

Continued from yesterday

The Central Bank reveals the plans of meeting the challenges ahead. The bank points out that social and economic indicators have continued to improve throughout the years. This will be further strengthened and the Central Bank would continuously fulfill its core objectives of maintaining economic and price stability and financial system stability to support sustainable growth.



appreciated from the level of Rs. 113.48 per US\$ to around Rs. 108.72 by end December 2007 and continued to appreciate there onwards.

Consequently, the debt service payment cost will be lowered by Rs. 5,693m on servicing foreign currency debt in 2007 and a further Rs. 7,335m in 2008.

Allegations on excessive

Perception / Claim
Deficit financing through money printing has increased

Perception / Claim
Fiscal deficit will constrain the economy

Reality
Fiscal consolidation is underway

KEY HIGHLIGHTS
Since 2001, the non-tsunami deficit has declined by nearly 32 per cent. More marked fiscal improvements masked by the one-off tsunami-related spending.

Stronger fiscal performance driven by comprehensive strategies to enhance revenue growth and manage expenditures.

Positive trend expected to persist, going forward

Perception / Claim
Public debt on a rapidly declining path

Perception / Claim
Public debt is out of control

Reality
Public debt ratios improving, composition stronger, and serviceability at comfortable levels

declining path, albeit from a high base

Fiscal Management (Responsibility) Act

Fiscal Management (Responsibility) Act, passed in the parliament in 2002, has required the Government to be statutorily responsible for achieving specific fiscal targets. Public debt %.

See Chart O & P

Established a benchmark

Perception / Claim

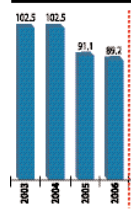
When loans from bilateral agencies at an interest rate of about two per cent is available, borrowing in the international markets at a higher rate of interest, is highly detrimental

Reality
The bond issue has yielded a multitude of benefits

yield thereby paving the way for Sri Lanka's private sector to access international markets. Exchange rate

Chart O

Public debt on a rapidly declining path, albeit from a high base
Public debt % of GAP



Perception / Claim
Reserve money growth on target and credit growth moderated

Reality
money printing are false.

Reserve money targets for 2007 were set based on the assumption of a 7.5% GDP growth and a GDP deflator at 8.5%. Such targets have been comfortably met, each quarter in 2007.

Central Bank has only issued Rs. 24.6 billion as against the target of Rs. 27.7 billion as new money (reserve money) in 2007.

So far in 2008, reserve money hovers well below the targets.

See Chart L & M

Perception / Claim
Excessive money printing (net credit to Government) has fuelled high and persistent inflation

Reality
Relationship between NCG and inflation is spurious

Relationship between inflation and monetary aggregates is not so simple

Net credit to the Government (NCG) is only a part of reserve (new) money.

Also, the relationship between inflation and monetary aggregates is not so simple. If the relationship is valid, inflation can be brought down easily by maintaining NCG at a certain level for a few months.

Inflation is driven both by supply and demand side factors. Long-term trend in inflation is due to demand pressures and short-run fluctuations are due to supply side factors.

See Chart N

Perception / Claim
Government is borrowing heavily from the banks and it is out of control

Reality
Net Credit to the Government from the banking system has declined significantly in 2007

Chart P

Total debt (% of GDP)

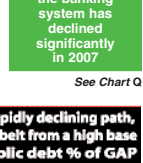
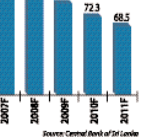


Chart Q

Net Credit to the Government from the Banking System



The Sri Lankan ECONOMY

PART THREE

“ Many perceptions/claims that are being circulated are not consistent with reality. Sri Lanka could however do even better. We have a long way to go. At the same time, we have great challenges ahead of us. But, Sri Lanka and its economy is certainly not down and out as some may claim, or may want us to believe. ”

Perceptions / Claims vs. Reality



Lanka geared to meet development goals

Chart L Reserve Money Targets have been achieved in 2007

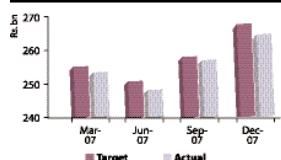


Chart M Credit Growth to Private Sector has been Strong & Supportive of Economic Activity (% chg)

