



# Review of the Monetary Policy Stance

March 2021

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Economic Research Department  
Central Bank of Sri Lanka

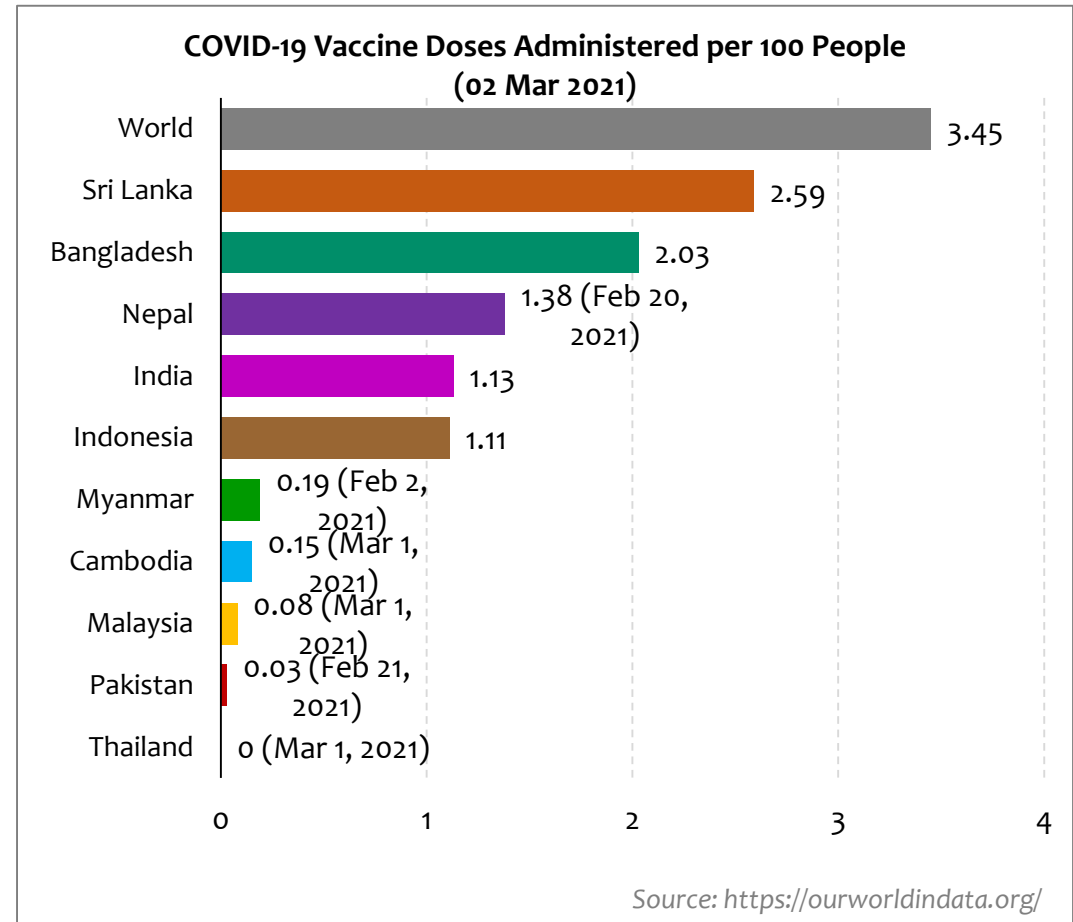
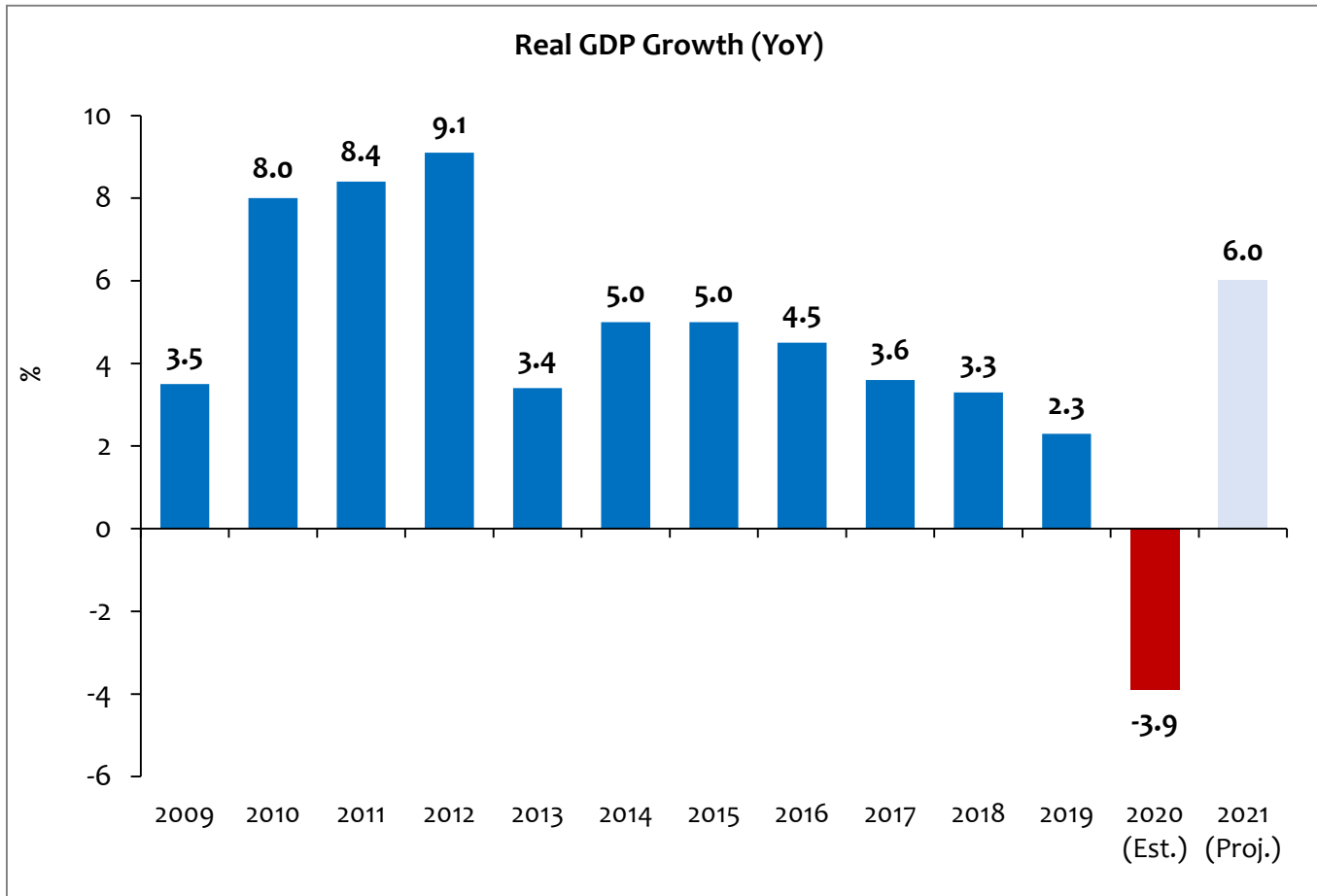
## **Decision:**

