

# **Recent Economic Developments**

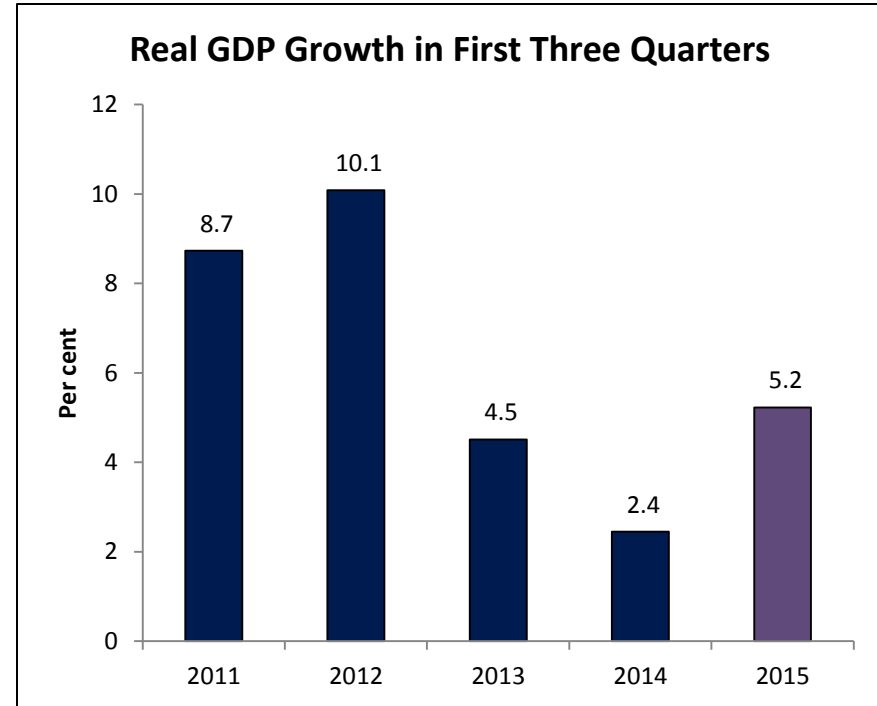


**Central Bank of Sri Lanka**

**31 December 2015**

# **Real Sector Developments and Inflation**

**Sri Lankan economy grew by 5.2% during the first nine months of 2015 compared to 2.4% recorded in the corresponding period of 2014...**



Source: Department of Census and Statistics

# The economy grew by 4.8% during the Q3-2015, compared to 4.7% in the corresponding quarter of 2014

## Services (GDP share 57.1%): 3.4% ↑

- Telecommunication grew by 4.0%
- Financial Services activities recorded a growth of 11.1%
- Postal and courier activities' has recorded a growth of 28.8%
- However, IT programming and consultancy services, Professional services, and Education contracted by 14.9%, 19.6%, and 9.2% respectively

Economic Activity	Q3 Growth Rates (%)				
	2011	2012	2013	2014	2015
Services	6.8	10.4	5.5	4.2	3.4
Industries	13.8	2.6	2.8	5.4	6.2
Agriculture, Forestry and Fishing	8.5	0.6	4.5	-2.0	6.9
Taxes less subsidies on products	10.6	0.4	-2.3	11.9	8.3
GDP	9.2	5.2	4.0	4.7	4.8

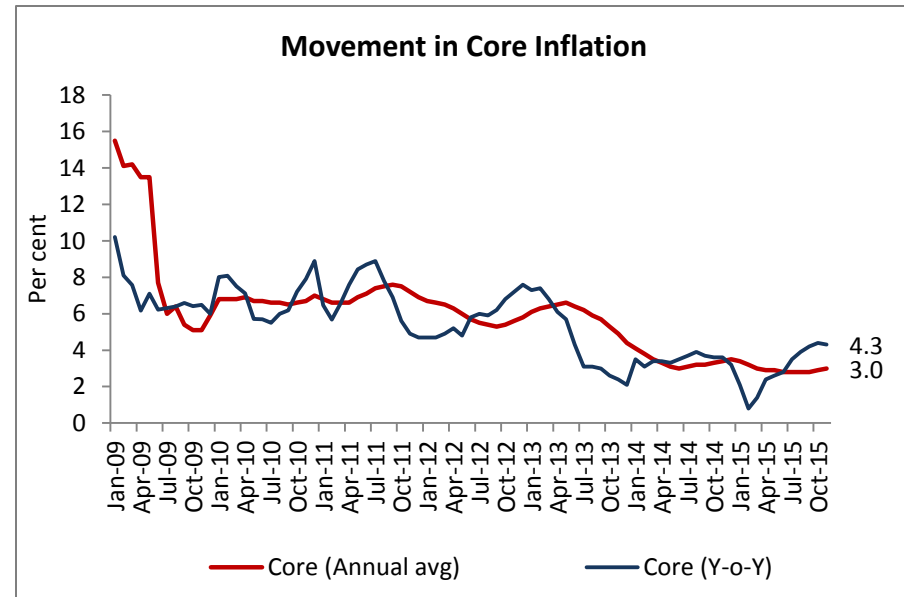
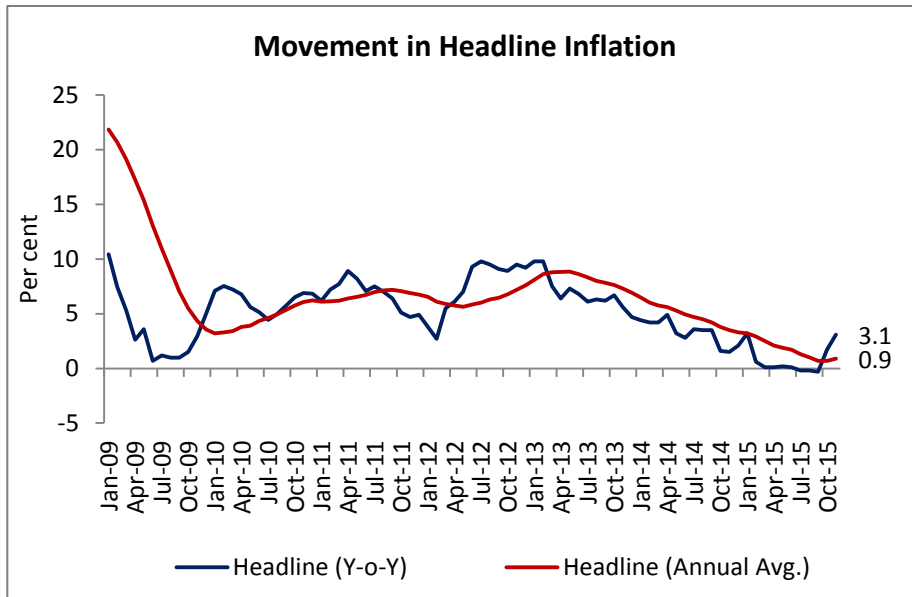
## Industries (GDP share 26.7%): 6.2% ↑

