

## The SNAPSHOT

### Sri Lankan Economy

- Export performances remained poor as figures for July show a drop of 4% Y-o-Y. While imports also declined by 6.6% Y-o-Y.
- Interest rates remained unchanged at 7%, while inflation hovered around the 4% mark. However, the annual averages increased 5.0% - 2.2% higher than last year. The National Consumer Price Index reduced slightly to 5.7% in September from 6.0% in August.
- Unemployment for Q2 2016 stood 4.6%, showing a slight increase from last quarter's 4.2% - largely due to a contraction of employment of workers in the Agricultural sector.
- Latest Purchasing Manager's Index (PMI) figures for the month of September showed strong results for the Manufacturing Sector – increasing to 57.7 points from 53.5 in August 2016. PMI for Services recorded 57.7 index point, lower from last month's figure of 61.2 point, indicating expansion in the sector but at a much slower rate.
- The latest tourism figures for the month of September also showed strong figures, as arrivals went up 4% Y-o-Y, largely attributable to the increase in arrivals from Western Europe, United Kingdom and East Asia.
- Sri Lanka slipped by one spot to 110 in the latest Doing Business Index rankings, published by the World Bank, dragged down by lack of improvements in areas dealing with construction permits, enforcing contracts and paying taxes.

### The Global Economy

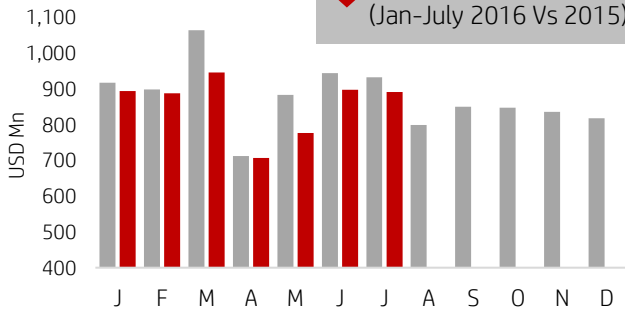
- Oil prices continued its steady uptick, as hopes of an output cut solidified as OPEC countries, along with Russia pledged to work together to limit oil production. However, prices may face increased pressure as US Shale oil producers have made strong comebacks.
- A dampened world demand across advanced economies hit Chinese exports sharply this September, falling by 5.6% year-on-year, adding further pressure to the Chinese Yuan.
- In its latest economic outlook, the IMF expected global growth levels to remain unchanged at 3.1%, with a minor recovery in 2017 to 3.4%. Lackluster growth expectations, according to the report, was largely due to worrying trends over advanced economies and poor growth results in Africa.
- The Sterling has dropped to its lowest level since 1985, as many fear over the government may be leaning towards a 'Hard Brexit' – which could restrict access to the European Union's Single Market.

# External Sector Performance – July 2016

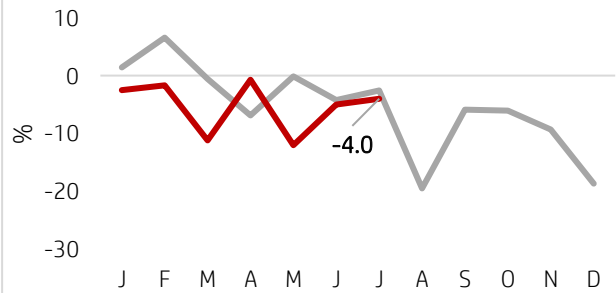
## Exports

Exports Declined by 4% Y-o-Y

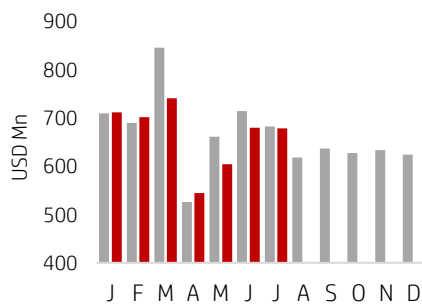
**↓ 5.6%**  
(Jan-July 2016 Vs 2015)



