# Monthly Economic Update (MEU)

August 2024

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

# Highlights

## Sri Lankan Economy

### CBSL Launched the 2nd Release of the Monetary Policy Report for 2024

The Monetary Policy Report forecasts a decline in inflation, potentially falling below the 5% target by early 2025, driven by reductions in electricity tariffs and base effects from a VAT increase. While economic growth has been strong in the first half of 2024, it is partly due to a low base from 2023, and the second half of 2024 is expected to see lower growth, with ongoing fiscal consolidation limiting the ability to sustain economic recovery.

### External Trade Performance-1H 2024

Sri Lanka's trade deficit widened in the first half (1H) of 2024, despite a 4.7% growth in export earnings, driven by increased exports of petroleum products and tea. While import expenditures rose by 6.4%, mainly due to higher spending on machinery and fuel, tourism earnings and workers' remittances showed significant growth, with gross official reserves increasing to USD 5.7 billion by June 2024.

### Bangladesh's Economic Crisis amidst Student-led Protests

Widespread protests in Bangladesh over the reinstatement of discriminatory government job quotas have intensified due to economic struggles, high inflation, and government oppression, leading to the establishment of an interim government after Prime Minister Sheikh Hasina fled to India. The unrest poses significant risks to the global apparel industry, affecting major retailers and highlighting Sri Lanka's limited capacity to capitalize on potential relocations.

### Budget Deficit Narrowed during 1H 2024

In the first half of 2024, Sri Lanka's government revenue and grants rose to Rs. 1,864.6 billion, while total expenditure and net lending decreased to Rs. 2,463.3 billion. This resulted in a reduced budget deficit of Rs. 598.7 billion, down from Rs. 1,242.6 billion in the same period of 2023.

### Presidential Candidates' Visions for Sri Lanka's Economic Transformation

With 39 candidates in the upcoming September 21, 2024, presidential election, uncertainty looms over Sri Lanka's economic and political future. This month, the "Evolving Landscape" features an analysis focuses on four key candidates—Ranil Wickremesinghe, Sajith Premadasa, Anura Kumara Dissanayake, and Namal Rajapaksa—highlighting their positions on crucial issues like the IMF, Central Bank independence, SOE and economic reforms, and governance, though not all political manifestos have been released yet.

## Global Economy

### Mpox Outbreak: A New Threat to Global Economic Stability

The WHO has declared the Mpox outbreak a global health emergency as the virus spreads beyond East Africa, raising concerns about its potential economic impact. With the global economy already fragile from the COVID-19 pandemic, the Mpox outbreak could further disrupt recovery efforts, exacerbating risks of economic stagnation.

### Escalating Geopolitical Tensions Propel Oil Prices Upward

Oil prices shows an increasing trend as geopolitical risks intensified, driven by significant military exchanges between Israel and Hezbollah, Russia's large-scale missile and drone attacks on Ukraine, and the halt of oil production in Libya's Benghazi region. These developments are heightening concerns over global oil supply disruptions, pushing prices higher.

# Dashboard

*Y-o-Y changes, otherwise specified*

## Economic Growth

**5.3%** in Q1-2024

-10.7% (Q1-2023)

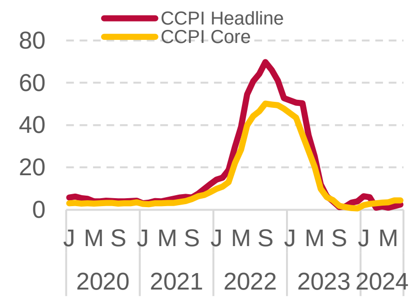
**Movement of Purchasing Managers' Index-July 2024**

| | |
|---|---|
| Manufacturing PMI | 59.5 |
| Services PMI | 71.1 |
| Construction PMI (June) | 59.5 |

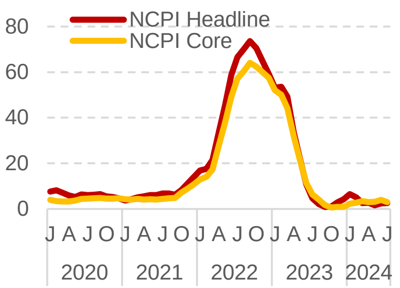
All three indices recorded expansion.

