

The SNAPSHOT

Sri Lankan Economy

Exports: Increased for the second consecutive month in April 2017, registering a year-on-year growth of 12%. This was mainly driven by the low base effect in April 2016 (USD 710 million), the lowest monthly exports value since April 2013. Industrial exports was the largest contributor to export growth in April 2017 (56%) followed by Agricultural exports (43%).

Imports: Increased by 10% in April 2017, on year-on-year and the largest contributor to the overall growth was intermediate goods (75 per cent) followed by consumer goods (20%) and investment goods (6%).

Trade Balance: The deficit in the trade balance expanded in April 2017 by 8% year-on-year. The cumulative deficit increased substantially during the first four months of 2017 to USD 3,314 million from USD 2,606 million in April 2016.

Inflation: In June 2017, CCPI increased to 6.1 % (from 5.5%) and CCPI core decreased to 5.1% (from 5.4 %) on year-on-year basis. NCPI decreased to 6.3% (from 6.4%) and NCPI core decreased to 4.1% (from 7.5%) on year-on-year basis.

Credit Growth: Decreased gradually for the second consecutive month, to 20% in April 2017 from 20.4% in March 2017, showing the effects of the CBSL policy rate tightening.

The Global Economy

Global Growth: As per the World Economic Outlook update for July by the IMF, projects to growth at 3.5% in 2017 and 3.6% in 2018, which remains unchanged as per the forecasts in April.

Global Oil Prices: Declined more than 8% in June, to its lowest level for 2017. At their recent meeting, OPEC has agreed with several member and non-member countries on production cuts to help clear excessive global stocks and boost flagging prices.

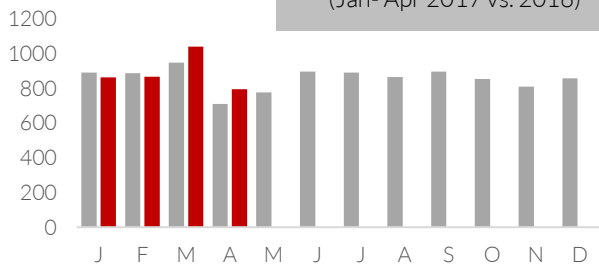
China: According to the National Bureau of Statistics (NBS), China recorded a GDP growth of 6.9% on year-on-year basis for the Q2 of 2017 which was higher than the expectations (6.8 per cent). This boost in growth was in part driven by firmer exports and production.

External Sector Performance – April 2017

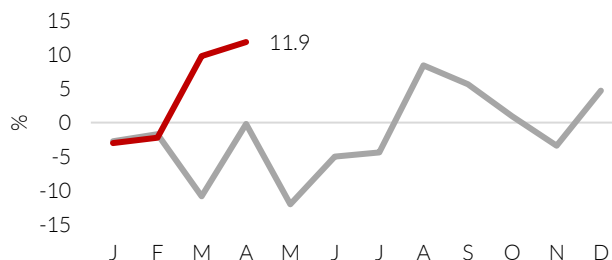
Exports

Exports Rose by 12% Y-o-Y

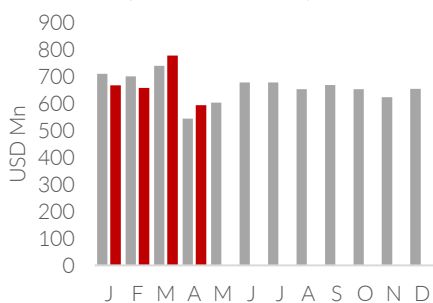
↑ 3.5%
(Jan- Apr 2017 vs. 2016)



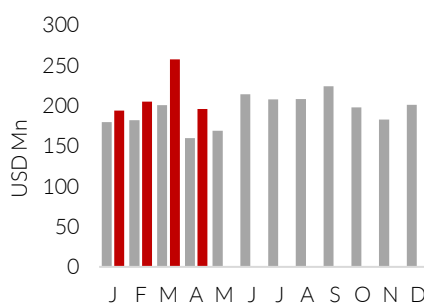
Y-o-Y % Change in Total Exports



Industrial Exports Increased by 9% Y-o-Y



Agricultural Exports rose by 23% Y-o-Y



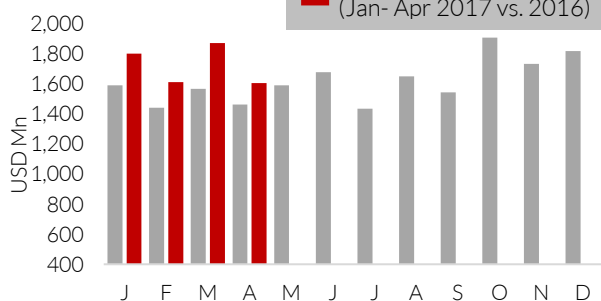
Y-o-Y Change in Major Exports
April 2017 vs 2016



