



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Oct 2022

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# THE CENTRAL BANK OF SRI LANKA MAINTAINS POLICY INTEREST RATES AT THEIR CURRENT LEVELS

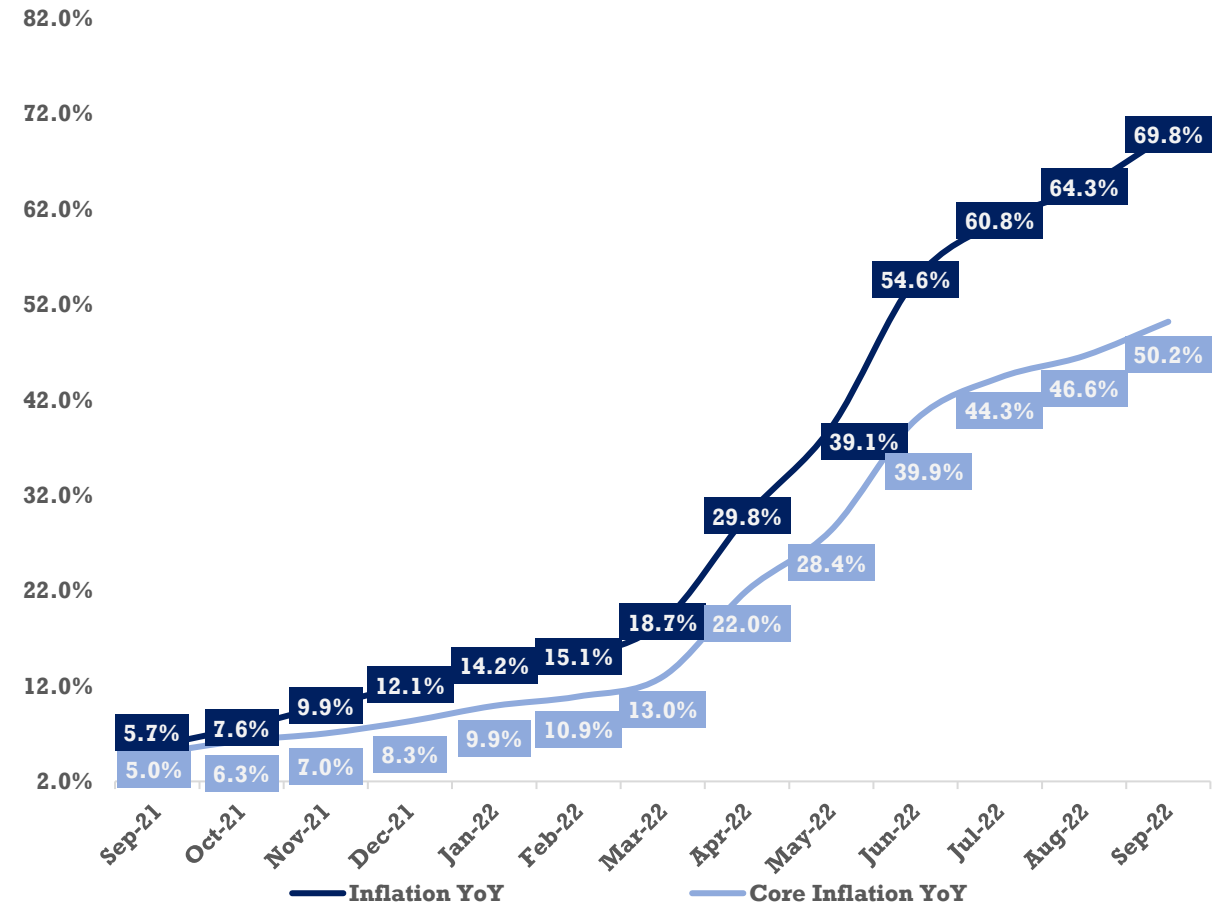
- The Monetary Board of the Central Bank of Sri Lanka (CBSL), at its meeting held on 05<sup>th</sup> Oct 2022, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 14.50% and 15.50%, respectively.
- In arriving at this decision, the Board considered the latest macroeconomic conditions, expected developments and macroeconomic projections. The Board noted the tight monetary conditions prevailing at present, the decelerating pace of inflation, and the envisaged disinflation path in the near term supported by both domestic and global factors.
- The contractionary fiscal policies would complement the effects of tight monetary policy measures already in place, helping to mitigate any build-up of aggregate demand pressures, thereby anchoring inflation expectations and bringing down headline inflation to the targeted level of 4%-6% over the medium term.

*Source: CBSL*

# INFLATION – CCPI

**CCPI FOR SEP 2022:  
MOM +3.8%,  
YOY +69.8%**

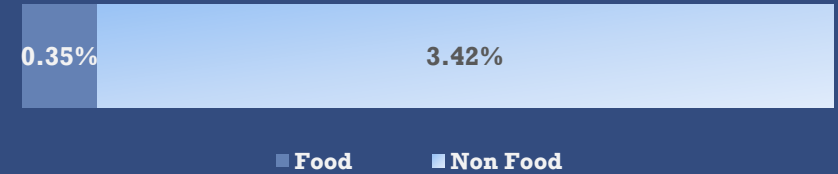
- MoM inflation increased by 3.8% with the increase in inflation of Food group by 0.9% and the increase in inflation of Non-Food group by 5.5%.
- The YoY inflation increased to 69.8% in Sep 2022. YoY inflation of Food group has increased to 94.9% in Sep 2022 from 93.7% in Aug 2022 while Non-Food group increased to 57.6% from 50.2% in Aug 2022.



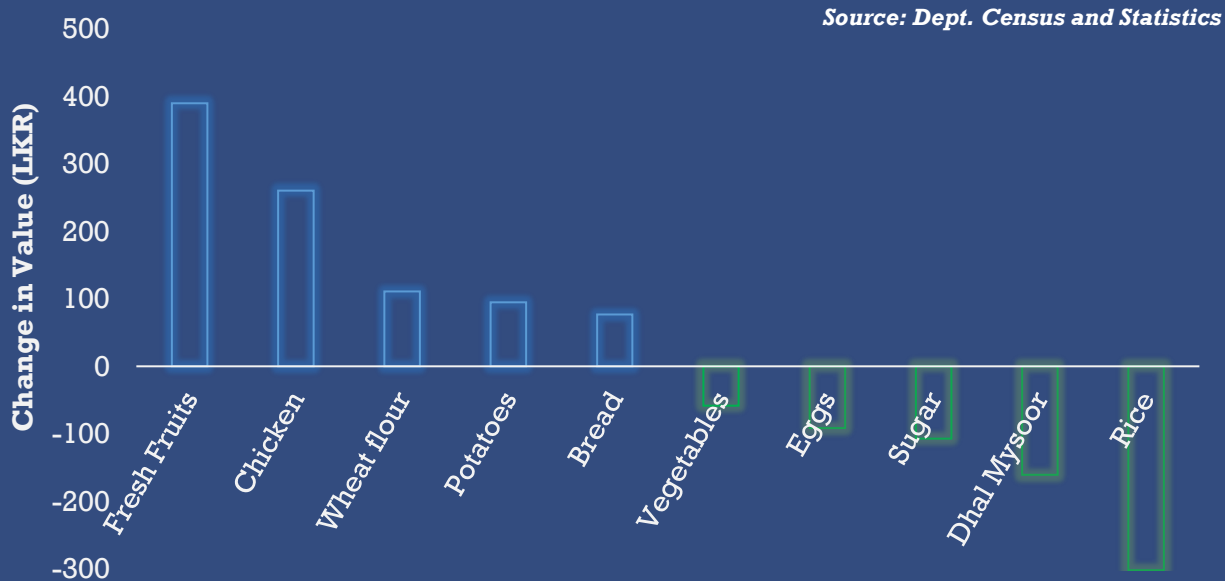
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

The CCPI index recorded an increase of 3.8%MoM contributed by the increase in expenditure value of Food items by 0.35% and Non-Food items by 3.42%. Within the Food items, increase in value changes were mainly reported for Fresh fruits, Chicken, Wheat flour, Potatoes, Bread and etc. Among Non-Food groups, increases in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels, Miscellaneous Goods and Services, Restaurant and Hotels, Health, Education (Secondary) and etc.

