

MONTHLY ECONOMIC UPDATE

September 2021

EIU



3
KEY INSIGHTS

Double Digit Growth for Sri Lanka in Q2-2021 driven by base effects

ADB Forecasts 7.1% Growth in 2021 for Developing Asia, South Asia to grow by 8.8%

Global oil prices continue to rise; Evergrande debt crisis causes global concerns

SRI LANKAN ECONOMY

Economy recorded a double-digit GDP growth of 12.3% in Q2-2021: The double-digit growth was led by the significant contraction (-16.4%) of growth rate reported in the same period in 2020 and led by recovery in the Industrial sector.

Trade Deficit Continues to Widen in July: Imports outpaced exports significantly in July 2021, resulting in the widening of the trade deficit for the fifth consecutive month. Trade deficit has widened from USD 3.4 Bn in Jan-July 2020 to USD 4.9 Bn in the same period in 2021.

NCPI food inflation reaches a 12-month High: NCPI headline inflation declined marginally in August 2021 due to high base in same month of 2020 but food inflation was recorded at a 12 month high of 11% during August 2021.

Gross Official Reserves Recover in August: Official reserve assets picked up back to USD 3.5 Bn in August 2021 from USD 2.8 Bn on the back of the inflow of Sri Lanka's share of the SDR allocation by the IMF, and initial disbursements under the bilateral currency swap arrangement between CBSL and the Bangladesh Bank.

GLOBAL ECONOMY

Global oil prices are on an upward trend: Global oil prices are on an upward trend in September due to supply constraints. Both Brent and WTI reached near USD 80 per barrel and some analysts forecasts USD 90 per barrel as at year-end.

ADB Forecasts a 7.1% Growth in 2021 for Developing Asia: ADB expects a 7.1% growth for Developing Asia in 2021 and 5.4% in 2022 driven by a broad recovery in exports.

Evergrande Debt Crisis: Evergrande one of China's largest real estate developers and part of the Global 500 has sent shockwaves in the global economy over concerns of debt repayment. Some analysts fear it could even turn into China's "Lehman Brothers moment" as Real estate and related industries account for as much as 30% of Chinese GDP.

MACROECONOMIC SNAPSHOT

Y-O-Y CHANGES



EXTERNAL TRADE

July 2021
Exports ↑ 1.7% Imports ↑ 32.2%
Trade Deficit ↑ 190%

REMITTANCES & TOURISM

August 2021
Workers' Remittances ↓ 33%
August 2021
Tourist Arrivals 5,040 Tourism Earnings USD 6.8 Mn



INFLATION

August 2021
CCPI 6.0% ↑
CCPI Core 4.1% ↑
NCPI 6.7% ↑
CCPI Core 4.7% ↑

CREDIT TO PRIVATE SECTOR

July 2021
14.3% ↑



KEY INTEREST RATES

SDFR (Sep): 5.00%
SLFR (Sep): 6.00%
AWPR (Sep): 6.46%
AWFDR (Sep): 5.64%
AWDR (Sep): 4.75%
AWLR (Aug): 9.38%

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

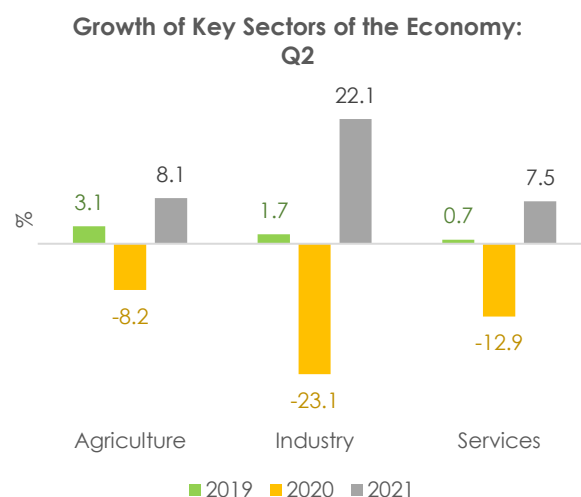
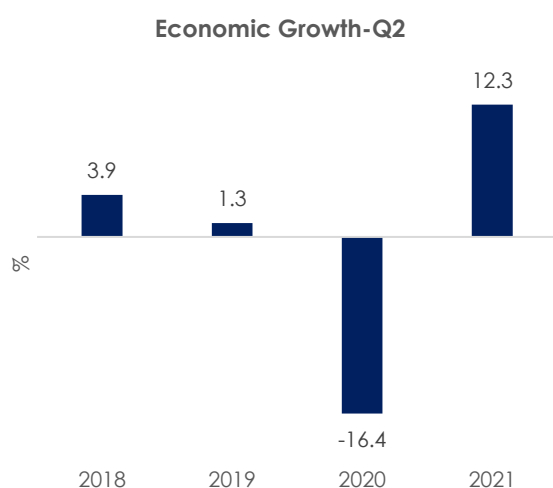
Base-effect led Double Digit Growth in Q2-2021

