



First Capital  
A Janashakthi Group Company

# MONTHLY ECONOMIC WATCH

Feb 2024

# CONTENT BRIEFING

- The Government of Sri Lanka and the World Bank sign an agreement for financing of USD 150.0Mn to strengthen the resilience of Sri Lanka’s financial sector..... 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

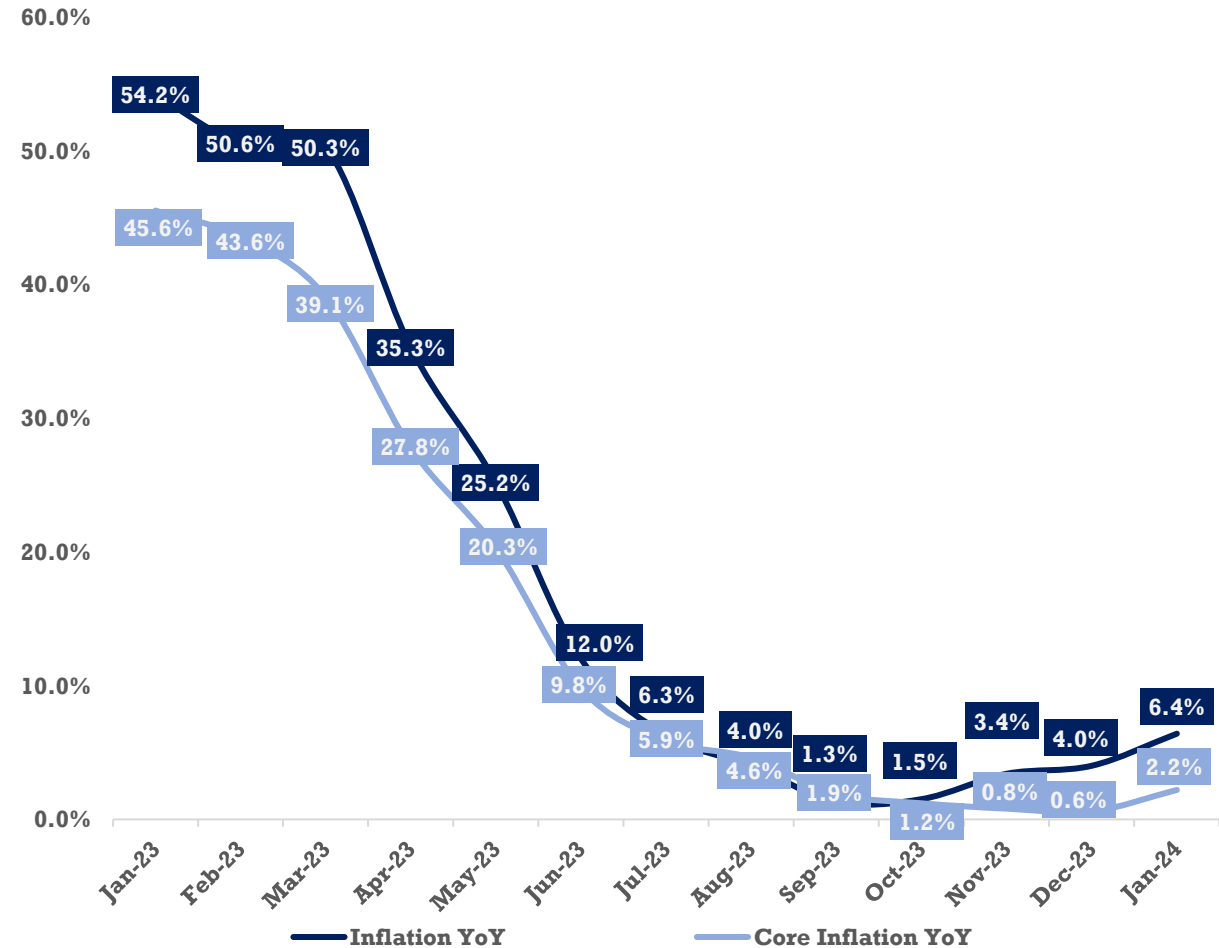
# THE GOVERNMENT OF SRI LANKA AND THE WORLD BANK SIGN AN AGREEMENT FOR FINANCING OF USD 150.0MN TO STRENGTHEN THE RESILIENCE OF SRI LANKA'S FINANCIAL SECTOR

- The Sri Lankan government (GOSL) and the World Bank have entered into an agreement for USD 150.0Mn in funding to enhance the robustness of the country's financial sector through the Financial Sector Safety Net Strengthening Project (FSSNP). Additionally, a separate agreement between the World Bank and the Central Bank of Sri Lanka (CBSL) has been established to outline the implementation details of the project.
- The primary goal of the project is to enhance the safety net of Sri Lanka's financial sector, with a specific emphasis on the Sri Lanka Deposit Insurance Scheme (SLDIS) overseen by the Central Bank of Sri Lanka (CBSL). Additionally, the project seeks to reinforce the financial and institutional capabilities of SLDIS in accordance with global best practices governing efficient deposit insurance schemes.
- The CBSL will be the Implementing Agency of FSSNP. The Deposit Insurance Scheme of Sri Lanka was legally instituted and named as the Sri Lanka Deposit Insurance Scheme with the enactment of the Banking (Special Provisions) Act, No. 17 of 2023.

# INFLATION – CCPI

**CCPI FOR JAN 2024:**  
**MOM +2.9%**  
**YOY +6.4%**

- MoM inflation was up by 2.9% MoM with the increase in inflation of Food group by 3.8% and increase in inflation of Non-food group by 2.5%, respectively.
- The YoY inflation increased to 6.4% in Jan 2024. YoY inflation of Food group increased to 3.3% in Jan 2024, while Non-Food group increased to 7.9% in Jan 2024 from 5.8% in Dec 2023.



