

MONTHLY ECONOMIC UPDATE

May 2022

EIU



3 KEY INSIGHTS

Growth Projections for Sri Lanka in 2022 Revised Downwards

Inflation Surges further with Price Revisions; PMI Falls in April

Ukraine Crisis and China Lockdowns appear to be dampening the global trade in 1H-2022: WTO

SRI LANKAN ECONOMY

Growth Projections for 2022 Revised: Growth Projections for Sri Lanka by key multilateral agencies were revised considering recent economic and political developments. Accordingly, ADB and WB expects 2.4% and IMF expects 2.6% growth, while CBSL expects 1% though the Governor has stated that he expects the worst annual contraction in Sri Lanka's history.

PMI Declined in April: Due to New Year holidays and supply-side constraints including power outages, manufacturing activities declined in April. At the same time, services activities dropped due to the prevailing economic, social and political instability in the country.

Trade Deficit widened in Q1 2022: 9% growth in exports were outpaced by 12% growth in imports, resulted in widening of trade deficit by 17% during the Q1 of 2022 on a Y-o-Y basis.

Inflation Accelerated Further in April: Both the CCPI and NCPI inflation indicators accelerated in April 2022, reporting more than 25% headline inflation on a Y-o-Y basis.

Private sector credit Improved: In March 2022, credit to private sector recorded a growth of 17.9% an almost six-year high owing to valuation impact of foreign currency denominated loans with the depreciation. When adjusted for this, credit expansion is estimated to have slowed.

LKR Depreciation Continuing: The rupee continued to depreciate in May with continued lack of dollars in the market. Recent direction by CBSL to provide daily guidance has seen a marginal depreciation and stability in the currency.

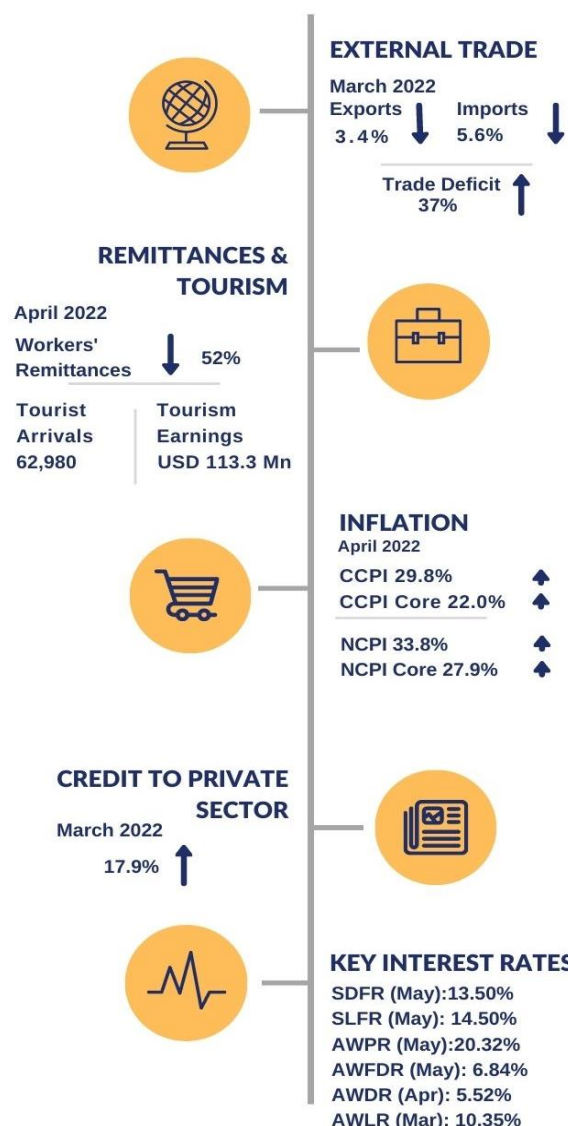
GLOBAL ECONOMY

South Asia sees Slower Growth due to Ukraine Crisis: Growth in South Asia, already uneven and fragile, will be slower than previously projected, due to the impact of the war in Ukraine and persistent economic challenges, says the World Bank.

