



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Jan 2023

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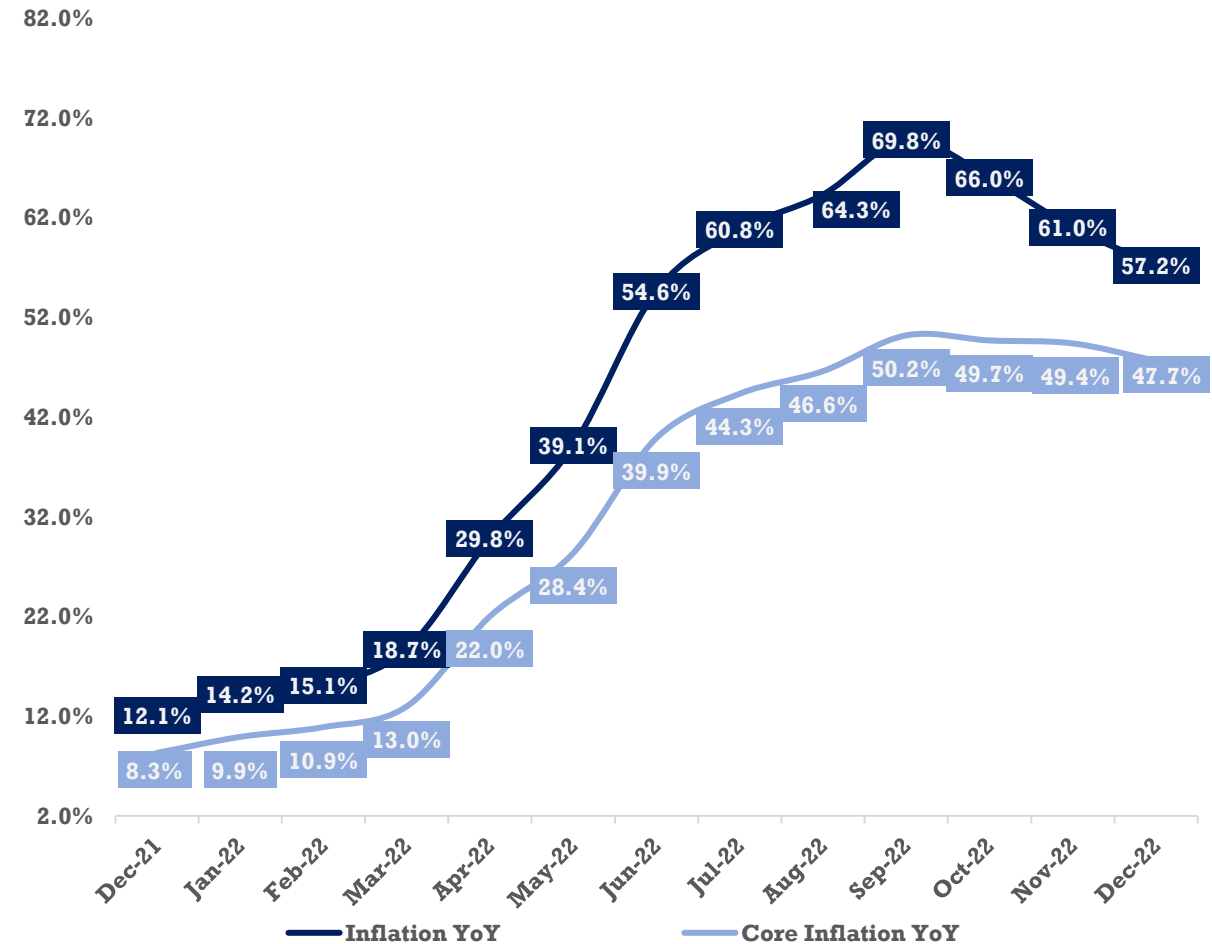
# CBSL INTRODUCES MEASURES TO REDUCE THE OVERDEPENDENCE ON THE STANDING FACILITIES

- The liquidity deficit in the domestic money market, which remained significantly high during the first half of 2022, declined in the latter part of 2022. However, in spite of the improvements in money market liquidity conditions, market interest rates continued to remain high, partly due to subdued activity in the domestic money markets. At the same time, it has been observed that several Licensed Commercial Banks (LCBs) have continued to depend excessively on the overnight Standing Facilities under Open Market Operations (OMOs) of the Central Bank without considering market based funding options to address their structural liquidity needs.
- Accordingly, the Central Bank of Sri Lanka has decided to impose restrictions on the availability of the Standing Facilities to LCBs under the OMOs. Hence, with effect from 16 Jan 2023, the Standing Deposit Facility (SDF), the overnight deposit facility that allows LCBs to park excess liquidity and earn interest, will be limited to a maximum of five (05) times per calendar month.
- Moreover, the Standing Lending facility (SLF), which is the collateralized facility provided for LCBs to fulfill any further shortage of the liquidity requirements from the Central Bank at the end of the day, would also be limited to 90% of the Statutory Reserve Requirement (SRR) of each LCB at any given day.
- The imposition of the limitations on the Standing Facilities is expected to reduce over dependence of LCBs on the overnight facilities offered by the Central Bank and support the reactivation of the domestic money market, which remained nearly inactive for the last few months, while encouraging LCBs to transact among themselves.

# INFLATION – CCPI

**CCPI FOR DEC 2022:  
MOM +0.2%,  
YOY +57.2%**

- MoM inflation increased by 0.2% with the decrease in inflation of Food group by 0.3% whilst inflation of Non-Food group increased by 0.6%.
- The YoY inflation decreased for the third consecutive month to 57.2% in Dec 2022. YoY inflation of Food group has decreased to 64.4% in Dec 2022 from 73.7% in Nov 2022 while Non-Food group decreased to 53.4% from 54.5% in Nov 2022.



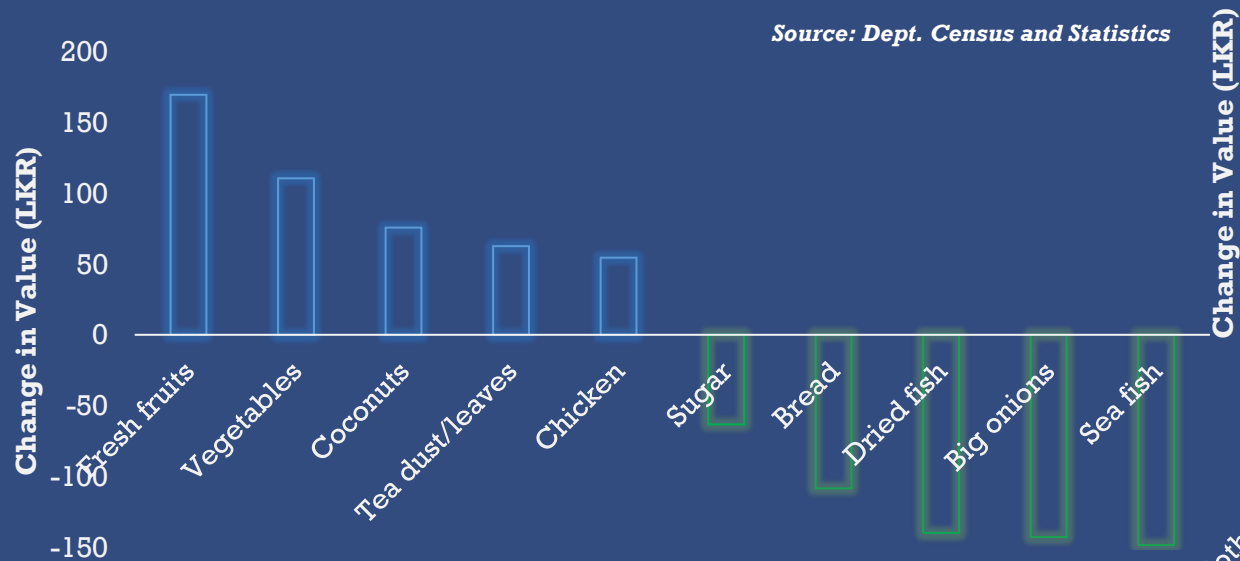
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

