

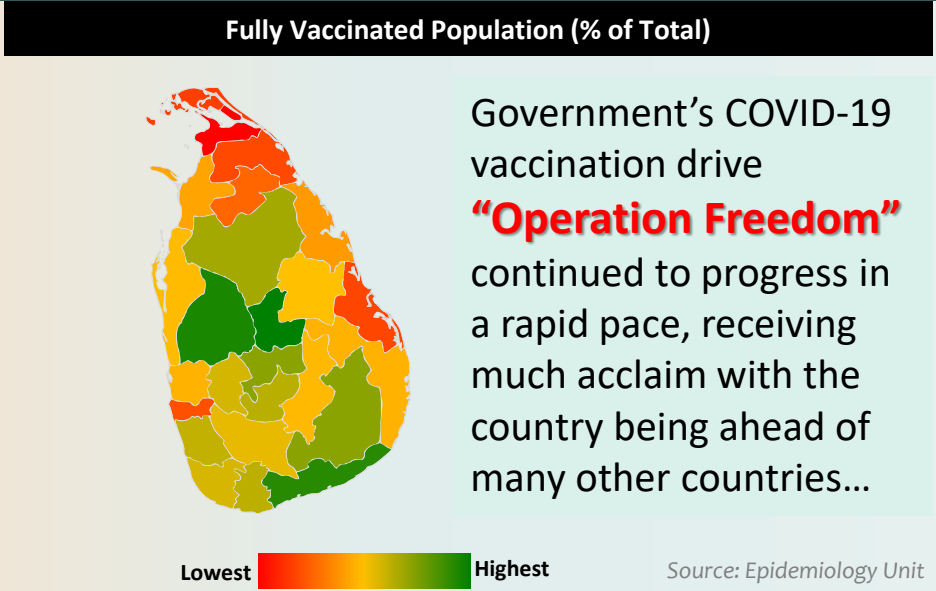
SRI LANKA: Recent Economic Developments, Outlook and Opportunities

January 2022



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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

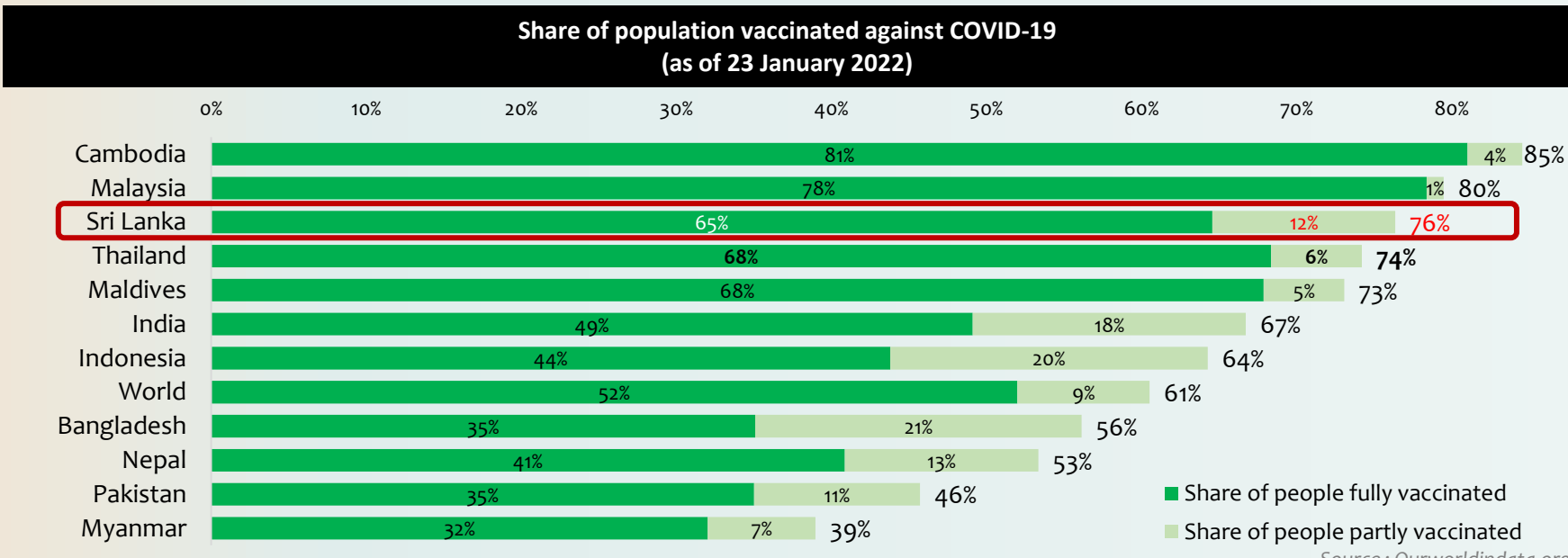


Sri Lanka :
(by 24 Jan 2022)

85.5% of the population above 16 years is fully vaccinated

63.3% of the total population was fully vaccinated

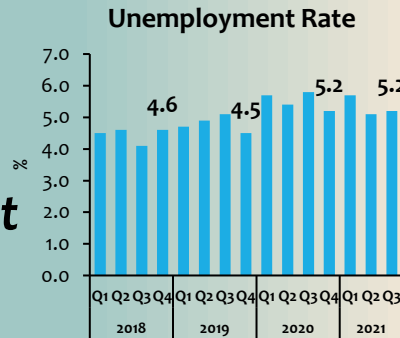
Approximately 35.5% of the fully vaccinated population received **Booster** doses



