

# Pre-Policy Analysis

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1<sup>ST</sup> AUG 2017

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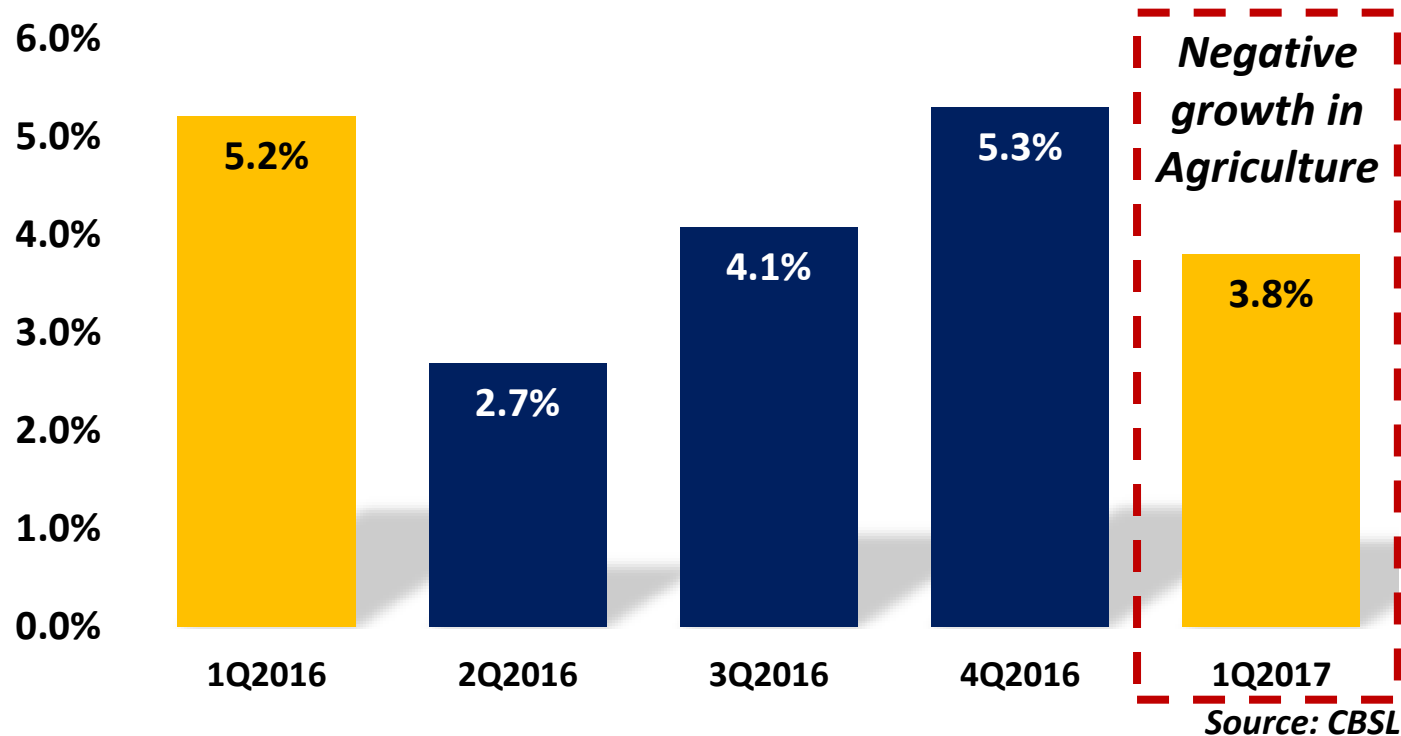
**ANALYST CERTIFICATIONS AND REQUIRED  
DISCLOSURES BEGIN ON PAGE 8**



