

Monthly Economic Update (MEU)

August 2023

**Economic Intelligence Unit
The Ceylon Chamber of Commerce**



EIU

Highlights

Sri Lankan Economy

Significant Reduction in Trade Deficit during 1H 2023

The Central Bank's latest data reveals a 10% decrease in export earnings, during 1H 2023, and conversely, imports saw a notable 18.6% reduction, resulting in a reduction of deficit in trade account of USD 2.29 billion. This marks an improvement from the USD 3.51 billion deficit during the same period in 2022.

CBSL Takes further Steps to Ease Monetary Policy

The Central Bank of Sri Lanka (CBSL) has lowered the Statutory Reserve Ratio (SRR) for Licensed Commercial Banks (LCBs) by 200 basis points, taking it from 4% to 2% starting from August 16, 2023. This decision seeks to address the liquidity shortfall in the market and is in line with CBSL's current monetary policy approach.

Mix- Performance in PMI-July

The latest data from the Purchasing Manager's Index (PMI) for July follows the same trajectory of June with intensifying contractions in manufacturing and expansion in services. Manufacturing activities are expected to gradually recover over the next three months, while services activities are also anticipated to improve in July due to favorable economic conditions.

Debut Monetary Policy Report: Elevating CBSL's Transparency and Accountability

In accordance with the new CBSL Act, the Central Bank released its inaugural Monetary Policy Report recently. The Report explains recent monetary decisions, provides insights into future inflation and macro trends, enhancing Central Bank transparency and accountability.

A Primary Surplus Recorded in 1H

The fiscal performance recorded a significant improvement in the primary surplus during the 1H-2023, with a positive balance of Rs. 30 Bn. This stands in stark contrast to the deficit of Rs. 245 Bn that was recorded during the corresponding period in 2022.

Global Economy

Asia and the Pacific continues to Recover from the Pandemic at a Steady Pace: ADB

The Asian Development Bank (ADB) is keeping its 2023 growth forecast for Asia-Pacific economies at 4.8%, citing strong domestic demand aiding the region's recovery. However, the 2024 growth forecast has been slightly lowered to 4.7% from the previous estimate of 4.8%, attributed to decreased demand for exports like electronics and manufactured goods.

Disrupted Global Trade due to Panama Canal Restriction

The Panama Canal is facing an unprecedented traffic jam with around 200 ships stuck on both ends, caused by a combination of factors including a prolonged drought leading to lower water levels. The situation is worsened by strategic changes by the Panama Canal Authority aimed at conserving water resources.

Inflation in India Rises to a 15-month High

India's headline inflation soared to 7.44% in July, a substantial rise from last year and the highest since April 2022. However, core inflation for the same month was 4.9%, down from 6% in January, suggesting that the spike in headline inflation is mainly driven by a notable increase in food inflation.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

-11.5% in Q1-2023

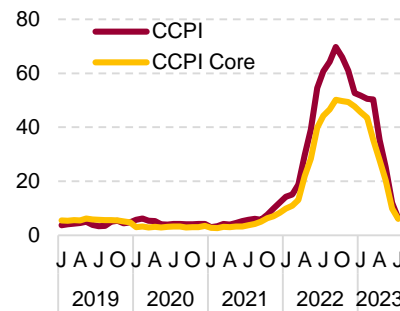
Movement of Purchasing Managers' Index-July 2023

Manufacturing PMI **44.6**
Services PMI **59.5**

Services activities expanded,
Manufacturing activities contracted.

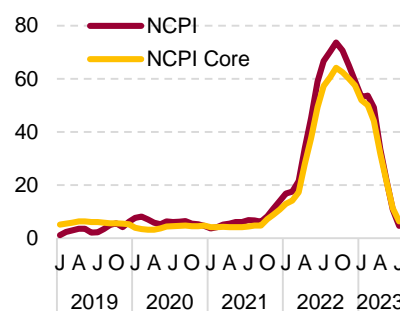
Inflation

CCPI Inflation (%) - Base 2021



July. 2023
Headline **6.3%**
Core **6.1%**

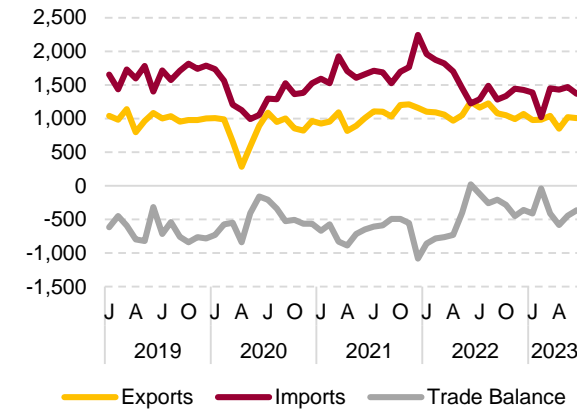
NCPI Inflation (%) - Base 2021



July. 2023
Headline **4.6%**
Core **6.3%**

External Sector

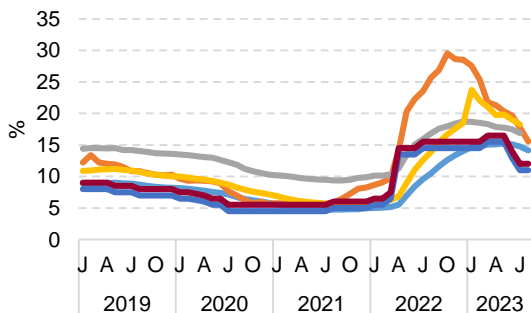
Merchandise Trade



Tourism

Jun. 2023	July. 2023
Exports 19.5% ↓	Arrivals 202% ↑
Imports 11.6% ↑	Earnings 272% ↑
Workers' Remittances	
94% ↑	

