



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By Economic Research Department

Date 11.05.2018

Monetary Policy Review: No. 3 – 2018

The Central Bank of Sri Lanka maintains policy interest rates unchanged

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 10 May 2018, decided to maintain policy interest rates at their current levels. Accordingly, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) remain at 7.25 per cent and 8.50 per cent, respectively. The Board's decision aims at stabilising inflation in mid-single digit levels in the medium term, thereby contributing to a favourable growth outlook for the Sri Lankan economy.

After a brief supply-driven uptick in the short term, inflation to stabilise in mid-single digit levels

Headline inflation, based on the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), continued to decelerate to reach low single digit levels, as volatile food prices declined due to favourable domestic supply conditions. Meanwhile, core inflation remained subdued indicating contained demand pressures, while inflation expectations continued to decline. However, a temporary uptick in inflation is expected in the short term due to the impact of upward price revisions to domestic petroleum products, LP gas and milk powder. Nevertheless, with the dissipation of these transitory supply driven price pressures and further improvements in domestic food supplies, inflation is expected to stabilise in the desired mid-single digits in the second half of 2018. Inflation is projected to remain within the 4-6 per cent target range over the medium term.

Economic growth to recover in 2018

After the sub-par growth performance in 2017, a moderate recovery in the Sri Lankan economy is foreseen in 2018 owing to strengthening global economic activity and improving domestic conditions. Forward looking indicators suggest an improvement in the economic performance on the back of the modest recovery in the Agriculture sector and continued positive momentum in the Industry and Services sectors. While the continuation of fiscal consolidation efforts may somewhat dampen growth prospects, the macroeconomic benefits that the economy is to derive from fiscal discipline will ensure sustained growth over the medium term. Alongside the implementation of envisaged structural reforms and the receipt of expected inflows of foreign investment, a conducive low inflation environment and a competitive exchange rate are expected to enable the economy to attain its potential over the medium term.

Short term market rates respond to policy easing in April 2018

Responding to the policy rate adjustment in April 2018, overnight interest rates have declined to stabilise around the midpoint of the narrower policy rate corridor. In line with the decline in short term interest rates, other market interest rates, particularly interest rates on lending, are also expected to adjust downwards in the period ahead.

The growth of credit extended to the private sector by commercial banks hovered around the envisaged levels although a high seasonal credit demand was witnessed in March 2018. Based on the data up to end March 2018, private sector credit appears to have been fairly distributed across all major sectors of the economy. As a result of the festive season-led credit expansion, broad money growth increased marginally in March 2018. However, broad money growth is expected to stabilise at around 15 per cent by end 2018.

Build-up of official reserves continues amidst tightening global financial conditions

Exports have maintained the positive momentum with export earnings growing during the first two months of 2018. However, this was outweighed by the increase in import expenditure, largely driven by gold and vehicle imports, which resulted in a widening of the trade deficit. The imposition of the Customs duty on gold imports is expected to help narrow the trade deficit to some extent. Earnings from tourism and workers' remittances continued their growth performance so far during the year. On account of tightening global financial conditions, the rupee denominated government securities market experienced a net outflow while the Colombo Stock Exchange (CSE)

attracted net inflows so far during the year. Amidst these developments, the Central Bank recorded a net foreign exchange absorption of US dollars 458.5 million from the domestic market in 2018 up to end April. With the successful issuance of the International Sovereign Bond (ISB) in April 2018 and foreign exchange purchases by the Central Bank from the domestic market, the gross official reserve position had improved to US dollars 9.9 billion by end April 2018, the record highest level in history. So far during the year, the exchange rate had depreciated against the US dollar by 3.1 per cent. Much of this depreciation came in late April and early May, reflecting the US dollar's broad-based strengthening in global markets. The Central Bank intervened in the domestic foreign exchange market to mitigate excessive volatility in the exchange rate, and the rupee has shown signs of stabilisation.

Unchanged policy stance to sustain inflation at mid-single digit levels

Based on the current developments and outlook for key macroeconomic variables, the Monetary Board of the Central Bank was of the view that the continuation of the current monetary stance is suitable. In arriving at this decision, the Board took into consideration the recent global market developments, the macroeconomic impact of recent adjustments in administered prices, and the fact that more time is needed to assess the market and economic impact of the policy rate adjustment in April 2018.

