

# Pre-Policy Analysis

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26<sup>TH</sup> DECEMBER 2017

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**ANALYST CERTIFICATIONS AND REQUIRED  
DISCLOSURES BEGIN ON PAGE 10**

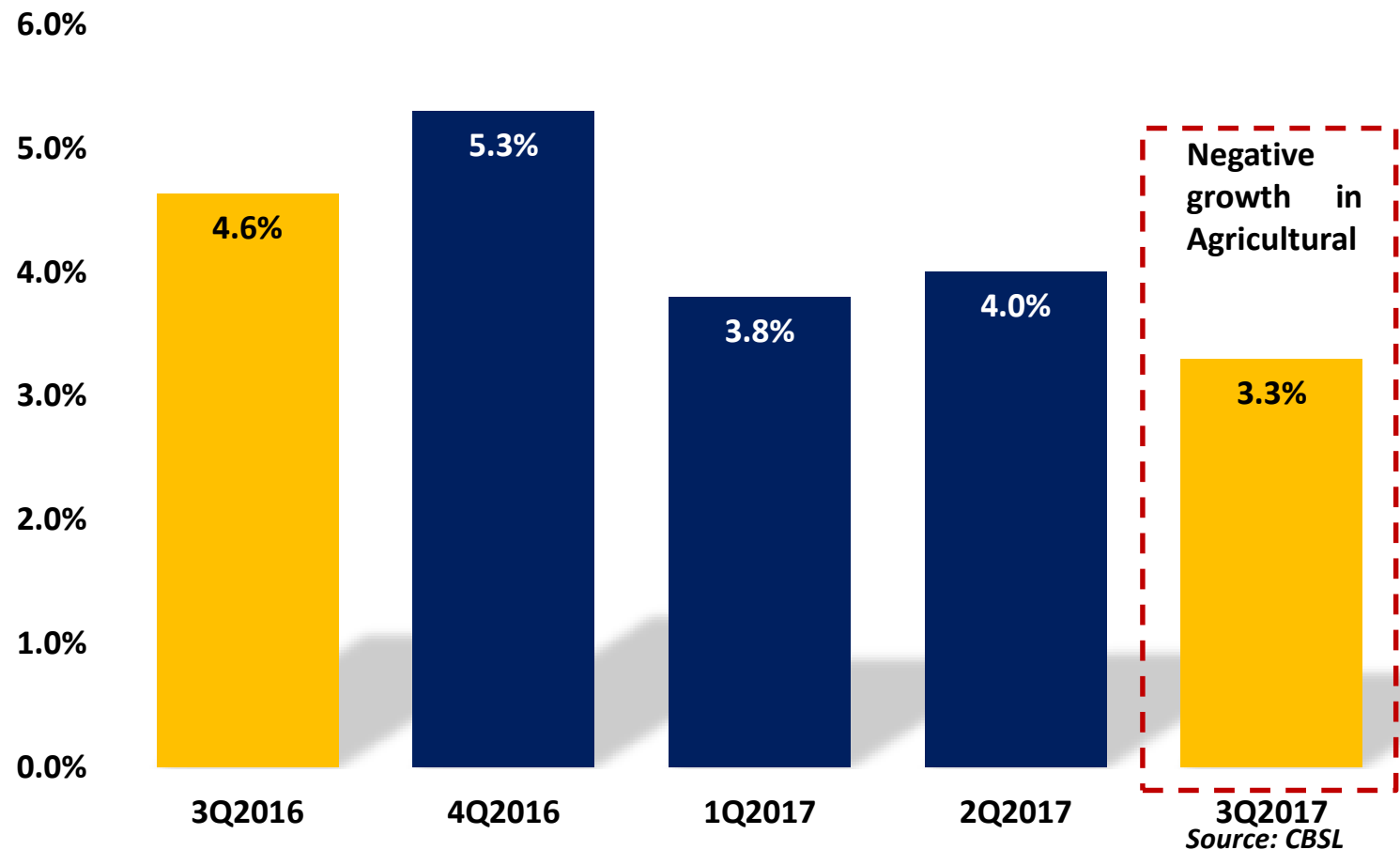


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# GDP Growth below expectations