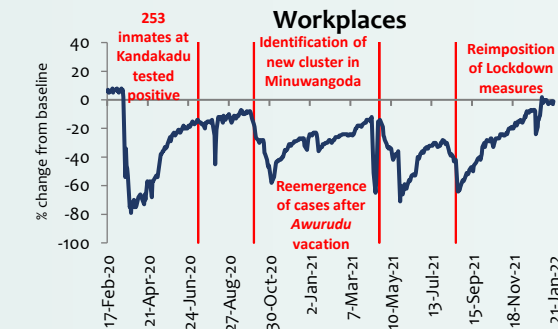
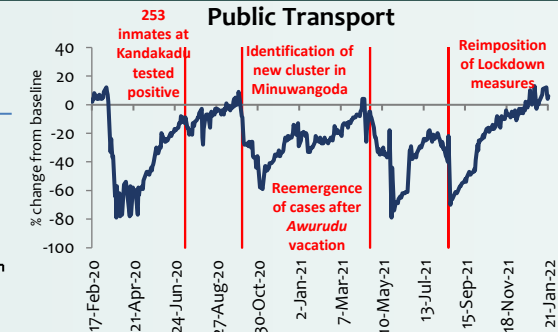
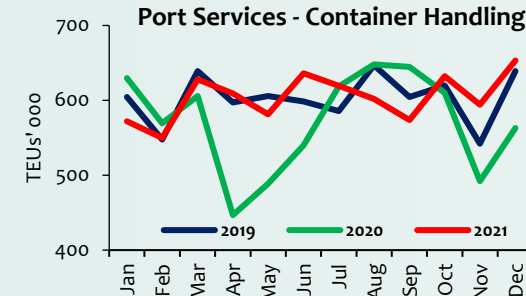
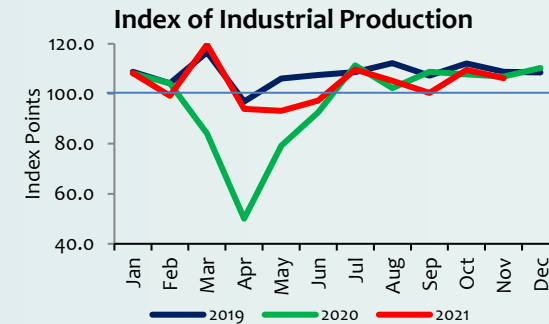
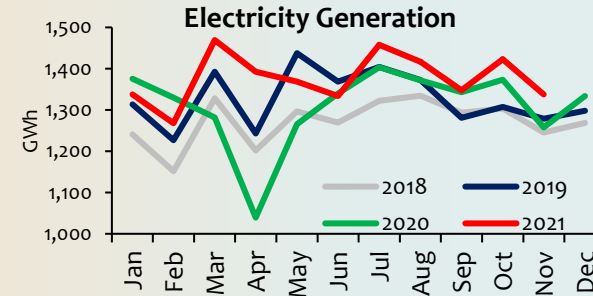
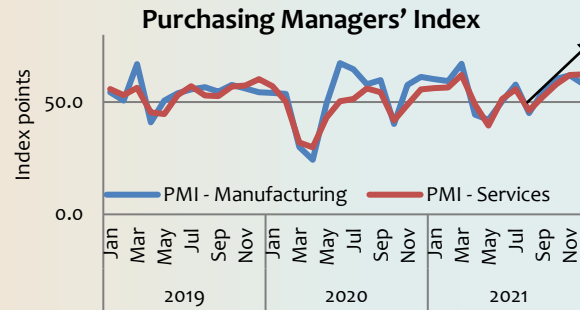
Recent Economic Developments, Outlook and Opportunities...

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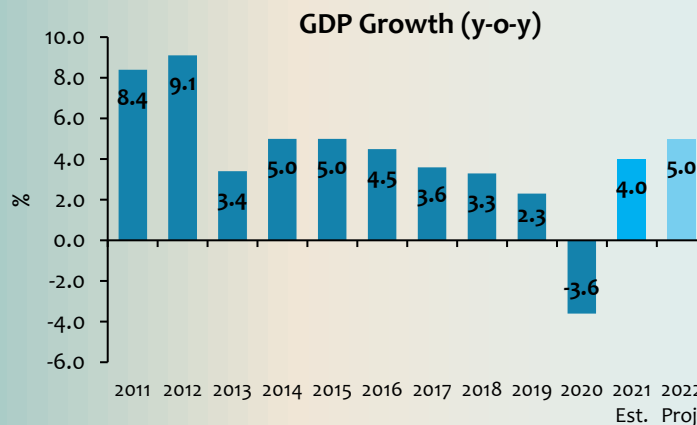
- Several indicators suggest that economic activity is fast returning to normalcy...
- The economy is expected to have recorded a growth of around 4% in 2021 and to grow at 5% in 2022...



Although the unemployment rate remained above 5% level for last consecutive seven quarters, unemployment is expected to moderate with the recovery in economic activity...



Source: Google COVID-19 Community Mobility Reports

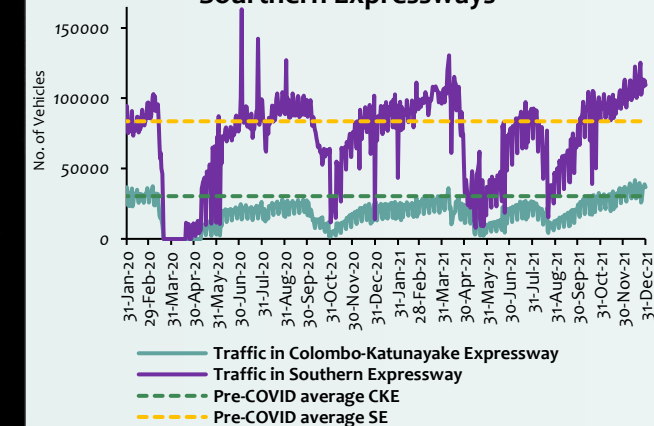


Source: Department of Census and Statistics



Source: LMD

Vehicular Traffic in Katunayake and Southern Expressways



Source: Road Development Authority

The tourism sector is witnessing a promising growth...

1.05 million tourists are expected in 2022, as per SLTDA



- Arrivals of 64,087 recorded on the first 24 days of January 2022
- 2021 : 194,495 (-61.7%, y-o-y)
- 2020 : 507,704

- 2021 : USD 261.4 mn
- 2020 : USD 682.4 mn



Sri Lanka ranked among top 5 countries to visit in 2021...

