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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Press Release

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Monetary Policy Review: No. 4 – 2017

With due consideration to the prevailing and evolving domestic and international macroeconomic environment, the Monetary Board, at its meeting held on 22 June 2017, was of the view that the current monetary policy stance is appropriate and decided to maintain the policy interest rates of the Central Bank of Sri Lanka at their present levels.

The decision of the Monetary Board is consistent with the objective of maintaining inflation at mid-single digit levels over the medium term and thereby facilitating a sustainable growth trajectory. The rationale underpinning the monetary policy stance is set out below.

According to the provisional estimates of the Department of Census and Statistics (DCS), the Sri Lankan economy has grown by 3.8 per cent (year-on-year) in the first quarter of 2017. Growth in the first quarter was weighed down by the impact of unfavourable weather conditions, particularly on agriculture related activities. The performance of industry related activities was largely driven by the continued expansion in construction, while services related activities recorded a moderate growth. The economy is expected to recover during the second half of the year.

Following the increasing trend in the first quarter of 2017, year-on-year headline inflation, based on both Colombo Consumer Price Index (CCPI, 2013=100) and National Consumer Price Index (NCPI, 2013=100), moderated during the months of April and May, as envisaged. Core inflation has also displayed a similar trend. As the impact of the revisions to the tax structure and weather-related supply disruptions is expected to dissipate in the period ahead, inflation is projected to moderate to mid-single digits by the end of 2017, and stabilise thereafter.

Monetary expansion remained at elevated levels by end April 2017, driven by the expansion in domestic credit channelled to both the public and private sectors from the banking system. The growth of credit to the private sector continued to decelerate gradually. A further deceleration in the growth of credit to the private sector is anticipated, given the prevailing high nominal and real lending rates in the market. The recent expansion in credit obtained by state owned business enterprises (SOBEs) poses a risk to the behaviour of overall domestic credit, reflecting the need to address concerns in relation to the financial performance of key SOBEs. Meanwhile, a decline in net credit obtained by the government (NCG) was observed in the month of April 2017. The continuation of the government’s revenue based fiscal consolidation process and inflows to the government on account of foreign borrowings appear to have reduced the pressure on interest rates in the government securities market substantially.

Despite improved export performance in March and April 2017, a sustained increase in import expenditure resulted in a wider cumulative trade deficit. Tourism related foreign exchange inflows grew on a cumulative basis, and the decline in tourist arrivals observed in the month of May 2017 is expected to be temporary. Workers’ remittances recorded a slowdown in the first four months of the year, and any further escalation of geopolitical tensions in the Middle East could adversely affect such inflows in the period ahead. A net foreign inflow was observed in the government securities market since March 2017, while inflows to the Colombo Stock Exchange (CSE) also displayed a positive trend. The Central Bank continued to absorb foreign exchange from the domestic market since March 2017 to build up international reserves. In line with these developments and the successful issuance of the International Sovereign Bond as well as the receipt of syndicated loan proceeds by the government, gross official reserves improved to above US dollars 7.0 billion by mid-June 2017. Meanwhile, the Sri Lankan rupee has depreciated against the US dollar by 2.3 per cent during 2017 up to 21 June.

Against this backdrop, the Monetary Board decided to maintain the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 7.25 per cent and 8.75 per cent, respectively.

| | |
|---------------------------------------|-------------------------------|
| Monetary Policy Decision: | Policy rates unchanged |
| Standing Deposit Facility Rate (SDFR) | 7.25% |
| Standing Lending Facility Rate (SLFR) | 8.75% |
| Statutory Reserve Ratio (SRR) | 7.50% |

The release of the next regular statement on monetary policy will be on 3 August 2017.

Data Annexure:

Table 1: Real GDP Growth (Provisional)

| Economic Activities | Year - on - Year % Change | |
|---------------------|---------------------------|---------------|
| | 2016 | 2017 |
| | Annual | First Quarter |
| Agriculture | -4.2 | -3.2 |
| Industries | 6.7 | 6.3 |
| Services | 4.2 | 3.5 |
| GDP | 4.4 | 3.8 |

Source: Department of Census and Statistics

Table 2: Inflation

| Month | | Dec-16 | Jan-17 | Feb-17 | Mar-17 | Apr-17 | May-17 |
|---|-----------------|--------|--------|--------|--------|--------|--------|
| Headline Inflation (Year on year, %) | CCPI (2013=100) | 4.5 | 5.5 | 6.8 | 7.3 | 6.9 | 6.0 |
| | NCPI (2013=100) | 4.2 | 6.5 | 8.2 | 8.6 | 8.4 | 7.1 |
| Core Inflation (Year on year, %) | CCPI (2013=100) | 5.8 | 7.0 | 7.1 | 7.3 | 6.8 | 5.2 |
| | NCPI (2013=100) | 6.7 | 7.1 | 7.1 | 7.0 | 5.9 | 4.7 |