Interest Rates



AWDR
AWPR
AWLR
AWFDR
SDFR (Repo)
SLFR (Rev.Repo)

SDFR: 11.0%
SLFR: 12.0%

Growth in Credit to Private Sector

June 2023
8.0% ↓

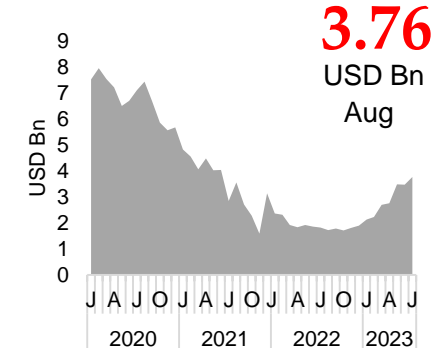
Exchange Rate



Appreciation of LKR thus far 2023 (Jan-Aug)

10.8%

Official Reserves



3.76
USD Bn
Aug

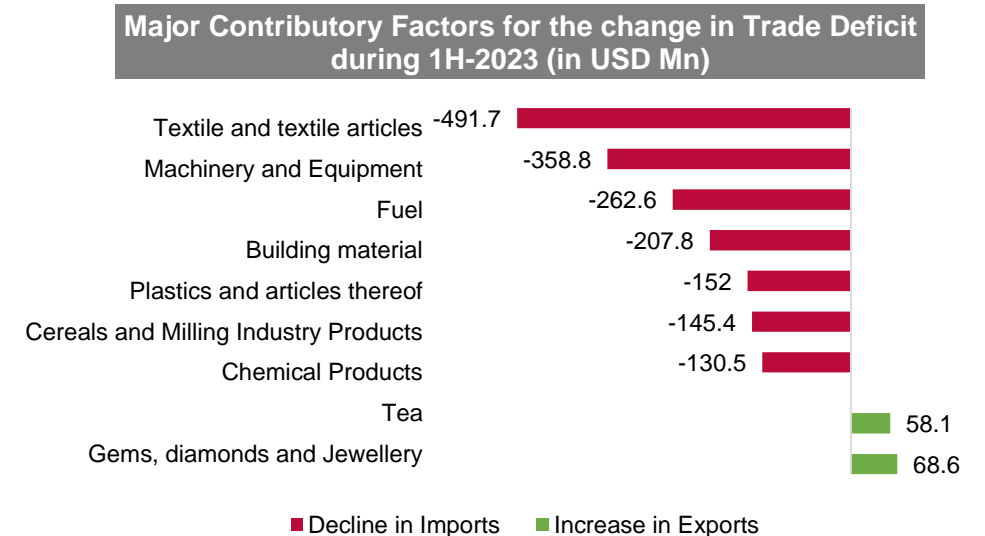
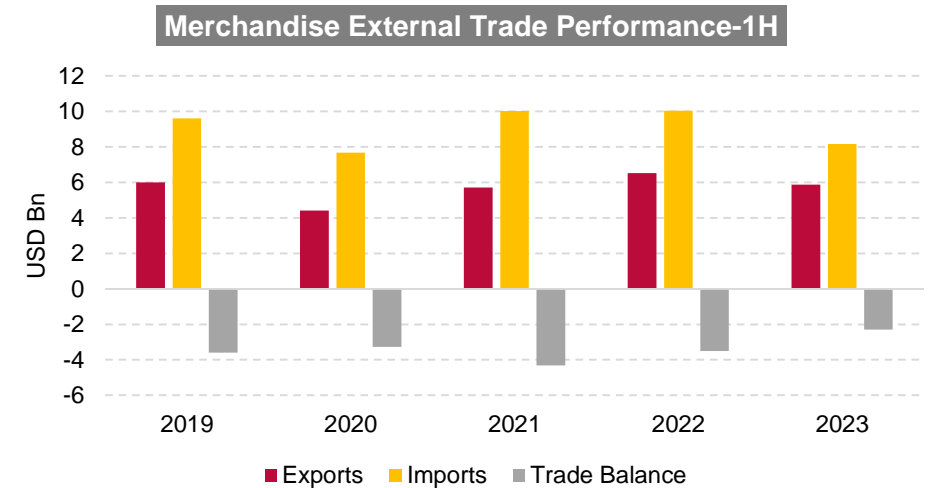
KEY INSIGHTS

Sri Lankan Economy

Significant Reduction in Trade Deficit during 1H on Y-o-Y

According to the most recent data released by the Central Bank, the cumulative earnings from exports from January to June 2023 (1H) indicated a decline of 10% in comparison to the same period in the previous year, totalling USD 5.87 billion. Conversely, the outlay on imports during the 1H 2023 demonstrated a substantial reduction of 18.6%, reaching USD 8.16 billion. This significant contrast resulted in a trade account deficit of USD 2,289 million for the first half of 2023, a notable improvement from the USD 3,506 million deficit reported during the corresponding period in 2022. The contraction in imports during the initial six months of 2023 can predominantly be attributed to the decline in the importation of intermediate and investment goods, with the most pronounced decrease observed in textiles and textile articles, which plummeted by USD 491.7 million. Conversely, the decline in exports is also primarily attributed to a decrease in industrial exports, particularly in the textile and garment exports, dropping by USD 516.7 million. The central bank anticipates an increase in import expenditure in the upcoming months due to the relaxation of import controls that were implemented in June and July.

