

**1950-2020** Stability  
Sustainability  
Shared Prosperity



Monetary Policy Press Conference  
26 November 2020

# Review of the Monetary Policy Stance

November 2020

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Economic Research Department  
Central Bank of Sri Lanka

## **Decision:**

# **The Central Bank of Sri Lanka continues its accommodative Monetary Policy Stance...**

## **Policy interest rates remain unchanged**

<b>Standing Deposit Facility Rate (SDFR)</b>	<b>4.50%</b>
<b>Standing Lending Facility Rate (SLFR)</b>	<b>5.50%</b>
<b>Bank Rate</b>	<b>8.50%</b>
<b>Statutory Reserve Ratio (SRR)</b>	<b>2.00%</b>

**Maximum interest rate applicable on mortgage-backed housing loans obtained by salaried employees** **7.00%**

**Lending targets for selected sectors to be introduced**

# The CBSL continued its accommodative monetary policy stance to support economic revival...

30 Jan 2020	17 March 2020	17 March 2020	03 April 2020	06 May 2020	16 June 2020	09 July 2020
Policy rates reduced by 50 bps	SRR reduced by 100 bps	Policy rates reduced by 25 bps	Policy rates reduced by 25 bps	Policy rates reduced by 50 bps	SRR reduced by 200 bps	Policy rates reduced by 100 bps

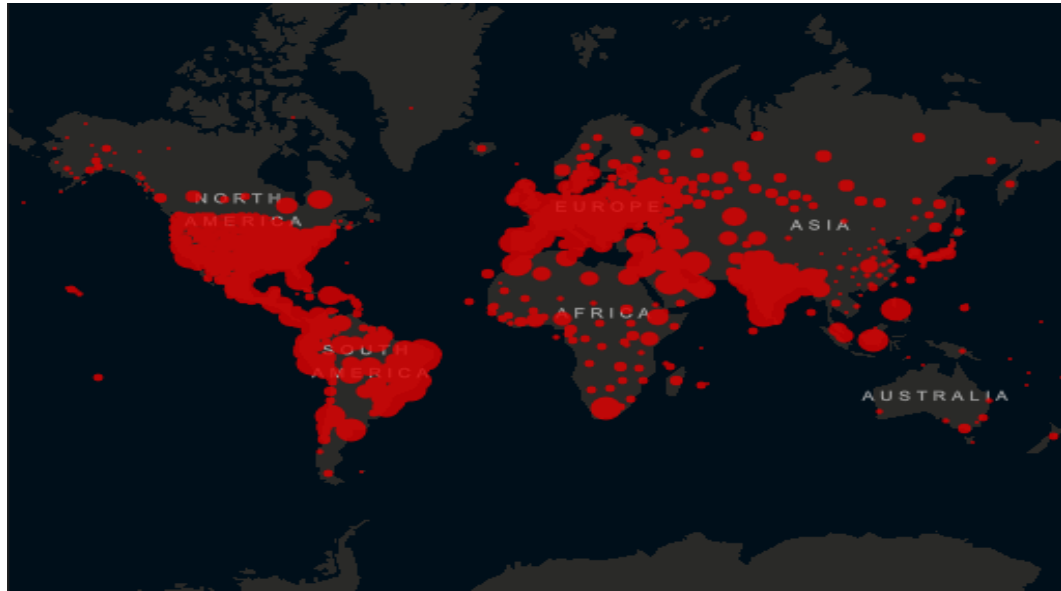
## 20 August 2020

- The Central Bank adopted targeted measures to reduce specific interest rates that are considered to be excessive and affecting marginal borrowers disproportionately
  - 18.00% maximum interest rate on Credit Cards
  - 16.00% maximum interest rate on Pre-arranged Temporary Overdrafts
  - 10.00% maximum interest rate on Pawning Facilities
  - Penal interest rate: 2.00 percentage points over the regular interest rate

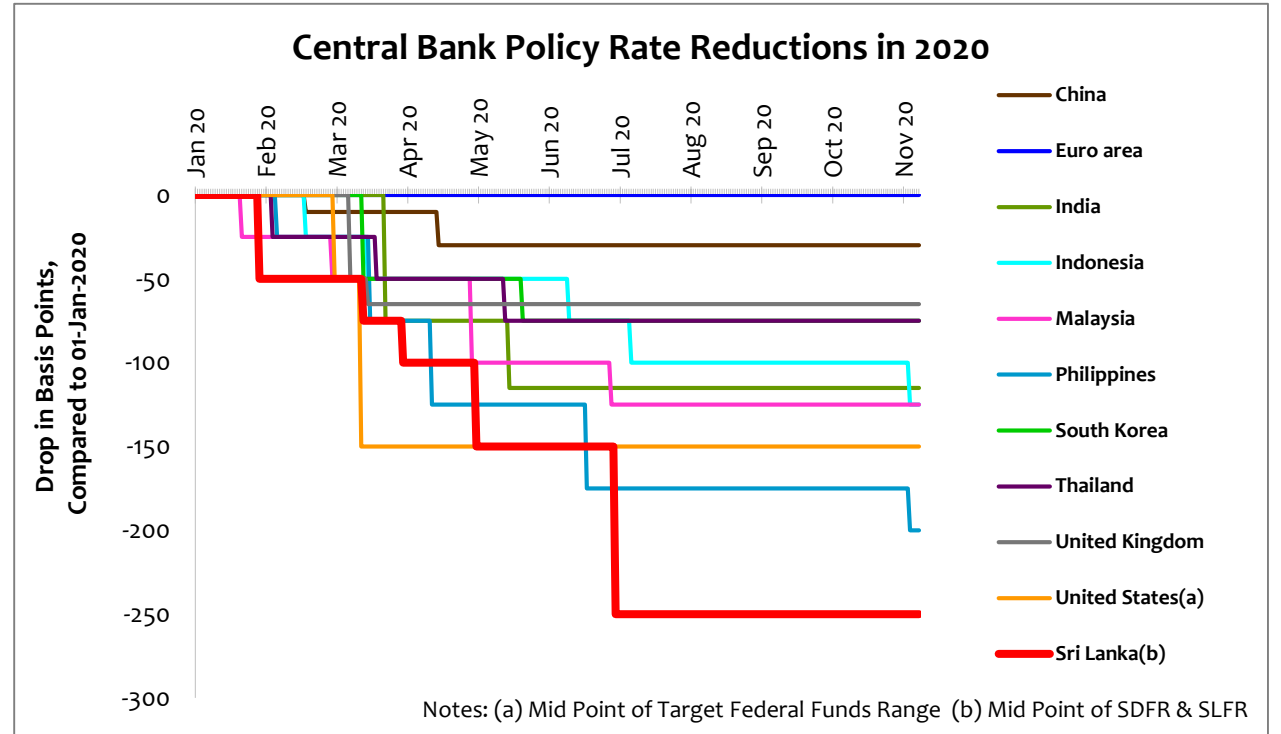
## 26 November 2020

- Maximum interest rate on mortgage-backed housing loans for salaried employees
  - Interest rate fixed at 7.00% for the first 5 years
  - After 5 years, interest rate linked to AWPR+1 percentage point
- Lending targets for selected sectors to be introduced

# The second wave of COVID-19 has destabilised global growth prospects, but vaccine expectations have helped improve sentiments...



