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Press Release

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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 04 March 2020, 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 6.50 per cent and 7.50 per cent, respectively, and thereby continue its accommodative monetary policy stance. The Board arrived at this decision following a careful analysis of the 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.

Many economies are becoming increasingly accommodative amidst global growth concerns

The escalation of the coronavirus (COVID-19) outbreak to a ‘global health emergency’ and its potential to become a pandemic pose significant threats to global economic recovery in 2020. The widespread impact on China, the world’s second largest economy, will have spillover effects on the global economy through weakening trade, tourism and investment flows. The recent rapid rise in cases outside China highlights the high degree of health and economic contagion that the outbreak entails. Policymakers around the globe are expected to intensify policy support to address the effect of the outbreak on global demand and supply conditions, while monetary policies in both advanced

economies and emerging market and developing economies are projected to be relaxed at a faster pace than previously envisaged.

The COVID-19 outbreak is likely to affect Sri Lanka's economic performance

The exact impact on the Sri Lankan Economy would depend on the extent of the global spread of the COVID-19 outbreak, its persistence and policy responses of major economies and trading partners. Sri Lanka's economic links with China could be directly affected as significant volumes of consumer goods, intermediate goods and investment goods are imported from China. The likely slowdown of the global economy and disruptions to the supply chain could affect Sri Lanka's merchandise and service exports as well as related logistics. The slowdown in global tourist movements will affect Sri Lanka's tourism sector, in addition to the direct impact of lower arrivals from China. The spread of the virus to countries with a significant number of Sri Lankan migrant workers could affect remittance inflows as well. These adverse implications are likely to outweigh any marginal benefit arising from reduced global energy prices and international interest rates.

Continued policy support would ensure a gradual recovery of domestic economic activity over the medium term

Despite global disruptions to growth caused by the spread of COVID-19 and uncertainties in the domestic market due to upcoming elections and the delayed presentation of the annual government budget, the economy is expected to somewhat recover in 2020 from the current subpar performance, supported by monetary and fiscal stimulus measures complemented by improving investor confidence. However, the introduction of appropriate structural reforms is essential to foster high economic growth, given limited policy spaces available to sustain such momentum over the medium to long term.

External sector remains resilient despite rising global uncertainties

A notable improvement was observed in the external current account balance in 2019, with the trade deficit contracting significantly as a result of a sharp decline in the growth of imports and a marginal growth of exports. The tourism sector witnessed a faster than expected recovery in 2019 following the Easter Sunday attacks. Yet, the COVID-19 outbreak is likely to pose challenges to the tourism sector in the period ahead. Workers' remittances that moderated in the first eleven months of 2019, showed an improvement in December 2019 as well as January 2020. In the meantime, foreign investment in rupee denominated government securities recorded a net outflow thus far in 2020, partly due to increased investor appetite for safe haven assets amidst rising global uncertainty. Outflows of

foreign investment from the secondary market of the Colombo Stock Exchange (CSE) remained modest thus far during the year. Reflecting these developments, the Sri Lankan rupee remained broadly stable with a marginal depreciation, while gross official reserves stood at US dollars 7.5 billion by end January 2020, sufficient to cover 4.5 months of imports.

Inflation is expected to stabilise within the desired range over the medium term despite transitory deviations arising from supply side disruptions

In January and February 2020, headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI) showed an unexpected uptick, driven by a rapid acceleration in food inflation. Headline inflation based on the National Consumer Price Index (NCPI), which has a higher weight on food, also recorded a notable acceleration in January 2020. However, reflecting the subdued aggregate demand conditions, core inflation based on both CCPI and NCPI currently remains below 4 per cent. Meanwhile, vegetable prices showed a sharp downward adjustment since end February with improving supply conditions. Accordingly, the latest projections indicate that inflation would decline in the near term and stabilise within the desired range thereafter. Although demand driven inflationary pressures in the near term are not envisaged, the Central Bank will continue to closely monitor incoming data and take proactive measures to ensure the continued anchoring of inflation expectations in mid single digit levels.

An acceleration in the growth of money and credit aggregates was observed in January 2020

The year-on-year growth of credit extended to the private sector by commercial banks continued to accelerate in January 2020, although the absolute increase during the month was marginal compared to the average monthly increases observed since August 2019. Meanwhile, credit to the government increased notably in January 2020, reflecting its increased financing needs. Driven by the domestic credit expansion, broad money growth (year-on-year) also accelerated in January 2020. With the ongoing pass-through of policy measures to market lending rates and improving business confidence, the growth of credit to the private sector is expected to accelerate further, thereby supporting the envisaged expansion in economic activity in the period ahead.

