

# Monthly Economic Update (MEU)

December 2023

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



**The  
Ceylon  
Chamber of  
Commerce**

**EIU**

# Highlights

## Sri Lankan Economy

### **Economy Show Signs of Positive Growth; 1.6% Growth in Q3-2023**

Demonstrating encouraging indicators of expansion, the economy recorded a 1.6% y-o-y growth in the Q3-2023. Each of the three major sectors demonstrated positive growth, with the Agriculture sector leading with a 3% increase, followed by the Services sector at 1.3%, and the Industry sector at 0.3%.

### **IMF Completes the 1<sup>st</sup> Review Under the EFF Arrangement with Sri Lanka**

The IMF concluded its initial review of Sri Lanka's 48-month Extended Fund Facility, triggering a disbursement of USD 337 million, totaling USD 670 million disbursed so far out of a committed USD 3 billion. Sri Lanka has shown commendable progress in debt sustainability, revenue generation, and ensuring financial stability, emphasizing a commitment to governance improvement and the welfare of the vulnerable. Following the receipt of the second tranche of the IMF EFF Programme, several Multilateral Development Banks disbursed the tranches earmarked under several programme financing channels

### **Primary Balance Surplus recorded during Jan-Sep 2023**

During the first nine months of 2023, government revenue picked up by 46% driven by 51% increase of tax revenue. Expenditure and net lending increased by 39%. Accordingly, primary balance recorded as a surplus of Rs. 123 Bn, in comparison to Rs. 317 Bn of deficit recorded during the same period of 2022.

## Global Economy

### **Global Trade Expected to Shrink by Nearly 5% in 2023**

Global trade has declined since mid-2022, primarily due to a significant reduction in goods trade persisting through the first three quarters of 2023. However, trade in services has shown resilience, maintaining positive growth. According to UNCTAD's Global Trade Update, there is a potential dip in global trade to below USD 31 trillion in 2023, marking a contraction of approximately USD 1.5 trillion (or 4.5%) compared to the record high of 2022.

### **World Trade Barometer- November 2023 Update**

The current reading of 100.7 on the barometer index by the World Trade Organisation (WTO) surpasses the previous reading of 99.1 recorded in August, closely approaching the baseline value of 100. This indicates a gradual reversion of merchandise trade volume towards its medium-term trend in the second half of 2023, although uncertainties persist amid mixed economic data and escalating geopolitical tensions.

### **Increasing Shipping Costs: The Impact of Intensified Houthi Attacks in the Red Sea and Drought Conditions in the Panama Canal**

Recent Houthi attacks in the Red Sea have escalated, prompting shipping companies to re-route vessels around Africa via the Cape of Good Hope due to safety concerns. This disruption, influenced by the Israel-Hamas conflict, coincides with severe restrictions in the Panama Canal caused by drought. As a result, shipping rates for goods from Asia to the Mediterranean have surged, with a 62% increase to USD 2,414 for a 40-foot container through the Suez Canal since the end of November. Delays in returning empty containers to Asia are expected, exacerbating challenges in global supply chains

# Dashboard

Y-o-Y changes, otherwise specified

## Economic Growth

**1.6%** in Q3-2023

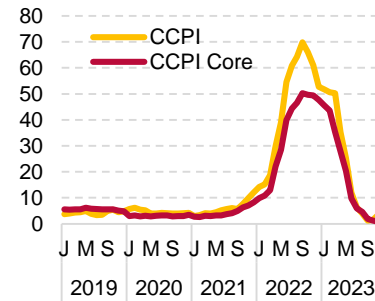
### Movement of Purchasing Managers' Index-Oct 2023

Manufacturing PMI **57.0**  
Services PMI **59.4**

Both Manufacturing and Services Purchasing Managers' Indices recorded an increase in November 2023.

