



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Dec 2021

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# CENTRAL BANK ISSUES OPERATING INSTRUCTIONS ON “ADDITIONAL INCENTIVE SCHEME ON INWARD WORKERS’ REMITTANCES”

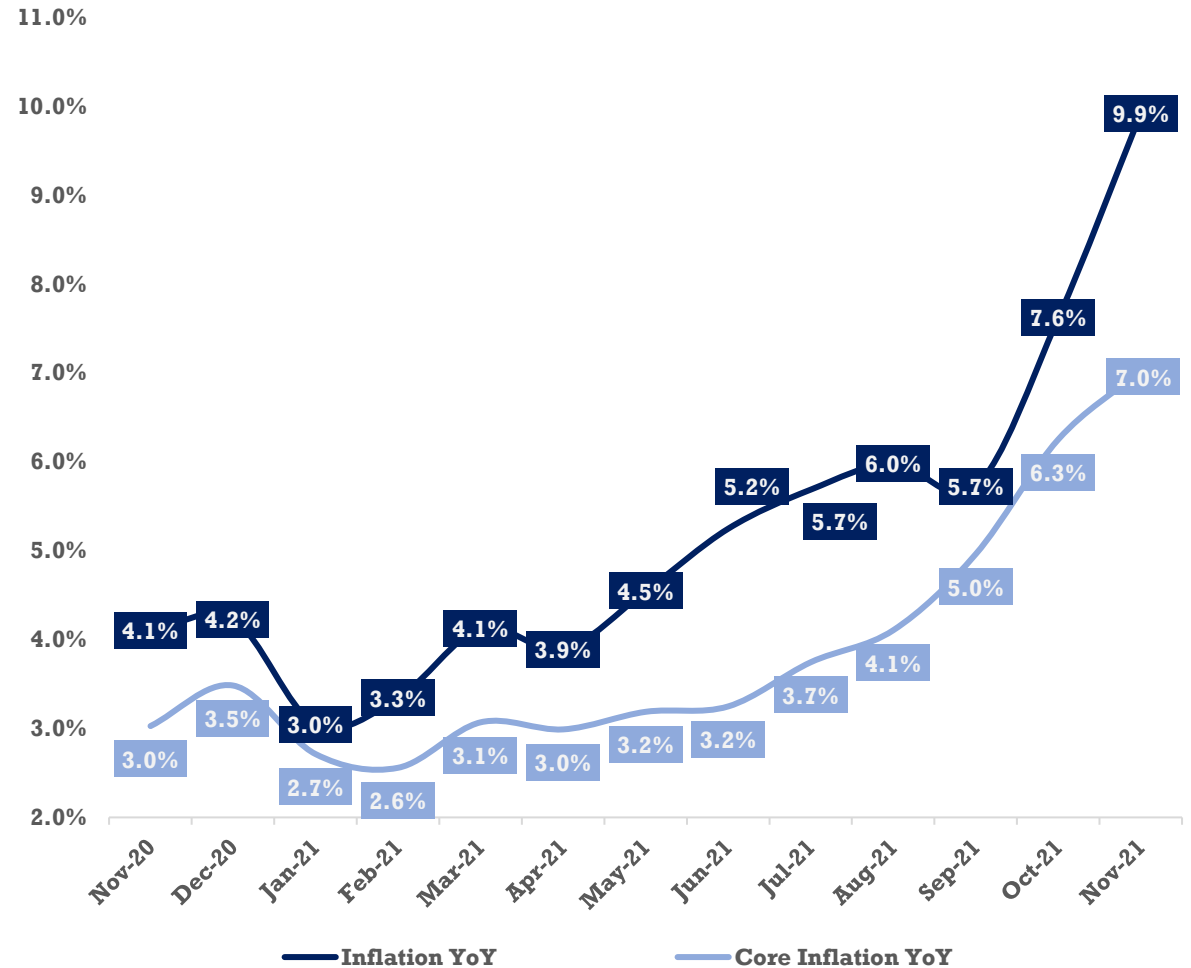
- The Monetary Board of the Central Bank has decided to pay an incentive of LKR 8.00 per 1 USD for workers’ remittances, in addition to the existing incentive of LKR 2.00 under the “Incentive Scheme on Inward Workers’ Remittances”, when such funds are remitted through Licensed Banks (LBs) and other internationally accepted formal channels and converted into Sri Lankan rupees during the period from 01.12.2021 to 31.12.2021.
- Accordingly, the total incentive for inward workers’ remittances converted into Sri Lankan rupees during the month of December 2021 will be LKR 10.00 per US dollar.
- The additional incentive provided by the CBSL is expected to attract more workers’ remittances to the country through the formal banking channels, thereby improving the foreign currency liquidity in the domestic foreign exchange market.
- At the same time, several measures are being taken by the CBSL and the law enforcement authorities to curtail informal fund transfer channels, which would, in turn, further encourage migrant workers to use formal channels to remit their hard-earned foreign exchange to the benefit of their dependents.

*Source: CBSL*

# INFLATION – CCPI

**CCPI FOR NOV 2021:  
MOM +2.6%,  
YOY +9.9%**

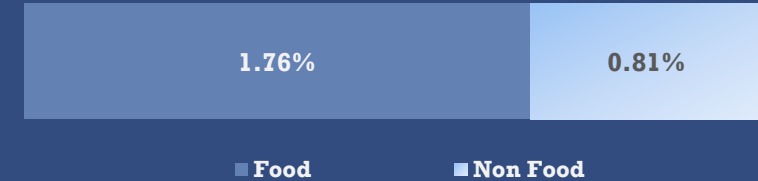
- MoM inflation increased by 2.6% with the increase in expenditure value of Food items by 5.3% and the increase of Non-Food items by 1.2%.
- The YoY inflation increased to 9.9% in Nov 2021. YoY inflation of Food group has increased to 17.5% in Nov 2021 from 10.0% in Oct 2021 while Non-Food group increased to 6.4% from 5.4% in Oct 2021.



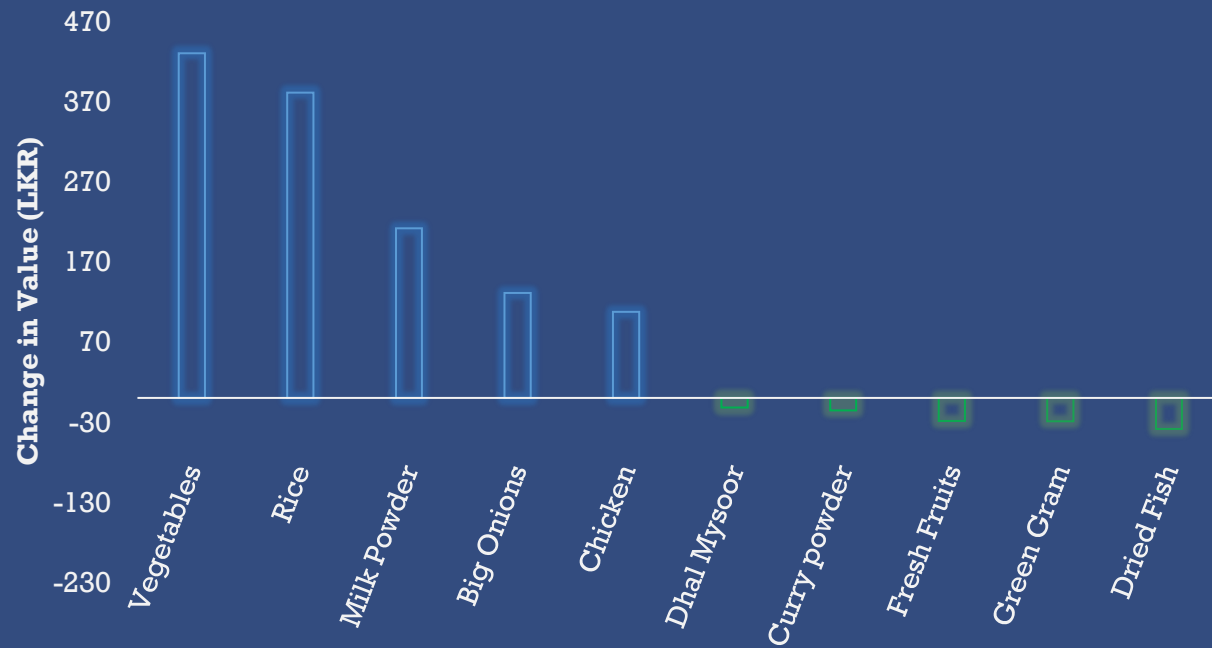
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

