

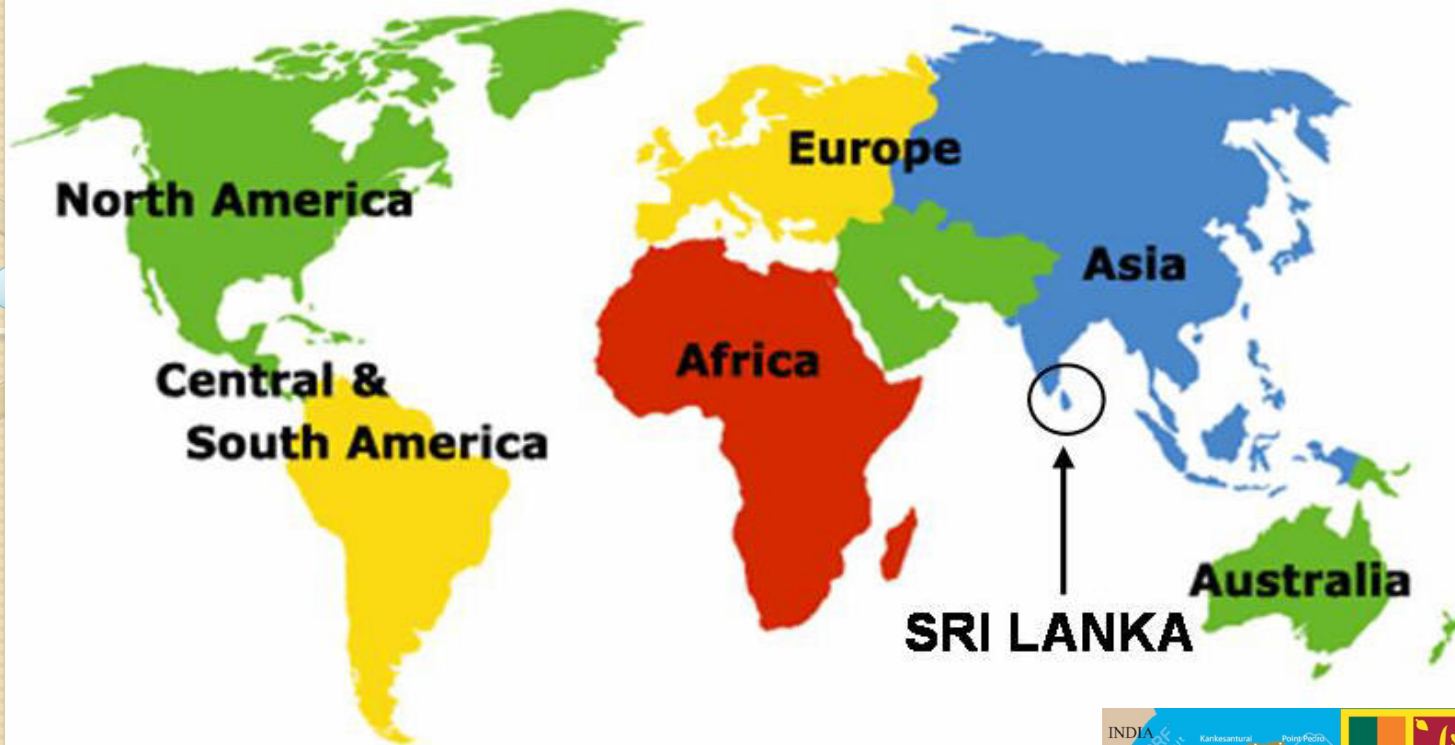


# **Reinvigorating Growth**

## **Sri Lanka's experience**

**G-24 Technical Group Meeting**  
**Cartagena, Colombia**

**3-4 March, 2016**



Land area 65,610 sq.km  
Population 20.6 million



# Basic Economic Indicators

Indicator	2014
GDP growth %	7.4
GDP at Market Prices USD bn	75
Per capita Income USD	3,625
Inflation Year on Year %	2.1
Govt. Budget Deficit as % of GDP	-6.0
Exports Value USD billion	11.1
Imports Value USD billion	19.4
Current Account as % of GDP	-2.7
Gross Official Reserves USD bn	8.2

