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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

MARKET OPERATIONS REPORT

December 2024

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Overview

Maintaining domestic price stability remains the primary objective of the Central Bank of Sri Lanka (the Central Bank). For this purpose, the Central Bank conducts monetary policy, which is defined as the process by which a central bank manages the availability and/or the cost of money. Under the Central Bank of Sri Lanka Act No. 16 of 2023, the Central Bank conducts monetary policy within a Flexible Inflation Targeting (FIT) framework, aiming at maintaining quarterly headline inflation rate at the target of 5 per cent subject to a tolerance margin of ± 2 per cent, and monetary policy is implemented to maintain inflation at target level. In implementing its monetary policy decisions, the Central Bank employs Open Market Operations (OMOs) to influence the Average Weighted Call Money Rate (AWCMR), the operating target.

As a part of the modernization of monetary policy conduct under FIT, the Central Bank transitioned from a dual policy interest rate mechanism to a single policy interest rate framework, effective 27 November 2024. Under the single policy interest rate mechanism, the Overnight Policy Rate (OPR), serves as the Central Bank's primary monetary policy instrument to communicate and implement its monetary policy stance. This move is expected to improve the clarity and transparency of monetary policy decisions significantly as it sends a consistent signal to the financial markets, which helps in aligning market expectations and shaping up the behaviour of market participants. At the Monetary Policy Review (MPR) in November 2024, OPR was set at 8.00 per cent aligning with the monetary policy stance by way of effectively reducing the policy interest rate by around 50 basis points.

The MOR December 2024 summarizes key monetary operations, policy measures, liquidity trends, short-term interest rate movements, and the details of Statutory Reserve Requirement (SRR), particularly focusing on the second half of 2024, along with two featured articles on time relevant topics; "Operationalization of Overnight Policy Rate under Single Policy Interest Rate Mechanism" and "Open Market Operations for Stabilizing Short-term Interest Rates".

Highlights

- The Central Bank began easing its monetary policy stance by lowering policy interest rates in June 2023, and the cumulative reduction up to July 2024 was by 725 basis points. In November 2024, the Central Bank decided to further ease its monetary policy stance by effectively reducing the policy interest rate by around 50 basis points.
- The Central Bank shifted from a dual policy interest rate system to a single policy interest rate framework on 27 November 2024. The OPR, which was set at 8.00 per cent, became the primary tool for communicating and implementing the monetary policy stance. The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), the rates applicable for standing facilities continue to be available for Participatory Institutions (PIs) for overnight transactions with the Central Bank and are currently linked to the OPR with a margin of ± 50 basis points. The OPR plus 50 basis points reflects the SLFR, while the OPR minus 50 basis points reflects the SDFR.
- Liquidity conditions in the domestic money market improved throughout 2024. Surplus liquidity continued to rise from April 2024, recording a surplus of Rs. 168.1 billion by end December 2024, compared to a liquidity surplus of Rs 88.0 billion, recorded by end December 2023.
- The improvement in liquidity conditions in 2024 was primarily driven by net foreign exchange transactions conducted by the Central Bank, resulting in a net injection of rupees to the market. However, liquidity in the domestic money market was partly absorbed by net Treasury bill maturities and the coupon payments on Treasury bonds held by the Central Bank, as well as net currency withdrawals during 2024.

- The Central Bank's focus in conducting OMOs in the second half of 2024 was to provide certainty on liquidity and address the asymmetric liquidity distribution. OMO term reverse repurchase auctions were conducted every week as per an implicit auction schedule, together with overnight reverse repurchase auctions as the fine-tuning operations to address the impact of sudden changes in the autonomous factors, which are not captured in the liquidity forecasts. This helped to contain large volatility in market interest rates.
- However, with liquidity improvements in the domestic money market, liquidity injections under the OMOs of the Central Bank were scaled down, and hence the Central Bank conducted reverse repo auctions on a need basis only for the purpose of stabilising short-term interest rates.

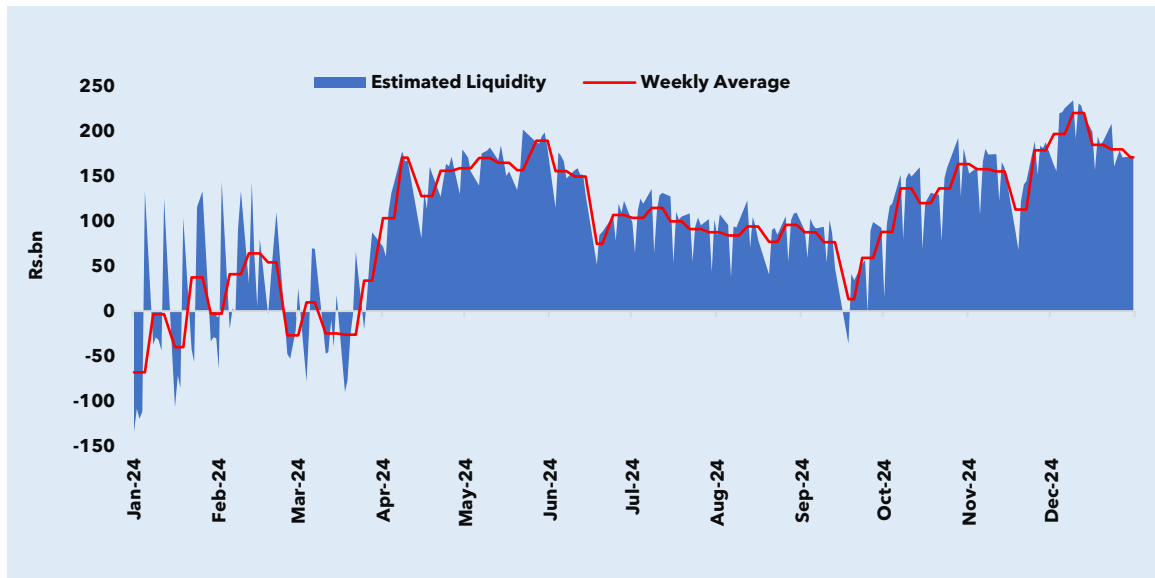
Monetary Policy Stance in 2024

- In line with the accommodative monetary policy stance, which commenced in mid-2023, the Central Bank reduced its policy interest rates by a cumulative of 725 basis points up to July 2024. Further, the Central Bank reduced its policy interest rates effectively by around 50 basis points in November 2024 with the introduction of the OPR under the single policy interest rate mechanism. The SDFR, which is linked to OPR stood at 7.50 per cent and the Standing Lending Facility Rate SLFR, which is also linked to OPR, stood at 8.50 per cent, by end 2024.

Behaviour of the Central Bank Liquidity

- Liquidity conditions in the domestic money market continued to improve since April 2024, recording a surplus of Rs. 168.1 billion by end December 2024.

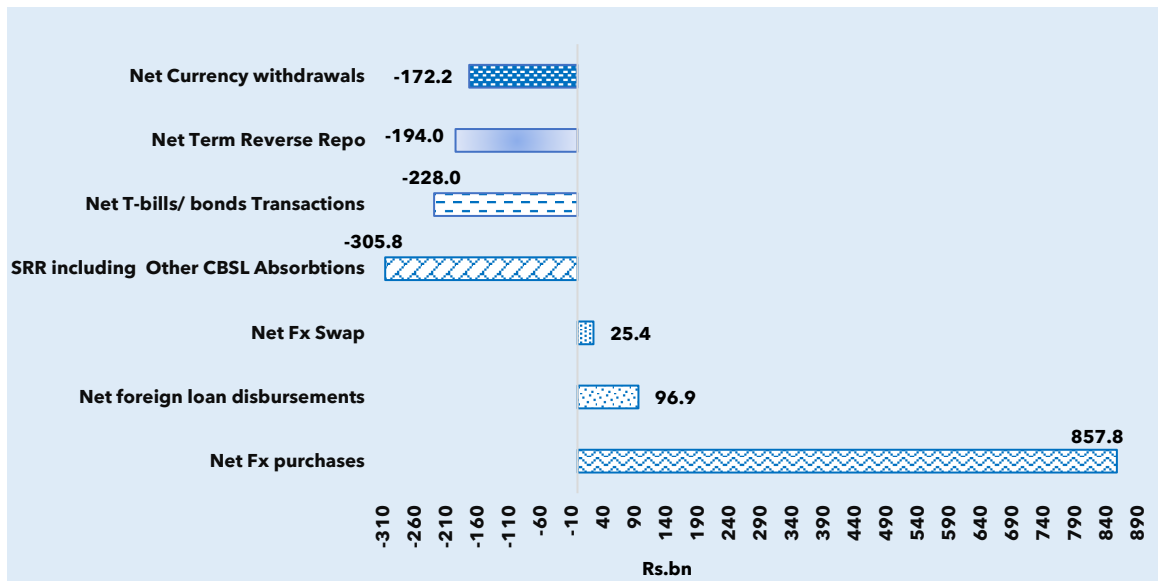
Figure 1: Behaviour of Estimated Central Bank Liquidity - 2024