**The Central Bank of Sri Lanka reaffirms its commitment to continue the current 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> |

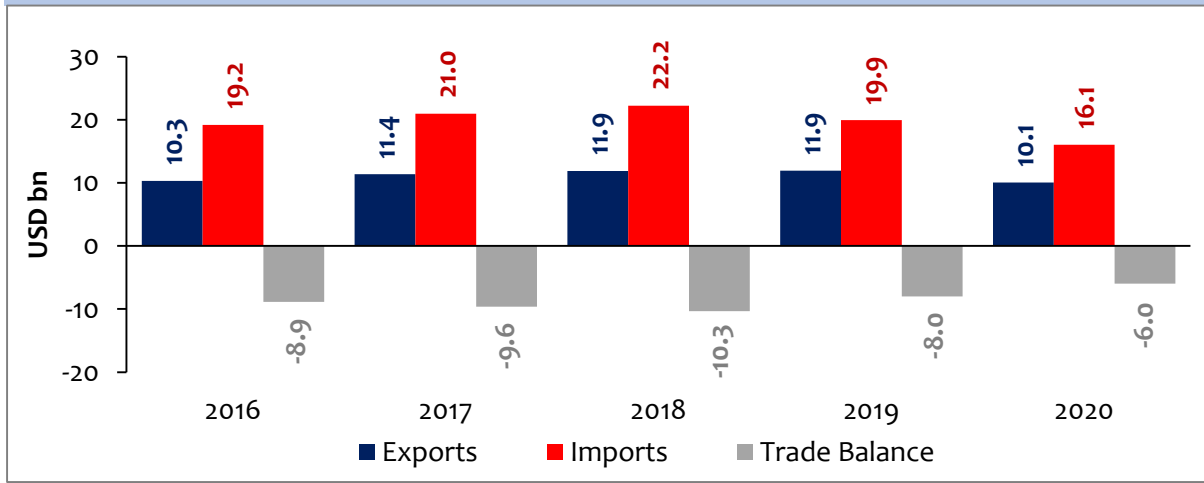
# The Sri Lankan economy is expected to make a notable recovery in 2021 supported by policy stimulus and improving business sentiments...



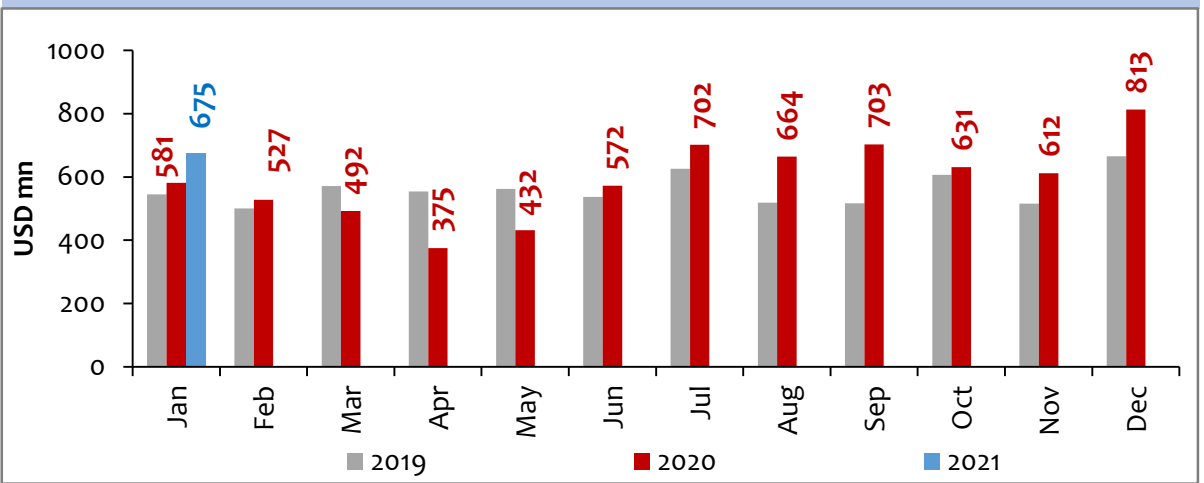
**Positive sentiments fuelled by the COVID-19 vaccination drive in the country and the impact of growth promoting policies are expected to support the economic revival over the short to medium term**