Goods Barometer remains flat as Ukraine Crisis, COVID 19 Weigh on Trade-WTO: The conflict in Ukraine and recent pandemic-related lockdowns in China appear to be dampening global trade in the 1H-2022, according to the latest WTO Goods Trade Barometer.

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

Sri Lanka is facing multiple headwinds to Growth

Considering the current economic and political developments in Sri Lanka, the World Bank, the IMF and the Asian Development Bank (ADB) has revised their growth forecasts for 2022 and 2023.

Sri Lanka's economic outlook is highly uncertain due to the fiscal and external imbalances. Urgent policy measures are needed to address the high levels of debt service, reduce the fiscal deficit, restore external stability and mitigate the adverse impact on the poor and vulnerable, says the World Bank in its twice-a-year regional Update; South Asia Economic Focus. As per the report, the World Bank projected a 2.4% growth for Sri Lanka in 2022.

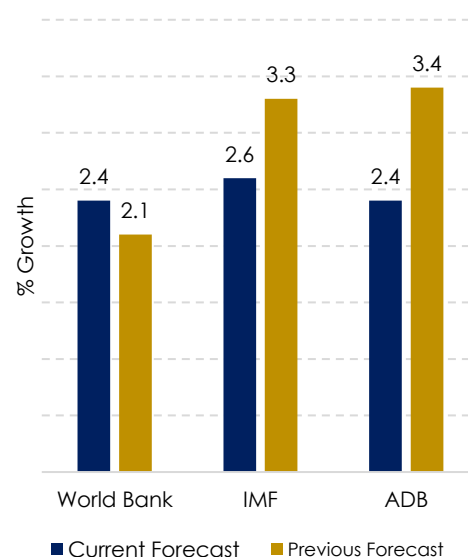
In Sri Lanka, the rise in food and fuel prices and hit to tourism has exacerbated pre-existing vulnerabilities and debt sustainability pressure, leading to social unrest and policy instability, the IMF says. Considering these development, they are forecasting Sri Lanka's economy to grow by 2.6% in 2022 down from 3.6% recorded in last year. 2.7% growth was projected for 2023.

The Asian Development Bank forecasted a muted recovery from the COVID-19 pandemic as Sri Lanka's economy grapples with macroeconomic challenges arising from high debt, low foreign reserves and inflationary pressure. Accordingly, ADB projected Sri Lanka's economic growth to dip to 2.4% in 2022 and improve marginally to 2.5% in 2023. ADB observes that even if the Omicron variant of COVID-19 subsides, the country is facing several headwinds. Rising food, fuel and commodity prices; higher import prices; supply chain disruptions; shortage stemming from the foreign exchange squeeze; demand side pressures; and exchange rate depreciation will drive inflation in 2022. Inflationary pressures are expected to moderate in 2023 as global prices fall and supply constraints ease.

However, growth projections by key multilateral agencies seem optimistic as the CBSL has revised their projections to be a growth of 1% in 2022 from the 5.5% expected early this year.

Latest Growth Projections for Sri Lanka	2022	2023
	2.4%	N/A
	2.6%	2.7%
	1.0%	N/A
	2.4%	2.5%

Change in Growth Forecasts by Key Institutions



Data Sources: WB, ADB, IMF, CBSL

External Trade Review-Q1 2022

At the end of Q1-2022, Sri Lanka exports recorded a 9% increase compared to the same quarter of the previous year, despite the monthly figure for March 2022, being 3.4% lower than the previous year. In comparison to the previous quarter, only industrial exports recorded a growth of 14.1% in Q1-2022 with both Agricultural, Mineral and other exports decreasing -8.7% and -2.7% respectively.

