

**MONETARY
POLICY REPORT**
AUGUST 2024



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Highlights of the Monetary Policy Report **August 2024**

16 August 2024

*Economic Research Department
Central Bank of Sri Lanka*

Legal requirement

*In keeping with Sections 27 and 80 of the CBA, the Monetary Policy Report is prepared to **communicate** to the public and other stakeholders **the rationale for the monetary policy decisions taken** during the relevant period of review, while **providing guidance on the inflation and economic growth outlook** along with an **assessment of risks to the outlook***

**The purpose
of the
Monetary
Policy
Report...**
*What we
expect?*

- Enhances transparency and communication of monetary policy
- **Increases accountability and builds credibility of monetary policy**
- Provides guidance for financial markets and all stakeholders
- **Anchors inflation expectations**
- Enhances policy coordination

The coverage

- Monetary policy framework of the CBSL
- Executive Summary
- Monetary Policy Summary
- **Inflation and Economic Outlook**
 - *Baseline forecast*
 - *Key assumptions underpinning the forecast*
 - *Risks to inflation and economic growth projections*
- Current economic conditions
 - *Domestic sectoral and global developments*

*The Key
Focus of the
MPR*

In addition, a box article on

“Inflation Target Under the Flexible Inflation Targeting Framework”

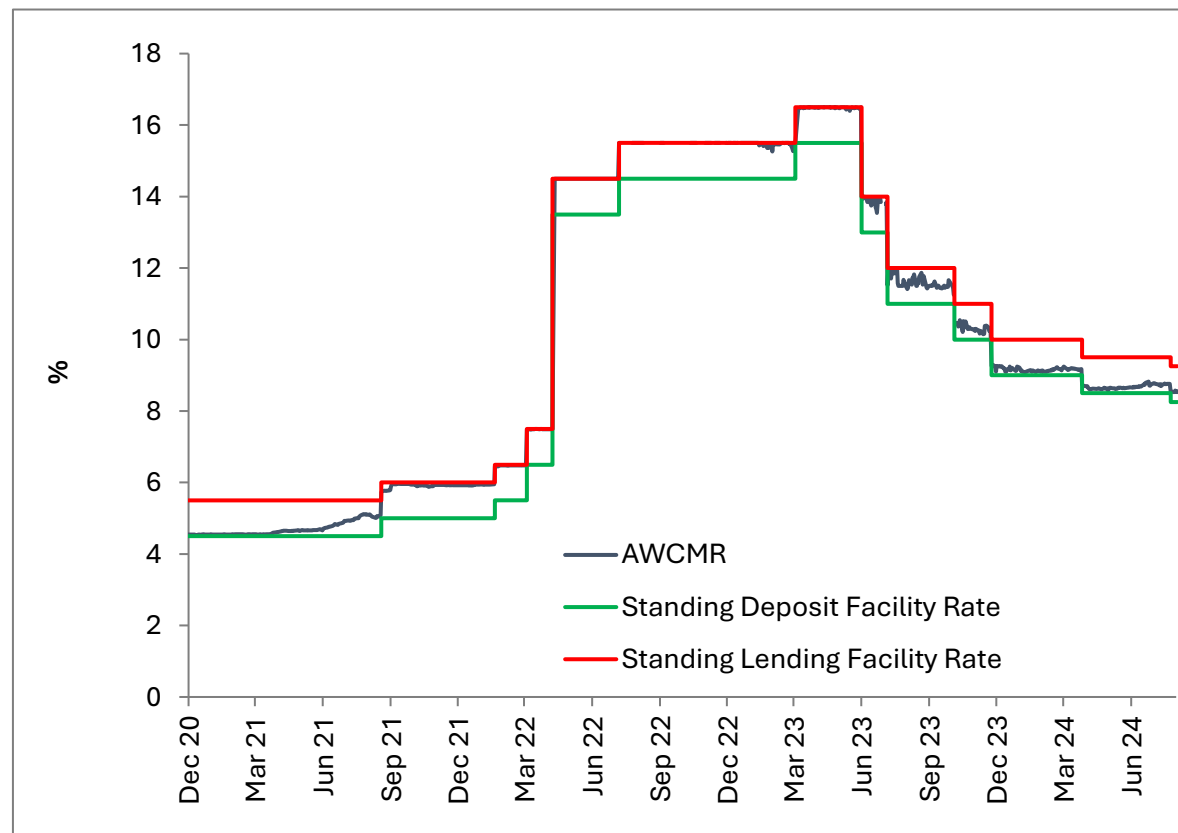




Monetary Policy Summary

The Central Bank of Sri Lanka continued to reduce its key policy interest rates...

Key Policy Interest Rates and AWCMR



“The Central Bank is maintaining an accommodative stance, having reduced policy rates by 75 bps this year alone.”

“This comes on top of a significant 650 bps reduction in 2023.”

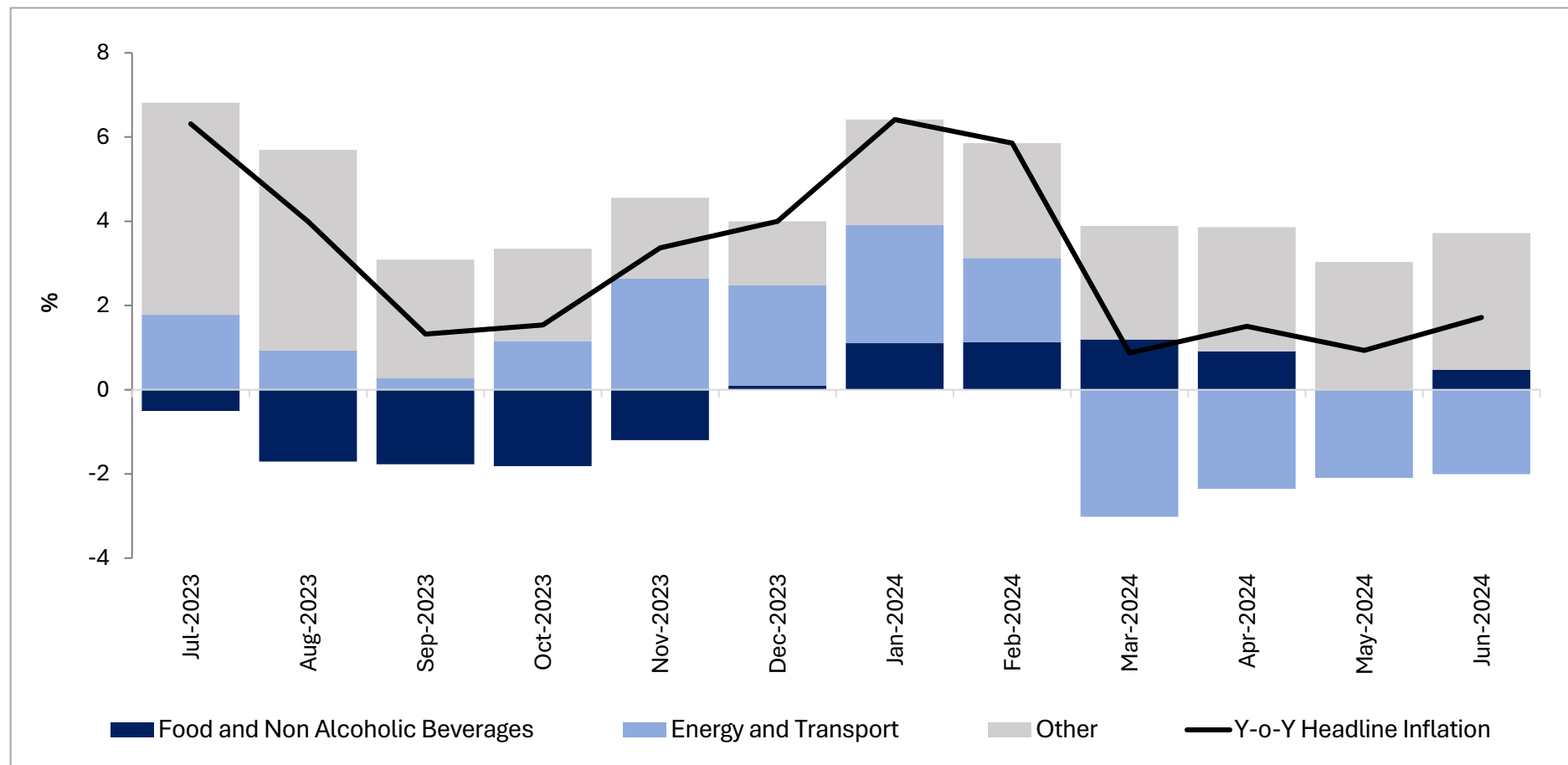
March 2024	May 2024	July 2024
Policy interest rates were reduced by 50 bps to 8.50% (SDFR) and 9.50% (SLFR)	Policy interest rates were maintained at 8.50% (SDFR) and 9.50% (SLFR)	Policy interest rates were reduced by a further 25 bps to 8.25% (SDFR) and 9.25% (SLFR)