Source: Central Bank of Sri Lanka

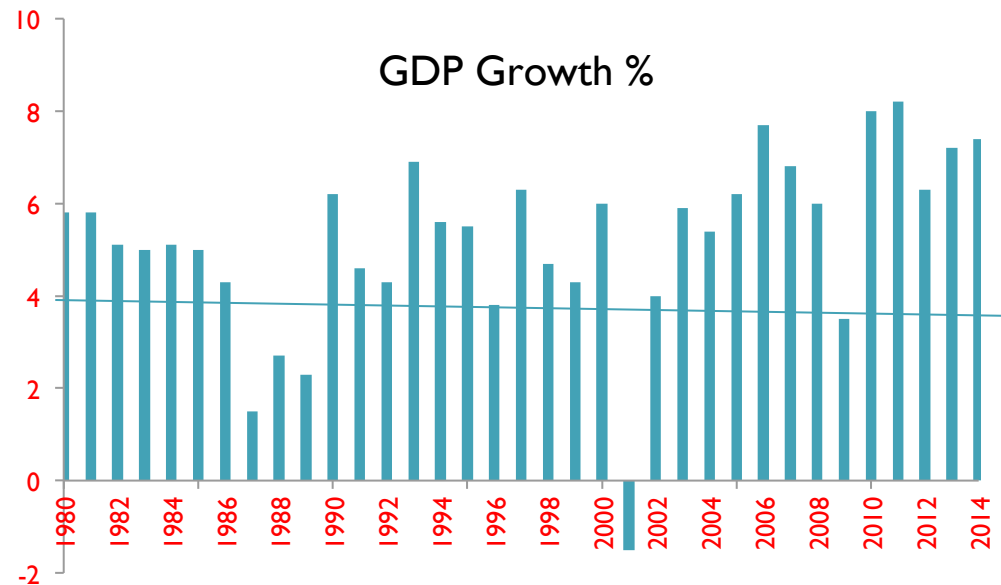
## **Sri Lankan Economy suffered heavily due to violence & terror in the North and East of the country from 1980-2009**

- **The momentum of economic growth slowed down**
- **Investment in infrastructure was diverted to military expenditure**
- **Sentiments were unfavorable and gloomy.**
  - **Difficulty in maintaining investor confidence in the midst of uncertainty**
- **There were productivity losses and under-utilization of production capacity**

**Though the overall effect is difficult to quantify, the reduction in economic growth of the country due to terrorism has been estimated at around 1-2% annually**

# Economic growth accelerated in the post-conflict period

- The average growth during the conflict period was 4.2%
- The highest ever 7 year period average growth of 7% was observed during 2009-2015

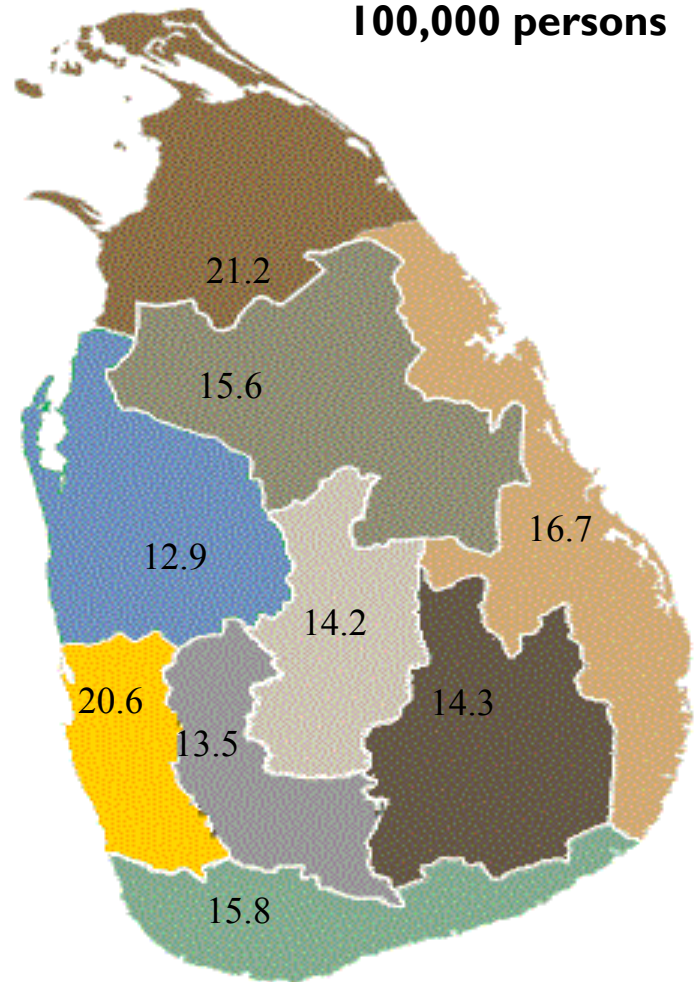


# Many initiatives were taken to improve livelihood of people in conflict affected areas

- Disbursement of thousands of bank loans “fast tracked” to Northern and Eastern Provinces
- Large Number of Bank Loans at concessionary rates was granted to create livelihood opportunities

- Banking Density was improved...

