



First Capital
A Janashakthi Group Company

MONTHLY ECONOMIC WATCH

Feb 2025

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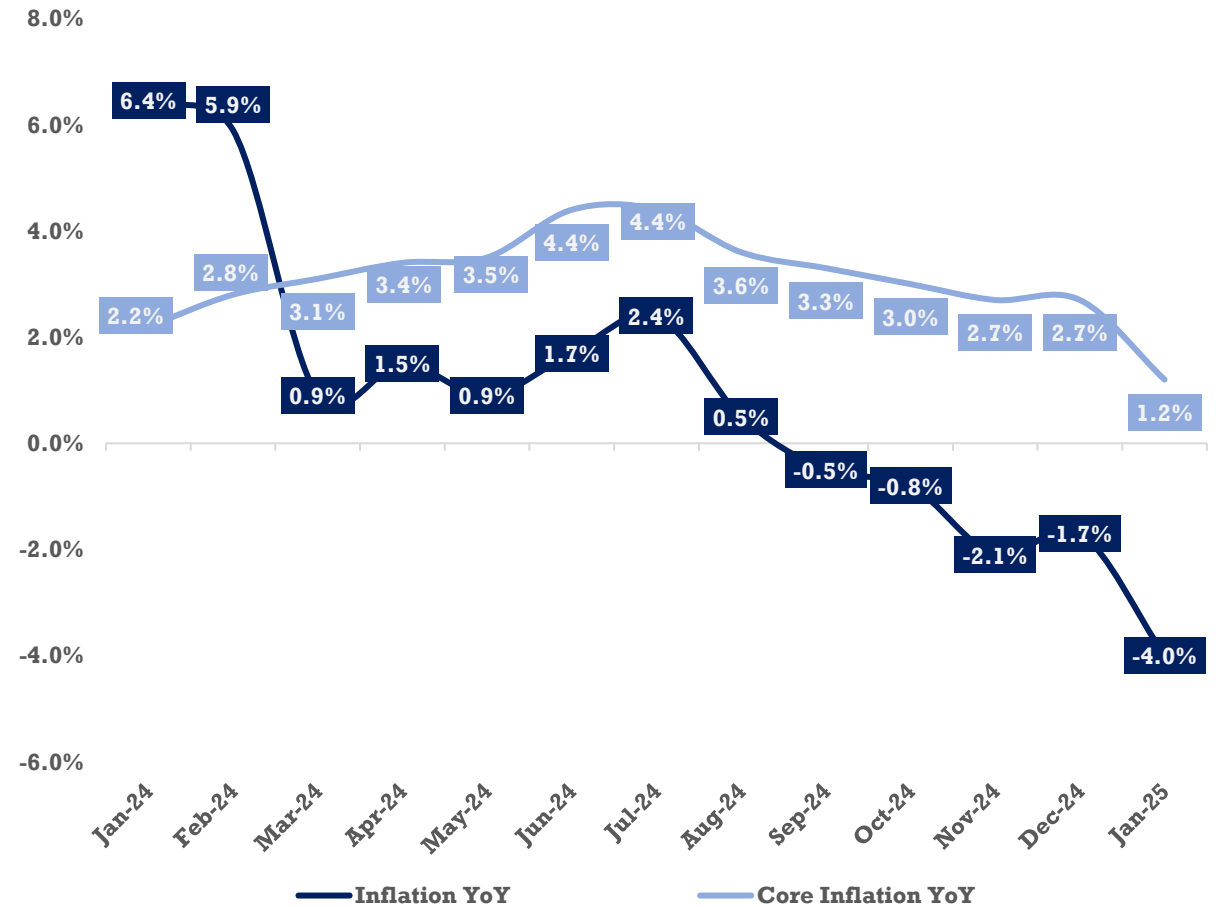
CBSL MAINTAINS THE OVERNIGHT POLICY RATE (OPR) AT THE CURRENT LEVEL

- The Monetary Policy Board of CBSL, at its meeting held on 28th Jan 2025, decided to maintain the Overnight Policy Rate (OPR) of the Central Bank at its current level of 8.0%.
- The Board arrived at this decision following a careful analysis of the current and expected macroeconomic developments on the domestic and global fronts. This decision was made with a medium-term view of ensuring that inflation converges to the target of 5.0%, while supporting the economy to reach its potential.
- The Board observed that the current period of deflation, as projected earlier, has largely been an outcome of administratively determined energy price reductions.
- This trend is expected to continue over the next few months before inflation begins adjusting towards the targeted level in 2H2025.
- This decision was also supported by persistent growth in the real economy and continued downward adjustments in short-term money market interest rates.

Inflation – CCPI

CCPI FOR JAN 2025:
MOM +0.5%
YOY -4.0%

- MoM inflation rose by 0.5% with the Food group dipping to 0.3%MoM while that of the Non-food group rose to 0.6%MoM.
- The YoY figure stood at -4.0% in Jan 2025, down from -1.7% registered in the previous month. YoY inflation of the food group decrease significantly to -2.6%. Inflation of the Non-Food group also dipped further to -4.7% in Jan from -3.0% in Dec 2024.

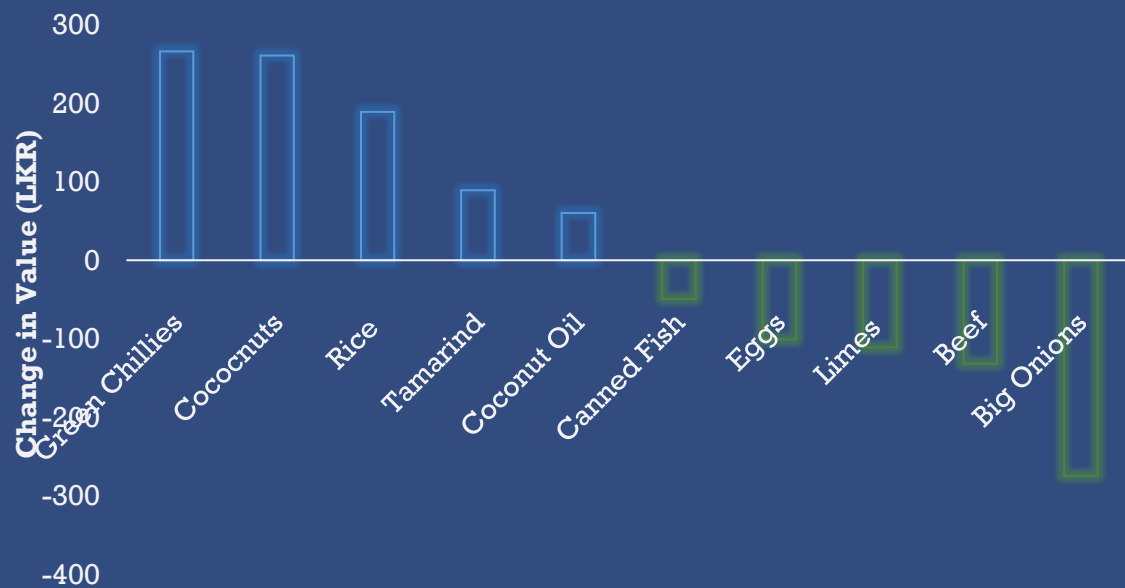


INFLATION ANALYSIS – CCPI-MOM

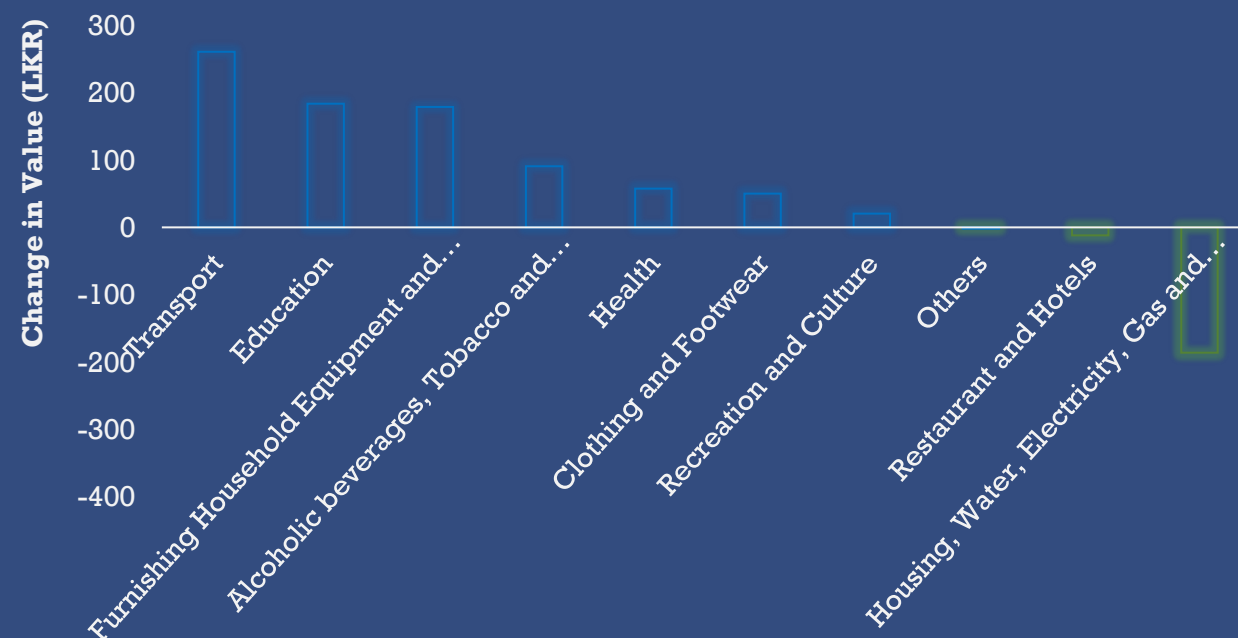
The CCPI index increased by 0.5%MoM contributed by the increase in expenditure of Food items by 0.11% and an increase in expenditure of Non-Food items by 0.36%. Within the Food items, an increase in value changes were mainly reported for Green Chillies, Coconuts, Rice, Tamarind and Coconut Oil. Within the Non-Food groups, increase in value changes were mainly reported for Transport, Education, Furnishing Household Equipment and Routine Household Maintenance, Alcoholic beverages, Tobacco and Narcotic, Health and Clothing and Footwear.