# The external sector performance is being closely monitored by the Central Bank...

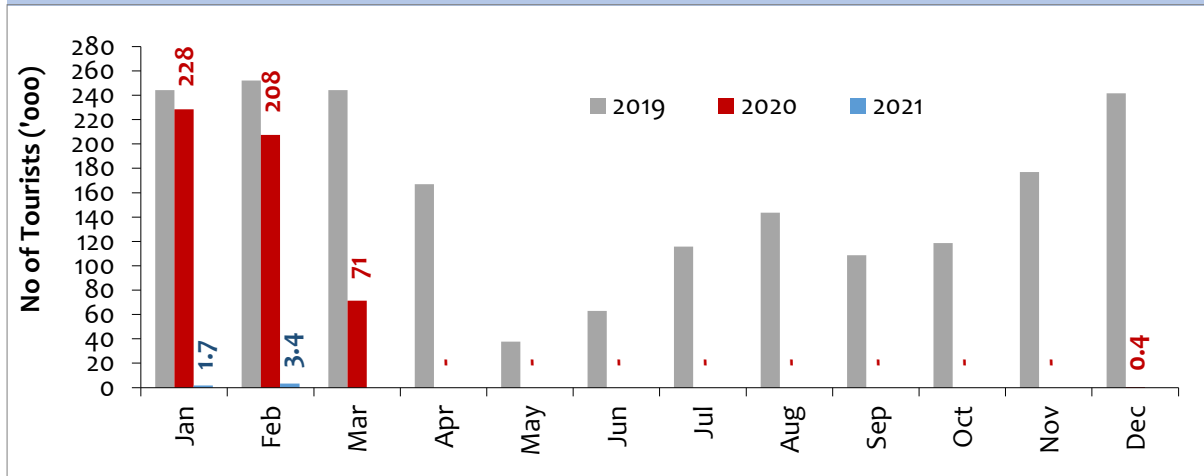
### Exports, Imports & Trade Balance



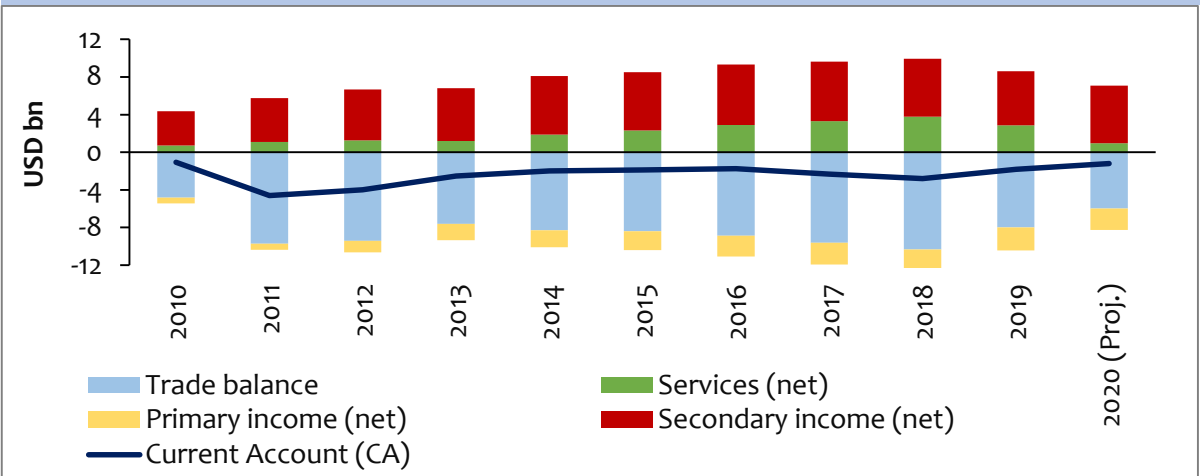
### Workers' Remittances



### Tourist Arrivals

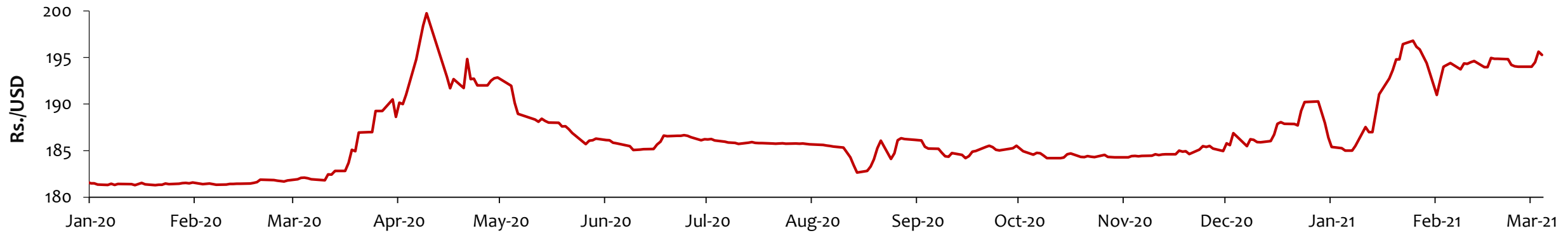


### Current Account



# The exchange rate has recorded intermittent volatility, and the Central Bank has taken steps to dampen excessive speculation causing such volatility in the foreign exchange market...

Movement of Sri Lankan Rupee against the USD (up to 04 March 2021)



- Gross official reserves were estimated at USD 4.8 bn, by end January 2021

Suspended licensed banks from purchasing Sri Lanka ISBs from the secondary market