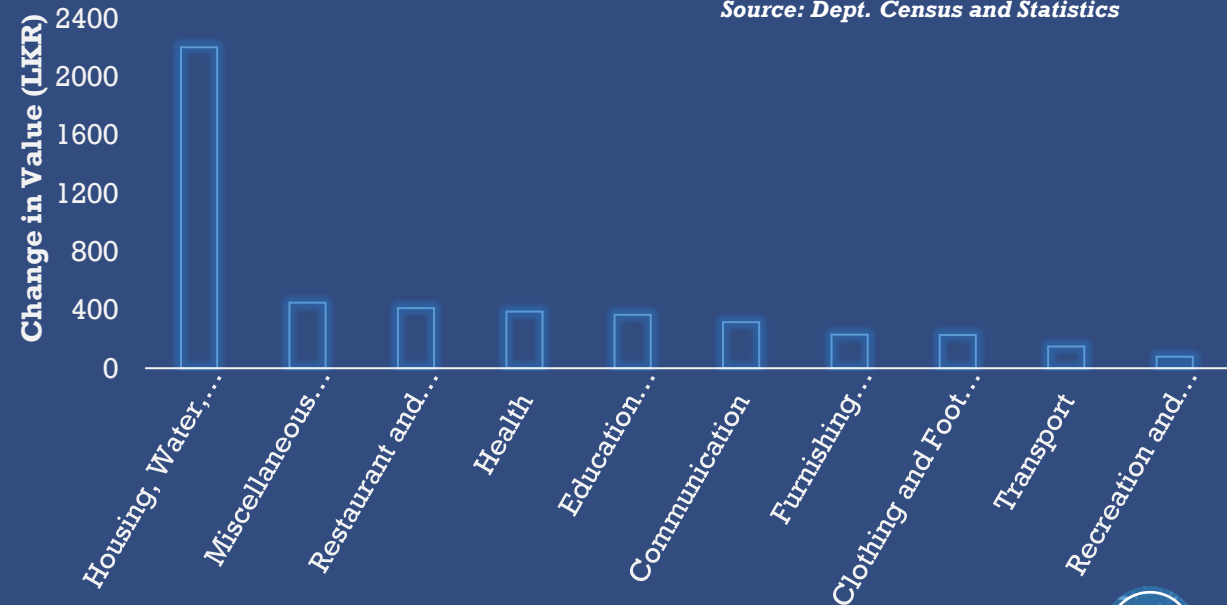


## Food Category Inflation



Source: Dept. Census and Statistics

## Non-Food Category Inflation



Source: Dept. Census and Statistics

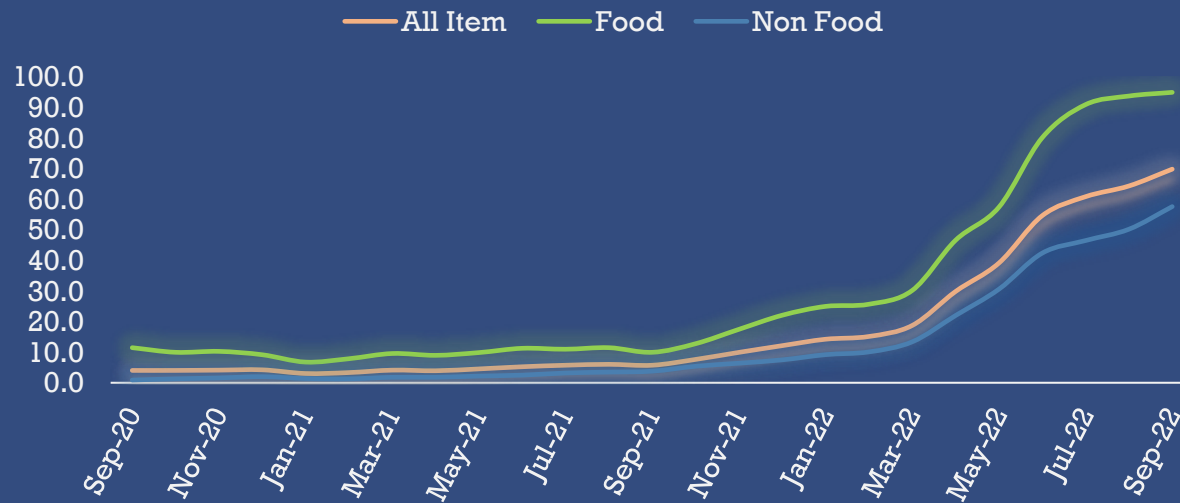


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Sep was 69.8% and has increased relative to the month of Aug. Food item prices have increased to 94.9%YoY in Sep 2022 from 93.7%YoY in Aug 2022 while the Non-Food item prices have increased to 57.6%YoY from 50.2%YoY in Aug 2022. The contribution from food category for YoY inflation was 30.82% while the contribution of Non-Food items stood at 38.92% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous Goods and Services and etc.

