



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Sep 2023

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

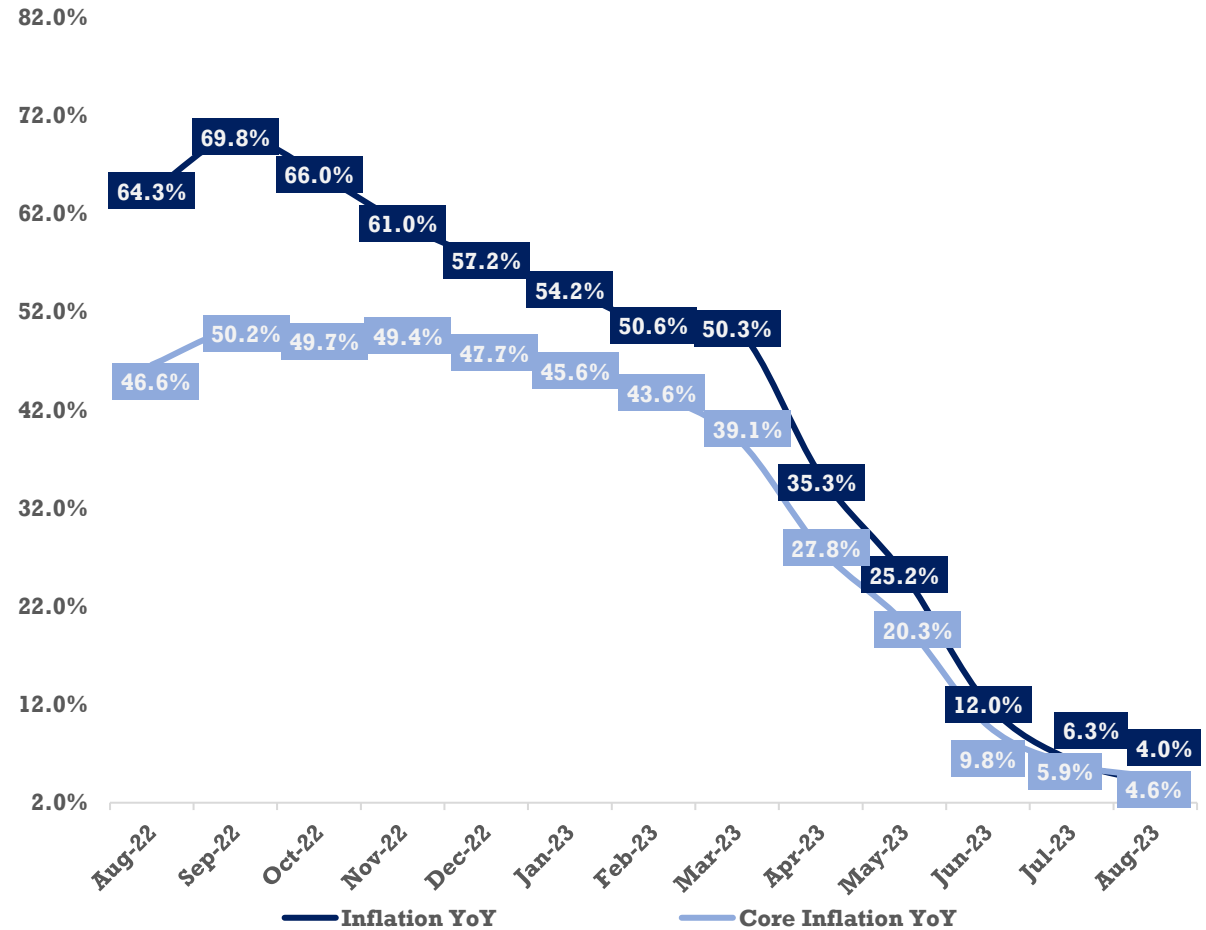
- Sri Lanka's Central Bank has decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) at their current levels of 11.00% and 12.00%, respectively.
- The Board arrived at this decision after a thorough analysis of current and anticipated developments in both the domestic and global economies, taking into account the significant easing of monetary conditions since June 2023. The Board expects a more rapid decline in overall market lending interest rates in response to recent monetary policy easing measures.
- Accordingly, the Board has decided to implement targeted administrative measures to reduce specific lending interest rates that are deemed to be excessive and directed licensed banks to reduce overall rupee lending interest rates (excluding Credit cards, Pawn loans and pre-arranged O/D facilities) by at least 250bps by 31st October 2023 and further reduce by 100bps by 31st December 2023, compared to the rates that prevailed as of 31st July 2023. Any lending product drawn as at the end of the order or anytime thereafter at 13.5% or lower, is also excluded from the above directive issued by the CBSL.

Source: CBSL

INFLATION – CCPI

CCPI FOR AUG 2023:
MOM -0.1%
YOY +4.0%

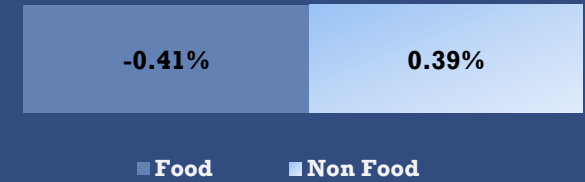
- MoM inflation declined by 0.1% with the decrease in inflation of Food group by 1.3% while Non-Food group increased by 0.6%.
- The YoY inflation drastically decreased for the 11th consecutive month to 4.0% in Aug 2023. YoY inflation of Food group has decreased to -4.8% in Aug 2023 from -1.4% in Jul 2023 while Non-Food group decreased to 8.7% from 10.5% in Jul 2023.



