

Sri Lanka's GDP grew by 12.3% in 2Q'21 from a low base while 1H'21 recorded a growth of 8.0%

Economy to grow by 4.5%YoY in 2021E

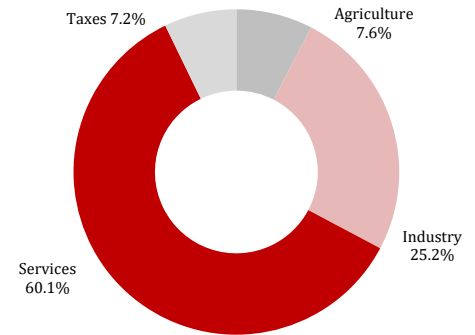
We expect the GDP to grow by 4.5% in 2021E, slightly above the previous estimate of 4.2%, largely fueled by (i) possibly relaxation of covid restrictions specially during the upcoming festive seasons where activities could surge on the back of high vaccine drive (ii) higher consumption and industrial activities and (iii) likely uptick in inbound tourism.

We expect the current restrictions imposed on travel to be relaxed soon, and the activities to pick up more rapidly on the back of the speedy vaccination drive (Sri Lanka has already fully vaccinated 50% of the population when compared to countries like Thailand – 19%, Indonesia - 15%, Vietnam – 6%) while impact on the economy from the recently imposed lockdown to have a far minimal impact compared to 2Q'20 where rigid restrictions took place. Main activities like apparel, construction, trading, banking, port activities, agriculture, and even other non-essential services too functioned near normal during this time and once the lockdown is fully lifted a faster recovery can be expected from both consumption and industrial sectors. Construction and apparel segment particularly could see some uptick with higher export orders stemming from improved trade activities in the world and higher output from local manufacturing plants specially on the back of import restrictions imposed on some of the non-essential items in our view.

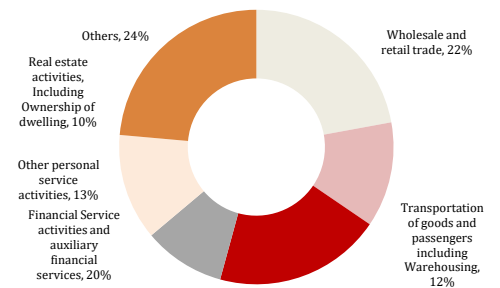
Moreover, services sector is expected to gather momentum through inbound tourism with Sri Lanka already reopening its borders to fully vaccinated travelers from India-accounts to the largest tourist arrivals- without any quarantine requirement. With gradual drop in Covid cases, the other countries may also lift their travel bans to Sri Lanka, helping the sector particularly during the winter season while we remain bullish on the financial services and telecommunications subsectors.

However, despite above we are yet concerned on the Agri sector and the possible impact that it could have on yields with imposition of the chemical fertilizer imports 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 (by imposing 100% letter of credit margin for selected imports) due to large debt overhang would also mean a direct impact on trading and manufacturing businesses in Sri Lanka while tourism if delayed to impact adversely.

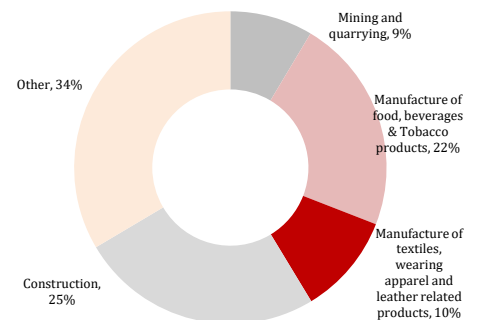
Services sector continued to be the biggest contributor to GDP



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 12.3%YoY to Rs. 2,170,052 in 2Q'21 driven by the expansion of Agricultural, Industrial and services sectors by 8.1%YoY, 22.1%YoY and 7.5%YoY respectively. Main subsectors of agriculture like 'Growing of Vegetables', 'Growing of Rice' and 'Growing of Other Perennial Crops' contracted by 4.5%YoY, 5.1%YoY and 4.3%YoY while 'Growing of Tea', 'Growing of Rubber' and 'Animal Production' expanded by 13.4%YoY, 15.7%YoY and 18.0%YoY respectively. Major components like 'Manufacture of textiles, wearing apparel and leather related products', 'Manufacture of food, beverages & Tobacco products' and 'Construction' in Industrial sector grew by 60.7%YoY, 5.4%YoY and 18.2%YoY respectively. 'Financial Service activities and auxiliary financial services' and 'Wholesale and retail trade' in services sector also expanded by 14.3%YoY and 1.0%YoY respectively.

Consequently, the Gross Domestic Product for the 1H'21 recorded a growth of 8.0%YoY. Agricultural, industrial and service sectors expanded by 7.1%YoY, 12.1%YoY and 5.1%YoY respectively. The growth in agricultural sector was mainly due to the expansion in 'Growing of Tea' by 23.5%YoY, 'Growing of Oleaginous Fruits' by 10.2%YoY and 'Animal Production' by 11.1%YoY. However, 'Growing of Rice' and 'Marine fishing and Marine Aquaculture' sectors contracted by 5.6%YoY and 0.9%YoY respectively. Main subsectors in industrial sector such as 'Manufacture of textiles, wearing apparel and leather related products' and 'Construction' grew by 22.0%YoY and 9.9%YoY respectively. In contrast to the growth of 'Financial Service activities and auxiliary financial services' and 'Wholesale and retail trade' by 13.8%YoY and 2.3%YoY in services sector; 'Accommodation, Food and beverage service activities' contracted by 13.4%YoY.

