

MONTHLY ECONOMIC UPDATE

June 2022

EIU



3 KEY INSIGHTS

World Bank expects a significant contraction in Sri Lanka's growth for 2022; Q1 GDP records a -1.6%

Budget Deficit Expanded by 21% in Q1-2022 despite rise in revenue

Global Growth Forecasts Revised Downward by both the World Bank and IMF citing Ukraine Crisis

SRI LANKAN ECONOMY

GDP Contracts in Q1-2022: Compiled under the new base year of 2015 compared to 2010 by the Department of Census and Statistics, Sri Lanka's economy contracted by 1.6%. Only the services sector grew by 0.7% compared to a contraction of 6.8% and 4.7% for agriculture and industry sector, respectively. The economy slowed due to the forex crisis, higher level of inflation and unavailability of goods.

World Bank Forecasts Sharp Contraction in 2022: Considering the highly uncertain economic situation in the country, the World Bank downgraded Sri Lanka's growth forecast to -7.8% in 2022 from estimated 3.7% in 2021.

Favorable External Sector Performance in April 2022: During April 2022, exports earnings picked up by 18.5% while imports declined marginally by 0.5%. As a result, the trade deficit recorded a notable 18% contraction on a Y-o-Y basis.

Subdued Performance of PMI in May 2022: Purchasing Managers' indices activities indicated a subdued performance in May 2022 by recording 50.3 and 42.4 index points for manufacturing and services sectors respectively.

Inflation hits a record high in May: CCPI headline inflation surged to a record of 39% in May and at the same period, NCPI headline inflation increased to 45.3% amidst continuous food and fuel shortages.

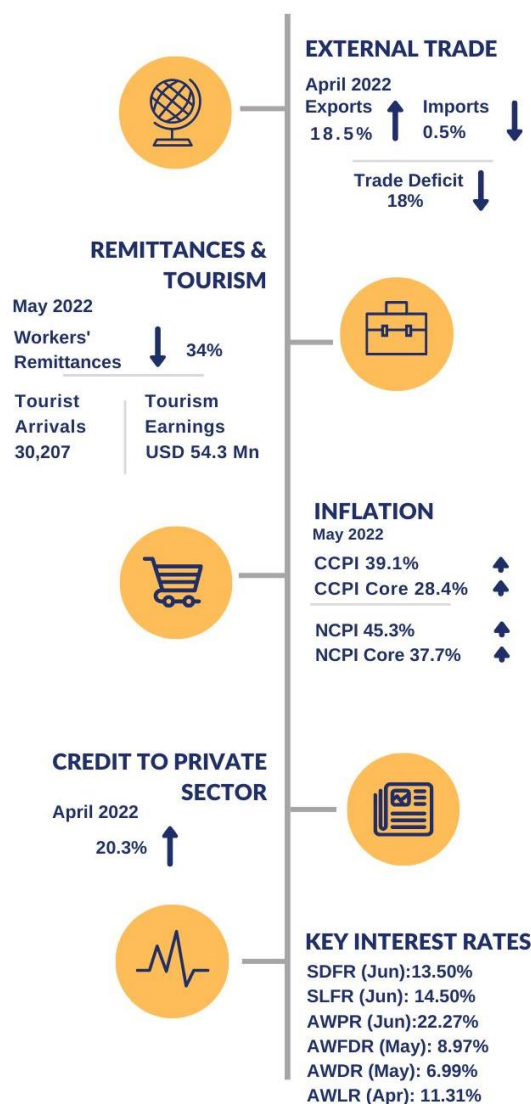
Budget Deficit Expanded by 21% in Q1-2022: The overall budget deficit during Q1 of 2022 has expanded by 21% on a Y-o-Y basis as a result of 22% increase in both the revenue as well as the expenditure of the government.

GLOBAL ECONOMY

Oil Prices Slumps as Fed Rate Hike: Oil prices recorded a drop during last week as investors fear fed rate hikes will hurt demand. During last week, Brent and WTI prices went down by around USD 2/barrel.

