

## **Speech by Governor, Dr. P Nandalal Weerasinghe**

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Ms. Armida Salsiah Alisjahbana, the Executive Secretary of United Nations Economic and Social Commission for Asia and the Pacific, Honourable Ministers Finance, and the distinguished representatives.

First of all, I would like to thank the organisers for giving Sri Lanka an opportunity to share our thoughts at this important event.

In the global economy today, both advanced, and emerging market and developing economies, grapple with various economic challenges, due to global supply chain disruptions, rising inflation levels, reversals of extraordinary fiscal and monetary stimuli, geopolitical tensions and rising global commodity prices amidst looming recessions.

### **Developments in Sri Lanka**

As you all may be aware, Sri Lanka is going through a turbulent phase in its recent history in social, political and economic fronts. From the perspective of hindsight, it appears that some of the policies that Sri Lanka adopted to overcome the economic impact of pandemic had magnified the vulnerabilities the economy was already grappling with. Even though the COVID-19 pandemic did not discriminate countries as it spread all over the world with devastating effects, its economic impact had disproportionate outcomes across the nations, especially considering the developing nations which were experiencing pre-existing vulnerabilities. Countries all over the world came up with policy packages characterised by provision of income support to households, ensure broad and continuous access to safety net programs, provision of incentives for employers to avoid layoffs, extending of debt moratoria to firms and rolling out of vaccination programmes. Sri Lanka was no exception. However, the scale of the relief package was too burdensome on the economy given an already overstretched fiscal position.

### **Highlights of the fiscal and financing challenge**

Sri Lanka has run perpetual budget deficits over the years due to having one of the lowest revenue to GDP ratios among the developing countries amidst unabated expenditure driven by high recurrent payments and burgeoning debt servicing burden. Government revenue declined to a historic low level of 8.7 per cent of GDP in 2021 in comparison to 9.1 per cent in 2020 due to the continuation of low tax regime that was introduced in late 2019, lower than expected economic recovery and import restrictions that were imposed to ease external sector pressure. However, government expenditure as a percentage of GDP increased to 21.0 per cent in 2021 from 20.2 per cent in 2020 as a result of increased expenditure on salaries and wages and interest expenses. Accordingly, the overall fiscal deficit, as a percentage of GDP, worsened to 12.2 per cent in 2021 from 11.1 per cent recorded in the preceding year. Given the limited access to the international financial markets, the Government was compelled to finance the budget deficit mainly through the banking sector, including the Central Bank. Accordingly, outstanding central government debt which as a percentage of GDP increased to 104.6 per cent by end 2021 from 100.6 per cent registered at the end of the previous year.

## **Need for bridging finance**

In the current context, the Central Bank of Sri Lanka has estimated a significant bridging finance requirement in the second half of 2022 to provide for the basic imports necessary to sustain the livelihoods of the country's citizens and to keep the fundamental economic activities ongoing during this crisis period. These import financing requirements for the rest of 2022 would amount to around USD 6.3 bn, including a requirement of around USD 1.8 bn to obtain basic food items such as rice, wheat, dhal, potatoes, onions, milk powder and sugar, USD 3.3 bn for fuel for transportation and energy generation, USD 0.3 bn for supply of domestic cooking gas particularly poor urban households that are unable to use firewood, USD 0.2 bn for coal for power generation, USD 0.5 bn for emergency medicine and USD 0.4 bn for fertilizer for basic agricultural crops including rice, vegetables, tea, rubber and coconuts.

Of the total financing requirement, we are expecting around USD 1.2 bn to be funded through two Indian Credit Lines. Therefore, Sri Lanka needs immediate bridging financing sources to finance around USD 4.4 bn in order to avoid a potential social calamity.

The discussion for a possible IMF programme is currently underway and the technical level meetings are ongoing. It is expected that once the IMF programme is finalised, the investor confidence will be restored encouraging the investments in capital and debt markets. It will also provide a launchpad for introducing the long-delayed structural reforms aimed at long run economic recovery in the economy.

## **Use of alternative and innovative financial instruments**

Also, Sri Lanka is looking for the opportunities to raise funds in the form of green finance. In this front, 'Sri Lanka Green Finance Taxonomy' was launched by Central Bank with collaboration of International Finance Corporation on 06 May 2022 which is a taxonomy for sustainable green financing that will provide guidance for green financing activities in the country. This taxonomy will be applicable to all domestic and foreign market participants offering financial products, such as bank lending, debt instruments, portfolio management, and investment funds, large corporations, as well as national and local government bodies. Sri Lanka is currently exploring the possibility of raising affordable green financing options from regional and global partners.

## **Conclusion**

Desperate Times Call for Desperate Measures. The policy action that seemed extreme under normal circumstances might start to look highly appropriate during the times of economic adversity. The signs of crisis are looming all over the world and given the unfavourable conditions in the global economy, the developing countries should be prepared for the worse. After all, the crisis could be perceived as an opportunity to build up the resilience of the economy to avoid the future crisis by undertaking further structural reforms.

I hope that today's event will help the authorities identify the expected long-term changes and provide inspiration to leverage the opportunities this crisis offers to improve the state of the world.

With that I would like to conclude. Thank you.



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