

MONTHLY ECONOMIC UPDATE

December 2022

EIU



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KEY INSIGHTS

CBSL maintains policy rates, expects downtrend in inflation and market interest rates

Exports decline in October for the first time since March 2022; Remittances continue to advance

WTO Goods Barometer sinks below trend as global import demand weakens

SRI LANKAN ECONOMY

CBSL Maintains Policy rates: CBSL at its recent Monetary Policy meeting, decided to maintain policy rates at the current levels while noting that inflation is now expected to trend downward with a moderation in high interest rates.

Headline Inflation continued its Turnaround: Turnaround in the CCPI headline inflation continued for the second month in October by posting a 61% (Y-o-Y growth) from the peak of 69.8% recorded in September 2022, owing to favorable developments on the supply side and the tight monetary policy measures.

Exports decline in October, for the first time since March 2022: Largely owing to lower earnings from apparel exports, monthly exports recorded a decline in October, for the first time since March 2022.

Remittances Continue to Grow: Monthly inflows of remittances continued its YoY growth since September 2022, after falling during the first eight months of 2022.

Growth in Credit to Private Sector Continues to Slow: Owing to tight monetary liquidity conditions, expansion of credit aggregates have slowed in particularly the growth in credit to the private sector declined during the last six months (May-October 2022).

Fiscal Revenue up owing to high inflation rate and tax increases: During the first eight months of 2022, the fiscal revenue increased by 35% and tax revenue increased by 32% on a Y-o-Y basis.

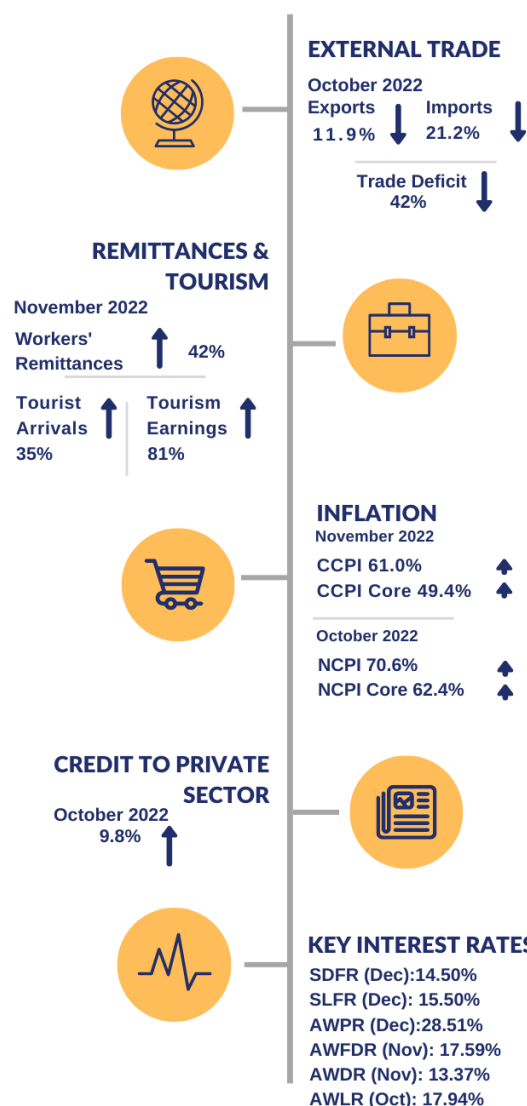
GLOBAL ECONOMY

Goods barometer sinks below trend as global import demand weakens: Global trade growth is likely to slow in the closing months of 2022 and into 2023, according to the latest WTO Goods Trade Barometer, as the global economy continues to be buffeted by strong headwinds.

Global Commodity Price Update: As per the latest commodity price data of the World Bank, energy prices went down by 4.5% in November and non-energy prices gained 0.7%. Food prices eased by 0.1% led by grains, while beverage prices dropped by 5.2%.

