



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Apr 2023

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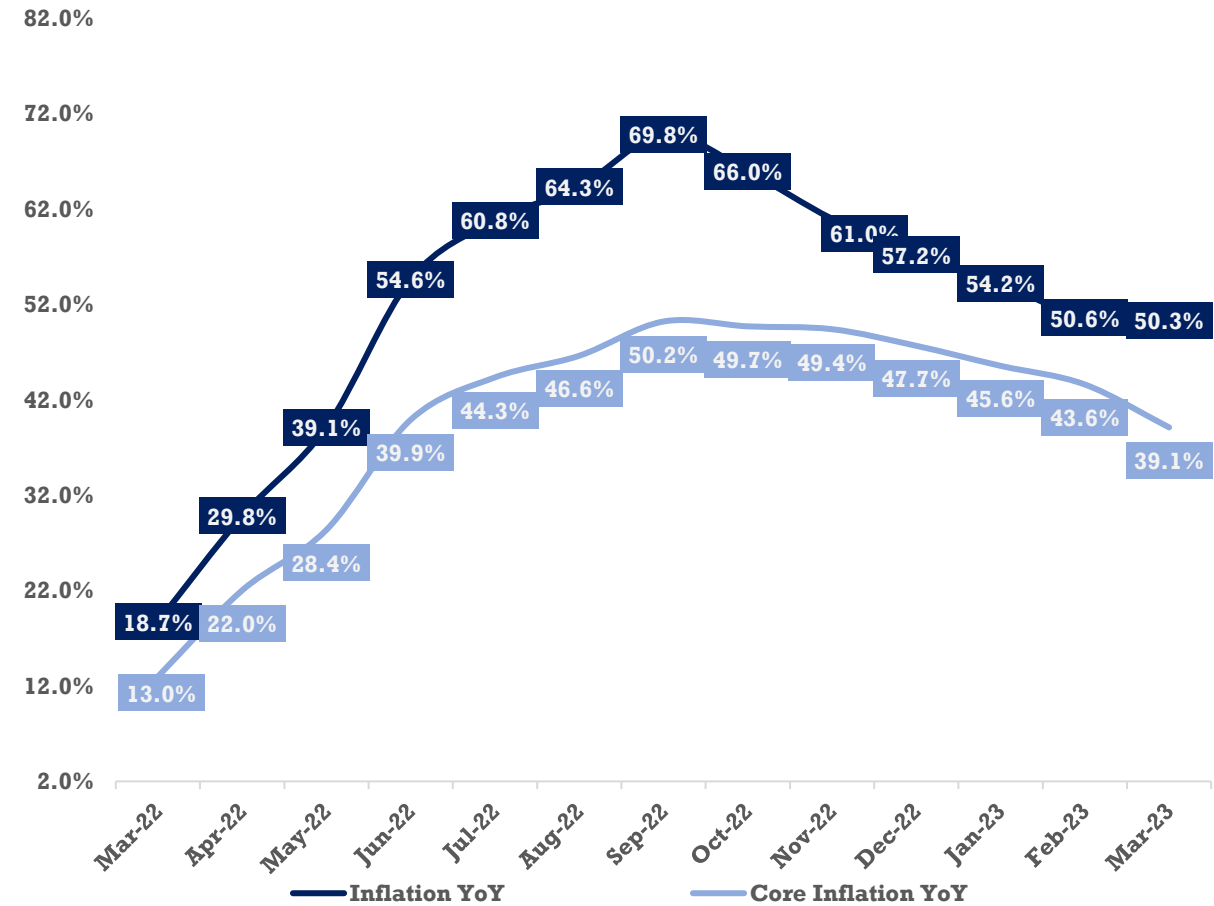
THE CENTRAL BANK OF SRI LANKA MAINTAINS POLICY INTEREST RATES AT THEIR CURRENT LEVELS

- The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 04 April 2023, 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 15.50% and 16.50%.
- Despite the multiple hikes in electricity tariffs, headline inflation (year-on-year) based on the Colombo Consumer Price Index (CCPI) continued to decelerate for the sixth consecutive month in March 2023, reflecting the continued moderation in underlying demand pressures in the economy.
- The successful approval of the IMF EFF agreement for USD 3.0Bn is expected to unlock sizeable amount of funding from other international financial institutions, while providing a comprehensive policy reform package with a specific implementation timeline, aimed at stabilising the economy and reinforcing country's growth potential. This, coupled with the successful implementation of the debt restructuring process, is expected to ease the balance of payments constraint significantly in the period ahead.
- Notwithstanding the increase in policy interest rates in early March 2023, both deposit and lending interest rates have continued to decline, reflecting largely the market guidance provided by the Central Bank and the improved liquidity conditions of the domestic money market.
- The economy is projected to recover gradually towards the latter part of 2023, supported by improvements in domestic supply conditions, enhancement in business and investor sentiments along with the anticipated improvements in foreign exchange inflows, envisaged reduction of market interest rates, and the impact of policy measures being implemented to strengthen the growth outlook.

INFLATION – CCPI

**CCPI FOR MAR 2023:
MOM +2.9%,
YOY +50.3%**

- MoM inflation increased by 2.9% with the decrease in inflation of Food group by 2.4% while Non-Food group increased by 5.5%.
- The YoY inflation decreased for the sixth consecutive month to 50.3% in Mar 2023. YoY inflation of Food group has decreased to 47.6% in Mar 2023 from 54.4% in Feb 2023 while Non-Food group increased to 51.7% from 48.8% in Feb 2023.



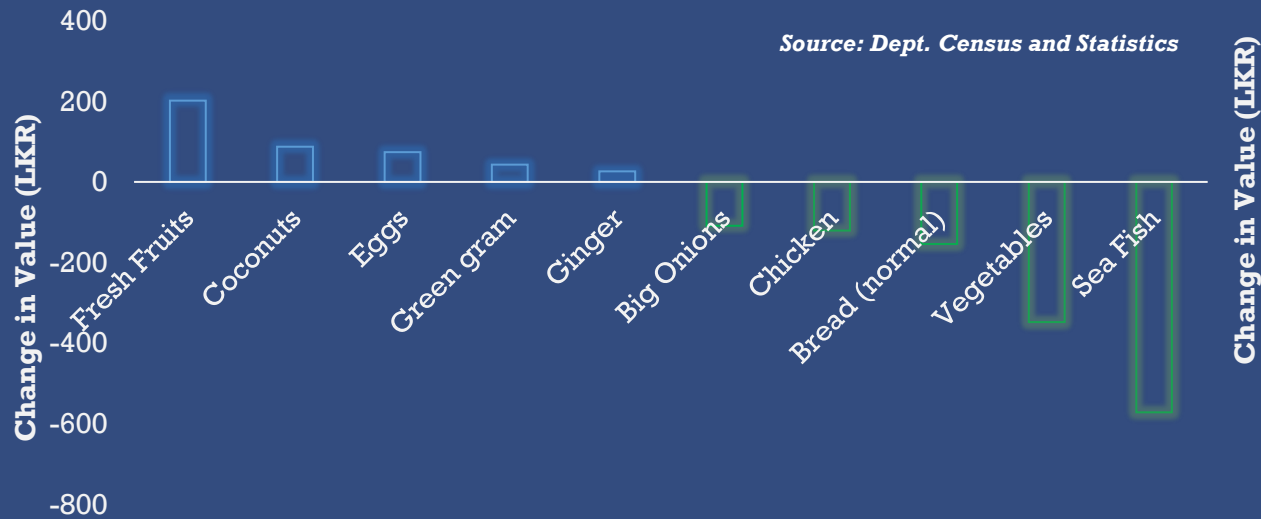
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

