

## Macroeconomic Trends in Sri Lanka (from 2003 to 2013)

G.A.T. Nimeshika  
Department of Economics, University of Kelaniya

### Abstract

---

*Macroeconomic mainly include in overall performance in the economy. In that, Macro economic objectives and macroeconomic variables are got a special place. In this article is expected to analyze overall economic growth, price stability, unemployment and trade balance as macroeconomic variables. According to that, this article is focused to examine macroeconomic trends in Srilankan economy from 2003 to 2013. For this study secondary data have been used by using Central bank reports. By studying above variables in the economy, can able to become a logical consumer. According to analyze the economic growth has increased in 2013. The industry sector is provided a major contribution for GDP. Macroeconomic stability is a necessary condition for high economic growth. But the stability of macroeconomic environment weakens in creating an uncertainty economy with inflation. When the last years (covering 2003-2013) are considered, unemployment rate has decreased rapidly. It is good position for developing the country. But trade deficit has increased. That is a main problem for stability of the country. Finally, we can conclude that the country needs to achieve the goals the Socio Economic stability.*

*Key words: Macroeconomic trends, Sri Lanka*

---

### Introduction

Macroeconomic is one of the two most general fields in Economics. It is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as GDP, unemployment rates, growth rate, inflation, savings, investment, international trade and international finance. In this study, trends of Economic growth, Amount of unemployment of the country, price stability or inflation of internal economy and transaction of international trade are analyzed.

### Economic Growth

According to Wikipedia, economic growth is increased in the inflation-adjusted market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increasing in real gross domestic product, or real GDP. Of more importance is the growth of the ratio of GDP to population (GDP per capita, which is also called per capita income). An increase in growth caused by more efficient use of inputs (such as physical capital, population, or territory) is referred to as intensive growth. GDP growth caused only by increases in the amount of inputs available for use is called extensive growth. During the period of 2003-2013 the Sri Lankan economic growth is analyzed as below. In here agriculture sector, industry sector and services sector include in economic growth. Following figure shows growth and decline regarding each sector.

**Table 01. The GDP rate and contribution of sub sectors for GDP**

Year	Growth rate	Agriculture sector	Industry sector	Service sector
2003	5.9	1.5	5.5	7.7
2004	5.4	0.7	5.2	7.6
2005	6.2	1.5	8.3	6.4
2006	7.0	4.7	7.2	8.3
2007	6.8	3.4	7.6	7.1
2008	6.0	7.5	5.9	5.6
2009	3.5	3.2	4.2	3.3
2010	8.0	7.0	8.4	8.0
2011	8.3	1.5	10.3	8.6
2012	6.4	5.8	5.4	6.4
2013	7.3	4.7	9.9	6.4

Source: Central bank of Sri Lanka, Annual Reports 2003-2013

The table shows that the economic growth rate has increased from 2003-2006. In 2003 while economic growth was 5.9 percent, in 2006 that value was 7.4 percent. The agriculture, industry and services sectors have also grown. When the economic growth is considered during the period of 2003-2013, there were two main factors which effected for this growth. The first was the continuation the ceasefire and the peace initiative which expanded economic activities. The second was macroeconomic management. But the contribution of agricultural sector was 0.7 percent in 2004. It was unfavorable situation. The deceleration of growth in 2004 was mainly due to the poor performance in certain agriculture sub sectors because inadequate rainfall on certain major crops and electricity generation. By the year 2005, although was happened negative result of tsunami disaster, the GDP recorded a growth of 6%. But the economic growth felt down to 4.4% in the first quarter (Central bank of Sri Lanka, 2005). After three quarters the economic growth has shown to 6 percent. Because the Sri Lankan economy was able to stay a lower growth rate in import trade.