- Mining and quarrying, Manufacture of food beverages and tobacco, Manufacture of wood and products of wood, and Manufacture of machinery and equipment grew by 9.6 %, 8.8%, 35.2% and 29.7% respectively
- However, manufacture of textiles and wearing apparel declined by 2.4%

## Agriculture, Forestry and Fishing (GDP share 7.2%): 6.9% ↑

- Growing of cereals, rice, Animal production, Forestry & logging and Fresh water fishing resulted for this positive growth
- However, growing of Tea, Rubber and Marine fishing contracted by 3.9 percent, 1.1 percent and 8.6 percent respectively

# Some upward risks to inflation emerged...



	Dec 2014	Sep 2015	Oct 2015	Nov 2015
<b>Headline inflation (%) based on CCPI</b>				
Y-o-Y	2.1	-0.3	1.7	3.1
Annual average	3.3	0.7	0.7	0.9
<b>Headline inflation (%) based on NCPI</b>				
Y-o-Y	-	1.9	3.0	4.8

- **Headline inflation (Y-o-Y)** turned around from negative territory from October 2015
- **Core inflation** increased reflecting firming up of demand pressures in the economy

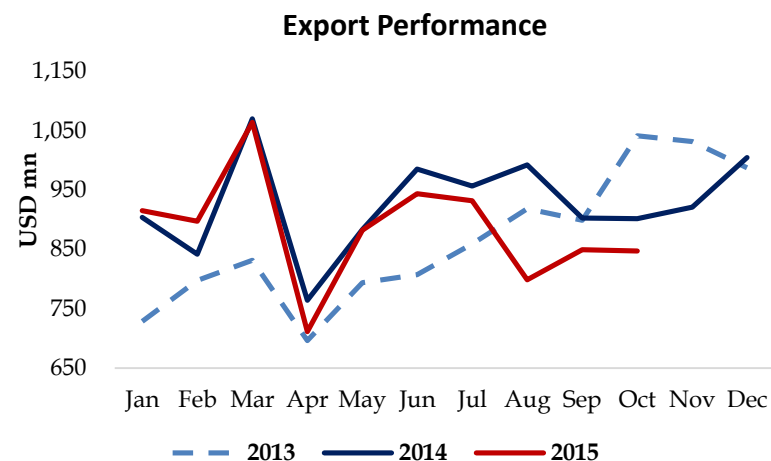
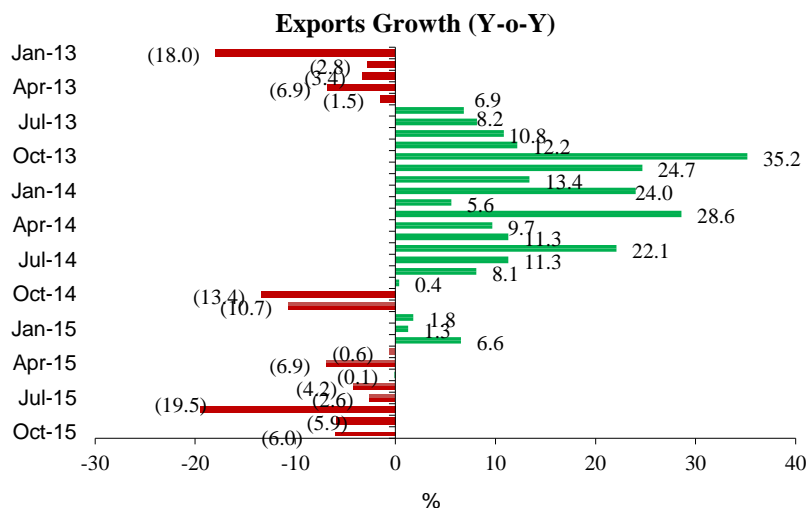
# **External Sector Developments**

# Export earnings declined in October 2015...

- Export earnings decreased by 6.0% to USD 847 mn in October 2015

- Cumulative export earnings decreased by 3.9% to USD 8,843 mn

Category	% Change (y-o-y)		USD mn	
	Oct 2015	Jan – Oct 2015	Oct 2015	Jan – Oct 2015
<b>Total Exports</b>	<b>-6.0</b>	<b>-3.9</b>	<b>847.3</b>	<b>8,843.4</b>
<b>Agricultural Exports</b>	<b>-5.9</b>	<b>-9.5</b>	<b>217.5</b>	<b>2,091.0</b>
Tea	-11.2	-16.6	119.3	1,126.8
Seafood	-27.3	-36.1	12.1	134.6
Spices	50.0	51.7	36.7	323.0
<b>Industrial Exports</b>	<b>-6.0</b>	<b>-1.7</b>	<b>626.9</b>	<b>6,709.4</b>
Textiles & garments	-2.9	-1.0	386.7	4,016.6
Gem, diamond & jewellery	-22.6	-19.6	27.0	270.5
Rubber products	-18.7	-13.5	63.2	646.7
Petroleum products	-29.3	14.8	18.8	325.9

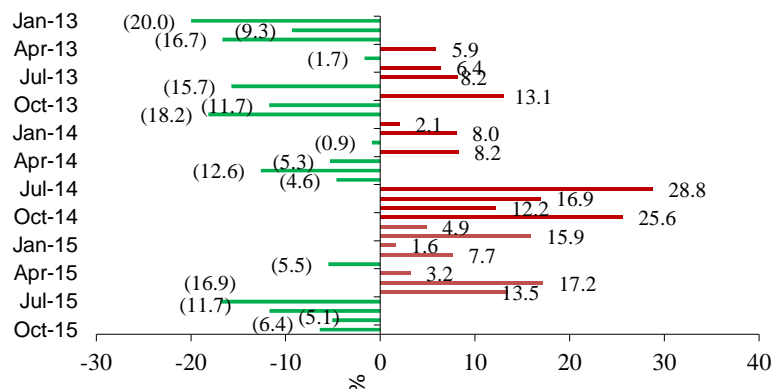


# Import Expenditure declined in October 2015...

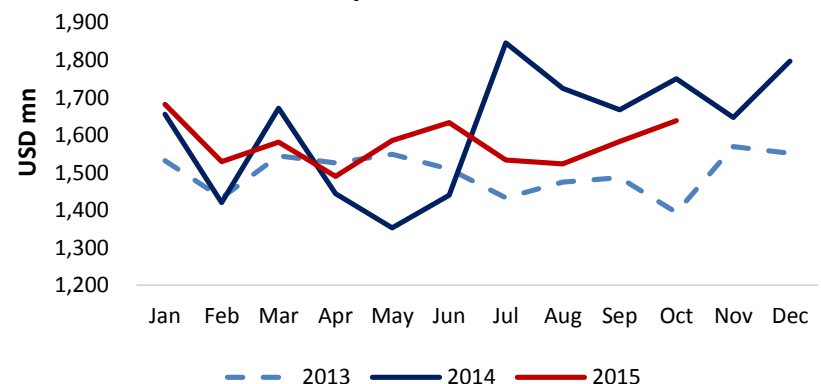
- Expenditure on imports decreased by 6.4% to USD 1,638 mn in Oct 2015
- Cumulative expenditure on imports decreased by 1.2% to USD 15,780 mn

