

MONTHLY ECONOMIC UPDATE

September 2022

EIU



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KEY INSIGHTS

8.4% Contraction in the Sri Lanka Economy during Q2-2022. ADB forecasts an 8.8% contraction for 2022

IMF Reached Staff-Level Agreement on the USD 2.9 Mn worth EFF Arrangement with Sri Lanka

Developing Asia's Recovery Continues, but Outlook is Worsening-ADB

SRI LANKAN ECONOMY

8.4% Contraction of the Economy during Q2-2022: The recent national accounts estimates shows a negative growth of 8.4% during the Q2-2022 with Agriculture, Industry and Services contracting by 8.4%, 10% and 2.2% respectively.

ADB Revises Down its Growth Forecasts for Sri Lanka: Considering the recent developments in the economy, the ADB revised its growth forecasts for Sri Lanka from 2.2% to -8.8% for 2022.

IMF Reached Staff-Level Agreement on the EFF Arrangement with Sri Lanka: The International Monetary Fund (IMF) staff and the Sri Lankan authorities have reached a staff-level agreement to support Sri Lanka's economic policies with a 48-month arrangement under the Extended Fund Facility (EFF) of about USD 2.9 billion.

PMI Recorded an Increase in August: Purchasing Managers' Index (PMI) for both Manufacturing and Services activities recorded an increase in August in comparison to index values recorded in July.

Inflation picked up further in August: NCPI based headline inflation increased to 70.2% in August mainly due to increases in prices of both food and non-food items.

Foreign inflows return to G-Sect Market: The Government securities markets saw the return of foreign inflows with Rs 10.8 billion increase in the third and fourth week of September.

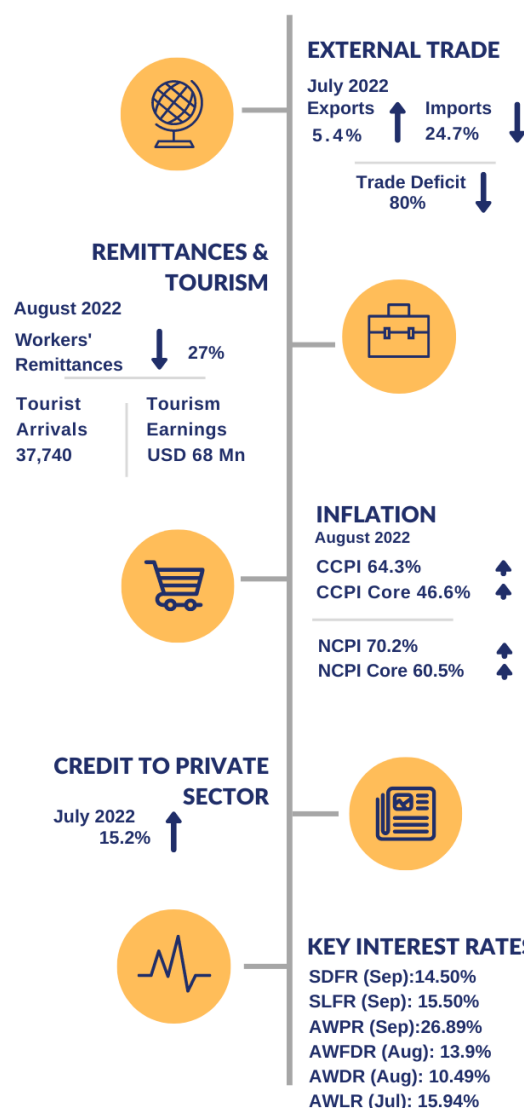
GLOBAL ECONOMY

Developing Asia's Recovery Continues, but Outlook is Worsening-ADB: Growth forecasts of ADB for Developing Asia are revised down from the projections made in its April update to 4.3% from 5.2% for 2022. However, the outlook is clouded by impact of Russian invasion of Ukraine, aggressive monetary tightening of advanced economies and repeated COVID-19 related lockdowns in China.