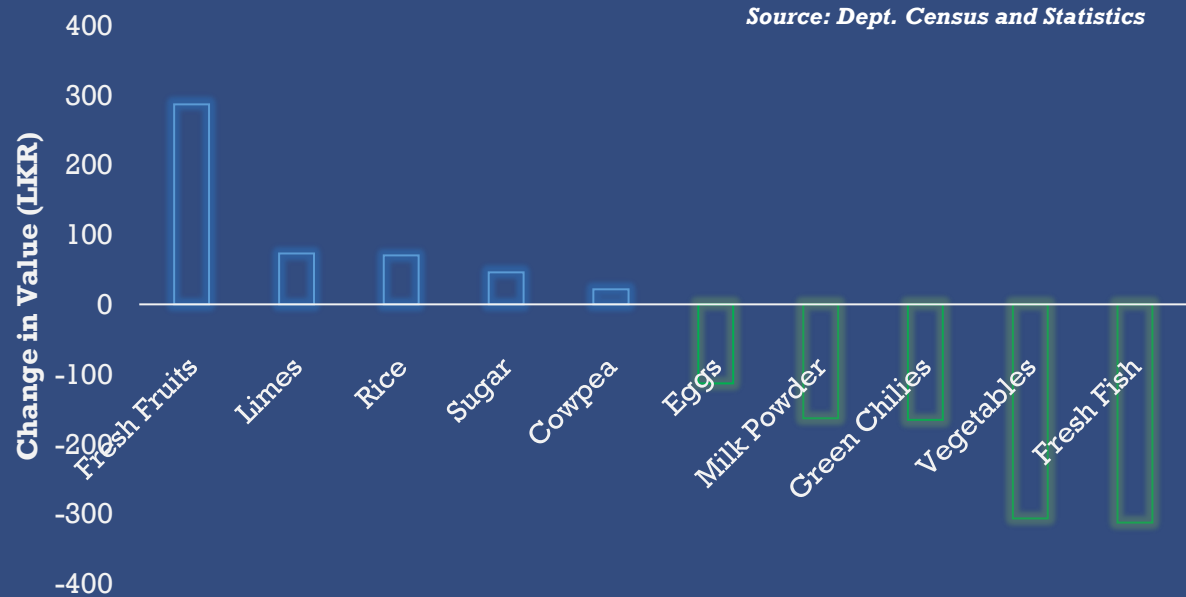
Source: Dept. Census and Statistics

INFLATION ANALYSIS – CCPI-MOM

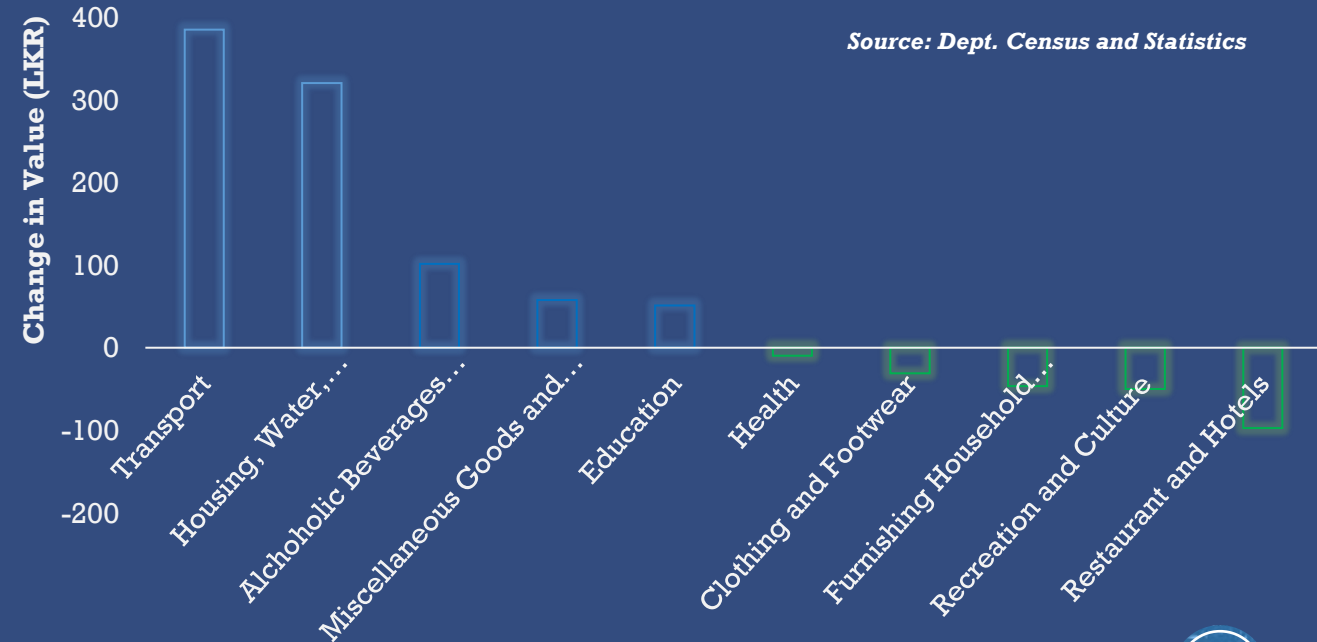
The CCPI index declined by 0.1%MoM contributed by the decrease in expenditure of Food items by 0.41% and an increase in expenditure of Non-Food items by 0.39%. Within the Food items, decrease in value changes were mainly reported for Fresh Fish, Vegetables, Green Chillies, Milk Powder and Eggs. Among Non-Food groups, increase in value changes were mainly reported in Transport and Housing, Water, Electricity, Gas & Other Fuels.



Food Category Inflation

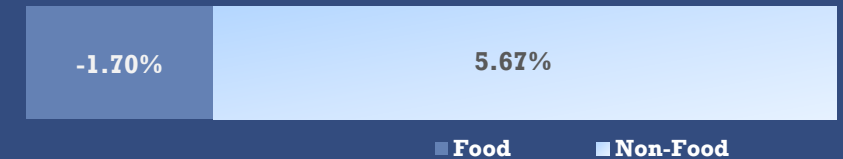


Non-Food Category Inflation

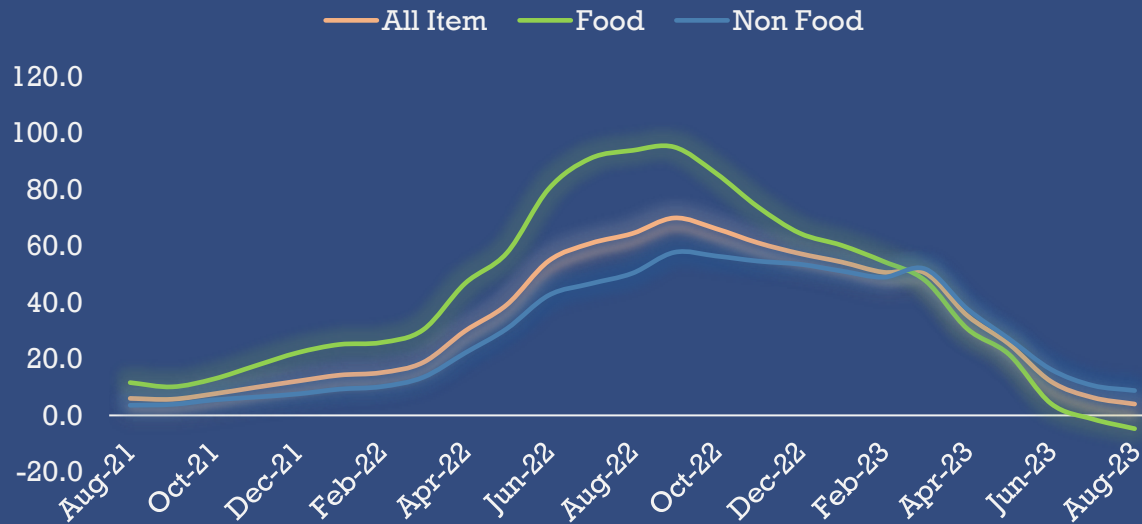


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Aug was 4.0% and has decreased sharply relative to the month of Jul 2023. Food item prices have decreased to -4.8%YoY in Aug 2023 from -1.4%YoY in Jul 2023 while the Non-Food item prices decreased to 8.7%YoY in Aug 2023 from 10.5%YoY in Jul 2023. The contribution from food category for YoY inflation was -1.70% while the contribution of Non-Food items stood at 5.67% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Clothing and Footwear, Education and Restaurants & Hotels.



Inflation Analysis (YoY)



Non-Food Category Inflation



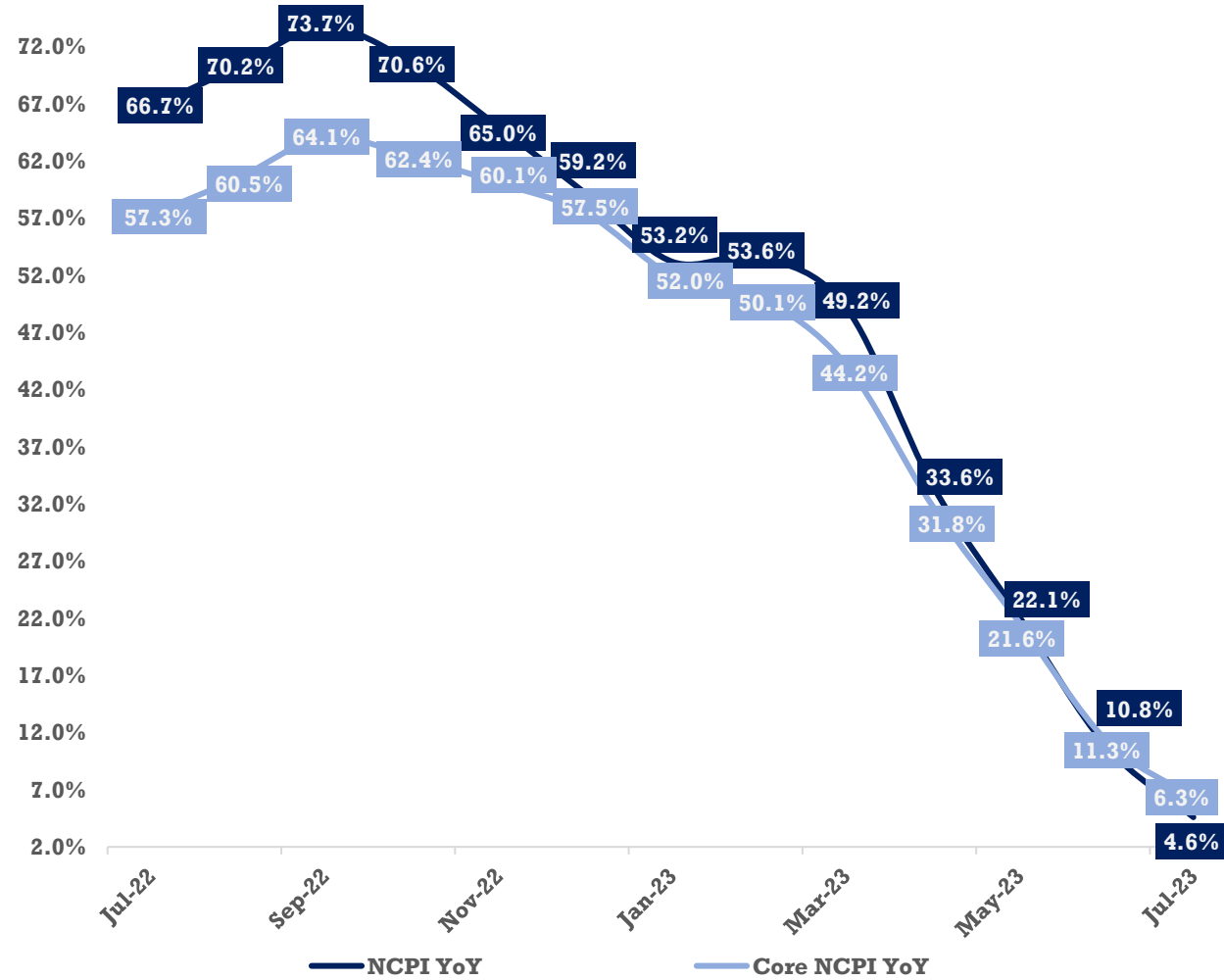
Source: Dept. Census and Statistics

Source: Dept. Census and Statistics

INFLATION – NCPI

NCPI FOR JUL 2023: DECREASED TO 4.6%YOY

- NCPI for Jul 2023 decreased to 4.6% compared to 10.8% in Jun 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to -2.5% in Jul 2023 from 2.5% in Jun 2023 while Non-Food inflation decreased to 10.9% in Jul 2023 from 18.3% in Jun 2023.



