



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Jan 2025

CONTENT BRIEFING

- CBSL presents its Policy Agenda for 2025..... 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

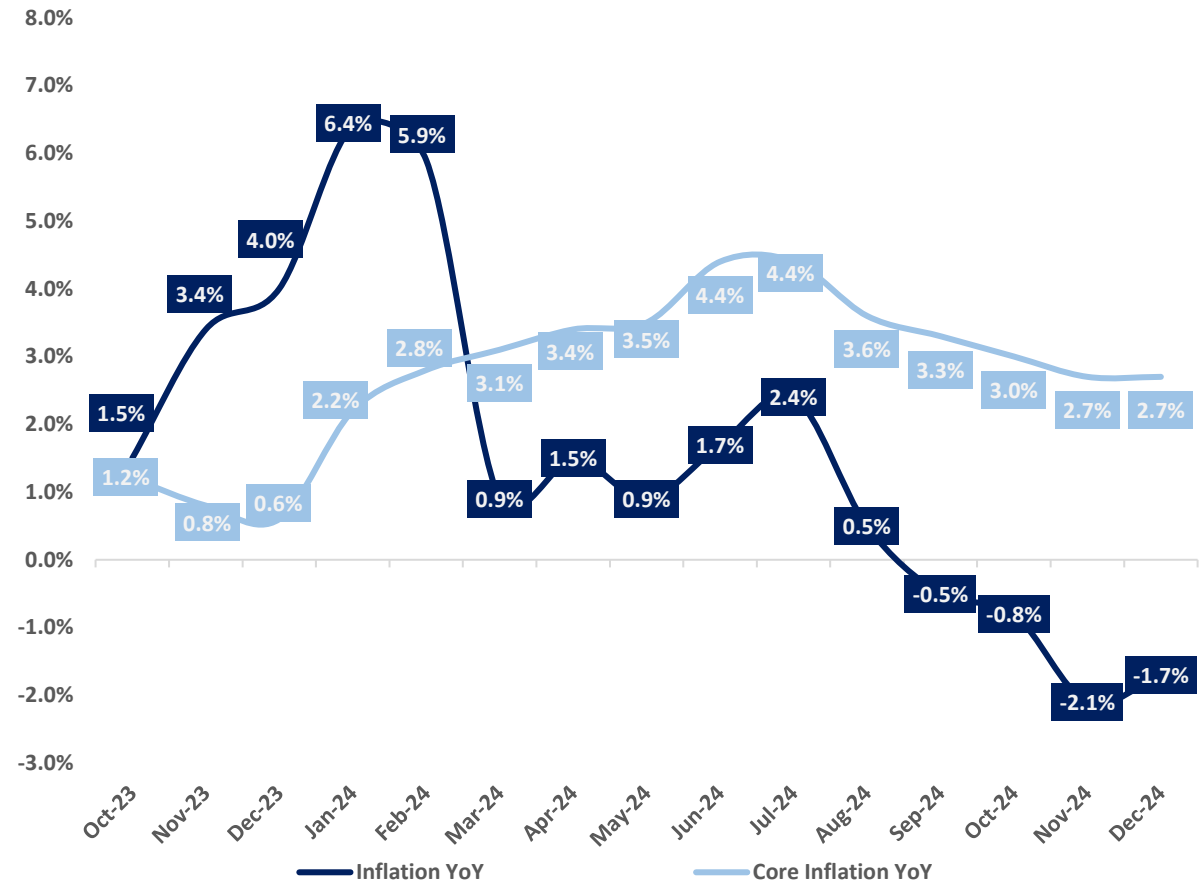
THE CBSL PRESENTS ITS POLICY AGENDA FOR 2025: MAINTAIN STABILITY FOR PROSPERITY

- It was stated that the CBSL would focus on maintaining inflation around the target rate of 5.0%. Inflation is set to return to positive territory toward mid-2025.
- The Central Bank aims to revamp the existing Statutory Reserve Requirement (SRR) and transition to a more market-friendly Open Market Operations (OMO) process.
- CBSL would remain committed to maintaining Sri Lanka's current account surplus at sustainable levels through the medium term. It was also highlighted that the Central Bank would continue purchasing foreign currency from the market in order to further improve external buffers.
- The Bank Recapitalization efforts are set to be further strengthened in line with the roadmap for restructuring and recapitalizing 9 large domestic banks. Moreover, the Central Bank, with the coordination of the Colombo Port City Economic Commission will facilitate the conduct of offshore banking business through regulatory and supervisory functions.
- A 3-year comprehensive plan will be developed to improve the digital payment infrastructure of the country's financial system and added efforts will be in place to foster financial inclusion in the economy.

INFLATION – CCPI

CCPI FOR DEC 2024:
MOM 1.2%
YOY -1.7%

- MoM inflation rose by 1.2%MoM with the Food group rising to 3.9%MoM while that of the Non-food group dipped to -0.1%MoM.
- The YoY figure stood at -1.7% in Dec 2024, up from -2.1% registered in the previous month. YoY inflation of the food group rose marginally to 0.8%. Inflation of the Non-Food group also rose to -3.0% in Dec from -3.3% in Nov 2024.