Furthermore, during the 1H 2023, workers' remittances exhibited a substantial 75% increase year-on-year, reaching a sum of USD 2.8 billion by the close of June. However, it's important to note that this figure remains below the pre-pandemic levels of 2021. According to preliminary data, the total number of departures for foreign employment from January to June 2023 stood at 146,437, a figure broadly in line with the statistics from 2022. In parallel, earnings from tourism for the January to June 2023 period tallied up to USD 875 million, signifying a notable growth from the USD 680 million recorded in the corresponding span of 2022. This was supported by a total of 624,874 tourist arrivals, with the primary source countries being India, Russia, the United Kingdom, Germany, and France.

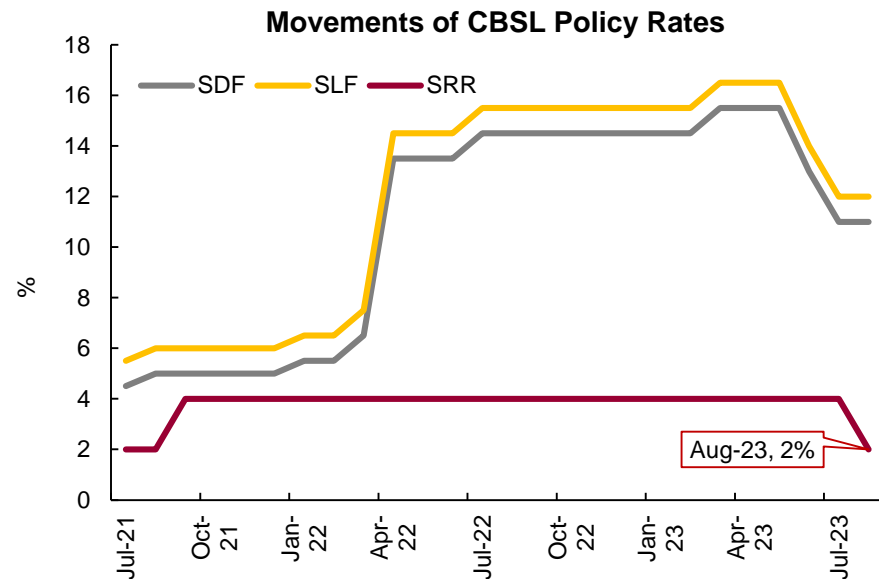


KEY INSIGHTS

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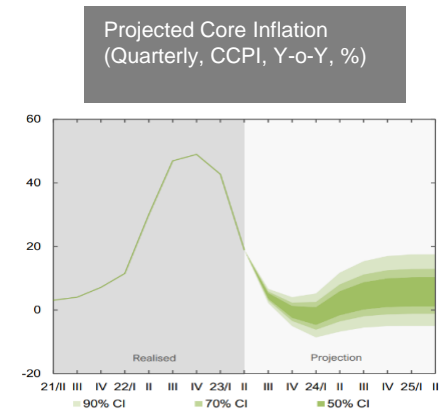
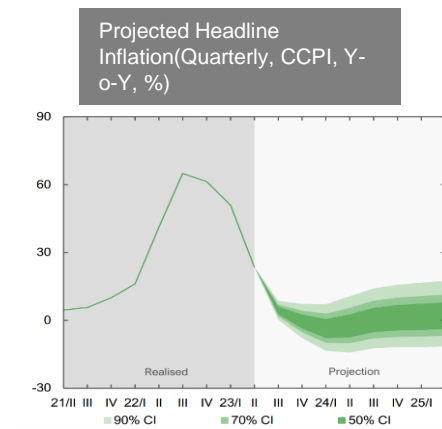
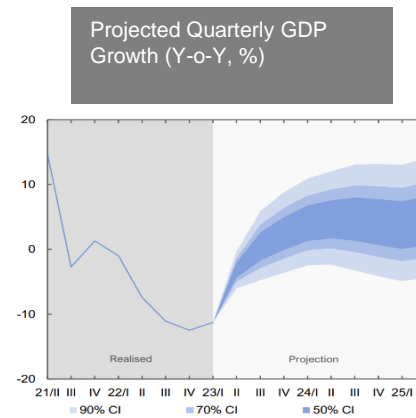
CBSL Takes further Steps to Ease Monetary Policy

The Central Bank of Sri Lanka (CBSL) has reduced the Statutory Reserve Ratio (SRR) for Licensed Commercial Banks (LCBs) from 4% to 2% from 16th August 2023, injecting approximately Rs. 200 billion into the domestic money market, leading to a likely decrease in market lending rates. On 24th August 2023 the CBSL decided to maintain policy rates at their current levels of 11% and 12% for SDFR and SLFR respectively. The central bank's actions reflect its proactive stance on monetary policy, considering the recent disinflation trend.