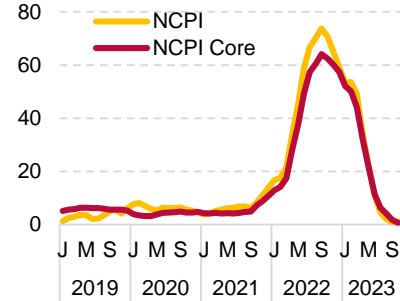
## Inflation

CCPI Inflation (%) - Base 2021



Nov. 2023  
Headline **3.4%**  
Core **0.8%**

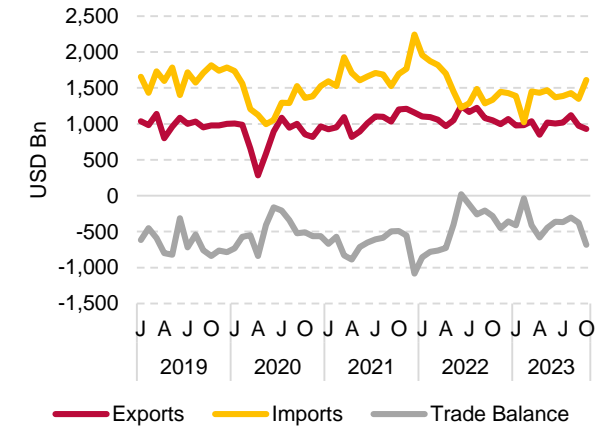
NCPI Inflation (%) - Base 2021



Oct. 2023  
Headline **1.0%**  
Core **0.6%**

## External Sector

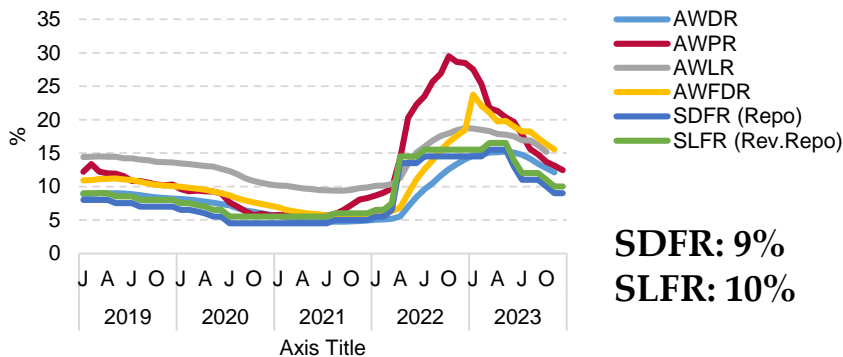
### Merchandise Trade



### Tourism

Oct. 2023	Nov. 2023
Exports <b>11.8%</b> ↓	Arrivals <b>154%</b> ↑
Imports <b>20.6%</b> ↑	Earnings <b>91%</b> ↑
<b>Workers' Remittances</b>	
Nov. 2023 <b>40%</b> ↑	

## Interest Rates

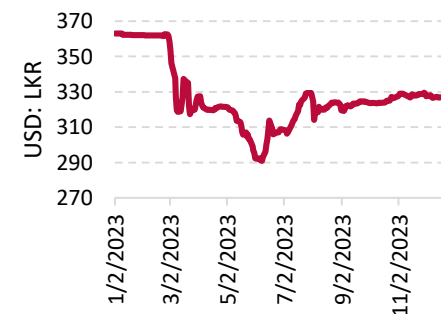


**SDFR: 9%**  
**SLFR: 10%**

### Growth in Credit to Private Sector

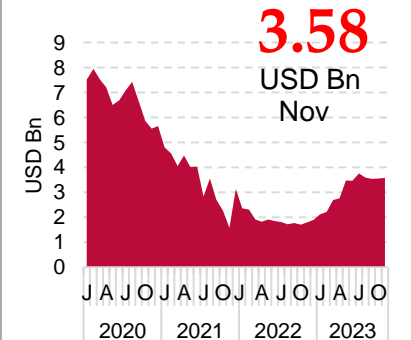
Oct 2023  
**4.3%** ↓

## Exchange Rate



**Appreciation of LKR thus far 2023 (Jan-Mid Dec)**  
**11.1%**

## Official Reserves



**3.58**  
USD Bn  
Nov

# KEY INSIGHTS

## Sri Lankan Economy

### IMF Completes the 1<sup>st</sup> Review Under the EFF Arrangement with Sri Lanka

The International Monetary Fund (IMF) Board successfully concluded the initial review within the framework of the 48-month Extended Fund Facility (EFF) with Sri Lanka on 12<sup>th</sup> December. This milestone triggers an immediate disbursement of SDR 254 million (equivalent to approximately USD 337 million), bringing the cumulative IMF financial support disbursed to SDR 508 million (about USD 670 million) out of the total commitment of SDR 2.286 billion (around USD 3 billion).

