

Monthly Economic Update (MEU)

November 2023

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



**The
Ceylon
Chamber of
Commerce**

EIU

Highlights

Sri Lankan Economy

CBSL Cut Policy Rates further Down

CBSL cut the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 100 basis points (bps) to 9.00 per cent and 10.00 per cent, respectively, with the aim of achieving and maintaining inflation at the targeted level of 5% over the medium term, while enabling the economy to reach and stabilise at the potential level.

Inflation Continues to Remain Low

Headline inflation continues to remain low, however a slight increase is recorded in October in comparison to the inflation recorded in September 2023, due to the underlined demand pressure in the economy. Inflation is projected to rise temporarily in the short term due to proposed Value Added Tax (VAT) changes, effective January 2024, as per the CBSL..

Market Interests are Adjusting Downward

Due to policy rate cuts and other monetary measures by the CBSL, market interest rates are decreasing and are anticipated to stabilize in the near future. The decline in lending rates is expected to boost credit to the private sector, contributing to the envisioned recovery of domestic economic activity.

Trade Deficit Widened in September, Remittances and Tourism Earnings are improving further

The merchandise trade deficit increased in September 2023, driven by lower export earnings and higher import expenditure compared to September 2022. However, the cumulative trade deficit for January to September 2023 remained considerably low. In October, there were notable increases in workers' remittances inflows and earnings from tourism compared to the same period the previous year.

Global Economy

Global Commodity Prices Update

The recent Middle East conflict added uncertainty to commodity markets already dealing with numerous shocks. Before the conflict, voluntary oil supply cuts by OPEC+ members led to a 9% rise in energy prices in Q3. Consequently, the World Bank's commodity price index increased by 5% during that period, now standing 45% above its 2015-19 average. Currently, the conflict's impact on commodity prices is limited, with moderate increases in oil and gold prices, while most other commodities have remained stable.

China's Imports Grow, But Exports Fall more than Expected

China's exports decline for the sixth consecutive month, putting pressure on domestic spending. However, a 3% increase in October imports suggests that recent stimulus measures including the issuance of additional sovereign bonds and an augmented budget-deficit target, are beginning to positively impact household and business spending.

Trade Volumes Reverting to Norm Amidst Elevated Uncertainty: Insights from Goods Barometer of WTO

The November- WTO Goods Trade Barometer reports a rebound in global merchandise trade, led by increased activity in automobile sales, production, and electronic components trade. Despite this recovery, a volatile near-term outlook persists due to mixed economic results and escalating geopolitical tensions.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

-3.1% in Q2-2023

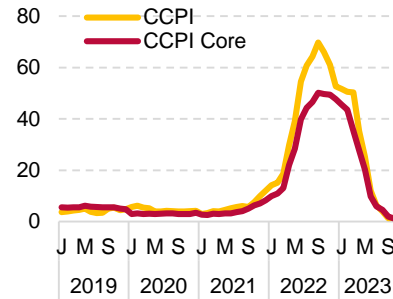
Movement of Purchasing Managers' Index-Sep 2023

Manufacturing PMI **49.5**
Services PMI **56.2**

PMI recorded an expansion in Services activities and softening the contraction in Manufacturing activities.

