



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Dec 2023

# CONTENT BRIEFING

• The Central Bank of Sri Lanka further reduces policy interest rates by 100bps.....	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

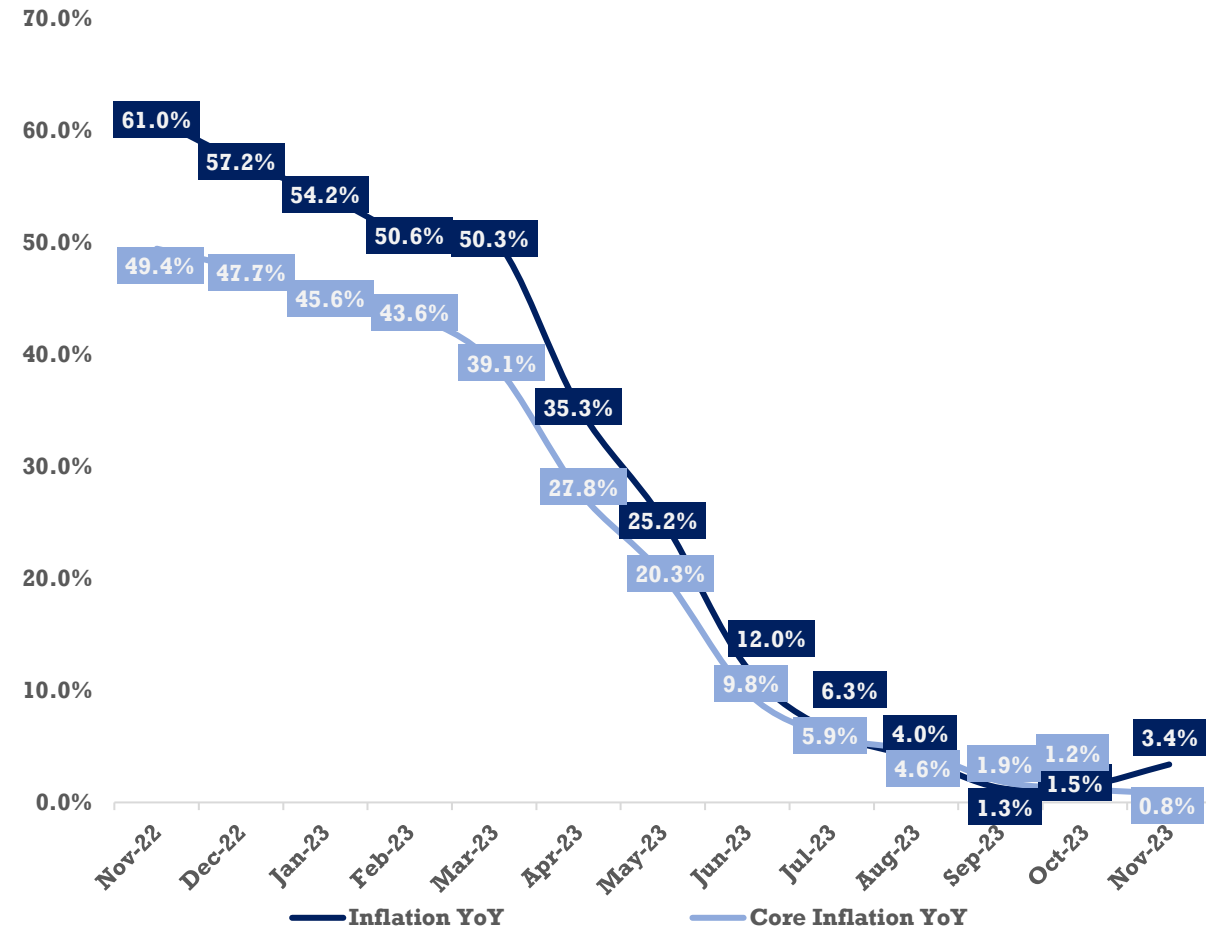
# THE CENTRAL BANK OF SRI LANKA FURTHER REDUCES POLICY INTEREST RATES BY 100BPS

- The Monetary Policy Board of the Central Bank of Sri Lanka, at its meeting held on 23rd Nov-23, decided to reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100bps to 9.00% and 10.00%, respectively.
- The Board reached this conclusion after thoroughly examining the present and anticipated trends in both the domestic and global economy. The objective is to attain and sustain inflation at the targeted rate of 5.0% in the medium term, all while facilitating the economy to reach and stabilize at its potential level.
- The Board recognized short-term inflation risks from supply-side factors but deemed them unlikely to substantially affect the medium-term outlook. This assessment is based on stable public inflation expectations and the expectation of subpar economic activity in the near to medium term.
- Moreover, the Board believes that the recent reduction in policy interest rates, combined with monetary policy measures implemented since Jun-23, has sufficiently eased monetary conditions to stabilize inflation in the medium term. Therefore, the Monetary Policy Board emphasized the importance of promptly and fully transmitting these easing measures to market interest rates, especially lending rates, through financial institutions.

# INFLATION – CCPI

**CCPI FOR OCT 2023:**  
**MOM +1.0%**  
**YOY +3.4%**

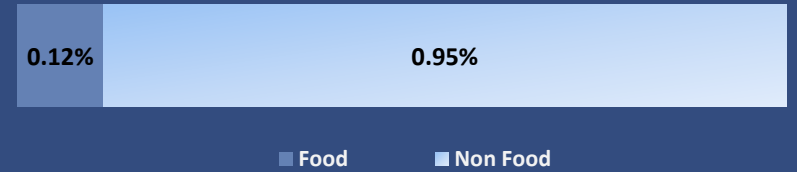
- MoM inflation marginally up by 1.0% MoM with the increase in inflation of Food and Non-Food group by 0.3% and 1.3%, respectively.
- The YoY inflation increased to 3.4% in Nov 2023. YoY inflation of Food group declined to -3.6% in Nov 2023, while Non-Food group increased to 6.8% in Nov 2023 from 4.9% in Oct 2023.



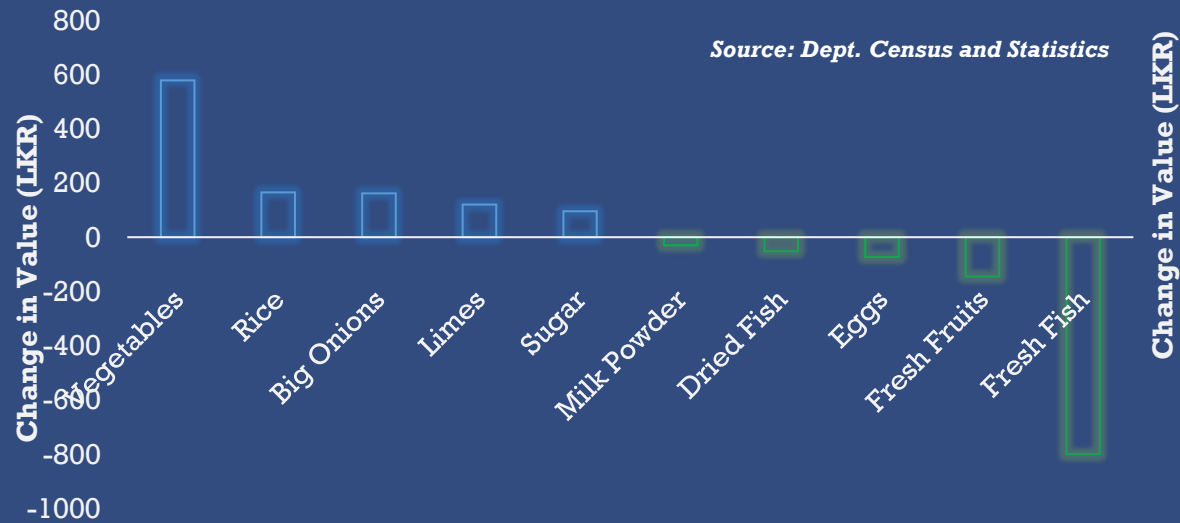
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