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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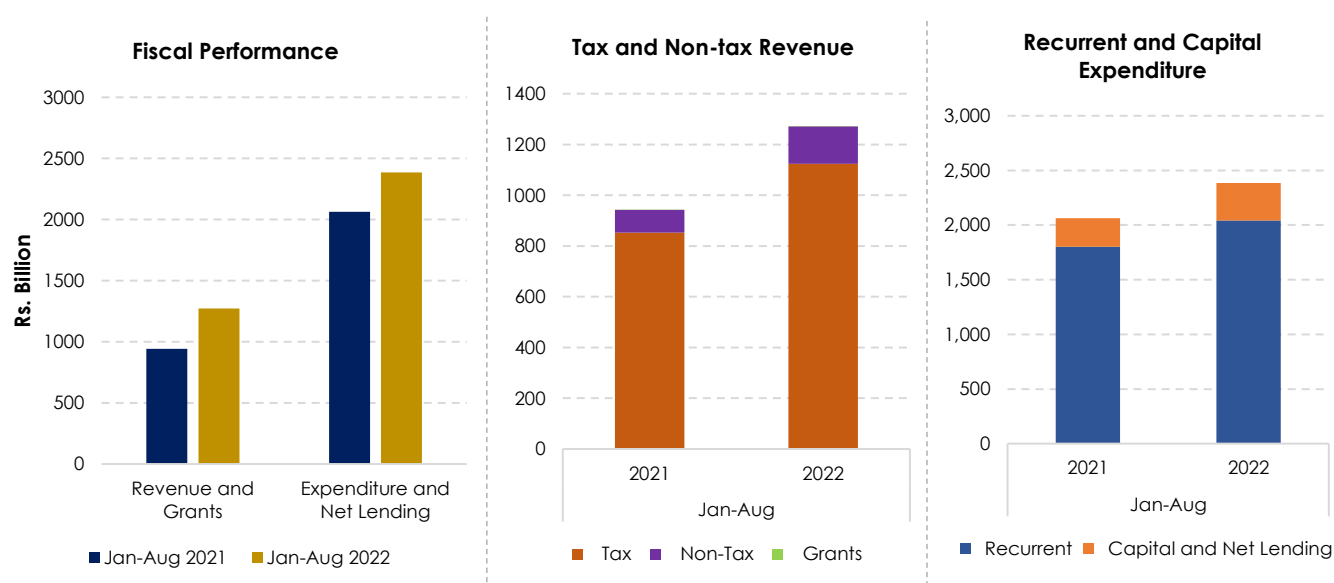
FURTHER INSIGHTS- SRI LANKAN ECONOMY

Fiscal Revenue up 35% during first eight months of 2022

Fiscal revenue recorded a notable pick up during the first eight months of 2022, owing to recently introduced tax hikes and high inflation rates. The latest data shows a 35% increase in fiscal revenue during the first eight months of 2022 in comparison to the same period of last year.

Revenue generated from tax picked up by 32% to Rs. 1,123.5 billion during the period under concern while non-tax revenue and grants increased by 65% and 55% respectively. Collection of tax revenue had a sizable impact from in accelerated inflation, which boosted the cash flows of companies, while the higher taxes also started kicking in from June 2022 onwards.

Government expenditure and net lending recorded a growth of 16%. Meanwhile, recurrent expenditure went up by 13% to Rs. 2,042 Billion during the period under concern. Accordingly, the fiscal deficit recorded at Rs. 1,120 Billion during the first eight months of 2022, which is 1% lesser than the fiscal deficit recorded during the same period of last year.