Debut Monetary Policy Report: Elevating CBSL's Transparency and Accountability

Under the new Central Bank Act, the CBSL released its inaugural bi-annual Monetary Policy Report on 31 July 2023 to explain the rationale of its decisions and forecast inflation and macroeconomic developments. The report projects a temporary dip in headline inflation before stabilizing at the targeted level, with core inflation following a more gradual descent. The real economy is expected to continue contracting in the immediate future but rebound gradually. Despite anticipated GDP contraction in 2023, several factors such as the gradual easing of monetary policy, an upturn in trading partners' economic activity, and ongoing structural and fiscal reforms are expected to lessen its severity and support medium-term economic growth.



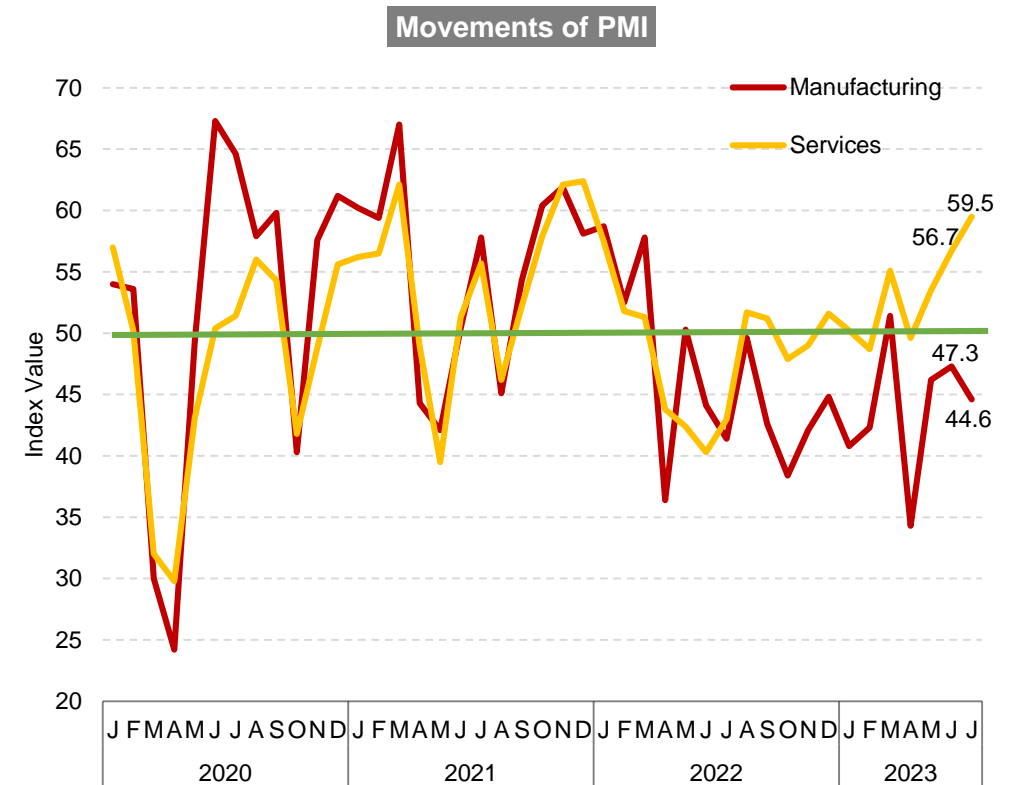
KEY INSIGHTS

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July PMI Overview: Manufacturing Contracts Further while Services continues to Expand

The latest data from the Purchasing Manager's Index (PMI) for July follows the same trajectory of June with intensifying contractions in manufacturing and expansion in services. The manufacturing sector's PMI value drops further to 44.6, suggesting a slowdown in manufacturing activities. This was due to weaker performance across all sub-indices. The decline in Production and New Orders was mainly because of the struggle in the production of food and beverages, where demand conditions remained subdued despite lower market prices. The textile and apparel sector faced difficulties in securing new orders due to global competition and weak demand. Employment and Stock of Purchases also dropped during the month. Many companies only filled essential vacancies, which also reduced Employment in July. Meanwhile, Suppliers' Delivery Time improved in July 2023 compared to the previous month. Expectations for manufacturing activities over the next three months show improvement, indicating a gradual recovery.

The services sector continued to grow positively, marking the third consecutive month of expansion, with a PMI value of 59.5. This growth was driven by increased New Businesses, Business Activities, and Expectations for Activity. However, Backlogs of Work continued to decrease, and employment remained unchanged. With the highest tourist arrivals of the year, accommodation-related services showed improvements. Financial services also improved due to declining market interest rates. Employment increased for the first time in 15 months due to ongoing recruitment at several companies. Backlogs of Work decreased at a slower pace during the month. Expectations for Business Activities for the next three months continued to improve in July due to favourable economic conditions.



