



MONTHLY ECONOMIC UPDATE April

Economy at a glance for April 2022

Sri Lanka Tightens Monetary Policy stance to Grapple Worsening Crisis

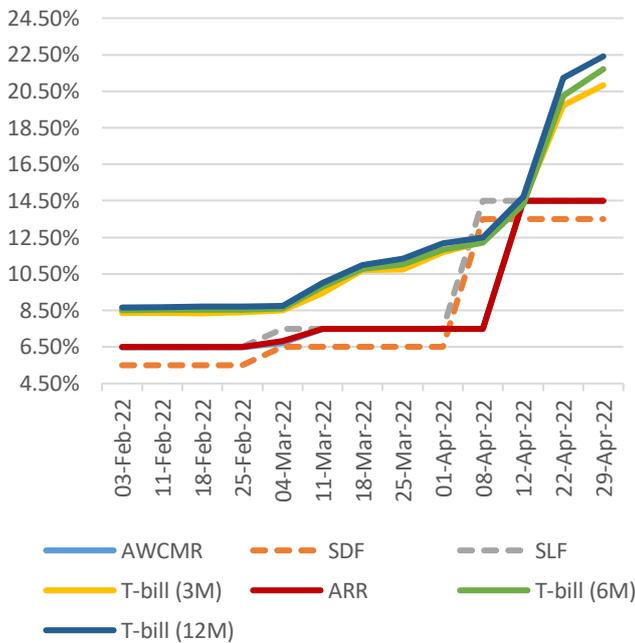
Highlights

- The call and repo rates moved up in April following a 700-bps increase in the Standing Deposit and the Standing Lending Facilities.
- Overnight liquidity deficit levels consistently stayed over the LKR 600 Bn/day level and reached a new high of LKR 688 Bn towards the end of the month.
- The T-Bill yields in the primary auctions rose sharply with 3M, 6M and 12M instruments rising by around 1200 bps.
- Reserve money expanded by around 10% and AWPR rose by around 670 bps during the month.
- Exports increased in February due to increase in exports of textile, garments, gems and precious stones. Imports rose in February due to increased importation of fuels, base metals and machinery.
- Receipts from tourism increased exponentially and generated around USD 191.5 Mn in March 2022. Worker remittances (Y/Y) declined by around 58.1% to USD 318.4 Mn in March.
- Stock market continued to fall as markets closed with a 14.37 fall in the ASPI and a 17.22% fall in the S&P SL20.
- Brent crude oil prices saw a dip in April in comparison to the previous month where the prices recorded a historic high.
- Gold prices along with base metal prices dipped during the month as a result of the hawkish monetary policy stance by the Federal Reserve.

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 by 700 bps in April and remained at the new upper bound of 14.5%. The call market volumes decreased sharply throughout the month while repo volumes increased compared to February.

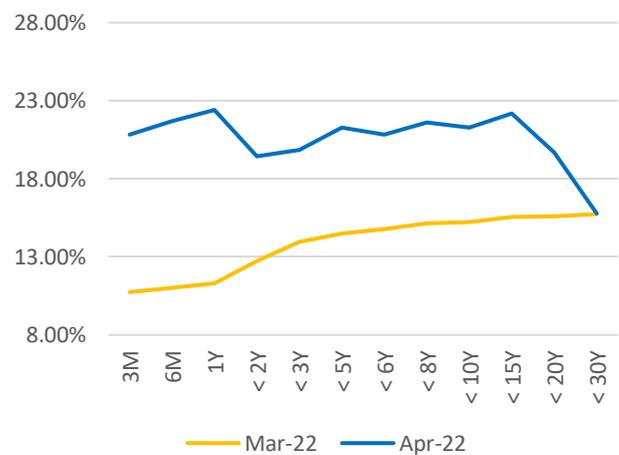
Overnight liquidity deficit levels declined further to a new low of LKR 688 Bn/day while consistently staying close to the LKR 600 Bn/day level. Heavy borrowings through the Standing Lending Facility increased further and reached the LKR 850 Bn/day mark towards the end of the month. The Central Bank absorbed around LKR 60 Bn worth of short-term repos and around LKR 120 Bn worth of long-term repos in April. The CBSL stock of T-bills increased by LKR 136 Bn during the month.

Yields in the primary auctions rose sharply with 3M, 6M and 12M instruments rising by around 1200 bps as a result of the 700bps increase in policy rates.