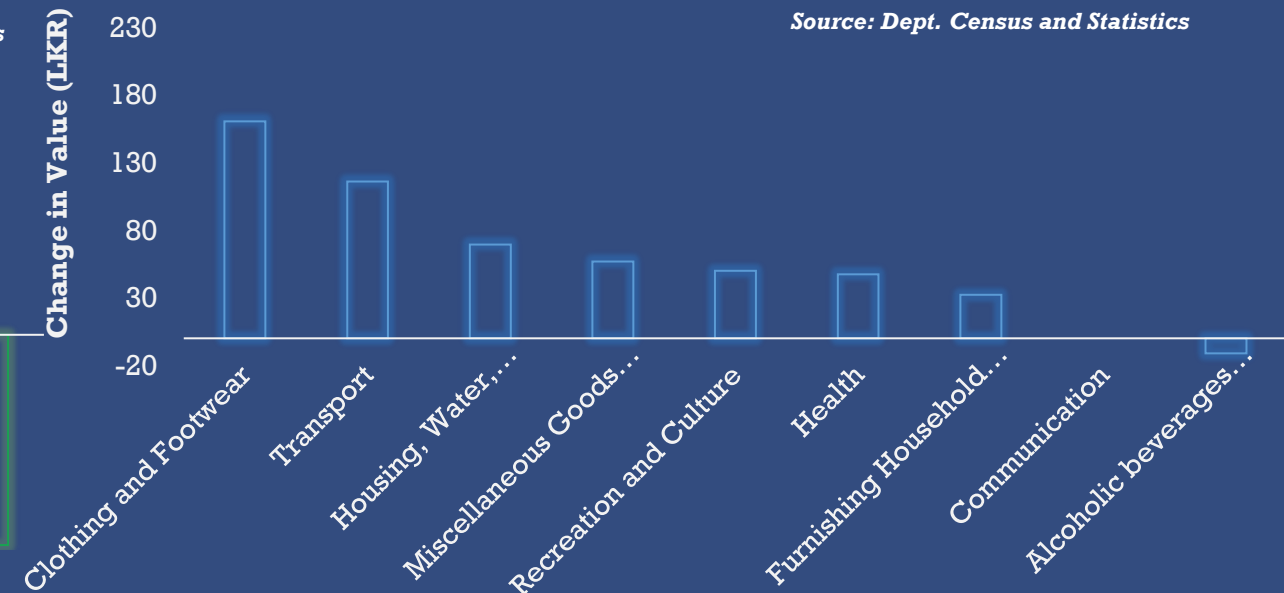
The CCPI index recorded an increase of 0.20%MoM contributed by the decrease in expenditure value of Food items by 0.10%. However, expenditure value of Non-Food items increased by 0.36%. Within the Food items, decrease in value changes were mainly reported for Sugar, Bread, Dried Fish and Big onions. Among Non-Food groups, increases in value changes were mainly reported in Clothing & Footwear, Transport, Housing, Water, Electricity and etc.



## Food Category Inflation



## Non-Food Category Inflation



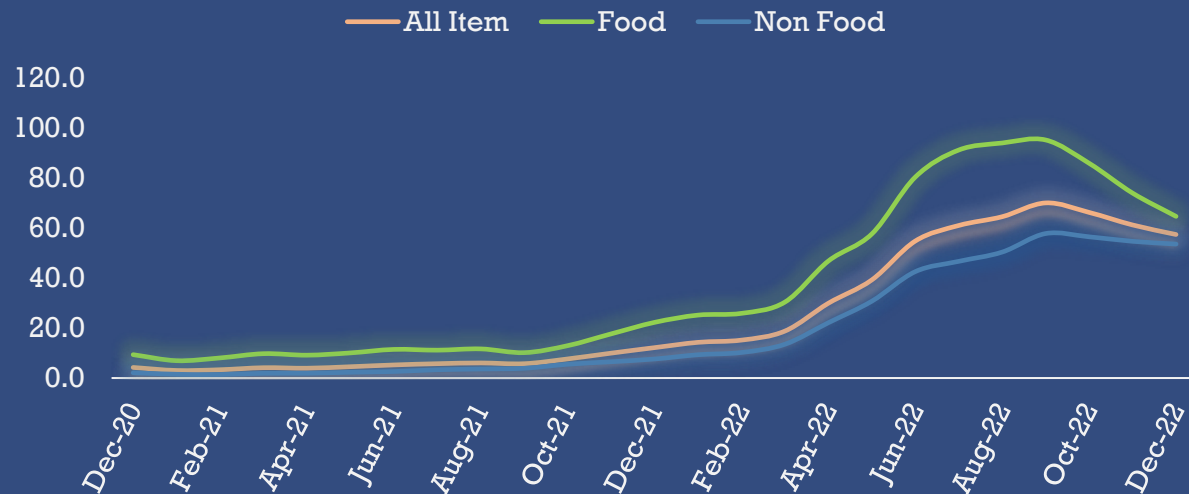


# INFLATION ANALYSIS – CCPI-YOY

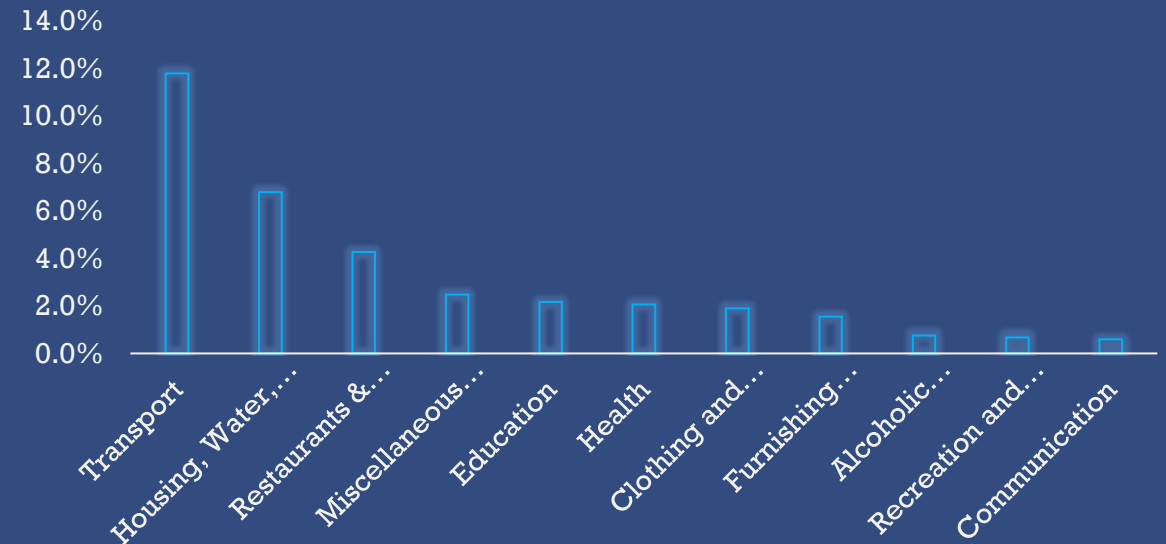
The YoY inflation of CCPI for Dec was 57.2% and has decreased relative to the month of Nov. Food item prices have decreased to 64.4%YoY in Dec 2022 from 73.7%YoY in Nov 2022 while the Non-Food item prices also decreased to 53.4%YoY from 54.5%YoY in Nov 2022. The contribution from food category for YoY inflation was 22.3% while the contribution of Non-Food items stood at 35.0% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous Goods and Services, etc.



