

MONTHLY ECONOMIC UPDATE

February 2022

EIU



3
KEY INSIGHTS

Trade Deficit Expanded further in 2021 despite a Record Setting Year for Exports

Inflation rises further in January 2022; Marginal increase in FDI during 2021

Global Growth is expected to Decelerate in 2022

SRI LANKAN ECONOMY

Trade Deficit Widened in 2021: Despite the record performance in exports, the trade account balance widened by around 35% to over USD 8 Bn in 2021. The highest ever monthly trade deficit of USD 1.08 Bn recorded during Dec 2021 was one of the key factors for the overall trade deficit growth.

PMI Expanded in January 2022: Both the manufacturing and services Purchasing Managers' Indices (PMIs) continued to expand in January 2022 as well.

Tourism Recovery Continues in early 2022: Sri Lanka received 82,327 tourist arrivals in January 2022 and earned USD 261 Mn which is remarkably higher than that the amount earned in the same month of last year.

Marginal Increase in FDI inflows in 2021: During the first nine months of 2021, Sri Lanka received USD 558 Mn as FDIs which is slightly higher than USD 555 Mn received during the same period of 2020. Highest inflows were received for telephone and telecommunication networks followed by housing and property developments.

Inflation Rises Further in January 2022: CCPI headline and core inflation accelerated to 12.2% and 9.9% respectively in January 2022 on a Y-o-Y basis while national inflation rose to 16.8%.

Budget Deficit widened by 10%: During Jan-Nov of 2021, overall budget deficit increased to Rs. 1,709 Bn, which is 10% higher than the deficit recorded in the same period of 2020.

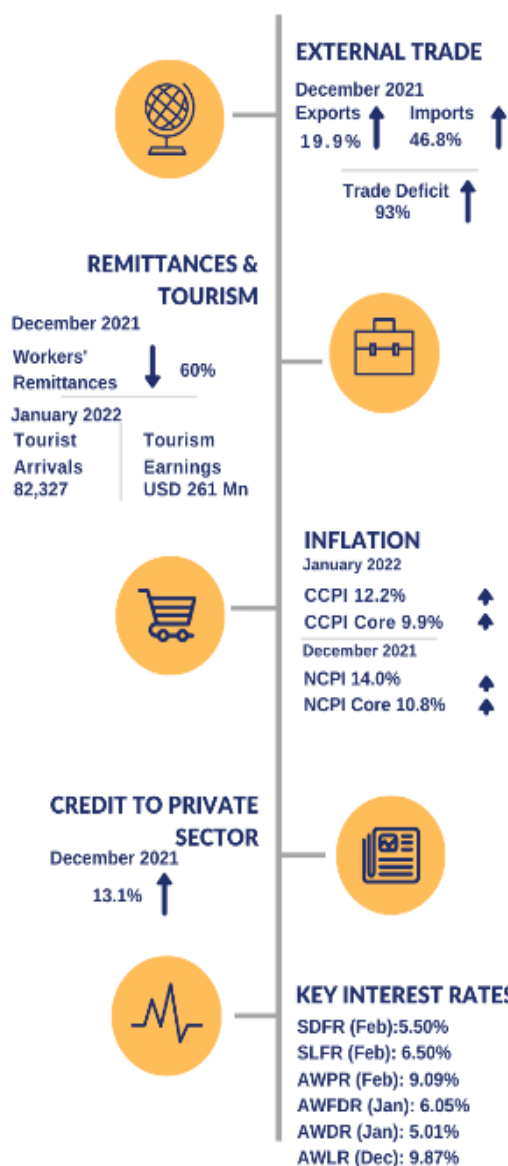
GLOBAL ECONOMY

Global Growth is expected to Decelerate in 2022-IMF: The global economy is expected to decelerate in 2022 as the new Omicron variant spreads and countries reimpose mobility restrictions.

Global Trade is expected to Slow as Demand Moderates: After reaching 9.5% in 2021, the World Bank is expecting that the global trade growth will slow to 5.8% in 2022 and to 4.7% in 2023, as demand moderates.

Market volatile over Russia-Ukraine Crisis: Global markets have been volatile over the crisis brewing between Russian and Ukraine. Oil prices were fluctuating during the last few weeks edging close to USD 100 a barrel.

