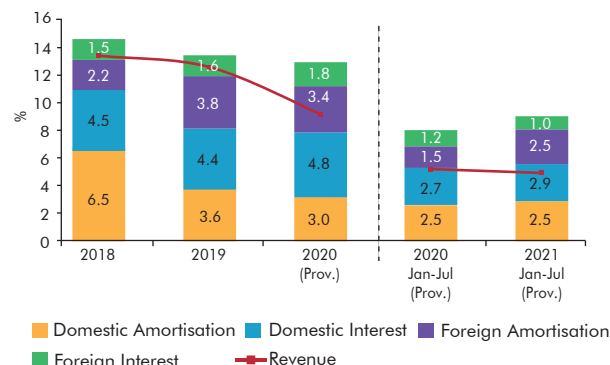
## Debt Service Payments

Total debt service payments during the seven months ending July 2021 increased to Rs. 1,455.1 bn from Rs. 1,191.0 bn recorded in the corresponding period in 2020. During the seven months ending July 2021, amortisation payments increased to Rs. 817.7 bn from Rs. 607.3 bn in the corresponding period in

**During the seven months ending July 2021, amortisation payments increased in comparison to the corresponding period in 2020, primarily due to the repayments on account of SLDBs, ISBs and Treasury bonds...**

2020, primarily with the repayments on account of ISBs, SLDBs and Treasury bonds. Interest payments increased to Rs. 637.4 bn during the seven months ending July 2021 from Rs. 583.6 bn in the corresponding period in 2020, mainly due to high interest payments on domestic debt. This increase was mainly in line with the increase

**Figure 6.5**  
**Government Debt Service vs Government Revenue**  
**(As a % of GDP) (a)**



(a) 2021 figures are based on the GDP projections of the Central Bank

Sources: Ministry of Finance  
Central Bank of Sri Lanka

in domestic debt of the central government, particularly on account of Treasury bills and Treasury bonds. During the seven months ending July 2021, total domestic debt servicing on outstanding central government debt amounted to Rs. 892.3 bn, compared to Rs. 783.3 bn in the corresponding period of 2020, while debt servicing on outstanding foreign debt of the central government amounted to Rs. 562.8 bn, in comparison to Rs. 407.7 bn in the corresponding period of the previous year.

## Abbreviations and Acronyms

bn	: Billion
CESS	: Commodity Export Subsidy Scheme
CPC	: Ceylon Petroleum Corporation
FCTFFs	: Foreign Currency Term Financing Facilities
GDP	: Gross Domestic Product
IMF	: International Monetary Fund
ISBs	: International Sovereign Bonds
LP	: Liquid Petroleum
mn	: Million
OBUs	: Offshore Banking Units

PAL	: Ports and Airports Development Levy
SDGs	: Sustainable Development Goals
SGST	: Special Goods and Services Tax
SLDBs	: Sri Lanka Development Bonds
SOEs	: State Owned Enterprises
SRR	: Statutory Reserve Ratio
TIN	: Tax Identification Number
USD	: United States Dollar
VAT	: Value Added Tax





## Monetary Policy, Interest Rates, Money and Credit

**T**he Central Bank maintained an extremely accommodative monetary policy stance from the onset of the pandemic in early 2020 through mid August 2021. Such accommodative policy helped reduce market interest rates to historically low levels and provide adequate liquidity to the domestic money market, thereby helping individuals and businesses affected by the pandemic, while also helping to revive economic activity from the adverse effects of the pandemic. The Central Bank provided significant funding support to the Government amidst disruptions to government cashflows due to the pandemic. Supported by the low cost of funds and high levels of liquidity in the domestic money market, credit extended to the private sector expanded substantially, which, along with the expansion in credit to the public sector, resulted in a notable growth of domestic credit and money supply thus far in 2021. With the gradual normalisation of economic activity alongside possible inflationary pressures over the medium term, the Central Bank tightened its monetary policy stance in mid August 2021, while also rectifying some anomalous behaviour of interest rates observed between local and foreign currency deposits amidst the escalation of pressures on the external sector. Following the tightening of the monetary policy stance, the short term money market rates adjusted upwards, and other market interest rates are also expected to increase and stabilise at higher levels.

## 7.1 Monetary Policy Stance of the Central Bank

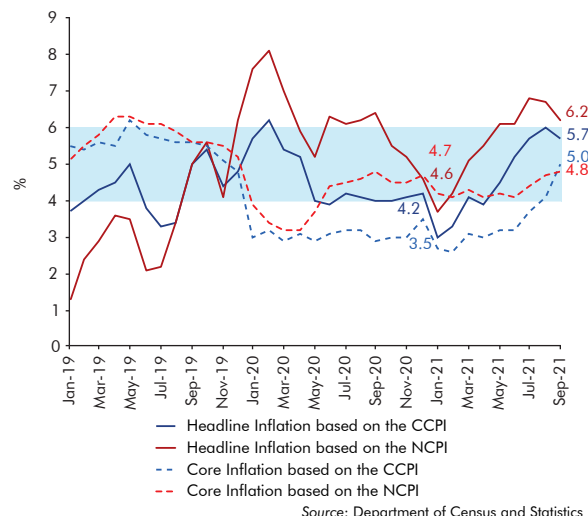
The unprecedented adverse effects of the pandemic on individuals, businesses and overall activity warranted an extremely accommodative monetary policy stance for a prolonged period. The Central Bank lowered the policy interest rates, i.e., the SDFR and the SLFR, and the Bank Rate, along with the SRR applicable on all rupee deposit liabilities of LCBs to historic low levels, while providing large amounts of liquidity to the domestic money market. Consequently, the overall interest rate structure moved downwards notably, thereby availing low cost funds to both private and public sectors. Further, the debt moratoria and concessionary loan schemes introduced in 2020, extended further support to individuals and businesses affected by the pandemic. In addition, considering the cashflow difficulties faced by the Government amidst the pandemic, the Central Bank provided an unprecedented amount of financial

**The Central Bank, which initiated an unprecedented easing of monetary policy since early 2020 with the outbreak of the COVID-19 pandemic, tightened its monetary policy stance in mid August 2021...**

support to the Government. However, the Central Bank began to rollback the monetary support by tightening the monetary policy stance in mid August 2021 with the aim of addressing imbalances in the external sector and financial markets, while preempting any buildup of excessive inflationary pressures over the medium term, amidst improved growth prospects. Following the tightening of monetary policy, liquidity in the domestic money market declined to deficit levels, resulting in an upward adjustment in short term market interest rates. While allowing the interest rates on rupee deposits to increase, the Central Bank imposed a ceiling interest rate on foreign currency deposit products of LCBs and NSB in August 2021 to address anomalies between interest rates of rupee and foreign currency products in the market.

The CCPI (2013=100) based y-o-y headline inflation, which remained well below the lower bound of the target range during the early months of 2021, accelerated gradually thereafter, driven mainly by increases in food

**Figure 7.1**  
Movements in Headline and Core Inflation (y-o-y)



prices. Upward revisions to several administratively determined prices in line with rising global commodity prices also fuelled inflation. Following a similar trend, y-o-y headline inflation as measured by the NCPI (2013=100) also accelerated and remained relatively high due to the large weight assigned to the food category. Core inflation, which prevailed subdued during the first half of the year, accelerated gradually thereafter, mainly due to upward price adjustments to several other food items as well as infrequent price adjustments relating to sectors, such as education, health, restaurants and hotels, in the non-food category. Demand pressures on inflation were also reflected in inflation trends in recent months, with the gradual normalisation of economic activity.

**Inflation followed an upward trend in recent months, driven mainly by supply-side disruptions caused by the pandemic and adverse weather conditions, while also reflecting the gradual buildup of demand pressures...**

The Central Bank continued to conduct monetary policy under the framework of flexible inflation targeting, where the AWCMR serves as the operating target and is maintained at desired levels in accordance with the Central Bank's objective of maintaining inflation within the target of 4-6% over the medium term, while supporting sustained growth in the economy. In



terms of monetary policy communication, the Central Bank unveiled 'The Six-Month Road Map for Ensuring Macroeconomic and Financial System Stability' in October 2021 to inform all the stakeholders on the

**The objective of monetary policy continued to be maintaining inflation at mid-single digit levels over the medium term, while supporting the economy to reach its potential growth path...**

proposed framework to stabilise the economy particularly in the near term. In addition to the regular press releases on the monetary policy stance, the Central Bank has decided to commence publishing a comprehensive Monetary Policy Report from early 2022 to provide greater clarity to stakeholders of the future trajectory of key macroeconomic variables.

## 7.2 Market Liquidity and Movements in Interest Rates

Rupee liquidity in the domestic money market, which remained at significant surplus levels until mid 2021, was reduced notably through the increase in the SRR commencing September 2021. Surplus liquidity during 2021 was mainly due to the substantial amount of liquidity provided through the purchases of government securities by the Central Bank at primary market auctions and direct allocations. However, foreign loan

repayments of the Government using gross official reserves, sizeable withdrawals of currency by the public from the banking system, and maturities of foreign currency buy-sell swaps with domestic banks, caused liquidity in the domestic money market to decline to marginal deficit levels by mid August 2021. Meanwhile, the tightening of the monetary policy stance resulted in a further decline of rupee liquidity in the market September 2021 onwards. In view of asymmetric liquidity distribution and volatility in liquidity levels, the Central Bank commenced conducting open market operations, while maintaining deficit levels of rupee liquidity in the market. Both overnight and term repo auctions were conducted with a view to steering the AWCMR to desired levels, amidst the asymmetric distribution of liquidity within banks. The Central Bank also conducted reverse repo auctions occasionally to inject liquidity to remedy the frequent access to the Standing Lending Facility window of the Central Bank by certain banks. In response to liquidity conditions, the AWCMR gradually adjusted towards the upper bound of the policy rate corridor during the period under review.

**Increase in SRR by 2 pps absorbed around Rs. 170 bn liquidity from the domestic money market...**

Most market interest rates, which were in a downward trend due to eased monetary conditions, changed course following the tightening of monetary policy in mid August 2021. The unprecedented level of monetary easing amidst ample liquidity in the domestic money market helped maintain retail market interest rates at low levels. Continuing the trend that was observed in 2020, market deposit rates showed an overall reduction until June 2021. Market lending rates also recorded historically low levels during 2021. In particular, rates on loans for MSMEs, a sector that was severely affected by the pandemic, reduced noticeably, on average, in line with the overall trend in market lending rates. However, lending rates on selected products and segments, particularly unsecured loans and loans for non prime customers, remained somewhat high. Moreover, with market interest rates declining to low levels, real returns on deposits, particularly savings deposits and short term fixed deposits, turned negative. However, with the tightening of monetary conditions, new deposit rates commenced increasing, while new market lending interest rates began adjusting upwards gradually.

**Figure 7.2**  
**Key Policy Rates, AWCMR and Overnight Money Market Liquidity**

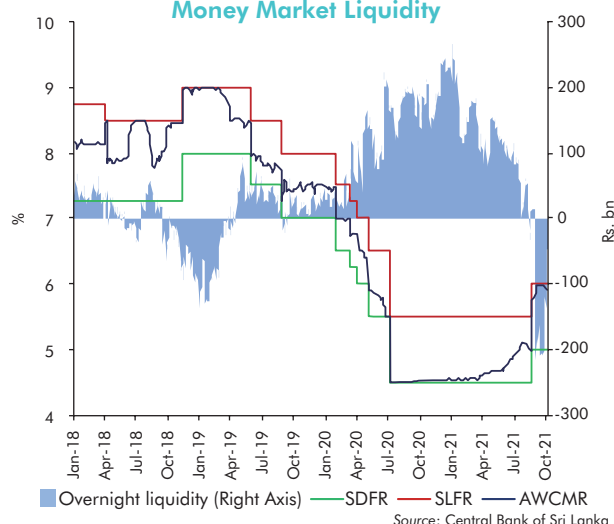
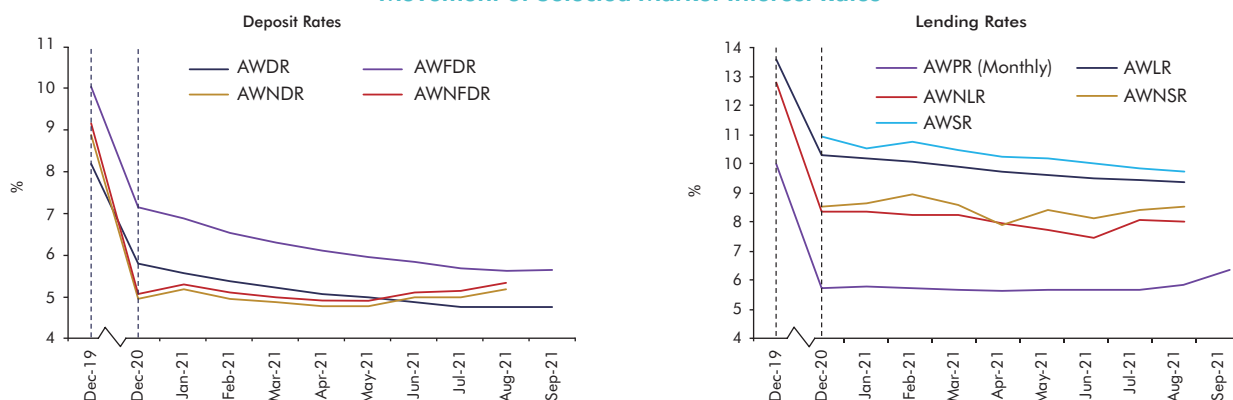


Figure 7.3  
Movement of Selected Market Interest Rates



Source: Central Bank of Sri Lanka

Meanwhile, yields on government securities, which also declined notably during 2020, adjusted upwards gradually since late 2020 along with the adjustments to maximum yield rates for acceptance at primary auctions of government securities, mainly reflecting the increased borrowing requirement of the Government. The expanded budget deficit and reduced foreign currency inflows to the Government caused upward pressure on yields on government securities. Following the monetary tightening in mid August 2021 and the removal of maximum yield rates for acceptance at primary auctions in mid September 2021 to better reflect market preferences, yields on government securities continued to adjust upwards.

Interest rates on foreign currency deposits increased significantly, mainly reflecting competition among banks to mobilise foreign exchange amidst constrained liquidity in the domestic foreign exchange market. In order to eliminate the buildup of interest rate anomalies between domestic currency and foreign currency financial instruments, a maximum interest rate was imposed on foreign currency deposits of licensed banks in late August 2021.

### 7.3 Money and Credit

The growth of broad money supply ( $M_{2b}$ ) has remained above 20% since October 2020, and the overall stock of  $M_{2b}$  increased to Rs. 10.5 tn by end August 2021. The easing of monetary policy stance to an unprecedented level, which caused a notable expansion of domestic credit, both to the private sector and the public sector, contributed to the increase in broad money supply.

In terms of the assets side of  $M_{2b}$ , the expansion in the money supply was driven entirely by the increase in NDA of the banking system, while NFA of the

banking system contracted notably, mainly due to the decline in NFA of the Central Bank. The increased funding requirement of the Government, amidst the pandemic and limited access to international capital markets, was met largely through the banking system. Accordingly, continuing the trend observed in 2020, NCG by the banking system increased notably during

**Accommodative monetary policy measures adopted by the Central Bank and excessive monetary financing of the Government's borrowing requirement resulted in a rapid expansion of broad money supply from mid 2020 through August 2021...**

the period from January to August 2021. This included the significant financial support provided by the Central Bank to the Government by way of purchasing Treasury bills. Accordingly, NCG from the Central Bank increased notably during the eight months ending August 2021. With the notable increase of yields on government securities, following the increase in policy

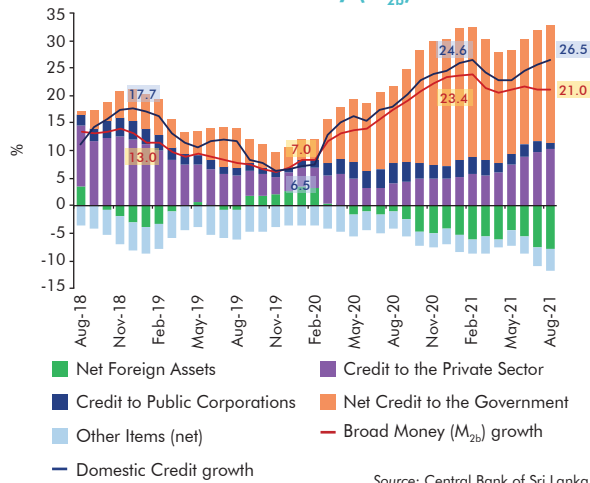
Table 7.1  
Developments in Monetary Aggregates (a)

	Aug - 21	Change (y-t-d)
$M_{2b}$	10,513.6	1,107.9
NFA	- 701.0	- 491.5
NDA	11,214.6	1,599.4
NCG	5,682.1	1,134.1
SOBEs	1,136.9	134.7
PSC	6,795.5	624.6

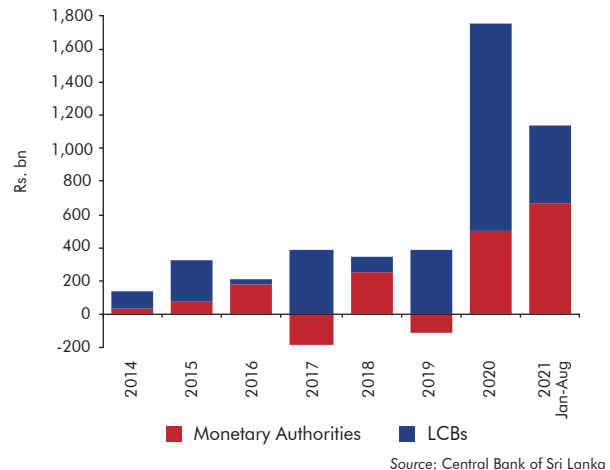
(a) Provisional

Source: Central Bank of Sri Lanka

**Figure 7.4**  
Contribution to y-o-y Growth of  
Broad Money ( $M_{2b}$ )



**Figure 7.5**  
Annual Change in NCG from the Banking System



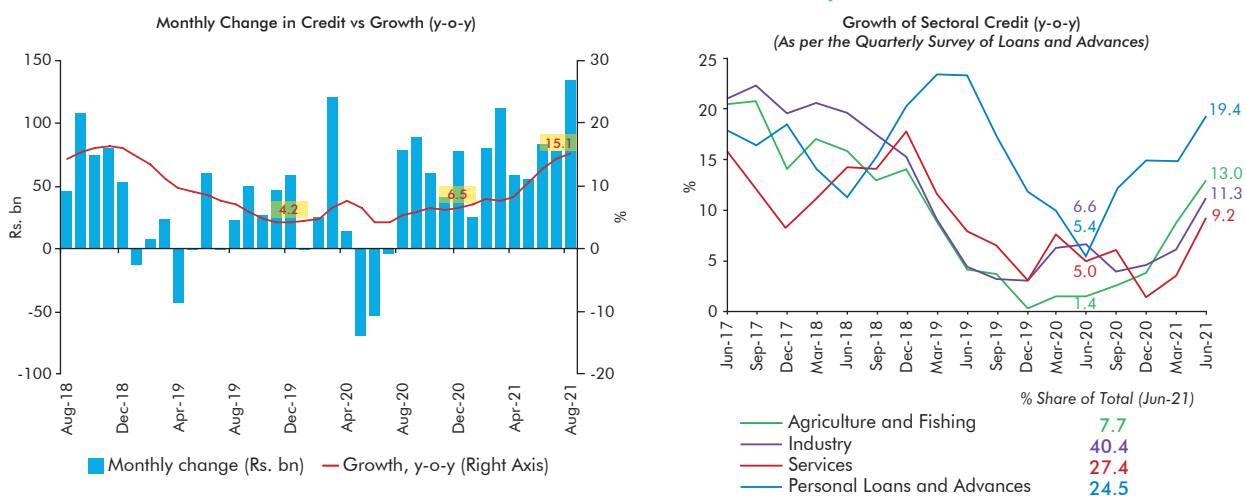
**The unprecedented expansion of NCG continued together with large credit flows to SOBEs, while the growth of credit extended to the private sector has also picked up notably thus far during 2021...**

interest rates and the removal of maximum yield rates for acceptance in mid September 2021, the need for the Central Bank's subscription at primary market auctions of government securities is expected to gradually ease in the period ahead. Credit obtained by SOBEs from LCBs, both in terms of rupee and foreign currency, expanded during the period from January to August 2021, broadly

reflecting the weak financial position of most SOBEs, exacerbated by the outbreak of the pandemic.

Credit extended to the private sector gathered pace, recording a y-o-y growth of 15.1% by end August 2021. This was mainly supported by the ultra low market interest rates, concessionary loan schemes, relaxation of import restrictions alongside the gradual recovery of economic activity. Credit extended to the private sector expanded considerably by Rs. 624.6 bn during the eight months ending August 2021, compared to the annual increase of Rs. 374.1 bn during 2020. With various credit schemes that have been announced in support of the pandemic-stricken businesses and individuals, a notable increase in credit from the banking system towards productive sectors of the economy, including the MSME sector, has been observed thus far during the year.

**Figure 7.6**  
Credit Extended to the Private Sector by LCBs



**Table 7.2**  
**Movements of Interest Rates**

% per annum

Interest Rate	End 2018	End 2019	End 2020	End Sep 2021
<b>Key Policy Rates</b>				
Standing Deposit Facility Rate (SDFR)	8.00	7.00	4.50	5.00
Standing Lending Facility Rate (SLFR)	9.00	8.00	5.50	6.00
<b>Average Weighted Call Money Rate (AWCMR)</b>	8.95	7.45	4.55	5.94
<b>Yield Rates on Government Securities</b>				
<b>Primary Market (a)</b>				
<b>Treasury bills</b>				
91-day	10.01	7.51	4.69	6.70
182-day	9.99	8.02	4.80	6.99
364-day	11.20	8.45	5.05	7.01
<b>Treasury bonds</b>				
2-year	-	9.79	5.65	8.12
3-year	11.88	9.65	5.99	8.10
4-year	-	-	6.32	8.55
5-year	11.69	9.87	6.79	7.31
10-year	10.20	10.23	9.99	8.86
<b>Secondary Market</b>				
<b>Treasury bills</b>				
91-day	9.67	7.52	4.63	6.48
182-day	9.96	7.88	4.73	6.59
364-day	10.91	8.36	4.98	6.72
<b>Treasury bonds</b>				
2-year	11.16	8.60	5.56	7.37
3-year	11.42	9.08	5.96	8.17
4-year	11.54	9.46	6.40	8.92
5-year	11.58	9.67	6.65	9.31
10-year	11.87	10.05	7.55	10.15
<b>Licensed Commercial Banks (b)</b>				
<b>Interest Rates on Deposits</b>				
Savings Deposits	0.50-8.50	0.20-7.50	0.10-7.00	0.10-6.00 (c)
1 Year Fixed Deposits (d)	4.53-15.00	3.55-15.00	0.25-15.00	0.25-15.00 (c)
Average Weighted Deposit Rate (AWDR) (e)	8.81	8.20	5.80	4.75
Average Weighted Fixed Deposit Rate (AWFDR) (e)	10.85	10.05	7.14	5.64
Average Weighted New Deposit Rate (AWNDR) (e)	10.94	8.89	4.93	5.19 (c)
Average Weighted New Fixed Deposit Rate (AWNFR) (e)	11.27	9.17	5.08	5.35 (c)
<b>Interest Rates on Lending</b>				
Average Weighted Prime Lending Rate (AWPR)-Monthly	11.94	10.00	5.74	6.39
Average Weighted Lending Rate (AWLR)	14.40	13.59	10.29	9.38 (c)
Average Weighted New Lending Rate (AWNLR)	14.54	12.80	8.38	8.04 (c)
<b>Other Financial Institutions (f)</b>				
<b>Interest Rates on Deposits</b>				
National Savings Bank				
Savings Deposits	4.00	4.00	3.50	3.50
1 Year Fixed Deposits	10.50	9.83	5.25	5.50
Licensed Finance Companies (g)				
Savings Deposits	5.21-7.77	5.14-7.10	3.40-4.74	3.26-4.50 (c)
1 Year Fixed Deposits	11.63-13.21	10.98-11.97	6.56-7.21	6.64-7.61 (c)
<b>Interest Rates on Lending</b>				
National Savings Bank	6.75-16.25	12.00-14.50	7.00-10.00	7.50-11.50
State Mortgage and Investment Bank (h)	10.50-20.00	10.25-18.00	8.73-12.50	7.50-12.50
Licensed Finance Companies (g)				
Finance Leasing	16.17-28.80	14.75-27.40	14.31-28.97	13.26-27.00 (c)
Hire Purchase	15.16-18.65	13.40-24.82	13.71-20.05	21.28-25.26 (c)
Loans against Real Estate (i)	18.94-19.21	15.53-16.71	19.95-22.30	-
Loans against Immovable Properties (i)	-	-	-	13.89-16.50 (c)
<b>Corporate Debt Market</b>				
Debentures	12.00-14.75	12.30-15.50	9.00-13.25	8.00-12.00
Commercial Paper	13.10-15.00	13.00-16.25	6.50-15.50	6.25-11.50 (c)

(a) Weighted average yield rates at the latest available auction

(b) Based on the rates quoted by LCBs

(c) As at end August 2021

(d) Maximum rate is a special rate offered by certain LCBs.

