



Aug 2016

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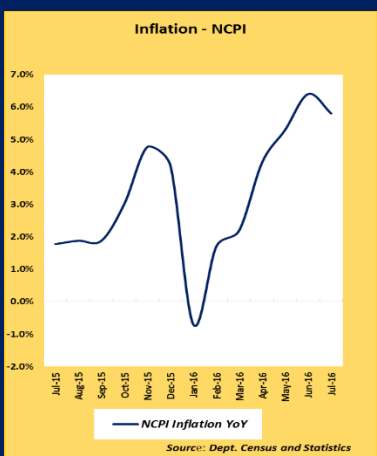
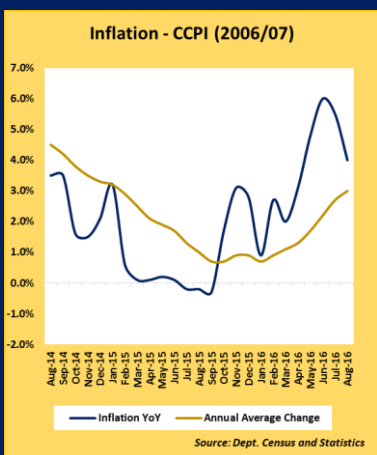
Inflation

CCPI for August 2016: Inflation declines to 4%YoY in August

CCPI decline in August: Inflation decreased to 4.0%YoY in August 2016 from 5.5%YoY recorded in July 2016. On annual average basis inflation reached 3.0% in August 2016. Monthly CCPI decreased by 2% from July to August 2016. YoY inflation of Food Group has decreased from 8.1% in July 2016 to 5.6% in August 2016 while Non-food Group decreased from 3.0% to 2.4% during this period.

NCPI for July 2016: Inflation declines to 5.8%YoY in July

NCPI declines in July: Inflation, as measured by the change in the NCPI was recorded as 5.8% in July 2016 from 6.4%YoY in June 2016. NCPI from June 2016 to July 2016 is decreased by 0.8% and this was due to the value change decrease of food items by 0.70% and value change decrease of non-food items by 0.09%. On an annual average basis inflation increased to 3.4% in July 2016 from 3.1% in June 2016.



External Sector – June 2016

Weak performance in exports and imports widen trade deficit

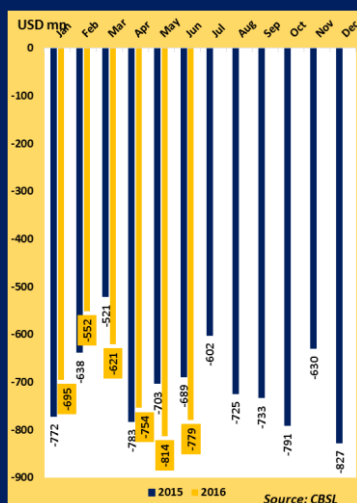
Trade deficit widens: The deficit in the trade account widened by 6.0% to USD 779mn in June 2016 compared to USD 734.6mn in June 2015 while January-June 2016 trade deficit also widened by 2.2%. The reason for the widening in the trade deficit was mainly due to the significant fall in earnings from both Industrial and Agricultural exports such as Rubber Products (-3.4%), Petroleum Products (-52.3%) and Spices (-20.0%).

Exports

Category	2015 (USD mn)	2016 (USD mn)	Change (%)
Industrial exports			
- Jun	713.8	679.2	(4.9)
- Jan-Jun	4,154.4	3,981.9	(4.2)
Agricultural exports			
- Jun	226.7	214.1	(5.6)
- Jan-Jun	1,244.7	1,104.7	(11.3)
Mineral and other			
- Jan	3.6	3.5	(1.6)
- Jan-Jun	25.3	21.2	(16.3)

Imports

Category	2015 (USD mn)	2016 (USD mn)	Change (%)
Consumer goods			
- Jun	391.3	354.1	(9.5)
- Jan-Jun	2,307.4	2,107.7	(8.7)
Intermediate goods			
- Jun	909.7	909.7	0
- Jan-Jun	4,951.9	4,780.4	(3.5)
Investment goods			
- Jun	377.1	410.1	8.7
- Jan-Jun	2,277.8	2,426.7	6.5



Monetary Policy Review - August 2016

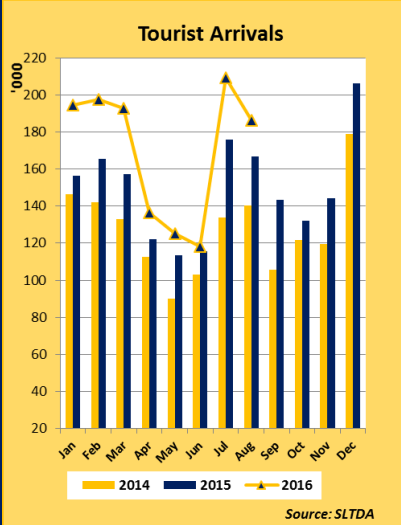
Policy rates maintained

Credit to Private Sector continues to grow: Credit granted to the private sector by commercial banks increased to 28.2%YoY in June from 28%YoY in May 2016. Broad money supply (M2b) too accelerated to 17%YoY in June compared to 16.5% recorded in May 2016. Considering the impact of the policy measures adopted during the first seven months of the year through increasing policy interest rates and the Statutory Reserve Ratio (SRR) being transmitted to the economy gradually and with the expectation that the growth in monetary and credit aggregates is likely to decelerate during the remainder of the year, Deposit and Lending rates were decided to be maintained at 7.00% and 8.50% respectively.

