In 2000, Sri Lanka's economy grew strongly, its inflation remained moderate and unemployment declined further. These achievements were commendable as they were achieved against three major unfavourable developments: a sharp increase in petroleum import prices, increased national security expenditure and adverse weather conditions. However, largely due to these unfavourable factors, the balance of payments and the public sector deficit worsened. As a result, domestic bank borrowings by the government and public corporations increased sharply and external reserves declined, building up pressure on the rupee to depreciate, while interest rates moved up substantially. Appropriate policy measures were introduced to arrest this situation. These measures included a rationalisation of public expenditure, revenue enhancing measures, upward adjustments in administered prices, free floating of the rupee and administrative measures to restrain speculative activities. The foreign exchange market has now stabilised and measures are being taken to reduce the public sector deficit. Interest rates are expected to come down. A turnaround in the balance of payments and external reserves have been projected during 2001.

▲ The recovery in economic activity that started in the second half of 1999 continued into 2000. As a result, economic growth was significantly higher at 6 per cent in 2000, compared with 4.3 per cent in 1999. The growth was generated in all major sectors in the economy, but more particularly in the manufacturing and services sectors.

▲ Investment levels and private savings levels improved from 1999 to 2000.

▲ High economic growth and expanding investment provided more employment opportunities, and unemployment declined to 8 per cent.

▲ Annual inflation was contained at 6.2 per cent, even though changes in international prices compelled increases in some administered prices.

▲ Strong growth was seen in international trade as both imports and exports recovered from their low levels in 1999.

▲ Despite a surge in exports and increased inflows through private transfers and the financial account, higher expenditure on imports, mainly on account of a higher oil bill and larger outlay on defence related goods, caused a large increase in the deficit in the overall balance of the balance of payments.

▲ The outflow of foreign currency to meet the deficit in the balance of payments reduced foreign exchange reserves.

▲ A deterioration was seen in the fiscal sector. Increased expenditure, particularly on defence, and lower revenue than expected led to an increase in the fiscal deficit. This, together with a delay in the activating privatisation process and reduced foreign inflows, compelled the government to borrow more from domestic sources.

- Large government borrowings and measures adopted by the Central Bank to stabilise the foreign exchange market caused interest rates to rise sharply.

- The growth in money supply was not excessive, thereby moderating demand pressure on inflation.

- The economy is expected to record a moderate growth in 2001. Measures will be taken to contain inflation. The fiscal and external current account deficits will be reduced. The BOP is expected to show an overall surplus. The external reserves will be built up through a series of measures, some of which have already been taken.