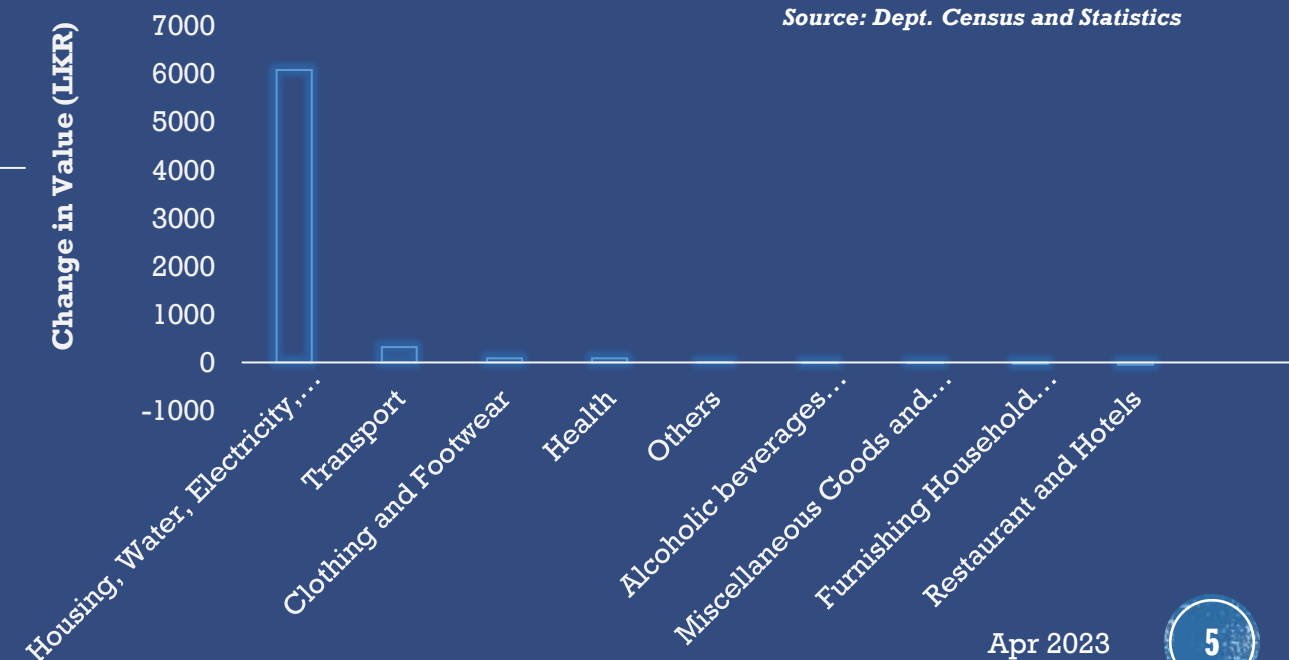
The CCPI index recorded an increase of 2.9%MoM contributed by the increase in expenditure value of Non-Food items by 3.7% and decrease in Food items by 0.8%. Within the Food items, decrease in value changes were mainly reported for Sea fish, Vegetables, Bread, Chicken and Big Onions. Among Non-Food groups, increases in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels, Transport, Health and Clothing & Footwear.



Food Category Inflation



Non-Food Category Inflation

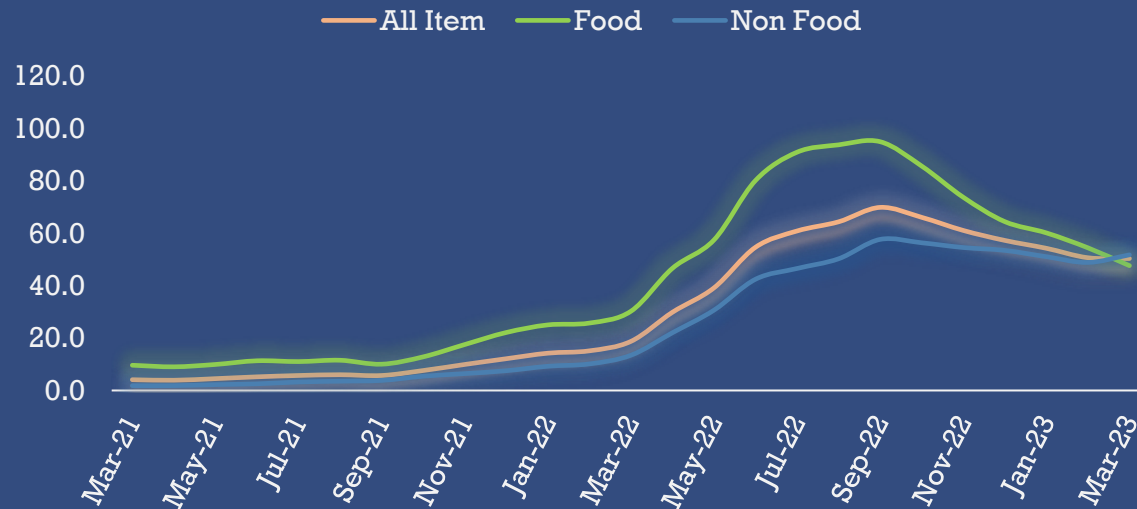


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Mar was 50.3% and has decreased relative to the month of Feb. Food item prices have decreased to 47.6%YoY in Mar 2023 from 54.4%YoY in Feb 2023 while the Non-Food item prices increased to 51.7%YoY from 48.8%YoY in Mar 2023. The contribution from food category for YoY inflation was 14.93% while the contribution of Non-Food items stood at 35.46% mainly due to the increase in Housing, Water, Electricity, Gas & Other Fuels, Transport, Restaurants & Hotels, Clothing & Footware, etc.

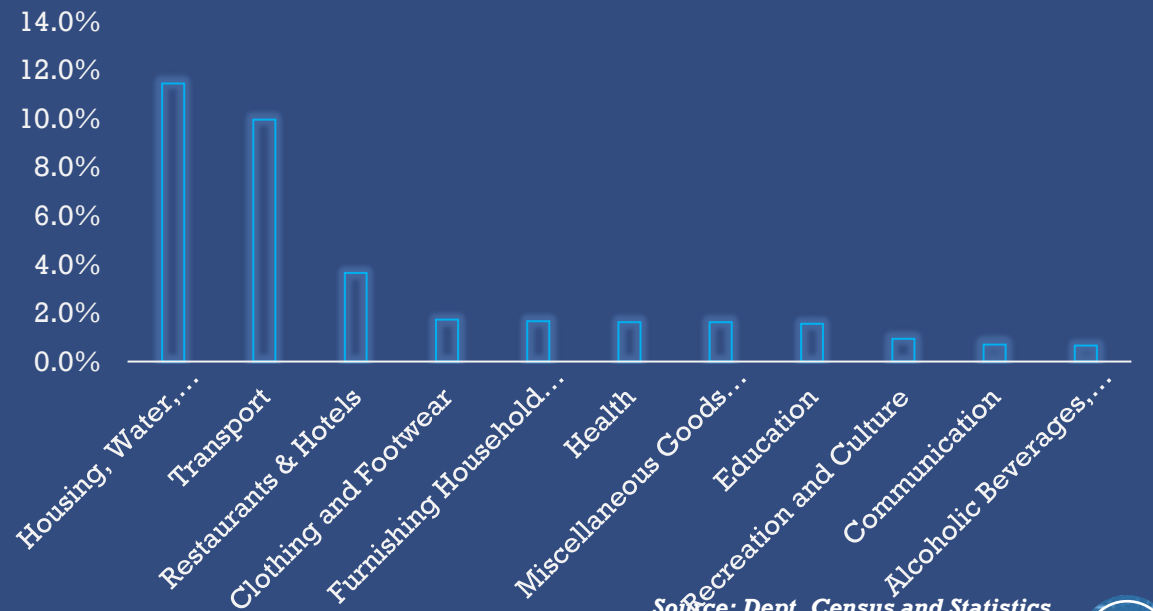


Inflation Analysis (YoY)



