

The SNAPSHOT

Sri Lankan Economy

Inflation: Sri Lanka's Inflation rose to 8.6% in March 2017 from 8.2% in February 2017 as per the National Consumer Price Index. Main contributors to this rise are both food and non-food categories. The NCPI Core inflation, which reflects the underlying inflation in the economy decreased marginally to 7.0%. The Colombo CCPI for March indicated a rise from 7.3% to 6.8% however CCPI core inflation has risen to 5.3% from 5.0%.

Industry: The manufacturing and service sector activities continue to improve in March, with a hike in service sector activity in comparison to other months as per the PMI. The IIP for February was relatively slower than January however YoY growth was up by 1.1%

Tourism: Arrivals and earnings for March have reduced by 2.5% and 2.4% YoY respectively, however cumulative for arrivals and earnings Q1 figure is 3.4% higher than that of 2016.

Foreign Reserves: The country's reserves dropped almost 9% to USD 5.12 billion in March 2017. Foreign currency reserves dipped 11% to USD 4.16 billion and reserves in Gold were USD 0.89 billion.

The Global Economy

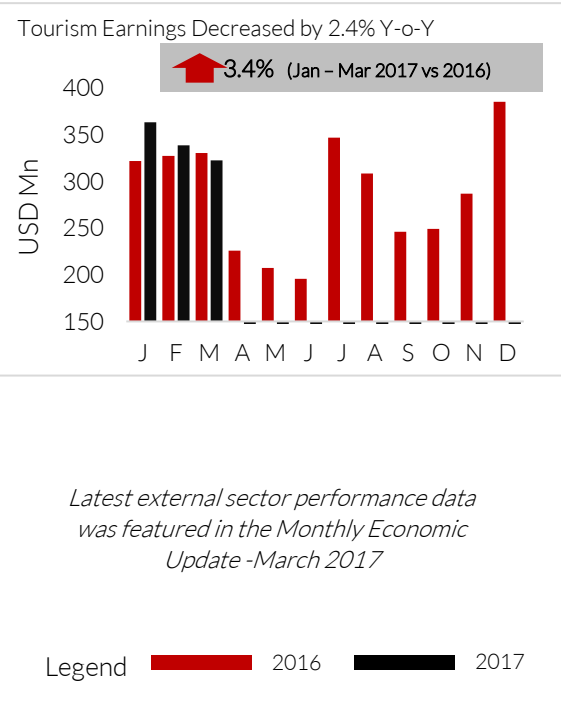
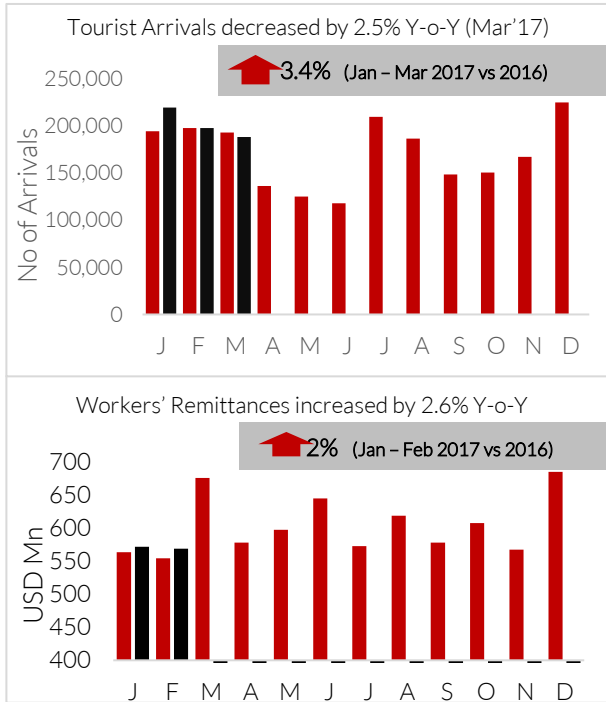
China: Economic growth for 2017 is projected to moderate at a rate of 6.5%. Q1 growth rate was 6.9% which was higher than Q1 of 2016. The government is optimistic of being able to stabilize the growth rate throughout the year. Growth is expected to rely more on internal demand and less on exports. PMI confirms the growth to be mainly influenced by the tertiary sector.

