



CNCI NEWS BULLETIN

ISSUE 78
April 2021

CNCI Office Bearers

- Mr. Canisius Fernando
Chairman
- Mr. Kevin Edwards
Deputy Chairman
- Mr. Pradeep Kahawalage
Vice Chairman
- Mr. Shamendra Panditha
Vice Chairman
- Mr. Kasun Rajapaksa
Vice Chairman
- Mr. Mahinda Saranapala
Vice Chairman
- Mr. Amila Sugathapala
Treasurer

Secretary General
Mr. Abeyratne Muthugala

Canisius Fernando elected new CNCI Chairman

Canisius Fernando was appointed as the new Chairman at the 59th Annual General Meeting (AGM) of the Ceylon National Chamber of Industries (CNCI), the premier chamber for Sri Lankan Industry, which was held on 6 April at the Taj Samudra Hotel – Colombo. Ministry of Industries Additional Secretary - Industry and Industrial Development Chaminda Pathiraja was the Chief Guest at the Event. Fernando was holding the position of CNCI Deputy Chairman at the time of his appointment.



Page 01 ➡

Exports pass US\$ 1 bn mark after six months in March

Page 02 ➡

Regulations under Foreign Exchange Act simplified

Page 02 ➡

Consumer Dynamics: Strategy and Innovation

Page 03 & 04 ➡

How Should Sri Lanka Finance COVID-19 Vaccination Rollout?

Page 05 & 06 ➡

April inflation dips to 3.9%

Page 04 ➡

Economy to rebound in 2021 - CBSL Annual Report

Page 07 & 08 ➡

UPCOMING WEBINAR BY CNCI



Page 09 ➡



EXCHANGE RATES AS AT 30TH APRIL 2021 AND SRI LANKA ECONOMY SNAPSHOT

Page 10 ➡



Canisius Fernando elected new CNCI Chairman



Canisius Fernando was appointed as the new Chairman at the 59th Annual General Meeting (AGM) of the Ceylon National Chamber of Industries (CNCI), the premier chamber for Sri Lankan Industry, which was held on 6 April at the Taj Samudra Hotel – Colombo. Ministry of Industries Additional Secretary - Industry and Industrial Development Chaminda Pathiraja was the Chief Guest at the Event. Fernando was holding the position of CNCI Deputy Chairman at the time of his appointment.

Fernando counts decades of experience to his credit in the private sector, holding very senior and responsible appointments in the leading industries of the country. He has obtained his Basic Degree in Management followed by his Master's Degree in Business Administration from the University of Southern Queensland – Australia. He has also participated in several courses of training related to Management and Quality both at home and overseas. Currently, he is the CEO of Aqua Packaging.

The new Chairman has also been performing as the Chairman of Ind-Expo Certification, which has been formed by the CNCI and the National Chamber of Exporters of Sri Lanka, with CNCI as the majority shareholder, to implement a UNIDO Project to establish a chamber-driven certification body to do reliable and affordable certifications to the Sri Lankan manufacturing and service industries.

On election as the CNCI Chairman, he addressed the gathering and said that the country is passing through a difficult period with several blows to the economy.

"We couldn't see a conducive environment for industries in the country for the last few couples of years. Instability of economic policies of the Government, policy changes and regulatory issues brought about a number of issues to the industrial sector. The situation was further fueled by the Easter Sunday attack on 21 April 2019, losing the public confidence in our national security, and the COVID-19 pandemic, which we are still bitterly experiencing."

He further said that as the National Chamber of Industries, they strive in

making a leveled playing field to the Sri Lankan industrialists.

"During my office as the Chairman of the Ceylon National Chamber of Industries, I wish to work very closely with the Ministries and Government institutions to pave the avenues for our industrialists to move," he continued.

The outgoing Chairman, Eng. Ruwan Edirisinghe, presenting the 'Chairman's Review' mentioned that they, being a chamber constantly standing for the local industrialists, ensure every effort is taken by the Chamber to protect and develop the local industries. He said that the Chamber extends an array of services to the industrial sector to facilitate their process operations, while minimizing the issues.