Source: Johns Hopkins University



Notes: (a) Mid Point of Target Federal Funds Range (b) Mid Point of SDFR & SLFR

Source: BIS

## Global

**Total Cases**  
60,276,951

**Active Cases**  
20,222,632

**Fatal Cases**  
1,419,567

Source: Johns Hopkins University

## Sri Lanka

**Total Cases**  
21,469

**Active Cases**  
5,926

**Fatal Cases**  
96

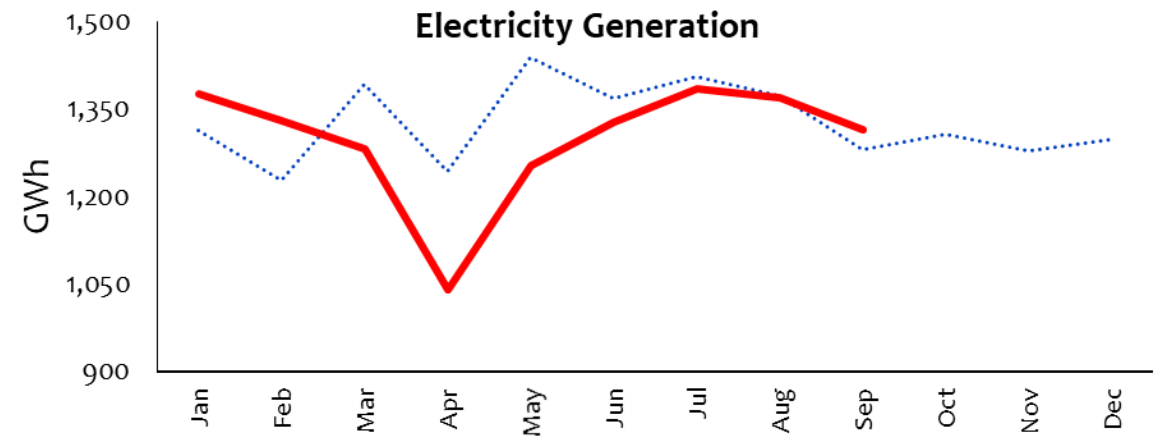
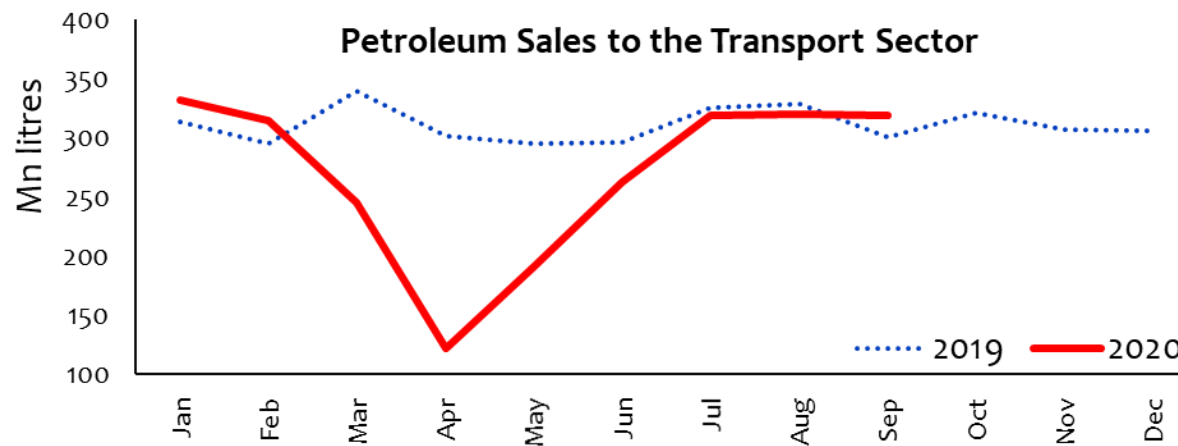
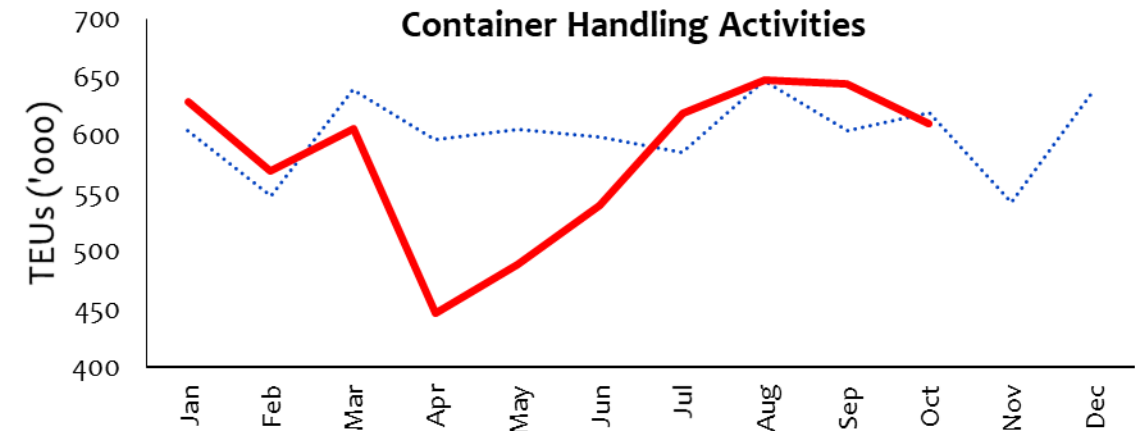
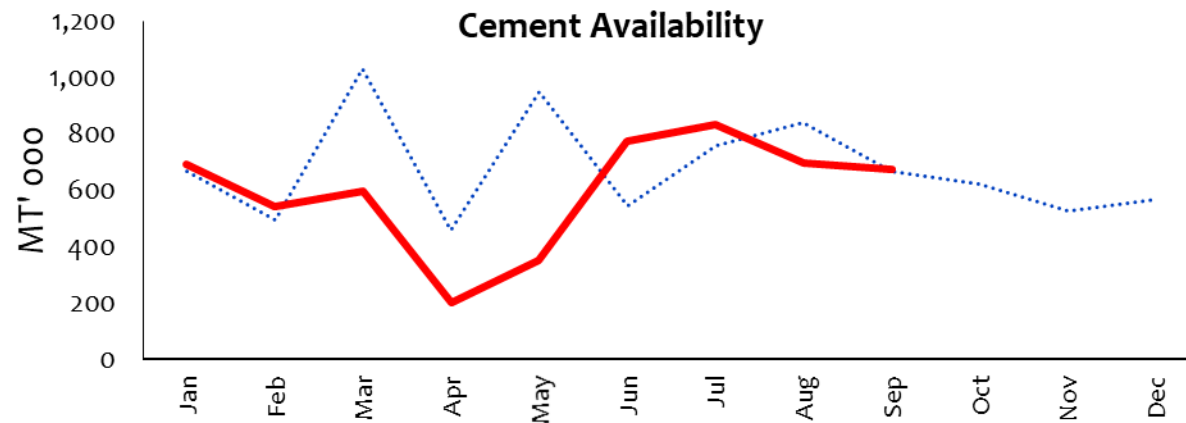
Source: Epidemiology Unit (MOH)