## Inflation

CCPI Inflation (%)-*Base 2021*



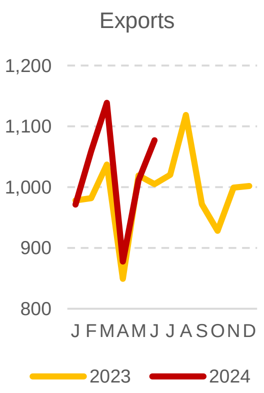

NCPI Inflation (%)-*Base 2021*

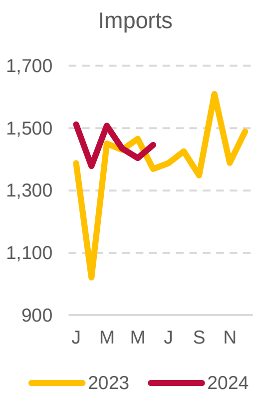



| | Headline | Core |
|---|---|---|
| July 2024 (CCPI) | 2.4% | 4.4% |
| July 2024 (NCPI) | 2.5% | 3.0% |

## External Sector

**Merchandise Trade**




**Trade Deficit**

June 2024

2% ↑

**Services Exports**

June 2024

7.2% ↑

**Tourism**

July 2024

Arrivals

31% ↑

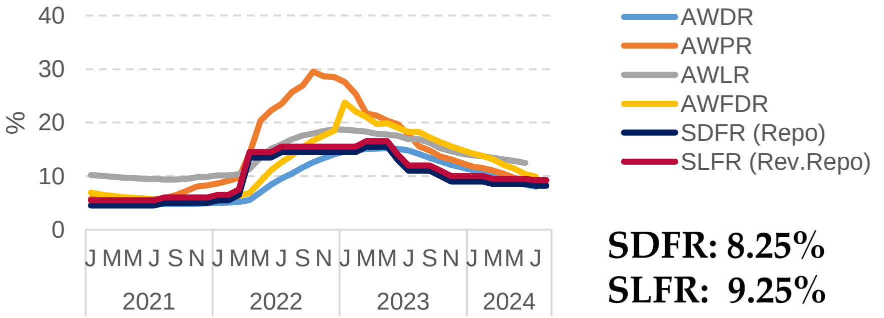
Earnings

50% ↑

**Workers' Remittances**

July 2024 5% ↑

## Interest Rates




**SDFR: 8.25%**

**SLFR: 9.25%**

**Growth in Credit to Private Sector**

June 2024

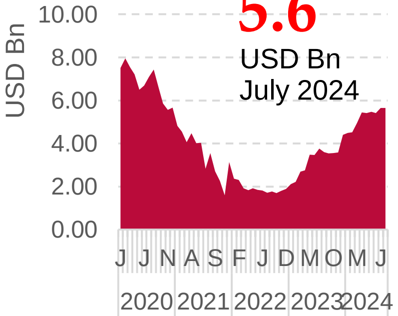
**6.2%**

## Exchange Rate


**Appreciation of LKR thus far 2024**

**7.6%**

## Official Reserves




**5.6**

USD Bn

July 2024

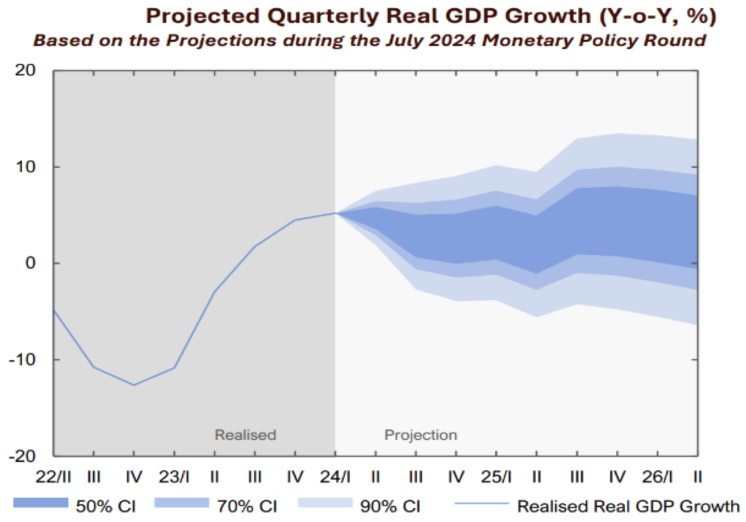
# KEY INSIGHTS
## Sri Lankan Economy

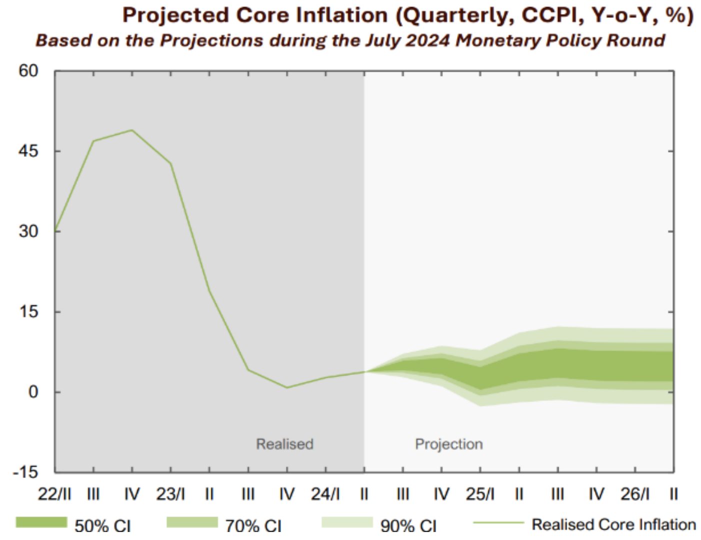
## Key Insights from the CBSL Monetary Policy Report- 2nd Release: 2024

The second release of this year’s biannual monetary policy report was released earlier this month. The Monetary Policy Report is prepared in fulfilment of the Central Bank Act, requiring the Central Bank to publish a biannual report explaining recent movements in inflation, sources of inflation, medium-term projections for inflation, key risks to such projections, along with the implementation of monetary policy and the achievement of its objects.

