

Monthly Economic Update (MEU)

March 2024

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

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Highlights

Sri Lankan Economy

Economy Grew by 4.5% in Q4-2023, and -2.3% in 2023

In 2023, the Sri Lankan economy contracted by 2.3%, followed by a notable 4.5% growth in the fourth quarter. This transition from negative to positive growth defined the year, ultimately constraining the overall contraction to 2.3%. This marks a significant improvement from the 7.3% contraction observed in 2022. According to the Central Bank, this growth momentum is anticipated to persist in the forthcoming quarters.

IMF Reaches Staff-Level Agreement on the Second Review of EFF

The IMF mission and the Sri Lankan officials have reached an agreement at the staff-level on economic policies, marking the conclusion of the second-review of the EFF. Pending approval from the IMF Management and subsequent completion by the IMF Executive Board, Sri Lanka stands to gain access to SDR 254 million (approx. USD 337 Million) in financing.

CBSL Cut Policy Rates for the First time in 2024

In March 2024, the CBSL reduced its policy rates by 50 basis points to 8.50% and 9.50% for Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) respectively. Considering the improvements in the domestic money market activity and the liquidity conditions, the CBSL removed the remaining restrictions on the usage of the Standing Deposit Facility (SDF) of the CBSL with effect from 1st April 2024, and this would further support market-based transmissions of monetary policy adjustments.

Market Interest Rates Declined Further

Overall market interest rates decreased initially due to monetary policy easing and reduced risk on government securities, but the pace of reduction slowed recently. Credit to the private sector contracted in January but resumed growth in February, influenced by currency appreciation effects. With further policy rate reductions, market lending rates are expected to decline, fostering private sector credit expansion.

Headline Inflation Slowed in February

In February 2024, CCPI headline inflation (y-o-y) slowed to 5.9% from 6.4% in January 2024, primarily due to a decrease in non-food inflation. Even though the food inflation increased on a y-o-y basis, there was a deflation in February compared to the January 2024. Core inflation, reflecting underlying demand pressures, remained low at 2.8% in February 2024. As per the CBSL, inflation data for the first two months of 2024 suggests that the impact of VAT amendments in January 2024 on inflation might not be significant as initially anticipated.

The External Sector Continued to Exhibit Positive Momentum

The merchandise trade deficit was expanded in January 2024 compared to the corresponding period in 2023, primarily due to a notable rise in imports. Nevertheless, trade in services, particularly revenue from tourism, saw a substantial recovery in the two-month period ending February 2024, while the favorable trend in workers' remittances persisted. Gross official reserves improved to USD 4.5 Bn as at end February 2024, which included the SWAP facility from People's Bank of China.

Global Economy

Goods Barometer Continues to Signal Weak Upward Momentum in Trade

The latest reading of the WTO Goods Barometer index stands at 100.6, slightly above the quarterly trade volume index, both at a baseline value of 100. This indicates a potential gradual recovery in merchandise trade in early 2024. However, this progress might be at a risk due to regional conflicts and geopolitical tensions.

India's Onion Export Ban Extended Indefinitely Ahead of General Election

India has extended its ban on onion exports indefinitely ahead of a general election, with the Directorate General of Foreign Trade (DGFT) making the announcement on March 22. This decision follows the initial ban imposed until March 31, 2024, due to concerns over rising domestic onion prices triggered by untimely rainfall in Maharashtra. Efforts by Sri Lanka to secure an exemption from India for onion imports were unsuccessful, but a surge in red onion supplies from Jaffna helped alleviate the situation, resulting in a notable drop in prices at the Dambulla economic center.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

4.5% in Q4-2023
-2.3% in 2023 (Full Year)

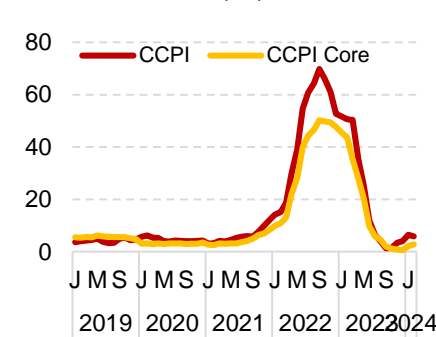
Movement of Purchasing Managers' Index-Feb 2024

Manufacturing PMI **56.0**
 Services PMI **53.0**

Indexes shows an improvement in both Manufacturing and Services activities.

