

### The SNAPSHOT

#### Sri Lankan Economy

**Exports:** Increased further in October 2017, registering a double digit growth of 14.1% on a Y-o-Y basis. This growth was mainly driven by industrial exports particularly from the increase in apparel exports to the US and the EU market. Both agricultural exports and mineral exports recorded a positive growth of 24% and 48% Y-o-Y respectively. According to the Ministry of Development Strategies and International Trade, full-year exports reached a high in 2017 rising to US\$ 11.4 billion, an increase of 10% from 2016.

**Imports:** Declined marginally in October 2017 mainly due to the decline in expenditure on sugar imports owing to lower prices as well as lower volumes. Fuel imports declined due to low crude oil imports in volumes despite an increase in prices. Import expenditure on consumer goods and intermediate goods rose by 1.3% and 5.5% respectively, while imports of investment goods decelerated by 12% Y-o-Y.

**Trade Balance:** The cumulative trade deficit expanded moderately during the first ten months of 2017. With the improvement in financial flows, the Balance of Payment was a surplus of US\$ 1.9 billion in the Jan-Oct 2017 period.

**Inflation:** CCPI headline inflation eased to 7.1% in December 2017 (from 7.6% in November 2017) while CCPI core inflation eased to 4.3% Y-o-Y. Core inflation is at its lowest since October 2016. NCPI headline inflation eased to 7.3% (from 8.4% in November 2017) while NCPI core inflation decreased to 2.7%, the lowest the index has seen since it was compiled.

**Policy Rates:** The Monetary Board of the Central Bank of Sri Lanka (CBSL) in their last policy review meeting in December 2017 decided to key policy rates unchanged.

**Road Map 2018:** In this policy document released by the CBSL, a framework for Flexible Inflation Targeting (FIT) was announced with the intention of maintaining inflation at mid-single digit level. In order to implement the FIT framework, it would require amending the Monetary Law Act, continuation of the current fiscal consolidation, institutionalization of the required changes to the monetary and fiscal policy processes and creating awareness with the general public

**Sri Lanka- Singapore FTA:** The two countries signed a FTA recently which aims to be more comprehensive in nature for Sri Lanka relative to past FTAs. Beyond the chapter on goods, there are chapters on services, investment, government procurement, economic and technological cooperation, e-commerce and intellectual property rights.

**Decline in Agriculture:** The employed population in the agriculture sector as % of the total employed population in the country fell to 24.3% in 3Q 2017 which is all-time low.

#### The Global Economy

**Global Growth:** The World Bank raised its forecasts for 2018 to 3.1% as broad-based recovery was underway across the world. Advanced economies are expected to moderate slightly to 2.2% in 2018 while emerging economies are expected to grow by 4.5%.

##### Growth:

**US:** With stronger private investments, the economy is estimated to have grown 2.3% in 2017 and accelerate to 2.5% in 2018.