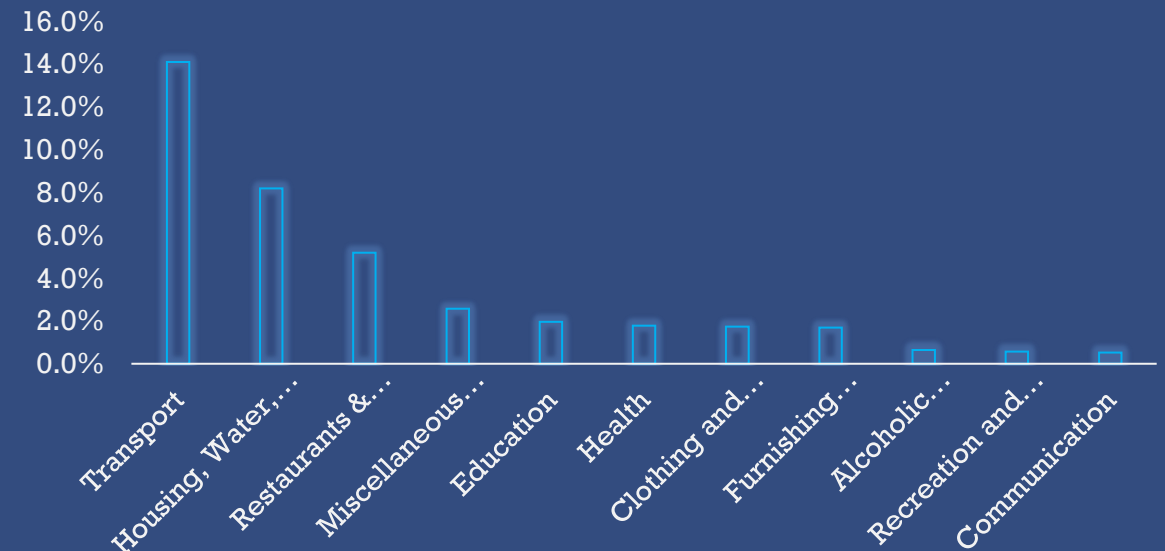


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation

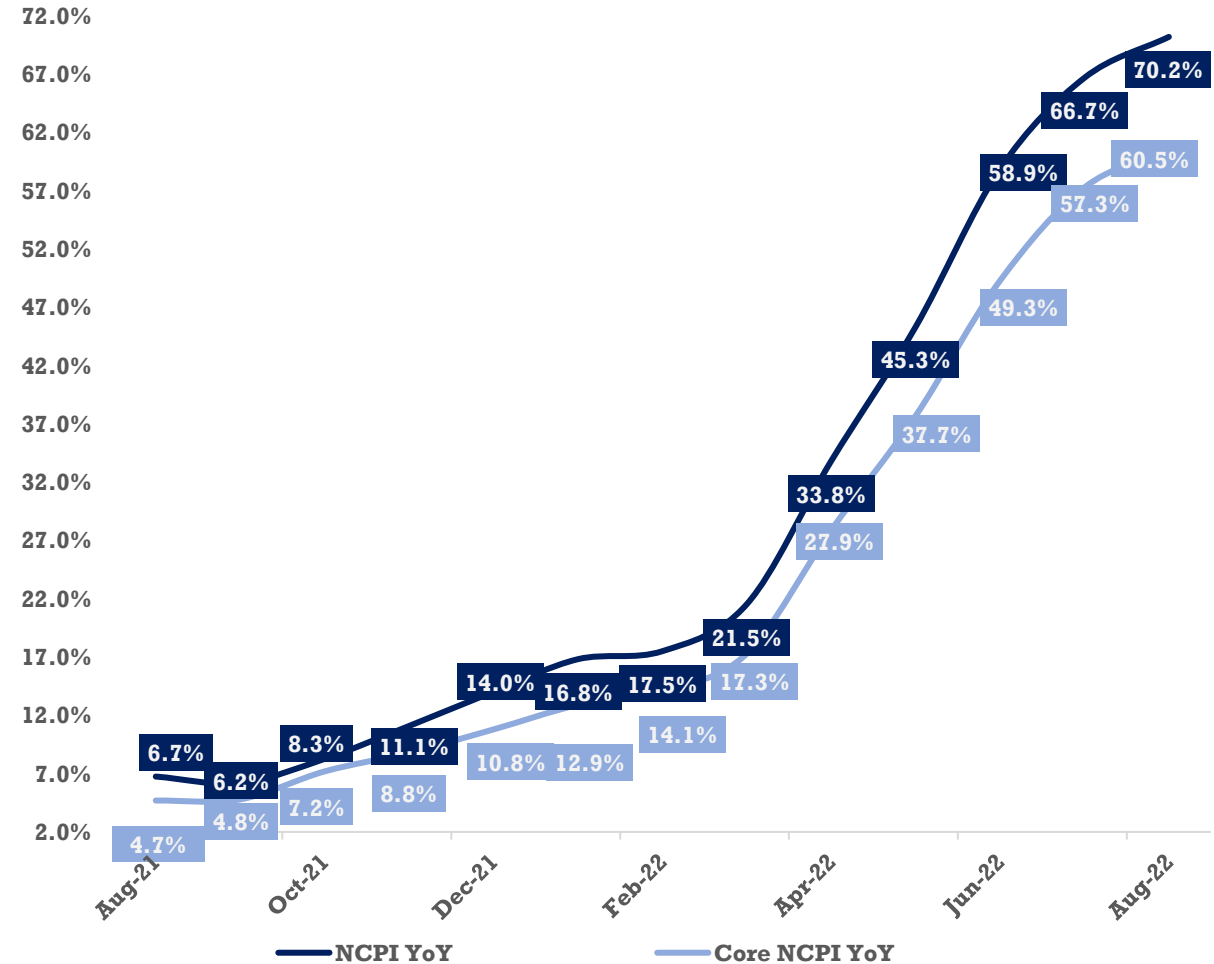


Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR AUG 2022: INCREASED TO 70.2%YOY

- NCPI for Aug 2022 increased to 70.2% compared to 66.7% in Jul 2022.
- Increase in inflation was mainly driven by the price increases in both Food commodities and Non-Food commodities. Accordingly, YoY Food inflation increased to 84.6% in Aug 2022 from 82.5% in Jul 2022 while Non-Food inflation increased to 57.1% in Aug 2022 from 52.4% in Jul 2022.



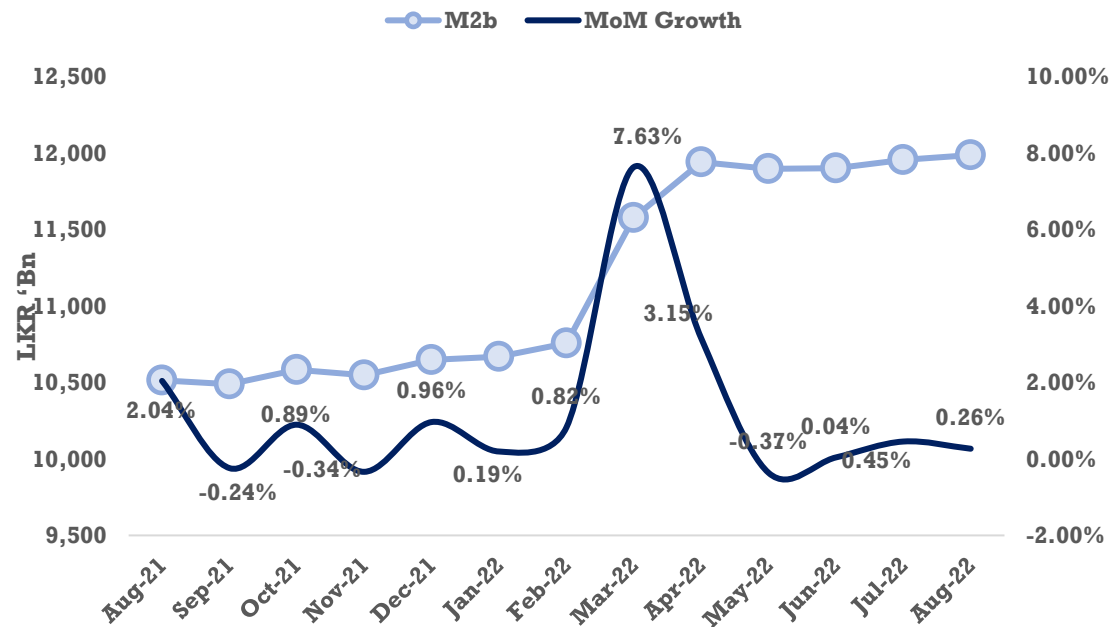
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit deteriorated by LKR 58.9Bn in Aug 2022 amidst the continuous spike in lending rates. State credit reflected a net borrowing of LKR 109.5Bn.

