

The SNAPSHOT

Sri Lankan Economy

Exports: In June 2017, export earnings expanded for the fourth consecutive month, registering a 10% Y-o-Y growth. The largest contribution for this growth was from industrial exports (77%) followed by agricultural exports (21%).

Imports: In June 2017, expenditure on imports declined for the first time since September 2016, registering a Y-o-Y decline of 8%, largely contributed by intermediate goods (87%); (mainly by lower imports of fuel), followed by consumer goods and Investment goods.

Trade Balance: The deficit in the trade balance contracted in June 2017 on Y-o-Y basis due to increase in exports and decline of imports. The cumulative trade deficit during the first half of 2017 increased on Y-o-Y basis due to increase in imports.

Inflation: In July 2017, both CCPI and CCPI core inflation slowed to 4.8% (from 5.8%) and 4.9% (from 5.0%) on Y-o-Y basis. The NCPI inflation increased to 6.3% (from 5.8%) and NCPI core inflation slowed to 4.2% (from 6.8%) on Y-o-Y basis.

Credit Growth: Growth in credit to the private sector decreased to 18.6% in June 2017, for the third consecutive month showing the results of CBSL policy rate tightening.

The Global Economy

Global Oil Prices: Global oil prices increased by 4% in July 2017 to USD 46.93 per barrel on month-on-month basis, after two consecutive months of sharp declines. At the latter part of August, oil prices increased further by 9% on month-on-month basis.

Global Trade: As per the World Trade Outlook Indicator of the World Trade Organisation, global merchandise trade will continue to strengthen in the third quarter of 2017.

China: IMF warns that China's debt boom could lead to financial crisis. Growth in China has been propelled up by rapid increases in debt in recent years and the nominal credit to the non-financial sector more than doubled in the last five years. As per the IMF, this may increase the risk of disruptive adjustments and market growth slowdown.

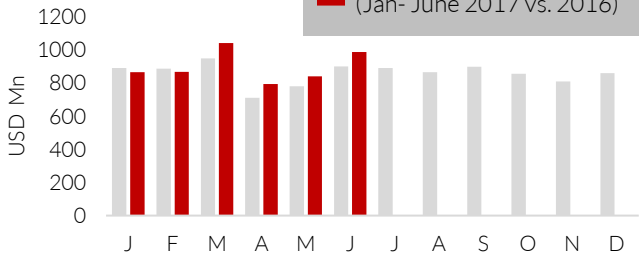
US: US home prices keep climbing as inventories sit at historic lows due to construction lags. Housing prices rose by 5.8% in 12 months to June and stand at 4.3% higher than the pre-crisis peak, according to a national Home Price Index of US.

External Sector Performance – June 2017

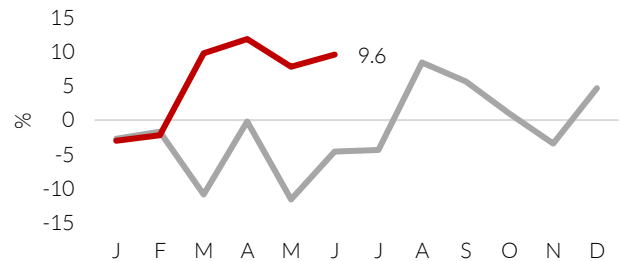
Exports

Exports Rose by 10% Y-o-Y

↑ 5.2%
(Jan- June 2017 vs. 2016)



Y-o-Y % Change in Total Exports



Industrial Exports Increased by 10% Y-o-Y



Agricultural Exports rose by 8% Y-o-Y



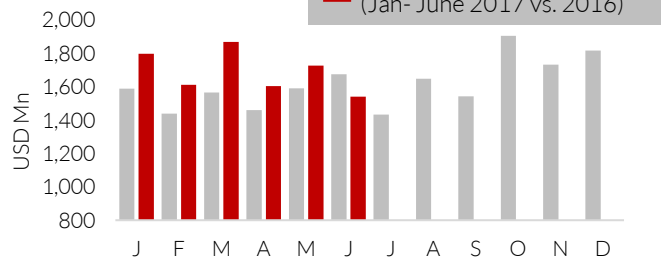
Y-o-Y Change in Major Exports
June 2017 vs 2016



