



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Nov 2023

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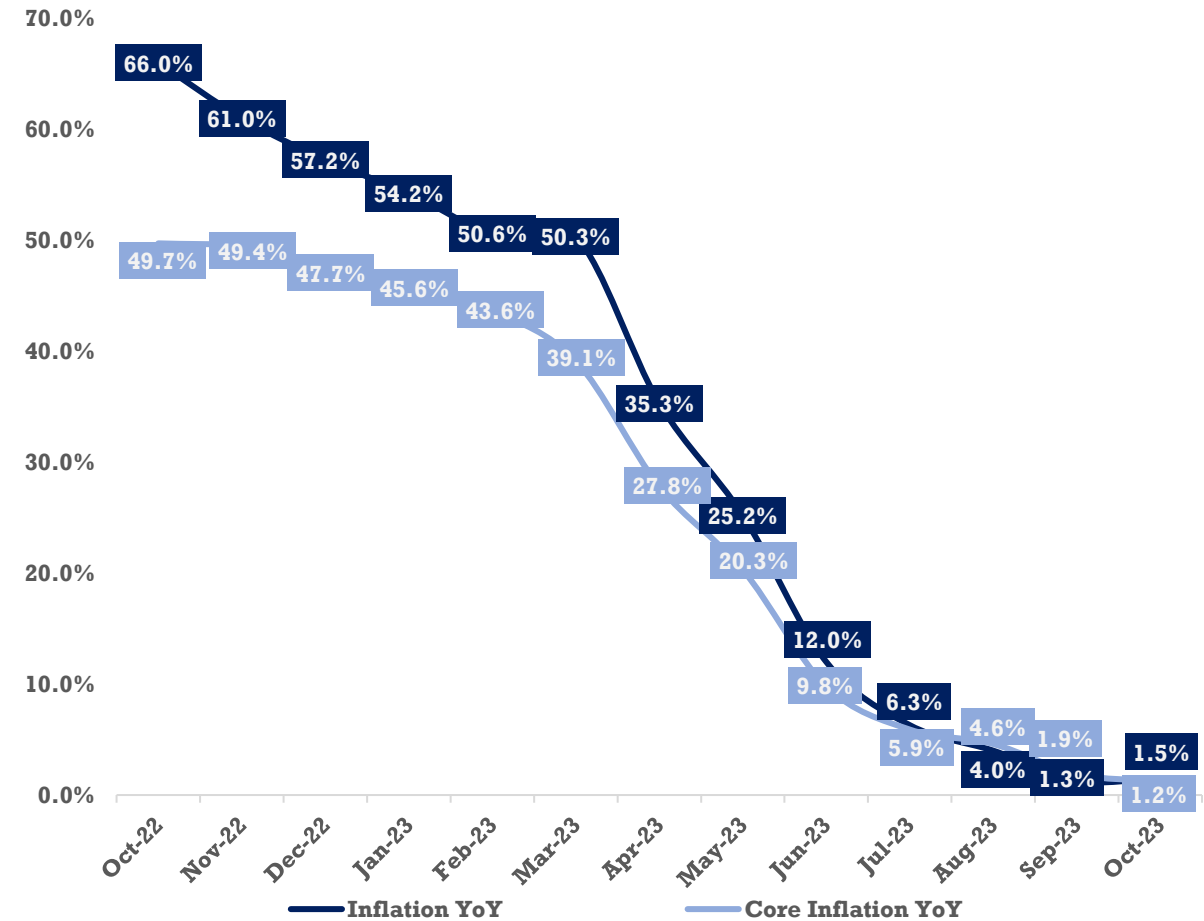
# IMF REACHES STAFF-LEVEL AGREEMENT ON THE FIRST REVIEW FOR SRI LANKA'S 2<sup>ND</sup> TRANCHE

- IMF reached a staff-level agreement with Sri Lanka under an economic reform program, marking the completion of the initial review for Sri Lanka's 2<sup>nd</sup> tranche.
- Upon the approval by the IMF Management and IMF Executive Board, Sri Lanka will gain access to SDR 254.0Mn (approximately USD 330.0Mn) in financing, bringing the total disbursement of IMF financial assistance under the arrangement to SDR 508.0Mn (approximately USD 660.0Mn).
- The IMF Executive Board's review completion requires the authorities' execution of all preceding actions and the completion of financing assurances reviews, which will involve verifying the adequate progress in debt restructuring, to instill confidence that the restructuring will be completed promptly and aligns with the program's debt targets.
- Most of the structural benchmarks were achieved or executed with some delay by the end of Sep 2023. Sri Lanka holds the distinction of being the first country in Asia to undergo the IMF Governance Diagnostic exercise. Efforts are ongoing regarding revenue measures to support fiscal consolidation throughout 2024, aligning with the program parameters.

# INFLATION – CCPI

**CCPI FOR OCT 2023:**  
**MOM - 0.2%**  
**YOY +1.5%**

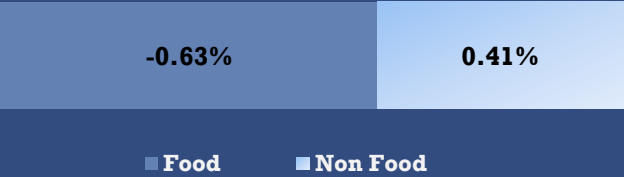
- MoM inflation marginally down by -0.2% with the decrease in inflation of Food and Non-Food group by -2.0% and 0.6%, respectively.
- The YoY inflation slightly increased after 12 months of consecutive decline to 1.5% in Oct 2023. YoY inflation of Food group remained stagnant at -5.2% in Oct 2023, while Non-Food group increased to 4.9% in Oct 2023 from 4.7% in Sep 2023.



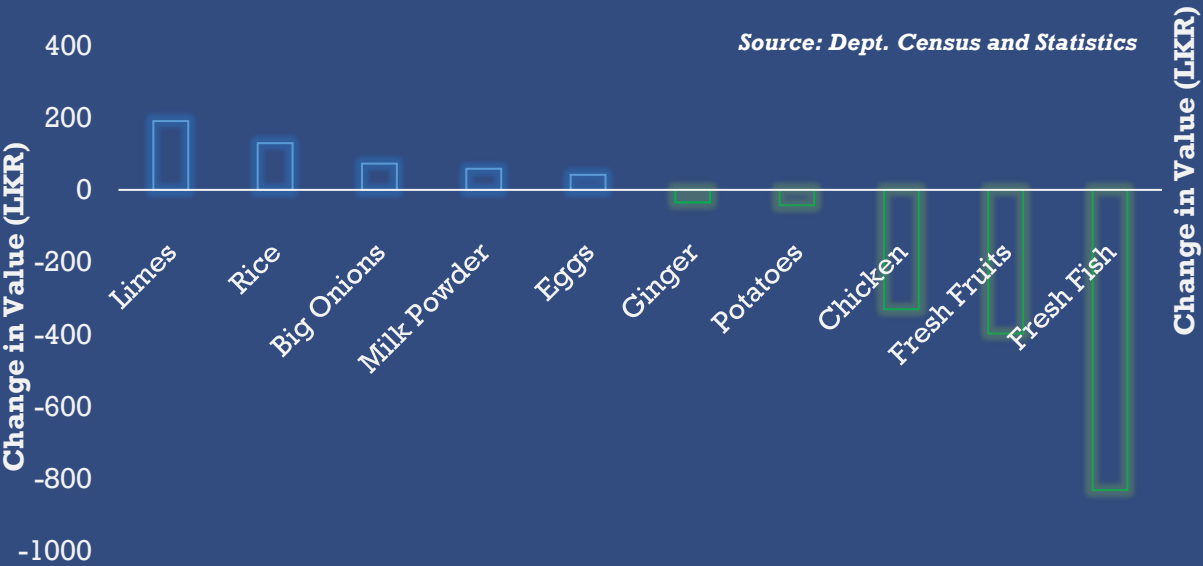
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