During the period of 2007-2009, economic growth rate is decreased. In 2007 that value was 6.8 percent and also that value was 3.5 percent in 2009 (Central bank of Sri Lanka 2007-2009). The Sri Lankan economy recorded more than 6 percent growth. However in 2007 economic growth was less than 2006. Because situation changed due to unfavorable commodity and oil prices, increasing terrorist threat, bad weather conditions and rising inflationary pressure. In 2007 -2009 service sector recorded a high growth. Suddenly the Sri Lankan economy exited with recording a growth of 3.5% in 2009 and also faced to many challenges. The sub sectors namely mining, quarrying, manufacturing and construction slow down compared to the previous years. The setback in external trade activities particularly the contraction in the import trade sub sectors were effected to the declaration of service sector.

The growth rates were in a range 8%-7.3% between years 2010-2013. The GDP grew by an impressive 8 percent in 2010 over relatively low growth of 3.5% in 2009. This is the second highest growth rate which recorded during the past six decades. The agriculture sector grew by 7% in 2010 compared to the 3.2% growth in 2009. This was mainly due to the favorable growth in paddy, tea, and minor exports crops and significant improvement in the fisheries sectors. In 2011 the economy recorded a highest growth rate within these 10 years. Strong domestic demand, improved investor confidence continued expansion of infrastructure

facilities and improved doing business environmental amidst the fragile, global economic recovery were caused for this growth. When the period of 2012, 2013 are considered, the GDP growth has decreased again due to interest rates, stable exchange rate and reduction in government taxes.

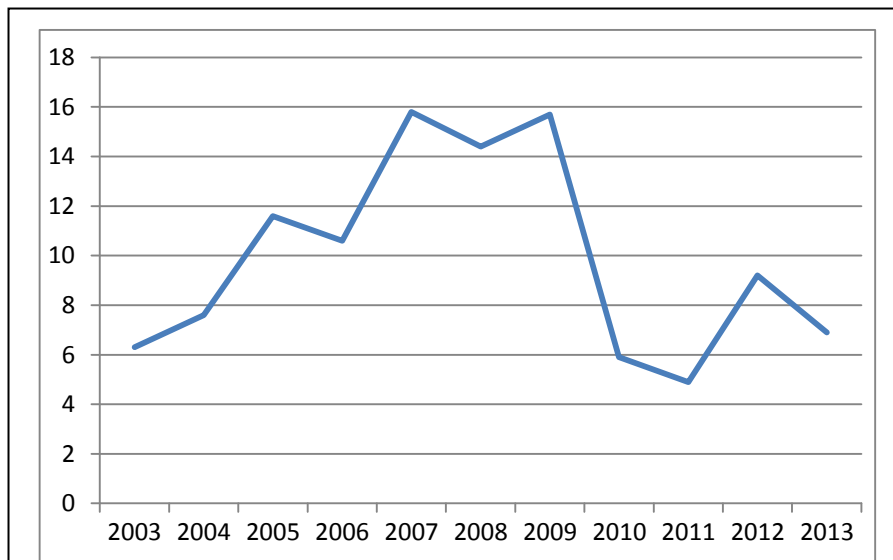
However economists believe that economic growth is the most vital indicator to measure the performance of any economy (<http://slsaj.com/slsaj/wp-content/uploads/2011/10/14-Cooray.pdf>).

### Price Stability

Price is the most important factor to affect the people's living state. Price stability is a condition in which there is little inflation in prices. Commonly price stability is indicated by the inflation rate. Inflation means generally the price is upward of goods and services in an economy. In Sri Lanka, there are four indicators to measure the price stability named by Colombo Consumer Price Index (CCPI), Greater Colombo Consumer Price Index (GCPI), and wholesale price index (WPI) and the Implicit Gross Domestic Products Deflator (GDPD).

When increase the cost of goods and services, the value of a Rupee is going to fall because a person won't be able to purchase more goods and services than previously. At this situation can't see price stability in economy. Inflation is caused to raise the most economic problems. These are the expansion of income became an unfavorable, Discourage the savings. Because people are try to invest their money in immobile property, bad effect to the Balance of Payment, decrease the economic growth, increase the budget balance, the foreign exchange rate is appreciation. Since above these factors of economy can't achieve their economic stability.

