



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 02.10.2018

Monetary Policy Review: No. 6 – 2018

The Central Bank of Sri Lanka maintains policy interest rates at current levels

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 01 October 2018, decided to maintain policy interest rates at their current levels. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank will remain at 7.25 per cent and 8.50 per cent, respectively.

The Board arrived at the above decision after carefully considering current and expected developments in the domestic and global economy, with the aim of stabilising inflation at mid-single digit levels in the medium term to support growth.

Tight monetary policy conditions are observed globally with a continuous strengthening of the US dollar

The broad based strengthening of the US dollar subsequent to the increase in policy interest rates by the Federal Reserve and expectations of further interest rate hikes have exerted pressure on emerging market economies (EMEs). In response, EMEs with significant pressure on local currencies have tightened their monetary policy stance by raising policy interest rates. Meanwhile, the recent upward trend observed in international oil prices is likely to exacerbate challenges faced by the global economy.

External sector recorded a mixed performance and the exchange rate depreciated at a faster pace

The deficit in the trade account continued to expand during the first seven months as import growth outpaced export growth. The substantial surge in import expenditure was driven by the growth in imports of fuel, gold and personal motor vehicles. Even though services related inflows such as tourism performed notably and the financial account of the Balance of Payments (BOP) strengthened during the year, outflows of foreign investment from the government securities market exerted pressure on the BOP. High import growth and capital outflows, in the context of a strengthening US dollar, exerted significant pressure on the exchange rate. Accordingly, in line with several other peer countries such as India, Philippines and Indonesia, the Sri Lankan rupee depreciated at a faster pace of 9.7 per cent against the US dollar during the year up to 01 October 2018. In addition to the Central Bank intervention to curtail disorderly adjustment in the exchange rate during the first few weeks of September 2018, both the Central Bank and the government introduced a raft of policy measures including margin deposit requirements for letters of credit opened for the importation of personal motor vehicles, cash margins on selected non-essential consumer goods imports and the suspension of concessionary vehicle permits for a limited period. These measures are expected to ease the excessive demand for foreign currency and hence the pressure in the domestic foreign exchange market as already observed in the stabilising exchange rate.

Moderate growth in the domestic economy is expected to pickup

According to the provisional estimates of the Department of Census and Statistics (DCS), the Sri Lankan economy grew by 3.7 per cent in the second quarter of 2018, while estimates for the first quarter of 2018 were revised upward from 3.2 per cent to 3.5 per cent. Economic growth in the second quarter of 2018 was propelled by the positive momentum in the Services and Agriculture sectors, while Industry sector growth remained moderate. Based on current economic developments and projections, it is expected that the economy will expand during the remaining quarters of the year at a rate higher than the first half of 2018. The competitive flexible exchange rate, low inflation environment and structural reforms that are currently being undertaken by the authorities to support exports and investment are expected to facilitate a stronger and sustained growth over the medium term.

Inflation to remain within 4-6 per cent target range despite recent transitory price pressures

Following the transitory uptick in inflation in the previous months due to the impact of upward adjustments to administered prices and higher volatile food prices, headline inflation decelerated in September 2018 primarily due to lower food prices. However, further upward price revisions to domestic petroleum products and other administered prices as well as imported inflation arising from the impact of the currency depreciation could exert some pressure on inflation in the coming months. Nevertheless, despite these transitory pressures, inflation is likely to taper further on the back of decelerating food prices and favourable base effect during the remaining period of the year. With appropriate policy adjustments, inflation is expected to remain within the 4 - 6 per cent target range over the medium term.

Short term market interest rates have responded to domestic market conditions, while monetary expansion continued its gradual deceleration

In response to the prevailing tight liquidity condition in the domestic money market, short term interest rates have adjusted upwards, while an uptick is observed in the yields on government securities in both primary and secondary markets. Moreover, market interest rates, particularly lending interest rates in many market segments continue to remain at elevated levels. Hence, Sri Lanka's real interest rates still remain well above several peer EMEs reflecting already a tightening bias in monetary policy.

