

Monthly Economic Update (MEU)

September 2024

Economic Intelligence Unit
The Ceylon Chamber of Commerce



EIU

Highlights

Sri Lankan Economy

Sri Lankan Economy Grew by 5.1% during the 1H-2024

Sri Lanka's GDP grew by 5.1% in the first half (1H) of 2024, marking a recovery from prior economic contractions, though much of this growth stems from a low statistical base. Key drivers of this expansion include lower inflation, declining interest rates, and a tourism rebound, while adverse weather hindered agricultural performance. The Central Bank expects continued growth, projecting 3.3% for 2024 and 4% for 2025.

Sri Lanka Sovereign Debt Restructuring Gains Momentum with Key Creditor Deals

Sri Lanka has secured agreements to restructure USD 17.5 billion in sovereign debt, including USD 14.2 billion in International Sovereign Bonds (ISBs). The deal provides an upfront debt reduction of USD 3.2 billion and lowers debt service payments by USD 9.5 billion over the IMF program period. Sri Lanka has also reached a restructuring deal with China Development Bank, while the IMF awaits approval from other creditors to ensure fair terms for all lenders.

2024 Tax Revenue Performance: A Mid-year Analysis

The 2024 budget set a revenue target of Rs. 4,164 billion, with Rs. 3,819 billion expected from tax revenue. In the first half of 2024, total tax collections reached Rs. 1,709 billion, slightly below the forecast, but the Inland Revenue Department exceeded its target, collecting Rs. 902.6 billion. Sri Lanka Customs and the Excise Department also performed well, collecting Rs. 672.7 billion and Rs. 105.1 billion, respectively, with VAT on imports and excise taxes as key contributors.

Heavy Showers Expected in Mid-October

A period of dry, hot weather is expected for the rest of September and early October, followed by potential thunderstorms and heavy showers mid-October. For more information, refer to our [Weather Watch](#).

BIMSTEC Charter Came Into Force: Charting a Path for Enhanced Regional Cooperation

BIMSTEC adopted its charter on May 20, 2024, establishing a formal legal framework to enhance regional cooperation, economic integration, and stability. For Sri Lanka, the charter promises improved trade efficiency, but logistical challenges remain, and past regional agreements have not always yielded substantial benefits compared to Western market access like the GSP+ scheme. A shift towards collective trade negotiations within BIMSTEC could provide Sri Lanka and other members with stronger economic opportunities, potentially surpassing those offered by individual trade agreements.

Economic and Fiscal Reforms Under the New President's Leadership

Anura Kumara Dissanayake, has been elected as the 9th Executive President of Sri Lanka, securing 42.31% of the vote after a second count. His presidency marks a turning point, as stakeholders are seeking clarity on the future policy direction under his leadership. However, his manifesto offers guidance on what can be expected, which we have explained in the [Evolving Landscape](#) this time.

Global Economy

Fed Cut Rates for the First time in Four Years

The Federal Reserve's recent 50 basis point rate cut marks its first reduction since the pandemic, signaling confidence that inflation is stabilizing around the 2% target despite a weakening labor market. This shift follows aggressive rate hikes from 2022 aimed at curbing inflation, and now seeks to balance economic growth and price stability, with further cuts expected. The decision not only offers relief to borrowers but also has global implications, influencing international monetary policies as central banks follow the Fed's lead.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

4.7% in Q2-2024

-3% (Q2-2023)

Movement of Purchasing Managers' Index-Aug 2024

Manufacturing PMI **55.5**

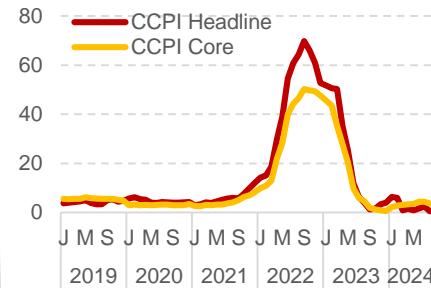
Services PMI **65.2**

Construction PMI (July) **62.9**

All three indices recorded expansion.

