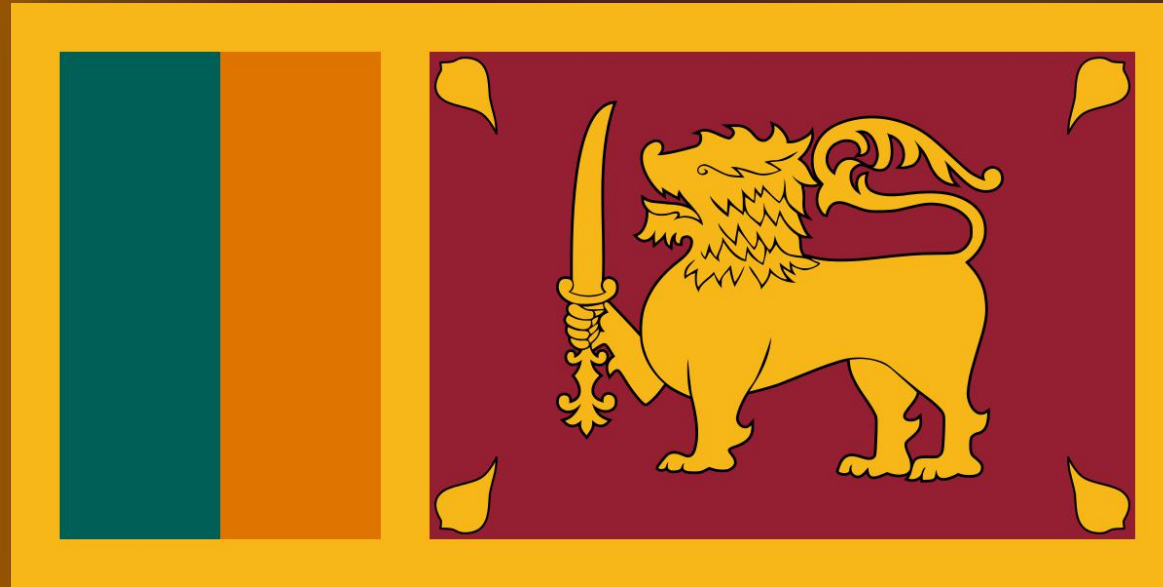


Sri Lanka

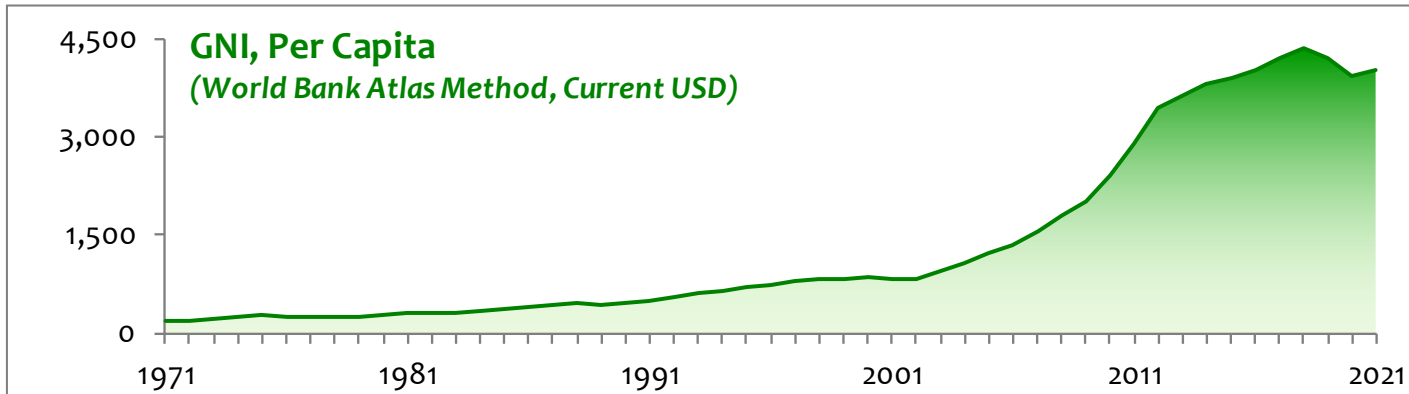


Recent Economic Developments, Outlook and Opportunities



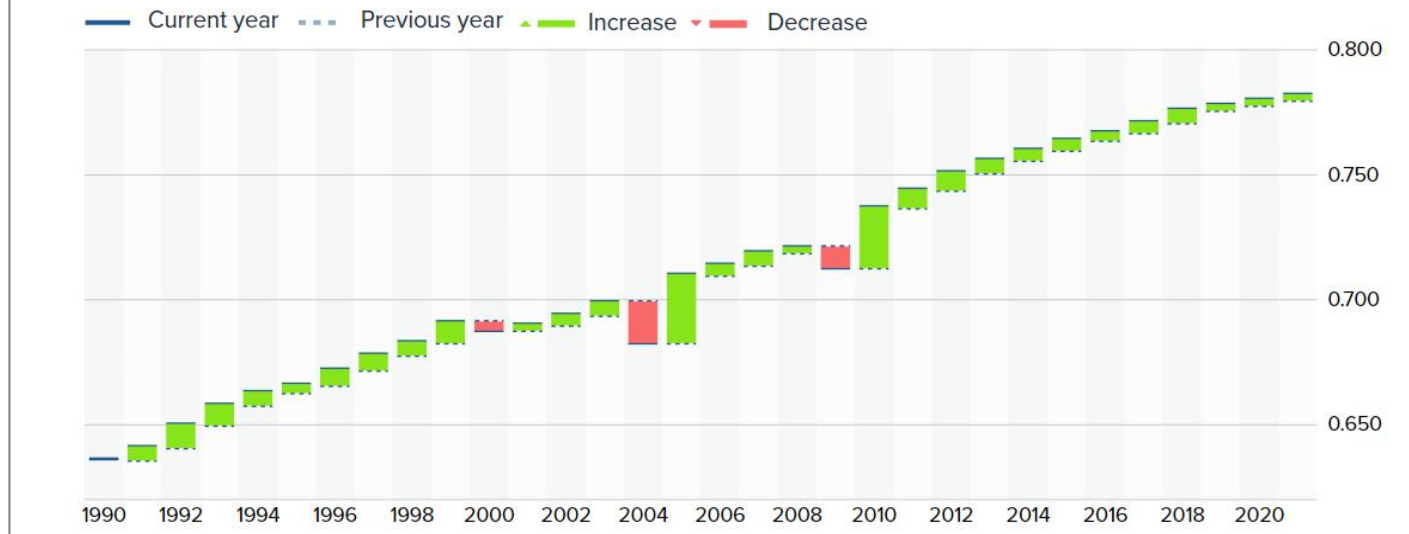
Central Bank of Sri Lanka
January 2023

Sri Lanka has progressed a long way since the independence...



