

# **Review of the Monetary Policy Stance**

## **Review No. 07 of 2017**

**07 November 2017**



**Economic Research Department  
Central Bank of Sri Lanka**

## Monetary Policy Decision:

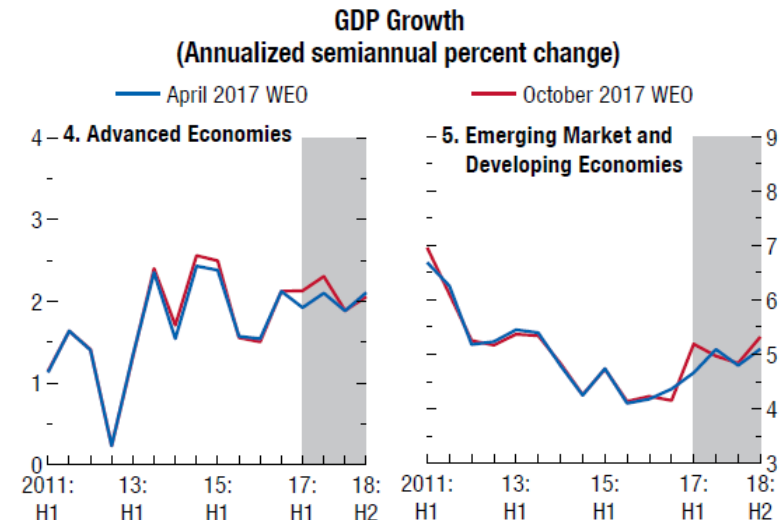
### Policy interest rates remain unchanged

<b>Standing Deposit Facility Rate (SDFR)</b>	<b>7.25%</b>
<b>Standing Lending Facility Rate (SLFR)</b>	<b>8.75%</b>
<b>Statutory Reserve Ratio (SRR)</b>	<b>7.50%</b>

# World economic growth is estimated at 3.6% in 2017 and is expected to rise to 3.7% in 2018 ...

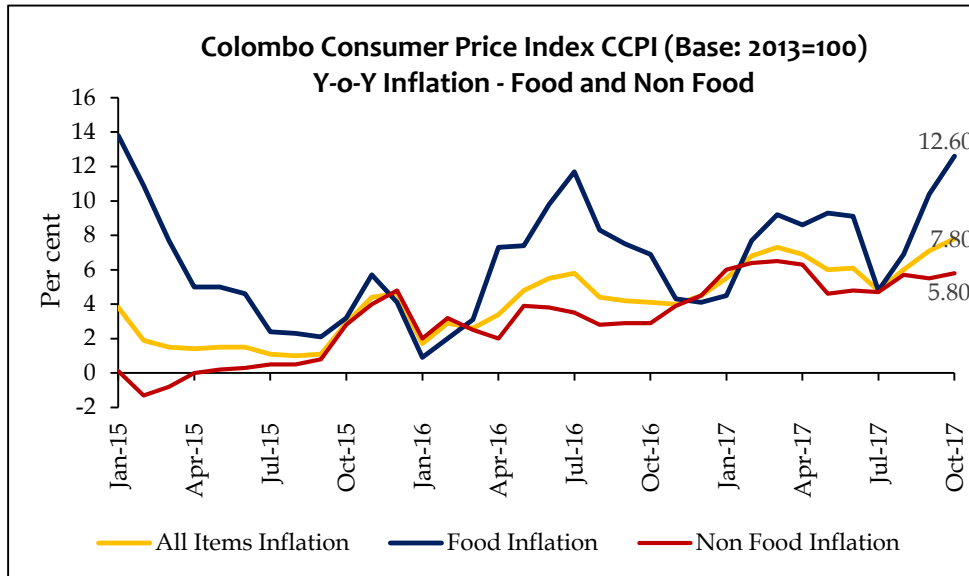
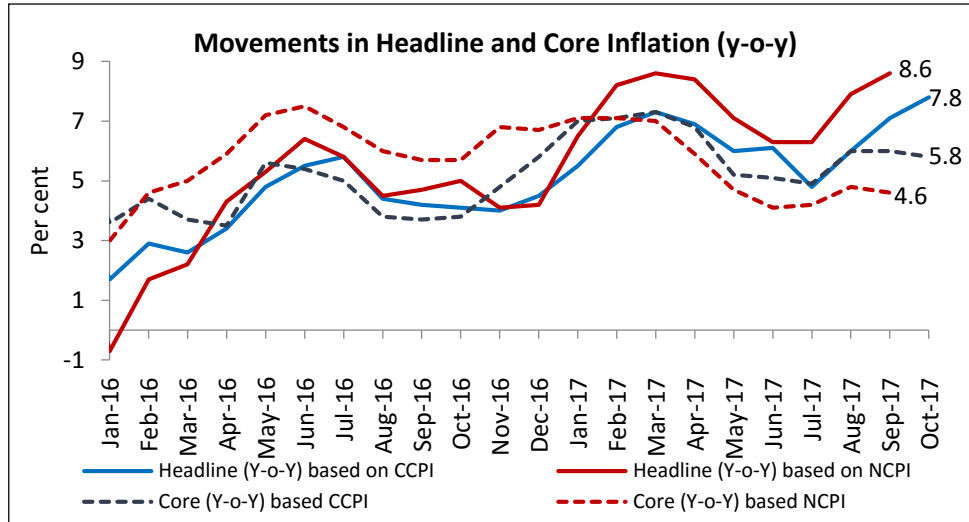
- Global economic activity is expected to strengthen, driven by improvements in global trade and manufacturing (IMF World Economic Outlook, October 2017)