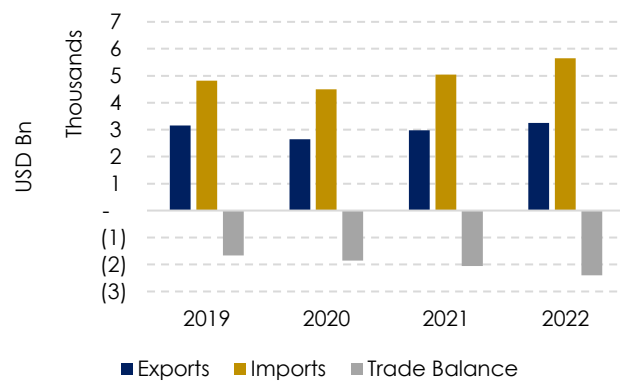
Agricultural exports have been affected by the fertilizer shortage and the Ukraine-Russian war, and exports of Tea, which contributes to around half of the total agricultural exports, were down by around 15.2% on a Y-o-Y basis. In terms of the quantity, exports of Q1 2022 is the lowest in tea quantity recorded in the first quarters since Q1 of 1993, around 23 years before. As per the industry analysts, around 10% of the Tea exports are being affected by the ongoing war, with both countries being top buyers, especially of the Black Tea.

In terms of the Industrial exports, which on average contributes to around 70%-80% of the total exports, have shown a double-digit growth with the only negative growth being recorded in rubber products. Despite the slight decrease of 0.6% on the m-o-m basis in March, Apparel exports have grown by 10.1% in the Q1 which is on a pace to around USD 6Bn of total earnings by the end of the year. Strong export growth is shown by other industries such as petroleum products (109.2%), Leather and related products (52.4%) and gem and jewelry products (32.3%).

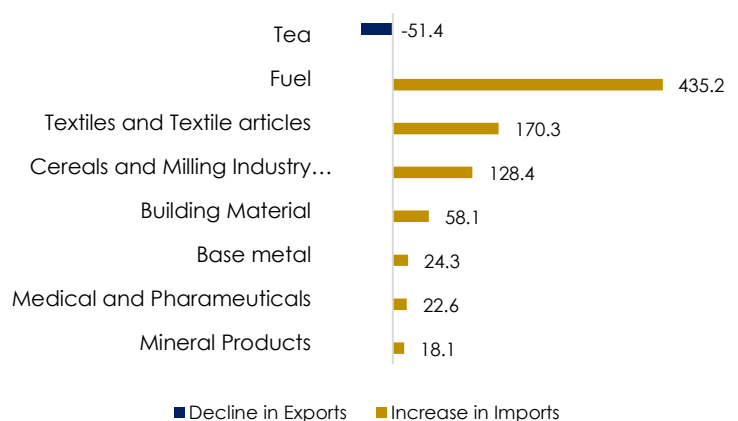
Export volumes are higher in Q1 2022 compared to the previous year as shown by the 9.1% growth in the Export Volume Index. However, the Export Unit Values have decreased slightly by 0.2%. This may suggest that the exports are not much affected by the high inflation rates around the world. Total imports for the Q1 2022 grew by 12.1% Y-o-Y mainly driven by the growths in January and February as the March imports were 5.6% lower compared to the previous year. Despite the decrease in consumer goods imports (5.7%), due to the continuation of import bans in many items, Intermediate and Investment imports increased by 20.7% and 4.6% in the Q1 2022 driving total imports. In the Consumer goods, import of Rice has massively increased due to the lowered domestic production caused by fertilizer bans. This in absolute terms, has added around USD 115 mn to the total import bill, compared to the previous year. Increased fuel imports, which has risen around 44% Y-o-Y due to the continuous shortages in the market and power generation, while there is a serious foreign exchange shortage. Textiles and textile articles imports has also increased by around 24% during the Q1 2022.

As a result, by the end of Q1 2022, the trade deficit has widened to USD 2.4Bn, an increase of around 16% Y-o-Y. This is despite the 8% slight decrease of the same in March.