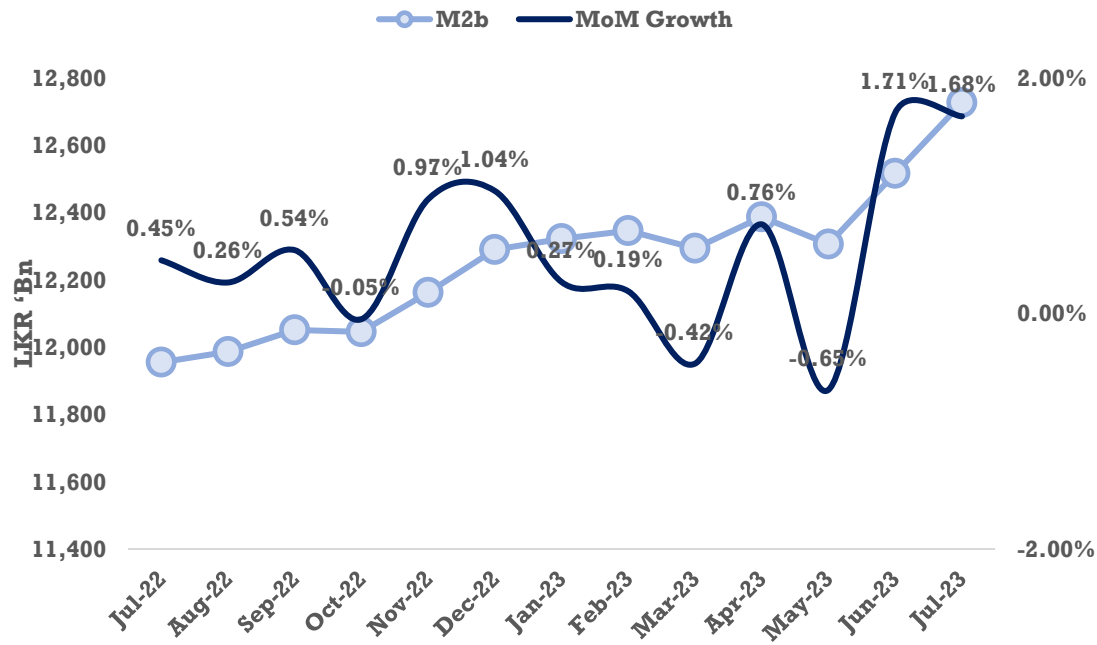
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit increased by LKR 13.3Bn compared to the previous month amidst the dip in rates. Meanwhile, State credit significantly increased by LKR 289.5Bn relative to the previous month.

M2b Growth – Jul 2023

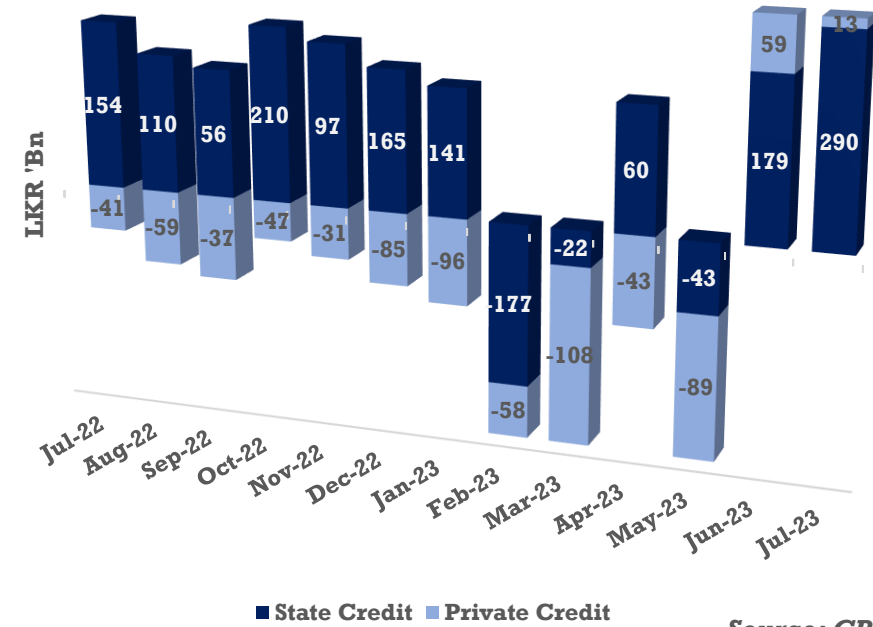
MoM +1.68%, YoY +6.45%, YTD +3.55%



Source: CBSL

State Credit & Private Credit – Jul 2023

Private Credit MoM +0.2%, YoY -7.56%, YTD -4.33%



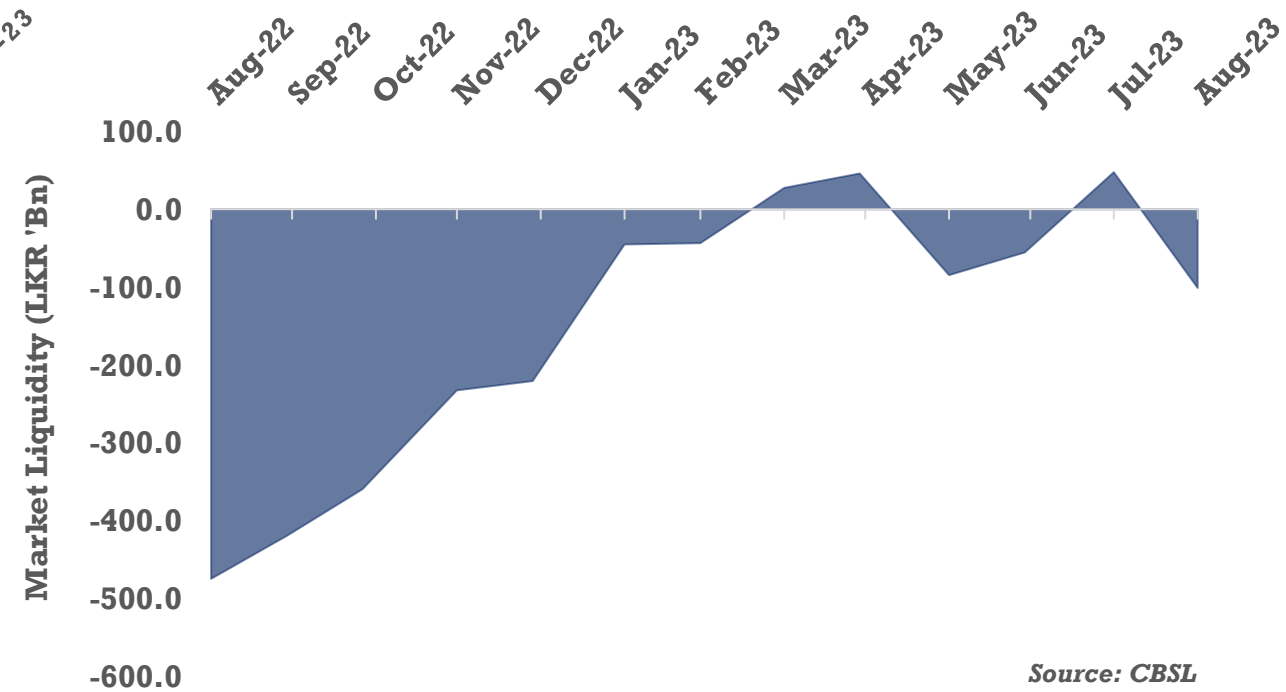
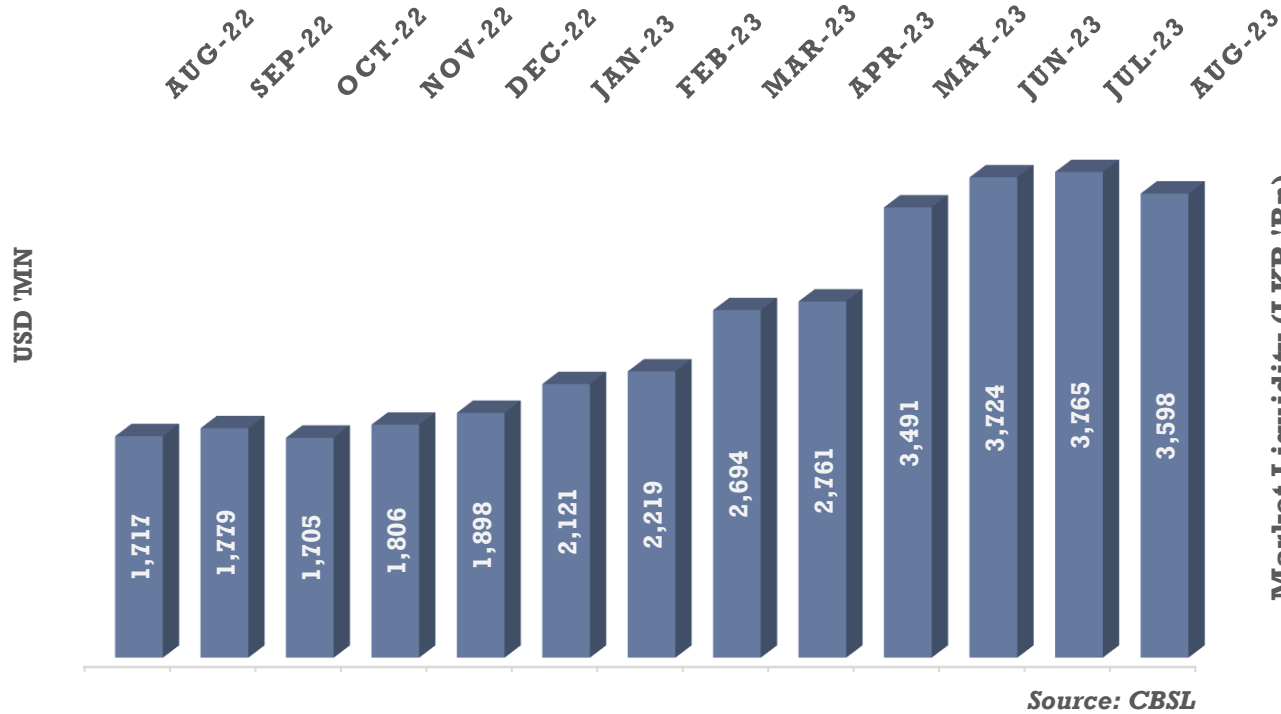
■ State Credit ■ Private Credit