	Year-on-Year Growth (Projections)					
	WEO Apr '17	2017 WEO Oct '17	Change	WEO Apr '17	2018 WEO Oct '17	Change
<b>World Output</b>	<b>3.5</b>	<b>3.6</b>	<b>0.1</b>	<b>3.6</b>	<b>3.7</b>	<b>0.1</b>
<b>Advanced Economies</b>	<b>2.0</b>	<b>2.2</b>	<b>0.2</b>	<b>2.0</b>	<b>2.0</b>	<b>0.0</b>
United States	2.3	2.2	-0.1	2.5	2.3	-0.2
Euro Area	1.7	2.1	0.4	1.6	1.9	0.3
Japan	1.2	1.5	0.3	0.6	0.7	0.1
United Kingdom	2.0	1.7	-0.3	1.5	1.5	0.0
<b>Emerging Market Economies</b>	<b>4.5</b>	<b>4.6</b>	<b>0.1</b>	<b>4.8</b>	<b>4.9</b>	<b>0.1</b>
Russia	1.4	1.8	0.4	1.4	1.6	0.2
China	6.6	6.8	0.2	6.2	6.5	0.3
India	7.2	6.7	-0.5	7.7	7.4	-0.3
Brazil	0.2	0.7	0.5	1.7	1.5	-0.2
ASEAN	5.0	5.2	0.2	5.2	5.2	0.0



- Alongside improved external conditions, Sri Lankan economy is expected to perform better during the second half of the year, as a result of the continued positive momentum of the Industry and Services sectors and the modest recovery in the Agriculture sector

# Headline Inflation accelerated due to high food inflation, while core inflation remained within the tolerance range...



## Headline Inflation (%)

	Sep-16	Dec-16	Jul-17	Aug-17	Sep-17	Oct-17
CCPI (2013=100)						
Y-o-Y	4.2	4.5	4.8	6.0	7.1	7.8
Annual average	3.9	4.0	5.4	5.5	5.8	6.1
NCPI (2013=100)						
Y-o-Y	4.7	4.2	6.3	7.9	8.6	-
Annual average	3.8	4.0	6.2	6.5	6.8	-

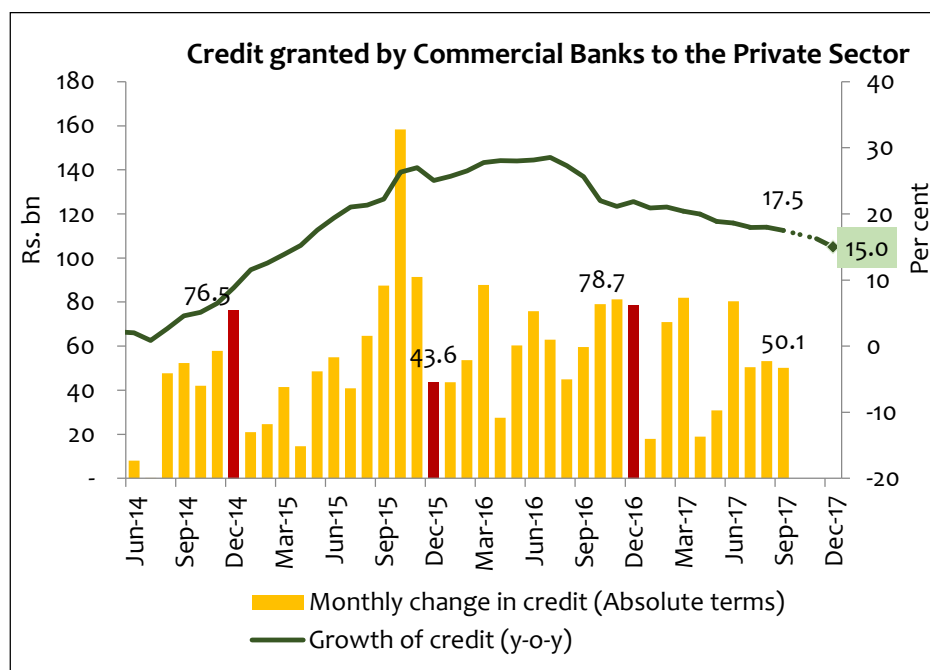
## Core Inflation (%)