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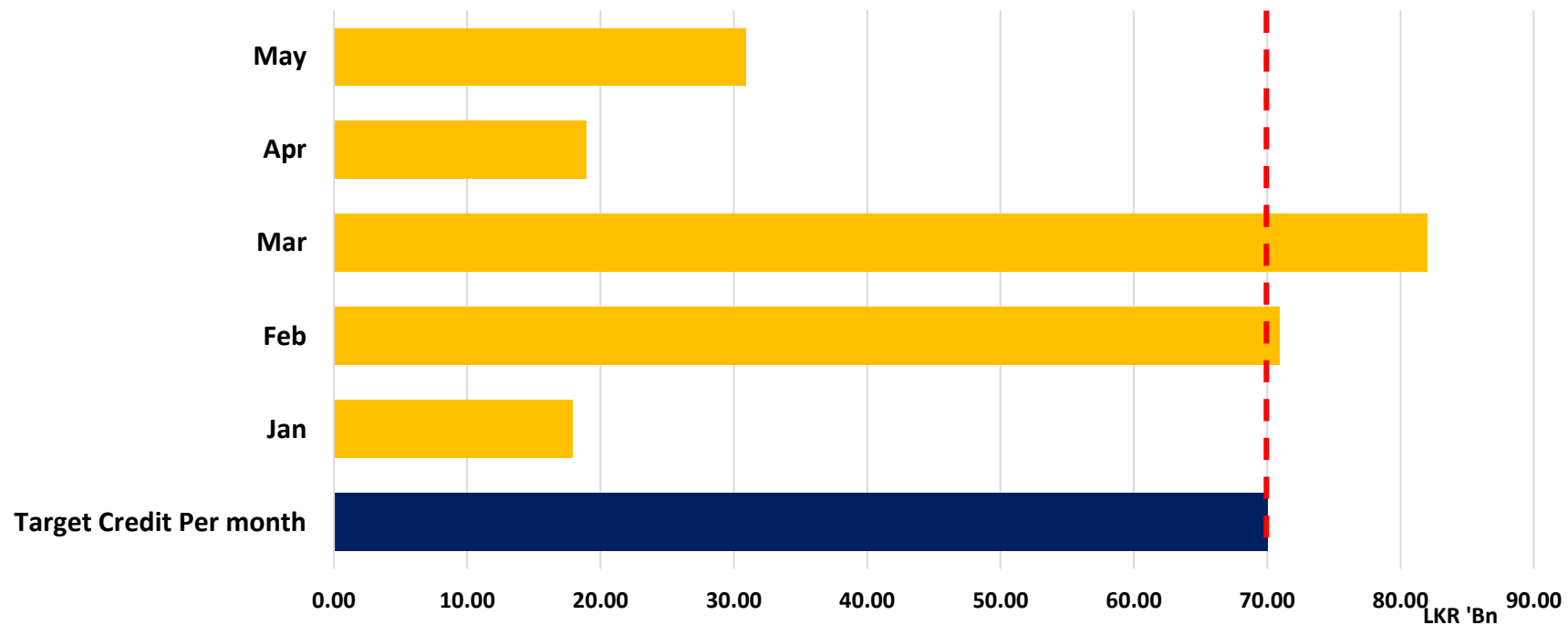
# GDP Growth

GDP growth for 1Q 2017 was slower than expected, growing only 3.8%YoY in the 1Q2017 with the agriculture sector decreasing 3.2%YoY with drought.



# CREDIT GROWTH

FC Research expect that the growth in private credit to descend towards around 18% to 20% from the current level of over 20%. In April and May private sector credit slow down steeply than expected level.



# INFLATION

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CCPI based headline inflation, declined on a YOY basis to 4.8% in July 2017 from 6.1% in June 2017, and CCPI based core inflation also decelerated to 4.9% in July 2017 from 5.1% in June 2017.

***FC Research forecasted July 2017 CCPI headline inflation to be at 5.8% and CCPI core inflation at 5.3%. July inflation witnessed steep decline below our expectation due to the reduction of prices in certain laboratory tests dipping health care expenses and drop in vegetable and sea fish prices reducing food prices.***

NCPI based inflation also decelerated on a YOY basis to 6.3% in June 2017 from 7.1% in May 2017.

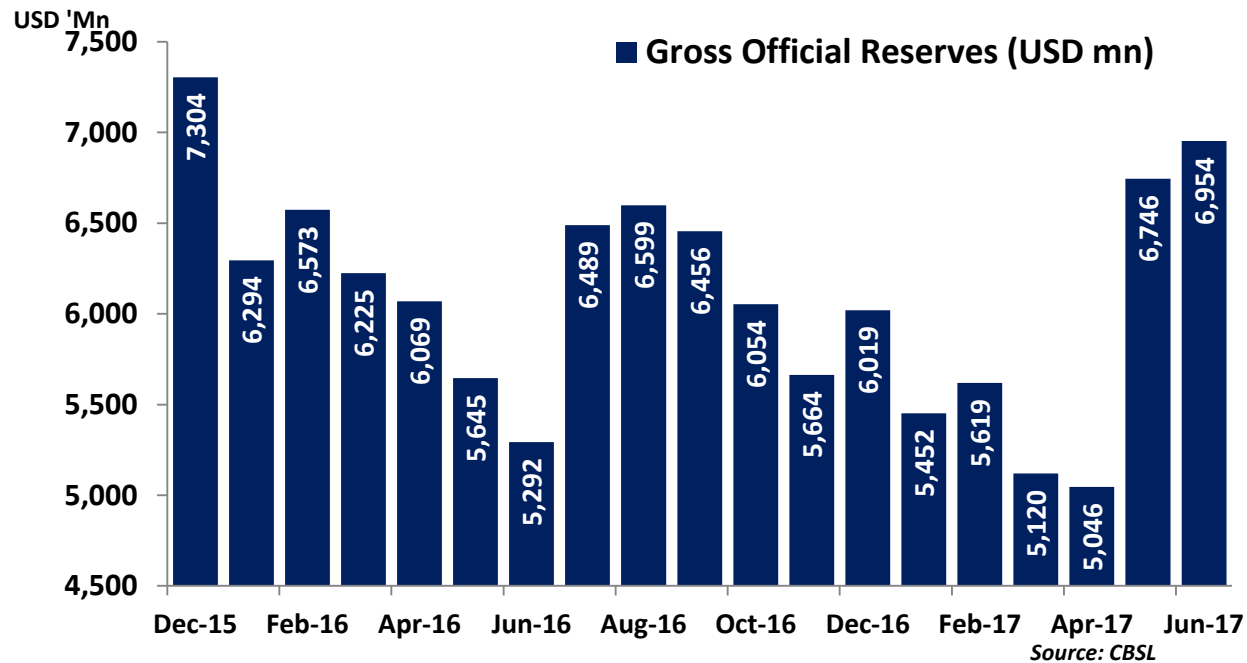
## **FC Research View**

We believe inflation will be under control over the next 2 months while there could be some upward pressure towards September and beyond with the floods in May 2017 affecting the supply in the current growing season and VAT increase not applying to same period in the last year. As a result there could be possible supply side shortages towards September and beyond.