Food Category Inflation



Non-Food Category Inflation

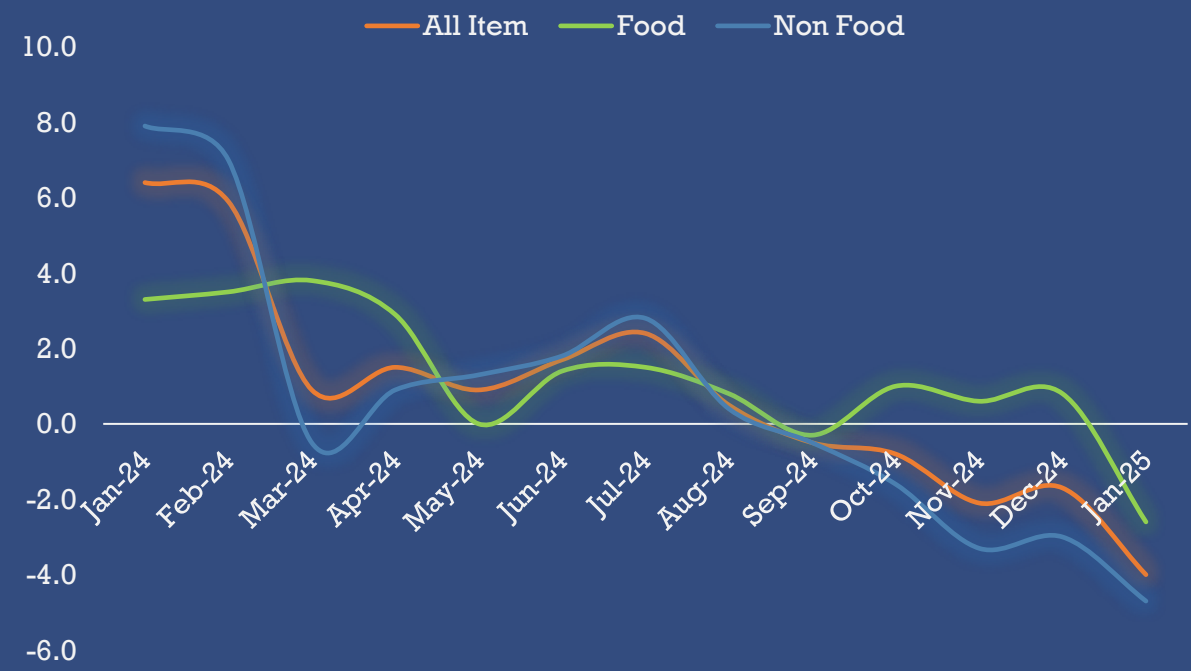


INFLATION ANALYSIS – CCPI-YOY

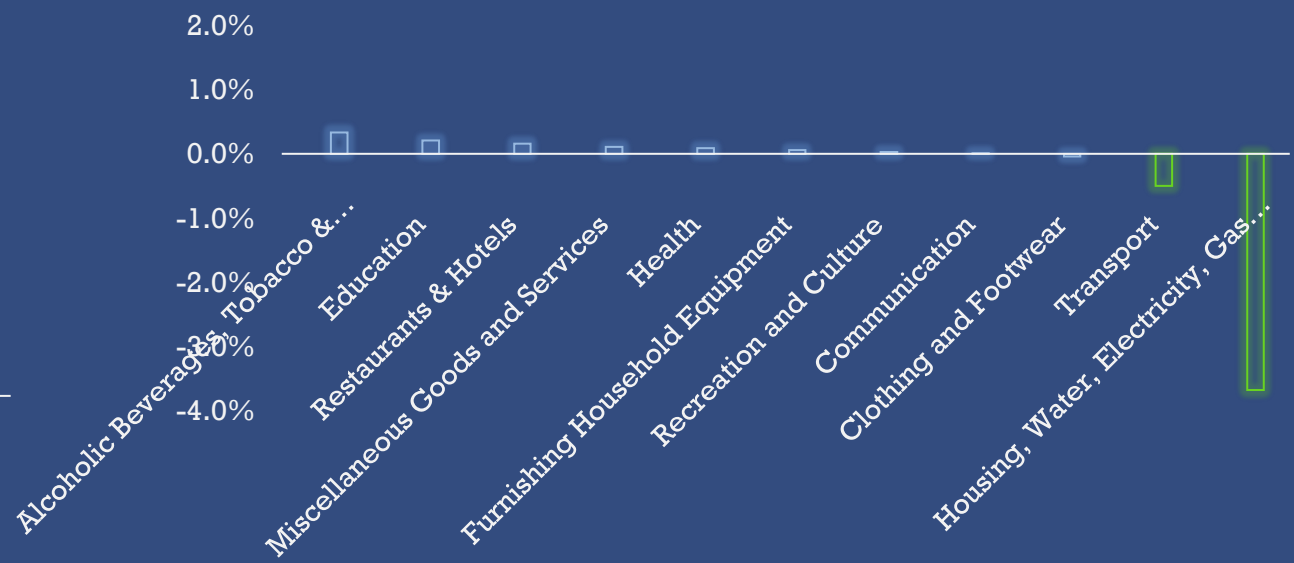
The YoY inflation of CCPI for Jan 2025 was -4.0% and has decreased relative to the month of Dec 2024. Food item prices decreased to -2.6%YoY in Jan 2025 from 0.8%YoY in Dec 2024 while the Non-Food item prices further decreased to -4.7%YoY in Jan 2025. The contribution from Food category for YoY inflation was -0.83% while the contribution of Non-Food items stood at -3.22%, mainly due to the decrease in prices of Housing, Water, Electricity, Gas and other Fuels, and Transport.



Inflation Analysis (YoY)



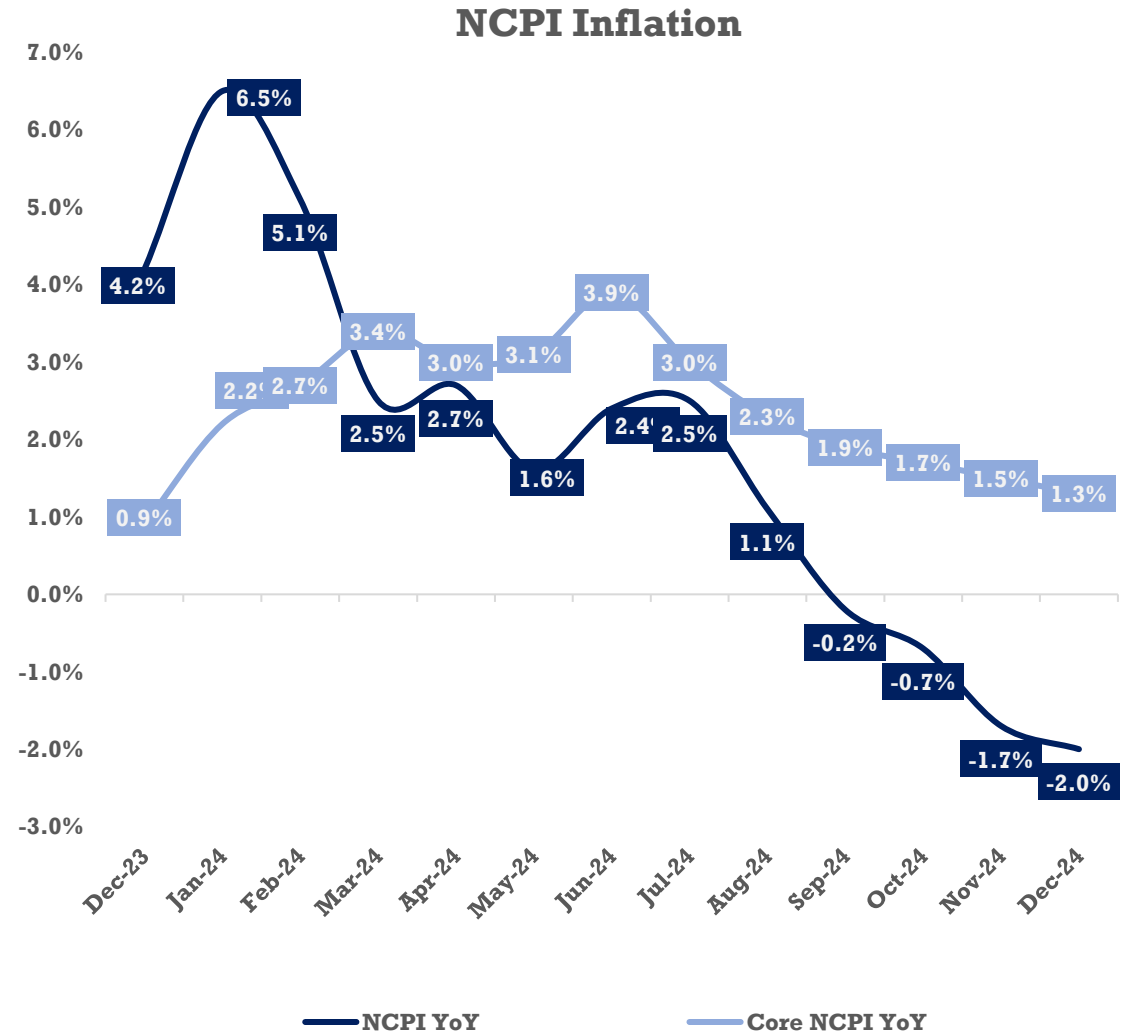
Non-Food Category Inflation



INFLATION – NCPI

NCPI FOR DEC 2024: DECREASED TO -2.0% YOY

- NCPI for Dec 2024, further deflated to -2.0% compared to -1.7% in Nov 2024.
- Decrease in inflation was mainly driven by the price decrease in Non-Food commodities. YoY Food inflation stood at -1.0% in Dec 2024 while inflation of the Non-Food group slightly increased to -2.9% in Dec from -3.1% in Nov 2024.