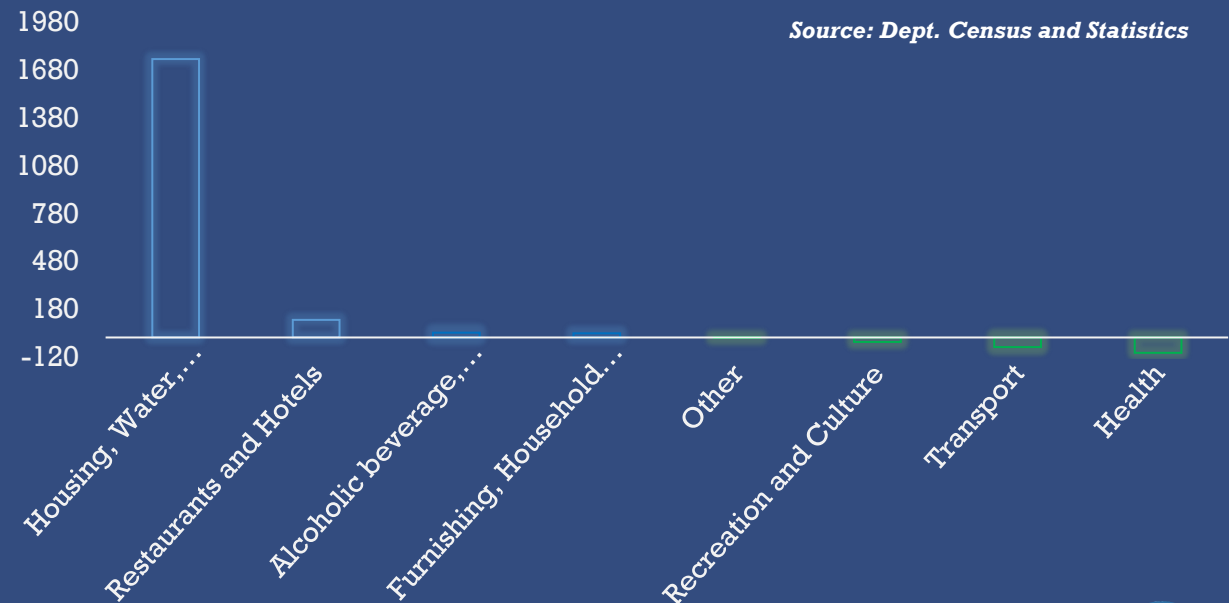
The CCPI index increased by 1.0%MoM contributed by the increase in expenditure of Food items by 0.12% and an increase in expenditure of Non-Food items by 0.95%. Within the Food items, increase in value changes were mainly reported for Vegetables, Rice, Big Onions, Lime and Sugar. Among Non-Food groups, increase in value changes were mainly reported in Housing, Water, Electricity, Gas & Other Fuels, Restaurants and Hotels, Alcoholic beverages, Tobacco and Narcotics.



## Food Category Inflation



## Non-Food Category Inflation



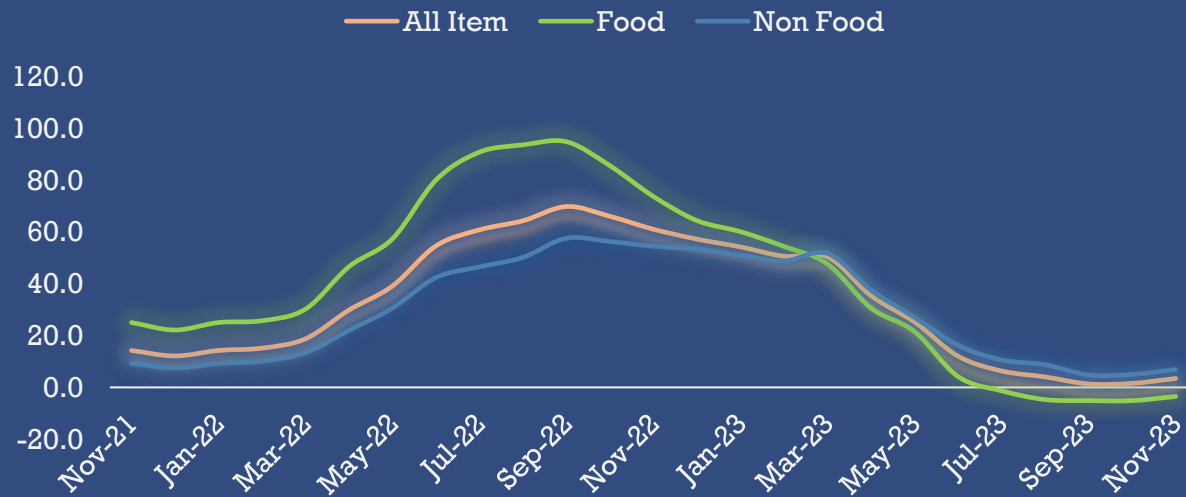


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Nov 2023 was 3.4% and has increased relative to the month of Oct 2023. Food item prices declined to -3.6%YoY in Nov 2023 while the Non-Food item prices increased to 6.8%YoY in Nov 2023 from 4.9%YoY in Oct 2023. The contribution from food category for YoY inflation was -1.2% while the contribution of Non-Food items stood at 4.56% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Transport, Education, Clothing and Footwear.