On identifying the importance of maintaining continual dialogue with the authorities concerned responsible for industrial development in the country Edirisinghe stated that the CNCI management had requested continuous two-monthly and three-monthly meetings with the Minister of Industries, the Minister of Trade, the State Minister of Money and Capital Market and State Enterprise Reforms and the State Minister of Co-operative Services, Marketing Development and Consumer Protection.

He further said, that in the CNCI Act, there is a provision to appoint four eminent professionals related to industry and industrial development to the Executive Council and two others to the CNCI Advisory Council to facilitate their services more gainfully to the Sri Lankan industry.

"Therefore, we have made written requests to the respective Hon. Ministers to make arrangements to nominate a Director each responsible for industry development at the respective Ministries to the CNCI Executive Council, as we believe that such close interaction would strengthen the bonds between the public and private sectors for expeditious action to take timely decisions and effective solutions for the development of Industrial Sector," stated Edirisinghe.

At the end of his address, Fernando thanked all the leading industrialists and the distinguished Guests present and assured his fullest dedication in his service to the Sri Lankan industry in the years to come.

Source: Daily News – 09th April, 2021

Exports pass US\$ 1 bn mark after six months



Export Performance 2019, 2020 and Jan-Mar. 2021

Sri Lanka surpassed US\$ 1 billion exports in March 2021 after a lapse of six months. As per the Customs statistics, earnings from merchandise exports recorded double digit growth of 62.47% in March 2021 on y-o-y comparison –the March figure being US\$ 1,066.1 million.

Earnings from merchandise exports increased by 11.51% in first quarter 2021 to US\$ 2,954.53 million compared to first quarter 2020. This growth could be attributed to the gradual lifting of Covid 19 restrictions imposed within the country and globally. Export Development Board (EDB) Chairman Suresh De Mel (Pictured) said; “Sri Lanka’s exports show a remarkable rise despite the current pandemic situation across the World.”

Earnings from the export of major product sectors such as apparel, tea, rubber based products, coconut based, spices and electrical & electronic components were increased both in the month of March 2021 and during the first quarter of 2021. Export earnings from spices and essential oils in March

2021, increased significantly compared to March 2020- growth is mainly due to increased exports of cinnamon (1425.9%), pepper (140.58%) and cloves (226%). Both export earnings and volume of tea increased y.o.y. in March 2021 by 99.33% and 86.69% respectively. Tea exports of US\$ 124.61million is 12% of total merchandise exports.

Earnings from all the major categories of coconut based products increased by 109.57% in March 2021 compared with March 2020 due to the improved performance in export of coconut oil, liquid coconut milk, cocopeat & activated carbon.

Similarly, earnings from the export of all the major categories of coconut based products increased by 42.18% during the first quarter of 2021.

Export earnings from rubber and rubber finished products increased by 80.45 % y-o-y to US\$ 35.06 million in March 2021 due to the better performance of exports of industrial and surgical gloves of rubber (160.09%) and pneumatic and retreated rubber tyres and tubes (58.99%).

Meanwhile earnings from export of Electrical and Electronic Components (EEC) increased by 83.09% to US\$ 37.9 million in March 2021.

The single largest export destination of the United States of America recorded US\$ 715.4 million worth of exports in first quarter 2021—a marginal increase of 0.94 % in comparison to US\$ 708.76 million recorded in first quarter 2020.

The services exports estimated by EDB which includes ICT/ BPM, construction, financial services and transport & logistics show exports of US \$ 1,194.3 million for the first quarter of 2021 compared to US\$ 993 million recorded in the corresponding period of 2020. Estimated service exports increased by 20.27% in the first quarter 2021 compared to the first quarter of 2020

Source: -Daily News – 29th April 2021

Regulations under Foreign Exchange Act simplified

The Central Bank has revised the regulations made under the Foreign Exchange Act for further simplification and clarity improvement.

