

MONTHLY ECONOMIC UPDATE

July 2022

EIU



3
KEY INSIGHTS

Inflation surges beyond 50% in June

PMI highlights impending contraction in growth while imports fall in May

Global Growth projections for 2022 revised downward by the IMF

SRI LANKAN ECONOMY

Economic activity in Q2 is expected to record a notable downturn: The domestic economic activity in Q2-2022 is expected to have been severely affected by continued supply disruptions, primarily due to fuel shortage and global economic tensions, the CBSL stated. This is also reflected in the PMI for manufacturing and services which fell in June.

Inflation surges beyond 50% mark in June: Headline inflation of both the CCPI and NCPI surpassed the 50% mark in June, recording 54.6% and 58.9% respectively. Food inflation accelerated further with the CCPI recording it at 80%, while the NCPI was at 75.8%.

Trade Deficit Narrows further in May: Imports fell in May 2022 to the lowest level since November 2021 with import controls and dollar illiquidity slowing down imports. With the rise in exports during May resulted in narrowing down the trade deficit for the third consecutive month.

Monetary Policy Tightened further: The CBSL raised policy rates further by 1% to 14.5% and 15.5% for SDFR and SLFR respectively. For the year, CBSL has increased policy rates by 9.5%. As a result of the policy increase and overall borrowing needs of the country, the Treasury Bill rates increased further with the 3-month yield increasing from 20.7% to 31.5% and the 12-month yield increasing from 22% to 29.8%

GLOBAL ECONOMY

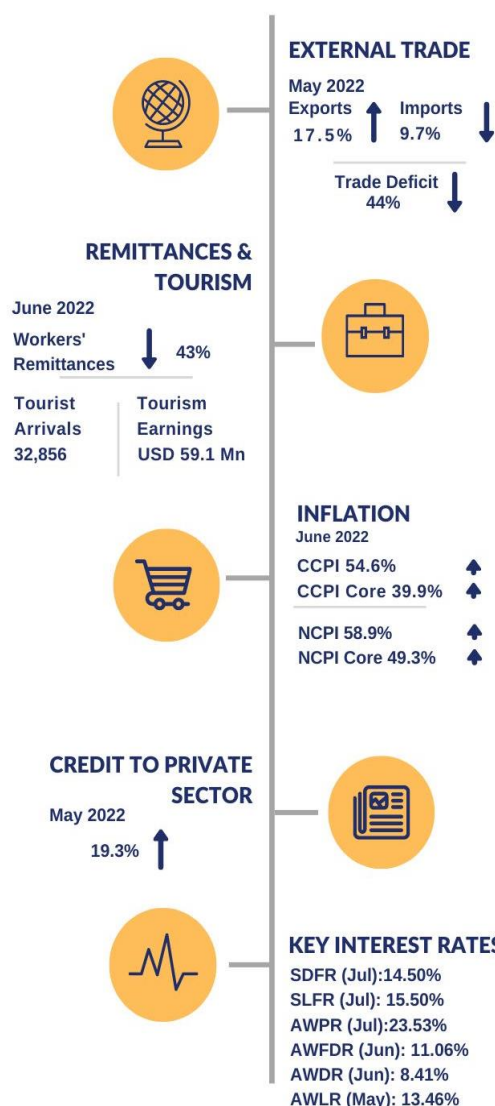
Global Growth Projections revised downward: Given the high-inflationary pressure, geopolitical tensions, tighter financial conditions and renewed COVID-19 outbreak, the global growth forecast by the IMF, revised downward to 3.2% in 2022 from 3.6% forecasted in April.

Global Trade Growth to Slow in 2022: Given the decline in global demand and supply chain problems, the IMF has projected a slow global trade growth in 2022. The US dollar appreciation in 2022 is also likely to have slowed world trade growth, considering the dominant role of the US dollar in international trade.

Oil prices fall in July: Global oil prices were down in July from end June over concerns of slow growth and strong US dollar. However, it has remained volatile in the second half of the month with near-term supplies outweighing expectations of another Fed rate hike in end July and eventual economic slowdown.