Source: World Bank

Trends in Human Development Index of Sri Lanka



Source: UNDP

- Substantial social developments
 - Improved health levels
 - Higher access to education and improved literacy rates
 - Improvements in gender and ethnic disparities
- Independent political and economic structures
- Technological adaptations leading to improved quality of life
- These achievements have been made in the midst of civil unrests and conflicts, and also while facing natural disasters



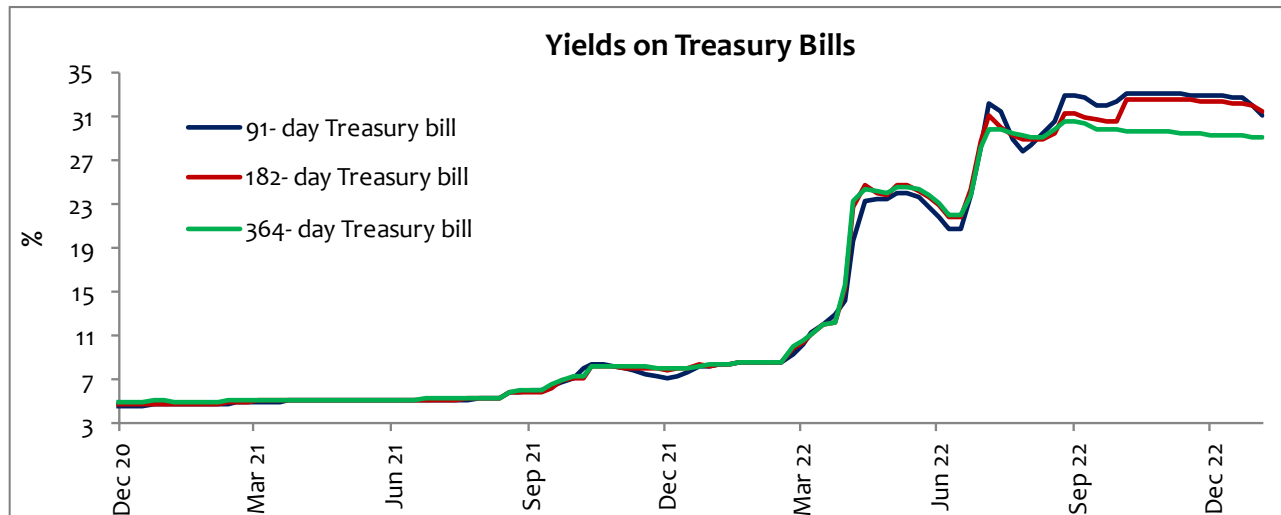
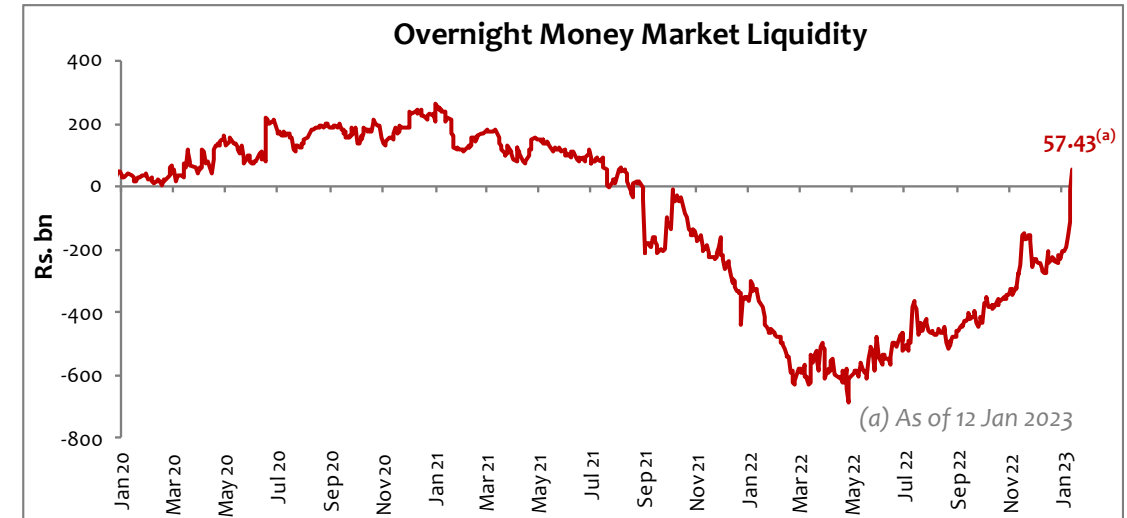
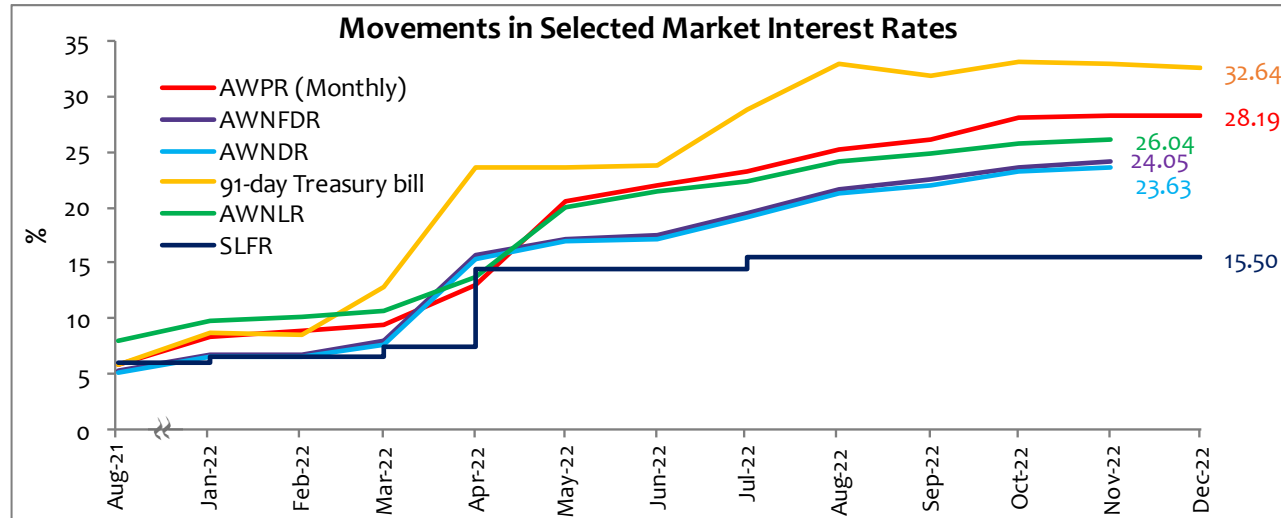
The country faced a multitude of challenges amidst structural weaknesses in the economy, thereby gradually building up economic imbalances leading to the current economic crisis...

***The immediate aim is to establish stability:
Some of the measures undertaken by authorities thus far...***

- **Monetary policy tightened at an unprecedented scale**
- **The Central Bank has taken steps to ensure the stability of the financial system** and to improve its resilience amidst looming stresses...
- **Concerted efforts on fiscal consolidation**
- **Several measures have been taken to manage external sector pressures**
 - Import controls
 - Measures to minimise excess volatility in exchange rate after allowing notable correction
 - Measures to build-up reserves – mandatory conversion of export and remittances proceeds
 - Improved monitoring of forex flows
- **Initiated negotiations with the IMF:**
Staff Level Agreement reached
- **Debt standstill and debt restructuring discussions:**
Ongoing
- **National Fuel Pass QR for fuel demand management**
- **Cabinet approval obtained for the new Central Bank Act** to improve Central Bank's independence and accountability



Monetary policy has been geared towards sustainably stabilising inflation and the overall economy...

