

# Pre-Policy Analysis

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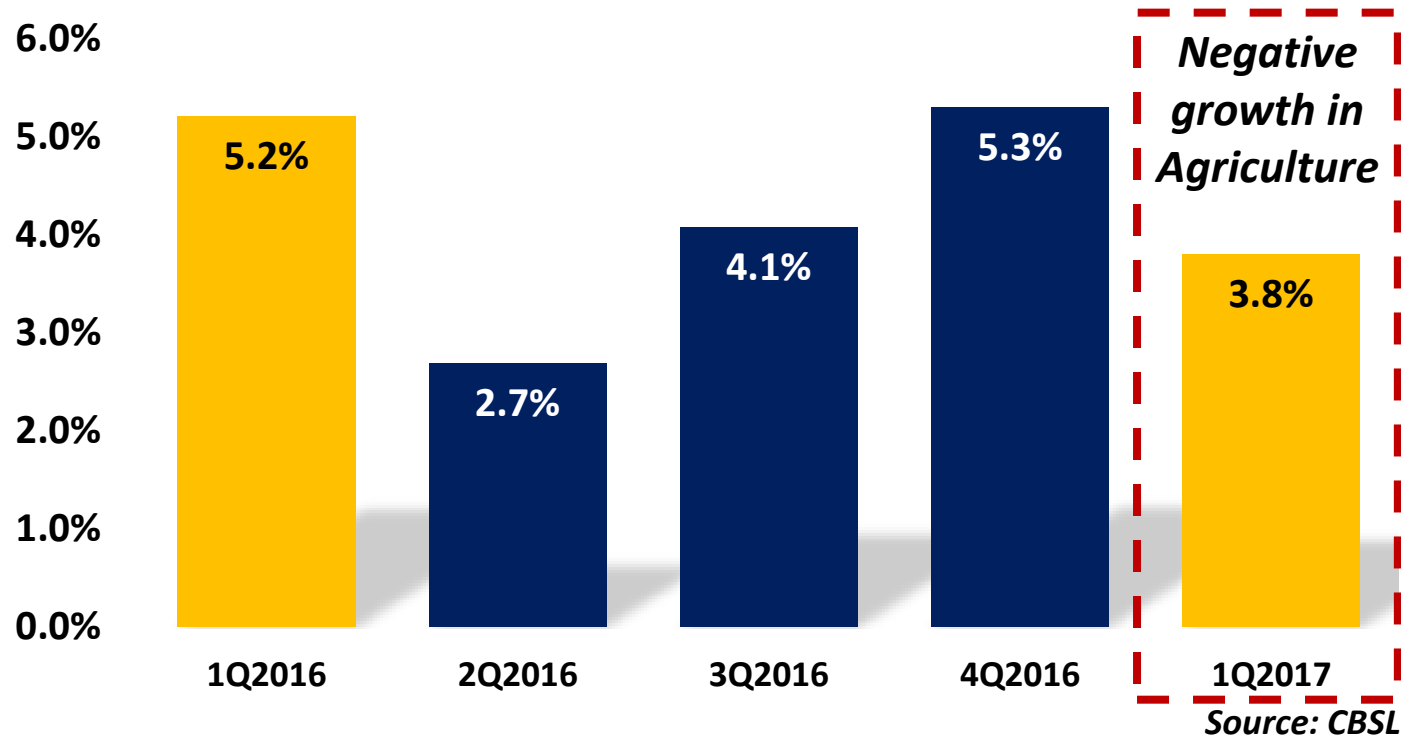
**ANALYST CERTIFICATIONS AND REQUIRED  
DISCLOSURES BEGIN ON PAGE 8**



