

MONTHLY ECONOMIC UPDATE

November 2022

EIU



3

KEY INSIGHTS

Sri Lanka's National Poverty Line recorded a steep uptick owing to high inflationary pressure.

National Inflation dips for the first time in 13 months; Trade deficit contraction continues

Indicators of Global Economic Activity confirms the Gloomy Recessionary Outlook

SRI LANKAN ECONOMY

National Inflation dips in October, for the first time in 13 months: The NCPI headline inflation declined to 70.6% in October from 73.7% recorded in September 2022. Food inflation dipped to 80.9% meanwhile non-food inflation went down to 61.3%.

Trade Deficit Narrowed by 58% in September: Owing to a 4.3% growth in export earnings and 15.8% decline in import expenditure, the country's trade deficit narrowed by 58% in September on a y-o-y basis.

PMI Falls Sharply in October: Both the Manufacturing and Services PMIs recorded a significant decline in October, owing to decline in all the manufacturing sub-indices and the majority of services sub-indices.

National Budget for 2023 targets to build an open economic system with social protection: The 2023 National Budget was focused to build an open economic system with social protection. An export oriented competitive economy, environmentally friendly green and blue economy, and a digital economy are the key focus on this new economy.

A Steep increase in National Poverty Line

The ongoing economic crisis of Sri Lanka resulted in increasing the poverty level of the country drastically. The national poverty line increased steeply since 2019 to September 2022. During the six months from March to September 2022, the national poverty line went up by 48%.

GLOBAL ECONOMY

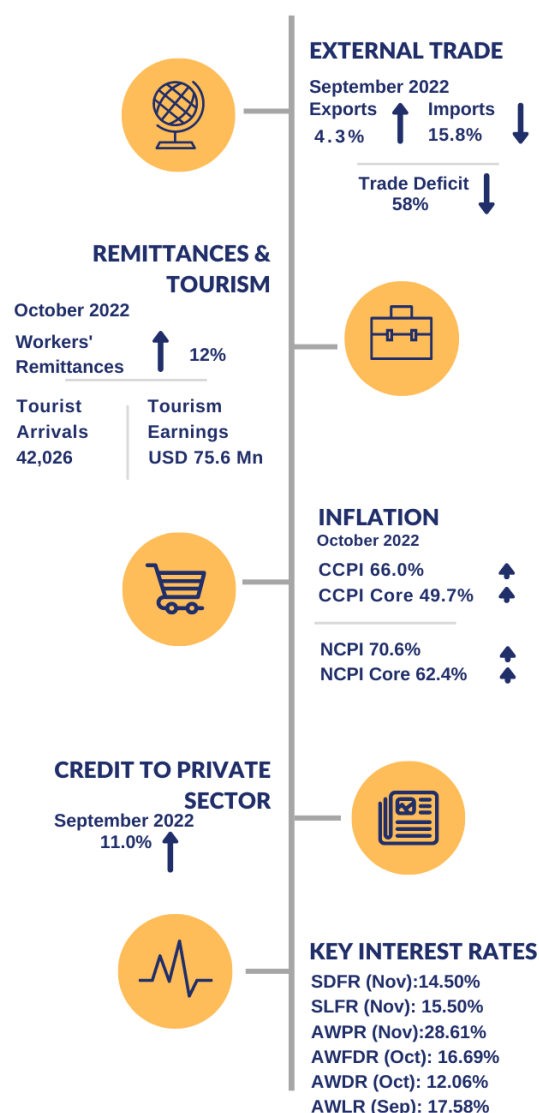
Indicators of Economic Activity Confirms the Gloomy Outlook:

A survey by the IMF on PMI data of G20 countries confirms that the global growth outlook is gloomier and is head into a recession.

Commodity Prices Show Mix Performance: Commodity prices have diverged since the start of the Ukraine war, with energy price remaining elevated and non-energy prices declining. In many countries, most commodity prices are much higher in local currency terms owing to strengthening of the US dollar.

