

MONTHLY ECONOMIC UPDATE

August 2022

EIU



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KEY INSIGHTS

Sri Lanka's Economy is expected to Record a Notable Downturn in 2022

Trade Surplus in June 2022 after two decades; trade deficit narrows in the first half of 2022

Elevated global inflation is expected to persist with rising food inflation

SRI LANKAN ECONOMY

Economy is expected to record a notable downturn-CBSL: The impact of persistent supply side disruptions, primarily due to shortage of power and energy, and uncertainties associated with socio-political developments, are expected to have caused significant adverse effects on economic growth in Q2-2022, while such impact is expected to have continued through Q3-2022 as well. This is highlighted by the slowdown in the Purchasing Managers' Index as well.

Trade Balance Recorded a Surplus in June: The trade balance recorded a surplus of USD 21 Mn in June 2022, for the first time since August 2002, reflecting the impact of historically high monthly export earnings and the continued decline in import expenditure. Considering 1H-2022, the trade deficit declined by USD 802 Mn on a Y-o-Y basis.

Policy Rates Remain Unchanged: CBSL decided to maintain its policy rates at the same level with SDFR at 14.5% and SLFR at 15.5%.

Market Interest Rates Increased Further: As a result of the significant monetary tightening measures of the CBSL, market interest rates have increased notably amidst tight money market liquidity conditions. Growth in credit to private sector is also on a declining trend since May 2022.

Sri Lanka Included in UK's new Trading Scheme: Sri Lanka has been included in the UK's new Developing Countries Trading Scheme (DCTS), which replaces UK's GSP.

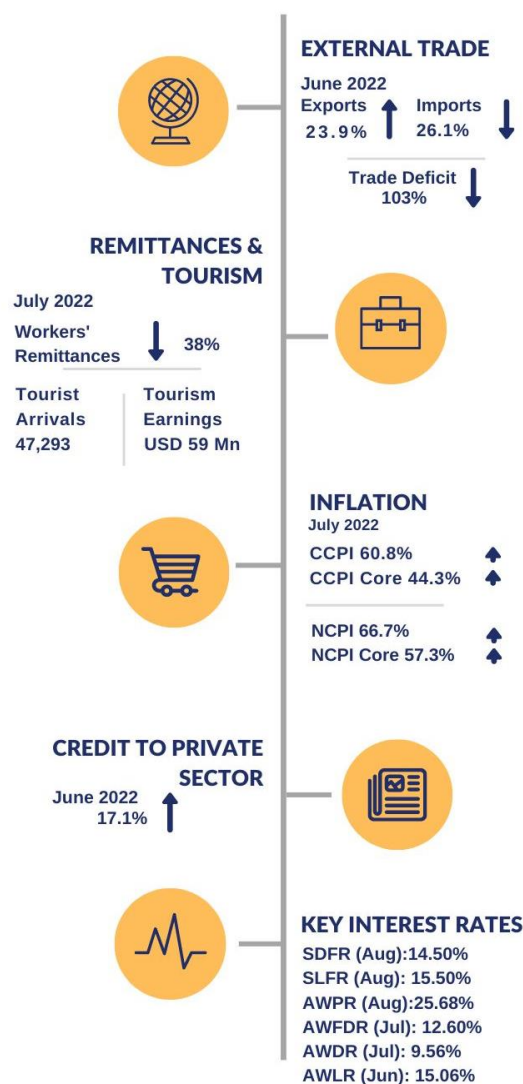
GLOBAL ECONOMY

Elevated Inflation is expected to Persist Longer; rising food Inflation will drive food insecurity globally: IMF & WB: As a result of the war in Ukraine and broadening of price pressures, the IMF is expecting that global inflation will remain elevated further. The record high food prices are expected to drive millions more into poverty, magnifying hunger and malnutrition.

Global Oil Prices Showed Mix performance thus far August: Global oil prices fell in early August due to weak economic data from China and concerns over a global economic recession. However, prices picked up later on hopes for strong demand due to larger than expected US crude oil stocks. As of 24th August, Brent priced at USD 99.81/barrel and WTI at USD 93.49/barrel.

