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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

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# Press Release

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## Monetary Policy Review: No. 7 – 2018

The Monetary Board of the Central Bank, at its meeting held on 13 November 2018, decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent. In order to neutralise the impact of this reduction and maintain its neutral monetary policy stance, the Monetary Board decided to increase the Standing Deposit Facility Rate (SDFR) of the Central Bank by 75 basis points to 8.00 per cent and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 9.00 per cent.

The Board arrived at this decision following a careful analysis of current and expected developments in the domestic and global economy and the domestic financial market, with the broad aim of stabilising inflation at mid single digit levels in the medium term to enable the economy to reach its potential.

### Tight monetary conditions persisted in the domestic market

The large and persistent shortage in rupee liquidity required the Central Bank to conduct open market operations (OMOs) on a short- and long-term basis in addition to overnight operations. Overnight interest rates were allowed to remain around the upper bound of the policy interest rate corridor reflecting the prevailing liquidity conditions. The yields on government securities experienced a notable increase in recent weeks while most other market interest rates remained high both in nominal and real terms.

Year-on-year growth of broad money (M<sub>2b</sub>) continued its deceleration in September 2018. Nevertheless, there was a possibly short-lived acceleration in credit obtained by the private sector from commercial banks as the businesses advanced their borrowing in anticipation of measures to curb excessive spending on imports. Based on the data up to the third quarter of 2018, credit to all major sectors of the economy recorded an expansion with personal loans and advances showing a notable acceleration. It is expected that the growth of credit to the private sector would return to the expected path as measures taken by the government and the Central Bank gain traction.

### **Inflation declined to low single digit levels**

Headline inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), decelerated below the desired mid single digit levels, largely driven by the decline in volatile food prices. Core inflation has also remained subdued reflecting well anchored inflation expectations due to the tight monetary policy stance maintained in the past. With these developments, headline inflation is projected to remain in low single digit levels during the remainder of the year and is expected to be maintained in the targeted range of 4 – 6 per cent during 2019 and thereafter with appropriate policy adjustments.

### **Both international and domestic developments affected the external sector performance**

The expansion in import expenditure continued to outpace the growth in export earnings during the first nine months of 2018 leading to a wider trade deficit than in the corresponding period in the previous year. However, a slowdown in import expenditure is expected in the period ahead in response to the recent measures adopted as well as the depreciation of the rupee against major currencies. The moderation in tourism related inflows and workers' remittances remained a concern in terms of the performance of the external current account. In the financial account, both the government securities market and the Colombo Stock Exchange experienced net outflows of foreign investment, particularly in the context of rising global interest rates and elevated political uncertainty.

The significant growth in imports as well as recent capital outflows amidst the broad based strengthening of the US dollar exerted pressure on the exchange rate. Although the pace of depreciation has moderated recently, the Sri Lankan rupee has depreciated by 12.9 per cent against the US dollar during 2018 up to 13 November. Meanwhile, supported by the receipt of the foreign currency term financing facility of US dollars 1 billion by the government, gross official reserves amounted to US dollars 7.9 billion as at end October 2018, providing an import cover of 4.2 months.

## **Economic growth is expected to remain below envisaged levels in 2018**

As per the available economic indicators, real GDP growth is likely to remain subdued and below the envisaged levels in 2018. In order to accelerate growth on a sustainable basis, it is essential that growth enhancing structural reforms are carried out within a coherent and transparent framework, rather than relying on unsustainable short term monetary and fiscal stimulus, which leads to overheating of the economy.

## **The monetary policy decision is expected to have a neutral effect on the market**

Considering the current and expected developments in relation to inflation and economic growth, as well as the current conditions in the domestic money market and the foreign exchange market, the Monetary Board of the Central Bank, at its meeting held on 13 November 2018, was of the view that the continuation of the current neutral monetary policy stance is appropriate. However, the Monetary Board observed that large and persistent liquidity deficit in the domestic money market requires policy intervention, and decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent from the current level of 7.50 per cent with effect from the next reserve maintenance period commencing 16 November 2018. The reduction in SRR is expected to release a substantial amount of rupee liquidity to the banking system, thus reducing the cost of funds of banks. At the same time, in order to neutralise the impact of the SRR reduction and maintain its neutral monetary policy stance, the Monetary Board decided to raise policy interest rates of the Central Bank with immediate effect. Accordingly, the Monetary Board raised the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8.00 per cent and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 9.00 per cent, thereby narrowing the policy rate corridor to 100 basis points. These adjustments are also expected to narrow the spread between deposit and lending rates in the market.