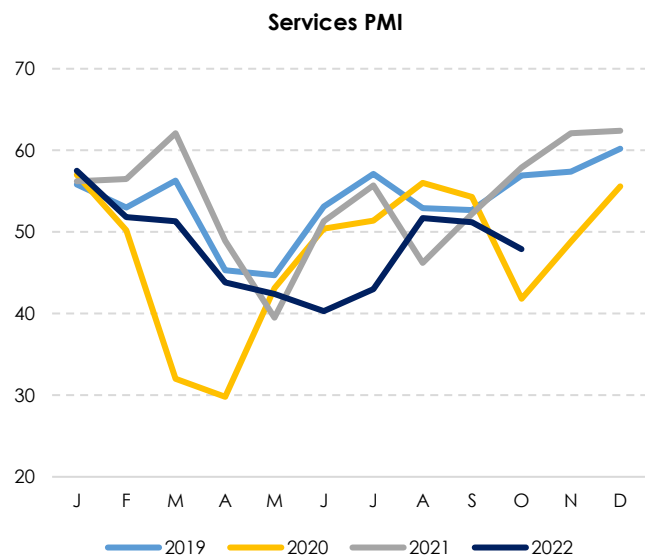
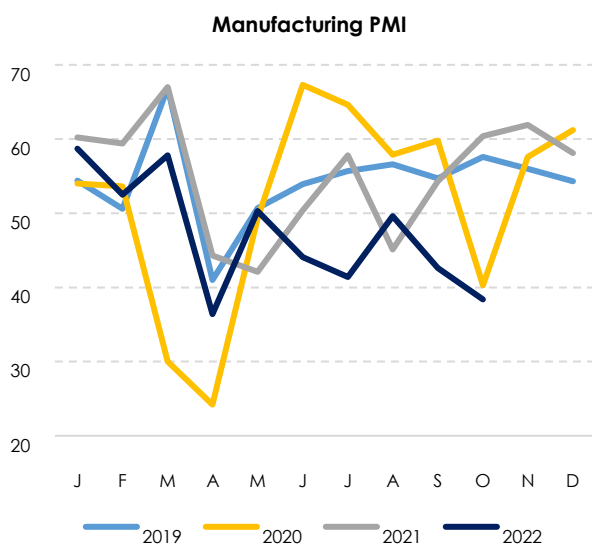


Source: CBSL

PMI Declined in October

Both the Manufacturing and Services Purchasing Managers' Index (PMI) recorded a decline in October 2022. Decline in Manufacturing PMI attributed to the contraction in manufacturing activities in October on a m-o-m basis. All sub-indices of manufacturing reported a decline during the period under concern and accordingly, Manufacturing PMI recorded an index value of 38.4 in October 2022, which is far below than the neutral threshold of 50. As per the CBSL, food and beverages sector experienced a notable decline in demand amidst the deteriorating purchasing power of the consumers. Export oriented manufacturers, especially the apparel sector catering to the North American and European markets, highlighted that the decline in demand observed was mainly attributable to the fear of an economic slowdown in respective destinations. Meanwhile, manufacturers are still struggling to acquire the required raw materials amidst high input costs, CBSL stated.

Services PMI declined below the neutral threshold to an index value of 47.9 in October 2022 due to the decline observed in New Businesses, employment and backlogs of work. Nevertheless, business activities and expectation for activity continued its increasing momentum during the month under review.



Source: CBSL

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FURTHER INSIGHTS- GLOBAL ECONOMY

Goods barometer sinks below trend as global import demand weakens

Global trade growth is likely to slow in closing months of 2022 and into 2023, according to the latest World Trade Center (WTO) Goods Trade Barometer released on 28th November 2022, as the global economy continues to be buffeted by strong headwinds.

The latest reading of 96.2 is below both the baseline value for the index and the previous reading of 100, reflecting cooling demand for traded goods. The barometer index has fallen below the merchandise trade volume index, which shows actual trade developments through the Q2-2022. Recent divergence between the indices, as seen in 2021 and 2022, could be explained by delayed shipments of goods stemming from supply chain disruptions since the COVID pandemic.