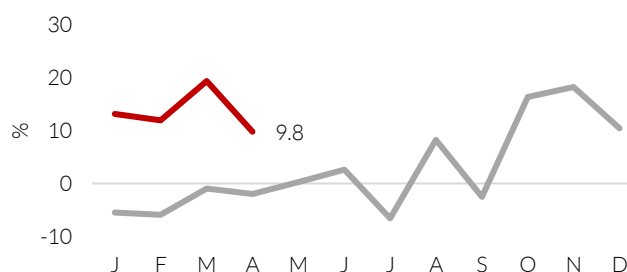
Imports

Imports Rose by 10% Y-o-Y

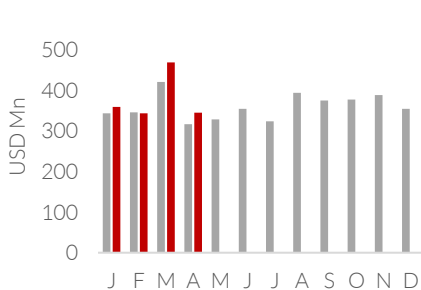
↑ 14%
(Jan- Apr 2017 vs. 2016)



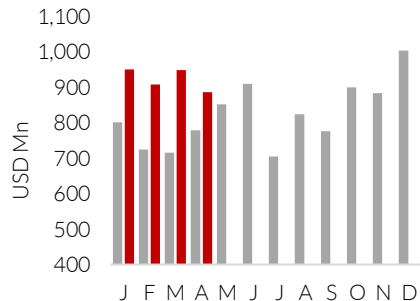
Y-o-Y % Change in Total Imports



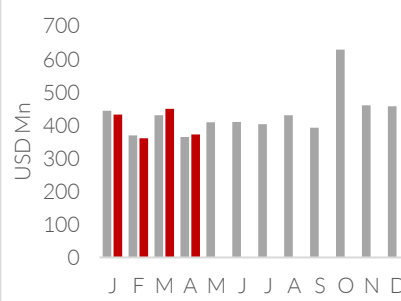
Consumer Goods Increased by 9% Y-o-Y



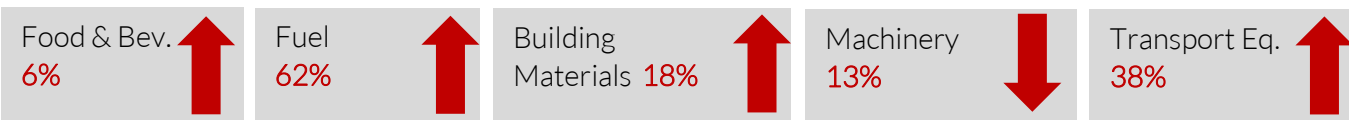
Intermediate Goods Increased by 14% Y-o-Y



Investment Goods Increased by 2% Y-o-Y



Y-o-Y Change in Major Imports –April 2017 vs 2016

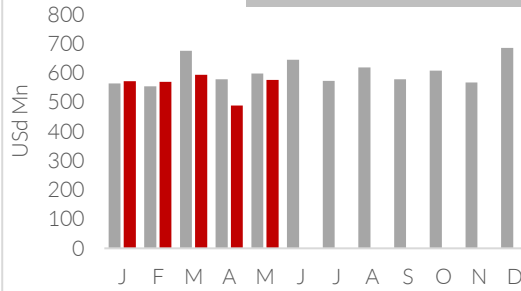


Trade Deficit Widened by 8% Y-o-Y



Worker's Remittances fell by 4% Y-o-Y (May)

↓ 6% (Jan-May 2017 Vs 2016)