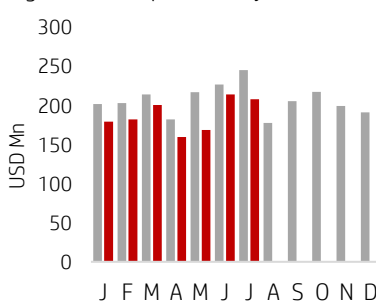
Y-o-Y % Change in Total Exports



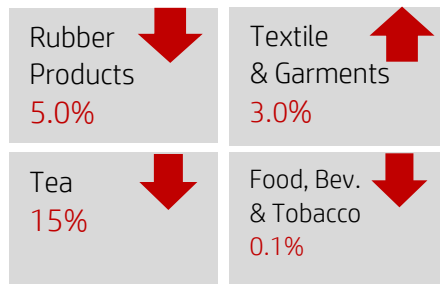
Industrial Exports Declined by 1% Y-o-Y



Agricultural Exports fell by 15% Y-o-Y



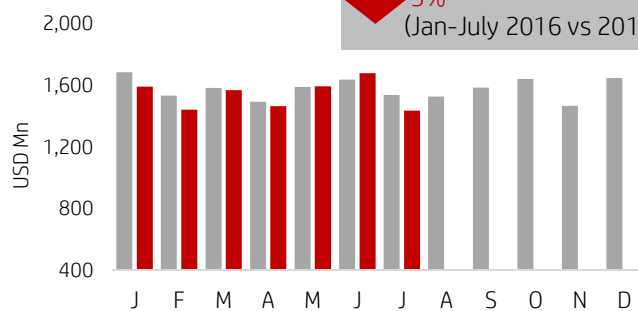
Y-o-Y Change in Major Exports  
July '16 vs. July '15



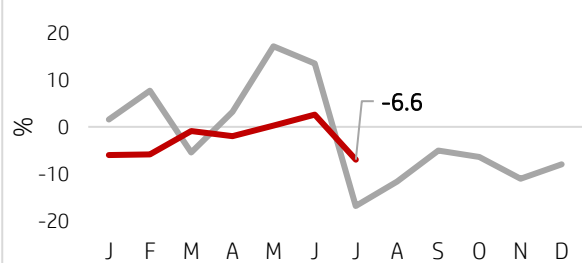
## Imports

Imports decreased by 6.6% Y-o-Y

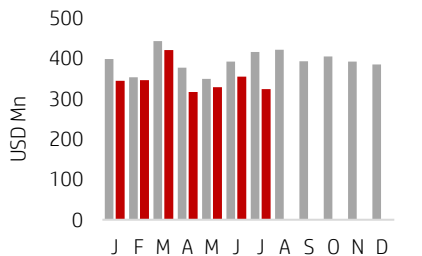
**↓ 3%**  
(Jan-July 2016 vs 2015)



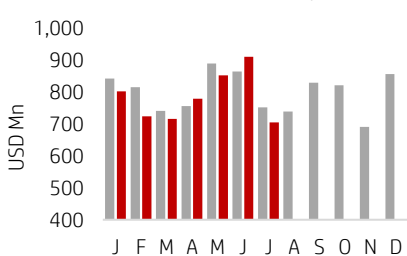
Y-o-Y % Change in Total Imports



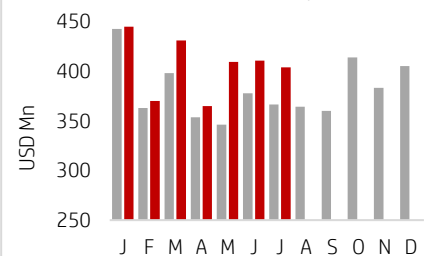
Consumer Goods Decreased by 22% Y-o-Y



Intermediate Goods decreased by 6% Y-o-Y



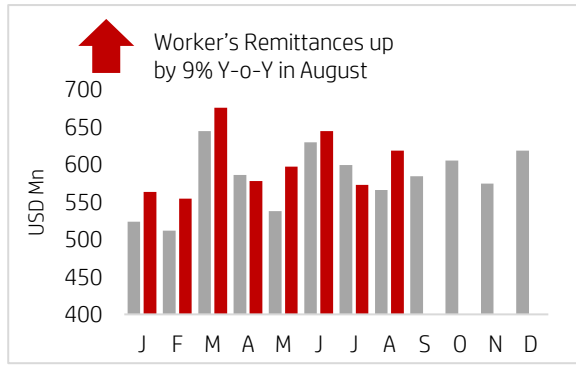
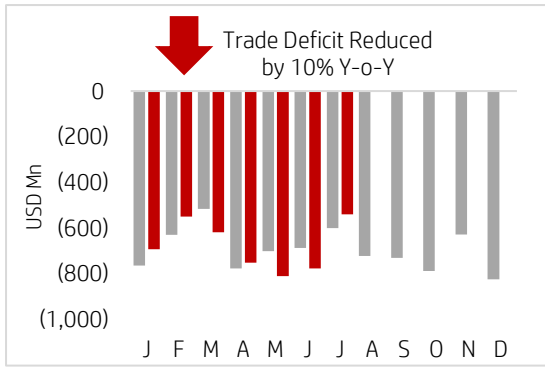
Investment Goods Increased by 10.2% Y-o-Y