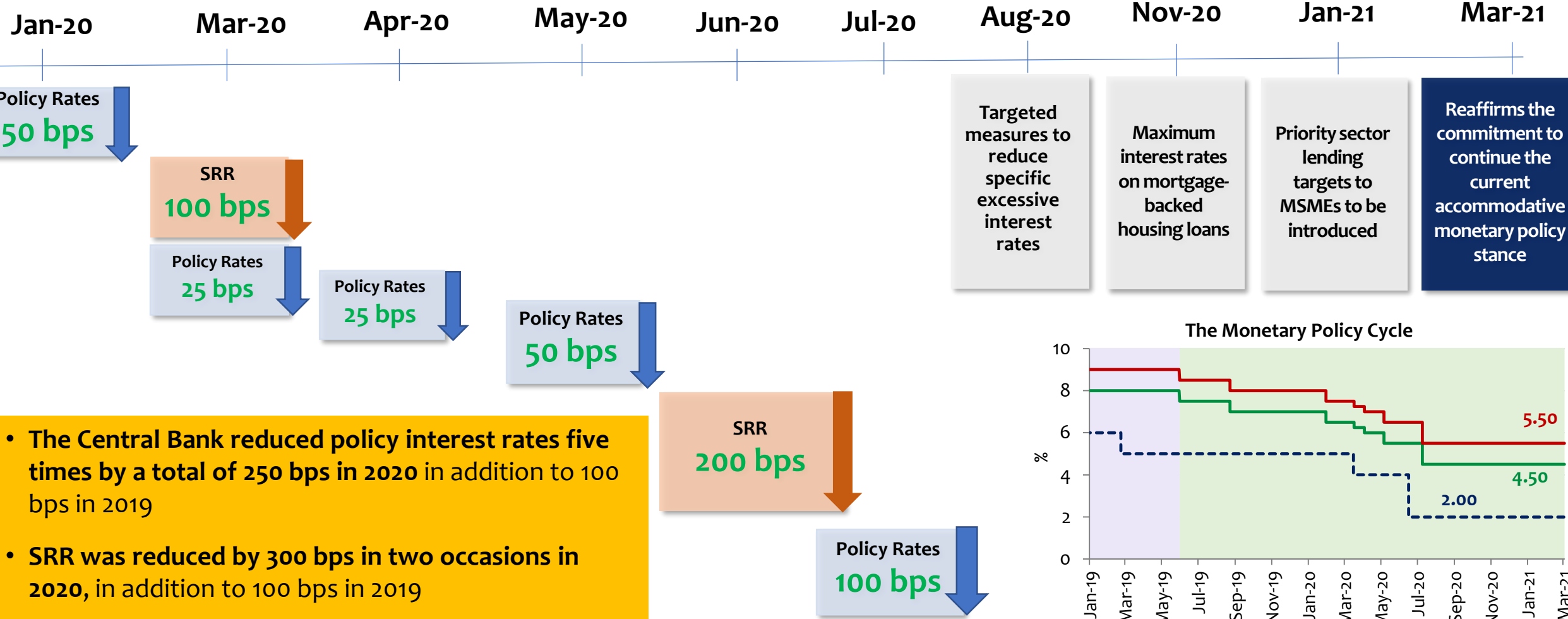
Informed licensed banks to refrain from entering into customer forward contracts of foreign exchange

Ordered banks to sell 10% of workers' remittances to the CBSL under the incentive scheme of paying additional Rs. 2 per each USD converted from workers' remittances

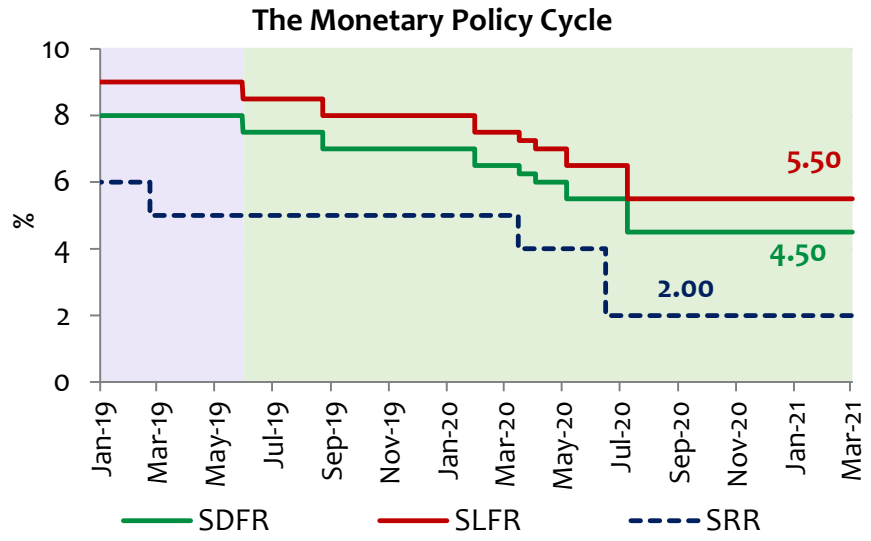
Exporters are required to repatriate export proceeds within 180 days of shipment and convert 25% of their forex earnings into rupees. Licensed banks are required to sell to the Central Bank 50% of export proceeds converted into rupees (i.e., 12.5% of total foreign exchange earnings)

- Increased non-debt creating foreign exchange inflows are expected, supported by the measures introduced by the Government and the Central Bank