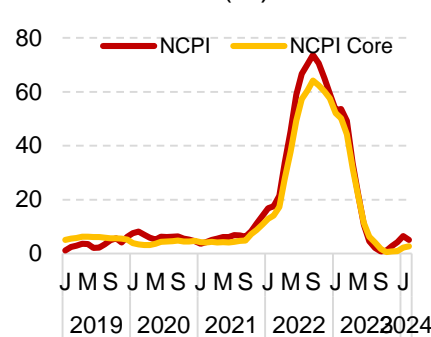
Inflation

CCPI Inflation (%) - Base 2021



Feb. 2024
 Headline **5.9%**
 Core **2.8%**

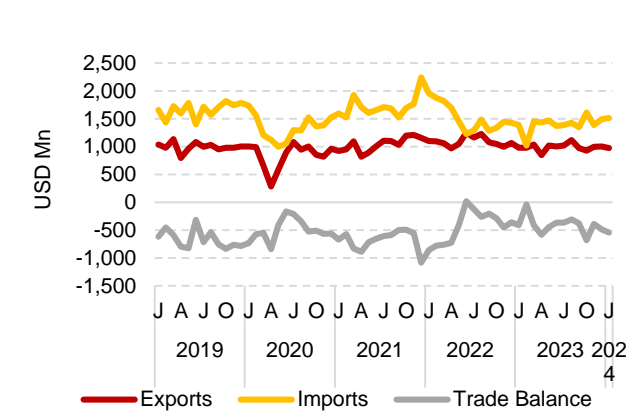
NCPI Inflation (%) - Base 2021



Feb. 2024
 Headline **5.1%**
 Core **2.7%**

External Sector

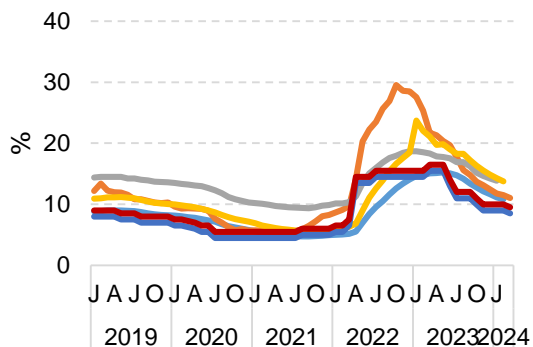
Merchandise Trade



Tourism

Jan. 2024	Feb. 2024
Exports 0.8% ↓	Arrivals 103% ↑
Imports 6.2% ↑	Earnings 103% ↑
Workers' Remittances Feb. 2024 17% ↑	

Interest Rates



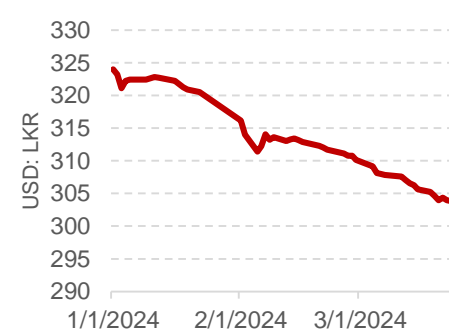
AWDR
 AWPR
 AWLR
 AWFDR
 SDFR (Repo)
 SLFR (Rev.Repo)