Inflation Outlook

Downward revisions to energy prices have helped ease headline inflation in recent months...

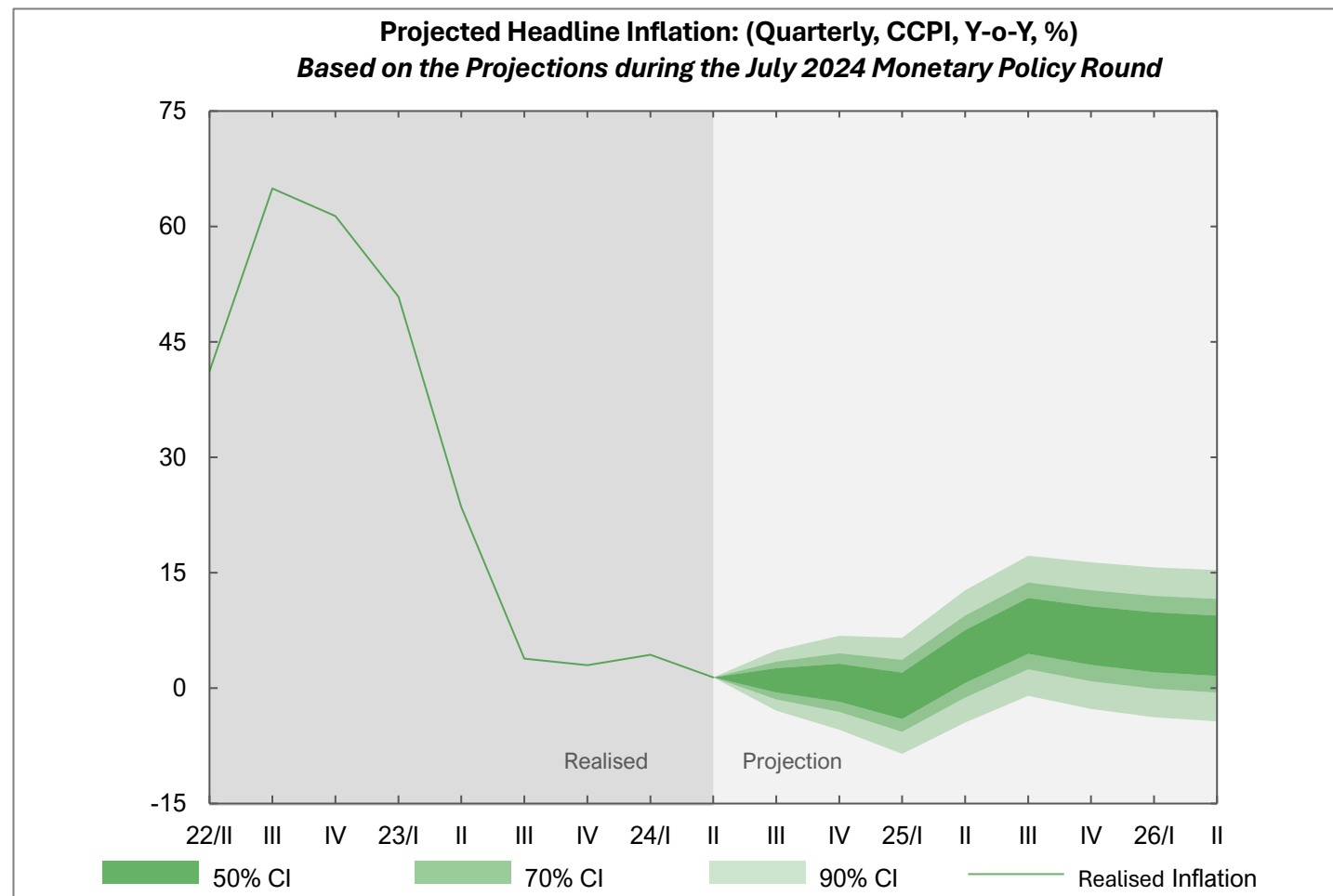
Contribution to Headline Inflation (CCPI, Y-o-Y %)