No. of Branches per  
100,000 persons



# Massive infrastructure projects have transformed the country setting the foundation for further development...



- **Road development projects**
  - The Southern Expressway
  - The Colombo - Katunayake Expressway
  - The Colombo Outer Circular Highway Project
  - Colombo – North/East Highway Project (*IN progress*)
  - Kandy – Badulla Alternate Highway Project (*IN progress*)
- **Power projects**
  - 900 MW Norochcholai Coal Power Plant
  - 120 MW Uma Oya Hydro Power Project
  - 500 MW Sampur Coal Power Project (*Completion 2017*)
  - 20 MW Moragahakanda and Kaluganga Reservoir Project (*In Progress*)
- **Port development projects**
  - The South Colombo Harbour Project
  - The Hambantota Port Development Project
  - The Oluwil Port Development Project
  - The Kankasanthurei Port development Projects (*In progress*)
- **Airport development projects**
  - Second International Airport at Mattala
  - BIA Expansion Project (*In Progress*)
  - Domestic Airport Development – (*In Progress*)

# Tourism has become one of the fastest growing sectors...

- **Tourist arrivals in 2015 surpassed 1.5 million compared to 0.5 million in 2009**
- **Earnings from tourism Increased to US\$2.8 bn, the third largest source of foreign income**
- **Hundreds of tourism projects, including international hotel chains are already underway**
- **Western Europe and South Asian regions are the main tourist origins for Sri Lanka**



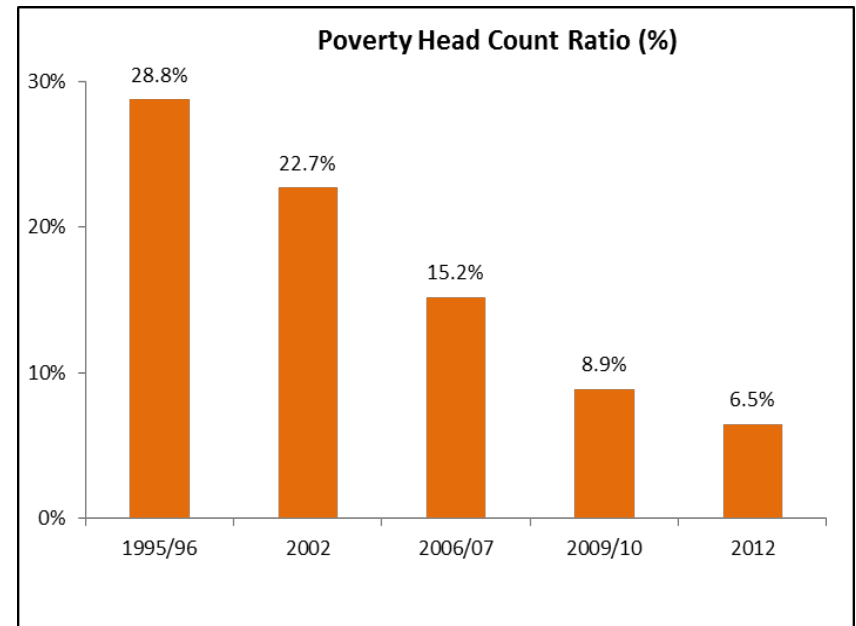
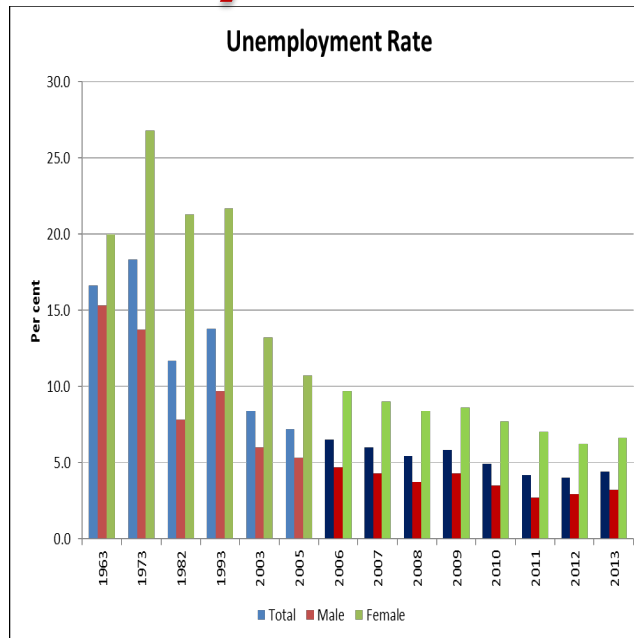