GDP Growth YOY

Major Divisions	YOY Growth								
	2Q'2013	2Q'2014	2Q'2015	2Q'2016	2Q'2017	2Q'2018	2Q'2019	2Q'2020	2Q'2021
Agriculture, Forestry and Fishing	3.9%	4.3%	8.8%	-5.6%	-3.1%	4.7%	3.1%	-8.2%	8.1%
Growing of Rice	57.6%	-35.9%	70.2%	-21.9%	-40.5%	70.4%	-0.9%	26.7%	-5.1%
Growing of Vegetables	17.3%	-2.6%	0.7%	2.5%	-20.8%	3.5%	16.2%	8.9%	-4.5%
Growing of Sugar cane, tobacco and other non perennial crops	10.8%	-5.1%	-23.6%	30.8%	-12.7%	-16.7%	16.5%	8.9%	3.4%
Growing of fruits	-6.9%	4.0%	31.6%	-4.2%	5.4%	2.8%	5.1%	5.1%	6.5%
Growing of Oleaginous Fruits (Coconut, king coconut, Oil palm)	-17.2%	23.9%	10.3%	-8.1%	-20.7%	4.2%	25.7%	-15.4%	14.0%
Growing of spices, aromatic, drug and pharmaceutical crops	13.9%	12.8%	9.3%	4.3%	0.8%	7.5%	-3.4%	5.5%	4.7%
Animal Production	23.7%	27.4%	10.8%	1.1%	8.5%	8.7%	1.3%	-19.2%	18.0%
Marine fishing and Marine Aquaculture	-3.0%	2.6%	8.3%	-8.1%	2.5%	1.1%	-5.1%	-39.6%	24.7%
Industry	6.0%	-1.5%	4.6%	0.7%	5.6%	3.6%	1.7%	-23.1%	22.1%
Mining and quarrying	11.7%	-1.4%	-7.4%	12.1%	19.0%	-1.1%	-0.5%	-28.4%	17.9%
Manufacture of food, beverages & Tobacco products	3.1%	-0.7%	2.2%	-5.7%	-0.9%	4.0%	-0.3%	0.3%	5.4%
Manufacture of textiles, wearing apparel and leather related products	-2.2%	7.0%	-4.0%	-0.8%	5.9%	8.7%	0.4%	-42.4%	60.7%
Manufacture of chemical products and basic pharmaceutical products	8.5%	-7.3%	-1.8%	1.4%	-5.2%	12.4%	4.6%	-11.6%	13.0%
Manufacture of other non? metallic mineral products	-17.7%	4.3%	-7.5%	-15.0%	15.1%	9.2%	3.3%	-24.0%	41.3%
Manufacture of basic metals and fabricated metal products	8.8%	-10.4%	20.7%	3.9%	6.9%	27.8%	-7.1%	-28.6%	74.5%
Manufacture of machinery and equipment i.e..	-20.4%	-6.4%	8.3%	16.0%	4.0%	14.3%	3.6%	-27.8%	47.8%
Manufacture of furniture	19.7%	-3.4%	26.4%	-11.9%	22.1%	-3.4%	12.8%	-38.1%	54.4%
Other manufacturing, and Repair and installation of machinery and equipment	17.7%	5.2%	28.0%	5.7%	0.4%	2.3%	-0.2%	-25.2%	28.0%
Electricity, gas, steam and air conditioning supply	5.0%	3.9%	5.4%	7.2%	3.8%	4.4%	8.4%	-10.5%	12.8%
Construction	22.4%	-4.0%	13.5%	2.4%	6.0%	1.9%	2.2%	-29.9%	18.2%
Services	7.7%	3.4%	7.5%	3.3%	2.7%	5.9%	0.7%	-12.9%	7.5%
Wholesale and retail trade	6.2%	17.3%	3.0%	0.9%	2.3%	4.2%	1.4%	-1.6%	1.0%
Transportation of goods and passengers including Warehousing	20.5%	-14.0%	13.2%	1.2%	-6.5%	10.1%	-1.1%	-36.1%	20.4%
Accommodation, Food and beverage service activities	-5.5%	3.6%	0.7%	3.1%	4.8%	7.2%	-9.9%	-63.6%	42.6%
Financial Service activities and auxiliary financial services	5.7%	7.8%	18.7%	11.5%	10.6%	12.8%	3.2%	9.2%	14.3%
Real estate activities, Including Ownership of dwelling	17.6%	4.9%	7.8%	6.7%	7.2%	4.9%	0.9%	-16.6%	5.5%
Professional services	32.1%	7.9%	-7.0%	0.5%	2.6%	2.8%	1.4%	-14.6%	3.4%
Public administration and defense; compulsory social security	-0.7%	4.8%	7.5%	5.1%	-4.6%	-0.9%	2.2%	1.0%	1.2%
Other personal service activities	0.0%	0.0%	5.6%	0.4%	3.9%	2.5%	0.1%	-31.3%	2.6%
Gross Value Add (GVA)	6.9%	2.0%	6.8%	1.8%	3.0%	5.1%	1.2%	-15.3%	11.1%
(+) Taxes on Products	-3.6%	2.2%	13.4%	2.0%	-0.2%	-1.7%	2.6%	-30.4%	30.3%
(-) Subsidies on Products	57.2%	-35.5%	69.6%	-21.9%	-100.0%	0.0%	0.0%	0.0%	0.0%
Gross Domestic Product (GDP)	5.9%	2.2%	7.1%	1.9%	3.0%	4.6%	1.3%	-16.4%	12.3%

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