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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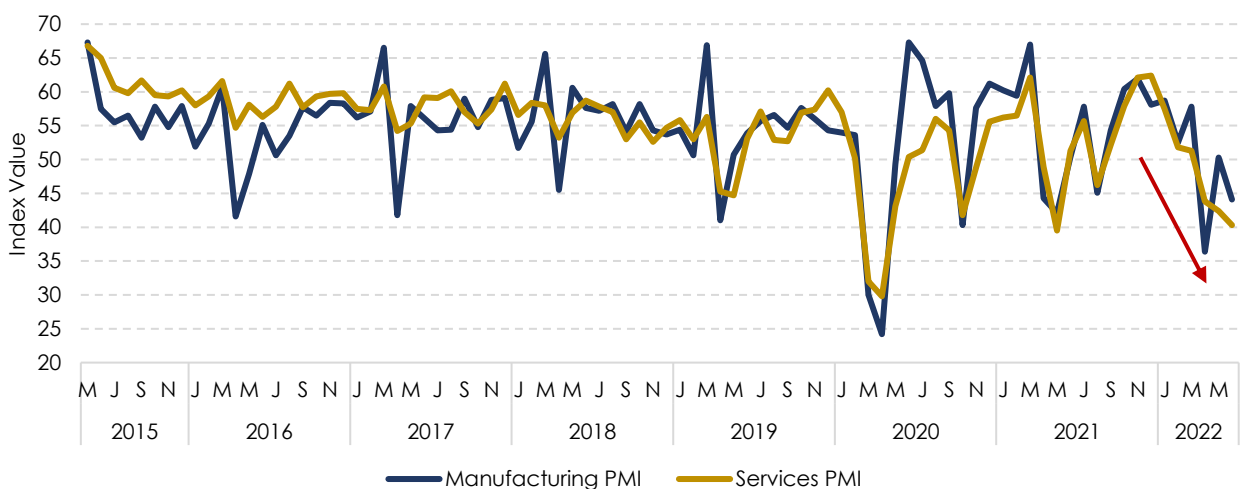
FURTHER INSIGHTS- SRI LANKAN ECONOMY

PMI Slipped in June

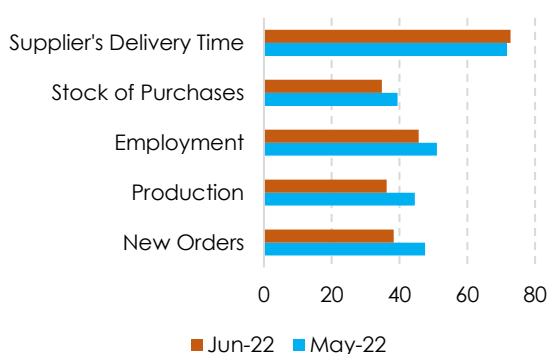
Both the Manufacturing and Services PMI recorded a decline in June 2022. Manufacturing PMI declined, indicating a setback in manufacturing activities on a m-o-m basis. Accordingly, Manufacturing PMI recorded an index value of 44.1 in June 2022, with a decline of 6.2 index points from the previous month. This drop was driven by the decrease in all sub-indices except 'Suppliers' Delivery Time'.

Services PMI dropped further to an index value of 40.3 in June 2022 indicating a contraction in services activities for the third consecutive month. This was due to the decline in New Businesses, Business Activities, Employment and Expectations for Activity sub-indices. New Business declined further in June 2022 compared to May 2022, particularly with the decrease observed in transportation, accommodation, food and beverage and education sub-sectors. Continued supply-side constraints including acute fuel shortages led Business Activities in the services sector to decline further in June.

