

## **P Nandalal Weerasinghe: Poverty and development in times of crisis**

Keynote speech by Dr Chandranath Amarasekara, Deputy Governor of the Central Bank of Sri Lanka, at the International Conference on "Poverty and development in times of crisis", at the 25th Anniversary of the Centre for Poverty Analysis (CEPA), Colombo, 7 May 2026.

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Chairperson, Executive Director and officials of CEPA, distinguished speakers, researchers, policymakers, colleagues, and friends from Sri Lanka and abroad.

Good morning!

It is a pleasure to be with such a diverse audience, one that brings together different countries, disciplines, and perspectives, yet shares a few common concerns: how economies can better withstand shocks, protect the poor and the vulnerable, and achieve the development objectives of countries, in an increasingly complex and interconnectedness global system.

I speak to you today not only as a central banker, but as someone from a country that has, very recently and very vividly, lived through the consequences of an unprecedented economic, social and political crisis. As many of us know, the crisis that Sri Lanka faced in 2022 was the culmination of deep-rooted economic vulnerabilities, amplified by severe external shocks and domestic policy missteps.

**Crises rarely arrive because of a single mistake. They arrive when multiple vulnerabilities align.**

In Sri Lanka's case, we had been facing a prolonged erosion of fiscal and external buffers, a fragile macroeconomic framework, heavy exposure to global shocks including pandemics, shifts in capital flows, commodity price surges, and limited policy space when those shocks materialised. By the time external financing dried up and confidence weakened, the room for manoeuvre had already been lost.

As some would say, "Policy buffers are boring; until they matter".

Building policy buffers is like maintaining the foundation of a building. On the sunny days, no one admires the foundations. Instead, the focus is on new floors, design, and so on. But when the storm arrives, it is only the foundation that matters.

### **Sri Lanka's Economic Crisis of 2022**

In the years preceding Sri Lanka's crisis, buffers had been gradually weakened. Fiscal space had narrowed; external reserves had become inadequate; debt dynamics had become less forgiving; and the credibility of institutions was coming under scrutiny. One could argue that none of these developments seemed catastrophic, when viewed in isolation. Collectively, however, they proved to be decisive.

During this crisis, inflation climbed to 70% in September 2022, the exchange rate depreciated sharply to above LKR 360/USD in the official market from Rs. 200 per USD. Furthermore, usable reserves depleted to negligible levels, and the economy contracted by an unprecedented 7.3% in 2022. During 2020 – 2022, Sri Lanka recorded one of the lowest revenues to GDP ratios in the world as the public debt to GDP ratio hit its highest level. In essence, during this crisis, almost all macroeconomic indicators displayed their worst performance since regaining independence.

### **Responsibility of policymakers in times of crisis**

We live in an era defined by recurrent and overlapping shocks. Whether triggered by natural disasters, pandemics, misguided policies, or geopolitical tensions and wars, crises invariably strike hardest at the poor and the vulnerable.

This reality imposes a profound responsibility on policymakers to ensure that macroeconomic adjustment and development strategies explicitly safeguard those least able to withstand shocks. Stability, often viewed narrowly as a macroeconomic prerequisite for growth, is equally vital in preventing reversals in poverty reduction in more immediate and tangible ways.

Sri Lanka's recent experience with multiple compounded crises starkly illustrates this challenge. The COVID-19 pandemic, the economic collapse of 2022, recurring natural hazards, and global geopolitical spillovers have sharply escalated living costs, eroded real incomes and savings, disrupted education, heightened job insecurity, and accelerated outmigration. These shocks have deepened entrenched socio-economic vulnerabilities, with the heaviest toll borne by low-income households, small businesses, and other fragile segments of society.

### **Importance of Price and Financial System Stability**

As central bankers, we often say that inflation is 'public enemy #1.' Inflation is the worst tax that could be imposed on the public. The prices faced by the poor and the rich would increase with the effect of such price rises being disproportionately higher on the poor. Inflation is, indeed, a most regressive tax. Inflation would also adversely affect small businesses, who cannot adjust prices as easily as their larger counterparts.

The fact that inflation is the worst enemy of the general public is the very reason why central banks, including the Central Bank of Sri Lanka, are entrusted with the responsibility of maintaining price stability, which is interpreted as maintaining low and stable inflation. In the longer term, low and stable inflation also facilitates dampening interest rate cycles and credit cycles.