External Trade Summary-Q1



Top Contributors to the Widening Trade Deficit during Q1 2022 (USD Mn)



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FURTHER INSIGHTS- GLOBAL ECONOMY

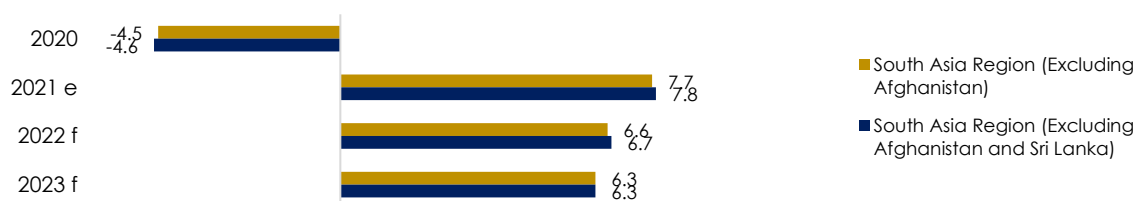
South Asia Sees Slower Growth as Ukraine war Impedes Recovery, Worsens Existing Challenges: The World Bank

Growth in South Asia, already uneven and fragile, will be slower than previously projected, due to the impact of the war in Ukraine and persistent economic challenges, says the World Bank in its twice-a-year regional update; South Asia Economic Focus. Accordingly, the World Bank projects the South Asian region to grow by 6.6% and 6.3% in 2022 and 2023 respectively. The 2022 forecast has been revised downward by 1.0 percentage point compared to the January projection.

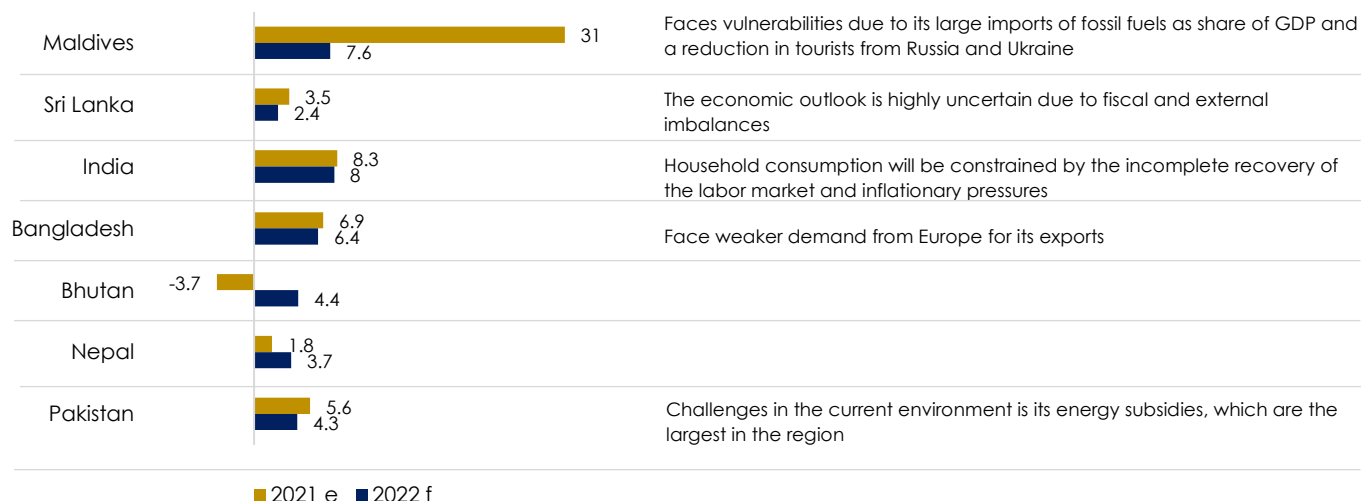
Countries in South Asia are already grappling with rising commodity prices, supply chain bottlenecks, and vulnerabilities in financial sectors. The war in Ukraine will amplify these challenges, further contributing to inflation, increasing fiscal deficits, and deteriorating current account balances. Though GDP growth continues to be solid during the recovery, all countries in the region will face challenges ahead.

