

# MONTHLY ECONOMIC UPDATE

January 2023

EIU



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## KEY INSIGHTS

**Sri Lanka's Economy Contracts 7.1% during the first nine months of 2022; PMI shows mix signs of recovery**

**Sri Lanka's Average Headline Inflation for 2022**

CCPI: 45.5%

NCPI: 49.9%

**The Global Economy is expected to Decelerate by 1.7% in 2023: World Bank**

## SRI LANKAN ECONOMY

**7.1% Contraction during the first nine months of 2022:** The economy recorded a contraction of 7.1%, which is steeper than the contraction recorded during the pandemic year, 2020. All three economic activities contracted during the first nine months with the largest fall reported in the industry sector.

**PMI shows mix signs for economic recovery:** The PMI indices recorded an expansion in Services activities while manufacturing continued to contract in December 2022.

**Disinflation as index decline:** Inflation recorded a decline in December for the third consecutive month to end 2022 with a 45.5% and 49.9% average inflation for the CCPI and NCPI (headline), respectively.

**Remittances inflows in December registered the highest growth for 2022:** Inflows of workers' remittances recorded a remarkable 46% Y-o-Y growth in December and the total inflows received by Sri Lanka amounted to USD 3,789 Mn, which is still lower than the total inflows of 2021.

**Tourism Industry is in the recovery path:** Tourist arrivals surpassed the 700,000 mark in 2022. In comparison to 2021, arrivals increased by four times while earnings have doubled in 2022.

**Labour market developments in Q2-2022:** The labour force participation rate is estimated at 50.1%, while unemployment rate was estimated at 4.6% for the Q2 of 2022.

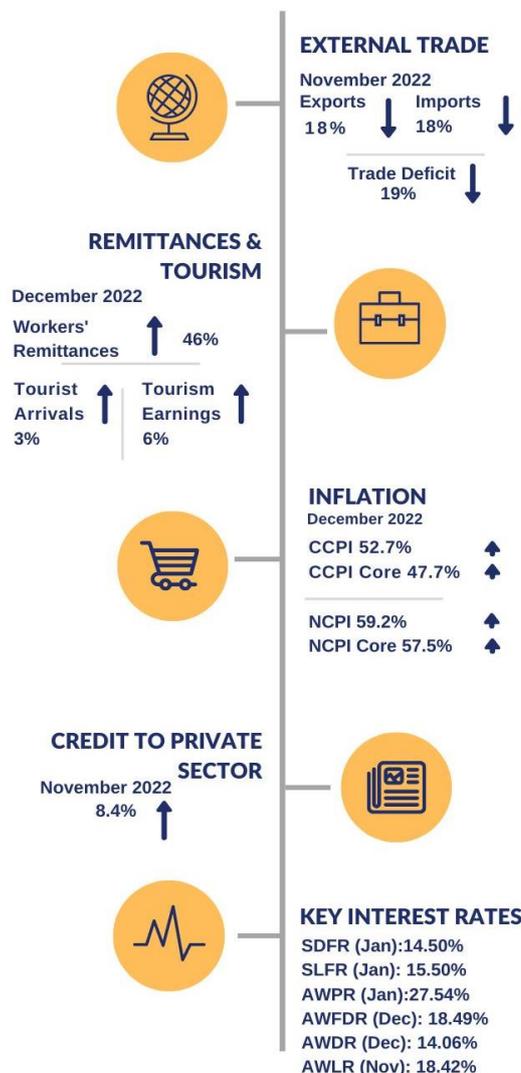
## GLOBAL ECONOMY

**Global economy is expected to Decelerate 1.7% in 2023:** World Bank is projecting a 1.7% contraction in the global economy for 2023, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions and continued disruptions from Russia's invasion of Ukraine.

**Global Business Activity Contracts for Fifth Successive Month as Demand Downturn Accelerates-S&P Global:** Global business activity fell for a fifth consecutive month in December, with the rate of decline moderating slightly amid improved supply conditions but still rounding off the worst quarter since 2009, barring lockdown months.