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

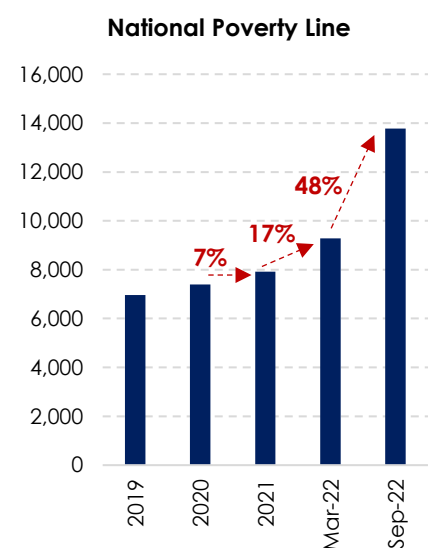
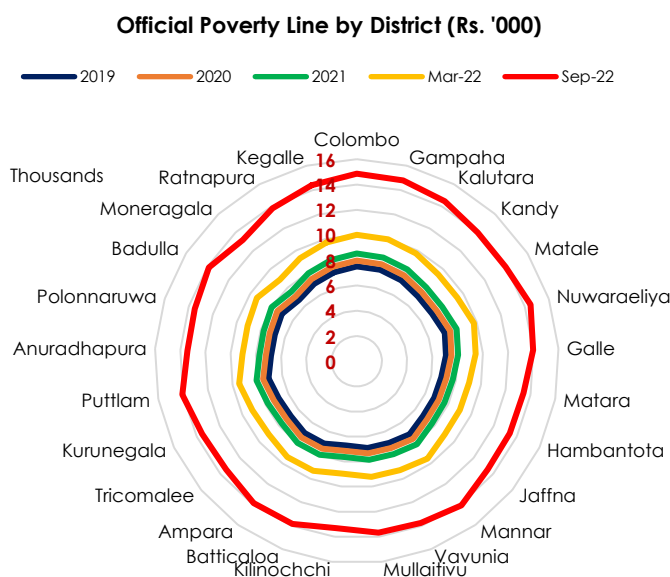
A Steep increase in National Poverty Line

The ongoing financial crisis of Sri Lanka resulted in increasing the poverty level of the country drastically. The high inflationary pressure impacted heavily on low income families where a larger part of household consumption is spent on food. Most of people from the lower income families reduced their number of meals, shifted to low quality and low-priced commodities, and cut their children's health and education expenditure. This has a severe impact on the socio-economic well-being and living standards of the country. As per the Department of census and Statistics, there is a sizeable increase in the national poverty line during 2021 and thus far in 2022.

Over nine million people, or more than 40% of Sri Lanka's population, have slipped into the official poverty bracket due to the country's unending economic crisis, found by recent a island-wide survey conducted by the University of Peradeniya.

In the meantime, the World Bank projects that, Sri Lanka's ongoing financial crisis may increase poverty from 13.1% in 2021 to 25.6% in 2022, which was featured in detail in our October-Monthly Economic Update. It is expected that the financial assistance extended by multinational agencies and those that are awaited from other lending sources in the near future would help address the rising poverty issue of the country.

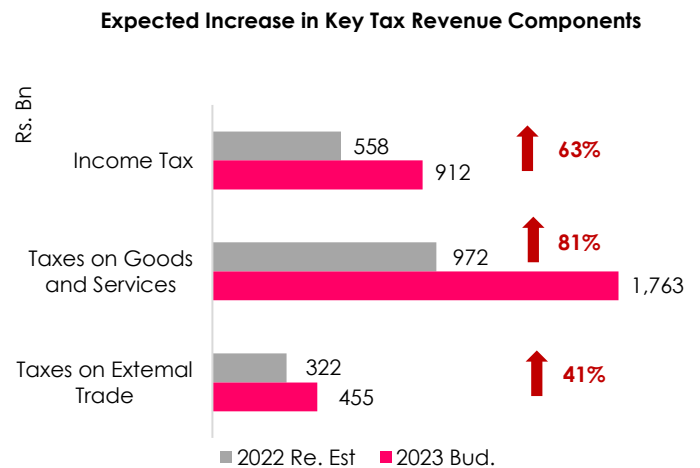
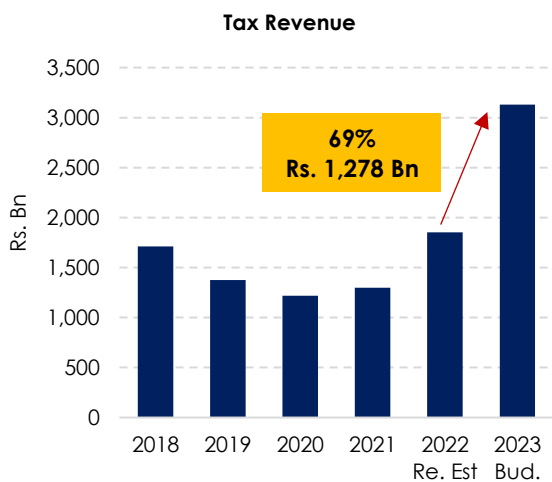
In the recently presented National Budget for 2023 has contained several proposals to address the poverty of the country, through well- planned and well-targeted welfare programmes.