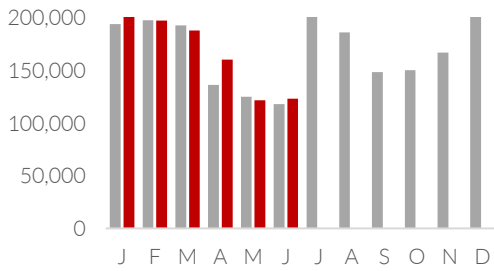


36%

Of the total import bill covered by Remittances (April '17)

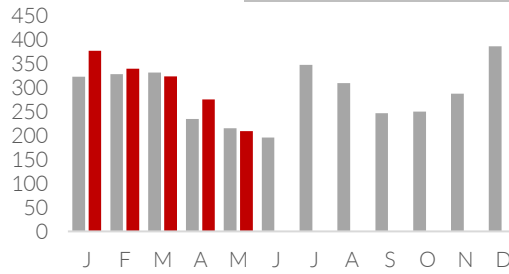
Tourist Arrivals Up by 5% Y-o-Y (June)

↑ 5% (Jan-Jun 2017 Vs 2016)



Tourism Earnings fell by 3% Y-o-Y (May)

↑ 7% (Jan-May 2017 Vs 2016)



13%

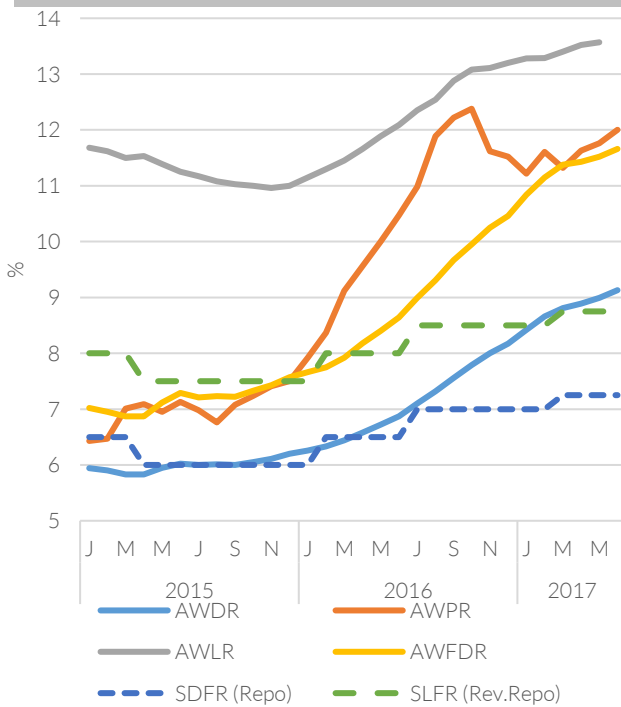
Of the total import bill covered by Tourism Earnings (April '17)

Legend █ 2017 █ 2016

Key Macroeconomic Indicators

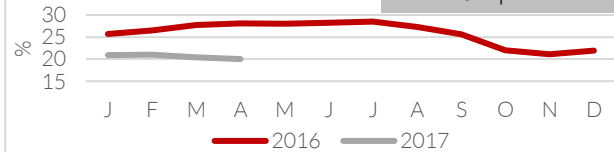
Interest Rates

SDFR and SLFR remain unchanged at 7.25% and 8.75% respectively



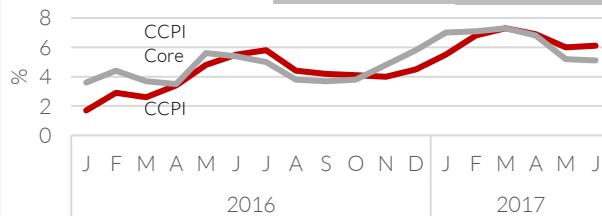
Credit to Private Sector

20.4% - March '17
20.0% - April '17



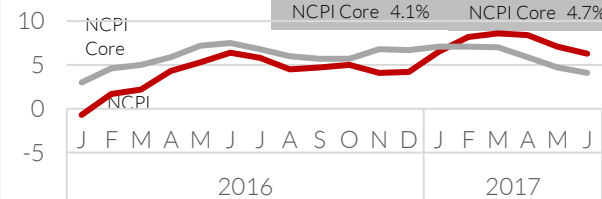
Inflation-CCPI (Base 2013)

