



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Mar 2023

CONTENT BRIEFING

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THE CENTRAL BANK OF SRI LANKA RAISES THE POLICY INTEREST RATES

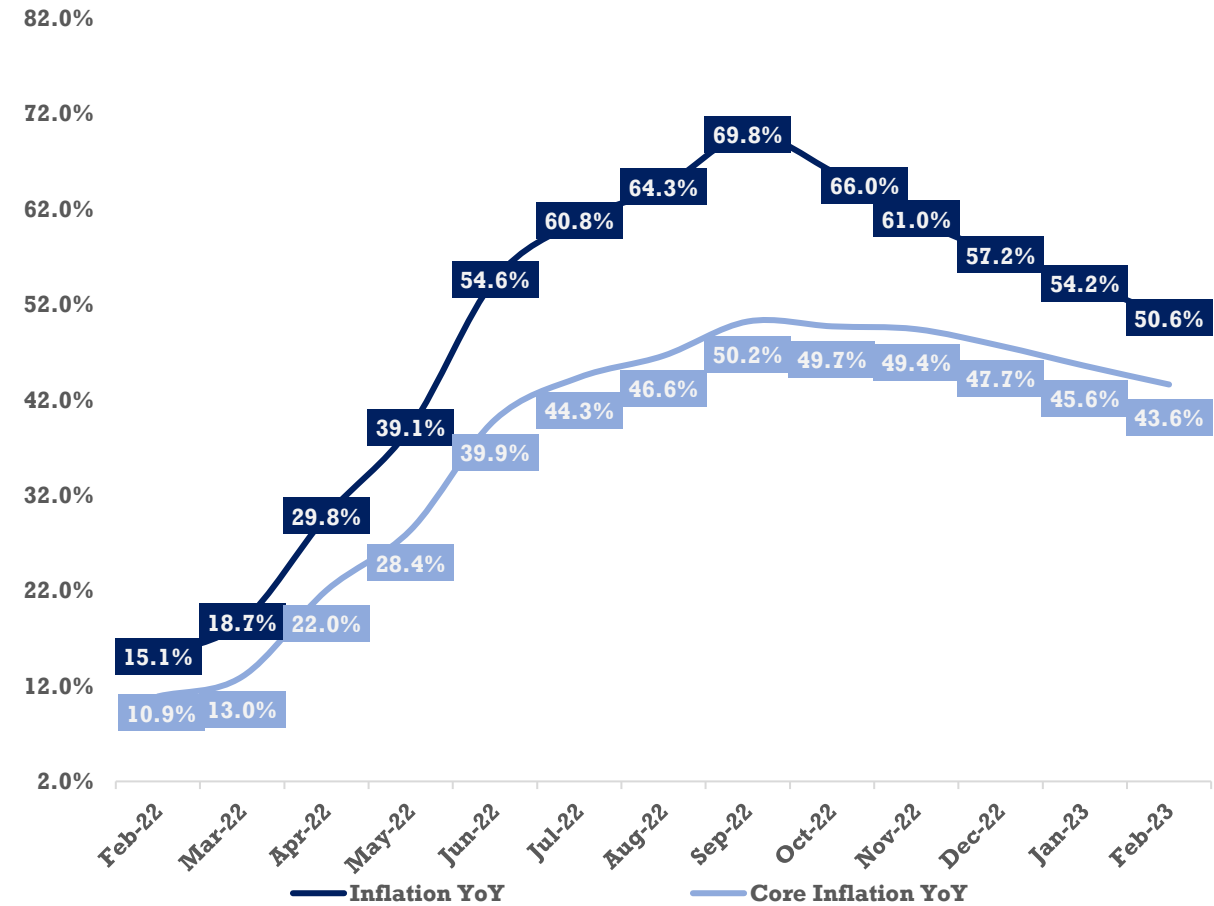
- The Monetary Board of the Central Bank of Sri Lanka (CBSL), at its meeting held on 03rd Mar- 2023, decided to raise the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100 basis points to 15.50% and 16.50%, respectively.
- The CBSL and the staff of the International Monetary Fund (IMF) have been engaging continuously in intensive negotiations on the monetary policy stance amidst extraordinarily high inflation and a high degree of uncertainty surrounding inflation projections and the near term outlook. There have been some differences between the CBSL and IMF staff on the inflation outlook.
- Given the necessity of fulfilling all the 'prior actions' in order to move forward with the finalization of the IMF Extended Fund Facility (EFF) arrangement, the Monetary Board and the IMF staff reached consensus to raise the policy interest rates, in a smaller magnitude, compared to the adjustment, which was envisaged during the initial stage of negotiations.
- The Board was of the view that the economy has already traversed through the most difficult and unprecedented times with tremendous resilience and strongly believes that this decision would pave way for a faster-than-expected deceleration of inflation.
- The Monetary Board anticipates that this monetary policy action would help lower the spread between policy interest rates and high market interest rates. This spread is expected to be further reduced with the reduction in market interest rates in the period ahead, especially the yields on government securities.

Source: CBSL

INFLATION – CCPI

CCPI FOR FEB 2023: MOM +0.5%, YOY +50.6%

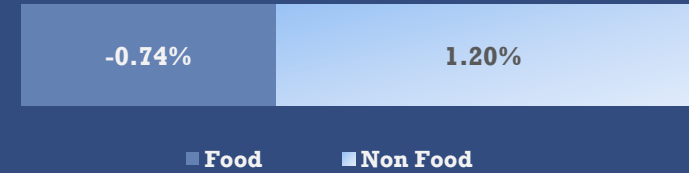
- MoM inflation increased by 0.5% with the decrease in inflation of Food group by 2.2% while Non-Food group increased by 1.8%.
- The YoY inflation decreased for the fifth consecutive month to 50.6% in Feb 2023. YoY inflation of Food group has decreased to 54.4% in Feb 2023 from 60.0% in Jan 2023 while Non-Food group increased to 48.8% from 47.9% in Jan 2023.



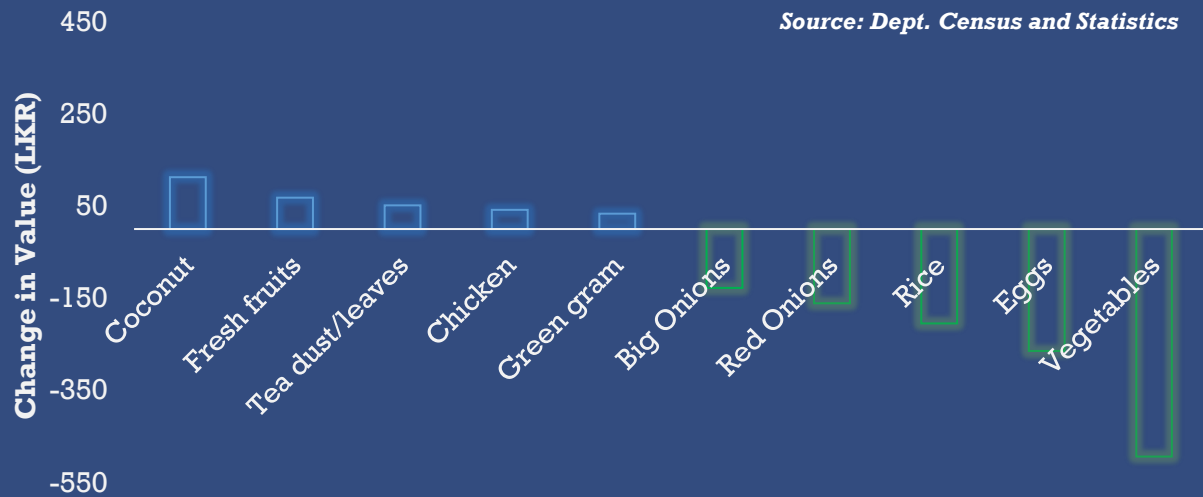
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