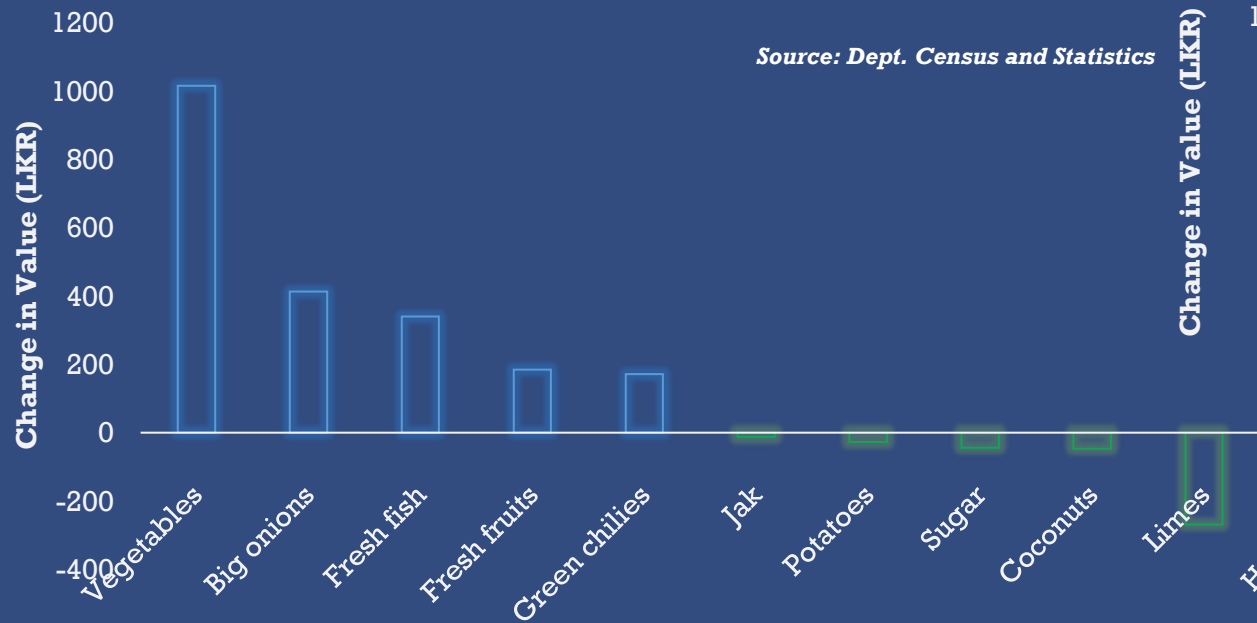
Source: Dept. Census and Statistics

# INFLATION ANALYSIS – CCPI-MOM

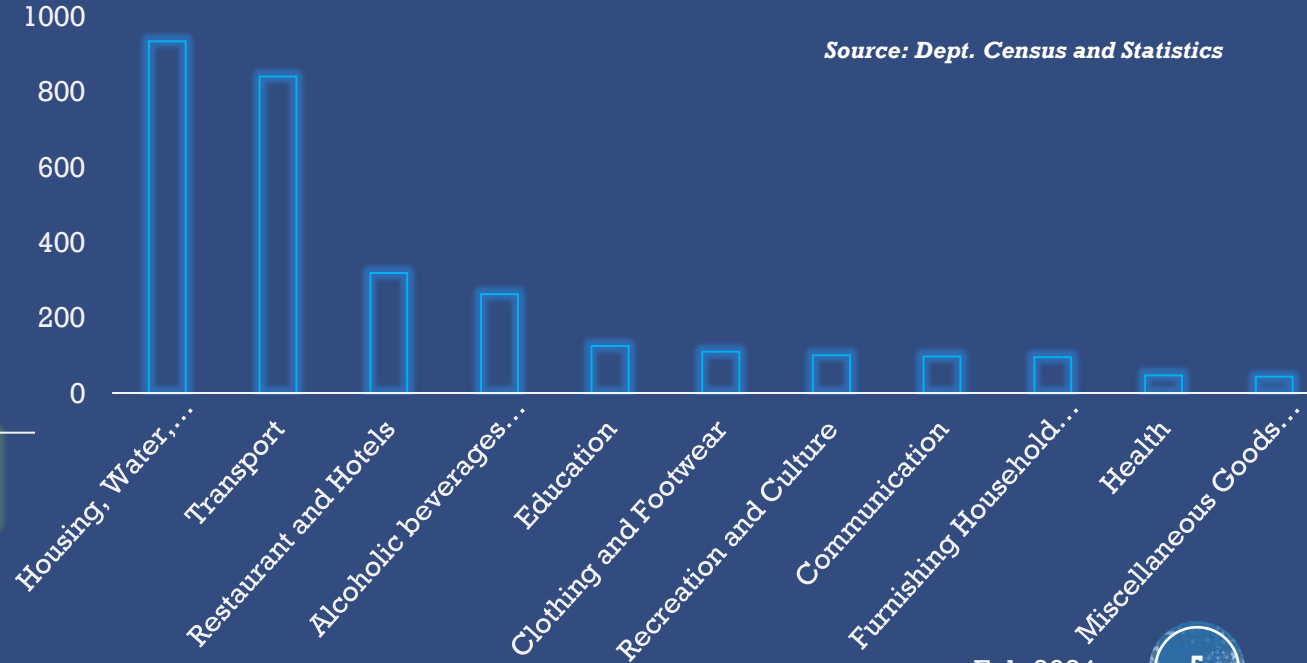
The CCPI index increased by 2.9%MoM contributed by the increase in expenditure of Food items by 1.21% and an increase in expenditure of Non-Food items by 1.66%. Within the Food items, increase in value changes were mainly reported for Vegetable, Big onions, Fresh fish, Fresh fruits and Green chilies. Among Non-Food groups, increase in value changes were mainly reported in Housing, Water, Electricity, Gas and Other Fuels, Transport, Restaurant and Hotels etc.



## Food Category Inflation



## Non-Food Category Inflation

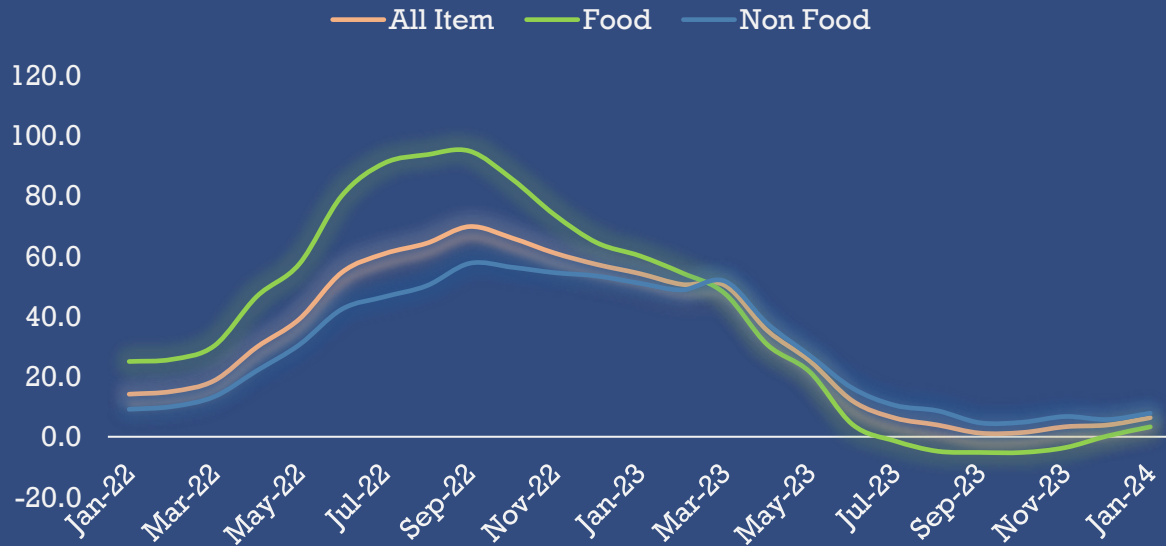


# INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Jan 2024 was 6.4% and has increased relative to the month of Dec 2023. Food item prices increased to 3.3%YoY in Jan 2024 while the Non-Food item prices increased to 7.9%YoY in Jan 2024 from 5.8%YoY in Dec 2023. The contribution from food category for YoY inflation was 1.11% while the contribution of Non-Food items stood at 5.31% mainly due to the increase in prices of Housing, Water, Electricity, Gas & Other Fuels, Education, Alcoholic Beverage, Tobacco & Narcotics, Clothing and Footwear.