South Asia: The World Bank has identified South Asia as a rapidly expanding region with potential for export-oriented growth. The region's GDP is projected to rise to 6.8% growth rate in 2017 of which Sri Lanka's growth projection is at 4.7% for 2017.

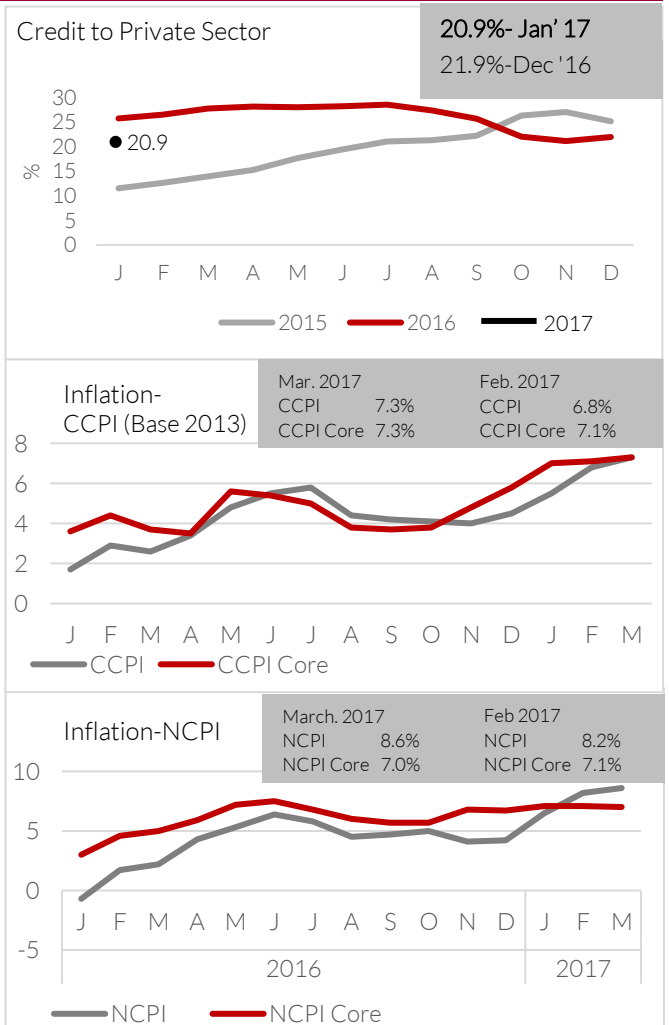
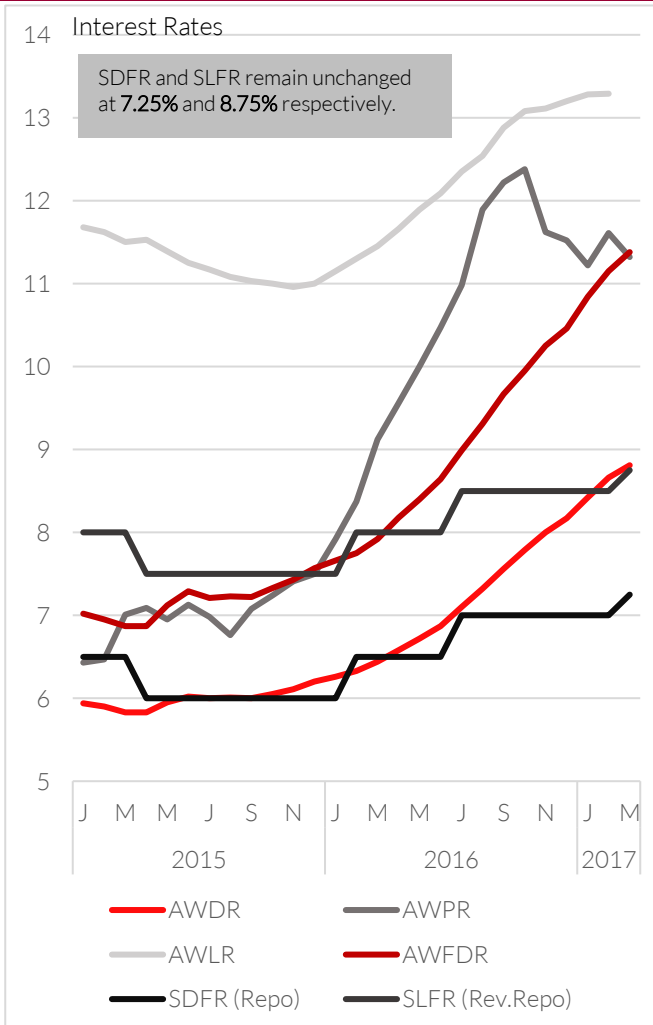
USA: The Federal Reserve has raised interest rates a second time within three months, based on confidence about inflation prospects and accelerating the appreciation of the dollar rate as a result. Unemployment for the US has declined to 4.7%. Uncertainty related to trade concerns with China has subsided after the two heads of state earlier in the month.

