



# MONTHLY ECONOMIC UPDATE **March**

Economy at a glance for March 2022

## Economic distress in Sri Lanka calls for drastic actions

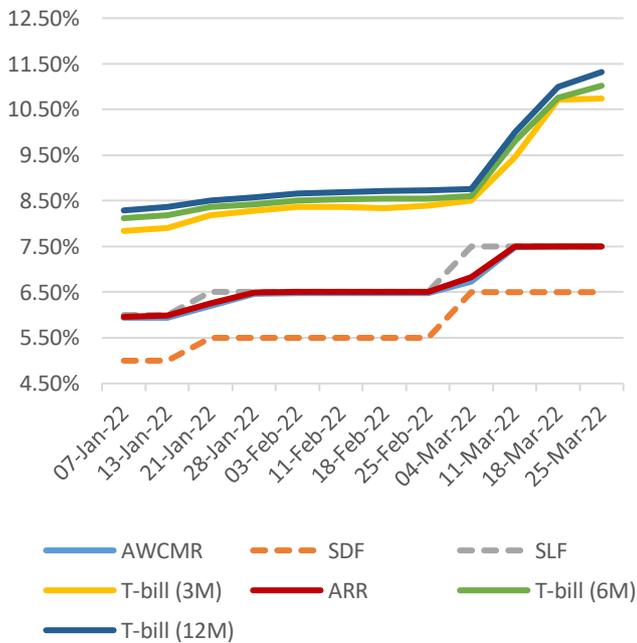
### Highlights

- The call and repo rates moved up in March following a 100-bps increase in the Standing Deposit Facility and the Standing Lending Facility.
- The Central Bank absorbed only around LKR 100 Bn worth of short-term repos for March. The CBSL stock of T-bills increased by around LKR 200 Bn.
- T-Bill yields in the primary auctions rose sharply with 3M yields increasing by around 280 bps.
- AWPR rose by over 70 bps in March following the rate hike.
- Exports of industrial goods such as garments, gems and base metals increased by 21.6% for the month.
- Receipts from tourism increased exponentially and generated around USD 191.5 Mn in March 2022.
- The stock market collapsed as markets closed with a 23.1% fall in the ASPI and a 23% fall in the S&P SL20.
- Brent crude oil prices reached a new high of USD 130/barrel at the start of the month following continued Ukraine-Russia conflicts.
- Gold prices peaked and reached a new 18 month high of USD 2046 per ounce as a result of a combination of roaring of energy prices, base metal prices along with increasing inflationary pressures globally.

## Interest Rates

### Short-term rates

Figure 1: Treasury bill yield and money market rates



Notes: AWCMR- Average Weighted Call Money Rate, SDFR- Standing Deposit Facility Rate, SLFR- Standing Lending Facility Rate, T-bill yields are for the secondary market, ARR – simple average of daily repo rates  
Source: CBSL

The call and repo rates moved up in March following a 100-bps increase, and remained marginally under the new upper bound of the policy corridor. The call market volumes decreased sharply throughout the month while repo volumes increased compared to February.

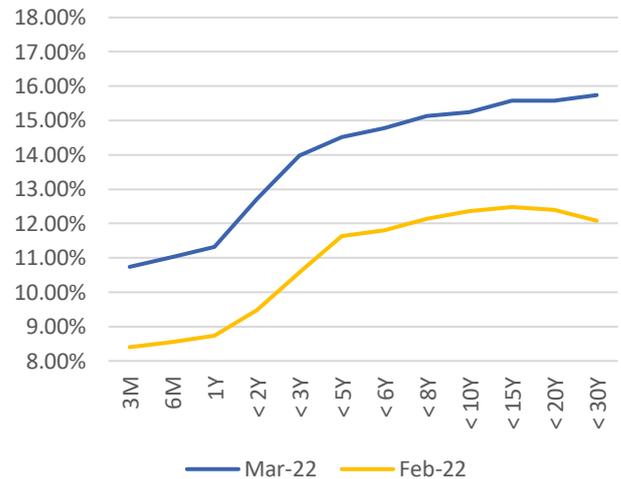
Overnight liquidity deficit levels stayed low and around the LKR 600 Bn/day levels during the month of March. Heavy borrowings through the Standing Lending Facility increased and crossed the LKR 700 Bn/day threshold. The Central Bank absorbed only around LKR 100 Bn worth of short-term repos for March. The CBSL stock of T-bills increased by around LKR 200 Bn.

