



Central Bank of Sri Lanka  
October 2022

# Recent Economic Developments

Highlights of 2022 and  
Prospects for 2023



# RECENT ECONOMIC DEVELOPMENTS

## Highlights of 2022 and Prospects for 2023



**CENTRAL BANK OF SRI LANKA**

October 2022

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

Printed by : Sharp Graphic House (Pvt) Ltd

ISBN 978-624-5917-22-8

The image features a solid teal background. A large, white, curved shape, resembling a thick arc or a stylized wave, starts from the left edge and curves upwards and to the right, creating a dynamic, modern design element.

## ***Key Economic Indicators***

## KEY ECONOMIC INDICATORS

Recent Economic Developments - Highlights of 2022 and Prospects for 2023

| Key Economic Indicators   |            |            |             |          |                |           |
|---|------------|------------|-------------|----------|----------------|-----------|
| Indicator   | 2018       | 2019       | 2020        | 2021 (a) | First Half (a) |           |
|   |            |            |             |          | 2021           | 2022      |
| DEMOGRAPHY  |            |            |             |          |                |           |
| Mid-year population ('000 persons) (b)(c)   | 21,670 (a) | 21,803 (a) | 21,919 (a)  | 22,156   | -              | -         |
| Growth of mid-year population (%) (b)   | 1.1 (a)    | 0.6 (a)    | 0.5 (a)     | 1.1      | -              | -         |
| Population density (persons per sq.km.) (b)   | 345.6 (a)  | 347.7 (a)  | 349.6 (a)   | 353.3    | -              | -         |
| Labour force ('000 persons) (d)   | 8,387.8    | 8,592.0    | 8,466.7     | 8,553    | 8,594 (e)      | 8,669 (e) |
| Labour force participation rate (%) (d)   | 51.8       | 52.3       | 50.6        | 49.9     | 50.4 (e)       | 50.6 (e)  |
| Unemployment rate (% of labour force) (d)   | 4.4        | 4.8        | 5.5         | 5.1      | 5.4 (e)        | 4.5 (e)   |
| OUTPUT (f)  |            |            |             |          |                |           |
| GDP at current market price (Rs. bn)  | 15,352     | 15,911     | 15,840 (a)  | 17,686   | 8,605          | 10,743    |
| GNI at current market price (Rs. bn)  | 14,962     | 15,470     | 15,417 (a)  | 17,279   | 8,413          | 10,513    |
| GDP at current market price (USD bn)  | 94.5       | 89.0       | 85.4 (a)    | 88.9     | 43.8           | 38.0      |
| GNI at current market price (USD bn)  | 92.1       | 86.5       | 83.1 (a)    | 86.9     | 42.8           | 37.2      |
| Per capita GDP at current market price (Rs.) (h)  | 708,442    | 729,761    | 722,668 (a) | 798,242  | -              | -         |
| Per capita GNI at current market price (Rs.) (h)  | 690,463    | 709,516    | 703,367 (a) | 779,890  | -              | -         |
| Per capita GDP at current market price (USD) (h)  | 4,359      | 4,082      | 3,895 (a)   | 4,014    | -              | -         |
| Per capita GNI at current market price (USD) (h)  | 4,248      | 3,969      | 3,791 (a)   | 3,921    | -              | -         |
| REAL OUTPUT (% change) (f)  |            |            |             |          |                |           |
| GDP   | 2.3        | -0.2       | -3.5 (a)    | 3.3      | 9.3            | -4.8      |
| Major economic activities of GDP  |            |            |             |          |                |           |
| Agriculture   | 6.3        | 0.5        | -1.4 (a)    | 2.5      | 8.8            | -7.6      |
| Industry  | -1.1       | -4.1       | -5.3 (a)    | 5.6      | 12.4           | -7.1      |
| Services  | 4.3        | 2.9        | -1.9 (a)    | 3.3      | 5.6            | -0.6      |
| GNI   | 2.2        | -0.5       | -3.3 (a)    | 3.7      | 10.1           | -4.7      |
| AGGREGATE DEMAND AND SAVINGS (% of GDP) (f)   |            |            |             |          |                |           |
| Consumption   | 68.9       | 71.7       | 72.4 (a)    | 72.1     | 73.6           | 74.1      |
| Private   | 60.3       | 62.7       | 62.1 (a)    | 62.7     | 64.0           | 65.0      |
| Government  | 8.6        | 9.0        | 10.3 (a)    | 9.4      | 9.6            | 9.1       |
| Investment  | 38.1       | 34.1       | 33.7 (a)    | 35.3     | 34.9           | 31.0      |
| Net exports of goods and services   | -6.9       | -5.8       | -6.1 (a)    | -7.4     | -8.5           | -5.1      |
| Exports of goods and services   | 21.5       | 21.8       | 15.3 (a)    | 16.9     | 15.3           | 21.6      |
| Imports of goods and services   | 28.4       | 27.6       | 21.4 (a)    | 24.2     | 23.8           | 26.7      |
| Domestic savings  | 31.1       | 28.3       | 27.6 (a)    | 27.9     | 26.4           | 25.9      |
| Net primary and secondary income from rest of the world   | 4.0        | 3.7        | 4.6 (a)     | 3.6      | 5.1            | 3.1       |
| National savings  | 35.1       | 32.0       | 32.2 (a)    | 31.5     | 31.4           | 29.0      |
| PRICES AND WAGES (% change)   |            |            |             |          |                |           |
| National Consumer Price Index (2013 = 100) - annual average   | 2.1        | 3.5        | 6.2         | 7.0      | 5.4            | 20.8      |
| National Consumer Price Index (2013 = 100) - y-o-y (end period)   | 0.4        | 6.2        | 4.6         | 14.0     | 6.1            | 58.9      |
| Colombo Consumer Price Index (2013 = 100) - annual average  | 4.3        | 4.3        | 4.6         | 6.0      | 4.1            | 18.4      |
| Colombo Consumer Price Index (2013 = 100) - y-o-y (end period)  | 2.8        | 4.8        | 4.2         | 12.1     | 5.2            | 54.6      |
| Producer Price Index (2018 Q4 = 100) - annual average   | -          | -          | 5.8         | 10.9     | 7.8            | 31.1      |
| Producer Price Index (2013 Q4 = 100) - annual average (i)   | 6.3        | 2.9        | 5.8         | -        | 7.8            | -         |
| GDP deflator (f)  | 4.3        | 3.9        | 3.1 (a)     | 8.1      | 6.2            | 32.6      |
| GNI deflator (f)  | 4.4        | 3.9        | 3.1 (a)     | 8.1      | 6.2            | 32.6      |
| Nominal Wage Rate Indices   |            |            |             |          |                |           |
| Formal Private Sector Employees (1978 Dec =100) - annual average  | 0.6        | 2.9        | 0.2         | 74.4     | 29.1           | 48.0      |
| Public Sector Employees (2016 =100) - annual average  | 0.2        | 4.7        | 9.2         | 0.0      | 2.8            | 8.1       |
| Informal Private Sector Employees (2018 =100) - annual average (ii)   | -          | -          | 6.4         | 9.2      | 5.8            | 17.4      |
| Informal Private Sector Employees (2012 =100) - annual average  | 13.2       | 6.2        | 3.3         | 9.2      | 4.1            | 18.2      |
| EXTERNAL TRADE  |            |            |             |          |                |           |
| Trade balance (USD mn)  | -10,343    | -7,997     | -6,008      | -8,139   | -4,316         | -3,514    |
| Exports   | 11,890     | 11,940     | 10,047      | 12,499   | 5,699          | 6,514     |
| Imports   | 22,233     | 19,937     | 16,055      | 20,637   | 10,015         | 10,028    |
| Terms of trade (% change)   | 0.02       | -1.6       | 2.5         | -8.6     | -9.2           | -13.1     |
| Export unit value index (2010 = 100) (% change)   | 4.2        | -6.3       | -6.8        | 5.4      | -2.1           | 2.2       |
| Import unit value index (2010 = 100) (% change)   | 4.1        | -4.8       | -9.1        | 15.2     | 7.9            | 17.6      |
| Export volume index (2010 = 100) (% change)   | 0.5        | 7.2        | -9.7        | 18.0     | 31.9           | 11.9      |
| Import volume index (2010 = 100) (% change)   | 1.8        | -5.8       | -11.4       | 11.5     | 21.0           | -14.9     |
| EXTERNAL FINANCE (USD mn)   |            |            |             |          |                |           |
| Services and primary income account (net)   | 1,381      | 388        | -1,386      | -432     | -320           | 225       |
| Current private transfers (net)   | 6,155      | 5,757      | 6,194       | 5,221    | 3,195          | 1,459     |
| Current official transfers (net)  | 8          | 9          | 13          | 6        | 3              | 2         |
| Current account balance   | -2,799     | -1,843     | -1,187      | -3,343   | -1,437         | -1,828    |
| Overall balance   | -1,103     | 377        | -2,328      | -3,967   | -1,261         | -2,814    |
| Current account balance (as a % of GDP) (f)(k)  | -3.0       | -2.1       | -1.4        | -3.8     | -              | -         |
| Total foreign assets (months of the same year imports) (l)  | 5.2        | 6.3        | 6.4         | 3.6      | 4.5            | 3.2       |
| Gross official reserves (months of the same year imports)   | 3.7        | 4.6        | 4.2         | 1.8      | 2.6            | 1.1       |
| Overall debt service ratio (m)  |            |            |             |          |                |           |
| As a percentage of export of goods and services   | 28.9       | 29.7       | 35.2        | 30.0     | 29.8           | 23.3      |
| As a percentage of current receipts   | 21.3       | 21.8       | 22.6        | 21.8     | 19.8           | 19.3      |
| Total external debt (as a % of GDP) (f)(k)  | 55.3       | 61.6       | 57.4        | 57.0     | 56.4           | 57.4      |
| (a) Provisional   |            |            |             |          |                |           |
| (b) As reported by Registrar General's Department   |            |            |             |          |                |           |
| (c) Based on the Census of Population and Housing - 2012  |            |            |             |          |                |           |
| (d) Household population aged 15 and above is considered for the calculation of labour force  |            |            |             |          |                |           |
| (e) Average of first two quarters   |            |            |             |          |                |           |
| (f) Rebased GDP estimates (base year 2015) of the Department of Census and Statistics have been used  |            |            |             |          |                |           |
| (g) Revised   |            |            |             |          |                |           |
| (h) Estimates updated with latest population figures  |            |            |             |          |                |           |
| (i) Compilation of this index was discontinued since November 2021  |            |            |             |          |                |           |
| (j) Informal private sector wage rate index was rebased to 2018 from 2012   |            |            |             |          |                |           |
| (k) Based on GDP estimates in US dollars  |            |            |             |          |                |           |
| (l) Excludes foreign assets in the form of direct investments abroad and trade credit and advances received   |            |            |             |          |                |           |
| (m) Overall debt service ratios were reclassified to capture debt servicing in accordance with the External Debt Statistics Manual (2003) of the International Monetary Fund (IMF). |            |            |             |          |                |           |

### Key Economic Indicators (Contd.)

| Indicator   | 2018    | 2019    | 2020    | 2021 (a)  | First Half (a) |           |
|---|---------|---------|---------|-----------|----------------|-----------|
|   |         |         |         |           | 2021           | 2022      |
| EXCHANGE RATES  |         |         |         |           |                |           |
| Annual average  |         |         |         |           |                |           |
| Rs/USD  | 162.5   | 178.8   | 185.5   | 198.9     | 196.5          | 284.2     |
| Rs/SDR (n)  | 229.9   | 247.0   | 258.6   | 283.2     | 282.0          | 388.6     |
| NEER (2017 = 100) (24 - currency basket) (o)                        | 94.1    | 88.2    | 85.9    | 78.6      | 78.8           | 60.7      |
| REER (2017 = 100) (24 - currency basket) (o)(p)                     | 95.5    | 90.4    | 91.5    | 83.6      | 83.9           | 62.2      |
| Period end  |         |         |         |           |                |           |
| Rs/USD  | 182.7   | 181.6   | 186.4   | 200.4     | 201.1          | 359.9     |
| Rs/SDR (n)  | 253.5   | 251.2   | 268.5   | 280.5     | 286.9          | 477.8     |
| GOVERNMENT FINANCE (as a % of GDP) (f)(q)(r)                        |         |         |         |           |                |           |
| Revenue and grants  | 12.6    | 11.9    | 8.7     | 8.3       | 4.0            | 4.1       |
| of which Revenue  | 12.5    | 11.9    | 8.6     | 8.2       | 4.0            | 4.1       |
| of which Tax revenue  | 11.2    | 10.9    | 7.7     | 7.3       | 3.6            | 3.5       |
| Expenditure and net lending   | 17.5    | 21.0    | 19.2    | 19.9      | 8.5            | 8.1       |
| Recurrent expenditure   | 13.6    | 15.2    | 16.1    | 15.5      | 7.4            | 7.0       |
| Capital expenditure and net lending                                 | 3.9     | 5.7     | 3.1     | 4.4       | 1.0            | 1.1       |
| Current account balance   | -1.1    | -3.4    | -7.5    | -7.3      | -3.4           | -2.9      |
| Primary balance   | 0.6     | -3.4    | -4.3    | -5.7      | -1.5           | -1.1      |
| Overall fiscal balance  | -5.0    | -9.0    | -10.5   | -11.6     | -4.4           | -4.0      |
| Deficit financing   | 5.0     | 9.0     | 10.5    | 11.6      | 4.4            | 4.0       |
| Foreign   | 2.1     | 3.4     | -0.5    | -0.1      | 0.1            | -0.2      |
| Domestic  | 2.8     | 5.6     | 11.1    | 11.7      | 4.3            | 4.2       |
| Central government debt (s)   | 78.4    | 81.9    | 95.4    | 99.5      | 93.7           | 122.4 (t) |
| Foreign   | 38.8    | 39.0    | 38.2    | 36.7      | 37.5           | 58.1 (t)  |
| Domestic  | 39.5    | 42.9    | 57.2    | 62.7      | 56.2           | 64.3 (t)  |
| MONETARY AGGREGATES (y-o-y % change)                                |         |         |         |           |                |           |
| Reserve money   | 2.3     | -3.0    | 3.4     | 35.4      | 22.6           | 36.4      |
| Narrow money (M <sub>1</sub> )                                      | 4.7     | 4.2     | 36.0    | 24.0      | 29.1           | 19.5      |
| Broad money (M <sub>2b</sub> )                                      | 13.0    | 7.0     | 23.4    | 13.2      | 21.5           | 17.1      |
| Net foreign assets of the banking system                            | -155.1  | 250.3   | -308.0  | -368.8    | -4,012.4       | -340.8    |
| Net domestic assets of the banking system                           | 16.3    | 4.6     | 27.8    | 20.9      | 27.1           | 31.7      |
| Domestic credit from the banking system to                          |         |         |         |           |                |           |
| Government (net)  | 16.1    | 11.1    | 62.7    | 28.2      | 42.4 (g)       | 30.7      |
| Public corporations / SOBEs   | 40.7    | 8.3     | 22.5    | 18.6      | 19.0           | 52.7      |
| Private sector  | 15.9    | 4.2     | 6.5     | 13.1      | 12.9           | 17.2      |
| Money multiplier for M <sub>2b</sub> (end period)                   | 7.42    | 8.18    | 9.75    | 8.15      | 9.54           | 8.19      |
| Velocity of M <sub>2b</sub> (average for the year) (f)              | 2.27    | 2.16    | 1.86    | 1.74      | -              | -         |
| INTEREST RATES (% per annum at end of period)                       |         |         |         |           |                |           |
| Standing Deposit Facility Rate (SDFR)                               | 8.00    | 7.00    | 4.50    | 5.00      | 4.50           | 13.50     |
| Standing Lending Facility Rate (SLFR)                               | 9.00    | 8.00    | 5.50    | 6.00      | 5.50           | 14.50     |
| Bank Rate (u)   | 15.00   | 15.00   | 8.50    | 9.00      | 8.50           | 17.50     |
| Legal Rate of Interest / Market Rate of Interest (v)                | 9.08    | 11.50   | 11.64   | 10.12     | 10.12          | 7.48      |
| Money market rates  |         |         |         |           |                |           |
| Average weighted call money rate (AWCMR)                            | 8.95    | 7.45    | 4.55    | 5.95      | 4.93           | 14.50     |
| Treasury bill yields  |         |         |         |           |                |           |
| 91-day  | 10.01   | 7.51    | 4.69    | 8.16      | 5.18           | 23.85     |
| 364-day   | 11.20   | 8.45    | 5.05    | 8.24      | 5.23           | 23.84     |
| Deposit rates   |         |         |         |           |                |           |
| Commercial banks' average weighted deposit rate (AWDR)              | 8.81    | 8.20    | 5.80    | 4.94      | 4.87           | 8.41      |
| Commercial banks' average weighted fixed deposit rate (AWFDR)       | 10.85   | 10.05   | 7.14    | 5.94      | 5.82           | 11.06     |
| Commercial banks' average weighted new deposit rate (AWNDR)         | 10.94   | 8.89    | 4.93    | 6.45      | 4.98           | 17.15     |
| Commercial banks' average weighted new fixed deposit rate (AWNDFDR) | 11.27   | 9.17    | 5.08    | 6.67      | 5.10           | 17.45     |
| NSB savings rate  | 4.00    | 4.00    | 3.50    | 3.50      | 3.50           | 3.00      |
| NSB 12 month fixed deposit rate                                     | 10.50   | 9.83    | 5.25    | 5.50      | 5.00           | 12.00     |
| Lending rates   |         |         |         |           |                |           |
| Commercial banks' average weighted prime lending rate (AWPR)-Weekly | 12.09   | 9.74    | 5.81    | 8.61      | 5.51           | 22.62     |
| Commercial banks' average weighted lending rate (AWLR)              | 14.40   | 13.59   | 10.29   | 9.87      | 9.50           | 15.06     |
| Commercial banks' average weighted new lending rate (AWNLR)         | 14.54   | 12.80   | 8.38    | 9.48      | 7.47           | 21.50     |
| CAPITAL MARKET  |         |         |         |           |                |           |
| All share price index (ASPI) (1985 = 100)                           | 6,052.4 | 6,129.2 | 6,774.2 | 12,226    | 7,837.8        | 7,342.3   |
| S&P SL20 index (2004 Dec = 1,000)                                   | 3,135.2 | 2,937.0 | 2,638.1 | 4,233.3   | 2,968.3        | 2,334.4   |
| Value of shares traded (Rs. mn)                                     | 200,069 | 171,408 | 396,882 | 1,173,157 | 460,947        | 373,567   |
| Net purchases by non nationals (Rs. mn)                             | -23,239 | -11,735 | -51,356 | -52,649   | -26,482        | -1,171    |
| Market capitalisation (Rs. bn)                                      | 2,839.5 | 2,851.3 | 2,960.6 | 5,489.2   | 3,470.2        | 3,184.2   |

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

(o) 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.

(p) 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.

(q) GDP projection for 2022 by the Central Bank was used for the first half of 2022.

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

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

(t) Outstanding central government debt statistics as at end June 2022 are highly provisional, since data on some of the debt service payments which fell overdue after the announcement of the Interim Policy regarding the servicing of Sri Lanka's external public debt on 12 April 2022 are yet to be finalised. Further, actual GDP for the second half of 2021 and first half of 2022 was used to estimate the outstanding stock of debt as a percentage of GDP as at end June 2022.

(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.





# Contents

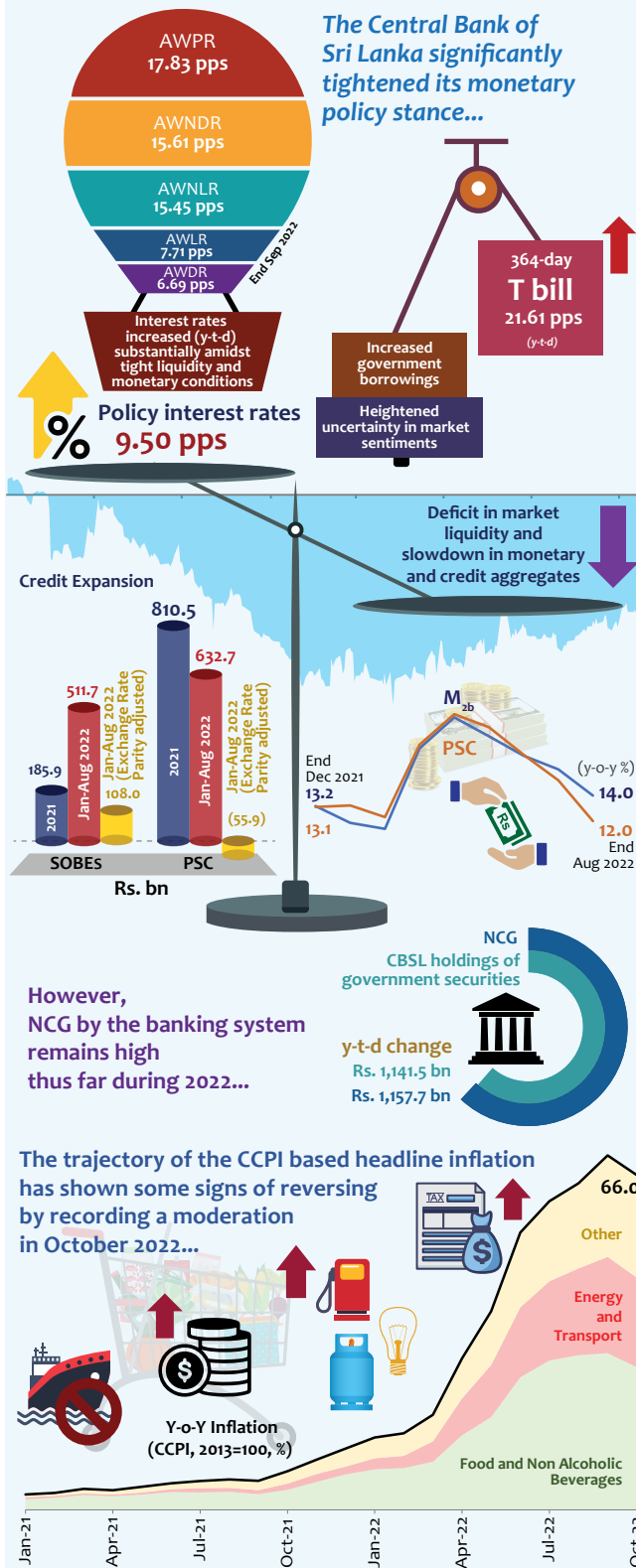
|  | Pages |
|--|-------|
| <b>Chapters</b>                                      |       |
| 1. Economic Performance and Outlook                  | 1     |
| 2. National Output, Expenditure and Employment       | 17    |
| 3. Economic and Social Infrastructure                | 31    |
| 4. Prices and Wages                                  | 45    |
| 5. External Sector Developments                      | 53    |
| 6. Fiscal Policy and Government Finance              | 61    |
| 7. Monetary Policy, Interest Rates, Money and Credit | 69    |
| 8. Financial Sector Performance and System Stability | 79    |
| <b>Major Economic Policy Measures</b>                | 91    |
| <b>Statistical Appendix</b>                          | 113   |



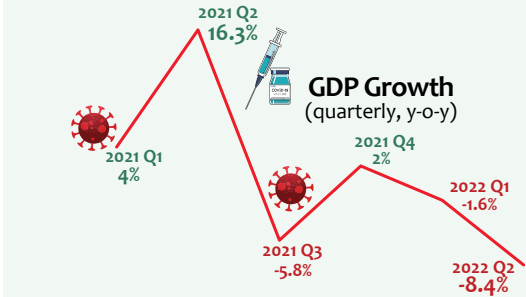
## Economic Performance and Outlook

**T**he Sri Lankan economy, which faced extreme headwinds and heightened uncertainties during the first half of 2022, has shown signs of stability in the second half of the year thus far, helped by the myriad of multifaceted policy interventions undertaken to steer the economy to transition towards a path of stable and sustainable growth over the medium term. Although the economy was on a recovery path subsequent to the abating of the COVID-19 pandemic, its progress was muted by the culmination of the entrenched twin deficits in the government budget and external current account. Hence, the growth momentum observed towards the end of 2021 dissipated rapidly and the real economy fell into a contraction during the first half of 2022, driven by the spillover effects of the unprecedented economic crisis felt across several sectors, owing to fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials, and the soaring cost of production, among other factors. The steady rise in inflation to historically high levels since the beginning of the year has hollowed out household purchasing power. This anomalous rise in inflation stemmed from domestic and global supply side disruptions, the undertaking of long overdue adjustments in administrative prices, the sharp depreciation of the Sri Lanka rupee against the USD, and the release of pent-up demand pressures emanating from the lagged impact of monetary accommodation in the recent past. Moreover, the expansionary fiscal policy with the low tax regime introduced in late 2019 fuelled inflation, not only by directly enhancing aggregate demand but also by necessitating monetary financing to bridge the expanding budget deficit amidst the lack of access to international capital markets following the rating downgrades. The monetary tightening efforts, which commenced in August 2021, accelerated thus far in 2022 to avoid possible de-anchoring of inflationary expectations and arrest lingering demand driven pressures. Supported by these measures and the easing of supply side pressures, inflation commenced moderating along the envisaged disinflation path in October 2022. Meanwhile, the passthrough of monetary tightening measures coupled with persistently tight money market liquidity conditions led to sharp upward adjustments in market interest rates resulting in a substantial decline in private sector credit. Nevertheless, net credit to the Government by the banking system expanded notably amidst low government revenue and limited

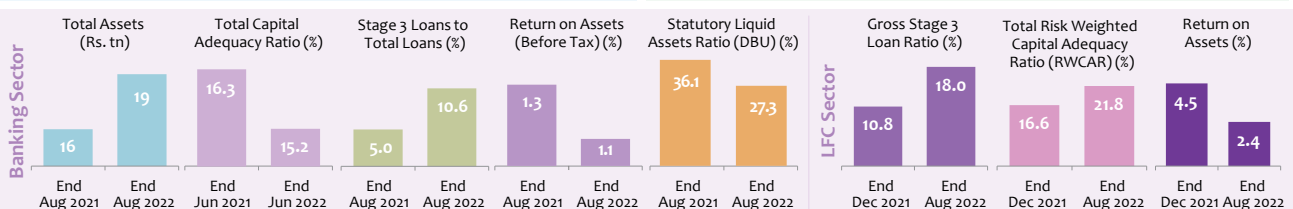
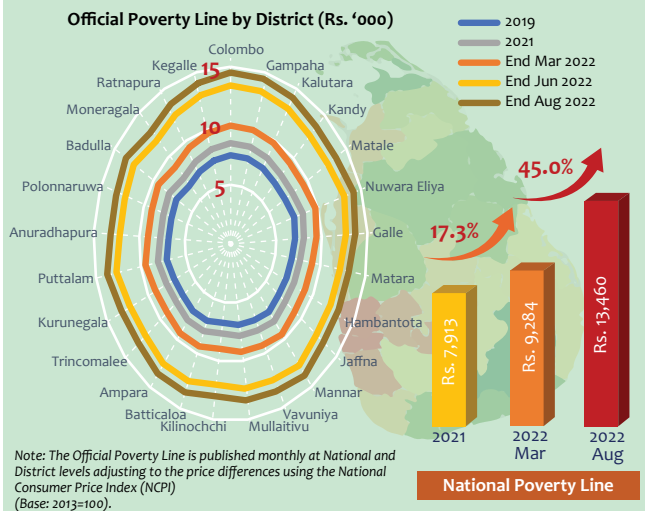
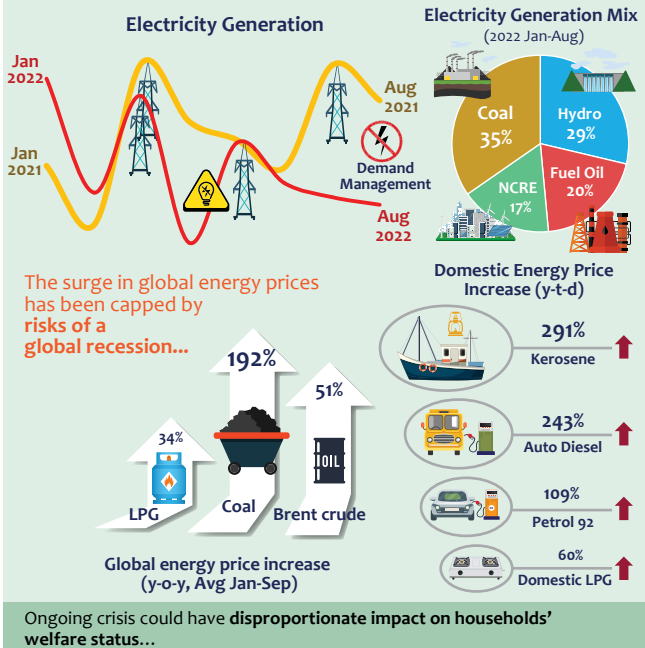
## SNAPSHOT OF THE



Sri Lankan economy continues to battle through the worst economic crisis on record...



Economic activity dampened by the prolonged supply side constraints...

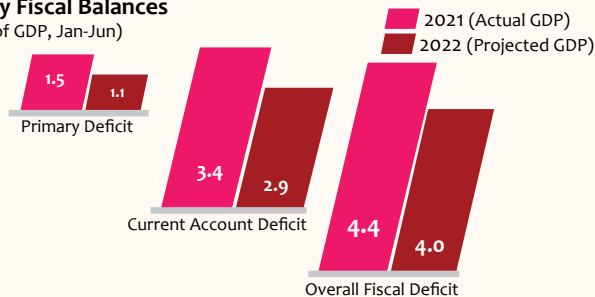


## SRI LANKAN ECONOMY

The beneficial impact of fiscal policy measures introduced thus far during 2022, aimed at improving revenue while curtailing expenditure, is yet to be fully reflected in fiscal sector performance...

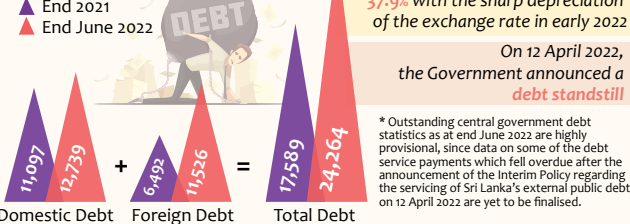
### Key Fiscal Balances

(% of GDP, Jan-Jun)

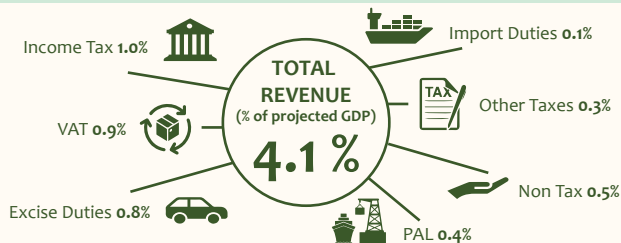


### Central Government Debt

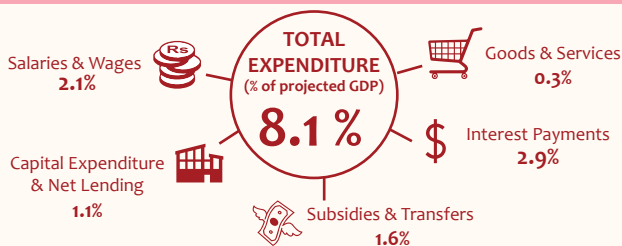
(Rs. bn)



Tax revenue improved due to Surcharge Tax, increased Value Added Tax (VAT) rates and Telecommunication Levy, and high inflation during the first half of 2022



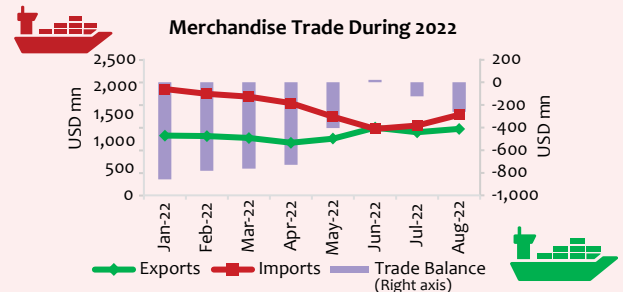
Despite the expenditure rationalisation attempts in the latter part of the period under review, government spending was on a rising trend, in nominal terms, in the first half of 2022



### Fiscal Consolidation Measures

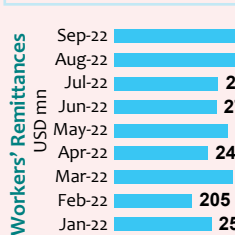
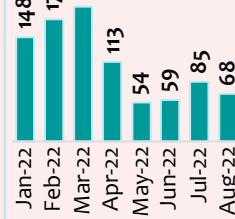
- Revenue enhancement measures
  - Increase in VAT rates
  - Imposition of Surcharge Tax
  - Increase in Telecommunication Levy
  - Imposition of Social Security Contribution Levy
- Expenditure rationalisation measures
  - Guidelines were issued to the public sector to minimise the usage of electricity and fuel while restricting unproductive/non-essential expenses
- Cost reflective pricing

The external sector in Sri Lanka has been facing unprecedented challenges in recent years, amidst headwinds caused by the COVID-19 pandemic, dearth in forex liquidity and adverse developments on the global front...



### Earnings from Tourism

(USD mn)



### Gross Official Reserves

USD

End 2020 USD 5.7 bn

End 2021\* USD 3.1 bn

End Sep 22\* USD 1.8 bn

\* This includes proceeds from the PBOC swap, which is subject to conditionalities on usability

### Exchange Rate Movements

Rs. / USD

A new exchange rate arrangement was introduced on 13 May 2022 in consultation with the market players and the exchange rate stabilised thereafter with the commencement of providing daily guidance...

Jan-22 Feb-22 Mar-22 Apr-22 May-22 Jun-22 Jul-22 Aug-22 Sep-22 Oct-22

### Total Assets (Rs. bn)



### CSE

End 2019 6,129.2

End 2020 6,774.2

End 2021 12,226.0

End Oct 22 8,602.2

ASPI

End 2021 12,226.0

End Oct 22 8,602.2

ASPI

### Payment Systems

#### RTGS

Volume ('000)

Value (Rs. tn)

Jan-Jun 2021 203

Jan-Jun 2022 283

Jan-Jun 2021 93.7

Jan-Jun 2022 384.0

#### SLIPS

Volume (mn)

Value (Rs. tn)

Jan-Jun 2021 20.0

Jan-Jun 2022 22.5

Jan-Jun 2021 1.3

Jan-Jun 2022 1.6

access to foreign financing sources. The growth of broad money supply ( $M_{2b}$ ), once adjusted for the impact of the depreciation of the rupee, has registered a deceleration from its peak in April 2022 driven mainly by the contraction in private sector credit and the decline in net foreign assets of the banking system. During the year, servicing of external debt became increasingly challenging, given the lack of access to international markets due to consecutive sovereign downgrades and the bunching of large foreign debt service payments amidst lacklustre foreign exchange inflows. With due consideration to these challenging circumstances, the Government announced a standstill on external debt servicing on account of bilateral and commercial loans for an interim period commencing from 12 April 2022. In the period thereafter, with the intention of helping the economy to transit to a stable and more sustainable footing, the Government embarked on a reform programme through the introduction of a slew of measures to increase both tax and non-tax revenue, while continuing its drive to further rationalise expenditure through the curtailment of non-urgent capital expenditure and recurrent expenditure. Further the Government opted to seek financial assistance from the IMF by way of an EFF arrangement. However, the overstretched fiscal position, which is already weighed down by soaring levels of debt, offered little fiscal leeway to undertake measures that could catalyse the economic recovery process. The external sector also continued to grapple with heightened challenges amidst the dearth of liquidity in the domestic foreign exchange market. Despite the subduing of import demand and the announcement of the debt standstill, modest inflows to the current and financial accounts were insufficient to tame pressures on the exchange rate. The external current account deficit widened in the first half of 2022, compared to the same period in 2021. The trade deficit narrowed due to the moderation in imports driven mainly by import control measures, lack of availability of foreign exchange in the market, depreciation of the exchange rate, tighter monetary conditions and the robust export performance. Tourism earnings recorded some turnaround, while workers' remittances remained subdued despite recording some revival in recent months. The heightened pressures on the exchange rate necessitated a measured adjustment, which was allowed on 07 March 2022. However, the sparse liquidity conditions in the domestic foreign exchange market and adverse market perceptions caused a sharper than expected depreciation of the exchange rate. With a view to curtailing excessive and speculative volatilities in the intraday exchange rate, the Central Bank commenced providing guidance to the market by announcing a middle rate and a variation margin of the interbank weighted average spot exchange rate from 13 May 2022. This enabled restoring stability in the exchange rate to a greater extent and minimising the gap between official and grey market exchange rates. The engagement with the IMF on a macroeconomic adjustment programme progressed on many fronts, with a staff level agreement for an EFF being reached in early September 2022. The debt restructuring process has also reached an advanced stage.

The economic issues in Sri Lanka are encapsulated in deeply entrenched structural weaknesses that are a culmination of the lack of policymakers' commitment to undertaking holistic and efficacious reforms over the long run. The IMF-EFF programme will provide an opportunity to embark on much needed and long neglected structural adjustments in a more structured and timely manner, which will be instrumental in shaping the economy to progress on a trajectory of greater stability and sustained growth. Nevertheless, the expected near term recovery of the economy is fraught with many challenges due to the unprecedented scale of the crisis that the economy is facing and uncertainties on several fronts which may require swift policy actions as circumstances evolve. In the midst of significant economic challenges on the domestic front, the economy will also have to grapple with global uncertainties emanating from monetary policy tightening measures adopted by major central banks in response to surging inflation, the spillover effects of geopolitical tensions and thereby a looming global recession, which will make the external environment less conducive for economic recovery.

Considering the progress that has been made thus far in relation to the IMF-EFF programme and debt restructuring negotiations, and the reforms that have already been undertaken and those that are to be implemented in the period ahead, the economy is expected to transition onto the path to recovery from the latter part of 2023. Nevertheless, this will hinge on policymakers' unwavering commitment to implementing policy reforms in a timely, holistic, and efficacious manner while ensuring that such commitment remains unhampered by political and election cycles. This is imperative to prevent any oscillations of national policies in the crucial period ahead in order to strengthen the economy's resilience to external shocks, thereby ensuring its unwavering progress over the medium term.



## 1.1 Sectoral Developments

### Real Sector and Inflation

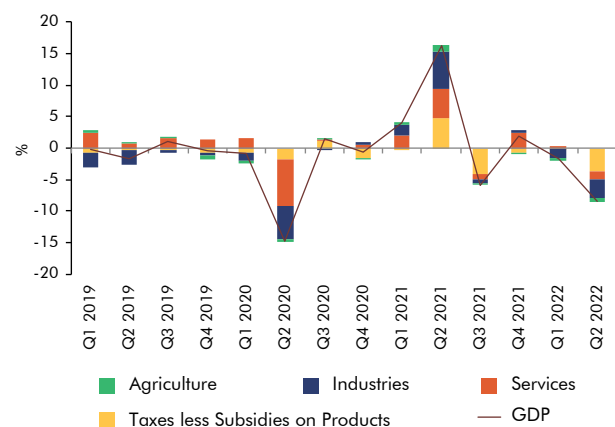
As per the provisional estimates of the Department of Census and Statistics, the Sri Lankan economy witnessed a y-o-y contraction of 4.8% during the first half of 2022, compared to the growth of 9.3% in the corresponding period of 2021. The gradual recovery in economic activity, which was observed with the abating of the COVID-19 pandemic, reversed since the beginning of 2022, with the deepening of the economic crisis and heightened uncertainties caused by the dearth of foreign exchange liquidity, resulting in a contraction of the real economy during the first half of 2022. Frequent power outages, prolonged fuel shortage that hampered supply channels, scarcity of raw materials, and the soaring cost of production, amidst price escalations in both domestic and global markets, significantly dampened economic activity across all sectors of the economy. The Agriculture sector recorded a y-o-y contraction of 7.6% during the period under review, owing to shortages in agricultural inputs, particularly fertiliser and agrochemicals, increased cost of inputs as well as fuel shortages. Activities relating to the growing of rice, tea, rubber, and vegetables were a key driver of the overall contraction in the agriculture sector, while activities relating to the growing of oleaginous fruits recorded a growth during the first half of 2022. The y-o-y contraction of 7.1% recorded by the Industry sector was driven by the subdued performance of construction and manufacturing activities, stemming from the scarcity of raw materials, soaring input costs, fuel shortages, and prolonged power outages. On a y-o-y basis, the construction and mining and quarrying subsectors contracted by 8.9% and 13.1%, respectively, while the manufacture of coke and refined petroleum products and manufacture of food, beverages, and tobacco products registered notable contractions of 56.6% and 9.9%, respectively. Meanwhile, the Services sector witnessed a marginal contraction of 0.6% in the first half of 2022, supported by expansions in certain service activities, such as those relating to accommodation, food and beverages. The strong rebound observed in this category helped greatly offset the significant contractions observed in relation to the transportation of goods and passengers, other personal service activities, and financial services.



**The Sri Lankan economy recorded a contraction of 4.8% during the first half of 2022, y-o-y...**

In nominal terms, the Sri Lankan economy expanded by 24.8% in the first half of 2022, compared to the corresponding period of 2021. As per the expenditure approach, economic growth in the first half of 2022 was mainly driven by the expansion in consumption expenditure, reflecting the impact of elevated price levels. Consumption expenditure, which accounted for 74.1% of the GDP, recorded a notable growth of 25.7% in the first half of 2022, compared to the expansion of 14.5% in the corresponding period of the preceding year. Contributing to this expansion, household expenditure grew at a higher rate of 26.8% in the first half of 2022. Further, government consumption expenditure also recorded a y-o-y growth of 18.3% in the first half of 2022, while the y-o-y growth in investment expenditure was limited to 10.9% during the first half of 2022, reflecting the downturn in investment amidst heightened economic uncertainties. Investment, as a percentage of nominal GDP, remained at 31.0% in the first half of 2022. Net external demand for goods and services at current prices improved notably in the first half of 2022, reflecting the significant y-o-y expansion of exports by 76.7%, which offset the y-o-y increase of 40.4% registered by imports. Accordingly, the net nominal external balance of goods and services, as a percentage of GDP, improved from -8.5% in the first half of 2021 to -5.1% in the same period in 2022.

**Figure 1.1**  
Contribution to Quarterly Real GDP Growth (y-o-y)  
(Base year 2015=100)



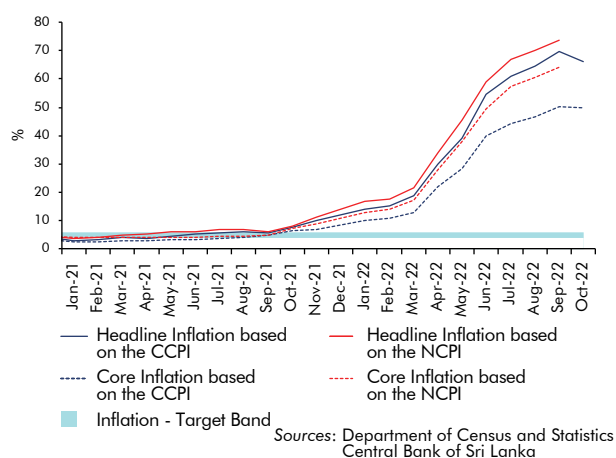
Source: Department of Census and Statistics

The gradual recovery in the labour market observed in the first quarter of 2022 was outweighed by the deepening economic crisis in the country. With the dissipation of the COVID-19 pandemic and the gradual easing of pandemic-related restrictions, labour market indicators showed improvements during the first quarter of 2022. The LFPR increased to 51.2% in the first quarter of 2022 from 49.5% and 50.9% recorded in the fourth quarter of 2021 and the first quarter of 2021, respectively. However, with the dampening of economic activity from the latter part of the first quarter onwards, the LFPR declined to 50.1% during the second quarter of the year. Although the unemployment rate declined to 4.3% in the first quarter of 2022, which was the lowest level in the last eight consecutive quarters, the unemployment rate rose to 4.6% in the second quarter of 2022. Accordingly, the unemployment rate for the first half of 2022 stood at 4.5%.

**The onset of the economic crisis led unemployment to rise to 4.5% during the first half of 2022...**

During the year, inflation accelerated at a notable pace, reaching historically high levels owing to supply side disruptions both locally and globally, administrative price adjustments, sharp depreciation of the Sri Lanka rupee, and the pent-up demand on the back of the lagged impact of large monetary accommodation amidst the COVID-19 pandemic. Accordingly, headline inflation, as measured by the CCPI (2013=100), accelerated to 69.8%, y-o-y, in September 2022, recording a substantial deviation from the desired range of inflation. However, the trajectory of CCPI based headline inflation has subsequently shown some signs of reversing by moderating to 66.0%, y-o-y, in October 2022. Meanwhile, headline inflation, as measured by the NCPI (2013=100), also accelerated to 73.7%, y-o-y, in September 2022. Both food and non-food inflation accelerated significantly. The contribution of the energy and transport sector in non-food category to the recent acceleration of inflation has been sizeable due to the several upward revisions to the prices of domestic fuel and gas and the revision to electricity tariffs, followed by their spillover effects across production chains. Imported inflation also accelerated reflecting the impact of higher global commodity prices and the notable passthrough of the sizeable depreciation of the rupee that occurred in

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



March 2022. Although recent inflation trends have been largely supply driven, these developments are also to be partly attributed to demand driven pressures that have been underpinned by the substantial monetary accommodation that was provided in the wake of the COVID-19 pandemic and thereafter. As indicated by the Inflation Expectations Survey of the Central Bank, both corporate and household sectors' inflation expectations have increased thus far during 2022, albeit with some moderation observed in recent months.

## External Sector

Sri Lanka's external sector vulnerabilities worsened in 2022 amidst headwinds on the global and local fronts, leading to an unprecedented BOP crisis. The expenditure on merchandise imports in the first quarter of 2022, substantially increased that of 2021, thereby necessitating the introduction of policy measures to curb import expenditure to improve foreign exchange liquidity required for essential imports. Since March 2022, import expenditure declined notably, mainly due to the policy measures introduced to compress imports and the foreign exchange liquidity shortage in the banking system, while export earnings continued to remain robust throughout the year. Consequently, the deficit in the merchandise trade account narrowed during the period spanning from January to August 2022.

Earnings from tourism showed a notable improvement so far during the year, while workers' remittances, which were modest during the first half of 2022, recorded a considerable rebound in



recent months. Reflecting the impact of the modest performance of workers' remittances and the increase in the primary income account deficit, the current account deficit widened in the first half of 2022 despite the moderation in the trade deficit and improvement in the surplus in the services account. Despite foreign investment in the CSE, including primary market purchases, and the government securities market recording net inflows, inflows to the financial account were modest due to the decline in foreign inflows to the Government, and to the private sector in the form of direct investments. In line with these developments, the gross official reserves declined to USD 1.8 bn by end September 2022 in comparison to USD 3.1 bn recorded at end 2021.

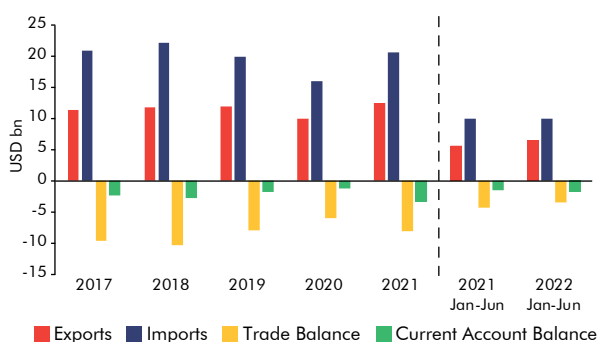
**The unprecedented BOP crisis currently being encountered amidst headwinds on the global and local fronts is expected to see some reprieve with the envisaged progress of the IMF-EFF arrangement and the debt restructuring process, along with the policy priorities to address structural impediments...**

The significant shortage in liquidity in the domestic foreign exchange market continued to exert pressures on the exchange rate, necessitating a measured adjustment of the exchange rate that was allowed in early March 2022, which was followed by a significant overshooting as induced by unwarranted speculation.

Accordingly, the Sri Lanka rupee depreciated substantially by 41.4% against the USD by end April 2022. Considering the undue excessive and speculation driven volatilities in the exchange rate, the Central Bank commenced the provision of market guidance on the daily exchange rate with an allowable margin from mid-May 2022. This has enabled the Sri Lanka rupee to remain relatively stable against the USD since then. Accordingly, the overall depreciation of the Sri Lanka rupee against the USD stood at 44.8% during the year up to end October 2022. The NEER and REER indices, which assess the external competitiveness of the Sri Lanka rupee by measuring the movement of the Sri Lanka rupee against a basket of currencies, declined during the ten months ending October 2022. Meanwhile, in an attempt to alleviate the shortages of essentials in the economy caused by the acute deficit in foreign exchange liquidity in the banking system, the Central Bank continued to provide foreign exchange financing support for the importation of essential goods.

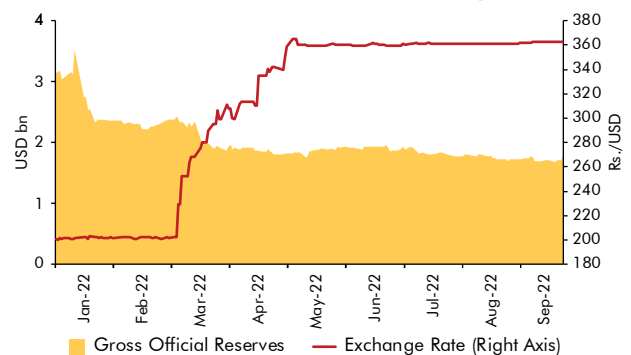
In April 2022, the Government announced a temporary suspension of external debt servicing which led to a 'pre-emptive default', following which Sri Lanka initiated negotiations with the IMF for an economic adjustment programme in April 2022 while initiating a debt restructuring process. By early September 2022, a staff level agreement was reached with the IMF for the economic adjustment programme pertaining to the EFF, which is expected to support the transition of the economy to a sustainable recovery path in the medium term. There has also been significant progress in the debt restructuring process, and negotiations to obtain financing assurances from the official creditors are underway.

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



Source: Central Bank of Sri Lanka

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



Source: Central Bank of Sri Lanka

## Fiscal Sector

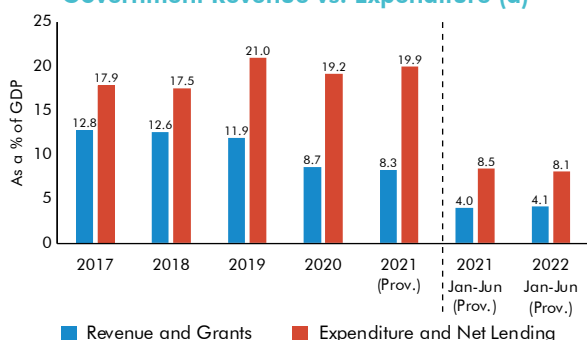
With due consideration to mounting financing pressures on the fiscal front, the Government introduced several fiscal consolidation measures during 2022, and the benefits of these measures are yet to be fully reflected in fiscal indicators. Accordingly, the Government introduced significant tax reforms during the first half of 2022, including the imposition of a Surcharge Levy and increased VAT rate on financial services, while also raising the general VAT rate and Telecommunication Levy with effect from 01 June 2022. Given the limited fiscal leeway, several expenditure rationalisation measures were also introduced in April 2022. These included the curtailment of non-urgent capital expenditure and recurrent expenditure on overtime and new recruitments, among others. During the first half of 2022, government revenue and grants stood at Rs. 919.5 bn (4.1% of projected GDP), compared to the moderate revenue and grants of Rs. 715.3 bn (4.0% of GDP) that was mobilised in the corresponding period of 2021. Revenue policy measures implemented in the period under review together with the spillover effects of increased domestic and global inflation and exchange rate depreciation led to the growth in government revenue. Despite the expenditure rationalisation attempts, government spending continued to rise mainly due to the escalation of additional expenditure on relief measures to alleviate the ripple effects of the pandemic on poor and vulnerable segments of the population, unfavourable market developments emanating from increased domestic interest rates, and escalating cost of goods and services owing to high inflation and large depreciation of the

exchange rate, among others. In nominal terms, total expenditure and net lending during the first half of 2022 recorded an increase of 21.8% to Rs. 1,822.1 bn (8.1% of projected GDP) from Rs. 1,495.5 bn (8.5% of GDP) registered for the corresponding period of 2021.

As the full impact of fiscal consolidation measures is yet to be realised, the rise in government expenditure offset the nominal increase in government revenue during the first half of 2022, resulting in the overall fiscal balance and current account balance deteriorating in nominal terms during the first half of 2022, albeit some improvements were observed when assessing key fiscal indicators as a percentage of projected GDP. Accordingly, in nominal terms, the budget deficit widened to Rs. 902.7 bn (4.0% of the projected GDP) from Rs. 780.2 bn (4.4% of GDP) recorded in the corresponding period in 2021. Nevertheless, the primary deficit declined to Rs. 244.8 bn (1.1% of projected GDP) during the period under review from Rs. 273.2 bn (1.5% of GDP) reported in the first half of 2021. However, any settlement in the near term payments of the Government that were in arrears over the past two years and thus far in 2022 could result in further deterioration of fiscal balances unless a substantial flow of government revenue is realised in the period ahead.

**Given the limited fiscal leeway, the Government introduced significant tax reforms and expenditure rationalisation measures in 2022...**

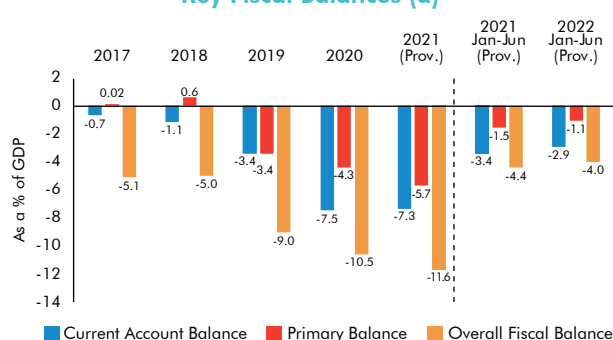
**Figure 1.5**  
**Government Revenue vs. Expenditure (a)**



(a) Rebased GDP estimates (base year 2015) of the Department of Census and statistics have been used for 2018-2021 and GDP projection of the Central Bank of Sri Lanka has been used for 2022.

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

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



(a) Rebased GDP estimates (base year 2015) of the Department of Census and statistics have been used for 2018-2021 and GDP projection of the Central Bank of Sri Lanka has been used for 2022.

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

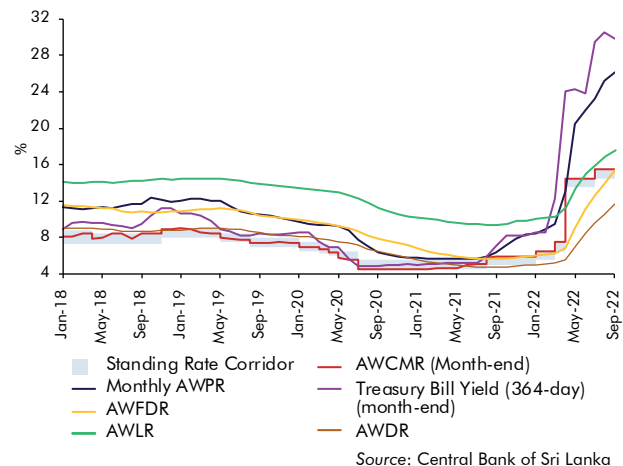
In financing the budget deficit, the Government relied entirely on domestic sources on a net basis as a result of the limited access to global financial markets amidst Sri Lanka's sovereign credit rating downgrades and the debt standstill. During the period from January to June 2022, net domestic financing amounted to Rs. 947.1 bn, compared to Rs. 759.0 bn during the corresponding period of 2021, while net foreign financing amounted to a repayment of Rs. 44.4 bn, compared to a net foreign financing of Rs. 21.2 bn recorded in the corresponding period of 2021. Despite the decrease in borrowings from the banking system to finance the budget deficit resulting from repayments to commercial banks, net financing from the Central Bank increased markedly to Rs. 1,000.0 bn in the first half of 2022, compared to Rs. 310.0 bn recorded in the same period of 2021. Meanwhile, the sharp depreciation of the Sri Lanka rupee, along with the increased budget deficit resulted in a notable increase of around 37.9% in central government debt by the end of June 2022 from end 2021. The central government debt stock is estimated to have reached Rs. 24,264.4 bn by the end June 2022, pending the finalisation of several debt service payments that fell due after the announcement of the Interim Policy regarding the servicing of Sri Lanka's external public debt on 12 April 2022. At end June 2022, the total domestic debt witnessed an increase of Rs. 1,641.3 bn to Rs. 12,738.5 bn, while foreign debt increased by Rs. 5,033.7 bn to Rs. 11,525.9 bn from the levels recorded at end 2021.

**The sharp depreciation of the Sri Lanka rupee against the USD, along with the increased budget deficit resulted in a notable increase in central government debt by end of June 2022...**

## Monetary Sector

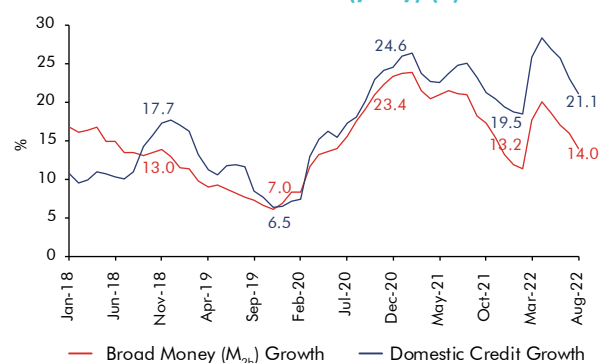
As inflationary pressures continued to surge, exacerbated by the rupee depreciation, global oil and other commodity price hikes, adjustments to domestic administrative prices and domestic supply disruptions, the Central Bank continued to maintain a tight monetary policy stance throughout 2022 to rein in inflationary pressures, while arresting possible

**Figure 1.7**  
**Standing Rate Corridor and Selected Market Interest Rates**



de-anchoring of inflation expectations. Accordingly, commencing August 2021, the key policy interest rates, i.e., SDFR and SLFR, were increased by 10 pps in total to 14.50% and 15.50%, respectively, by end October 2022. This includes the unprecedented upward adjustment of policy interest rates by 7 pps in April 2022 with the intention of arresting any further buildup of demand driven inflationary pressures, preempting the escalation of adverse inflationary expectations, supporting the stabilisation process of the exchange rate, and correcting anomalies observed in the market interest rate structure. Meanwhile, liquidity levels in the domestic money market continued to remain at relatively high deficit levels, following the increase in SRR by 2 pps in September 2021, along with several other developments thus far during 2022, such as the use of gross official reserves to honour foreign currency debt service obligations of the Government, net currency

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



**Table 1.1**  
**Recent Monetary Policy Measures**

| Date        | Measure   |
|-------------|---|
| 19-Aug-2021 | SDFR and SLFR increased by 50 basis points to 5.00% and 6.00%, respectively, and Bank Rate commensurately adjusted to 9.00%   |
| 19-Aug-2021 | SRR increased by 2.00 percentage points to 4.00% to be effective from the reserve period commencing 01 Sep 2021   |
| 20-Jan-2022 | SDFR and SLFR increased by 50 basis points to 5.50% and 6.50%, respectively, and Bank Rate commensurately adjusted to 9.50%   |
| 04-Mar-2022 | SDFR and SLFR increased by 100 basis points to 6.50% and 7.50%, respectively, and Bank Rate commensurately adjusted to 10.50%   |
| 07-Mar-2022 | Allowed an adjustment in the exchange rate  |
| 08-Apr-2022 | SDFR and SLFR increased by 700 basis points to 13.50% and 14.50%, respectively, to be effective from the close of business on 08 Apr 2022 and Bank Rate commensurately adjusted to 17.50% |
| 07-Jul-2022 | SDFR and SLFR increased by 100 basis points to 14.50% and 15.50%, respectively, and Bank Rate commensurately adjusted to 18.50%   |

Source: Central Bank of Sri Lanka

Note: The Central Bank imposed/revised caps on interest rates as follows:

- 24.08.2021: Imposed caps on interest rates to be paid in respect of foreign currency deposit products of LCBs and NSB
- 30.12.2021: Revised caps on interest rates (linked to 364-day Treasury bill yield) to be paid in respect of foreign currency deposit products of LCBs and NSB
- 31.12.2021: Revised caps on interest rates (linked to AWPR) of mortgage-backed housing loans of licensed banks
- 04.03.2022: Revised caps on interest rates (relaxed) of selected lending products of licensed banks
- 11.03.2022: Removed caps on interest rates to be paid in respect of foreign currency deposit products of LCBs and NSB
- 21.04.2022: Removed caps on interest rates of selected lending products of licensed banks

withdrawals, net foreign exchange sales by the Central Bank for continued financing of essential imports, foreign exchange sell-buy swaps (net of maturities) by the Central Bank and outright sales of Treasury bills by the Central Bank. The faster passthrough of the sharp increase in policy interest rates and tight liquidity conditions in the domestic banking system led to a notable increase in market interest rates which reached their highest levels in recent history. Subsequent to the sharp increase in key policy interest rates amidst the increased borrowing requirement of the Government and heightened uncertainty in market conditions amidst debt restructuring concerns, yields on government securities also recorded a considerable upward movement, disproportionate to adjustments in other interest rates. With monetary conditions turning tighter, credit to the private sector by the banking system started moderating, albeit recording an expansion during the months of March-

May 2022 due to the sharp depreciation of the Sri Lanka rupee, followed by contractions in outstanding credit, in absolute terms, consecutively since June 2022. Accordingly, by end August 2022, the y-o-y growth of credit extended to the private sector decelerated to 12.0%, with the same estimated to have decelerated to around 1.9%, y-o-y, after adjusting for the depreciation of the rupee. Nevertheless, reflecting the continued reliance of the Government on domestic financing, particularly on the Central Bank, NCG by the banking system expanded notably amidst low government revenue and limited access to foreign financing sources. Credit obtained by the SOBEs from the banking system also expanded substantially, reflecting their weak financial performance and the revaluation effects of foreign currency denominated debt. Meanwhile, NFA of the banking system continued to decline driven by a deterioration in NFA of the Central Bank. Despite the substantial expansion in credit to the public sector and the revaluation effects of foreign currency denominated debt, the growth of broad money supply ( $M_{2b}$ ) decelerated from April 2022, driven by the contraction in private sector credit and a decline in NFA of the banking system. By end August 2022, the y-o-y growth of  $M_{2b}$  moderated to 14.0% from its peak of 20.0% in April 2022. Once adjusted for the impact of the rupee depreciation, the y-o-y growth of  $M_{2b}$  is estimated to have decelerated notably to around 5.8% by end August 2022.