These new changes look to improve the efficiency of cross-border foreign exchange transactions. Foreign lenders/ investors will no longer have to open Inward Investment Accounts to grant loans to persons in Sri Lanka including

the Government and State-Owned Enterprises. A new account titled the ‘External Commercial Borrowing Account’ can be opened to facilitate foreign exchange borrowings of persons resident in Sri Lanka by foreign creditors.

Companies can now borrow from their foreign parent companies much easier. Foreign investors can invest in shares or debt securities through offshore banking

units (as opposed to Inward Investment Accounts) on the Colombo Stock Exchange of companies incorporated outside Sri Lanka. Foreign nationals within Sri Lanka can open an ‘Emigrants Remittable Income Account’ to repatriate income.

Source: -Daily News – 28th April ,2021



Consumer Dynamics: Strategy and Innovation



Sanath Senanayake (CEO, Sri Lanka Institute of Marketing)

The pandemic has taught us many things and has spectacularly changed the way not just Sri Lanka, but the whole world, markets and consumes products and services. Consumers and their behaviours change with time and they adapt to situations easily. With the world still recovering from the tethers of the pandemic and its aftermath, businesses and consumers have managed to evolve and have shown resilience whilst also taking into account this worldwide phenomenon and molded their activities around it. This article will shed light on the topic of 'Consumers Dynamics – Strategy and Innovation' and will cover areas from consumer behaviours of today's youth to the changing retail landscape to the way businesses were prompted to transform at the height of the pandemic.

Commencing focus on the topic of consumer dynamics, understanding demographics is a crucial part of any business, especially with regards to promoting one's product to a target market. Taking into context the current day and age, we live in a digitally-infused society, and digitalisation has become the way forward in many aspects of the business world and beyond. Demographics are going through a consistent shift and with the digital space being a very important entity today, we have the Gen Ys or millennials as they are also called, who are tech-savvy and adapt easily to change, and then we have the Gen Zs, who were born into the

digital age, making it seem as if they are far more advanced than their former counterparts.

With Gen Z being the first generation of individuals who were born into the internet age, it places that target market higher up the pedestal where digital marketing is concerned. Gen Zs have already been exposed to a considerable amount of tech from their younger days and so, they are already comfortable navigating through the digital environment and new online applications with ease.

Sri Lankans in particular, have always shown interest towards the introduction of novel changes across the business and tech landscape. The transition has been quite smooth and ambitious at times, but youth in particular, have easily embraced those changes and even baby boomers (those born between 1946 and 1964) have evolved to meet those changes very easily. When these digital aspects are found to be exciting and worth the tie, they tend to easily grab the attention of an audience.

With globalisation competition for products and services increases. With globalisation, the evolution of technology and how it has been exploited by entrepreneurs for instance, shows how life-changing globalisation can be. The speed of technology, the way it has transferred economically into the economy and ever-evolving technological enhancements has all seen an increase due to globalisation and today, customer expectations drive markets.

When it comes to the strategies that should be implemented in order to focus on penetrating those target markets, moving into digital marketing is a way forward and coming up with the ideal digital transformation is important if we are to enhance customer experience. It makes it ever more important to delve into digital marketing considering the times we are living in; the digital age as it is. SEO, email marketing, content marketing, social media marketing, search engine marketing (SEM) or pay-per-click advertising etc., are all very significant aspects of digital marketing today.

Consumers have also become very active

users of new media and know what they want. When earlier, the product would go to the customer before it gets any attention, today, we have savvy and discerning customers who look for preferred or innovative products online. So, the more present and consistent the business is online, the more chances they have in attracting their crowds. Businesses and consumers both seek convenient and relevant engagement across every form of interaction that makes up part of the marketing and shopping process, respectively. Technology is no doubt greatly influencing customer engagement, more than it ever did, simply ten years ago, when the internet age began to evolve in Sri Lanka at a rapid but positive pace.