Global Oil Prices up Slightly: Global oil prices were largely on a declining trend at the start of the month, mainly due to US Fed rate hike, strengthening the dollar and subdued outlook for global growth. However, prices edge up during the latter part of the month due to Russian Oil supply concerns, rebounding Chinese demand, and as the Bank of England hiked interest rates at a slower pace than expected.

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

IMF Reached Staff-Level Agreement on the EFF Arrangement with Sri Lanka

The International Monetary Fund (IMF) staff and the Sri Lankan authorities have reached a staff-level agreement to support Sri Lanka's economic policies with a 48-month arrangement under the Extended Fund Facility (EFF) of about USD 2.9 billion.

The objectives of this programme are to restore macroeconomic stability and debt sustainability, while safeguarding financial stability, protecting the vulnerable, and stepping up structural reforms to address corruption vulnerabilities and unlock Sri Lanka's growth potential.

Key elements of the programme are;

- **Raising fiscal revenue to support fiscal consolidation.** Starting from one of the lowest revenue levels in the world, the EFF programme will implement major tax reforms. These reforms include making personal income tax more progressive and broadening the tax base for corporate income tax and VAT. The programme aims to reach a primary surplus of 2.3% of GDP by 2025.
- **Introducing cost-recovery based pricing for fuel and electricity** to minimize fiscal risks arising from state-owned enterprises (SOEs).
- Mitigating the impact of the current crisis on the poor and vulnerable by increasing social spending, and **improving the coverage and targeting of social safety net programmes.**
- Restoring price stability through **data-driven monetary policy action, fiscal consolidation, phasing out monetary financing, and strong central bank autonomy** that allow pursuing a flexible inflation targeting regime. A new Central Bank Act is a cornerstone of this strategy.
- Rebuilding foreign reserves through **restoring a market-determined and flexible exchange rate**, supported by the comprehensive policy package under the programme.
- Safeguarding financial stability by **ensuring a healthy and adequate capitalized banking system**, and by upgrading financial sector safety nets and regulatory standards with a revised Banking Act.
- Reducing corruption vulnerabilities through **improving fiscal transparency and public financial management**, introducing a stronger anti-corruption legal framework, and conducting an in-depth governance diagnostic, supported by the IMF technical assistance.

Debt relief from Sri Lanka's creditors and additional financing from multilateral partners will be required to help ensure debt sustainability from Sri Lanka's official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support to Sri Lanka.

As per the Ministry of Finance, at the end-June 2022, Public Debt stood at 122% of GDP of which 70% of GDP is denominated in foreign currency, from a public level of 115% of GDP as at end-December 2021, out of which 54% of GDP were denominated in foreign currency.

Total Public Debt Stock

	Total Debt	
	USD Bn	% of GDP ¹
Central Government Debt (bilateral+ multilateral+ private+ CBSL)	70.3	106.1
Guaranteed SOE Debt (bilateral+ multilateral+ commercial)	7.1	10.7
Central Bank of Sri Lanka's Debt (bilateral+ multilateral)	3.2	4.8
Total	80.5	121.6

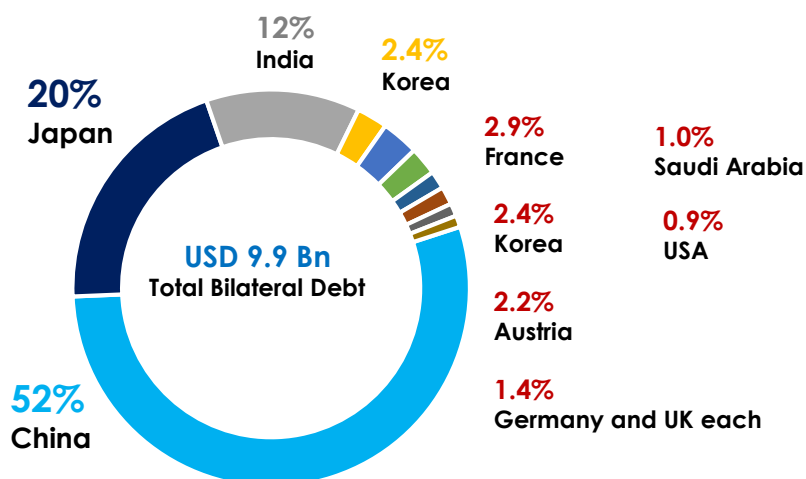
Composition of **Bilateral** Creditors of Sri Lanka