SDFR: 8.50%
SLFR: 9.50%

Growth in Credit to Private Sector

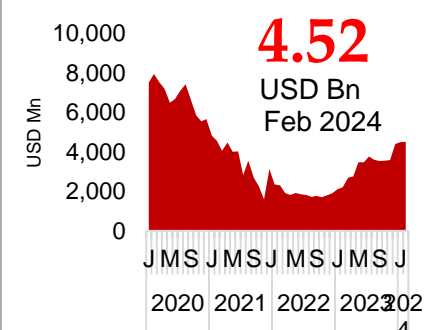
Jan 2024
0.0%

Exchange Rate



Appreciation of LKR thus far 2024
6.7%

Official Reserves



4.52
 USD Bn
 Feb 2024

KEY INSIGHTS

Sri Lankan Economy

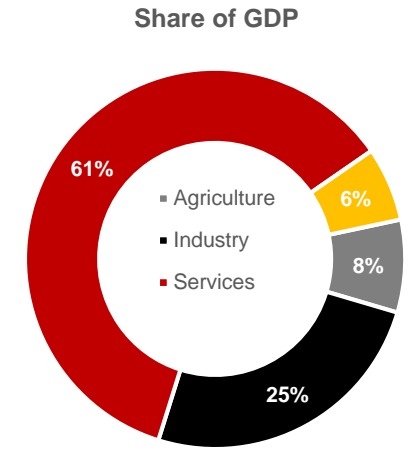
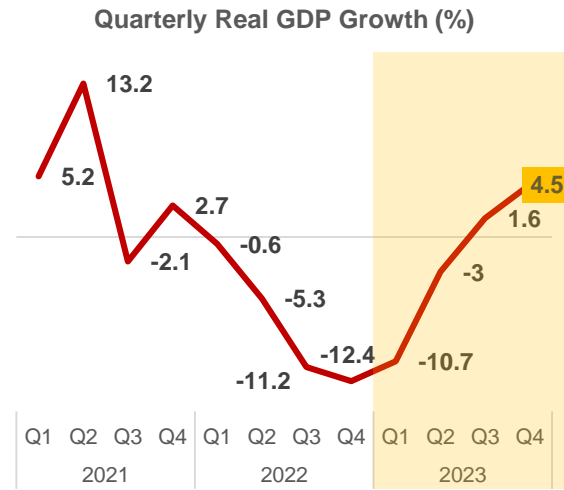
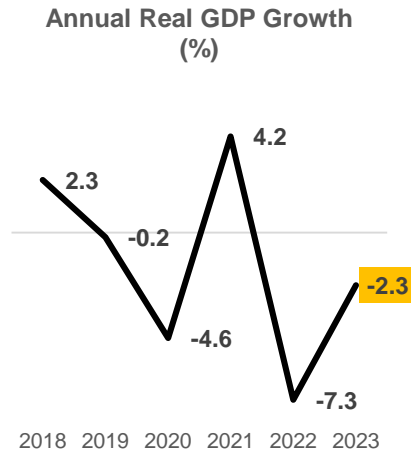
Economy Grew by 4.5% in Q4-2023, and -2.3% in 2023

The Sri Lankan economy experienced a 2.3% contraction in 2023, followed by a 4.5% growth in the fourth quarter of the same year. This duality characterized the economy throughout the year, with negative growth in the first half shifting to positive growth in the latter half.

During the year, uncertainty surrounding the exchange rate persisted initially but eventually stabilized, particularly due to increased foreign currency inflows from workers' remittances. Additionally, towards the end of 2023, expectations for a robust economy were bolstered by a long-awaited resurgence in tourism.

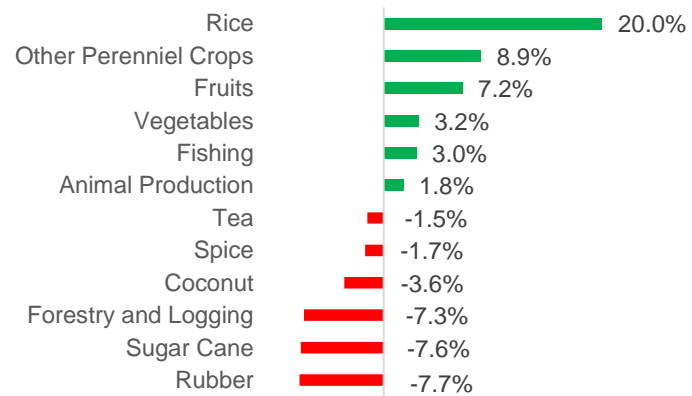
However, certain economic sectors such as manufacturing and construction suffered setbacks due to high input prices. Furthermore, compared to the previous year, the availability of inputs for most agricultural activities was impacted, albeit without shortages, resulting in favorable growth rates for many crops and paddy cultivation.

Despite growth projections from various sources for 2023, the closest estimates came from the Central Bank of Sri Lanka (-2%) and the Asian Development Bank (-3%).