The program's performance was deemed "satisfactory" at the end of June, meeting all quantitative performance criteria except for the one related to expenditure arrears. By the end of October 2023, most structural benchmarks were either achieved or implemented with slight delays, and all indicative targets were met, barring the one concerning tax revenues, which fell short by an estimated 0.8 percentage points of GDP. A number of factors could be attributed to this underperformance:

- More subdued economic growth
- Lower inflation
- Lesser depreciation of exchange rate
- Lower imports
- Delay in relaxing import restrictions on motor vehicles
- Weak tax administration

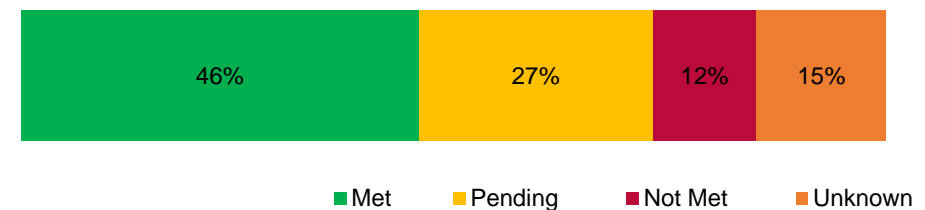
The authorities have demonstrated commendable progress in various areas, including restoring debt sustainability, enhancing revenue generation, rebuilding reserve buffers, reducing inflation, and ensuring financial stability. Upholding a strong commitment to improving governance and safeguarding the well-being of the poor and vulnerable is deemed crucial.

Following the successful completion of the 1<sup>st</sup> Review, Sri Lanka received the second tranche under the programme on 14<sup>th</sup> December 2023.

Following the receipt of the second tranche of the IMF EFF Programme, several Multilateral Development Banks disbursed the tranches earmarked under several programme financing channels. Accordingly, the Asian Development Bank (ADB) released a total of USD 200 million under Sri Lanka Resilience, Stability and Economic Turnaround (RESET) Development Policy Operation (DPO) on 20<sup>th</sup> December 2023.

Accordingly, the Government of has received foreign exchange inflows of over USD 780 million during December 2023. As per the Ministry of Finance, such inflows will further strengthen budget support and cushion Government's gross financing needs in the period ahead. Meanwhile, these notable inflows of foreign exchange to the government will reinforce external buffers of the economy. The gross official reserves are expected to surpass over USD 4 billion by the end of 2023, a level higher than anticipated earlier.

