



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Oct 2023

# CONTENT BRIEFING

|   |    |
|---|----|
| • The Central Bank of Sri Lanka further reduces policy interest rates ..... | 3  |
| • Inflation.....  | 4  |
| • M2B & Sector Credit.....  | 8  |
| • Reserves & Liquidity.....   | 9  |
| • Currency Movement.....  | 10 |
| • Government Securities.....  | 11 |
| • Finance Sector Rate Movement.....   | 14 |
| • External Sector.....  | 15 |
| • Tourist Arrivals.....   | 19 |
| • Global Markets.....   | 20 |

# THE CENTRAL BANK OF SRI LANKA FURTHER REDUCES POLICY INTEREST RATES

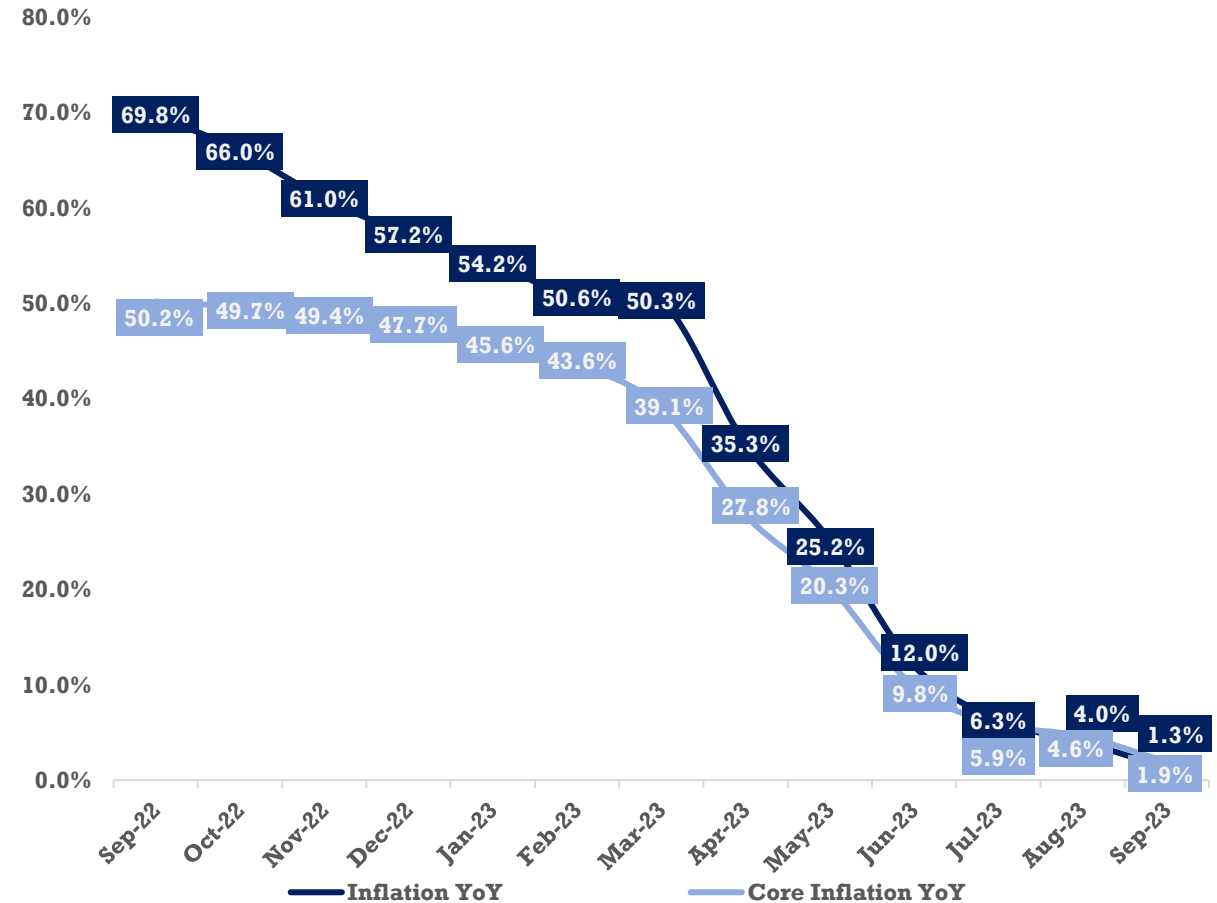
- Sri Lanka's Central Bank at its meeting held on 04th Oct 2023, decided to reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100bps to 10.0% and 11.0%, respectively.
- The decision was reached by the Board after carefully analyzing present conditions and anticipated changes, including low inflation and favorable inflation outlooks within the national economy, with the goal to establish stability in inflation at the targeted 5.0% rate over the medium term.
- The Board believes that with this decrease in policy interest rates, combined with the substantial relaxation of monetary policy measures implemented earlier, which include directives to licensed banks from the Central Bank to lower interest rates, and the notable decline in risk premiums on government securities, will hasten the decline in market interest rates, especially lending rates, in the upcoming period.
- Accordingly, financial sector is urged to promptly and adequately transfer the advantages of the ongoing relaxation of monetary conditions to individuals and businesses which will play a vital role in bolstering the anticipated economic recovery.

*Source: CBSL*

# INFLATION – CCPI

**CCPI FOR SEP 2023:**  
**MOM +0.9%**  
**YOY +1.3%**

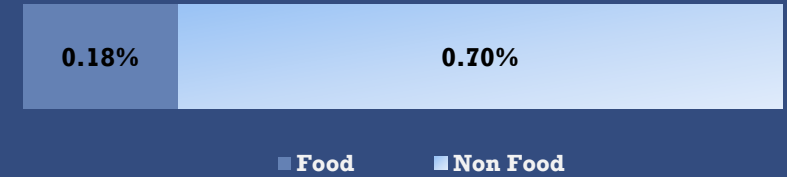
- MoM inflation marginally up by 0.9% with the increase in inflation of Food and Non-Food group by 0.6% and 1.0%, respectively.
- The YoY inflation drastically decreased for the 12<sup>th</sup> consecutive month to 1.3% in Sep 2023. YoY inflation of Food group has decreased to -5.2% in Sep 2023 from -4.8% in Aug 2023 while Non-Food group decreased to 4.7% from 8.7% in Aug 2023.



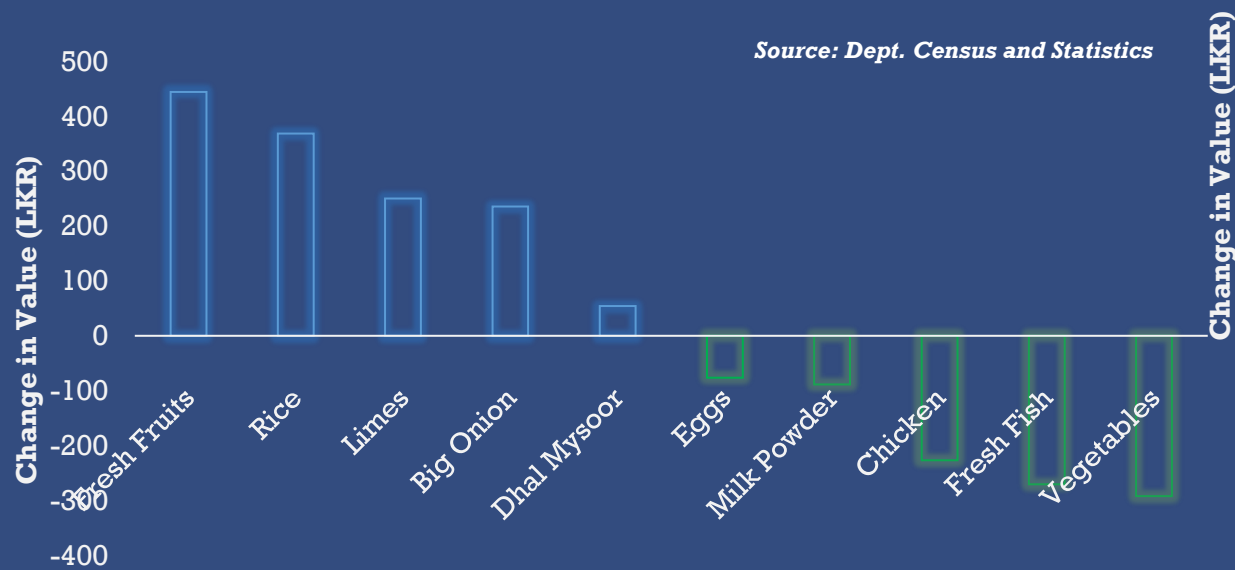
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