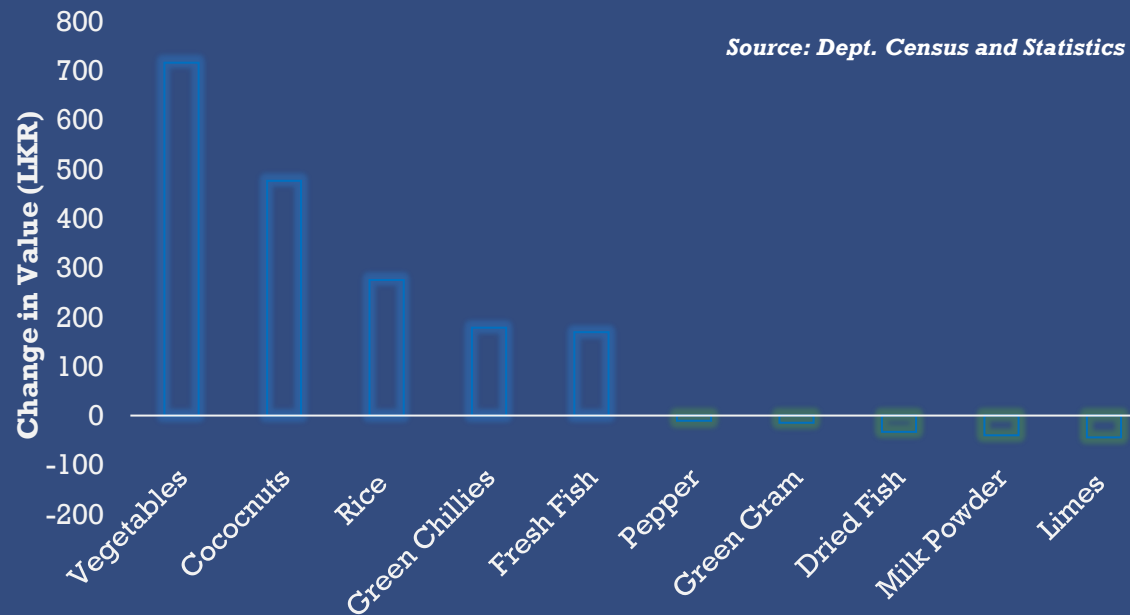


INFLATION ANALYSIS – CCPI-MOM

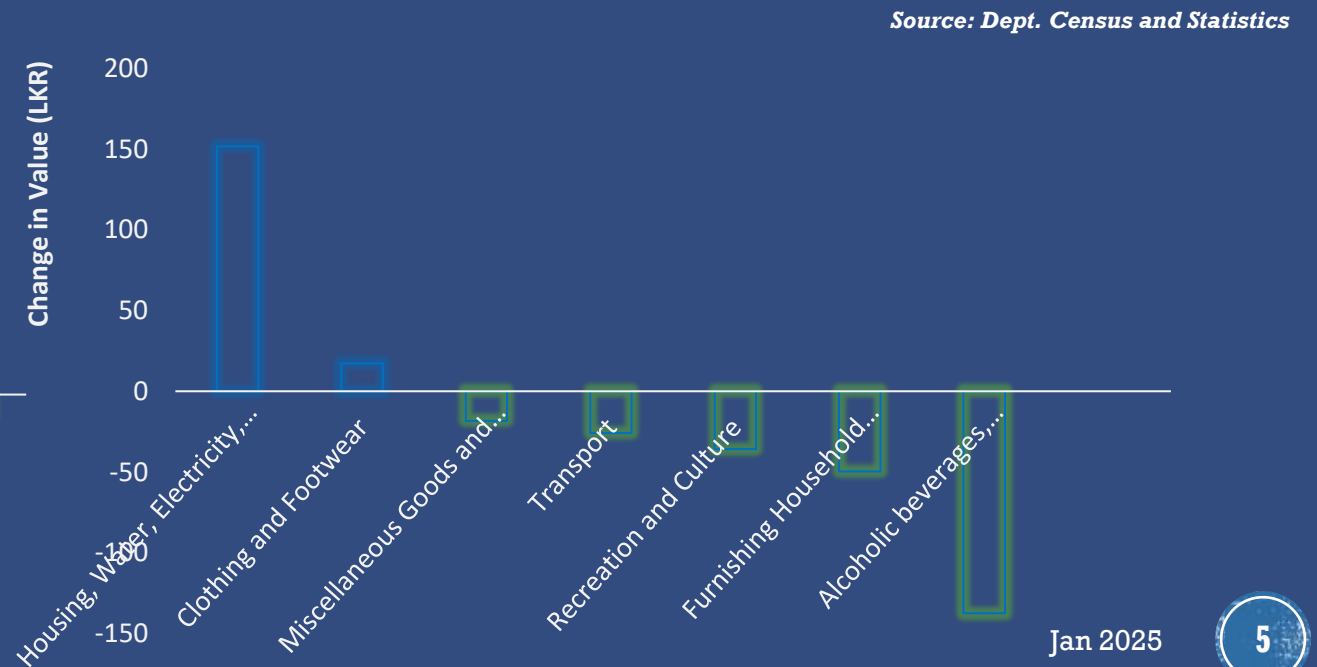
The CCPI index increased by 1.2%MoM contributed by the increase in expenditure of Food items by 1.24% and a marginal decrease in expenditure of Non-Food items by 0.06%. Within the Food items, an increase in value changes were mainly reported for Vegetables, Coconuts, Rice, Green chilies, Fresh Fish and Others. Within the Non-Food groups, decrease in value changes were mainly reported for Alcoholic Beverages Tobacco and Narcotic and Furnishing Household Equipment and Routine Household Maintenance and Recreation and Culture.



Food Category Inflation



Non-Food Category Inflation

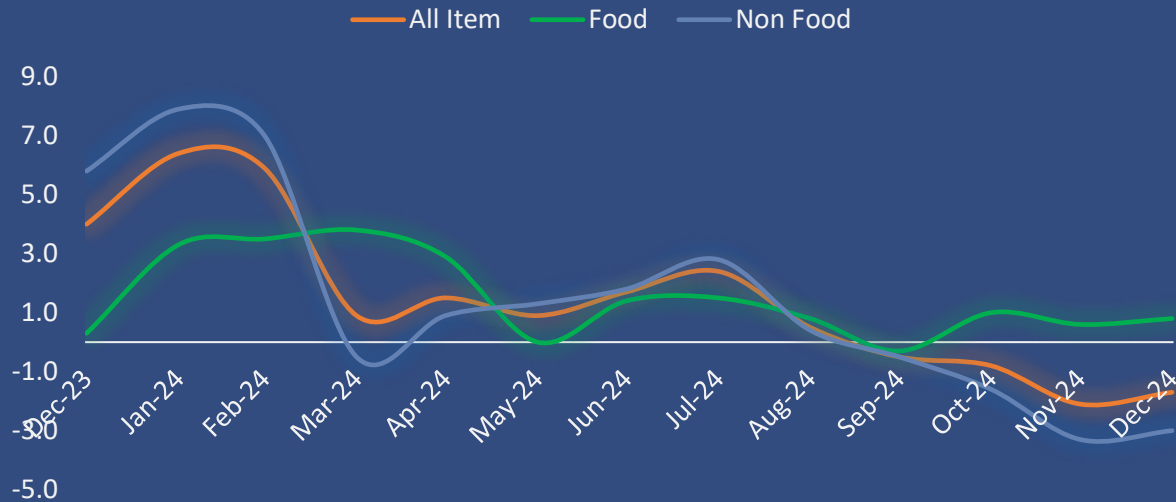


INFLATION ANALYSIS – CCPI-YOY

The YoY inflation of CCPI for Dec-24 was -1.7%. This marks a slight uptick in comparison to Nov, when the figure stood at -2.1%. The contribution by food commodities to this development was 0.25% while the contribution of the Non-Food component stood at -2.01% in Dec-24. The performance of the Non-food component was primarily triggered by price decreases in Housing, Water, Electricity, Gas and Other Fuels and Transport among other sub-items.



Inflation Analysis (YoY)



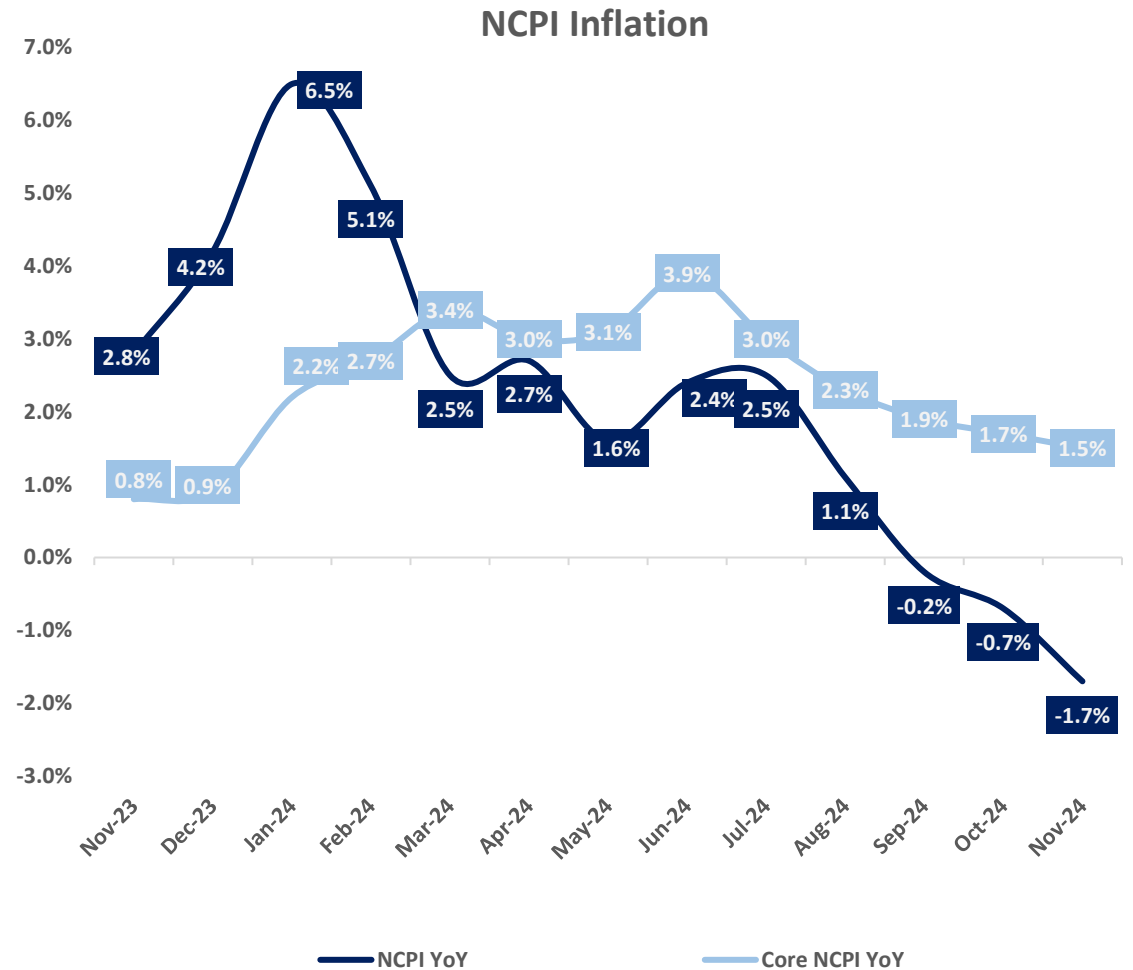
Non-Food Category Inflation



INFLATION – NCPI

NCPI FOR NOV 2024: DECREASED TO -1.7% YOY

- NCPI for Nov -24, further deflated to -1.7% compared to -0.7% in Oct 2024.
- Decrease in inflation was mainly driven by the price decrease in Non-Food commodities. YoY Food inflation stood at a passive 0.0% in Nov 2024 while inflation of the Non-Food group declined to -3.1% in Nov from -2.3% in Oct 2024.