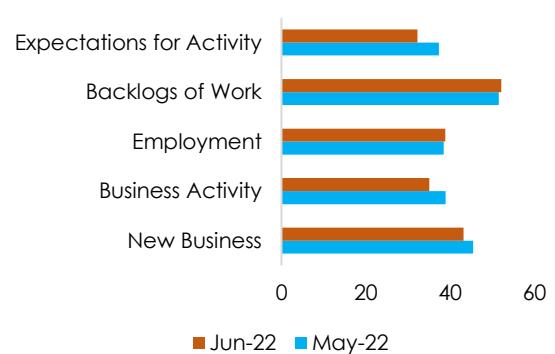
Movement of Purchasing Managers' Index



Sub-Indices of Manufacturing PMI

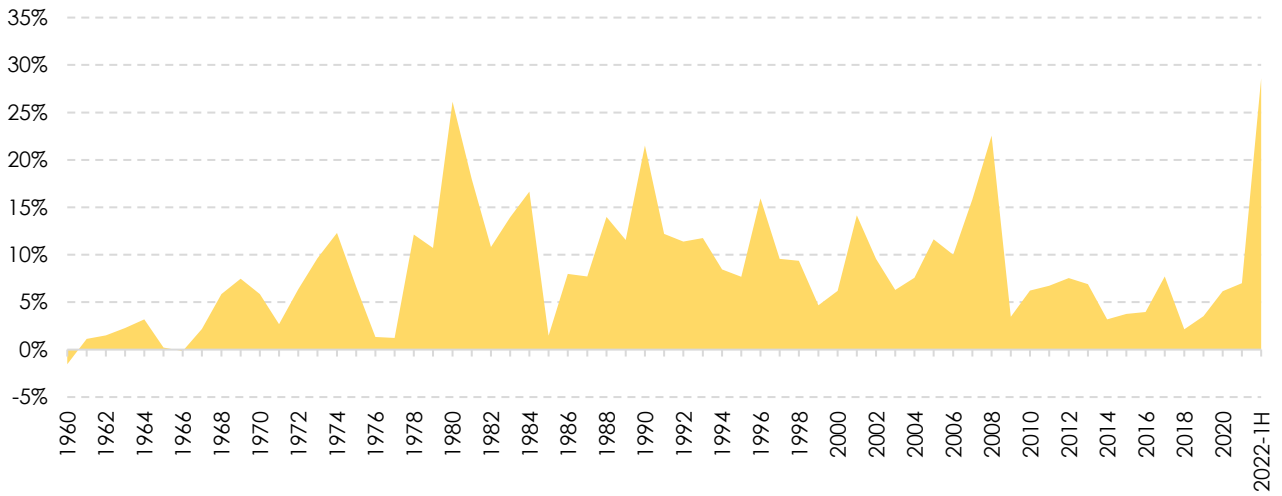


Sub-Indices of Services PMI

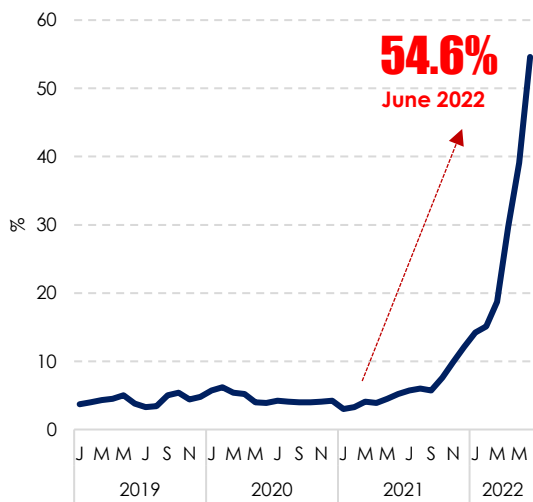


Sri Lanka's Inflation is at a historically high level

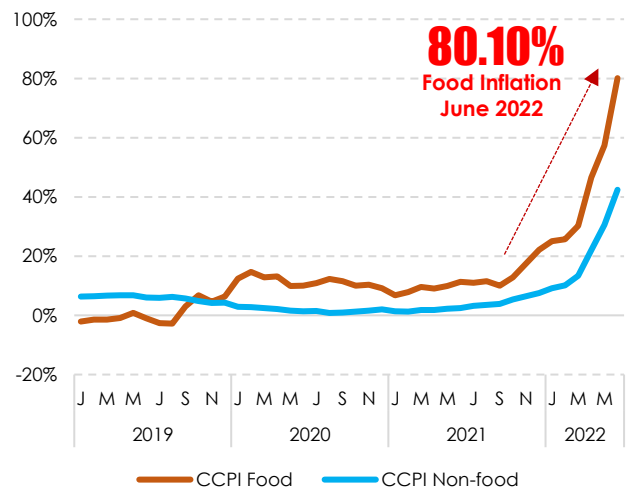
Movement of Annual Average Inflation in Sri Lanka since 1960