As I said before, during the crisis, inflation shot up to 70% in September 2022. With decisive action, the Central Bank was able to bring down inflation to single digits within 10 months of that peak. However, cost of living, which increased during the crisis remains elevated. Average monthly consumption expenditure based on the national consumer price index (CPI), which was Rs. 51,000 in 2021, increased to Rs. 89,000 in

2022 and further to Rs. 103,000 in 2023. Cost of living stabilised only after inflation was tamed in 2023. The corresponding figure for both 2024 and 2025 after stabilising inflation was Rs. 105,000. Average inflation was 1.2% in 2024 and -0.5% in 2025.

In the near term, while global disruptions in the energy markets and supply chains could impose upward pressure on inflation, the Central Bank is confident that inflation would be maintained around the 5% inflation target in the medium term, supported by required policy adjustments under the new Central Bank Act, which has established an independent, accountable and transparent Central Bank. More than anyone, this provides hope for the poor, as we now have an institution that is solely responsible for maintaining price stability.

In addition to the primary objective of maintaining price stability, the Central Bank of Sri Lanka has a second mandate, which is maintaining financial system stability. The crisis of the magnitude experienced by Sri Lanka would usually be accompanied by a crisis in the financial system. However, with timely action, Sri Lanka was able to prevent such financial system instability. Safeguarding financial system stability is important to ensure the savings of the public, particularly the vulnerable including the elderly. Financial stability also enables smooth financial intermediation that enables financial institutions to lend at reasonable rates for investment and productive economic activity. If, the domestic financial system collapsed during the crisis, not only the real value of savings, but also savings in nominal terms would have been lost.

Ladies and gentlemen, both in terms of achieving price stability and maintaining financial system stability, the counterfactual would have been unthinkable.

The 2022 crisis also required significant changes to the fiscal framework and utility pricing. Both direct and indirect taxes had to be adjusted. In addition, utility pricing, which were mostly political decisions for a long time, were made cost reflective, in place of broad-based subsidies provided to all energy and utility users previously. These adjustments, although essential to support fiscal and debt sustainability, would naturally have an effect on disposable incomes and livelihoods of the poor and the vulnerable.

### **Recent Strengthening of Social Safety Nets**

Recognising the after-effects of the crisis as well as macro adjustments, Sri Lanka's IMF-supported stabilisation programme has also placed explicit emphasis on strengthening social safety nets, including a mandated floor on social spending. Without such protections and well-targeted subsidies, essential macroeconomic adjustments, particularly higher taxation and cost-reflective utility pricing, would have sharply increased the incidence of poverty in Sri Lanka.

I would also like to add here, that interestingly, the rising tax burden has intensified public scrutiny of social assistance. This has created an opportunity, and perhaps even a necessity, to improve the targeting, efficiency, and accountability of safety-net programmes. The public, who would not otherwise be concerned about government expenditure, have started demanding stronger governance, transparency and accountability in economic management, with stronger institutions.

### **Recent Rebound of the Sri Lankan Economy and Role of Macroeconomic Buffers**

Following the crisis of 2022, the Sri Lankan economy, by end 2025, displayed a remarkable rebound in terms of several macroeconomic indicators.

- Per capita GDP has increased to above USD 5,000 and the size of the economy has surpassed USD 100 billion; both being achieved for the first time.
- Real economic growth has been recorded at 5% in 2024 as well as in 2025.
- Inflation moved towards the target of 5% following a brief period of deflation.
- Gross official reserves increased above USD 6.8 billion by end 2025, of course, including the PBOC swap.
- The external current account recorded consecutive notable surpluses over the last three years.
- Private sector credit growth rebounded with the 'crowding in' that was made possible by repayments made by the public sector, including from public utility entities that were previously loss-making.
- In the fiscal sector, the primary deficits of 5.7% and 3.7% in 2021 and 2022, have turned into surpluses of 0.6% in 2023, 2.2% in 2024 and 5.4% in 2025.
- The Central Government Debt to GDP ratio has improved to 91.6% in 2025.
- The government, which previously owed to state banks through a large overdraft now has a large surplus maintained as deposits with the banking sector.

Nevertheless, repeated shocks that are mostly beyond the control of policymakers suggest that resilience of the economy and people will continue to be tested in the period ahead.

The policy spaces and buffers that were built in the aftermath of the crisis, as a part of the overall macroeconomic stabilisation package, shielded the economy from the impact of Cyclone Ditwah in late 2025. These buffers have also helped to absorb some spillovers of the ongoing geopolitical tensions in the Middle East. However, as we live in an era defined by recurrent and overlapping shocks, policymakers can never be complacent in their efforts to build buffers, and improve the resilience of the economy, through diversification and enhancing productivity and efficiency of the economy.

