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Communications Department, 30, Janadhipathi Mawatha, Colombo 01, Sri Lanka
+94 11 2477424 / +94 11 2477423 +94 11 2346257
communications@cbsl.lk / dcommunications@cbsl.lk www.cbsl.gov.lk

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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Issued By **Economic Research Department**

Date **30 April 2021**

The Central Bank of Sri Lanka Releases its Annual Report for the Year 2020

In terms of Section 35 of the Monetary Law Act No. 58 of 1949, the seventy first Annual Report of the Monetary Board of the Central Bank of Sri Lanka was presented to Hon. Mahinda Rajapaksa, the Prime Minister and the Minister of Finance, by Deshamanya Professor W D Lakshman, the Governor of the Central Bank of Sri Lanka.

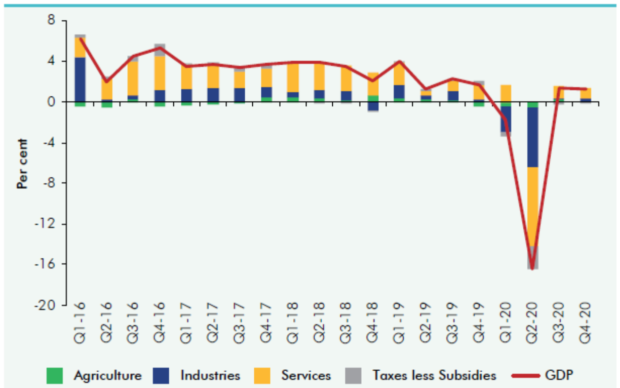
[Deshamanya Professor W D Lakshman, the Governor of the Central Bank of Sri Lanka presenting the Annual Report 2020 to Hon. Mahinda Rajapaksa, the Prime Minister and the Minister of Finance. Mr. Mahinda Siriwardana, Deputy Governor, and Dr. Chandranath Amarasekara, Director of Economic Research of the Central Bank were also present.]

A summary of the performance of the Sri Lankan economy in 2020 and the medium term macroeconomic outlook as reflected in the Annual Report are given below:

Overview of Macroeconomic Developments in 2020

The complex challenges encountered by the Sri Lankan economy in 2020 were efficaciously addressed through extraordinary policy interventions by the Government and the Central Bank. These interventions were essential to mitigate the socioeconomic impact of the spillovers of the COVID-19 pandemic and the resultant scarring of households and enterprises. Such interventions were also required to uphold the confidence in the economy, thereby averting acute stresses on macroeconomic and financial system stability.

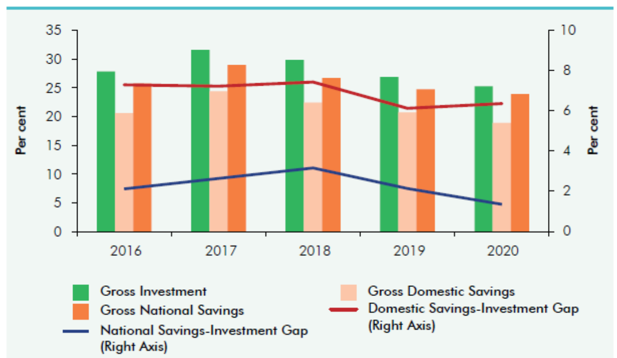
Activity-wise Contribution to GDP Growth



Source: Department of Census and Statistics

Alongside the global economic downturn induced by the pandemic, the Sri Lankan economy contracted by 3.6 per cent in real terms in 2020, recording the deepest recession since independence. Mobility restrictions and other containment measures imposed locally and internationally, with a view to preventing the spread of COVID-19, hampered real economic activity across all sectors. The sharp contraction observed in Industry activities during the year was driven by the significant slowdown in construction and manufacturing activities. Services activities also registered a notable contraction due to the pandemic driven deceleration in transportation, other personal services, and accommodation, food and beverage services. The Agriculture sector, too, registered a contraction during the year as the impact of the pandemic outweighed the positive effects of timely policy support and favourable

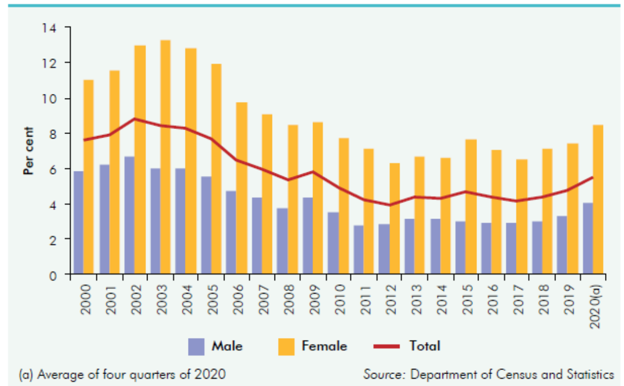
Savings, Investment and the Savings-Investment Gap (as a percentage of GDP)



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

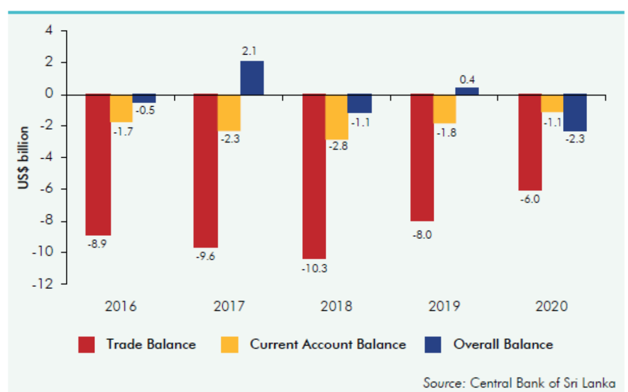
weather conditions. Investment expenditure contracted in 2020, reflecting subdued investor sentiments, while consumption expenditure displayed a marginal growth. The contraction of investment expenditure exceeded the reduction in national savings, resulting in a decline in the savings-investment differential in 2020. Meanwhile, the unemployment rate rose above 5 per cent for the first time since 2009, with a decline in the labour force participation rate, in the wake of uncertainties surrounding the pandemic. Reflecting the combined effect of the contraction in Gross Domestic Product (GDP) at current market prices and the depreciation of the Sri Lankan rupee against the US dollar, GDP per capita declined to US dollars 3,682 in 2020 from US dollars 3,852 in the previous year. The pandemic also caused a decline in the overall size of the economy to US dollars 80.7 billion in 2020 from US dollars 84.0 billion in 2019. In spite of the overall contraction, the economy began to show strong signs of recovery during the second half of 2020, responding to the pro-growth policy initiatives across the fiscal and monetary policy fronts.

Unemployment Rate



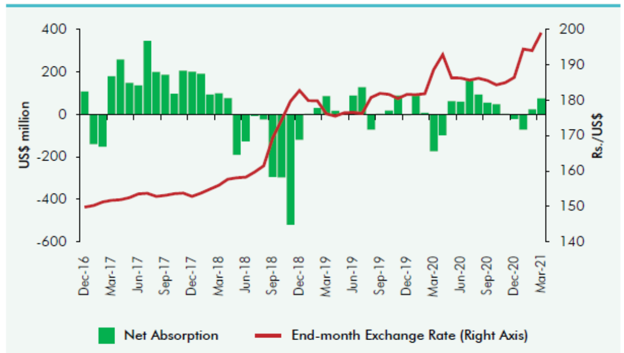
Supported by timely policy measures undertaken by the Government and the Central Bank, the external sector battled strong headwinds in 2020. The slump in merchandise exports due to the mobility restrictions and lockdown measures was swiftly overcome, demonstrating the resilience of Sri Lankan exporters. Accordingly, export earnings rebounded within a relatively short span of time to reach pre-pandemic levels. Measures to curtail non-essential imports, together with the significantly low global petroleum prices, helped reduce the import expenditure in 2020, resulting in a notable improvement in the trade deficit. The tourism sector was severely affected by global travel

Balance of Payments



restrictions. Foreign inflows, in terms of trade in services relating to the Information Technology and Business Process Outsourcing (IT/BPO) sector, recorded a significant improvement, supported by the surge in novel work arrangements amidst the pandemic. Workers' remittances recorded a notable recovery during 2020, despite the decline witnessed at the onset of the pandemic. With these developments and policy induced adjustments, the external current account deficit improved to 1.3 per cent of GDP in 2020 from 2.2 per cent of GDP in 2019. Meanwhile, inflows to the financial account moderated amidst heightened global uncertainties and the cautious approach adopted by investors towards foreign direct investment (FDI) and portfolio investment. Despite pressures experienced during March-April 2020, and in late 2020, significant volatilities in the exchange rate were prevented with timely measures, and the depreciation of the Sri Lankan rupee against the US dollar was contained at 2.6 per cent in 2020. Overall, the Central Bank absorbed foreign exchange from the domestic foreign exchange market on a net basis during 2020, and gross official reserves were recorded at US dollars 5.7 billion at end 2020, which provided an import cover of 4.2 months.