- Portugal
- New Zealand
- Japan
- Morocco
- Sri Lanka**
- Italy
- Iceland
- Greece
- Croatia
- Turkey

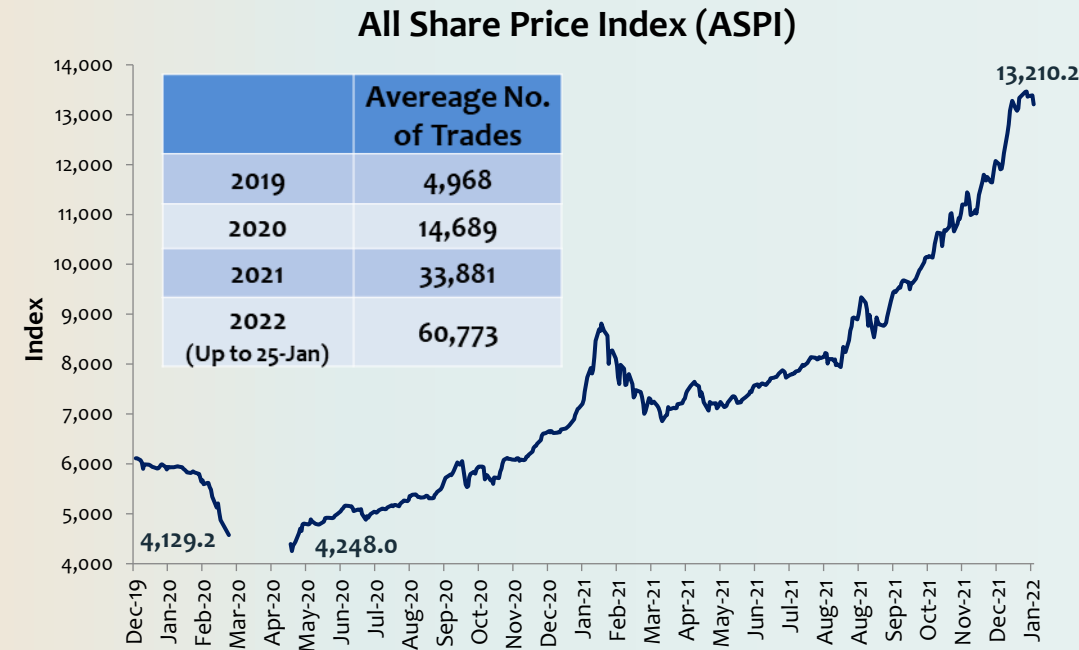


Condé Nast Traveler
Nov 2021



Colombo named as one of the best travel destinations in 2022 by CNN Travel (Jan 2022)

The equity market has displayed a remarkable recovery with improved corporate performance...



- ASPI index reached all-time high on 19-01-2022 (13,462.4)
- Market turnover was recorded at Rs. 1,173 bn in 2021, recording the highest cumulative turnover during a year
- Market turnover was recorded at Rs. 138 bn so far in 2022*

Movements of Key Stock Indices

| | YTD (%) 2021 | YTD* (%) 2022 |
|-------------------------|---------------|---------------|
| Sri Lanka (ASPI) | +80.5% | +8.0% |
| India (Sensex) | +22.0% | -0.7% |
| US (S&P 500) | +26.9% | -8.6% |
| Germany (DAX) | +15.8% | -3.8% |
| UK (FTSE) | +14.3% | +0.8 |
| Australia (ASX 200) | +13.0% | -6.5% |
| Singapore (STI) | +9.8% | +4.9% |
| Korea (KOSPI) | +3.6% | -9.0% |
| Japan (Nikkei) | +4.9% | -6.2% |
| Hong Kong (HSI) | -14.1% | +3.6% |

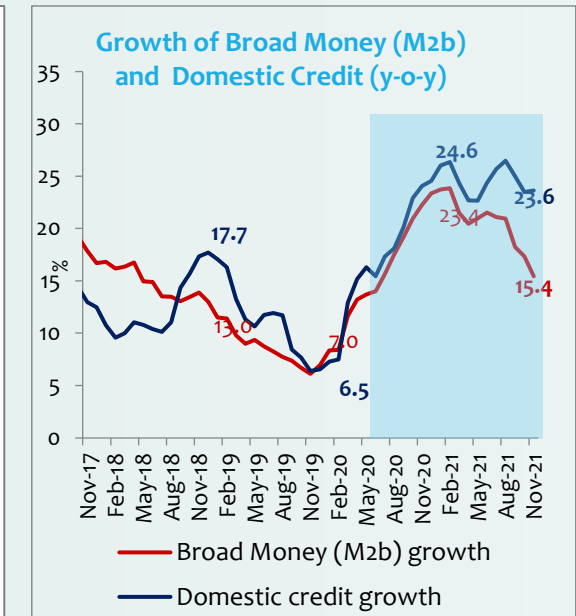
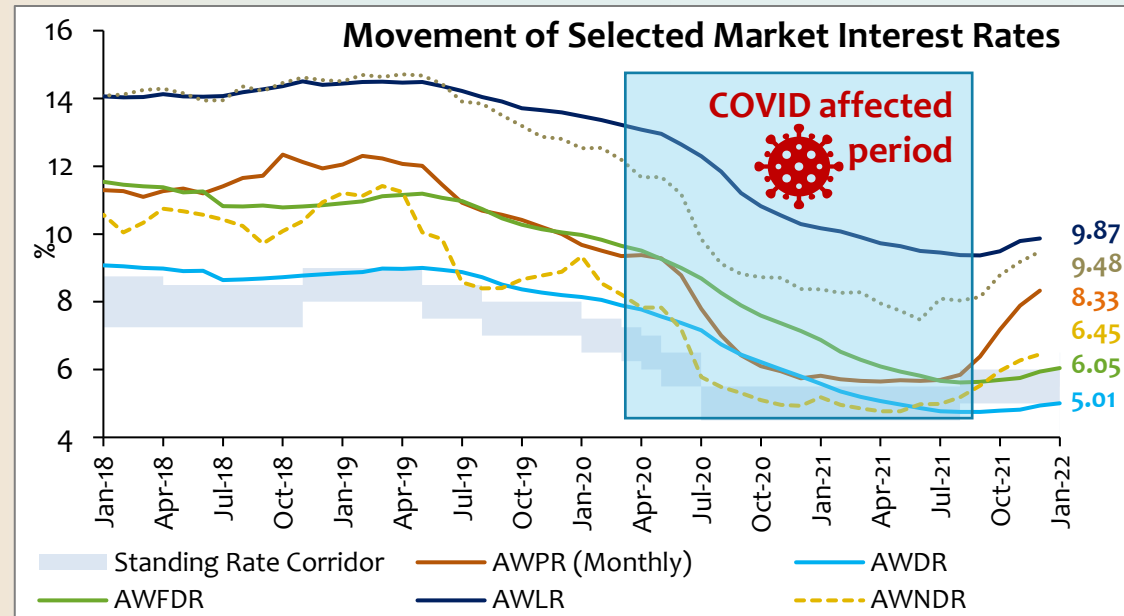
*up to 25 Jan 2022