## Inflation Analysis (YoY)



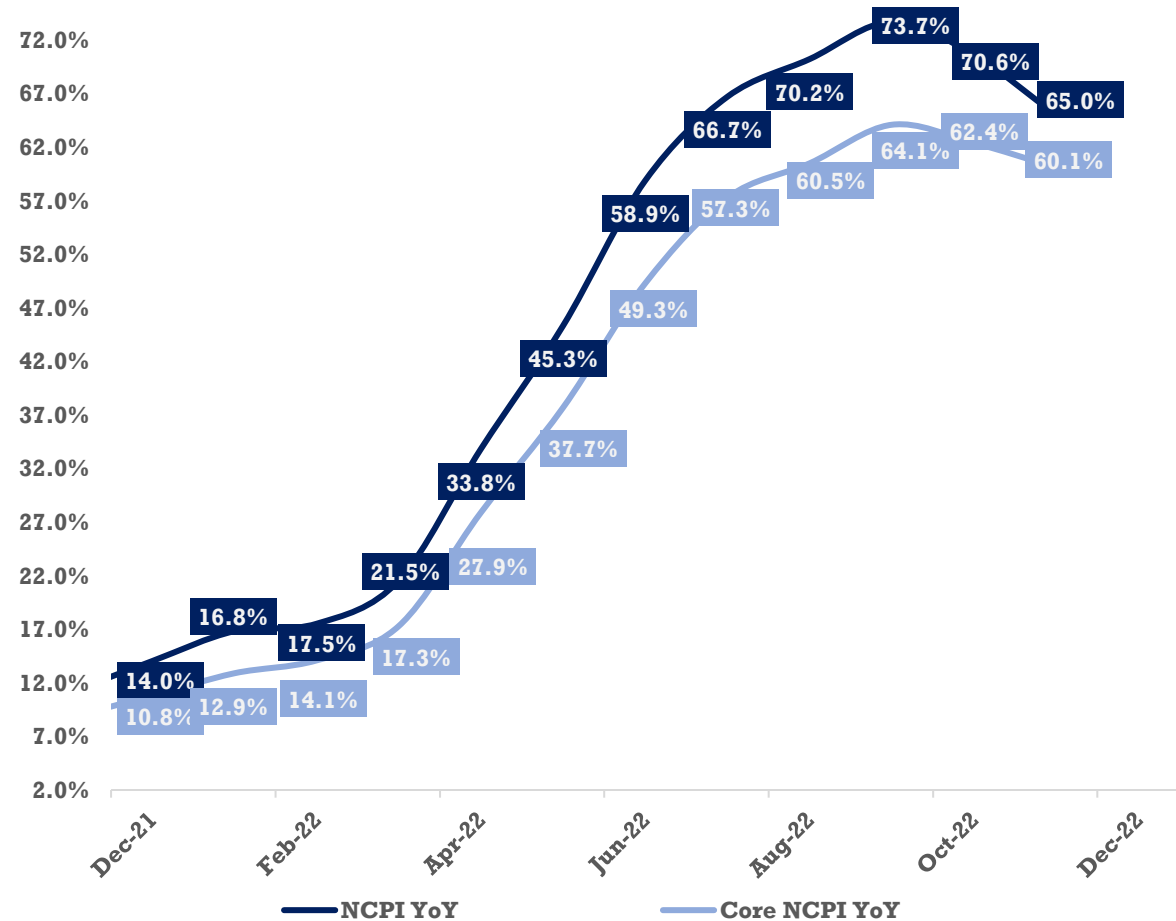
## Non-Food Category Inflation



# INFLATION – NCPI

## NCPI FOR NOV 2022: DECREASED TO 65.0%YOY

- NCPI for Nov 2022 decreased to 65.0% compared to 70.6% in Oct 2022.
- Decrease in inflation was mainly driven by the price decreases in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 69.8% in Nov 2022 from 80.9% in Oct 2022 while Non-Food inflation decreased to 60.4% in Nov 2022 from 61.3% in Oct 2022.



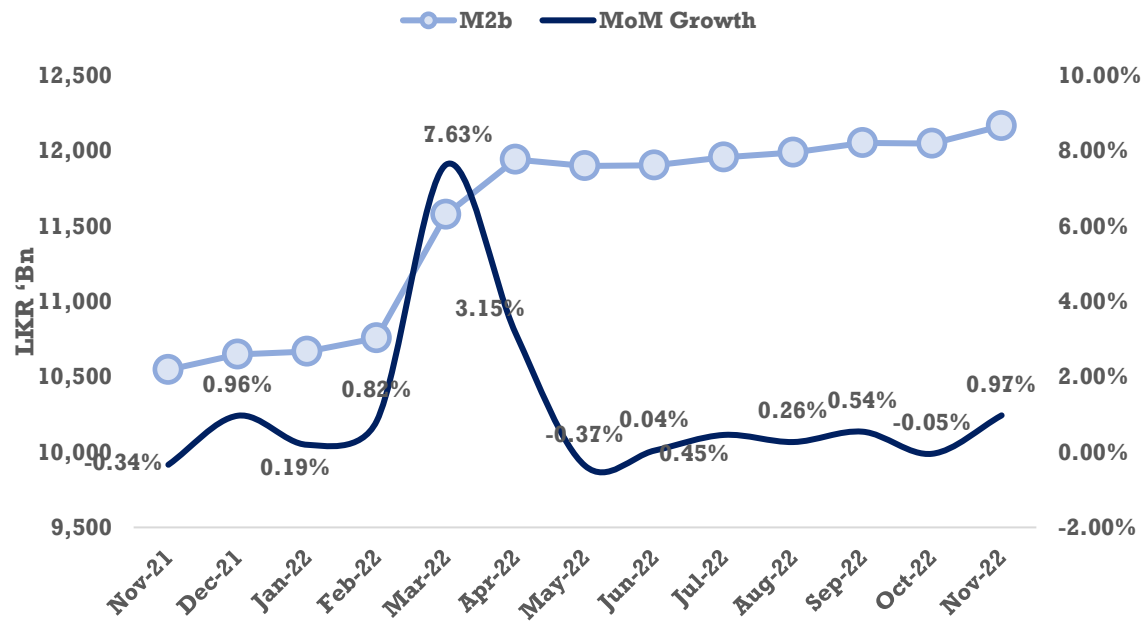
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 30.9Bn in Nov 2022 amidst the continuous spike in lending rates. State credit reflected a net borrowing of LKR 96.8Bn.

