



Review of the Monetary Policy Stance

April 2021

Economic Research Department
Central Bank of Sri Lanka

Monetary Policy Decision

THE CENTRAL BANK OF SRI LANKA CONTINUES ITS ACCOMMODATIVE MONETARY POLICY STANCE

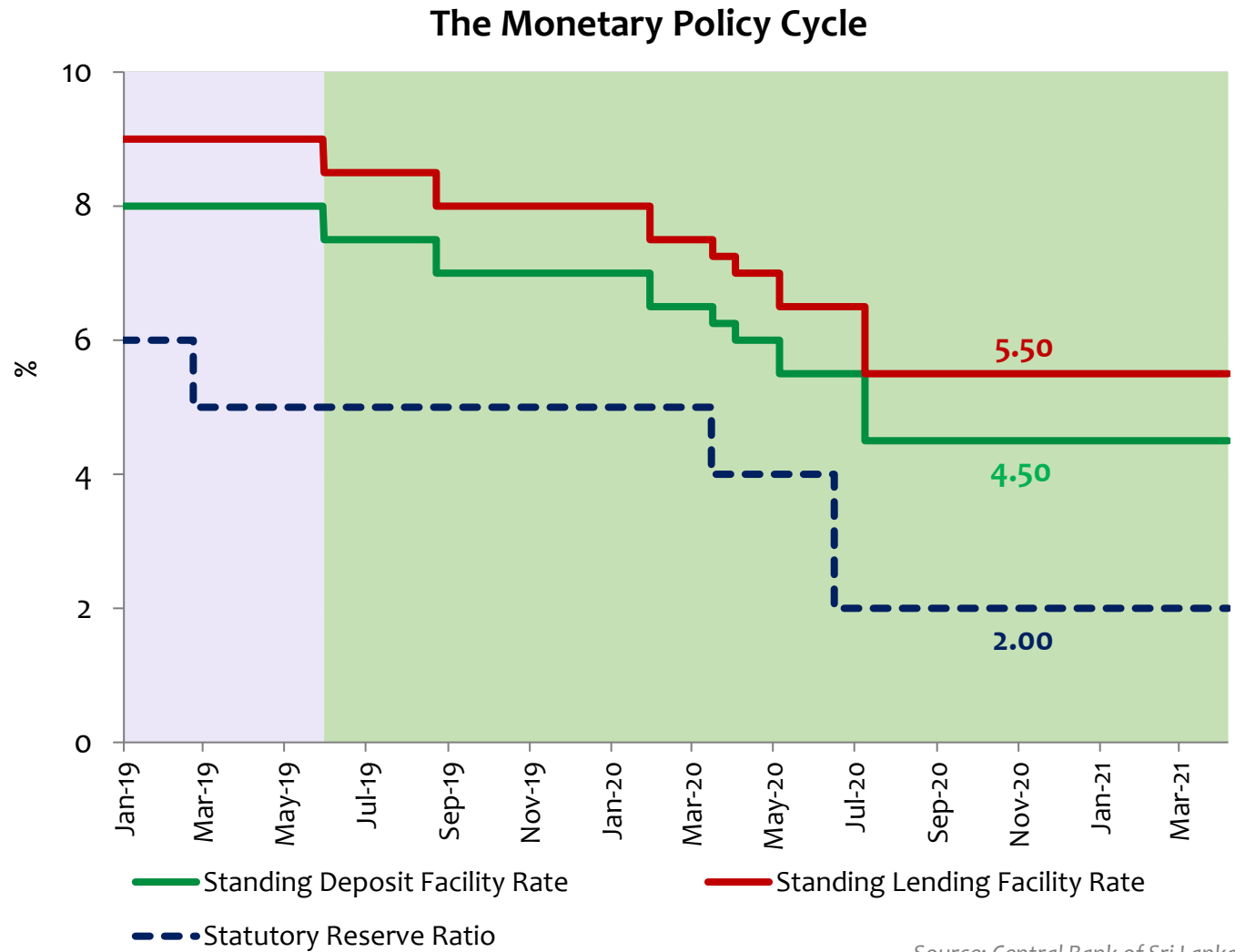
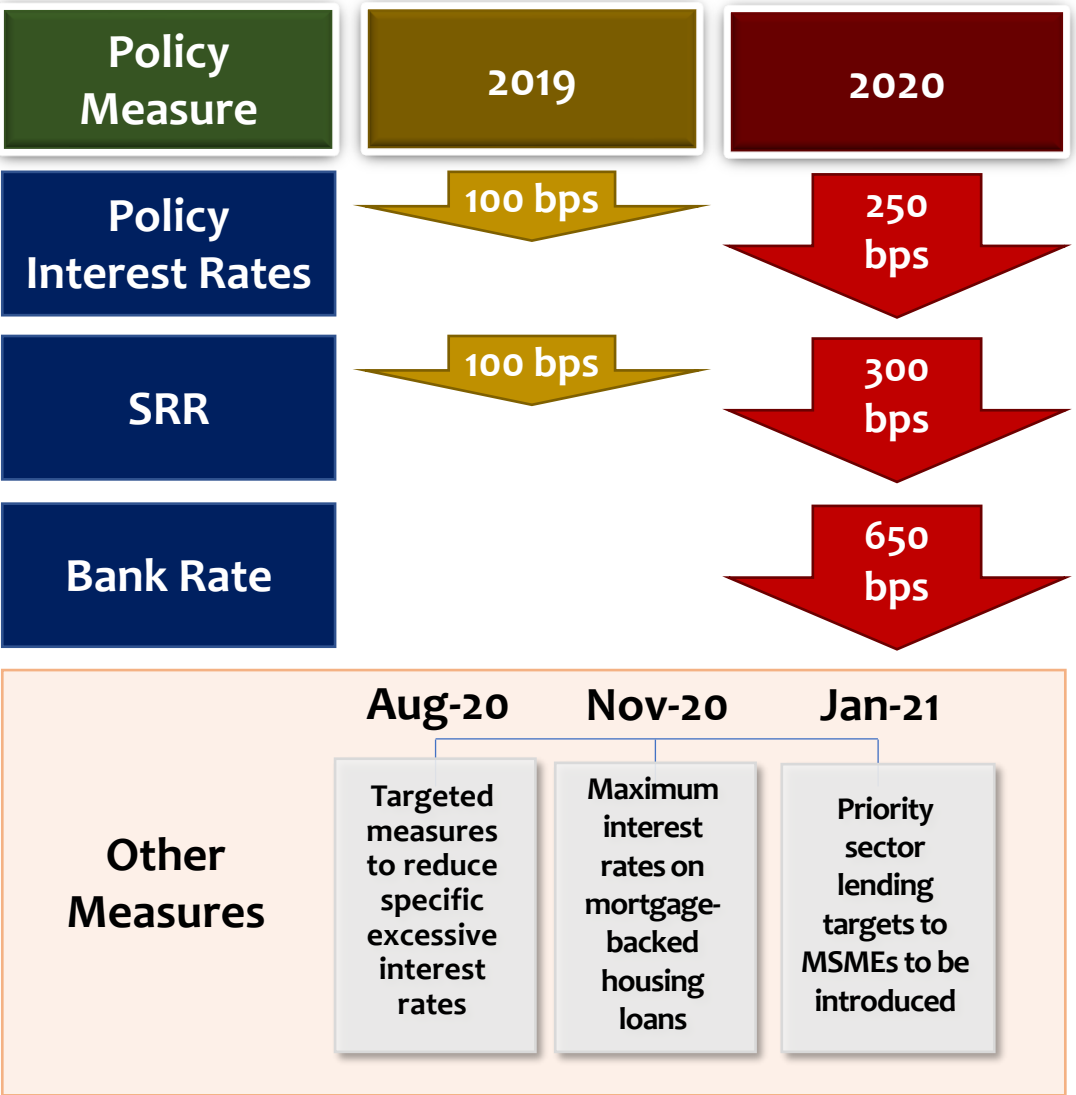
The Monetary Board was of the view that the current accommodative monetary policy stance is appropriate