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

Economic Growth is expected to Record a Notable Downturn: CBSL

The impact of persisted supply side disruptions, primarily due to shortage of power and energy, and uncertainties associated with socio-political developments, are expected to have caused significant adverse effects on economic growth in Q2-2022, while such impact is expected to have continued through Q3-2022 as well, says the Central Bank of Sri Lanka (CBSL) in its recent Monetary Policy Review. That, coupled with the already recorded negative growth in Q1-2022 and contractionary policies, could result in a larger than expected contraction in real activity in 2022. However, the real GDP growth is expected to recover in the period ahead, with the envisaged stabilization of macroeconomic conditions and implementation of structural reforms in the economy, the CBSL further stated.

According to the CBSL Governor, the economy is likely to contract by more than 6% in 2022. The following chart shows the latest projections by CBSL and other international agencies on Sri Lanka's economic growth.

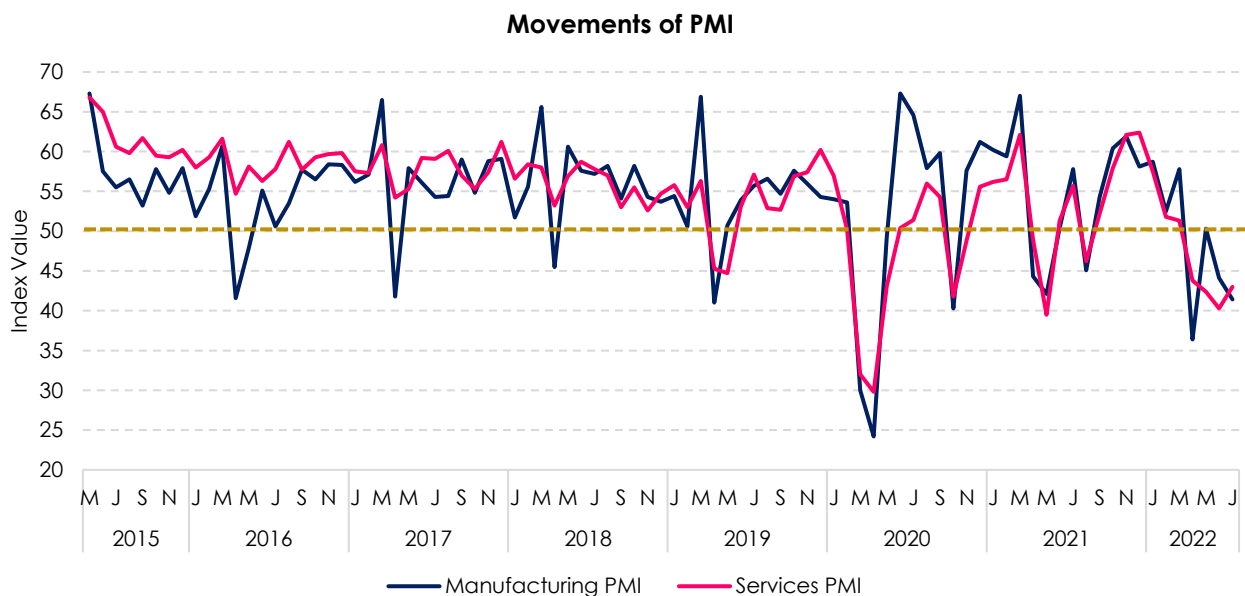
Latest Growth Projections for Sri Lanka	2022	2023
 THE WORLD BANK	-7.8%	-3.7%
 INTERNATIONAL MONETARY FUND	2.6%	2.7%
 CENTRAL BANK OF SRI LANKA	>-6.0%	N/A
 ADB	2.4%	2.5%

Data Sources: CBSL, World Bank, IMF, ADB, Wall Street Journal

Both Manufacturing and Services Activities Declined in July

Purchasing Managers' Index (PMI) recorded a decline in July, owing to the fall in manufacturing and services indices, as per the PMI survey of the CBSL. Manufacturing PMI fell in July 2022, indicating a contraction in manufacturing activities on a month-on-month basis. Accordingly, Manufacturing PMI recorded an index value of 41.4 in July 2022, with a decline of 2.7 index points from the previous month (June) driven by the decrease in all sub-indices, except Supplier's Delivery Time Index.