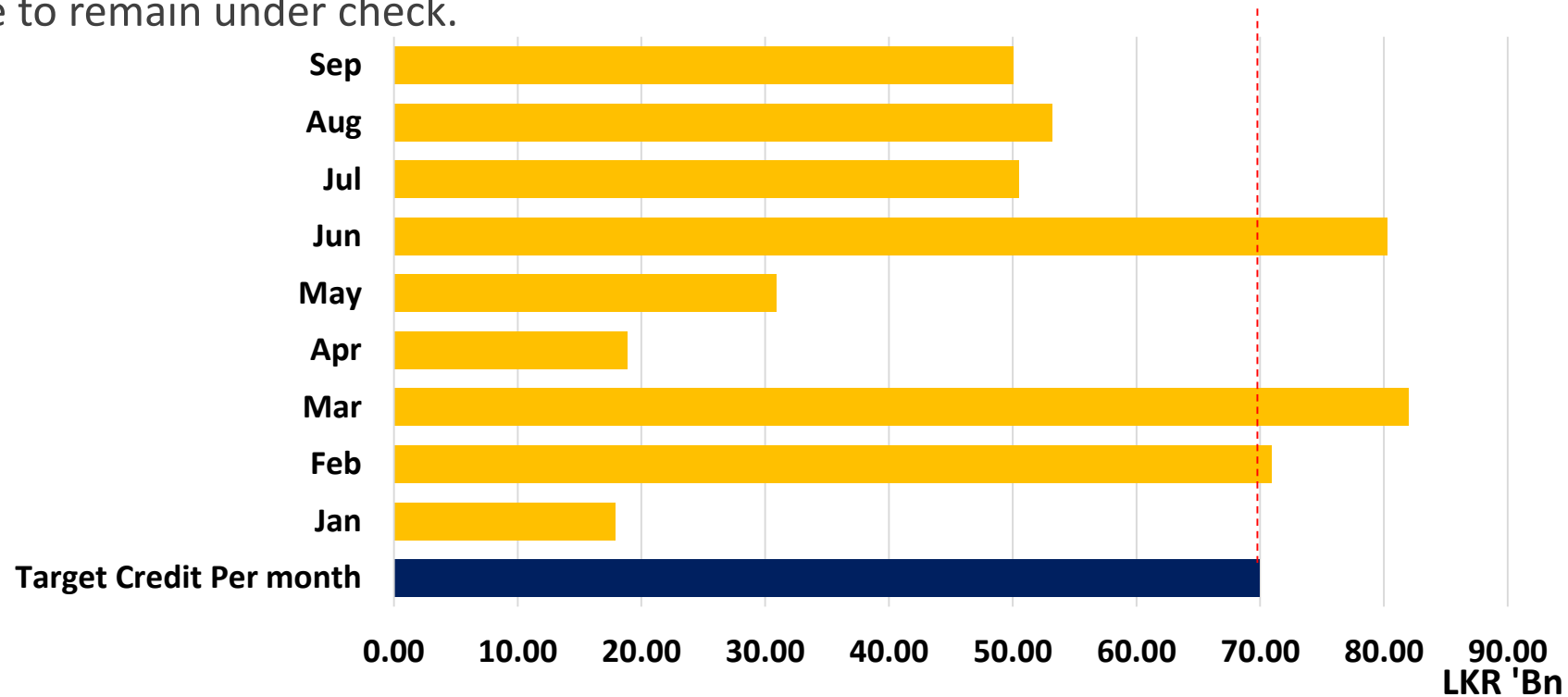
GDP growth for 3Q2017 was lower than expected, grew by 3.3%YoY in the with overall agricultural activities reporting a negative growth mainly due to the unfavorable weather conditions (severe drought as well as heavy rainfalls) that prevailed during the last 2 years in many districts of the country.

During the third quarter of 2017, the 'Services activities' continued to expand further by 4.3%, while 'Industrial Activities' recording a marginal growth rate of 1.9%.