The downturn in the goods barometer is consistent with the latest WTO trade forecast, which predicted merchandise trade volume growth of 3.5% in 2022 and 1% in 2023 due to several related shocks including the war in Ukraine, high energy prices, and monetary tightening in major economies. Merchandise trade posted a 4.7% Y-o-Y increase in the Q2-2022 after growing 4.8% in the Q1. For the forecast to be realized, trade growth would have to average around 2.4% Y-o-Y in the 2H-2022, the WTO stated.

The barometer index was weighted down by negative readings of sub-indices representing export orders (91.7), air freight (93.3) and electronic components (91). Together, these suggest cooling business sentiment and weaker global import demand. The container shipping (99.3) and raw materials (97.6) indices finished only slightly below trend, but have lost momentum. The main exception is the automotive products index (103.8), which rose above trend due to stronger vehicle sales in the US and increased exports from Japan as supply conditions improved and as the yen continued to depreciate.



Goods trade barometer

Index value, September 2022 = 96.2



Developing Countries need USD 1 Trillion a Year in Climate Finance: COP 27 Climate Summit

Developing countries need to work with investors, rich countries and development banks to secure USD 1 trillion a year in external financing for climate action by end of the decade and to match that with their own funds, said a report released in line with the recent COP 27 Climate Summit held in Egypt. As per the report, funding was required to cut emissions, boost resilience, deal with damage from climate change and restore nature and land.

The world needs a breakthrough and a new roadmap on climate finance that can mobilise the USD 1 trillion in external finance that will be needed by 2030 for emerging markets and developing countries other than China, stated further in the report.

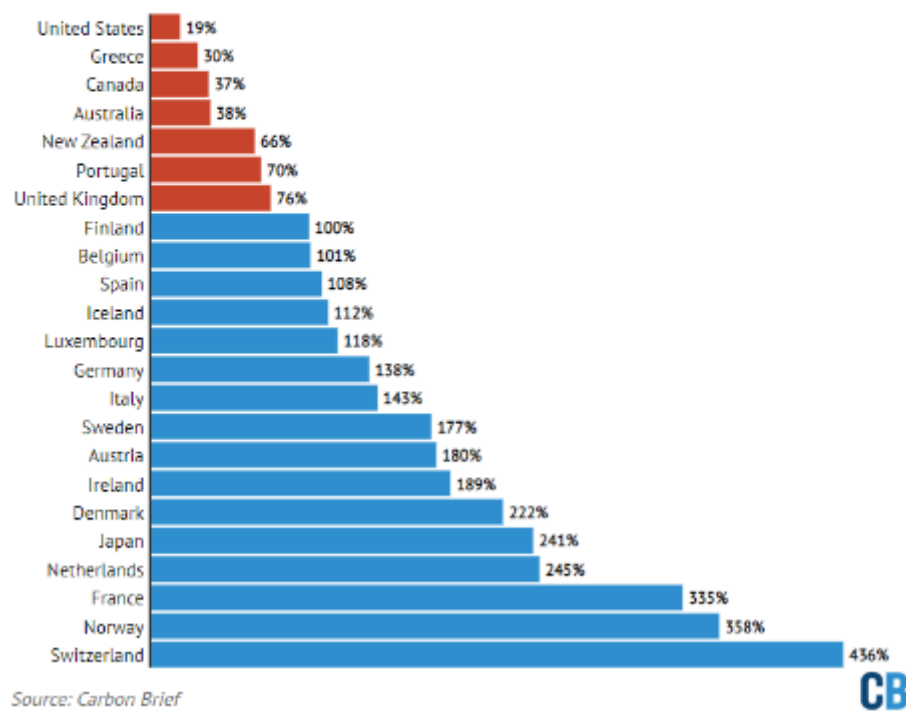
As per the report, the total annual investment requirement of developing countries would hit USD 2.4 trillion by 2030, with half coming from external financing and the rest from public and private sources in those countries. However, the current investment stands at around USD 500, the report stated.

