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The Central Bank of Sri Lanka maintains policy interest rates at their current levels

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 24 November 2021, 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 5.00 per cent and 6.00 per cent, respectively. The Board arrived at this decision after carefully considering the macroeconomic conditions and expected developments on the domestic and global fronts. The Board noted the recent acceleration of inflation, driven mainly by supply disruptions and the surge in global commodity prices, and reiterated its commitment to maintaining inflation at the targeted levels over the medium term with appropriate measures, while supporting the economy to reach its potential in the period ahead.

The Sri Lankan economy is gradually recovering

The Sri Lankan economy witnessed a strong recovery during the first half of 2021, supported by fiscal and monetary stimulus measures. The re-emergence of the COVID-19 pandemic and the resultant disturbances to production activities appear to have affected the ongoing recovery somewhat during the third quarter of 2021. However, the available high frequency indicators suggest that economic activity is fast returning to normalcy. The removal of COVID-19 related lockdown measures in October 2021 and the successful nationwide COVID-19 vaccine rollout would help activity in the period ahead. While real GDP growth is projected at around 5 per cent in 2021, the ongoing rise in COVID-19 infections both globally and domestically could impact this expectation to some extent.

The external sector remains resilient against strong headwinds

Earnings from merchandise exports remained robust, recording over US dollars 1 billion for the fourth consecutive month in September 2021. Preliminary data show that merchandise exports have recorded an all time high in October 2021. Expenditure on imports also increased, widening the trade deficit during the nine months ending September 2021 over the corresponding period of the previous year. The tourism sector has displayed strong signs of revival with the easing of restrictions. Despite subdued inflows on account of workers' remittances in recent months, a rebound is expected in the period ahead with the continuous rise in worker migration and efforts taken to facilitate remittance flows through formal channels. The depreciation of the Sri Lanka rupee against the US dollar is recorded at 7.2 per cent thus far in 2021. The exchange rate has remained stable at around Rs.200-203 levels against the US dollar during the past three months. Meanwhile, gross official reserves were estimated at US dollars 2.3 billion by end October 2021. This, however, does not include the bilateral currency swap facility with the People's Bank of China (PBoC) of CNY 10 billion (equivalent

to approximately US dollars 1.5 billion). Moreover, measures taken by the Government and the Central Bank to attract fresh forex inflows, as well as the anticipated inflows to the private sector, including the financial sector, are expected to augment gross official reserves, thereby strengthening the external sector in the period ahead. Specifically, a greater conversion of export proceeds is observed, while negotiations with the foreign counterparts of the Government and the Central Bank are progressing, broadly in line with the path envisaged in the *Six-Month Road Map*.

Market interest rates have increased, reflecting the passthrough of tight monetary conditions

In response to the tight monetary and liquidity conditions, most market lending rates have adjusted upwards. Yields on government securities, which increased notably, have stabilised with enhanced subscriptions at primary auctions, reflecting improved market sentiments. Meanwhile, credit extended to the private sector, which expanded notably underpinned by eased monetary conditions, has slowed somewhat in September 2021. However, data for the nine months ending September 2021 indicate that credit flows, particularly to the industry and services sectors of the economy, have improved significantly, thereby supporting the revival of the economy. In the meantime, credit obtained by the public sector from the banking system, particularly net credit to the Government, continued to expand. Overall, the growth of broad money (M_{2b}) decelerated in September 2021, commensurate with the moderation of credit to the private sector and the decline in the net foreign assets of the banking system.

Inflation accelerated recently mainly due to supply side disturbances and the surge in commodity prices internationally

Supply side disruptions, removal of domestic price controls and upward adjustments to several administratively determined prices to reflect the rising global energy and other commodity prices along with the gradual firming of aggregate demand conditions, have pushed inflation above the targeted levels recently. A further acceleration of headline inflation is possible in the immediate future, although such movements are expected to be transitory. The monetary policy measures already taken by the Central Bank will help curbing excessive demand pressures and preventing the buildup of adverse inflation expectations.

Policy rates are maintained at current levels

In consideration of the current and expected macroeconomic developments as highlighted above, the Monetary Board was of the view that the current policy interest rates are appropriate. Nevertheless, the Central Bank will remain vigilant and continue monitoring domestic and global macroeconomic and financial market developments and will take appropriate measures, as and when necessary, with the aim of ensuring stability in the external sector, maintaining inflation in the desired range, and supporting sustained economic recovery.