	Sep-16	Dec-16	Jul-17	Aug-17	Sep-17	Oct-17
CCPI (2013=100)						
Y-o-Y	3.7	5.8	4.9	6.0	6.0	5.8
Annual average	4.8	4.4	5.4	5.6	5.8	6.0
NCPI (2013=100)						
Y-o-Y	5.7	6.7	4.2	4.8	4.6	-
Annual average	5.7	5.9	5.9	5.8	5.7	-

**Inflation is expected to decline to the mid single digits by early 2018**

# Declining trend in private sector credit growth continued...

- Y-o-y growth of credit to the private sector decelerated to 17.5% in September 2017 compared to a growth of 18.0% in August 2017
- In absolute terms, the increase in credit to the private sector in September 2017 was Rs. 50.1 bn, while the cumulative expansion in credit during the first nine months of 2017 was Rs. 454.7 bn compared to Rs. 515.8 bn in the corresponding period of 2016

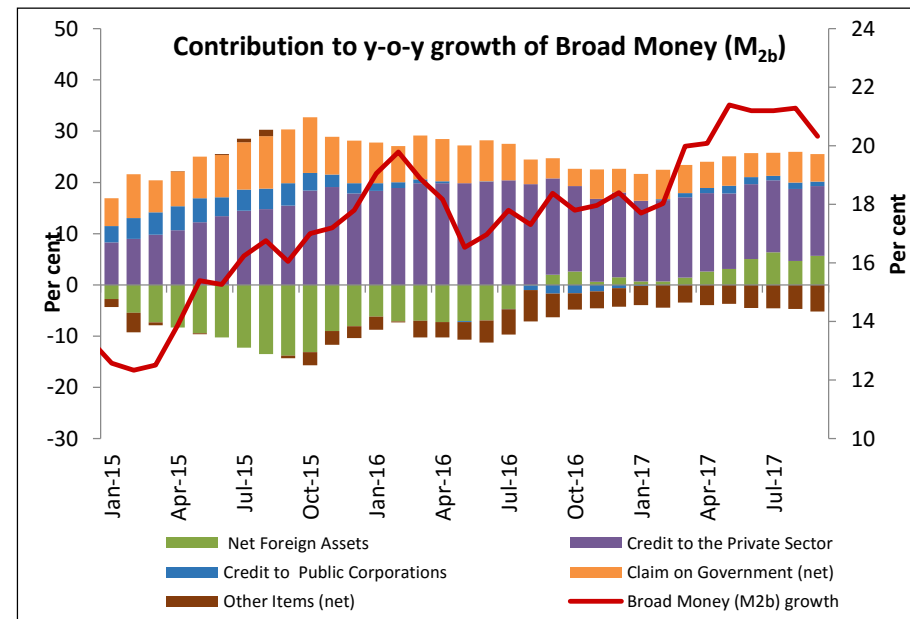
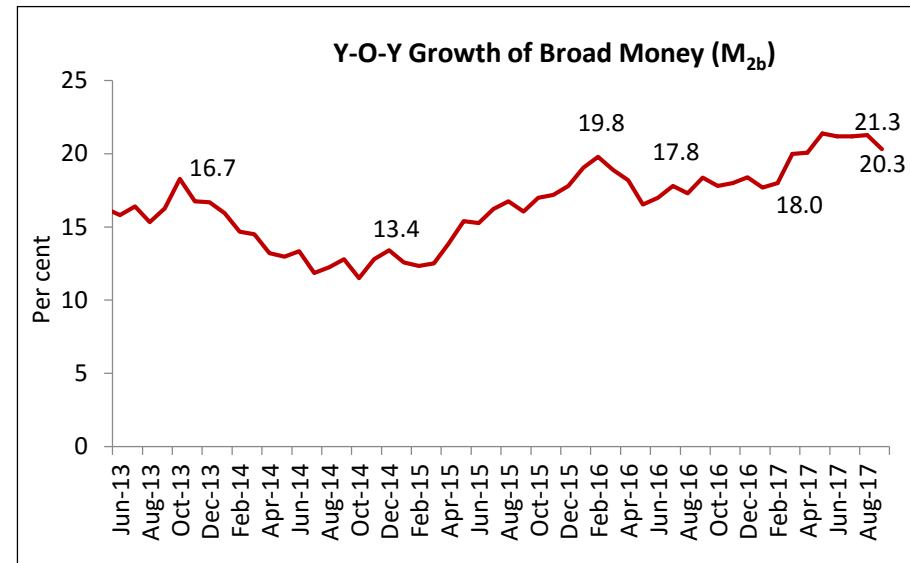