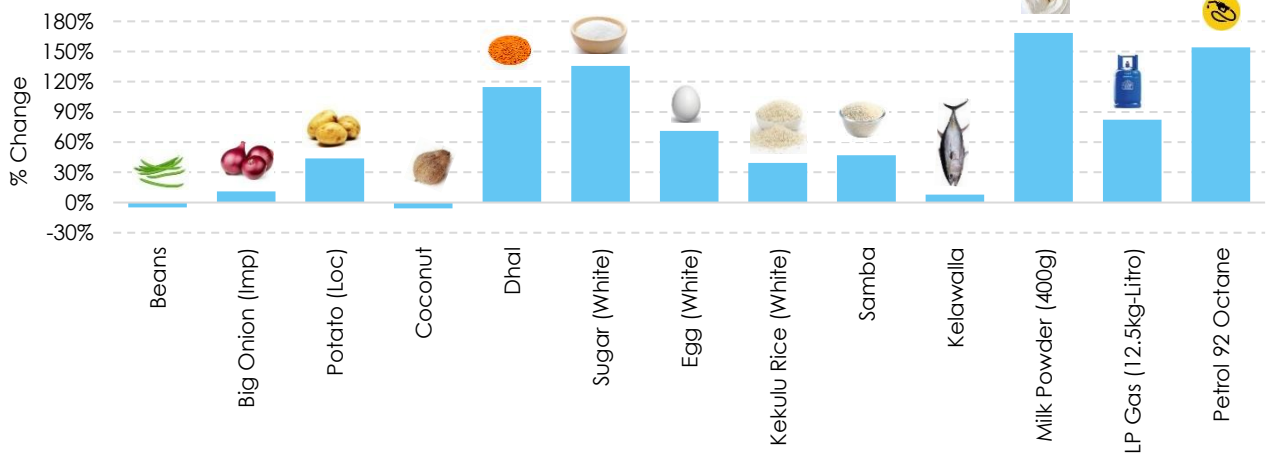
CCPI Headline Inflation



CCPI Food and Non-food Inflation



Movement of Retail Prices thus far 2022



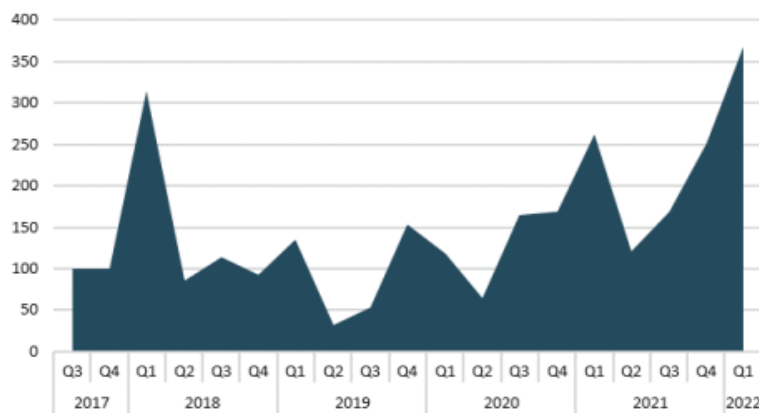
Data Source: CBSL, World Data.com

Significant Pickup in Condominium Purchases in Q1-2022: CBSL

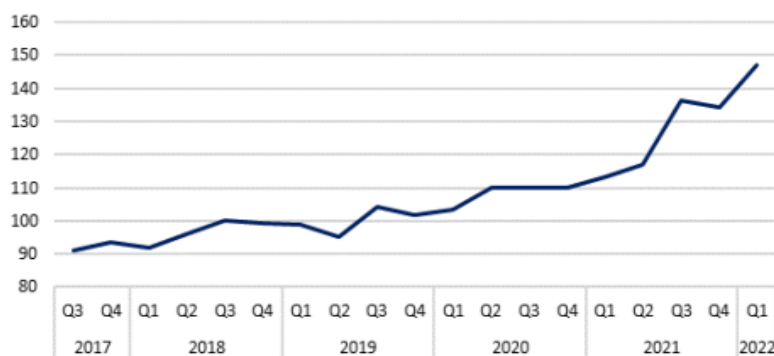
Condominium Market Survey conducted by the Central Bank, suggested that the Condominium Property Volume Index, which measures the variation in the trend of number of new condominium purchases increased significantly during Q1-2022 by 40% compared to the corresponding period of 2021. In the backdrop of the of the low interest regime that prevailed during Q1-2022, the demand for condominiums increased significantly due to the low cost of available credit. At the same time, low returns earned on transitional investment avenues have also caused investors to shift to investments on condominiums anticipating price appreciation of condominium property. Further, the anticipated increases in prices of condominium properties would have also made customers to advance their purchase decision leading to higher demand.