## M2b Growth – Nov 2022

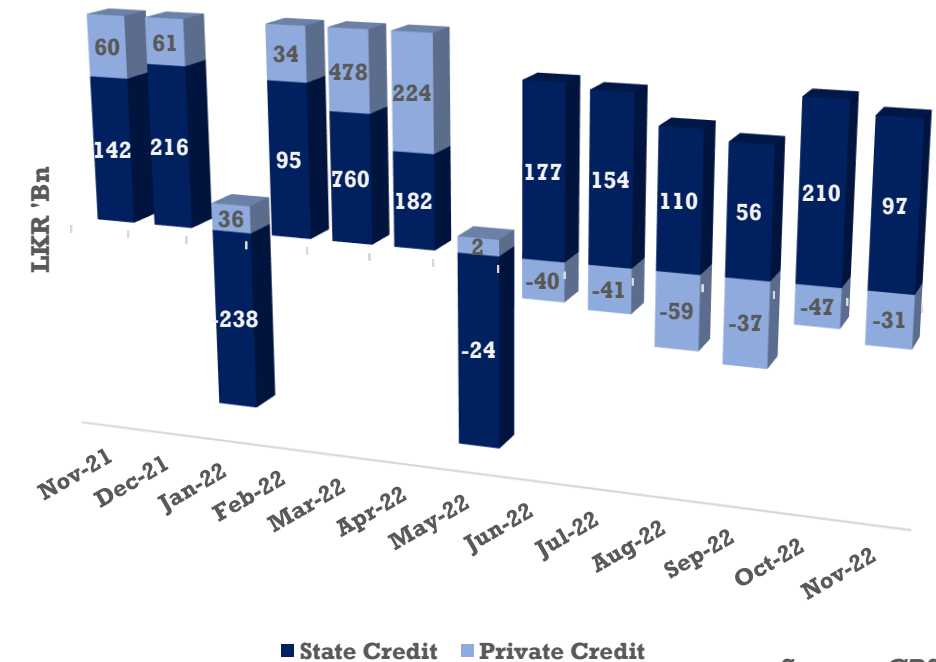
MoM +0.97%, YoY +15.33%, YTD +14.23%



Source: CBSL

## State Credit & Private Credit – Nov 2022

Private Credit MoM -0.4%, YoY +8.37%, YTD +7.42%



State Credit Private Credit

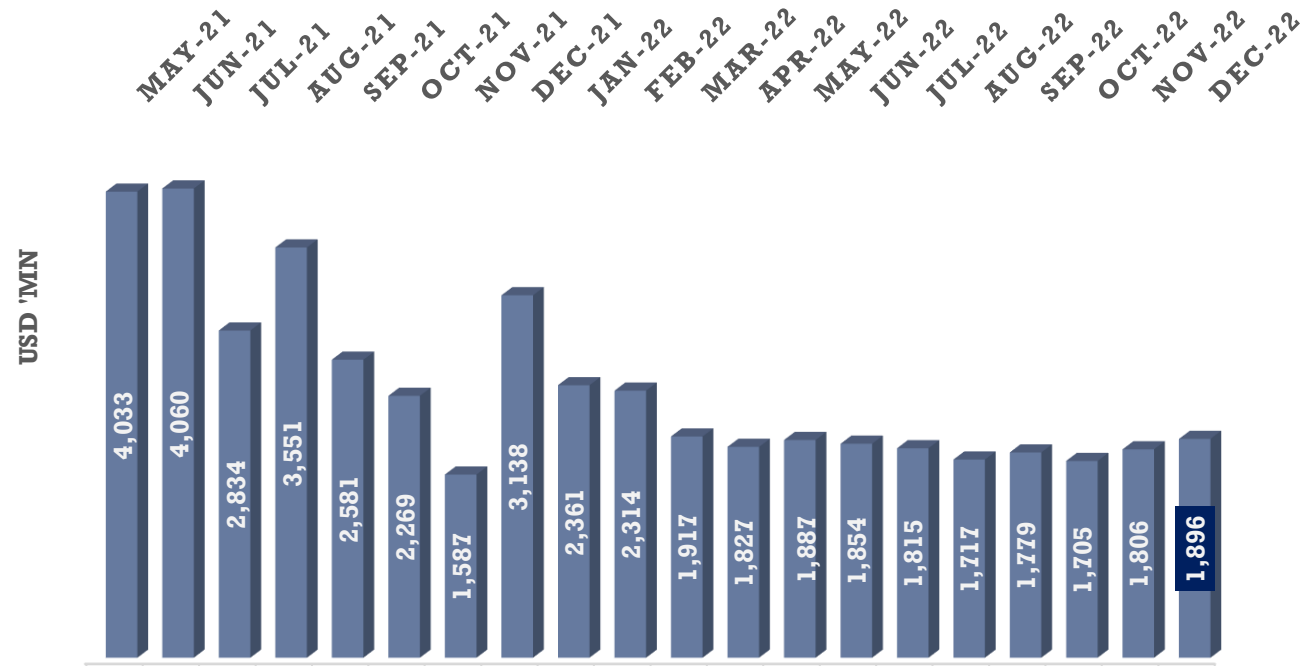
Source: CBSL



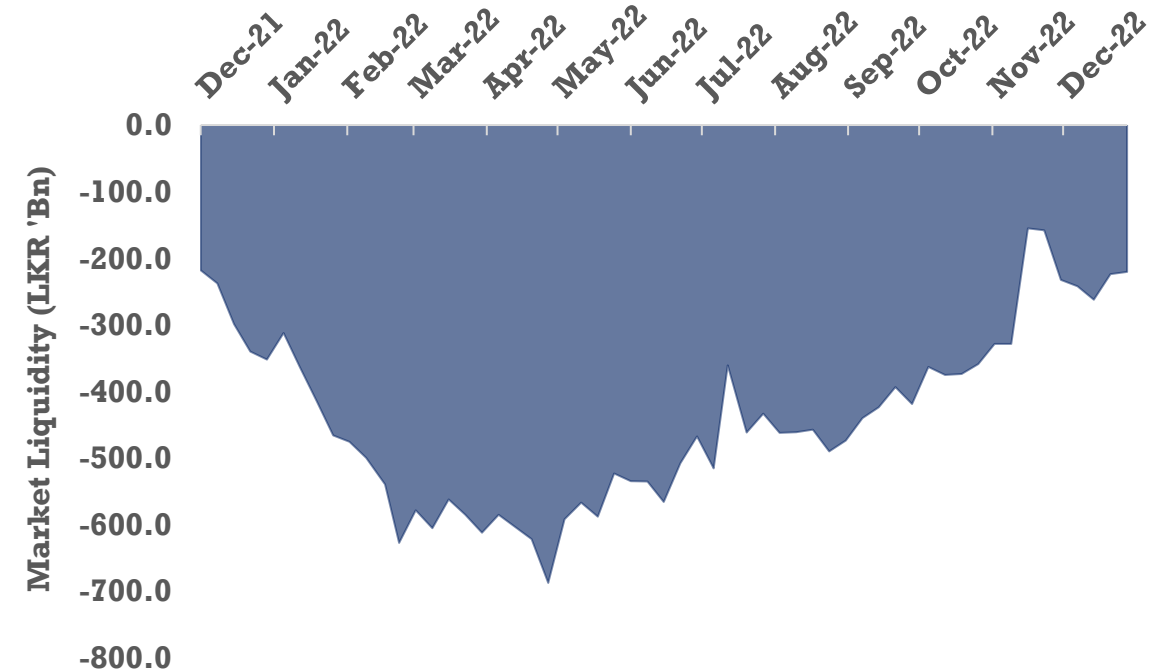
# LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 90.0Mn to USD 1.9Bn in Dec 2022.

- Market Liquidity displayed slight improvement amidst less volatility during Dec 2022.



Source: CBSL



Source: CBSL

# CURRENCY MOVEMENT

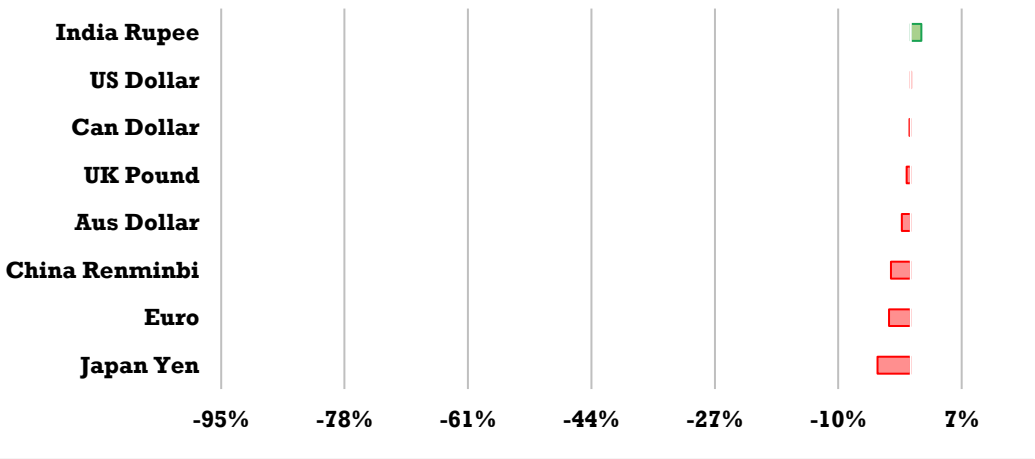
## USD:LKR Movement



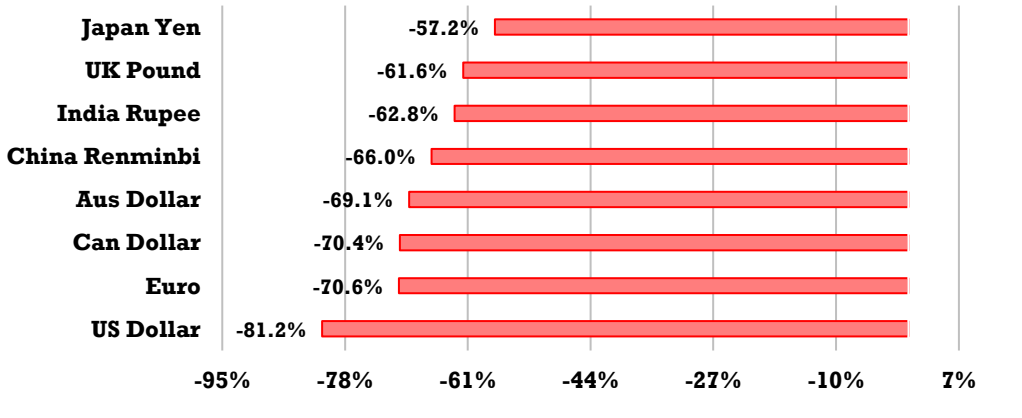
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Dec 2022



YTD 2022



Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Dec 2022

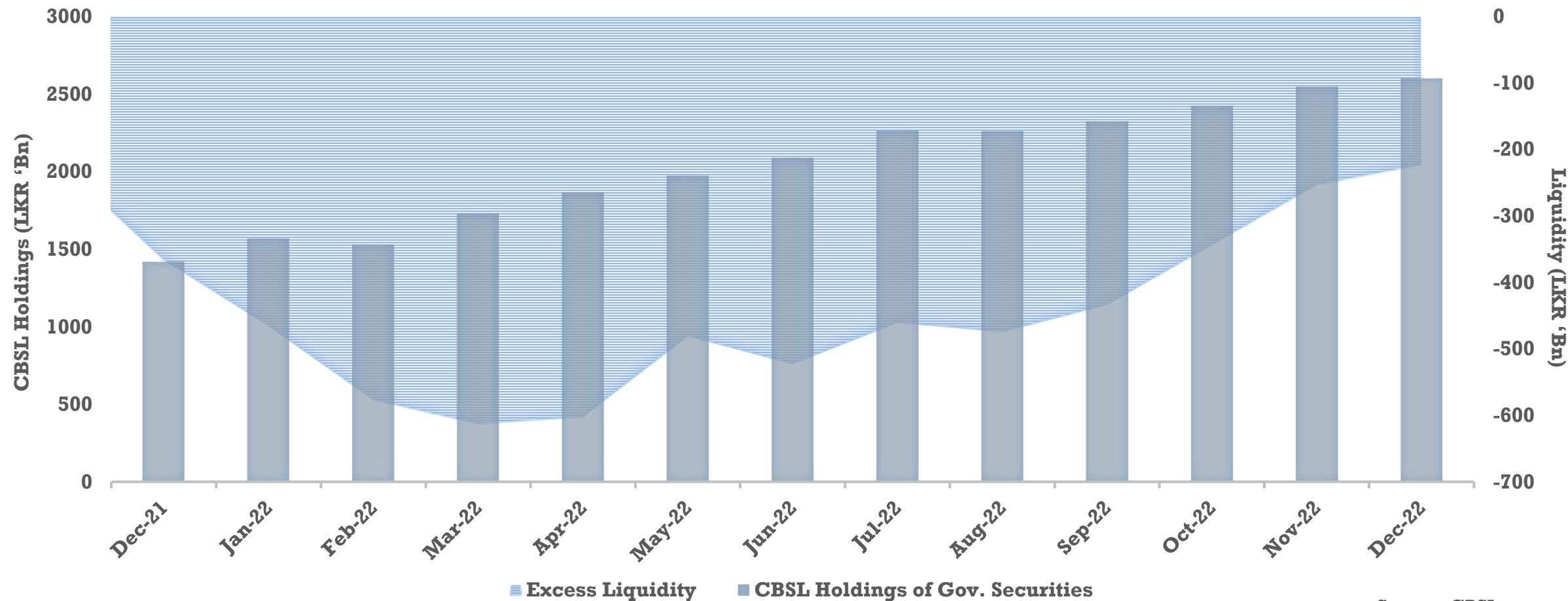
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
2-Dec-22	82,000	51,835	133,835
9-Dec-22	76,036		76,036
16-Dec-22	114,892	123,893	238,785
23-Dec-22	90,511		90,511
28-Dec-22	108,338		108,338
<b>Total Issued</b>			<b>647,505</b>