Source: Department of Census and Statistics

Table 3: Monetary Sector Developments (Provisional)

| Indicator | Outstanding Amount (Rs. billion) | | | | | Year - on - Year % Change | | | | |
|------------------------------------|----------------------------------|--------|--------|--------|--------|---------------------------|--------|--------|--------|--------|
| | Dec 16 | Jan 17 | Feb 17 | Mar 17 | Apr 17 | Dec 16 | Jan 17 | Feb 17 | Mar 17 | Apr 17 |
| Reserve Money | 856 | 828 | 848 | 892 | 886 | 27.1 | 15.3 | 14.6 | 12.7 | 16.0 |
| Broad Money (M _{2b}) | 5,406 | 5,460 | 5,552 | 5,677 | 5,731 | 18.4 | 17.7 | 18.0 | 20.0 | 20.1 |
| Net Foreign Assets (NFA) | (231) | (328) | (370) | (371) | (341) | 22.4 | 9.1 | 7.9 | 15.6 | 26.6 |
| Net Domestic Assets (NDA) | 5,637 | 5,788 | 5,922 | 6,049 | 6,072 | 15.9 | 15.8 | 16.0 | 17.0 | 16.0 |
| Net Credit to the Government (NCG) | 1,972 | 2,113 | 2,192 | 2,215 | 2,206 | 12.1 | 13.1 | 14.1 | 13.3 | 12.6 |
| Credit to Public Corporations | 495 | 518 | 535 | 553 | 557 | -5.3 | -1.8 | 1.6 | 7.5 | 9.0 |
| Credit to the Private Sector | 4,204 | 4,222 | 4,293 | 4,375 | 4,394 | 21.9 | 20.9 | 21.0 | 20.4 | 20.0 |
| Broad Money (M ₄) | 6,630 | 6,711 | 6,811 | 6,951 | 7,033 | 15.9 | 16.1 | 16.4 | 18.2 | 18.4 |

Source: Central Bank of Sri Lanka

Table 4: Interest Rates

| Interest Rate (%) | End Dec 16 | End Jan 17 | End Feb 17 | End Mar 17 | End Apr 17 | End May 17 | As at 22 Jun 17 |
|---|------------|------------|------------|------------|------------|------------|-----------------|
| Policy Rates of the Central Bank | | | | | | | |
| Standing Deposit Facility Rate | 7.00 | 7.00 | 7.00 | 7.25 | 7.25 | 7.25 | 7.25 |
| Standing Lending Facility Rate | 8.50 | 8.50 | 8.50 | 8.75 | 8.75 | 8.75 | 8.75 |
| Weighted Average Call Money Rate (AWCMR) | 8.42 | 8.38 | 8.49 | 8.75 | 8.72 | 8.72 | 8.75 |
| Treasury Bill Yields (Primary Market) | | | | | | | |
| 91-day | 8.72 | 9.03 | 9.32 | 9.63 | 9.73 | 9.61 | 9.60 |
| 182-day | 9.63 | 10.07 | 10.19 | 10.62 | 10.70 | 10.35 | 10.29 |
| 364-day | 10.17 | 10.37 | 10.58 | 10.98 | 11.02 | 10.71 | 10.47 |
| Lending Rates | | | | | | | |
| Average Weighted Prime Lending Rate (Weekly) | 11.52 | 11.49 | 11.70 | 11.79 | 11.78 | 11.40 | 11.88 |
| Average Weighted Lending Rate (AWLR) | 13.20 | 13.28 | 13.29 | 13.40 | 13.52 | - | - |
| Average Weighted New Lending Rate (AWNLR) | 14.37 | 14.49 | 14.62 | 14.54 | 15.00 | - | - |
| Deposit Rates | | | | | | | |
| Average Weighted Deposit Rate (AWDR) | 8.17 | 8.42 | 8.66 | 8.81 | 8.89 | 8.99 | - |
| Average Weighted Fixed Deposit Rate (AWFDR) | 10.46 | 10.84 | 11.15 | 11.38 | 11.43 | 11.52 | - |
| Average Weighted New Deposit Rate (AWNDR) | 11.17 | 11.38 | 11.20 | 11.49 | 11.38 | - | - |

Source: Central Bank of Sri Lanka