

Market Update



IMF approves 17th bailout package to Sri Lanka



Table 1: Sri Lanka's Lending Arrangements with the IMF (As of 30 September 2018)

Lending Facility	Date of Arrangement	Expiration Date	Amount Agreed (USD Millions*)	Share of Funds Drawn	
1	Standby Arrangement	15 Jun. 1965	14 Jun. 1966	30	75%
2	Standby Arrangement	15 Jun. 1966	14 Jun. 1967	25	100%
3	Standby Arrangement	6 Mar. 1968	5 May 1969	20	100%
4	Standby Arrangement	12 Aug. 1969	11 Aug. 1970	20	100%
5	Standby Arrangement	18 Mar. 1971	17 Mar. 1972	25	100%
6	Standby Arrangement	30 Apr. 1974	29 Apr. 1975	30	29%
7	Standby Arrangement	2 Dec. 1977	1 Dec. 1978	112	100%
8	Extended Fund Facility	1 Jan. 1979	31 Dec. 1981	336	100%
9	Standby Arrangement	14 Sep. 1983	31 Jul. 1984	105	50%
10	Structural Adjustment Facility Commitment	9 Mar. 1988	8 Mar. 1991	214	100%
11	Extended Credit Facility	13 Sep. 1991	31 Jul. 1995	455	83%
12	Standby Arrangement	20 Apr. 2001	19 Sep. 2002	254	100%
13	Extended Fund Facility	18 Apr. 2003	17 Apr. 2006	198	14%
14	Extended Credit Facility	18 Apr. 2003	17 Apr. 2006	368	14%
15	Standby Arrangement	24 Jul. 2009	23 Jul. 2012	2,566	100%
16	Extended Fund Facility	3 Jun. 2016	2 Jun. 2019	1,507	50%

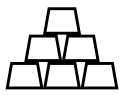
- The executive board of the International Monetary Fund (IMF) approved the 17th bail out package for Sri Lanka that would immediately unlock USD 2.9Bn, 4 yr loan under extended fund facility (EFF) as agreed when entered the staff level agreement on 1st of September 2022. The decision will be followed by an immediate disbursement equivalent to SDR 254Mn (or USD333Mn) and catalyze financial support from other development partners.
- This we believe will bring avenues to unlock further funding lines through other multilateral lenders such as World Bank and the Asian Development Bank, where funding lines have already been lined up to the tune of USD 3.75Bn (excluding IMF EFF), according to Sri Lankan authorities. These resources, according to IMF together with external public debt service relief, will close the external financing gap and allow Sri Lanka to rebuild its gross international reserves.
- We expect this IMF bailout package to be one of the key steppingstone towards a long-term economic recovery of Sri Lanka as its expected to bring much needed debt sustainability, macro economic stability, financial stability, and drive towards structural reforms to unlock Sri Lanka's growth potential.
- Government is expected to conclude with debt restructuring programs after having obtained credible financing assurances from major official bilateral creditors, where SL is looking at seeking least a 10-year moratorium.
- We expect the equity markets to rally specially on the back of improved investor sentiment which would come about with the signing off of the IMF agreement and the expectation of easing of interest rates.

Source IMF, NLE research



Reviews and Disbursements Under the Proposed 4Yr EFF Arrangement

Availability Date	Amount (millions of SDR)	Percent of Quota (%)	Conditions
At arrangement approv	254	43.9	Board Approval of the Extended Arrangement
September 1, 2023	254	43.9	Completion of the 1st review based on end-June 2023 and continuous performance criteria
March 1, 2024	254	43.9	Completion of the 2nd review based on end-December 2023 and continuous performance criteria
September 1, 2024	254	43.9	Completion of the 3rd review based on end-June 2024 and continuous performance criteria
March 1, 2025	254	43.9	Completion of the 4th review based on end-December 2024 and continuous performance criteria
September 1, 2025	254	43.9	Completion of the 5th review based on end-June 2025 and continuous performance criteria
March 1, 2026	254	43.9	Completion of the 6th review based on end-December 2025 and continuous performance criteria
September 1, 2026	254	43.9	Completion of the 7th review based on end-June 2026 and continuous performance criteria
March 1, 2027	254	43.9	Completion of the 8th review based on end-December 2026 and continuous performance criteria
Total	2,286.0	395.0	



