



Monetary Policy Press Conference
19 January 2021

Review of the Monetary Policy Stance

January 2021

Economic Research Department
Central Bank of Sri Lanka

Decision:

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

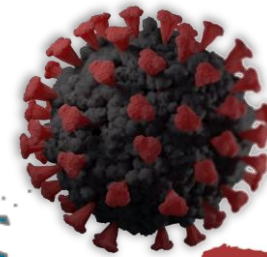
Policy interest rates remain unchanged

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

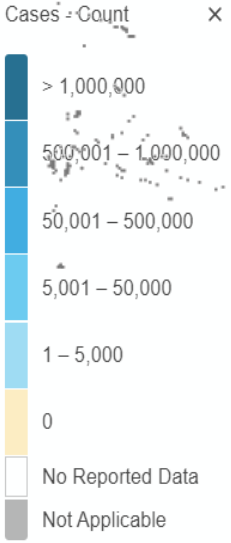
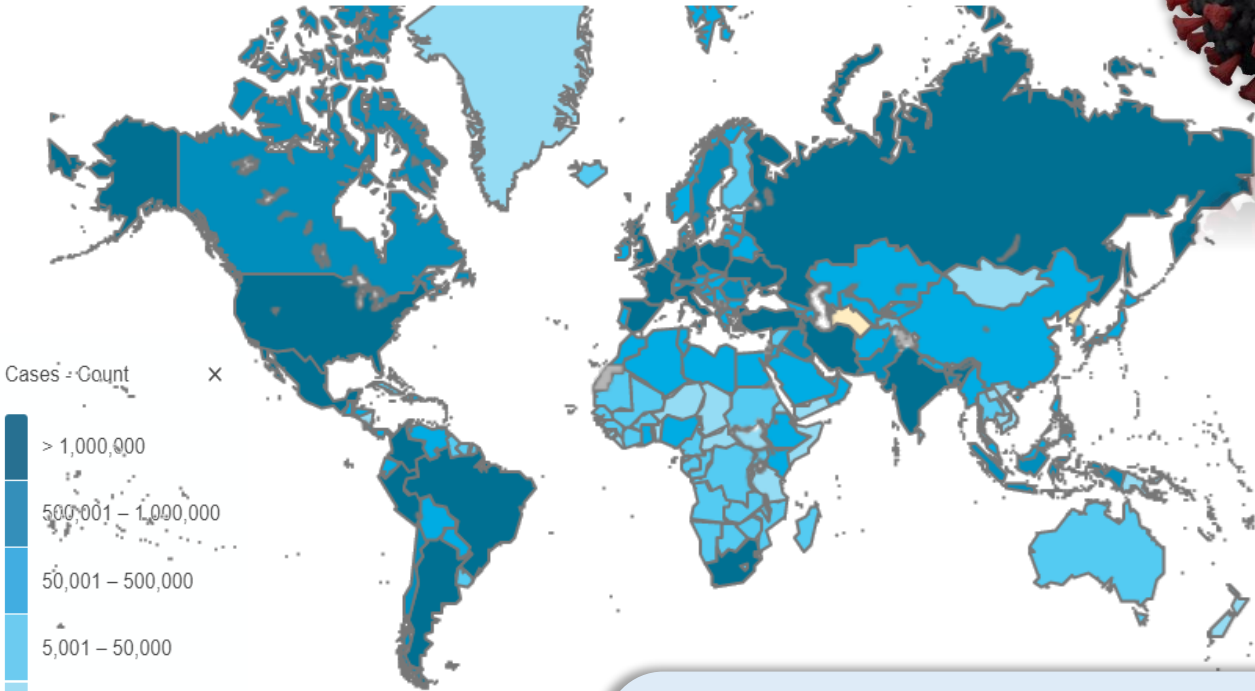
Priority sector lending targets for micro, small and medium sector enterprises (MSMEs) to be introduced, in consultation with the banking community.

The second wave of the COVID-19 pandemic adversely affected the recovery in global economic activity...