**Reflecting a faster passthrough of unprecedented monetary policy actions and tight liquidity conditions, market interest rates rose notably, resulting in a marked deceleration in the growth of credit to the private sector...**

## Financial Sector

The stability of the financial sector was challenged amidst the crisis conditions that have prevailed in the economy during thus far in 2022. Although the banking sector recorded growth in terms of assets, the foreign exchange crisis and contractionary monetary policy posed challenges for the sector, particularly in terms of foreign currency liquidity and credit quality. The performance of the LFCs and SLCs



sector improved during the eight months ending August 2022 while a considerable increase in gross Stage 3 loans was observed indicating a potential deterioration in the credit quality of the sector. Primary Dealer Companies, Licensed Microfinance Companies, Insurance Companies, Superannuation Funds and other subsectors demonstrated a mixed performance during the period mainly owing to contemporary economic uncertainties. In terms of financial markets, the domestic money market persistently remained in a deficit in 2022 due to scheduled foreign loan repayments, currency withdrawals as well as maturities of foreign currency swaps, while the domestic foreign exchange market continued its declining trend in terms of trading volumes. The government securities market depicted an upswing in the primary market yield rates as a consequence of the significant requirement for financing by the fiscal sector, rise in policy interest rates and market uncertainties. Moreover, the equity market witnessed a steep decline since early February 2022 which moderated from April 2022 onwards. Despite the challenging conditions that prevailed in the financial markets, the financial infrastructure ensured the smooth functioning of the sector during the year. Meanwhile, the legal and regulatory framework of the financial sector is also being strengthened by way of several measures to be implemented, including the new Banking Act.

**The stability of the financial sector was challenged amidst the crisis conditions that prevailed across the economy during the period thus far in 2022...**

## 1.2 International Economic Environment

The global economy is being straddled by several significant challenges, such as higher inflation, tightening financial conditions, adverse spillover effects of geopolitical tensions, the persistent effects of the COVID-19 pandemic, and emerging concerns about a possible global recession and food insecurity, among others. According to the WEO of the IMF released in October 2022, global growth is anticipated to decline from 6.0% in 2021 to 3.2% in 2022 and 2.7% in 2023. Notably, apart from the global financial crisis in 2007/08 and the peak of the COVID-19 pandemic, this

is the weakest growth forecast released by the IMF. Accordingly, the poor global growth performance is expected to be driven by major economic downturns in the world's largest economies including the United States, the Euro area and China. So far, about one-third of the world economies have experienced two consecutive quarters of negative growth, which technically points to a 'recession'. Considering these developments, the WEO forecasts that the growth in advanced economies will slow down from 5.2% in 2021 to 2.4% and 1.1% in 2022 and 2023, respectively. The growth in the United States is projected to decline from 5.7% in 2021 to 1.6% and 1.0% in 2022 and 2023, respectively, mainly due to declining real disposable income and high spending on residential investments. In the Euro area, growth projections have been revised downwards from 5.2% in 2021 to 3.1% in 2022 and 0.5% in 2023. Growth in emerging market and developing economies is also expected to slow down from 6.6% in 2021 to 3.7% in 2022 and remain at similar levels in 2023, reflecting lesser contraction in emerging markets compared to developed nations. Growth in emerging and developing Asia, which stood at 7.2% in 2021, is projected to be 4.4% in 2022 and 4.9% in 2023, reflecting the prospects of a slowdown in China due to COVID-19 lockdowns and deteriorating property market prices; the Chinese economy is expected to slow down from 8.1% in 2021 to 3.2% and 4.4% in 2022 and 2023, respectively. Growth prospects for India have also been revised to 6.8% and 6.1% in 2022 and 2023, respectively, compared to the growth of 8.7% in 2021.

**The global economy faces prospects of a recession stemming from persisting geopolitical tensions and its spillover effects on commodity prices, rising inflationary pressures and an overall tightening of monetary policy by major central banks...**

Global inflation is at the highest level seen in the past two decades, necessitating the adoption of rapid monetary policy tightening. Inflation has increased faster and steadier than expected since 2021, while in 2022, inflation in advanced economies reached the highest levels recorded since 1982. As per the WEO

**Table 1.2**

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

| Country                          | Key Policy Rate             | End 2019    | End 2020  | End 2021  | End Oct 2022 |
|----------------------------------|-----------------------------|-------------|-----------|-----------|--------------|
| %                                |                             |             |           |           |              |
| Sri Lanka                        | SDFR                        | 7.00        | 4.50      | 5.00      | 14.50        |
|                                  | SLFR                        | 8.00        | 5.50      | 6.00      | 15.50        |
| <b>Emerging Market Economies</b> |                             |             |           |           |              |
| India                            | Repo Rate                   | 5.15        | 4.00      | 4.00      | 5.90         |
| Malaysia                         | Overnight Policy Rate       | 3.00        | 1.75      | 1.75      | 2.50         |
| Thailand                         | 1-day Bilateral Repo Rate   | 1.25        | 0.50      | 0.50      | 1.00         |
| China                            | 1-year Loan Prime Rate      | 4.15        | 3.85      | 3.80      | 3.65         |
| Indonesia                        | 7-day Reverse Repo Rate     | 5.00        | 3.75      | 3.50      | 4.75         |
| Philippines                      | Overnight Reverse Repo Rate | 4.00        | 2.00      | 2.00      | 4.25         |
| <b>Advanced Economies</b>        |                             |             |           |           |              |
| USA                              | Federal Funds Rate          | 1.50 - 1.75 | 0.00-0.25 | 0.00-0.25 | 3.00-3.25    |
| UK                               | Bank Rate                   | 0.75        | 0.10      | 0.25      | 2.25         |
| ECB                              | Refinance Rate              | 0.00        | 0.00      | 0.00      | 2.00         |
| Japan                            | Overnight Call Rate         | -0.10       | -0.10     | -0.10     | -0.10        |
| Canada                           | Overnight Rate              | 1.75        | 0.25      | 0.25      | 3.75         |
| Australia                        | Cash Rate                   | 0.75        | 0.10      | 0.10      | 2.60         |
| Sweden                           | Repo Rate                   | -0.25       | 0.00      | 0.00      | 1.75         |

Source: Websites of respective central banks

forecast, the inflation rate in advanced economies, which was at 3.1% in 2021, is expected to accelerate to 7.2% in 2022 before moderating thereafter to 4.4% in 2023. In emerging markets and developing economies, inflation which stood at 5.9% in 2021 is expected to accelerate to 9.9% in 2022 and decelerate slightly to 8.1% in 2023. Although the impact of these high inflationary levels is felt worldwide by all economic stakeholders, these price developments will have a severe impact on low income countries, where half of household consumption is spent on food. This is expected to severely affect socio-economic well-being and living standards, particularly for a sizeable section of the population living below the poverty line in these economies. Further, many emerging market and developing economies are already facing significant external challenges stemming from the substantial appreciation in the value of the USD which has exacerbated local pricing pressures, resulting in increased cost of living in many nations. The WEO highlights that these growing pricing pressures will squeeze/suppress real earnings and weaken macroeconomic stability further in the near future. Although central banks across the world are currently focusing on rebuilding price stability, the pace at which policy tightening will occur remains a major point of contention, with some policymakers already softening their policy tightening to some extent, with due consideration of the balance between recessionary effects and the benefits of a faster policy tightening.

### 1.3 Expected Developments

The Sri Lankan economy is expected to regain stability in the near term from the notable slowdown and worsened economic vulnerabilities associated with the historically high inflation levels coupled with the lowest growth levels recorded since post-independence. The successful implementation of stabilisation measures introduced by the Government and the Central Bank remains essential, despite warranting painful socio-economic adjustments by all economic stakeholders. Undoubtedly, the recently introduced fiscal and monetary policy measures are expected to dampen consumer demand, while helping to rein in inflation and anchor inflation expectations, although at the cost of subdued economic growth in the near term. However, such measures are expected to help the economy to restore stability and progress towards a more sustainable growth trajectory over the medium term by addressing deep rooted structural issues in a holistic and efficacious manner. Accordingly, following a stringent economic stabilisation framework that is broadly aligned with the planned economic adjustments and structural reforms under the IMF-EFF arrangement is imperative to the economy's progress, alongside the successful and timely completion of the debt restructuring process.

**The successful  
implementation of  
stabilisation measures  
introduced by the  
Government and the Central  
Bank remains imperative to  
restore economic stability,  
despite warranting painful  
socio-economic adjustments  
in the near term...**

In 2022, the economy is projected to contract sharply by about 8.0%, registering the largest economic contraction in Sri Lanka on record. The combined effect of shortages in raw materials amidst tight foreign exchange liquidity conditions, elevated levels of global commodity prices, vulnerabilities in the power and energy sector, as well as the tightening of both monetary and fiscal policies, are expected to weigh negatively on overall economic performance in 2022. The recovery in economic activity is expected to remain moderate in 2023 owing to lingering effects of ongoing macroeconomic vulnerabilities in the economy, notable

upward adjustments to domestic tax structure, and a possible slowdown in the global economy due to monetary policy tightening by major central banks around the world to arrest inflationary pressures as well as the spillover effects of geopolitical tensions on commodity prices. Nevertheless, with the envisaged macroeconomic adjustment programme, growth is expected to gather pace from 2024 onwards leading to a conducive environment for the economy to grow. The unwavering commitment of the Government and other policymakers to implementing structural reforms will be essential to restore confidence in the economy and harness its potential at this critical juncture. Policy transitions and measures that are underway will contribute to improving the resilience of the economy over the medium term. A key initiative in this regard is the Government's efforts towards the increased adoption of renewable energy sources to improve the energy security of the economy in a cost-effective and sustainable manner. Also, recent drives to strengthen the legal framework pertaining to the Colombo Port City and the Colombo International Financial Centre are expected to help attract FDIs in the period ahead considering the uniqueness and attractiveness of the project within the South Asian region. In addition, several of the reforms that have been planned by the Government and proposed by the IMF will also help to improve the productive potential of the economy by helping to harness the potential of the existing human capital and natural resource base.

The economy is likely to continue to experience external headwinds in the near term as the possible worsening of global economic conditions will put potential international lenders and investors on a weaker footing. Nevertheless, with the envisaged IMF-EFF arrangement, the economy is expected to receive substantial bridging finances from various parties, including several multilateral agencies. Moreover, greater flexibility in determining the exchange rate based on market forces that will accompany a successful economic revival programme is also expected to result in a positive impact on foreign exchange inflows. These developments will be a cornerstone in ensuring growth impetus from the country's longstanding key drivers in the external sector, including merchandise and service exports, tourism, workers' remittances, and FDIs, among others.

On the fiscal front, implementation of economic and policy reforms stipulated under the IMF economic adjustment programme with a strong commitment, in tandem with the debt sustainability efforts, would enable

improvement of fiscal sector performance in the near to medium term to achieve fiscal sustainability of Sri Lanka. In this regard, several actions have been undertaken while several more are underway. Such measures include reforms targeted at strategising SOBEs together with the adoption of cost recovery pricing formulas for major utility providers as well as several reforms to the tax structure. Although several tax reforms that were introduced thus far in 2022 are envisaged to yield higher revenue generation, the fullest benefits from these policy adjustments are to be realised next year onwards, where the government revenue is expected to reach about 11% of GDP leading to an improvement in the primary balance. The government debt restructuring initiative, which is currently underway, would reduce the debt burden of the Government to a manageable level with the expected support from all creditors. However, strong fiscal discipline, rigorous revenue enhancement measures, including improved tax administration, and reforms to SOEs to induce efficiency gains remain imperative to minimise further debt accumulation and achieve fiscal sustainability in the post-debt-restructuring period. Achieving fiscal and debt sustainability in the medium term through expeditious completion of debt restructuring activities and ensuring fiscal prudence is critical to rebuild investor confidence and reopen foreign financing avenues for the country. In turn, these can ease the liquidity pressures in the domestic financial markets and curtail monetary financing. However, any holdout issues by major creditors could derail the debt restructuring process, thereby affecting the economic recovery process. Nevertheless, the unprecedented fiscal consolidation efforts could affect the disposable income of households, alongside the spillover effects of the recent high levels of inflation and slowdown in economic activity, thereby exacerbating income inequalities that existed even prior to COVID-19. Unless addressed through well-targeted and sufficient social safety measures, such developments could trigger cyclical effects of income inequality resulting in the deterioration of the productive capacity of households, thereby worsening such inequality and leaving them in a protracted status of worsening living standards. It is expected that the financial assistance extended by multilateral agencies and those that are awaited from other lending sources in the near future would help mitigate any such poverty cycles.

Reflecting tight monetary and liquidity conditions, market interest rates are expected to remain elevated in the near term, before moderating as economic conditions improve reflecting the impact of stabilisation measures.

Competitive high deposit interest rates are expected to attract currency in circulation back into the banking system, while higher market lending interest rates are expected to reduce the appetite for credit leading to a contraction in the overall stock of credit extended to the private sector. Meanwhile, the envisaged fiscal reforms as well as reforms to the lossmaking SOBEs, along with the introduction of cost-reflective pricing formulae, are expected to gradually reduce the burden on the Government's budget and its subsequent heightened reliance on bank financing, especially financing by the Central Bank, in the period ahead. Accordingly, the expansion in NDA of the banking system is expected to be benign in the period ahead. With LCBs phasing out some of their foreign liabilities, amidst parallel efforts by the Central Bank to gradually rebuild its external reserves, the NFA position of the banking system is expected to improve in the forthcoming period.

**Market interest rates are expected to remain elevated in the near term before moderating, as economic conditions improve reflecting the impact of stabilisation measures...**

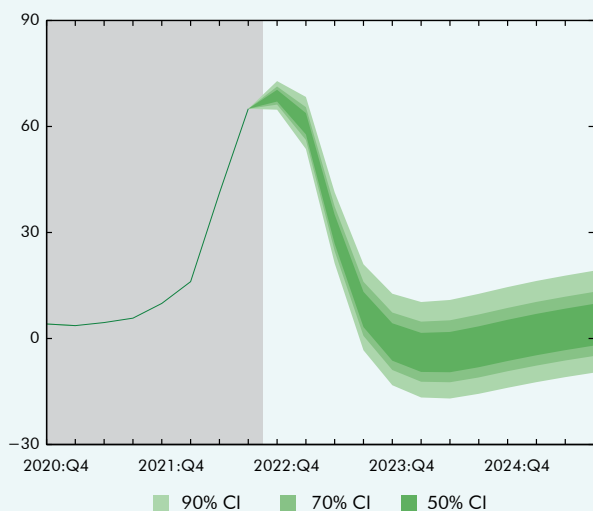
Headline inflation is expected to moderate in the period ahead with the potential softening of domestic commodity prices in the wake of downward revisions to administratively determined prices of certain commodities in line with global developments,

improved domestic supply conditions in relation to agriculture and subdued aggregate demand pressures resulting from tight monetary and fiscal conditions, and the favourable statistical base effect. Although recently announced tax adjustments could pose upside risks to the near term inflation outlook, the medium to long term impact of such policies is expected to be favourable in achieving the price stability objective of the Central Bank.

**Headline inflation is expected to follow a faster disinflation path from early 2023 onwards, supported by appropriate policy measures and expected easing of food and other commodity prices...**

The Central Bank will continue to engage in well-coordinated, effective, and transparent communication of current economic conditions with all the stakeholders of the economy as managing inflation expectations is vital to expedite the disinflationary process. Nevertheless, price pressures could persist unless domestic prices are not adjusted in line with downward trending global commodity price trends. This will also result in delays in the disinflation process. Therefore, transparent and market based price adjustments, primarily of administratively determined energy prices, remain vital to both anchoring inflation expectations and also to improve the efficiency of SOBEs.

**Figure 1.9**  
Quarterly Average Headline Inflation Projections  
Based on the CCPI (y-o-y, %)



Source: Central Bank Staff Projections

**Note: A forecast is neither a promise nor a commitment.**

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

The projection reflects the available data, and assumptions and judgements made in the October 2022 forecast round. The projections are conditional on current forecasts of global fuel and food prices that are anticipated to ease gradually, which in turn are expected to be reflected in domestic prices; below potential level growth in Sri Lanka's major trading partners; and tightening global financial conditions implied by the current and anticipated monetary policy stance of the USA. Further, the projections are conditional on the model-consistent interest rate path and the achievement of medium-term fiscal targets. Moreover, domestic food supply conditions are assumed to ease in 2023. Given the prevailing domestic and global economic uncertainties and geopolitical tensions, the risks associated with the current projections are much higher than in normal times. Any notable change in these assumptions could lead to the realised inflation path deviating from the above. The Central Bank remains committed to communicating anticipated changes in inflation outlook to the public on a regular basis, to enable them to make informed decisions.



The financial sector is likely to encounter significant challenges in the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high interest rate environment, tax revisions and high exposure of the banking sector to SOBEs. At present, an increasing trend in impaired loans is observed due to the present adverse macroeconomic circumstances and is expected to further increase in view of contemporary weak economic conditions despite the concessions granted to borrowers by the industry to confront the challenges. Meanwhile, capital levels of banks remained above the minimum statutory requirements during the eight months ending August 2022. The deadline to achieve enhanced minimum capital levels was deferred for licensed banks, which are yet to meet the minimum capital requirement of end 2022, until end 2023. However, banking sector stability may be threatened by rising challenges in maintaining its capital ratios above regulatory minimum levels and a substantial deterioration in capital buffers due to the impact of adverse macroeconomic conditions. Although the liquidity positions of banks remained above the minimum regulatory requirements during the eight months ending August 2022, the prevailing extraordinary developments including the debt standstill have affected the liquidity position of banks. While rigorously monitoring the liquidity risk profiles of the banks, the Central Bank is in the process of reviewing the currently applicable regulations on liquidity requirements to ensure continued resilience and stability of the banking sector. The legal and regulatory framework of licensed banks will be further strengthened through the new Banking Act. With the view of further strengthening the resolution framework for the LFC/SLCs sector, the Finance Business Act and Finance Leasing Act are being amended, which will revise the existing directions in line with the current market developments and align the regulatory framework with that of the licensed banks. The proposed Microfinance and Credit Regulatory Authority Act is also expected to be enacted in the recent future, which will streamline the microfinance sector to be brought under the purview of a dedicated authority. The NBFIs as a whole are expected to be stabilised with the successful implementation of the Masterplan for Consolidation, which will support the resilience of the sector as well as the entire financial system.

***The financial sector is likely to encounter significant challenges in the face of the current economic environment with the contraction in economic output, sovereign debt restructuring, high interest rate environment, tax revisions and high exposure of the banking sector to SOBEs...***

The consistent implementation of envisaged reforms and major policy initiatives already undertaken is expected to result in the expansion of productive employment opportunities and income generation avenues in a robust manner. Amidst domestic and global headwinds, the economic stabilisation programme of the Government is expected to attract funding assistance from multilateral and bilateral partners while also luring investors. The expeditious finalisation of the debt restructuring process and achievement of sustainability in debt are instrumental to securing further funding that is vital for the smooth transition of the economy towards greater stability in the period ahead. Policy commitment towards equipping the economy to transform into one that is driven by export oriented manufacturing and high tech services exports will be vital for the recovery of the external sector and to strengthen and improve the resilience of the economy over the long run. Despite the positive outcomes of the broad policy response thus far rolled out by the Government and the Central Bank to address the challenges faced by the economy, the upcoming arduous adjustment process requires concerted efforts and strong, consistent and unwavering commitment by the authorities which are independent of any upcoming election cycles. Active engagement, participation, awareness and forbearance of all stakeholders, micro and macro alike, are imperative to undertake long overdue reforms, which will be critical to ensure that the country not only recovers from the ongoing crisis but also to prevent any similar crises in the period ahead, by addressing long rooted structural problems and therefore progressing towards sustained stability, growth, and prosperity in the medium to long term.

## 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                     | NDA             | : Net Domestic Assets                        |
| bn     | : Billion   | NEER            | : Nominal Effective Exchange Rate            |
| BOP    | : Balance of Payments                                     | NFA             | : Net Foreign Assets                         |
| bps    | : Basis Points  | NPL             | : Non Performing Loans                       |
| BT     | : Before Tax  | PAL             | : Ports and Airports Development Levy        |
| CCPI   | : Colombo Consumer Price Index                            | PBOC            | : People's Bank of China                     |
| CDB    | : China Development Bank                                  | pps             | : Percentage Points                          |
| CESS   | : Commodity Exports Subsidy Scheme                        | Prov.           | : Provisional                                |
| CSE    | : Colombo Stock Exchange                                  | REER            | : Real Effective Exchange Rate               |
| DBU    | : Domestic Banking Unit                                   | Rs./LKR         | : Sri Lanka Rupee                            |
| DCS    | : Department of Census and Statistics                     | SDFR            | : Standing Deposit Facility Rate             |
| DIEs   | : Direct Investment Enterprises                           | SDR             | : Special Drawing Rights                     |
| EFF    | : Extended Fund Facility                                  | SLCs            | : Specialised Leasing Companies              |
| FDI    | : Foreign Direct Investment                               | SLFR            | : Standing Lending Facility Rate             |
| GDP    | : Gross Domestic Product                                  | SOBES           | : State Owned Business Enterprises           |
| GWP    | : Gross Written Premium                                   | SRR             | : Statutory Reserve Ratio                    |
| IMF    | : International Monetary Fund                             | T-bill          | : Treasury bill                              |
| ISB    | : International Sovereign Bond                            | tn              | : Trillion                                   |
| IT/BPO | : Information Technology and Business Process Outsourcing | USD             | : United States Dollar                       |
| LCBs   | : Licensed Commercial Banks                               | VAT             | : Value Added Tax                            |
| LFCs   | : 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 registered a contraction of 4.8% during the first half of 2022 in the wake of daunting challenges that emanated from both domestic and external fronts. The contraction in the economy during the first half of the year was largely on account of supply-side impediments, such as a prolonged energy crisis, difficulties in importing key raw materials amid dwindling foreign exchange liquidity, and soaring global commodity prices. Accordingly, all three major economic activities, namely Agriculture, Industry and Services, contracted during the first half of the year. Meanwhile, both investment and consumption expenditure at constant prices contracted during the first half of the year, although both increased at current prices, driven by the high prices that prevailed during the period. Further, net external demand at current prices recorded an improvement during the first half of the year, mainly due to higher growth in exports compared to imports. However, fading away of the COVID-19 pandemic helped relieve hardships in the labour market during the first half of 2022, compared to the corresponding period of 2021; yet labour productivity declined, reflecting the setback in economic activities.

## 2.1 Output

The economy contracted in both the first and second quarters of the year, particularly at a steeper pace during the second quarter, resulting in an overall contraction of 4.8% in the first half of 2022, compared to 9.3% growth recorded in the comparative period of 2021. This was mainly driven by prolonged power outages, fuel shortages, scarcity of key raw materials and soaring cost of production. All three major economic activities contracted during the period, within which Industry activities declined by 7.1% making the highest contribution to the overall contraction of the economy while Agriculture and Services activities declined by 7.6% and 0.6%, respectively.

**Industry activities led the contraction in the economy during the first half of the year, followed by the decline in Agriculture and Services activities...**

### Services

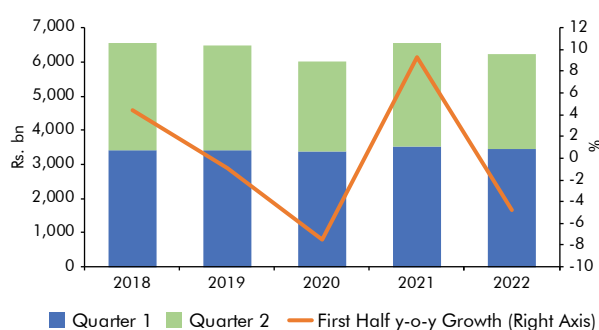
The setback in Services activities was driven by the considerable decline in financial services, professional services and other personal service activities. Further, insurance, transportation, human health and real estate activities also contracted during this period. However, accommodation services, wholesale and retail trade, public administration, IT programming and consultancy activities, telecommunication, and education services expanded in the first half of the year.

The overall growth of wholesale and retail trade, transportation and storage, accommodation, food and beverage services slowed down to 1.6% during the first half of 2022, driven by the setback in transportation activities, compared to the growth of 4.7% recorded in the corresponding period of 2021. Accordingly, transportation activities contracted by 0.9% during the first half of 2022 due to the shortage of fuel, particularly during the second quarter. However, wholesale and retail trade activities grew by 1.3% during this period. Moreover, accommodation, food and beverage services activities grew by 28.4%, supported by the improvements in tourist arrivals.

The notable slowdown in the IT programming consultancy and related activities resulted in a slower growth of 3.8% in Information and communication activities during the first half of 2022, compared to 18.6% growth recorded in the corresponding period of 2021. Within this category, IT programming consultancy and related activities grew at a slower pace of 3.7% during the first half of 2022 with a negative growth during the second quarter. Further, telecommunication activities also grew at a relatively slower pace of 8.3% during the first half of 2022. Meanwhile, programming and broadcasting activities and audio-video productions contracted by 8.6% during the first half of this year.

**Reduced mobility following the short supply of fuel, and prolonged power outages which prevailed during the first half of the year crippled services activities ...**

**Figure 2.1**  
First Half GDP at Constant (2015) Prices (a)



(a) The data are based on the base year 2015 GDP estimates

Source: : Department of Census and Statistics

The significant decline in financial services led to the 6.6% contraction in the financial, insurance, and real estate activities (including ownership of dwellings) during the first half of 2022, which grew by 7.1% in the corresponding period of 2021. Financial services and auxiliary financial services activities recorded a notable decline of 12.0% during the first half of 2022, affected by the contractionary monetary policy stance adopted to curb the high inflation. Further, insurance and real estate activities (including ownership of dwellings) also contracted by 10.5% and 0.5%, respectively, during the first half of the year.

Considering the other services-related activities, other personal services, professional services and human health activities contracted, while public administration and education services grew during the first half of 2022, compared to the corresponding period of 2021. In this category, other personal service activities and professional services contracted by 2.0% and 7.5%, respectively, during the first half of 2022. Further, human health related activities contracted by 4.3% during this period. However, public administration and defence-related services, and education services each grew by 2.9% during the first half of the year.

## Industry

Industry performance experienced a severe setback during the period thus far in 2022 due to challenges encountered owing to the economic crisis. Sectoral industry activities were severely hampered not only by the continuation of restrictions on importation of raw materials, but also due to disruptions in electricity and fuel provisioning, rising costs of production and the overall dampening of consumer demand with the deterioration in real income amidst rising inflation.

**The prolonged energy crisis, short supply of raw materials and soaring input prices dragged down the performance of Industry activities during the first half of the year...**

The dwindling performance in Industry activities, in value-added terms, during the first half of the year was mainly attributable to the contraction in manufacturing activities, the major contributor to Industry activities. Moreover, construction, and mining and quarrying activities also contracted substantially during this period. However, electricity, gas, steam and air conditioning supply, and water collection, treatment and supply activities positively contributed to the overall performance of Industry activities.

The prolonged energy crisis and the short supply of key raw materials adversely affected the performance of manufacturing activities, leading to a contraction of 6.2%, in value-added terms, during the first half of the year. The noticeable contraction in the manufacture of

food, beverages and tobacco products by 9.9% during the first half of 2022 dragged down the growth in overall manufacturing activities. Further, the manufacture of other non-metallic mineral products, rubber and plastic products, chemical and chemical products, and coke and refined petroleum products also contracted during this period. However, the manufacture of textiles, wearing apparel, leather and other related products expanded by 9.1% during the first half of the year.

The shortages of building materials and energy, elevated prices of inputs, severe cash flow constraints and suspension of government-funded projects led to a substantial decline of 8.9% in construction activities during the first half of the year. Moreover, mining and quarrying activities which are highly correlated with construction activities, also contracted by 13.1% during this period, primarily affected by the setback in construction activities.

## Index of Industrial Production (IIP)

During the eight months ending August 2022, the IIP consistently recorded y-o-y contractions, with the exception of February 2022. Accordingly, significant contractions were recorded in the key IIP sectors of manufacture of food products, manufacture of other non-metallic mineral products, manufacture of textiles, and manufacture of basic metal categories, while most of the other minor subsectors also recorded overall contractions during the period. Notably, the substantial

**Figure 2.2**  
**Index of Industrial Production (IIP)**



Source: Department of Census and Statistics



negative performance of the subsector of manufacture of coke and refined petroleum products, except in February and March 2022, also kept the overall index performance suppressed due to prolonged refinery shutdowns that were undertaken during the period due to limited importation of crude oil. However, certain subsectors, such as manufacture of wearing apparel, manufacture of chemical and chemical products and beverages and tobacco products that account for around 30% of the index, recorded overall growths during the period, despite some occasional declines.

### Industrial Policies and Institutional Support

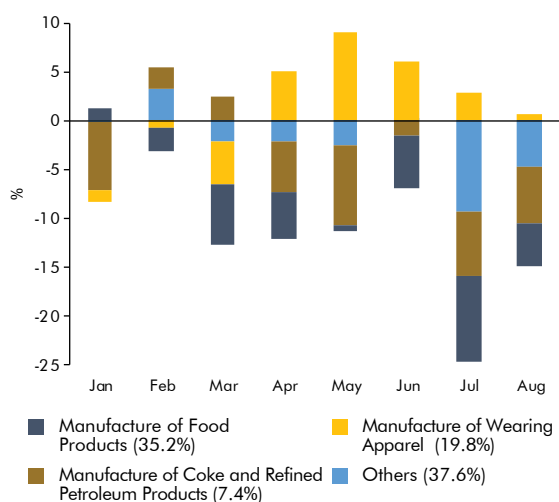
Policy initiatives of the Government focused on the sustenance and upliftment of the industry sector were continued at a modest pace during the year. In a bid to improve the policy focus and strategic direction of the Industry sector, the Government continued to pursue the development of the *National Policy for Industrial Development*. Initiatives were also underway by the National Innovation Agency during the year to encourage innovation-driven industrial development with a special focus on the identification of gaps pertaining to the commercialisation of intellectual property in Sri Lanka, while a project was founded on creating a unique brand for home-grown Sri Lankan products.

Amidst the ongoing economic crisis, government agencies have initiated several measures collaboratively with private and international agencies to overcome the issues stemming in the industry sector. Accordingly,

to address problems encountered with regulatory limitations, such as import restrictions and mandatory conversion of export proceeds, several discussions were held with the relevant stakeholders, in particular, a directive was obtained by the BOI from the Central Bank on the applicability of the new Foreign Exchange Act on foreign exchange transactions of BOI companies. Further initiatives have been taken by the Ministry of Industries and BOI to issue recommendation letters considering priority criteria for the importation of raw materials under open account payment basis and supplying the fuel needed for industrial factories through depots of the Sri Lanka Transport Board. Meanwhile, the Central Bank requested licensed banks to provide appropriate concessions on credit facilities for a period of six months from July 2022 onwards considering the adverse impact of macroeconomic challenges and the COVID-19 pandemic on a case-by-case basis including the affected borrowers in the Micro, Small and Medium Enterprises Sector.

Driven by worsening macroeconomic imbalances, foreign investments made under the BOI have declined notably by around 34% during the first half of 2022, reiterating the need for urgent policies targeted at ensuring a business conducive environment for sustainable growth in the industrial sector. Therefore, the BOI and the EDB continued their efforts to attract FDI into the Industry sector throughout the period. The EDB has developed a National Export Brand and a 5-year promotional plan to promote several earmarked export sectors in the economy including apparel, gem and jewellery, electronic and electronic products, rubber and rubber base products, and boat and boat building. Investor facilitation initiatives also progressed during the year with the establishment of a new business partnership database to serve as a platform to connect local and international enterprises to assist firms, research institutions, and start-ups in locating the best partners for their next business proposals or innovations. Further, a specialised unit was also established to expedite investment approval processes by providing a common platform for investors to obtain relevant agency approvals. Moreover, promotional events, including trade fairs, market linkage creating programmes, awareness sessions, and capacity building programs, were also conducted targeting export-oriented businesses, while several market

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



Note: Figures in parenthesis are the weights of subsectors in IIP

Source: Department of Census and Statistics

studies related to the Commonwealth of Independent States, African, and Middle East countries were also conducted in an attempt to identify novel market opportunities.

Amid the disproportionate impact that SMEs are likely to encounter in the current economic crisis, several concerns have been raised regarding the need for efforts to sustain SMEs with due consideration of the immense contribution of SMEs to the economy. Although efforts have been made to extend financial and non-financial support to SMEs through bilateral agencies, a detailed assessment of the contemporary needs and challenges faced by SMEs is imperative to ensure their survival and contribution to the recovery process, especially in the short-term. An essential aspect of the revitalisation agenda should be the reorientation of SMEs to move towards high value added and niche products that can not only cater to the export market but also fill the lacuna for the same within the domestic market. In this regard, concerted initiatives are required by government agencies to help fast track the modernisation of SMEs and embrace digital platforms to facilitate their access to global export markets and, in the medium-term, position themselves on global value chains pertaining to several products in which Sri Lanka already possess innate potential, such as apparel, textiles, agricultural products, and traditional crafts, among others. Moreover, drastic reforms in the existing Technical and Vocational Education and Training sector aligning their curriculums with the global value chains related industrial demand will also be needed to address the skill gaps in the SME sector. Further, urgent measures are needed to introduce performance-based incentive schemes for the SME sector, thereby facilitating the progress in overall productivity of the SMEs over the medium to long run.

## Agriculture

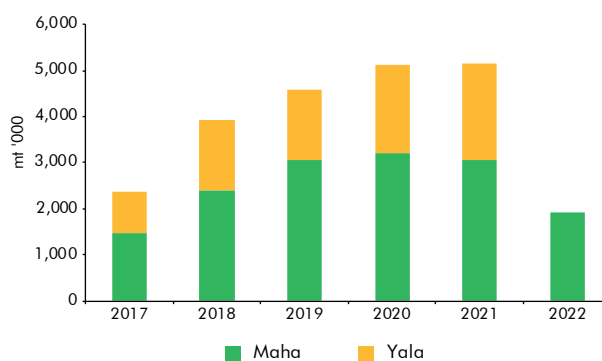
The significant decline in the growing of rice, tea and vegetables was driven by the short supply of fertiliser, which led to a setback in the value-added of Agriculture activities during the first half of 2022. Further, fishing activities, animal production, growing of other cereals, rubber, and forestry and logging activities also contracted during this period. However, growing of oleaginous fruits (coconut, king coconut, oil palm),

spices, plant propagation and other perennial crops contributed positively towards the overall performance of Agriculture activities.

**The short supply of required fertilizer hampered major crops, leading to a notable contraction in Agriculture activities during the first half of the year...**

Agriculture activities exhibited a subdued performance during the eight months ending August 2022, primarily due to the acute shortages in agricultural inputs, particularly fertilisers and other agrochemicals, and rising production costs as well as disruptions to the energy supply amidst the economic crisis. Recording the lowest Maha production since the 2016/2017 Maha season, the total paddy production registered a y-o-y decline of 36.9% to 1.9 mn mt in the 2021/2022 Maha season, compared to the bumper harvest of 3.1 mn mt recorded during the 2020/2021 Maha season. Further, vegetable production recorded a y-o-y decline of 6.5% in the first half of 2022, while other field crop production also reported a significant y-o-y decline of 37.8% in the first half of 2022. In the plantation sector, tea and rubber production recorded notable y-o-y contractions of 19.2% and 13.8%, respectively, during the eight months ending August 2022. Tea production in all three elevations of high grown, medium grown, and low grown recorded declines mainly due to the limited availability of fertilisers and agrochemicals and fuel shortages. The decline in rubber production was driven by the combined effect of adverse weather

**Figure 2.4**  
Paddy Production



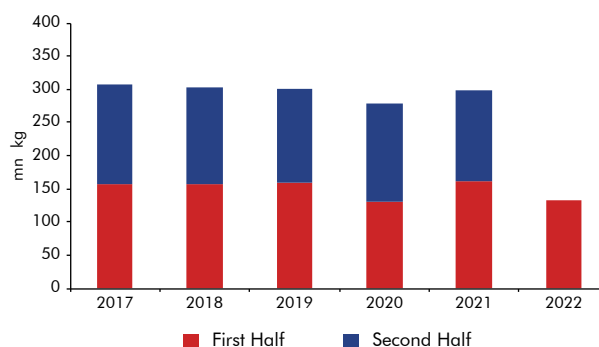
Source: Department of Census and Statistics

conditions that prevailed in rubber growing areas, the fast spreading of a fungal disease, and shortages of fertiliser and other inputs. Meanwhile, tea and rubber auction prices increased significantly thus far in 2022 and reached historically high levels during the third quarter of the year. During the eight months ending August 2022, coconut and coconut-based products registered a y-o-y growth of 12.3% in total nut production supported by the lagged effect of favourable weather conditions that prevailed throughout 2021, while the current low levels of fertiliser application in the coconut sector would result in low yields in coming years. Meanwhile, the fishing sector was adversely affected by disrupted fishing and supply chain activities owing to fuel shortages and power outages. Accordingly, the total fish production declined by 9.7% (y-o-y) during the eight months ending August 2022 following a notable y-o-y decline of 15.5% in marine fish production that accounted for around 72% of total fish production. However, inland fishing activities registered a y-o-y growth of 9.1% during the period under review. During the first half of the year, the livestock sector also observed a subdued performance as the progress in the sector was hampered by inadequate feed materials, both imported and domestically produced, together with cost of production escalation, thereby pressurising domestic retail prices to record highs.

### Agriculture Policies and Institutional Support

Amidst growing food security challenges in the country, several measures were implemented by the Government to ensure the availability and affordability of agriculture supply, while supporting the livelihood of farmers. The Government intermittently intervened in the paddy and rice markets in its effort to reduce price volatility and ensure supply continuity. Accordingly, under the paddy purchasing programme of the PMB, a stock 71,280 mt of paddy was purchased for the 2021/2022 Maha season at a rate of Rs. 90.00/kg for Nadu, Rs. 92.00/kg for Samba, and Rs. 95.00/kg for Keeri Samba. Further, considering the escalation of cost of production in the paddy sector, the guaranteed purchase prices for a kilogramme of Samba, Nadu, and Keeri Samba increased to Rs. 125.00, Rs. 120.00, and Rs. 130.00, respectively, in the 2022 Yala season. Under the revised guaranteed prices, a stock of around 30,000 mt of paddy of 2022 Yala were expected to

Figure 2.5  
Tea Production



Source: Sri Lanka Tea Board

be purchased by the PMB. Nevertheless, the absence of adequate funds with the PMB to purchase paddy had significantly curbed any progress in the paddy purchasing programme of the Government, with only 7,076 mt having been purchased in the 2022 Yala season, thereby compelling farmers to sell their harvest at low prices to large private millers. Meanwhile, to curtail the rapid acceleration in retail prices of rice, MRPs for Nadu, Samba, and Keeri Samba were imposed at Rs. 220.00/kg, Rs. 230.00/kg, and Rs. 260.00/kg, respectively, with effect from 02 May 2022. However, local market prices remained well above the MRPs with continued upward price pressure, despite the price ceilings. Further, an extraordinary gazette was issued in June 2022 banning selling, storing, transporting, distribution and purchasing of rice or paddy for manufacturing animal feed following the drop in local production. Meanwhile, 596,502 mt of rice were imported during the eight months ending August 2022 with the aim of ensuring rice availability with minimum price fluctuations in the domestic market.

**Several measures have been taken by the Government to improve availability and affordability of agricultural supply ...**

With due consideration to the adverse effects of inadequate fertiliser availability constrained by the lack of foreign currency liquidity for fertiliser importation and the sudden suspension of chemical fertiliser for agriculture activities, the Government expedited measures to provide chemical fertiliser since the third



quarter of 2022. Although the ban on the importation of inorganic fertilisers and other agrochemicals was revoked towards the latter part of 2021, the fertiliser importation continued to remain low with the dearth of domestic foreign exchange liquidity raising concerns about overall agricultural production. In this background, the Government procured around 65,000 mt of urea fertiliser under the Indian Credit Line during July-August 2022, of which, around 30,000 mt of urea has already been distributed for paddy cultivation in the 2022 Yala season, while the remainder is expected to be distributed for the 2022/2023 Maha season. During the Yala season of 2022, a 50 kg sack of urea fertiliser was given to paddy farmers at a subsidised price of Rs. 10,000. Further, measures have been taken to provide fertilisers for maize farmers in major growing districts, including Monaragala, Kurunegala, and Anuradapura, since the latter part of the third quarter of 2022. In addition, the Ministry of Agriculture has agreed to provide around 15,000 mt of urea obtained under the Indian Credit Line for tea cultivation, and these are being distributed to tea growers, while the Cabinet of ministers granted approval to ease restrictions on glyphosate importation for plantation crops. Yet, given the persistent macroeconomic challenges together with elevated levels of global fertiliser prices, the availability of chemical fertiliser remains far below the annual fertiliser requirement of the agriculture sector, heightening continuing concerns about poor harvest, livelihoods of farming communities, and food security of the country, thereby affecting the long run wellbeing of the population. Therefore, urgent measures are needed to restore the resilience and sustainability of the agriculture sector, with a view to safeguarding livelihoods of the farmers, while minimising possible risks to food security specially among vulnerable segments of the population. Accordingly, concerted efforts are needed to develop a sustainable agriculture system that can deliver economic profitability, preserve environmental health, and ensure social equity in the medium to long run.

#### Developments in Key Economic Activities as reflected by the Purchasing Managers' Index Surveys

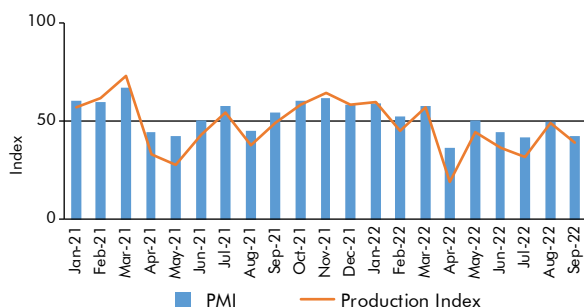
The PMI for manufacturing activities denoted subdued performance on average, particularly during the second and third quarters with a gloomy outlook

for the rest of the year due to both supply and demand side impediments. Nevertheless during the first three months of the year, Manufacturing PMI remained above the neutral threshold denoting m-o-m improvements in manufacturing activities. This was supported by the favourable developments reported in New Orders, Production, and Employment sub-indices. However, supply-side impediments, limited availability of foreign exchange in the banking system that affected the importation of raw materials, interruptions to the electricity supply, and shortage of fuel, adversely affected the manufacturing activities starting from April 2022, resulting in a contraction in PMI in all the months of second and third quarters. Accordingly, production declined continuously since April on a m-o-m basis, although supply-side impediments were eased off to a certain extent in the latter part of the period. Meanwhile, manufacturing subsectors primarily catering to the domestic market were highly affected by difficulties faced in sourcing imported material due to limited availability of foreign exchange in the banking system, compared to the export-oriented subsectors such as Textiles and wearing apparel as they possess foreign exchange earnings. Moreover, the scheduled power outages and fuel shortages adversely affected most of the manufacturing firms responding to the survey. Many manufacturing firms, particularly those involved in manufacturing discretionary consumer items, mentioned

***The expansion in both Manufacturing and Services PMIs during the first quarter was hampered by the supply-side impediments since April. However, since August, Services PMI bounced back while Manufacturing PMI remained contracted...***

that they experienced a weaker demand, mostly due to the deterioration of consumer purchasing power amidst a high inflationary environment. As per the September survey round, expectations for manufacturing activities for the fourth quarter of the year indicated a contraction, as manufacturers are concerned over the subdued demand conditions, particularly on the external front following the fear of recession in the export destinations, in addition to the weaknesses in the domestic front.

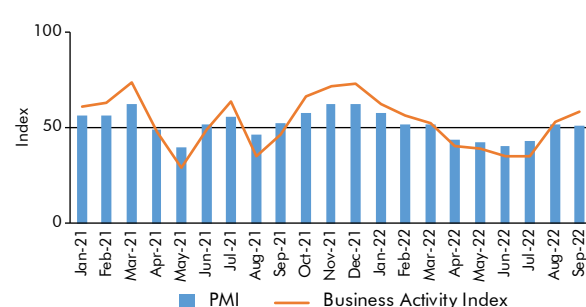
**Figure 2.6**  
**Purchasing Managers' Index (PMI) - Manufacturing (a)**



(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

**Figure 2.7**  
**Purchasing Managers' Index (PMI) - Services (a)**



(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

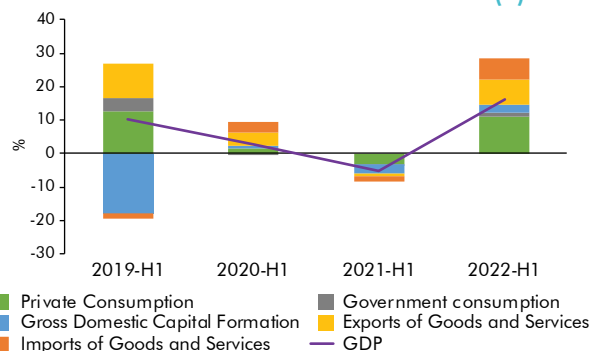
Meanwhile, PMI for Services activities indicated an expansion during the first quarter, while it decreased throughout the second quarter owing to the supply-side constraints and then bounced back during the latter part of the third quarter with a positive outlook for the fourth quarter of the year. The m-o-m expansion in the PMI for Services activities during the first quarter was driven by the increase in New Businesses and Business Activities. Within the sub-activities, improvements were reported in transportation, accommodation, food and beverage services, and other personal services activities on a m-o-m basis during this period. However, during the second quarter, business activities in the Services sector deteriorated as mirrored by the PMI. In this regard, Business Activities in most of the subsectors, especially that of accommodation, food and beverage services, were adversely affected by the prolonged power outages and difficulties in sourcing fuel and gas. Further, political uncertainty and social unrest coupled with severe fuel shortages dampened many subsectors, including transportation, accommodation, food and beverage services, other personal activities, education, and wholesale and retail trade. During the third quarter, PMI bounced back to the expansionary path in August on a m-o-m basis, following the gradual restoration of fuel supply. However, notably, wholesale and retail trade activities continued to contract on a m-o-m basis, mainly attributable to the deteriorating purchasing power of consumers. Meanwhile, as per the September survey round, Expectations for Business Activities for the fourth quarter of the year increased, indicating a relatively favourable outlook.

## 2.2 Expenditure

GDE, the aggregate of consumption and investment expenditure of the economy, recorded a growth of 21.0% at current market prices during the first half of 2022 owing to the high inflationary environment that prevailed throughout the period, compared to 18.4% growth recorded in the corresponding period of 2021. This growth was largely driven by a 25.7% increase observed in the consumption expenditure which recorded an increase of 14.5% in the corresponding period of 2021. Soaring prices of consumer goods, especially that of food items, have significantly contributed to this growth in consumption expenditure. Meanwhile, investment expenditure increased by 10.9% during the first half of 2022, compared to the 27.4% increase recorded in the same period of 2021. Significant increase in material cost, especially related to the construction field, mainly contributed to this nominal increase in investment expenditure. Moreover, net external demand improved by 24.7% during the first half of 2022, following the 76.7% increase in the export of goods and services, compared to 40.4% increase in the import of goods and services. Accordingly, GDP at current market prices increased by 24.8% during the first half of 2022, compared to the 16.1% increase recorded in the corresponding period of 2021.

**The soaring prices of consumer goods and investment goods led the higher growth in domestic expenditure in nominal terms while the surge in exports strengthened net external demand...**

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



(a) The data are based on the base year 2015 GDP estimates

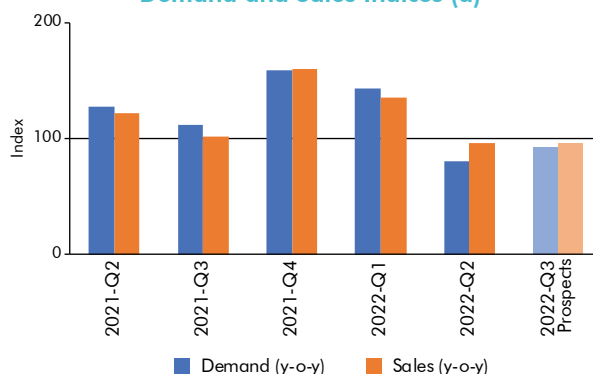
Sources: Department of Census and Statistics  
Central Bank of Sri Lanka

However, considering the estimates at constant prices, consumption expenditure recorded a marginal contraction of 0.7% during the first half, affected by the decline in purchasing power in a high inflationary environment while investment expenditure recorded a considerable decline of 30.7%. However, net external demand recorded a substantial growth of 77.2% at constant prices, as a combined output of the significant contraction in the import of goods and services, as well as the higher increase in the export of goods and services. Subsequently, at constant prices, GDP recorded a contraction of 4.8% during the first half of 2022.

#### Developments reflected in the Business Outlook Survey

As per the results of the BOS conducted by the Central Bank on a quarterly basis, it is suggested a gradual deterioration in most of the indicators related to the expenditure side as the year progressed, hampered mainly by the supply-side constraints. The balance of opinion on both demand and sales indicated some improvement during the first quarter of 2022, yet contracted during the second quarter, compared to the corresponding periods of 2021. This decline in demand and sales during the second quarter was largely affected by the numerous supply-side constraints that prevailed during the quarter. The balance of opinion on capacity utilisation and investment also improved during the first quarter. However, those deteriorated during the second quarter, in line with the subdued performance seen in sales and demand, compared to the corresponding periods of 2021. The deterioration in the key indicators, including investment and capacity utilisation during the second quarter of the year was mainly attributable to

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



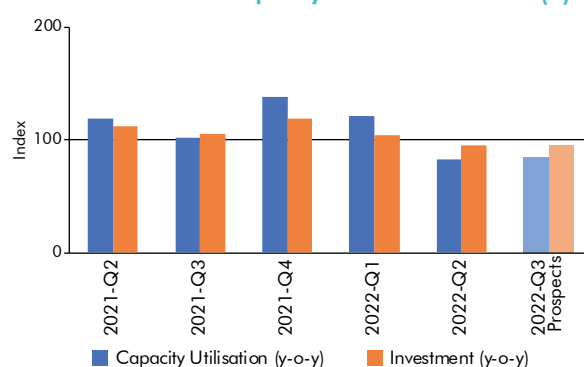
(a) These indices are derived from the Business Outlook Survey and ranges from 0-200 where an index value above the neutral level of 100 denotes an improvement, while a value below 100 denotes a deterioration in the business sentiment

Source: Central Bank of Sri Lanka

the supply-side constraints including power outages, shortages in raw materials and fuel, and the uncertainty that prevailed in the country. In the meantime, respondents expect demand, sales, investment and capacity utilisation to deteriorate further during the third quarter, compared to the relevant period in the previous year.

**Social unrest and political instability, followed by several supply-side impediments have affected the performance of key indicators of BOS, particularly during the second quarter of the year, while prospects for the third quarter also remain subdued...**

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



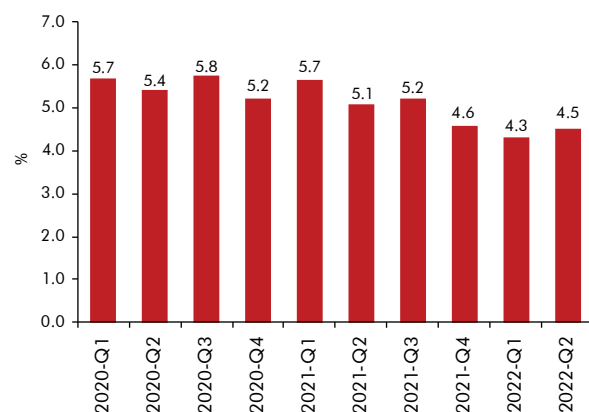
(a) These indices are derived from the Business Outlook Survey and ranges from 0-200 where an index value above the neutral level of 100 denotes an improvement, while a value below 100 denotes a deterioration in the business sentiment

Source: Central Bank of Sri Lanka

## 2.3 Employment

Most of the labour market indicators improved during the first half of 2022 with the easing off of pandemic-driven disturbances, which kept labour away from the market during the first half of 2021. Yet labour productivity declined during the first half of 2022, reflecting the contraction in economic activities. The labour force, which is the economically active population, increased by 0.9% to 8.669 mn in the first half of 2022 from 8.594 mn recorded in the first half of 2021. Accordingly, the economically inactive population decreased to 8.447 mn in the first half of 2022 from 8.465 mn recorded in the corresponding period of the previous year. Due to the higher growth of the labour force in comparison to the marginal growth in the household population on a y-o-y basis, the labour force participation rate, which is the ratio of the labour force to the household population, increased slightly to 50.6% in the first half of 2022 from 50.4% recorded in the first half of 2021. Moreover, the employed population increased by 1.9% to 8.283 mn in the first half of 2022 from 8.132 mn recorded in the corresponding period of 2021, reflecting an improvement in the creation of new employment opportunities, especially during the first quarter of 2022. Consequently, the unemployment rate declined to 4.5% in the first half of 2022 from 5.4% recorded in the first half of 2021 while the unemployed population also declined to 0.386 mn in the first half of 2022 from 0.462 mn recorded in the first half of 2021. When considering productivity, which is the ratio of GDP to number of hours worked, the highest decline was recorded in the Industry activities, followed by Services and Agriculture activities. The considerable contraction of productivity in Industry activities was evident with the highest increase in number of employees and the highest contraction of GDP reported in the Industry activities. The number of employees in the Services activities increased

**Figure 2.11**  
Unemployment Rate



Source: Department of Census and Statistics

marginally with a contraction in Services growth leading to a productivity loss. Meanwhile, even though a decline in employment was reported in Agriculture activities, the higher contraction in agriculture production led to a decline in the productivity of Agriculture activities as well.

Departures for foreign employment increased significantly to 151,336 in the first half of 2022 from 30,599 in the corresponding period of the previous year, which could be attributable to the people leaving for foreign employment for better prospects owing to the economic crisis faced by the country and the gradual creation of job opportunities in the global market after the pandemic. The male and female departures for foreign employment consisted of 60.7% and 39.3%, respectively, of the total departures for foreign employment in the first half of 2022. Meanwhile, considering the number of departures by skill categories, skilled labour, unskilled labour and housemaid departures reported the highest change during the first half of 2022, compared to the corresponding period of 2021.

**With the easing of pandemic related disturbances, the labour market indicators have improved...**

**The economic crisis has led the people to move to foreign countries for all type of job categories...**

**Table 2.1**  
**Trends in Paddy Production and Prices**

| Category                 | Unit          | 2021<br>First Half<br>(a) | 2022<br>First Half<br>(b) | Change<br>% |
|--------------------------|---------------|---------------------------|---------------------------|-------------|
| 1. Paddy Production      | mt '000       | 3,061                     | 1,931                     | -36.9       |
| 2. Net Extent Harvested  | hectares '000 | 682                       | 685                       | 0.5         |
| 3. Yield Per Hectare (c) | kg/hectare    | 4,492                     | 2,819                     | -37.3       |
|                          |               | 2021<br>Jan-Aug<br>(a)    | 2022<br>Jan-Aug<br>(b)    | Change<br>% |
| 4. Paddy Price           |               |                           |                           |             |
| Samba                    | Rs./kg        | 60.58                     | 109.68                    | 81.0        |
| Nadu                     | Rs./kg        | 52.75                     | 109.20                    | 107.0       |
| 5. Rice - Retail Price   |               |                           |                           |             |
| Samba                    | Rs./kg        | 132.20                    | 202.19                    | 52.9        |
| Nadu                     | Rs./kg        | 112.72                    | 201.16                    | 78.5        |
| 6. Rice Imports          | mt '000       | 10                        | 597                       | 6,176.6     |

(a) Revised  
(b) Provisional  
(c) Yield per hectare is calculated by dividing total production by the 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 2.2**  
**Trends in Vegetables, Other Field Crops and Sugar Production**

| Category                                 | Unit          | 2021<br>First Half<br>(a) | 2022<br>First Half<br>(b) | Change<br>% |
|--|---------------|---------------------------|---------------------------|-------------|
| <b>1. Vegetables</b>                     |               |                           |                           |             |
| 1.1 Production                           | mt '000       | 872                       | 815                       | -6.5        |
| 1.2 Extent Cultivated                    | hectares '000 | 67                        | 65                        | -3.0        |
| <b>2. Other Field Crops</b>              |               |                           |                           |             |
| 2.1 Production                           | mt '000       | 597                       | 371                       | -37.8       |
| 2.2 Extent Cultivated                    | hectares '000 | 149                       | 132                       | -11.1       |
| <b>3. Sugar</b>                          |               |                           |                           |             |
| 3.1 Production                           | mt '000       | 38                        | 43                        | 13.0        |
| 3.2 Extent Cultivated (with Ratoons) (c) | hectares '000 | 14                        | 15                        | 2.0         |

(a) Revised  
(b) Provisional  
(c) Includes Nucleus Estates and Allottees

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.  
Ethimale Plantation (Pvt) Ltd.