The war and its impact on fuel prices can provide the region with much-needed impetus to reduce reliance on fuel imports and transition to a green, resilient and inclusive growth trajectory. The report recommends that countries steer away from inefficient fuel subsidies that tend to benefit wealthier households and deplete public resources. South Asian countries should also move towards a greener economy by gradually introducing taxation that puts tariffs on products which cause environmental damage.

Growth Projections for South Asia



Country-wise Growth Projections

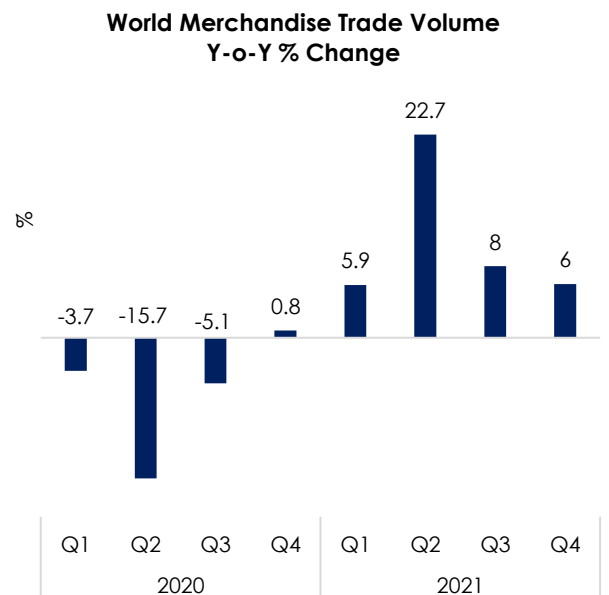
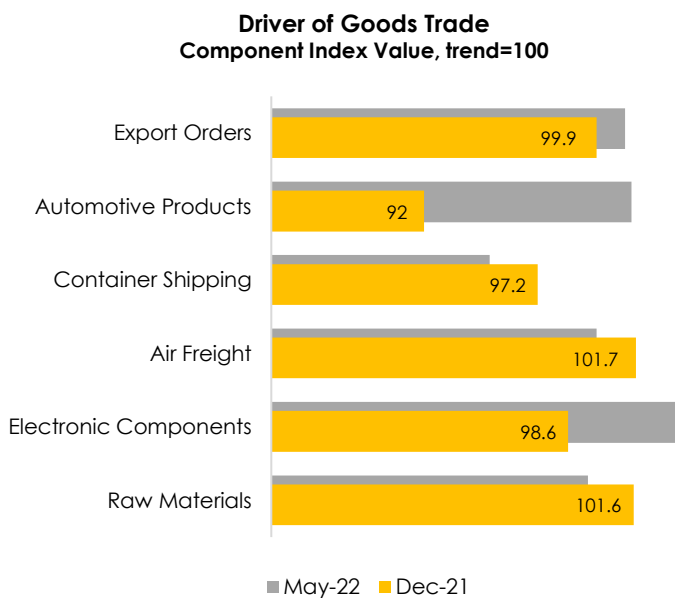


Goods Barometer remains flat as Ukraine Crisis, COVID 19 Weigh on Trade: WTO

The conflict in Ukraine and recent pandemic-related lockdowns in China appear to be dampening global trade in the 1H-2022, according to the latest WTO Goods Trade Barometer. The latest reading of 99.0 remains slightly below the baseline value of 100 for the index, which is a forward-looking composite of real-time indicators, suggesting continued slow growth in merchandise trade.

The latest outlook scales back the earlier optimism in the barometer from February, which suggested that trade might have been approaching a turning point, with stronger growth expected in the near future. The anticipated upturn may have been short-circuited by the conflict in Ukraine, which started in late February and triggered sharp rises in food and energy prices, which tend to reduce real incomes and lower economic growth. China's imposition of major lockdowns to combat a new outbreak of COVID-19 has further disrupted trade and production.