The T-Bill yields in the primary actions rose sharply with 3M yields increasing by around 280 bps. The 3M T-bills continued to outperform 6M and 12M in the primary auctions as investors expect interest

rates to increase in the near future. Volumes in the secondary market remained high.

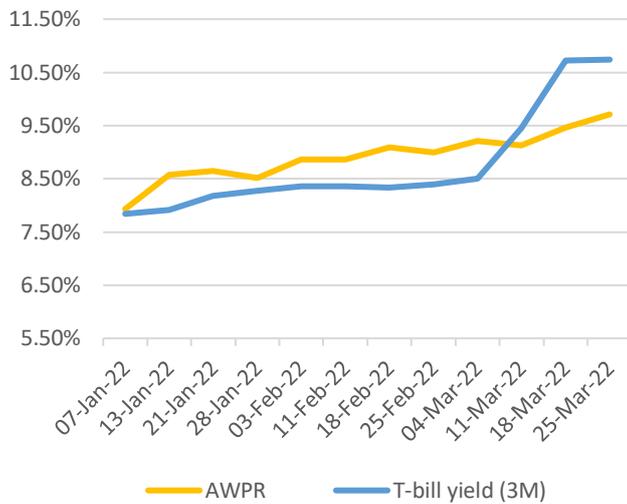
### Long-term rates

Figure 2: Yield curve of treasuries



Notes: Yields are based on the weekly average prevailed at the last week of the month, shorter end – less than 2Y, mid/intermediate tenor – 2 to 10Y, longer tenor – above 10Y, Source: CBSL

The overall yield curve shifted upwards substantially with long term maturities experiencing largest gains as a result of a 100 bps increase in the SDF and SLF. The market absorbed around LKR 105 Bn in new bond issues while volumes in the secondary market declined.

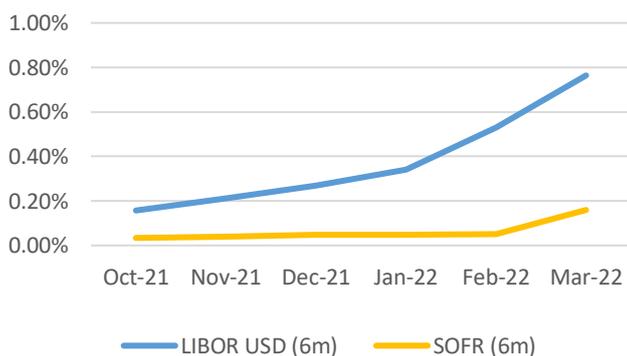
Figure 3: AWPR<sup>1</sup> and 3M T-bill yield


Note: T-bill yield for secondary market, Source: CBSL

Overall private sector credit growth expanded by LKR 36 Bn (M/M) in January and by LKR 33.5 Bn (M/M) in February, which was lower than the previous couple of months. Reserve money expansion was relatively strong in March. AWPR rose by over 70 bps in March following the rate hike.

### International rates

Figure 4: Month open international lending rates



Notes: The SOFR Averages are compounded averages of the SOFR over rolling 180-calendar day periods.  
Source: New York Federal Reserve and global-rates.com

Inflation concerns set in on the US economy as the 2-year Treasury bill maturity reached a 1 year high followed by the recent surge in commodity prices resulting from continued conflicts in Ukraine. Investors largely remained on the sell side, which caused yields to spike ahead of the Fed Reserves likely decision to raise interest rates. Yields of medium- and long-term bonds rose towards the middle of the month as US inflation figures reached a new high of 7.9% in March. The yield curve flattened as gains in short term yields outpaced medium term yields following the interest rate hike by the Fed. However, the month ended with yields rising across the curve, due to Fed chair Jerome Powell's indication on upcoming rate hikes.