(e) 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 AWNFR since June 2018.

(f) Based on the rates quoted by other selected Financial Institutions

(g) 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 2021 are provisional.

(h) Lending for housing purposes only

(i) "Loans against Real Estate" indicator changed to "Loans against Immovable Properties" from July 2021 onwards

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

**Table 7.3**  
**Developments in Monetary Aggregates and Underlying Factors**

Rs. bn

Item	2018 Dec	2019 Dec (a)	2020 Dec	2021 Aug (b)
<b>1. Reserve Money</b>	<b>961.1</b>	<b>932.6</b>	<b>964.4</b>	<b>1,089.3</b>
(% change y-o-y)	2.3	-3.0	3.4	23.8
Net Foreign Assets of the Central Bank	750.5	896.0	526.8	-83.9
Net Domestic Assets of the Central Bank	210.6	36.6	437.7	1,173.1
<b>2. Narrow Money (M<sub>1</sub>)</b>	<b>830.8</b>	<b>865.5</b>	<b>1,177.2</b>	<b>1,355.2</b>
(% change y-o-y)	4.7	4.2	36.0	28.0
<b>3. Broad Money (M<sub>2b</sub>)</b>	<b>7,128.3</b>	<b>7,624.1</b>	<b>9,405.7</b>	<b>10,513.6</b>
(% change y-o-y)	13.0	7.0	23.4	21.0
3.1 Net Foreign Assets (NFA)	-67.0	100.7	-209.5	-701.0
Monetary Authorities (c)	750.5	896.0	526.8	-83.9
Licensed Commercial Banks (LCBs)	-817.5	-795.3	-736.2	-617.1
3.2 Net Domestic Assets (NDA)	7,195.3	7,523.4	9,615.2	11,214.6
Domestic credit	8,833.4	9,410.7	11,721.2	13,614.5
Net Credit to the Government (NCG)	2,516.7	2,795.9	4,548.1	5,682.1
Central Bank	472.8	363.0	868.9	1,534.4
Licensed Commercial Banks (LCBs)	2,043.9	2,432.9	3,679.2	4,147.7
Credit to Public Corporations / SOBEs	755.4	818.0	1,002.2	1,136.9
Credit to the Private Sector	5,561.4	5,796.9	6,170.9	6,795.5
(% change y-o-y)	15.9	4.2	6.5	15.1
Other Items (net)	-1,638.1	-1,887.3	-2,106.0	-2,399.9
<b>4. Broad Money (M<sub>4</sub>)</b>	<b>8,729.6</b>	<b>9,444.5</b>	<b>11,461.9</b>	<b>12,790.1</b>
(% change y-o-y)	12.0	8.2	21.4	20.2
4.1 Net Foreign Assets (NFA)	-133.7	88.8	-217.1	-712.9
Monetary Authorities (c)	750.5	896.0	526.8	-83.9
Licensed Commercial Banks (LCBs)	-817.5	-795.3	-736.2	-617.1
Licensed Specialised Banks (LSBs)	-66.7	-11.9	-7.6	-12.0
4.2 Net Domestic Assets (NDA)	8,863.3	9,355.8	11,679.0	13,503.0
Net Credit to the Government (NCG)	3,100.0	3,483.0	5,365.7	6,594.6
Central Bank	472.8	363.0	868.9	1,534.4
Licensed Commercial Banks (LCBs)	2,043.9	2,432.9	3,679.2	4,147.7
Licensed Specialised Banks (LSBs)	518.6	613.9	742.2	825.8
Licensed Finance Companies (LFCs)	64.8	73.2	75.5	86.6
Credit to Public Corporations / SOBEs (by LCBs)	755.4	818.0	1,002.2	1,136.9
Credit to the Private Sector	7,501.1	7,793.3	8,284.5	9,033.1
(% change y-o-y)	14.9	3.9	6.3	13.6
Licensed Commercial Banks (LCBs)	5,561.4	5,796.9	6,170.9	6,795.5
Licensed Specialised Banks (LSBs)	753.8	814.2	936.5	1,035.6
Licensed Finance Companies (LFCs)	1,185.9	1,182.2	1,177.1	1,202.0
Other Items (net)	-2,493.3	-2,738.4	-2,973.4	-3,261.6
Memorandum Items:				
Money Multiplier (M <sub>2b</sub> )	7.42	8.18	9.75	9.65
Velocity (M <sub>2b</sub> average) (d)	2.11 (a)	2.04	1.76	-

(a) Revised

Source: Central Bank of Sri Lanka

(b) Provisional

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

(d) Based on GDP estimates by the Department of Census and Statistics

## Abbreviations and Acronyms

AWCMR	: Average Weighted Call Money Rate	MSMEs	: Micro, Small and Medium scale Enterprises
AWDR	: Average Weighted Deposit Rate <sup>1</sup>	NCG	: Net Credit to the Government
AWFDR	: Average Weighted Fixed Deposit Rate <sup>2</sup>	NCPI	: National Consumer Price Index
AWLR	: Average Weighted Lending Rate <sup>3</sup>	NDA	: Net Domestic Assets
AWNDR	: Average Weighted New Deposit Rate <sup>4</sup>	NFA	: Net Foreign Assets
AWNFRDR	: Average Weighted New Fixed Deposit Rate <sup>5</sup>	NSB	: National Savings Bank
AWNLR	: Average Weighted New Lending Rate <sup>6</sup>	pps	: Percentage Points
AWNSR	: Average Weighted New SME Loan Rate <sup>7</sup>	PSC	: Private Sector Credit
AWPR	: Average Weighted Prime Lending Rate <sup>8</sup>	SDFR	: Standing Deposit Facility Rate
AWSR	: Average Weighted SME Loan Rate <sup>9</sup>	SLFR	: Standing Lending Facility Rate
bn	: Billion	SMEs	: Small and Medium scale Enterprises
CCPI	: Colombo Consumer Price Index	SOBEs	: State Owned Business Enterprises
LCBs	: Licensed Commercial Banks	SRR	: Statutory Reserve Ratio
LFCs	: Licensed Finance Companies	tn	: Trillion
LSBs	: Licensed Specialised Banks	y-o-y	: Year-on-Year
M <sub>2b</sub>	: Consolidated broad money supply	y-t-d	: Year-to-Date

1 AWDR reflects the movements in interest rates pertaining to all outstanding interest bearing rupee deposits held with LCBs.

2 AWFDR is based on interest rates pertaining to all outstanding interest bearing rupee time deposits held with LCBs.

3 AWLR is based on interest rates of all outstanding rupee loans and advances extended by LCBs.

4 AWNDR is based on interest rates pertaining to all new interest bearing rupee deposits mobilised by LCBs during a particular month.

5 AWNFRDR is based on interest rates pertaining to all new interest bearing rupee time deposits mobilised by LCBs during a particular month.

6 AWNLR captures interest rates of all new rupee loans and advances extended by LCBs during a particular month.

7 AWNSR captures interest rates of all new rupee loans and advances extended by licensed banks during a particular month to MSMEs, excluding refinance schemes of the Government and the Central Bank.

8 AWPR is based on interest rates applicable on short term rupee loans and advances granted by LCBs to their prime customers during a particular week.

9 AWSR is based on interest rates of all outstanding rupee loans and advances extended by licensed banks to MSMEs, excluding refinance schemes of the Government and the Central Bank.





## *Financial Sector Performance and System Stability*

**D**uring the eight months ending August 2021, the financial system remained resilient amidst challenging domestic and global macroeconomic conditions. The banking sector exhibited expansion in terms of key indicators with adequate levels of capital. The LFCs sector performance remained moderate with a marginal increase of total assets and credit portfolio. Domestic money market liquidity, which remained in a persistently surplus level during the first half of 2021, declined considerably by mid July 2021 and turned to a negative position by mid-August 2021. Domestic forex market came under pressure with continuous foreign currency debt service payment requirements compared to limited inflows due to effects of the COVID-19 pandemic. The CSE recorded an impressive performance amidst significant volatilities. Despite the continuous net foreign outflow, CSE recorded a significant improvement in terms of price indices, market capitalisation and daily turnover driven by domestic investors. The financial infrastructure ensured a smooth functioning of the financial sector, in spite of the heightened uncertainties due to the pandemic.

## 8.2. Financial Institutions

### Banking Sector

The banking sector displayed signs of expansion in terms of key indicators during the eight months ending August 2021 amidst restrained economic activities in the local and the global economy due to the COVID-19 pandemic. Despite continuous stress faced by the sector in terms of foreign currency liquidity, the banking sector continued to operate with adequate levels of capital, statutory liquid assets ratios and provision coverage ratios during the eight months ending August 2021. Further, capital ratios are expected to improve with retention of profits and raising of new capital to meet the increased minimum capital requirements. However, liquidity of banks needs to be monitored closely as a portion of the credit portfolio is under moratorium. As subdued economic activities in the global and domestic economy due to the COVID-19 pandemic hampered economic growth, the banking sector needs to be cautious of the direct and indirect impacts of the economic slowdown, together with the impact of the debt moratorium.



**Banking sector performance improved, despite setbacks from macroeconomic conditions during the eight months ending August 2021...**

The assets growth of the banking sector improved during the eight months ending August 2021 when compared with the corresponding period of 2020. Total assets of the banking sector expanded by 12.1% (Rs. 1.8 tn) to Rs. 16.4 tn during the eight months ending August 2021 compared to a growth of 10.5% (Rs. 1.3 tn) during the eight months ending August 2020.

Y-o-y credit growth which declined to 5.6% as at end 2019, increased to 11.9% as at end 2020 and further picked up during the eight months ending August 2021 and reached to 18.0% by end August 2021. Total loans and advances reported an increase of Rs. 1.3 tn (14.8%) during the eight months ending August 2021 and recorded Rs. 10.4 tn as at end August 2021 when compared to an increase of Rs. 725.6 bn (8.9%) during the corresponding period of 2020.

A decrease in growth of investments was observed during the period under consideration. Investments of the banking sector increased by Rs. 253.9 bn (6.0%) during the eight months ending August 2021 but were lower than the growth of investments recorded during the corresponding period of last year which amounted to Rs. 598.3 bn (19.8%).

The banking sector expansion was largely funded through deposits which contributed towards 75.8% of the total assets as at end August 2021. The deposit base of the banking sector grew by Rs. 1.3 tn (12.0%) mainly due to the growth of rupee deposits. The total borrowings of the banking sector increased by Rs. 285.8 bn (16.9%) during the eight months ending August 2021 mainly due to increased rupee borrowings.

Asset quality of the sector measured in terms of non NPL ratio showed a decline and remained manageable. NPLs increased by Rs. 46.9 bn (10.5%) to Rs. 494.9 bn as at end August 2021 from Rs. 448.1 bn as at end 2020. However, with a higher growth in credit, NPL ratio decreased to 4.7% by end August 2021 from 4.9% recorded at end December 2020. Although there is a potential for NPLs to increase upon cessation of moratoria, it is noted that banks had already absorbed a considerable portion of the potential impact of moratoria through impairment.

The banking sector operated with an adequate liquidity buffer above the minimum regulatory requirement of 20%. The Statutory Liquid Asset Ratios of DBU and OBU were at 36.1% and 32.6%, respectively.

The net long position of foreign currency exposure of the banking sector decreased to a short position of USD 84.8 mn as at end June 2021 compared to a long position of USD 33.7 mn as at end June 2020 due to the greater increase in foreign currency liabilities compared to the increase in foreign currency assets. The banking sector reported a short foreign currency position of Rupee equivalent of Rs. 17.2 bn as at end June 2021 in comparison to a long position of Rupee equivalent of Rs. 6.3 bn as at end June 2020. A net gain of Rs. 18.8 bn on foreign currency revaluation was recorded during the first half of 2021 compared to Rs. 12.8 bn during the corresponding period in 2020.

The sector recorded a low capital gain on investments. Capital gain on Treasury bonds during the eight months ending August 2021 was Rs. 4.5 bn and was lower than the gain of Rs. 7.7 bn reported during the

**Table 8.1**  
**Banking Sector - Selected Indicators**

Item	End Aug 2019	End Aug 2020 (c)	End Dec 2020	End Aug 2021 (a)	y-o-y Change (%)	
					Aug 2020 (c)	Aug 2021 (a)
Total Assets (Rs. bn)	12,072	13,834	14,666	16,446	14.6	18.9
Loans & Advances (Rs. bn)	7,796	8,848	9,092	10,440	13.5	18.0
Investments (Rs. bn)	2,952	3,625	4,228	4,482	22.8	23.6
Deposits (Rs. bn)	8,836	10,344	11,141	12,473	17.1	20.6
Borrowings (Rs. bn)	1,621	1,737	1,692	1,978	7.1	13.9
Capital Funds (Rs. bn)	1,096	1,206	1,254	1,401	10.0	16.2
Tier 1 Capital Adequacy Ratio (%) (b)	13.5	13.2	13.6	13.0		
Total Capital Adequacy Ratio (%) (b)	16.7	16.5	17.1	16.3		
Gross Non-performing Loans Ratio (%)	4.9	5.4	4.9	4.7		
Net Non-performing Loans Ratio (%)	3.1	3.1	2.4	2.2		
Return on Assets (Before Tax) (%)	1.5	1.3	1.4	1.8		
Return on Equity (After Tax) (%)	10.8	10.6	11.4	15.9		
Statutory Liquid Assets Ratio (DBU) (%)	31.2	38.6	37.3	36.1		
Liquid Assets to Total Assets (%)	29.3	34.6	33.7	31.4		

(a) Provisional

(b) As at end of June

(c) Revised

Source: Central Bank of Sri Lanka

corresponding period in 2020. This was largely due to comparatively lower funds being directed to Government securities due to higher credit growth.

Profits of the sector increased during the period under consideration. Profit before tax of the banking sector was Rs. 178.7 bn for the eight months ending August 2021, which was an increase of Rs. 66.9 bn compared to the profits of Rs. 111.8 bn during the corresponding period of 2020. Increase in profit was mainly due to the increase in net interest income (Rs. 73.4 bn), non interest income (Rs. 23.5 bn) and lower loan loss provisions (Rs. 11.3 bn). ROA before tax and ROE increased to 1.8% and 15.9%, respectively, at end August 2021 from 1.3% and 10.6%, respectively, at end August 2020.

The banking sector maintained adequate capital during the first half of 2021 in order to absorb any adverse shocks. By end June 2021, the banking sector operated with a Tier 1 capital ratio of 13.0% and a total capital ratio of 16.3%, well above the Basel III requirements.

The branch network expanded further during the first half of 2021 facilitating financial inclusion in the country. Accordingly, 137 ATMs were installed and 02 branches opened, while 10 ATMs and 01 branch were closed during the first half of 2021.

Supervisory activities are ongoing through the establishment of close monitoring groups, obtaining daily 'Early Warning Indicators Statement' to assess the impact of key risks on earnings, liquidity and capital of licensed banks, and perusing other periodic reports to

capture details of stress testing computations, foreign currency borrowings, loan impairment schedules in terms of Sri Lanka Financial Reporting Standards 9, moratoria/concessions relating to COVID-19. Further, a Remote-based Examination methodology has been adopted to overcome the limitation for conducting On-site Examinations while shifting to virtual platforms for meetings/discussions with senior officials of banks and continuing paperless correspondence via safe data sharing solutions.

### Licensed Finance Companies Sector

The LFCs sector performance remained moderate during the eight months ending August 2021 with a marginal increase of total assets and credit portfolio. Total asset base of the sector increased by Rs. 9.5 bn (0.7%) during the eight months ending August 2021 and stood at Rs. 1,377.4 bn at end August 2021. Loans and advances portfolio, which represents a major part of total assets, marginally increased by Rs. 29.1 bn (2.9%) during the eight months ending August 2021.

While the sector recorded an increase in deposits and capital a decline in borrowings was observed during the eight months ending August 2021. Total borrowings of the sector showed a decline of Rs. 32.5 bn (10.4%). The deposit base of the sector stood at Rs. 765.9 bn, which increased by Rs. 17.3 bn (2.3%). Overall capital position improved notably with increased capital of Rs. 22.5 bn (11.0%) due to enhanced minimum capital requirements and profits recorded by several large LFCs. Liquidity position of the sector remained satisfactory.



**Performance of the LFC sector was moderate during the eight months ending August 2021 owing to adverse macroeconomic conditions...**

The sector recorded a PAT of Rs. 33.0 bn during the eight months ending August 2021, compared with a PAT of Rs. 2.2 bn recorded during the corresponding period. Increased net interest income and non-interest income by Rs. 15.2 bn and Rs. 12.8 bn, respectively, and decreased provisioning by Rs. 16.6 bn, contributed to the increased profitability. While the industry recorded an overall increase in profits, 10 LFCs recorded losses during the period under consideration.

Asset quality of the sector marginally increased. Gross NPL ratio reduced to 12.5% by end August 2021 compared with the ratio of 13.9% by end December 2020, mainly due to decrease in NPLs by Rs. 11.9 bn (7.6%) and increase in loans and advances portfolio by Rs. 31.6 bn (2.8%). Net NPL ratio and provision coverage ratio stood at 3.2% and 64.5%, respectively, compared to the ratios of 4.2% and 58.9%, recorded at end December 2020. However, NPLs of the sector maybe higher since credit facilities under moratorium are not subject to classification and impairment.

The Central Bank conducted statutory examinations (on-site supervision) and continuous surveillance (off-site supervision) of the LFCs, while the regulatory function involved issuance of prudential regulations, granting regulatory approvals, and investigating into companies carrying on finance business without authority. Apart from these major functions, capacity building of the sector, facilitating court proceedings and attending to public complaints were also conducted.

**Table 8.2**  
**Key Performance Indicators of the LFCs Sector**

KPIs	%	
	End Dec 2020	End Aug 2021
Gross NPL Ratio	13.9	12.5
Net NPL Ratio	4.2	3.2
Tier 1 Capital Adequacy Ratio	13.9	15.2
Total Capital Adequacy Ratio	15.1	16.7
Net Interest Margin	6.9	8.1
Return on Assets	1.6	3.2
Return on Equity	5.2	12.4
Cost to Income Ratio	90.3	80.3

Source: Central Bank of Sri Lanka

## Specialised Leasing Companies

Total assets of the sector stood at Rs. 34.6 bn by end August 2021, which increased marginally by Rs. 0.9 bn (2.6%) during the eight months ending August 2021. Loans and Advances stood at Rs. 28.2 bn, which contracted by Rs. 1.4 bn (4.8%). Total capital stood at Rs. 18.2 bn by end August 2021, which increased by Rs. 3.1 bn (20.2%). The sector recorded a PAT of Rs. 0.8 bn during the eight months ending August 2021, compared with a PAT of Rs. 0.7 bn during the corresponding period of 2020. Gross and Net NPL ratios stood at 15.0% and 4.7%, respectively, and provision coverage ratio at 68.9% by end August 2021, compared with the ratios of 13.6%, 5.3% and 61.3%, by end December 2020.

## Primary Dealer Companies

The PDCs sector displayed signs of contraction in terms of key indicators during the eight months ending August 2021. Total assets of PDCs industry stood at Rs. 61.6 bn, which decreased by 29.3%, and the total portfolio of government securities held by PDCs stood at Rs. 49.0 bn, which decreased by 38.8% during the eight months ending August 2021. All active PDCs maintained their core capital above the minimum requirement of Rs. 1.0 bn by end August 2021. The RWCAR of the PDCs was above the minimum RWCAR of 10% and stood at 43.0% by end August 2021. PDCs recorded a loss after tax of Rs. 95.2 mn over the eight months period, compared with a profit of Rs. 4.7 bn recorded in the corresponding period of 2020.

## Licensed Microfinance Companies

The total assets of LMFCs stood at Rs. 7.5 bn by end August 2021, of which 70% comprised loans and advances. Accordingly, gross loans and advances of LMFCs were at Rs. 5.9 bn indicating a marginal increase of 4.0% during the period under consideration. The NPL ratio of LMFCs increased to 10.2% by end August 2021, compared to 8.7% by end December 2020. The sector reported a loss of Rs. 166 mn during the eight months ending August 2021.

## Insurance Sector

The insurance sector recorded a mixed performance during the first half of 2021. The life insurance sub-sector registered a significant y-o-y increase in terms

of total assets and GWP while the general insurance subsector recorded a y-o-y decline in total assets and GWP at end June 2021. The total assets and the GWP of the insurance sector grew by 7.9% and 10.7% y-o-y respectively. However, profit before tax of the sector decelerated and recorded Rs. 14.5 bn during the first half of 2021 compared to Rs. 18.2 bn recorded during the corresponding period of 2020.

### Unit Trusts

Performance of the unit trusts sector indicated a significant improvement at end June 2021 compared to the corresponding period of 2020. The net asset value of the industry surged by 95.7% y-o-y to Rs. 222.0 bn, and the number of unit holders increased by 16.2% to 55,651 at end June 2021. Investments of the sector recorded a significant growth of 94.8% y-o-y to Rs. 222.7 bn. The unit trusts sector invested 10.6% in government securities as a percentage of net asset value at end June 2021 compared to 7.5% at end June 2020.

### Stockbroker Companies

Stockbroker companies recorded an improvement in its overall performance as at end June 2021 mainly due to the expansion of market activities in the CSE during the first half of 2021, compared to the corresponding period of 2020. The average turnover of stockbrokers increased by 250.6% to Rs. 1,553.0 mn while the profit before tax of the sector increased to Rs. 910.0 mn by 476.0% during the first half of 2021.

### Superannuation Funds

The EPF is the largest superannuation fund in Sri Lanka which operated with an asset base of Rs. 3.1 tn as at end August 2021. The total number of member accounts of EPF reached 19.8 mn in December 2020.

Total member contributions during the eight months ending August 2021 increased by 2.3% to Rs. 101.8 bn whereas refund payments decreased by 2.3% to Rs. 72.1 bn. In comparison, total member contributions and refund payments were Rs. 99.5 bn and Rs. 73.8 bn, respectively, in the corresponding period of 2020. Accordingly, the net contribution during the period under review stood at Rs. 29.7 bn.

Total investment of EPF stood at Rs. 3,037.9 bn. The investment portfolio mainly consists of investments in government securities which represented 93.7% of total investments. The estimated gross investment income of the Fund during the eight months ending August 2021 is Rs. 211.2 bn, which is an increase of 22.4% compared to Rs. 172.5 bn recorded in the corresponding period of 2020.

Meanwhile, total assets of the ETF grew by 9.8%, y-o-y, and reported Rs. 398.2 bn at end June 2021. Total member contributions during the first six months of 2021 increased by 8.3% to Rs. 14.3 bn while refund payments increased by 25.3% to Rs. 10.4 bn. In comparison, total member contributions and refund payments were Rs. 13.2 bn and Rs. 8.3 bn, respectively, in the corresponding period of 2020. Investments made by the fund recorded a healthy growth of 9.9% y-o-y at end June 2021 and government securities consisted of 83.4% of the total investments.

There were 117 privately managed APFs with 72,083 employees at end June 2021. The total assets of APFs stood at Rs. 169.6 bn while APFs have made investments of Rs. 144.7 bn at end June 2021. Total assets of the PSPF increased by 12.8% y-o-y to Rs. 80.9 bn at end June 2021. Total investments made by the PSPF stood at Rs. 77.6 bn at end June 2021 and the rate of return on member balances was 8.0% during the period under consideration.