Category	% Change (y-o-y)		USD mn	
	Oct 2015	Jan -Oct 2015	Oct 2015	Jan - Oct 2015
<b>Total Import</b>	<b>-6.4</b>	<b>-1.2</b>	<b>1,638.3</b>	<b>15,779.6</b>
<b>Non-oil Imports</b>	<b>-0.8</b>	<b>13.7</b>	<b>1,409.6</b>	<b>13,535.2</b>
<b>Intermediate goods</b>	<b>-12.9</b>	<b>-15.8</b>	<b>820.6</b>	<b>8,046.8</b>
Fuel	-30.5	-44.9	228.7	2,244.3
Wheat & maize	-59.0	-11.5	14.6	302.6
Rubber & articles thereof	63.7	67.4	30.1	236.3
Fertilisers	72.5	24.1	40.0	240.8
<b>Consumer goods</b>	<b>-1.8</b>	<b>28.5</b>	<b>403.9</b>	<b>3,938.7</b>
Vehicles	23.6	70.2	145.5	1,176.4
<b>Investment goods</b>	<b>4.3</b>	<b>13.0</b>	<b>413.1</b>	<b>3,780.1</b>
Building materials	-6.7	0.7	126.2	1,090.8
Transport equipment	21.7	60.8	76.6	826.0

Imports Growth (Y-o-Y)

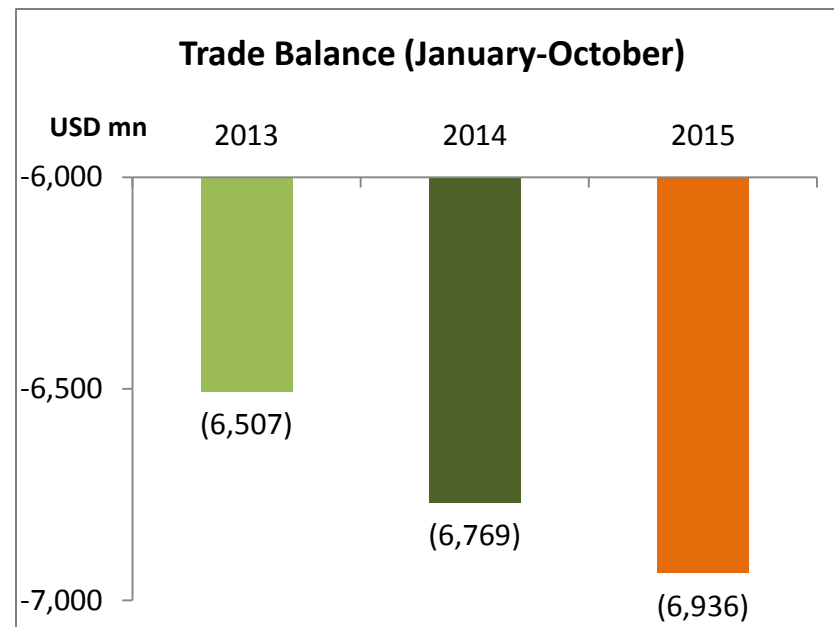
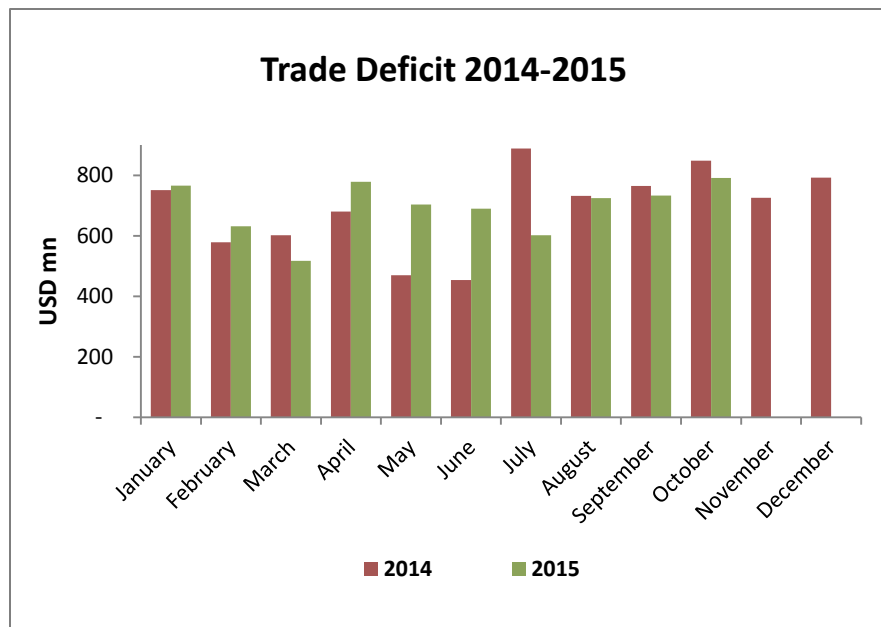


Import Performance





# Trade deficit contracted in October 2015, although the cumulative deficit expanded...



The **deficit in the Trade account** of the BOP decreased by 6.8%, y-o-y, to USD 791 mn in October 2015