## M2b Growth – Aug 2022

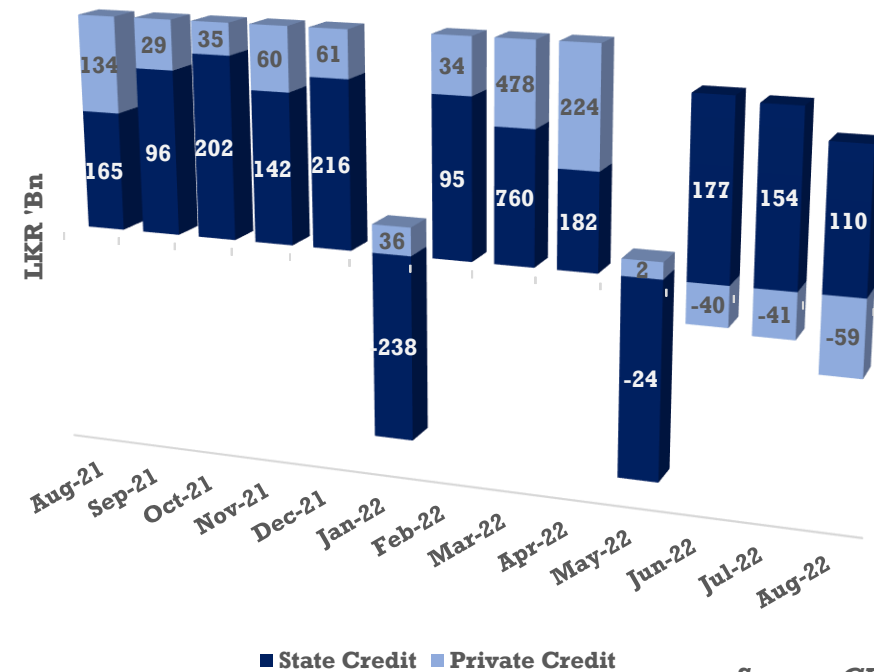
MoM +0.26%, YoY +14.0%, YTD +12.6%



Source: CBSL

## State Credit & Private Credit – Aug 2022

Private Credit MoM -0.8%, YoY +12.1%, YTD +9.1%



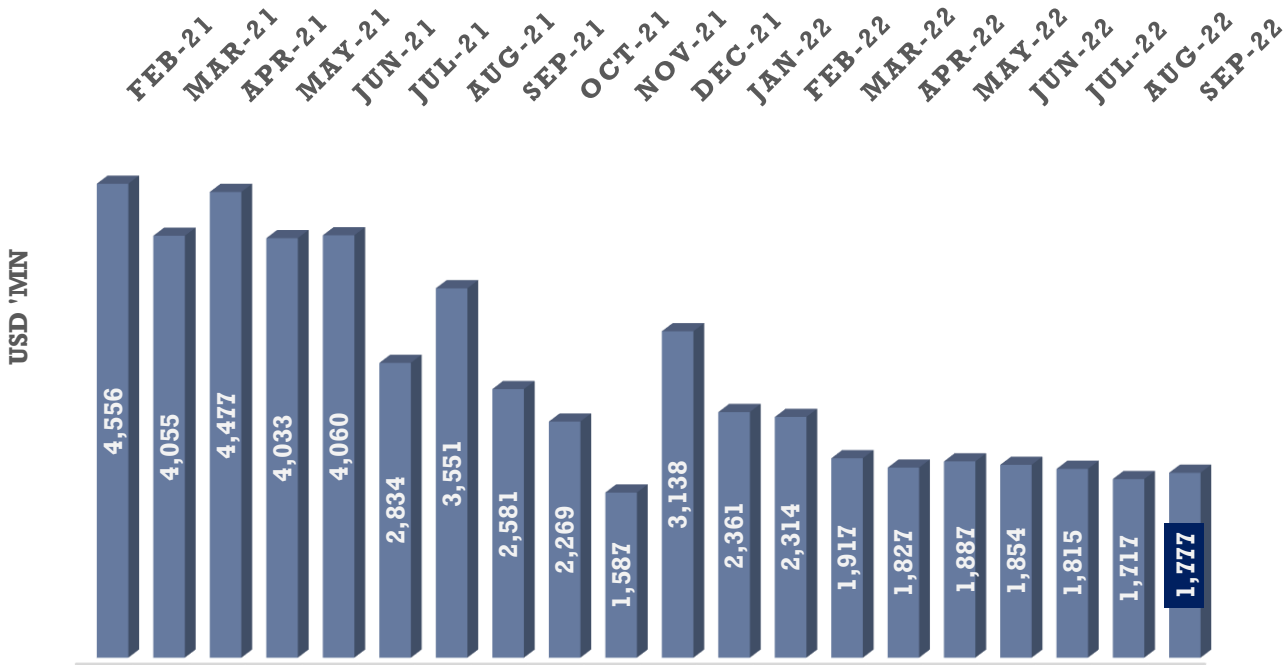
■ State Credit ■ Private Credit

Source: CBSL



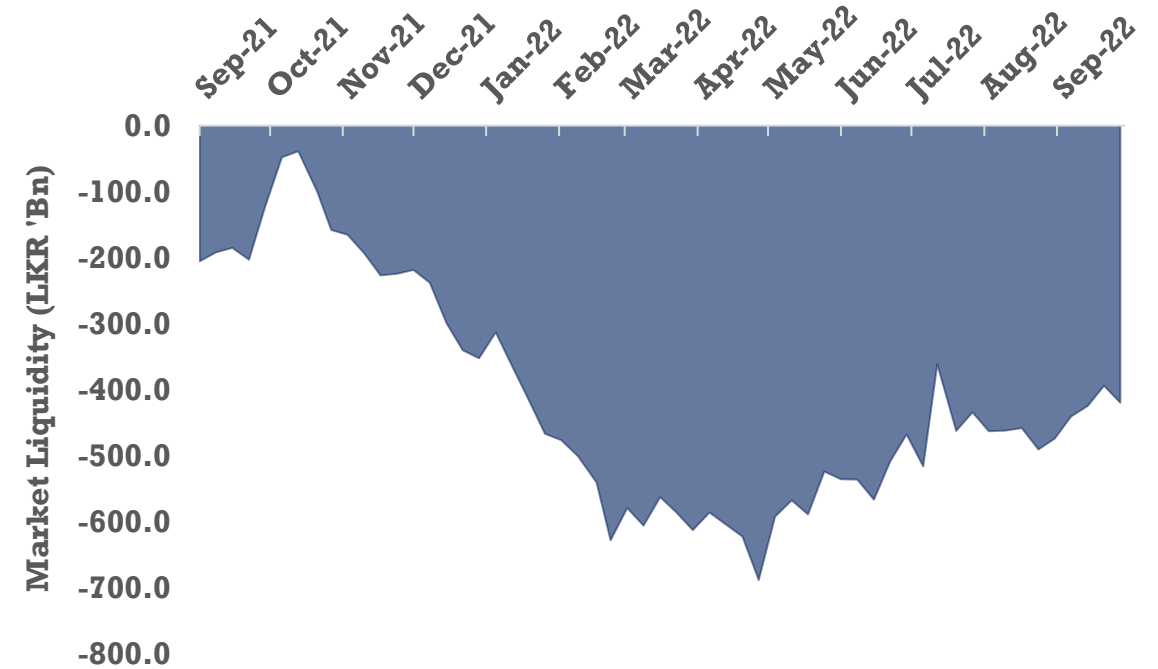
# LIQUIDITY & RESERVES

- Foreign Reserves improved by USD 60.0Mn to USD 1.8Bn in Sep 2022.



Source: CBSL

- Market Liquidity displayed an improvement amidst slight volatility during Sep 2022.



Source: CBSL

# CURRENCY MOVEMENT

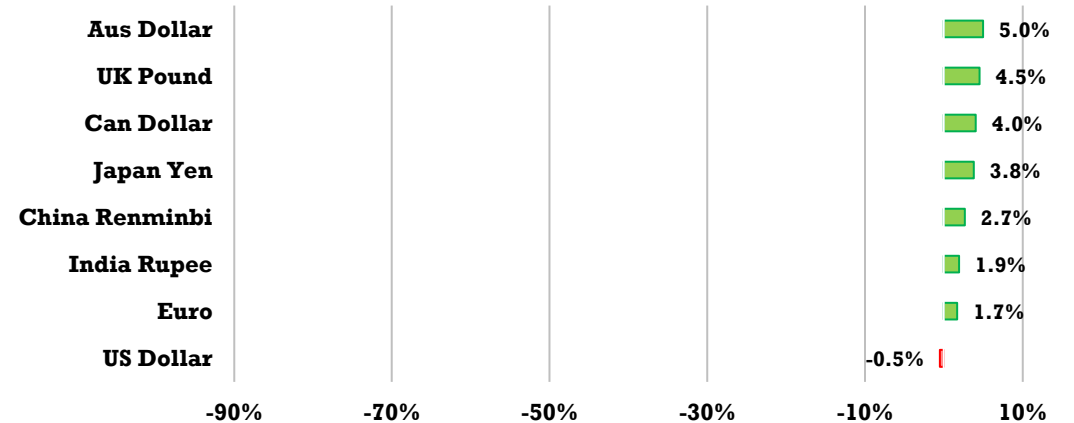
## USD:LKR Movement



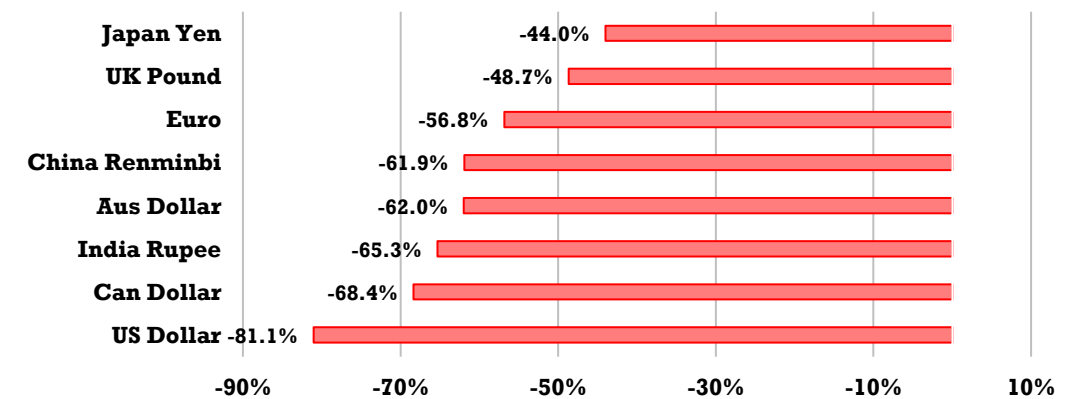
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Sep 2022



YTD 2022

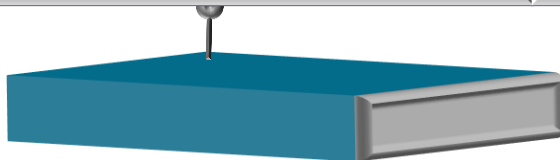


Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Sep 2022

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
2-Sep-22	49,561	30,875	80,436
9-Sep-22	48,408		48,408
16-Sep-22	100,000	57,704	157,704
23-Sep-22	81,250		81,250
30-Sep-22	81,853		81,853
<b>Total Issued</b>			<b>449,651</b>



Net Settlement	Sep 2022	YTD
Maturities	739,210	4,966,056
New Issues	449,651	3,648,609
<b>Excess/ (Deficit)</b>	<b>(289,559)</b>	<b>(1,317,447)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Sep 2022	2,320,402	
As at End Aug 2022	2,258,114	
<b>Increase/ (Decrease)</b>	<b>62,288</b>	<b>903,650</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