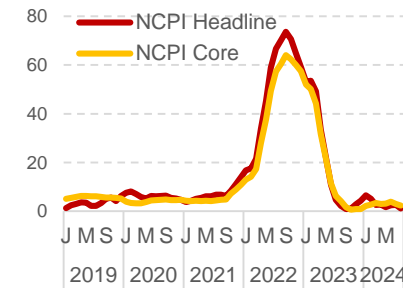
Inflation

CCPI Inflation (%) - Base 2021



Aug 2024
Headline **0.5%**
Core **3.6%**

NCPI Inflation (%) - Base 2021



Aug 2024
Headline **1.1%**
Core **2.3%**

External Sector

Merchandise Trade



Trade Deficit

July 2024

64% ↑

Services Account Balance

July 2024

1.5% ↑

Tourism

Aug 2024

Arrivals ↑

21%

Earnings ↑

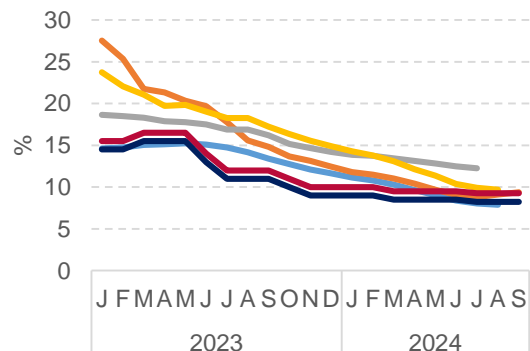
34%

Workers' Remittances

Aug 2024

16% ↑

Interest Rates



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

SDFR: 8.25%

SLFR: 9.25%

Growth in Credit to Private Sector

July 2024

6.9%

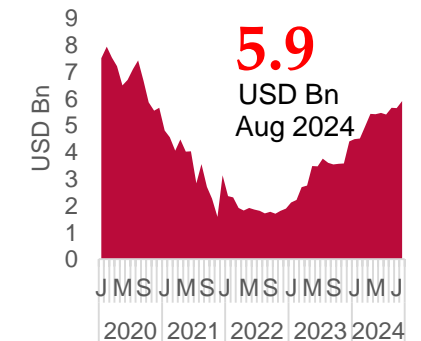
Exchange Rate



Appreciation of LKR thus far 2024

6%

Official Reserves



5.9

USD Bn
Aug 2024

KEY INSIGHTS

Sri Lankan Economy

Sri Lanka's GDP Grows by 5.1% in First Half of 2024

Sri Lanka's GDP demonstrated substantial growth in the first half (1H) of 2024, expanding by 5.1% compared to the same period in 2023. This marks a notable rebound from the economic difficulties of the previous years. However, it's essential to recognize that this growth follows two consecutive halves of economic contraction due to the impact of the pandemic and subsequent financial crisis. Therefore, much of the 5.1% growth is attributed to the lower statistical base used for these calculations, which had been significantly eroded by earlier declines.

In the 1H of 2024, Sri Lanka's economy benefited from lower inflation, declining interest rates, and eased import restrictions, boosting manufacturing and construction. Increased tourist arrivals and better foreign currency liquidity supported growth, although adverse weather affected key crops like paddy, tea, and rubber. The three main sectors of the economy—Agriculture, Industry, and Services—continued to be key contributors, accounting for 7.7%, 27.4%, and 58.5% of GDP at constant prices, respectively.