Europe: Prime Minister May's announcement for general elections has triggered an optimistic change in the UK market performance and the sterling has risen sharply to USD 1.2758 after more than six months. The EU countries do not see this as a positive impact for the elections taking place in France and Germany, as it will fuel the likelihood of the EU member countries opting out of the union. This uncertainty is affecting global markets.

External Sector Performance – March 2017



Key Macroeconomic Indicators



Further Insights – Sri Lankan Economy

Tourism Industry Experienced a Decline in Arrivals on March 2017

Sri Lanka has set a target of attracting 2.5 million tourists in 2017. Cumulative of Q1 for 2017 was 3.4% (604,953) higher than Q1 of 2016, with major influx from East Asia. Arrivals in March from China rose 12.9% to 22,172, while a significant increase was seen in Indonesian visitors rising by 82.9% to 3,677. However overall March arrivals dropped by 2.5% (to 188,076). The South Asian region arrivals seemed to have reduced; Arrivals from India dropped 10.3% to 27,075 while Maldives dropped by 10% to 8,076. The arrivals from the United Kingdom were down 9.2% while Germany dropped 6.5%. These decreases in arrival coincide with the Sri Lanka's Bandaranayke International Airport Closure which began at the end of January until April 07th.

Purchasing Managers Index Continues to Increase in March 2017

The Manufacturing Sector PMI recorded 66.5 in March which is an increase of 9.4 index points compared to February 2017. This indicates that the manufacturing activities continued to expand in March 2017, largely attributable to increasing orders and manufacturing activities due to New Year seasonal demand as reflected through increased in New Orders and Production sub-indices.

The Services Sector PMI recorded 60.8 index points in March from 57.3 index points in February 2017. The increase in PMI over the last month's value indicates that economic activities in the Services sector expanded at a higher rate in March 2017 compared to the previous month. The expansion in Services sector was supported by expansions in New Businesses and Business Activity. Employment and Expectations for Activity decelerated in March compared to February 2017 while Backlogs of Work declined at a slower rate.

Index of Industrial Production Records a 1.1% YoY Increase in February

The volume of industrial production from the manufacturing sector of the country has declined slightly from 103.8 in January of 2017 to 103.1 in February. This is relatively higher than the previous year's performance of 103.1 in January and 102.0 in February. Indicating a year on year increase of 1.1% in February. Major industry division contributors to this increase are; the manufacture of other non-metallic mineral products, basic metals and furniture. The reason for a decrease in the overall index from January of 2017 to February, was mainly led by wood and products of wood and cork, coke and refined petroleum products and tobacco.

Sri Lanka Foreign Reserves Fall to a 7-Year Low in March

Sri Lanka's external reserves have fallen to a 6.9 year low after country's reserves dropped almost 9% to USD 5.12 billion in March 2017. Central Bank has purchased USD 192.23 million of foreign exchange from commercial banks at market rates in March while selling just USD 13 million in the month. Foreign currency reserves dipped 11% to USD 4.16 billion and reserves in Gold were USD 0.89 billion. Central Bank's Treasury bill holdings were up from LKR 211.32 billion in February to LKR 233.32 billion in March.