SL selected economic indicators



Sri Lanka: Selected Economic Indicators 2019-2026 1/

	2019	2020	2021	2022	2023	2024	2025	2026
	Act.	Act.	Act.	PreL.	Proj.	Proj.	Proj.	Proj.
GDP and inflation (in percent)								
Real GDP growth	-0.2	-3.5	3.3	-8.7	-3.0	1.5	2.6	3.0
Inflation (average) 2/	4.3	4.6	6.0	46.4	28.5	8.7	5.6	5.2
Inflation (end-of-period) 2/	4.8	4.2	12.1	57.2	15.2	6.7	5.6	5.2
GDP Deflator growth	3.9	3.1	8.1	46.6	30.0	10.7	5.6	5.2
Nominal GDP growth	3.6	-0.4	11.7	33.9	26.0	12.3	8.3	8.4
Savings and investment (in percent of GDP)								
National savings	32.0	32.3	31.5	24.8	26.4	28.0	28.9	29.3
Government	-2.5	-8.2	-7.3	-6.7	-4.4	-2.0	-0.6	-0.4
Private	34.6	40.5	38.8	31.5	30.9	30.0	29.5	29.7
National investment	34.1	33.7	35.3	26.8	28.0	29.4	30.3	30.7
Government	6.6	6.4	7.0	5.2	4.5	5.0	5.0	5.0
Private	27.5	27.3	28.2	21.5	23.5	24.5	25.3	25.7
Savings-Investment balance	-2.1	-1.4	-3.8	-1.9	-1.6	-1.4	-1.4	-1.4
Government	-9.2	-14.6	-14.3	-11.9	-9.0	-7.0	-5.6	-5.4
Private	7.1	13.2	10.5	9.9	7.4	5.6	4.2	4.0
Public finances (in percent of GDP)								
Revenue and grants	11.9	8.7	8.3	8.5	11.0	13.3	14.9	15.0
Expenditure	19.5	20.7	19.9	18.9	19.0	19.7	19.9	19.9
Primary balance	-1.9	-5.9	-5.7	-3.8	-0.7	0.8	2.3	2.3
Central government balance	-7.5	-12.1	-11.6	-10.4	-8.0	-6.4	-5.0	-4.8
Central government gross financing needs	21.7	26.1	31.0	34.5	26.6	17.9	15.4	15.9
Central government debt	82.6	95.7	102.2	117.7	100.0	101.6	103.3	102.2
Public debt 3/	89.0	104.0	114.3	128.1	111.2	108.5	107.8	106.8
Money and credit (percent change, end of period)								
Reserve money	-3.0	3.4	35.4	3.3	23.5	11.2	7.3	8.4
Broad money	7.0	23.4	13.2	15.5	22.6	11.2	7.3	8.4
Domestic credit	6.5	24.6	19.5	18.8	11.4	3.2	1.5	2.5
Credit to private sector	4.2	6.5	13.1	6.4	11.2	8.1	8.6	9.2
Credit to private sector (adjusted for inflation)	-0.1	1.9	7.2	-40.0	-17.3	-0.6	3.1	4.0
Credit to central government and public corporations	10.4	53.6	26.5	31.1	11.5	-0.8	-4.7	-4.2
Balance of payments (in millions of U.S. dollars)								
Exports	11,940	10,048	12,499	13,106	13,666	14,517	15,270	16,065
Imports	-19,937	-16,055	-20,638	-18,291	-20,597	-21,479	-22,506	-23,794
Current account balance	-1,844	-1,187	-3,343	-1,458	-1,184	-1,092	-1,077	-1,124
Current account balance (in percent of GDP)	-2.1	-1.4	-3.8	-1.9	-1.6	-1.4	-1.4	-1.4
Current account balance net of interest (in percent of GDP)	-0.2	0.5	-2.2	-0.5	0.2	0.9	1.1	0.8
Export value growth (percent)	0.4	-15.9	24.4	4.9	4.3	6.2	5.2	5.2
Import value growth (percent)	-10.3	-19.5	28.5	-11.4	12.6	4.3	4.8	5.7
Gross official reserves (end of period)								
In millions of U.S. dollars	7,642	5,664	3,139	1,898	4,431	6,128	8,520	10,888
In months of prospective imports of goods & services	5.0	3.2	1.9	1.0	2.2	3.0	3.9	4.8
In percent of ARA composite metric	61.6	45.8	24.5	16.3	36.1	48.7	65.5	80.7
Usable Gross official reserves (end of period) 4/								
In millions of U.S. dollars	7,642	5,664	1,565	462	2,995	4,692	8,520	10,888
In months of prospective imports of goods & services	5.0	3.2	1.0	0.2	1.5	2.3	3.9	4.8
In percent of ARA composite metric	61.6	45.8	12.2	4.0	24.4	37.3	65.5	80.7
External debt (public and private)								
In billions of U.S. dollars	54.6	53.4	57.3	58.7	56.2	58.3	61.1	63.9
As a percent of GDP	61.4	62.6	64.4	78.0	74.7	76.7	78.0	78.6

Sources: Data provided by the Sri Lankan authorities; and IMF staff estimates.