The economy recorded a double-digit growth of 12.3% during the Q2-2021 as per the national statistics office. This double-digit growth was led by the negative growth rate of 16.4% reported in the Q2-2020.

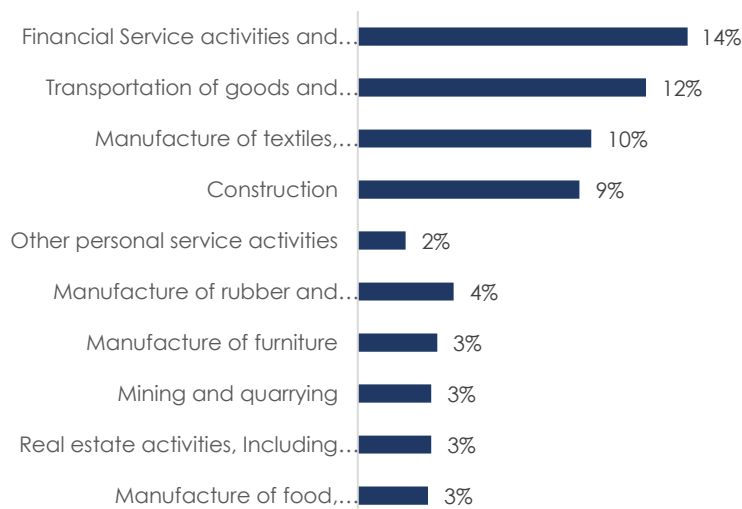
The 2nd Quarter for 2021 began with a very favorable economic performance, compared to Q2-2020, providing some relief from the second wave of the pandemic and creating the necessary environment for many businesses to continue. Thus, most of the businesses ran well, except a very few sectors such as international tourist arrivals related businesses and, environmental and cultural related activities. However, at the end of April, the third wave of the pandemic resumed spreading with speed due to new Delta variant. In April, the government-imposed travel restrictions, but this lockdown was more relaxed compared to the lockdown imposed in 2020. Amidst the third wave, number of businesses, agriculture activities continued by following health guidelines.

Agriculture sector of the economy recorded a substantial growth of 8.1% mainly due to the permission given by the government to continue their work in all agriculture related activities even under the pandemic. Industry sector reported an expansion of 22.1% and overall manufacturing activities grew by 26.5% during the period under concern. Services activities picked up by 7.5% and recorded the highest share (57.9%) to the GDP during the Q2-2021.


The Asian Development Bank (ADB) recently announced its latest growth forecasts and accordingly, perceived growth for Sri Lanka at the end of 2021 is 3.4% which was revised downward from its previous forecast of 4.1% made in April of this year.



Top 10 Contributors to GDP Growth: Q2-2021



Data Sources: Department of Census and Statistics, CBSL, ADB, IMF, WB

Latest Growth Projections for Sri Lanka	2021	2022
 THE WORLD BANK	3.4%	2.0%
	5.3%	4.8%
	5%	6%
	3.4%	3.4%

