



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

May 2023

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SRI LANKA LAUNCHES DEBT RESTRUCTURING TALKS WITH MAJOR BILATERAL CREDITORS

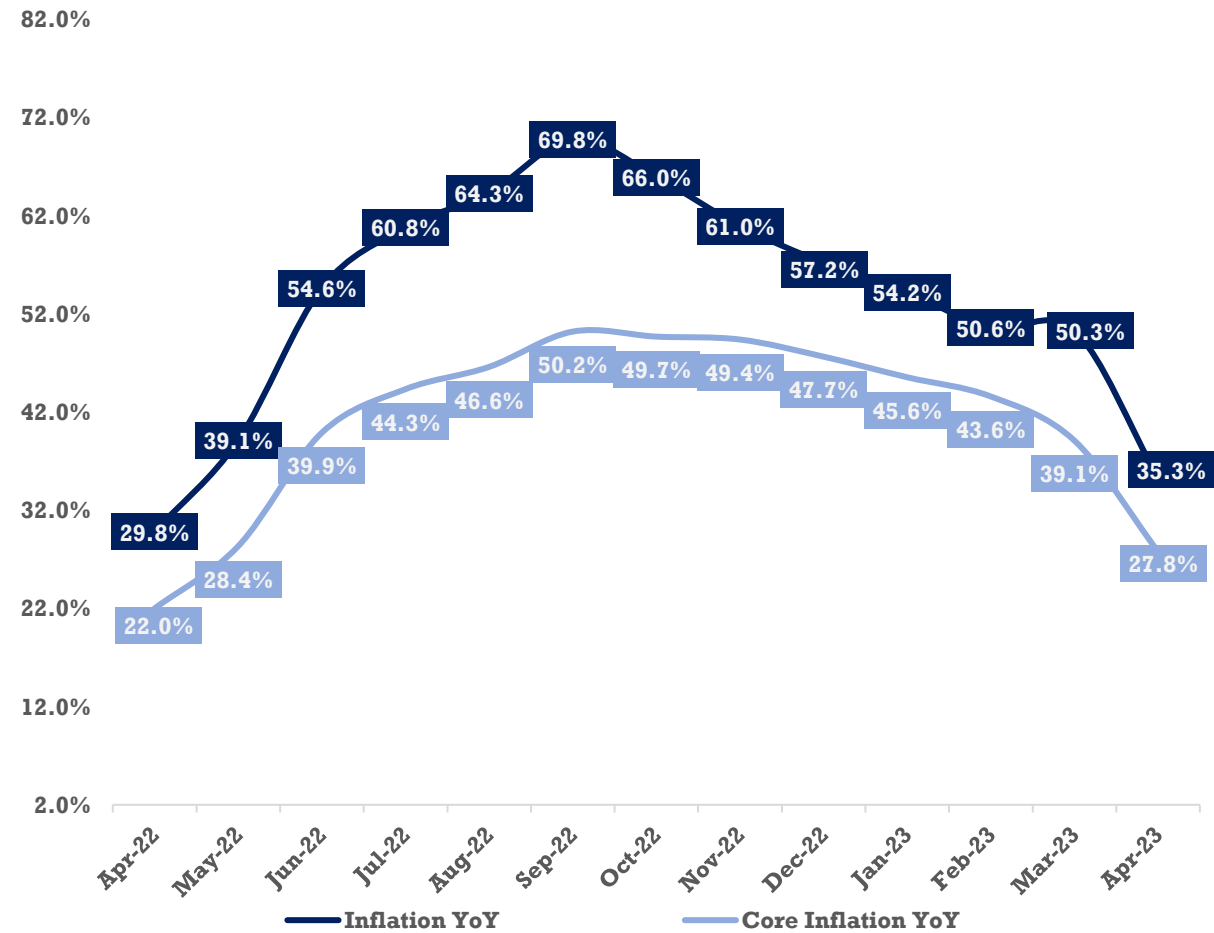
- Sri Lanka formally launched debt restructuring talks with its major bilateral creditors, after the country secured USD 3.0Bn in Extended Fund Facility from the International Monetary Fund (IMF) in Mar 2023.
- Paris Club members, including Japan, account for more than 10% of Sri Lanka's external debt, which amounts to USD 4.8Bn, slightly higher than China's debt of USD 4.5Bn, while India is owed USD 1.8Bn.
- The debt restructuring talks are expected to be completed by September 2023, in time for the first review of Sri Lanka's IMF program.
- In Apr, Sri Lanka took a key step towards restructuring its USD 83.6Bn public debt by agreeing to include local-currency bond restructuring of CBSL-held T-Bills and some longer-term T-Bonds in the program to alleviate the burden on foreign commercial creditors.
- During the month of Apr, China and Sri Lanka signed a number of agreements including the construction of South Asia's largest commercial and logistics hub and other development projects including an economic center, health center and community center. The Chinese embassy also handed over its eight-storey, 50,000 sq m. OPD building of the Sri Lankan National Hospital to the Sri Lankan government. These agreements were signed as part of a long-term relationship between China and Sri Lanka.

Source: Daily FT

INFLATION – CCPI

**CCPI FOR APR 2023:
MOM -1.4%,
YOY +35.3%**

- MoM inflation decreased by 1.4% with the decrease in inflation of Food group by 0.1% while Non-Food group decreased by 2.0%.
- The YoY inflation drastically decreased for the seventh consecutive month to 35.3% in Apr 2023. YoY inflation of Food group has decreased to 30.6% in Apr 2023 from 47.6% in Mar 2023 while Non-Food group decreased to 37.6% from 51.7% in Mar 2023.



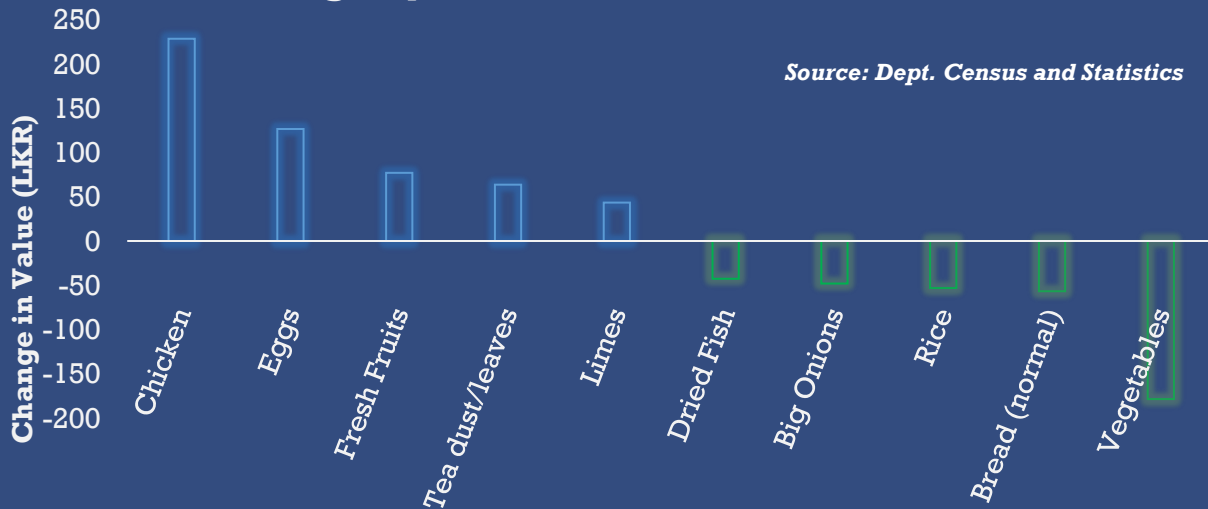
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