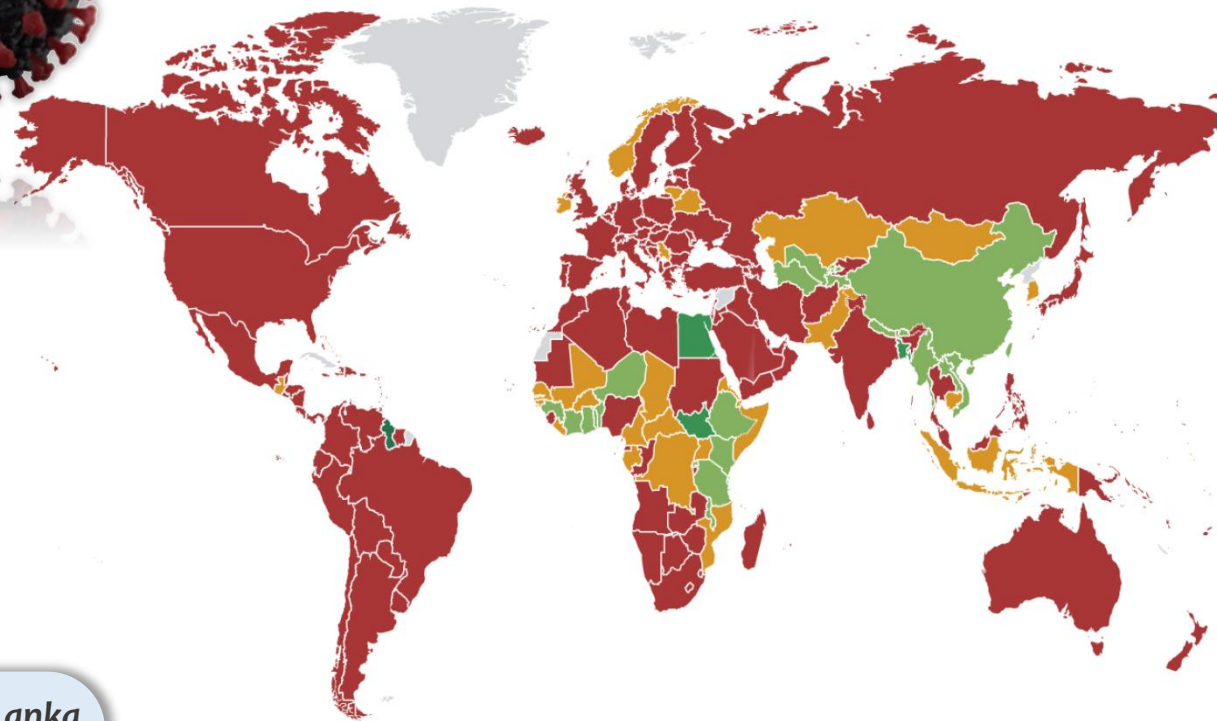
Global Spread of COVID-19



Growth Projections for 2020



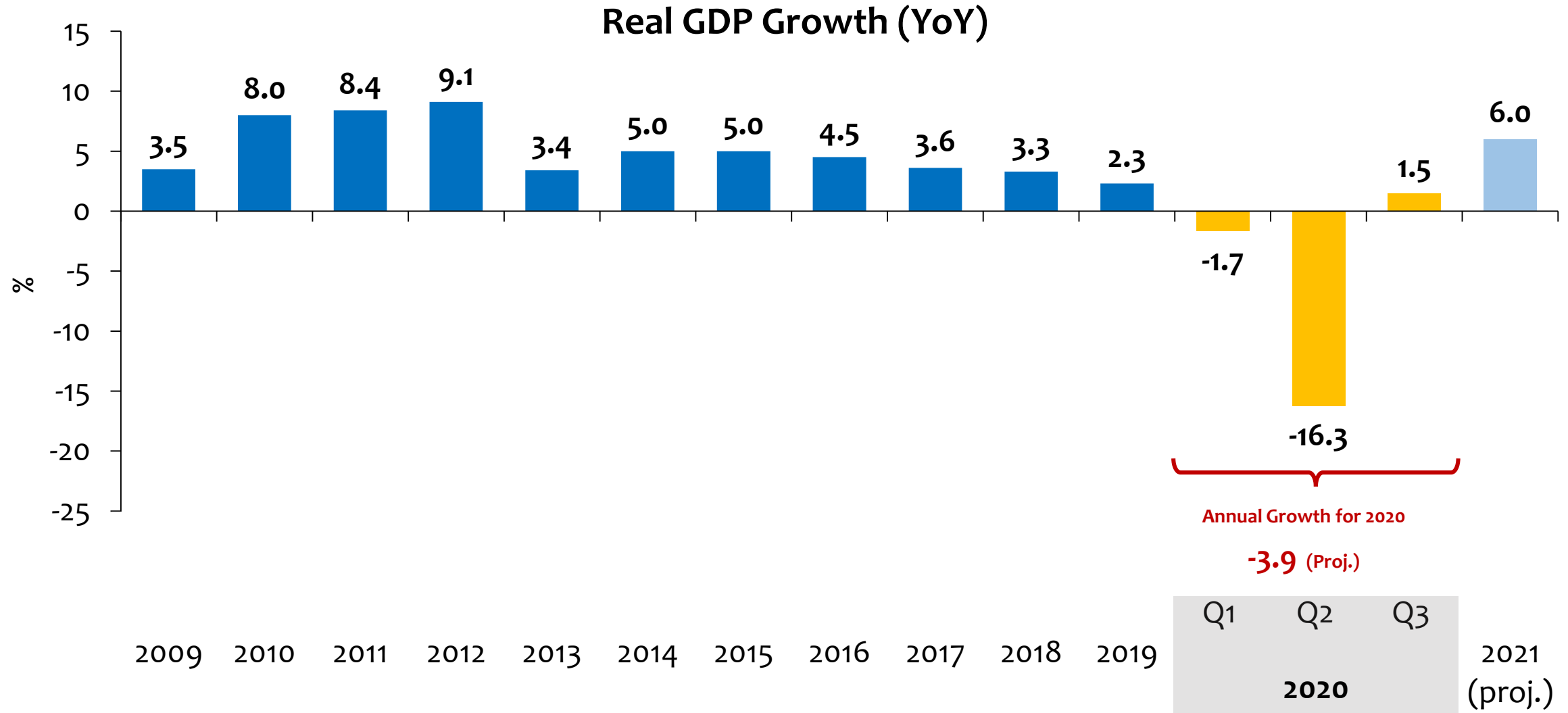
Source: WHO



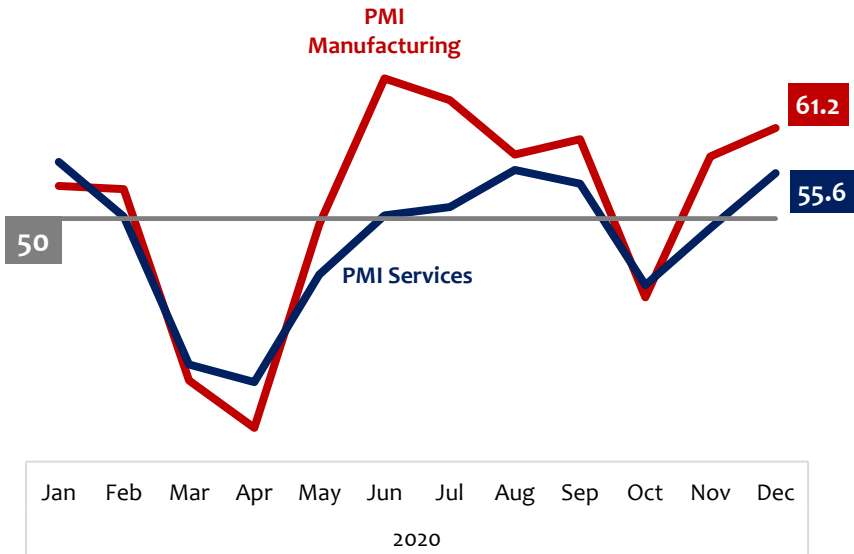
Source: IMF WEO Oct 2020

	Global	Sri Lanka
Cases	95,517,587	53,750
Deaths	2,039,056	270
	Source: JHU (19-01-2021: 06.51 am)	Source: HPB (19-01-2021: 06.33 am)

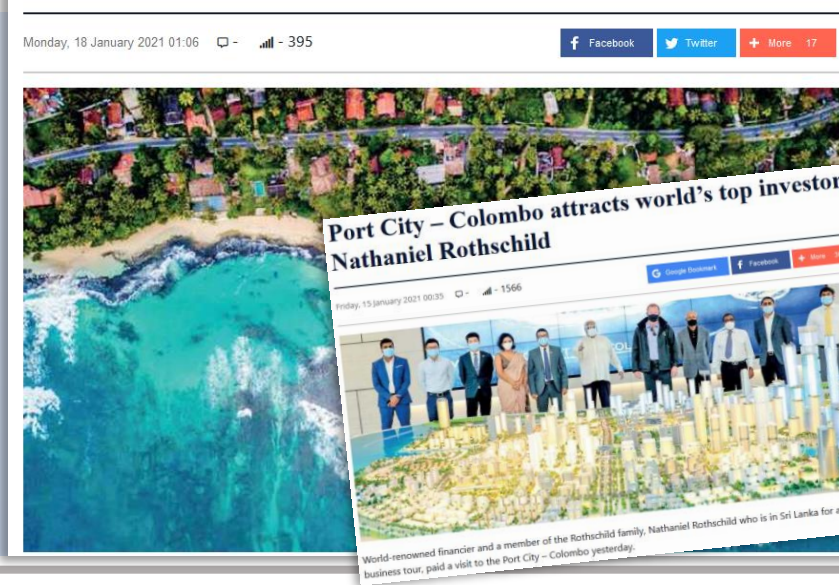
The COVID-19 pandemic has weighed down Sri Lanka's growth prospects...



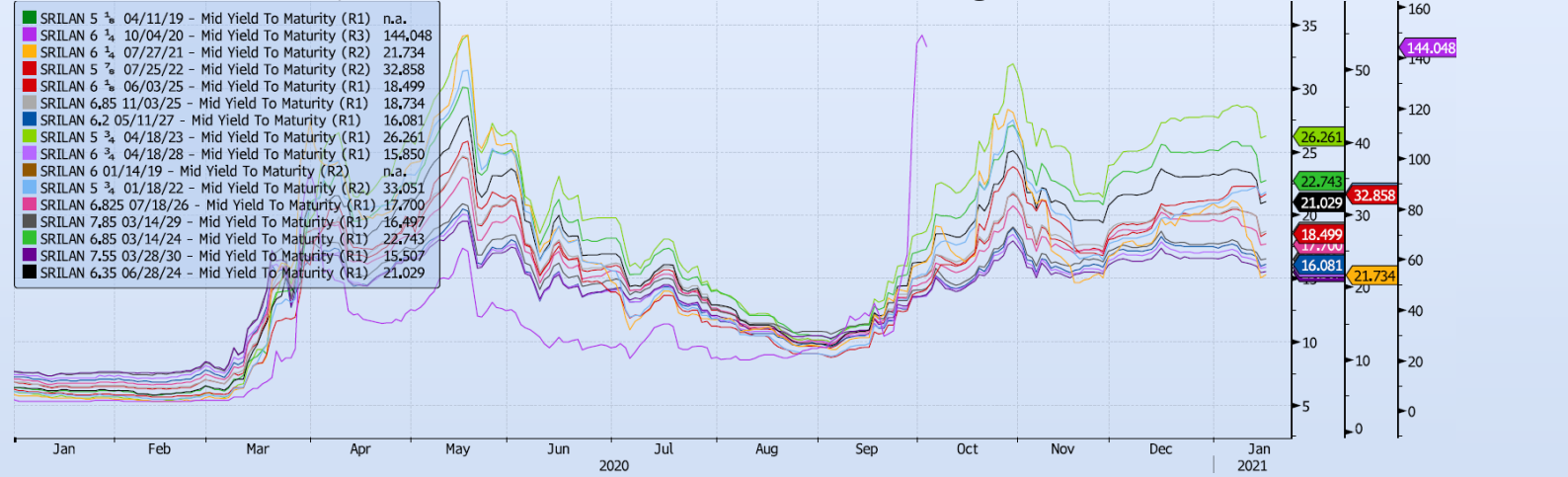
Positive sentiments continue...