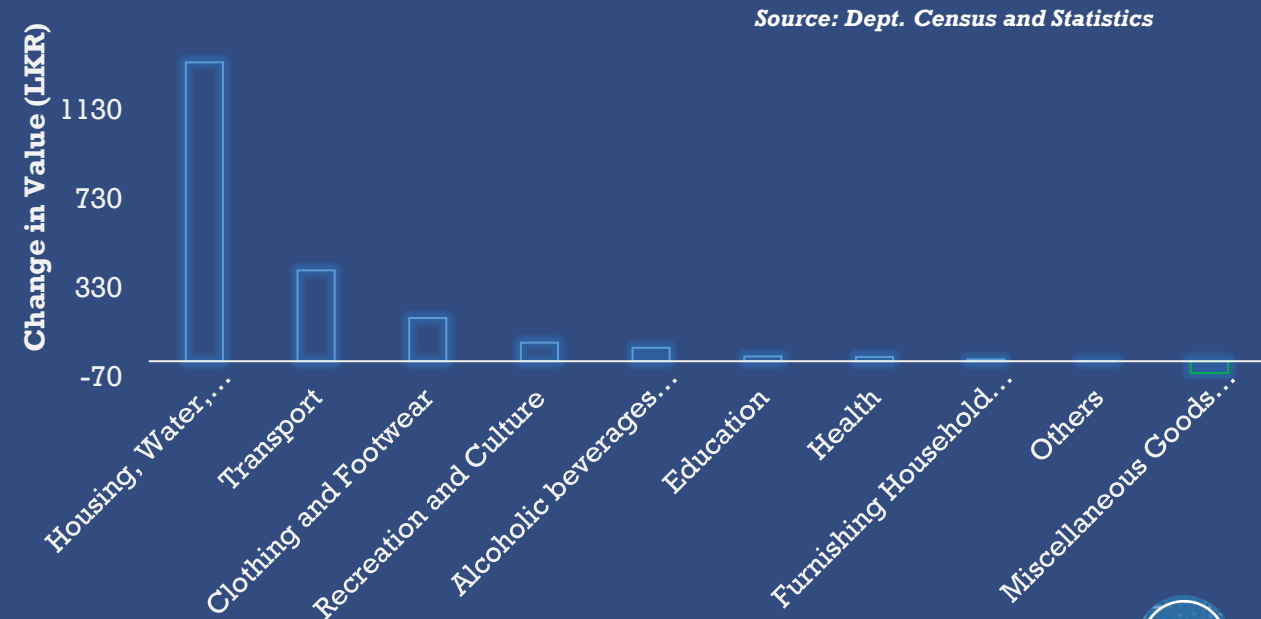
The CCPI index recorded an increase of 0.5%MoM contributed by the decrease in expenditure value of Food items by 0.74% and increase in Non-Food items by 1.20%. Within the Food items, decrease in value changes were mainly reported for Vegetables, Eggs, Rice and Red Onions. Among Non-Food groups, increases in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels, Transport, Clothing & Footwear and Recreation and Culture and etc.



Food Category Inflation



Non-Food Category Inflation



INFLATION ANALYSIS – CCPI-YOY

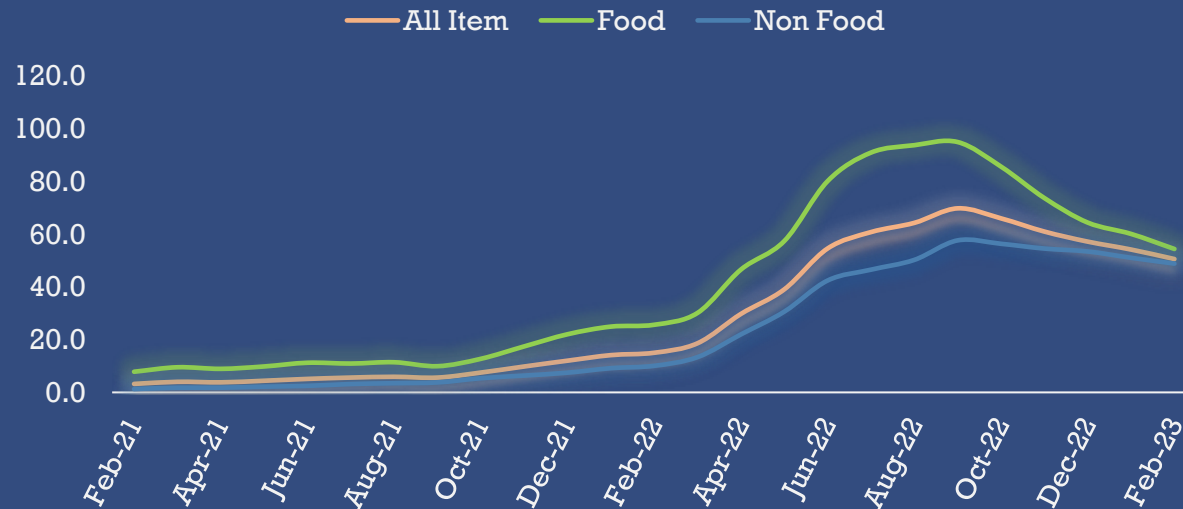
The YoY inflation of CCPI for Feb was 50.6% and has decreased relative to the month of Jan. Food item prices have decreased to 54.4%YoY in Feb 2023 from 60.0%YoY in Jan 2023 while the Non-Food item prices increased to 48.8%YoY from 47.9%YoY in Feb 2023. The contribution from food category for YoY inflation was 17.23% while the contribution of Non-Food items stood at 33.36% mainly due to the increase in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurants & Hotels, Miscellaneous Goods and Services, etc.

17.23%

33.36%

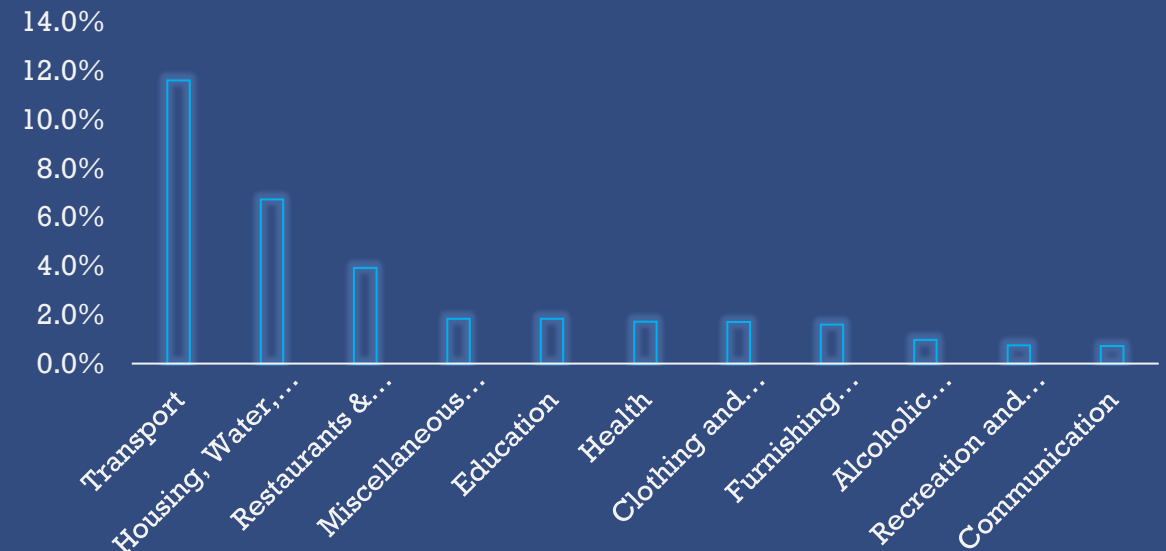
■ Food ■ Non Food

Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

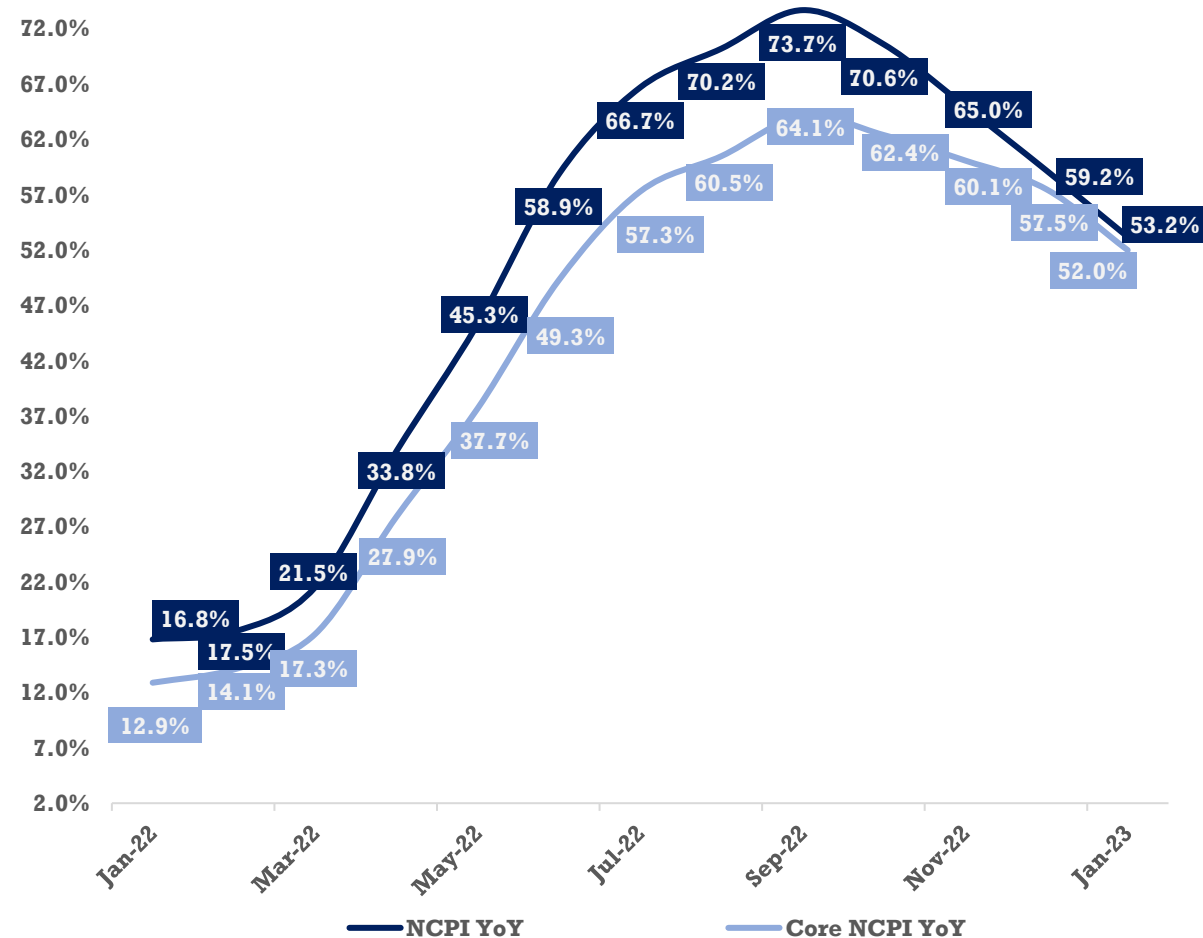


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR JAN 2023: DECREASED TO 53.2%YOY

- NCPI for Jan 2023 decreased to 53.2% compared to 59.2% in Dec 2022.
- Decrease in inflation was mainly driven by the price decreases in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 53.6% in Jan 2023 from 59.3% in Dec 2022 while Non-Food inflation decreased to 52.9% in Jan 2023 from 59.0% in Dec 2022.