1/ This table is based on data as of March 6.

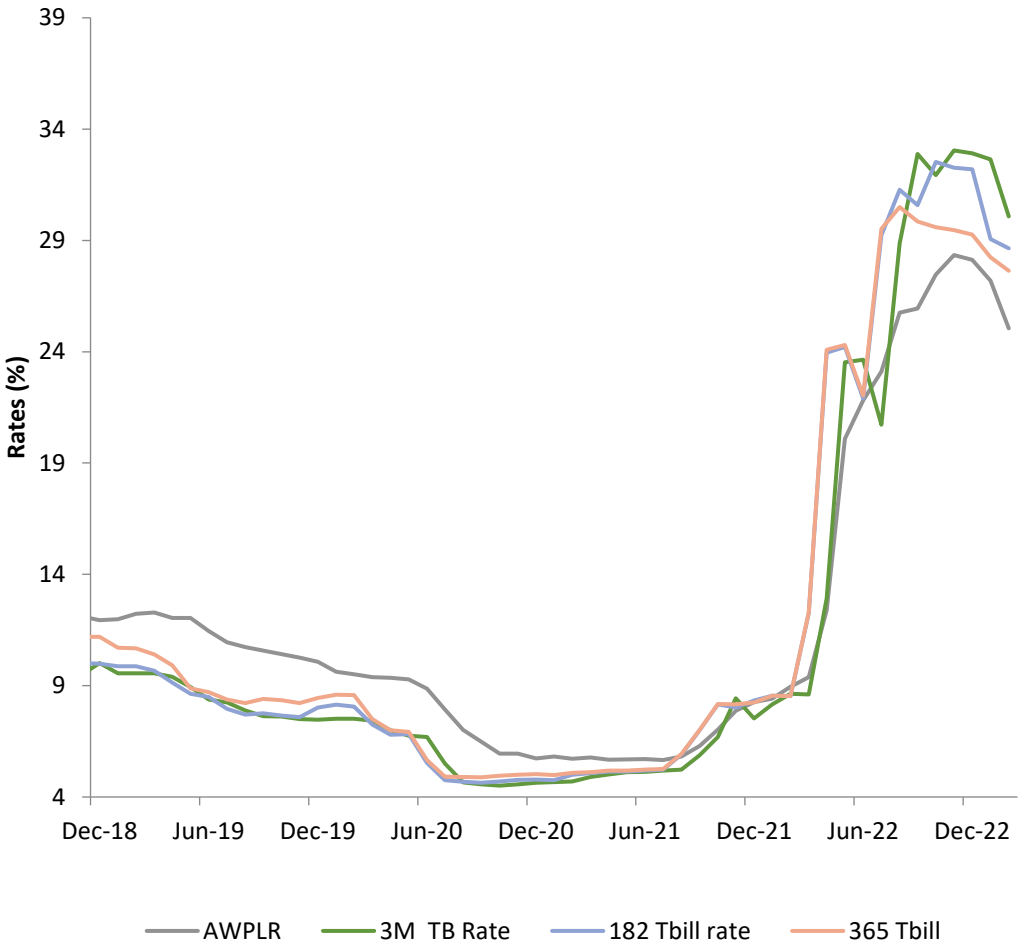
2/ Colombo CPI.

3/ Comprising central government debt, publicly guaranteed debt, and CBSL external liabilities (i.e., Fund credit outstanding and international currency swap arrangements).

4/ Excluding PBOC swap (\$1.4bn in 2022) which becomes usable once GIR rise above 3 months of previous year's import cover.

- GDP to bounce back to positive territory from 2024E.
- Gross official reserves to touch USD 11Bn by 2026E covering 4.8 months of imports
- Revenue and grants to increase to 15% of GDP in 2026E from 8.5% in 2022.
- SL to record a primary balance surplus from 2024E, starting from 0.8% of GDP.
- Inflation to taper down to 15% in 2023E and fall to single digits thereafter.
- Public debt to fall to 107% of GDP in 2026E from 128% in 2022 and decline below 95% of GDP by 2032E.