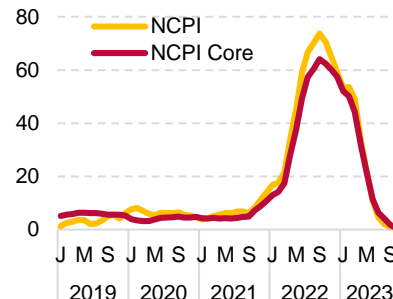
Inflation

CCPI Inflation (%) - Base 2021



Oct. 2023
Headline **1.5%**
Core **1.2%**

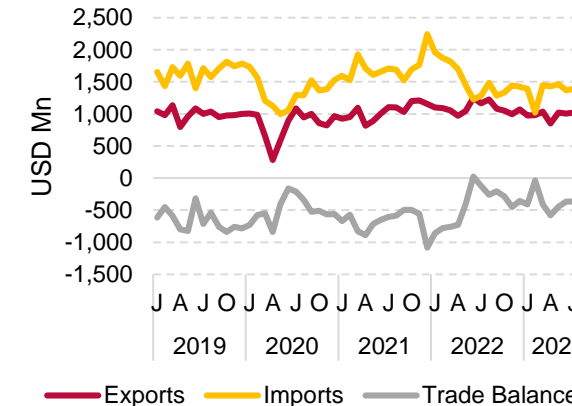
NCPI Inflation (%) - Base 2021



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

External Sector

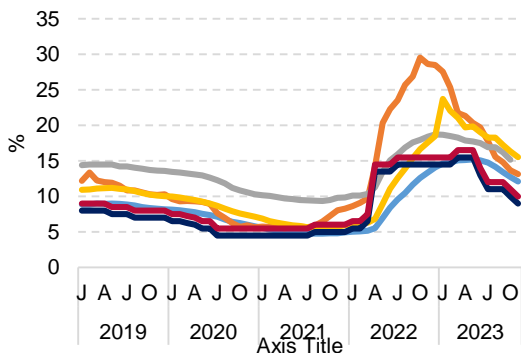
Merchandise Trade



Tourism

Sep. 2023	Oct. 2023
Exports 10% ↓	Arrivals 160% ↑
Imports 5.1% ↑	Earnings 81% ↑
Workers' Remittances	
Oct. 2023 46% ↑	

Interest Rates



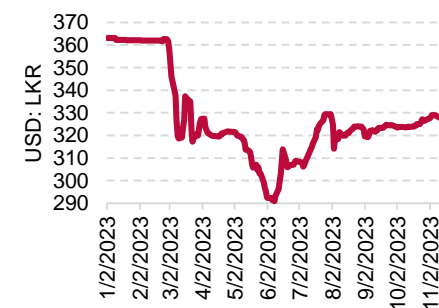
AWDR
AWPR
AWLR
AWFDR
SDFR (Repo)
SLFR (Rev.Repo)

SDFR: 9%
SLFR: 10%

Growth in Credit to Private Sector

Aug 2023
6.8% ↓

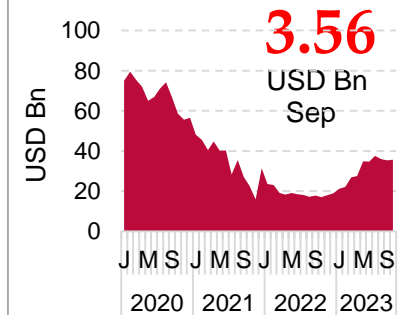
Exchange Rate



Appreciation of LKR thus far 2023 (Jan-Nov)