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

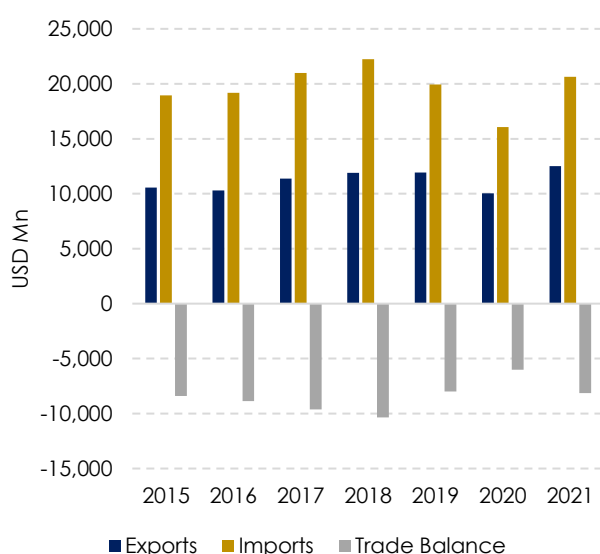
2021: A Record Setting Year for Exports, However, Trade Deficit Widened due to High Imports

2021-year end export figure of USD 12.5Bn showed a record setting progress suggesting a strong recovery in the export sector, as it exceeded the previous high earnings recorded in 2019. Export grew by 24.4% over the Jan – Dec 2021 period. Furthermore, the total value of exports exceeded USD 1 Bn for the 7th consecutive month in December 2021, with only 4 months in 2021 recording less than that. Except for few categories almost all the export products have shown double digit growth not just in the Month of December, but also throughout the period since January, continuing the overall healthy performance. Country's major exports continued to drive the export earnings, with Apparel, Tea and Rubber Products showing growth figures of 22.9%, 6.7% and 33.6% respectively for 2021.

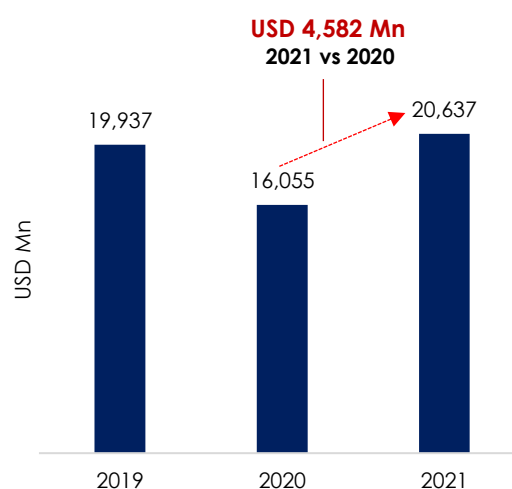
Despite the continued import restrictions, Imports increased further in Dec 2021, with around 27% growth compared to Nov 2021 and around 47% compared to Dec 2020, which is predominantly driven by the increase in Intermediate goods imports with an increase of around 35.6% during the year than that of 2020. As a result, the total imports have increased by 28.5% in 2021, which may have undermined the record performance of the export sector. Among the import categories, consumer goods shows the least growth over the year, mainly supported by the continuing restrictions over vehicle imports, which could have added over USD 1 Bn the total import bill given average prior to the pandemic. (2015-2019). Rising global commodity prices had a heavy impact on the import bill of Sri Lanka in 2021. More than 80% of the import growth during the year was driven by increase in global commodity prices, pickup in export demand and resumption of infrastructure activities.

Despite the record performance in exports, the trade account balance widened by around 35% to over USD 8 Bn in 2021. The highest ever monthly trade deficit of USD 1.08 Bn recorded during Dec 2021 was one of the key factors for the overall trade deficit growth.