Global Growth Forecasts Revised Downward; citing Ukraine War: Global growth is expected to slump from 5.5% in 2021 to 2.9 percent in 2022— significantly lower than 3.2% that was anticipated in April by the World Bank. Markets expect inflation to peak in mid-2022 and then decline, but to remain elevated even after these shocks subside and monetary policies are tightened further.

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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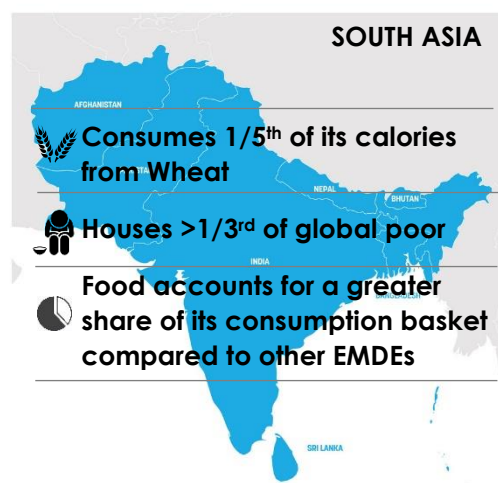
FURTHER INSIGHTS- SRI LANKAN ECONOMY

Sharpest Growth Downgrade for Sri Lanka, amongst South Asian Peers

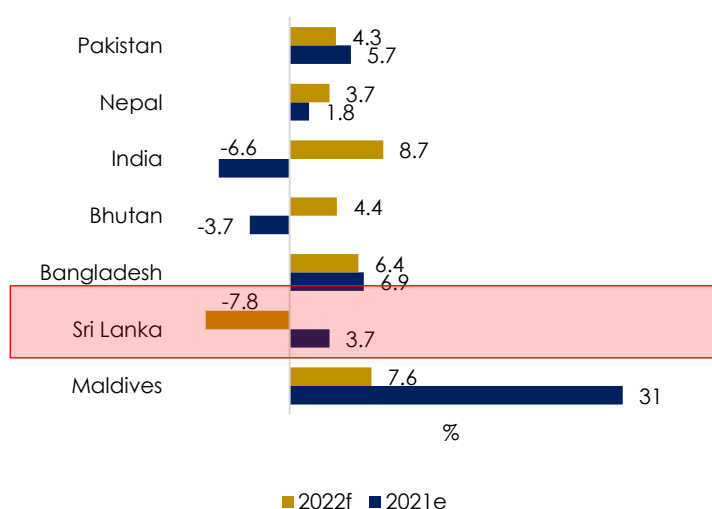
Growth in South Asia is forecasted to slow to 6.8% and 5.3% in 2022 and 2023 respectively following a robust 7.6% rebound in 2021, the Global Economic Prospects-June 2022 Update of the World Bank stated. This is 0.8 percentage point slower for 2022 than was projected at the start of the year and similar to average growth in the decade prior to the COVID-19 pandemic. The revisions to growth reflect the expected erosion of purchasing power of consumers, elevated uncertainty, and weaker external demand.

Growth for India is forecasted to edge down to 7.5% for the fiscal year 2022/23, with headwinds from rising inflation, supply chain disruptions and geopolitical tensions offsetting buoyancy in the recovery of services consumption from the pandemic. Growth will also be supported by both private and public fixed investment, buoyed by government incentives and reforms to improve the business climate. In Pakistan, growth is expected moderate from 5.7% to 4% in 2020/21 and 2022/23 respectively, as foreign demand slows significantly and policy support is withdrawn to contain external and fiscal imbalances. Growth for Bangladesh forecasted to ease to 6.4% in 2021/22, as pent-up demand subsides, before picking up to 6.7% in 2022/23 and investment recovers and remittances inflows accelerate. The Outlook for Sri Lanka is highly uncertain and subject to significant downside risks.

Risks to the South Asian regional growth outlook remain to the downside and have been magnified by geopolitical developments. Additional increases in commodity prices, particularly wheat, could put further upward pressure on food prices eroding real incomes and reducing consumption. The region consumes about 1/5th of its calories from wheat products, houses more than 1/3rd of global poor, and food accounts for a greater share of its consumption basket compared to the other Emerging and Developing Economies. Rising energy prices, in a region that is highly depend on energy imports and some economies where significant shares of government budgets go to subsidies, could further increase inflation, worsen current account positions, and divert resources away from productivity-enhancing investment and social protection, the World Bank report stated.