	Rs. bn					
	2012	2013	2014	2015	2016	2017
January	44.6	9.7	-42.8	21.0	43.6	17.9
February	55.3	18.0	-0.9	24.5	53.7	70.9
March	55.3	9.5	7.6	41.4	87.7	82.0
April	18.7	7.6	-16.6	14.5	27.4	18.9
May	36.1	18.3	-7.9	48.6	60.2	30.9
June	19.0	11.4	8.0	55.0	75.8	80.3
July	35.7	28.5	0.2	40.9	62.9	50.5
August	14.5	3.2	47.7	64.7	45.0	53.2
September	9.8	4.9	52.3	87.5	59.5	50.1
October	29.5	27.2	42.0	158.4	79.0	
November	24.1	22.2	57.8	91.4	81.3	
December	9.9	15.4	76.5	43.6	78.7	
Total	352.6	175.9	223.9	691.4	754.9	

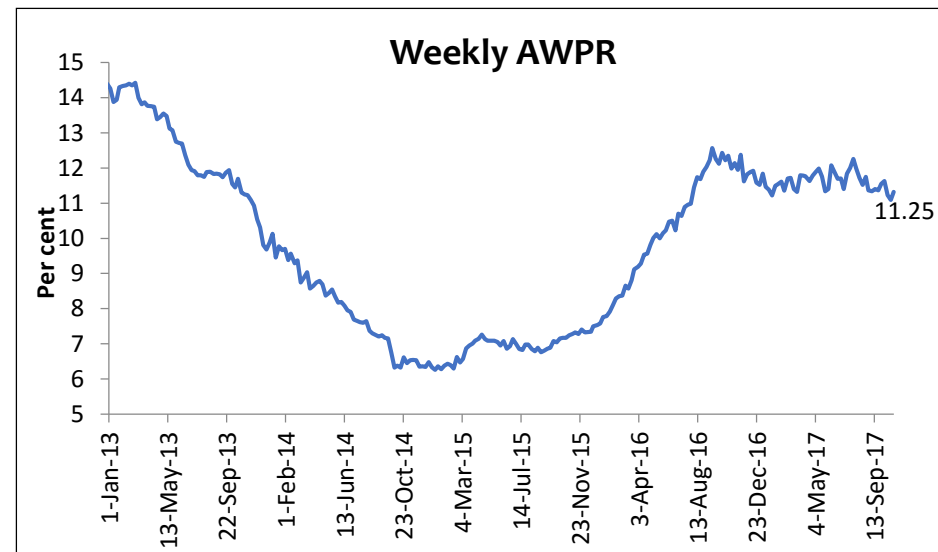
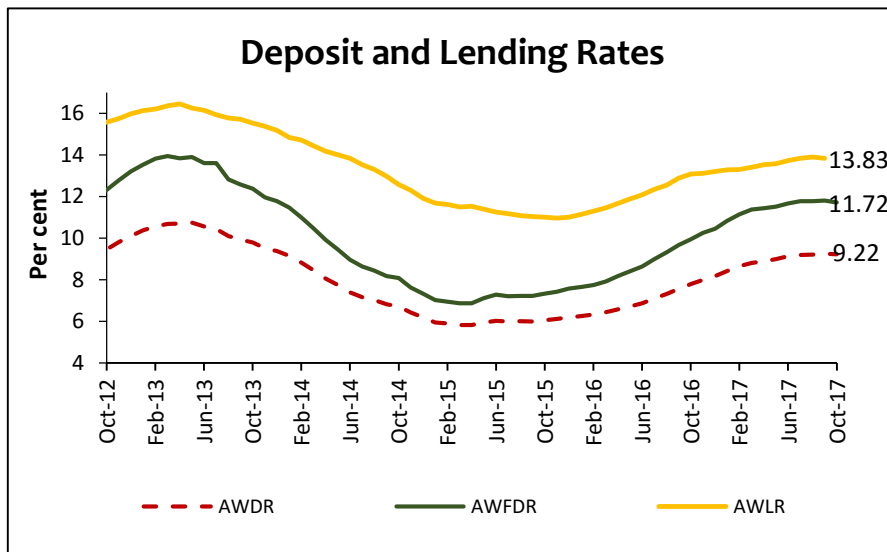
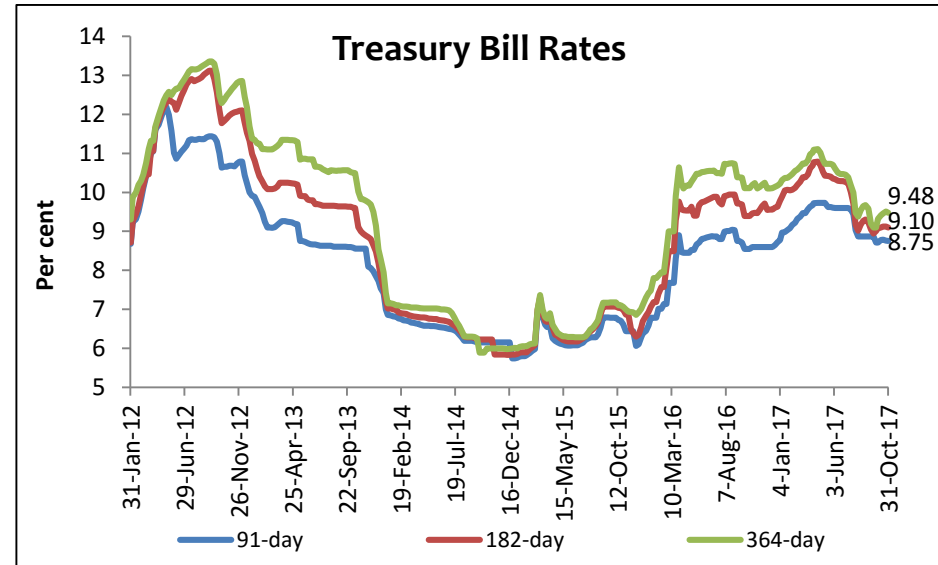
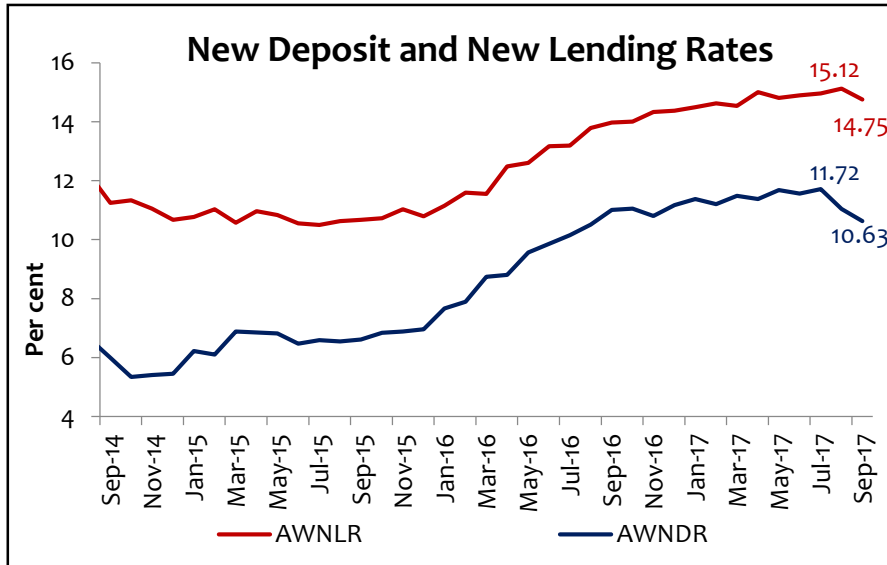
- At the current pace of expansion, the year-on-year growth of credit to the private sector by commercial banks is expected to decelerate to around 15% by end 2017