Summary of External Trade Performance



Total Import Bill

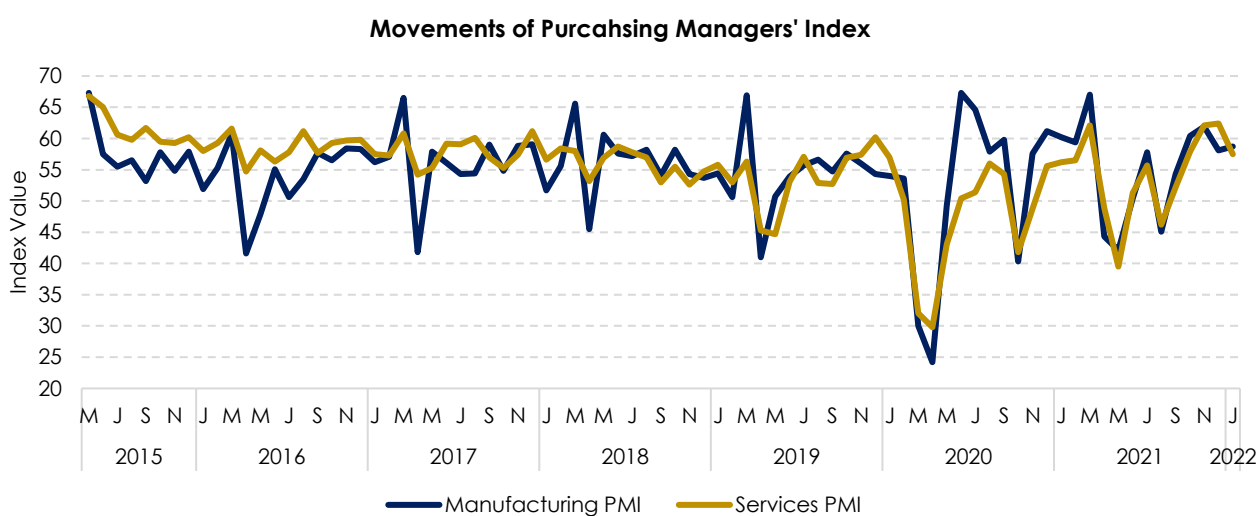


Data Source: Central Bank of Sri Lanka

PMI Expanded in January 2022

Both the manufacturing and services Purchasing Managers' Indices (PMIs) continued to expand in January 2022 as well. Manufacturing PMI improved in January 2022, recording an index value of 58.7 with an increase of 0.6 index points in comparison to December 2021. This improvement was mainly attributable to the improvements recorded in New Orders, Production together with the recovery in Employment during the month in consideration. Further, Stock of Purchases increase while Suppliers' Delivery Time lengthened on a m-o-m basis.

Services sector PMI registered an index value of 57.5 indicating a continuous expansion in the services sector at the start of 2022. This increase was underpinned by the increase in New Businesses, Business Activities, Employment and Expectations for Activity sub-indices, as per the Central Bank, the compiler of the PMI. New Businesses rose further in January 2022 compared to December 2021, particularly with the improvements observed in transportation, professional services, other personal activities and education sub-sectors.



Data Source: Central Bank of Sri Lanka

Impact of the First Wave of COVID-19 on Employment: Survey Results of the DCS

Department of Census and Statistics (DCS) released a report recently on "the Impact of First Wave of COVID-19 on Employment in Sri Lanka". The report was compiled based on results of a survey conducted by the national statistics office and the sample size of the survey was 6,440 housing units and it represents the whole country, and able to provide reliable estimates down to residential sector levels called urban, rural and estate, according to the Department.

Key findings related to paid employment and self-employment are listed below, which we think the corporate sector will be interested in.

Impact of COVID – Paid Employment

- **318,759** – The number of People quitted or were laid-off during the during the 1st wave of the pandemic. Of the total work force this was around 3.5% Quitted the Job, while another 3.5% faced layoffs.
- **565,593** – The number of Employees who had to temporarily stop the work without any pay.
- **85.7%** - of the employees who temporary or permanently stopped or lost their job were from Private Sector.
- **2.7 million** - paid employees received less than usual salary or did not receive the salary at all.

- **247,956** – no. of Male employees who had lost or quitted the job, compared to 70,804 Female employees who faced a similar situation.
- **18.2%** - of the total female employees had to work from home, compared to 8.8% of the male employees. Suggesting the increased nature of “double-burden” on female employees, having to manage activities at home along with work duties.
- On Average lesser number of employees that did more physical contact occupation had temporary not reported to work, compared to the employee that did less physical contact occupations.