### **Monetary Policy Decision: SRR reduced and policy rates increased**

Standing Deposit Facility Rate (SDFR)	8.00%
Standing Lending Facility Rate (SLFR)	9.00%
Statutory Reserve Ratio (SRR)	6.00%

**INFORMATION NOTE:**

A press conference with Governor Dr. Indrajit Coomaraswamy will be held today (14 November 2018) at 1.30 pm 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 28 December 2018.

**Data Annexure:**

**Table 01: Inflation**

Month		Mar 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18
<b>Headline Inflation (Year-on-Year % Change)</b>	CCPI (2013=100)	4.2	4.4	5.4	5.9	4.3	3.1
	NCPI (2013=100)	2.8	2.5	3.4	2.5	0.9	-
<b>Core Inflation (Year-on-Year % Change)</b>	CCPI (2013=100)	3.4	3.4	3.9	3.7	3.8	3.8
	NCPI (2013=100)	1.9	1.8	2.3	2.7	3.1	-

*Source: Department of Census and Statistics*

**Table 02: Monetary Sector Developments (Provisional)**

Indicator	Outstanding Amount (Rs. billion)				Year-on-Year % Change			
	Mar 18	Jun 18	Aug 18	Sep 18	Mar 18	Jun 18	Aug 18	Sep 18
Reserve Money	997	999	1,005	1,011	11.8	12.0	10.2	11.2
Broad Money (M <sub>2b</sub> )	6,607	6,748	6,866	6,933	16.4	14.9	13.5	13.1
Net Foreign Assets (NFA)	106	101	167	8	128.6	141.1	433.1	(27.0)
Net Domestic Assets (NDA)	6,500	6,646	6,700	6,926	7.5	8.6	9.8	13.1
Net Credit to the Government (NCG)	2,278	2,273	2,272	2,427	2.9	1.7	1.5	9.2
Credit to Public Corporations	557	619	639	656	(2.6)	8.5	22.6	27.1
Credit to the Private Sector	5,022	5,156	5,248	5,356	15.3	14.9	14.3	15.4
Broad Money (M <sub>4</sub> )	8,112	8,292	8,403	8,502	16.7	14.8	12.7	12.5

*Source: Central Bank of Sri Lanka*

**Table 03: Interest Rates**

<b>Interest Rate (%)</b>	<b>End Mar 18</b>	<b>End Jun 18</b>	<b>End Aug 18</b>	<b>End Sep 18</b>	<b>End Oct 18</b>	<b>As at 13 Nov 18</b>
<b>Policy Rates of the Central Bank</b>						
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**
<b>Average Weighted Call Money Rate (AWCMR)</b>	8.41	8.50	7.92	8.40	8.44	8.49
<b>Treasury bill Yields (Primary Market)</b>						
91-day	8.17	8.32	8.03	8.56	9.48	9.65
182-day	-	8.85	8.60	-	9.75	9.99
364-day	9.69	9.39	8.99	9.51	10.39	10.89
<b>Lending Rates</b>						
Average Weighted Prime Lending Rate (Weekly)	11.55	11.33	11.67	11.74	12.25	11.95
Average Weighted Lending Rate (AWLR)	14.04	14.05	14.18	14.27	-	-
Average Weighted New Lending Rate (AWNLR)	14.25	13.94	14.35	14.22	-	-
<b>Deposit Rates</b>						
Average Weighted Deposit Rate (AWDR)	9.00	8.92	8.66	8.69	8.73	-
Average Weighted Fixed Deposit Rate (AWFDR)	11.41	11.26	10.81	10.84	10.78	-
Average Weighted New Deposit Rate (AWNDR)	10.33	10.57	10.24	9.72	-	-

\* increased to 8.00% w.e.f. 14 Nov. 2018

\*\* increased to 9.00% w.e.f. 14 Nov. 2018

Source: Central Bank of Sri Lanka