- The Board underscored the need for maintaining the prevailing low interest rate structure to support the sustained economic recovery in the period ahead

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%

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



Source: Central Bank of Sri Lanka

Underpinned by growth supportive policy measures, the Sri Lankan economy rebounded notably from the effects of the COVID-19 pandemic

%, YoY

Economic Activity	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020 H1	2020 H2	2020 Annual
Agriculture	-6.5	-8.2	3.1	1.3	-7.3	2.1	-2.4
Industry	-7.9	-23.1	0.6	1.3	-14.6	0.9	-6.9
Services	2.9	-12.9	2.1	1.9	-5.2	2.0	-1.5
GDP	-1.8	-16.4	1.3	1.3	-9.1	1.3	-3.6

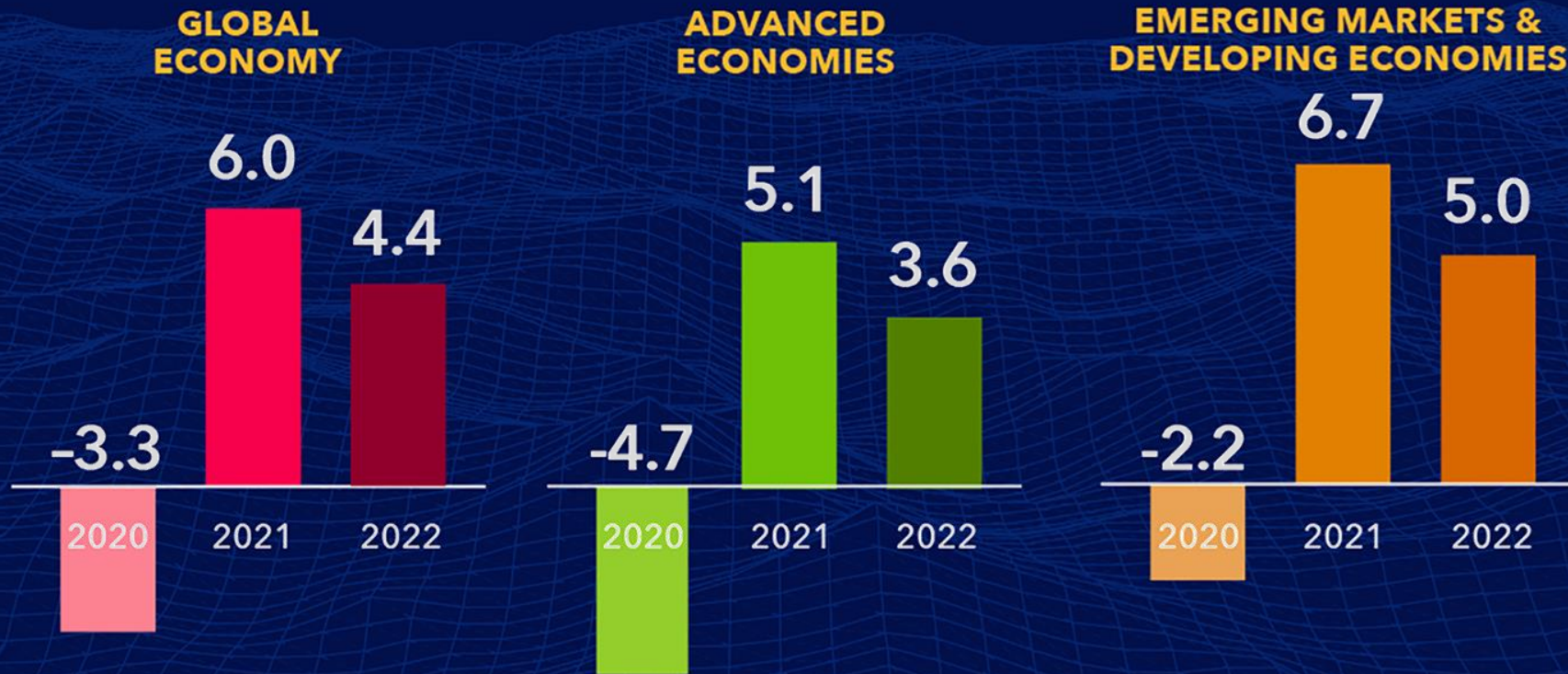
Source: Department of Census and Statistics

- As per the GDP estimates published by the Department of Census and Statistics (DCS), the contraction of the Sri Lankan economy at 3.6% in 2020 was lower than initial projections
- The Sri Lankan economy is expected to record a high growth momentum in the medium term

The global economy is expected to recover faster than expected, supported by policy stimulus measures and the rollout of COVID-19 vaccines