Impact of COVID – Self Employment

- **64.3%** - of the Total Agricultural Self-employed persons could work as usual during lockdowns after 20th of March 2020.
- **201,884** – persons could not sell / got completely damaged their agricultural products
- **1.1 mn** – Non-agricultural self-employed people had to temporary stop their occupation with a further **0.2 mn** had to close.
- **More Female Self-Employed** workers had difficulties related to raw materials, input, and capital and when delivering products / services to customers.
- **72.2%** - of Technical and Associate professionals self-employed person had to temporary stop their work, the highest among the non-agricultural occupational groups.
- **425,799** – Non-agricultural self-employed workers did not receive any income during the period
- **1.1 Mn** – Participant of the Labor Force had started new employment during the period of which around 83% had started Agricultural self-employment.

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FURTHER INSIGHTS- GLOBAL ECONOMY

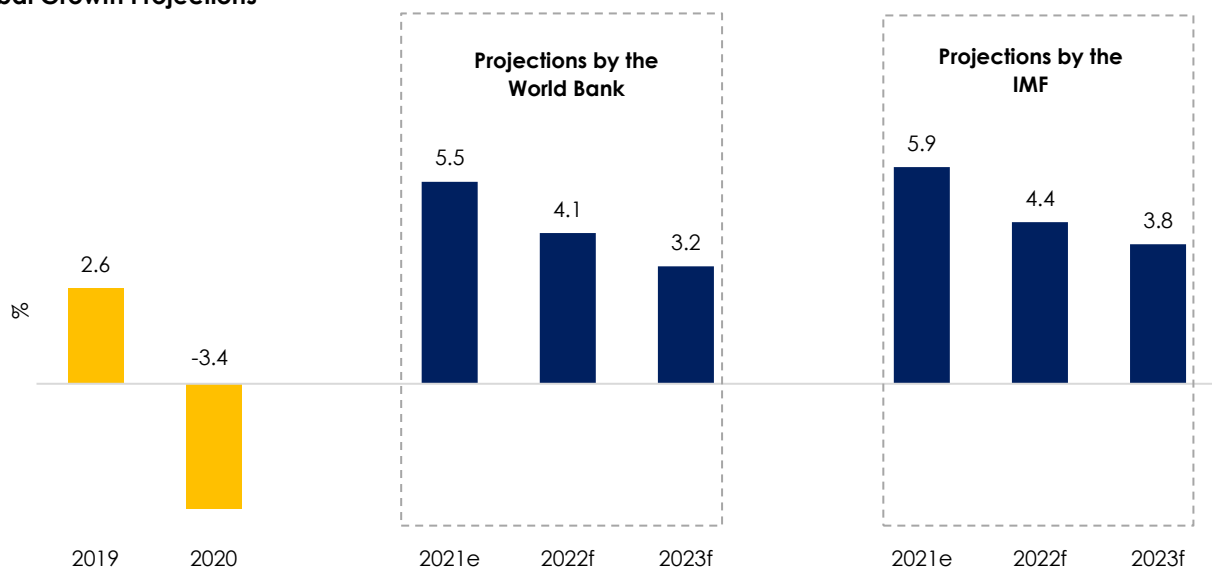
Global Growth is expected to Decelerate in 2022

The global economy is expected to decelerate in 2022 as the new Omicron variant spreads and countries reimpose mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the US and many EMDEs. The ongoing retrenchment of China's real estate sector and slower than-expected recovery of private consumption also have limited growth prospects, according to the IMF.

Growth of Advanced Economies in 2022 is also forecasted to decelerate as the unwinding of pent-up demand only partly cushions a pronounced withdrawal of fiscal policy support. As per the World Bank, growth is expected to moderate further in 2023 as pent-up demand is exhausted. Despite the slowdown, the anticipated pace of expansion will be sufficient to return aggregate advanced economy output to its pre-pandemic trend in 2023 and thus complete its cyclical recovery. The World Bank, is expecting a solid rebound for investment, based on sustained aggregate demand and broadly favourable financing conditions.

Growth of Emerging Markets and Developing Economies (EMDEs) are expected to slowdown in 2022 as the ongoing withdrawal of macroeconomic support, together with COVID-19 flare-ups amid the spread of the Omicron variant and continued vaccination obstacles, weigh on the recovery of domestic demand. In one-third of EMDEs, many of which are tourism-reliant economies or small states, output of 2022 are expected to remain lower than 2019, the World Bank stated.