Progress of the IMF Programme



# KEY INSIGHTS

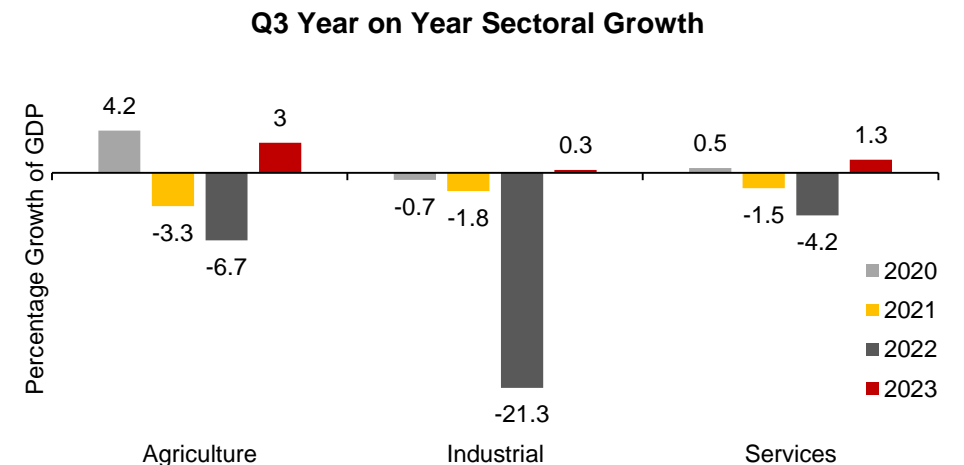
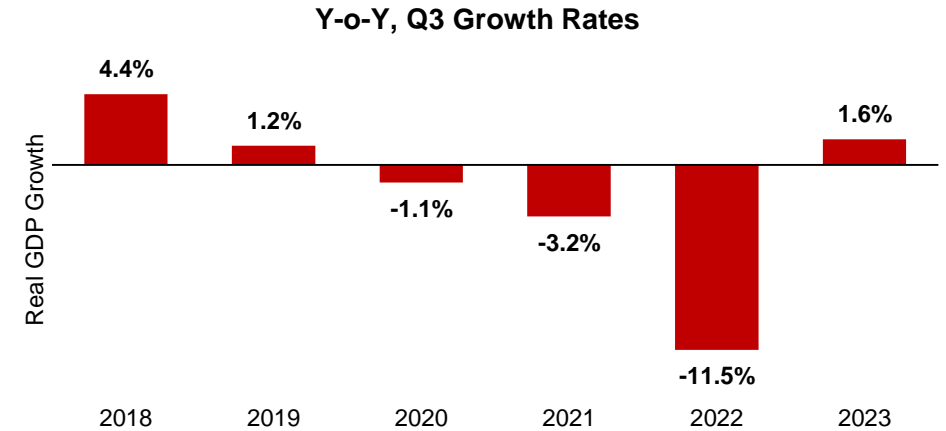
## Sri Lankan Economy

### Economy Show Signs of Positive Growth; 1.6% Growth in Q3-2023

The real GDP of Sri Lanka for Q3-2023, has increased to Rs 2,946 billion from Rs. 2,900 billion which recorded in the same quarter of 2022. This represents a y-o-y positive GDP growth of 1.6% for the Q3-2023. This positive growth is particularly significant as it follows three consecutive years of negative growth with escalating magnitudes. The major economic activities - Agriculture, Industry, and Services - contributed 7.8%, 28.1%, and 57.5% respectively to nominal GDP, while "Taxes less subsidies on products" accounted for 6.5% of GDP in Q3-2023.

The Q3-2023 witnessed a favourable shift in uncertainties related to foreign exchange, marking a departure from the trends observed in previous quarters. The overall economic outlook, including expectations for the future, experienced positive momentum. This positive shift was mirrored in the decline of input costs, with the favourable change in the exchange rate. Moreover, the demand for debts, which had been at a lower level, showed positive indications in this quarter, further complemented by a reduction in interest rates.

In the Q3-2023, the agricultural sector in Sri Lanka experienced a notable 3% expansion, driven primarily by specific activities. The key contributors to this growth were 'Growing of cereals' (33.2%), 'Marine fishing and marine aquaculture' (27.5%), 'Growing of rice' (23.2%), and 'Agricultural supporting activities' (20.9%). However, certain agricultural activities recorded negative growth rates, including 'Plant propagation' (36.8%), 'Forestry and logging' (30.7%), and 'Freshwater fishing and freshwater aquaculture' (10.35%). Within the industrial sector, there was a modest expansion of 0.3%. Notably, 'Construction' reported a negative growth rate of 5.5%, while 'Mining and quarrying' showed a slight increase of 0.7% during the quarter. The overall manufacturing industry, however, demonstrated growth, expanding by 2.1%. The service sector also contributed to the economic landscape, with a 1.3% expansion. This growth was predominantly fuelled by the positive performance of insurance services and accommodation, as well as food and beverage-serving activities.