The Price Index for New Condominiums, which measures the trend in the price levels of new condominiums that are released to the market by condominium developers, has shown an upward trend over the years. The index reached an all-time high value of 147.2 in Q1- 2022 with a Y-o-Y growth of 30%. The rise in prices is possibly caused by both increased demand and increased construction costs faced by developers. A clear shift towards higher price categories of condominiums could be observed throughout the last year. Further, the single condominium projects in the Colombo district remained to be the most preferred category in Q1-2022 with an observable increase in the transactions in the single condominium projects outside Western Province due to the commissioning of several new projects in such areas.

Condominium Property Volume Index



Price Index for New Condominiums



Data Source: CBSL

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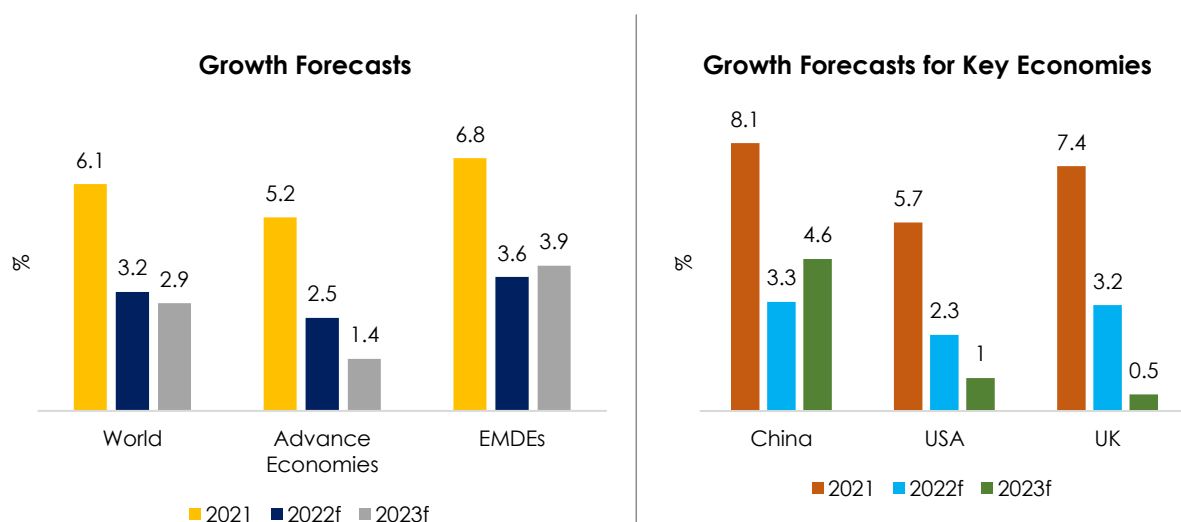
FURTHER INSIGHTS- GLOBAL ECONOMY

Gloomy and More Uncertain Global Economic Outlook: IMF

The latest update of the World Economic Outlook of the International Monetary Fund (IMF) released in July 2022, expects a 3.2% global economic growth for 2022. A tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the Q2-2022, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide- especially in the US and major European economies- triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine, the report stated.