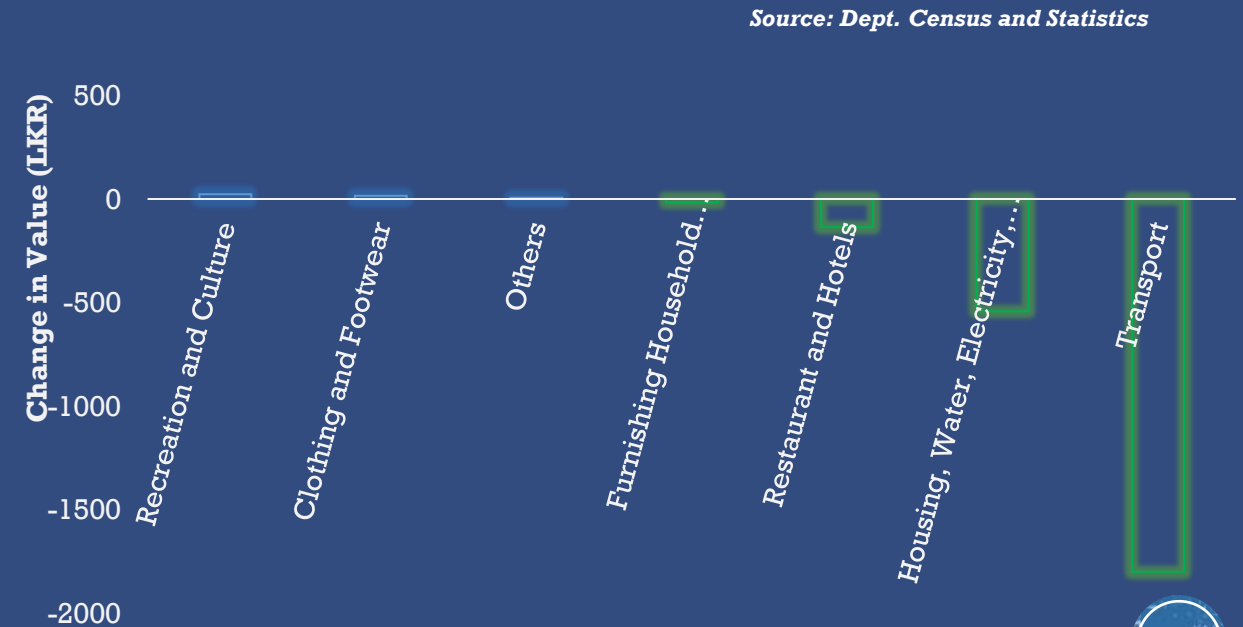
The CCPI index recorded a decrease of 1.4%MoM contributed by the decrease in expenditure value of both Non-Food items by 1.37% and Food items by 0.02%. Within the Food items, decrease in value changes were mainly reported for Vegetables, Bread, Rice, Big Onions and Dried Fish. Among Non-Food groups, decreases in value changes were mainly reported in Transport, Housing, Water, Electricity, Gas & Other Fuels, Restaurant and Hotels, and Furnishing Household Equipment and Routine Household Maintenance.



Food Category Inflation



Non-Food Category Inflation

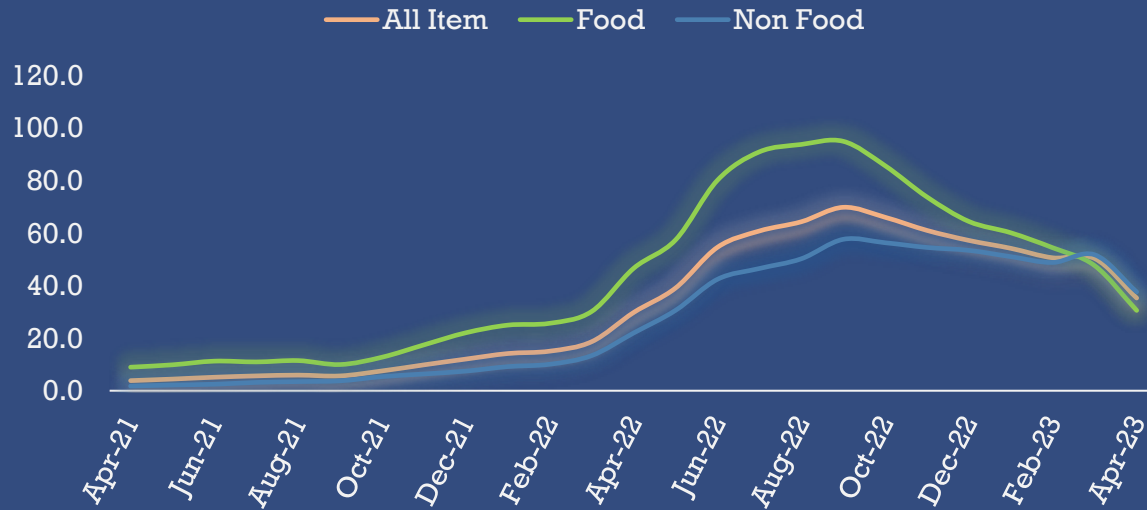


INFLATION ANALYSIS – CCPI-YOY

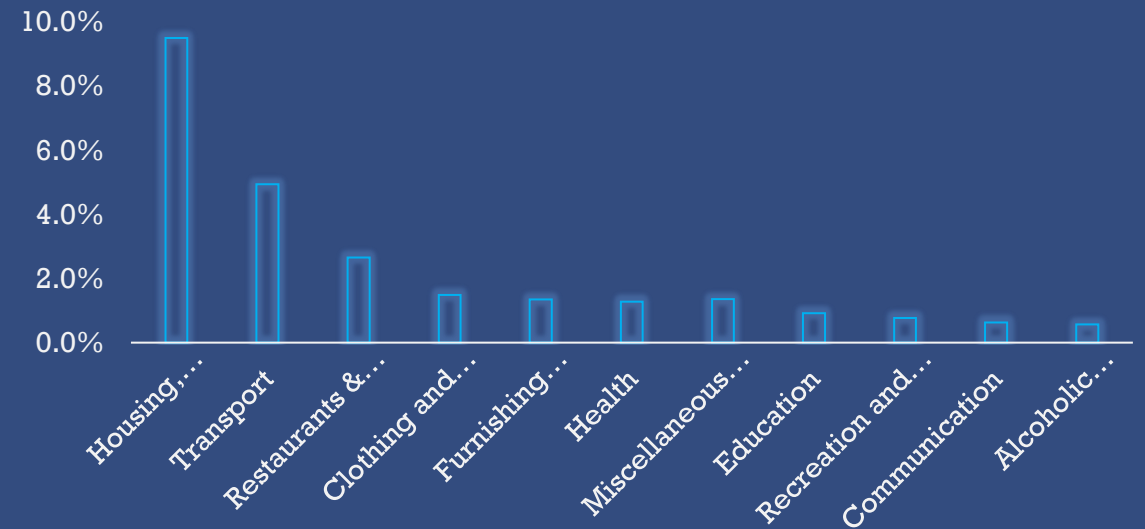
The YoY inflation of CCPI for Apr was 35.3% and has decreased relative to the month of Mar 2023. Food item prices have decreased to 30.6%YoY in Apr 2023 from 47.6%YoY in Mar 2023 while the Non-Food item prices decreased to 37.6%YoY from 51.7%YoY in Apr 2023. The contribution from food category for YoY inflation was 9.9% while the contribution of Non-Food items stood at 25.5% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Transport, Restaurants & Hotels, Clothing & Footwear, etc.



Inflation Analysis (YoY)