The **cumulative trade deficit** increased by 2.5%, y-o-y, during Jan-Oct 2015

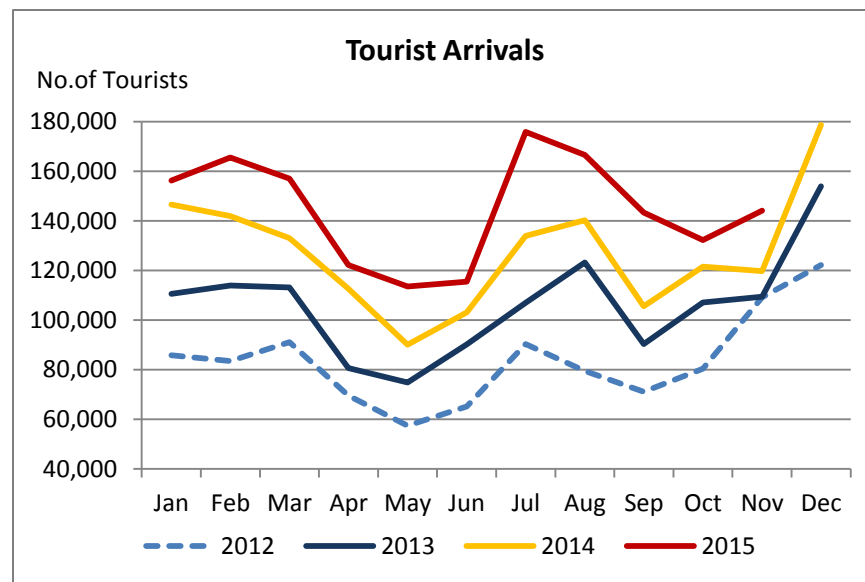
# Tourist arrivals, earnings and workers' remittances increased...

## • Tourist arrivals

- November 2015: increased by 20.4% to 144,147
- Jan-Nov 2015: grew by 18.1% to 1,592,266

Monthly Tourist Arrivals (2012 - 2015)

	2012	2013	2014	2015
First 11 months Avg	80,305	101,880	122,589	144,751
Monthly Avg. per year	83,800	106,216	127,263	
Last 3 months Avg	103,944	123,465	139,992	

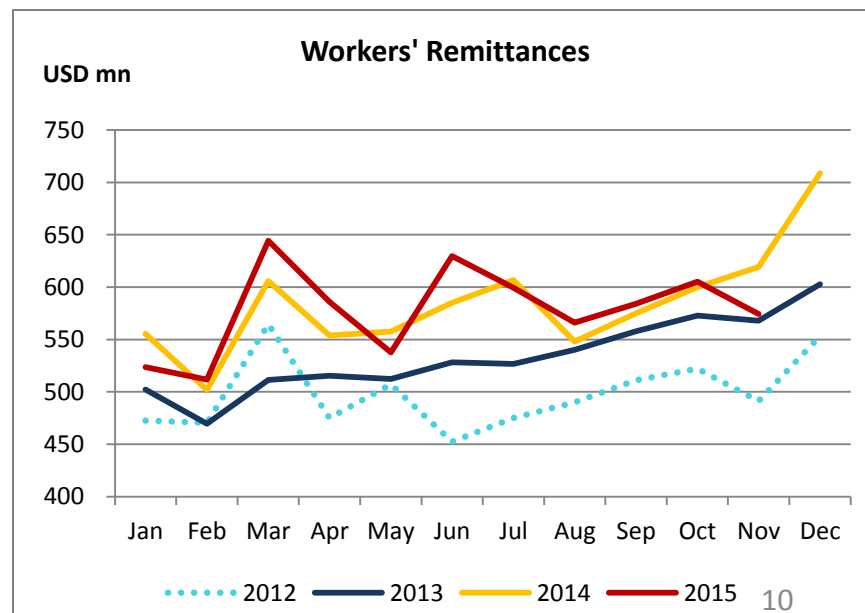


## • Earnings from Tourism (provisional)

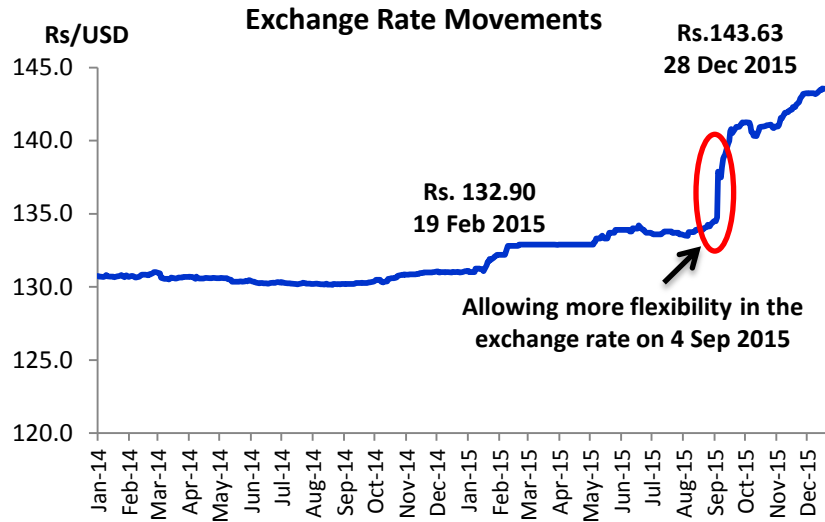
- November 2015 : increased by 20.4% to USD 229.5 mn
- Jan-Nov 2015: grew by 18.1% to USD 2,534.8 mn

## • Workers' remittances

- Jan-Nov 2015: grew by 0.8% to USD 6,361.8 mn
- Jan - Dec 2014: grew by 9.5% to USD 7,017.8 mn



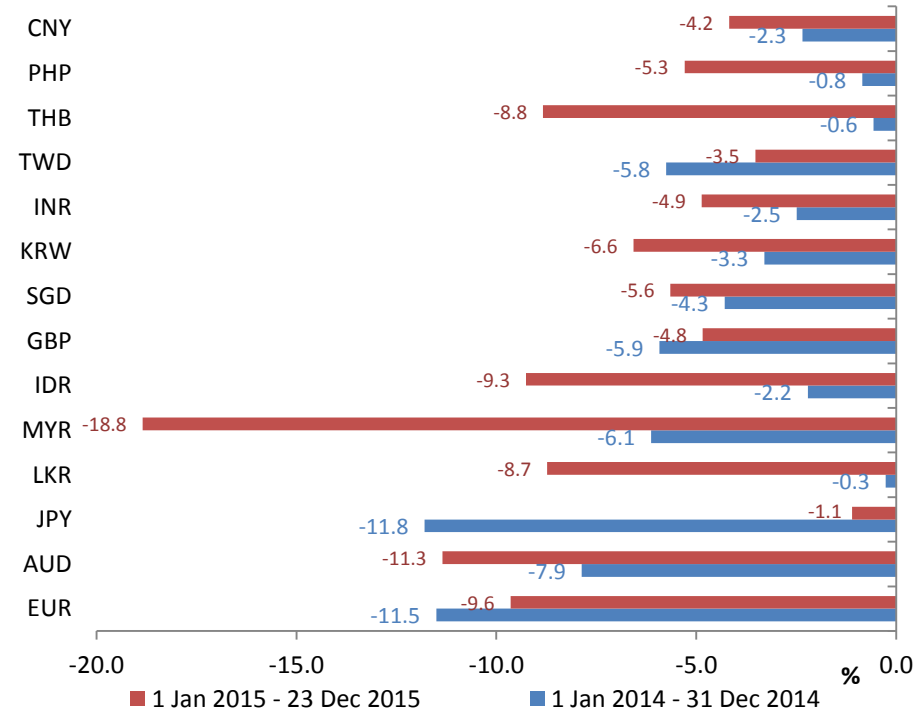
# The rupee has depreciated against the US dollar by 8.8% in 2015...