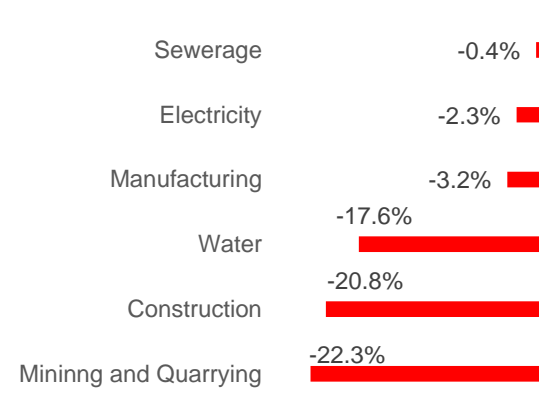


Growth Rates of Economic Activities in three Key sectors in 2023

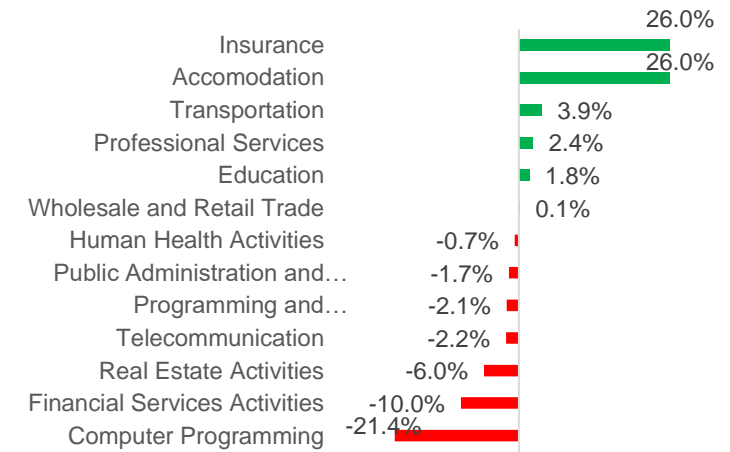
Agriculture Sector



Industry Sector



Services Sector



KEY INSIGHTS

Sri Lankan Economy

IMF Reaches Staff-Level Agreement on the Second Review of EFF

An International Monetary Fund (IMF) mission visited Sri Lanka during 07th to 21st March for the second review of the 4-year Extended Fund Facility (EFF) arrangement. The team met with the top government and Central Bank officials including the president, parliamentarians, private sector, civil society organizations and development partners.

As per the review, IMF mission and the Sri Lankan officials have reached an agreement at the staff-level on economic policies, marking the conclusion of the second-review of the EFF. Pending approval from the IMF Management and subsequent completion by the IMF Executive Board, Sri Lanka stands to gain access to SDR 254 million (approx. USD 337 Million) in financing.

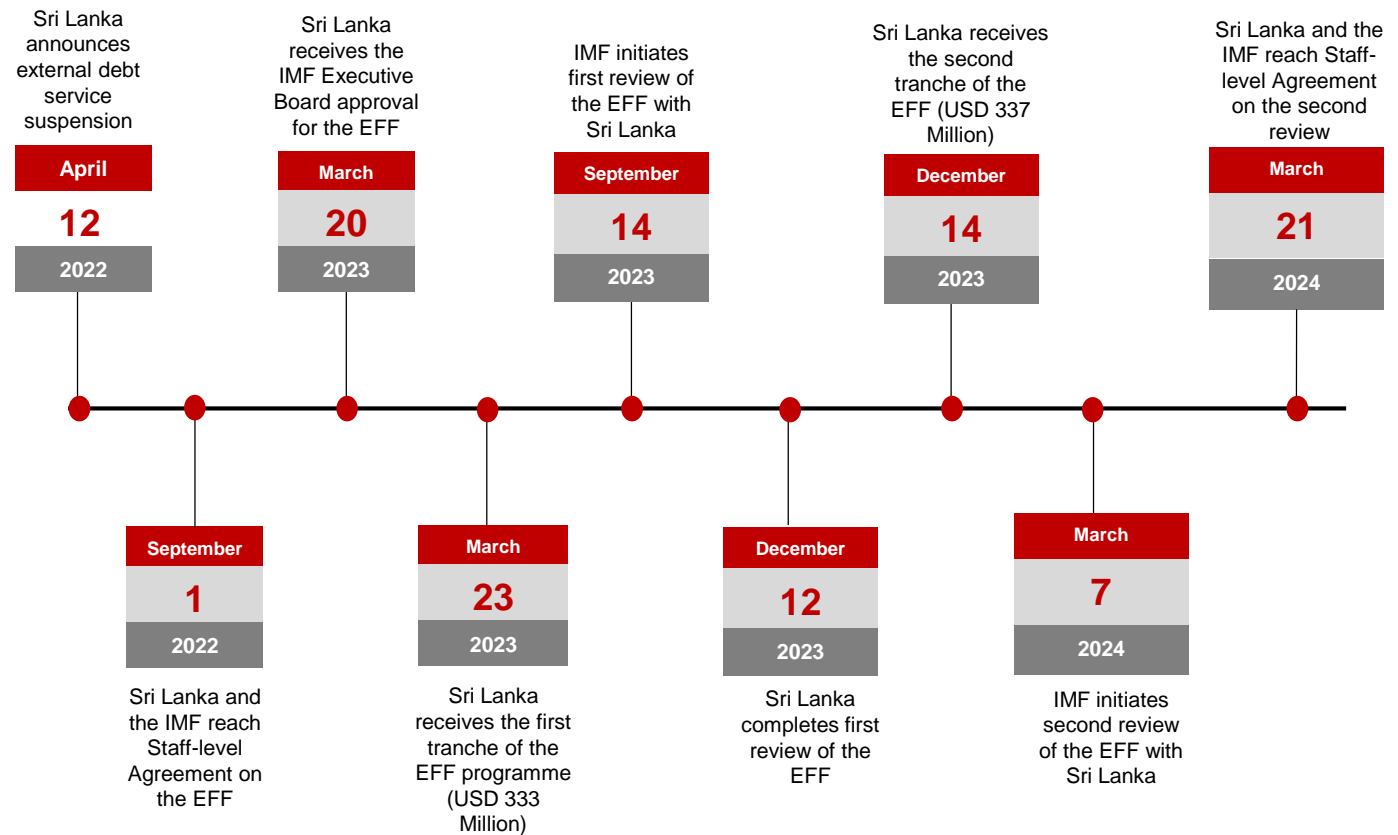
As per the mission, the fruits of macroeconomic policy reforms are becoming evident. It is imperative to sustain this momentum in reforms while addressing governance shortcomings and vulnerabilities to corruption. These steps are crucial for steering the economy towards sustained recovery and fostering stable and inclusive growth.