June 2017	CCPI	6.1%	May 2017	CCPI	6.0%
	CCPI Core	5.1%		CCPI Core	5.2%



Inflation-NCPI

June 2017	NCPI	6.3%	May 2017	NCPI	7.1%
	NCPI Core	4.1%		NCPI Core	4.7%



Further Insights – Sri Lankan Economy

IMF Disbursed the Second Tranche of EFF

With the completion of the second review of the Sri Lanka's Extended Fund Facility arrangement by the IMF, the third tranche was disbursed (USD 167.2 million). With this second tranche, total disbursement under this arrangement is amounted to USD 501.5 million which is a share of 35 per cent of the total arrangement.

As per the IMF Executive Board, they are satisfied with Sri Lanka's performance of the fund-supported programme. Stable financial and macroeconomic stability, launching of fundamental income tax reforms by authorities and undertaking of meaningful corrective actions to achieve program targets on international reserves were key to this satisfactory performance. As per their review, fiscal performance has been strong, targets for the fiscal balance and tax revenue has met. In addition, high debt burden and gross financing needs require further revenue-based consolidation. IMF is expecting a durable consolidation with the timely progress in structural reforms including tax administration and energy pricing. Inflation and credit growth remain on the high side, while monetary policy was tightened in March. While financial soundness indicators remain stable, banks' capital adequacy ratio has declined due to rapid credit growth. IMF is expecting a reduction of external vulnerabilities of Sri Lanka with continued international reserves accumulation and exchange rate flexibility.

Sri Lanka's Economic Performance in 2016 and early 2017 is Satisfactory-World Bank.

According to the Sri Lanka Development Update for June by the World Bank Group, Sri Lanka's economic performance remained satisfactory in 2016 and early 2017. Corrective policy measures taken during 2016 following the expansionary fiscal and monetary policies implemented in the previous year led to early sign of stabilization. Strong rebound in investments supported the rapid recovery of the construction sector. But, the external front still remains weak on account of a challenging external environment and continued low FDI inflows. Inflation has been rising since the second half of 2016 on account of drought and changes to the VAT law.

Migrant Remittances Receipts from Middle East

Migrant Remittances are the second largest source of external financing and helps to offset over 75 per cent of the trade deficit. As of 2016 remittances inflows account for about 10 per cent of the GDP. Middle East is the largest remittances generator of Sri Lanka accounting for more than 53 per cent of the total remittances inflows to the country (2016). As per the Sri Lanka Bureau of Foreign Employment, around 593,950 Sri Lankans are working in Middle East. Following are remittances received from Middle East to Sri Lanka via top two commercial banks of Sri Lanka. Remittances received via bank A during 2016 is around 8 per cent of the total remittances from Middle East and as of that for bank B is 6 per cent.

Remittances Receipts (Rs.Mn)

Country	Via Bank A					Via Bank B				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Bahrain	714	527	1,003	1,181	1,111	1,786	2,454	2,925	1,647	1,163
Jordan	3	3	9	21	38	27	25	16	19	15
Kuwait	1,089	2,329	3,347	4,797	4,833	1,858	2,325	2,750	2,611	2,908
Lebanon					47	85	29	22	16	15
Oman	96	111	821	1,848	1,528	588	533	928	1,367	1,270

Qatar	9,533	12,306	15,527	18,459	18,056	1,149	1,312	2,074	3,029	4,853
Saudi Arabia	1,868	2,470	3,301	4,063	5,029	2,292	3,472	4,030	4,152	3,831
UAE	7,681	11,029	14,254	15,754	16,844	8,893	9,255	9,695	14,658	20,732
Total	20,985	28,774	38,262	46,123	47,485	16,678	19,405	22,439	27,498	34,787

Total Workers' Remittances Received to Sri Lanka

	2012	2013	2014	2015	2016
From the World	763,980	827,689	916,344	948,957	1,054,489
From Middle East	428,593	460,195	509,487	512,437	566,260

Post-flood Rebuilding Costs 0.5 per cent of GDP

The government has estimated the rebuilding cost of the flood and landslides in May to be around Rs.50-60 billion, which accounts for around 0.5 per cent of the country's GDP. As per the latest impact assessment report by the Disaster Management Center, 20,792 houses were damaged where 70,000 people were 'severely affected' while 465,000 were 'moderately affected'. As per some rough estimates of the government, rebuilding damaged houses and buildings would cost Rs. 15 billion and over Rs. 30 million will costs for payments of compensations to the next kin of the dead.