Services PMI recorded an index value of 43 in July 2022, indicating a contraction in services activities for the 4th consecutive month. This continual contraction was driven by the declines observed in New Businesses, Business Activities, Employment and Expectations for Activity. Subdued demand conditions due to deterioration of consumer purchasing power and the persisting fuel shortages were the main reasons for this decline in PMI.



Data Sources: CBSL, World Bank, IMF, ADB

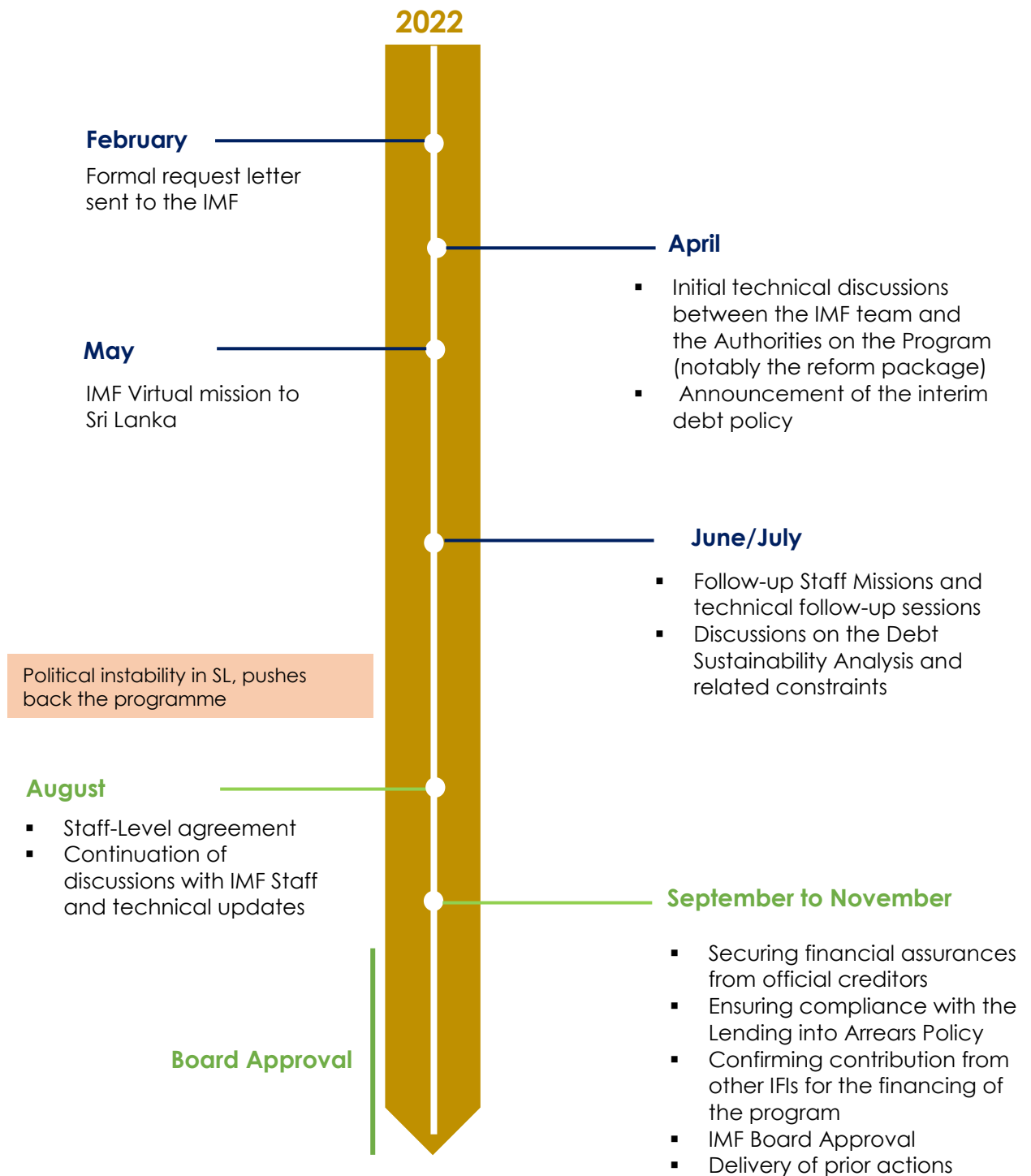
Banks' Willingness to Lend, Declined in Q2-2022: CBSL Credit Supply Survey