Source: MarketWatch

Movements in Key Indicators of the Colombo Stock Exchange - 2021

| | | | |
|-----------------------------|-------------------------------------|---|---------------------------------|
| ASPI 80.5% | S&P SL20 60.5% | Avg. Daily Turnover Rs. 5,085.3 mn | Equity IPOs 14 |
|-----------------------------|-------------------------------------|---|---------------------------------|

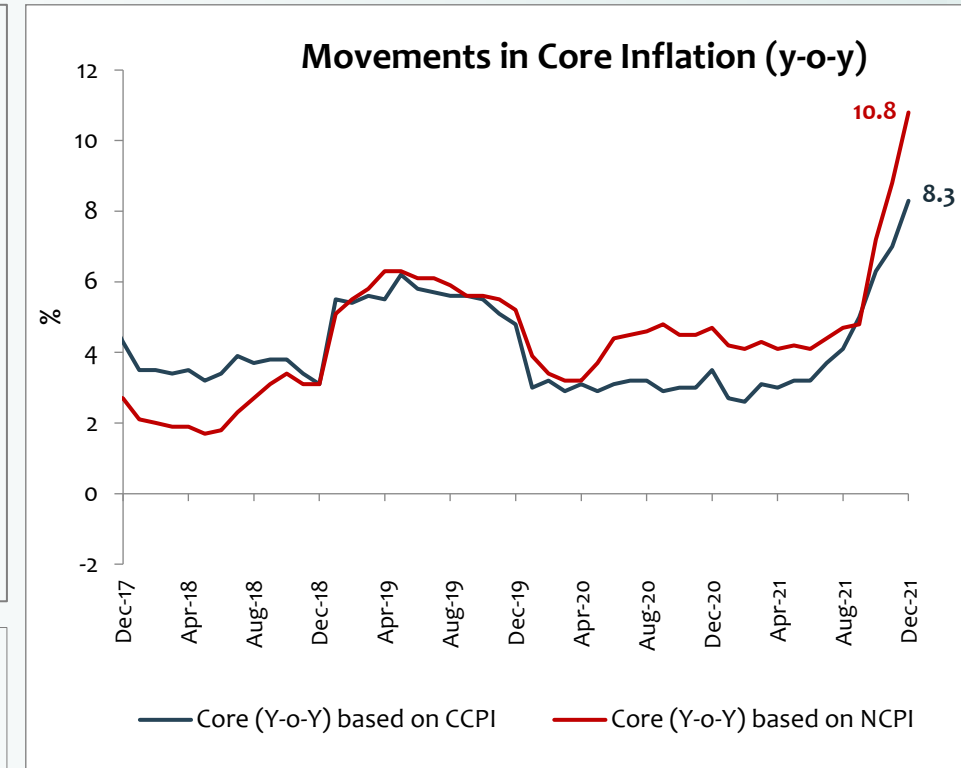
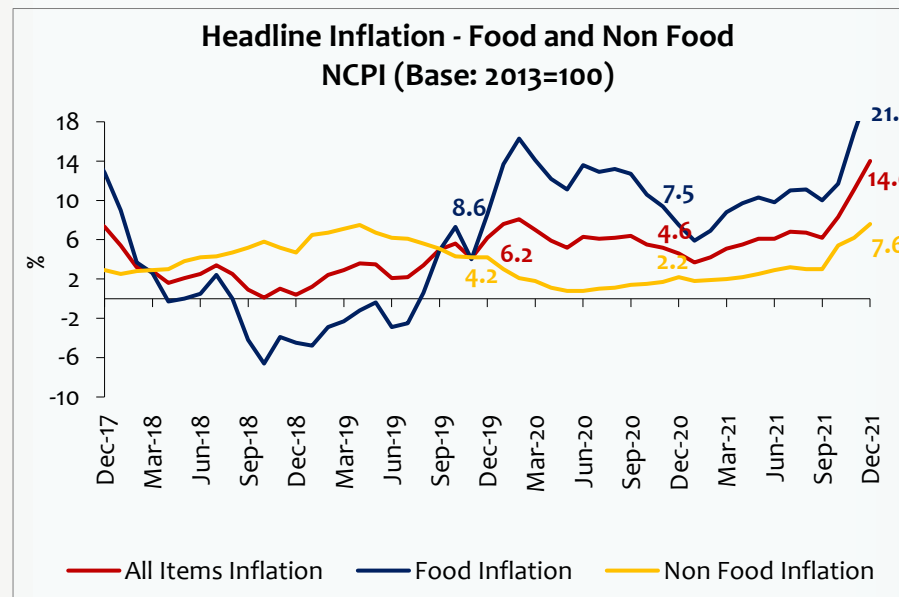
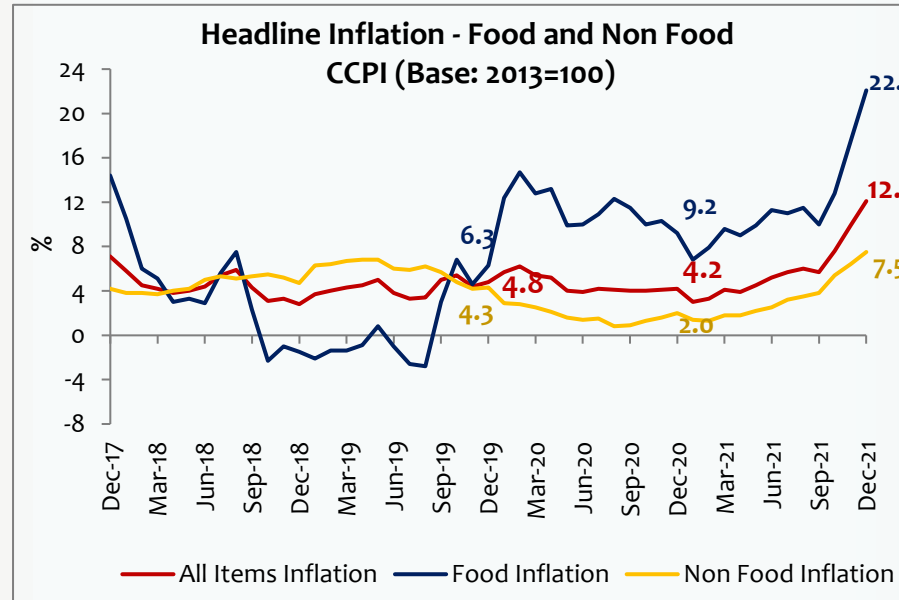
- With the view to supporting the economy that was affected by the pandemic, the Central Bank implemented a package of monetary stimuli enabling a faster recovery in economic activity...
- As domestic economic activity is being normalised gradually, measures were taken to tighten monetary policy from August 2021 onwards in order to strengthen macroeconomic stability...