WORLD ECONOMIC OUTLOOK APRIL 2021

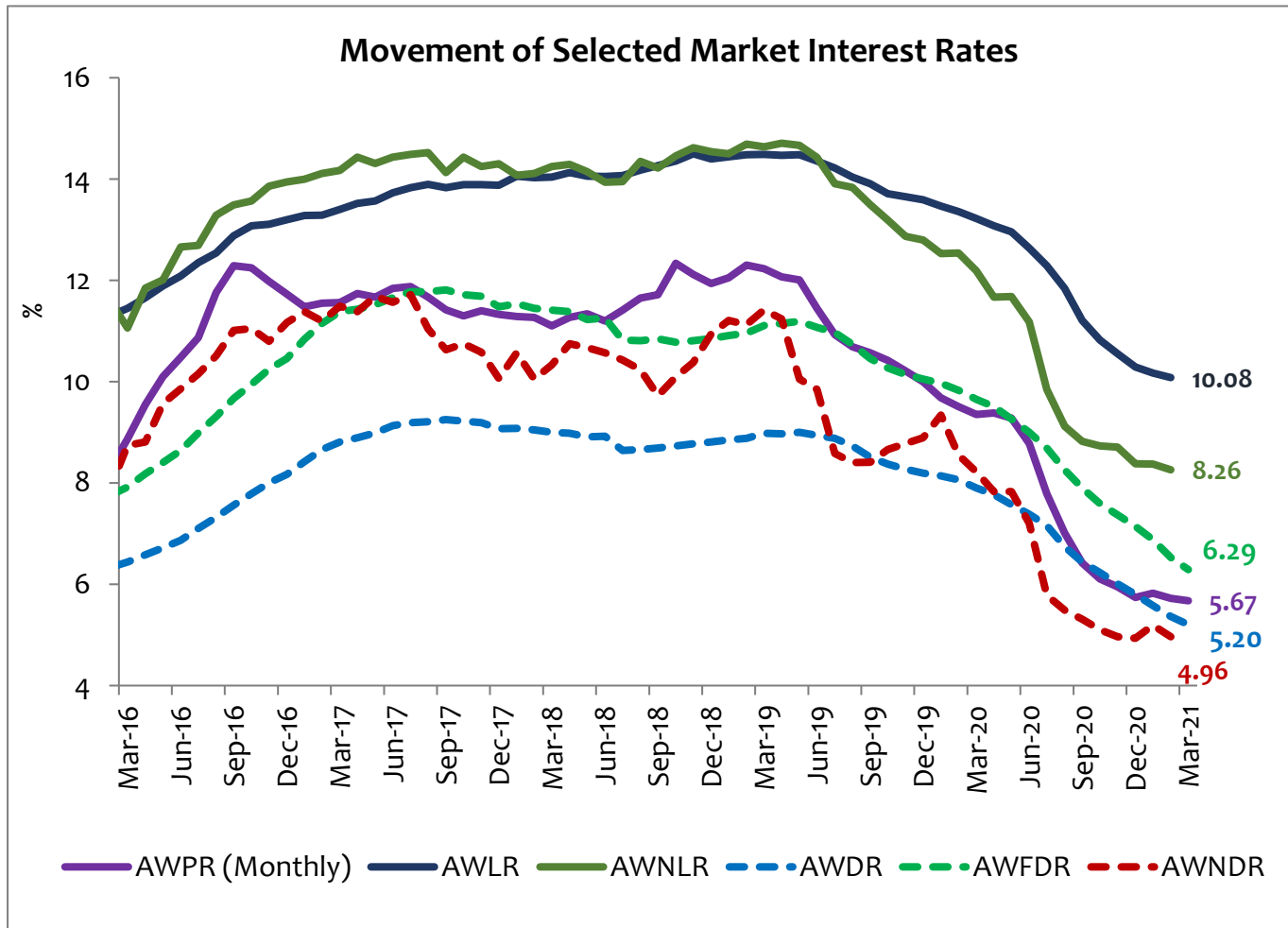
GROWTH PROJECTIONS



“The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased and as economies adapted to new ways of working”

IMF WEO April 2021

Most market interest rates have declined to historic lows...