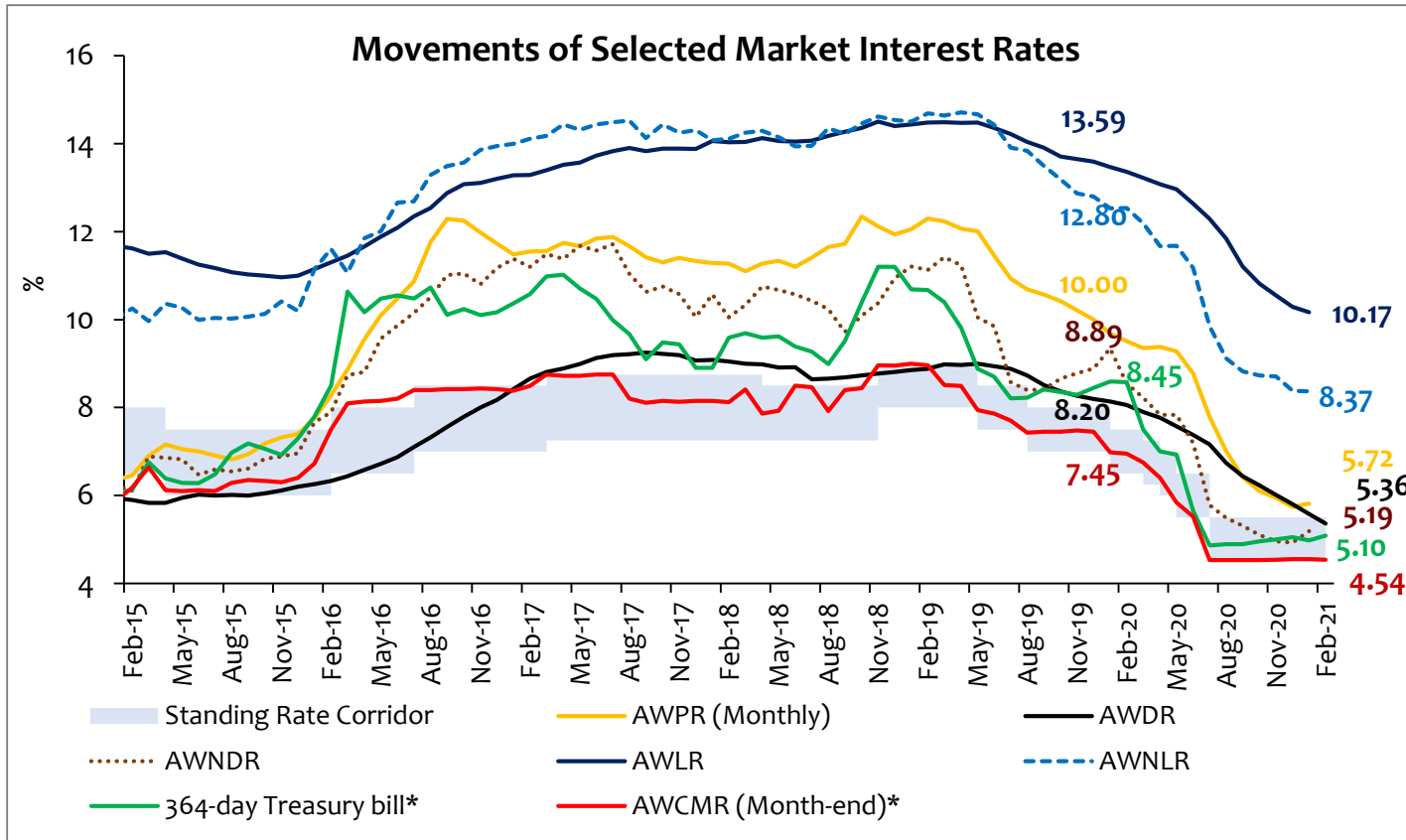
# Given subdued levels of inflation and inflation expectations, the Central Bank has conducted monetary policy with a focus on supporting the economic recovery...



- 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



