

Economic & Market Review

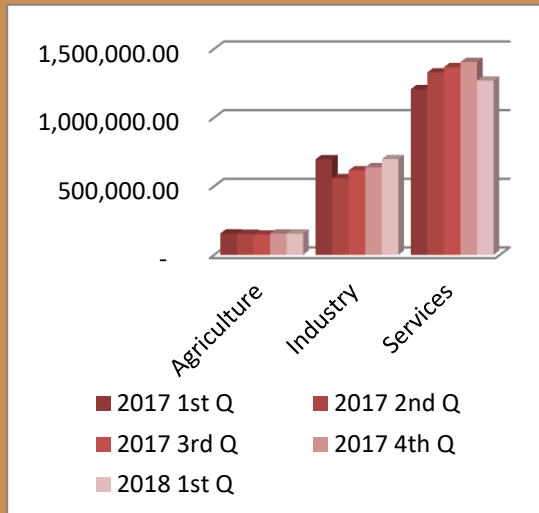
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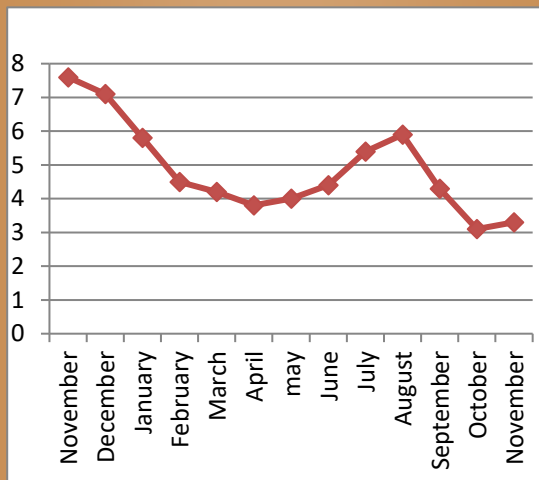
PEOPLE'S BANK

For the Month of November 2018

GDP



Inflation (Year –on-Year change %)



Economic Background

Year-on-year growth of broad money (M2b) continued its deceleration in September 2018. Nevertheless, there was a possibly short-lived acceleration in credit obtained by the private sector from commercial banks as the businesses advanced their borrowing in anticipation of measures to curb excessive spending on imports. Based on the data up to the third quarter of 2018, credit to all major sectors of the economy recorded an expansion with personal loans and advances showing a notable acceleration. It is expected that the growth of credit to the private sector would return to the expected path as measures taken by the government and the Central Bank gain traction.

Headline inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), decelerated below the desired mid single digit levels, largely driven by the decline in volatile food prices. Core inflation has also remained subdued reflecting well anchored inflation expectations due to the tight monetary policy stance maintained in the past. With these developments, headline inflation is projected to remain in low single digit levels during the remainder of the year and is expected to be maintained in the targeted range of 4 – 6 per cent during 2019 and thereafter with appropriate policy adjustments.

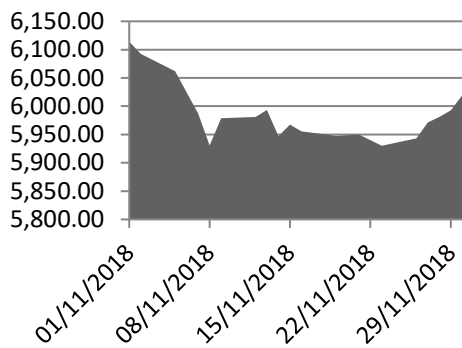
Considering the current and expected developments in relation to inflation and economic growth, as well as the current conditions in the domestic money market and the foreign exchange market, the Monetary Board of the Central Bank, at its meeting held on 13 November 2018, was of the view that the continuation of the current neutral monetary policy stance is appropriate. However, the Monetary Board observed that large and persistent liquidity deficit in the domestic money market requires policy intervention, and decided to reduce the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks by 1.50 percentage points to 6.00 per cent from the current level of 7.50 per cent with effect from the next reserve maintenance period commencing 16 November 2018. The reduction in SRR is expected to release a substantial amount of rupee liquidity to the banking system, thus reducing the cost of funds of banks. At the same time, in order to neutralise the impact of the SRR reduction and maintain its neutral monetary policy stance, the Monetary Board decided to raise policy interest rates of the Central Bank with immediate effect. Accordingly, the Monetary Board raised the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8.00 per cent and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 9.00 per cent, thereby narrowing the policy rate corridor to 100 basis points. These adjustments are also expected to narrow the spread between deposit and lending rates in the market.