Completion of the review by the IMF Executive Board hinges on two main factors.

1. The execution of prior actions by Authorities
2. The fulfillment of the financing assurances review

Country's Agreement in principle with the Official Creditor Committee and Export-Import Bank of China on debt treatments consistent with programme parameters were important milestones putting Sri Lanka's debt on the path towards sustainability. The critical next steps are to finalize the agreements with official creditors and reach agreements in principle with the main external private creditors in line with programme parameters in a timely manner. This should help restore Sri Lanka's debt sustainability over the medium term, stated by the IMF mission.

Charting Progress: The 17th IMF Programme of Sri Lanka



KEY INSIGHTS

Global Economy

Goods Barometer Continues to Signal Weak Upward Momentum in Trade

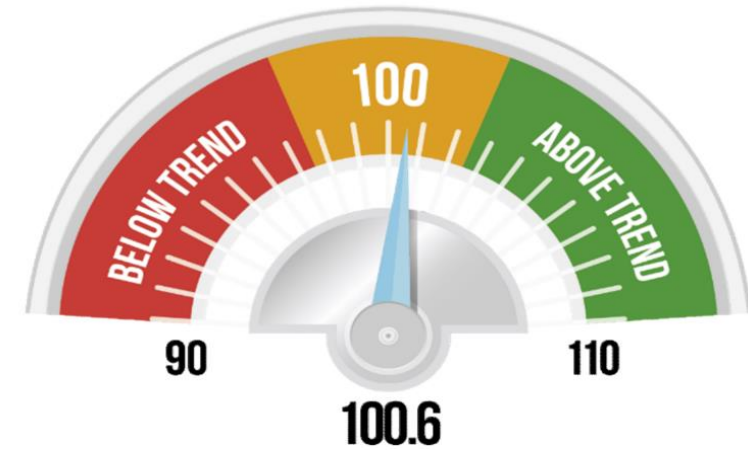
The current reading of 100.6 for the barometer index is slightly above the quarterly trade volume index and matches the baseline value of 100 for both indices. This suggests that merchandise trade may continue to recover gradually in the early months of 2024. However, these gains could be vulnerable to disruption from regional conflicts and geopolitical tensions. World merchandise trade volume decreased by 0.4% in the third quarter of 2023 compared to the previous quarter, and it was down by 2.5% compared to the same period in 2022.

The significant year-on-year decline in the third quarter was largely a result of robust growth observed in the first three quarters of 2022. From January to October 2023, goods trade remained relatively stagnant, with the volume in the third quarter showing little change since the beginning of the year and only a modest increase of 3.2% over two years. These trends are more negative than the WTO's previous forecast from October 5, 2023, which projected 0.8% growth in merchandise trade for 2023.