Estimated direct benefits to the economy from the monetary easing measures adopted by the Central Bank since the COVID-19 outbreak

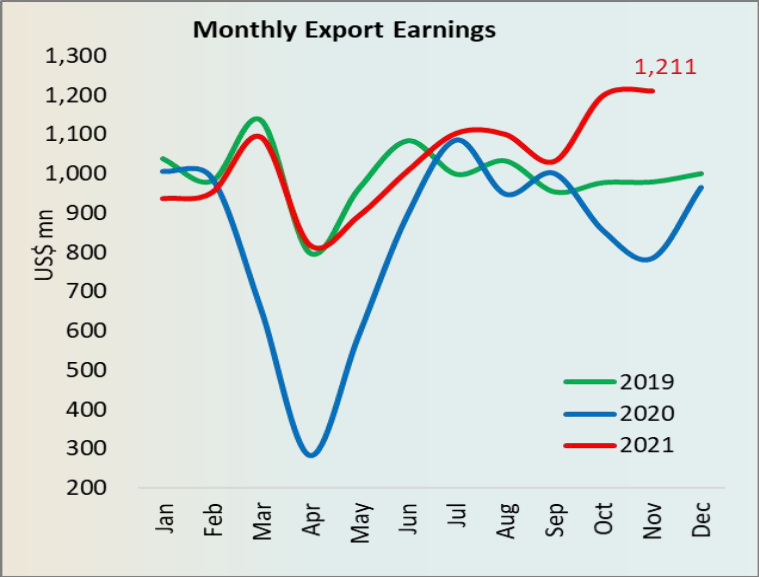
| Measures | Value (Rs. bn) | | As a % of Nominal GDP (based on 2020) |
|---|----------------|----------------|---------------------------------------|
| | 2020 | 2021 | |
| Purchase of Treasury bills from the Primary Market and Direct Allocations (since March 2020) | 831 | 1708.9 | 16.9% |
| COVID-19 Saubagya Refinance Scheme | 165 | - | 1.1% |
| Injection of liquidity through reduction in the SRR | 180 | - | 1.2% |
| Central Bank Profit Transfers | 24 | 15 | 0.3% |
| Saving in terms of reduced interest rates to the Private Sector (Assuming end period outstanding credit volume, at AWLR) | 204 | 192 | 2.6% |
| Saving in terms of reduced interest rates to the Public Sector (Govt. + SOBEs) (Assuming end period outstanding credit volume, at 1-year T-bill rate) | 189 | 116 | 2.0% |
| Total | 1,593 | 2,031.9 | 24.2% |

- **Supply-side factors remain the key driver of domestic price pressures, and the Central Bank has already addressed possible signs of demand pressures...**
- **Increase in price pressures is common across the countries around the globe where the US is experiencing a record 40 year high level of inflation while the UK and NZ are experiencing a 30 year high levels of inflation...**



- **Such supply driven price pressures are expected to be transitory**
- **The adoption of proactive monetary policy measures help in managing inflation expectations**

Performance of merchandise trade is expected to improve supported by recent policy measures and normalising global demand...



- Highest monthly export value in the history was recorded in Nov 2021, while marking the sixth consecutive month of above US dollars 1.0 billion of exports
- Increases in earnings were observed across all main categories, while industrial exports mainly contributed to the expansion

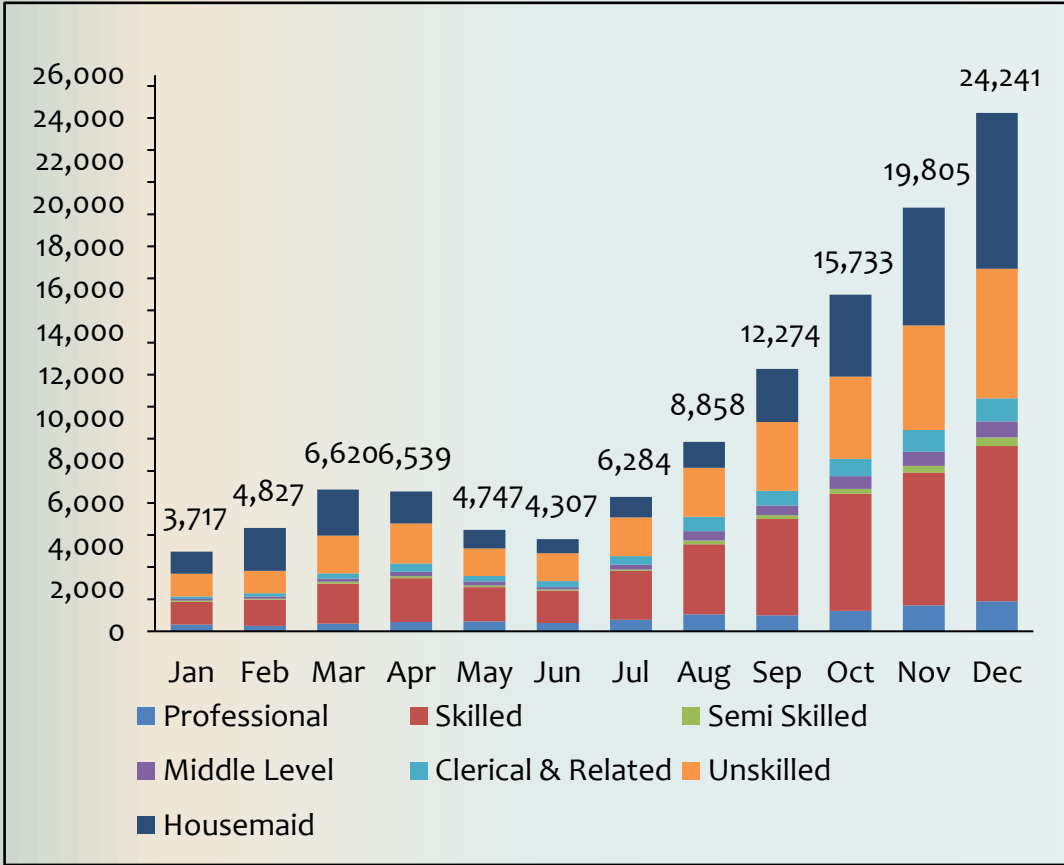
Several Presidential Task Forces were established in 2021 to develop the export sector and encourage other non-debt inflows of foreign exchange through a combined effort of relevant stakeholders to align their activities in a streamlined and targeted manner

