

Sri Lanka GDP

Free to View

Economics

A recovery is underway

Sri Lanka

- ◆ 1Q GDP contracted 11.5% y-o-y due to base effects; on a seasonally adjusted sequential basis, the pace of contraction slowed further, indicating that a recovery is underway
- ◆ Manufacturing grew after four quarters of sequential contraction; the recovery in agriculture continued but services reported an unexpected softness
- ◆ Sri Lanka is pressing ahead with reforms; the economy should gradually recover from its 2022 lows

Aayushi Chaudhary
Economist
HSBC Securities and Capital
Markets (India) Private Limited

1Q23 GDP growth contracted 11.5% y-o-y (HSBC: -11%, Bloomberg: -8.9%) due to base effects. On a seasonally adjusted sequential basis, economic activity remained in contraction for the fifth straight quarter. That said, the pace of contraction has slowed further (-0.9% 3m/3m sa in 1Q23 vs -1.4% in 4Q22), indicating that a recovery is underway. In pre-pandemic terms, the country's output is 10% below.

Industrial activity improved after a year of sequential contraction, led by an uptick in manufacturing. Part of this improvement can be explained by a small rise in exports (on a % m-o-m sa basis) after a weak 2H22. Construction, on the other hand, remained in the red. Tighter fiscal policy, weak private credit growth and subdued business sentiment are likely to weigh on new investment activity.

Agriculture continued to grow smartly for the second quarter, led by a rise in the production of rice, fruits, spices, 'aromatic, drugs and pharma' crops.

Services contracted on a sequential basis. This came in as a surprise as the high frequency data were indicating a healthy rebound in tourism. A close look at the services split indicates that the contraction was led by transportation of goods & passenger services and other personal services. We will not read too much into this fall as it could be a breather after two quarters of sequential growth. 'Retail and wholesale trade' too, fell after a strong sequential growth in 4Q22.

Hope, and some progress. The recently approved IMF program and the first meeting with the official bilateral creditors committee have kindled hopes of quick completion of the restructuring exercise. Some progress has been made on the macro stability front. Growth engines of tourism and remittances are humming now. Inflation is set to moderate to single-digit by the end of 2023 thanks to the base effects, tighter monetary and fiscal policy. Rupee has appreciated c15% since the start of the year and dollar liquidity has improved.

The central bank recently cut policy rates by 2.5ppt in a bid to bring down domestic interest rates. As the structural reforms gain traction and the ongoing recovery gains momentum, we think the CBSL is likely to ease monetary policy further. We expect a 5ppt cut in the policy rates over the next few quarters (1.5ppt cut each in 3Q23 and 4Q23, followed by a 1ppt cut each in 1Q24 and 2Q24), taking the SLFR and SDFR rates to 9% and 8%, respectively.

A recovery is underway, but it is not yet broad-based. After a deep contraction in 2022, we expect the sequential momentum to turn positive in 2023. In annual terms, 2H23 is likely to report a growth but the full year growth may remain in contraction due to base effects.

*This is a Free to View version of a report with the same title published on 16-Jun-23.
Please contact your HSBC representative or email AskResearch@hsbc.com for more information.*

Disclosures & Disclaimer: This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Issuer of report: HSBC Securities and Capital Markets (India) Private Limited

View HSBC Global Research at: <https://www.research.hsbc.com>

Table 1: Real GDP by supply components

% y-o-y	Jun-22	Sep-22	Dec-22	Mar-23
GDP	-7.4	-11.5	-12.4	-11.5
NIT	-40.6	-38.7	-32.2	-28.7
GVA	-5.1	-10.1	-11.2	-10.5
Agriculture, Forestry & Fishing	-7.9	-6.7	0.7	0.8
Industry	-10.1	-21.3	-30.1	-23.4
Manufacturing	-5.3	-14.2	-25.2	-14.2
Construction	-16.0	-32.8	-37.2	-38.3
Services	-1.8	-4.2	-3.9	-5.0

Note: *Green* denotes an increase and *grey* denotes a decrease relative to previous reading

Source: CEIC, HSBC

Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Aayushi Chaudhary

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

Additional disclosures

- 1 This report is dated as at 16 June 2023.
- 2 All market data included in this report are dated as at close 16 June 2023, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither HSBC Securities and Capital Markets (India) Private Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

HSBC Securities and Capital Markets (India) Private Limited is registered as "Research Analyst" (Reg No. INH000001287), Merchant Banker (Reg No. INM000010353) and Stock Broker (Uniform Reg. No. INZ000234533) and regulated by the Securities and Exchange Board of India.

© Copyright 2022, HSBC Securities and Capital Markets (India) Private Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 037/01/2022, MCI (P) 017/10/2021