# Credit Growth remains slow

FC Research Aug 2017 upgrades private sector credit growth for 2017E to 16% from 14% amidst a possible pickup towards year end. Private sector credit figure saw decelerated to LKR 50Bn in September 2017 despite slowdown in the credit in August, we believe overall credit is likely to continue to remain under check.



# Inflation slows down, but remains above expectations

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CCPI based headline inflation, decelerated on a YOY basis to 7.6% in Nov 2017 (exceeding FC Research estimate of 7.0%) from 7.8% in Oct 2017. NCPI based inflation accelerated on a YOY basis to 7.5% Nov 2017 from 7.1% in Oct 2017.

However Core inflation remained under check decelerating to 5.2% in Nov 2017 from 5.8% in Oct 2017.

## **FC Research View**

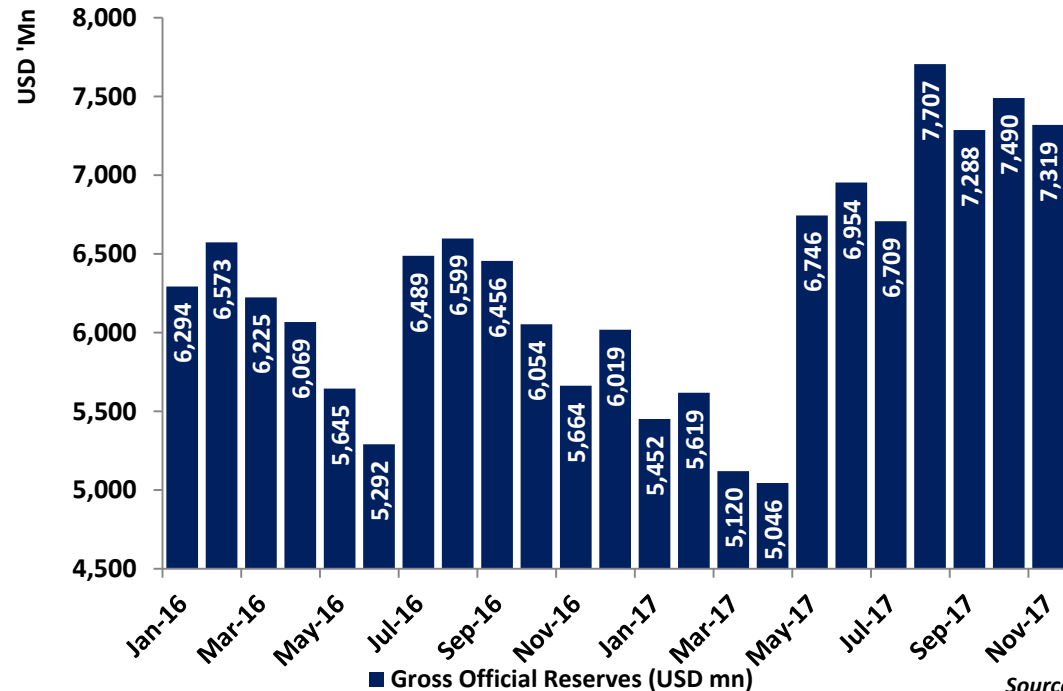
FC Research forecast Dec 2017 CCPI headline inflation to be at 7.2%

We believe inflation will be under control over the next 2-3 months while there could be some upward pressure towards 2Q2018.

# Official Reserves remains above USD 7 Bn

Sri Lanka's forex reserves assets dropped by USD 171Mn to USD 7.32Bn in November which was equivalent to about 4.5 months of imports from USD 6.0Bn reserve at end 2016. The CBSL had net purchased USD 1.46Bn on a net basis from currency markets so far this year.

**FC Research View:** FC Research believe Foreign Reserves are now at comfortable levels and likely to end the year around the USD 7.5Bn mark.