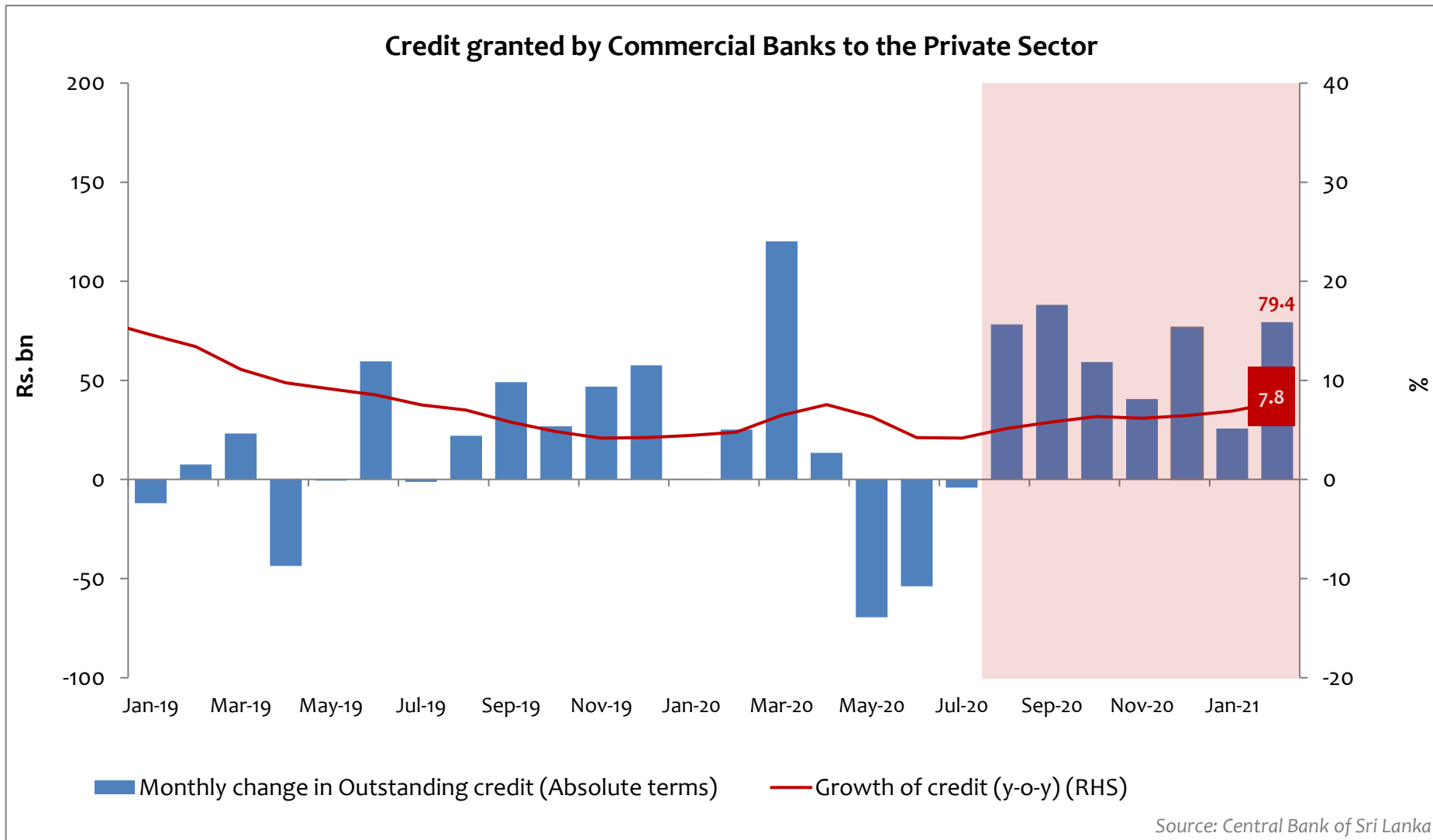


Source: Central Bank of Sri Lanka

Adjustments in Interest Rates

Interest Rate	As at 07 Apr 2021	From end 2019 to so far in 2021
	%	bps Change
Weekly AWPR	5.78	-396
Monthly AWPR	5.67	-433
AWLR	10.08	-351
AWNLR	8.26	-454
AWCMR	4.64	-281
91-day T-bill	5.08	-243
182-day T-bill	5.12	-290
364-day T-bill	5.15	-330
AWDR	5.20	-300
AWFDR	6.29	-376
AWNDR	4.96	-393
AWNFRD	5.09	-408

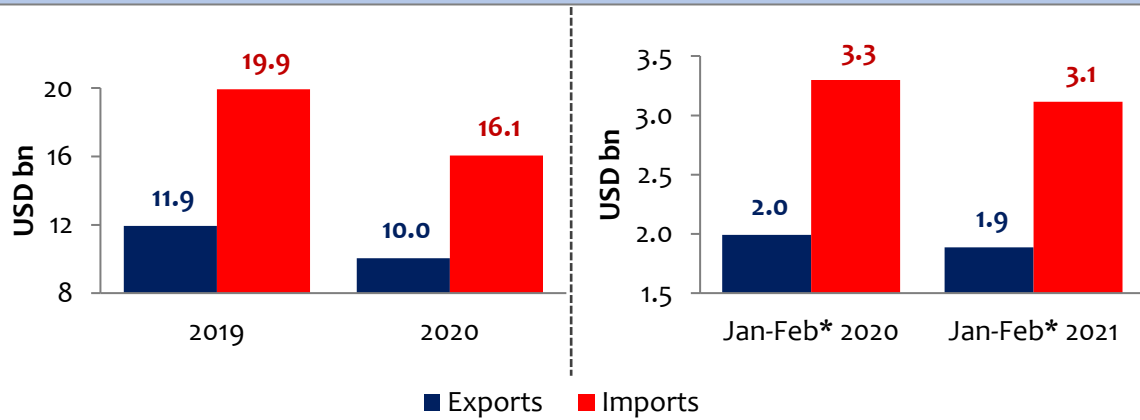
Credit to the private sector expanded notably thus far in 2021, reflecting the impact of growth supportive policies...



This momentum is expected to continue supported by low lending rates, surplus liquidity in the domestic money market and the expected rise in lending to micro, small, and medium enterprises (MSMEs)

External sector remains resilient despite some near term challenges...