With this evolution in technology, it has also opened doors for media convergence, where people can shop from the comfort of their homes, and at the click of a button. With the level of convenience and speed, enabling online shopping and giving consumers the opportunity to view products that might be stored in a location hundreds or thousands of miles away, and have their goods delivered within days or a few weeks, is no doubt an amazing feat today. This convergence has relatively changed the retail space and the way we used to shop. Retailers have moved into the digital space and have more online presence. Especially with the introduction of concepts such as e-Commerce platforms which makes it easy for retailers to be in tandem with global markets as well.

With tech advancements, comes innovation. A company that is able to invest and propel the way they do business plays a huge role in retaining their customers and forming new relations. This type of evolution has paved the way for businesses to try out the wonders of artificial intelligence or AI as well as delve deeper into Big Data. For retailers today to really make their mark with consumers, Big Data is influential in helping them understand their prospective customers better, their shopping habits, preferences etc. which would then enable the business to cast a more targeted net when it comes to consumers.

Continued to page 04

A trend that has also caught on in terms of achieving customer engagement, is personalization. To achieve that effective engagement strategy, content should go through a level of personalization tailored to a customer. Innovation, again, plays a huge role here. This is where AI comes in. According to a survey by Quantcast and Forbes Insight, 51% of marketers noticed an increase in customer retention after utilizing AI into their marketing ventures. But, before getting there, it is also essential that we understand the business's status quo and ability to make progress in personalization and the current state of customer engagement in Sri Lanka in order to see if these progressions can be made eventually.

Insights-based decision-making is also significant for a business in determining the attitudes and preferences of their consumers. However, there are some elements of a business organization who embrace this approach, and these could be elevated more towards the business segments of finance, sales,

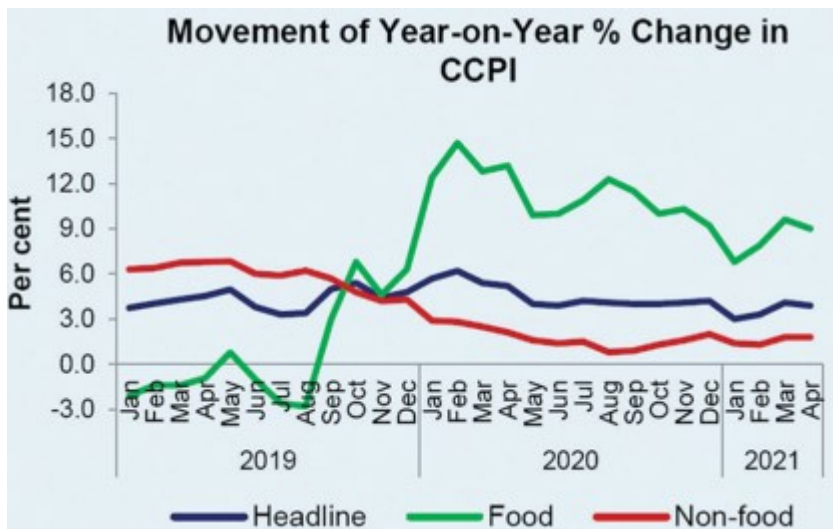
purchasing etc. Insights-based is as straightforward as it sounds; determining whether a prospective customer will go for your product and letting one's gut instinct to take over, hoping the customer will select your product. However, their stance on whether they should purchase this or not, is bound to change as well. This would have been a norm decades ago, when people used to do business because they had the money to invest. However, today, with the penetration of technology, data extrapolation to determine the buying patterns of consumers is gathering momentum globally, through the use of data extrapolations software. At the same time, the gathered data would provide an idea of how to validate a course of action before going forward with it. Some examples of gathering data can also be through the conducting of surveys to collect people's responses on products and services, their likes and dislikes when it comes to price and other factors, initiating testing of products by potential users to see if they find the good useful and determine

flaws, testing the waters by launching a product or service in a test market to get an idea of how it might perform in the market, analysing demographic data to locate relevant shifts etc.