As per the Chairman of the National Insurance Trust Fund, large scale business enterprises and factories were not affected much but small businesses such as shops and studios in commercial areas has been disrupted due to these twin disasters. According to rough estimates, around 500 SME, were affected and the loss would be around Rs. 250 million.

Paddy Output of Yala season to fall 48 per cent

After experiencing a 49 per cent plunge in paddy output during the Maha season, Sri Lanka is bracing for a 48 per cent decline of paddy output during the Yala season due to the drought and floods prevailed in the dry zone. Expected paddy output of Yala season is 789,000 metric tonnes which is down from 1.5 million tonnes recorded in 2016. Total expected paddy output in 2017 would be 2.267 million tonnes, down 48 per cent from last year's 4.420 million tonnes.

The government cut import taxes on rice to allow traders to import more rice and government is also planning to import 500,000 more tonnes of rice in order to prevent possible rice shortages in the country. As per the Rice Importers Association, over 40 per cent of the rice available in the market at present is imported.

According to recently released the Household Food Security Report of the Department of Census and Statistics, the food category with highest consumption was rice. This report further stated that, 61.9 per cent of households are storing rice for future consumption.

Further Insights - Global Economy

Global Growth Remains on Track-World Economic Outlook Update – July 2017

As per the World Economic Outlook (WEO) Update of July 2017, the global growth remains on track as forecasted at the April update of WEO. As of that, the global growth projected to grow by 3.5 per cent in 2017 and 3.6 per cent in 2018. The US growth projections are lower than in April while Emerging and Developing Asia's growth projection is higher than in April where growth forecasts of Japan, China and India revised upward. Despite the downward growth revision of the US, the global growth remains the same due to the strong growth anticipations of Emerging and Developing Asia.

Economic activities in both Advanced Economies and Emerging and Developing Economies is forecasted to accelerate in 2017, to 2 per cent and 4.6 per cent respectively while the expected growth for 2018, is 1.9 per cent for Advanced Economies, 0.1 percentage point below the April WEO and 4.8 per cent for Emerging and Developing Economies, the same as in April.

China's Economy Grew Faster than Expected in Q2

According to the National Bureau of Statistics (NBS), China recorded a GDP growth of 6.9 per cent on year-on-year basis for the Q2 of 2017 which was higher than the expectations (6.8 per cent). This boost in growth was in partly driven by firmer exports and production. The second quarter growth numbers are setting the country on course to comfortably meet its 2017 growth target of 6.5 per cent. As per the NBS, the economy performed within an appropriate range with more visible good momentum and achieved steady growth, rise in employment, stable prices. Income growth and optimizing structures.

Global Oil Prices Declined in June

According to the OECD Monthly oil market report, global oil prices declined in June to \$45.21 per barrel, down more than 8 per cent to its lowest value for the year. The oil market witnessed a sell-off amid significant bearish sentiment ignited by excess oil supply and still high oil inventories, despite ongoing high conformity by OPEC and non-OPEC participating producers. Oil continued to be weighed down by the slow pace of inventory drawdown globally amid a rebound in global oil supplies.

At the recent meeting held on this week, OPEC decided to cap Nigerian oil output and called on several members to boost compliance with production cuts to help clear excessive global stocks and support flagging prices. OPEC has agrees with several Non-OPEC producers to cut oil output by a combined 1.8 million barrels per day from January 2017 until the end March 2018.