## 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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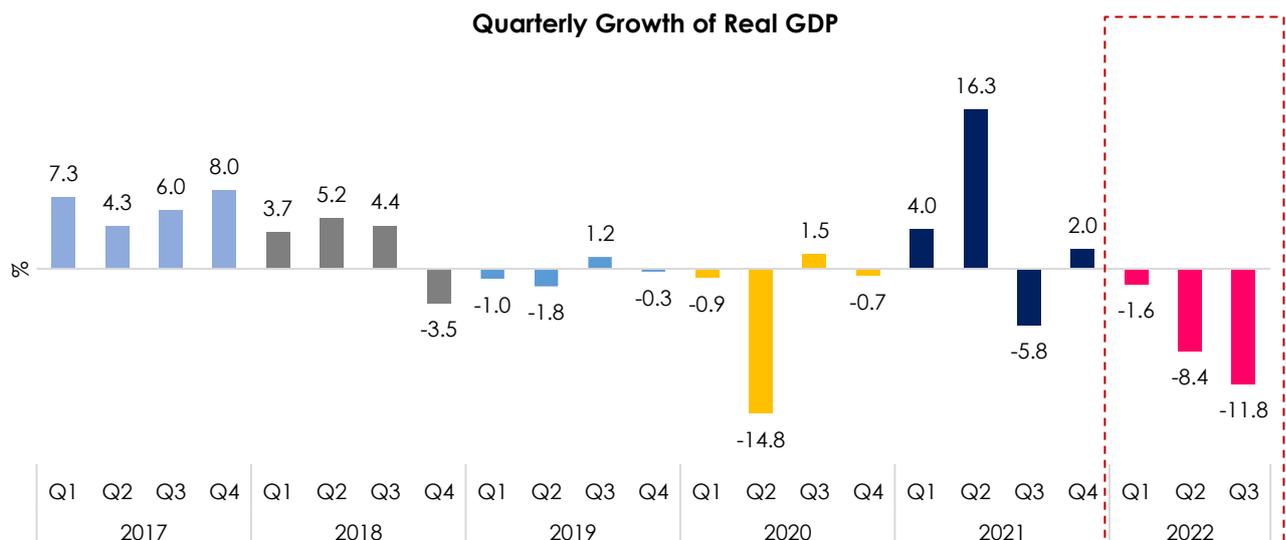
## FURTHER INSIGHTS- SRI LANKAN ECONOMY

### 11.8% Contraction Recorded for Q3-2022 and 7.1% Contraction for the First Nine Months

The Sri Lankan economy recorded a contraction of 11.8% during the third quarter of 2022. Accordingly, the GDP for the period under concern has declined to Rs. 2,884 billion from Rs. 3,269 billion (at constant prices) recorded in the second quarter of the same year. During the quarter under concern, all three major key economic activities; Agricultural, industrial and Services activities have recorded negative rates of 8.7%, 21.2% and 2.6% respectively, as per the National Statistics Office.

Even though the influence of the COVID-19 pandemic was comparatively low, during the third quarter of 2022, several other factors highly affected the functioning of the economy of the country. The factors include accelerating inflation, power outages, high interest rate environment, shortage of inputs, high prices of inputs, problems associated with fertilizer usage and agrochemical sectors, and increase of cost of logistics have directed the economy towards this remarkable decline.

Considering the first nine months of 2022, the economy recorded a contraction of 7.1%, which is steeper than the contraction recorded during 2020, when the country was suffered severely from the COVID-19 pandemic. All three economic activities contracted during the first nine months with the largest fall reported in the industry sector, which was 11.9%. Agriculture and Services sectors contracted by 8% and 1.3% respectively during the first nine months of 2022.





