

Sri Lanka continues its growth momentum for the third consecutive quarter growing by 4.3% in 1Q'21

Economy to grow by 4.2%YoY in 2021E

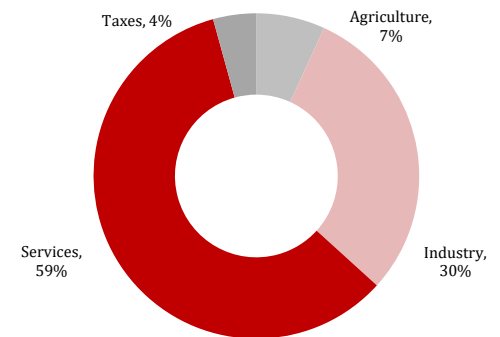
We expect the GDP to grow by 4.2% in 2021E, lowered from the previous estimate of 5.3% mainly due to the lockdown measures implemented during the 2nd quarter of the year. The impact on the economy from the recently relaxed lockdown however would be far minimal compared to 2Q'20 in our view (economy was contracted by 16.3% in 2Q'20), as travel restrictions imposed during May/June period was rather relaxed and main activities like apparel, construction, trading, banking, port activities ,agriculture and other essential services functioned near normal.

Gradual uptick in the economy is expected from 3Q'21 with restriction been further relaxed and with governments ambitious target to inoculate 70% of the population by the end of the year. The percentage which has received least one dose now accounts to 16% of the population in Sri Lanka while 6% have received both doses, a significant jump compared to just two months ago. Moreover, growth in the near to medium term would also come particularly from increased private consumption and recovery in investment buttressed by low-interest rates and also due to low base effect following the contraction in 2020 (-3.6%) in our view. The construction sector that represents the biggest chunk in the manufacturing sector (contributing to 22% of Industry sector), could see the momentum continue specially on GoSL funded ones and foreign funded projects which have already recommenced operations and from Governments newest approach - build-operate-transfer (BOT) model- a method of private participation in infrastructure projects carried out by Government.

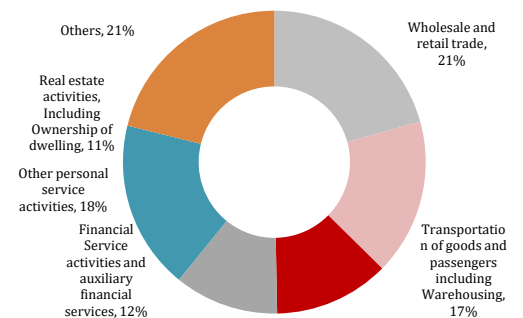
Passing of the Port City Economic Commission Bill followed by the appointment of commission by the President in 2Q'21 will also provide a competitive framework to attract FDI's to Sri Lanka in our view. The China backed Hambantota Port has also moved into top gear to accelerate the progress of its industrial park where a modern standardized factory set up is expected to roll out production home appliances within a span of 12 months on top of other projects that are lined up. The newly formed Selendiva Investment's- a 100% state-owned company formed to develop state assets is also geared to strengthen the loss making state enterprises and thereby generate revenue for the country.

However, despite above the downgrade in forecast also came due to possible impact on agri sector. The sudden ban on fertilizer imports could impact the agriculture sector, with lower yields on crops creating a massive blow to the revival of the economy with income levels of 1/3 of the workforce been impacted. Moreover, continuation of ban on non-essential imports and rationing of imports due to large debt overhang would also mean a direct impact to the trading and manufacturing businesses in Sri Lanka. The delay in tourism revival after a much-anticipated start with opening of borders in January 2021 would also prolong with imposition of travel bans to Sri Lanka following resurgence of the third wave.

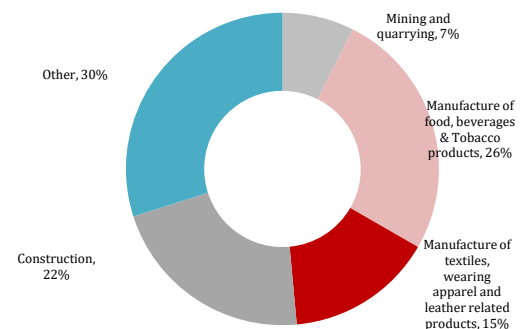
Services sector continued to be the biggest contributor to GDP



Wholesale and retail is the biggest contributor to the services sector



Construction and manufacturing of food & beverages represents the larger chunk of Industrial segment



Sri Lanka's Gross Domestic Product grew by 4.3%YoY to Rs. 2,393,922 in 1Q'21 driven by the expansion of Agricultural, Industrial and services sectors by 6.1%YoY, 5.5%YoY and 3.0%YoY respectively. Main subsectors of agriculture like 'Marine fishing', 'Growing of Rice' and 'Growing of Other beverage crops' contracted by 16.0%YoY, 6.3%YoY and 2.8%YoY while 'Growing of Tea' and 'Growing of Rubber' expanded by 37.9%YoY and 16%YoY respectively. Major components like 'Manufacture of rubber and plastic products' in Industrial sector saw a growth of 12.9%YoY and 'Manufacture of coke and refined petroleum products' contracted by 44.3%YoY. The 'Financial Service activities and auxiliary financial services' and 'IT programming consultancy and related activities' in services sector expanded by 13.1%YoY and 14.9%YoY respectively while 'Accommodation, Food and beverage service activities' contracted by 31.9%YoY.