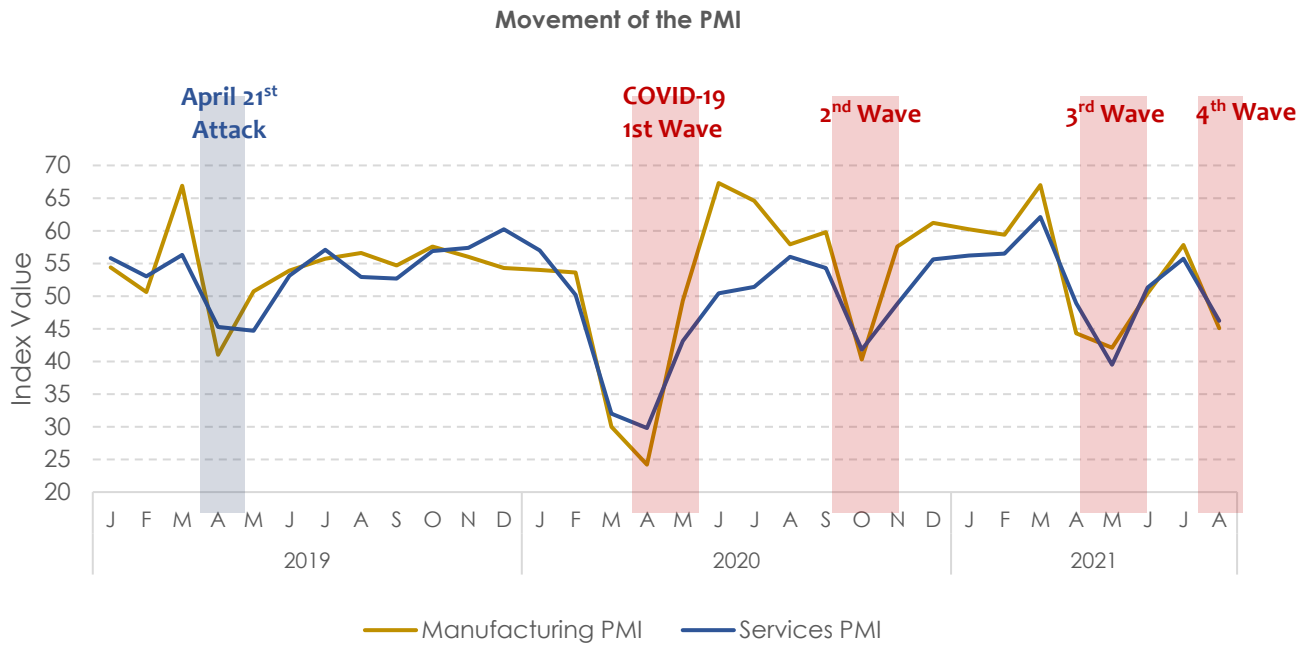
After a Pickup in two consecutive months, PMI Contracted in August

The resurgence of the COVID-19 pandemic in August 2021 has slowed down the manufacturing and services activities in the country. Accordingly, the manufacturing PMI recorded an index value of 45.1 in August 2021 with a fall of 12.7 index points recorded in the previous month, mainly driven by the decrease in New Orders, Production, Employment, and stock of purchases sub-indices.

The manufacturers cautioned that the uncertainty over the COVID-19 pandemic would continuously hinder the prospects of the manufacturing sector, yet, overall expectations for manufacturing activities for the next three months are to remain above the neutral threshold, the CBSL stated.

Services PMI dropped to an index value of 46.2 in August 2021, with the restrictions imposed to contain the further spread of the pandemic. New Businesses, Business Activity, Employment and Expectations for Activity sub-indices recorded declines.