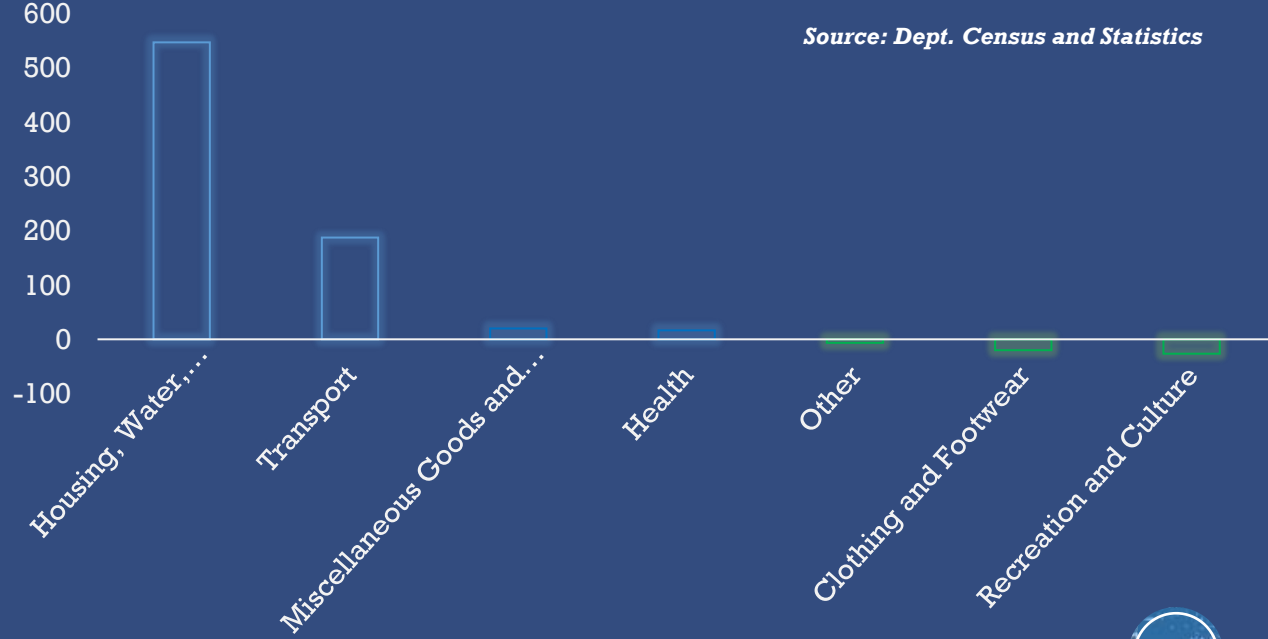
The CCPI index decreased by -0.2%MoM contributed by the decrease in expenditure of Food items by -0.63% and an increase in expenditure of Non-Food items by 0.41%. Within the Food items, decrease in value changes were mainly reported for Fresh fish, Fresh fruits, Chicken, Potatoes and Ginger. Among Non-Food groups, increase in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels, Transport, Miscellaneous Goods and Services, Health and etc.



## Food Category Inflation



## Non-Food Category Inflation





# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Oct was 1.5% and has increased slightly than the month of Sep 2023. Food item prices have remained stagnant at -5.2%YoY in Oct 2023 while the Non-Food item prices increased to 4.9%YoY in Oct 2023 from 4.7%YoY in Sep 2023. The contribution from food category for YoY inflation was -1.76% while the contribution of Non-Food items stood at 3.25% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Education and Clothing and Footwear.

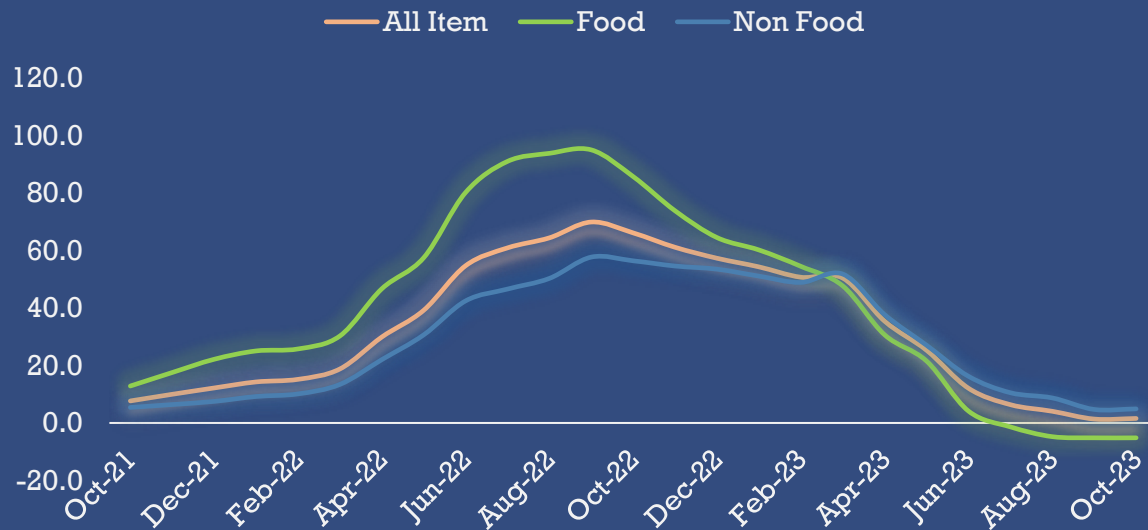
-1.76%

3.25%

■ Food

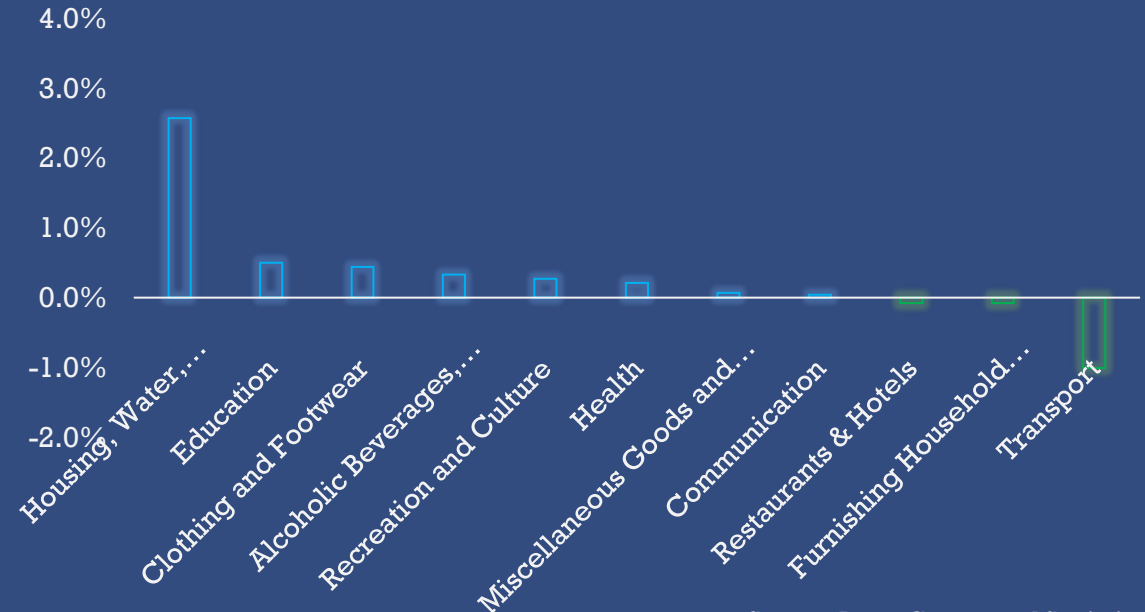
■ Non-Food

## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation

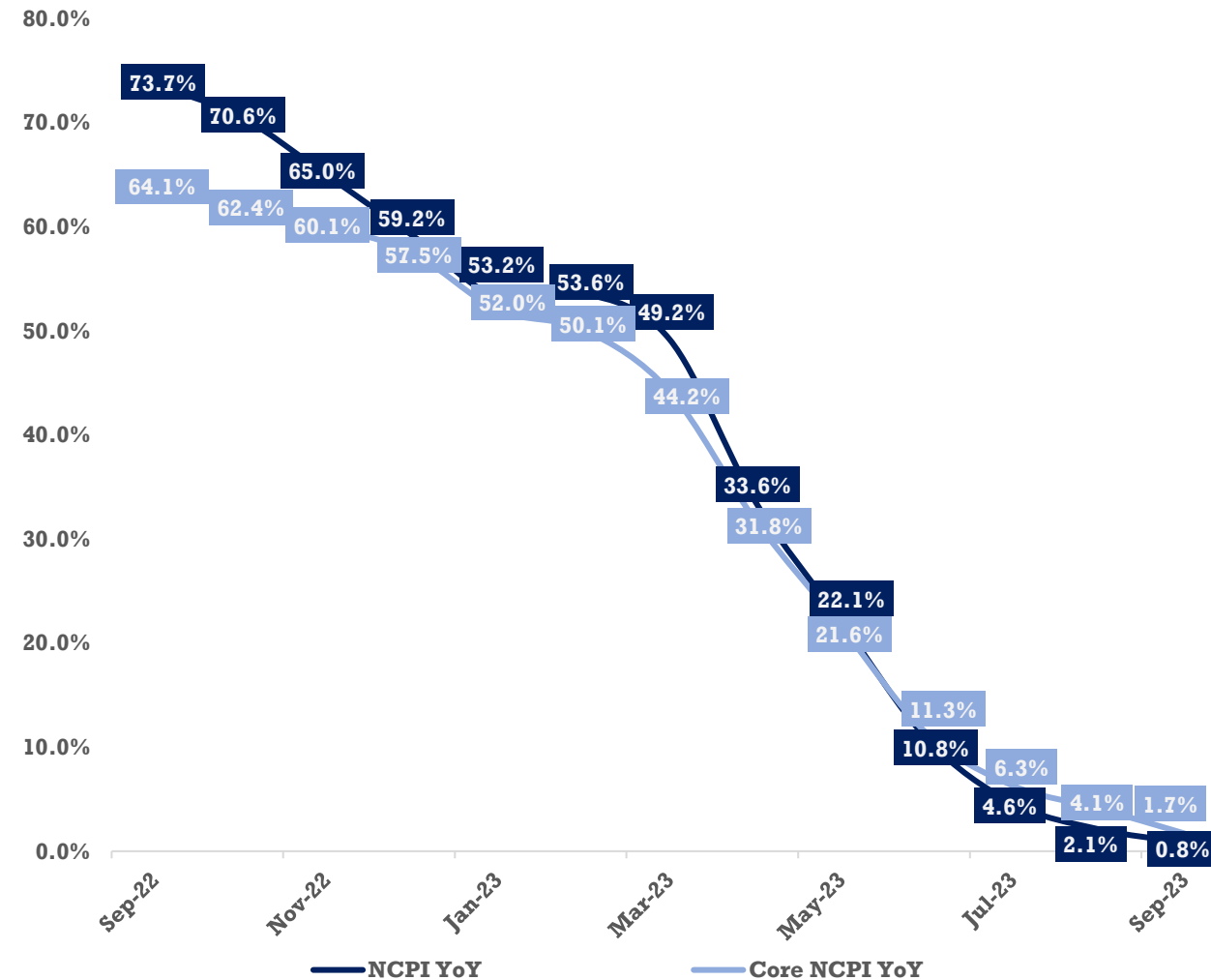


Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR SEP 2023: DECREASED TO 0.8%YOY