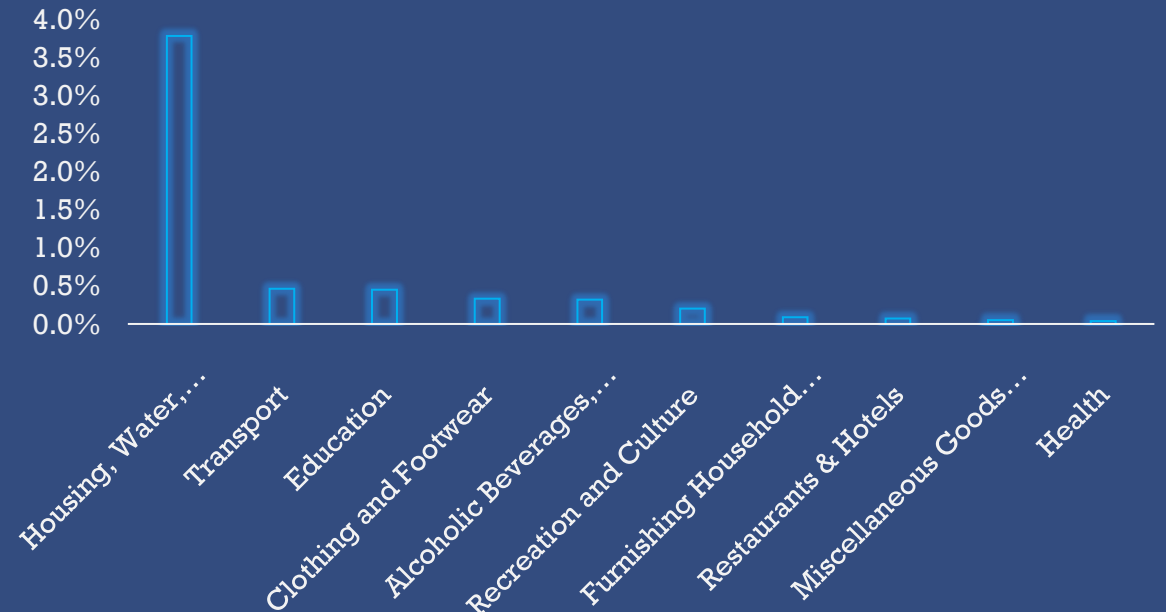


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation

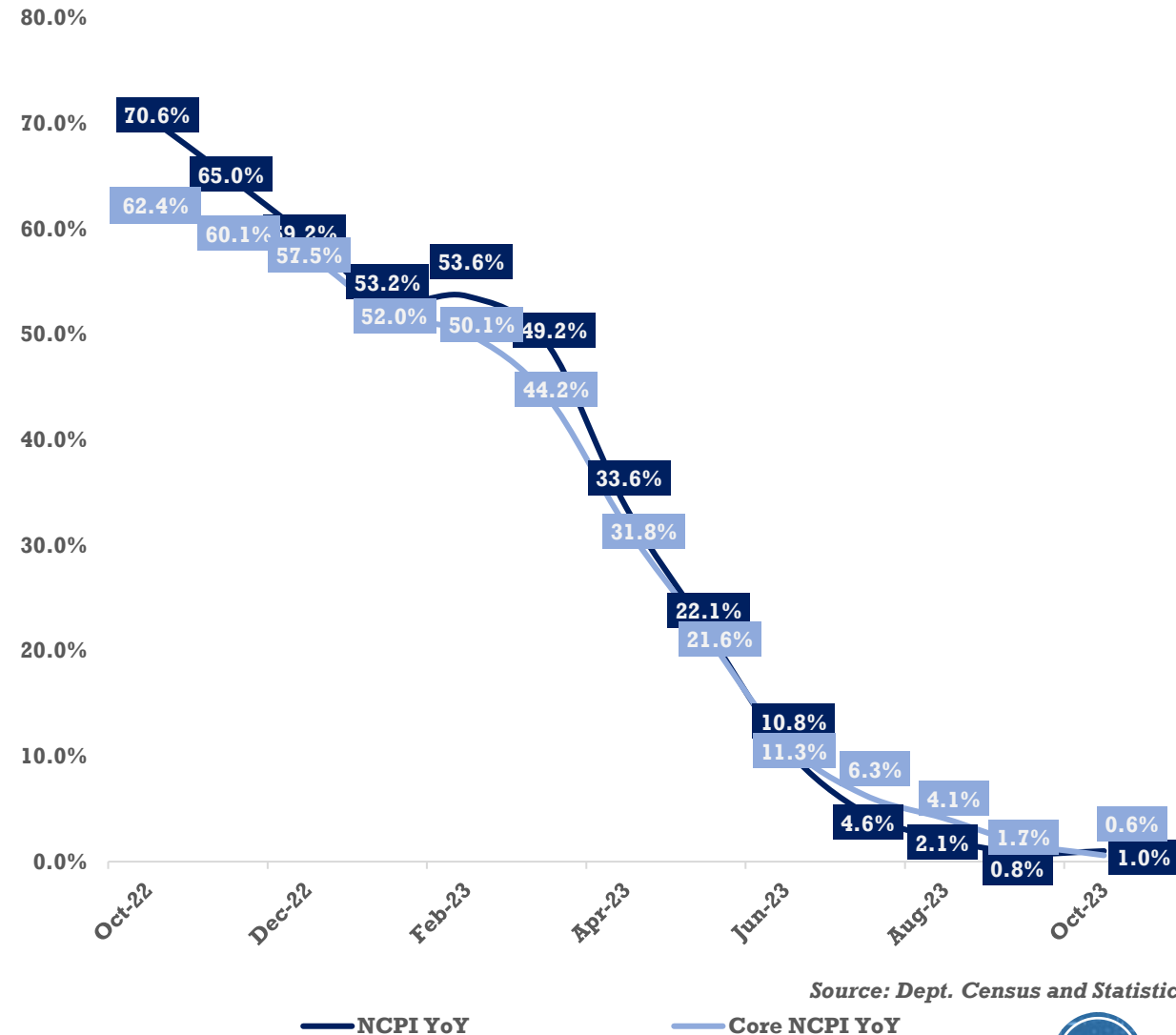


Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR OCT 2023: INCREASED TO 1.0%YOY

- NCPI for Oct 2023 slightly increased to 1.0% compared to 0.8% in Sep 2023.
- Increase in inflation was mainly driven by the price in Non-Food commodities. Accordingly, YoY Non-Food inflation increased to 6.3% in Oct 2023 from 5.9% in Sep 2023 while YoY Food inflation remained stagnant at -5.2% in Oct 2023.