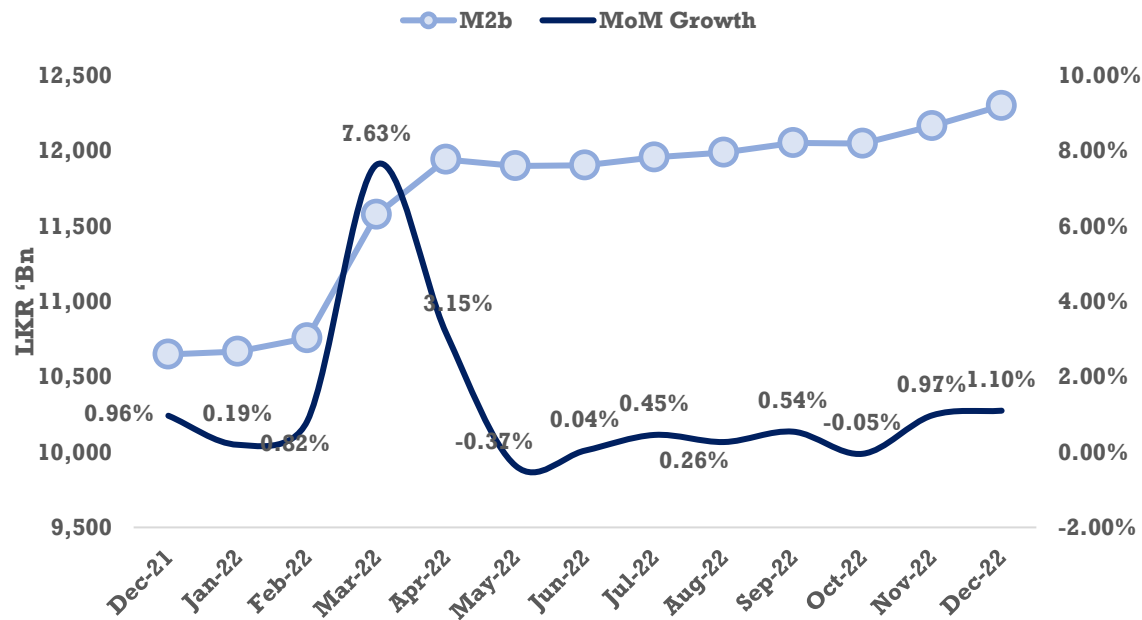
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 72.6Bn in Dec 2022 amidst the higher lending rates. State credit reflected a net borrowing of LKR 152.6Bn.