Non-Food Category Inflation



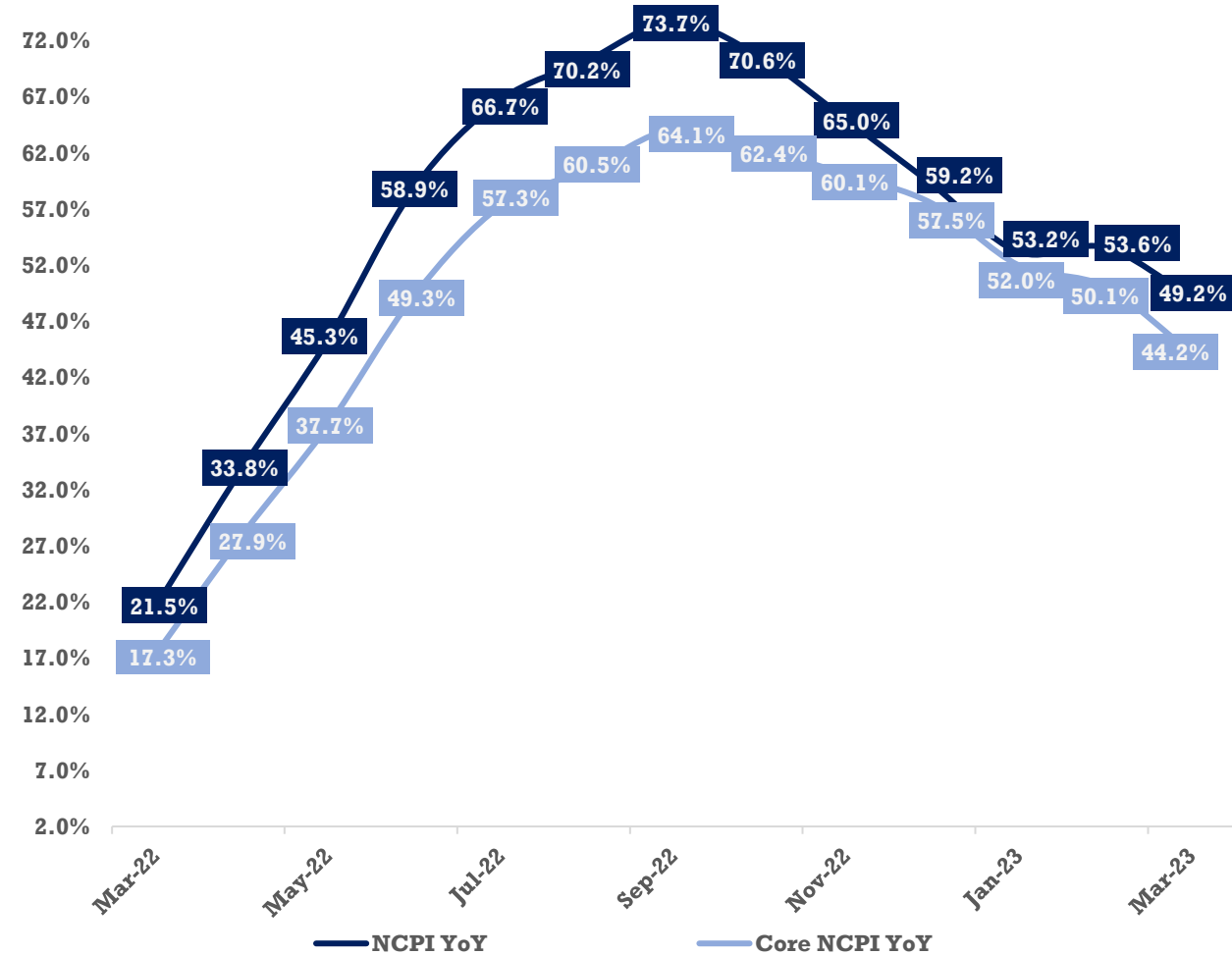
Source: Dept. Census and Statistics

Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR MAR 2023: DECREASED TO 49.2%YOY

- NCPI for Mar 2023 decreased to 49.2% compared to 53.6% in Feb 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to 42.3% in Mar 2023 from 49.0% in Feb 2023 while Non-Food inflation decreased to 54.9% in Mar 2023 from 57.4% in Feb 2023.



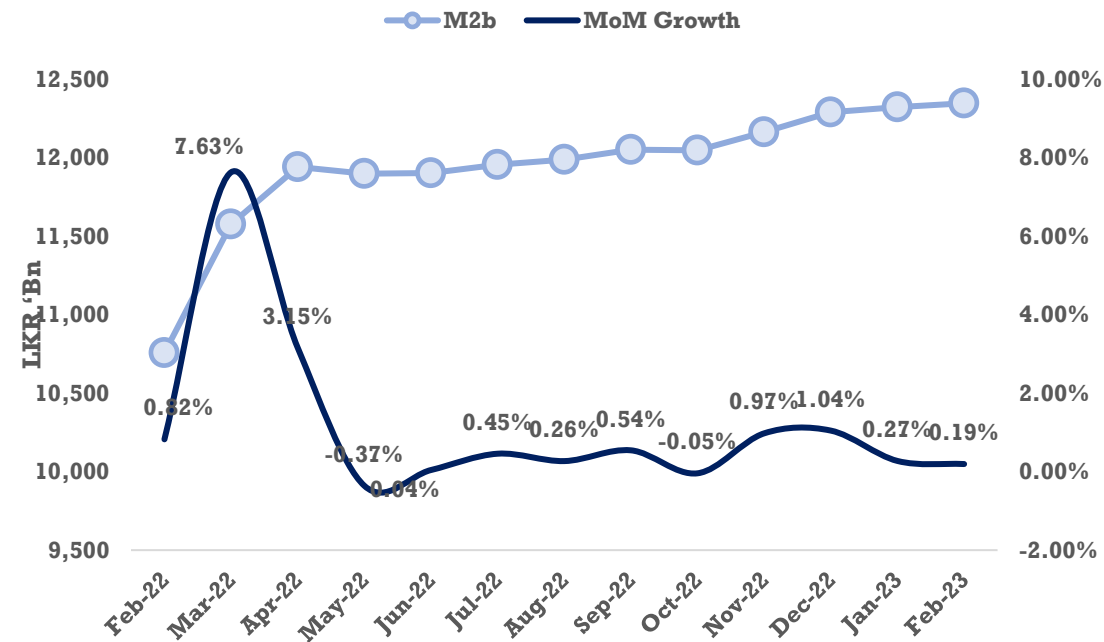
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit further deteriorated by LKR 57.6Bn in Feb 2023 amidst the higher lending rates and conservative lending stance adapted by banks and NBFIs. State credit reflected a net settlement of LKR 176.6Bn.