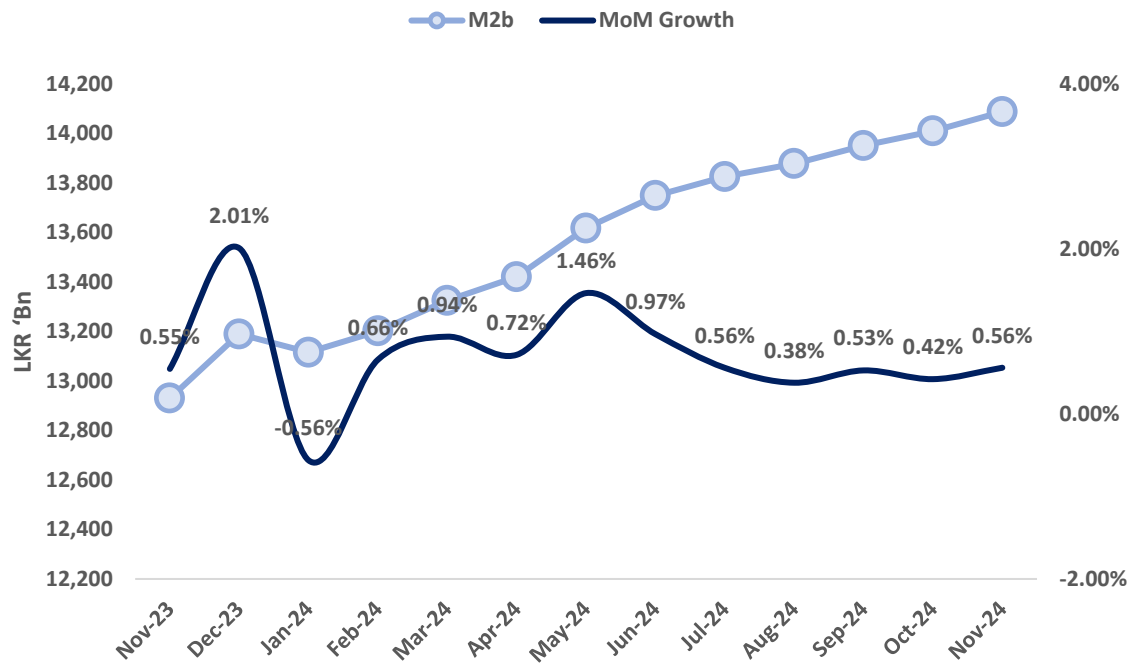
Source: Dept. Census and Statistics

M2B AND CREDIT GROWTH

Private sector credit expanded for the 7th consecutive month by LKR 96.6Bn in Nov-24. State credit also registered an uptick of LKR 150.0Bn for the month of Nov-24, deviating from the downward trajectory seen since the start of 2024.