Source: Dept. Census and Statistics

Non-Food Category Inflation

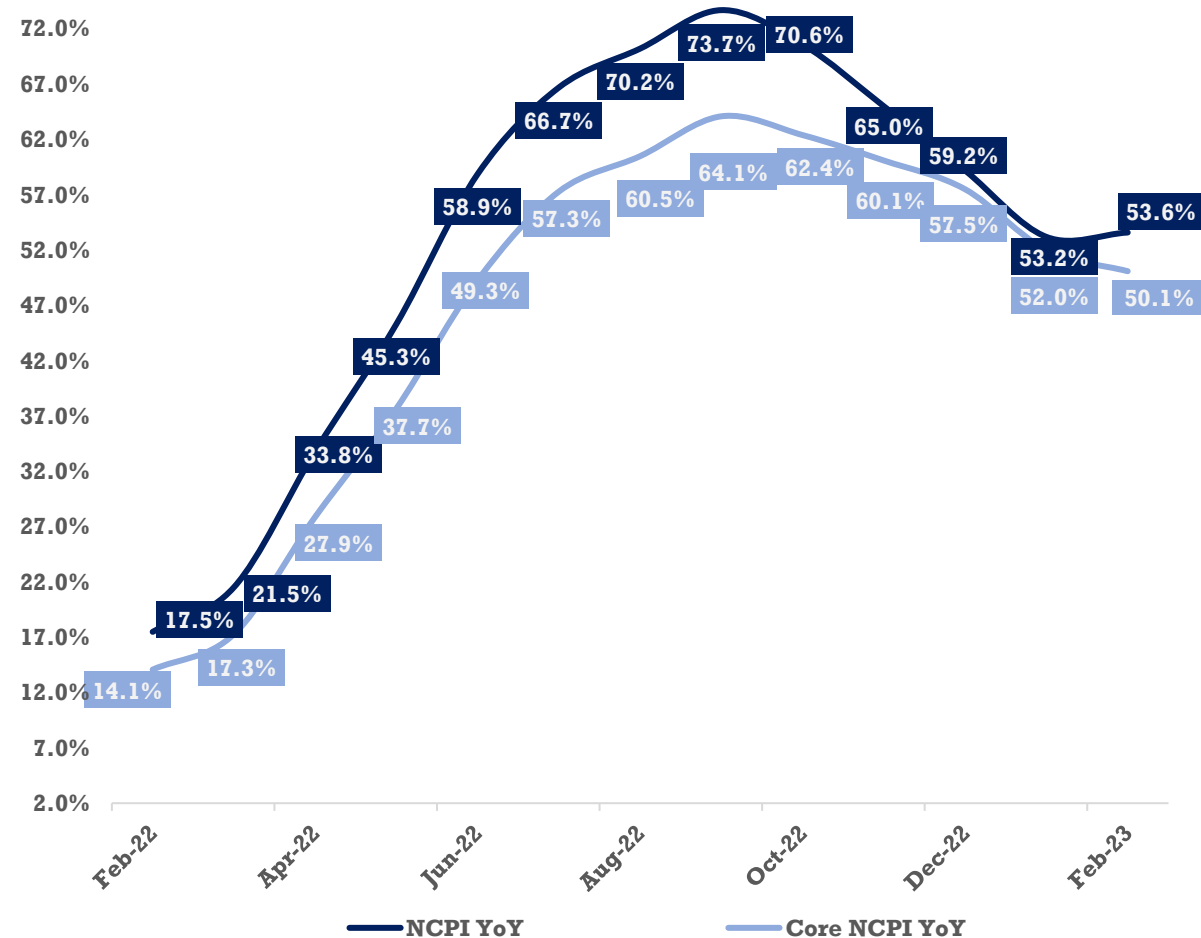


Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR FEB 2023: INCREASED TO 53.6%YOY

- NCPI for Feb 2023 increased to 53.6% compared to 53.2% in Jan 2023.
- Increase in inflation was mainly driven by the price increases in Non-Food commodities. Accordingly, YoY Non-Food inflation increased to 57.4% in Feb 2023 from 52.9% in Jan 2023 while Food inflation decreased to 49.0% in Feb 2023 from 53.6% in Jan 2023.



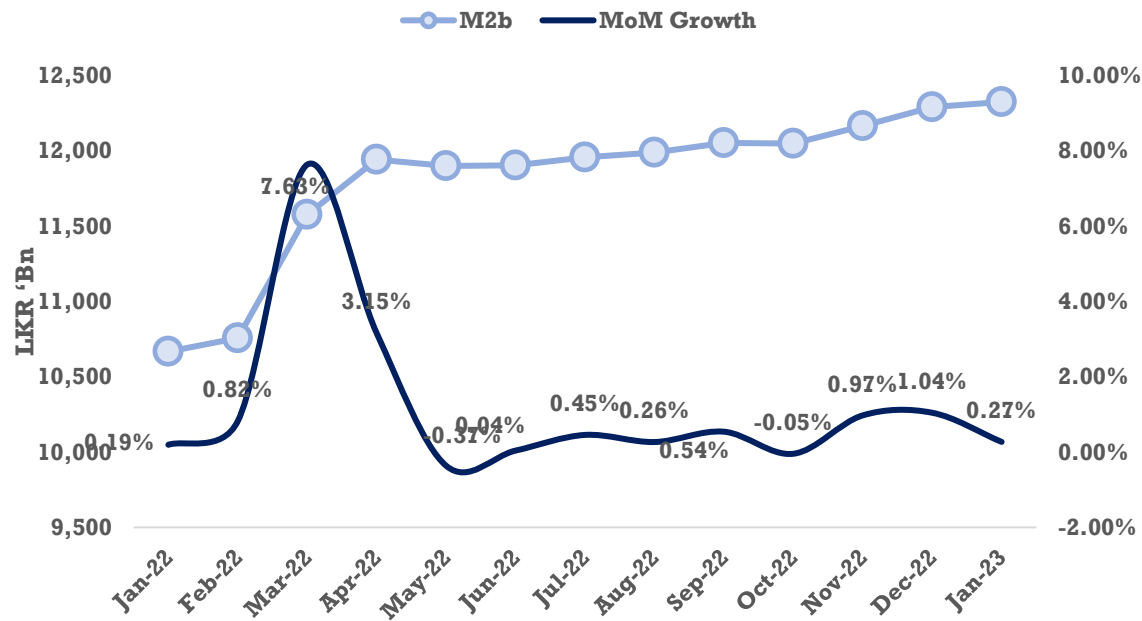
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 96.1Bn in Jan 2023 amidst the higher lending rates and conservative lending stance adapted by banks and NBFIs. State credit reflected a net borrowing of LKR 141.3Bn.