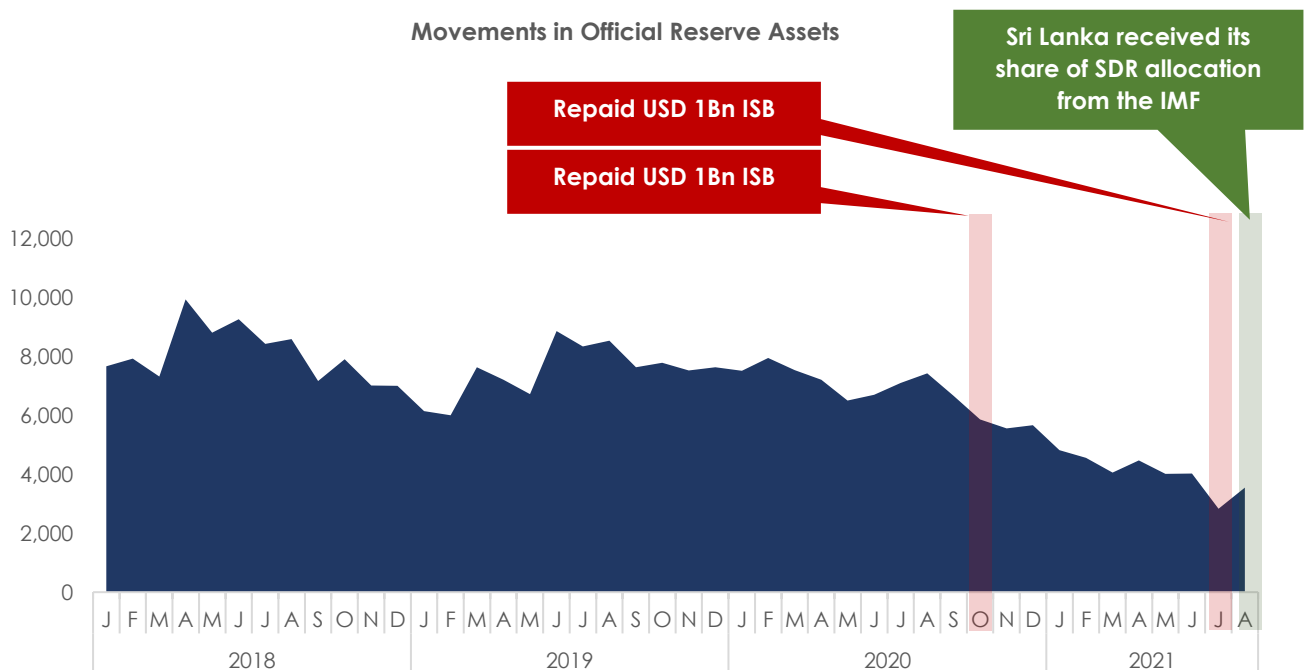
The following illustration clearly shows movements of the Manufacturing and Services PMI during four different COVID-19 waves, Sri Lanka experienced and experiencing at the moment. However, it shows, the dip during the first lockdown was the worst compared to other periods with lockdowns. Except for the first lockdown, the government permitted certain businesses to continue under health guidelines and thus, the dip in economic activities were not worse compared to the first lock down in 2020.



Data Source: CBSL

A Slight Improvement in Official Reserve Assets

As featured in our previous edition, official reserve assets of Sri Lanka reached to a historical low level in July 2021, after repaying a USD 1 Bn worth International Sovereign Bond (ISB). However, in August, official reserve assets picked up slightly by USD 717 Mn, with the receipt of Sri Lanka's share of the global Special Drawing Rights (SDR) allocation by the International Monetary Fund (IMF) and the initial disbursements under the bilateral currency swap arrangement between CBSL and the Bangladesh Bank (BB).



Data Source: CBSL

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FURTHER INSIGHTS- GLOBAL ECONOMY