GDP Growth YOY

Major Divisions	YOY Growth								
	1Q'2013	1Q'2014	1Q'2015	1Q'2016	1Q'2017	1Q'2018	1Q'2019	1Q'2020	1Q'2021
Agriculture, Forestry and Fishing	2.2%	7.8%	4.3%	-4.4%	-4.4%	5.3%	5.7%	-6.5%	6.1%
Growing of Rice	4.8%	-21.8%	28.8%	1.1%	-49.6%	64.3%	28.2%	4.0%	-6.3%
Growing of Vegetables	3.1%	-3.4%	4.0%	-28.5%	-15.7%	42.1%	0.8%	7.7%	14.5%
Growing of Sugar cane, tobacco and other non perennial crops	10.6%	-1.5%	-12.9%	16.6%	-16.3%	-1.6%	2.6%	37.0%	2.2%
Growing of fruits	-16.4%	25.1%	39.3%	-11.7%	-0.8%	3.2%	11.4%	6.2%	6.9%
Growing of Oleaginous Fruits (Coconut, king coconut, Oil palm)	-10.9%	26.6%	-0.9%	0.5%	-10.7%	-15.3%	33.6%	-14.0%	6.4%
Growing of spices, aromatic, drug and pharmaceutical crops	30.3%	7.3%	1.8%	-0.9%	2.8%	9.5%	2.4%	-6.3%	4.9%
Animal Production	18.9%	47.1%	-0.3%	5.6%	4.1%	8.3%	4.7%	0.0%	5.5%
Marine fishing and Marine Aquaculture	14.6%	6.0%	-0.6%	-2.1%	5.0%	-4.6%	-2.0%	-8.9%	-16.0%
Industry	6.7%	-0.9%	-1.4%	13.9%	3.6%	2.7%	3.9%	-7.9%	5.5%
Mining and quarrying	19.6%	-7.5%	-5.9%	-0.8%	14.0%	0.5%	6.2%	-18.3%	3.7%
Manufacture of food, beverages & Tobacco products	-10.1%	0.0%	7.1%	10.7%	0.7%	5.4%	1.6%	3.2%	6.0%
Manufacture of textiles, wearing apparel and leather related products	7.3%	-2.8%	2.1%	11.1%	2.8%	6.8%	1.7%	-12.1%	8.4%
Manufacture of chemical products and basic pharmaceutical products	44.5%	11.2%	7.7%	13.5%	5.2%	13.9%	1.9%	-9.1%	20.0%
Manufacture of other non-metallic mineral products	0.1%	-12.3%	-6.1%	-14.8%	19.9%	13.8%	-0.9%	-4.5%	15.3%
Manufacture of basic metals and fabricated metal products	0.6%	4.7%	10.2%	55.2%	9.5%	28.9%	-4.4%	11.0%	3.3%
Manufacture of machinery and equipment i.e..	0.6%	-5.3%	23.0%	38.3%	24.7%	2.9%	-1.8%	-2.4%	8.1%
Manufacture of furniture	7.6%	20.2%	1.5%	25.8%	0.8%	-4.1%	13.2%	-10.6%	9.4%
Other manufacturing, and Repair and installation of machinery and equipment	10.2%	19.8%	13.1%	21.8%	3.2%	-3.3%	-2.6%	-3.7%	0.6%
Electricity, gas, steam and air conditioning supply	1.3%	1.0%	4.8%	10.2%	0.9%	11.0%	1.9%	2.1%	2.7%
Construction	22.1%	-1.2%	-13.0%	16.4%	1.4%	-4.0%	6.9%	-15.8%	3.4%
Services	2.9%	1.4%	6.4%	3.3%	4.3%	5.3%	4.0%	2.9%	3.0%
Wholesale and retail trade	-2.6%	4.3%	5.8%	3.3%	4.3%	5.7%	4.5%	4.2%	3.7%
Transportation of goods and passengers including Warehousing	-12.6%	-4.2%	3.7%	1.8%	6.6%	3.1%	2.7%	0.0%	1.0%
Accommodation, Food and beverage service activities	15.1%	-9.2%	4.3%	4.0%	4.9%	7.4%	5.1%	-7.1%	-31.9%
Financial Service activities and auxiliary financial services	8.2%	8.1%	16.3%	12.5%	9.1%	13.6%	8.4%	5.7%	13.1%
Real estate activities, Including Ownership of dwelling	23.7%	-1.5%	22.3%	1.2%	3.9%	5.8%	2.2%	4.5%	3.9%
Professional services	25.5%	-4.0%	-5.6%	-3.2%	1.3%	5.4%	4.6%	1.0%	3.0%
Public administration and defense; compulsory social security	-0.9%	5.0%	7.2%	5.2%	-4.8%	-0.5%	2.0%	0.6%	1.2%
Other personal service activities	0.0%	0.0%	0.0%	3.1%	3.5%	4.5%	3.8%	3.7%	2.0%
Gross Value Add (GVA)	4.1%	1.2%	3.7%	5.9%	3.4%	4.4%	4.1%	-1.3%	4.0%
(+) Taxes on Products	-5.6%	2.9%	10.2%	5.7%	-1.0%	1.1%	1.3%	-10.8%	11.2%
(-) Subsidies on Products	4.8%	-21.4%	28.7%	0.9%	-100.0%	0.0%	0.0%	0.0%	0.0%
Gross Domestic Product (GDP)	3.6%	1.3%	3.9%	5.9%	3.4%	4.3%	4.0%	-1.8%	4.3%

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