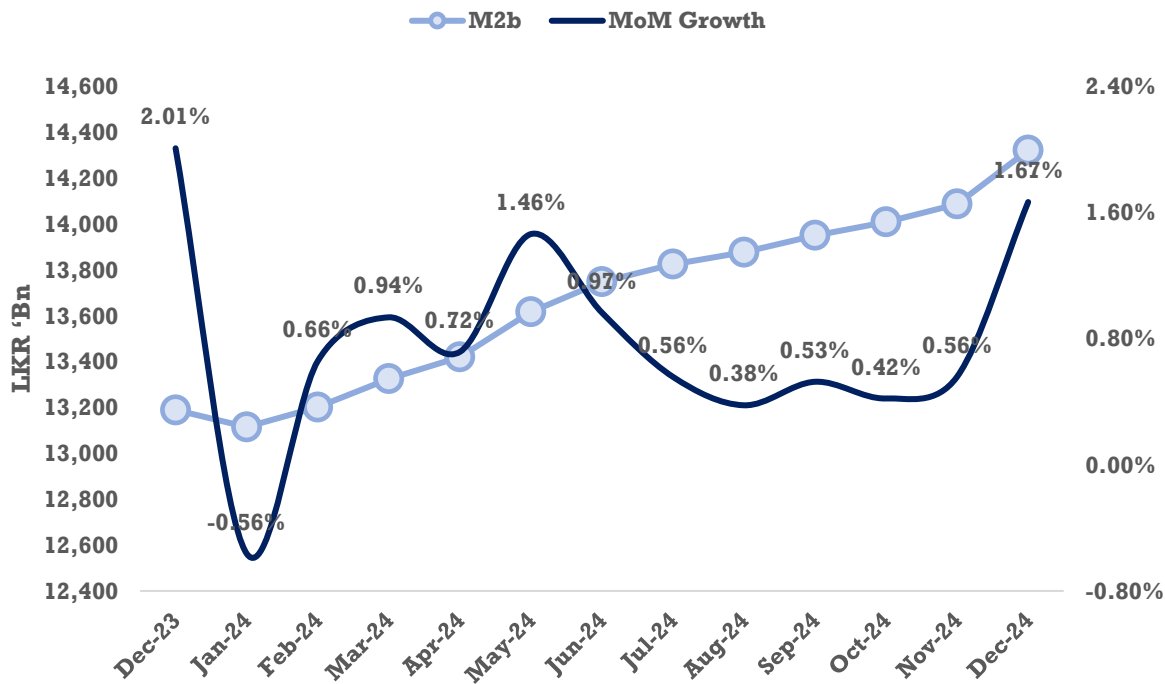


M2B AND CREDIT GROWTH

Private sector credit expanded for the 8th consecutive month by LKR 193.2Bn in Dec 2024. State credit also registered an uptick of LKR 157.1Bn for the month of Dec 2024, deviating from the downward trajectory seen since the start of 2024.