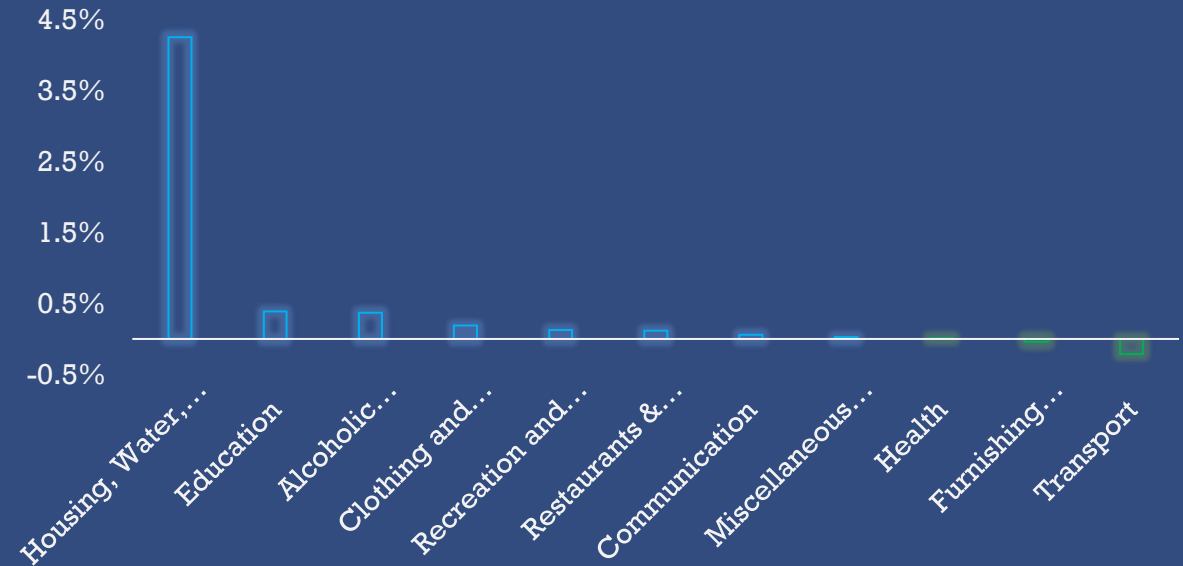


## Inflation Analysis (YoY)



Source: Dept. Census and Statistics

## Non-Food Category Inflation

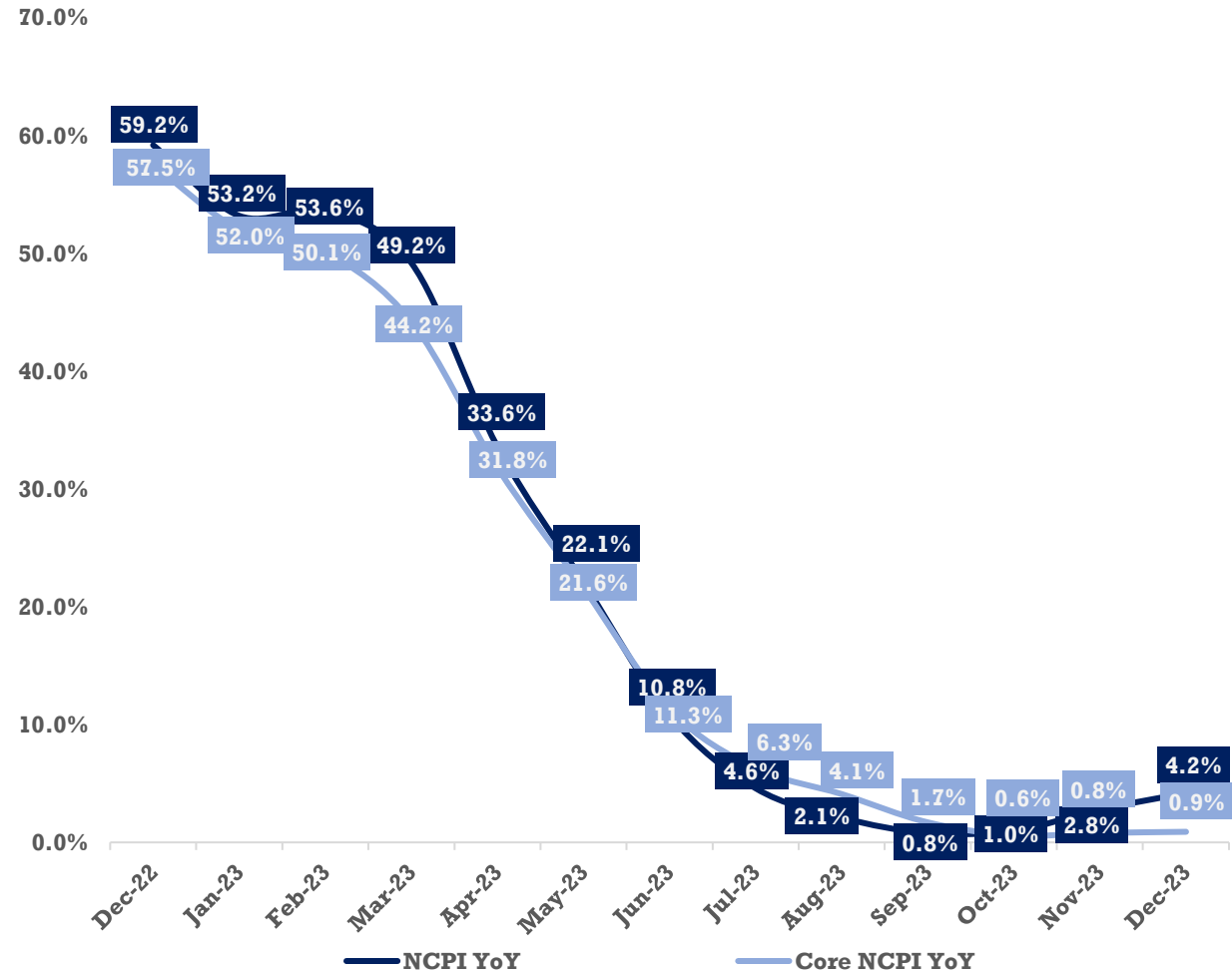


Source: Dept. Census and Statistics

# INFLATION – NCPI

## NCPI FOR DEC 2023: INCREASED TO 4.2% YOY

- NCPI for Dec 2023 increased to 4.2% compared to 2.8% in Nov 2023.
- Increase in inflation was mainly driven by the price in Food commodities. Accordingly, YoY Food inflation increased to 1.6% in Dec 2023 from -2.2% in Nov 2023 while YoY Non-Food inflation declined to 6.3% in Dec 2023 compared to 7.1% in Nov 2023.



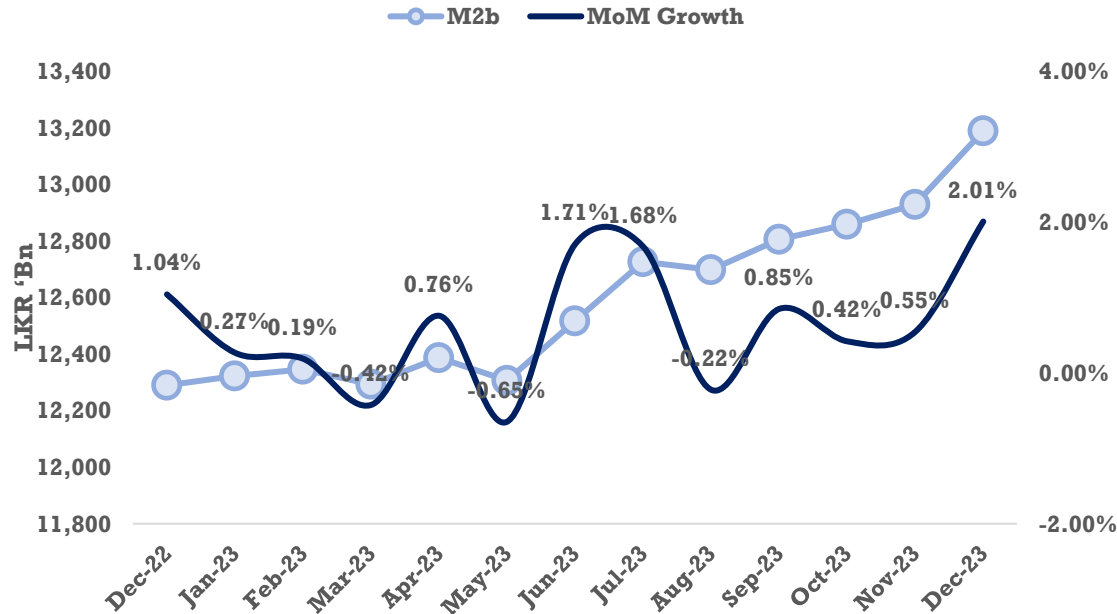
Source: Dept. Census and Statistics

# M2B AND CREDIT GROWTH

Private sector credit displayed a considerable uptick of LKR 97.5Bn compared to Nov 2023 amidst the dip in rates. Meanwhile, State credit too inclined by LKR 206.9Bn relative to the previous month.