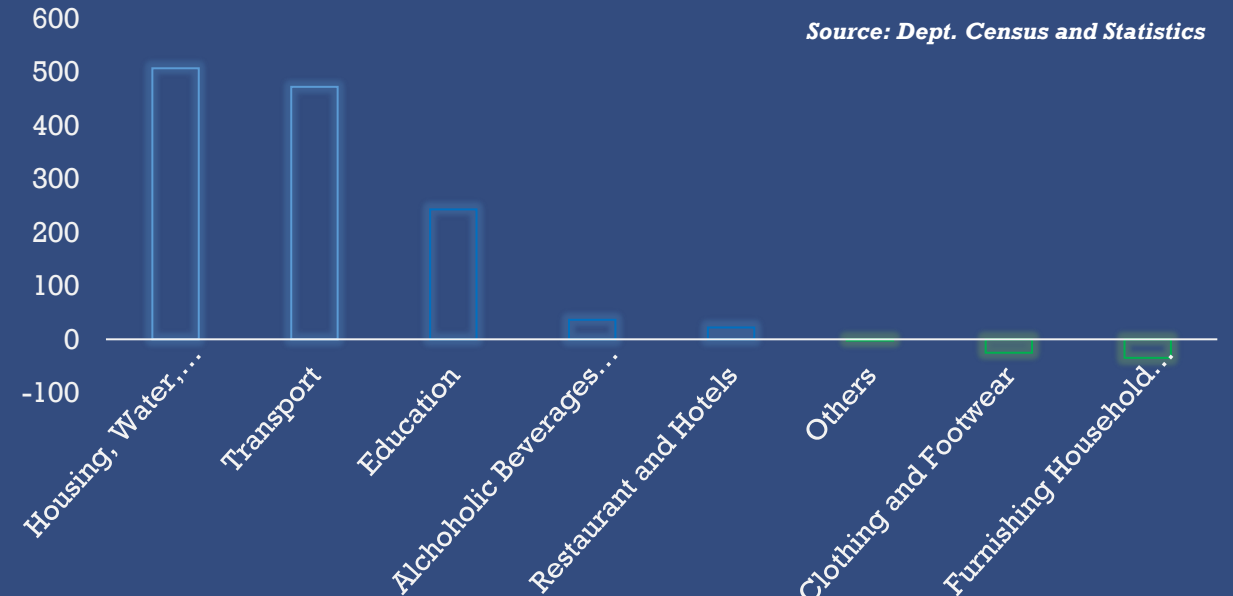
The CCPI index increased by 0.9%MoM contributed by the increase in expenditure of Food items by 0.18% and an increase in expenditure of Non-Food items by 0.70%. Within the Food items, increase in value changes were mainly reported for Fresh fruits, Rice, Limes, Big onions and Dhal Mysoor. Among Non-Food groups, increase in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels, Transport, Education and etc.



## Food Category Inflation



## Non-Food Category Inflation



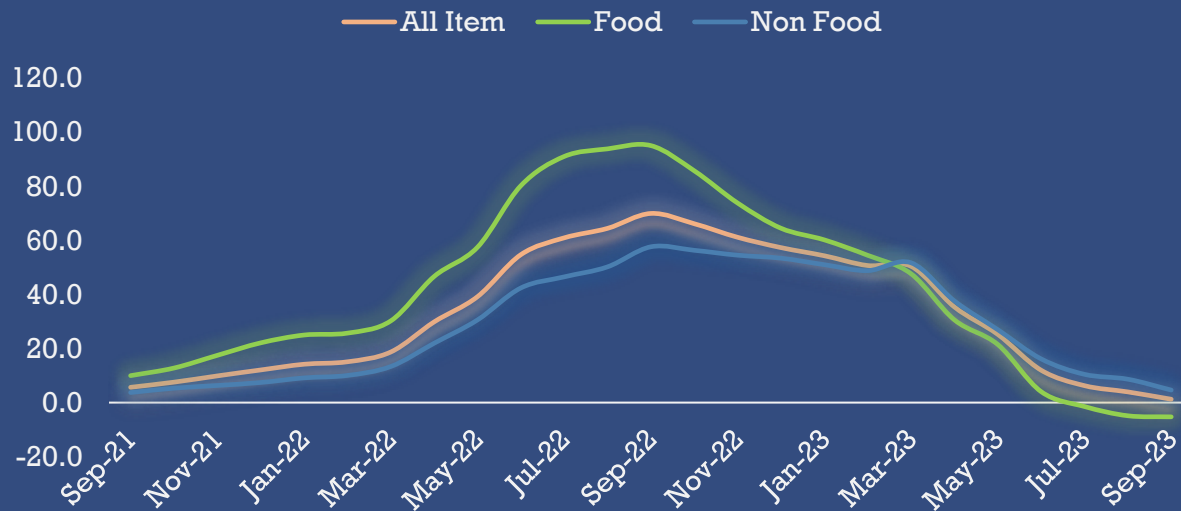


# INFLATION ANALYSIS – CCPI-YOY

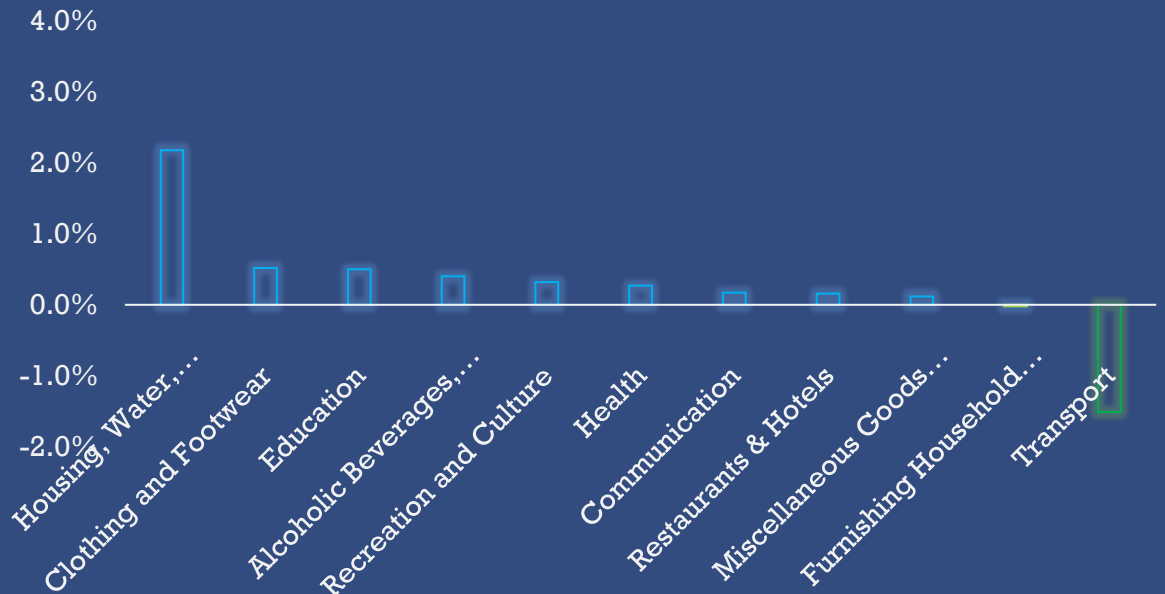
The YoY inflation of CCPI for Aug was 1.3% and has decreased sharply relative to the month of Aug 2023. Food item prices have decreased to -5.2%YoY in Sep 2023 from -4.8%YoY in Aug 2023 while the Non-Food item prices decreased to 4.7%YoY in Sep 2023 from 8.7%YoY in Aug 2023. The contribution from food category for YoY inflation was -1.78% while the contribution of Non-Food items stood at 3.10% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Clothing and Footwear and Education.