- NCPI for Sep 2023 decreased to 0.8% compared to 2.1% in Aug 2023.
- Decrease in inflation was mainly driven by the price decrease in both Food and Non-Food commodities. Accordingly, YoY Food inflation decreased to -5.2% in Sep 2023 from -5.4% in Aug 2023 while Non-Food inflation decreased to 5.9% in Sep 2023 from 9.0% in Aug 2023.



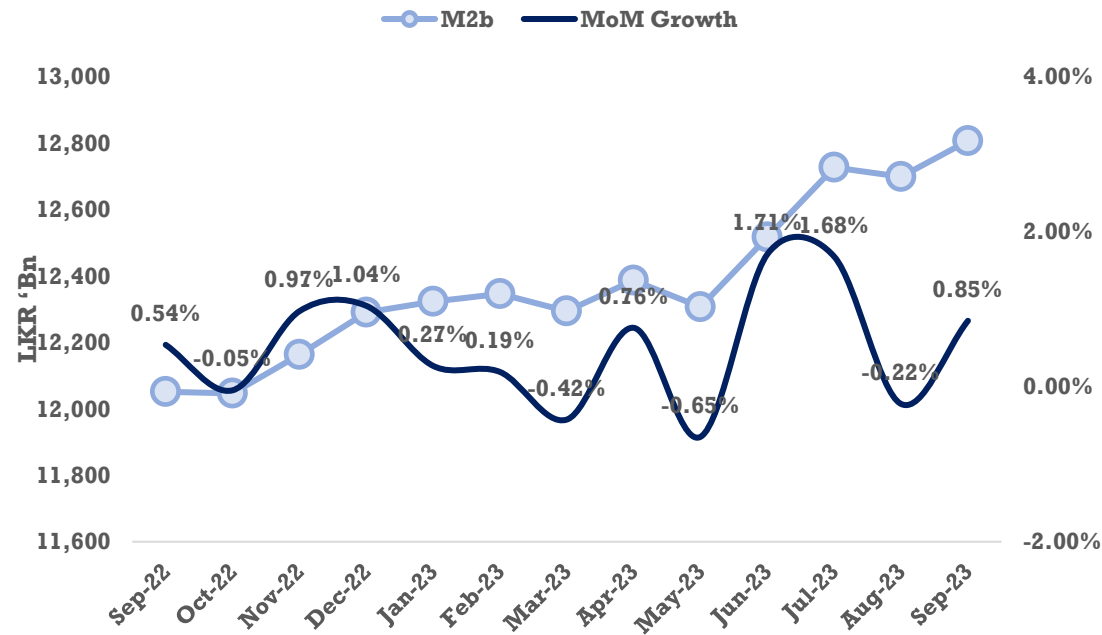
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit significantly increased by LKR 69.8Bn compared to August 2023 amidst the dip in rates. Meanwhile, State credit significantly declined by LKR 253.7Bn relative to the previous month.

