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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

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Monetary Policy Review: No. 5 – 2017

The Monetary Board, at its meeting held on 02 August 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.

In arriving at the above decision, the Monetary Board took into consideration current and expected developments in the domestic and international macroeconomic environment and the need to maintain inflation at mid-single digit levels over the medium term.

The outlook for global growth appears to be firming according to the latest update of the World Economic Outlook of the International Monetary Fund (IMF) in July 2017. The Sri Lankan economy is expected to record a modest recovery in the forthcoming quarters following the low growth witnessed in the first quarter of 2017. The recovery of the agriculture related activities and the positive performance of the industry and services related activities together with the reinstatement of GSP+ facility are expected to contribute to economic growth.

The Colombo Consumer Price Index (CCPI, 2013=100) and the National Consumer Price Index (NCPI, 2013=100) based headline inflation (year-on-year) moderated at a faster pace in the recent months, in spite of supply side disruptions encountered in May 2017, mainly on account of the floods. A similar trend was observed in core inflation as well during this period. Inflation is expected to ease further towards the end of 2017 and stabilise thereafter due to the tight monetary policy stance maintained since the end of 2015 and the dissipation of the ‘one-off’ impact of the tax structure on inflation.

However, monetary expansion continued to remain high in May as well as in June 2017. While monetary growth was mainly driven by the expansion in domestic credit, net foreign assets (NFA) of the banking system also positively contributed to this expansion. Meanwhile, private sector credit that was growing at an elevated level during 2016 and early 2017, indicates clear signs of deceleration in recent months, although at a slow pace. In view of high nominal and real interest rates prevailing in the market, it is expected that growth of monetary and credit aggregates would moderate further during the remainder of the year. The recent decline in the yields on government securities is expected to gradually transmit to other market interest rates in the forthcoming period.

In the external sector, export performance continued to improve in May 2017 led by agricultural exports. However, the continued increase in expenditure on imports has caused a further widening of the cumulative trade deficit. Tourist arrivals and earnings from tourism improved in June 2017, albeit at a slower pace, while workers' remittances continued to slow during the first half of 2017 on account of prevailing economic and geopolitical uncertainties in the Middle East. Nevertheless, the capital market, both government securities and the Colombo Stock Exchange (CSE), witnessed a noticeable influx of foreign funds (on a net basis) from March 2017. Meanwhile, Sri Lanka received the third tranche of the IMF-Extended Fund Facility (EFF) amounting to US dollars 167.2 million. Reflecting these developments, gross official reserves stood at US dollars 6.7 billion as at end July 2017. Renewed investor confidence and anticipated direct investment inflows are expected to further strengthen the external sector outlook. Meanwhile, the Sri Lankan rupee depreciated against the US dollar by 2.6 per cent by end July 2017.

In view of the above, 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 26 September 2017.

Data Annexure:

Table 01: Inflation

Month		Dec-16	Mar-17	Apr-17	May-17	Jun-17	Ju1-17
Headline Inflation (Year on year % change)	CCPI (2013=100)	4.5	7.3	6.9	6.0	6.1	4.8
	NCPI (2013=100)	4.2	8.6	8.4	7.1	6.3	-
Core Inflation (Year on year % change)	CCPI (2013=100)	5.8	7.3	6.8	5.2	5.1	4.9
	NCPI (2013=100)	6.7	7.0	5.9	4.7	4.1	-

Source: Department of Census and Statistics

Table 02: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)					Year - on - Year % Change				
	Dec 16	Mar 17	Apr 17	May 17	Jun 17	Dec 16	Mar 17	Apr 17	May 17	Jun 17
Reserve Money	856	892	886	860	892	27.1	12.7	16.0	17.3	17.8
Broad Money (M _{2b})	5,406	5,677	5,731	5,803	5,873	18.4	20.0	20.1	21.4	21.2
Net Foreign Assets (NFA)	-231	-371	-341	-319	-246	22.4	15.6	26.6	31.9	50.0
Net Domestic Assets (NDA)	5,637	6,049	6,072	6,122	6,119	15.9	17.0	16.0	16.6	14.7
Net Credit to the Government (NCG)	1,972	2,215	2,206	2,240	2,235	12.1	13.3	12.6	13.9	11.4
Credit to Public Corporations	495	553	557	562	551	-5.3	7.5	9.0	14.7	13.7
Credit to the Private Sector	4,204	4,375	4,394	4,425	4,505	21.9	20.4	20.0	18.9	18.6
Broad Money (M ₄)	6,630	6,951	7,033	7,131	7,221	15.9	18.2	18.4	19.8	20.3

Source: Central Bank of Sri Lanka

Table 03: Interest Rates

Interest Rate (%)	End Dec 16	End Mar 17	End Apr 17	End May 17	End Jun 17	End Jul 17	As at 2 Aug 17
Policy Rates of the Central Bank							
Standing Deposit Facility Rate	7.00	7.25	7.25	7.25	7.25	7.25	7.25
Standing Lending Facility Rate	8.50	8.75	8.75	8.75	8.75	8.75	8.75
Weighted Average Call Money Rate (AWCMR)	8.42	8.75	8.72	8.72	8.75	8.75	8.72
Treasury bill yields (Primary market)							
91-day	8.72	9.63	9.73	9.61	9.60	9.44	9.03
182-day	9.63	10.62	10.70	10.35	10.29	9.71	9.16
364-day	10.17	10.98	11.02	10.71	10.47	9.99	9.48
Lending Rates							
Average Weighted Prime Lending Rate (Weekly)	11.52	11.79	11.78	11.40	11.70	12.26	-
Average Weighted Lending Rate (AWLR)	13.20	13.40	13.52	13.57	13.73	-	-
Average Weighted New Lending Rate (AWNLR)	14.37	14.54	15.00	14.81	14.90	-	-
Deposit Rates							
Average Weighted Deposit Rate (AWDR)	8.17	8.81	8.89	8.99	9.13	9.19	-
Average Weighted Fixed Deposit Rate (AWFDR)	10.46	11.38	11.43	11.52	11.66	11.78	-
Average Weighted New Deposit Rate (AWNDR)	11.17	11.49	11.38	11.68	11.57	-	-

Source: Central Bank of Sri Lanka