**Figure 1: The inflation Rate**



Source: Central bank of Sri Lanka, Annual Reports 2003-2013

Above chart shows inflation and deflation within recent 10 years. When the overall inflation is considered, a significant difference can be seen. The inflation rate was increased from 2003 to 2013. Among them, highest inflation rate is recorded in 2007. Increasing the prices of petroleum products, the important intermediate import item (Wheat grain, milk powder) and other domestically consumer vegetables (meat, fish, eggs, fresh milk and vegetables) are

effected for that. By the year 2006 inflation rate was 10.6 percent (Central bank of Sri Lanka, 2006). In this period, the government introduced a new development strategy as Mahinda Chinthana programme. It is a year of Horizon development framework 2006-2016. There are several targets which they wish to achieve from this programme. Among those things, the government hoped to reduce the inflation rate approximately 4% and continue that state in the future. An unfavorable growth rate of prices level can be seen in 2007. When the CCPI is measured, the annual average was 15.8%. The government hoped to remain to single digit level inflation rate. But they can't achieve that target because the tight monetary policy. Terrorist disturbances, bad weather conditions, supply shortages and distribution cost were also impacted for the domestic prices.

The inflation rate was less than previous years in 2008. Within ten years the lowest inflation rate recorded in 2011. According to CCPI, the inflation rate in the year was at 4.4 percent after many fluctuations. The reasons behind these movements were adverse weather conditions that prevailed in major cultivation areas upward revisions of administered prices. When the all these factors considered, inflation rate is gradually decreased. While the inflation rate was 6.3 percent in 2003, that value was 6.9 percent by the 2013. During the period of 2003-2008 inflation rate has increased year by year. After the year 2008, inflation rate has decreased on gradually.

As the country, the lower price level is very important. At that time people can purchase more goods and services. Then people's living state increases. Following this table shows how the prices are change within the year 2003-2013.

**Table 2: Price behavior of Sri Lanka**

Index	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CPI	5.8	9.0	11.0	10.0	15.8	22.6	3.5	6.2	6.7	7.6
WPI	3.1	12.5	11.5	11.7	24.4	24.9	-4.2	11.2	10.6	3.5
GDP Deflator	5.6	9.2	9.9	11.3	14.2	16.3	5.9	7.3	7.9	8.9

Sources: Central bank of Sri Lanka, Annual Reports 2003-2013

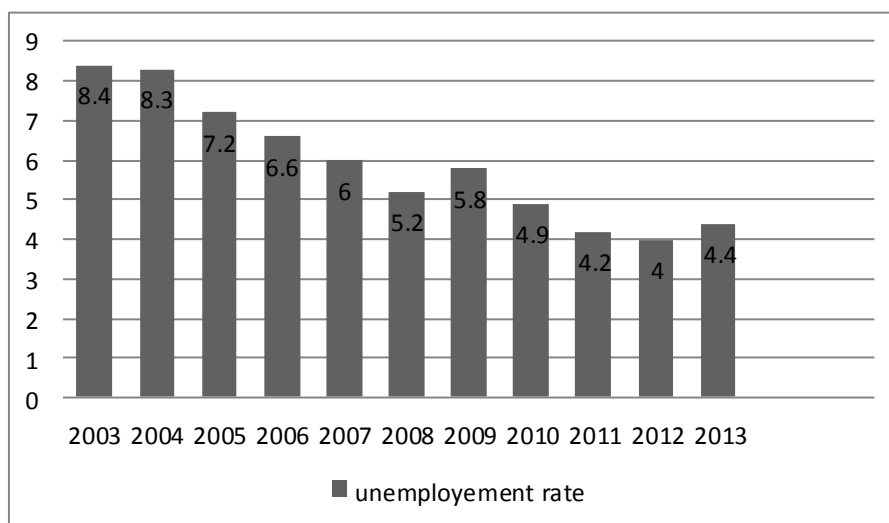
According to the table the changes of prices are declined. The prices are changed from high rate. Both demand and supply cases are related to these changes. Finally overall inflation rate is declined, It is very essential for the economic growth. Under the Mahinda Chinthana programme, the government hoped to take the inflation rate at around 4 percent in 2016. When the prices are concerned, the government always tried to hold the normal fair price level. Therefore the economy can be stayed the low inflation rate under those prices.