# However, monetary expansion continued at high levels, with a slight moderation in September...

- ❑ **Broad money ( $M_{2b}$ ) growth moderated to 20.3% (y-o-y) in September 2017 compared to 21.3% in August 2017**
- ❑ **Both NDA & NFA positively contributed to the monetary expansion in September 2017**
- ❑ **NCG from the banking system declined by Rs. 14.0 bn in September 2017**
  - ❑ **However, so far in 2017 NCG from the banking system has increased by Rs. 251.4 bn. In 2016, it was Rs. 212.6 bn**
- ❑ **Credit to public corporations contracted by Rs. 5.4 bn in September 2017**
  - ❑ **On a cumulative basis, credit to public corporations increased by Rs. 2.4 bn during the first nine months of 2017 compared to the contraction of Rs. 27.9 bn during 2016**

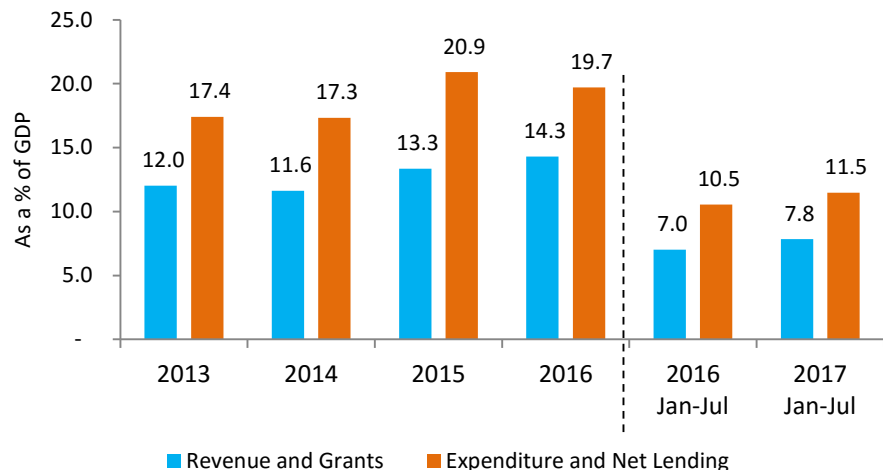


# Market interest rates indicate a downward adjustment recently...

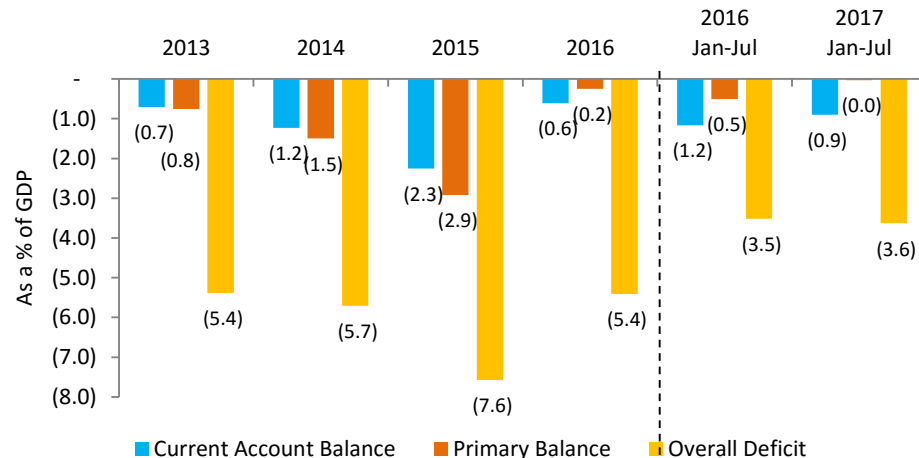


# Improved performance in revenue collection continued in July 2017...

## Government Revenue and Expenditure



## Key Fiscal Balances



## Government Revenue (Jan-July)

- Total revenue as a % of estimated GDP increased to 7.8% during the first seven months of 2017
- In nominal terms, tax revenue increased by 19.0% to Rs. 950.2 bn during first seven months of 2017 compared to Rs. 798.7 bn recorded in the corresponding period in 2016 mainly due to increase in VAT (63.8%), NBT, PAL, income tax and excise taxes
- Non tax revenue increased by 5.5% to Rs. 68.5 bn from Rs. 64.9 bn in 2016 mainly due to increase in rent, interest and social security contributions

## Government Expenditure (Jan-July)

- Total expenditure and net lending increased to 11.5% of estimated GDP during the first seven months of 2017 due to increase in both recurrent and capital expenditure
- The increase in interest payments (by 26.4 per cent) largely contributed to the increase in recurrent expenditure