In April, the WTO forecasted 3% growth in the volume of world merchandise trade in 2022, down from the 4.7% growth predicted as of last October. The current barometer reading is broadly consistent with the April projections, but forecasts are less certain at the moment and should be interpreted with care, the WTO explained.



Data Sources: WTO

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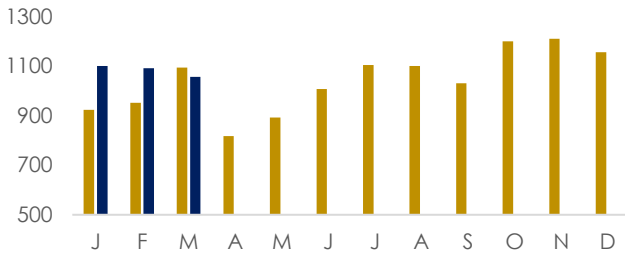
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-MARCH 2022

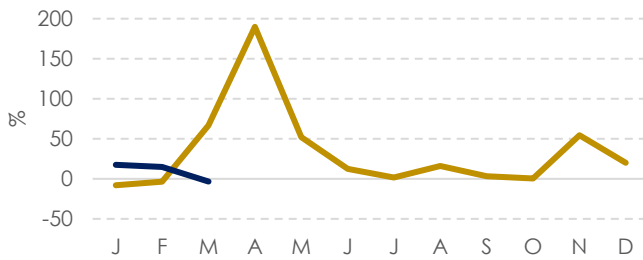
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

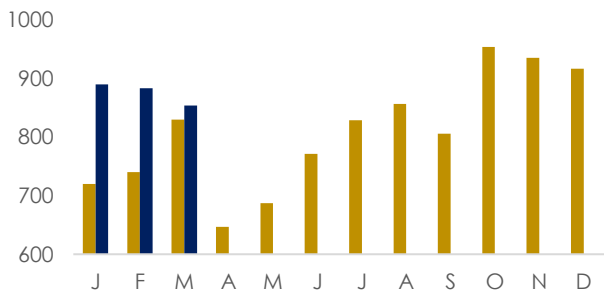
EXPORTS DROP BY 3.4% Y-O-Y



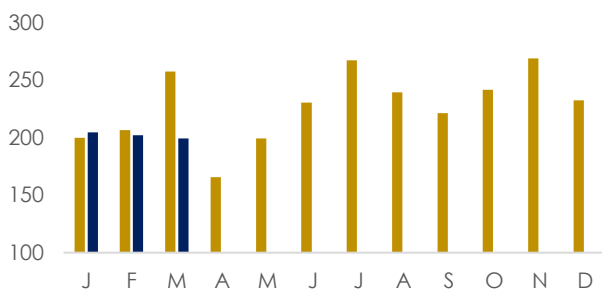
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 2.9% Y-O-Y