Source IMF, NLE research

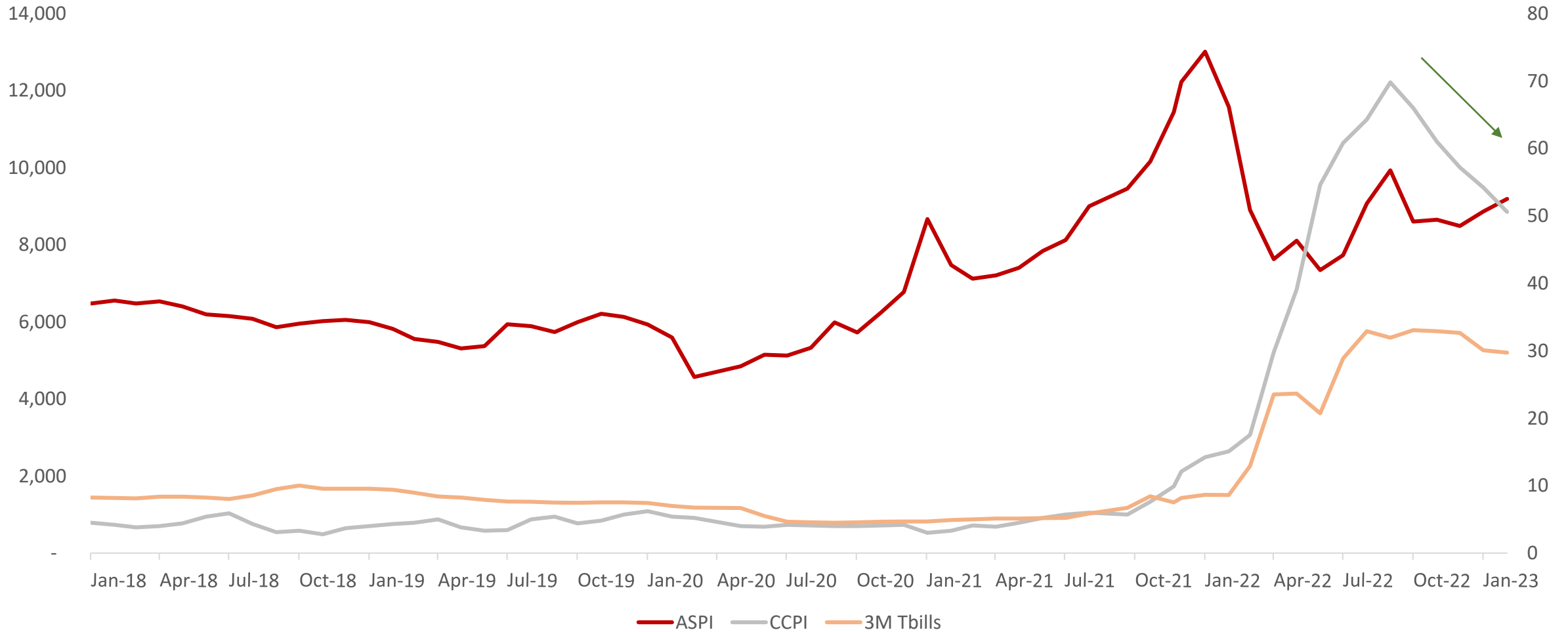


- We expect the rates to fall further despite IMF’s request to increase rates by 250bps at the time of Staff Level Agreement, and CBSL making a final upward revision of 100bps in early March.
- AWPLR that declined by 435bps YTD to 23.78% as of 17th March 2023, should decline even further upon the receipt of IMF that would reduce risk premium further. Sri Lanka’s T-bill rates meanwhile dropped by 5.11% , 5.19% and 3.68% for 91day, 182days and 364 days bills respectively during the year so far to end at 27.94%, 27.34% and 25.92% by 15th March 2023.
- We could expect the rates to fall even further if Sri Lanka considers restructuring domestic debt to provide a quicker path to debt sustainability, recover macro stability and reduce any repeat defaults in the future.
- With inflation too declining gradually, and interest rates too expected to fall, we could expect a positive real interest scenario by the end of 2023.