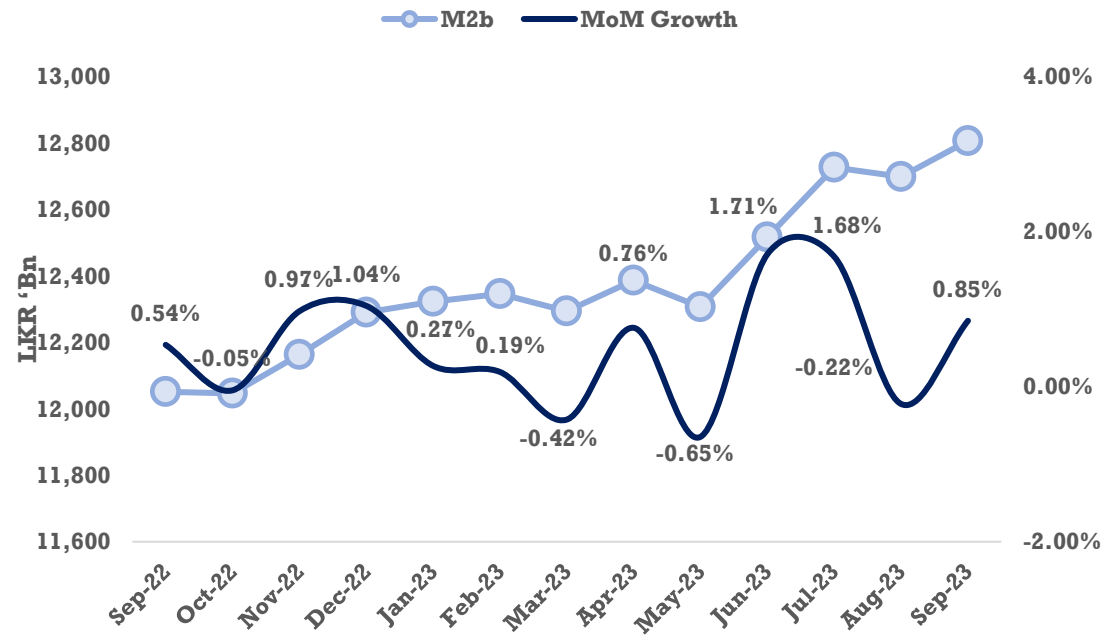


# M2B AND CREDIT GROWTH

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

## M2b Growth – Sep 2023

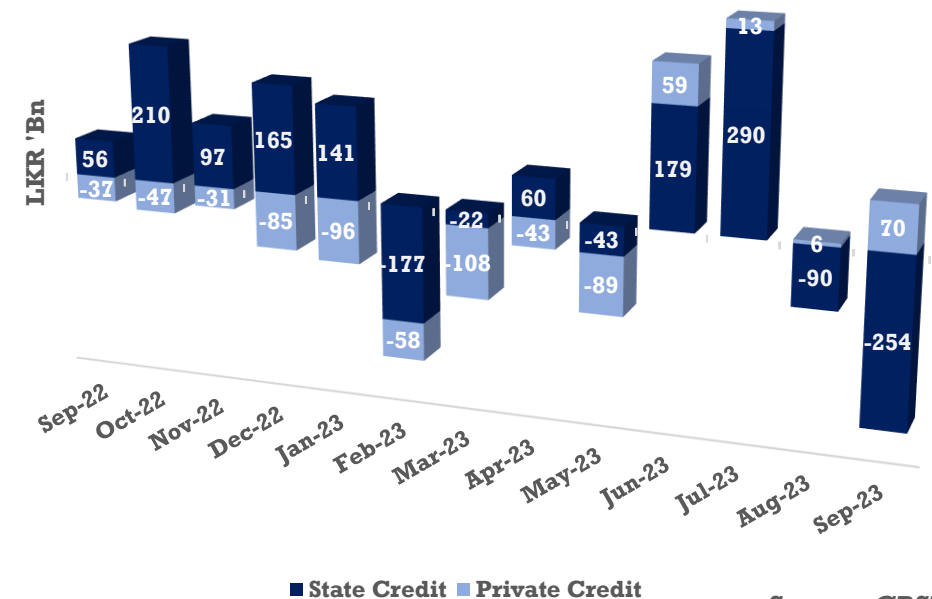
MoM +0.85%, YoY +6.26%, YTD +4.20%



Source: CBSL

## State Credit & Private Credit – Sep 2023

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



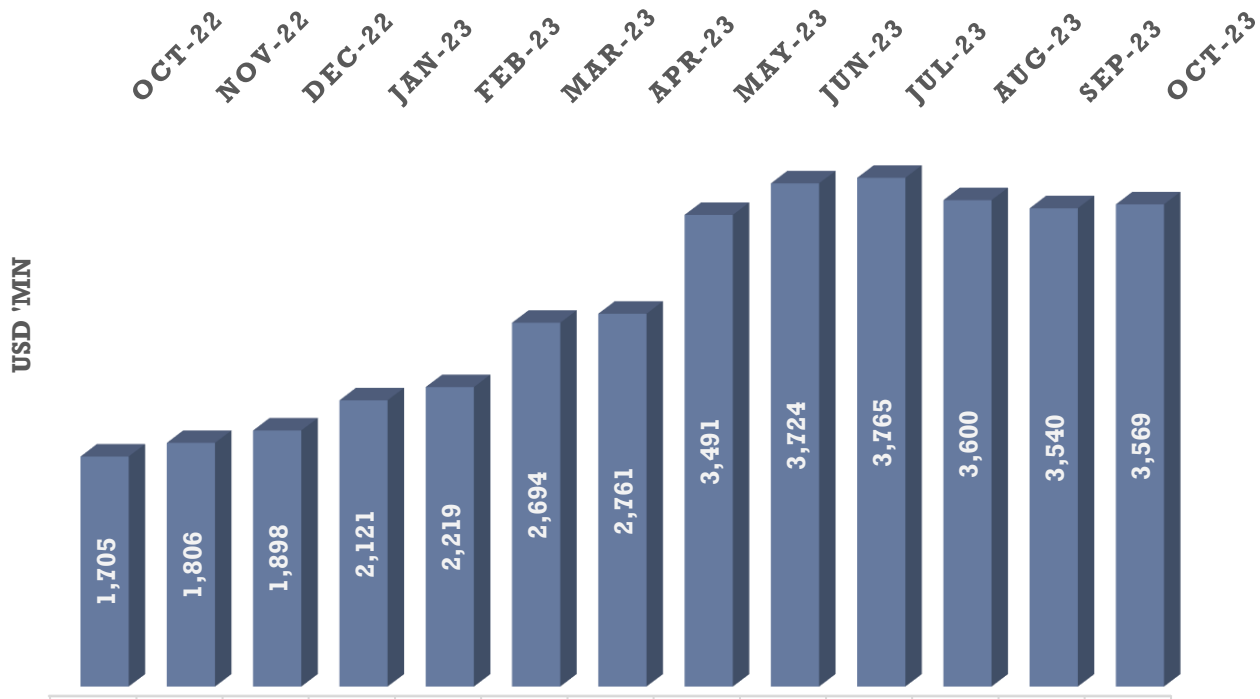
■ State Credit ■ Private Credit

Source: CBSL



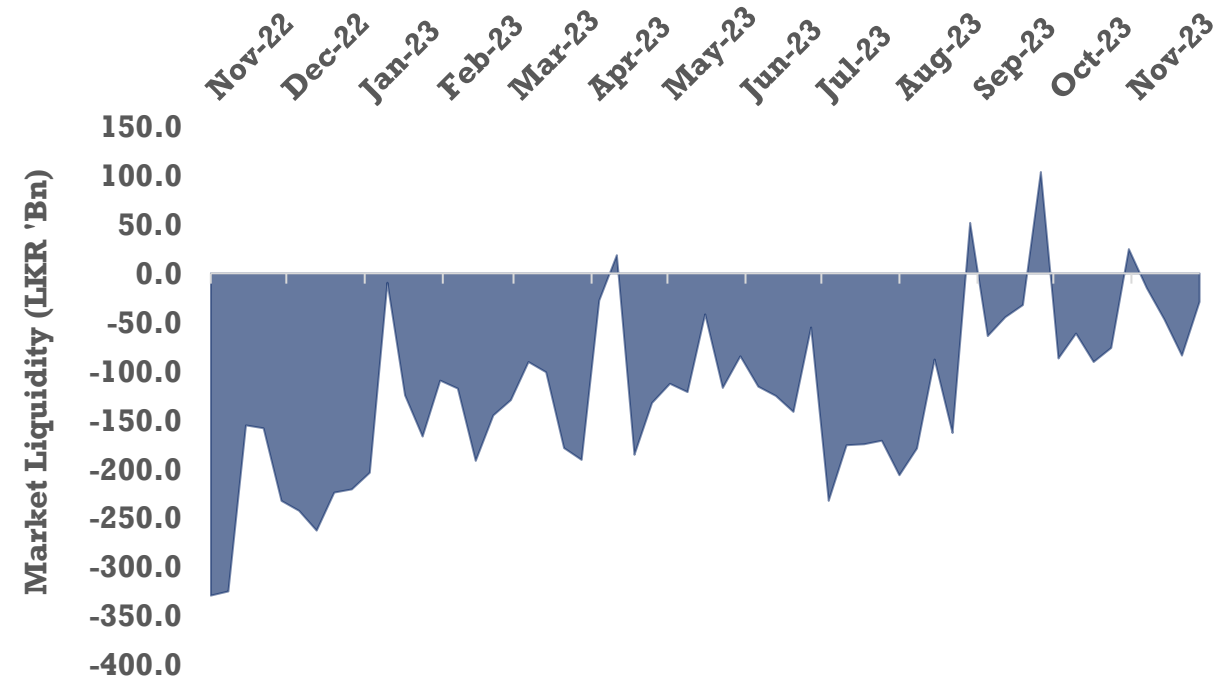
# LIQUIDITY & RESERVES

- Foreign Reserves increased by USD 29.0Mn to USD 3.6Bn in Oct 2023.



Source: CBSL

- Market Liquidity fluctuated and broadly remained in the negative territory during the month of Nov 2023.



Source: CBSL

# CURRENCY MOVEMENT

## USD:LKR Movement

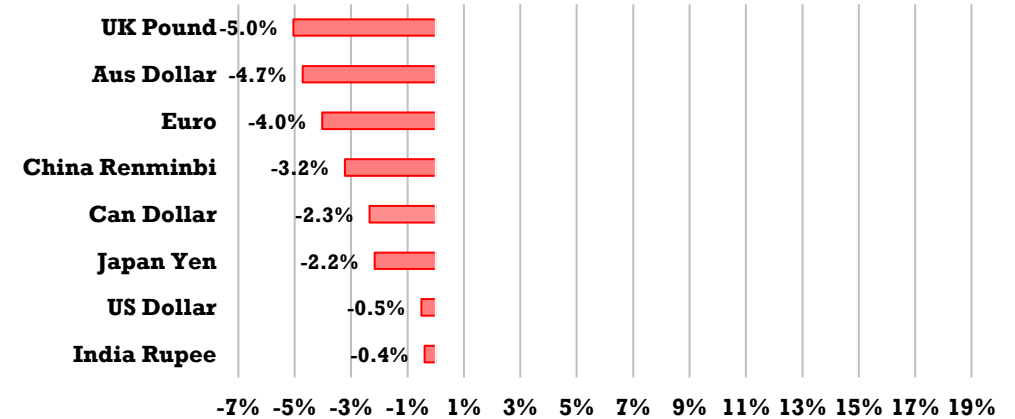


First Capital Research

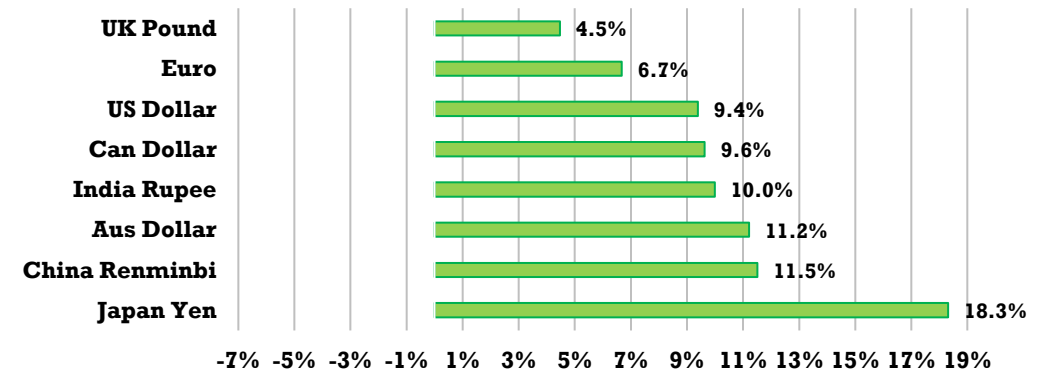
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Nov 2023



YTD 2023



Source: CBSL

Dec 2023

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Nov 2023

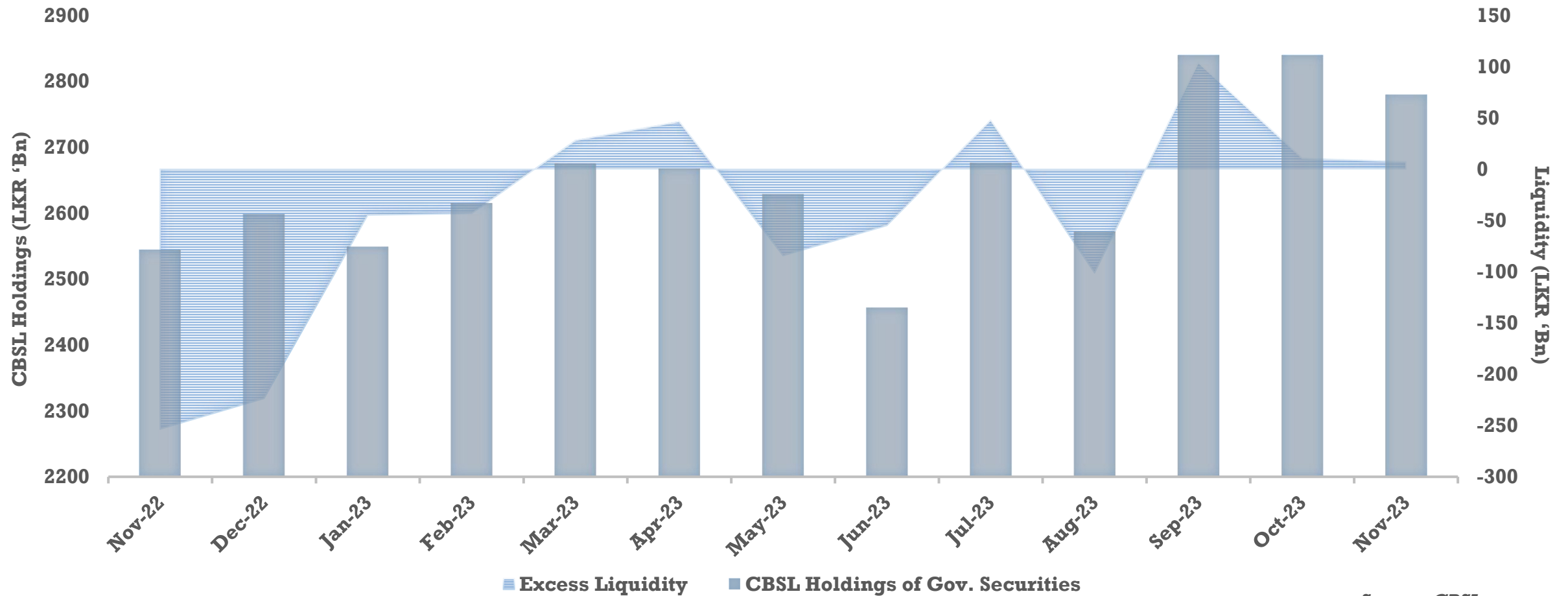
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
3-Nov-23	181,250		181,250
10-Nov-23	190,171		190,171
17-Nov-23	205,078	73,224	278,302
24-Nov-23	154,214		154,214
<b>Total Issued</b>			<b>803,937</b>