M2b Growth –Nov 2024

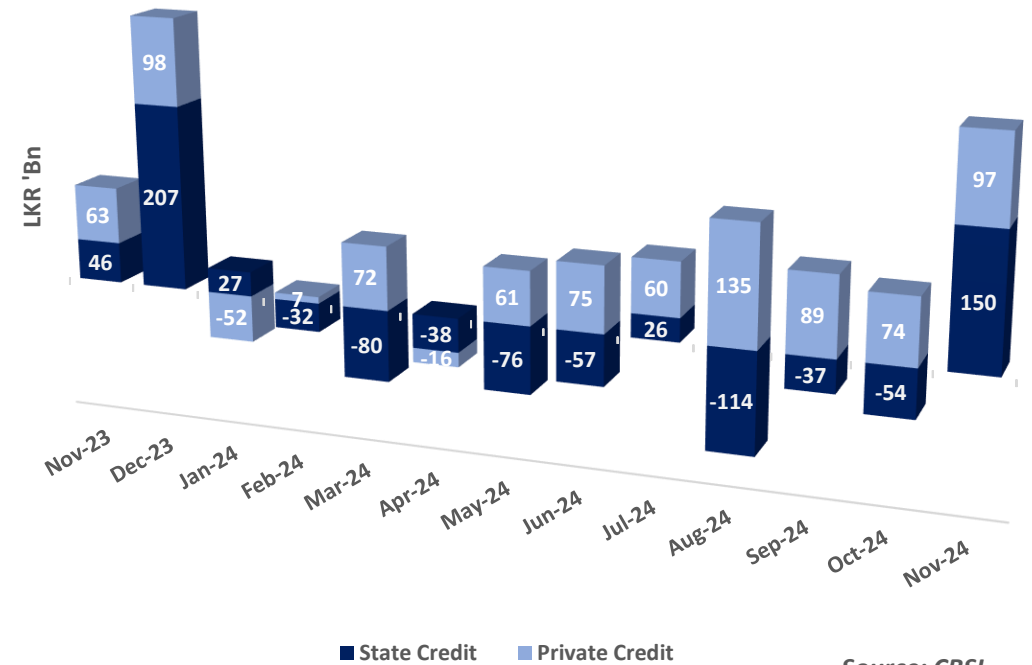
MoM +0.6%, YoY +8.9%, YTD +6.8%



Source: CBSL

State Credit & Private Credit –Nov 2024

Private Credit MoM +1.2%, YoY +9.6%, YTD +8.2%

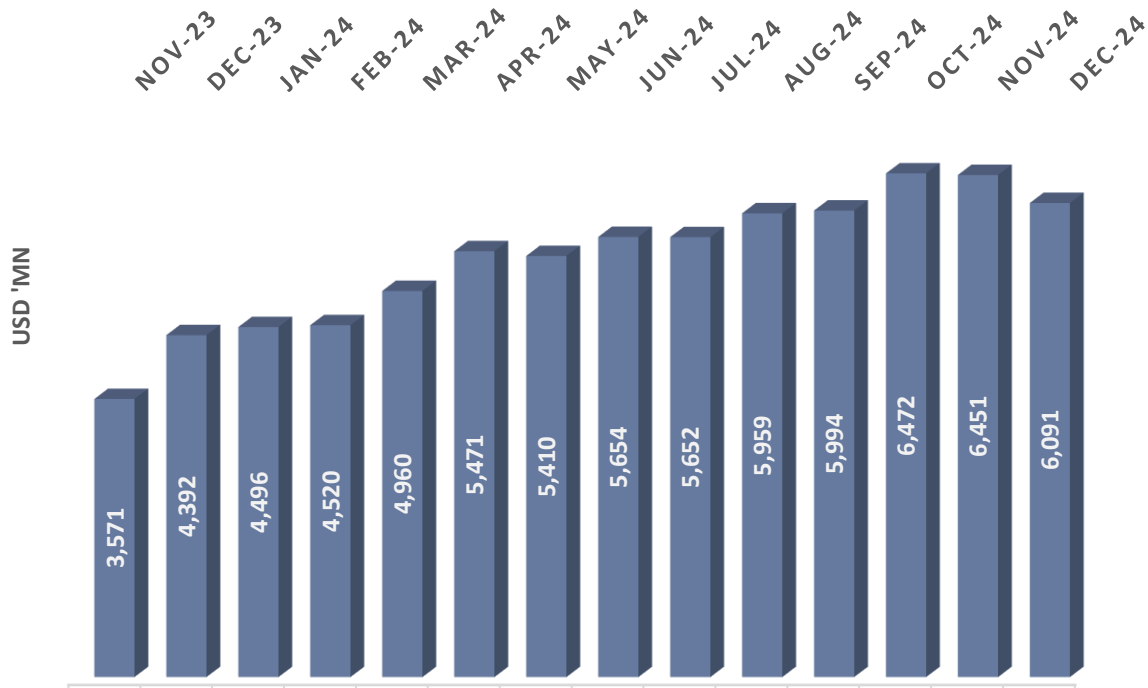


■ State Credit ■ Private Credit

Source: CBSL

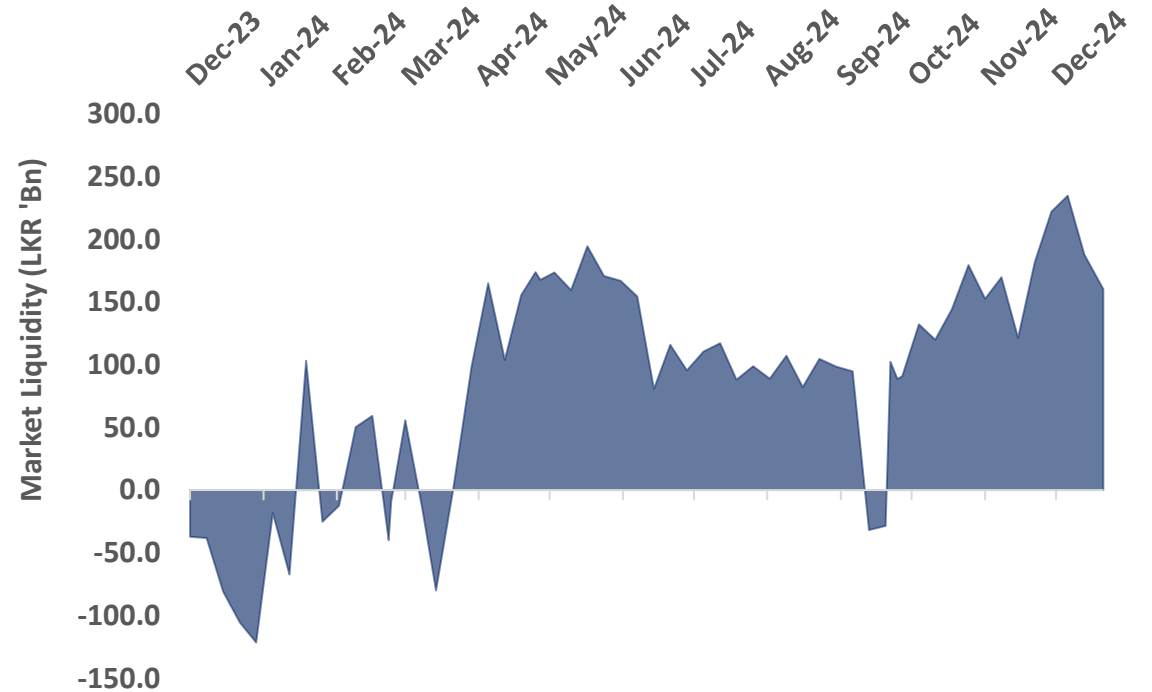
LIQUIDITY & RESERVES

- Foreign Reserves decreased by USD 360.0Mn to USD 6.1Bn in Dec-24.



Source: CBSL

- Market Liquidity continued to remain relatively high throughout the month closing at LKR 160.3Bn.



Source: CBSL

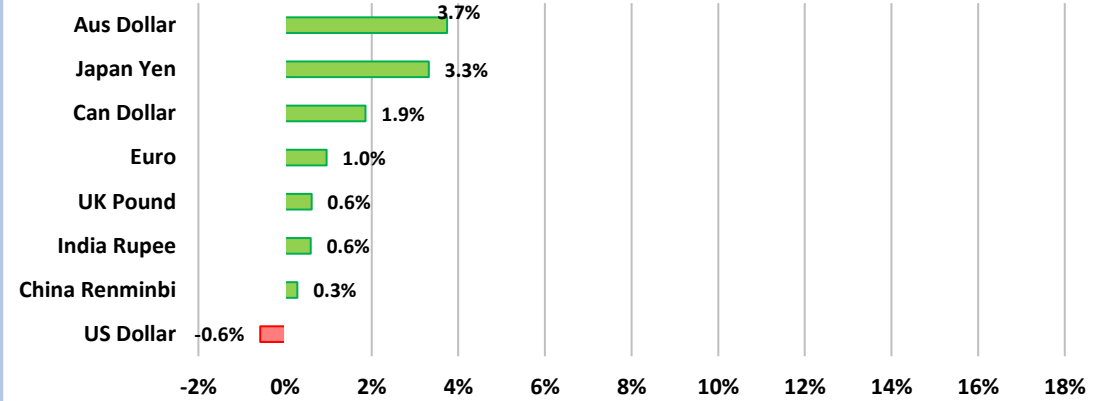
CURRENCY MOVEMENT

USD:LKR Movement

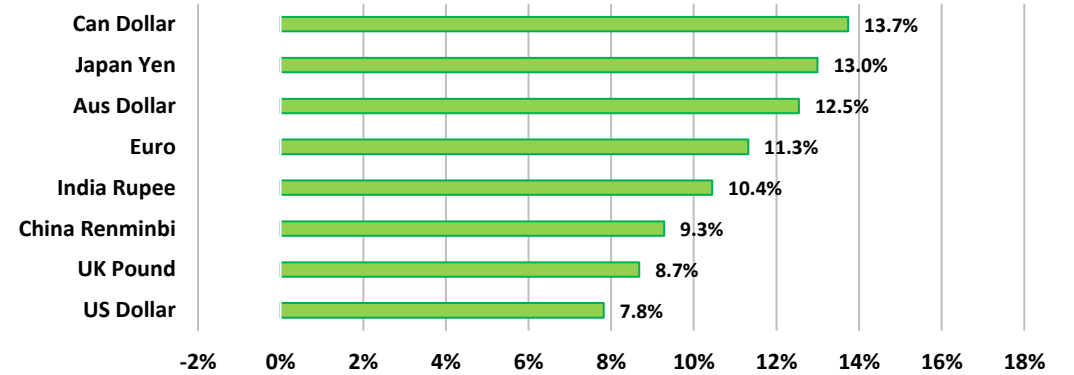


Sri Lankan Rupee vs Global Currencies

DEC 2024



YTD 2024



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Dec 2024

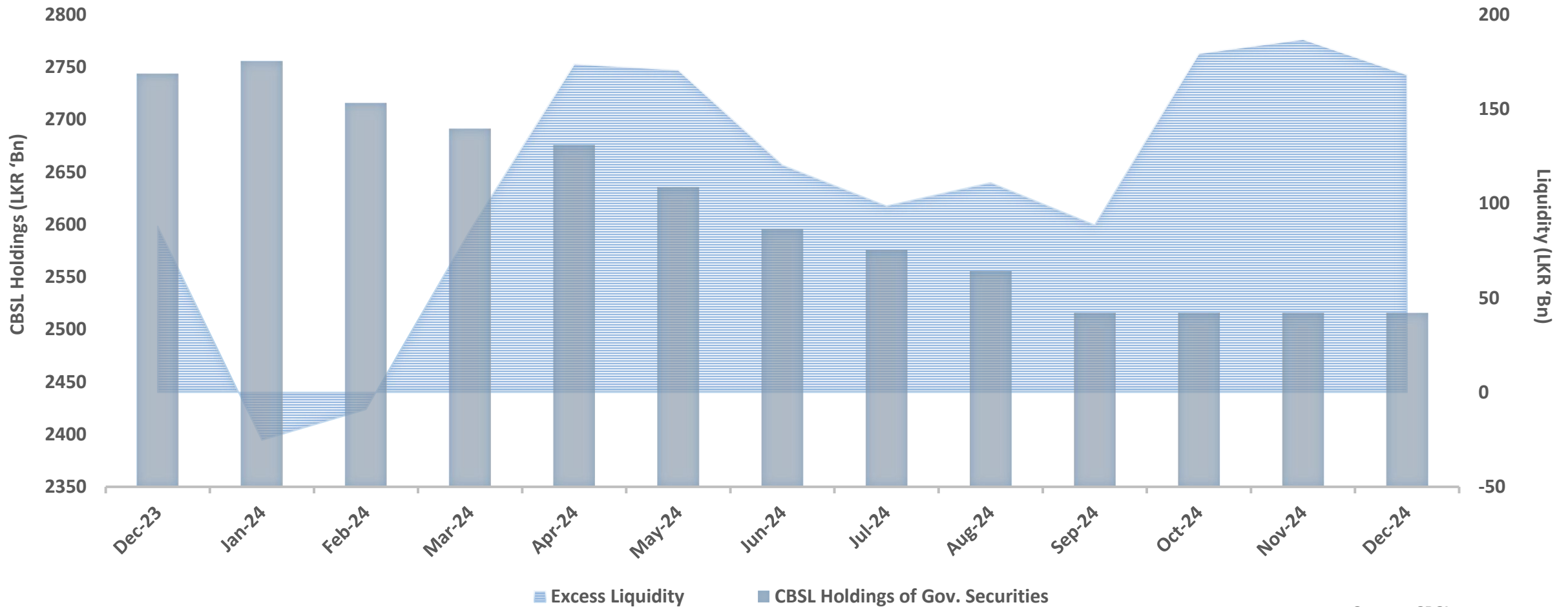
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
6-Dec-24	211,750	223,471	355,221
13-Dec-24	226,600		226,600
20-Dec-24	203,500	135,030	338,530
27-Dec-24	132,000		120,012
Total Issued			1,132,351

Net Settlement	Nov 2024	YTD
Maturities	883,695	8,859,358
New Issues	1,132,351	10,379,302
Excess/ (Deficit)	248,656	1,519,944

CBSL Holdings of Gov. Securities	YTD	
As at End Dec 2024	2,516,000	
As at End Nov 2024	2,516,000	
Increase/ (Decrease)	0	-120,000

CBSL HOLDINGS OF GOV. SECURITIES...