Following the rate hike by the Federal Reserve the US linked LIBOR increased by more than 23 bps while the SOFR rate rose by around 11 bps.

The yields on ISB's increased across all maturity periods.

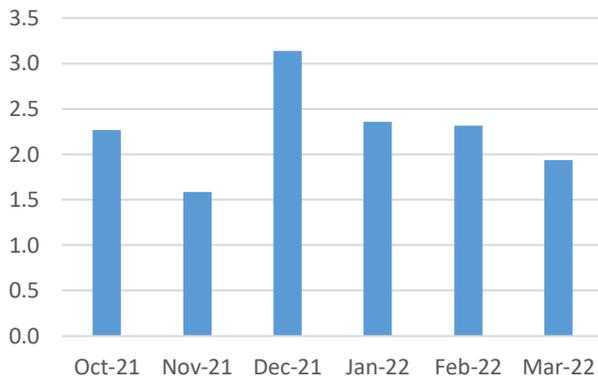
## External Sector

Sri Lanka's trade deficit for the month of January decreased to USD 859 million compared to the previous month, but was higher compared to January 2022. Increased exports of industrial goods such as garments, gems and base metals by 21.6% was the main contributor to the expansion.

Receipts from tourism increased exponentially and generated around USD 191.5 Mn in March 2022. Worker remittances declined by around 65% to USD 204.9 Mn in February compared to the year before. Treasury instruments held by foreigners remained unchanged for March.

Figure 5: Gross official reserves (Mn USD)

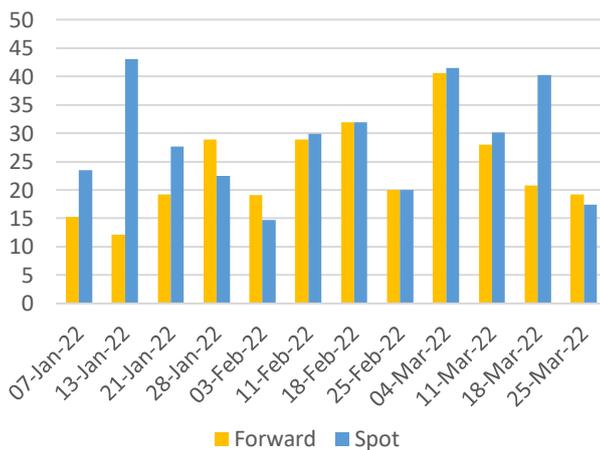
<sup>1</sup> AWPR is calculated based on the submissions made by the commercial banks to the CBSL on the rates offered to customers who borrowed more than LKR 10 Mn for less than three months.  
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Source: CBSL

Total official reserves slid down to USD 1.9 Bn, towards the end of March following a USD 400 Mn forex payment. Another USD 950 Mn forex payment was pending in April.

Figure 6: Interbank forex market daily avg. volumes (USD Mn)

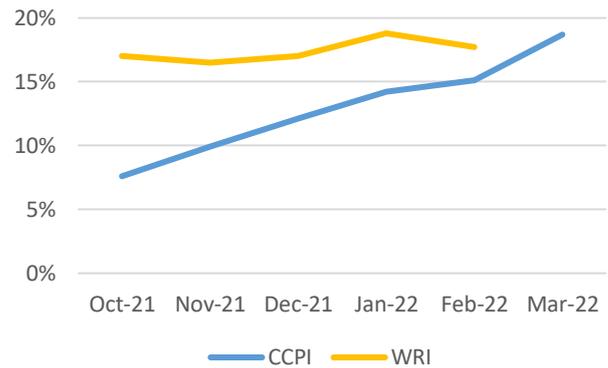


Source: CBSL

The interbank spot volumes increased as the official currency peg was ditched. Forward volumes spiked immediately after the removal of the currency peg, but declined gradually in the following weeks.