**Table 8.3**  
**Employees' Provident Fund - Selected Indicators**

Item	End Aug 2020	End Aug 2021 (a)	Change (%)
Total Contributions (Rs. bn) (b)	99.5	101.8	2.3
Total Refunds (Rs. bn) (b)	73.8	72.1	- 2.3
Total Assets (Rs. bn)	2,714.4	3,062.0	12.8
Total Investment Portfolio (Rs. bn)	2,711.9	3,037.9	12.0
o/w, Government Securities (%)	93.7	93.7	-
Gross Income (Rs. bn) (b)	172.5	211.2	22.4

(a) Provisional  
(b) During the eight months ending August of the respective year  
Source: Central Bank of Sri Lanka

**Table 8.4**  
**Employees' Trust Fund - Selected Indicators**

Item	End Jun 2020	End Jun 2021 (a)	Change (%)
Total Contributions (Rs. bn) (b)	13.2	14.3	8.3
Total Refunds (Rs. bn) (b)	8.3	10.4	25.3
Total Assets (Rs. bn)	362.7	398.2	9.8
Total Investment Portfolio (Rs. bn)	343.1	377.0	9.9
o/w, Government Securities (%)	80.3	83.4	3.9
Gross Income (Rs. bn) (b)	16.9	17.1	1.4

(a) Provisional  
(b) During the period  
Source: Employees' Trust Fund Board



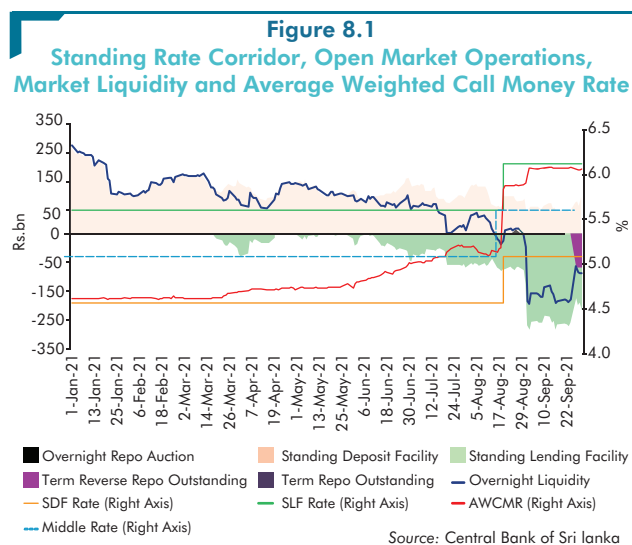
## 8.3 Financial Markets

### Domestic Money Market

Liquidity in the domestic money market, which remained in a persistently surplus level during 2020 and in the first half of 2021, declined considerably by mid July 2021 and turned to a negative position by mid-August 2021. Liquidity surplus declined mainly due to the impact of foreign loan repayments, currency withdrawals as well as maturities of Treasury bills and foreign currency swap transactions of the Central Bank. With the increase of the SRR by 2.00 pps to 4.00% with effect from the reserve maintenance period commencing 01 September 2021, about Rs. 170 bn worth of liquidity was

**Rupee liquidity in the domestic money market, which prevailed in surplus levels by the beginning of 2021, declined by mid-July and turned into a deficit by mid August 2021...**

absorbed from the market. Accordingly, liquidity surplus which was at Rs. 206.7 bn by end 2020, recorded a deficit of Rs. 119.6 bn by end September 2021. As guided by the monetary policy stance, a deficit was maintained in the overnight liquidity through monetary operations. However, a one-off term reverse repo auction was conducted by the Central Bank in late September 2021 to ease liquidity stress in certain banks. Further, as liquidity position improved to some extent



due to the Central Bank transactions with the Government, the Central Bank conducted repo auctions since early October 2021 to absorb liquidity. The AWCMR the operating target of the monetary policy framework, which was maintained at the lower bound of the SRC in 2020, adjusted towards the upper bound of the SRC with declining trend in market liquidity in 2021 and the upward adjustment in policy interest rates in August 2021. The AWRR also moved in line with the AWCMR during this period. As at end September 2021, AWCMR and AWRR stood at 5.94% and 5.93%, respectively.

### Domestic Foreign Exchange Market

The Sri Lanka rupee depreciated against US dollar by 6.8% during the period from January to September 2021. The LKR/USD exchange rate, which hovered around Rs. 186 levels at the beginning of the year, came under pressure during the first four months with the increased demand in the foreign exchange market mainly due to high import expenditure and continuous foreign currency debt service payment requirements compared to the limited supply caused by the effects of the COVID-19 pandemic such as the delay in the revival of tourism industry and difficulties in tapping international capital markets. However, as this sharp depreciation pressure was largely abated by the supply of foreign exchange liquidity by the Central Bank, and by policy directions and guidance provided by the Central Bank and the Government, the exchange rate hovered around Rs. 200-203 against the USD since then, except for some intermittent sharp movements, especially towards the end of August 2021. Meanwhile, during the period from January to September 2021, the Sri Lanka rupee appreciated against the Japanese yen, but depreciated against the pound sterling, the Australian dollar, euro, and the Indian rupee.

During the year up to end September 2021, the Central Bank had been a net seller in the domestic foreign exchange market. Although the Central Bank took measures to absorb foreign exchange to support gross official reserves of the country through non borrowed sources by mandating Licensed Banks to sell a certain portion of export proceeds and workers remittances converting into Sri Lankan rupees, the liquidity situation in the domestic foreign exchange market necessitated the Central Bank to supply USD



since August 2021, aiming at financing essential imports of the country. Accordingly, during the period from January to end September 2021, the Central Bank absorbed USD 331.8 mn and supplied USD 342.6 mn, resulting in a net sale of USD 10.7 mn.

**Domestic forex market faced adversities primarily due to foreign currency debt service payments and the limited foreign currency inflows, urging the involvement of the Central Bank in the market...**

During the nine months ending September 2021, trading volumes in the domestic FX market declined substantially. Accordingly, the daily average trading volumes in the inter bank FX market declined by 34.7% to USD 51.8 mn during the period under consideration, compared to USD 79.4 mn recorded in the same period in 2020.

### Government Securities Market

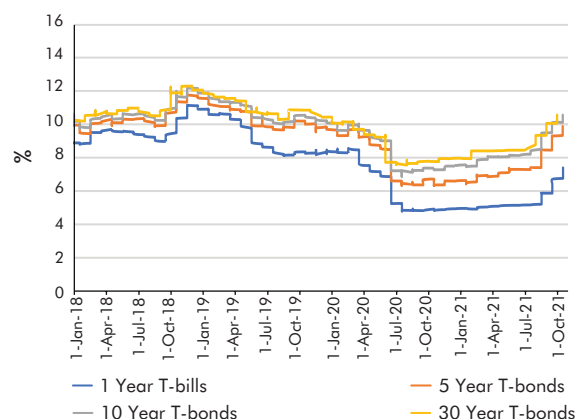
Historically low yield rates observed across Treasury bills and Treasury bonds market since mid-2020 continued into early 2021, but started adjusting upward there onwards. Due to the conducive overall market liquidity conditions, issuance arrangements in line with resource availability and supportive monetary policy stance that prevailed since mid-2020 and announcement of maximum yield rate of acceptance for primary market and the secondary market yield rates for government securities continued its low yield structure into the early part of 2021. The yield rates exhibited upward adjustment, albeit moderately, based on yield rate guidance until August 2021. The monetary policy decisions in mid-August 2021 and the decision to move away from announcement of maximum yield rate of acceptance for primary auctions of Treasury bills and bonds in an environment of substantive financing requirement of the Government allowed upward adjustment in yield rates of government securities since early September 2021. Accordingly, by end September 2021, the secondary market yield rates of 91-day,

182-day and 364-day Treasury bills increased by 185 bps, 186 bps and 174 bps, respectively, compared to the rates prevailed at end 2020. Meanwhile, the market yield rates of actively traded Treasury bonds with maturities ranging from 2 to 8 years increased in the range of 181 to 285 bps during the period of January to September 2021.

**Primary and secondary market yields on government securities increased with increased borrowing requirement and tightening monetary conditions...**

Meanwhile, in accommodating the substantive funding requirements of the Government in the midst of the prolonged COVID-19 pandemic while adhering to effectiveness and transparency of the primary issuance process of government securities, several arrangements were initiated and continued in line with Government policy directions in government securities market. Accordingly, measures were taken to publish the maximum yield rate for acceptance only for 364 day maturity and accommodating acceptance for 91 day and 182 day maturities within the announced yield rate for 364 day maturity at Treasury bill auctions with effect from 03 February 2021, while continuing to publish the maximum yield rate for acceptance for all Treasury bond maturities. Subsequently, the

**Figure 8.2**  
Movements of Secondary Market Yield Curve of Government Securities



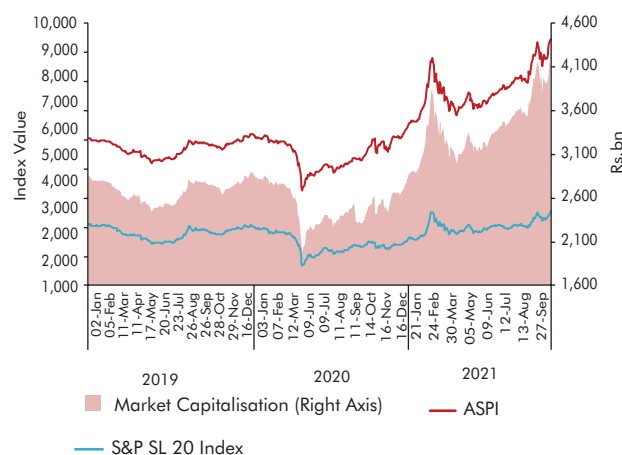
Source: Central Bank of Sri Lanka

government securities issuances were accommodated without pre-announcing the maximum yield rate for both Treasury bills and Treasury bonds auctions with effect from 22 September 2021, to ensure increased financing requirements are facilitated through effective market subscriptions. Further, With respect to Treasury bond auctions, the minimum acceptance at Phase I to execute Phase III was increased from 70% to 80% of the offered amount to further ensure the establishment of market cleared price/yield together with restricting the execution of Phase III of the Treasury bond issuances only for those with remaining maturity of 5 years or below, effective from 23 September 2021. In addition to the above developments, a new web based issuance system for Treasury bills is envisaged to be implemented by end 2021. To further facilitate the Treasury's cash flow management and to raise funds at opportune times and at favourable terms, a 'Direct Issuance Window' for Treasury bonds was introduced since August 2021, to raise up to 20% of the amount offered post auction, from any Treasury bond series with the offered amount fully accepted at Phase I.

## Stock Market

The CSE recorded an impressive performance during the nine months ending September 2021 amidst significant volatilities observed. ASPI and S&P SL20 index recorded y-t-d growth of 39.6% and 34.0% respectively, at end September 2021. The market capitalisation stood at Rs. 4,215.6 bn as at end September 2021 recording a 42.4% y-t-d growth. Average daily turnover during the nine months ending September 2021 significantly increased to Rs. 4.5 bn from Rs. 1.5 bn recorded during the corresponding period of 2020. However, performance in the stock market was driven by domestic investments. Foreign contribution

**Figure 8.3**  
Movements of Share Market Indicators



to the total turnover remained at a noticeably low level and market recorded Rs. 44.9 bn (USD 226.2 mn) outflows during the nine months ending September 2021.

During the nine months ending September 2021, significant improvements were observed related to market infrastructure of CSE. Enactment of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021 implementation of the second stage of digitalisation, implementation of DVP mechanism at CSE and taking initial steps to allow local companies to raise dollar denominated debt and equity at CSE were some of the major developments occurred during the period.

## Corporate Debt Securities Market

The corporate bond market recorded a significant growth during the nine months ending September 2021. Thirteen institutions issued debentures during

**Table 8.5**  
Equity Market - Selected Indicators

Item	End 2019	2020 Sep	End 2020	2021 Sep
All Share Price Index (1985=100)	6,129.2	5,984.8	6,774.2	9,459.9
Y-t-d change (%)	1.3	- 2.4	10.5	39.6
S&P SL 20 Index (2004=1,000)	2,937.0	2,463.3	2,638.1	3,534.8
Y-t-d change (%)	- 6.3	- 16.1	- 10.2	34.0
Market Capitalisation (Rs. bn)	2,851.3	2,595.8	2,960.6	4,215.6
As a (%) of GDP (a)	19.0	17.3	19.8	28.2
Market Price Earning Ratio	10.8	10.1	11.2	11.5
Average Daily Turnover (Rs. mn)	711.2	1,481.6	1,899.0	4,455.0
Net Cumulative Foreign Purchases (Rs. bn)	- 11,735.3	- 39,856.6	- 51,091.0	- 44,862.0
Number of Companies Listed	289	285	283	287

(a) Based on GDP for 2020 (Rs. 14,973 bn)

Source: Colombo Stock Exchange

the period under consideration raising Rs. 76.3 bn compared to Rs. 16.4 bn raised by six institutions during the corresponding period of 2020. The fixed interest rates of debentures ranged from 8.00–12.00% during the period under review compared to the interest rates of 9.50–13.25% observed during the corresponding period of 2020. However, the CP market continued to be relatively less active in the first six months of 2021 similar to previous year. The interest rates on CPs declined further to a range of 6.25% to 11.5% in first half of 2021 from a range of 11.50% to 15.75% recorded in June 2020. Further, SEC together with CSE implemented a new Over the Counter platform to conduct repo transactions on debt securities during the year.

## 8.4 Developments in the Financial Infrastructure

### Payment and Settlement Systems

During 2021, the Central Bank took several measures aiming to promote digital payments and developed national payment infrastructure in Sri Lanka including but not limited to increasing the maximum transaction limit of JustPay to Rs. 50,000, reducing the CEFTS transaction fee from Rs. 50 to

*The national payment infrastructure continued to facilitate economic activities of the country through effectively catering to the payment and settlement needs of individuals and institutions while addressing the risks faced by stakeholders of the digital payment ecosystem in a prudent manner...*

Rs. 30 per transaction, extending the reduced maximum Merchant Discount Rate charge of 0.5% for LANKAQR initiated transactions and several awareness campaigns to educate public on using digital payment products safely. A substantial growth was observed in LANKAQR based transactions due to continuous campaigns and promotions conducted by both the Central Bank and the FIs, which further increased the number of issuers of the LANKAQR codes and registered merchants to 17 and 255,874, respectively, during the first six months of 2021. Volumes and values of all modes of digital transactions

**Table 8.6**  
Transactions through Payment Systems During the First Six Months

Payment System	2020		2021 (a)		Growth %	
	Volume ('000)	Value (Rs. bn)	Volume ('000)	Value (Rs. bn)	Volume	Value
<b>Large Value Payment Systems</b>						
RTGS System	192.0	61,505.0	202.9	93,672.4	5.7	52.3
<b>Retail Value Payment Systems</b>						
Main Cheque Clearing System	15,822.2	3,450.5	16,838.6	4,015.3	6.4	16.4
Sri Lanka Interbank Payment System (SLIPS)	17,905.9	1,045.9	19,952.4	1,331.6	11.4	27.3
Credit Cards	20,519.5	101.8	23,349.0	126.2	13.8	24.0
Debit Cards	31,269.9	87.1	48,411.9	137.8	54.8	58.2
Internet Banking	24,643.2	1,958.2	49,179.8	2,750.5	99.6	40.5
Phone Banking (b)	11,871.8	232.7	16,390.6	263.2	38.1	13.1
<b>Total</b>	<b>122,224.5</b>	<b>68,381.2</b>	<b>174,325.2</b>	<b>102,297.0</b>	<b>42.6</b>	<b>49.6</b>

(a) Provisional

(b) Mobile Banking & Tele Banking

Source: Central Bank of Sri Lanka

**Table 8.7**  
LANKAQR Transactions During the First Six Months (a)

Description	2020		2021	
	Volume	Value ('000)	Volume	Value ('000)
LANKAQR Transactions	131	844	590,660	1,017,222
Merchant Registrations (As at end period)	28,832	-	255,874	-

(a) Provisional

Source: Central Bank of Sri Lanka

grew significantly, especially transactions conducted via Internet, Credit Cards and LANKAQR. Further, with the approval from the Central Bank, LankaClear (Pvt) Ltd, together with relevant stakeholders such as Sri Lanka Transport Board, the National Transport Commission are planning to launch the National Transit Card. The proposal to the development of Proof of Concept for the deployment and testing of the Blockchain Technology based Shared KYC facility initiated by the Central Bank was successfully completed to explore the potential of Blockchain Technology to enable innovations in many financial services.

The Central Bank is planning to promote issuing of payment cards under the National Card Scheme and monitor the progress of FIs adopting the "LANKAQR" specification. Further, the Central Bank will continue to monitor and supervise the operations of mobile phone-based e-money systems to ensure security and effectiveness of services provided by the e-money system operators, including the recently granted service improvements such as depositing funds to the accounts of FIs via e-money wallets. Further, the Central Bank has taken several measures to educate on secure usage of digital payment instruments to protect the public from financial frauds and scams.

### Regulation and Supervision of Foreign Exchange

Regulations, Directions and Orders issued under the Foreign Exchange Act, No. 12 of 2017 (FEA) were revised and issued during the year to address varied concerns of the stakeholders and to improve clarity of same, whilst further facilitating foreign exchange transactions of the country.

To improve market liquidity and thereby to support stabilisation of the prevailing exchange rates, Rules were issued under the Monetary Law Act, No. 58 of 1949 requiring every exporter of goods to mandatorily repatriate export proceeds within a stipulated period of 180 days from the date of exportation and to convert a portion of such proceeds into Sri Lanka Rupees. These Rules were initially issued in early February 2021 and four other Rules were issued thereafter considering the domestic foreign exchange market conditions.

Meantime, to preserve the foreign exchange reserves of the country and to avoid abrupt outflows

from the market, an order was issued under Section 22 of the FEA imposing limitations/ suspensions on remittances in respect of outward capital transactions including repatriation of funds under migration allowance. In order to encourage inflow and retention of foreign exchange within the country, regulations were issued under FEA permitting Special Deposit Accounts to be rolled over with 6 and 12 month tenures up to a maximum of 24 months from the initial placement of such deposits.

Furthermore, considering the anticipated positive economic benefits in terms of foreign exchange remittances/ inflows boosting further investments of the country, at large, Regulations applicable for carrying out capital transactions in Sri Lanka by persons resident outside Sri Lanka were amended, permitting listing and trading of foreign currency denominated shares and debt securities issued by local companies on the CSE. Additionally, new Regulations were also issued under the FEA, facilitating companies incorporated in Sri Lanka (excluding companies engaged in finance business) to purchase International Sovereign Bonds in the secondary market by utilising their foreign borrowings.

### Anti-Money Laundering and Countering the Financing of Terrorism

Amidst the global COVID-19 pandemic, the FIU continued to carry out its functions to strengthen AML/CFT regime of the country while ensuring compliance of reporting institutions with the AML/CFT requirements through effective supervision and enforcement actions. Although the ability to conduct on-site supervision was restricted during the nine months ending September 2021 due to the restrictions caused by the COVID-19 pandemic, thematic studies and off-site monitoring were conducted on FIs as well as designated non-finance businesses and professions to ensure their compliance. During the nine months ending September 2021, the FIU imposed penalties totaling Rs. 10.5 mn on nine FIs for non compliances under the provisions of the Financial Transactions Reporting Act, No. 06 of 2006 and Customer Due Diligence Rules.

With a view to strengthening institutional compliance with AML/CFT related laws, rules and regulations, the FIU continued to provide guidance to



the reporting institutions and conducted programmes to enhance stakeholders' awareness on AML CFT measures and obligations. Accordingly, during the nine months ending September 2021, FIU issued 3 guidelines for FIs on "Enhancing STR Reporting Quality", "CCTV Operations for AML CFT Purposes" and "Guideline on suspension of Transactions". In addition, the FIU issued 4 circulars to reporting institutions on the trends observed in recent times.

During 2021, FIU initiated actions to update the NRA on ML/TF in line with Recommendation 1 of the Financial Action Task Force with technical assistance from the World Bank. The first NRA for Sri Lanka was conducted in 2014 and the ML/TF risk level of the country at that time has been assessed as Medium. The 2021 NRA consists of 13 modules including 4 new modules, which have not been assessed in 2014. Around 120 officials from more than 60 public and private institutions are allocated to these modules to identify and assess the ML/TF risks in each sector. This exercise is expected to be completed in the first half of 2022, and based on its results, the National AML/CFT Policy of Sri Lanka will be revisited.

## Resolution and Enforcement

The Central Bank continued the compensation payments to the depositors of six licence cancelled/business suspending finance companies, under SLDILSS. In the meantime, the Monetary Board of the Central Bank decided to increase the amount of maximum compensation payable under SLDILSS was increased from Rs. 600,000 to Rs. 1,100,000. Accordingly, compensation payments at the increased maximum compensation payable amount of Rs. 1,100,000 was commenced under SLDILSS from 9 April 2021.

With a view to further streamline the operational procedures of SLDILSS and to strengthen the regulatory framework applicable to SLDILSS, new Regulations were issued under Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation, No. 02 of 2021 with effect from 06 August 2021, after repealing and replacing the preceding SLDILSS Regulations No. 1 of 2020, as amended by subsequent Regulations.

Despite the limitations arising from the COVID-19 pandemic situation, the Central Bank continuously educated the general public on the risks of investing

in prohibited schemes by using various communication channels such as participating in radio/video programmes, publishing newspaper advertisements and public notices and conducting awareness sessions through social media platforms. The Central Bank also conducted seminars on combating prohibited schemes. Investigations into prohibited schemes were conducted in collaboration with the Police and Attorney General's Department. Investigations based on the complaints received from the general public and various other parties are also in progress.

In order to strengthen the resolution of problematic financial institutions, it has also been planned to complete the development of a Resolution Framework for Licensed Banks and LFCs regulated and supervised by the Central Bank, within the existing legal framework. The Central Bank anticipates developing a depositor-wise data collection system for all MIs of SLDILSS with the purpose of increasing the quality and the accuracy of the data reporting and minimising the risk associated with data security. Accordingly, it is intended to mandate recording of unique identification number of each depositor by all MIs.

## Development Finance and Access to Finance

The Central Bank continued to coordinate, facilitate, and implement various refinance, interest subsidy and credit guarantee schemes, and provided a range of credit supplementary services during the nine months ending September 2021. The Central Bank disbursed a total of Rs. 15,229 mn amongst 50,238 beneficiaries through PFIs under 7 subsidised refinance loan schemes and 2 interest subsidy and credit guarantee schemes during the nine months ending September 2021.

The Central Bank actively engaged in implementing extraordinary policy measures to provide concessions to businesses and individuals affected by the COVID-19 pandemic. Accordingly, further concessions were provided for the beneficiaries of Saubagya COVID-19 Renaissance Facility, including the borrowers in the tourism sector by extending repayment period up to 36 months from 24 months, while extending the grace period up to 30 September 2021 for the beneficiaries who request these concessions. In addition, guidelines were issued to extend the grace period/debt moratorium for

several loan schemes. A Credit Guarantee Scheme for the loans to Rice Mill owners, and Credit Guarantee and Interest Subsidy Scheme for Dairy Farming Development and Micro Small Medium Enterprises Development will be implemented. Further, the Central Bank implemented the Domestic Agriculture Development Programme – Pilot Phase through selected three value chains (dairy, vegetable, spices), which will support in designing the main Domestic Agriculture Development programme to be implemented with the support of Government through ten agriculture value chains island-wide as a national programme.

The Central Bank successfully launched the NFIS of Sri Lanka in March 2021 and several actions are being taken to operationalise the implementation of the NFIS to identify and promote financial inclusion across the country. Further, a new project has been introduced by the Central Bank to increase the quality of life of the people by introducing green initiatives and encouraging to use those initiatives to consume natural resources efficiently, minimise environmental degradation, and enhance green production while promoting “Go Green” attitude in domestic communities.

During the nine months ending September 2021, the Central Bank conducted eight Training of Trainers programmes, 18 Radio and TV programmes and more than 200 awareness programmes to promote financial literacy and financial inclusiveness, targeting those who have been excluded from the formal financial sector. Amidst the constraints associated with the COVID-19 pandemic, most of the above programmes were carried out online, utilising the newly developed online oriented educational materials.

### Financial Consumer Relations

The Central Bank processed more than 8,000 complaints and inquiries relating to entities under the purview of Central Bank and answered more than 60,000 telephone calls received from the general public through its Contact Centre from August 2020. Out of the complaints received so far, most of the complaints were from COVID-19 affected businesses and individuals with respect to debt moratoria, rescheduling of loans, high interest rates, repossession of assets and early settlement of credit facilities.

### Abbreviations and Acronyms

AML/CFT	: Anti-Money Laundering and Countering the Financing of Terrorism	ML/TF	: Money Laundering/Terrorist Financing
APFs	: Approved Provident Funds	mn	: Million
ASPI	: All Share Price Index	NFIS	: National Financial Inclusion Strategy
ATMs	: Automated Teller Machine	NPLs	: Non Performing Loans
AWCMR	: Average Weighted Call Money Rate	NRA	: National Risk Assessment
AWRR	: Average Weighted Repo Rate	OBU	: Offshore Banking Unit
bn	: Billion	PAT	: Profit after Tax
CEFTS	: Common Electronic Fund Transfer Switch	PDCs	: Primary Dealer Companies
CPs	: Commercial Papers	PFI	: Participating Financial Institutions
CSE	: Colombo Stock Exchange	PPS	: Percentage Points
DBU	: Domestic Banking Unit	PSPF	: Public Service Provident Fund
DVP	: Delivery Vs. Payment	RTGS	: Real Time Gross Settlement
EPF	: Employees' Provident Fund	ROA	: Return on Assets
ETF	: Employees' Trust Fund	RTGS	: Real time Growth Settlement
FEA	: Foreign Exchange Act No. 12 of 2017	RWCAR	: Risk Weighted Capital Adequacy Ratio
FIs	: Financial Institutions	SEC	: Securities and Exchange Commission
FIU	: Financial Intelligence Unit	SLCs	: Specialised Leasing Companies
GWP	: Gross Written Premium	SLDILSS	: Sri Lanka Deposit Insurance and Liquidity Support Scheme
KYC	: Know Your Customer	SLIPS	: Sri Lanka Interbank Payment System
LBs	: Licensed Banks	SRC	: Standing Rate Corridor
LCBs	: Licensed Commercial Banks	SRR	: Statutory Reserve Ratio
LFCs	: Licensed Finance Companies	tn	: Trillion
MI	: Member Institutions	y-o-y	: year on year
		y-t-d	: year to date



## *Major Economic Policy Measures*

## Major Economic Policy Measures<sup>1</sup>

### Monetary Policy

- 19 August 2021
- Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 50 basis points to 5.00% and 6.00%, respectively. Bank Rate was automatically increased to 9.00% from 8.50%.
  - Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) was increased by 2 percentage points to 4.00% from 2.00% with effect from the reserve maintenance period commencing from 01 September 2021.