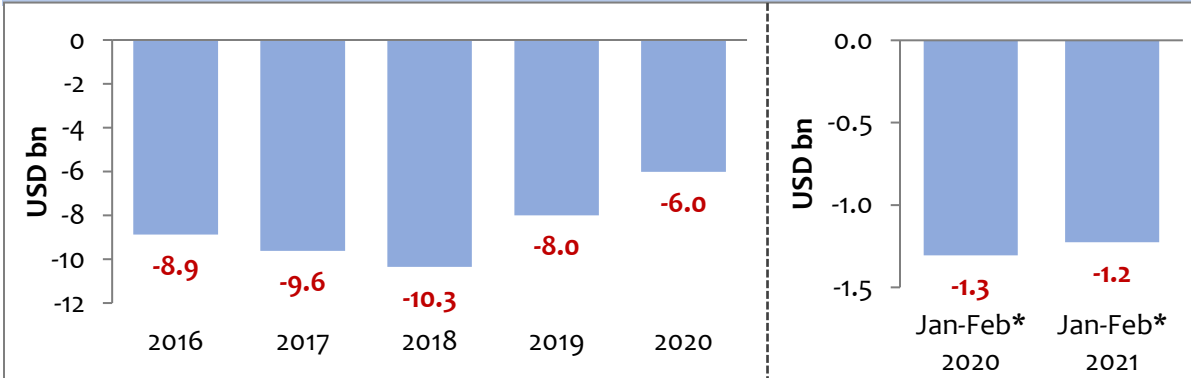
Import expenditure contracted more than export earnings...



* Data for Feb 2021 are preliminary

Source : Sri Lanka Customs

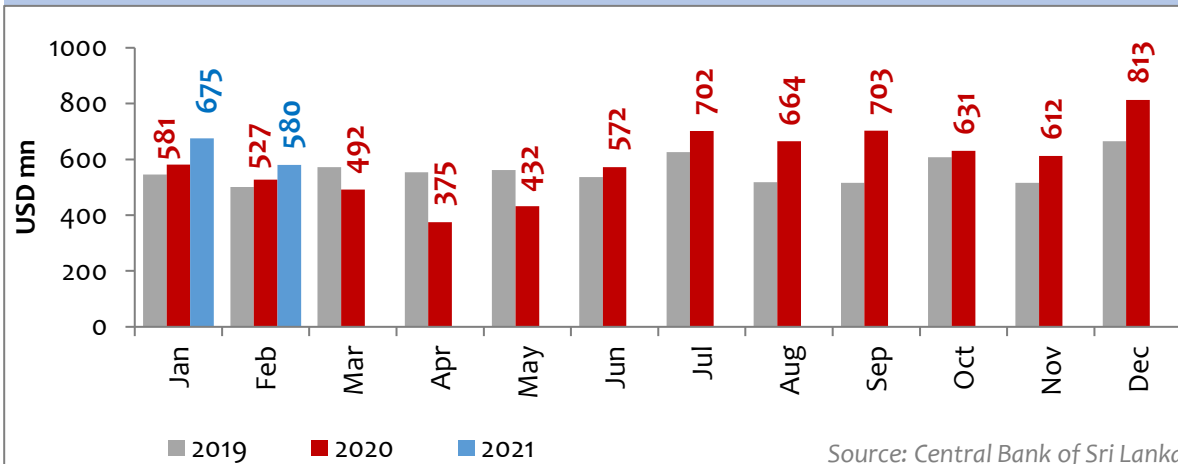
Merchandise trade deficit continued to narrow...



* Data for Feb 2021 are preliminary

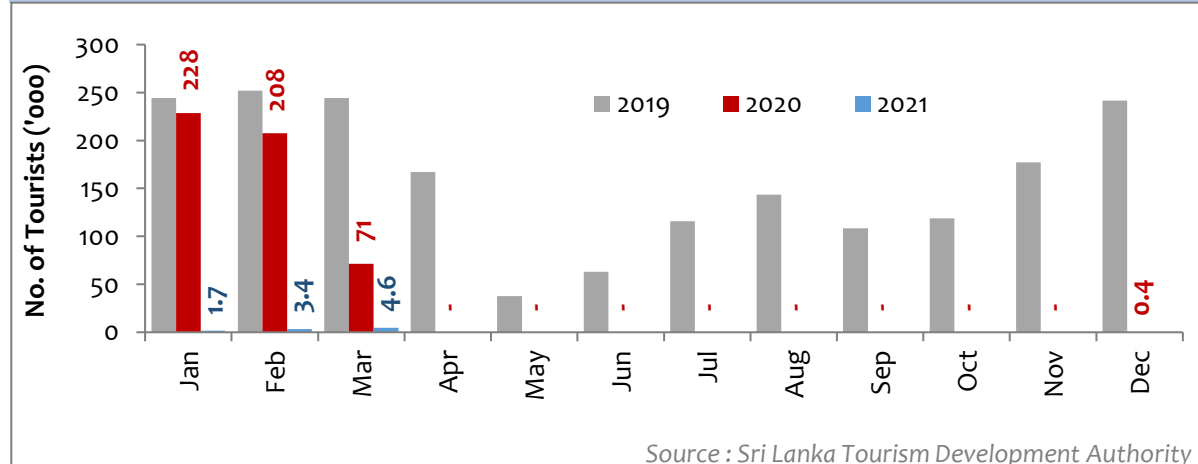
Sources : Sri Lanka Customs, Central Bank of Sri Lanka