Market lending rates are expected to reduce further

Market lending rates continued to decline as a result of the accommodative monetary policy stance and the regulatory measures taken by the Central Bank over the past several months. However, a faster downward adjustment in market lending rates is required to pass the full benefit of recent policy measures to borrowers, thereby to the economy.

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 04 March 2020, was of the view that the current accommodative monetary policy stance is appropriate, and 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 6.50 per cent and 7.50 per cent, respectively. The Monetary Board was also of the view that there is ample space for market lending rates to reduce without a further adjustment in policy rates at this juncture. Such downward adjustment in the market lending rates would also help weather any short term impact on financial markets and the real economy arising from the COVID-19 outbreak. The Central Bank will continue to monitor domestic and global macroeconomic and financial market developments, including the impact of the spread of COVID-19 globally and its effects on Sri Lanka, with a view to maintaining stable economic conditions in the period ahead, while standing ready to provide liquidity to domestic financial markets as necessary.

Monetary Policy Decision: Policy rates and SRR unchanged

Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	7.50%
Statutory Reserve Ratio (SRR)	5.00%

INFORMATION NOTE:

A press conference with Governor Prof. W D Lakshman will be held on 05 March 2020 at 11.30 am at the Atrium of the Central Bank of Sri Lanka.

The release of the next regular statement on monetary policy will be on 09 April 2020.

Data Annexure:

Table 01: Inflation

Month		Mar 19	Jun 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20
Headline Inflation (Year on year % change)	CCPI (2013=100)	4.3	3.8	5.0	5.4	4.4	4.8	5.7	6.2
	NCPI (2013=100)	2.9	2.1	5.0	5.6	4.1	6.2	7.6	-
Core Inflation (Year on year % change)	CCPI (2013=100)	5.6	5.8	5.6	5.5	5.1	4.8	3.0	3.2
	NCPI (2013=100)	5.8	6.1	5.6	5.6	5.5	5.2	3.9	-

Source: Department of Census and Statistics

Table 02: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)					Year - on - Year % Change				
	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20
Reserve Money	915	908	919	933	936	-9.5	-9.0	-2.4	-3.0	-1.4
Broad Money (M _{2b})	7,443	7,456	7,473	7,624	7,704	7.4	6.7	6.1	7.0	8.3
Net Foreign Assets (NFA) (a)	127	115	97	128	117	1,560.3	779.3	325.3	291.4	196.4
Net Domestic Assets (NDA) (a)	7,317	7,341	7,376	7,496	7,587	5.6	4.8	4.1	4.2	4.9
Net Credit to the Government (NCG)	2,732	2,729	2,702	2,767	2,887	12.5	12.6	9.6	9.9	9.9
Credit to Public Corporations	755	789	803	818	820	15.1	12.5	12.2	8.3	15.3
Credit to the Private Sector (a)	5,666	5,692	5,739	5,798	5,798	5.8	4.8	4.2	4.3	4.5
Broad Money (M ₄)	9,211	9,244	9,269	9,445(a)	9,573	8.3	8.1	7.6	8.2(a)	9.5

Source: Central Bank of Sri Lanka

(a) Revised

Table 03: Interest Rates

Interest Rate (%)	End Sep 19	End Oct 19	End Nov 19	End Dec 19	End Jan 20	End Feb 20	As at 04 Mar 20
Policy Rates of the Central Bank							
Standing Deposit Facility Rate	7.00	7.00	7.00	7.00	6.50	6.50	6.50
Standing Lending Facility Rate	8.00	8.00	8.00	8.00	7.50	7.50	7.50
Average Weighted Call Money Rate (AWCMR)	7.45	7.45	7.48	7.45	6.98	6.95	6.95
Treasury bill yields (Primary market)							
91-day	7.62	7.49	7.45	7.51	7.51	7.42	7.41
182-day	7.75	7.65	7.67	8.02	8.15	8.06	7.99
364-day	8.41	8.35	8.29	8.45	8.59	8.58	8.46
Lending Rates							
Average Weighted Prime Lending Rate (Weekly)	10.49	10.44	10.15	9.74	9.68	9.47	-
Average Weighted Lending Rate (AWLR)	13.91	13.71	13.65	13.59	13.47	-	-
Average Weighted New Lending Rate (AWNLR)	13.50	13.19	12.87	12.80	12.53	-	-
Deposit Rates							
Average Weighted Deposit Rate (AWDR)	8.51	8.37	8.27	8.20	8.14	8.06	-
Average Weighted Fixed Deposit Rate (AWFDR)	10.46	10.27	10.14	10.05	9.97	9.83	-
Average Weighted New Deposit Rate (AWNDR)	8.41	8.66	8.78	8.89	9.34	-	-

Source: Central Bank of Sri Lanka