M2b Growth – Feb 2023

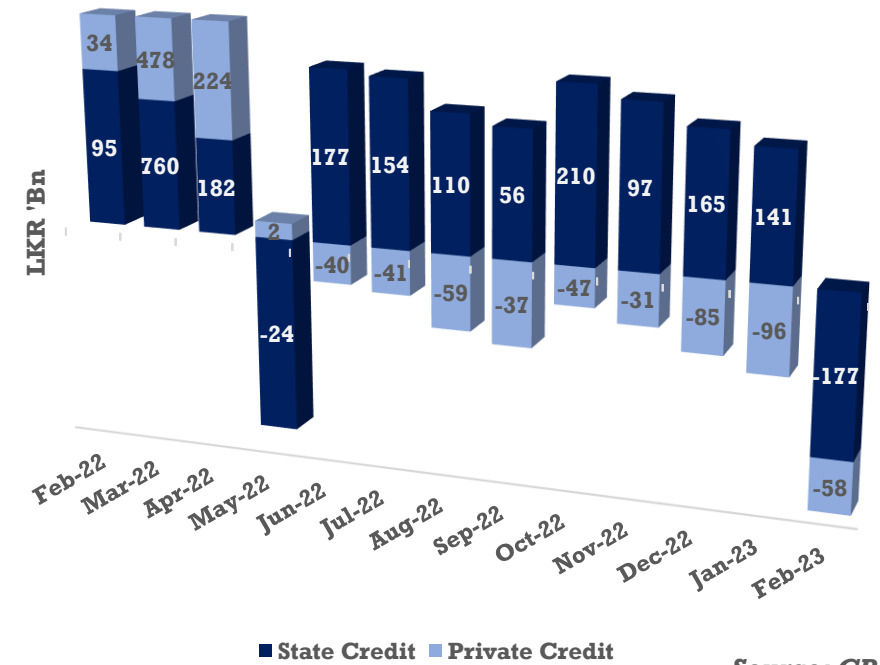
MoM +0.19%, YoY +14.79%, YTD +0.46%



Source: CBSL

State Credit & Private Credit – Feb 2023

Private Credit MoM -0.8%, YoY +2.97%, YTD -2.07%



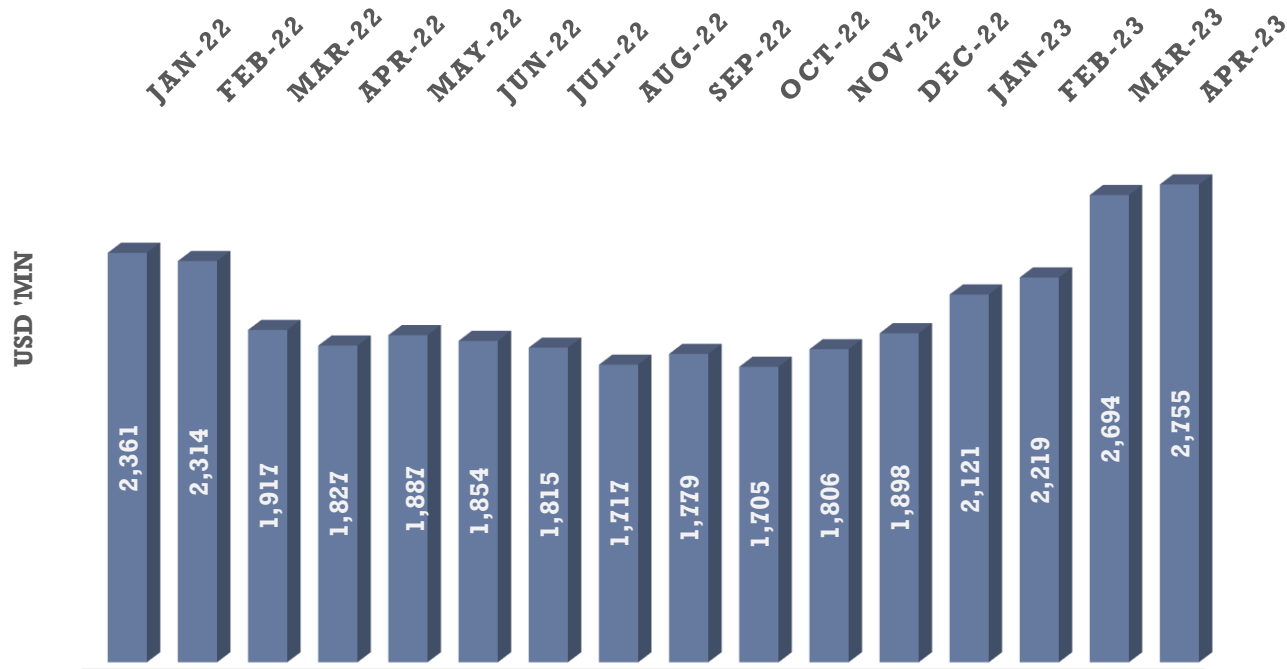
State Credit Private Credit

Source: CBSL

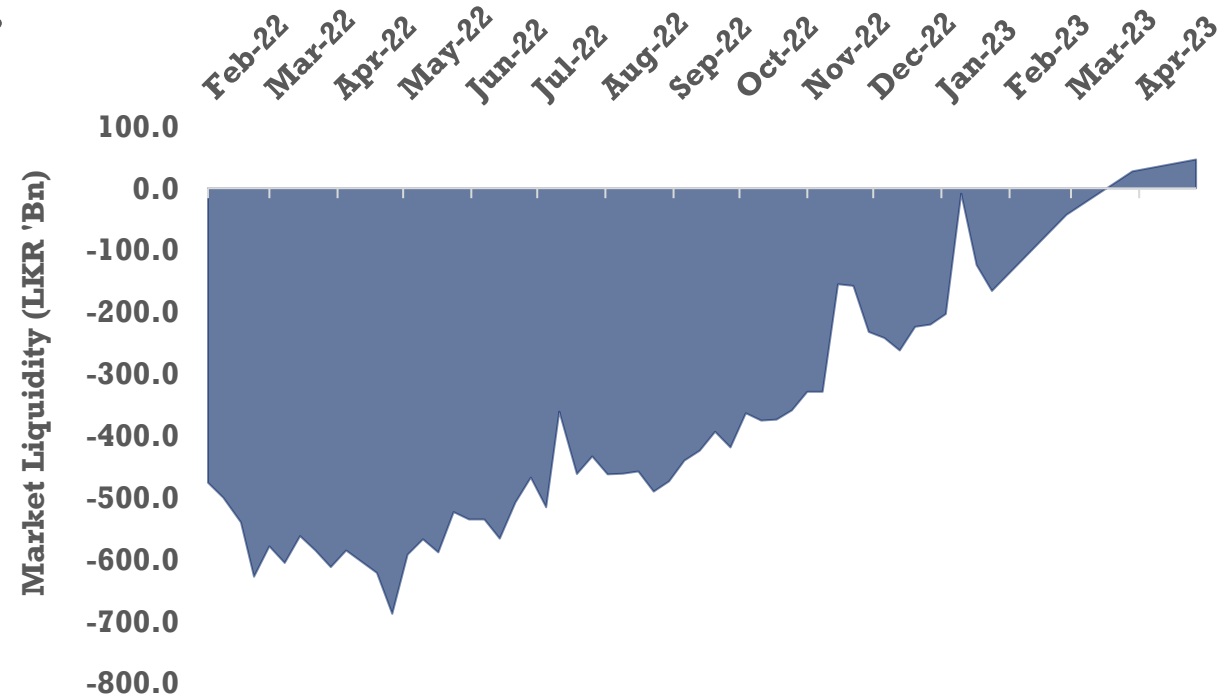
LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 61.0Mn to USD 2.8Bn in Apr 2023.

- Market Liquidity displayed volatility and improved during the month of Apr 2023.



Source: CBSL



Source: CBSL

CURRENCY MOVEMENT

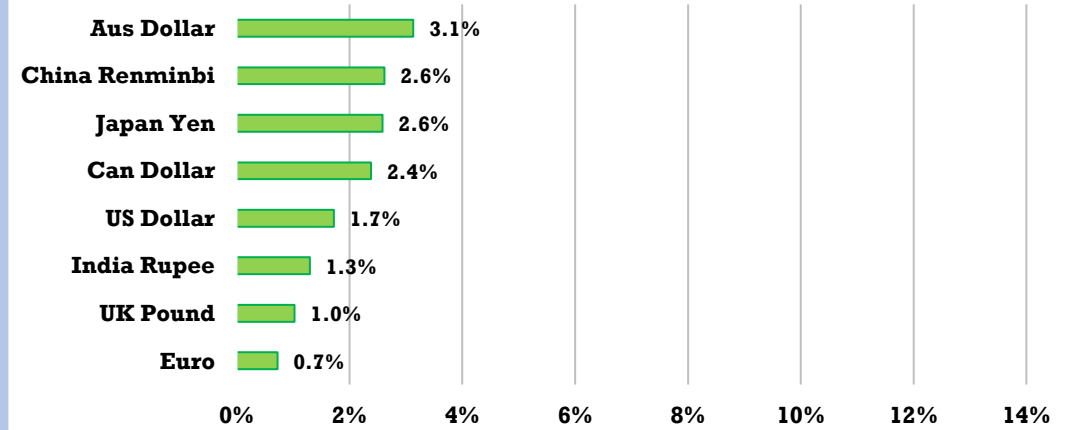
USD:LKR Movement



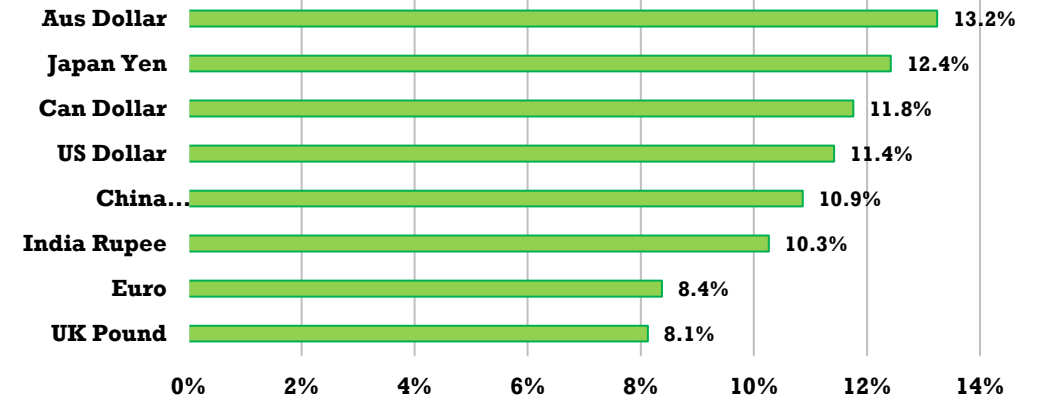
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Apr 2023



YTD 2023



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Apr 2023

Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
07-Apr-23	-	-	-
14-Apr-23	128,367	-	128,367
21-Apr-23	194,020	-	194,020
28-Apr-23	143,750	-	143,750
Total Issued			466,137

Net Settlement	Apr 2023	YTD
Maturities	1,157,267	4,784,151
New Issues	466,137	2,278,724
Excess/ (Deficit)	(691,130)	(2,505,427)

CBSL Holdings of Gov. Securities	YTD	
As at End Apr 2023	2,667,363	
As at End Mar 2023	2,675,229	
Increase/ (Decrease)	(7,866)	69,185

CBSL HOLDINGS OF GOV. SECURITIES...