- So far in 2020, central banks around the world took 404 steps to ease monetary policy including 250 policy rate cuts
- Central banks are increasingly adopting unconventional policy measures (policy packages including QE) to support economic revival

As of 26 Nov 2020 @ 08.00 hrs

As of 25 Nov 2020 @ 21.50 hrs

# The Sri Lankan economy was seen as having recovered strongly during the third quarter of 2020, before the disruptions caused by the second wave of COVID-19...



Despite this disturbance to the near term growth prospects, the economy is expected to rebound strongly in 2021 and sustain its growth momentum over the medium term, supported by the stimulus measures already in place and the effective implementation of the pro-growth policy proposals announced in the Government Budget 2021.

# Trade deficit has narrowed significantly, while the external current account deficit is expected to have improved thus far during the year...

## Exports

**2020 (Jan – Oct): USD 8.3 bn (-16.9%, y-o-y)**

**2019 (Jan – Oct): USD 10.0 bn**

Provisional

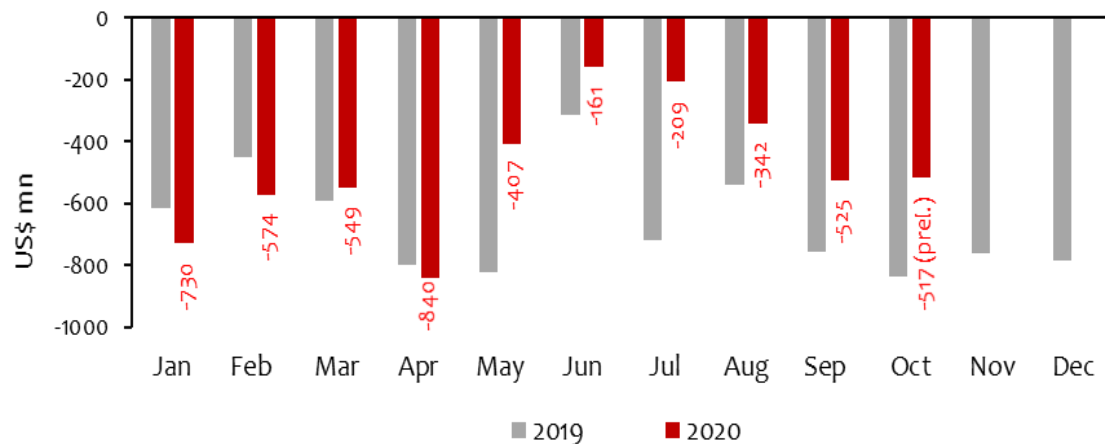
## Imports

**2020 (Jan – Oct): USD 13.1 bn (-20.0%, y-o-y)**

**2019 (Jan – Oct): USD 16.4 bn**

Provisional

## Trade Deficit

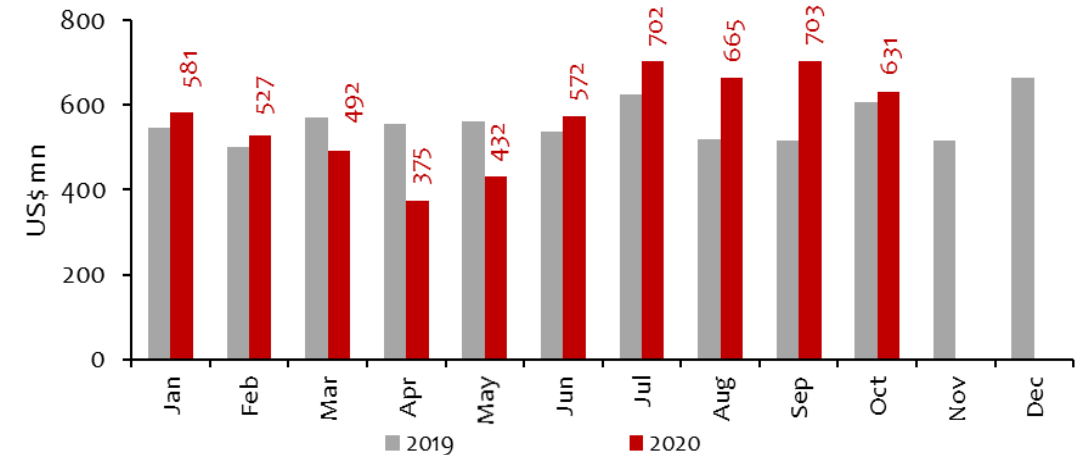


**2020 (Jan – Oct): USD 4.9 bn (-24.7%, y-o-y)**

**2019 (Jan – Oct): USD 6.5 bn**

Provisional

## Workers' Remittances

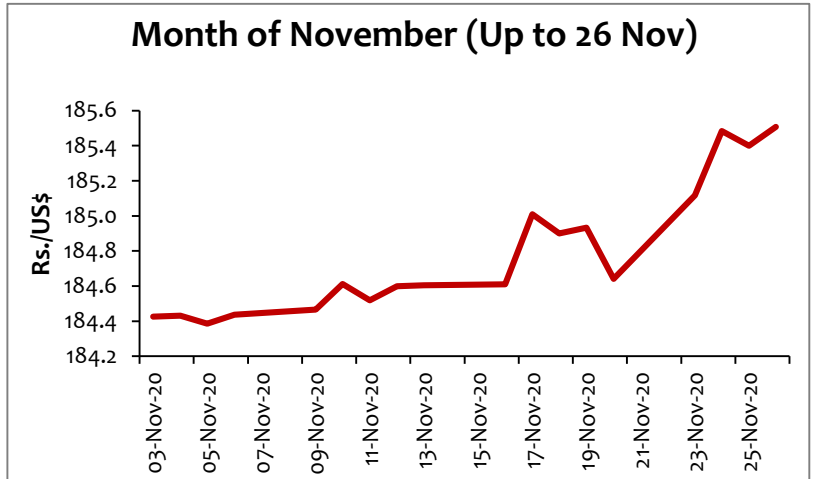
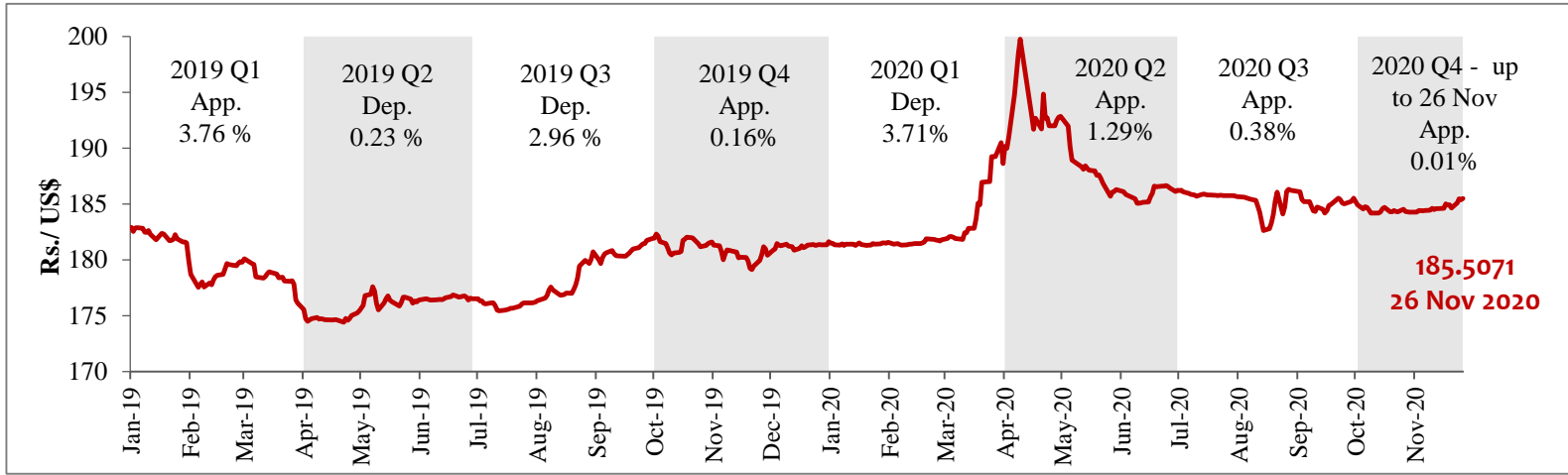


**2020 (Jan – Oct): USD 5.7 bn (2.6%, y-o-y)**

**2019 (Jan – Oct): USD 5.5 bn**

# The Sri Lankan rupee remains stable, and speculation driven pressure over the past few days has been effectively addressed...

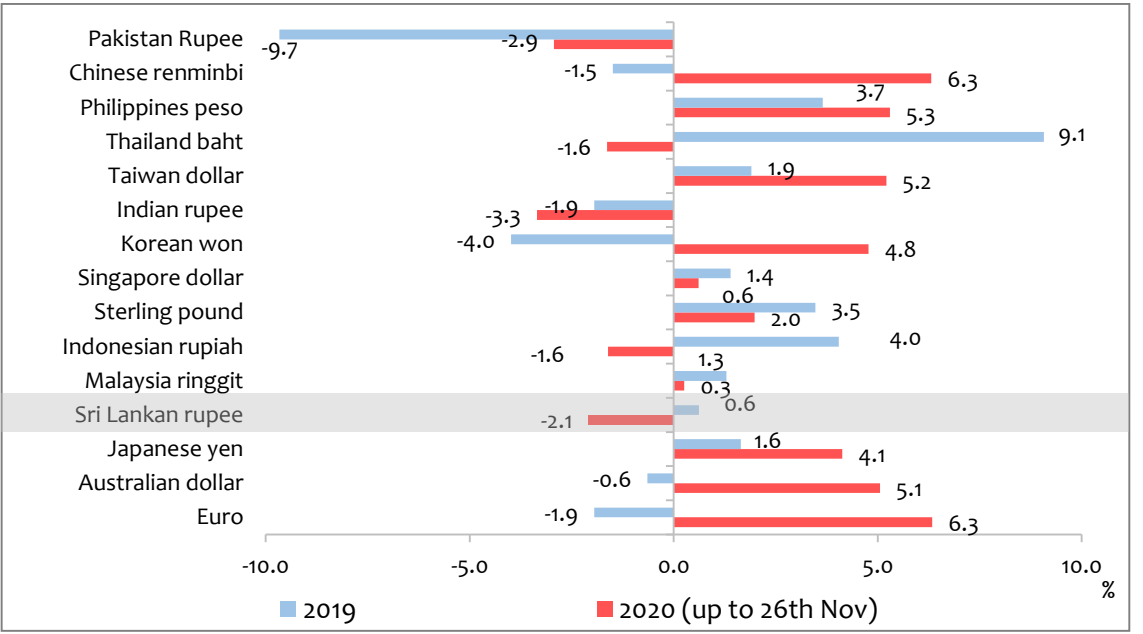
**Movement of Sri Lankan Rupee against the USD - up to 26 Nov 2020**