Banks' overall willingness to lend continued to decline at a higher pace in Q2-2022 in comparison to the Q1 of same year, the CBSL found out through its Credit Supply Survey for Q2-2022. The decline in willingness to lend was mainly driven by the increase in default risk to reduced repayment capacities and negative business outlook in account of rising macroeconomic stresses and political turmoil in the country. The survey results suggest that the appetite toward lending was also negatively affected by the increase in cost of funding, and, domestic and foreign liquidity pressures. Considering the outlook, survey results suggests that, willingness to lend will decline further at a higher pace in Q3-2022 due to the possibility of further tightening the monetary policy and worsening situation of the country.

Data Source: CBSL

Where Does Sri Lanka Stand in the Discussions with the IMF?

The below timeline illustrates the progress and future steps of Sri Lanka's discussions with the IMF for an Extended Fund Facility Programme to address the current economic crisis of the country.



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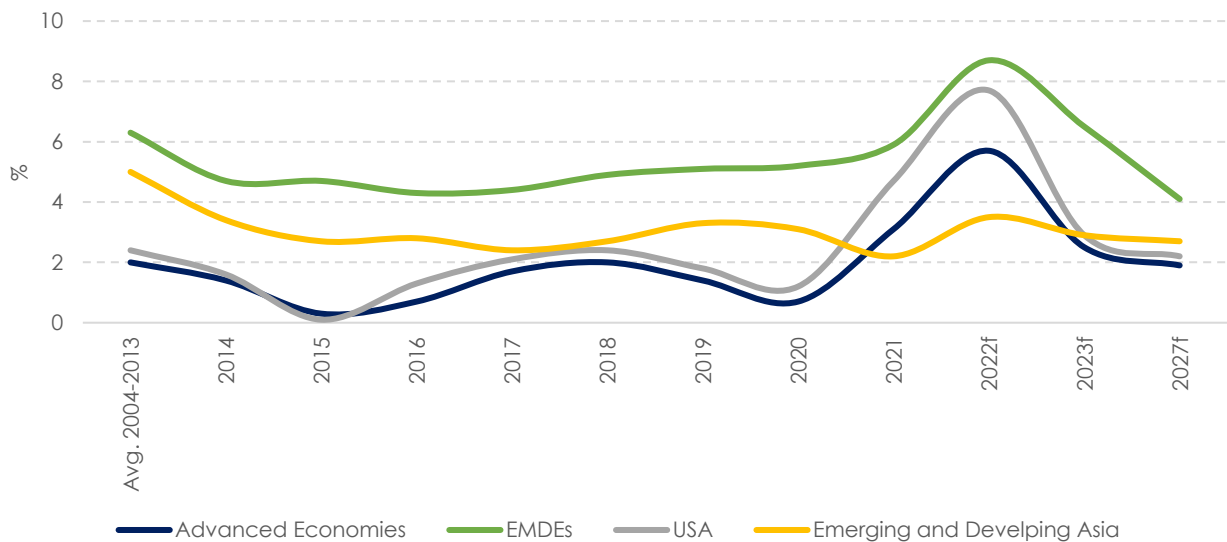
FURTHER INSIGHTS- GLOBAL ECONOMY

Elevated Inflation is expected to Persist for Longer: IMF

As a result of the war in Ukraine and broadening of price pressures, the IMF is expecting that the global inflation will remain elevated further. The war is likely to have a protracted impact on commodity prices, affecting oil and gas prices more severely in 2022 and food prices well into 2023. For 2022, inflation is projected at 5.7% in advanced economies and 8.7% in Emerging Market and Developing Economies (EMDEs), the IMF stated.