CSE's Foreign Inflows Contributes to Over 50% of Turnover

Net foreign inflow of Rs. 14.3 billion in 2017 to date, has risen from Rs.383.5 million in 2016. Foreign investor contribution to total turnover in 2017 stands at 51.4%, another improvement in comparison with 42.0% in 2016 and 34.4% in 2015. This marks the first occasion where foreign investor contribution to yearly turnover has exceeded the 50% mark since 2008.

Further Insights - Global Economy

China Weighs Down Growth Rate for Asia

The Asian region as a whole is expected to grow by 5.7% in 2017 and 2018, and thus expected to deliver more than 60% of global growth through continued expansion. This is lesser than the 2016 outcome of 5.8% as the controlled moderation of growth in the People's Republic of China (PRC) is balanced by expected healthy growth elsewhere. Growth in China is expected to moderate further in line with the controlled deceleration of the past couple of years to 6.5% in 2017 and 6.2% in 2018. As per the ADB's development outlook for 2017, the government has ensured that sufficient monetary and fiscal support will be provided to keep growth at or even above 6.5%. Growth in China now relied more on internal demand and less on exports in 2016 which is expected to continue in 2017.

Growth rate has improved for the first quarter of 2017 was 6.9% in contrast to Q1 of 2016 which was 6.7% as stated in the National Bureau of Statistics of China, with the main contribution from the tertiary sector (7.7%). The PMI (Manufacturing) has increases from 51.6% in February 2017 to 51.8% in March 2017. The PMI (Non-manufacturing) has reached a rate of 55.1% in March 2017 from 54.2% in February and which is much higher than March 2016 which was 53.8%.

U.S. And China Relations Takes a Positive Turn after Heads of States Meeting

Chinese President Xi Jinping and U.S. President Donald Trump concluded their first meeting, striking a friendly tone, avoiding political blunders and even agreeing to tackle trade imbalances. 'We have made tremendous progress in our relationship with China,' Trump said 'and I believe lots of very potentially bad problems will be going away,' he added. The U.S. and China are launching four rounds of talks, as U.S. President Donald Trump heads to China later this year in a visit aimed at strengthening cooperation to reduce tensions in the Korean Peninsula.

USA's Policy Actions Are Stimulating an Uncertain Environment for Emerging Economies

Recovery in United States is solid as unemployment has declined to 4.7%, and as consumer and business confidence soar. However uncertainty persists among policy action and their effects on U.S. aggregate demand, potential output, the government budget deficit, and the value of the U.S. dollar, suggesting a wide range of upside and downside risks to the current baseline forecast for the United States, in both the near and the medium term. According to the IMF's world economic outlook for 2017; a faster-than-expected pace of interest rate hikes in the United States could tighten financial conditions elsewhere, with potential further U.S. dollar appreciation straining emerging market economies. Nevertheless, uncertainty surrounding Trump's commercial policies will continue to weigh on global trade prospects. Additionally, although the Federal Reserve recently delivered its second rate hike in three months, as markets expected, the Fed is more confident about inflation prospects and could accelerate its tightening cycle. This situation could fuel volatility in the financial markets, particularly in developing countries.

World Bank Report States South Asia Can Withstand Globalization Backlash

South Asia is identified as a rapidly expanding region with the potential for export-oriented growth regardless of the possible protectionism in advanced economies. Based on a World Bank report; South Asia's GDP growth is expected to rise from 6.7 percent in 2016 to 6.8 percent in 2017, and 7.1 percent in 2018. It also claims that global integration has been good for economic development and poverty reduction, but finds that the region would be resilient to higher trade barriers in advanced economies.

Sri Lanka's economic growth is projected to grow at 4.7 percent in 2017, up from 4.4 percent 2016 which reflecting significant contributions from construction, trade, and financial services as well the as negative impacts of floods and droughts. The recent policy reforms including monetary tightening and revenue-led fiscal consolidation have improved the outlook.