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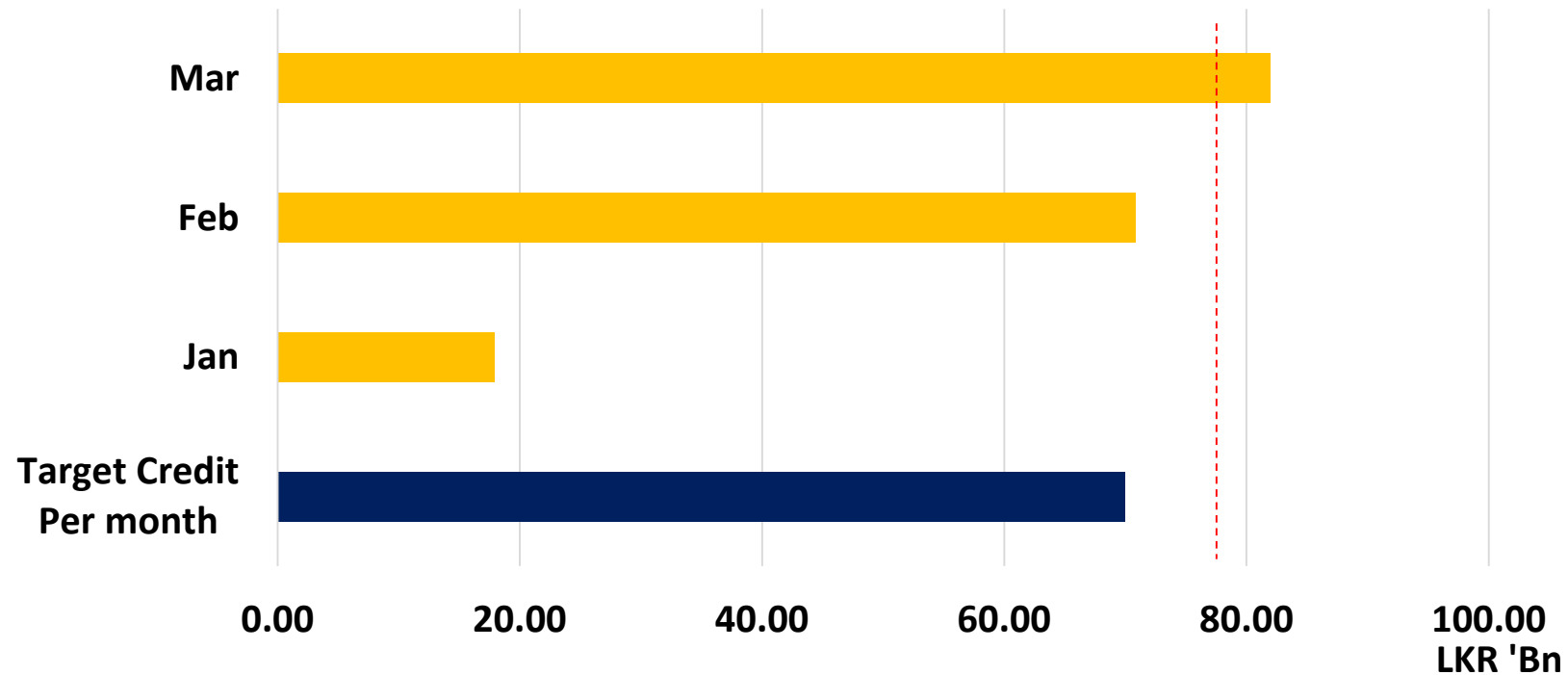
# GDP Growth

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 spite of a high private sector credit figure in March 2017 we believe the usual credit slowness in the month of April will keep overall credit under check.



# INFLATION

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CCPI based headline inflation, decelerated on a YOY basis to 6.0% in May 2017 from 6.9% in April 2017, and CCPI based core inflation also decelerated to 5.2% in May 2017 from 6.8% in April 2017

NCPI based inflation also decelerated on a YOY basis to 8.4% in April 2017 from 8.6% in March 2017.

FC Research forecast June 2017 CCPI headline inflation to be at 6.0% and CCPI core inflation at 5.3%

