

- GDP grows at 6.8% in 2Q2013
- Aug'13 inflation at 6.3%; annual average inflation dipped to 8.0%
- Policy rates unchanged at 7.0% (Repo) and 9.0% (Reverse Repo)
- Aug'13 tourist arrivals up 26% YoY, YTD arrivals up 14.3% YoY

## Sri Lankan GDP grew 6.8% in 2Q2013; backed by services and industry sectors

Sri Lanka achieved a 6.8% YoY growth in GDP, stemmed from the growth in services and industrial sectors while the agriculture sector witnessed a contraction during the quarter.

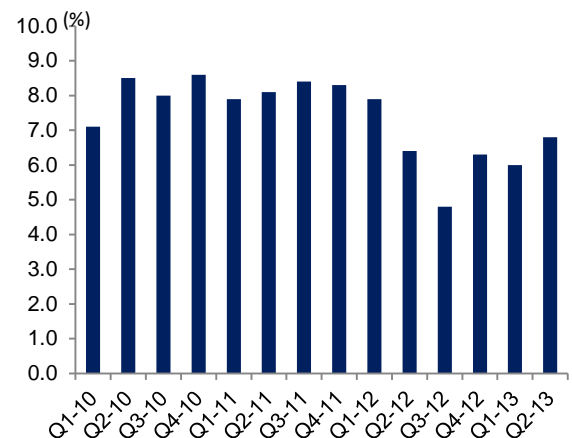
Services, the highest contributing sector to the GDP (59.1% of total) witnessed a 6.6% YoY growth in 2Q2013 mainly on the back of 6.0% YoY growth in wholesale and retail trade and 9.5% growth in transport and communication which are the two highest contributors to the services sector. Under the wholesale and retail trade which is the largest component of the Services segment (c.35% of the sector), import trade rose 5.9% YoY whereas export trade grew only by 3.8% YoY. Banking, finance and real estate sector also supported the GDP growth with an expansion of 6.3% YoY. With the prospering tourism industry, hotel and restaurant sector achieved a notable growth of 21.1% in 2Q2013.

Industry sector expanded 10.1% YoY in the quarter under review. Manufacturing segment, the highest contributor reflected a 5.3% YoY growth whereas constructions indicated a 17.8% growth mainly on the back of state driven constructions in 2Q2013. Electricity, gas and water segment grew 16.2% YoY mainly driven by the 17.6% growth in electricity mainly attributable to increase in price.

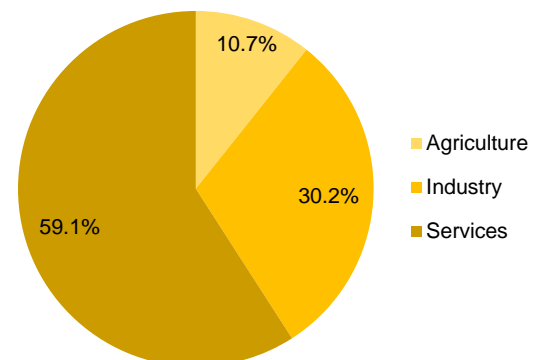
Agriculture was the only sector which witnessed a contraction (1.1% YoY dip) in 2Q2013. Tea segment grew 3.0% YoY as the production increased due to favorable weather. Paddy, the highest contributing crop to the GDP saw a 4.8% YoY during the quarter whereas coconut production decreased 20.4% YoY due to the severe drought prevailed in coconut growing areas. Lower prices for rubber and dip in volumes due to unfavorable rainfall for tapping activities resulted in a 25.8% YoY contraction in the rubber segment.

We believe the growth would continue in services and industry sectors in 2H2013 while we expect annual GDP to grow at 6.8% in 2013e.

Quarterly GDP Growth



GDP Composition in 2Q13



## August 2013 inflation increased to 6.3% from 6.1%; annual average inflation dips to 8.0%

Inflation in August rose to 6.3% YoY from 6.1% in the previous month mainly due to lower food prices prevailed in the previous year. Inflation on annual average dipped to 8.0% from 8.3% in July 2013 mainly due to lower prices in food category including rice, vegetables, fish and eggs. Components such as education, clothing and footwear which fall under nonfood category reflected a slight increase in prices, while other categories such as housing and utilities, transport, recreation remained unchanged.

### Policy Rates remains unchanged...

As the policy rate cut in May 2013 followed by the reduction in the SRR in July have eased conditions in the domestic credit markets, Bank of Sri Lanka decided to maintain the Repurchase rate and the Reverse Repurchase rate at their current levels of 7.00 per cent and 9.00 per cent, respectively.