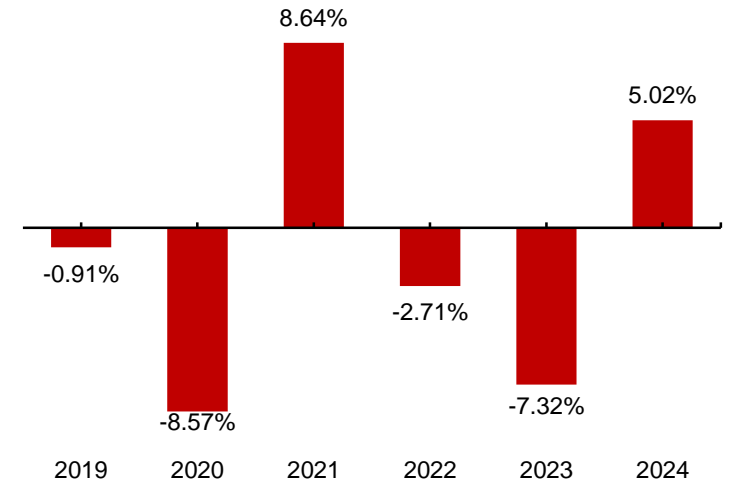
In the Agriculture sector, a modest growth of 1.4% was recorded, with substantial gains in "Growing of cereals" (22.5%) and "Freshwater fishing and aquaculture" (10.9%). However, severe contractions were noted in "Plant propagation" (-24.7%) and "Growing of rubber" (-13.1%), reflecting uneven performance within the sector.

The industry sector posted robust growth of 11.4%, driven by the "Construction" and "Mining and quarrying" industries, which surged by 14.8% and 19.8%, respectively. Manufacturing grew by 8.7%, with standout expansions in "Manufacture of basic metal and fabricated products" (38.2%), and "Chemical and pharmaceutical products" (22.5%).

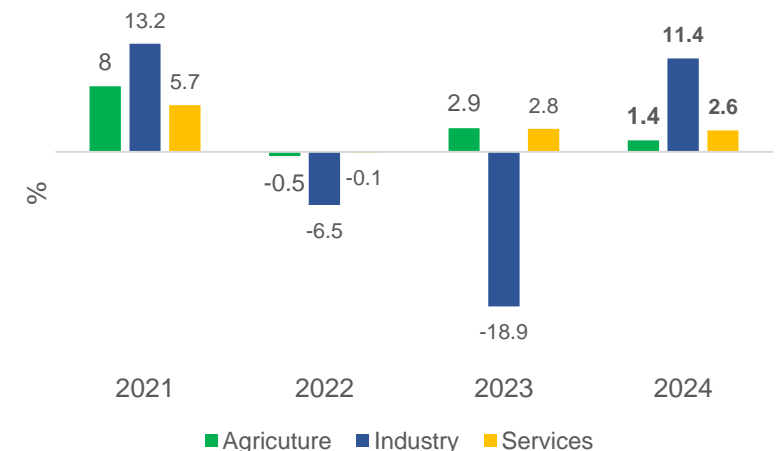
The Services sector saw a 2.6% increase, supported by a 33% surge in "Accommodation, food, and beverage serving activities," benefiting from the resurgence of tourism. "Insurance, reinsurance, and pension funding" also posted strong growth of 15.8%. However, there were notable declines in "Public administration and defence" (-3.6%) and "Human health services" (-1.6%), reflecting pressures on public services despite broader economic recovery.

The recovery in the economic growth is expected to continue over the medium term, as per the Central Bank of Sri Lanka. They are expecting a 3.3% growth for this year and 4% in the next year, 2025.

Real GDP Growth Rates - First Half



Growth of Key Sectors of the Economy- 1H



KEY INSIGHTS

Sri Lankan Economy

Sri Lanka's Sovereign Debt Restructuring Gains Momentum with Key Creditor Deals

Sri Lanka has secured **agreements in principle** to restructure around USD 17.5 billion of its sovereign debt with external creditors, a critical step in addressing the country's fiscal challenges. The restructuring involves USD 14.2 billion of International Sovereign Bonds (ISBs) held by the Ad Hoc Group of Bondholders (AHGB) and the Local Consortium of Sri Lanka (LCSL). The bondholders represent over 50% of the ISBs, and this agreement follows extended negotiations and consultations with the IMF to ensure compatibility with the Debt Sustainability Analysis.

Key terms of the agreement with AHGB include a contingent debt treatment that offers varying levels of debt relief based on Sri Lanka's future economic performance. In contrast, LCSL's deal offers a non-contingent debt treatment, involving the exchange of bonds for new USD and LKR-denominated instruments. Under these agreements, Sri Lanka will receive an upfront debt stock reduction of USD 3.2 billion, with the potential for further reduction based on economic conditions, ranging between USD 2.0 billion and USD 4.6 billion. The government's debt service payments will decrease by USD 9.5 billion over the IMF program period, with bond maturities extended by over five years and interest rates lowered from 6.4% to 4.4%.