Healthy growth in workers' remittances continues...



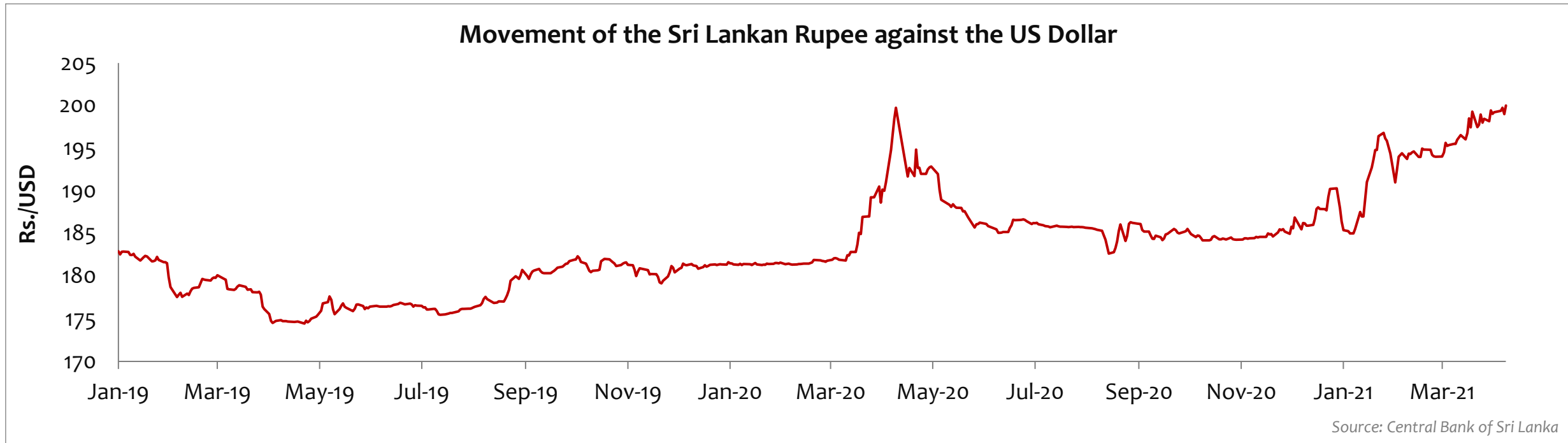
Source: Central Bank of Sri Lanka

Tourism sector is expected to recover gradually...



Source : Sri Lanka Tourism Development Authority

The Sri Lankan rupee experienced some volatility recently...



- However, the continuation of the existing restrictions on non-essential imports and certain foreign exchange outflows, among others, is expected to help cushion pressures in the domestic foreign exchange market
- Gross official reserves were estimated at USD 4.1 bn, with an import cover of 3 months, at end March 2021

Inflation is expected to remain subdued in the near term...