Credit extended to the private sector continued to decelerate buttressing the moderation of broad money growth in August 2018. These trends in monetary and credit expansion indicate greater monetary stability, which is consistent with the envisaged medium term growth path of the economy. Moreover, based on the data up to the first half of 2018, credit to all major sectors of the economy has expanded, indicating the availability of adequate financial resources to support economic activity.

Policy interest rates unchanged

Based on current and expected macroeconomic developments and taking into consideration the measures taken to address the prevailing imbalances, particularly in the external sector, the Monetary Board of the Central Bank was of the view that the continuation of the current monetary policy stance is appropriate. Accordingly, 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 (02 October 2018) at 11.30 am at the John Exter International Conference Hall (JEICH) of the Central Bank of Sri Lanka.

The release of the next regular statement on monetary policy will be on 14 November 2018.

Data Annexure:

Table 01: Real GDP Growth (Provisional)

Economic Activities	Year - on - Year % Change							
	2016	2017				2018		
	Annual	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual	First Quarter	Second Quarter
Agriculture	-3.8	-4.4	-3.1	-3.0	7.1	-0.8	5.3	4.5
Industries	5.8	3.7	5.6	5.3	4.1	4.6	1.1	2.3
Services	4.7	4.3	2.7	2.8	3.2	3.2	4.8	4.8
GDP	4.5	3.4	3.0	3.2	3.5	3.3	3.5	3.7

Source: Department of Census and Statistics

Table 02: Inflation

Month		Mar 18	Jun 18	Jul 18	Aug 18	Sep 18
Headline Inflation (Year on year % change)	CCPI (2013=100)	4.2	4.4	5.4	5.9	4.3
	NCPI (2013=100)	2.8	2.5	3.4	2.5	-
Core Inflation (Year on year % change)	CCPI (2013=100)	3.4	3.4	3.9	3.7	3.8
	NCPI (2013=100)	1.9	1.8	2.3	2.7	-

Source: Department of Census and Statistics

Table 03: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)				Year - on - Year % Change			
	Mar 18	Jun 18	Jul 18	Aug 18	Mar 18	Jun 18	Jul 18	Aug 18
Reserve Money	997	999	1,001	1,005	11.8	12.0	11.9	10.2
Broad Money (M _{2b})	6,607	6,748	6,795	6,866	16.4	14.9	13.5	13.5
Net Foreign Assets (NFA)	106	101	172	167	128.6	141.1	237.1	433.1
Net Domestic Assets (NDA)	6,500	6,646	6,624	6,700	7.5	8.6	8.4	9.8
Net Credit to the Government (NCG)	2,278	2,273	2,226	2,272	2.9	1.7	(1.3)	1.5
Credit to Public Corporations	557	619	636	639	(2.6)	8.5	19.7	22.6
Credit to the Private Sector	5,022	5,156	5,202	5,248	15.3	14.9	14.7	14.3
Broad Money (M ₄)	8,112	8,292 (a)	8,333	8,403	16.7	14.8 (a)	13.0	12.7

(a) Revised

Source: Central Bank of Sri Lanka

Table 04: Interest Rates

Interest Rate (%)	End Mar 18	End Jun 18	End July 18	End Aug 18	End Sep 18	As at 1 Oct 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	8.50	8.50	8.50	8.50	8.50
Average Weighted Call Money Rate (AWCMR)	8.41	8.50	8.46	7.92	8.40	8.42
Treasury bill yields (Primary market)						
91-day	8.17	8.32	8.24	8.03	8.56	-
182-day	-	8.85	8.74	8.60	-	-
364-day	9.69	9.39	9.27	8.99	9.51	-
Lending Rates						
Average Weighted Prime Lending Rate (Weekly)	11.55	11.33	11.52	11.67	11.74	-
Average Weighted Lending Rate (AWLR)	14.04	14.05	14.07	14.18	-	-
Average Weighted New Lending Rate (AWNLR)	14.25	13.94	13.95	14.35	-	-
Deposit Rates						
Average Weighted Deposit Rate (AWDR)	9.00	8.92	8.64	8.66	8.69	-
Average Weighted Fixed Deposit Rate (AWFDR)	11.41	11.26	10.82	10.81	10.84	-
Average Weighted New Deposit Rate (AWNDR)	10.33	10.57	10.43	10.24	-	-

Source: Central Bank of Sri Lanka