Bondholders will concede a 40.3% present value under the baseline scenario, while coupon adjustments have been made to further ease Sri Lanka's financial burden. Additionally, Sri Lanka has reached a USD 3.3 billion restructuring deal with China Development Bank following an earlier agreement with Eximbank of China and the Official Creditor Committee. The International Monetary Fund has welcomed Sri Lanka's agreement with ISB holders but awaits clearance from the Official Creditor Committee of bilateral lenders, given the importance of the Comparability of Treatment (CoT) principle. Under CoT, a borrowing country should not accept terms from non-Paris Club creditors that are more favourable to the creditor than those agreed with Paris Club members.

Summary of Public Debt – USD Million		
Instrument Category	End March 2024	End June 2024
Domestic Debt	57,283	57,486
LKR Denominated	57,043	57,246
FX Denominated	240	240
External Debt	37,248	37,542
Project/Programme Loan	22,512	22,808
Bilateral	10,792	10,625
Multilateral	11,720	12,183
Commercial	14,736	14,734
ISB	12,550	12,550
Term Financing Facilities	2,186	2,184
Guaranteed Debt	5,860	5,618
LKR Denominated	1,924	1,933
FX Denominated	3,936	3,685
Public Debt	100,391	100,646

KEY INSIGHTS

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2024 Tax Revenue Performance: A Mid-Year Analysis

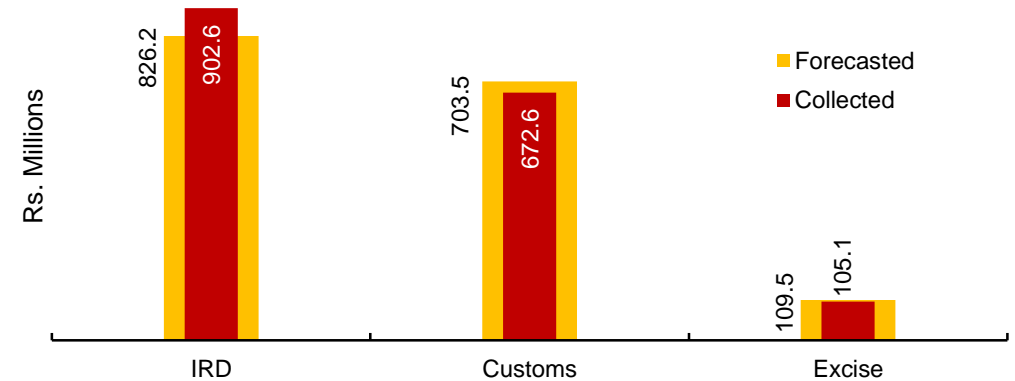
The 2024 budget set a total revenue target of Rs. 4,164 billion, with Rs. 3,819 billion expected from tax revenue. In the first half of 2024, total tax collections amounted to Rs. 1,709 billion, slightly below the forecasted Rs. 1,775 billion for the period.

The Inland Revenue Department (IRD) collected Rs. 902.6 billion, exceeding its target of Rs. 826.2 billion by 106%. Corporate income tax and VAT exceeded forecasts at 113% and 106% respectively, while APIT/PAYE outperformed at 122%. However, Personal Income Tax and Capital Gains Tax underperformed, achieving only 88% and 76% of their targets. Between January 1 and June 30, 2024, the IRD opened 255,194 new tax files, bringing the total to 1,253,052. The mandatory asset declaration, set to begin on July 1, 2024, is expected to further expand the tax base, though its impact is yet to be seen. To recover default taxes, the IRD issued 900 bank account freezing notices. Out of the Rs. 188 billion in default taxes, Rs. 47 billion was collected in cash, while Rs. 57 billion was recovered through arrears deductions.