The pandemic has, above all, brought the world to a halt of sorts but the crisis enabled businesses and consumers to get creative and make use of the one thing that helped drive major change within a short period of time; the internet. Many types of companies that ran from offices and outlets, went online. Due to social distancing, relevant businesses that were able to offer their services online, were driven to achieve sales that way. The pandemic did hit other industries hard, such as tourism for instance. However, it helped elevate others, such as software companies that dealt with conference calling and online meetings, such as Zoom and Microsoft Teams. Many online users did not even realize the existence of some of these platforms until the pandemic happened. Going digital has no doubt changed the way we market our goods and shop, and it is definitely, here to stay.

Source: Daily News : 04th May, 2021

April inflation dips to 3.9%



Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2013=100) decreased to 3.9% in April 2021 from 4.1% in March 2021.

This was driven by monthly decreases in prices of items in the Food category. Meanwhile, Food inflation (Y-o-Y) decreased to 9 per cent in April 2021 from 9.6% in March 2021, while Non-food inflation (Y-o-Y) remained unchanged at 1.8% in April 2021.

The change in the CCPI measured on an annual average basis decreased marginally to 3.9 per cent in April 2021 from 4 per cent in March 2021. The monthly change of CCPI recorded a marginal decline in April 2021. This was due to price decreases observed in items of the Food category. Within the Food category, prices of coconut, vegetables, red onion and big onion decreased in April 2021.

Source: Daily News : 03rd May, 2021



How Should Sri Lanka Finance COVID-19 Vaccination Rollout?



An effective vaccination strategy is a necessity for countries to move beyond COVID-19. However, it also requires careful policymaking to balance the financial cost of purchasing and delivering vaccines while stimulating economic growth. This article, based on a recent IPS analysis, provides an overview of the approximate costs associated with the COVID-19 vaccination rollout in Sri Lanka and evaluates policy options to finance the initiative.

Assessing Costs

While there is no universally agreed level, considering the emergence of new variants, many experts agree that a country should vaccinate around 80% of its population to achieve herd immunity against COVID-19. This translates to 17.5 million Sri Lankans. Thus far, Sri Lanka has received or is expected to receive vaccine donations and other financial assistance from the likes of the World Health Organization's COVAX Facility to cover approximately 20% of the population

Based on publicly available proxy data, as detailed in Table 1 below, assuming that 20% of the population will be financed through the WHO COVAX scheme, the total cost of self-financing another 60% of the population is USD 139.1 million.

Table 1: Cost of Self-Financing Vaccine Deployment

| Type of Cost | Cost Item | Cost to cover 60% (USD) |
|---|---|-------------------------|
| Vaccine cost | Two doses of AstraZeneca | 138,600,000 |
| Immunisation delivery costs (IDCs) | Management and Organisation of Vaccine Deployment | 8,337 |
| | Communication and Information | 176,261 |
| | Human Resources | 100,040 |
| | Public Information | 144,701 |
| | Supply Chain Logistics | 88,845 |
| | Collection and Disposal of Medical Waste | n/a |
| Total Vaccine Deployment Cost | | 139,118,184 |
| % of Total Government Expenditure in 2020 | | 0.6 |

Note: Adjusted for inflation and reported at 2021 prices. The cost per dose of AstraZeneca is taken to be USD 5.25, which is the per dose vaccine and airfare cost for Sri Lanka.

Source: Ministry of Healthcare and Nutrition (2010) 'Deployment Plan for the Distribution of Pandemic Influenza Vaccine in Sri Lanka 2010'.

These costs include both the cost of purchasing the cheapest vaccine (AstraZeneca-Oxford) and the immunisation delivery costs.

In a recent study, the World Bank estimates that for the South Asian region, the average per person vaccination cost amounts to USD 12 to receive one dose of the COVID-19 vaccine, under certain assumptions.

This costing consists of the full vaccine deployment cost per person, which includes the vaccine dosage cost along with the international airfare and other delivery costs.

