



Econsult Investments & Advisory Services (Pvt) Ltd



Business Investment oriented Economic
Research

Friday, March 01, 2013



Consulting Proposal

Introduction

The research will focus on Sri Lanka's macro economy and its financial markets. The resulting material would be presented in an annual seminar on the state of the economy, and used for regular consultations with selected businesses.

Sri Lanka's macro economy

The key elements of the macro economy which will be studied are;

- the process of economic growth and structural change,
- employment and their structural changes,
- inflation and outlook on investments,
- the balance of payments and the exchange rate, and
- Fiscal and monetary policy.

An understanding of these elements it is hoped will provide a solid basis for forecasting the future short- and long-term direction of the Sri Lankan economy and financial markets.

The study of the growth process in Sri Lanka will seek to identify the important/core drivers of this growth with a view to understanding the dynamism of the process and potential for high and sustained growth. Particular attention will be paid to the evolving structure of the economy in terms of the sectoral and sub-sectoral balance. Of note are the balance between industry (especially manufacturing), services and agriculture; the financial and productive sectors; export-oriented and domestic-oriented manufacturing; domestic-oriented vs export-oriented food production; etc.

The study of inflation will begin by looking in some depth at the various inflation indices computed in Sri Lanka, and thereafter considering the important determinants of inflation. Particular attention in respect of the latter will be paid to assessing the relative importance of domestic and external pressures on inflation, as well as testing standard explanations for inflation including that of excess money stock growth and cost-push, while shedding light on investment trajectory and portfolio holding periods.

The study of Sri Lanka's balance of payments will begin with a disaggregation of the balance of payments accounts. The aim of this exercise will be to identify those components which appear to have the biggest influence on the movement of the overall balance, and see how they have been changing over time. Apart from the trade balance, particular attention will be paid to the income and transfers sub-accounts of the current account, and private



productive and financial capital flows with respect to the capital account. Some attention will also be paid to trends in foreign exchange reserves.

The study of the exchange rate, and the forecasting of the latter, is of course linked to that of the balance of payments, and will follow from this analysis. Particular attention will be paid to the structure and functioning of the foreign exchange market, and there will be an attempt to construct a competitive exchange rate index with most weight given to the currency and price movements of Sri Lanka's regional competitors as opposed to her trading partners per se.

The study of Sri Lanka's fiscal policy will be based on an analysis of fiscal expenditures and revenue. There will be an attempt to discern trends in key components of both. Particular attention will be paid to the financing of the budget, as well as the possible implications of different financing modes. If time and resources permit the analysis of fiscal policy will be complimented by an analysis of government debt and its evolution.

The study of monetary policy will attempt to establish what exactly this policy is and how effective it is likely to be in terms of its stated objectives. Monetary policy will be taken to include the manipulation of the quantity of cash, the central bank discount rate, Treasury Bill rates, and the exchange rate.

Given the delay in publication of many macroeconomic data series there will be an attempt to develop a number of proxy indicators of key variables which are available on a timelier basis.

Sri Lanka's financial markets

Financial markets are those in which banks and other financial institutions provide a variety of financial services and products which facilitate the production, distribution and consumption of goods and services as well as the distribution of income and, crucially, entitlements to income. The proposed study of these markets in Sri Lanka will adopt what has come to be known as a segmented market approach. That is, it will look at different segments of the financial markets and try and understand how they function. The important segments of the markets are money, capital, foreign exchange, equity and derivatives markets. The study will concentrate on the first three.

The money market is where money is lent and borrowed, and debt instruments sold and bought, for relatively short periods of time – usually less than one year. In the study of this market a further distinction will be drawn between its wholesale and retail segments, and within the wholesale market between the short-term debt and interbank markets. It is important to note that corresponding to these different markets are interest rates which at times move very differently to one another. One of the crucial aims of the research will be to try to uncover how these different rates move in relation to one another, and in particular why and how they move differently to one another at various junctures. The key rates that will be studied are interbank/repo, short-term debt, loan, and deposit rates. One cannot



overstate how important this type of study is for both (monetary) policy makers and private sector decision-makers operating in the financial sector.

The capital market is where financial instruments yielding a fixed or variable sum of money to the owner of these instruments are traded. Capital markets can be segmented into two generic markets; equity and bond. Although equities and bonds are frequently seen as close substitutes for one another when it comes to the holding of wealth by individuals, there are important differences in the behavior of the two markets, and correspondingly important differences in the movements of the prices of the assets traded in the two markets. A key objective of the research in respect of these two markets is to ascertain how they function and the drivers of asset prices in them.

The research into the operation of the foreign exchange market has already been discussed above.

Data

One of the important by-products of the research will be the development of a comprehensive and extensive database on the Sri Lankan macro economy and financial sector, allowing for regular updates. The database will be constructed using Microsoft Excel and a set of simple macros developed to aid ease of access of the data.

Deliverables/Fees

Phase -1 Macro Analysis of Sri Lanka Markets for Investment Decision Making

Customized reports for investments, annual seminar to selected client groups by Dr Howard Nicholas, conference calls and close door discussion with Senior Management team/Board (see above)

Target Date: Jan 2014-Dec 2015

Deliverables: - Annual report on the Sri Lankan macro economy and financial sector.
 -A comprehensive, searchable database on the Sri Lankan economy and financial markets.
 - Annual seminar for clients in-house core customers and high net worth individuals

Travel and per diems

- Travel Dr Nicholas 2 return flights to Sri Lanka – Euros 2,000.
- Per diems Dr Nicholas for stay in Sri Lanka (2 x 7 x Euros 200/day) = Euros 2,800
- Local travel in Sri Lanka = Euros 500



Fees

- Dr. Nicholas Researcher 8 weeks (5 days per week) @ Euros 250/day = Euros 10,000
- Senior local research assistant 12 weeks (5 days per week) @ Euros 100/day = Euros 6,000
- Analyst and data base entry operator = Euros 5,000
- Econsult Investments & Advisory = Euros 6,000

Communications, printing, etc.

- Euros 1000

TOTAL Euros 33,300

Phase -2 TBD- Macro Analysis of Global Investment Opportunities,- Commodities, Bonds, Equities and Derivative Strategies

Validity/Conditions

- This proposal is valid for 1 month from the date of the proposal
- Consulting Proposals and quotations provided may not be revealed to third parties
- Any alterations/additions required by the Client may result in a change in the time required to complete the project and may add to the cost of the project.
- Time taken will be from the date of commencement of the project. The Consultants would do their utmost to deliver in accordance with the timing stated in the proposal but cannot be held responsible for any delays occasioned by factors beyond its control and/or any consequent loss.
- Econsult reserves all rights in connection with reports and other material provided to clients. In the event of further publication being required, prior written approval of Econsult shall be obtained. This is to protect the intellectual property of the Consultants acquired from substantial experience in the industry and working with many clients.
- The Consultants confirm that confidentiality will be maintained in respect of all information relating to the client and its operations that are not available in the public domain.

Consultants:

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Other Consultants will be introduced as necessary.



Acceptance of this Proposal:

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Date:

EIA

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Designation

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Designation