Inflation in 2023 is projected at 2.5% for the advanced economies and 6.5% for EMDEs. However, as with the growth outlook, considerable uncertainty surrounds these inflation projections, the IMF highlighted. They identified main factors those shaping the baseline inflation outlook such as, the war in Ukraine that has aggravated spikes in commodity prices; aggregate demand and supply imbalances; rebalancing of demand from goods towards services and limitations in labour supply.

Global Inflation Trends



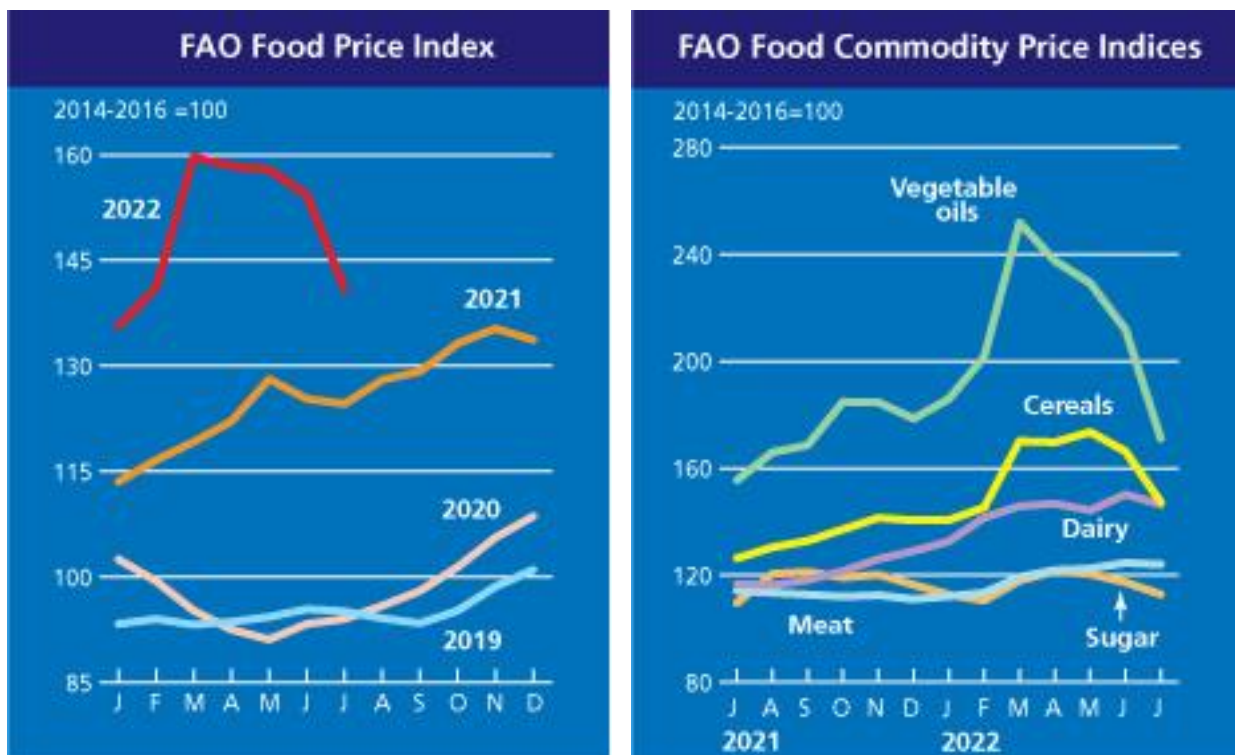
Data Source: IMF

Food Price inflation is Driving Rising Food Insecurity

The record high food prices across the globe have triggered a global crisis that will drive millions more into extreme poverty, magnifying hunger and malnutrition, while threatening to erase hard-won gains in development, says the latest Food Security Update of the World Bank. The war in Ukraine, supply chain disruptions, and the continued economic fallout of the COVID-19 pandemic are reversing years of development gains and pushing food prices to all-time highs. As per the report, the rising food prices have a greater impact on people in low- and middle-income countries, since they spend a larger share of their income on food than people in high-income countries.