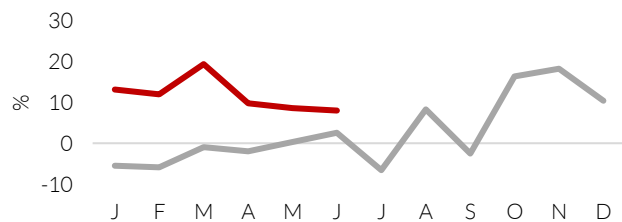
Imports

Imports Declined by 8% Y-o-Y

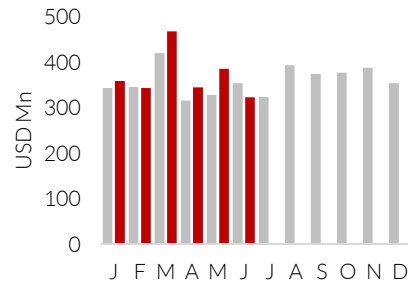
↑ 9%
(Jan- June 2017 vs. 2016)



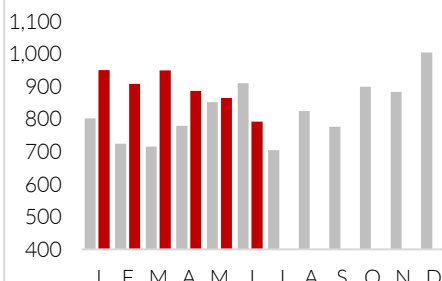
Y-o-Y % Change in Total Imports



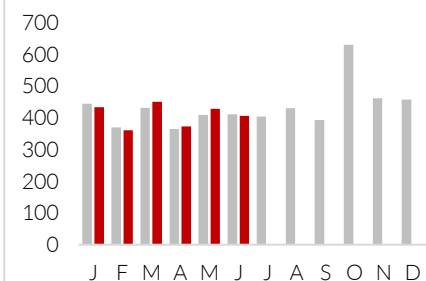
Consumer Goods Declined by 9% Y-o-Y



Intermediate Goods Declined by 13% Y-o-Y

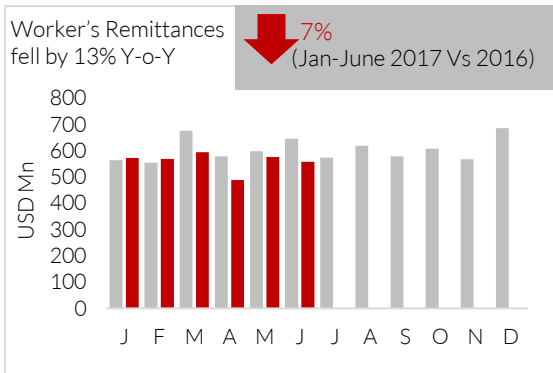
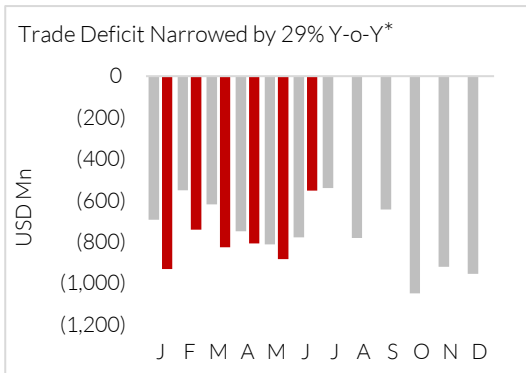


Investment Goods Declined by 1% Y-o-Y

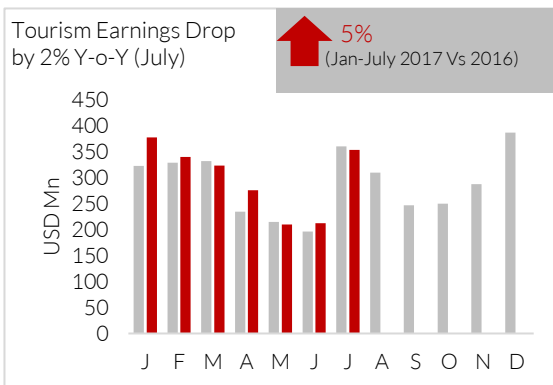
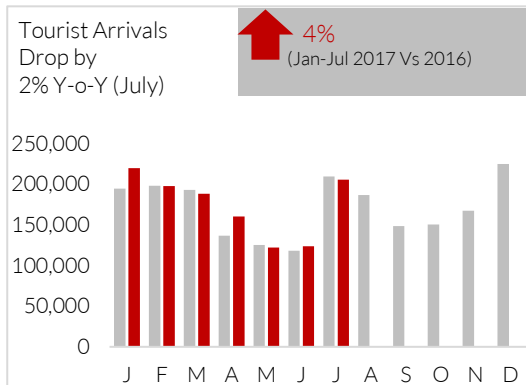