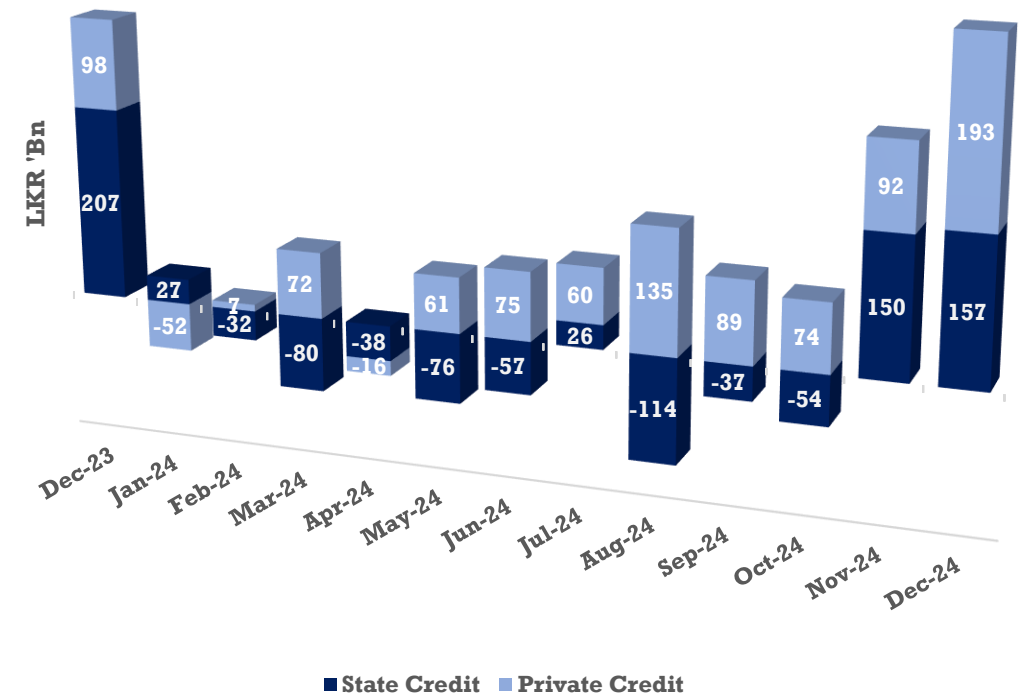
M2b Growth – Dec 2024

MoM +1.7%, YoY +8.6%, YTD +8.6%



State Credit & Private Credit – Dec 2024

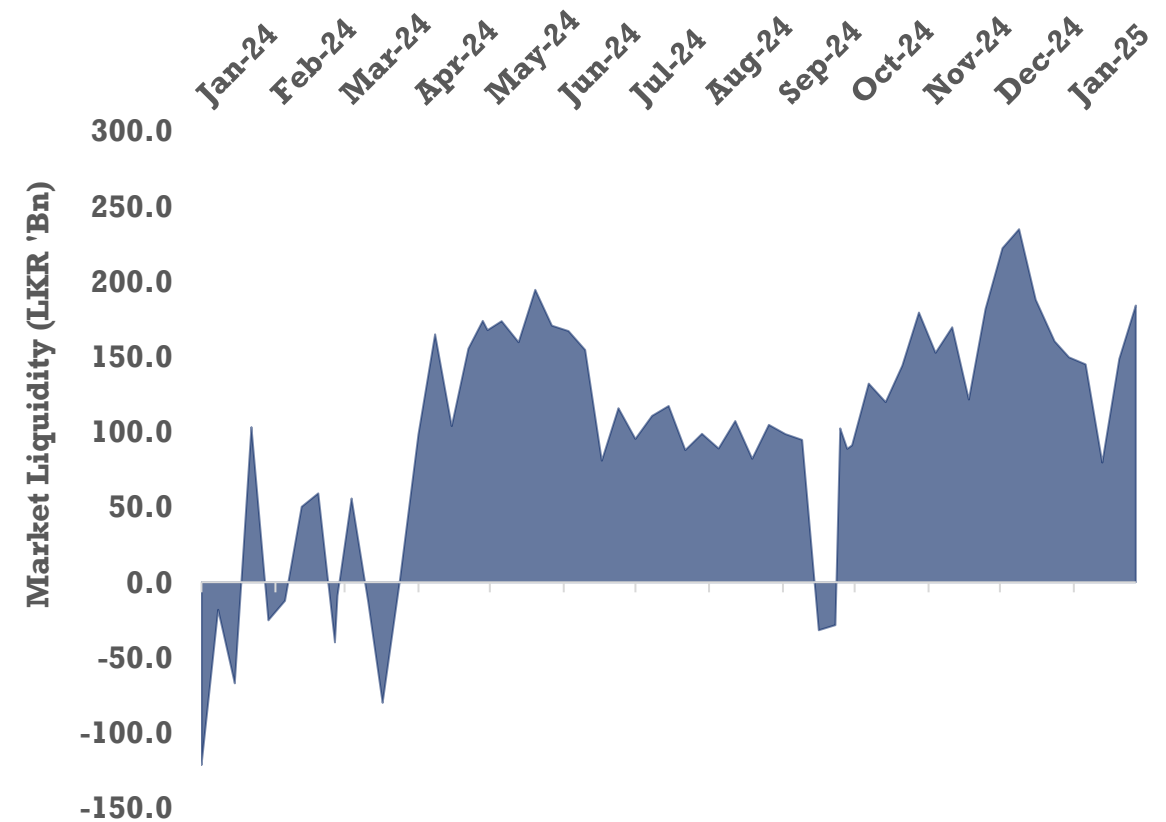
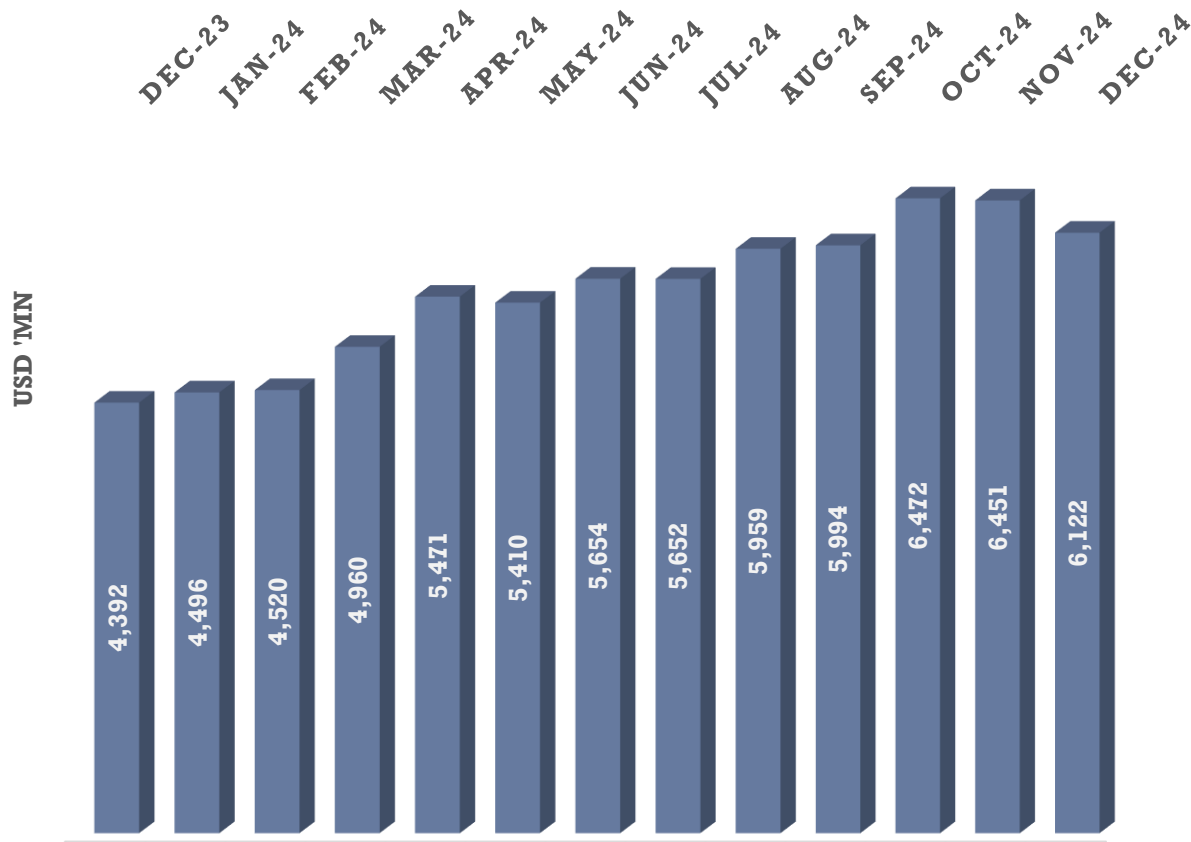
Private Credit MoM +2.4%, YoY +10.7%, YTD +10.7%



LIQUIDITY & RESERVES

- Foreign Reserves decreased by USD 329.0Mn to USD 6.1Bn in Dec 2024.

- Market Liquidity continued to remain relatively high throughout the month closing at LKR 184.1Bn.

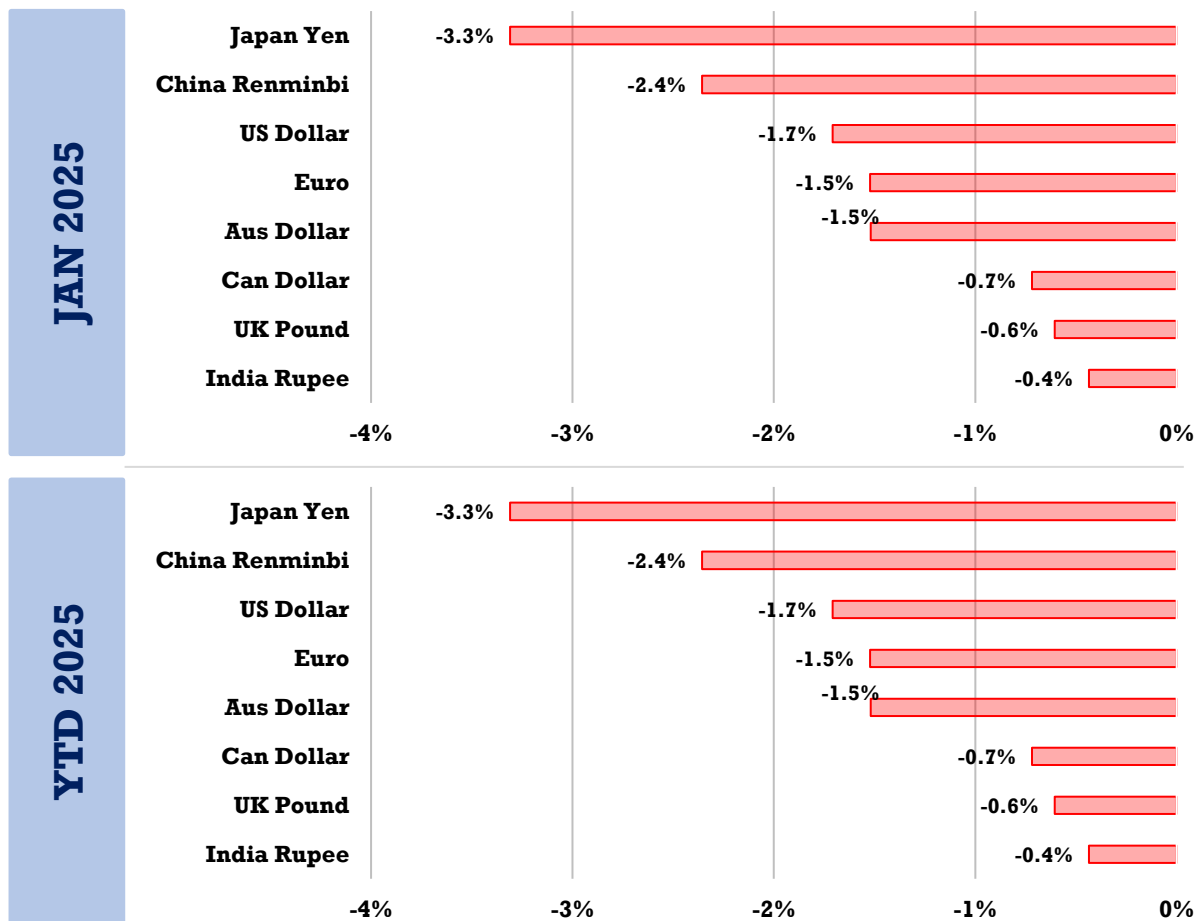


CURRENCY MOVEMENT

USD:LKR Movement



Sri Lankan Rupee vs Global Currencies



GOVERNMENT SECURITIES – NEW ISSUES

Bill and Bond auctions for Jan 2025

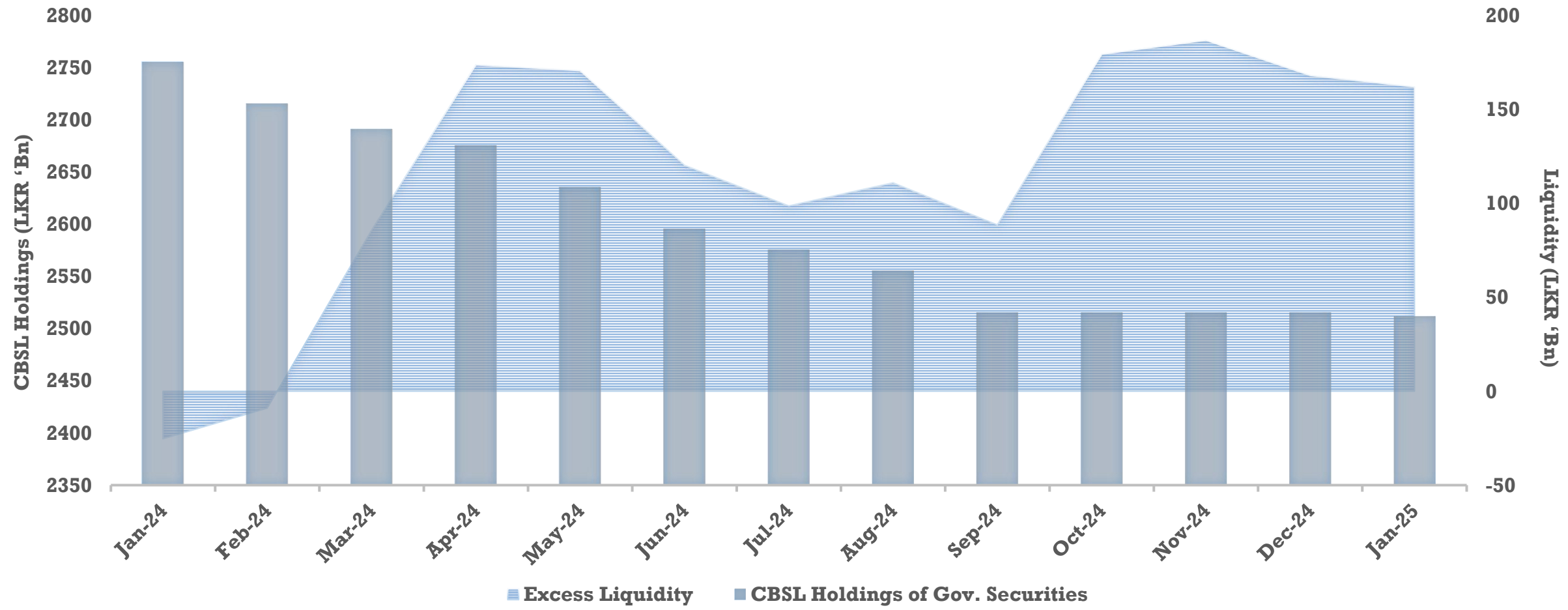
Week Ending	Bills ('Mn)	Bonds ('Mn)	Total
3-Jan 2025	184,800	84,500	269,300
10-Jan 2025	112,200		112,200
17-Jan 2025	117,700	191,182	308,882
24-Jan 2025	170,500		170,500
31-Jan 2025	200,750		200,750
Total Issued			860,882