# KEY INSIGHTS

## Global Economy

### World Trade Barometer- November 2023 Update

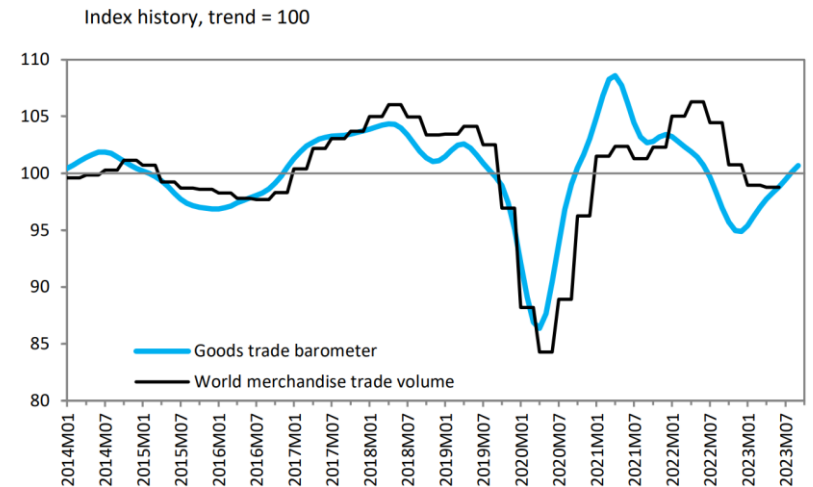
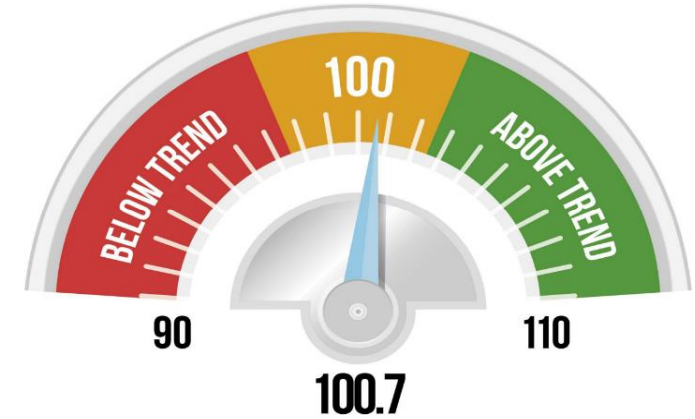
The current reading of 100.7 on the barometer index by the World Trade Organisation (WTO) surpasses the previous reading of 99.1 recorded in August, closely approaching the baseline value of 100. This indicates a gradual reversion of merchandise trade volume towards its medium-term trend in the second half of 2023, although uncertainties persist amid mixed economic data and escalating geopolitical tensions.

In the second quarter of 2023, world merchandise trade volume remained flat, exhibiting a modest increase of 0.2% compared to the previous quarter but a year-on-year decline of 0.5%. Anticipated trade statistics for the third quarter suggest a slight strengthening, propelled by accelerated GDP growth in the United States and China, counterbalanced by the ongoing stagnation of the EU economy. Expectations point to robust year-on-year trade growth in Q4, primarily due to the downturn that commenced in the same period last year.

The barometer's component indices portray a mixed scenario, with some significantly exceeding trend levels and others hovering at or below trend. Notable surges were observed in the indices for automobile sales and production (110.0) and electronic components trade (109.8). Conversely, the indices for air freight (100.3), export orders (99.4), and container shipping (98.0) either matched or slightly lagged behind the trend, while the raw materials index (95.6) dipped below trend.

The robust performance of automotive products and electronic components indices may be attributed to the soaring global demand for electric vehicles, whereas the subdued performance in raw materials might be attributed in part to weakening property markets amidst sustained elevated interest rates.