The 3M T-bills continued to outperform 6M and 12M in the primary auctions as investors expect further increases in policy rates as a result of rising global inflation coupled with interest rates. Volumes of both short- and long-term instruments increased in the secondary market.

Long-term rates

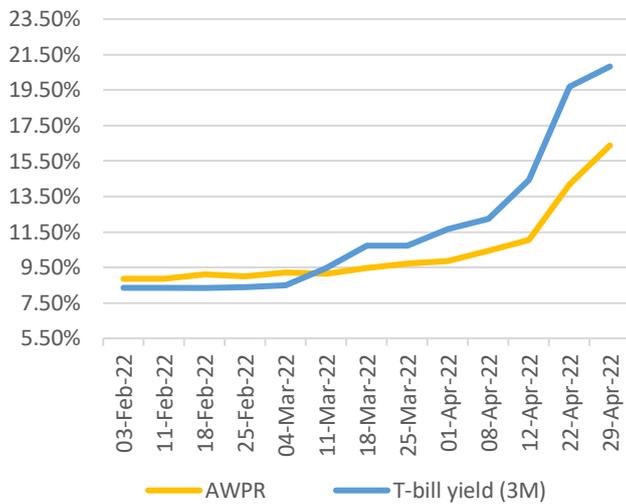
Figure 2: Yield curve of treasuries



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 short-term end of the yield curve experienced a large upshift followed by the 700 bps increase in the SDF and SLF. The market absorbed only around LKR 105 Bn in new bond issuances while volumes in the secondary market stayed low.

Figure 3: AWPR¹ and 3M T-bill yield

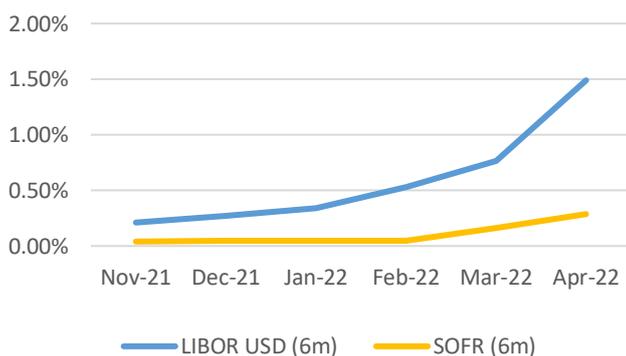


Note: T-bill yield for secondary market, Source: CBSL

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 experienced a strong expansion, close to 10% and AWPR rose sharply by around 670 bps following the 700 bps increase in policy rates.

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

The month of April started with the 2- and 10-year treasury yields soaring to their highest levels in 3

¹ 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. Page | 3

years. This was triggered after the Fed Reserve indicated an expected rapid reduction of their balance sheet which has been absorbing T-bills and T-bonds at a hefty rate. Yields of longer dated treasury instruments also rose to 3-year highs, following increased inflation figures along with expected policy rate hikes in May. Towards the middle of the month, short term rates declined marginally despite surging wholesale prices as investors believe inflation levels to decline in the upcoming months. Yields of short-term bonds rose towards the end of the month as Fed chair Jerome Powell affirmed a 50 bps increase in May along with the intention to increase the fed fund rate to 2.5% by year-end. Overall yield curve flattened towards the end of the month following a record trade deficit along with decreased government spending which caused the US economy to shrink by 1.4% during the first quarter.

Following the rate hike by the Federal Reserve the US linked LIBOR increased by more than 73 bps while the SOFR rate rose by around 13 bps.

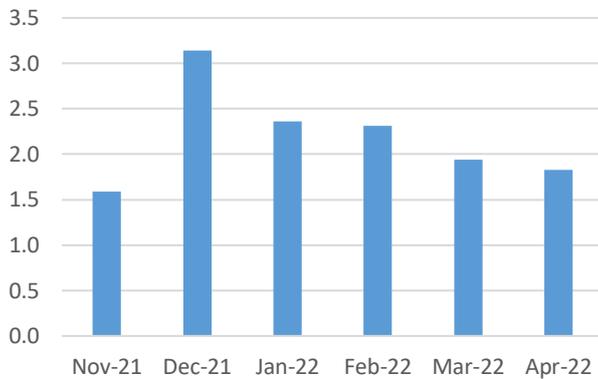
The yields on ISB's increased across all maturity periods following further depreciation of the rupee along with declining foreign reserves.