Using this basis of costing, financing two doses of the vaccine for 60% of Sri Lanka's population would amount to USD 336 million. This is over double the minimum estimate made earlier using local proxy data. As such, a range of USD 140-336 million (LKR 27-66 billion) can be treated as a minimum and maximum estimate range for financing the long-term vaccination strategy in Sri Lanka. This amounts to 0.6-1.4% of total government expenditure for 2020, which is a relatively small proportion of the country's total government expenditure. For context, the health sector was allocated 4.8% of total government expenditure in 2020. That said, the estimated costs range between 12 and 29.5% of the Ministry of Health's total expenditure for 2021.

Furthermore, given difficulties in securing all necessary vaccines from a single producer (e.g. AstraZeneca) due to supply shortages, Sri Lanka has already moved towards purchasing Sputnik V and Pfizer vaccines, which are more expensive than AstraZeneca, and therefore will increase costs. The cost increase will be significant given that other vaccines are two to six times more expensive than a dose of Astra-Zeneca (Table 2).

Given these realities, Sri Lanka will need to cover these costs through one or a combination of: (a) reallocating existing budgetary commitments; (b) receiving more bilateral and multilateral vaccine donations or financial assistance; or © self-financing through targeted tax policies and future borrowings.

Reallocating Budgetary Commitments

Notably, the government did not budget for a vaccination strategy in its National Budget for 2021. As such, any spending would have to be allocated through an emergency budgetary allocation.

The government could potentially reallocate funding from other sectors or even reallocate from within the health sector. These reallocations, for example, could occur through built-in fiscal space for public investments in the budget, postponements or revisions to non-essential government spending initiatives such as non-essential small-scale infrastructure projects.

However, the extent to which such revisions can be incorporated is greatly limited by the economic conditions under which this vaccination initiative is taking place. Some of these small-scale infrastructure projects, for instance, are geared towards stimulating the economy.

Continued in page 06



Table 2: Cost of Globally Available COVID-19 Vaccines

| Vaccine Producer | Cost per Dose (USD) | Doses Required | Max Storage Period in Regular Refrigerator |
|--------------------|---------------------|----------------|--|
| Moderna | 32-37 | 2 | 30 days |
| Pfizer-BioNTech | 20 | 2 | 5 days |
| AstraZeneca-Oxford | 3-4 | 2 | No restriction |
| Johnson & Johnson | 10 | 1 | No restriction |
| Sinopharm | 30.62 | 2 | No restriction |
| Sinovac | 30.62 | 2 | No restriction |
| Sputnik V | 10 | 2 | No restriction |

Source: CNBC, COVID Vaccine First Runners: How Much They Cost, Who's Bought Them and How They're Stored. Accessed November 11 2020. From CNBC. <https://www.cnbc.com/2020/11/11/covid-vaccines-how-much-they-cost-who-bought-them-and-how-theyre-stored.html>

Sri Lanka's post-COVID-19 economic recovery is dependent on adequate government spending to stimulate growth, and there has already been a significant amount of spending rationalisation that has taken place. Furthermore, the government will be required to ensure that the broader public health sector is not compromised in any form simply to fund the COVID-19 vaccination initiative as that may have further severe long-term repercussions.

Self-Financing

Given the current economic climate, the government is unlikely to increase direct taxes in the immediate future. Increasing indirect taxes such as import tariffs are also likely to be counter-productive since imports are restricted. Rather, a tax rationalisation on luxury goods and a sin-tax rationalisation on alcohol and cigarettes could generate a significant amount of revenue that can be directed towards the vaccination drive.

For instance, a recent study by IPS estimated that government revenue could be increased by LKR 17 billion by 2021, and LKR

37 billion by 2023, if taxes on cigarettes are streamlined and raised in line with inflation. This additional revenue can finance the vaccination strategy such that it reaches the midpoint of the study's cost estimation range of LKR 20-67 billion.

A targeted tax intervention achieves the dual aim of raising the required funds to vaccinate the public while simultaneously ensuring that the government's broader macroeconomic stimulus initiatives can continue unimpeded. If the government is unwilling to finance the entire cost through a targeted tax intervention, even a partial self-financing measure would reduce the necessity for the government to depend on further loans to cover the cost.