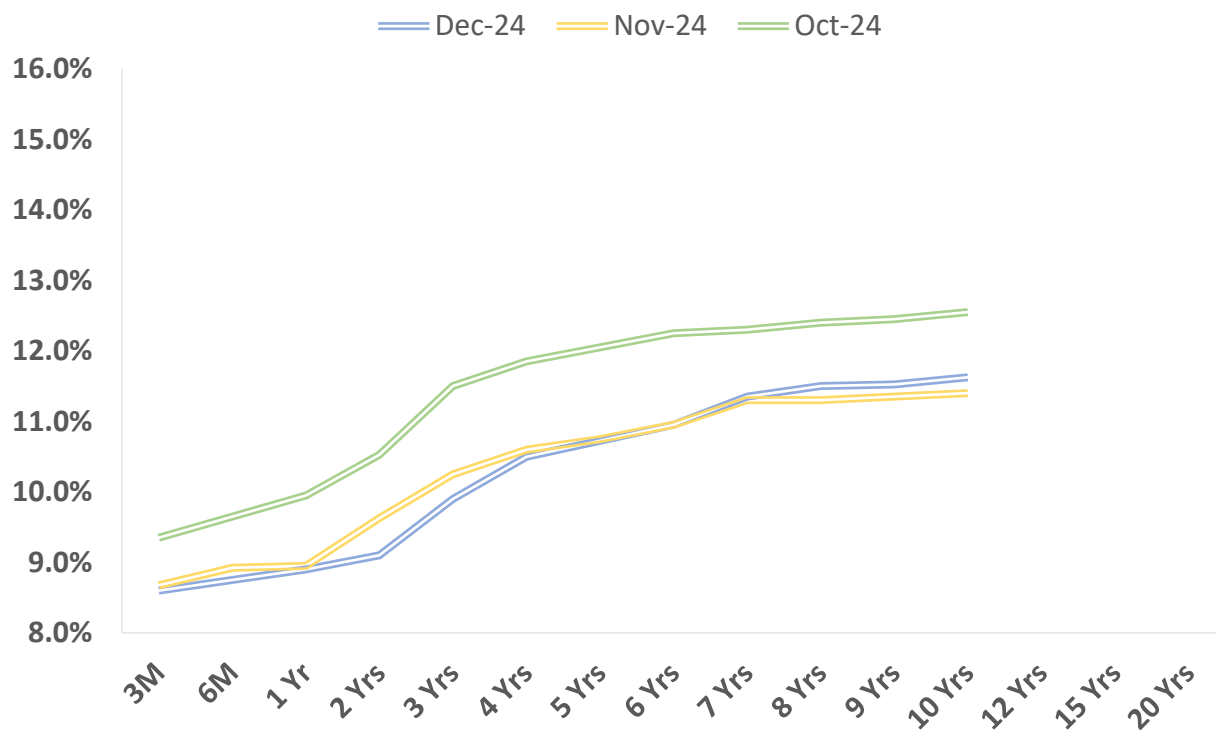
...remained stagnant in Dec 2024



Source: CBSL

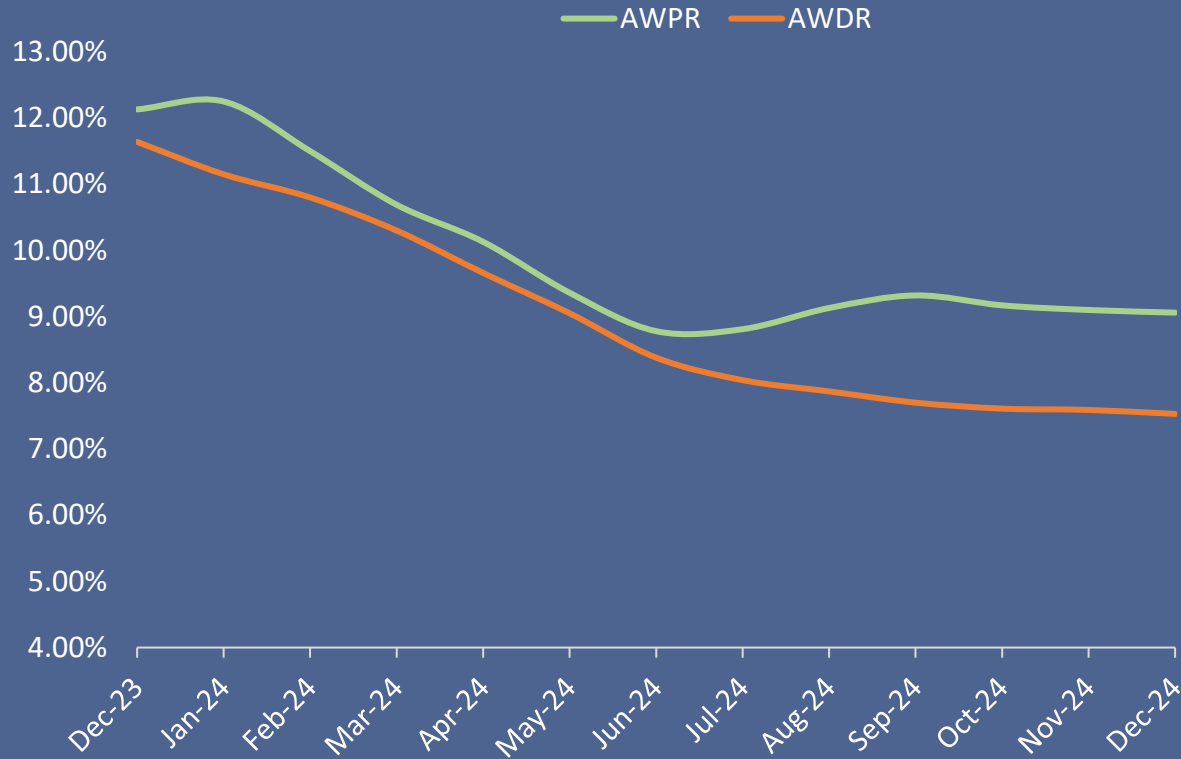
TREASURY BILLS AND BONDS – DEC 2024

In Dec-24, Sri Lanka's government securities market experienced mixed sentiment with moderate trading volumes. At the start of the month, there was a balance of profit-taking and buying interest, keeping the yield curve mostly unchanged, while the LKR appreciated slightly. In the middle of the month, investor sentiment picked up, particularly after the announcement of a large bond auction, with oversubscriptions at T-Bill auctions and slight declines in yields across maturities. The market showed increased interest in mid-term bonds, especially the 2028 maturities. By the end of the month, buying interest remained focused on the mid-curve, with long-end yields edging up slightly. The Central Bank conducted successful bond auctions, raising significant amounts, while the Rupee weakened slightly against the USD towards the month's close. Overall, December was characterized by cautious optimism, with investor focus on short-to-mid-term bonds and moderate fluctuations in the currency.