M2b Growth – Dec 2022

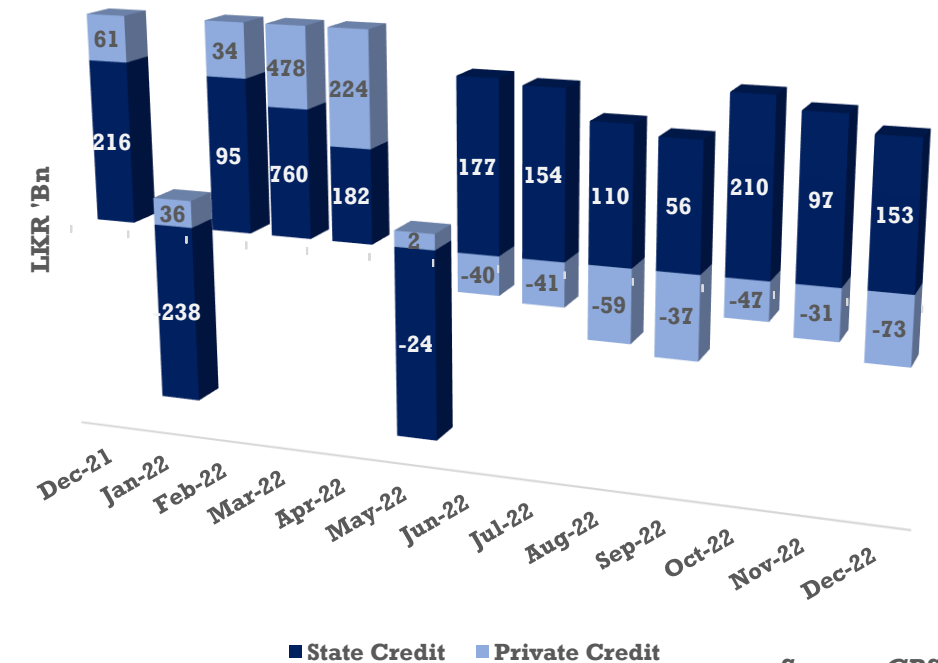
MoM +1.10%, YoY +15.49%, YTD +15.49%



Source: CBSL

State Credit & Private Credit – Dec 2022

Private Credit MoM -1.0%, YoY +6.38%, YTD +6.38%

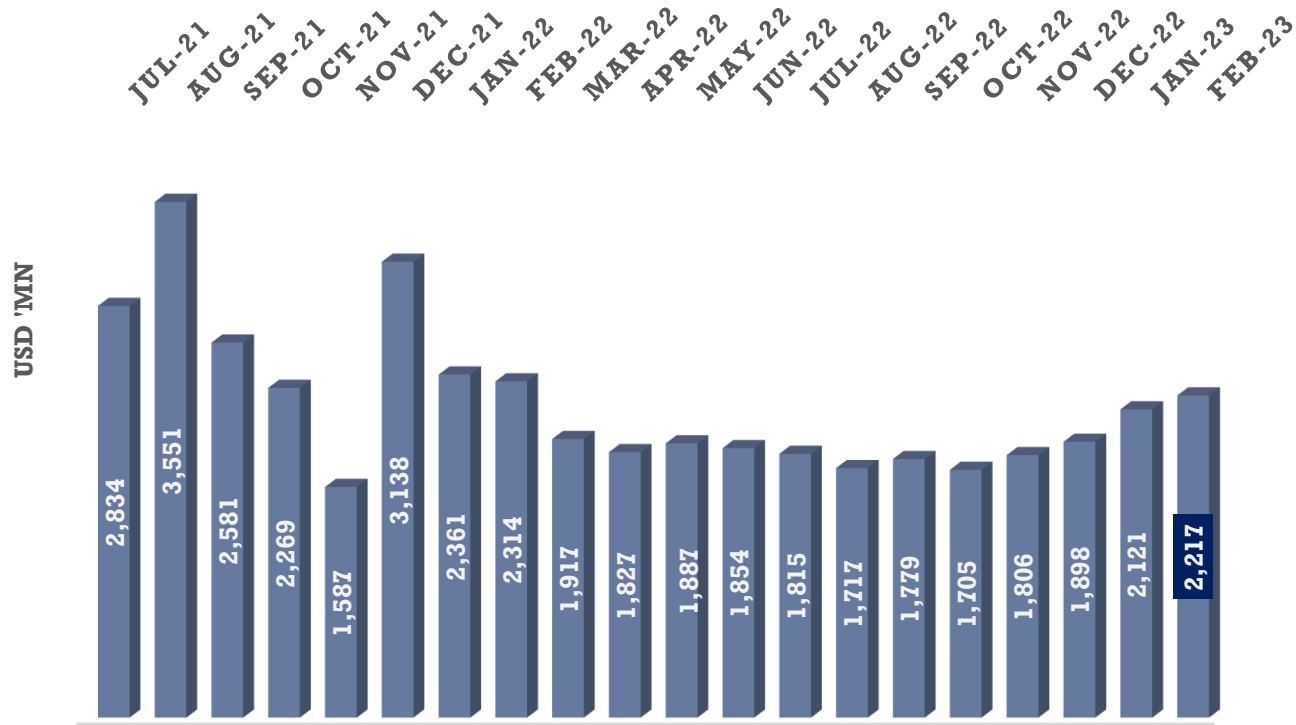


■ State Credit ■ Private Credit

Source: CBSL

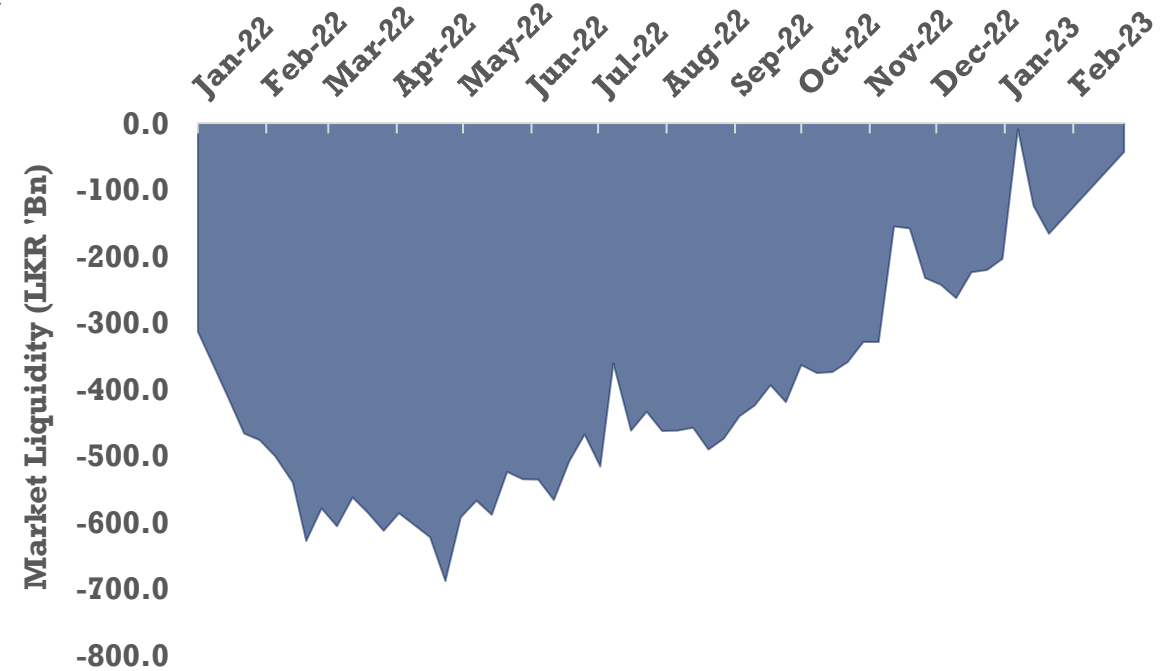
LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 96.0Mn to USD 2.2Bn in Feb 2023.



Source: CBSL

- Market Liquidity displayed slight improvement after continuous injections to liquidity via term reverse repos by CBSL, amidst significant volatility during Feb 2023.



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

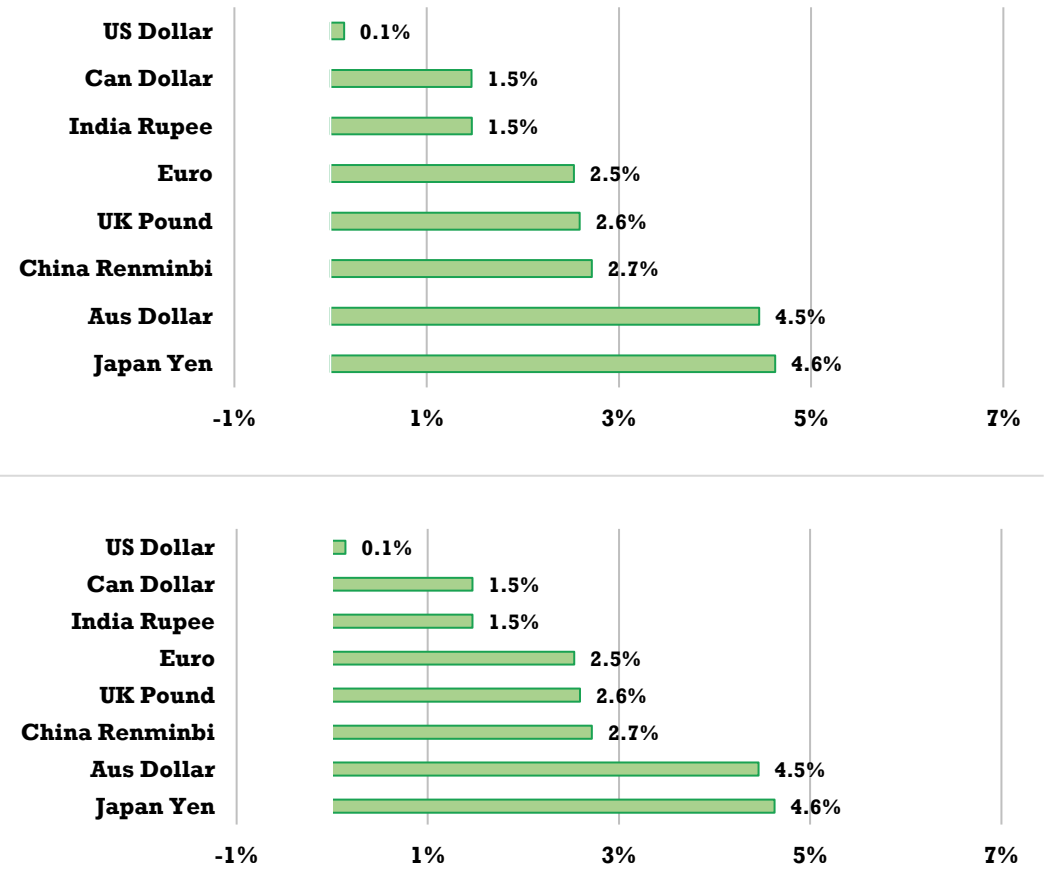


Source: CBSL

Sri Lankan Rupee vs Global Currencies

Feb 2023

YTD 2023



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Feb 2023

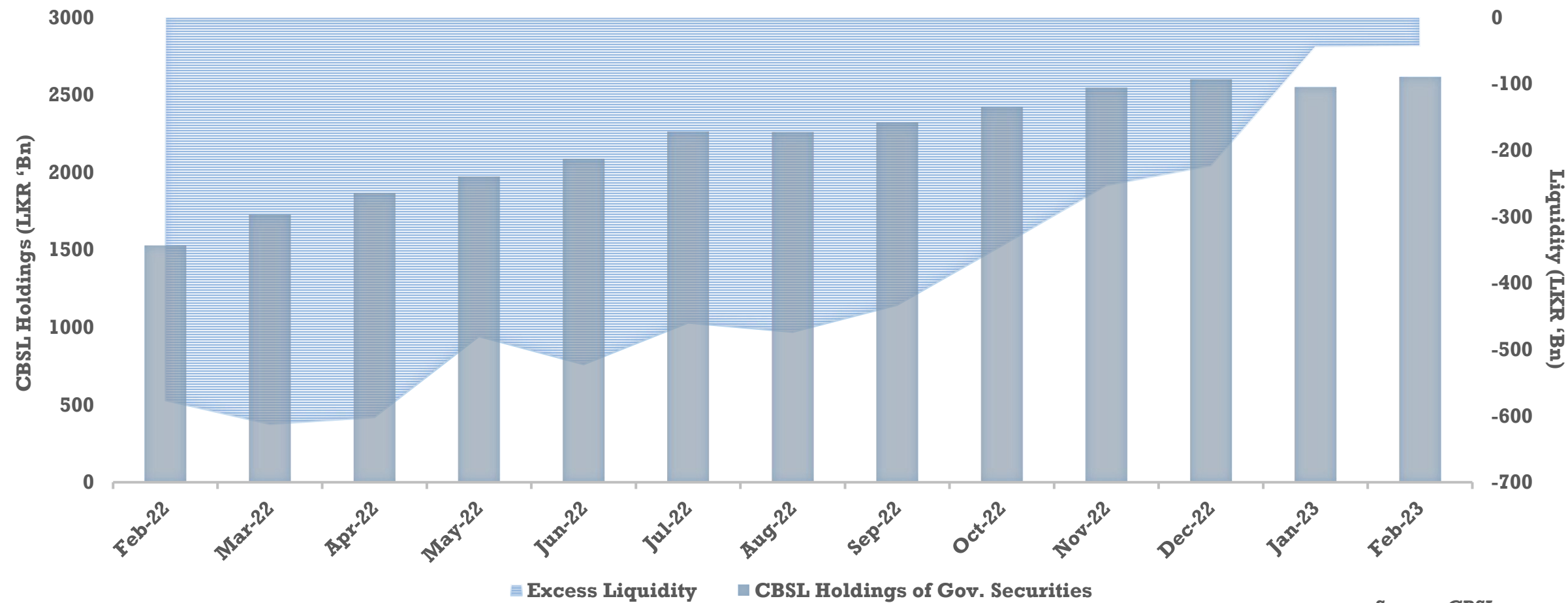
| Week Ending | Bills ('Mn) | Bonds ('Mn) | Total |
|---------------------|-------------|-------------|----------------|
| 03-Feb-23 | 129,430 | 67,908 | 197,338 |
| 10-Feb-23 | 125,000 | | 125,000 |
| 17-Feb-23 | 78,053 | | 78,053 |
| 24-Feb-23 | 56,429 | | 56,429 |
| Total Issued | | | 456,820 |

| Net Settlement | Feb 2023 | YTD |
|--------------------------|------------------|------------------|
| Maturities | 996,378 | 2,133,403 |
| New Issues | 456,820 | 1,150,449 |
| Excess/ (Deficit) | (539,558) | (982,954) |

| CBSL Holdings of Gov. Securities | | YTD |
|----------------------------------|---------------|---------------|
| As at End Feb 2023 | 2,614,995 | |
| As at End Jan 2023 | 2,548,988 | |
| Increase/ (Decrease) | 66,007 | 16,817 |

CBSL HOLDINGS OF GOV. SECURITIES...