The baseline forecast is for growth to slow from 6.1% in 2021 to 3.2% in 2022, 0.4 percentage points lower than in the April 2022 World Economic Outlook update. Global inflation has been revised up due to food and energy prices as well as lingering supply-demand imbalances, and is anticipated to reach 6.6% in advanced economies and 9.5% in emerging markets and developing economies (EMDEs) in 2022. In 2023, disinflationary monetary policy is expected to bite, with global output growing by just 2.9%.

The risks to the outlook are overwhelmingly tilted to the downside. The war in Ukraine could lead to a sudden stop of European gas imports from Russia; Inflation could be harder to bring down than anticipated either if labour markets are tighter than expected or inflation expectations unanchor; tighter global financial conditions could include debt distress in EMDEs; renewed COVID-19 outbreaks and lockdowns as well as further escalation of the property sector crisis might further suppress Chinese growth; and geopolitical fragmentation could impede global trade and cooperation.



Data Source: IMF

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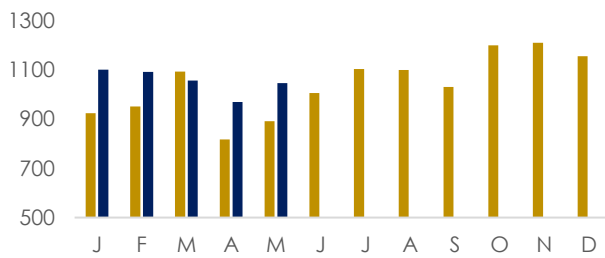
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-MAY 2022

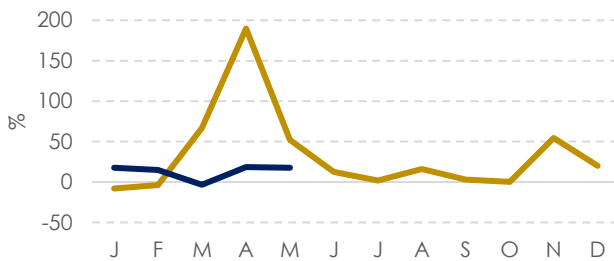
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