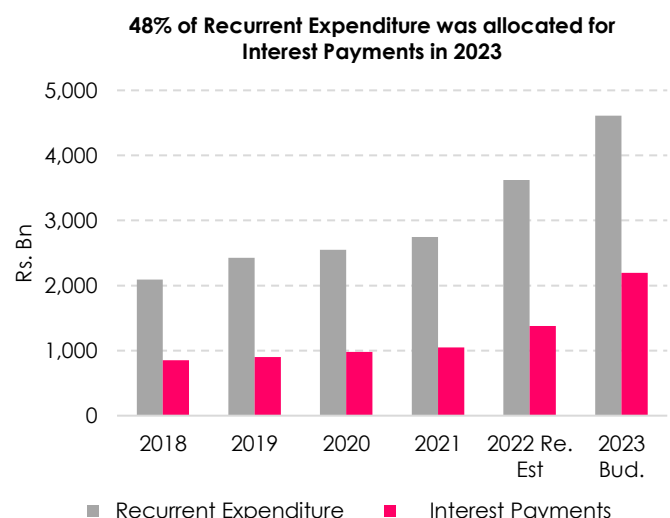
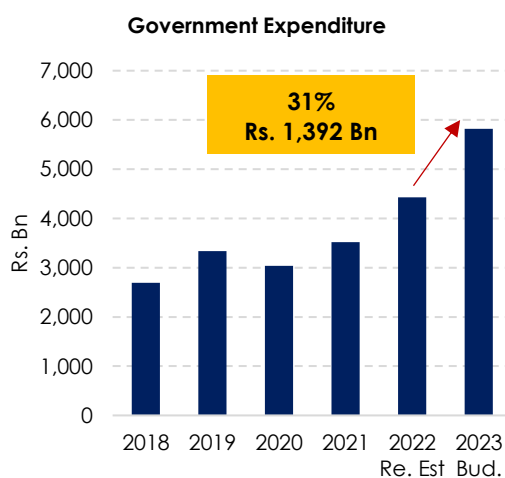
Data Sources: Department of Census and Statistics, CBSL, University of Peradeniya

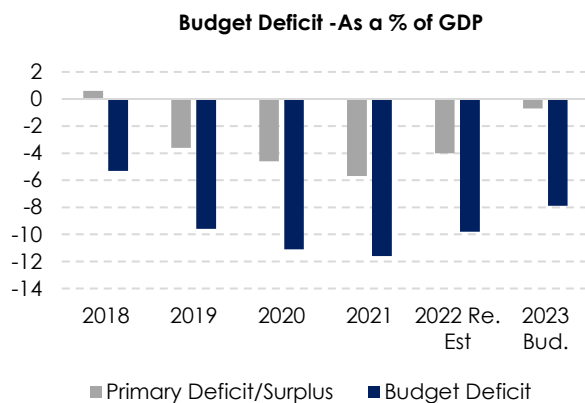
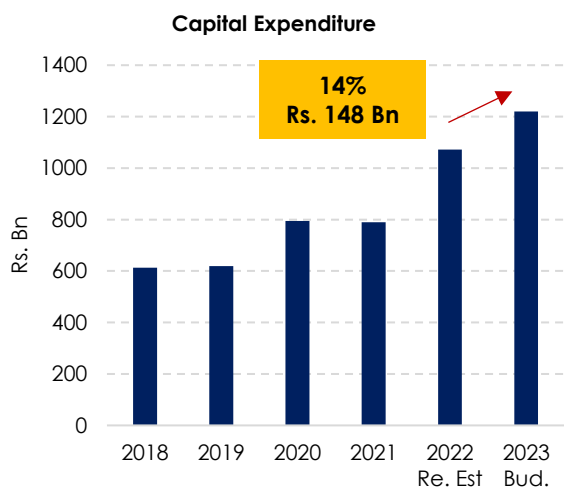
Brief Analysis on the National Budget 2023 and Mid-year fiscal targets of the Government