■ Gross Official Reserves (USD mn)

Source: CBSL

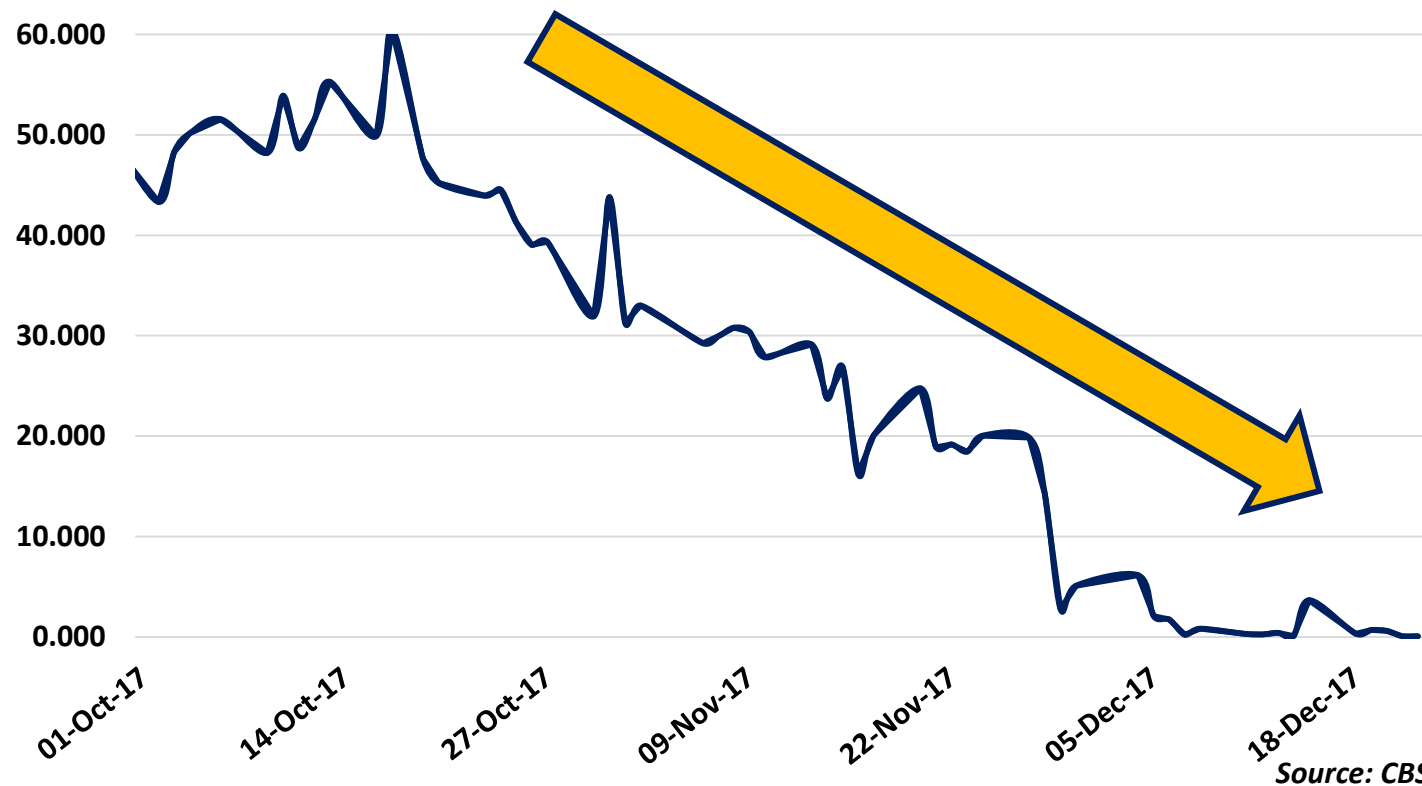
## Central Bank purchases and sales (USD Mn)

	Purchase	Sales
Jan-17	64.66	204.50
Feb-17	145.09	297.25
Mar-17	192.23	13.00
Apr-17	257.92	-
May-17	183.47	35.00
Jun-17	136.00	-
Jul-17	344.75	-
Aug-17	200.00	-
Sep-17	186.50	-
Oct-17	97.00	-
Nov-17	206.00	-