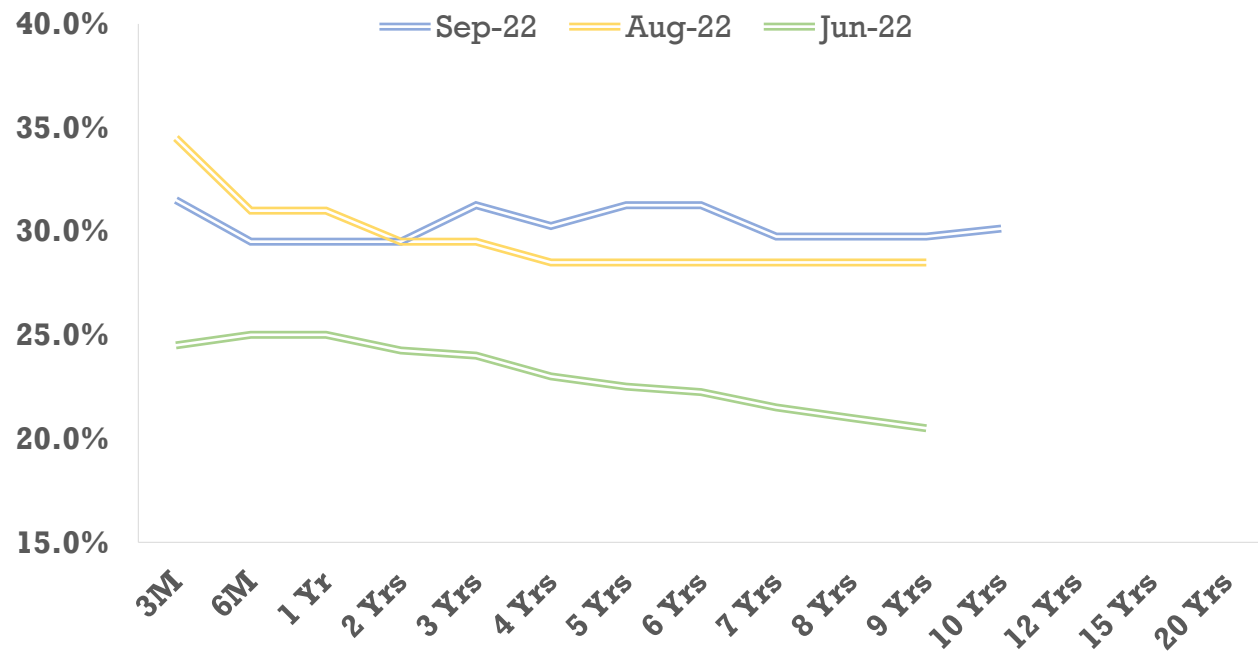
*...increased by LKR 62.3Bn in Sep 2022*



Source: CBSL

# TREASURY BILLS AND BONDS – SEP 2022

During the month of Sep, after persistent lackluster activities in the bond market, buying interest was reinstated following the staff level agreement from IMF which resulted in a downward shift in yields predominantly on short tenor maturities. As the month progressed, yield curve positioned on a upward movement mainly on the mid-long end of the curve with the mixed interest that emerged in the market owing to the local debt restructuring fears.



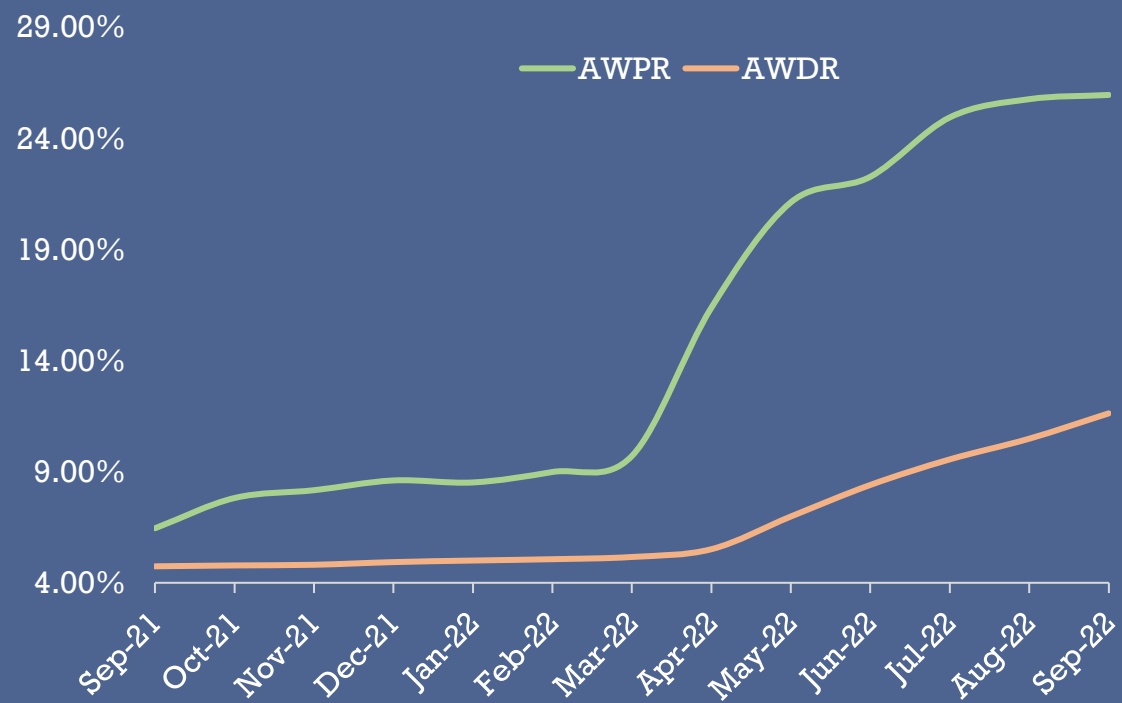
Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Sep-22	Aug-22	Change (bps)	Jun-22	Change (bps)
3M	31.50%	34.50%	-300	24.50%	700
6M	29.50%	31.00%	-150	25.00%	450
1 Yr	29.50%	31.00%	-150	25.00%	450
2 Yrs	29.50%	29.50%	0	24.25%	525
3 Yrs	31.25%	29.50%	175	24.00%	725
4 Yrs	30.25%	28.50%	175	23.00%	725
5 Yrs	31.25%	28.50%	275	22.50%	875
6 Yrs	31.25%	28.50%	275	22.25%	900
7 Yrs	29.75%	28.50%	125	21.50%	825
8 Yrs	29.75%	28.50%	125	21.00%	875
9 Yrs	29.75%	28.50%	125	20.50%	925
10 Yrs	30.13%	N/A	N/A	N/A	N/A
12 Yrs	N/A	N/A	N/A	N/A	N/A
15 Yrs	N/A	N/A	N/A	N/A	N/A
20 Yrs	N/A	N/A	N/A	N/A	N/A