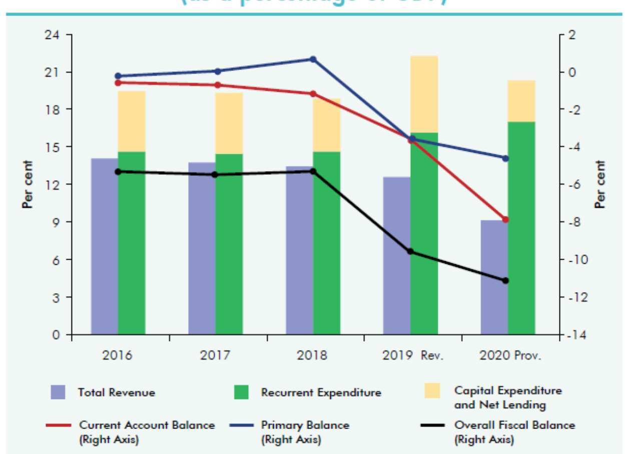
Exchange Rate and Central Bank Intervention in the Domestic Foreign Exchange Market



Source: Central Bank of Sri Lanka

Fiscal policy was reoriented towards supporting an ailing economy at the turn of the year. However, fiscal operations were faced with significant challenges during 2020 amidst the pandemic, which resulted in lower-than-expected revenue mobilisation and high recurrent expenditure. Capital expenditure was curtailed due to limited fiscal space as well as the impact of the pandemic on economic activity. Reflecting the increased pressure on fiscal operations, the overall fiscal outcome was weaker than initially expected, with

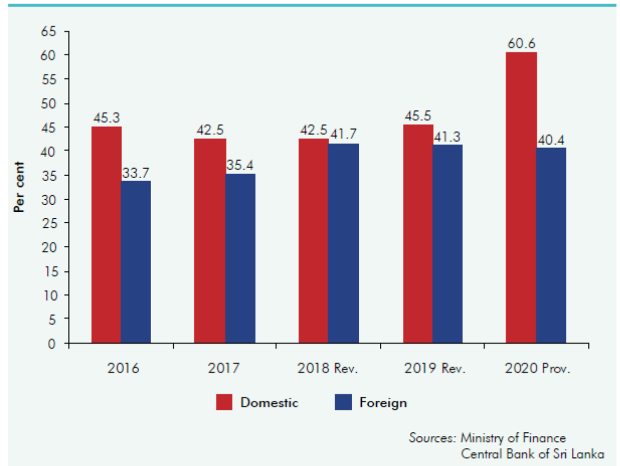
Summary of Fiscal Sector Performance (as a percentage of GDP)



Source: Ministry of Finance

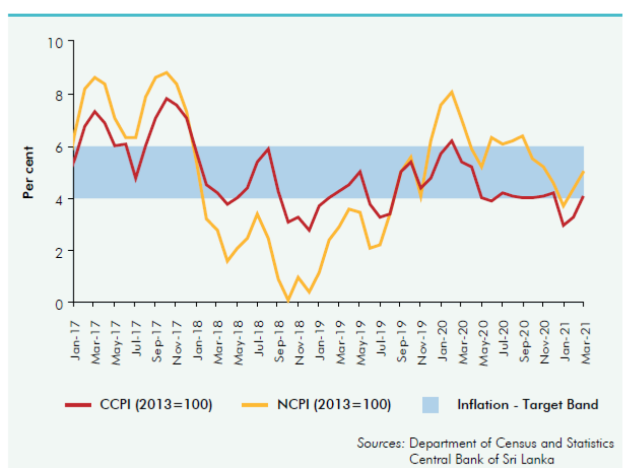
a widened deficit in the current account balance and the primary balance, and the overall budget balance being recorded at 11.1 per cent of GDP in 2020. Pressures on the fiscal sector were aggravated by constrained access to foreign financing in 2020 amidst unfavourable global financial market conditions and downgrades of Sri Lanka's rating by sovereign rating agencies. Financing of the budget deficit was met from domestic sources in 2020, reflecting the limited access to mobilising funds from foreign sources and the Government's explicit financing strategy, aimed at reducing the foreign exposure over the medium term. Reflecting the expanded budget deficit and resultant large financing requirements as well as the contraction of GDP, the outstanding central government debt rose to 101.0 per cent of GDP at end 2020, from 86.8 per cent of GDP at end 2019. Nevertheless, the relative share of outstanding foreign debt to total central government debt declined notably to 40.0 per cent at end 2020, from 47.6 per cent at end 2019. Amidst adverse speculation, the Government continued to maintain its impeccable debt service record. Despite the limited fiscal space, the Government continued to provide relief to the businesses and individuals facing severe hardships stemming from the pandemic, with financial support from the Central Bank and the banking sector.

Central Government Debt
(as a percentage of GDP)



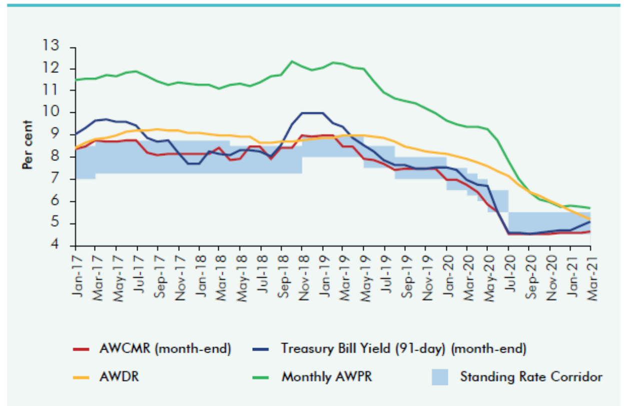
Meanwhile, subdued inflationary pressures and well-anchored inflation expectations provided the necessary space for the Central Bank to significantly relax its monetary policy stance during 2020. These measures were focused on lowering costs of funds for businesses and individuals, ensuring adequate liquidity in the money market, and

Headline Inflation (Year-on-Year)



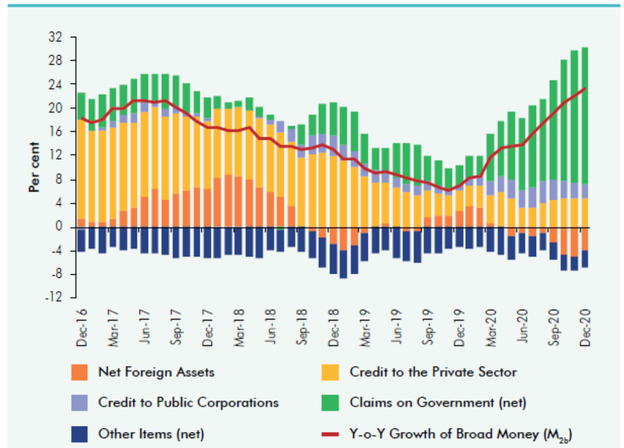
facilitating the smooth functioning of the financial system under the challenging circumstances caused by the pandemic. The Central Bank implemented extremely accommodative monetary policy measures during 2020, through the reduction of the key policy interest rates to historic lows with a downward adjustment of 250 basis points in total, and the lowering of the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of licensed commercial banks (LCBs) by a total of 300 basis points and the Bank Rate by 650 basis points. In addition, the Central Bank introduced several concessionary loan schemes aimed at providing working capital for businesses affected by the pandemic. Moreover, the Central Bank used direct measures as well as moral suasion to accelerate the reduction in lending rates pertaining to selected financial products. Accordingly, credit extended to the private sector began to rebound in the second half of 2020. Meanwhile, the Central Bank and the banking sector provided necessary financing to the Government to carry out fiscal operations in an undeterred manner amidst the pandemic. Consequently, alongside the expansion of credit to other sectors, net credit to the government from the banking system