# Official Reserves

Sri Lanka's forex reserves rose to USD 6.95Bn in June 2017 from USD 6.74Bn in May, helped by foreign inflow into both Bond & Equity market and continuous dollar purchases by the CBSL.

FC Research View: Foreign Reserves are now at comfortable levels

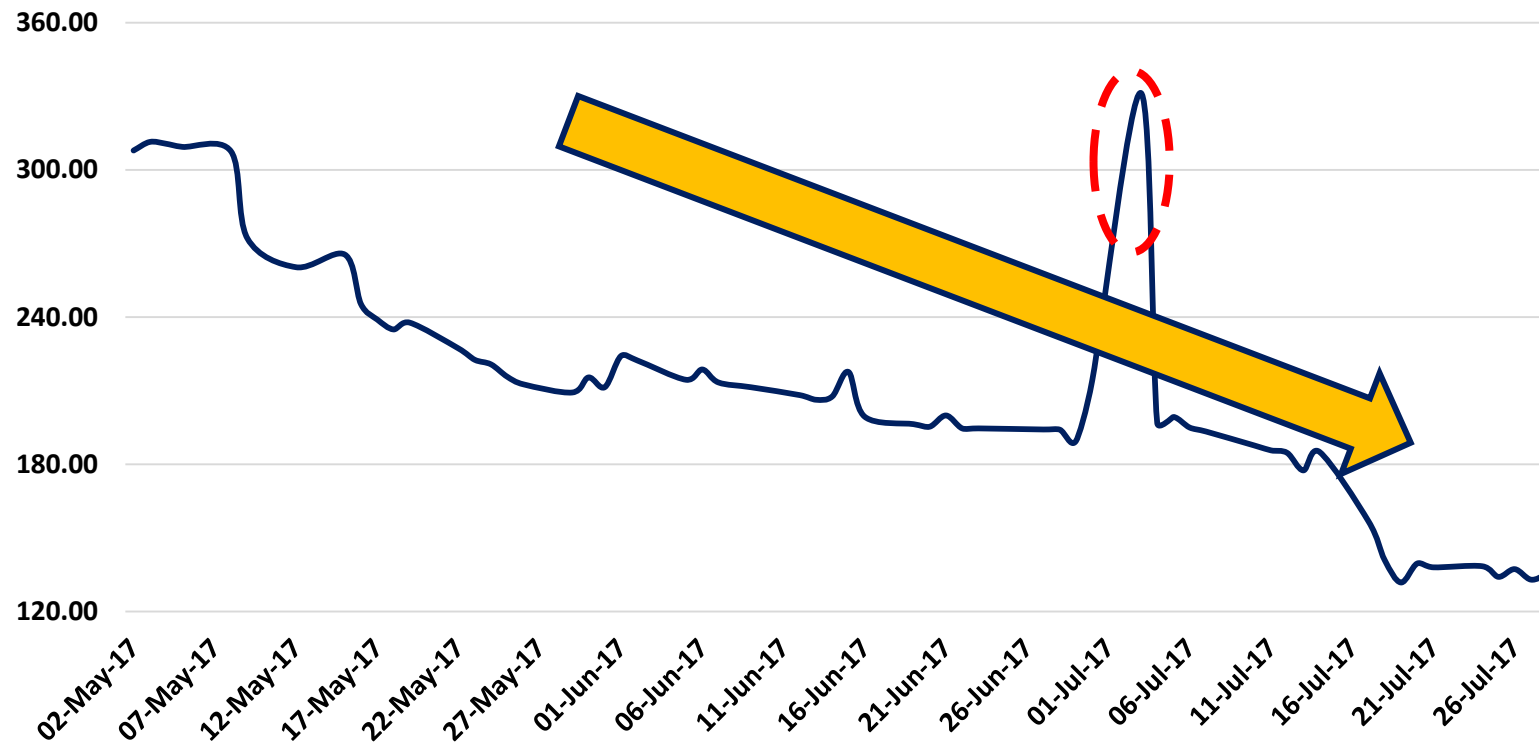


Central Bank purchases and sales (USD Mn. )

	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
June-17	136.00	-

# CBSL HOLDINGS

During last one month CBSL bought down its holding in Government Securities from LKR 214Bn to below LKR135Bn as at 28<sup>th</sup> July 2017



# Expected Monetary Policy Stance

FC Research believes that considering the current economic conditions with slower than expected private sector credit level and the considerable improvement in the Economic Health the 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	10%	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	0%		
Cutting Policy Rates by 50bps	0%		

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

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# Thank You

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