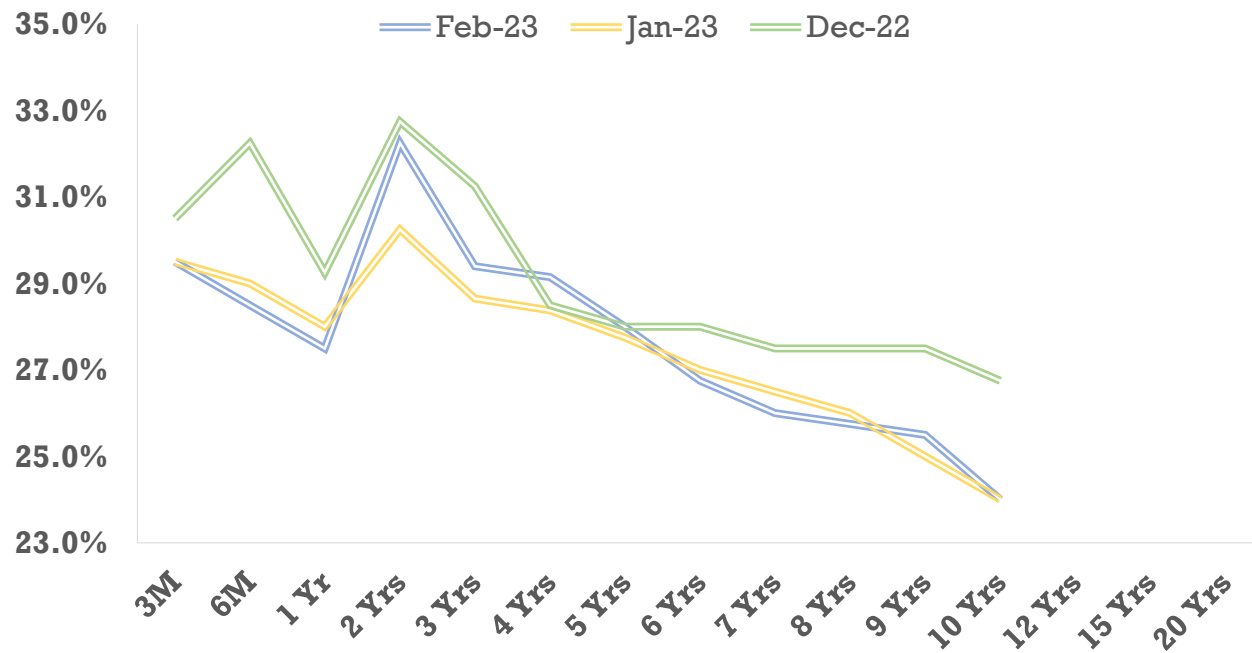
...increased by LKR 66.0Bn in Feb 2023



Source: CBSL

TREASURY BILLS AND BONDS – FEB 2023

The secondary market activities took a lackluster sentiment throughout the first couple of weeks of the month as investors took the sidelines, awaiting for clarity on the IMF progressions. However, by mid-month buying interest slightly emerged on the market with the positive upturn in securing financing assurances from all major bilateral creditors including India and China. Accordingly, with the emerged buying interest yields displayed a moderate decline during the month. Meanwhile, auction yields at the weekly T-Bill auctions declined only marginally during the month with a maximum dip of 19bps in 03M maturity while both 06M and 1Yr declined by 5bps.



Source: First Capital Research

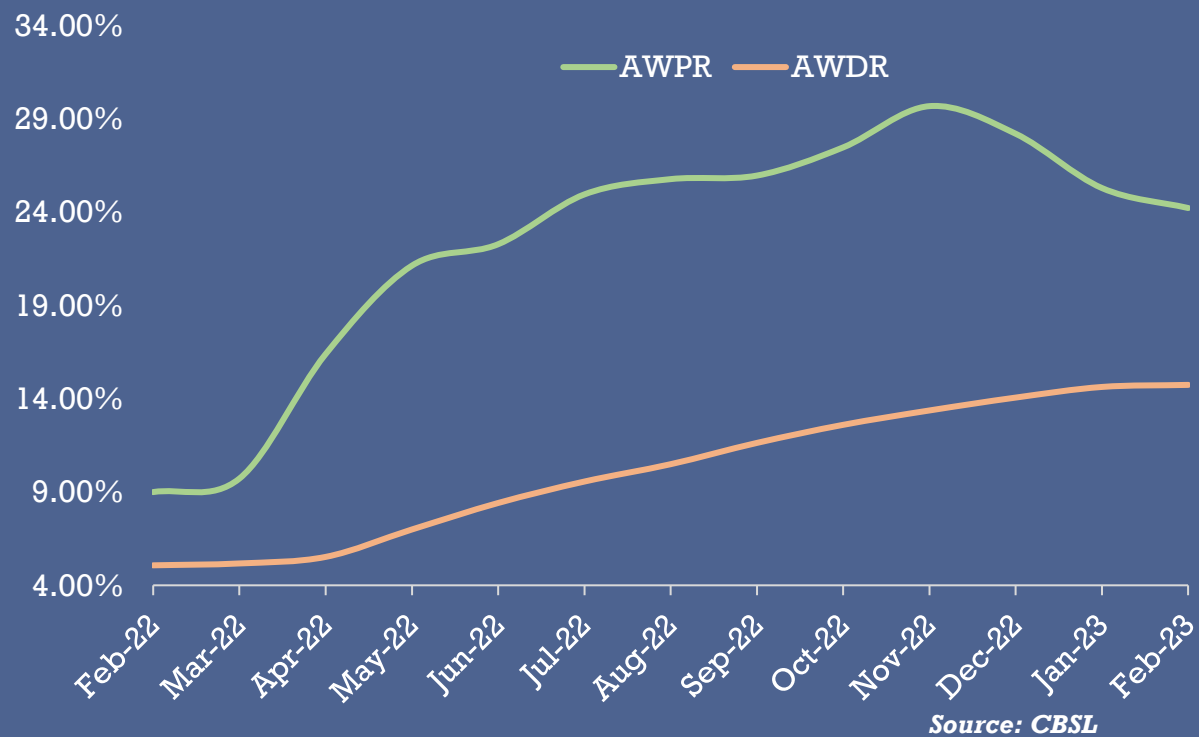
Interest Rate Change (bps)

| Tenure | Feb-23 | Jan-23 | Change (bps) | Dec-22 | Change (bps) |
|--------|--------|--------|--------------|--------|--------------|
| 3M | 29.50% | 29.50% | 0 | 30.50% | -100 |
| 6M | 28.50% | 29.00% | -50 | 32.25% | -375 |
| 1 Yr | 27.50% | 28.00% | -50 | 32.75% | -175 |
| 2 Yrs | 32.25% | 30.25% | 200 | 32.75% | -50 |
| 3 Yrs | 29.40% | 28.65% | 75 | 31.25% | -185 |
| 4 Yrs | 29.15% | 28.38% | 77 | 28.50% | 65 |
| 5 Yrs | 28.00% | 27.75% | 25 | 28.00% | 0 |
| 6 Yrs | 26.75% | 27.00% | -25 | 28.00% | -125 |
| 7 Yrs | 26.00% | 26.50% | -50 | 27.50% | -150 |
| 8 Yrs | 25.75% | 26.00% | -25 | 27.50% | -175 |
| 9 Yrs | 25.50% | 25.00% | 50 | 27.50% | -200 |
| 10 Yrs | 24.00% | 24.00% | 0 | 26.75% | -275 |
| 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 |