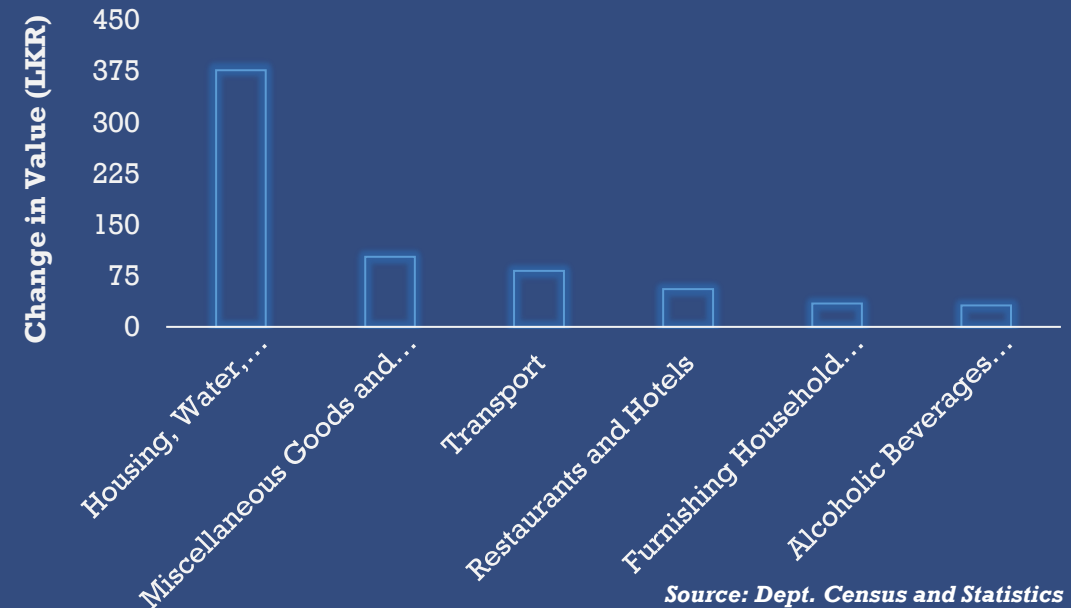
The CCPI index recorded an increase of 2.6%MoM contributed by the increase in expenditure value of Food items by 1.76% and Non-Food items by 0.81%. Within the Food items, increase in value changes were reported for Vegetables, Rice, Milk Powder, Big Onions, Chicken and etc. Among Non-Food groups, increases in value change were reported for the groups of Housing, Water, Electricity, Gas & Other Fuels, Miscellaneous Goods and Services, Transport, Restaurant and Hotels, Furnishing Household Equipment & Routine Household Maintenance, Alcoholic Beverages Tobacco and Narcotic and etc.



## Food Category Inflation



## Non-Food Category Inflation



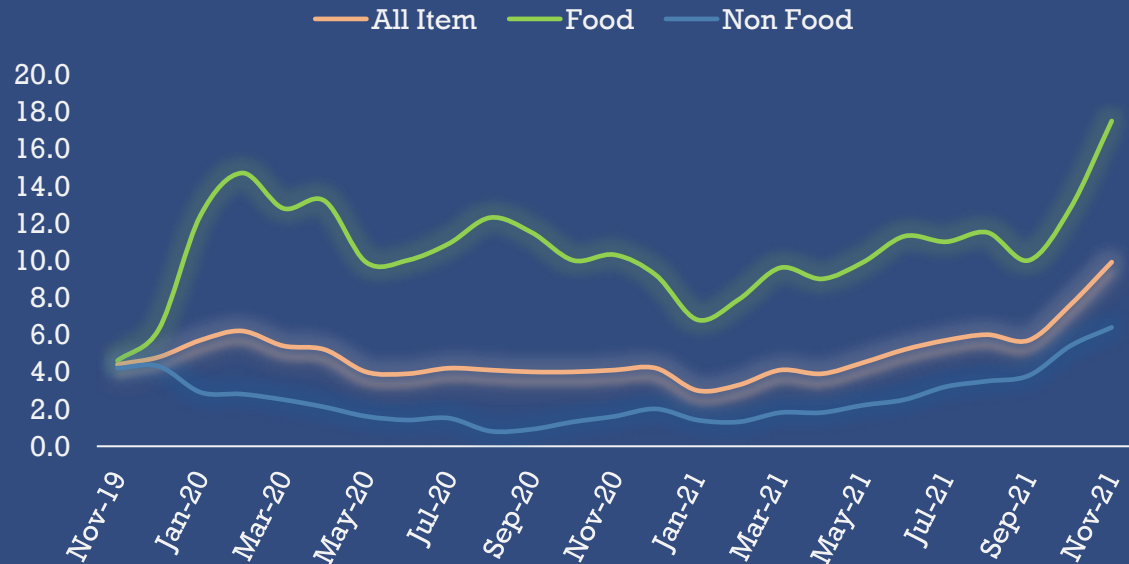


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Nov was 9.9% and has increased relative to the month of Oct. Food item prices have increased to 17.5%YoY in Nov 2021 from 12.8%YoY in Oct 2021 while the Non-Food item prices have increased to 6.4%YoY from 5.4%YoY in Oct 2021. The contribution from food category for YoY inflation was 5.51% while the contribution of Non-Food items stood at 4.41% mainly due to the increase in Housing, Water, Electricity, Gas & Other Fuels, Restaurant & Hotels, Transport, Health, Furnishing Household Equipment and etc.

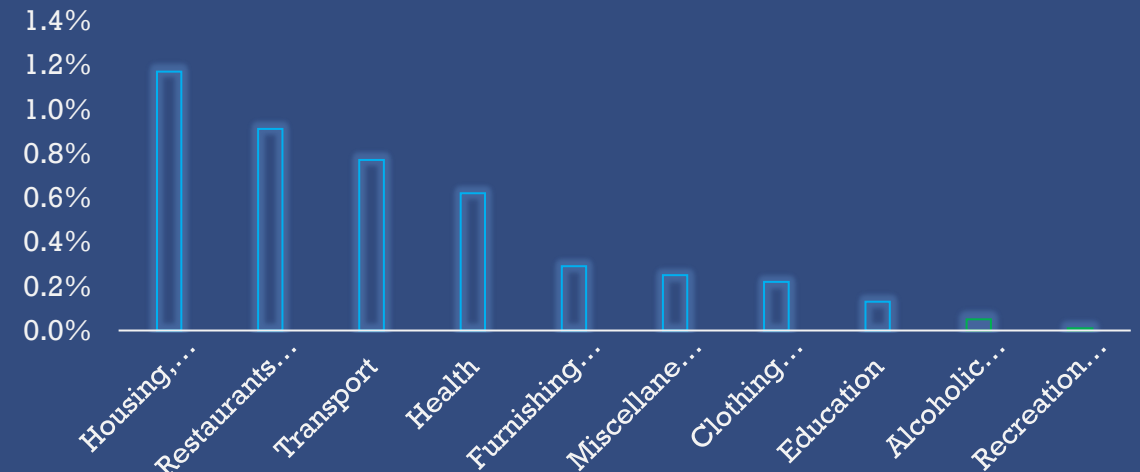


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation



Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR OCT 2021: INCREASED TO 8.3%YOY

- NCPI for Oct 2021 increased to 8.3% compared to Sep 2021.
- Increase in inflation was mainly driven by the price increases in both Food commodities and Non-Food commodities. Accordingly, YoY Food inflation increased from 10.0% in Sep 2021 to 11.7% in Oct 2021 while Non-Food inflation increased from 3.0%YoY in Sep 2021 to 5.4% in Oct 2021.



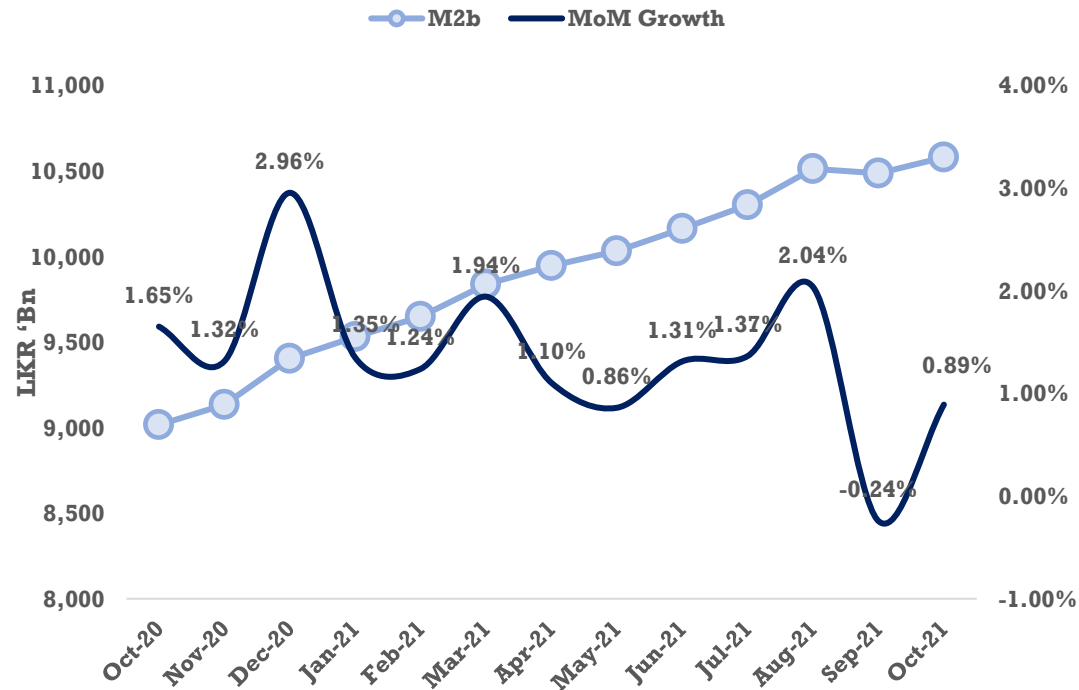
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit improved by LKR 35.1Bn in Oct 2021 sustaining the positive growth momentum for the 15<sup>th</sup> consecutive month. State credit reflected a net borrowing of LKR 201.5Bn.