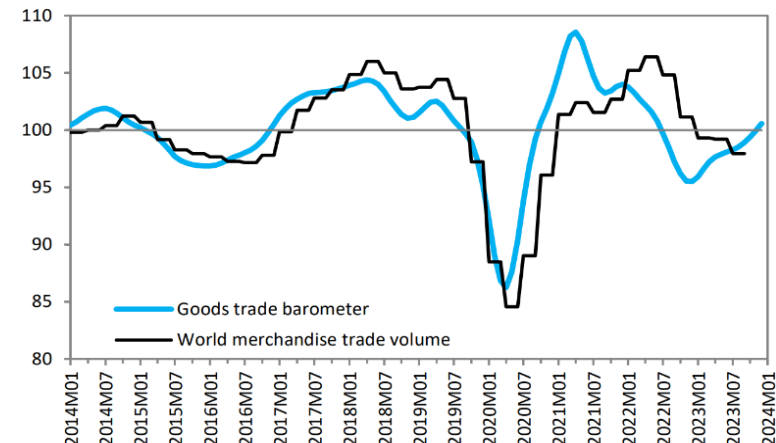
The component indices of the barometer are mostly neutral, with export orders (101.7) and air freight (102.3) slightly surpassing trend levels, while container shipping (98.6) and raw materials trade (99.1) remain slightly below trend. The index for automobile production and sales (106.3) continues to outperform the trend, although it has recently experienced a slowdown. Additionally, the apparent rebound in electronic components trade seen in the previous barometer has been revised downwards (95.6). While goods trade is anticipated to increase in 2024 as it recovers from below-average growth in 2023, uncertainty persists due to prevailing downside risks.

Goods trade barometer

Index value, December 2023 = 100.6



Index history, trend = 100



KEY INSIGHTS

Global Economy

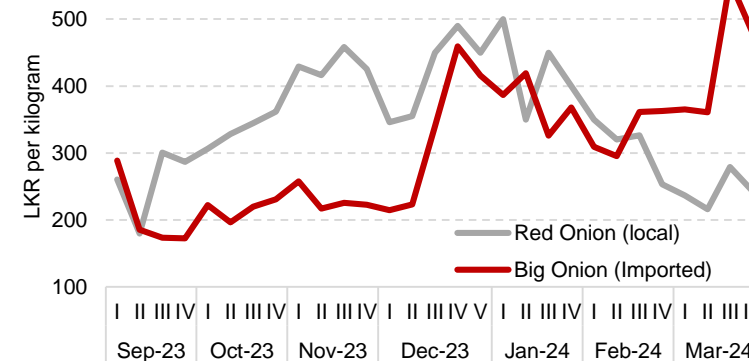
India's Onion Export Ban Extended Indefinitely ahead of General Election

India has taken the surprising decision to extend its ban on onion exports indefinitely, as the country gears up for a general election. The Directorate General of Foreign Trade (DGFT), a branch of the Ministry of Commerce and Industry, announced the extension in a notification dated March 22, stating, "Export prohibition on export of onions valid till 31st March 2024, is extended until further orders." No specific reason was provided for this extension.

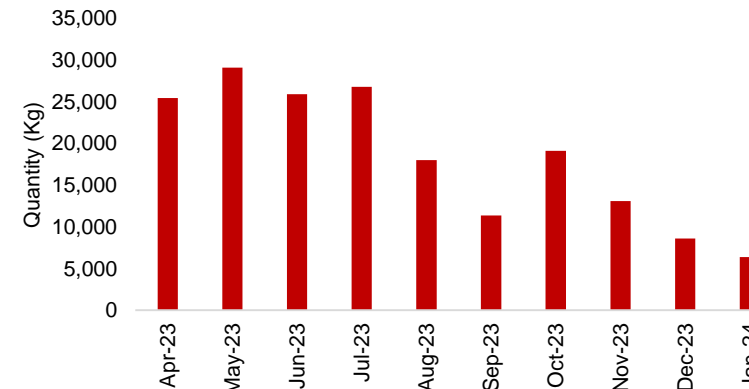
As the world's largest onion exporter, India had initially imposed a ban on onion exports until March 31, 2024, back on December 8, 2023. However, it did allow onion exports to certain friendly nations on a case-by-case basis. This decision was prompted by concerns over rising food inflation caused by a spike in domestic onion prices due to untimely rainfall in Maharashtra. In Sri Lanka, for instance, the price of onions skyrocketed to between Rs. 450 – Rs 500 per kilo, compared to the previous range of Rs 190 - Rs 230 per kilo. Following the implementation of the export ban, onion prices in some wholesale markets in Maharashtra, the country's largest onion-producing state, witnessed a significant decline. Prices fell from INR 4,500 per 100 kg to INR 1,200 per 100 kg in December, as reported by an executive at a Mumbai-based export firm.