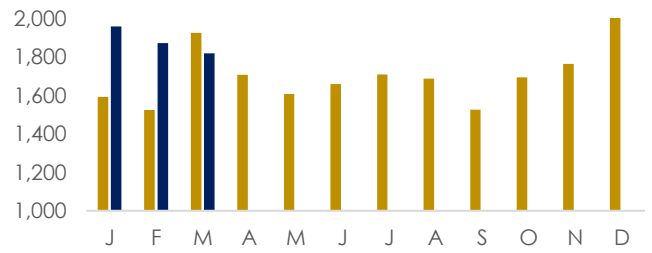


AGRICULTURAL EXPORTS DROP BY 22.6% Y-O-Y

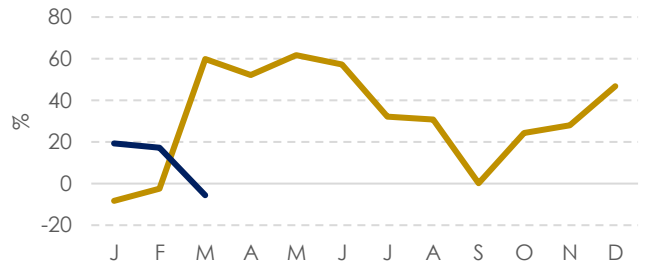


IMPORTS

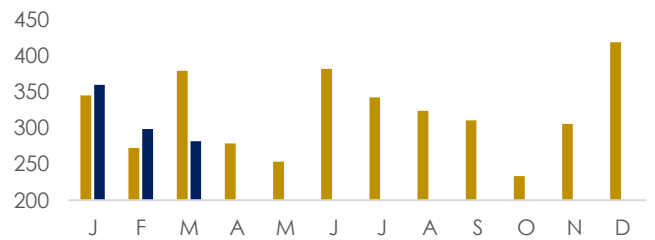
IMPORTS DECLINED BY 5.6% Y-O-Y



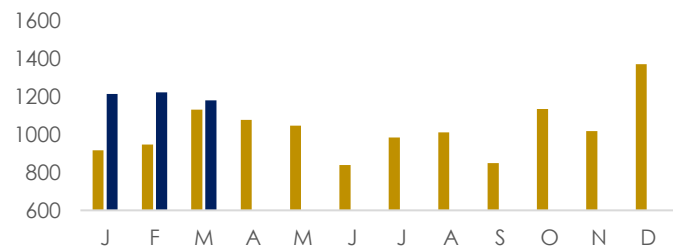
Y-o-Y % CHANGE IN IMPORTS



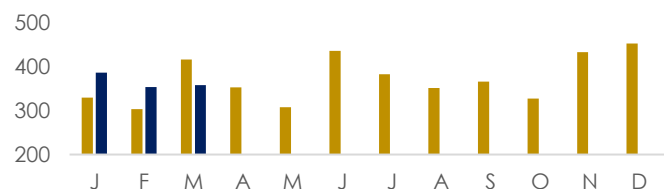
CONSUMER GOODS IMPORTS DROP BY 25.7% Y-O-Y



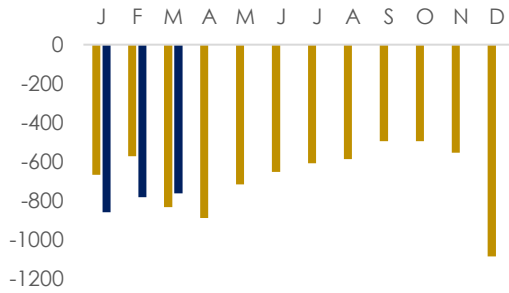
INTERMEDIATE GOODS ROSE BY 4.2% Y-O-Y



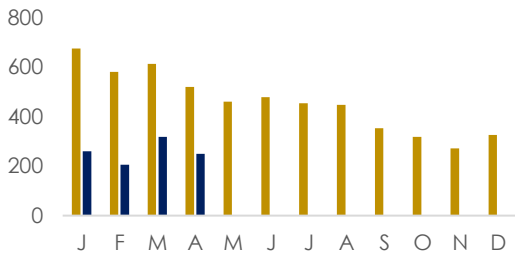
INVESTMENT GOODS DROP BY 13.9% Y-O-Y



TRADE BALANCE WIDENED BY 37% Y-o-Y

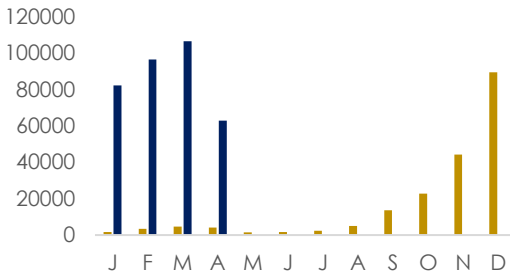


WORKERS' REMITTANCES SLIPPED BY 52% Y-o-Y (Apr-2022)