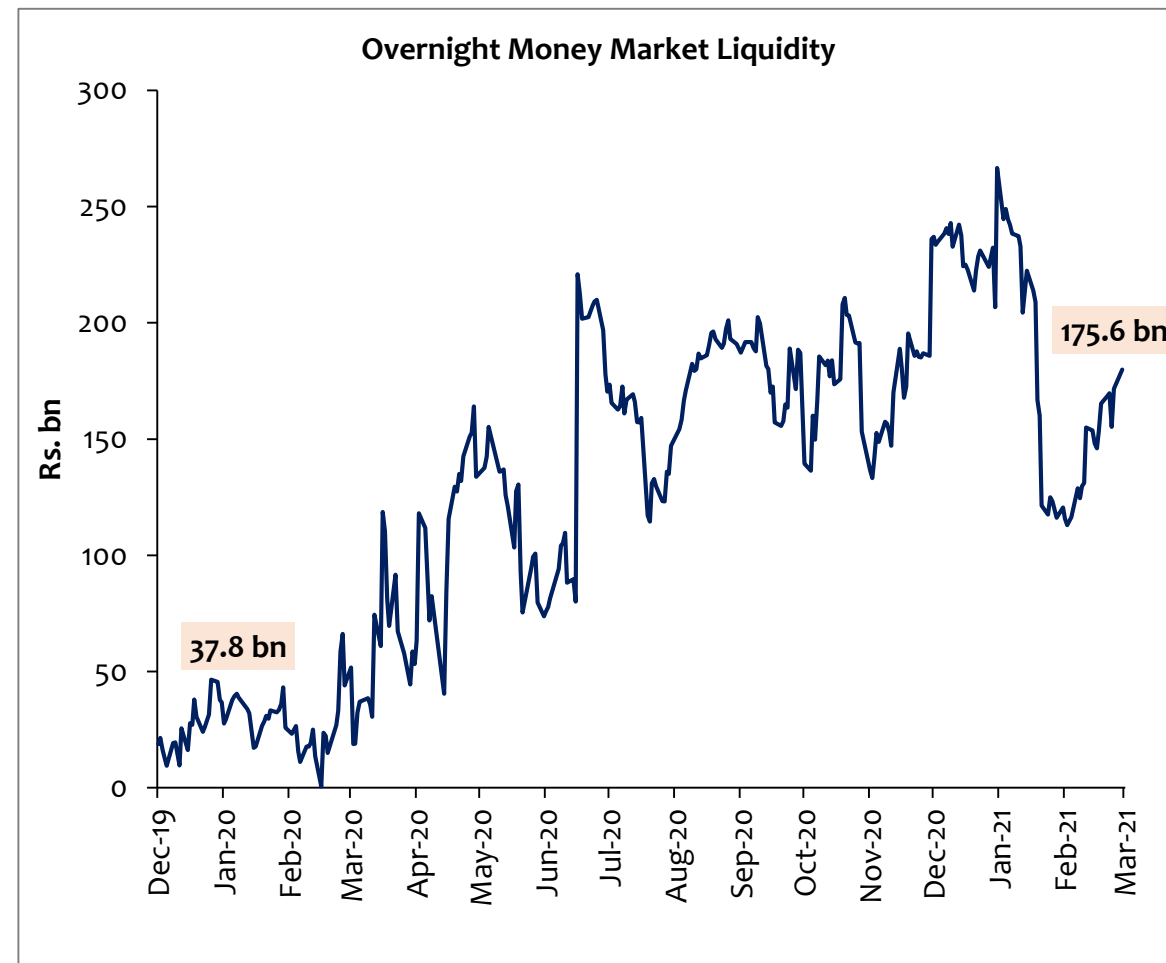
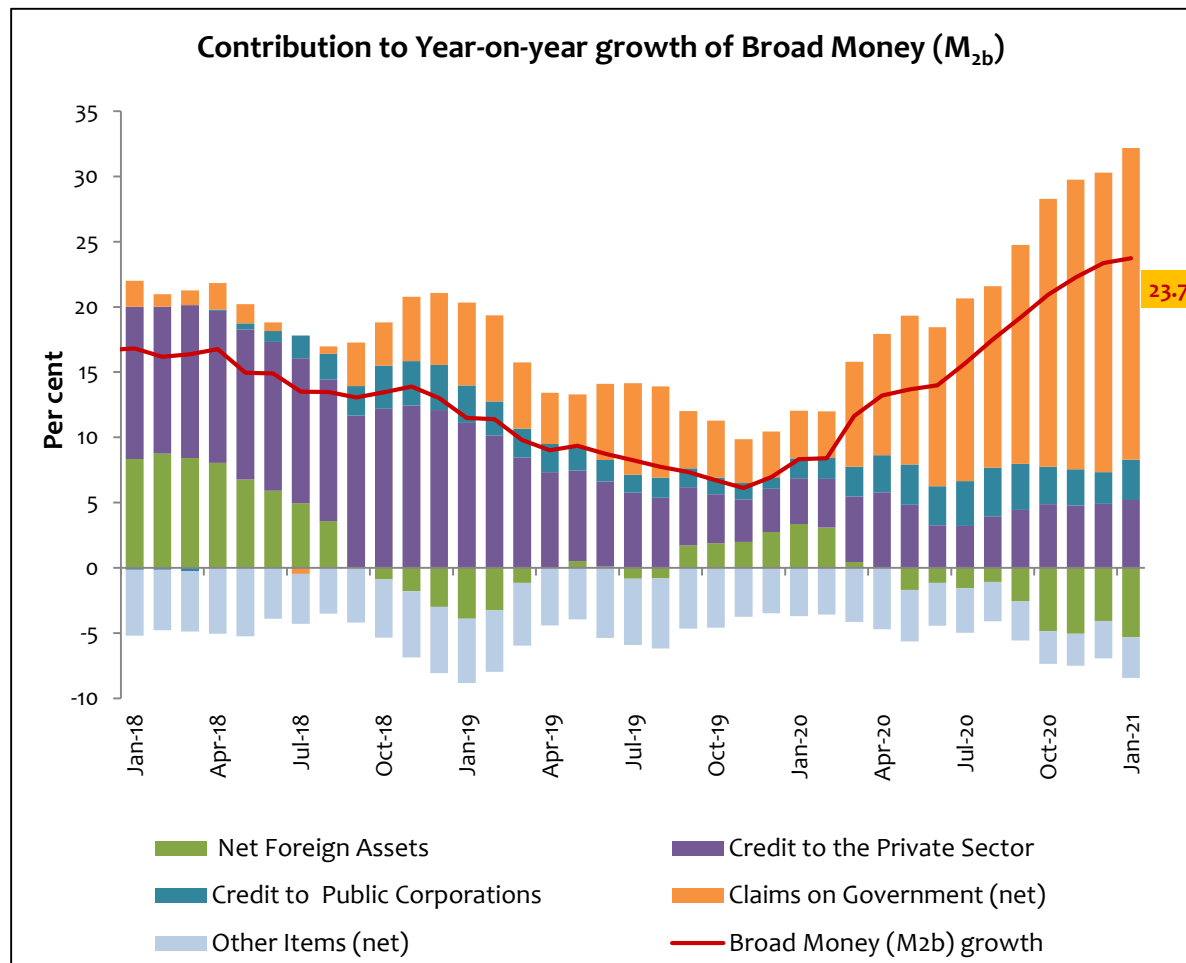
# Monetary policy easing measures implemented since early 2020 have resulted in historically low interest rates...