Global Growth Projections



Data Source: The World Bank, International Monetary Fund

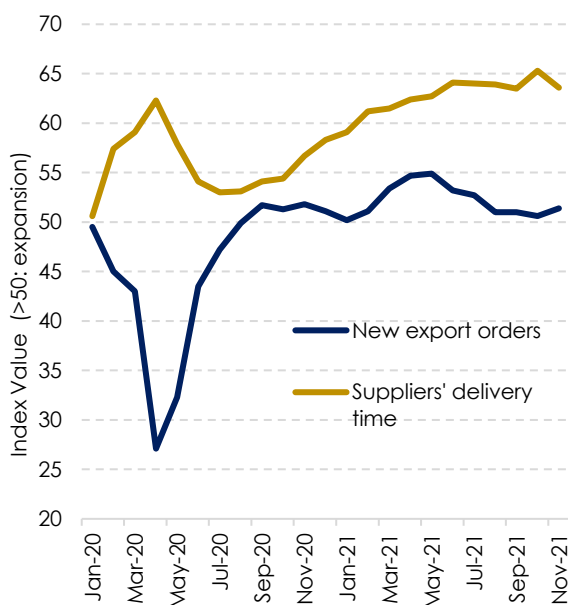
Global Trade is expected to Slow, as Demand Moderates

Global trade has rebounded in tandem with global economic activity. The recovery has been swift for goods trade. Services trade has firmed; however, it is still lagging, with travel services particularly subdued, the IMF reported. Depressed tourism flows have weighted on activity in tourism-reliant economies, including developing states. The recovery in global trade has reflected a rotation of global demand towards highly trade intensive manufactured goods, especially durable goods.

The bottlenecks that have propagated through global supply chains have led to a surge in the backlog of orders for traded goods and to record high shipping prices. At the same time, inventories have been depleted by businesses seeking to meet the rebound in demand.

After reaching 9.5% in 2021, the World Bank is expecting that the global trade growth will slow to 5.8% in 2022 and to 4.7% in 2023, as demand moderates. International travel is likely to remain subdued in the near term but gradually recover over the forecast horizon, supported by improvements in international mobility as vaccination proceeds. Downside risks to the global trade outlook include, in the near term, worsening supply bottlenecks due to the Omicron-driven pandemic surge, and in the longer term, rising protectionism, as per the World Bank.

Global Trade Indicators



**Movement of Global Commodity Prices
(Global Price Index for All Commodities)**



Data Source: The World Bank, International Monetary Fund

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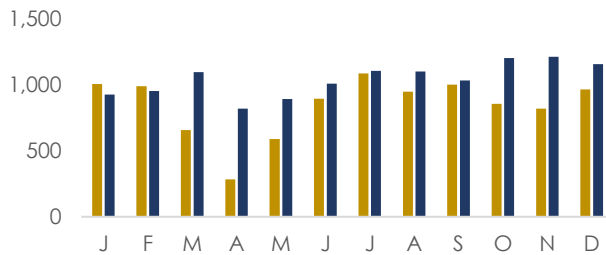
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-DECEMBER 2021

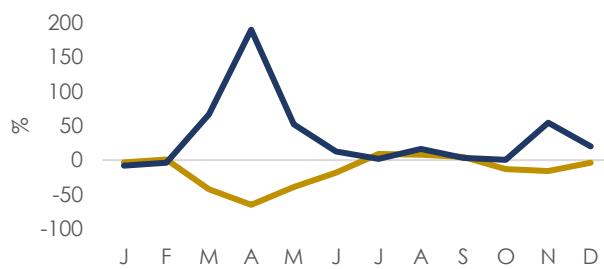
Legend: ■ 2020 ■ 2021 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

EXPORTS INCREASED BY 19.9% Y-O-Y



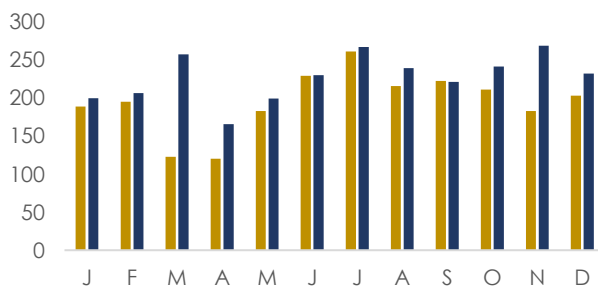
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 21.3% Y-O-Y

