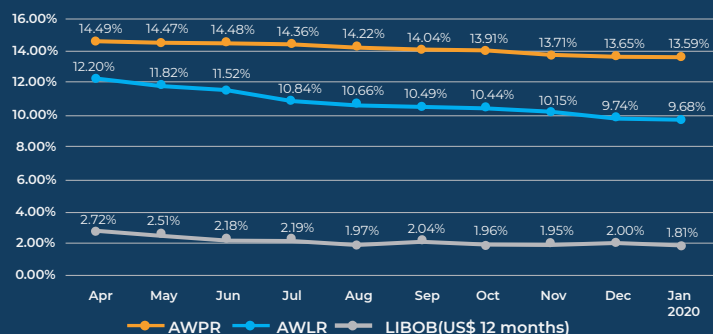


#### Overview

Carrying momentum from December '19, the Sri Lankan economy gathered some recovery on several economic fronts in January 2020. Interest rate reductions, as pursued by the Central Bank, are primarily to ensure a sustained recovery in the economic sector. Private sector credit growth also picked up in December, whilst the inflation rate is anticipated to increase in the upcoming months due to heightened economic activity. Meanwhile, the LKR witnessed a continued stability against the USD. The stock market didn't show any signs of improvement during the month, perhaps due to the upcoming general elections in April. The manufacturing sector indicated moderate development in December, whereas Services witnessed a significant growth. Tourist arrival numbers were somewhat stifled due to the escalation of concerns regarding the coronavirus crisis.

## Interest Rate

Figure 1: Lending Rates



Sources: CBSL, global-rates.com

\*LIBOR rate for month end

\*\*AWPR: Average Weighted Prime Lending Rate- The weights average of the rate at which the commercial banks have lent to their best customers.

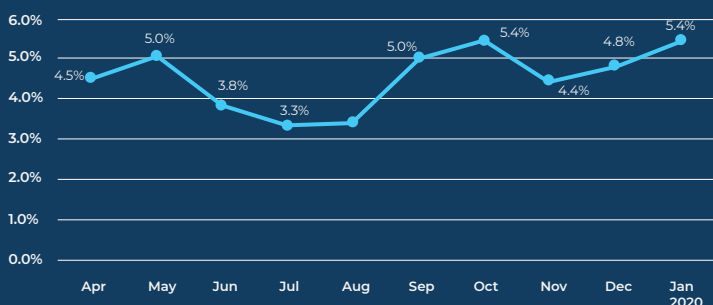
\*\*\*AWLR: Average Weighted Lending Rate

Global interest rates (LIBOR) marginally decreased by 19 basis points to 1.81%. Average lending rates in Sri Lanka (AWLR) had a slight dip, following suit, the Average Prime Rate (AWPR) declined to 9.68% from 9.74% compared to the previous month. Private sector credit growth picked up in December 2019, following a continued slowdown, experienced from December 2018. Further, the CBSL reduced the standing deposit facility rate (SDFR) standing lending facility rate (SLFR) by 50 basis points each to 6.50% and 7.50%.