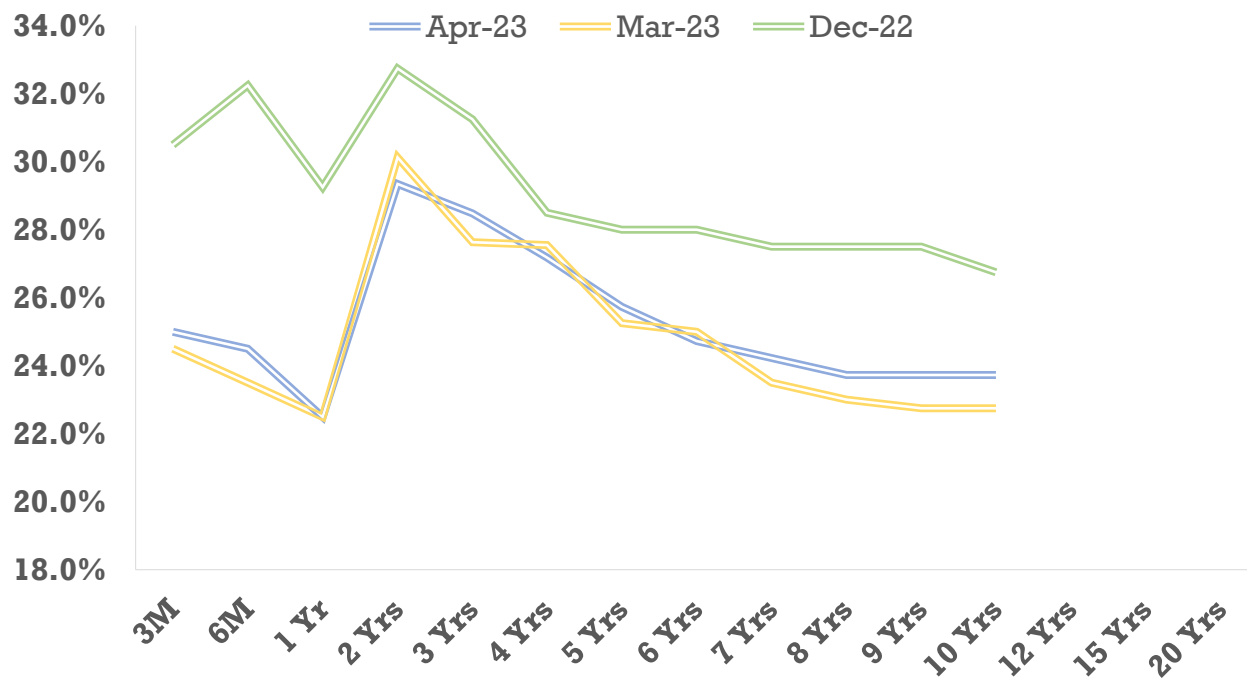
...decreased by LKR 7.9Bn in Apr 2023



Source: CBSL

TREASURY BILLS AND BONDS – APR 2023

The secondary market displayed sizeable volatility during the month of April compared to March owing to rising concerns over domestic debt restructuring which affected investor confidence and extended selling pressure across the market. However, yields slightly edged higher towards mid month as investor participation toned down due to the holiday season. The secondary market bill yields recorded a maximum dip of 70+bps in 2Yr maturity whilst both 6M and long tenure maturities gained by nearly 100bps during the month.



Source: First Capital Research

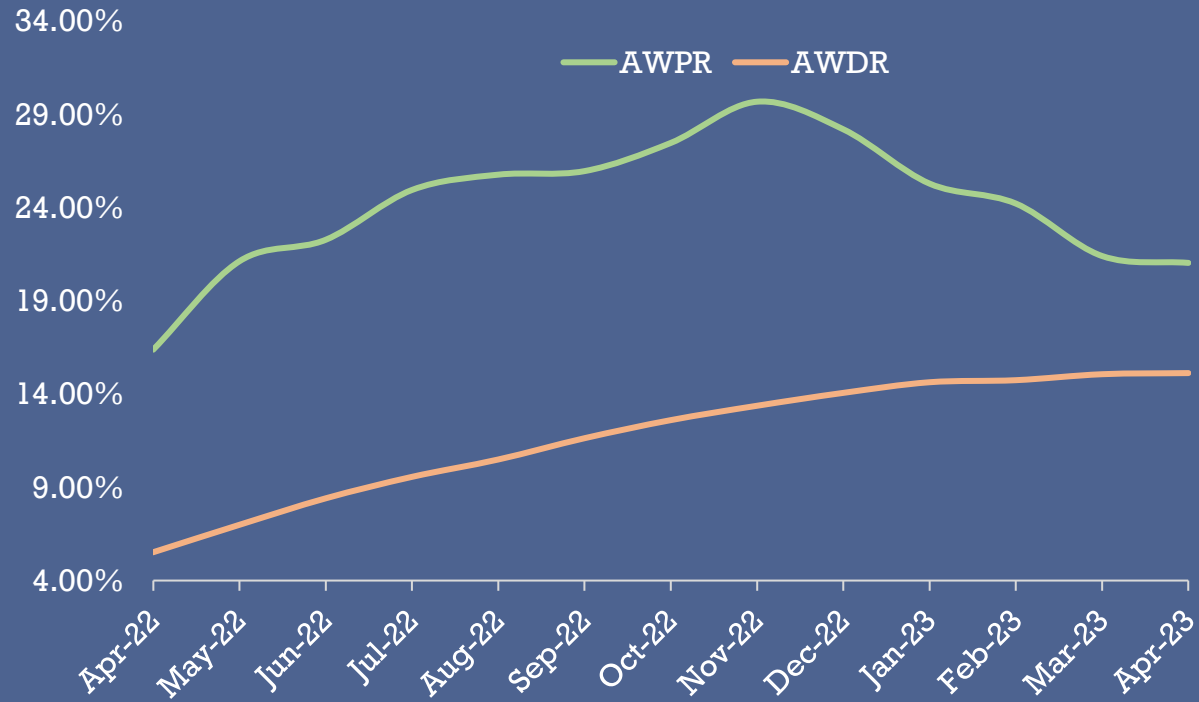
Interest Rate Change (bps)

Tenure	Apr-23	Mar-23	Change (bps)	Dec-22	Change (bps)
3M	25.00%	24.50%	50	30.50%	-550
6M	24.50%	23.50%	100	32.25%	-775
1 Yr	22.50%	22.50%	0	29.25%	-675
2 Yrs	29.35%	30.13%	-78	32.75%	-340
3 Yrs	28.48%	27.63%	85	31.25%	-277
4 Yrs	27.18%	27.55%	-37	28.50%	-132
5 Yrs	25.73%	25.25%	48	28.00%	-227
6 Yrs	24.73%	25.00%	-27	28.00%	-327
7 Yrs	24.23%	23.50%	73	27.50%	-327
8 Yrs	23.73%	23.00%	73	27.50%	-377
9 Yrs	23.73%	22.75%	98	27.50%	-377
10 Yrs	23.73%	22.75%	98	26.75%	-302
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