Standing Rate Corridor and Selected Market Interest Rates



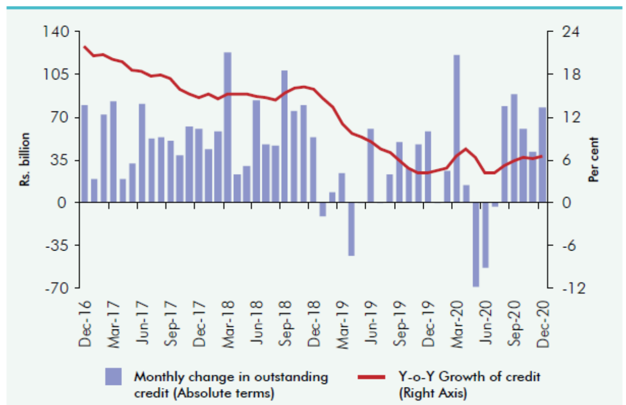
Source: Central Bank of Sri Lanka

Broad Money Growth and Contribution



Source: Central Bank of Sri Lanka

Credit Granted by Commercial Banks to the Private Sector



Source: Central Bank of Sri Lanka

increased substantially during 2020, thereby resulting in a notable expansion of broad money supply. Meanwhile, the Central Bank ensured the maintenance of financial system stability by introducing several measures aimed at safeguarding the interests of financial institutions as well as those of depositors, while enabling the financial sector to provide the extraordinary support required by the economy due to the pandemic.

Macroeconomic Performance (2016-2020)

Indicator	Unit	2016	2017	2018	2019 (a)	2020 (b)
Real Sector (c)						
Real GDP Growth	%	4.5	3.6	3.3 (a)	2.3 (b)	-3.6
GDP at Current Market Price	Rs. bn	11,996	13,328	14,291 (a)	15,013 (b)	14,973
Per Capita GDP (d)	US$	3,886	4,077	4,057 (a)	3,852 (b)	3,682
External Sector						
Trade Balance (c)	% of GDP	-10.8	-11.0	-11.8 (a)	-9.5	-7.4
Current Account Balance (c)	% of GDP	-2.1	-2.6	-3.2	-2.2	-1.3
Overall Balance	US$ mn	-500	2,068	-1,103	377	-2,328
External Official Reserves	US$ mn	6,019	7,959	6,919	7,642	5,664
Fiscal Sector (c)(e)						
Current Account Balance	% of GDP	-0.6	-0.7	-1.2	-3.6 (f)	-7.9
Primary Balance	% of GDP	-0.2	0.02	0.6	-3.6 (f)	-4.6
Overall Fiscal Balance	% of GDP	-5.3	-5.5	-5.3	-9.6 (f)	-11.1
Central Government Debt (g)	% of GDP	79.0	77.9	84.2	86.8	101.0
Monetary Sector and Inflation						
Broad Money Growth (M_{2b}) (h)	%	18.4	16.7	13.0	7.0	23.4
Private Sector Credit Growth (in M_{2b}) (h)	%	21.6	14.7	15.9	4.2	6.5
Annual Average Inflation (i)	%	4.0	6.6	4.3	4.3	4.6

(a) Revised
(b) Provisional
(c) Based on the GDP estimates (base year 2010) of the Department of Census and Statistics
(d) Estimates are updated with the latest population figures.
(e) Based on the revised GDP estimates for 2018 and 2019 released on 16 March 2021 by the Department of Census and Statistics
(f) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(g) Includes Treasury bonds of Rs. 13,125 million issued to capitalise SriLankan Airlines in March 2013 (matured on 01 June 2018) and Rs. 78,441 million issued to the Ceylon Petroleum Corporation (CPC) in January 2012 (of which Rs. 21,778 million matured on 01 January 2017 and the current outstanding is Rs. 56,662 million)
(h) Year-on-year growth based on end year values
(i) Based on CCPI (2013=100)

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

Medium Term Macroeconomic Outlook

The Sri Lankan economy is expected to rebound strongly in 2021 and sustain the high growth momentum over the medium term, buoyed by growth oriented policy support. While addressing near term vulnerabilities stemming from the pandemic remains an immediate priority, resolving the persistent structural impediments that hinder the country's long term growth prospects is essential in the period ahead.[1] The impact of the pro-growth policy agenda of the Government and the accommodative monetary policy stance of the Central Bank are expected to contribute to the growth of the economy in 2021, supported by the effect of the low base. The local and international vaccination drive and the return of most economic activities to normalcy are expected to help the economy to achieve a high growth rate in 2021. The spillover effects from the expected recovery of the global economy would positively impact external demand, inflows of workers' remittances, portfolio investment, and FDIs. The Government's efforts towards strengthening the production economy will support domestic agrarian production, agro- and natural resource-based industries and other emerging industries and services, and improve overall productivity of the economy as well. Measures to foster self sufficiency in key agrarian products, with necessary protection against dumping and other malpractices, would encourage domestic producers to make long term investment in large scale farming and production facilities. While the export-oriented manufacturing sectors are expected to be strengthened with the establishment of dedicated industrial zones, the opening up of the Colombo Port City for foreign and domestic investment would bolster the country's services sector, in particular. Further, the task forces established for the purpose of strengthening export earnings, with the participation of public and private stakeholders, are expected to support earmarked export sectors. Further, the benefits of the fiscal stimuli provided in the form of substantial tax reliefs and subsidies are expected to materialise in the near term, through the improvement of profitability of firms and the enhancement of investment capacity. The notable reduction of interest rates, and the resultant low cost of borrowing would help pave the way for high growth with the active participation of the private sector in the period ahead. The high growth momentum is expected to persist over the medium term, supported by expeditious measures aimed at expanding the production possibility frontier and resolving structural impediments in the economy, including the rigid doing business environment, and also by maintaining policy consistency and macroeconomic stability, and envisaged improvements in the external sector through the expected revival of exports of goods and services and financial flows.

[1] Such structural impediments are discussed in detail in Chapter 1, Section 1.5 of the Annual Report.

While cautious management of external sector pressures in the near term is crucial in maintaining macroeconomic stability, the implementation of policies to strengthen non debt creating foreign exchange inflows is expected to improve the resilience of the sector in the medium term. Earnings from exports are expected to strengthen in the period ahead with the envisaged recovery in global demand and the policy drive to improve the tradable sector. To manage the near term pressures in the external sector, close management of expenditure on imports is expected in 2021, although higher petroleum prices and the recovery of domestic economic activity are likely to increase expenditure on imports somewhat during the year. Expenditure on imports is expected to increase over the medium term with the envisaged expansion of domestic demand and exports, although the expected improvements in the domestic supply of consumer and intermediate goods may dampen the demand for such imports. The envisaged improvement in earnings from exports is expected to result in a contraction of the trade deficit in the medium term. The surplus in the services account is expected to improve, underpinned by the recovery of the tourism industry with the reopening of the borders to international tourists and the expected relaxation of travel restrictions globally. Further, the rebound of activities in transport services and the expected high growth in the IT/BPO services subsector is expected to support trade in services over the medium term. The growth momentum of workers' remittances is expected to continue, supported by the prospective rebound of global activity, and the measures implemented by the Government to encourage foreign employment of skilled workers, alongside the incentive framework for migrant workers that is being put in place. With the expected improvements in the merchandise and services exports and workers' remittances, the external current account is expected to improve in 2021 to record a marginal deficit, strictly conditional on the continuation of close management of expenditure on non-essential imports and the recovery of global tourism flows in the second half of the year. The external current account is expected to improve to record surpluses over the medium term, backed by the measures that are being introduced by the Government to promote merchandise and services exports, alongside strengthened institutional support. It is also expected that the planned increased reliance on renewable energy sources for power generation and improvements in public transportation systems will also contribute to the management of the total energy import bill in the future. The expected improvement in investor sentiment would help attract financial flows, including FDI inflows, portfolio investments to the CSE and the government securities market, as the effects of the pandemic dissipate over the period ahead. Major inflows of foreign investment are expected to the Colombo Port City and the Industrial Zone projects, among others. The improvement in the current account balance and enhanced non debt financial flows are expected to strengthen the gross official reserves over the medium term, while easing pressure on the domestic foreign exchange market. The near term need to meet large foreign currency debt service payments of the Government is expected to be fulfilled with the support of bilateral and multilateral sources of financing, while ongoing improvements in the external debt profile and efforts to enhance non debt creating foreign exchange inflows are expected to ensure the sustainability of Sri Lanka's external debt in the period ahead.

