

MONTHLY ECONOMIC UPDATE

April 2022

EIU



3
KEY INSIGHTS

CBSL Hikes Policy Rates to Tame Inflation

Sri Lanka Commences Debt Restructuring and Seeks IMF program

Both the World Bank and the IMF Downgraded Global Growth Forecasts further, citing Russia-Ukraine Crisis

SRI LANKAN ECONOMY

CBSL Sharply Raises Rates to Tame Inflation: In early April, the CBSL decided to increase the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 7% to 13.50% and 14.50% respectively to curb the rise in inflation which reached 21.5% in the National Consumer Price Index during March 2022.

Sri Lanka's Commences Debt Restructuring and IMF program: On 12th of April, the Government decided to start the process of "Pre-Emptive Negotiated default" with the official notice of postponing the debt service payments on External debt. Following that, a Sri Lankan delegation had technical discussions with the IMF in Washington. The IMF has urged Sri Lanka to tighten monetary policy and increase taxes to address the debt crisis. IMF has forecasted 2.6% growth for Sri Lanka in 2022, down from 3.6% in 2021.

Sovereign Credit Ratings downgraded further: Sri Lanka's sovereign credit ratings were downgraded further by all three key rating agencies, following the government's decision to suspend debt payments.

Trade Deficit Widened Further in Jan: Imports continued to expand, in spite of high export earnings exceeding USD 1 Bn for the eighth consecutive month, and as a result the trade deficit widened in January 2022 on a Y-o-Y basis.

Remittance Inflows Up in March: Remittances recorded the highest inflows thus far 2022 in March, however 48% lower than the inflows received in March 2021.

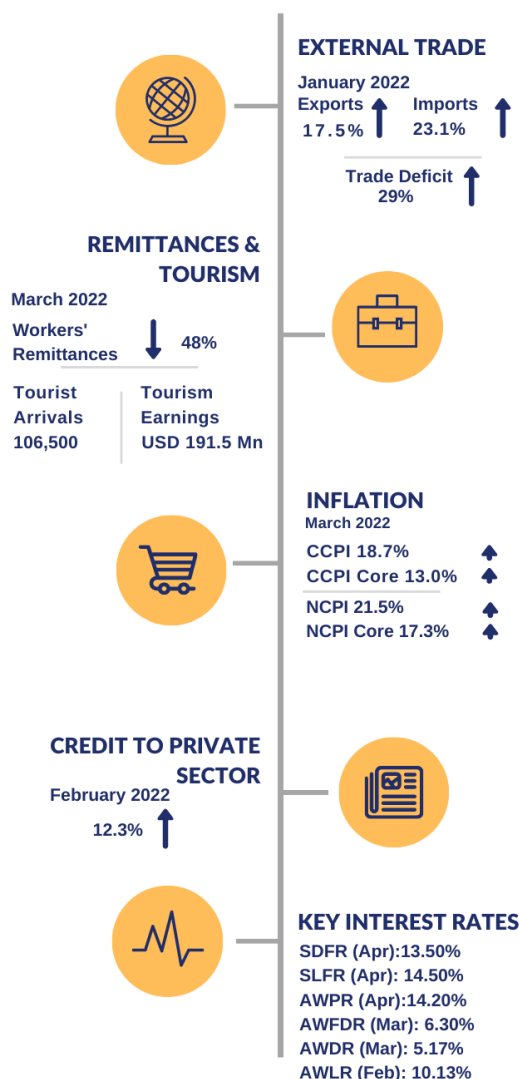
GLOBAL ECONOMY

Both the WB and IMF Downgraded Growth Forecasts: Citing the Ukraine Crisis, both the WB and the IMF downgraded their growth forecasts to 3.2% and 3.6% respectively for 2022.

Price of Brent is expected to average USD 100/b in 2022: Considering the war related trade and production disruptions, the price of Brent crude oil is expected to average USD 100/barrel in 2022, its highest level since 2013 and an increase of more than 40% compared to 2021, the WB says.