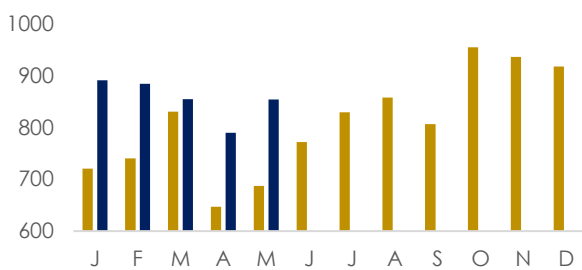
EXPORTS ROSE BY 17% Y-O-Y



YoY % CHANGE IN EXPORTS



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

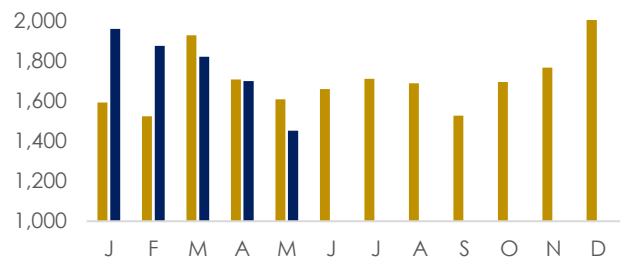


AGRICULTURAL EXPORTS DROP BY 4.2% Y-O-Y

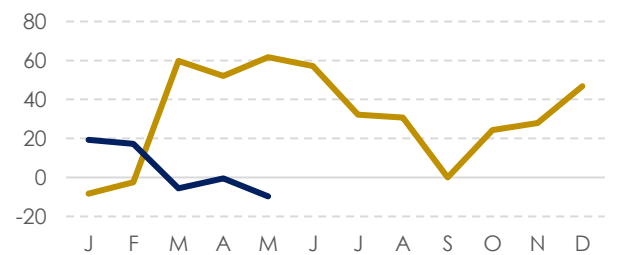


IMPORTS

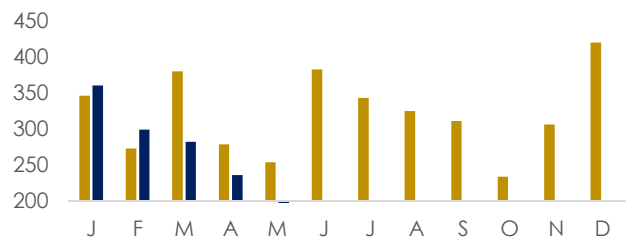
IMPORTS DECLINED BY 9.7% Y-O-Y



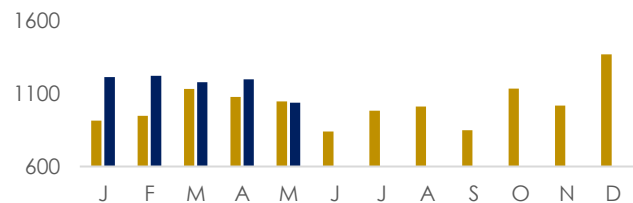
Y-o-Y % CHANGE IN IMPORTS



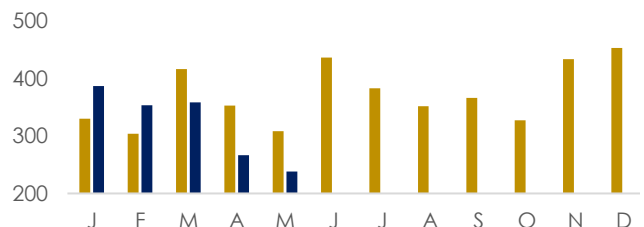
CONSUMER GOODS IMPORTS DROP BY 30.2% Y-O-Y



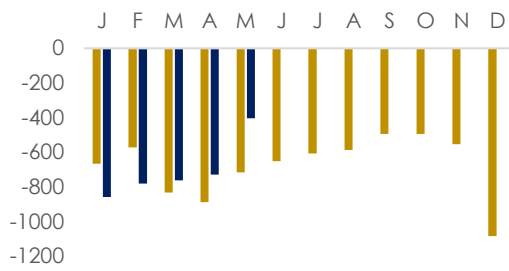
INTERMEDIATE GOODS DROP BY 0.7% Y-O-Y



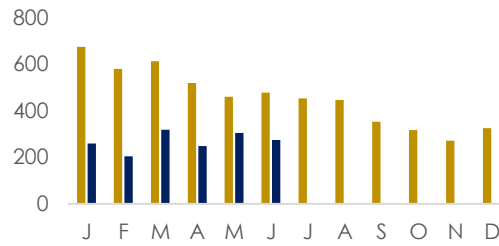
INVESTMENT GOODS DROP BY 22.7% Y-O-Y



TRADE BALANCE NARROWED BY 18%% Y-o-Y

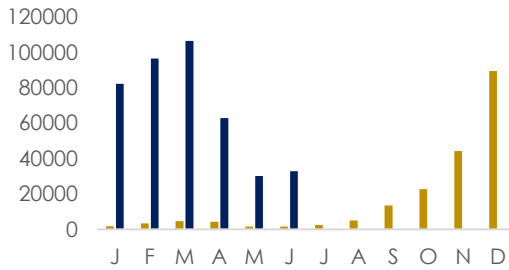


WORKERS' REMITTANCES SLIPPED BY 43% Y-o-Y (June-2022)