Net Settlement	Dec 2022	YTD
Maturities	662,214	7,149,383
New Issues	647,505	5,111,112
<b>Excess/ (Deficit)</b>	<b>(14,709)</b>	<b>(2,038,271)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Dec 2022	2,598,178	
As at End Nov 2022	2,544,488	
<b>Increase/ (Decrease)</b>	<b>53,690</b>	<b>1,181,426</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

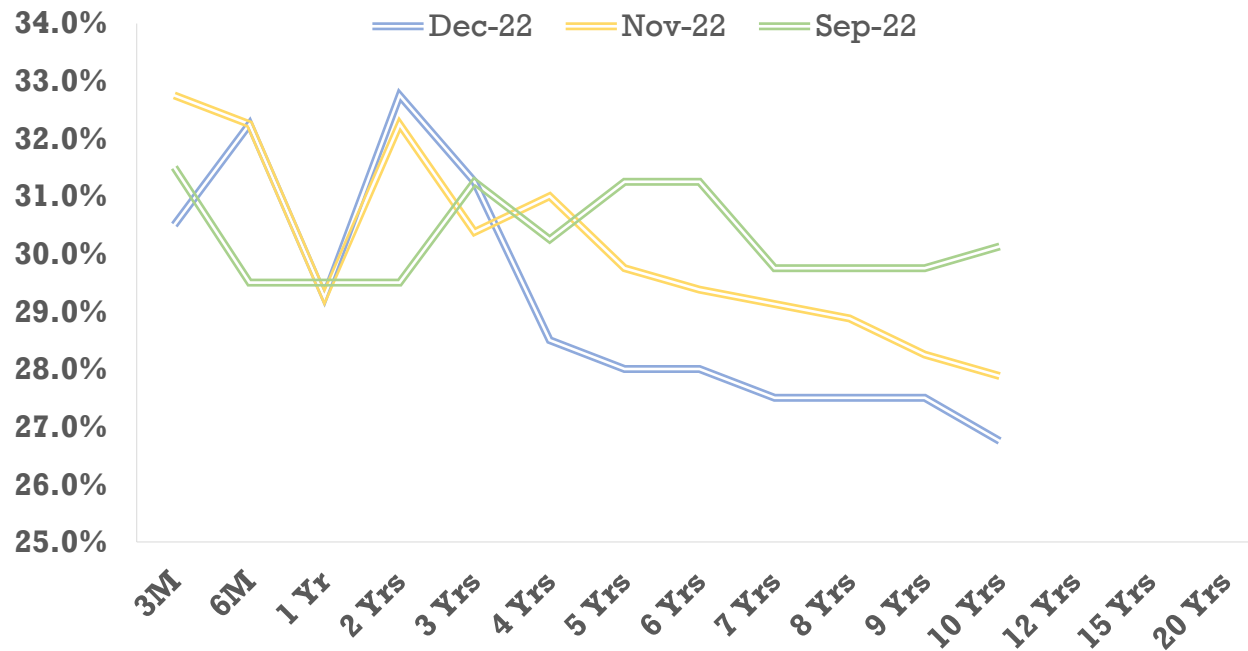
...increased by LKR 53.7Bn in Dec 2022



Source: CBSL

# TREASURY BILLS AND BONDS – DEC 2022

During the month of Dec, secondary market yield curve displayed sizeable volatility as mid-long term tenures declined by 75-250bps. Decline in yields was visible during the first week of the month with strengthened buying interest as investors expected interest rates to ease. Further, weighted average yields continued to dip at the weekly T-Bill auctions which further inflated buying interest. However, towards mid month yields slightly edged higher as investors took sidelines while participation toned down towards the end of the month as the holiday season approached.

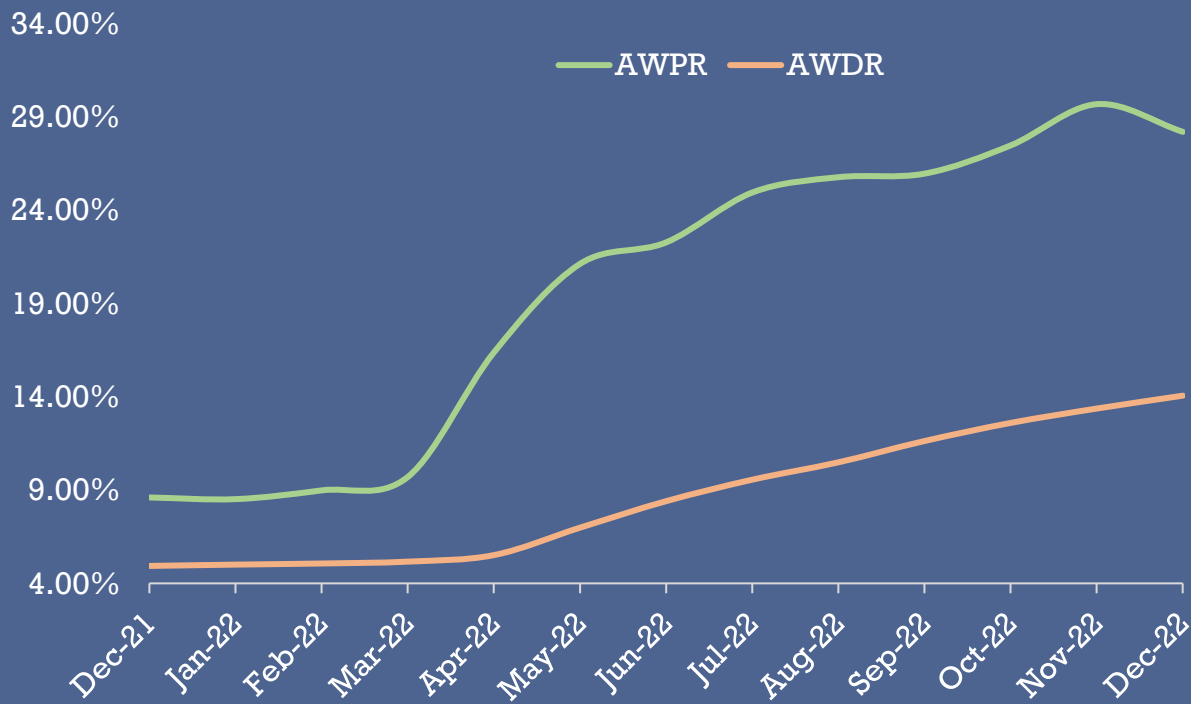


Source: First Capital Research

Interest Rate Change (bps)