**LKR movement against other currencies  
(Jan – 28 Dec 2015)**

Currency	App (+)/Dep (-)
US dollar	-8.8%
Pound sterling	-4.8%
Euro	1.1%
Japanese yen	-8.0%
Indian rupee	-4.9%

**Movements in International Currency against the US dollar**



- From the beginning of May 2015, **Sri Lankan rupee** depreciated against the USD by 7.5% to Rs.143.63 on 28 Dec 2015 from Rs.132.90
- Since 04 September 2015, rupee depreciated by 6.3% against USD to Rs.143.63

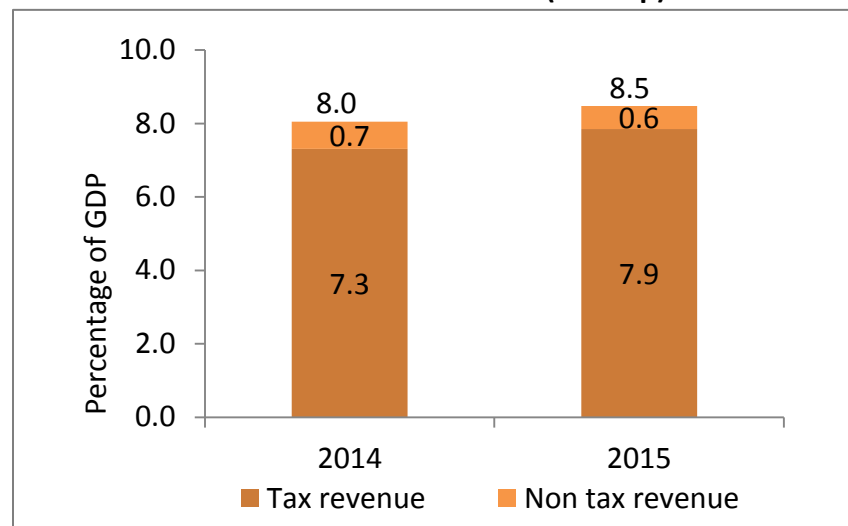
**Gross official reserves were at around USD 7.3 bn by end November 2015**

# **Fiscal Sector Developments**

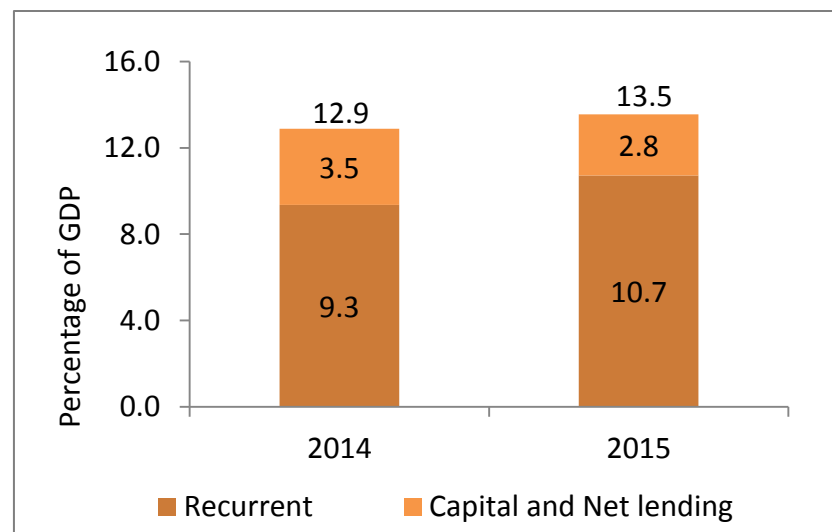
# Government Revenue and Expenditure...

- **Total revenue** in nominal terms increased by 15.8% to Rs. 958.9 bn during first nine months of the year from Rs. 828.2 bn recorded during the same period in 2014
- **Tax revenue** increased by 18.1% to Rs. 888.2 bn during first nine months from Rs. 752.2 bn in the corresponding period of 2014 mainly due to increase in revenue from excise tax revenue
- **Total expenditure and net lending** is estimated to be increased by 15.5% to Rs. 1,532.5 bn during the first nine months of 2015 from Rs. 1,326.7 bn in the corresponding period of 2014 mainly due to increase in recurrent expenditure
- **Recurrent expenditure** increased by 26.1% and Capital and net lending declined by 12.4% during the first nine months of 2015

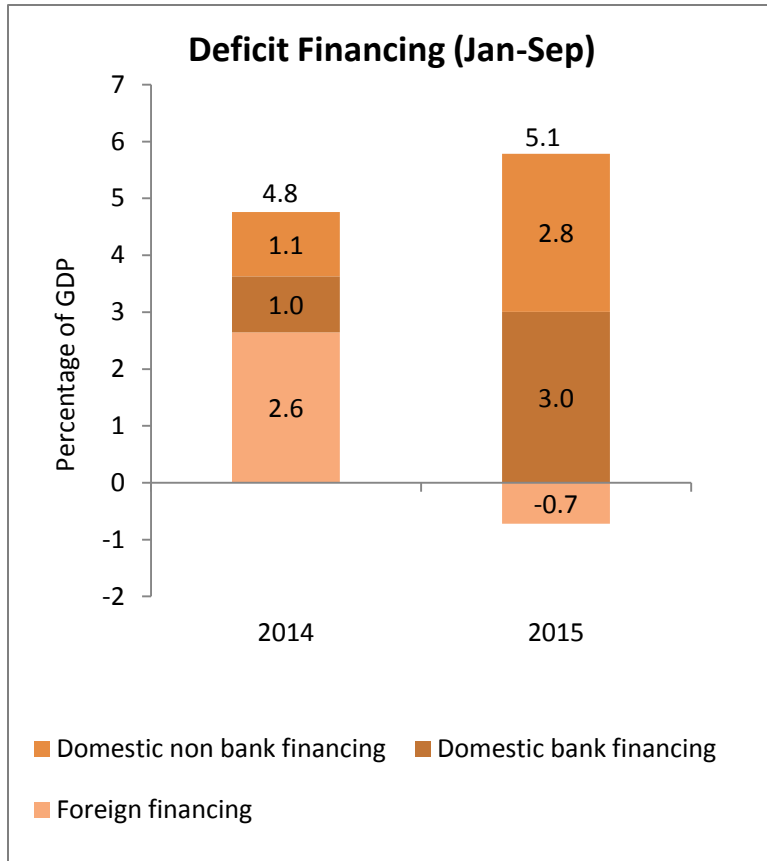
Government Revenue (Jan-Sep)