**China:** Economy is expected to grow 6.8% in 2017 and will moderate to 6.4% in 2018 according to the World Bank

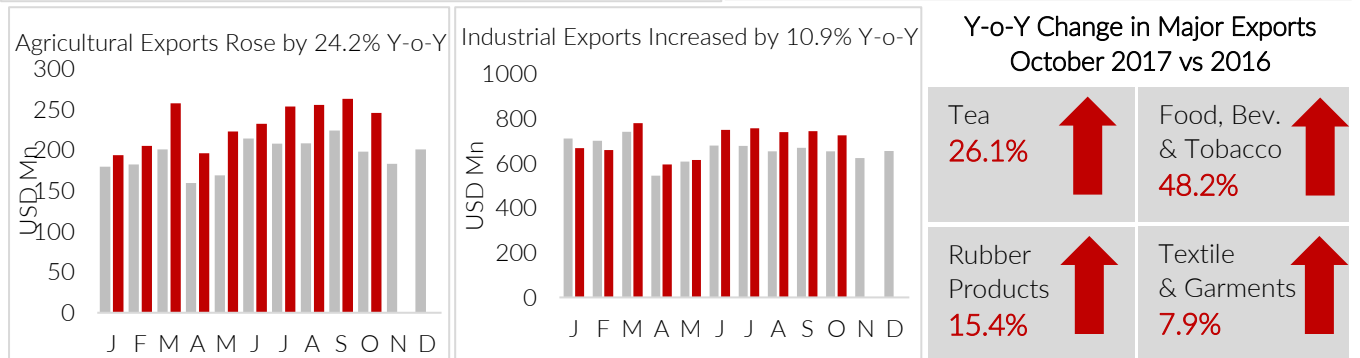
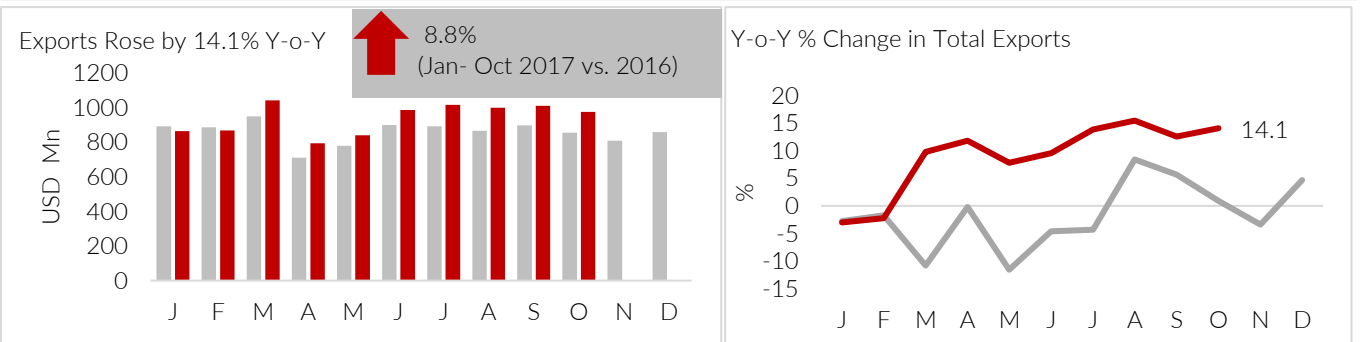
**Global Oil Prices:** The OPEC reference basket averaged USD 62.06 per barrel in December 2017 which is its highest since June 2015 on the back of support for the on-going adjustment in supply and demand growth.

**PMI Up:** The J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) rose to its best reading in December 2017, since February 2011 on robust gains in new orders, output and employment reflecting the expansion in the global manufacturing sector.

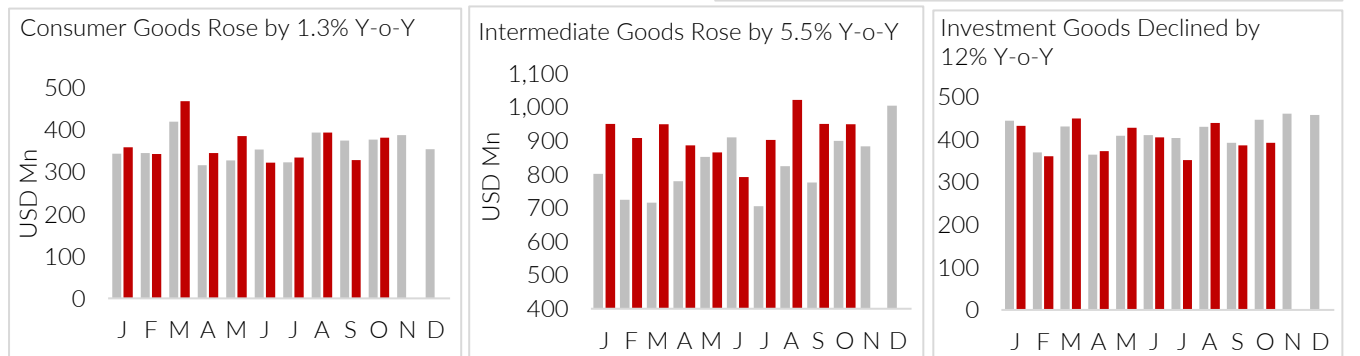
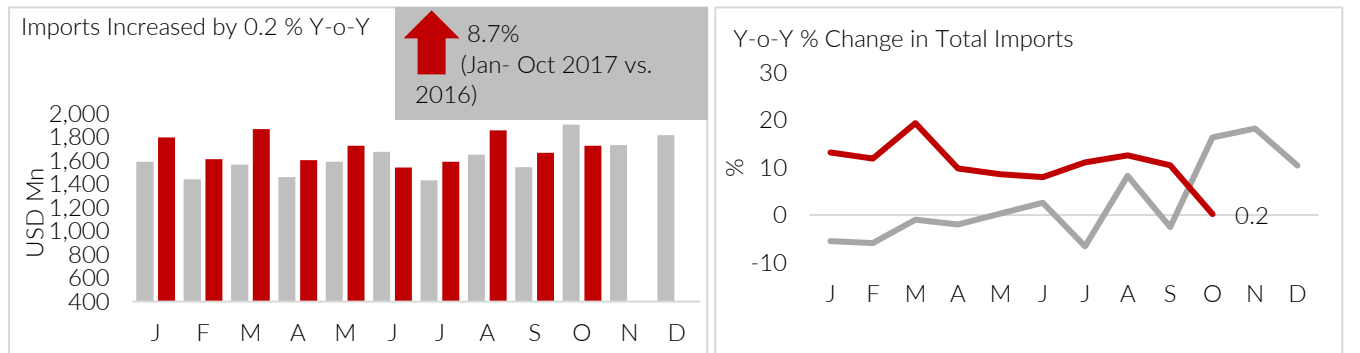
# External Sector Performance-October 2017