- The improvements in liquidity conditions during 2024 were primarily driven by net foreign exchange purchases and swaps transactions of around Rs. 883.2 billion conducted by the Central Bank. However, liquidity in the domestic money market was partially offset by factors such as Treasury bill maturities held by the Central Bank amounting to Rs. 240.0 billion, coupon payments to the Central Bank of around Rs. 300.7 billion on its holdings of Treasury bonds, and net currency withdrawals of around Rs.172.2 billion. Structural liquidity¹ also improved and remained as a surplus of Rs. 168.1 billion by the end of December 2024.

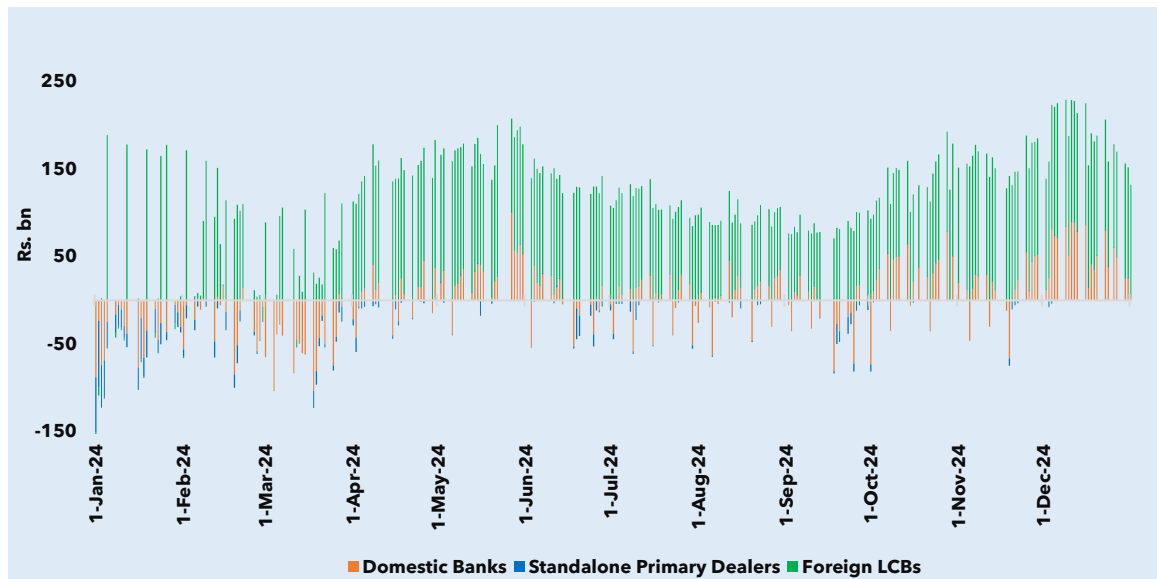
¹ Structural Liquidity represents overnight liquidity, excluding liquidity injected/ absorbed through temporary monetary operations of the Central Bank with market participants.

Figure 2: Factors Contributed to Change in the Central Bank Liquidity – 2024



- Despite improved liquidity conditions, the Central Bank was compelled to intervene regularly in the domestic money market through OMOs due to the continued asymmetry in liquidity distribution among market participants. This imbalance was a result of the cautious approach and stringent risk mitigation measures adopted by some Licensed Commercial Banks (LCBs), particularly foreign banks, following Sri Lanka’s sovereign rating downgrade. This situation improved to a certain extent towards the end of 2024 and is expected to further improve with the recent upgrade of Sri Lanka’s credit rating.
- However, foreign exchange purchases by the Central Bank during the fourth quarter of 2024 contributed to a gradual improvement in domestic money market liquidity conditions. By the end of 2024, this development enabled all categories of banks i.e., state banks, domestic private banks, and foreign banks to achieve excess liquidity positions in spite of some banks remaining in deficits.

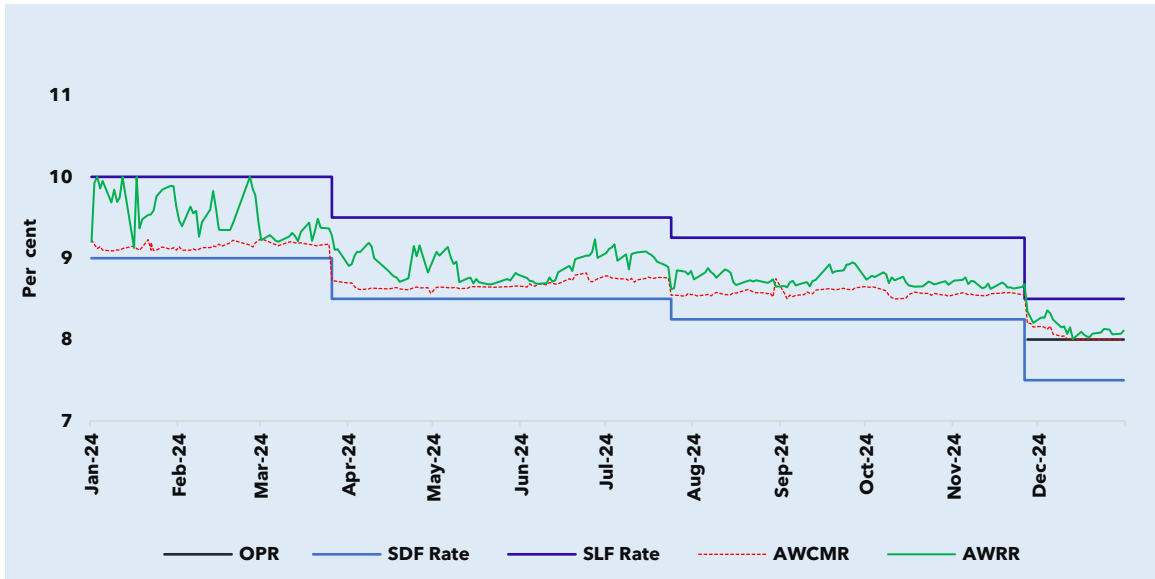
Figure 3: Daily Estimated Liquidity Distribution among Pls - 2024