## M2b Growth – Dec 2023

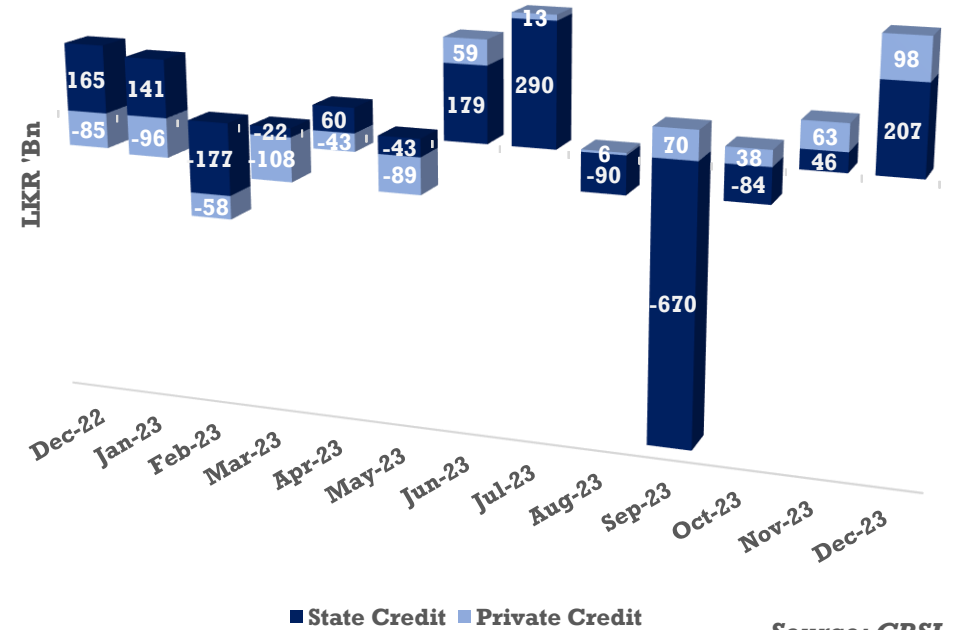
MoM +2.01%, YoY +7.32%, YTD +7.32%



Source: CBSL

## State Credit & Private Credit – Dec 2023

Private Credit MoM +1.3%, YoY -0.64%, YTD -0.64%

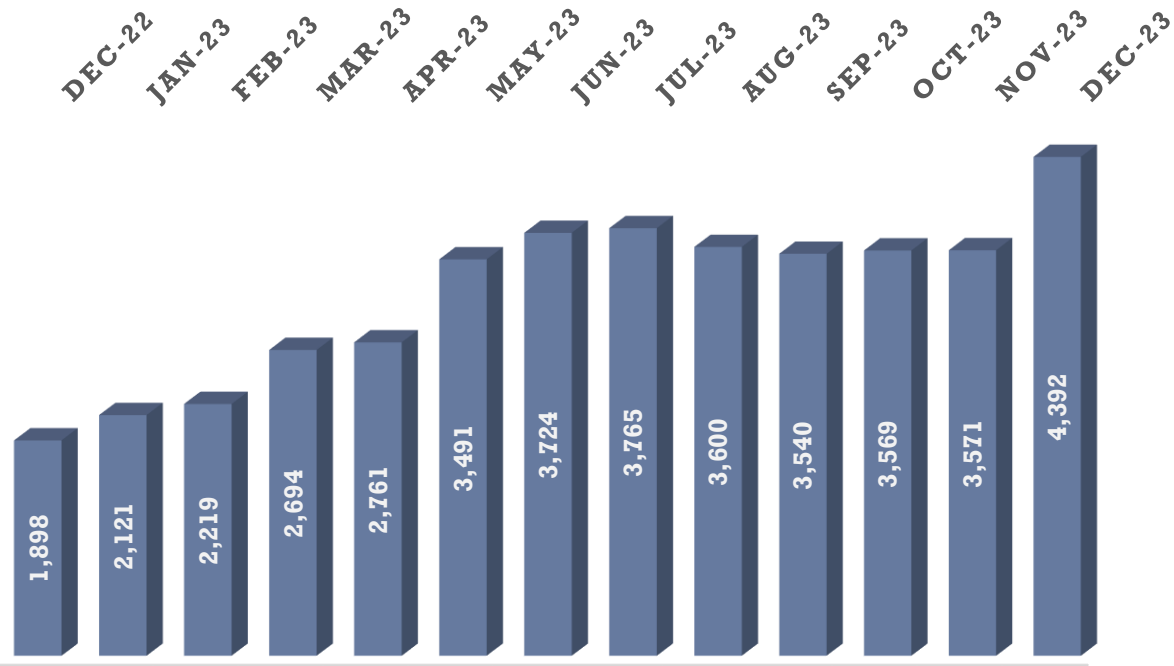


Source: CBSL



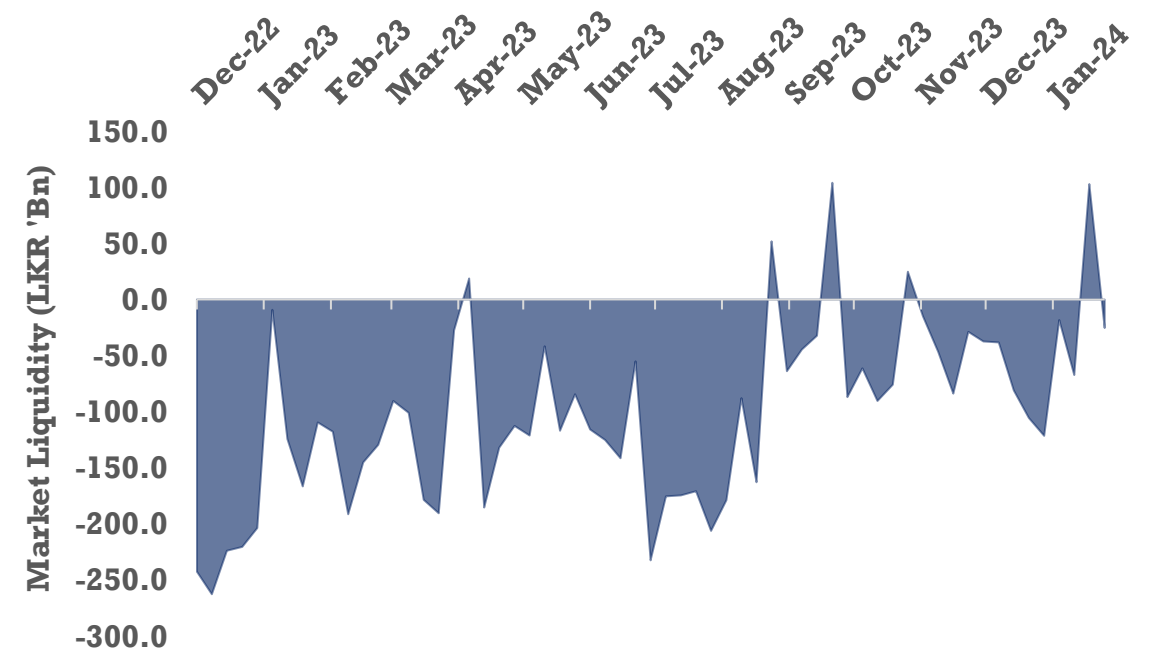
# LIQUIDITY & RESERVES

- Foreign Reserves significantly increased by USD 821.0Mn to USD 4.4Bn in Dec 2023, mainly due to the loans from multilateral lenders.



Source: CBSL

- Market Liquidity fluctuated and broadly remained in the negative territory during the month of Jan 2024.



Source: CBSL

# CURRENCY MOVEMENT

## USD:LKR Movement

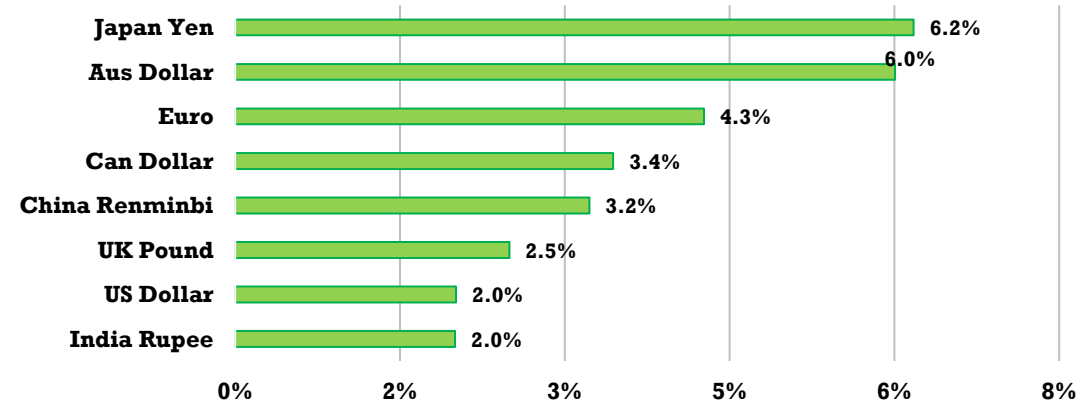


First Capital Research

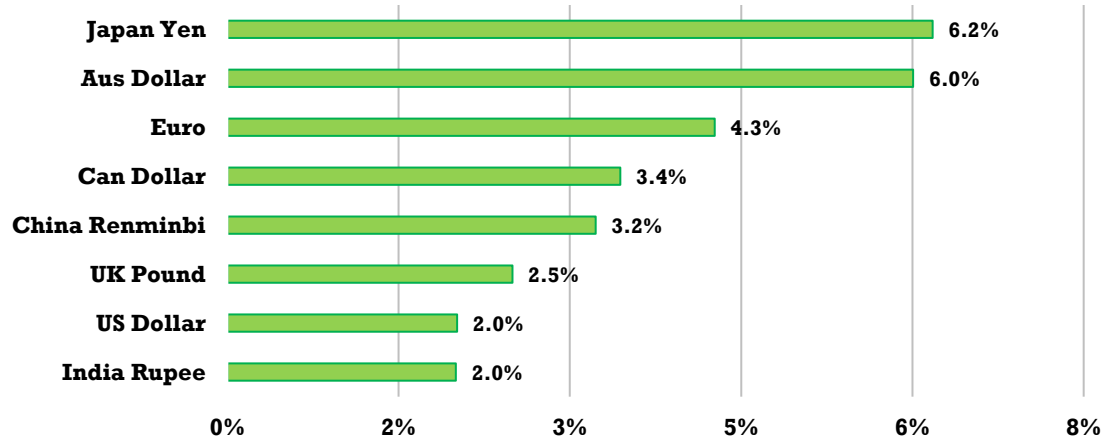
Source: CBSL

## Sri Lankan Rupee vs Global Currencies

Jan 2024



YTD 2024



Source: CBSL

Feb 2024

# GOVERNMENT SECURITIES – NEW ISSUES

## Bill and Bond auctions for Jan 2024

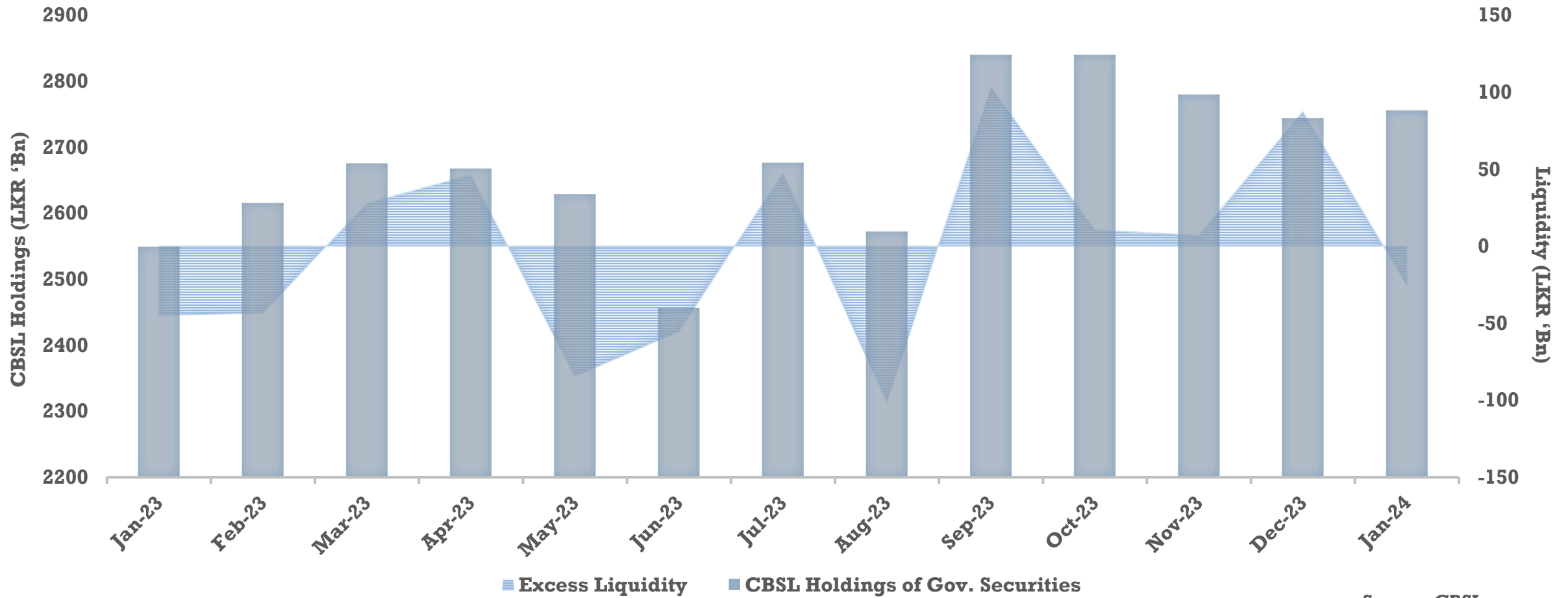
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
05-Jan-24	161,381		161,381
12-Jan-24	103,091		103,091
19-Jan-24	116,283	115,979	232,262
26-Jan-24	162,500		162,500
<b>Total Issued</b>			<b>659,234</b>

