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Stands pat on policy rates

The Monetary Board of the Central Bank yesterday kept policy interest rates unchanged after cutting them in May, as the Monetary Board was of the view that there is "ample space for market lending rates to adjust downward in response to the policy measures already taken."

The Central Bank kept the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) steady at 7.50 percent and 8.50 percent, respectively.

The Central Bank said market deposit rates have declined in response to the measures already taken to ease monetary policy and monetary conditions.

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Stands pat ...

"In particular, the reduction of policy interest rates in May 2019, coupled with sizable liquidity injections through the reduction in the Statutory Reserve Ratio (SRR) and the imposition of maximum interest rates on deposit products in April 2019, have resulted in a notable drop in the Average Weighted Call Money Rate (AWCMR), yields on government securities, new deposit rates as well as the Average Weighted Prime Lending Rate (AWPR)," the Central Bank said.

However the monetary authority pointed out that the transmission of recent easing of monetary conditions to market lending rates, including AWPR, is not yet complete.

"It is expected that the ongoing downward adjustment in market lending rates would expedite in the immediate future, thus supporting the revival of demand for credit by the private sector and the recovery in economic activity."

The Sri Lankan economy grew at a relatively healthy rate of 3.7 percent year-on-year (YoY) during the first quarter 2019, compared to 1.8 percent recorded in the fourth quarter 2018, according to provisional estimates published by the Department of Census and Statistics.

"Weaker than originally envisaged growth in tourism and related services in the aftermath of the Easter Sunday attacks could affect economic growth in the near term, while subdued global growth is likely to hamper the medium term growth prospects of the economy," the Central Bank said.

Meanwhile, Sri Lanka's gross official reserves had reached US $ 8.9 billion by end-June, which provides an import cover of 5.1 months, following the receipts of the proceeds of the recent international sovereign bonds (ISBs) through which Sri Lanka raise US $ 2 billion.

Improving exports and sharp decline in imports due to slew of measures imposed by the Central Bank over non-essential imports have improved Sri Lanka's trade deficit.

"The contraction in the trade deficit and the receipt of the proceeds from the ISBs, along with the continuation of the Extended Fund Facility Programme with the International Monetary Fund (IMF-EFF) have eased the pressure on the exchange rate, resulting in the Sri Lankan rupee recording a cumulative appreciation of 4.1 per cent against the US dollar thus far in 2019," the Central Bank said.

Sri Lanka rupee depreciated over 16 percent in 2018.

Meanwhile, the credit extended to the private sector by commercial banks continued to decelerate during the first five months of 2019, while recording an absolute cumulative decline during the period.

Following this trend in the growth of credit, the YoY growth of broad money (M2b) also decelerated thus far in 2019. "Credit to the private sector is expected to gradually pick up in the latter part of 2019, with the expected decline in market lending rates," the Central Bank said.

On the inflation front, the Central Bank said despite near-term spikes, the inflation is projected to remain well anchored in the desired 4-6 percent range.