Index value, September 2023 = 100.7



# KEY INSIGHTS

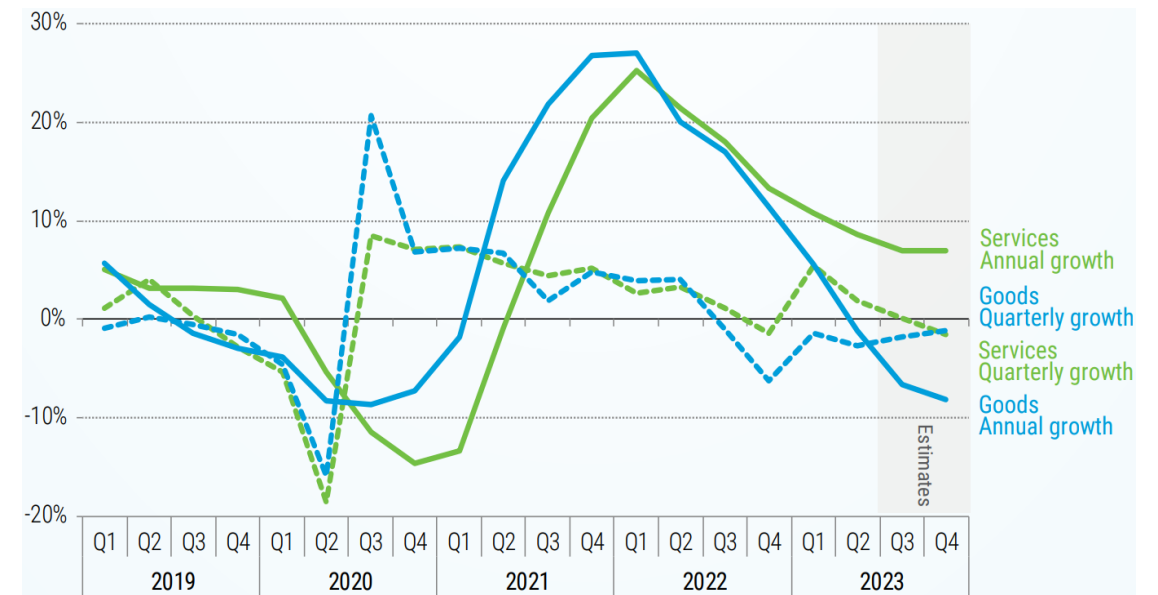
## Global Economy

### Global Trade Expected to Shrink by Nearly 5% in 2023

Global trade has witnessed a downturn since mid-2022, primarily propelled by a substantial reduction in goods trade, a trend that persisted throughout the initial three quarters of 2023. Conversely, the resilience of trade in services is evident, maintaining positive growth over the same period. In the broader context, UNCTAD's latest Global Trade Update indicates a potential dip in global trade to below USD 31 trillion in 2023, reflecting a contraction of approximately USD 1.5 trillion (or 4.5%) compared to the record high of 2022. Specifically, the projection anticipates a nearly USD 2 trillion (or 7.5%) contraction in goods trade, while services trade is poised to gain about USD 500 billion (or 7%). Despite the decrease in the value of traded goods in 2023, a slightly positive trend in the volume of international trade suggests enduring global demand for imported products.

The decline in global trade throughout 2023 is primarily attributed to reduced demand in developed nations, underperformance in East Asian economies, and a decline in commodity prices. These factors collectively contributed to a significant contraction in the trade of goods. In contrast, trade in services experienced growth for the majority of 2023, a surge attributed to its delayed recovery from the COVID-19 downturn. However, the rebound of the services sector decelerated considerably during the second half of 2023. The trade downturn has been more pronounced for developing countries, with South-South trade underperforming throughout the majority of 2023. These trends can be ascribed not only to the downturn in East Asia regions but also to diminished trade between Asian economies.

Looking ahead to 2024, the forecast for global trade remains highly uncertain and generally pessimistic. While certain economic indicators suggest potential improvements, persistent geopolitical tensions, elevated levels of debt, and widespread economic fragility are anticipated to exert negative influences on global trade patterns.