Source: CBSL

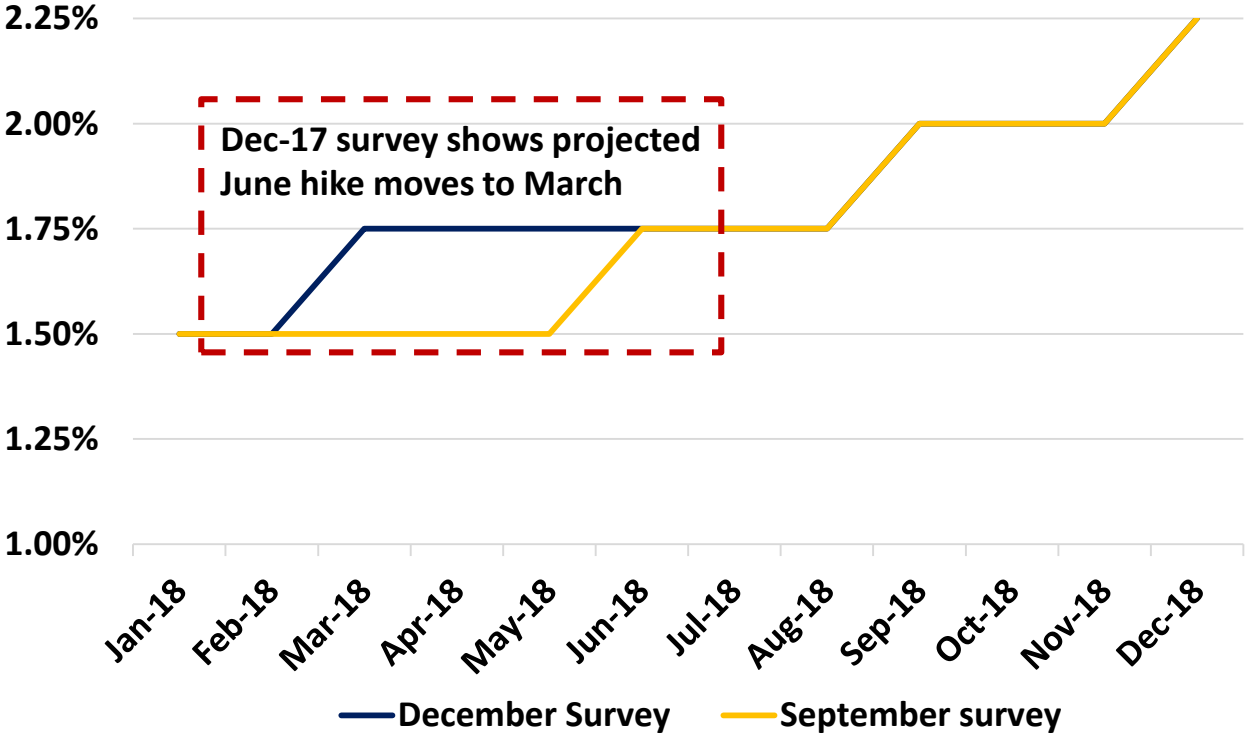
# CBSL Holdings brought down to Zero

During last three months CBSL bought down its holding in Government Securities from LKR 60Bn to below LKR 1Bn as at 22<sup>nd</sup> Dec 2017.



# Fed Rate Hike Expectations

Economists said the Fed will still pencil in three hikes for 2018 ( March 2018, June 2018 and December 2018), but moved forward one of those projected moves to March 2018 from June 2018.



Source: Bloomberg Surveys

# Expected Monetary Policy Stance

FC Research believes that despite inflation remain high, GDP growth and Credit growth are below our expectation. Consideration of above macroeconomic environment **current monetary policy is appropriate and no change is required.**

Expected Monetary Policy Stance by CBSL	Probability	Current Policy Rates	
Raising Policy Rates by 50bps	0%	Standing Deposit Facility Rate (SDFR)	7.25%
Raising Policy Rates by 25bps	0%	Standing Lending Facility Rate (SLFR)	8.75%
<b>Policy Rates to remain unchanged</b>	<b>90%</b>	Statutory Reserve Ratio (SRR)	7.50%
Cutting Policy Rates by 25bps	10%		
Cutting Policy Rates by 50bps	0%		

We expect the CBSL to keep Statutory Reserve Ratio (SRR) unchanged at 7.50%



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