M2b Growth – Jan 2023

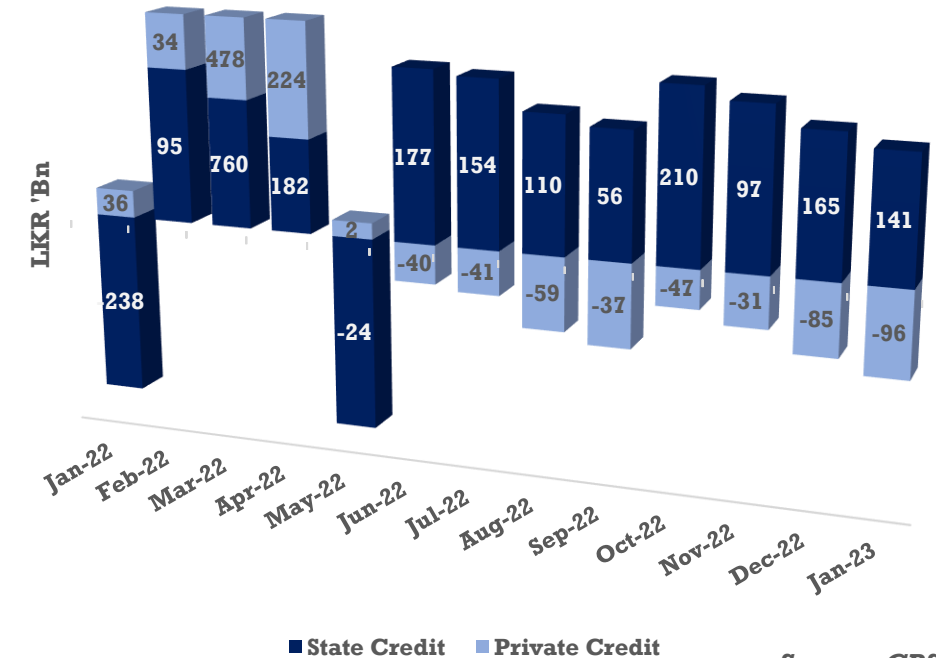
MoM +0.27%, YoY +15.51%, YTD +15.73%



Source: CBSL

State Credit & Private Credit – Jan 2023

Private Credit MoM -1.3%, YoY +4.28%, YTD +4.82%

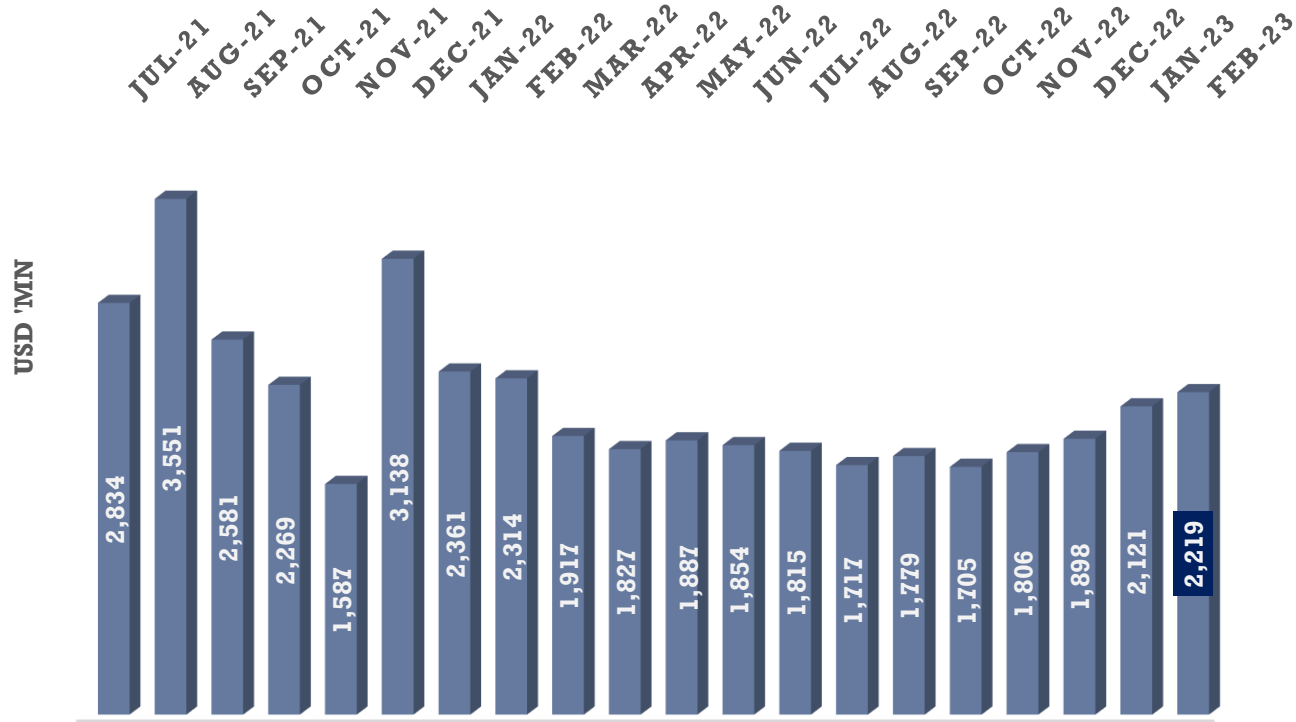


■ State Credit ■ Private Credit

Source: CBSL

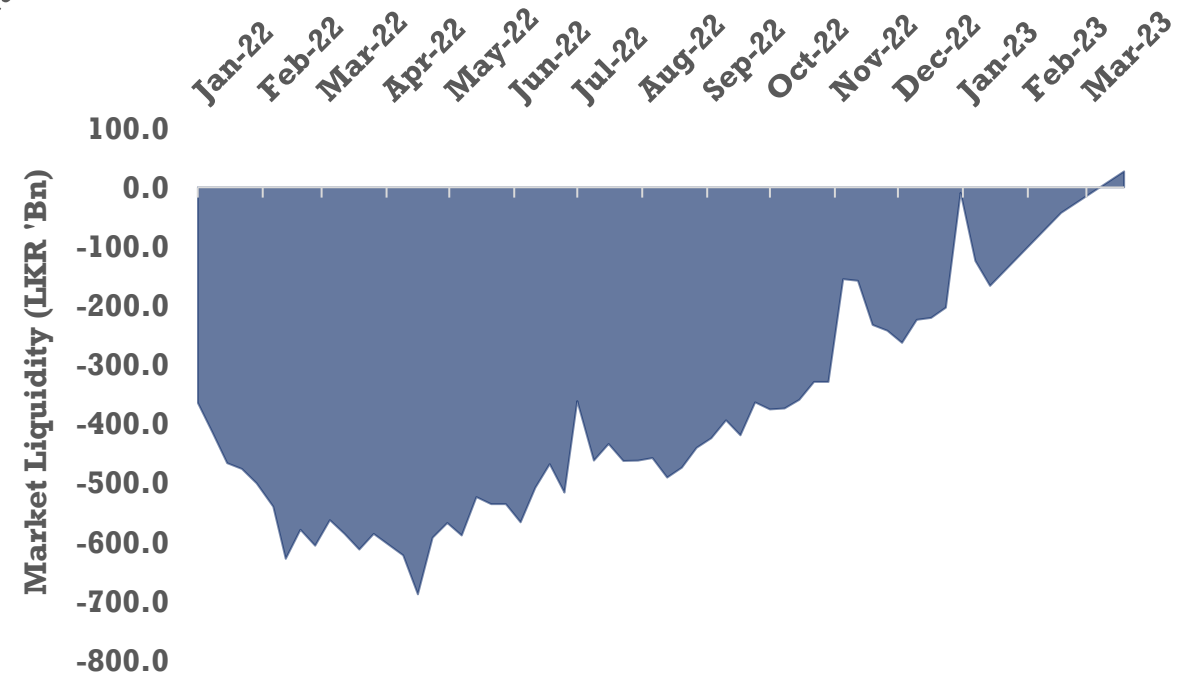
LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 98.0Mn 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 Mar 2023.



Source: CBSL

CURRENCY MOVEMENT

USD:LKR Movement

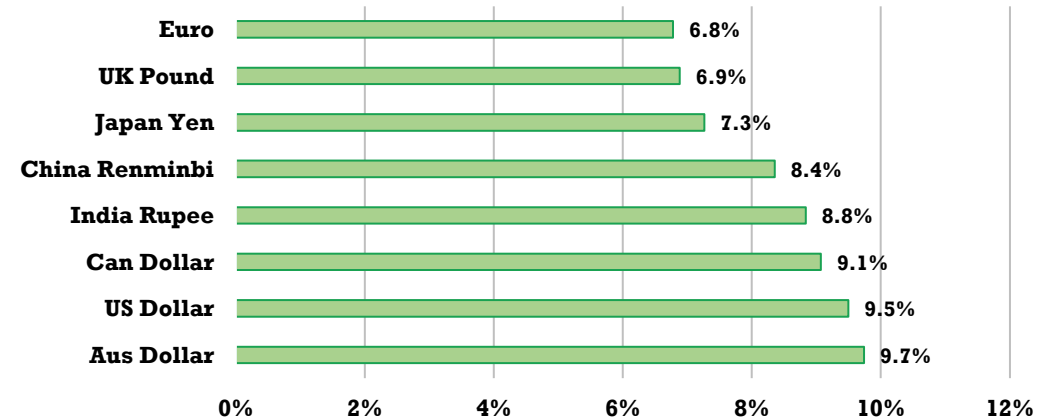


Source: CBSL

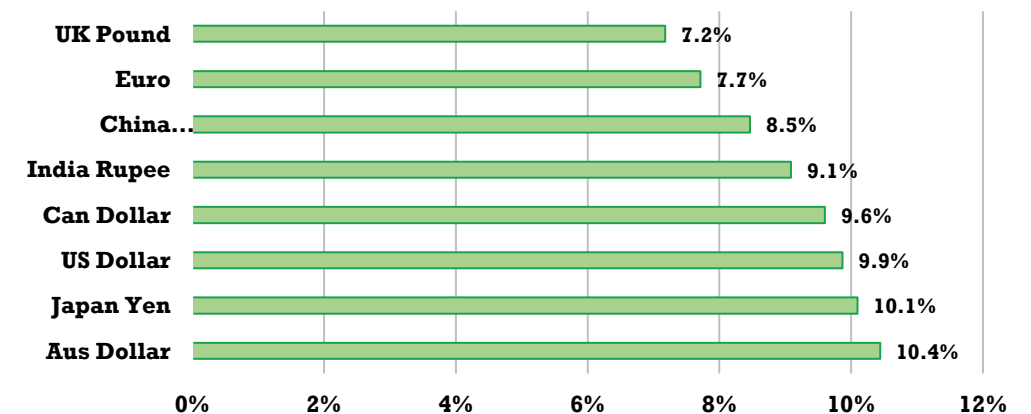
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Sri Lankan Rupee vs Global Currencies

Mar 2023



YTD 2023



Source: CBSL

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GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Mar 2023

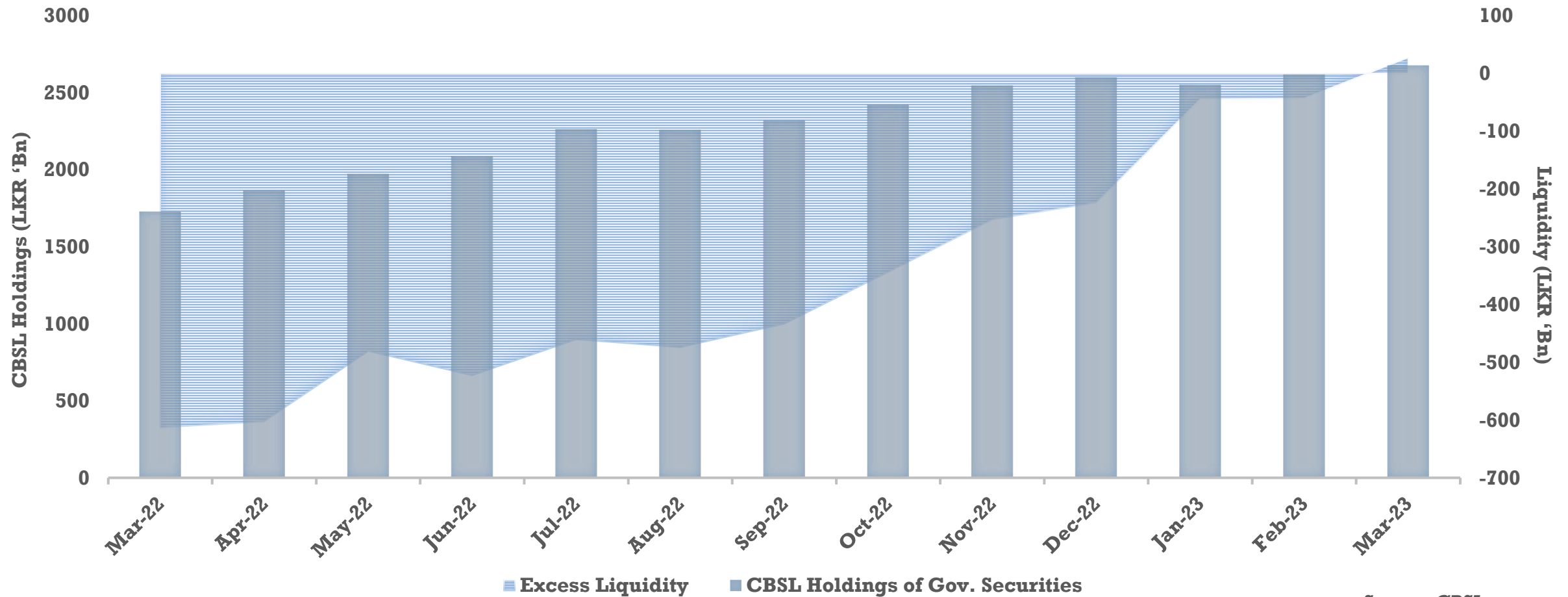
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
3-Mar-23	106,250	24,000	130,250
10-Mar-23	106,250		106,250
17-Mar-23	150,000	119,388	269,388
24-Mar-23	156,250		156,250
31-Mar-23	92,534		92,534
Total Issued			662,138

Net Settlement	Mar 2023	YTD
Maturities	1,493,481	3,626,884
New Issues	662,138	1,812,587
Excess/ (Deficit)	(831,343)	(1,814,297)

CBSL Holdings of Gov. Securities		YTD
As at End Mar 2023	2,675,229	
As at End Feb 2023	2,614,995	
Increase/ (Decrease)	60,234	77,051

CBSL HOLDINGS OF GOV. SECURITIES...