Year-on-year headline inflation is forecasted to decelerate in the coming months, with quarterly average inflation potentially falling below the 5% target by over 2 percentage points, as defined in the Monetary Policy Framework Agreement. Q2-2024 already saw inflation below the target, and projections suggest a possible breach if the target is missed for two consecutive quarters. This trend is expected to continue through Q4-2024 and Q1-2025, largely due to significant reductions in electricity tariffs. Inflation is predicted to hit its lowest point in early 2025, driven by base effects from the VAT increase in early 2024, before stabilizing around the 5% target over the medium term.

Economic growth continued in Q2-2024, driven by strong performance in Industry and Services. However, the robust growth in H1-2024 is partly due to a low statistical base from 2023. As growth rates in H2-2023 were higher, the year-on-year growth in H2-2024 is expected to be lower than in H1-2024. Easing monetary conditions are expected to stimulate growth by boosting investments, consumer spending, and aggregate demand. Additionally, stronger economic conditions in key trading partners are anticipated to benefit exports, and sustained external demand, particularly in tourism, will support economic recovery. However, ongoing fiscal consolidation limits the fiscal sector's ability to promote economic activity, making it challenging to reduce the negative output gap sustainably.




Data Source:CBSL

# KEY INSIGHTS
## Sri Lankan Economy

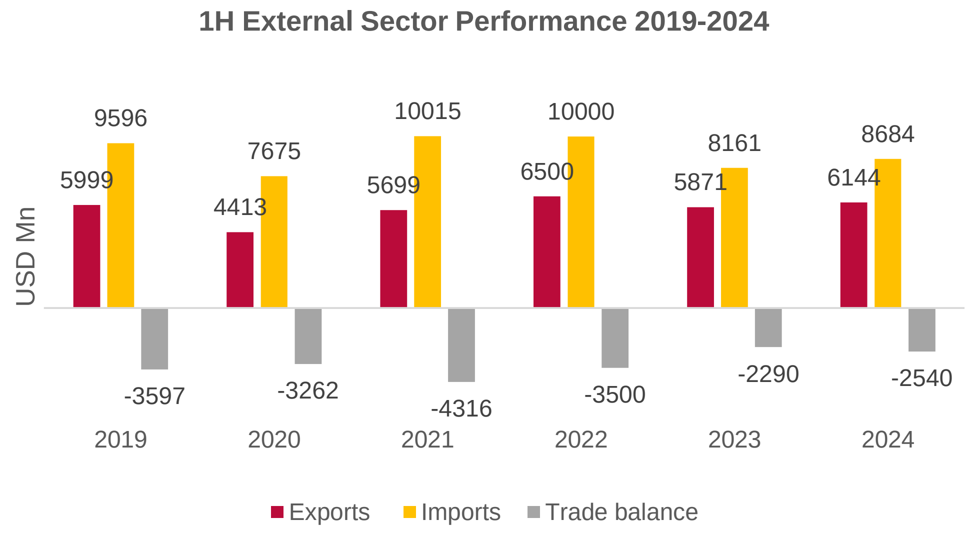
## External Sector Performance : 1H-2024