Sri Lanka made efforts to secure an exemption from India to import 100,000 tonnes of onions under special arrangements despite the ban. However, these attempts were unsuccessful. Nonetheless, an influx of red onions from Jaffna in Sri Lanka earlier this month helped alleviate the situation. Traders at the Dambulla economic centre noted a substantial increase in red onion supplies, leading to a decrease in prices from Rs 350 to Rs 200 per kilo.

Onion: Weekly Wholesale Price in Sri Lanka



Indian Onion Exports to Sri Lanka
(HS Codes: 07031011, 07031019, 07031020)



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.

Sri Lanka and Indonesia Officially Commenced Preferential Trade Agreement Negotiations

In a significant development for bilateral trade relations, Sri Lanka and Indonesia have formally launched negotiations for a Preferential Trade Agreement (PTA), marking a pivotal step forward after a wait since 2017. The official commencement of negotiations occurred on March 14th, 2024, during a virtual meeting led by Sri Lanka's State Minister of Foreign Affairs, Tharaka Balasuriya, and Indonesia's Vice Minister of Trade, Jerry Sambuaga. Both ministers underscored the strategic importance of initiating PTA negotiations, viewing them as a step towards a more comprehensive Free Trade Agreement (FTA) between the two nations.

During the inaugural meeting, Minister Balasuriya and Vice Minister Sambuaga reaffirmed their commitment to enhancing bilateral trade relations and fostering mutually beneficial economic cooperation. They emphasized the potential benefits of the PTA for both countries, highlighting the opportunity to secure meaningful market access and promote trade in key sectors. With an eye toward expeditious progress, Indonesia wants the first round of negotiations to take place in the first semester of 2024, aiming to address key trade-related issues and pave the way for deeper economic integration.

Indonesia, in particular, expressed eagerness to capitalize on the PTA negotiations to bolster its exports to Sri Lanka. Djatmiko Bris Witjaksono, the director-general for international trade agreements, emphasized Indonesia's strengths in key export sectors such as palm oil, paper, and fatty acids. He highlighted the PTA as a crucial mechanism for facilitating trade expansion and tapping into new market opportunities in Sri Lanka.

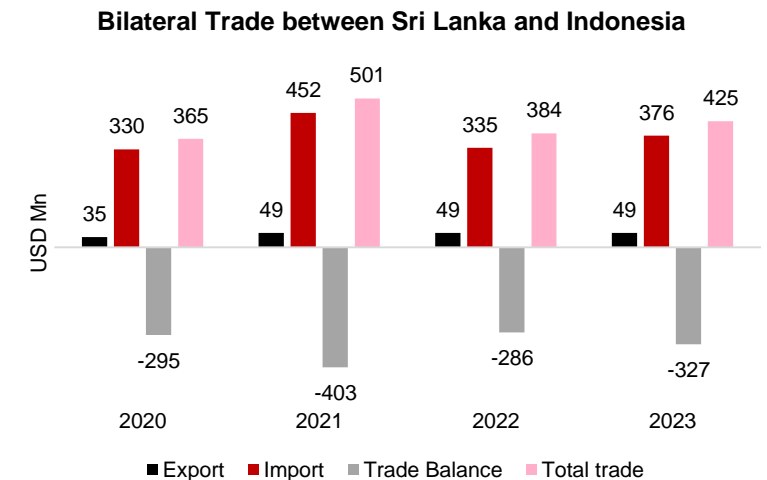
The Preferential Trade Agreement represents the initial phase of economic integration between Sri Lanka and Indonesia, typically involving the reduction or elimination of tariffs on selected goods. Both countries view the PTA as a foundational element in their broader trade relationship, laying the groundwork for future collaboration and potential upgrades to a comprehensive Free Trade Agreement encompassing all goods and services.