- However, certain market interest rates, such as yields on government securities, have shown unwarranted volatility recently, which is not in line with monetary policy expectations...

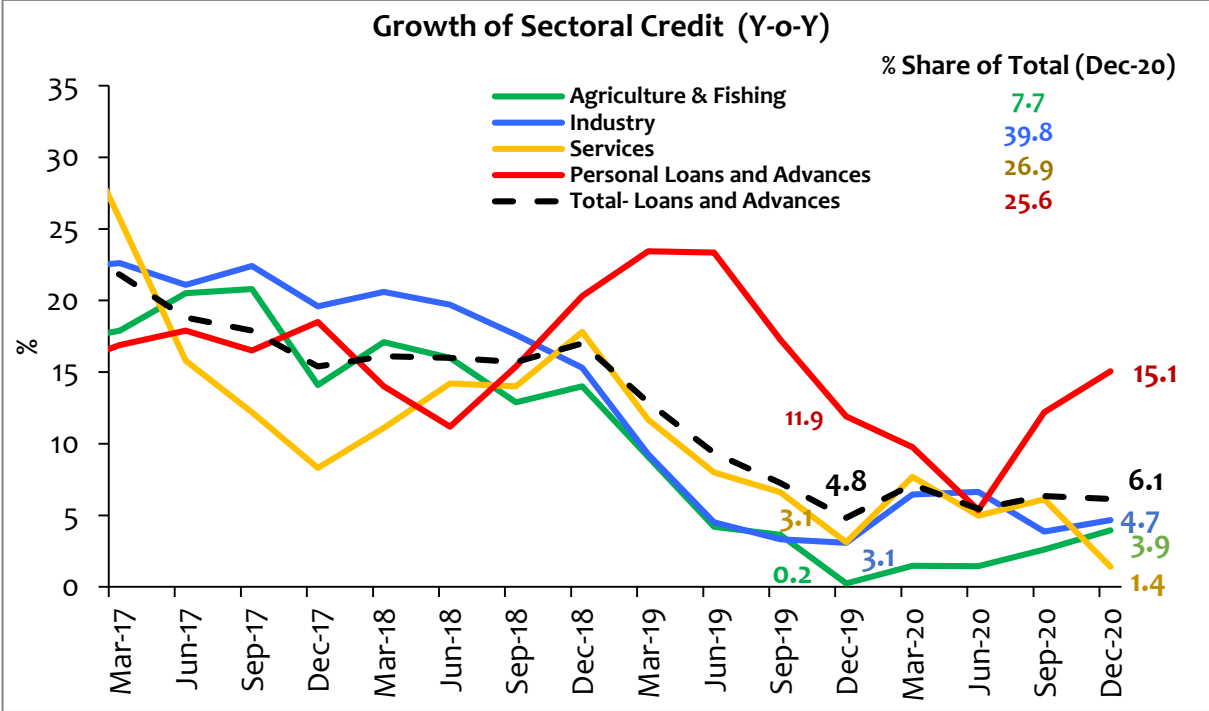
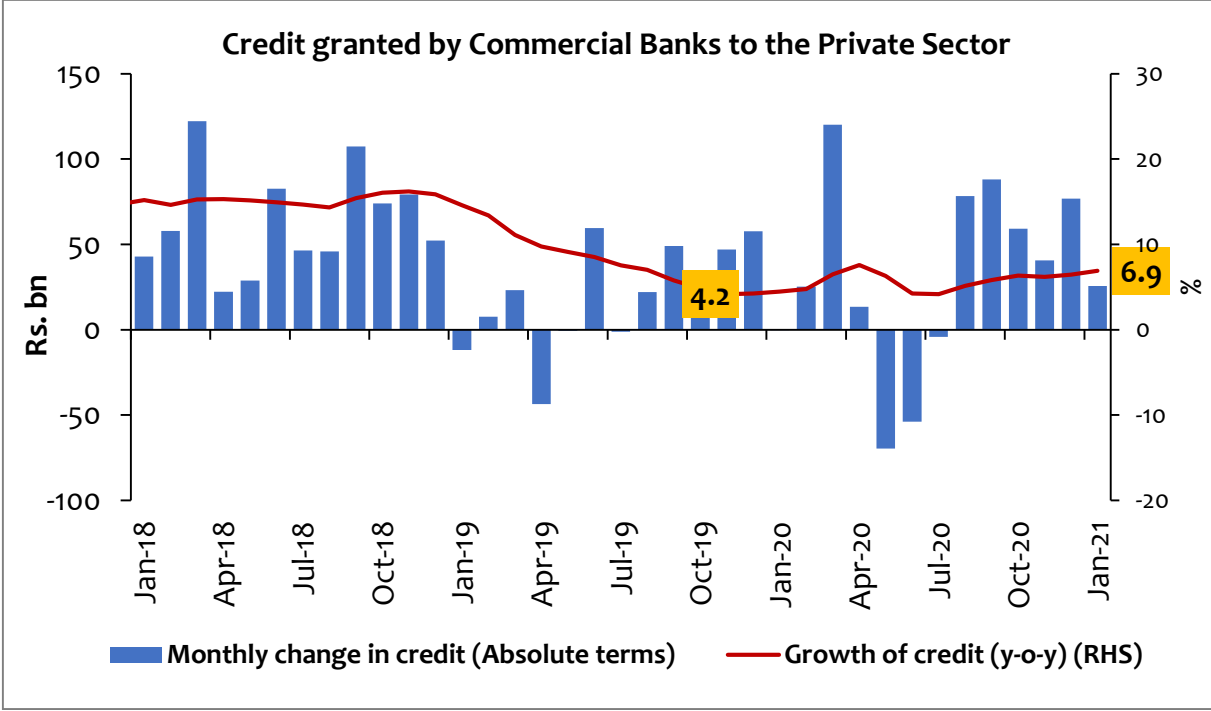
| Adjustments in Interest Rates |          |          |                   |                                 |
|-------------------------------|----------|----------|-------------------|---------------------------------|
| Interest Rate                 | End 2019 | End 2020 | As at 03 Mar 2021 | From end 2019 to latest in 2021 |
|                               | %        | %        | %                 | bps Change                      |
| AWCMR                         | 7.45     | 4.55     | 4.54              | -291                            |
| 91-day T-bill                 | 7.51     | 4.69     | 4.95              | -256                            |
| 182-day T-bill                | 8.02     | 4.80     | 5.03              | -299                            |
| 364-day T-bill                | 8.45     | 5.05     | 5.10              | -335                            |
| Weekly AWPR                   | 9.74     | 5.81     | 5.76              | -398                            |
| Monthly AWPR                  | 10.00    | 5.74     | 5.72              | -428                            |
| AWLR                          | 13.59    | 10.29    | 10.17             | -342                            |
| AWNLR                         | 12.80    | 8.38     | 8.37              | -443                            |
| AWDR                          | 8.20     | 5.80     | 5.36              | -284                            |
| AWFDR                         | 10.05    | 7.14     | 6.53              | -352                            |
| AWNDR                         | 8.89     | 4.93     | 5.19              | -370                            |
| AWNFDR                        | 9.17     | 5.08     | 5.30              | -387                            |