Accordingly, in line with the Central Bank's focus on stabilising inflation in mid-single digits over the medium term, 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.

Monetary Policy Decision:	Policy rates unchanged
Standing Deposit Facility Rate (SDFR)	7.25%
Standing Lending Facility Rate (SLFR)	8.50%
Statutory Reserve Ratio (SRR)	7.50%

INFORMATION NOTE:

A press conference with Governor Dr. Indrajit Coomaraswamy will be held today (11 May 2018) at 12 noon at the John Exter International Conference Hall of the Central Bank of Sri Lanka.

The release of the next regular statement on monetary policy will be on 29 June 2018.

Data Annexure:

Table 01: Inflation

Month		Mar 17	Jun 17	Sep 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18
Headline Inflation (Year on year % change)	CCPI (2013=100)	7.3	6.1	7.1	7.1	5.8	4.5	4.2	3.8
	NCPI (2013=100)	8.6	6.3	8.6	7.3	5.4	3.2	2.8	-
Core Inflation (Year on year % change)	CCPI (2013=100)	7.3	5.1	6.0	4.3	3.5	3.5	3.4	3.5
	NCPI (2013=100)	7.0	4.1	4.6	2.7	2.1	2.0	1.9	-

Source: Department of Census and Statistics

Table 02: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)					Year - on - Year % Change				
	Mar 17	Dec 17	Jan 18	Feb 18	Mar 18	Mar 17	Dec 17	Jan 18	Feb 18	Mar 18
Reserve Money	892	940	930	938	997	12.7	9.8	12.3	10.7	11.8
Broad Money (M _{2b})	5,677	6,308	6,378	6,451	6,607	20.0	16.7	16.8	16.2	16.4
Net Foreign Assets (NFA)	-371	122	128	116	106	15.6	152.6	138.9	131.3	128.6
Net Domestic Assets (NDA)	6,049	6,187	6,251	6,335	6,500	17.0	9.8	8.0	7.0	7.5
Net Credit to the Government (NCG)	2,215	2,169	2,221	2,246	2,278	13.3	10.0	5.1	2.4	2.9
Credit to Public Corporations	553	514	507	524	535	7.5	3.9	-2.2	-2.0	-3.3
Credit to the Private Sector	4,375	4,822	4,863	4,922	5,044	20.4	14.7	15.2	14.6	15.3
Broad Money (M ₄)	6,951	7,796	7,900	7,979	8,112	18.2	17.6	17.7	17.1	16.7

Source: Central Bank of Sri Lanka

Table 03: Interest Rates

Interest Rate (%)	End Dec 17	End Jan 18	End Feb 18	End Mar 18	End Apr 18	As at 10 May 18
Policy Rates of the Central Bank						
Standing Deposit Facility Rate	7.25	7.25	7.25	7.25	7.25	7.25
Standing Lending Facility Rate	8.75	8.75	8.75	8.75	8.50	8.50
Weighted Average Call Money Rate (AWCMR)	8.15	8.15	8.12	8.41	7.86	7.87
Treasury bill yields (Primary market)						
91-day	7.69	-	8.24	8.17	8.10	8.11
182-day	8.30	7.95	8.52	-	-	-
364-day	8.90	8.90	9.59	9.69	9.59	9.65
Lending Rates						
Average Weighted Prime Lending Rate (Weekly)	11.55	11.04	11.43	11.55	11.21	11.45
Average Weighted Lending Rate (AWLR)	13.88	14.06	14.03	14.04	-	-
Average Weighted New Lending Rate (AWNLR)	14.31	14.07	14.11	14.25	-	-
Deposit Rates						
Average Weighted Deposit Rate (AWDR)	9.07	9.08	9.05	9.00	8.98	-
Average Weighted Fixed Deposit Rate (AWFDR)	11.48	11.54	11.45	11.41	11.38	-
Average Weighted New Deposit Rate (AWNDR)	10.06	10.57	10.05	10.33	-	-

Source: Central Bank of Sri Lanka