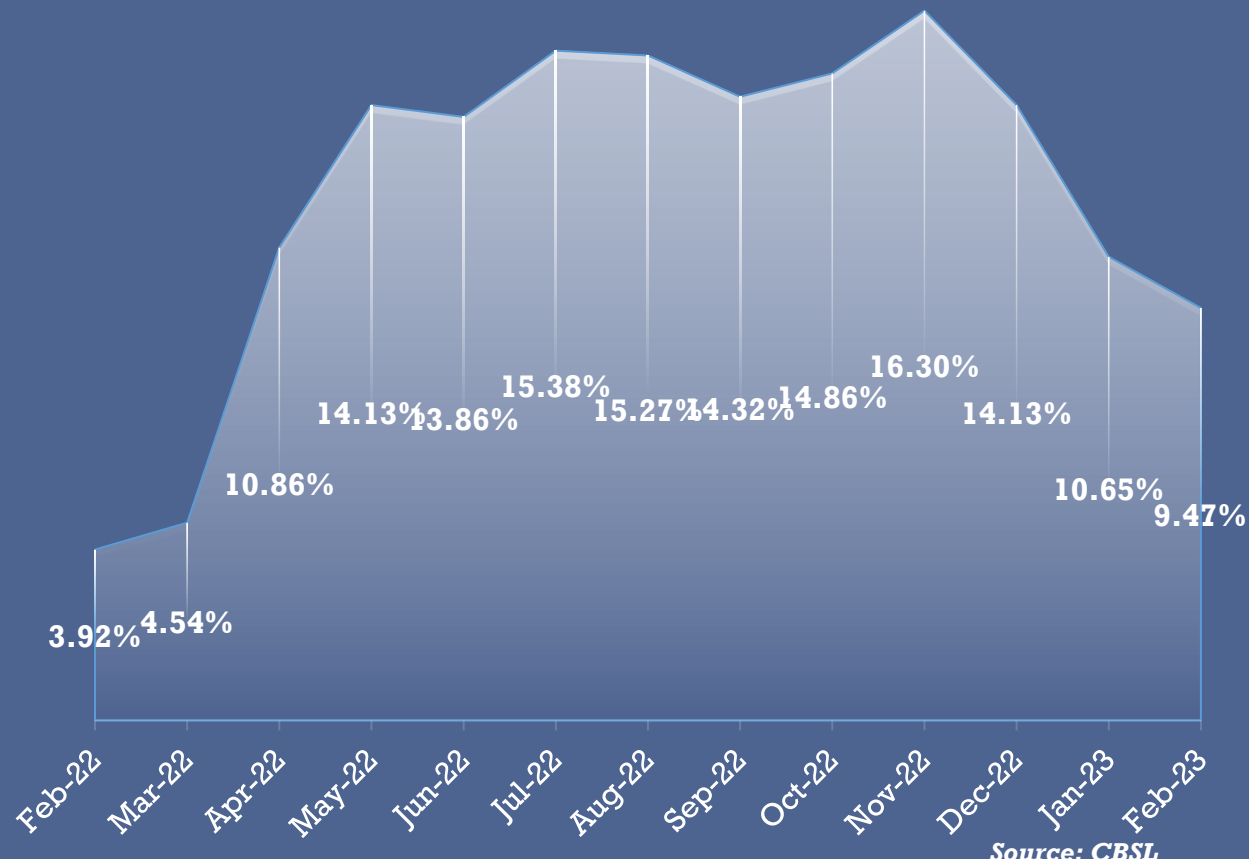
Source: First Capital Research

Mar 2023

AWPR vs AWDR



Interest Spread

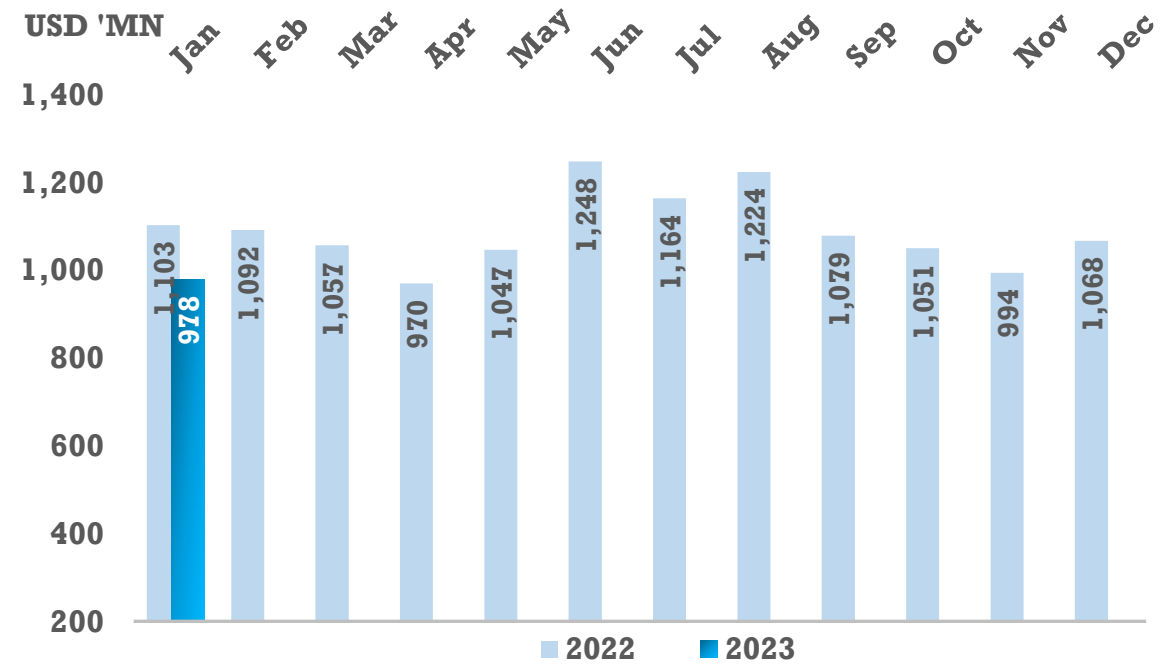


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JAN 23 – EXPORTS

Earnings from exports dipped by 11.3%YoY in Jan-23, continuing the moderation observed since Sep-22, though at a slower pace than expected. Industrial exports declined by 12.4%YoY with the greatest share for the overall decrease being contributed by garments resulted from lower demand in most of the major markets (the USA, the EU and the UK). Meanwhile, earnings from the exports of petroleum products declined due to the decline in volumes of bunker and aviation fuel exports despite higher bunker prices. Earnings from the export of agricultural goods declined on a YoY basis, driven by lower export volumes of fibres and desiccated coconut, categorized under coconut related products. However, earnings from tea exports improved with the higher average export prices of tea amidst low volumes. Mineral exports declined as exports of quartz and natural graphite powder dipped low.

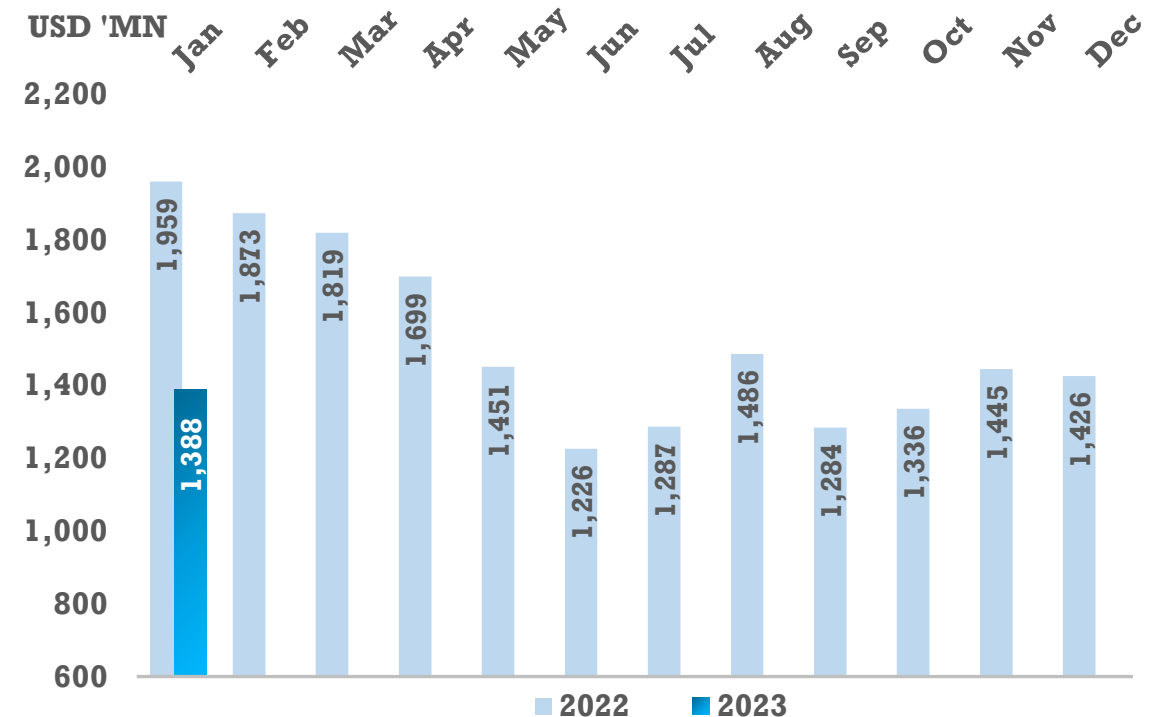
| Category | 2022 (USD 'Mn) | 2023 (USD 'Mn) | Change (%) |
|--------------------|-------------------|-------------------|---------------|
| Industrial Exports | | | |
| - Jan | 819.9 | 781.3 | -12.4 |
| - YTD | 819.9 | 781.3 | -12.4 |
| Agricultural | | | |
| - Jan | 204.5 | 191.0 | -6.6 |
| - YTD | 204.5 | 191.0 | -6.6 |
| Mineral Exports | | | |
| - Jan | 4.3 | 3.6 | -15.8 |
| - YTD | 4.3 | 3.6 | -15.8 |
| Total | | | |
| - Jan | 1,102.6 | 978.2 | -11.3 |
| - YTD | 1,102.6 | 978.2 | -11.3 |