KEY INSIGHTS

Global Economy

Asia and the Pacific continues to Recover from the Pandemic at a Steady pace: ADB

As per the Asian Development Update-July 2023 the Asian Development Bank (ADB) is maintaining its growth forecast for developing economies in Asia and Pacific at 4.8% in 2023, as robust domestic demand continues to support the region's recovery. The expected growth for 2024 is marginally revised down to 4.7% from 4.8% estimated by the ADB in April 2023. This downgrade has been attributed to slowing demand for the region's exports of electronics and other manufactured goods.

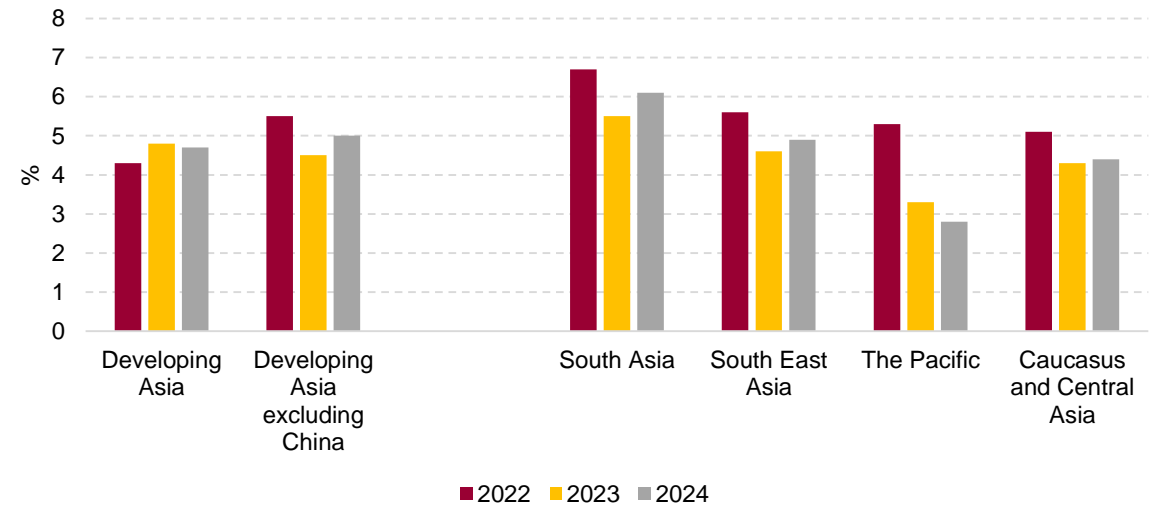
Inflation in the developing Asia is forecasts at 3.6% in 2023, compared with an April forecast by ADB, of 4.2%. The inflation outlook for 2024, meanwhile, is raised to 3.4% from an earlier estimate of 3.3%.

Considering the South Asian region, growth projections of most of the South Asian countries are largely maintained. Inflation forecast for 2023 for South Asia is kept at 8.1%, and the 2024 projection revised up markedly to 6.4%

For Sri Lanka, the economic growth in the 2H-2023 will likely be supported by improved foreign exchange liquidity, looser monetary policy, and parliamentary agreement in early July on how to optimize domestic debt, the report stated.

With lower inflation in developing Asia and more moderate monetary tightening in the United States, most central banks in the region have kept policy rates steady this year, with signs emerging of a shift toward easier money. Interest rates in the United States and other advanced economies are likely to shape the regional growth outlook, with upside and downside risks in balance.

Actual Growth and Forecasts of Regional Economies



Manufacturing remained weak in key technology exporters but remained resilient elsewhere

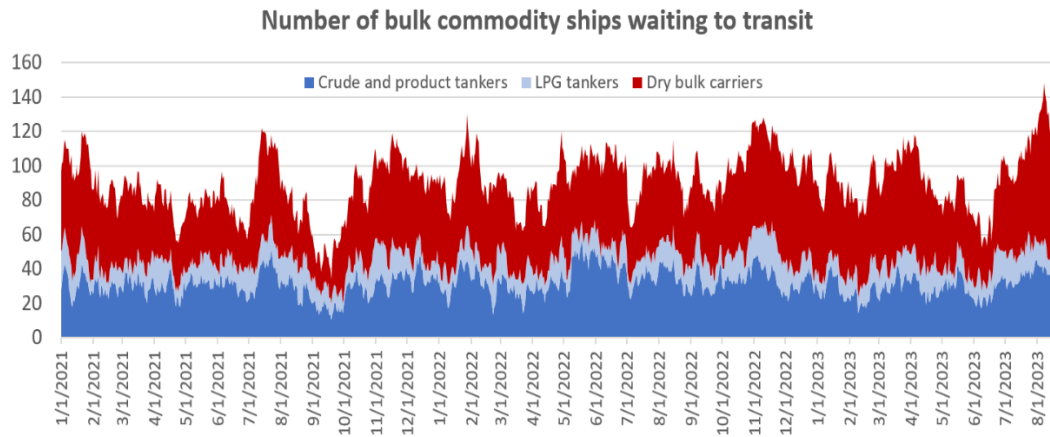
Economy	Manufacturing Purchasing Managers' Index (>50 improvement; <50 worsening)											
	2022						2023					
	Jul	Q3 Aug	Sep	Oct	Q4 Nov	Dec	Jan	Q1 Feb	Mar	Apr	Q2 May	Jun
India	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8
Thailand	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2
Indonesia	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5
Philippines	50.8	51.2	52.0	52.6	52.7	53.1	52.5	52.7	52.6	51.4	52.2	50.9
PRC	50.4	49.5	48.1	49.2	49.4	49.0	49.2	51.6	50.0	49.5	50.9	50.5
Singapore	50.1	50.0	49.9	49.7	49.8	49.7	49.8	50.0	49.9	49.7	49.5	49.7
Republic of Korea	49.8	47.6	47.3	48.2	49.0	48.2	48.5	48.5	47.6	48.1	48.4	47.8
Malaysia	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7
Vietnam	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2
Taipei, China	44.6	42.7	42.2	41.5	41.6	44.6	44.3	49.0	48.6	47.1	44.3	44.8