Legend █ 2017 █ 2016

## Exports

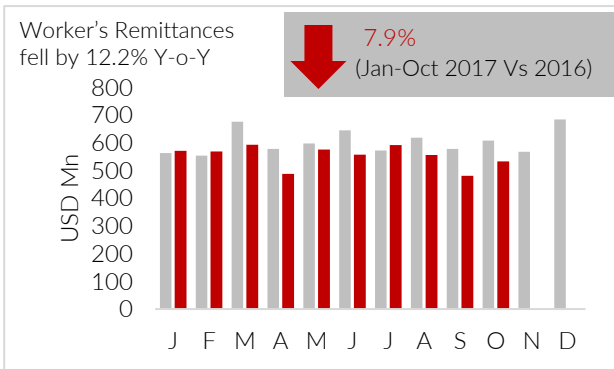
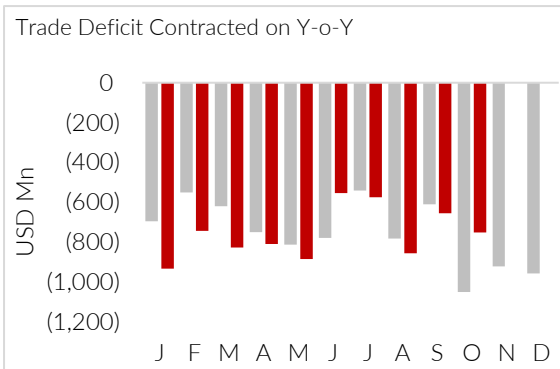


## Imports

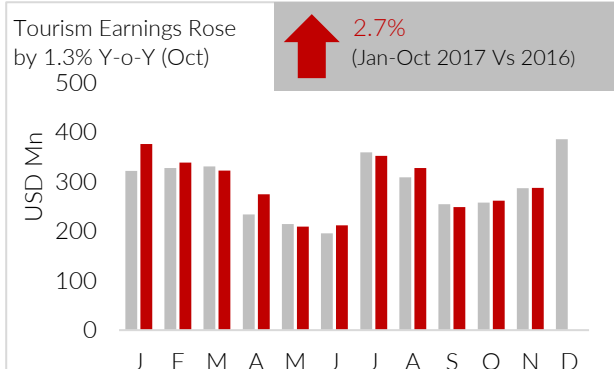
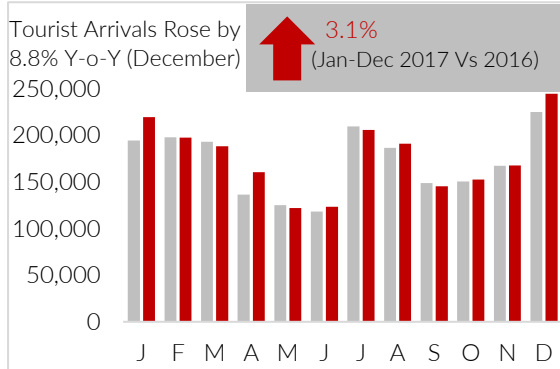