Net Settlement	Nov 2023	YTD
Maturities	770,810	12,652,130
New Issues	803,937	7,734,318
<b>Excess/ (Deficit)</b>	<b>33,217</b>	<b>(4,917,812)</b>

CBSL Holdings of Gov. Securities		YTD
As at End Nov 2023	2,779,000	
As at End Oct 2023	2,839,000	
<b>Increase/ (Decrease)</b>	<b>-60,000</b>	<b>103,280</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

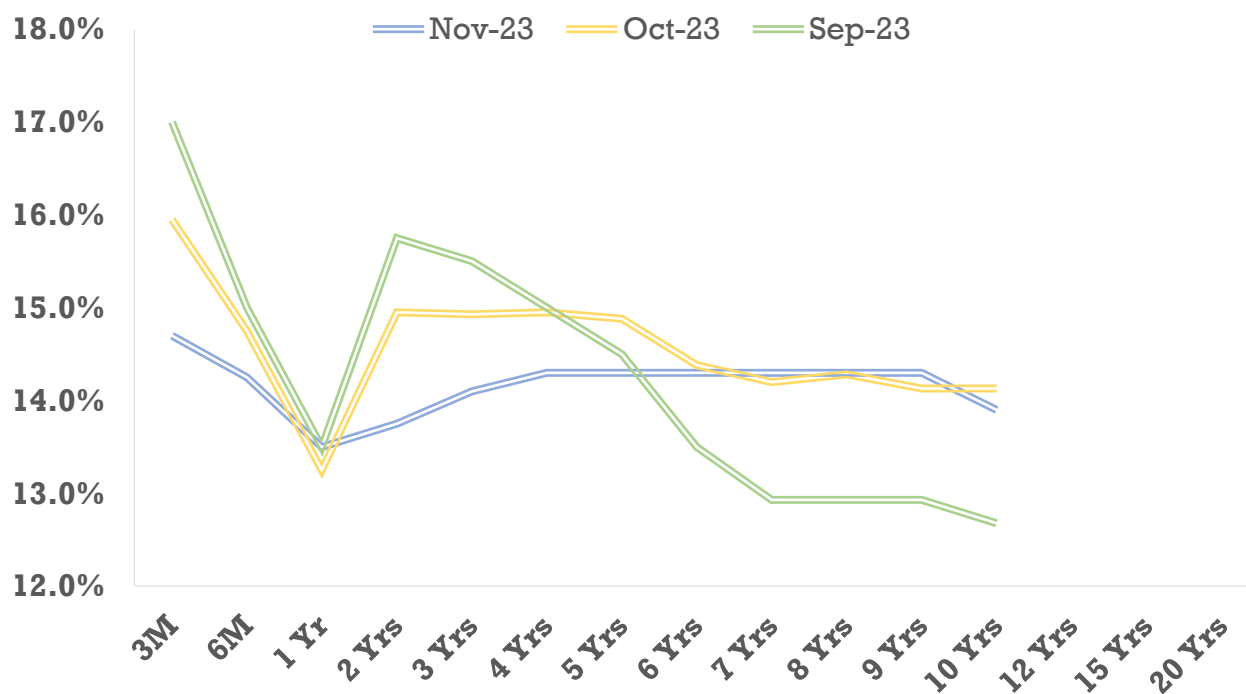
...declined by **LKR 60.0Bn** in Nov 2023



Source: CBSL

# TREASURY BILLS AND BONDS – NOV 2023

Secondary market took a mixed sentiment mostly during the month as investors adopted a slightly cautious approach in the light of impending IMF board level approval for the second tranche and ongoing external debt restructuring negotiations. Short to mid tenors including 2025, 2026 and 2027 maturities enticed trades largely over the month. However, towards the latter part of the month, buying appetite emerged strongly ahead of the monetary policy review which was scheduled for 23<sup>rd</sup> Nov-2023 in anticipation of a rate cut. Meanwhile, WAYR at the weekly T-Bill auctions continued to see a modest downward trend throughout the month.

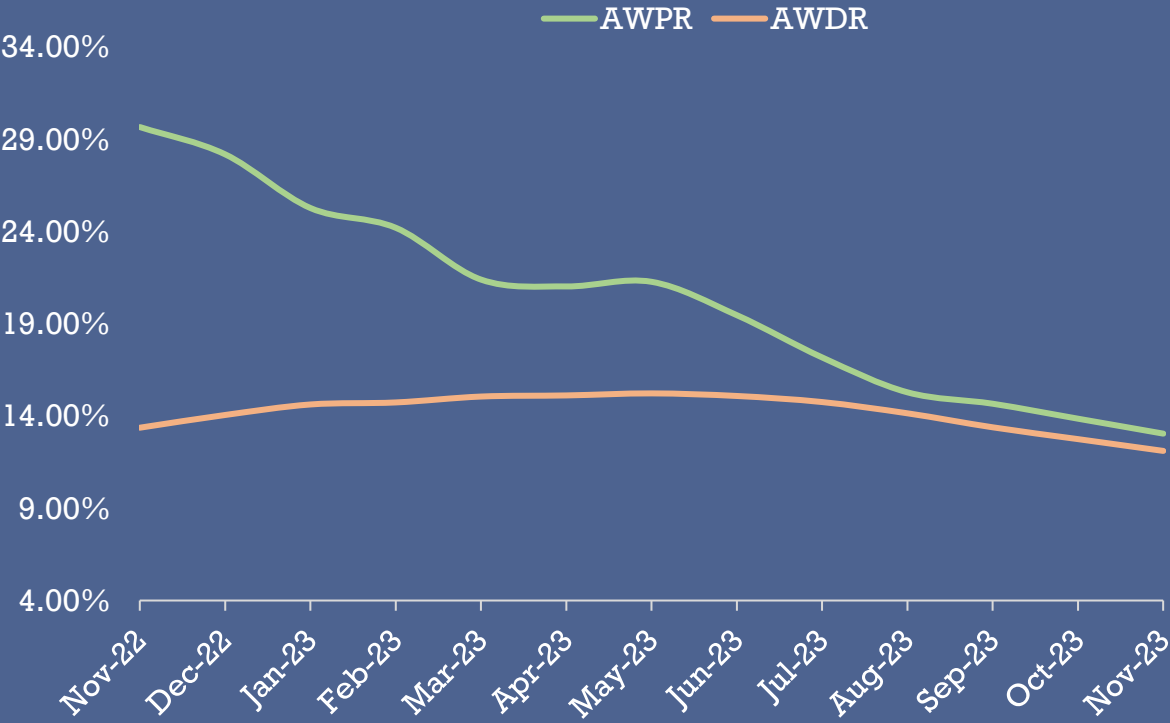


Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Nov-23	Oct-23	Change (bps)	Sep-23	Change (bps)
3M	14.70%	15.95%	-125	17.00%	-230
6M	14.25%	14.75%	-50	15.00%	-75
1 Yr	13.50%	13.25%	25	13.50%	0
2 Yrs	13.75%	14.95%	-120	15.75%	-200
3 Yrs	14.10%	14.93%	-83	15.50%	-140
4 Yrs	14.30%	14.95%	-65	15.00%	-70
5 Yrs	14.30%	14.88%	-58	14.50%	-20
6 Yrs	14.30%	14.38%	-8	13.50%	80
7 Yrs	14.30%	14.20%	10	12.93%	137
8 Yrs	14.30%	14.28%	2	12.93%	137
9 Yrs	14.30%	14.13%	17	12.93%	137
10 Yrs	13.90%	14.13%	-23	12.68%	122
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