## Inflation Analysis (YoY)



## Non-Food Category Inflation



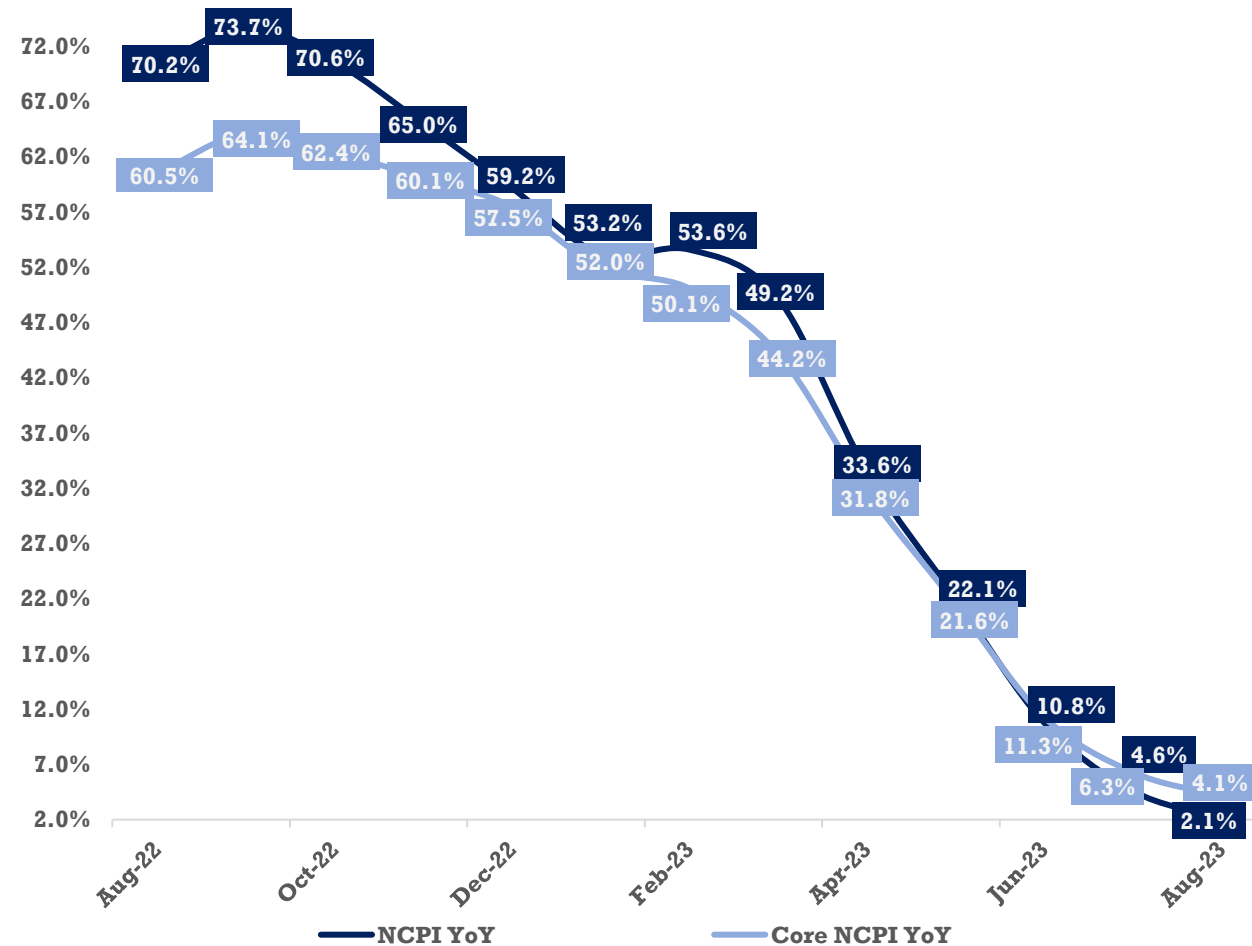
Source: Dept. Census and Statistics

Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR AUG 2023: DECREASED TO 2.1%YOY

- NCPI for Aug 2023 decreased to 2.1% compared to 4.6% in Jul 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to -5.4% in Aug 2023 from -2.5% in Jul 2023 while Non-Food inflation decreased to 9.0% in Aug 2023 from 10.9% in Jul 2023.



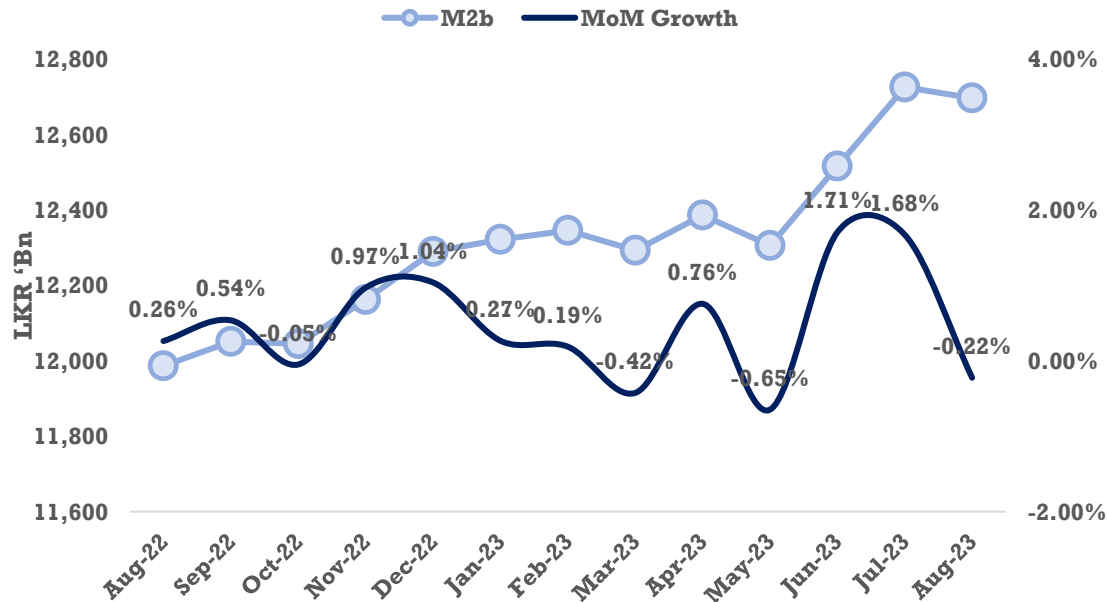
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit increased by LKR 5.5Bn compared to the previous month amidst the dip in rates. Meanwhile, State credit declined after 2-months by LKR 90.5Bn relative to the previous month.