### Y-o-Y Change in Major Imports –October 2017 vs 2016



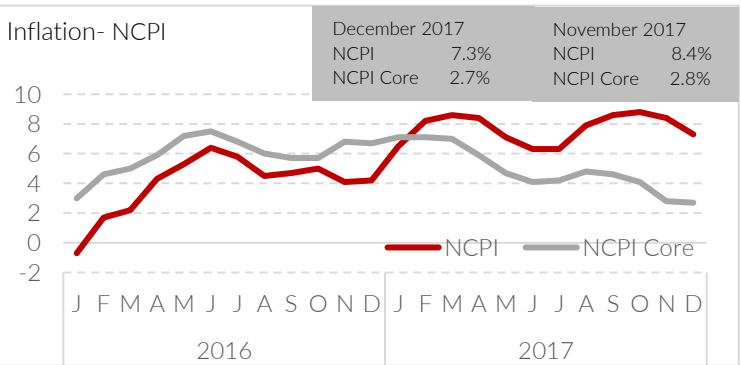
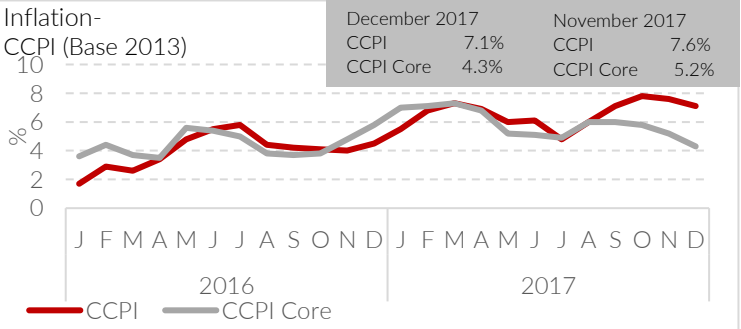
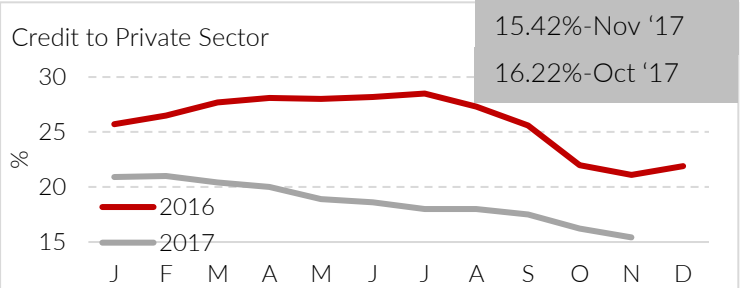
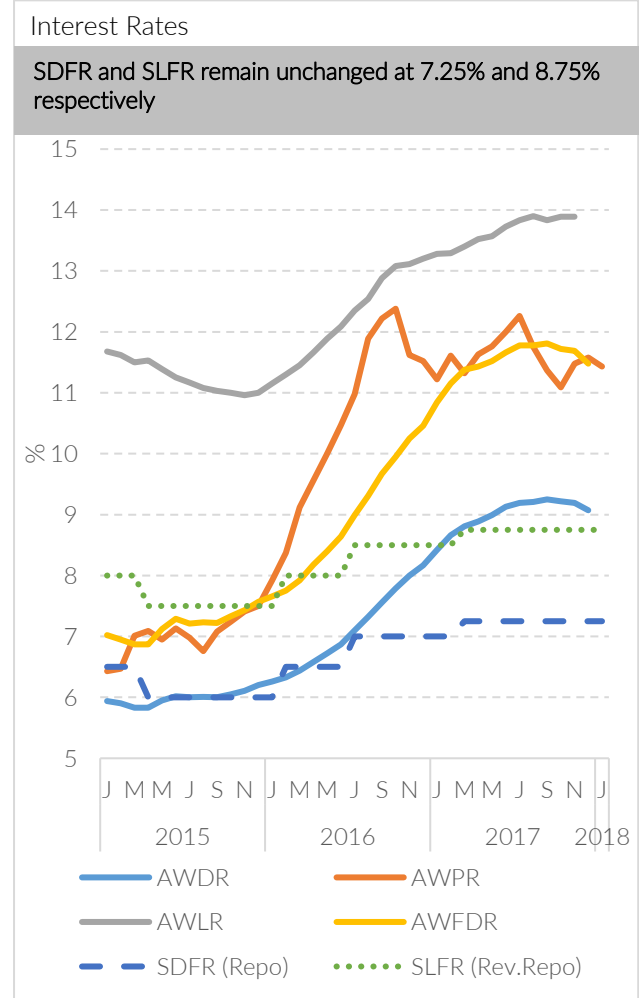


**31%**  
Of the total import bill covered by Remittances (October '17)



**15%**  
Of the total import bill covered by Tourism Earnings (October '17)

## Key Macroeconomic Indicators



## Further Insights – Sri Lankan Economy

### IMF Approved USD 251.4mn Disbursement after Successful Completion of the 3<sup>rd</sup> Review

The International Monetary Fund completed the 3<sup>rd</sup> review of Sri Lanka's Extended Fund Facility arrangement, which enables the disbursement of about USD 251.4mn. Total disbursements under the arrangement is about USD 759.9mn. As per the views of the IMF, Sri Lanka's performance under the program has remained broadly on track. Macroeconomic and financial conditions have been stable, despite a series of weather related supply shocks. The authorities remain committed to the economic reforms under the program and have undertaken measures to improve government revenue and build international reserves. The IMF is satisfied with the fiscal performance as all targets until September 2017 were met. With inflation and credit being on the high side, the IMF recommends the CBSL to remain on a tightening bias.