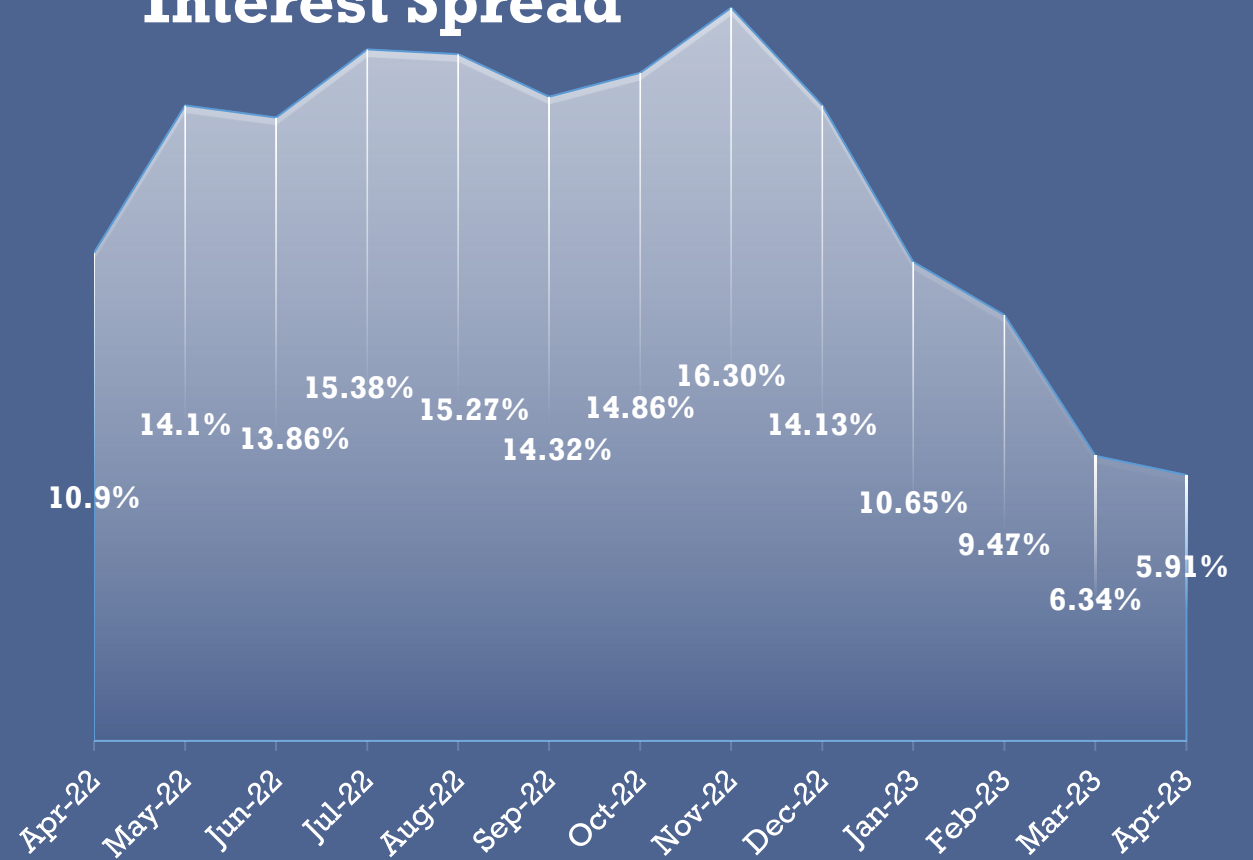
May 2023

AWPR vs AWDR



Source: CBSL

Interest Spread



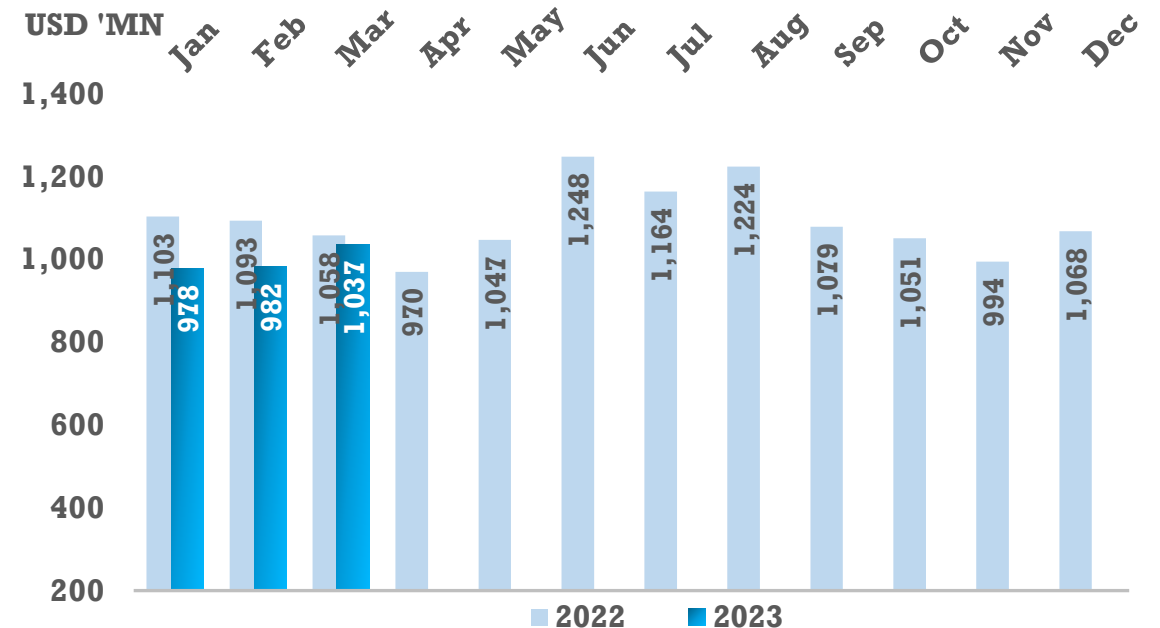
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – MAR 23 – EXPORTS

Earnings from exports rose above USD 1.0Bn after falling below the mark since Jan 2023. Exports for Mar declined by 2.0%YoY to USD 1,037.5Mn primarily owing to the decrease in earnings in industrial exports. The decline in earnings from industrial exports were mainly led by lower export earnings from garments as exports to major markets declined, while decline in export of petroleum products was due to the reduction in average export prices of bunker fuel exports. However, this decline was partially offset by improved earnings in the agricultural sector mainly from tea, spices, and seafood. The increase in earnings from tea was led by the rise in average export prices of tea, although the volumes registered a decline due to fertilizer shortages. Meanwhile, earnings from mineral exports increased primarily due to the increase in exports of granite under earths and stone.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Mar	855.3	816.4	-4.6
- YTD	2,632.7	2,374.7	-9.8
Agricultural			
- Mar	199.3	216.0	8.4
- YTD	605.9	608.2	0.4
Mineral Exports			
- Mar	2.0	2.5	23.3
- YTD	10.4	7.7	-26.1
Total			
- Mar	1,058.2	1,037.5	-2.0
- YTD	3,254.2	2,997.6	-7.9

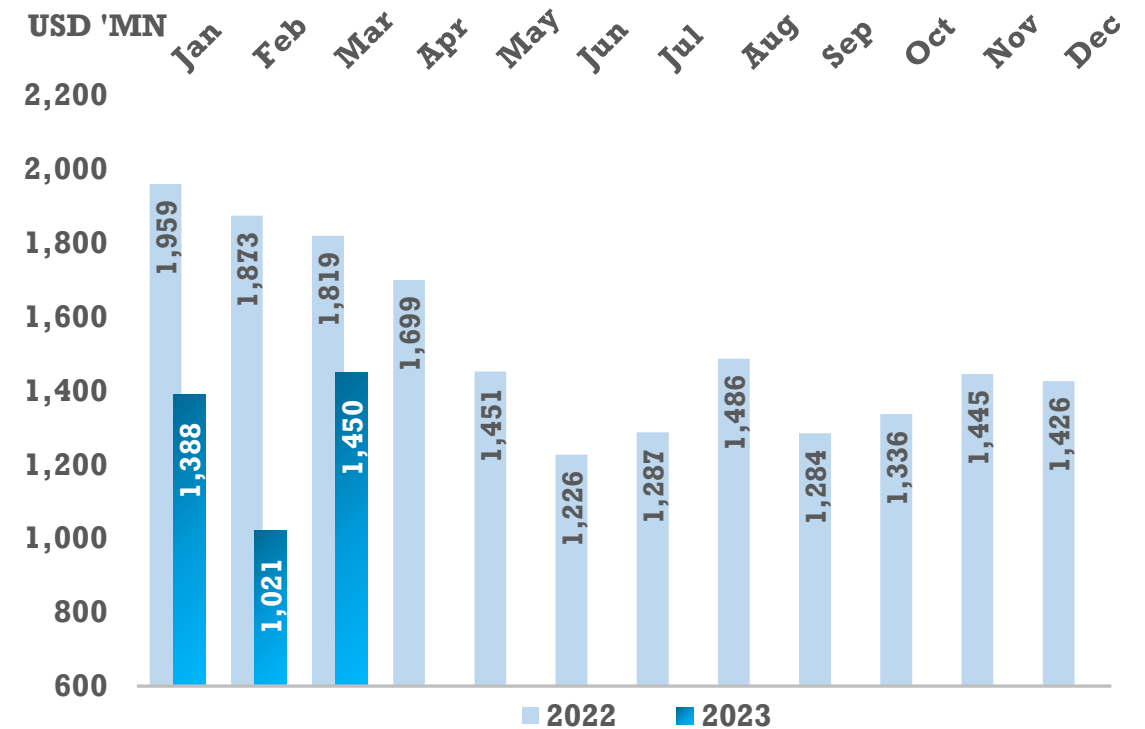


Source: CBSL
May 2023

EXTERNAL SECTOR – MAR 23 – IMPORTS

Import expenditure declined by 20.3%YoY to USD 1.4Bn in Mar 2023 as all major sectors reported a decline across the board. However, imports increased compared to Feb 2023 owing to the seasonal demand and partial recovery of fuel imports. The decline in consumer goods expenditure was attributable to the reduction in expenditure on food and beverages imports with a notable fall in imports of cereals and milling industry products (mainly rice), dairy products, spices and fruits. In contrast, non-food consumer goods imports increased marginally due to higher medical and pharmaceuticals expenditure. There was a significant decline in expenditure for intermediate goods led by lower imports of fuel, plastics and articles thereof, textiles and textile articles, rubber and articles thereof, base metals, and chemical products. Meanwhile importation of investment goods declined due to decline in 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			
- Mar	282.0	266.0	-5.7
- YTD	940.8	686.7	-27.0
Intermediate			
- Mar	1,177.8	971.8	-17.5
- YTD	3,610.1	2,580.0	-28.5
Investment goods			
- Mar	358.5	209.9	-41.4
- YTD	1,098.8	589.6	-46.3
Total			
- Mar	1,818.9	1,449.5	-20.3
- YTD	5,651.2	3,858.6	-31.7