Source: CBSL

LIQUIDITY & RESERVES

- Foreign Reserves reduced by USD 167.0Mn to USD 3.6Bn in Aug 2023.

- Market Liquidity displayed volatility and remained negative during the month of Aug 2023.



CURRENCY MOVEMENT

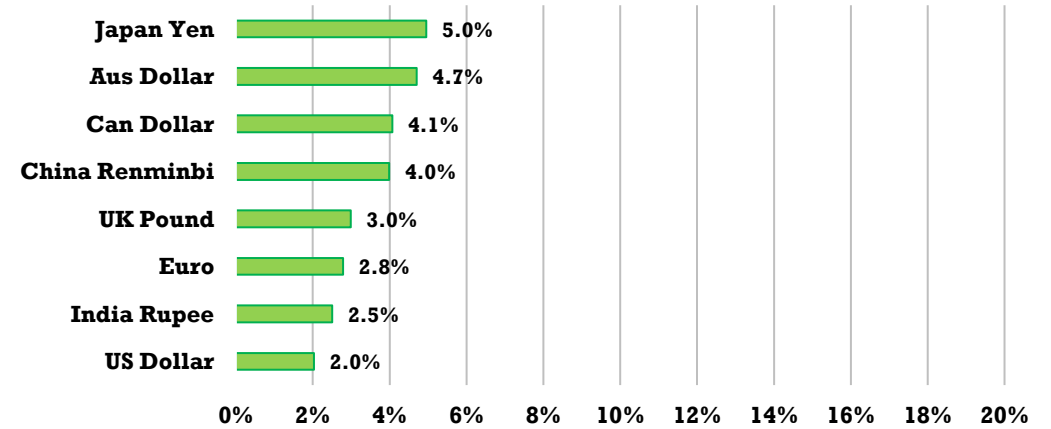
USD:LKR Movement



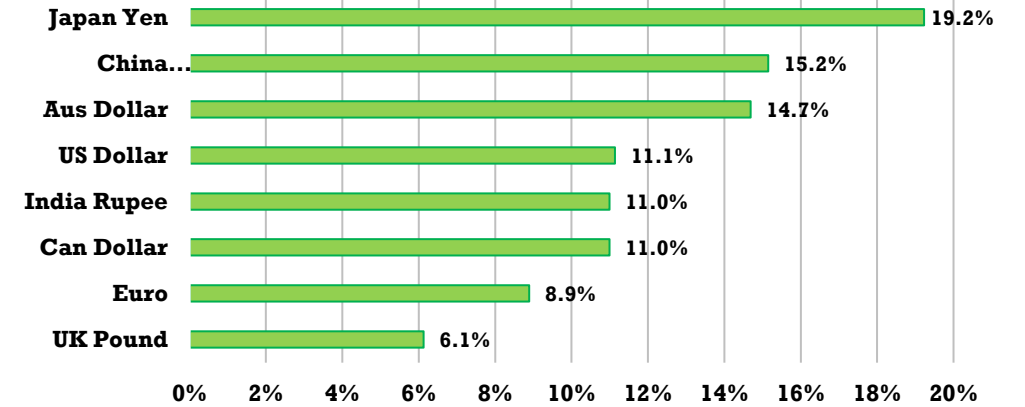
Source: CBSL

Sri Lankan Rupee vs Global Currencies

Aug 2023



YTD 2023



Source: CBSL

GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Aug 2023

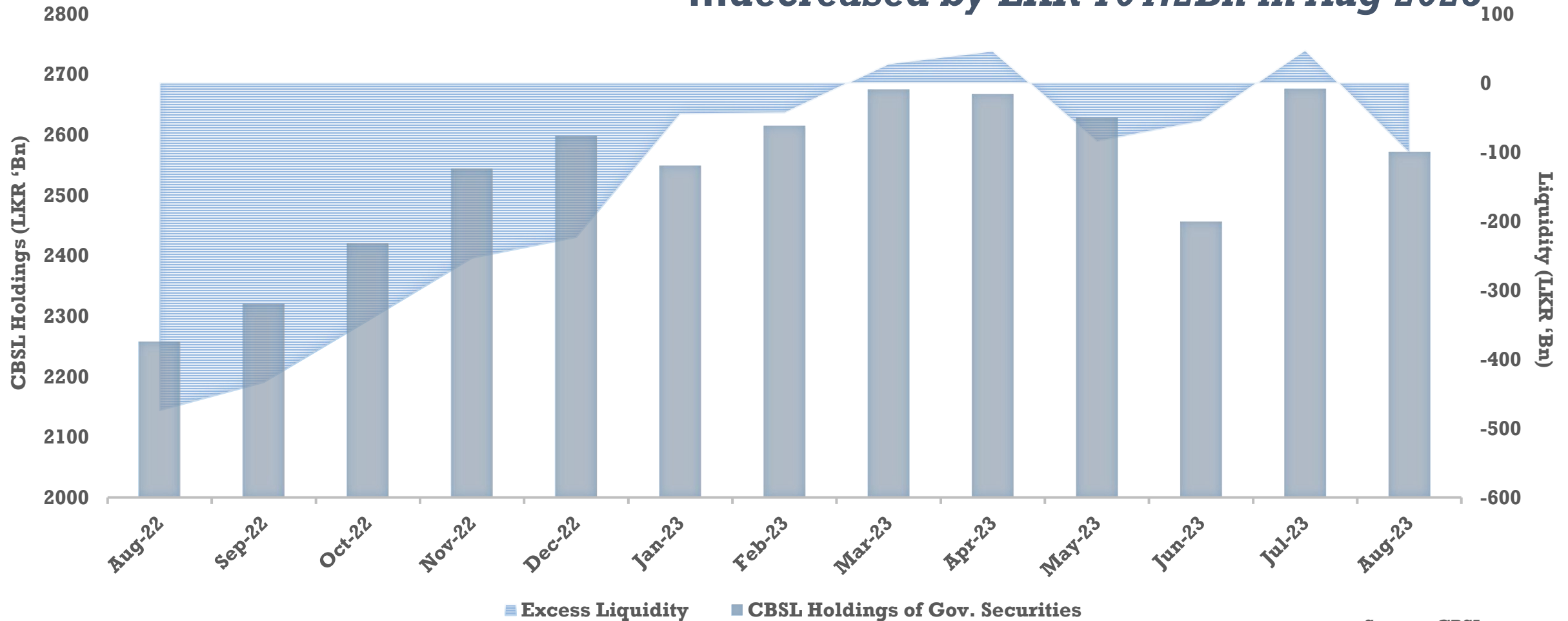
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
4-Aug-23	225,000		225,000
11-Aug-23	225,000		225,000
18-Aug-23	192,483		192,483
25-Aug-23	140,643		140,643
Total Issued			783,126

Net Settlement	Aug 2023	YTD
Maturities	1,282,175	9,424,682
New Issues	783,126	5,155,757
Excess/ (Deficit)	(499,049)	(4,268,925)

CBSL Holdings of Gov. Securities	YTD	
As at End Aug 2023	2,571,920	
As at End Jul 2023	2,676,070	
Increase/ (Decrease)	-104,150	-26,258

CBSL HOLDINGS OF GOV. SECURITIES...

