

# Road Map: Monetary and Financial Sector Policies for 2020 and Beyond

Following is the full presentation made by Central Bank Governor Prof. W.D. Lakshman on the launch of 'Road Map: Monetary and Financial Sector Policies for 2020 and Beyond' on Monday

**YOUR** Excellencies, members of the Monetary Board, Senior Deputy Governor, Deputy Governor, Assistant Governors and Officials of the Central Bank, distinguished invitees, ladies and gentlemen, it is indeed a great honour for me to address you as the 15th Governor of the Central Bank of Sri Lanka.

It is a privilege to be appointed to this esteemed and celebrated position, and I consider this as a valuable opportunity I got to contribute to Sri Lanka's growth and development. Being aware of the heavy responsibilities attached to this position, I pledge to perform my duties with the conscientiousness and commitment it demands. I wish to reiterate that I will do my best to sustain and add to the institutional greatness of the Central Bank and uphold the great traditions it built up over the past seven decades.

Today, the Sri Lankan economy is at a crossroads. Decades of policy making as a sovereign nation have produced improvements in many aspects of the economy. There was significant social upliftment. Nevertheless, tough challenges remain - below potential growth, persistence of poverty pockets, underutilisation of productive resources, inadequate expansion and diversification of exports, ob-



Central Bank Governor Prof. W.D. Lakshman speaking at the launch of 'Road Map: Monetary and Financial Sector Policies for 2020 and Beyond'. Monetary Board members Dushin Weerakoon, Nihal Fonseka, Chrisantha Perera and ex-officio member Treasury Secretary S.R. Attygalle are also present along with Central Bank Senior Deputy Governor Dr. Nandimal Weerasinghe

as economies experienced a synchronised slowdown, caused by prevailing conditions in global trade cycle, rising trade barriers, geopolitical uncertainties and numerous structural challenges.

Fiscal and monetary measures put in place in the past to stabilise balance of payments and fiscal balances, and adverse consequences of the Easter Sunday terrorist attacks, combined with the then prevailing political uncertainties have substantially weighed down on the performance of the Sri Lankan economy. The spill-over effects of the Easter Sunday attacks in particular, were felt across almost all spheres of economic activity, especially in the second quarter of the year. Consequently, below potential economic growth performance continued through 2019.

The economy grew at a slow pace of 2.6% in real terms in the first nine months of 2019. The rate of growth for the whole year is likely to be around 2.8%. Even in the years immediately preceding 2019, economic growth was sluggish, with the country failing to maintain the high growth momentum observed in the immediate aftermath of the end of the internal conflict.

dued aggregate demand. This implies a negative output gap that needs to be filled urgently by utilising the available policy space.

The monetary policy framework of the Central Bank, in the recent past, has been one of flexible inflation targeting. This is a subject of ongoing intellectual debate around the world. The Central Bank will continue to improve its policy framework in this area, with due emphasis on monetary stability for real sector growth. The maintenance of mid-single digit levels of inflation is an essential component of macroeconomic stability; it will protect vulnerable sections of the population; equally, perhaps more, important at times of low inflation, is shared, employment-creating production growth.

The Central Bank has taken a tight monetary policy stance until 2018 in view of high rates of credit and monetary expansion and adverse balance of payments pressures at the time. It now maintains an accommodative monetary policy stance in view of subdued economic growth, muted inflationary pressures and rapidly decelerating private sector credit amidst high nominal and real market interest rates. The Central Bank reduced the Statutory