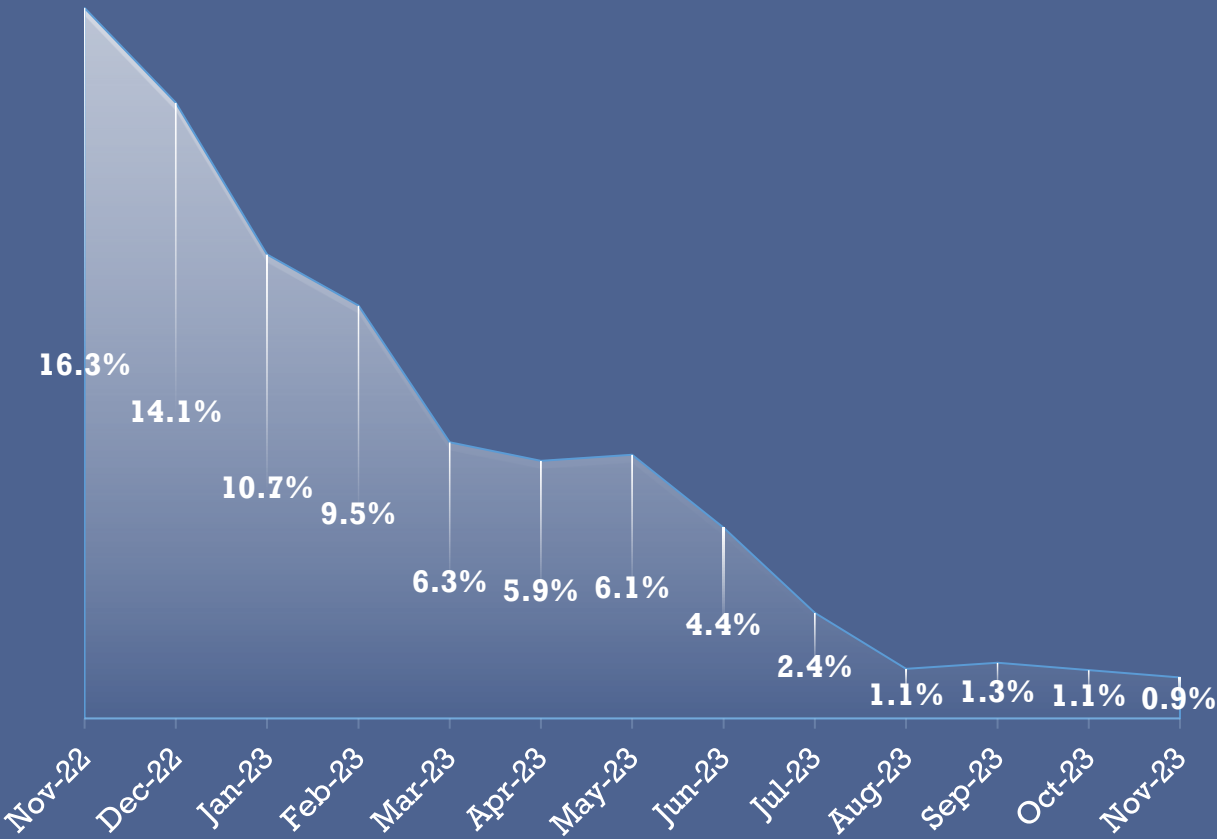
Source: First Capital Research

## AWPR vs AWDR



Source: CBSL

## Interest Spread



Source: CBSL

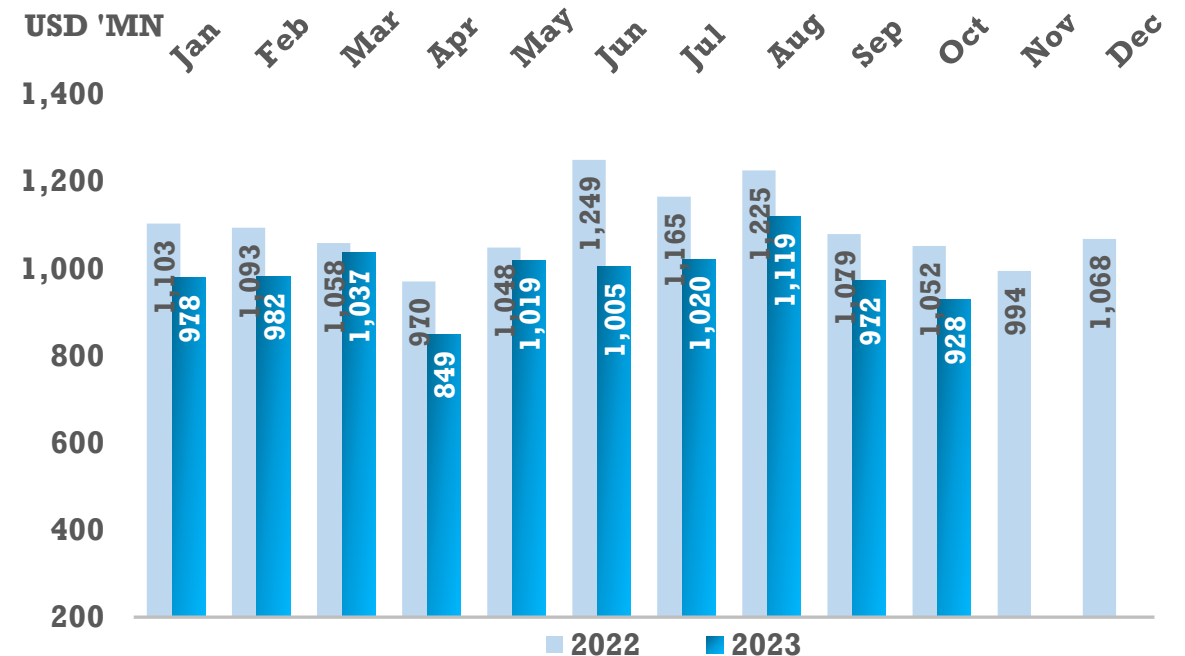
# FINANCE SECTOR RATE MOVEMENTS



# EXTERNAL SECTOR – OCT 23 – EXPORTS

Earnings from exports declined by 11.8% in Oct 2023 to USD 928.0Mn due to declines observed across all main categories. 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). Further, a sizeable decline was recorded in the exports of transport equipment (due to the base effect of exporting a cruise ship in Oct 2022), machinery and mechanical appliances 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 declined primarily as earnings from exports of tea, coconut related products (primarily, fibres) and spices decreased. Earnings from mineral exports declined in Oct 2023, compared to Oct 2022, mainly due to the decline in export earnings from titanium ores.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Oct	820.9	723.4	-11.9
- YTD	8,832.4	7,721.3	-12.6
Agricultural			
- Oct	225.6	199.7	-11.5
- YTD	2,165.3	2,145.1	-0.9
Mineral Exports			
- Oct	3.2	2.4	-26.3
- YTD	27.3	20.3	-25.7
<b>Total</b>			
- Oct	1,051.6	928.0	-11.8
- YTD	11,043.5	9,909.8	-10.3