## M2b Growth – Sep 2023

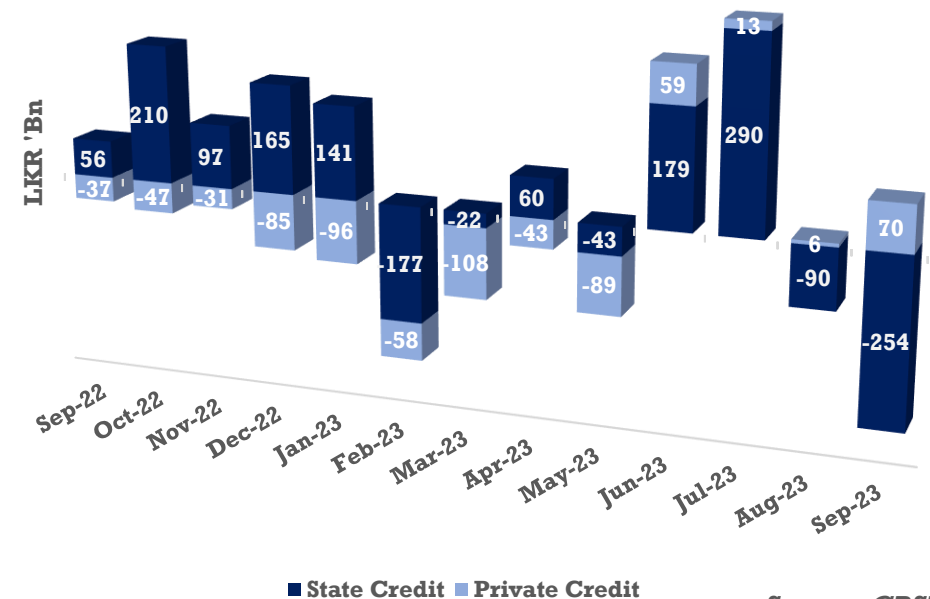
MoM +0.85%, YoY +6.26%, YTD +4.20%



Source: CBSL

## State Credit & Private Credit – Sep 2023

Private Credit MoM +1.0%, YoY -5.40%, YTD -3.32%

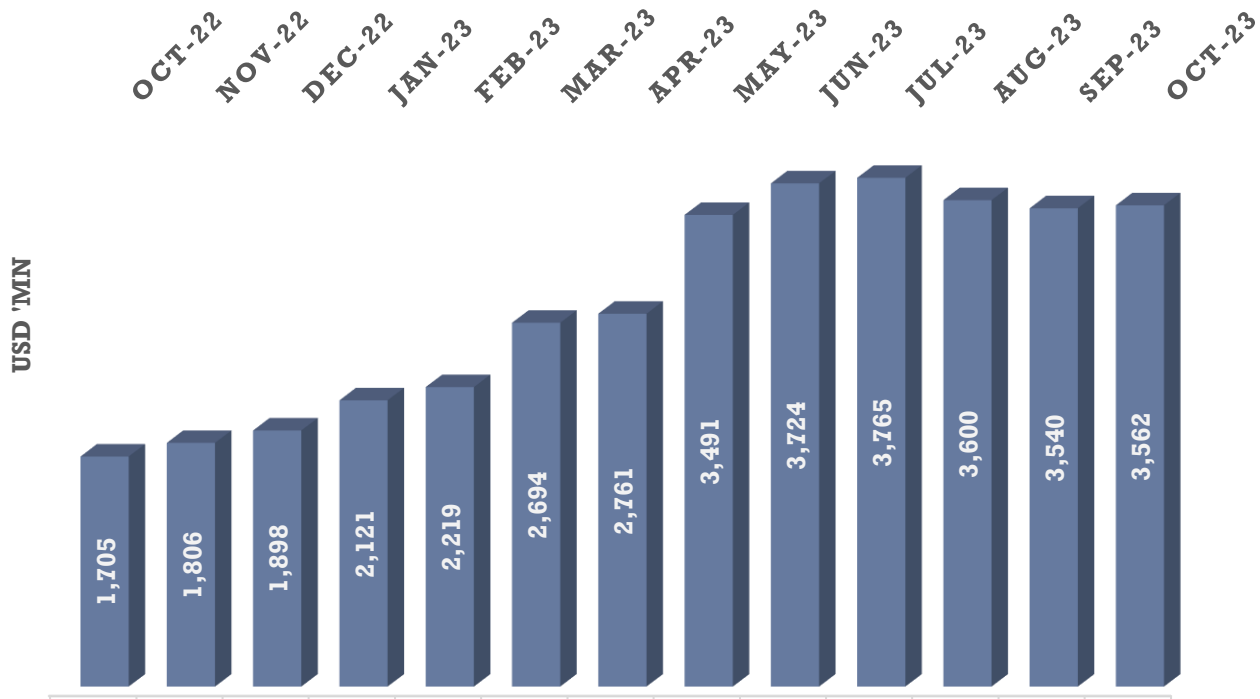


Source: CBSL



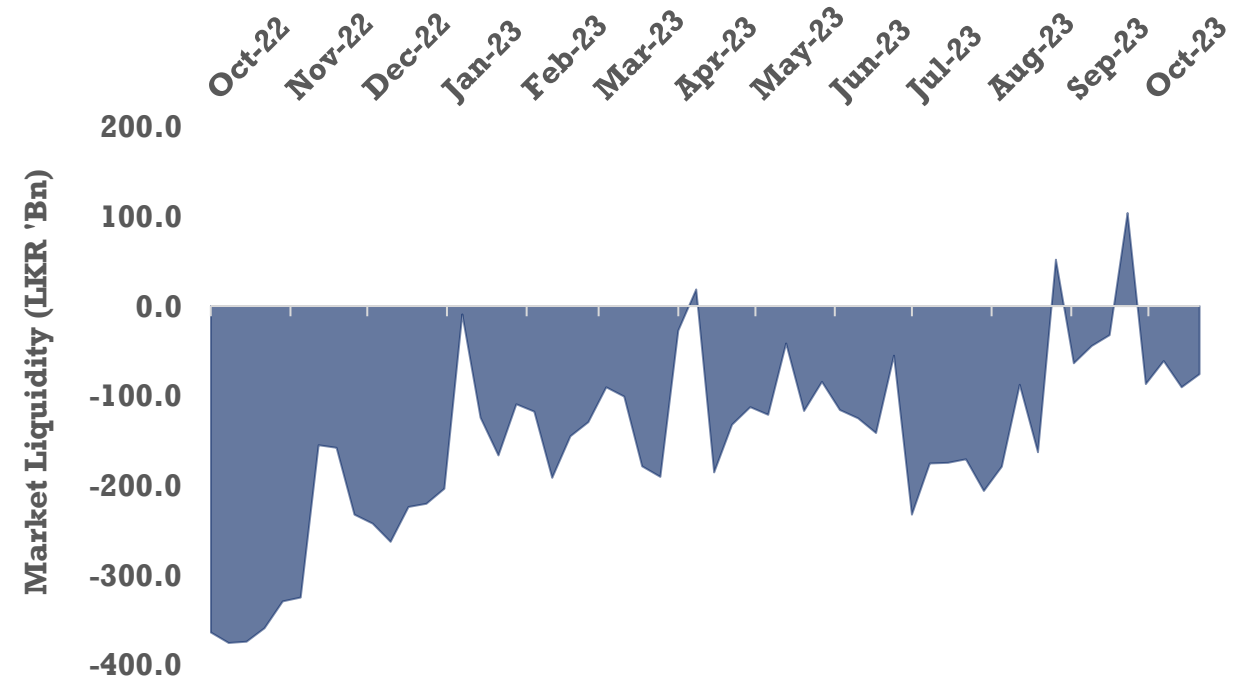
# LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 22.0Mn to USD 3.6Bn in Oct 2023.



Source: CBSL

- Market Liquidity gradually declined and turned negative during the month of Oct 2023.



Source: CBSL

# CURRENCY MOVEMENT

## USD:LKR Movement

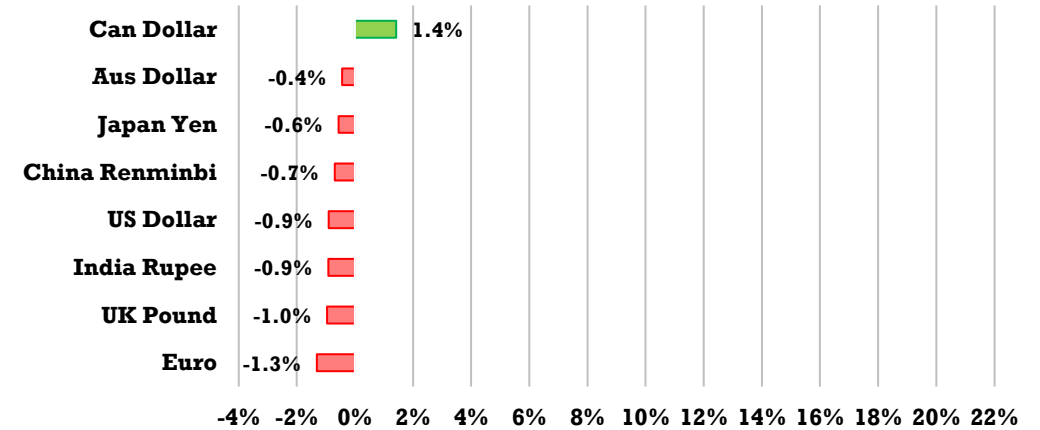


Source: CBSL

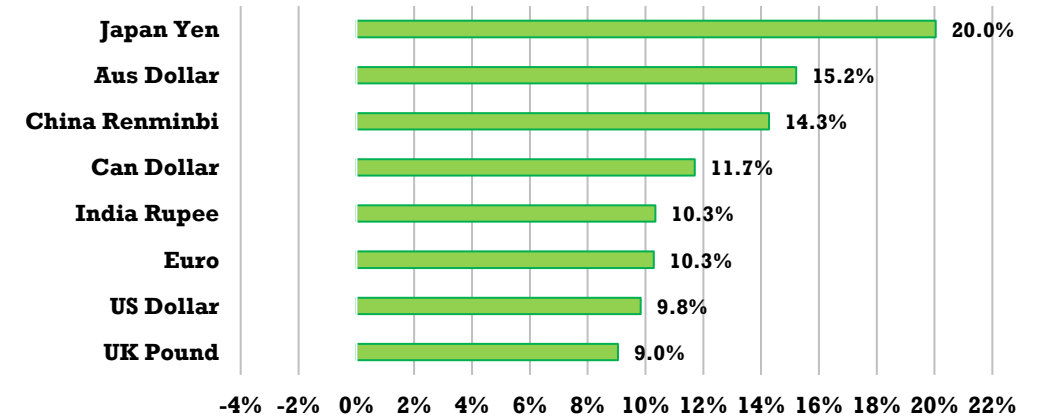
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## Sri Lankan Rupee vs Global Currencies

Oct 2023



YTD 2023



Source: CBSL

Nov 2023

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Oct 2023

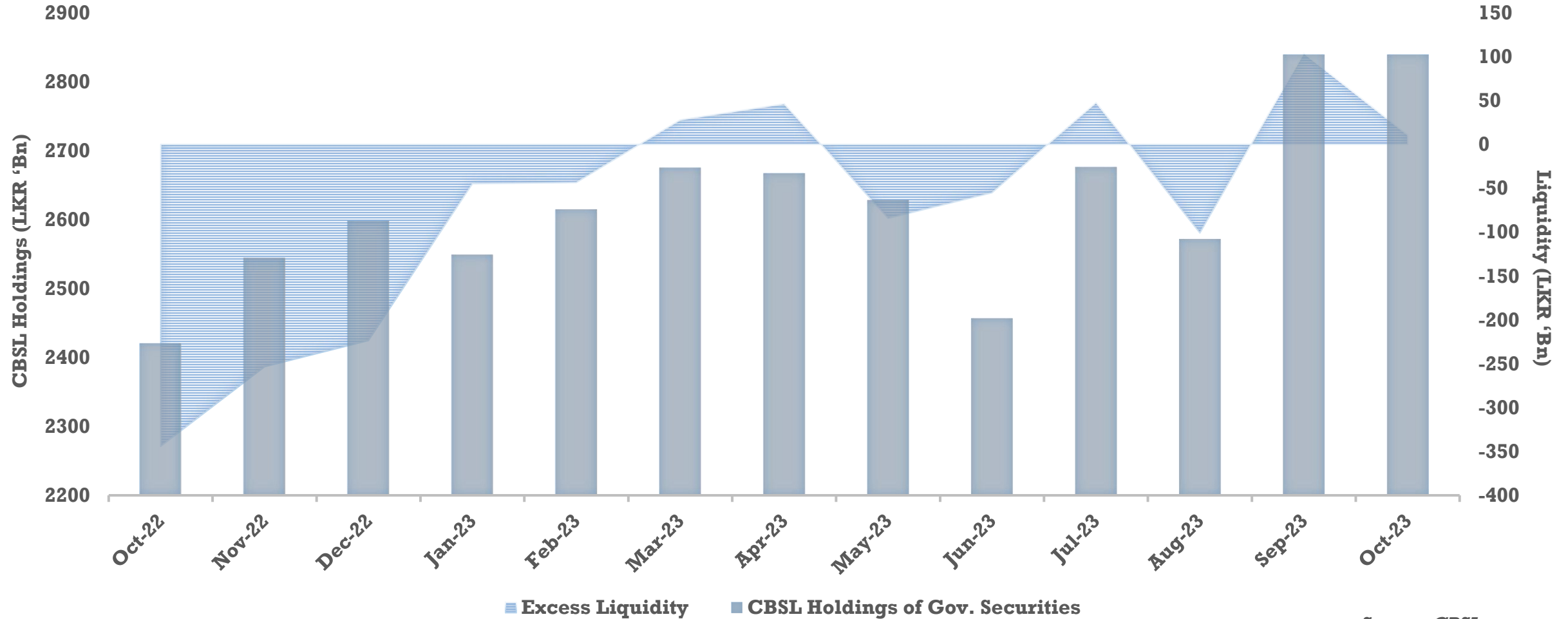
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
06-Oct-23	200,000	236,704	436,704
13-Oct-23	90,805		90,805
20-Oct-23	81,250	27,500	108,750
27-Oct-23	147,867		147,867
<b>Total Issued</b>			<b>784,126</b>