1. External Sector Performance – April 2017

Category	April 2017 USD Mn	April 2016 USD Mn	Change (%)	Jan - Apr 2017 USD Mn	Jan - Apr 2016 USD Mn	Change (%)
Exports	794.7	710.4	11.9	3,569.0	3,449.6	3.5
Agricultural Products	195.8	159.5	22.7	851.7	721.8	18.0
<i>Tea</i>	109.1	93.2	17.1	458.2	406.3	12.8
Industrial Products	594.9	547.9	8.6	2,701.5	2,713.5	(0.4)
<i>Textiles and Garments</i>	350.5	340.5	3.0	1,626.3	1,709.8	(4.9)
<i>Rubber Products</i>	48.9	48.5	0.9	248.4	254.6	(1.3)
Imports	1,603.9	1,460.9	9.8	6,883.3	6,055.4	13.7
Consumer Goods	345.1	316.2	9.1	1,515.6	1,425.5	6.3
<i>Food and Beverages</i>	123.9	117.4	5.6	629.2	516.9	21.7
Intermediate Goods	885.7	778.9	13.7	3,692.2	3,019.2	22.3
<i>Fuel</i>	325.6	200.8	62.1	1,208.3	686.5	76.0
Investment Goods	372.5	364.3	2.3	1,614.6	1,607.8	0.4
<i>Machinery and Equipment</i>	185.7	212.8	(12.8)	871.9	925.2	(5.8)
<i>Transport Equipment</i>	51.6	37.3	38.2	215.1	195.1	10.3
<i>Building Materials</i>	134.3	113.8	18.1	524.1	485.3	8.0
Deficit in the Trade Account	-809.2	-750.5 (b)	7.8	-3,314.3	-	2,605.8(b)
Workers' Remittances	487.9	578.0	-15.6	2,221.7	2,371.4	-6.3
Earnings from Tourism	274.9	234.0 (b)	17.5	1,312.8	1,237.3 (b)	6.1
Inflows to the CSE (Net) (c)	71.1	-7.0	-	154.5	-19.5	-892.5
Inflows to the Government (d)	161.3	271.4 (b)	-40.6	788.3	537.4 (b)	46.7
Treasury Bills and Bonds	103.2	174.4	-40.8	385.2	217.7	77.0
Long term Loans	58.1	92.2 (b)	-37.0	395.2	309.6 (b)	27.6

Source: - Central Bank of Sri Lanka

(a) Provisional

(b) Revised

(c) Includes secondary and primary market transactions

(d) Inflows to the government include capital and current transfers to the government, inflows from the investments in Treasury bills and Treasury bonds by foreign investors, International Sovereign Bonds, Syndicated Loans and long-term loans of the government.

2. Tourist Arrivals

Country of Residence	June			January - June		
	2017	2016	% Change	2017	2016	% Change
Western Europe	33,228	29,599	12.3	330,334	302,863	9.1
of which UK	10,424	9,406	10.8	95,922	86,701	10.6
Asia	64,436	66,160	-2.6	452,381	448,278	0.9
of which India	27,836	27,068	2.8	172,894	172,841	0.0
China(P.R)*	17,205	19,952	-13.8	134,744	132,842	1.4
Other	25,687	22,279	15.3	227,729	213,126	6.9
Total	123,351	118,038	4.5	1,010,444	964,267	4.8

Source: - Sri Lanka Tourism Development Authority

3. Interest Rates

	Week ending 21 st July 2017	Week ago	Year ago
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	12.00	11.84	10.89
Treasury Bill Yield			
91 days	9.56	9.60	8.80
364 days	10.18	10.39	10.49
	Latest available month	Month before	Year ago
Commercial Bank Average Weighted Lending rate (AWLR) (May 2016)	13.57	13.52	11.89
Commercial Bank Average Weighted Fixed Deposit Rate (AWFDR) (June 2017)	11.66	11.52	8.64

Source: - Central Bank of Sri Lanka

4. Inflation

3.1 Colombo Consumer Price Index (CCPI) Base Year 2013

Consumer Price Inflation	June 2017	May 2017	Year ago
Year-on -Year	6.1	6.0	5.5
12 Month Moving Average (%)	5.5	5.4	3.0

Core Inflation	June 2017	May 2017	Year ago
Year-on -Year	5.1	5.2	5.4
12 Month Moving Average (%)	5.5	5.5	5.1

3.2 National Consumer Price Index (NCPI)

Consumer Price Inflation	June 2017	May 2017	Year ago
Year-on -Year	6.3	7.1	6.4
12 Month Moving Average (%)	6.1	6.1	3.1

Core Inflation	June 2017	May 2017	Year ago
Year-on -Year	4.1	4.7	7.5
12 Month Moving Average (%)	6.1	6.4	5.3

Source: - Department of Census and Statistics

5. Credit Growth

	April 2017	March 2017	February 2017	Year ago (April 2016)
Growth in Credit to Private sector (%)	20.0	20.4	21.0	28.1

Source: - Central Bank of Sri Lanka