### Special Credit Schemes

- 04 March 2021
- The National Financial Inclusion Strategy (NFIS) of Sri Lanka was launched with an aspiring vision of “Better Quality Inclusion for Better Lives.”
- 24 March 2021
- Operating Instructions of the Saubagya COVID-19 Renaissance Facility were amended to extend the grace period up to 30 September 2021 and the repayment period up to 36 months for those who have obtained credit facilities relating to the tourism sector.
- 04 May 2021
- Operating Instructions were issued to introduce and implement the new refinance scheme, namely the Domestic Agriculture Development Pilot Project (DAD-PP) enabling Participating Financial Institutions (PFIs) to accommodate financial requirements of the players in selected Agriculture Value Chains (AVCs).
- 09 June 2021
- Operating Instructions of the Saubagya COVID-19 Renaissance Facility were amended to extend the grace period up to 30 September 2021 and the repayment period up to 36 months for the working capital loans granted to all sectors.
- 16 June 2021
- The approval of the Monetary Board was obtained to:
    - introduce a Credit Guarantee and Interest Subsidy Scheme for Micro, Small and Medium Scale Enterprises (MSMEs) Sector Development.
    - introduce a Credit Guarantee and Interest Subsidy Scheme for Micro, Small and Medium Scale Dairy Farming Sector Development.
    - establish a new regional office in Kurunegala, mainly to cover activities in the Kurunegala and Puttalam districts in the North Western Province.
- 01 September 2021
- Operating Instructions were issued to implement a Credit Guarantee Scheme for the loans to be granted by PFIs to Micro, Small and Medium Scale Rice Mill owners in Sri Lanka.
- 30 September 2021
- The approval of the Monetary Board was obtained to introduce “Saubagya COVID-19 Renaissance Facility Phase-IV” as a Refinance Scheme to re-energise the State Owned Enterprises (SOEs) by fulfilling the working capital requirements and settling the statutory obligations of SOEs.

<sup>1</sup> Include major economic policy measures implemented until 21 October 2021 and the policy measures that are to be implemented in the near future.

## Financial Sector

### Licensed Banks

- 13 January 2021 - A Circular was issued instructing licensed banks to suspend recovery actions against small and medium scale paddy millers for six months, considering the Government initiatives to support small and medium scale paddy millers amidst the pandemic.
- 19 January 2021 - Banking Act Directions were issued relaxing the restrictions on discretionary payments of licensed banks. Accordingly, licensed banks were permitted to pay cash dividends and repatriate profits after completion of the audit of the financial statements for the year 2020. Further, licensed banks were required to refrain from engaging in share buy-backs and increasing non essential expenditure, while exercising extreme due diligence and prudence when incurring capital expenditure until 30 June 2021.
- 25 January 2021 - A Circular was issued introducing amendments to Guidelines on Adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments reducing the applicable Loss Given Default (LGD) with respect to exposures denominated in foreign currency (FCY) issued by the Government of Sri Lanka 10% when computing expected losses for the year 2021.
- Banking Act Directions were issued reducing the risk weight applicable on foreign claims on Central Government for the year 2021 from 20% to 10% and reducing the risk weight applicable for mortgage backed residential housing loans from 50% to 35%.
- Banking Act Directions were issued informing LCBs to refrain from entering into forward contracts of foreign exchange for a period of three months with immediate effect with a view to avoiding excess volatility in the foreign exchange market and the impact on banks' risk management.
- 10 March 2021 - A Circular was issued instructing licensed banks to provide concessions for leasing facilities obtained by COVID-19 affected businesses and individuals engaged in passenger transportation services for six months, commencing from 01 April 2021.
- 18 March 2021 - Banking Act Directions were issued to LCBs and National Savings Bank (NSB) suspending the purchase of Sri Lanka International Sovereign Bonds (ISBs) with effect from 23 March 2021 until 09 April 2021, considering the possible large outflows of foreign exchange from banks and their impact on banks' risk management and the exchange rate.
- 19 March 2021 - A Circular was issued to licensed banks extending the debt moratorium granted to COVID-19 affected businesses and individuals in the tourism sector for another six months commencing from 01 April 2021. The extension was granted to provide adequate time for borrowers to come up with proposals to restructure their credit facilities over a longer period, prior to the expiry of the extended moratorium period.
- 09 April 2021 - Banking Act Directions were issued to LCBs and NSB suspending the purchase of Sri Lanka ISBs until 23 April 2021, considering the possible/potential outflow of a substantial amount of foreign exchange by banks, its impact on banks' risk management and to ease the pressure on the exchange rate.
- 21 April 2021 - A Monetary Law Act Order was issued introducing a priority sector lending target on credit granted by licensed banks to individuals and businesses in the MSMEs sector.

- Accordingly, licensed banks shall increase their credit to individuals and businesses in MSMEs sector of not less than 20% per annum on y-o-y basis, over the outstanding stock of lending to MSMEs at the end of the previous year.
- 23 April 2021 - Banking Act Directions were issued to LCBs and NSB suspending the purchase of Sri Lanka ISBs until further notice considering the possible/potential outflow of foreign exchange by banks, its impact on banks' risk management and to ease the pressure on the exchange rate.
- 25 April 2021 - Banking Act Directions were issued requesting LCBs to refrain from entering into forward contracts of foreign exchange with value date beyond spot date subject to conditions, until further notice with a view to avoiding excess volatility in the foreign exchange market and the impact on banks' risk management.
- 25 May 2021 - An amendment was issued with respect to the Banking Act Directions on foreign currency borrowings by licensed banks revoking the limits on short term borrowings for a period of one year while maintaining the total foreign currency borrowing limit up to 10% in order to stimulate the capital formation within the real economy and supplement the foreign currency needs of the country.
- A Circular was issued to licensed banks informing the relief measures and extending concessions provided to businesses and individuals who are adversely affected by the third wave of COVID-19 outbreak. The Circular was issued to give effect to the Scheme in a consistent manner across all licensed banks, with a view to easing the burden on the borrowers of banks that are adversely affected by the outbreak.
- 07 June 2021 - A Circular was issued to licensed banks informing to carry out essential banking services strictly adhering to all relevant safety measures and guidelines issued in providing banking services under the travel restrictions which were imposed to control the spread of COVID-19.
- 16 June 2021 - Banking Act Directions were issued to licensed banks informing to maintain recovery plans to deal with shocks to capital, liquidity and all other aspects that may arise from institution specific stresses, market wide stresses, or a combination of both.
- Banking Act Directions were issued permitting LCBs and NSB to purchase ISBs in the secondary market *inter alia* subject to investing funds sourced through fresh borrowings from overseas in Sri Lanka Development Bonds (SLDBs) and ISBs in the proportion of 50% each.
- 18 June 2021 - A Banking Act Order was issued informing the determination of Thai Baht as a designated foreign currency under the Banking (Off Shore Banking Business Scheme), replacing the schedule in the Banking (Off-Shore Banking Business Scheme) Order No. 01 of 2011.
- 13 July 2021 - Banking Act Directions were issued restricting discretionary payments of licensed banks. Accordingly, licensed banks were requested to defer payment of cash dividends and repatriate profits until completion of the audit of the financial statements for the year 2021. Further, licensed banks were required to refrain from engaging in share buy-backs and increasing non essential expenditure, while exercising extreme due diligence and prudence when incurring capital expenditure until 31 December 2021.
- 21 August 2021 - Consequent to the announcement by the Director General of Health Services outlining the functions that are permitted during the quarantine curfew period effective from 20 August 2021 to 30 August 2021, a Circular was issued to licensed banks informing to carry out essential banking services uninterrupted, strictly adhering to all relevant safety measures and guidelines issued.

- 24 August 2021 - Considering the anomalies in the interest rates offered and paid by licensed banks on the rupee and foreign currency deposits, a Monetary Law Act Order was issued to all LCBs and NSB instructing the maximum annual effective interest rate of up to 5.00% that can be offered or paid on all foreign currency deposits of LCBs and NSB. In the case of Special Deposit Accounts (SDAs) in foreign currency, the additional interest rate that can be offered or paid shall be over and above the interest rate specified above.
- 01 September 2021 - A Circular was issued to licensed banks extending the concessions granted previously (until 31 August 2021) to borrowers affected by the COVID-19 pandemic, up to 31 December 2021, considering the surge in the pandemic and the resultant difficulties to the businesses and individuals. The eligible borrowers in both performing and non performing categories may avail the concessions, on a case-by-case basis.
- 08 September 2021 - Requirement of a cash margin deposit of 100% was imposed against the importation of selected non urgent goods made under Letters of Credit and Documents against Acceptance terms with LCBs and NSB, with immediate effect, aiming to preserve the stability of the exchange rate and liquidity in the domestic foreign exchange market.
- An Order was issued on maintaining a 100% non interest-bearing cash margin deposit against Letters of Credit (LCs) on importation of certain non essential and non urgent goods by LCBs.
- A Circular was issued recognising Lanka Rating Agency Limited as an acceptable External Credit Assessment Institution for the purpose of Banking Act Direction No. 01 of 2016 on Capital requirements under Basel III for LCBs and LSBs and other related regulatory requirements pertaining to LCBs and LSBs.
- 13 September 2021 - A Circular was issued to licensed banks extending the debt moratorium granted to COVID-19 affected businesses and individuals in the tourism sector for another nine months commencing from 01 October 2021.
- 14 September 2021 - Banking Act Directions were issued with a view to further strengthening and harmonising the regulatory framework on classification, recognition and measurement of credit facilities and financial assets other than credit facilities in licensed banks with the Sri Lanka Accounting Standard, 'SLFRS 9: Financial Instruments' and establishing consistent and prudent practices in the banking industry.
- 30 September 2021 - A Supplementary Circular was issued to Banking Act Directions No. 13 of 2021 and No. 14 of 2021 on classification, recognition and measurement of credit facilities and financial assets other than credit facilities in licensed banks with a view to establishing consistent and prudent adoption of Sri Lanka Accounting Standard, 'SLFRS 9: Financial Instruments' by licensed banks amidst the COVID-19 pandemic.
- 01 October 2021 - The Order issued on maintaining a 100% non interest-bearing cash margin deposit against the LCs on importation of certain non essential and non urgent goods by LCBs was withdrawn.
- Banking Act Directions were issued revoking the Banking Act Directions No. 12 of 2021 on margin requirements against imports.
- 05 October 2021 - A Circular was issued to licensed banks extending the concessions granted to COVID-19 affected businesses and individuals engaged in passenger transportation services, including the tourism sector. Accordingly, licensed banks were requested to accommodate the requests for lease facilities obtained by COVID-19 affected businesses and individuals providing public and private passenger transportation service under

Circular No. 08 of 2021 and requests of such businesses and individuals in the tourism sector under Circular No. 10 of 2021.

- |             |   |   |
|-------------|---|---|
| Forthcoming | - | Drafting of a new Banking Act   |
|             | - | Establishing a Regulatory Framework for Technology Risk Management and Resilience in licensed banks |
|             | - | Facilitating banking sector initiatives towards Sustainable Finance                                 |
|             | - | Revised regulatory framework on outsourcing of business operations                                  |

### Licensed Finance Companies (LFCs), Specialised Leasing Companies (SLCs), Licensed Microfinance Companies (LMFCs), and Primary Dealer Companies (PDCs)

- |                  |   |   |
|------------------|---|---|
| 01 January 2021  | - | An amendment was issued to the Directions on Valuation of Immovable Properties of LFCs and SLCs, amending the eligibility criteria for valuers.   |
| 17 February 2021 | - | An amendment was issued to the Directions on Loan to Value (LTV) ratios of LFCs and SLCs for credit facilities granted in respect of motor vehicles, with a revised rate of 80% in respect of registered vehicles, used in Sri Lanka for more than one year after first registration.                                 |
| 12 March 2021    | - | A Circular was issued to LFCs and SLCs requesting to provide concessions for COVID-19 affected businesses and individuals engaged in passenger transportation services for a period of six months commencing from 01 April 2021.  |
| 19 March 2021    | - | A Circular was issued to LFCs and SLCs requesting to extend the debt moratorium granted to tourism sector under Circular No. 09 of 2020 issued on 30 September 2020 for another period of six months commencing from 01 April 2021.   |
| 31 March 2021    | - | LFCs and SLCs were informed of deferment of the implementation of Direction No. 01 of 2020 on Classification and Measurement of Credit facilities, for a period of three months.  |
|                  | - | Extended the amendment to the Direction on Liquid Assets dated 30 September 2020 for a period of three months until 30 June 2021, in order to facilitate the LFCs and SLCs to overcome the liquidity pressure considering the challenging operating environment due to the prolonged impact of the COVID-19 pandemic. |
| 01 April 2021    | - | Regulation No. 01 of 2021 was issued to increase the maximum compensation payment under the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) up to Rs. 1,100,000.   |
| 09 April 2021    | - | A Direction was issued on Foreign Currency Borrowings with the objective to stabilise any financial volatilities created by the foreign funding exposures of LFCs, provide risk management of foreign currency borrowings and establish a regulatory framework for the foreign currency borrowings of LFCs.           |
| 04 June 2021     | - | Further to the Directions on foreign currency borrowings by LFCs issued earlier, LFCs were informed that foreign currency borrowings by financial and non financial institutions would be facilitated for a period of one year.   |
| 09 June 2021     | - | A Circular was issued on concessions for COVID-19 affected businesses and individuals. Accordingly, with a view to meeting the challenges faced by businesses and individuals   |



	due to the third wave of the pandemic, LFCs and SLCs were requested to extend further concessions for affected parties.
05 July 2021	- LFCs and SLCs were requested to freeze seizure and repossession orders of vehicles on credit facilities of customers affected by the pandemic with arrears for at least next three months (until 30 September 2021), after considering the financial difficulties of borrowers.
07 July 2021	- The effective date of the Finance Business Act (Classification and Measurement of Credit Facilities) Direction No. 01 of 2020 was deferred. It was informed that LFCs shall adopt 120 and 90 past due days with effect from 01 April 2022 and 01 April 2023, respectively, when classifying special mention category and stage 3 classification under impairment for credit facilities repayable on a monthly basis or more.
09 July 2021	- A Direction was issued to PDCs on Minimum Capital Requirement prescribing every PDC to maintain the core capital at a level not less than Rs. 1.0 bn until 31 December 2021, and thereafter to increase up to Rs. 2.0 bn w.e.f. 01 January 2022 and up to Rs. 2.5 bn w.e.f. 01 January 2023. The Direction also describes the special risk reserve and capital assessment and planning process.
06 August 2021	- Regulation No. 01 of 2010 under SLDILSS was amended and new Regulation No. 02 of 2021 was issued.
10 September 2021	- An amendment to the Circular dated 09 June 2021 was issued requesting LFCs and SLCs to further extend the concessions for COVID-19 affected businesses and individuals until 30 September 2021.
24 September 2021	- A Circular was issued to LFCs and SLCs informing that Lanka Rating Agency Ltd. has been recognised by the Central Bank as an acceptable credit rating agency for specified purposes.
06 October 2021	- A Circular was issued to LFCs and SLCs requesting to extend concessions and suspend recovery actions for COVID-19 affected businesses and individuals until 31 March 2022, considering several requests from concerned parties and government authorities.
Forthcoming	- Review of the Finance Business Act
	- Review of the regulatory framework of Non Bank Financial Institutions (NBFIs) sector

## Insurance

10 March 2021	- Direction No. 01 of 2021 on dividend declaration and distribution was issued instructing Board of Directors of Insurance Companies to submit a confirmation to the Insurance Regulatory Commission of Sri Lanka (IRCSL) that terms and conditions stipulated in the direction were considered.
23 March 2021	- Circular No. 01 of 2021 was issued to inform Insurance Companies that they could launch products/policy forms only after the IRCSL's confirmation that products are fair and equitable in the opinion of the IRCSL.
24 March 2021	- Direction No. 02 of 2021 was issued to Insurance Companies and Insurance Brokering Companies in respect of restrictions on providing codes and restrictions on changing codes.

08 April 2021	-	Circular No. 02 of 2021 on Prohibition of Promotion/Advertisement of 3rd Party Motor Insurance was issued to all General Insurance Companies.
29 July 2021	-	Direction No. 03 of 2021 was issued to all insurers, brokers, and loss adjusters directing them to refrain from employing persons whose services have been terminated on the grounds of financial misappropriation or fraud.
30 August 2021	-	Direction No. 01 of 2021 was amended to address the contingent liabilities and complying with the relevant accounting standards in the event of dividend declaration and distribution of insurers.
06 September 2021	-	Direction No. 04 of 2021 was issued regarding termination of using telecommunication service providers' platform (Mobile Insurance) and matters connected therein.
Forthcoming	-	Finalisation of the report on Component 11 of the Financial Sector Modernisation Project (FSMP) of the World Bank
	-	The IRCSL, with a view to adopting international best practices to the local insurance industry, is in the process of finalising a guideline on Insurance Advertisements
	-	Revamping of the existing Regulation of Insurance Industry Act with the assistance of the World Bank

## Capital Market

January 2021	-	Developed a comprehensive set of guidelines for stockbroking firms in consultation with the Colombo Stock Exchange (CSE).
March 2021	-	Facilitated digital platforms to broad-base and widen the investor base of the stock market.
	-	Approval in principle was granted for the introduction of Paper Gold (PG) through Over the Counter (OTC) platform at the CSE.
April 2021	-	Approval in principle was granted for the proposal to facilitate listing of Special Purpose Acquisition Companies (SPACs).
June 2021	-	Amended the Central Depository System (CDS) rules to facilitate repurchase agreement (REPO) transactions on Corporate Debt securities on the OTC Platform of the CSE.
	-	Facilitated the implementation of the enhanced margining system and Delivery vs Payment (DvP) mechanism at the CSE by issuing rules and revising marginal model.
	-	Approval in principle was granted for the introduction of Islamic Capital Market Products.
	-	Approval in principle was granted for the introduction of Structured Warrants.
	-	Approval in principle was granted for the introduction of Green Bonds.
	-	Approval in principle was granted to facilitate fund raising through online platforms, such as crowdfunding.

- Gazette notification on the enactment of new bill of the Securities and Exchange Commission (SEC) was published.
- July 2021 - Launched Phase 2 of the digitisation of stock market operations.
- Forthcoming - Issue Directives on revamping of the Intermediary Rules
- Facilitate the introduction of covered short selling through securities borrowing and lending

### Payments and Settlements

- 09 June 2021 - Considering the need of encouraging more merchants to join the LANKAQR initiative, the period of maintaining the maximum Merchant Discount Rate (MDR) of 0.5% for LANKAQR transactions was extended for a further six months period ending 31 December 2021.
- Forthcoming - Issuing a Regulation under the Payment and Settlement Systems Act, No. 28 of 2005 to regulate and supervise the activities of Money or Value Transfer Service Providers in Sri Lanka

### Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT)

- 27 April 2021 - Circular No. 01 of 2021 was issued on the implementation of AML/CFT measures on parties involved with online payment platforms.
- 28 April 2021 - Considering the increasing trend of suspicious transactions related to foreign currency outflows via Automated Teller Machines (ATMs) in cash withdrawals overseas, Circular No. 02 of 2021 was issued, advising to perform Customer Due Diligence measures as required by the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 at the time of onboarding the customer and when conducting transactions.
- 04 May 2021 - Circular No. 03 of 2021 was issued on additional measures to mitigate the emerging Money Laundering/Terrorist Financing risks during the third wave of the COVID-19 pandemic.
- 08 June 2021 - Guideline No. 01 of 2021 was issued for Financial Institutions on enhancing the Suspicious Transaction Reports (STRs) reporting quality.
- 20 July 2021 - Guideline No. 2 of 2021 was issued for Financial Institutions on CCTV operations for AML/CFT purposes.
- 12 August 2021 - Guideline No. 03 of 2021 was issued for Financial Institutions on Suspension of Transactions under Section 15(2) of the Financial Transactions Reporting Act, No. 6 of 2006.
- 04 October 2021 - Circular No. 04 of 2021 was issued to Licensed Banks on deposits made under the Finance Act, No. 18 of 2021.

## Foreign Exchange Management and International Operations

- 01 January 2021 - Operating instructions issued to licensed banks on “Incentive Scheme on Inward Worker Remittances” were amended. Accordingly, licensed banks were instructed to expand the scope of the eligibility under the Incentive Scheme to the foreign currency income earned through employment by a Sri Lankan national who resides in Sri Lanka and earns foreign currency income rendering service in nature of employment abroad, and to apply the Incentive Scheme to all foreign currency income conversions made on or after 28 December 2020.
- 15 January 2021 - Directions No. 01 of 2021 were issued to Authorised Dealers (ADs) permitting to open and maintain Temporary Special Foreign Currency Accounts for LFCs to hedge the foreign exchange risk pertaining to the repayment of foreign currency loans subject to conditions.
- 27 January 2021 - Operating instructions were issued with regard to the introduction of a scheme for licensed banks to sell 10% of converted inward workers’ remittances to the Central Bank on mandatory basis, in order to build up foreign exchange reserves.
- 03 February 2021 - Following Regulations and Orders were issued with effect from 22 March 2021 by rescinding existing relevant Regulations and Orders addressing the practical issues and concerns of the ADs and other stakeholders in order to achieve greater efficiency in the domestic foreign exchange market:
- Foreign Exchange Regulations No. 01 of 2021 (Extraordinary Gazette Notification No. 2213/34) were issued on regulations applicable for classes of capital transactions undertaken outside Sri Lanka by persons resident in Sri Lanka.
  - Foreign Exchange Regulations No. 02 of 2021 (Extraordinary Gazette Notification No. 2213/35) were issued on regulations applicable for classes of capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka.
  - Foreign Exchange Regulations No. 03 of 2021 (Extraordinary Gazette Notification No. 2213/36) were issued on regulations applicable for remittance of funds by emigrants.
  - Foreign Exchange Regulations No. 04 of 2021 (Extraordinary Gazette Notification No. 2213/37) were issued on regulations applicable for classes of miscellaneous capital transactions.
  - Foreign Exchange Regulations No. 05 of 2021 (Extraordinary Gazette Notification No. 2213/38) were issued on regulations applicable for opening and maintenance of accounts for the purpose of engaging in foreign exchange transactions.
  - Order under Section 8 (Extraordinary Gazette Notification No. 2213/39) of the Foreign Exchange Act (FEA), No. 12 of 2020 was issued on export or import of foreign currency or Sri Lanka currency by a person in, or resident in Sri Lanka.

- Order under Section 31 (Extraordinary Gazette Notification No. 2213/40) of the FEA was issued on determination of 'persons resident in Sri Lanka.'
- 18 February 2021
- Amendment of rules in respect of the receipt of export proceeds into Sri Lanka and the conversion of such export proceeds into Sri Lanka rupees was issued. Accordingly, every exporter of goods shall convert 25% from and out of the total export proceeds received in Sri Lanka to Sri Lankan rupees, through a licensed bank (Extraordinary Gazette Notification No. 2215/39).
  - Operating instructions were issued with regard to the introduction of a scheme for licensed banks to sell 50% of the 25% of converted export proceeds, where the conversion is mandatory under the Gazette and Rules issued on 18 February 2021 under the Monetary Law Act (MLA), No. 58 of 1949, to the Central Bank in order to build up foreign exchange reserves.
- 09 March 2021
- Extraordinary Gazette Notification No. 2218/38 was issued under the MLA, as Repatriation of Export Proceeds into Sri Lanka Rules No. 2 of 2021, extending the time period applicable for conversion up to 14 days.
- 17 March 2021
- Operating instructions issued to licensed banks on "Incentive Scheme on Inward Remittances" were amended to temporarily suspend the requirement to sell 10% of the converted workers' remittances to the Central Bank, considering the market conditions prevailed during that period.
  - Operating instructions issued to licensed banks on "Repatriation of Export Proceeds into Sri Lanka" were amended to temporarily suspend the requirement to sell 50% of the 25% of mandatory converted export proceeds to the Central Bank, considering the market conditions prevailed during that period.
- 18 March 2021
- Following Directions were issued to ADs (effective from 22 March 2021) in line with the Regulations and Orders issued on 03 February 2021:
    - Directions No. 02 of 2021 were issued regarding Current Transactions, to carry out current transactions by ADs on behalf of persons in or resident in Sri Lanka under Section 6 of the FEA.
    - Directions No. 03 of 2021 were issued on Electronic Fund Transfer Cards (EFTCs) for the use of EFTCs by persons in, or resident in Sri Lanka for making payments in foreign exchange to persons resident outside Sri Lanka.
    - Directions No. 04 of 2021 were issued on Personal Foreign Currency Accounts (PFCAs) for opening and maintaining foreign currency accounts by eligible resident/non resident individuals.
    - Directions No. 05 of 2021 were issued on Business Foreign Currency Accounts (BFCAs) for opening and maintaining foreign currency accounts by resident foreign exchange earners.