Net Settlement	Oct 2023	YTD
Maturities	584,043	11,881,320
New Issues	784,126	6,930,381
<b>Excess/ (Deficit)</b>	<b>200,083</b>	<b>(4,950,939)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Oct 2023	2,839,000	
As at End Sep 2023	2,839,000	
<b>Increase/ (Decrease)</b>	<b>0</b>	<b>163,280</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

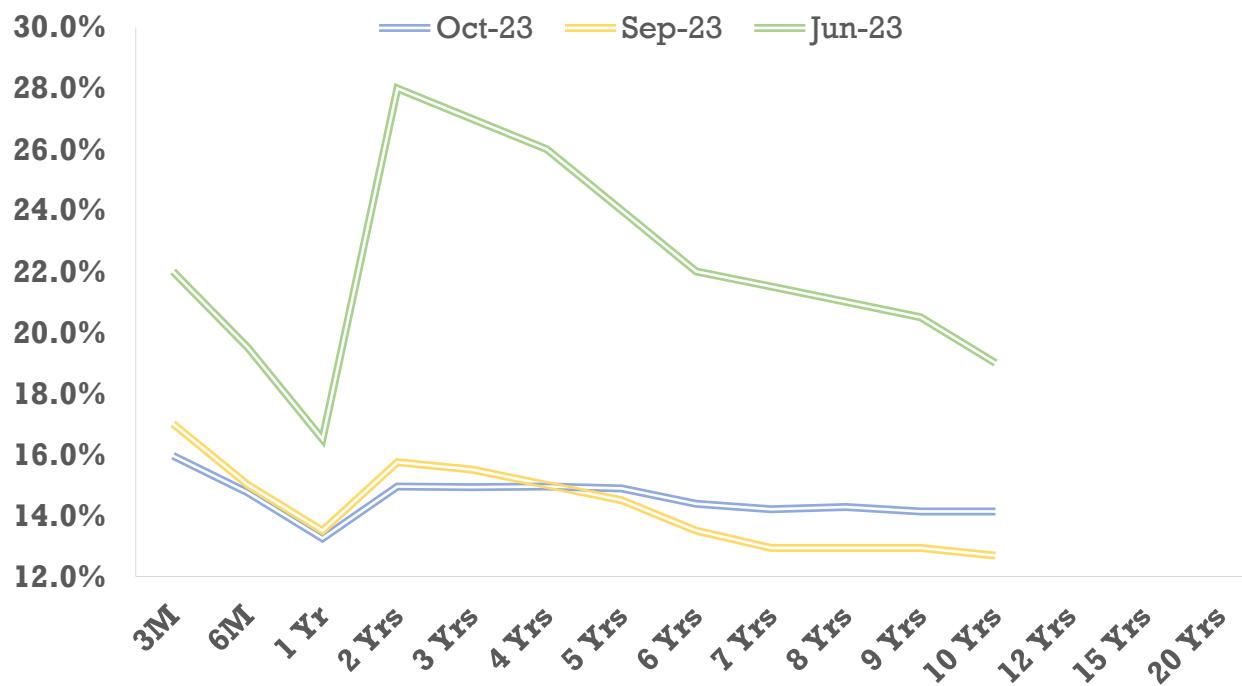
...remained stagnant in Oct 2023



Source: CBSL

# TREASURY BILLS AND BONDS – OCT 2023

The secondary market opened the month on a bullish note, driven by optimism surrounding expectations for a policy rate cut. As weeks progressed, investor sentiment shifted to a more cautious stance, awaiting clarity on the future movement of interest rates leading up to the first T-Bill and T-Bond auctions post the monetary policy meeting. In the initial bond auction for October, CBSL fully accepted bond auction maturities 2026 and 2030. Subsequently, in the second bond auction, with an expected raise of LKR 45.0Bn, CBSL fully rejected bids for the bond auction maturities 2028 and 2031. Following these developments, market activities exhibited mixed sentiment, with interest largely centered across short to mid tenors, particularly the 2025, 2026, and 2027 maturities. During the bill auction, there was a decrease in weighted average yields across the board, with 1Yr bill lowering below 13.05%.



Source: First Capital Research

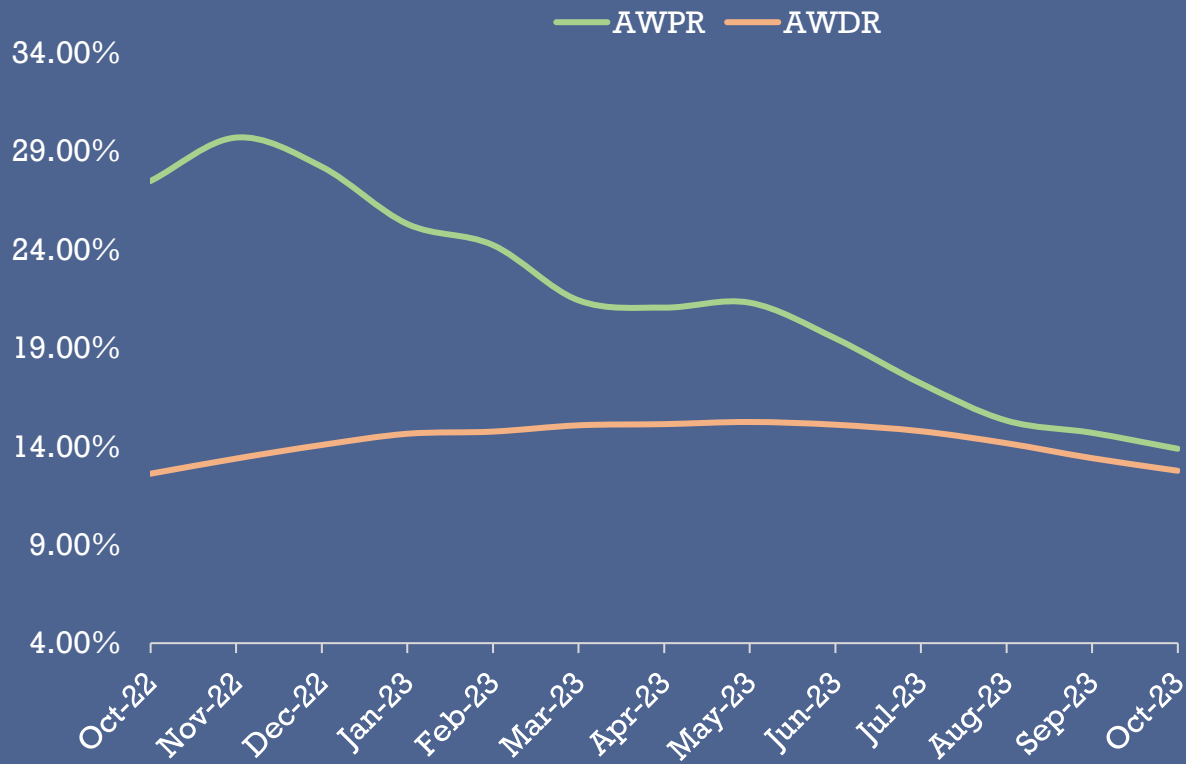
## Interest Rate Change (bps)

Tenure	Oct-23	Sep-23	Change (bps)	Jun-23	Change (bps)
3M	15.95%	17.00%	-105	22.00%	-605
6M	14.75%	15.00%	-25	19.50%	-475
1 Yr	13.25%	13.50%	-25	16.50%	-325
2 Yrs	14.95%	15.75%	-80	28.00%	-1305
3 Yrs	14.93%	15.50%	-57	27.00%	-1207
4 Yrs	14.95%	15.00%	-5	26.00%	-1105
5 Yrs	14.88%	14.50%	38	24.00%	-912
6 Yrs	14.38%	13.50%	88	22.00%	-762
7 Yrs	14.20%	12.93%	127	21.50%	-730
8 Yrs	14.28%	12.93%	135	21.00%	-672
9 Yrs	14.13%	12.93%	120	20.50%	-637
10 Yrs	14.13%	12.68%	145	19.00%	-487
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