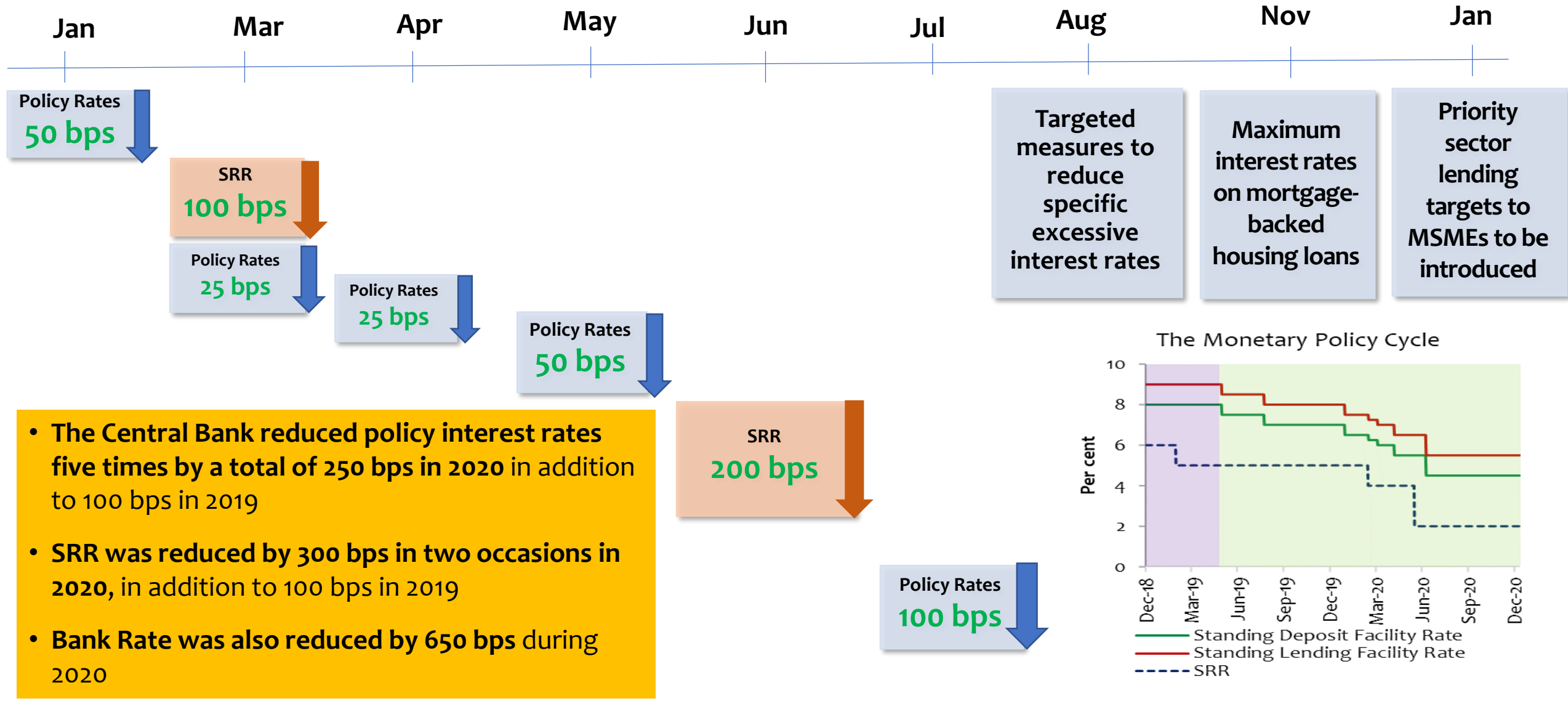
Take-off Thursday



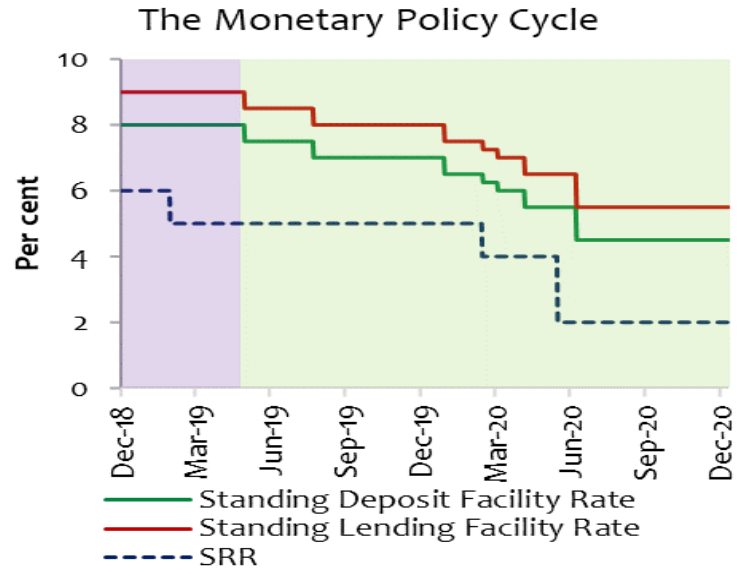
Secondary Market Yields on International Sovereign Bonds



Given subdued levels of inflation, the Central Bank has conducted monetary policy with a focus on supporting economic recovery...

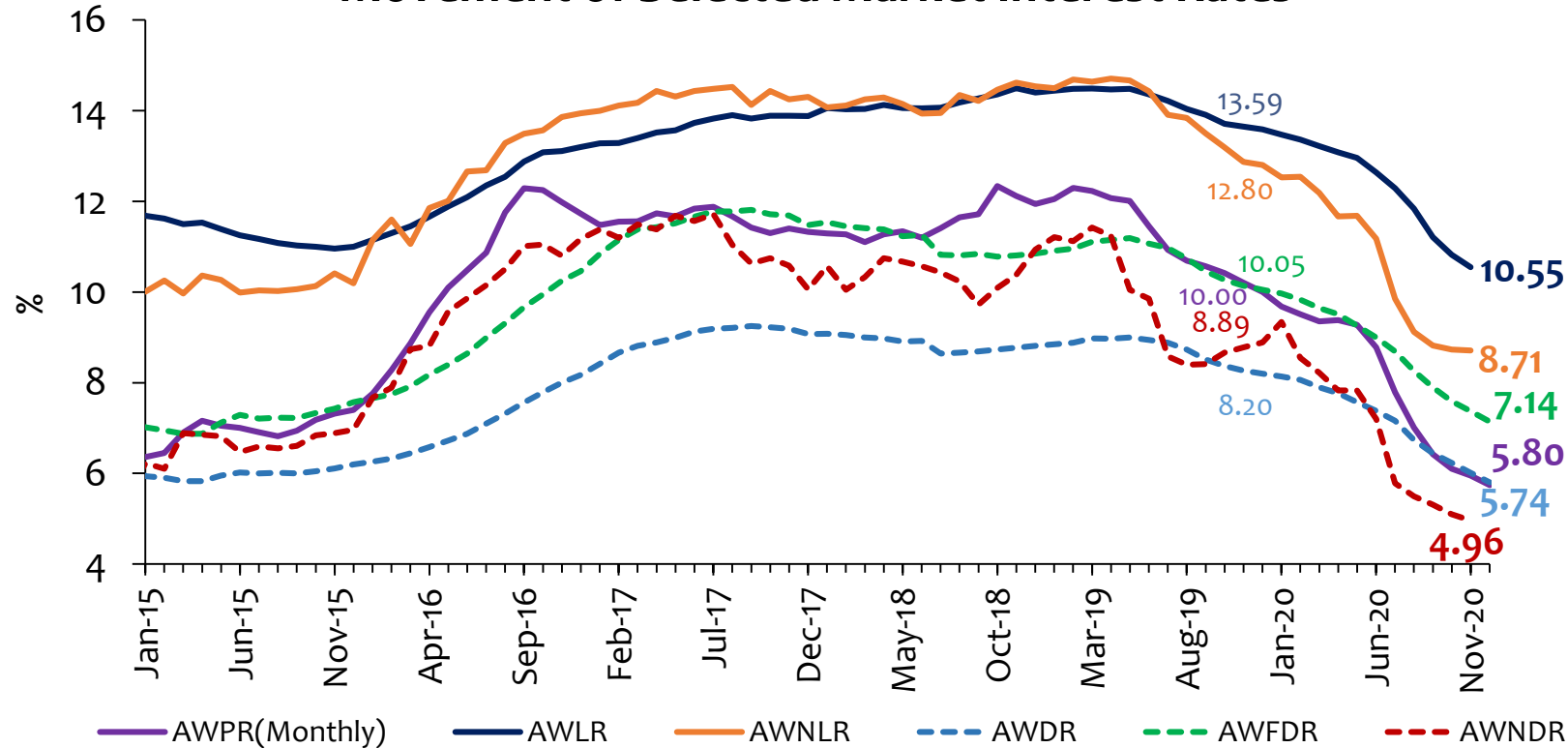


- The Central Bank reduced policy interest rates five times by a total of 250 bps in 2020 in addition to 100 bps in 2019
- SRR was reduced by 300 bps in two occasions in 2020, in addition to 100 bps in 2019
- Bank Rate was also reduced by 650 bps during 2020



Reflecting the transmission of monetary policy easing measures, market interest rates continued to decline notably during 2020 and most were at single digit levels...