## M2b Growth – Aug 2023

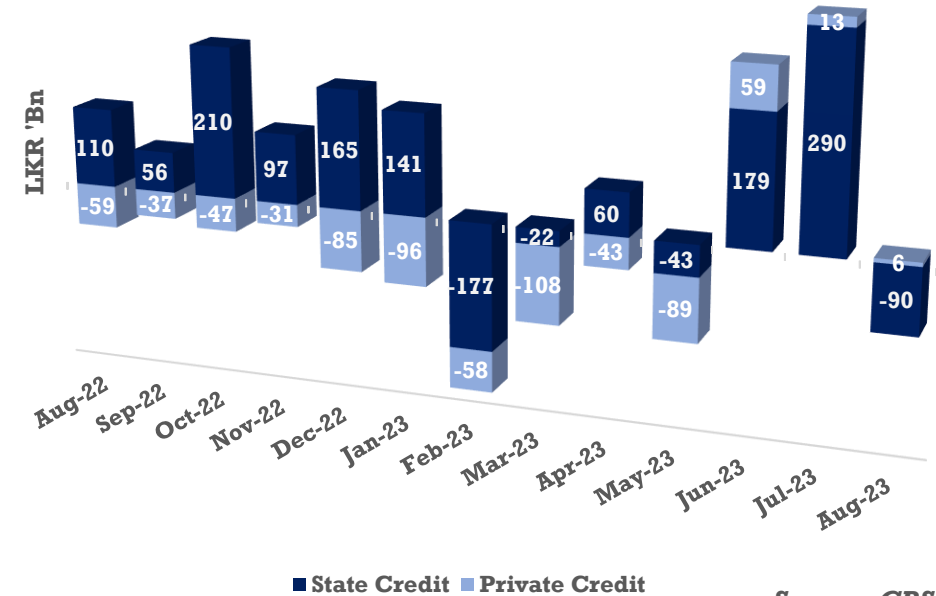
MoM -0.22%, YoY +5.93%, YTD +3.32%



Source: CBSL

## State Credit & Private Credit – Aug 2023

Private Credit MoM +0.1%, YoY -6.78%, YTD -4.26%

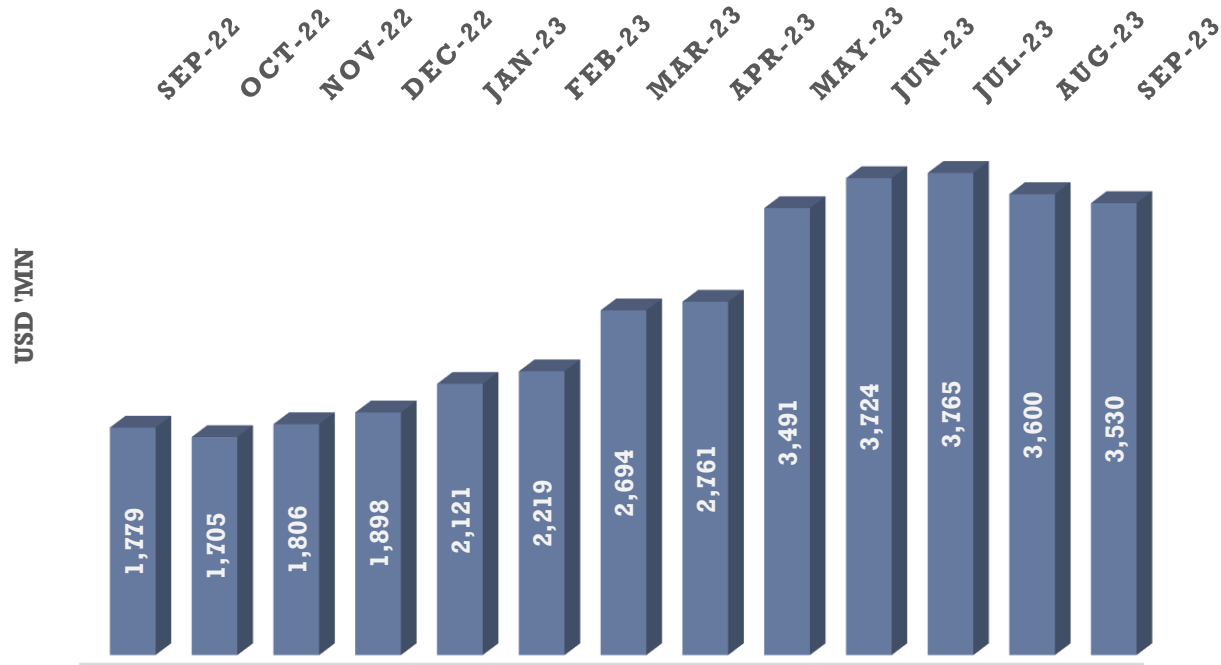


Source: CBSL



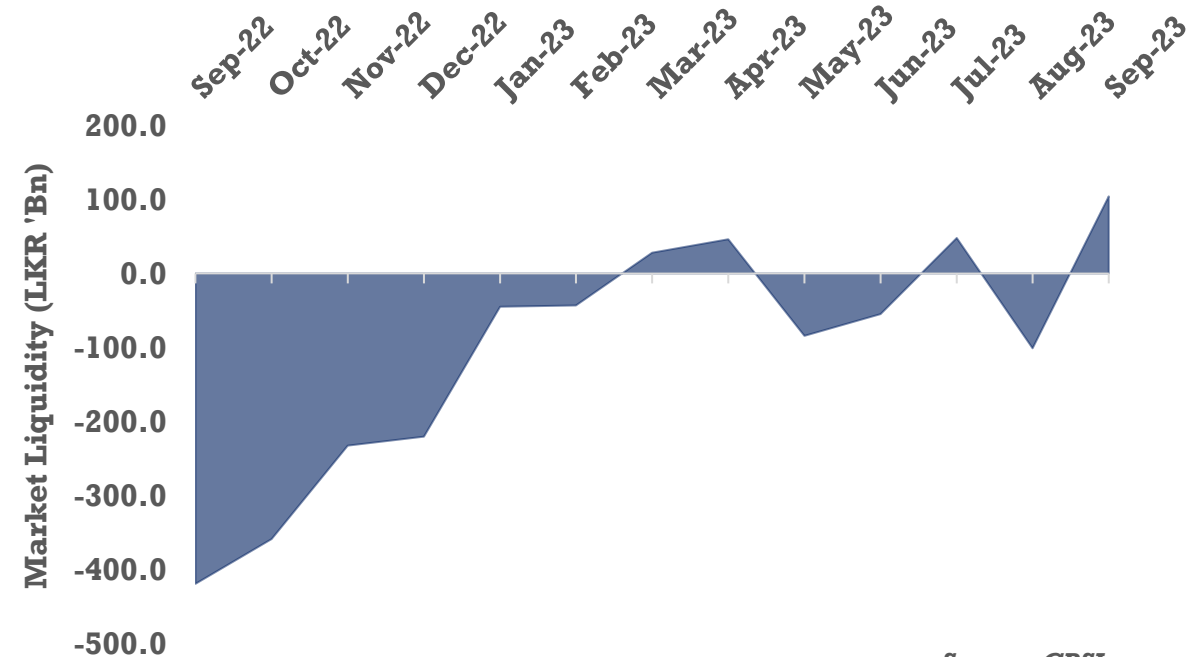
# LIQUIDITY & RESERVES

- Foreign Reserves reduced by USD 70.0Mn to USD 3.5Bn in Sep 2023.



Source: CBSL

- Market Liquidity displayed volatility and turned positive during the month of Sep 2023.



Source: CBSL

# CURRENCY MOVEMENT

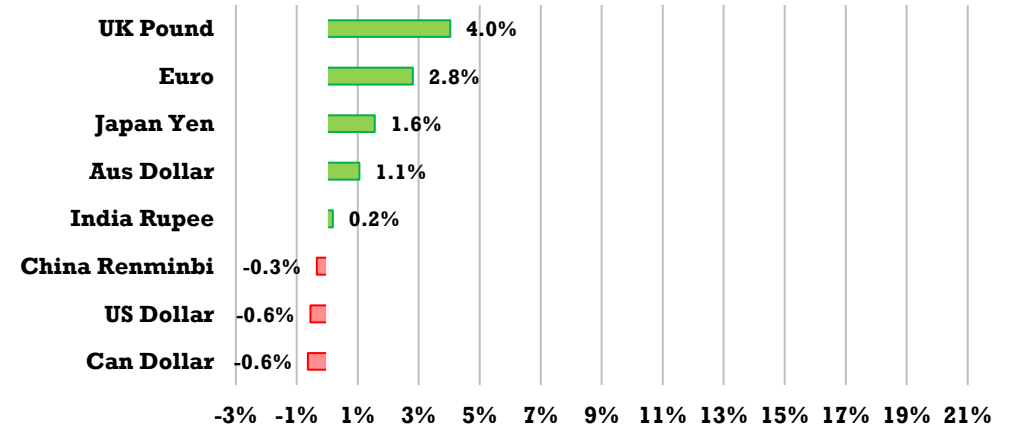
## USD:LKR Movement



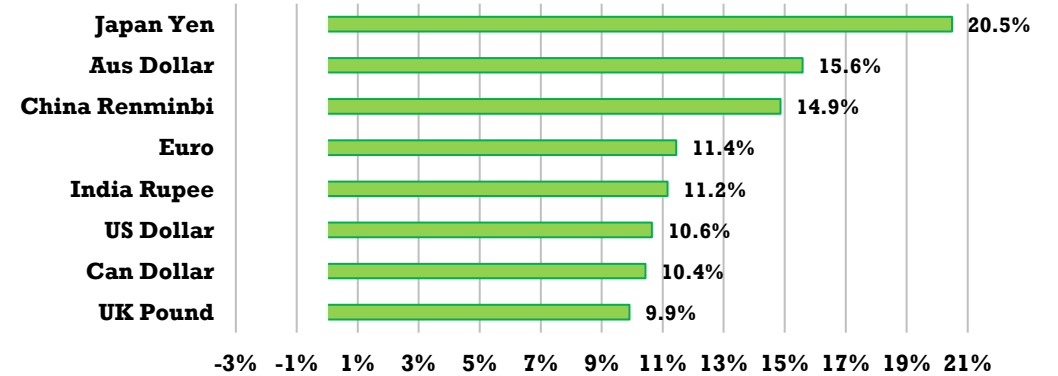
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Sep 2023



YTD 2023



Source: CBSL

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Sep 2023

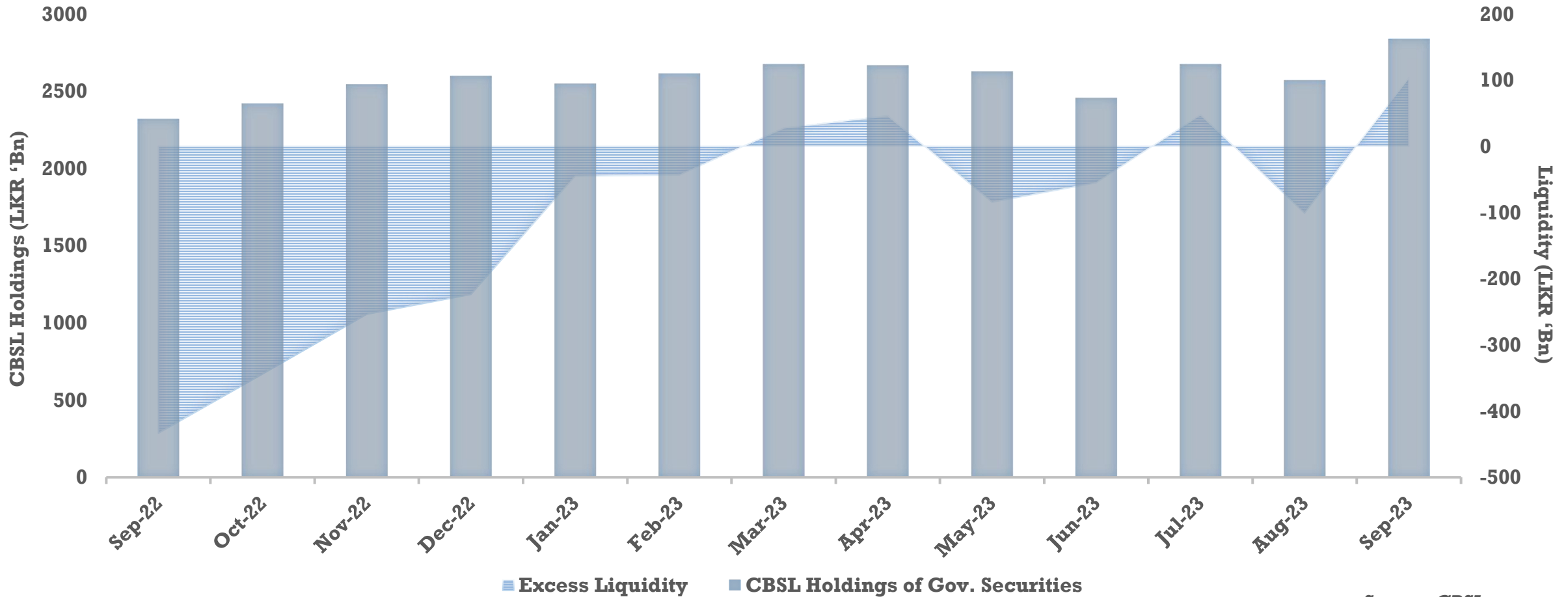
| Week Ending         | Bills ('Mn) | Bonds ('Mn) | Total          |
|---------------------|-------------|-------------|----------------|
| 01-Sep-23           | 117,584     | 216,000     | 333,584        |
| 08-Sep-23           | 169,361     |             | 169,361        |
| 15-Sep-23           | 198,553     | 108,000     | 306,553        |
| 22-Sep-23           | 181,000     |             | 181,000        |
| <b>Total Issued</b> |             |             | <b>990,498</b> |

| Net Settlement           | Sep 2023         | YTD                |
|--------------------------|------------------|--------------------|
| Maturities               | 1,872,595        | 11,297,277         |
| New Issues               | 990,498          | 6,146,255          |
| <b>Excess/ (Deficit)</b> | <b>(882,097)</b> | <b>(5,151,022)</b> |

| CBSL Holdings of Gov. Securities | YTD            |                |
|----------------------------------|----------------|----------------|
| As at End Sep 2023               | 2,839,350      |                |
| As at End Aug 2023               | 2,571,920      |                |
| <b>Increase/ (Decrease)</b>      | <b>267,430</b> | <b>163,280</b> |