The National Budget for the year 2023 was presented to the parliament on 14th November. The focus of the budget is to build a social economy/ an open economic system with social protection. An export oriented competitive economy, an environmentally friendly green and blue economy and a digital economy are the key focus on this new economy. The government is expected to increase the fiscal revenue to around 15% of GDP by 2025 from 8.3% of GDP in 2021, through the fiscal stabilization programme. They also target to achieve a primary surplus of more than 2% of GDP in 2025 and expects to improve upon this level going forward. Public debt is expected to reduce from around 110% of GDP as at end 2021 to more than 100% of GDP in the medium term. The government is targeting to bring the inflation back under control to a mid-single digit level in the medium term and gradually reduce interest rates to reach a moderate level. With all these developments, the growth is expected to reach 7-8%, and the government expects to restore the macro-economic confidence and foreign exchange reserves.



Total Revenue is expected to increase by 64% and the revenue proposals mainly included changes to the income tax and Value Added Tax (VAT) while addressing tax Policy gaps and rationalizing tax concessions.





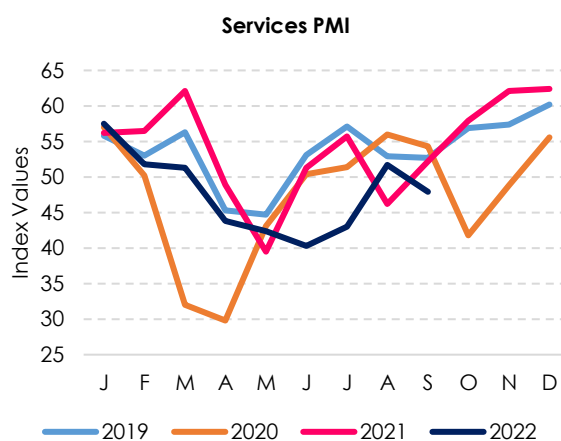
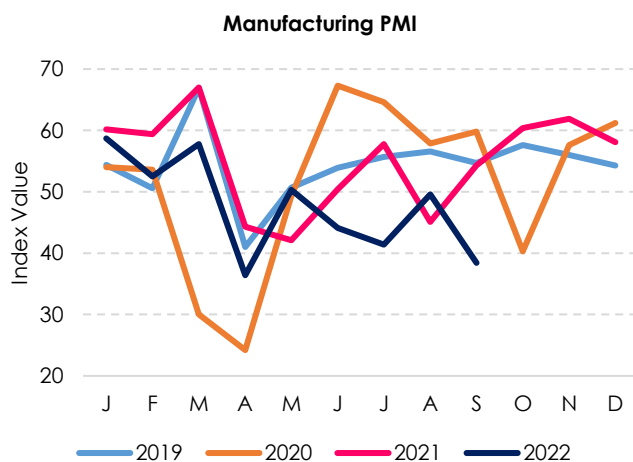
Government is expected to reach to a primary surplus of more than 2% of GDP in 2025 and expects to improve upon this level thereafter.

Data Source: Ministry of Finance

PMI recorded a decline in October 2022

Both the Manufacturing activities and Services activities of the Purchasing Managers' index (PMI) recorded a significant decline in October 2022, as per the Central Bank. Manufacturing PMI declined in October, indicating a contraction in manufacturing activities of the country on m-o-m basis. Statistics show that the Manufacturing PMI declined by 4.2 index points to 38.4 in October, driven by drop in all the sub-indices. Expectations for manufacturing activities for the next three months remained in the negative territory anticipating demand side impediments to continue in the period ahead, the Central Bank stated.

Services PMI dropped below the neutral threshold to an index value of 47.9 in October 2022, due to the decline observed in New Business, Employment and Backlogs of work. Nevertheless, Business Activities and Expectations for Activity continued its increasing momentum during October 2022. As per the Central Bank of Sri Lanka, Expectations for Business Activities for the next three months improved further due to the festive season and expectations on improvements in economic conditions. However, supply-side constraints, high direct and indirect taxes, cost of capital and input prices remain detrimental to business operations, as stated by the respondents of the PMI survey.