Country-wise Growth Projections

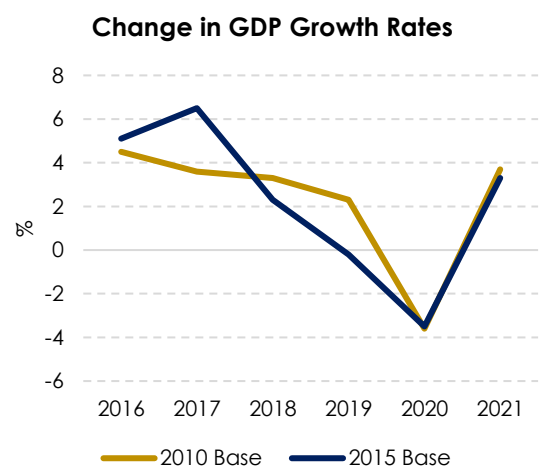
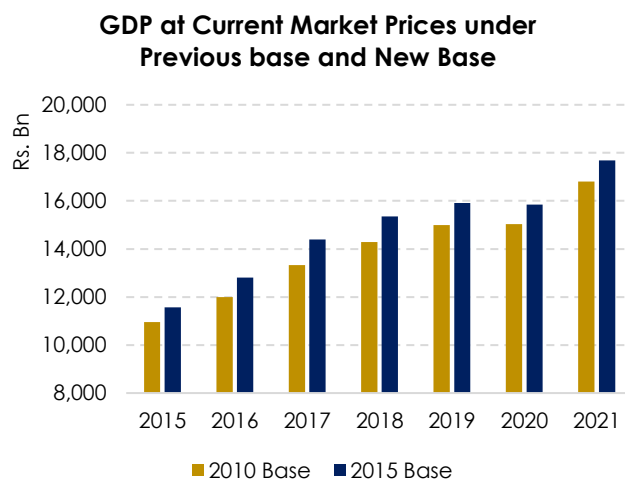


Sri Lanka's GDP Re-based to 2015

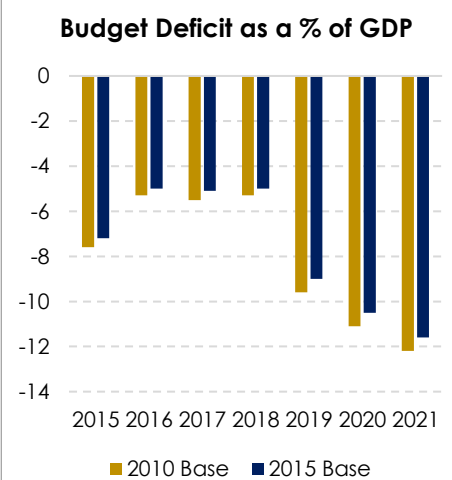
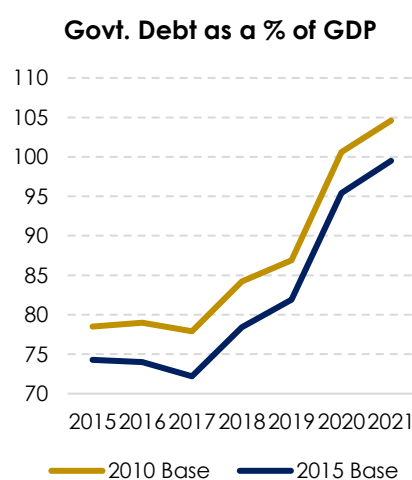
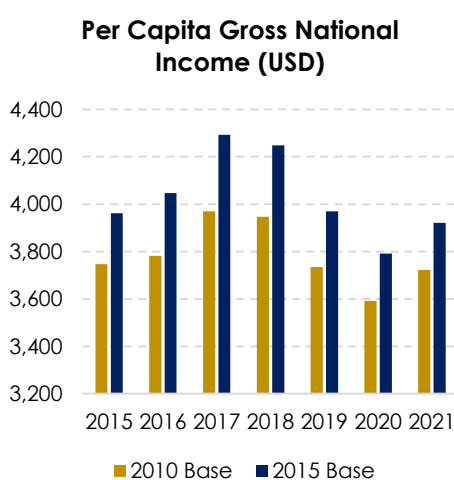
The Department of Census and Statistics of Sri Lanka (DCSSL) has updated the existing National Accounts base year 2010 to the year 2015 while improving the National Accounts Compilation System further, and has published the estimated new National Accounts Estimated for the period from 2015 to 2021.