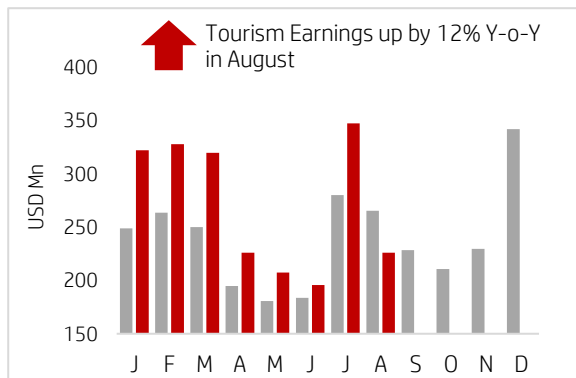
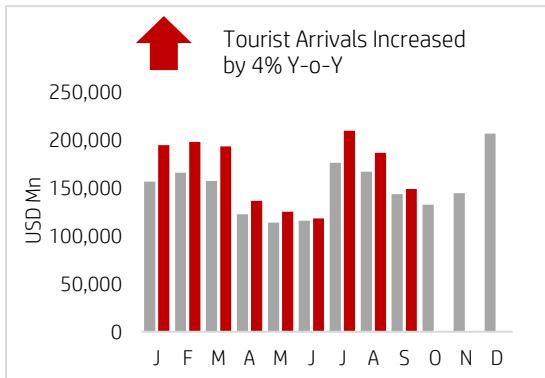
Y-o-Y Change in Major Imports – July '16 vs. '15



# Sri Lankan Economy



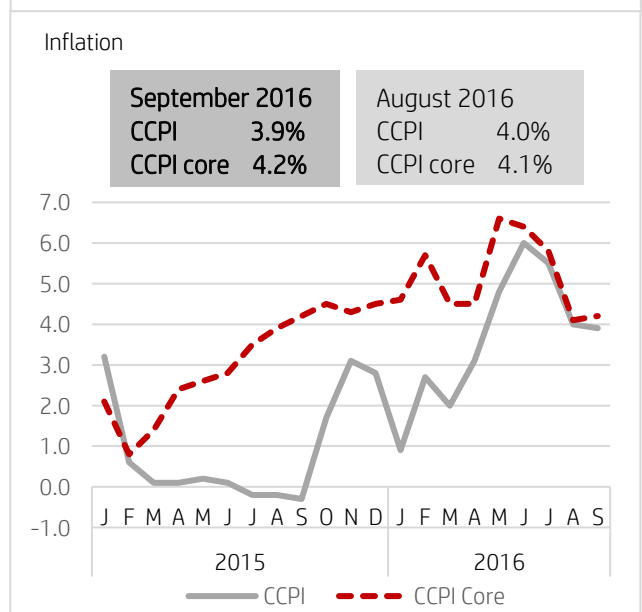
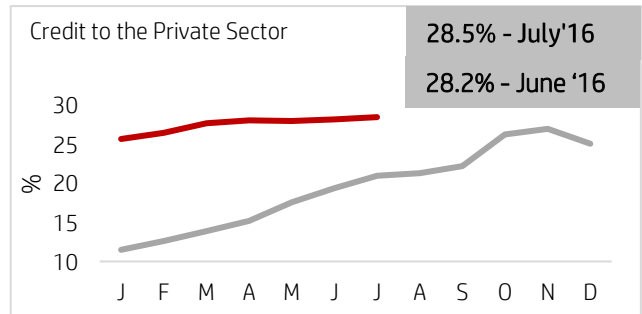
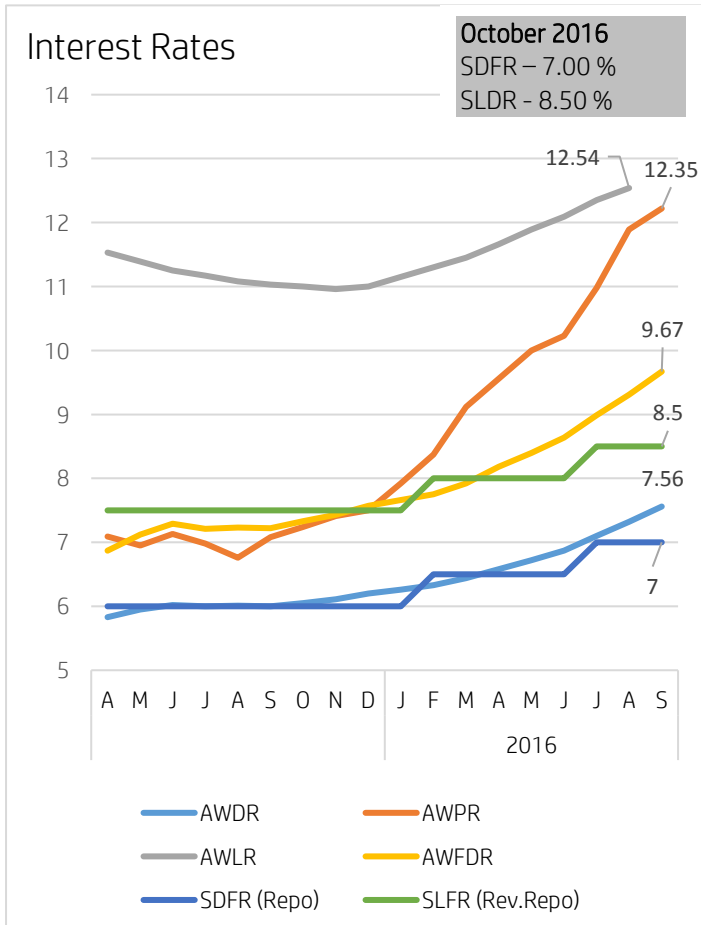
**40%**  
Of the total import bill covered by Remittances (July.'16)