'Unlocking substantial climate finance is the key to solving today's development challenge', said by one of the authors of the report. This means countries must have access to affordable, sustainable, low-cost financing from the multilateral development banks to help crowd in investments from the private sector and philanthropy, the report further stated.

Major economies including the US, Canada and the UK gave less than their 'fair share' of climate finance in 2020

Fraction of 'fair share' contribution to \$100bn target given in 2020, %

Countries with a climate finance surplus ■ shortfall ■



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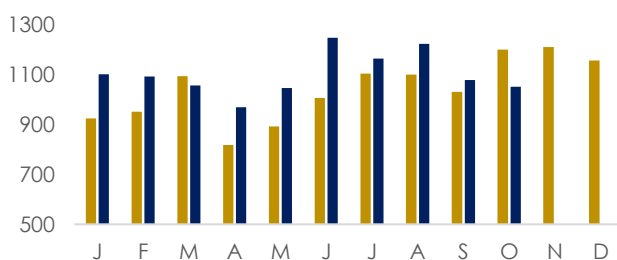
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-OCTOBER 2022

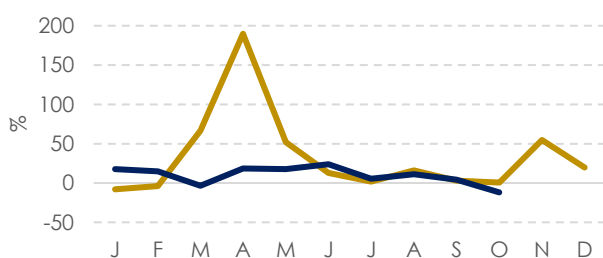
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

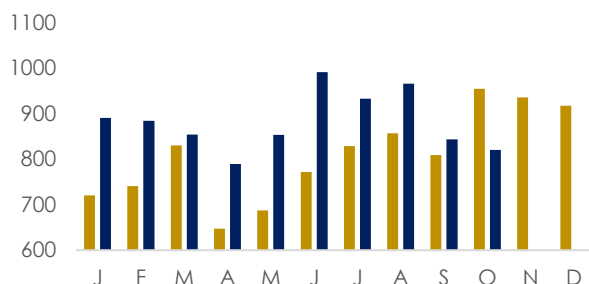
EXPORTS DROPPED BY 11.9% Y-O-Y



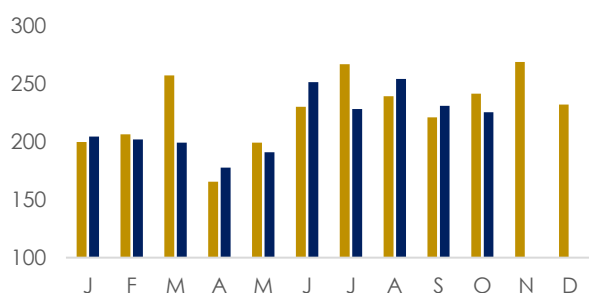
Y-o-Y % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS DECLINED BY 13.4% Y-O-Y