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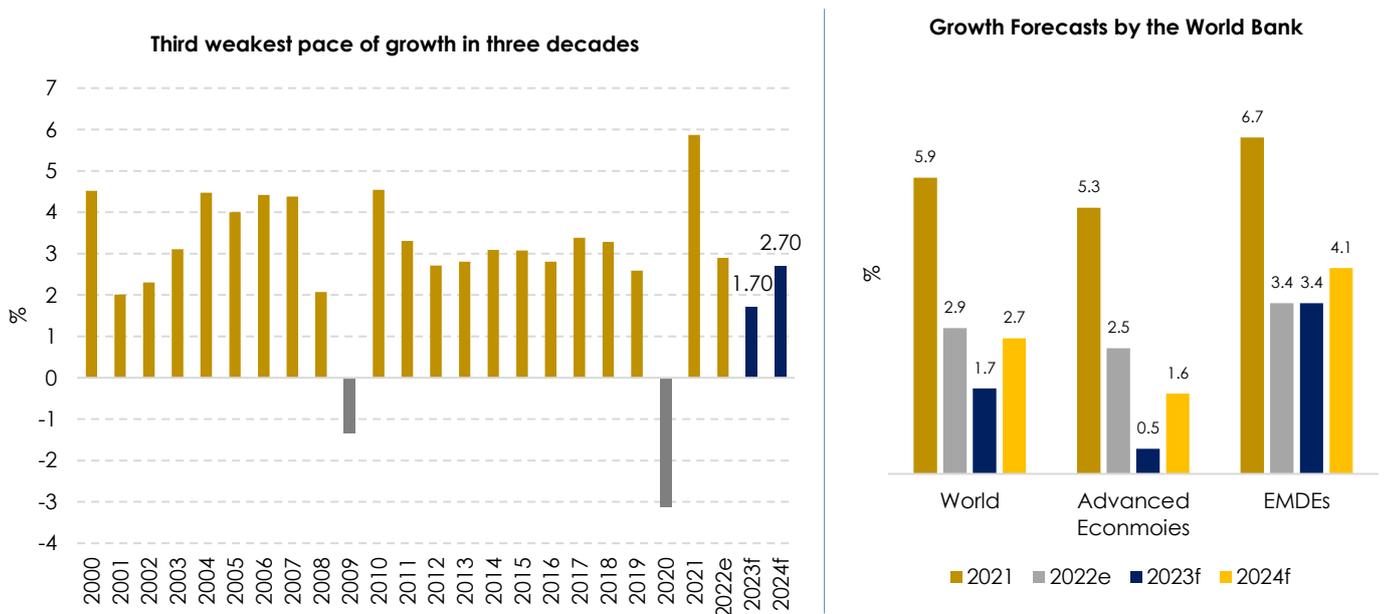
## FURTHER INSIGHTS- GLOBAL ECONOMY

### Global Economy is expected to Decelerate to 1.7% in 2023: The World Bank

The global growth is expected to decelerate sharply to 1.7% in 2023, the third weakest pace of growth in nearly three decades, overshadowed only by the global recessions caused by the pandemic and the global financial crisis, stated by the World Bank in its latest report on World Economic Prospectus, January 2023 update. This 1.7% growth is 1.3 percentage points below the forecast made by the World Bank in its June 2022 update, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions and continued disruptions from Russia's invasion of Ukraine.

Investment growth in emerging market and developing economies (EMDEs) is expected to remain below its average rate of the past two decades. Further adverse shocks could push the global economy into yet another inflation, the World Bank highlighted. Small states are especially vulnerable to such shocks because of their resilience on external trade and financing, limited economic diversification, elevated debt, and susceptibility to natural disasters, the report stated.

In advanced economies, conditions have deteriorated sharply, owing to declining confidence alongside high inflation and rapid monetary policy tightening. Thus, growth in advanced economies is forecast to slow from 2.5% in 2022 to 0.5% in 2023.