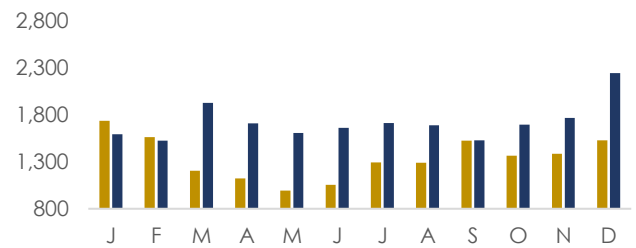


AGRICULTURAL EXPORTS INCREASED BY 14.3% Y-O-Y

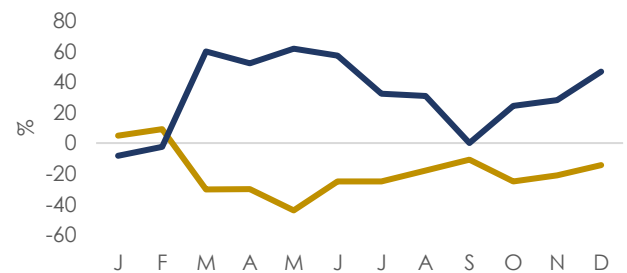


IMPORTS

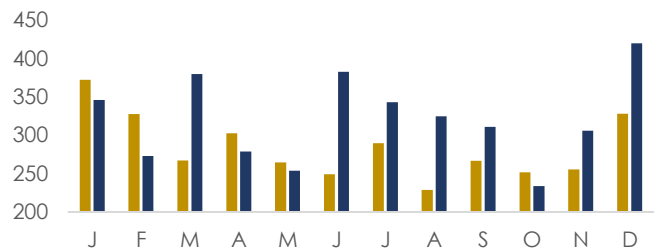
IMPORTS INCREASED BY 46.8% Y-O-Y



Y-o-Y % CHANGE IN IMPORTS



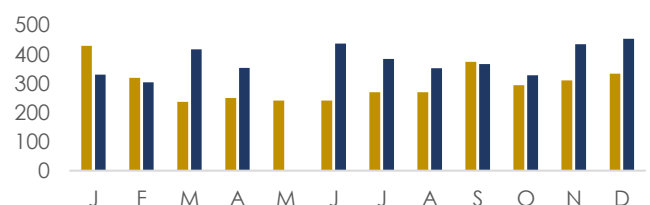
CONSUMER GOODS IMPORTS UP BY 27.9% Y-O-Y



INTERMEDIATE GOODS ROSE BY 58.2% Y-O-Y



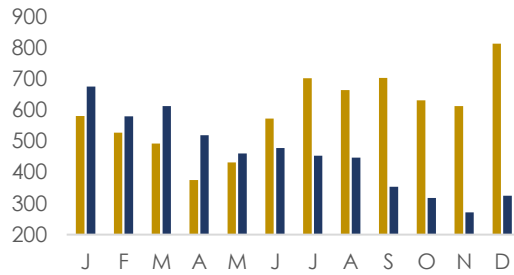
INVESTMENT GOODS IMPORTS INCREASED BY 36.1% Y-O-Y



TRADE BALANCE WIDENED BY 93% Y-o-Y

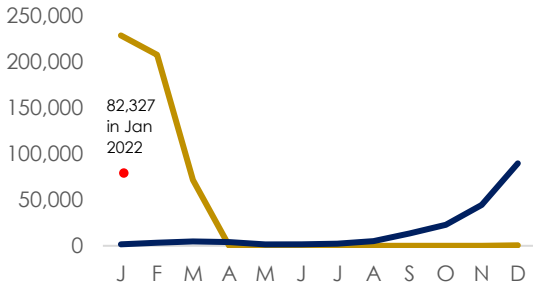


WORKERS' REMITTANCES SLIPPED BY 60% Y-o-Y

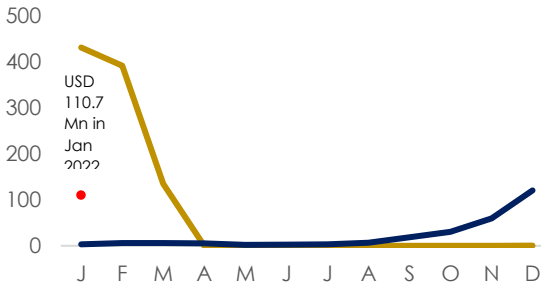


15%
of the total import bill covered by Remittances (Dec 2021)