## LKR Movement Against Other Currencies

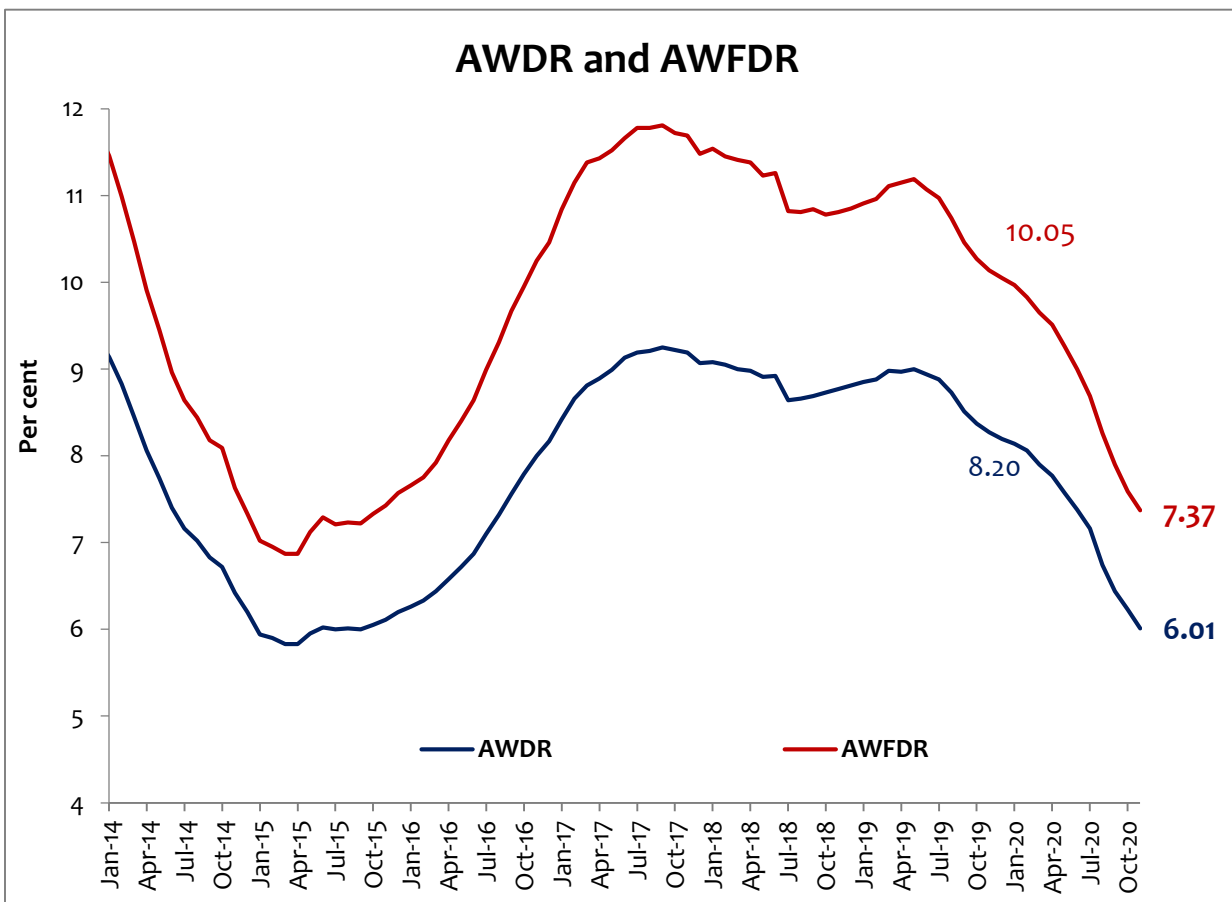
Currency	2019	up to 26 Nov 2020
	App(+)/Dep(-)	App(+)/Dep(-)
US dollar	+0.6 %	-2.1 %
Pound sterling	-2.8 %	-4.0 %
Euro	+2.6 %	-7.9 %
Japanese yen	-1.0 %	-6.0 %
Indian rupee	+2.6 %	+1.3 %

- Gross official reserves were estimated at USD 5.9 bn at end Oct 2020
- The CBSL purchased over USD 300 mn on a net basis so far in 2020

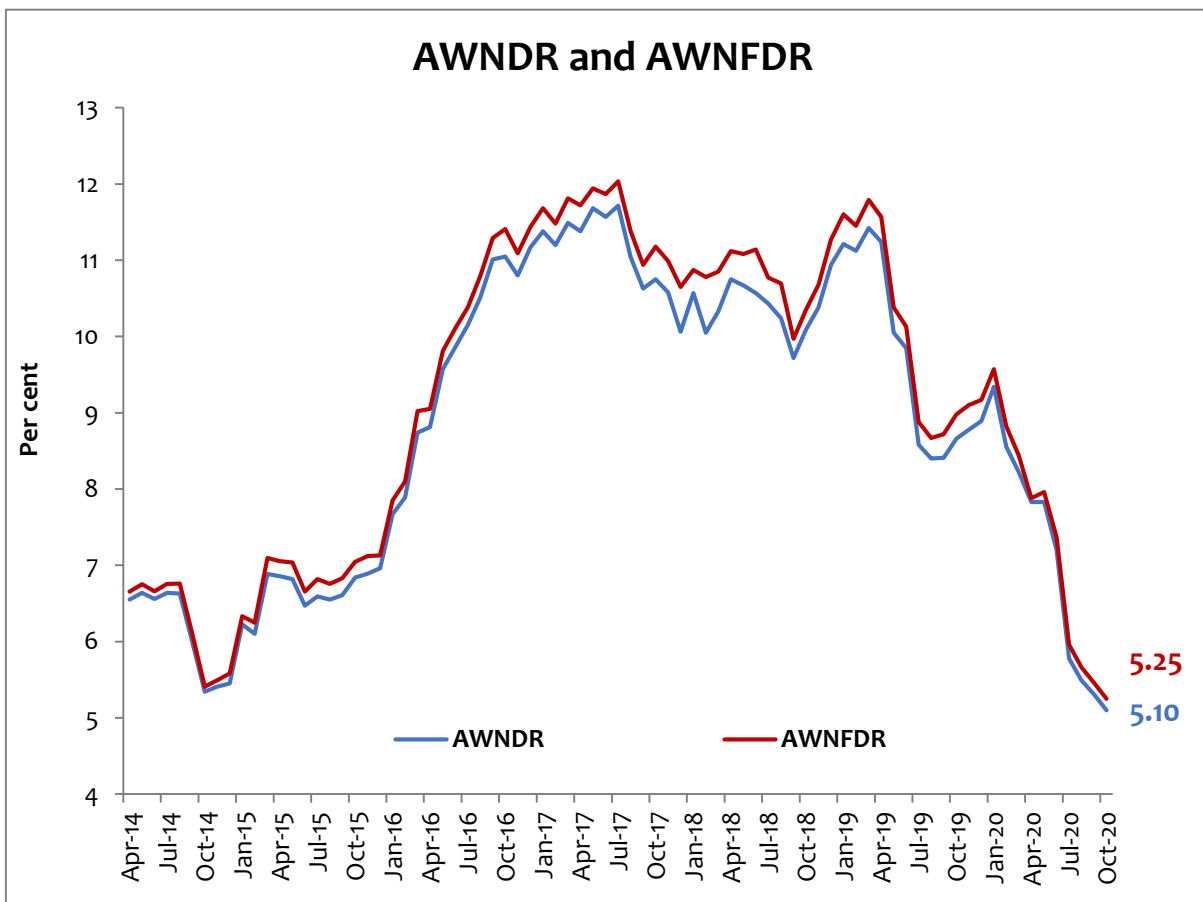


# Market interest rates continued to adjust downwards responding to monetary easing measures adopted thus far...

**AWDR declined by 219 bps so far during the year to 6.01% in November 2020 (based on October 2020 data)**



**AWNDR declined by 379 bps so far during the year to 5.10% in October 2020**





# Further space is available for market lending rates to adjust downwards given the significant excess liquidity in the domestic money market...