Net Settlement	Jan 2024	YTD
Maturities	826,719	826,719
New Issues	860,882	860,882
Excess/ (Deficit)	34,163	34,163

CBSL Holdings of Gov. Securities	YTD	
As at End Jan 2025	2,512,000	
As at End Dec 2024	2,516,000	
Increase/ (Decrease)	-4,000	-4,000

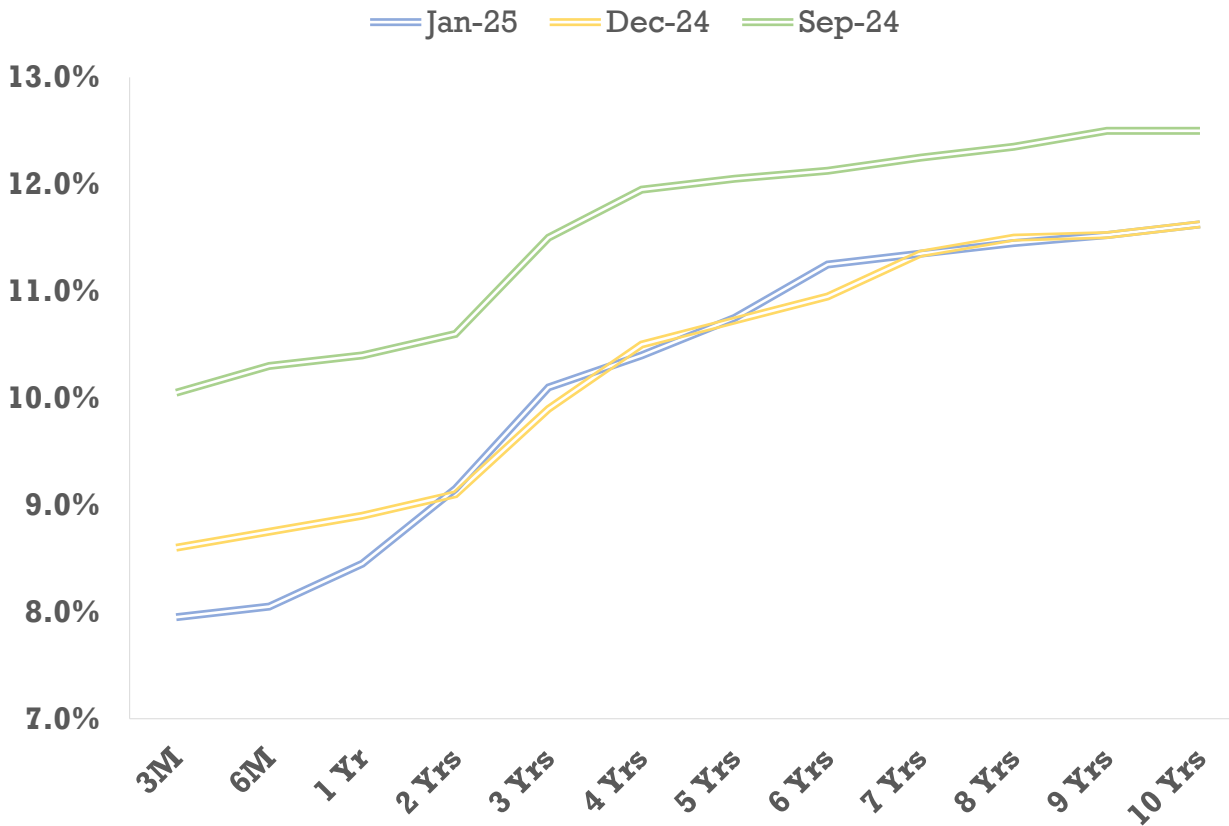
CBSL HOLDINGS OF GOV. SECURITIES...

...decreased slightly in Jan 2025



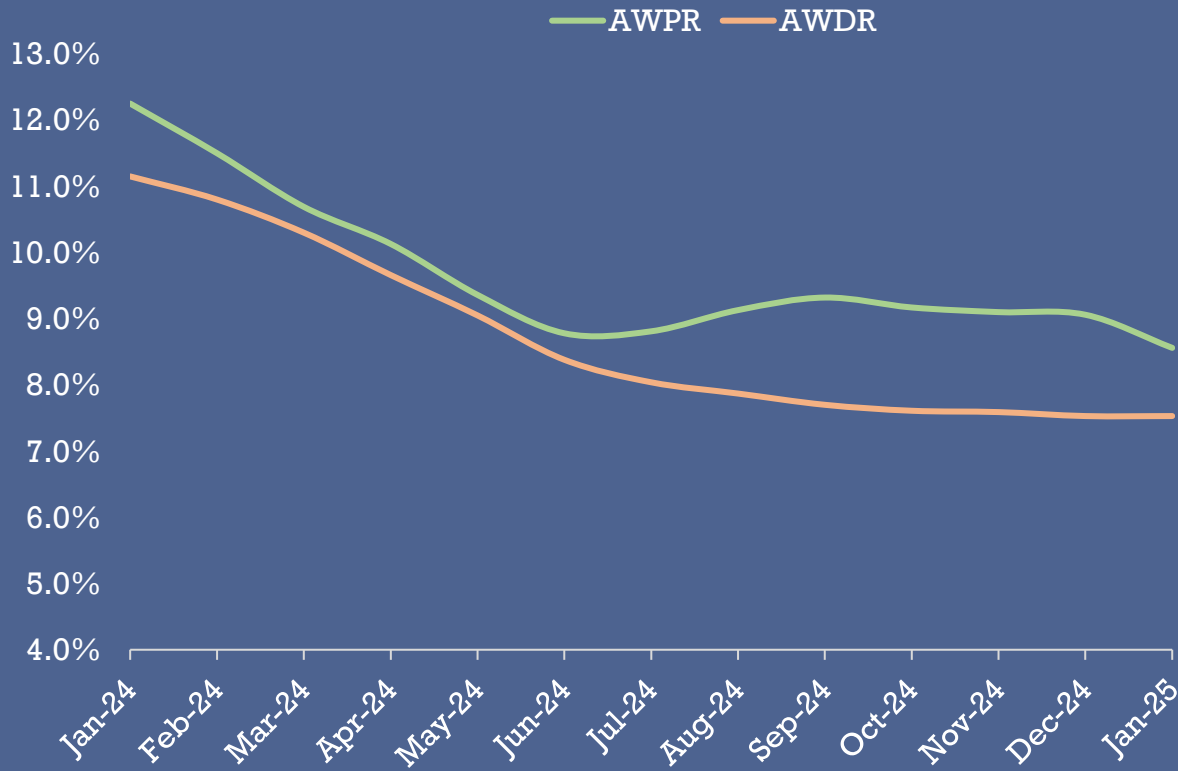
TREASURY BILLS AND BONDS – JAN 2025

In Jan 2025, government securities market experienced a period of mixed activity with moderate trading volumes and a general decline in yields across the curve. At the start of the month, investor sentiment remained subdued due to the holiday season, resulting in limited trading. However, as the month progressed, there was a slight uptick in market activity, particularly in mid-tenor bonds, with investors showing interest in the 2028 and 2030 maturities. The CBSL conducted successful T-Bond and T-Bill auctions, raising significant amounts, and demand remained strong, especially for the 6M T-Bills. The Rupee saw some fluctuations, appreciating at the start of the month, then weakening mid-month, before slightly appreciating again by month-end. Overall, January saw a cautious market sentiment, with investors focusing on medium-term bonds and the currency experiencing moderate fluctuations, alongside a consistent decline in T-Bill yields.