10.5%

Official Reserves



3.56
USD Bn
Sep

KEY INSIGHTS

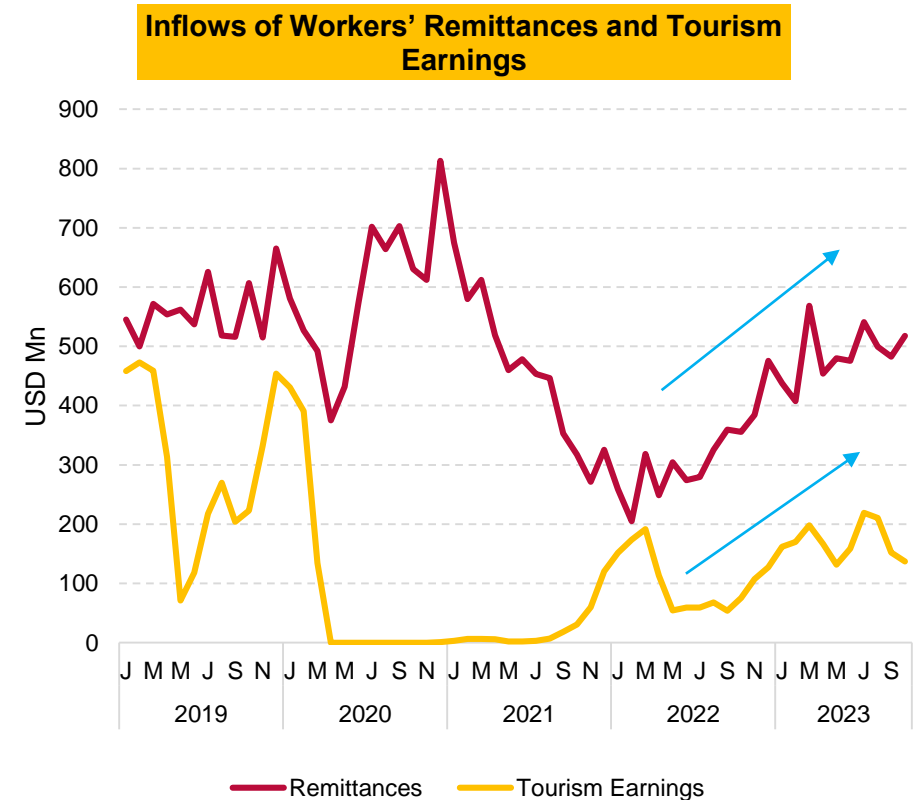
Sri Lankan Economy

Positive Economic Trends Evident in Workers' Remittances and The Tourism Sector

Sri Lanka's remittances, channelled through official sources, surged to USD 517.4 million in October 2023, marking a robust 45.63% increase from the previous year's USD 355.4 million. This substantial uptick can be attributed to a growing number of expatriates sending their earnings back home, spurred by a favourable exchange rate resulting from improved monetary policies. Over the first 10 months of 2023, Sri Lanka witnessed an inflow of USD 4,862.5 million through official channels, reflecting a substantial 66% rise from the USD 2,929.4 million recorded during the same period in 2022.

With this positive economic trend, Sri Lanka experienced an increase in tourism revenues to \$136.7 million in October 2023 compared to the USD 55 million of the preceding year. This doubling of revenue is indicative of a gradual recovery in tourist arrivals, as highlighted by official data. Cumulatively, the tourism sector generated revenues totalling \$1,593.4 million over the initial ten months of the year, showcasing an impressive 71.7% increase from the \$928 million reported during the corresponding period in 2022. The data, derived from a survey conducted by the tourism promotion office and released by the central bank, underlines the sector's resilience and revival.

The month of October witnessed a more than twofold increase in tourist arrivals, soaring to 109,199 compared to the previous year's figure of 42,026. Tourists in the first 23 days of November stood at 117,597, pushing the cumulative figure for the year to 1,243,052. India re-emerged as the top source market for tourist traffic during the first 23 days of November (19%), pushing Russia to second (16%), followed by Germany (10%) and the UK (8%).



KEY INSIGHTS

Sri Lankan Economy

State Institutions Embrace Digital Transformation

Earlier this year, the commitment to build a modern Sri Lanka at the forefront of digital technology was declared by President Ranil Wickremesinghe. In his budget speech, it was stated that the organizational structure related to information technology in the public sector would be restructured to facilitate the digital economy by the year 2030. Additionally, measures would be taken to establish a National Center for Artificial Intelligence, ensuring economic and social transformation based on the latest trends in digital technology and artificial intelligence. The budget has allocated an amount of Rs. 3 billion to implement these activities for the next year. Digitalization of the public sector is poised to significantly enhance operational efficiency and reduce costs. The spread of digitalization across the public sector holds the potential to substantially decrease total government expenditure.

Several state institutions are already undergoing digitalization processes. The primary air traffic control tower and radar center at Katunayake International Airport have fully embraced digital technology, employing the latest Air Traffic Management System. This system enables real-time data dissemination to relevant nodes, expediting and optimizing all air navigation services within Sri Lankan airspace. The implementation of this state-of-the-art system accommodates an increased volume of aircraft, resulting in a 100% increase in data accuracy, particularly regarding plane safety. Airport and Aviation Services Ltd. invested Rs. 1.2 billion in establishing this new system. Furthermore, Sri Lanka's national archives and libraries are set to go online through digitalization, as announced by the Chairman of the National Library and Documentation Services Board. 25 libraries from across the country have been selected for digitalization, marking a significant step toward a more connected and digitally accessible national information infrastructure.

These are just a few recent developments in digitalization, highlighting the positive strides Sri Lanka is making towards a more technologically advanced future. Despite these commendable efforts, there is a recognition that the journey towards a fully digitized economy is ongoing, with more initiatives and investments needed to propel the nation further into the digital age.

KEY INSIGHTS

Global Economy

Commodity Markets Outlook: October 2023 Update by the World Bank

The October Release of the World Commodity Prices Outlook projects that a combination of factors, including global economic fragility, constrained financial conditions, and challenges in China's property sector, will contribute to the persistent weakness in commodity prices. The outlook for energy and industrial metals, in particular, is influenced by subdued global goods trade. However, there is a contrasting trend in the clean energy sector, where a surge in demand for copper, lithium, and nickel is driven by a nearly 40% increase in global investment in clean energy infrastructure from 2020 to 2023.