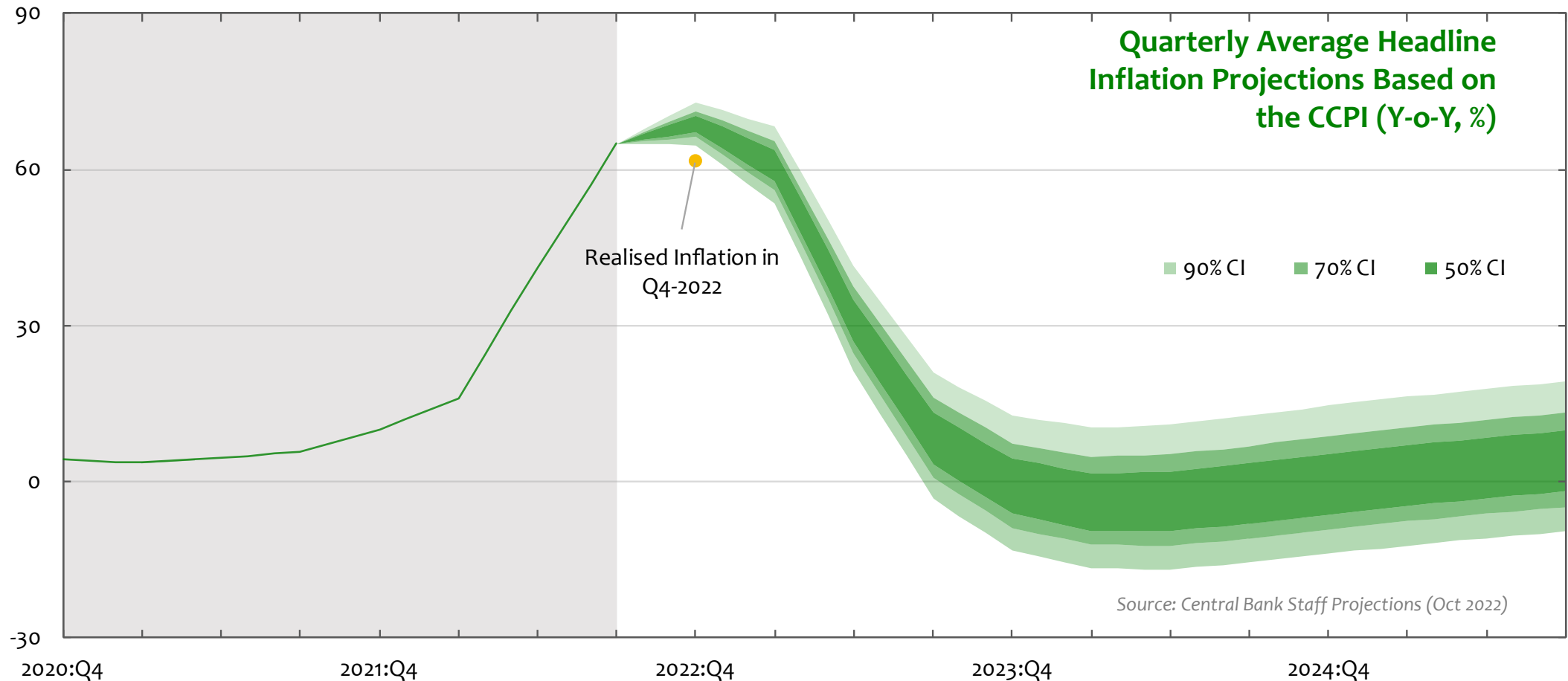


- The Central Bank has taken several measures to ease the pressure in the domestic money market
- As a result, market interest rates show signs of stability, and excessive rates are expected to decline in the period ahead
- Meanwhile, yields on government securities also eased from recent highs

Source: Central Bank of Sri Lanka

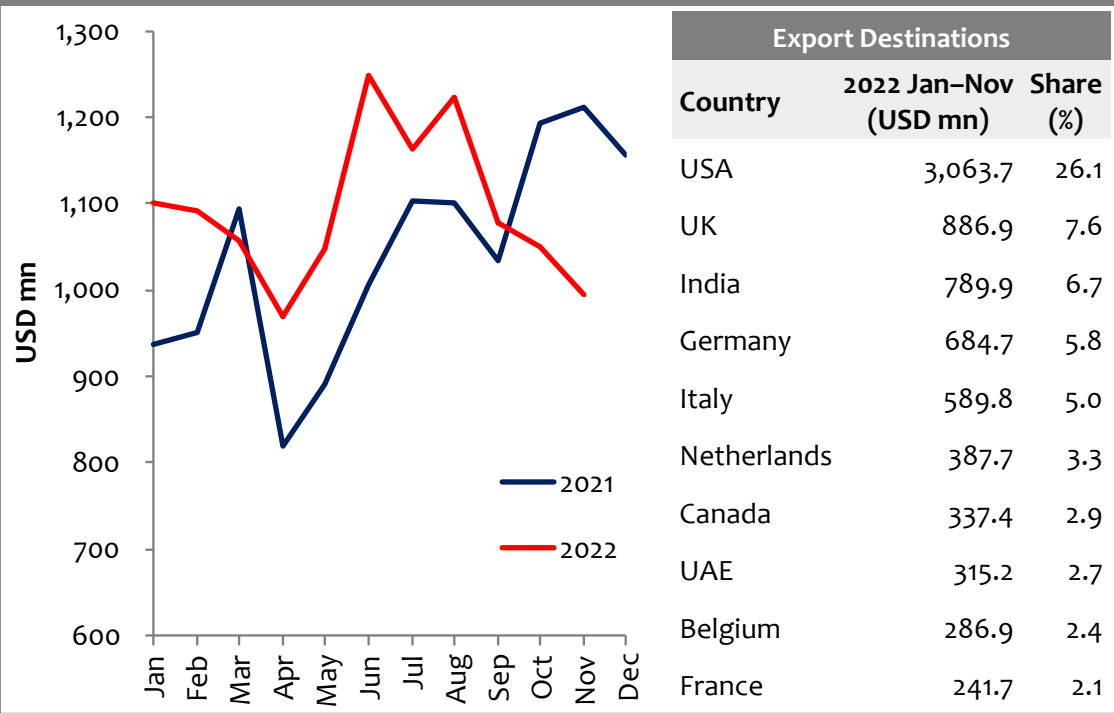


Tamed by tight policy measures and supported by anticipated price developments, inflation is expected to move along a speedy disinflationary path...

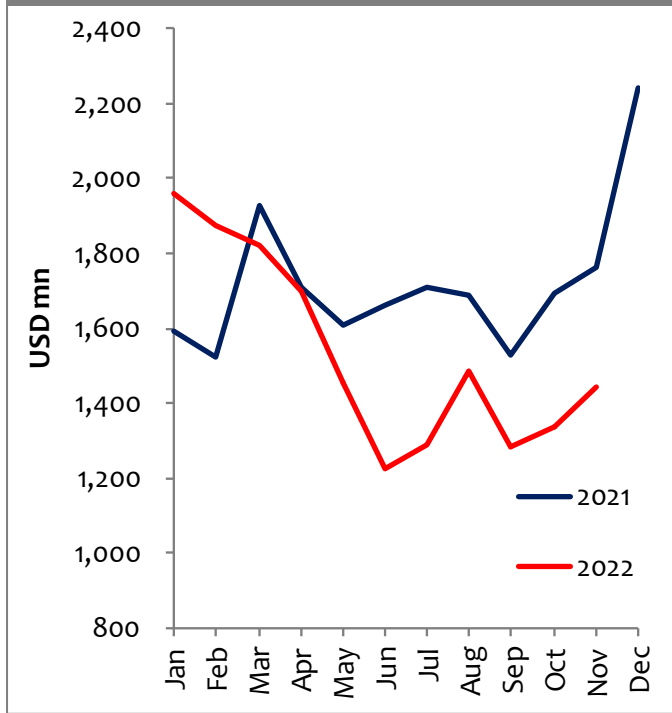


External sector performance is expected to improve, supported by recent policy measures...