Y-o-Y Change in Major Imports – June 2017 vs 2016





36%
Of the total import bill covered by Remittances (June '17)



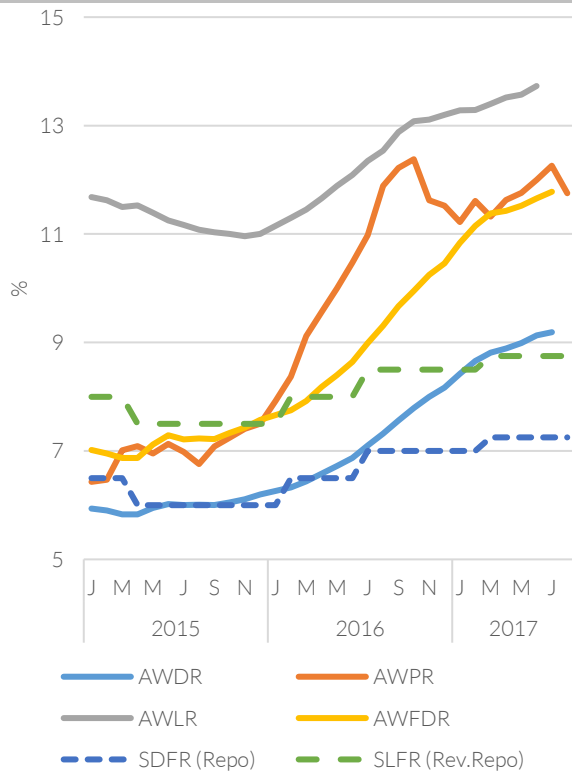
14%
Of the total import bill covered by Tourism Earnings (June '17)

Legend █ 2017 █ 2016 *EIU Calculations based on CBSL data

Key Macroeconomic Indicators

Interest Rates

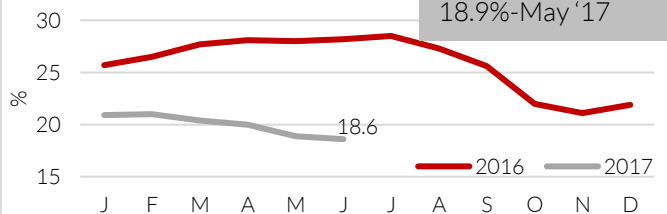
SDFR and SLFR remain unchanged at 7.25% and 8.75% respectively



Credit to Private Sector

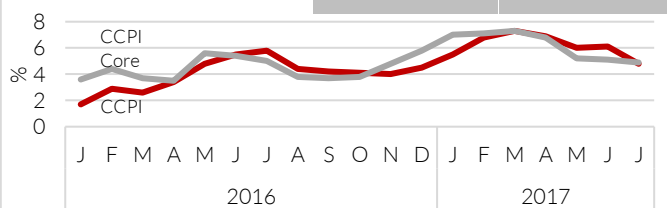
18.6%- June '17

18.9%- May '17



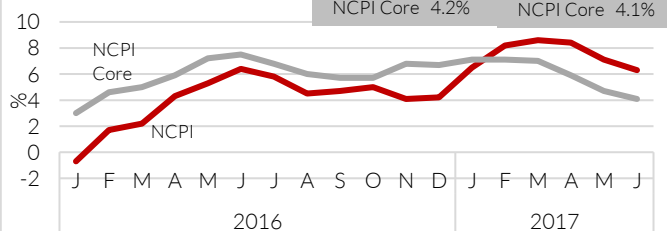
Inflation-CCPI (Base 2013)