Export Destinations Jan-Nov 2021

| Country | 2021 Jan –Nov (US\$ mn) | Share (%) |
|-------------|-------------------------|-----------|
| USA | 2,770.4 | 24.9 |
| UK | 853.1 | 7.7 |
| India | 725.4 | 6.5 |
| Germany | 678.9 | 6.1 |
| Italy | 533.2 | 4.8 |
| Netherlands | 389.1 | 3.5 |
| Belgium | 302.5 | 2.7 |
| Canada | 285.6 | 2.6 |
| UAE | 253.5 | 2.3 |
| China | 251.9 | 2.3 |

Although workers' remittances continued to decline in 2021, a pickup in remittances is expected as migrant departures have increased steadily ...

Migrant Departure by Skill Category (Jan-Dec 2021)



| | Actual/Target Amount (No.) |
|------|----------------------------|
| 2020 | 53,875 |
| 2021 | 117,952 |

The Central Bank has initiated a number of steps to promote remittances

- Establishment of a new Department at the Central Bank, dedicated to facilitating foreign remittances.
- Payment of an additional Rs. 8.00 per US dollar for workers' remittances paid in addition to the incentive of Rs. 2.00 per US dollar offered under the "Incentive Scheme on Inward Workers' Remittances" extended until 30 April 2022.
- Reimbursing transaction cost borne by Sri Lankan migrant workers when remitting money to rupee accounts via formal channels with effect from 01 February 2022 through the payment of Rs. 1,000 per transaction .

With the envisaged inflows to the domestic foreign exchange market supported by proactive measures taken by the Government and the Central Bank, external sector conditions are expected to improve in the period ahead ...

Movement of Sri Lanka Rupee against the USD (up to 19 Jan 2022)



LKR Movement Against Other Currencies

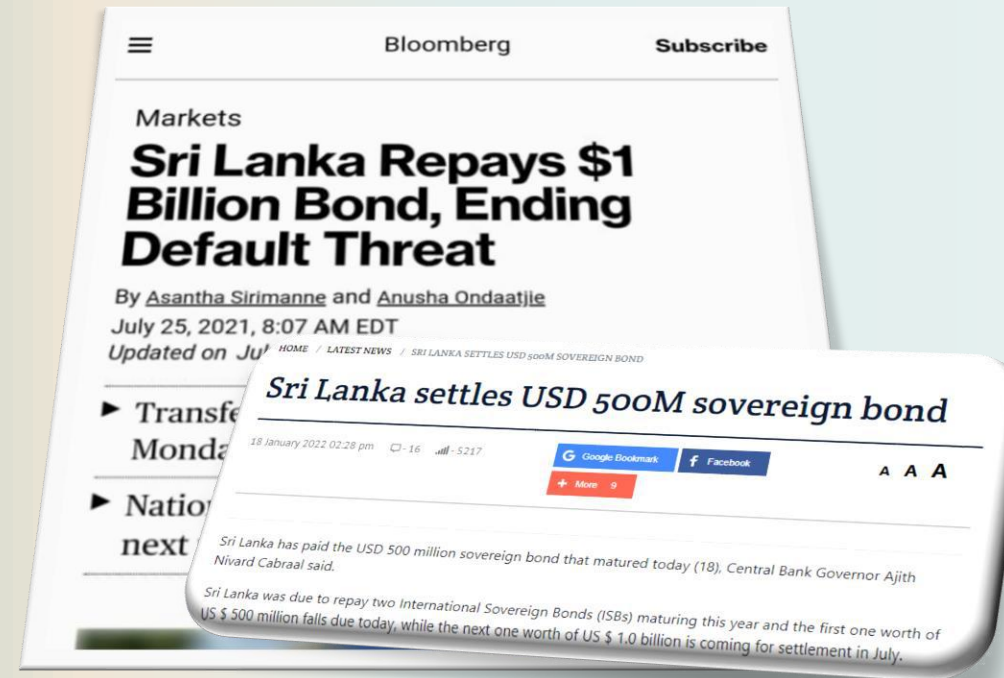
| | 2020 | 2021 | Up to 27 Jan 2022 |
|----------------|---------------|---------------|-------------------|
| Currency | App(+)/Dep(-) | App(+)/Dep(-) | App(+)/Dep(-) |
| US dollar | -2.6 % | -7.0 % | -0.8 % |
| Pound sterling | -6.2 % | -6.0 % | -0.4 % |
| Euro | -11.2 % | +1.1 % | +0.002 % |
| Japanese yen | -7.5 % | +3.8 % | -1.3 % |
| Indian rupee | 0.0 % | -5.5 % | +0.2 % |

Exchange rate stability was maintained amidst several challenges

Gross official reserves are estimated at USD 3.1 bn by end December 2021

Materialisation of the expected foreign exchange inflows are expected to ensure a healthy level of gross official reserves and further strengthen the domestic foreign exchange market