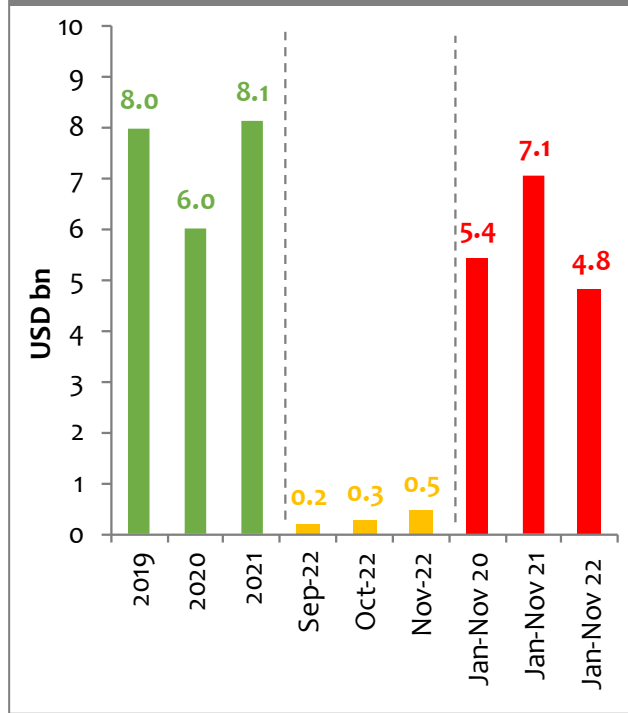
Monthly Export Performance



Monthly Import Performance



Merchandise Trade Deficit

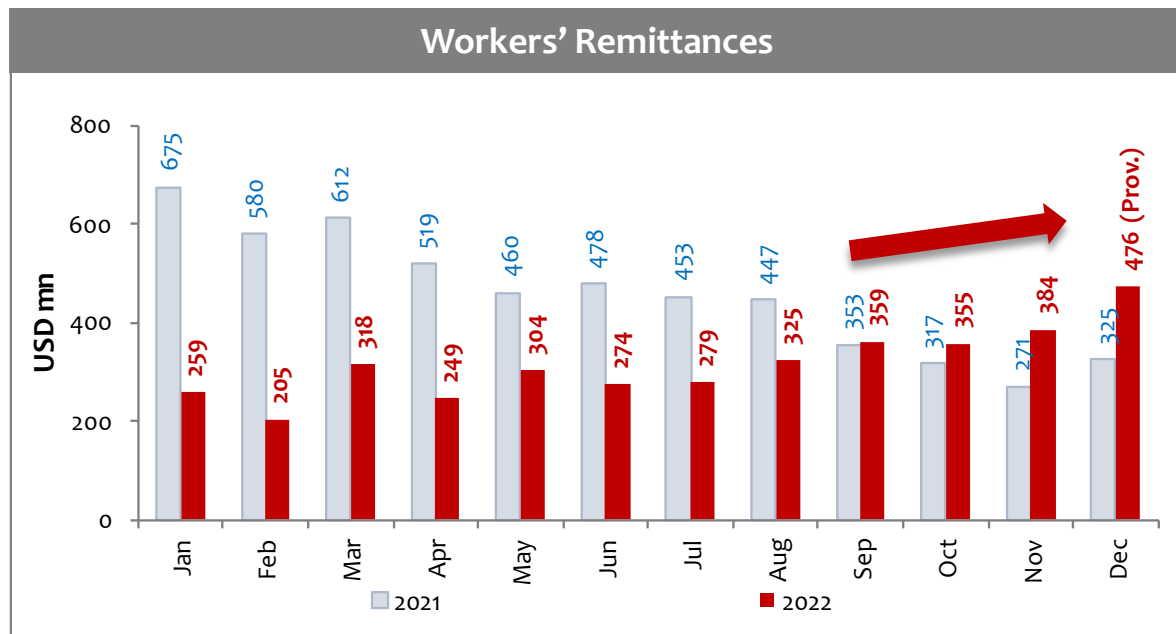


Sources: Sri Lanka Customs, Central Bank of Sri Lanka

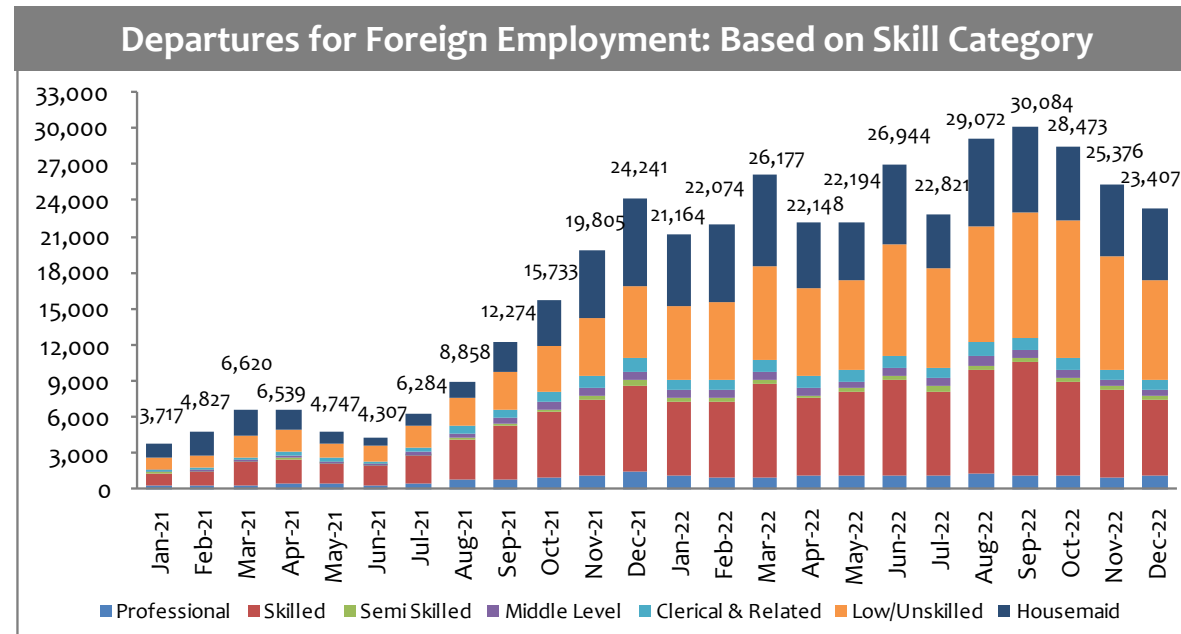
- **There is renewed interest in expediting delayed free trade agreements (FTAs)**
 - The third round of negotiations between Sri Lanka and Thailand on the proposed Free Trade Agreement (FTA) was held in January 2023.
 - Negotiations of FTAs with China and India expected to resume during Q1 2023.
- **The country is also exploring the possibility of taking part in regional trade agreements**



Improved flows of workers' remittances are expected to support external sector resilience...



Source: Central Bank of Sri Lanka, Licensed Banks

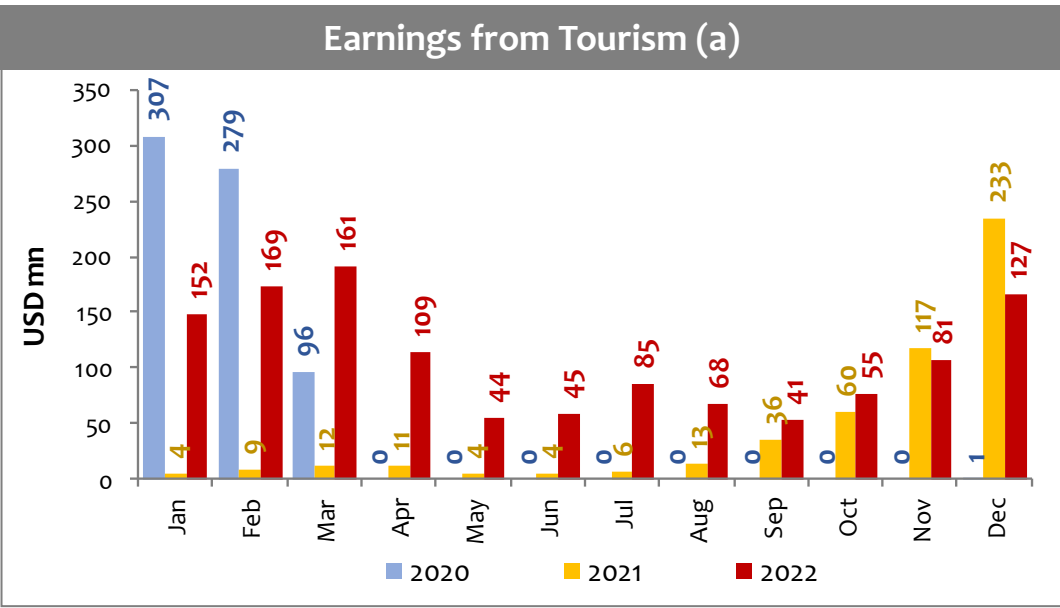


Source : SLBFE

Workers' Remittances: 2022 : USD 3,790 mn
 2021 : USD 5,491 mn

Given the persistently high departures for foreign employment, it is expected that the workers' remittances will increase in the period ahead as the migrant workers gradually starting to remit their earnings to the country

Tourism sector has shown signs of recovery and is expected to play a substantial role in supporting growth over the medium term...