USD 9.5 Bn

Central Government Debt

USD 0.4 Bn

Guaranteed SOE Debt



Sources: IMF, MoF, Sri Lanka

8.4% Contraction in the Economy during Q2-2022

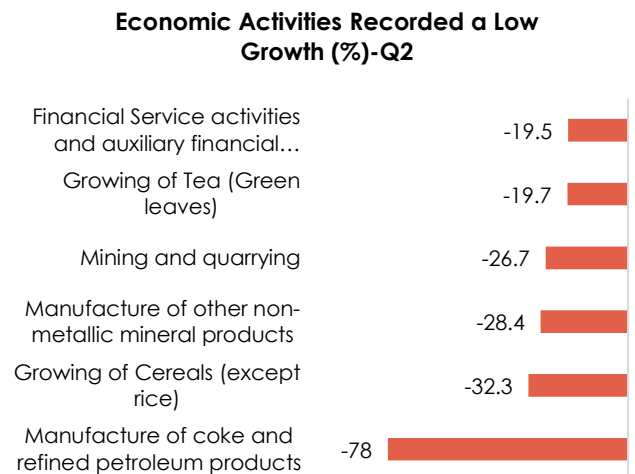
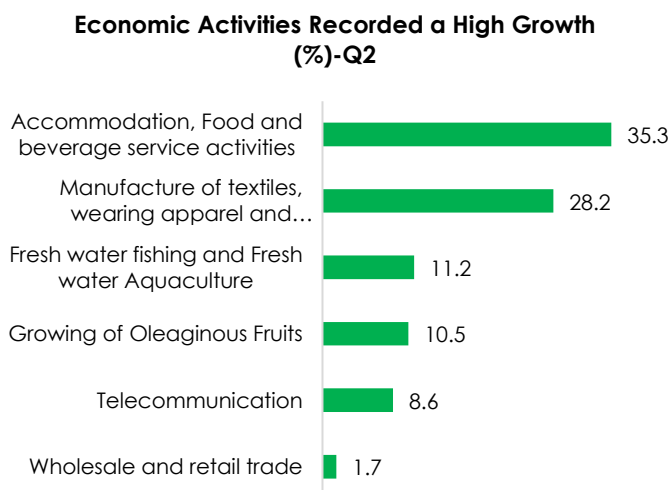
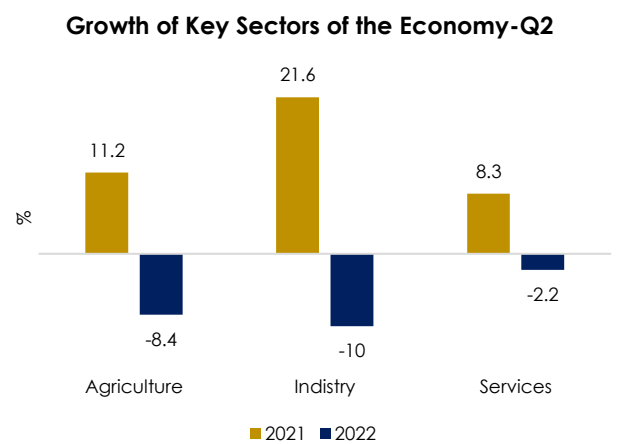
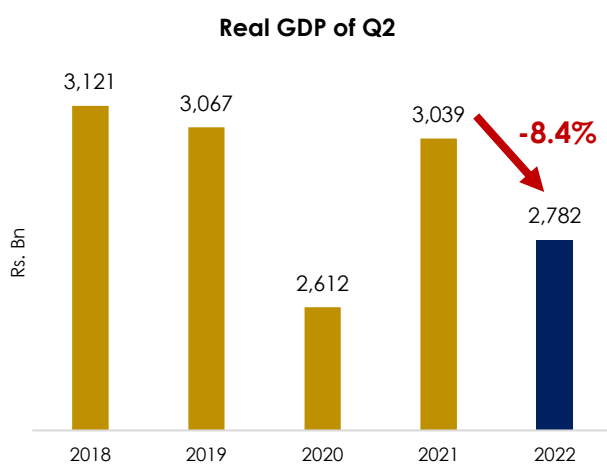
The Department of Census and Statistics recently released national accounts estimates for Q2-2022, and accordingly GDP recorded a contraction of 8.4% compared to the same quarter last year.