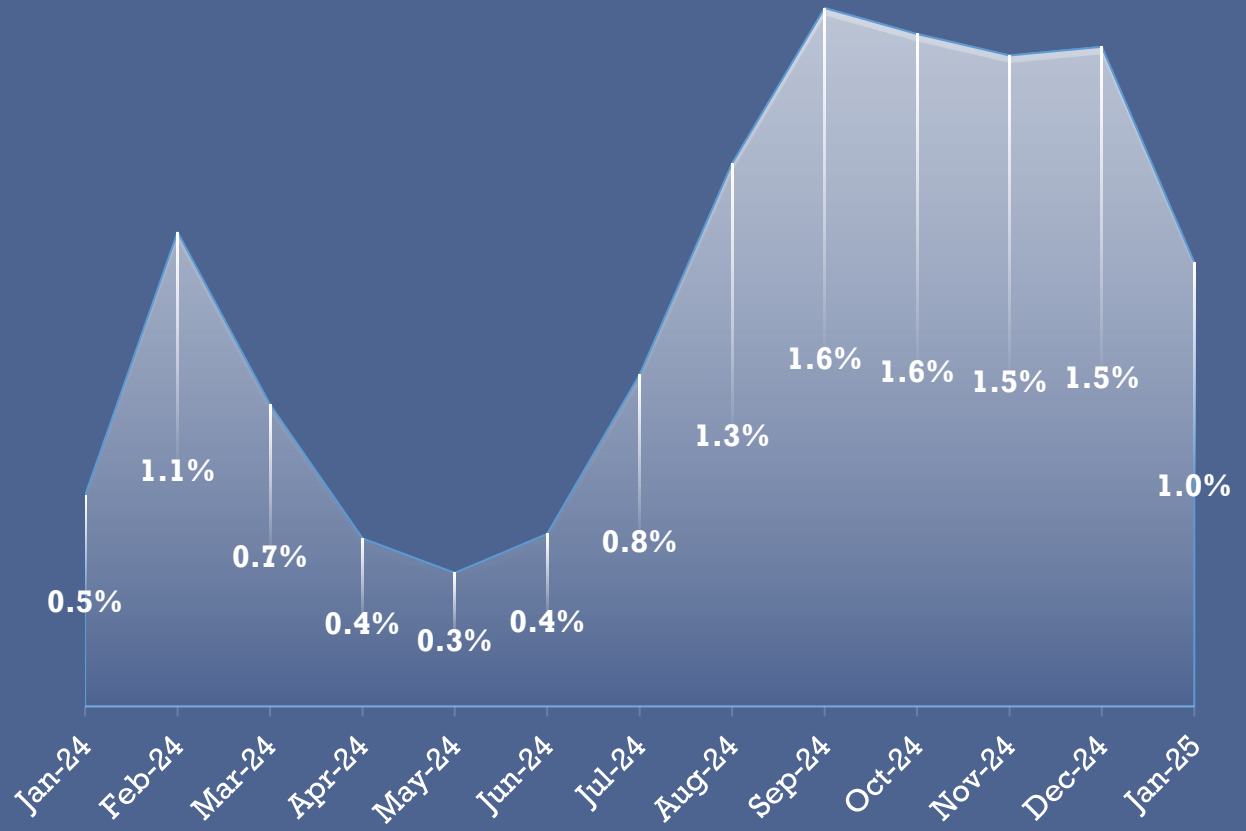


Tenure	Interest Rate Change (bps)				
	Jan 2025	Dec 2024	Change (bps)	Sep 2024	Change (bps)
3M	7.95%	8.60%	-65	10.05%	-210
6M	8.05%	8.75%	-70	10.30%	-225
1 Yr	8.45%	8.90%	-45	10.40%	-195
2 Yrs	9.15%	9.10%	5	10.60%	-145
3 Yrs	10.10%	9.90%	20	11.50%	-140
4 Yrs	10.40%	10.50%	-10	11.95%	-155
5 Yrs	10.75%	10.73%	3	12.05%	-130
6 Yrs	11.25%	10.95%	30	12.13%	-87
7 Yrs	11.35%	11.35%	0	12.25%	-90
8 Yrs	11.45%	11.50%	-5	12.35%	-90
9 Yrs	11.53%	11.53%	0	12.50%	-97
10 Yrs	11.63%	11.63%	0	12.50%	-88
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



Interest Spread

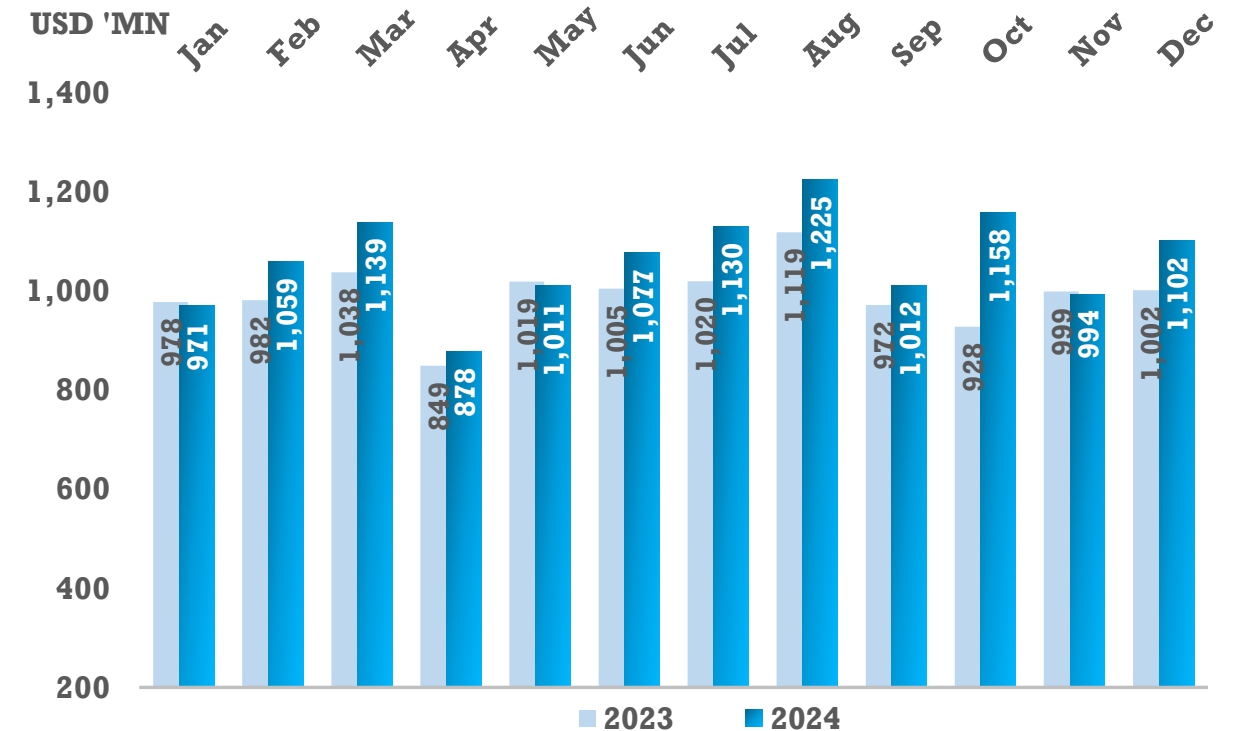


FINANCE SECTOR RATE MOVEMENTS

EXTERNAL SECTOR – DEC 2024 – EXPORTS

In Dec 2024, earnings from exports increased by 10.0%YoY to USD 1,101.8Mn up from USD 1,001.8Mn in Dec-23. This increase was driven by a 6.4% increase in Industrial Exports and a more substantial 24.2% increase in Agricultural Exports. The increase in Industrial Exports was a result of increased exports in Food, Beverage and Tobacco, Animal Fodder and Other Industrial Exports. All major sub-components of the Agricultural segment except Unmanufactured Tobacco and Seafood, registered a YoY growth in Dec 2024, promoting the overall uptick seen in inflows from Agricultural Exports.

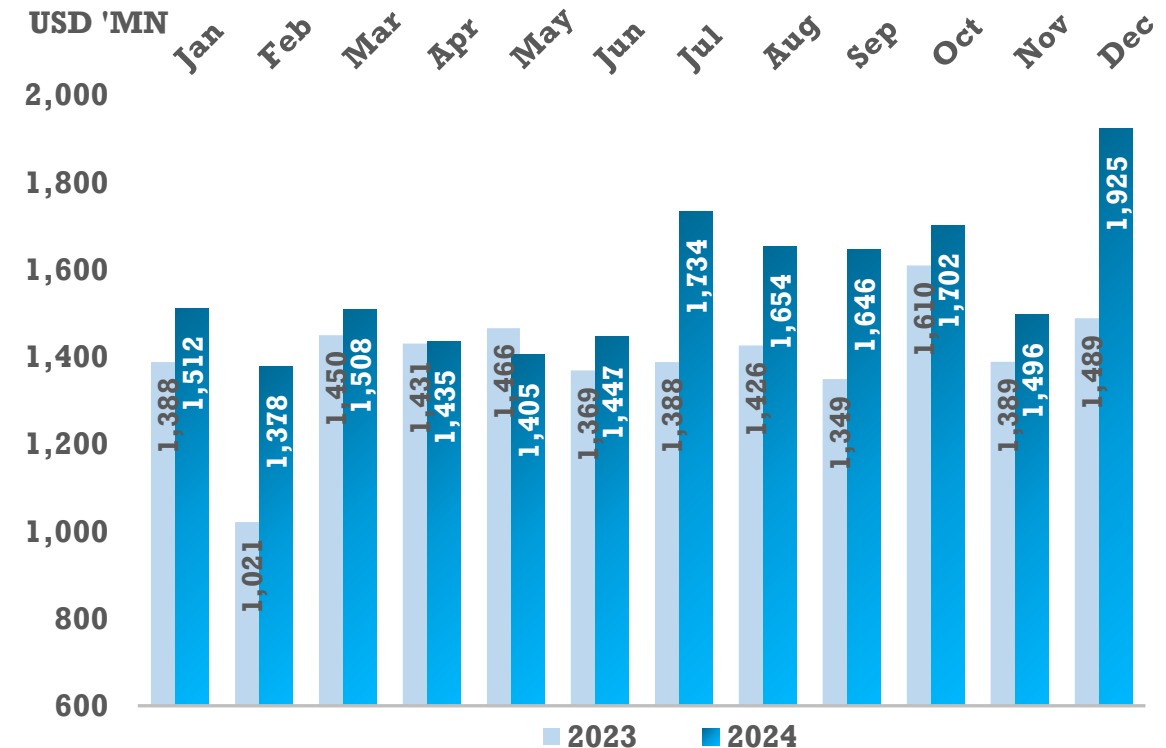
Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Industrial Exports			
- Dec	790.9	841.5	6.4
- YTD	9,277.7	9,946.9	7.2
Agricultural			
- Dec	206.6	256.5	24.2
- YTD	2,566.5	2,774.5	8.1
Mineral Exports			
- Dec	4.3	3.8	-11.6
- YTD	66.5	50.6	-23.9
Total			
- Dec	1,001.8	1,101.8	10.0
- YTD	11,910.7	12,772.0	7.2