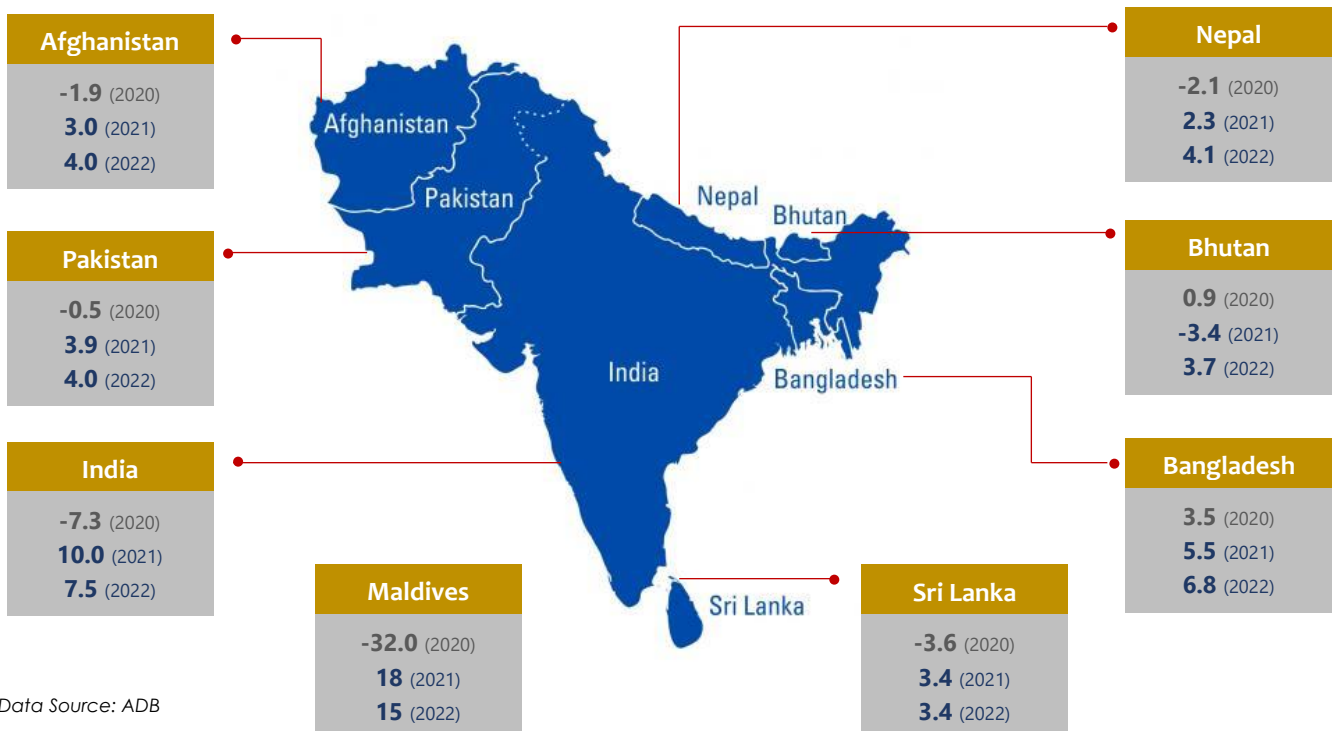
ADB Forecasts a 7.1% Growth in 2021 for Developing Asia

Developing Asia continues to grapple with COVID-19 pandemic. Renewed outbreaks are a cause for concern, amidst uneven progress on vaccination, the recently published Asian Development Outlook report of the Asian Development Bank (ADB) stated. The ADB expects a 7.1% growth for the Developing Asia in 2021 and 5.4% in 2022, supported by a broad recovery in exports. Regional growth paths are diverging, with economies that have successfully contained the pandemic or are making good progress on vaccination programmes are forging ahead, the ADB said.

Several risks cloud developing Asia's outlook, as per the ADB report. The main threat comes from the COVID-19 pandemic, including the emergence of new variants, slower-than-expected vaccine rollouts, and waning vaccine effectiveness. Geo-political tensions, financial turmoil, and disruptions to global supply chains may also undermine the region's growth prospects. As economies recover from the pandemic, medium-term risks will take center stage again, led by extreme weather conditions related to climate change, which are becoming more frequent. Sustainable food production and agricultural systems that are resilient to climate change will be crucial for developing Asia, the report highlighted.

The growth outlook varies across the region. The South Asian sub-region is projected to expand more slowly in 2021 than projected in its April update, but faster growth is expected for 2022. Accordingly, ADB is expecting an 8.8% and 7% growth for South Asian sub-region for 2021 and 2022.

2020 Growth and Latest Growth Projections for South Asian Countries by ADB



Data Source: ADB

China Power Crunch Spreads, Shutting Factories and Dimming Growth Outlook

Widening power shortages in China have halted production at number of factories, while some shops in the northeast operated by candlelight and malls shut earlier as the economic toll of the squeeze mounted. Rationing has been implemented during peak hours in many parts of northeastern China since mid-September.

As per analysts, China's power crunch, caused by tight coal supplies and toughening emission standards, has hurt production in industries across several regions and is dragging the country's economic growth outlook. The power squeeze is unnerving Chinese stock markets at a time when the world's second largest economy is already showing signs of slowing.