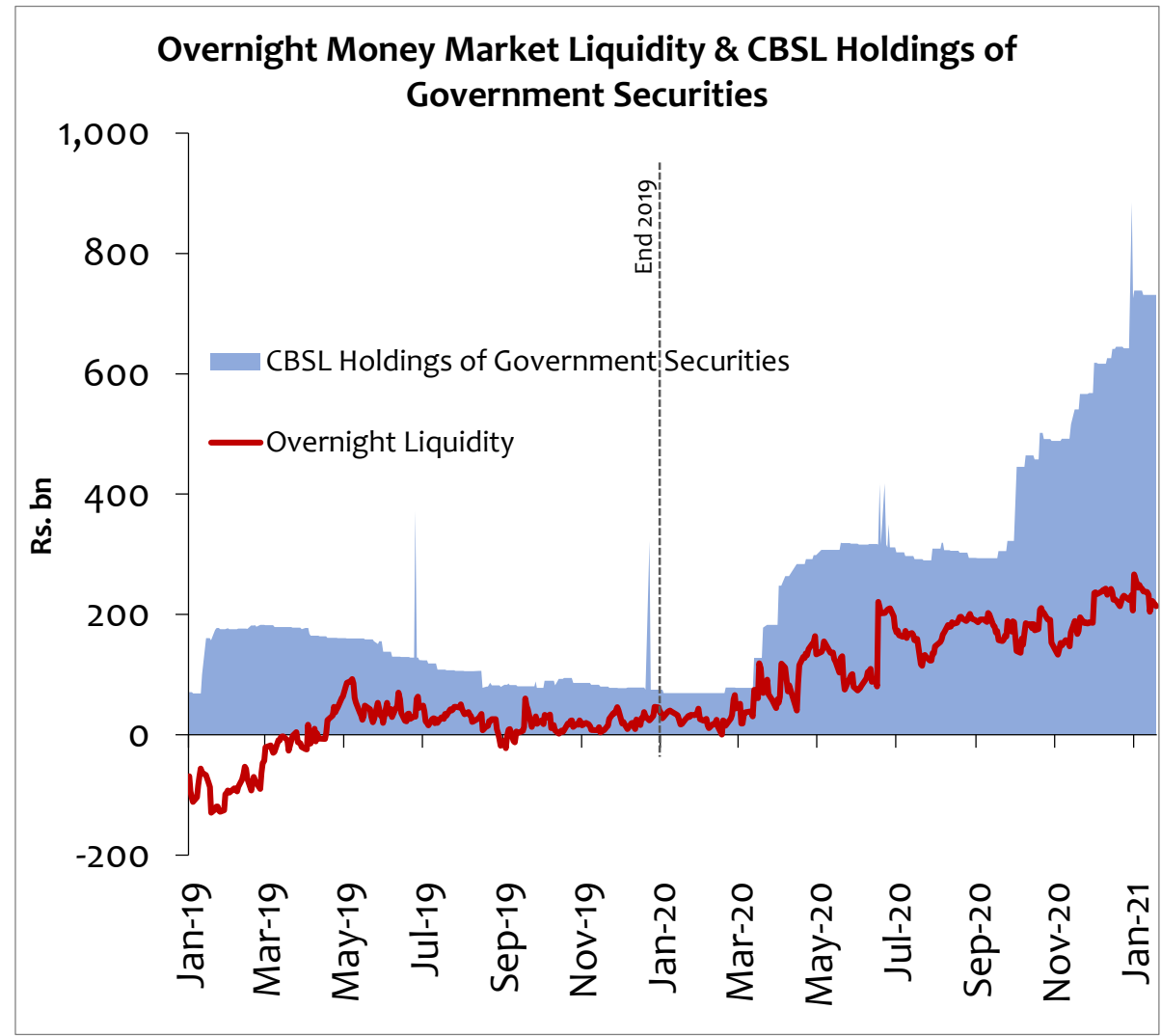
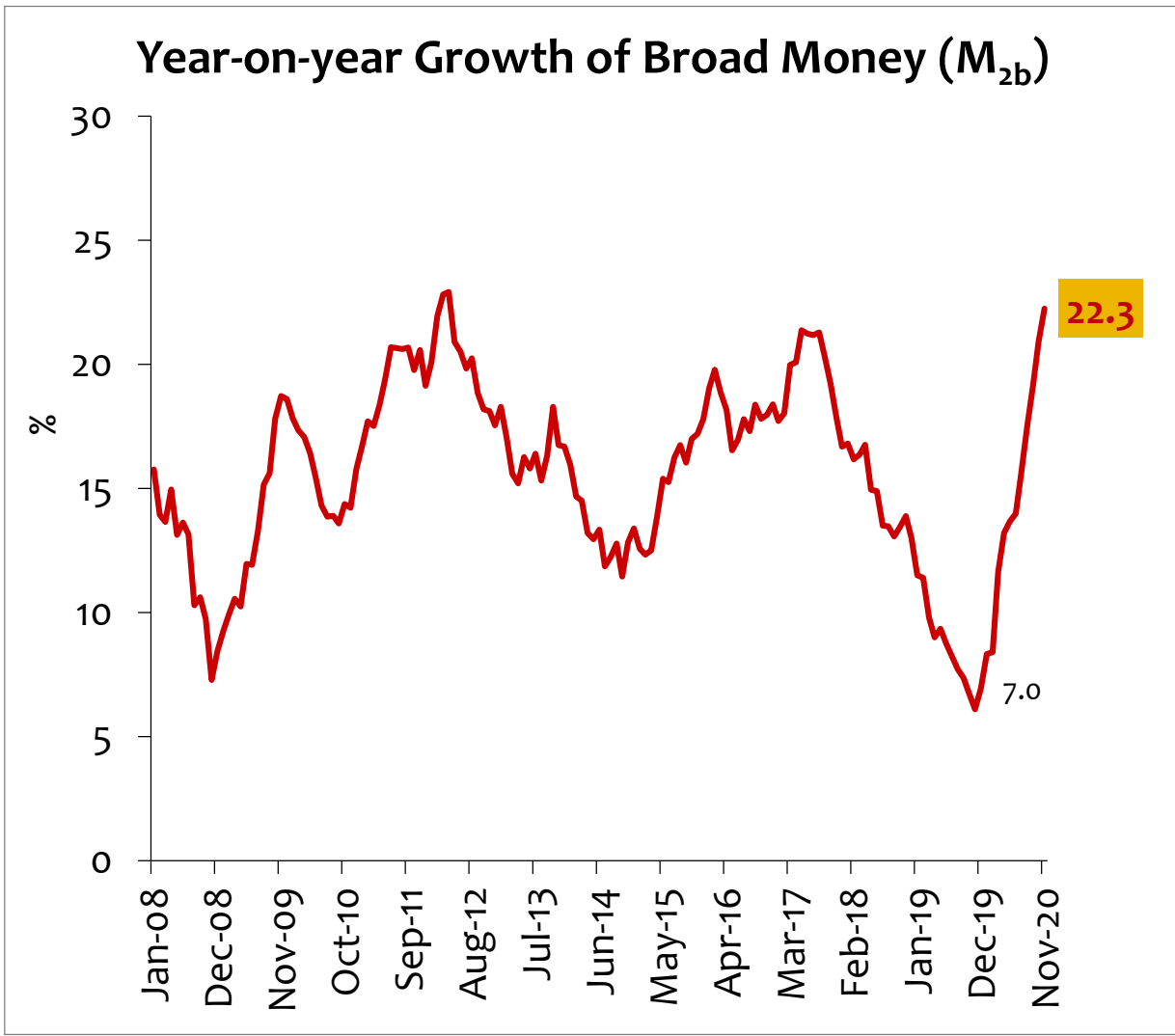
Movement of Selected Market Interest Rates