- Directions No. 06 of 2021 were issued on Diplomatic Foreign Currency Accounts (DFCAs) and Diplomatic Rupee Accounts (DRAs) for opening and maintaining foreign currency and Sri Lankan rupee accounts by diplomatic missions/personnel.
- Directions No. 07 of 2021 were issued on Senior Foreign Nationals' (Special Accounts) for opening and maintaining accounts by senior foreign nationals, who are over 55 years of age and intend to a prolonged stay in Sri Lanka on resident visas under the "Sri Lanka – My Dream Home programme."
- Directions No. 08 of 2021 were issued on Resident Guest Scheme (Special Accounts) regarding opening and maintaining accounts by prospective investors and professionals, who come to Sri Lanka under the 'Resident Guest Scheme' implemented by the Department of Immigration and Emigration.
- Directions No. 09 of 2021 were issued on Accommodations to BFCAs holders, to grant accommodations in foreign currency by ADs to foreign exchange earners, who hold BFCAs.
- Directions No. 10 of 2021 were issued on Loans and Advances to Sri Lankans Employed Abroad (other than emigrants), to grant loans/advances denominated in foreign currency and Sri Lankan rupees by ADs to Sri Lankan citizens working abroad.
- Directions No. 11 of 2021 were issued on Loans to Sri Lankans, Resident Outside Sri Lanka on Permanent Resident Visa (PR) in another country and Dual Citizens, to grant loans denominated in foreign currency and Sri Lankan rupees by ADs to PR holders and dual citizens.
- Directions No. 12 of 2021 were issued on SLDBs, to grant permission for ADs and PDs, who have been appointed by the Superintendent of Public Debt of the Central Bank as Designated Agents, for purchasing and marketing SLDBs issued by the Government of Sri Lanka.
- Directions No. 13 of 2021 were issued on Sale of Foreign Exchange (Form 1) and Purchase of Foreign Exchange (Form 2) on reporting requirements by ADs.
- Directions No. 14 of 2021 were issued on Outward Investment Accounts for opening and maintaining accounts by resident persons for making remittances in respect of capital transactions outside Sri Lanka.
- Directions No. 15 of 2021 were issued on Inward Investment Accounts for opening and maintaining accounts by non resident investors for routing inward remittances in respect of capital transactions in Sri Lanka.
- Directions No. 16 of 2021 were issued on Capital Transactions Rupee Accounts for opening and maintaining accounts by emigrants for channeling the migration allowance.



- Directions No. 17 of 2021 were issued on Emigrants' Remittable Income Accounts for opening and maintaining accounts by emigrants for repatriating current income derived in Sri Lanka subject to regulatory requirements.
- Directions No. 18 of 2021 were issued on Non Resident Rupee Accounts for opening and maintaining of Sri Lankan rupee accounts by emigrant's resident in or outside Sri Lanka and firms/companies established/incorporated outside Sri Lanka.
- Directions No. 19 of 2021 were issued on External Commercial Borrowing Accounts for opening and maintaining accounts by companies incorporated in Sri Lanka for crediting loan proceeds obtained from foreign lenders.
- Directions No. 20 of 2021 were issued on Guarantees, specifically directions applicable for issuance and renewal of Guarantees in respect of Current and Capital Transactions.

26 March 2021	-	Extraordinary Gazette Notification No. 2220/69 was issued as an Order under Section 4 of the FEA, permitting hotels registered with the Sri Lanka Tourism Development Authority (SLTDA) to accept foreign currency from persons resident in Sri Lanka who have foreign currency in their possession, as a measure to attract foreign currency at the hands of residents into the formal channels giving an opportunity to pay their local hotel bills in foreign currency.
07 April 2021	-	Extraordinary Gazette Notification No. 2222/37 was issued as regulations, further extending the period of opening of SDAs by eligible persons by 24 months from 08 April 2020.
	-	Directions No. 21 of 2021 were issued to ADs specifying criteria of opening and maintaining SDAs, permitted debits, credits and other requirements.
09 April 2021	-	Extraordinary Gazette Notification No. 2222/60 was issued as Repatriation of Export Proceeds into Sri Lanka Rules No. 3 of 2021, by further amending the Repatriation of Export Proceeds into Sri Lanka Rules issued under the MLA, extending the time period applicable for conversion up to 30 days and reducing the conversion requirement up to 10%.
04 May 2021	-	Directions No. 22 of 2021 were issued to hotels registered with SLTDA, permitting to accept foreign currency from persons resident in Sri Lanka in respect of services rendered.
25 May 2021	-	Extraordinary Gazette Notification No. 2229/5 was issued as an Order under Section 4 of the FEA, permitting companies incorporated in Sri Lanka under the Companies Act, No. 7 of 2007, to lend in any designated foreign currency to their subsidiaries incorporated in Sri Lanka, who are foreign exchange earners, with prior permission of the Monetary Board of the Central Bank of Sri Lanka.
28 May 2021	-	Extraordinary Gazette Notification No. 2229/9 was issued as Repatriation of Export Proceeds into Sri Lanka Rules No. 4 of 2021, enhancing the conversion requirement up to 25% with a provision for partial exemptions to be granted by the Monetary Board of the Central Bank of Sri Lanka at its discretion up to a percentage not less than 10%.

	<ul style="list-style-type: none"> <li>- Operating Instructions issued to licensed banks regarding “Incentive Scheme on Inward Remittances” on 27 January 2021 were reinstated.</li> <li>- Operating Instructions issued to licensed banks regarding “Repatriation of Export Proceeds into Sri Lanka” on 18 February 2021 were reinstated.</li> </ul>
11 June 2021	<ul style="list-style-type: none"> <li>- Directions No. 23 of 2021 were issued on DFCA and DRAs, including withdrawals in foreign currency for local expenses of the account holder as a permitted debits.</li> </ul>
17 June 2021	<ul style="list-style-type: none"> <li>- Directions No. 24 of 2021 were issued on BFCAs, amending Annex I of the Directions No. 05 of 2021.</li> </ul>
30 June 2021	<ul style="list-style-type: none"> <li>- Extraordinary Gazette Notification No. 2234/19 was issued as regulations, permitting to rollover the SDAs opened under the Regulations, with six month and twelve month tenures, provided that the accumulated period of said SDAs would not exceed the maximum of 24 months from the initial date of placing such deposits.</li> <li>- Extraordinary Gazette Notification No. 2234/20 was issued as regulations, permitting companies incorporated in Sri Lanka under the Companies Act, No. 7 of 2007 in Sri Lanka who have borrowed foreign currency from a person resident outside Sri Lanka in terms of the FEA, to purchase ISBs issued by the Government of Sri Lanka, from secondary market, utilising 50% of the said borrowing subject to terms and conditions.</li> </ul>
02 July 2021	<ul style="list-style-type: none"> <li>- Extraordinary Gazette Notification No. 2234/49 was issued as an Order under Section 22 of the FEA imposing the following measures on outward remittances for a period of six months: <ul style="list-style-type: none"> <li>• Suspend the repatriation of funds under the migration allowance out of funds received as monetary gifts by an emigrant from an immediate family member (i.e., parents, grandparents, siblings, and spouse of the emigrant).</li> <li>• Limit the repatriation of funds under the migration allowance through Capital Transactions Rupee Accounts by the emigrants who have already claimed migration allowance under the general permission, up to a maximum of USD 10,000 or equivalent in any other designated foreign currency.</li> <li>• Limit the eligible migration allowance for the emigrants who are claiming the migration allowance for the first time under the general permission, up to a maximum of USD 30,000 or equivalent in any other designated foreign currency.</li> <li>• Limit the repatriation of any current income or accumulated current income (including Employees Provident Fund (EPF), Employees Trust Fund (ETF), gratuity and pensions or any other retirement benefits) by the emigrants through the Capital Transaction Rupee Accounts or Emigrants’ Remittable Income Accounts, under the general permission, up to a maximum of USD 30,000 or equivalent in any other designated foreign currency.</li> <li>• Limit the outward remittances by or issuance of foreign exchange for any Sri Lankan individual who resides in or outside Sri Lanka and has obtained Temporary Residence Visa of another country which falls into a category of visa that entitles the individual to obtain permanent residency status or</li> </ul> </li> </ul>

citizenship in that country at a future date, up to a maximum of USD 20,000 or equivalent in any other designated foreign currency.

- Limit the issuance of foreign exchange for any person resident in Sri Lanka who intends to leave Sri Lanka under the Temporary Residence Visa of another country up to a maximum of USD 10,000 or equivalent in any other designated foreign currency.
- Suspend the general permission granted to make outward remittances through the Outward Investment Accounts for the purpose of investing overseas by persons resident in Sri Lanka excluding the following:
  - investments to be financed out of a foreign currency loan obtained by the investor from a person resident outside Sri Lanka under the provisions of the FEA, or
  - an additional investment to be made to fulfil the regulatory requirements in the investee's country applicable on the investment already made in compliance with the provisions of the Act or repealed Exchange Control Act, in a company or a branch office in that country, or,
  - an additional investment/infusion of funds (as applicable) to be made by eligible resident companies in already established subsidiaries or branch offices in overseas incorporated/established subject to the provisions of the Act or repealed Exchange Control Act, up to a maximum of USD 15,000 or equivalent in any other designated foreign currency, for the purpose of working capital requirements of the investee, or,
  - the remittances for the purpose of maintenance of liaison, marketing, agency, project, representative or any other similar offices already established in overseas subject to the provisions of the Act or repealed Exchange Control Act, by eligible resident companies, up to a maximum of USD 30,000 or equivalent in any other designated foreign currency.
- Limit the outward remittances on capital transactions through BFCAs or/and PFCAs held by a person resident in Sri Lanka, up to a maximum of USD 20,000 or equivalent in any other designated foreign currency, during the effective period of this Order.
- The Monetary Board shall have the authority to grant permission in terms of Section 7(10) of the FEA for investments, on case-by-case basis, which exceed the limits specified in the general permission granted in the Regulations No. 1 of 2021 provided that:
  - the proposed investment is to be financed out of a foreign currency loan obtained by the investor from a person resident outside Sri Lanka under the provisions of the FEA, or,
  - the proposed investment is to be made to fulfil the regulatory requirement in the investee's country applicable on the investment

already made in a company or branch office in that country in compliance with the provisions of the Act or repealed Exchange Control Act.

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| 06 July 2021 | - | Extraordinary Gazette Notification No. 2235/22 was issued as an Order under Section 29 read with Section 7 of the FEA, amending the Foreign Exchange (Classes of Capital Transactions Undertaken in Sri Lanka by persons Resident Outside Sri Lanka) Regulations No. 02 of 2021 (Extraordinary Gazette Notification No. 2213/35), inserting and replacing the provisions in respect of the investments in debt securities in Sri Lanka Rupees and in any designated foreign currency listed in the CSE.                                     |
| 08 July 2021 | - | Directions No. 25 of 2021 were issued to ADs specifying criteria of opening and maintaining SDAs, permitted debits, credits and other requirements and rescinding Directions No. 21 of 2021.  |
| 30 July 2021 | - | Directions No. 26 of 2021 were issued to ADs specifying criteria of opening and maintaining Special Foreign Currency Accounts to facilitate foreign currency denominated investments in the CSE, permitted debits, credits and other requirements.  |
|              | - | Directions No. 27 of 2021 were issued to ADs including transfer of earnings in foreign exchange to the Special Foreign Currency Accounts opened under the Directions No. 26 of 2021 by the account holder, for making payments of any income or maturity proceeds attributed to investments made in respect of listed shares or debt securities denominated in designated foreign currency in the CSE as a permitted debit to the BFCAs, in addition to the debits specified in the Directions No. 05 of 2021 dated 18 March 2021 on BFCAs. |
| 06 Aug 2021  | - | Operating Instructions were issued to licensed banks on “Crediting Exports Proceeds to the relevant Foreign Currency Accounts of Exporters.” Accordingly, all licensed banks were instructed to credit the exports proceeds to the respective exporter’s foreign currency account(s) maintained at the bank immediately, subject to conditions on withdrawal and/or conversion until documentation is completed.  |

## Regulations of Import and Export Control Department

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| 05 January 2021  | - | Imports and Exports (Control) Regulations No. 01 of 2021 (published in the Gazette Extraordinary No. 2209/18) were issued amending the lists of goods related to tyre imports that are under import restrictions as specified by Imports and Exports (Control) Regulations No. 04 of 2020.         |
| 11 February 2021 | - | Imports and Exports (Control) Regulations No. 03 of 2021 (published in the Gazette Extraordinary No. 2214/56) were issued amending the lists of goods related to ceramic products and sarees that are under restrictions as specified by Imports and Exports (Control) Regulations No. 04 of 2020. |
| 06 April 2021    | - | Imports and Exports (Control) Regulations No. 04 of 2021 (published in the Gazette Extraordinary No. 2222/31) were issued amending the lists of goods related to palm oil that are under restrictions as specified by Imports and Exports (Control) Regulations No. 04 of 2020.                    |
| 23 April 2021    | - | Imports and Exports (Control) Regulations No. 05 of 2021 (published in the Gazette Extraordinary No. 2224/43) were issued amending the lists of goods related to mobile  |

workshops that are under restrictions as specified by Imports and Exports (Control) Regulations No. 05 of 2020.

- Imports and Exports (Control) Regulations No. 06 of 2021 (published in the Gazette Extraordinary No. 2224/44) were issued amending the lists of goods related to mobile workshops that are under restrictions as specified by Imports and Exports (Control) Regulations No. 04 of 2020.
- 06 May 2021
- Imports and Exports (Control) Regulations No. 07 of 2021 (published in the Gazette Extraordinary No. 2226/48) were issued on mineral or chemical fertiliser banning the importation of some items and imposing import control license for other.
- 11 June 2021
- Imports and Exports (Control) Regulations No. 08 of 2021 (published in the Gazette Extraordinary No. 2231/16) were issued imposing import control license on gold and face masks.
  - Imports and Exports (Control) Regulations No. 09 of 2021 (published in the Gazette Extraordinary No. 2231/17) were issued imposing restrictions on exportation of oxygen and respiration apparatus.
  - Imports and Exports (Control) Regulations No. 10 of 2021 (published in the Gazette Extraordinary No. 2231/18) were issued amending the lists of goods that are under restrictions as specified in Imports and Exports (Control) Regulations No. 04 of 2020.
- 31 July 2021
- Imports and Exports (Control) Regulations No. 11 of 2021 (published in the Gazette Extraordinary No. 2238/45) were issued bringing related mineral or chemical fertilisers under the “import control license” category from the “banned” category.

## Price Revisions

The Maximum Retail Prices (MRPs) of several items were revised as follows:

Date	Item	Revision
08.02.2021	White Sugar, Dried Chilies (Neither crushed nor ground), Potatoes (Imported), Keeri Samba	MRPs were removed.
18.06.2021	Coconut (Circumference over 13 inches, Circumference between 12 - 13 inches, Circumference below 12 inches)	MRPs were removed.
25.07.2021	Liquefied Petroleum (LP) Gas Cylinder of 18 litres (9.6 kg)	Imposed district based MRPs.
12.08.2021	Polymerase Chain Reaction (PCR)	Imposed a MRP of Rs. 6,500 per test and report.
	Rapid Antigen Test (RAT)	Imposed a MRP of Rs. 2,000 per test and report.

Date	Item	Revision
02.09.2021	White Sugar	Imposed an Importer's Maximum Wholesale Price of Rs. 116 per kg.
	White Sugar (Unpacketed)	Imposed a MRP of Rs. 122 per kg.
	White Sugar (Packeted)	Imposed a MRP of Rs. 125 per kg.
	Brown or Red Sugar (Unpacketed)	Imposed a MRP of Rs. 125 per kg.
	Brown or Red Sugar (Packeted)	Imposed a MRP of Rs. 128 per kg.
	Keeri Samba	MRP increased to Rs. 125 per kg from Rs. 120 per kg.
	White/Red Samba - Steamed/Boiled (excluding Suduru Samba)	MRP increased to Rs. 103 per kg from Rs. 98 per kg.
	White/Red Nadu - Steamed/Boiled (excluding Mottaikarupam and Attakari)	MRP increased to Rs. 98 per kg from Rs. 96 per kg.
	White/Red Raw Rice	MRP increased to Rs. 95 per kg from Rs. 93 per kg.
04.09.2021	Fingertip Pulse Oximeter	Imposed a MRP of Rs. 3,000 per unit.
29.09.2021	Keeri Samba, White/Red Samba - Steamed/Boiled (excluding Suduru Samba), White / Red Nadu - Steamed/Boiled (excluding Mottaikarupam and Attakari), White/Red Raw Rice and White/Red Raw Samba	MRPs were removed.
08.10.2021	Milk Powder (Full Cream Milk Powder, Non Fat Milk Powder and Infant Milk Powder), Cement, Liquefied Petroleum (LP) Gas and Wheat Flour	MRPs were removed.

## Tax Revisions

### Income Taxes

- 13 May 2021 - Inland Revenue Act No. 24 of 2017 was amended by the Inland Revenue (Amendment) Act, No. 10 of 2021, mainly bringing into law the budget proposals, which were announced in November 2020 and other announcements made in January 2020 and April 2021.

### Value Added Tax (VAT)

- 01 February 2021 - Piece based VAT rate applicable on local supply of certain garments (classified under the HS Chapters 61, 62 and 63) by export oriented Board of Investment (BOI) enterprises, was reduced to Rs.25 from Rs.100 with effect from 01 January 2021 (Inland Revenue Department (IRD) public notice – PN/VAT/2021-01).
- 13 May 2021 - Value Added Tax Act, No. 14 of 2002 was amended by the Value Added Tax (Amendment) Act, No. 9 of 2021 mainly bringing into law the reduction of VAT rate effective from December 2019 and the increase in VAT registration threshold effective from January 2020.



## Excise Duty

- 01 January 2021 - Annual liquor license fees were waived off for hotel license (FL/7) Tourist Board approved and hotels non-tourist board approved rooms 5 or over, hotel bar license (FL/8), restaurant license (for restaurants, which are approved/not approved by the Tourist Board) (FL/11), rest house license (FL/12) and consume at the premises (FL/22B) (for premises, which are approved/not approved by the Tourist Board) (Extraordinary Gazette Notification No. 2208/35).
- 07 January 2021 - Excise duty on bottled toddy manufactured in and issued from any licensed manufactory established in Sri Lanka was reduced to Rs. 25 per litre from Rs. 50 per litre (Extraordinary Gazette Notification No. 2209/42).
- 11 January 2021 - Some hotels were exempted from the payment of the triennial authorisation fee applicable for the usage of liquor for the year 2021 (Extraordinary Gazette Notification No. 2210/2).
- 23 March 2021 - Excise duty on ethyl alcohol was revised as follows (Extraordinary Gazette Notification No. 2220/40):

Item	Locally Supplied/ imported litres per month	Prevailed Tax w.e.f. 09.06.2020 (Rs. per bulk litre)		Tax Revision w.e.f. 23.03.2021 (Rs. per bulk litre)	
		Locally Supplied	Imported	Locally Supplied	Imported
Ethyl alcohol used in the production of:					
(a) Sanitiser for local sales	Upto 500 litres	Free	200	Free	200
	From 501 litres upto to 10,000 litres		700		700
	From 10,001 litres up to 20,000 litres		800		800
	Above 20,000 litres		1,200	-	-
	Above 20,001 litres to 100,000 litres	-	-	Free	1,200
	Above 100,000 litres	-	-	100	1,200
(b) Sanitiser for exports	For each litres	Free	25	25	25

## Excise Duty (Special Provisions)

- 05 April 2021 - Purchase of 2,000 three-wheelers for the Sri Lanka Police, on the recommendation of the Secretary of the line Ministry in charge of Sri Lanka Police subject to the approval of the Secretary to the Treasury, was exempted from excise duty (Extraordinary Gazette Notification No. 2222/2).
- New duty structure was introduced on locally assembled/ manufactured motor vehicles and motor bicycles in line with the implementation of standard operating procedures (SOP) for Automobile manufacturing /assembling industry and Automobile component manufacturing industry (Extraordinary Gazette Notification No. 2222/3).

- 22 April 2021 - Excise duty rates were revised on mobile workshop vehicles (Extraordinary Gazette Notification No. 2224/24).
- 03 August 2021 - Importation of 52 water bowzers and 62 double cabs for essential field activities, on the recommendation of the Director General of Department of National Budget subject to the approval of the Secretary to the Treasury, was exempted from excise duty (Extraordinary Gazette Notification No. 2239/16).

## Customs Duty

Customs duty on the importation of Petrol and Diesel was revised as follows:

Item	Date	Customs Import Duty (Rs. per litre)	Customs Duty Waiver (Rs. per litre)	Applicable Duty (Rs. per litre)
Petrol (92 Octane)	31.12.2020	50.00	18.00	32.00
	02.02.2021	50.00	29.00	21.00
	25.03.2021	50.00	45.00	5.00
Petrol (95 Octane)	31.12.2020	50.00	16.00	34.00
	02.02.2021	50.00	8.00	42.00
	25.03.2021	50.00	24.00	26.00
Auto Diesel	31.12.2020	25.00	20.00	5.00
	02.02.2021	25.00	14.00	11.00
	25.03.2021	25.00	25.00	0.00
Super Diesel	31.12.2020	25.00	15.00	10.00
	02.02.2021	25.00	-	25.00
	25.03.2021	25.00	10.00	15.00

Note: The surcharge imposed for a period of three months effective from 24 November 2020 was rescinded on 02 February 2021.

## Commodity Export Subsidy Scheme (CESS)

- 12 January 2021 - CESS was exempted from the export of scrap/waste by an enterprise, generated through the process of manufacture of goods to be exported, out of raw material imported and generated through the process of repair/maintenance works done by that enterprise, which has entered into an agreement with the BOI and registered under the Customs Manufacture-in-Bond Scheme or under the Temporary Importation for Export Processing (TIEP) Scheme (Extraordinary Gazette Notification No. 2210/09).
- 15 March 2021 - CESS on the importation of tiles and sanitary ware was revised (Extraordinary Gazette Notification No. 2219/15).
- 17 March 2021 - CESS was exempted for any goods imported by any enterprise and for a Strategic Development Project, which invests USD 50 mn or above in each stage on a project on or after 06 March 2019, during the project implementation or construction period of the said project but prior to commencement of commercial operations (Extraordinary Gazette Notification No. 2219/36).

## Special Commodity Levy (SCL)

SCL on the importation of several items was revised as follows:

Date	Item	Revision
13.01.2021	B'onions, Red and Yellow Lentils (whole and split), Beet and Cane Sugar, Sugar (containing added flavouring or colouring matter) and White Crystalline Cane and Beet Sugar	Imposition of SCL was extended for a period of three months (Extraordinary Gazette Notification No. 2210/16).
18.01.2021	Grated or powdered cheese, Seeds of coriander, Turmeric (neither crushed nor ground and other), Black Gram Flour	Imposition of SCL was extended for a period of six months (Extraordinary Gazette Notification No. 2211/8).
11.02.2021	Sprats	SCL was increased to Rs. 100 per kg from Rs. 1 per kg for a period of six months (Extraordinary Gazette Notification No. 2214/58).
	Dried Fish, Potatoes	SCL was decreased for a period of six months (Extraordinary Gazette Notification No. 2214/58).
03.03.2021	Mackerel, Jack and Horse mackerel, Black Gram, Cowpeas, Millet and Kurakkan	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2217/23).
13.04.2021	B'onions, Red and Yellow Lentils (whole and split), Beet and Cane Sugar, Sugar (containing added flavouring or colouring matter) and White Crystalline Cane and Beet Sugar	Imposition of SCL was extended for a period of six months (Extraordinary Gazette Notification No. 2223/2).
26.04.2021	Fish (fresh, chilled or frozen), Maldiv Fish, Green Gram (Moong), Mangoesteens (fresh and dried) and kiwifruit	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2225/1).
27.04.2021	Desiccated Coconuts	SCL of Rs. 300 per kg was imposed for a period of three months (Extraordinary Gazette Notification No. 2225/8).
	Potatoes	SCL was increased to Rs. 50 per kg from Rs. 15 per kg for a period of six months (Extraordinary Gazette Notification No. 2225/13).
17.05.2021	Yoghurt, Red Onions, Garlic, Peas (whole and split), Chickpeas (whole and split), Dates (fresh and dried), Oranges (fresh and dried), Lemons (fresh and dried), Grapes (fresh and dried), Apples, Quinces, Chillies (Dried, neither crushed), Chillies (Crushed or ground), Seeds of Cumin, Seeds of Fennel, Maize, Ground Nuts (shelled), Margarine, Canned Fish and Face Masks	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2228/3).
14.06.2021	Clementines (fresh and dried), Grapefruit, including pomelos (fresh and dried), Pears, Apricots, Sour cherries (Prunus cerasus), Cherries (other), Peaches (including nectarines), Plums and Sloes, Vegetable fats and oils and their fractions and Margarine (other)	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2232/3).