# Reflecting the expansion in domestic credit, the growth of broad money ( $M_{2b}$ ) continued to accelerate...



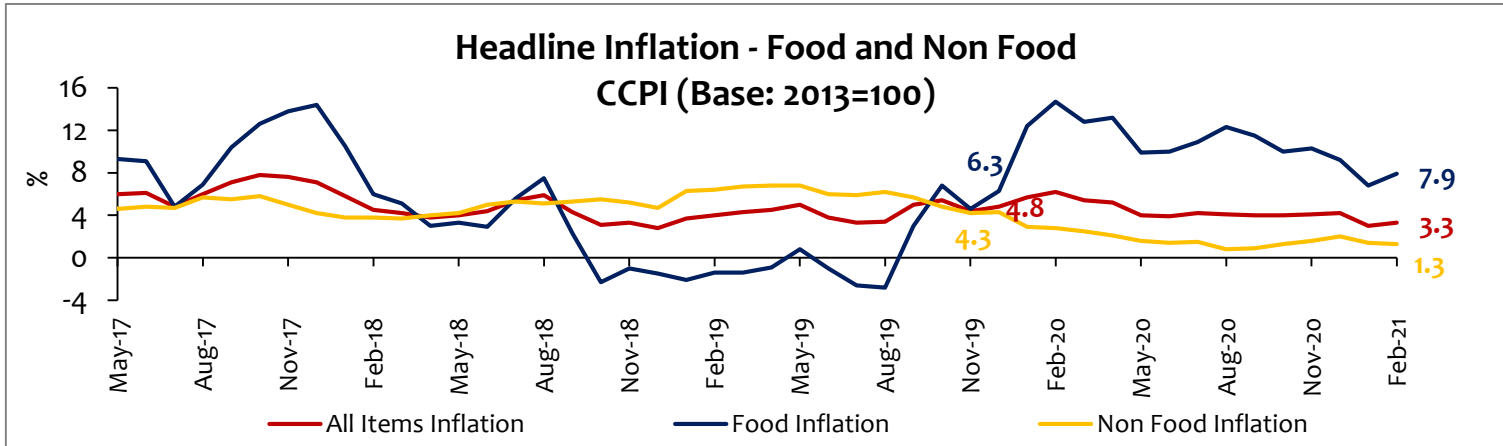


# Credit to productive sectors remains crucial in ensuring a sustained economic recovery...

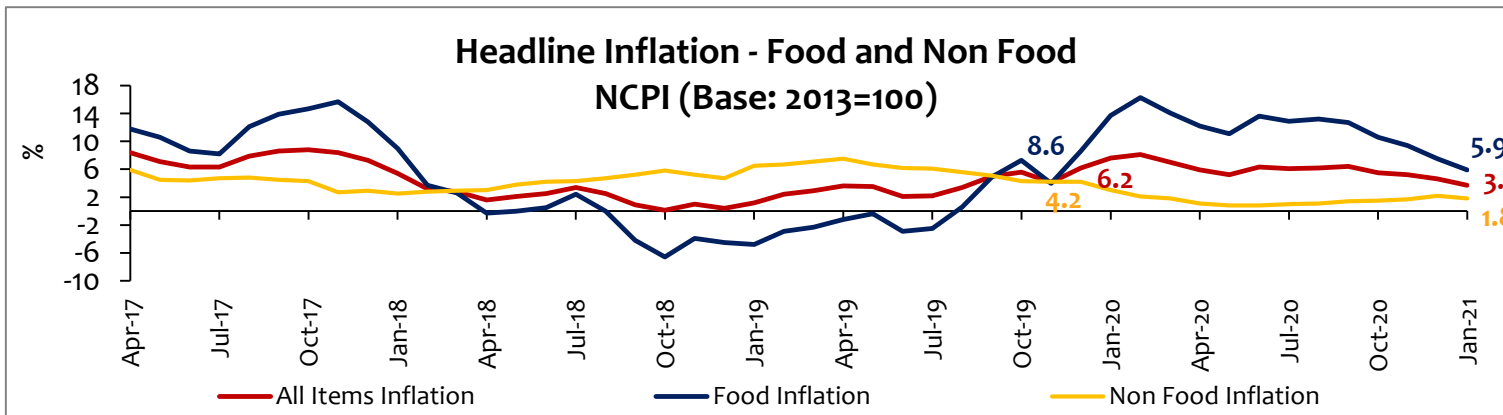


- Despite the substantial reduction in market lending rates, growth of credit towards productive sectors of the economy appears to remain inadequate
- Going forward, the growth of credit to the private sector is expected to gather pace supported by low lending rates, the introduction of priority sector lending targets for banks on lending to the MSME sector, and rising demand for credit driven by improving investor sentiments

# Inflation is projected to remain subdued in 2021...



- CCPI based food inflation accelerated to 7.9% (y-o-y) in Feb 2021 compared to 6.8% in Jan 2021
- CCPI based non-food inflation marginally decelerated to 1.3% (y-o-y) in Feb 2021 from 1.4% in Jan 2021



- NCPI based food inflation decelerated to 5.9% (y-o-y) in Jan 2021 compared to 7.5% in Dec 2020
- NCPI based non-food inflation decelerated to 1.8% (y-o-y) in Jan 2021 from 2.2% in Dec 2020

## Headline Inflation (%)

|                          | Dec-19 | Nov-20 | Dec-20 | Jan-21 | Feb-21 |
|--------------------------|--------|--------|--------|--------|--------|
| based on CCPI (2013=100) |        |        |        |        |        |
| Y-o-Y                    | 4.8    | 4.1    | 4.2    | 3.0    | 3.3    |
| Annual average           | 4.3    | 4.6    | 4.6    | 4.3    | 4.1    |
| based on NCPI (2013=100) |        |        |        |        |        |
| Y-o-Y                    | 6.2    | 5.2    | 4.6    | 3.7    | -      |
| Annual average           | 3.5    | 6.3    | 6.2    | 5.8    | -      |

## Core Inflation (%)

|                          | Dec-19 | Nov-20 | Dec-20 | Jan-21 | Feb-21 |
|--------------------------|--------|--------|--------|--------|--------|
| based on CCPI (2013=100) |        |        |        |        |        |
| Y-o-Y                    | 4.8    | 3.0    | 3.5    | 2.7    | 2.6    |
| Annual average           | 5.5    | 3.2    | 3.1    | 3.1    | 3.0    |
| based on NCPI (2013=100) |        |        |        |        |        |
| Y-o-Y                    | 5.2    | 4.5    | 4.7    | 4.2    | -      |
| Annual average           | 5.7    | 4.2    | 4.1    | 4.2    | -      |

## Monetary Policy Decision

**The Monetary Board was of the view that the current accommodative monetary policy stance is appropriate**

- **The Central Bank of Sri Lanka reaffirms its commitment to continue the current accommodative monetary policy stance**
- **The Board underscored the need for low lending rates until the economy shows signs of strong and sustained recovery**
- **The Board noted the need for banks to scale up lending to productive sectors of the economy and support domestic production in line with the national policy direction**

***Thank You***

# Q&A Session

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