## M2b Growth – Oct 2021

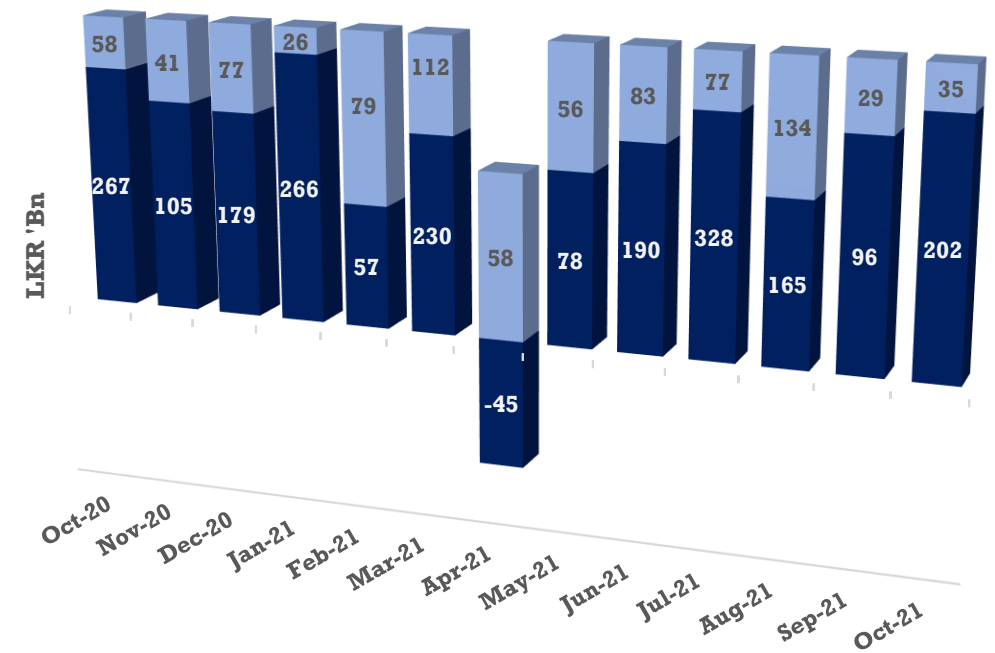
MoM 0.9%, YoY +17.4%, YTD +12.5%



Source: CBSL

## State Credit & Private Credit – Oct 2021

Private Credit MoM +0.5%, YoY +13.3%, YTD +11.2%



■ State Credit ■ Private Credit

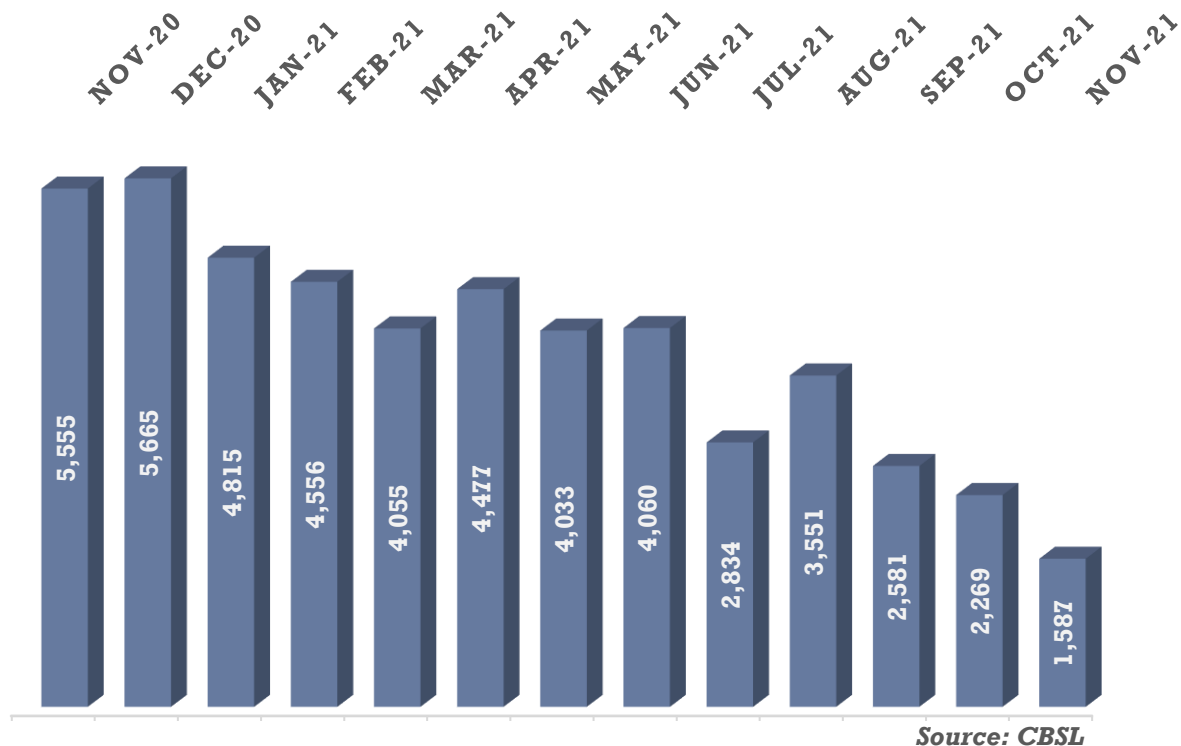
Source: CBSL

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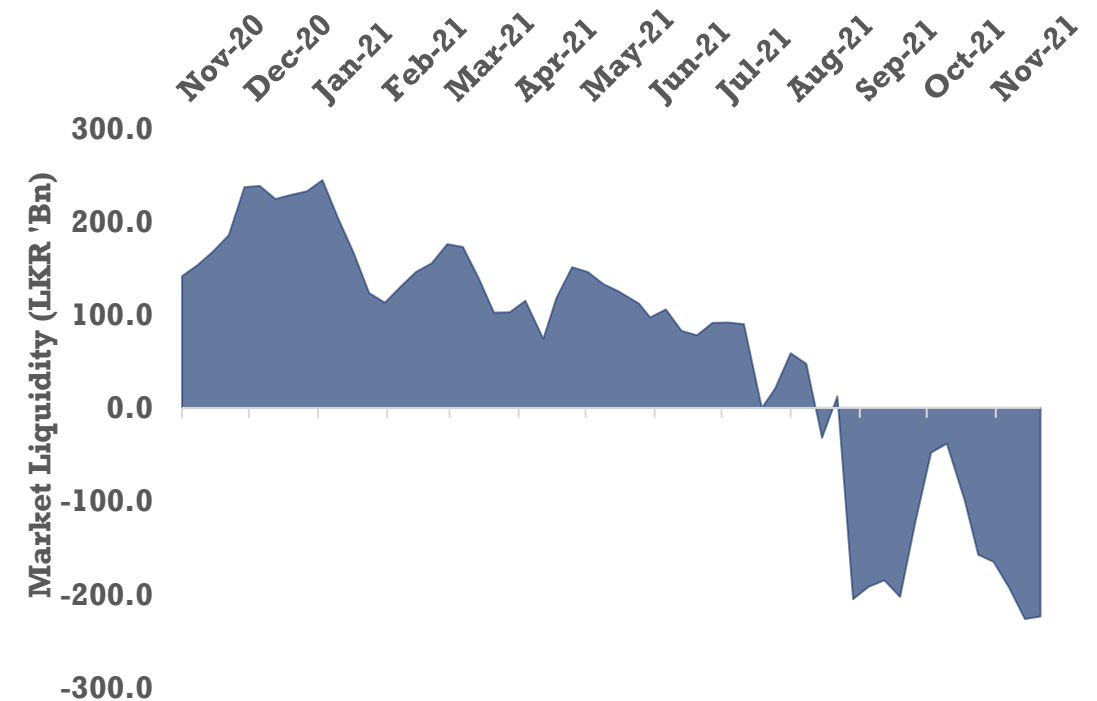


# LIQUIDITY & RESERVES

- Foreign Reserves further declined to USD 1.6Bn in Nov 2021 relative to USD 2.3Bn in Oct 2021 excluding the swap facility signed with the People's Bank of China (PBoC) for RMB 10.0Bn (equivalent to approximately USD 1.5Bn)



- Market liquidity remained negative and witnessed a continuous deterioration during Nov 2021 despite overnight liquidity injections by CBSL via Repos.