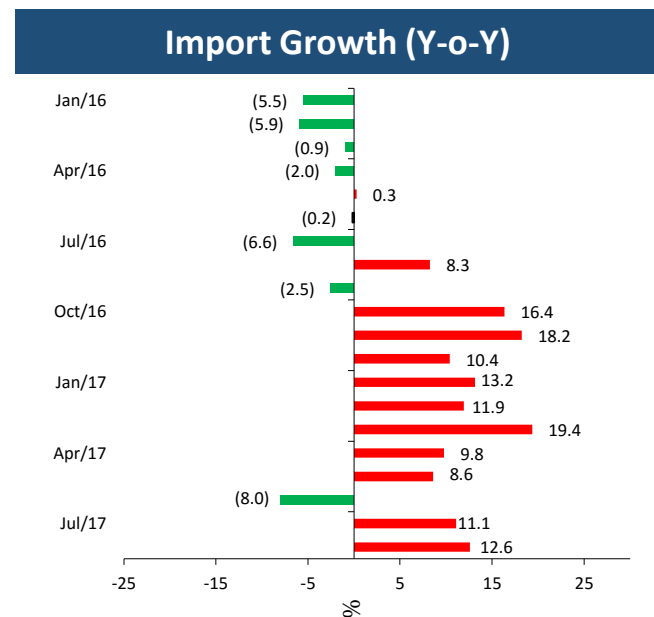
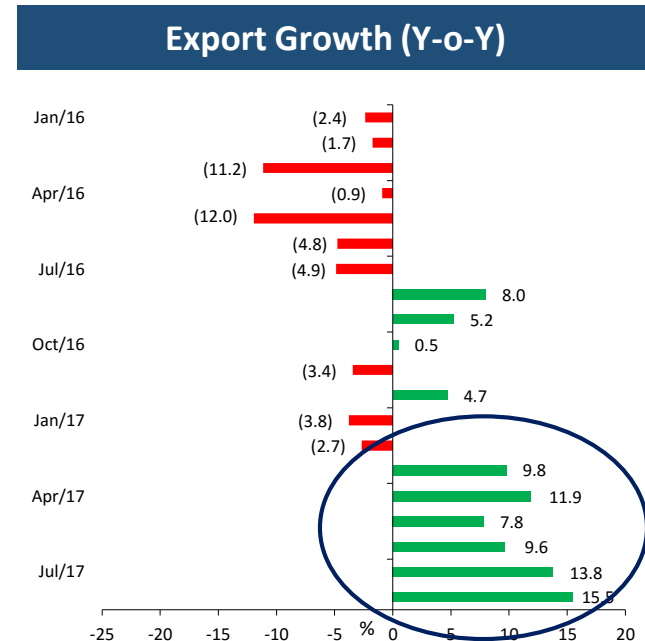
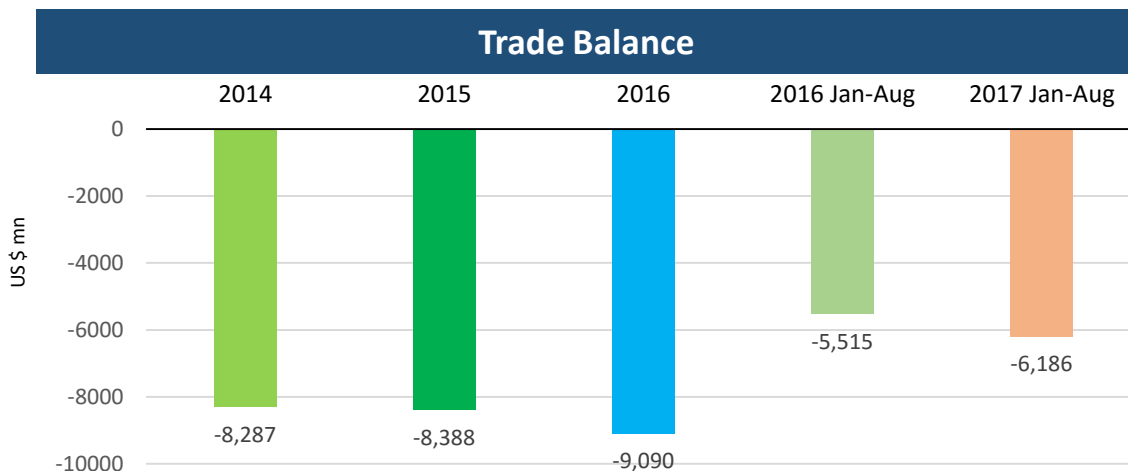
## Key Fiscal Balances (Jan-July)

- The overall budget deficit, as a per cent of GDP, increased marginally to 3.6% (Rs. 471.9 billion) in the first seven months of 2017 compared to the deficit of 3.5% (Rs. 432.7 billion) recorded in the corresponding period of the previous year
- Current account deficit, declined to 0.9% of the estimated GDP during the first seven months of 2017 from 1.2% in the same period of 2016
- The primary deficit declined to Rs. 3.5 bn during the first seven months of 2017



# Movements in the external trade account...

- **Export earnings increased by 7.6% (y-o-y) during the first eight months of the year** (compared to the decline of 4.1% in the corresponding period of 2016)
  - This growth was led by Tea (20.1%), Petroleum products (36.3%), Transport equipment (70.7%),
  - In August, Textiles and Garment exports increased by 10.1%, while garments exports to the EU grew by 12.2%
- **Import expenditure increased by 9.6% (y-o-y) during the first eight months of the year**
  - This was partly attributed to weather related disruptions to power generation and food production
- **Cumulative trade deficit widened to USD 6,186 mn thus far during 2017** compared to USD 5,515 mn in the corresponding period of 2016



# Tourist Arrivals, Earnings and Workers' remittances...

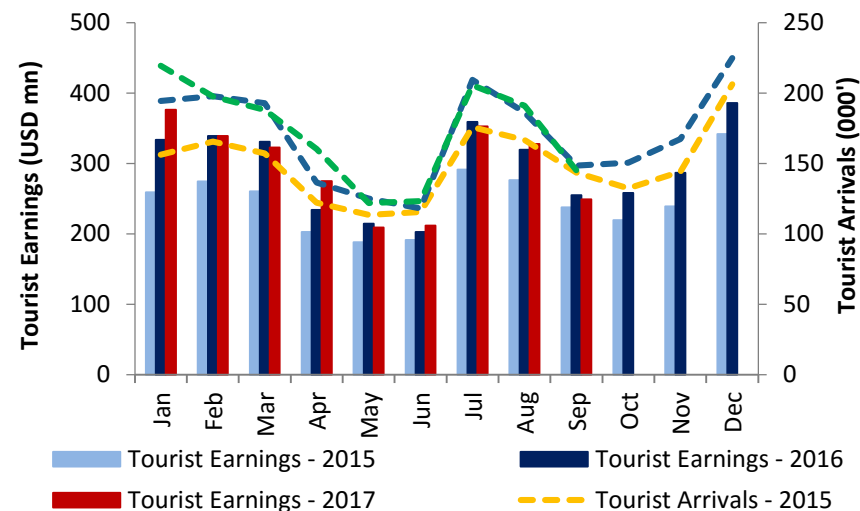
## Tourist Arrivals and Earnings...