Sources: Department of Census and Statistics, Central Bank Staff Calculations

A slowdown in food inflation, and subdued demand conditions also contributed to this moderation

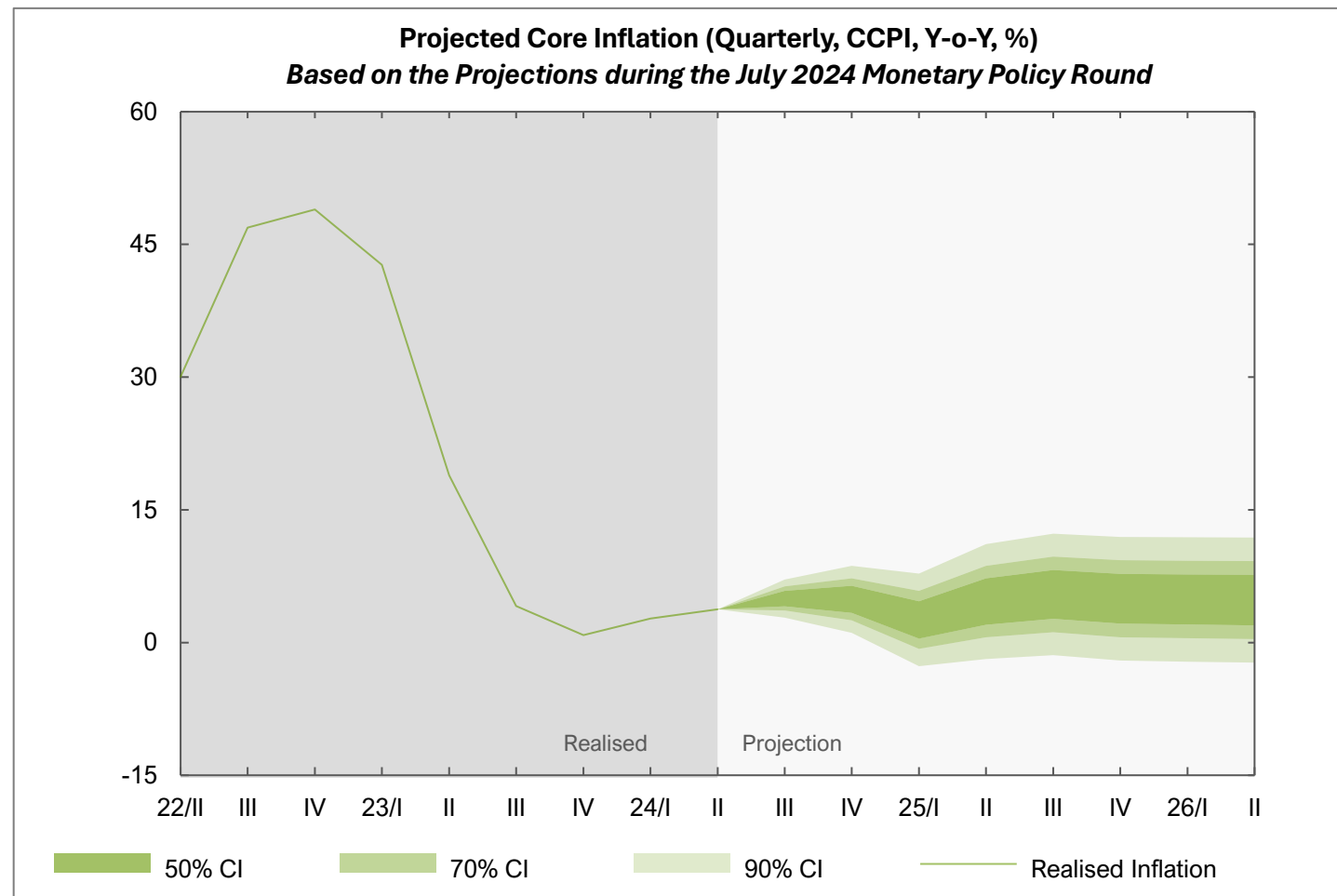
Headline inflation is expected to slow further in the near term...



Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in July 2024. Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100, seasonally adjusted), while data after this period are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in July 2024.

- **Inflation is likely to be below the target until Q1-2025**
- **A temporary uptick in inflation towards H2-2025 is anticipated before gradually stabilising around the targeted level of 5%**

**Core
inflation
projections
reflect a
lower
degree of
volatility...**



Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in July 2024. Realised data up to Q4 2022 shown in the fan chart are based on the CCPI (2013=100, seasonally adjusted), while data after this period are based on the CCPI (2021=100, seasonally adjusted). The projections are based on all available data at the forecast round in July 2024.

Due to the exclusion of energy and transport prices, the current and expected reduction in headline inflation is not reflected in core inflation

Risks to the inflation outlook...

Upside risks ↑



Possible realisation of demand for higher wages



Adverse weather/climate conditions could affect agricultural production



Possible rupee depreciation



Possible upward pressures on global food and energy prices amidst uncertainty

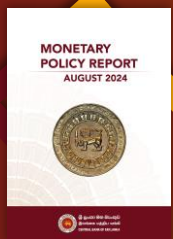
Downside risks ↓



Sustained impact of diminished purchasing power of people

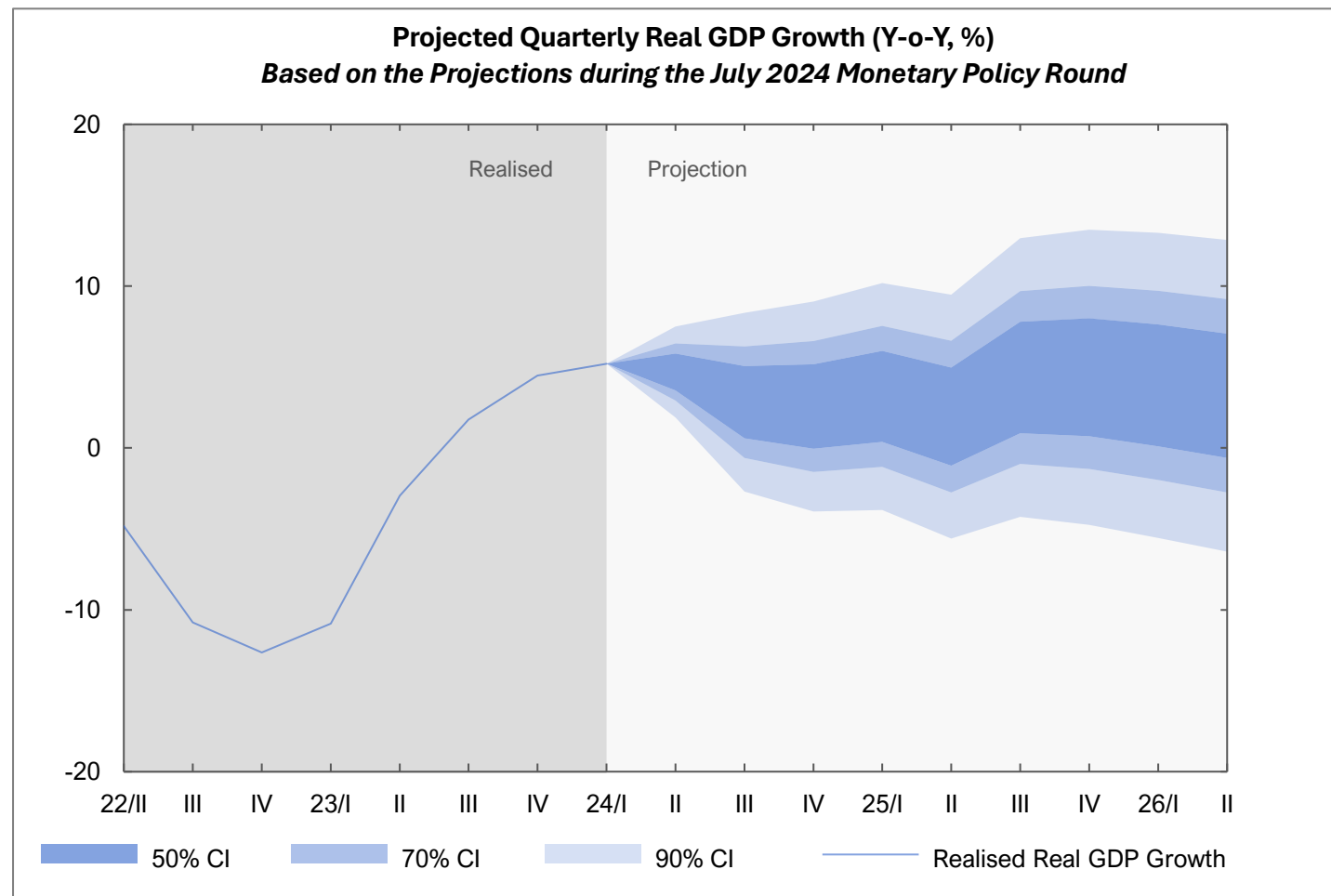


Possible larger than expected spillovers of energy price reductions to other price levels



Economic Growth Outlook

Growth momentum is expected to continue in the short-term and gradually move towards its potential over the medium term....



Note: The projections in the fan chart reflect the available data, assumptions and judgements made at the forecast round in July 2024.

The recovery in the economic growth is expected to continue over the medium term with the support of appropriate policies

Risks to the growth outlook...