Movements in Short-Term Interest Rates

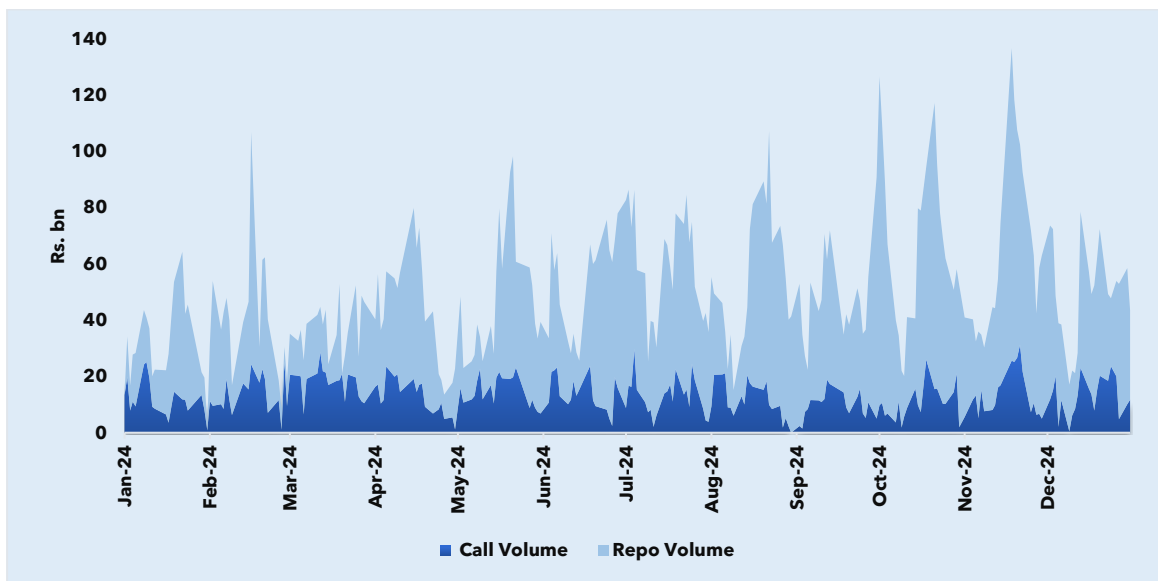
- The relaxation of monetary policy further continued in the second half of 2024. With the introduction of the OPR and the policy rate reduction of around 50 basis points along with well calibrated OMOs, call market interest rates converged towards the OPR. Accordingly, AWCMR which was at 8.55 per cent on 26 November 2024, declined to 8.00 per cent by end 2024, by 55 basis points reflecting a significant pass-through effect of policy actions. Similarly, Average Weighted Repo Rate (AWRR) fell by 57 basis points from 8.68 per cent reported on 26 November 2024 to 8.11 per cent by end December 2024.

Figure 4: OPR, SLFR, SDFR, AWCMR and AWRR - 2024



- In terms of money market transactions, the total call market volumes increased in 2024, while active participation of state banks and certain foreign banks in the call money market was also observed. Accordingly, although call market transactions remained relatively low compared to the pre-crisis level, a notable improvement in market normalization was observed. Meanwhile, repo market transaction volumes saw an increase, driven by demand from domestic private banks, state banks, and Standalone Primary Dealers (SPDs).

Figure 5: Daily Volumes of Overnight Call and Repo Market Transactions - 2024



Feature Article 1:**Operationalization of Overnight Policy Rate under Single Policy Interest Rate Mechanism**

Central banks commonly employ policy interest rates, open market operations and reserve requirements as conventional monetary policy tools for monetary policy implementation. Among those instruments, policy interest rates play a critical role as it serves as a central bank's main signaling mechanism of its monetary policy stance. However, the implementation procedure of monetary policy varies across countries and over time and it evolves with financial market conditions and developments as well as macroeconomic dynamics.

Country Experiences

The Bank of England has operated with a single policy rate for a considerable period of time*. Similarly, advanced economies like Canada and Sweden adopted the practice of using a single policy interest rate in the 1990s. In recent years, several peer central banks have increasingly moved towards using a single short-term interest rate as their primary tool for signaling monetary policy stance as part of modernizing monetary policy implementation frameworks. In 2004, Bank Negara Malaysia introduced the Overnight Policy Rate as an indicator of its monetary policy stance to enhance the effectiveness of transmission mechanism. Similarly, in 2011, the Reserve Bank of India (RBI) adopted the repo rate as its single signaling policy rate to align the call rate, its operating target, in line with the policy rate. This shift improved financial market integration, and increased alignment between debt market instrument rates and the call rates. Many other economies such as Philippines, Thailand, Pakistan and Bangladesh also use a single policy interest rate in the process of monetary policy communication.

Evolution of Policy Rates in Sri Lanka

The policy rate mechanism in Sri Lanka has also undergone significant improvements over the years in accordance with international best practices. The Central Bank of Sri Lanka (CBSL) introduced the repurchase (repo) facility in October 1993 to absorb overnight liquidity from the institutions participating in monetary operations through repurchase rate, while in November 1995, reverse repurchase (reverse repo) facility was introduced to inject overnight liquidity using the reverse repurchase rate. These rates provided lower and upper bounds for the interbank call money market rates, creating a policy rate corridor or dual rate mechanism. In January 2014, the policy rate corridor was renamed as the Standing Rate Corridor (SRC), while repurchase rate and reverse repurchase rate were renamed as Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively. With effect from 27 November 2024, with the intention of improving the monetary policy transmission and to enhance signaling effect of the monetary policy stance, the CBSL introduced single policy interest rate mechanism in place of the dual policy interest rates. Accordingly, the CBSL announced a single policy interest rate, namely the Overnight Policy Rate (OPR).

The single policy interest rate mechanism aims to ensure that the operating target of the monetary policy framework, Average Weighted Call Money Rate (AWCMR), remains closer to OPR through managing

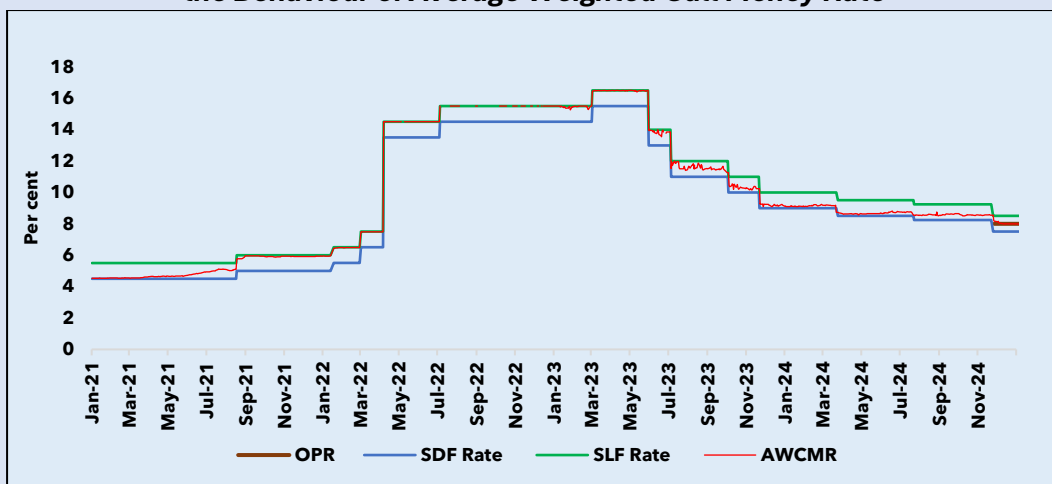
* The original text was revised on 14 February 2025 to provide greater clarity.

liquidity at appropriate levels. This contrasts with the previous framework, where the AWCMR was maintained within an interest rate corridor, without providing any precise guidance for interbank transactions.

Despite the introduction of the OPR as the policy rate of the CBSL, the SLFR and SDFR will also remain effective. Standing Deposit Facility (SDF) allows Participating Institutions (PIs) to deposit their excess funds at CBSL under SDFR, while Standing Lending Facility (SLF) allows PIs to borrow funds under SLFR from CBSL on an overnight basis. These facilities help to contain wide fluctuations in overnight interest rates by way of continuing to provide lower and upper bounds for interbank call money rate. These rates are linked to OPR with a margin as decided by the Monetary Policy Board of the CBSL. Accordingly, OPR was initially announced as 8 per cent, with a margin of +/- of 50 basis points. Accordingly, the SDFR and the SLFR prevailed at 7.50 per cent and 8.50 per cent, respectively, with effect from 27 November 2024. With the introduction of OPR, these interest rates are no longer treated as policy rates but serve only as rates for the standing facility.