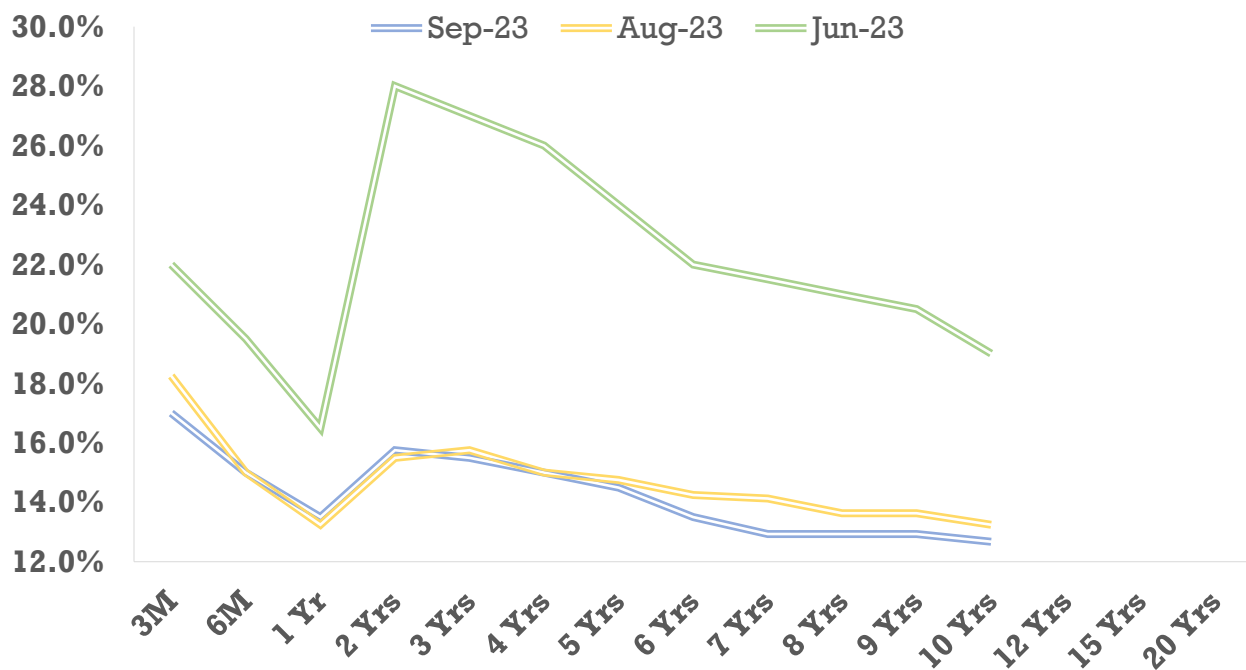
# CBSL HOLDINGS OF GOV. SECURITIES...

...increased by LKR 267.4Bn in Sep 2023



# TREASURY BILLS AND BONDS – SEP 2023

The secondary market began the month with subdued sentiment, marked by limited activity and thin trading volumes as investors held back as they awaited clarity on interest rate movements. As the week progressed, the market saw mixed sentiment on the bond auction maturities of 2026 and 2028, which traded consecutively throughout the month along with a gradual uptick in foreign buying interest. During the month, CBSL conducted two bond auctions, both of which were fully accepted with weighted average yields marginally trimmed down. Concurrently, at the bill auction, weighted average yields started to post a declining trend across the board with 1Yr bill lowering below 13.50%.



Source: First Capital Research

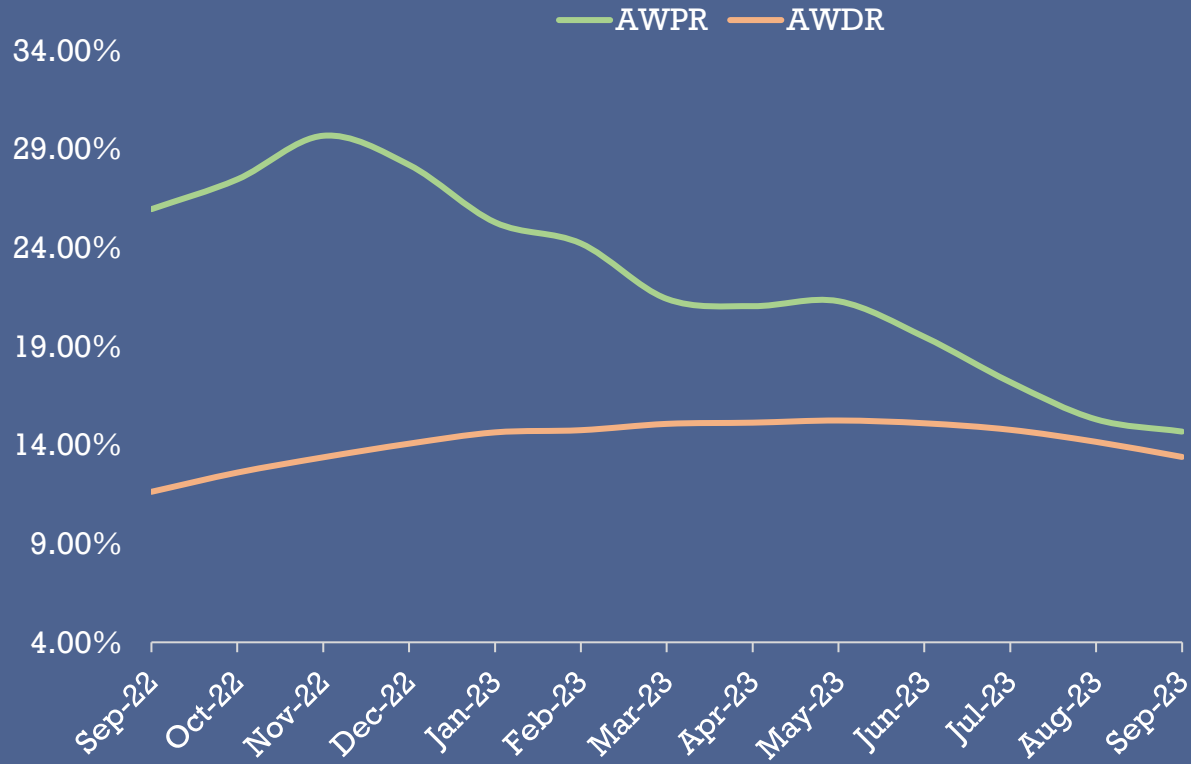
## Interest Rate Change (bps)

| Tenure | Sep-23 | Aug-23 | Change (bps) | Jun-23 | Change (bps) |
|--------|--------|--------|--------------|--------|--------------|
| 3M     | 17.00% | 18.25% | -125         | 22.00% | -500         |
| 6M     | 15.00% | 15.00% | 0            | 19.50% | -450         |
| 1 Yr   | 13.50% | 13.25% | 25           | 16.50% | -300         |
| 2 Yrs  | 15.75% | 15.50% | 25           | 28.00% | -1225        |
| 3 Yrs  | 15.50% | 15.75% | -25          | 27.00% | -1150        |
| 4 Yrs  | 15.00% | 15.00% | 0            | 26.00% | -1100        |
| 5 Yrs  | 14.50% | 14.75% | -25          | 24.00% | -950         |
| 6 Yrs  | 13.50% | 14.25% | -75          | 22.00% | -850         |
| 7 Yrs  | 12.93% | 14.13% | -120         | 21.50% | -857         |
| 8 Yrs  | 12.93% | 13.63% | -70          | 21.00% | -807         |
| 9 Yrs  | 12.93% | 13.63% | -70          | 20.50% | -757         |
| 10 Yrs | 12.68% | 13.25% | -57          | 19.00% | -632         |
| 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