Energy prices, following an estimated 29% decline in 2023, are projected to fall by 5% in 2024 due to subdued global growth, with a marginal additional decrease of 0.7% in 2025. The Brent crude oil price forecast for 2023 averages at USD 84/bbl, contingent on the assumption that the Middle East conflict remains contained and global oil production increases within and outside OPEC+. High rice prices are anticipated throughout 2024, hinging on India's continuation of export restrictions and the presence of a moderate-to-strong El Niño. While fertilizer prices are forecasted to decline with increased supplies, they are expected to remain above historical averages due to persistent supply constraints and China's ongoing restrictions on fertilizer exports. Base metal prices are expected to experience a 5% decline in 2024, reflecting slowing demand, followed by a rebound in 2025 as global industrial activity recovers. Despite the anticipated stabilization of China's property and construction sectors by 2024, their influence on global metals demand is expected to diminish compared to previous decades.

Potential risks to this forecast include

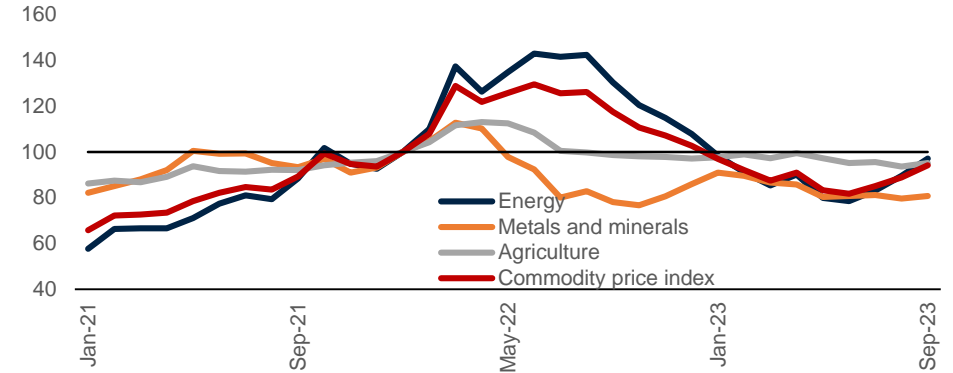
- Termination of the Black Sea Grain Initiative impacting Ukrainian grain and oilseed exports, disruptions to bulk transport and power distribution affecting food and energy prices

- Severe weather events linked to El Niño affecting agriculture and metal mining production

- Possibility of tighter global financial conditions leading to decreased demand for commodities used in industry and construction, resulting in lower industrial commodity prices.

Movements of Commodity Prices

Index, 100 = Jan 2022



Price Projections for Key Commodities

	Unit	2021	2022	2023f	2024f	2025f
Coal, Australia	USD/mt	138.1	344.9	175	130	110
Crude oil, Brent	USD/bbl	70.4	99.8	84	81	80
Maize	USD/mt	260	319	250	230	220
Rice	USD/mt	458	437	560	595	550
Wheat, US	USD/mt	315	430	345	335	320
Tea, average	USD/kg	2.69	3.05	2.8	2.75	2.77
Aluminum	USD/mt	2,473	2,705	2,300	2,200	2,400
Copper	USD/mt	9,317	8,822	8,200	7,800	8,500
Lead	USD/mt	2,200	2,151	2,100	2,050	2,100
Nickel	USD/mt	18,465	25,834	22,350	20,000	20,500
Gold	USD/toz	1,800	1,801	1,800	1,900	1,700