### **Building Buffers for the Poor**

Amid the rebuilding of national buffers to withstand future shocks, it is well acknowledged that the resilience of the poor and vulnerable must also be strengthened significantly. A key initiative undertaken by the Central Bank of Sri Lanka in this regard is its focus on improving financial literacy and inclusive finance. Another aspect of such initiatives is the Central Bank embarking on market conduct supervision, to ensure that unacceptable practices of financial institutions both in deposit taking as well as lending are addressed.

I must emphasise here, that the responsibility of helping the poor and the vulnerable lies particularly and heavily with the government, which must work in tandem with the private sector to create productive and decent jobs while also ensuring a business-friendly environment.

National policies, such as the introduction of a nationwide contributory pension and social security system and the promotion of insurance, would be essential to safeguard the resilience of the poor and the vulnerable, reduce the dependence of an ageing

population on simple interest incomes, and the substantially large informal sector worker segment that is surviving on daily wages are remain a very precarious segment as they have no immediate access to any public social safety net in the midst of any shocks that bring economic activity to a standstill.

### **Importance of Strong Institutions**

As we know, 'better institutions' can generate high quality growth. Now that we are in the process of regaining macroeconomic stability, the next wave has to come from good institutions leveraging on stability. Public institutions no longer have excuses on not being able to deliver. Growth must be driven by better institutions through deep structural reforms with a long-term focus, rather than by short-term fiscal or monetary stimulus.

### **Concluding Remarks**

Literature has amply displayed that sustained growth and job creation remain the most effective antidotes to poverty. If I may quote William Easterly here: "there are two ways the poor could become better off: income could be redistributed from the rich to the poor, and the income of both the poor and the rich could rise with overall economic growth. Research findings suggest that on average, growth has been much more a lifesaver to the poor than redistribution".

Looking ahead, Sri Lanka faces a difficult, yet unavoidable path. A key lesson from our experience is that domestic vulnerabilities and global pressures amplify each other. The absence of crisis is not proof of strength. Often, it is merely a grace period.

The global environment today is less forgiving; monetary conditions tighten rapidly and synchronously; capital markets reprice risk abruptly; supply-side shocks are more frequent; and geopolitical fragmentation constrains policy choices. Also, the technology divide complicates the catch-up process across countries while exacerbating income disparities within a country.

For small open economies like ours, macroeconomic errors are no longer absorbed slowly – they expose 'fault lines' quickly. This reality places a premium on policy credibility, clear communication, and frameworks that are robust, not just optimal under benign conditions.

From a policymaker's perspective, the crisis reshaped several beliefs.

- First, policy space is not created during crises. It must exist beforehand.
- Second, technical correctness is not enough. Policies must be institutionally credible and clearly articulated in order to mobilise public support.
- Third, delay is itself a decision – and often the most expensive one.
- Fourth, and perhaps most importantly, macroeconomic management cannot be episodic. It must be continuous, disciplined, and evidence based.

Given these realities, research matters more than ever.

On the one hand, we require timely, high-quality poverty data, gathered through both traditional and innovative methods, alongside rigorous, policy-relevant research. Unfortunately, as at today, our national data on some critical aspects of poverty and standards of living predate the economic crisis as well as the covid pandemic. We are all waiting for the updated Household Income and Expenditure Survey, which would provide us better insights into the current living standards of our citizens. Going forward, it would be valuable to see institutions such as CEPA – specialised in poverty research – take the lead in filling this gap by developing a real-time dashboard on poverty and related social dimensions.

In addition to lack of data, crises happen and policy errors are made because warning signals are fragmented. Often, research is disconnected from decision timing, and analysis does not always translate into actionable policy. Institutions such as CEPA play a critical role in translating evidence into actionable insights, guiding policymakers toward a more resilient and inclusive development trajectory. Researchers contribute most when they challenge consensus through evidence-based analysis, translate complex risks into policy-relevant terms, and engage with policymakers early, not only in post-crisis diagnosis.

If there is one message I would like to leave with both policymakers and researchers, it is this: We need fewer parallel conversations and more shared ones. Policymakers must be more open to uncomfortable evidence. Researchers must be more attuned to institutional constraints and timing. Both must recognise that credibility is built jointly. In an environment of rising uncertainty, collaboration is a necessity.

While Sri Lanka's recovery is still a work-in-progress, the crisis has yielded moments of opportunity. Whether that opportunity is seized depends on whether research and analysis, policy, and institutions collaborate in a coordinated manner. I am certain that this forum will help forge those essential connections and collaborations.

Let me conclude by congratulating the organisers of this timely event and extend my best wishes to CEPA on its 25th Anniversary.

Thank you.