As of August 11, 2022, the prices of both maize and wheat prices are 2% higher compared to January 2022, while rice prices are about 6% higher. According to the World Bank's Commodity Markets Outlook-April 2022 update, the war in Ukraine has altered global patterns of trade, production, and consumption of commodities in ways that will keep prices at historically high levels through the end of 2024, exacerbating food insecurity and inflation.

By June 2022, the number of acute food insecure people-whose access to food in the short term has been restricted to the point that their lives and livelihoods are at a risk- increased to 345 million in 82 countries according the World Food Programme (WFP). In addition, WFP and Food and Agriculture Organisation of the United Nations (FAO) warned that acute food insecurity could worsen in 20 countries or areas during June to September 2022.



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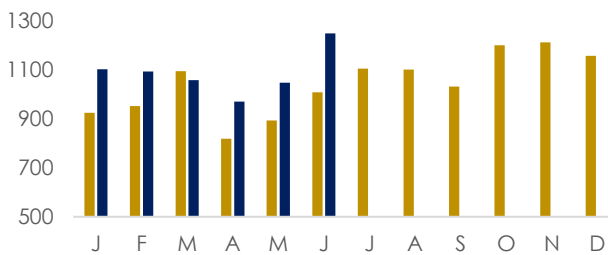
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-June 2022

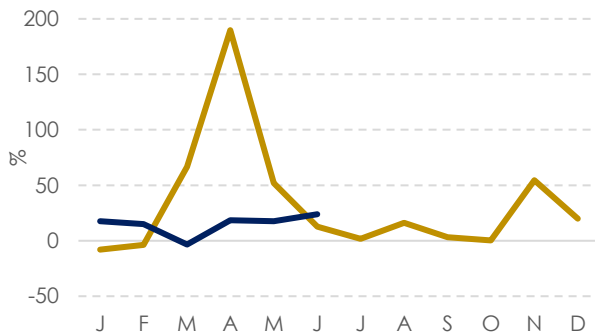
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

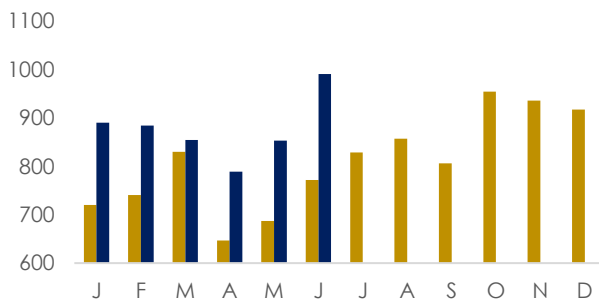
EXPORTS ROSE BY 23.9% Y-O-Y



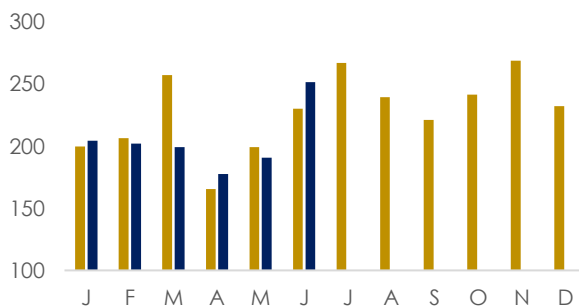
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 28% Y-O-Y