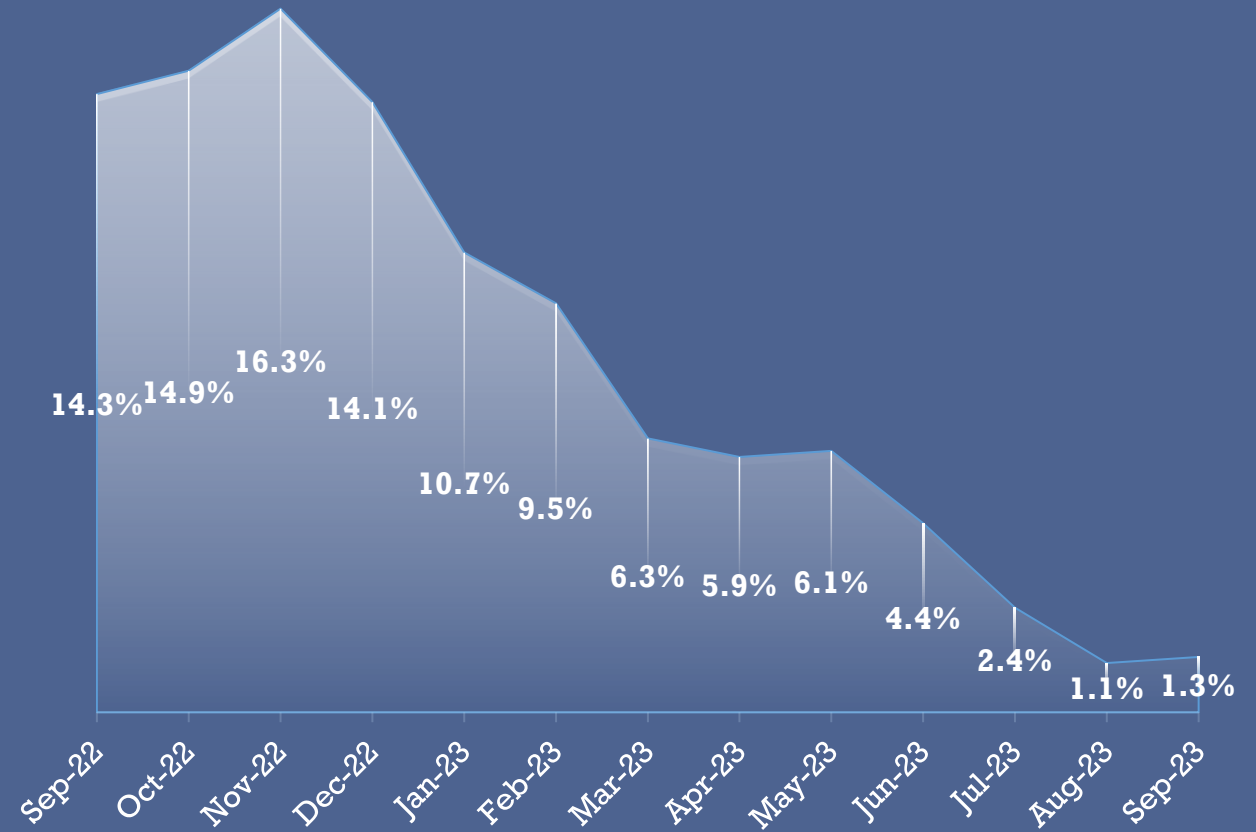
Oct 2023

# AWPR vs AWDR



Source: CBSL

# Interest Spread



Source: CBSL

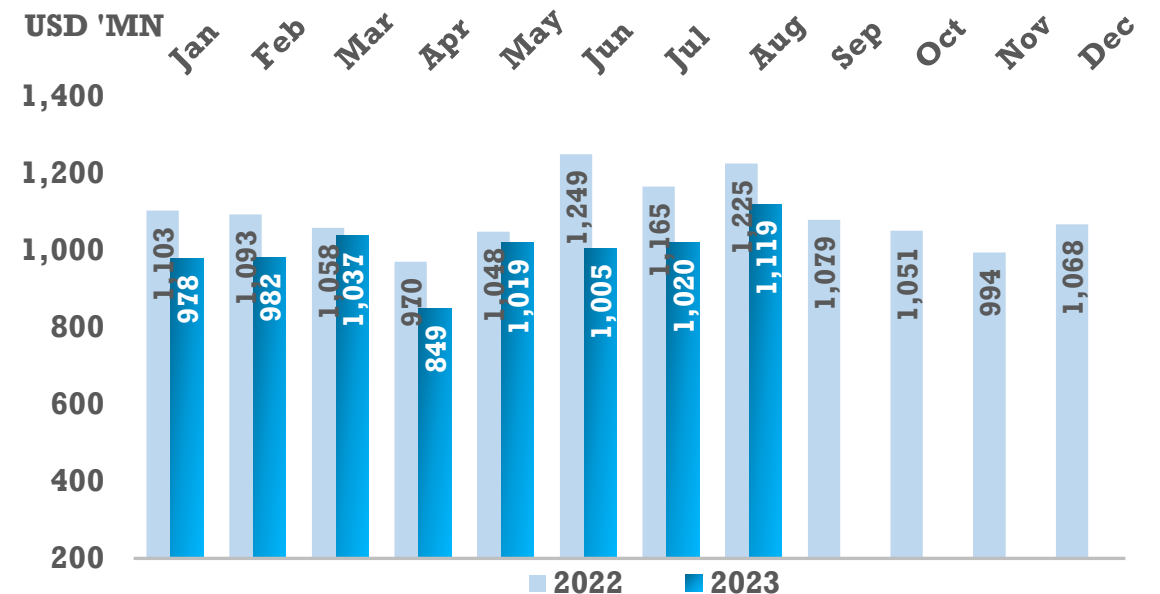
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – AUG 23 – EXPORTS

Earnings from exports marked the highest monthly earnings in 2023, yet on a YoY basis declined by 8.7% in Aug 2023 to USD 1,118.6Mn 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 transport equipment, food, beverages and tobacco and petroleum products due to the increase in the volumes of bunker and aviation fuel exports. Moreover, agricultural exports slightly declined amidst the decrease in earnings from seafood, tea, and coconut related products. Earnings from tea exports declined marginally led by lower export prices while export volumes slightly improved. Earnings from mineral exports also decreased mainly due declined in export earnings from earths and stone.

| Category           | 2022<br>(USD 'Mn) | 2023<br>(USD 'Mn) | Change<br>(%) |
|--------------------|-------------------|-------------------|---------------|
| Industrial Exports |                   |                   |               |
| - Aug              | 966.3             | 871.7             | <b>-9.8</b>   |
| - YTD              | 7,167.7           | 6,273.6           | <b>-12.5</b>  |
| Agricultural       |                   |                   |               |
| - Aug              | 254.2             | 242.9             | <b>-4.5</b>   |
| - YTD              | 1,708.5           | 1,702.9           | <b>-0.3</b>   |
| Mineral Exports    |                   |                   |               |
| - Aug              | 2.5               | 2.0               | <b>-19.2</b>  |
| - YTD              | 21.1              | 15.7              | <b>-25.7</b>  |
| <b>Total</b>       |                   |                   |               |
| - Aug              | <b>1,225.4</b>    | <b>1,118.6</b>    | <b>-8.7</b>   |
| - YTD              | <b>8,912.1</b>    | <b>8,010.1</b>    | <b>-10.1</b>  |

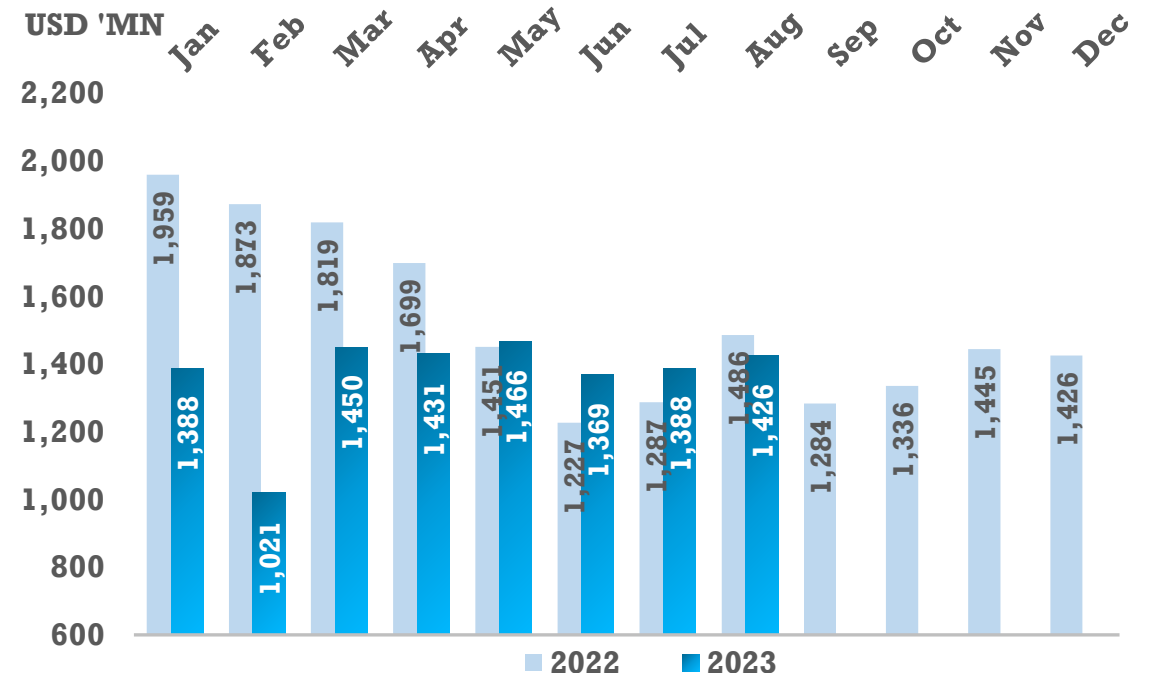


Source: CBSL  
Oct 2023

# EXTERNAL SECTOR – AUG 23 – IMPORTS

Import expenditure declined by 4.0%YoY to USD 1,426.0Mn in Aug 2023 as import expenditure of intermediate goods dipped despite expenditures on consumer goods and investment goods imports recorded an increase. 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, led by the decline in textiles and textile articles (primarily, fabrics and yarns), fuel and rubber and articles thereof. Import expenditure on investment goods increased with the increase in imports of machinery and equipment (primarily, turbo jets). Meanwhile, imports of building material and transport equipment recorded a decline in during the month compared to the previous year. 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<br>(USD 'Mn) | 2023<br>(USD 'Mn) | Change<br>(%) |
|------------------|-------------------|-------------------|---------------|
| Consumer goods   |                   |                   |               |
| - Aug            | 231.2             | 268.1             | 15.9          |
| - YTD            | 1,945.7           | 2,028.3           | 4.2           |
| Intermediate     |                   |                   |               |
| - Aug            | 1,036.5           | 857.1             | -17.3         |
| - YTD            | 8,584.0           | 7,185.5           | -16.3         |
| Investment goods |                   |                   |               |
| - Aug            | 212.6             | 299.4             | 40.8          |
| - YTD            | 2,263.5           | 1,747.9           | -22.8         |
| <b>Total</b>     |                   |                   |               |
| - Aug            | 1,485.9           | 1,426.0           | -4.0          |
| - YTD            | 12,800.9          | 10,974.1          | -14.3         |