The table below shows the performance and future targets under the EFF program.

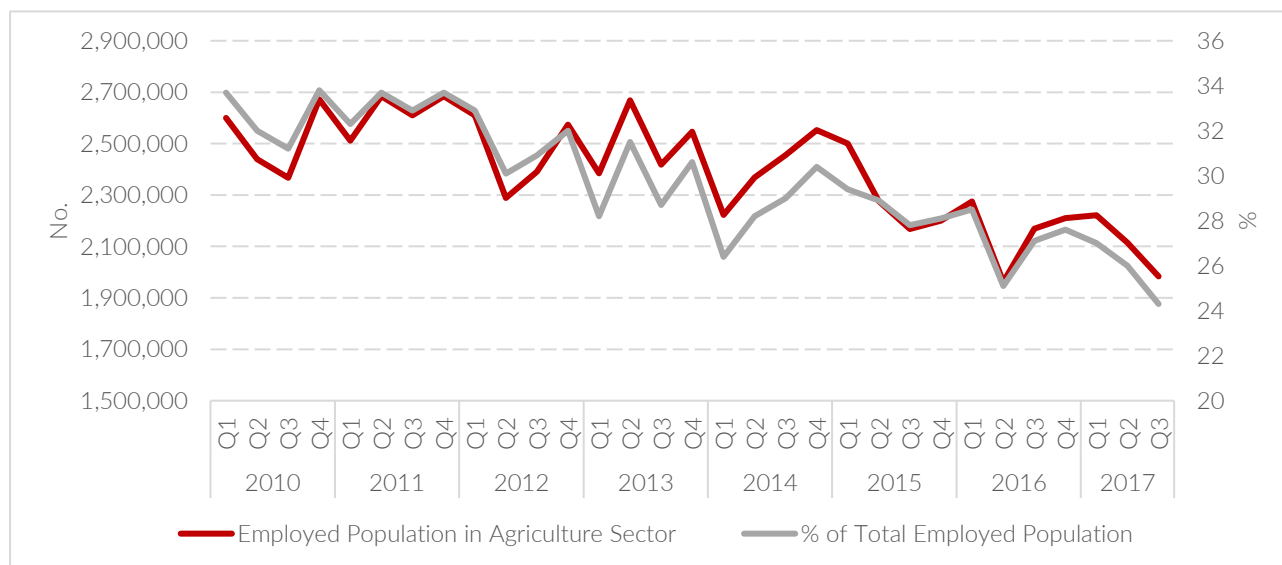
*Table 1: EFF Supported Programme: Performance against Quantitative Targets*

	2017					2018			
	End June		End Sept.		End Dec.	End March	End June	End Sept.	End Dec.
	Target	Actual	Target	Actual	Target	Target			
<b>Quantitative performance criteria</b>									
Central government primary balance (floor, in billion rupees)	-8	16	-4	16	-23	15	45	90	141
Program net official international reserves (floor, in million US\$)	1,874	2,049	2,057	2,568	2,236	1,053	1,133	922	690
<b>Continuous performance criteria</b>									
New external payment arrears by the nonfinancial public sector and the CBSL (ceiling, in million US\$)	0	0	0	0	0	0	0	0	0
<b>Indicative targets</b>									
Central government tax revenue (floor, in billion rupees)	803	819	1,232	1,240	1,680	447	924	1,438	1,954
Reserve money of the CBSL (ceiling, stock, in billion rupees)	905	892	935	909	967	1,020	1,025	1,071	1,095

Source: IMF

## Employment in the Agriculture Sector Declines

Figure 1: Employed Population in the Agriculture Sector



Source: Department of Census and Statistics

The employed population in the agriculture sector fell to 1.9mn in the Q3 of 2017 which is 24.3% of the total employed population. Agriculture sector employment dropped by 8.5% in the Q3 2017 compared to the Q3 2016 reaching an all-time low.

Adverse weather conditions (drought, floods, landslide etc.) in the country from time to time has had an adverse impact on the employment in the agriculture sector. The drought experienced during the latter part of 2017 mainly affected paddy farming. The floods during mid- 2017 adversely affected paddy, tea and rubber sectors. Landslides which came along with the rain disrupted activities in tea, rubber and oil palm plantations.