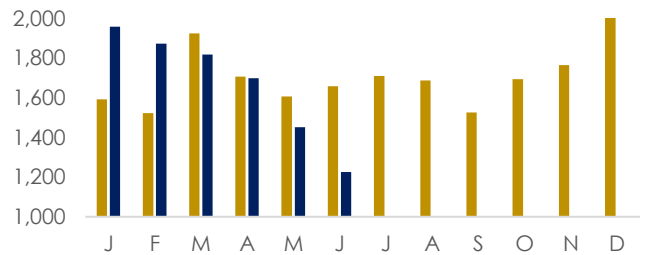


AGRICULTURAL EXPORTS PICKED UP BY 9.2% Y-O-Y

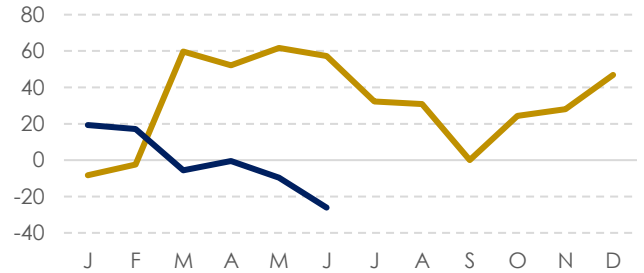


IMPORTS

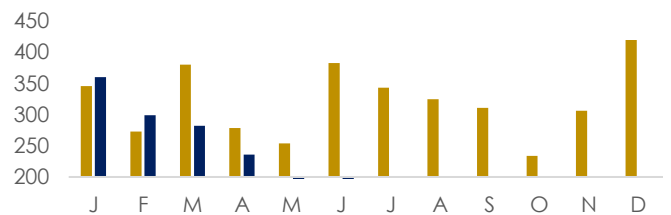
IMPORTS DECLINED BY 26.1% Y-O-Y



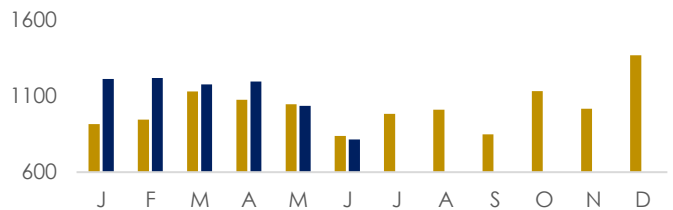
Y-o-Y % CHANGE IN IMPORTS



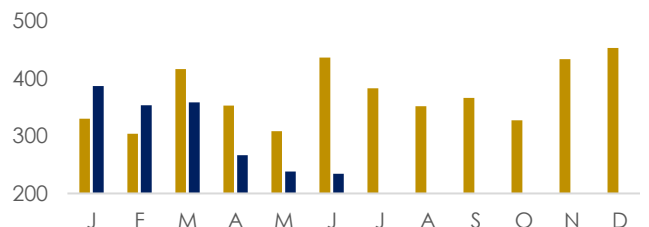
CONSUMER GOODS IMPORTS DROP BY 53.8% Y-O-Y



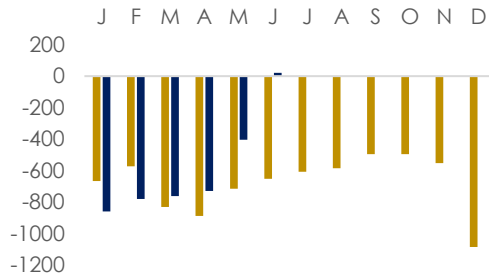
INTERMEDIATE GOODS DROP BY 2.8% Y-O-Y



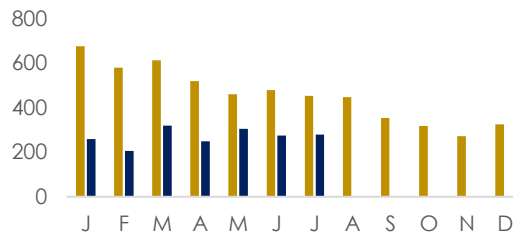
INVESTMENT GOODS DROP BY 46.3% Y-O-Y



TRADE DEFICIT NARROWED BY 103% Y-o-Y

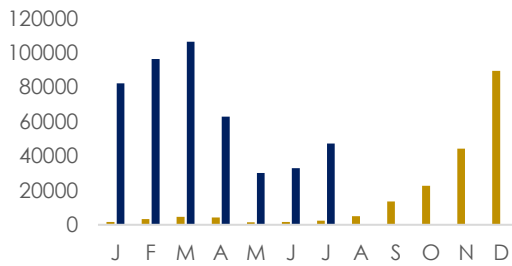


WORKERS' REMITTANCES SLIPPED BY 38% Y-o-Y (July-2022)