July 2017	CCPI 4.8%	June 2017	CCPI 6.1%
	CCPI Core 4.9%		CCPI Core 5.1%



Inflation-NCPI

July 2017	NCPI 6.3%	June 2017	NCPI 6.3%
	NCPI Core 4.2%		NCPI Core 4.1%



Further Insights – Sri Lankan Economy

Exports up by 5% and imports up by 9% during the first half of 2017

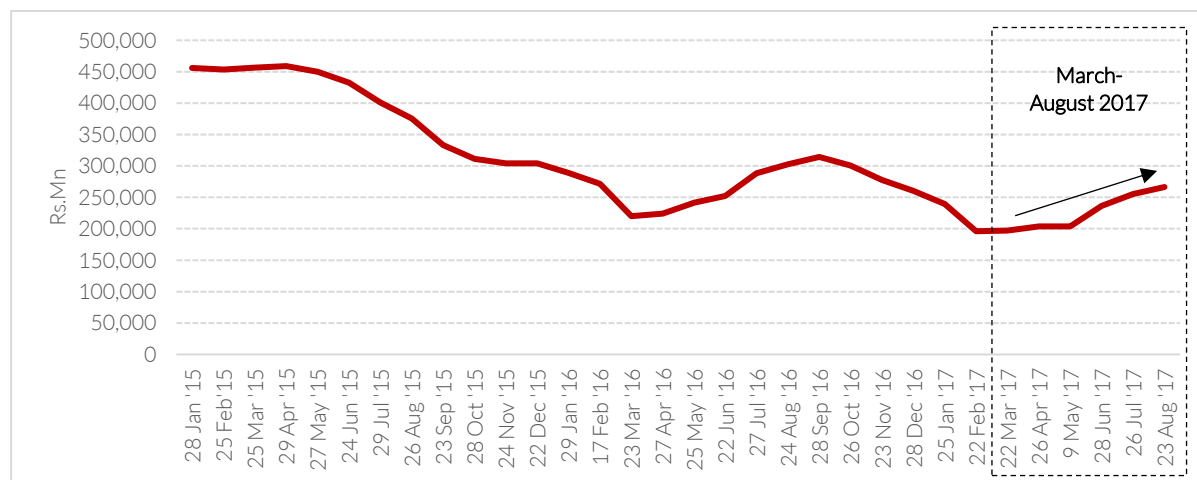
- Export earnings of the first half of 2017 recorded as USD 5.3 billion; grew by 5% Y-o-Y owing to higher earnings from agricultural exports (76%) followed by industrial exports (23%).
- Export earnings from tea, spices and sea food were the major contributors for the growth of agricultural exports while exports of transport equipment, petroleum products and machinery and mechanical appliances were the key contributors for the growth in industrial exports over the first six months of 2017.
- Export earnings from textile and garments, gems, diamonds and Jewellery, leather and footwear and ceramic products registered a decline during the period under consideration.
- Agricultural exports recorded an 18% growth in the first half of 2017 on Y-o-Y basis while mineral exports registering a growth of 24% followed by the industrial sector, grew by 2%.
- Expenditure on imports during the first half of 2017 recorded at US dollar 10.1 billion, registered a growth of 9% on Y-o-Y basis and this growth was mainly driven by higher imports of intermediate goods (69%), followed by consumer goods (14%) and investment goods (2%).
- Higher imports of fuel, diamonds and precious metal contributed highest on the growth of intermediate goods while food and beverages, clothing and accessories and telecommunication devices imports contributed highest on the growth of consumer devices during the period under consideration. Higher imports of building material, transport equipment contributed the growth of the imports of investment goods.
- Imports of personal vehicles, rubber products, fertilisers and machinery and equipment registered a significant decline during the period under consideration.
- During the first half of 2017, intermediate goods imports grew by 12% and consumer goods imports and investment goods imports grew by 6% and 1% respectively on Y-o-Y basis.