# 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.

## COP28- End to Fossil Fuels?

The United Nations Climate Change Conference (COP28) in Dubai concluded on December 13, marking the closure of the world's largest international climate conference, attended by representatives from 197 countries and the European Union (EU). Here are the key highlights from the conference:

### Approval of Climate Disaster "Loss and Damage Fund"

The conference commenced on a positive note with the approval of a climate disaster "loss and damage fund," initially proposed at COP27 in Egypt the previous year. This fund aims to assist vulnerable communities and developing nations grappling with the aftermath of climate disasters, such as crop destruction due to floods and drought. Despite the commendable step, the pledged amount of \$700 million falls significantly short of the estimated annual \$400 billion in damages caused by climate change.

### Global Commitment to Tackle Climate Impacts of the Food Industry

A noteworthy development saw 134 countries signing a declaration pledging to address the climate impacts of the food industry. These nations collectively represent 5.7 billion people, account for 70% of global food consumption, and produce 76% of emissions from the global food system. However, observers point out that the declaration lacks quantified targets and fails to address the role of livestock.

### Call for Tripling Nuclear Power Generation Capacity

A coalition of 22 countries, including the United Kingdom, France, the Netherlands, the United States, Canada, and Japan, issued a declaration advocating for a threefold increase in nuclear power generation capacity between 2020 and 2050. The objective is to diminish reliance on oil, gas, and coal for energy production.

### New Commitment to Reduce Emissions in the Cooling Sector

Over 60 countries pledged to a new commitment aimed at reducing emissions in the cooling sector. Traditional cooling methods, particularly air conditioning, are significant contributors to climate change, accounting for over 7% of global greenhouse gas emissions. Without effective management, energy requirements for space cooling are projected to triple by 2050, along with a corresponding increase in emissions.



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## Assessment of Paris Agreement Progress at COP28

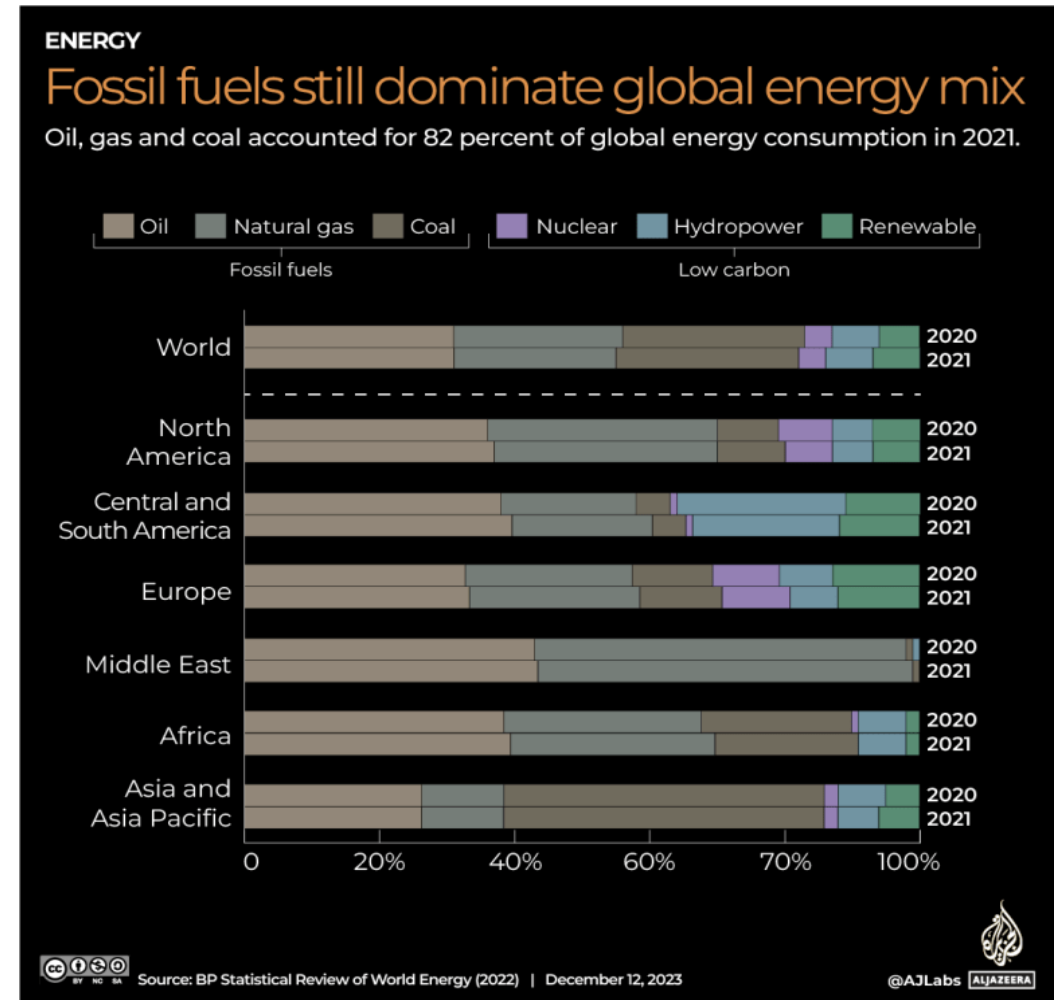
The culmination of COP28 saw a comprehensive discussion on the progress of the Paris Agreement, with the first-ever assessment of each state's efforts towards the agreement's core objective — limiting the global temperature rise to 1.5°C above pre-industrial levels. This critical evaluation of achievements and challenges laid the groundwork for the next global assessment, scheduled to occur at COP33 in 2028