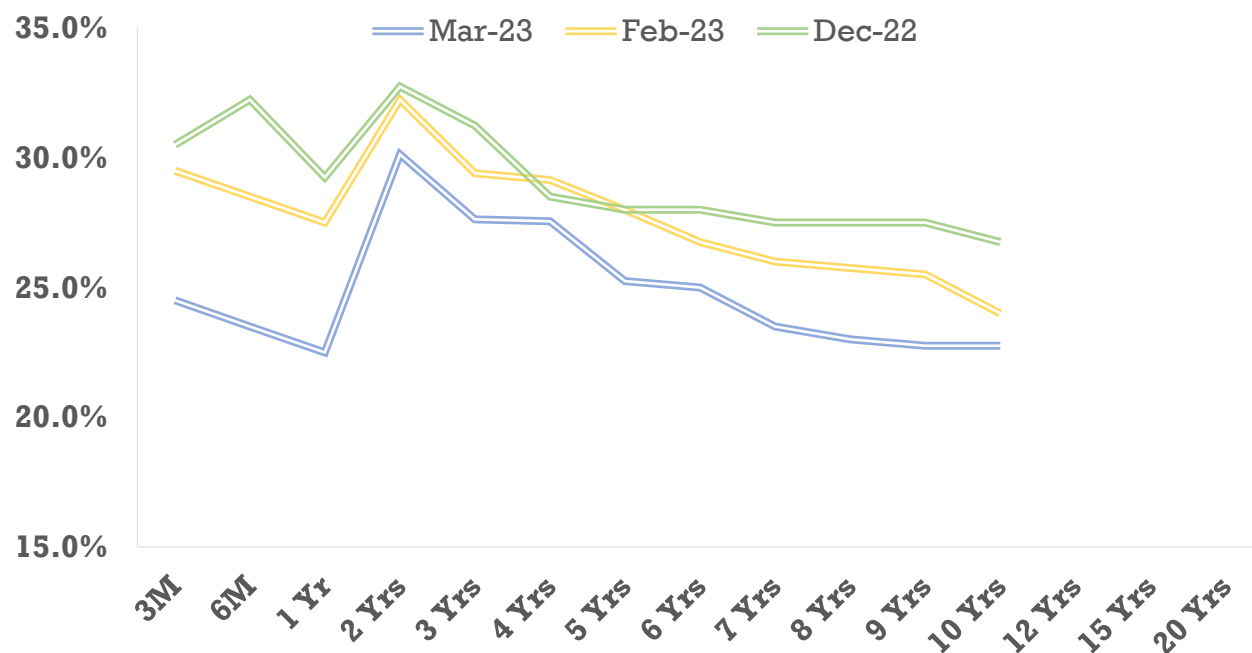
...increased by LKR 60.2Bn in Mar 2023



Source: CBSL

TREASURY BILLS AND BONDS – MAR 2023

The secondary market was highly active during the month as Sri Lanka achieved several key milestones including the signing of the Extended Fund Facility agreement with the IMF for USD 3.0Bn and conducting of the inaugural creditor meeting with Sri Lanka's bilateral and multilateral creditors. The secondary market bill yields recorded a sharp plunge by 500bps during the month whilst bond yields followed as most maturities dipped by 200+bps with mid to longer tenures recording the sharpest decline. The renewed investor confidence and revitalized buying pressure was largely aided by the direction offered by the CBSL on domestic debt restructuring.



Source: First Capital Research

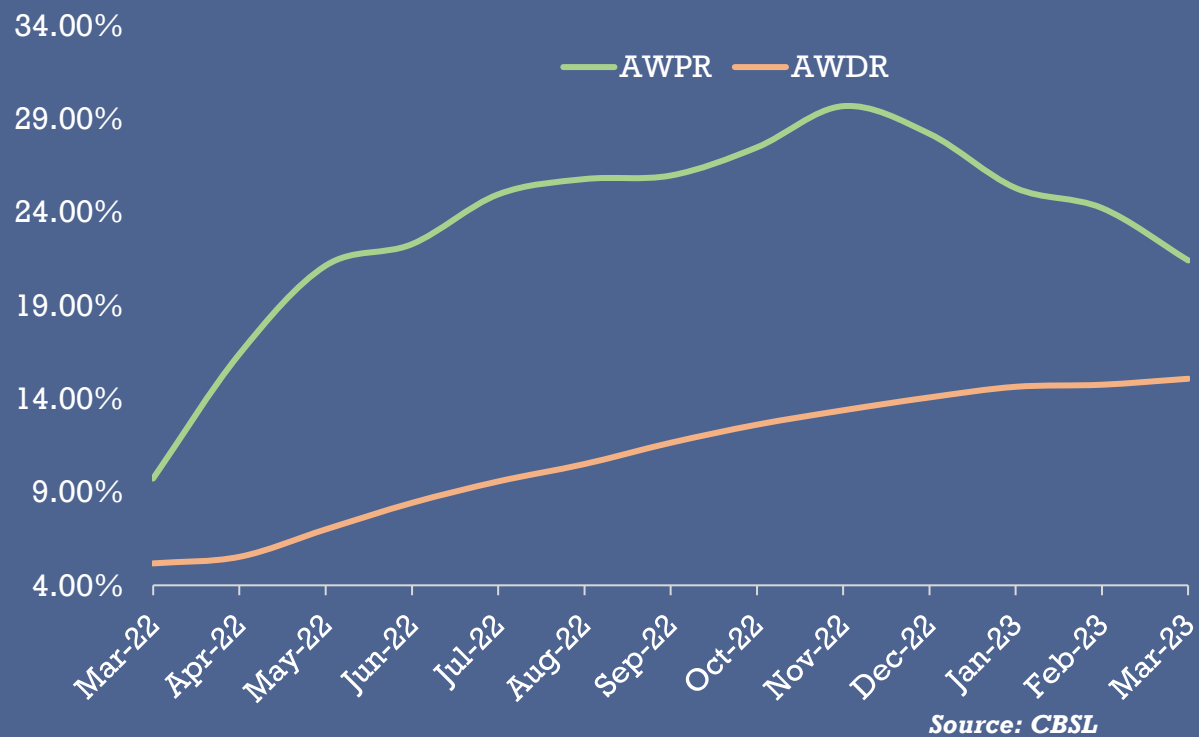
Interest Rate Change (bps)

Tenure	Mar-23	Feb-23	Change (bps)	Dec-22	Change (bps)
3M	24.50%	29.50%	-500	30.50%	-600
6M	23.50%	28.50%	-500	32.25%	-875
1 Yr	22.50%	27.50%	-500	29.25%	-675
2 Yrs	30.13%	32.25%	-212	32.75%	-262
3 Yrs	27.63%	29.40%	-177	31.25%	-362
4 Yrs	27.55%	29.15%	-160	28.50%	-95
5 Yrs	25.25%	28.00%	-275	28.00%	-275
6 Yrs	25.00%	26.75%	-175	28.00%	-300
7 Yrs	23.50%	26.00%	-250	27.50%	-400
8 Yrs	23.00%	25.75%	-275	27.50%	-450
9 Yrs	22.75%	25.50%	-275	27.50%	-475
10 Yrs	22.75%	24.00%	-125	26.75%	-400
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

