



Cross Talk



Sri Lanka's Options?

- * The sharp decline in year on year export earnings, loss of foreign exchange due to defending of the rupee, along with selling off of treasury bills and bonds by foreign investors continue to aggravate the balance of payment pressures.
- * During the eight months of 2015 Sri Lanka has lost over USD 2.0 billion of foreign reserves assets. The continued loss of reserves signals a weaker rupee against the US dollar. To make matters worse all major currencies in the world have also depreciated against the US dollar too.
- * The deteriorating balance of payments (BOP) has resulted in Sri Lanka discussing a Standby Credit Facility with IMF. However such facility is yet to be considered under this criteria.
- * On the monetary side despite the sale of foreign exchange by CBSL domestic liquidity has fast eroded during the last week. A noticeable increase in the interest rate on short term debt sounded the tight credit conditions in the market.
- * Year -on- Year inflation in August signaled a continued decline in prices, against the backdrop a monetary growth of over 15pct, doubting the credibility of GDP growth and underlying inflation.
- * Speculation is that the new Government is likely to address these concerns that would involve some transition in the domestic economy. These transitional outcomes would deepens on how fast the exchange rate and intersrate predictability could be restored once again and more importantly, at what levels !