KEY INSIGHTS

Global Economy

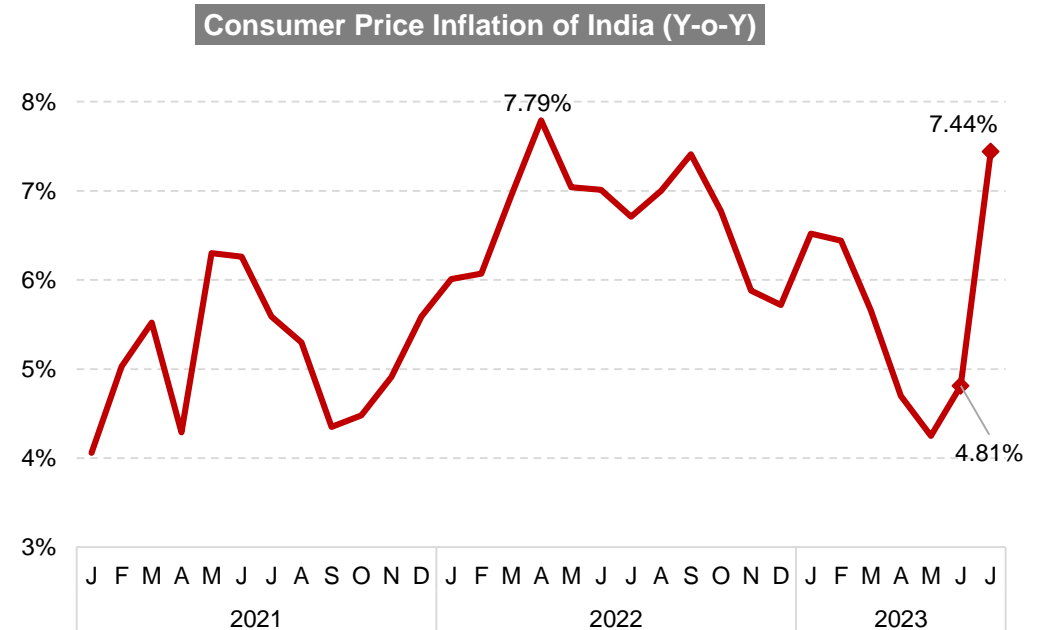
Disrupted Global Trade Due to Panama Canal Restrictions

The Panama Canal is experiencing an unprecedented traffic jam due to a prolonged drought and water conservation measures, affecting 200 ships. This bottleneck disrupts global supply chains, including Sri Lanka's trade with its largest export market, the USA, and raises shipping costs, undermining the competitiveness of exports.



Inflation in India Rises to a 15-month High

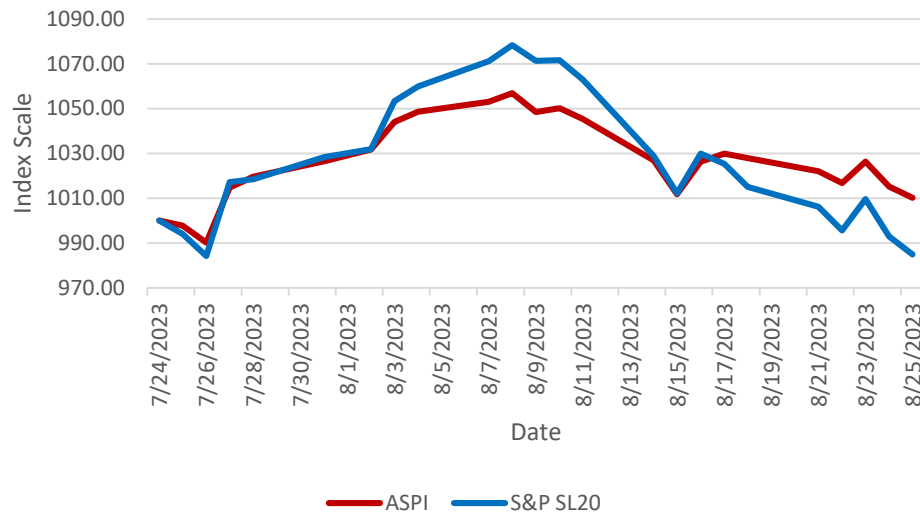
India's headline inflation spiked to 7.44% in July, driven largely by a surge in food prices, especially vegetables and cereals. Despite this, core inflation has decreased to 4.9%, suggesting the issue is primarily with food inflation. The Asian Development Bank projects a moderation of inflation rates in the coming years, pointing towards an anticipated stabilization in macroeconomic factors.