Source: CBSL

# CURRENCY MOVEMENT

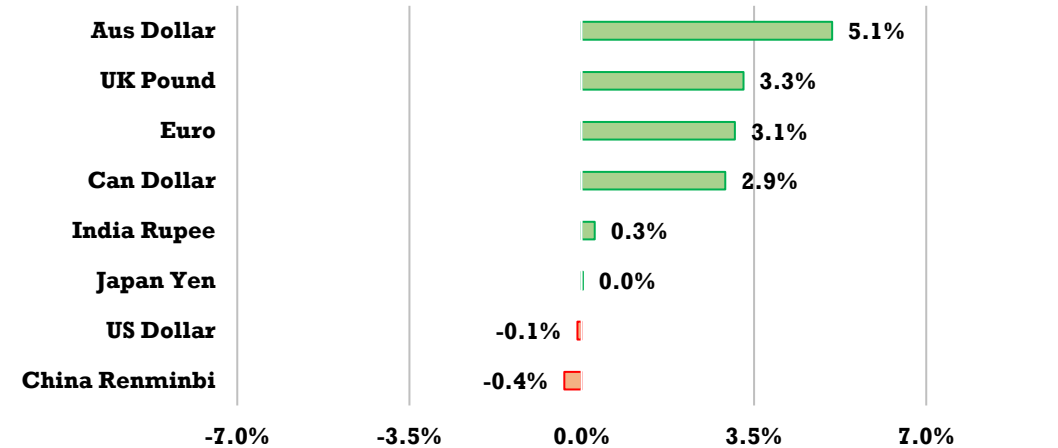
## USD:LKR Movement



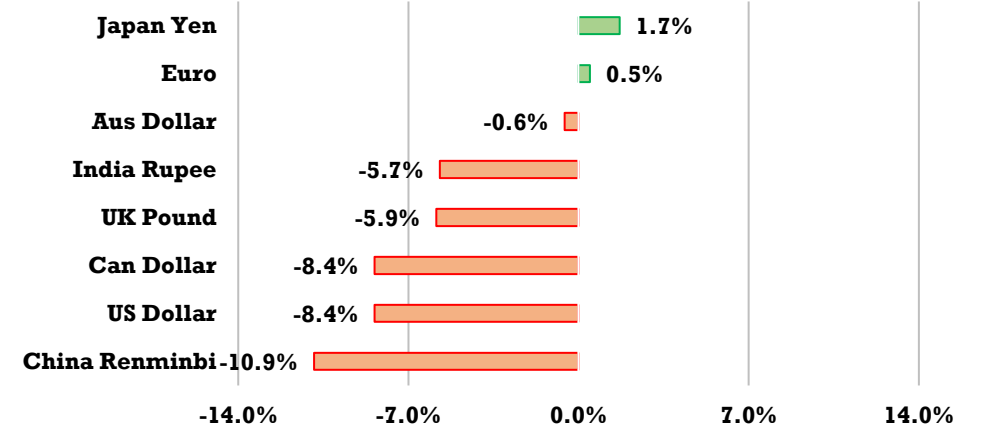
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Nov 2021



YTD 2021



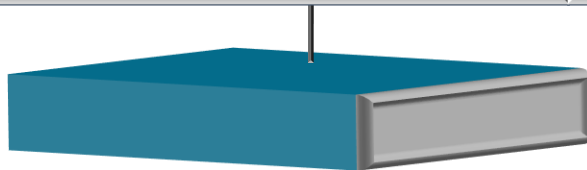
Source: CBSL

Dec 2021

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Oct 2021

| Week Ending         | Bills ('Mn) | Bonds ('Mn) | Total          |
|---------------------|-------------|-------------|----------------|
| 5-Nov-21            | 66,000      | 35,376      | 101,376        |
| 12-Nov-21           | 52,000      |             | 52,000         |
| 19-Nov-21           | 53,000      | 44,374      | 97,374         |
| 26-Nov-21           | 61,000      |             | 61,000         |
| <b>Total Issued</b> |             |             | <b>311,750</b> |

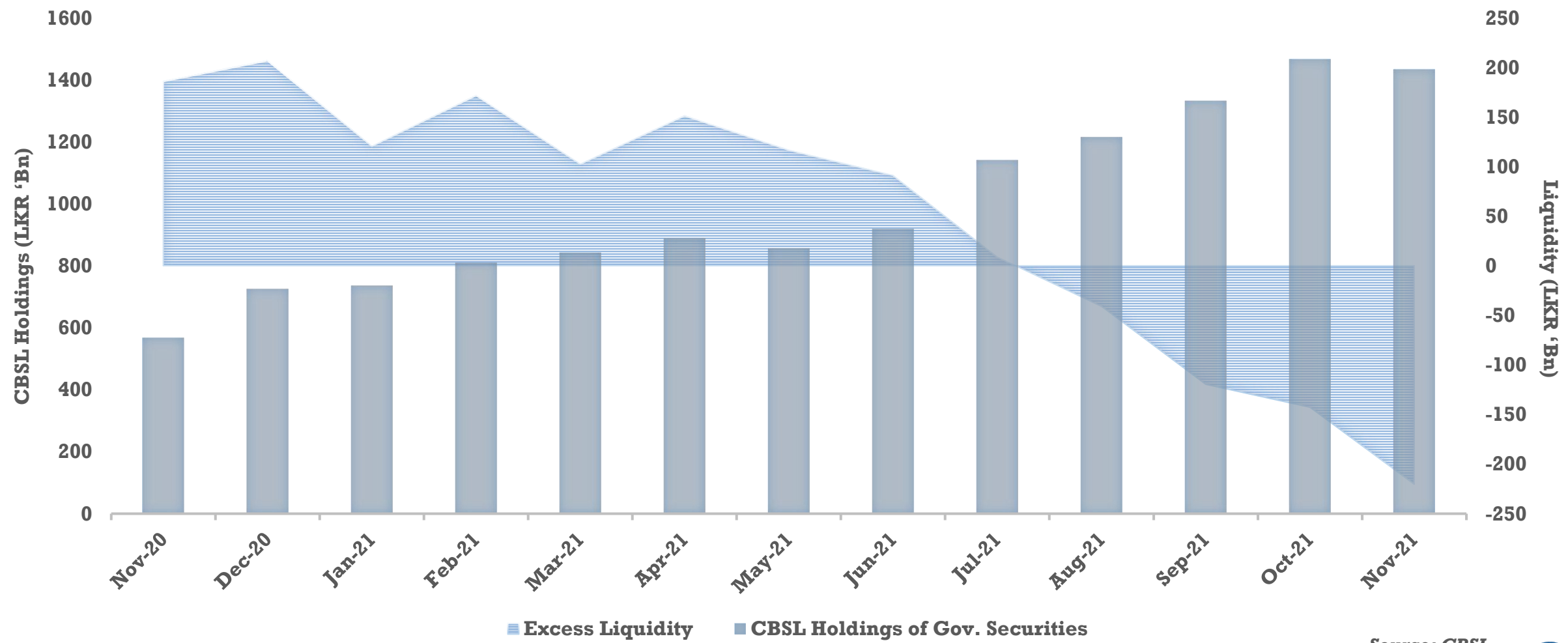


| Net Settlement           | Nov 2021       | YTD              |
|--------------------------|----------------|------------------|
| Maturities               | 184,201        | 2,656,466        |
| New Issues               | 311,750        | 2,347,259        |
| <b>Excess/ (Deficit)</b> | <b>127,549</b> | <b>(309,207)</b> |

| CBSL Holdings of Gov. Securities |                 | YTD            |
|----------------------------------|-----------------|----------------|
| As at End Nov 2021               | 1,433,912       |                |
| As at End Oct 2021               | 1,466,842       |                |
| <b>Increase/ (Decrease)</b>      | <b>(32,930)</b> | <b>708,726</b> |

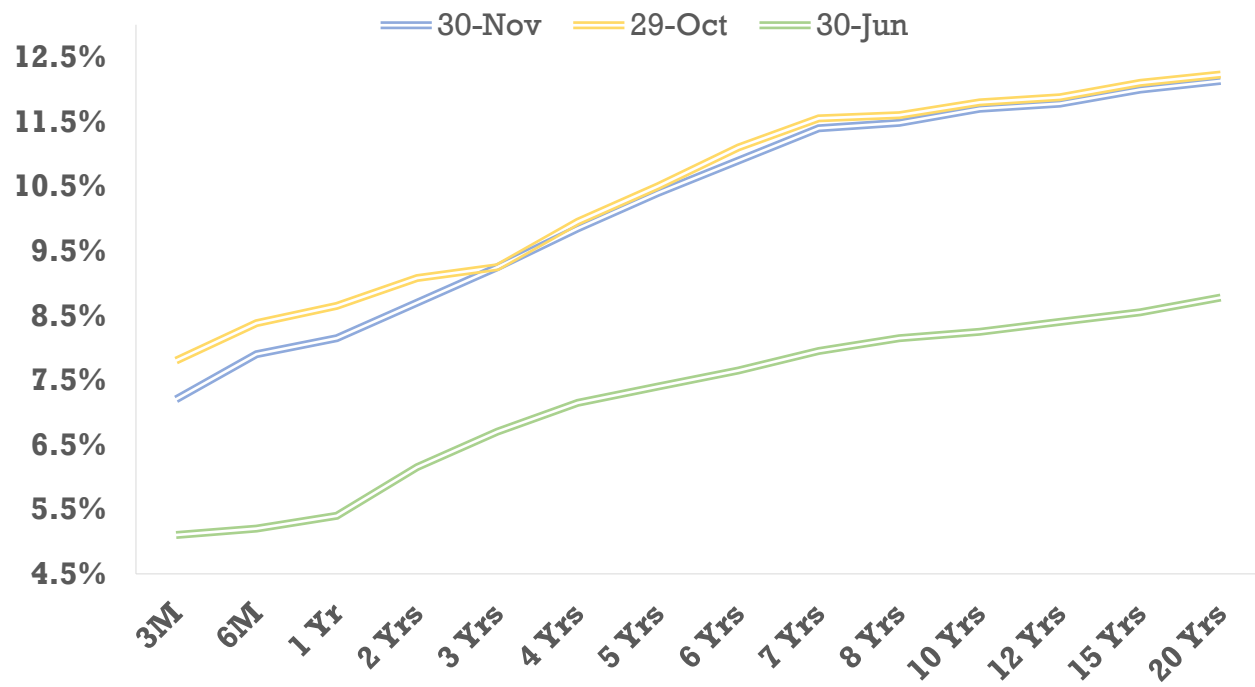
# CBSL HOLDINGS OF GOV. SECURITIES...