Source CBSL, NLE research

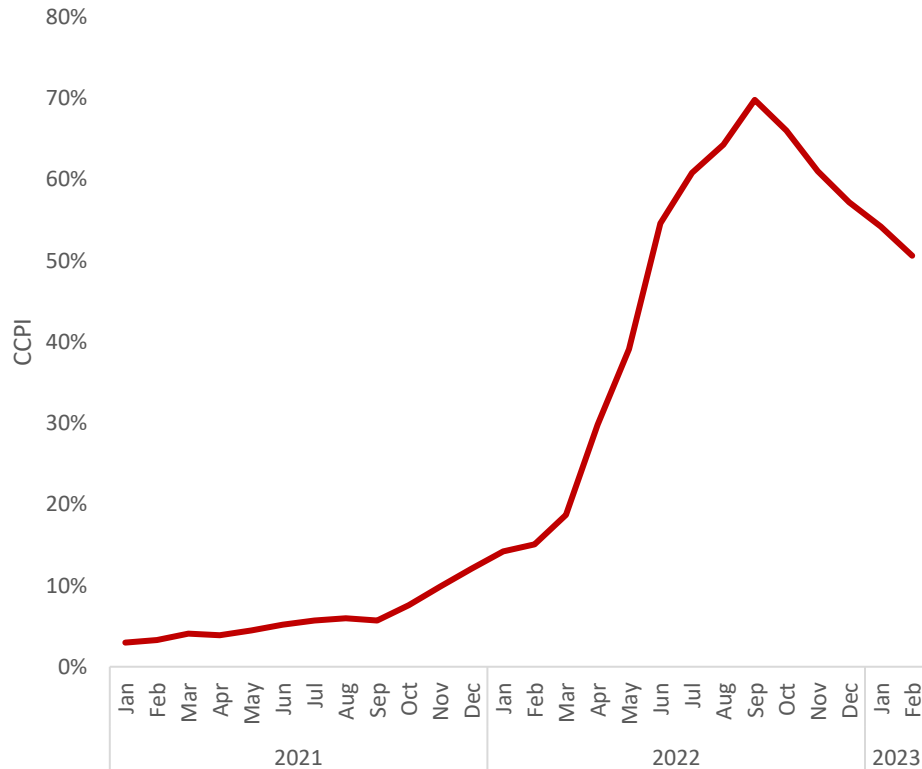
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Falling interest rates and renewed investor confidence to support equity markets



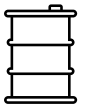


Inflation to come off in line with LKR appreciation, fall in commodity prices and improved supply.



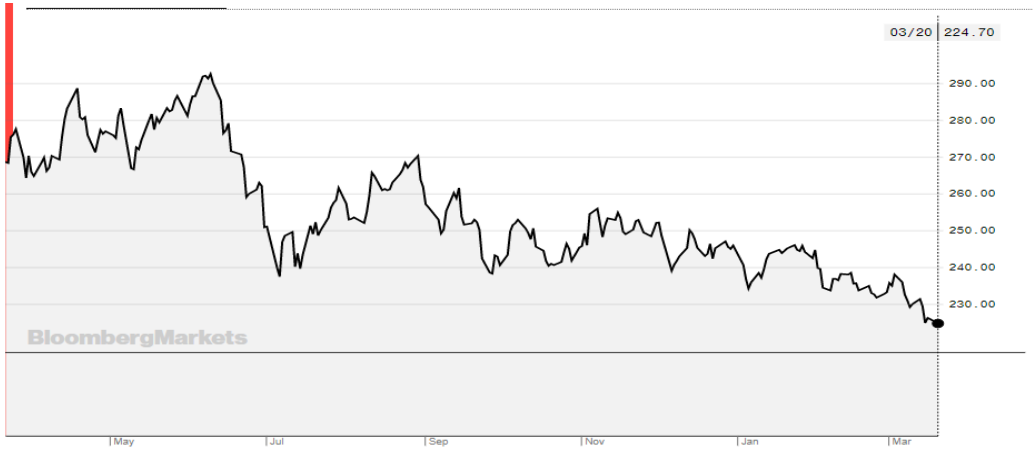
- World oil prices are coming off as the turmoil in the banking sector fuels further concerns that the global economy will tip into recession and hit demand. Commodities remain under pressure where both crude benchmarks sank below at least 15% in 2023, while natural gas futures in the US and Europe have tumbled 48% and 44%, respectively. Bloomberg Commodities Spot Index has dropped by more than a quarter as concerns over a global slowdown, higher interest rates, and a huge selloff in natural gas dragged the gauge lower after reaching a record high levels after the invasion of Ukraine.
- The UN's commodity index, which tracks five major exported food groups, is also at its lowest level since September 2021 after surging to a record last year which would also help lowering the prices of food basket in our view.
- LKR that surged further with China's support for Sri Lanka's debt restructuring and CBSL's move to a floating exchange rate would also give a further impetus to inflation which is at a declining trend. We could expect a faster decline in inflation supported by the strong rupee which will help lower prices of imported goods starting with energy prices which could get adjusted faster. With food supply too improving with availability of fertilizer, we forecast the inflation to hover around 10%-11% on the back of improved supply, low import cost and demand-pull pressure.