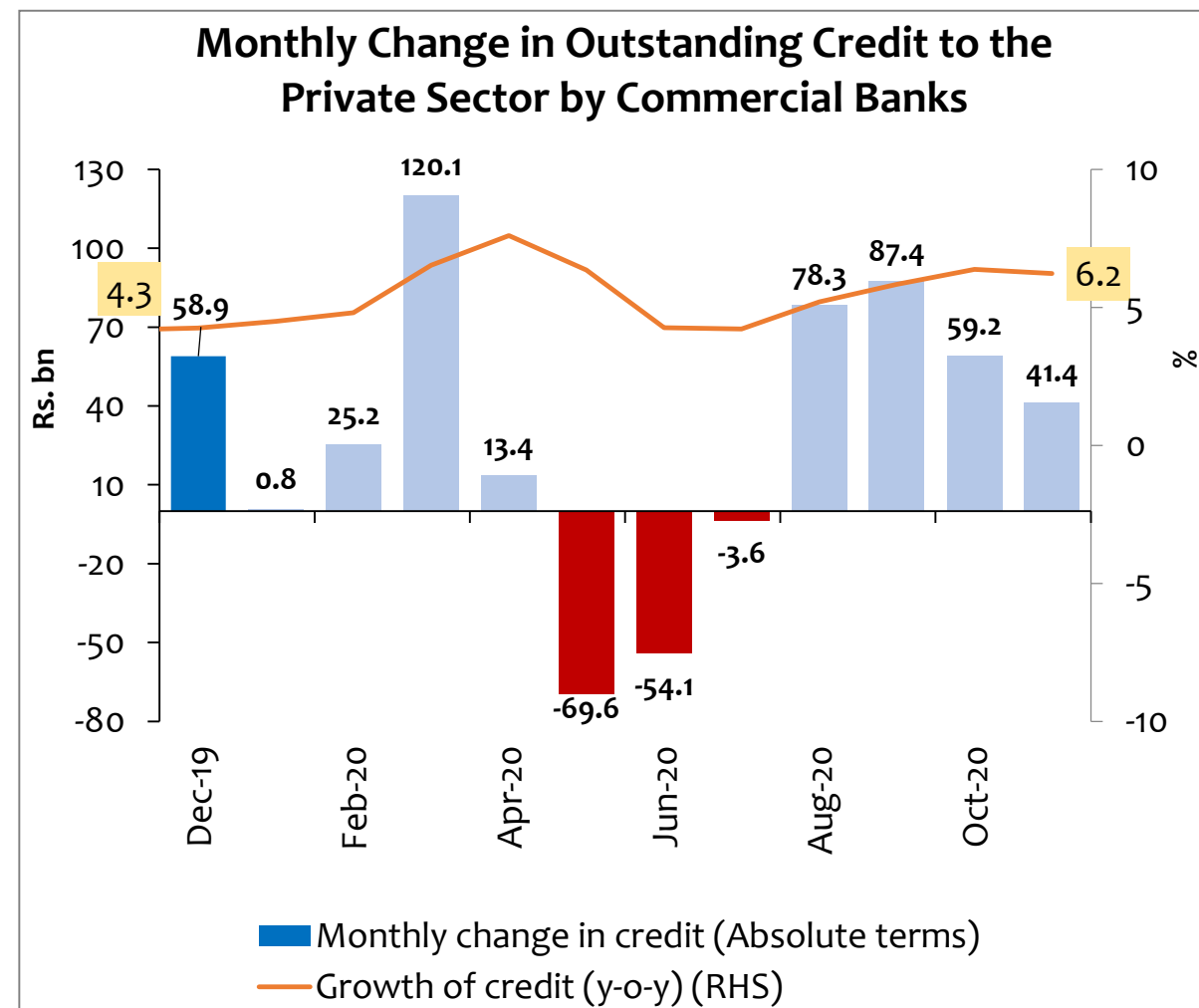
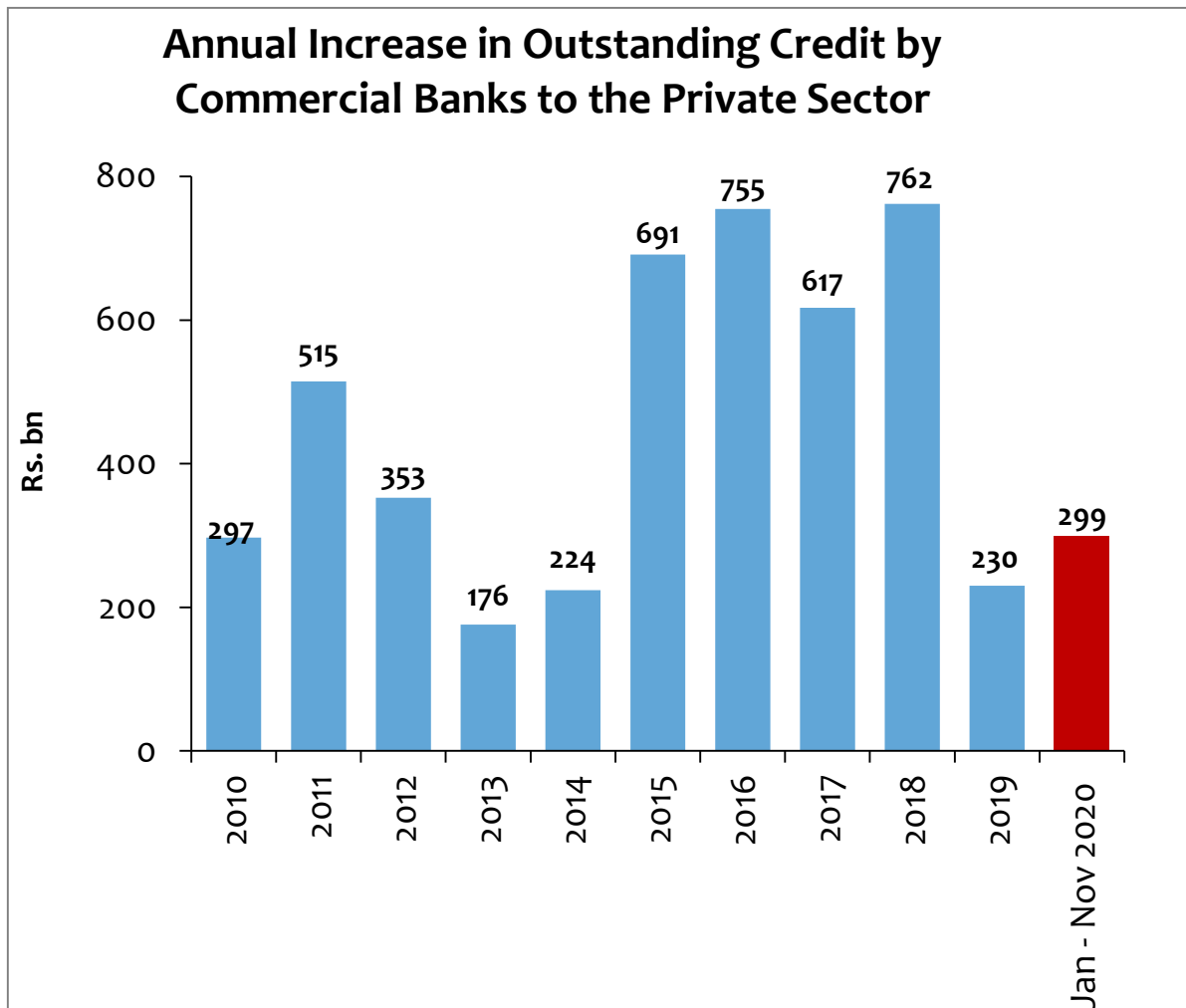
The continuation of a single digit interest rate structure would enable the economy to reap benefits of maintaining inflation at single digits for more than a decade...

Adjustments in Interest Rates		
Interest Rate	Latest Available	From end 2019 to Latest
	%	bps Change
AWCMR	4.55	-290
91-day T-bill	4.70	-281
182-day T-bill	4.78	-324
364-day T-bill	5.02	-343
Weekly AWPR	5.88	-386
Monthly AWPR	5.74	-426
AWLR	10.55	-304
AWNLR	8.71	-409
AWDR	5.80	-240
AWFDR	7.14	-291
AWNDR	4.96	-393
AWNFDR	5.07	-410