Net Settlement	Jan 2024	YTD
Maturities	609,916	609,916
New Issues	659,234	659,234
<b>Excess/ (Deficit)</b>	<b>49,318</b>	<b>49,318</b>

CBSL Holdings of Gov. Securities	YTD	
As at End Jan 2024	2,756,000	
As at End Dec 2023	2,744,000	
<b>Increase/ (Decrease)</b>	<b>12,000</b>	<b>12,000</b>

# CBSL HOLDINGS OF GOV. SECURITIES...

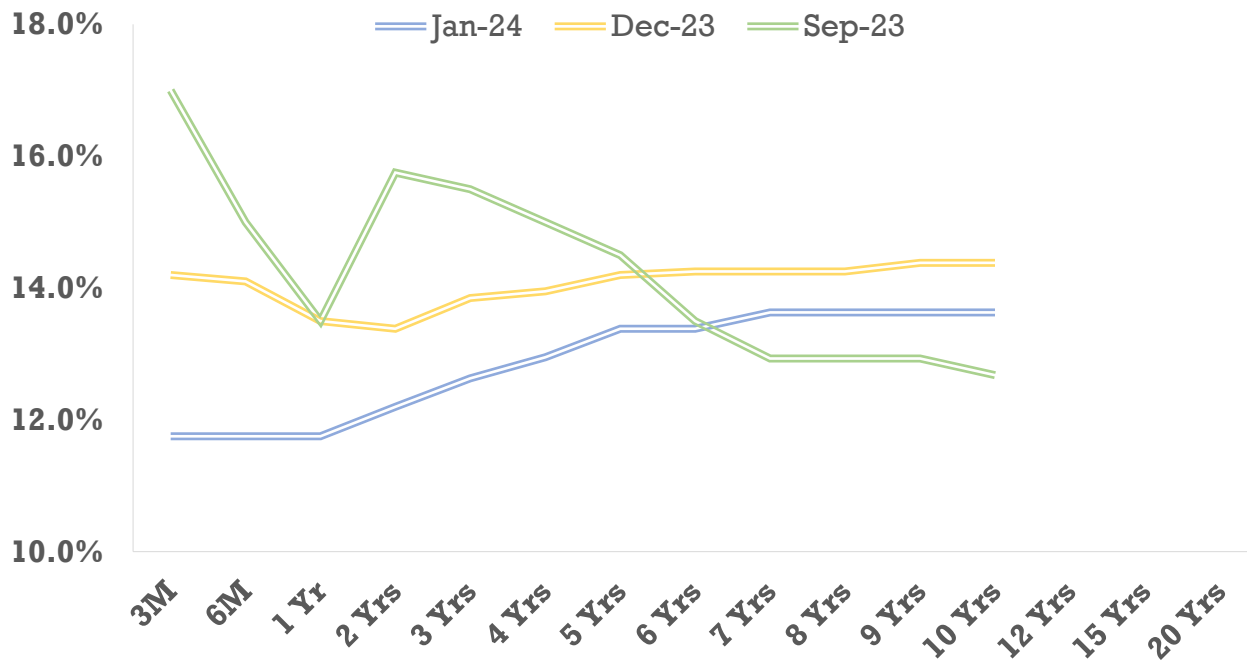
...inclined by LKR 12.0Bn in Jan 2024



Source: CBSL

# TREASURY BILLS AND BONDS – JAN 2024

Secondary market took a mixed yet dull sentiment during the beginning of the month as investors mostly remained sidelined in the absence of a clear direction. However, the dull phase progressed to steady buying momentum through mid to end of month. Buying appetite dominated strongly on short to mid tenors 2025, 2026, 2027 and 2028 maturities whilst it closed below the 13.0% mark. Moreover, at the last T-Bill auction for the month WAYR too declined below the 13.0% mark resulting in a sharp dip in 03M, 06M and 1Yr tenors closing down well below the 12.0% level in the secondary market.



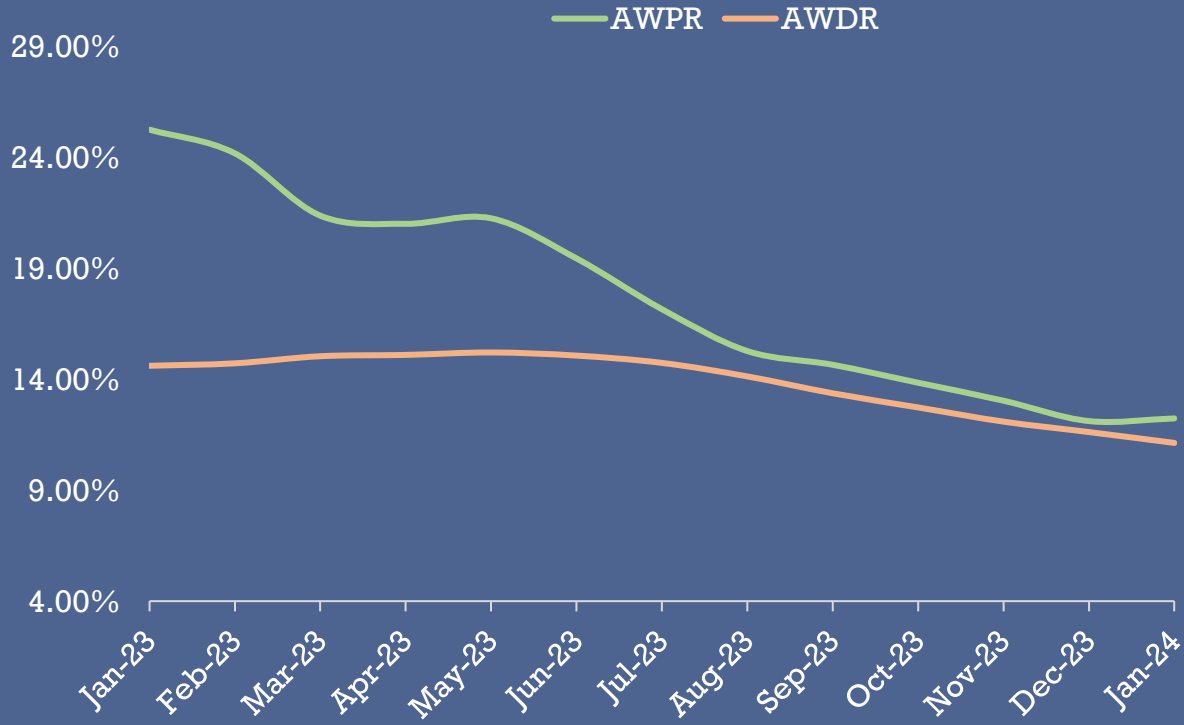
Source: First Capital Research

Tenure	Interest Rate Change (bps)				
	Jan-24	Dec-23	Change (bps)	Sep-23	Change (bps)
3M	11.75%	14.20%	-245	17.00%	-525
6M	11.75%	14.10%	-235	15.00%	-325
1 Yr	11.75%	13.50%	-175	13.50%	-175
2 Yrs	12.20%	13.38%	-118	15.75%	-355
3 Yrs	12.63%	13.85%	-122	15.50%	-287
4 Yrs	12.95%	13.95%	-100	15.00%	-205
5 Yrs	13.38%	14.20%	-82	14.50%	-112
6 Yrs	13.38%	14.25%	-87	13.50%	-12
7 Yrs	13.63%	14.25%	-62	12.93%	70
8 Yrs	13.63%	14.25%	-62	12.93%	70
9 Yrs	13.63%	14.38%	-75	12.93%	70
10 Yrs	13.63%	14.38%	-75	12.68%	95
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