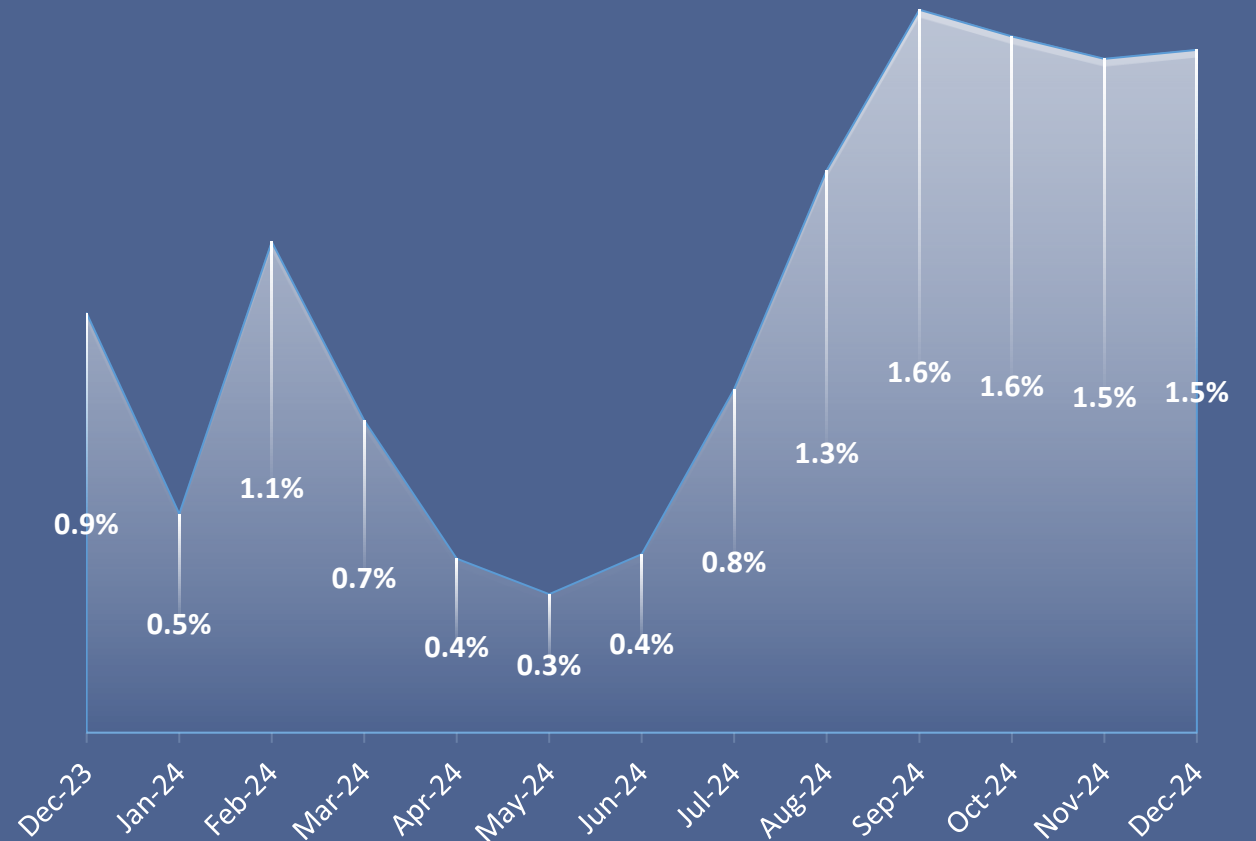
Tenure	Interest Rate Change (bps)				
	Dec-24	Nov-24	Change (bps)	Oct-24	Change (bps)
3M	8.60%	8.68%	-8	9.35%	-75
6M	8.75%	8.93%	-18	9.65%	-90
1 Yr	8.90%	8.95%	-5	9.95%	-105
2 Yrs	9.10%	9.63%	-53	10.53%	-143
3 Yrs	9.90%	10.25%	-35	11.50%	-160
4 Yrs	10.50%	10.60%	-10	11.85%	-135
5 Yrs	10.73%	10.75%	-3	12.05%	-133
6 Yrs	10.95%	10.95%	0	12.25%	-130
7 Yrs	11.35%	11.30%	5	12.30%	-95
8 Yrs	11.50%	11.30%	20	12.40%	-90
9 Yrs	11.53%	11.35%	18	12.45%	-92
10 Yrs	11.63%	11.40%	22	12.55%	-93
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

AWPR vs AWDR



Source: CBSL

Interest Spread



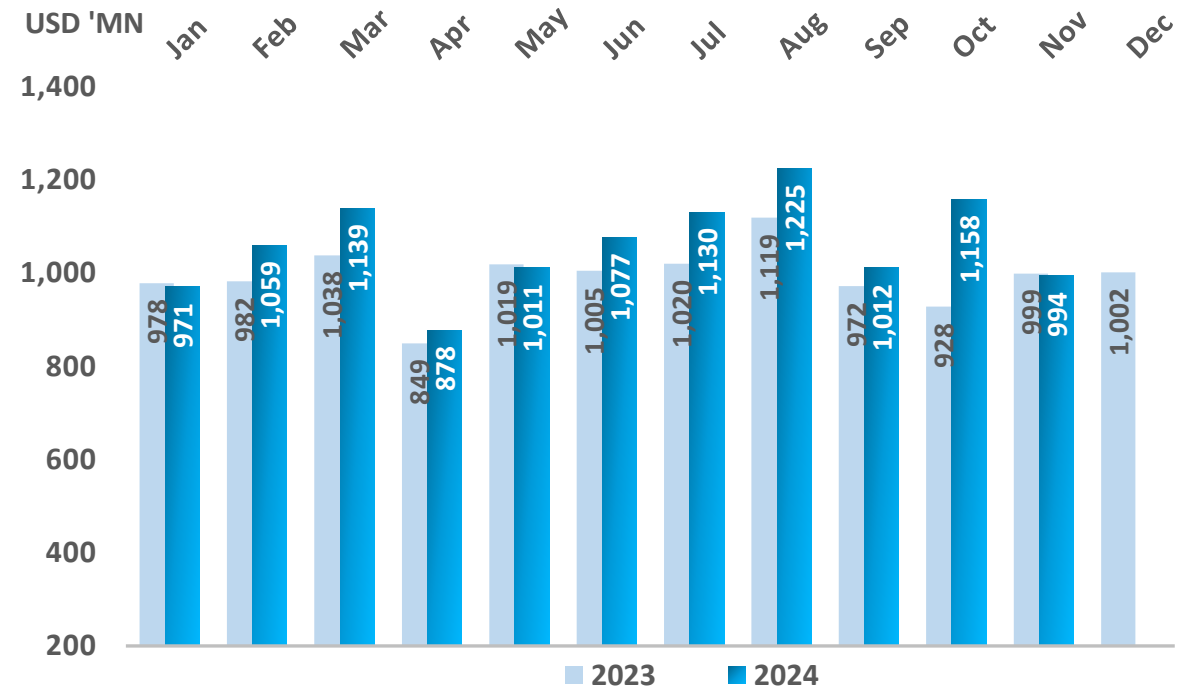
Source: CBSL

FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – NOV-24 – EXPORTS

In Nov-24, earnings from exports dipped by 0.5%YoY to USD 994.1Mn, down from USD 999.0Mn in Nov-23. This marginal decrease was driven by a 0.3% shrinkage in Industrial Exports and a more substantial 91.0% drop in Mineral Exports. The dip in Industrial Exports was a result of dwindling earnings from Gems, Diamonds and Jewelry, Leather, Travel Goods and Footwear and Machinery and Mechanical Appliances sub-components. All major sub-components of the Agricultural segment except Seafood, registered a YoY growth in Nov-24, promoting the overall uptick seen in inflows from Agricultural Exports.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- Nov	765.4	762.9	-0.3
- YTD	8,486.8	9,105.3	7.3
Agricultural			
- Nov	214.8	228.0	6.1
- YTD	2,359.9	2,517.9	6.7
Mineral Exports			
- Nov	16.2	1.5	-91.0
- YTD	36.5	23.0	-37.1
Total			
- Nov	999.0	994.1	-0.5
- YTD	10,908.9	11,670.2	7.0