The real GDP recorded in the Q2-2022 is lower than that of 2021, however higher than the GDP recorded in Q2-2020. The three major economic activities of the economy; Agriculture, Industry and Services have contributed their share to GDP at current prices by 10.2%, 32% and

¹ Assuming a 2021 nominal GDP of 17.69trn LKR

49.4% respectively, while Taxes less subsidies on products has contributed 8.4% of share to the GDP during the Q2-2022.

Agricultural activities contracted by 8.4% during Q2-2022, in comparison to the 11.2% growth recorded in the same quarter 2021. The overall industrial activities shrank by 10% compared to the high growth of 21.6% reported in the same quarter of last year. Overall manufacturing activities contracted by 5.3% during the period under consideration. However, one of major manufacturing industry of manufacture of textiles, wearing apparel and leather related products has recorded a massive expansion of 28.2% on a Y-o-Y basis. Services sector recorded a negative growth of 2.2% during the period under review.



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FURTHER INSIGHTS- GLOBAL ECONOMY

Developing Asia's Recovery Continues, but Outlook is Worsening: ADB

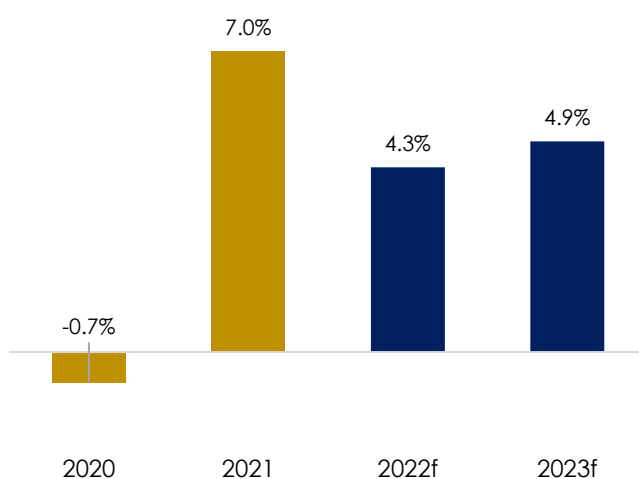
Economic activity is being supported by the continued relaxation of COVID-19 disease restrictions in many economies, but the impact of the Russian invasion of Ukraine, aggressive monetary tightening of advanced economies, and repeated COVID-19 lockdowns in China are increasingly shaping the Asian region's economic aspects, says the latest update of the Asian Development Outlook of Asian Development Bank (ADB) released recently.

Growth forecasts of ADB are revised down from the projections made in its April update to 4.3% from 5.2% for 2022 and to 4.9% from 5.3% for 2023. Excluding China, the rest of developing Asia is projected to grow by 5.3% in both 2022 and 2023-the first time in more than three decades that the rest of developing Asia will grow faster than China.