Figure F.A: 1.1

Overnight Policy Rate, Standing Facility Rates and the Behaviour of Average Weighted Call Money Rate



Operational Changes

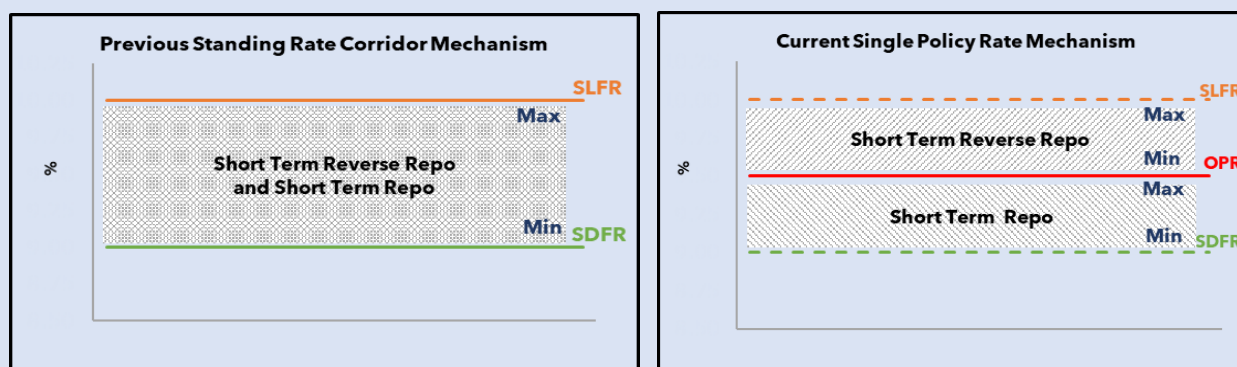
The implementation of a single policy interest rate necessitated changes to operational framework and modifications to the existing system under Open Market Operations (OMO). OMOs, which are used to manage short-term interest rates, generally refer to buying and selling financial assets on a temporary or permanent basis to manage market liquidity appropriately. Under OMOs, the CBSL conducts auctions to inject or absorb liquidity, through buying/selling government securities on a permanent or a temporary basis to steer the AWCMR in line with the monetary policy stance. Reverse repo auctions are conducted by the CBSL in order to inject liquidity by way of allowing PIs to borrow funds, while repo auctions are conducted to absorb liquidity by way of allowing PIs to park their excess liquidity.

The bidding process of OMOs under the single policy interest rate mechanism has undergone several changes. The previous SRC system facilitated PIs to bid within the SDFR and SLFR for both short-term

repo and short-term reverse repo auctions. Under this dual policy rate system, any bid at or above SLFR was not permitted for short-term repo auctions, while any bid at or below the SDFR was not permitted for short-term reverse repo auctions. With the implementation of the single policy interest rate mechanism, any PI that bids for short-term repo auction (the tenor of the short-term auctions is overnight to 7 days), the maximum and minimum bidding rates were set at the OPR and SDFR, respectively. Similarly, for short-term reverse repo auctions, the eligible range for bidding of PIs was changed to rates within the SLFR and OPR.

Figure F.A:1.2

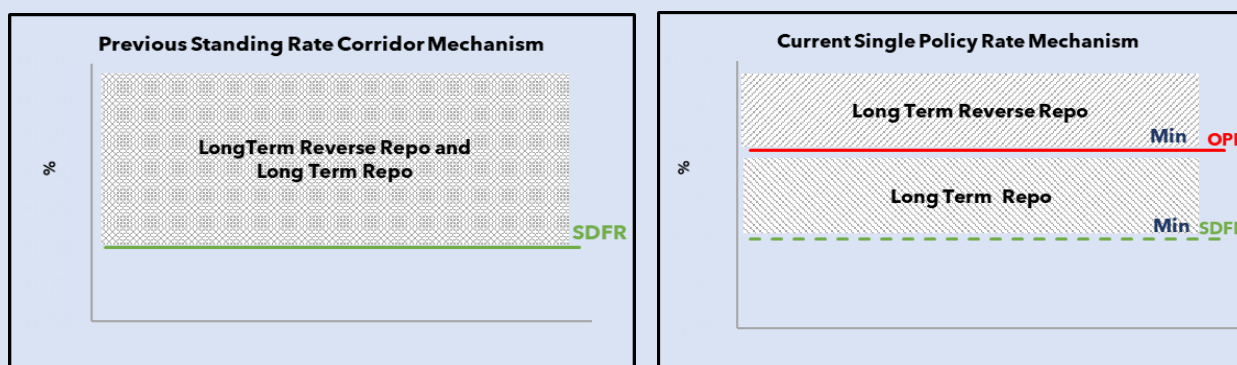
Comparison Between Previous and Current Mechanism for Short-Term OMO Auctions



Under long-term repo auctions within the single policy interest rate mechanism, PIs are not permitted to submit any bids below the SDFR. Similarly, for long-term reverse repo auctions, any bids submitted below the OPR are not allowed. However, there are no restrictions on the maximum bidding rate under the single policy interest rate mechanism. This is similar to the previous mechanism for long-term repo and reverse repo auctions, as well as for outright auctions.

Figure F.A: 1.3

Comparison Between Previous and Current Mechanism for Long-Term OMO Auctions



Outcomes of Introducing Single Policy Interest Rate

The adoption of single policy interest rate mechanism marks a significant step in CBSL's signaling and transmission mechanism of monetary policy. This simplifies the CBSL's communication of the monetary policy stance to the stakeholders, while enhancing clarity and transparency. A single, well-understood, transparent policy rate can strengthen the credibility of the monetary policy implementation of the CBSL, while increasing its efficiency. Further, it creates consistency in policy transmission and reduces ambiguity and uncertainty as there is a single benchmark for the setting of other interest rates.

The effectiveness of the single policy interest rate mechanism became evident shortly after the introduction of the OPR. Within a month of implementing the new monetary policy transmission framework along with the carefully calibrated OMOs, the AWCMR, the overnight interbank rate, stabilized and aligned with the OPR. On many occasions, the interbank call money rate remained at the OPR, while other market interest rates also tend to align with the signal provided by the OPR. Further, with the stability of the interbank money market rate, money market activities have become more active, while reducing the need for frequent intervention by the CBSL in the market.

Conclusion

The shift to a single policy interest rate mechanism underscores the continuous commitment of the CBSL to foster a stable and predictable economic environment through refinement to its monetary policy framework and the operational mechanism. Hence, further modifications are presently in progress, aimed at enhancing the efficiency of the existing monetary policy implementation framework to better respond to evolving economic dynamics and challenges.

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Monetary Operations of the Central Bank

Open Market Operations

- Given asymmetric distribution of liquidity, the Central Bank continued to provide liquidity to the domestic money market through OMOs in line with the accommodative monetary policy stance. These OMO interventions provided greater certainty on the availability of liquidity to the market participants. This facilitated an effective passthrough of interest rates, and a reduction in short-term market interest rates. With the improvements in market liquidity, particularly in the second quarter of 2024, the Central Bank scaled down its OMOs and accordingly, reverse repo auctions were conducted on a need basis, aiming at stabilising short-term interest rates.
- Under OMOs, the Central Bank conducted reverse repurchase auctions on overnight and term basis. Accordingly, in 2024, total injections through short-term and long-term reverse repurchase auctions were Rs. 2,318.1 billion and Rs. 279.5 billion, respectively. However, by end December 2024, total outstanding reverse repo transaction volume remained at Rs. 20.0 billion with no facilities provided on long-term basis.