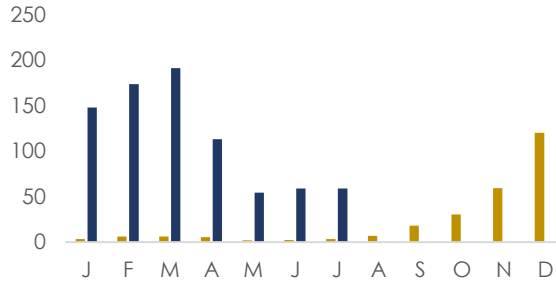


22%
of the total import bill covered by Remittances (June 2022)

47,293 TOURISTS WERE VISITED IN JULY 2022



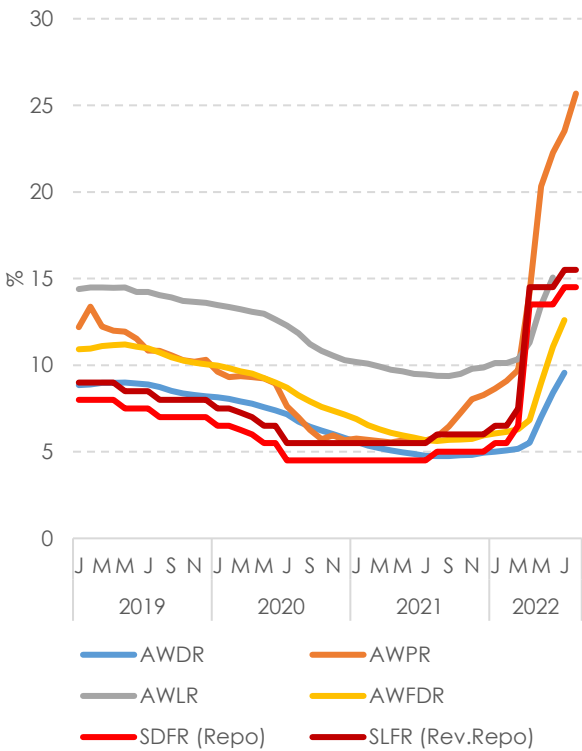
USD 59 MN EARNED IN JULY 2022 AS TOURISM EARNINGS



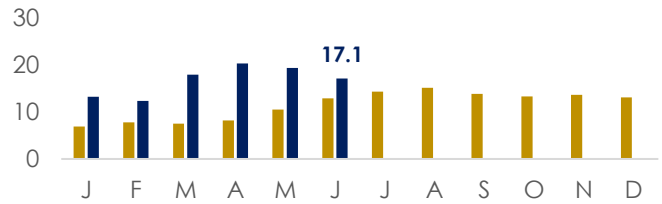
KEY INTEREST RATE INDICATORS

INTEREST RATES

Standing Deposit Facility Rate (SDFR): 14.50%
Standing Lending Facility Rate (SLFR): 15.50%

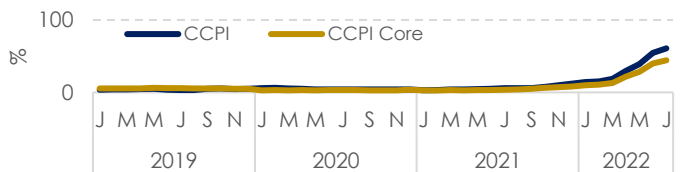


PRIVATE SECTOR CREDIT GROWTH



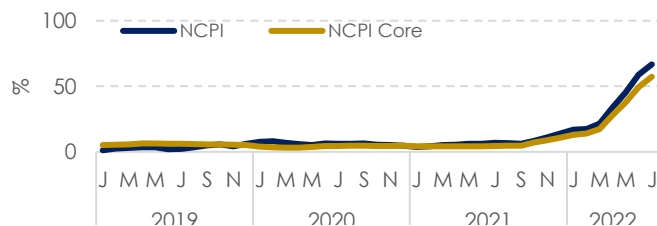
INFLATION: CCPI (BASE 2013) Y-o-Y

	Jul '22	Jun '22
CCPI:	60.8	54.6
CCPI Core:	44.3	39.9



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

	Jul '22	Jun '22
NCPI:	66.7	58.9
NCPI Core:	57.3	49.3



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