External Sector

Sri Lanka's trade deficit for February 2022 was USD 781 Mn which is less than the previous month. However, this marked a 36.5% increase compared to the same month in the previous year. Industrial exports increased by 19.4% compared to February 2021 due to increase in exports of textiles and garments, Gems and precious stones and petroleum products. Total imports however increased by 23% over the same time period mainly due to increased imports of fuel, base metals and machinery and equipment.

Receipts from tourism increased exponentially and generated around USD 191.5 Mn in March 2022. Worker remittances declined by around 58.1% to USD 318.4 Mn in March compared to the year before. Treasury instruments held by foreigners remained unchanged for March.

Figure 5: Gross official reserves (Mn USD)

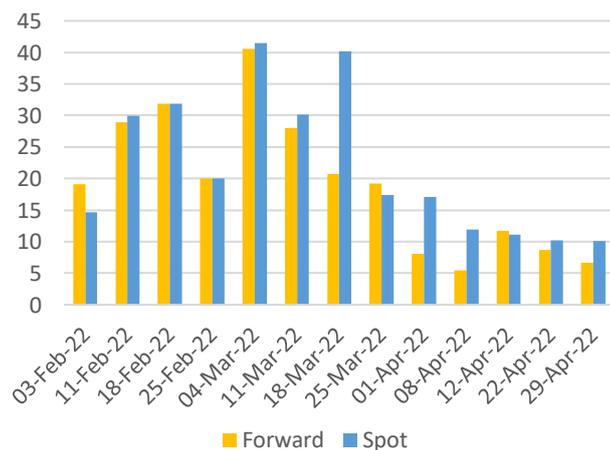


Source: CBSL

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.

Total gross official reserves slid down by USD 90 Mn to USD 1.8 Bn towards the end of April. Outstanding foreign obligations remained at existing levels as the newly appointed CBSL governor ordered the suspension of foreign debt repayments.

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

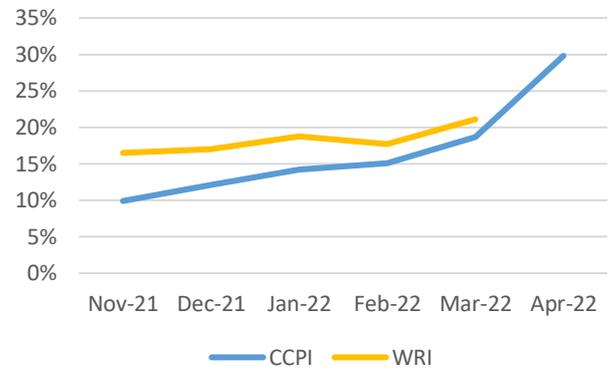


Source: CBSL

Interbank spot and forward volumes continued to decline sharply during the month as a result of the prevailing dollar shortage along with the continuous depreciation of the rupee.

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

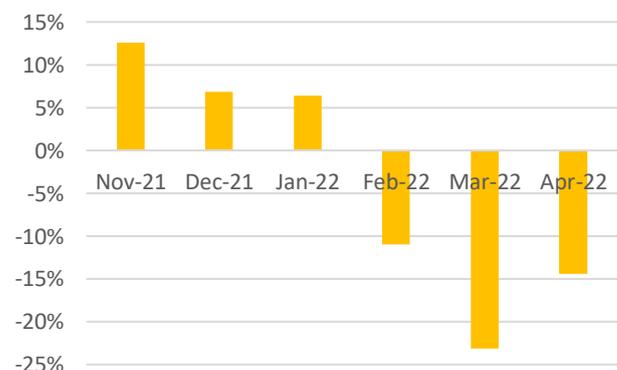
Private Wage growth continued to increase and posted a 16.1% increase (Y/Y) in March, while public sector employees' wages posted a 21.1% growth (Y/Y) during the same period.

Inflation levels rose sharply during April (Y/Y) as headline inflation increased to 29.8% in April from 18.7% in March. Food inflation increased to 46.6% from 30.2% due to rising prices of milk powder, rice, bread, dhal, sugar and dried fish. Non-food inflation increased to 22% from 13.4% as a result of increased prices of fuel, education, housing, water and gas.