The GDP value has increased under the new base year. As a whole, the nominal value of GDP has been increased under the new base year, as a result of the improvements made in the estimates of GDP including the expansion of the coverage.

During the period between 2015-2021, on average the GDP at current price has increased by 6% when it compared with the previous base. The GDP levels has been increased significantly over the period of 2015-2018, as result of the inclusion of the value addition of reclaimed land of Colombo port City Project has been included to the GDP according to the international guidelines and using the work done on land reclamation in each year. In 2017, work done on reclaimed land is much higher than in other years. As a result, this variation is much higher in the year 2017, when it compared to the other years. However, by 2019, the land reclamation had been completed and as a result in 2019, the GDP growth rate was low when compared to 2018. Previously released GDP growth rates has been changed under the new base year.



Change in Main Macro Aggregates due to New GDP Base



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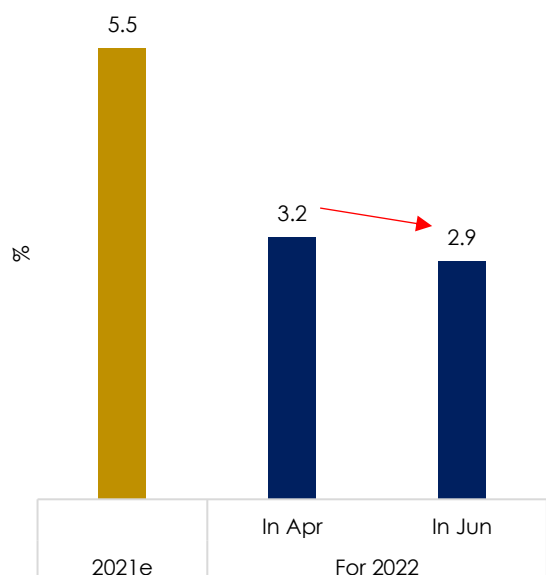
FURTHER INSIGHTS- GLOBAL ECONOMY

Global Growth Forecasts Revised Downward; citing Ukraine War

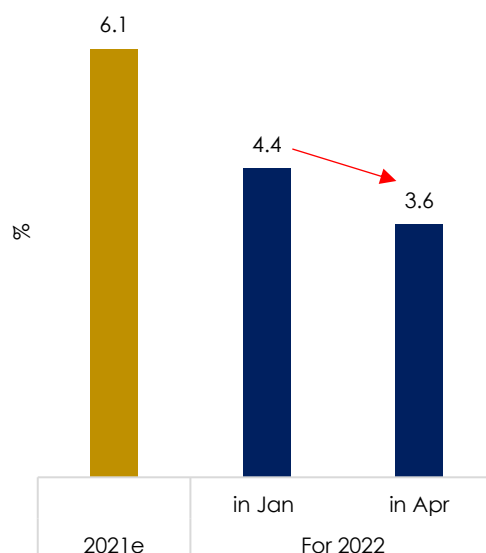
Global growth is expected to slump from 5.5% in 2021 to 2.9 percent in 2022— significantly lower than 3.2% that was anticipated in April by the World Bank. It is expected to hover around that pace over 2023-24, as the war in Ukraine disrupts activity, investment, and trade in the near term, pent-up demand fades, and fiscal and monetary policy accommodation is withdrawn. As a result of the damage from the pandemic and the war, the level of per capita income in developing economies this year will be nearly 5 percent below its pre-pandemic trend, the World Bank stated. Growth in Emerging Markets and Developing Economies (EMDEs) in 2022 has been downgraded to 3.4%, as negative spillovers from the invasion of Ukraine more than offset any near-term boost to some commodity exporters from higher energy prices, the World Bank further explained.