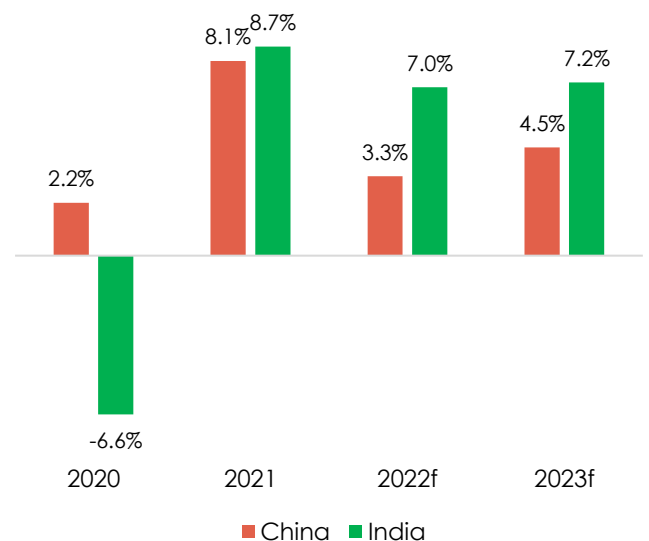
Price pressure in developing Asia, while remaining lower than elsewhere in the world, are increasing on higher energy and food prices. The regional inflation forecast is raised to 4.5% from 3.7% for 2022 and to 4% from 3.1% for 2023, the report stated.

As per the ADB, Sri Lanka's growth rates were revised downward from 2.4% to -8.8% for 2022 and from 2.5% to -3.3% for 2023, and the country with the lowest expected growth for both 2022 and 2023 amongst the South Asian peer countries.