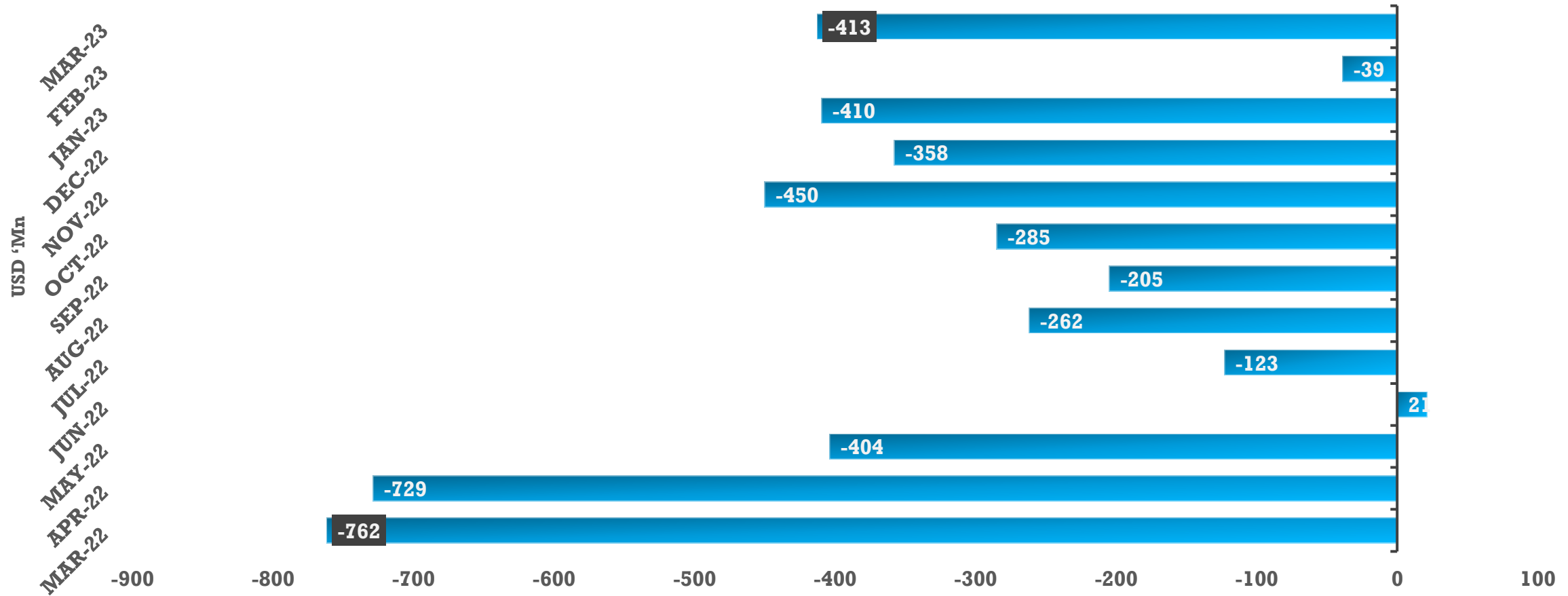


Source: CBSL

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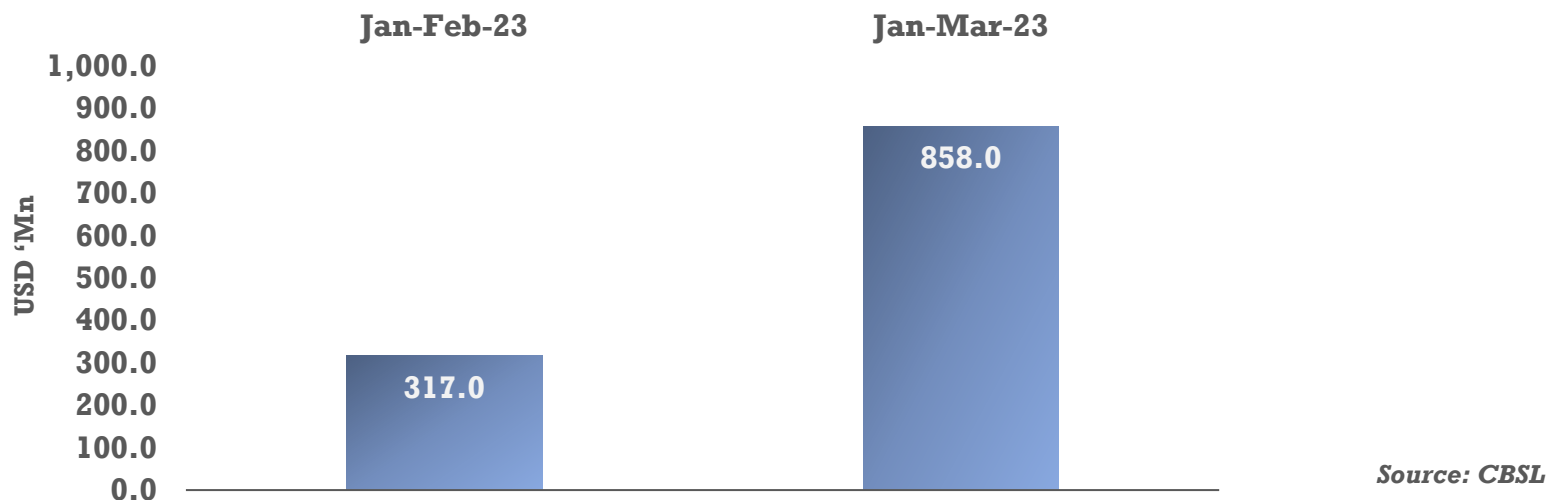
EXTERNAL SECTOR – MAR 23

Balance of Trade

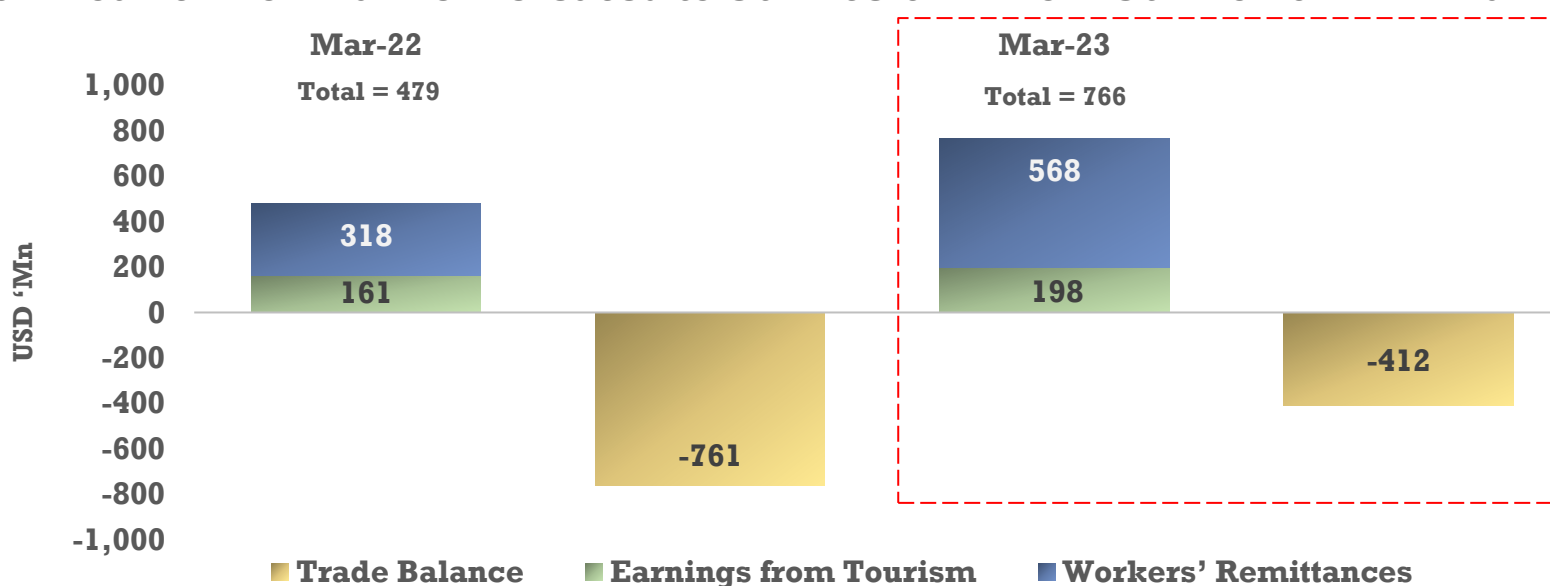


Source: Central Bank

BoP for Jan-Mar-23 recorded at USD 858.0Mn compared to Jan-Feb-23 amount of USD 317.0Mn. A net inflow of USD 541.0Mn was recorded during Mar-23.



Workers' Remittances inclined to USD 568.0Mn in Mar-23 (+78.5%YoY). Earnings from Tourism for Mar-23 increased to USD 198.0Mn from USD 161.0Mn in Mar-22.