# Sri Lanka's Human Development Indicators and HDI Rank have improved

Country	Adult Literacy Rate % (Most recent)	Life Expectancy - 2014	HDI Rank - 2013
Bangladesh	59	71	142
Philippines	98	68	115
Malaysia	93	74	60
India	63	68	131
China	95	75	93
Pakistan	55	66	147
<b>Sri Lanka</b>	<b>91</b>	<b>75</b>	<b>74</b>

Sources: Human Development Report – 2015

# The unemployment rate was lowered below 5% over the past several years, while improving poverty indicators...

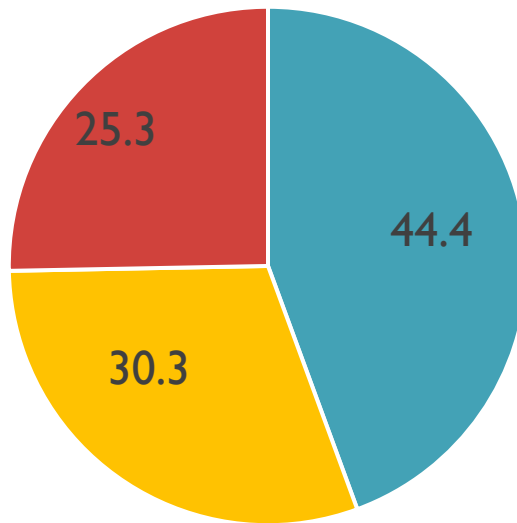


**Unemployment  
4.3%  
in 2014**

**Poverty  
6.5%  
in 2012**

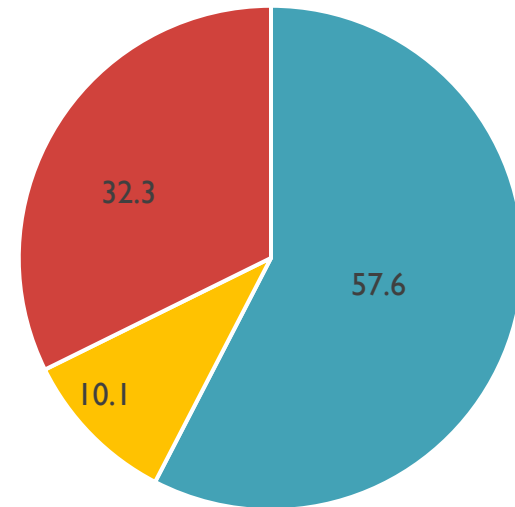
# Composition of GDP has changed significantly during last 4 decades