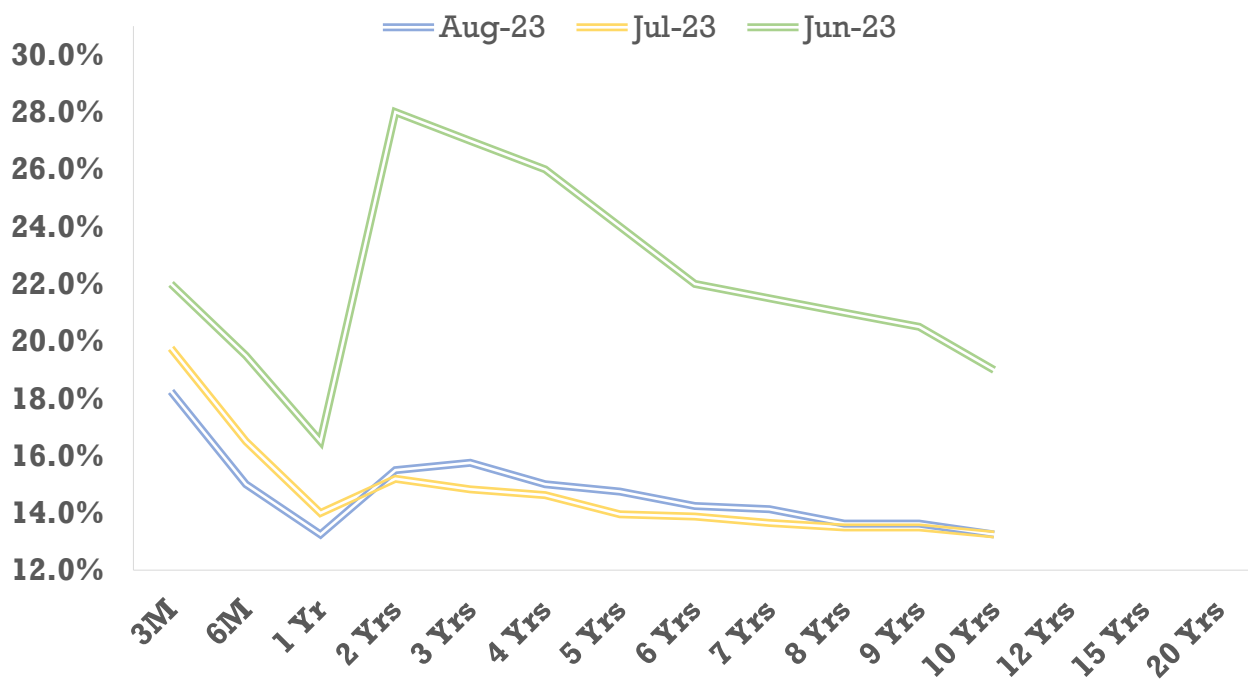
...decreased by LKR 104.2Bn in Aug 2023



Source: CBSL

TREASURY BILLS AND BONDS – AUG 2023

The secondary market opened the month on a bullish sentiment and thereafter, displayed lackluster sentiment following CBSL’s decision to maintain policy rates at their current levels. Accordingly, yields increased marginally across the board during the month while predominant interest was enticed on short-tenors which declined by over 70bps. During the month, CBSL conducted a bond auction and closed at a higher weighted average yield relative to the market rates. However, as the week drew to a close, the secondary market exhibited restrained activity, as participants took the sidelines awaiting for a clearer market direction amidst the surge in bills, coupled with the CBSL directive urging LCBs to curtail lending rates.



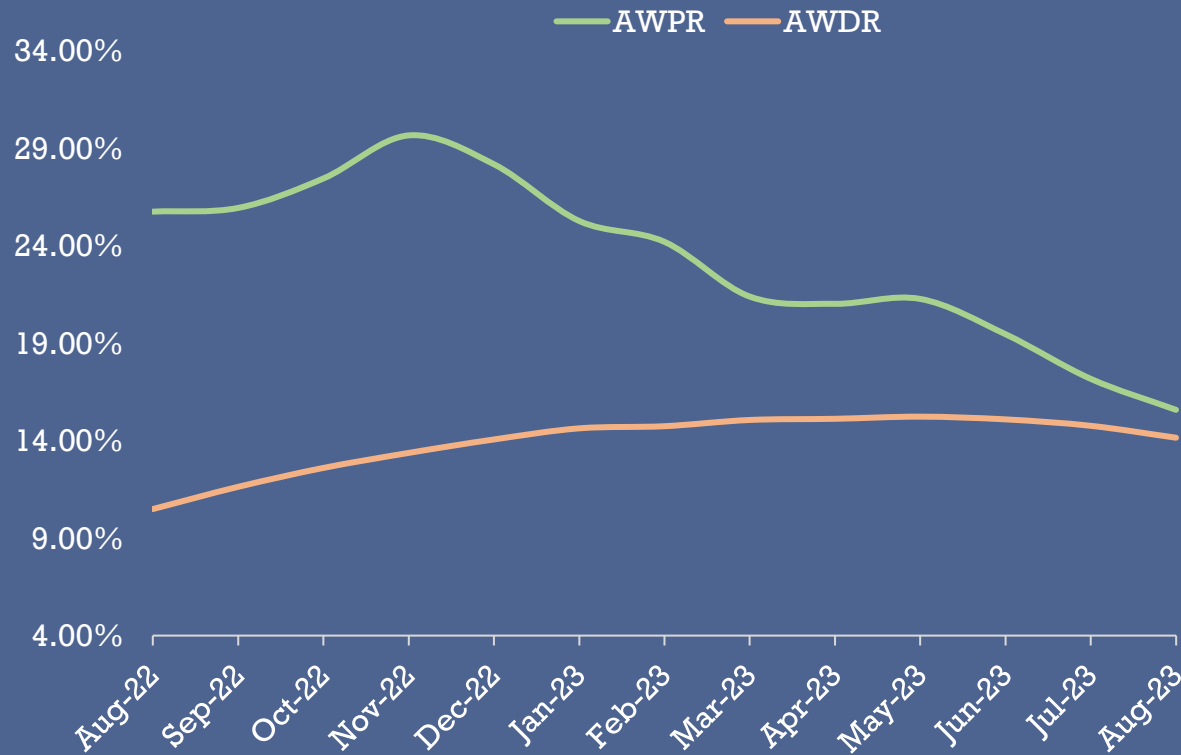
Source: First Capital Research

Interest Rate Change (bps)

Tenure	Aug-23	Jul-23	Change (bps)	Jun-23	Change (bps)
3M	18.25%	19.75%	-150	22.00%	-375
6M	15.00%	16.50%	-150	19.50%	-450
1 Yr	13.25%	14.00%	-75	16.50%	-325
2 Yrs	15.50%	15.20%	30	28.00%	-1250
3 Yrs	15.75%	14.83%	92	27.00%	-1125
4 Yrs	15.00%	14.63%	37	26.00%	-1100
5 Yrs	14.75%	13.95%	80	24.00%	-925
6 Yrs	14.25%	13.88%	37	22.00%	-775
7 Yrs	14.13%	13.65%	48	21.50%	-737
8 Yrs	13.63%	13.50%	13	21.00%	-737
9 Yrs	13.63%	13.50%	13	20.50%	-687
10 Yrs	13.25%	13.25%	0	19.00%	-575
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