In line with the Government's policy agenda, the fiscal sector is expected to improve over the medium term, underpinned by the envisaged revival of economic activity. The business friendly tax regime, which was put in place from end 2019, is expected to continue over the medium term, thereby facilitating a gradual increase of government revenue as businesses and other economic activities continue to expand. The expected rebound of government revenue would also be facilitated by revenue administration reforms to strengthen the tax net. Government expenditure, as a percentage of GDP, is expected to moderate, facilitated by the rationalisation of recurrent expenditure and improved efficiency of capital expenditure in the period ahead. The fiscal burden stemming from underperforming State Owned Business Enterprises (SOBEs) is expected to be reduced with productivity improvements and enhanced managerial efficiency. Although the need for fiscal support for economic activities to recover from the effects of the COVID-19 pandemic would keep the budget deficit elevated in the near term, it is expected to decline to 4.0 per cent of GDP over the medium term with the envisaged improvements on the government revenue and expenditure fronts. Meanwhile, the reliance of deficit financing on foreign sources would be minimized in line with the expressed preference of the Government to reduce exposure to foreign liabilities. Measures have already been taken to streamline foreign funded public investment projects, while encouraging public-private partnerships, thereby lessening the debt burden of the Government. Consequently, the outstanding debt of the Central Government is expected to gradually reduce from the current elevated levels to around 80 per cent of GDP by the year 2025. In line with the change in the deficit financing strategy, foreign currency debt servicing of the Government is also expected to decline over the medium term. Commitment to improving the fiscal sector performance over the medium term is expected, in order to ensure sustained macroeconomic stability and to prevent disruptions to the envisaged high growth path.

With proactive policies to rollback any excessive policy stimulus when aggregate demand conditions normalise, inflation is anticipated to be maintained within the targeted range over the medium term. Inflation is projected to hover around lower single digit levels during most of 2021, reflecting the slack in economic activity. The impact of accommodative monetary policy and fiscal stimulus measures, which were targeted at reviving the economy affected by the pandemic, is expected to induce a gradual buildup of aggregate demand and demand driven pressures on inflation. The rebound of global energy prices and rising global food prices could cause direct and second-round inflationary pressures across the globe. In the meantime, benefiting from continued commitment and policies of the Government targeted at revitalising the economy through enhanced production and measures to control the cost of living, muted supply driven inflationary pressures are foreseen over the medium term. However, possible weather related disturbances are likely to result in transitory volatilities in food prices, which must be addressed by strengthening supply chain management. Adherence to the envisaged fiscal consolidation path by the Government as well as appropriate monetary policy adjustments made in a forward-looking manner as economic conditions normalise, will help stabilise inflation and anchor inflation expectations in the 4-6 per cent range over the medium term within the FIT framework.

The envisaged low inflation environment will help the maintenance of the low interest rate structure, facilitating credit flows to the private sector at reasonable cost and thereby supporting the expected high economic growth, while providing a reasonable real return to savers. The growth of credit to the private sector is projected to accelerate, supported by the prevailing historically low market lending rates, the revival of economic activity buttressed by fiscal and monetary stimuli and the focused efforts to support the MSME sector. The envisaged expansion of credit to the private sector together with the likely increase in credit to the public sector from the banking system is expected to cause the growth of broad money supply to remain elevated in 2021, and moderate thereafter over the medium term aided by the gradual rollback of policy stimulus as economic growth accelerates. Such moderation of fiscal and monetary expansion will not impede the envisaged growth path, as economic growth in the medium term is expected to be driven by productivity improvements and the removal of structural impediments and bottlenecks to growth. The Central Bank will continue to closely monitor the monetary and macroeconomic developments and undertake proactive policy interventions to arrest any undue surge in aggregate demand generated through excessive monetary expansion, while reacting to slippages in terms of foreign exchange outflows and fiscal outcomes. In the meantime, the Central Bank will also continue to take steps to channel credit to priority sectors of the economy, particularly segments that display high potential for domestic growth and export earnings. The expansion of credit at reasonable cost to such segments, which would mostly contain MSMEs, would support the development of an entrepreneurship culture within Sri Lanka, and promote inclusive and sustained growth. While the prevailing low interest rate structure presents tremendous opportunities for new and existing business ventures, it also poses significant challenges for economically vulnerable groups that rely on incomes from interest-bearing deposits. The increased focus towards the introduction of safe and alternative financial products that yield reasonably high returns would benefit savers who are adversely affected by the low interest rates. In this context, the financial sector as a whole, is expected to play a proactive role in effective financial intermediation, by developing innovative products to fulfil the needs of the borrowers as well as savers.

Improvements in the Sri Lankan economy over the medium term are expected to be driven by the implementation of the Government’s novel economic policy framework based on *Vistas of Prosperity and Splendour*, which aims at addressing longstanding macroeconomic imbalances and ensuring equitable, shared and sustained economic growth. While the monetary and financial measures by themselves cannot ensure economic revival and regaining of the growth momentum, wide-ranging economic reforms undertaken by the Government are essential for the country’s continued progress. For several decades, the Sri Lankan economy has

Medium Term Macroeconomic Framework (a)

Indicator	Unit	2019 (b)	2020 (c)	Projections 2021	2022	2023	2024	2025
Real Sector (d)								
Real GDP Growth	%	2.3 (c)	-3.6	6.0	5.2	5.8	6.5	7.0
GDP at Current Market Price	Rs. tn	15.0 (c)	15.0	16.6	18.4	20.7	23.2	26.1
Per Capita GDP	US$	3,852 (c)(e)	3,682	3,873	4,092	4,420	4,784	5,178
Total Investment	% of GDP	26.8 (c)(f)	25.2	27.5	28.0	28.5	29.0	29.5
Domestic Savings	% of GDP	20.7 (c)(f)	18.9	23.1	24.6	26.2	27.4	28.5
National Savings	% of GDP	24.7 (c)(f)	23.9	27.3	28.2	29.0	29.8	30.5
External Sector								
Trade Gap (d)	% of GDP	-9.5	-7.4	-6.2	-5.5	-4.6	-3.7	-3.5
Exports	US$ bn	11.9	10.0	12.5	14.0	15.5	17.0	18.9
Imports	US$ bn	19.9	16.1	17.8	19.0	20.0	21.0	23.0
Current Account Balance (d)	% of GDP	-2.2	-1.3	-0.2	0.2	0.5	0.8	1.0
External Official Reserves	Months of Imports	4.6	4.2	3.2	3.7	4.3	4.7	5.0
Fiscal Sector (d)(g)								
Total Revenue and Grants	% of GDP	12.6 (h)(i)	9.2	11.8	13.0	13.5	14.3	15.1
Expenditure and Net Lending	% of GDP	22.2 (h)(i)	20.3	21.2	20.4	19.1	19.0	19.2
Current Account Balance	% of GDP	-3.6 (h)(i)	-7.9	-3.1	-1.3	0.0	1.2	2.3
Primary Balance	% of GDP	-3.6 (h)(i)	-4.6	-4.2	-2.3	-0.6	0.2	0.9
Overall Fiscal Balance	% of GDP	-9.6 (h)(i)	-11.1	-9.4	-7.5	-5.6	-4.7	-4.0
Central Government Debt	% of GDP	86.8 (h)	101.0	98.0	95.0	91.0	86.0	80.0
Monetary Sector and Inflation								
Broad Money Growth (M_{2b}) (j)	%	7.0	23.4	21.0	12.5	12.5	12.5	12.5
Private Sector Credit Growth (in M_{2b}) (j)	%	4.2	6.5	12.2	11.6	11.7	12.0	12.0
Annual Average Inflation (k)	%	4.3	4.6	4.3	5.8	6.0	5.5	5.0