Best Option

A basic economic impact analysis by IPS found that the vaccination rollout would generate an additional 30.6 billion in national output, and an extra value addition of LKR 26 billion. Besides, the country's economy will benefit additionally due to the indirect impacts associated with the public health benefits of a vaccinated populace.

Considering these factors, the government is best off pursuing a medium-term self-financing option through targeted tax interventions and if required, through external financing. The challenge for Sri Lanka is to secure adequate funding without compromising on its investments in broader public health and social welfare initiatives as weaknesses on those fronts can undermine the success of vaccinating the public from COVID-19.

From a budgetary perspective, the cost of vaccinating the public fast will also be cheaper than the cost of continuous PCR testing, managing quarantine centres and cluster associated lockdowns over a prolonged period. In addition to securing funding, receiving an adequate supply of vaccine doses for the country to reach its vaccination coverage targets remains uncertain as we progress further into 2021.

Source:Daily News – 06th May 2021

Cartoons



Source:cartoon-themorning.lk-20-04-2021



Source:cartoon-themorning.lk-13-04-2021



Economy to rebound in 2021 - CBSL Annual Report



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 socio-economic impact of the spillovers of the COVID-19 pandemic and the resultant scarring of households and enterprises.

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.

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 favorable 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.

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.

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 the end of 2020, which provided an import cover of 4.2 months.

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.

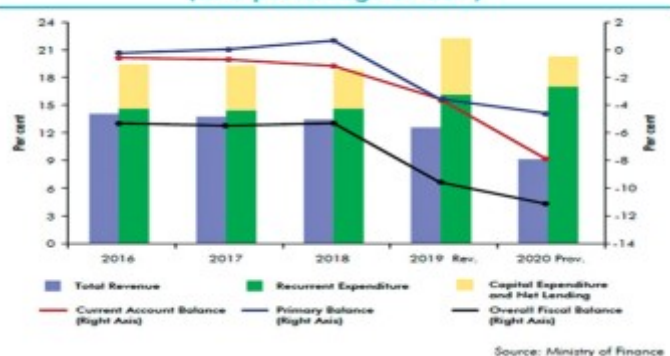
Reflecting the expanded budget deficit and resultant large financing requirements as well as the contraction of GDP, the outstanding central government debt rose to 101.0 per cent of GDP at end 2020, from 86.8 per cent of GDP at the end of 2019.

Nevertheless, the relative share of outstanding foreign debt to total central government debt declined notably to 40.0 per cent at the end of 2020, from 47.6 per cent at the end of 2019. Amidst adverse speculation, the Government continued to maintain its impeccable debt service record.

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.

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.

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





Continued from page 07

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 increased substantially during 2020, thereby resulting in a notable expansion of the broad money supply.

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 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.

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.

Major inflows of foreign investment are expected to the Colombo Port City and the Industrial Zone projects, among others.

The near term needs 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 the end of 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.

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 on 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.

With proactive policies to roll back any excessive policy stimulus when aggregate demand conditions normalize, 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.

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 normalize will help stabilize 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 interstate structure, facilitating credit flows to the private sector at a reasonable cost and thereby supporting the expected high economic growth, while providing a reasonable real return to savers.

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.

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 Splendor, which aim at addressing longstanding macroeconomic imbalances and ensuring equitable, shared and sustained economic growth.

On the fiscal front, the economy has been grappling with high and rigid expenditure and persistently low revenue mobilization 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 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.

Upcoming Training Programmes by CNCI

CNCI Webinar

INCOME TAX CONCESSIONS – Exemptions, Concessionary Rates, Additional Deductions & Key changes to VAT

Date : 18th May 2021 **9.30 am—12.00 pm**
(Registration starts from 9.15 am)

Online : Zoom

CNCI Webinar

EFFECTIVE PERFORMANCE UNDER NEW NORMAL CONDITIONS

Date : 03rd June 2021 **9.30 am—12.00 pm**
(Registration starts from 9.15 am)