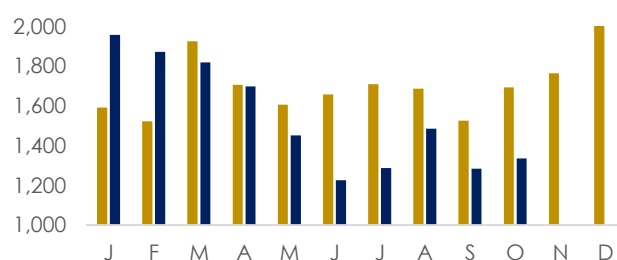


AGRICULTURAL EXPORTS DROPPED UP BY 6.6% Y-O-Y

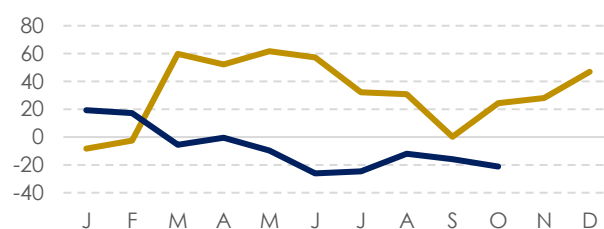


IMPORTS

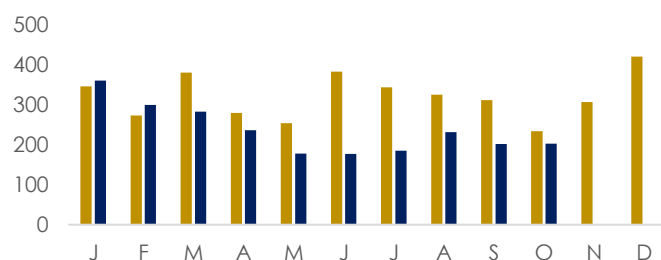
IMPORTS DECLINED BY 21.2% Y-O-Y



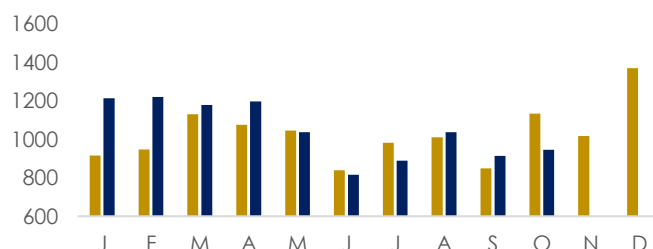
Y-o-Y % CHANGE IN IMPORTS



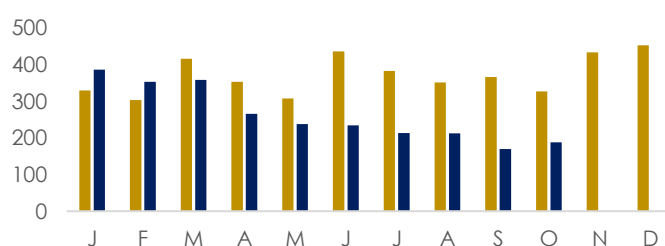
CONSUMER GOODS IMPORTS DROPPED BY 13.5% Y-O-Y



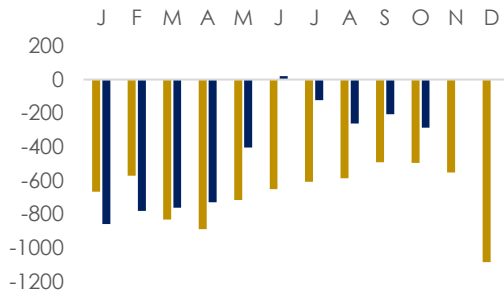
INTERMEDIATE GOODS DECLINED BY 16.5% Y-o-y



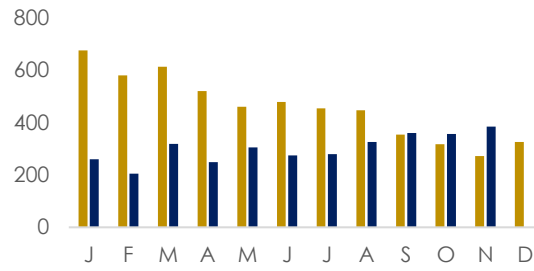
INVESTMENT GOODS DECLINED BY 42.5% Y-o-y



TRADE DEFICIT NARROWED BY 42% Y-o-Y

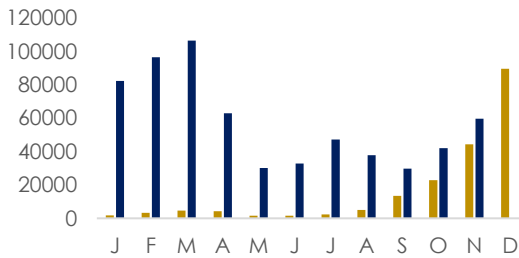


WORKERS' REMITTANCES INCREASED BY 42% Y-o-Y (Nov-2022)