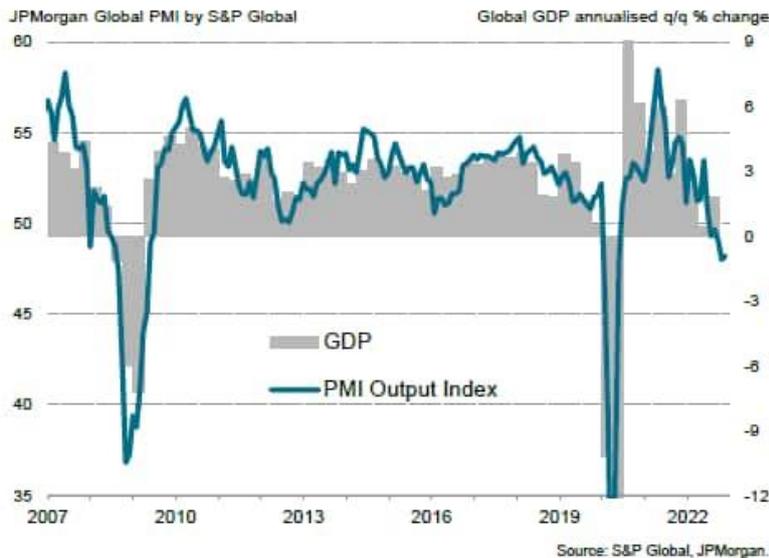


Data Source: The World Bank

## Global Business Activity Contracts for Fifth Successive Month as Demand Downturn accelerates

Global business activity fell for a fifth consecutive month in December, with the rate of decline moderating slightly amid improved supply conditions but still rounding off the worst quarter since 2009, barring lockdown months, the S & P says based on the J P Morgan Global Composite Purchasing Managers' Index (PMI).

### JP Morgan Global composite PMI

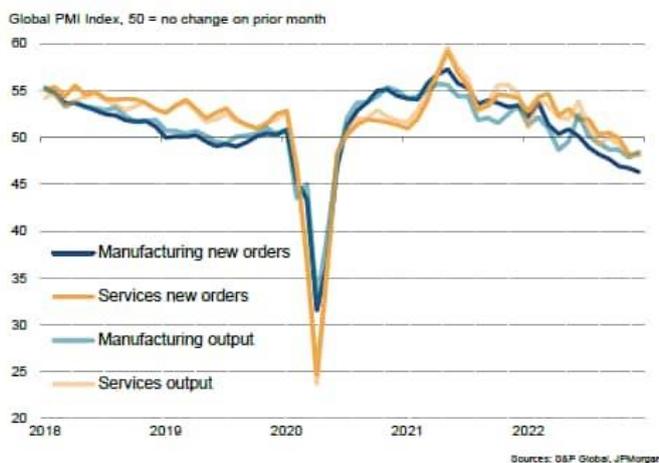


What's more, with new orders falling at an increased rate, the underlying demand environment appears to have deteriorated further. Price pressures meanwhile continued to moderate, pointing to a marked cooling of global inflationary pressures.

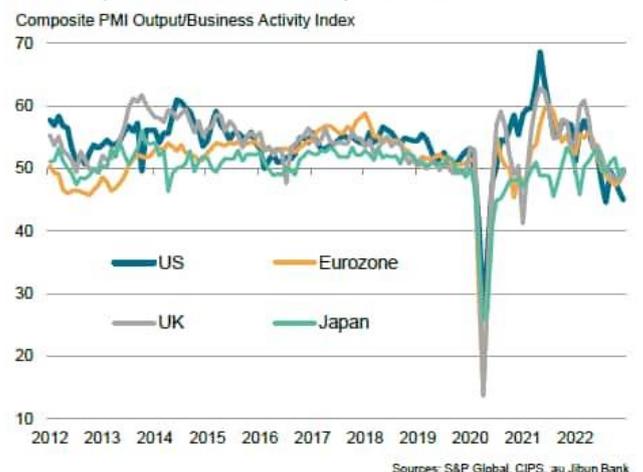
The steepest downturn, and commensurate calming of inflation- has been seen in the US. In Europe, the pace of decline moderated, fueled in part of few energy market worries. China's decline also slowed, owing to fewer COVID-19 restrictions, says the S & P.