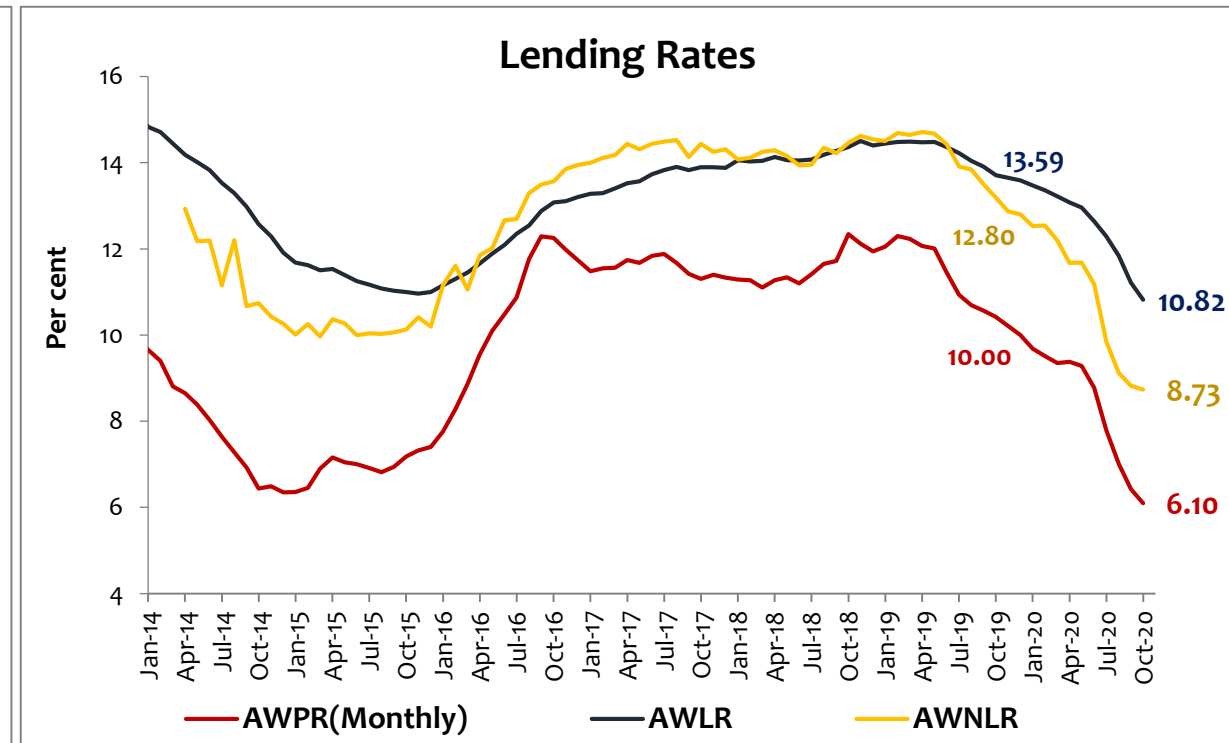
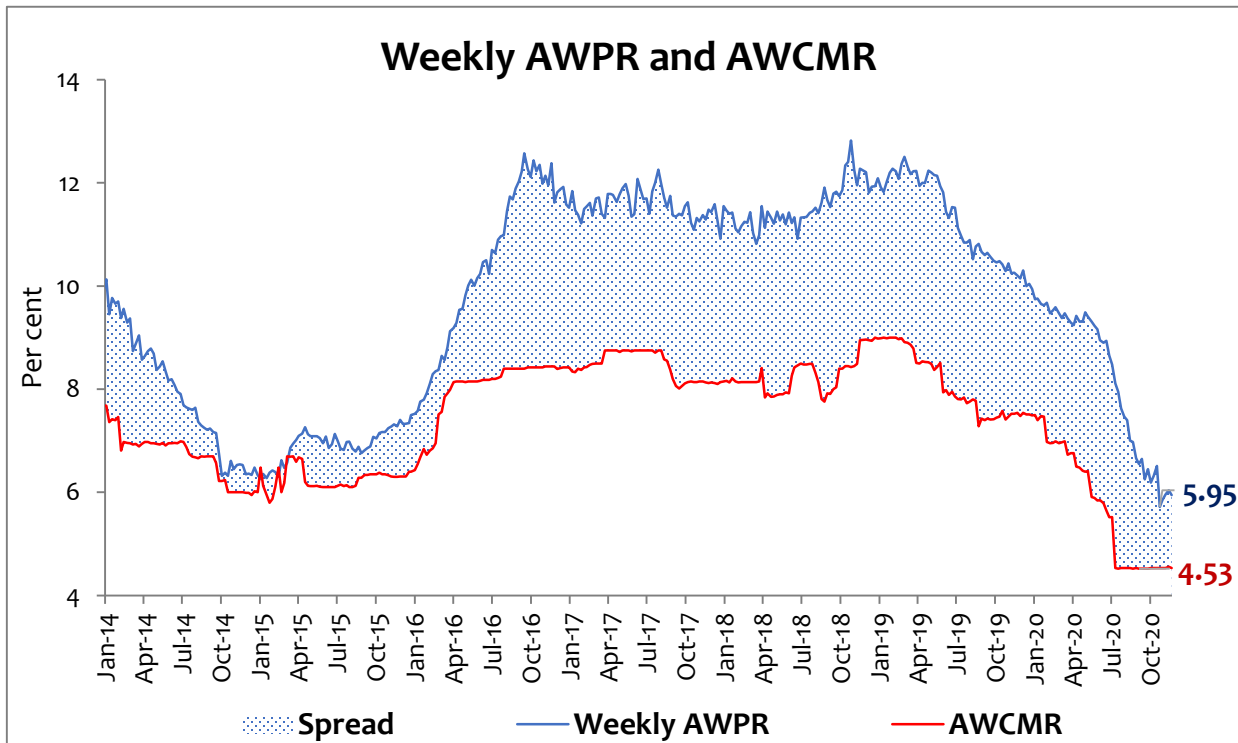
YTD (Jan-Nov 2020):

**Weekly AWPR:** declined by **379 bps** to **5.95%** by 20 Nov 2020

YTD (Jan-Oct 2020):