The fallout of the power shortage has prompted some analysts to downgrade their 2021 growth outlook. Nomura, a financial service company has revised its growth forecasts for China downward from 8.2% to 7.7% for 2021. The power supply shock in the World's second-largest economy and biggest manufacturer will ripple through and impact global markets" the Nomura stated, warning that global supplies of textiles, toys and machinery parts could be affected.

Source: Reuters

Evergrande Debt Crisis shines light on China Real Estate Bubble

The debt crisis at China Evergrande Group, the world's most indebted property developer, has cast new light on the health of China's real estate market. Condominium prices in the Southern city of Shenzhen are now at 57 times the average annual income, and 55 times that of income in Beijing. Even at the height of Japan's bubble economy in 1990, Tokyo condos were 18 times the average annual income as per Rushi Advanced Institute for Finance.

Investors saw Evergrande's enormous mountain of debt as perhaps insurmountable, which led to a wider market sell-off in both the American and Japanese markets in September. Evergrande is now rushing to sell off assets and businesses. But, even if an immediate collapse was avoided, the cloud hovering over the Chinese real estate market poised to linger, Nikkei Asia stated.

Source: Nikkei Asia

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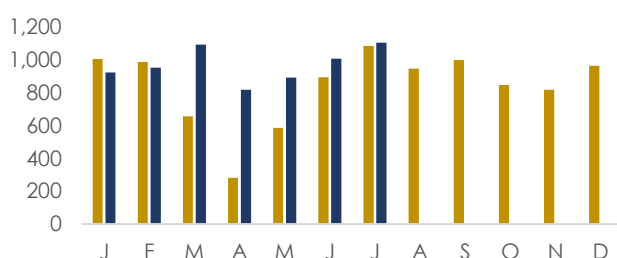
DASHBOARD

EXTERNAL SECTOR PERFORMANCE – JULY 2021

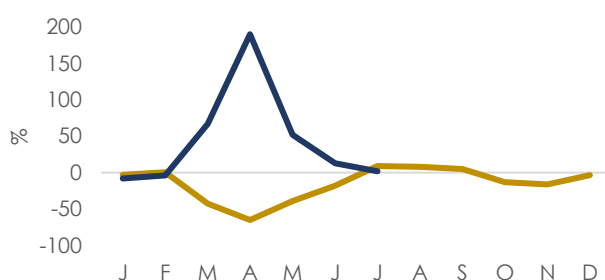
Legend: ■ 2020 ■ 2021 All the numbers are in USD Mn otherwise specified.

EXPORTS

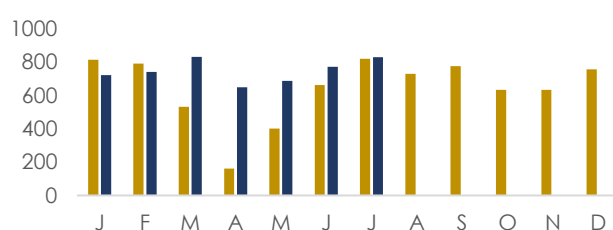
EXPORTS INCREASED BY 1.7% Y-O-Y



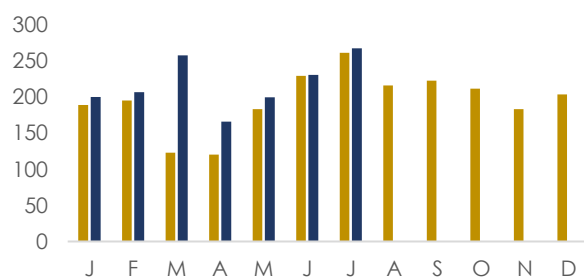
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 1.1% Y-O-Y

