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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

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Monetary Policy Review: No. 8 – 2019

Policy interest rates of the Central Bank of Sri Lanka to remain unchanged

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 26 December 2019, decided to maintain its accommodative monetary policy stance with the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank remaining at their current levels of 7.00 per cent and 8.00 per cent, respectively. The Board arrived at this decision following a careful analysis of current and expected developments in the domestic economy and the financial market as well as the global economy. The decision of the Monetary Board is consistent with the aim of maintaining inflation in the 4-6 per cent range while supporting economic growth to reach its potential over the medium term.

The pace of monetary policy easing in advanced economies appears to be slowing

Most advanced economies, which followed a monetary easing path owing to the general economic slowdown and muted inflation expectations, appear to have paused further monetary easing. However, most of the emerging market policymakers remained open to further accommodation in the period ahead in order to stimulate activity in their economies.

Domestic economic activity to recover gradually

As per the provisional estimates released by the Department of Census and Statistics, the Sri Lankan economy grew at the slow pace of 2.7 per cent during the third quarter of 2019 following the growth of 1.5 per cent in the second quarter of the year. Agriculture related activities grew marginally by 0.4 per cent, while Services and Industry related activities expanded by 2.8 per cent and 3.3 per cent, respectively. Going forward, a steady revival of economic activity is envisaged, supported by improved political stability and short term measures to stimulate the economy. It is expected that this momentum will be sustained through the introduction of appropriate medium to long term structural reforms.

Inflation to remain at low single digit levels in the near term, and stabilise within 4-6 per cent in the medium term

Headline inflation, as measured by the year-on-year change in both Colombo Consumer Price Index (CCPI) and National Consumer Price Index (NCPI), decelerated in November 2019 driven by the slowdown in food inflation. Further softening of inflation could be expected in the period ahead mainly due to the impact of the downward tax revisions and the reduction in selected administratively determined prices. Nevertheless, weather affected food price movements could result in increased volatility in inflation in the near term. Projections indicate that inflation is likely to remain in the range of 4-6 per cent over the medium term, with the gradual closing of the negative output gap and well anchored inflation expectations.

Relatively stable external sector amidst challenging economic conditions

Performance on the trade front continued to improve during the first ten months of 2019 with imports contracting considerably and merchandise exports recording a modest growth, thereby leading to a cumulative contraction in the deficit in the trade account. Provisional data suggests a significantly lower current account deficit in the first nine months of 2019 compared to the corresponding period of 2018. The tourism sector, which suffered a setback following the Easter Sunday attacks, has since recorded a faster than expected recovery. Workers' remittances were somewhat low, while outflows of foreign investment were observed from the Government securities market and the equity market during the year. Nevertheless, the Sri Lankan rupee appreciated against the US dollar by 0.7 per cent thus far during 2019, with mixed movements being recorded throughout the year. Meanwhile, gross official reserves remained at US dollars 7.5 billion by end November 2019, which were sufficient to cover 4.5 months of imports.

Growth of monetary and credit aggregates expected to accelerate in 2020

Although a steady expansion in credit disbursed to the private sector in absolute terms was observed during the four month period commencing August 2019, the year-on-year growth of private sector credit continued to decelerate thus far during the year. Driven by low credit expansion, the year-on-year growth of broad money (M_{2b}) also continued to moderate. Going forward, money and credit aggregates are expected to recover gradually, with the expected continued decline in lending rates, and other mechanisms that are being introduced to revive economic activity.

Market lending rates, which continued to decline, are expected to reduce further

Market lending rates continued to adjust downward in response to monetary and regulatory measures taken by the Central Bank. However, the observed reduction thus far has been less than envisaged, and financial institutions are expected to meet the stipulated reduction in lending rates in the period ahead.

Policy interest rates maintained at current levels

In consideration of the current and expected macroeconomic developments as highlighted above, the Monetary Board, at its meeting held on 26 December 2019, was of the view that the current accommodative monetary policy stance is appropriate, and that there is ample space for market lending rates to reduce without further adjustment in policy rates. The Monetary Board also noted that the already announced tax relief as well as the proposed moratorium on capital repayments of bank loans for the SME sector are likely to provide further impetus to the economy. In addition, His Excellency the President is expected to announce the government's policy statement on 03 January 2020, which will provide further clarity to the broad economic policy framework as well as the fiscal policy direction for the medium term. In this context, the Monetary Board decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 7.00 per cent and 8.00 per cent, respectively.