**Table 2.3**  
**Trends in Livestock Sector Production**

| Sub sector                  | Unit      | 2021<br>First Half<br>(a) | 2022<br>First Half<br>(b) | Change<br>% |
|-----------------------------|-----------|---------------------------|---------------------------|-------------|
| 1. National Milk Production | mn litres | 203                       | 185                       | -9.1        |
| Cow Milk                    | mn litres | 177                       | 159                       | -9.9        |
| Buffalo Milk                | mn litres | 27                        | 26                        | -3.9        |
| 2. Egg Production           | mn        | 1,345                     | 1,248                     | -7.2        |
| 3. Poultry Meat Production  | mt '000   | 115                       | 123                       | 6.7         |

(a) Revised  
(b) Provisional

Source: Department of Animal Production and Health

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

| Category                | Unit         | 2021<br>Jan-Aug<br>(a) | 2022<br>Jan-Aug<br>(b) | Change<br>%  |
|-------------------------|--------------|------------------------|------------------------|--------------|
| <b>Production</b>       | <b>kg mn</b> | <b>284</b>             | <b>257</b>             | <b>-9.7</b>  |
| <b>Marine</b>           | <b>kg mn</b> | <b>217</b>             | <b>184</b>             | <b>-15.5</b> |
| Coastal and Lagoon      | kg mn        | 114                    | 98                     | -14.0        |
| Off-shore               | kg mn        | 103                    | 85                     | -17.0        |
| <b>Inland Fisheries</b> | <b>kg mn</b> | <b>67</b>              | <b>73</b>              | <b>9.1</b>   |
| Capture                 | kg mn        | 53                     | 57                     | 7.0          |
| Aquaculture             | kg mn        | 4                      | 5                      | 31.1         |
| Shrimp Farms            | kg mn        | 10                     | 11                     | 12.1         |

(a) Revised  
(b) Provisional

Source: Ministry of Fisheries

**Table 2.5**  
**Trends in Tea, Rubber and Coconut Production and Prices**

| Item                                    | Unit    | 2021<br>Jan-Aug<br>(a) | 2022<br>Jan-Aug<br>(b) | Change<br>% |
|---|---------|------------------------|------------------------|-------------|
| <b>1. Tea</b>                           |         |                        |                        |             |
| 1.1 Production (c)                      | kg mn   | 212                    | 171                    | -19.2       |
| High Grown                              | kg mn   | 48                     | 39                     | -18.1       |
| Medium Grown                            | kg mn   | 37                     | 28                     | -25.1       |
| Low Grown                               | kg mn   | 128                    | 105                    | -17.8       |
| 1.2 Average Price                       |         |                        |                        |             |
| Colombo Auction                         | Rs./kg  | 620.20                 | 1,156.68               | 86.5        |
| Export (FOB)                            | Rs./kg  | 925.90                 | 1,470.54               | 58.8        |
| <b>2. Rubber</b>                        |         |                        |                        |             |
| 2.1 Production                          | kg mn   | 56                     | 48                     | -13.8       |
| Sheet                                   | kg mn   | 28                     | 24                     | -14.6       |
| Crepe                                   | kg mn   | 9                      | 10                     | 4.2         |
| Other                                   | kg mn   | 19                     | 15                     | -21.3       |
| 2.2 Average Price                       |         |                        |                        |             |
| Colombo Auction (RSS 1)                 | Rs./kg  | 448.60                 | 618.65                 | 37.9        |
| Export (FOB)                            | Rs./kg  | 511.46                 | 813.85                 | 59.1        |
| <b>3. Coconut</b>                       |         |                        |                        |             |
| 3.1 Production (d)                      | nuts mn | 2,035                  | 2,285                  | 12.3        |
| Desiccated Coconut (e)                  | nuts mn | 182                    | 220                    | 20.7        |
| Coconut Oil (e)                         | nuts mn | 148                    | 300                    | 102.4       |
| Virgin Coconut Oil (e)                  | nuts mn | 130                    | 148                    | 13.9        |
| Copra Exports (e)                       | nuts mn | 2                      | 5                      | 151.7       |
| Fresh Nut (e)                           | nuts mn | 9                      | 8                      | -16.1       |
| Coconut Cream, Milk Powder and Milk (e) | nuts mn | 341                    | 372                    | 9.1         |
| Domestic Nut Consumption (f)            | nuts mn | 1,223                  | 1,232                  | 0.8         |
| 3.2 Average Price                       |         |                        |                        |             |
| Retail                                  | Rs./nut | 84.74                  | 88.59                  | 4.5         |
| Colombo Auction                         | Rs./nut | 57.26                  | 57.43                  | 0.3         |
| Export (FOB) (g)                        | Rs./nut | 66.45                  | 88.09                  | 32.6        |

(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) As per the Household Income and Expenditure Survey - 2019, per capita consumption is estimated at 85.44 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 2.6**  
**Index of Industrial Production (IIP) (2015=100)**

| ISIC<br>2digit                        | Item (a)   | First<br>Quarter<br>2022 (b) | Second<br>Quarter<br>2022 (b) | Change %                     |                               |
|---------------------------------------|--|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                                       |  |                              |                               | First Quarter<br>2021/22 (b) | Second Quarter<br>2021/22 (b) |
| 10                                    | Manufacture of Food Products (35.2%)   | 101.0                        | 93.7                          | -7.4                         | -8.8                          |
| 11                                    | Manufacture of Beverages (3.8%)  | 141.8                        | 123.0                         | 16.5                         | 36.7                          |
| 12                                    | Manufacture of Tobacco Products (1.7%)   | 83.5                         | 87.9                          | 3.7                          | 45.9                          |
| 13                                    | Manufacture of Textiles (3.3%)   | 120.6                        | 101.3                         | -7.8                         | -19.7                         |
| 14                                    | Manufacture of Wearing Apparel (19.8%)   | 101.7                        | 102.7                         | -10.9                        | 41.8                          |
| 15                                    | Manufacture of Leather and Related Products (0.3%)   | 96.1                         | 77.9                          | 0.1                          | 23.7                          |
| 16                                    | Manufacture of Wood and of Products of Wood and Cork, Except Furniture;<br>Manufacture of Articles of Straw and Plaiting Material (0.2%) | 115.9                        | 42.8                          | 11.1                         | -40.7                         |
| 17                                    | Manufacture of Paper and Paper Products (1.7%)   | 76.7                         | 40.6                          | -31.3                        | -42.3                         |
| 18                                    | Printing and Reproduction of Recorded Media (1.4%)   | 145.3                        | 93.8                          | -6.9                         | 4.4                           |
| 19                                    | Manufacture of Coke and Refined Petroleum Products (7.4%)  | 41.5                         | 19.9                          | -19.1                        | -75.6                         |
| 20                                    | Manufacture of Chemicals and Chemical Products (4.1%)  | 107.0                        | 112.8                         | 16.9                         | 30.4                          |
| 21                                    | Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations (0.1%)  | 110.3                        | 83.9                          | -3.0                         | -29.2                         |
| 22                                    | Manufacture of Rubber and Plastic Products (5.7%)  | 104.6                        | 100.7                         | 0.4                          | 0.9                           |
| 23                                    | Manufacture of Other Non-metallic Mineral Products (7.8%)  | 138.0                        | 110.6                         | 2.3                          | -14.3                         |
| 24                                    | Manufacture of Basic Metals (2.4%)   | 129.5                        | 88.9                          | -10.3                        | -28.0                         |
| 25                                    | Manufacture of Fabricated Metal Products (Except Machinery and Equipment)(1.3%)  | 125.7                        | 72.2                          | -6.4                         | -41.0                         |
| 26-27                                 | Manufacture of Electrical Equipment (2.0%)   | 91.0                         | 61.1                          | -7.9                         | -10.9                         |
| 28                                    | Manufacture of Machinery and Equipment n.e.c. (0.7%)   | 151.4                        | 138.5                         | 27.0                         | 13.3                          |
| 31                                    | Manufacture of Furniture (0.8%)  | 79.9                         | 69.0                          | -13.5                        | 3.0                           |
| 29-30<br>32-33                        | Other Manufacturing (0.3%)   | 64.9                         | 58.3                          | -12.3                        | -10.2                         |
| <b>Index of Industrial Production</b> |  | <b>103.1</b>                 | <b>91.7</b>                   | <b>-5.4</b>                  | <b>-3.4</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

n.e.c.- Not Elsewhere Classified

**Table 2.7**  
**Expenditure on Gross Domestic Product at Current Market Prices (a)(b)**

Rs. mn

| Item  | 2020              | 2021             |                   | 2022              | Change %              |                       |
|---|-------------------|------------------|-------------------|-------------------|-----------------------|-----------------------|
|   |                   | First Half       | Annual            |                   | First Half<br>2020/21 | First Half<br>2021/22 |
| 1. Private Consumption Expenditure            | 9,840,226         | 5,504,708        | 11,089,403        | 6,982,118         | 16.1                  | 26.8                  |
| 2. General Government Consumption Expenditure | 1,626,883         | 830,318          | 1,660,737         | 982,433           | 5.2                   | 18.3                  |
| 3. Gross Domestic Capital Formation           | 5,339,030         | 3,001,347        | 6,236,763         | 3,328,925         | 27.4                  | 10.9                  |
| 4. Exports of Goods and Services              | 2,418,542         | 1,312,659        | 2,980,263         | 2,318,909         | 10.4                  | 76.7                  |
| 5. Less: Imports of Goods and Services        | 3,384,516         | 2,043,782        | 4,281,313         | 2,869,204         | 23.0                  | 40.4                  |
| <b>Gross Domestic Product</b>                 | <b>15,840,164</b> | <b>8,605,251</b> | <b>17,685,854</b> | <b>10,743,181</b> | <b>16.1</b>           | <b>24.8</b>           |

(a) The data are based on the base year 2015 GDP estimates

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

(b) Provisional

**Table 2.8**  
**Labour Force, Employment and Unemployment**

| Item   | 2020   | 2021       |        | 2022 (a)   |
|--|--------|------------|--------|------------|
|  |        | First Half | Annual | First Half |
| Household Population, '000<br>(Aged 15 years and above)        | 16,739 | 17,059     | 17,134 | 17,116     |
| Labour Force, '000   | 8,467  | 8,594      | 8,553  | 8,669      |
| Employed, '000   | 7,999  | 8,132      | 8,114  | 8,283      |
| Unemployed, '000   | 468    | 462        | 440    | 386        |
| Labour Force Participation Rate<br>(% of Household Population) | 50.6   | 50.4       | 49.9   | 50.6       |
| Unemployment Rate<br>(% of Labour Force)                       | 5.5    | 5.4        | 5.1    | 4.5        |

(a) Provisional

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

## Abbreviations and Acronyms

BOI : Board of Investment  
BOS : Business Outlook Survey  
EDB : Export Development Board  
FDI : Foreign Direct Investment  
GDE : Gross Domestic Expenditure  
GDP : Gross Domestic Product  
IIP : Index of Industrial Production  
mn : million

m-o-m : Month-on-Month  
MRPs : Maximum Retail Prices  
mt : Metric Tonnes  
PMB : Paddy Marketing Board  
PMI : Purchasing Managers' Index  
SME : Small and Medium Enterprises  
y-o-y : Year-on-Year





## Economic and Social Infrastructure

**W**hile the provisioning of the economic and social infrastructure of the country experienced notable disruptions during the first half of 2022, as the economy grappled with a host of adversities emanating from both domestic and external developments, several supply and demand management measures that were subsequently undertaken helped offer some reprieve from these adversities. The economy experienced an unprecedented power and energy crisis during the period under consideration due to a dearth of foreign exchange liquidity and elevated global energy commodity prices. Supply and transport networks were significantly disrupted by both shortages in domestic fuel supply and regular power cuts, which exceeded 10 hours per day towards the middle of the first half of 2022. However, several measures were successively adopted to address supply and demand imbalances of fuel and LPG, alongside reducing the duration of the power cuts due to favourable levels of hydropower generation. Duly considering the urgent need to address the longstanding financial woes of the CPC, the CEB and the NWS&DB, the Government implemented revisions to domestic prices of petroleum products, and also undertook an upward revision of electricity and water tariffs in August 2022 after an 8-year and 10-year hiatus, respectively. In line with the revisions to domestic prices of petroleum products, several other public utility charges, including bus fares and railway fares, were also adjusted upward. Infrastructure projects recorded modest progress during the period under consideration, amidst cash flow difficulties and inadequate supply of raw materials. Despite a fresh outbreak of COVID-19 during the beginning of the year, several quarantine-related protocols and other COVID-19 related protocols were relaxed to ensure continuity of economic activity as a large majority of the population over 12 years had completed the initial protocol and over half of the same population had received the first booster dose. However, currently there are concerns about the prevalence of communicable diseases, such as dengue, malaria, and influenza. Despite the resumption of in-person academic activities since end July 2022, learning losses caused by intermittent disruptions to in-person academic activities, as had been observed since the onset of COVID-19 in 2020, continue to persist and are likely to have caused a widening of inequalities in educational outcomes among children in different economic sectors and geographical locations, and a concerted policy initiative to address these concerns continues to be lacking. The economy will also have to grapple with issues arising from a significant share of the population having emerged as 'new poor' due to consecutive hardships caused by COVID-19 over the last two years and the ongoing economic crisis. The Government's clear expression of its commitment to safeguarding vulnerable segments of the population through expanded financial assistance, as outlined in the Interim Budget 2022, and its efforts to improve social safety net targeting through the Welfare Benefits Board, are commendable. Such concerted and well-targeted initiatives are imperative to ensure social welfare which is essential to the quality, productivity, and wellbeing of the country's human capital, which for long has been a key asset of the country.

### 3.1 Progress of the Energy Sector

#### Crude Oil and Petroleum Products

Global crude oil prices were at elevated levels during the period from January till October 2022 when compared to the corresponding period of 2021. The higher level of prices during 2022, thus far, was primarily driven by the geopolitical upheaval in Eastern Europe and the resultant tightening of global oil supply conditions.

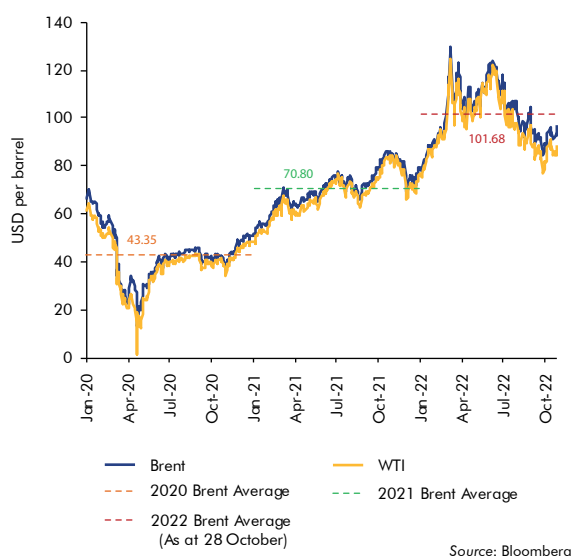
Crude oil prices were on a rising trend during the first half of 2022 with daily prices briefly reaching USD 140 per barrel in March 2022 for the first time since July 2008, driven by sanctions imposed on Russia, one of the world's leading exporters of oil and petroleum products. However, from the beginning of the second half of 2022 prices were on a downward trend to about USD 85 per barrel by late September 2022 on account of the resurgences of COVID-19 and key central banks' monetary policy tightening measures which are expected to dampen global energy demand. Nevertheless, prices climbed upwards again during October 2022 with the announcement of a production cut by OPEC+. While the average Brent crude oil price stood at USD 105.12 per barrel during the first half of 2022, reflecting a 61.7% increase over the corresponding period of 2021, prices recorded a lower average of around USD 96 per barrel during July – October 2022.

Amidst the dearth of foreign exchange liquidity, the CPC imported crude oil only during the months of January (at USD 84.09 per barrel), February (at USD 76.41 per barrel), May (at USD 109.94 per barrel), August (at USD 114.71 per barrel) and September (at USD 119.71 per barrel) in 2022. Meanwhile, price volatilities of crude oil and refined petroleum products in global markets warranted several rounds of revisions to domestic retail prices of key petroleum products in 2022. The domestic prices of several petroleum products sold by the CPC were revised upward in March, April, May, and June 2022 in line with the escalation of global prices, followed by four downward revisions in July, August, and October 2022 which were prompted by the price declines observed in global markets. Meanwhile, the CPC raised the retail price of kerosene significantly at the end of August 2022 to curb the substantial losses that were being incurred on the same. During the period from January till October 2022, LIOC revised domestic prices upward across seven rounds, followed by four downward revisions in July, August, and in October 2022, thereby resulting in prices remaining aligned with those of the CPC.

**Several revisions were undertaken to domestic prices of petroleum products in line with trends in global prices...**

The overall sales volumes of petroleum products in the domestic market recorded a decline during January - August 2022, amidst significant upward revisions in prices and the implementation of the QR code-based fuel rationing system during the latter part of the period under review. During the period from January till August 2022, total petroleum sales registered a y-o-y contraction of 7.0%, as the notable growth LIOC's sales volumes was largely offset by the decline in sales volumes of the CPC. Accordingly, during the eight months ending August 2022, the CPC's sales to the transport sector recorded a y-o-y contraction of 8.6%, while the aviation sector recorded a y-o-y growth rate of 34.4% primarily driven by the COVID-19 induced lower base observed in the corresponding period of 2021. Although demand for fuel from the power generation sector was high during the first quarter of 2022, the increased reliance on hydropower generation thereafter, following increased reservoir levels with torrential rains, alongside regular load shedding, led to an overall decline in fuel demand

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



from the power generation sector during the eight months ending August 2022. Accordingly, sales of fuel for power generation recorded a contraction of 1.2%, y-o-y, during the period under review.

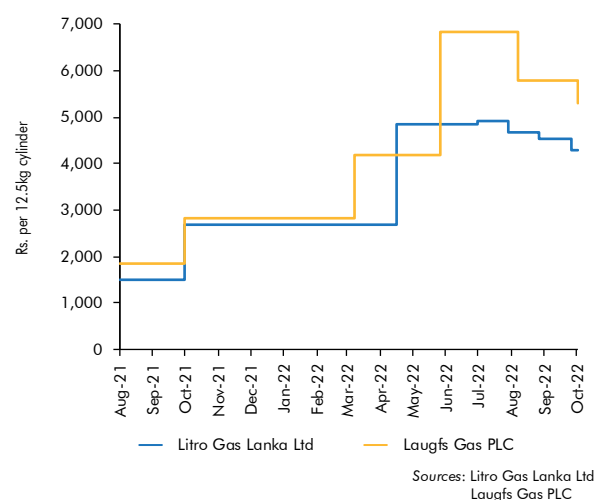
The Ministry of Power and Energy together with the CPC adopted several measures to smoothen the supply of fuel products in the domestic market, amidst procurement disruptions stemming from the country's foreign exchange liquidity issues. From March 2022 onwards, the several rounds of revisions undertaken to the domestic prices of key petroleum products by the CPC in collaboration with the Ministry of Power and Energy signalled that prices will continue to be revised regularly. Further, the Cabinet of Ministers granted approval in May 2022 for the implementation of a pricing formula for petroleum products and a committee was appointed to devise an appropriate cost-reflective pricing formula and a mechanism. Meanwhile, the Ministry of Power and Energy granted approval for several bunker license holders to supply selected fuel products for a specific period, through the oil bank at JCT to exporters, power generation companies, tourism service providers, licensed telecommunication service providers, and other industries against receipt of payment in US dollars. In early July 2022, the CPC also commenced registration of individuals and companies with business registration in Sri Lanka who could pay in US dollars for fuel purchases and such parties were provided a guaranteed quota of fuel. To ensure the supply of limited fuel stocks for the transport sector, the CPC introduced a system, wherein fuel was dispensed through its own filling stations according to the last digit of the vehicle number plate from late July 2022 onwards. Subsequently, the National Fuel Pass QR code system was implemented for the issuance of fuel as per designated quotas from 01 August 2022, at fuel stations across the island. Meanwhile, the Tourist Fuel Pass pre-paid card system was implemented at the beginning of October 2022, enabling tourists to use a US dollar denominated prepaid card to purchase fuel at stations across the island. Initial steps are also underway to facilitate the participation of fuel companies established in fuel producing countries to import and sell fuel in the domestic market. Such deregulation measures are expected to be further complemented by the passing of the Petroleum Products (Special Provisions) (Amendment) Bill in mid-October 2022 to amend the Petroleum Products (Special Provisions) Act No. 33 of 2002. These steps are expected to alleviate

fuel supply issues in the domestic market and create healthy competition, which can prove beneficial to all stakeholders of the economy. Going forward, over the medium term, demand management primarily through qualitative and quantitative improvements to public transport will be essential to reduce demand arising from the private transportation sector, thereby enabling the country to curb excessive foreign exchange outflows pertaining to fuel expenditure.

**Although numerous reforms are in progress across the petroleum sector to ensure the effective and sustainable provisioning of petroleum products, improvements to public transportation are also imperative to manage demand...**

Following the overall trend in global energy prices, the average global LPG prices remained at elevated levels during January - September 2022, despite a marked deceleration since May 2022. The average price of LPG in the global markets (based on the Propane:Butane ratio of 30:70), which peaked to USD 954 per mt in April 2022, declined by around 33% to USD 636 per mt in September 2022, reflecting the moderation of global consumption demand. The supply of LPG in the domestic market was severely disrupted by the dearth of foreign exchange liquidity, particularly during the first half of 2022, largely affecting urban and semi-urban communities. However, the receipt of multilateral assistance in relation to the same and the

**Figure 3.2**  
**Domestic LPG Price Revisions**



adoption of targeted measures by the Central Bank to improve foreign exchange liquidity helped facilitate the timely importation of LPG, thereby restoring normalcy to the supply of LPG in the domestic market. Meanwhile, the domestic prices of LPG were revised in several rounds during January - September 2022 to ensure cost-reflective domestic prices. Accordingly, Litro Gas Lanka Ltd revised domestic prices upward in April and July 2022, followed by three downward revisions in August, September, and October 2022. Following suit, Laugfs Gas PLC also revised domestic prices upward in two rounds during March and June, followed by two downward revisions in August and October 2022.

## Electricity

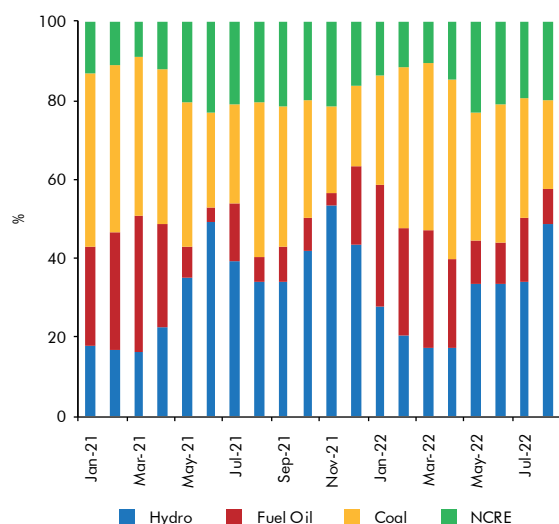
During the period from January till August 2022, total electricity generation registered a y-o-y contraction of 3.3% to 10,744 GWh, particularly reflecting the impact of disrupted fuel and coal supply for thermal power generation. The contribution of hydro, fuel, coal, and NCRE to total power generation stood at 29%, 20%, 35%, and 17%, respectively, during the period under review. With the limited supply of fuel and coal for power generation, amidst the domestic foreign exchange crisis coupled with soaring global energy commodity prices, the CEB undertook daily scheduled power cuts commencing from February 2022 as a demand management strategy. The length of power outages increased to over 10 hours per day towards the end of March 2022 due to the combined impact of the dire status of fuel availability and low reservoir levels,

thereby leading to a severe power and energy crisis. However, torrential rainfalls during the months of May, June, and August 2022, followed by the regular monsoon rains during October 2022, helped shift reliance towards hydropower generation amidst the frequent closures of several fuel based power plants due to fuel shortages and Norochcholai coal power plant units for scheduled maintenance and repairs. In turn, the duration of daily power cuts were shortened to around one to three hours by mid-October 2022. However, electricity provisioning remains vulnerable in the period ahead due to continuing difficulties in fuel procurement and highly volatile energy prices in the global market amidst excessive reliance on hydropower generation.

**Although favourable weather patterns have helped curb the duration of power cuts in recent months, electricity provisioning remains vulnerable amid difficulties in fuel procurement, volatile energy prices and excessive reliance on hydropower generation...**

After a hiatus of eight years, the electricity tariffs were revised upward by the PUCSL effective from 10 August 2022 considering the soaring costs in the power sector. Accordingly, electricity tariffs were increased by 75% on average, to further align with the actual cost of generation, with fixed charges being revised with due consideration to implications of these on low-income households. Consequent to the upward revision in tariffs, which had been long overdue, the financial status of the CEB is expected to improve in the period ahead, only if complemented by the timely implementation of required institutional reforms focused on improving financial and operational efficiency. In this regard, several initiatives have been undertaken by the Government to implement long overdue institutional reforms, and a committee was appointed to review the scope as well as the institutional framework of the already formulated reforms in the Electricity Reform Act, No. 28 of 2002 and to recommend restructuring proposals for an appropriate institutional framework. In the meantime, concerted efforts are needed to ensure optimal contribution of renewable energy to the generation mix, considering Sri Lanka's possession of ample natural energy sources, such as

**Figure 3.3**  
**Electricity Generation Mix**



Source: Ceylon Electricity Board



solar, wind, geothermal and tidal energy that can be harnessed for power generation. Initiatives to improve efficiency in transmission and distribution mechanisms are also important to ensure energy security of the country over the medium-term, amidst volatilities in global energy markets and the growing domestic demand for electricity.

**Regular tariff revisions, institutional reforms and timely infrastructure improvements are imperative to improve the financial status of the CEB...**

### 3.2 Progress of Other Economic Infrastructure

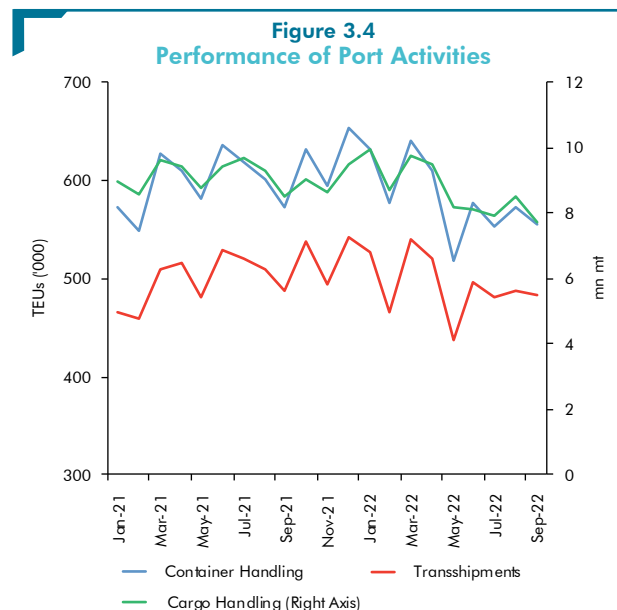
#### Transportation

Although the operations of the SLTB, in terms of passenger kilometrage and operated kilometrage, reported notable growth rates of 86.3% and 27.9%, respectively, during the first half of 2022, passenger kilometrage and operated kilometrage of private bus operators witnessed y-o-y drops of 34.3% and 30.5%, respectively, during the first half of 2022 due to the fuel shortage that made it difficult to obtain fuel in a timely manner. During the period under consideration, three major upward revisions of bus fares were undertaken in March, April, and May 2022, by 15%, 35%, and 19%, respectively, in line with the upward price revisions of fuel, followed by a downward revision in fares by 11% in August 2022 corresponding to the downward fuel price revision. Further, the estimated passenger kilometrage of Sri Lanka Railways increased notably by 138.4%, y-o-y, while goods kilometrage decreased by 6.4% y-o-y, in the first half of 2022. Meanwhile, the railway fares for the conveyance of passengers, goods, and mail were revised upward with effect from 12 July 2022 after a hiatus of almost four years.

The passenger kilometrage of SriLankan Airlines increased notably by 743.3%, y-o-y, to 5.0 billion kilometres during the first half of 2022. This was largely driven by the lower base observed in 2021 as a result of significantly dampened aviation activities on account of COVID-19 in the corresponding period of 2021.

#### Ports

Port activities moderated during the period from January till September 2022. Despite the favourable performance observed during the first quarter of the year, port activities recorded an overall contraction during the nine months ending September 2022, reflecting the impact of contraction in domestic import volumes owing to import restrictions as well as uncertainties associated with the current economic crisis towards the latter part of the period under consideration. Accordingly, overall container handling and cargo handling recorded negative growth rates of 2.5% and 4.7%, respectively, during January - September 2022, while ship arrivals also contracted by 5.7%, compared to the corresponding period of 2021. Container handling by the SLPA (comprising the JCT, UCT, and the first quay wall of ECT), and SAGT recorded y-o-y declines of 9.0% and 1.9%, respectively, while the CICT recorded a y-o-y expansion of 1.7%, during the period from January - September 2022. The shares of CICT, SLPA, and SAGT in total container handling stood at 46%, 29%, and 25%, respectively. Further, the total vehicle handling at the Hambantota Port recorded a growth of 4.2%, y-o-y, during the period reflecting increased vehicle handling for transshipment purposes, although the domestic vehicle handling continued to decline during the period. Meanwhile, construction work relating to the second phase of the ECT commenced at the beginning of 2022, while preliminary work related to the WCT including, obtaining licenses and approvals, and the selection of construction contractors were underway during



the period. Further, the evaluation of Expressions of Interest related to the development of the Port of Galle as a tourism related port in parallel to its operations as a regional commercial port was also underway.

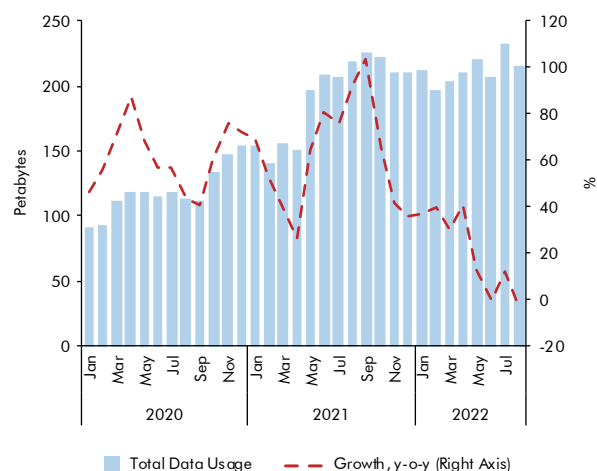
## Urban Development

Activities pertaining to the Colombo Port City Project continued during the first half of 2022. Accordingly, development control regulations for the entire project were gazetted in April 2022, and the Downtown Duty-Free Mall infrastructure was completed. Further, licenses for four banks, including two state-owned banks, have been approved by the Monetary Board of the Central Bank in conjunction with the Ministry of Finance to commence operations in compliance with all relevant regulations and pre-operational requirements. Despite the worsening economic crisis, proactive efforts to promote the Colombo Port City as an attractive financial centre and ‘world class city’ remain crucial to luring in much needed FDIs. Further, the Colombo Lotus Tower was opened for public viewing since mid-September 2022, while negotiations are underway with several private investors to undertake a myriad of activities within the premises. As several infrastructure projects of the Government have come to a standstill amidst limited fiscal leeway, the Government will need to proactively undertake efforts towards initiating new infrastructure projects and recommencing ongoing infrastructure projects through PPPs to ensure that the country’s infrastructure base continues to expand in an effective and efficient manner, thereby creating a conducive investment climate.

## Telecommunication Services

The telecommunications sector continued to expand during the first half of 2022, reflecting the increased adaptation of the internet for work, education, and other daily activities since the COVID-19 pandemic period, and the continuation of those practices amidst disruptions in transportation activities, as observed thus far in 2022. During the first half of 2022, total internet connections and broadband data usage recorded y-o-y growths of 9.1% and 24.4%, respectively, compared to the first half of 2021. Further, fixed line connections and mobile phone connections recorded y-o-y increases of 5.6% and 1.8%, respectively, during the first half of 2022. The ICTA

**Figure 3.5**  
**Broadband Data Usage**



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

Sources: Dialog Axiata PLC  
Sri Lanka Telecom PLC  
Mobitel (Pvt) Ltd  
Bharti Airtel Lanka (Pvt) Ltd

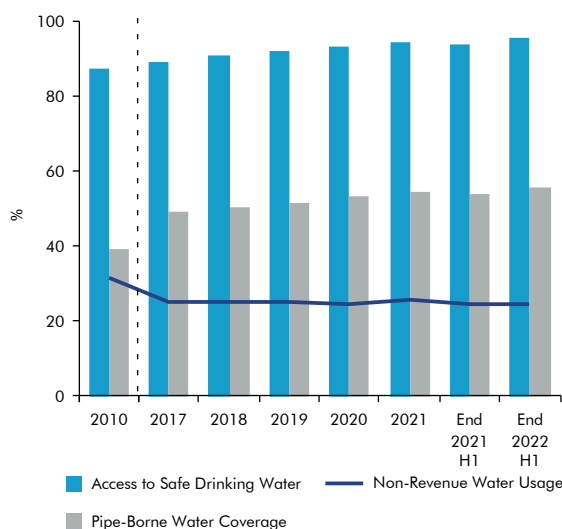
continued to implement initiatives under the National Digital Transformation Strategy (2021-2024), while the TRCSL continued its efforts to enhance islandwide 4G coverage to ensure seamless access to digital services across the country through the *Gamata Sanniwedanaya* project. A key milestone in the telecommunications sector was the implementation of the National Fuel Pass QR code system that was developed by ICTA and two other leading private sector telecommunications and information technology companies. The Fuel Pass QR code system is expected to pave the way for the transition of several other public services onto similar platforms. Further, with the enactment of the Personal Data Protection Act, No. 9 of 2022 in March 2022, Sri Lanka emerged as the first South Asian country to enact comprehensive data protection legislation. Meanwhile, the rental charges related to data, voice and pay-tv connections were revised upward with effect from 05 September 2022 due to the increase in operational costs, followed by another round of revisions with effect from 05 October 2022 due to the imposition of the Social Security Contribution Levy of 2.5%.

## Water Supply

As at the end of the first half of 2022, total pipe-borne water coverage stood at 55.4%, while access to safe drinking water stood at 95.5% of the population. Considering the rise in costs and the resultant financial losses incurred by the NWS&DB, amidst the lack of any revisions to water tariffs for almost a decade, the



**Figure 3.6**  
**Status of Water Supply**



Source: National Water Supply and Drainage Board

Cabinet of Ministers granted approval for the upward revision of water and sewerage tariffs effective from 01 September 2022. Accordingly, water tariffs for all categories of users were increased substantially with usage tariffs for the domestic category being raised by around 70%. However, tariffs applicable to low-income consumers, such as Samurdhi recipients, remained almost unchanged alongside those applicable to schools, religious, and charitable institutions. Further, fees applicable for new water connections were also revised upward with effect from 17 October 2022. With this round of revisions to both tariffs and other charges, the financial performance of NWS&DB is expected to improve significantly. However, it will be necessary to ensure that water tariffs also undergo a process of revision at regular and pre-determined time intervals to ensure the sustainability of NWS&DB over the medium term.

### 3.3 Progress of Social Infrastructure

#### Health

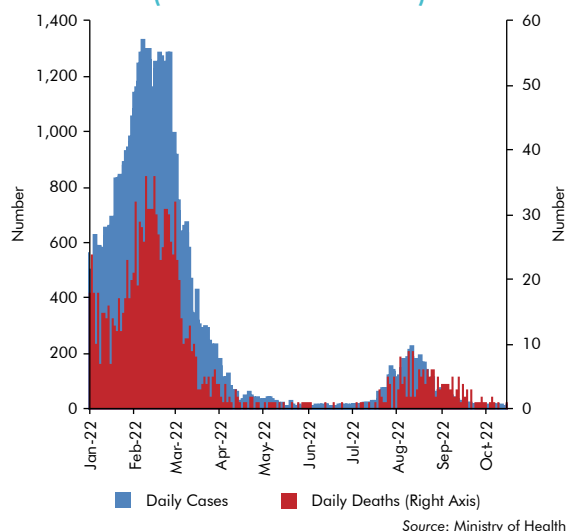
The spread of COVID-19 within the country has been greatly curtailed as at end October 2022. Following the detection of the *Omicron* variant at the end of 2021, a continuous rise in COVID-19 cases was observed till the end of April 2022, before the gradual dissipation in caseload thereafter until July 2022. Accordingly, several COVID-19 related restrictions and guidelines were eased during the second quarter of the year. The Ministry of

Health relaxed the mandatory requirement of wearing face masks on 10 June 2022, as COVID-19 cases sharply declined. However, with the surge in the new variant *Omicron.BA.5*, the spread of the virus had intensified in mid-July 2022 and, later subsided by mid-September 2022, accompanied by an increase in uptake of the second booster dose of the COVID-19 vaccine. As of mid-October 2022, Sri Lanka reported a total of 670,918 confirmed cases and 16,769 deaths due to the virus and, national vaccine coverage stood at 97.0% of the population over the age of 12 having received at least one dose and 83.2% having received the initial protocol of two vaccine doses, while 55.7% of those who had completed the initial protocol received the first booster dose and 2.4% of those who had received the first booster dose had received the second booster dose. The administration of a second booster dose was commenced in May 2022. Measures were taken to vaccinate children over the age of 12 with the booster vaccine from January 2022 onwards, primarily as an island wide school based campaign. Notably, Sri Lanka has relatively high COVID-19 vaccination coverage in South Asia, and its vaccination rate remains higher than the global average.

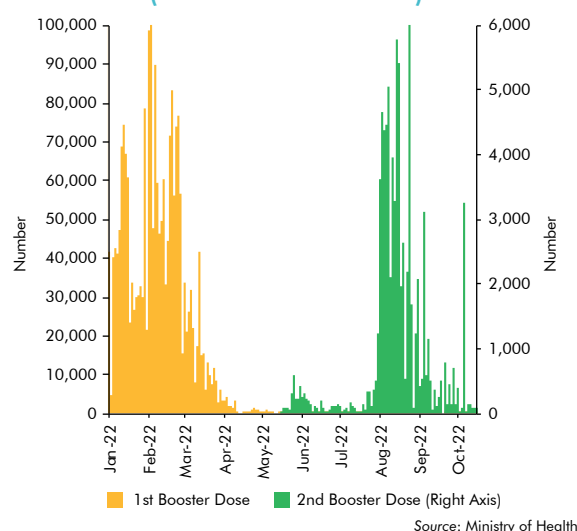
**It is essential that the health sector continues to receive priority in the allocation of limited foreign reserves, while measures to promote domestic production of drugs and improving efficiency in procurement are essential to safeguard the health outcomes that have been achieved over several decades...**

However, the country continued to be straddled by communicable diseases, such as dengue which intensified further in 2022, with 35,424 cases recorded up to June 2022, compared to 9,448 cases reported during the corresponding period of 2021, reflecting the negative impact of shortages in pesticides and fuel in executing dengue preventive measures during the first half of the year. Further, 25 imported malaria cases were reported during January - July 2022, compared to just 26 cases reported during 2021. The health sector continues to experience shortages in

**Figure 3.7**  
**COVID-19 Cases and Deaths**  
(as at 15 October 2022)



**Figure 3.8**  
**Progress in Booster Vaccination**  
(as at 15 October 2022)



several pharmaceuticals and other medical supplies amidst the dearth of foreign exchange liquidity, which has constrained the provisioning of essential health services, particularly those required by the poor and most vulnerable groups of the population. Although the risks of future outbreaks of COVID-19 have been greatly averted by the successful and rapid vaccination deployment programme of the Government, the emergence of any new and stronger variants of the virus is likely to significantly strain existing health services amidst the reduced availability of medical and pharmaceutical supplies in the country. In this context, there is an urgent need to continue to prioritise the health sector in the allocation of limited foreign reserves, while continuing to promote investments in domestic production of drugs and other medical supplies as well as improving efficiency in procurement procedures, to safeguard the health sector and its ability to ensure the health status of the population.

## Education

Despite the reopening of schools and universities at the beginning of 2022, following several intermittent closures in 2021 due to COVID-19, continuity of education activities was again hindered towards the early part of the second quarter of 2022 due to fuel shortages and power outages. Due to transportation difficulties amidst the fuel crisis, educational activities were once again shifted to online platforms from mid-June onwards. With some alleviation of issues pertaining to fuel supply, academic activities were

recommended from the last week of July 2022 through a blended learning approach, and in-person academic activities were recommenced on a full-time basis from mid-August 2022 onwards. Although the commitment of all relevant stakeholders to ensure the continuity of general education activities via online platforms is highly commendable, it is important to duly recognise that such online educational activities are likely to have exacerbated existing inequalities in learning outcomes, largely driven by disparities in access to technology related infrastructure facilities amidst economic hardships of households. Further, learning losses among vulnerable households may have also arisen on account of food insecurity issues. Although academic activities have experienced several disruptions from 2020 onwards, a proper nationwide micro-level assessment is yet to be conducted to assess the impact of the disruptions on the learning outcomes of students at all levels within the public education system. The Government continued to hold all national level examinations, which were due in 2021, during the first half of 2022 without any significant compromises on syllabi covered in the examinations and without any changes to methods of assessment. Nevertheless, several major national exams scheduled for 2022 have been postponed to 2023. Such postponement of examinations, rather than adopting novel or more appropriate methods of assessment considering the several challenges faced by all stakeholders of the education system on all fronts, not only hinders the timely academic progress of students in the short term but also poses concerns about the effectiveness of the education system and its ability to achieve the long-term

**“ There is a strong need to adopt novel methods of academic assessment that can more appropriately assess the academic standards of students whose learning processes have been significantly hindered during the last three years...”**

objective of creating a productive human capital base. These national examinations have life-long implications in terms of pursuing higher education and employment opportunities. Accordingly, the lack of change to academic assessment methods during such a prolonged period of crisis is disconcerting as these examinations are unlikely to appropriately assess the academic standards of students, whose learning processes have been significantly hindered over the past three years. Considering the long lasting nature of the challenges that students have experienced and the implications of these, the Government must strive to formulate a comprehensive student-centric action plan that can ensure that students are not only able to recuperate from the learning losses of the past three years but are also assessed in an equitable manner considering these challenging circumstances.

### Poverty and Safety Nets

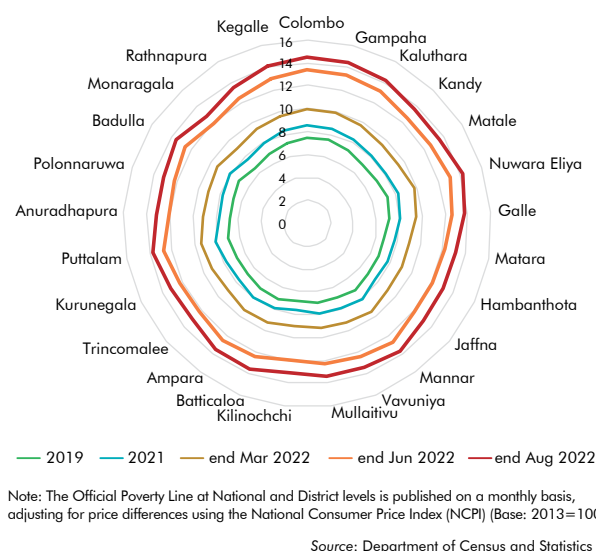
As per the updated official poverty line that was devised by the DCS based on the HIES 2012/13 data, the share of the population living below the poverty line in 2019 stood at 14.3%. Accordingly, as per the updated poverty line, approximately 3.04 million individuals live below the poverty line; this is almost 4.4 times more than the number of people that were previously estimated to be living below the 2002 poverty line. The new data series continues to highlight the presence of significant disparities across the sectors as well, with poverty levels in the estate sector remaining high at 33.8% in comparison to 15.0% in the rural sector and 6.0% in the urban sector. The HIES 2019 also reveals that approximately one in six Sri Lankans are multidimensionally poor and experience deprivations across 42% of the weighted indicators. The national multidimensional poverty headcount ratios were also relatively high at 16.6% in rural areas and

51.3% in estate areas. The people in the estate sector experienced the highest level of deprivation. Among the districts, the lowest incidences of multidimensional poverty were in Colombo (3.5%) and Gampaha (5.1%), whereas the highest was in Nuwara Eliya (44.2%). Despite the substantial disparity across the districts, the quantum of multidimensionally poor people was higher in the Colombo and Gampaha districts due to the higher population density that is typical for such urban areas. These poverty statistics from 2019 highlight the vulnerability of a significant share of the population to poverty even before the COVID-19 pandemic. Although more recent national statistics on poverty remain unavailable from respective agencies, the contemporary vulnerability of the population is reflected to some extent by the shift in the national poverty line that is calculated by the DCS based on HIES 2012/13 data. While there had been a level shift in the district poverty lines over the years, the shift observed between March 2022 and June 2022 is significant with the escalation in prices of all food commodities during this period. When considering the most recent poverty line data, in August 2022, the national poverty line stood at Rs. 13,460, registering a significant y-t-d increase of 70.1% compared to 2021. Meanwhile, the district poverty line of Colombo, Gampaha, Kalutara, Kegalle and Nuwara Eliya exceeded Rs. 14,000 in August 2022, reflecting the disproportionate impact of inflation on cost of living in urban areas, in comparison to Rs. 13,004 and Rs. 12,870 as observed in rural districts such as Kilinochchi and Monaragala, respectively.

With the effects of the pandemic observed throughout 2020 and 2021 and the ongoing economic crisis that has had far reaching implications on both

**“ Even prior to COVID-19, 1 in 6 Sri Lankans were multidimensionally poor highlighting an urgent need for concerted policy initiatives to curb the possible rapid deterioration of the living standards of the population amidst the current economic crisis...”**

**Figure 3.9**  
**District Official Poverty Line (Rs. '000)**



livelihoods and well-being, it is likely that a new poor segment of the population, which remains at the brink of poverty would have emerged. The current crisis is likely to have impacted not only the financial stability of households but also on their nutritional status. The FAO and the WFP in their early warning assessments on food insecurity added Sri Lanka to a list of 48 countries designated as *Hunger Hotspots* highlighting the likelihood of further worsening of acute food insecurity. Moreover, as part of the *Crop and Food Security Assessment Mission* of the WFP and the FAO released in end August 2022, based on surveys covering all nine provinces across estate, urban, and rural settings, it has been estimated that already 6.3 million people are food-insecure; approximately 1 in 3 people are food insecure. This highlights significantly worsening nutrition outcomes as official statistics were already signalling issues pertaining to malnutrition, especially stunting, wasting, and underweight in children below the age of 5 years, as early as 2016. In addition to nutritional status, the

**It is likely that the current crisis has led to people grappling with not only food insecurity but also other disparities relating to asset ownership and access to infrastructure..**

current crisis is also likely to have worsened other disparities that were already prevalent even prior to the COVID-19 pandemic, such as access to health and education infrastructure and the asset base of households. Well-targeted interventions of sufficient quantity and quality are of utmost importance to help preserve and improve the productive capacity of households over the medium run.

As mitigation of the impact of the ongoing economic crisis on poor and vulnerable segments remains critical, the Government has engaged in providing different forms of assistance to alleviate the burden on households. In this regard, an emergency cash transfer program was undertaken by the DSD to provide allowances in the range of Rs. 3,000 to Rs. 5,000 to Samurdhi beneficiaries for the period from May to December 2022, using multilateral financial assistance. The monthly Samurdhi allowance for households was also increased in February 2022 by around 28% per beneficiary family as proposed in the Budget 2022. Accordingly, the family unit allowances of Rs. 3,500, Rs. 2,500, and Rs. 1,500 per family were increased to Rs. 4,500, Rs. 3,200, and Rs. 1,900 per family, respectively. Recognizing the far-reaching impact of the ongoing economic crisis, the recent Interim Budget 2022 also outlined a vast social welfare package aimed at offering financial cushioning to those who have lost their livelihoods, pregnant mothers and families who are experiencing food insecurity, and a kerosene subsidy to small boat owners in the fishing industry and those in plantation areas with no electricity. The DSD is also expecting to improve the targeting of the Samurdhi safety net through the development of a social registry by the Welfare Benefits Board, with technical assistance from specialist multilateral agencies. This is expected to enable continuous assessment of eligibility of recipients of social assistance and thereby also ensure the creation of an effective exit mechanism from social assistance programmes within a reasonable period. Accordingly, registering of low-income families under the fast tracked *Leave No One Behind* welfare programme was expedited with the intention of expanding coverage to families/individuals, who are on waiting lists as well as those who are affected by the ongoing economic crisis and seeking welfare

**Provision of comprehensive and timely datasets by relevant institutions is essential in the current context to ensure prompt and efficacious assessment of social vulnerabilities...**

benefits from the Government. With due consideration to rising concerns about malnutrition and in recognition of the long-term impacts of this issue, a multi-sector combined mechanism for empowering rural economic revitalization centres to ensure food security and nutrition was introduced in September 2022. This programme intends to not only address malnutrition issues in children but also to safeguard the food security of adults, while strengthening

domestic agricultural supply and thereby overall food availability. It is to be reiterated that the lack of timely and regular provision of comprehensive and recent datasets related to poverty and social welfare render it immensely difficult for policymakers and other stakeholders to engage in efficacious interventions, particularly in relation to social vulnerabilities. During unprecedented economic episodes, such as COVID-19 and even the ongoing economic crisis that is expected to be prolonged over the near-term with a substantial reduction in per capita incomes, providing relevant and timely datasets or flash assessments by responsible institutions can contribute immensely to ensuring that social vulnerabilities are not only assessed promptly but also addressed in an efficacious manner, which is particularly important, considering the financial scale of such essential initiatives amidst limited fiscal space.



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

| Item                                    | 202 Jan-Jun (a) | 2022 Jan-Jun (b) | Change % |
|---|-----------------|------------------|----------|
| <b>Road Passenger</b>                   |                 |                  |          |
| <b>Sri Lanka Transport Board (SLTB)</b> |                 |                  |          |
| Operated Kilometrage (mn)               | 136             | 174              | 27.9     |
| Passenger Kilometrage (mn)              | 3,393           | 6,322            | 86.3     |
| No. of Buses Owned                      | 7,015           | 6,699            | -4.5     |
| Average No. of Buses Operated           | 1,353           | 3,966            | 193.1    |
| <b>Private Sector</b>                   |                 |                  |          |
| Operated Kilometrage (mn)               | 364             | 253              | -30.5    |
| Passenger Kilometrage (mn)              | 16,292          | 10,701           | -34.3    |
| No. of Buses Effectively Available      | 20,021          | 20,057           | 0.2      |
| Average No. of Buses Operated           | 9,053           | 8,973            | -0.9     |
| No. of Inter Provincial Permits Issued  | 3,132           | 3,114            | -0.6     |
| No. of Intra Provincial Permits Issued  | 16,922          | 16,938           | 0.1      |
| <b>Sri Lanka Railways</b>               |                 |                  |          |
| Operated Kilometrage (mn)               | 4.2             | n.a.             | -        |
| Passenger Kilometrage (mn)              | 1,211           | 2,887            | 138.4    |
| Freight Ton Kilometrage (mn)            | 78.1            | 73.1             | -6.4     |

(a) Revised  
(b) Provisional  
n.a.- Not Available

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

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

| <b>Installed Capacity and Electricity Generation</b>             |                |                    |             |
|--|----------------|--------------------|-------------|
| Item   | 2021 Jan - Aug | 2022 Jan - Aug (a) | Change %    |
| <b>Installed Capacity (MW - End Period)</b>                      | <b>4,199</b>   | <b>4,354</b>       | <b>3.7</b>  |
| CEB  | 3,040          | 3,075              | 1.2         |
| Private  | 1,158          | 1,279              | 10.4        |
| <b>Total Power Generation (GWh)</b>                              | <b>11,107</b>  | <b>10,744</b>      | <b>-3.3</b> |
| Hydro (b)  | 3,215          | 3,122              | -2.9        |
| Fuel Oil   | 2,063          | 2,125              | 3.0         |
| Coal   | 4,020          | 3,707              | -7.8        |
| NCRE (c)   | 1,810          | 1,790              | -1.1        |
| <b>Share of Hydro Power in Total Generation (%)</b>              | <b>29</b>      | <b>29</b>          | <b>0.4</b>  |
| <b>Electricity Sales (GWh)</b>                                   |                |                    |             |
| <b>Total Sales by CEB</b>  | <b>10,062</b>  | <b>9,854</b>       | <b>-2.1</b> |
| Domestic   | 3,458          | 3,435              | -0.7        |
| Religious  | 54             | 55                 | 1.2         |
| Industrial   | 3,178          | 2,957              | -6.9        |
| General Purpose  | 1,933          | 1,987              | 2.8         |
| Government   | 143            | 139                | -2.4        |
| Hotel  | 143            | 163                | 13.9        |
| Bulk Sales to LECO   | 1,085          | 1,053              | -2.9        |
| Street Lighting  | 68             | 64                 | -5.4        |
| <b>Average Cost and Average Tariff of Electricity (Rs./unit)</b> |                |                    |             |
| <b>CEB</b>   | <b>8.54</b>    | <b>16.73</b>       | <b>96.0</b> |
| CEB - Hydro  | 1.83           | 1.84               | 0.9         |
| CEB - Coal   | 9.13           | 18.41              | 101.6       |
| CEB - Fuel Oil   | 29.40          | 54.60              | 85.7        |
| CEB - Wind   | n.a.           | 4.20               | -           |
| <b>Private</b>   | <b>22.46</b>   | <b>32.75</b>       | <b>45.8</b> |
| <b>Overall Average Cost (at Generation Point)</b>                | <b>11.74</b>   | <b>20.74</b>       | <b>76.6</b> |
| <b>Overall Average Cost (at Selling Point)</b>                   | <b>17.29</b>   | <b>29.17</b>       | <b>68.7</b> |
| <b>Overall Average Tariff</b>                                    | <b>16.22</b>   | <b>17.47</b>       | <b>7.7</b>  |

(a) Provisional  
(b) Excluding mini hydro power generation  
(c) Refers to Non-Conventional Renewable Energy (NCRE), including mini hydro and rooftop solar generation  
n.a.- Not Available

Source: Ceylon Electricity Board



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

| Sectors          | 2021 Jan - Aug   |           |                  | 2022 Jan - Aug (a) |           |                  |
|------------------|------------------|-----------|------------------|--------------------|-----------|------------------|
|                  | Amount (mn ltrs) | Share (%) | y-o-y Growth (%) | Amount (mn ltrs)   | Share (%) | y-o-y Growth (%) |
| Power Generation | 491              | 14.9      | -29.6            | 486                | 16.5      | -1.2             |
| Transport        | 2,287            | 69.2      | 8.6              | 2,090              | 71.0      | -8.6             |
| Aviation         | 149              | 4.5       | -22.2            | 200                | 6.8       | 34.4             |
| Industries       | 100              | 3.0       | 63.9             | 63                 | 2.1       | -36.7            |
| Other (b)        | 279              | 8.5       | -10.1            | 106                | 3.6       | -62.2            |
| <b>Total</b>     | <b>3,307</b>     |           | <b>-1.8</b>      | <b>2,945</b>       |           | <b>-11.0</b>     |

(a) Provisional

Source: Ceylon Petroleum Corporation

(b) Includes petroleum sales for domestic use, farmers, export and bunkering

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

| Item                               | 2021 Jan - Jun | 2022 Jan - Jun (a) | Change %     |
|------------------------------------|----------------|--------------------|--------------|
| <b>Passengers (No.)(b)</b>         | <b>323,754</b> | <b>2,754,508</b>   | <b>750.8</b> |
| SriLankan Airlines                 | 182,869        | 1,538,153          | 741.1        |
| Foreign Airlines                   | 140,885        | 1,216,355          | 763.4        |
| <b>Freight Handling (mt)</b>       | <b>79,310</b>  | <b>94,904</b>      | <b>19.7</b>  |
| SriLankan Airlines                 | 39,425         | 45,858             | 16.3         |
| Foreign Airlines                   | 39,885         | 49,046             | 23.0         |
| <b>Aircraft Movements (No.)(c)</b> | <b>9,462</b>   | <b>21,549</b>      | <b>127.7</b> |
| BIA                                | 9,119          | 21,160             | 132.0        |
| MRIA                               | 337            | 184                | -45.4        |
| JIA                                | 6              | 205                | 3,316.7      |

(a) Provisional

Source: Civil Aviation Authority of Sri Lanka

(b) Includes transit passengers

(c) Includes domestic aircraft movements

## Abbreviations and Acronyms

|      |   |         |  |
|------|---|---------|--|
| 4G   | : Fourth Generation                               | mt      | : Metric Tonnes  |
| BIA  | : Bandaranaike International Airport              | MW      | : Mega Watt  |
| CEB  | : Ceylon Electricity Board                        | n.a.    | : Not Available  |
| CICT | : Colombo International Container Terminal        | NCRE    | : Non-Conventional Renewable Energy  |
| CPC  | : Ceylon Petroleum Corporation                    | NWS&DB  | : National Water Supply & Drainage Board                                       |
| DCS  | : Department of Census and Statistics             | OPEC+   | : Organisation of Petroleum Exporting Countries and other affiliated countries |
| DSD  | : Department of Samurdhi Development              | PB      | : Petabyte   |
| ECT  | : East Container Terminal                         | PPP     | : Public Private Partnership   |
| FAO  | : Food and Agriculture Organisation               | PUCSL   | : Public Utilities Commission of Sri Lanka                                     |
| FDI  | : Foreign Direct Investments                      | QR code | : Quick Response code  |
| GB   | : Gigabyte  | Rs.     | : Rupees   |
| GWh  | : Giga Watt Hours                                 | SAGT    | : South Asia Gateway Terminal  |
| H1   | : First Half                                      | SLPA    | : Sri Lanka Ports Authority  |
| HIES | : Household Income and Expenditure Survey         | SLTB    | : Sri Lanka Transport Board  |
| ICTA | : Information and Communication Technology Agency | SSCL    | : Social Security Contribution Levy  |
| JCT  | : Jaya Container Terminal                         | TEUs    | : Twenty-foot Equivalent Units   |
| JIA  | : Jaffna International Airport                    | TRCSL   | : Telecommunications Regulatory Commission of Sri Lanka                        |
| kg   | : Kilogramme                                      | USD     | : United States Dollar   |
| LIOC | : Lanka IOC PLC                                   | WCT     | : West Container Terminal  |
| LPG  | : Liquefied Petroleum Gas                         | WFP     | : World Food Programme   |
| Ltrs | : Litres  | WTI     | : West Texas Intermediate  |
| mn   | : Million   | y-o-y   | : Year-on-Year   |
| MRIA | : Mattala Rajapaksa International Airport         |         |  |





## Prices and Wages

**T**he general price level, which increased substantially in the first half of the year moderated during July to September 2022, yet remained elevated. The significant increase observed in the general price level in 2022, was largely attributed to the removal of administered prices, which were maintained at constant levels over a considerable period of time as a relief to the general public. In addition, foreign exchange shortages, higher transportation costs due to frequent upward fuel price revisions, and notable electricity and water tariff revisions made a significant impact on prices. Further, issues relating to the shortage of fertiliser caused the limited availability of food commodities elevating their price levels. Meanwhile, the depreciation of the exchange rate, rising prices of global commodities and higher freight charges also resulted in substantial price increases of imported items. Nevertheless, the Yala harvest reaching markets, the stabilisation of the exchange rate, and the deceleration of prices observed in the global market, led to the moderation of price pressures to some extent in recent months. Despite the easing of price pressures, headline inflation has followed an increasing trend up to September 2022. In the midst of rising inflation, a real wage erosion was observed in terms of both public and private sector wages during the eight months ending August 2022 compared to the corresponding period of 2021, though an increase was recorded in nominal wages. Going forward, it is expected that the improvements in supply conditions and continued containment of the aggregate demand would ease any upward pressures on the general price level thus paving way for the envisaged disinflation path in the period ahead.

## 4.1 Prices

Prices of Volatile Food<sup>1</sup> items exhibited significant increases during the first half of the year while exhibiting a moderation between July to September 2022. Increase in these prices was mainly attributed to low supply conditions owing to the decline in 2021/2022 Maha harvest led by attempts to shift towards the use of only organic fertiliser and unavailability and higher cost of chemical fertiliser. In addition, an increase in transport costs driven by frequent and substantial fuel price hikes and supply side issues related to adverse weather conditions also exerted a considerable upward pressure on prices of Volatile Food items. Prices of both local and imported rice varieties increased substantially until July 2022 due to lower 2021/2022 Maha harvest combined with issues related to availability of sufficient foreign exchange. In view of protecting consumers from escalating rice prices, the Government imposed MRPs on local rice varieties. Accordingly, MRPs were imposed on local Samba and Nadu, at Rs. 230 per kg and Rs. 220 per kg, respectively, w.e.f. 02 May 2022, and on local Red Raw and White Raw, at Rs. 210 per kg w.e.f. 10 June 2022. Afterwards, prices of local rice varieties moved on a declining trend during the period from August to September 2022 with the receiving of 2022 Yala harvest and prices of imported rice varieties followed a similar trend during the same period owing to low demand instigated by the distribution of imported rice varieties as a donation to low income families. Vegetable prices exhibited an overall increasing trend during the nine months ending September 2022, except for March, July, August and September where price declines were observed due to the harvesting period. In contrast, a notable increase in vegetable prices was observed during the period from April to June 2022, owing to supply chain disruptions caused by fuel shortages, higher transportation costs, adverse weather conditions, and limited availability of agrochemicals. Meanwhile, price of chicken increased continuously during January to September 2022, owing to higher cost of production, shortage of poultry feed, minerals and medical supplements. Further, prices of fresh fish, which were stable until April 2022, increased notably afterwards due to the diminished nature of fishing activities caused by fuel shortages and elevated prices of fuel amid unfavourable weather conditions. However, the rate of increase in fish prices subdued towards the end of referenced period with the easing

of supply shortages related to kerosene. Meanwhile, declining prices of certain commodities in the world market partially supported the easing of elevated levels of prices of essential imported food commodities, such as sugar, dhal, big onion, dried chilli, and potato towards the end of the referenced period. In addition, SCL of Rs. 50 per kg was imposed on big onion w.e.f. 23 September 2022, in order to safeguard the local big onion farmers. As a result, imported big onion prices reversed its downward trend from September end.