The IMF too published a further slowdown of the global economy from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected figure in January this year. Beyond 2023, global growth is forecasted to decline to about 3.3% over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7% in Advanced Economies and 8.7% in emerging markets and developing economies, 1.8 and 2.8 percentage points higher than projected last January.

Growth Forecasts by the World Bank



Growth Forecasts by the IMF



Source: The World Bank, IMF

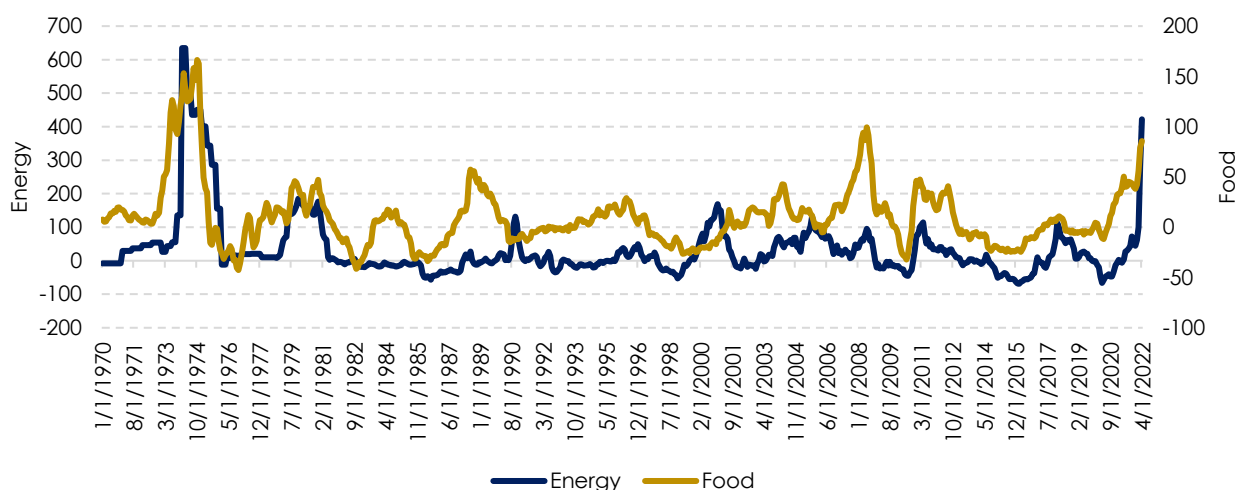
Risk of Global Stagflation-An analysis by the World Bank

Global inflation recorded a sharp rise from its low in mid- 2020, on rebounding global demand, supply bottlenecks, and soaring food and energy prices, especially since Russia's invasion of Ukraine. Markets expect inflation to peak in mid-2022 and then decline, but to remain elevated even after these shocks subside and monetary policies are tightened further, an analytical piece by the World Bank stated. Global growth has been moving in the opposite direction; it has declined sharply since the beginning of the year and, for the remainder of this decade, is expected to remain below the average of the 2010s. In the light of these developments, the risk of stagflation-a combination of high inflation and sluggish growth- has risen.

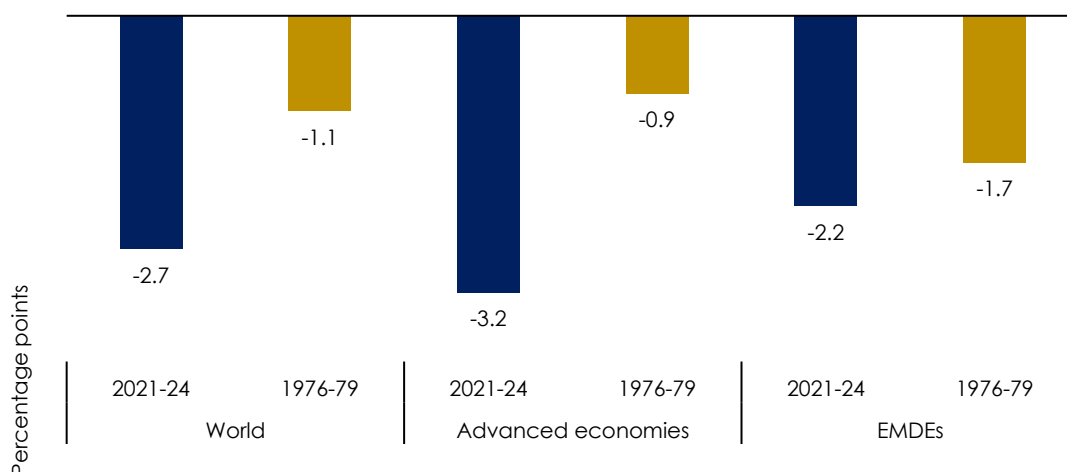
The recovery from the stagflation of the 1970s required steep increases in interest rates by major advanced economy central banks to quell inflation, which triggered a global recession and string of financial crises in EMDEs. If current stagflationary pressure intensify, EMDEs would likely face severe challenges again because of their well-anchored inflation expectations, elevated financial vulnerabilities, and weakening growth fundamentals, the World Bank further explained.