**Key Takeaway:** Ensures a broad-based and sustained recovery in economic activity

## Inflation

Figure 2: CCPI Headline Inflation



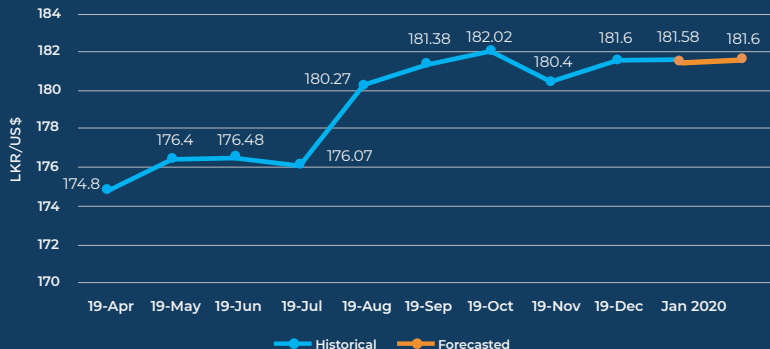
Source: DCS

Inflation levels during the month of January hiked to 5.4% from 4.8% in December 2019. This was driven by the monthly increase of prices of items in both food and non-food categories. Within the food category, prices of vegetables increased significantly due to supply shortages caused by adverse weather conditions that prevailed during the previous month. The non-food category also recorded an increase during the month owing to price increases of items in housing, water, electricity, gas and other fuels, (housing rent); education (tuition fees); and restaurants and hotels sub-categories.

**Key Takeaway:** The Country's inflation rate is anticipated to increase marginally on increasing demand for food items as a result of the looming general election.

## Exchange Rate

Figure 3: Exchange Rate (LKR/US\$)



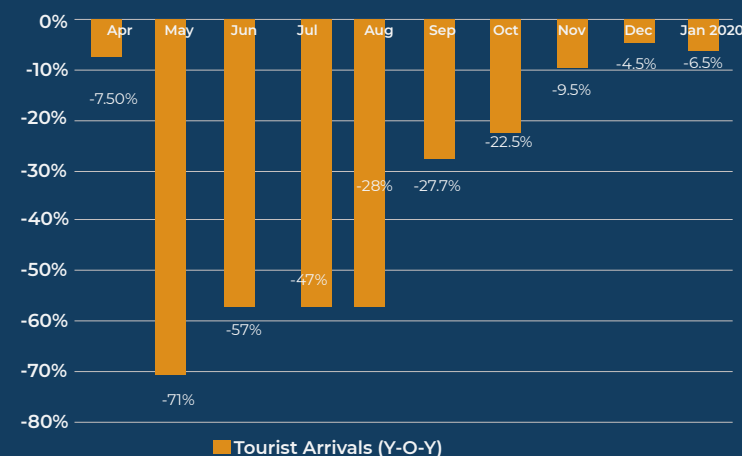
Source: CBSL, RIU Research Forecasts based on forward rate available at end July

In January '20 the LKR managed to stabilise its stance against the USD. According to the Governor of the Central Bank Mr W D Lakshman, Sri Lanka will aim for forex reserve collection and exchange rate stability and will engage with the International Monetary Fund based on the current policy framework.

**Key Takeaway:** The prevailing economic stability and political confidence is a key concern for foreign investors in the future. However the export oriented and tourism operating companies are the beneficiaries of a depreciating rupee.

## Tourism

Figure 7: Change in Tourist Arrivals



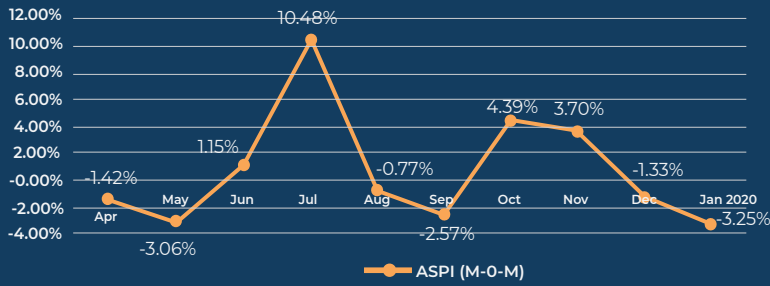
Source: DCS

Tourist arrivals for the month of January '20 plunged by 6.5% in comparison to last year. Sri Lanka's tourism industry which had been rapidly recovering from the Easter terror of last year, is facing another blow following the outbreak of coronavirus in China, as the country will be losing imminent upsurge in Chinese travellers.