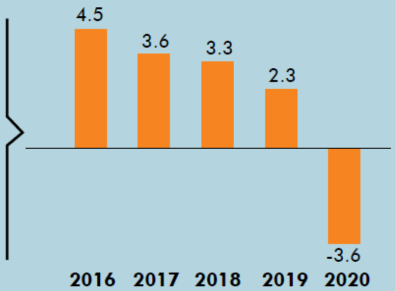
(a) Based on information available at the time of going to press
(b) Revised
(c) Provisional
(d) Based on the GDP estimates (base year 2010) of the Department of Census and Statistics
(e) Estimates are updated with the latest population figures.
(f) Total investment, domestic savings and national savings as a percentage of GDP in 2019 were revised by the Department of Census and Statistics from 27.4%, 21.3% and 25.3%, respectively.
(g) Fiscal sector projections are based on the inputs from the Ministry of Finance.
(h) Based on the revised GDP estimates for 2019 released on 16 March 2021 by the Department of Census and Statistics
(i) According to the Ministry of Finance, the fiscal sector statistics of 2019 have been restated as announced in the Budget Speech for 2020.
(j) Year-on-year growth based on end year values
(k) Based on CCPI (2013=100)

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

grappled with numerous structural impediments to growth and macroeconomic stability. Despite the widespread recognition among policymakers and analysts about the need for reform, the needed reforms have been postponed repeatedly. This is reflected in the country's incessant twin deficit burden from the fiscal and external sectors. On the one hand, export earnings have stagnated over the years without much improvement in the production base in the tradable sector, diversification of products and markets, integration into global and regional value chains and on exploiting the untapped potential of services exports. On the other hand, import expenditure has continued to escalate due to the dependence of industrial exports on imported raw materials and thereby the inelastic nature of demand for such products, the increasing demand for imported goods from the growing middle class and the increasing demand for petroleum for power generation and transport activities. While workers' remittance flows have cushioned the external current account deficit, the low level of FDI flows has led to the excessive reliance on external borrowings to bridge the gap between savings and investment. On the fiscal front, the economy has been grappling with high and rigid expenditure and persistently low revenue mobilisation largely due to the lack of any sizeable expansion in the tax base and weak tax administration. The resultant expansion in the fiscal deficit has led to the rapid accumulation of debt to disconcerting levels. The COVID-19 pandemic has exacerbated these incessant economic concerns. However, the pandemic has also offered an opportunity to reset the economy's focus and to address these longstanding structural weaknesses and establish a production based, productivity driven economy. In this context, the Government's policy focus on building a strong domestic production economy that is export oriented and capable of effectively catering to the growing domestic demand, is a welcome transformation. The Central Bank's maintenance of a low interest environment will also enable domestic ventures to benefit from the Government's pro-growth policies focused on expanding the productive potential of the economy. Improved domestic production can help increase household incomes, paving way for an expansion in the tax base and revenue collection in the period ahead, thereby supporting the planned fiscal consolidation path over the medium term. A key initiative that is underway is the effort to improve the production capacity of the economy and to strengthen non debt creating foreign exchange flows to sectors with export potential, with the active participation of the public and private sector stakeholders in the relevant sectors. National level recognition of these deep-rooted structural problems and the initiatives taken thus far to address them are appreciable. Timely implementation of suitable and coherent policies to redress these issues is vital for the economy to rapidly progress on the envisaged high growth trajectory in a sustainable manner.

Snapshot of National Output, Expenditure, Income and Employment - 2020

Real Economic Growth Rate %

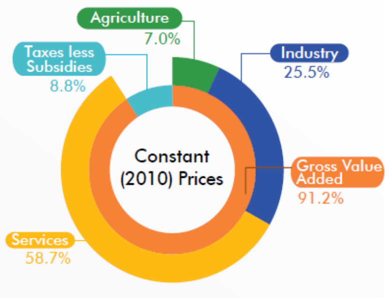


GDP at Current Market Prices
Rs. 14,973 bn
US$ 80.7 bn

Mid-Year Population ('000 persons)
21,919

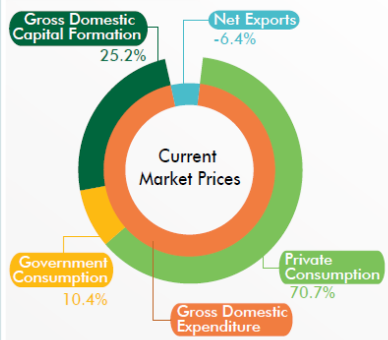
Per Capita GDP
Rs. 683,106
US$ 3,682

Production Approach



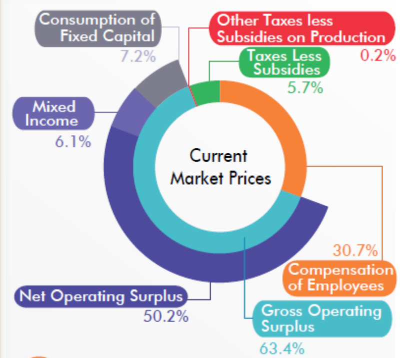
Services Key driver: Contraction in Transportation	-1.5% ↓
Industry Key driver: Contraction in Construction	- 6.9% ↓
Agriculture Key driver: Contraction in Fishing	-2.4% ↓
Taxes less Subsidies	-8.0% ↓

Expenditure Approach



Private Consumption Key driver: Increase in Expenditure on Food	1.0% ↑
Government Consumption Key drivers: Increase in Expenditure on Health, and Public Order and Safety	9.8% ↑
Gross Domestic Capital Formation Key driver: Contraction in Gross Domestic Fixed Capital Formation	-6.2% ↓
Net Exports Key driver: Decline of Exports in absolute value	-3.5% ↓
Exports of Goods and Services	-28.5% ↓
Imports of Goods and Services	-21.8% ↓

Income Approach



Compensation of Employees	2.6% ↑
Gross Operating Surplus	0.7% ↑
Net Operating Surplus	0.8% ↑
Mixed Income	1.5% ↑
Consumption of Fixed Capital	-1.1% ↓
Other Taxes less Subsidies on Production	-55.8% ↓

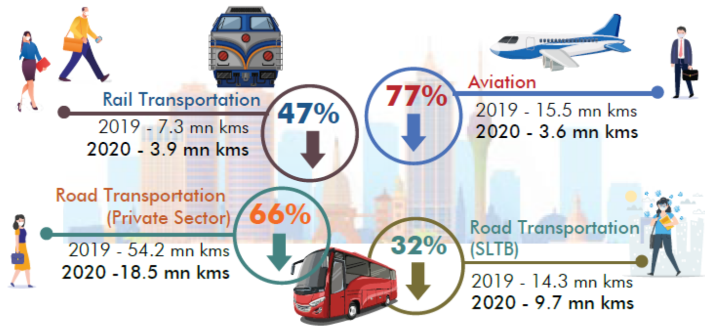
Labour Market Indicators

Indicator	2019	2020
Labour Force	8.592 mn	8.467 mn
Economically Inactive Population	7.832 mn	8.273 mn
Labour Force Participation Rate	52.3%	50.6%
Employed Population	8.181 mn	7.999 mn
Unemployment Rate	4.8%	5.5%
Departures for Foreign Employment	203,087	53,713

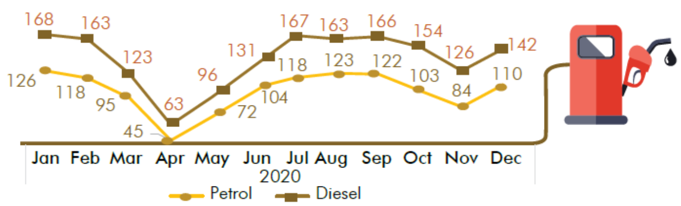
Performance of Economic and Social Infrastructure

Consistent public investment in the socioeconomic infrastructure base of the country over several decades helped smoothen adverse economic consequences stemming from COVID-19 by facilitating the continuity of economic activity.