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FURTHER INSIGHTS- GLOBAL ECONOMY

Indicators of Economic Activity Confirms the Gloomy Outlook: IMF

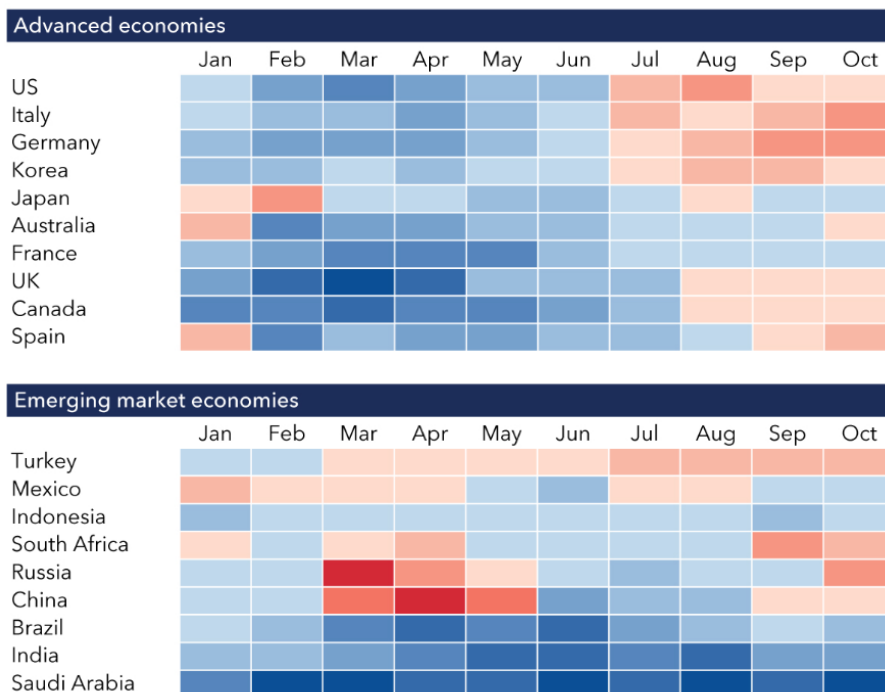
Global economic outlook is confronting a unique mix of headwinds, such as the Ukraine war, accelerating interest rates and inflation, and lingering pandemic effects such as recent lockdowns in China and supply chain disruptions.

As featured in our October Monthly Economic Update, the IMF lowered its growth forecast for 2023 to 2.7%, and they expect countries accounting for more than third of global output to contract during part of this year or next. The latest report by the IMF on Group of Twenty (G20), recent high-frequency indicators confirm that the global growth outlook is gloomier.

The following illustration published on the IMF blog shows, there has been a steady worsening in recent months for PMIs that are tracking a range of G20 economies. These survey-based measures gauge the momentum of manufacturing and services activity. As per the illustration, a growing share of G20 countries have fallen from expansionary territory earlier this year to levels that signal contraction. That is true for both advanced and emerging market economies, underscoring the slowdown's global nature, the IMF stated.

Indicators of economic activity confirm the gloomy outlook.

(purchasing manager indexes, 2022: blue signals expansion, red signals contraction)



Source: IMF Blog

G20 Trade Restrictions Increasing amidst Economic Challenges: WTO

In a context of economic uncertainty exacerbated by the COVID-19 pandemic, the war in Ukraine and the food security crisis, G20 economies between mid-May and mid-October 2022 introduced export restrictions at an increased pace, particularly on food and fertilizer, according to the 28th WTO Trade Monitoring Report on G20 trade measures issued in mid-November. WTO called on G20 countries and all WTO members, to refrain from adopting new trade-restrictive measures that can further contribute to a worsening of the global economic outlook.

While some trade-restrictive measures have been lifted by G20 countries, the report indicates that the trend has been going in the wrong direction. Export restrictions contribute to shortages, price volatility, and uncertainty. The report shows that supply chains on the whole have thus far proved to be resilient, despite the war in Ukraine, the continuing impacts of the COVID-19 pandemic, the highest inflation many countries have experienced in decades, and the impacts of monetary tightening by central banks seeking to limit price increases. As per the WTO, the pace of implementation of new export restrictions by WTO members has increased since 2020, first in the context of the pandemic and subsequently with the Ukraine war and the food crisis. Some of these export restrictions have been gradually lifted, but several still remain in place.