Online : Zoom

Content

- *Income Tax**
- New Exemptions
 - New Concessionary Rates
 - Special Tax Concessions for SMEs
 - COVID 19 Reliefs
 - Changes to Tax Computation Rules
 - Additional deductions Provided
 - Qualifying Payments
- *Value Added tax**
- *New Exemptions
 - *Rate Changes
 - *Change in Threshold
 - *Voluntary Registration

Investment

For Members : Rs. 3,500/-

For Non Members : Rs.4,000/-

Resource Persons

Mr.D R S Hapuarachchi – Deputy Commissioner General, Department of Inland Revenue

Mr.A M Nafeel – Commissioner Tax Policy Division, Department of Inland Revenue

Mr.N C Wijewardena – Senior Deputy Commissioner Tax Policy Division, Department of Inland Revenue

For

Directors , Managers, Executives, Supervises and all others involved in Taxation, Accounting, Auditing & Administration

For Registration

Please email your filled registration form to :
po@cnci.lk , cnci@slt.lk, thecnci@gmail.com



Organized by :
THE CEYLON NATIONAL CHAMBER OF INDUSTRIES—CNCI

For more Details,
Contact : Madhushika / Nilanthi
011 2339200 , 2452181, 0719429269

- Content**
- Opening the adaptable creature in us
 - Rewire the thought process
 - Dealing with difficult situations
 - Selecting of the right / most suitable mode of communication
 - Developing appropriate checklists for the teams
 - Know 'When to be firm and' when to be flexible
 - Knowing the place in the game board
 - Rapport building remotely
 - Morale Boost - Tips to be positive

Investment

For Members : Rs. 3,500/-

For Non Members : Rs.4,000/-

Resource Person

Dr. Nisansala Danushki Hapuarachchi
D.S.S.(M.C. – HR), MBA(ING, MGT, MARK), MBA(Man.)/CM
Certified MFP Practitioner
Visiting Lecturer / MFP Practitioner
Consultant - Human Capital Development & Marketing

For

Managers, Executives, Supervises and all others interested to motivate

For Registration

Please email your filled registration form to :
po@cnci.lk , cnci@slt.lk, thecnci@gmail.com



Organized by :
THE CEYLON NATIONAL CHAMBER OF INDUSTRIES—CNCI

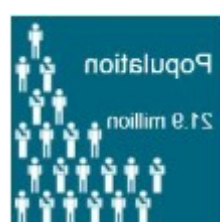
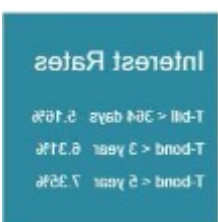
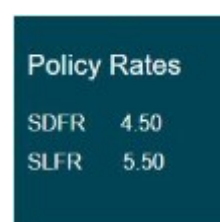
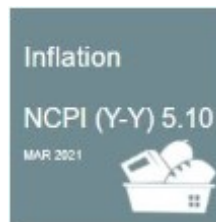
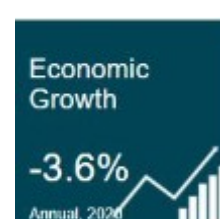
For more Details,
Contact : Madhushika / Nilanthi
011 2339200 , 2452181, 0719429269

EXCHANGE RATES AS AT 30TH APRIL 2021

| Date | Buy Rate (LKR) | Sell Rate (LKR) |
|----------------------|----------------|-----------------|
| Australian Dollar | 151.2244 | 155.9336 |
| Canadian Dollar | 158.6926 | 163.29 |
| Swiss Franc | 213.593 | 220.4605 |
| Renminbi | 29.374 | 31.078 |
| Euro | 235.4849 | 242.5525 |
| British Pound | 270.7253 | 278.8846 |
| Yen | 1.782 | 1.8386 |
| Singapore Dollar | 146.589 | 150.9456 |
| United States Dollar | 195.91 | 199.87 |

Source: <https://www.cbsl.gov.lk/en/rates-and-indicators/exchange-rates/daily-buy-and-sell-exchange-rates>

Sri Lanka Economy SNAPSHOT



Source: <https://www.cbsl.gov.lk/en/sri-lanka-economy-snapshot>