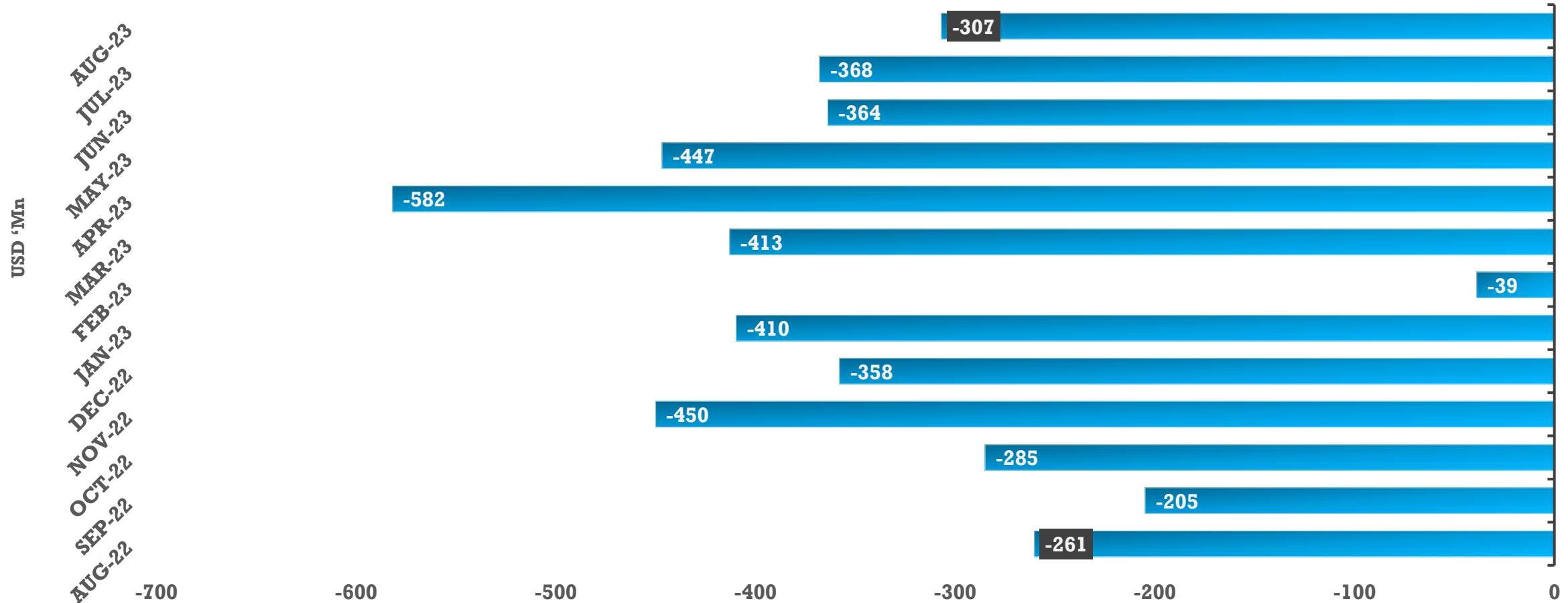


Source: CBSL

Oct 2023

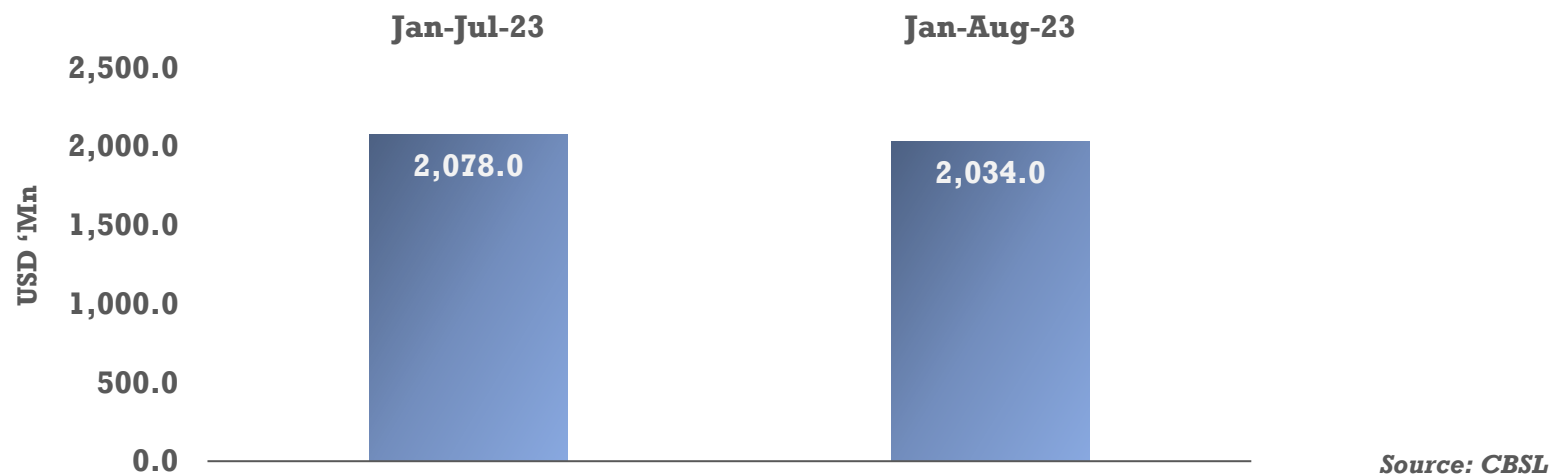
# EXTERNAL SECTOR – AUG 23

## Balance of Trade

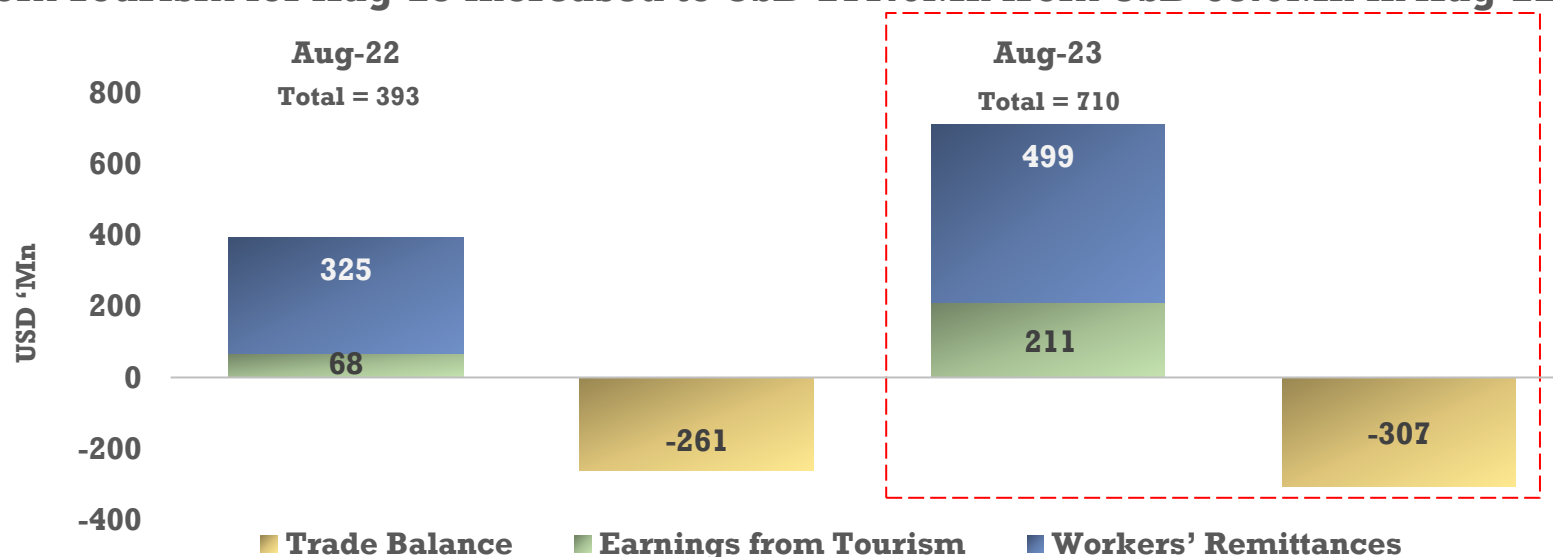


Source: Central Bank

BoP for Jan-Aug-23 recorded at USD 2,034.0Mn compared to Jan-Jul-23 amount of USD 2,078.0Mn resulting in a net outflow of USD 44.0Mn, for the month of Aug-23.