**Prices of Volatile Food items followed an increasing trend mainly due to low supply conditions and increased transport cost...**

Prices of Non-Volatile food and Non-Food items increased substantially during the nine months ending September 2022 mainly due to an increase in prices of imported items yet moderated its increasing rate towards end of the referenced period. Shortage of foreign exchange, increase in global commodity prices and higher freight charges contributed largely to increases in the prices of these goods and services. It is noteworthy that prices of imported food items increased substantially in the domestic market so far during 2022 particularly with the depreciation of the exchange rate. The practice of maintaining the prices of some key imported items, such as wheat flour, bread, milk powder, fuel, LPG, and prices of essential services such as electricity and water tariffs, bus and train fares, telecommunication and postal charges, at stable levels by the Government without major upward revisions as a relief measure to the public, has become almost impossible under the current economic conditions. Subsequently, prices of wheat flour, bread, and milk powder were allowed to be determined by market forces leading to frequent upward price revisions thus far during 2022. Meanwhile, with recent stabilisation observed in the exchange rate, some moderation was observed in prices of imported food items towards end September 2022. However, upward revisions to price of wheat flour led to an increase in price of a 450g loaf of bread by Rs. 30 on three consecutive occasions and by Rs. 20 in its latest upward price revision, bringing price per 450g loaf of bread from Rs. 80 at the beginning of the year to a range of Rs. 170 - Rs. 220 by October 2022. Meanwhile, other bakery products also underwent several price revisions so far in 2022. In addition, in the most recent price revision, wheat flour price was increased by

<sup>1</sup> Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potatoes, onions, and selected condiments.

**Table 4.1**  
**Administered Price Revisions in Selected**  
**Commodities during the Period from**  
**January to October 2022**

| Item                              | Unit      | Revised Price (Rs.) | Effective Date |
|-----------------------------------|-----------|---------------------|----------------|
| <b>Milk Powder</b>                |           |                     |                |
| Imported                          |           |                     |                |
| Anchor                            | 400g      | 790.00              | 19.03.2022     |
|                                   | 400g      | 1,020.00            | 05.04.2022     |
|                                   | 400g      | 1,160.00            | 16.06.2022     |
|                                   | 400g      | 1,240.00            | 05.10.2022     |
| Local                             |           |                     |                |
| Highland                          | 400g      | 625.00              | 12.04.2022     |
|                                   | 400g      | 850.00              | 23.06.2022     |
|                                   | 400g      | 950.00              | 05.10.2022     |
| Pelwatte                          | 400g      | 685.00              | 19.04.2022     |
|                                   | 400g      | 880.00              | 01.06.2022     |
|                                   | 400g      | 980.00              | 05.10.2022     |
| <b>LPG</b>                        |           |                     |                |
| Litro Gas Lanka Ltd.              | 12.5kg    | 4,860.00            | 27.04.2022     |
|                                   | 12.5kg    | 4,910.00            | 11.07.2022     |
|                                   | 12.5kg    | 4,664.00            | 09.08.2022     |
|                                   | 12.5kg    | 4,551.00            | 06.09.2022     |
|                                   | 12.5kg    | 4,280.00            | 06.10.2022     |
| Laugfs Gas PLC                    | 12.5kg    | 4,199.00            | 20.03.2022     |
|                                   | 12.5kg    | 6,850.00            | 05.06.2022     |
|                                   | 12.5kg    | 5,800.00            | 18.08.2022     |
|                                   | 12.5kg    | 5,300.00            | 11.10.2022     |
| <b>Fuel</b>                       |           |                     |                |
| Petrol (92 Octane)                |           |                     |                |
| LIOC                              | 1l        | 184.00              | 07.02.2022     |
| LIOC                              | 1l        | 204.00              | 26.02.2022     |
| LIOC                              | 1l        | 254.00              | 11.03.2022     |
| CPC                               | 1l        | 254.00              | 12.03.2022     |
| LIOC                              | 1l        | 303.00              | 26.03.2022     |
| CPC and LIOC                      | 1l        | 338.00              | 18.04.2022     |
| CPC and LIOC                      | 1l        | 420.00              | 24.05.2022     |
| CPC and LIOC                      | 1l        | 470.00              | 26.06.2022     |
| CPC and LIOC                      | 1l        | 450.00              | 17.07.2022     |
| CPC and LIOC                      | 1l        | 410.00              | 02.10.2022     |
| CPC and LIOC                      | 1l        | 370.00              | 17.10.2022     |
| Auto Diesel                       |           |                     |                |
| LIOC                              | 1l        | 124.00              | 07.02.2022     |
| LIOC                              | 1l        | 139.00              | 26.02.2022     |
| LIOC                              | 1l        | 214.00              | 11.03.2022     |
| CPC                               | 1l        | 176.00              | 12.03.2022     |
| CPC and LIOC                      | 1l        | 289.00              | 18.04.2022     |
| CPC and LIOC                      | 1l        | 400.00              | 24.05.2022     |
| CPC and LIOC                      | 1l        | 460.00              | 26.06.2022     |
| CPC and LIOC                      | 1l        | 440.00              | 17.07.2022     |
| CPC and LIOC                      | 1l        | 430.00              | 01.08.2022     |
| CPC and LIOC                      | 1l        | 415.00              | 17.10.2022     |
| Minimum Bus Fare                  |           | 17.00               | 05.01.2022     |
|                                   |           | 20.00               | 15.03.2022     |
|                                   |           | 27.00               | 20.04.2022     |
|                                   |           | 32.00               | 25.05.2022     |
|                                   |           | 40.00               | 01.07.2022     |
|                                   |           | 38.00               | 20.07.2022     |
|                                   |           | 34.00               | 05.08.2022     |
| Minimum Train Fare                |           | 20.00               | 25.07.2022     |
| <b>Electricity – Fixed Charge</b> |           |                     |                |
| < 60 units                        | 0-30      | 120.00              | 10.08.2022     |
|                                   | 31-60     | 240.00              | 10.08.2022     |
| > 60 units                        | 0-60      | -                   | 10.08.2022     |
|                                   | 61-90     | 360.00              | 10.08.2022     |
|                                   | 91-120    | 960.00              | 10.08.2022     |
|                                   | 121-180   | 960.00              | 10.08.2022     |
|                                   | Above 180 | 1,500.00            | 10.08.2022     |

(Contd.)

**Table 4.1 (Contd.)**  
**Administered Price Revisions in Selected**  
**Commodities during the Period from**  
**January to October 2022**

| Item                             | Unit      | Revised Price (Rs.) | Effective Date |
|----------------------------------|-----------|---------------------|----------------|
| <b>Electricity – Unit Charge</b> |           |                     |                |
| < 60 units                       | 0-30      | 8.00                | 10.08.2022     |
|                                  | 31-60     | 10.00               | 10.08.2022     |
| > 60 units                       | 0-60      | 16.00               | 10.08.2022     |
|                                  | 61-90     | 16.00               | 10.08.2022     |
|                                  | 91-120    | 50.00               | 10.08.2022     |
|                                  | 121-180   | 50.00               | 10.08.2022     |
|                                  | Above 180 | 75.00               | 10.08.2022     |
| <b>Water - Domestic</b>          |           |                     |                |
| Unit Charge                      | 0-5       | 20.00               | 01.09.2022     |
|                                  | 6-10      | 27.00               | 01.09.2022     |
|                                  | 11-15     | 34.00               | 01.09.2022     |
|                                  | 16-20     | 68.00               | 01.09.2022     |
|                                  | 21-25     | 99.00               | 01.09.2022     |
|                                  | 26-30     | 150.00              | 01.09.2022     |
|                                  | 31-40     | 179.00              | 01.09.2022     |
|                                  | 41-50     | 204.00              | 01.09.2022     |
|                                  | 51-75     | 221.00              | 01.09.2022     |
|                                  | Above 75  | 238.00              | 01.09.2022     |

Sources: Consumer Affairs Authority  
National Transport Commission  
National Water Supply and Drainage Board  
Central Bank of Sri Lanka

Rs. 13 owing to the imposition of SSCL, yet did not result in rises in prices of bread and bakery products. Moreover, the price of a 400g imported milk powder packet was revised upwards on four occasions, due to price increases in the global market and associated higher freight charges. Further, the price of a 400g local milk powder packet was also revised upwards on several instances owing to higher cost of production, elevated transportation costs, and taxes. Although prices of dhal, white sugar, and dried fish increased substantially during the first half of 2022, their prices eased off during the latter part of the referenced period, mainly owing to reduction of prices of these commodities in the world market. Meanwhile, in order to protect consumers from unreasonable escalation of egg prices, a MRP of Rs. 43 per each was imposed on white eggs w.e.f. 19 August 2022. With the depreciation of the exchange rate, prices of several key items in the Non-Food category increased exponentially, recording their highest prices in the domestic market. Although prices of fuel (CPC), LPG (Litro), and bus fares are still regulated by the Government, prices of the same underwent several upward revisions reflecting their cost including depreciation of the rupee. Accordingly, prices of both petrol (92 Octane) and Auto Diesel underwent several upward price revisions by both CPC and LIOC. It is noteworthy that recent price revisions on fuel by both CPC and LIOC were based on the new pricing formula,

which was approved by the Cabinet. In response to fuel price hikes, fares of school vans, taxis and three-wheelers also underwent upward price revisions on several occasions so far in 2022. However, bus fares were revised downwards on two occasions by 2.23% and 11.14% w.e.f. 20 July 2022 and 05 August 2022, respectively, following consecutive downward revisions in Auto Diesel prices. In the most recent fuel price revision, which came into effect on 17 October 2022, prices of petrol (92 Octane) and Auto Diesel were reduced by Rs. 40 and Rs. 15, respectively. It is noteworthy that train fares underwent an upward price revision nearly after four years, w.e.f. 25 July 2022. Moreover, depicting the impact of the rupee depreciation and import restriction measures on non-urgent imports, prices of vehicle spare parts and vehicle servicing costs increased during the considered period. In addition, the price of an LPG cylinder weighing 12.5kg was revised on several occasions, indicating an overall have increase. As a result, prices of prepared food items have increased continuously so far in 2022. Electricity tariffs which remained unchanged for nearly eight years, were increased substantially by 75% on average w.e.f. 10 August 2022 in order to offset its generation and distribution cost. In addition, water tariffs which were not revised for nearly 10 years, also underwent a notable upward revision w.e.f. 01 September 2022. Household maintenance and equipment recorded a continuous price increase during the nine months ending September 2022 mainly due to rupee depreciation, global commodity price hikes and elevated transportation costs. In addition, housing rent also recorded a marginal increase in April 2022. Moreover, prices of medicine, private medical practice fees, and payments to private hospitals increased substantially during the nine months ending September 2022. Furthermore, telecommunication levy which stood at 11.25% was increased to 15% w.e.f. 01 June 2022. Moreover, VAT was also revised upwards from 8% to 12% w.e.f. 01 June 2022 and to 15% w.e.f. 01 September 2022. Imposition of SSCL w.e.f. 01 October 2022, could incur some upward pressure on prices of items in both Food and Non-Food categories in the coming months.

**Prices of Non-Volatile Food and Non-Food items increased substantially amid shortage of foreign exchange, increase in global commodity prices and higher freight charges...**

Effects of electricity and water tariff hikes are expected to be reflected on most goods and services, which could further raise the general price level. It is noteworthy that the impact of upward price revisions outweighs the impact of recent downward revisions, thus hampering the expectations of slowing down in fast pacing increasing trend in CPIs.

### Consumer Price Indices

Both official CPIs, namely, the CCPI and NCPI<sup>2</sup> which measure the general price level, moved on an increasing trend so far during the referenced period, yet at a slower rate during the period from July to September 2022.

**Both official CPIs moved on an increasing trend during the referenced period...**

### Colombo Consumer Price Index

The CCPI, which moved on an accelerated pace, moderated towards the end of the nine months ending September 2022, recording at 158.4 index points in January and 244.7 index points in September. The movement of prices of items in both Food and Non-Food categories contributed to monthly increases observed in the period from January to September 2022. It is noteworthy that the movement of CCPI was largely caused by increases observed in prices of items in the Non-Food category except for June 2022, in which the major contribution was from the Food category. When monthly changes are considered, a monthly increase of 12.8% was recorded in June 2022, the highest monthly increase in the recent past of CCPI.

**CCPI followed an increasing trend during the nine months ending September 2022, largely contributed by increases in prices in the Non-Food category...**

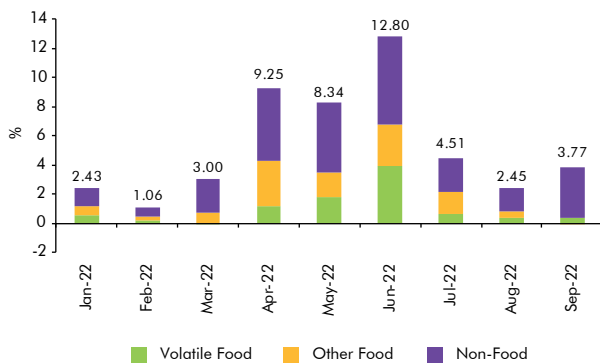
### National Consumer Price Index

The NCPI also increased rapidly, slackened its pace to a certain level towards the latter part of the nine months ending September 2022, recording 166.0 index

<sup>2</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.

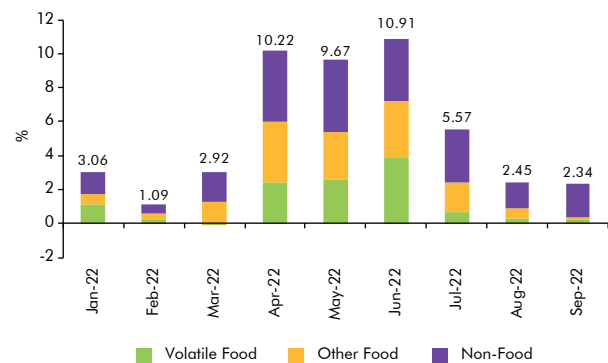


**Figure 4.1**  
Contribution to m-o-m % Change in CCPI



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

points in January 2022 and at 256.2 index points in September 2022. Increases recorded in prices of items in both Food and Non-Food categories drove the NCPI during the observed period with a larger contribution originating from prices of the Food category except for March, July, August and September 2022. Furthermore, in June 2022, the NCPI also recorded the highest monthly increase since its initiation.

**NCPI followed an increasing trend during the nine months ending September 2022, largely driven by the increases in Food prices...**

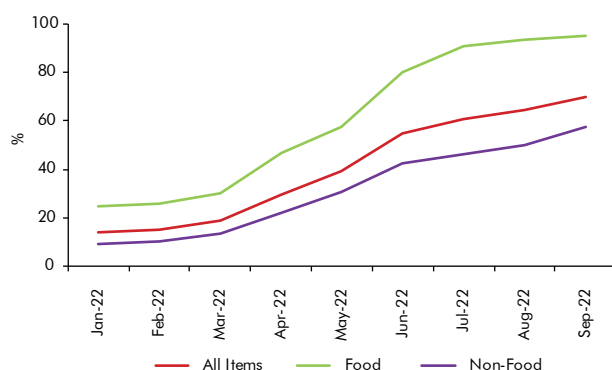
in January, followed an increasing pace recording 69.8% in September 2022. Meanwhile, CCPI-based Food and Non-Food inflation also followed an overall increasing trend throughout the period and recorded 94.9% and 57.6%, respectively, in September 2022. The movement of NCPI-based headline inflation remained above CCPI-based headline inflation during the nine months ending September 2022. Consequently, NCPI-based headline inflation which stood at 16.8% in January, followed an increasing pace recording 73.7% in September 2022. NCPI-based Food and Non-Food inflation also followed an overall increasing trend throughout the period, and recorded 85.8% and 62.8%, respectively, in September 2022.

## Headline Inflation

Headline inflation as measured by the y-o-y change in the CCPI accelerated during the nine months ending September 2022. Accordingly, CCPI-based headline inflation which stood at 14.2%

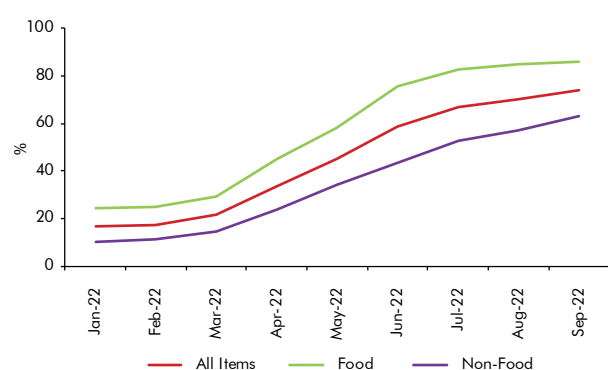
**So far during 2022, headline inflation followed an increasing trend...**

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



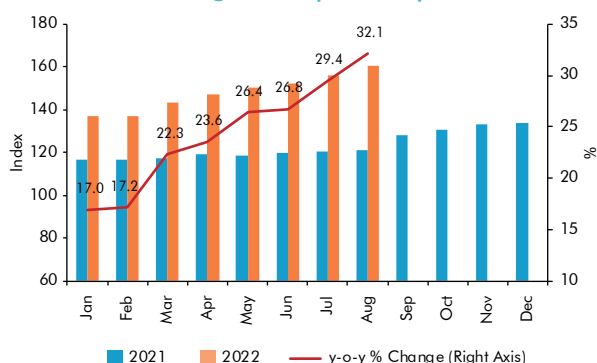
Source: Department of Census and Statistics

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



Source: Department of Census and Statistics

**Figure 4.5**  
**Movement of the Informal Private Sector Wage Rate Index (Nominal)**



Source: Central Bank of Sri Lanka

## 4.2 Wages

Nominal wages of informal private sector employees, as measured by the informal private sector wage rate index (2018=100),<sup>3</sup> exhibited an overall increasing trend during the eight months ending August 2022. This increase was mainly attributed to the demand for higher wages by the daily wage earners owing to the sharp increase in cost of living. Moreover, supply shortages in utilities, such as LPG, fuel, and electricity from time to time led the activities to be carried out using alternative utilities and at different time intervals. Such conditions also prompted the daily wage earners to call for higher pay. Consequently, the informal private sector wage rate index (2018=100), increased in nominal terms by 24.4% during the eight months ending August 2022, compared to the same period of 2021. In terms of the sub-activities, namely, agriculture, industry and services, the informal private sector wage rate index increased by 25.3%, 23.8% and 25.1%, respectively, during the eight months ending August 2022 compared to the same period of 2021. Even with such a substantial increase in nominal wages, due to the prevailing higher inflationary environment, the informal private sector employees experienced a real wage erosion of 10.6% during the eight months ending August 2022, compared to the same period of the previous year.

**Nominal wages of the informal private sector increased substantially, during the eight months ending August 2022...**

<sup>3</sup> Informal private sector wage rate index was rebased to 2018 (from 2012) in order to capture the recent changes occurred in the informal private sector wages and the employment structure.

**Nominal wages of the formal private sector exhibited slight increases during the eight months ending August 2022...**

Nominal wages of employees in the formal private sector,<sup>4</sup> as measured by the minimum wage rate index (1978 December=100) of employees, whose wages are governed by wage boards, showed slight increases during the eight months ending August 2022. However, the nominal minimum wage rate index increased by 15.3% during the eight months of 2022 compared to the same period of 2021 due to the statistical effect of the lower base in the first two months of 2021. It is noteworthy that the minimum daily wage of tea and rubber plantation workers was increased 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 minimum monthly salary of the private sector was increased from Rs. 10,000 to Rs. 12,500 and the minimum daily wage was increased from Rs. 400 to Rs. 500 with the amendment introduced to the National Minimum Wage of Workers Act, No. 03 of 2016 w.e.f. 16 August 2022. Meanwhile, the real wage rate index of the formal private sector decreased by 13.9% during the eight months of 2022 compared to the corresponding period of the previous year.

**Nominal wages of the public sector increased in January 2022 and remained unchanged thereafter during the eight months ending August 2022...**

Nominal wages of public sector employees, as measured by the public sector wage rate index (2016=100), increased after two years in January 2022, and remained unchanged thereafter till August 2022. The increase in January 2022 was attributed to the commencement of payment of a special allowance of Rs. 5,000 across all levels of public sector employees as announced by the Ministry of Finance as a relief measure to the rising cost of living. Moreover, the upward revision made to the salaries of Principals and Teachers in January 2022 with the view of removing the salary anomalies also contributed to this increase in

<sup>4</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.

the wages of the public sector. Accordingly, the public sector wage rate index (2016=100), increased in nominal terms by 16.1% during the eight months ending August 2022, compared to the same period of 2021. However,

amid the higher inflationary environment, public sector employees experienced a real wage erosion of 15.9% during the same period, compared to the corresponding period of 2021.

### Abbreviations and Acronyms

|      |   |                                     |        |   |                                   |
|------|---|-------------------------------------|--------|---|-----------------------------------|
| CCPI | : | Colombo Consumer Price Index        | m-o-m  | : | month-on-month                    |
| CPC  | : | Ceylon Petroleum Corporation        | NCPI   | : | National Consumer Price Index     |
| CPI  | : | Consumer Price Index                | SCL    | : | Special Commodity Levy            |
| DCS  | : | Department of Census and Statistics | SSCL   | : | Social Security Contribution Levy |
| LIOC | : | Lanka Indian Oil Company            | VAT    | : | Value Added Tax                   |
| LPG  | : | Liquefied Petroleum Gas             | w.e.f. | : | with effect from                  |
| MRP  | : | Maximum Retail Price                | y-o-y  | : | year-on-year                      |





## External Sector Developments

**T**he external sector challenges, which aggravated in recent years amidst headwinds on the global and local fronts, culminated in an unprecedented BOP crisis in 2022. Gross official reserves declined to historical lows, the exchange rate underwent a large overshooting, following a measured adjustment allowed in March 2022, import restrictions were imposed, and restrictions imposed on certain financial account transactions continued through 2022. Further, a debt standstill was announced in April 2022 for an interim period, pending a debt restructuring process, while negotiations commenced with the IMF for a bailout package, for which a staff level agreement was reached in early September 2022. The debt restructuring process, which began with the assistance of financial and legal advisors, has come to an advanced level, where financing assurances from official creditors are expected in the near future. Meanwhile, export performance has continued to remain robust despite heightened challenges thus far in 2022. Consequently, the deficit in the trade account narrowed until August 2022. Earnings from tourism have shown notable improvement so far during the year, while workers' remittances have recorded considerable revival in recent months, despite being modest during the first half of 2022. The current account deficit widened in the first half of 2022, compared to the corresponding period in 2021, reflecting the impact of modest workers' remittances and the increase in primary income account deficit, despite the moderation in trade deficit and improvement in the surplus in the services account. Inflows to the financial account remained modest due to the decline in foreign inflows to the Government and private sector in terms of direct investments, while foreign investment in the CSE, including the primary market purchases, and the government securities market recorded net inflows. Meanwhile, the Central Bank started providing guidance for the interbank foreign exchange market in mid-May 2022 in view of curtailing any large intraday volatility, subsequent to which a greater stability in the exchange rate was observed. Gross official reserves continued to remain at critically low levels primarily due to limited foreign exchange inflows and continued supply of foreign exchange by the Central Bank to partly finance essential imports. BOP pressures are expected to ease in the period ahead with the realisation of envisaged financial flows, following the approval of the EFF by the Executive Board of the IMF.

## 5.1 Balance of Payments

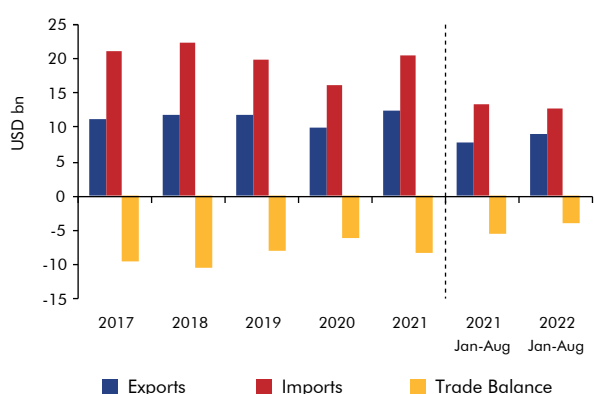
### Current Account

The current account deficit expanded during the first half of 2022 due to the widening primary income account deficit, moderation of the surplus in the secondary income account, amidst subdued performance of worker's remittances, despite the contraction of the merchandise trade deficit and improved surplus in the services account. Consequently, the current account recorded a deficit of USD 1.8 bn in the first half of 2022, compared to the deficit of USD 1.4 bn in the first half of 2021.

### Trade Account

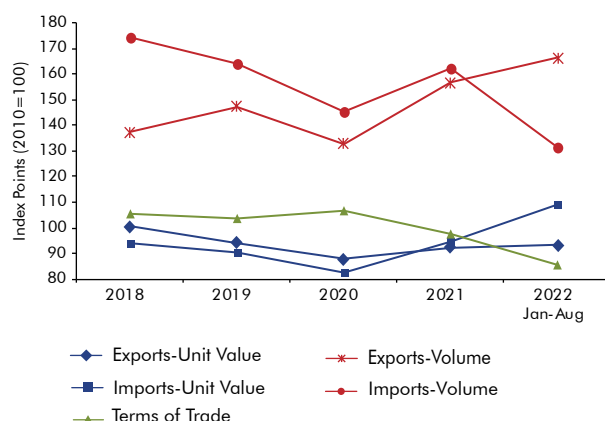
The merchandise trade deficit during January-August 2022 narrowed to USD 3.9 bn from USD 5.5 bn recorded in the same period of 2021. During this period, export earnings increased by nearly USD 1.0 bn, while import expenditure declined by USD 611 mn, compared to the same period in 2021. As shown by the movements of volume and unit value indices of exports and imports, the increase in exports as well as the decline in imports were driven by the impact of volume rather than the price effect. The terms of trade deteriorated, as the increase in the export price index was offset by the increase in the import price index, which was significantly led by higher fuel prices.

**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**

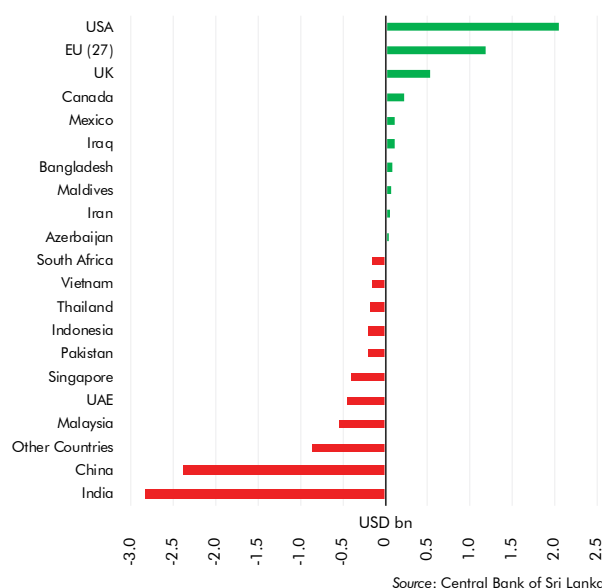


Source: Central Bank of Sri Lanka

**The merchandise trade deficit narrowed, supported by higher exports and import compression aided by the policy measures to discourage non urgent imports...**

Merchandise export earnings during January-August 2022 amounted to USD 8.9 bn, compared to USD 7.9 bn in the same period in 2021. Growth in export earnings was mainly led by industrial exports, such as garments, petroleum products, and gems, diamonds and jewellery. The notable depreciation of the exchange

**Figure 5.3**  
**Bilateral Trade Balances during Jan-Aug 2022**



Source: Central Bank of Sri Lanka



Table 5.1  
Developments in International Trade

USD mn

| Category                                  | 2020            | 2021 (a)        | 2021<br>Jan-Aug (a) | 2022<br>Jan-Aug (a) | Growth %<br>Jan-Aug<br>2021/2022 | Share %<br>Jan-Aug<br>2022 |
|---|-----------------|-----------------|---------------------|---------------------|----------------------------------|----------------------------|
| <b>EXPORTS</b>                            |                 |                 |                     |                     |                                  |                            |
| <b>Agricultural Exports</b>               | <b>2,336.2</b>  | <b>2,729.5</b>  | <b>1,765.5</b>      | <b>1,708.5</b>      | <b>-3.2</b>                      | <b>19.2</b>                |
| Tea                                       | 1,240.9         | 1,324.4         | 882.4               | 819.3               | -7.2                             | 9.2                        |
| Coconut                                   | 345.2           | 425.2           | 276.9               | 284.3               | 2.7                              | 3.2                        |
| Kernel Products                           | 163.1           | 200.9           | 125.6               | 128.1               | 2.0                              | 1.4                        |
| Other                                     | 182.1           | 224.3           | 151.3               | 156.2               | 3.3                              | 1.8                        |
| Spices                                    | 333.5           | 454.8           | 282.4               | 233.5               | -17.3                            | 2.6                        |
| Seafood                                   | 189.8           | 274.1           | 165.5               | 188.4               | 13.8                             | 2.1                        |
| Minor Agricultural Products               | 134.7           | 148.8           | 91.1                | 120.4               | 32.0                             | 1.4                        |
| Rubber                                    | 30.1            | 42.2            | 27.3                | 29.4                | 7.9                              | 0.3                        |
| Vegetables                                | 36.6            | 28.5            | 18.4                | 17.5                | -4.6                             | 0.2                        |
| Unmanufactured Tobacco                    | 25.5            | 31.6            | 21.4                | 15.7                | -26.8                            | 0.2                        |
| <b>Industrial Exports</b>                 | <b>7,672.0</b>  | <b>9,702.0</b>  | <b>6,094.3</b>      | <b>7,157.8</b>      | <b>17.5</b>                      | <b>80.4</b>                |
| Textiles and Garments                     | 4,423.1         | 5,435.1         | 3,434.8             | 4,095.6             | 19.2                             | 46.0                       |
| Rubber Products                           | 786.1           | 1,050.4         | 681.7               | 676.3               | -0.8                             | 7.6                        |
| Petroleum Products                        | 373.6           | 506.4           | 294.9               | 409.8               | 39.0                             | 4.6                        |
| Machinery and Mechanical Appliances       | 337.5           | 500.9           | 329.1               | 375.9               | 14.2                             | 4.2                        |
| Food, Beverages and Tobacco               | 464.0           | 586.9           | 354.0               | 366.0               | 3.4                              | 4.1                        |
| Gems, Diamonds and Jewellery              | 181.5           | 276.7           | 179.1               | 278.7               | 55.7                             | 3.1                        |
| Chemical Products                         | 172.7           | 223.2           | 143.7               | 150.8               | 5.0                              | 1.7                        |
| Base Metals and Articles                  | 110.9           | 156.4           | 100.1               | 120.2               | 20.1                             | 1.4                        |
| Animal Fodder                             | 102.9           | 149.4           | 77.5                | 109.2               | 40.9                             | 1.2                        |
| Wood and Paper Products                   | 99.3            | 129.9           | 82.6                | 95.7                | 15.9                             | 1.1                        |
| Other Industrial Exports                  | 620.5           | 686.8           | 417.0               | 479.5               | 15.0                             | 5.4                        |
| <b>Mineral Exports</b>                    | <b>25.1</b>     | <b>44.5</b>     | <b>30.7</b>         | <b>21.1</b>         | <b>-31.3</b>                     | <b>0.2</b>                 |
| <b>Unclassified Exports</b>               | <b>14.1</b>     | <b>22.6</b>     | <b>13.6</b>         | <b>14.8</b>         | <b>8.8</b>                       | <b>0.2</b>                 |
| <b>Total Exports</b>                      | <b>10,047.4</b> | <b>12,498.6</b> | <b>7,904.0</b>      | <b>8,902.2</b>      | <b>12.6</b>                      | <b>100.0</b>               |
| <b>IMPORTS</b>                            |                 |                 |                     |                     |                                  |                            |
| <b>Consumer Goods</b>                     | <b>3,401.7</b>  | <b>3,848.7</b>  | <b>2,579.3</b>      | <b>1,945.7</b>      | <b>-24.6</b>                     | <b>15.2</b>                |
| Food and Beverages                        | 1,554.4         | 1,666.5         | 1,151.9             | 1,106.2             | -4.0                             | 8.6                        |
| Rice                                      | 10.5            | 73.0            | 8.4                 | 229.5               | 2,618.0                          | 1.8                        |
| Dairy Products                            | 333.8           | 317.7           | 231.2               | 174.5               | -24.5                            | 1.4                        |
| Sugar                                     | 276.0           | 287.5           | 210.5               | 147.9               | -29.7                            | 1.2                        |
| Lentils                                   | 96.9            | 143.0           | 105.7               | 81.0                | -23.4                            | 0.6                        |
| Other                                     | 837.2           | 845.2           | 596.1               | 473.3               | -20.6                            | 3.7                        |
| Non-food Consumer Goods                   | 1,847.3         | 2,182.2         | 1,427.3             | 839.4               | -41.2                            | 6.6                        |
| Medical and Pharmaceuticals               | 595.5           | 882.5           | 532.0               | 347.5               | -34.7                            | 2.7                        |
| Clothing and Accessories                  | 200.7           | 221.3           | 138.7               | 158.6               | 14.4                             | 1.2                        |
| Home Appliances                           | 174.2           | 257.1           | 179.8               | 71.3                | -60.3                            | 0.6                        |
| Telecommunication Devices                 | 268.4           | 382.9           | 283.1               | 49.9                | -82.4                            | 0.4                        |
| Personal Vehicles                         | 282.9           | 12.8            | 7.8                 | 5.7                 | -26.5                            | 0.04                       |
| Other                                     | 325.6           | 425.7           | 286.0               | 206.5               | -27.8                            | 1.6                        |
| <b>Intermediate Goods</b>                 | <b>9,076.5</b>  | <b>12,308.9</b> | <b>7,942.4</b>      | <b>8,584.0</b>      | <b>8.1</b>                       | <b>67.1</b>                |
| Fuel                                      | 2,542.6         | 3,742.9         | 2,395.9             | 3,317.9             | 38.5                             | 25.9                       |
| Textiles and Textile Articles             | 2,335.1         | 3,066.9         | 1,943.7             | 2,175.7             | 11.9                             | 17.0                       |
| Chemical Products                         | 831.5           | 1,074.4         | 732.6               | 682.1               | -6.9                             | 5.3                        |
| Plastics and Articles Thereof             | 540.2           | 765.7           | 518.6               | 464.9               | -10.4                            | 3.6                        |
| Paper and Paperboard and Articles Thereof | 383.1           | 468.9           | 319.4               | 325.5               | 1.9                              | 2.5                        |
| Base Metals                               | 460.3           | 866.4           | 499.2               | 270.0               | -45.9                            | 2.1                        |
| Rubber and Articles Thereof               | 218.7           | 400.7           | 265.8               | 257.6               | -3.1                             | 2.0                        |
| Vehicle and Machinery Parts               | 239.4           | 349.4           | 235.5               | 188.1               | -20.1                            | 1.5                        |
| Wheat and Maize                           | 384.4           | 418.3           | 265.9               | 170.3               | -36.0                            | 1.3                        |
| Fertilizer                                | 258.9           | 158.2           | 104.0               | 98.2                | -5.5                             | 0.8                        |
| Other Intermediate Goods                  | 882.3           | 997.1           | 661.9               | 633.8               | -4.3                             | 5.0                        |
| <b>Investment Goods</b>                   | <b>3,563.2</b>  | <b>4,462.7</b>  | <b>2,882.3</b>      | <b>2,263.5</b>      | <b>-21.5</b>                     | <b>17.7</b>                |
| Machinery and Equipment                   | 2,176.1         | 2,809.5         | 1,822.5             | 1,462.4             | -19.8                            | 11.4                       |
| Building Materials                        | 1,035.6         | 1,248.9         | 803.9               | 689.2               | -14.3                            | 5.4                        |
| Transport Equipment                       | 348.3           | 398.5           | 252.1               | 109.2               | -56.7                            | 0.9                        |
| Other Investment Goods                    | 3.2             | 5.8             | 3.7                 | 2.7                 | -27.8                            | 0.02                       |
| <b>Unclassified Imports</b>               | <b>14.0</b>     | <b>17.1</b>     | <b>7.6</b>          | <b>7.7</b>          | <b>2.2</b>                       | <b>0.1</b>                 |
| <b>Total Imports</b>                      | <b>16,055.4</b> | <b>20,637.4</b> | <b>13,411.5</b>     | <b>12,800.9</b>     | <b>-4.6</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

rate and high global commodity prices had favourable effects on export sector performance. The main export destinations during January-August 2022 were USA (26%), EU (23%), UK (8%) and India (6%).

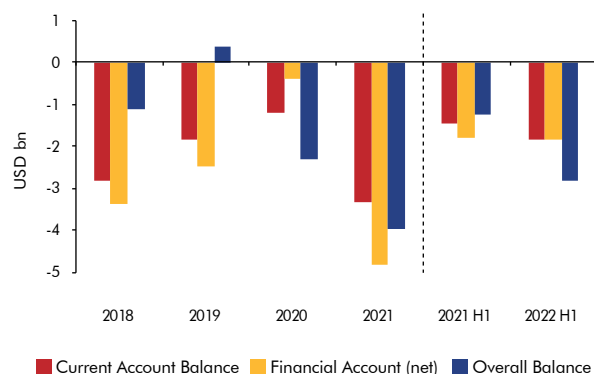
*The export sector could face challenges in the near term amidst changes in consumer spending patterns in major export destinations owing to high inflation, tight monetary conditions and recessionary concerns...*

Import expenditure during January-August 2022 contracted to USD 12.8 bn, compared to USD 13.4 bn recorded in the same period of 2021. However, import expenditure in the first quarter of 2022 was higher than that in 2021, which necessitated the introduction of policy measures to curb import expenditure in order to make foreign exchange available for essential imports. In addition, the foreign exchange liquidity shortage in the banking system, the considerable increase in import prices due to the sharp depreciation of the exchange rate and subdued demand caused by significant monetary tightening also contributed to the reduction in import expenditure since March 2022. The main import source countries during January-August 2022 were India (27%), China (20%), UAE (5%) and Malaysia (5%). Since the global economic environment is shrouded with uncertainties at present due to the looming global recession and geopolitical tensions, fluctuations in commodity prices are likely in the period ahead, requiring import expenditure to be strictly managed during the rest of 2022 and up until foreign exchange inflows resume with the envisaged financial assistance from the IMF-EFF and other multilateral agencies.

### Services Account

The surplus in the services account improved in the first half of 2022, compared to the same period in 2021, driven by a recovery in the tourism sector, despite subdued performance in the IT/BPO sector relative to 2021. Earnings from tourism have shown a notable improvement so far during the year, recording over half a million tourist arrivals from January to September 2022, while earnings from tourism during this period

**Figure 5.4**  
**Balance of Payments**



Source: Central Bank of Sri Lanka

have been estimated at USD 946 mn. Unfavorable conditions, such as fuel shortages, power outages and travel advisories issued by certain countries, negatively impacted the momentum observed at the beginning of the year on tourist arrivals. However, there have

**Table 5.2**  
**Current and Capital Account**

USD mn

| Item   | 2020<br>(a)   | 2021<br>(b)   | 2021<br>H1 (b) | 2022<br>H1 (b) |
|--|---------------|---------------|----------------|----------------|
| <b>Trade Balance</b>                             | <b>-6,008</b> | <b>-8,139</b> | <b>-4,316</b>  | <b>-3,514</b>  |
| Exports  | 10,047        | 12,499        | 5,699          | 6,514          |
| Growth (%)                                       | -15.9         | 24.4          | 29.1           | 14.3           |
| Imports  | 16,055        | 20,637        | 10,015         | 10,028         |
| Growth (%)                                       | -19.5         | 28.5          | 30.5           | 0.1            |
| <b>Services (net)</b>                            | <b>819</b>    | <b>1,586</b>  | <b>597</b>     | <b>1,336</b>   |
| Receipts   | 3,035         | 2,475         | 985            | 1,766          |
| of which;  |               |               |                |                |
| Transportation, net                              | 114           | 352           | 158            | 211            |
| Growth (%)                                       | -81.8         | 207.8         | 8.8            | 33.2           |
| Tourist earnings                                 | 682           | 507           | 44             | 740            |
| Growth (%)                                       | -81.1         | -25.7         | -93.5          | 1,578.9        |
| IT/BPO   | 971           | 1,168         | 574            | 567            |
| Growth (%)                                       | 8.0           | 20.4          | 17.9           | -1.1           |
| Payments   | 2,216         | 889           | 387            | 430            |
| <b>Primary Income (net)</b>                      | <b>-2,205</b> | <b>-2,018</b> | <b>-918</b>    | <b>-1,111</b>  |
| Receipts   | 198           | 116           | 69             | 109            |
| Payments   | 2,404         | 2,134         | 987            | 1,220          |
| <b>Secondary Income (net)</b>                    | <b>6,207</b>  | <b>5,228</b>  | <b>3,199</b>   | <b>1,461</b>   |
| of which;  |               |               |                |                |
| Workers' Remittances                             | 7,104         | 5,491         | 3,324          | 1,610          |
| Growth (%)                                       | 5.8           | -22.7         | 11.6           | -51.6          |
| <b>Current Account Balance</b>                   | <b>-1,187</b> | <b>-3,343</b> | <b>-1,437</b>  | <b>-1,828</b>  |
| <b>Capital Account (net)</b>                     | <b>28</b>     | <b>25</b>     | <b>12</b>      | <b>7</b>       |
| <b>Current Account and Capital Account (net)</b> | <b>-1,159</b> | <b>-3,318</b> | <b>-1,425</b>  | <b>-1,821</b>  |

(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

been some favourable developments on those fronts recently, thereby raising expectations of a faster recovery of the tourism sector in the period ahead.

*The surplus in trade in services showed a notable increase, primarily reflecting the impact of tourism sector performance...*

The computer and information services subsector also contributed to earnings from trade in services during the first half of 2022, albeit its contribution remained modest compared to the first half of 2021. In addition, net earnings from the transport sector have also improved during this period with increased passenger fares, compared to the corresponding period in 2021.

#### Primary Income and Secondary Income Accounts

The deficit in the primary income account expanded in the first half of 2022, due to outflows in the forms of dividends of direct investments and employee compensations, which remained above the levels compared to the first half of 2021.<sup>1</sup>

*Workers' remittances showed an upward trend recently, probably as a result of an increase in the number of migrant workers and the relatively narrow gap between the official and grey market exchange rates...*

Following the declining trend in most of 2021, workers' remittances showed a notable decline in the first half of 2022 as well, on a y-o-y basis, weakening the secondary income account surplus. However, with a steady increase in the number of migrant workers and a relatively narrower gap between the official and grey market exchange rates, workers' remittances showed an upward momentum since the second half of this year.

<sup>1</sup> Despite the temporary suspension of external debt repayments on account of ISBs, bilateral project loans and commercial debt, as per the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6), the coupon/interest payments accrued have been recorded in the primary income account.

#### Financial Account

The financial account recorded subdued inflows during the first half of 2022. The main financial inflows during the first half of the year were the receipt of USD 400 mn under the SAARCFINANCE swap facility with the RBI and marginally high FDI inflows. Meanwhile, marginal net inflows were recorded in terms of foreign investments in both the government securities market and the CSE. Despite these limited inflows, outflows from the financial account remained significant. Further, significant external debt service payments, including the maturity of an ISB, were made in the first half of 2022 prior to the announcement of a debt standstill on 12 April 2022. Meanwhile, part financing of imports of essential goods was continued by utilising gross official reserves amidst limited foreign currency inflows. Accordingly, the level of gross official reserves declined to around USD 1.8 bn at end September 2022 from USD 3.1 bn at the end of 2021. At the end of 2021 and end September 2022 levels of gross official reserves included the swap facility from the PBOC, which was equivalent to around USD 1.6 bn and USD 1.4 bn respectively, and is subject to conditionalities on usability.

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

USD mn

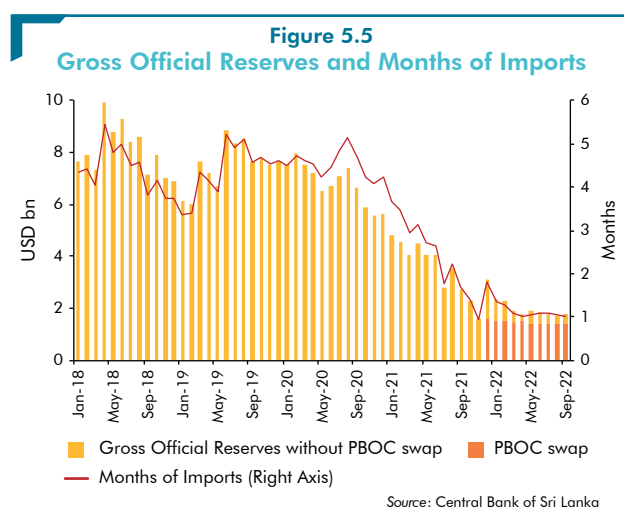
| Item                                 | 2020<br>(a)   | 2021<br>(b)   | 2021<br>H1 (b) | 2022<br>H1 (b) |
|--------------------------------------|---------------|---------------|----------------|----------------|
| <b>Financial Account (net)</b>       | <b>-394</b>   | <b>-4,816</b> | <b>-1,802</b>  | <b>-1,840</b>  |
| <b>Net Acquisition of Assets</b>     | <b>-2,113</b> | <b>-2,122</b> | <b>-1,535</b>  | <b>-355</b>    |
| Direct Investment                    | 15            | 17            | 9              | 8              |
| Other Investment                     | -136          | 387           | 37             | 813            |
| Currency and Deposits                | 64            | 306           | -52            | 488            |
| Trade Credit and Advances            | -224          | 257           | 100            | 132            |
| Other Accounts Receivable            | 24            | -176          | -11            | 193            |
| Reserve Assets                       | -1,992        | -2,526        | -1,581         | -1,176         |
| <b>Net Incurrence of Liabilities</b> | <b>-1,718</b> | <b>2,694</b>  | <b>267</b>     | <b>1,485</b>   |
| Direct Investment                    | 434           | 598           | 258            | 297            |
| Portfolio Investment                 | -2,383        | -906          | -89            | -62            |
| Equity                               | -217          | -236          | -127           | 135            |
| Debt Securities                      | -2,166        | -670          | 37             | -197           |
| Other Investment                     | 231           | 3,003         | 99             | 1,250          |
| Currency and Deposits                | -15           | 4,016         | -177           | 455            |
| Loans                                | 174           | -1,552        | 25             | -340           |
| Trade Credit and Advances            | 185           | -428          | 133            | -302           |
| Other Accounts Payable               | -114          | 180           | 118            | 1,398          |
| <b>Errors and Omissions</b>          | <b>765</b>    | <b>-1,498</b> | <b>-377</b>    | <b>-19</b>     |
| <b>Overall Balance</b>               | <b>-2,328</b> | <b>-3,967</b> | <b>-1,261</b>  | <b>-2,814</b>  |
| <b>Gross Official Reserves</b>       | <b>5,664</b>  | <b>3,139</b>  | <b>4,060</b>   | <b>1,854</b>   |
| Months of Imports                    | 4.2           | 1.8           | 2.6            | 1.1            |
| <b>Total Foreign Assets</b>          | <b>8,521</b>  | <b>6,122</b>  | <b>6,824</b>   | <b>5,521</b>   |
| Months of Imports                    | 6.4           | 3.6           | 4.5            | 3.2            |

(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

## 5.2 Overall Balance and Gross Official Reserves



The overall balance of the BOP recorded a notable deficit during the nine months ending September 2022, compared to the corresponding period of 2021. Lower inflows to the financial account and significantly high debt service payments resulted in a depletion of gross official reserves to USD 1.8 bn by end September 2022, compared to USD 3.1 bn recorded at end 2021. The main inflow to supplement the reserves during January to September 2022 was the receipt of a swap facility of USD 400 mn from the RBI. Gross official reserves by end September 2022 were equivalent to an estimated 1.1 months of imports.

## 5.3 International Investment Position

Sri Lanka's net liability position of the IIP, which is the difference between Sri Lanka's total external asset and liability positions held with non residents, declined to USD 48.9 bn at the end of June 2022 from USD 55.7 bn as at the end of 2021. The stock position of external assets decreased primarily as a result of the decline in gross official reserves by USD 1.3 bn by end June 2022, compared to end 2021. Sri Lanka's total liabilities position to non residents also decreased as at end June 2022, compared to end 2021. This is mainly due to decreases in direct investment liabilities, portfolio investment liabilities and foreign loan liabilities of deposit taking corporations. The outstanding liabilities of the Government decreased mainly with the settlement of the ISB in January 2022. Despite the temporary suspension of external debt repayments on account of ISBs and project loans of

bilateral and commercial nature, as per the BPM6, the coupon/interest payments accrued have been added in determining the outstanding liabilities on account of these debt instruments. Further, outstanding trade credits received by the private sector and SOBEs increased marginally. The outstanding liabilities of the Central Bank increased as a result of the swap facility with the RBI.

## 5.4 External Debt Position

Sri Lanka's total outstanding external debt position decreased marginally to USD 48.7 bn as at end June 2022 from USD 50.7 bn as at end 2021, mainly due to the repayment of the ISB that matured in January 2022. Further, the market value of outstanding ISBs declined mainly reflecting the debt restructuring concerns. The outstanding external debt position of the Central Bank increased by end June 2022 in comparison to end 2021 with the SAARCFINANCE swap arrangement of USD 400 mn from the RBI. The ACU liabilities of the Central Bank also increased by end June 2022, compared to the beginning of the year. Despite an increase in currency and deposits, outstanding external debt of the banking sector declined due to the substantial decline in outstanding short term loans. The outstanding external debt of the private sector and SOBEs decreased during the first half of 2022 with a decline in trade credits and advances received by SOBEs and the outstanding foreign loans of the SOBEs. However, intercompany borrowing of DIEs recorded an increase during the first half of the year.

**Table 5.4**  
**Outstanding External Debt** USD mn

| Item   | 2020 (a)      | 2021 (b)      | 2022 H1 (b)   |
|--|---------------|---------------|---------------|
| <b>Gross External Debt Position based on Market Value</b>                  | <b>49,041</b> | <b>50,724</b> | <b>48,731</b> |
| General Government   | 28,187        | 27,344        | 24,990        |
| Central Bank   | 2,690         | 4,892         | 6,364         |
| Deposit-Taking Corporations  | 6,657         | 7,146         | 6,112         |
| Other Sectors  | 6,517         | 6,078         | 5,715         |
| Direct Investment:   |               |               |               |
| Intercompany Lending   | 4,990         | 5,264         | 5,550         |
| <b>Memorandum Items</b>  |               |               |               |
| Gross External Debt Position of the General Government Based on Face Value | 32,452        | 32,302        | 32,177        |

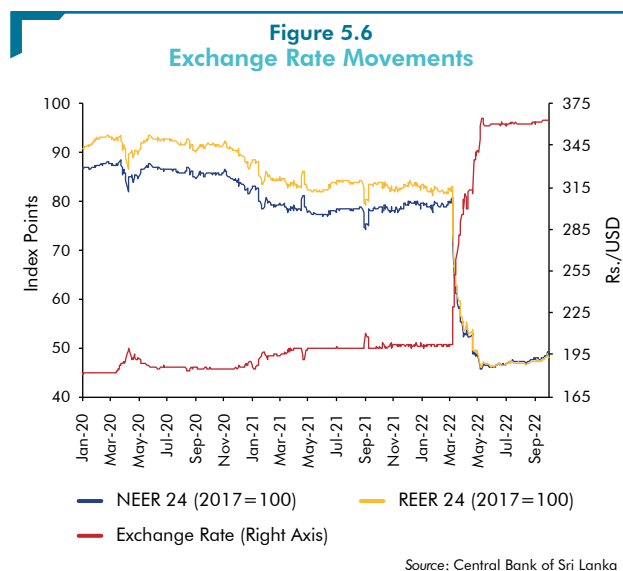
(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

## 5.5 Exchange Rate Movements

The Sri Lanka rupee broadly remained at stable levels in early 2022, before a measured adjustment in the exchange rate was allowed in early March 2022. The Central Bank's intervention in the domestic foreign exchange market and the continued use of moral suasion helped stabilise the external value of the Sri Lanka rupee during the latter part of 2021 and in early 2022. Accordingly, with the engagement of the Central Bank, supported by the LCBs, the weighted average spot exchange rate in the interbank market remained broadly stable during the latter part of 2021 and early 2022 at around Rs. 200-203 per US dollar. However, a significant shortage in liquidity in the domestic foreign exchange market continued to exert pressures on the exchange rate, necessitating a measured adjustment that was allowed in early March 2022. However, the subsequent large overshooting of the exchange rate by market forces led the Sri Lanka rupee to depreciate substantially by 41.4% against the US dollar by end April 2022. To reduce this significant volatility driven by excessive speculation, the Central Bank introduced a new exchange rate arrangement on 13 May 2022 in consultation with the market players. Accordingly, the Central Bank commenced providing daily guidance to all LCBs on the degree of volatility in the spot exchange rate with an allowable two-sided variation margin,



**Table 5.5**  
Exchange Rate Movements

| Currency  | End Period Rate - In Rupees per unit of Foreign Currency |            | % Change |
|---|--|------------|----------|
|   | 2021   | Sep - 2022 |          |
| Euro  | 226.86   | 355.79     | -36.24   |
| Indian rupee                                      | 2.69   | 4.45       | -39.51   |
| Japanese yen                                      | 1.74   | 2.51       | -30.55   |
| Pound sterling                                    | 270.60   | 402.27     | -32.73   |
| USD   | 200.43   | 362.90     | -44.77   |
| SDR   | 280.53   | 464.47     | -39.60   |
| <b>Effective Exchange Rate Indices (2017=100)</b> |  |            |          |
| NEER 24-currencies                                | 79.65  | 48.57      | -39.02   |
| REER 24-currencies                                | 83.31  | 48.07      | -42.30   |

Source: Central Bank of Sri Lanka

based on the weighted average spot exchange rate determined in the interbank market on the preceding day. Accordingly, from 13 May 2022 to end September 2022, the Sri Lanka rupee recorded only a marginal depreciation against the US dollar despite recording a depreciation of 44.8% against the US dollar during the year up to end September 2022. Reflecting the cross currency exchange rate movements, the Sri Lanka rupee also depreciated against the pound sterling, the euro, the Japanese yen, and the Indian rupee by end September 2022.

**Large overshooting of the exchange rate by market forces led to substantial depreciation of the Sri Lanka rupee by end April 2022 before stabilising thereafter with the commencement of providing daily guidance on the exchange rate...**

The NEER and REER indices, which measure the movements of the Sri Lanka rupee against a basket of currencies and thus external competitiveness, declined during the nine months ending September 2022. Overall, the REER indices remained below the threshold of 100 index points, indicating that the exchange rate remained supportive of the country's trade competitiveness.

## Abbreviations and Acronyms

|        |   |              |   |
|--------|---|--------------|---|
| ACU    | : Asian Clearing Union  | NEER         | : Nominal Effective Exchange Rate   |
| bn     | : Billion   | PBOC         | : People's Bank of China  |
| BOP    | : Balance of Payments   | RBI          | : Reserve Bank of India   |
| BPM6   | : Sixth Edition of the Balance of Payments and International Investment Position Manual | REER         | : Real Effective Exchange Rate  |
| CSE    | : Colombo Stock Exchange  | Rs.          | : Sri Lanka Rupee   |
| DIEs   | : Direct Investment Enterprises   | SAARC        | : South Asian Association for Regional Cooperation                              |
| EFF    | : Extended Fund Facility  | SAARCFINANCE | : Network of Central Bank Governors and Finance Secretaries of the SAARC Region |
| EU     | : European Union  | SDR          | : Special Drawing Rights  |
| FDI    | : Foreign Direct Investment   | SOBES        | : State Owned Business Enterprises  |
| IIP    | : International Investment Position   | UAE          | : United Arab Emirates  |
| IMF    | : International Monetary Fund   | UK           | : United Kingdom  |
| ISB    | : International Sovereign Bond  | USD          | : United States Dollar  |
| IT/BPO | : Information Technology & Business Process Outsourcing                                 | USA          | : United States of America  |
| LCBs   | : Licensed Commercial Banks   | y-o-y        | : Year-on-Year  |
| mn     | : Million   |              |   |



A large, stylized number '6' in a light blue color, positioned in the upper right corner of the page. It has a thick, rounded stroke and a white circular cutout in the center.

## Fiscal Policy and Government Finance

**T**he Government embarked on a major reform drive in 2022 aimed at strengthening fiscal consolidation, along with the envisaged budget support from the IMF-EFF arrangement, which is conditional on ensuring public debt sustainability through a debt restructuring process. The impact of fiscal policy measures introduced by the Government thus far during 2022 is yet to be fully reflected in fiscal sector performance. Government revenue mobilisation in the first half of 2022 improved on a y-o-y basis particularly supported by certain tax measures, such as Surcharge Tax, increased VAT rates and Telecommunication Levy. Government expenditure rose, in nominal terms, in tandem with increased domestic interest rates, depreciated exchange rate, and high inflation as well as certain expenditure measures introduced in early 2022 to support public sector employees, pensioners, and low income earners during the crisis period. Consequently, budget deficit increased, in nominal terms, during the first half of 2022, over the same period in 2021. However, as a percentage of projected GDP, fiscal balances showed an improvement during the first half of 2022, compared to the same period in 2021. The outstanding central government debt increased notably with the sharp depreciation of the exchange rate in early 2022. The Government was compelled to finance the budget deficit primarily through monetary financing, given the tight liquidity conditions in the financial system and net foreign debt repayments amidst limited access to global capital markets. Going forward, Sri Lanka needs to ensure that prudent fiscal consolidation policies continue, while strictly committing to implementing long overdue structural reforms, including those of SOEs, some of which have already been initiated.

## 6.1 Fiscal Policy Direction and Measures

The persistent fiscal imbalances over a long period have resulted in unsustainable public debt levels, causing catastrophic macroeconomic consequences being witnessed at present. Consequently, the Government embarked on a path towards fiscal consolidation and debt restructuring to enhance fiscal sector performance while addressing macro-fiscal imbalances. In view of reversing the notable decline in government revenue evident in the past two years, the Government has introduced several revenue enhancement measures thus far in 2022. A retrospective one-off surcharge tax of 25% was imposed on individuals, partnerships, and companies, whose taxable income exceeded Rs. 2.0 bn for the tax assessment year 2020/2021, while the VAT rate on financial services was increased to 18% from 15%, with effect from January 2022. In May 2022, the Cabinet of Ministers granted approval for the implementation of several tax reforms to improve revenue collection of the Government. Consequently, the VAT rate was increased to 12% from 8%, while Telecommunication Levy was increased to 15% from 11.25%, with effect from 01 June 2022. In addition, the Government introduced a surcharge on several imported items for a period of six months with effect from 01 June 2022, considering the foreign exchange liquidity shortage in the country and the issues prevailing in issuing import licenses. In addition, several reforms pertaining to income taxes and VAT are to be effective from October 2022, whereas the betting and gaming levy will be amended from 2023. A Social Security Contribution Levy of 2.5% on turnover, applicable for importers, manufacturers, service providers, wholesalers, and retailers whose turnover exceeds Rs. 120.0 mn per annum, was imposed effective from 01 October 2022. The Interim Budget 2022 proposed, inter alia, to increase the VAT rate to 15% from 12% with effect from 01 September 2022 and introduced compulsory tax registration for all residents, who are above 18 years of age without considering their annual income and tax-free thresholds. Extending the Cabinet decision in May 2022, the Cabinet of Ministers, in September 2022, granted approval to revise downward the tax-free threshold for personal income taxes from Rs. 3.0 mn to Rs. 1.2 mn per annum, remove expenditure relief of Rs. 1.2 mn granted for expenditure incurred on education, health, contributions to pension scheme,

interest paid on housing loans, etc., make PAYE/ APIT mandatory, revise personal income tax rates upward to 6%, 12%, 18%, 24%, 30% and 36% from 4%, 8%, 12%, 16%, 20% and 24%, respectively, revise tax slabs to Rs. 0.5 mn from Rs. 1.2 mn onwards, remove all sector specific corporate income tax exemptions and concessionary rates granted for companies, and revise VAT registration threshold downwards to Rs. 80 mn per annum, among others. Accordingly, the Inland Revenue (Amendment) Bill to amend the Inland Revenue Act, No. 24 of 2017 was gazetted on 11 October 2022.