Source – Central Bank of Sri Lanka

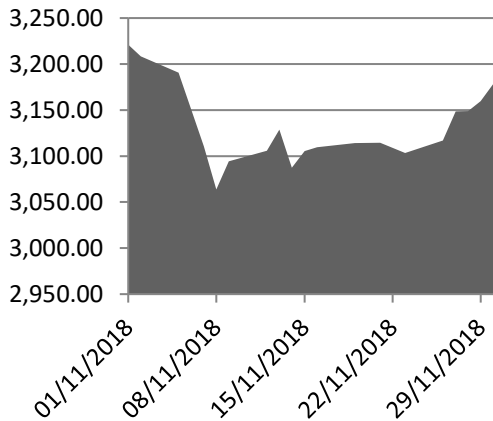
Equity Market Overview for the Month.

The Colombo Bourse closed positive with the benchmark All Share Price Index (ASPI) increasing by 1.10% MoM to 6019.33 points, whilst the more liquid S&P SL20 index increased by 3.06% MoM to 3,178 points. Average daily turnover rose to Rs. 832mn in November 2018 while the average market capitalization was Rs. 2,808bn. The market witnessed a net foreign outflow of -Rs. 5,279mn in November 2018.

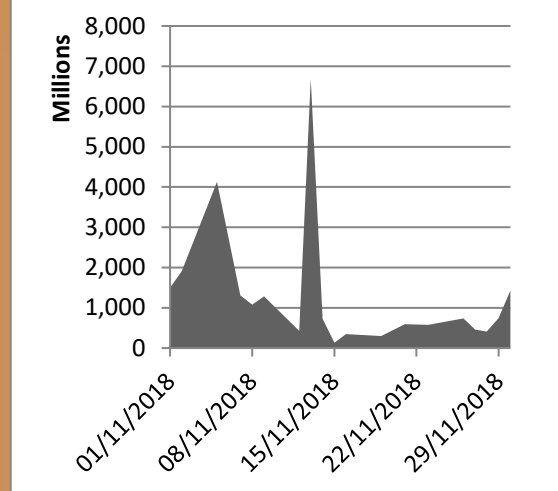
ASPI



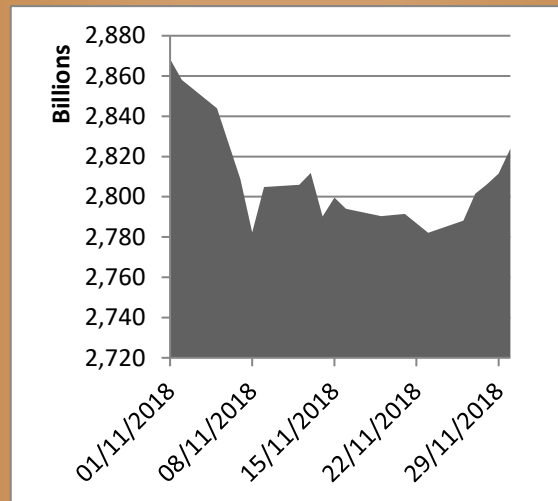
S&P 20 SL



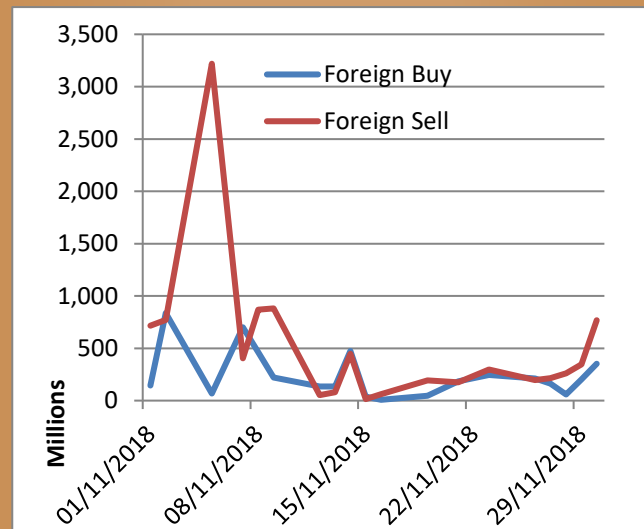
Market Turnover



Market Capitalization



Foreign Buying & Selling in the Market



INVESTMENT BANKING UNIT

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