This makes it urgent for EMDEs to shore up their fiscal and external buffers, strengthen their monetary policy framework, and implement reforms to reinvigorate growth, the World Bank stated as its recommendations.

% Change in Global Energy and Food Prices



Slowdown in Growth after Global Recessions



Source: The World Bank

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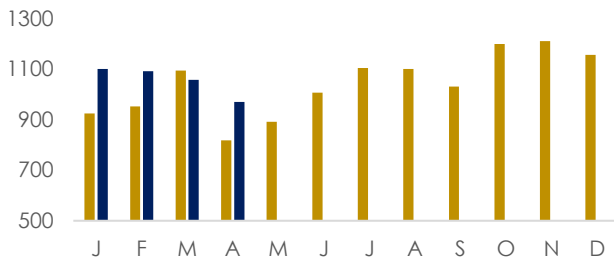
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-APRIL 2022

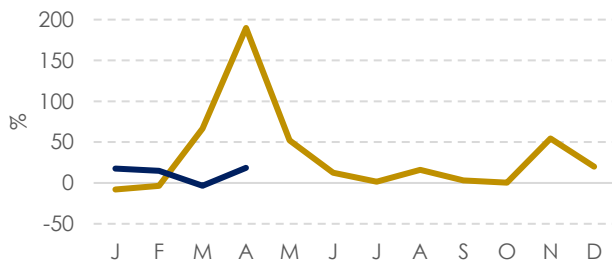
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

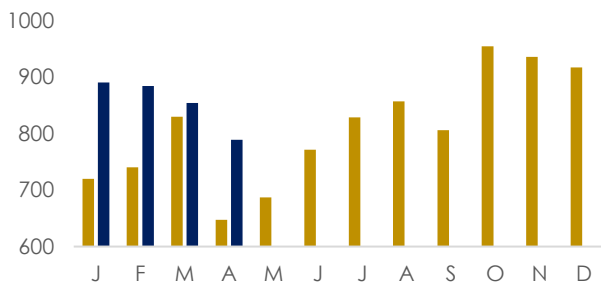
EXPORTS PICKED UP BY 18.5% Y-O-Y



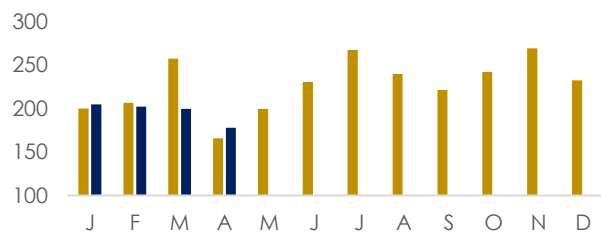
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 22% Y-O-Y