Source: First Capital Research

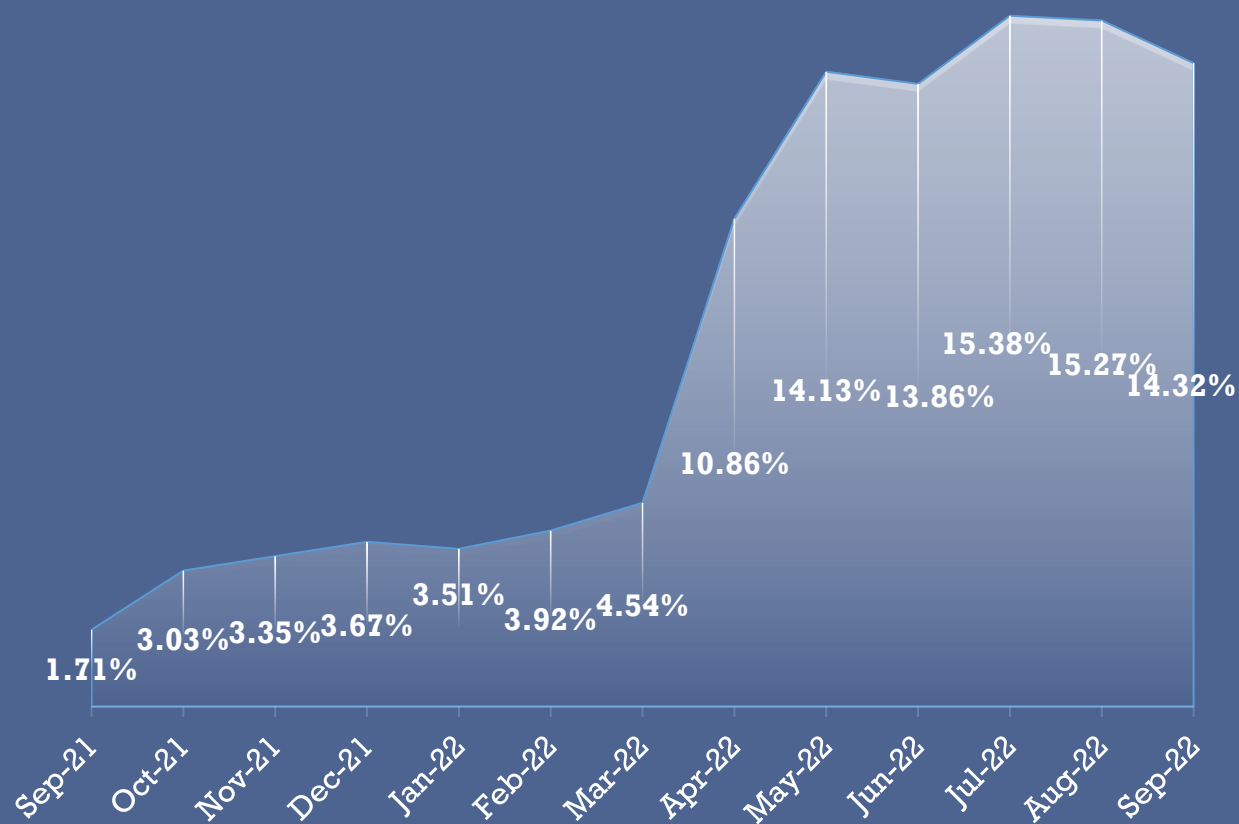
Oct 2022

## AWPR vs AWDR



Source: CBSL

## Interest Spread



Source: CBSL

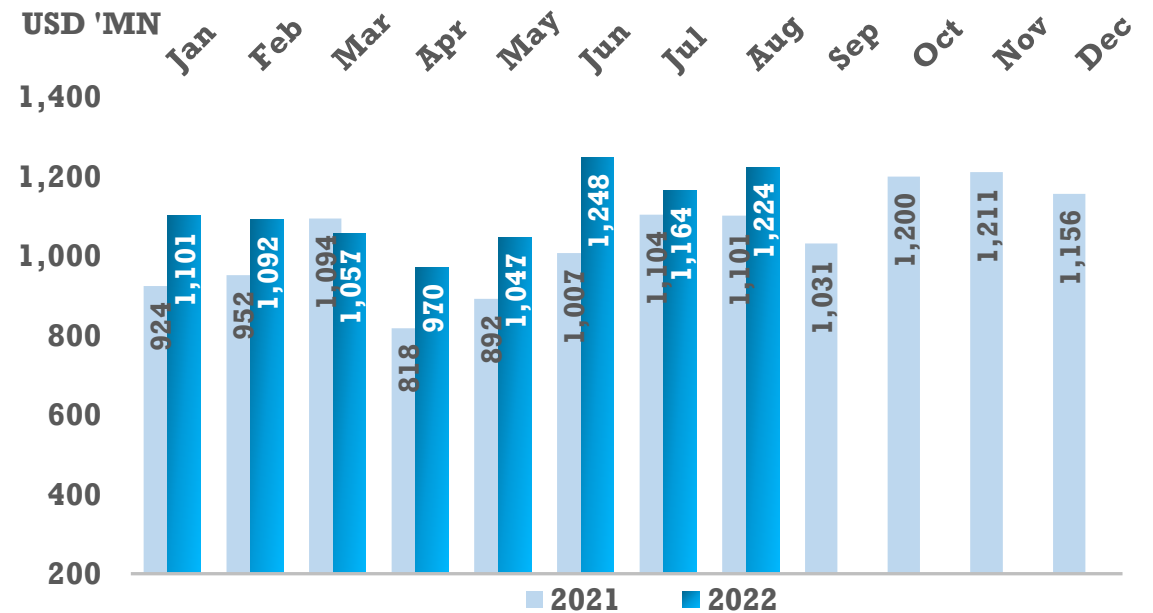
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – AUG 22 – EXPORTS

Exports for Aug increased by 11.2%YoY to USD 1,224.4Mn owing to the increase in earnings from industrial and agricultural exports while mineral exports recorded a decline. Earnings from the export of industrial goods were mainly led by higher export earnings from garments as exports to all major markets improved while gems, diamonds and jewelry exports too increased. Earnings from other industrial export categories such as, machinery and mechanical appliances and rubber products also recorded an improvement. However, export earnings from petroleum products recorded a decline as quantities of bunker and aviation fuel supplied reduced. Overall export earnings on agricultural goods were mainly led by tea, seafood and minor agricultural products mainly vegetable oil, oil seeds and betel leaves while export earnings from coconut related products recorded a decline. Mineral exports lowered due to the decline in earnings from titanium ores and zirconium ores.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Aug	857.4	965.3	12.6
- YTD	6,094.3	7,157.8	17.5
Agricultural			
- Aug	239.4	254.2	6.2
- YTD	1,765.5	1,708.5	-3.2
Mineral Exports			
- Aug	3.1	2.5	-21.3
- YTD	30.7	21.1	-31.3
<b>Total</b>			
- Aug	1,101.0	1,224.4	11.2
- YTD	7,904.0	8,902.2	12.6

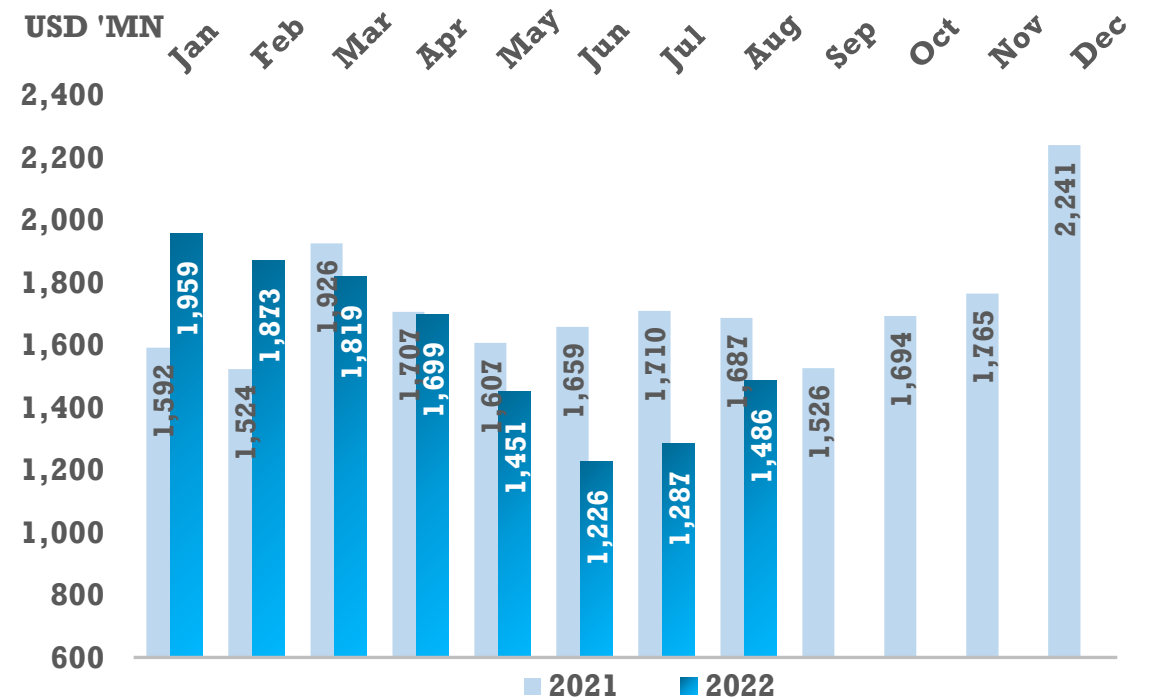


Source: CBSL  
Oct 2022

# EXTERNAL SECTOR – AUG 22 – IMPORTS

Import expenditure declined by 11.9%YoY to USD 1.5Bn in Aug 2022, owing to the regulatory measures to discourage non-urgent imports, diminished foreign liquidity and depreciation of LKR against USD. Decline in expenditure on consumer goods were largely attributable to the decline in non-food consumer goods such as medical & pharmaceuticals, telecommunication devices (mainly mobile phones) and home appliances (mainly televisions). Meanwhile, expenditure on importation on food and beverages increased during the month with the increase in imports of rice and sugar. Expenditure on importation of intermediate goods increased mainly driven by fuel, textiles and textile articles and fertiliser. Meanwhile, import expenditure on fuel which consists crude oil, refined petroleum and coal increased amidst the higher average import prices despite lower import volumes of crude oil and refined petroleum. Import expenditure on investment goods substantially declined on the back of reduced imports in machinery and equipment.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Consumer goods			
- Aug	324.3	231.2	-28.7
- YTD	2,579.3	1,945.7	-24.6
Intermediate			
- Aug	1,010.0	1,036.5	2.6
- YTD	7,942.4	8,584.0	8.1
Investment goods			
- Aug	351.7	212.6	-39.5
- YTD	2,882.3	2,263.5	-21.5
<b>Total</b>			
- Aug	1,686.7	1,485.9	-11.9
- YTD	13,411.5	12,800.9	-4.6