Source: Bloomberg, CBSL



Bloomberg commodity index dropped 16% YoY, Brent down by 36% YoY.

Bloomberg Commodity index



Bloomberg commodity index that tracks prices of futures contracts on physical commodities on the commodity markets has dropped 8.13%YTD and 16.06%YoY.

Brent crude prices



Brent crude oil dropped by 14%YTD and 36%YoY

Source: Bloomberg, prices as at 20/03/2023



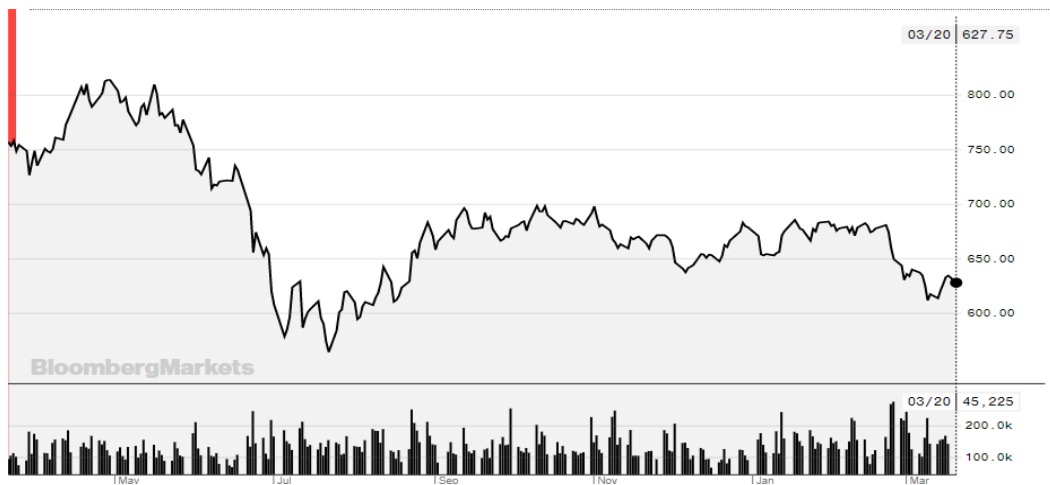
Ukraine is safely allowed to export grains and other crops out of the black seaports, prices retreated since invasion

Wheat prices



Wheat prices dropped by 12% YTD and 38%YoY

Corn prices



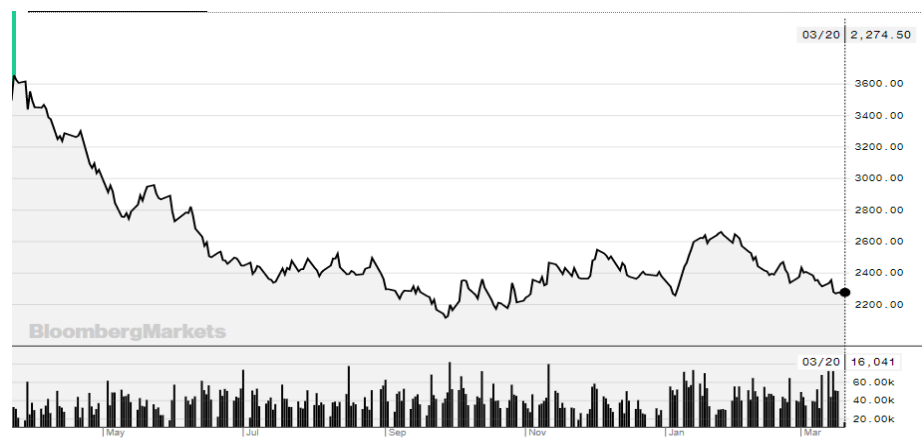
Corn prices dropped by 7% YTD and 17%YoY

Copper prices



Copper prices have dropped 16%YoY

Aluminum prices



Aluminum prices dropped by 3%YTD and 35%YoY

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