IMF Second Review of the EFF Requires Further Strengthening of Reform Momentum

- IMF second review of the EFF requires that the reform momentum should be strengthened further, building on the progress made so far and to reduce the risk of debt distress, fiscal consolidation should continue at steady pace.
- As per the review, this would require legislating and implementing the New Inland Revenue Act, strengthening the VAT system and administration and making further progress in expenditure management and State Owned Enterprises (SOE) reforms.
- IMF further requires that the monetary policy should be tightened to rein in inflation and credit growth and reserve accumulation should continue while allowing for greater exchange rate flexibility.
- As per the IMF evaluations, Sri Lankan authorities have undertaken meaningful corrective actions where targets were missed.
- The New Inland Revenue Act will be submitted to the parliament, strengthened tax administration and the Central Bank has taken steps to address the missed end 2016 reserve target by resuming since March 2017, the buildup of reserves. In response to high inflation, the Central Bank tightened the monetary policy in March 2017.

Foreign Holdings in Government Securities Continues to Increase

Government securities held by foreigners reached the highest for 2017 to Rs.266 trillion as at 23rd August 2017 continuing the positive trend observed during last six months. The latest foreign holdings level (in August) is 11% higher than at the start of the year, however it is 12% and 34% lower than the same time in 2016 and 2015 respectively. Increase in foreign holdings in government securities could reflect improving foreign investors' confidence in Sri Lanka.



The Government announced a “Pre-Budget Relief Package”

With the purpose of encouraging youth to take up entrepreneurship, the government announced a so-called “Pre-budget relief package”. The government is expecting around 500,000 more jobs will generate with in the country due to these concessionary schemes. These concessions include a host of low-interest loans offered to small and medium enterprises, reduction of import levies on motor cycles, single cabs and mini trucks (w.e.f. 18th August) and removal of telecommunication levy imposed on data (w.e.f. 1st of September).

According to these concessions, customs duty on mini-trucks and single cabs has been reduced by Rs.300, 000 while ad-valorem excise duty on motor cycles with an engine capacity between 50cc-150cc has been reduced by 90%. As per the Motor Vehicle Importers Association, this duty reduction will result in increasing imports of motor cycles from Japan. Imports of Japanese motor bicycles have been low due to their high cost.

Further Insights - Global Economy

Global Trade Growth will Continue to Strengthen in Q3 of 2017

- The World Trade Outlook Indicator (WTOI) of the World Trade Organisation (WTO) suggests that global merchandise trade will continue to strengthen in the third quarter of 2017.
- The latest reading of 102.6 is the highest level of the indicator since April 2011, suggesting that trade volume growth will continue to be above trend in the third quarter of 2017.
- Strong growth in export orders, air freight and container shipping is leading the upward trend in the indicator as the economic activity picks up around the world.
- Weak growth in automobile production and sales is a cause for concern as it may signal weakening consumer confidence.

Global Oil Prices Up in July and Likely to Continue in August

- According to the OPEC monthly oil market report, the global oil prices increased by 4% to USD 46.93 per barrel in July compared to June 2017 after two consecutive months of sharp declines.
- Oil prices rose nearly 10% after the last meeting of OPEC and major non-OPEC producers, when the group discussed potential measures to balance the oil market.
- As at 29th August 2017, oil prices registered a further increase by 9% on month-on-month basis, to USD 51.87 per barrel and this could be due to the Hurricane Harvey in Texas.
- As a result of the Hurricane Harvey, the flooding in Texas is causing havoc in the energy markets. Three major refineries were shut down and all port facilities in Houston and Corpus were stop. The implications of the refinery outages and port closures may result in disruption of production of refined products, which could have substantial effects on the US fuel supply.

IMF Warns China on Debt Boom

China's economy is reliant very much on debt and the IMF warns China on this enormous boom in credit risks leading to a new financial crisis. Growth in China has been propelled up by rapid increases in debt in recent years. As per the IMF findings, nominal credit to the nonfinancial sector more than doubled in the last five years, and the total domestic nonfinancial credit -to-GDP ratio increased by 60 percentage points. IMF is warning that China's current credit trajectory is dangerous with increasing risks of disruptive adjustments and market growth slowdown.