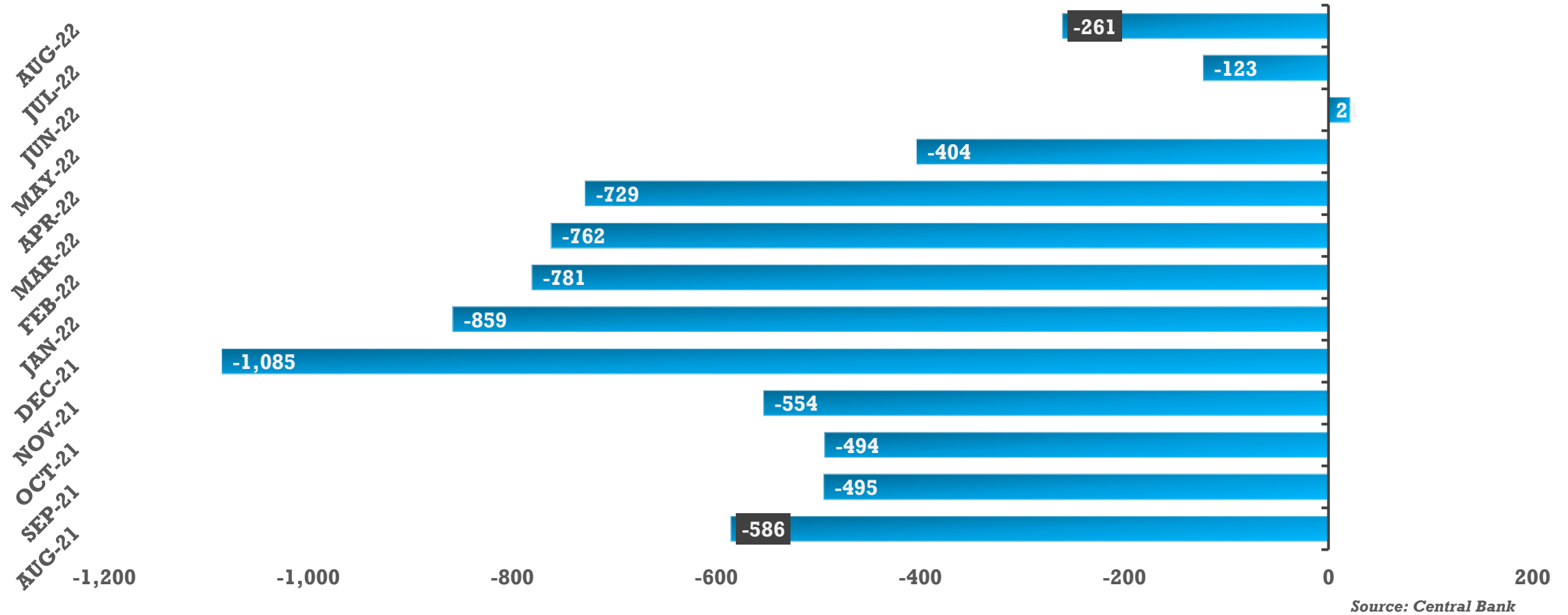


Source: CBSL

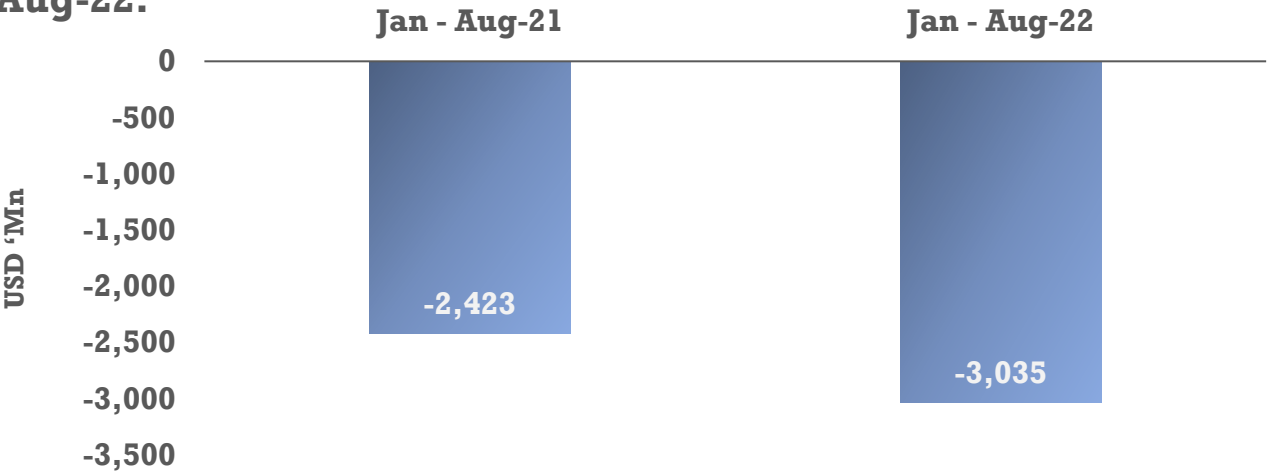
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# EXTERNAL SECTOR – AUG 22

## Balance of Trade

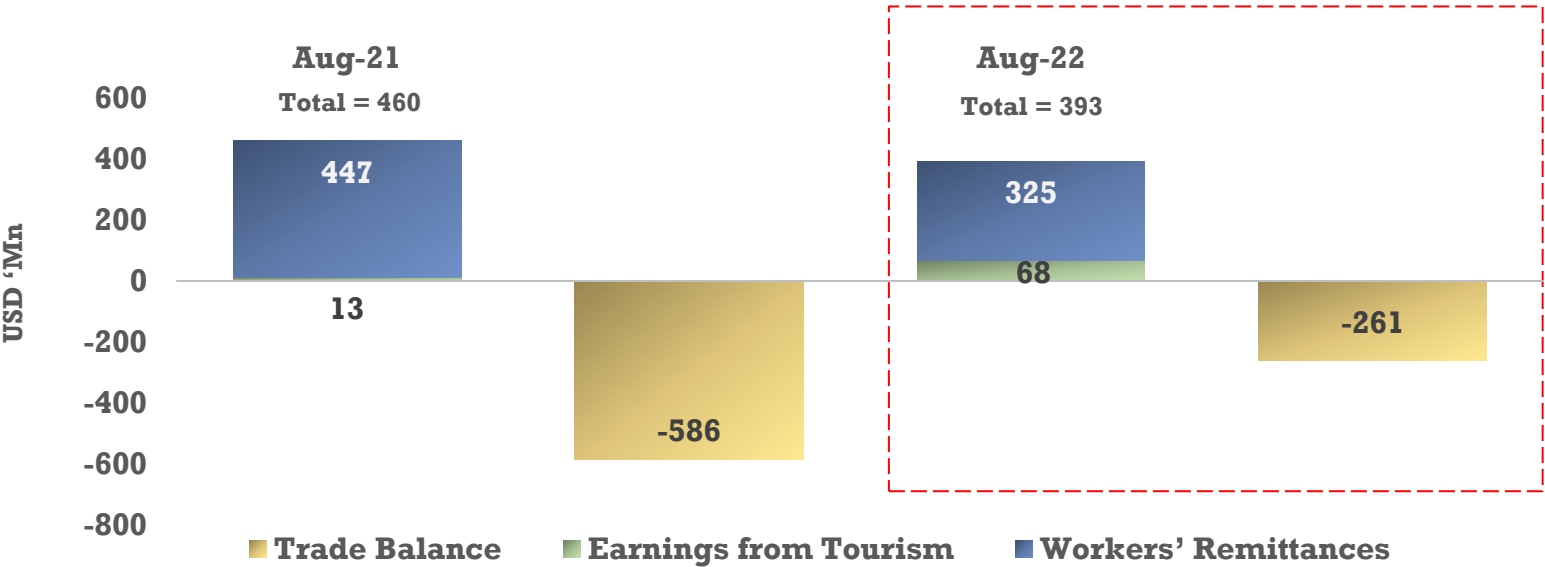


BoP for Jan – Aug-22 recorded at USD -3,035.0Mn compared to Jan – Jul-22 amount of USD -2,986.0Mn recording a net outflow of USD 49.0Mn for the month of Aug-22.



Source: CBSL

Workers' Remittances declined to USD 325.0Mn in Aug-22 (-27.2%YoY). Earnings from Tourism for Aug-22 improved to USD 68.0Mn from USD 13.0Mn in Aug-21.