Date	Item	Revision
18.07.2021	Grated or powdered cheese, Seeds of coriander, Turmeric (neither crushed nor ground and other), Black Gram Flour	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2236/66).
10.08.2021	Sprats, Dried Fish. Butter, Dairy Spreads, Mathe Seed, Kurakkan Flour, Mustard Seeds and Salt	Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2240/20).
07.09.2021	B'onions	SCL was increased to Rs. 40 per kg from 25 Cents per kg for a period of six months (Extraordinary Gazette Notification No. 2244/8).
11.10.2021	Raw Rice (kakulu), Nadu Rice (red or white) and Samba Rice (red or white)	SCL of Rs. 65 per kg was imposed for a period of four months (Extraordinary Gazette Notification No. 2249/3).
13.10.2021	Potatoes, Red and Yellow Lentils (whole and split), Beet and Cane Sugar, Sugar (containing added flavouring or colouring matter) and White Crystalline Cane and Beet Sugar	Imposition of SCL was extended for a period of six months (Extraordinary Gazette Notification No. 2249/16).

## Ports and Airports Development Levy (PAL)

- 22 February 2021 - PAL on milk and cream, concentrated or containing added sugar or other sweetening matter (the products under HS codes 0402.10.00, 0402.21.00 & 0402.29.00) was reduced to 2.5% from 10% (Extraordinary Gazette Notification No. 2216/3).
- 09 March 2021 - Importation of project related capital goods by any enterprise, which has entered into an agreement with the Board of Investment of Sri Lanka, for the use in any project of such enterprise having a stage wise capital investment of not less than USD 50 mn during the project implementation or construction period and prior to the commencement of commercial operations except any project approved under the Commercial Hub Regulations and Strategic Development Project (SDP) Act, No. 14 of 2008, was exempted from PAL (Extraordinary Gazette Notification No. 2218/51).
- 19 March 2021 - Importation of furnace oil by the Ceylon Petroleum Corporation, specifically for the production of bitumen, on the recommendation of the Secretary to the Ministry in charge of the subject of Petroleum, subject to the approval of the Director General of Customs, was exempted from PAL (Extraordinary Gazette Notification No. 2219/68).
- 19 April 2021 - PAL rate of 7.5% on LP gas was revised as 7.5% on LP gas or Rs. 2,000 per Metric Tonne (MT) whichever is lower, until international LP gas prices reach USD 325 per MT (Extraordinary Gazette Notification No. 2224/8).
- 11 June 2021 - PAL on cocoa beans, whole or broken, raw or roasted was reduced to 5% from 10% (Extraordinary Gazette Notification No. 2231/19).
- 11 August 2021 - Milk and cream, concentrated or containing added sugar or other sweetening matter (the products under HS codes 0402.10.00, 0402.21.00 & 0402.29.00) were exempted from PAL (Extraordinary Gazette Notification No. 2240/21).

## Other Taxes and Levies

- 05 January 2021 - A motor vehicle imported by a Member of Parliament of the 8<sup>th</sup> Parliament under a permit issued by the Secretary of line Ministry of the subject of Parliament Affairs was exempted from Luxury Tax (Extraordinary Gazette Notification No. 2209/23).
- 09 February 2021 - Levy on teledramas, films and commercials on the telecast of foreign teledramas and films was re-imposed (Extraordinary Gazette Notification No. 2214/25).
- 10 May 2021 - Levy payable in respect of commercials under Teledrama, Film and Commercial Levy was revised as follows (Extraordinary Gazette Notification No. 2227/2):

Duration	Prevailed Tax w.e.f. 08.11.2017 (Rs.)	Revised Tax w.e.f. 11.05.2021 (Rs.)
For any number of telecasts by any licensed institution made during,		
• a period of 30 days from the date of Certificate of Clearance	-	100,000
• a period of 183 days from the date of Certificate of Clearance	500,000	500,000
• a period of 365 days from the date of Certificate of Clearance	1,000,000	1,000,000

- 15 September 2021 - The Finance Act, No. 18 of 2021 was enacted allowing for persons to voluntarily disclose their undisclosed taxable supplies, income and assets which are required to be disclosed under certain laws and to impose a tax on voluntary disclosure of such taxable supplies, income and assets.

## Other

- 05 January 2021 - Set up a dedicated pharmaceutical manufacturing zone in Arabokka, Hambantota (Extraordinary Gazette Notification No. 2209/22).
- 05 March 2021 - Published relevant information of the establishment of "Ceylon Tyre Manufacturing Company (Pvt) Ltd" (Extraordinary Gazette Notification No. 2217/40).
- 23 March 2021 - Published relevant information of the Colombo International Financial Centre (CIFC) Mixed Development Project (Extraordinary Gazette Notification No. 2220/30).
- 19 April 2021 - Declared the infrastructure requirement and granting incentives for each enterprise of the dedicated pharmaceutical manufacturing zone (Extraordinary Gazette Notification No. 2224/2).
- 20 April 2021 - Declared the infrastructure requirement and granting incentives for each enterprise of the dedicated textile manufacturing zone (Extraordinary Gazette Notification No. 2224/9).
- 21 May 2021 - Circular No. 01 of 2021 on "Consolidated Operating Instructions (COI) on Market Operations" was issued to Participatory Institutions on matters relating to Open Market Operations (OMO) and Standing Facilities.
- 24 May 2021 - Extended the time granted to implement the "Welcomhotels Lanka (Pvt) Ltd" project for a further period of 18 months from 01 January 2022 (Extraordinary Gazette Notification No. 2229/2).

- Extended the time granted to implement the “AVIC International Hotels Lanka Ltd” project for a further period of 19 months from 25 March 2020 (Extraordinary Gazette Notification No. 2229/3).
- 27 May 2021 - Colombo Port City Economic Commission Act, No. 11 of 2021 was approved by the Parliament to establish the Colombo Port City Special Economic Zone and the Colombo Port City Economic Commission.
- 06 September 2021 - Extended the time granted to implement the “Waterfront Properties (Pvt) Ltd” project for a further period of 14 months and 20 days from 12 October 2021 (Extraordinary Gazette Notification No. 2244/3).

## Government Expenditure

- 23 June 2021 - A supplementary allocation of Rs. 200 bn was approved by the Parliament (No. 80 Order Paper of the Parliament).
- 05 August 2021 - A supplementary allocation of Rs. 11.8 bn was approved by the Parliament (No. 89 Order Paper of the Parliament).
- 13 August 2021 - A special law warrant of Rs. 19 bn was approved by the Minister of Finance.
- 16 August 2021 - National Minimum Wage of Workers Act, No. 3 of 2016 was amended by the National Minimum Wage of Workers (Amendment) Act, No. 16 of 2021, to increase the national minimum monthly wage for all workers in any industry or service to Rs. 12,500 from Rs. 10,000 and to increase the national minimum daily wage of a worker to Rs. 500 from Rs. 400.
- 07 October 2021 - The Appropriation Bill for 2022 was presented to the Parliament.
- An appropriation (amendment) bill was submitted to the Parliament to revise the borrowing limit of Rs. 2,997 bn approved by the Appropriation Act No. 7 of 2020, to Rs. 3,397 bn by Rs. 400 bn.

## Debt Management

- 26 January 2021 - Measures were taken to facilitate direct placements of SLDBs for banks through collateralised funding arrangements and/or sourcing of foreign currency positions to facilitate the foreign currency funding requirements of the General Treasury until the market conditions return to normalcy and it is conducive for the Government to raise funds in the international capital markets.
- 03 February 2021 - Measures were taken to publish the maximum yield rate for acceptance only for 364-day maturity and accommodating acceptance for 91-day and 182-day maturities within the announced yield rate for 364-day maturity at the Treasury bill auctions, while continuing to publish the maximum yield rate for acceptance for all Treasury bond maturities.
- 26 March 2021 - Measures were taken to record all secondary market trades of Government Securities on the trade date with a view to enhancing and strengthening the secondary market trading practices, improving the reliability of trading, and increasing investor safety and confidence. Accordingly, all participants to the Lanka Settle System were required to report all trades to the Central Bank effective from 01 April 2021.



- |                   |   |
|-------------------|---|
| 24 May 2021       | - Measures were taken to withhold and rollover Rs. 5.0 bn or 50%, whichever is higher, of the weekly maturing Central bank holdings or Treasury bills, and to offer the adjusted requirement to the market.   |
| 07 June 2021      | - Measures were taken to encourage the private sector to pursue avenues to raise offshore funding leveraging on its strengths and facilitate such funds in SLDBs, to hedge the foreign exchange risk of offshore borrowing.   |
| 09 June 2021      | - Measures were taken to facilitate LCBs and NSB to invest funds sourced externally in USD denominated ISBs and SLDBs, equally splitting such investments into both ISBs and SLDBs, to encourage investment opportunities in the country and to further enhance foreign currency inflows.                                       |
| 14 June 2021      | - Fiscal Management (Responsibility) Act, No. 3 of 2003 was amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 12 of 2021 to shift the debt to GDP target to 2030 from 2020, and to increase the limit on guarantees issued by the Government to 15% from 10%.  |
| 23 June 2021      | - A resolution to increase the limit on Treasury bills to Rs. 3,000 bn from the previous limit of Rs. 2,000 bn was approved by the Parliament. (No. 80 Order Paper of the Parliament).  |
| 08 July 2021      | - Measures were taken to permit companies incorporated in Sri Lanka to invest in ISBs utilising 50% of the foreign currency borrowed from a person resident outside Sri Lanka while the balance 50% of such borrowed funds to be invested in SLDBs.   |
| 22 September 2021 | - Measures were taken to halt the publication of maximum acceptance yield rate for 364-day maturity at Treasury bill auctions with effect from the Treasury bill auction held on 22 September 2021.   |
| 23 September 2021 | - Minimum acceptance at Phase I to execute Phase III of the web based Treasury bond issuance system was increased up to 80% from the offered amount at Phase I. Further, execution of Phase III of Treasury bond issuance process was limited to Treasury bond maturities, of which the remaining maturity is 5 years or below. |



The image features a solid teal background. A large, white, curved shape, resembling a thick arc or a partial circle, starts from the left edge and curves upwards and to the right, creating a large white space on the right side of the image.

## *Statistical Appendix*

## Statistical Appendix

### Definitions and Explanatory Notes

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. The following symbols have been used throughout:-

...	=	negligible
-	=	nil / not available / not compiled
n.e.s.	=	not elsewhere specified

TABLE 1

## Gross Domestic Product by Industrial Origin at Current Market Prices (a)

Rs. mn

ECONOMIC ACTIVITY	2018 (b)	2019 (b)(c)	2020 (c)	2021 First Half (c)	% Change		
					2018/19 (b)(c)	2019/20 (c)	2020/21 First Half (c)
<b>Agriculture, Forestry and Fishing</b>	<b>1,146,672</b>	<b>1,132,065</b>	<b>1,251,921</b>	<b>659,919</b>	<b>-1.3</b>	<b>10.6</b>	<b>18.5</b>
1. Growing of cereals (except rice)	19,551	19,616	37,501	26,325	0.3	91.2	74.7
2. Growing of rice	140,057	136,071	168,512	66,296	-2.8	23.8	18.2
3. Growing of vegetables	103,590	100,535	133,317	71,821	-2.9	32.6	8.9
4. Growing of sugar cane, tobacco and other non-perennial crops	3,378	3,473	4,567	2,421	2.8	31.5	2.2
5. Growing of fruits	98,811	109,541	116,135	63,360	10.9	6.0	12.4
6. Growing of oleaginous fruits (coconut, king coconut, oil palm)	110,736	81,481	109,612	77,034	-26.4	34.5	61.7
7. Growing of tea (green leaves)	109,175	99,341	108,544	62,262	-9.0	9.3	22.5
8. Growing of other beverage crops (coffee, cocoa etc.)	3,285	2,121	3,864	2,617	-35.4	82.2	50.2
9. Growing of spices, aromatic, drug and pharmaceutical crops	87,443	84,718	94,892	58,572	-3.1	12.0	23.9
10. Growing of rubber	23,134	15,772	17,422	15,174	-31.8	10.5	88.9
11. Growing of other perennial crops	24,323	27,556	32,545	14,921	13.3	18.1	5.8
12. Animal production	123,174	134,295	139,961	73,640	9.0	4.2	25.5
13. Plant propagation and support activities to agriculture	13,963	13,356	13,178	7,093	-4.3	-1.3	9.2
14. Forestry and logging	106,736	107,202	105,760	38,979	0.4	-1.3	-8.4
15. Marine fishing and marine aquaculture	152,549	169,976	135,409	64,955	11.4	-20.3	-7.5
16. Fresh water fishing and fresh water aquaculture	26,766	27,013	30,702	14,449	0.9	13.7	6.2
<b>Industries</b>	<b>3,752,368</b>	<b>4,114,102</b>	<b>3,930,042</b>	<b>2,197,372</b>	<b>9.6</b>	<b>-4.5</b>	<b>21.0</b>
17. Mining and quarrying	350,649	374,931	329,334	172,507	6.9	-12.2	15.9
18. Manufacture of food, beverages & tobacco products	898,826	897,829	945,658	524,826	-0.1	5.3	11.6
19. Manufacture of textiles, wearing apparel and leather related products	656,612	727,383	686,347	441,301	10.8	-5.6	41.1
20. Manufacture of wood and of products of wood and cork, except furniture	28,381	27,699	25,794	13,479	-2.4	-6.9	17.8
21. Manufacture of paper products, printing and reproduction of media products	53,117	63,176	58,876	35,884	18.9	-6.8	21.1
22. Manufacture of coke and refined petroleum products	45,277	83,917	63,060	40,740	85.3	-24.9	14.8
23. Manufacture of chemical products and basic pharmaceutical products	74,163	115,077	114,430	64,441	55.2	-0.6	19.8
24. Manufacture of rubber and plastic products	91,498	101,898	95,989	56,499	11.4	-5.8	65.6
25. Manufacture of other non-metallic mineral products	128,271	166,363	155,581	92,149	29.7	-6.5	29.5
26. Manufacture of basic metals and fabricated metal products	58,770	68,917	66,775	40,910	17.3	-3.1	38.7
27. Manufacture of machinery and equipment	61,387	73,356	78,934	38,889	19.5	7.6	29.1
28. Manufacture of furniture	52,007	65,298	64,850	42,245	25.6	-0.7	31.9
29. Other manufacturing, and repair and installation of machinery and equipment	56,969	65,924	70,080	44,769	15.7	6.3	40.5
30. Electricity, gas, steam and air conditioning supply	106,774	118,653	116,710	57,691	11.1	-1.6	3.4
31. Water collection, treatment and supply	19,078	19,675	19,288	9,042	3.1	-2.0	-5.1
32. Sewerage, waste, treatment and disposal activities	20,163	22,346	22,566	10,839	10.8	1.0	-3.2
33. Construction	1,050,428	1,121,659	1,015,772	511,161	6.8	-9.4	14.1
<b>Services</b>	<b>8,191,090</b>	<b>8,723,236</b>	<b>8,933,737</b>	<b>4,495,145</b>	<b>6.5</b>	<b>2.4</b>	<b>9.1</b>
34. Wholesale and retail trade	1,533,760	1,647,971	1,747,637	955,834	7.4	6.0	5.2
35. Transportation of goods and passengers including warehousing	1,632,761	1,715,466	1,616,861	681,892	5.1	-5.7	8.5
36. Postal and courier activities	5,162	5,589	5,761	3,024	8.3	3.1	4.8
37. Accommodation, food and beverage service activities	228,259	227,231	143,839	71,981	-0.5	-36.7	-10.1
38. Programming and broadcasting activities and audio video productions	4,062	4,099	4,036	2,121	0.9	-1.5	4.6
39. Telecommunication	76,271	89,158	98,885	56,885	16.9	10.9	17.9
40. IT programming consultancy and related activities	22,216	26,215	30,147	17,692	18.0	15.0	24.9
41. Financial service activities and auxiliary financial services	575,756	622,398	721,891	458,577	8.1	16.0	41.0
42. Insurance, reinsurance and pension funding	141,637	166,314	206,288	101,540	17.4	24.0	1.3
43. Real estate activities, including ownership of dwelling	834,398	891,455	920,882	468,290	6.8	3.3	8.7
44. Professional services	244,015	260,735	265,223	133,038	6.9	1.7	7.3
45. Public administration and defense; compulsory social security	920,922	897,143	945,576	462,697	-2.6	5.4	6.6
46. Education	281,628	336,126	371,356	182,900	19.4	10.5	10.4
47. Human health activities, residential care and social work activities	306,853	358,947	413,482	214,468	17.0	15.2	6.9
48. Other personal service activities	1,383,391	1,474,390	1,441,873	684,208	6.6	-2.2	4.4
<b>Equals Gross Value Added (GVA), at Basic Price</b>	<b>13,090,131</b>	<b>13,969,403</b>	<b>14,115,701</b>	<b>7,352,437</b>	<b>6.7</b>	<b>1.0</b>	<b>13.2</b>
(+) Taxes less subsidies on products	1,200,776	1,043,551	857,294	447,822	-13.1	-17.8	24.7
<b>Equals Gross Domestic Product (GDP), at Market Price</b>	<b>14,290,907</b>	<b>15,012,953</b>	<b>14,972,995</b>	<b>7,800,259</b>	<b>5.1</b>	<b>-0.3</b>	<b>13.8</b>

(a) The data are based on the base year 2010 GDP estimates

(b) Revised

(c) Provisional

Source: Department of Census and Statistics

**TABLE 2**
**Gross Domestic Product by Industrial Origin at Constant (2010) Prices (a)**

Rs. mn

ECONOMIC ACTIVITY	2018 (b)	2019 (b)(c)	2020 (c)	2021 First Half (c)	% Change		
					2018/19 (b)(c)	2019/20 (c)	2020/21 First Half (c)
<b>Agriculture, Forestry and Fishing</b>	<b>679,702</b>	<b>686,412</b>	<b>669,802</b>	<b>327,846</b>	<b>1.0</b>	<b>-2.4</b>	<b>7.1</b>
1. Growing of cereals (except rice)	11,829	10,582	14,957	8,316	-10.5	41.3	21.0
2. Growing of rice	70,380	74,169	78,417	26,371	5.4	5.7	-5.6
3. Growing of vegetables	55,230	53,248	58,606	29,248	-3.6	10.1	4.2
4. Growing of sugar cane, tobacco and other non-perennial crops	1,820	2,000	2,339	1,259	9.9	17.0	2.8
5. Growing of fruits	55,654	60,399	64,156	32,304	8.5	6.2	6.7
6. Growing of oleaginous fruits (coconut, king coconut, oil palm)	57,577	67,742	60,804	32,461	17.7	-10.2	10.2
7. Growing of tea (green leaves)	67,170	66,329	61,621	35,610	-1.3	-7.1	23.5
8. Growing of other beverage crops (coffee, cocoa etc.)	1,592	1,181	1,437	708	-25.8	21.6	-1.5
9. Growing of spices, aromatic, drug and pharmaceutical crops	66,914	66,223	68,437	35,188	-1.0	3.3	4.8
10. Growing of rubber	25,158	22,779	23,831	13,257	-9.5	4.6	15.8
11. Growing of other perennial crops	16,303	16,380	16,681	8,009	0.5	1.8	-1.6
12. Animal production	63,418	64,744	61,566	30,602	2.1	-4.9	11.1
13. Plant propagation and support activities to agriculture	9,258	8,404	8,363	4,602	-9.2	-0.5	11.6
14. Forestry and logging	58,920	58,846	54,066	23,489	-0.1	-8.1	4.9
15. Marine fishing and marine aquaculture	102,175	96,589	75,593	37,611	-5.5	-21.7	-0.9
16. Fresh water fishing and fresh water aquaculture	16,304	16,797	18,930	8,810	3.0	12.7	16.1
<b>Industries</b>	<b>2,541,186</b>	<b>2,608,211</b>	<b>2,427,844</b>	<b>1,262,468</b>	<b>2.6</b>	<b>-6.9</b>	<b>12.1</b>
17. Mining and quarrying	225,505	231,893	202,873	99,995	2.8	-12.5	9.9
18. Manufacture of food, beverages & tobacco products	559,356	574,888	599,902	307,491	2.8	4.4	5.7
19. Manufacture of textiles, wearing apparel and leather related products	324,565	326,803	287,844	165,915	0.7	-11.9	22.0
20. Manufacture of wood and of products of wood and cork, except furniture	34,233	31,178	28,725	14,820	-8.9	-7.9	15.3
21. Manufacture of paper products, printing and reproduction of media products	32,884	30,803	30,094	17,989	-6.3	-2.3	17.0
22. Manufacture of coke and refined petroleum products	27,312	33,694	30,026	10,988	23.4	-10.9	-29.0
23. Manufacture of chemical products and basic pharmaceutical products	97,851	100,511	101,312	53,848	2.7	0.8	16.3
24. Manufacture of rubber and plastic products	85,933	83,009	68,334	35,424	-3.4	-17.7	44.3
25. Manufacture of other non-metallic mineral products	81,764	85,341	81,844	46,312	4.4	-4.1	26.6
26. Manufacture of basic metals and fabricated metal products	48,491	46,328	45,017	25,245	-4.5	-2.8	19.2
27. Manufacture of machinery and equipment	51,697	52,578	51,285	24,441	1.7	-2.5	20.0
28. Manufacture of furniture	92,997	100,797	87,299	55,957	8.4	-13.4	24.9
29. Other manufacturing, and repair and installation of machinery and equipment	76,589	75,040	69,623	35,289	-2.0	-7.2	11.2
30. Electricity, gas, steam and air conditioning supply	100,382	104,437	102,758	53,719	4.0	-1.6	7.5
31. Water collection, treatment and supply	14,351	15,139	15,866	8,132	5.5	4.8	3.4
32. Sewerage, waste, treatment and disposal activities	30,207	32,403	32,078	15,225	7.3	-1.0	-5.7
33. Construction	657,070	683,371	592,963	291,677	4.0	-13.2	9.9
<b>Services</b>	<b>5,555,325</b>	<b>5,678,485</b>	<b>5,595,469</b>	<b>2,715,766</b>	<b>2.2</b>	<b>-1.5</b>	<b>5.1</b>
34. Wholesale and retail trade	1,040,360	1,071,847	1,086,937	580,605	3.0	1.4	2.3
35. Transportation of goods and passengers including warehousing	1,034,755	1,048,825	978,455	397,172	1.4	-6.7	8.1
36. Postal and courier activities	4,485	4,752	4,975	2,422	5.9	4.7	4.0
37. Accommodation, food and beverage service activities	154,794	147,671	89,452	43,438	-4.6	-39.4	-13.4
38. Programming and broadcasting activities and audio video productions	2,519	2,639	2,702	1,384	4.8	2.4	3.5
39. Telecommunication	45,830	53,695	61,990	36,788	17.2	15.4	19.3
40. IT programming consultancy and related activities	15,072	17,044	18,752	10,659	13.1	10.0	19.9
41. Financial service activities and auxiliary financial services	687,918	701,891	778,258	431,359	2.0	10.9	13.8
42. Insurance, reinsurance and pension funding	112,515	117,446	118,134	45,016	4.4	0.6	12.9
43. Real estate activities, including ownership of dwelling	566,078	579,601	572,799	282,797	2.4	-1.2	4.6
44. Professional services	165,550	169,523	164,949	80,286	2.4	-2.7	3.2
45. Public administration and defense; compulsory social security	428,022	437,065	443,960	205,119	2.1	1.6	1.2
46. Education	179,524	185,116	186,712	92,262	3.1	0.9	0.9
47. Human health activities, residential care and social work activities	179,356	182,777	190,706	88,404	1.9	4.3	3.6
48. Other personal service activities	938,547	958,592	896,688	418,056	2.1	-6.5	2.2
<b>Equals Gross Value Added (GVA), at Basic Price</b>	<b>8,776,212</b>	<b>8,973,108</b>	<b>8,693,114</b>	<b>4,306,080</b>	<b>2.2</b>	<b>-3.1</b>	<b>7.2</b>
(+) Taxes less subsidies on products	889,166	910,242	837,491	257,894	2.4	-8.0	22.0
<b>Equals Gross Domestic Product (GDP), at Market Price</b>	<b>9,665,379</b>	<b>9,883,350</b>	<b>9,530,606</b>	<b>4,563,974</b>	<b>2.3</b>	<b>-3.6</b>	<b>8.0</b>

(a) The data are based on the base year 2010 GDP estimates

Source: Department of Census and Statistics

(b) Revised

(c) Provisional



**TABLE 3**  
**Trends in Principal Agricultural Crops**

CATEGORY	Unit	2017	2018	2019 (a)	2020 (b)	First Half	
						2020 (b)	2021 (b)
1. Tea							
1.1 Production	kg mn	307	304	300	279	130	162
1.2 Extent (c)	hectares '000	201	200	200	200	200	-
1.3 Average Price							
Colombo Auction	Rs./kg	620.44	581.58	546.67	633.85	635.03	629.70
Export (F.O.B.)	Rs./kg	807.44	820.75	822.25	866.70	854.92	933.18
2. Rubber							
2.1 Production	kg mn	83	83	75	78	38	44
2.2 Extent	hectares '000	137	137	138	138	138	-
2.3 Average Price							
Colombo Auction (RSS 1)	Rs./kg	336.72	281.36	288.51	351.46	309.24	446.31
Export (F.O.B.)	Rs./kg	343.56	363.93	332.29	353.84	360.68	495.09
3. Coconut							
3.1 Production	nuts mn	2,450	2,623	3,086	2,792	1,350	1,491
3.2 Extent	hectares '000	452	499	503	506	504	504
3.3 Average Export Price (F.O.B.) (d)	Rs./nut	62.03	68.29	37.47	52.61	47.67	65.86
4. Paddy (e)							
4.1 Production	mt '000	2,383	3,930	4,592	5,121	3,197	3,061
Maha	mt '000	1,474	2,397	3,073	3,197	3,197	3,061
Yala	mt '000	909	1,533	1,519	1,924	-	-
4.2 Area							
Sown	hectares '000	792	1,041	1,117	1,208	752	770
Harvested	hectares '000	555	885	958	1,066	663	682
4.3 Fertiliser Issued (f)	mt '000	-	111	299	353	193	251
4.4 Yield Per Hectare (g)	kg/hectare	4,297	4,443	4,795	4,802	4,821	4,492

(F.O.B. = Freight on Board)

(a) Revised

(b) Provisional

(c) Revised based on statistical information on plantation crops published by the Ministry of Plantation

(d) Three major coconut kernel products only

(e) On a cultivation year basis (Maha harvesting falls in the first half of the year)

(f) From 2016 Yala season, a direct cash grant was provided, replacing the fertiliser subsidy scheme. Accordingly, Rs. 10,304 million was disbursed for 2017. Further, Rs. 8,002 million was disbursed for the 2017/18 Maha season. Direct cash grant system was abolished from 2018 Yala season and the fertiliser issued figure for 2018 is only for 2018 Yala season.