82,327 TOURISTS WERE VISITED IN JANUARY 2022



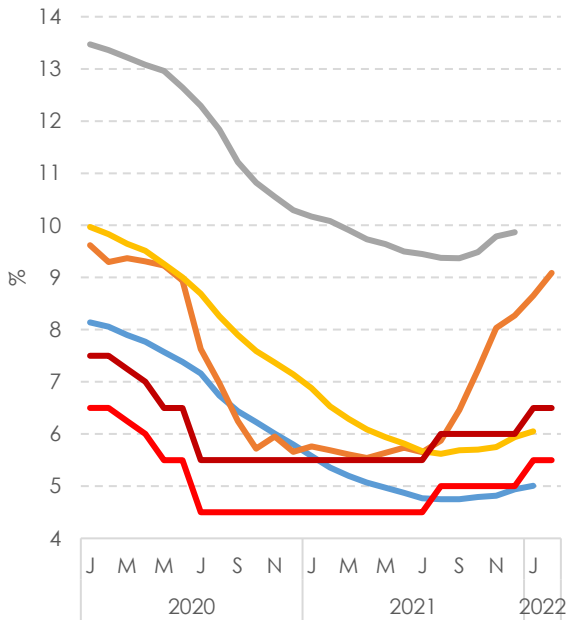
USD 261 MN EARNED FROM TOURISM DURING 2021



KEY INTEREST RATE INDICATORS

INTEREST RATES

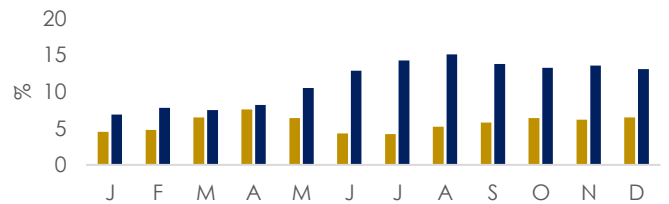
Policy Rates increased to,
Standing Deposit Facility Rate (SDFR): 5.50%
Standing Lending Facility Rate (SLFR): 6.50%



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

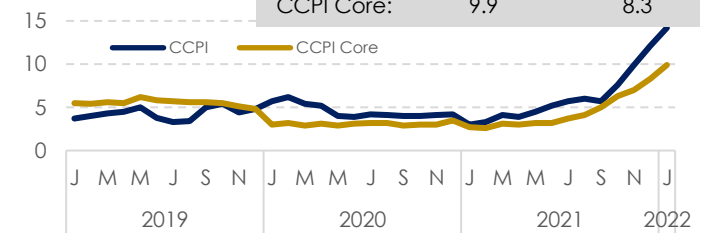
Source: CBSL

PRIVATE SECTOR CREDIT GROWTH



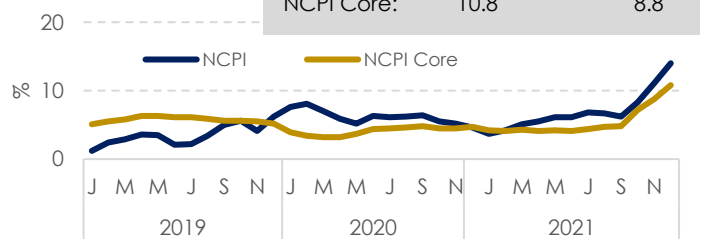
INFLATION: CCPI (BASE 2013) Y-O-Y

	Jan '22	Dec '21
CCPI:	12.2	12.1
CCPI Core:	9.9	8.3



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

	Dec '21	Nov '21
NCPI:	14.0	11.1
NCPI Core:	10.8	8.8



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