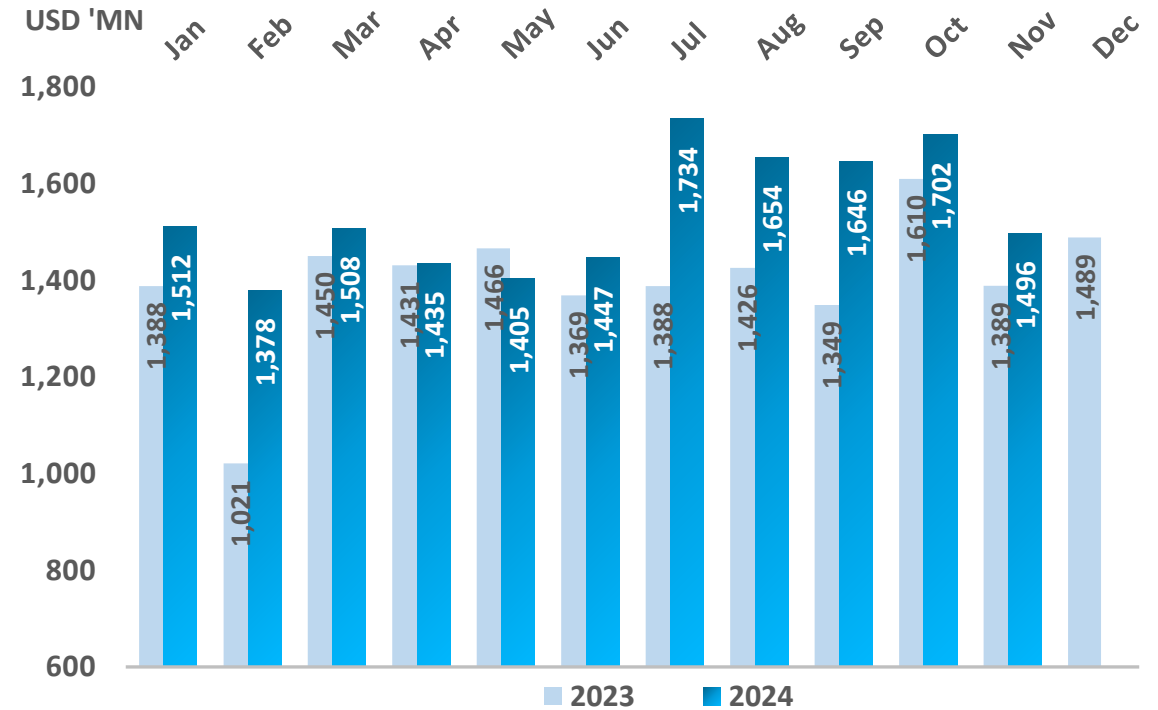


Source: CBSL
Jan 2025

EXTERNAL SECTOR – NOV-24 – IMPORTS

In Nov-24, expenditure on imports increased by 7.7%YoY to USD 1,496.3Mn compared to USD 1,388.7Mn in Nov-23. Expenditure increased across all the major import categories in the period under review. Import expenditure on Consumer goods increased in Nov-24 driven by both food and beverages, and non-food consumer goods. Expenditure on Intermediate goods imports also rose due to higher imports of wheat and maize, textile and textile articles, chemical products, base metals, plastics and articles and rubber and articles. In contrast, import expenditure on fuel declined substantially during the corresponding period. Importation of Investments goods saw a slight uptick in Nov-24 owing to higher import expenditure across all main sub-components.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- Nov	265.2	319.6	20.5
- YTD	2,771.2	3,068.1	10.7
Intermediate			
- Nov	867.8	920.1	6.0
- YTD	10,058.2	10,789.7	7.3
Investment goods			
- Nov	255.7	256.6	0.3
- YTD	2,493.2	3,059.2	22.7
Total			
- Nov	1,388.7	1,496.3	7.7
- YTD	15,322.6	16,916.9	10.4