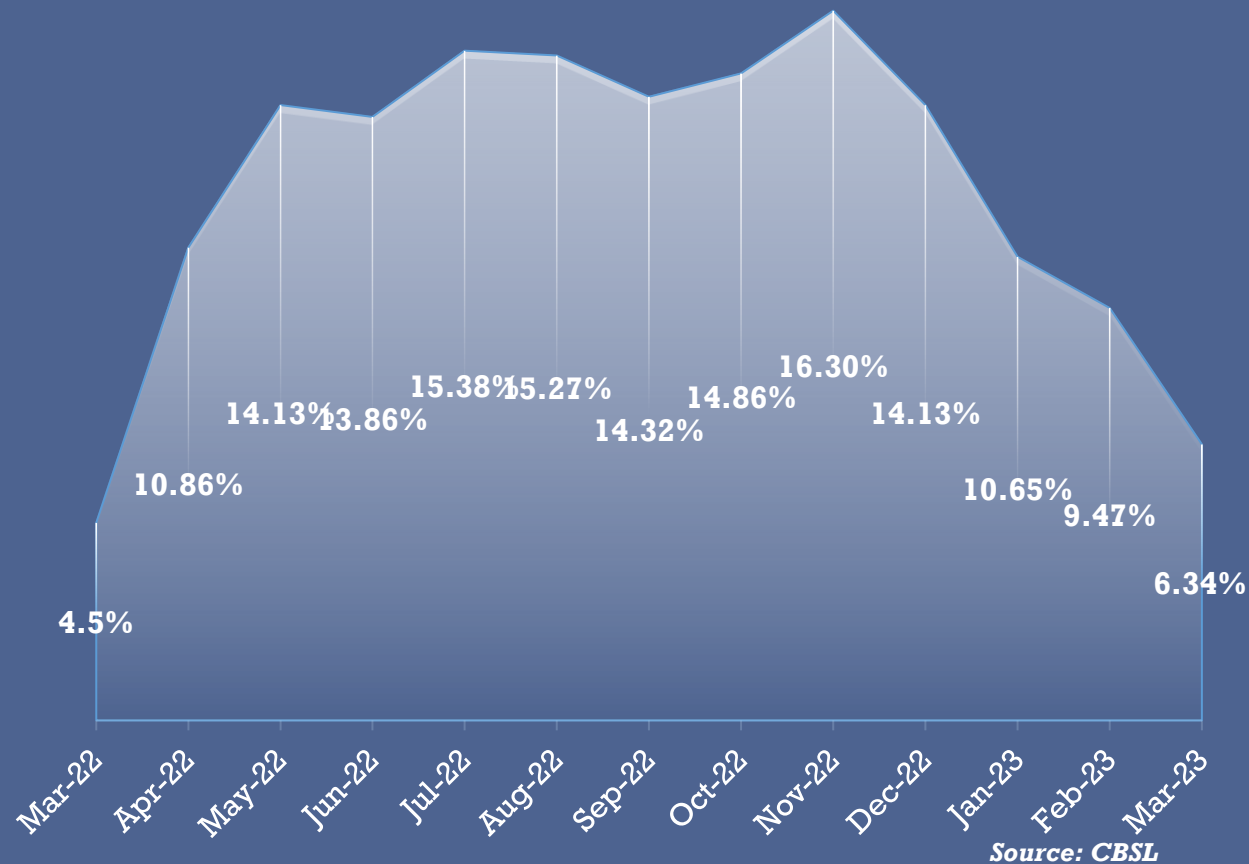
Source: First Capital Research

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AWPR vs AWDR



Interest Spread

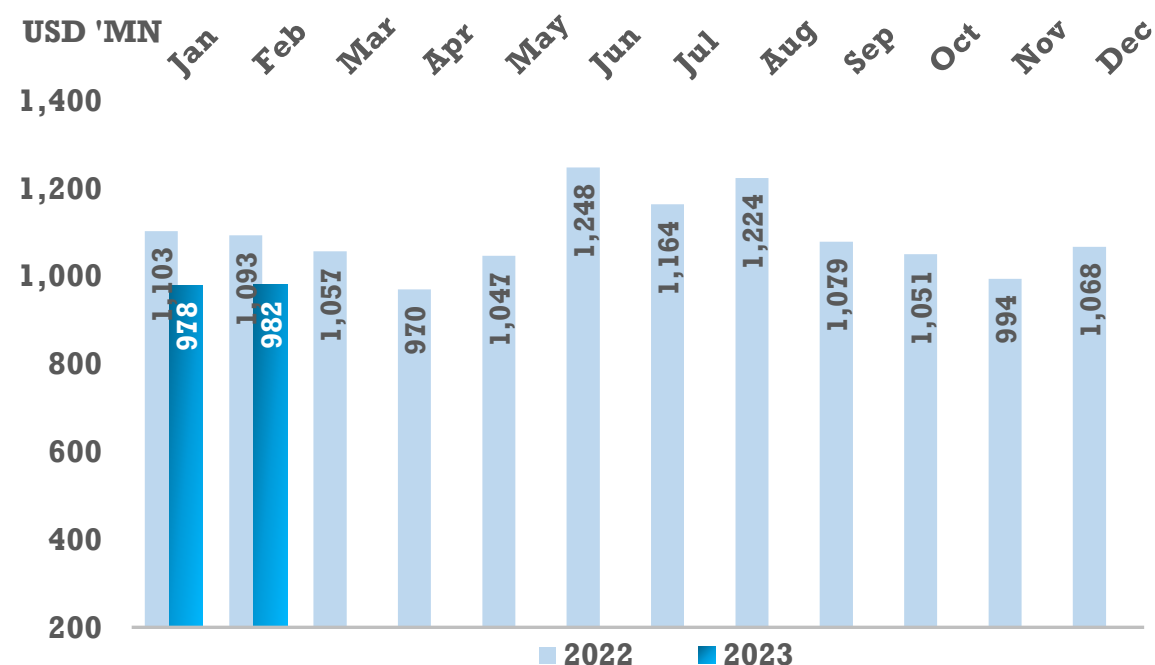


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – FEB 23 – EXPORTS

Earnings from exports dipped below USD 1.0Bn for the second consecutive month and recorded a decline of 10.2%YoY for February to USD 982.0Mn. The decline in earnings from the all three key segments contributed towards the poor performance during the month. Industrial exports segment declined largely due to the performance of the garments segment, which was affected by reduced demand from major markets due to unfavorable economic conditions globally. Moreover, earnings from the exports of petroleum products also declined due to the drop in volumes of bunker and aviation fuel exports despite the higher aviation fuel prices. Meanwhile, earnings from agricultural exports recorded a marginal dip during the month due to decline in earnings from coconut related products (primarily, fibres and desiccated coconut). However, decline was partially offset by improved earnings from spices and tea, with earnings from latter improving mainly price increases as the volumes registered a decline.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Feb	885.5	777.1	-12.2
- YTD	1,777.4	1,558.3	-12.3
Agricultural			
- Feb	202.1	201.2	-0.4
- YTD	406.6	392.2	-3.5
Mineral Exports			
- Feb	4.1	1.6	-60.9
- YTD	8.4	5.2	-37.8
Total			
- Feb	1,093.3	982.0	-10.2
- YTD	2,195.9	1,960.1	-10.7

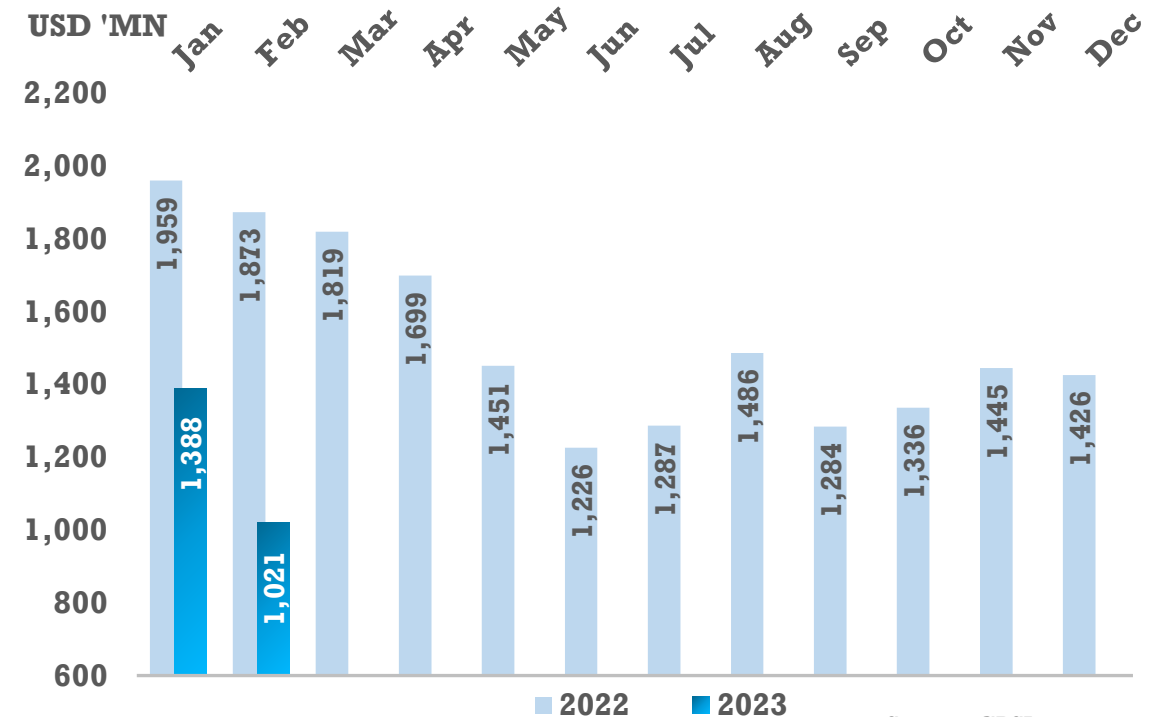


Source: CBSL
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EXTERNAL SECTOR – FEB 23 – IMPORTS