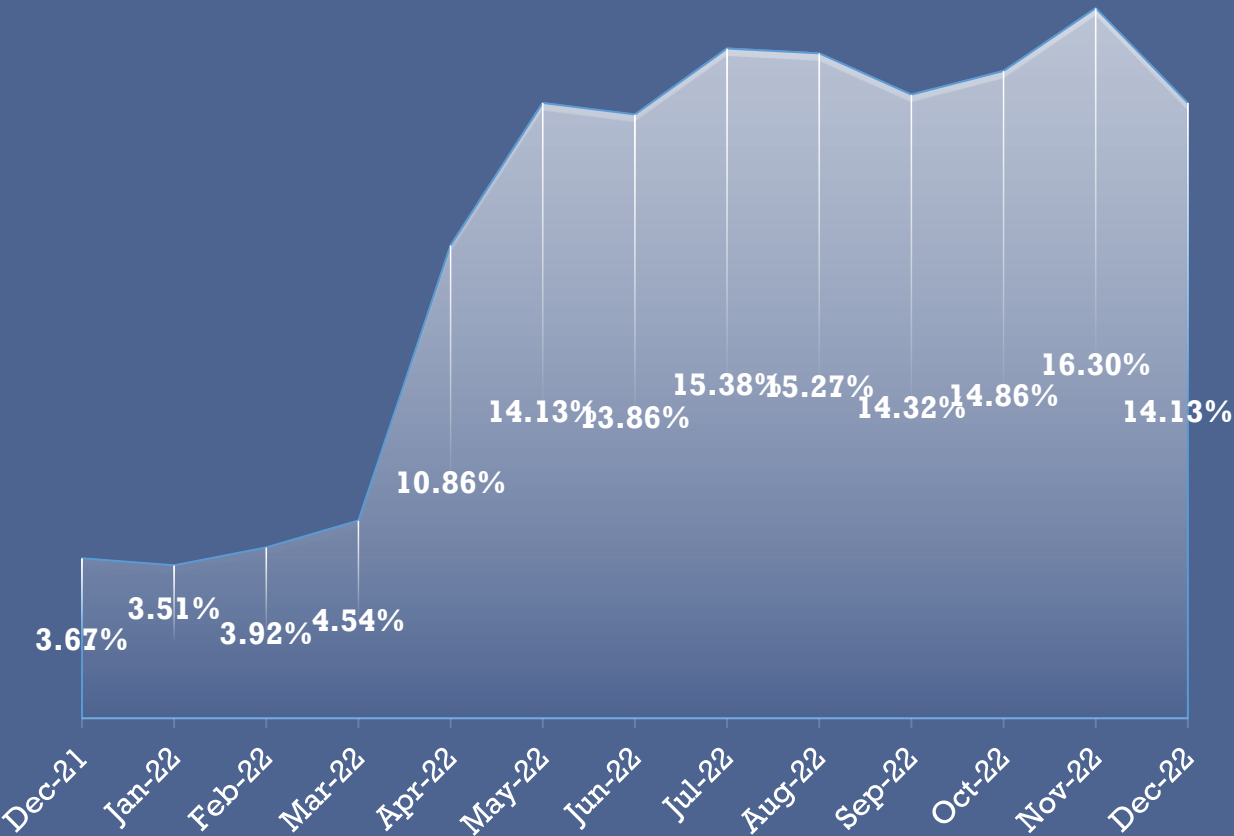
Tenure	Dec-22	Nov-22	Change (bps)	Sep-22	Change (bps)
3M	30.50%	32.75%	-225	31.50%	-100
6M	32.25%	32.25%	0	29.50%	275
1 Yr	29.25%	29.25%	0	29.50%	-25
2 Yrs	32.75%	32.25%	50	29.50%	325
3 Yrs	31.25%	30.38%	87	31.25%	0
4 Yrs	28.50%	31.00%	-250	30.25%	-175
5 Yrs	28.00%	29.75%	-175	31.25%	-325
6 Yrs	28.00%	29.38%	-138	31.25%	-325
7 Yrs	27.50%	29.13%	-163	29.75%	-225
8 Yrs	27.50%	28.88%	-138	29.75%	-225
9 Yrs	27.50%	28.25%	-75	29.75%	-225
10 Yrs	26.75%	27.88%	-113	30.13%	-338
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

# AWPR vs AWDR



Source: CBSL

# Interest Spread



Source: CBSL

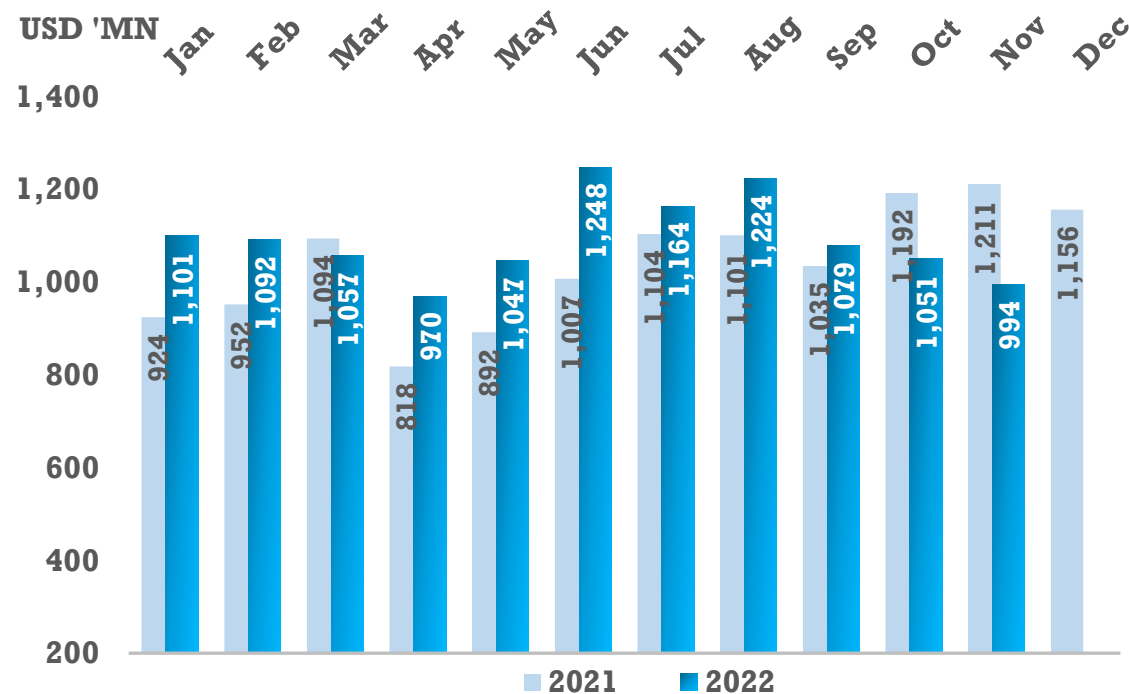
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – NOV 22 – EXPORTS

Exports for Nov decreased by 17.9%YoY to USD 994.4Mn owing to the decrease in earnings in all three categories, industrial, agricultural and mineral exports. Decline in earnings from the export of industrial goods were mainly led by lower export earnings from garments as exports to most of the major markets declined while decline in rubber exports was due to the lower exports of tires and household gloves. Furthermore, earnings from exports of petroleum products that comprise bunkering and aviation fuel also declined due to lower export volumes despite a notable increase in average export prices. Meanwhile, decline in agricultural exports was due to the decline in earnings from spices and coconut related products. Mineral exports recorded a substantial degrowth driven by decline in export earnings from titanium ores.

Category	2021 (USD 'Mn)	2022 (USD 'Mn)	Change (%)
Industrial Exports			
- Nov	935.4	791.1	-15.4
- YTD	8,785.3	9,611.6	9.4
Agricultural			
- Nov	268.9	199.3	-25.9
- YTD	2,497.2	2,364.6	-5.3
Mineral Exports			
- Nov	3.5	1.7	-50.5
- YTD	39.5	29.0	-26.4
<b>Total</b>			
- Nov	1,211.5	994.4	-17.9
- YTD	11,342.3	12,026.0	6.0

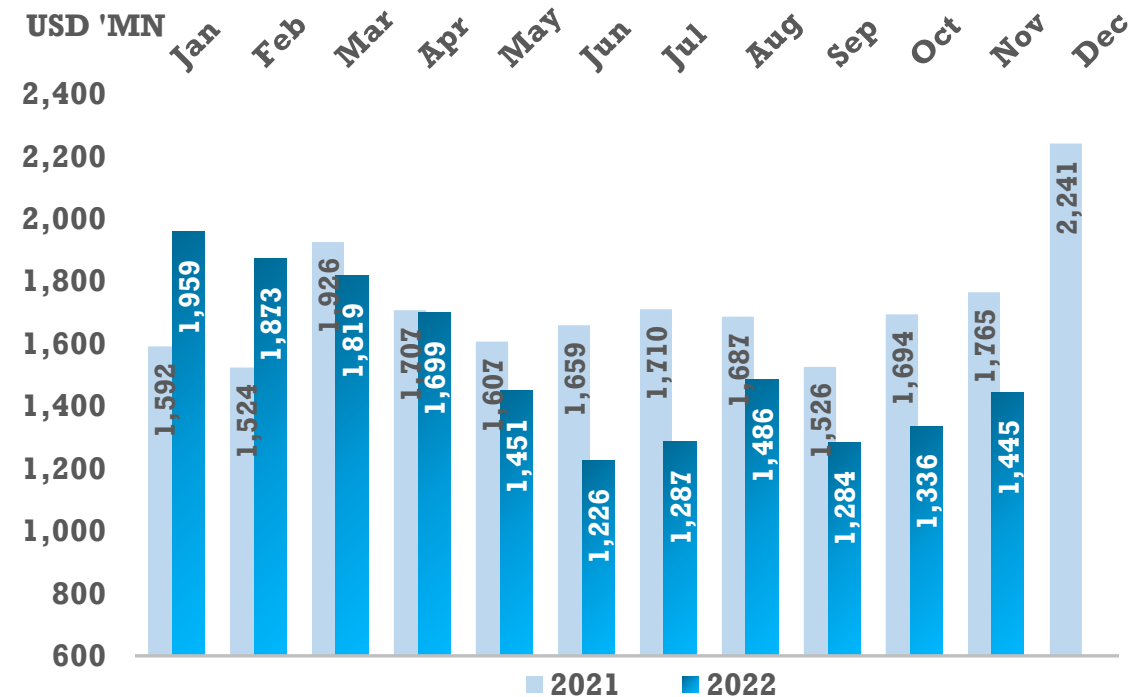


Source: CBSL  
Jan 2023

# EXTERNAL SECTOR – NOV 22 – IMPORTS

Import expenditure declined by 18.1%YoY to USD 1.4Bn in Nov 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 telecommunication devices (mainly mobile phones), medical and pharmaceuticals and home appliances. Meanwhile, expenditure on importation on food and beverages declined during the month with the decline in import volumes of sugar and oils and fats. Decline in Expenditure for importation of intermediate goods was contributed by the decline in textile and textile articles and rubber and rubber-based products. Meanwhile, import expenditure on fuel which consists of crude oil, refined petroleum and coal increased amidst the higher average import prices. 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			
- Nov	305.8	222.7	-27.2
- YTD	3,429.4	2,571.5	-25.0
Intermediate			
- Nov	1,017.2	1,012.4	-0.5
- YTD	10,940.7	11,454.9	4.7
Investment goods			
- Nov	433.7	209.3	-51.7
- YTD	4,009.8	2,830.5	-29.4
<b>Total</b>			
- Nov	1,764.6	1,444.6	-18.1
- YTD	18,396.4	16,865.5	-8.3