...decreased by LKR 32.9Bn in Nov 2021



# TREASURY BILLS AND BONDS – NOV '21

During the month of Nov, the secondary bond market yield curve slightly edged down owing to the slight buying interest that emerged in the market following the outcome of the bill auctions and bond auctions held during the period. However, overall market activities remained stunted and generated low volumes. All four bill auctions and two bond auctions were accepted in full while witnessing a strong level of reception. Yields of short tenors lowered by 38-60bps, mid tenors lowered by 10-20bps and long tenors dropped by 10bps.

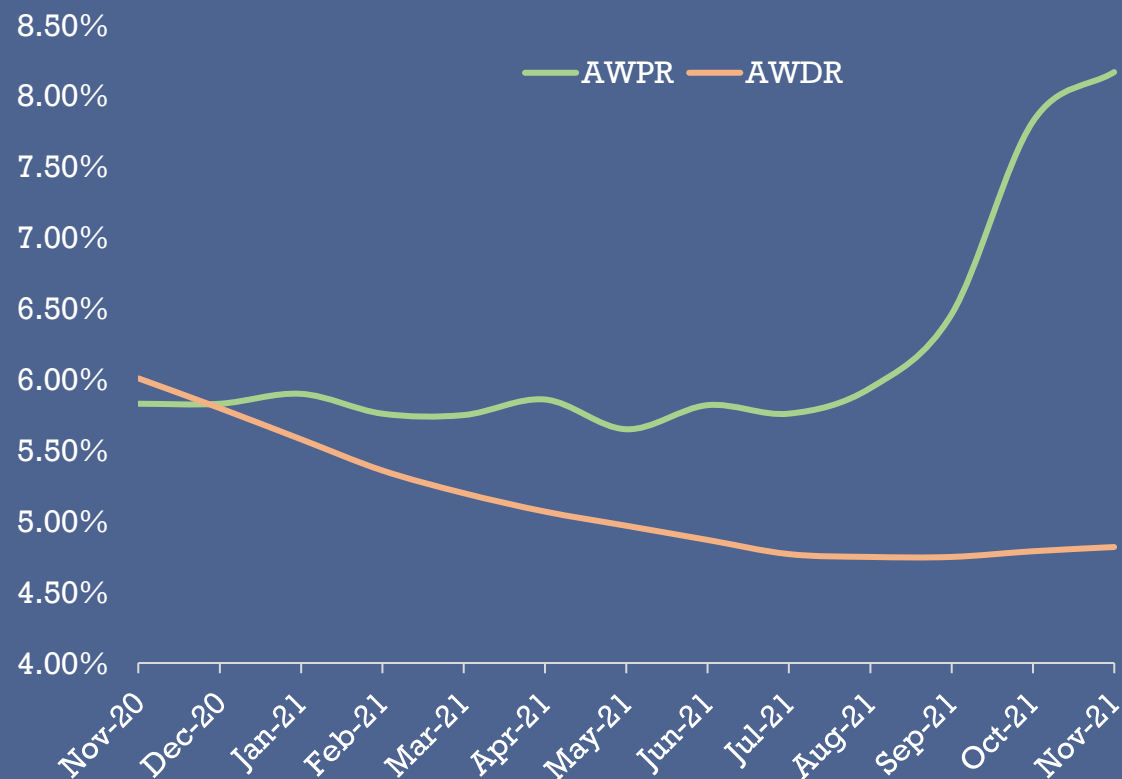


Source: First Capital Research

| Tenure | Interest Rate Change (bps) |        |              |        |              |
|--------|----------------------------|--------|--------------|--------|--------------|
|        | 30-Nov                     | 29-Oct | Change (bps) | 30-Jun | Change (bps) |
| 3M     | 7.20%                      | 7.80%  | -60          | 5.10%  | 210          |
| 6M     | 7.90%                      | 8.38%  | -48          | 5.20%  | 270          |
| 1 Yr   | 8.15%                      | 8.65%  | -50          | 5.40%  | 275          |
| 2 Yrs  | 8.70%                      | 9.08%  | -38          | 6.15%  | 255          |
| 3 Yrs  | 9.25%                      | 9.25%  | 0            | 6.70%  | 255          |
| 4 Yrs  | 9.85%                      | 9.95%  | -10          | 7.15%  | 270          |
| 5 Yrs  | 10.40%                     | 10.50% | -10          | 7.40%  | 300          |
| 6 Yrs  | 10.90%                     | 11.10% | -20          | 7.65%  | 325          |
| 7 Yrs  | 11.40%                     | 11.55% | -15          | 7.95%  | 345          |
| 8 Yrs  | 11.48%                     | 11.60% | -12          | 8.15%  | 333          |
| 10 Yrs | 11.70%                     | 11.80% | -10          | 8.25%  | 345          |
| 12 Yrs | 11.78%                     | 11.88% | -10          | 8.40%  | 338          |
| 15 Yrs | 12.00%                     | 12.10% | -10          | 8.55%  | 345          |
| 20 Yrs | 12.13%                     | 12.23% | -10          | 8.78%  | 335          |

