



Issued By Economic Research Department

Date 03.03.2023

Monetary Policy Review: No. 02 - March 2023

The Central Bank of Sri Lanka raises the Policy Interest Rates

The Monetary Board of the Central Bank of Sri Lanka (CBSL), at its meeting held on 03 March 2023, decided to raise the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 100 basis points to 15.50 per cent and 16.50 per cent, respectively, effective from the close of business on 03 March 2023.

The CBSL and the staff of the International Monetary Fund (IMF) have been engaging continuously in intensive negotiations on the monetary policy stance amidst extraordinarily high inflation and a high degree of uncertainty surrounding inflation projections and the near term outlook. There have been some differences between the CBSL and IMF staff on the inflation outlook. Given the necessity of fulfilling all the 'prior actions' in order to move forward with the finalisation of the IMF Extended Fund Facility (EFF) arrangement, the Monetary Board and the IMF staff reached consensus to raise the policy interest rates, in a smaller magnitude, compared to the adjustment, which was envisaged during the initial stage of negotiations.

This decision demonstrates Sri Lanka's commitment to the IMF-EFF arrangement, which has been pursued by the Government in order to ensure stability in the economy on multiple fronts. The finalisation of the IMF-EFF arrangement is expected to benefit all stakeholders and bolster confidence, which would help restore stability in the economy on a sustained basis. This will incentivise more foreign exchange flows in the period ahead that would aid the economy to overcome the prevailing economic crisis. The Board was of the view that the economy has already traversed through the most difficult and unprecedented times with tremendous resilience and strongly believes that today's decision would pave way for a faster-than-expected deceleration of inflation.

The Monetary Board anticipates that this monetary policy action would help lower the spread between policy interest rates and high market interest rates. This spread is expected to be further reduced with the reduction in market interest rates in the period ahead, especially the yields on government securities, reflecting the easing of risk premia as the debt restructuring process progresses. The Board urges all stakeholders to remain hopeful and reiterates its commitment

to ensuring price and economic stability, and financial system stability, thereby assuring the normalisation of the interest rate structure no sooner the price pressures are sufficiently contained in the period ahead.

Monetary Policy Decision	Policy interest rates increased and SRR unchanged (effective from the close of business on 03 March 2023)	
	Standing Deposit Facility Rate (SDFR)	15.50%
	Standing Lending Facility Rate (SLFR)	16.50%
	Statutory Reserve Ratio (SRR)	4.00%

INFORMATION NOTE:

A press conference, chaired by Governor Dr. P Nandalal Weerasinghe, will be held on 03 March 2023 at 4.45 pm at the Atrium of the Central Bank of Sri Lanka, and proceedings will be livestreamed on Facebook and YouTube.

The release of the next regular statement on the monetary policy review will be on 04 April 2023.

Annexure I

Table 01: Inflation

Month		Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22		Jan 23	Feb 23
Headline Inflation (Year-on-Year % change)	CCPI (2013=100)	54.6	60.8	64.3	69.8	66.0	61.0	57.2	CCPI (2021=100)	51.7	50.6
	NCPI (2013=100)	58.9	66.7	70.2	73.7	70.6	65.0	59.2	NCPI (2021=100)	53.2	
Core Inflation (Year-on-Year % change)	CCPI (2013=100)	39.9	44.3	46.6	50.2	49.7	49.4	47.7	CCPI (2021=100)	45.6	43.6
	NCPI (2013=100)	49.3	57.3	60.5	64.1	62.4	60.1	57.5	NCPI (2021=100)	52.0	

Source: Department of Census and Statistics

Table 02: Monetary Sector Developments (Provisional)

Indicator	Outstanding Amount (Rs. billion)									
	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	
Reserve Money	1,415	1,453	1,436	1,386	1,379	1,342	1,318	1,349	1,590	
Broad Money (M _{2b})	11,897	11,901	11,955	11,987	12,051	12,046	12,163	12,290	12,322	
Net Foreign Assets (NFA)	(2,083)	(2,122)	(2,124)	(2,035)	(1,893)	(1,873)	(1,870)	(1,767)	(1,573)	
Net Domestic Assets (NDA)	13,980	14,023	14,079	14,022	13,944	13,919	14,033	14,056	13,895	
Net Credit to the Government (NCG)	6,523	6,697	6,826	6,990	7,043	7,178	7,293	7,471	7,612	
Credit to Public Corporations / SOBEs	1,750	1,729	1,754	1,700	1,703	1,778	1,760	1,747	1,748	
Credit to the Private Sector	7,755	7,714	7,673	7,614	7,577	7,530	7,499	7,414	7,318	
Broad Money (M ₄)	14,340	14,335	14,410	14,451	14,540	14,547	14,676	14,840	-	

Source: Central Bank of Sri Lanka

Table 03: Interest Rates

Interest Rate (%)	End Sep 22	End Oct 22	End Nov 22	End Dec 22	End Jan 23	End Feb 23	As at 03 Mar 23
Key Policy Interest Rates of the Central Bank							
Standing Deposit Facility Rate	14.50	14.50	14.50	14.50	14.50	14.50	15.50 (a)
Standing Lending Facility Rate	15.50	15.50	15.50	15.50	15.50	15.50	16.50 (a)
Average Weighted Call Money Rate (AWCMR)	15.50	15.50	15.50	15.50	15.26	15.27	15.50
Treasury bill yields (Primary market)							
91-day	31.94	33.05	32.91	32.64	29.91	29.72	29.59 (b)
182-day	30.59	32.53	32.27	32.20	28.72	28.67	28.64 (b)
364-day	29.85	29.60	29.46	29.27	27.78	27.67	27.64 (b)
Lending Rates							
Average Weighted Prime Lending Rate (Weekly)	25.95	27.46	27.89	27.24	24.82	23.45	23.45
Average Weighted Lending Rate (AWLR)	17.58	17.94	18.42	18.70	18.66	-	-
Average Weighted New Lending Rate (AWNLR)	24.93	25.83	26.04	26.20	25.82	-	-
Deposit Rates							
Average Weighted Deposit Rate (AWDR)	11.63	12.60	13.37	14.06	14.63	14.74	-
Average Weighted Fixed Deposit Rate (AWFDR)	15.41	16.66	17.59	18.49	19.15	19.23	-
Average Weighted New Deposit Rate (AWNDR)	22.06	23.22	23.63	23.07	22.24	-	-
Average Weighted New Fixed Deposit Rate (AWNFDR)	22.55	23.61	24.05	23.73	22.78	-	-

(a) Effective from the close of business on 03 March 2023

(b) Rate at the auction held on 01 March 2023

Source: Central Bank of Sri Lanka