Equities

Domestic Market

Figure 8: ASPI (M/M)



Source: CSE

Rising political tensions together with the worsening economic situation caused investor sentiment to fall, leading to markets closing with a 14.37% fall in the ASPI and a 17.22% fall in the S&P SL20. The market saw multiple trading suspensions during the month as continuous margin calls resulted in continuous selling pressure. All sectors apart from software services made losses and transportation made the largest losses. Overall PBV (Price-to-Book-Value) fell from 1.14 to 0.92 favoring buyers

Figure 9: GICS sector performance- April

Sector	Index Points Gained
Software Services	32
Commercial & Professional Services	-21
Consumer Services	-36
Consumer Durables & Apparel	-46
Telecommunication Services	-47
Utilities	-57
Food, Beverage & Tobacco	-76
Real Estate	-81
Banks	-86
Retailing	-89
Energy	-103
Health Care Equipment & Services	-108
Food & Staples Retailing	-115
Materials	-136
Household & Personal Products	-151
Automobiles & Components	-164
Insurance	-199
Capital Goods	-203
Diversified Financials	-508
Transportation	-6369

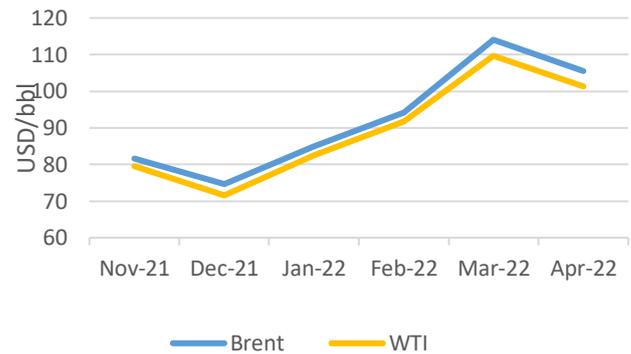
Global Market

April proved to be a challenging month for investors as losses in large tech companies and high-valued stocks caused the overall market to regress. The Dow Jones industrial average fell by 4.91%, the S&P 500 dropped by 8.8% while the Nasdaq fell by 13.26%. A more hawkish sentiment by the Federal Reserve in order to control inflation caused investors to remain wary throughout the month. Technology, consumer discretionary and communication services experienced the largest losses.

during the month. European and Asian markets followed suit with Italy, Germany, China, Japan, Korea and India experiencing losses.

Commodities

Figure 10: Crude oil price



Source: Bloomberg quoted in CBSL

Brent crude oil prices saw a dip in April in comparison to the previous month where the prices recorded a historic high. It is believed that the outburst of Covid-19 cases in Beijing together with soaring commodity prices took a substantial bite out of global oil demand during the month. Thus, April saw a potential to calm high oil prices which previously appeared to be following a steady upward trend. By the end of April, Brent crude oil settled at USD 105/barrel.

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

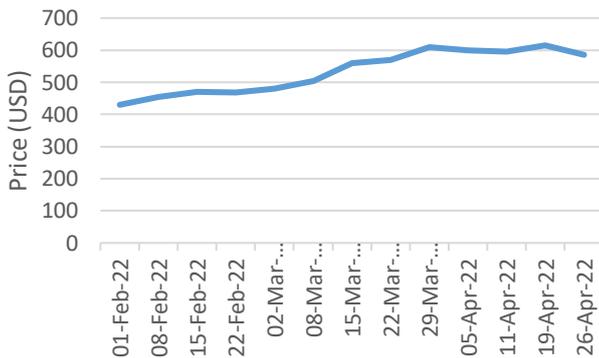


Source: Forbes & Walker

A noteworthy increase was evident in April following the favorable prices fetched in the previous month. This uptick was a result of rising global demand, weakening of the rupee and shrinking of output volumes.

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

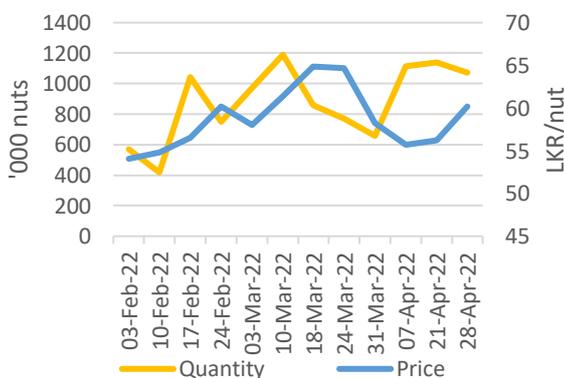
Figure 12: Rubber price weekly auctions



Note: Price of Latex 4X
Source: RRISL

Prices at the Colombo rubber auctions fell marginally in April in comparison to the previous month. It is likely that this dip in prices was triggered by the outburst of COVID-19 cases in China's capital which would have adversely affected demand for local rubber.