MACROECONOMIC SNAPSHOT

Y-O-Y CHANGES



Data Sources: Central Bank, Sri Lanka
Department of Census and Statistics, Sri Lanka
Tourism Development Authority, Sri Lanka

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FURTHER INSIGHTS- SRI LANKAN ECONOMY

CBSL Policy Rates Doubled to tame Inflation

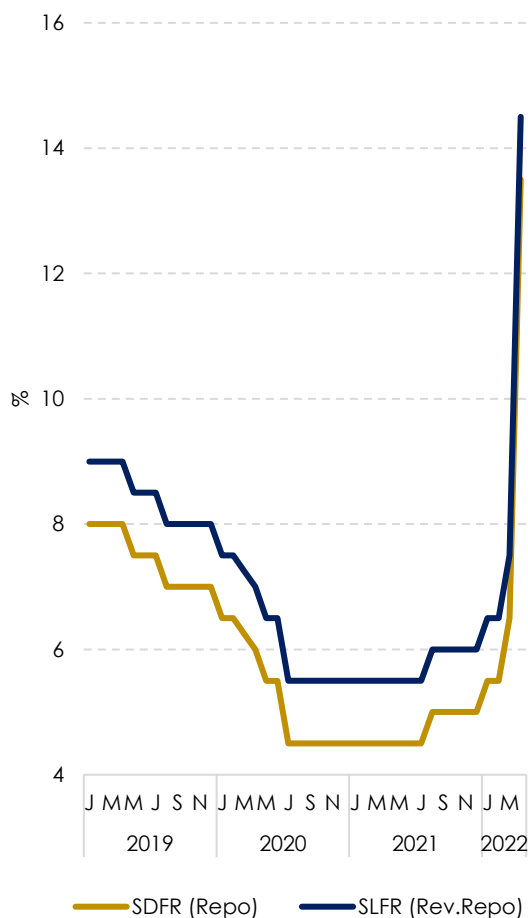
On 8th April 2022, the CBSL decided to increase the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 700 basis points to 13.50% and 14.50% respectively.

'The Monetary Board, having noted the inflationary pressure that could further intensify in the period ahead, driven by build-up of aggregate demand, domestic supply disruptions, exchange rate depreciation and elevated prices of commodities globally, was of the view that a substantial policy response is imperative to arrest the buildup of added demand driven by inflationary pressure in the economy and preempt the escalation of adverse inflationary expectations, to provide the required impetus to stabilize the exchange rate and also to correct anomalies observed in the market interest rate structure' says CBSL in its Monetary Policy decision statement.

"The rate hike will give a strong signal to investors and markets that we are coming out of this as soon as possible" the CBSL Governor stated.

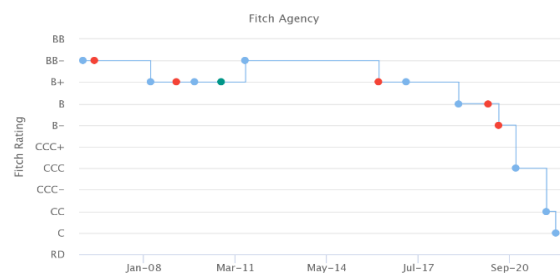
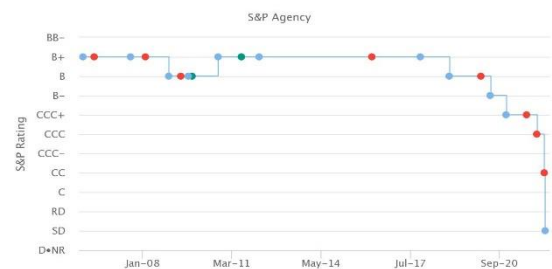
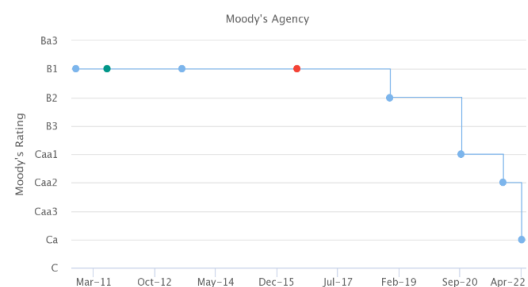
Fitch Ratings has downgraded Sri Lanka's Long Term Foreign Currency Issuer Default Rating (IDR) to 'C' from 'CC'. Meanwhile, Moody's Investors Services has downgraded country's Sovereign rating to 'Ca' from 'Caa2' with a stable outlook, following the government's decision to suspend debt payments. S & P cuts Sri Lanka's sovereign bond rating to 'Selective Default (SD)'.