Downside risks ↓



High brain drain could lead to labour shortages and low productivity



Any political uncertainty could have negative impacts on economic recovery



continued modest global demand for major exports

Upside risks ↑



Possible revival of import-dependent businesses

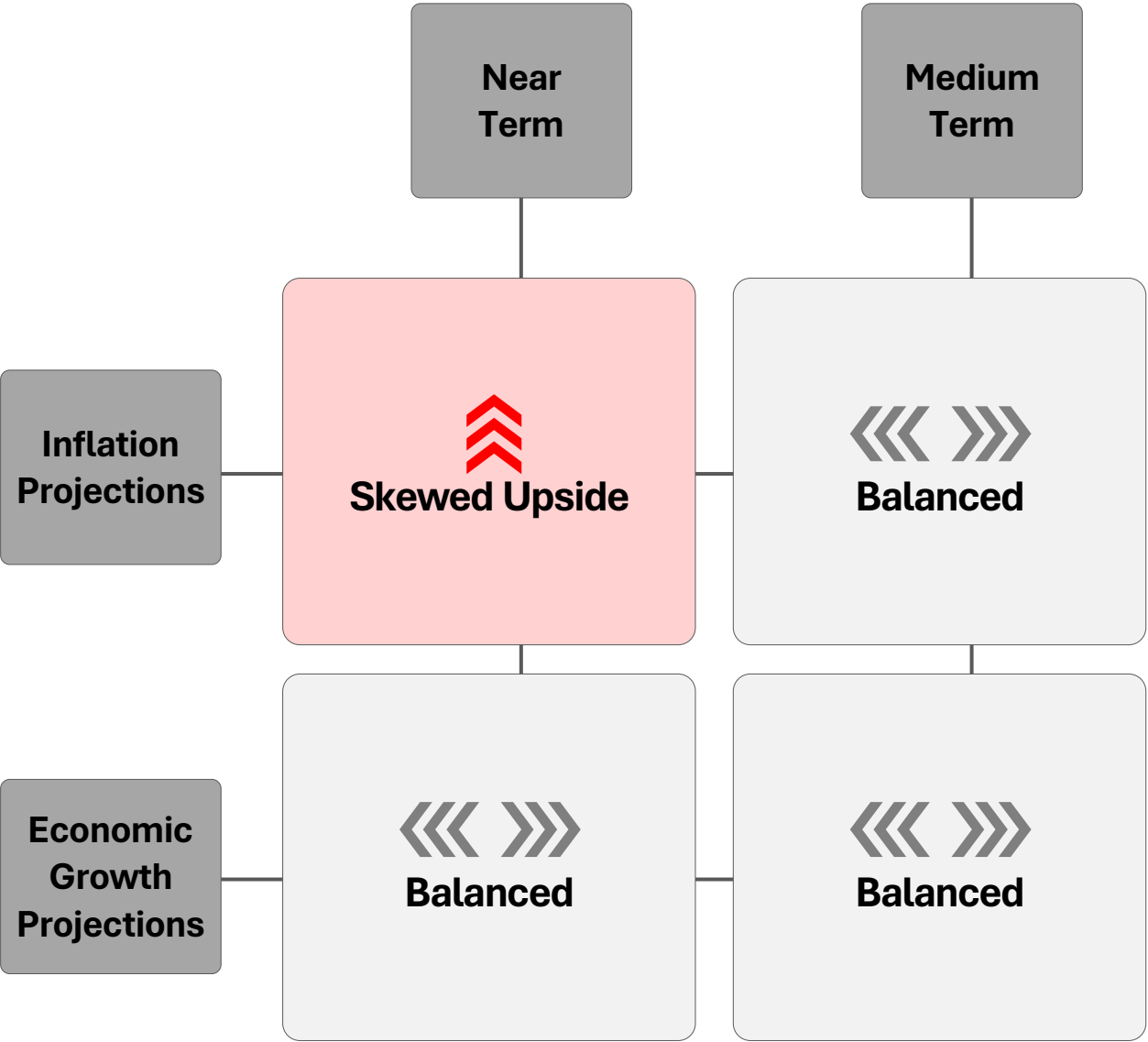


Activity pickup related to large capital infrastructure developments



Possible spillovers due to faster than expected recovery of tourism

Balance of
Risks...