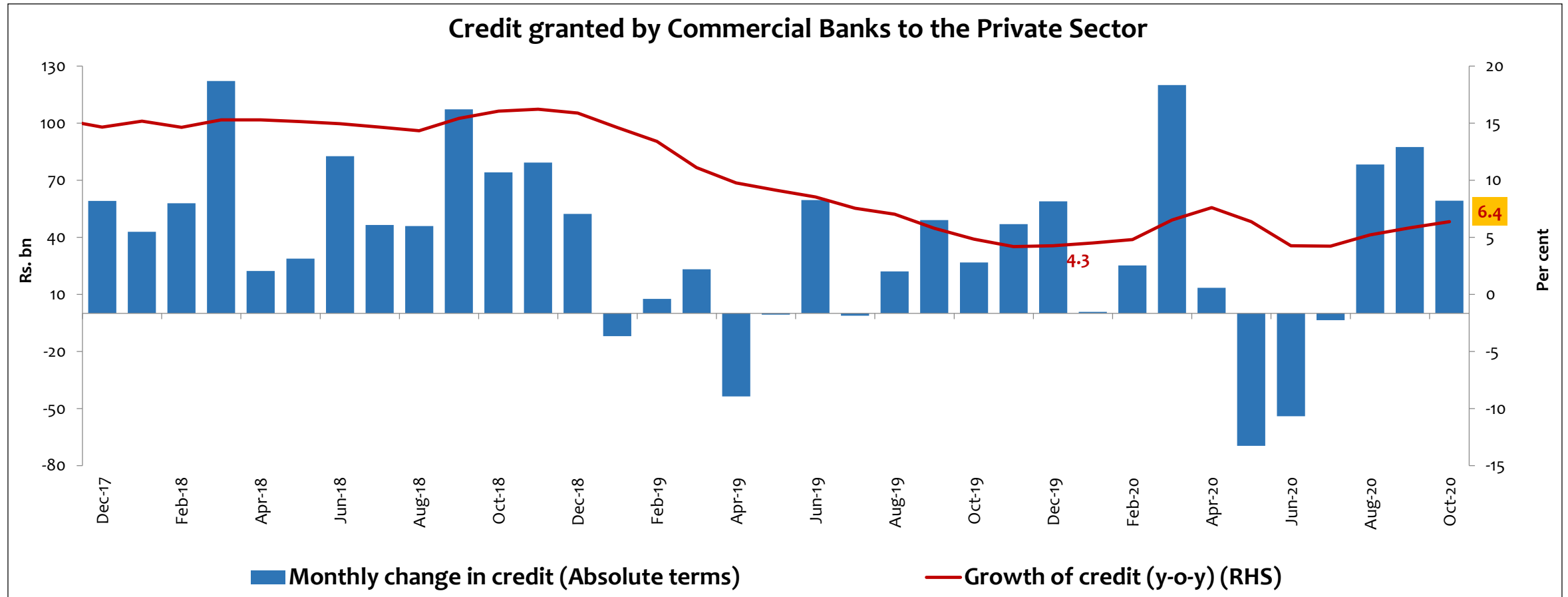
**AWLR:** declined by **277 bps** to **10.82%** in Oct 2020

**AWNLR:** declined by **407 bps** to **8.73%** in Oct 2020



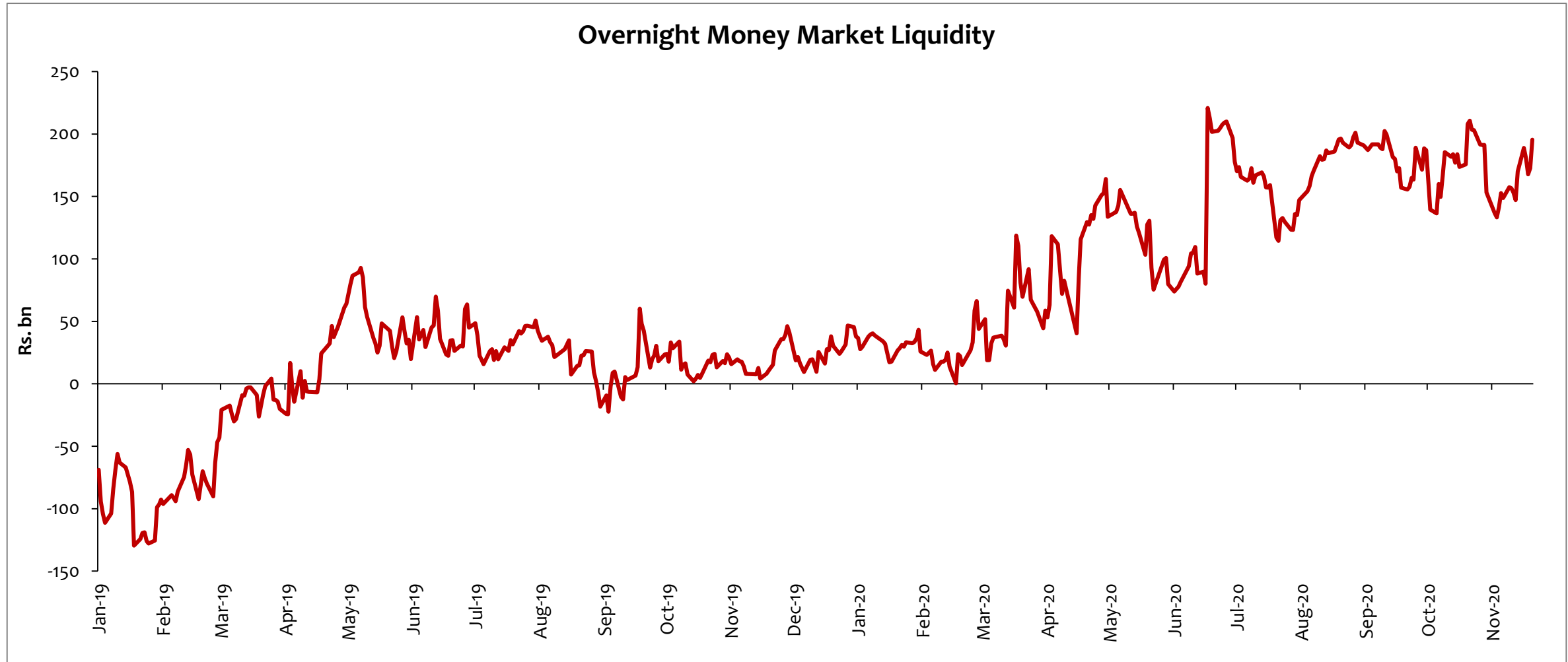
- The proportion of new lending at or below 10% has significantly increased from around 23% at end 2019 to 87% at end October 2020. However, banks still charge interest rates over 20% from some customers

Supported by the policy easing measures adopted by the Central Bank thus far during the year, credit extended to the private sector increased...