KEY INSIGHTS

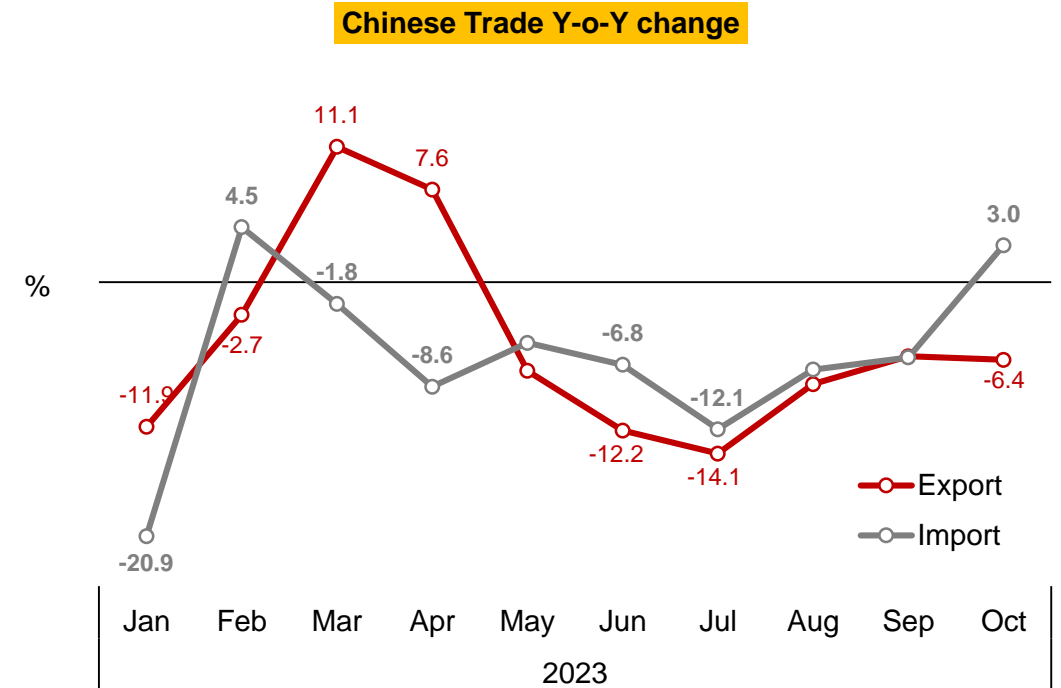
Global Economy

China's Imports Grow, But Exports Fall more than Expected

China's economic resilience is being tested as exports marked their sixth consecutive monthly decline, intensifying the pressure on Beijing to bolster domestic spending. The latest data from the General Administration of Customs reveals a 6.4% year-on-year drop in Chinese exports in October, reaching USD 275 billion. This contraction surpasses the 6.2% fall recorded in September, reflecting the heightened challenges posed by a substantial rise in global interest rates and geopolitical conflicts in Ukraine and the Middle East.

The magnitude of the export decline surpassed expectations, with Wall Street Journal and Reuters economists anticipating a 3.5% and 3.3% fall, highlighting the severity of the impact. The consistent dip in China's exports throughout the year, starting from May, signals subdued global demand for Chinese goods. This trend aligns with the broader international scenario, where other major Asian export players like South Korea and Taiwan have also reported prolonged periods of sluggish overseas sales.

However, amidst the export woes, a development emerges on the import front, showing a 3% increase in October. This uptick, breaking seven months of decline, suggests that Beijing's recent stimulus measures, including the issuance of additional sovereign bonds and an augmented budget-deficit target, are beginning to positively influence household and business spending. Notably, the approval of a plan to raise an additional 1 trillion yuan (approximately \$137 billion) in sovereign debt reflects China's commitment to stimulating economic growth amid challenging global conditions.



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.

Digital IDs: A Catalyst for Economic Growth

In today's tech-driven landscape, the adoption of a robust digital identification system is proving to be a game-changer for economies across the globe. The implementation of a robust digital identification system is emerging as a transformative force, promising a plethora of benefits for economies worldwide. A well-executed digital ID program offers a multitude of advantages for governments, businesses, and individuals. It serves as a catalyst for optimizing public service delivery, streamlining business processes, and ensuring secure digital access to essential services. Moreover, it lays the foundation for an expansive ecosystem of electronic services to flourish and thrive, ushering in a new era of efficiency and convenience.

The Digital Advantage

The government can benefit from a Digital ID by improving the delivery and efficiency of public services. It can help to identify and reach the eligible beneficiaries of government, healthcare, social welfare and other essential services while eliminating ghost users and fraudsters who claim benefits they are not entitled to. In addition, it enables the government to monitor and report the consumption and impact of public services more accurately. Further, implementing a Digital ID system will decisively broaden the tax base. Every transaction becomes transparent and traceable when bank cards and digital IDs are seamlessly integrated. This eliminates the disproportionate burden on a select group of people who regularly pay their taxes and allows the government the capacity to increase revenue collection.