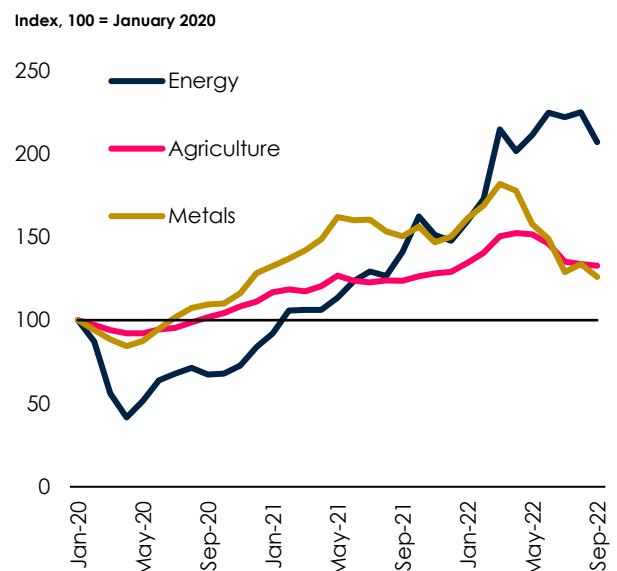
As of mid-October 2022, WTO members still had in place 52 export restrictions on food, feed and fertilizers, in addition to 27 export restrictions on products essential to combat COVID-19. Of these, 44% of the export restrictions on food, feed and fertilizers, and 63% of the pandemic-related export restrictions, were maintained by G20 economies.

Source: WTO

Recent Developments in Commodity Prices

According to the recently released 'Commodity Market Outlook' report of the World Bank, commodity prices have diverged since the start of the Ukraine war, with energy price remaining elevated and non-energy prices declining. In many countries, however, most commodity prices are much higher in local currency terms because of the strength of the US dollar. Metal demand growth has fallen in most regions as the global economy has decelerated. The production of grains was robust in 2021-22, but is expected to decline in 2022-23. Looking ahead, oil prices are expected to ease in 2023-24, but there is much uncertainty to the outlook; a key downside risk is the possibility of a global recession, the report stated.

Source: The World Bank



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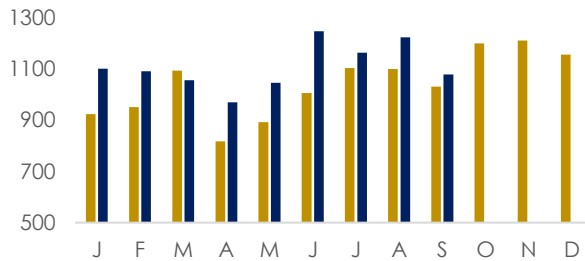
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-SEPTEMBER 2022

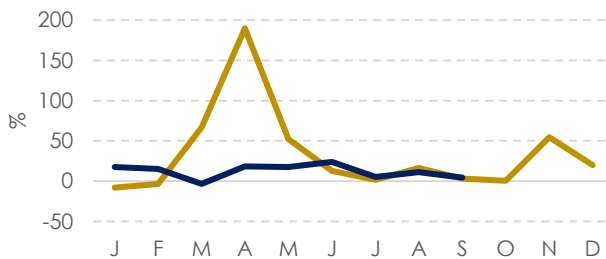
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

EXPORTS ROSE BY 4.3% Y-O-Y



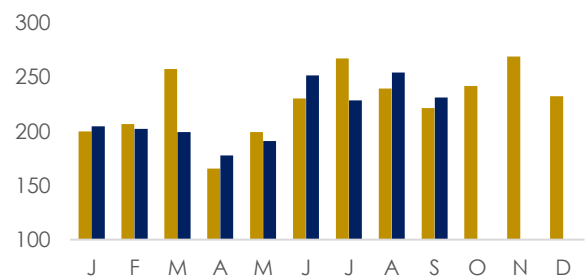
Y-o-Y % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 4% Y-O-Y

