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## QER - Third Quarter 2007

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The government security forces completed taking full control of the Eastern province in July 2007. Nevertheless, there is a long way to go to establish democratic rule in the province. The quarterly growth rate increased consecutively for the second time in 2007 after four consecutive drops between the second quarter 2006 and first quarter 2007. Agriculture sector recorded positive growth for the first time in the third quarter 2007. Industrial and services sectors were the main driving force of the 7% GDP growth rate recorded during the quarter under review.

Although paddy and other food crop productions increased, tea, rubber and coconut productions dropped marginally during the third quarter. However, Colombo tea auction price increased significantly during the quarter. While the private sector industrial production index dropped, the public sector industrial production increased. Industrial exports continued to rise during the quarter under review.

Interest rates increased; i.e. the weighted average prime-lending rate and the treasury bill rate increased. However, the Central Bank repo and reverse repo rates remained static during the third quarter as well. The real interest rates remained negative because inflation was higher than the nominal interest rates. Inflation continued to soar during the quarter under review both in terms of the Sri Lanka Consumer Price Index and the New Colombo Consumer Price Index. Soaring public expenditure, depreciation of the rupee and sluggish agricultural production contributed to the rise in inflation.

Public debt soared during the third quarter as public expenditure increased enormously. Domestic debt increased more than the external debt. External debt was boosted by the sale of foreign currency denominated treasury bonds.

The external sector of the economy performed better. Exports increased significantly and imports also increased considerably. Since the rise in exports was greater than the rise in imports the trade deficit dropped during the quarter compared to the previous quarter. Depreciation of the rupee has helped the export sector.

In spite of the rise in external flows, narrowing of trade deficit, rise in net private remittances and significantly greater earnings from tourism, the gross official foreign exchange reserve dropped marginally due to higher external debt repayments. Net private remittances rose marginally during the quarter. Both the tourist arrivals and earnings from tourism increased enormously despite being an off-season. The stock market was a bit sluggish during the quarter under review. The ASPI at the end of the quarter was the same as in the previous quarter, but MPI dropped marginally. In contrast, the average daily turnover in the stock market increased several fold.

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