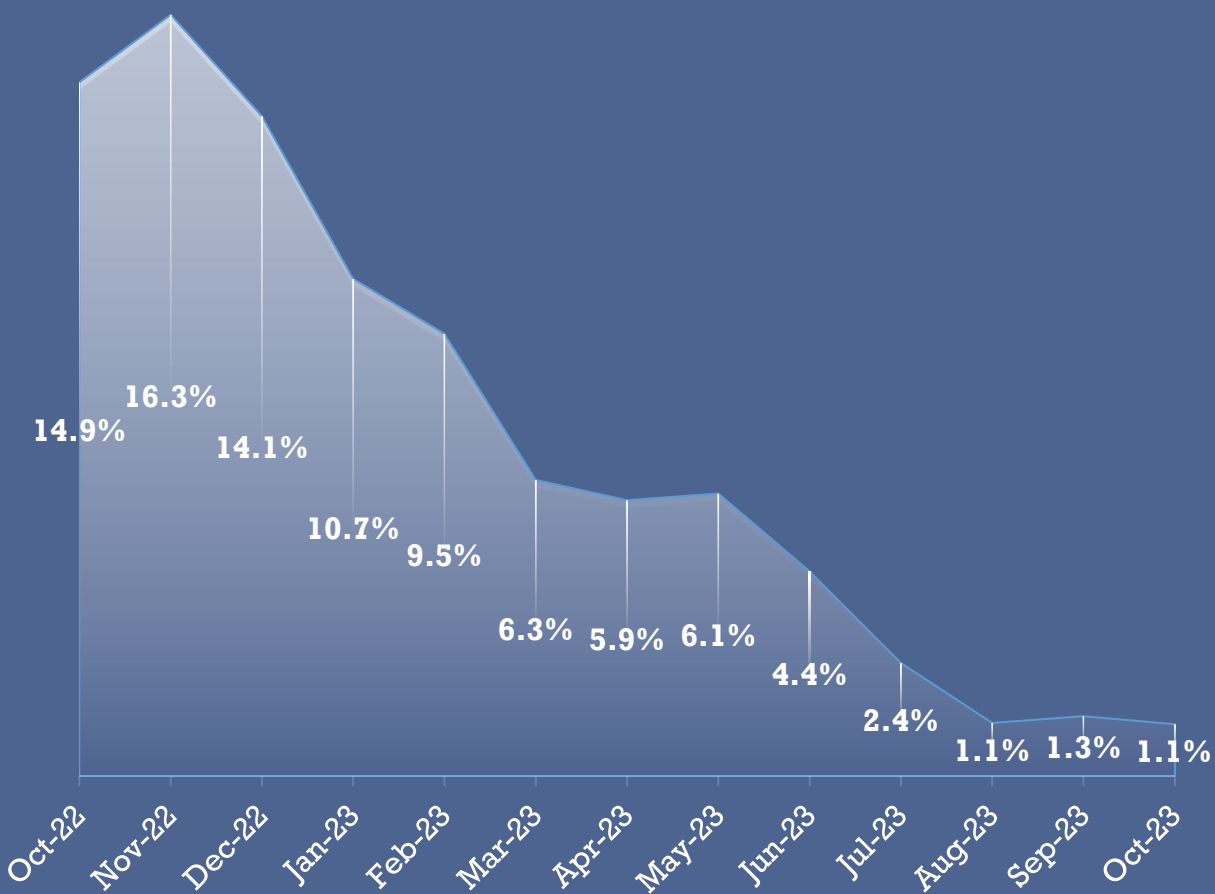
Nov 2023

# AWPR vs AWDR



Source: CBSL

# Interest Spread



Source: CBSL

# FINANCE SECTOR RATE MOVEMENTS

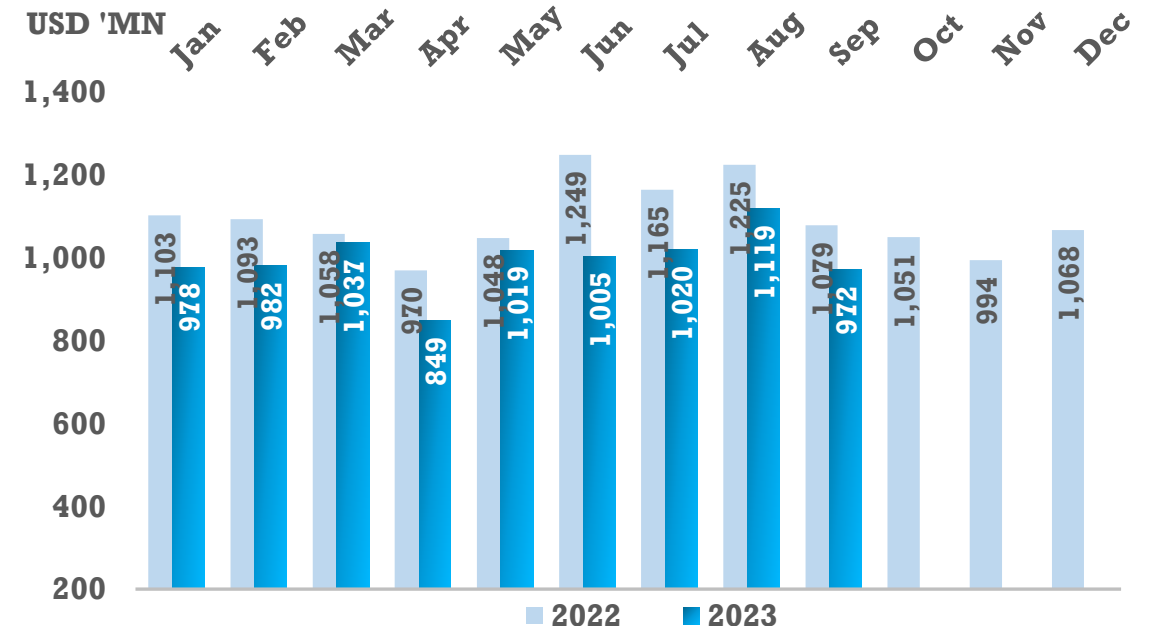


# EXTERNAL SECTOR – SEP 23 – EXPORTS

Earnings from exports declined by 10.0% in Sep 2023 to USD 971.7Mn 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 the volumes of bunker and aviation fuel exports. Moreover, agricultural exports improved primarily due to the increase in earnings from seafood, coconut related products, and tea. Earnings from tea exports increased led by higher export volumes whilst export prices declined YoY. Earnings from mineral exports also decreased mainly due to the decline in export earnings from titanium ores.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Sep	843.7	724.3	-14.2
- YTD	8,011.5	6,997.9	-12.7
Agricultural			
- Sep	231.2	242.5	4.9
- YTD	1,939.8	1,945.4	0.3
Mineral Exports			
- Sep	3.0	2.3	-24.5
- YTD	24.1	18.0	-25.6
<b>Total</b>			
- Sep	1,079.8	971.7	-10.0
- YTD	9,992.0	8,981.8	-10.1

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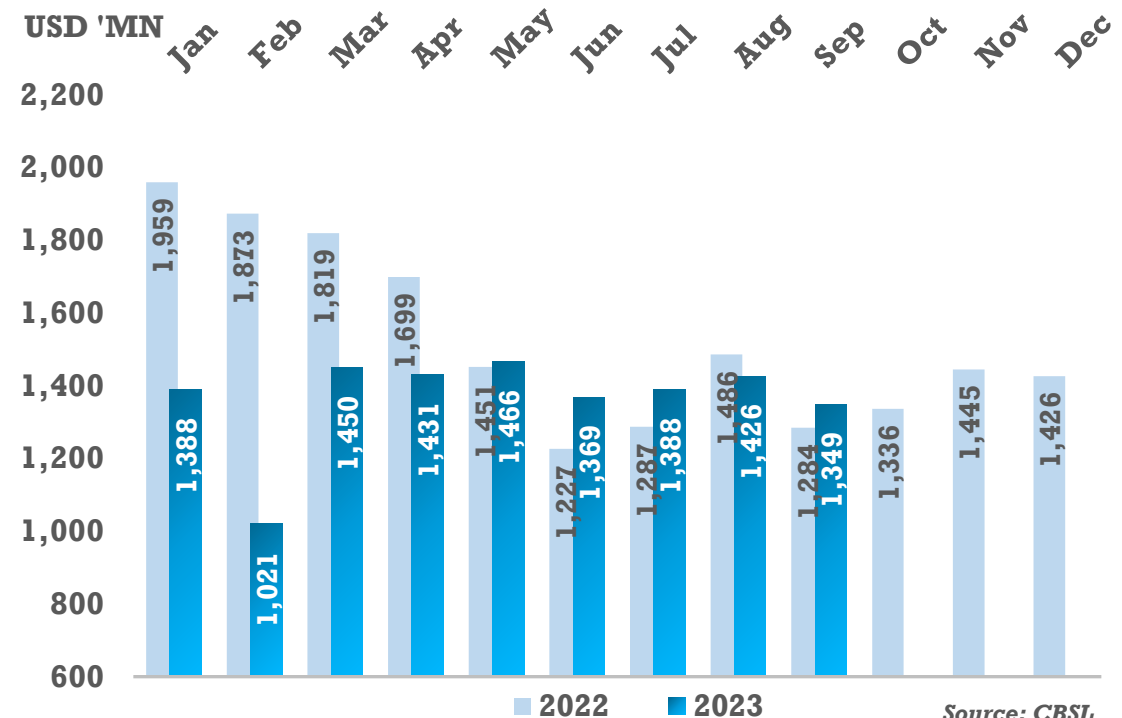
Source: CBSL

Nov 2023

# EXTERNAL SECTOR – SEP 23 – IMPORTS

Import expenditure increased by 5.1%YoY to USD 1,349.3Mn in Sep 2023 as the rise in import expenditure was broad-based and was primarily led by imports of consumer goods and investment goods. The increase in consumer goods expenditure was driven by the increases in expenditure on non-food items whilst food items recorded a decline. Expenditure for intermediate goods increased marginally, led by the higher import volumes of wheat, fuel, fertilizer (primarily urea), and base metals (primarily iron and steel). Import expenditure on investment goods increased with the increase in imports of machinery and equipment (primarily machinery and equipment parts and engineering equipment). Meanwhile, imports of building material and transport equipment recorded an increase during the month compared to the previous year.