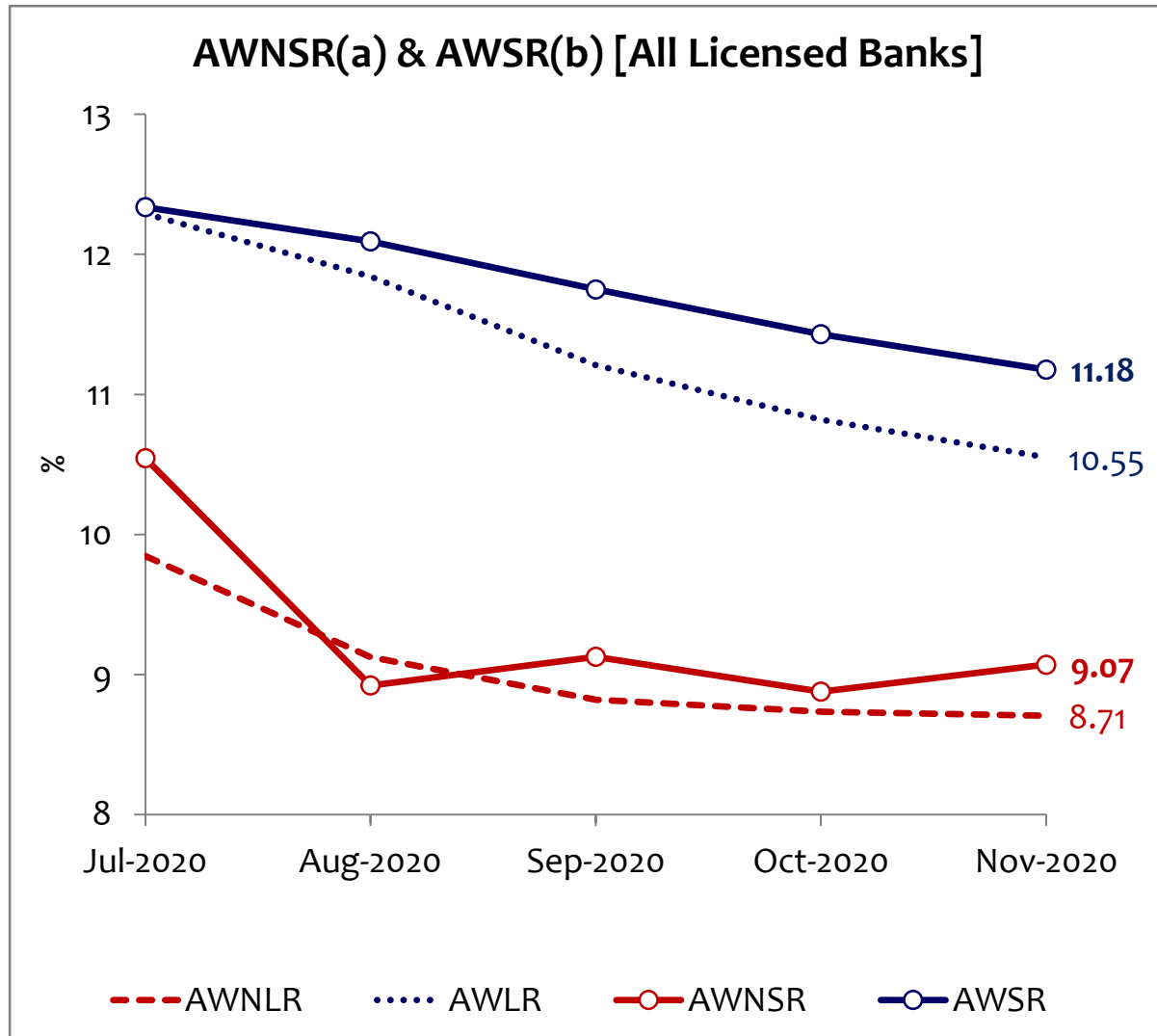
Driven by domestic credit, money supply growth accelerated during the latter part of 2020...



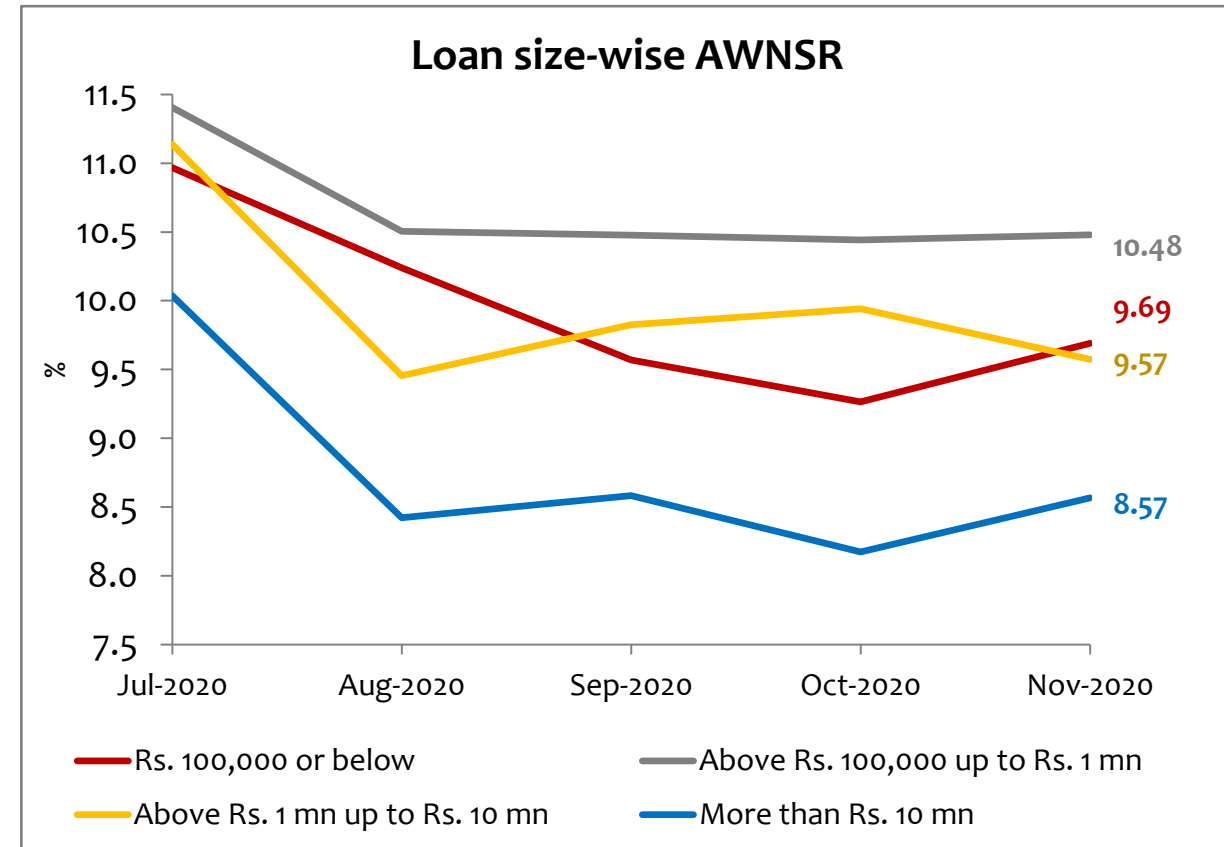
Supported by the policy easing measures adopted by the Central Bank in 2020, credit extended to the private sector started to pickup gradually...



Average rates on SME loans broadly follow the trends of overall average rates...



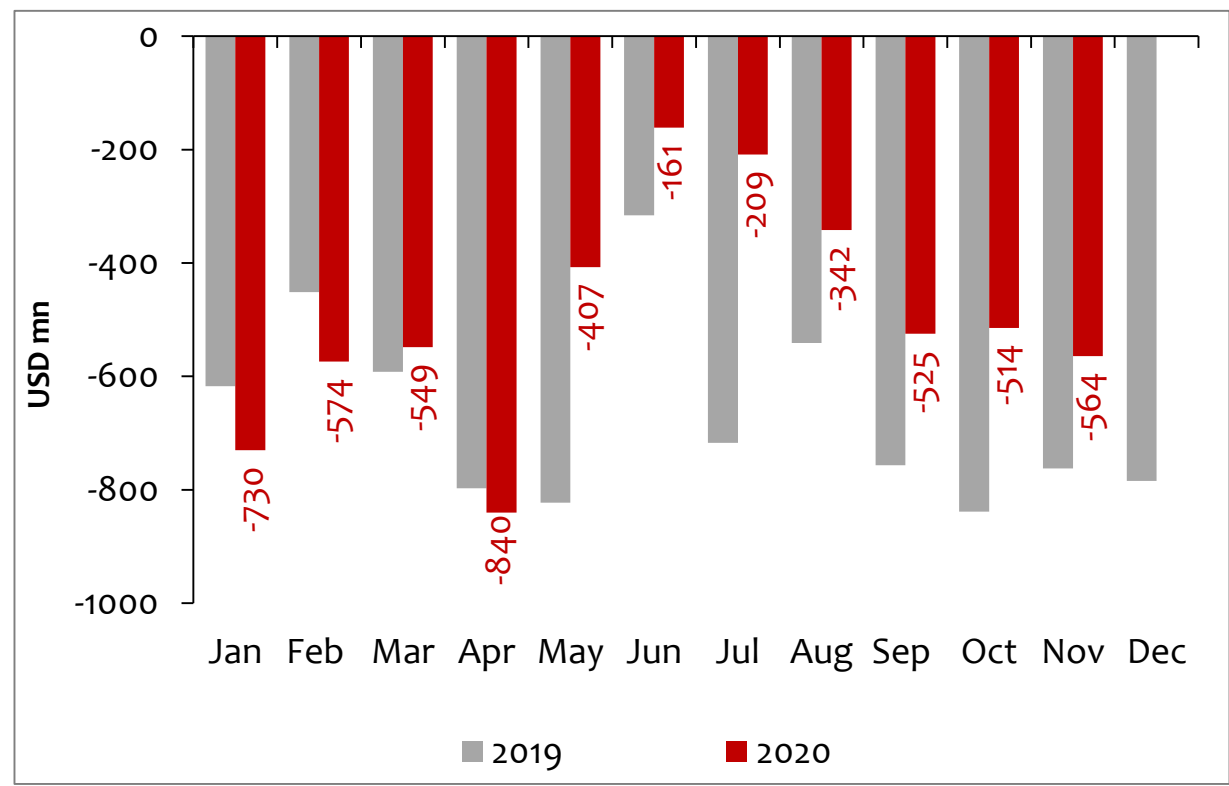
(a) Average Weighted New SME Loan Rate, (b) Average Weighted SME Loan Rate



The rates on small new loans to SMEs have declined, despite being relatively higher than large loans...