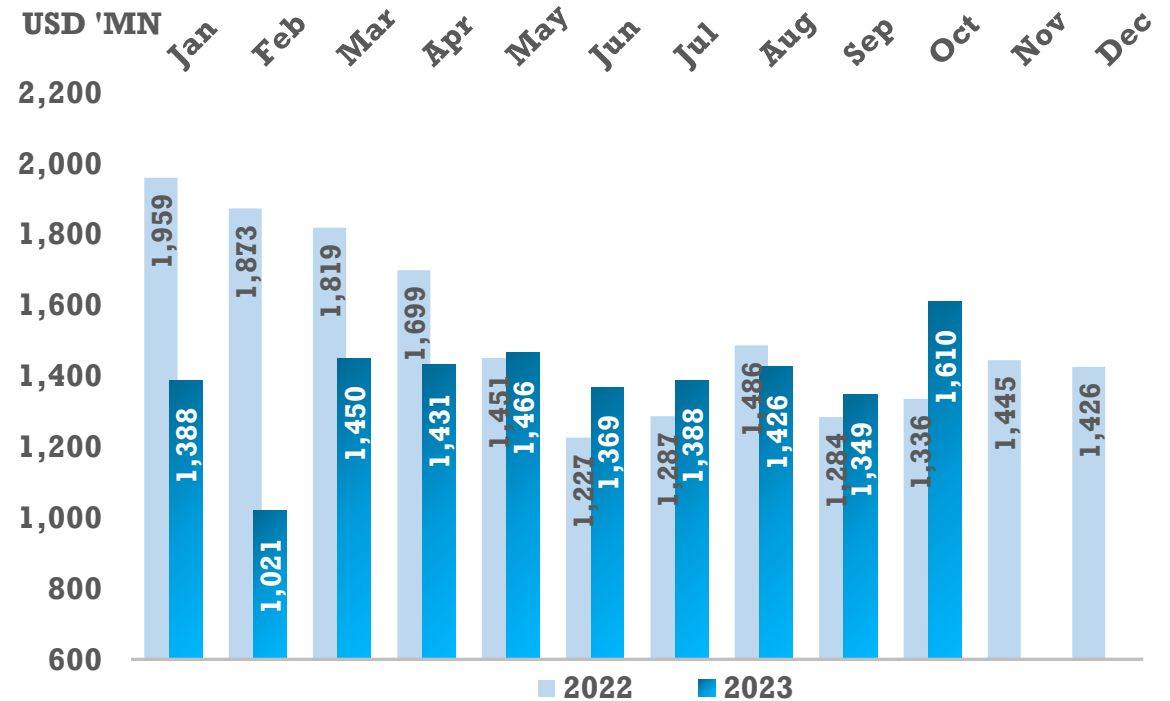


Source: CBSL  
Dec 2023

# EXTERNAL SECTOR – OCT 23 – IMPORTS

Import expenditure increased by 20.6%YoY to USD 1,610.5Mn in Oct 2023 mainly amid the rise in import expenditure of Intermediate goods and Investment goods. Import expenditure on Consumer Goods increased due to a broad-base increases in both food and non-food consumer goods. Expenditure for intermediate goods increased, led by the higher import volumes of fuel. Further, expenditure on base metals, diamonds and precious stones and metals, wheat and mineral products too increased during the month. However, the importation of textiles and textile articles (primarily, yarn) declined in Oct 2023. Meanwhile, expenditure on fertilizer (primarily, urea) and unmanufactured tobacco also declined during the period concerned. Import expenditure on investment increased in Oct 2023, led by the increase in imports of machinery and equipment (primarily, turbines and office machines). Meanwhile, the expenditure on importation of transport equipment increased due to high imports of agricultural tractors, and railway track construction material.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Oct	202.1	263.4	30.4
- YTD	2,348.8	2,506.0	6.7
Intermediate			
- Oct	945.2	1,085.2	14.8
- YTD	10,442.6	9,190.5	-12.0
Investment goods			
- Oct	188.2	259.2	37.7
- YTD	2,621.2	2,222.2	-15.2
<b>Total</b>			
- Oct	1,335.7	1,610.5	20.6
- YTD	15,420.9	13,933.8	-9.6