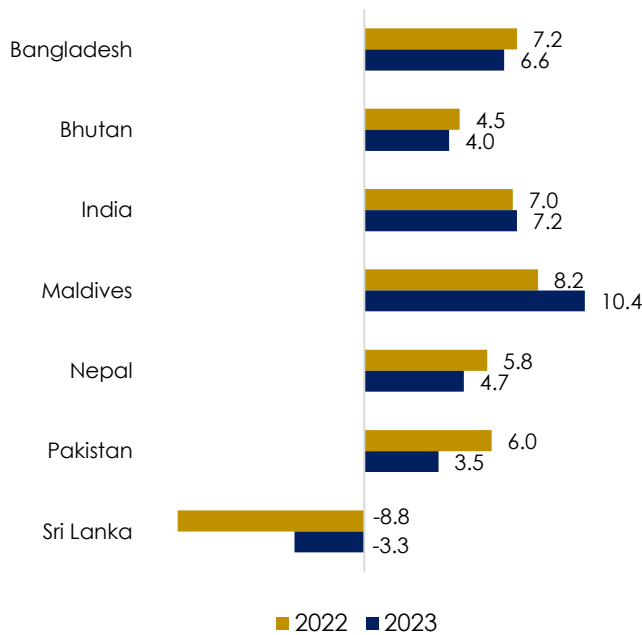
Growth Outlook for Developing Asia



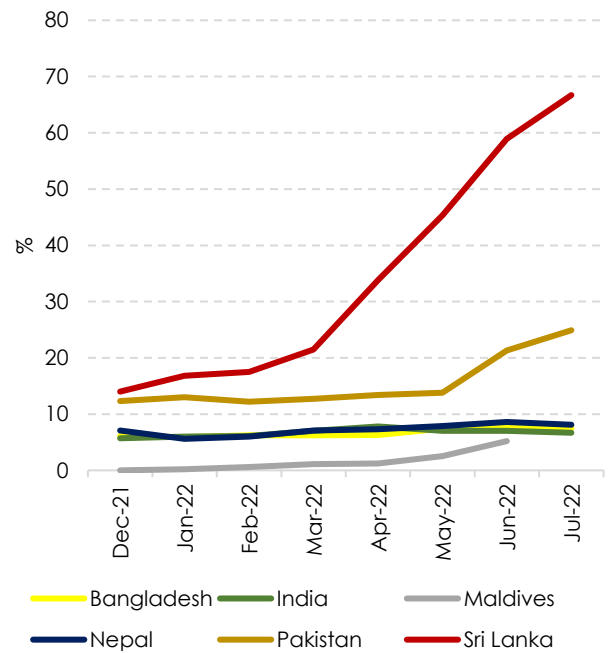
Growth Outlook for China and India



**Growth Outlook of South Asia:
Sri Lanka the slowest growing economy**



**Inflation of South Asian Countries-
Recorded high inflation in Sri Lanka**



Source: ADB

Dynamic Entrepreneurs can Help Sustain Growth in Asia: ADB

The defining trait of entrepreneurs is that they start and run businesses. Dynamic entrepreneurs can help sustain economic growth in Asia, says ADB in one of its recent reports. Developing Asia has reached a development stage where private sector typically assumes a larger role in economic growth. The ongoing digitalisation of economic activity that accelerated during the COVID-19 pandemic has reduced the cost of starting a business and opened up a world of entrepreneurial opportunities. Digital entrepreneurship can thus become the engine of growth in the post-pandemic world, ADB says.

Digitalisation facilitates entrepreneurship but cannot reduce the risk and uncertainty inherent in starting a new business, which entails a high likelihood of failure, intuitively, sound institutions such as strong property rights mitigate the high risk and uncertainty that entrepreneurs face. New Analysis of 230,000 individuals in 15 economies supports a strong positive association between a conducive institutional environment, especially strong rule of law, and dynamic entrepreneurship. Evidences also indicates that entrepreneurship tends to be more vibrant in less corrupt economies, the report further explained.

ADB highlighted that the policy makers cannot pick innovative entrepreneurs but they can go a long way towards creating the right environment for them to grow. They can contribute such conducive hardware as high-speed broadband networks and such software as reliable legal systems. Policy makers have plenty of scope to foster a more entrepreneurial Asia full of dynamic entrepreneurs who innovate, create jobs and propel growth.

Source: ADB

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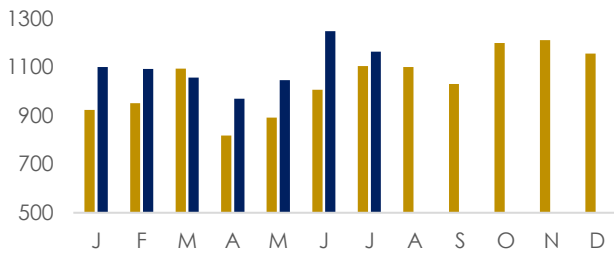
DASHBOARD

EXTERNAL SECTOR PERFORMANCE-JULY 2022

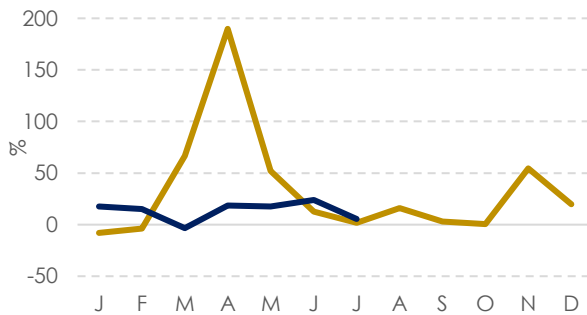
Legend: ■ 2021 ■ 2022 All the numbers are in USD Mn unless otherwise specified.