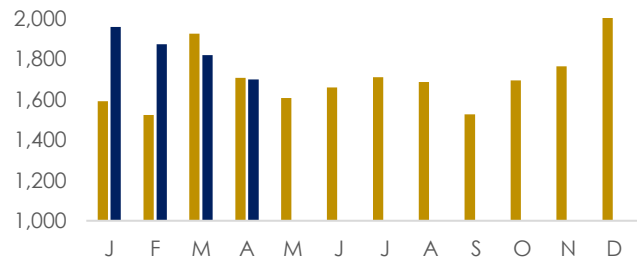


AGRICULTURAL EXPORTS PICKED UP BY 7.3% Y-O-Y

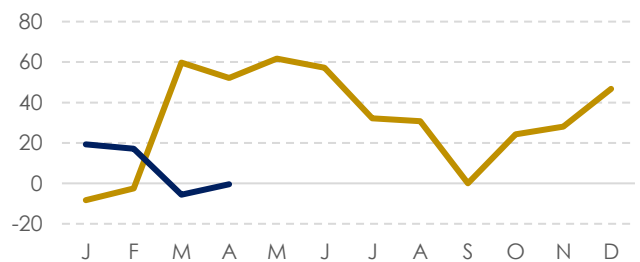


IMPORTS

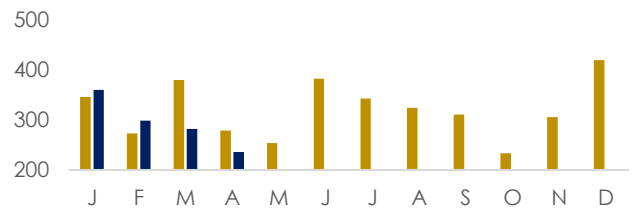
IMPORTS DECLINED BY 0.5% Y-O-Y



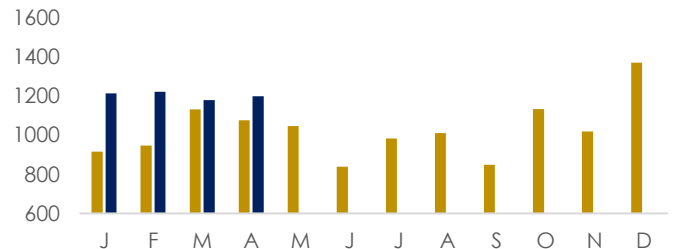
Y-o-Y % CHANGE IN IMPORTS



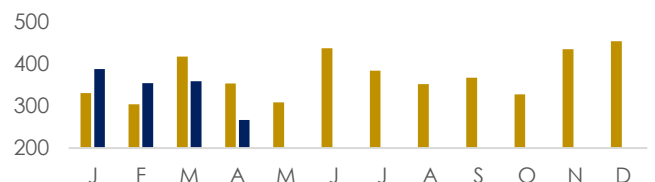
CONSUMER GOODS IMPORTS DROP BY 15.4% Y-O-Y



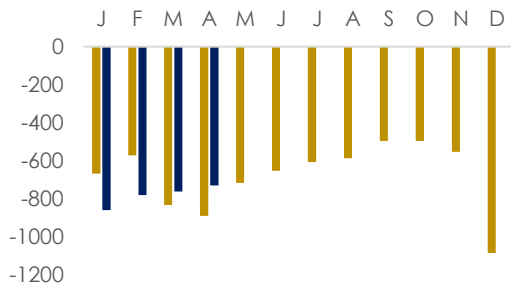
INTERMEDIATE GOODS ROSE BY 11.3% Y-O-Y



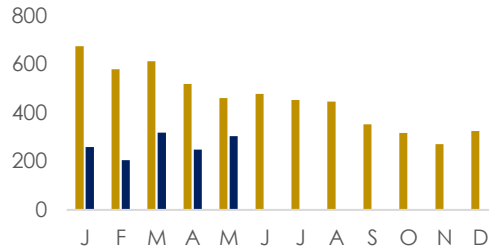
INVESTMENT GOODS DROP BY 24.6% Y-O-Y



TRADE BALANCE NARROWED BY 18% Y-o-Y

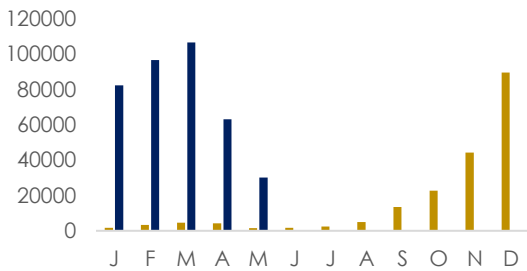


WORKERS' REMITTANCES SLIPPED BY 34% Y-o-Y (MAY-2022)