When observing the long term trends of the employment in the agriculture sector, it shows that there is an overall declining trend in workforce that is employed in this sector.

## Drought Adversely Impacts Agriculture Output and Consumption

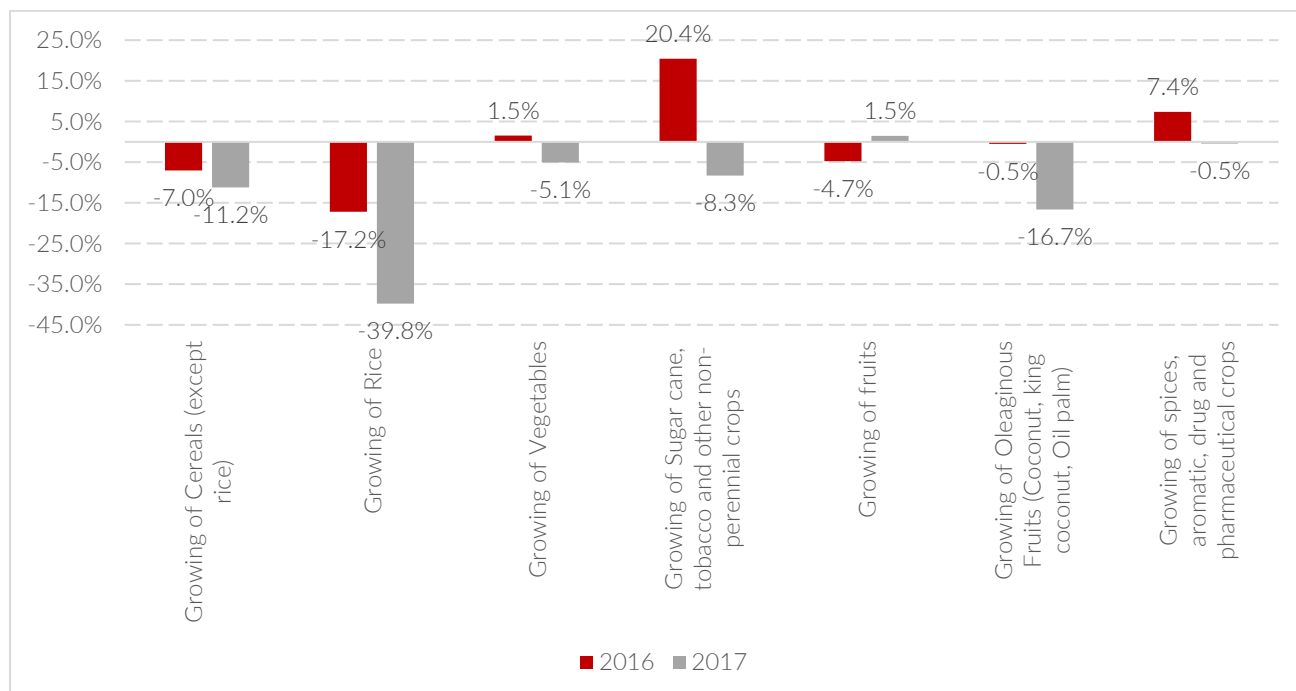
Agriculture sector's contribution to GDP during the first nine months of the year contracted for the second continuous year from the recorded rate of -2.7% in 2016 to -3.2% in 2017. Agriculture's share in GDP reached a record low of 6.9% attributed to prolonged drought conditions that impacted the sector for the second continuous year. Failed rainfalls that continued from 2016 to 2017 had a significant effects on certain agricultural areas of the economy such as the North Central province, Northern province, North Western province and Eastern province.

This drop in production was apparent in many non-plantation crop categories as indicated in figure 2. As highlighted in a recent report by the Department of Census and Statistics, the harvested extent during 2016/2017 the Maha season was about 71% of the sown extent and was a 48% Y-o-Y decrease compared to the 2015/2016 Maha season.

The erosion of disposable income stemming from drought impacts was strongly felt in other economic segments such as the Consumer Durables and Fast Moving Consumer Goods (FMCG) sectors. Experts

from these industries commented that a weak consumer sentiment was apparent in drought impacted areas of the economy with a sizable decline in consumption.