## Prices & Wages

Figure 7: CCPI and Nominal Wage Rate Index of the informal private sector (Y/Y)



Notes: WRI (100=2012), CCPI (100=2013)  
Sources: CBSL, CSD

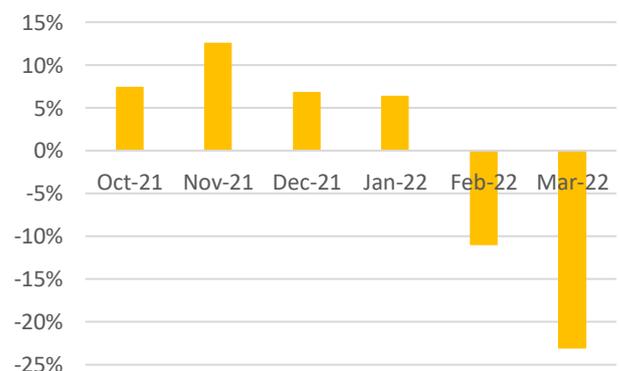
Private Wage growth continued to increase and posted 17.7% growth (Y/Y) in February as economy recovers from the effects of the Omicron variant. Wages of public sector employees posted 16.1% growth (Y/Y) during the same period.

Inflation continued to rise during March (Y/Y) as headline inflation increased to 18.7%. Food inflation rose to 30.2% from 25.7% due to hikes in prices of milk powder, rice, fresh fruits and bread. Non-food inflation increased to 13.4% from 9.2% due to increase in prices of transport, fuel, gas and housing.

## Equities

### Domestic Market

Figure 8: ASPI (M/M)



Source: CSE

The stock market continued to fall as markets closed with a 23.1% fall in the ASPI and a 23% fall in the S&P SL20. Total market loss exceeded LKR 1000 Bn during the month as continuous power

cuts along with the degrading economic situation of the country caused investors to lose confidence in the bourse. Trading was halted as well towards the end of the month as continuous margin calls caused the market to dip more than 7.5% in one day. All sectors made losses with Transport and diversified financials experiencing largest losses. Overall PBV (Price-to-Book-Value) fell from 1.57 to 1.14 favoring buyers

Figure 9: GICS sector performance- March

Sector	Index Points Gained
Consumer Services	-69
Food & Staples Retailing	-100
Banks	-112
Utilities	-137
Real Estate	-153
Telecommunication Services	-176
Household & Personal Products	-181
Insurance	-216
Consumer Durables & Apparel	-223
Software Services	-256
Food, Beverage & Tobacco	-263
Commercial & Professional Services	-292
Capital Goods	-357
Automobiles & Components	-371
Materials	-416
Retailing	-421
Health Care Equipment & Services	-429
Energy	-462
Diversified Financials	-1049
Transportation	-14685

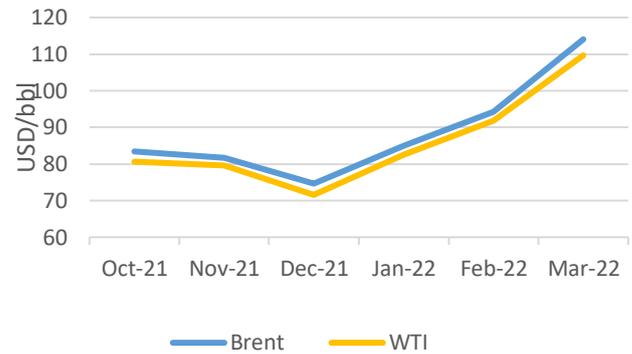
### Global Market

Greater clarity by the Fed in terms of increased interest rates resulted in improved investor sentiment which propelled stock markets to a strong monthly gain in March despite continued concerns of rising bond yields, elevated inflation and Ukraine tensions. The S&P500 gained 3.58%, Nasdaq gained 3.41% while the Dow Jones also gained 2.32%. Energy, utilities along with real estate were the top gainers for the month. European markets showed mixed performance with UK and France gaining while Germany, Italy and

Spain made losses. Asian stocks also remained strong with Japan, Korea and India experiencing gains.