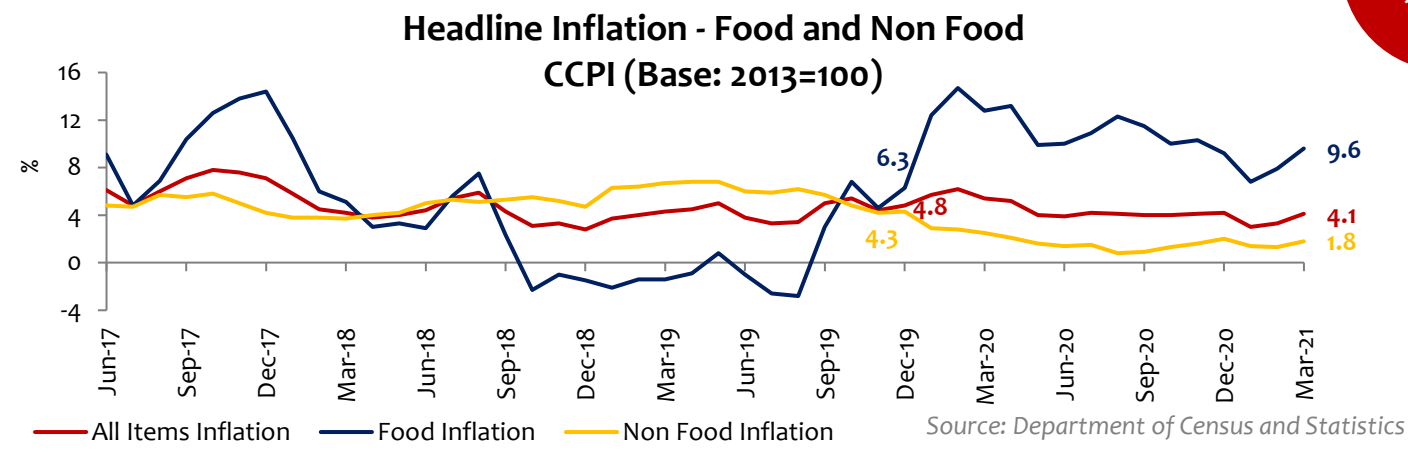
Headline Inflation (%)

	Dec-19	Dec-20	Jan-21	Feb-21	Mar-21
based on CCPI (2013=100)					
Y-o-Y	4.8	4.2	3.0	3.3	4.1
based on NCPI (2013=100)					
Y-o-Y	6.2	4.6	3.7	4.2	

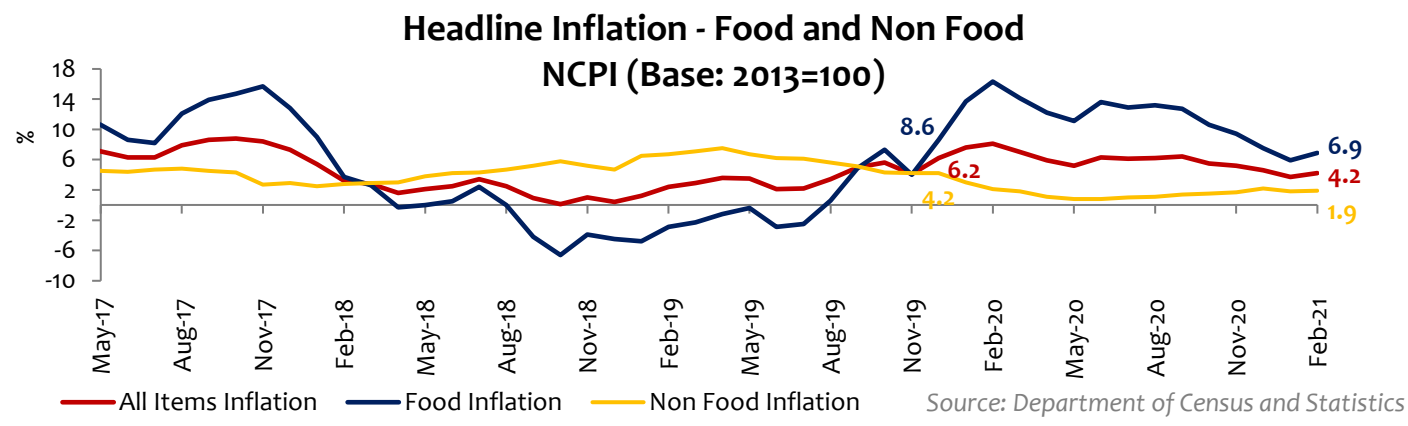
Core Inflation (%)

	Dec-19	Dec-20	Jan-21	Feb-21	Mar-21
based on CCPI (2013=100)					
Y-o-Y	4.8	3.5	2.7	2.6	3.1
based on NCPI (2013=100)					
Y-o-Y	5.2	4.7	4.2	4.1	

Any upward pressures over the medium term could be mitigated, to a large extent, by the envisaged supply side improvements...



- CCPI based food inflation accelerated to 9.6% (y-o-y) in March 2021, compared to 7.9% in Feb 2021, and non-food inflation accelerated to 1.8% (y-o-y) in March 2021 from 1.3% in Feb 2021



- NCPI based food inflation accelerated to 6.9% (y-o-y) in Feb 2021, compared to 5.9% in Jan 2021, and non-food inflation accelerated marginally to 1.9% (y-o-y) in Feb 2021 from 1.8% in Jan 2021

The Monetary Board reiterated that it stands ready to take appropriate measures to help the economy to sustain the growth trajectory, while maintaining inflation in the targeted 4-6% range over the medium term, under the flexible inflation targeting framework

Thank You

Q&A Session

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