Considering the outlook, business confidence has lifted slightly owing to the changing situations in China and improving global supply-side conditions, but the mood generally remains subdued due to worries over higher interest rates and the possibility of further demand in the months ahead.

### Global output and new orders



### Developed world PMI output indices



Data Sources: S & P Global, J P Morgan

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## DASHBOARD

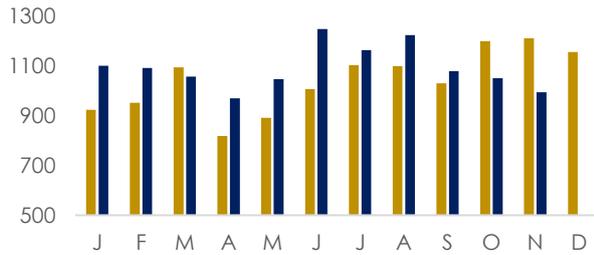
### EXTERNAL SECTOR PERFORMANCE-NOVEMBER 2022

Legend: ■ 2021 ■ 2022

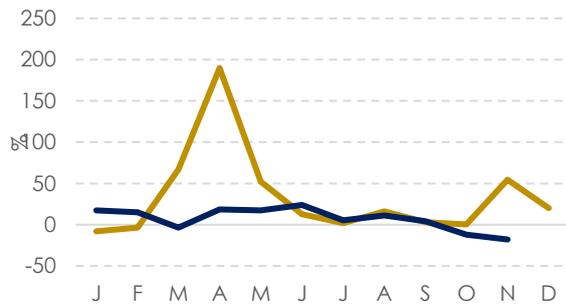
All the numbers are in USD Mn unless otherwise specified.