During the first half of 2024, Sri Lanka's trade deficit widened to USD 2,540 million, up from USD 2,289 million in the corresponding period of 2023. Merchandise export earnings in the first half of 2024 grew by 4.7% compared to the same period in 2023, reaching USD 6,144 million. This growth was largely attributed to increased exports of petroleum products, food, beverages and tobacco, rubber products, and tea. In June 2024, export earnings saw a 7.1% increase, reaching USD 1,077 million, with industrial exports, particularly petroleum products, leading the way. Agricultural exports also improved due to higher volumes of pepper and increased tea prices, while mineral exports saw a rise as well.

On the import side, merchandise import expenditure increased by 6.4% in the first half of 2024 compared to the same period in 2023, totaling USD 8,684 million. The growth in imports was driven by higher spending on machinery, equipment, textiles, chemical products, and building materials. In June 2024, import expenditure rose by 5.7% to USD 1,447 million, primarily due to increased imports of intermediate and investment goods, while consumer goods imports declined. The decrease in consumer goods expenditure was mainly due to lower imports of food and beverages, such as wheat flour and edible oils, as well as non-food items like medical and pharmaceutical products. However, higher imports of fuel and textiles contributed to the rise in intermediate goods expenditure, while investment goods imports saw a broad-based increase.

In the services sector, tourism earnings reached USD 1,557 million during the first half of 2024, a significant increase from USD 875 million in the same period of 2023. However, in June 2024, tourism earnings slightly decreased to USD 151 million from USD 154 million in May 2024. Excluding tourism, total inflows to the services sector amounted to USD 1,762 million, with sea transport and computer & IT/BPO services being the main contributors. On the other hand, services sector outflows increased to USD 1,505 million in the first half of 2024, driven by higher outflows in overseas travel, sea transport, and other business services.

Other external indicators showed positive trends, with workers' remittances rising to USD 3,144 million in the first half of 2024. The financial sector experienced mixed results, with a net outflow of USD 198 million in government securities but a cumulative net inflow of USD 20 million in the Colombo Stock Exchange. Gross Official Reserves increased to USD 5.7 billion by the end of June 2024, providing 3.9 months of import coverage, while the Sri Lanka rupee appreciated by 7.1% against the US dollar by July 2024, improving the real effective exchange rate but reducing external competitiveness.