CBSL Policy Rates



Data Sources: CBSL, World Government Bonds

Historical Ratings of Sri Lanka



Sri Lanka's Road to IMF - An Update

On 12th of April, the Government decided to start the process of “Pre-Emptive Negotiated default” with the [official notice](#) of postponing the debt service payments on External debt. As per the guidelines, the interest payments fall after 12th of April will have to be capitalized by the investors, at the original rate. However, if accepted the investors can get paid in LKR. This marked an important step in the process of negotiating a new fund facility with the International Monetary Fund (IMF), which will be the 17th arrangement with the Institution.

Along with the preparation for the discussions with the IMF, the Treasury also issued [Requests for Proposals](#) for Legal and Financial Advisors to assist the government which had the initial deadline as 16th of April, but later extended to 22nd of April. As per the CB Governor the selection process will take a couple of weeks after the deadline.

The period between now and the beginning of the new IMF facility will be supported mainly by bi-lateral credit facilities from countries such as India and China.

Due to the unique nature of this session, with the involvement of private creditors, some analysts identify that the leverage of IMF has increased and will be influenced due to two reasons. 1) Sri Lanka having no prior experiences with post-default negotiations and 2) Present crisis in the country which has reduced government's authority over the discussions.

The duration of the negotiations can take around 6 months as per the expert committee appointed for the debt management process. The initial estimation of the lending facility is around USD 1 Bn per year or a 400% quota program, over a three-year period. However, there seems to be an intention to go for an even higher program of around 535% depending on the success of the negotiations.

Due to the assessment of the Sri Lanka's debt stock as being unsustainable, the IMF has requested to start the debt-restructuring process first. Also, as [per an Interview](#), some of the creditors have already reached out to the finance minister and the committee, and the government is willing to start the discussions as soon as the legal and financial advisors are appointed. Regarding the Debts with China, the government is discussing directly with the Government of China, who will facilitate the relevant negotiations with the parties such as Banks and other creditors in China. Further, IMF urges Sri Lanka to tighten monetary policy and raise taxes to address this debt crisis.

Supplementary reading: <https://longform.watchdog.team/observations/sri-lankas-road-to-imf-explained>

Ceylon Chamber Publishes “Export Barometer Survey-February 2022 Report”

The second report under the Export Barometer Survey series was published following the successful launch of the first report based on the survey carried out during August-September 2021. The report builds on the findings from the first report and tracks the trends related to Sri Lanka's export performance, challenges faced by exporters, and facilitation measures to improve their competitiveness during the first half of 2022. Based on a survey of 173 exporters of goods and services, the report provides the outlook for the export sector in the first half of 2022 while providing insights on how firms navigated key challenges related to the foreign exchange shortage. The survey was conducted with the support of the United States Agency for International Development (USAID) Partnership for Accelerating Results in Trade, National Expenditure and Revenue (PARTNER) Activity.

The full **report on the Export Barometer survey findings is now available** on the CCC 'Trade Watch' page- click to access https://www.chamber.lk/trade-watch/backend/public/uploads/attachments/article/ExportBarometerSurveyReport_FINAL_26April2022_V2_1650965838.pdf

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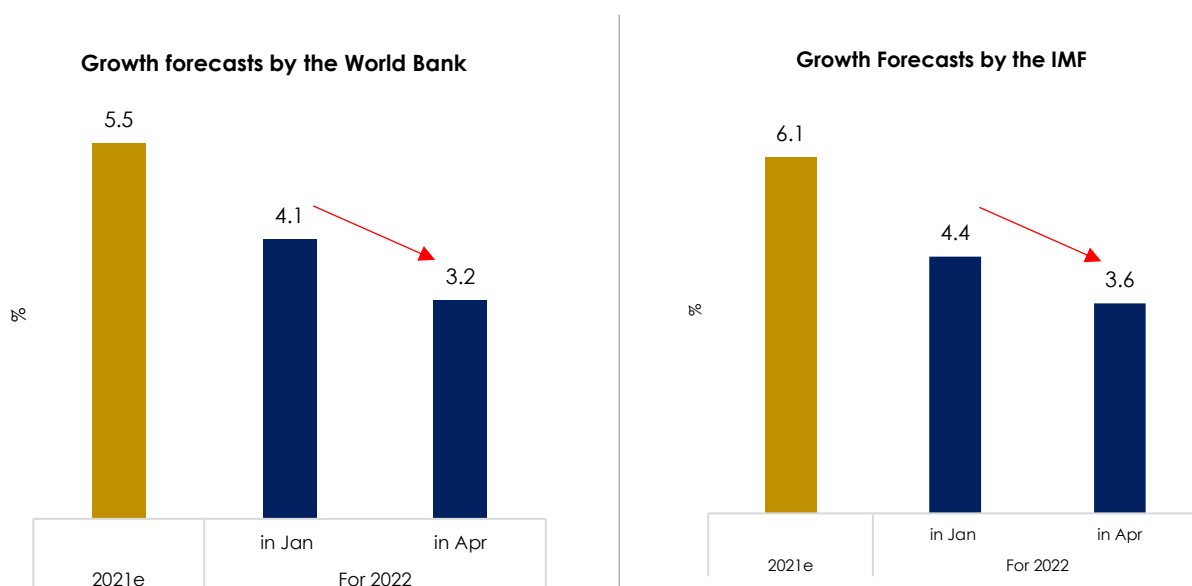
FURTHER INSIGHTS- GLOBAL ECONOMY

