

Economic Newsletter

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ASPI
-0.6% to 5,722.25
points

CCPI
4.0% in February

LKR/USD
depreciates
-0.86% to 178.26

Week in Review

- **Govt. debt-to-GDP ratio hits highest level since 2005** – By end-2018, the government debt to GDP ratio hit a record high of 83.6% since 2005, rising up from 77.6% of GDP in end-2017. Total outstanding external debt, excluding foreign holdings of bonds, bills and SOEs is estimated to be USD 32.4 bn. The government plans to curtail its debt to 72% of GDP by 2022. [Read More.](#)
- **Sri Lanka launches sovereign bonds rated 'B(EXP)' by Fitch** - Fitch has assigned Sri Lanka's upcoming US dollar-denominated bonds an expected rating of 'B (EXP)'. The rating is in line with Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) of 'B' with a stable outlook. [Read More.](#)
- **February tourist arrivals up 7%** - International tourist arrivals to Sri Lanka during February rose 7% year-on-year ('YoY') to 252,033, with the largest source market being India, followed by the United Kingdom and China. The previous month's arrivals comparatively only rose by 2.2% YoY to 244,299, led by European tourists. [Read More.](#)
- **Colombo land prices increase 18% in second half of 2018** - Land Price Index ('LPI') for the Colombo district, recorded an increase of 18% during the 2nd half of 2018, compared to the 2nd half of 2017, reaching 125.9. [Read More.](#)

Sri Lanka Budget Focus – 2019

- The budget for the year 2019 was presented by the Minister of Finance Hon. Mangala Samaraweera in parliament on the 05 March 2019 under the theme of "ENTERPRISE SRI LANKA – Empowering the People and Nurturing the Poor". Economic, political, and social empowerment of Sri Lankan citizens is the core focus of the budget which is to be achieved by a variety of avenues.
- Some of which include, facilitating livelihood development, bolstering exports in global markets, accelerating start-up and SME growth, enhancing efficiency within the public sector, empowering sectoral growth to build a healthy and knowledge driven society, building smart and clean cities, facilitating reconciliation with emphasis on religious and cultural affairs and strengthening the social safety net.
- In doing so, the government aims to create a level-playing field for private enterprises, to rectify social injustice and market failures, and to engage in quality-led investment in social infrastructure. The medium-term targets include a GDP growth of 4.8%, primary surplus of 3.4% of GDP and a budget deficit of 2.0% of GDP.

Capital Markets

Secondary T-bill and T-bond market

- The secondary market yield rates of T-bills and T-Bonds marginally decreased during the reporting week as shown in the table. The total secondary market transactions of T-bills and T-bonds decreased by 30.52% in the reporting week compared to the previous week.
- Foreign holding in LKR denominated bonds stood at 3.06% as at 06 March 2019.
- Foreign inflows amounting to LKR 636 mn was witnessed in the LKR denominated T-bill and T-bond market.

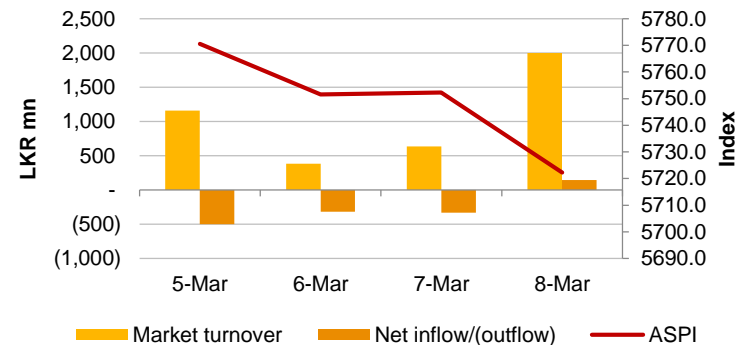
Colombo Stock Exchange

- The ASPI closed 32.1 points lower during the week and ended at 5722.25 points. The S&P SL20 fell 8.4 points during the week and closed at 2,859.59 points.
- The total market turnover increased by 10.2% compared to the previous week and stood at LKR 4,182.3 mn. Average daily turnover increased to LKR 1,045.6 mn during the week (LKR 759 mn during the previous week).
- Foreign investors became net sellers during the week with total outflows amounting to LKR 815.8 mn.
- The total market capitalization for the week ending 08 March 2019 stood at LKR 2,674.6 bn, which is LKR 14.98 bn lower than the previous week.