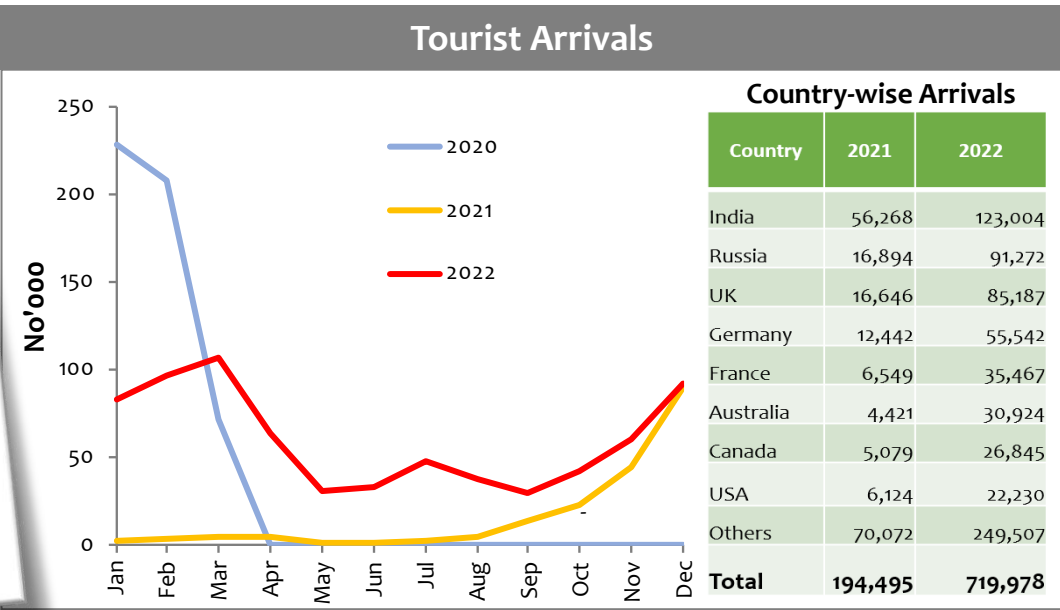


Tourist earnings

2022:
USD 1,136.3 mn (a)

2021:
USD 507 mn

(a) Provisional



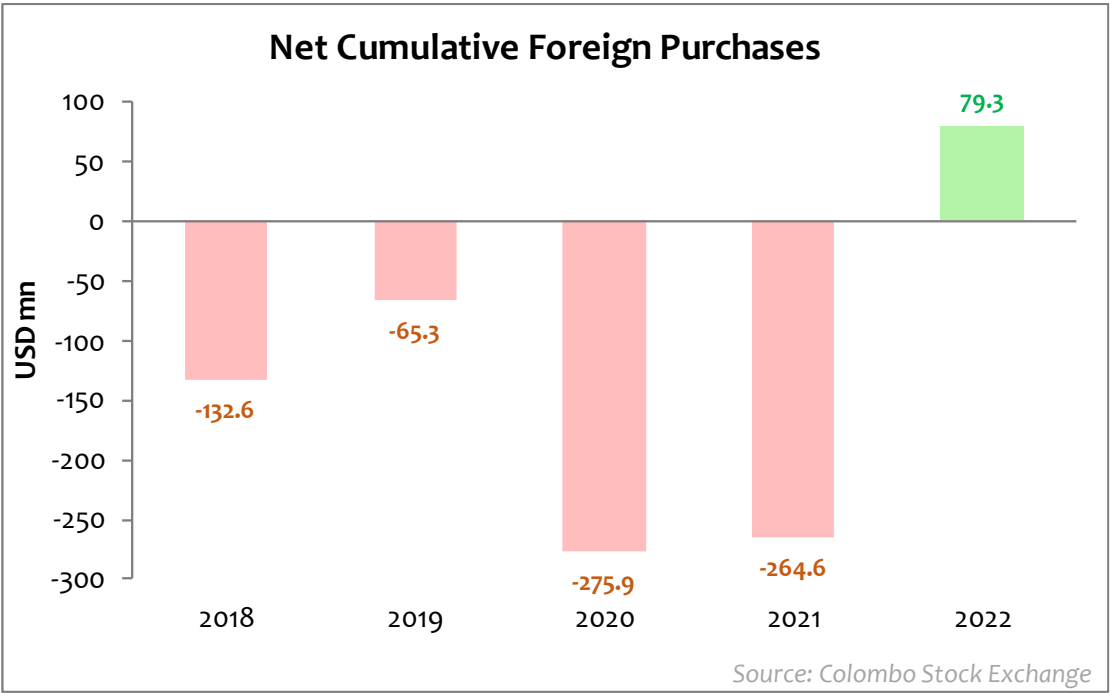
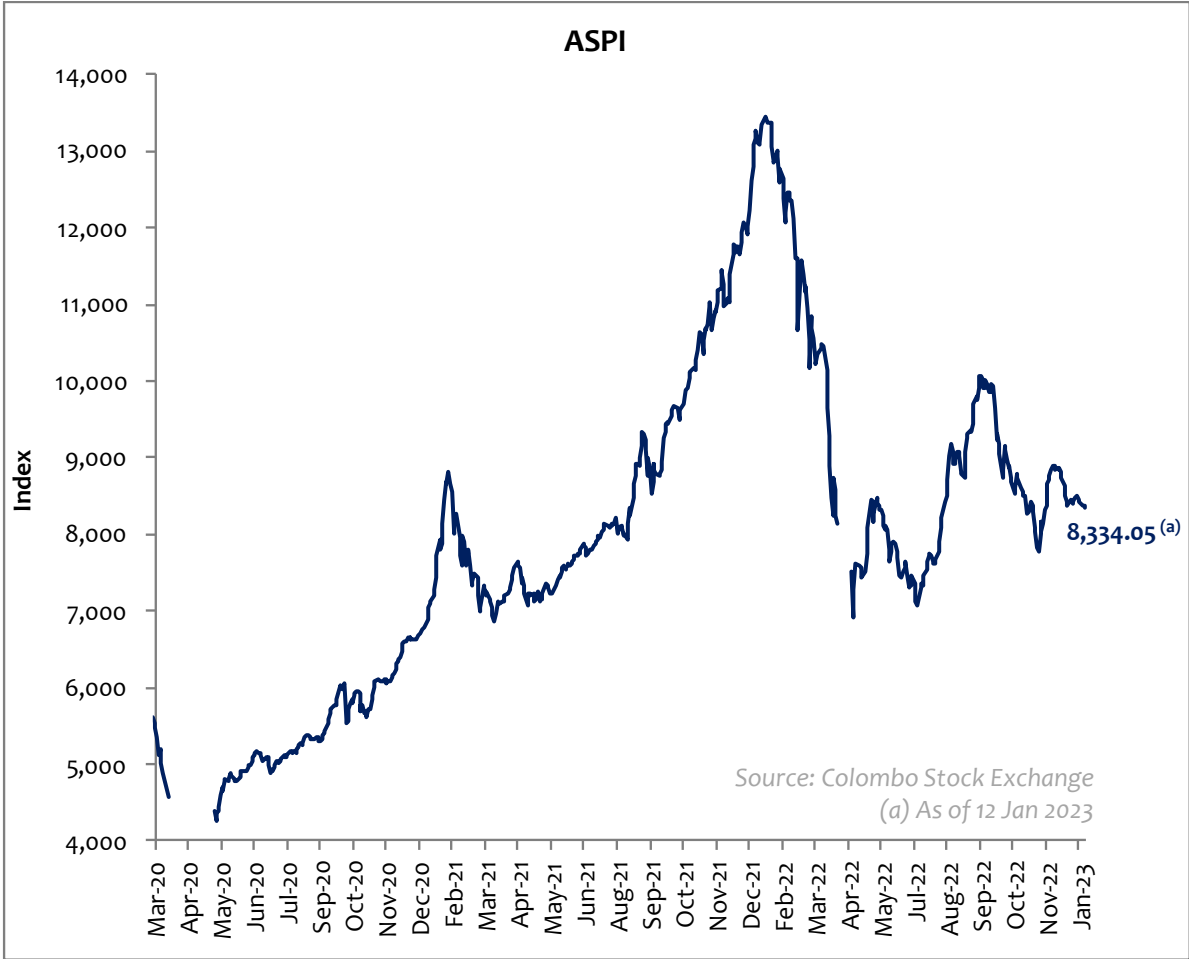
Tourist arrivals