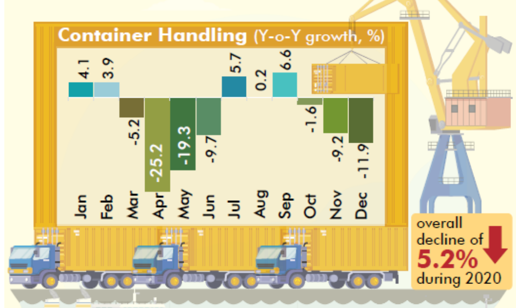
Although transport activities were dampened by COVID-19, a recovery was observed towards the end of the year.

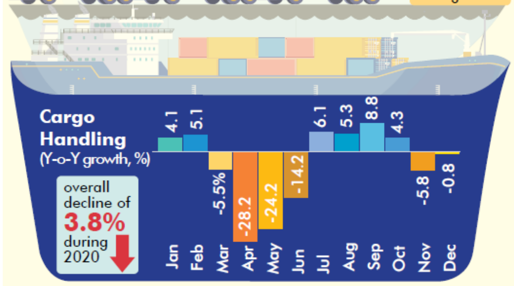


Sales of Petrol and Diesel to the Transport Sector (MT'000)



Port activities also experienced a significant setback during the year.

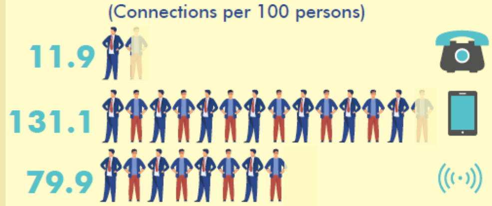




Resilient growth performance was greatly facilitated by the telecommunications sector

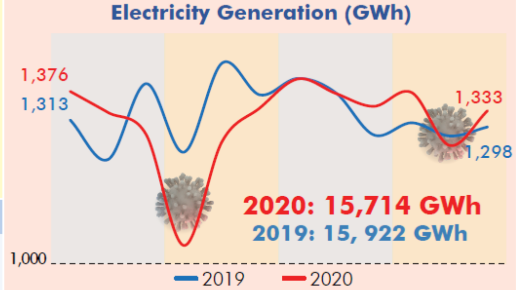
Telecommunications Sector

(Connections per 100 persons)



Electricity generation recorded a marginal decline.

Electricity Generation (GWh)



Innovative Attempts to continue Education

Adoption of Innovative Learning Solutions

Blended Learning Methods

- e-thaksalawa
- Guru Gedara
- Activity Worksheets
- Learning Management System
  - 502,000 Zoom sessions
  - 22.3 mn online participations

Managing Continuity

- MOE's Contingency Emergency Response Plan (CERP)
- All national examinations conducted despite delays
- Improve teachers' capacity of online teaching
- Resolve disparities in access to technology

22.2% Desktop or Laptop Ownership of Households

32.0% Computer Literacy

Electricity Sales Performance of Key Categories

	Domestic and Religious	Industrial	General Purpose and Hotel	Overall
	6.4%	-5.2%	-9.1%	-2.2%
2019	4,863	4,392	3,563	14,611
2020	5,172	4,164	3,238	14,287

Efficacious service delivery of the health sector enabled the effective curbing of the spread of the virus, low fatality rates, and the relatively rapid restoration of normalcy to economic activity.

Public Sector			Ayurveda Sector			Private Sector	
Doctors (persons per doctor)	Nurses (persons per nurse)	Beds (per 1,000 persons)	Physicians (Registered)	Hospitals	Beds	Hospitals	Beds
1,117	582	3.5	26,061	118	5,058	217	5,173

Movements of Prices and Wages - 2020

Prices [(a)]

Volatile Food [(b)]	Coconut	▲ 51.9%	Big Onion	▲ 13.3%	Potato	▲ 13.2%
Weights NCPI : 24.0% CCPI : 15.2%	Rice	▲ 11.7%	Vegetables	▲ 11.6%	Fish	▲ 7.0%
Other Food [(c)]	Turmeric Powder	▲ 145.7%	Coconut Oil	▲ 32.3%	Sugar	▲ 17.5%
Weights NCPI : 20.0% CCPI : 13.0%	Dhal	▲ 11.1%	Milk Powder	▲ 7.5%	Egg	▼ 3.8%
Non Food	Education	▲ 4.8%	Pharmaceuticals	▲ 3.9%	Clothes	▲ 3.3%
Weights NCPI : 56.0% CCPI : 71.8%	Bus Fare	▲ 2.8%	Housing Rent	▲ 1.5%	Laboratory Charges	▼ 7.6%

Wages

	Nominal [(d)]	Real [(e)]
Public Sector	▲ 9.2%	▲ 2.9%
Formal Private Sector	▲ 0.2%	▼ 4.2%
Informal Private Sector	▲ 3.3%	▼ 2.7%

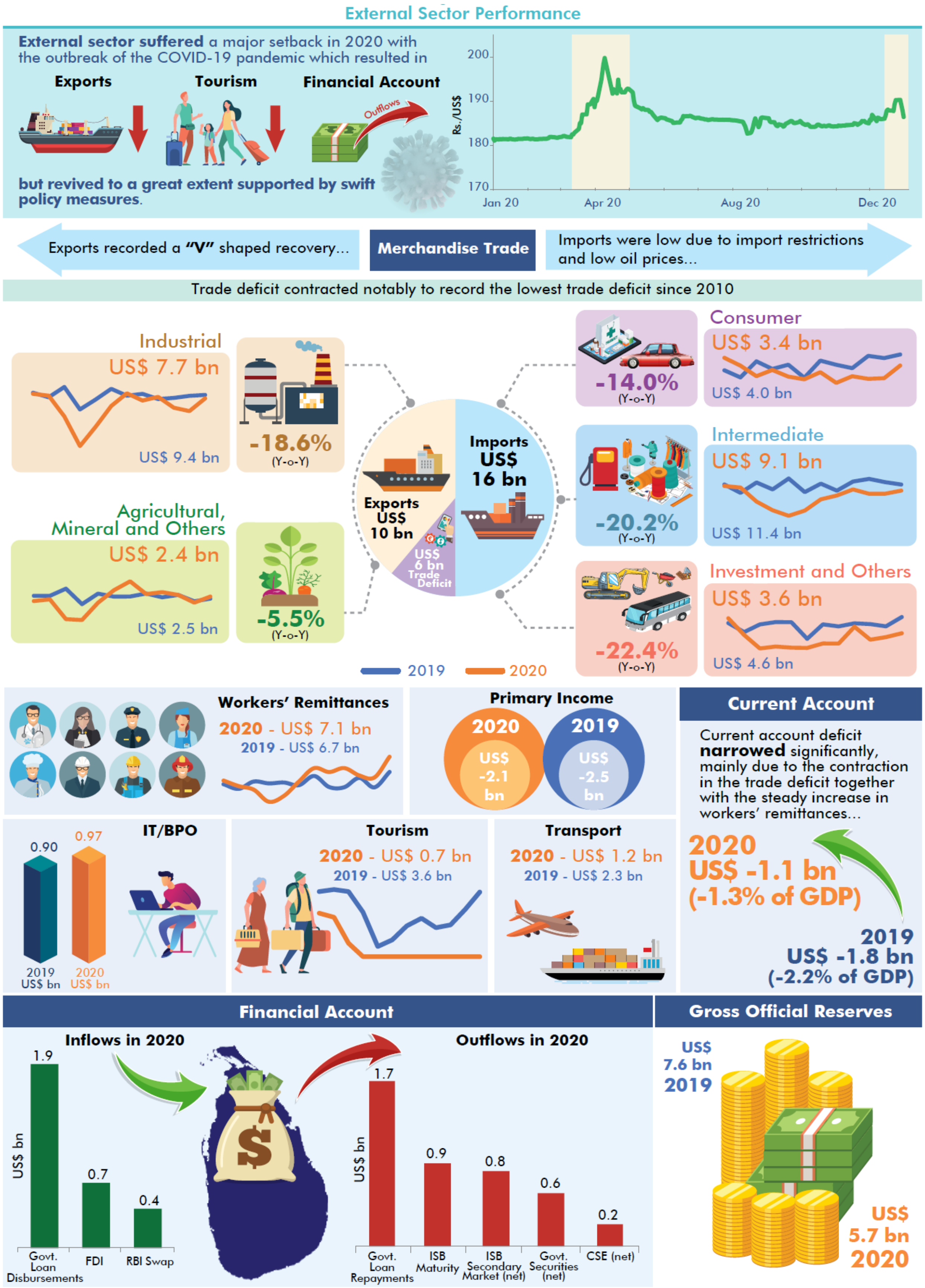
(a) Annual average percentage change of NCPI prices