**Key Takeaway:** Escalation of the coronavirus crisis could pose an impact on the tourism industry in the coming months

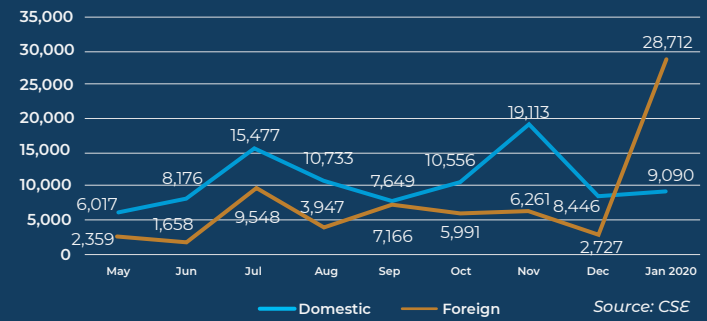
# Share Market

Figure 5: Change in ASPI



Source: CSE

Figure 6: Turnover Equity Domestic vs. Foreign (Rs Mn)



Source: CSE

## Top 3 Gainers



Healthcare

1.89%



Oil Palms

-0.15%



Trading

-0.43%

## Top 3 Losers



IT

-12.72%



Investment Trust

-8.29%



Motors

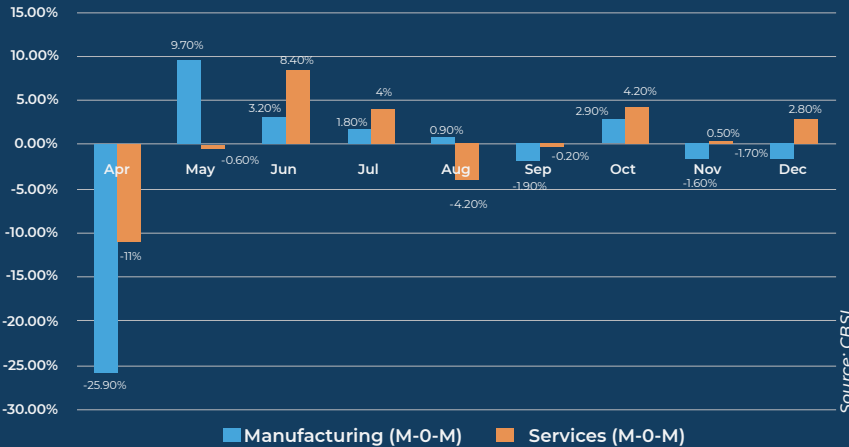
-6.74%

The Stock Market continued to perform well in July and recorded an impressive 10% growth in ASPI compared to the previous month. We also see increased foreign interest and participation in CSE, indicating growing foreign investor confidence. Trading, telecom, construction and investment trusts, recorded over 20% growth.

**Key Takeaway:** The Stock Market is recovering with growing foreign investor confidence.

# Production

Figure 6: Purchasing Manager's Index (PMI)



Source: CBSL

Manufacturing PMI expanded at a slower pace in December 2019, mainly due to the slower expansion in New Orders, Production and Stock of Purchases. A significant slowdown in employment was experienced, particularly in the manufacturing of wearing apparel sector, as potential employees were attracted to seasonal jobs for better remuneration. Services witnessed a growth supported by the strong expansion in New Businesses and Business Activity in December 2019. This was due to the seasonal movement, political stability and measures taken by the government to improve economic activity. Transportation of goods recorded a growth with increased transshipment volumes, while other personal services such as leisure activities also improved with the holiday season.

**Key Takeaway:** Outlook for Manufacturing remains positive owing to increased consumer and business confidence. However, Services could be challenged due to the delay in filling vacant positions (Employment of Services sector remains at the threshold level).

# News Highlights

- Bourse poised for rebound following parliamentary election
- Inflation up in December
- Govt. eyes \$ 2.5 b in FDI, \$ 13.5 b in exports for 2020
- Innovative, dynamic policy strategies needed for economic revival: Central Bank Governor
- Sri Lanka President asks state enterprises to improve profits, service levels
- CBSL reduces its policy interest rates
- Boosting SMEs vital for 6.5% economic growth
- January inflation rises to 5.4%
- Sri Lanka rupee opens Feb weaker, gilt yields unchanged

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