Both the World Bank and the IMF downgraded their forecasts for Global Economic Growth, Citing Ukraine Crisis

The World Bank lowered its annual global growth forecast for 2022 by nearly a full percentage point from 4.1% to 3.2%, citing the Russia-Ukraine war, and the lingering effects of the pandemic. According to Reuters, the largest single factor in the reduced growth forecast was a projected economic contraction of 4.1% across Europe and Central Asia, as stated by World Bank President, David Malpass. Other factors behind the slowdown in growth from January's forecast include higher food and fuel costs being borne by consumers in developed economies across world, Malpass stated further.

These are partly the result of Western sanctions on Russian energy, which have driven up the price of oil and gas worldwide. Supply disruptions to Ukrainian agricultural exports are also cited as contributing factors to pushing prices higher. Russia has blocked Ukraine's major Black Sea ports, making it extremely dangerous for shipping vessels carrying grain and other products to travel the key maritime pathway connecting Ukraine to the rest of the world. Early April 2022, the World Bank projected that Ukraine's annual GDP would fall by 45.1%, an astonishing figure for a country of more than 40 mn people. Before the war, analysts had predicted that Ukraine's GDP would rise sharply in coming years. Russia's economy is also taking a major hit, largely due to the impact of NATO and Western-backed sanctions and trade embargoes.

Meanwhile the IMF too published a further slowdown of the global economy from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected figure in January this year. Beyond 2023, global growth is forecasted to decline to about 3.3% over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7% in advanced economies and 8.7% in emerging markets and developing economies, 1.8 and 2.8 percentage points higher than projected last January.



Data sources: World Bank, IMF

Food and Energy Price Shocks from Ukraine Crisis Could Last for Years: WB

The war in Ukraine has dealt a major shock to commodity markets, altering global patterns of trade, production, and consumption in ways that will keep prices at historically high levels through the end of 2024, the World Bank's latest Commodity Markets Outlook Report shows.

The increase in energy prices over the past two years has been the largest since the 1973 oil crisis. Price increases for food commodities, of which Russia and Ukraine are large producers - and fertilisers, which rely on natural gas as a production input, have been the largest since 2008.

Energy prices are expected to rise more than 50% in 2022 before easing in 2023 and 2024. Non-energy prices, including agriculture and metals, are projected to increase almost 20% in 2022 and will also moderate in the following years, the report says. Nevertheless, commodity prices are expected to remain well above the most recent five-year average. In the event of prolonged war, or additional sanctions on Russia, prices could be even higher and more volatile than currently projected, the World Bank stated.

Because of war-related trade and production disruptions, the price of Brent crude oil is expected to average USD 100/barrel in 2022, its highest level since 2013 and an increase of more than 40% compared to 2021. Prices are expected to moderate to USD 92 in 2023 - well above the five-year average of USD 60/ barrel.

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DASHBOARD

EXTERNAL SECTOR PERFORMANCE-JANUARY 2022

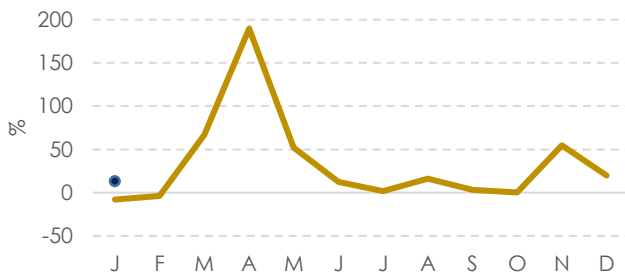
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