## Unemployment Rate

In simply words unemployment means joblessness. It occurs when people haven't job or they are looking for a job. Unemployment can be divided into voluntary and involuntary unemployment. Voluntary unemployment means works who didn't work by their own decision. Involuntary means people haven't work because of social and economic environmental conditions, government intervention, aggregate demand and the market structure.

Unemployment may be cost for the society. The human capital deprives for the society and also the crimes increase. The most of people addicted to theft. Unemployment rate in recent decade represents in below chart. According to that unemployment level has reduced gradually. After the war, most of areas can be seen development.

**Figuer 3: Unemployment rates of Sri Lanka**



Source:

[http://www.cbsl.gov.lk/pics\\_n\\_docs/01\\_home/docs/macro\\_economic\\_chartpack\\_e.pdf](http://www.cbsl.gov.lk/pics_n_docs/01_home/docs/macro_economic_chartpack_e.pdf)

Unemployment rate decreased in 2003 to 2006. Government programs and increasing overseas job opportunities are caused for these changes. In the year 2007 unemployment rate is decreased to 6 percent due to sustained in all three sectors and implementation of several programs. Unemployment in the age group 15-19 years declined to 21.6 percent in 2007. The overseas jobs for Sri Lankan labor force remained a major source of employment. The unemployment rate which was 6% in 2007 declined to 5.2 percent in 2008. For that employability development programs and employment creation and promotion programs contributed to create new employment opportunities in the labor market. From 2009 to 2013 unemployment rate has decreased to 4.3 percent (Central bank of Sri Lanka, 2013). Especially overseas job opportunities have caused for this. In the 2013 unemployment level was less than previous years. That is a significant difference.

When the previous decade in Sri Lanka considered, the first half of the recent decade has grown unemployment rate between 6%-8%. But the Sri Lankan government in second half of the recent decade was able to remain the unemployment level between 5%-6%. According to the global consideration, an ideal unemployment rates should be 5%-6%. The Sri Lankan economy reached to the expected level in the last five years. However in 2010, 2012, 2013 economy got the ability to reduce the unemployment rate below 5 percent. This is the good situation. As the central bank reports, unemployment rate was 4.4 percent in 2013. When it is compared to the previous years although it is increased, it is not excluded the ideal rate of 5%-6%. When the Sri Lankan reports are compared with other Asian countries reports, Sri Lankan has got a tremendous place. According to the concept of Wonder of Asia Sri Lankan government is hoping to achieve unemployment rate 3.2% by the year 2016.

### Trade Balance

Under macroeconomic trends, one of the macroeconomic objectives is balancing the balance of payment account. Balance of payment account is account which noted the transaction with external world with country. This account is noted receivables and payments on international business. Balance of payment account consists with current account and capital and financing account. Trade account is one of the account of current account. Trade balance can get by trade account.

Trade balance is related with international value of export goods and import goods annually. This is named by balance of good account. Briefly, trade balance is difference between income of export goods and expenditure of import goods. If a high value of expenditure of import goods more than income of export goods have, it is trade deficit. Because of trade account concept is related export income and import expenditure. It includes import and export amount as well as price.

In Sri Lanka trade balance is negative value for few years. It is trade deficit. There are a lot of disadvantages due to trade deficit. They are, increasing in foreign loans, happening to face problem of balance of payments, increasing payments of foreign loan services, decreasing of income, happening to enact import limits, and declining foreign value of money.