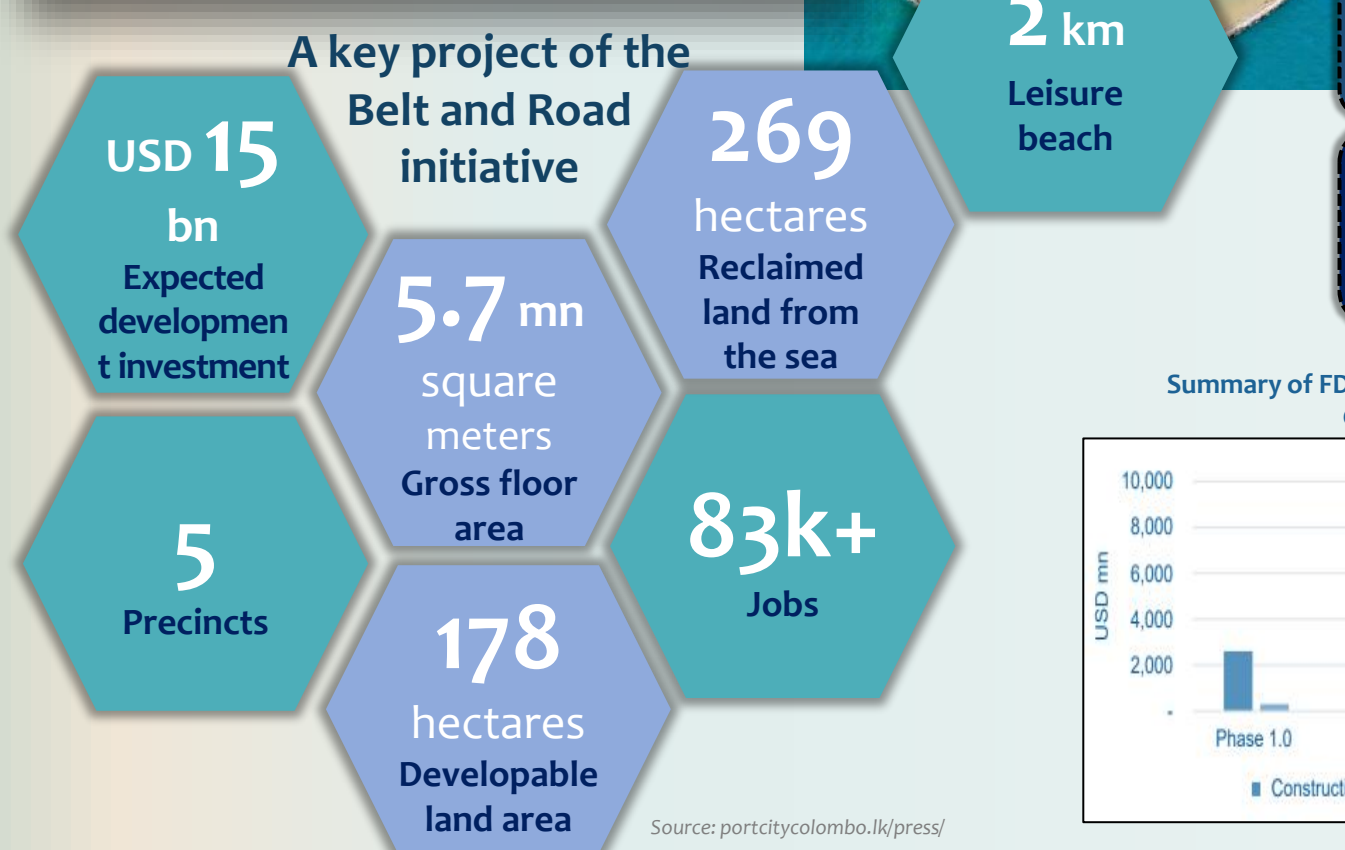
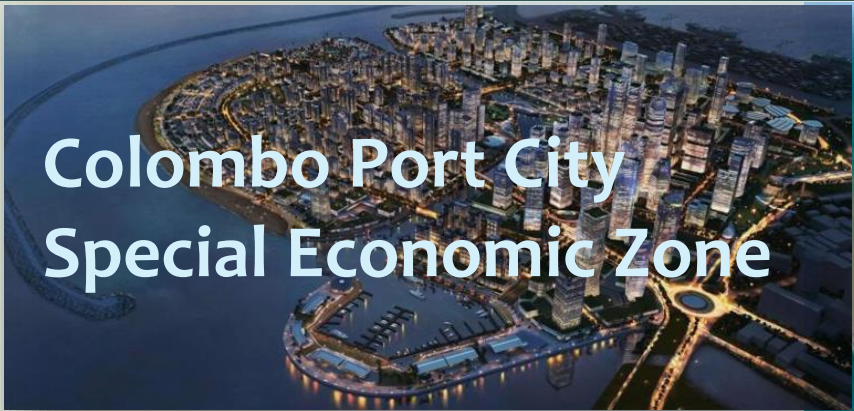
Sri Lanka maintains its unblemished debt servicing record...



- The Central Bank successfully completed the settlement of the maturing ISBs of USD 500 mn in January 2022 on behalf of the Government of Sri Lanka, thus maintaining the Government's unblemished debt servicing record
- In spite of speculations of rating agencies, Sri Lanka continues to honour debt obligations and will do in the future as well

The Government is committed to honouring its foreign liabilities, thereby bolstering investor confidence and dispelling any concerns investors may have in relation to the Government's ability and willingness to maintain its unblemished debt servicing record

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



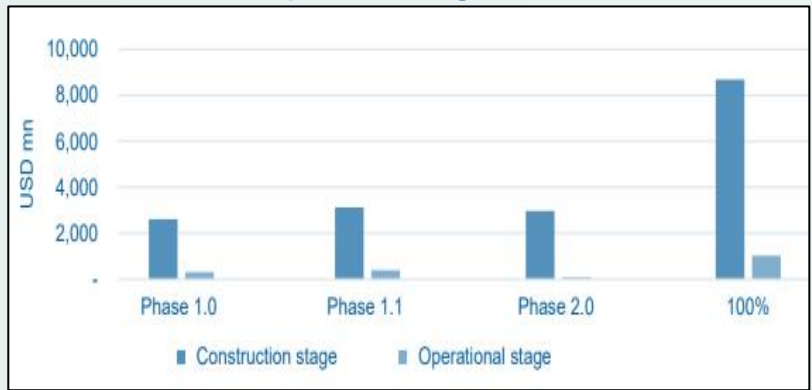
2021
Internal infrastructure development has been almost completed