**24%**  
Of the total import bill covered by Tourism Earnings (July.'16)

Legend █ 2016 █ 2015

## Key Macroeconomic Indicators



## Further Insights – Sri Lankan Economy

### Sri Lanka Slips One Place to 110 in the Doing Business Index for 2017

- Sri Lanka was ranked 110th in the Doing Business Index 2017, which is a key index for measuring the competitiveness of the regulatory business environment over 190 economies.
- Sri Lanka's ranking slipped by one spot from 109 last year. Despite reforms such as introduction of a Revenue Administration Management Information System (RAMIS) of the Inland Revenue Department, Sri Lanka's rank in Paying Taxes further declined by 1 place in 2017.
- Sri Lanka ranked poorly in key areas for investor confidence, notably in Paying Taxes (158th), Getting Credit (118th), Trading across Borders (90), Registering Property (155th) and Enforcing Contracts (163th).

	Overall EODB Ranking	2017	2016	Change
1	Sri Lanka	110	109	↓1
2	India	130	131	↑1
3	Bangladesh	176	178	↑2
4	Pakistan	144	148	↑4
5	Vietnam	82	91	↑9
6	Malaysia	23	22	↓1
7	Thailand	46	46	-

### Unemployment Reaches 4.6% in Q2

- Unemployment rates for Q2 2016 stood at 4.6%, increasing by 0.4 percentage points from the last quarter, staying unchanged Y-o-Y.
- The number of unemployment persons were estimated 377,987 – 28,803 higher than the previous quarter.
- Large decreases were noticed amongst females in both Rural & Estate area. Labor participation amongst females stood at 35.1 – it's lowest since Q2 2014.
- Amongst Industries, the number of employed persons increased for both Industries & Services to 27.1% and 47.8% from 26% and 45.5% last quarter respectively. Employment in the agricultural sector continued its secular decline, reaching to a new low of 25.1% this quarter from 28.5% in the previous quarter.
- In the Industries and Services sector, the employed population grew by 52,912 and 106,341 persons respectively. Whereas the employed population in the Agricultural sector contracted by 312,904 persons.
- Though unemployment for GCE A/L & above continues to fall at steady rate, large gaps between the male and female with similar levels of education still exist. Unemployment amongst males with qualifications equivalent to A/Level and above stood at 4.6%, whereas unemployment levels for females, with similar qualifications, were recorded at 12.5%.