Government Expenditure (Jan-Sep)



# Budget Deficit and Deficit Financing...

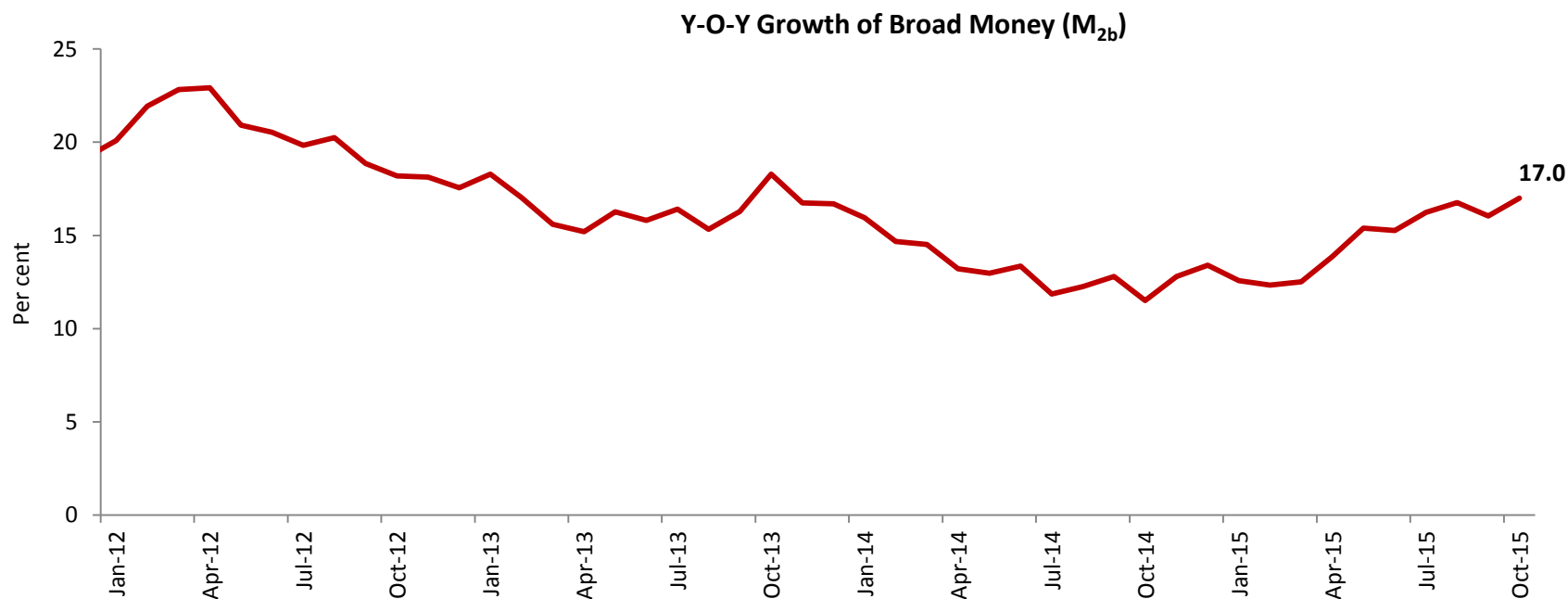


- The **overall budget deficit** slightly increased to 5.1% of GDP during the first nine months of 2015 from 4.8% in the same period of 2014.
- In nominal terms, the overall budget deficit increased to Rs. 573.0 bn during the period under consideration from Rs. 489.8 bn in 2014
- The **Budget deficit was totally financed** through domestic sources as there was a repayment of foreign financing

# **Monetary Sector Developments**

# Broad money growth increased due to domestic credit expansion...

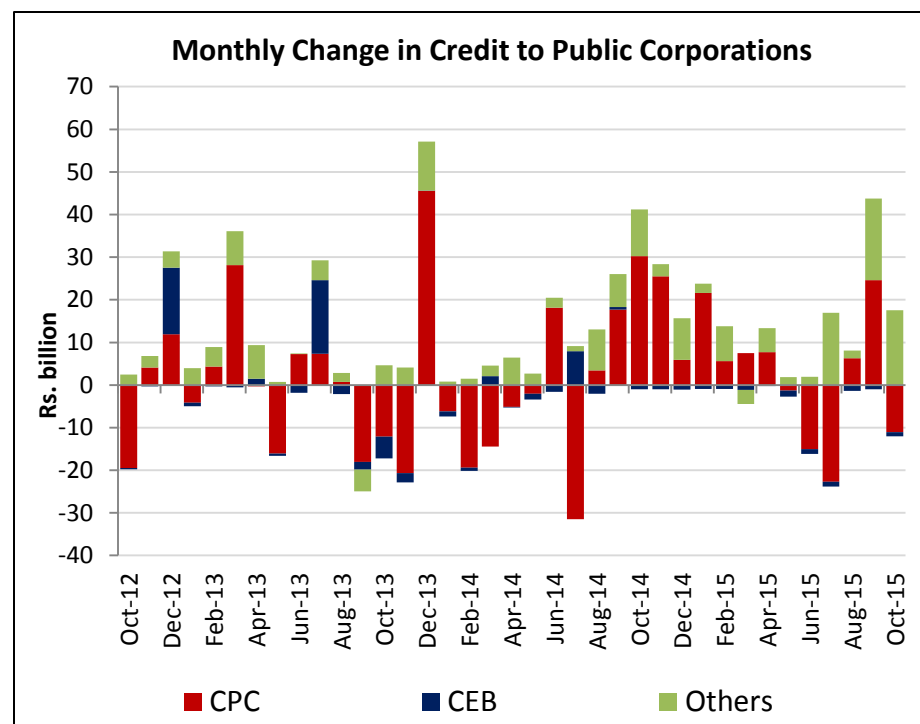
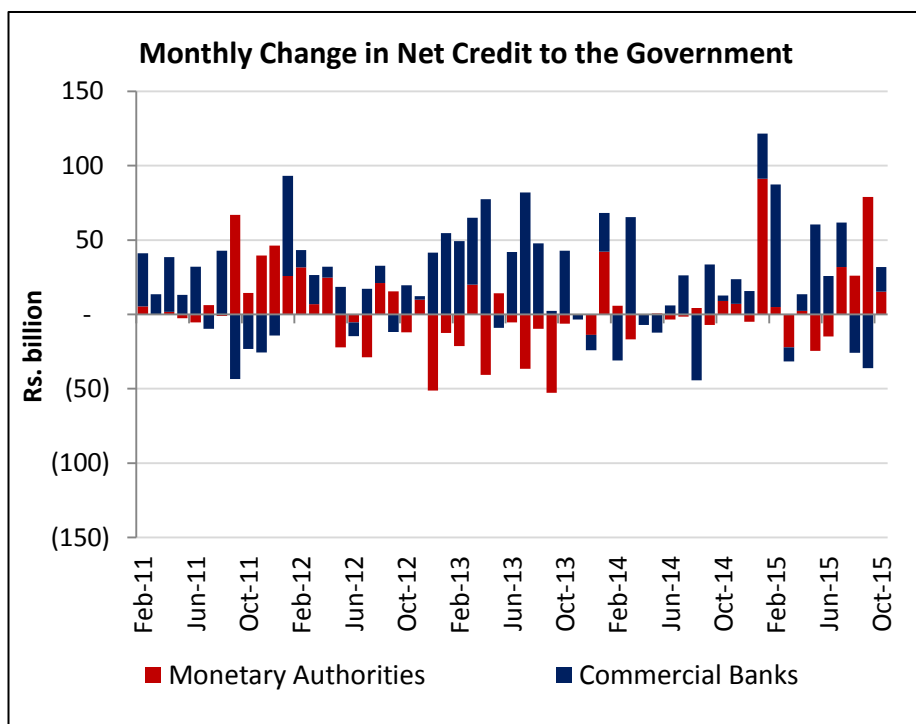
- The y-o-y growth of **broad money** ( $M_{2b}$ ) was 17.0% in October 2015 compared to 16.0% in September 2015
- The expansion in domestic credit to both public and private sectors caused broad money growth in October 2015