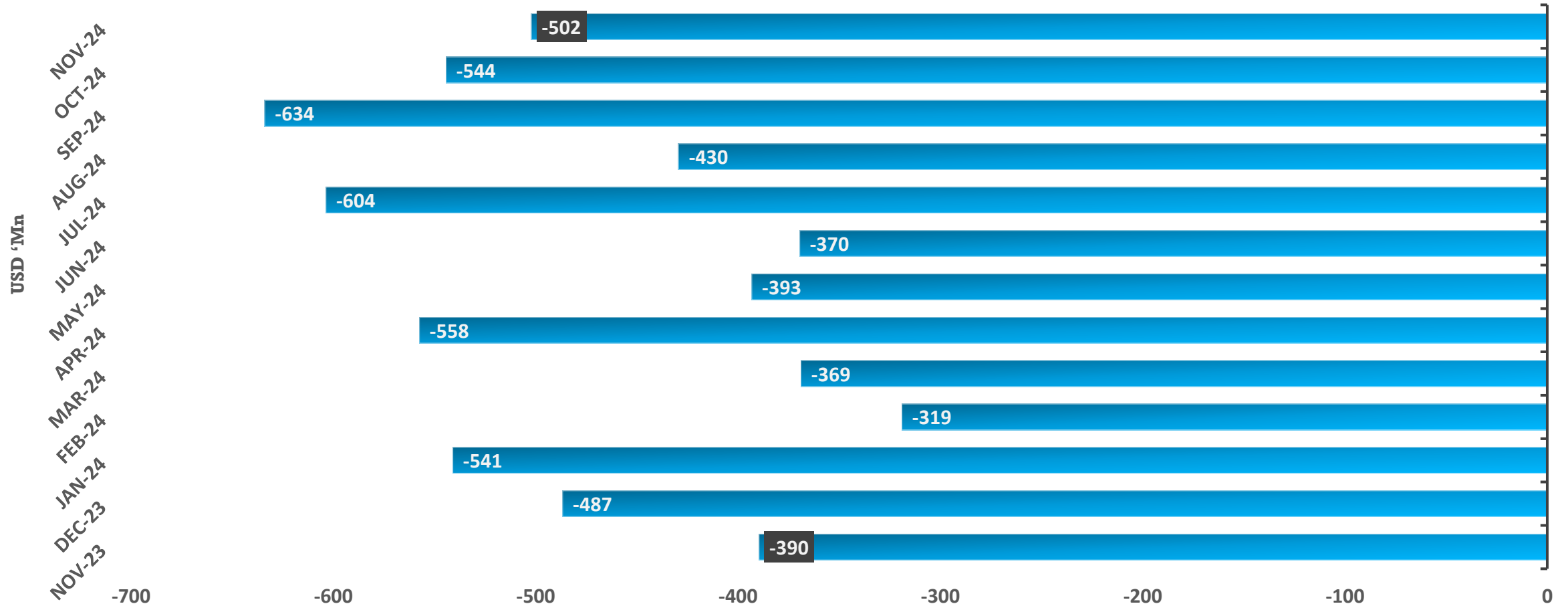


Source: CBSL

Jan 2025

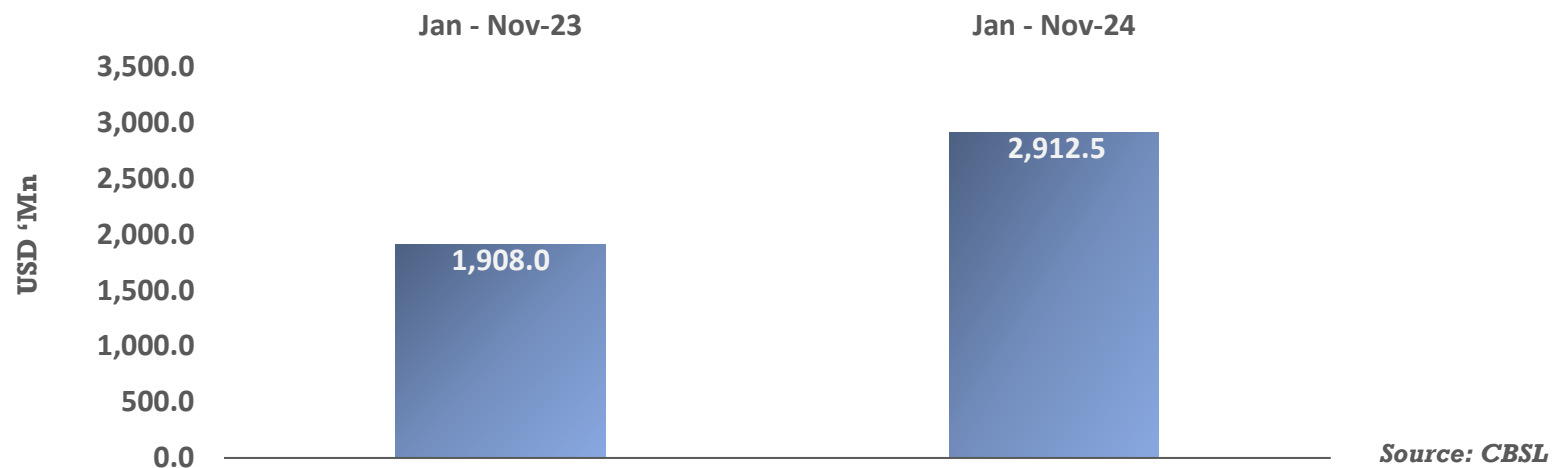
EXTERNAL SECTOR – NOV-24

Balance of Trade

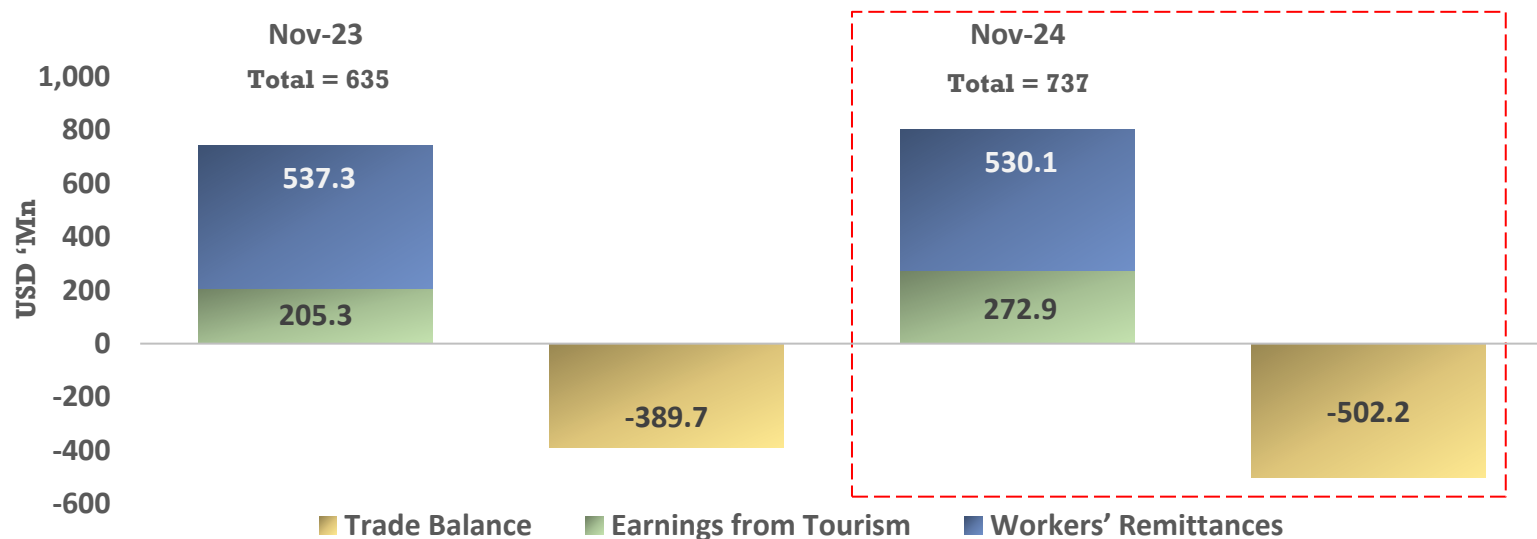


Source: Central Bank

BoP for Jan–Nov-24 recorded at USD 2,912.5Mn compared to Jan–Oct-24 amount of USD 2,824.9Mn, resulting in a net inflow of USD 87.6Mn, for the month of Nov-24.



Workers' Remittances dipped to USD 530.1Mn in Nov-24 (-1.4%YoY) while Earnings from Tourism rose to USD 272.9Mn (+32.9%YoY).



BALANCE OF PAYMENT IMPROVED YOY IN NOV-24

Nov USD 'Mn	2023	2024	Change (%)
Trade Balance	-389.7	-502.2	
Earnings from Tourism	205.3	272.9	+32.9
Workers' Remittances	537.3	530.1	-1.4

YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-4,413.6	-5,246.7	
Earnings from Tourism	1,798.7	2,806.5	+56.0
Workers' Remittances	5,399.8	5,961.6	+10.4

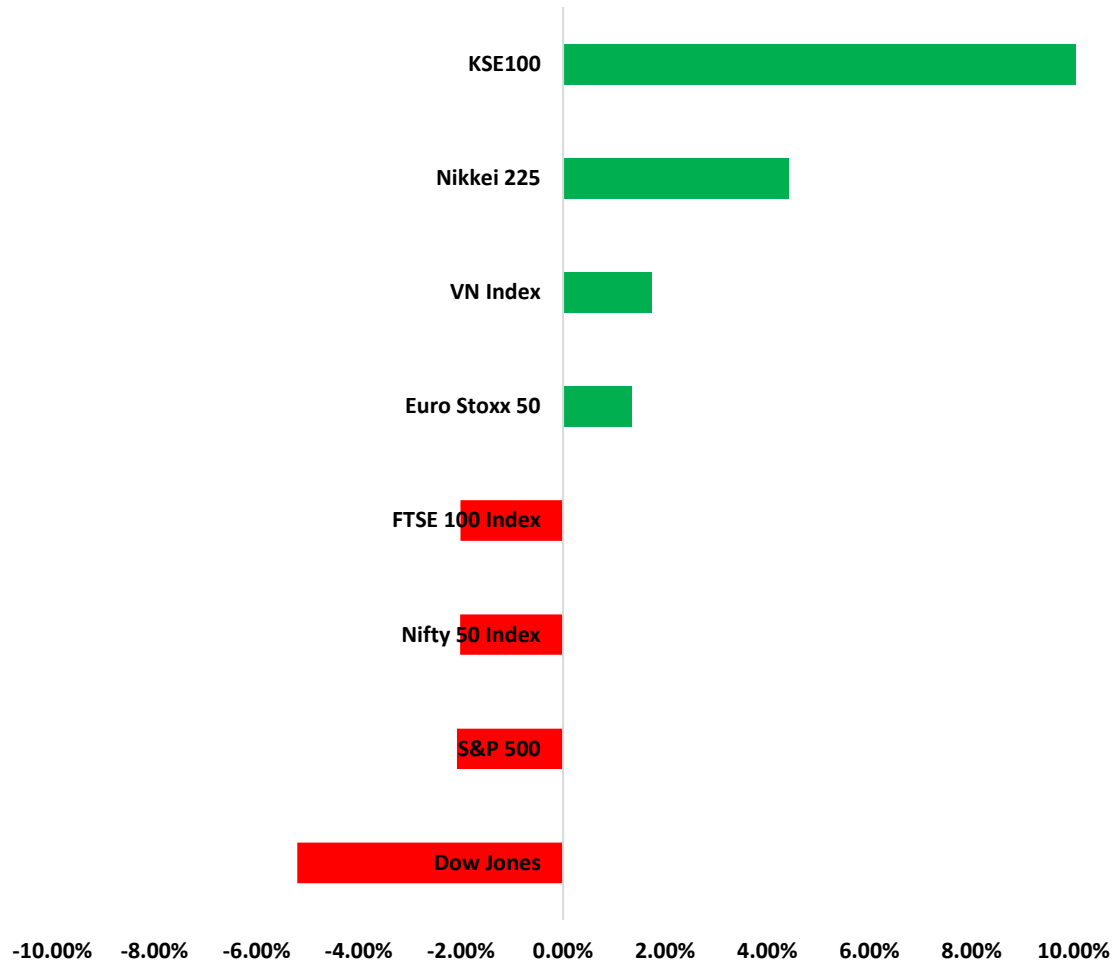
TOURIST ARRIVALS – DEC-2024

[Dec 248,592 – UP +18.2%YoY] [MoM – UP +35.0%]

The total arrivals for the month stood at 248,592 registering an increase of 18.2%YoY. Leisure and vacation were the primary segments that attracted tourists, accounting for nearly 52% of total arrivals during the month. It was Sri Lanka's growing popularity as a premier destination for recreation that aided this development. Similar to the previous month, India, Russia, the United Kingdom and Germany remained key source markets in Dec-24.



GLOBAL MARKET – DEC-2024



Markets Sound Alarm Over Deflationary Spiral in China

China's consumer inflation weakened further toward zero, decelerating for a fourth straight month in a setback for government efforts to stamp out deflation and revive demand with economic stimulus. The consumer price index rose 0.1% in December from a year earlier, in line with the median forecast of economists surveyed by Bloomberg. Factory deflation extended into a 27th month, though the producer price index recorded a slower drop of 2.3%, the National Bureau of Statistics said Thursday.

Bloomberg



India's economy to grow at slowest pace in 4 years; manufacturing faces sharpest decline

The Indian government's GDP projection for FY25 is lower than the recent Reserve Bank of India estimate of 6.6% for the current fiscal year ending March 2025. The projection is the lowest since the pandemic, and lower than the recent Reserve Bank estimate of 6.6% for the current fiscal year ending March 2025, amid a general slowdown in consumer spending.

Trump's tariff threat spurs auto suppliers to rethink production plans

Global auto suppliers are working out how much of their production can be moved to the United States, or closer to it, as a defense against tariffs promised by President-elect Donald Trump, according to industry executives at CES in Las Vegas. The auto industry has already experienced eight years of U.S. protectionism, from real and threatened tariffs during Trump's first term and then more tariffs and the U.S. Inflation Reduction Act under President Joe Biden. Most of those measures were aimed squarely at China, in particular a proposal by the Biden administration to bar Chinese software and hardware from cars on U.S. roads.



REUTERS
WORLD

Source: Investing.com

Jan 2025

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.



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



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@fir stcapital.lk

Akna Tennakoon
Senior Research Analyst
T: +94 11 2639 866
E: akna@firstcapital.lk

Anjali Mathews
Senior Research Associate
T: +94 11 2639 866
E: anjali@firstcapital.lk

Manusha Kandanaarachchi
Research Associate
T: +94 11 2639 866
E: manusha@firstcapital.lk