1. External Sector Performance – June 2017

Category	June 2017 USD Mn	June 2016 USD Mn	Change (%)	Jan - Jun 2017 USD Mn	Jan - Jun 2016 USD Mn	Change (%)
Exports	987.3	900.6	9.6	5,397.6	5,130.3	5.2
Agricultural Products	232.0	214.1	8.3	1,306.4	1,104.7	18.3
<i>Tea</i>	138.6	121.9	13.7	728.4	618.4	17.8
Industrial Products	749.8	682.9	9.8	4,065.8	4,004.5	1.5
<i>Textiles and Garments</i>	398.1	430.2	(7.5)	2,383.6	2,514.7	(5.2)
<i>Rubber Products</i>	73.1	63.3	15.4	388.5	372.0	4.4
Imports	1,540.9	1,675.8	(8.0)	10,151.0	9,321.0	8.9
Consumer Goods	67.1	70.3	(4.7)	408.2	435.9	(6.4)
<i>Food and Beverages</i>	131.4	137.4	(4.3)	923.5	775.7	19.1
Intermediate Goods	792.1	909.7	(12.9)	5,349.0	4,780.4	11.9
<i>Fuel</i>	200.6	304.2	(34.1)	1,624.5	1,177.8	37.9
Investment Goods	405.3	410.1	(1.2)	2,447.2	2,426.7	0.8
<i>Machinery and Equipment</i>	220.2	224.6	(2.0)	1,319.0	1,371.9	(3.9)
<i>Transport Equipment</i>	55.8	46.8	19.1	333.8	290.9	14.7
<i>Building Materials</i>	128.5	137.9	(6.8)	789.6	760.7	3.8
Deficit in the Trade Account	-553.6	-775.2	(28.5)*	-4,753.5	-4,190.7	13.4*
Workers' Remittances	557.6	644.5	-13.5	3,354.7	3,613.1	-7.2
Earnings from Tourism	211.6	202.5 (b)	4.5	1,733.6	1,654.3 (b)	4.8
Inflows to the CSE (Net) (c)	38.2	-3.6	-	229.3	-40.9	-
Inflows to the Government (d)	304.0	299.5 (b)	1.5	3,353.0	1,137.1(b)	194.9
Treasury Bills and Bonds	157.7	193.6	-18.5	729.8	601.1	21.4
Long term Loans	141.3	100.9 (b)	40.1	1,110.5	520.3(b)	113.4

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.

*EIU Calculations based on CBSL data

2. Tourist Arrivals

Country of Residence	July			January - July		
	2017	2016	% Change	2017	2016	% Change
Western Europe	80,896	77,862	3.9	411,230	380,725	8.0
of which UK	23,553	23,948	-1.6	119,475	110,649	8.0
Asia	82,033	85,458	-4.0	534,414	533,736	0.1
of which India	29,006	27,665	4.8	201,900	200,506	0.7
China(P.R)*	28,445	30,631	-7.1	163,189	163,473	-0.2
Other	42,553	46,031	-7.6	270,282	259,157	4.3
Total	205,482	209,351	-1.8	1,215,926	1,173,618	3.6

Source: - Sri Lanka Tourism Development Authority

3. Interest Rates

	Week ending 25 th August 2017	Week ago	Year ago
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	11.75	11.52	11.68
Treasury Bill Yield			
91 days	-	-	9.04
364 days	9.65	9.54	10.75
	Latest available month	Month before	Year ago
Commercial Bank Average Weighted Lending rate (AWLR) (June 2016)	13.73	13.57	12.09
Commercial Bank Average Weighted Fixed Deposit Rate (AWFDR) (July 2017)	11.78	11.66	8.99

Source: - Central Bank of Sri Lanka

4. Inflation

3.1 Colombo Consumer Price Index (CCPI) Base Year 2013

Consumer Price Inflation	July 2017	June 2017	Year ago
Year-on -Year	4.8	6.1	5.8
12 Month Moving Average (%)	5.4	5.5	3.4

Core Inflation	July 2017	June 2017	Year ago
Year-on -Year	4.9	5.1	5.0
12 Month Moving Average (%)	5.4	5.5	5.1

3.2 National Consumer Price Index (NCPI)

Consumer Price Inflation	July 2017	June 2017	Year ago
Year-on -Year	6.3	6.3	5.8
12 Month Moving Average (%)	6.2	6.1	3.4

Core Inflation	July 2017	June 2017	Year ago
Year-on -Year	4.2	4.1	6.8
12 Month Moving Average (%)	5.9	6.1	5.5

Source: - Department of Census and Statistics

5. Credit Growth

	June 2017	May 2017	April 2017	Year ago (June 2016)
Growth in Credit to Private sector (%)	18.6	18.9	20.0	28.2

Source: - Central Bank of Sri Lanka