### Tourist Arrivals

- **September 2017: declined by 2.3% (y-o-y) to 145,077**
- **Jan- September 2017: increased by 2.9% (y-o-y) to 1,551,931**

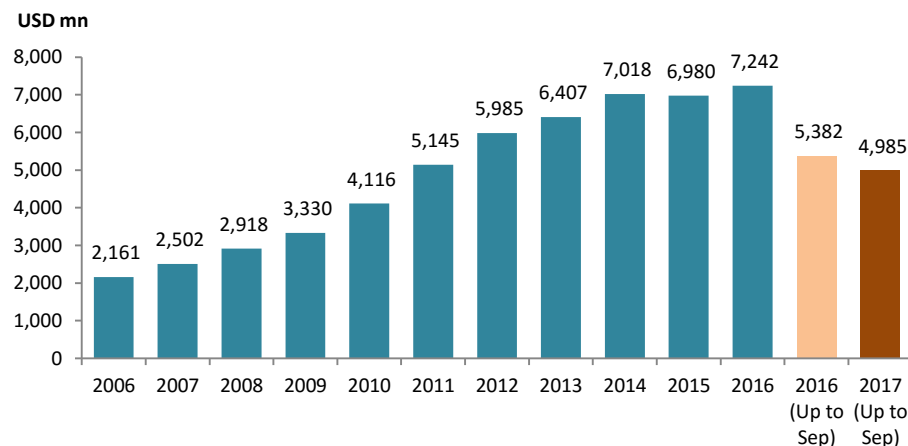
### Earnings from Tourism

- **September 2017: estimated at USD 248.9 mn**
- **Jan- Sep 2017: estimated at USD 2,662.6 mn**

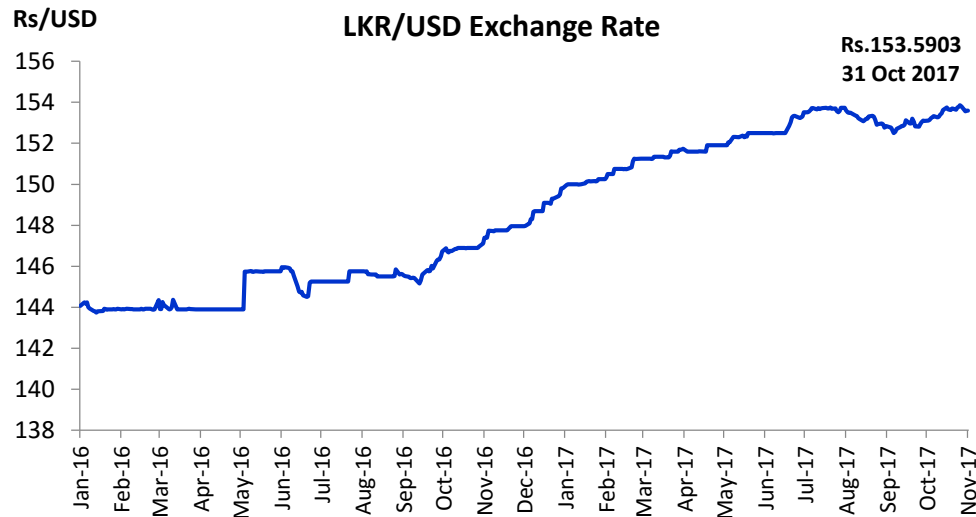


## Workers' remittances

- **Workers' remittances decreased by 7.4% to USD 4,984.7 mn during the year up to September 2017 compared to the increase of 3.9% observed in the corresponding period in 2016.**



# The pressure on Sri Lanka's external sector eased to some extent due to increased flows to the financial account of the BOP ...



## Movement Against Other Currencies

Currency	2016	up to end Oct'17
	App(+)/Dep(-)	App(+)/Dep(-)
US dollar	-3.8%	-2.5%
Pound sterling	16.0%	-9.2%
Euro	-0.3%	-11.7%
Japanese yen	-7.0%	-5.3%
Indian rupee	-1.7%	-6.9%

- ❑ Sri Lanka rupee depreciated by 2.5 % by end October 2017
- ❑ The Central Bank has purchased over USD 1.2 bn (on a net basis) during the year up to end Oct 2017
- ❑ Cumulative net foreign inflows to the government securities market amounted to USD 310.2 mn (up to end October 2017) while foreign investments in the CSE (secondary market) recorded a net inflow of USD 131.4 mn up to end October 2017
- ❑ Gross official reserves, which was at US dollar 6.0 bn by end 2016, improved to US dollars 7.5 bn (4.4 months of import coverage) by end October 2017

**Thank you**