Secondary market summary

T-bills	This week	Last week
3 months	9.68%	9.69%
6 months	9.80%	9.81%
12 months	10.58%	10.61%
T-bonds		
<2 years	10.74%	10.84%
<5 years	11.04%	11.11%
<10 years	11.33%	11.37%
<15 years	11.56%	11.57%
<20 years	11.60%	11.66%

CSE market summary



As at 08 Mar 2019

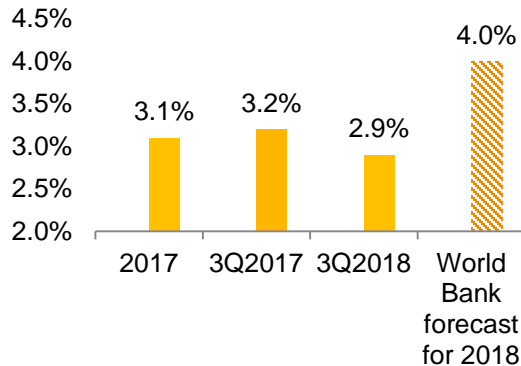
Market PER	8.95
Market PBV	1.13
Dividend Yield	3.48

Source: CSE, CBSL, DailyFT

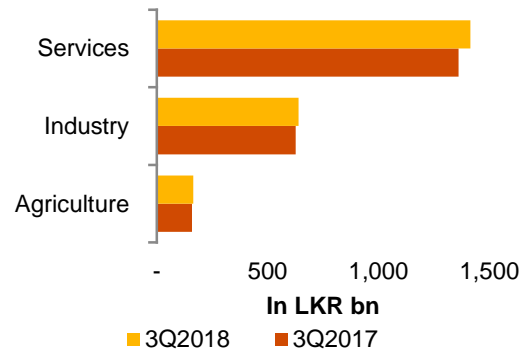
Real Sector Performance

- The real GDP for 3Q2018 increased to LKR 2,432 bn (+2.9% YoY) compared to LKR 2,363 bn (+3.2% YoY) recorded in 3Q2017. During the first nine months, the economy recorded a growth of 3.3% YoY Vs. 3.2% YoY registered in the previous year.
- The agriculture sector showed a growth of 3.3% YoY, while the industrial and service sectors reported a growth of 1.9% YoY and 3.9% YoY respectively during 3Q2018. Under the agriculture sector, growing of rice (+47% YoY), growing vegetables (+10% YoY) recorded notable growth, while tea and freshwater fishing dipped 15% YoY and 19% YoY respectively. Financial services grew 12% YoY, while telecommunication services recorded a growth of 15% YoY during 3Q2018.
- Headline inflation increased to 4.0% in February 2019 (3.7% in January 2019). YoY inflation of Food Group has increased from -2.1% in January 2019 to -1.4% in February 2019 and that of Non-food Group has increased from 6.3% in January to 6.4% in February during this period. Core inflation decreased to 5.4% in February compared to 5.5% recorded in January 2019.
- NCPI for the month of January 2019 stood at 1.2% compared to 0.4% recorded in December 2018.

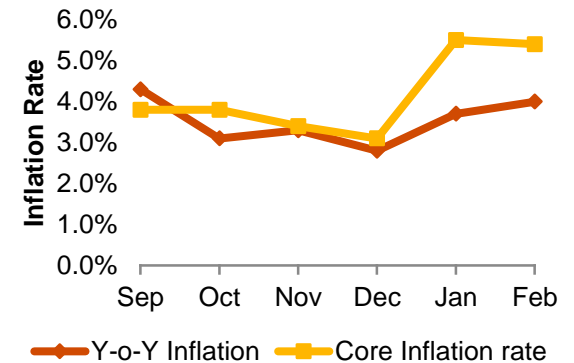
Real GDP growth



Sector Wise GDP composition



YoY Inflation vs Core Inflation



Source: Department of Census & Statistics, CBSL

External Sector Performance

- Exports increased 4.1% YoY during November driven by industrial exports while agricultural exports continued to decline. Industrial exports were primarily driven by earnings from textile and garments mainly driven by exports to USA.
- Imports contracted by 9.1% YoY in November 2018 for the first time since June 2017. The main contributing factors to this include the depreciating Sri Lankan Rupee and a decline in imports on personal vehicles and non-essential consumer goods.
- During the first eleven months, exports recorded a growth of 5.0% YoY while imports grew 8.3% YoY. Trade balance expanded 12.2% to USD 9,642 mn.