Import expenditure declined by 45.5%YoY to USD 1.0Bn in Feb 2023 as all major sectors reported a decline across the board. The sharp decline in expenditure for intermediate goods was notable during the period. This was led mostly by the lower imports of fuel and textiles and textile articles (primarily, fabrics). The importation of refined petroleum was significantly low due to the build-up of inventories while crude oil imports were not recorded in Feb 2023. The decline in textiles and textile articles was significant (the lowest since May 2020) implying a possible slowdown in garments exports in the period ahead. Meanwhile importation of the consumer goods declined during Feb 2023 due to lower imports of cereals and milling industry products (mainly, rice), compared to Feb 2022. Furthermore, import bill on investment goods also reported a decline due to decline in all three investment good subcategories, namely machinery and equipment, building material and transport equipment.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Feb	298.8	202.2	-32.3
- YTD	658.8	420.7	-36.1
Intermediate			
- Feb	1,219.8	637.7	-47.7
- YTD	2,432.3	1,608.2	-33.9
Investment goods			
- Feb	353.6	180.9	-48.9
- YTD	740.3	379.7	-48.7
Total			
- Feb	1,872.9	1,021.0	-45.5
- YTD	3,832.3	2,409.0	-37.1

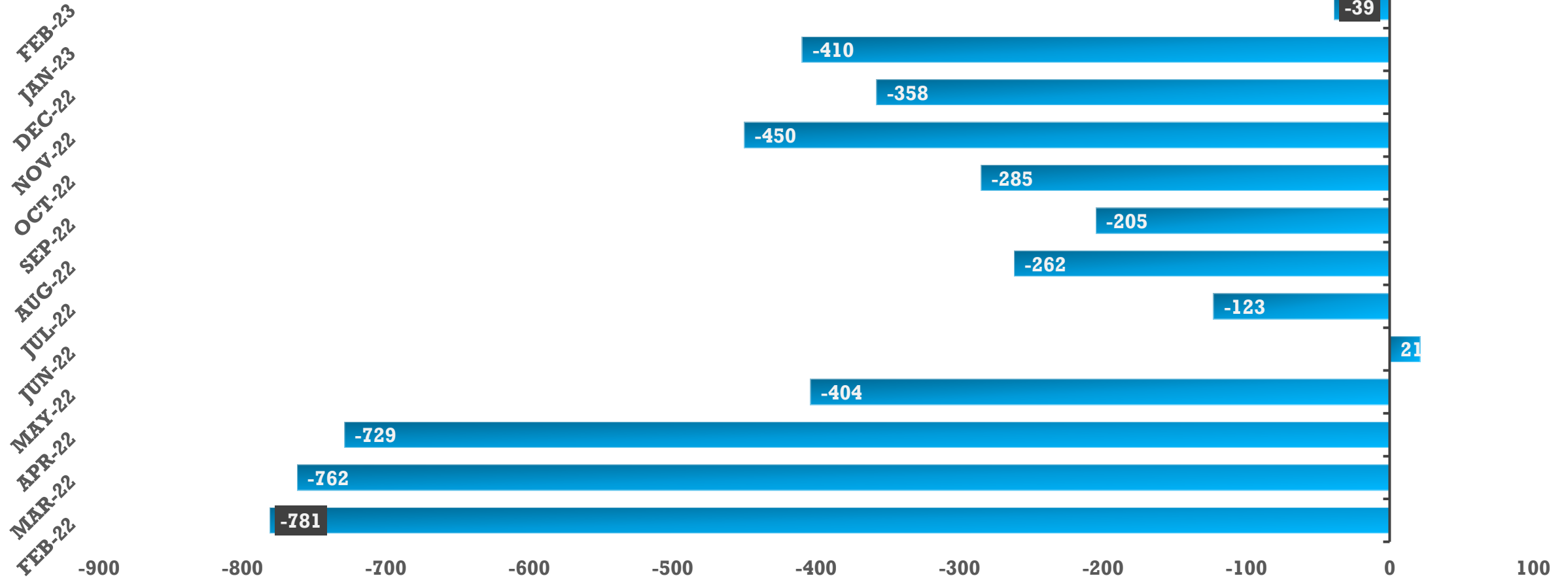


Source: CBSL

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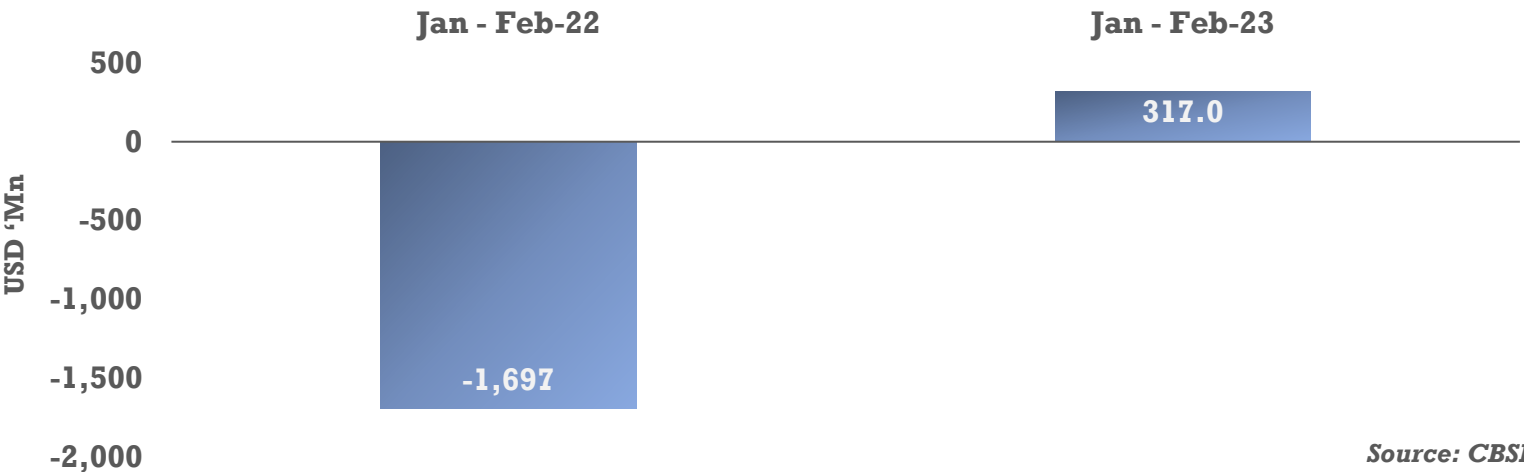
EXTERNAL SECTOR – FEB 23

Balance of Trade



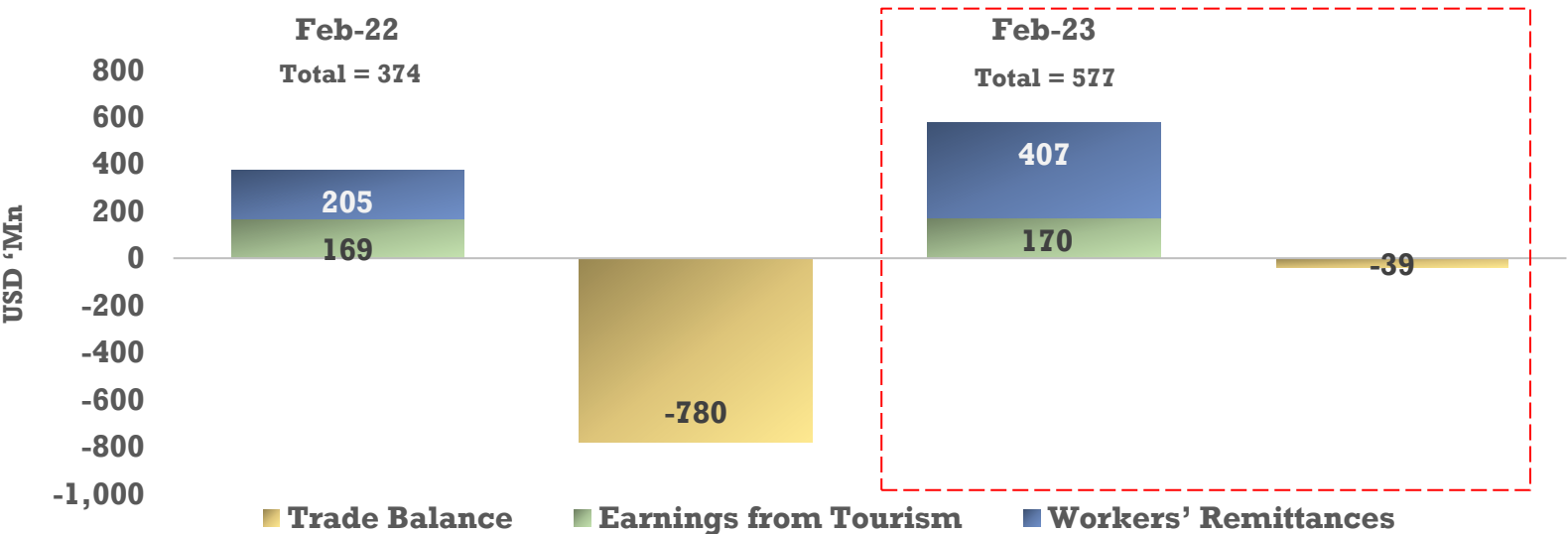
Source: Central Bank

BoP for Jan – Feb -23 recorded at USD 317.0Mn compared to Jan – Feb -22 amount of USD -1,697.0Mn. A net inflow of USD 106.0Mn was recorded during Feb-23.