### PMI Data: Strong Gains for Manufacturing, Services Still Expanding at a Lower Pace.

- The Manufacturing Sector continued its steady expansion in activity, after floods in May and April hampered production capabilities.
- PMIs for the month of September rose to 57.7 points this year, 4.2 points higher than last month's records.
- Strong growth was driven largely by growth in new orders and production sub-indices, which increased from last month, while stock of purchases index remained unchanged. Employment and supplier's delivery time, on the other hand, decreased from the previous month.
- Strong growth records indicate a promising recovery for the manufacturing sector, which faced major headwinds earlier in the year.
- Services sector declined from 61.2 last month to 57.7 points, indicating that the sector is expanding but at a slower rate in comparison to last month.
- Declines were largely caused by drops in New Businesses, Business Activity and Expectations for Activity sub-index. Increases were noticed in Expectations for Activity.

## External Sector – A Closer Look

- Export performance for July remained sluggish. According to the latest figures, Sri Lanka's exports fell by 4% Y-o-Y. On a cumulative basis up to July, exports were down by 5.6% compared to same period last year.
- Agricultural exports in July fell significantly, dropping by 15% Y-o-Y. This was largely due to significant drops in tea exports – which declined by 15% Y-o-Y as well.
- Industrial exports declined slightly, as moderate increases textile and garment exports were offset by sharp decreases in rubber products.
- Imports declined by 6.6% Y-o-Y, as consumer goods for the month of July tumbled, falling by 22% Y-o-Y. Intermediate goods also declined by 6%, but strong increases were noticed in Investment goods due to a sharp rise in imports for Machinery and Equipment and Building Materials.

## Further Insights- Global Economy

### Crude Oil Reaches 15 Month High as Russia, Saudi Pledge to Stabilize Output.

Crude oil prices have surged since last month's informal OPEC meeting to cut output, which was followed by strong support and initiative from Russia as well. Prices rising to USD 51.60 a barrel for the week ended Oct.14 – reaching to its highest in 15 months. Many expect the worst of the oil industry to be past, looking forward to a much needed rebound after prices dropped to as low as USD 30/barrel this year. The World Bank also raised its forecast for crude oil prices, expecting prices to rise up to USD 55/barrel in 2017. However, there is still cause for concern as prices may face downward pressure – notably from the US shale industry, which has started to expand their operations once again. Iraq has also resisted against joining OPEC cuts, which could hinder the deal to stabilize market prices.

### Chinese Exports Fall as World Demand Lags

Prospects for a possible turnaround in demand dampened as Chinese exports fell significantly in September. Exports fell by 5.6 % Y-o-Y, which is the largest drop seen since this February. The poor performance in trade may also add further pressure to the Chinese Yuan, which has dropped 3.4% against the dollar this year – the largest decline seen in Asia. Much of the drop has been due to the decline in exports to advanced economies, notably in the US and the EU, which fell by 8.1% and 9.8% Y-o-Y, respectively. The sluggish trend in external demand, largely due to growing concerns on Brexit and the US elections, will weigh down the possibilities of demand recovering any time soon.

### British Pound Hits New Low as Fear Looms Over 'Hard Brexit'

The British Pound fell to its lowest level in three decades, amidst growing concerns over the UK heading for a 'Hard Brexit', which would effectively strip Britain's access to the European Union's single market. The Sterling declined sharply against the dollar to \$1.208 in late October, its lowest level since June 1985. The harsh drop in currency rates have significantly hampered not only consumers, but also international supply chains as import costs continue to rise, with the recent tussle between Unilever and Tesco providing evidence. Investors are now marking down economic prospects by selling its currency, as many are uncertain over how the government's course of action on Brexit, with negotiations set to begin by March 2017.

### IMF Releases World Economic Outlook for 2016/17

The IMF released its economic outlook this month, highlighting subdued demand levels and stagnant global growth – largely reflected by large uncertainty over Brexit and the future of both U.K and European Markets. These signals were raised even further following Belgium's unwillingness to secure the EU-Canada trade deal. Weaker-than-expected growth in the United States, sharp slowdowns in sub-Saharan Africa and the structural rebalancing of China and its related spillovers have also contributed to a subdued outlook – expecting global growth to remain unchanged to 3.1% this year in 2016, with a minor rebound to 3.4% in 2017. Promising development across Emerging Asia (especially India), however, offers some respite and is expected to maintain robust growth levels moving forward.