BALANCE OF PAYMENT DEFICIT DECREASED YOY IN MAR-23

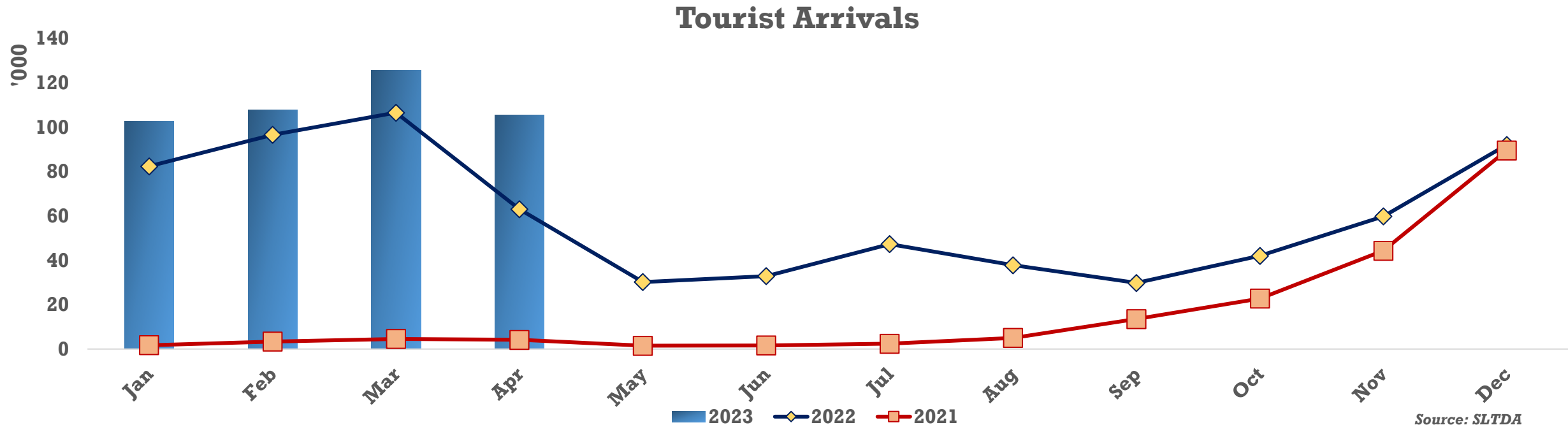
Mar USD 'Mn	2022	2023	Change (%)
Trade Balance	-761	-412	
Earnings from Tourism	161	198	+22.8
Workers' Remittances	318	568	+78.5

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-2,397	-861	
Earnings from Tourism	482	530	+9.8
Workers' Remittances	783	1,413	+80.6

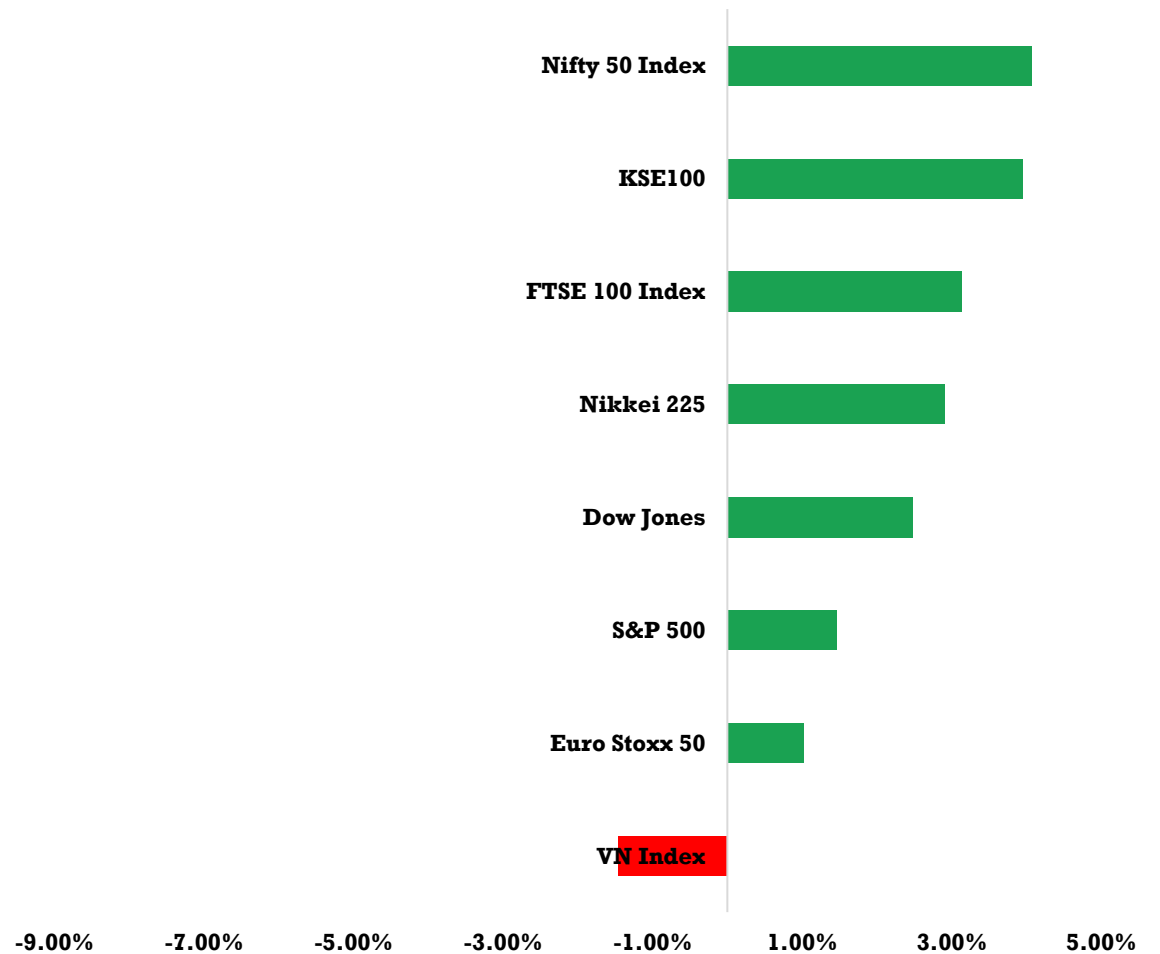
TOURIST ARRIVALS – APR 2023

[Apr 105,498 – **UP +67.5%YoY**] [MoM– **DOWN -15.9%**]

The total number of tourist arrivals to Sri Lanka continued to surge and recorded at a healthy level in Apr, signaling a revival of tourism in the country. The total arrivals for the month was recorded at 105,498 displaying an increase of 67.5%YoY compared to Apr 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 April were India, Russian Federation, the United Kingdom and Germany.



GLOBAL MARKET



Source: Investing.com

First Capital Research

IMF predicts China to dominate world economic growth in the next five years

China is expected to be the top contributor to global economic growth over the next five years, with its share expected to be twice that of the US. The IMF predicts that the world economy will grow by nearly 3% over the next five years, with 75% of that growth concentrated in 20 countries and over half in the top four: China, India, the US, and Indonesia. The BRIC countries (Brazil, Russia, India, and China) are expected to add nearly 40% of the world's growth through 2028.

Bloomberg



Global rice market faces its biggest deficit in 20 years

Global rice production is set to experience its largest shortfall in two decades in 2023, leading to the highest rice prices in 10 years. This is due to a supply shortage caused by the political instability in Ukraine, and bad weather conditions in major rice producing nations including China and Pakistan. Major rice importers such as Indonesia, Philippines, Malaysia and African countries will be affected by the high prices, and many countries will have to draw down their domestic stockpiles in 2023.

President Biden aims to boost EV sales with plan to cut vehicle emissions

The US Environmental Protection Agency (EPA) has put forth a proposal that calls for substantial cuts in emissions for new cars and trucks until 2032 which may result in two-thirds of new vehicles sold by automakers to be electric within a decade. The proposal requires 13% annual average pollution cuts and a 56% reduction in projected fleet average emissions over 2026 requirements. The EPA estimates that the proposal would cut over 9 billion tons of CO2 emissions by 2055 and could save vehicle owners more than USD 9,000 on average on fuel, maintenance, and repair costs over an eight-year period.



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*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

Contact Us

First Capital Holdings PLC

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

E: research@firstcapital.lk



Dimantha Mathew

Head of Research

T: +94 11 2639 853

E: dimantha@firstcapital.lk

Ranjan Ranatunga

Assistant Manager- Research

T: +94 11 2639 863

E: ranjan@firstcapital.lk

Vinodhini Rajapoopathy

Assistant Manager- Research

T: +94 11 2639 866

E: vinodhini@firstcapital.lk

Tharusha Ashokgar

Research Analyst

T: +94 11 2639 866

E: tharushaash@firstcapital.lk

Zaema Jihan

Research Analyst

T: +94 11 2639 868

E: zaheema@firstcapital.lk

Nethmi Fernando

Junior Analyst

T: +94 11 2639 868

E: nethmi@firstcapital.lk