(b) Volatile Food includes rice, meat, fresh fish and seafood, coconut, fresh fruits, vegetables, potato, onions and selected condiments

(c) Other food include food items excluding Volatile Food items

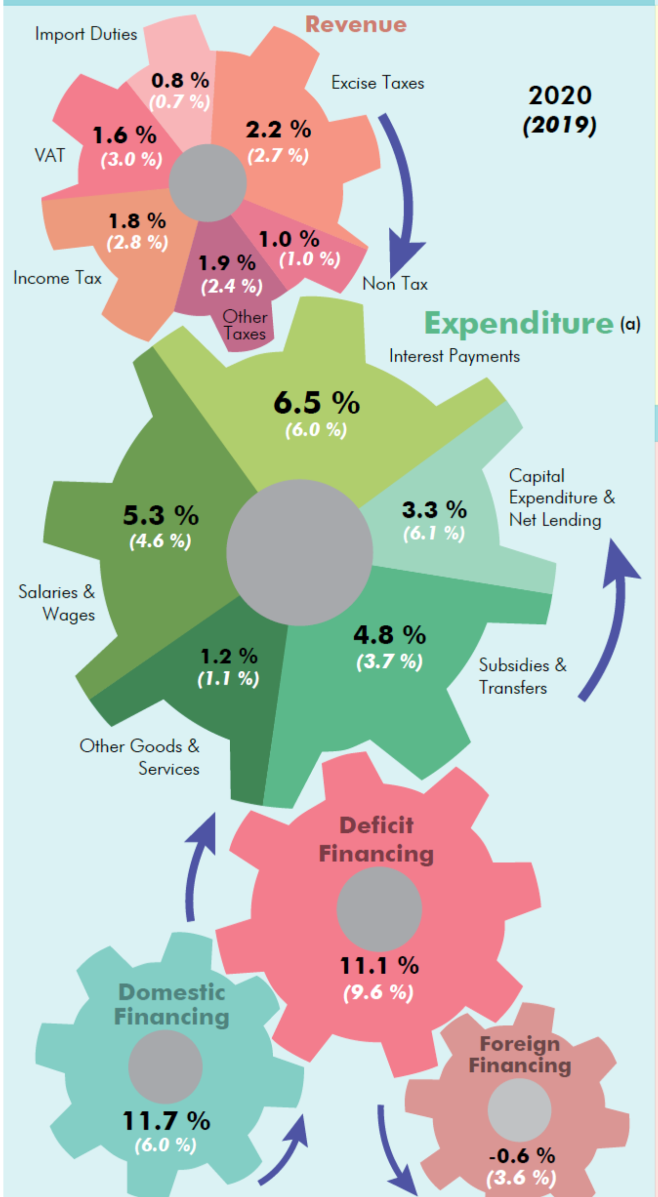
(d) Annual average percentage change of nominal wages

(e) Annual average percentage change of real wages


External Sector Performance
External sector suffered a major setback in 2020 with the outbreak of the COVID-19 pandemic which resulted in
Exports
Tourism
Financial Account
Outflows
but revived to a great extent supported by swift policy measures.
Rs./US$
200
190
180
170
Jan 20
Apr 20
Aug 20
Dec 20
Exports recorded a "V" shaped recovery...
Merchandise Trade
Imports were low due to import restrictions and low oil prices...
Trade deficit contracted notably to record the lowest trade deficit since 2010
Industrial
US$ 7.7 bn
US$ 9.4 bn
-18.6%
(Y-o-Y)
Agricultural, Mineral and Others
US$ 2.4 bn
US$ 2.5 bn
-5.5%
(Y-o-Y)
Exports US$ 10 bn
Imports US$ 16 bn
US$ 6 bn Trade Deficit
Consumer
US$ 3.4 bn
US$ 4.0 bn
-14.0%
(Y-o-Y)
Intermediate
US$ 9.1 bn
US$ 11.4 bn
-20.2%
(Y-o-Y)
Investment and Others
US$ 3.6 bn
US$ 4.6 bn
-22.4%
(Y-o-Y)
2019
2020
Workers' Remittances
2020 - US$ 7.1 bn
2019 - US$ 6.7 bn
Primary Income
2020
US$ -2.1 bn
2019
US$ -2.5 bn
Current Account
Current account deficit narrowed significantly, mainly due to the contraction in the trade deficit together with the steady increase in workers' remittances...
2020
US$ -1.1 bn
(-1.3% of GDP)
2019
US$ -1.8 bn
(-2.2% of GDP)
IT/BPO
0.90
0.97
2019 US$ bn
2020 US$ bn
Tourism
2020 - US$ 0.7 bn
2019 - US$ 3.6 bn
Transport
2020 - US$ 1.2 bn
2019 - US$ 2.3 bn
Financial Account
Inflows in 2020
US$ bn
1.9
0.7
0.4
Govt. Loan Disbursements
FDI
RBI Swap
Outflows in 2020
US$ bn
1.7
0.9
0.8
0.6
0.2
Govt. Loan Repayments
ISB Maturity
ISB Secondary Market (net)
Govt. Securities (net)
CSE (net)
Gross Official Reserves
US$ 7.6 bn
2019
US$ 5.7 bn
2020

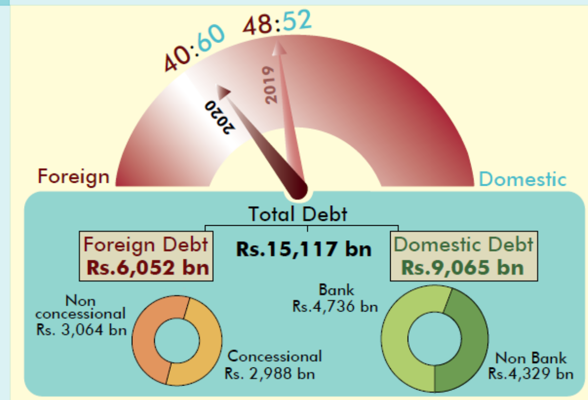
Fiscal Sector Performance

Revenue, Expenditure and Deficit Financing (% of GDP)

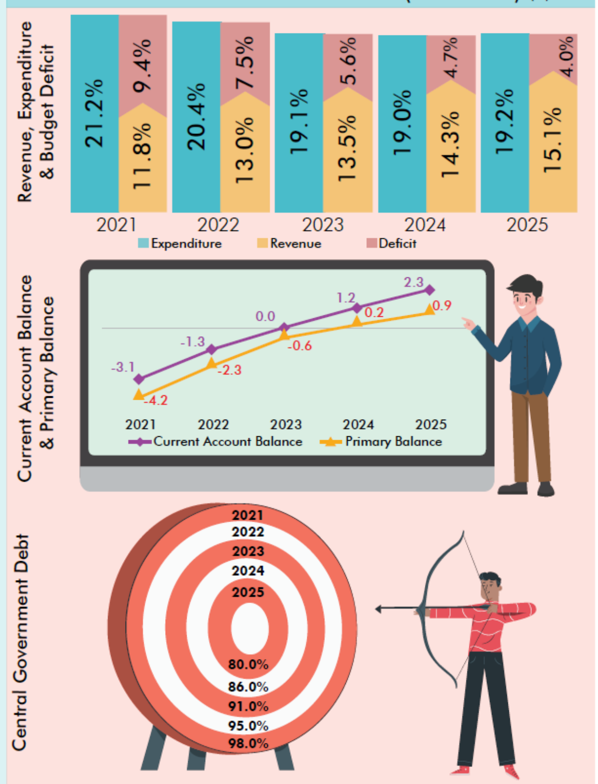


(a) The composition of the recurrent expenditure represents the ratios excluding the adjustment for arrears payment.