EXPORTS

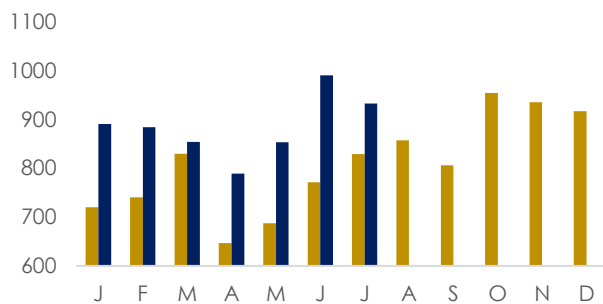
EXPORTS ROSE BY 5% Y-O-Y



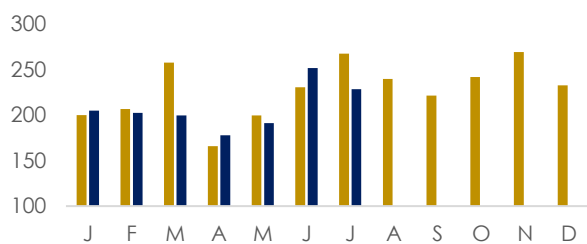
YoY % CHANGE IN EXPORTS



INDUSTRIAL EXPORTS PICKED UP BY 12% Y-O-Y

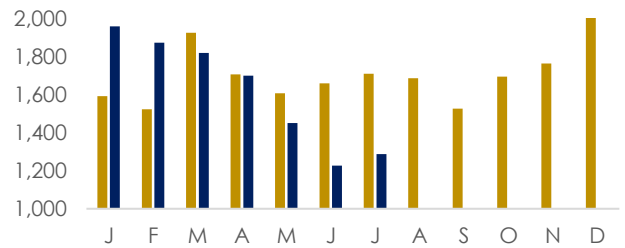


AGRICULTURAL EXPORTS DROPPED BY 14.5% Y-O-Y

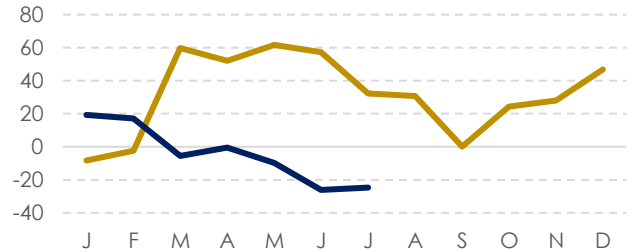


IMPORTS

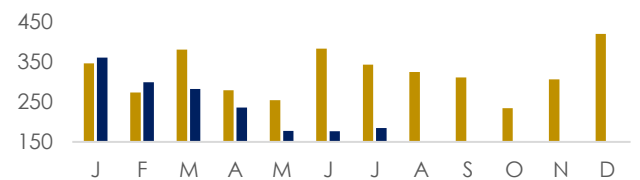
IMPORTS DECLINED BY 24.7% Y-O-Y



Y-o-Y % CHANGE IN IMPORTS



CONSUMER GOODS IMPORTS DROPPED BY 46.2% Y-O-Y



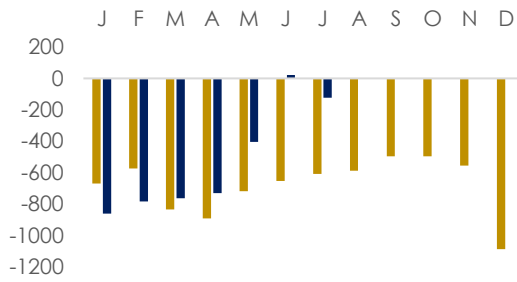
INTERMEDIATE GOODS DECLINED BY 9.5% Y-O-Y



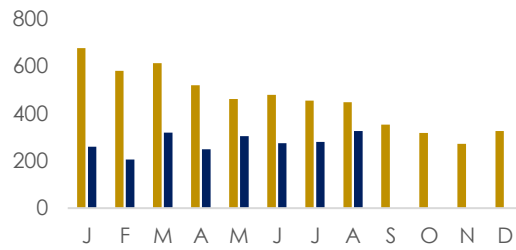
INVESTMENT GOODS DECREASED BY 44.3% Y-O-Y



TRADE DEFICIT NARROWED BY 80% Y-o-Y

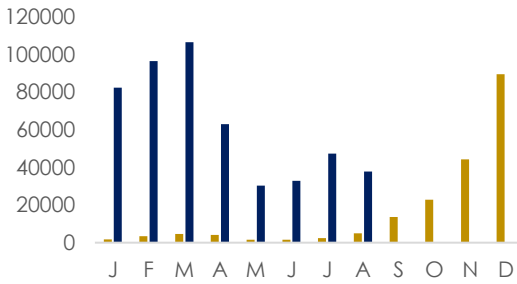


WORKERS' REMITTANCES SLIPPED BY 27% Y-o-Y (Aug-2022)