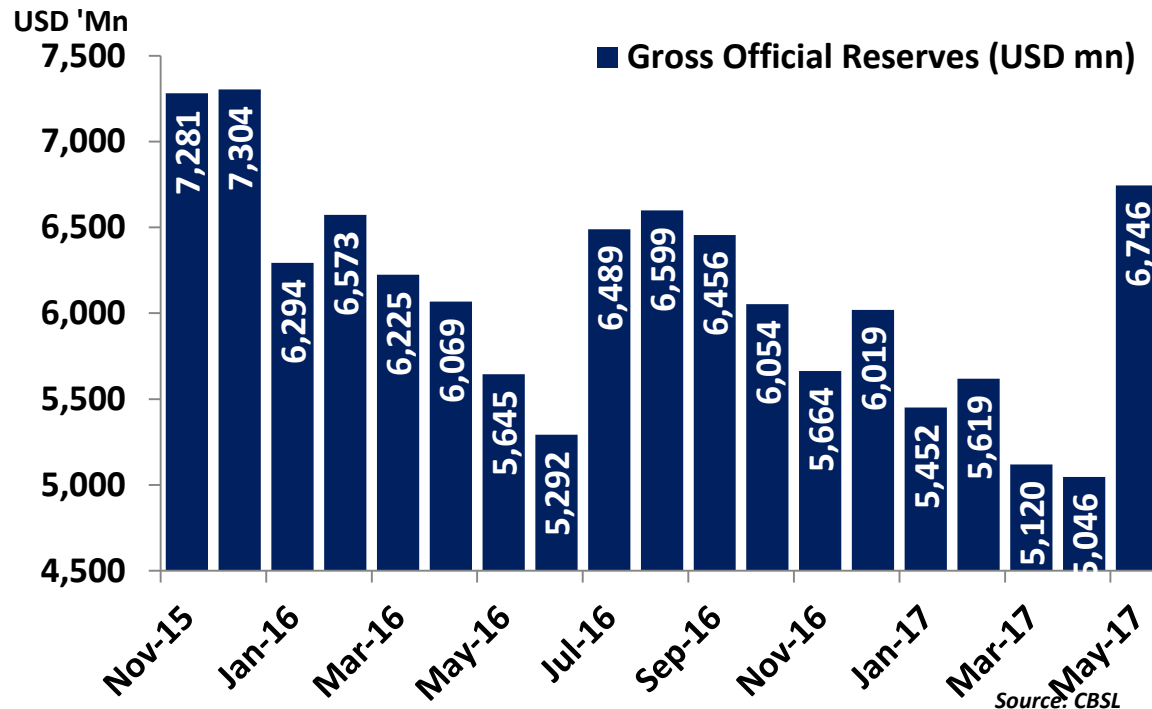
## **FC Research View**

We believe inflation will be under control over the next 2-3 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. As a result there could be possible supply side shortages towards September and beyond

# Official Reserves

Sri Lanka's forex reserves rose to USD 6.8Bn in May 2017 from USD 5.0Bn in April, helped by USD 1.5Bn Sovereign bond sale, USD 450Mn syndicated loan and dollar purchases by the CBSL.

FC Research View: Foreign Reserves are now at comfortable levels

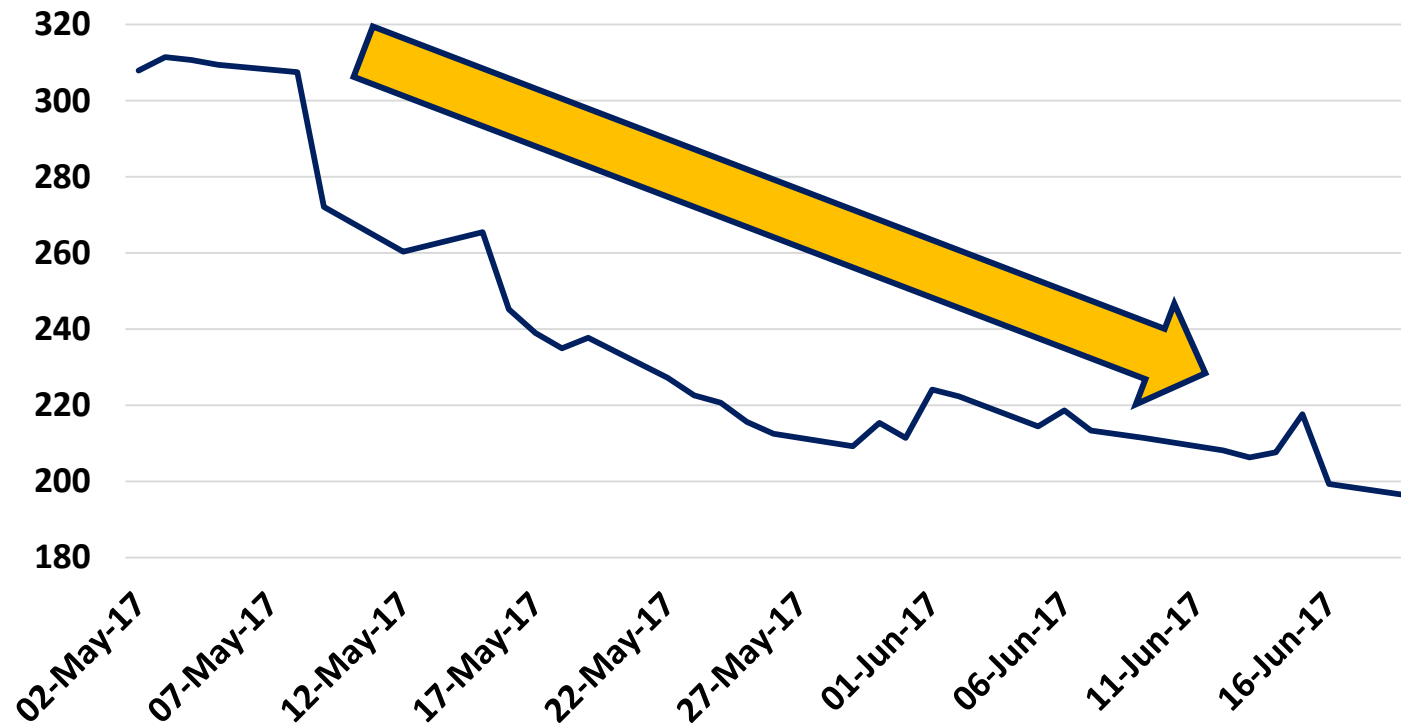


Central Bank purchases and sales (USD Mn. )

	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

# CBSL HOLDINGS

During last one-and half months CBSL bought down its holding in Government Securities from LKR 300Bn to below LKR200Bn as at 19<sup>th</sup> June 2017



# Expected Monetary Policy Stance

FC Research believes that considering the current economic conditions with slower than expected GDP growth 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	15%	Standing Lending Facility Rate (SLFR)	8.75%
<b>Policy Rates to remain unchanged</b>	<b>85%</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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