Source: CBSL

Workers' Remittances inclined to USD 407.0Mn in Feb-23 (+98.8%YoY). Earnings from Tourism for Feb-23 increased to USD 170.0Mn from USD 169.0Mn in Feb-22.



Source: CBSL

BALANCE OF PAYMENT
DEFICIT DECREASED YOY IN
FEB-23

Feb USD 'Mn	2022	2023	Change (%)
Trade Balance	-780	-39	
Earnings from Tourism	169	170	+0.3
Workers' Remittances	205	407	+98.8

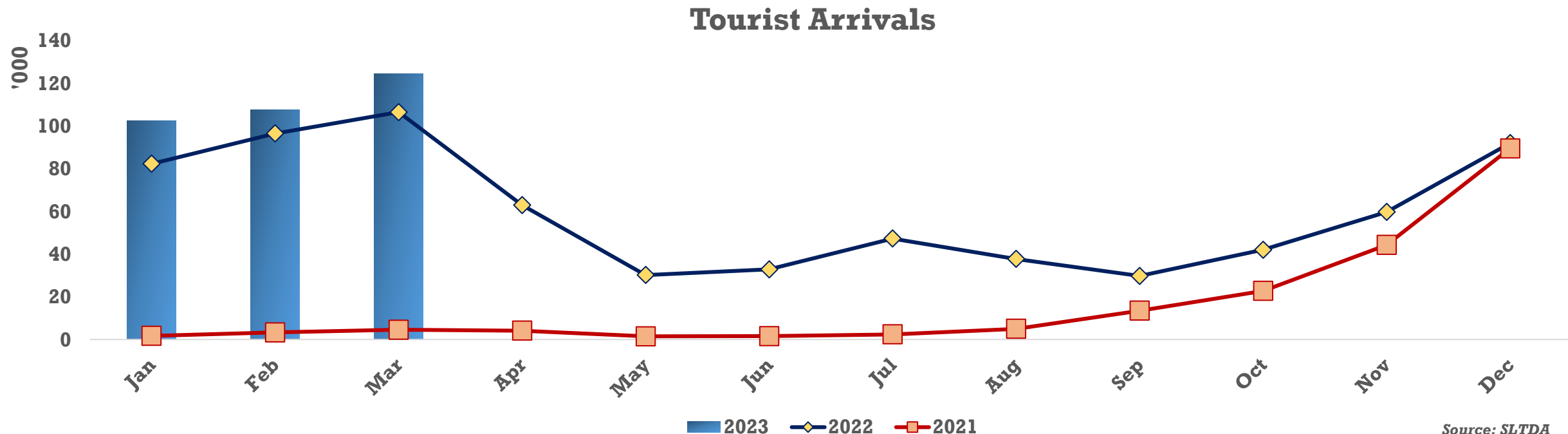
YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-1,636	-449	
Earnings from Tourism	321	332	+3.3
Workers' Remittances	464	845	+82.0

Source: CBSL

TOURIST ARRIVALS – MAR 2023

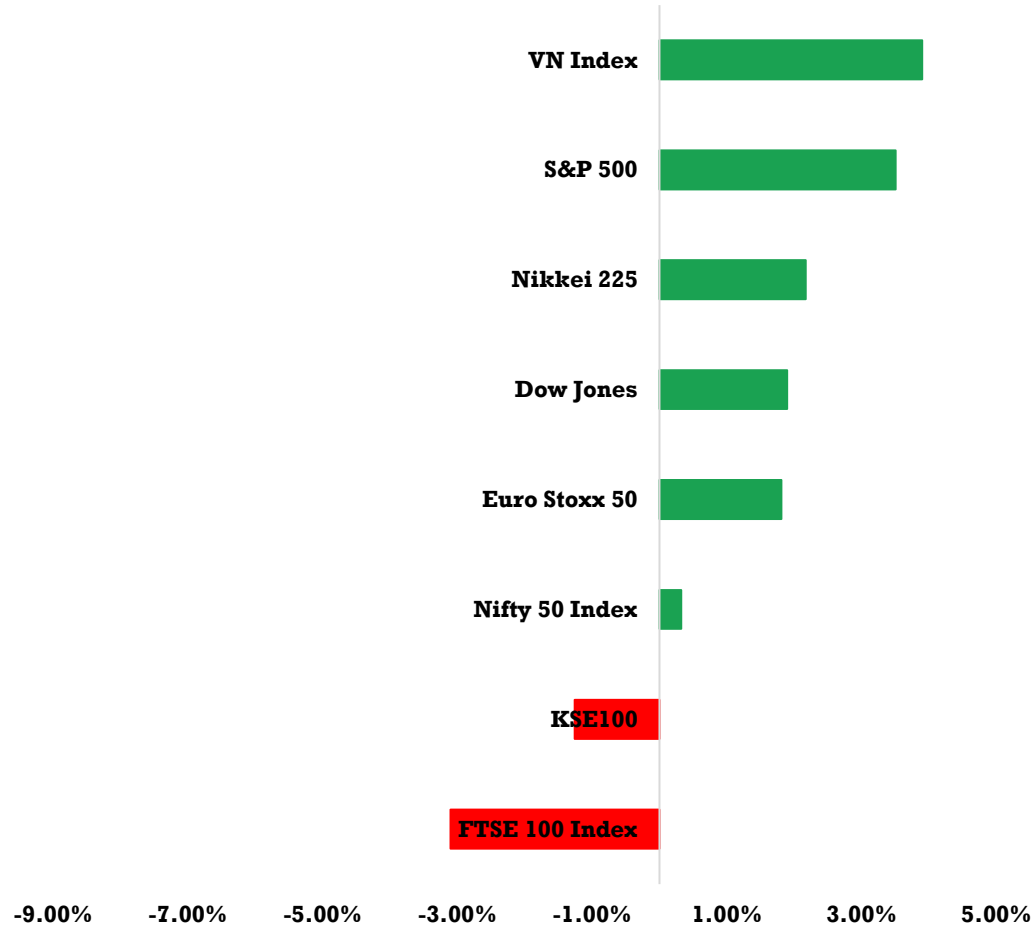
[Mar 125,495 – **UP +17.8%YoY**] [MOM– **UP +16.6%**]

The total number of tourist arrivals to Sri Lanka continued to surge and recorded at a healthy level in Mar, signaling a revival of tourism in the country. The total arrivals for the month was recorded at 125,495 displaying an increase of 17.8% compared to Mar 2022, 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 March were Russian Federation, India, the United Kingdom, Germany and France.



Source: SLTDA

GLOBAL MARKET



Source: Investing.com

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Singapore Plans New Guidance for Banks on Vetting Crypto Clients

Singapore authorities are working with lenders in the city-state to set uniform standards on screening potential customers from the crypto and digital assets sectors, amid various global fallouts in the industry. The central bank and police have been helping banks to fine-tune their vetting approach when opening accounts for service providers in all types of digital assets, according to people. The project has been ongoing for about six months, and an industry report outlining best practices in areas like due diligence and risk management may be published in the next two months.

Bloomberg



IMF says U.S-China tensions could cost the world about 2% of its output

The IMF said in a report that global tensions could disrupt overseas investment and eventually lead to a long-term loss of 2% of the world's gross domestic product. Companies and policymakers across the globe are exploring ways to make their supply chains more resilient by "moving production home or to trusted countries," the IMF warned in its report, adding that this will lead to fragmenting foreign direct investment.

German banks hit by wave of complaints from savers

Complaints from consumers about banks and other financial firms in Germany rose by a fifth last year, official data shows, as regulators flex their muscles to shore up trust in the sector. BaFin, Germany's financial watchdog, has been increasing its focus on consumer protection in the wake of the collapse of Wirecard. It received 15,000 complaints from consumers in Europe's largest economy about their banks and other financial service providers last year, up from 12,500 in 2021 and a fourth consecutive year of sharp increases.



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