(g) Yield per hectare is calculated by dividing total production by net extent harvested

Sources: Sri Lanka Tea Board

Rubber Development Department

Coconut Cultivation Board

Coconut Development Authority

Ministry of Plantation

Department of Census and Statistics

National Fertiliser Secretariat

Sri Lanka Customs

Central Bank of Sri Lanka

**TABLE 4**  
**Foreign Direct Investment of BOI Enterprises by Sector (a)**

USD mn

SECTOR	2017	2018	2019	2020 (b)	First Half	
					2020 (b)	2021 (b)
<b>Manufacturing</b>						
Food, Beverages and Tobacco Products	62.6	22.3	26.1	6.6	3.4	5.3
Textile, Wearing Apparel and Leather Products	78.2	90.6	104.9	78.1	42.1	49.1
Wood and Wood Products	2.3	4.9	7.2	9.0	6.9	8.2
Paper, Paper Products, Printing and Publishing	7.9	9.0	1.3	1.2	0.7	0.6
Chemicals, Petroleum, Coal, Rubber and Plastic Products	105.0	97.3	108.4	61.2	32.1	24.8
Non-metallic Mineral Products	28.1	21.0	7.5	2.6	0.5	2.6
Fabricated Metal, Machinery and Transport Equipment	9.0	7.8	9.5	3.4	1.7	2.3
Manufactured Products Not Elsewhere Specified	54.5	38.6	54.6	29.7	20.7	9.7
<b>Agriculture</b>	1.4	0.5	1.3	0.8	0.5	0.1
<b>Services</b>						
Hotels and Restaurants	252.6	223.4	153.9	66.0	36.7	40.8
Information Technology and Business Process Outsourcing	25.0	58.7	40.0	26.4	16.3	15.9
Other Services	40.1	19.2	30.3	18.6	3.5	3.2
<b>Infrastructure</b>						
Housing, Property Development and Shop Office	540.6	397.8	455.3	256.1	135.4	108.5
Telephone and Telecommunication Network	209.0	522.2	138.1	117.6	44.3	114.5
Power Generation, Fuel, Gas, Petroleum and Other	1.1	3.7	3.1	1.5	0.9	0.4
Port Container Terminals	292.8	850.0	47.2	8.2	5.4	3.1
<b>Total</b>	<b>1,710.3</b>	<b>2,366.9</b>	<b>1,188.7</b>	<b>687.0</b>	<b>351.2</b>	<b>389.0</b>

(a) Includes loans, excludes inflows to non-BOI companies and direct investment in listed companies in the CSE not registered with the BOI.

Source: Board of Investment of Sri Lanka

(b) Provisional

**TABLE 5**  
**Developments in Economic Infrastructure**

SECTOR	2017	2018	2019 (a)	2020 (b)	2020 (b) For the Period	2021 (b) For the Period
<b>1. Electricity</b>					<b>Jan-Aug</b>	<b>Jan-Aug</b>
Installed Capacity (MW - End Period)	4,138 (a)	4,046 (a)	4,217	4,263	4,275	4,124
Total Power Generation (GWh)(c)	14,671	15,286 (a)	15,922	15,714	10,406	10,946
Share of Hydropower in Total Generation (%) (d)	21	34	24	25	22	29
<b>2. Transport</b>					<b>Jan-Jun</b>	<b>Jan-Jun</b>
<b>2.1 Sri Lanka Transport Board</b>						
Operated Kilometrage (mn)	448	446	431	309	137	136
Passenger Kilometrage (mn)	15,810	15,541	12,012	9,725	4,324	4,345
Average No. of Operated Buses	5,266	5,227	5,079	4,045	3,618	3,591
Total Revenue (Rs. mn)	42,163	44,103	43,490	31,233	15,006	13,080
Operating Expenditure (Rs. mn)	40,081	41,935	41,934	33,565	15,165	15,615
Operating Profit/(Loss) (Rs. mn)	2,081	2,168	1,556	-2,331	-158	-2,534
<b>2.2 Sri Lanka Railways</b>						
Operated Kilometrage ('000)	11,679	11,640	11,700	7,990	3,740	2,430
Passenger Kilometrage (mn)	7,495	7,710	7,310	3,906	1,980	1,211
Freight Tonne Kilometrage (mn)	145	120	116	114	42	57
Total Revenue (Rs. mn)	6,477	7,413	7,901	4,567	2,230	1,607
Operating Expenditure (Rs. mn)	14,081	14,381	15,464	14,618	6,728	7,797
Operating Profit/(Loss) (Rs. mn)	-7,604	-6,968	-7,562	-10,051	-4,498	-6,189
<b>2.3 New Registration of Motor Vehicles</b>					<b>Jan-Sep</b>	<b>Jan-Sep</b>
Buses	3,331	2,957	1,613	578	507	237
Motor Cars	39,182	80,776	38,232	21,021	20,048	2,905
Three Wheelers	23,537	20,063	15,490	7,150	7,040	2,080
Dual Purpose Vehicles	16,742	16,931	13,459	9,532	9,092	594
Motor Cycles	344,380	339,763	284,301	151,634	144,399	6,031
Goods Transport Vehicles	11,432	9,371	5,223	3,941	3,102	3,241
Land Vehicles	13,049	10,282	7,666	8,302	5,790	10,415
Quadricycles and Motorhomes	-	656	1,319	470	464	2
Total Vehicles Registered	451,653	480,799	367,303	202,628	190,442	25,505
<b>3. Port Services</b>					<b>Jan-Sep</b>	<b>Jan-Sep</b>
Ships Arrived at Ports of Sri Lanka (e)	4,879	4,874	4,707	4,337	3,321	3,146
Cargo Handling (mt '000) (e)	93,857	104,935	106,979	102,908	76,675	82,267
Container Handling (TEUs '000) (f)	6,209	7,047	7,228	6,855	5,190	5,370
Transshipments (TEUs '000) (f)(g)	4,826	5,704	5,955	5,765	4,384	4,475
<b>4. Telecommunication Services</b>					<b>End June</b>	<b>End June</b>
Fixed Lines (No.)	2,603,178	2,484,616	2,299,767	2,613,140	2,328,082	2,870,036
Mobile Phones (No.)	28,199,083	32,528,104	32,884,099	28,739,277	27,678,977	29,048,708
Internet Connections (No.)	6,747,154	10,562,675	13,408,403	17,524,048	13,295,306	20,628,897
Fixed Line Penetration (h)	12	11	11	12	11	13
Mobile Phone Penetration (h)	132	150	151	131	126	131

(TEUs= Twenty-foot Equivalent Container Units)

(a) Revised

(b) Provisional

(c) Data from 2018 onwards include rooftop solar power

(d) Excludes mini hydropower

(e) Includes data only for the port of Colombo

(f) Includes data only for the ports of Colombo, Galle, Hambantota and Trincomalee

(g) Includes re-stowing

(h) Connections per 100 persons

Note: Total Phone Penetration = Fixed Line Penetration + Mobile Phone Penetration

Sources: Ceylon Electricity Board

Sri Lanka Transport Board

Sri Lanka Railways

Department of Motor Traffic

Sri Lanka Ports Authority

Telecommunications Regulatory Commission of Sri Lanka

Department of Census and Statistics

Central Bank of Sri Lanka

**TABLE 6**  
**Consumer Price Indices - National Consumer Price Index**

2013 = 100

PERIOD		Index		y-o-y Change (%)		Annual Average Change (%)	
		NCPI	Core NCPI	NCPI	Core NCPI	NCPI	Core NCPI
2017	December	126.6	123.8	7.3	2.7	7.7	4.9
2018	December	127.1	127.6	0.4	3.1	2.1	2.4
2019	December	135.0	134.2	6.2	5.2	3.5	5.7
2020	January	137.0	135.3	7.6	3.9	4.1	5.6
	February	137.0	135.8	8.1	3.4	4.5	5.5
	March	135.2	136.0	7.0	3.2	4.9	5.2
	April	134.8	136.9	5.9	3.2	5.1	5.0
	May	135.4	137.9	5.2	3.7	5.2	4.8
	June	137.3	138.9	6.3	4.4	5.6	4.6
	July	137.3	139.4	6.1	4.5	5.9	4.5
	August	137.8	139.9	6.2	4.6	6.1	4.4
	September	138.9	140.4	6.4	4.8	6.2	4.3
	October	139.1	140.5	5.5	4.5	6.2	4.2
	November	139.8	140.6	5.2	4.5	6.3	4.2
	December	141.2	140.5	4.6	4.7	6.2	4.1
2021	January	142.1	141.0	3.7	4.2	5.8	4.2
	February	142.8	141.3	4.2	4.1	5.5	4.2
	March	142.1	141.8	5.1	4.3	5.3	4.3
	April	142.2	142.5	5.5	4.1	5.3	4.4
	May	143.6	143.7	6.1	4.2	5.4	4.4
	June	145.7	144.6	6.1	4.1	5.4	4.4
	July	146.6	145.6	6.8	4.4	5.4	4.4
	August	147.1	146.5	6.7	4.7	5.5	4.4
	September	147.5	147.2	6.2	4.8	5.5	4.4

NCPI - National Consumer Price Index

Source: Department of Census and Statistics

Core NCPI - Core National Consumer Price Index

**TABLE 7**  
**Consumer Price Indices - Colombo Consumer Price Index**

2013 = 100

PERIOD		Index		y-o-y Change (%)		Annual Average Change (%)	
		CCPI	Core CCPI	CCPI	Core CCPI	CCPI	Core CCPI
2017	December	122.9	124.9	7.1	4.3	6.6	5.9
2018	December	126.3	128.8	2.8	3.1	4.3	3.5
2019	December	132.4	135.0	4.8	4.8	4.3	5.5
2020	January	134.6	136.5	5.7	3.0	4.5	5.3
	February	134.6	136.9	6.2	3.2	4.6	5.1
	March	133.4	136.9	5.4	2.9	4.7	4.9
	April	133.6	137.2	5.2	3.1	4.8	4.7
	May	134.2	138.1	4.0	2.9	4.7	4.4
	June	135.3	138.6	3.9	3.1	4.7	4.2
	July	135.4	138.9	4.2	3.2	4.8	4.0
	August	135.4	138.9	4.1	3.2	4.8	3.8
	September	136.3	139.1	4.0	2.9	4.7	3.6
	October	136.5	139.2	4.0	3.0	4.6	3.4
	November	137.1	139.6	4.1	3.0	4.6	3.2
	December	138.0	139.7	4.2	3.5	4.6	3.1
2021	January	138.7	140.2	3.0	2.7	4.3	3.1
	February	139.1	140.4	3.3	2.6	4.1	3.0
	March	138.9	141.1	4.1	3.1	4.0	3.0
	April	138.8	141.3	3.9	3.0	3.9	3.0
	May	140.3	142.5	4.5	3.2	3.9	3.0
	June	142.4	143.1	5.2	3.2	4.1	3.0
	July	143.1	144.1	5.7	3.7	4.2	3.1
	August	143.5	144.6	6.0	4.1	4.3	3.2
	September	144.1	146.0	5.7	5.0	4.5	3.3

CCPI - Colombo Consumer Price Index

Source: Department of Census and Statistics

Core CCPI - Core Colombo Consumer Price Index

TABLE 8

## Wage Rate Indices

PERIOD		Index			y-o-y Change (%)			Annual Average Change (%)		
		Workers in Wage Boards (a)	Public Sector Employees (b)	Informal Private Sector Employees (c)	Workers in Wage Boards	Public Sector Employees	Informal Private Sector Employees	Workers in Wage Boards	Public Sector Employees	Informal Private Sector Employees
2017	December	4,129.0	100.0	160.2	0.0	0.0	11.9	0.0	0.0	9.5
2018	December	4,213.9	100.2	176.4	2.1	0.2	10.1	0.6	0.2	13.2
2019	December	4,281.5	108.4	184.6	1.6	8.2	4.6	2.9	4.7	6.2
2020	December	4,282.2	114.6	188.6	0.0	5.7	2.1	0.2	9.2	3.3
2021	January	4,282.4	114.6	189.9	0.0	0.0	5.0	0.0	8.1	3.5
	February	4,282.4	114.6	193.0	0.0	0.0	3.4	0.0	7.0	3.4
	March	8,020.7	114.6	195.1	87.3	0.0	4.5	7.3	5.9	3.3
	April	8,020.6	114.6	194.7	87.3	0.0	4.3	14.6	4.8	3.2
	May	8,020.7	114.6	195.5	87.3	0.0	7.2	21.8	3.8	3.6
	June	8,020.8	114.6	199.3	87.3	0.0	7.9	29.1	2.8	4.1
	July	8,021.0	114.6	199.6	87.3	0.0	7.1	36.4	2.3	4.4
	August	8,192.5	114.6	201.1	91.3	0.0	8.0	44.0	1.8	4.9

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

(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 DCS in November 2016.

(c) The index numbers are calculated using wages data of informal private sector collected through Country Wide Data Collection System. Base period employment structure was obtained from the Quarterly Labour Force Surveys conducted by the DCS in 2012.

Sources: Department of Labour  
Central Bank of Sri Lanka

**TABLE 9**
**Developments in External Trade based on Standard International Trade Classification (SITC) (a)**

USD mn

CATEGORY	2017	2018	2019	2020 (b)	2020 Jan-Aug (b)	2021 Jan-Aug (b)	y-o-y Change% Jan-Aug 2020/21
<b>EXPORTS</b>							
0. Food and live animals	2,730.4	2,633.2	2,541.9	2,409.3	1,582.3	1,795.6	13.5
1. Beverages and tobacco	140.9	164.8	162.3	116.6	74.0	89.9	21.5
2. Crude materials, inedible, except fuels	346.9	348.4	343.1	368.6	230.1	284.5	23.6
3. Mineral fuels, lubricants and related materials	434.3	622.1	521.1	373.6	268.1	294.9	10.0
4. Animal and vegetable oils, fats and waxes	94.9	88.8	73.9	96.6	56.1	83.0	48.1
5. Chemicals and related products, n.e.s.	197.2	214.6	223.5	224.0	140.4	187.8	33.8
6. Manufactured goods classified chiefly by material	1,417.5	1,599.2	1,627.9	1,344.0	868.8	1,095.4	26.1
7. Machinery and transport equipment	521.6	541.1	531.9	396.1	246.5	392.8	59.4
8. Miscellaneous manufactured articles	5,475.8	5,677.4	5,914.3	4,718.6	2,978.8	3,678.7	23.5
9. Commodities and transactions not classified elsewhere in SITC	0.8	...	...	0.1	0.01	0.3	5,829.1
<b>Total Exports</b>	<b>11,360.4</b>	<b>11,889.6</b>	<b>11,940.0</b>	<b>10,047.4</b>	<b>6,445.0</b>	<b>7,903.0</b>	<b>22.6</b>
<b>IMPORTS</b>							
0. Food and live animals	2,397.8	2,173.4	1,958.2	2,107.6	1,385.5	1,534.0	10.7
1. Beverages and tobacco	116.0	161.2	147.0	93.8	67.4	51.0	-24.3
2. Crude materials, inedible, except fuels	510.3	487.5	465.7	436.2	301.0	380.5	26.4
3. Mineral fuels, lubricants and related materials	3,427.9	4,151.9	3,891.6	2,542.6	1,691.2	2,395.9	41.7
4. Animal and vegetable oils, fats and waxes	187.7	184.6	111.2	195.4	111.2	211.3	90.1
5. Chemicals and related products, n.e.s.	2,079.0	2,372.4	2,210.5	2,192.4	1,330.4	1,860.4	39.8
6. Manufactured goods classified chiefly by material	5,767.2	5,896.2	5,828.8	4,474.3	2,750.0	3,787.3	37.7
7. Machinery and transport equipment	4,585.6	5,232.7	4,292.3	3,204.4	2,105.0	2,563.1	21.8
8. Miscellaneous manufactured articles	1,227.0	1,111.7	1,011.8	790.2	505.7	619.3	22.5
9. Commodities and transactions not classified elsewhere in SITC	681.3	461.0	19.9	18.5	10.2	8.7	-14.1
<b>Total Imports</b>	<b>20,979.8</b>	<b>22,232.7</b>	<b>19,937.1</b>	<b>16,055.4</b>	<b>10,257.4</b>	<b>13,411.5</b>	<b>30.7</b>

(a) Data are compiled based on the latest version of SITC - Revision 4 published in 2006.

(b) Provisional

Sources: Sri Lanka Customs

Ceylon Petroleum Corporation

Lanka IOC PLC

Other Exporters of Petroleum

National Gem and Jewellery Authority

Central Bank of Sri Lanka



TABLE 10  
Balance of Payments (a)

USD mn

ITEM	2019 (b)	2020 (c)	First Half	
			2020 (c)	2021 (c)
<b>Current Account Balance</b>	<b>-1,843</b>	<b>-1,083</b>	<b>-1,054</b>	<b>-1,536</b>
<b>Trade Balance</b>	<b>-7,997</b>	<b>-6,008</b>	<b>-3,262</b>	<b>-4,316</b>
Exports	11,940	10,047	4,413	5,699
Imports	19,937	16,055	7,675	10,015
<b>Services (net)</b>	<b>2,849</b>	<b>819</b>	<b>729</b>	<b>549</b>
Receipts	7,474	3,035	2,036	1,372
Payments	4,625	2,216	1,307	823
<b>Primary Income (net)</b>	<b>-2,462</b>	<b>-2,101</b>	<b>-1,101</b>	<b>-957</b>
Receipts	252	198	111	69
Payments	2,713	2,300	1,212	1,026
<b>Secondary Income (net)</b>	<b>5,766</b>	<b>6,207</b>	<b>2,580</b>	<b>3,187</b>
Secondary Income: credit	6,726	7,117	2,987	3,327
Secondary Income: debit	960	910	407	140
<b>Capital Account (net)</b>	<b>23</b>	<b>28</b>	<b>16</b>	<b>11</b>
Capital Account: credit	51	51	29	25
Capital Account: debit	28	23	12	14
<b>Current and Capital Account (net)</b>	<b>-1,820</b>	<b>-1,055</b>	<b>-1,037</b>	<b>-1,525</b>
<b>Financial Account (net) (d)</b>	<b>-2,460</b>	<b>-260</b>	<b>-693</b>	<b>-1,920</b>
<b>Direct Investment: Assets</b>	<b>77</b>	<b>15</b>	<b>7</b>	<b>9</b>
<b>Direct Investment: Liabilities</b>	<b>743</b>	<b>434</b>	<b>242</b>	<b>302</b>
<b>Portfolio Investment: Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portfolio Investment: Liabilities</b>	<b>2,313</b>	<b>-2,383</b>	<b>-771</b>	<b>-84</b>
Equity and Investment Fund Shares	-4	-217	-103	-116
Debt Securities	2,317	-2,166	-669	32
<b>Financial Derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Investment: Assets</b>	<b>100</b>	<b>-136</b>	<b>-58</b>	<b>37</b>
Currency and Deposits	-93	64	22	-52
Trade Credit and Advances	-4	-224	-137	100
Other Accounts Receivable	196	24	58	-11
<b>Other Investment: Liabilities</b>	<b>-82</b>	<b>383</b>	<b>-344</b>	<b>167</b>
Currency and Deposits	167	-15	-636	-177
Loans	-245	327	723	-12
Trade Credits and Advances	-28	185	-248	238
Other Accounts Payable	24	-114	-183	118
Special Drawing Rights	-	-	-	-
<b>Reserve Assets</b>	<b>337</b>	<b>-1,704</b>	<b>-1,515</b>	<b>-1,581</b>
<b>Net Errors and Omissions</b>	<b>-640</b>	<b>795</b>	<b>344</b>	<b>-395</b>
<b>Overall Balance</b>	<b>377</b>	<b>-2,328</b>	<b>-760</b>	<b>-1,261</b>

(a) This presentation is a summary that conforms to the latest (sixth) edition of the 'Balance of Payments and International Investment Position' Manual (BPM6) of the International Monetary Fund.