Given the limited fiscal leeway, several expenditure rationalisation measures were introduced. In April 2022, the General Treasury issued a circular to restrict unproductive/non-essential capital expenditure and recurrent expenditure on overtime payments, new recruitments, stationary, printing costs, etc. A similar circular was issued in relation to commercial corporations, statutory boards, and government owned companies in August 2022. Having considered the increased expenses on essential activities, a supplementary allocation of Rs. 695 bn was approved by the Parliament in June 2022 to continue the expenses related to the relief package introduced by the Government in early 2022 for Samurdhi beneficiaries, estate communities, pensioners, and public servants with the aim of lessening the hardships of these communities caused by the prevailing adverse economic conditions. Accordingly, public sector employees, pensioners and disabled soldiers were paid a monthly allowance of Rs. 5,000 while the allowance for Samurdhi beneficiaries was increased by Rs. 1,000 per month. Further, Cabinet approval was granted in June 2022 to amend the Appropriation Act, No. 30 of 2021 attributable to the increased expenses on other essential activities apart from the functions for which budgetary allocations had already been made and the change in the structure of Ministries. Accordingly, the Appropriation (Amendment) Bill and Interim Budget 2022 were presented to the Parliament on 09 August 2022 and 30 August 2022, respectively. In the Interim Budget 2022, on the expenditure front, among other allocations, additional expenditure allocations have been made in relation to social safety nets, tourism promotion, dairy sector, youth entrepreneurship for agriculture and animal production sectors, and for the supply of seeds and planting materials.

The gross borrowing limit of Rs. 3,200 bn that was approved by the Appropriation Act, No. 30 of 2021 for the year 2022 was revised upward in early September 2022 to Rs. 3,844 bn by the Appropriation (Amendment) Act, No. 21 of 2022 in consideration of increased expenses incurred on other essential activities, apart from the functions for which allocations have been made under the Appropriation Act. Further, in October 2022, the Cabinet of Ministers granted approval to further increase the gross borrowing limit for 2022 to Rs. 4,507 bn on account of the higher gross borrowing requirement in terms of the face value of the borrowings to meet the cash requirement of the Government within a high interest rate environment.

As Sri Lanka no longer qualifies for the loans offered by the IBRD due to the downgrade of country's credit rating, the Cabinet of Ministers approved, in October 2022, a request to the World Bank to obtain access to funds from the IDA, which provides concessionary financing through the 'Gap' facility to highly vulnerable countries. Accordingly, the Government is pursuing a reverse graduation policy for Sri Lanka for a limited period.

**The Government embarked on a path towards fiscal consolidation and debt restructuring to enhance fiscal sector performance while addressing macro-fiscal imbalances...**

Considering the impending large foreign debt service payments and the inadequacy of liquid foreign reserves to honour such payments amidst the lack of forex liquidity in the domestic foreign exchange market, the Government, on 12 April 2022, announced a temporary suspension of selected foreign debt service payments. Subsequently, the Government appointed the financial and legal advisors, Lazard Ltd and Clifford Chance LLP, respectively, to facilitate the Government's debt restructuring process, which is currently underway. While discussions with the IMF for a staff level agreement were successfully completed in early September 2022, a comprehensive macroeconomic reform programme has been initiated to restore macroeconomic stability and ensure public debt sustainability in the medium to long term. Under the

macroeconomic reform programme, a strong fiscal consolidation process is to be implemented through both revenue and expenditure measures, while institutional reforms to SOBEs are to be conducted, along with cost reflective pricing strategies for provisioning of utilities, among other reforms.

With the pre-emptive default of selected foreign debt service obligations, international sovereign credit rating agencies continued to downgrade the sovereign credit ratings of Sri Lanka during the first half of 2022. Standard and Poor's Global Ratings downgraded Sri Lanka's sovereign credit rating to 'CC (Negative)' from 'CCC (Negative)' on 13 April 2022, and further to the lowest rating of 'SD' (Selective Default) on 25 April 2022 following the non-payment of coupons on ISBs. Fitch Ratings also downgraded the country's sovereign credit rating to 'RD' (Restricted Default) from 'C' on 19 May 2022. Similarly, Moody's Investor Service also downgraded Sri Lanka's sovereign credit rating to 'Ca (Stable)' from 'Caa2 (Stable)' on 18 April 2022.

## 6.2 Government Budgetary Operations

### Government Revenue

Benefitting from the increased tax and non tax revenue collection, government revenue, in nominal terms, enhanced during the first half of 2022, compared to the corresponding period of 2021. Government revenue and grants increased to Rs. 919.5 bn (4.1% of projected GDP<sup>1</sup>) during the first half of 2022 from Rs. 715.3 bn (4.0% of GDP) recorded in the first half of 2021. This amounts to 41.4% of the revenue target in the Budget 2022 and 43.9% of the revised revenue target in the Interim Budget 2022. Tax revenue increased by 24.6% to Rs. 798.8 bn during the first half of 2022, compared to the corresponding period of 2021. The increased revenue collections from income taxes, VAT, excise duties, and PAL mainly contributed to the increase in tax revenue collection, in nominal terms, during the first half of 2022. Revenue from income tax increased significantly to Rs. 234.9 bn during the first half of 2022 from Rs. 115.9 bn in the corresponding period of 2021, reflecting the additional flow of the Surcharge Tax, which became effective from 01 April 2022. Reflecting the combined effect of the sharp rise in inflation, increase in VAT rate applicable for financial services

1 As per the projections of the Central Bank of Sri Lanka.

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

| Item                   | Rs. bn         |                |                          |                          |
|------------------------|----------------|----------------|--------------------------|--------------------------|
|                        | 2020<br>(a)    | 2021<br>(b)    | 2021<br>Jan - Jun<br>(b) | 2022<br>Jan - Jun<br>(b) |
| <b>Tax Revenue</b>     | <b>1,216.5</b> | <b>1,298.0</b> | <b>641.2</b>             | <b>798.8</b>             |
| Income Taxes           | 268.2          | 302.1          | 115.9                    | 234.9                    |
| VAT                    | 233.8          | 308.2          | 152.2                    | 197.8                    |
| Excise Taxes           | 321.9          | 306.9          | 152.4                    | 170.9                    |
| Import Duties          | 114.2          | 64.3           | 40.8                     | 25.4                     |
| PAL                    | 115.4          | 154.1          | 79.5                     | 94.0                     |
| SCL                    | 82.7           | 55.8           | 28.4                     | 20.4                     |
| CESS                   | 49.3           | 75.5           | 39.5                     | 38.9                     |
| Other Taxes            | 30.9           | 31.0           | 32.6                     | 16.5                     |
| <b>Non Tax Revenue</b> | <b>151.4</b>   | <b>159.1</b>   | <b>73.3</b>              | <b>119.7</b>             |
| <b>Total Revenue</b>   | <b>1,368.0</b> | <b>1,457.1</b> | <b>714.5</b>             | <b>918.5</b>             |

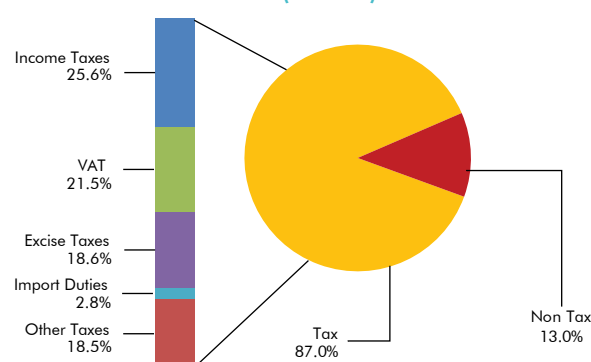
(a) According to the Ministry of Finance, fiscal sector statistics of 2020 have been adjusted as announced in the Budget Speech for 2020.

(b) Provisional

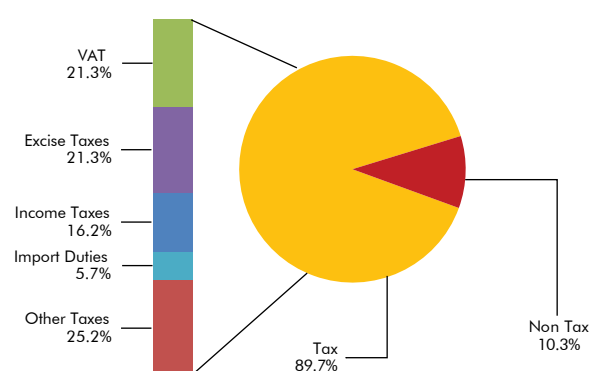
Source: Ministry of Finance, Economic Stabilisation and National Policies

effective from 01 January 2022, escalation of global commodity prices, and the depreciation of the Sri Lanka Rupee against the USD, the revenue from VAT increased by 29.9% to Rs. 197.8 bn during the period under review, compared to the corresponding period in 2021. The overall revenue collection from excise duties increased to Rs. 170.9 bn during the first half of 2022 from Rs. 152.4 bn in the corresponding period of 2021, mainly supported by the higher revenue collection from liquor production. Upward revision made to the excise duty structure on liquor production with effect from 12 November 2021 contributed to the increase in excise duties from liquor. Excise duties from motor vehicles remained considerably low at Rs. 12.1 bn in the first half of 2022, owing to the restrictions imposed on motor vehicle imports since March 2020. Meanwhile, excise duty from petroleum products declined by 3.4% to Rs. 26.5 bn during the first half of 2022, compared to the same period in 2021 due to the reduction of petrol and diesel imports amidst the foreign exchange liquidity shortage in the country. In addition, revenue from PAL increased to Rs. 94.0 bn during the period under review, supported by exchange rate depreciation and rise in global commodity prices. Following the restrictions imposed on the importation of non-essential goods, alongside the moderation of import demand due to forex liquidity stresses, revenues from import duties and CESS levy declined by 37.6% and 1.4%, respectively, to Rs. 25.4 bn and Rs. 38.9 bn, respectively, during the first half of 2022, compared to the corresponding period of the previous year. Revenue from SCL declined to Rs. 20.4 bn during first half of 2022 from Rs. 28.4 bn recorded in the corresponding period of 2021, mainly due to the downward revisions made to the SCL rates on certain commodities, such as potatoes, big onions, maize, sorghum, and dates.

**Figure 6.1**  
**Composition of Government Revenue**  
**2022 (Jan-Jun)**



**2021 (Jan-Jun)**



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

During the first half of 2022, non tax revenue increased to Rs. 119.7 bn in comparison to Rs. 73.3 bn in the corresponding period of 2021, mainly due to the significant increase in revenue collection from fees and charges and Central Bank profit transfers. Accordingly, revenue from fees and charges increased by Rs. 20.4 bn to Rs. 36.2 bn, while the Central Bank profit transfers increased by Rs. 15.0 bn to Rs. 30.0 bn, during the period under review.

**Increased revenue collections from income taxes, VAT, excise duties, and PAL mainly contributed to the increase in tax revenue collection by 25% (y-o-y) during the first half of 2022...**

### Expenditure and Net Lending

Despite the expenditure rationalisation attempts in the latter part of the period under review, government spending was on a rising trend, in nominal terms, with

the rigid non-discretionary spending that diverted resources away from pro-growth investment outlays. In nominal terms, total expenditure and net lending during the first half of 2022 increased by 21.8% to Rs. 1,822.1 bn (8.1% of projected GDP) from Rs. 1,495.5 bn (8.5% of GDP), compared to the corresponding period in 2021, with the rise in both recurrent and capital expenditure. Government expenditure in the first half of 2022 amounted to 47.3% of the expenditure estimate in Budget 2022 and 41.2% of the revised expenditure estimates in the Interim Budget 2022. During the period under review, recurrent expenditure rose by 19.9% to Rs. 1,571.6 bn over the corresponding period of 2021, mainly due to the increased expenditure on salaries and wages and domestic interest expenses along with additional expenditure requirements of public health services and direct and indirect financial

**Expenditure rose mainly due to the increased expenditure on salaries and wages (51.9% of government revenue) and domestic interest expenses (61.5% of government revenue) along with additional expenditure requirements of public health services and direct and indirect financial support provided to pandemic affected households and businesses...**

support provided to pandemic affected households and businesses. Compared to the first half of 2021, expenditure on subsidies and transfers grew by 14.0% to Rs. 360.8 bn, while expenditure on salaries and wages also increased by 14.7% to Rs. 477.1 bn reflecting the provision of a Rs. 5,000 monthly allowance from January 2022 for public sector employees and pensioners, during the first half of 2022. Absorbing 71.6% of total government revenue, interest expenditure increased by 29.8% to Rs. 657.8 bn during the period under consideration. Although domestic interest expenditure increased by 48.1% to Rs. 564.9 bn reflecting the impact of the rise in domestic interest rates as well as the outstanding domestic debt stock,

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

| Item                                       | Rs. bn         |                |                          |                          |
|--|----------------|----------------|--------------------------|--------------------------|
|  | 2020<br>(a)    | 2021<br>(b)    | 2021<br>Jan - Jun<br>(b) | 2022<br>Jan - Jun<br>(b) |
| <b>Recurrent Expenditure</b>               | <b>2,548.4</b> | <b>2,747.5</b> | <b>1,311.0</b>           | <b>1,571.6</b>           |
| Expenditure on Goods and Services          | 974.4          | 1,014.6        | 487.5                    | 553.0                    |
| o/w Salaries and Wages                     | 794.2          | 845.7          | 416.1                    | 477.1                    |
| Interest Payments                          | 980.3          | 1,048.4        | 507.0                    | 657.8                    |
| Foreign                                    | 266.7          | 253.7          | 125.6                    | 92.9                     |
| Domestic                                   | 713.6          | 794.6          | 381.4                    | 564.9                    |
| Current Transfers and Subsidies            | 717.1          | 684.5          | 316.5                    | 360.8                    |
| o/w Pensions                               | 257.8          | 269.8          | 130.3                    | 150.0                    |
| Samurdhi                                   | 52.4           | 55.4           | 30.4                     | 26.1                     |
| Fertiliser Subsidy                         | 36.7           | 21.2           | 8.0                      | 19.7                     |
| <b>Capital Expenditure and Net Lending</b> | <b>492.6</b>   | <b>774.2</b>   | <b>184.5</b>             | <b>250.5</b>             |
| <b>Total Expenditure and Net Lending</b>   | <b>3,041.0</b> | <b>3,521.7</b> | <b>1,495.5</b>           | <b>1,822.1</b>           |

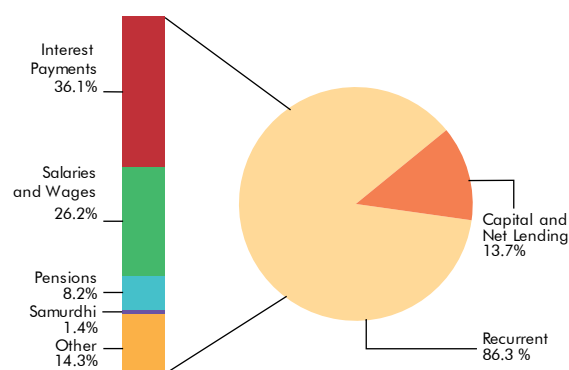
(a) Government expenditure and net lending in 2020 were adjusted by the Ministry of Finance by shifting a sum of Rs. 422.6 bn to 2019 in view of accounting for the payment of arrears spilled over from 2019. Accordingly, of the recurrent expenditure incurred in 2020, a sum of Rs. 123.4 bn was shifted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

Source: Ministry of Finance, Economic Stabilisation and National Policies

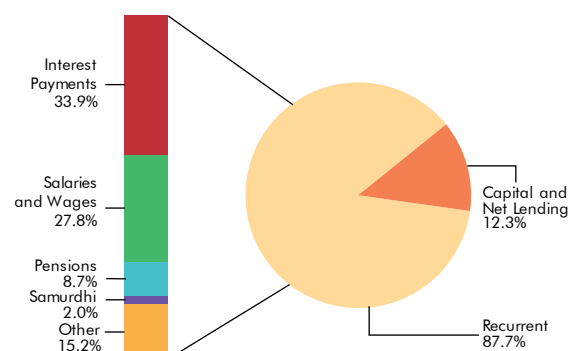
(b) Provisional

foreign interest payments declined by 26.0% to Rs. 92.9 bn owing to the non-repayment of interest payments on selected debt following the announcement of

**Figure 6.2**  
**Composition of Government Expenditure**  
**2022 (Jan-Jun)**



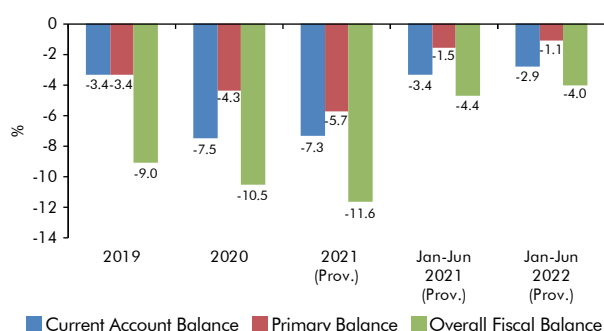
**2021 (Jan-Jun)**



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



**Figure 6.3**  
**Key Fiscal Balances (As a % of GDP) (a)**



(a) Rebased GDP estimates (base year 2015) of the Department of Census and Statistics have been used for 2018-2021 and GDP projection of the Central Bank of Sri Lanka has been used for 2022.

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

the debt standstill. Capital expenditure and net lending increased by 35.8% to Rs. 250.5 bn during the first half of 2022 from Rs. 184.5 bn in the corresponding period of 2021.

### Key Fiscal Balances

The key fiscal balances, except the primary balance, deteriorated in nominal terms during the first half of 2022 in comparison to the same period in last year, while these balances showed improvements as percentages of projected GDP. The budget deficit expanded to Rs. 902.7 bn (4.0% of projected GDP) during the first half of 2022 from Rs. 780.2 bn (4.4% of GDP) recorded in the corresponding period of 2021. The current account deficit, which reflects the dissavings of the Government, increased to Rs. 653.1 bn (2.9% of projected GDP) during the six months ending June 2022 from Rs. 596.5 bn (3.4% of GDP) compared to the same period in the previous year. The primary deficit, which accounts for the discretionary element of the fiscal policy and computed by the difference between government revenue and non-interest expenditure, reduced to Rs. 244.8 bn (1.1% of projected GDP) during the period under review from Rs. 273.2 bn (1.5% of GDP) reported in the corresponding period of preceding year, mainly reflecting the impact of fiscal consolidation measures introduced in 2022.

### Financing of the Budget Deficit

The budget deficit was entirely financed through domestic sources, on net basis, during the first half of 2022, reflecting the restricted access to global capital markets amidst the debt standstill. Net domestic financing amounted to Rs. 947.1 bn during the period from

January to June 2022, compared to Rs. 759.0 bn during the corresponding period in 2021. Of the net domestic financing during first half of 2022, Treasury bonds accounted for a large share, with a sum of Rs. 1,034.3 bn (109.2% of total domestic borrowing), compared to Rs. 364.4 bn (48.0% of total domestic borrowing) mobilised in the same period of 2021. Meanwhile, Rs. 660.2 bn (69.7% of total domestic borrowings) was mobilised via issuances of Treasury bills during the period from January to June 2022, in comparison to Rs. 178.4 bn (23.5% of total domestic borrowings) mobilised during the corresponding period in 2021. Further, a sum of Rs. 594.2 bn was repaid in relation to the overdraft facility of the Government during the first half of 2022. Meanwhile, net financing from the Central Bank increased substantially to Rs. 1,000 bn during the period under review, compared to the Rs. 310.0 bn recorded during the same period in 2021. The increased financing from the Central Bank is attributable to the factors such as low market subscription at Treasury bill auctions that had resulted in primary purchases by the Central Bank, direct allocation of Treasury bills to the Central Bank to finance spending needs of the Government including the payment of salaries, debt service payments, and provision of liquidity for state-owned-business enterprises (e.g., for Ceylon Petroleum Corporation). Meanwhile, borrowing from the non-bank sector also increased notably to Rs. 646.4 bn during the first half of 2022, compared to Rs. 258.8 bn during the same period in the previous year. Financing from licensed commercial banks recorded a net repayment of Rs. 699.4 bn during the period under review in 2022, compared to net financing of Rs. 190.3 bn during the comparable period in the preceding year.

**The budget deficit was entirely financed through domestic sources, on net basis, during the first half of 2022, reflecting the restricted access to global capital markets amidst the debt standstill...**

Total foreign financing recorded a net repayment of Rs. 44.4 bn during the first half of 2022, compared to a net borrowing of Rs. 21.2 bn in the corresponding period of 2021. Net foreign financing comprised Rs. 56.1 bn net borrowings from foreign project loans and a net repayment of Rs. 100.5 bn for ISBs in January 2022.



With the sovereign credit ratings downgrades by the international rating agencies and the government policy on debt standstill, access to global capital markets remained constrained during the period under consideration.

## Government Debt and Debt Service Payments

### Government Debt<sup>2</sup>

Central government debt rose sharply by the end June 2022, mainly reflecting the impact of the sharp depreciation of the domestic currency against major foreign currencies and the sizable budget deficit in nominal terms, during the first half of 2022. The central government debt stock elevated to Rs. 24,264.4 bn (122.4% of the GDP<sup>3</sup>) by end June 2022 from Rs. 17,589.4 bn (99.5% of the GDP) at end 2021. However, the outstanding central government debt estimate is highly provisional due to the impact of debt standstill announced on 12 April 2022. At end June

2022, total domestic debt witnessed an increase of Rs. 1,641.3 bn to Rs. 12,738.5 bn (64.3% of the GDP<sup>3</sup>), while foreign debt increased by Rs. 5,033.7 bn to Rs. 11,525.9 bn (58.1% of the GDP<sup>3</sup>) from the levels recorded at end 2021. As at end June 2022, the relative share of outstanding foreign debt of the central government increased to 47.5% of total central government debt, compared to 36.9% recorded as at end 2021, owing to the depreciation of the exchange rate.

With the debt standstill announcement in relation to bilateral and commercial foreign debt, the share of non-concessional debt of the total foreign debt portfolio of the Central Government increased to 54.3% by end June 2022 from 52.3% at end 2021. In nominal terms, the outstanding balance of non-concessional debt increased to Rs. 6,260.5 bn at end June 2022 from Rs. 3,394.6 bn at end 2021. In contrast, the share of concessional loans of the total foreign debt declined to 45.7% by end June 2022 from 47.7% at end 2021.

**Table 6.3**  
**Outstanding Central Government Debt (a)**

| Item                         | 2020            | 2021<br>(b)     | 2021<br>End Jun<br>(b) | 2022<br>End Jun<br>(c) |
|------------------------------|-----------------|-----------------|------------------------|------------------------|
| <b>Domestic Debt (d)</b>     | <b>9,065.1</b>  | <b>11,097.2</b> | <b>9,931.7</b>         | <b>12,738.5</b>        |
| By Maturity Period           |                 |                 |                        |                        |
| Short Term                   | 2,197.6         | 3,139.8         | 2,702.6                | 3,355.2                |
| Medium and Long Term         | 6,867.5         | 7,957.4         | 7,229.1                | 9,383.3                |
| By Institution (e)           |                 |                 |                        |                        |
| Banks                        | 4,731.7         | 5,467.1         | 5,214.9                | 6,071.4                |
| Non Bank Sector              | 4,333.4         | 5,630.1         | 4,716.9                | 6,667.2                |
| <b>Foreign Debt</b>          | <b>6,052.2</b>  | <b>6,492.2</b>  | <b>6,632.8</b>         | <b>11,525.9</b>        |
| Concessional                 | 2,988.1         | 3,097.6         | 3,151.9                | 5,265.4                |
| Non Concessional             | 3,064.1         | 3,394.6         | 3,480.9                | 6,260.5                |
| <b>Total Government Debt</b> | <b>15,117.2</b> | <b>17,589.4</b> | <b>16,564.5</b>        | <b>24,264.4</b>        |

(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) Outstanding central government debt statistics as at end June 2022 are highly provisional, since data on some of the debt service payments which fell overdue after the announcement of the Interim Policy regarding the servicing of Sri Lanka's external public debt on 12 April 2022 are yet to be finalised.

(d) Excludes outstanding balance of foreign investment in Treasury bills and bonds and includes Treasury bonds of Rs. 78,441 million issued to CPC in January 2012 of which Rs. 21,778 million matured on 01 January 2017 and Rs. 25,217 million matured on 01 January 2022 and the current outstanding is Rs. 31,446 million.

(e) 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.

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

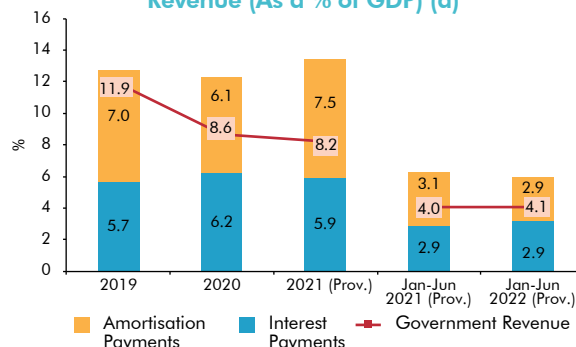
2 Outstanding central government debt statistics as at end June 2022 are highly provisional, since data on some of the debt service payments which fell overdue after the announcement of the Interim Policy regarding the servicing of Sri Lanka's external public debt on 12 April 2022 are yet to be finalised.

3 Actual GDP for the second half of 2021 and first half of 2022 was used to estimate the outstanding stock of debt as a percentage of GDP as at end June 2022.

### Debt Service Payments

Total debt service payments during the first half of 2022 increased to Rs. 1,311.9 bn from Rs. 1,061.3 bn recorded in the corresponding period in 2021. During the first half of 2022, amortisation payments increased to Rs. 654.1 bn from Rs. 554.3 bn in the corresponding period in 2021, primarily with the maturity payments of medium and long term foreign loans. The interest payments increased to Rs. 657.8 bn during the period under review from Rs. 507.0 bn in the corresponding period in 2021, mainly due to higher interest payments

**Figure 6.4**  
**Government Debt Service Payments vs. Government Revenue (As a % of GDP) (a)**



(a) Rebased GDP estimates (base year 2015) of the Department of Census and Statistics have been used for 2018-2021 and GDP projection of the Central Bank of Sri Lanka has been used for 2022.

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



**Interest payments increased by 29.8% (accounting for 71.6% of government revenue) mainly due to higher interest payments on domestic debt, particularly on account of Treasury bills and Treasury bonds...**

on domestic debt, particularly on account of Treasury bills and Treasury bonds. During the first half of 2022, total domestic debt servicing on outstanding central government debt aggregated to Rs. 949.7 bn, compared to Rs. 783.6 bn in the corresponding period of 2021. Meanwhile, debt servicing on outstanding foreign debt of central government increased to Rs. 362.2 bn, in comparison to the debt service payments of Rs. 277.7 bn in the corresponding period of the previous year.

### Abbreviations and Acronyms

|      |   |       |                                       |
|------|---|-------|---------------------------------------|
| APIT | : Advance Personal Income Tax                           | LLP   | : Limited Liability Partnership       |
| bn   | : Billion   | mn    | : Million                             |
| CESS | : Commodity Export Subsidy Scheme                       | PAL   | : Ports and Airports Development Levy |
| CPC  | : Ceylon Petroleum Corporation                          | PAYE  | : Pay As You Earn                     |
| EFF  | : Extended Fund Facility                                | SCL   | : Special Commodity Levy              |
| GDP  | : Gross Domestic Product                                | SOBE  | : State-Owned Business Enterprises    |
| IBRD | : International Bank for Reconstruction and Development | SOE   | : State-Owned Enterprises             |
| IDA  | : International Development Association                 | USD   | : United States Dollars               |
| IMF  | : International Monetary Fund                           | VAT   | : Value Added Tax                     |
| ISB  | : International Sovereign Bonds                         | y-o-y | : Year-on-Year                        |



## Monetary Policy, Interest Rates, Money and Credit

**T**he Central Bank tightened monetary policy significantly in 2022 with a view to countering rising inflationary pressures and anchoring inflation expectations. Global oil and other commodity price hikes, adjustments to domestic administrative prices, domestic supply disruptions, the substantial depreciation of the Sri Lanka rupee against the US dollar and the possible lagged effects of relaxed monetary policy amidst large monetary financing caused inflation to accelerate and aggravate inflationary pressures, warranting further tightening of monetary policy during 2022. Underpinned by the significant liquidity deficit in the domestic money market and reflecting the faster passthrough of tight monetary policy, market interest rates rose notably. Both monetary and credit expansion appear to have significantly slowed recently, where credit to the private sector recorded a notable monthly contraction in absolute terms since June 2022. Such contraction in private sector credit is expected to continue during the remainder of the year amidst stringent monetary conditions. However, the subdued fiscal performance of the Government necessitated large financing from domestic sources, while the reduced appetite for government securities amidst market uncertainties resulted in a substantial increase in yields on government securities. Meanwhile, the significant tightening of monetary policy, along with other measures, including the impact on disposable income due to the proposed tax revisions and the restrictions on non-urgent imports are likely to rein in inflationary pressures, while arresting adverse inflationary expectations, thus enabling headline inflation to tread along the envisaged rapid disinflation path from early 2023 onwards, before stabilising within the targeted range over the near to medium term.

## 7.1 Monetary Policy Stance of the Central Bank

In consideration of rising inflationary pressures, firming up of underlying demand conditions, and the possibility of de-anchoring inflation expectations, the Central Bank tightened monetary and liquidity conditions to an unprecedented level in 2022. Accordingly, since the monetary tightening cycle that began in August 2021, the Central Bank's key policy interest rates, i.e., SDFR and SLFR, have been raised by 10 pps, and a larger portion of that adjustment took place in April 2022. Policy interest rates were increased by 7 pps in April 2022, with the intention of arresting the build-up of any demand driven inflationary pressures in the economy and pre-empting the escalation of adverse inflationary expectations, while providing the required impetus to stabilise the exchange rate and correct anomalies observed in the market interest rate structure. Such sizeable adjustments in the policy interest rates were in addition to the upward revision of SRR by 2 pps, effective September 2021. Further, the large liquidity deficit in the domestic money market continued, mainly reflecting the impact of foreign exchange transactions by the Central Bank relating to foreign currency debt servicing of the Government and provisioning of foreign exchange to part finance essential imports, thereby reducing rupee liquidity in the domestic money market. However, the substantial deficit in rupee liquidity in the domestic money market peaked during the month of April 2022 and recorded a slight decline thereafter mainly reflecting the impact of the primary purchases of Treasury bills by the Central Bank in order to support the cash flow requirements of the Government and return of currency to the banking system reflecting

**The Central Bank tightened monetary conditions significantly in 2022 reflecting its commitment to restoring price stability while anchoring inflation expectations...**

the impact of rising deposit interest rates. As the combined outcome of a faster passthrough of monetary policy measures and tight liquidity conditions, market interest rates increased notably. Since the Central Bank commenced its monetary tightening cycle in August 2021, the upward adjustment in market interest rates has been more than proportionate to the increase in policy

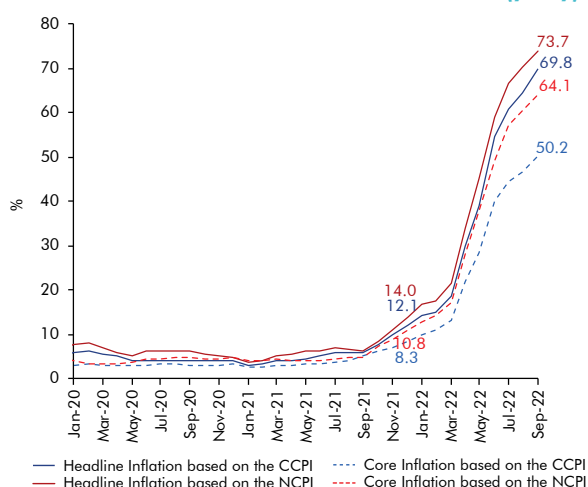
interest rates. The yields on government securities also recorded a considerable increase in 2022, driven by the sharp increase in the policy interest rates as well as the increased borrowing requirement of the Government along with heightened uncertainty in market conditions. With the tight monetary conditions, credit to the private sector by the banking system started moderating, while a contraction was observed in outstanding credit, in absolute terms, consecutively since June 2022. However, credit obtained by the SOBEs from the banking system expanded during the eight months ending August 2022, while NCG by the banking system also increased notably during the period entirely due to NCG from the Central Bank. Such monetary financing helped ease pressures on government cashflow operations to some extent and enabled the Government to settle payment obligations, including recurrent expenditure, amidst subdued government revenue. However, the envisaged revenue based fiscal consolidation programme, along with the rationalisation of expenditure, is expected to lower the monetary financing requirement in the period ahead. This is expected to stem demand pressures further, thus supporting the envisaged disinflation path and the restoration of price and economic stability over the medium term.

The acceleration of inflation that was observed since end 2021 continued at a notable pace in 2022 leading to historically high levels of inflation. Substantial supply side disruptions both locally and globally, administrative price adjustments, sharp depreciation of the Sri Lanka rupee against the US dollar, and aggregate demand pressures associated with the lagged impact of monetary accommodation are major factors attributable to the recent surge in inflation. Accordingly, y-o-y inflation based on the CCPI (2013=100) was recorded at 69.8%

**Inflation surged in 2022 driven by substantial supply side disruptions both locally and globally, administrative price adjustments, sharp depreciation of the Sri Lanka rupee, and the build-up of demand pressures...**

in September 2022. The NCPI (2013=100) based y-o-y headline inflation, which reflects nationwide price movements, also followed a similar trend, recording 73.7% in September 2022. Inflation in the food category, which has a relatively large weight in the consumer basket,

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



Source: Department of Census and Statistics

accelerated significantly. Meanwhile, non-food inflation also accelerated, mostly reflecting the contribution of the energy and transport sector with several upward revisions to domestic fuel and gas prices alongside their spillovers. Further, imported inflation accelerated due to high global commodity prices and a notable passthrough of the depreciation of the rupee during March-May 2022. While the contribution of supply side developments to price increases was more prominent in the recent past, the acceleration of core inflation possibly reflects the elements of demand driven inflationary pressures in the economy. In line with the movements in actual inflation, inflation expectations of both the corporate and household sectors, as gauged by the Inflation Expectations Survey of the Central Bank, increased during 2022. However, the latest inflation expectations of the corporate sector indicate a notable moderation of inflation in the 12-months ahead. Headline inflation is projected to moderate in the period ahead due to the expected softening of domestic prices with anticipated global developments in food and other commodity prices and revival of domestic supply conditions, subdued aggregate demand pressures resulting from tight monetary and fiscal conditions, and the favourable statistical base effect.

Anchoring inflation expectations is part and parcel of expediting the envisaged disinflationary process. In this regard, the Central Bank continued to engage with the public via effective and transparent communication on current economic conditions and the outlook, thereby providing the latest information on expected economic developments that would help allay uncertainties and mobilise stakeholder support for the envisaged economic recovery, while conducting monetary policy under the flexible inflation targeting framework.

## 7.2 Money Market Liquidity and Movements of Interest Rates

Domestic money market liquidity continues to remain at high deficit levels amidst the adoption of tight monetary policy, causing the AWC MR to remain at the upper bound of the policy rate corridor thus far during the year. Net foreign loan repayments of the Government, net currency withdrawals, net foreign exchange sales by the Central Bank to provide foreign exchange to facilitate imports of essentials, foreign exchange sell-buy swaps (net of maturities) by the Central Bank and outright sales of Treasury bills by the Central Bank dampened domestic money market liquidity. Meanwhile, market liquidity remains asymmetrically distributed, where certain domestic banks recorded significant liquidity deficits mainly due to increased borrowing by the Government. Thus, the Central Bank conducted long-term reverse repo auctions intermittently, on a needs basis, to inject liquidity aimed at easing liquidity stresses in certain banks. However, a gradual reduction in the domestic money market liquidity deficit was observed since end April 2022, mainly due to

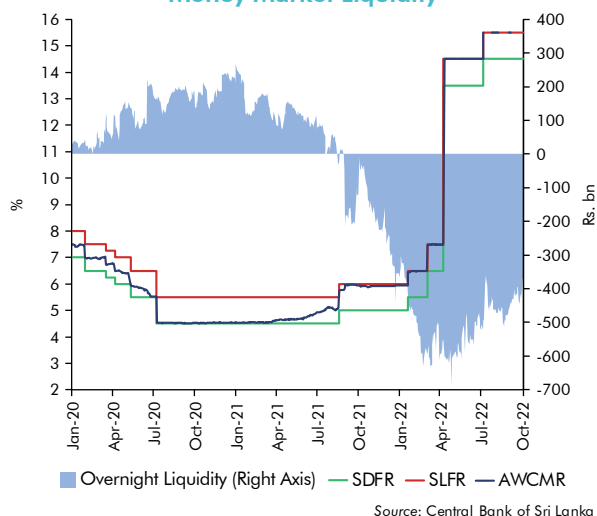
**Rupee liquidity in the domestic money market remained at high deficit levels, primarily driven by foreign exchange related interventions by the Central Bank...**

the primary purchases of government securities by the Central Bank, an increase in currency deposits to the banking system, and foreign exchange buy-sell swaps (net of maturities) by the Central Bank. Nevertheless, money market liquidity continues to remain in relatively high deficit levels by end October 2022. In response to liquidity deficit conditions, the weighted average rates on transactions in the repo market closely followed the movements of the AWC MR, recording 15.50% by end October 2022. Meanwhile, activity in the interbank call money market remained subdued mostly during July-October 2022, reflecting the impact of risk management measures of certain banks with surplus liquidity and the unavailability of excess funds among most market participants.

Market deposit and lending interest rates continued to adjust upwards substantially and some interest rates have recorded historically high levels thus far in 2022 in response to tight monetary and liquidity conditions. The



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



significant monetary tightening, large and persistent liquidity deficit in the domestic money market, and the disproportionate increase in yields on government securities caused market interest rates to adjust upward sharply. Further, licensed banks continue to mobilise deposits at high interest rates, particularly for a short tenure, amidst dire liquidity conditions in the money market. Accordingly, deposit interest rates, particularly new deposit interest rates, which adjusted at a relatively slow pace following the tightening monetary stance in August 2021, increased significantly by around 15 pps thus far in 2022, compared to a 9.5 pps increase in policy interest rates during 2022. With competitive and higher deposit interest rates offered by licensed banks, a return of currency to the banking system has been observed recently resulting in an expansion in the outstanding stock of deposits. Along with the removal of the maximum interest rates imposed on selected lending products

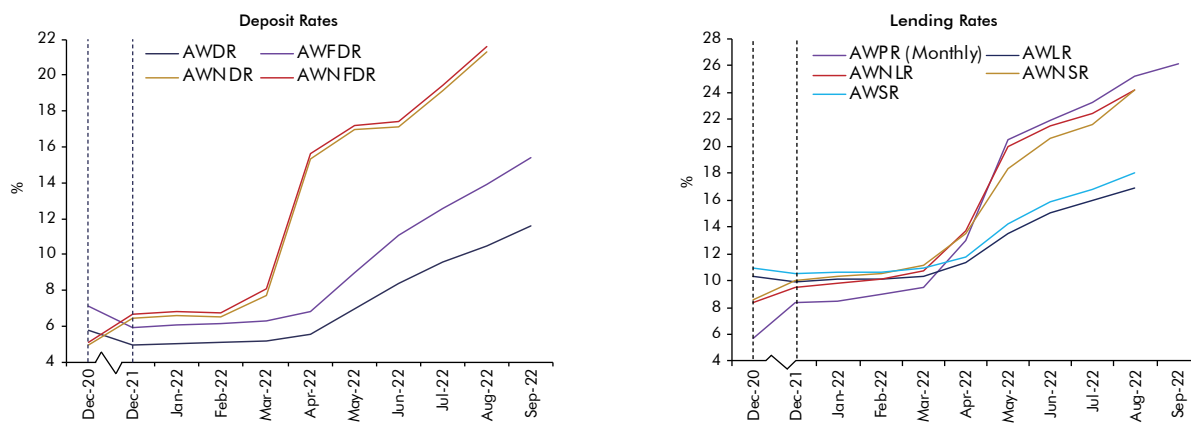
of licensed banks, interest rates applicable to such lending products have risen noticeably thus far during 2022, following similar movements of other market interest rates. Accordingly, thus far in 2022, AWCNLR has increased by around 15 pps, compared to end 2021, while AWPR, the lending rate on prime customers, which is typically low, compared to other lending rates

*Reflecting a faster passthrough of monetary policy actions and tight liquidity conditions, market interest rates rose notably with some interest rates recording historically high levels...*

with similar tenure, has increased by around 18 pps, compared to end 2021. The interest rates on loans for MSMEs also increased in line with the adjustment in the overall interest rate structure. However, in real terms, all market interest rates continue to yield negative returns due to the high levels of inflation.

A notable increase in yields on government securities was observed subsequent to the sharp increase in key policy interest rates amidst the increased borrowing requirement of the Government due to low government revenue, inability to secure sizeable foreign financing, and heightened uncertainty in market conditions. Market participants continued to demand higher returns for government securities driven by uncertainties, associated large borrowing requirements of the Government and debt restructuring concerns. As a result, yields on government securities increased to

**Figure 7.3**  
**Movement of Selected Market Interest Rates**





**“With heightened uncertainty in market sentiments amidst increased borrowings by the Government and debt restructuring concerns, yields on government securities soared, disproportionate to the adjustments in other interest rates...”**

significantly high levels, compared to the increase in policy interest rates. Overall, primary market yields on Treasury bills increased by around 22 to 25 pps across all tenures by end October 2022, compared to yields at end 2021. Following a similar trend, yields on Treasury bonds have also shown a notable upward adjustment thus far during 2022. Secondary market yields on government securities also recorded substantial increases across all maturities during the period, however, bank primary dealers offered relatively low yields for customers, compared to the yields offered by standalone primary dealer companies. Meanwhile, with the removal of caps on interest rates of foreign currency deposit products, along with the tightening global interest rates and constrained liquidity in the domestic foreign exchange market, a sharp upward adjustment in interest rates of foreign currency deposits was observed thus far in 2022.

### 7.3 Money and Credit

The y-o-y growth of broad money supply ( $M_{2b}$ ), which decelerated gradually since early 2021, increased notably during March–May 2022, mainly due to the revaluation effects of foreign currency denominated credit owing to the large depreciation of the Sri Lanka rupee against the US dollar. However, a downward trend has been observed since May 2022 driven by the continued decline in NFA of the banking system and the contraction of credit to the private sector. By end August 2022, the y-o-y growth of broad money supply was recorded at 14.0%, compared to the growth of 13.2% recorded at end 2021. Once adjusted for the depreciation of the Sri Lanka rupee against the US dollar, the y-o-y growth of  $M_{2b}$  decelerated gradually during the year to around 5.8% by end August 2022. On the assets side, the expansion of  $M_{2b}$  during the eight months ending August 2022 was entirely driven by the expansion of NDA of the banking system. NFA of the banking system contracted significantly during the same period mainly due to the decline in NFA of the Central Bank, while NFA of LCBs recorded an improvement due to the phasing out of some of their foreign liabilities. NFA of

the Central Bank turned negative reflecting the decline in gross official reserves, as the Central Bank provided liquidity to the domestic foreign exchange market to partly finance essential imports, while meeting the external debt obligations of the Government during early 2022. Within NDA, under domestic credit, NCG

**“Despite substantial expansion of credit to the public sector and the revaluation effects of foreign currency denominated debt, monetary expansion decelerated from May 2022 onwards driven by a contraction of credit to the private sector and a decline in NFA of the banking system...”**

by the banking system increased notably during the eight months ending August 2022, which was entirely due to NCG from the Central Bank, as LCBs reported a contraction of NCG on account of the significant reduction in the overdraft balances of the Government and the maturities of Treasury bills. The appetite for government securities of LCBs has remained subdued thus far in 2022, reflecting the tight liquidity conditions as well as heightened uncertainties, thereby requiring the Central Bank to fill the financing gap following the primary auctions of government securities. The notable increase in NCG from the banking system reflects the continued reliance of the Government on domestic financing, particularly on Central Bank financing, due to the decline in government revenue and limited access to foreign financing. Meanwhile, credit obtained by SOBEs from the banking system also expanded substantially during this period, largely on account of the parity impact on foreign currency denominated debt, while the weak financial performance warranted reliance on borrowed funds.

**Table 7.1**  
**Developments in Monetary Aggregates (a)**

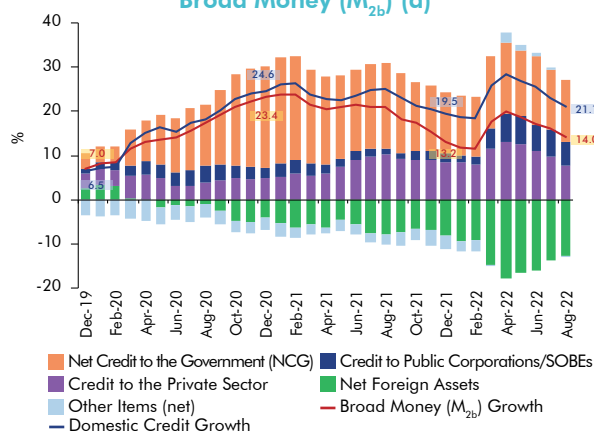
Rs. bn

|          | Aug-22   | Change (y-t-d) |
|----------|----------|----------------|
| $M_{2b}$ | 11,986.9 | 1,339.6        |
| NFA      | -2,035.1 | -1,053.1       |
| NDA      | 14,022.0 | 2,392.7        |
| NCG      | 6,990.1  | 1,157.7        |
| SOBEs    | 1,699.8  | 511.7          |
| PSC      | 7,614.2  | 632.7          |

(a) Provisional

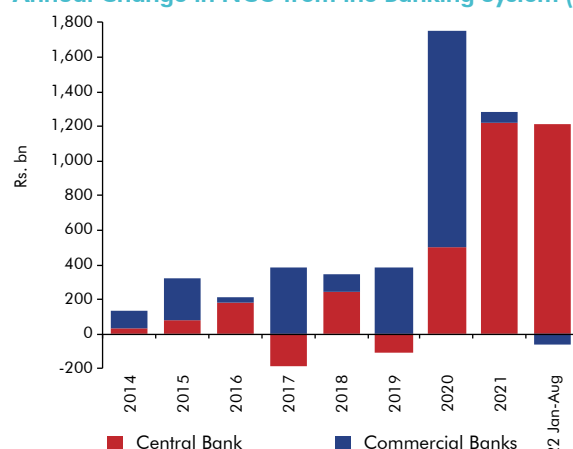
Source: Central Bank of Sri Lanka

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



(a) The sharp depreciation of the Sri Lanka rupee during March to May 2022 remains the key reason for the augmentation of monetary and credit aggregates during that period. Source: Central Bank of Sri Lanka

**Figure 7.5**  
**Annual Change in NCG from the Banking System (a)**



(a) The sharp depreciation of the Sri Lanka rupee during March to May 2022 remains the key reason for the augmentation of monetary and credit aggregates during that period. Source: Central Bank of Sri Lanka

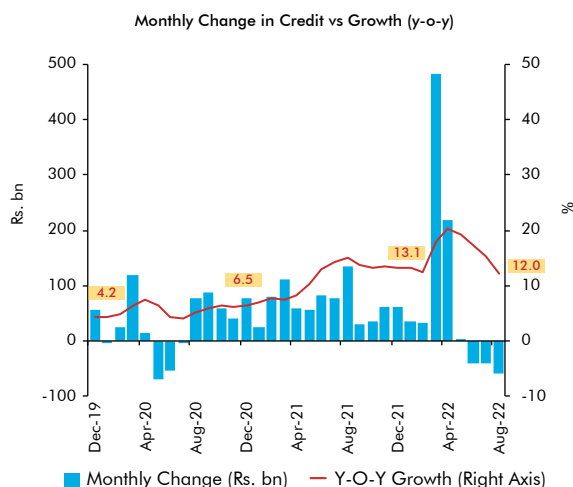
Outstanding credit to the private sector recorded a sizeable expansion during the eight months ending August 2022 largely due to the impact of significant exchange rate depreciation. However, once adjusted for the parity impact, credit to the private sector is estimated to have contracted during this period, with large contractions in credit, in absolute terms, recorded in recent months. The y-o-y growth of credit extended to the private sector was recorded at 12.0% by end August 2022, compared to 13.1% at end 2021, while parity adjusted y-o-y growth of credit extended to the private sector is estimated to have decelerated notably to around 1.9% by end August 2022. Along with the sharp upward adjustment in the lending rates, the deceleration in the growth of credit to the private sector is greater in the current cycle of tight monetary policy, compared to the previous tightening cycles. In terms of sectoral credit,

y-o-y growth of credit in the form of personal loans and advances accelerated by end Q2-2022 mainly due to the increase in pawning advances, while the growth of credit to productive sectors of the economy, once

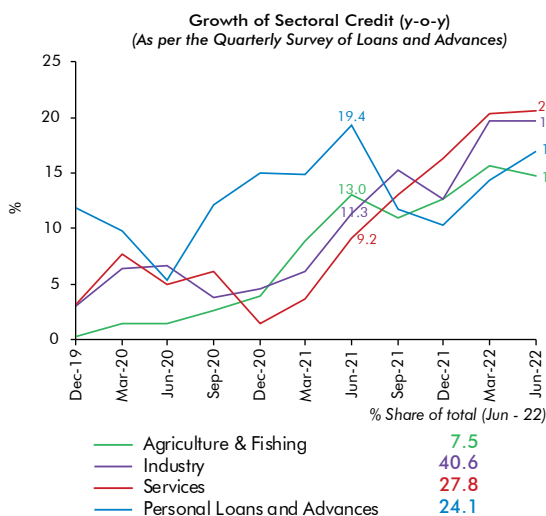
*The growth of credit to the private sector is decelerating notably and this trend is expected to continue in the remainder of 2022 as well...*

adjusted for the parity impact, slowed by end Q2-2022. With significantly tight monetary conditions continuing, a notable deceleration in the growth of money and credit aggregates is expected in the period ahead.

**Figure 7.6**  
**Credit Extended to the Private Sector by LCBs (a)**



(a) The sharp depreciation of the Sri Lanka rupee during March to May 2022 remains the key reason for the augmentation of monetary and credit aggregates during that period.



Source: Central Bank of Sri Lanka

Table 7.2  
Movements of Interest Rates

% per annum

| Interest Rate  | End 2019    | End 2020    | End 2021    | End Sep 2022    |
|--|-------------|-------------|-------------|-----------------|
| <b>Key Policy Interest Rates</b>                     |             |             |             |                 |
| Standing Deposit Facility Rate (SDFR)                | 7.00        | 4.50        | 5.00        | 14.50           |
| Standing Lending Facility Rate (SLFR)                | 8.00        | 5.50        | 6.00        | 15.50           |
| <b>Average Weighted Call Money Rate (AWCMR)</b>      | 7.45        | 4.55        | 5.95        | 15.50           |
| <b>Yield Rates on Government Securities</b>          |             |             |             |                 |
| <b>Primary Market (a)</b>                            |             |             |             |                 |
| <b>Treasury bills</b>                                |             |             |             |                 |
| 91-day   | 7.51        | 4.69        | 8.16        | 31.94           |
| 182-day  | 8.02        | 4.80        | 8.33        | 30.59           |
| 364-day  | 8.45        | 5.05        | 8.24        | 29.85           |
| <b>Treasury bonds</b>                                |             |             |             |                 |
| 2-year   | 9.79        | 5.65        | 9.16        | 14.41           |
| 3-year   | 9.65        | 5.99        | 9.70        | 30.95           |
| 4-year   | -           | 6.32        | 8.55        | -               |
| 5-year   | 9.87        | 6.79        | 11.14       | 31.50           |
| 10-year  | 10.23       | 9.99        | 8.86        | 30.09           |
| <b>Secondary Market</b>                              |             |             |             |                 |
| <b>Treasury bills</b>                                |             |             |             |                 |
| 91-day   | 7.52        | 4.63        | 7.77        | 30.22           |
| 182-day  | 7.88        | 4.73        | 8.07        | 28.81           |
| 364-day  | 8.36        | 4.98        | 8.22        | 28.41           |
| <b>Treasury bonds</b>                                |             |             |             |                 |
| 2-year   | 8.60        | 5.56        | 8.58        | 23.47           |
| 3-year   | 9.08        | 5.96        | 9.55        | 26.10           |
| 4-year   | 9.46        | 6.40        | 10.38       | 25.14           |
| 5-year   | 9.67        | 6.65        | 10.66       | 25.50           |
| 10-year  | 10.05       | 7.55        | 11.71       | 26.15           |
| <b>Licensed Commercial Banks (b)</b>                 |             |             |             |                 |
| <b>Interest Rates on Deposits</b>                    |             |             |             |                 |
| Savings Deposits                                     | 0.20-7.50   | 0.10-7.00   | 0.05-6.35   | 0.05-6.00 (c)   |
| 1 Year Fixed Deposits (d)                            | 3.55-15.00  | 0.25-15.00  | 0.15-15.00  | 0.15-28.00 (c)  |
| Average Weighted Deposit Rate (AWDR) (e)             | 8.20        | 5.80        | 4.94        | 11.63           |
| Average Weighted Fixed Deposit Rate (AWFDR) (e)      | 10.05       | 7.14        | 5.94        | 15.41           |
| Average Weighted New Deposit Rate (AWNDR) (e)        | 8.89        | 4.93        | 6.45        | 21.29 (c)       |
| Average Weighted New Fixed Deposit Rate (AWNFR) (e)  | 9.17        | 5.08        | 6.67        | 21.62 (c)       |
| <b>Interest Rates on Lending</b>                     |             |             |             |                 |
| Average Weighted Prime Lending Rate (AWPR) - Monthly | 10.00       | 5.74        | 8.33        | 26.16           |
| Average Weighted Lending Rate (AWLR)                 | 13.59       | 10.29       | 9.87        | 16.86 (c)       |
| Average Weighted New Lending Rate (AWNLR)            | 12.80       | 8.38        | 9.48        | 24.18 (c)       |
| <b>Other Financial Institutions (f)</b>              |             |             |             |                 |
| <b>Interest Rates on Deposits</b>                    |             |             |             |                 |
| National Savings Bank                                |             |             |             |                 |
| Savings Deposits                                     | 4.00        | 3.50        | 3.50        | 3.00 (c)        |
| 1 Year Fixed Deposits                                | 9.83        | 5.25        | 5.50        | 12.00 (c)       |
| Licensed Finance Companies (g)                       |             |             |             |                 |
| Savings Deposits                                     | 5.14-7.10   | 3.40-4.74   | 3.46-4.75   | 4.69-7.49       |
| 1 Year Fixed Deposits                                | 10.98-11.97 | 6.56-7.21   | 9.02-10.13  | 19.60-25.11     |
| <b>Interest Rates on Lending</b>                     |             |             |             |                 |
| National Savings Bank                                | 12.00-14.50 | 7.00-10.00  | 7.50-11.50  | 20.00-25.00 (c) |
| State Mortgage and Investment Bank (h)               | 10.25-18.00 | 8.73-12.50  | 7.50-12.50  | 18.00-27.25     |
| Licensed Finance Companies (g)                       |             |             |             |                 |
| Finance Leasing                                      | 14.75-27.40 | 14.31-28.97 | 12.77-28.33 | 19.95-35.99     |
| Hire Purchase  | 13.40-24.82 | 13.71-20.05 | 11.08-27.00 | 21.85-28.43     |
| Loans against Real Estate (i)                        | 15.53-16.71 | 19.95-22.30 | -           | -               |
| Loans against Immovable Properties (i)               | -           | -           | 15.77-16.77 | 20.38-25.68     |
| <b>Corporate Debt Market</b>                         |             |             |             |                 |
| Debentures   | 12.30-15.50 | 9.00-13.25  | 8.00-12.00  | 15.42-15.50     |
| Commercial Paper                                     | 13.00-16.25 | 6.50-15.50  | 6.00-12.00  | 11.00-32.00 (c) |

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

(b) Based on the rates quoted by LCBs.

(c) As at end August 2022.

(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 AWFNDR 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 2022 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  | 2019<br>Dec | 2020<br>Dec | 2021<br>Dec | 2022<br>Aug (a) |
|---|-------------|-------------|-------------|-----------------|
| <b>1. Reserve Money</b>                         | 932.6       | 964.4       | 1,305.8     | 1,386.2         |
| (% change y-o-y)                                | -3.0        | 3.4         | 35.4        | 27.3            |
| Net Foreign Assets of the Central Bank          | 896.0       | 526.8       | -387.3      | -1,614.9        |
| Net Domestic Assets of the Central Bank         | 36.6        | 437.7       | 1,693.1     | 3,001.1         |
| <b>2. Narrow Money (<math>M_1</math>)</b>       | 865.5       | 1,177.2     | 1,459.9     | 1,534.1         |
| (% change y-o-y)                                | 4.2         | 36.0        | 24.0        | 13.2            |
| <b>3. Broad Money (<math>M_{2b}</math>)</b>     | 7,624.1     | 9,405.7     | 10,647.3    | 11,986.9        |
| (% change y-o-y)                                | 7.0         | 23.4        | 13.2        | 14.0            |
| 3.1 Net Foreign Assets (NFA)                    | 100.7       | -209.5      | -982.0      | -2,035.1        |
| Monetary Authorities (b)                        | 896.0       | 526.8       | -387.3      | -1,614.9        |
| Licensed Commercial Banks (LCBs)                | -795.3      | -736.2      | -594.7      | -420.2          |
| 3.2 Net Domestic Assets (NDA)                   | 7,523.4     | 9,615.2     | 11,629.3    | 14,022.0        |
| Domestic credit                                 | 9,410.7     | 11,721.2    | 14,002.0    | 16,304.1        |
| Net Credit to the Government (NCG)              | 2,795.9     | 4,548.1     | 5,832.4     | 6,990.1         |
| Central Bank                                    | 363.0       | 868.9       | 2,094.1     | 3,311.1         |
| Licensed Commercial Banks (LCBs)                | 2,432.9     | 3,679.2     | 3,738.3     | 3,679.0         |
| Credit to Public Corporations / SOBEs           | 818.0       | 1,002.2     | 1,188.1     | 1,699.8         |
| Credit to the Private Sector                    | 5,796.9     | 6,170.9     | 6,981.4     | 7,614.2         |
| (% change y-o-y)                                | 4.2         | 6.5         | 13.1        | 12.0            |
| Other Items (net)                               | -1,887.3    | -2,106.0    | -2,372.7    | -2,282.1        |
| <b>4. Broad Money (<math>M_4</math>)</b>        | 9,444.5     | 11,461.9    | 12,985.4    | 14,450.7        |
| (% change y-o-y)                                | 8.2         | 21.4        | 13.3        | 13.0            |
| 4.1 Net Foreign Assets (NFA)                    | 88.8        | -217.1      | -998.6      | -2,035.1        |
| Monetary Authorities (b)                        | 896.0       | 526.8       | -387.3      | -1,614.9        |
| Licensed Commercial Banks (LCBs)                | -795.3      | -736.2      | -594.7      | -420.2          |
| Licensed Specialised Banks (LSBs)               | -11.9       | -7.6        | -16.6       | -               |
| 4.2 Net Domestic Assets (NDA)                   | 9,355.8     | 11,679.0    | 13,984.0    | 16,485.8        |
| Net Credit to the Government (NCG)              | 3,483.0     | 5,365.7     | 6,769.3     | 7,976.8         |
| Central Bank                                    | 363.0       | 868.9       | 2,094.1     | 3,311.1         |
| Licensed Commercial Banks (LCBs)                | 2,432.9     | 3,679.2     | 3,738.3     | 3,679.0         |
| Licensed Specialised Banks (LSBs)               | 613.9       | 742.2       | 844.5       | 876.3           |
| Licensed Finance Companies (LFCs)               | 73.2        | 75.5        | 92.4        | 110.4           |
| Credit to Public Corporations / SOBEs by (LCBs) | 818.0       | 1,002.2     | 1,188.1     | 1,699.8         |
| Credit to the Private Sector                    | 7,793.3     | 8,284.5     | 9,338.9     | 10,088.6        |
| (% change y-o-y)                                | 3.9         | 6.3         | 12.7        | 11.7            |
| Licensed Commercial Banks (LCBs)                | 5,796.9     | 6,170.9     | 6,981.4     | 7,614.2         |
| Licensed Specialised Banks (LSBs)               | 814.2       | 936.5       | 1,093.7     | 1,144.2         |
| Licensed Finance Companies (LFCs)               | 1,182.2     | 1,177.1     | 1,263.8     | 1,330.3         |
| Other items (net)                               | -2,738.4    | -2,973.4    | -3,312.4    | -3,279.3        |
| Memorandum Items:                               |             |             |             |                 |
| Money Multiplier ( $M_{2b}$ )                   | 8.18        | 9.75        | 8.15        | 8.65            |
| Velocity ( $M_{2b}$ average) (c)                | 2.16        | 1.86        | 1.74        | -               |

(a) Provisional

Source: Central Bank of Sri Lanka

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

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

## Abbreviations and Acronyms

|         |  |                 |   |
|---------|--|-----------------|---|
| AWCMR   | : Average Weighted Call Money Rate                     | M <sub>2b</sub> | : Consolidated broad money supply           |
| AWDR    | : Average Weighted Deposit Rate <sup>1</sup>           | MSMEs           | : Micro, Small and Medium scale Enterprises |
| AWFDR   | : Average Weighted Fixed Deposit Rate <sup>2</sup>     | NCG             | : Net Credit to the Government              |
| AWLR    | : Average Weighted Lending Rate <sup>3</sup>           | NCPI            | : National Consumer Price Index             |
| AWNDR   | : Average Weighted New Deposit Rate <sup>4</sup>       | NDA             | : Net Domestic Assets                       |
| AWNFDNR | : Average Weighted New Fixed Deposit Rate <sup>5</sup> | NFA             | : Net Foreign Assets                        |
| 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  | SOBES           | : State Owned Business Enterprises          |
| CCPI    | : Colombo Consumer Price Index                         | SRR             | : Statutory Reserve Ratio                   |
| LCBs    | : Licensed Commercial Banks                            | y-o-y           | : Year-on-Year                              |
| LFCs    | : Licensed Finance Companies                           | y-t-d           | : Year-to-Date                              |
| LSBs    | : Licensed Specialised Banks                           |                 |   |

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 AWFNDR 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 to 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

**T**he stability of the financial system was challenged amid strained conditions experienced by the sector on the backdrop of adverse macroeconomic conditions during the eight months ending in August 2022. The banking sector recorded a growth in terms of assets particularly due to the impact of depreciation of the local currency along with the rise in investments. However, the asset quality of the banking sector deteriorated during the period under consideration as reflected through the increase in Stage 3 Loans to Total Loans Ratio. Meanwhile, profitability of the sector also fell during the period under consideration with the increase in impairment charges. Performance of Licensed Finance Companies recorded an improvement in terms of total assets and credit portfolio during the eight months ending in August 2022. In terms of development of financial markets, both the domestic money market and the domestic foreign exchange market experienced strained liquidity conditions while primary market yield rates in the government securities market witnessed a significant increase amidst substantive domestic financing requirements and adverse market sentiments. The financial infrastructure continued to support the functioning of the financial sector in this challenging economic environment. Going forward, prudent, and proactive policy measures from all sectors of the economy will be required to ensure stability of the financial sector.