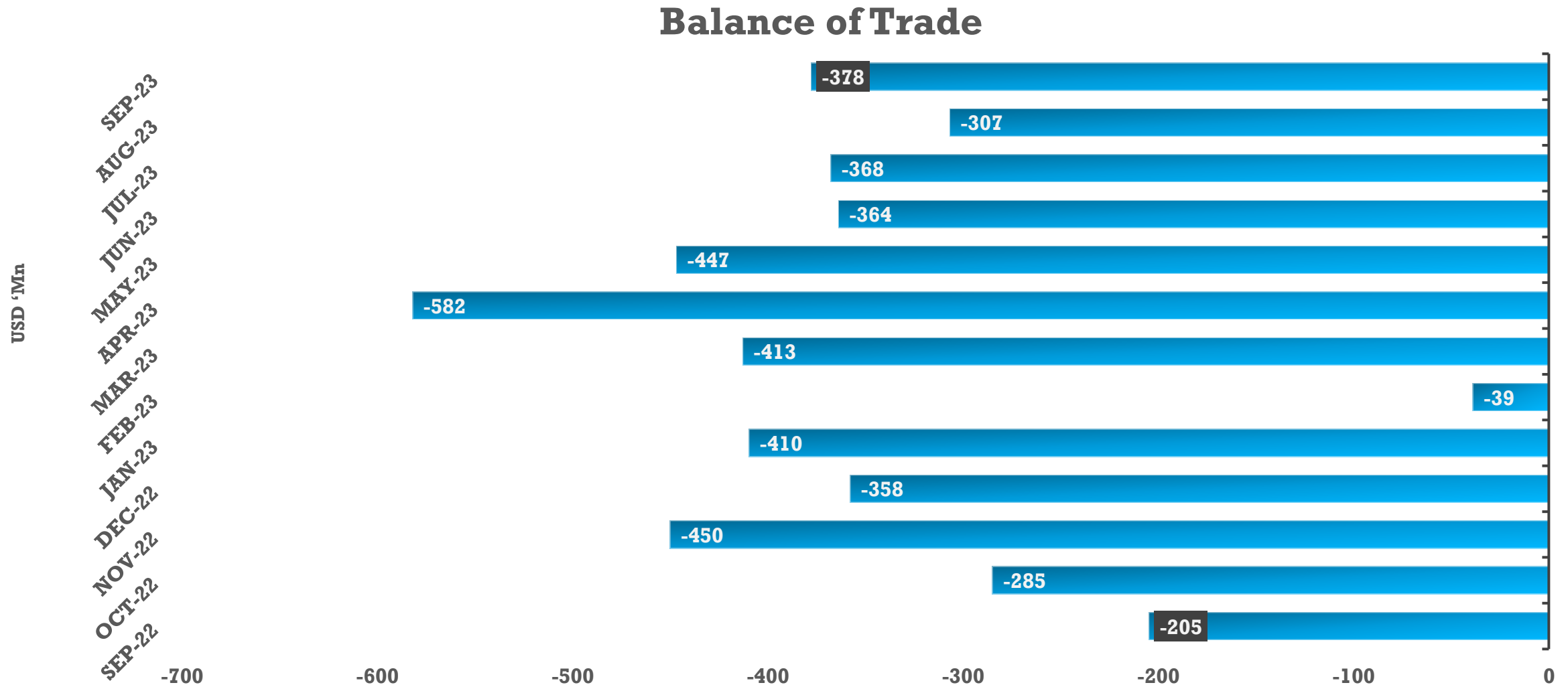
Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Sep	201.1	214.2	6.5
- YTD	2,146.7	2,242.5	4.5
Intermediate			
- Sep	913.4	919.8	0.7
- YTD	9,497.4	8,105.3	-14.7
Investment goods			
- Sep	169.5	215.0	26.8
- YTD	2,433.0	1,963.0	-19.3
<b>Total</b>			
- Sep	1,284.4	1,349.3	5.1
- YTD	14,085.2	12,323.4	-12.5



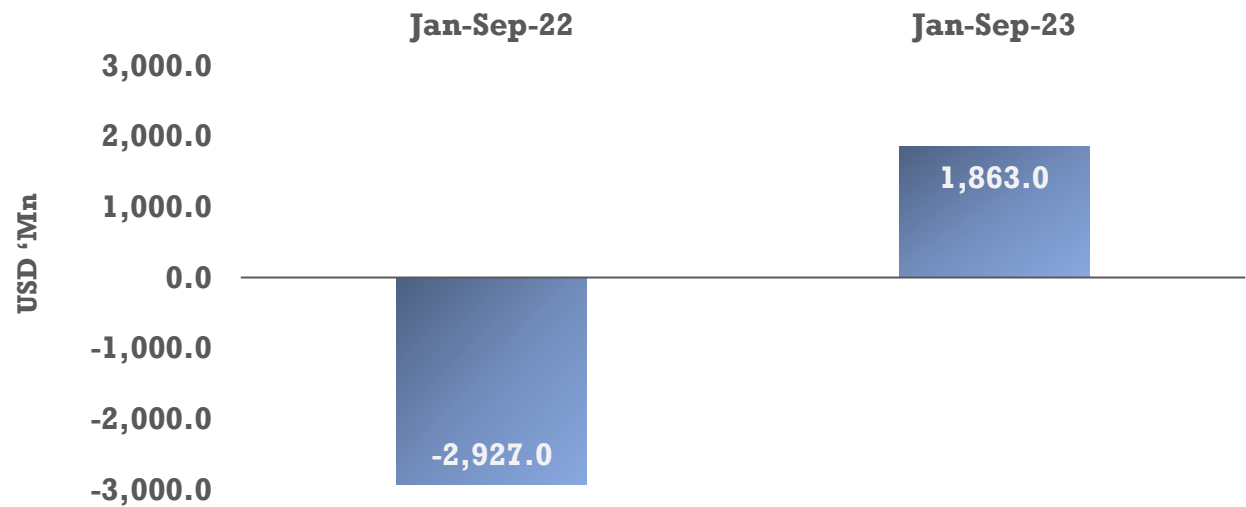
Source: CBSL

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# EXTERNAL SECTOR – SEP 23

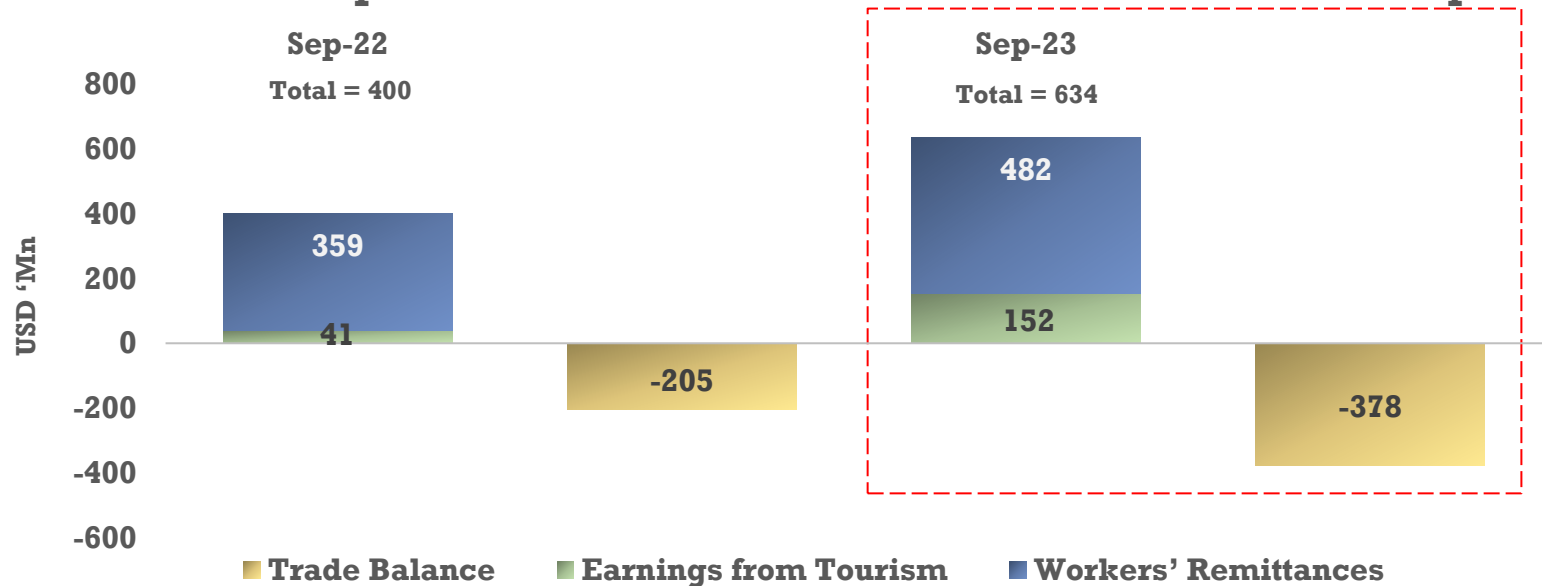


BoP for Jan-Sep-23 recorded at USD 1,863.0Mn compared to Jan-Aug-23 amount of USD 2,034.0Mn resulting in a net outflow of USD 171.0Mn, for the month of Sep-23.