Figure 2: Y-o-Y GDP Growth in Key Non-Plantation Agricultural Crops (First Nine Months of 2016 and 2017)



Source: Department of Census and Statistics

## Two Top Demanded Occupations in Sri Lanka are Sewing Machine Operators and Security Guards

The Department of Census and Statistics conducted their first ever survey in Sri Lanka on the demand for labour. In 2017, the highest percentage was reported from the services sector (35.8%) followed by the industry sector (35.2%). Estimated number of vacancies for these two sectors are 177,813 and 175,250 respectively. Sewing machine operators showed the highest demand, having 77,189 vacancies, followed by security guards (57,008). Heavy truck and lorry drivers were the least demanded occupation in Sri Lanka.

Highest number of labour demand was recorded from the Western province, while the Eastern province recorded the lowest. Tea plucker is the most demanded occupation in the agricultural sector (81.6%). Sewing machine operators represent more than 40% of the total labour demand and it was the highest demanded occupation in the industry sector. Building construction labourers and other manufacturing labours have more demand than others in the construction sector. In the services sector, highest demand was recorded for security guards. In the tourism sector, waiters were high in demand as well.

As per this report, sewing machine operators and security guards were difficult to fill in the formal sector. In the informal sector too, sewing machine operators were found to be difficult to be filled, followed by other manufacturing labourers. The underlying reasons for these were not enough people interested in doing this type of job, too much competition from other employers, low number of applicants qualified for the job, and salaries/payments demanded for this occupation are too high.

## Further Insights - Global Economy

### Global Growth is projected to Rise: World Economic Prospects-January 2018

The World Bank forecasted broad-based recovery for the global economy in their January update of the Global Economic Prospects. As per the report, they forecast global growth to edge –up to 3.1% in 2018 after experiencing a much stronger-than-expected performance in 2017, as the recovery in emerging economies negate a marginal moderation in advanced economies.

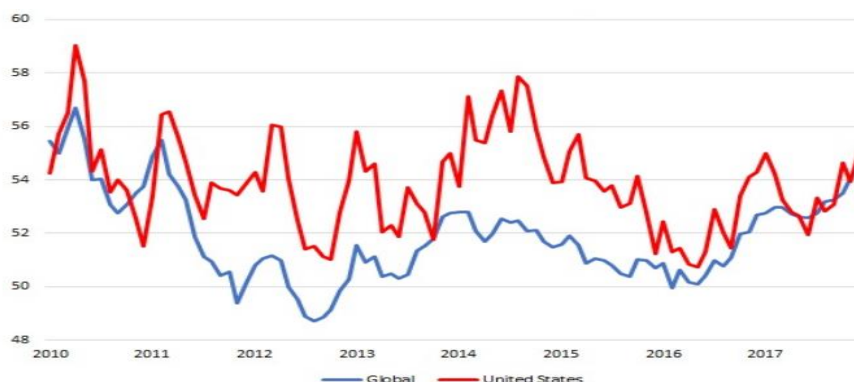
Forecasted growth for 2017 is 3.0% and it is expected the global growth to slow to 3% in 2019 from 3.1% in 2018 and further down to 2.9% in 2020. Advanced economies is expected to moderate slightly to 2.2% in 2018 from 2.3% in 2017, as major central banks are likely to gradually withdraw from accommodative monetary policies. The growth is expected to accelerate to 2.5% in 2018 and then moderate to an average of 2.1% in 2019 and 2020.

Growth of emerging Economies is expected to have accelerated to 4.3% in 2017, reflecting firming activity in commodity exporters and continued solid growth in commodity importers. The World Bank is estimating a growth of 4.7% for emerging economies in 2019 and 2020.

### Global Manufacturing Sector is Expanding: National Association of Manufacturers USA

The J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) rose to its best reading in December 2017, since February 2011 on robust gains in new orders, output and employment reflecting that the manufacturing sector is expanding at a new record. In December 2017, all but one of the top 15 markets for US manufacturing goods expanded. The HIS Markit Eurozone Manufacturing PMI grew its best reading since June 1997. In addition, manufacturing activity in Australia, Germany and Ireland reached their own-all-time highs, with the headline index in France at its best reading since 2000.