Monetary Policy Decision: Policy rates and SRR unchanged

Standing Deposit Facility Rate (SDFR)	7.00%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	5.00%

INFORMATION NOTE:

A press conference with Governor Prof. W D Lakshman will be held on 27 December 2019 at 10.30 am at the Atrium of the Central Bank of Sri Lanka.

The release of the next regular statement on monetary policy will be on 30 January 2020.

Data Annexure:

Table 01: Real GDP Growth (Provisional)

Economic Activities	Year - on - Year % Change									
	2017		2018					2019		
	Third Quarter	Annual	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual	First Quarter	Second Quarter	Third Quarter
Agriculture	-2.0	-0.4	5.1	5.6	4.0	4.5	4.8	5.6	0.7	0.4
Industries	4.7	4.1	1.7	2.8	3.1	-3.6	0.9	2.9	1.3	3.3
Services	2.8	3.6	5.5	4.8	4.3	4.3	4.7	4.1	1.6	2.8
GDP	3.2	3.4	4.0	3.9	3.5	1.8	3.2	3.7	1.5	2.7

Source: Department of Census and Statistics

Table 02: Inflation

Month		Dec 18	Mar 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19
Headline Inflation (Year on year % change)	CCPI (2013=100)	2.8	4.3	3.8	3.3	3.4	5.0	5.4	4.4
	NCPI (2013=100)	0.4	2.9	2.1	2.2	3.4	5.0	5.6	4.1
Core Inflation (Year on year % change)	CCPI (2013=100)	3.1	5.6	5.8	5.7	5.6	5.6	5.5	5.1
	NCPI (2013=100)	3.1	5.8	6.1	6.1	5.9	5.6	5.6	5.5

Source: Department of Census and Statistics

Table 03: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)					Year - on - Year % Change				
	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19
Reserve Money	888	913	915	908	919	-11.3	-9.1	-9.5	-9.0	-2.4
Broad Money (M _{2b})	7,355	7,397	7,443	7,456	7,473	8.2	7.7	7.4	6.7	6.1
Net Foreign Assets (NFA)	105	102	113	102	83	-39.0	-39.0	1,374.4	698.7	292.9
Net Domestic Assets (NDA)	7,251	7,295	7,331	7,355	7,390	9.5	8.9	5.8	5.0	4.3
Net Credit to the Government (NCG)	2,704	2,752	2,732	2,729	2,702	21.4	21.1	12.5	12.6	9.6
Credit to Public Corporations	729	747	755	789	803	14.6	16.8	15.1	12.5	12.2
Credit to the Private Sector	5,604	5,626	5,680	5,706	5,753	7.7	7.2	6.1	5.1	4.4
Broad Money (M ₄)	9,082	9,133	9,211	9,244	9,267	9.0	8.7	8.3	8.1	7.6

Source: Central Bank of Sri Lanka

Table 04: Interest Rates

Interest Rate (%)	End Jun 19	End Jul 19	End Aug 19	End Sep 19	End Oct 19	End Nov 19	As at 26 Dec 19
Policy Rates of the Central Bank							
Standing Deposit Facility Rate	7.50	7.50	7.00	7.00	7.00	7.00	7.00
Standing Lending Facility Rate	8.50	8.50	8.00	8.00	8.00	8.00	8.00
Average Weighted Call Money Rate (AWCMR)	7.86	7.70	7.43	7.45	7.45	7.48	7.50
Treasury bill yields (Primary market)							
91-day	8.24	7.85	7.63	7.62	7.49	7.45	7.51
182-day	8.49	7.94	7.70	7.75	7.65	7.67	8.02
364-day	8.70	8.21	8.22	8.41	8.35	8.29	8.45
Lending Rates							
Average Weighted Prime Lending Rate (Weekly)	11.52	10.89	10.66	10.49	10.44	10.15	10.04
Average Weighted Lending Rate (AWLR)	14.36	14.22	14.04	13.91	13.71	13.65	-
Average Weighted New Lending Rate (AWNLR)	14.43	13.91	13.84	13.50	13.19	12.87	-
Deposit Rates							
Average Weighted Deposit Rate (AWDR)	8.94	8.88	8.73	8.51	8.37	8.27	8.20
Average Weighted Fixed Deposit Rate (AWFDR)	11.07	10.97	10.74	10.46	10.27	10.14	10.05
Average Weighted New Deposit Rate (AWNDR)	9.85	8.58	8.40	8.41	8.66	8.78	-

Source: Central Bank of Sri Lanka