*Data Source: CBSL*

# KEY INSIGHTS

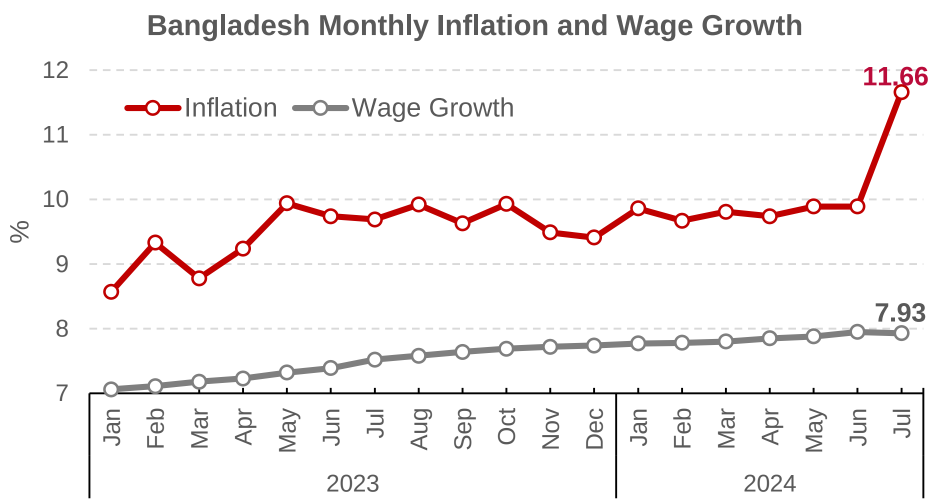
## Sri Lankan Economy

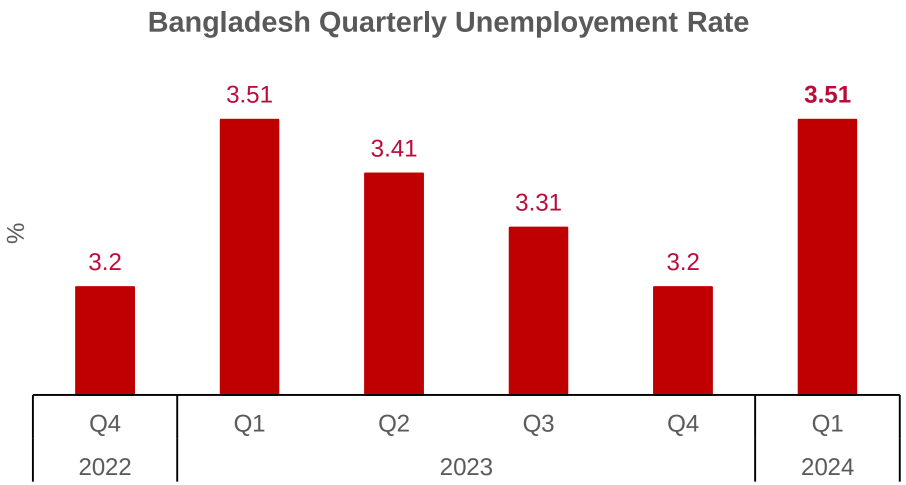
### Bangladesh's Economic Crisis amidst Student-led Protests

Widespread protests have erupted on Bangladeshi university campuses, with students demanding the abolition of "unreasonable and discriminatory quotas" in government jobs. These quotas, reserving 30% of jobs for the children and relatives of 1971 war veterans, were abolished in 2018 but reinstated on June 5th, 2024, after a court order. The reinstatement has sparked anger among students, who argue that the job market is already strained by high unemployment, inflation, and a faltering economy. With the private sector contracting, government jobs have become one of the few secure employment options. This is not the first time the quota system has faced resistance; similar protests occurred in 2013 and 2018.

On July 21st, the Supreme Court ruled that 93% of government jobs be allocated based on merit. While this temporarily calmed tensions, protests quickly reignited due to violent law enforcement responses and growing dissatisfaction with an increasingly oppressive government. On August 5th, Prime Minister Sheikh Hasina fled to India, and an interim government led by Nobel laureate Muhammad Yunus was established.

Bangladesh has been facing persistent high inflation, with a 12-month average of 9.9% as of July 2024. This inflationary pressure has significantly eroded purchasing power, as wages have not kept pace with rising prices, leading to negative real wage growth. A 2023 survey by the South Asian Network on Economic Modelling found that 70% of households in Bangladesh had involuntarily changed their food consumption habits to cope with these high prices. As the third-largest garment exporter after China and Vietnam, Bangladesh's disruptions will impact the global apparel industry, including major fashion retailers. Expectations that Sri Lanka could benefit from potential relocations are unrealistic, given its limited capacity and the highest energy costs in South Asia. Sri Lanka's pioneer apparel companies—Brandix, MAS, and Hirdaramani—operate large-scale manufacturing facilities in Bangladesh. Notably, MAS's largest global facility, MAS Sumantra, is based there.




Data Sources: *The Guardian*, *Bangladesh Bureau of Statistics*, *Bangladesh Bank*

