

Sri Lanka

Growth rebounded from 1.8% year on year in the fourth quarter of 2018 to 3.7% in the first quarter of 2019.

The rebound reflected 4.1% growth in services, 5.5% expansion in agriculture, and recovery in industry mainly from a pickup in construction. The first quarter saw muted private consumption, continued tightening in government consumption, and a near 5.0% decline in fixed investment. Net exports contributed to growth, and contraction in inventories subtracted from it.

While growth in the first quarter aligned with the *ADO 2019* forecast, the projection for growth in 2019 is marked down to take into account terror bombings in April 2019, as is the projection for 2020. Tourist arrivals fell sharply from 4.6% growth year on year in the first quarter of 2019 to 41.4% decline in the second quarter, though arrivals have picked up month on month since May. Budget revenue declined by 4.0% year on year in the first half of 2019, which, along with growth below expectations, will likely make meeting the deficit target difficult without spending cuts.

The national consumer price index rose by an average of 2.6% in the first 7 months of 2019. Even as food prices dropped from a high base in 2018, nonfood inflation rose with higher administered prices and Sri Lanka rupee depreciation at the end of 2018. Inflation forecasts for 2019 and 2020 are reduced because inflation to date has been below expectations. The Colombo consumer price index rose by an average of 4.0% in the first 8 months of 2019 and is projected at 4.2% in 2019 and 5.0% in 2020.

The Central Bank of Sri Lanka eased monetary policy three times in 2019 in response to subdued growth, low inflation, and slowing growth in private credit. It cut the statutory reserve requirement by 100 basis points in February and standing deposit and lending facility rates by 50 basis points in May and again in August. Sovereign bond issues worth \$4.4 billion helped to raise gross international reserves to \$8.3 billion in July 2019. Rupee appreciation against the US dollar by 3.6% in the first 7 months of the year was offset by 2.5% depreciation induced by global volatility in August.

The trade deficit shrank by 37.0% year on year in the first half of 2019 as exports grew by 4.7% and imports declined by 16.1%. Measures introduced in 2018 to restrict imports were eased in May 2019. Despite a marked reduction in tourism earnings, as expected after the terror attacks, the current account deficit is now forecast to be less than projected in *ADO 2019*, reflecting trade developments to date. The deficit forecast for FY2020 is trimmed as well but is still projected to widen marginally.

Table 3.3.8 Selected economic indicators, Sri Lanka (%)

	2019		2020	
	ADO 2019	Update	ADO 2019	Update
GDP growth	3.6	2.6	3.8	3.5
Inflation	3.5	3.0	4.0	3.8
Current acct. bal. (share of GDP)	-2.5	-2.2	-2.6	-2.3

Source: ADB estimates.