*Figure 2: HIS Markit Global and US Manufacturing PMIS (2010-2017)*



Source: National Association of Manufacturers, USA

## 1. External Sector Performance- October 2017

Category	October 2017 USD Mn	October 2016 USD Mn	Change (%)	Jan - Oct 2017 USD Mn	Jan - Oct 2016 USD Mn	Change (%)
Exports	975.6	855.0	14.1	9,399.7	8,641.1	8.8
Agricultural Products	245.6	197.8	24.2	2,323.4	1,942.3	19.6
<i>Tea</i>	136.2	108.1	26.1	1,275.9	1,057.9	20.6
Industrial Products	725.0	654.0	10.9	7,031.8	6,661.4	5.6
<i>Textiles and Garments</i>	422.6	391.6	7.9	4,137.6	4,107.5	0.7
<i>Rubber Products</i>	78.8	68.3	15.4	693.5	644.3	7.6
Imports	1,727.2	1,723.5	0.2	16,990.9	15,634.7	8.7
Consumer Goods	382.2	377.2	1.3	3,661.2	3,576.8	2.4
<i>Food and Beverages</i>	148.9	159.8	(6.8)	1,484.6	1,343.7	10.5
Intermediate Goods	948.4	899.0	5.5	9,169.6	7,983.6	14.9
<i>Fuel</i>	236.9	253.7	(6.6)	2,688.2	1,930.9	39.2
Investment Goods	392.5	446.0	(12.0)	4,016.2	4,063.1	(1.2)
<i>Machinery and Equipment</i>	205.6	235.6	(12.7)	2,147.4	2,245.7	(4.4)
<i>Transport Equipment</i>	61.2	75.9	(19.4)	559.0	541.3	3.3
<i>Building Materials</i>	125.2	134.1	(6.7)	1,302.9	1,271.1	2.5
Deficit in the Trade Account	-752	-868	-	-6,994	-7,591	-
Workers' Remittances	533	608	-12.2	5,518	5,990	-7.9
Earnings from Tourism	262	258	1.3	2,924	2,846	2.7
Inflows to the CSE (Net) (c)	13	8	55.0	279	-11	
Inflows to the Government (d)	319	129	148.2	5,046	4,411	
Treasury Bills and Bonds	142	43	229.4	1,403	1,204	
Long term Loans	177	86	107.4	1,143	1,007	

Source: Central Bank of Sri Lanka

(a) Provisional

(b) Revised

(c) This provisional estimate may be revised once the SLTDA releases its survey results for 2017

(d) Include secondary and primary market transactions

(e) Data available for the first six months of each period and includes foreign loans to Direct Investment Enterprises as recorded by the BOI and net direct investments to the CSE.

(f) EIU Calculations based on Central Bank Data



## 2. Tourist Arrivals

Country of Residence	December			January - December		
	2017	2016	% Change	2017	2016	% Change
Western Europe	75,793	68,355	10.9	680,901	643,333	5.8
of which UK	21,756	20,446	6.4	201,879	188,159	7.3
Asia	104,154	95,918	8.6	962,395	938,697	2.5
of which India	47,788	37,945	25.9	384,628	356,729	7.8
China(P.R)*	19,324	19,318	-0.4	268,952	271,577	-1.0
Other	64,589	60,518	6.7	473,111	468,302	0.9
Total	244,536	224,791	8.8	2,116,407	2,050,832	3.2

Source: - Sri Lanka Tourism Development

## 3. Interest Rates

	Week ending 19 <sup>th</sup> Jan 2018	Week ago	Year ago
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	11.43	11.40	11.47
Treasury Bill Yield			
91 days	-	-	8.98
364 days	8.85	8.80	10.37
	Latest available month	Month before	Year ago
Commercial Bank Average Weighted Lending rate (AWLR) (November 2017)	13.89	13.89	13.11
Commercial Bank Average Weighted Fixed Deposit Rate (AWFDR) (December 2017)	11.48	11.69	10.46

Source: - Central Bank of Sri Lanka

## 4. Inflation

### 3.1 Colombo Consumer Price Index (CCPI) Base Year 2013

Consumer Price Inflation	December 2017	November 2017	Year ago (Dec)
Year -on -Year	7.1	7.6	4.5
12 Month Moving Average (%)	6.6	6.4	4.0

Core Inflation	December 2017	November 2017	Year ago (Nov)
Year -on -Year	8.4	8.8	4.1
12 Month Moving Average (%)	7.5	7.1	4.0

Source: - Department of Census and Statistics

### 3.2 National Consumer Price Index (NCPI)

Consumer Price Inflation	December 2017	November 2017	Year ago (Dec)
Year-on -Year	7.3	8.4	4.2
12 Month Moving Average (%)	7.7	7.5	4.0
Core Inflation	December 2017	November 2017	Year ago (Dec)
Year-on -Year	2.7	2.8	6.7
12 Month Moving Average (%)	4.9	5.2	5.9

Source: - Department of Census and Statistics

## 5. Credit Growth

	November 2017	October 2017	September 2017	Year ago (Nov 2016)
Growth in Credit to Private sector (%)	15.42	16.22	17.49	21.13

Source: - Central Bank of Sri Lanka