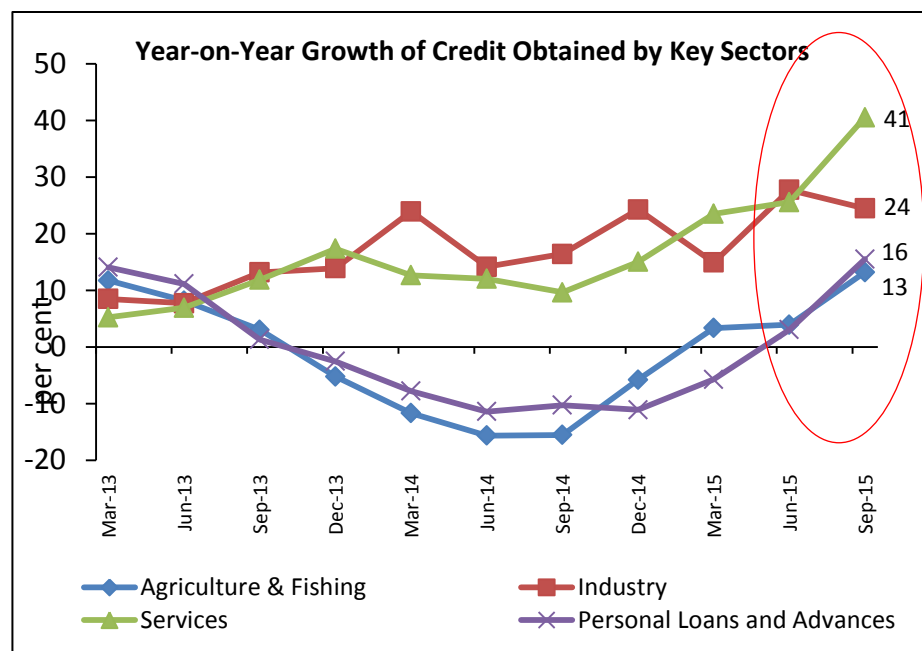
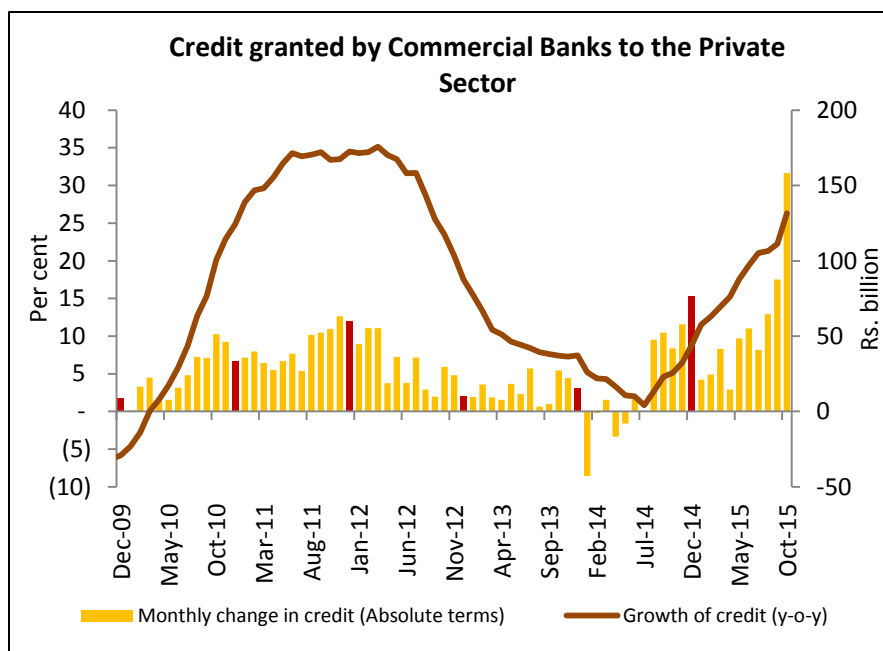
# Credit obtained by the public sector has increased...