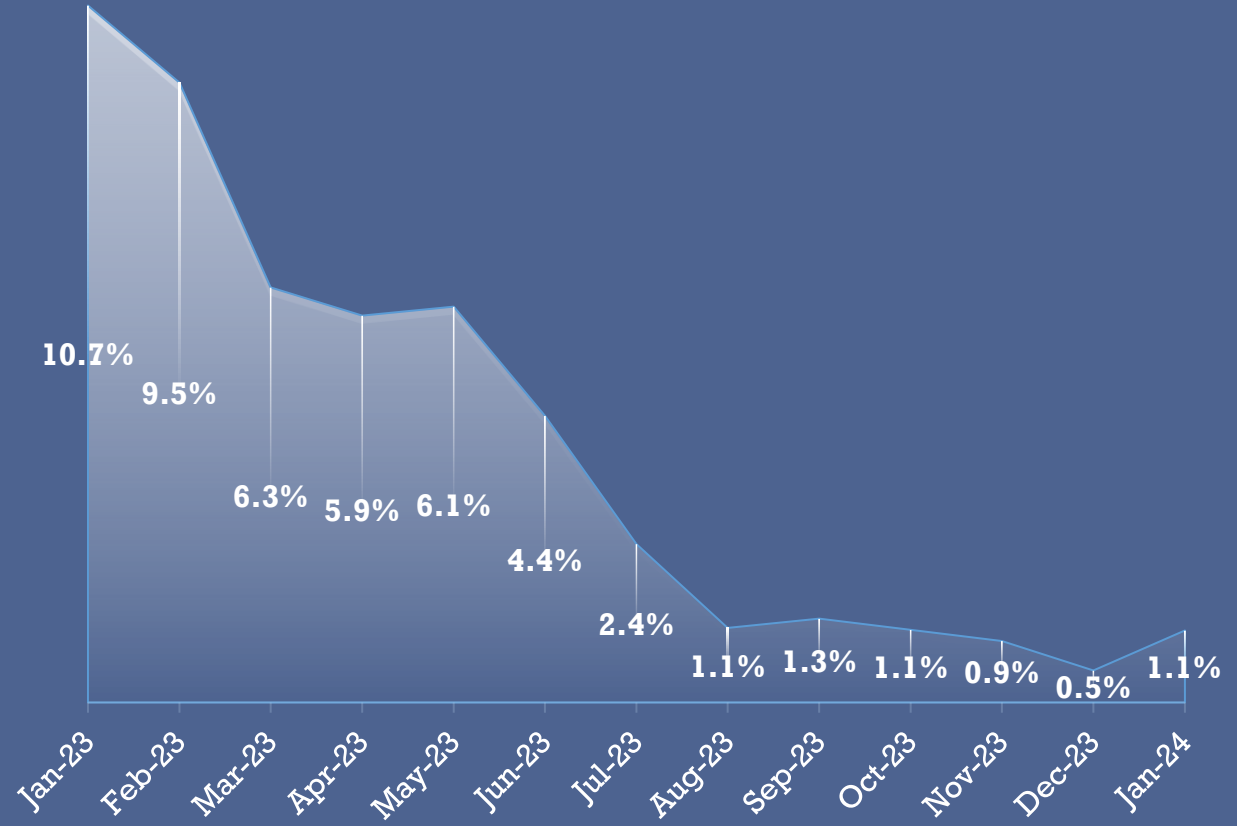
Feb 2024

## AWPR vs AWDR



Source: CBSL

## Interest Spread



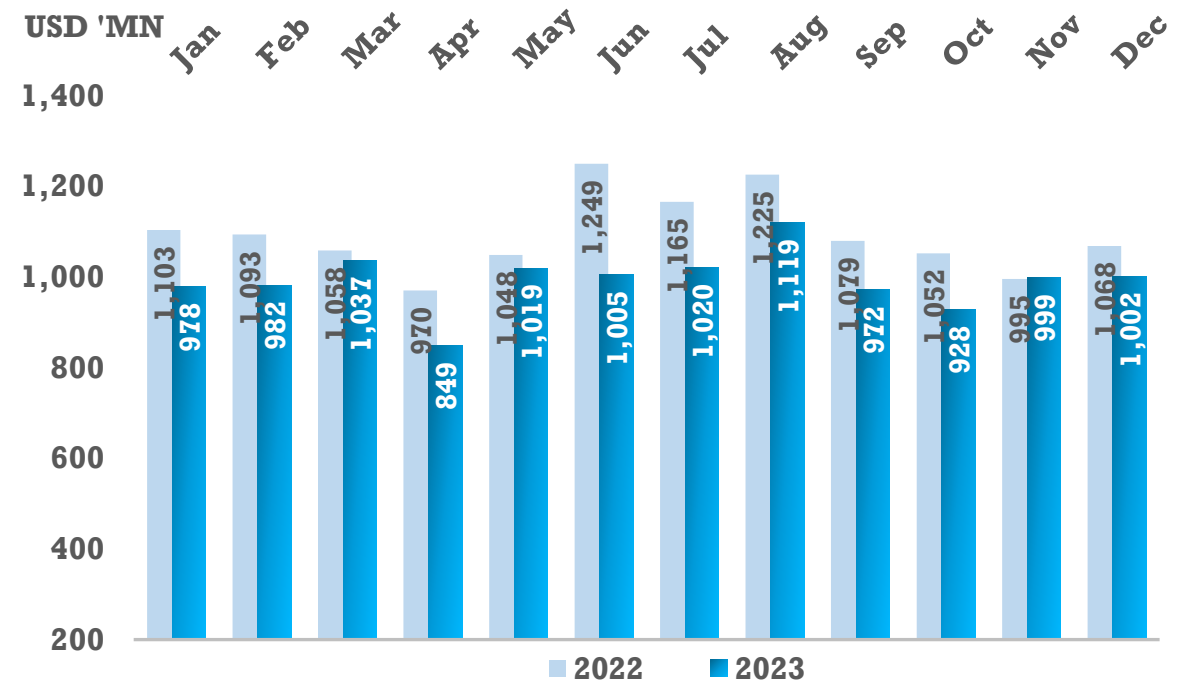
Source: CBSL

# FINANCE SECTOR RATE MOVEMENTS

# EXTERNAL SECTOR – DEC 23 – EXPORTS

Earnings from exports declined by 6.2% in Dec 2023 to USD 1,001.8Mn amidst the decline in earnings observed in Industrial exports and Mineral exports. The decline in earnings from industrial exports were mainly due to the decline in earnings from garment exports to most of the major markets. Meanwhile, a sizeable reduction was witnessed in exports of gems, diamonds & jewellery and animal fodder while export earnings from petroleum products increased led by higher bunker volumes. Further, earnings from Mineral exports significantly declined in Dec-23, compared to Dec-22, mainly due to the base effect of higher exports of titanium ores in Dec-22. Conversely, Earnings from the exports of agricultural goods improved in Dec-23, compared to a year ago, mainly due to the increase in earnings from tea resulted from the higher export volumes.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Industrial Exports			
- Dec	840.9	790.9	-5.9
- YTD	10,465.3	9,277.7	-11.3
Agricultural			
- Dec	203.4	206.6	1.6
- YTD	2,568.0	2,566.5	-0.1
Mineral Exports			
- Dec	20.9	2.0	-90.6
- YTD	50.0	38.5	-23.1
<b>Total</b>			
- Dec	<b>1,067.6</b>	<b>1,001.8</b>	<b>-6.2</b>
- YTD	<b>13,106.4</b>	<b>11,910.7</b>	<b>-9.1</b>

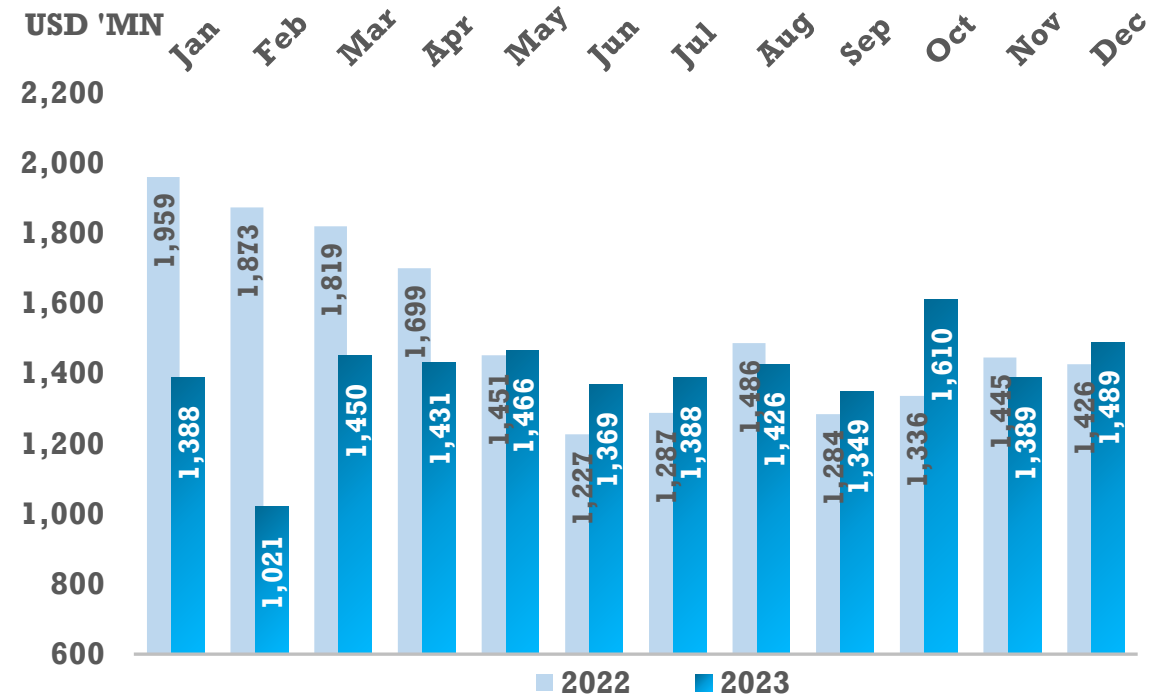


Source: CBSL  
Feb 2024

# EXTERNAL SECTOR – DEC 23 – IMPORTS

Import expenditure increased by 4.4%YoY to USD 1,488.6Mn in Dec 2023 mainly due to the increase observed in imports of investment goods and consumer goods imports partly due to relaxation of import restrictions. Expenditure on the importation of consumer goods increased YoY, led by increase in the expenditure on food and beverages led by oil & fats, sugar, vegetables while the increase in expenditure on non-food consumer goods was led by telecommunication devices, home appliances, and household & furniture items. Expenditure on the importation of intermediate goods declined YoY, mainly driven by lower fertilizer imports. Further, a sizeable decline was recorded in the imports of textiles and textile articles (primarily, fabrics) and maize. However, the expenditure on the importation of fuel increased due to higher import volumes of crude oil and coal, while the expenditure on refined petroleum declined. Import expenditure on investment goods increased YoY, led by machinery and equipment.