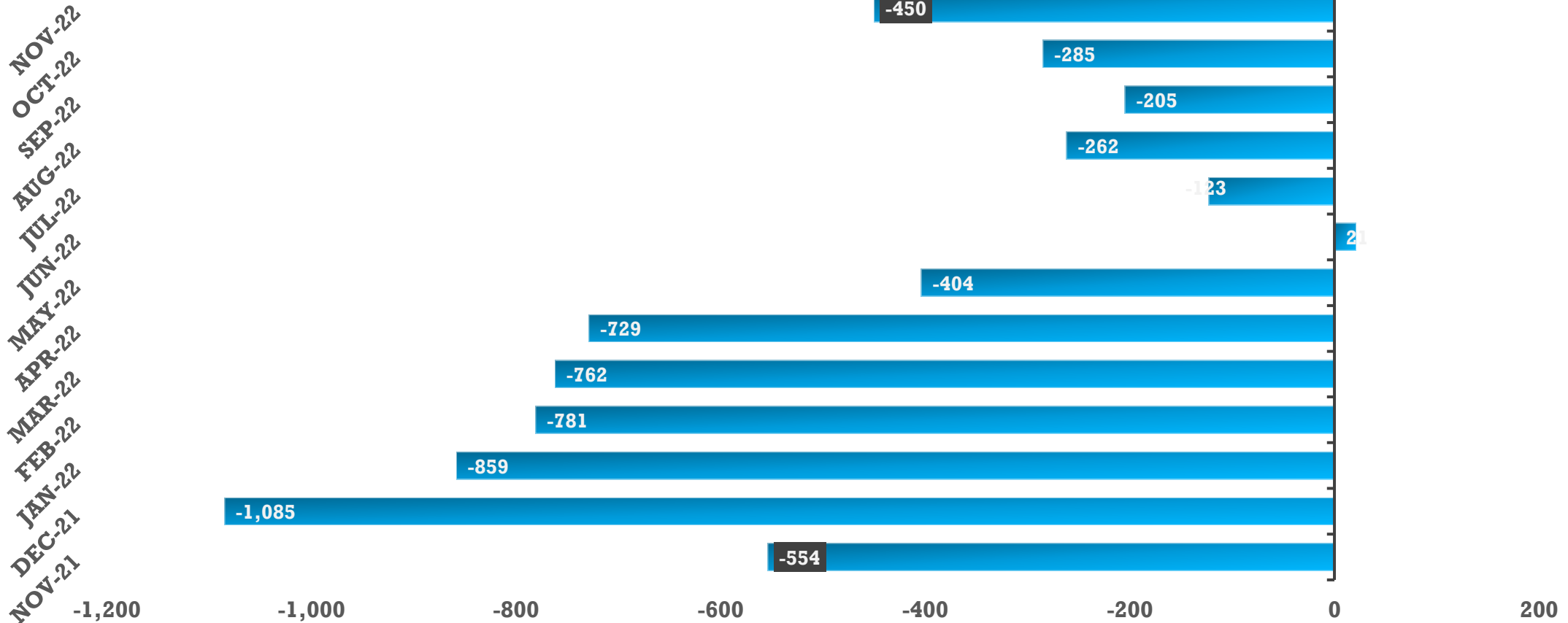


Source: CBSL

Jan 2023

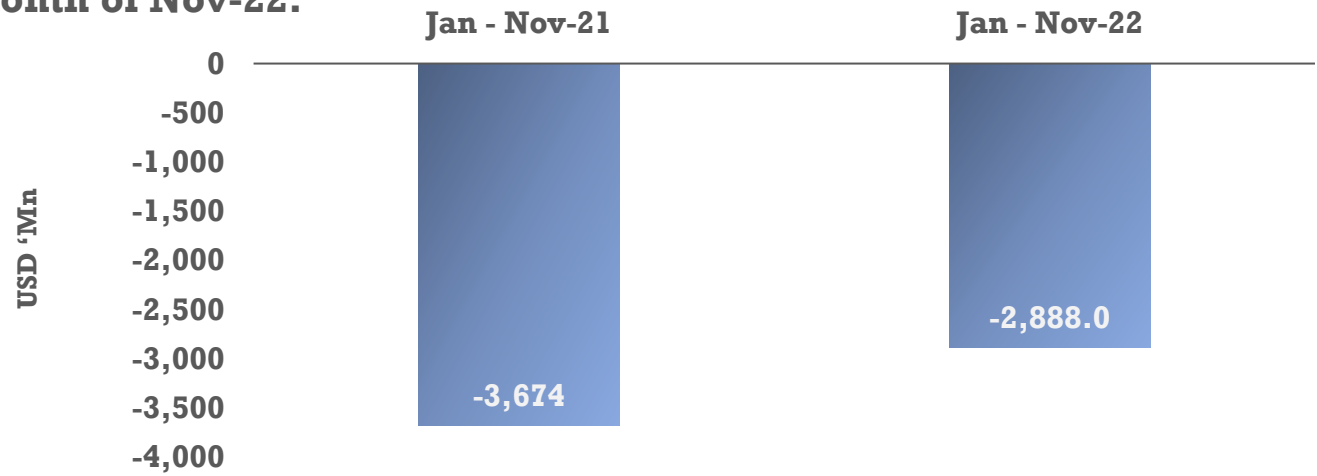
# EXTERNAL SECTOR – NOV 22

## Balance of Trade



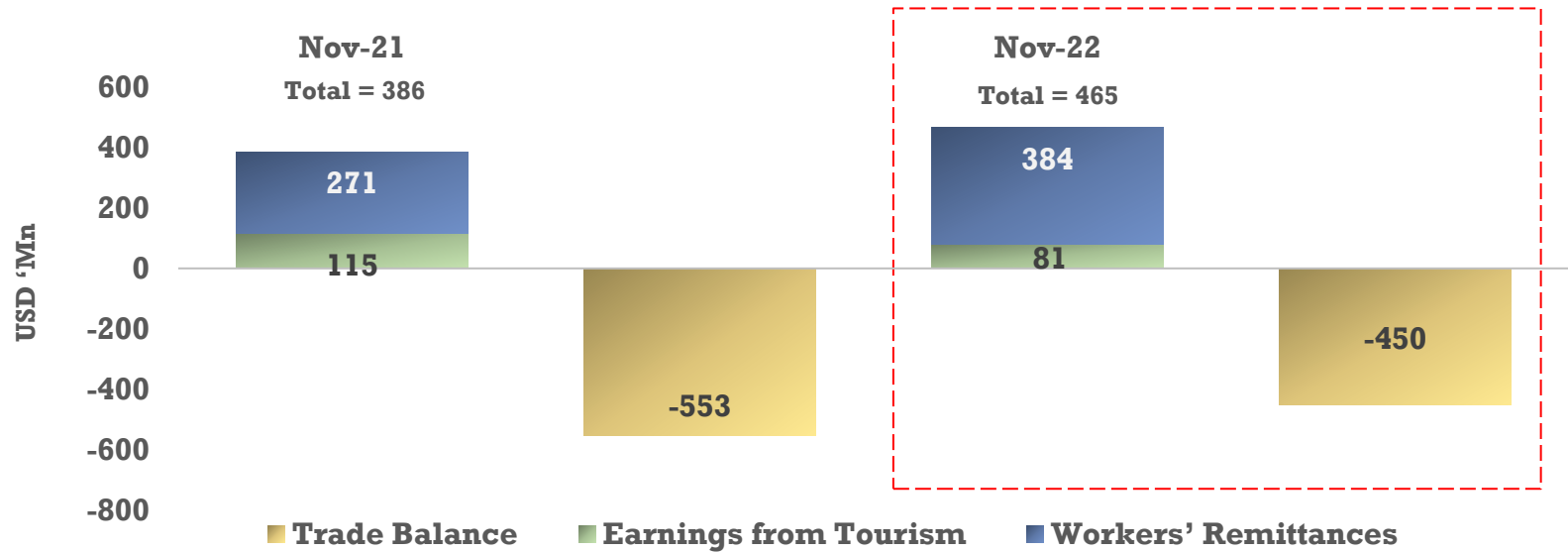
Source: Central Bank

BoP for Jan – Nov-22 recorded at USD -2,888.0Mn compared to Jan – Oct-22 amount of USD -2,989.0Mn recording a net outflow of USD 101.0Mn for the month of Nov-22.