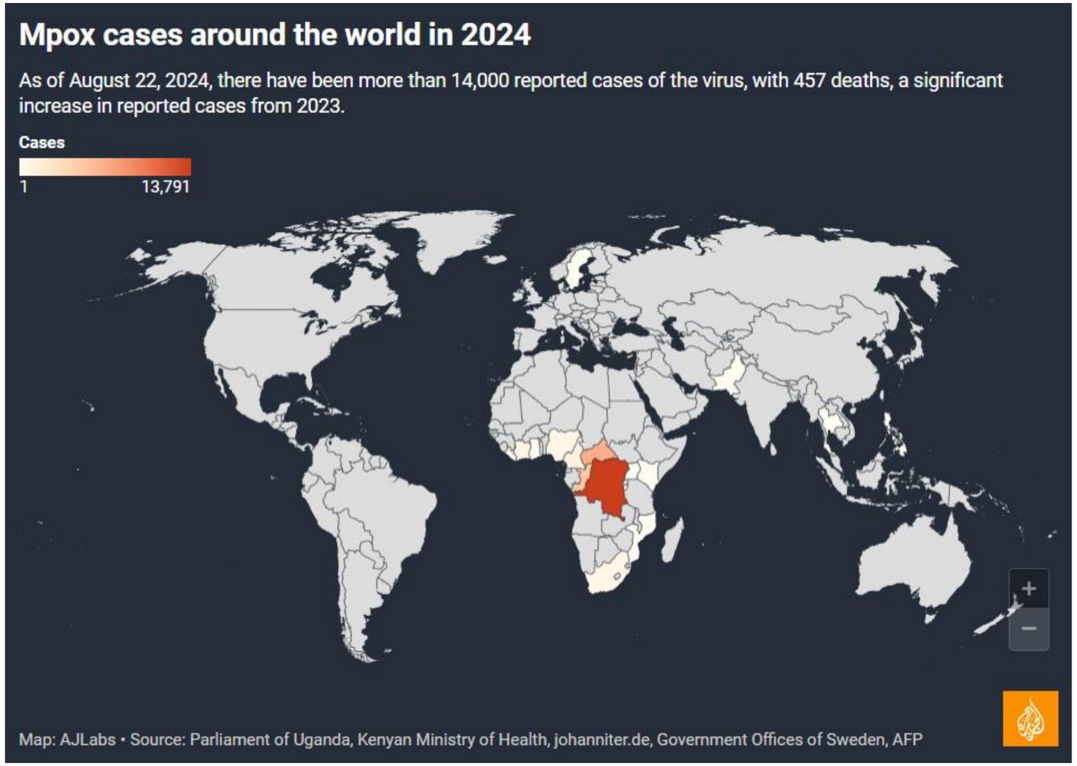
# KEY INSIGHTS
## Global Economy

### Mpox Outbreak: A New Threat to Global Economic Stability

The World Health Organization (WHO) has recently declared the Mpox outbreak a global health emergency, highlighting the potential severity of this evolving situation. While initially localized in East Africa, the virus has now spread internationally, with countries such as Sweden, Thailand, the Philippines, and Pakistan reporting cases. This marks the second emergency alert for Mpox from WHO in just two years, reflecting the increasing concern over the virus's impact on global health.

The current Mpox outbreak comes at a particularly vulnerable time for the global economy. The COVID-19 pandemic has already left a deep scar, with the World Bank noting that global GDP fell by 3.1% in 2020, significantly below the pre-pandemic forecast. The economic recovery has been slow, with 95% of countries experiencing lower GDP growth than initially expected. The global economy faces multiple risks, including high inflation, potential recessions in major economies like the U.S., and geopolitical tensions involving Iran, Israel, China, and Taiwan.

While the Mpox virus does not spread as easily as COVID-19, primarily transmitting through contact rather than airborne particles, its potential to disrupt economic activities cannot be ignored. Border closures and travel restrictions may not reach the extent seen during the COVID-19 pandemic, but a significant outbreak could still slow down global economic activity. This would exacerbate the already tepid growth forecasted by the IMF, which predicts only modest global growth in the coming years. The global economy, already struggling to regain momentum, could face further setbacks if Mpox reaches pandemic proportions, threatening to push the world into a prolonged period of economic stagnation.




**14,000+** **Cases** | **457** **Deaths**

*(As at 22nd August)*

*Data Sources: Aljazeera, The Economic Times, World Bank*

# 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.**

## Presidential Candidates' Visions for Sri Lanka's Economic Transformation

With the presidential elections scheduled for September 21, 2024, there is significant uncertainty surrounding the country's economic and political outlook. A record 39 candidates are running in the election, each proposing different policies to steer the economy, adding to the uncertainty. This analysis will focus on 4 key candidates, emphasizing their positions on critical areas such as the IMF, government revenue, Central Bank independence, SOE reforms, economic reforms, and governance reforms. The four main candidates include Ranil Wickremesinghe (RW), contesting as an independent; Sajith Premadasa, representing the Samagi Jana Balawegaya (SJB); Anura Kumara Dissanayake, from the National People's Power (NPP); and Namal Rajapaksa, representing the Sri Lanka Podujana Peramuna (SLPP). Please note that at the time of writing, not all political manifestos have been released.

