Let the DATA talk

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1. The Rupee took a beating in 2018

With the value of the US Dollar in terms of the Sri Lanka rupee going up from around Rs. 153.50 at the beginning of 2018 to over Rs. 161 at the beginning of the third quarter of 2018 and thereafter moving up quite rapidly to over Rs. 175 by November 2018 and further to above Rs. 180 by January 2019, some of the Central Bank’s key operations again came to the focal point, since a country’s exchange rate policy is executed by the central bank.
The Central Bank of Sri Lanka intervened in the domestic foreign exchange market in 2018 to prevent high volatility in the movement of the exchange rate of the Sri Lanka rupee, whilst allowing the exchange rate to move so as to reflect the underlying macroeconomic fundamentals. As a result, the official foreign reserves declined. However, the Central Bank continues to meet, on time, the repayment obligations in respect of foreign borrowings of the government.

The year 2018 saw a significant decline in the external value of several currencies including the Sri Lanka rupee alongside the tightening monetary conditions in international markets as a result of the normalisation of the monetary policy stance of the Federal Reserve Board of the USA. The figures below present a snapshot of the behaviour of some selected currencies including the Sri Lanka rupee, during the year 2018.

Source of Data: Central Bank of Sri Lanka Annual Report for 2017, Special Statistical Appendix Table 5. Reserves, Total Foreign Assets, External Debt and Exchange Rates; and Weekly Economic Indicators, Central Bank of Sri Lanka Website

![Gross Official Reserves](image)

The year 2018 saw a significant decline in the external value of several currencies including the Sri Lanka rupee along with the tightening monetary conditions in international markets as a result of the normalisation of the monetary policy stance of the Federal Reserve Board of the USA. The figures below present a snapshot of the behaviour of some selected currencies including the Sri Lanka rupee, during the year 2018.

![Appreciation/Depreciation of the Sri Lanka Rupee & other Selected Currencies vis-à-vis the USD in 2018](image)
Appreciation/Depreciation of the Sri Lanka Rupee & other Selected Currencies vis-à-vis the USD in 2018

Source of Data on Exchange Rates: International Monetary Fund (IMF) Website
2. But FDIs increased further in 2018, from the highest level recorded in 2017

Some other recent developments on the external front meanwhile, augur well for the Sri Lankan economy. For example, foreign direct investment (FDI) inflows saw significant increases in 2017 and 2018. Macroeconomic conditions prevailing no doubt played a role in attracting these FDI inflows.

Foreign Direct Investment (FDI) Inflows to Sri Lanka (in net terms)

3. Exports have also increased further in 2018

Whilst the exchange rate pertaining to the Sri Lanka rupee has been allowed by the Central Bank to be determined by market forces, this in turn ensures that pricing of Sri Lanka’s exports remains competitive. Export earnings, in fact, have recorded an increase, with several sub-categories of exports recording an increasing trend in earnings in recent years.

Tea continues to be the key source of export earnings amongst agricultural products. However, earnings from exports of several other agricultural products have gradually increased over the years.
While industrial exports have increased gradually over the years, exports of textiles and garments continue to be the source of highest export earnings amongst merchandise exports. However, exports of several other industrial products have continued to increase during the past several years.
4. Our policies have helped manage Imports for the better

In the case of imports, available data suggest that the policy measures taken by the Central Bank recently are likely to have the intended impact without distabilising imports of necessary items such as intermediate goods, investment goods as well as certain items classified as consumer goods, as can be seen from the following figures. One such policy measure taken was the imposition of regulatory restrictions on the importation of motor vehicles, which are generally used for non-commercial purposes, to be effective from late September 2018 till early March 2019.
Expenditure on Imports of Vehicles

Expenditure on Imports of Medical & Pharmaceutical Items

Expenditure on Imports of Intermediate Goods excluding Fuel

Expenditure on Imports of Fuel
Expenditure on Imports of Investment Goods

Expenditure on Imports of Building Material

Expenditure on Imports of Transport Equipment

Expenditure on Imports of Machinery & Equipment

Source of Data on Imports: Central Bank of Sri Lanka Website
5. Credit remains buoyant and supportive of economic activity

With respect to macroeconomic outcomes of the monetary policy measures taken by the Central Bank, movements in credit flows and non-performing loans of the banking sector indicate that economic activity in both agriculture and industry sectors remain buoyant. This in turn has supported the buoyancy of credit granted by banks by way of personal loans and advances.


Source of Data: Central Bank of Sri Lanka Website
The trends in economic activity as reflected by the trends in credit flows and non-performing loans meanwhile are corroborated by the trends in electricity sales (a commonly used proxy to gauge movements in economic activity, i.e. the GDP), as shown by the figure below.

![Electricity Sales (GWh) Year-on-year Change (%)](image)

Source of Data: Annual Reports and Monthly Economic Indicators, various Issues, Central Bank of Sri Lanka Website.

Meanwhile, a comparison of credit obtained by the private sector as at September 2018 (date of latest available data) with the position five years before, i.e., September 2013, indicates that the relative share of credit granted to the industry sector has recorded a notable increase while the share of credit granted to the services sector has also increased. Within the industry sector, the relative share of construction has increased during this period.

![Loans and Advances granted to the Private Sector by Commercial Banks - as at Sep. 2013](image)

![Loans and Advances granted to the Private Sector by Commercial Banks - as at Sep. 2018](image)
6. But, challenging global economic conditions need watching

With respect to market interest rates, which the Central Bank manoeuvres to achieve its objective of price stability, conditions in domestic markets as well as international markets resulted in increases in market interest rates during several periods in the past. These situations however, were managed by the Central Bank so as to ensure that monetary conditions became conducive for economic activity. Consequently, the Average Weighted Lending Rate (AWLR), which reflects the movement of interest rates pertaining to the entire lending portfolio of commercial banks, has remained at levels below 15 per cent in the past several years.
However, the gradual tightening of monetary conditions globally alongside the strengthening of advanced economies and the steps they took to normalise their monetary policy stance resulted in considerable pressure on the monetary conditions of emerging market economies and developing nations, during 2018. More recently, however, the slowing down of global economic activity and the ongoing geopolitical issues the world faces, have taken centre stage. These dynamics would continue to pose challenges, requiring the Central Bank of Sri Lanka to carefully calibrate its policy setting on a continuous basis.

**Selected East & Southeast Asian Countries - Policy Interest Rates**

- Korea - Base rate
- Thailand - Repurchase Rate
- Malaysia - Overnight Policy Rate
- Indonesia - BI rate

**Selected Advanced Economies - Policy Interest Rates**

- Japan - Target for uncollaterized overnight call rate
- Euro Area - Main refinancing operations minimum bid rate
- UK - Bank Rate
- USA - Federal funds target rate

**Selected South Asian Countries - Policy Interest Rates**

- Pakistan - SBP Policy Rate
- India - Repo Rate
- Sri Lanka - Standing Lending Facility Rate

Sources of Data: Websites of central banks