2022: 719,978

2021:
194,495
(61.7 % y-o-y)

Sources: Sri Lanka Tourism Development Authority, Central Bank of Sri Lanka

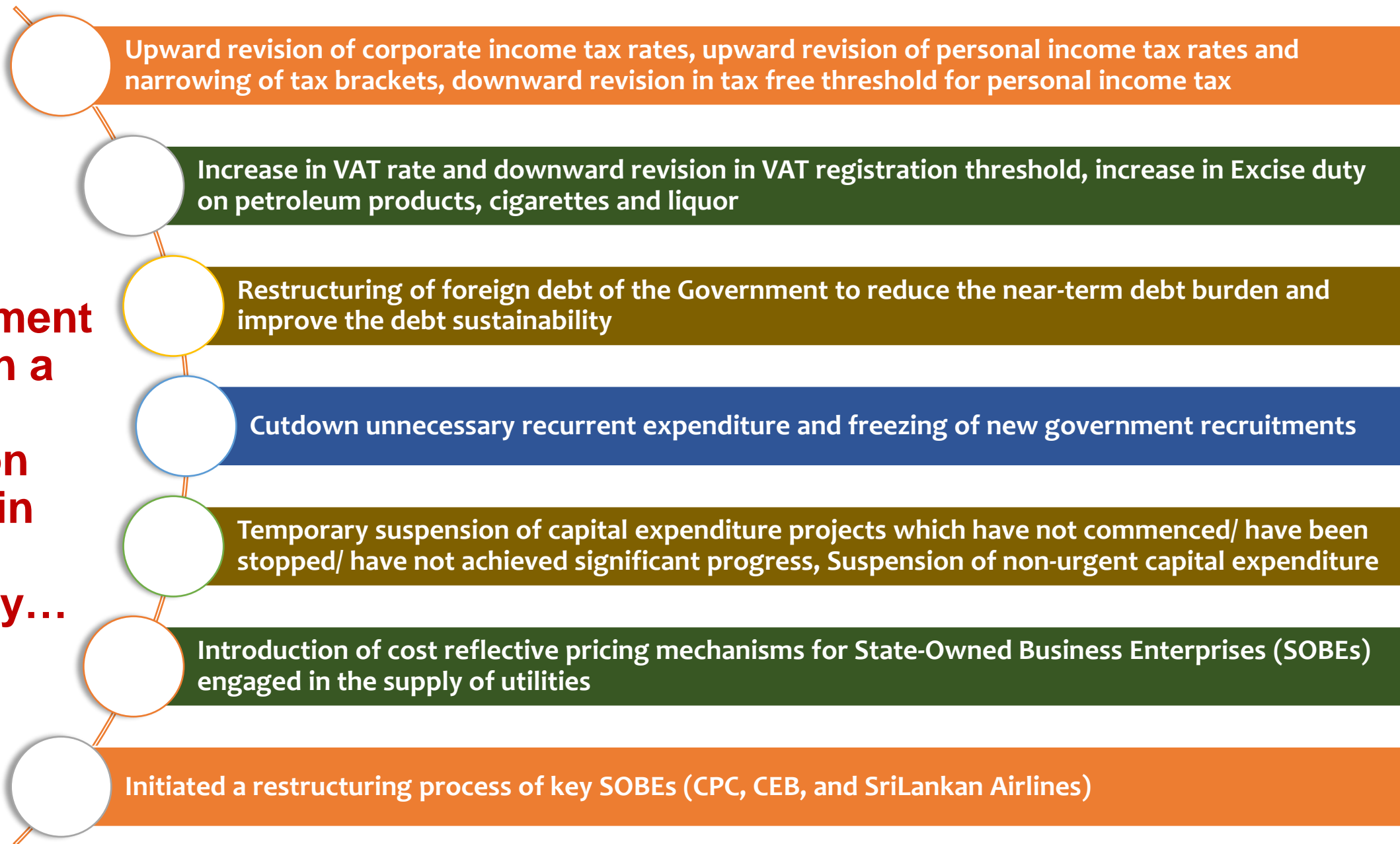
Asset markets indicate potential for substantial gains...



The CSE recorded net foreign inflows in 2022, while net foreign inflows are expected to increase with acquisition of strategic stakes by foreign investors

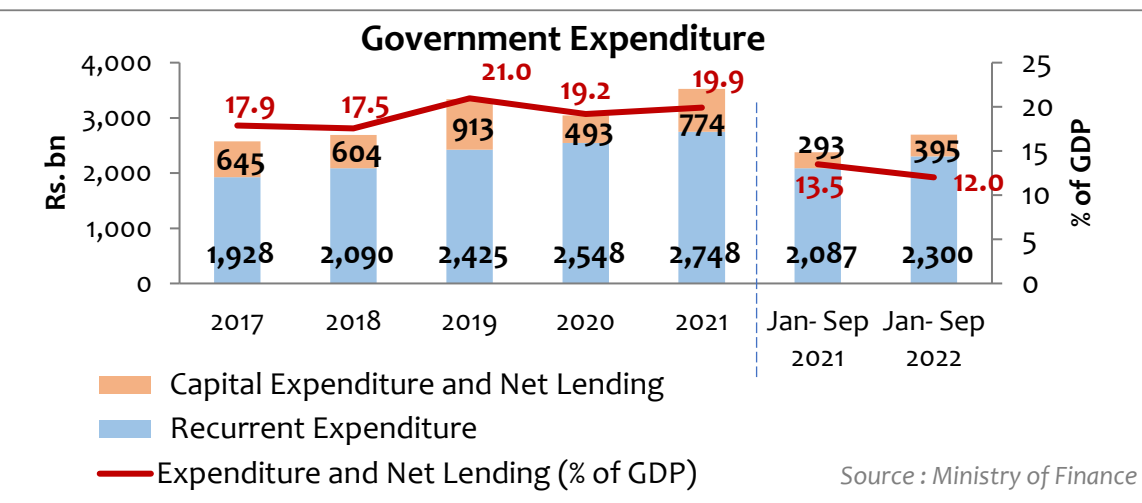
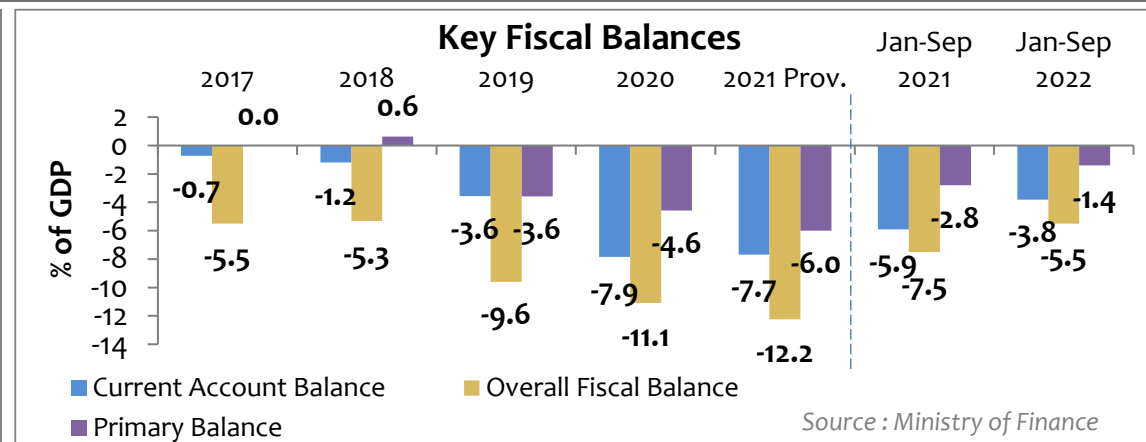
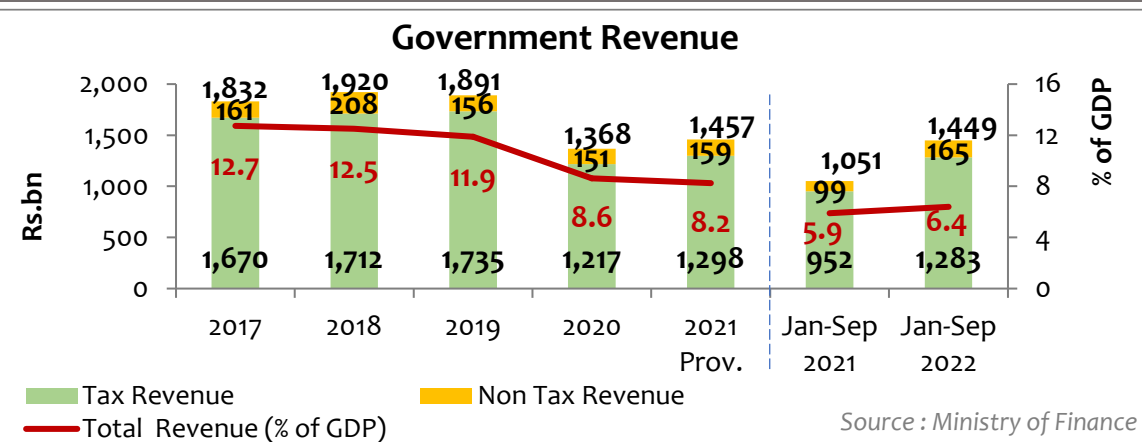