Figure 6: Open Market Operations and Behaviour of Overnight Liquidity - 2024

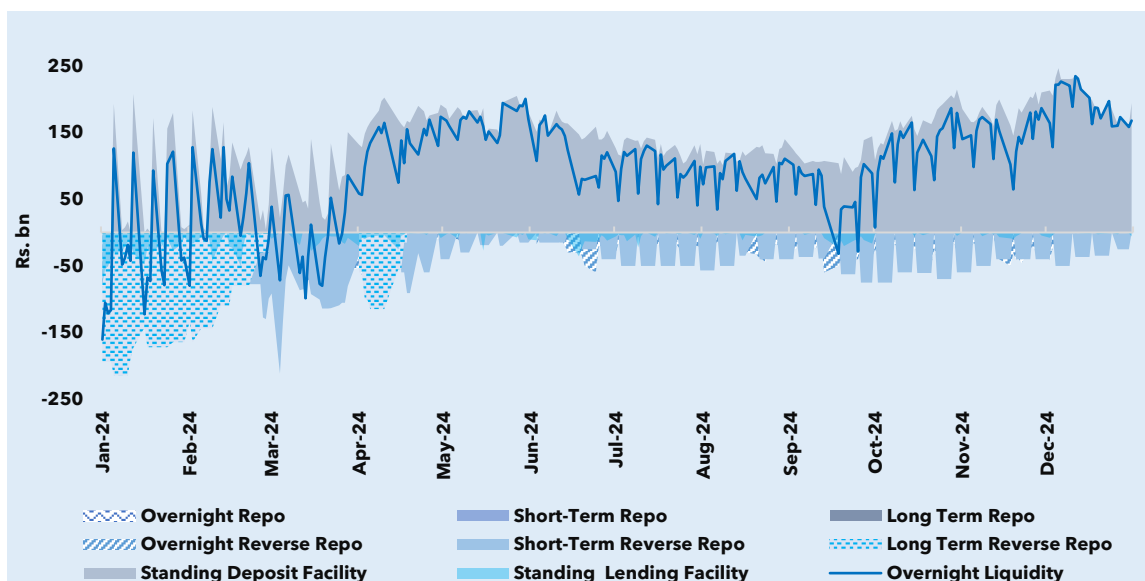


Figure 7: Overnight Reverse Repo Auctions - 2024

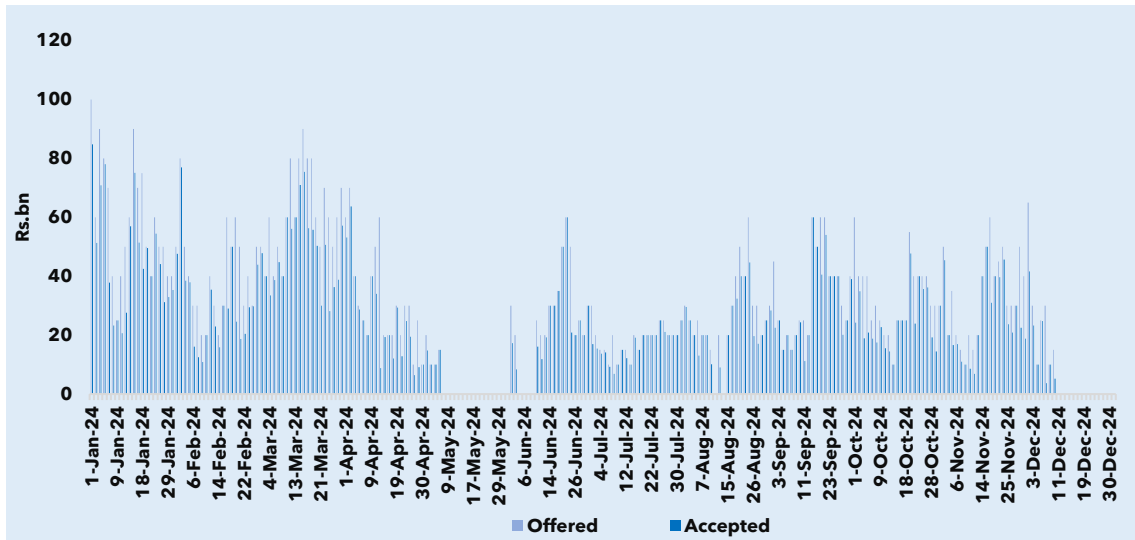


Figure 8: Short-term Reverse Repo Auctions - 2024

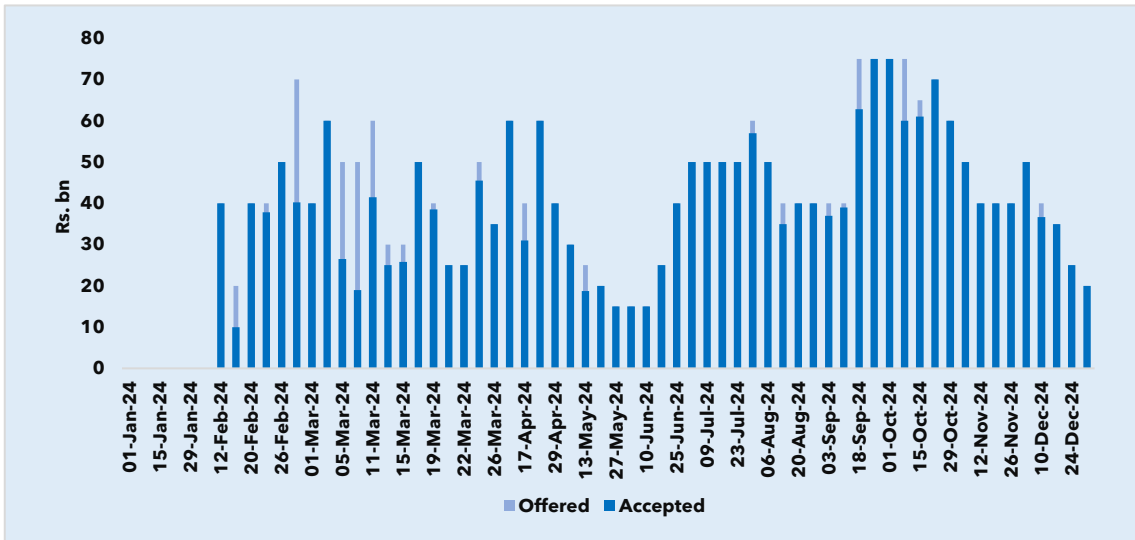
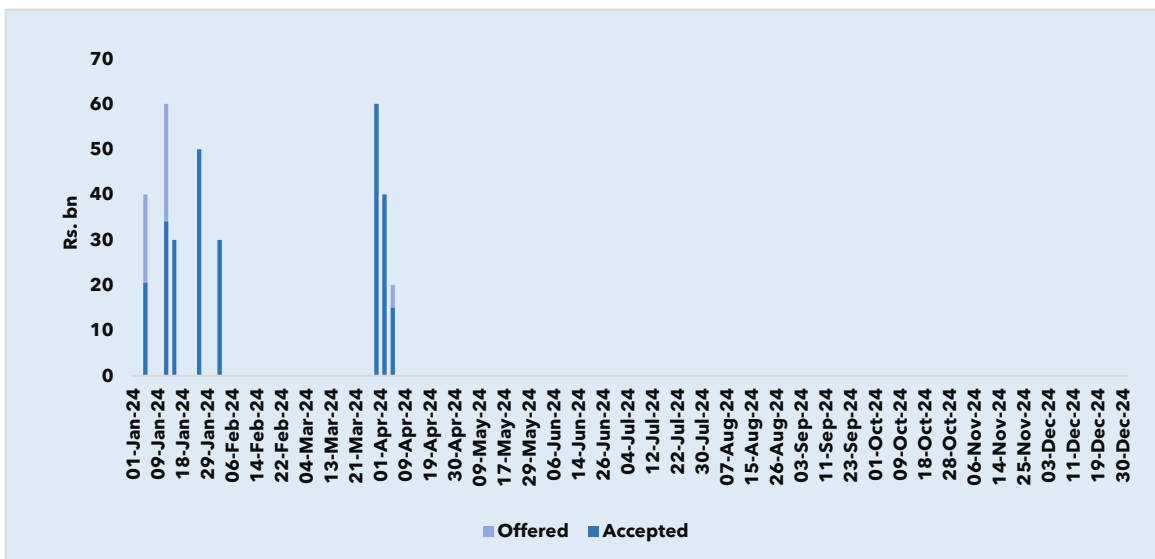