EXPORTS INCREASED BY 17.5% Y-O-Y



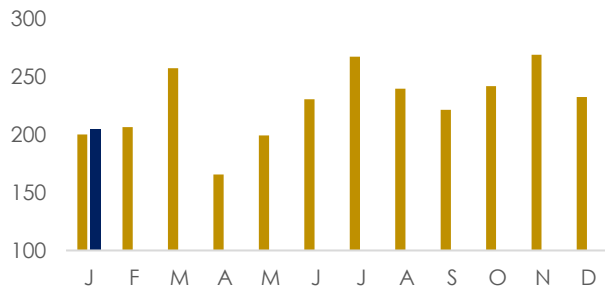
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 24% Y-O-Y

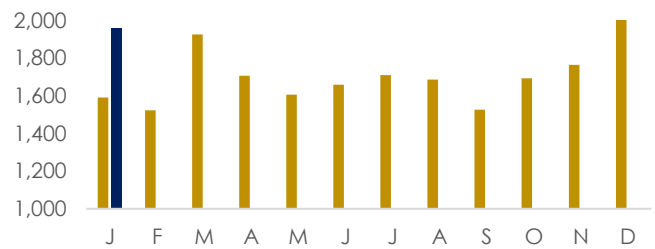


AGRICULTURAL EXPORTS INCREASED BY 2.3% Y-O-Y

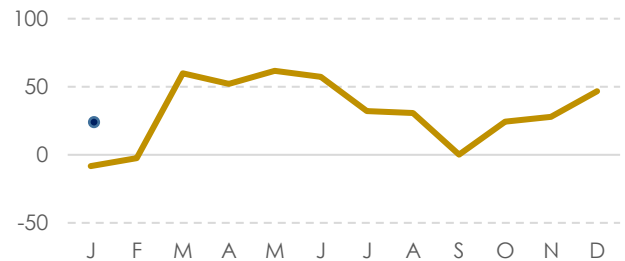


IMPORTS

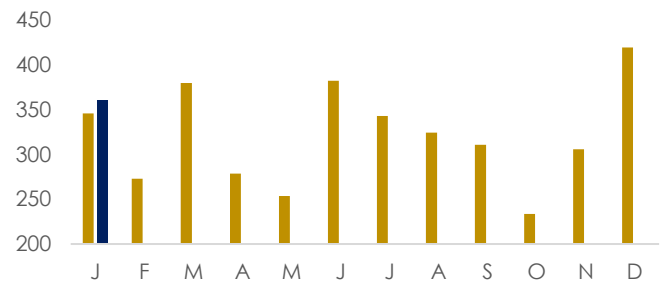
IMPORTS INCREASED BY 23% Y-O-Y



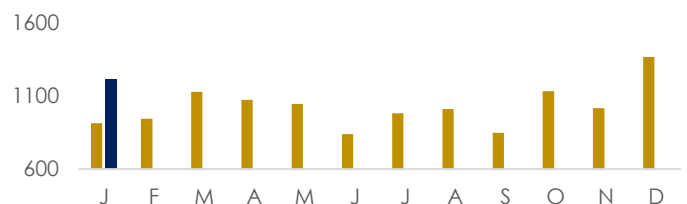
Y-o-Y % CHANGE IN IMPORTS



CONSUMER GOODS IMPORTS UP BY 4.2% Y-O-Y



INTERMEDIATE GOODS ROSE BY 32.5% Y-O-Y



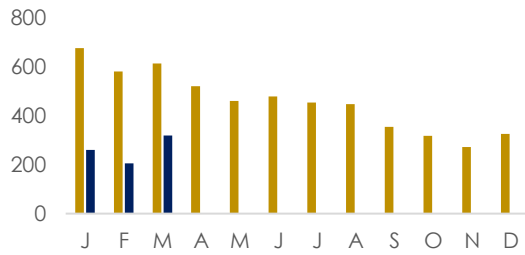
INVESTMENT GOODS IMPORTS INCREASED BY 17.2% Y-O-Y



TRADE BALANCE WIDENED BY 29% Y-o-Y (Jan-2022)

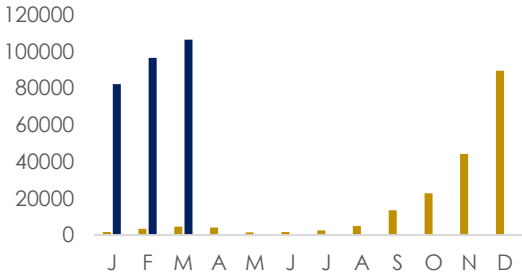


WORKERS' REMITTANCES SLIPPED BY 48% Y-o-Y (Mar-2022)