## 8.1. Financial Institutions

### Banking Sector

The banking sector remained resilient during the eight months ending in August 2022 despite the looming threat from the macroeconomic developments. Despite continuous stress faced by the sector in terms of liquidity, the banking sector continued to operate with acceptable levels of capital and impairment coverage ratios during the eight months ending in August 2022, given the challenges in the operating environment. Capital position of banks will be further strained resulting from continuing macroeconomic challenges. Even though, with the retention of profits, a positive impact on capital ratios could be envisaged, due to the impact from the significant policy rate hike, economic contractions and concerns over the possible impact from the sovereign debt restructuring, banks will be faced with escalating challenges in maintaining their capital ratios above regulatory minimum levels and a substantial deterioration in capital buffers are anticipated.

**The banking sector sustained its expansion amidst significant level of stress in terms of liquidity, capital, and asset quality...**

The growth in assets of the banking sector improved during the eight months ending in August 2022 compared to the corresponding period of the last year mainly due to the reiteration of foreign currency denominated assets in rupee terms with the depreciation of the currency. Total assets of the banking sector expanded by Rs. 2.4 trillion to Rs. 19.2 trillion, recording a growth of 14.1 % in the eight months ending in August 2022, compared to an expansion of Rs. 1.8 trillion which was a growth of 12.1 % recorded in the corresponding period of 2021.

Tightening monetary policy led to a deceleration in year-on-year growth of loans and advances to 6.8 % as at end August 2022, compared to 14.5 % as at end 2021. Total loans and advances increased by Rs. 712.8 billion to reach Rs. 11.5 trillion, recording a 6.6 % growth during the eight months ending in August 2022, compared to

an increase of Rs. 1.4 trillion, which was a 14.5 % growth reported in the same period of 2021, mainly due to the impact of the exchange rate depreciation on foreign currency loans.

An increase in the growth of investments was observed during the period under consideration. Investments in the banking sector increased by Rs. 873.4 billion during the eight months ending in August 2022 and stood at Rs. 5.8 trillion, which was a 17.6 % growth, compared to an increase of Rs. 284.7 billion and a corresponding 6.7 % growth reported at end August 2021.

The banking sector expansion was largely funded by deposits. Deposits expressed as a percentage of total assets stood at 77.1 % as at end August 2022. The deposit base of the banking sector expanded by Rs. 1.9 trillion during the eight months ending in August 2022 and stood at Rs. 14.8 trillion recording a 14.9 % growth, mainly due to growth of rupee deposits, compared to an increase of Rs. 1.3 trillion and a corresponding 11.6 % growth recorded in the same period of 2021.

The growth in borrowings continued to decrease as a result of the decline in foreign currency borrowings. Borrowings of the banking sector moderated, recording a 5.8 % growth with an increase of Rs. 126.5 billion during the eight months ending in August 2022 and reached Rs. 2.3 trillion as at end August 2022, compared to an increase of Rs. 282.1 billion and a corresponding 16.5 % growth recorded in the same period of the previous year.

Asset quality of the sector deteriorated in terms of stage 3 loans to total loans ratio. Stage 3 loans increased by Rs. 475.1 billion, recording a growth of 56.9 % and reached Rs. 1.3 trillion as at end August 2022. Furthermore, stage 3 loans to total loans ratio increased to 10.6 % by end August 2022 from 7.6 % as at end 2021 induced by the increase in stage 3 loans and lower growth in credit.

Despite the liquidity stresses observed in certain domestic banks, the banking sector operated with liquid assets above the minimum regulatory requirement. The Statutory Liquid Asset Ratio of DBUs and OBUs were at 27.3 % and 40.6 %, respectively, as at end August 2022.

The net long position of foreign currency exposure of the banking sector increased to a long position of US dollars 534.6 million as at end August 2022 compared

**Table 8.1**  
**Selected Indicators of the Banking Sector**

| Item   | End Aug 2020 | End Aug 2021* | End Dec 2021* | End Aug 2022* (a) | y-o-y Change (%) |              |
|--|--------------|---------------|---------------|-------------------|------------------|--------------|
|  |              |               |               |                   | Aug 2021 (b)     | Aug 2022 (a) |
| Total Assets (Rs. tn)  | 14           | 16            | 17            | 19                |                  | 17.1         |
| Loans & Advances (Rs. tn)  | 9            | 11            | 11            | 11                |                  | 6.8          |
| Investments (Rs. tn)   | 4            | 5             | 5             | 6                 |                  | 28.4         |
| Deposits (Rs. tn)  | 10           | 13            | 13            | 15                |                  | 16.7         |
| Borrowings (Rs. tn)  | 2            | 2             | 2             | 2                 |                  | 15.4         |
| Capital Funds (Rs. tn)   | 1            | 1             | 1             | 2                 |                  | 15.0         |
| Tier 1 Capital Adequacy Ratio (%) (c)  | 13.2         | 13.0          | 13.2          | 12.2              |                  |              |
| Total Capital Adequacy Ratio (%) (c)   | 16.5         | 16.3          | 16.5          | 15.2              |                  |              |
| Stage 3 Loans to Total Loans (Net of Stage 3 Impairment & Including Undrawn Credits) (%) |              | 5.0           | 7.6           | 10.6              |                  |              |
| Stage 3 Loans to Total Loans (Excluding Undrawn Credits) (%)                             |              |               | n/a           | 11.4              |                  |              |
| Return on Assets (Before Tax) (%)  | 1.3          | 1.3           | 1.4           | 1.1               |                  |              |
| Return on Equity (After Tax) (%)   | 10.6         | 15.0          | 13.4          | 8.9               |                  |              |
| Statutory Liquid Assets Ratio (DBU) (%)  | 38.6         | 36.1          | 33.8          | 27.3              |                  |              |
| Liquid Assets to Total Assets (%)  | 34.6         | 31.5          | 29.7          | 25.4              |                  |              |

(a) Provisional

(b) Since the SLFRS 9 based reporting were not available for end August 2020, y-o-y change could not be reported for August 2021.

(c) As at end of June

n/a - Not Available

\* Reported based on SLFRS

Source: Central Bank of Sri Lanka

to a long position of US dollars 132.2 million as at end 2021 due to higher increase in foreign currency assets compared to the increase in foreign currency liabilities. A net gain of Rs. 11.1 billion on foreign currency revaluation was recorded during the eight months ending in August 2022 compared to a net gain of Rs. 21.9 billion during the corresponding period of 2021.

The market interest rates increased amidst the tightening of monetary policy in 2022. FV gains on investment securities in FV through profit and loss and other comprehensive income amounted to Rs. 8.7 billion and Rs. 5.4 billion, respectively, during the eight months ending in August 2022 compared to losses of Rs. 2.7 billion and Rs. 14.3 billion, respectively, during the corresponding period of the previous year. This was largely due to comparatively higher funds being directed to government securities and larger movements in interest rates while the possible losses from interest rate movements were partially negated by the reclassification of investments from FV through other comprehensive income portfolio to amortised cost portfolio as allowed by the Statement of Alternative Treatments issued by the Institute of Chartered Accountants of Sri Lanka.

Profits of the sector decreased during the period under consideration. Profit before tax of the banking sector for the eight months ending in August 2022 was Rs. 126.2 billion, which was a decrease of Rs. 41.3 billion compared to the profits of Rs. 167.5 billion reported during

the corresponding period of 2021. Despite the increase in net interest income by Rs. 154.7 billion and non-interest income by Rs. 88.5 billion, profits decreased during this period mainly due to the increase in impairment charges by Rs. 250.6 billion. ROA and ROE decreased to 1.1 % and 8.9 %, respectively, as at end August 2022 from 1.7 % and 15%, respectively, as at end August 2021.

Despite adverse macroeconomic conditions, the banking sector as a whole maintained the Capital Adequacy Ratio above the minimum statutory requirements during the first half of 2022. As at end June 2022, the banking sector operated with a Tier 1 ratio of 12.2 % and a Total Capital Ratio of 15.2 %, which were well above the Basel III requirements. However, going forward, deteriorating credit quality arising from severe economic contraction, less disposable income of public, and declining revenues of SMEs could result in a capital erosion of the banking sector.

The banking sector's branch network expanded further during the first half of 2022 facilitating financial inclusion in the country. Accordingly, 4 new branches were opened, and 107 SSMs were established while 7 SSMs were closed down during the first half of 2022.

The scope of the statutory examination of banks has been designed to focus on the possible negative implications of current economic downturns and continuously increasing challenges in the operating environment of the banking industry which may lead

to a potential deterioration in assets quality, liquidity positions and capital buffers of banks. Joint supervision has commenced at banks with the involvement of non-regulatory departments of the Central Bank as well in order to strengthen the regulatory supervision mechanism for banks in a comprehensive manner.

The supervisory rating model (BSRI) has been implemented by the Central Bank with a view to facilitating the risk-based supervision framework for banks, whilst enabling early supervisory intervention and prompt corrective actions. Considering the need to protect banks from the contagion risk and to ensure the stability and the soundness of the banking sector and the financial system, consolidated supervision of banking groups has been carried out. Accordingly, a regulatory framework on consolidated supervision is being developed and provisions in this regard will also be brought into the new Banking Act.

### Licensed Finance Companies

The total asset base of the sector increased by Rs. 121.1 billion during the eight months ending August 2022 and stood at Rs. 1,573.1 billion, recording a growth of 8.3 %. The Loans and Advances portfolio which represents 73.7 % of the total asset base, increased by Rs. 47 billion, recording a 4.2 % growth, largely contributing to an expansion of the asset base during the eight months ending August 2022. The sector comprised 37 LFCs<sup>1</sup> of which only 35 were in operation as at end August 2022.

The sector expansion was funded by increase in deposits by Rs. 48 billion which grew by 6.1 % and increase in borrowings by Rs. 33.5 billion which grew by 10.9 % during the eight months ending August 2022. The deposits and borrowings of the sector stood at Rs. 831.3 billion and Rs. 340 billion, respectively. Total capital of the sector increased by Rs. 66.9 billion during the eight months ending August 2022 recording a growth of 28.1 % and stood at Rs. 305.3 billion. The liquid assets available in the sector were at a excess of Rs. 70.9 billion by end August 2022 compared to the required level of liquid assets.

The sector recorded a PAT of Rs. 9.6 billion during the five months ending in August 2022 for the financial year 2022/23, compared with a PAT of Rs. 12.5 billion

<sup>1</sup> Assetline Finance Ltd. (previously, Assetline Leasing Co. Ltd., a SLC registered under Finance Leasing Act, No. 56 of 2000) was issued with a license under the Finance Business Act, No. 42 of 2011 on 29.08.2022. Financial figures of Assetline Finance Ltd. are included in SLCs sector from end August 2022.

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

| KPIs                          | %            |              |
|-------------------------------|--------------|--------------|
|                               | End Dec 2021 | End Aug 2022 |
| Gross Stage 3 Loan Ratio      | 10.8*        | 18.0         |
| Net Stage 3 Loan Ratio        | 2.5*         | 12.8         |
| Tier 1 Capital Adequacy Ratio | 15.0         | 20.3         |
| Total RWCAR                   | 16.6         | 21.8         |
| Net Interest Margin           | 8.4          | 6.8          |
| Return on Assets              | 4.5          | 2.4          |
| Return on Equity              | 17.1         | 7.4          |
| Cost to Income Ratio          | 73.0         | 87.3         |

\* Gross NPL and net NPL ratios prior to implementing Finance Business Act Direction No.01 of 2020.

Source: Central Bank of Sri Lanka

recorded during the corresponding period in the financial year 2021/22. Reduced Net Interest Income by Rs. 3.9 billion, which was a contraction of 7.9 %, and increased Non-Interest Expenses by Rs. 4.3 billion, which was a growth of 13.3 %, largely resulted in the reduction in profitability. 13 LFCs reported net losses during the period under consideration.

**The LFCs sector improved in terms of total assets and capital base, although the profitability declined...**

The Finance Business Act Direction No. 01 of 2020 on Classification and Measurement of Credit Facilities required LFCs to adopt 120 past due dates for classification of NPLs with effect from 01.04.2022, compared to the earlier requirement of 180 days. Accordingly, the asset quality of the sector deteriorated, as the gross stage 3 loan ratio and net stage 3 loan ratio (net of impairment) stood at 18 % and 12.8 %, respectively, by end August 2022. The impairment coverage ratio for stage 3 loan exposures was at 29.1 % by end August 2022. High stage 3 loans were also due to the possible downgrading of loans and advances after the expiration of the moratorium granted in consideration of the COVID-19 pandemic.

### Specialised Leasing Companies

The total asset base of the sector increased by Rs. 2.2 billion, recording an expansion of 6.1 % during the eight months ending August 2022 and stood at Rs. 37.8 billion by end August 2022<sup>2</sup>. Loans and Advances increased by Rs. 1 billion, recording a growth of 3.2 %

<sup>2</sup> The total asset base of Assetline Finance Ltd. stood at Rs.31.6 billion by end August 2022.

and stood at Rs. 30.8 billion. Total capital of the SLCs sector increased by Rs. 1.3 billion, which grew by 9.7 % compared to end December 2021 and stood at Rs. 14.5 billion by end August 2022. The sector recorded a PAT of Rs. 50 million during the five months period ending August 2022 for the financial year 2022/23, compared to a PAT of Rs. 186 million reported during the corresponding period in financial year 2021/22. Gross and Net stage 3 Loan Ratios stood at 20.8 % and 13.1 %, respectively, by end August 2022. The sector comprised two SLCs by end August 2022.<sup>3</sup>

### Primary Dealer Companies

The sector comprised seven standalone PDCs of which only five were in operations as at end August 2022. The sector showed mixed performance during the eight months ending in August 2022. The total asset base of PDCs increased by 40.3 % and stood at Rs. 110.4 billion as at end August 2022. The government securities portfolio of PDCs increased by 41.3 % and stood at Rs. 108.2 billion by end August 2022. All active PDCs maintained their core capital and RWCAR above the minimum requirements of Rs. 2 billion and 10 %, respectively, by end August 2022. The sector recorded a net loss of Rs. 1.5 billion for the eight months period, compared to a loss of Rs. 0.1 billion recorded in the corresponding period of 2021, mainly due to the mark-to-market losses incurred by the PDCs as a result of the surge in the interest rates.

### Licensed Microfinance Companies

The total asset base of the LMFCs sector, which comprised of four companies, stood at Rs. 9.3 billion by end August 2022. Gross loans and advances of LMFCs was at Rs. 6.4 billion indicating a reduction of 4.8 % during the eight months ending in August 2022. The NPL Ratio of LMFCs reduced to 9.4 % by end August 2022, compared to 16.2 % by end 2021. The sector reported a loss of Rs. 50 million during the eight months ending in August 2022.

### Insurance Sector

The overall performance of the insurance sector improved with total assets showing healthy growth during the first half of 2022. Total assets and the GWP of the insurance sector grew by 7.9 % and 17.8 % on

year-on-year basis, respectively. Total assets of the long-term Insurance sub sector and General Insurance sub sector increased by 6.8 % and 10.5 %, respectively, while the GWP of both sub sectors registered significant year-on-year growths of 17.9 % and 17.7 %, respectively, as at end June 2022. Profit before tax of the sector accelerated and recorded Rs. 22.5 billion during the first half of 2022 compared to Rs. 16.9 billion recorded during the corresponding period of 2021.

### Unit Trusts

A contraction in terms of the NAV of the unit trusts sector was observed during the first half of 2022. The NAV of the industry declined by 40.2 % on year-on-year basis to Rs. 132.7 billion. However, the number of unit holders increased to 62,700 recording a growth of 12.7 % at end June 2022. Investments of the sector recorded a decline of 39.4 % on year-on-year basis to Rs. 134.9 billion. Investments in government securities by the Unit Trusts amounted to 38.7 % of the NAV of the sector at end June 2022 compared to 10.6 % as at end June 2021.

### Stockbroker Companies

Stockbroker companies indicated a mixed performance during the first half of 2022 compared to the corresponding period of 2021. Total assets and the net capital of the sector increased by 7 % and 32.4 % on year-on-year basis, respectively, at end June 2022. However, the average turnover of Stockbroker companies decreased by 46 % to Rs. 839 million while the PBT of the sector decreased by 74.9 % to Rs. 228 million during the first half of 2022.

### Superannuation Funds

The EPF operated with an asset base of over Rs. 3.3 trillion as at end August 2022. The total number of member accounts of the EPF reached 20.3 million in December 2021.

Total member contributions and refund payments during the eight months ending in August 2022 increased by 21.2 % and 45.9 % to Rs. 123.4 billion and to Rs. 101.1 billion, respectively, in comparison to the corresponding period of the previous year. Accordingly, the net contribution (net of contributions received and refunds paid) during the period under review stood at Rs. 22.3 billion.

<sup>3</sup> Assetline Finance Ltd. (previously, Assetline Leasing Co. Ltd., a SLC registered under Finance Leasing Act, No. 56 of 2000) was issued with a license under the Finance Business Act, No. 42 of 2011 on 29.08.2022. Financial figures of Assetline Finance Ltd. are included in SLCs sector from end August 2022.



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

| Item                                  | End Aug 2021 | End Aug 2022 (a) | Change (%) |
|---------------------------------------|--------------|------------------|------------|
| Total Contributions (Rs. bn) (b)      | 101.8        | 123.4            | 21.2       |
| Total Refunds (Rs. bn) (b)            | 69.3         | 101.1            | 45.9       |
| Total Assets (Rs. bn)                 | 3,045.9      | 3,335.0          | 9.5        |
| Total Investment Portfolio (Rs. bn)   | 3,037.9      | 3,330.8          | 9.6        |
| o/w, Government Securities (%)        | 93.7         | 96.2             | 2.7        |
| Gross Investment Income (Rs. Bn.) (b) | 211.2        | 170.8            | -19.1      |

(a) Provisional

Source: Central Bank of Sri Lanka

(b) First eight months of the respective year

Total investment of EPF also grew by 9.6 % on year-on-year basis, to Rs. 3,330.8 billion as at end August 2022. The investment consists of 96.2 % in government securities, 2.1 % in the equity market, 0.9 % in corporate debt and reverse repo, and 0.8 % in fixed deposits as at end August 2022. The gross investment income of the Fund during the eight months ending in August 2022 amounted to Rs. 170.8 billion, which is a decrease of 19.1 % compared to the corresponding period of 2021. The Rate of Return provided to members on their balances as at the end of 2021 was 9 %.

Total assets of the ETF grew by 10.8 %, on year-on-year basis, and stood at Rs. 441.4 billion as at end June 2022. Total member contributions and refund payments during the first half of 2022 increased by 17.2 % and 10.6 % to Rs. 16.8 billion and Rs. 11.5 billion, respectively, when compared with the corresponding period of the previous year. Investments made by the Fund recorded a healthy growth of 11.1 % on year-on-year basis as at end June 2022 and 93.6 % of the total investments was comprised of government securities.

There were 117 privately managed APFs in operation with 72,633 employees as at end June 2022. The total assets of APFs stood at Rs. 207.4 billion, with investments of Rs. 165 billion as at end June 2022. Total assets of the PSPF increased by 4.7 % on year-on-year basis, to Rs. 84.8 billion as at end June 2022. Total investments

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

| Item                                | End Jun 2021 | End Jun 2022 (a) | Change (%) |
|-------------------------------------|--------------|------------------|------------|
| Total Contributions (Rs. bn) (b)    | 14.3         | 16.8             | 17.2       |
| Total Refunds (Rs. bn) (b)          | 10.4         | 11.5             | 10.6       |
| Total Assets (Rs. bn)               | 398.2        | 441.4            | 10.8       |
| Total Investment Portfolio (Rs. bn) | 378.1        | 419.9            | 11.1       |
| o/w, Government Securities (%)      | 84.0         | 93.6             | 11.4       |
| Gross Income (Rs. bn) (b)           | 17.1         | 20.3             | 19.0       |

(a) Provisional

Source: Employees' Trust Fund Board

(b) During the period

made by the PSPF stood at Rs. 84.9 billion as at end June 2022 and the Rate of Return on member balances was 8% for the period under consideration.

## 8.2 Financial Markets

### Domestic Money Market

Liquidity in the domestic money market, which was in deficit levels since mid-August 2021, remained in a persistent deficit in 2022. The liquidity deficit, which was at Rs. 366.2 billion by end 2021, increased substantially to a peak of Rs. 688.3 billion towards end April 2022. The liquidity deficit improved gradually and was reported at Rs. 433.5 billion by end September 2022. Subscribing to Treasury bills at the primary auctions and special allocations, as well as granting provisional advances and transferring profits to the Government by the Central Bank caused liquidity improvements in the domestic money market. However, the impact of such injections was negated due to a host of factors, including scheduled foreign loan repayments, currency withdrawals as well as maturities of foreign currency swap transactions and Treasury bills held by the Central Bank.

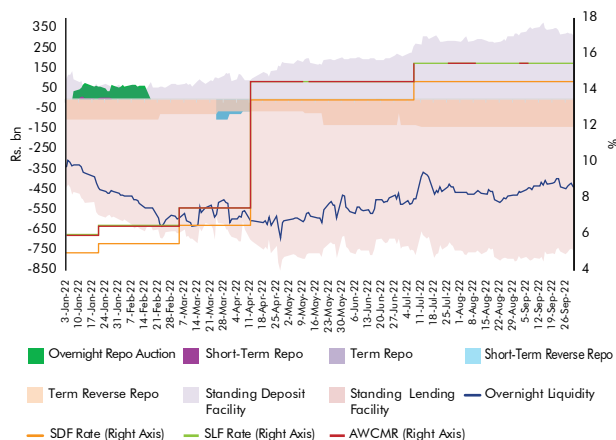
**Rupee liquidity in the domestic money market remained in a persistent deficit during the nine months ending in September of 2022...**

During the second half of the year, currency deposits in the banking sector recorded an increase due to high interest rates, thereby improving liquidity in the banking sector. In addition, the Central Bank occasionally infused liquidity through term reverse repo auctions during 2022 with a view to reducing significant liquidity stress among certain LCBs. Further, from mid-June 2022, the Central Bank conducted outright sales of Treasury bills to partially negate the impact of liquidity injections through primary purchases of Treasury bills by the Central Bank and was able to absorb Rs. 23.5 billion by end September 2022. Further, amidst the liquidity deficit in the domestic money market, coupled with increased uncertainty in the markets, particularly on account of the speculation on fiscal sector developments, transactions in the overnight call



Figure 8.1

Standing Rate Corridor, Open Market Operations, Market Liquidity and Average Weighted Call Money Rate



Source: Central Bank of Sri Lanka

money market remained substantially low. Hence PIs mainly relied on the facilities provided by the Central Bank to borrow funds, while PIs with excess liquidity relied on the SDF to park their excess funds with the Central Bank.

In line with the continued tight monetary policy stance, the Central Bank increased its policy interest rates by a cumulative of 950 bps on four occasions during 2022, thereby increasing SDFR and the SLFR to 14.5 % and 15.5 %, respectively. The AWCMR moved towards the upper bound of the SRC and remained stagnant from mid-April to date, amidst the deficit in money market liquidity conditions. Accordingly, the AWCMR remained at 15.5 % by mid-September 2022 and call market remained broadly inactive during the latter part of September 2022. The AWRR also moved broadly in line with the movements of the AWCMR and remained at 15.5 % by end September 2022. Since mid-April 2022, both call and repo markets remained less active. Accordingly, during the third quarter of 2022, average volumes of call and repo markets remained around Rs. 2.9 billion and Rs. 4.4 billion, respectively. Other market interest rates also increased substantially in line with Treasury bill yields rates indicating a substantial deviation of market rates from the policy interest rates.

### Domestic Foreign Exchange Market

During the nine months ending in September 2022, the Sri Lankan rupee recorded a significant depreciation of 44.8 % against the US dollar from Rs. 200.43 as at end

2021 to Rs. 362.9 as at 30 September 2022. As per the exchange rate guidance provided by the Central Bank from September 2021 to early March 2022, the US dollar/ Sri Lanka rupee exchange rate ranged between Rs. 200 - Rs. 203. However, considering the sharp depletion of gross official reserves of the country and the significant pressures in the domestic foreign exchange market the Central Bank allowed a measured adjustment in the exchange rate on 07 March 2022, which was subsequently resulted in an overshooting by market forces.

Therefore, as a measure in managing the intraday volatility in the exchange rate at a reasonable level, with effect from 13 May 2022, the Central Bank commenced announcing an exchange rate guidance to licensed banks with a variation margin, on a daily basis. Since then, fluctuations in the exchange rate have started to stabilise gradually, and currently, the weighted average spot exchange rate in the interbank market hovers between Rs. 360 - Rs. 363 per US dollar.

**Following the substantial depreciation during March – May 2022, the Sri Lanka rupee remained broadly stable following the commencement of providing daily guidance on the exchange rate in May 2022 ...**

During the year up to end September 2022, the Central Bank was a net seller in the domestic foreign exchange market. Although, the Central Bank continued to absorb foreign exchange through non-borrowed sources by mandating licensed banks to sell a certain percentage of converted workers' remittances and mandatorily converted export proceeds of goods and services into Sri Lanka rupees, the acute shortage of liquidity conditions in the domestic foreign exchange market necessitated the Central Bank to supply US dollars to finance essential imports mainly including fuel and coal, on a net basis during the year up to end July 2022. However, with the number of measures taken, including the cessation of the importation of goods via open account payment terms in May 2022 and the discouraging of non-essential imports to a greater extent, the liquidity position in the

domestic foreign exchange market improved gradually by end July 2022, enabling the Central Bank to absorb US dollars on a net basis during the months of August and September 2022. Accordingly, from January to end September 2022, the Central Bank absorbed US dollars 1,383.5 million and supplied US dollars 2,058.6 million, resulting in a net supply of US dollars 675.1 million to the market.

During the nine months that ended in September 2022, trading volumes in the domestic foreign exchange market continued their declining trend. Accordingly, the daily average trading volumes in the domestic inter-bank foreign exchange market declined by 23.4 % to US dollars 39.7 million during the period under consideration, compared to US dollars 51.8 million recorded in the same period in 2021.

### Government Securities Market

Primary market yield rates of government securities adjusted upwards significantly to historically high levels due to the substantive domestic financing requirement of the central government and unprecedented market circumstances amidst the tightening monetary policy stance during the first half of the year. The socio-economic unrest that started in April 2022 continued into the following months intertwined with political turmoil, and the ensued volatility created a high degree of uncertainty in the domestic markets, which was factored into the investment decisions causing a substantial increase in the yield rates on government securities. Meanwhile, the

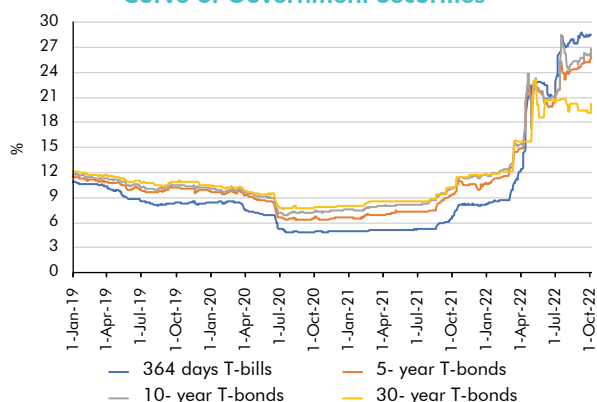
**Yield rates on government securities were adjusted upwards to historically high levels due to increased funding requirements of the Government, sharp hike in policy interest rates and market uncertainties...**

announcement of the Interim Policy Regarding the Servicing of Sri Lanka's External Public Debt on 12 April 2022, increasing funding requirement of the Government and the sharp hike in policy interest rates also exerted upward pressure on yield rates on government securities, which reached historically high levels during the third quarter of 2022. Accordingly, the secondary market yield rates of Treasury bills increased in the range of 20.77 to 22.98 percentage points while those of benchmark 3, 5, 8 and 10-year Treasury bonds increased in the range of 15.25 to 17.04 percentage points, thus far during the year up to end September 2022.

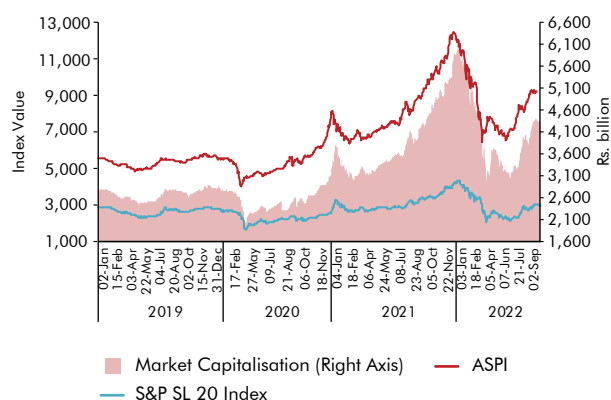
### Stock Market

Price indices recorded a volatile performance in the equity market during the nine months ending in September 2022 amidst adverse macroeconomic conditions. The equity market witnessed a steep fall since early February 2022 as panicked investors started withdrawing their funds amid increased macroeconomic concerns and political instability. However, this declining trend moderated since May 2022, although significant

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



**Figure 8.3**  
**Movements of Share Price Indices**



**Table 8.5**  
**Equity Market - Selected Indicators**

| Item                                      | End 2020  | 2021 Sep  | End 2021  | 2022 Sep |
|---|-----------|-----------|-----------|----------|
| All Share Price Index (1985=100)          | 6,774.2   | 9,459.9   | 12,226.0  | 9,931.1  |
| Y-t-d change (%)                          | 10.5      | 39.6      | 80.5      | -18.8    |
| S&P SL 20 Index (2004=1,000)              | 2,638.1   | 3,534.8   | 4,233.3   | 3,165.3  |
| Y-t-d change (%)                          | -10.2     | 34.0      | 60.5      | -25.2    |
| Market Capitalisation (Rs. bn)            | 2,960.7   | 4,215.6   | 5,489.2   | 4,341.1  |
| As a (%) of GDP (a)                       | 18.7      | 23.8      | 31.0      | 24.5     |
| Market Price Earning Ratio                | 11.3      | 11.5      | 13.6      | 5.7      |
| Average Daily Turnover (Rs. mn)           | 1,899.0   | 4,455.0   | 4,888.2   | 3,316.2  |
| Net Cumulative Foreign Purchases (Rs. mn) | -51,275.7 | -44,862.0 | -52,649.4 | 13,490.4 |
| Number of Companies Listed                | 283       | 287       | 296       | 294      |

(a) Based on GDP for 2021 (Rs. 17,686 bn)

Source: Colombo Stock Exchange

volatilities were observed in several instances, and the market showed signs of improvements since July 2022. Nevertheless, price indices were significantly below the levels observed at end 2021.

Overall, the ASPI and S&P SL 20 index recorded negative growth of 18.8% and 25.2%, respectively, during the year until end September 2022. Market capitalisation stood at Rs. 4,341.1 billion as at end September 2022, recording a year-to-date negative growth of 20.9%. In terms of the sector wise disaggregation of price indices, all sectors except the four sectors Energy (218.2%), Commercial & Professional Services (74.1%), Consumer Services (8.6%), and Food & Staples Retailing (4.1%) have recorded negative year-to-date growth in price indices as at end September 2022. The Diversified Financial sector recorded the highest negative year-to-date growth of 73.6% as at end September 2022, followed by the Transportation (-42%) and Automobile & Components sectors (-31.1%).

A noticeable improvement in terms of net foreign inflows was observed in 2022 until end August. Accordingly, the Colombo Stock Exchange recorded US dollars 97.2 million net foreign inflows during the year until end August 2022 compared to a net outflow of US dollars 181.3 million recorded during the corresponding period of 2021.

### Corporate Debt Securities Market

The corporate bond market was relatively less active during the nine months ending in September 2022, mainly due to high interest rates and adverse macroeconomic conditions. Only two institutions issued debentures during the nine months ending

in September 2022, raising Rs. 2.6 billion compared to Rs. 84.4 billion raised by 14 institutions during the corresponding period of 2021. Fixed interest rates were in the range of 15.42% to 15.5% compared to the range of 8% to 12% of the corresponding period in the previous year.

Similar to the corporate bond market, the CP market was also relatively less active in the eight months ending in August 2022. During the year up to August 2022, Rs. 1.7 billion was raised through the CPs issued with the support of licensed banks compared to Rs. 3.6 billion raised through issues in the corresponding period of 2021. Interest rates of CPs varied between the range of 11% to 32% during the eight months ending in August 2022 compared to the range of 6.25% to 11.5% reported in the corresponding period of the previous year.

## 8.3 Developments in the Financial Infrastructure

### Payment and Settlement Systems

In January 2022, the Central Bank granted approval to NSB to become the first LSB to obtain the participant status of the LankaSettle System. With the aim of promoting inward foreign remittances, the Central Bank launched the National Remittance Mobile Application, 'LankaRemit' in February 2022.

The retail payment systems and instruments recorded growth in volumes and values depicting the adoption of digital payment methods. CEFTS and SLIPS exhibited a gradual increase during the period. Further, credit and debit card transactions continued to increase as the public adopted non-cash methods for purchases of goods and services. Meanwhile, registration of LANKAQR merchants increased in the first half of 2022

**Table 8.6**  
**Volume of Transactions Through Payment Systems ('000) (a)**

| Payment system/ Instrument                        | 2017   | 2021    | Growth % | 2021<br>(Jan-Jun) | 2022<br>(Jan-Jun) | Growth % |
|---|--------|---------|----------|-------------------|-------------------|----------|
| <b>Large Value Payment Systems</b>                |        |         |          |                   |                   |          |
| RTGS System                                       | 377    | 450     | 19.4     | 203               | 283               | 39.4     |
| <b>Retail Value Payment Systems / Instruments</b> |        |         |          |                   |                   |          |
| Interbank Cheque Clearing System                  | 51,963 | 33,021  | -36.5    | 16,839            | 17,227            | 2.3      |
| SLIPS   | 30,018 | 41,868  | 39.5     | 19,952            | 22,492            | 12.7     |
| Credit Cards                                      | 36,964 | 50,689  | 37.1     | 23,349            | 29,310            | 25.5     |
| Debit Cards*                                      | 46,964 | 108,040 | 130.0    | 48,412            | 72,258            | 49.3     |
| CEFTS   | 3,163  | 54,675  | 1,628.6  | 23,205            | 39,584            | 70.6     |
| LANKAQR**   | 133    | 849     | 538.3    | 429               | 268               | -37.5    |

(a) During the period

\* through Point of Sales (POS) terminals

\*\* Volume of transactions in 2020. LANKAQR introduced in 2018

Source: Central Bank of Sri Lanka

**Table 8.7**  
**Value of Transactions Through Payment Systems (Rs. bn) (a)**

| Payment system/ Instrument                        | 2017     | 2021      | Growth % | 2021<br>(Jan-Jun) | 2022<br>(Jan-Jun) | Growth % |
|---|----------|-----------|----------|-------------------|-------------------|----------|
| <b>Large Value Payment Systems</b>                |          |           |          |                   |                   |          |
| RTGS System                                       | 92,302.7 | 294,602.0 | 219.2    | 93,672.4          | 384,004.9         | 309.9    |
| <b>Retail Value Payment Systems / Instruments</b> |          |           |          |                   |                   |          |
| Interbank Cheque Clearing System                  | 10,481.9 | 8,311.5   | -20.7    | 4,015.3           | 5,007.3           | 24.7     |
| SLIPS   | 1,725.0  | 2,862.2   | 65.9     | 1,331.6           | 1,644.9           | 23.5     |
| Credit Cards                                      | 198.5    | 282.6     | 42.4     | 126.2             | 191.4             | 51.7     |
| Debit Cards*                                      | 134.5    | 315.9     | 134.9    | 137.8             | 248.8             | 80.6     |
| CEFTS   | 273.7    | 4,926.6   | 1,700.0  | 1,983.5           | 3,980.9           | 100.7    |
| LANKAQR**   | 0.3      | 1.9       | 533.3    | 0.8               | 0.8               | -        |

(a) During the period

\* through Point of Sales (POS) terminals

\*\* Value of transactions in 2020. LANKAQR introduced in 2018

Source: Central Bank of Sri Lanka

owing to merchant awareness campaigns. During the same period, cheque usage, as indicated by the volume of cheques, slightly increased and remained as a popular payment instrument.

**The Central Bank took several measures aimed at promoting digital payments and developing the national payment infrastructure in Sri Lanka while efficiently catering to the payments and settlement needs of the country...**

Channels of utilising the LankaPay debit card issued under the NCS were extended with the successful launch of a pilot project to issue 2 in 1 LankaPay debit cards with a stored-value facility for transportation purposes. Further, the LSPs of payment cards and mobile phone based e-money systems were continuously supervised

to ensure the safety and efficiency of services provided by them. In addition, the Central Bank continued to educate the public on the usage, security and new developments with regard to digital payment instruments/mechanisms.

### Regulation and Supervision of Foreign Exchange

Amendments to the existing Regulations, Directions and Orders issued under the FEA were made as required during the year, largely to improve foreign exchange inflows and curtail foreign exchange outflows from the country. Rules on Repatriation of Export Proceeds into Sri Lanka, issued under the MLA were amended, requiring mandatory conversion of the residual of the export proceeds repatriated into the country within the stipulated period. However, service exporters were subsequently exempted from the conversion requirements under the Rules. Further, Regulations and Directions were issued under the FEA to facilitate foreign exchange transactions/ investments in the Colombo Port City by authorised persons subject

to the permission granted under the provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021.

Additionally, an order was issued under Section 22 of the FEA imposing limitations/ suspensions on remittances in respect of outward capital transactions, to preserve the foreign exchange reserve of the country and avoid abrupt outflows from the market. To encourage inflows and retention of foreign exchange within the country, Regulations and Directions were also issued extending the validity period of opening Special Deposit Accounts by a further 12 months until 08 April 2023.

Moreover, the amount of foreign currency retained in possession by a person in, or resident in, Sri Lanka was reduced from USD 15,000 to USD 10,000 or its equivalent in other foreign currencies. Meanwhile, following the decision of the Central Bank to designate the Thai Baht and Indian rupee for the Offshore Banking Unit transactions, the same were also declared as designated foreign currencies for the purposes/ transactions under the FEA in the Domestic Banking Units of Authorised Dealers.

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

During 2022, the FIU performed its key task of receiving, analysing and disseminating information on suspicious transactions relating to ML/TF or any other unlawful activities in terms of the FTRA. Accordingly, as of end September 2022, the FIU referred 303 STRs to Law Enforcement Agencies and Regulators for further investigations/ necessary actions and conducted onsite examinations to ensure AML/CFT compliance by Financial Institutions and proper adaptation of the AML/CFT framework by the DNFBPs sector. With the purpose of further strengthening of the country's AML/CFT framework, the FIU issued 3 Circulars during the nine months ending September 2022 as well.

Moreover, the FIU initiated conducting the second ML/TF NRA in Sri Lanka in 2021, with the participation of 66 public and private stakeholder agencies. The FIU also initiated the introduction of a new transaction reporting system, 'goAML' for reporting institutions and continued to conduct awareness programmes to enhance awareness on AML/CFT among the stakeholders.

### Legal Reforms Related to the Financial Sector

In 2022, the Central Bank continued to introduce law reforms to major legislation administered by the Bank, with the objective of strengthening and enhancing the financial regulatory and supervisory regime of the country. As a major step to strengthen decisional and operational independence and accountability of the Central Bank, a new Central Banking Act is being drafted to replace the current Monetary Law Act. A new Banking (Special Provisions) Act will be enacted shortly to strengthen the resolution powers and financial safety net mechanisms exercised by the Central Bank relating to licensed banks. Further, with a view to legally permitting licensed banks and non-bank financial institutions to offload toxic/ hard-to-value assets from their balance sheets, a new law on Financial Asset Management Companies will also be introduced. Meanwhile, the Central Bank has developed new legislation such as the Micro Finance and Credit Regulatory Act and Trading Clearing and Netting Act to address the gaps in the current legal landscape. In addition, the Central Bank is also taking steps to update the existing laws by introducing amendments to the Foreign Exchange Act, Finance Business Act, Finance Leasing Act and Payment and Settlement Systems Act to keep abreast with changes in the financial sector and financial innovations.

### Resolution and Enforcement

The Central Bank continued compensation payments to depositors of six license cancelled/ business suspended finance companies under the SLDILSS. However, compensation payments to the depositors of SFSP were suspended during the year due to the revival of the company. Further, the process of accepting new claims in relation to compensation payments from the depositors of CIFL and TSCFL was discontinued due to the expiration of the maximum period as specified in Regulations of SLDILSS.

Moreover, the drafting of relevant provisions pertaining to the establishment of a comprehensive resolution framework for banks and non-bank financial institutions, a deposit insurance scheme and liquidation of banks and non-bank financial institutions were carried out under the proposed Banking (Special Provisions) Act. The Central Bank also took initiatives to develop 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.

### Development Finance and Access to Finance

The Central Bank continued to coordinate, facilitate, and implement various refinance, interest subsidy and credit guarantee schemes, with the intention of granting affordable financial facilities for MSMEs and individuals. During the nine months ending in September 2022, loans amounting to Rs. 7,407.5 million were disbursed among 15,092 beneficiaries through 16 PFIs under 17 loan schemes. Considering the significant increase in market interest rates, the interest rate of the Saubagya (Prosperity) loan scheme was revised upwards, and PFIs were instructed to ensure granting 80 % of new loans to agriculture, livestock, and fisheries sectors, considering probable food shortage in the future. Meanwhile, a debt moratorium was granted for loan schemes operated by the Central Bank to provide

comfort to borrowers who have been severely affected by the current economic situation.

Moreover, the Central Bank continued to monitor the implementation of the NFIS, aligning with its action plan to ensure achieving the set targets. Further, the first ever island wide financial literacy survey was successfully completed with the assistance of the IFC and the key findings of the survey were published.

### Financial Consumer Relations

The Central Bank continued to strengthen the financial consumer protection framework. In this context, the Central Bank received 3,208 complaints and grievances during the eight months ending in August 2022.

Moreover, the Central Bank has commenced the process of issuing new regulations/ guidelines for facilitating a comprehensive financial consumer protection framework for entities regulated by the Central Bank and has drafted the Financial Consumer Protection Regulations.

### Abbreviations and Acronyms

|         |   |           |  |
|---------|---|-----------|--|
| AML/CFT | : Anti-Money Laundering and Countering the Financing of Terrorism | NRA       | : National Risk Assessment                                 |
| APF     | : Approved Provident Fund   | NSB       | : National Savings Bank                                    |
| ASPI    | : All Share Price Index   | OBU       | : Off-shore Banking Unit                                   |
| AWCMR   | : Average Weighted Call Money Rate                                | PAT       | : Profit After Tax   |
| AWRR    | : Average Weighted Repo Rate                                      | PBT       | : Profit Before Tax  |
| BSRI    | : Bank Sustainability Rating Indicator                            | PDC       | : Primary Dealer Company                                   |
| CEFTS   | : Common Electronic Fund Transfer Switch                          | PFI       | : Participating Financial Institution                      |
| CIFL    | : Central Investments and Finance PLC                             | PI        | : Participatory Institution                                |
| CP      | : Commercial Paper  | PSPF      | : Public Service Pensions Fund                             |
| DBU     | : Domestic Banking Unit   | ROA       | : Return on Assets   |
| DNFBP   | : Designated Non-Financial Businesses and Professions             | ROE       | : Return on Equity   |
| EPF     | : Employees' Provident Fund                                       | RWCAR     | : Risk Weighted Capital Adequacy Ratio                     |
| ETF     | : Employees' Trust Fund   | SDF       | : Standing Deposit Facility                                |
| FEA     | : Foreign Exchange Act, No. 12 of 2017                            | SDFR      | : Standing Deposit Facility Rate                           |
| FIU     | : Finance Intelligence Unit                                       | SFSC      | : Swarnamahal Financial Services PLC                       |
| FTRA    | : Financial Transactions Reporting Act, No. 6 of 2006             | SLC       | : Specialised Leasing Company                              |
| FV      | : Fair Value  | SLDILSS   | : Sri Lanka Deposit Insurance and Liquidity Support Scheme |
| GWP     | : Gross Written Premium   | SLFR      | : Standing Lending Facility Rate                           |
| IFC     | : International Finance Corporation                               | SLIPS     | : Sri Lanka Interbank Payment System                       |
| LCB     | : Licensed Commercial Bank  | SME       | : Small and Medium-sized Enterprise                        |
| LFC     | : Licensed Finance Company  | SRC       | : Standing Rate Corridor                                   |
| LMFC    | : Licensed Microfinance Company                                   | SSM       | : Self Service Machine                                     |
| LSP     | : Licensed Service Provider                                       | STR       | : Suspicious Transaction Report                            |
| MI      | : Member Institution  | S&P SL 20 | : Standard and Poor's Sri Lanka 20                         |
| ML      | : Money Laundering  | TF        | : Terrorist Financing                                      |
| MLA     | : Monetary Law Act, No. 58 of 1949                                | TSCFL     | : The Standard Credit Finance Ltd                          |
| MSME    | : Micro, Small and Medium Enterprise                              |           |  |
| NAV     | : Net Asset Value   |           |  |
| NCS     | : National Card Scheme  |           |  |
| NFIS    | : National Financial Inclusion Strategy                           |           |  |
| NPL     | : Non-performing Loan   |           |  |



The image features a solid teal background. A large, white, curved shape, resembling a thick arc or a stylized wave, starts from the left edge and curves upwards and to the right, creating a large white space. The text is positioned within this white space.

## *Major Economic Policy Measures*

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

### Monetary Policy

- 20 January 2022 - Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 50 basis points to 5.50% and 6.50%, respectively. Bank Rate was commensurately adjusted to 9.50% from 9.00%.
- 04 March 2022 - SDFR and SLFR were increased by 100 basis points to 6.50% and 7.50%, respectively. Bank Rate was commensurately adjusted to 10.50% from 9.50%.
- 07 March 2022 - A measured adjustment was allowed in the exchange rate.
- 08 April 2022 - SDFR and SLFR were increased by 700 basis points to 13.50% and 14.50%, respectively, to be effective from the close of business on 08 April 2022. Bank Rate was commensurately adjusted to 17.50% from 10.50%.
- 07 July 2022 - SDFR and SLFR were increased by 100 basis points to 14.50% and 15.50%, respectively. Bank Rate was commensurately adjusted to 18.50% from 17.50%.

### Special Credit Schemes

- 15 February 2022 - The Smallholder Tea and Rubber Revitalization (STaRR) Project was extended from 01 November 2021 to 31 December 2022.
- 20 May 2022 - Operating Instructions of the Saubagya (Prosperity) loan scheme were amended to increase the interest rate to 9%, while instructing Participating Financial Institutions (PFIs) to ensure that a minimum of 80% of the new loans are granted for agriculture, livestock, fisheries, and related activities.
- 27 May 2022 - Operating Instructions of the STaRR Project were amended to decrease the rate of interest subsidy to PFIs from 7% to 4% for the period from 01 November 2021 to 31 May 2022 and re-increase the rate of interest subsidy to PFIs from 4% to 7% for the period from 01 June 2022 to 31 December 2022.
- 13 June 2022 - Operating Instructions of the New Comprehensive Rural Credit Scheme (NCRCS) were amended to revise the applicable interest rates and Scale of Finance considering the prevailing economic conditions in the country and to fall in line with government policy measures on encouraging agricultural activities in the country to ensure food security, reduce foreign exchange outflow on food imports, make people more inclined towards agricultural products, and uplift the socio-economic conditions of small-scale farmers.
- 07 July 2022 - Debt moratoria were granted under the Saubagya (Prosperity) loan scheme, Saubagya COVID-19 Renaissance Facility Phase I and II loan schemes, and loan schemes under the Smallholder Agribusiness Partnership Programme (SAPP) for the period from 07 July 2022 to 31 December 2022 with a six month extension of the repayment period.

<sup>1</sup> Include major economic policy measures implemented since 01 January 2022 up to 15 October 2022 and the policy measures that are to be implemented in the near future.

## Financial Sector

### Licensed Banks

- |               |   |  |
|---------------|---|--|
| 11 March 2022 | - | An amendment to the Monetary Law Act (MLA) Order No. 02 of 2021 was issued informing the revised maximum interest rates on credit card advances, pre-arranged temporary overdrafts, and pawning advances, considering the monetary policy tightening measures and the macroeconomic developments expected.   |
|               | - | An amendment to the MLA Order No. 03 of 2021 was issued removing the maximum interest rates imposed on foreign currency deposits of Licensed Commercial Banks (LCBs) and National Savings Bank (NSB), considering the recent monetary policy tightening, expected macroeconomic developments, and the prevailing interest rates on foreign currency deposits of licensed banks.  |
| 22 March 2022 | - | Banking Act Directions were issued revoking the Banking Act Directions No. 07 of 2021 on forward Sales and Purchases of Foreign Exchange by LCBs.  |
| 24 March 2022 | - | A Circular was issued providing guidelines for the establishment of post COVID-19 revival units in licensed banks, in order to identify and assist under-performing and non-performing borrowers affected by the pandemic for the purpose of reviving viable businesses with the potential of contributing to the national economic growth, thus facilitating the unwinding of debt moratoria in a sustainable manner.   |
| 21 April 2022 | - | An MLA Order was issued, revoking the maximum interest rates imposed on credit card advances, pre-arranged temporary overdrafts, and pawning advances. Further, licensed banks were permitted to adjust the interest rates of deposits upwards adequately, considering the monetary policy tightening.   |
| 06 May 2022   | - | Banking Act Directions were issued restricting discretionary payments and non-essential/non-urgent expenditures of licensed banks, while requiring licensed banks to exercise extreme prudence when incurring capital expenditure until 31 December 2022, considering the possible adverse impact on liquidity and other key performance indicators of licensed banks due to the prevailing macroeconomic conditions and the importance of maintaining appropriate levels of liquidity and capital buffers.  |
| 19 May 2022   | - | With the objective of curtailing imports of non-essential and non-urgent goods to preserve the stability of the exchange rate and liquidity in the domestic foreign exchange market, a 100% non-interest bearing cash margin deposit requirement was introduced for imports under specified Harmonised System (HS) Codes, through Banking Act Directions to LCBs and NSB for importation under Documents against Acceptance (DA) and Documents against Payment (DP) terms and through an MLA Order to LCBs for importation under Letters of Credit (LCs).  |
| 23 May 2022   | - | Banking Act Directions were issued to licensed banks on certain regulatory requirements considering the prevailing extraordinary macroeconomic conditions. Accordingly, licensed banks were permitted to draw down the capital conservation buffer, stagger the overnight mark-to-market losses on government securities arising from the changes in policy interest rates (on 08 April 2022) denominated in LKR that are measured at fair value, up to the second quarter of 2024 for the purpose of Capital Adequacy Ratio computation, while regulatory minimum requirements for liquidity coverage and net stable funding ratios were reduced from 100% to 90% up to 30 September 2022. Revised treatment on the Other Comprehensive Income (OCI) for computation of |

capital adequacy ratio was introduced in line with the International Standards. Further, the deadline to meet the minimum capital requirements was extended to 31 December 2023 and licensed banks were encouraged to move to The Standardised Approach (TSA) or the Alternative Standardised Approach (ASA) to compute risk weighted assets for Operational Risk, until 31 December 2023, subject to conditions.

- |                |   |
|----------------|---|
| 08 June 2022   | - An MLA Order was issued revoking the MLA Order No. 03 of 2021 on maximum interest rates on foreign currency deposits of LCBs and NSB except Order 07 on the same, in view of the recent monetary policy tightening measures.  |
| 22 June 2022   | - Banking Act Directions on sustainable finance activities of licensed banks were issued to provide a governance and risk management framework for sustainable finance activities of licensed banks, in line with the Sustainable Finance Road Map of CBSL, to promote financing for sustainable economic activities in Sri Lanka.  |
| 04 July 2022   | - Addendum to the Banking Act Direction No. 08 of 2011 on the Customer Charter of licensed banks was issued, expanding the requirements aimed at improving the accessibility of banking services for customers with special needs, with a view to further strengthening financial consumer protection measures for such customers.  |
| 07 July 2022   | - A Circular was issued requesting licensed banks to provide appropriate concessions, for a period of six months, to borrowers whose income or businesses have been adversely affected due to the current macroeconomic conditions and/or the COVID-19 pandemic, while preventing any undue stress on the banking sector stability. These concessions are provided on a case-by-case basis based on the future repayment capacity of the individuals and viability of businesses/ projects. |
| 26 August 2022 | - Banking Act (Off-shore Banking Business Scheme) Order was issued recognising the Indian Rupee (INR) as a designated foreign currency for foreign currency transactions of the off-shore banking units of LCBs.  |
| 29 August 2022 | - Banking Act Directions were issued mandating the recording of Unique Identification Numbers (UINs) of depositors of licensed banks. Accordingly, licensed banks were requested to record UINs for all new depositors with effective from 01 October 2022 and to complete recording UINs of the existing customers in their systems by 31 December 2023.   |
| Forthcoming    | - Revising the Regulatory Framework on Outsourcing of Business Operations   |
|                | - Regulatory Framework for Compliance Function of Licensed Banks  |
|                | - New Banking Act   |

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

- |                 |   |
|-----------------|---|
| 05 January 2022 | - The Monetary Board of the Central Bank of Sri Lanka (CBSL), in terms of the Regulations made under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance, decided to extend the suspension of Perpetual Treasuries Limited (PTL) from carrying on the business and activities of a Primary Dealer for a further period of six months with effect from 05 January 2022, in order to continue with the investigations being conducted by the CBSL. |
|-----------------|---|

- |                  |   |
|------------------|---|
| 28 January 2022  | - A Direction was issued on Technology Risk Management and Resilience with the objective of setting the minimum regulatory requirements on technology risk management and resilience of LFCs.   |
| 08 February 2022 | - LFCs were requested to grant an incentive for Sri Lankans working abroad by reimbursing the transaction cost incurred on account of inward workers' remittances.  |
| 10 March 2022    | - LFCs were informed on the grant of a transitional period for the effective implementation of sections 10 and 12 of the Finance Business Act (FBA) Direction No. 05 of 2021 on Corporate Governance until 01 July 2022.  |
| 18 March 2022    | - A Direction was issued on Mobile Phone based E-money Services in order to provide a solution for easy access to finance by enabling convenient banking and to improve efficiency of the operations of LFCs.   |
| 21 March 2022    | - Subsequent to the amalgamation of the Sinhaputhra Finance PLC (SFP) with Commercial Leasing and Finance PLC as a part of the Masterplan for Consolidation of Non-Bank Financial Institutions (NBFIs), the Monetary Board of the CBSL cancelled the licence issued to SFP to carry on finance business under the FBA, No. 42 of 2011. Further, registration of SFP under the Finance Leasing Act, No. 56 of 2000 (FLA), has been cancelled by the Director of Supervision of Non-Bank Financial Institutions (D/SNBFI).  |
| 31 March 2022    | <ul style="list-style-type: none"> <li>- Subsequent to the amalgamation of the Commercial Leasing and Finance PLC (CLFP) with LOLC Finance PLC as a part of the Masterplan for Consolidation of NBFIs, the Monetary Board of the CBSL cancelled the Licence issued to CLFP to carry on finance business under the FBA. Further, registration of CLFP under the FLA was cancelled by D/SNBFI.</li> <li>- Prevailing maximum interest rates on deposits and debt instruments were revised due to the increase in policy rates.</li> <li>- LFCs and SLCs were informed on deferment of the implementation of the section 4.3.1.(i) of FBA Direction No. 01 of 2020 and FLA Direction No. 01 of 2020 on Classification and Measurement of Credit Facilities by a period of two years due to the present economic conditions.</li> </ul> |
| 18 April 2022    | - Prevailing maximum interest rates on deposits and debt instruments were revised allowing LFCs to decide the maximum interest rates on deposits and debt instruments, and SLC to decide the maximum interest rates on debt instruments based on the moving average of Weighted Average Yield Rates of the last four treasury bill primary auctions.  |
| 12 May 2022      | - Subsequent to the amalgamation of Prime Finance PLC (PFP) with HNB Finance PLC as a part of the Master plan for Consolidation of NBFIs, the Monetary Board of the CBSL cancelled the License issued to PFP to carry on finance business under the FBA. Further, registration of PFP under the FLA was cancelled by D/SNBFI.   |
| 08 June 2022     | - LFCs, SLCs, and LMFCs were informed on removing the maximum interest rate on microfinance loans, considering the significant increase in market interest rates.   |
| 05 July 2022     | - The Monetary Board of the CBSL, in terms of the Regulations made under the Registered Stock and Securities Ordinance and the Local Treasury Bills Ordinance, extended the suspension of PTL from carrying on the business and activities of a Primary Dealer for  |

a further period of six months with effect from 05 July 2022, in order to continue with the investigations being conducted by the CBSL.