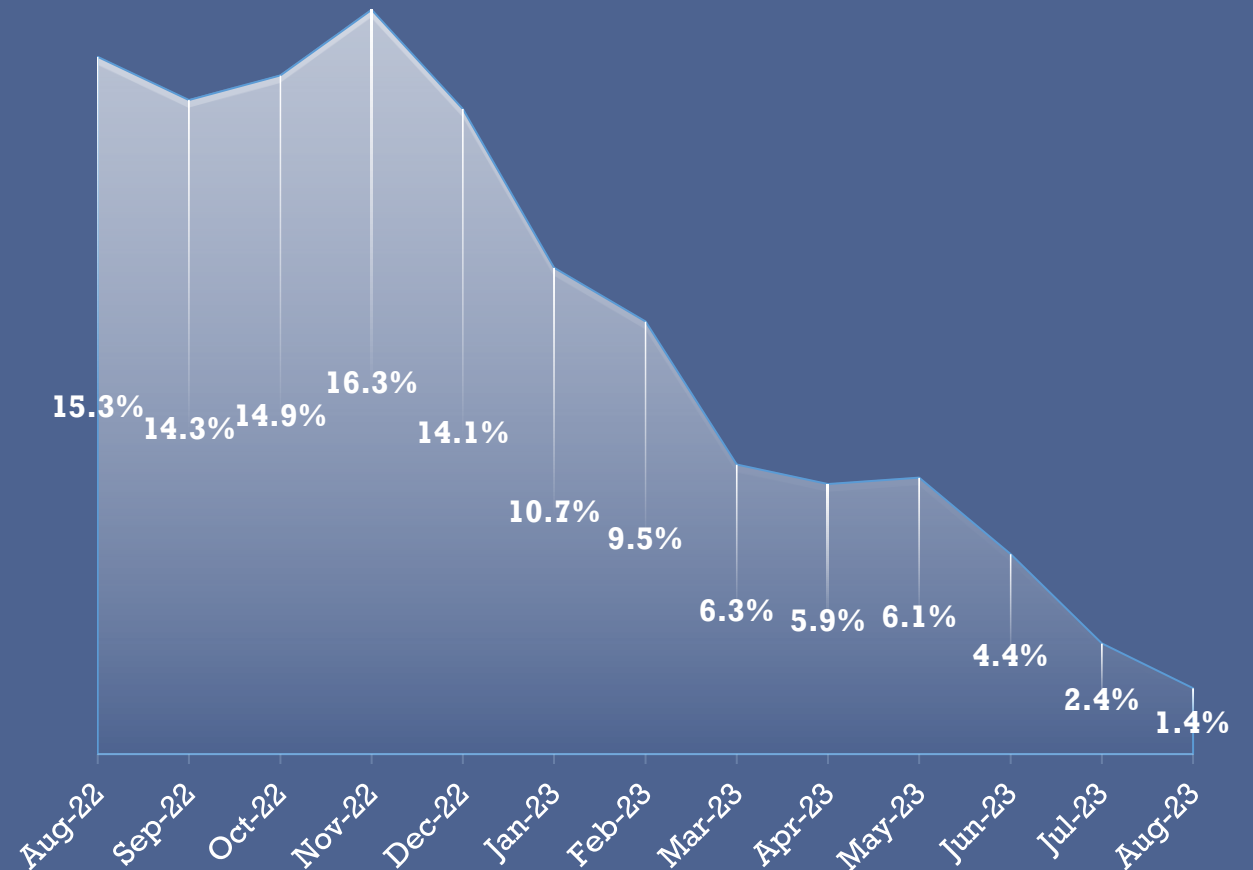
Source: First Capital Research
Sep 2023

AWPR vs AWDR



Source: CBSL

Interest Spread



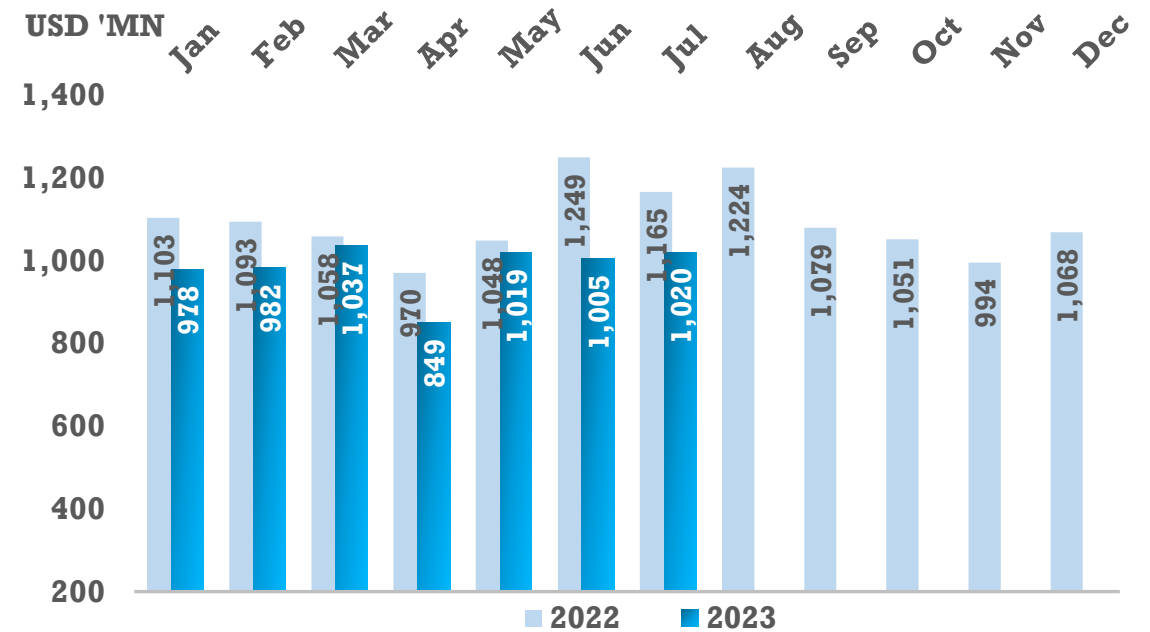
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – JUL 23 – EXPORTS

Earnings from exports declined by 12.4%YoY in Jul 2023 to USD 1,020.4Mn due to a decline in earnings from industrial exports, including garments, associated with slowing external demand. The decline in earnings from industrial exports were mainly due to the decline in earnings from garment exports to most of the major markets (USA, EU and UK) while there was an increase in export earnings of petroleum products due to the increase in both prices and volumes of bunker and aviation fuel exports. Moreover, agricultural exports improved driven by the increase in earnings from minor agricultural products and spices, while export earnings from unmanufactured tobacco and vegetables also increased marginally. Earnings from tea exports declined marginally led by lower export prices while export volumes remained at similar levels. Earnings from mineral exports increased mainly due an increase in export earnings from earths and stone.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Jul	933.2	785.9	-15.8
- YTD	6,201.4	5,402.0	-12.9
Agricultural			
- Jul	228.3	230.8	1.1
- YTD	1,454.3	1,460.0	0.4
Mineral Exports			
- Jul	1.6	1.8	15.5
- YTD	18.6	13.7	-26.6
Total			
- Jul	1,164.6	1,020.4	-12.4
- YTD	7,686.8	6,891.5	-10.3

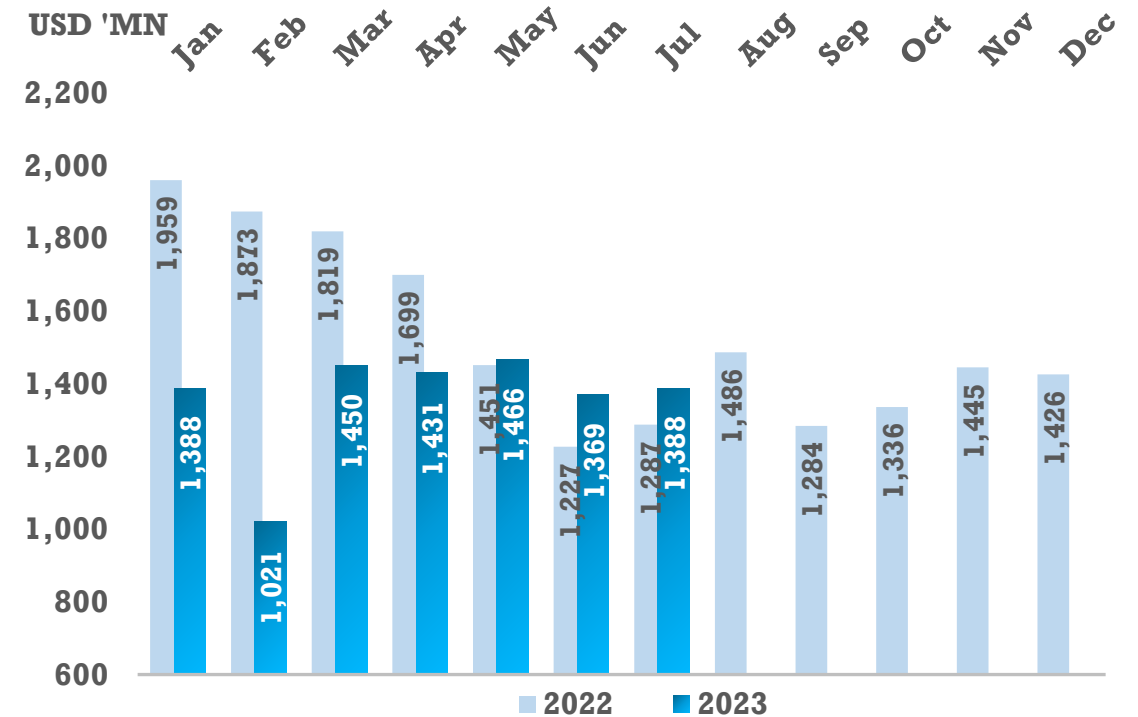


Source: CBSL
Sep 2023

EXTERNAL SECTOR – JUL 23 – IMPORTS

Import expenditure increased by 7.8%YoY to USD 1,387.6Mn in Jul 2023 as import expenditure of consumer goods and investment goods increased amidst the decline in import expenditure on intermediate goods. The increase in consumer goods expenditure was driven by the increases in expenditure on both food and non-food items. Expenditure for intermediate goods decreased marginally, led by the decline in textiles and textile articles (primarily, fabrics and yarns) and rubber and articles thereof, which was offset by the increase in import expenditure on fuel due to import of crude oil in Jul 2023. Import expenditure on investment goods increased with the increase in imports of machinery and equipment (primarily, machinery and equipment parts, and turbines). However, the relaxation of import restrictions which commenced since Jun 2023, could gradually generate higher import expenditure in the period ahead once demand conditions improve.