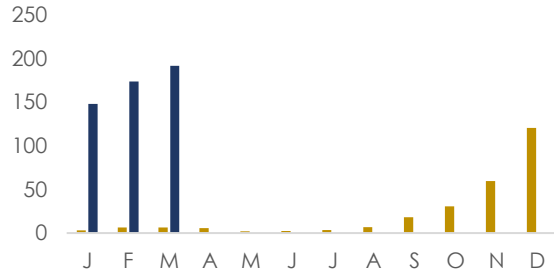


10%
of the total import bill covered by Remittances (Jan 2022)

106,500 TOURISTS WERE VISITED IN MARCH 2022



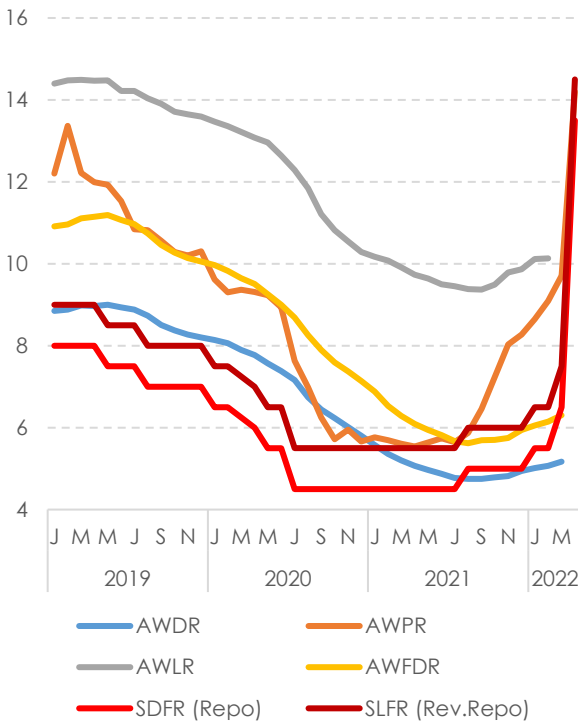
USD 191.5 MN EARNED IN MARCH 2022



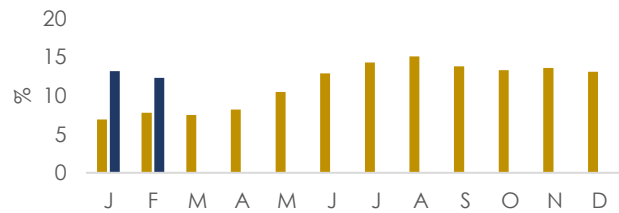
KEY INTEREST RATE INDICATORS

INTEREST RATES

Policy Rates increased to,
Standing Deposit Facility Rate (SDFR): 13.50%
Standing Lending Facility Rate (SLFR): 14.50%

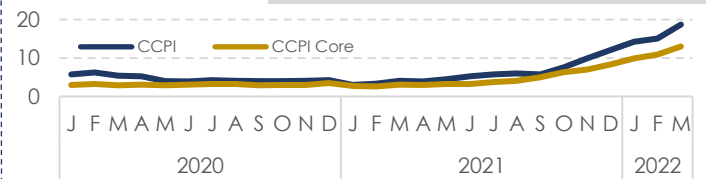


PRIVATE SECTOR CREDIT GROWTH



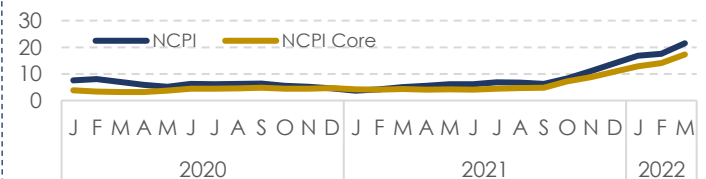
INFLATION: CCPI (BASE 2013) Y-o-Y

	Mar '22	Feb '22
CCPI:	18.7	15.1
CCPI Core:	13.0	10.9



INFLATION: NCPI (BASE 2013) Y-o-Y

	Mar '22	Feb '22
NCPI:	21.5	17.5
NCPI Core:	14.1	14.4



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