Source: Central Bank of Sri Lanka

(b) Revised

(c) Provisional

(d) Assets - Liabilities

**TABLE 11**
**International Investment Position**

USD mn  
(End Period Position)

ITEM	2020 (a)		June 2021 (a)	
	Assets	Liabilities	Assets	Liabilities
<b>Direct Investment (b)</b>	<b>1,509</b>	<b>13,832</b>	<b>1,515</b>	<b>13,884</b>
Equity and Investment Fund Shares	1,473	8,831	1,477	8,735
Debt Instruments	36	5,001	38	5,148
<b>Portfolio Investment</b>	<b>0.1</b>	<b>8,420</b>	<b>0.1</b>	<b>9,688</b>
Equity and Investment Fund Shares		708		900
Debt Securities (c)	0.1	7,712	0.1	8,787
Deposit-taking Corporations	0.1		0.1	
General Government		7,616		8,669
Other Sectors		96		118
<b>Other Investment</b>	<b>3,710</b>	<b>36,499</b>	<b>3,747</b>	<b>36,503</b>
<b>Currency and Deposits</b>	<b>835</b>	<b>1,734</b>	<b>784</b>	<b>1,556</b>
Central Bank		400		0.9
Deposit-taking Corporations	835	1,333	784	1,555
<b>Loans</b>		<b>31,512</b>		<b>31,343</b>
Central Bank		1,378		1,316
Deposit-taking Corporations		5,324		4,956
General Government		20,570		21,001
Other Sectors (d)		4,240		4,071
<b>Trade Credit and Advances</b>	<b>954</b>	<b>2,341</b>	<b>1,054</b>	<b>2,579</b>
Deposit-taking Corporations	101		71	
Other Sectors (e)	853	2,341	983	2,579
<b>Other Accounts Receivable/Payable</b>	<b>1,920</b>	<b>343</b>	<b>1,909</b>	<b>461</b>
Central Bank (f)		343		461
Deposit-taking Corporations	1,920		1,909	
<b>Special Drawing Rights</b>		<b>570</b>		<b>564</b>
<b>Reserve Assets</b>	<b>5,664</b>		<b>4,060</b>	
Monetary Gold	409		381	
Special Drawing Rights	3		9	
Reserve Position in the IMF	69		68	
Other Reserve Assets	5,184		3,602	
Currency and Deposits	2,210		2,986	
Debt Securities	2,974		616	
<b>Total Assets / Liabilities</b>	<b>10,883</b>	<b>58,750</b>	<b>9,322</b>	<b>60,074</b>
<b>Net International Investment Position</b>		<b>-47,868</b>		<b>-50,752</b>
<b>IIP- Maturity-wise Breakdown</b>				
Short Term	6,184	8,902	7,143	9,297
Long Term	4,699	49,848	2,179	50,778

(a) Provisional

Source: Central Bank of Sri Lanka

(b) Include direct investment stock position of BOI, CSE and other private companies

(c) Foreign currency debt issuances are based on market values while domestic currency issuances are based on book values

(d) Include loans outstanding position of project loans obtained by State Owned Business Enterprises and private sector companies

(e) Include outstanding trade credit position of the Ceylon Petroleum Corporation and other private sector companies

(f) Outstanding position of ACU liabilities managed by the Central Bank

TABLE 12

## Outstanding External Debt Position

USD mn  
(End Period Position)

ITEM	2019 (a)	2020 (b)	June 2021 (b)
<b>General Government</b>	<b>34,249</b>	<b>28,187</b>	<b>29,670</b>
<b>Short Term</b>	<b>119</b>	<b>4</b>	<b>3</b>
Debt Securities (Treasury Bills) (c)	119	4	3
<b>Long Term</b>	<b>34,130</b>	<b>28,183</b>	<b>29,667</b>
Debt Securities	14,513	7,613	8,666
Treasury Bonds (c)	406	31	9
SLDBs (d)	5	27	27
International Sovereign Bonds (e)	14,102	7,555	8,630
Loans	19,617	20,570	21,001
<b>Central Bank</b>	<b>2,318</b>	<b>2,690</b>	<b>2,342</b>
<b>Short Term</b>	<b>456</b>	<b>343</b>	<b>462</b>
Currency and Deposits	0.3	0.3	0.9
Other Accounts Payable (ACU Liabilities)	456	343	461
<b>Long Term</b>	<b>1,862</b>	<b>2,348</b>	<b>1,880</b>
Special Drawing Rights Allocation	547	570	564
Currency and Deposits	-	400	-
Loans (IMF-EFF Facility)	1,315	1,378	1,316
<b>Deposit-taking Corporations</b>	<b>6,997</b>	<b>6,657</b>	<b>6,511</b>
<b>Short Term</b>	<b>5,519</b>	<b>5,507</b>	<b>5,353</b>
Currency and Deposits (f)	1,748	1,333	1,555
Loans	3,771	4,174	3,797
<b>Long Term</b>	<b>1,478</b>	<b>1,150</b>	<b>1,158</b>
Loans	1,478	1,150	1,158
<b>Other Sectors (g)</b>	<b>6,469</b>	<b>6,676</b>	<b>6,768</b>
<b>Short Term</b>	<b>2,156</b>	<b>2,341</b>	<b>2,579</b>
Trade Credit and Advances (h)	2,156	2,341	2,579
<b>Long Term</b>	<b>4,313</b>	<b>4,335</b>	<b>4,189</b>
Debt Securities (e)	174	96	118
Loans	4,139	4,240	4,071
Private Sector Corporations	2,235	2,458	2,365
State Owned Business Enterprises and Public Corporations	1,904	1,781	1,706
<b>Direct Investment: Intercompany Lending (i)</b>	<b>4,778</b>	<b>5,001</b>	<b>5,148</b>
<b>Gross External Debt Position</b>	<b>54,811</b>	<b>49,212</b>	<b>50,438</b>
<b>As a Percentage of GDP</b>			
Gross External Debt	65.3	60.7	60.4
Short Term Debt	9.8	10.1	10.0
Long Term Debt	55.5	50.6	50.3

(a) Revised

(b) Provisional

(c) Based on book value

(d) Based on face value

(e) Based on market prices. The face value of external debt of general government is reported in Table 5.4 of Chapter 5 of this Report, while the outstanding central government debt, reported in Table 6.4 of Chapter 6 of this Report, is based on the face value.

(f) Include deposits of non-resident foreign currency holders

(g) Include private sector and State Owned Business Enterprises

(h) Include trade credits outstanding of Ceylon Petroleum Corporation and private sector companies

(i) Include inter-company borrowings and shareholder advances on BOI registered companies

Source: Central Bank of Sri Lanka

**TABLE 13**
**Exchange Rate Movements (Rupees per Unit of Foreign Currency)**

PERIOD		End Period Rates					
		US Dollar	Pound Sterling	Euro	Japanese Yen	Indian Rupee	SDR (a)
2020	2016	149.8000	184.0443	157.8742	1.2867	2.2056	201.3810
	2017	152.8548	205.5362	182.4857	1.3559	2.3854	217.6860
	2018	182.7499	231.8639	208.9928	1.6547	2.6132	253.5110
	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
	January	181.5857	237.8682	200.2799	1.6648	2.5308	250.0344
	February	181.8071	234.3221	199.7878	1.6628	2.5373	249.6721
	March	188.6236	232.6672	207.9575	1.7381	2.5013	257.4335
	April	192.8500	240.1754	209.5508	1.8071	2.5567	264.0656
	May	186.2865	229.5515	206.5079	1.7343	2.4598	255.5888
	June	186.2292	229.1830	209.4054	1.7293	2.4674	256.1955
	July	185.6769	243.8309	220.7048	1.7815	2.4351	262.3745
	August	186.1578	248.4183	221.6674	1.7651	2.5461	264.1412
	September	185.5224	238.7302	217.9703	1.7553	2.5152	261.1358
	October	184.2769	239.4494	216.6451	1.7645	2.4825	260.1971
	November	184.9601	246.7090	221.4157	1.7806	2.5017	264.5096
	December	186.4082	254.3540	229.4219	1.8081	2.5467	268.4781
2021	January	194.3948	266.5444	235.3343	1.8609	2.6636	280.0840
	February	194.0119	274.3037	235.9476	1.8300	2.6827	280.6673
	March	199.0377	273.2290	233.0931	1.7987	2.6103	282.0782
	April	199.5437	278.3136	241.8270	1.8348	2.6929	286.5428
	May	199.5000	283.2800	243.3900	1.8194	2.7551	288.2117
	June	201.1381	278.7372	239.4851	1.8204	2.7071	286.9074
	July	199.9000	278.9505	237.5312	1.8257	2.6910	285.6111
	August	210.0000	289.0650	247.9470	1.9116	2.8606	299.0946
	September	199.9857	268.9608	232.1034	1.7884	2.6897	281.7539

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

Source: Central Bank of Sri Lanka

TABLE 14

## Government Fiscal Operations

ITEM	2017	2018	2019 (a)	2020 (b)	2020 Jan-July(b)(c)	2021 Jan-July (b)
Rs. mn						
<b>Total Revenue and Grants</b>	<b>1,839,562</b>	<b>1,932,459</b>	<b>1,898,808</b>	<b>1,373,308</b>	<b>765,393</b>	<b>799,806</b>
Total Revenue	1,831,531	1,919,973	1,890,899	1,367,960	763,246	798,908
Tax Revenue	1,670,178	1,712,318	1,734,925	1,216,542	670,410	716,704
Non Tax Revenue	161,353	207,656	155,974	151,417	92,836	82,204
Grants	8,031	12,486	7,909	5,348	2,147	898
<b>Expenditure and Net Lending</b>	<b>2,573,056</b>	<b>2,693,228</b>	<b>3,337,896</b>	<b>3,040,996</b>	<b>1,637,947</b>	<b>1,814,353</b>
Recurrent	1,927,693	2,089,713	2,424,582	2,548,359	1,457,727	1,578,030
Capital and Net Lending	645,363	603,515	913,314	492,638	180,220	236,323
of which Public Investment	657,386	624,970	631,235	811,773	192,328	242,703
<b>Current Account Balance</b>	<b>-96,162</b>	<b>-169,740</b>	<b>-533,683</b>	<b>-1,180,399</b>	<b>-694,481</b>	<b>-779,122</b>
<b>Primary Balance</b>	<b>2,071</b>	<b>91,421</b>	<b>-537,736</b>	<b>-687,386</b>	<b>-288,937</b>	<b>-377,195</b>
<b>Overall Fiscal Balance</b>	<b>-733,494</b>	<b>-760,769</b>	<b>-1,439,088</b>	<b>-1,667,688</b>	<b>-872,554</b>	<b>-1,014,547</b>
<b>Total Financing</b>	<b>733,494</b>	<b>760,769</b>	<b>1,439,088</b>	<b>1,667,688</b>	<b>872,554</b>	<b>1,014,547</b>
Foreign Financing	439,243	323,535	542,641	-83,199	-194,475	-190,072
Project Loans	779	7,672	-	-	-140,347	-86,008
Commercial Loans	381,200	456,921	-	-	29,204	-99,947
Non Resident Investment in Treasury Bills/Bonds	57,264	-141,058	-	-	-83,331	-4,117
Domestic Financing	294,251	437,234	896,448	1,750,887	1,067,028	1,204,619
Market Borrowings	249,574	329,351	-	-	1,038,496	1,209,672
Non Bank	61,841	219,885	-	-	171,490	277,150
Bank	187,733	109,466	-	-	867,006	932,522
Non Market Sources	44,677	107,883	-	-	28,532	-5,053
As a % of GDP (d)						
<b>Total Revenue and Grants</b>	<b>13.8</b>	<b>13.5</b>	<b>12.6</b>	<b>9.2</b>	<b>5.1</b>	<b>4.9</b>
Total Revenue	13.7	13.4	12.6	9.1	5.1	4.9
Tax Revenue	12.5	12.0	11.6	8.1	4.5	4.4
Non Tax Revenue	1.2	1.5	1.0	1.0	0.6	0.5
Grants	0.1	0.1	0.1	0.04	0.01	0.01
<b>Expenditure and Net Lending</b>	<b>19.3</b>	<b>18.8</b>	<b>22.2</b>	<b>20.3</b>	<b>10.9</b>	<b>11.0</b>
Recurrent	14.5	14.6	16.1	17.0	9.7	9.6
Capital and Net Lending	4.8	4.2	6.1	3.3	1.2	1.4
of which Public Investment	4.9	4.4	4.2	5.4	1.3	1.5
<b>Current Account Balance</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-3.6</b>	<b>-7.9</b>	<b>-4.6</b>	<b>-4.7</b>
<b>Primary Balance</b>	<b>0.02</b>	<b>0.6</b>	<b>-3.6</b>	<b>-4.6</b>	<b>-1.9</b>	<b>-2.3</b>
<b>Overall Fiscal Balance</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-9.6</b>	<b>-11.1</b>	<b>-5.8</b>	<b>-6.2</b>
<b>Total Financing</b>	<b>5.5</b>	<b>5.3</b>	<b>9.6</b>	<b>11.1</b>	<b>5.8</b>	<b>6.2</b>
Foreign Financing	3.3	2.3	3.6	-0.6	-1.3	-1.2
Project Loans	0.01	0.1	-	-	-0.9	-0.5
Commercial Loans	2.9	3.2	-	-	0.2	-0.6
Non Resident Investment in Treasury Bills/Bonds	0.4	-1.0	-	-	-0.6	-0.02
Domestic Financing	2.2	3.1	6.0	11.7	7.1	7.3
Market Borrowings	1.9	2.3	-	-	6.9	7.3
Non Bank	0.5	1.5	-	-	1.1	1.7
Bank	1.4	0.8	-	-	5.8	5.7
Non Market Sources	0.3	0.8	-	-	0.2	-0.03

(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) In the absence of detailed breakdown of fiscal data for 2020 subsequent to restatement, fiscal statistics for 2021 have been compared against corresponding data in 2020 prior to restatement.

(d) Fiscal statistics for 2018 and 2019 are based on the revised GDP estimates for 2018 and 2019 released by the Department of Census and Statistics on 16 March 2021, whereas values for 2021 are based on the GDP projections of the Central Bank.

Sources: Ministry of Finance  
Central Bank of Sri Lanka

**TABLE 15**
**Commercial Banks' Loans and Advances to the Private Sector (a)(b)**

CATEGORY	End June 2020		End June 2021 (c)		% Change
	Amount (Rs. mn)	As a % of Total	Amount (Rs. mn)	As a % of Total	
<b>1. Agriculture and Fishing</b>	<b>468,657</b>	<b>7.7</b>	<b>529,706</b>	<b>7.7</b>	<b>13.0</b>
<i>of which</i>					
Tea	94,406	1.6	107,890	1.6	14.3
Rubber	24,253	0.4	36,564	0.5	50.8
Coconut	26,531	0.4	32,439	0.5	22.3
Paddy	40,637	0.7	42,710	0.6	5.1
Vegetable and Fruit Cultivation and Minor Food Crops	26,342	0.4	29,784	0.4	13.1
Livestock and Dairy Farming	26,899	0.4	28,870	0.4	7.3
Fisheries	20,681	0.3	21,154	0.3	2.3
<b>2. Industry</b>	<b>2,487,208</b>	<b>40.9</b>	<b>2,768,377</b>	<b>40.4</b>	<b>11.3</b>
<i>of which</i>					
Construction	1,231,226	20.2	1,449,403	21.1	17.7
<i>of which</i>					
Personal Housing including Purchasing/Construction/Repairs	573,097	9.4	681,061	9.9	18.8
Staff Housing	87,999	1.4	95,924	1.4	9.0
Food and Beverages	147,609	2.4	173,753	2.5	17.7
Textiles and Apparel	252,119	4.1	265,743	3.9	5.4
Wood and Wood Products including Furniture	21,410	0.4	24,001	0.3	12.1
Paper and Paper Products	18,715	0.3	20,907	0.3	11.7
Chemical, Petroleum, Pharmaceutical and Healthcare, and Rubber and Plastic products	124,393	2.0	147,145	2.1	18.3
Non-metallic Mineral Products	23,707	0.4	13,553	0.2	-42.8
Basic Metal Products	46,622	0.8	53,988	0.8	15.8
Fabricated Metal Products, Machinery and Transport Equipment	166,941	2.7	145,337	2.1	-12.9
Other Manufactured Products	23,429	0.4	26,522	0.4	13.2
<b>3. Services</b>	<b>1,723,867</b>	<b>28.3</b>	<b>1,882,564</b>	<b>27.5</b>	<b>9.2</b>
<i>of which</i>					
Wholesale and Retail Trade	478,059	7.9	558,006	8.1	16.7
Tourism	252,306	4.1	284,610	4.2	12.8
Financial and Business Services	370,358	6.1	366,473	5.3	-1.0
Transport	89,205	1.5	79,906	1.2	-10.4
Communication and Information Technology	62,799	1.0	73,517	1.1	17.1
Printing and Publishing	26,564	0.4	29,082	0.4	9.5
Education	14,981	0.2	20,900	0.3	39.5
Health	55,535	0.9	59,719	0.9	7.5
Shipping, Aviation and Freight Forwarding	22,419	0.4	23,875	0.3	6.5
<b>4. Personal Loans and Advances (d)</b>	<b>1,405,232</b>	<b>23.1</b>	<b>1,677,224</b>	<b>24.5</b>	<b>19.4</b>
<i>of which</i>					
Consumer Durables	223,718	3.7	348,013	5.1	55.6
Pawning	220,940	3.6	268,402	3.9	21.5
Credit Cards	126,170	2.1	128,820	1.9	2.1
Personal Education	9,141	0.2	11,366	0.2	24.3
Personal Healthcare	3,210	0.1	1,996	0.0	-37.8
<b>5. Total (e)</b>	<b>6,084,964</b>	<b>100.0</b>	<b>6,857,871</b>	<b>100.0</b>	<b>12.7</b>

(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.

Source: Central Bank of Sri Lanka

(b) Includes loans, overdrafts and bills discounted and excludes cash items in the process of collection

(c) Provisional

(d) Excludes personal housing loans, which have been included under 'Construction' classified under 'Industry' and includes Safety Net Scheme related loans

(e) 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.



TABLE 16

## Expansion of Banking Activities (a)

CATEGORY	2017	2018	2019 (b)	2020 (c)	2021 (c) Jan - Jun
1. Number of Banks	32	33	32	30	30
2. Number of Bank Branches (c)(d)	3,549	3,576	3,607	3,619	3,620
3. Number of Automated Teller Machines (ATMs)	4,206	4,618	5,023	4,252	4,231
4. Number of Credit Cards Issued (e)	290,264	338,692	353,826	235,310	133,956
5. Number of Credit Cards in Use	1,486,545	1,710,671	1,854,103	1,984,525	2,045,716
6. Number of Debit Cards Issued (e)	3,650,045	3,371,569	4,773,541	3,673,644	2,641,505
7. Number of Debit Cards in Use	19,702,875	22,329,928	23,068,813	17,803,673	17,767,516
8. Number of Phone Banking Transactions (e)	3,808,692	8,176,223	17,435,204	26,701,436	16,390,592
9. Number of Internet Based Transactions (e)	23,065,638	26,930,397	36,674,832	57,860,661	49,179,771
10. Banking Density (f)	16.6	16.5	16.5	16.5	16.3

(a) End period

Source: Central Bank of Sri Lanka

(b) Revised

(c) Provisional

(d) Excludes Students Savings Units

(e) During the period

(f) Number of branches per 100,000 people

TABLE 17

## Money and Capital Market Developments

Rs. mn

CATEGORY	2017	2018	2019	2020	2021 (a) Jan - Sep
<b>Money Market</b>					
<b>Call Money Market</b>					
Total Turnover	3,900,444	4,196,244	4,775,160	3,234,306	4,771,982
<b>Treasury Bill Market</b>					
Total Amount Issued (b)	1,624,266	1,653,259	1,719,327	2,590,539	2,534,917
Total Outstanding (b)(c)(d)	724,706	758,796	897,670	1,621,375	2,106,125
<b>Capital Market</b>					
<b>Treasury Bond Market</b>					
Total Amount Issued (b)	548,815	763,020	798,000	1,332,069	1,035,355
Total Outstanding (b)(c)(d)	4,187,467	4,344,238	4,686,526	5,719,504	6,444,543
<b>Listed Corporate Bond Market</b>					
Total amount issued	20,000	55,918	57,914	21,940	77,312
Total number of issues (Numbers)	5	11	15	8	14
Total Turnover (Secondary Market)	3,593	4,541	5,677	5,856	1,150
Market Capitalisation (c)	282,282	288,558	284,926	243,220	294,538
<b>Share Market</b>					
ASPI (1985 = 100) (c)	6,369	6,052	6,129	6,774	9,460
S&P SL20 (2004=1,000) (c)	3,672	3,135	2,937	2,638	3,535
Total Turnover	220,591	200,069	171,408	396,882	792,998
Net Foreign Purchases	17,655	-23,239	-11,735	-51,356	-44,906
Market Capitalisation (c)	2,899,290	2,839,450	2,851,310	2,960,648	4,215,634

(a) Provisional

Sources: Central Bank of Sri Lanka

(b) Face value

Colombo Stock Exchange

(c) End period

(d) Including foreign holdings

**TABLE 18**
**Insurance, Unit Trusts, Stock Brokers - Selected Indicators**

ITEM	End Jun 2019	End Jun 2020	End Dec 2020	End Jun 2021(a)	y-o-y Change (%)	
					Jun-2020	Jun-2021(a)
Insurance Sector						
Total Assets (Rs. bn)	668.3	755.2	790.1	814.6	13.0	7.9
<b>Total Income (Rs. bn)(b)</b>	<b>123.8</b>	<b>120.9</b>	<b>264.4</b>	<b>133.3</b>	<b>-2.3</b>	<b>10.2</b>
Gross Writtendown Premium Income (Rs. bn)(b)	97.9	95.2	208.6	105.3	-2.8	10.7
Investment Income (Rs. bn)(b)	25.9	25.8	55.7	28.0	-0.5	8.7
Profit Before Tax (Rs. bn)(b)	13.7	18.2	38.6	14.5	32.7	-20.1
Capital Adequacy Ratio (CAR)(%)						
Long-term Insurance	293.0	308.0	352.0	351.0	-	-
General Insurance	203.0	238.0	246.0	224.0	-	-
Retention Ratio (%)						
Long-term Insurance	96.1	95.1	95.4	95.5	-	-
General Insurance	78.5	75.9	77.6	71.6	-	-
Claims Ratio (%)						
Long-term Insurance	42.0	40.6	38.6	38.7	-	-
General Insurance	64.6	47.2	49.3	54.8	-	-
Combined Operating Ratio (%)						
Long-term Insurance	92.9	88.2	83.7	82.1	-	-
General Insurance	101.4	87.3	88.3	98.2	-	-
Return on Assets (ROA)(%)						
Long-term Insurance	2.6	3.2	3.0	3.0	-	-
General Insurance	5.8	7.7	8.6	8.7	-	-
Return on Equity (ROE)(%) - General Insurance						
Underwriting Ratio (%) - General Insurance	12.0	16.2	17.8	18.4	-	-
	17.9	33.3	33.0	24.5	-	-
Unit Trust Sector						
Total Assets (Rs. bn)	75.5	114.4	201.6	222.7	51.6	94.6
Net Asset Value - NAV (Rs. bn)	75.2	113.4	200.9	222.0	50.7	95.7
Investments (Rs. bn)	75.3	114.4	201.6	222.7	51.9	94.7
Equity	8.0	8.1	14.1	15.6	0.7	92.6
Government Securities	4.0	8.6	25.3	23.6	115.1	174.4
Other (E.g.,Commercial Paper, Debentures, Trust Certificates & Bank Deposits)	63.3	97.7	162.2	183.5	54.4	87.8
Investments in Equity as a % of NAV	10.7	7.2	7.0	7.0	-	-
Investments in Government Securities as a % of NAV	5.3	7.5	12.6	10.6	-	-
Other Investments as a % of NAV	84.1	86.1	80.8	82.7	-	-
Total No. of Unit Holders	44,224	47,903	52,402	55,651	-	-
No. of Units in Issue (bn)	3.6	5.4	8.0	7.0	-	-
No. of Unit Trusts	75	72	75	76	-	-
Stock Broking Sector						
Total Assets (Rs. bn)	7.5	13.5	19.9	21.0	78.4	55.9
Total Liabilities (Rs. bn)	2.5	8.4	12.9	12.1	232.7	44.8
Net Capital (Rs. bn)	5.0	5.1	6.0	7.7	1.5	50.7
Income (Rs. mn)(b)	239.6	443.0	2,085.0	1,553.0	84.9	250.6
Net Profit/(Loss) before tax (Rs. mn)(b)	-184.1	157.9	1,184.0	910.0	185.8	476.4

(a) Provisional

(b) During the period

Sources: Insurance Regulatory Commission of Sri Lanka  
Securities and Exchange Commission  
Unit Trust Association of Sri Lanka

TABLE 19

## Concessions Given to COVID-19 Affected Borrowers (a)

(as at 31 July 2021)

MORATORIUM PHASES	Licensed Banks				Non-Bank Financial Institutions			
	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)
COVID-19 (1st Wave)	1,435,119	1,336,136	93.10	2,280.7	985,063	847,491	86.03	355.3
COVID-19 (2nd Wave)	136,184	121,530	89.24	726.9	143,382	111,038	77.44	62.1
COVID-19 (3rd Wave)	171,511	154,841	90.28	552.4	393,893	356,634	90.54	106.4
Total	1,742,814	1,612,507	92.52	-	1,522,338	1,315,163	86.39	-

(a) Same borrowers may have obtained concessions under different schemes/phases.

Source: Central Bank of Sri Lanka

TABLE 20

## Concessions Given to the Passenger Transportation Sector (a)

(as at 31 July 2021)

MORATORIUM	Licensed Banks				Non-Bank Financial Institutions			
	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)
Lease Facilities	883	809	91.62	3.2	122,591	116,276	94.85	33.4

(a) Same borrowers may have obtained concessions under different schemes/phases.

Source: Central Bank of Sri Lanka

TABLE 21

## Concessions Given to the Tourism Sector (a)

(as at 31 July 2021)

MORATORIUM PHASES	Licensed Banks				Non-Bank Financial Institutions			
	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)	No. of requests received	No. of requests approved	% of approved requests	Capital outstanding (Rs. Bn)
Phase 1	5,919	4,258	71.94	113.9	1,441	1,389	96.39	3.6
Phase 2	6,903	5,961	86.35	214.0	6,485	5,792	89.31	5.6
Phase 3	7,318	6,351	86.79	220.1	1,266	1,080	85.31	1.8

(a) Same borrowers may have obtained concessions under different schemes/phases.

Source: Central Bank of Sri Lanka





ISBN 978-624-5917-03-7