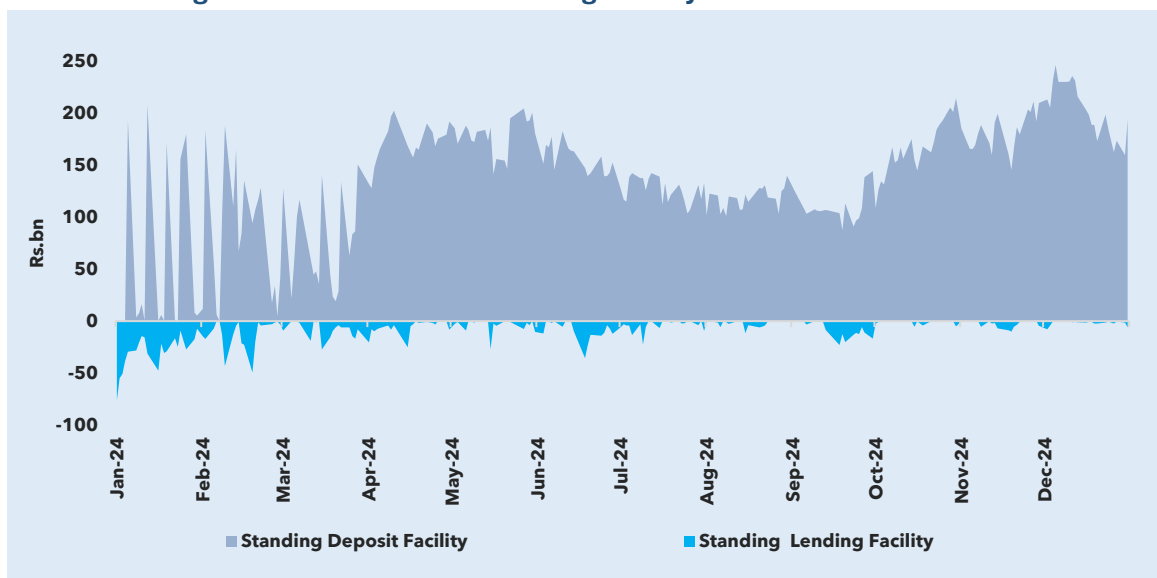
Figure 9: Long-Term Reverse Repo Auctions - 2024



Standing Facilities

- The Standing Facilities were provided to PIs to meet their residual short-term liquidity needs that could not be met from the money market and the OMO auctions.
- During 2024, the average amount accepted under SDF was Rs. 134.4 billion and the average amount granted under SLF was Rs. 7.1 billion compared to the average amounts of Rs. 74.3 billion under SDF and Rs. 107.5 billion reported under SLF during 2023. With the improvement in market liquidity levels, SDF volumes increased. Dependency on the standing lending facility by SPDs was minimum as they managed most of their funding requirements through the market.

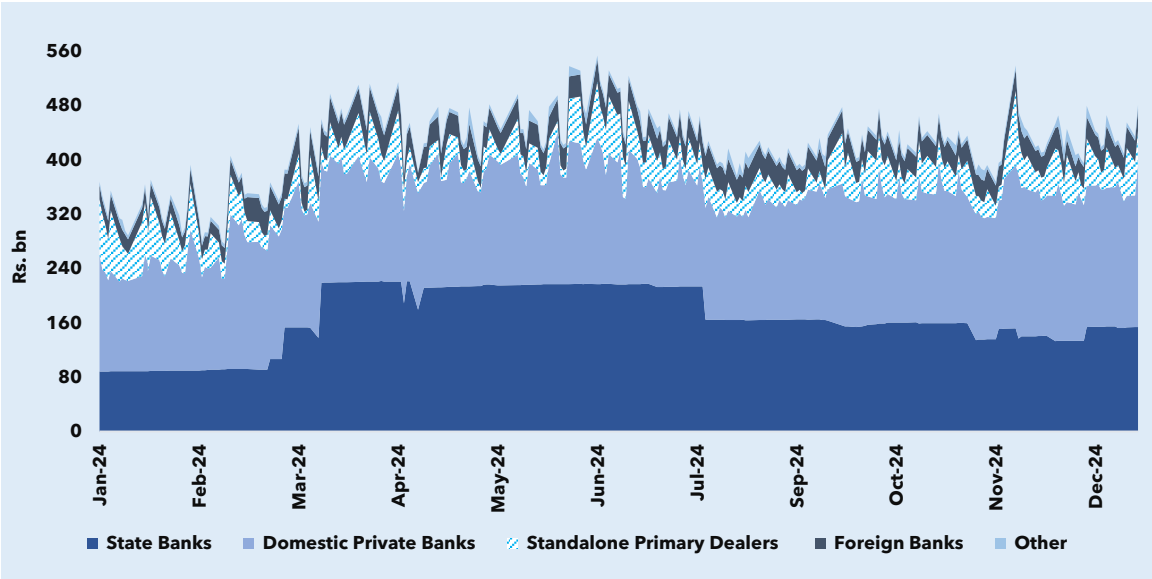
Figure 10: Behaviour of Standing Facility of the Central Bank - 2024



Intra-Day Liquidity Facility

- The Central Bank makes available the Intra-day Liquidity Facility (ILF) to the eligible participants to ensure smooth and efficient operation of the Real Time Gross Settlement (RTGS) system. The total value and the average daily value of ILF drawn by end 2024 amounted to Rs. 102,290.9 billion and Rs. 421.0 billion, respectively, compared to the Rs. 72,387.8 billion and Rs. 295.5 billion, respectively, reported by end December 2023.

Figure 11: Usage of Intraday Liquidity Facility - 2024



Feature Article 2:**Open Market Operations for Stabilizing Short-term Interest Rates**

Monetary policy implementation plays a pivotal role in ensuring the main objective of the Central Bank of Sri Lanka, which is maintaining domestic price stability. Among the various tools available to the Central Bank in implementing monetary policy maintain low and stable inflation in the economy, Open Market Operations (OMOs) stand out as a key tool in influencing liquidity conditions and guiding short-term interest rates in the economy. Central banks around the world regularly conduct OMOs to manage liquidity. These are routine and standard actions carried out by central banks worldwide in liquidity management under monetary policy implementation. During crisis periods, central banks often leverage instruments under OMOs as part of unconventional monetary policies to stimulate demand and support economic stability. This article explores the significance of OMOs for monetary policy implementation in Sri Lanka and clears up some misnomers in relation to OMOs.

Importance of Open Market Operations (OMOs)

OMOs are a cornerstone of effective monetary policy implementation, enabling central banks to manage liquidity in the financial system and guide short-term interest rates. By ensuring that of short-term and other market interest rates are aligned with the Central Bank's policy stance, OMOs play a crucial role in achieving price stability.

OMO is a term that refers to purchase and sale of securities, typically government securities, in the open market by the Central Bank to manage liquidity in the banking system. These are generally collateral-based liquidity management operations. When the Central Bank purchases government securities from banks, it injects liquidity into the banking system, thereby increasing the availability of funds. Conversely, by selling government securities to banks, the Central Bank withdraws excess liquidity, helping to mitigate inflationary pressures in the economy by curtailing expansionary effects. These targeted interventions ensure that liquidity conditions align with broader monetary policy objectives of the Central Bank as OMOs provide the Central Bank with a precise and flexible mechanism to influence liquidity conditions. For instance, during periods of excess liquidity, the sale of government securities helps withdraw surplus funds from the banking system. Without such interventions through OMOs, short-term interest rates could experience a sharp decline and disrupt the broader economy and affect the Central Bank's ability to meet its inflation target. Conversely, in times of liquidity shortages, purchasing securities inject liquidity into the economy, thereby preventing sharp volatility in short-term interest rates. Accordingly, the Central Bank uses OMOs to manage liquidity and in turn, ensures stabilizing in the short-term interest rate in the inter-bank money market, which is also known as the Average Weighted Call Money Rate (AWCMR), the operating target under the Flexible Inflation Targeting Framework.

Moreover, OMOs contribute significantly to ensure financial stability by addressing disruptions in the money markets. The adoption of instruments such as term repo, reverse repo, and targeted liquidity measures support in managing liquidity across different time horizons. Experience from various countries demonstrates the adaptability of OMOs to meet specific challenges, such as stabilizing fragmented

markets, ensuring the smooth transmission of monetary policy, and addressing sector-specific liquidity needs, even during crisis times.

The Sri Lankan experience with OMOs has been pivotal in ensuring price stability and interest rate stability, particularly after introducing more active OMOs in 2023. As a benchmark, the AWCMR influences a variety of other rates, including yield rates of government securities as well as deposit and lending rates of the economy. This helps align the market with the policy direction set by the Central Bank, ensuring that the economy operates towards the desired outcomes.

Open Market Operations and Issuing New Money to the Economy

The Central Bank provides liquidity to commercial banks under the OMOs, for the purpose of preventing unhealthy fluctuations in the short-term interest rates that can lead to destabilise the economy. Despite the role of OMOs assisting to conduct monetary policy and ensure financial system stability, there are some misinterpretations about OMOs conducted by the Central Bank.