- 20 July 2022      -      A Circular was issued to LFCs and SLCs requesting them to provide concessions to borrowers whose income or businesses have been adversely affected due to the current macroeconomic conditions.
- 29 August 2022      -      Assetline Finance Ltd. (formerly known as Assetline Leasing Co. Ltd., an SLC registered under FLA) was issued with a licence in terms of Section 5(7) of the FBA, to engage in finance business.
- 02 September 2022      -      A Direction was issued mandating the recording of UINs of depositors of LFCs. Accordingly, all LFCs were required to record UINs for all new depositors with effect from 01 October 2022 and to complete recording UINs of the existing customers in systems of LFCs by 31 December 2023.

## Insurance

- 26 January 2022      -      Amendments were issued to Determinations 14 and 15 to all insurance companies on “The regulatory reporting formats of the Annual Return and Actuarial Abstract were amended for the purpose of facilitating the submission via Email”.
- Direction 01 of 2022 was issued to the industry in respect of restriction of providing codes and restriction on changing codes.
- Circular 01 of 2022 was issued on Prohibition of providing different quotations (reduction of premium) to same policyholder for the same insurance cover.
- 03 February 2022      -      Direction 02 of 2022 was issued on a Corporate Governance Framework for Insurers.
- 25 February 2022      -      Direction 02 of 2022 (Revised) was issued informing the revision of Direction 02 of 2022 on Corporate Governance Framework for Insurers.
- 01 July 2022              -      Guidelines were issued on advertisements to all insurers, brokering companies, and agents, and required them to comply with the same with effect from 01 July 2022.
- 24 August 2022        -      Direction 03 of 2022 was issued to the industry with regard to the cooling-off period, guaranteed and non-guaranteed benefits and applicable schedules of long term insurance policy.
- Forthcoming            -      Amendment to Rules in respect of Quarterly Return format of Insurance Brokers.
- Guidelines on Policy Framework for General Insurance Policies will be issued subject to Insurance Regulatory Commission’s approval.

## Capital Market

- February 2022        -      Approval was granted for the measures to further streamline the dividend payment process.
- April 2022              -      Approval was granted for the final policy framework for regulated short selling through securities borrowing and lending.
- Approval was granted for the proposed revisions to the transaction cost applicable for repurchase of corporate debt.



- |                |   |
|----------------|---|
| June 2022      | <ul style="list-style-type: none"> <li>- Approval in principle was granted for the introduction of blue bonds.</li> <li>- A Memorandum of Understanding was signed between the Securities and Exchange Commission, the Chartered Financial Analyst Institute, and the Colombo Stock Exchange for promoting awareness on Environmental, Social and Governance (ESG).</li> <li>- Approval was granted for the policy for the introduction of a central counterparty settlement mechanism.</li> <li>- Completed the third phase of the digitisation of the Sri Lankan Capital Market.</li> </ul> |
| September 2022 | <ul style="list-style-type: none"> <li>- Approval was granted for the proposed regulatory framework for issuing sukuk products.</li> </ul>  |

## Payments and Settlements

- |                  |  |
|------------------|--|
| 25 January 2022  | - NSB was provided the participant status of the LankaSettle System, after fulfilling the eligibility requirements. NSB is the first Licensed Specialised Bank (LSB) to obtain the participant status of the LankaSettle System.   |
| 08 February 2022 | - The CBSL launched the National Remittance Mobile Application, 'Lanka Remit' in February 2022, which provides Sri Lankans working abroad to send money to Sri Lanka and to pay utility bills using Electronic Fund Transfer Cards. Further, the 'Lanka Remit' app has the remittance tracking facility, and the user can access global money transfer operators linked with the local LCBs.                           |
| 28 February 2022 | - The General Directions on Sri Lanka Interbank Payment System (SLIPS), Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS), and Common Point-of-Sales (POS) Switch were revised and issued under the Payment and Settlement Systems Act No. 28 of 2005 to include LSBs to obtain Primary Membership of SLIPS, CAS, CEFTS, and Common POS Switch, after becoming a participant in the RTGS System. |
| 28 March 2022    | - People's Bank commenced a pilot project on issuing a debit card under the National Card Scheme where the debit card can also function as a transit card with the support of its Stored Value function.   |
| 20 June 2022     | - Revised the multi-tiered Liability Manager Limit structure for CAS and CEFTS in order to include NSB which obtained the participant status of the LankaSettle System and the Primary Membership of CAS and CEFTS in January 2022.  |

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

- |                 |   |
|-----------------|---|
| 10 January 2022 | - Circular No. 01 of 2022 was issued to amend the Circular No. 02 of 2021 on Guidelines for Financial Institutions on Closed-Circuit Television (CCTV) operations for AML/CFT purposes. |
| 22 March 2022   | - Circular No. 02 of 2022 was issued on further information requested on Suspicious Transaction Reports.  |
| 25 August 2022  | - Circular No. 03 of 2022 was issued on provision of efficient banking services to Sri Lanka expatriates.   |

## Foreign Exchange Management and International Operations

- 19 January 2022 - Operating instructions were issued to all licensed banks on reimbursement of the transaction cost of workers' remittances with an objective of encouraging more workers' remittances to the country through formal fund transferring channels.
  
- 21 January 2022 - "Acceptance of foreign exchange within Sri Lanka by Hotel Service Providers Rules, No. 01 of 2022", as published in the Extraordinary Gazette Notification No. 2263/41 was issued under the MLA, mandating hotel service providers registered with and licensed by the Sri Lanka Tourism Development Authority to accept payments in respect of services rendered to persons resident outside Sri Lanka only in foreign exchange.
  
- 31 January 2022 - Extension of the effective periods of "Additional Incentive Scheme on Inward Workers' Remittances" and "Incentives for General Public for Depositing, Converting, and Investing of Foreign Currency Held in Hand" schemes, until further notice, in order to improve foreign exchange inflows to the country through formal channels and to promote foreign currency notes of the country to be channelled through the formal banking system.
  
- 24 February 2022 -
  - Directions No. 01 of 2022 were issued to Authorised Dealers (ADs) permitting the debit of funds from Personal Foreign Currency Accounts (PFCAs) of Sri Lankans employed abroad (other than emigrants) to Business Foreign Currency Accounts (BFCAs) of the local educational institutions, to facilitate payment for the purpose of tuition fees in respect of immediate family members who have been enrolled as students of such educational institutions.
  
  - Directions No. 02 of 2022 were issued to ADs permitting ADs to credit funds to BFCAs from PFCAs of Sri Lankans employed abroad (other than emigrants) of the local educational institutions, to facilitate payment for the purpose of tuition fees in respect of immediate family members who have been enrolled as students of such educational institutions.
  
- 09 March 2022 - Termination of additional incentives offered by the CBSL of Rs. 8.00 per USD on the conversion of workers' remittances and Rs. 10.00 per USD on the conversion of foreign currency notes held in hand, as per the Operating Instructions issued by the CBSL on "Additional Incentive Scheme on Inward Workers' Remittances" and "Incentives for General Public for Depositing, Converting, and Investing of Foreign Currency Held in Hand" schemes with effect from 09 March 2022.
  
- 11 March 2022 - Repatriation of Export Proceeds into Sri Lanka Rules No. 1 of 2022 was issued under the MLA as published in the Gazette (Extraordinary) Notifications No. 2270/66, imposing *inter alia* following mandatory conditions on the exporters:
  - to receive export proceeds in Sri Lanka, in respect of all goods exported and/ or services provided outside Sri Lanka, within one hundred and eighty (180) days from the date of shipment or provisioning of services;
  
  - to submit all related documentary evidence on each and every receipt of export proceeds, to the licensed bank, that receives such proceeds, in Sri Lanka; and

- to convert residual of the export proceeds received in Sri Lanka into Sri Lanka Rupees, upon utilising such proceeds only in respect of the authorised payments including local supplier payments specified thereto, on or before the seventh (7th) day of the following month.
- Directions No. 03 of 2022 were issued to ADs determining 'Thai Baht' as a designated foreign currency for the purpose of the Foreign Exchange Act, No. 12 of 2017 (FEA).
- 22 March 2022
- Temporary increase of the percentage of weekly mandatory foreign exchange sales to the CBSL by licensed banks on account of converted inward workers' remittances and mandatorily converted export proceeds from 25% to 50%, from the week commencing from 21 March 2022, until the week ending on 29 July 2022, in order to further improve foreign exchange inflows to the CBSL to facilitate essential imports of the country.
- 28 March 2022
- The Regulations under FEA as published in the Gazette (Extraordinary) Notifications No. 2273/06 were issued to extend the initial period of 24 months given to open and maintain Special Deposit Accounts (SDAs) in Domestic Banking Units (DBUs) and to transfer from Inward Investment Accounts (IIAs) or accounts maintained in an Offshore Banking Unit (OBU) of the account holder by a further twelve months. Accordingly, eligible persons may open SDAs until 08 April 2023 by inward remittances to Sri Lanka or by transferring funds from IIAs or accounts maintained in the OBU of the account holder.
- 7 April 2022
- Directions No. 04 of 2022 were issued extending the period by twelve months against the initial period of twenty- four months, granted for ADs to open and maintain SDAs at DBUs and to transfer from IIAs or accounts maintained in the OBU by the account holder, out of the proceeds received as inward remittances in favour of the account holder.
- 11 April 2022
- Reduction of the temporarily increased percentage of weekly mandatory foreign exchange sales to the CBSL by licensed banks on account of converted inward workers' remittances and mandatorily converted export proceeds from 50% to 25%, effective from 11 April 2022 until further notice, considering the prevailing domestic foreign exchange market condition and foreign exchange commitments of banks.
- 12 May 2022
- Introduction of a middle rate of the USD/LKR exchange rate applicable for interbank foreign exchange market transactions, together with the permitted USD/LKR variation margin, to be announced on a daily basis to facilitate orderly behaviour of the foreign exchange market and to manage undue intraday volatility in the exchange rate.
- 03 June 2022
- Further broadening of the eligibility to open and maintain accounts for the purpose of engaging in foreign exchange transactions, a Regulation under the FEA was issued as published in the Gazette (Extraordinary) Notifications No. 2282/60 including the following persons resident in Sri Lanka who earn foreign exchange from an authorised person who is permitted to engage in business in and from the area of the authority of the Colombo Port City in accordance with the provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021 (CPCECA).
- An employee of an authorised person,
  - Any person who is engaged in business with an authorised person for the purpose of provisioning of goods or services.

- Foreign Exchange (Investment in Colombo Port City) Regulations No. 01 of 2022 published in the Gazette (Extraordinary) Notifications No. 2282/59 were issued granting permission for any person resident outside Sri Lanka or any company incorporated in Sri Lanka which is fully owned by persons resident outside Sri Lanka or joint ventures registered/incorporated in Sri Lanka (i.e., investor), to make investments in Colombo Port City out of inward remittances received from overseas being the funds to finance the investments in Colombo Port City, subject to the permission granted under the provisions of CPCECA.
- 08 June 2022
- Removal of the ceiling of the USD interest rate which was applicable to USD/LKR swap transactions by allowing market forces to determine the swap prices with an expectation to enhance the funding status of the domestic foreign exchange market and to improve the financial discipline of banks.
- 15 June 2022
- Directions No. 05 of 2022 were issued to Restricted Dealers on buying, selling, and exchanging foreign currencies in addition to the General Conditions specified in the Direction No.11 of 2020, including the following conditions additionally.
    - Suspension of offering higher exchange rates by money changers to customers, than the exchange rates offered to them by ADs with whom they maintain accounts to deposit foreign currencies,
    - Mandating money changers to take necessary measures to assure continuous and uninterrupted operations of the CCTV System, to maintain CCTV recordings for a minimum period of 30 days and to provide the same upon the request of the DFE.
- 16 June 2022
- “Acceptance of foreign exchange within Sri Lanka by Hotel Service Providers Rules, No. 01 of 2022” as published in the Gazette (Extraordinary) Notifications No. 2263/41 issued under the MLA mandating hotel service providers to accept payments in respect of services rendered to persons resident outside Sri Lanka only in foreign exchange was repealed by the Rule published in the Gazette (Extraordinary) Notifications No. 2284/40.
  - An amendment to the Order under Section 8 of the FEA as published in the Gazette (Extraordinary) Notifications No. 2284/34 was issued to implement followings:
    - Reducing the amount of foreign currency retained in possession by a person in, or resident in, Sri Lanka from USD 15,000 to USD 10,000 or its equivalent in other foreign currencies.
    - Granting an amnesty period of 14 working days effective from the date of the Order for persons in, or resident in, Sri Lanka who hold foreign currency notes in possession to deposit into a PFCA or into a BFCA, or to sell to an AD appropriately.
- 28 June 2022
- Directions No. 06 of 2022 were issued permitting ADs to open and maintain Colombo Port City Investment Account - Investor (CPCIA- Investor) for eligible persons, in order to facilitate investments in the Colombo Port City, subject to the conditions stipulated therein.

- Directions No. 07 of 2022 were issued, permitting ADs to open and maintain Colombo Port City Investment Account - Investee (CPCIA- Investee) for the authorised persons under the provisions of CPCECA.
  
- 30 June 2022
  - An Order under Section 22 of the FEA, published in the Extraordinary Gazette Notifications No. 2286/27 dated 30 June 2022 was issued to suspend/limit outward remittances with respect to selected capital transactions for six months commencing from the date of the Order.
  - Directions No. 08 of 2022 were issued to permit the credit of earnings/ payments in foreign exchange received by an account holder from a foreign currency account of an authorised person who is permitted to engage in business in and from the area of authority of the Colombo Port City in accordance with the provisions of the CPCECA to the PFCAs opened and maintained in terms of the Direction No. 04 of 2021.
  - Directions No. 09 of 2022 were issued to permit the credit of earnings/ payments in foreign exchange received by an account holder from a foreign currency account of an authorised person who is permitted to engage in business in and from the area of authority of the Colombo Port City in accordance with the provisions of the CPCECA to the BFCAs opened and maintained in terms of the Direction No. 05 of 2021.
  
- 05 July 2022
  - On the lapse of the Order under Section 8 of the FEA as published in the Gazette (Extraordinary) Notifications No. 2284/34, a New Order under the Section 8 of FEA was published in the Gazette (Extraordinary) Notifications No. 2287/16, extending the amnesty period by 14 working days, for persons in or resident in Sri Lanka who hold foreign currency notes in possession, to deposit those foreign currency notes into a PFCA or into a BFCA, or to sell to an AD appropriately.
  
- 12 August 2022
  - “Repatriation of Export Proceeds into Sri Lanka Rules” No. 2 of 2022 were issued under the MLA as published in the Gazette (Extraordinary) Notifications No. 2292/50 excluding the exporters of services from the conversion requirements stipulated in the Repatriation of Export Proceeds Rules No. 01 of 2022.
  
- 15 August 2022
  - On the lapse of the Order under Section 8 of the FEA as published in the Gazette (Extraordinary) Notifications No. 2284/34, a new Order under the Section 8 of FEA was published in the Gazette (Extraordinary) Notifications No. 2293/07, extending the amnesty period by one month, for persons in or resident in Sri Lanka who hold foreign currency notes in possession, to deposit those foreign currency notes into a PFCA or into a BFCA, or to sell to an AD appropriately.
  
- 25 August 2022
  - Instructed banks to sell 25% of the service export receipts/proceeds converted into Sri Lanka rupees to the CBSL, with effect from 12 August 2022, to effect the mandatory foreign exchange sale requirement to the CBSL on converted service export proceeds, following the Gazette Extraordinary No. 2292/50 dated 12 August 2022.
  
- 26 August 2022
  - Directions No. 10 of 2022 were issued to ADs determining ‘Indian Rupees (INR)’ as a designated foreign currency for the purpose of the FEA.
  
- 31 August 2022
  - Circular No. 02/2022 was issued by the Ministry of Labour and Foreign Employment on granting permits/licenses for the importation of fully electric vehicles by Sri Lankans employed abroad who remit foreign exchange to Sri Lanka through the banking system of the country.

- 08 September 2022 - Regulations under the FEA were issued, as published in the Gazette (Extraordinary) Notification No. 2296/12, granting permission to roll-over SDAs already opened for a maximum period of 36 months from the initial date of placing such deposits.
- 09 September 2022 - Amended the Circular No. 02/2022 issued by the Ministry of Labour and Foreign Employment on granting permits/licenses to import fully electric vehicles for Sri Lankans employed abroad, revising certain eligibility conditions as follows;
  - Removing the maximum limit of Cost, Insurance and Freight (CIF) value of the vehicle to be imported,
  - Allowing the migrant workers to transfer the vehicle to a third party prior to the expiration of two (02) year time period by paying a transfer tax of equivalent to 10% of the CIF value of the vehicle.
- 16 September 2022 - Amended the Circular No. 02/2022 issued by the Ministry of Labour and Foreign Employment on granting permits/licenses to import fully electric vehicles for Sri Lankans employed abroad, by granting permission to an agent/authorised distributor of the manufacturer who is registered in Sri Lanka to import 3 brand new fully electric vehicles in 3 different models.

## Import and Export Controls

- 12 January 2022 - Imports and Exports (Control) Regulations No. 03 of 2022 (published in the Gazette Extraordinary No. 2262/18) were issued,
  - removing the temporary suspension on long grain rice, and;
  - continuing the import restrictions on fish fillet under new HS codes.
- 09 March 2022 - Imports and Exports (Control) Regulations No. 05 of 2022 (published in the Gazette Extraordinary No. 2270/18) were issued with a list of goods, the importation of which requires an import control license.
- 09 April 2022 - Imports and Exports (Control) Regulations No. 06 of 2022 (published in the Gazette Extraordinary No. 2274/42) were issued with a list of goods, the importation of which requires an import control license.
- 06 May 2022 - Imports Control Regulations on Payment Terms No. 07 of 2022 (published in the Gazette Extraordinary No. 2278/21) were issued to impose restrictions on importation under Open Account Payment Terms and Consignment Account Terms for certain goods, amending Special Import License and Payment Regulations, No. 01 of 2011, published in the Gazette Extraordinary No. 1739/3 dated 02 January 2012.
- 31 May 2022 - Imports and Exports (Control) Regulations No. 08 of 2022 (published in the Gazette Extraordinary No. 2282/21) were issued removing the requirement of a license imposed by Imports and Exports (Control) Regulations No. 05 of 2022, published in the Gazette Extraordinary No. 2270/18 and the Imports and Exports (Control) Regulations No. 06 of 2022, published in the Gazette Extraordinary No. 2274/42.
  - Imports and Exports (Control) Regulations No. 09 of 2022 (published in the Gazette Extraordinary No. 2282/22) were issued extending the effective date of the Imports Control Regulations on Payment Terms No. 07 of 2022, published in the Gazette Extraordinary No. 2278/21.



- 24 June 2022 - Imports Control Regulations on Payment Terms No. 10 of 2022 (published in the Gazette Extraordinary No. 2285/19) were issued relaxing the restrictions issued by Imports Control Regulations on Payment Terms No. 07 of 2022 (published in the Gazette Extraordinary No. 2278/21) and permitting importation under Open Account Payment Term and Consignment Account Terms for dried fish, milk powder, potato, onion, peas, masoor dhal, chillies, rice, wheat flour, and sugar.
- 05 August 2022 - Imports and Exports (Control) Regulations No. 11 of 2022 (published in the Gazette Extraordinary No. 2291/44) were issued removing Glyphosate from the “banned” category and bringing it under a “import control license” requirement.
- 23 August 2022 - Imports and Exports (Control) Regulations No. 12 of 2022 (published in the Gazette Extraordinary No. 2294/29) were issued,
- bringing motorcycles with electric motor for propulsion and bicycles to the ‘import control license’ category from the ‘temporary suspension’ category,
  - temporarily suspending the importation of fermented beverages except Sake, Sochu and Umesu and articles for the conveyance or packing of goods of plastics except plastic crates and plastic pallets,
  - amending the type of sugar permitted to import under Open Account Payment Term and Consignment Account Term.
- Imports and Exports (Control) Regulations No. 13 of 2022 (published in the Gazette Extraordinary No. 2294/30) were issued amending the list of imports under temporary suspension.
- 09 September 2022 - Imports and Exports (Control) Regulations No. 14 of 2022 (published in the Gazette Extraordinary No. 2296/30) were issued,
- temporarily suspending/imposing an import control license on selected items,
  - removing the temporary suspension on the importation of some items and introducing terms for exemptions with the approval of relevant authorities.
- 16 September 2022 - Imports Control Regulations on Payment Terms No. 15 of 2022 (published in the Gazette Extraordinary No. 2297/79) were issued,
- allowing the importation of milk powder and masoor dhal (red lentils - whole) and also maize and soya bean meal by registered poultry feed manufacturers under open account and consignment account payment terms up to 31 October 2022,
  - allowing the importation of selected food items under open account and consignment account payment terms up to 30 September 2022.
- 23 September 2022 - Imports and Exports (Control) Regulations No. 16 of 2022 (published in the Gazette Extraordinary No. 2298/55) were issued providing for the importation of fully electric vehicles, by any eligible person/ entity, who has obtained a “Vehicle Import Permit”, as per the Circular No. 02/2022 dated 31 August 2022 of the Ministry of Labour and Foreign Employment. These Regulations will only be in force until 31 December 2023.
- 05 October 2022 - Imports Control Regulations on Payment Terms No. 17 of 2022 (published in the Gazette Extraordinary No. 2300/12) were issued extending the advance payment limit made from a Sri Lanka rupee account up to USD 250,000 or its equivalent in any other convertible foreign currency for importation of agricultural seeds, agrochemicals and chemical fertilisers.

## Debt Management

- 01 February 2022 - An incentive scheme was introduced for Arrangers including Designated Agents (DAs) who bring investments for Sri Lanka Development Bonds (SLDBs) via the Direct Window. The incentive is equivalent to the USD investment amount in SLDBs brought in, multiplied by 50 basis points (0.5%), converted to Sri Lanka rupees (LKR) as per the indicative exchange rate applicable on the settlement date of the transaction. Incentives will be disbursed through DAs to the designated LKR account.
- 12 April 2022 - The Ministry of Finance announced an interim policy on the servicing of Sri Lanka's external public debt, which will be the policy of the Government to suspend normal debt servicing of all Affected Debts as indicated in the policy statement for an interim period, pending an orderly and consensual restructuring of the obligations in a manner consistent with an economic adjustment programme supported by the International Monetary Fund (IMF).
- 29 April 2022 - SLDBs have been excluded from the "Affected Debts" under the interim policy on servicing Sri Lanka's external public debt as announced on 12 April 2022. However, an alternative mechanism for settlement of SLDBs was introduced based on constraints on availability of liquid foreign currency resources.
1. Settlement in LKR, subject to monetary policy considerations (LKR settlement date may depend on the fund availability of the General Treasury).  
  
At the introduction, extremely smaller values of SLDB maturities and interest payments were settled in foreign currency and discontinued subsequently.
  2. Extension of the maturity period of respective SLDB investments (including the interest payment) up to a minimum of six months from due payment date with original terms and conditions, i.e., interest rates applicable to each individual bid of original issuance.
  3. Facilitation of government securities (Treasury bills or Treasury bonds) auctioned at the immediate preceding primary market issuance at the weighted average yield rate or in the case of different maturities other than the maturities offered at the immediate preceding primary auction, at interpolated or extrapolated weighted average yield rates for remaining maturity.  
  
The arrangement proposed for settlement of SLDBs via government securities is now facilitated only in Treasury bonds.
- 07 June 2022 - A resolution to increase the limit on Treasury bills to Rs. 4,000 billion from the previous limit of Rs. 3,000 billion was approved by the Parliament (No. 36 Order Paper of Parliament).
- 22 June 2022 - A Phase II for Treasury bill auctions was introduced for further subscription until 3.30 pm on the day prior to the settlement date of the respective Treasury bill auction. Maximum amount offered for Phase II would be the auction shortfall plus 25% from the aggregate amount offered at the auction. The issuance is made at the Weighted Average Yield Rates determined for respective maturities at the auction. In the event of oversubscription, allocation will be made based on aggregate successful participation by auction participants at the auction.

## Price Revisions

The Maximum Retail Prices (MRPs) imposed by the Consumer Affairs Authority and the Ministry of Health on certain items were revised as follows:

| Date       | Item  | Revision   |
|------------|---|--|
| 28.01.2022 | Locally packaged/bottled drinking water   | MRPs were removed (Extraordinary Gazette Notification No. 2264/68)   |
| 28.02.2022 | Paracetamol Tablets/Capsules (500mg)  | MRP was increased to Rs. 2.30 per tablet/capsule from Rs. 1.71 per tablet/capsule (Extraordinary Gazette Notification No. 2269/11) |
| 15.03.2022 | Selected medicines including Paracetamol Tablets/Capsules (500mg)   | MRPs were increased (Extraordinary Gazette Notification No. 2271/23)   |
| 28.03.2022 | Selected medical devices including Intraocular Lenses/ Lenses with Delivery System, bare metal stent, drug eluting stent, Blood Glucose Monitoring System, Pulse Oximeter, etc. | MRPs were increased (Extraordinary Gazette Notification No. 2273/04)   |
| 29.04.2022 | Selected medicines including tablets/capsules, injections and medicines use for inhalation  | MRPs were increased (Extraordinary Gazette Notification No. 2277/55)   |
| 02.05.2022 | White/ Red Nadu - Steamed/ Boiled – Local (excluding Mottaikarupan and Attakari)  | Imposed a MRP of Rs. 220 per kg (Extraordinary Gazette Notification No. 2278/02)   |
|            | White/ Red Samba - Steamed/ Boiled – Local (excluding Suduru Samba)   | Imposed a MRP of Rs. 230 per kg (Extraordinary Gazette Notification No. 2278/02)   |
|            | Keeri Samba (local)   | Imposed a MRP of Rs. 260 per kg (Extraordinary Gazette Notification No. 2278/02)   |
| 10.06.2022 | White/Red Raw Rice (local)  | Imposed a MRP of Rs. 210 per kg (Extraordinary Gazette Notification No. 2283/43)   |
| 19.08.2022 | Egg (white)   | Imposed a MRP of Rs. 43 per egg (Extraordinary Gazette Notification No. 2293/69)   |
|            | Egg (brown/red)   | Imposed a MRP of Rs. 45 per egg (Extraordinary Gazette Notification No. 2293/69)   |
| 01.09.2022 | Selected medical devices including Intraocular Lenses/ Lenses with Delivery System, bare metal stent, drug eluting stent, Blood Glucose Monitoring System, Pulse Oximeter, etc. | MRPs were increased (Extraordinary Gazette Notification No. 2295/18)   |

## Tax Revisions

### Income Taxes

- 11 October 2022 - Inland Revenue (Amendment) Bill was gazetted to amend the Inland Revenue Act, No. 24 of 2017. Main amendments proposed in the bill include:
- revising the tax free threshold for personal income tax to Rs. 1.2 million from Rs. 3.0 million,
  - revising the tax rates range for personal income tax between 6% - 18% to 6% - 36%,
  - reducing tax slabs for personal income tax to Rs. 0.5 million from Rs. 3.0 million,
  - removing expenditure relief of Rs. 1.2 million, in calculating taxable income applicable for personal income tax,
  - mandate employers to deduct Advance Personal Income Tax (APIT) irrespective of the consent of employee,
  - increasing the standard corporate income tax rate to 30% from 24%,
  - removing all the concessionary rates in relation to corporate income tax.

### Value Added Tax (VAT)

- 31 March 2022 - Value Added Tax Act, No. 14 of 2002 was amended by the Value Added Tax (Amendment) Act, No. 13 of 2022 to increase the VAT rate from 15% to 18% on the supply of financial services on financial institutions with effect from 01 January 2022 and to exempt certain goods and services from VAT.
- 31 May 2022 - VAT rate on the supply of goods and services was increased to 12% from 8% (Extraordinary Gazette Notification No. 2282/26).
- 31 August 2022 - VAT rate on the supply of goods and services was increased to 15% from 12% with effect from 01 September 2022 (Extraordinary Gazette Notification No. 2295/08).
- 27 September 2022 - Value Added Tax (Amendment) Bill was gazetted to amend the Value Added Tax Act, No. 14 of 2002 to accommodate following:
- To bring the legal effect for the increase in VAT rate on the value of goods or services supplied, or goods imported:
    - to 12% from 8% with effect from 01 June 2022 to 31 August 2022,
    - to 15% from 12% with effect from 01 September 2022.
  - To decrease the threshold of registration for VAT to Rs. 80 million per annum from Rs. 300 million per annum with effect from 01 October 2022.
  - To remove the VAT exemption on condominium residential apartments with effect from 01 October 2022.
- 06 October 2022 - VAT rate on the importation and/or supply of sanitary towels and tampons was reduced to 0% with effect from 07 October 2022 (Extraordinary Gazette Notification No. 2300/25).

## Excise Duty

- 01 January 2022      -      Some hotels, such as 3 Stars and 4 Stars classes hotels, 5 Stars hotels and above Stars classes/ boutique hotels were exempted from payment of the authorisation fee applicable for the usage of liquor until 31 March 2022 (Extraordinary Gazette Notification No. 2260/78).
- Annual liquor license fees were exempted until 31 March 2022 for hotel license (FL/7) Tourist Board approved hotels and 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. 2260/79).
- 29 April 2022      -      Excise duty on bottled toddy manufactured in and issued from any licensed manufactory established in Sri Lanka was increased to Rs. 50 per litre from Rs. 25 per litre, provided that the duty shall not be recovered on any quantity of bottled toddy that are exported (Extraordinary Gazette Notification No. 2277/62).

## Customs Duty

- 09 March 2022      -      Customs duty on selected food items were increased (Extraordinary Gazette Notification No. 2270/20).
- 31 May 2022        -      A surcharge was imposed on the importation of selected items for a period of six months with effect from 01 June 2022 at the rates of 25%, 50%, 75%, 100%, and 200% (Extraordinary Gazette Notification No. 2282/25).

## Commodity Export Subsidy Scheme (CESS)

- 11 January 2022      -      Existing CESS duty rates were extended according to the new HS Codes created for rice, fisheries products, and accessories related to transferring liquefied petroleum gas (Extraordinary Gazette Notification No. 2262/20).
- 10 March 2022      -      CESS duty rates for textiles and garments were increased (Extraordinary Gazette Notification No. 2270/59).
- 09 August 2022      -      Importation of essential goods, to be received from any foreign states (governments), organisations including business entities, volunteer associations, and well-wishers by any government entity, government approved entities, and entities working on relief activities in direct collaboration with any government entities as aid/donations to provide relief measures or facilitate continuation of essential public services, were exempted from the CESS levy, based on the recommendation of the Secretary (Chief Accounting Officer), Ministry in charge of donation recipient government entity or government approved entity or the directly collaborating government entity with the donation and relief measures, on case by case basis (Extraordinary Gazette Notification No. 2292/32).

## Special Commodity Levy (SCL)

The following revisions to SCL on imports were carried out:

| Date       | Item   | Revision  |
|------------|--|---|
| 11.01.2022 | Rice and sugar   | The SCL imposed was extended for a period of six months (Extraordinary Gazette Notification No. 2262/15).   |
| 03.03.2022 | Maize  | SCL was decreased to Rs. 10 per kg from Rs. 25 per kg for a period of six months (Extraordinary Gazette Notification No. 2269/48).<br>The balance amount after collecting Rs. 1 per kg from the applicable SCL of Rs. 10 per kg on the importation of maize for production of 'Thripasha', by Sri Lanka Thripasha Limited was waived off for a period of six months (Extraordinary Gazette Notification No. 2269/48). |
|            | Grain sorghum (other)  | SCL of Rs. 10 per kg was imposed for a period of six months (Extraordinary Gazette Notification No. 2269/48).   |
|            | Mackerel, black gram, cowpeas, kurakkan, and millet  | Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2269/56).   |
| 09.03.2022 | Yoghurt, butter, dairy spreads, grated or powdered cheese, dates (fresh and dried), oranges (fresh), grapes (fresh and dried), and apples  | SCL was increased for a period of six months (Extraordinary Gazette Notification No. 2270/19).  |
| 28.03.2022 | Dates (fresh and dried)  | The balance amount after collecting Rs. 1 per kg from the applicable SCL of Rs. 200 per kg on the importation of dates was waived off for a period of five months (Extraordinary Gazette Notification No. 2273/01).   |
| 13.04.2022 | Fish (fresh, chilled or frozen), maldivian fish, green gram (moong), red and yellow lentils (whole and split), mangosteens, and kiwifruit  | The SCL imposed was extended for a period of six months, effective from 14 April 2022 (Extraordinary Gazette Notification No. 2275/02).   |
| 18.05.2022 | Red onions, garlic, peas (whole and split), chickpeas (whole and split), oranges (dried), lemons (fresh and dried), quinces, chillies (dried, neither crushed nor ground), chillies (crushed or ground), seeds of cumin (neither crushed nor ground), seeds of cumin (crushed and ground), seeds of fennel, ground nuts (shelled), margarine, canned fish, and face masks                      | Imposition of SCL was extended for a period of one year (Extraordinary Gazette Notification No. 2280/31).   |
| 31.05.2022 | Yogurt, butter, dairy spreads, grated or powdered cheese of all kinds, dates (fresh and dried), oranges (fresh), grapes, (fresh and dried) and apples  | SCL was increased for a period of six months with effect from 01 June 2022 (Extraordinary Gazette Notification No. 2282/23).  |
| 15.06.2022 | Potatoes, b'onions, clementines (fresh and dried), grapefruit including pomelos (fresh and dried), pears, apricots, sour cherries (prunus cerasus), cherries (other), peaches including nectarines, plums and sloes, seeds of coriander (neither crushed nor ground and crushed and ground), turmeric (neither crushed nor ground and other), rice, black gram flour, vegetable oil, and sugar | The SCL imposed was extended for a period of one year (Extraordinary Gazette Notification No. 2284/03).   |



| Date       | Item   | Revision   |
|------------|--|--|
| 09.08.2022 | Importation of essential goods to be received from any foreign state (governments), organizations including business entities, volunteer associations, and well wishers by any government entity, government approved entities, and entities working on relief activities in direct collaboration with any government entity as aid/donations to provide relief measures or facilitate continuation of essential public services | The applicable SCL is to be waived off based on the recommendation of the Secretary (Chief Accounting Officer), Ministry in charge of donation recipient government entity or government approved entity or the directly collaborating government entity with the donation and relief measures, on a case-by-case basis, for a period of one year from 10 August 2022 (Extraordinary Gazette Notification No. 2292/29).  |
| 10.08.2022 | Sprats, dried fish, mathe seed, kurakkan flour, mustard seeds and salt   | Imposition of SCL was extended for a period of one year from 12 August 2022 (Extraordinary Gazette Notification No. 2292/41).  |
|            | Salt   | The balance amount after collecting Rs. 10 per kg from the applicable SCL of Rs. 40 per kg on importation of salt by any pharmaceuticals manufacturing enterprise, registered with the National Medicines Regulatory Authority for the purpose of manufacturing pharmaceuticals, not for commercial purpose, on the recommendation of the Secretary, State Ministry in charge of subject of Production, supply and Regulation of Pharmaceuticals, was waived off for a period of one year commencing from 12 August 2022 (Extraordinary Gazette Notification No. 2292/41). |
| 03.09.2022 | Maize (other) and grain sorghum (other)  | Imposition of SCL was extended until 31 December 2022 (Extraordinary Gazette Notification No. 2295/44).  |
|            | Maize  | The balance amount after collecting Rs. 1 per kg from the applicable SCL of Rs. 10 per kg on the importation of maize for the production of 'Thripasha' by Sri Lanka Thripasha Limited was waived off for a period of six months (Extraordinary Gazette Notification No. 2295/44).   |
| 22.09.2022 | B'Onions   | SCL was increased to Rs. 50 per kg from Rs. 10 per kg for a period of three months with effect from 23 September 2022 (Extraordinary Gazette Notification No. 2298/51).  |
|            | Salt   | The balance amount after collecting Rs. 10 per kg from the applicable SCL of Rs. 40 per kg on importation of salt by any pharmaceuticals manufacturing enterprise, registered with the National Medicines Regulatory Authority for the purpose of manufacturing pharmaceuticals, not for commercial purpose, on the recommendation of the Secretary, Ministry in charge of subject of Health, was waived off until 11 August 2023 commencing from 23 September 2022 (Extraordinary Gazette Notification No. 2298/51).  |

| Date       | Item   | Revision  |
|------------|--|---|
| 13.10.2022 | Fish (fresh, chilled or frozen)  | SCL was increased to 10% or Rs. 400 per kg from 10% or Rs. 200 per kg, the amount of levy whichever is higher, for a period of one year (Extraordinary Gazette Notification No. 2301/40).   |
|            | Maldivian fish, green gram (moong), red and yellow lentils (whole and split), mangosteens, and kiwifruit | Imposition of SCL was extended for a period of one year, commencing from 14 October 2022 (Extraordinary Gazette Notification No. 2301/40).  |
|            | Mackerel, jack and horse Mackerel  | The balance amount after collecting Rs. 6 per kg from the applicable SCL of 10% of Rs. 400 per kg on the importation of Mackerel classified under the HS Code of 0303.54 and Jack and Horse mackerel classified under the HS Code of 0303.55, which are classified under the HS Heading of 03.03 for the production of canned fish by local canned fish manufacturers, on the recommendation of the Secretary, Ministry in charge of subject of Fisheries, was waived off (Extraordinary Gazette Notification No. 2301/40). |

## Ports and Airports Development Levy (PAL)

- 06 January 2022 - Medical equipment, machinery, apparatus, accessories and parts thereof, hospital furniture, drugs, or chemicals donated to a government hospital or the Ministry of Health for the provision of health services to address any pandemic or public health emergency, approved by the Minister assigned the subject of Finance, on the recommendation of the Secretary to the Ministry of the Minister assigned the subject of Health, were exempted from PAL (Extraordinary Gazette Notification No. 2261/58).
- 11 January 2022 - Exemptions and concessionary rates were granted for several items under the newly created national HS subdivisions (Extraordinary Gazette Notification No. 2262/19).
- 22 August 2022 - Importation of essential goods, to be received from any foreign state (governments), organisations including business entities, volunteer associations, and well-wishers by any government entity, government approved entities, and entities working on relief activities in direct collaboration with any government entity as aid/donations to provide relief measures or facilitate continuation of essential public services, were exempted from PAL, based on the recommendation of the Secretary (Chief Accounting Officer), of Ministry in charge of donation recipient Government entities or government approved entity or the directly collaborating government entity with the donation and relief measures, on case by case basis (Extraordinary Gazette Notification No. 2294/26).
- 05 October 2022 - Importation of raw materials or intermediate goods, classified under the HS Codes of 3920.10.20, 3920.10.90, 3926.90.99, 4811.59.10 and 5603.11.00 by domestic manufacturers of sanitary napkins, on the recommendation of the Secretary to the Ministry of the Minister in charge of the subject of Industries, subject to the approval of the Director General of Customs, was exempted from PAL with effect from 06 October 2022 (Extraordinary Gazette Notification No. 2300/13).

## Other Taxes and Levies

- |                   |   |
|-------------------|---|
| 27 March 2022     | - The Embarkation Levy was reduced by 50% to USD 30 per passenger for persons leaving Sri Lanka by aircraft from Colombo International Airport Ratmalana (CIAR) for the period from 27 March 2022 to 26 March 2023 (Extraordinary Gazette Notification No. 2272/53).  |
| 08 April 2022     | - Surcharge Tax Act, No. 14 of 2022 was enacted to impose a retrospective one-time surcharge tax of 25% on individuals, partnerships, and companies, whose taxable income is calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, and their taxable income exceeding Rs. 2 billion for the tax assessment year, commencing from 01 April 2020. |
| 29 April 2022     | - The Embarkation Levy charged for two years from the date of commencement of operations by new international airlines from Mattala Mahinda Rajapaksa International Airport (MRIA) was extended.  |
| 04 June 2022      | - The Telecommunication Levy was increased to 15% from 11.25%.  |
| 20 September 2022 | - The Social Security Contribution Levy Act, No. 25 of 2022 was enacted to impose a Social Security Contribution Levy at the rate of 2.5% on turnover, for the importers, manufacturers, service providers, wholesalers, and retailers, who have an annual turnover exceeding Rs. 120 million.  |
| Forthcoming       | - Amendments to the Inland Revenue Act, No. 24 of 2017, Value Added Tax Act, No. 14 of 2022, Telecommunication Levy Act, No. 21 of 2011, and Betting and Gaming Levy Act, No. 40 of 1988 (Press briefing of Cabinet decision taken on 30 May 2022).   |

## Government Expenditure

- |                 |   |
|-----------------|---|
| 05 January 2022 | - Salary anomalies of teachers and principals of the Sri Lanka Principals' Service, Sri Lanka Teacher Advisors' Service, and Sri Lanka Teachers' Service were removed with effect from 01 January 2022 (Public Administration Circular No. 03/2016 (IV)). |
| 06 January 2022 | - The age of compulsory retirement of public officers was extended up to 65 years (Public Administration Circular No. 02/2022).   |
| 13 January 2022 | - A monthly allowance of Rs. 5,000, which is not taken into account for the calculation of pension, was granted to public officers and pensioners with effect from 01 January 2022 (Public Administration Circular No. 03/2022).                          |
| 08 March 2022   | - Guidelines were issued to the public sector to minimise the usage of electricity and fuel (Public Administration Circular No. 04/2022).   |
| 26 April 2022   | - Guidelines were issued to the public sector to restrict unproductive/non-essential expenses (National Budget Circular No. 03/2022).   |
| 08 August 2022  | - Guidelines were issued to Commercial Corporations, Statutory Boards, and Government Owned Companies to restrict unproductive/non-essential expenses (Public Enterprises Circulars No. 04/2022).   |

- Approval has been granted by the Cabinet of Ministers to amend the Shop and Office Employees (Regulation of Employment and Remuneration) Act, No. 19 of 1954 to amend the existing restrictive legal provisions regarding the employment of women at night.
- 02 September 2022 - Guidelines were issued for the preparation of Budget 2023 while instructing all the spending agencies to strictly adhere to the expenditure rationalisation measures (National Budget Circular No. 05/2022).
- 09 September 2022 - The Appropriation (Amendment) Act, No. 21 of 2022 was approved by the Parliament primarily on the following:
  - Total expenditure was increased to Rs. 6,237 billion from Rs. 5,426 billion.
  - Gross borrowing limit was increased to Rs. 3,844 billion from Rs. 3,200 billion.<sup>2</sup>
- 14 September 2022 - Retirement age of the public officers was reduced to 60 years with effect from 01 January 2023 (Public Administration Circular No. 19/2022).
- 06 October 2022 - Retirement age of the employees of the State Owned Enterprises was reduced to 60 years (Public Enterprises Circular No. 06/2022).

<sup>2</sup> Further, the Cabinet approval has been granted on 17 October 2022 to raise the borrowing limit for 2022 by another Rs. 663 billion, which will raise the limit to Rs. 4,507 billion.

The image features a solid teal background. A large, white, curved shape, resembling a thick arc or a stylized 'C', starts from the left edge and curves upwards and to the right, ending near the top right corner. This shape frames the text.

## *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  | 2019              | 2020<br>(b)       | 2021<br>(b)       | 2022<br>First Half<br>(b) | % Change       |                |                              |
|--|-------------------|-------------------|-------------------|---------------------------|----------------|----------------|------------------------------|
|  |                   |                   |                   |                           | 2019/20<br>(b) | 2020/21<br>(b) | 2021/22<br>First Half<br>(b) |
| <b>Agriculture, Forestry and Fishing</b>   | <b>1,154,540</b>  | <b>1,290,688</b>  | <b>1,539,521</b>  | <b>982,919</b>            | <b>11.8</b>    | <b>19.3</b>    | <b>33.5</b>                  |
| 1. Growing of cereals (except rice)  | 18,186            | 35,108            | 49,132            | 24,827                    | 93.1           | 39.9           | -5.4                         |
| 2. Growing of rice   | 132,031           | 179,453           | 229,093           | 158,523                   | 35.9           | 27.7           | 43.6                         |
| 3. Growing of vegetables   | 118,117           | 147,502           | 171,774           | 114,734                   | 24.9           | 16.5           | 48.4                         |
| 4. Growing of sugar cane, tobacco and other non-perennial crops  | 3,930             | 5,263             | 4,953             | 2,753                     | 33.9           | -5.9           | 13.5                         |
| 5. Growing of fruits   | 118,920           | 126,588           | 119,825           | 65,349                    | 6.4            | -5.3           | 18.8                         |
| 6. Growing of oleaginous fruits (coconut, king coconut, oil palm)  | 90,050            | 117,443           | 176,646           | 102,835                   | 30.4           | 50.4           | 15.7                         |
| 7. Growing of tea (green leaves)   | 103,060           | 111,739           | 116,932           | 88,457                    | 8.4            | 4.6            | 38.0                         |
| 8. Growing of coffee, cocoa & other beverage crops   | 2,121             | 3,808             | 4,580             | 2,424                     | 79.5           | 20.3           | 14.7                         |
| 9. Growing of spices, aromatic, drug and pharmaceutical crops  | 87,816            | 98,436            | 131,809           | 88,006                    | 12.1           | 33.9           | 35.0                         |
| 10. Growing of rubber  | 24,914            | 29,363            | 49,239            | 34,274                    | 17.9           | 67.7           | 35.4                         |
| 11. Growing of other perennial crops (except rubber)   | 35,404            | 41,000            | 38,417            | 24,763                    | 15.8           | -6.3           | 46.2                         |
| 12. Animal production  | 132,978           | 138,275           | 175,287           | 113,729                   | 4.0            | 26.8           | 44.7                         |
| 13. Plant propagation  | 868               | 779               | 1,037             | 421                       | -10.2          | 33.1           | 15.6                         |
| 14. Agricultural supporting activities   | 26,139            | 27,197            | 29,360            | 15,332                    | 4.0            | 8.0            | 3.2                          |
| 15. Forestry and logging   | 55,415            | 56,127            | 53,429            | 23,872                    | 1.3            | -4.8           | -6.7                         |
| 16. Marine fishing and Marine aquaculture  | 176,421           | 140,588           | 154,681           | 103,843                   | -20.3          | 10.0           | 53.3                         |
| 17. Fresh water fishing and fresh water aquaculture  | 28,170            | 32,018            | 33,327            | 18,777                    | 13.7           | 4.1            | 25.5                         |
| <b>Industries</b>  | <b>4,644,574</b>  | <b>4,418,896</b>  | <b>5,268,820</b>  | <b>3,387,239</b>          | <b>-4.9</b>    | <b>19.2</b>    | <b>34.1</b>                  |
| 18. Mining and quarrying   | 366,638           | 317,949           | 354,250           | 227,688                   | -13.3          | 11.4           | 34.1                         |
| 19. Manufacture of food, beverages & tobacco products  | 905,062           | 951,961           | 1,097,573         | 737,689                   | 5.2            | 15.3           | 41.2                         |
| 20. Manufacture of textiles, wearing apparel, leather and other related products   | 740,054           | 697,055           | 953,274           | 682,826                   | -5.8           | 36.8           | 43.9                         |
| 21. Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting material | 30,340            | 28,253            | 28,785            | 14,349                    | -6.9           | 1.9            | 8.6                          |
| 22. Manufacture of paper & paper products, printing and reproduction of media products   | 79,846            | 76,555            | 84,358            | 52,032                    | -4.1           | 10.2           | 14.6                         |
| 23. Manufacture of coke and refined petroleum products   | 78,430            | 61,084            | 62,754            | 10,403                    | -22.1          | 2.7            | -70.4                        |
| 24. Manufacture of chemicals and chemical products, basic pharmaceutical products and pharmaceutical preparations                  | 116,243           | 115,622           | 149,555           | 118,067                   | -0.5           | 29.3           | 74.2                         |
| 25. Manufacture of rubber and plastic products   | 112,302           | 105,789           | 146,604           | 74,600                    | -5.8           | 38.6           | 20.9                         |
| 26. Manufacture of other non-metallic mineral products   | 168,971           | 158,007           | 200,825           | 137,050                   | -6.5           | 27.1           | 44.7                         |
| 27. Manufacture of basic metals and fabricated metal products (except machinery and equipment)                                     | 87,436            | 84,430            | 113,642           | 53,739                    | -3.4           | 34.6           | 8.2                          |
| 28. Manufacture of machinery and equipment i.e..   | 78,271            | 87,190            | 109,379           | 45,657                    | 11.4           | 25.4           | 3.8                          |
| 29. Manufacture of furniture   | 74,223            | 75,188            | 81,599            | 44,250                    | 1.3            | 8.5            | -2.8                         |
| 30. Other manufacturing and repair and installation of machinery and equipment   | 100,163           | 107,009           | 135,927           | 91,266                    | 6.8            | 27.0           | 29.4                         |
| 31. Electricity, gas, steam and air conditioning supply  | 99,421            | 127,609           | 143,088           | 67,689                    | 28.4           | 12.1           | -2.2                         |
| 32. Water collection, treatment and supply   | 15,818            | 16,386            | 11,166            | 5,763                     | 3.6            | -31.9          | 3.5                          |
| 33. Sewerage, waste collection, treatment and disposal activities; materials recovery  | 29,078            | 27,886            | 26,900            | 13,230                    | -4.1           | -3.5           | 0.0                          |
| 34. Construction   | 1,562,278         | 1,380,923         | 1,569,141         | 1,010,942                 | -11.6          | 13.6           | 36.0                         |
| <b>Services</b>  | <b>8,869,710</b>  | <b>9,048,368</b>  | <b>9,746,645</b>  | <b>5,641,372</b>          | <b>2.0</b>     | <b>7.7</b>     | <b>20.0</b>                  |
| 35. Wholesale and retail trade   | 1,941,394         | 2,081,177         | 2,255,860         | 1,460,411                 | 7.2            | 8.4            | 34.4                         |
| 36. Transportation of goods and passengers (land, water and air) & warehousing activities  | 1,662,077         | 1,551,372         | 1,608,508         | 945,904                   | -6.7           | 3.7            | 20.1                         |
| 37. Postal and courier activities  | 18,558            | 19,746            | 21,385            | 10,924                    | 6.4            | 8.3            | 8.7                          |
| 38. Accommodation, food and beverage service activities  | 246,728           | 149,678           | 164,217           | 146,030                   | -39.3          | 9.7            | 84.5                         |
| 39. Programming and broadcasting activities and audio video productions  | 38,972            | 38,477            | 40,417            | 20,992                    | -1.3           | 5.0            | -8.5                         |
| 40. Telecommunication  | 97,850            | 108,286           | 123,857           | 47,376                    | 10.7           | 14.4           | -32.2                        |
| 41. Computer programming consultancy and related activities, information service activities  | 212,369           | 239,218           | 309,878           | 190,653                   | 12.6           | 29.5           | 26.9                         |
| 42. Financial service activities, except insurance and pension funding and auxiliary financial services                            | 599,130           | 722,084           | 880,342           | 398,546                   | 20.5           | 21.9           | -12.8                        |
| 43. Insurance, reinsurance and pension funding except compulsory social security   | 141,381           | 167,793           | 181,279           | 121,532                   | 18.7           | 8.0            | 29.4                         |
| 44. Real estate activities, including ownership of dwelling  | 737,948           | 741,750           | 800,839           | 455,163                   | 0.5            | 8.0            | 20.7                         |
| 45. Professional services  | 365,255           | 352,460           | 382,833           | 181,684                   | -3.5           | 8.6            | 10.5                         |
| 46. Public administration and defense; compulsory social security  | 835,910           | 903,348           | 948,050           | 511,712                   | 8.1            | 4.9            | 10.4                         |
| 47. Education  | 358,734           | 381,342           | 390,176           | 223,937                   | 6.3            | 2.3            | 16.8                         |
| 48. Human health activities and residential care activities, social work activities  | 335,800           | 381,273           | 432,015           | 273,322                   | 13.5           | 13.3           | 32.6                         |
| 49. Other personal service activities  | 1,277,604         | 1,210,362         | 1,206,988         | 653,187                   | -5.3           | -0.3           | 20.6                         |
| <b>Equals Gross Value Added (GVA), at Basic Price</b>  | <b>14,668,824</b> | <b>14,757,952</b> | <b>16,554,986</b> | <b>10,011,530</b>         | <b>0.6</b>     | <b>12.2</b>    | <b>25.7</b>                  |
| (+) Taxes less subsidies on products   | 1,242,152         | 1,082,212         | 1,130,868         | 731,650                   | -12.9          | 4.5            | 14.0                         |
| <b>Equals Gross Domestic Product (GDP), at Market Price</b>  | <b>15,910,976</b> | <b>15,840,164</b> | <b>17,685,854</b> | <b>10,743,180</b>         | <b>-0.4</b>    | <b>11.7</b>    | <b>24.8</b>                  |

(a) The data are based on the base year 2015 GDP estimates

Source: Department of Census and Statistics

(b) Provisional

**TABLE 2**
**Gross Domestic Product by Industrial Origin at Constant (2015) Prices (a)**

Rs. mn

| ECONOMIC ACTIVITY  | 2019              | 2020<br>(b)       | 2021<br>(b)       | 2022<br>First Half<br>(b) | % Change       |                |                              |
|--|-------------------|-------------------|-------------------|---------------------------|----------------|----------------|------------------------------|
|  |                   |                   |                   |                           | 2019/20<br>(b) | 2020/21<br>(b) | 2021/22<br>First Half<br>(b) |
| <b>Agriculture, Forestry and Fishing</b>   | <b>949,582</b>    | <b>936,020</b>    | <b>959,434</b>    | <b>437,937</b>            | <b>-1.4</b>    | <b>2.5</b>     | <b>-7.6</b>                  |
| 1. Growing of cereals (except rice)  | 13,355            | 21,342            | 23,138            | 9,681                     | 59.8           | 8.4            | -19.7                        |
| 2. Growing of rice   | 112,919           | 121,663           | 115,242           | 44,539                    | 7.7            | -5.3           | -24.0                        |
| 3. Growing of vegetables   | 102,037           | 111,088           | 109,180           | 47,809                    | 8.9            | -1.7           | -11.1                        |
| 4. Growing of sugar cane, tobacco and other non-perennial crops  | 3,275             | 4,021             | 3,728             | 1,844                     | 22.8           | -7.3           | -1.6                         |
| 5. Growing of fruits   | 77,200            | 81,823            | 75,485            | 34,140                    | 6.0            | -7.7           | -6.1                         |
| 6. Growing of oleaginous fruits (coconut, king coconut, oil palm)  | 102,800           | 92,066            | 102,202           | 55,586                    | -10.4          | 11.0           | 13.5                         |
| 7. Growing of tea (green leaves)   | 72,733            | 67,971            | 73,743            | 32,793                    | -6.5           | 8.5            | -17.5                        |
| 8. Growing of coffee, cocoa & other beverage crops   | 1,302             | 1,613             | 1,457             | 765                       | 23.9           | -9.7           | 6.5                          |
| 9. Growing of spices, aromatic, drug and pharmaceutical crops  | 90,880            | 93,776            | 97,956            | 46,938                    | 3.2            | 4.5            | 2.6                          |
| 10. Growing of rubber  | 24,029            | 24,081            | 25,570            | 12,065                    | 0.2            | 6.2            | -13.4                        |
| 11. Growing of other perennial crops (except rubber)   | 28,751            | 29,900            | 26,809            | 13,497                    | 4.0            | -10.3          | 0.3                          |
| 12. Animal production  | 90,284            | 86,907            | 98,339            | 44,570                    | -3.7           | 13.2           | -6.5                         |
| 13. Plant propagation  | 772               | 625               | 792               | 362                       | -19.0          | 26.6           | 18.8                         |
| 14. Agricultural supporting activities   | 22,969            | 21,313            | 26,303            | 10,674                    | -7.2           | 23.4           | -19.5                        |
| 15. Forestry and Logging   | 43,133            | 42,361            | 41,924            | 19,515                    | -1.8           | -1.0           | -3.5                         |
| 16. Marine fishing and marine aquaculture  | 141,700           | 111,307           | 112,825           | 51,752                    | -21.4          | 1.4            | -7.5                         |
| 17. Fresh water fishing and fresh water aquaculture  | 21,444            | 24,166            | 24,742            | 11,406                    | 12.7           | 2.4            | 1.4                          |
| <b>Industries</b>  | <b>3,933,728</b>  | <b>3,724,314</b>  | <b>3,933,782</b>  | <b>1,835,491</b>          | <b>-5.3</b>    | <b>5.6</b>     | <b>-7.1</b>                  |
| 18. Mining and quarrying   | 318,658           | 284,079           | 288,061           | 125,075                   | -10.9          | 1.4            | -13.1                        |
| 19. Manufacture of food, beverages & tobacco products  | 929,371           | 980,863           | 1,015,085         | 453,628                   | 5.5            | 3.5            | -9.9                         |
| 20. Manufacture of textiles, wearing apparel, leather and other related products   | 469,028           | 416,312           | 475,377           | 266,632                   | -11.2          | 14.2           | 9.1                          |
| 21. Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting material | 36,321            | 32,831            | 35,580            | 14,726                    | -9.6           | 8.4            | -12.0                        |
| 22. Manufacture of paper & paper products, printing and reproduction of media products   | 54,064            | 51,896            | 56,812            | 30,003                    | -4.0           | 9.5            | -4.2                         |
| 23. Manufacture of coke and refined petroleum products   | 24,630            | 22,108            | 15,492            | 3,450                     | -10.2          | -29.9          | -56.6                        |
| 24. Manufacture of chemicals and chemical products, basic pharmaceutical products and pharmaceutical preparations                  | 90,144            | 92,157            | 95,794            | 43,488                    | 2.2            | 3.9            | -11.1                        |
| 25. Manufacture of rubber and plastic products   | 98,429            | 81,182            | 97,439            | 37,307                    | -17.5          | 20.0           | -14.1                        |
| 26. Manufacture of other non-metallic mineral products   | 107,062           | 102,685           | 119,988           | 50,690                    | -4.1           | 16.9           | -15.0                        |
| 27. Manufacture of basic metals and fabricated metal products (except machinery and equipment)                                     | 80,312            | 77,859            | 81,174            | 32,482                    | -3.1           | 4.3            | -16.9                        |
| 28. Manufacture of machinery and equipment i.e..   | 66,114            | 65,187            | 73,090            | 27,640                    | -1.4           | 12.1           | -2.8                         |
| 29. Manufacture of furniture   | 95,470            | 81,651            | 82,696            | 44,751                    | -14.5          | 1.3            | -6.7                         |
| 30. Other manufacturing and repair and installation of machinery and equipment   | 96,432            | 87,586            | 101,050           | 48,028                    | -9.2           | 15.4           | -6.4                         |
| 31. Electricity, gas, steam and air conditioning supply  | 184,041           | 180,176           | 187,763           | 92,870                    | -2.1           | 4.2            | 2.5                          |
| 32. Water collection, treatment and supply   | 14,701            | 15,431            | 11,332            | 6,368                     | 5.0            | -26.6          | 9.6                          |
| 33. Sewerage, waste collection, treatment and disposal activities; materials recovery  | 29,253            | 28,960            | 27,992            | 12,794                    | -1.0           | -3.3           | -1.1                         |
| 34. Construction   | 1,239,700         | 1,123,351         | 1,169,059         | 545,559                   | -9.4           | 4.1            | -8.9                         |
| <b>Services</b>  | <b>7,307,036</b>  | <b>7,165,986</b>  | <b>7,405,262</b>  | <b>3,559,173</b>          | <b>-1.9</b>    | <b>3.3</b>     | <b>-0.6</b>                  |
| 35. Wholesale and retail trade   | 1,636,752         | 1,650,889         | 1,678,813         | 847,013                   | 0.9            | 1.7            | 1.3                          |
| 36. Transportation of goods and passengers (land, water and air) & warehousing activities  | 1,398,230         | 1,313,312         | 1,324,646         | 656,318                   | -6.1           | 0.9            | -0.9                         |
| 37. Postal and courier activities  | 17,099            | 17,620            | 18,714            | 9,614                     | 3.0            | 6.2            | 7.4                          |
| 38. Accommodation, food and beverage service activities  | 216,976           | 128,556           | 130,474           | 84,955                    | -40.8          | 1.5            | 28.4                         |
| 39. Programming and broadcasting activities and audio video productions  | 42,752            | 43,841            | 42,161            | 21,579                    | 2.5            | -3.8           | -8.6                         |
| 40. Telecommunication  | 103,325           | 118,845           | 138,238           | 73,952                    | 15.0           | 16.3           | 8.3                          |
| 41. Computer programming consultancy and related activities, information service activities  | 175,634           | 194,893           | 243,971           | 124,751                   | 11.0           | 25.2           | 3.7                          |
| 42. Financial service activities, except insurance and pension funding and auxiliary financial services                            | 510,367           | 557,357           | 597,267           | 258,452                   | 9.2            | 7.2            | -12.0                        |
| 43. Insurance, reinsurance and pension funding except compulsory social security   | 120,550           | 117,075           | 125,326           | 51,739                    | -2.9           | 7.0            | -10.5                        |
| 44. Real estate activities, including ownership of dwelling  | 610,231           | 604,259           | 630,619           | 300,914                   | -1.0           | 4.4            | -0.5                         |
| 45. Professional services  | 297,462           | 287,781           | 301,890           | 118,616                   | -3.3           | 4.9            | -7.5                         |
| 46. Public administration and defense; compulsory social security  | 605,938           | 616,176           | 626,013           | 299,444                   | 1.7            | 1.6            | 2.9                          |
| 47. Education  | 283,605           | 284,751           | 290,487           | 153,772                   | 0.4            | 2.0            | 2.9                          |
| 48. Human health activities and residential care activities, social work activities  | 235,136           | 246,735           | 260,499           | 109,246                   | 4.9            | 5.6            | -4.3                         |
| 49. Other personal service activities  | 1,052,980         | 983,900           | 996,144           | 448,808                   | -6.6           | 1.2            | -2.0                         |
| <b>Equals Gross Value Added (GVA), at Basic Price</b>  | <b>12,190,346</b> | <b>11,826,320</b> | <b>12,298,479</b> | <b>5,832,601</b>          | <b>-3.0</b>    | <b>4.0</b>     | <b>-3.3</b>                  |
| (+) Taxes less subsidies on products   | 1,015,930         | 921,395           | 873,323           | 412,614                   | -9.3           | -5.2           | -22.0                        |
| <b>Equals Gross Domestic Product (GDP), at Market Price</b>  | <b>13,206,276</b> | <b>12,747,715</b> | <b>13,171,802</b> | <b>6,245,215</b>          | <b>-3.5</b>    | <b>3.3</b>     | <b>-4.8</b>                  |