1978



■ Services ■ Agriculture ■ Industrial

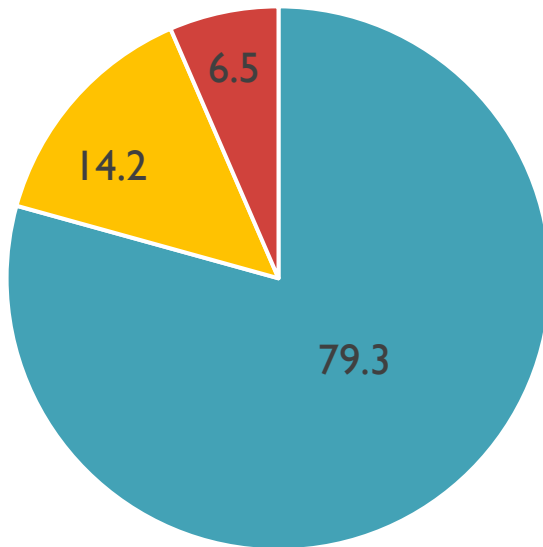
2014



■ Services ■ Agriculture ■ Industrial

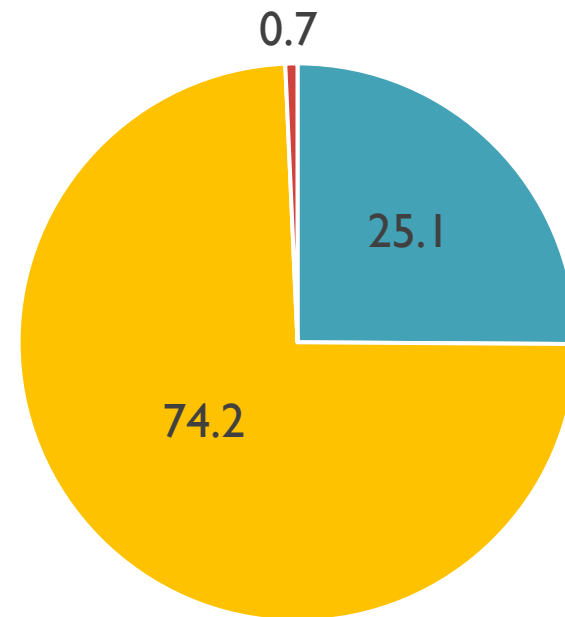
# Export Composition has changed with more Diversification

1977



■ Agricultural ■ Industrial ■ Other

2014



■ Agricultural ■ Industrial ■ Other



**Despite improved progress seen in many fronts, going forward, there are many issues to be addressed in the Sri Lankan Economy**

# Inadequate Infrastructure Investment

- The continuously high budget deficit limits the government's capacity to invest in large infrastructure projects
  - Domestic saving - investment gap is high requiring foreign financing to fill the gap
  - FDI is around 2% of GDP and did not improve as expected after the end of the conflict
  - Consistent government policies are necessary
  - Doing business environment needs to improve further to attract more FDIs
  - PPP should be encouraged through necessary institutional and regulatory arrangements
- Multilateral and bilateral donor support needs to be further enhanced

# Lac of Financial Inclusion

- Developing a formal strategy to improve financial inclusion
- Establishment of a credit guarantee corporation to facilitate small & medium enterprises
- Developing new financial products for the needs of low income people
- Strengthening regulatory environment to improve financial stability
- Improving technology in financial institutions
- Improving financial literacy

## **Aging Population and low labor productivity**

- Slow population growth together with aging population has resulted in shrinking labor force
- ILO estimates show that the average growth of labor force between 2009-2020 would be 0.3% per annum compared to 1% during 1990-2006
- Labor force participation, (in particular female & youth) should be increased with flexible work hours and improved work conditions
- Labor productivity needs to be increased through improved physical and human capital
- Linking remuneration to productivity is required



# Low Accessibility for Higher Education

- The public university system faces a severe capacity constraint to accommodate all those aspiring for university education.
- From the number of eligible students to admit universities only 17.5% was admitted in 2014
- Introducing necessary regulatory and accreditation mechanisms is required to ensure an overall improvement in the higher education system.
- Measures need to be taken to allow private sector to fill the gap in higher education
- The quality of education and the standards offered by the universities need to be improved.

# Low Export Growth

- Exports as a share of GDP have declined from 33.3% in 2000 to 14.7% in 2014
- The Sri Lanka's share in global merchandise exports has reduced from 0.09% to 0.06% during the period.
- Given the size and purchasing power of the Sri Lankan domestic market, export led strategy is a prerequisite in the country's medium term growth trajectory.
- Sri Lanka is dependent on few export products such as tea, garments and rubber products, while traditional markets such as Europe and the USA account for about two thirds of total exports.
- Export diversification with more value addition and the use of new technology as well as diversification of markets are vital.

# Low Government Revenue to GDP Ratio

- The total government revenue has declined from 27.4 % of GDP in 1978 to 12.2% of GDP in 2014, which is very low compared to its peers.
- The main reasons for low revenue is tax reductions, exemptions, tax avoidance, tax evasions, administration inefficiencies and complex tax laws
- It is required simplification of the tax system, broadening the tax base, enhancing tax compliance, minimizing tax exemptions, strengthening tax administration and assessment process through advanced technology

## *Conclusion*

- *While domestically prudent policies are required to address these issues for inclusive growth of the country, international cooperation is also essential to bridge the resource gap and for technological advancement*
- *G 24 is a strong and important forum to raise the voice on developmental issues particularly for our developing countries and the group.*
- *So our group of countries together can play a greater role in achieving our common objectives.*

Thank You!