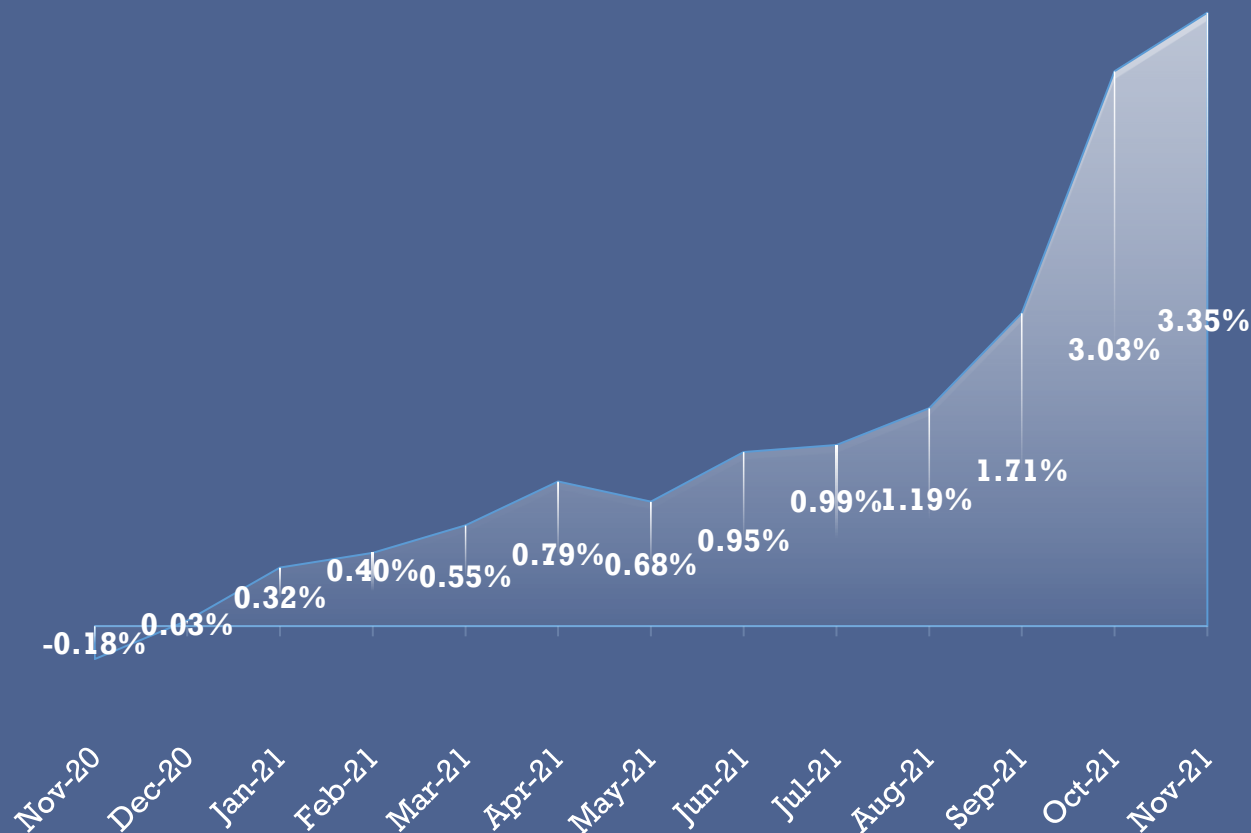
Source: First Capital Research

## AWPR vs AWDR



Source: CBSL

## Interest Spread



Source: CBSL

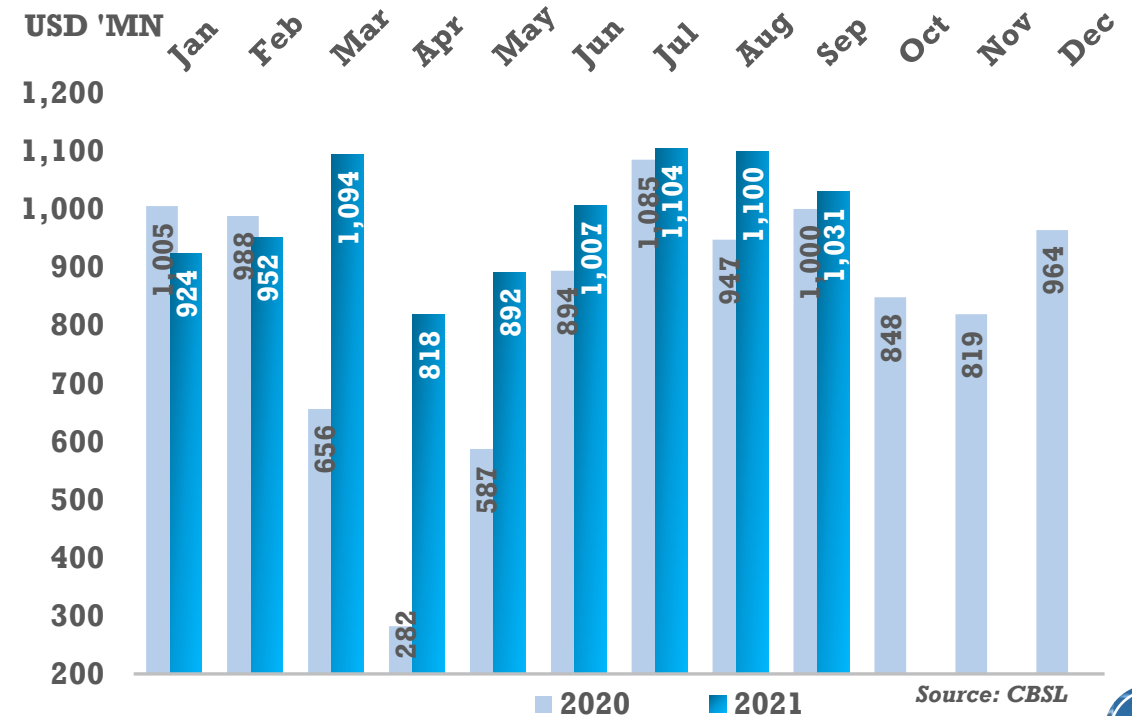
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – SEP 21 – EXPORTS

Exports for Sep recorded a growth of 3.1%YoY to USD 1.0Bn led by improvements in Industrial Exports followed by the Mineral Exports while Agricultural Exports displayed a marginal reduction. Earnings from the export of industrial goods recorded an increase by 4.0%YoY in Sep 2021, led by textiles and garments, petroleum products and rubber products. Exports of garments to all major markets increased and earnings from the petroleum products improved as a result of the increase in prices of aviation and bunker fuel and the increase in volumes of bunker fuel exports. Moreover, increase in earnings from rubber products were led by tyres and gloves. Total earnings from the export of agricultural goods in Sep 2021 declined by 0.6%YoY mainly due to the drop in export earnings from tea, unmanufactured tobacco, spices and vegetables. Total earnings from the export of minerals in Sep 2021 increased by 83.9% mainly due to the increased earnings from earths and stone, ores, slag and ash and precious metals.

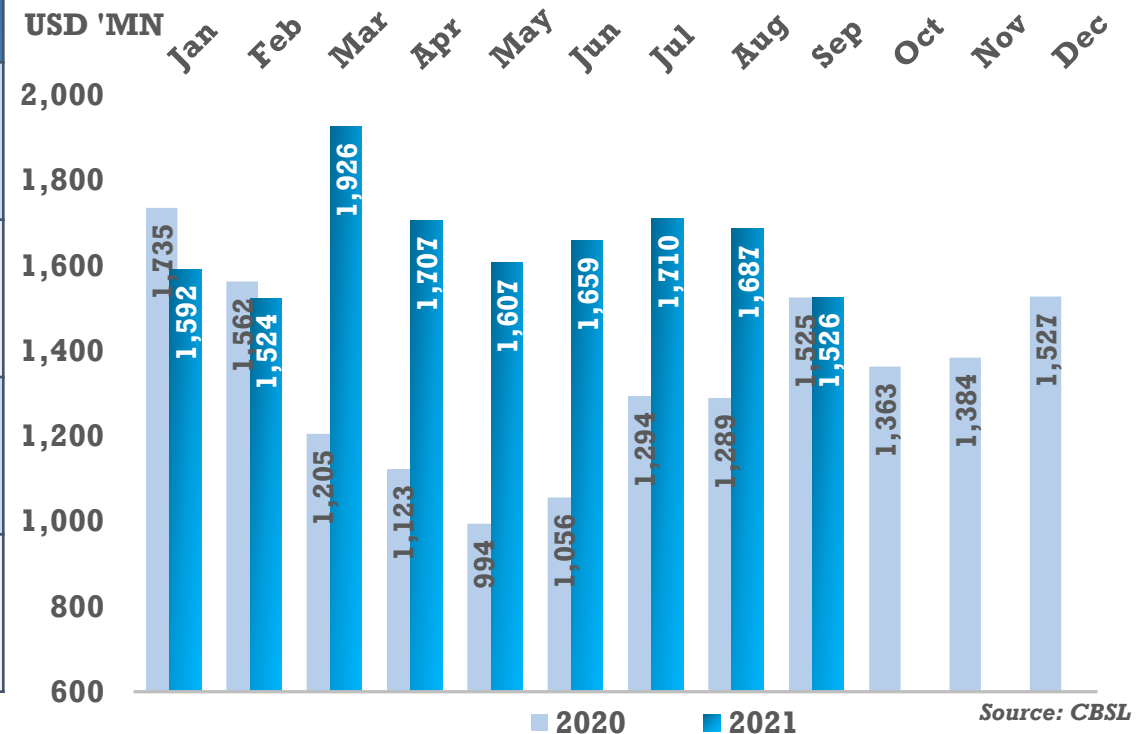
| Category           | 2020<br>(USD 'Mn) | 2021<br>(USD 'Mn) | Change<br>(%) |
|--------------------|-------------------|-------------------|---------------|
| Industrial Exports |                   |                   |               |
| - Sep              | 774.6             | 805.7             | 4.0           |
| - YTD              | 5,680.0           | 6,899.0           | 21.5          |
| Agricultural       |                   |                   |               |
| - Sep              | 222.5             | 221.2             | (0.6)         |
| - YTD              | 1,738.5           | 1,986.7           | 14.3          |
| Mineral Exports    |                   |                   |               |
| - Sep              | 1.7               | 3.1               | 83.9          |
| - YTD              | 15.9              | 33.8              | 112.0         |
| <b>Total</b>       |                   |                   |               |
| - Sep              | 1,000.0           | 1,031.4           | 3.1           |
| - YTD              | 7,445.0           | 8,934.3           | 20.0          |