Issuing new money to the economy is one of the key responsibilities of the Central Bank in making sure that money is adequately available to the public. In economic terms, issuing new money refers to the increase in the stock of reserve money in the economy, which eventually impacts on the total money supply. This can be a result of either increasing the currency held by the public due to the issuance of new currency notes or coins to the economy or through increasing the reserve balances of commercial banks. Hence, issuing new money does not entirely refer to the physical issuance of new currency notes and coins into the economy, and it is not a narrow concept which is widely used in media as ‘money printing’.

The amount of issuance of new money is determined by several economic factors, predominantly economic growth, which leads to an increase in the number of transactions. Increasing the money supply is necessary to facilitate this growth until it does not necessarily cause inflationary pressures. Therefore, along with economic growth, the target inflation rate also influences the amount of money that should be printed. As such, it should be understood that issuing new money is harmful only when it is done excessively, surpassing the actual needs of the economy. It is also important to note that increasing the money supply refers to a long-term trend rather than short-term fluctuations in money demand and supply.

The Central Bank conducts OMOs, i.e., the buying and selling of government securities in the open market. OMOs are conducted to adjust the supply of liquidity on a regular basis, based on liquidity demand arising from market factors which is assessed through daily liquidity forecasts. The Central Bank purchases securities (under the reverse repo auction), and it injects money into the banking system by increasing the reserve balances of commercial banks. Conversely, when the Central Bank sells securities (under the repo auction), it absorbs money, from the banking system through reducing the reserve balances. Hence, OMOs change the reserve balances in the banking system. OMOs are conducted only to ensure short-term interest rate stability of the economy.

During 2024, the Central Bank was engaged in liquidity injections through reverse repo auctions due to persistent liquidity asymmetries, despite the overall surplus liquidity in the banking system. Although the

money market operates with overall surplus liquidity at present, this surplus is unevenly distributed among commercial banks, indicating that one segment of commercial banks holds liquidity surplus, while some banks were operating with liquidity shortage. Due to strict exposure limits for interbank transactions following the sovereign credit rating downgrading, the market forces were not freely operating and intermediate as under normal business conditions. For instance, money market lending by foreign banks operating in Sri Lanka has remained limited, despite their significant liquidity surplus, due to the strict exposure limits. Hence, the Central Bank was compelled to conduct liquidity injection operations through OMOs to address liquidity shortfalls and that short-term interest rates, especially the call money rates remain stable. Without such interventions by the Central Bank, short-term interest rates could have increased unnecessarily eased, against the monetary policy stance and thereby disrupting the broader economy and affecting the Central Bank's ability to meet its inflation target. Hence, the sole focus of OMOs is stabilizing short-term interest rates.

Further, there was another misnomer that the Central Bank has printed money through purchasing government securities in the primary market for financing the Government budget deficit, i.e. 'Monetary Financing'. Even though it is correct to say that the money supply of the economy increases with monetary financing, at present, monetary financing is not permitted as per Section 86 of the Central Bank Act No. 16 of 2023, thus preventing purchases of government securities by the Central Bank in the primary market. The last instance where the Central Bank purchased government securities from the primary market was on 21 September 2023, and the Government budget is no longer being accommodated by the Central Bank through 'money printing' or through OMOs.

Conclusion

Under the OMOs, the Central Bank provides/absorbs liquidity to/from the banks for the purpose of preventing unnecessary fluctuations in the short-term money market rates. OMOs are predominantly short-term operations that help in managing liquidity imbalances in the banking system to ensure short-term interest rates remain stable. Accordingly, OMOs are conducted by the Central Bank as a part of its regular monetary operations and not to provide liquidity to finance the government's budget. These actions are a common practice for any central bank and part of the standard process of monetary operations aimed at achieving the objective of price stability.

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Movements in Deposit Liabilities of Licensed Commercial Banks and Statutory Reserve Requirement

- A slight increase in the rupee deposit liabilities of LCBs that was observed during the first quarter of 2024, accelerated further in the subsequent quarters of 2024. This growth was primarily driven by the rise in deposits reported by the state banks and domestic private banks, in line with the increase in private-sector credit flows, supported by the low-interest rate environment.
- In absolute terms, rupee deposit liabilities, which stood at Rs. 10,406.2 billion at the end of 2023, increased to Rs. 12,323.8 billion by the end of December 2024. The growth in rupee deposit liabilities of LCBs, which stood at 10.54 per cent by the end of 2023, increased to 11.05 per cent by the end of March 2024. This growth then accelerated, reaching 15.36 per cent by end of September 2024, and gained momentum, increasing to 18.43 per cent by the end of 2024.

Figure 12: Deposit Liabilities of LCBs 2023-2024

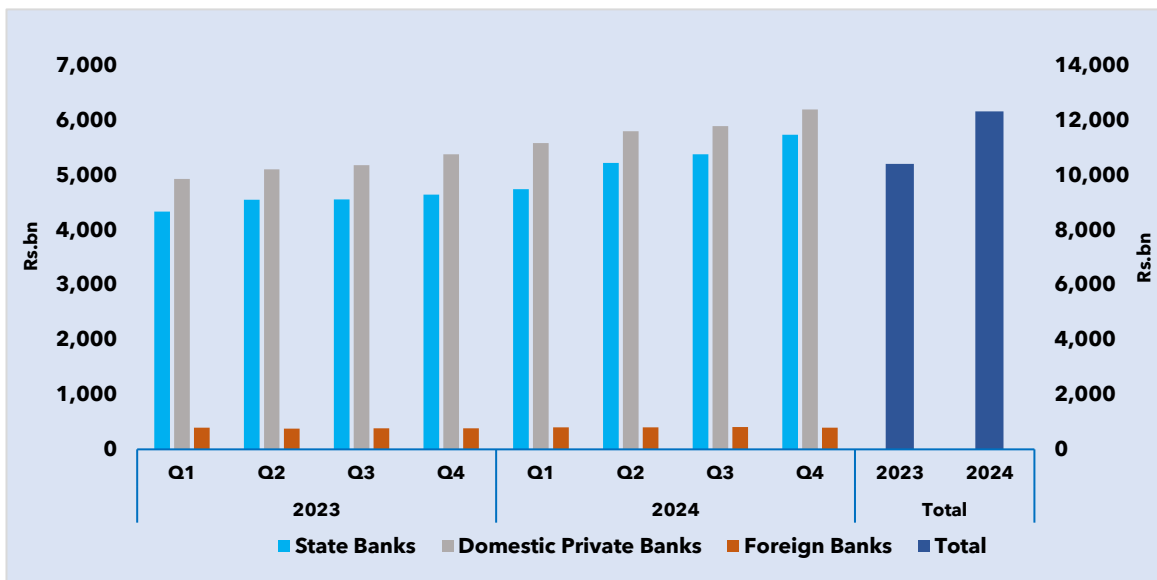
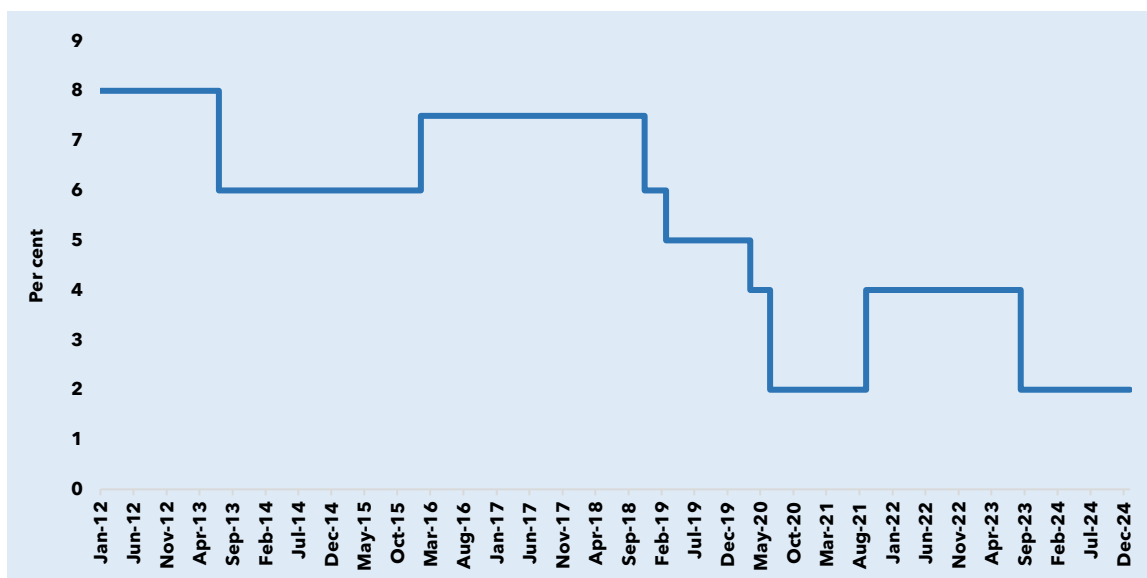


Figure 13: Movements in Statutory Reserve Ratio 2012-2024



- SRR, which is the proportion of all rupee deposit liabilities that LCBs are required to maintain as a cash deposit in their settlement accounts with the Central Bank, was maintained at 2.0 per cent with effect from the reserve maintenance period commencing 16 August 2023.