Outstanding Central Government Debt

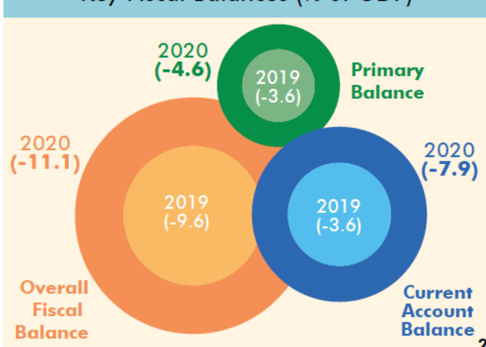


Medium Term Fiscal Framework (% of GDP) (b)

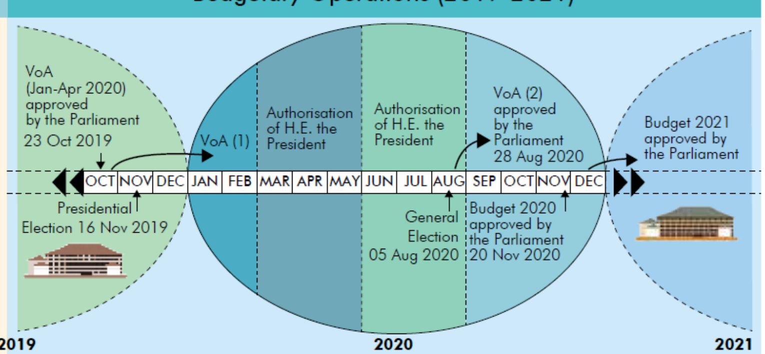


(b) Source: Ministry of Finance

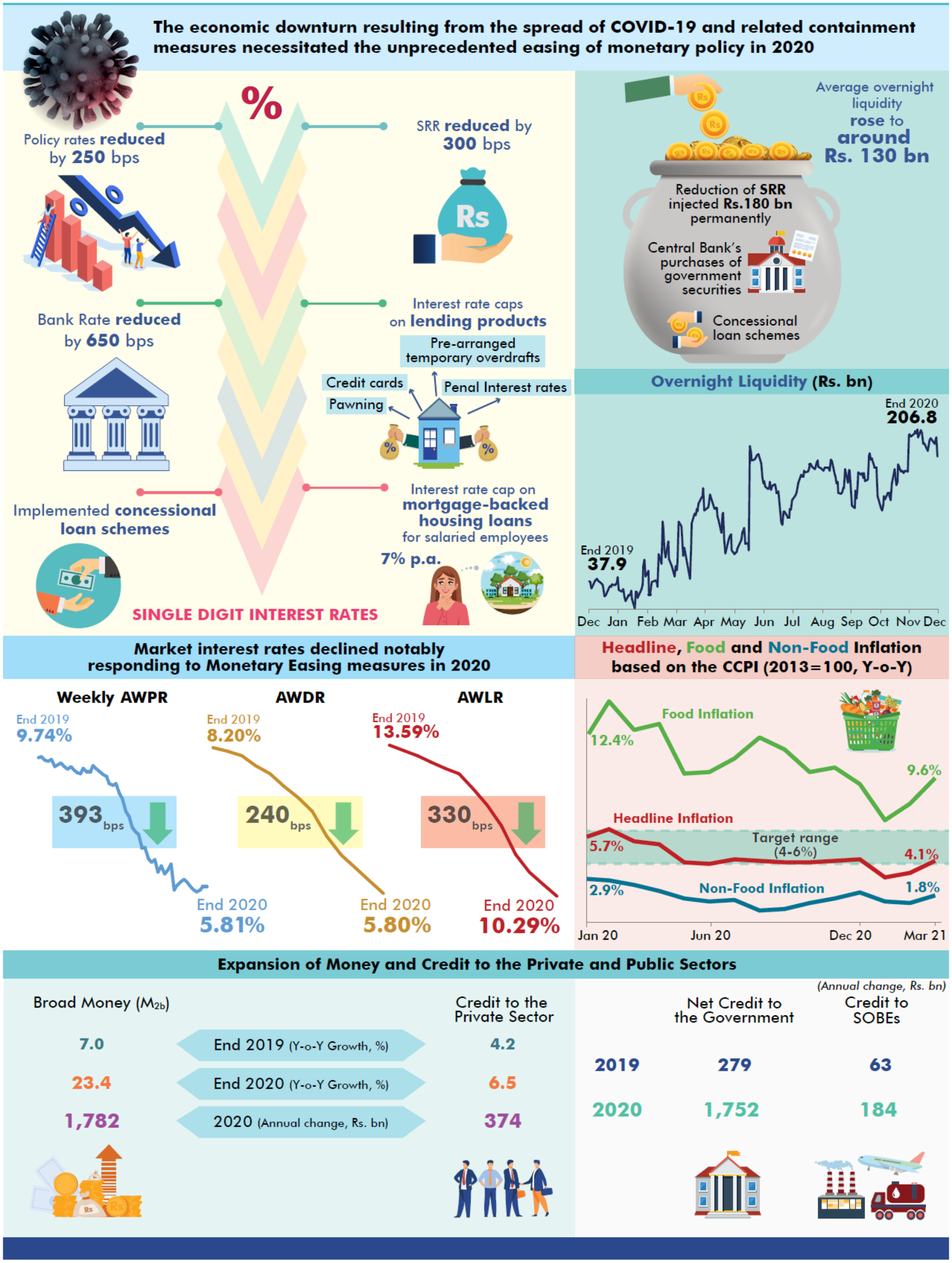
Key Fiscal Balances (% of GDP)



Budgetary Operations (2019-2021)



Monetary Sector Performance



Banking Sector

Banking sector exhibited satisfactory growth in terms of loans and advances, investments, and deposit base.

11.9 Y-o-Y Growth in Loans and Advances (%)

40.0 Y-o-Y Growth in Investments (%)

21.6 Y-o-Y Growth in Deposits (%)

4.9 Gross NPL Ratio (%)

37.3 Statutory Liquid Asset Ratio - DBU (%)

16.5 Capital Adequacy Ratio (%)

Despite enduring challenges stemming from the COVID-19 pandemic, the banking sector remained resilient during 2020.

Insurance Sector

9.7 Y-o-Y Growth in GWP (%)

14.6 Y-o-Y Growth in Total Assets (%)

38.6 Profit Before Tax (Rs. bn)

The insurance sector reported a growth in asset base and profits.

LFCs and SLCs Sector

-5.7 Y-o-Y Growth in Loans and Advances (%)

15.7 Capital Adequacy Ratio (%)

13.9 Gross NPL Ratio (%)

1.7 Return on Assets (%)

The Central Bank initiated several regulatory actions along with introducing the Consolidation Master Plan to revive the sector.

Employees' Provident Fund

The fund earned a total gross income of Rs. 285.6 billion in 2020, recording an increase of 10.1 per cent compared with the previous year.

19.4 No of Member Accounts (mn)

11.2 Y-o-Y Growth in Total Assets (%)

150.7 Contributions (Rs. bn)

109.7 Refunds (Rs. bn)

10.6 Return on Investment (%)

9.0 Interest Paid to Member Balances (%)