However private sector credit growth decelerated to 8.4% YoY in July compared to 8.9% in June 2013 and we believe this would increase in the coming months as the commercial lending rates would gradually come down. Broad money growth in July was 16.4%, which is higher than the average monetary expansion of 15% targeted for 2013.

### Tourist arrivals up 26.1% YoY to 100,224 in August 2013.....

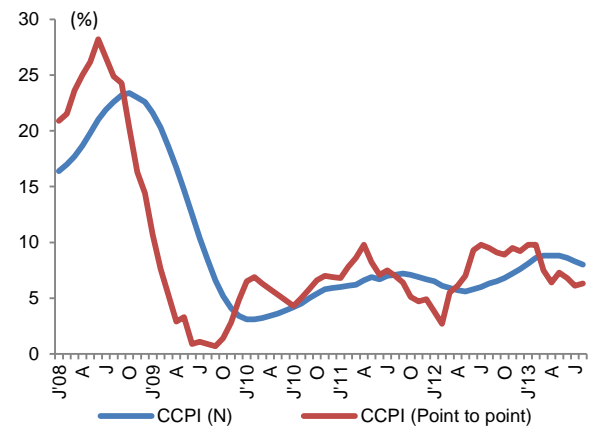
Sri Lanka's tourist arrivals recorded a 26.1% YoY growth to reach 100,224 in August 2013 while cumulative arrivals from Jan – August 2013 was 711,499 reflecting a 14.3% growth over the corresponding period in the previous year.

With this, Sri Lanka now has already achieved 60% of the government's target of 1.25 million tourist arrivals for 2013; hence it would not be an impossible target with usually higher arrivals witnessed in the months of November and December and strong backing by the upcoming Commonwealth Heads of Government Meeting (CHOGM) in November 2013. Being conservative we believe 1.2mn tourist arrivals would be achievable in 2013e.

Western Europe was the highest contributing region to the tourist arrivals figure in August, of which 31.7% were from UK. The travelers from the region increased 13.9% in Jan- Aug period. South Asia, the second largest regional arrivals surpassed 35% YoY to 22,208 mainly driven by Indian arrivals which grew 29.2% YoY despite the weakened Indian currency, and was further supported by the impressive growth in tourists across the region..

Further earnings from tourism for 1H2013 grew healthily by 22.9% YoY to USD565.3 mn increasing the average spending per tourist.

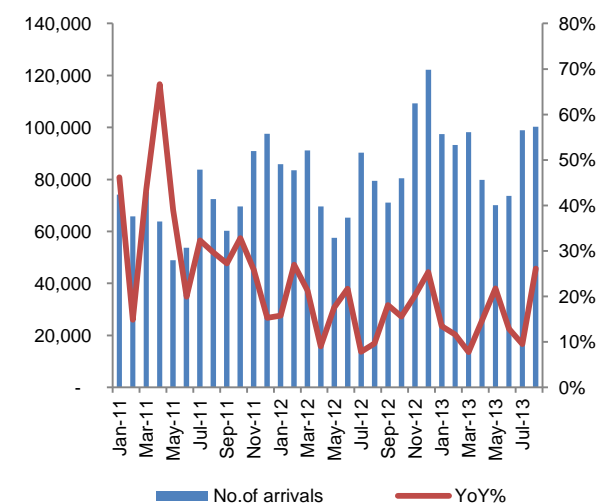
### Inflation



### Policy Rates

Effective Date	CBSL Repurchase Rate (%)	CBSL Reverse Repurchase Rate (%)	AWPLR (%)	Money supply growth (M2b) (%)
10.05.2013	7.00	9.00	13.1	17.0
16.04.2013	7.50	9.50	13.5	17.0
08.03.2013	7.50	9.50	13.8	17.0
12.02.2013	7.50	9.50	14.4	17.3
17.01.2013	7.50	9.50	14.3	16.9
12.12.2012	7.50	9.50	14.4	19.2
16.11.2012	7.75	9.75	14.2	23.2
23.10.2012	7.75	9.75	14.1	19.7
18.09.2012	7.75	9.75	14.2	18.9
07.08.2012	7.75	9.75	13.8	20.2
12.07.2012	7.75	9.75	13.8	19.8
13.06.2012	7.75	9.75	13.4	20.5
11.05.2012	7.75	9.75	13.6	20.9
05.04.2012	7.75	9.75	12.9	22.9
14.03.2012	7.50	9.00	12.8	22.8
03.02.2012	7.50	9.00	12.0	21.9
11.01.2012	7.00	8.50	11.5	20.1

### Tourist Arrivals



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