Tourist Arrivals

Tourist arrivals in Jan-August grow 16%YoY

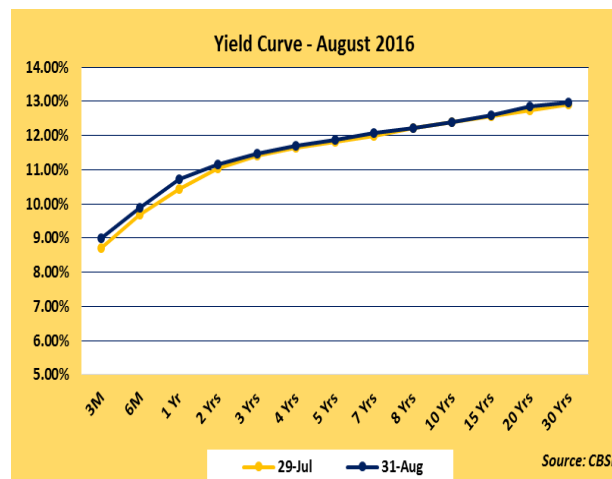
Arrivals grow 11.8%YoY in August: Sri Lanka's tourist arrivals rose to 186,288 in August 2016 (+11.8%YoY). During January to August period tourists from Western Europe (+18.1%YoY), South Asia (+14.1%YoY) and East Asia (+20.0%YoY) contributed most to total arrivals. Tourists from UK (+18.0%YoY) contributed most of the arrivals from Western Europe while India (+16.1%YoY) contributed most of the arrivals from South Asia during the period. During the month of August tourists from Saudi Arabia, Netherlands and Canada grew by 81.5%YoY, 38.6%YoY, and 33.9%YoY respectively while UAE dropped by 40.7%YoY.



Treasury Bills and Bonds

Rate hike affects only the shorter tenors

Bill rates jump: The rate hike and the liquidity deficit in the market affected the shorter tenors increase by 20-30 bps. However the mid to longer tenors saw only marginal changes during Aug 2016 despite the rate hike amidst increased confidence levels among local and foreign investors amidst stronger buying interest especially towards the latter part of the month.



Interest Rate Change (bps)			
Tenure	29-Jul	31-Aug	Change (bps)
3M	8.72%	9.00%	29
6M	9.68%	9.89%	22
1 Yr	10.42%	10.71%	29
2 Yrs	11.03%	11.15%	12
3 Yrs	11.40%	11.48%	8
4 Yrs	11.63%	11.70%	6
5 Yrs	11.81%	11.86%	5
6 Yrs	11.99%	12.08%	9
8 Yrs	12.23%	12.21%	-2
10 Yrs	12.40%	12.39%	-1
15 Yrs	12.57%	12.59%	2
20 Yrs	12.73%	12.84%	10
30 Yrs	12.90%	12.96%	6

Global News

China struggles to drop banks' nonperforming debt: Conflicts between borrowers and creditors, and between the central government and local governments, could slow the implementation of China's plan to get nonperforming loans off the books of state-run banks, analysts say. The China Securities Journal reported that the National Development and Reform Commission could launch the debt-to-equity swap plan as soon as the middle of September.

(Source: www.scmp.com)

Japan, S. Korea look to renew currency swap: Japan and South Korea are prepared to re-institute their currency-swap agreement that expired early last year. Details must be worked out.

(Source: pulsenews.co.kr)

ECB research backs fiscal spending in eurozone core: Fiscal spending by core eurozone economies would help offset the negative effects of structural reforms in peripheral countries, according to research released Thursday by the European Central Bank. The findings support ECB President Mario Draghi's call for fiscal spending among the richer countries, particularly Germany, which has had its largest budget surplus since 1990.

(Source: in.reuters.com)

Singapore banks scrutinized over bonuses for risky debt sales: Some bond issuers in Singapore are offering banks bonuses to sell risky debt, prompting an inquiry by an industry group. One concern is that the arrangements often aren't disclosed to banks' clients.

(Source: www.businesstimes.com)

India's new central bank chief to tackle old rate problem: India may have a new central bank governor, but he faces an old task: persuading state banks to transmit low interest rates to the economy. They've passed on only about half of the 150 basis points in central bank cuts since early 2015 and say they can't afford to do much more.

(Source: www.business-standard.com)

S. Korea considers steps to check household debt growth: South Korean officials are weighing financial and housing supply restrictions in a bid to restrain the nation's double-digit growth in household debt. At the current pace, the total is projected to top 1,300 trillion won by the end of the year.

(Source: www.pulsenews.co.kr)



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