In Sri Lanka exports consist of agricultural exports, mineral exports and unclassified exports. So also, imports consist of consumer goods, intermediate goods, investment goods and unclassified imports. Garment products exports, tea and foods products are affected to trade balance.

By the present trade deficit is a big problem. It is increasing year by year. The following table shows trade deficit in Sri Lanka for the period of 2003-2013.

**Table 4: Trade deficit in Sri Lanka**

Year	Trade deficit in Sri Lanka (Rs million)
2003	-148324
2004	-227171
2005	-253082
2006	-350037
2007	-394327
2008	-635359
2009	-358707
2010	-588867
2011	-1073900
2012	-1195368
2013	-979074

Source: Central bank of Sri Lanka, Annual Reports 2003-2013

It is bad effect to achieve the goal of Sri Lanka. Although export income are increasing, import expenditure are increasing in similar speed. Following includes the methods for settle deficit. They are private transfers which sent by foreign labors, foreign loans, foreign investments, foreign income, and protection policies, focusing to resources of export section in resources of import section, promotion of exports and reduction of imports.

In this, mainly focus to settle trade deficit promotions of exports. According to that promotion of exports can do avoiding export tax, loaning under lower interest rate for exports, transfers and tax limits. So also establishing trade relationship, providing facilities to participate exhibitions and trade stalls are helped to exports.

Reduction of imports can do by following protection policies such as high tariffs rate. In addition to that can be able to use non-tariff imports methods such as enacting trade avoidance to selected special countries.

## Conclusion

Under the Mahinda Chinthana programme, Sri Lanka economy reported a good condition. The Structural change of the service sector of the economy has positive indication and

promising aspirations to help the country to achieve its develop targets (<http://slsaj.com/slsaj/wp-content/uploads/2011/10/14-Cooray.pdf>). Even though contribution of agricultural sector needs to be developed and modernized by using modern technology. According to the concept of wonder of Asia Sri Lanka government expect to obtain following rates for unemployment inflation, economic growth by the 2016.

## References

- සමරසිරි පී. (2013) *ආර්ථික විද්‍යා මූලධර්ම සහ ප්‍රතිපත්ති*, මහ බැංකු මුද්‍රණාලය, 58, ශ්‍රී ජයවර්ධන මාවත, රාජගිරිය
- ප්‍රනාන්දු වික්සන් මර්වින්, (2008), *ආර්ථික විද්‍යාව 2*, පියසිරි ප්‍රින්ටර්ස්, සිස්ටම්ස් මුද්‍රණාලය
- Central Bank of Sri Lanka. (2003-2013), *Annual Reports*, Colombo, Central bank of Sri Lanka.
- Central Bank of Sri Lanka, *Recent Economic Development in chart*, [http://www.cbsl.gov.lk/pics\\_n\\_docs/01\\_home/docs/macro\\_economic\\_chartpack\\_e.pdf](http://www.cbsl.gov.lk/pics_n_docs/01_home/docs/macro_economic_chartpack_e.pdf) Wikipedia, accessed from [https://en.wikipedia.org/wiki/Economic\\_growth](https://en.wikipedia.org/wiki/Economic_growth)
- Cooray N.S. (2011) *Macroeconomic performance of Sri Lanka since 2000*, Annual Research journal Of SLSAJ Vol11.pp100-117 <http://slsaj.com/slsaj/wp-content/uploads/2011/10/14-Cooray.pdf>
- Sri Lanaka: The Emerging Wonder of Asia* (2010) Mahinda Chinthana, Vision for the future , [www.treasury.gov.lk/.../mahindaChintanaVision-2010full-eng.pdf](http://www.treasury.gov.lk/.../mahindaChintanaVision-2010full-eng.pdf)
- Theophilus E. (2011), *The Macroeconomic Stability that Sri Lanka Desperately Needs to Pursue* (<http://www.asiantribune.com/news/2011/01/04/macro-economic-stability-sri-lanka-desperately-needs-pursue>)