Sri Lanka Customs collected Rs. 672.7 billion, achieving 95.6% of its forecasted revenue of Rs. 703.6 billion for the first six months. A substantial portion of this revenue came from VAT on imports, which contributed Rs. 254.6 billion (37.8% of total revenue). Other significant contributors included the Ports and Airport Development Levy at Rs. 83.5 billion (12.4%), Petroleum duties at Rs. 93.8 billion (14%), Excise Duty on cigarettes at Rs. 53 billion (7.9%), and Import Duty at Rs. 47 billion (7%).

The Excise Department of Sri Lanka for the first six months has collected Rs. 105.1 billion in tax revenues out of its forecasted revenue of Rs. 109.5 billion. Out of the revenue collected 99.5% were from excise taxes while the rest was from tobacco tax which constituted of Rs. 540.97 million.

Tax Revenues by Institution - 1H 2024



Tax Type	Forecasted Revenue (Rs. Mn) 1H 2024	Collected Revenue (Rs. Mn) 1H 2024
Corporate and non-corporate income tax	210,558	237,483
Individual / Personal Income Tax	23,683	20,759
Value Added Tax	334,660	353,465
Advanced Personal Income Tax (APIT) / Pay As You Earn (PAYE)	82,369	100,554
Social Security Contribution Levy	93,151	91,187
Withholding Tax	76,636	87,093
Capital Gains Tax	1,500	1,138
Other Tax	3,707	10,943
TOTAL	826,264	902,622

KEY INSIGHTS

Sri Lankan Economy

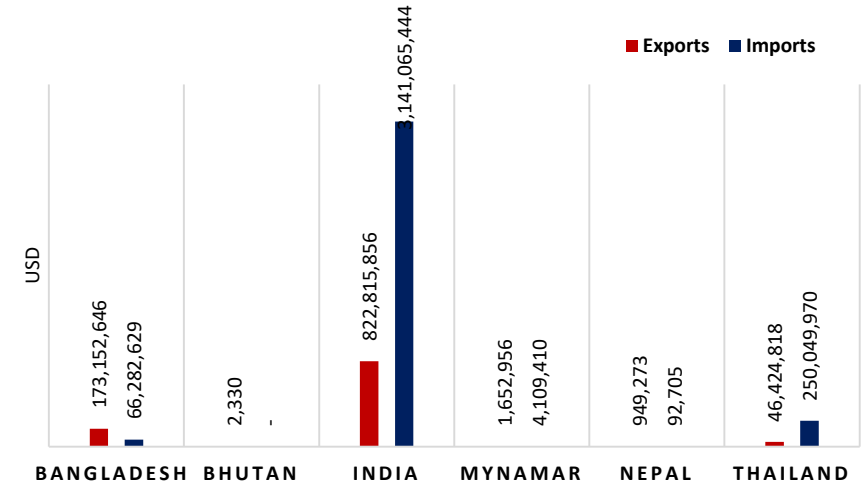
BIMSTEC Charter Came Into Force: Charting a Path for Enhanced Regional Cooperation

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) adopted its charter on May 20, 2024, marking a significant step in its 27-year history. This charter provides BIMSTEC with a formal legal framework and “legal personality,” enhancing regional cooperation and economic integration. The charter outlines objectives for economic growth, social progress, and regional stability, requiring consistent collaboration among member states. For Sri Lanka, the charter promises improved trade efficiency and market access, though logistical challenges remain. BIMSTEC can learn from the EU’s integration strategies but must adapt them to its diverse socio-economic and political landscapes. The charter’s focus on security cooperation and regional stability is crucial, given the strategic interests of India and China. The charter’s provision for external partnerships and the inclusion of new members significantly enhances BIMSTEC’s ability to tackle regional challenges.