Category	2022 (USD 'Mn)	2023 (USD 'Mn)	Change (%)
Consumer goods			
- Dec	241.5	272.8	12.9
- YTD	2,813.0	3,043.9	8.2
Intermediate			
- Dec	983.8	948.3	-3.6
- YTD	12,438.8	11,006.6	-11.5
Investment goods			
- Dec	200.0	267.1	33.6
- YTD	3,030.5	2,744.6	-9.4
<b>Total</b>			
- Dec	1,425.6	1,488.6	4.4
- YTD	18,291.0	16,811.1	-8.1



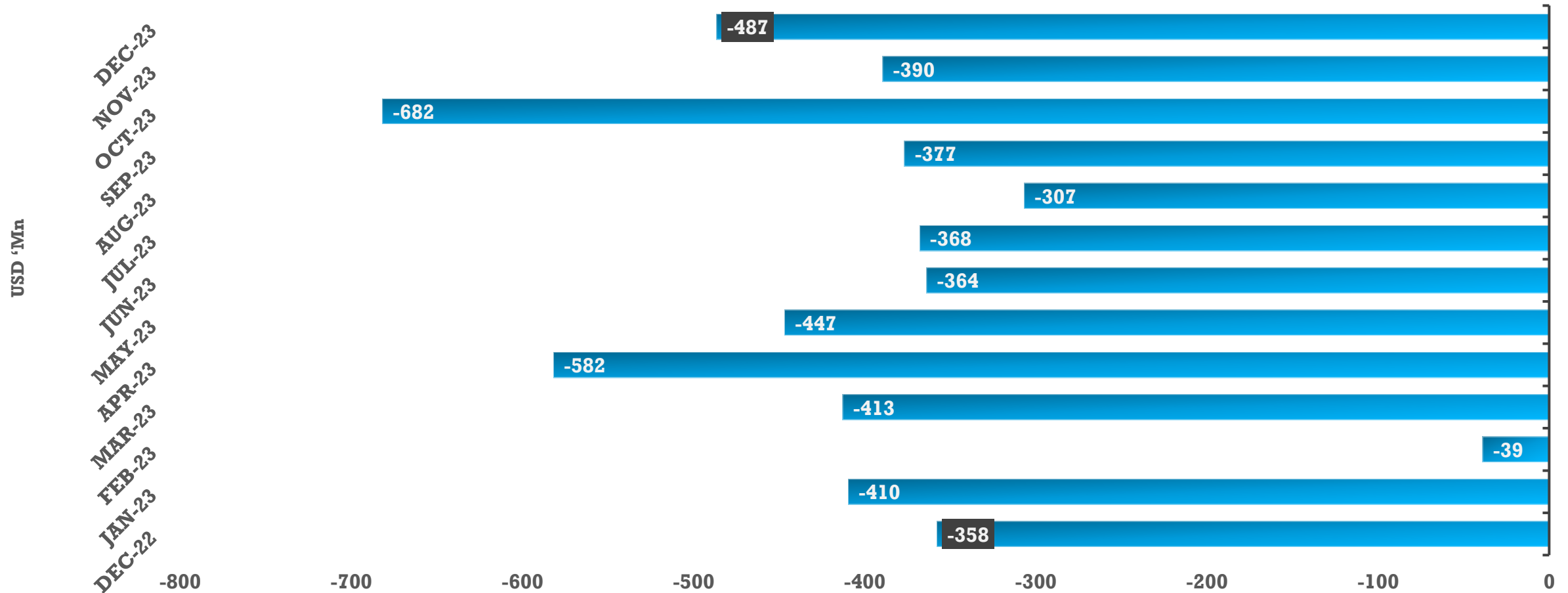
Source: CBSL

Feb 2024



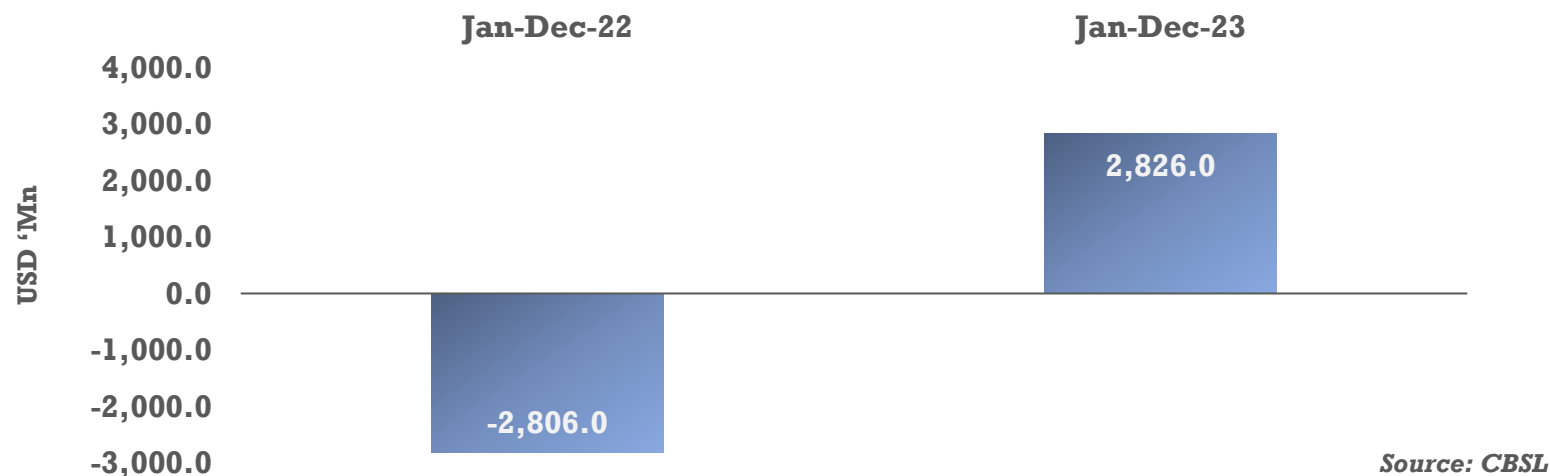
# EXTERNAL SECTOR – DEC 23

## Balance of Trade

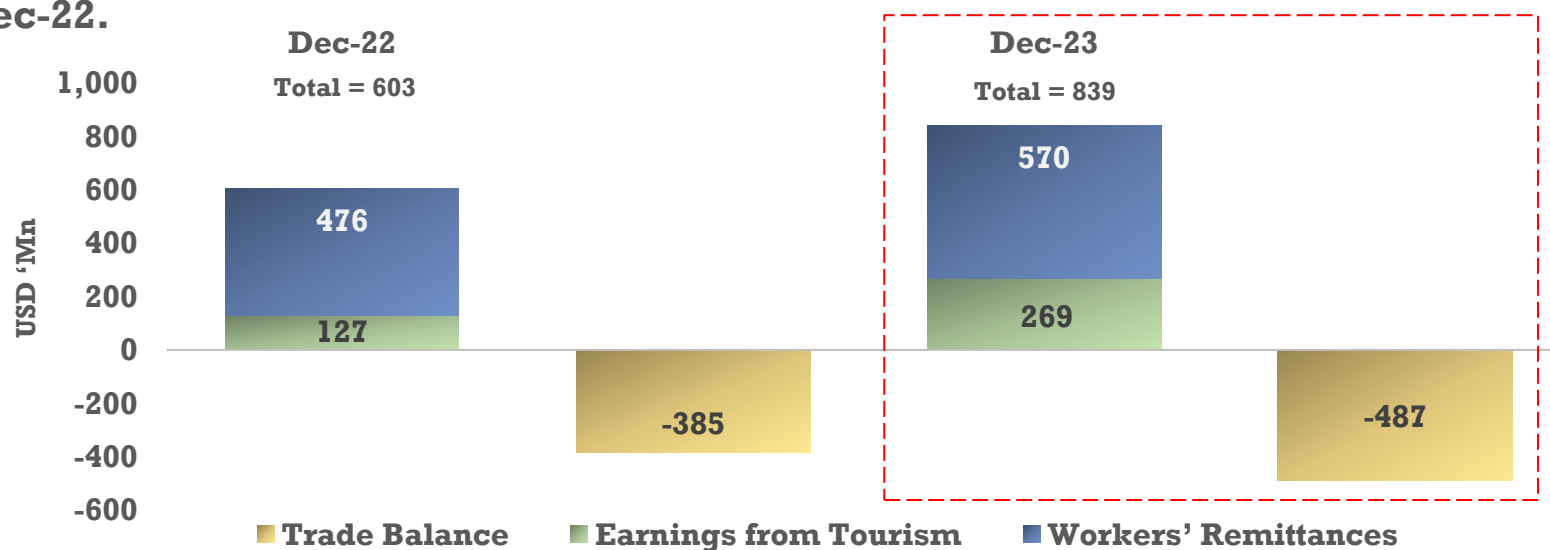


Source: Central Bank

**BoP for Jan–Dec-23 recorded at USD 2,826.0Mn compared to Jan–Nov-23 amount of USD 1,908.0Mn resulting in a net inflow of USD 918.0Mn, for the month of Dec-23.**