Equity and Debt Market Performance

In order to provide our members with a concise update on the equity market performance of the month, the EIU is collaborating with the Colombo Stock Exchange (CSE) to introduce a new section in the MEU. This addition aims to deliver a formal and succinct overview of the equity market's performance.

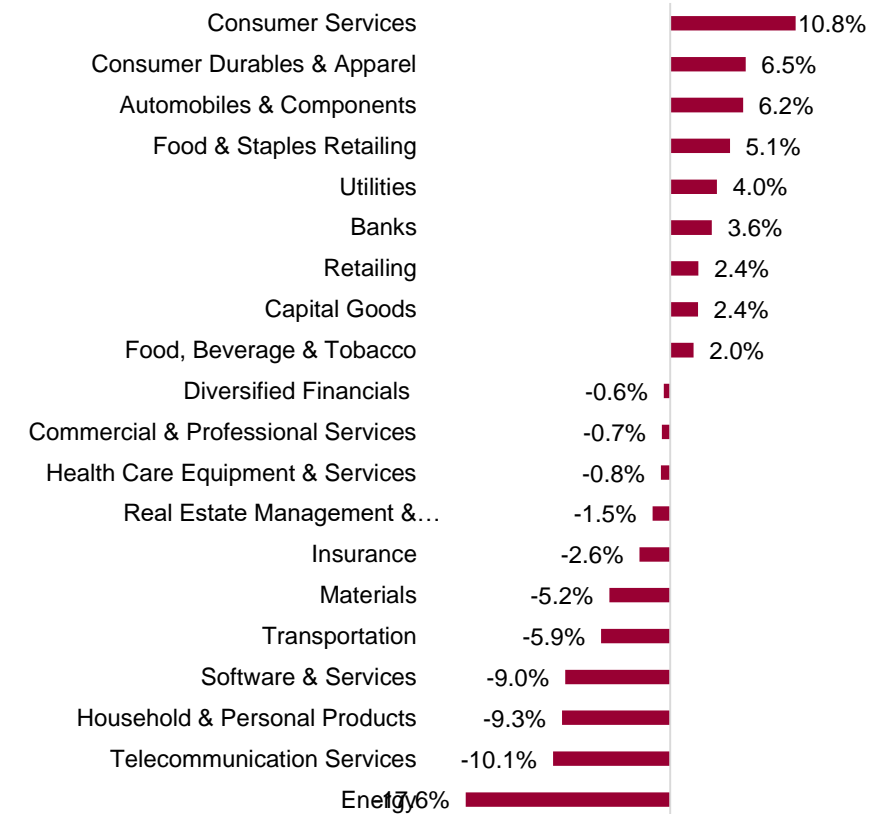
Index Performance



All Share Price Index (ASPI) is the benchmark index of the Colombo Stock Exchange (CSE). This is based on the float adjusted market capitalization.

S&P Sri Lanka 20 Index (S&P SL20) is the blue-chip index of the CSE and it includes the largest most liquid and profitable 20 companies as index constituents.

Market Cap Changes of GICS* Industry Groups (24/07/2023 – 25/08/2023)

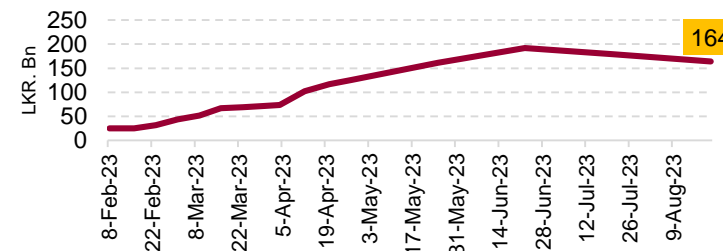


Foreign Inflows (Rs Mn) YTD* (25/08/23)

Foreign Inflow	31,401.33
Foreign Outflow	25,489.57
Net Foreign Inflow/(Outflow)	5,911.75

*YTD: Year to Date

Foreign Holdings in Government Securities



The detailed report could be accessed via <https://drive.google.com/file/d/1F7ucvTAi-njHfw9t2CJZqEP3XS0IOiii/view?usp=sharing>

*GICS: Global Industry Classification Standards

Evolving Landscape

With the aim of keeping our members updated on latest global trends, especially those influencing Sri Lanka, 'Evolving Landscape' section was added to the MEU. This section guide our members in strategic planning, innovation and competitiveness and helping them identify sector-specific opportunities and challenges.

Cybersecurity & Global Supply Chains: A Primer

Navigating the Intersection of Cybersecurity and Global Supply Chains: An Essential Guide

Introduction to Modern Supply Chains

Definition: Networks of businesses involved in producing, handling, and distributing products.
Global Interconnectedness: How everything is linked, requiring smooth information flow and secure data.

The Importance of Cybersecurity

Top Priority for Chief Information Officers: A look into why cybersecurity is vital in the complex world of supply chains.
Consequences of Attacks: Operational, financial, and reputational damages.
Digital Protection: Safeguarding sensitive information from theft or manipulation.
Economic Implications: Secure digital transactions underpin the global economy.