EXTERNAL SECTOR – DEC 2024 – IMPORTS

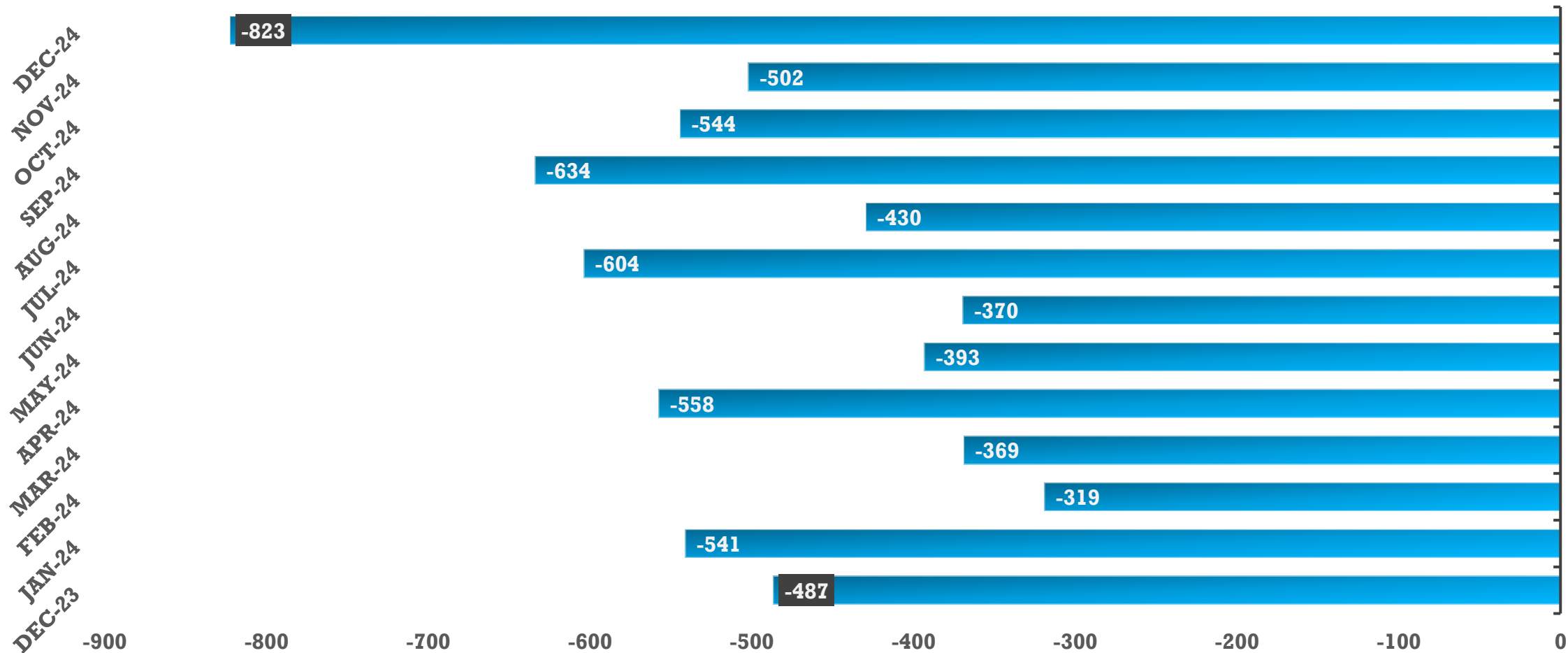
In Dec 2024, expenditure on imports increased by 29.3%YoY to USD 1,924.5Mn compared to USD 1,488.6Mn in Dec-23. Expenditure increased across all the major import categories in the period under review. Import expenditure on Consumer goods increased in Dec 2024 driven by both food and beverages, and non-food 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, mineral products and rubber and articles. Importation of Investments goods saw a slight uptick in Dec 2024 owing to higher import expenditure across all main sub-components.

Category	2023 (USD 'Mn)	2024 (USD 'Mn)	Change (%)
Consumer goods			
- Dec	272.8	397.6	45.8
- YTD	3,043.9	3,465.7	13.9
Intermediate			
- Dec	948.3	1,124.9	18.6
- YTD	11,006.6	11,914.5	8.2
Investment goods			
- Dec	267.4	402.0	50.3
- YTD	2,860.6	3,461.2	21.0
Total			
- Dec	1,488.6	1,924.5	29.3
- YTD	16,811.1	18,841.4	12.1

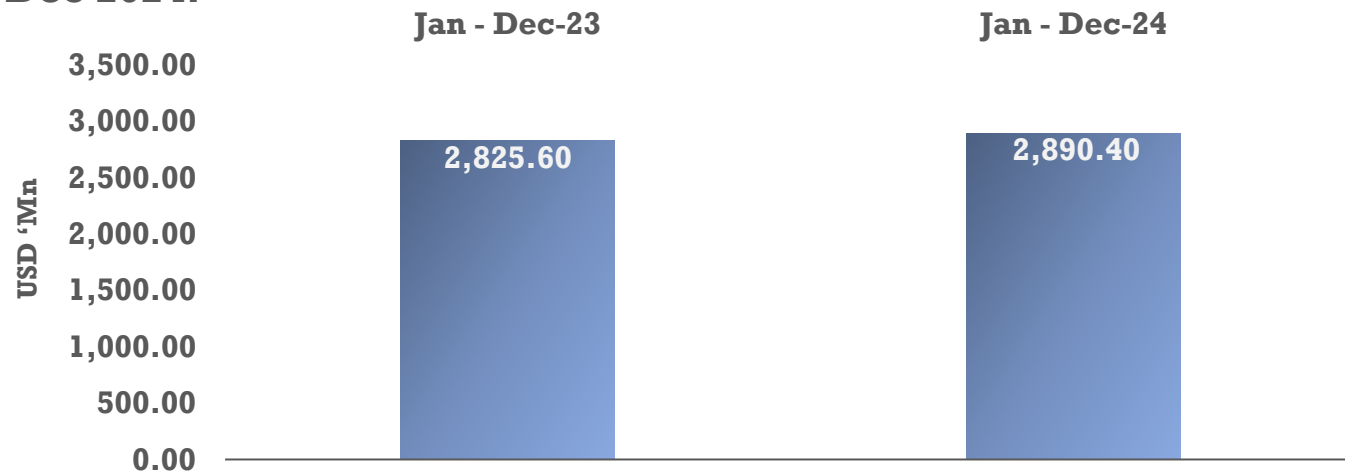


EXTERNAL SECTOR – DEC 2024

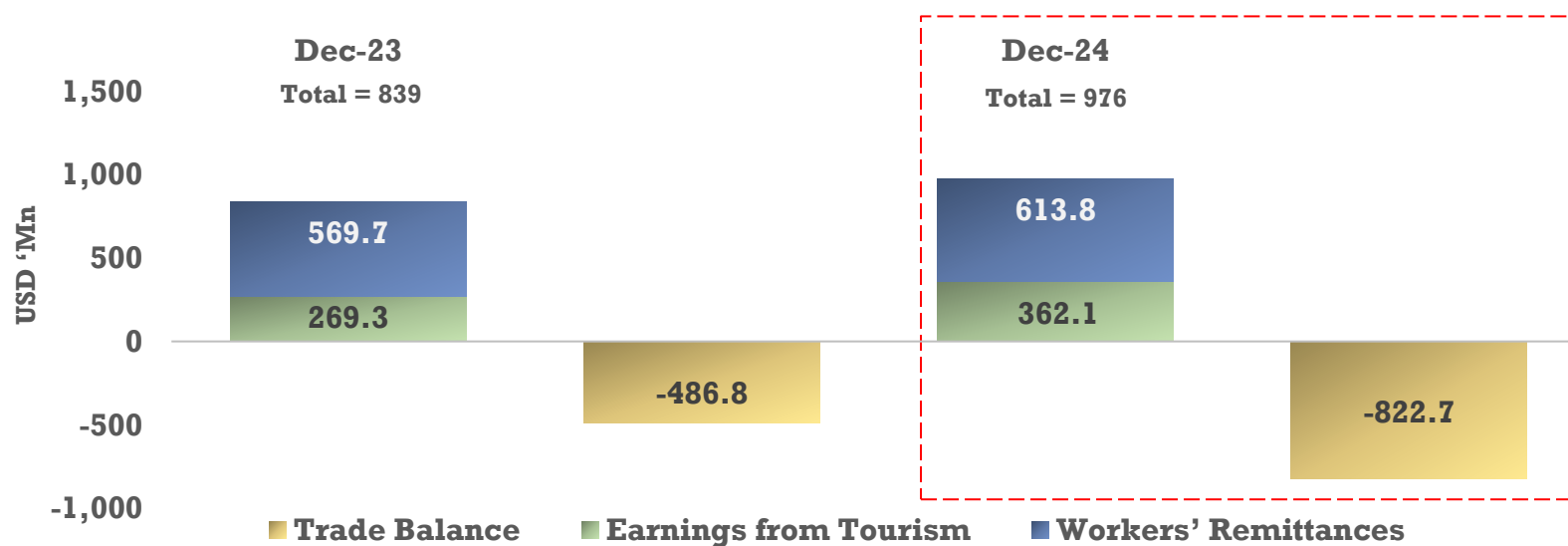
Balance of Trade



BoP for Jan-Dec 2024 recorded at USD 2,890.45Mn compared to Jan-Nov-24 amount of USD 2,912.5Mn, resulting in a net outflow of USD 22.5Mn, for the month of Dec 2024.