The Government embarked on a fiscal consolidation path to regain fiscal sustainability...



Fiscal consolidation measures introduced in 2022 have resulted in an improvement in fiscal performance during Jan – Sep 2022...

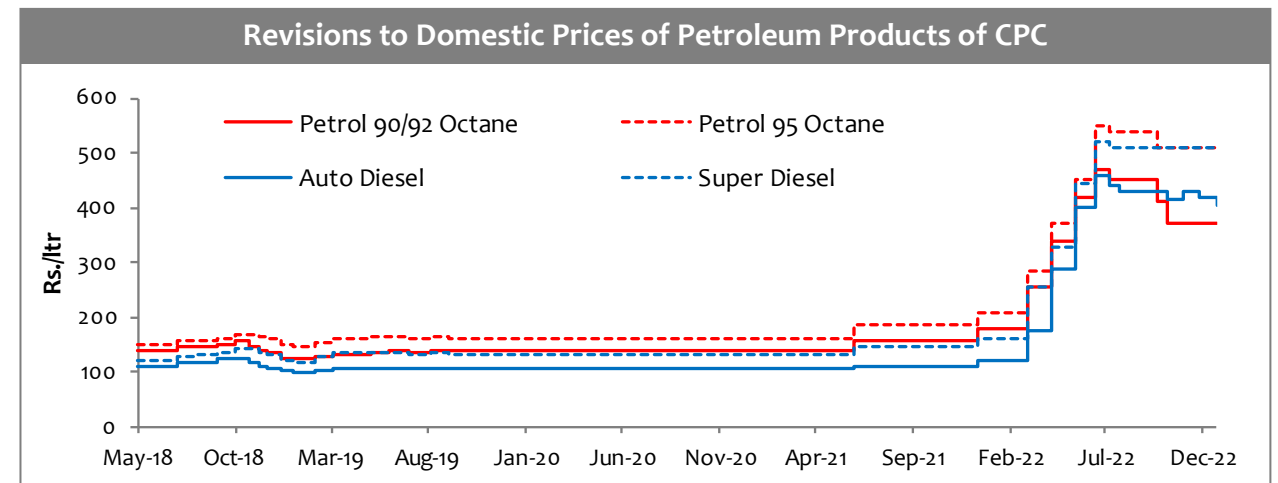
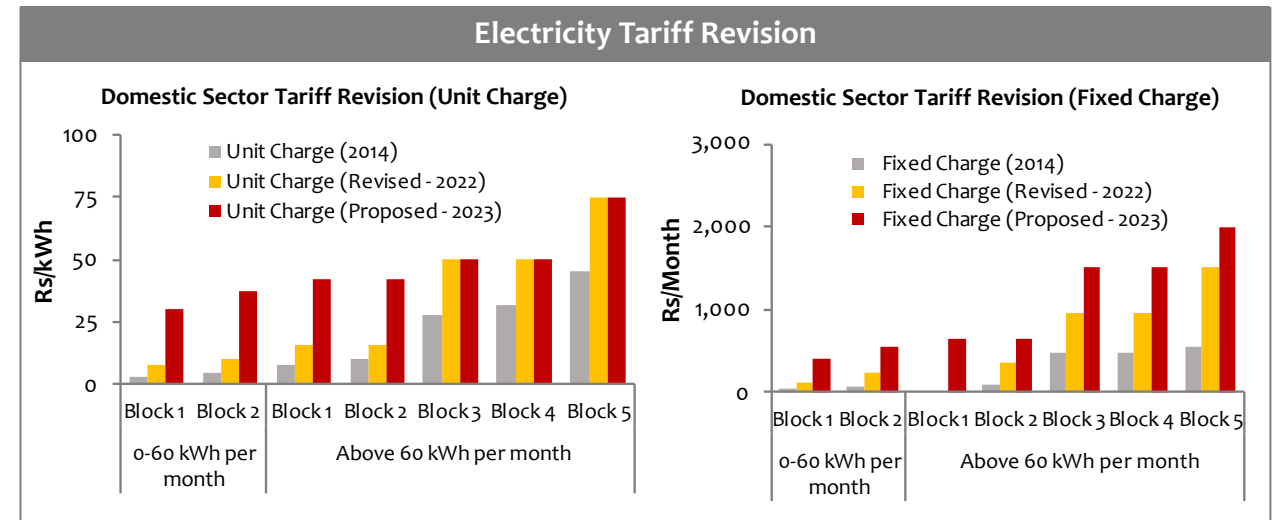
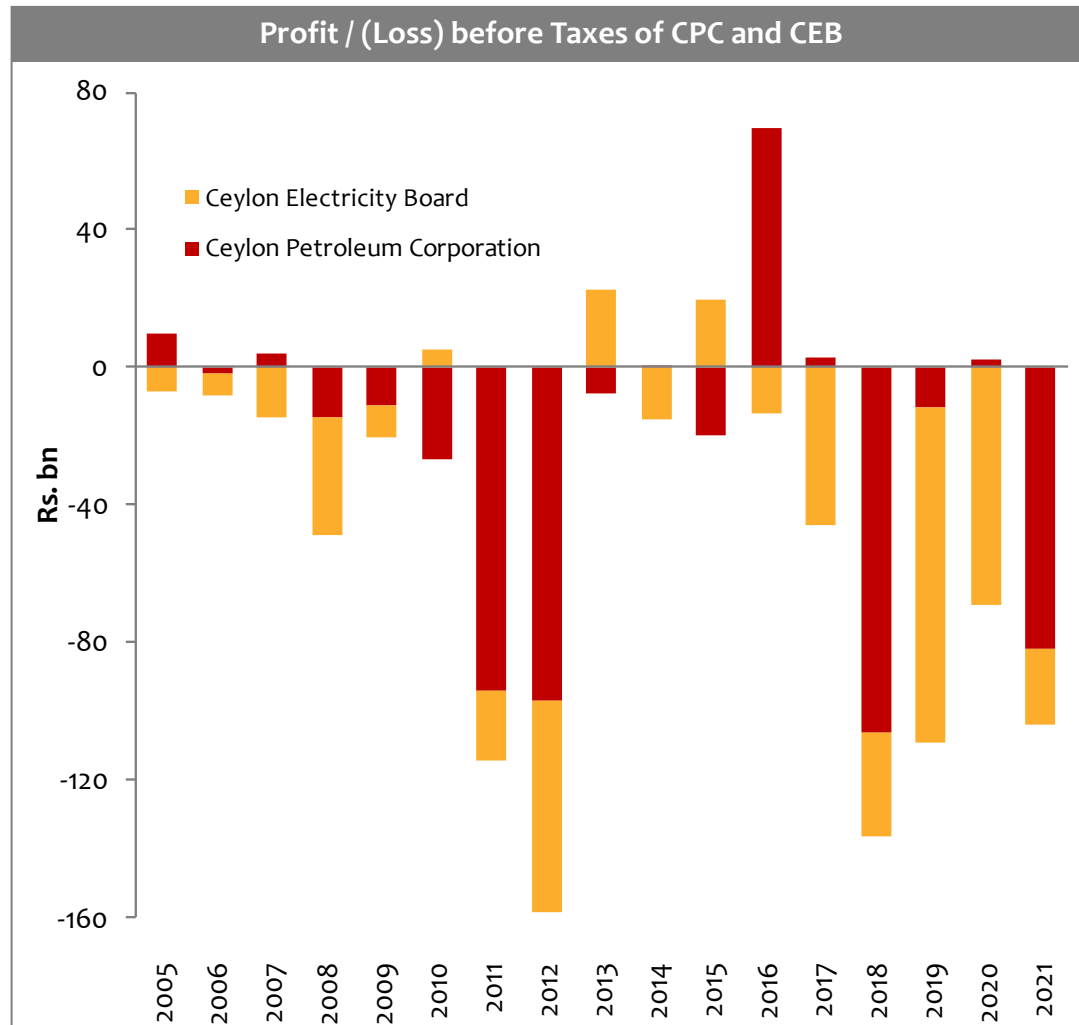
Full benefit of fiscal consolidation measures are to be realised from 2023 onwards...