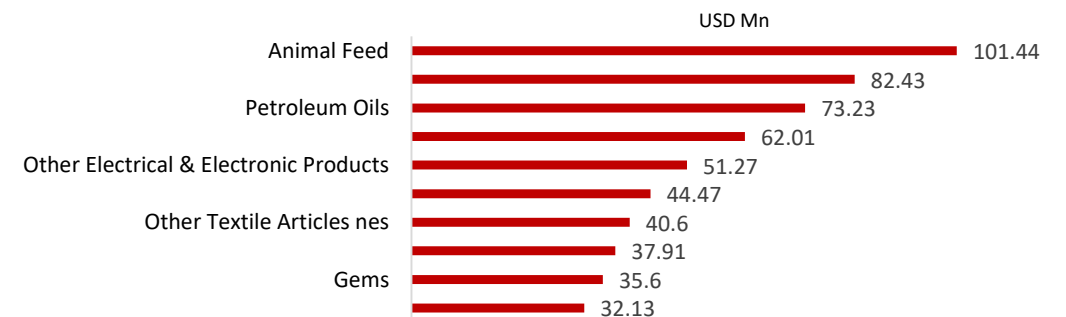
Sri Lanka has strong trade agreements with key BIMSTEC members, including India, through the Indo-Sri Lanka Free Trade Agreement (ISFTA), and it is currently negotiating the Economic and Technological Cooperation Agreement (ETCA) with India. Recently, Sri Lanka concluded a trade agreement with Thailand and engaged in discussions with Bangladesh for a preferential trade agreement. However, looking at past experiences, there is some doubt about whether these individual agreements have truly created substantial opportunities for Sri Lanka. In contrast, Sri Lanka has enjoyed much better market access with the EU through the GSP+ scheme and with the US, offering wider opportunities than many regional agreements.

Rather than continuing to focus on individual agreements, a shift towards collective trade negotiations within BIMSTEC could provide greater benefits for all member countries. By leveraging BIMSTEC as a platform for collaborative trade, Sri Lanka and other member states can work towards realizing stronger and more balanced economic opportunities, potentially matching or even surpassing the advantages enjoyed in Western markets

Sri Lanka’s Trade with other BIMSTEC Countries 2023



Top Ten Export Products From Sri Lanka to other BIMSTEC Countries 2023



KEY INSIGHTS

Global Economy

Fed Cut Rate for the First time in Four Years

The Federal Reserve's (Fed) recent decision to cut its key overnight borrowing rate by 50 basis points marks a significant shift in monetary policy, being the first reduction since the onset of the COVID-19 pandemic. This move reflects growing confidence of Fed that inflation is stabilizing around the target rate of 2%, while acknowledging a softening labor market. The new federal funds rate now sits between 4.75% and 5%, a change aimed at mitigating potential economic slowdowns as job growth slows and unemployment rates creep upward.

Historically, the last time the Fed implemented such a substantial cut was during the global financial crisis in 2008. The current decision is particularly notable given that it follows a series of aggressive rate hikes initiated in March 2022 to combat soaring inflation, which peaked at nearly 9% in 2022. The Fed's strategy has shifted from aggressive inflation control to a more balanced approach, as it now seeks to support economic growth while maintaining price stability.

This rate cut is expected to provide relief to borrowers, reducing costs for mortgages, auto loans, and credit cards. The Fed's projections indicate further cuts may occur, with expectations of the key lending rate dropping to approximately 4.4% by year-end and potentially reaching 3.4% by the end of 2025.

As other central banks globally follow suit, this decision has implications beyond the U.S., influencing international monetary policies and financial markets. With political pressures mounting ahead of upcoming elections, the Fed's actions will be closely scrutinized, highlighting the delicate balance it must maintain between fostering economic growth and controlling inflation.

Federal funds target rate July 2000–September 2024



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.

Economic and Fiscal Reforms Under the New President's Leadership

Anura Kumara Disanayake, has been elected as the 9th Executive President of Sri Lanka, securing 42.31% of the vote after a second count. His presidency marks a turning point, as stakeholders are seeking clarity on the future policy direction under his leadership. However, his manifesto offers guidance on what can be expected. Proposed reforms include:

Fiscal Reforms and Debt Restructuring - AKD is committed to renegotiating the International Monetary Fund (IMF) program to alleviate the austerity measures currently affecting the country. The proposal includes demonstrating alternative methods for fiscal consolidation that focus on increasing revenue rather than cutting essential services. A key initiative within this framework is a detailed debt audit, which will ensure transparency and accountability in how public funds were borrowed and spent in the past. This audit is part of the larger goal of establishing a sustainable public debt level, enabling Sri Lanka to improve its credit rating and restore investor confidence. Additionally, AKD's administration plans to streamline government expenditure by eliminating wasteful practices and preventing the misappropriation of public funds by politicians. This is to be supported by the introduction of e-procurement systems, which aim to enhance the transparency and efficiency of public sector spending.