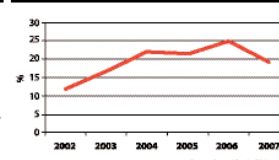


Chart N Spurious Relationship between NCG and Inflation

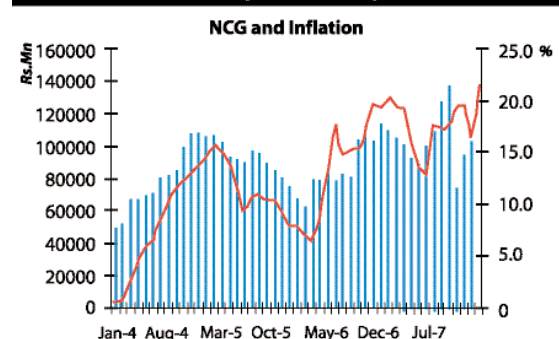
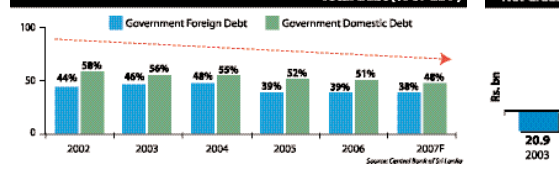


Chart P Total debt (% of GDP)



Perception / Claim
People do not feel the economic growth

Reality
Social and economic indicators continue to improve notwithstanding such claim

lowest level of 5.6% by 3rd quarter 2007.

The higher expansion of the economy in recent years, together with a sharp rise in public sector recruitments led to a significant reduction in the unemployment rate to 6.0 per cent at end 2007 from a rate of 7.7 per cent in 2005. The recruitment to the public sector on an ad hoc basis and the availability of non-performance based benefits in the public sector not only discourage unemployed youth from joining the private sector, but also encourage those already engaged in the private sector to join the public sector.

Usage of mobile phones expanding rapidly at end 2007, there were about 8 million mobile phones in use. By end 2007, there were more than 10 million telephone connections in Sri Lanka. The growth momentum in the telecommunications sector continued largely supported by a further expansion in the coverage, introduction of advanced technology and value added services, increased competition and affordability, and higher investments.

Number of new apartment buildings and individual housing increasing and selling fast-almost every road has a construction activity going on

Super market chains expanding rapidly

Number of banking outlets increasing sharply to reach 3,569 by end June 2007

Increasing number of Household appliances being sold

Increasing number of new EPF accounts

Increasing number of people going abroad on holidays

Per capita incomes steadily rising and projected to be US\$ 1,595 in 2007.

Increasing number of people sending their children abroad for studies

Increasing number of vacancy advertisements in the Government is in a

Perception / Claim
The Government is involved in unwinnable war

Reality
The Government has made significant progress on the military side, and has put forward its first political solution to the conflict

much stronger military position

The Government has recaptured the Eastern province.

It has also made significant progress in reclaiming territory in the North.

APRC proposal proves a good first move towards a political solution

The proposal holds the following main tenets

Implement the 13th amendment of the Constitution while maintaining the unitary framework of governance.

This would set the foundation to develop a new Constitution for Sri Lanka in the long-term.

Provide adequate funding of the Provincial Councils by the Government

Hold provincial elections in the Eastern Province

Establishment of Interim Council as a temporary measure for the Northern Province

Concluded

Perception / Claim
Rising Cost of Living (COL) and unemployment will hamper growth and stability

Reality
Higher employment and rising GDP per capita reflect strong growth momentum notwithstanding COL

GDP per capita (US\$) has grown by over 60% in the past four years and now projected to be around US\$ 1,600 by end 2007

Strong job creation backed by solid economic growth

World oil and commodity prices have been rising at an unprecedented rate.

Focus on agriculture, fisheries and animal husbandry is fully justified

Unemployment rate has fallen to historically