### EXPORTS

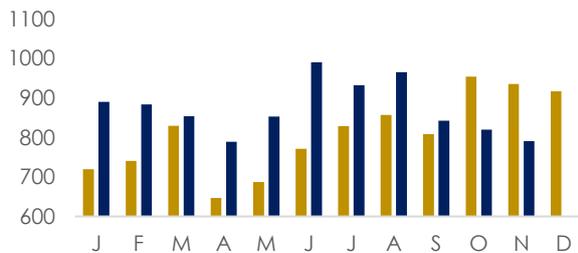
#### EXPORTS DROPPED BY 18% Y-O-Y



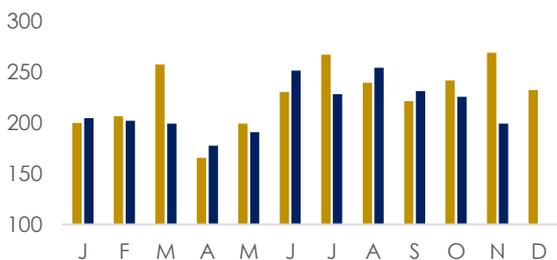
#### Y-o-Y % CHANGE IN EXPORTS



#### INDUSTRIAL EXPORTS DECLINED BY 15% Y-O-Y

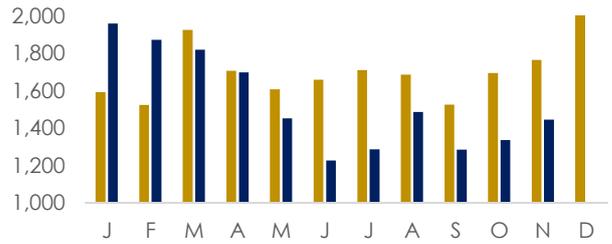


#### AGRICULTURAL EXPORTS DROPPED UP BY 26% Y-O-Y

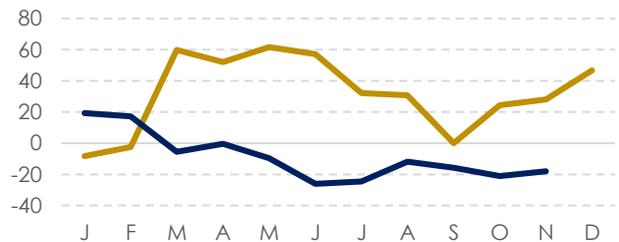


### IMPORTS

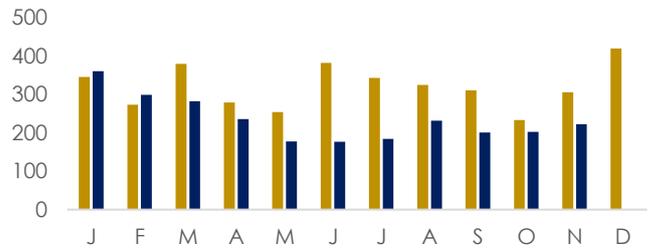
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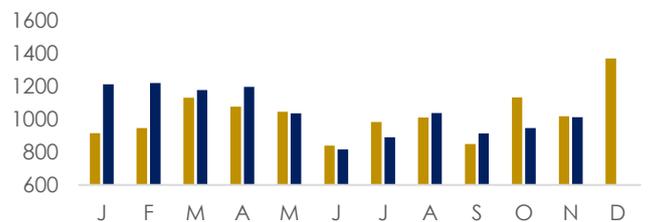
#### Y-o-Y % CHANGE IN IMPORTS



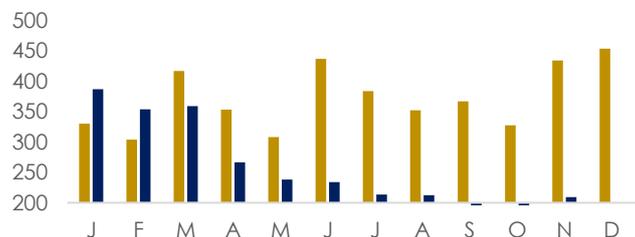
#### CONSUMER GOODS IMPORTS DROPPED BY 27% Y-O-Y



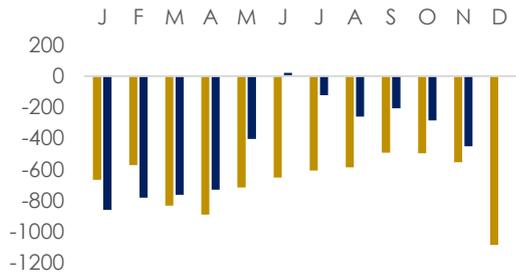
#### INTERMEDIATE GOODS DECLINED BY 0.5% Y-o-Y



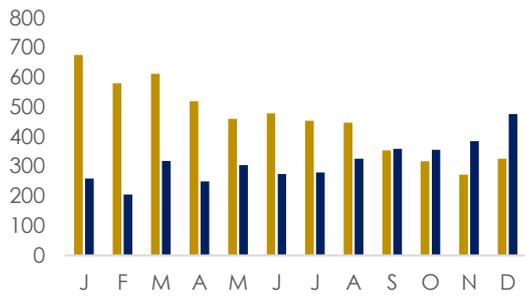
#### INVESTMENT GOODS DECLINED BY 52% Y-o-Y