Tax Policy and Revenue Management - The fiscal reforms also prioritise modernising tax administration. A newly established tax policy unit will focus on both domestic and international tax matters, ensuring Sri Lanka adapts to global standards such as the Global Minimum Tax framework. The reforms aim to increase the annual tax threshold for individuals (from Rs. 1.2 million to Rs. 2.4 million), incentivise investments through increased tax depreciation allowances for machinery (up to 120% of capital expenditure) and capital expenditures, and streamline VAT collection through digital invoicing systems. Additionally, AKD's manifesto outlines steps to broaden the tax base and reduce tax evasion, which has contributed to the country's declining tax-to-GDP ratio.

Trade and Export Reforms - AKD's government plans to transform Sri Lanka into a logistics and maritime hub, leveraging its strategic geographic position. Proposed initiatives include the development of infrastructure at key ports, such as expanding facilities for transshipment, ship-to-ship cargo transfers, and cross-docking. AKD's administration also intends to simplify the complex tariff structures that currently hinder trade and import processes. The introduction of single-window services for import/export operations is expected to streamline these procedures, improving efficiency and reducing costs for businesses.

The export sector will also see diversification efforts, with an emphasis on promoting value-added industries, such as agriculture, IT, and tourism. A critical aspect of this is the introduction of a zero-tariff policy for exports. Additionally, the government plans to issue special investment instruments targeting the Sri Lankan expatriate community, providing them with opportunities to invest in housing and regional development projects.

SME Reforms and Financial Support - AKD's government proposes a two-pronged approach to support SMEs: relief banking and development banking mechanisms. The relief banking system will help SMEs restructure their non-performing loans by extending repayment periods and offering lower interest rates, thereby allowing these businesses to regain financial stability. Furthermore, development banks will be established to provide long-term, low-cost capital to SMEs.

The cooperative banking sector will also be revitalised to support small-scale farmers and entrepreneurs, particularly in rural areas. These banks will offer comprehensive financial services, including savings and investment products, to help SMEs overcome barriers to capital. Additionally, the manifesto outlines plans to facilitate the listing of SMEs on the Colombo Stock Exchange (CSE), providing them with greater access to capital through initial public offerings (IPOs) and tax concession on them to encourage capital formation.

Building Sustainability - AKD's economic policies extend beyond immediate fiscal stabilisation and seek to build a sustainable future through long-term investment in renewable energy, infrastructure development, and environmental sustainability. AKD's administration plans to promote green and blue bonds to finance climate-positive initiatives, which align with global sustainable development goals. Furthermore, industrial zones will be equipped with renewable energy sources, such as wind and solar power, to reduce the cost of production for industries.

Weather Watch

(In Collaboration with the World Bank)

With the aim of keeping our members updated, a new "Weather Watch" section is added to the MEU in collaboration with the World Bank. "Weather Watch" will provide localised weather forecasts and insights for Sri Lanka, enabling businesses to proactively plan, manage disruptions, and make informed decisions.

A period of dry and hot conditions expected across Sri Lanka into October. Heavy showers and thunderstorms likely to develop from mid-October onwards introducing lightning and flash flood related impacts to services.

There is a growing signal for a period of dry and hot weather during the rest of September into the first week of October 2024 which may degrade critical infrastructure & networks performance and could result in health related impacts on staff and customers.