### Commodities

Figure 10: Crude oil price



Source: Bloomberg quoted in CBSL

Brent crude oil prices reached a new high of USD 130/barrel at the start of the month following continued Ukraine-Russia conflicts. Prices dipped in the following week after both countries announced that they would be open to peace talks. However, failure of any peace talks along with potential supply shocks caused prices to rise and settle above USD 100/barrel by the end of the month.

Figure 11: Tea (All Elevations) price and quantity sold at weekly auctions

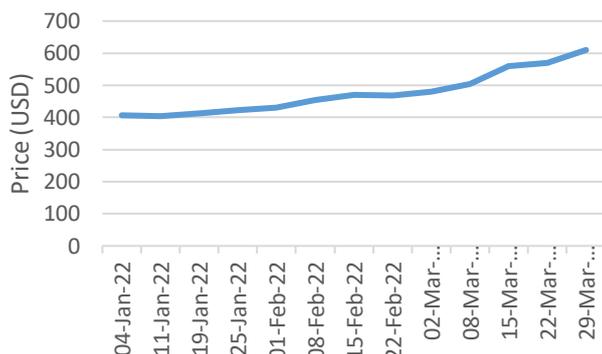


Source: Forbes & Walker

Prices at the Colombo auctions experienced a substantial increase as a result of a combination of lower output volumes, weakening of Sri Lankan rupee and rising global demand.

Read ICRA Lanka's report, [Sri Lanka plantations at a fork in the road, thrive or survive?](#)

Figure 12: Rubber price weekly auctions



Note: Price of Latex 4X  
Source: RRISL

Prices at the Colombo auctions saw a rise, supplemented by increasing global prices. The price hikes are a result of Industrial activity which has picked up as Omicron cases have begun to decline. Furthermore, supply from countries like Thailand have been delayed due to heavy rain.

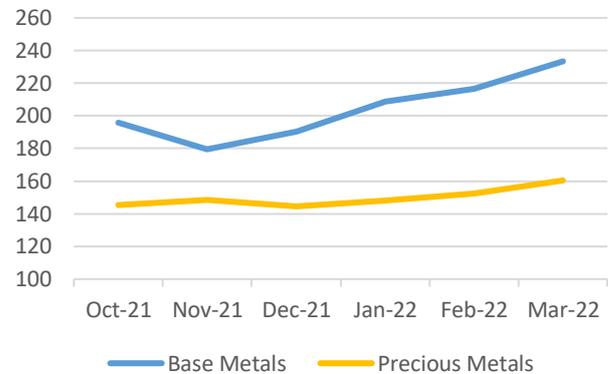
Figure 13: Coconut price weekly auctions



Source: CDA

Prices rose at the start of the month, but declined towards the latter part following adverse weather conditions.

Figure 14: Metal price index (2016=100)



Notes: Base metals index includes Aluminum, Cobalt, Copper, Iron Ore, Molybdenum, Nickel, Tin, Uranium, and Zinc, precious metals index includes Gold, Silver, Palladium, and Platinum

Source: IMF

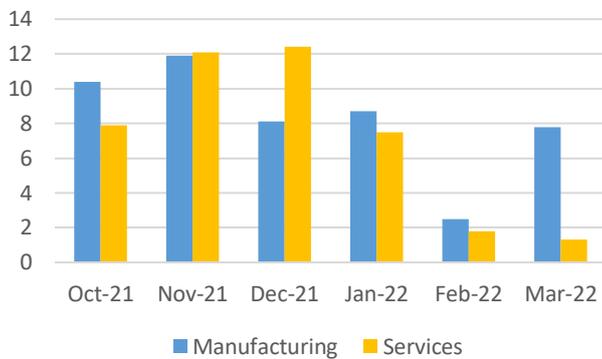
Gold prices peaked and reached a new 18 month high of USD 2046 per ounce as a result of a combination of roaring of energy prices, base metal prices along with increasing inflationary pressures globally. Furthermore, investors are also moving towards precious metals as a safe-haven against collapsing global equity markets.

Base metal prices continued to spike due to the prevailing geopolitical tensions. Aluminum prices moved up and reached a 13-year peak as industrial activity resuming in China. Nickel prices also rose during the month.