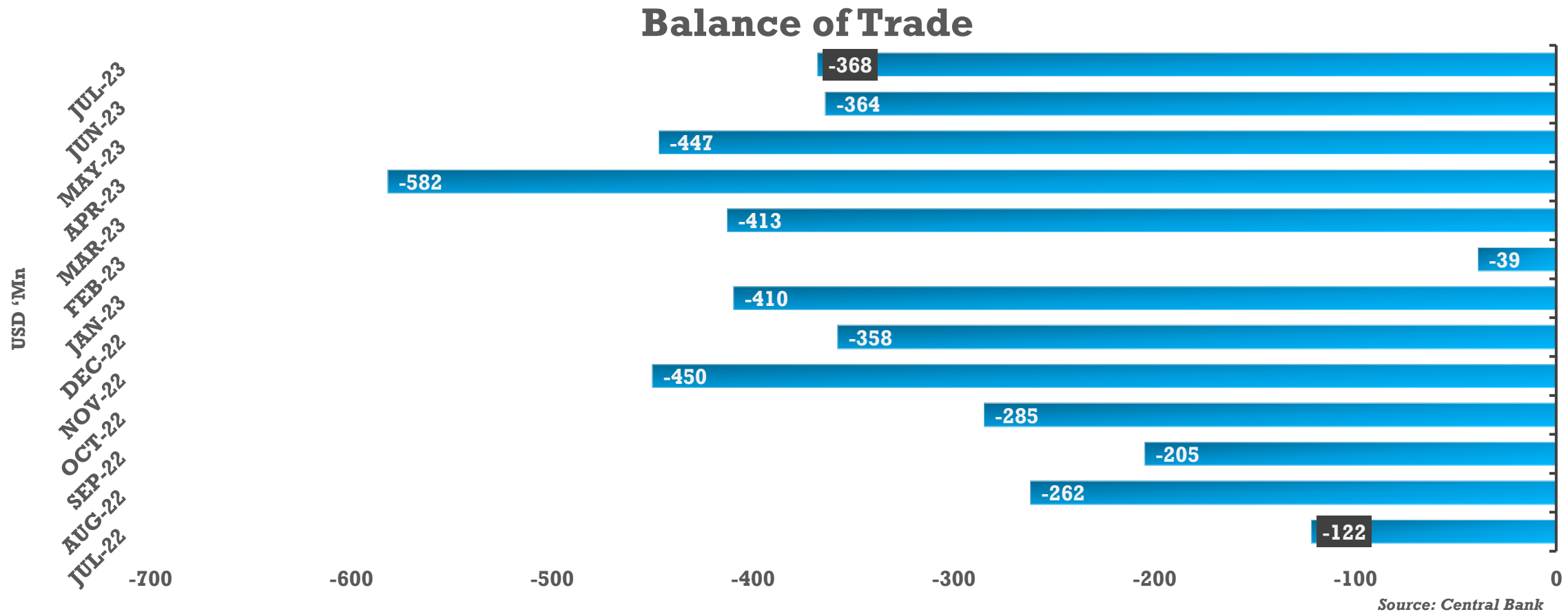
Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Jul	184.3	266.8	44.8
- YTD	1,714.4	1,760.2	2.7
Intermediate			
- Jul	889.0	882.0	-0.8
- YTD	7,547.5	6,328.4	-16.2
Investment goods			
- Jul	213.5	237.3	11.1
- YTD	2,050.9	1,448.5	-29.4
Total			
- Jul	1,286.8	1,387.6	7.8
- YTD	11,315.0	9,548.1	-15.6



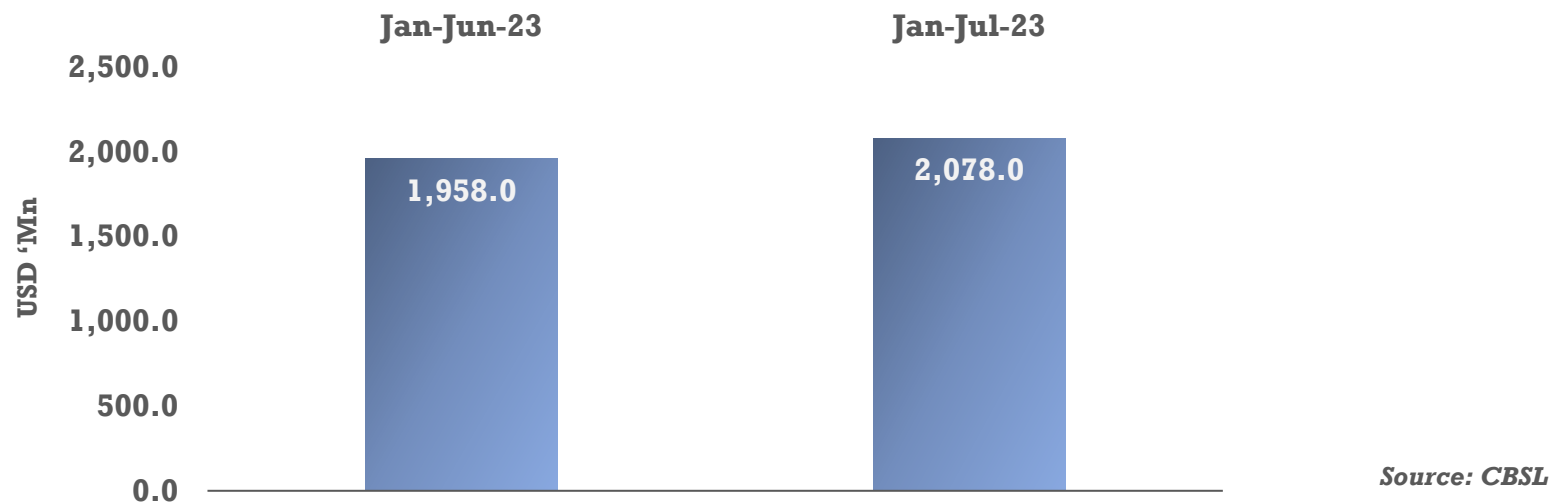
Source: CBSL

Sep 2023

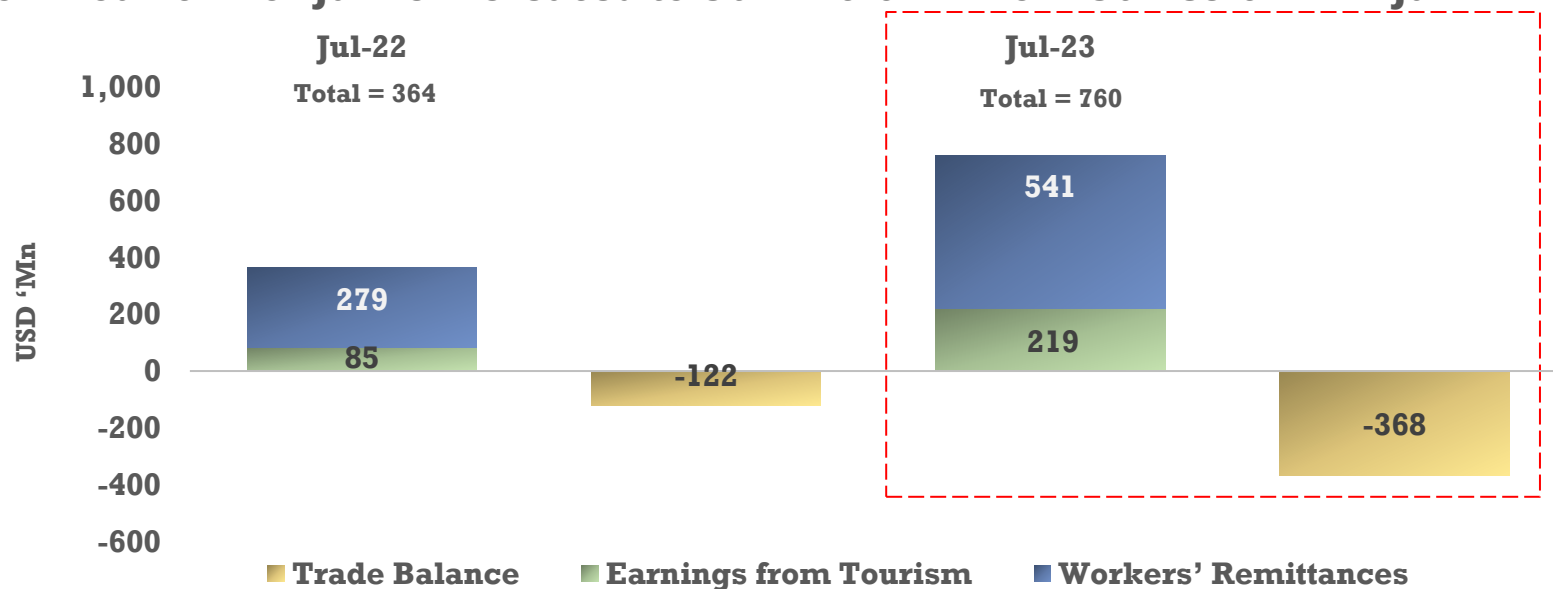
EXTERNAL SECTOR – JUL 23



BoP for Jan-Jul-23 recorded at USD 2,078.0Mn compared to Jan-Jun-23 amount of USD 1,958.0Mn resulting in a net inflow of USD 120.0Mn, for the month of Jul-23.