# EXTERNAL SECTOR – SEP 21 – IMPORTS

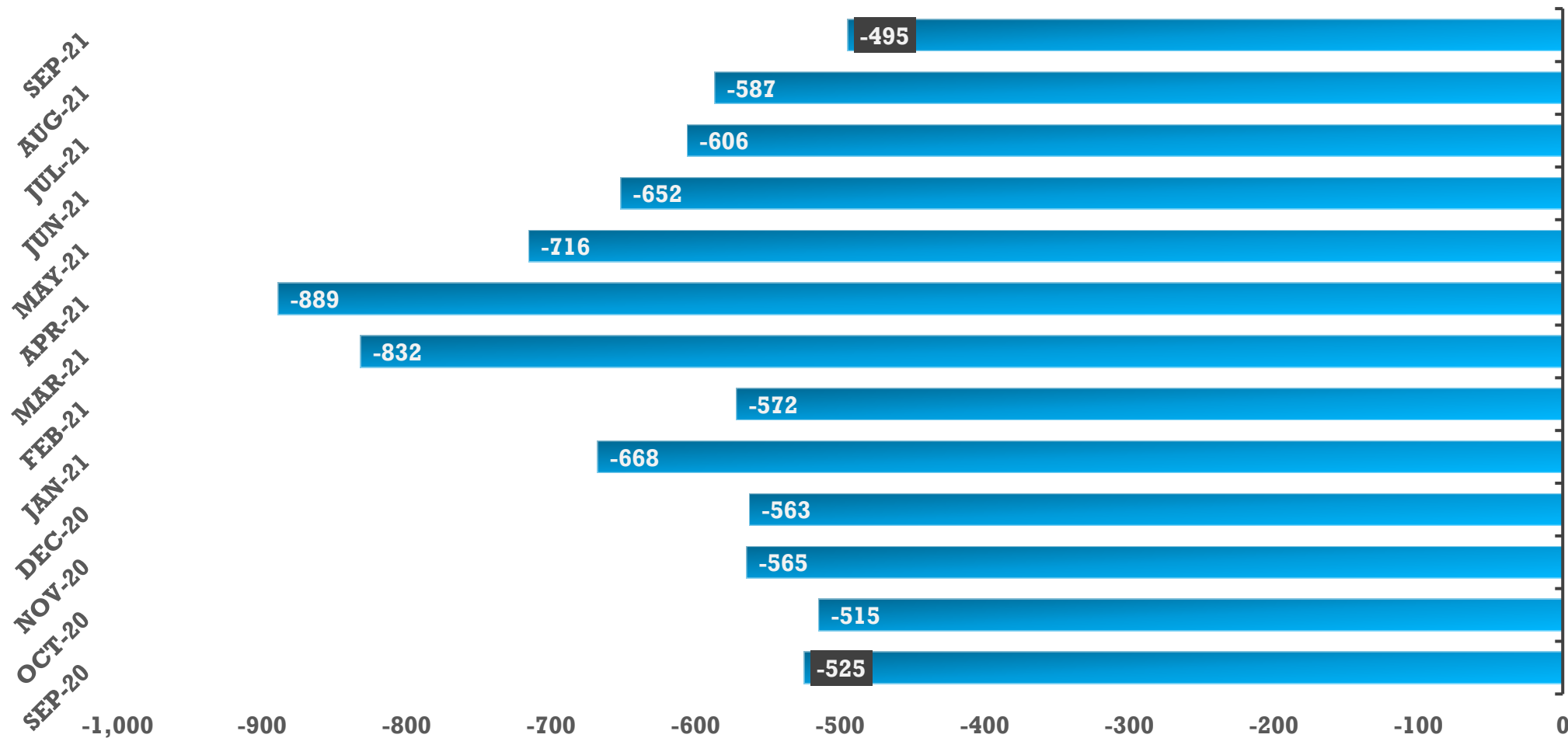
Import expenditure increased by 0.1%YoY to USD 1.5Bn in Sep 2021 as well, driven by the increase in Consumer Goods while reporting a decline in Intermediate Goods and Investment Goods. Expenditure on the importation of consumer goods in Sep 2021 increased by 16.6%YoY led by the increase in expenditure on non-food consumer goods while food and beverages notably declined. Expenditure on importation of intermediate goods decreased by 4.0%YoY with the reduction in import expenditure on fuel, wheat, mineral products and fertilizer despite an increase in textiles and textile articles. Value of investment goods decreased with a notable reduction in expenditure on machinery and equipment parts, and cranes. However, import expenditure on building materials such as mineral products, ceramic products, insulated wires and cables and iron and steel recorded an increase.

| Category         | 2020<br>(USD 'Mn) | 2021<br>(USD 'Mn) | Change<br>(%) |
|------------------|-------------------|-------------------|---------------|
| Consumer goods   |                   |                   |               |
| - Sep            | 266.5             | 310.7             | 16.6          |
| - YTD            | 2,566.9           | 2,890.0           | 12.6          |
| Intermediate     |                   |                   |               |
| - Sep            | 883.3             | 848.4             | (4.0)         |
| - YTD            | 6,575.8           | 8,790.8           | 33.7          |
| Investment goods |                   |                   |               |
| - Sep            | 374.2             | 366.5             | (2.1)         |
| - YTD            | 2,627.4           | 3,248.8           | 23.6          |
| <b>Total</b>     |                   |                   |               |
| - Sep            | 1,524.9           | 1,526.0           | 0.1           |
| - YTD            | 11,782.2          | 14,937.5          | 26.8          |



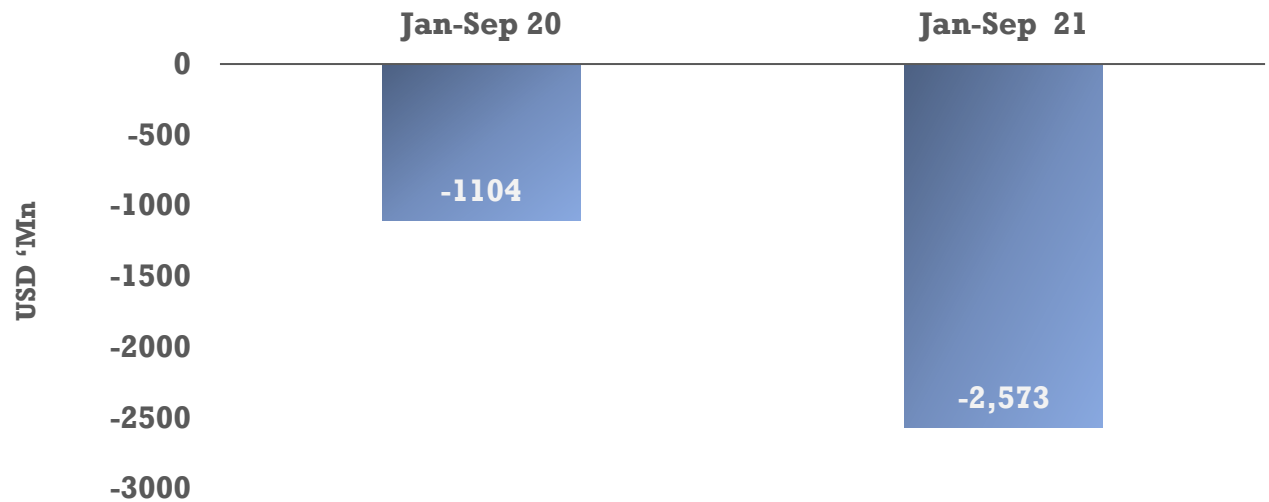
# EXTERNAL SECTOR – SEP 21

## Balance of Trade



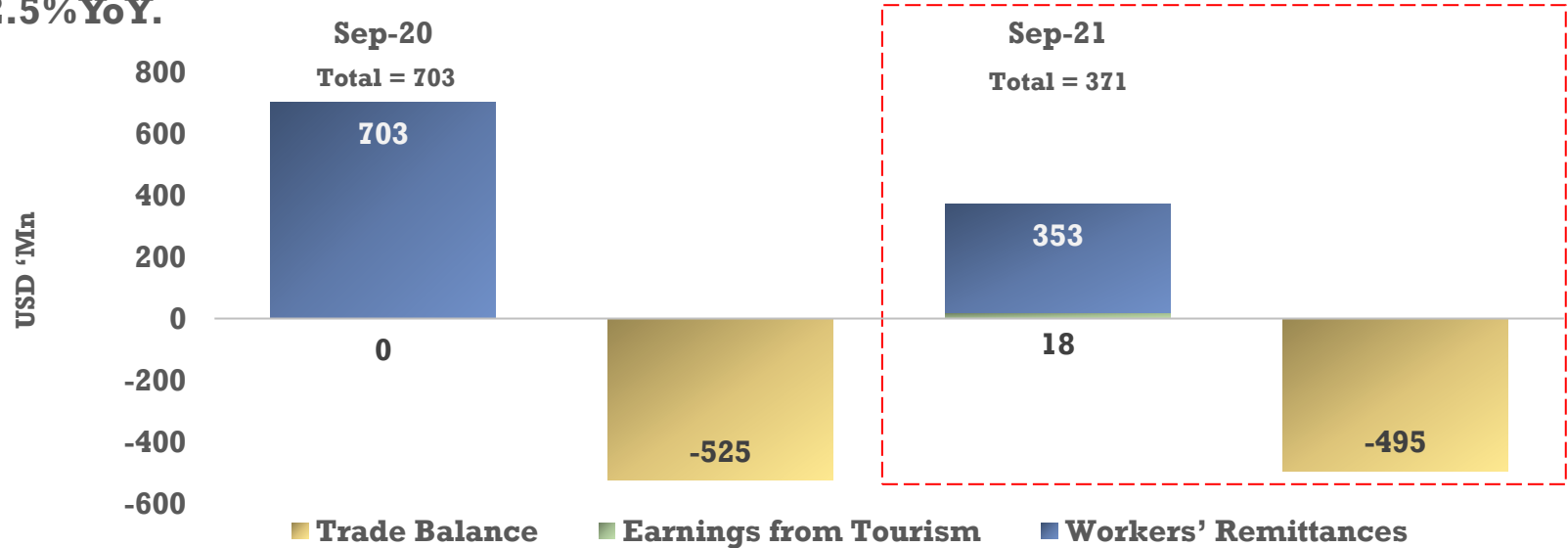
Source: Central Bank

BoP for Jan-Sep 21 recorded at USD -2.6Bn compared to Jan-Aug 21 amount of USD -2.4Bn recording a net outflow of USD 0.2Bn for the month of Sep 2021.



Source: CBSL

Workers' Remittances declined to USD 353.0Mn (-49.7%YoY). Earnings from Tourism for Sep 21 improved to USD 18.0Mn although Jan-Sep 21 declined by 92.5%YoY.