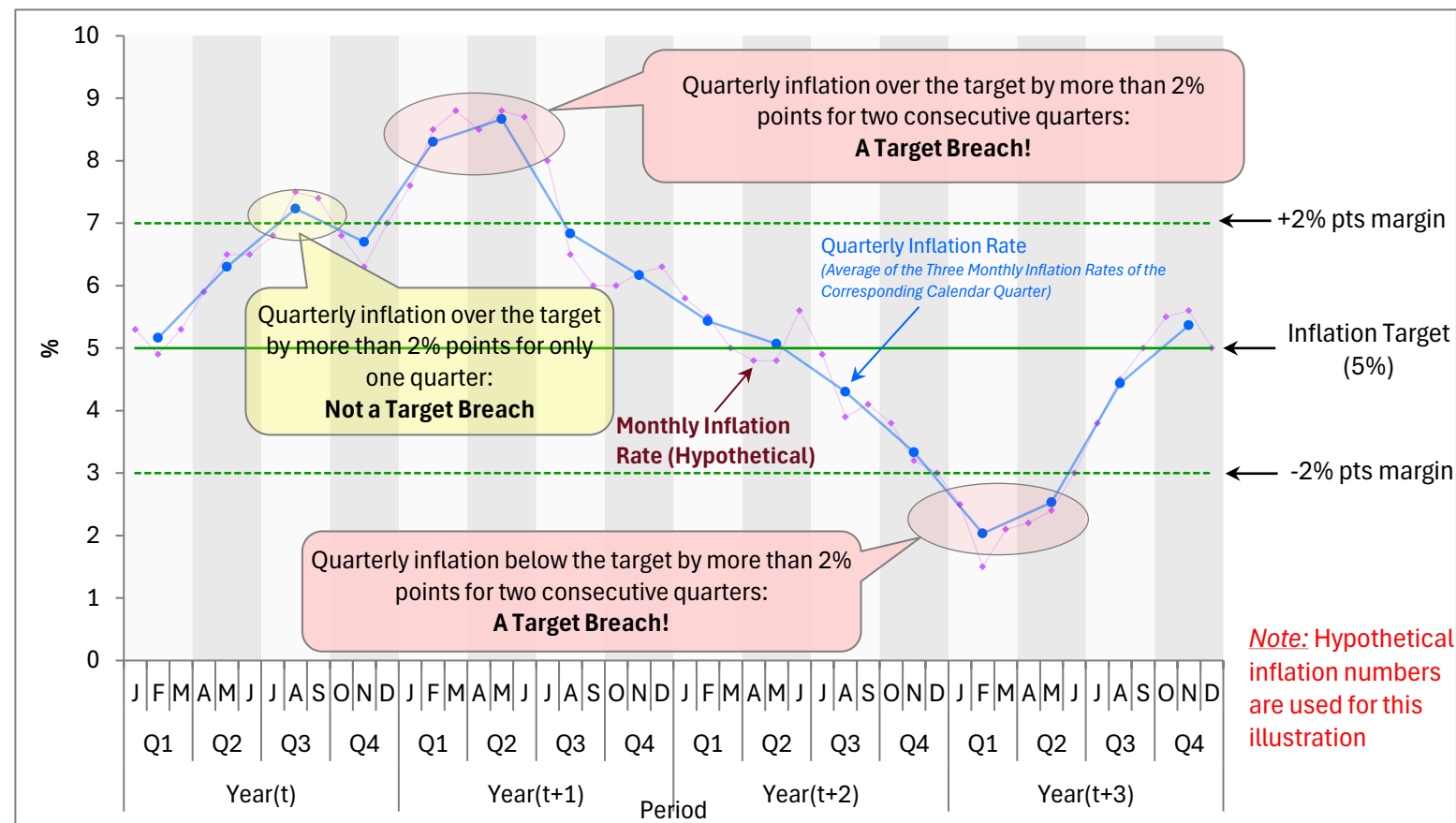


Box Article

Inflation Target Under the Flexible Inflation Targeting Framework...

- Evolution of the Monetary Policy Framework
- Formal Adoption of FIT
- Inflation Target as per the CBA

An illustration based on hypothetical inflation numbers



“a target breach would occur if the realised quarterly headline inflation deviates from the 5% target by more than 2% pts **during two consecutive quarters**, either from the upside or the downside of the target”

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Thank you