Source: CBSL

Workers' Remittances increased to USD 482.0Mn in Sep-23 (+34.3%YoY). Earnings from Tourism for Sep-23 increased to USD 152.0Mn from USD 41.0Mn in Sep-22.



Source: CBSL

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

Sep USD 'Mn	2022	2023	Change (%)
Trade Balance	-205	-378	
Earnings from Tourism	41	152	+275.7
Workers' Remittances	359	482	+34.3

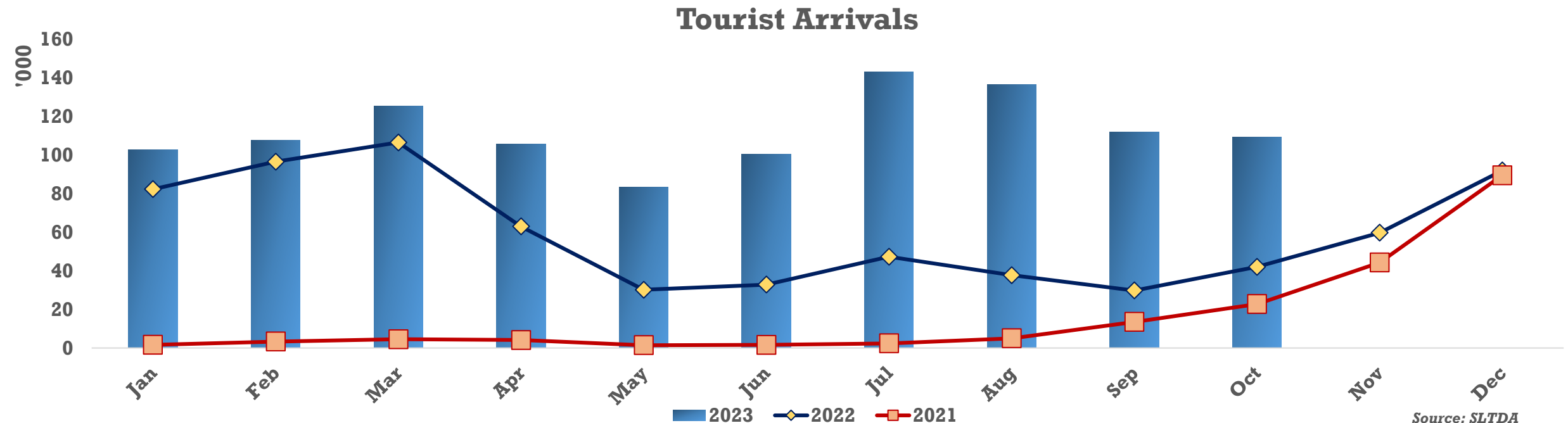
YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-4,093	-3,342	
Earnings from Tourism	873	1,457	+66.8
Workers' Remittances	2,574	4,345	+68.8

Source: CBSL

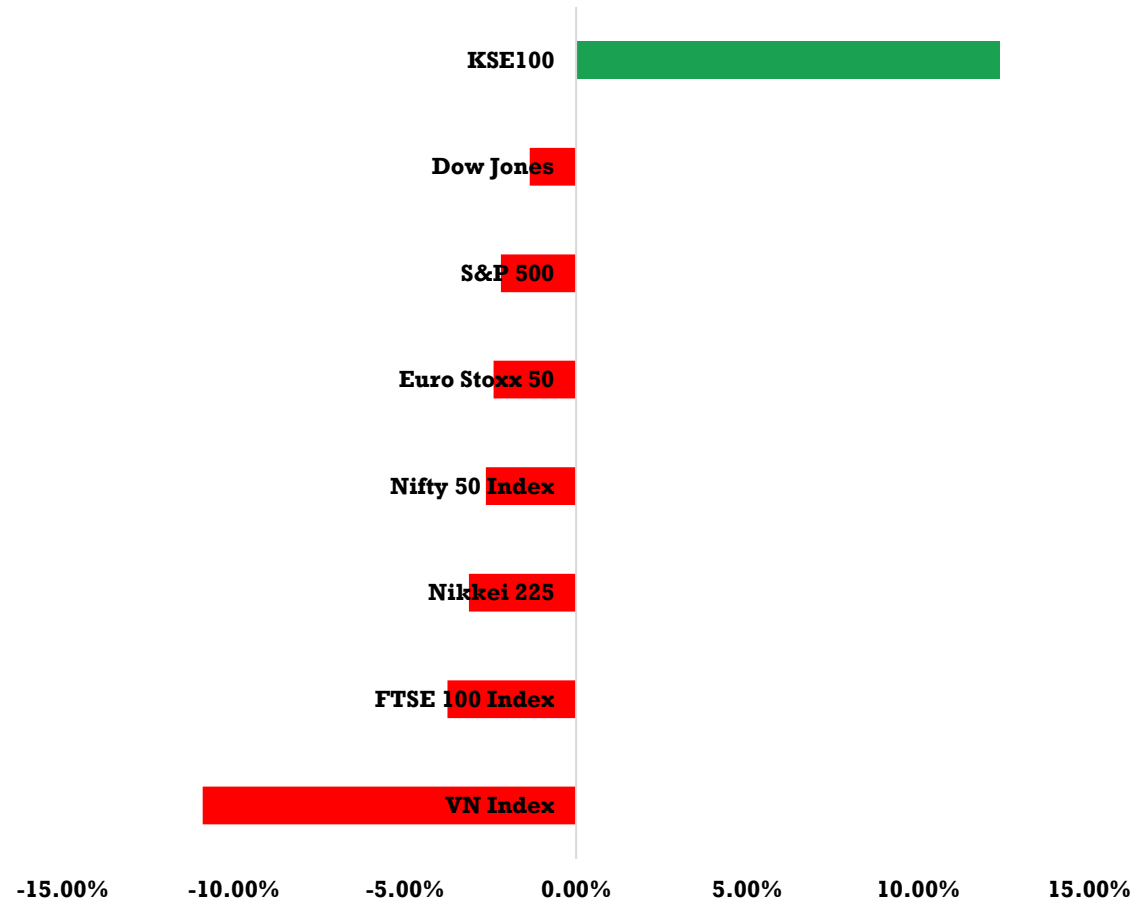
# TOURIST ARRIVALS – OCT 2023

[ Oct 109,199 – **UP +159.8%YoY** ] [ MoM– **DOWN -2.4%** ]

The total arrivals for the month was recorded at 109,199 displaying an increase of 159.8%YoY compared to Oct 2022, owing to factors such as the ongoing recovery of the tourism sector and improved socio-economic conditions. However, during the month of October, a reduction in arrivals was observed, reflecting a 2.4% decrease compared to Sep 2023. This decline is likely associated with the gradual decrease in arrivals from key source markets, including India, China, Australia, and Israel.



# GLOBAL MARKET – OCT 2023



## World faces a mild trade recession from China to Germany

Oxford Economics reported that there was a decline in global goods trade volumes at about 2% annual rate in the last quarter. The leading indicators indicate the likelihood of more weakness in the future, followed by a slight improvement at the end of 2023 and in early 2024. Oxford anticipates a "shallow trade recession", projecting a 1.5% drop in volumes this year, with a subsequent rebound of 2.3% in the following year.

Bloomberg



## China's domestic tourism has returned to pre-pandemic levels

China's big "Golden Week" holiday witnessed a resurgence in domestic tourism, reaching pre-pandemic levels. However, overseas travel has yet to fully recover, as indicated by official figures. The domestic tourism revenue during Golden Week was CNY 753.43Bn (USD 103.24Bn), reflecting a 1.5% increase from 2019, according to China's Ministry of Culture and Tourism. The ministry reported a 4.1% rise in the number of domestic tourist trips from 2019, reaching 826.0Mn during the latest eight-day holiday.

## China taps into its reserves of crude oil as it increases refining activities

Chinese refineries tapped into their crude stockpiles for the second time in three months in September 2023, while handling unprecedented oil volumes, despite a decline in imports. About 240,000 barrels per day (bpd) were drawn from inventories, marking a significant reversal from August when approximately 1.32Mn bpd were added to storage tanks. This action follows a similar move in July 2023, when refinery processing surpassed the available crude volume by 510,000 bpd, prompting refiners to utilize stockpiles.



REUTERS  
WORLD



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