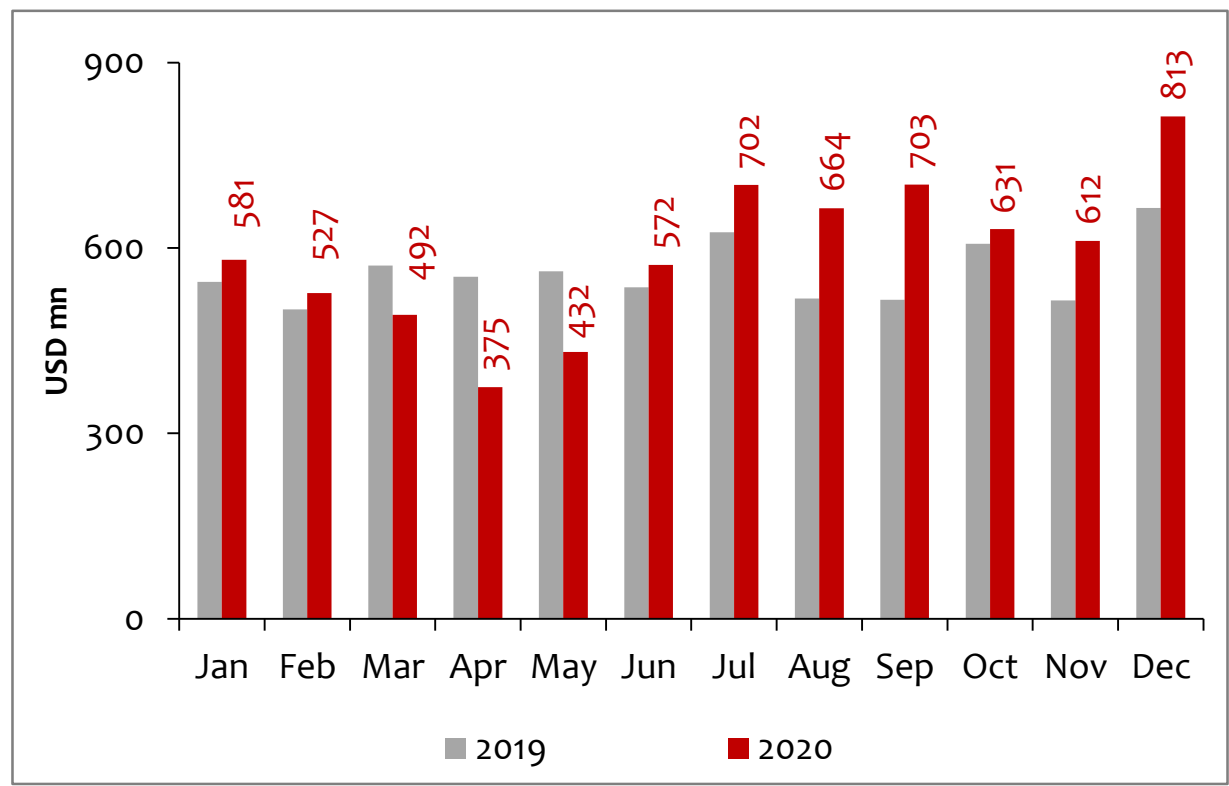
Trade deficit narrowed in 2020 with import expenditure declining by a higher amount than the decline in earnings from exports, while worker's remittances increased steadily recording the highest ever monthly inflow in December 2020...

Trade deficit (y-o-y)



2020 (Jan – Nov): USD 5.4 bn
2019 (Jan – Nov): USD 7.2 bn

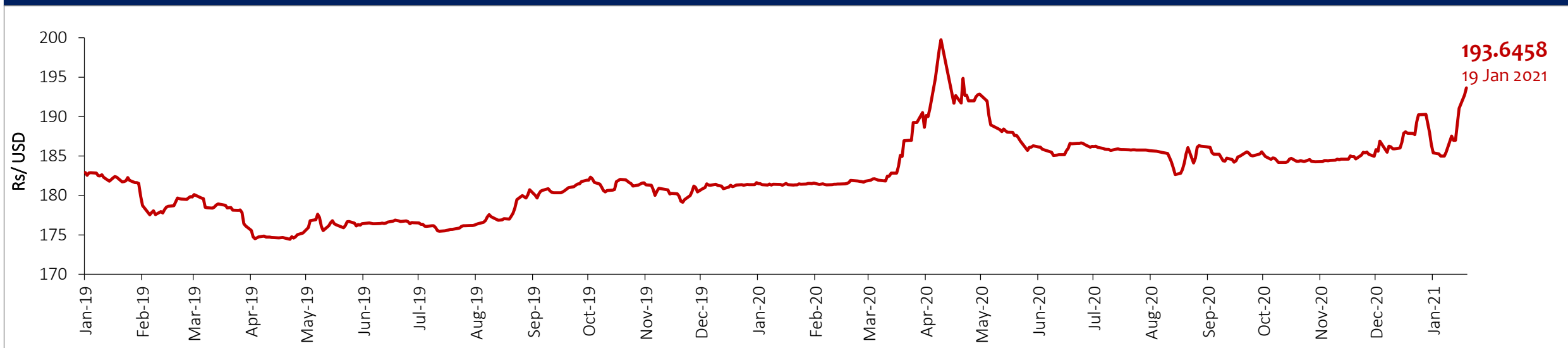
Workers' remittances



2020 : USD 7.1 bn (5.8%, y-o-y)
2019 : USD 6.7 bn (-4.3%, y-o-y)

The Sri Lankan rupee experienced some notable pressure recently...

Movement of Sri Lankan Rupee against the USD (up to 19 January 2021)