## 1. External Sector Performance – July 2016

Category	July 2016 USD mn	July 2015 USD mn	Change (%)	Jan - July 2016 USD mn	Jan - July 2015 USD mn	Change (%)
Exports	891.20	932.1	(4.39)	5997.85	6,354.89	(5.6)
Agricultural Products	207.90	245.35	(15.26)	1312.47	1490.0735	(11.9)
<i>Tea</i>	107.80	126.52	(14.79)	726.22	809.41	(10.3)
Industrial Products	678.50	682.39	(0.57)	4660.40	4,836.70	(3.6)
<i>Textiles and Garments</i>	425.60	413.15	3.01	2940.32	2,818.52	4.3
<i>Rubber Products</i>	68.20	71.80	(5.01)	440.25	469.78	(6.3)
Imports	1432.80	1,533.88	(6.59)	10,753.62	11,080.60	(3.0)
Consumer Goods	323.40	414.69	(22.01)	2,431.10	2,722.10	(10.7)
<i>Food and Beverages</i>	120.80	132.70	(8.97)	896.50	1003.30	(10.6)
Intermediate Goods	704.70	751.97	(6.29)	5485.10	5,703.90	(3.8)
<i>Fuel</i>	142.30	174.82	(18.60)	1320.20	1648.20	(19.9)
Investment Goods	403.10	365.83	10.19	2829.90	2,643.60	7.0
<i>Machinery and Equipment</i>	224.70	179.13	25.44	1596.50	1,321.80	20.8
<i>Transport Equipment</i>	57.00	80.77	(29.43)	347.90	595.80	(41.6)
<i>Building Materials</i>	120.90	105.72	14.36	881.60	723.20	21.9
Deficit in the Trade Account	(541.60)	(601.75)	(10.00)	(4755.77)	(4725.71)	0.6
Workers' Remittances (July) (b)	618.30	566	9.24	4804.12	4,598.00	4.5
Earnings from Tourism (July)	308.80	276.1	11.84	2253.90	1943.3	16.0
Inflows to the CSE (Net) (August)	6.72	(32.16)	(120.90)	(24.13)	6.72	(459.1)

Inflows to the Government (d)	112.10	246.3	(54.49)	407.40	526.1	(22.6)
Treasury Bills and Bonds	189.70	10.1	1778.22	43.30	348.7	(87.6)
Long term Loans	70.50	88.8	(20.61)	275.50	327	(15.7)

Source: - Central Bank of Sri Lanka

(a)Provisional

(b) Revised

(c) Includes secondary and primary market transactions

(d) Inflows to the government include capital and current transfers to the government, inflows from the sale of Treasury bills and Treasury bonds, International Sovereign Bonds and long-term loans of the government.

## Tourist Arrivals

Country of Residence	September			Jan- September		
	2016	2015	% Change	2016	2015	% Change
Western Europe	39,956	35,819	12%	485,623	413,159	18%
of which UK	12,288	11,160	10%	143,412	122,291	17%
Asia	75,105	72,227	4%	686,698	595,583	15%
of which India	27,241	27,233	0%	252,165	220,907	14%
China(P.R)*	22,111	20,502	8%	213,103	164,941	29%
Other	33,438	35,328	-5%	336,084	307,097	9%
Total	148,499	143,374	4%	1,508,405	1,315,839	15%

Source: - Sri Lanka Tourism Development Authority

## 2. Interest Rates

	Week ending 21st October 2016	Week ago	Year ago
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	12.35	12.22	7.17
Treasury Bill Yield			
91 days	8.60	-	6.71
364 days	10.19	-	7.10

	Latest available month	Month before	Year ago
Commercial Bank Average Weighted Lending rate (AWLR) (August 2016)	12.54	12.35	11.03
Commercial Bank Average Weighted Fixed Deposit Rate (AWFDR) (August 2016)	9.67	9.31	7.22

Source: - Central Bank of Sri Lanka

### 3. Inflation

#### 3.1 Colombo Consumer Price Index (CCPI)

Consumer Price Inflation	September 16	August 2016	Year ago
Year -on -Year	3.9	4	-0.3
Average (%)	3.4	3	0.7

Core Inflation	September 2016	August 2016	Year ago
Year -on -Year	4.2	4.1	4.2
Average (%)	5.0	5.0	2.8

#### 3.2 National Consumer Price Index (NCPI)

Core Inflation	September 2016	August 2016	Year ago
Year-on -Year	5.7	6.0	4.9
Average (%)	5.7	5.6	-

Source: - Department of Census and Statistics

### 4. Credit Growth

	July 2016	June 2016	May 2016	Year ago (July 2015)
Growth in Credit to Private sector (%)	28.5	28.2	28.1	21.0

Source: - Central Bank of Sri Lanka