- Credit to the public sector from the banking system continued to expand, resulting in a substantial increase in domestic credit and accelerating the growth of broad money

# A large amount of surplus liquidity is maintained in the domestic money market...



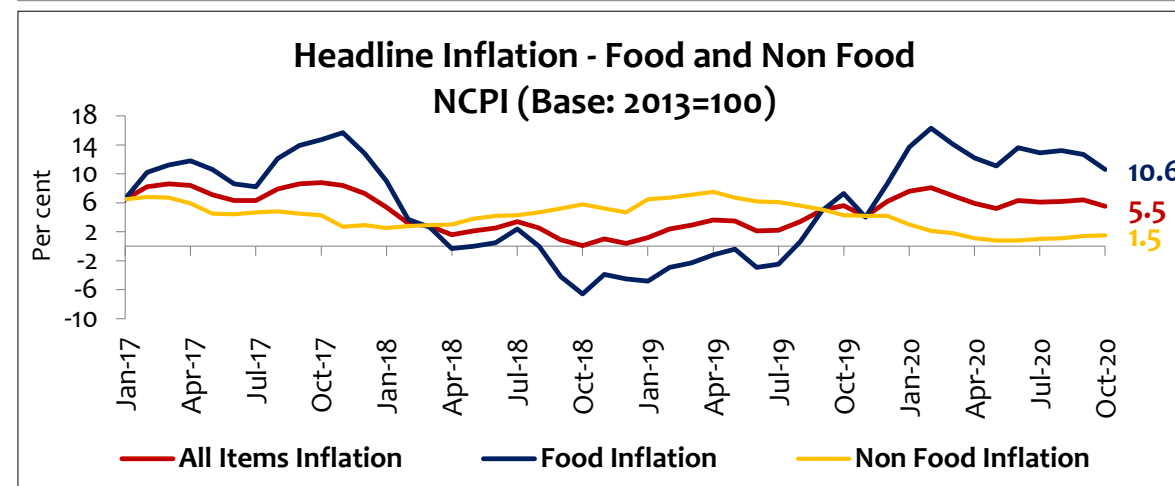
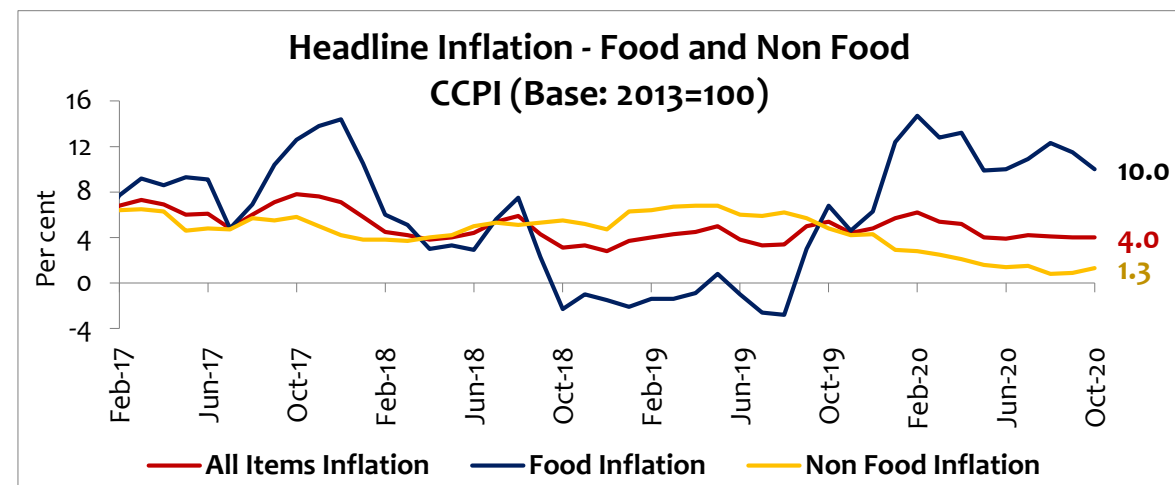
# Inflation remains subdued in the near term, with a likely build up of some pressures over the medium term as aggregate demand and economic growth recovers towards potential levels...

## Headline Inflation (%)

	Dec 18	Oct 19	Dec 19	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sep 20	Oct 20
based on CCPI (2013=100)											
Y-o-Y	2.8	5.4	4.8	5.4	5.2	4.0	3.9	4.2	4.1	4.0	4.0
Annual average	4.3	4.0	4.3	4.7	4.8	4.7	4.7	4.8	4.8	4.7	4.6
based on NCPI (2013=100)											
Y-o-Y	0.4	5.6	6.2	7.0	5.9	5.2	6.3	6.1	6.2	6.4	5.5
Annual average	2.1	2.8	3.5	4.9	5.1	5.2	5.6	5.9	6.1	6.2	6.2

## Core Inflation (%)

	Dec 18	Oct 19	Dec 19	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sep 20	Oct 20
based on CCPI (2013=100)											
Y-o-Y	3.1	5.5	4.8	2.9	3.1	2.9	3.1	3.2	3.2	2.9	3.0
Annual average	3.5	5.3	5.5	4.9	4.7	4.4	4.2	4.0	3.8	3.6	3.4
based on NCPI (2013=100)											
Y-o-Y	3.1	5.6	5.2	3.2	3.2	3.7	4.4	4.5	4.6	4.8	4.5
Annual average	2.4	5.4	5.7	5.2	5.0	4.8	4.6	4.5	4.4	4.3	4.2



Regular quarterly release of medium-term inflation projections will commence in January 2021

# Complementing the concessional loans schemes proposed by the Government in the Budget 2021, a maximum interest rate was introduced on mortgage-backed housing loans obtained by salaried employees from licensed banks...

## Operational guidelines to be issued shortly

- i. Applicable on mortgage-backed housing loans obtained by all salaried employees in confirmed service in the public and private sectors
- ii. At least the first 5 years of the loan tenure to be charged a maximum fixed interest rate of 7% p.a.
- iii. Remaining tenure of the loan to be charged at the monthly AWPR plus a maximum margin of 1 percentage point

- The Monetary Board urged all financial institutions to pass on the benefit of the low interest rate environment expeditiously to their borrowers, in respect of new as well as existing facilities.
- The Board also recognised the need to promote economic sectors with higher growth and earning potential. In this regard, lending targets will be introduced in the near future for selected sectors.

**THANK YOU**

# Q&A Session

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