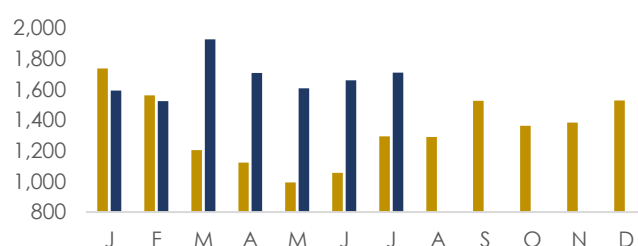


AGRICULTURAL EXPORTS GREW BY 2.3% Y-O-Y

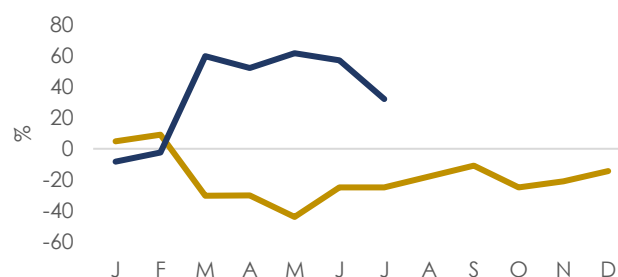


IMPORTS

IMPORTS INCREASED BY 32.2% Y-O-Y



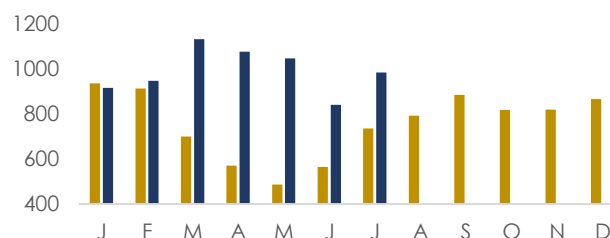
Y-o-Y CHANGE IN IMPORTS



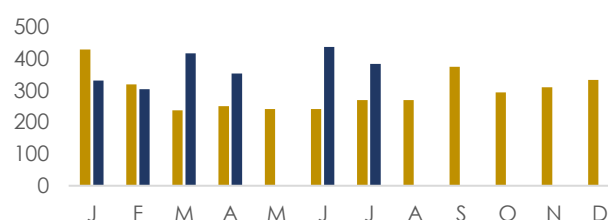
CONSUMER GOODS IMPORTS INCREASED BY 18.3% Y-O-Y



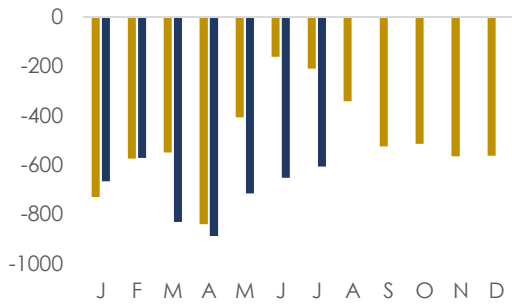
INTERMEDIATE GOODS PICKED UP BY 33.8% Y-O-Y



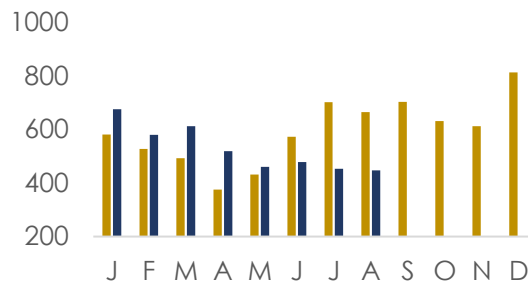
INVESTMENT GOODS IMPORTS INCREASED BY 42.4% Y-O-Y



TRADE BALANCE WIDENED BY 190% Y-o-Y



WORKERS' REMITTANCES DECLINED BY 33% Y-o-Y (AUG)

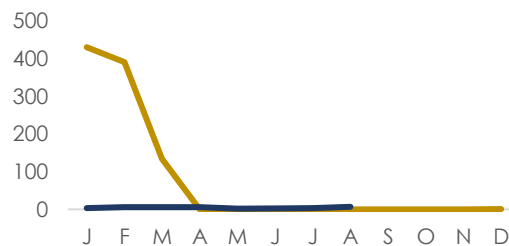


27%
of the total import bill covered by Remittances (July 2021)

5,040 TOURISTS ARRIVED IN AUGUST 2021



USD 3.3 MN EARNED IN JULY 2021 FROM TOURISM INDUSTRY



KEY INTEREST RATE INDICATORS

INTEREST RATES

Standing Deposit Facility Rate (SDFR): 5.0%
Standing Lending Facility Rate (SLFR): 6.0%