## Historic Transition Away from Fossil Fuels

The COP28 ended in a historic deal that committed the world to a transition away from all fossil fuels for the first time. It says the shift to clean energy for the global economy should accelerate this decade with the aim of net-zero greenhouse gas emissions by 2050. The deal marks the first time a UN climate agreement has called for governments to cut back on all fossil fuels. The final text of the summit's agreement acknowledged the role of natural gas, recognized for being somewhat less carbon-intensive than traditional oil and coal, in contributing to emissions reduction efforts. It also placed CO2 capture and storage alongside renewables and nuclear as key technologies that would drive the transition.

## Going Forward

Azerbaijan has been designated as the host for COP29, set to take place from November 11th to 22nd, 2024, followed by Brazil hosting COP30 scheduled from November 10th to 21st, 2025. At COP29, governments must establish a new climate finance goal, reflecting the scale and urgency of the climate challenge. And at COP30, they must come prepared with new nationally determined contributions that are economy-wide, cover all greenhouse gases and are fully aligned with the 1.5 temperature limit.



# Datasheet

Latest Available data

External Trade (USD Mn)	Oct-2023	Month Ago	Year Ago
<b>Exports</b>	928	972	1,052
Agricultural Exports	200	243	226
Industrial Exports	723	724	820
<b>Imports</b>	1,611	1,349	1,332
Consumer Goods	263	214	202
Intermediate Goods	1,085	920	945
Investment Goods	259	215	188
<b>Trade Balance</b>	-683	-378	-284
<b>Tourist Arrivals (No.)</b>	151,496 (Nov)	109,199	59,759
<b>Tourism Earnings</b>	205 (Nov)	137	81
<b>Workers' Remittances</b>	537 (Nov)	517	384
Inflation (%)	Nov 2023	Month Ago	
<b>CCPI (2021 base)</b>			
Headline	3.4	1.5	
Core	0.8	1.2	
<b>NCPI (2021 base)</b>			
Headline	1.0 (Oct)	0.8	
Core	0.6 (Oct)	1.7	
Interest Rates (%)		Month Ago	Year Ago
AWPR	12.46 (Dec)	13.14	
AWLR	15.18 (Oct)	15.18	
AWDR	12.11 (Nov)	12.11	
AWFDR	15.54 (Nov)	15.54	
SDFR	9.00	9.00	
SLFR	10.00	10.00	
Growth in Credit to Private Sector	-4.3 (Oct)	-5.4	9.8
Fiscal Sector (LKR Bn)		2023 (Jan-Sep)	Year Ago
Revenue and Grants		2,119	1,458
Expenditure and Net Lending		3,732	2,695

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Reach us at +94 11 558 8809 | [ei@chamber.lk](mailto:ei@chamber.lk)

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