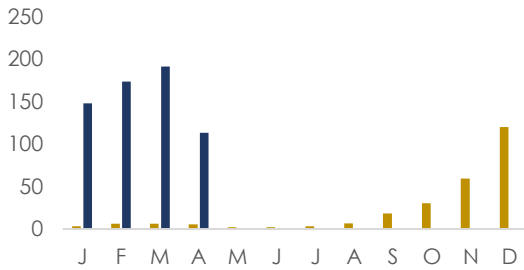


18%
of the total import bill covered by Remittances (Mar 2022)

62,980 TOURISTS WERE VISITED IN APRIL 2022



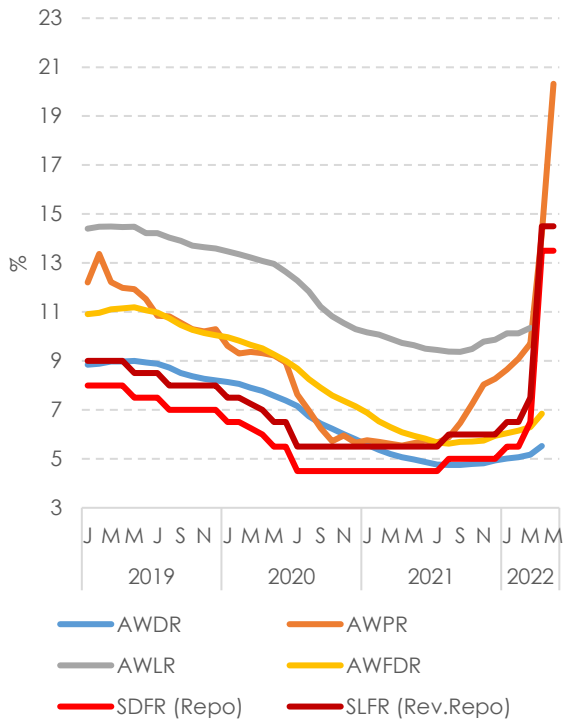
USD 113.3 MN EARNED IN APRIL 2022 AS TOURISM EARNINGS



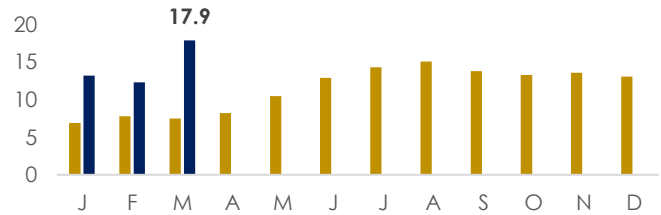
KEY INTEREST RATE INDICATORS

INTEREST RATES

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

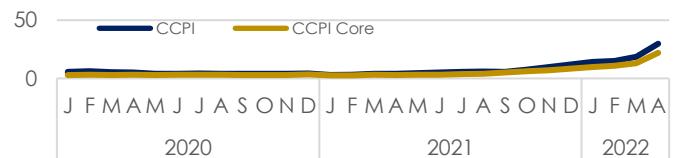


PRIVATE SECTOR CREDIT GROWTH



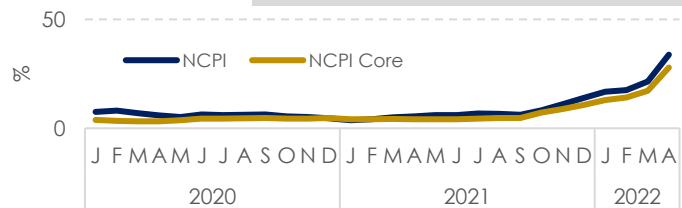
INFLATION: CCPI (BASE 2013) Y-o-Y

	Apr '22	Mar '22
CCPI:	29.8	18.7
CCPI Core:	22.0	13.0



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

	Apr '22	Mar '22
NCPI:	33.8	21.5
NCPI Core:	27.9	14.1



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