Top 10 Common Cyber Threats

1. **Cloud Security:** Misconfiguration, unauthorized access, insecure interfaces, account hijacking.
2. **Social Media:** Data breaches, phishing schemes, spoof accounts.
3. **PDFs:** Increasing malicious PDFs for phishing.
4. **Databases:** Stealing login credentials, malware access.
5. **Accidental Sharing:** Human error, accidental leaks.
6. **SMS (Smishing):** SMS-based phishing attacks.
7. **IoT Devices:** Rapid growth, increasing security threats.
8. **Poor Housekeeping:** Complacency in basic cybersecurity.
9. **Phishing:** A common and increasing method of attack.
10. **Ransomware:** Kaseya ransomware attack example, ransomware statistics.

Historical & Recent Cyber Threats

Early Threats: Melissa Virus, NASA's hack, etc.
High-Profile Company Attacks: Sony, Adobe, Yahoo.
Critical Infrastructure Attacks: Ukraine's power grid, WannaCry.
2021 High-Profile Attacks: Sony, Adobe, Yahoo, Marriott Hotels, RockYou2021 - Highlighting the persistence of the issue.

Concluding Thoughts

Diverse Options for Cybercriminals: The need for meticulous approach in cybersecurity.
Global Perspective & Real-world Relevance: How these threats impact globally interconnected businesses.

Evolving Landscape cont'd

With the aim of keeping our members updated on latest global trends, especially those influencing Sri Lanka, 'Evolving Landscape' section was added to the MEU. This section guide our members in strategic planning, innovation and competitiveness and helping them identify sector-specific opportunities and challenges.

Strategies for Secure and Resilient Supply Chains

Building Cyber Resilience: Protecting Supply Chains & Preventing Threats

What Are Proactive Security Measures?

Risk-Based Approach: Assessing and preparing for potential cyber threats.

Enhanced Cyber Hygiene: Regular checks and updates to ensure optimal security.

Role of Insurance: Using insurance policies to motivate better cybersecurity practices.

Proactive Security Measures

Prevention: Focus on cyber maturity assessment, planning, and anticipation of vulnerabilities.

Budget Assessment: Balancing cybersecurity spending in contracts, aligning with CFOs.

Compliance: Security provisions in technology supply agreements.

Collaboration: Onboarding diligence, contractual monitoring.

Partnerships: Selecting right partners for reducing risk, cybersecurity audits.

Managing Risk: Understanding and governing cybersecurity risks.

Stay Current: Keeping updated on technology to guide investment decisions.

Comprehensive Protection Tactics

Understand & Assess Specific Threats: Adaptation to each of the top 10 threats.

Current Measures Assessment: System analysis, hardware/software evaluation.

Improving & Adapting: Upgraded tools, centralized learning, advanced firewalls.

Ongoing Processes: Regular review, feedback, adaptation.

During & Post Attack Measures

Preventive Measures: Education, strong passwords, multi-factor authentication.

Measures During an Attack: Multi-layered protection, supplier management.

Standard Frameworks & Best Practices

Utilizing NIST & Other Frameworks: Adhering to recognized guidelines.

Balancing Simplicity & Innovation: A blend of low-tech solutions and strategic planning.

Continuous Vigilance & Growth: Encouraging ongoing adaptation and growth in security practices.

Concluding Thoughts

Cybersecurity as a Constant Evolution: Emphasizing the importance of continuous vigilance, innovation, and adaptation in the ever-changing landscape of technology.

Datasheet

Latest Available data

External Trade (USD Mn)	June-2023	Month Ago	Year Ago
Exports	1,005	1,019	1,249
Agricultural Exports	225.7	226	252
Industrial Exports	791	790	991
Imports	1,369	1,466	1,227
Consumer Goods	252	293	177
Intermediate Goods	875	971	816
Investment Goods	240	202	234
Trade Balance	-364	-447	22
Tourist Arrivals (No.)	143,039 (Jul)	100,388	47,293
Tourism Earnings	219 (Jul)	158	85
Workers' Remittances	541 (Jul)	476	280
Inflation (%)	July-2023	Month Ago	
CCPI (2021 base)			
Headline	6.3	12.0	
Core	6.1	9.8	
NCPI (2021 base)			
Headline	4.6	10.8	
Core	6.3	11.3	
Interest Rates (%)		Month Ago	Year Ago
AWPR	15.59 (Aug)	17.76	23.68
AWLR	16.90 (Jun)	17.75	15.06
AWDR	14.15 (Jul)	15.09	9.56
AWFDR	18.26 (Jul)	19.70	12.60
SDFR	11.00 (Aug)	11.00	14.50
SLFR	12.00 (Aug)	12.00	15.50
Growth in Credit to Private Sector	-8.0 (Jun)	-9.5	17.2
Fiscal Sector (LKR Bn)		2023 (Jan-Jun)	Year Ago
Revenue and Grants		1,317	919
Expenditure and Net Lending		2,560	1,822

EIU

Economic Intelligence Unit
of The Ceylon Chamber
of Commerce

Make Better Informed Strategic Decisions.

Leverage the wide business network of The Ceylon Chamber of Commerce to gain a more comprehensive understanding of the Sri Lankan economy.

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- ▶ Curated Trade and Sector Data Analysis and Updates
- ▶ Bilateral / Regional Trade and Investment Reports
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