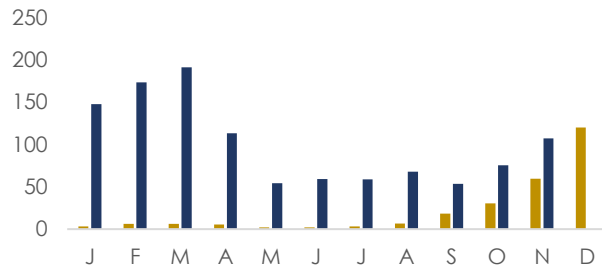


27%
of the total import bill covered by Remittances (Oct 2022)

35% INCREASE IN TOURIST ARRIVALS IN NOVEMBER Y-o-Y



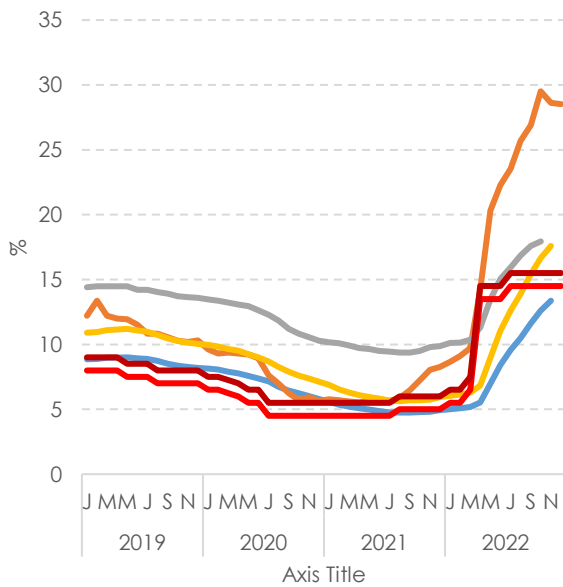
81% INCREASE IN TOURISM EARNINGS IN NOVEMBER Y-o-Y



KEY INTEREST RATE INDICATORS

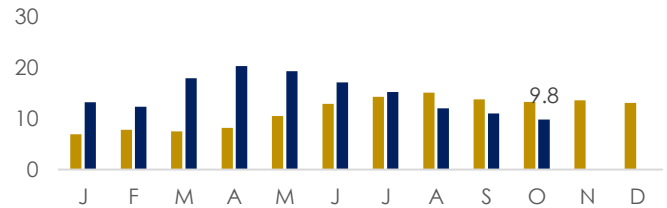
INTEREST RATES

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



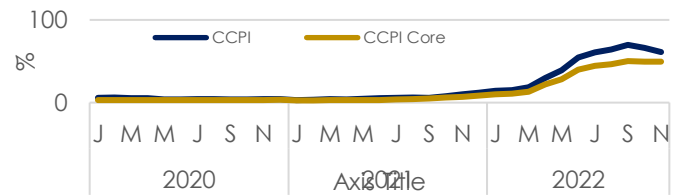
- AWDR
- AWPR
- AWLR
- AWFDR
- SDFR (Repo)
- SLFR (Rev.Repo)

PRIVATE SECTOR CREDIT GROWTH



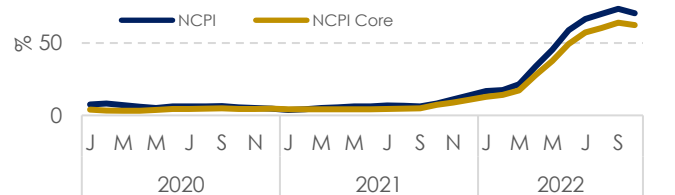
INFLATION: CCPI (BASE 2013) Y-o-Y

	Nov '22	Oct '22
CCPI:	61.0	66.0
CCPI Core:	49.4	49.7



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

	Oct '22	Sep '22
NCPI:	70.6	73.7
NCPI Core:	62.4	64.1



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