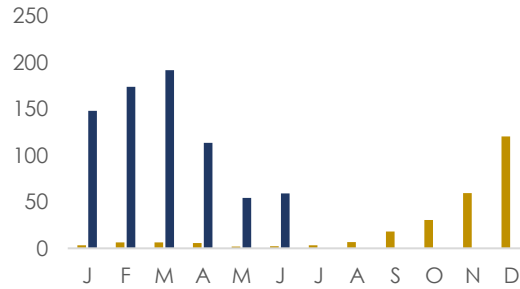


21%
of the total import bill covered by Remittances (May 2022)

32,856 TOURISTS WERE VISITED IN JUNE 2022



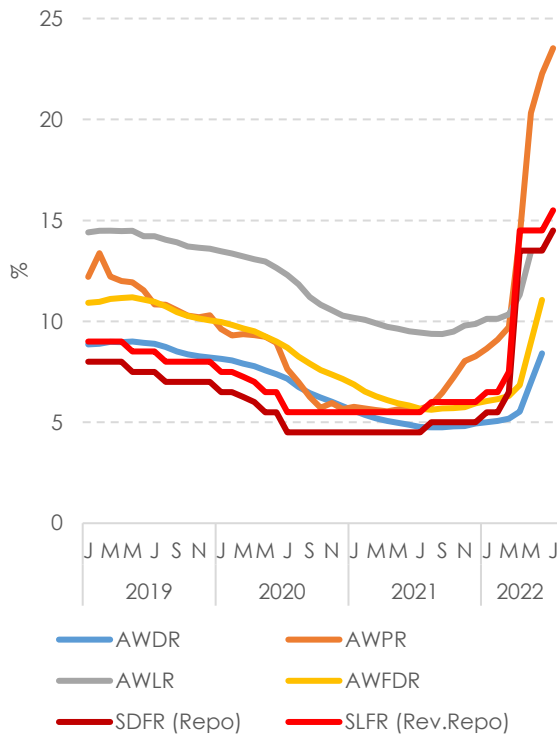
USD 59.1 MN EARNED IN JUNE 2022 AS TOURISM EARNINGS



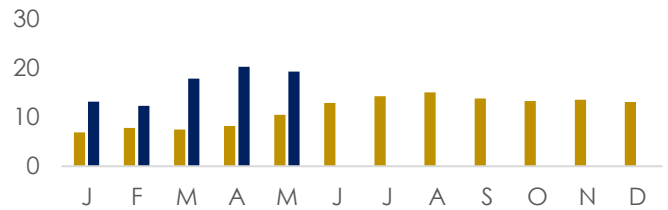
KEY INTEREST RATE INDICATORS

INTEREST RATES

Policy Rates increased to,
Standing Deposit Facility Rate (SDFR): 14.50%
Standing Lending Facility Rate (SLFR): 15.50%

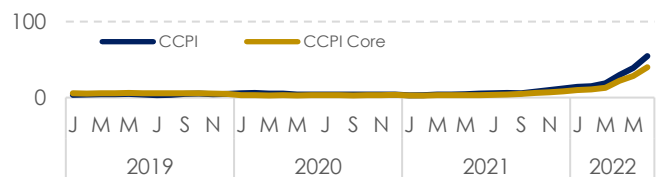


PRIVATE SECTOR CREDIT GROWTH



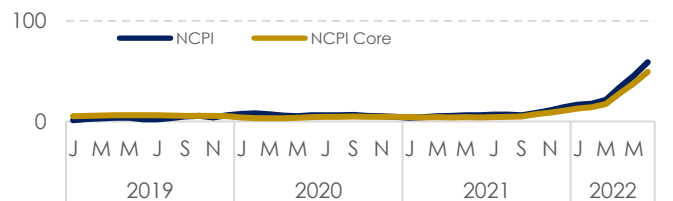
INFLATION: CCPI (BASE 2013) Y-o-Y

	Jun '22	May '22
CCPI:	54.6	39.1
CCPI Core:	39.9	28.4



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

	Jun '22	May '22
NCPI:	58.9	45.3
NCPI Core:	49.3	37.7



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