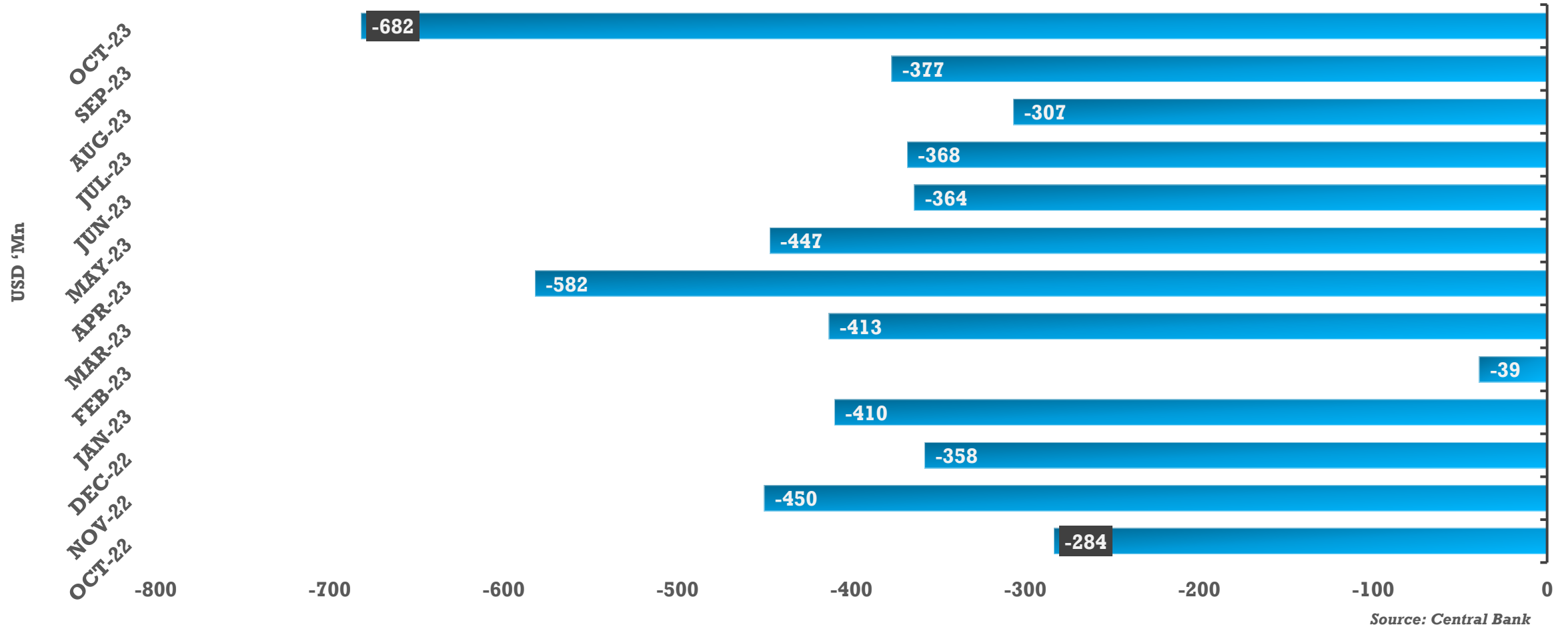


Source: CBSL

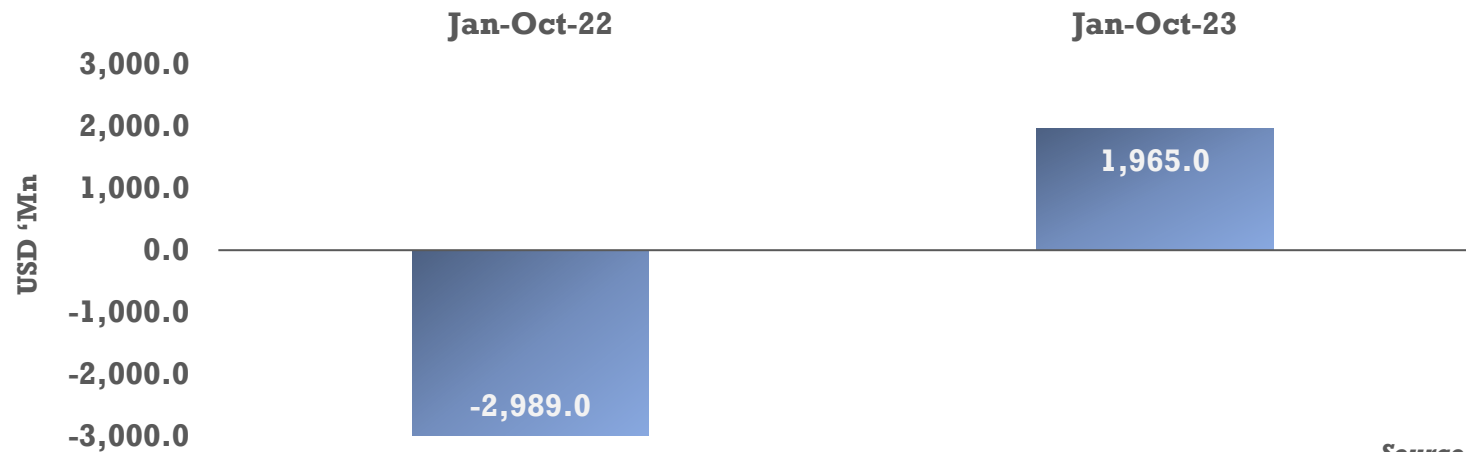
Dec 2023

# EXTERNAL SECTOR – OCT 23

## Balance of Trade

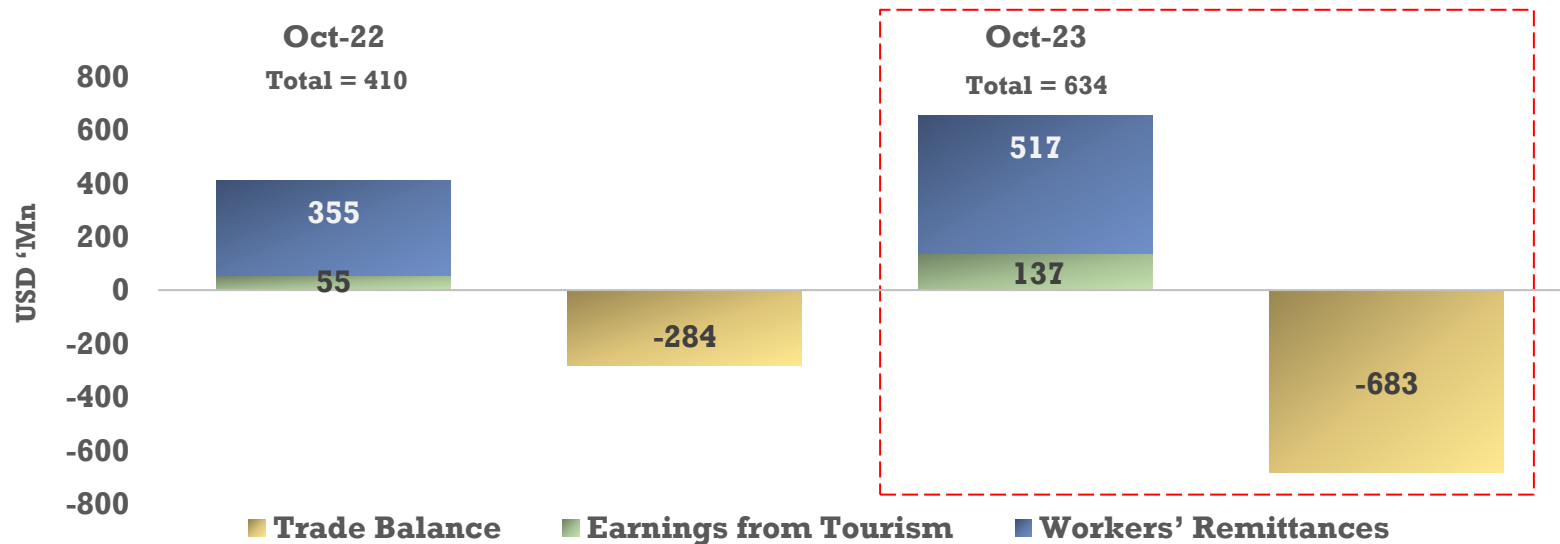


BoP for Jan-Oct-23 recorded at USD 1,965.0Mn compared to Jan-Sep-23 amount of USD 1,863.0Mn resulting in a net intflow of USD 102.0Mn, for the month of Oct-23.



Source: CBSL

Workers' Remittances increased to USD 517.0Mn in Oct-23 (+45.6%YoY). Earnings from Tourism for Oct-23 increased to USD 137.0Mn from USD 55.0Mn in Oct-22.



Source: CBSL

BALANCE OF PAYMENT  
DEFICIT DECREASED YOY IN  
OCT-23

Oct USD 'Mn	2022	2023	Change (%)
Trade Balance	-284	-683	
Earnings from Tourism	55	137	+149.1
Workers' Remittances	355	517	+45.6

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-4,377	-4,024	
Earnings from Tourism	928	1,593	+71.7
Workers' Remittances	2,929	4,862	+66.0

Source: CBSL

# TOURIST ARRIVALS – NOV 2023

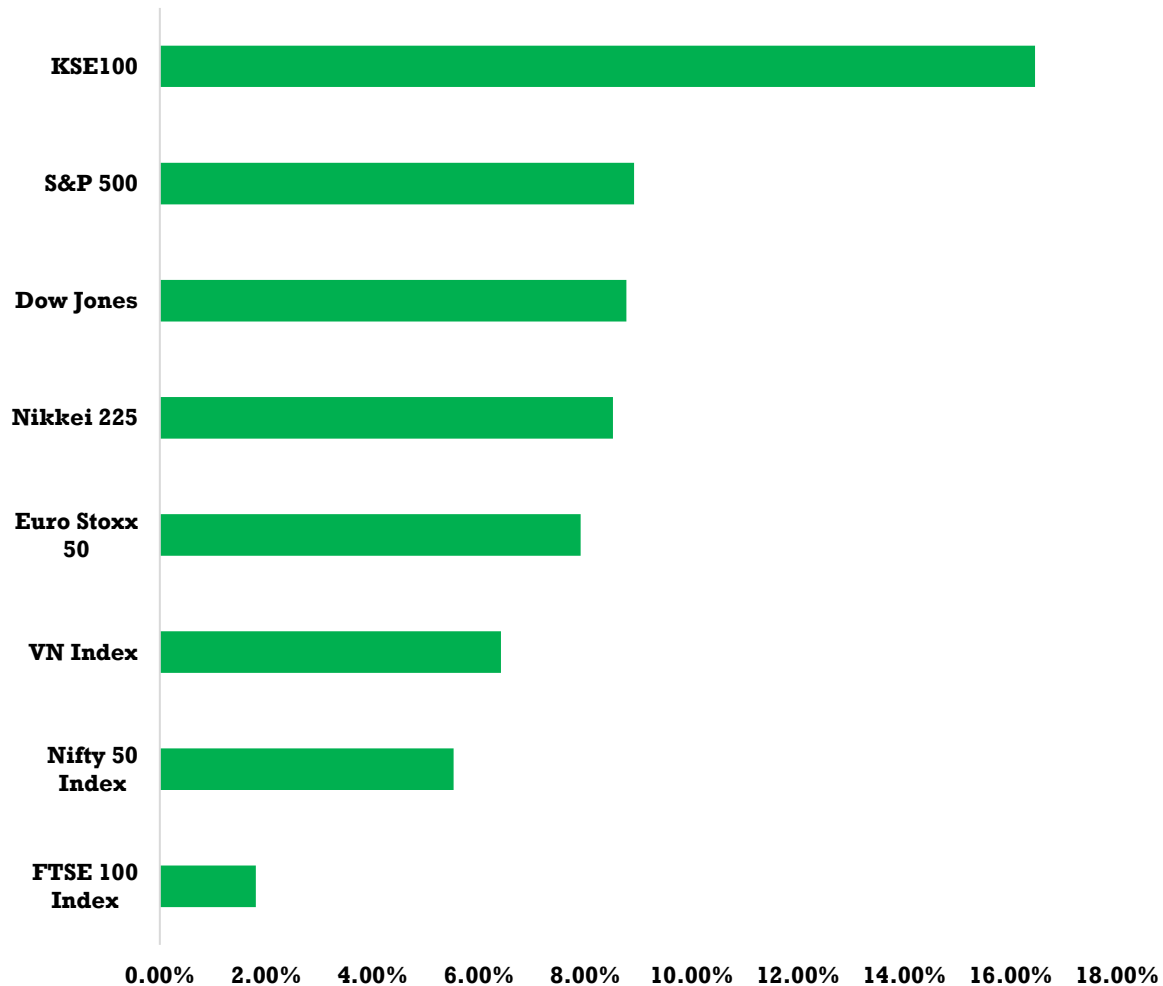
[ Nov 151,496 – **UP +153.5%YoY** ] [ MoM – **UP +38.7%** ]

The total arrivals for the month was recorded at 151,496 displaying an increase of 153.5%YoY compared to Nov 2022, and recorded the highest number of arrivals so far for 2023. Ongoing recovery of the tourism sector, improved socio-economic conditions coupled with the beginning of the holiday season were the main contributors to this development. Accordingly, key source markets during Nov-23, is topped by India, Russian Federation, Germany and the United Kingdom.



Source: SLTDA

# GLOBAL MARKET – NOV 2023



First Capital Research

Source: Investing.com

## Moody's Cuts China Credit Outlook to Negative on Rising Debt

Moody's Investors Service cut its outlook for Chinese sovereign bonds to negative, underscoring deepening global concerns about the level of debt in the world's second-largest economy. Moody's lowered its outlook to negative from stable while retaining a long-term rating of A1 on the nation's sovereign bonds, according to a statement. China's usage of fiscal stimulus to support local governments and its spiraling property downturn is posing risks to the nation's economy, the grader said.

Bloomberg



## Goldman Sachs says the Israel-Hamas war could have major implications for Europe's economy

The Israel-Hamas war could have a significant impact on economic growth and inflation in the euro zone unless energy price pressures remain contained, according to Goldman Sachs. The ongoing hostilities could affect European economies via lower regional trade, tighter financial conditions, higher energy prices and lower consumer confidence, Europe Economics Analyst Katya Vashkinskaya highlighted in a research note.

## Oil drops close to July low on scepticism over OPEC+ cuts

Global benchmark Brent fell below USD 78.0 barrel, not far off its July low, despite Saudi Arabia saying OPEC+ supply cuts can go beyond March if necessary. Brent crude futures edged down by 67 cents, or 0.9%, to USD 77.36 a barrel by 1301 GMT. U.S. West Texas Intermediate crude futures lost 64 cents, or 0.9%, to USD 72.40. There was a tepid attempt to push the market higher after days of declines following the OPEC+ announcement, said Tamas Varga of oil broker PVM, noting that he could see nothing in particular to explain the sudden decline in prices.



REUTERS  
WORLD

Dec 2023

20



# Disclaimer

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

# Thank you!

*"SUCCESSFUL INVESTMENTS IS ABOUT  
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)

**Zaeema 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)



**First Capital**  
A Janashakthi Group Company