Monetary Policy Decision: Policy rates and SRR unchanged

Standing Deposit Facility Rate (SDFR)	5.00%
Standing Lending Facility Rate (SLFR)	6.00%
Bank Rate	9.00%
Statutory Reserve Ratio (SRR)	4.00%

INFORMATION NOTE:

A press conference chaired by Governor Ajith Nivard Cabraal will be held on 25 November 2021 at 11.00 am at the Atrium of the Central Bank of Sri Lanka and will be livestreamed on Facebook and YouTube.

The date of the release of the first regular statement on monetary policy for the year 2022 will be announced in due course.

Annexure I

Table 01: Inflation

Month		Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21
Headline Inflation (Year on year % change)	CCPI (2013=100)	4.1	3.9	4.5	5.2	5.7	6.0	5.7	7.6
	NCPI (2013=100)	5.1	5.5	6.1	6.1	6.8	6.7	6.2	8.3
Core Inflation (Year on year % change)	CCPI (2013=100)	3.1	3.0	3.2	3.2	3.7	4.1	5.0	6.3
	NCPI (2013=100)	4.3	4.1	4.2	4.1	4.4	4.7	4.8	7.2

Source: Department of Census and Statistics

Table 02: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)								
	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21
Reserve Money	976	978	1,029	1,031	1,036	1,065	1,064	1,089	1,296
Broad Money (M _{2b})	9,533	9,651	9,839	9,947	10,033	10,165	10,304	10,514	10,488
Net Foreign Assets (NFA)	(321)	(386)	(430)	(431)	(429)	(481)	(699)	(701)	(722)
Net Domestic Assets (NDA)	9,854	10,037	10,269	10,378	10,462	10,646	11,003	11,215	11,210
Net Credit to the Government (NCG)	4,758	4,793	5,005	4,965	5,024	5,195	5,513	5,682	5,792
Credit to Public Corporations	1,058	1,080	1,098	1,093	1,113	1,132	1,141	1,137	1,123
Credit to the Private Sector	6,197	6,276	6,388	6,446	6,501	6,585	6,661	6,796	6,825
Broad Money (M ₄)	11,643	11,790	12,010	12,154	12,265	12,402	12,563	12,790	12,742

Source: Central Bank of Sri Lanka

Table 03: Interest Rates

Interest Rate (%)	End May 21	End Jun 21	End Jul 21	End Aug 21	End Sep 21	End Oct 21	As at 24 Nov 21
Key Policy Interest Rates of the Central Bank							
Standing Deposit Facility Rate	4.50	4.50	4.50	5.00	5.00	5.00	5.00
Standing Lending Facility Rate	5.50	5.50	5.50	6.00	6.00	6.00	6.00
Average Weighted Call Money Rate (AWCMR)	4.66	4.93	5.10	5.79	5.94	5.93	5.92
Treasury bill yields (Primary market)							
91-day	5.13	5.18	5.22	5.87	6.70	8.43	7.53
182-day	5.14	5.19	5.23	5.90	6.99	8.16	8.02
364-day	5.18	5.23	5.25	5.93	7.01	8.18	8.16
Lending Rates							
Average Weighted Prime Lending Rate (Weekly)	5.65	5.51	5.76	6.01	6.42	7.82	8.03 (a)
Average Weighted Lending Rate (AWLR)	9.64	9.50	9.45	9.38	9.37	-	-
Average Weighted New Lending Rate (AWNLR)	7.74	7.47	8.09	8.04	8.14	-	-
Deposit Rates							
Average Weighted Deposit Rate (AWDR)	4.97	4.87	4.77	4.75	4.75	4.79	-
Average Weighted Fixed Deposit Rate (AWFDR)	5.94	5.82	5.67	5.62	5.64	5.70	-
Average Weighted New Deposit Rate (AWNDR)	4.77	4.98	4.99	5.19	5.53	-	-
Average Weighted New Fixed Deposit Rate (AWNDFDR)	4.90	5.10	5.15	5.35	5.69	-	-

(a) For the week ending 19 November 2021

Source: Central Bank of Sri Lanka