EXTERNAL SECTOR – JAN 23 – IMPORTS

Import expenditure declined for the month of January by 29.2%YoY. Accordingly, expenditure on the importation of consumer goods declined in Jan-23 on a YoY basis due to the decline in both food and non-food consumer goods. Decline in import expenditure on non-food consumer goods was mainly driven by the reduction in the import of medical and pharmaceuticals (due to the base effect of higher expenditure on COVID vaccines in January 2022). Expenditure on food and beverages also declined due to lower cereals and milling industry products (mainly, rice), compared to that of Jan-22. Expenditure on the importation of intermediate goods too declined on a YoY basis, driven by lower imports of textiles and textile articles (primarily, fabrics) indicating lower garments exports in the period ahead. In contrast, expenditure on fuel, the largest import component under this category, increased due to higher volumes of crude oil and coal imports, although expenditure on refined petroleum declined. Import expenditure on investment goods declined under all three main investment good subcategories, namely machinery and equipment, building material and transport equipment.

| Category | 2022 (USD 'Mn) | 2023 (USD 'Mn) | Change (%) |
|------------------|-------------------|-------------------|---------------|
| Consumer goods | | | |
| - Jan | 360.0 | 218.5 | -39.3 |
| - YTD | 360.0 | 218.5 | -39.3 |
| Intermediate | | | |
| - Jan | 1,212.5 | 970.5 | -20.0 |
| - YTD | 1,212.5 | 970.5 | -20.0 |
| Investment goods | | | |
| - Jan | 386.7 | 198.9 | -48.6 |
| - YTD | 386.7 | 198.9 | -48.6 |
| Total | | | |
| - Jan | 1,959.4 | 1,387.9 | -29.2 |
| - YTD | 1,959.4 | 1,387.9 | -29.2 |

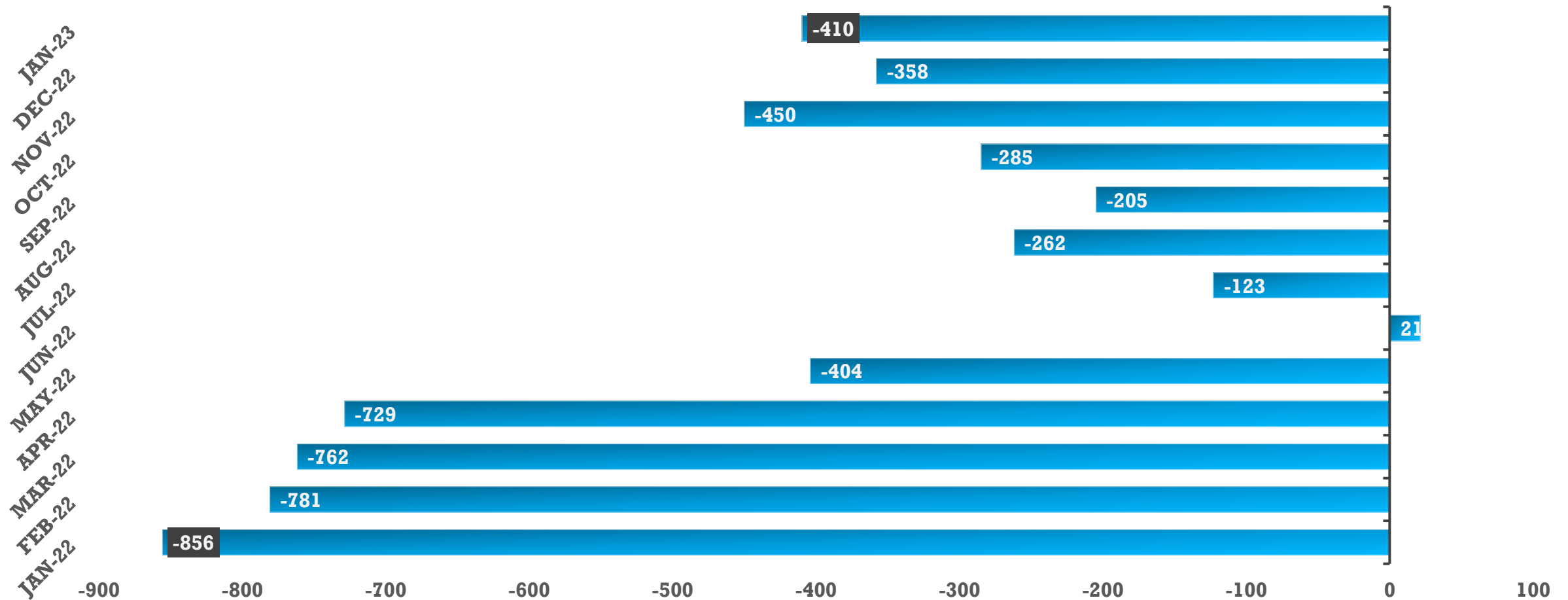


Source: CBSL

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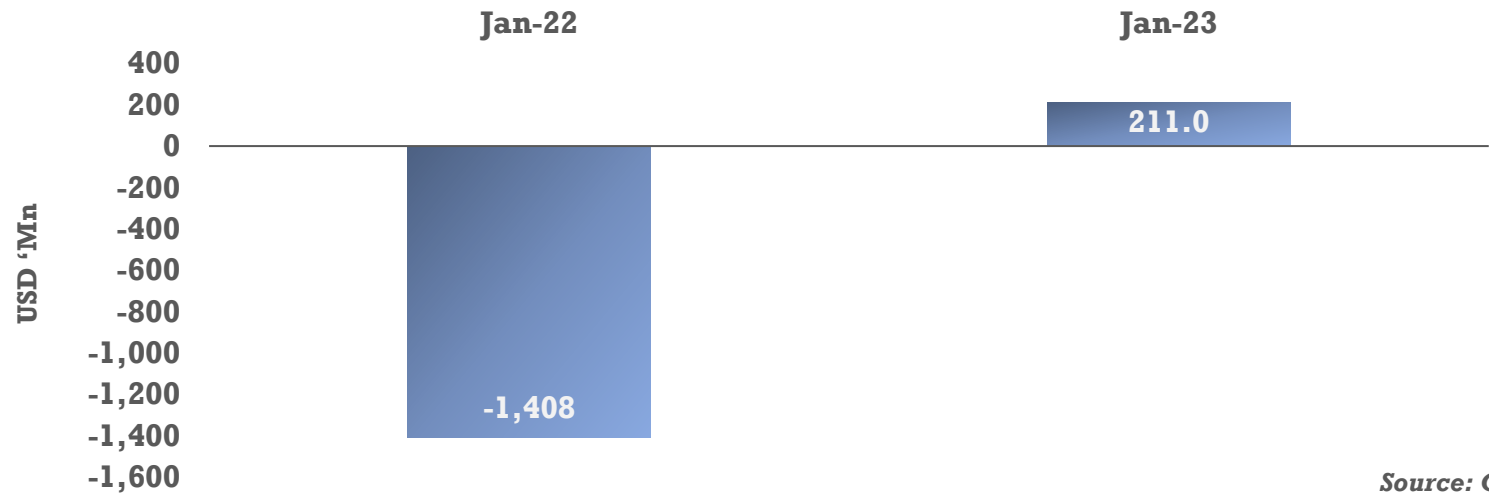
EXTERNAL SECTOR – JAN 22

Balance of Trade



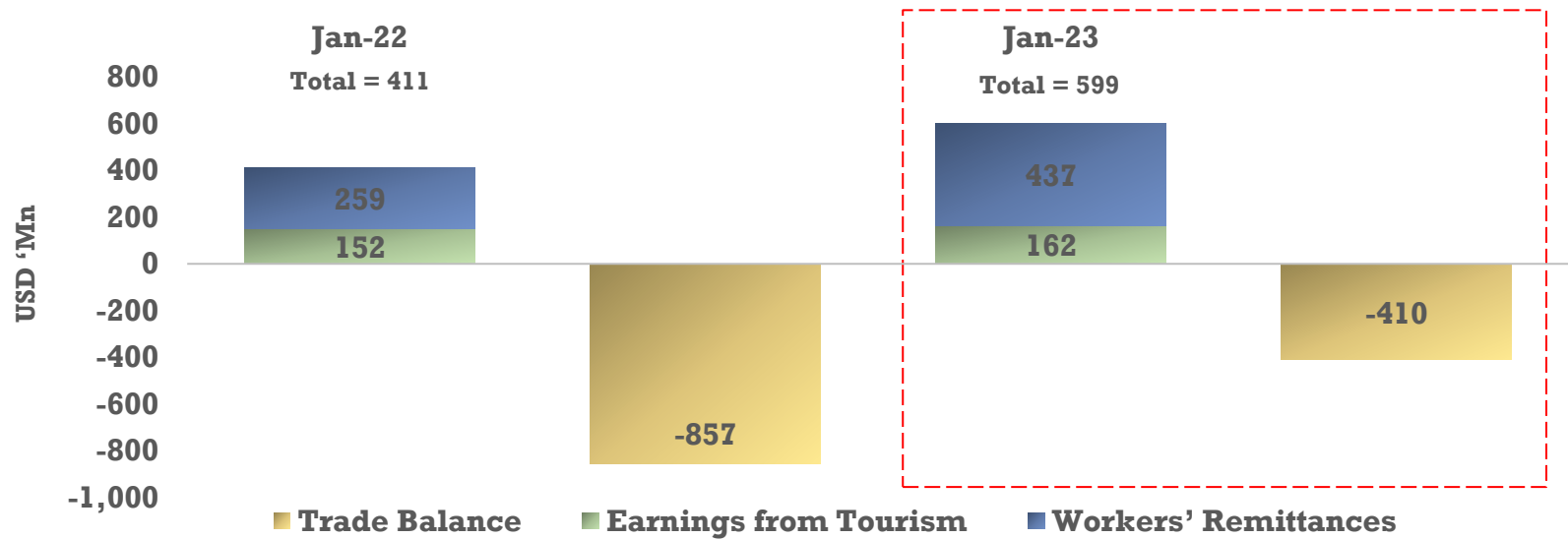
Source: Central Bank

BoP for Jan - 23 recorded at USD 211.0Mn compared to Jan - 22 amount of USD -1408.0Mn.