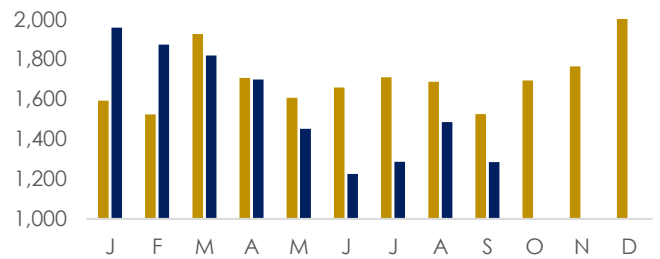


AGRICULTURAL EXPORTS PICKED UP BY 4.5% Y-O-Y

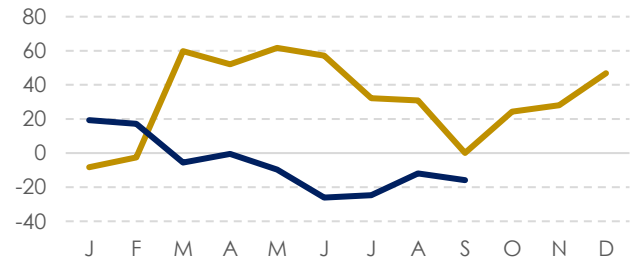


IMPORTS

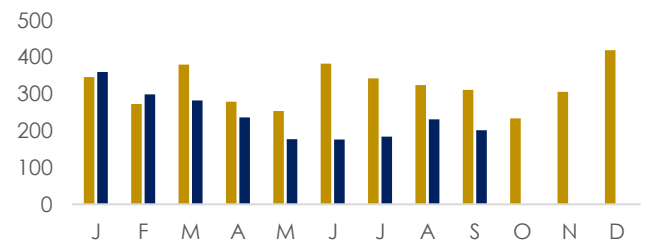
IMPORTS DECLINED BY 15.8% Y-O-Y



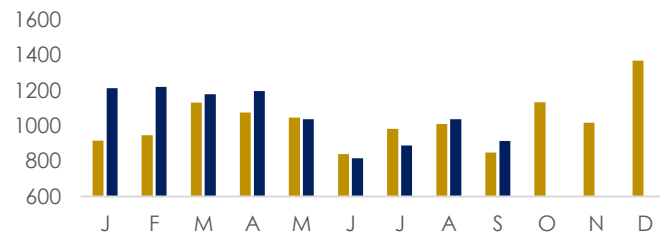
Y-o-Y % CHANGE IN IMPORTS



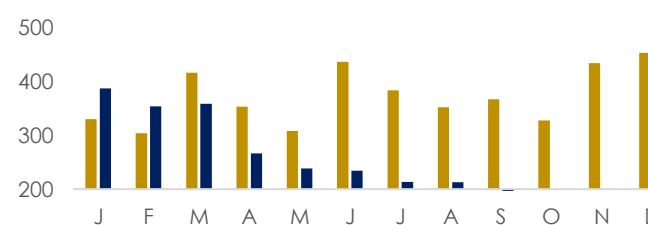
CONSUMER GOODS IMPORTS DROPPED BY 35.3% Y-O-Y



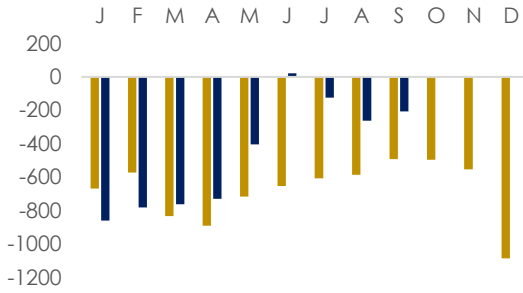
INTERMEDIATE GOODS PICKED UP BY 7.7% Y-o-Y



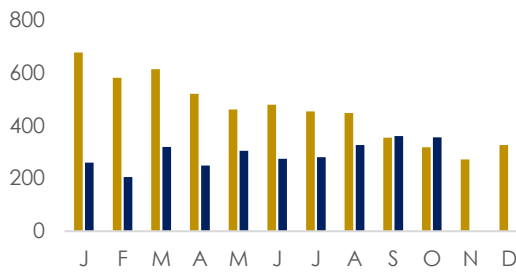
INVESTMENT GOODS DECLINED BY 53.8% Y-o-Y



TRADE DEFICIT NARROWED BY 58% Y-o-Y

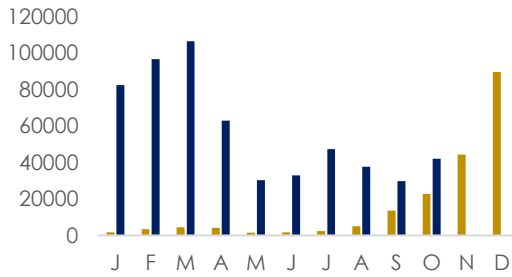


WORKERS' REMITTANCES INCREASED BY 12% Y-o-Y (Oct-2022)