Source: CBSL

Workers' Remittances inclined to USD 384.0Mn in Nov-22 (+41.7%YoY). Earnings from Tourism for Nov-22 dropped to USD 81.0Mn from USD 115.0Mn in Nov-21.



Source: CBSL

## BALANCE OF PAYMENT DEFICIT INCREASED YOY IN NOV 2022

Nov USD 'Mn	2021	2022	Change (%)
Trade Balance	-553	-450	
Earnings from Tourism	115	81	-29.6
Workers' Remittances	271	384	+41.7

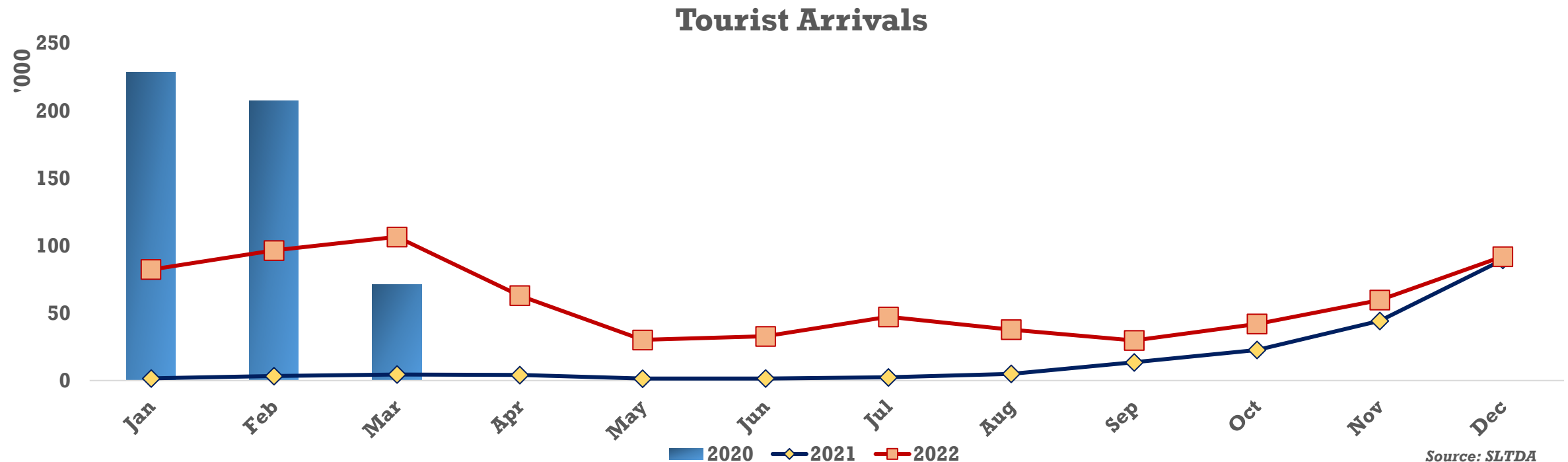
YTD USD 'Mn	2021	2022	Change (%)
Trade Balance	-7,054	-4,839	
Earnings from Tourism	274	1,099	>100
Workers' Remittances	5,166	3,314	-35.8

Source: CBSL

# TOURIST ARRIVALS – DEC 2022

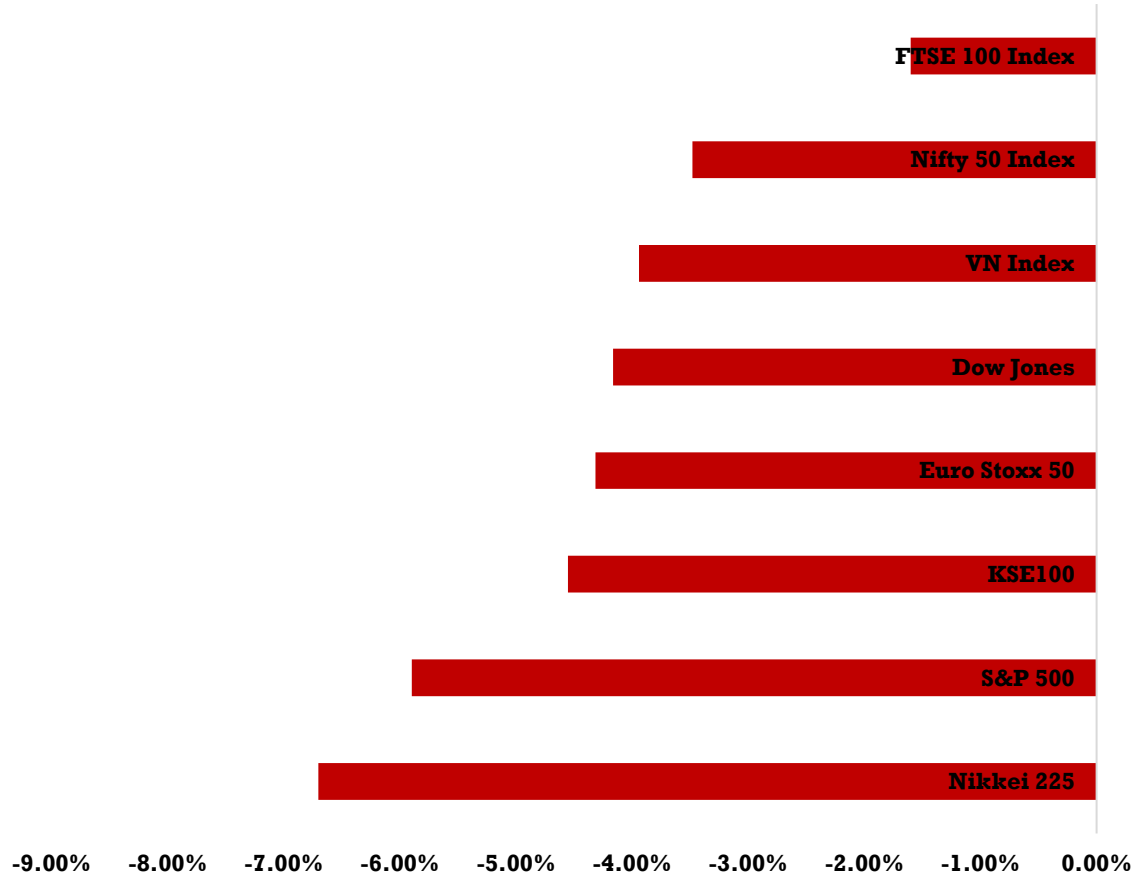
[ DEC 91,961 – **UP +2.7%YoY** ] [ YTD 719,978 – **UP +270.2%YoY** ]

The total number of tourist arrivals to Sri Lanka during Dec 2022 was recorded at 91,961 displaying a substantial increase of 53.9% compared to the previous month, owing to the peak travel season, resumption of multiple airlines and cruise tourism to Sri Lanka. The largest source markets reported for Dec 2022 were Russia, India and UK.



Source: SLTDA

# GLOBAL MARKET



Source: Investing.com

First Capital Research

## South Africa Has Its First Case of Most Transmissible Covid Variant

South Africa has found its first case of a coronavirus infection caused by the new, highly transmissible XBB.1.5 variant. Maria Van Kerkhove, Covid-19 technical lead at the World's Health Organization, called XBB.1.5 "the most transmissible sub-variant" detected so far in the pandemic. Nicknamed the "kraken variant" by some for its ability to spread, so far there hasn't been significant differences in severity identified between cases caused by XBB.1.5 and those from other variants. The WHO plans an updated assessment on the variant's risks in the coming days.

Bloomberg



## Euro zone inflation rate slides to 9.2% as energy price surge cools

Inflation in the euro zone dropped for a second consecutive month in December, but analysts do not expect it to spark a change in tone from the European Central Bank. Headline inflation, which includes food and energy costs, came in at 9.2% year on year in December, according to preliminary data from the European statistics agency, Eurostat. It follows November's headline inflation rate of 10.1%, which represented the first slight contraction in prices since June 2021. The euro area economy has come under immense pressure in the wake of Russia's invasion of Ukraine in February 2022, with energy and food costs soaring last year.

## Tesla owners in China protest against surprise price cuts they missed

Hundreds of Tesla (TSLA.O) owners gathered at the automaker's showrooms and distribution centres in China, demanding rebates and credit after sudden price cuts they said meant they had overpaid for electric cars they bought earlier. About 200 recent buyers of the Tesla Model Y and Model 3 gathered at a Tesla delivery centre in Shanghai to protest against the U.S. carmaker's decision to slash prices for the second time in three months.



REUTERS  
WORLD

Jan 2023

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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)

**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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