Source: CBSL

## BALANCE OF PAYMENT DEFICIT INCREASED YOY IN SEP 2021

| Sep USD 'Mn           | 2020 | 2021 | Change (%) |
|-----------------------|------|------|------------|
| Trade Balance         | -525 | -495 |            |
| Earnings from Tourism | 0    | 18   | N/A        |
| Workers' Remittances  | 703  | 353  | -49.7      |

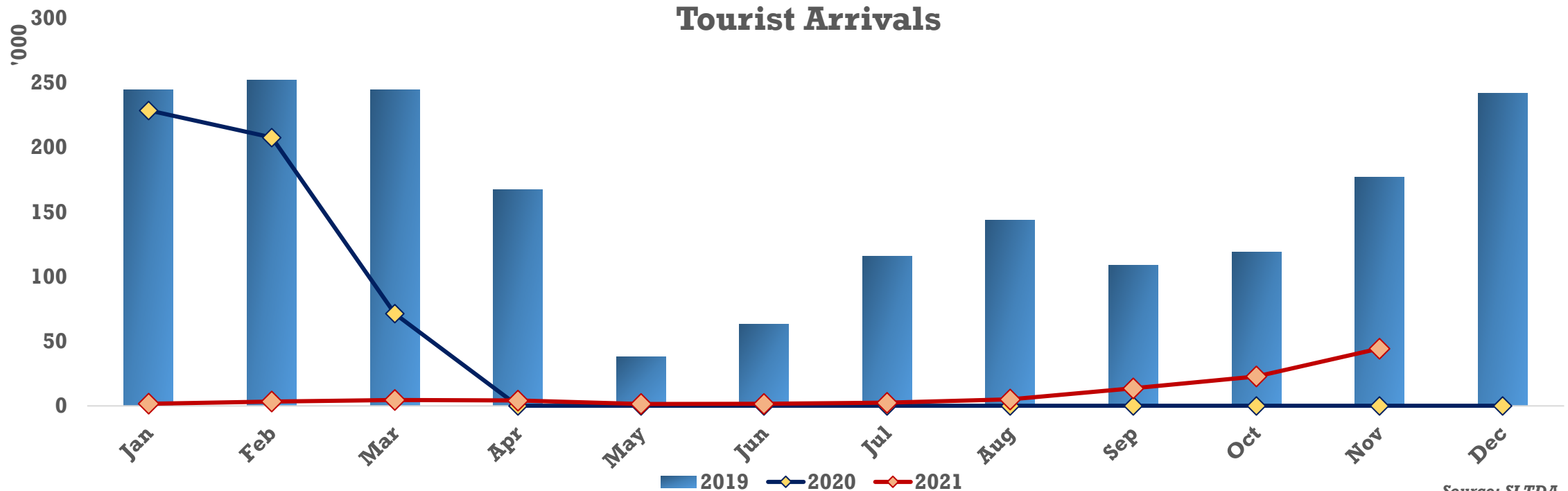
| YTD USD 'Mn           | 2020   | 2021   | Change (%) |
|-----------------------|--------|--------|------------|
| Trade Balance         | -4,337 | -6,003 |            |
| Earnings from Tourism | 682    | 51     | -92.5      |
| Workers' Remittances  | 5,049  | 4,577  | -9.3       |

Source: CBSL

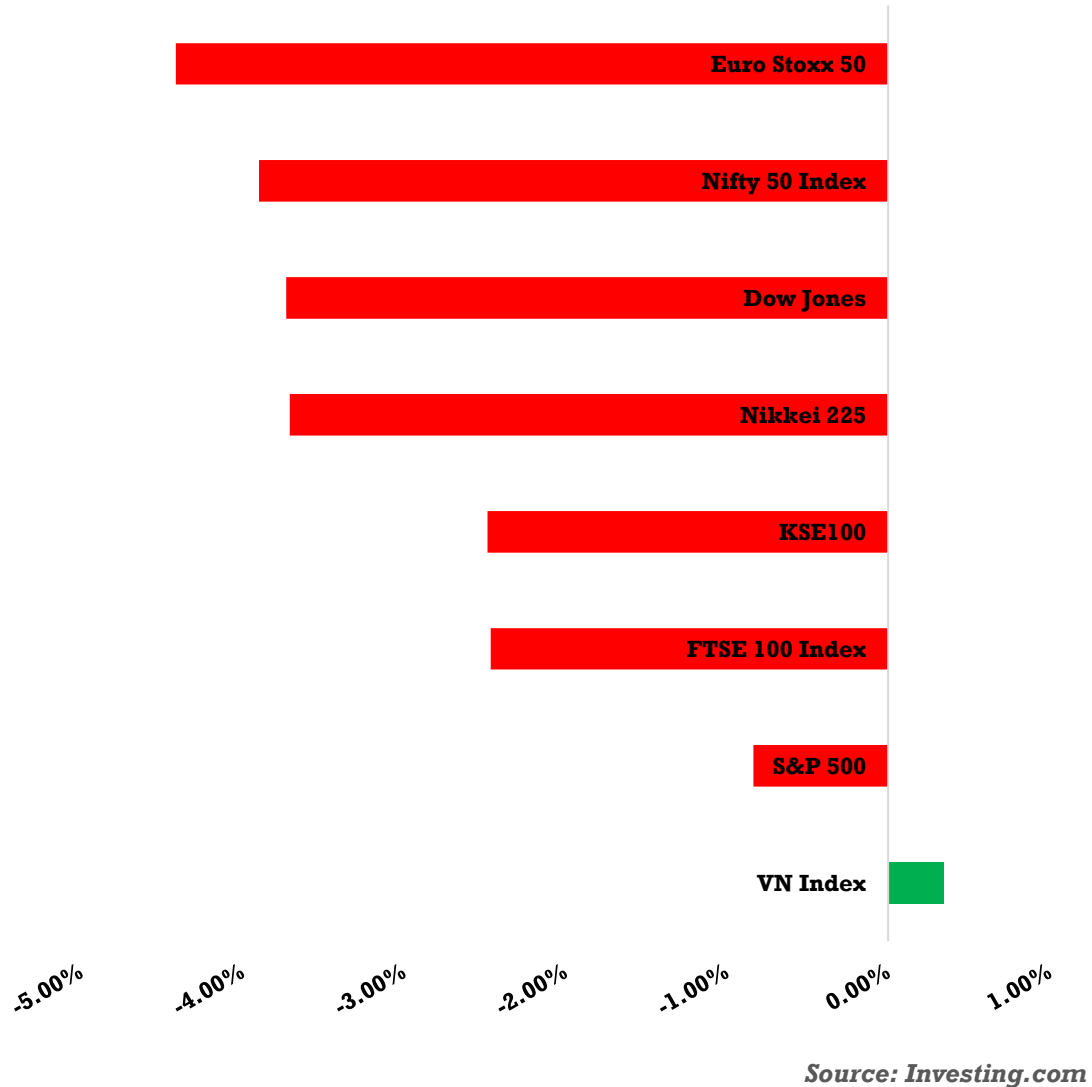
# TOURIST ARRIVALS – NOV 2021

[44,294 – NOV, YTD 104,989 – **MoM UP 94.5%**]

The total number of tourist arrivals to Sri Lanka during Nov 2021 were 44,294. A significant improvement in arrivals was observed during the month of Nov, as a result of the gradual improvement in traveller confidence, lifting of travel restrictions and the rapid vaccination rollout. The largest source markets recorded for the month of Nov were India, United Kingdom, Russian Federation, Germany and Pakistan.



# GLOBAL MARKET



First Capital Research

## Third Dose of Pfizer-BioNTech Shot Key to Fight Elusive Omicron

Pfizer Inc. and BioNTech SE said initial lab studies show a third dose of their Covid-19 vaccine may be needed to neutralize the omicron variant, results that will accelerate booster-shot drives around the world and may lead to use of new strain-specific vaccines. The lab findings indicate that two doses of the vaccine "may not be sufficient" to protect against infection with the omicron strain. Along with stimulating the booster push, that may increase the likelihood that an omicron-targeted shot may ultimately be required. Pfizer said this would be ready by March.

Bloomberg



## Passenger travel is back, but stock market investors haven't stuck with airlines in the past

The recent history of investing in airlines has been volatile, with events from 9/11 to the financial crisis to the Covid-19 pandemic. Analysts point to several factors that make this flurry of Covid fears not like others, caused first by the initial pandemic wave last year and as recently as the delta variant as passengers are not bailing on air travel this time, despite international travel restrictions back in place. Therefore, the eventual impact of omicron remains to be judged by the scientific evidence still being collected.

## U.S. risks 'chilling' regulations on crypto, industry warns Congress

Top executives from six cryptocurrency firms told Congress to tread lightly in imposing new rules on digital assets - or risk sending activity underground or outside the United States. At the hearing at the U.S. House Financial Services Committee, executives leading some of the world's biggest crypto companies indicated in prepared testimony they generally support clearer rules. But they emphasized that overly restrictive ones would not stifle the activity, but merely push it away from U.S. reach.



REUTERS  
WORLD

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“Successful Investment Is About Managing Risk...”

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