**IMF Stance:** The SJB supports continuing with the IMF program but proposes some amendments, particularly around income tax thresholds. Ranil Wickremesinghe (RW) also plans to continue with the IMF program and has recently suggested amendments to income tax thresholds. His stance on whether these amendments will be finalized remains unclear. The NPP shares a similar view, advocating for continuity with the IMF program but with modifications. The SLPP intends to review the IMF program, with the current policy indicating a commitment to proceed with the program in the foreseeable future.

**Government Revenue:** The SJB proposes amendments to the APIT/PAYE tax regime, with changes also suggested for corporate tax and VAT, alongside improvements in tax administration. RW supports the continuation of the IMF program and advocates for the introduction of inheritance and wealth taxes. The NPP plans to adjust tax rates, particularly reducing VAT on education and healthcare, and is committed to collecting unpaid corporate taxes. The SLPP aims to shift from indirect to direct taxation and intends to broaden the tax base.

**CBSL Independence and Banking Sector Reforms:** Both the SJB and RW are in favour of maintaining the Central Bank of Sri Lanka's (CBSL) independence. RW also proposes establishing a specialized bank for Micro, Small, and Medium Enterprises (MSMEs). The NPP suggests amending the CBSL Act to enable the Central Bank to focus not only on inflation stability but also on enhancing economic growth. Additionally, the NPP plans to establish a development bank that offers collateral-free loans to young entrepreneurs, contingent on a viable business plan. The SLPP's stance on banking sector reforms remains unclear.

**SOE Reforms:** The SJB acknowledges the need for SOE reforms, but their approach lacks clarity due to differing opinions within the party. RW supports the establishment of an SOE Restructuring Unit, with plans for a holding company and potential privatization. The NPP opposes privatizing key sectors like power, energy, banking, transport, and telecommunications. The SLPP has not provided a direct statement but has previously asserted that SOEs should remain national assets and not be privatized.

**Economic Growth Reforms:** The SJB advocates for a regional multi-asset cross-exchange to develop capital markets and integrate trade with Southern India, aiming to create an export-oriented economy. RW's strategy includes trade agreements, the Economic Transformation Bill, and positioning Sri Lanka as a green finance hub through agricultural modernization. The NPP proposes sector-specific solutions in IT, tourism, mining, and cooperative systems. The SLPP favors construction-driven growth. All parties agree that the private sector should drive economic growth.

**Governance Reforms:** The SJB plans to follow the IMF's governance diagnostic report with a strong anti-corruption focus. RW aligns with this approach. The NPP takes a firm stance on anti-corruption, proposing a dedicated government unit to expedite anti-corruption measures. Their manifesto pledges to abolish the executive presidency, enact a new constitution, and punish corruption. The SLPP supports driving anti-corruption efforts through digitization.

The Ceylon Chamber of Commerce

# EIU

Economic Intelligence Unit of The Ceylon Chamber of Commerce

## Make Better Informed Strategic Decisions.

Leverage the wide business network of The Ceylon Chamber of Commerce to gain a more comprehensive understanding of the Sri Lankan economy.

## Our Services Include:

- Policy Advocacy
- Macroeconomic and Sector Reports/Presentations
- Curated Trade and Sector Data Analysis and Updates
- Bilateral / Regional Trade and Investment Reports
- Industry and Sector Surveys
- Consultancy for Donor/Development Agency Related Projects
- Economic Business Consultancy Services

Reach us at +94 11 558 8809 | eiu@chamber.lk

## THANK YOU

**DISCLAIMER:**
All information collected and analyzed is derived from sources, which we consider reliable and a sincere effort is made to report accurate information. The EIU does not warrant the completeness or accuracy of information derived from secondary sources. Details published herein are intended for information purposes only.

## Unlock the power of foresight for your firm's success.

**When it comes to navigating the ever-changing landscape of economic indicators, including currency and interest rates, look no further than our expert services. Experience the difference with our meticulously crafted presentations and reports, tailored exclusively for your business needs. Don't miss out on the invaluable insights that could shape your strategic decisions.**

**Reach out to us**
**and embark on a journey towards informed, data-driven decision making.**

eiu@chamber.lk

011-55 888 09/68/83/96