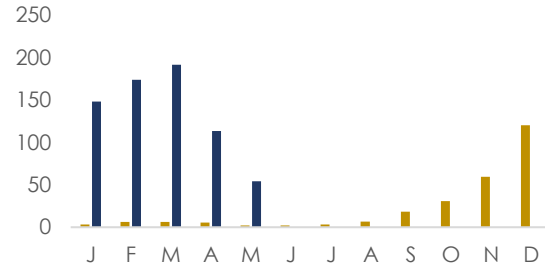


18%
of the total import bill covered by Remittances (Apr 2022)

ONLY 30,207 TOURISTS WERE VISITED IN MAY 2022



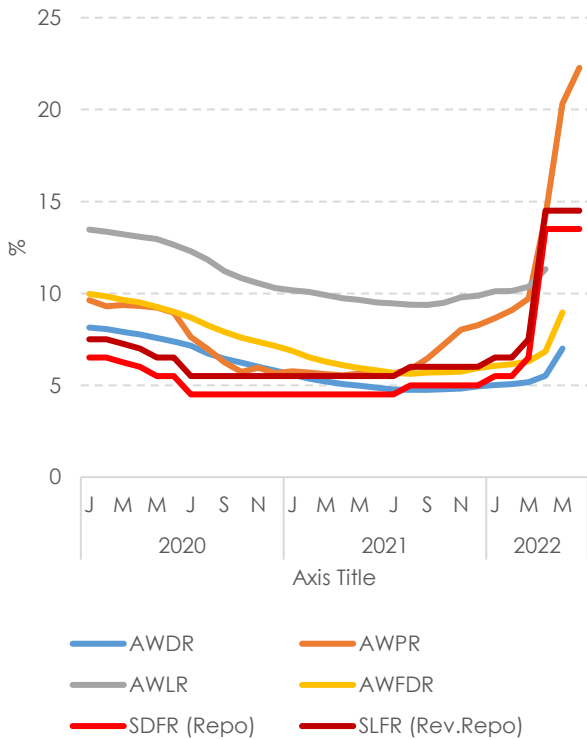
USD 54.3 MN EARNED IN MAY 2022 AS TOURISM EARNINGS



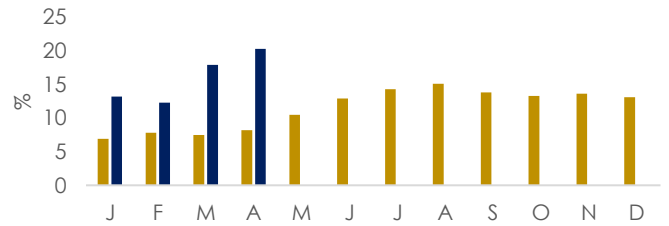
KEY INTEREST RATE INDICATORS

INTEREST RATES

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

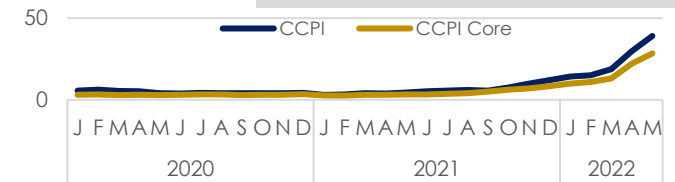


PRIVATE SECTOR CREDIT GROWTH



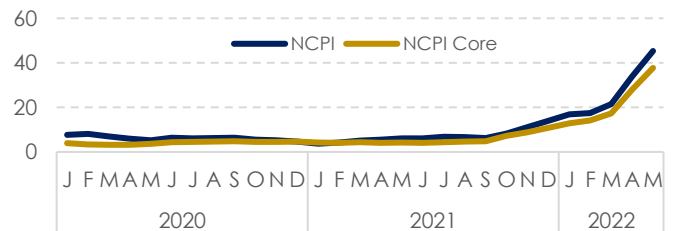
INFLATION: CCPI (BASE 2013) Y-o-Y

	May '22	Apr '22
CCPI:	39.1	29.8
CCPI Core:	28.4	22.0



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

	May '22	Apr '22
NCPI:	45.3	33.8
NCPI Core:	37.7	27.9



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