Workers' Remittances increased to USD 541.0Mn in Jul-23 (+93.9%YoY). Earnings from Tourism for Jul-23 increased to USD 219.0Mn from USD 85.0Mn in Jul-22.



BALANCE OF PAYMENT DEFICIT DECREASED YOY IN JUL-23

Jul USD 'Mn	2022	2023	Change (%)
Trade Balance	-122	-368	
Earnings from Tourism	85	219	+157.5
Workers' Remittances	279	541	+93.9

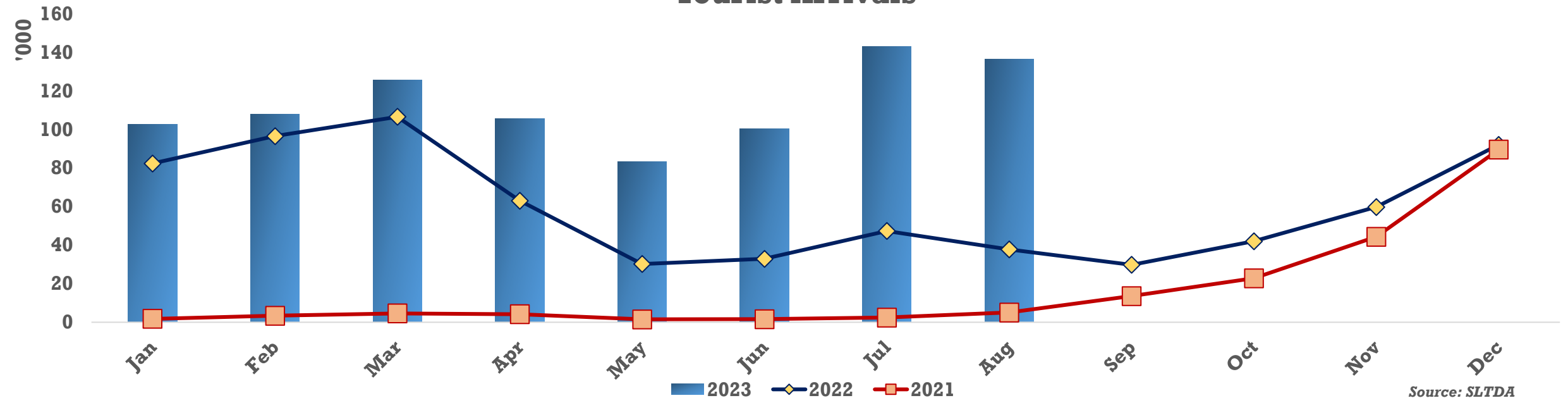
YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-3,628	-2,657	
Earnings from Tourism	765	1,094	+43.1
Workers' Remittances	1,889	3,364	+78.0

TOURIST ARRIVALS – AUG 2023

[Aug 136,405 – **UP +261.2%YoY**] [MoM– **DOWN -4.6%**]

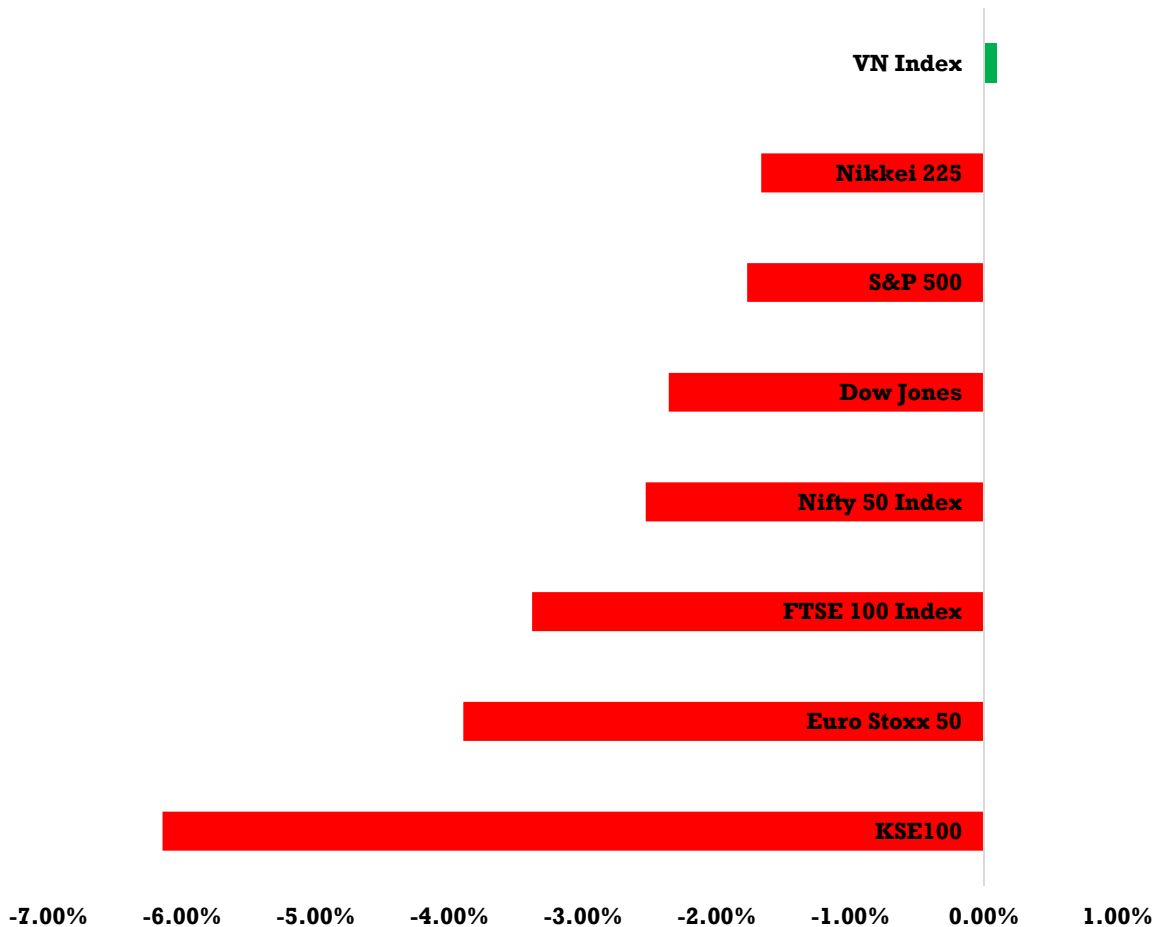
The total arrivals for the month was recorded at 136,405 displaying an increase of 261.2%YoY compared to Aug 2022, owing to factors such as the ongoing recovery of the tourism sector, improved socio-economic conditions, improvements in air connectivity followed by China's recent reopening and the strong pent-up demand for travel following pandemic-related restrictions. The largest source market for tourist arrivals in Aug were India, the United Kingdom, China, Germany and Russian Federation.

Tourist Arrivals



Source: SLTDA

GLOBAL MARKET – AUG 2023



Source: Investing.com

UK's cost of living set to ease for first time in 2 years

British households facing financial challenges can anticipate some relief, as upcoming figures are likely to reveal that wages are on the cusp of outpacing price growth for the first time in nearly two years. Bloomberg Economics forecasts that average earnings, excluding bonuses, increased by 7.3% over the year ending in June, closely approaching the 7.9% consumer-price inflation rate.

China's deflation could spillover into a global concern

Economists suggest that China's economic difficulties have led to deflationary pressures, posing a global worry that is expected to intensify in the next few quarters. The weakening economic foundations of Beijing have become notably evident in recent months. July's economic data broadly missed expectations, and the National Bureau of Statistics halted the publication of youth unemployment figures due to a surge in numbers, reaching record highs.



US economy grew at a slower pace than initially expected in Q2

The US economy expanded at a slightly less robust rate than initially estimated in Q2, as businesses liquidated inventory. However, there are indications of an uptick in momentum early in the current quarter, supported by a strong labor market that bolsters consumer spending. The Commerce Department's report, released on Wednesday, also affirmed that inflation pressures eased during the last quarter. Remarkably, despite the Federal Reserve implementing interest rate hikes totaling 525 basis points since March 2022, the economy remains on a growth trajectory.



REUTERS
WORLD

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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
Chief Research & Strategy Officer
T: +94 11 2639 853
E: dimantha@firstcapital.lk

Ranjan Ranatunga
Assistant Vice President – 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
Senior Research Associate
T: +94 11 2639 866
E: tharushaash@firstcapital.lk

Zaema Jihan
Senior Research Associate
T: +94 11 2639 868
E: zaheema@firstcapital.lk

Nethmi Fernando
Associate
T: +94 11 2639 866
E: nethmi@firstcapital.lk