Read ICRA Lanka's report on the [implications of rising commodity prices for Sri Lanka](#).

## Real Sector

Figure 15: PMI deviation from point of neutrality (Index points)



Notes- negative values indicate the sector is generally contracting on a month-on-month basis while positive values indicate the sector is expanding. The strength of contraction or expansion is manifested by the magnitude of the figure. Source: CBSL

The PMI index for manufacturing expanded in February mainly due to the expansion in new orders. However, production declined on a month-on-month basis due to supply side constraints. PMI for services expanded in February underpinned by the increase seen in new businesses, business activities and expectations for activity.

The PMI index for manufacturing expanded in March compared to February, but was less compared to previous years. Main result was the increase in new orders, production and employment. Service sector PMI recorded a marginal decrease in March compared to February as a result of a decreased business activity,

Read ICRA Lanka's take on what lies [beyond the pandemic for Sri Lanka](#)

## Outlook for April – May

The CBSL increased the base rate of interest by 700 bps at the start of April with the hopes of countering the build-up of inflationary pressures along with providing the required stimulus to stabilize the exchange rate.

On the 12<sup>th</sup> of April, the government reached a consensus to opt for a pre-emptive negotiated default in order to allocate foreign reserves to import essential items such as medicine and fuel which is definitely a step in the right direction

Continuous pressure by the locals in the form of protests along with the worsening economic situation caused the President to consider requesting the IMF for a debt relief package but much of the future depends on the outcome of the negotiations.

Read ICRA Lanka's take on [the recent currency devaluation](#)

Key commodity prices have reached multi-year highs fueling inflation globally. Sri Lanka is no exception; the double-digit inflation will accelerate further in the near-term continuing to inflict economic pain on masses for a foreseeable future.

Interest rates are rising, self-reinforcing as inflation expectations run stronger. Therefore, we can expect tighter credit conditions moving forward. Bleaker economic outlook also discourages any new investments deterring the credit growth.

## Rating Actions

Following rating actions were taken by ICRA Lanka during the month of **March**. Visit <https://www.icralanka.com/ratings/> to read the rating rationales.

Issuer	Issue	Action	Previous Rating	Current Rating
Softlogic Holdings PLC	Proposed Commercial Paper Program (LKR 2000 Mn)	Assigned		[SL]A3
Bogawantalawa Tea Estates PLC	Issuer Rating	Revised	[SL]BBB+ (Negative)	[SL]BBB (Stable)
Bogawantalawa Tea Estates PLC	Proposed Senior Convertible Unsecured Redeemable Debentures Program (LKR 850 Mn)	Revised	[SL]BBB+ (Negative)	[SL]BBB (Stable)
Hayleys PLC	Proposed Senior Listed Rated Unsecured Redeemable Debenture Program (LKR 5000 Mn)	Assigned		[SL]AA- (Stable)
Nation Lanka Finance PLC	Issuer Rating	Revised	[SL]C+ (On watch)	[SL]C (On Watch)
Brown & Company PLC	Guaranteed Redeemable Debentures Program (LKR 5000 Mn)	Assigned		[SL]A(CE) (Stable)
Capital Alliance Holdings Ltd	Issuer Rating	Reaffirmed	[SL]A- (Stable)	[SL]A- (Stable)
Capital Alliance PLC	Issuer Rating	Reaffirmed	[SL]A- (Stable)	[SL]A- (Stable)

## Abbreviations

ASPI	All Share Price Index
bps	Basis points
pps	Percentage points
CBSL	Central Bank of Sri Lanka
CDA	Coconut Development Authority
CSD	Census and Statistics Department
CSE	Colombo Stock Exchange
GICS	Global Industry Classification Standard
GoSL	Government of Sri Lanka
SLDB	Sri Lanka Development Bonds
SLISB	Sri Lanka International Sovereign Bonds
SOFR	Secured Overnight Financing Rate
PMI	Purchasing Managers Index
RRISL	Rubber Research Institute of Sri Lanka
YTD	Year-to-date

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Published date: April 22, 2022  
Document #: meumar22

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