Businesses can significantly enhance their customer verification and authentication processes through the use of Digital IDs, thereby increasing efficiency and reducing the cost of Know Your Customer (KYC) checks. This efficiency in KYC processes not only bolsters security but also enables businesses to expand their digital service offerings. This, provides customers with secure and convenient methods to verify their identities, both online and offline, while simultaneously cutting down on the overall cost of KYC procedures.

Citizens stand to gain from easier access to public and private services as well as increased security. This not only makes it easier for people and companies to get the perks to which they are legally entitled, but it also drastically reduces queues at government institutions. As a result, it saves a significant amount of time for people, making their interactions with government services more efficient and less time-consuming.

Evolving Landscape cont'd

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Digital ID shall act as a foundational platform which enables digital transformation in various sectors								
Individuals			Business			Government		
E-Government	E-Health	E-Learning	Smart Utilities	Smart Border Security	E-Finance	Social Welfare	Smart Transport	E-Residency / E-Visa
Smart Services	Electronic Medical Records	Connected Schools	Digital Customer Care	Digital Entry / Exit Systems	Mobile Banking	Social Assistance	Automated Toll Collection	E-Passport
Connected Govt	Connected Homecare	Student Portal	Digital meter data monitoring	Biometric systems	Online Banking	Direct Benefit Transfer	Intelligent Transport Management	E-Visa
Adaptive Planning	Chronic Condition Management	Codefest	Smart Utility Systems	Border Surveillance and Security	Virtual Banks	Digital PoL	Smart Traffic Management	E-Residency

Success Stories from Asia



India

Launched in 2010, 'Aadhaar', the world's largest biometric ID system, has streamlined the delivery of public services, reduced fraud, and increased financial inclusion. It has played a crucial role in social welfare programs, ensuring direct benefit transfers and reducing leakages.



Singapore

'SingPass' was introduced in 2003 as a government-issued digital identity to facilitate online access to various government services. It was an early initiative to enable citizens to transact with government agencies securely and conveniently. SingPass served as a foundational component and precursor to the broader National Digital Identity (NDI) initiative in Singapore, which is a more comprehensive and holistic approach to digital identity. It represents a broader strategy to create a unified and standardized digital identification system that extends beyond government services and encompasses both public and private sectors.



Malaysia

The Malaysian government had expressed interest in developing a digital ID system as Malaysian Prime Minister Datuk Seri Anwar Ibrahim has revealed government plans to boost the country's start-up ecosystem and speed up the launch of a new digital identity platform. The new digital identity system was first announced in late-2021, targeting a launch by 2024.



Philippines

The Philippine Identification System (PhilSys) is a fully functional biometric digital ID system, conceptualized, designed and operationalized in a span of only five years (2018 - 2023). In December 2021, the Philippine government secured a USD 600 million loan from the World Bank, part of which was to be used for the development of the Philippine Identification System.

Datasheet

Latest Available data

External Trade (USD Mn)	Sep-2023	Month Ago	Year Ago
Exports	972	1,119	1,080
Agricultural Exports	243	243	231
Industrial Exports	724	872	844
Imports	1,349	1,426	1,284
Consumer Goods	214	268	201
Intermediate Goods	920	857	913
Investment Goods	2015	299	170
Trade Balance	-378	-307	-205
Tourist Arrivals (No.)	109,199 (Oct)	111,938	42,026
Tourism Earnings	137 (Oct)	152	76
Workers' Remittances	517 (Oct)	482	355
Inflation (%)	Oct-2023	Month Ago	
CCPI (2021 base)			
Headline	1.5	1.3	
Core	1.2	1.9	
NCPI (2021 base)			
Headline	1.0	0.8	
Core	0.6	1.7	
Interest Rates (%)		Month Ago	Year Ago
AWPR	13.14 (Nov)	13.68	
AWLR	15.18 (Oct)	16.20	
AWDR	12.11 (Oct)	13.39	
AWFDR	15.54 (Nov)	17.24	
SDFR	9.00	10.00	
SLFR	10.00	11.00	
Growth in Credit to Private Sector	-6.8 (Aug)	-7.6	12.1
Fiscal Sector (LKR Bn)		2023 (Jan-Jul)	Year Ago
Revenue and Grants		1,517	1,093
Expenditure and Net Lending		2,103	2,988

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