Source: CBSL

Workers' Remittances inclined to USD 437.0Mn in Jan-23 (+68.7%YoY). Earnings from Tourism for Jan-23 increased to USD 162.0Mn from USD 152.0Mn in Jan-22.



Source: CBSL

BALANCE OF PAYMENT
DEFICIT DECREASED YOY IN
JAN-23

| Jan USD 'Mn | 2022 | 2023 | Change (%) |
|-----------------------|------|------|------------|
| Trade Balance | -857 | -410 | |
| Earnings from Tourism | 152 | 162 | +6.7 |
| Workers' Remittances | 259 | 437 | +68.8 |

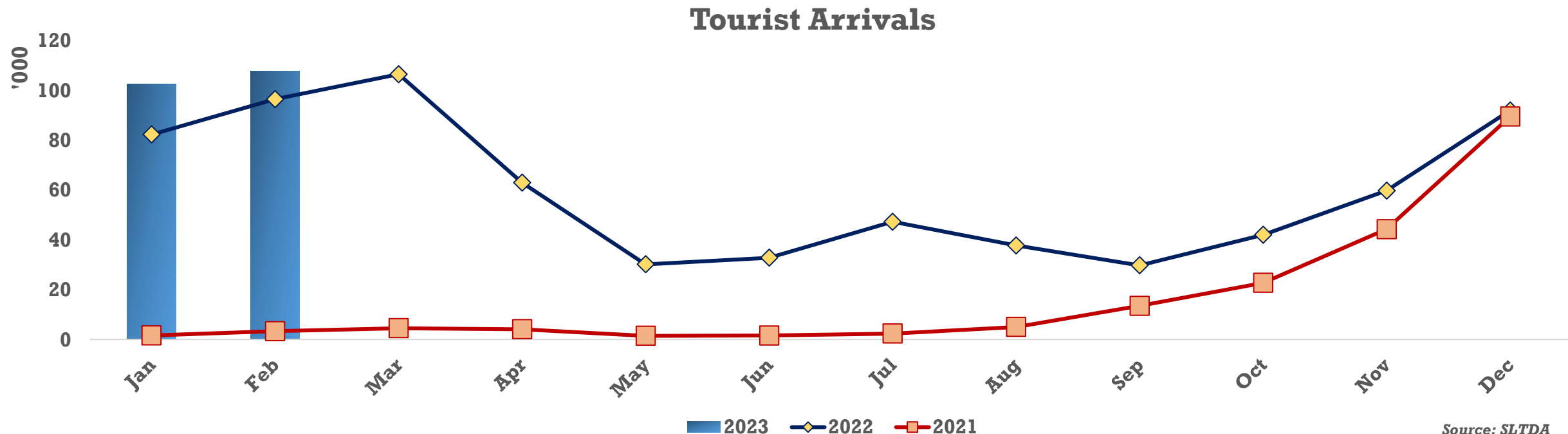
| YTD USD 'Mn | 2022 | 2023 | Change (%) |
|-----------------------|------|------|------------|
| Trade Balance | -857 | -410 | |
| Earnings from Tourism | 152 | 162 | +6.7 |
| Workers' Remittances | 259 | 437 | +68.8 |

Source: CBSL

TOURIST ARRIVALS – FEB 2023

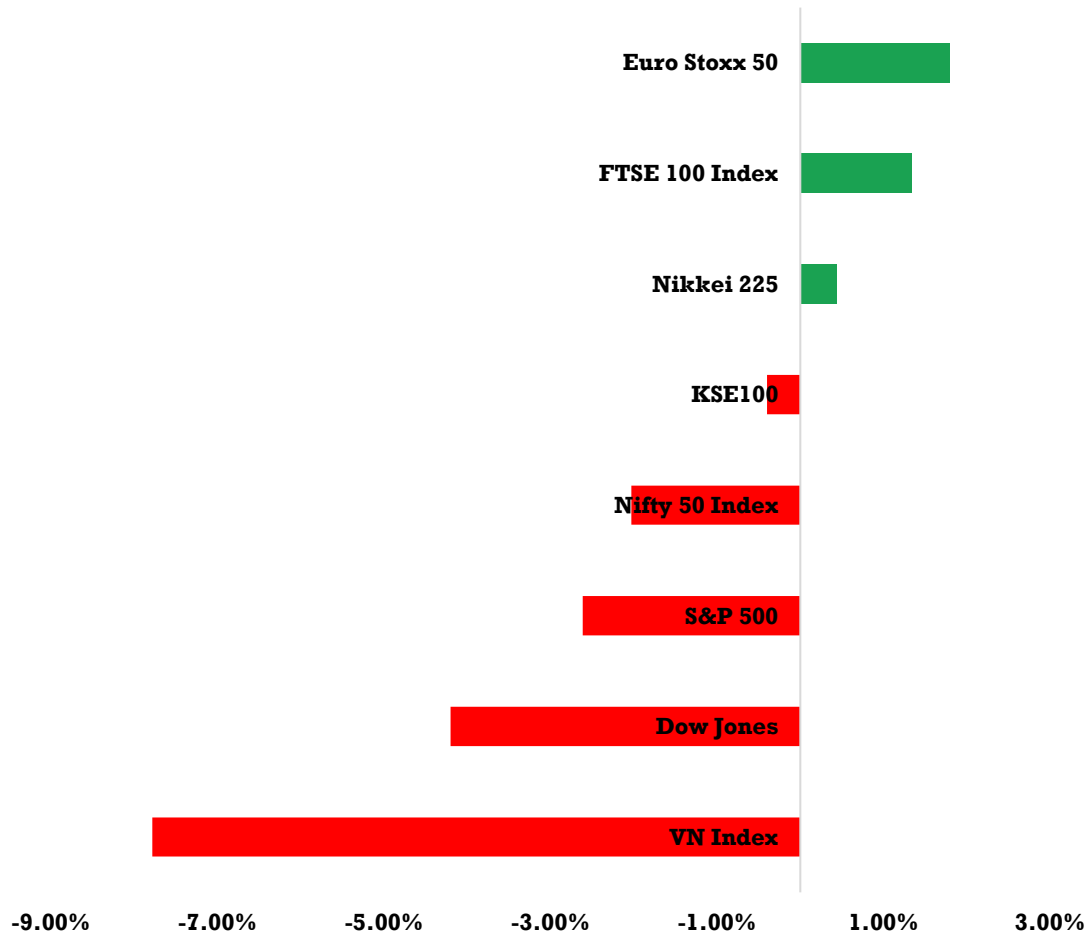
[FEB 107,639 – **UP +11.5%YoY**] [MOM– **UP +5.0%**]

The total number of tourist arrivals to Sri Lanka continued to surge and recorded at a healthy level in Feb, signalling a revival of tourism in the country. The total arrivals for the month was recorded at 107,639 displaying a increase of 11.5% compared to Feb 2021, owing to the peak travel season, as well as the other factors such as improved socio-economic conditions and increased connectivity to the country. The top countries of origin for tourists in February were Russian Federation, India, the United Kingdom, Germany and France.



Source: SLTDA

GLOBAL MARKET



Source: Investing.com

First Capital Research

Adani Rout Puts Spotlight on Billions Flowing Through Mauritius

The tiny island of Mauritius spent years trying to clean up its image as a base for murky money launderers and shell firms. The short-seller allegations against billionaire Gautam Adani are once again reviving questions about the country's role as a tax haven for India's tycoons. In a report late January that sent Adani stocks on a USD 153.0Bn downward spiral, Hindenburg Research said that entities controlled by the tycoon's brother, Vinod, or his associates used Mauritius as a conduit for money laundering and share-price manipulation.

Bloomberg



U.S. says it doesn't want to separate its economy from China's

The U.S. is pushing back on the idea it wants to suppress China and said it doesn't want to separate the two economies, according to a State Department spokesperson's comments. The spokesperson was responding to a CNBC request for comment on Chinese Foreign Minister Qin Gang's remarks Tuesday. Qin claimed U.S. calls for "establishing guardrails" on the relationship meant that China should not react.

Australia's 'Big Four' banks to hike home loan rates to match RBA move

Australia's so-called 'Big Four' banks said they would pass on the central bank's latest quarter-percentage point interest rate hike in full to their home loan customers. The move comes as the lenders continue to move in lockstep with the Reserve Bank of Australia (RBA), which raised its official cash rate by a widely expected 25 basis points (bps) to 3.6%. Among the top four lenders, the Commonwealth Bank of Australia (CBA.AX), National Australia Bank (NAB.AX), and ANZ Group Holdings (ANZ.AX) will hike their rates from March 17, while Westpac Banking Corp's (WBC.AX) will hike its rates from March 21, the banks said in separate statements.



REUTERS
WORLD

Mar 2023

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