Workers' Remittances increased to USD 499.0Mn in Aug-23 (+53.5%YoY). Earnings from Tourism for Aug-23 increased to USD 211.0Mn from USD 68.0Mn in Aug-22.



## BALANCE OF PAYMENT DEFICIT DECREASED YOY IN AUG-23

| Aug USD 'Mn           | 2022 | 2023 | Change (%) |
|-----------------------|------|------|------------|
| Trade Balance         | -261 | -307 |            |
| Earnings from Tourism | 68   | 211  | +210.3     |
| Workers' Remittances  | 325  | 499  | +53.5      |

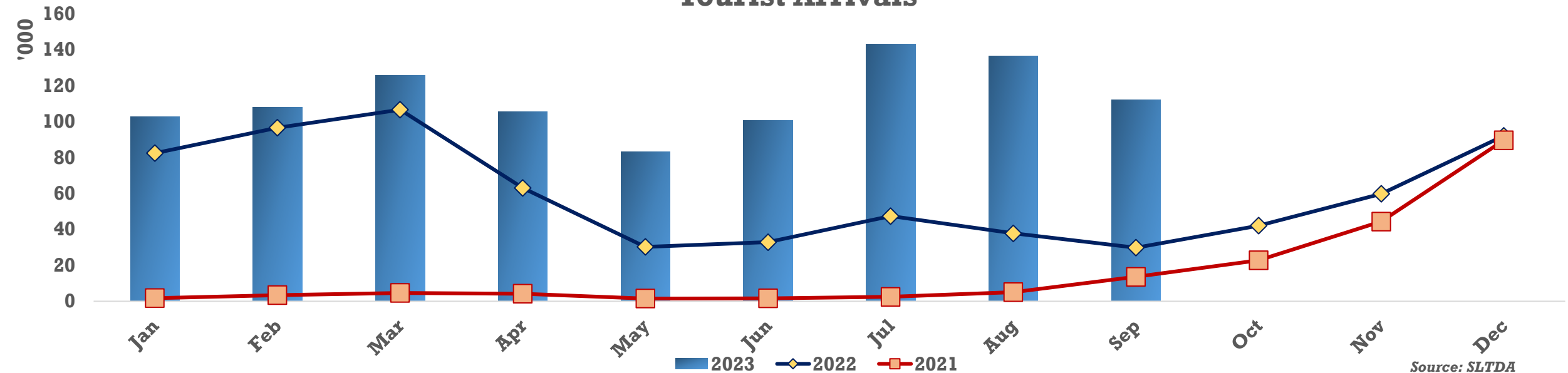
| YTD USD 'Mn           | 2022   | 2023   | Change (%) |
|-----------------------|--------|--------|------------|
| Trade Balance         | -3,889 | -2,964 |            |
| Earnings from Tourism | 833    | 1,304  | +56.7      |
| Workers' Remittances  | 2,215  | 3,863  | +74.4      |

# TOURIST ARRIVALS – SEP 2023

[ Sep 111,938 – **UP +275.6%YoY**] [ MoM– **DOWN -17.9%**]

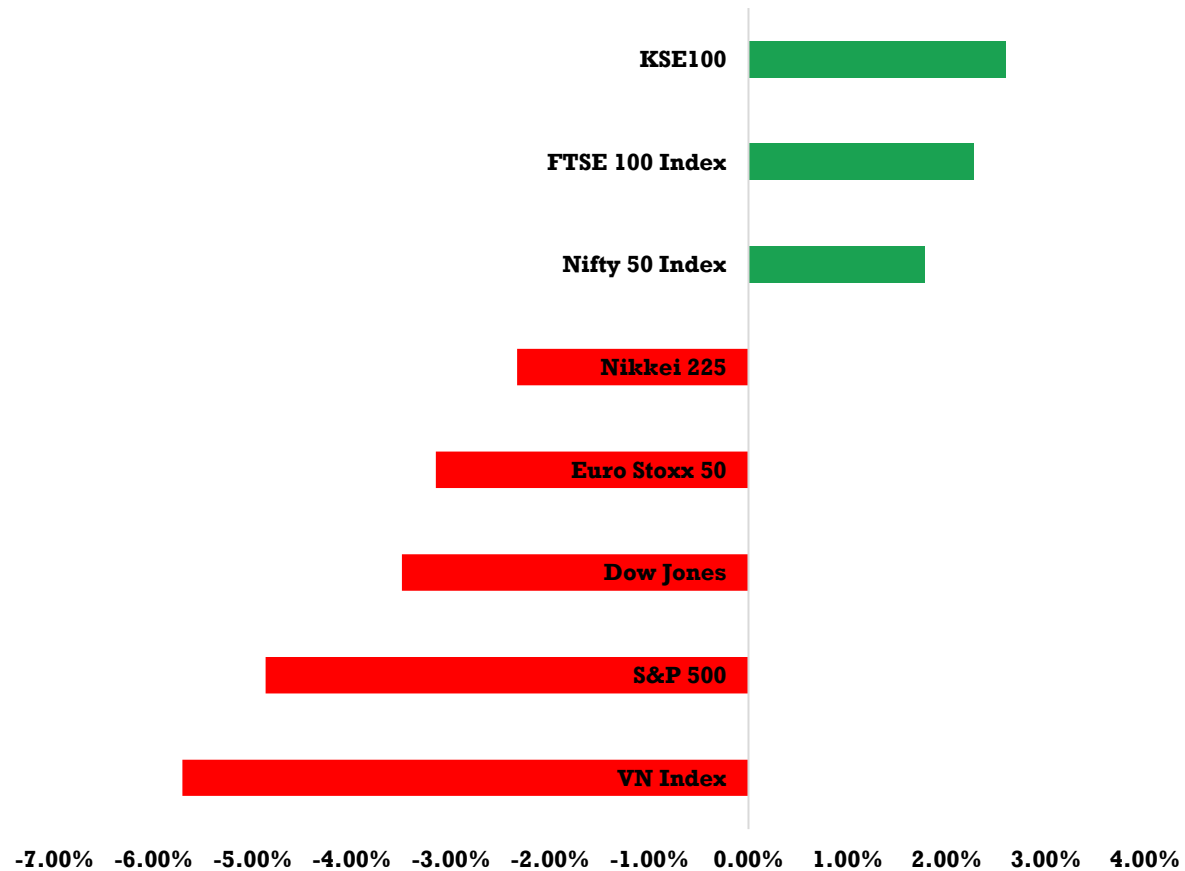
The total arrivals for the month was recorded at 111,938 displaying an increase of 275.6%YoY compared to Sep 2022, owing to factors such as the ongoing recovery of the tourism sector, improved socio-economic conditions, improvements in air connectivity followed by China's recent reopening and the strong pent-up demand for travel following pandemic-related restrictions. The largest source market for tourist arrivals in Sep were India, China, the United Kingdom, Germany and Russian Federation.

### Tourist Arrivals



Source: SLTDA

# GLOBAL MARKET – SEP 2023



**Morgan Stanley sees rates risk to stocks. Bank of America says not so much**

Morgan Stanley's Michael Wilson, an unwavering equity bear, says the correlation between real rates and equity returns has fallen deeper into negative territory — a sign that interest rates have once again become a determinant of stock performance. At Bank of America Corp., however, Savita Subramanian thinks equity markets can still thrive if rates remain elevated.



**Southeast Asia is set to drive up demand for natural gas**

Southeast Asian countries are expected to be key demand drivers for the LNG market by 2030, industry watchers say. Trade in global liquefied natural gas rose to a record in 2022, fueled largely by a surge in demand from Europe as the region moves away from relying on Russian pipelines following Moscow's invasion of Ukraine. However, Europe's demand for LNG is expected to recede in a few years.

**US bond market signals the end of an era**

The U.S. bond market is calling a moment: the age of low interest rates and inflation that began with the 2008 financial crisis has ended. What follows is unclear. The market's view has come into sharp focus in recent days amid a dramatic run-up in 10-year Treasury yields that hit 16-year highs. Behind that move is a bet that the disinflationary forces the Federal Reserve fought with its easy money policies in the aftermath of the financial crisis have abated, according to investors and a regularly updated New York Fed model based on yields.





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MANAGING RISKS”*

## Contact Us

### First Capital Holdings PLC

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

E: [research@firstcapital.lk](mailto:research@firstcapital.lk)



**Dimantha Mathew**  
Chief Research & Strategy Officer  
T: +94 11 2639 853  
E: [dimantha@firstcapital.lk](mailto:dimantha@firstcapital.lk)

**Ranjan Ranatunga**  
Assistant Vice President – Research  
T: +94 11 2639 863  
E: [ranjan@firstcapital.lk](mailto:ranjan@firstcapital.lk)

**Vinodhini Rajapoopathy**  
Assistant Manager - Research  
T: +94 11 2639 866  
E: [vinodhini@firstcapital.lk](mailto:vinodhini@firstcapital.lk)

**Tharusha Ashokgar**  
Senior Research Associate  
T: +94 11 2639 866  
E: [tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

**Zaema Jihan**  
Senior Research Associate  
T: +94 11 2639 866  
E: [zaheema@firstcapital.lk](mailto:zaheema@firstcapital.lk)

**Nethmi Fernando**  
Associate  
T: +94 11 2639 866  
E: [nethmi@firstcapital.lk](mailto:nethmi@firstcapital.lk)