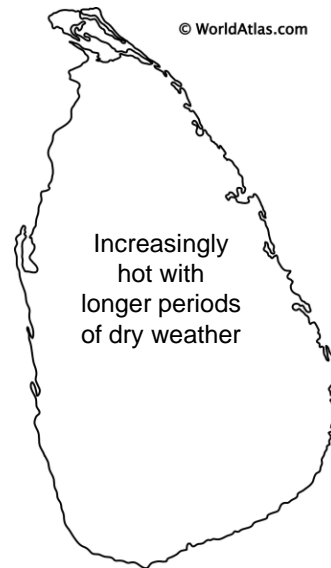
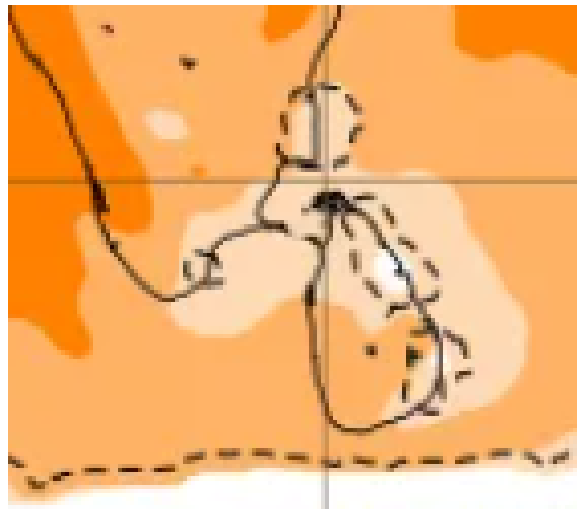
Weather patterns may change to more showery conditions from mid-October possibly leading to impacts from heavy showers and thunderstorms. Frequent, intense lightning, strong winds and flash flood from these thunderstorms could lead to power outages and damage to exposed infrastructure systems.

Our advice is still to monitor conditions, review business continuity plans and to check the resilience of key infrastructure facilities to severe weather, especially from lightning, floods and heat.

Members should also check daily for the latest warnings, advice and guidance from [Department of Meteorology \(DoM\)](#) , [National Building Research Organization \(NBRO\)](#), and [Disaster Management Center \(DMC\)](#).

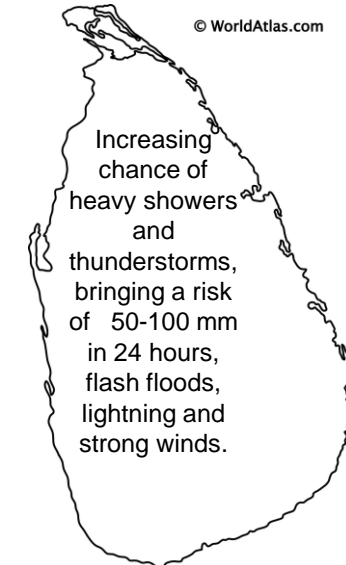
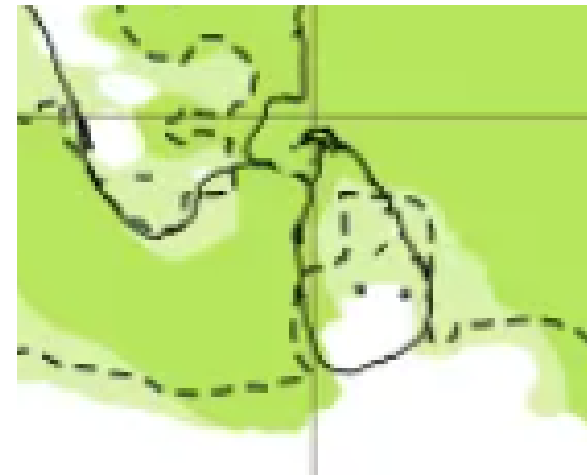
Weather Watch cont'd

Rest of September and First Week on October



ECMWF 7-day mean anomalies of precipitation for the period.
Green = wet
Orange = dry
This shows dry conditions predominating across Sri Lanka during this period.

07th to 14th October 2024



ECMWF 7-day mean anomalies of precipitation for period 07th to 14st October 2024.
Green = wet
Orange = dry
This shows an uptick in heavy showers and thunderstorms with a focus towards west and southwestern and northeastern coastal districts.

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