- Considering the depleted foreign reserves and large foreign debt service payments fell due for 2022 amidst low foreign exchange reserves, on 12 April 2022, the Government announced an Interim Policy decision to suspend selected debt service payments
- Sri Lankan Government appointed financial and legal advisors (Lazard Ltd. and Clifford Chance LLP, respectively) for debt restructuring while engaging with the IMF to follow a comprehensive macroeconomic reform agenda under an IMF EFF programme
- Sri Lanka entered into a Staff Level Agreement with the IMF for the EFF in September 2022
- Negotiations with bilateral creditors are underway to implement a feasible debt restructuring framework to facilitate securing of the IMF fund facility before the end of first quarter of 2023



Cost-reflective price revisions for essential utilities are expected to strengthen the financial performance of CPC and CEB...



Sources: Ceylon Electricity Board, Ceylon Petroleum Corporation



Strategic infrastructure projects would enhance economic capacity of the country...

Colombo Port City Development project to energize Sri Lanka's economic growth ...

"The Colombo Port City Project (CPCP) is the largest and most ambitious Sri Lankan Public Private Partnerships (PPPs) and Foreign Direct Investment (FDI)"

2021

Internal infrastructure development has been completed

2022-2031

Development period of Phase I

2023

Completion of Colombo International Financial Center

2041

Targeted completion of Colombo Port City

Some key achievements during 2022

- ✓ **Development Control Regulations** for the entire project were gazetted
- ✓ 42 plots technically completed by the Project Company
- ✓ 6 Project Company marketable land plots granted to the Project Company on a 99-year lease basis (projected collective investment USD 600 mn)
- ✓ The region's first **Downtown Duty-Free Mall** infrastructure was completed.
 - ✓ 10,000 sq meters of retail, dining and entertainment
- ✓ Introduce **3 visa types to CPCP investors** (Investor, Employment and Resident visa)
- ✓ **Licenses for four banks** have been approved by the Monetary Board of the Central Bank in conjunction with the Ministry of Finance.

Some major developments are in the pipeline ...

- ✓ Introducing a leading **Global Food and Beverage operator** to create a 'watering hole' concept and a world-class dining destination
- ✓ Planning the feasibility of '**remote check-in process**' and 'checked-in baggage hauling' for departing overseas travellers.
- ✓ Developing internationally competitive marina regulations
- ✓ Developing the Port City Colombo website



Sources: Colombo Port City – Economic Commission, PWC

Proactive efforts are being made to promote the CPCP as an attractive financial centre and 'world class city' remain crucial to lure much needed FDIs...

Strategic infrastructure projects would enhance economic capacity of the country...

The **Port sector** is being expanded with major development projects...

East Container Terminal

Annual capacity expansion - 2.4 mn TEUs

SLPA Fund utilization - USD 200 mn*

- ✓ 2020 Oct- Operations of the first quay wall started
- ✓ 2022 Jan- Construction Works of Phase II started
- ✓ 2025* – Targeted completion of the ECT

Galle Port Development

Planned Fully-fledged tourist port and leisure hub of South Asia

West Container Terminal

Annual capacity expansion - 3.0 mn TEUs

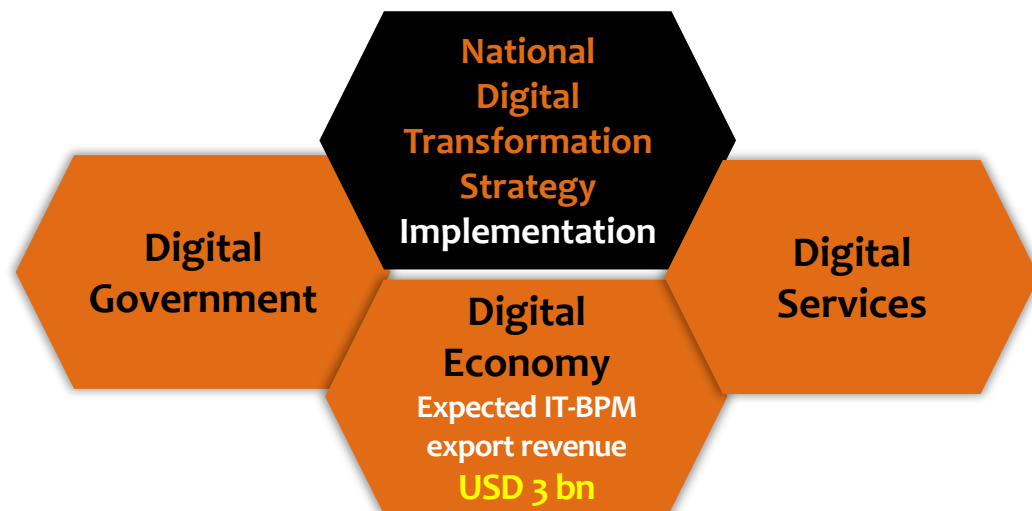
Private Investment - USD 700 mn*

- ✓ 2021 Oct- BOT for the WCT terminal
- ✓ 2022 Nov- Construction Works of Phase I started
- ✓ 2027* – Targeted completion of the WCT

Planned industrial development in the Trincomalee area for the port-related industries

*Note: Data extracted as at August 2022 from Sri Lanka Ports Authority

Projects Strengthening the **digital communication** infrastructure are also in the pipeline...



5G services

- Commercial 5G services to commence in 2023

Personal Data Protection Act of No. 9 of 2022

- Independent data protection authority to be established in 2023 to progress implementation

Going forward, there are efforts to build the resilience of the economy while addressing structural weaknesses...

- ***Primarily Revenue-Based Fiscal Consolidation***
- ***Structural Reforms (e.g., energy pricing reform)***
- ***Protect poor and vulnerable***

Restore Public Debt Sustainability

Restore Price Stability and Rebuild External Buffers

Safeguard Financial Stability

- ***Reduce Corruption Vulnerabilities***
- ***Growth-enhancing Reforms***

The planned IMF EFF programme is expected to support the recovery of the economy...

The year 2023 is an ‘year of recovery’

There could be risks to the recovery process, stemming from uncertainties on global and domestic fronts...

However, with the support of measures undertaken by policymakers, together with the support of international development partners, the Sri Lankan economy is expected to reach its potential sustainably over the medium-term...



Thank you.