(a) The data are based on the base year 2015 GDP estimates

Source: Department of Census and Statistics

(b) Provisional

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

| CATEGORY                              | Unit          | 2018   | 2019   | 2020 (a) | 2021 (b) | First Half |          |
|---------------------------------------|---------------|--------|--------|----------|----------|------------|----------|
|                                       |               |        |        |          |          | 2021 (b)   | 2022 (b) |
| <b>1. Tea</b>                         |               |        |        |          |          |            |          |
| 1.1 Production                        | kg mn         | 304    | 300    | 279      | 299      | 162        | 133      |
| 1.2 Extent (c)                        | hectares '000 | 200    | 200    | 266      | 267      | 267        | 267      |
| 1.3 Average Price                     |               |        |        |          |          |            |          |
| Colombo Auction                       | Rs./kg        | 581.58 | 546.67 | 633.85   | 619.15   | 629.70     | 1,041.34 |
| Export (F.O.B.)                       | Rs./kg        | 820.75 | 822.25 | 866.70   | 920.76   | 933.18     | 1,310.74 |
| <b>2. Rubber</b>                      |               |        |        |          |          |            |          |
| 2.1 Production                        | kg mn         | 83     | 75     | 78       | 77       | 44         | 37       |
| 2.2 Extent                            | hectares '000 | 137    | 138    | 138      | 139      | -          | -        |
| 2.3 Average Price                     |               |        |        |          |          |            |          |
| Colombo Auction (RSS 1)               | Rs./kg        | 281.36 | 288.51 | 351.46   | 460.78   | 446.31     | 607.60   |
| Export (F.O.B.)                       | Rs./kg        | 363.93 | 332.29 | 353.84   | 540.77   | 495.09     | 719.72   |
| <b>3. Coconut</b>                     |               |        |        |          |          |            |          |
| 3.1 Production                        | nuts mn       | 2,623  | 3,086  | 2,792    | 3,120    | 1,491      | 1,706    |
| 3.2 Extent                            | hectares '000 | 499    | 503    | 505      | 505      | 504        | 505      |
| 3.3 Average Export Price (F.O.B.) (d) | Rs./nut       | 68.29  | 37.47  | 52.61    | 65.36    | 65.86      | 83.87    |
| <b>4. Paddy (e)</b>                   |               |        |        |          |          |            |          |
| 4.1 Production                        | mt '000       | 3,930  | 4,592  | 5,121    | 5,150    | 3,061      | 1,931    |
| Maha                                  | mt '000       | 2,397  | 3,073  | 3,197    | 3,061    | 3,061      | 1,931    |
| Yala                                  | mt '000       | 1,533  | 1,519  | 1,924    | 2,088    | -          | -        |
| 4.2 Area                              |               |        |        |          |          |            |          |
| Sown                                  | hectares '000 | 1,041  | 1,117  | 1,208    | 1,272    | 770        | 776      |
| Harvested                             | hectares '000 | 885    | 958    | 1,066    | 1,127    | 682        | 685      |
| 4.3 Fertiliser Issued (f)(g)          | mt '000       | 111    | 299    | 402      | 165      | 251        | 16       |
| 4.4 Yield Per Hectare (h)             | kg/hectare    | 4,443  | 4,795  | 4,802    | 4,571    | 4,492      | 2,819    |

(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. 8,002 million was disbursed for the 2017/18 Maha season. Cash grant system was eliminated w.e.f. the 2018 Yala season. Hence the figure for 2018 is only for the 2018 Yala season

(g) Data on inorganic fertiliser issued is from the National Fertiliser Secretariat

(h) Yield per hectare is calculated by dividing total production by the 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  
Colombo Tea Brokers' Association  
The Ceylon Chamber of Commerce  
Sri Lanka Customs  
Central Bank of Sri Lanka

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

USD mn

| SECTOR  | 2018           | 2019           | 2020         | 2021 (b)     | First Half   |              |
|---|----------------|----------------|--------------|--------------|--------------|--------------|
|   |                |                |              |              | 2021 (b)     | 2022 (b)     |
| <b>Manufacturing</b>                                    |                |                |              |              |              |              |
| Food, Beverages and Tobacco Products                    | 22.3           | 26.1           | 6.6          | 8.7          | 5.3          | 0.9          |
| Textile, Wearing Apparel and Leather Products           | 90.6           | 104.9          | 78.1         | 101.6        | 49.1         | 35.2         |
| Wood and Wood Products                                  | 4.9            | 7.2            | 9.0          | 9.5          | 8.2          | 2.0          |
| Paper, Paper Products, Printing and Publishing          | 9.0            | 1.3            | 1.2          | 1.1          | 0.6          | 0.2          |
| Chemicals, Petroleum, Coal, Rubber and Plastic Products | 97.3           | 108.4          | 61.2         | 68.4         | 24.8         | 80.9         |
| Non-metallic Mineral Products                           | 21.0           | 7.5            | 2.6          | 4.6          | 2.6          | 0.3          |
| Fabricated Metal, Machinery and Transport Equipment     | 7.8            | 9.5            | 3.4          | 6.5          | 2.3          | 1.9          |
| Manufactured Products (n.e.s)                           | 38.6           | 54.6           | 29.7         | 22.7         | 9.7          | 9.2          |
| <b>Agriculture</b>                                      | 0.5            | 1.3            | 0.8          | 0.5          | 0.1          | 0.1          |
| <b>Services</b>   |                |                |              |              |              |              |
| Hotels and Restaurants                                  | 223.4          | 153.9          | 66.0         | 69.8         | 40.8         | 27.4         |
| Information Technology and Business Process Outsourcing | 58.7           | 40.0           | 26.4         | 43.9         | 15.9         | 2.7          |
| Other Services  | 19.2           | 30.3           | 18.6         | 9.4          | 3.2          | 1.3          |
| <b>Infrastructure</b>                                   |                |                |              |              |              |              |
| Housing, Property Development and Shop Office           | 397.8          | 455.3          | 256.1        | 201.5        | 108.5        | 134.1        |
| Telephone and Telecommunication Network                 | 522.2          | 138.1          | 117.6        | 223.2        | 114.5        | 203.5        |
| Power Generation, Fuel, Gas, Petroleum and Other        | 3.7            | 3.1            | 1.5          | 1.4          | 0.4          | 0.3          |
| Port Container Terminals                                | 850.0          | 47.2           | 8.2          | 7.4          | 3.1          | 22.7         |
| <b>Total</b>  | <b>2,366.9</b> | <b>1,188.7</b> | <b>687.0</b> | <b>780.2</b> | <b>389.0</b> | <b>522.9</b> |

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

Source: Board of Investment of Sri Lanka

(b) Provisional

TABLE 5

## Developments in Economic Infrastructure

| SECTOR  | 2018       | 2019       | 2020 (a)   | 2021 (b)   | 2021 (b)<br>For the Period | 2022 (b)<br>For the Period |
|---|------------|------------|------------|------------|----------------------------|----------------------------|
| <b>1. Electricity</b>                           |            |            |            |            | <b>Jan-Aug</b>             | <b>Jan-Aug</b>             |
| Installed Capacity (MW - End Period)            | 4,046      | 4,217      | 4,265      | 4,187      | 4,199                      | 4,354                      |
| Total Power Generation (GWh)(c)                 | 15,374(a)  | 15,922     | 15,714     | 16,716     | 11,107                     | 10,744                     |
| Share of Hydropower in Total Generation (%) (d) | 33         | 24         | 25         | 34         | 29                         | 29                         |
| <b>2. Transport</b>                             |            |            |            |            | <b>Jan-Jun</b>             | <b>Jan-Jun</b>             |
| <b>2.1 Sri Lanka Transport Board</b>            |            |            |            |            |                            |                            |
| Operated Kilometrage (mn)                       | 446        | 431        | 309        | 248        | 136                        | 174                        |
| Passenger Kilometrage (mn)                      | 15,541     | 14,346(a)  | 8,623      | 6,175      | 3,393                      | 6,322                      |
| Average No. of Operated Buses                   | 5,227      | 5,011      | 3,971      | 3,706      | 1,353                      | 3,966                      |
| Total Revenue (Rs. mn)                          | 44,103     | 43,490     | 31,233     | 26,948     | 14,119                     | 24,822                     |
| Operating Expenditure (Rs. mn)                  | 41,935     | 41,933     | 33,437     | 30,386     | 15,737                     | 26,791                     |
| Operating Profit/(Loss) (Rs. mn)                | 2,168      | 1,557      | (2,204)    | (3,438)    | (1,619)                    | (1,968)                    |
| <b>2.2 Sri Lanka Railways</b>                   |            |            |            |            |                            |                            |
| Operated Kilometrage ('000)                     | 11,640     | 11,230(a)  | 7,990      | -          | 4,202                      | -                          |
| Passenger Kilometrage (mn)                      | 7,710      | 7,310      | 3,906      | -          | 1,211                      | 2,887                      |
| Freight Tonne Kilometrage (mn)                  | 120        | 116        | 114        | -          | 78                         | 73                         |
| Total Revenue (Rs. mn)                          | 7,413      | 7,901      | 4,567      | 2,679      | -                          | -                          |
| Operating Expenditure (Rs. mn)                  | 14,381     | 15,464     | 14,618     | 12,979     | -                          | -                          |
| Operating Profit/(Loss) (Rs. mn)                | (6,968)    | (7,562)    | (10,051)   | (10,300)   | -                          | -                          |
| <b>2.3 New Registration of Motor Vehicles</b>   |            |            |            |            | <b>Jan-Sep</b>             | <b>Jan-Sep</b>             |
| Buses   | 2,957      | 1,613      | 578        | 281        | 237                        | 270                        |
| Motor Cars                                      | 80,776     | 38,232     | 21,021     | 3,495      | 2,905                      | 1,141                      |
| Three Wheelers                                  | 20,063     | 15,490     | 7,150      | 2,093      | 2,080                      | 32                         |
| Dual Purpose Vehicles                           | 16,931     | 13,459     | 9,532      | 771        | 594                        | 676                        |
| Motor Cycles                                    | 339,763    | 284,301    | 151,634    | 8,011      | 6,031                      | 7,067                      |
| Goods Transport Vehicles                        | 9,371      | 5,223      | 3,941      | 4,432      | 3,241                      | 1,663                      |
| Land Vehicles                                   | 10,282     | 7,666      | 8,302      | 14,764     | 10,415                     | 5,841                      |
| Quadricycles and Motorhomes                     | 656        | 1,319      | 470        | 3          | 2                          | -                          |
| Total Vehicles Registered                       | 480,799    | 367,303    | 202,628    | 33,850     | 25,505                     | 16,690                     |
| <b>3. Port Services</b>                         |            |            |            |            | <b>Jan-Sep</b>             | <b>Jan-Sep</b>             |
| Ships Arrived at Ports of Sri Lanka (e)         | 4,874      | 4,697(a)   | 4,337      | 4,180      | 3,143                      | 2,964                      |
| Cargo Handling (mt '000) (e)                    | 104,934    | 106,979    | 102,908    | 109,369    | 82,235                     | 78,411                     |
| Container Handling (TEUs '000) (f)              | 7,047      | 7,228      | 6,855      | 7,249      | 5,370                      | 5,235                      |
| Transshipments (TEUs '000) (f)(g)               | 5,704      | 5,955      | 5,765      | 6,050      | 4,475                      | 4,439                      |
| <b>4. Telecommunication Services</b>            |            |            |            |            | <b>End June</b>            | <b>End June</b>            |
| Fixed Lines (No.)                               | 2,484,616  | 2,299,767  | 2,613,140  | 2,851,589  | 2,870,036                  | 3,030,685                  |
| Mobile Phones (No.)                             | 32,528,104 | 32,884,099 | 28,739,277 | 29,958,852 | 29,048,708                 | 29,560,988                 |
| Internet Connections (No.)                      | 10,562,675 | 13,408,403 | 17,524,048 | 22,235,833 | 20,628,897                 | 22,516,350                 |
| Fixed Line Penetration (h)                      | 11         | 11         | 12         | 13         | 13                         | 14                         |
| Mobile Phone Penetration (h)                    | 150        | 151        | 131        | 135        | 131                        | 133                        |

(TEUs=Twenty-foot Equivalent Container Units)

(a) Revised

(b) Provisional

(c) Includes rooftop solar power

(d) Excludes mini hydropower

(e) Includes data only from ports of Colombo, Galle, Hambantota and Trincomalee

(f) Includes data only from port of Colombo

(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 |
| 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   | 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       |
|        | October   | 150.6 | 150.6     | 8.3              | 7.2       | 5.7                       | 4.6       |
|        | November  | 155.3 | 153.0     | 11.1             | 8.8       | 6.2                       | 5.0       |
|        | December  | 161.0 | 155.7     | 14.0             | 10.8      | 7.0                       | 5.5       |
| 2022   | January   | 166.0 | 159.2     | 16.8             | 12.9      | 8.1                       | 6.2       |
|        | February  | 167.8 | 161.2     | 17.5             | 14.1      | 9.3                       | 7.1       |
|        | March     | 172.7 | 166.3     | 21.5             | 17.3      | 10.6                      | 8.2       |
|        | April     | 190.3 | 182.3     | 33.8             | 27.9      | 13.0                      | 10.2      |
|        | May       | 208.7 | 197.9     | 45.3             | 37.7      | 16.3                      | 13.0      |
|        | June      | 231.5 | 215.9     | 58.9             | 49.3      | 20.8                      | 16.8      |
|        | July      | 244.4 | 229.0     | 66.7             | 57.3      | 25.9                      | 21.3      |
|        | August    | 250.4 | 235.1     | 70.2             | 60.5      | 31.3                      | 26.0      |
|        | September | 256.2 | 241.5     | 73.7             | 64.1      | 36.9                      | 31.0      |

NCPI - National Consumer Price Index

Core NCPI - Core National Consumer Price Index

Source: Department of Census and Statistics

**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 |
| 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   | 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       |
|        | October   | 146.9 | 147.9     | 7.6              | 6.3       | 4.8                       | 3.6       |
|        | November  | 150.7 | 149.4     | 9.9              | 7.0       | 5.3                       | 4.0       |
|        | December  | 154.7 | 151.3     | 12.1             | 8.3       | 6.0                       | 4.4       |
| 2022   | January   | 158.4 | 154.1     | 14.2             | 9.9       | 6.9                       | 5.0       |
|        | February  | 160.1 | 155.7     | 15.1             | 10.9      | 7.9                       | 5.7       |
|        | March     | 164.9 | 159.4     | 18.7             | 13.0      | 9.1                       | 6.5       |
|        | April     | 180.2 | 172.4     | 29.8             | 22.0      | 11.3                      | 8.1       |
|        | May       | 195.2 | 182.9     | 39.1             | 28.4      | 14.2                      | 10.2      |
|        | June      | 220.2 | 200.2     | 54.6             | 39.9      | 18.4                      | 13.3      |
|        | July      | 230.1 | 208.0     | 60.8             | 44.3      | 23.1                      | 16.7      |
|        | August    | 235.8 | 212.0     | 64.3             | 46.6      | 28.0                      | 20.3      |
|        | September | 244.7 | 219.3     | 69.8             | 50.2      | 33.4                      | 24.1      |

CCPI - Colombo Consumer Price Index

Core CCPI - Core Colombo Consumer Price Index

Source: Department of Census and Statistics



**TABLE 8**  
**Wage Rate Indices**

| PERIOD |          | Index  |  |  |  | y-o-y Change (%)                                 |                                      |  |  | Annual Average Change (%)                        |                                      |  |  |
|--------|----------|--|--|--|--|--|--------------------------------------|--|--|--|--------------------------------------|--|--|
|        |          | Formal Private Sector Employees (1978 Dec = 100) (a) | Public Sector Employees (2016 = 100) (b) | Informal Private Sector Employees (2012 = 100) (c) | Informal Private Sector Employees (2018 = 100) (d) | Formal Private Sector Employees (1978 Dec = 100) | Public Sector Employees (2016 = 100) | Informal Private Sector Employees (2012 = 100) | Informal Private Sector Employees (2018 = 100) | Formal Private Sector Employees (1978 Dec = 100) | Public Sector Employees (2016 = 100) | Informal Private Sector Employees (2012 = 100) | Informal Private Sector Employees (2018 = 100) |
| 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  | 109.8  | 1.6  | 8.2                                  | 4.6  | -  | 2.9  | 4.7                                  | 6.2  | -  |
| 2020   | December | 4,282.2  | 114.6                                    | 188.6  | 115.8  | 0.0  | 5.7                                  | 2.1  | 5.4  | 0.2  | 9.2                                  | 3.3  | 6.4  |
| 2021   | December | 8,193.8  | 114.6                                    | 220.7  | 134.2  | 91.3   | 0.0                                  | 17.0   | 15.9   | 74.4   | 0.0                                  | 9.2  | 9.2  |
| 2022   | January  | 8,194.4  | 133.1                                    | 225.5  | 136.9  | 91.4   | 16.1                                 | 18.8   | 17.0   | 82.1   | 1.3                                  | 10.3   | 10.3   |
|        | February | 8,194.8  | 133.1                                    | 227.2  | 136.9  | 91.4   | 16.1                                 | 17.7   | 17.2   | 89.7   | 2.7                                  | 11.5   | 11.3   |
|        | March    | 8,194.9  | 133.1                                    | 236.3  | 143.5  | 2.2  | 16.1                                 | 21.1   | 22.3   | 77.1   | 4.0                                  | 13.0   | 12.7   |
|        | April    | 8,195.3  | 133.1                                    | 244.8  | 147.5  | 2.2  | 16.1                                 | 25.8   | 23.6   | 66.2   | 5.4                                  | 14.8   | 14.1   |
|        | May      | 8,196.7  | 133.1                                    | 250.6  | 150.1  | 2.2  | 16.1                                 | 28.2   | 26.4   | 56.5   | 6.7                                  | 16.5   | 15.7   |
|        | June     | 8,198.2  | 133.1                                    | 255.6  | 152.1  | 2.2  | 16.1                                 | 28.3   | 26.8   | 48.0   | 8.1                                  | 18.2   | 17.4   |
|        | July     | 8,200.1  | 133.1                                    | 263.1  | 156.0  | 2.2  | 16.1                                 | 31.8   | 29.4   | 40.3   | 9.4                                  | 20.3   | 19.3   |
|        | August   | 8,201.1  | 133.1                                    | 269.7  | 160.3  | 0.1  | 16.1                                 | 34.1   | 32.1   | 32.9   | 10.8                                 | 22.5   | 21.3   |

(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 Survey conducted by the DCS in 2012.

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

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  | 2018            | 2019            | 2020            | 2021 (b)        | 2021<br>Jan-Aug<br>(b) | 2022<br>Jan-Aug<br>(b) | y-o-y<br>Change%<br>Jan-Aug<br>2021/22 |
|---|-----------------|-----------------|-----------------|-----------------|------------------------|------------------------|--|
| <b>EXPORTS</b>  |                 |                 |                 |                 |                        |                        |  |
| 0. Food and live animals  | 2,633.2         | 2,541.9         | 2,409.3         | 2,846.0         | 1,795.6                | 1,786.5                | -0.5                                   |
| 1. Beverages and tobacco  | 164.8           | 162.3           | 116.6           | 145.2           | 89.9                   | 93.4                   | 3.9                                    |
| 2. Crude materials, inedible, except fuels                          | 348.4           | 343.1           | 368.6           | 433.2           | 284.5                  | 303.7                  | 6.8                                    |
| 3. Mineral fuels, lubricants and related materials                  | 622.1           | 521.1           | 373.6           | 506.4           | 294.9                  | 409.8                  | 39.0                                   |
| 4. Animal and vegetable oils, fats and waxes                        | 88.8            | 73.9            | 96.6            | 128.9           | 83.0                   | 68.9                   | -17.1                                  |
| 5. Chemicals and related products, n.e.s.                           | 214.6           | 223.5           | 224.0           | 291.7           | 187.8                  | 184.5                  | -1.7                                   |
| 6. Manufactured goods classified chiefly by material                | 1,599.2         | 1,627.9         | 1,344.0         | 1,700.7         | 1,096.3                | 1,261.8                | 15.1                                   |
| 7. Machinery and transport equipment                                | 541.1           | 531.9           | 396.1           | 631.8           | 392.8                  | 452.7                  | 15.2                                   |
| 8. Miscellaneous manufactured articles                              | 5,677.4         | 5,914.3         | 4,718.6         | 5,813.1         | 3,678.9                | 4,340.0                | 18.0                                   |
| 9. Commodities and transactions not classified elsewhere<br>in SITC | ...             | ...             | 0.1             | 1.5             | 0.3                    | 0.8                    | 144.0                                  |
| <b>Total Exports</b>  | <b>11,889.6</b> | <b>11,940.0</b> | <b>10,047.4</b> | <b>12,498.6</b> | <b>7,904.0</b>         | <b>8,902.2</b>         | <b>12.6</b>                            |
| <b>IMPORTS</b>  |                 |                 |                 |                 |                        |                        |  |
| 0. Food and live animals  | 2,173.4         | 1,958.2         | 2,107.6         | 2,275.2         | 1,534.0                | 1,446.6                | -5.7                                   |
| 1. Beverages and tobacco  | 161.2           | 147.0           | 93.8            | 76.8            | 51.0                   | 65.3                   | 28.0                                   |
| 2. Crude materials, inedible, except fuels                          | 487.5           | 465.7           | 436.2           | 584.7           | 380.5                  | 347.0                  | -8.8                                   |
| 3. Mineral fuels, lubricants and related materials                  | 4,151.9         | 3,891.6         | 2,542.6         | 3,742.9         | 2,395.9                | 3,317.9                | 38.5                                   |
| 4. Animal and vegetable oils, fats and waxes                        | 184.6           | 111.2           | 195.4           | 285.2           | 211.3                  | 62.0                   | -70.6                                  |
| 5. Chemicals and related products, n.e.s.                           | 2,372.4         | 2,210.5         | 2,192.4         | 2,847.9         | 1,860.4                | 1,571.0                | -15.6                                  |
| 6. Manufactured goods classified chiefly by material                | 5,896.2         | 5,828.8         | 4,474.3         | 5,976.8         | 3,787.3                | 3,707.1                | -2.1                                   |
| 7. Machinery and transport equipment                                | 5,232.7         | 4,292.3         | 3,204.4         | 3,876.2         | 2,563.1                | 1,713.8                | -33.1                                  |
| 8. Miscellaneous manufactured articles                              | 1,111.7         | 1,011.8         | 790.2           | 953.3           | 619.3                  | 560.8                  | -9.5                                   |
| 9. Commodities and transactions not classified elsewhere<br>in SITC | 461.0           | 19.9            | 18.5            | 18.4            | 8.7                    | 9.2                    | 5.5                                    |
| <b>Total Imports</b>  | <b>22,232.7</b> | <b>19,937.1</b> | <b>16,055.3</b> | <b>20,637.4</b> | <b>13,411.5</b>        | <b>12,800.9</b>        | <b>-4.6</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                                     | 2020 (b)      | 2021 (c)      | First Half    |               |
|--|---------------|---------------|---------------|---------------|
|  |               |               | 2021 (c)      | 2022(c)       |
| <b>Current Account Balance</b>           | <b>-1,187</b> | <b>-3,343</b> | <b>-1,437</b> | <b>-1,828</b> |
| <b>Trade Balance</b>                     | <b>-6,008</b> | <b>-8,139</b> | <b>-4,316</b> | <b>-3,514</b> |
| Exports                                  | 10,047        | 12,499        | 5,699         | 6,514         |
| Imports                                  | 16,055        | 20,637        | 10,015        | 10,028        |
| <b>Services (net)</b>                    | <b>819</b>    | <b>1,586</b>  | <b>597</b>    | <b>1,336</b>  |
| Receipts                                 | 3,035         | 2,475         | 985           | 1,766         |
| Payments                                 | 2,216         | 889           | 387           | 430           |
| <b>Primary Income (net)</b>              | <b>-2,205</b> | <b>-2,018</b> | <b>-918</b>   | <b>-1,111</b> |
| Receipts                                 | 198           | 116           | 69            | 109           |
| Payments                                 | 2,404         | 2,134         | 987           | 1,220         |
| <b>Secondary Income (net)</b>            | <b>6,207</b>  | <b>5,228</b>  | <b>3,199</b>  | <b>1,461</b>  |
| Secondary Income: credit                 | 7,117         | 5,498         | 3,328         | 1,612         |
| Secondary Income: debit                  | 910           | 270           | 129           | 151           |
| <b>Capital Account (net)</b>             | <b>28</b>     | <b>25</b>     | <b>12</b>     | <b>7</b>      |
| Capital Account: credit                  | 51            | 50            | 25            | 24            |
| Capital Account: debit                   | 23            | 24            | 14            | 17            |
| <b>Current and Capital Account (net)</b> | <b>-1,159</b> | <b>-3,318</b> | <b>-1,425</b> | <b>-1,821</b> |
| <b>Financial Account (net) (d)</b>       | <b>-394</b>   | <b>-4,816</b> | <b>-1,802</b> | <b>-1,840</b> |
| <b>Direct Investment: Assets</b>         | <b>15</b>     | <b>17</b>     | <b>9</b>      | <b>8</b>      |
| <b>Direct Investment: Liabilities</b>    | <b>434</b>    | <b>598</b>    | <b>258</b>    | <b>297</b>    |
| <b>Portfolio Investment: Assets</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| <b>Portfolio Investment: Liabilities</b> | <b>-2,383</b> | <b>-906</b>   | <b>-89</b>    | <b>-62</b>    |
| Equity and Investment Fund Shares        | -217          | -236          | -127          | 135           |
| Debt Securities                          | -2,166        | -670          | 37            | -197          |
| <b>Financial Derivatives</b>             | <b>-</b>      | <b>-</b>      | <b>-</b>      | <b>-</b>      |
| <b>Other Investment: Assets</b>          | <b>-136</b>   | <b>387</b>    | <b>37</b>     | <b>813</b>    |
| Currency and Deposits                    | 64            | 306           | -52           | 488           |
| Trade Credit and Advances                | -224          | 257           | 100           | 132           |
| Other Accounts Receivable                | 24            | -176          | -11           | 193           |
| <b>Other Investment: Liabilities</b>     | <b>231</b>    | <b>3,003</b>  | <b>99</b>     | <b>1,250</b>  |
| Currency and Deposits                    | -15           | 4,016         | -177          | 455           |
| Loans                                    | 174           | -1,552        | 25            | -340          |
| Trade Credits and Advances               | 185           | -428          | 133           | -302          |
| Other Accounts Payable                   | -114          | 180           | 118           | 1,398         |
| Special Drawing Rights                   | -             | 787           | -             | -             |
| <b>Reserve Assets</b>                    | <b>-1,992</b> | <b>-2,526</b> | <b>-1,581</b> | <b>-1,176</b> |
| <b>Net Errors and Omissions</b>          | <b>765</b>    | <b>-1,498</b> | <b>-377</b>   | <b>-19</b>    |
| <b>Overall Balance</b>                   | <b>-2,328</b> | <b>-3,967</b> | <b>-1,261</b> | <b>-2,814</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   | 2021 (a)     |                | June 2022 (a) |                |
|--|--------------|----------------|---------------|----------------|
|  | Assets       | Liabilities    | Assets        | Liabilities    |
| <b>Direct Investment (b)</b>                 | <b>1,522</b> | <b>17,891</b>  | <b>1,528</b>  | <b>13,529</b>  |
| Equity and Investment Fund Shares            | 1,482        | 12,626         | 1,485         | 7,979          |
| Debt Instruments                             | 40           | 5,264          | 43            | 5,550          |
| <b>Portfolio Investment</b>                  | <b>0.1</b>   | <b>7,508</b>   | <b>0.1</b>    | <b>4,407</b>   |
| Equity and Investment Fund Shares            | -            | 1,148          | -             | 485            |
| Debt Securities (c)                          | 0.1          | 6,360          | 0.1           | 3,922          |
| Deposit-taking Corporations                  | 0.1          | -              | 0.1           | -              |
| General Government                           | -            | 6,266          | -             | 3,836          |
| Other Sectors                                | -            | 94             | -             | 86             |
| <b>Other Investment</b>                      | <b>4,096</b> | <b>39,100</b>  | <b>4,910</b>  | <b>39,259</b>  |
| <b>Currency and Deposits</b>                 | <b>1,142</b> | <b>5,749</b>   | <b>1,630</b>  | <b>6,101</b>   |
| Central Bank                                 | -            | 1,775          | -             | 2,037          |
| Deposit-taking Corporations                  | 1,142        | 3,974          | 1,630         | 4,065          |
| <b>Loans</b>                                 | <b>-</b>     | <b>29,585</b>  | <b>-</b>      | <b>28,358</b>  |
| Central Bank                                 | -            | 1,265          | -             | 1,139          |
| Deposit-taking Corporations                  | -            | 3,172          | -             | 2,047          |
| General Government                           | -            | 21,077         | -             | 21,154         |
| Other Sectors (d)                            | -            | 4,071          | -             | 4,018          |
| <b>Trade Credit and Advances</b>             | <b>1,211</b> | <b>1,913</b>   | <b>1,343</b>  | <b>1,611</b>   |
| Deposit-taking Corporations                  | 98           | -              | 100           | -              |
| Other Sectors (e)                            | 1,113        | 1,913          | 1,243         | 1,611          |
| <b>Other Accounts Receivable/Payable</b>     | <b>1,744</b> | <b>523</b>     | <b>1,937</b>  | <b>1,917</b>   |
| Central Bank (f)                             | -            | 523            | -             | 1,917          |
| Deposit-taking Corporations                  | 1,744        | -              | 1,937         | -              |
| <b>Special Drawing Rights</b>                | <b>-</b>     | <b>1,330</b>   | <b>-</b>      | <b>1,272</b>   |
| <b>Reserve Assets</b>                        | <b>3,139</b> | <b>-</b>       | <b>1,854</b>  | <b>-</b>       |
| Monetary Gold                                | 175          | -              | 27            | -              |
| Special Drawing Rights                       | 124          | -              | 16            | -              |
| Reserve Position in the IMF                  | 67           | -              | 64            | -              |
| Other Reserve Assets                         | 2,773        | -              | 1,747         | -              |
| Currency and Deposits                        | 2,729        | -              | 1,716         | -              |
| Debt Securities                              | 44           | -              | 31            | -              |
| <b>Total Assets / Liabilities</b>            | <b>8,758</b> | <b>64,498</b>  | <b>8,292</b>  | <b>57,195</b>  |
| <b>Net International Investment Position</b> | <b>-</b>     | <b>-55,740</b> | <b>-</b>      | <b>-48,903</b> |
| <b>IIP- Maturity-wise Breakdown</b>          |              |                |               |                |
| Short Term                                   | 6,804        | 9,564          | 6,568         | 9,092          |
| Long Term                                    | 1,954        | 54,934         | 1,724         | 48,103         |

(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   | 2020 (a)      | 2021 (b)      | June 2022 (b) |
|--|---------------|---------------|---------------|
| <b>General Government</b>                                | <b>28,187</b> | <b>27,344</b> | <b>24,990</b> |
| <b>Short Term</b>  | <b>4</b>      | <b>1</b>      | <b>6</b>      |
| Debt Securities (Treasury Bills) (c)                     | 4             | 1             | 6             |
| <b>Long Term</b>   | <b>28,183</b> | <b>27,343</b> | <b>24,985</b> |
| Debt Securities  | 7,613         | 6,265         | 3,830         |
| Treasury Bonds (c)                                       | 31            | 8             | 4             |
| SLDBs (d)  | 27            | 24            | 26            |
| International Sovereign Bonds (e)                        | 7,555         | 6,233         | 3,801         |
| Loans  | 20,570        | 21,077        | 21,154        |
| <b>Central Bank</b>                                      | <b>2,690</b>  | <b>4,892</b>  | <b>6,364</b>  |
| <b>Short Term</b>  | <b>343</b>    | <b>524</b>    | <b>1,920</b>  |
| Currency and Deposits                                    | 0.3           | 1             | 3             |
| Other Accounts Payable (ACU Liabilities)                 | 343           | 523           | 1,917         |
| <b>Long Term</b>   | <b>2,348</b>  | <b>4,368</b>  | <b>4,444</b>  |
| Special Drawing Rights Allocation                        | 570           | 1,330         | 1,272         |
| Currency and Deposits                                    | 400           | 1,774         | 2,033         |
| Loans (IMF-EFF Facility)                                 | 1,378         | 1,265         | 1,139         |
| <b>Deposit-taking Corporations</b>                       | <b>6,657</b>  | <b>7,146</b>  | <b>6,112</b>  |
| <b>Short Term</b>  | <b>5,507</b>  | <b>5,979</b>  | <b>5,070</b>  |
| Currency and Deposits (f)                                | 1,333         | 3,974         | 4,065         |
| Loans  | 4,174         | 2,005         | 1,006         |
| <b>Long Term</b>   | <b>1,150</b>  | <b>1,167</b>  | <b>1,042</b>  |
| Loans  | 1,150         | 1,167         | 1,042         |
| <b>Other Sectors (g)</b>                                 | <b>6,517</b>  | <b>6,078</b>  | <b>5,715</b>  |
| <b>Short Term</b>  | <b>2,341</b>  | <b>1,913</b>  | <b>1,611</b>  |
| Trade Credit and Advances (h)                            | 2,341         | 1,913         | 1,611         |
| <b>Long Term</b>   | <b>4,176</b>  | <b>4,165</b>  | <b>4,104</b>  |
| Debt Securities (e)                                      | 96            | 94            | 86            |
| Loans  | 4,081         | 4,071         | 4,018         |
| Private Sector Corporations                              | 2,315         | 2,425         | 2,432         |
| State Owned Business Enterprises and Public Corporations | 1,766         | 1,646         | 1,587         |
| <b>Direct Investment: Intercompany Lending (i)</b>       | <b>4,990</b>  | <b>5,264</b>  | <b>5,550</b>  |
| <b>Gross External Debt Position</b>                      | <b>49,041</b> | <b>50,724</b> | <b>48,731</b> |
| <b>As a Percentage of GDP</b>                            |               |               |               |
| Gross External Debt                                      | 60.5          | 60.0          | 57.4          |
| Short Term Debt  | 10.1          | 10.0          | 10.1          |
| Long Term Debt   | 50.4          | 50.0          | 47.3          |

(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 6.3 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)  |
| 2021   | 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 |
|        | 2021      | 200.4338         | 270.5957       | 226.8610 | 1.7415       | 2.6935       | 280.5251 |
|        | 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 |
|        | October   | 201.8705         | 278.3895       | 235.6737 | 1.7780       | 2.6992       | 285.7235 |
|        | November  | 202.0474         | 269.2383       | 228.3338 | 1.7776       | 2.6920       | 283.0280 |
|        | December  | 200.4338         | 270.5957       | 226.8610 | 1.7415       | 2.6935       | 280.5251 |
| 2022   | January   | 201.1910         | 269.8374       | 224.4990 | 1.7412       | 2.6805       | 280.0136 |
|        | February  | 201.0571         | 268.6223       | 224.5004 | 1.7405       | 2.6781       | 280.4465 |
|        | March     | 299.0000         | 392.5272       | 334.0279 | 2.4497       | 3.9432       | 413.3376 |
|        | April     | 341.8500         | 426.4579       | 359.4553 | 2.6140       | 4.4617       | 459.5490 |
|        | May       | 360.7600         | 455.2791       | 387.7448 | 2.8179       | 4.6458       | 486.9178 |
|        | June      | 359.8782         | 436.8741       | 376.2707 | 2.6350       | 4.5623       | 477.8391 |
|        | July      | 360.8000         | 439.0936       | 367.7995 | 2.6854       | 4.5305       | 477.5549 |
|        | August    | 361.1480         | 421.3153       | 361.9786 | 2.6067       | 4.5413       | 469.9763 |
|        | September | 362.9000         | 402.2747       | 355.7872 | 2.5077       | 4.4529       | 464.4685 |

(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                               | 2018             | 2019 (a)          | 2020              | 2021 (b)          | 2021<br>Jan-Jun (b) | 2022<br>Jan-Jun (b) |
|------------------------------------|------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Rs. mn                             |                  |                   |                   |                   |                     |                     |
| <b>Total Revenue and Grants</b>    | <b>1,932,459</b> | <b>1,898,808</b>  | <b>1,373,308</b>  | <b>1,463,810</b>  | <b>715,272</b>      | <b>919,468</b>      |
| Total Revenue                      | 1,919,973        | 1,890,899         | 1,367,960         | 1,457,071         | 714,537             | 918,493             |
| Tax Revenue                        | 1,712,318        | 1,734,925         | 1,216,542         | 1,298,019         | 641,207             | 798,796             |
| Non Tax Revenue                    | 207,656          | 155,974           | 151,417           | 159,052           | 73,330              | 119,698             |
| Grants                             | 12,486           | 7,909             | 5,348             | 6,740             | 735                 | 974                 |
| <b>Expenditure and Net Lending</b> | <b>2,693,228</b> | <b>3,337,896</b>  | <b>3,040,996</b>  | <b>3,521,735</b>  | <b>1,495,457</b>    | <b>1,822,144</b>    |
| Recurrent                          | 2,089,713        | 2,424,582         | 2,548,359         | 2,747,512         | 1,310,986           | 1,571,637           |
| Capital and Net Lending            | 603,515          | 913,314           | 492,638           | 774,223           | 184,471             | 250,508             |
| <i>of which</i> Public Investment  | 624,970          | 631,235           | 811,773           | 789,636           | 189,445             | 259,432             |
| <b>Current Account Balance</b>     | <b>-169,740</b>  | <b>-533,683</b>   | <b>-1,180,399</b> | <b>-1,290,441</b> | <b>-596,449</b>     | <b>-653,143</b>     |
| <b>Primary Balance</b>             | <b>91,421</b>    | <b>-537,736</b>   | <b>-687,386</b>   | <b>-1,009,542</b> | <b>-273,193</b>     | <b>-244,847</b>     |
| <b>Overall Fiscal Balance</b>      | <b>-760,769</b>  | <b>-1,439,088</b> | <b>-1,667,688</b> | <b>-2,057,925</b> | <b>-780,185</b>     | <b>-902,676</b>     |
| <b>Total Financing</b>             | <b>760,769</b>   | <b>1,439,088</b>  | <b>1,667,688</b>  | <b>2,057,925</b>  | <b>780,185</b>      | <b>902,676</b>      |
| Foreign Financing                  | 323,535          | 542,641           | -83,199           | -13,901           | 21,184              | -44,383             |
| Loans                              | 7,672            | -                 | -                 | 39,316            | -74,651             | 56,107              |
| Commercial Loans                   | 456,921          | -                 | -                 | -53,217           | 99,955              | -100,490            |
| Domestic Financing                 | 437,234          | 896,448           | 1,750,887         | 2,071,826         | 759,001             | 947,060             |
| Market Borrowings                  | 329,351          | -                 | -                 | 2,058,986         | 764,890             | 948,899             |
| Non Bank                           | 219,885          | -                 | -                 | 754,699           | 264,650             | 648,268             |
| Bank                               | 109,466          | -                 | -                 | 1,304,287         | 500,240             | 300,631             |
| Other Borrowings                   | 107,883          | -                 | -                 | 12,840            | -5,889              | -1,839              |
| As a % of GDP (c)                  |                  |                   |                   |                   |                     |                     |
| <b>Total Revenue and Grants</b>    | <b>12.6</b>      | <b>11.9</b>       | <b>8.7</b>        | <b>8.3</b>        | <b>4.0</b>          | <b>4.1</b>          |
| Total Revenue                      | 12.5             | 11.9              | 8.6               | 8.2               | 4.0                 | 4.1                 |
| Tax Revenue                        | 11.2             | 10.9              | 7.7               | 7.3               | 3.6                 | 3.5                 |
| Non Tax Revenue                    | 1.4              | 1.0               | 1.0               | 0.9               | 0.4                 | 0.5                 |
| Grants                             | 0.1              | 0.0               | 0.0               | 0.0               | 0.0                 | 0.0                 |
| <b>Expenditure and Net Lending</b> | <b>17.5</b>      | <b>21.0</b>       | <b>19.2</b>       | <b>19.9</b>       | <b>8.5</b>          | <b>8.1</b>          |
| Recurrent                          | 13.6             | 15.2              | 16.1              | 15.5              | 7.4                 | 7.0                 |
| Capital and Net Lending            | 3.9              | 5.7               | 3.1               | 4.4               | 1.0                 | 1.1                 |
| <i>of which</i> Public Investment  | 4.1              | 4.0               | 5.1               | 4.5               | 1.1                 | 1.2                 |
| <b>Current Account Balance</b>     | <b>-1.1</b>      | <b>-3.4</b>       | <b>-7.5</b>       | <b>-7.3</b>       | <b>-3.4</b>         | <b>-2.9</b>         |
| <b>Primary Balance</b>             | <b>0.6</b>       | <b>-3.4</b>       | <b>-4.3</b>       | <b>-5.7</b>       | <b>-1.5</b>         | <b>-1.1</b>         |
| <b>Overall Fiscal Balance</b>      | <b>-5.0</b>      | <b>-9.0</b>       | <b>-10.5</b>      | <b>-11.6</b>      | <b>-4.4</b>         | <b>-4.0</b>         |
| <b>Total Financing</b>             | <b>5.0</b>       | <b>9.0</b>        | <b>10.5</b>       | <b>11.6</b>       | <b>4.4</b>          | <b>4.0</b>          |
| Foreign Financing                  | 2.1              | 3.4               | -0.5              | -0.1              | 0.1                 | -0.2                |
| Loans                              | 0.0              | -                 | -                 | 0.2               | -0.4                | 0.2                 |
| Commercial Loans                   | 3.0              | -                 | -                 | -0.3              | 0.6                 | -0.4                |
| Domestic Financing                 | 2.8              | 5.6               | 11.1              | 11.7              | 4.3                 | 4.2                 |
| Market Borrowings                  | 2.1              | -                 | -                 | 11.6              | 4.3                 | 4.2                 |
| Non Bank                           | 1.4              | -                 | -                 | 4.3               | 1.5                 | 2.9                 |
| Bank                               | 0.7              | -                 | -                 | 7.4               | 2.8                 | 1.3                 |
| Other Borrowings                   | 0.7              | -                 | -                 | 0.1               | 0.0                 | 0.0                 |

(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) Rebased GDP estimates (base year 2015) of the Department Census and Statistics have been used for 2018-2021 and GDP projection of the Central Bank of Sri Lanka has been used for 2022.

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

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

| CATEGORY  | End June 2021    |                 | End June 2022 (c) |                 | % Change    |
|---|------------------|-----------------|-------------------|-----------------|-------------|
|   | Amount (Rs. mn)  | As a % of Total | Amount (Rs. mn)   | As a % of Total |             |
| <b>1. Agriculture and Fishing</b>   | <b>529,706</b>   | <b>7.7</b>      | <b>607,535</b>    | <b>7.5</b>      | <b>14.7</b> |
| <i>of which</i>   |                  |                 |                   |                 |             |
| Tea   | 107,890          | 1.6             | 108,856           | 1.3             | 0.9         |
| Rubber  | 36,564           | 0.5             | 57,670            | 0.7             | 57.7        |
| Coconut   | 32,439           | 0.5             | 36,102            | 0.4             | 11.3        |
| Paddy   | 42,710           | 0.6             | 42,642            | 0.5             | -0.2        |
| Vegetable and Fruit Cultivation and Minor Food Crops                                | 29,784           | 0.4             | 37,389            | 0.5             | 25.5        |
| Livestock and Dairy Farming   | 28,870           | 0.4             | 30,723            | 0.4             | 6.4         |
| Fisheries   | 21,154           | 0.3             | 22,464            | 0.3             | 6.2         |
| <b>2. Industry</b>  | <b>2,768,377</b> | <b>40.4</b>     | <b>3,312,279</b>  | <b>40.6</b>     | <b>19.6</b> |
| <i>of which</i>   |                  |                 |                   |                 |             |
| Construction  | 1,449,403        | 21.1            | 1,604,165         | 19.7            | 10.7        |
| <i>of which</i>   |                  |                 |                   |                 |             |
| Personal Housing including Purchasing/Construction/Repairs                          | 681,061          | 9.9             | 708,698           | 8.7             | 4.1         |
| Staff Housing   | 95,924           | 1.4             | 107,731           | 1.3             | 12.3        |
| Food and Beverages  | 173,753          | 2.5             | 233,192           | 2.9             | 34.2        |
| Textiles and Apparel  | 265,743          | 3.9             | 346,313           | 4.2             | 30.3        |
| Wood and Wood Products including Furniture  | 24,001           | 0.3             | 21,999            | 0.3             | -8.3        |
| Paper and Paper Products  | 20,907           | 0.3             | 23,560            | 0.3             | 12.7        |
| Chemical, Petroleum, Pharmaceutical and Healthcare, and Rubber and Plastic products | 147,145          | 2.1             | 277,409           | 3.4             | 88.5        |
| Non-metallic Mineral Products   | 13,553           | 0.2             | 7,686             | 0.1             | -43.3       |
| Basic Metal Products  | 53,988           | 0.8             | 55,119            | 0.7             | 2.1         |
| Fabricated Metal Products, Machinery and Transport Equipment                        | 145,337          | 2.1             | 170,318           | 2.1             | 17.2        |
| Other Manufactured Products   | 26,522           | 0.4             | 26,362            | 0.3             | -0.6        |
| <b>3. Services</b>  | <b>1,882,564</b> | <b>27.5</b>     | <b>2,269,769</b>  | <b>27.8</b>     | <b>20.6</b> |
| <i>of which</i>   |                  |                 |                   |                 |             |
| Wholesale and Retail Trade  | 558,006          | 8.1             | 628,841           | 7.7             | 12.7        |
| Tourism   | 284,610          | 4.2             | 416,117           | 5.1             | 46.2        |
| Financial and Business Services   | 366,473          | 5.3             | 497,958           | 6.1             | 35.9        |
| Transport   | 79,906           | 1.2             | 74,209            | 0.9             | -7.1        |
| Communication and Information Technology  | 73,517           | 1.1             | 92,942            | 1.1             | 26.4        |
| Printing and Publishing   | 29,082           | 0.4             | 28,320            | 0.3             | -2.6        |
| Education   | 20,900           | 0.3             | 30,794            | 0.4             | 47.3        |
| Health  | 59,719           | 0.9             | 53,114            | 0.7             | -11.1       |
| Shipping, Aviation and Freight Forwarding   | 23,875           | 0.3             | 33,138            | 0.4             | 38.8        |
| <b>4. Personal Loans and Advances (d)</b>   | <b>1,677,224</b> | <b>24.5</b>     | <b>1,962,513</b>  | <b>24.1</b>     | <b>17.0</b> |
| <i>of which</i>   |                  |                 |                   |                 |             |
| Consumer Durables   | 348,013          | 5.1             | 380,540           | 4.7             | 9.3         |
| Pawning   | 268,402          | 3.9             | 341,990           | 4.2             | 27.4        |
| Credit Cards  | 128,820          | 1.9             | 147,467           | 1.8             | 14.5        |
| Personal Education  | 11,366           | 0.2             | 12,510            | 0.2             | 10.1        |
| Personal Healthcare   | 1,996            | 0.0             | 2,491             | 0.0             | 24.8        |
| <b>5. Total (e)</b>   | <b>6,857,871</b> | <b>100.0</b>    | <b>8,152,096</b>  | <b>100.0</b>    | <b>18.9</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                                      | 2018       | 2019       | 2020       | 2021 (b)    | 2022<br>Jan-Jun (b) |
|---|------------|------------|------------|-------------|---------------------|
| 1. Number of Banks                            | 33         | 32         | 30         | 30          | 30                  |
| 2. Number of Bank Branches (c)                | 3,576      | 3,607      | 3,619      | 3,624       | 3,628               |
| 3. Number of Automated Teller Machines (ATMs) | 4,618      | 5,023      | 4,252      | 4,142       | 4,073               |
| 4. Number of Credit Cards Issued (d)          | 338,692    | 353,826    | 235,310    | 285,888     | 146,195             |
| 5. Number of Credit Cards in Use              | 1,710,671  | 1,854,103  | 1,984,525  | 2,054,985   | 2,082,685           |
| 6. Number of Debit Cards Issued (d)           | 3,371,536  | 4,773,541  | 3,673,644  | 4,867,230   | 2,222,647           |
| 7. Number of Debit Cards in Use               | 22,329,928 | 23,068,813 | 17,803,673 | 18,069,812  | 18,679,013          |
| 8. Number of Internet Based Transactions (d)  | 26,930,397 | 36,674,832 | 57,860,661 | 135,386,876 | 87,582,706          |
| 9. Banking Density (e)                        | 16.5       | 16.5       | 16.5       | 16.4        | 16.4                |

(a) End period

(b) Provisional

(c) Excludes Students Savings Units

(d) During the period

(e) Number of branches per 100,000 people

Source: Central Bank of Sri Lanka

**TABLE 17**  
**Money and Capital Market Developments**

| CATEGORY                            | 2018      | 2019      | 2020      | 2021      | 2022<br>Jan-Sep (a) |
|-------------------------------------|-----------|-----------|-----------|-----------|---------------------|
| <b>Money Market</b>                 |           |           |           |           |                     |
| <b>Call Money Market</b>            |           |           |           |           |                     |
| Total Turnover                      | 4,196,244 | 4,755,160 | 3,234,306 | 7,934,874 | 3,687,725           |
| <b>Treasury Bill Market</b>         |           |           |           |           |                     |
| Total Amount Issued (b)             | 1,653,259 | 1,719,327 | 2,590,539 | 3,821,419 | 6,754,963           |
| Total Outstanding (b)(c)(d)         | 758,796   | 897,670   | 1,621,375 | 2,270,712 | 3,643,219           |
| <b>Capital Market</b>               |           |           |           |           |                     |
| <b>Treasury Bond Market</b>         |           |           |           |           |                     |
| Total Amount Issued (b)             | 763,020   | 798,000   | 1,332,069 | 1,761,979 | 1,769,798           |
| Total Outstanding (b)(c)(d)         | 4,344,238 | 4,686,526 | 5,719,504 | 6,967,928 | 8,451,191           |
| <b>Listed Corporate Bond Market</b> |           |           |           |           |                     |
| Total amount issued                 | 55,918    | 57,914    | 21,940    | 84,383    | 2,611               |
| Total number of issues              | 11        | 15        | 8         | 14        | 2                   |
| Total Turnover                      | 4,541     | 5,677     | 5,856     | 1,245     | 3,845               |
| Market Capitalisation (c)           | 288,558   | 284,926   | 243,220   | 274,260   | 265,980 (e)         |
| <b>Share Market</b>                 |           |           |           |           |                     |
| ASPI (1985=100) (c)                 | 6,052     | 6,129     | 6,774     | 12,226    | 9,931               |
| S&P SL20 (2004=1,000) (c)           | 3,135     | 2,937     | 2,638     | 4,233     | 3,165               |
| Value of shares traded              | 200,069   | 171,408   | 396,882   | 1,173,157 | 567,082             |
| Net purchases by non nationals      | (23,239)  | (11,735)  | (51,356)  | (52,649)  | 15,271              |
| Market Capitalisation (c)           | 2,839,450 | 2,851,310 | 2,960,648 | 5,489,168 | 4,341,126           |

(a) Provisional

(b) Face value

(c) End period

(d) Including foreign holdings

(e) As at end August 2022

Sources: Central Bank of Sri Lanka  
Colombo Stock Exchange

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

| ITEM   | End Jun<br>2020 | End Jun<br>2021 | End Dec<br>2021 | End Jun<br>2022(a) | y-o-y Change (%) |             |
|--|-----------------|-----------------|-----------------|--------------------|------------------|-------------|
|  |                 |                 |                 |                    | Jun-2021         | Jun-2022(a) |
| Insurance Sector   |                 |                 |                 |                    |                  |             |
| Total Assets (Rs. bn)  | 755.2           | 836.9           | 879.8           | 902.7              | 10.8             | 7.9         |
| Total Income (Rs. bn)(b)   | 120.9           | 136.9           | 298.6           | 153.7              | 13.2             | 12.3        |
| Gross Written down Premium Income (Rs. bn)(b)                                  | 95.2            | 108.4           | 233.8           | 127.7              | 13.9             | 17.8        |
| Investment Income (Rs. bn)(b)  | 25.8            | 28.5            | 64.9            | 26.1               | 10.7             | -8.6        |
| Profit Before Tax (Rs. bn)(b)  | 18.2            | 16.9            | 38.4            | 22.5               | -7.2             | 33.3        |
| Capital Adequacy Ratio (CAR)(%)  |                 |                 |                 |                    |                  |             |
| Long-term Insurance  | 308.0           | 351.0           | 384.0           | 282.0              | -                | -           |
| General Insurance  | 238.0           | 293.0           | 224.0           | 209.0              | -                | -           |
| Retention Ratio (%)  |                 |                 |                 |                    |                  |             |
| Long-term Insurance  | 95.1            | 95.5            | 96.0            | 95.3               | -                | -           |
| General Insurance  | 75.9            | 74.8            | 76.2            | 75.1               | -                | -           |
| Claims Ratio (%)   |                 |                 |                 |                    |                  |             |
| Long-term Insurance  | 40.6            | 38.7            | 38.7            | 40.2               | -                | -           |
| General Insurance  | 47.2            | 55.3            | 55.8            | 67.9               | -                | -           |
| Combined Operating Ratio (%)   |                 |                 |                 |                    |                  |             |
| Long-term Insurance  | 88.2            | 82.1            | 81.2            | 79.9               | -                | -           |
| General Insurance  | 87.3            | 94.1            | 94.9            | 106.4              | -                | -           |
| Return on Assets (ROA)(%)  |                 |                 |                 |                    |                  |             |
| Long-term Insurance  | 3.2             | 3.0             | 3.4             | 3.2                | -                | -           |
| General Insurance  | 7.7             | 9.4             | 7.8             | 9.7                | -                | -           |
| Return on Equity (ROE)(%)  |                 |                 |                 |                    |                  |             |
| General Insurance  | 16.2            | 19.3            | 15.5            | 19.9               | -                | -           |
| Underwriting Ratio (%) - General Insurance                                     | 33.3            | 25.8            | 25.3            | 13.5               | -                | -           |
| Unit Trust Sector  |                 |                 |                 |                    |                  |             |
| Total Assets (Rs. bn)  | 114.4           | 222.7           | 196.9           | 134.9              | 94.6             | -39.4       |
| Net Asset Value - (NAV) (Rs. bn)   | 113.4           | 222.0           | 193.8           | 132.7              | 95.7             | -40.2       |
| Investments (Rs. bn)   | 114.4           | 222.8           | 196.9           | 134.9              | 94.8             | -39.4       |
| Equity   | 8.1             | 15.6            | 17.6            | 9.2                | 92.6             | -41.0       |
| Government Securities  | 8.6             | 23.6            | 23.4            | 51.3               | 174.4            | 117.5       |
| Other (E.g. Commercial Papers, Debentures, Trust Certificates & Bank Deposits) | 97.7            | 183.5           | 155.9           | 74.4               | 87.8             | -59.5       |
| Investments in Equity as a % of NAV  | 7.2             | 7.0             | 9.1             | 6.9                | -                | -           |
| Investments in Government Securities as a % of NAV                             | 7.5             | 10.6            | 12.1            | 38.7               | -                | -           |
| Other Investments as a % of NAV  | 86.1            | 82.7            | 80.4            | 56.1               | -                | -           |
| Total No. of Unit Holders  | 47,903          | 55,651          | 59,426          | 62,700             | -                | -           |
| No. of Units in Issue (bn)   | 5.4             | 7.0             | 7.8             | 6.6                | -                | -           |
| No. of Unit Trusts   | 72              | 76              | 75              | 75                 | -                | -           |
| Stock Broking Sector   |                 |                 |                 |                    |                  |             |
| Total Assets (Rs. bn)  | 13.5            | 21.0            | 36.5            | 22.5               | 55.9             | 7.0         |
| Total Liabilities (Rs. bn)   | 8.4             | 12.1            | 24.0            | 10.0               | 44.8             | -17.5       |
| Net Capital (Rs. bn)   | 5.1             | 7.7             | 11.3            | 10.2               | 51.2             | 32.4        |
| Income (Rs. mn)(b)   | 443.0           | 1,553.0         | 4,483.0         | 839.0              | 250.6            | -46.0       |
| Net Profit/(Loss) Before Tax (Rs. mn)(b)                                       | 158.0           | 910.0           | 2,514.0         | 228.0              | 475.9            | -74.9       |

(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 the Tourism Sector (a)

| MORATORIUM<br>(AS AT 30.06.2022) | Performing                     |                     |                                    | Non-Performing                 |                     |                                    | Total                          |                     |                                    |
|----------------------------------|--------------------------------|---------------------|------------------------------------|--------------------------------|---------------------|------------------------------------|--------------------------------|---------------------|------------------------------------|
|                                  | No. of<br>requests<br>received | Approved Facilities |                                    | No. of<br>requests<br>received | Approved Facilities |                                    | No. of<br>requests<br>received | Approved Facilities |                                    |
|                                  |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |
| Licenced Banks                   | 7,814                          | 7,098               | 157.12                             | 876                            | 683                 | 24.87                              | 8,690                          | 7,781               | 182.00                             |
| Non-Bank Financial Institutions  | 1,067                          | 871                 | 0.58                               | 117                            | 72                  | 0.05                               | 1,184                          | 943                 | 0.63                               |

(a) Last phase of the moratorium granted to the tourism sector ended on 30.06.2022.

Source: Central Bank of Sri Lanka

TABLE 20

## Concessions to Borrowers Affected by the Prevailing Extraordinary Macroeconomic Circumstances (a)

| MORATORIUM<br>(AS AT 31.08.2022) | Performing                     |                     |                                    | Non-Performing                 |                     |                                    | Total                          |                     |                                    |
|----------------------------------|--------------------------------|---------------------|------------------------------------|--------------------------------|---------------------|------------------------------------|--------------------------------|---------------------|------------------------------------|
|                                  | No. of<br>requests<br>received | Approved Facilities |                                    | No. of<br>requests<br>received | Approved Facilities |                                    | No. of<br>requests<br>received | Approved Facilities |                                    |
|                                  |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |                                | No. of<br>requests  | Capital<br>Outstanding<br>(Rs. Bn) |
| Licenced Banks                   | 29,521                         | 22,409              | 224.03                             | 1,600                          | 1,332               | 0.44                               | 31,121                         | 23,741              | 224.47                             |
| Non-Bank Financial Institutions  | 47,977                         | 40,770              | 18.56                              | 20,411                         | 17,067              | 10.47                              | 68,388                         | 57,837              | 29.03                              |

(a) Concessions granted for a period of six months commencing from July 2022.

Source: Central Bank of Sri Lanka







ISBN 978-624-5917-22-8