Figure 13: Coconut price weekly auctions

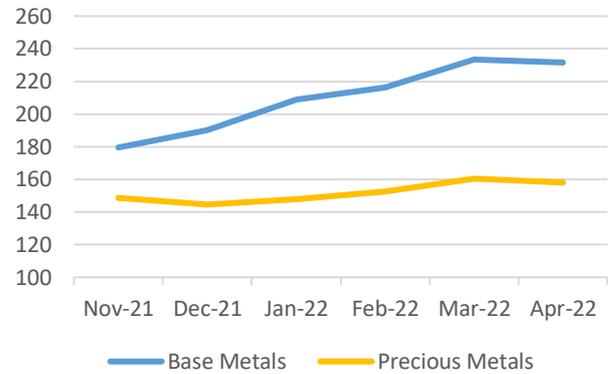


Source: CDA

Coconut production in April picked up substantially compared to the previous month, showing robust recovery from the adverse weather conditions that hindered coconut production in March. While this

rise in the quantity sold brought the prices down at the onset of April, prices recovered gradually towards the end of the month

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

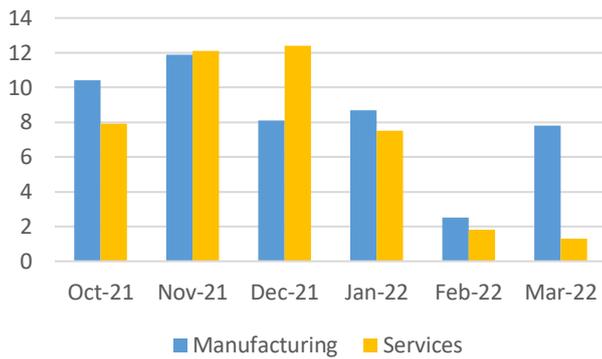
April saw substantial weakness across most asset classes with gold prices dipping marginally during the month. This fall in price can be attributed to the strengthening of the dollar and the hawkish stance of central banks that lead to higher rates and volatility, in turn raising the opportunity cost of gold. However, despite the dip in prices evident in April, gold remained among the best performing assets.

Base metals including copper, Aluminum and Nickel saw a price dip in April as China's rising COVID cases continued to cast a shadow over global demand. Rising US bond yields following the interest rate hike continued to add negative pressure on commodities.

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 March compared to February, but was less compared to previous years. Main reason 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 decreased business activity.

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

Outlook for May – June

Sri Lanka has begun negotiations with the IMF in order to develop programmes which include various forms of funding aimed at tackling the rapidly worsening debt crisis. In the meanwhile, countries such as India and China have offered to provide various forms of bridge financing which would be helpful in importing essentials such as fuel, gas and medicine in the short term.

Institutions such as the IMF and World Bank have proposed changes to the fiscal framework such as increasing taxes and decreasing various government expenditures in the form of fuel and electricity subsidies. Furthermore, decreasing funding of state-owned enterprises which have accumulated large losses will also be a vital necessity.

Following a month of continuous protests, the majority of the current cabinet was forced to step

down along with the Prime Minister Mahinda Rajapaksa. Ranil Wickramasinghe has assumed duties as the new Prime Minister, but has yet failed to receive support from the opposition MP's.

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 the 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 **April**
 Visit <https://www.icralanka.com/ratings/> to read the rating rationales.

Issuer	Issue	Action	Previous Rating	Current Rating
Prime Land (Pvt) Ltd	Issuer Rating	Revised	[SL]A-(Stable)	[SL]A (Stable)
Prime Lands Residencies PLC	Issuer Rating	Revised	[SL]A-(Stable)	[SL]A (Stable)
UB Finance Company Limited	Issuer Rating	Reaffirmed	[SL]BB (Stable)	[SL]BB (Positive)
Softlogic Finance PLC	Issuer Rating	Revised	[SL]BB-(Stable)	[SL]BB (Stable)
JB Vantage Money Market Fund	Issuer Rating	Reaffirmed	[SL]A+mfs	[SL]A+mfs
Capital Alliance Investment Grade Fund	Issuer Rating	Reaffirmed	[SL]A+mfs	[SL]A+mfs
Senfin Money Market Fund	Issuer Rating	Reaffirmed	[SL]A+mfs	[SL]A+mfs
Softlogic Money Market Fund	Issuer Rating	Reaffirmed	[SL]A mfs	[SL]A mfs
DFCC Bank PLC	Issuer Rating	Revised	[SL]AA-(Stable)	[SL]AA-(Negative)

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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