**TRADE DEFICIT NARROWED BY 19% Y-o-Y**

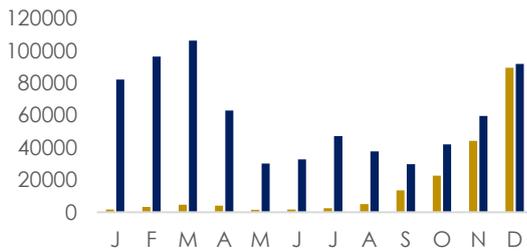


**WORKERS' REMITTANCES INCREASED BY 46% Y-o-Y (Dec-2022)**

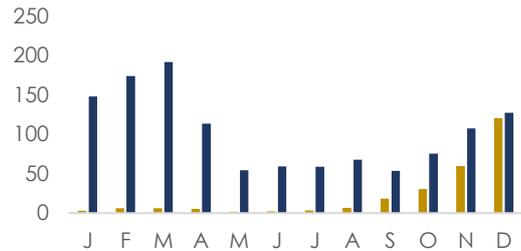


**33%**  
of the total import bill covered by Remittances (Nov 2022)

**3% INCREASE IN TOURIST ARRIVALS IN DECEMBER Y-o-Y**



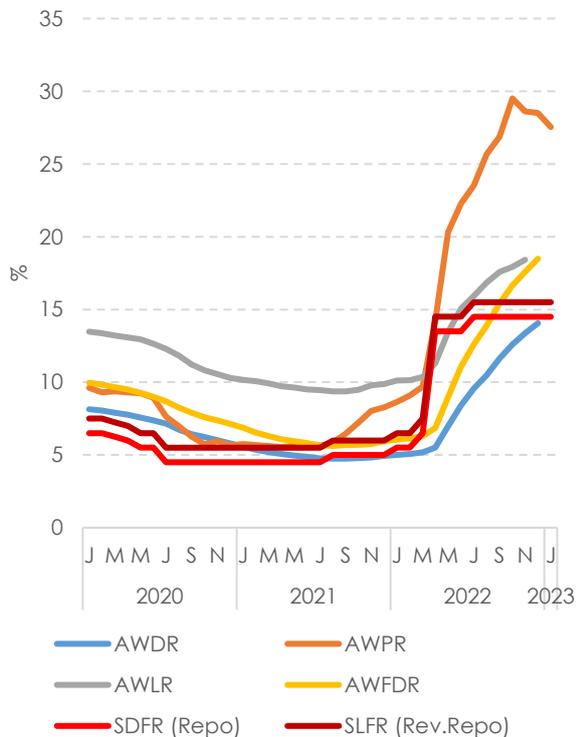
**6% INCREASE IN TOURISM EARNINGS IN DECEMBER Y-o-Y**



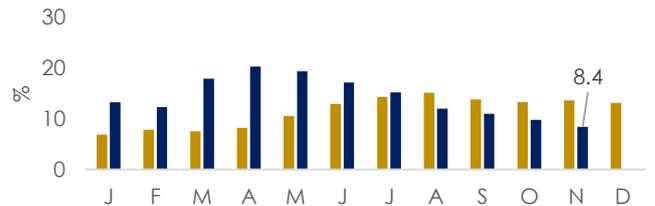
**KEY INTEREST RATE INDICATORS**

**INTEREST RATES**

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

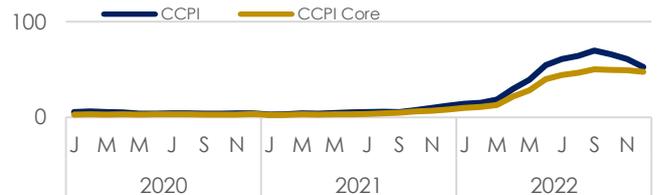


**PRIVATE SECTOR CREDIT GROWTH**



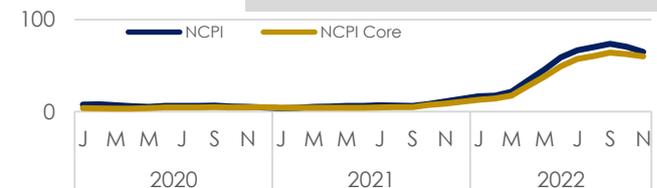
**INFLATION: CCPI (BASE 2013) Y-o-Y**

	Dec '22	Nov '22
CCPI:	52.7	61.0
CCPI Core:	47.7	49.4



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

	Dec '22	Nov '22
NCPI:	59.2	65.0
NCPI Core:	57.5	60.1



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