Source: CBSL

## BALANCE OF PAYMENT DEFICIT INCREASED YOY IN AUG 2022

Aug USD 'Mn	2021	2022	Change (%)
Trade Balance	-586	-261	
Earnings from Tourism	13	68	>100
Workers' Remittances	447	325	-27.2

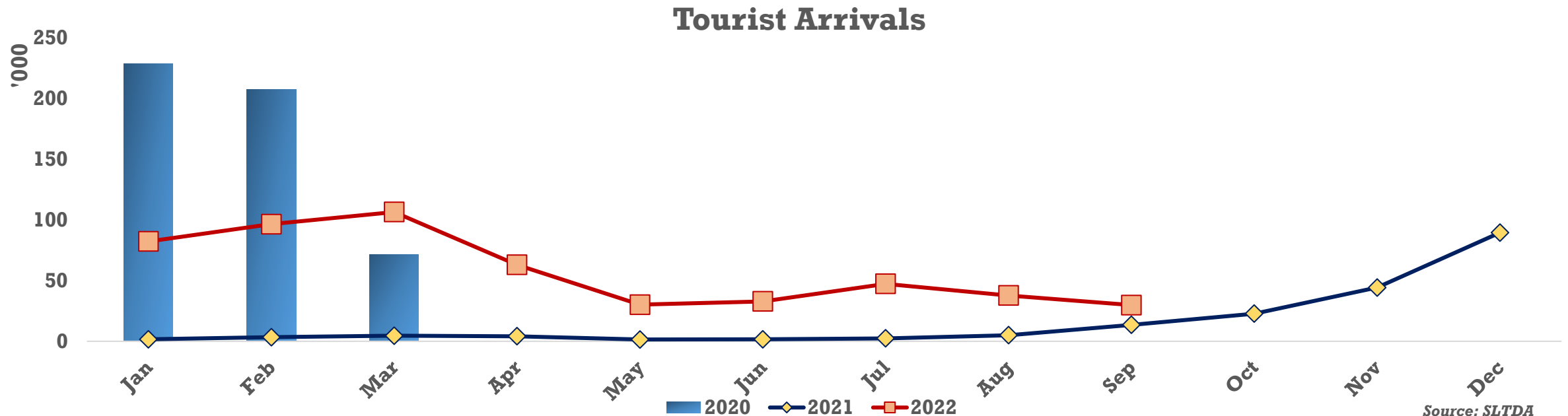
YTD USD 'Mn	2021	2022	Change (%)
Trade Balance	-5,507	-3,899	
Earnings from Tourism	64	893	>100
Workers' Remittances	4,224	2,215	-47.6

Source: CBSL

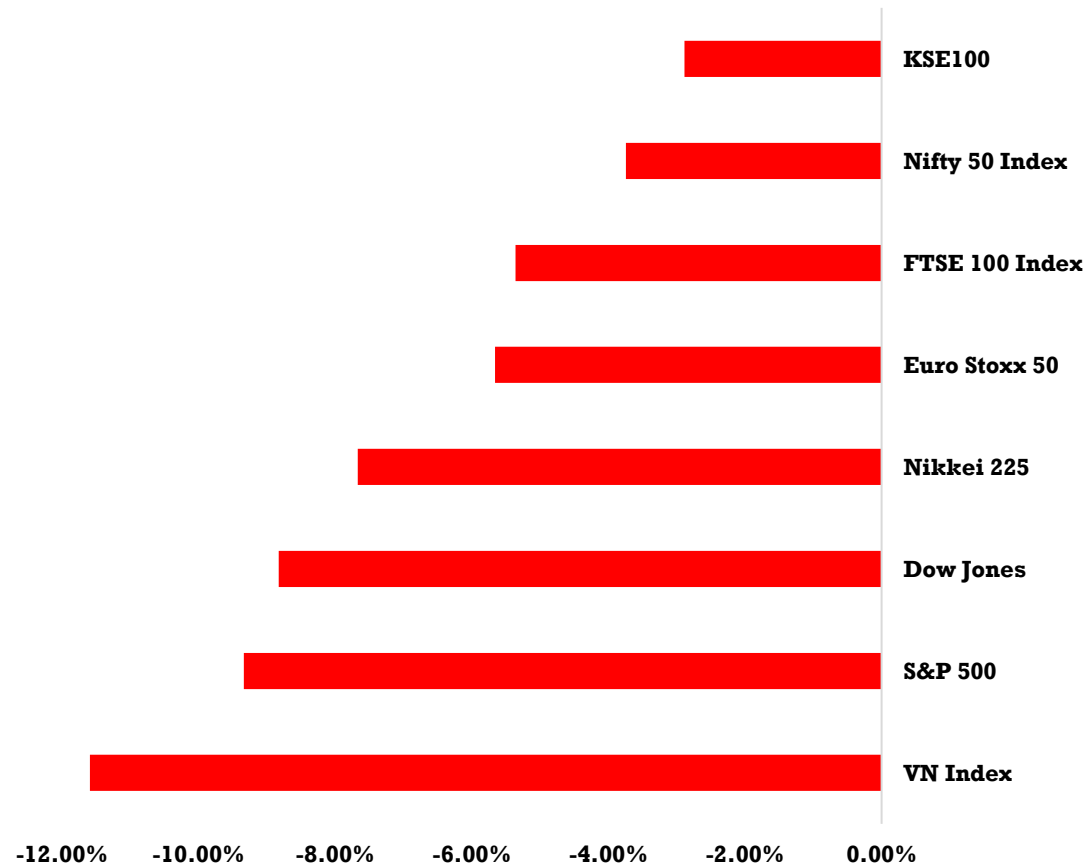
# TOURIST ARRIVALS – SEP 2022

[ SEP 29,802 – **UP +120.0%YoY** ] [ YTD 526,232 – **UP +170.6%YoY** ]

The total number of tourist arrivals to Sri Lanka during Sep 2022 was recorded at 29,802 displaying a reduction of 21.1% compared to the previous month and fell below the previous record low of 30,207 in May 2022, owing to the negative publicity by International Non-Government Organisations despite the relaxation of travel advisories to travel to Sri Lanka. The largest source markets reported for Sep 2022 were India, UK, Australia, Germany, and Russia.



# GLOBAL MARKET



Source: Investing.com

First Capital Research

## Goldman says Hong Kong home prices may fall 30%

Goldman Sachs Group Inc. sees Hong Kong's home prices declining 30% from last year's levels, worsening its outlook as rapidly rising interest rates deepen a property market rut. Residential prices are expected to fall by 15% this year and another 15% in the next, compared with end-2021 levels. Other players in the city's property sector are warning of a decline. Centaline Property Agency, one of the largest property agencies in the city, warned that 2022 property sales could hit a 27-year low

Bloomberg



**Energy giants return to fossil fuels like coal as Europe braces for winter**  
Energy firm Orsted is to continue or restart operations at three fossil fuel facilities after being ordered by Danish authorities to do so, as governments around Europe ready themselves for winter amid the energy crisis. In order to ensure the security of the electricity supply, the Danish authorities have ordered to continue as well as resume operations at some of oil- and coal-fired power stations, Mads Nipper, the Orsted CEO, said.

## Credit Suisse's turnaround just got a lot tougher as market reels

Swiss lender Credit Suisse Group AG (CSGN.S), battered by scandals and losses, is racing through a restructuring plan. Wild market swings and a social media storm are making that task increasingly difficult. Some of the bank's wealth management clients have recently become concerned about Credit Suisse's turnaround, two people familiar with the discussions told Reuters, and some have been moving funds, according to one of the people. The division is expected to be the centerpiece of the bank's turnaround plan.



REUTERS  
WORLD

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## Contact Us

**First Capital Holdings PLC**

No: 02, Deal Place,  
Colombo 00300,  
Sri Lanka.

E: [research@firstcapital.lk](mailto:research@firstcapital.lk)



**Dimantha Mathew**

Head of Research

T: +94 11 2639 853

E: [dimantha@firstcapital.lk](mailto:dimantha@firstcapital.lk)

**Ranjan Ranatunga**

Assistant Manager- Research

T: +94 11 2639 863

E: [ranjan@firstcapital.lk](mailto:ranjan@firstcapital.lk)

**Vidushika Perera**

Assistant Manager- Research

T: +94 11 2639 865

E: [vidushika@firstcapital.lk](mailto:vidushika@firstcapital.lk)

**Tharusha Ashokgar**

Research Analyst

T: +94 11 2639 866

E: [tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

**Zaeema Jihan**

Research Analyst

T: +94 11 2639 868

E: [zaheema@firstcapital.lk](mailto:zaheema@firstcapital.lk)



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A Janashakthi Group Company