**Workers' Remittances increased to USD 570.0Mn in Dec-23 (+111.4%YoY). Earnings from Tourism for Dec-23 increased to USD 269.0Mn from USD 127.0Mn in Dec-22.**



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

Dec USD 'Mn	2022	2023	Change (%)
Trade Balance	-358	-487	
Earnings from Tourism	127	269	+111.4
Workers' Remittances	476	570	+19.8

YTD USD 'Mn	2022	2023	Change (%)
Trade Balance	-5,185	-4,900	
Earnings from Tourism	1,136	2,068	+82.0
Workers' Remittances	3,789	5,970	+57.5

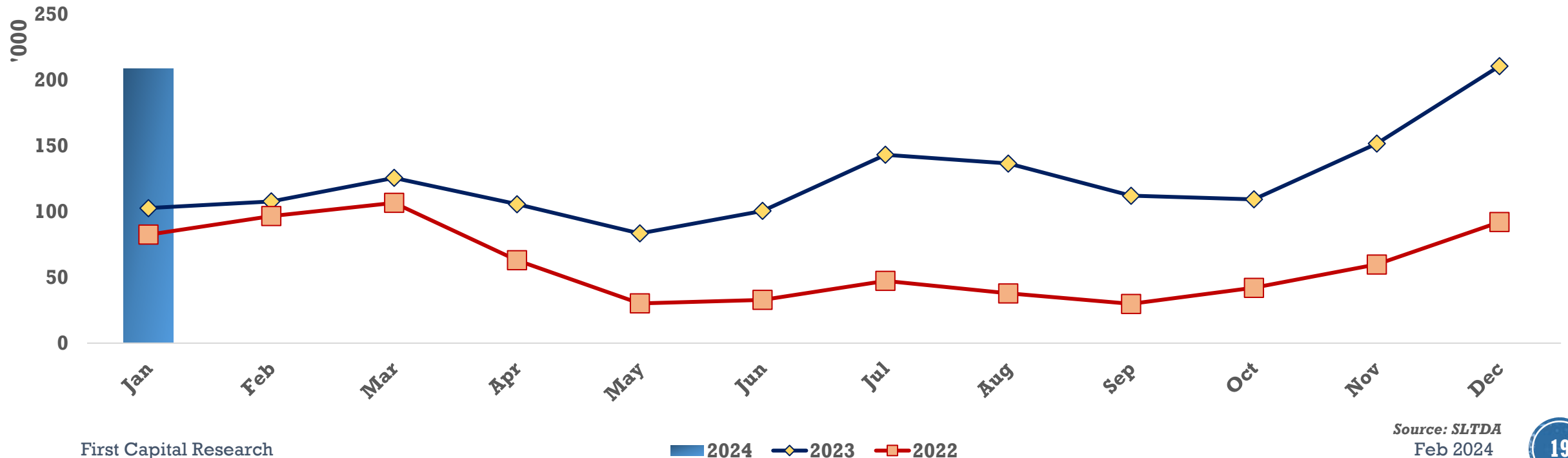
Source: CBSL

# TOURIST ARRIVALS – JAN 2024

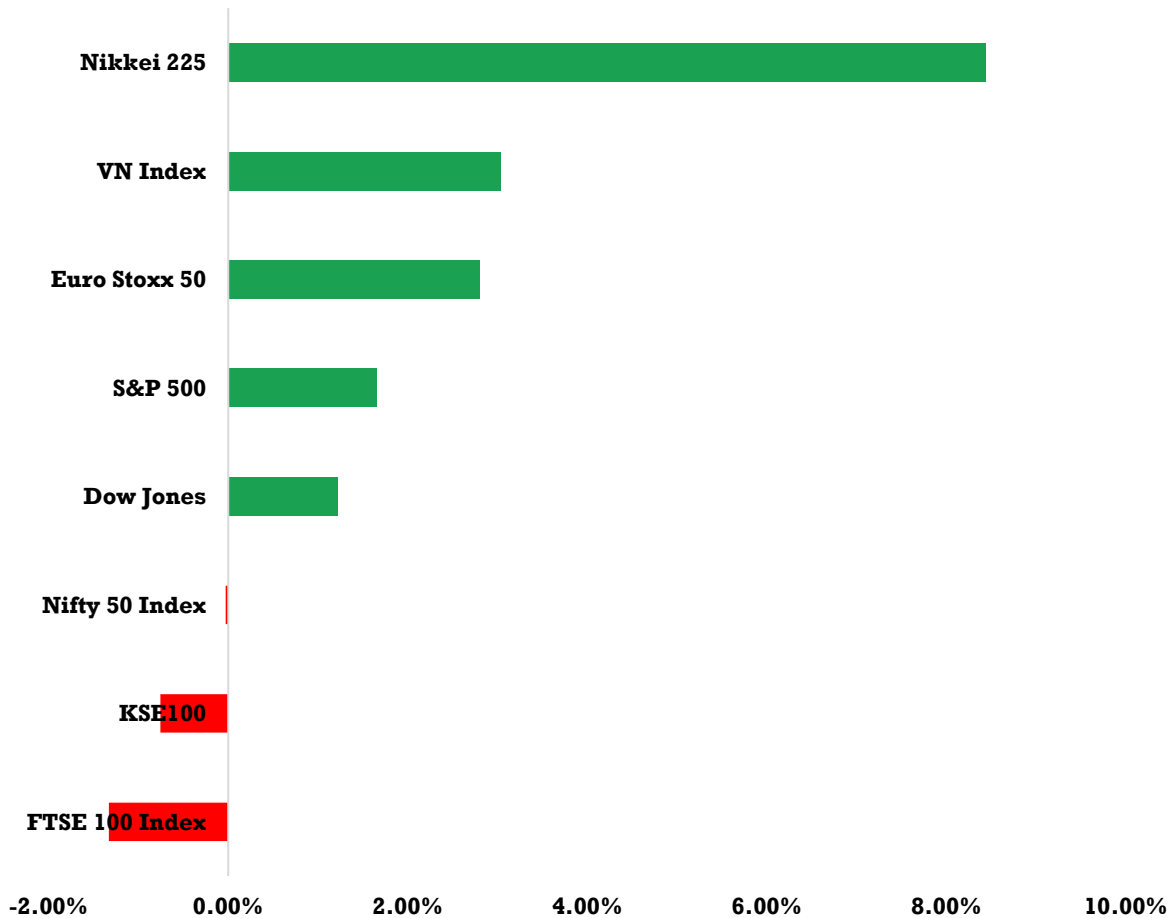
[ Jan 208,253 – **UP +103.1%YoY**] [ MoM – **DOWN -1.0%**]

The total arrivals for the month was recorded at 208,253 displaying an increase of 103.1%YoY compared to Jan 2023, recording the highest arrivals for the month of January in 4 years. Commencement of the peak season, improved air connectivity, favorable local conditions, geographical proximity and geopolitical consideration were the main contributors to this development. Accordingly, key source markets during Jan-24, is topped by India, Russian Federation, the United Kingdom and Germany.

### Tourist Arrivals



# GLOBAL MARKET – JAN 2024



Source: Investing.com

## China tightens some trading restrictions for domestic and offshore investors

China is tightening trading restrictions on domestic institutional investors as well as some offshore units as authorities fight to stem a deepening stock rout, according to people familiar with the matter. Officials this week imposed caps on some brokerages' cross-border total return swaps with clients, limiting a channel that can be used by China-based investors to short Hong Kong stocks, said the people, asking not to be identified discussing a private matter.



## Powell insists the Fed will move carefully on rate cuts, with probably fewer than the market expects

Federal Reserve Chair Jerome Powell vowed in an interview aired that the central bank will proceed carefully with interest rate cuts this year and likely will move at a considerably slower pace than the market expects. Powell expressed confidence in the economy, promised he wouldn't be swayed by this year's presidential election, and said the pain he feared from rate hikes never really materialized.

## Japan's Itochu to end cooperation with Israel's Elbit amid Gaza war

Itochu Corp's aviation unit will end its strategic cooperation with Israeli defense company Elbit Systems by the end of February amid the Israel-Hamas war in Gaza, the Japanese trading house's executive said. Itochu plans to end the collaboration after the World Court ordered Israel last month to prevent acts of "genocide" against Palestinians and do more to help civilians, Itochu Chief Financial Officer Tsuyoshi Hachimura said.



REUTERS  
WORLD

# 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.



**First Capital**  
A Janashakthi Group Company

# 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 Associate - Research  
T: +94 11 2639 866  
E: [tharushaash@firstcapital.lk](mailto:tharushaash@firstcapital.lk)

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

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