The decision to initiate PTA negotiations stems from a history of bilateral discussions and diplomatic engagements aimed at enhancing economic ties. Previous high-level meetings between Presidents and officials from both countries have underscored the mutual desire to explore avenues for deeper economic cooperation. The exploration of a trade agreement between the two nations began in 2017 when President Joko Widodo and then Sri Lankan counterpart Maithripala Sirisena held bilateral talks in Jakarta.

Last year, Presidents Ranil Wickremesinghe and Jokowi reaffirmed their commitment to initiating trade pact negotiations during a meeting in China. According to Indonesian government data, bilateral trade with Sri Lanka reached USD 369.7 million in 2023, marking a 17.61% increase from the previous year's USD 314.4 million. Indonesia has maintained a surplus with Sri Lanka over the past five years, with last year's surplus amounting to USD 283.5 million. The PTA negotiations hold immense promise for further strengthening economic linkages and fostering shared prosperity between Sri Lanka and Indonesia.

POTENTIAL EXPORT PRODUCTS FROM SRI LANKA TO INDONESIA

- Plastics & rubber
- Spices
- Machinery
- Apparel
- Tea & mate
- Textile fabric
- Vegetal residues & Animal feed
- Cotton (fabric)
- Food products (processed or preserved)
- Chemicals



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Sri Lanka and Indonesia Officially Commenced Preferential Trade Agreement Negotiations cont'd

Top 10 Exports to Indonesia (USD Mn)					
No	Product	2021	2022	2023	Annual Growth %
1	Knitted Fabrics	12.82	13.92	16.82	13.56
2	Chemical Products	2.56	2.43	3.52	15.93
3	Textile Articles nes	2.32	4.76	3.4	19.21
4	Miscellaneous Edible Preparations	0.22	0.31	2.22	115.75
5	Petroleum Oils	3.32	4.05	2.06	-23.96
6	Women's Outerwear	1.47	2.04	2.03	15.91
7	Motor Vehicles & Parts	0.09	0.97	1.41	138.03
8	Cartons, Boxes & Bags	1.47	1.34	1.36	-3.82
9	Pneumatic & Retreated Rubber Tyres & Tubes	1.5	1.08	1.32	-6.33
10	Men's and Women's Under Garments	0.73	1.25	1.21	25.19

Top 10 Imports from Indonesia (USD Mn)					
No	Product	2021	2022	2023	Annual Growth %
1	Coconut Oil	77.59	5.13	83.57	3.71
2	Petroleum Oils	17.97	0.06	64.07	63.55
3	Paper & Paper Products	23.95	26.36	41.16	27.08
4	Unmanufactured Tobacco	24.18	33.01	31.3	12.89
5	Chemical Products	22.04	22.87	18.4	-9.03
6	Pharmaceutical Products	10.71	13.11	13.92	13.11
7	Petroleum Products	13.28	17.5	12.93	-1.36
8	Products of Base Metal	36.14	23.01	10.22	-63.18
9	Mineral Products	24.55	23.64	8.58	-52.55
10	Knitted Fabrics	8.55	10.81	8.1	-2.69

Datasheet

Latest Available data

External Trade (USD Mn)	Jan-2024	Month Ago	Year Ago
Exports	971	1,002	978
Agricultural Exports	196	206	191
Industrial Exports	771	791	781
Imports	1,512	1,489	1,423
Consumer Goods	281	273	219
Intermediate Goods	981	948	1,006
Investment Goods	249	267	199
Trade Balance	-541	-487	-445
Tourist Arrivals (No.)	218,350 (Feb 2024)	208,253	107,639
Tourism Earnings	346 (Feb 2024)	342	162
Workers' Remittances	476 (Feb 2024)	488	407
Inflation (%)	Feb 2024	Month Ago	
CCPI (2021 base)			
Headline	5.9	6.4	
Core	2.8	2.2	
NCPI (2021 base)			
Headline	5.1	6.5	
Core	2.7	2.2	
Interest Rates (%)		Month Ago	Year Ago
AWPR	11.04 (Mar)	11.5 (Feb)	
AWLR	13.88 (Jan)	14.21 (Dec)	
AWDR	10.80(Feb)	11.15 (Jan)	
AWFDR	13.77 (Feb)	14.28 (Jan)	
SDFR	8.50	9.00	
SLFR	9.50	10.00	
Growth in Credit to Private Sector	0.0 (Jan)	-0.6	6.2
Fiscal Sector (LKR Bn)		2023 (Jan-Nov)	Year Ago
Revenue and Grants		2,771	1,809
Expenditure and Net Lending		4,791	3,411

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