The British Pound Soared to Its Highest Level in More Than Six Months

The pound rebounded sharply against the dollar surging more than 1.5% to hit USD1.2758, its highest level since mid-December, after Prime Minister Theresa May surprised markets by calling a snap general election in June. Deutsche Bank, one of the world's biggest sterling bears, described the early election as "a game-changer" for the pound, adding that it would raise its sterling forecasts in the coming day. It is speculated that the move by May lessens political uncertainty and reduces the likelihood of a 'hard Brexit'.

Europe Elections Are Contributing to An Unstable Global Businesses Environment.

The Brexit vote and Trump victory have fueled a wave of anti-establishment sentiment that could see several key elections won by right-wing populist parties. Victories for parties such as Le Pen's Front National and the German AfD could spark a slate of Brexit-style referendums. The Netherlands General election, was won by a center-right candidate Mark Rutte, relieving other EU governments facing a wave of nationalism. France's Centrist newcomer Emmanuel Macron and far-right leader Marine Le Pen will contest a runoff vote for the French presidency on May 7 after coming first and second respectively in the election's first round on Sunday. This uncertain atmosphere creates doubts on whether the EU will prevail and whether other nations can look to them as a reliable partner for trade and investment.

1. Tourist Arrivals

Tourist Arrivals						
	March		% change	Jan-Mar		% change
	2016	2017		2016	2017	
Western Europe	69,972	65,640	-6.2	207,195	214,910	3.7
UK	21,430	19,451	-9.2	56,877	59,137	4.0
Germany	16,264	15,207	-6.5	43,450	42,390	-2.4
Asia	78,132	77,834	-0.4	240,288	244,685	1.8
East Asia	33,957	38,030	12.0	119,396	128,263	7.4
China (P.R)**	19,645	22,172	12.9	77,914	79,222	1.7
Indonesia	2,010	3,677	82.9	5,694	11,896	108.9
South Asia	44,175	39,804	-9.9	120,892	116,422	-3.7
India	30,170	27,075	-10.3	85,624	84,568	-1.2
Maldives	9,006	8,076	-10.3	21,694	18,841	-13.2
Others	44,737	44,602	-0.3	137,335	145,358	5.8
Total	192,841	188,076	-2.5	584,818	604,953	3.4

** Includes Hong Kong and Macau

Source: - Sri Lanka Tourism Development Authority

2. Interest Rates

	Week ending 21 st April 2017	Week ago	Year ago
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	11.63	11.77	9.54
Treasury Bill Yield			
91 days	9.73	9.72	8.45
364 days	11.11	11.09	10.17
	Latest available month	Month before	Year ago
Commercial Bank Average Weighted Lending rate (AWLR) (February 2017)	13.29	13.28	11.30
Commercial Bank Average Weighted Fixed Deposit Rate (AWFDR) (March 2017)	11.38	11.15	7.92

Source: - Central Bank of Sri Lanka

3. Inflation

3.1 Colombo Consumer Price Index (CCPI) Base Year 2013

Consumer Price Inflation	March 2017	February 2017	Year ago
Year-on -Year	7.3	6.8	2.6
12 Month Moving Average (%)	5.0	4.6	2.2

Core Inflation	March 2017	February 2017	Year ago
Year-on -Year	7.3	7.1	3.7
12 Month Moving Average (%)	5.3	5.0	5.0

3.2 National Consumer Price Index (NCPI)

Consumer Price Inflation	March 2017	February 2017	Year ago
Year-on -Year	8.6	8.2	2.3
12 Month Moving Average (%)	5.6	5.1	2.4

Core Inflation	March 2017	February 2017	Year ago
Year-on -Year	7.0	7.1	5.0
12 Month Moving Average (%)	6.6	6.4	4.5

Source: - Department of Census and Statistics

4. Credit Growth

	January 2017	December 2017	November 2017	Year ago (January 2016)
Growth in Credit to Private sector (%)	20.9	21.9	21.1	25.7

Source: - Central Bank of Sri Lanka