- **Net credit to the government** increased by Rs. 31.8 bn in October 2015
  - Cumulative increase in NCG for the first ten months of 2015 was Rs. 374.3 bn
- **Credit granted to public corporations**, recorded an increase of Rs. 5.5 bn in October 2015
  - Cumulative increase for the first ten months of 2015 was Rs. 84.8 bn



# The growth of credit to the private sector has accelerated...

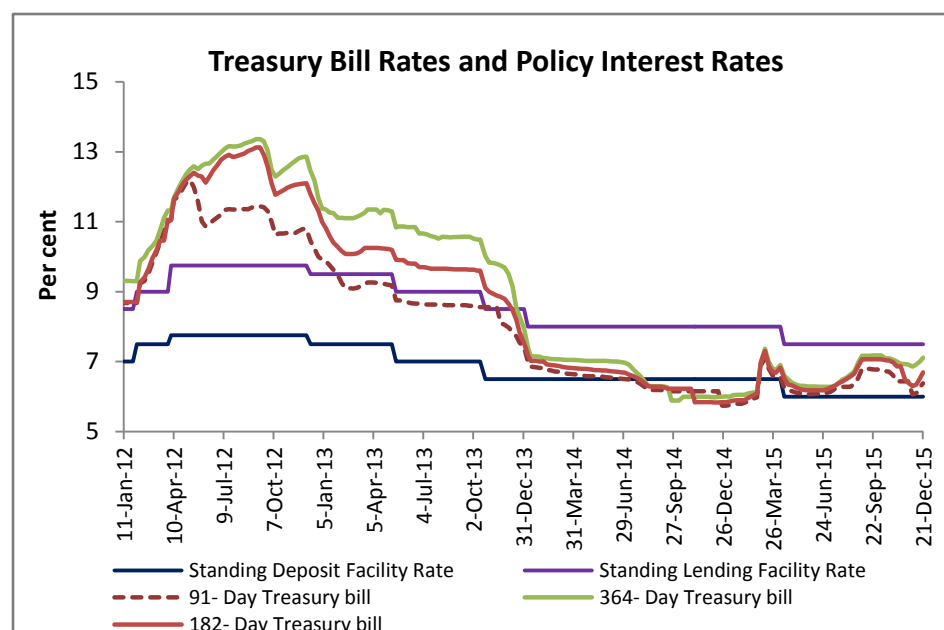
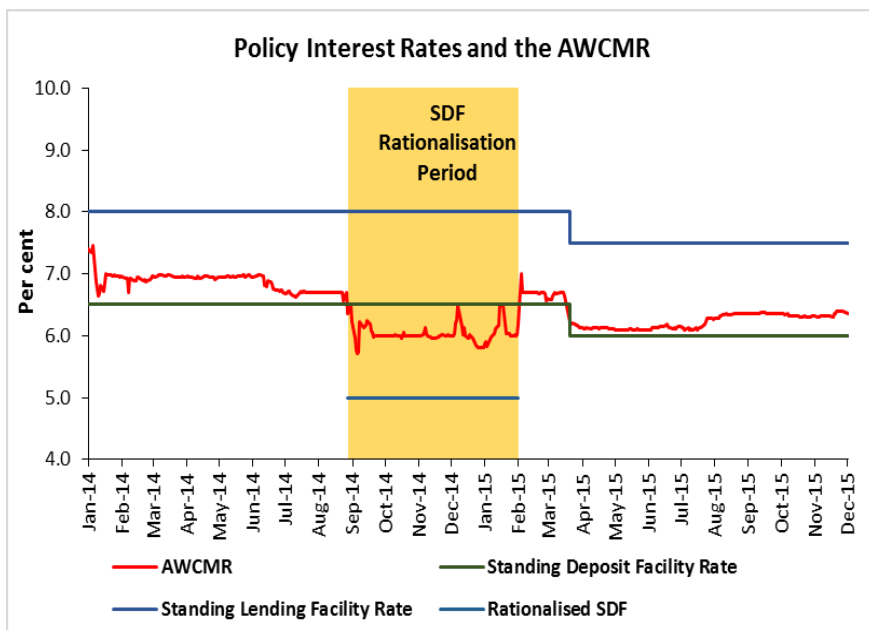
- Year-on-year growth in **private sector credit** was 26.3 % in October compared to 22.2 % in September 2015
- **Cumulative increase for the first ten months of 2015 was Rs. 556.4 bn**



## High domestic credit expansion was largely due a higher intake of credit to the Industry and Services sectors ....

Sector	End Sept 2014	End Sept 2015	As a % of total End Sept 2015	Y-o-Y Change	
				Amount	y-o-y Change %
<b>Agriculture and Fishing</b>	<b>269.6</b>	<b>305.2</b>	<b>9.6</b>	<b>35.6</b>	<b>13.2</b>
of which, Tea	65.1	67.8	2.1	2.6	4.0
Rubber	21.6	20.8	0.7	(0.8)	(3.6)
<b>Industry</b>	<b>1,011.6</b>	<b>1,259.2</b>	<b>39.4</b>	<b>247.6</b>	<b>24.5</b>
of which, Construction	437.3	569.3	17.8	132.0	30.2
Textiles and Apparel	135.1	122.5	3.8	(12.5)	(9.3)
<b>Services</b>	<b>639.3</b>	<b>898.6</b>	<b>28.1</b>	<b>259.3</b>	<b>40.6</b>
of which, Wholesale and Retail Trade	211.3	247.1	7.7	35.9	17.0
Financial and Business Services	118.9	184.2	5.8	65.3	54.9
<b>Personal Loans and Advances</b>	<b>660.3</b>	<b>732.8</b>	<b>22.9</b>	<b>72.5</b>	<b>11.0</b>
of which, Consumer Durables	86.0	124.9	3.9	38.9	45.2
Pawning	181.2	146.5	4.6	(34.7)	(19.2)
<b>Total</b>	<b>2,580.8</b>	<b>3,195.8</b>	<b>100.0</b>	<b>615.0</b>	<b>23.8</b>

# Short term money market rates and other market interest rates witnessed some upward movement during December 2015...



- **AWCMR was 6.40% on 30 December 2015**
- **Latest T-bills yields are as follows**
  - **91-day: 6.45%**
  - **182-day: 6.83%**
  - **364-day: 7.30%**

**Movement of Selected Market Interest Rates 2011-2015**

Interest Rate	End Dec '14	End Oct '15	End Nov '15	As at 30 Dec '15	Change in bps
<b>Lending Rates</b>					
Average Weighted Prime Lending Rate (Weekly)	6.26	7.24	7.41	7.50	124
Average Weighted Prime Lending Rate (Monthly)	6.35	7.18	7.32	-	97
Average Weighted Lending Rate	11.91	11.00	10.96	-	-95
<b>Deposit Rates</b>					
Average Weighted Deposit Rate (AWDR)	6.20	6.05	6.11	-	-9
Average Weighted Fixed Deposit Rate (AWFDR)	7.33	7.33	7.43	-	10

## Recent Monetary Policy Measures...

- Central Bank increased the Statutory Reserve Ratio (SRR) applicable for commercial banks in order to restrain the build-up of demand-side pressure on inflation to ensure continued monetary and price stability

Monetary Policy Decision:	Policy rates unchanged, SRR increased
Standing Deposit Facility Rate (SDFR)	6.00%
Standing Lending Facility Rate (SLFR)	7.50%
Statutory Reserve Ratio (SRR)	7.50%

**Thank You**