Exchange rate movement for the week

- The USD/LKR rate was seen depreciating marginally yesterday to close the day at LKR 178.45/55 against its previous day's closing level of LKR 178.30/45 on the back of buying interest.
- The gross official reserves were estimated at USD 6,152.2 mn as at 31 January 2019.

External sector performance for the month of Nov 2018

In USD mn	Nov-18	Nov-17	Change
Exports	980	941	4%
Imports	1,765	1,940	-9%
Trade balance	-785	-999	-21%
Earnings from tourism	367	311	18%
Workers' remittances	555	588	-6%

Central Bank purchases and sales of US dollars

Central Bank purchases and sales (USD mn)	Feb-19	Jan-19
Purchases	29.00	36.00
Sales	-	33.50

Average exchange rates

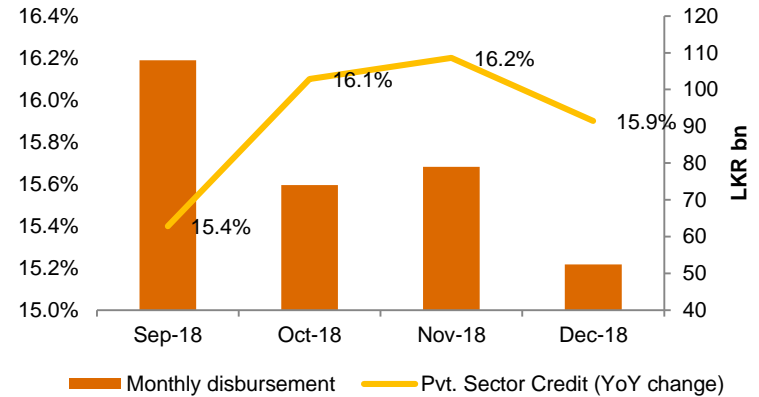
Currency	08 March 2019 (LKR)	A week ago (LKR)	WoW change
USD	178.26	179.80	-0.86%
GBP	233.46	238.54	-2.13%
EURO	199.61	204.48	-2.38%
JPY	1.60	1.61	-0.62%
INR	2.55	2.54	0.39%

Source: CBSL, Dailyft

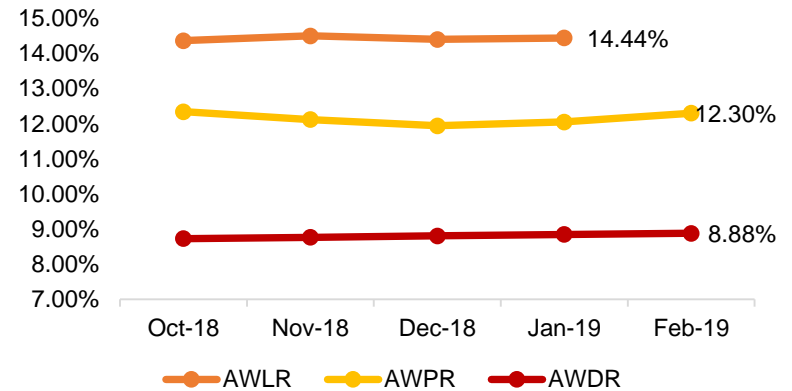
Fiscal and Monetary Sector Performance

- According to the last reported statistics, total outstanding Central Government debt amounted to LKR 10,994 bn as at 2Q2018.
- There was an increase in the central government debt stock by LKR 681 bn from 4Q2017. This was mainly due to the increase in net borrowings and the depreciation of the LKR against foreign currencies. Domestic debt increased to LKR 5,792 bn by end of 2Q2018 from LKR 5,594 bn as at end of 4Q2017, while foreign debt increased to LKR 5,203bn at the end of 2Q2018 compared to LKR 4,719 bn in 4Q2017.
- As at the end of 2Q2018, T-Bonds accounted for 67.6% of domestic debt, while T-bills accounted for 0.14%.
- The total outstanding market liquidity was a deficit of LKR 40.71bn by end of the week, compared to a deficit of LKR 117.35bn by the end of last week.
- Private sector credit increased 15.9% YoY to LKR 5,561.4 bn in December 2018.

Private Sector Credit



Commercial Banks Lending and Deposit Rates



Source: CBSL, Ministry of Finance

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For more in-depth analysis and insights please get in touch with

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