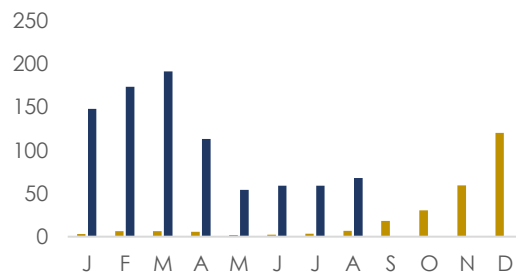


25%
of the total import bill covered by Remittances (July 2022)

37,740 TOURISTS WERE VISITED IN AUGUST 2022



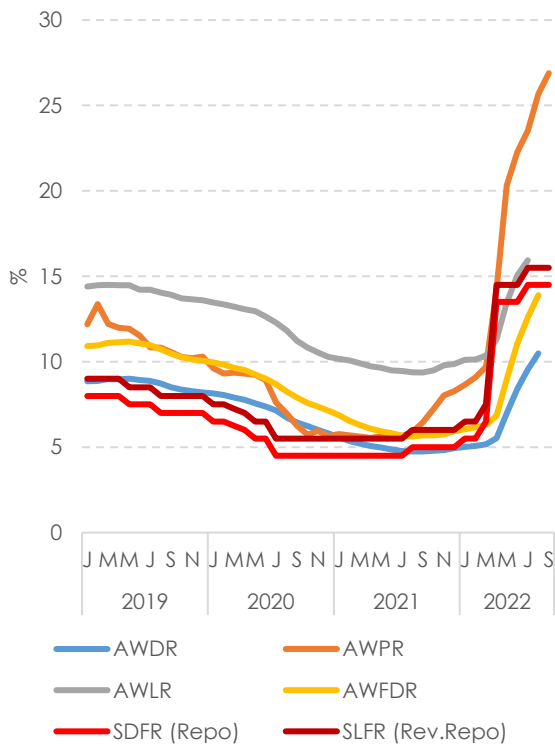
USD 68 MN EARNED IN AUGUST 2022 AS TOURISM EARNINGS



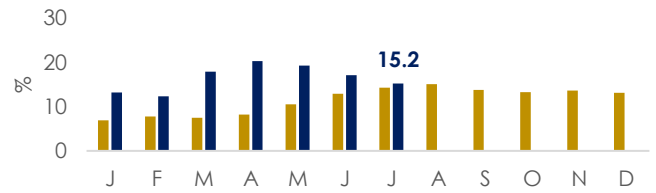
KEY INTEREST RATE INDICATORS

INTEREST RATES

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

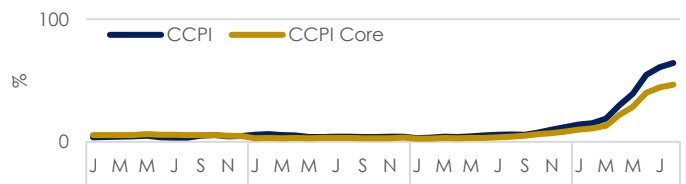


PRIVATE SECTOR CREDIT GROWTH



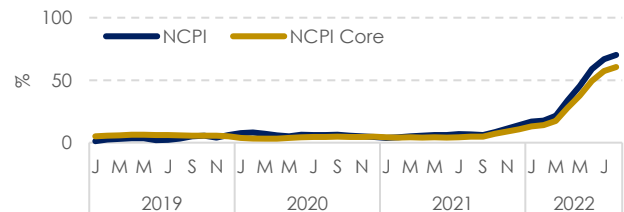
INFLATION: CCPI (BASE 2013) Y-o-Y

	Aug '22	Jul '22
CCPI:	64.3	60.8
CCPI Core:	46.6	44.3



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

	Jul '22	Jul '22
NCPI:	70.2	66.7
NCPI Core:	60.5	57.3



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