Workers' Remittances increased to USD 613.8Mn in Dec 2024 (+7.7%YoY) while Earnings from Tourism rose to USD 362.1Mn (+34.5%YoY).



BALANCE OF PAYMENT IMPROVED YOY IN DEC 2024

Dec USD 'Mn	2023	2024	Change (%)
Trade Balance	-486.8	-822.7	
Earnings from Tourism	269.3	362.1	+34.5
Workers' Remittances	569.7	613.8	+7.7

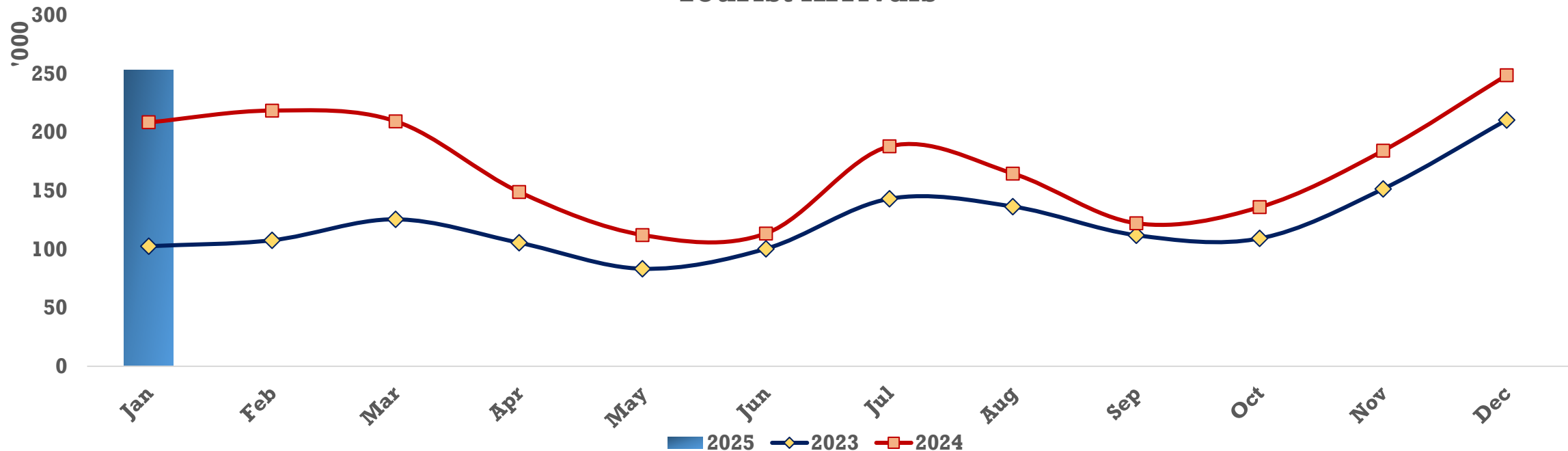
YTD USD 'Mn	2023	2024	Change (%)
Trade Balance	-4,900.4	-6,069.4	
Earnings from Tourism	2,068.0	3,168.6	+53.2
Workers' Remittances	5,969.6	6,575.4	+10.1

TOURIST ARRIVALS – JAN 2025

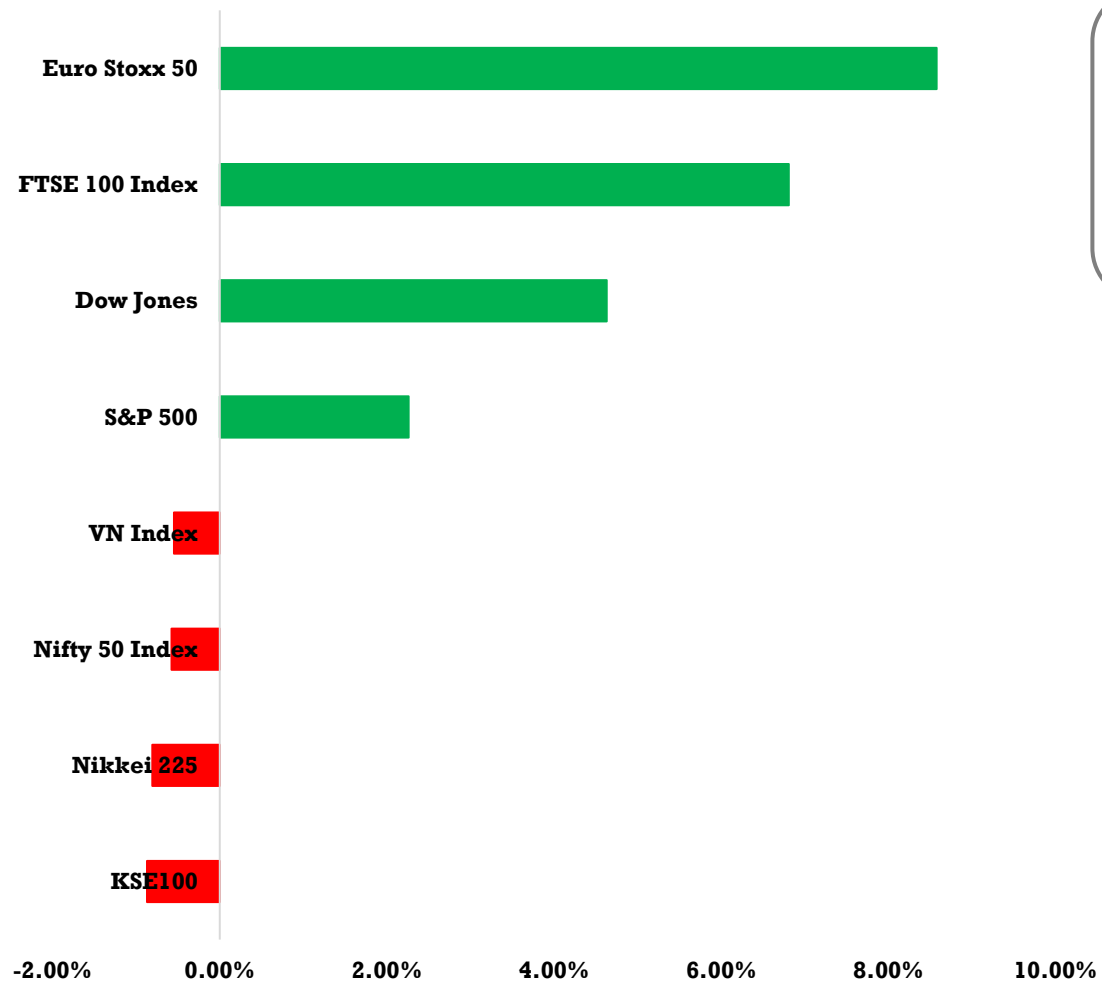
[Jan 248,592 – UP +21.4% YoY] [MoM – UP +1.7%]

The total number of arrivals for the month reached 252,761, marking a 21.4% increase compared to the previous year and making it the highest number of tourists to arrive in January. Leisure and vacation were the main factors drawing tourists during the winter and holiday season. Sri Lanka's increasing reputation as a top destination for recreation played a key role in driving this growth. Unlikely the previous month, India, Russia, the United Kingdom and China remained key source markets in Jan 2025.

Tourist Arrivals



GLOBAL MARKET – JAN 2025



Bank of England cuts interest rates to 4.5% and slashes UK growth forecast

The Bank of England has reduced interest rates from 4.75% to 4.5%, marking the lowest level since June 2023. Notably, two members of the nine-person committee called for a larger cut. Additionally, the Bank has lowered its growth forecast for the UK economy from 1.5% to 0.75% for the year. Inflation is expected to rise, peaking at 3.7% later in 2025, driven by rising costs in energy, water, and bus fares. The Bank now predicts inflation will hit its 2% target by the end of 2027, about six months later than previously anticipated.



Trump slams trade relationship with European Union: 'We have some very big complaints'

U.S. President Donald Trump once again criticized the European Union, claiming that the trade relationship is unfair to the United States. "From America's perspective, the EU treats us very, very unfairly, very badly," Trump stated during a virtual speech at the World Economic Forum in Davos, Switzerland. Trump's second term, has been a major point of discussion at this year's Davos event, especially with his ongoing threats of imposing trade tariffs on the EU, China, Mexico, Canada, and other countries.

Fed leaves rates unchanged, sees no hurry to cut again

The U.S. central bank decided to keep interest rates unchanged, with the Federal Reserve Chair Jerome Powell stating that there would be no immediate move to cut rates unless inflation and employment data indicate it's necessary. The policy rate remains in the 4.25%-4.50% range. This decision, along with Powell's remarks, suggests that Fed policy is in a wait-and-see mode, as the U.S. economy stands on solid macroeconomic ground, with few changes in recent months. However, future decisions from the Trump administration on issues like immigration, tariffs, taxes, and more could introduce uncertainty and potential disruption.



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Thank you!

*“SUCCESSFUL INVESTMENTS IS ABOUT
MANAGING RISKS”*

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