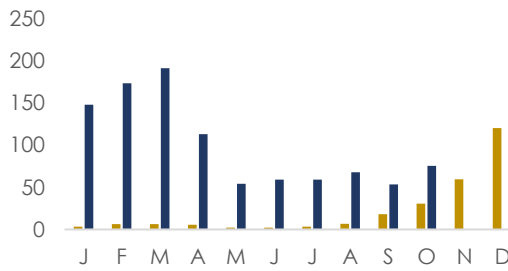


28%
of the total import bill covered by Remittances (Sep 2022)

42,026 TOURISTS WERE VISITED IN OCTOBER 2022



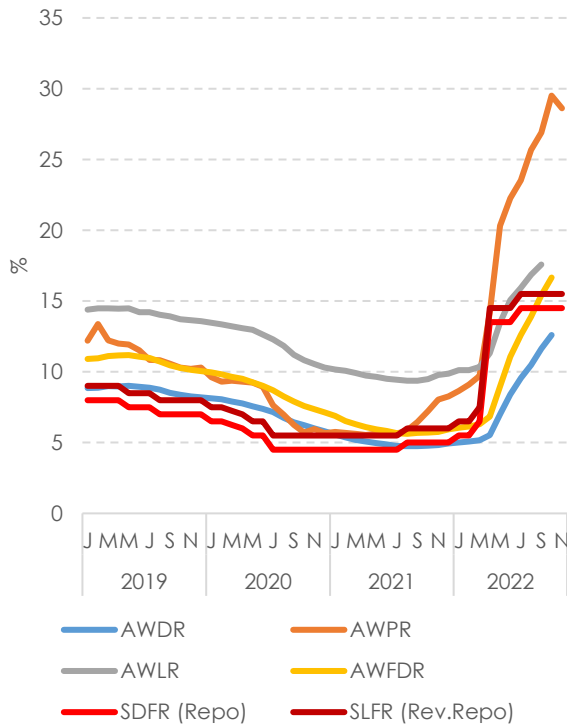
USD 75.6 MN EARNED IN OCTOBER 2022 AS TOURISM EARNINGS



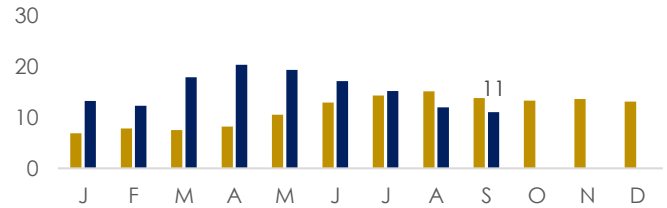
KEY INTEREST RATE INDICATORS

INTEREST RATES

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

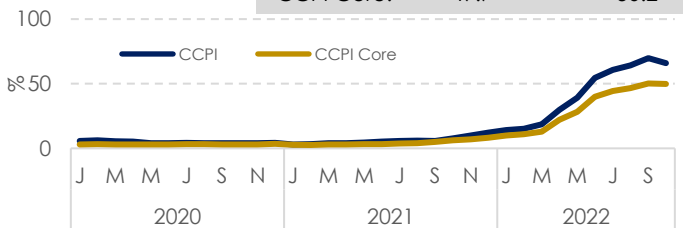


PRIVATE SECTOR CREDIT GROWTH



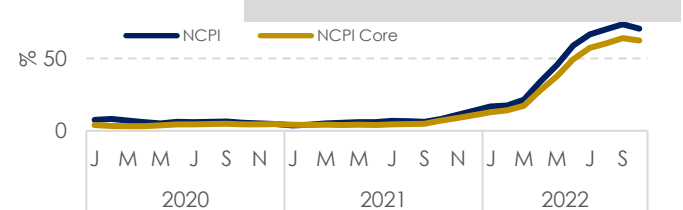
INFLATION: CCPI (BASE 2013) Y-o-Y

	Oct '22	Sep '22
CCPI:	66.0	69.8
CCPI Core:	49.7	50.2



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

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



Source: CBSI

DISCLAIMER:

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