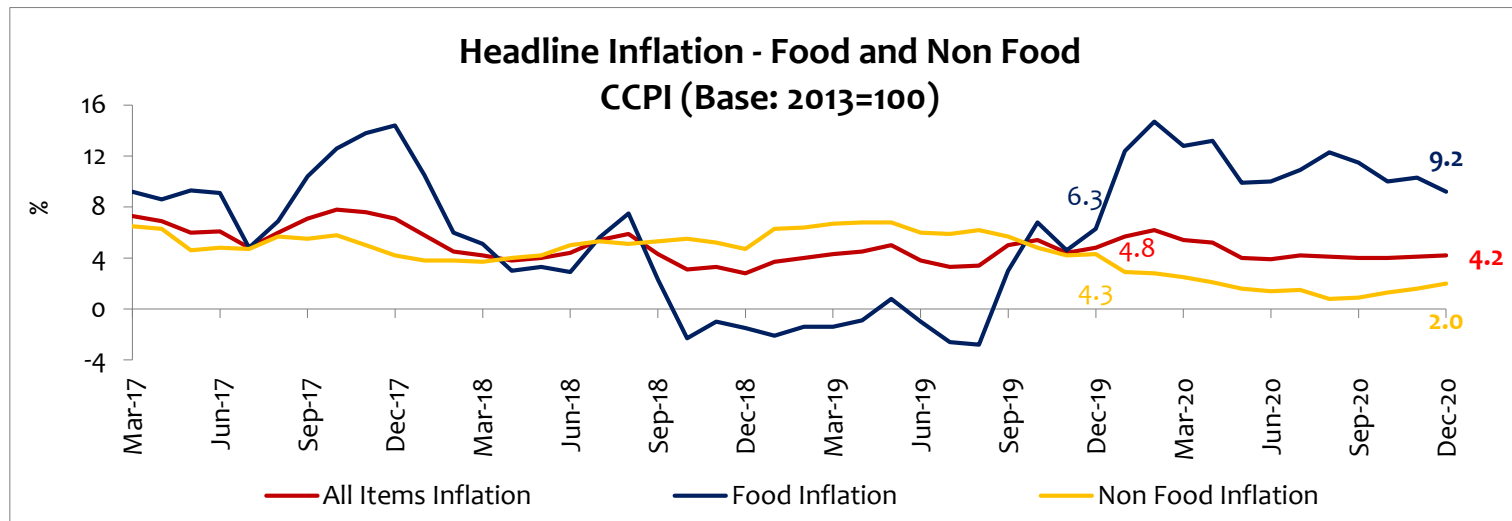


LKR Movement Against Other Currencies

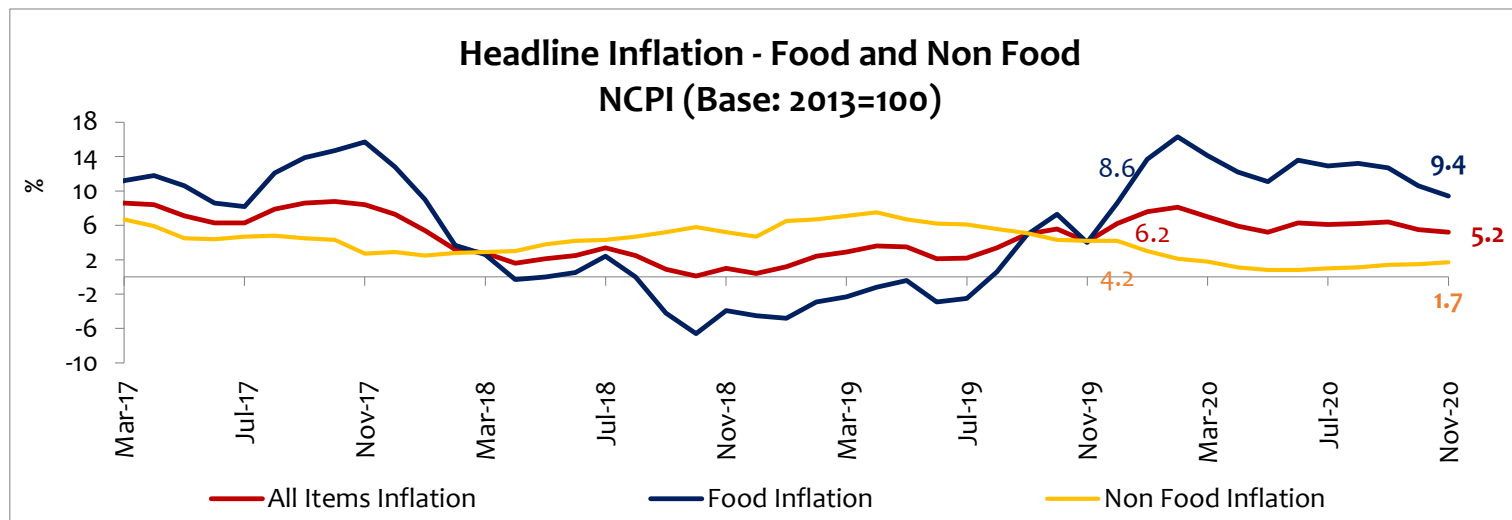
Currency	2019 App(+)/Dep (-)	2020 App(+)/Dep (-)	up to 19 Jan 2021 App(+)/Dep(-)
US dollar	0.6	-2.6 %	-3.7 %
Pound sterling	-2.8	-6.2 %	-3.5 %
Euro	2.6	-11.2 %	-2.1 %
Japanese yen	-1.0	-7.5 %	-3.0 %
Indian rupee	2.6	0.0 %	-3.8 %

- Gross official reserves were estimated at USD 5.7 bn at end 2020, compared to USD 7.6 bn at end 2019
- Central Bank net purchases in 2020 was USD 282.5 mn

Inflation to remain at desired levels...



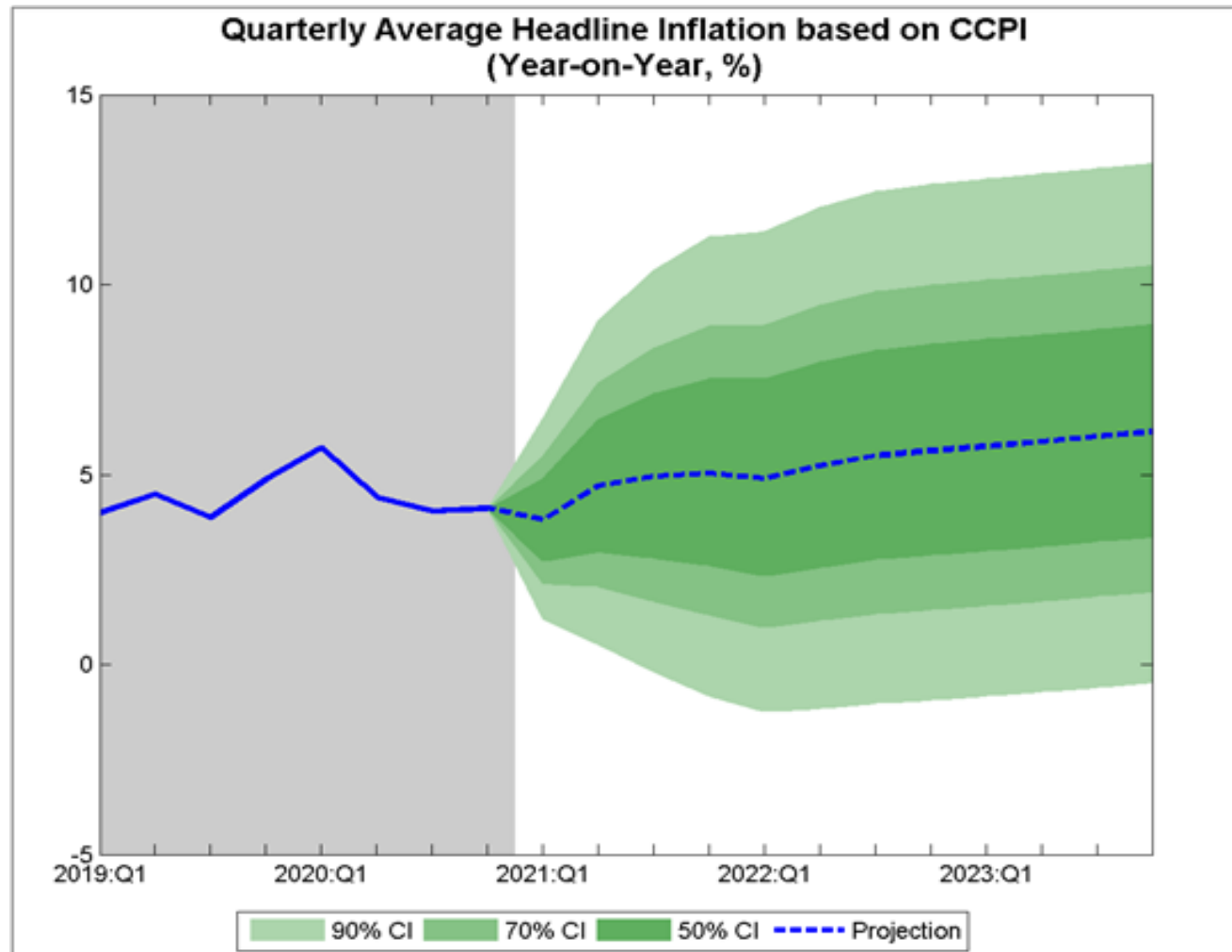
- CCPI based food inflation decelerated to 9.2% (y-o-y) in December 2020 compared to 10.3% in November 2020
- CCPI based non-food inflation accelerated to 2.0% (y-o-y) in December 2020 from 1.6% in November 2020



- NCPI based food inflation decelerated to 9.4% (y-o-y) in November 2020 compared to 10.6% in October 2020
- NCPI based non-food inflation accelerated to 1.7% (y-o-y) in November 2020 from 1.5% in October 2020

As the economy is performing below its potential, demand driven inflationary pressures are not expected in the near term

Inflation will be maintained within the 4-6% desired range...



Note: A forecast is neither a promise nor a commitment

The fan chart illustrates the uncertainty surrounding the baseline projection path using confidence bands of gradually fading colours. The projection reflects the available data and assumptions and judgments made at the January 2021 forecast round.

The confidence intervals (CI) shown on the chart indicate the ranges of values within which inflation may fluctuate over the medium term. Specially, the thick green shaded area represents 50% confidence interval, implying there is a 50% probability that the actual inflation outcome will be within this interval. The confidence bands show the increasing uncertainty in forecasting inflation over a longer horizon.

Monetary Policy Announcements in 2021

1	19 January, Tuesday	5	08 July, Thursday
2	04 March, Thursday	6	19 August, Thursday
3	08 April, Thursday	7	14 October, Thursday
4	20 May, Thursday	8	25 November, Thursday

Thank You