2022-2031
Development period of Phase I

2023
Completion of Colombo International Financial Center

2041
Targeted completion of Colombo Port City

Summary of FDI inflows during Construction and Operational Stages



Source: portcitycolombo.lk/press/

Source: PWC

A number of FDI projects is currently in the pipeline and being expedited...

| Urban Development | |
|---|------------|
| Downtown City Centre, Battaramulla | USD 75 mn |
| Golden Gateway to Port City (Development at Chalmers Granaries) | USD 1.0 bn |
| New Township, Narahenpita (High Rise Mixed Development) | USD 170 mn |



| Real Estate | |
|---|--------------|
| Luxury hotel development in Port City / Colombo | USD 229.0 mn |
| Port City Villa development | USD 362.5 mn |
| Mixed development in close proximity to Port City | USD 355 mn |
| Convention Centre of Port City | USD 300 mn |

| Power and Energy | |
|--|----------------|
| 100MW wind power plant in Poonarin | USD 130 mn |
| 100MW wind power plant in Mannar – Phase II | USD 100 mn |
| 100 MW solar power project in Siyambalanduwa | USD 100 mn |
| West Coast Power | USD 250-300 mn |

| Pharmaceuticals | |
|---|--------------------------|
| Pharmaceutical Zone in Hambantota | USD 5 mn onwards |
| Pharmaceutical Zone in Oyamaduwa, Anuradhapura (Only local investors are allowed) | LKR 28.2 bn (USD 141 mn) |



| Fisheries and Aquaculture | |
|--|----------------------------------|
| Development of Karainagar Boat Yard | TBD |
| Expansion of sea cucumber farming: Up to 5,000 acres | Rs. 500,000 (USD 2,500) per acre |
| Farming sea weeds as raw material for manufacturing organic fertiliser | Rs. 50 mn |

Target: To realise fully by first half of 2022

- The national payment infrastructure continued to facilitate economic activities of the country through effectively catering to the payment and settlement needs of individuals and institutions...
- This will also support economic expansion and needs of investors...



LANKAQR enabled Partner Mobile Apps



LANKAQR
Introduced in October 2018
Scan and pay easily using smartphones

With effect from 01 January 2020:

- No proprietary QR codes
- For Government payments, a convenience fee for the customer
- No MDR for the purchase of fuel
- MDR to be a maximum of 0.5%
- No charge for charitable donations e.g religious institutions

Simple, secure and instant.

**The
announcement of
the
SIX-MONTH ROAD
MAP of the
Central Bank
has improved
overall
stakeholder
sentiment...**

In summary, we will use several key measures and tools as set out here, and implement these measures simultaneously...

- Intervene in the FX market by providing the funds to finance the country's energy bills, and thereby to infuse liquidity
- Promote investments in Rupee denominated government securities with a guarantee on the exchange rate
- Strengthen mandatory conversion of export proceeds
- Request the Government to tax profits of Exporters at 28% and not 14% where forex is not repatriated and converted
- Expand the moratorium while also providing liquidity support to affected Finance Companies
- Stop Parate executions and repossession of vehicles in the next six months for pandemic-affected borrowers
- Share the burden of Pandemic losses suffered by local SMEs by allocating Rs. 15,000 mn towards interest accrued, through a mechanism which is to be worked out
- Use monetary policy tools to unwind monetary stimulus extended during the pandemic
- Use macroprudential tools as well as microprudential regulation and supervision to guide the financial sector towards sustained stability
- Facilitate Education and Health related forex outflows immediately
- Lift the ceiling imposed on Outward investment and Migration allowances in January 2022
- Discontinue cash margin deposit requirements on “non-essential/non-urgent imports” with immediate effect
- Establish the International Transactions Reporting System (ITRS) to monitor foreign exchange transactions commencing 01 January 2022
- Monitor services related foreign exchange inflows and ensure due repatriation and conversion
- Replace maturing debt obligations with new inflows through non-debt sources, wherever possible
- Consider the possibility of buying back the entire issue of ISBs maturing in January 2022 and/or July 2022, if high discounts are prevalent in the market
- Replace maturing ISBs with Government-to-Government loans until ISBs/GDP ratio declines to 10% or less
- Take measures to improve Sovereign ratings
- Strengthen workers' remittances through official channels
- Encourage forex transactions through formal channels with the restoration of licenses of Money Changers

The Central Bank of Sri Lanka is mandated to maintain economic and price stability and financial system stability to support sustainable economic growth

Investment Opportunities in Sri Lanka...



01 Sri Lanka Development Bonds

OPTION

02 Treasury bills and Treasury bonds (T-bills and T-bonds)

OPTION

03 Colombo Stock Exchange (CSE)

OPTION

04 Real Sector Investments

OPTION

05 Green Investment Opportunities

OPTION

Invest in Sri Lanka...



Investment opportunities

- Colombo Port City
- Industrial zones
- ICT/BPO sector



Skilled workforce

- #2 largest pool of UK qualified accountants (CIMA)
- Around 30,000 graduates produced each year



Affordable production cost

- Low land cost in industrial zones
- Low commercial electricity cost
- Low telecommunication charges



Investor-friendly policy frameworks

- No restrictions on repatriation of earnings on investments
- Investment protection agreement with over 25 countries
- Double taxation relief agreement with over 40 countries



Strategic links to global supply chains

- A key location in China's Belt & Road initiative
- Most connected country by sea in South Asia



Attractive incentives

- Duty exemptions on importation of raw materials for exports
- Exemption on dividend tax paid by a resident company to a member who is a resident or a non-resident person

We aim to progress with greater confidence towards 2022 & beyond...

By end 2022, we expect to achieve following outcomes,

- Normalcy in economic activity with the COVID-19 pandemic being under control, resulting in a real GDP growth of around 5%
- Inflation to stabilise towards the desired target range
- Revival of tourism to lead to a better business sentiment
- Higher investment flows
- Improved macroeconomic fundamentals
- Stronger and disciplined economy