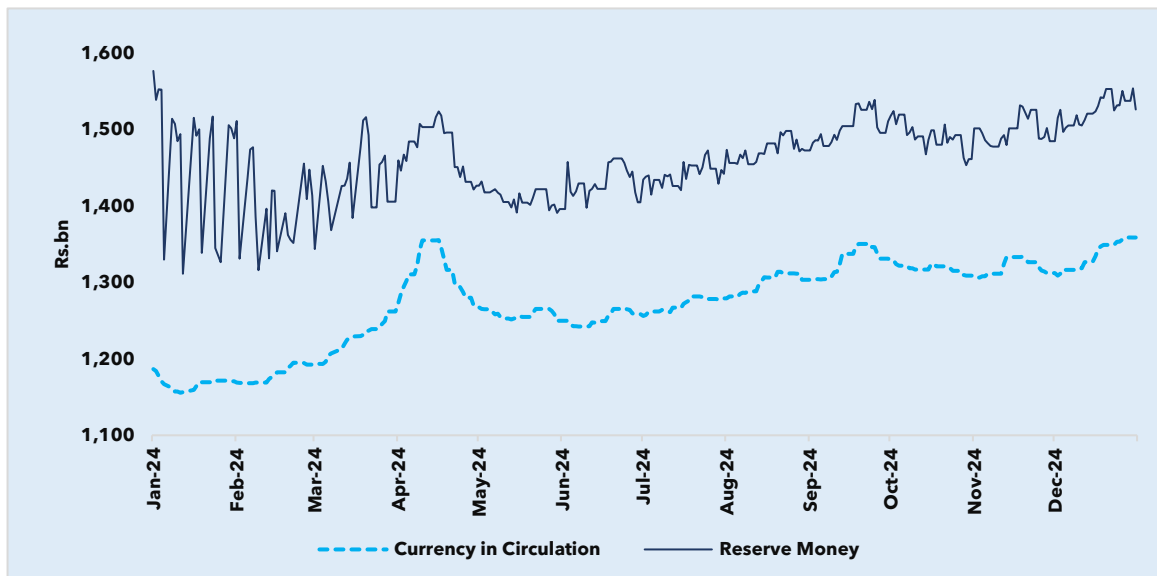
Table 1: Changes in Components of Required Reserve Calculation

| Category to SRR | Rs bn. | |
|----------------------------------|-------------------------------|-------------------------------|
| | End December 2023 (SRR 2%) | End December 2024 (SRR 2%) |
| 1. Demand Deposits | 753.2 | 815.8 |
| 2. Time & Savings Deposits | 9,606.9 | 11,463.8 |
| 3. Other Deposits | 46.1 | 44.2 |
| 4. Total Deposit Liabilities | 10,406.2 | 12,323.8 |
| 5. Total Required Reserves | 141.4 | 187.3 |
| Currency to Total Deposits Ratio | 0.64 | 0.48 |

Movements in Currency in Circulation and Reserve Money

- Currency in circulation (CIC), which is a key contributory factor of liquidity, increased notably in 2024. During the festive season, about Rs. 163.0 billion worth of currency was released to the market by the Central Bank starting from March 2024, of which about Rs. 87.8 billion was returned to the Central Bank by the end of April 2024. Some uptick in currency withdrawals was observed since early September 2024 due to the commencement of the election cycle. Further, the increase in CIC was a reflection of elevated preference of the public to hold currency, possibly due to increased cash-based transactions together with the lower opportunity cost of holding currency in view of prevailing low deposit interest rates as well as in response to increased taxes. Due to the festive demand, net currency withdrawal was about Rs. 46.5 billion in December 2024.

Figure 14: Reserve Money and Currency in Circulation - 2024

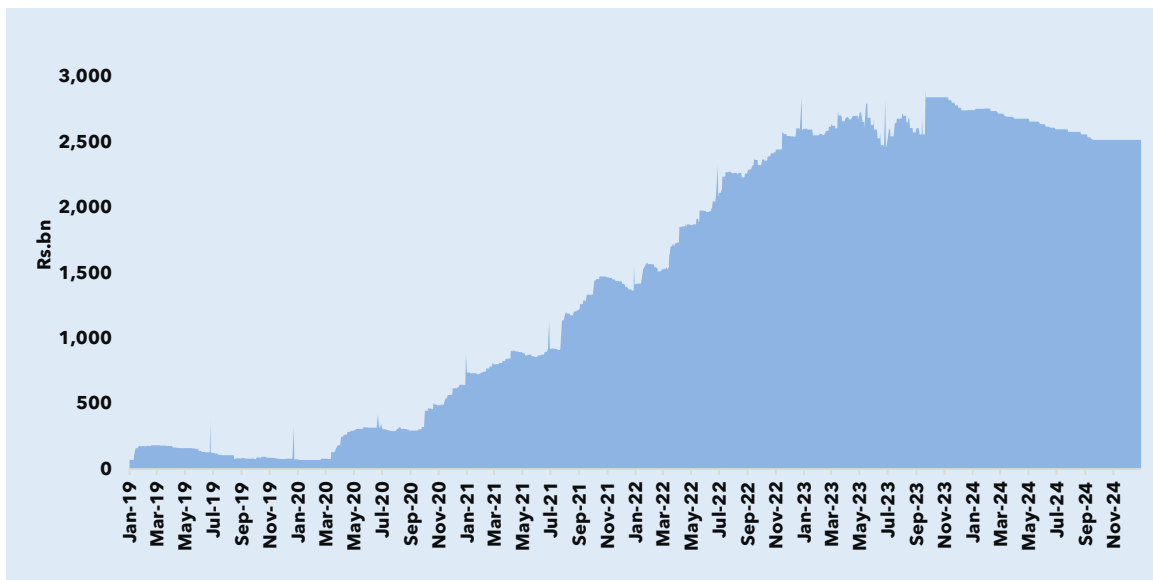


- Reserve money, which is the monetary base of the economy, recorded moderate growth during 2024. Accordingly, reserve money increased to Rs. 1,539.3 billion by end December 2024, from Rs. 1,328.7 billion recorded at end December 2023, mainly due to the increase in CIC.

Government Securities Holding of the Central Bank

- The total Treasury bill portfolio of the Central Bank matured in September 2024. Accordingly, by the end of December 2024, the Central Bank's holding of Treasury bonds amounted to Rs. 2,515.6 billion. While the Central Bank conducted limited operations in the secondary market, by way of purchasing Treasury bonds worth of Rs. 12 billion through outright purchase OMO auctions in 2024, its overall holdings of government securities declined, driven by the maturity of Treasury bills and a part of Treasury bonds in the portfolio.

Figure 15: Government Securities Holding of the Central Bank 2019-2024



Selected Indicators of Market Operations and Transactions

| Transactions | Volume (Rs. billion) | | | Weighted Average Interest Rate | | |
|---|----------------------|----------|----------|-----------------------------------|--------------------|-------------------|
| | | | | (Min-Max) - % | | |
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 |
| Money Market Transactions | | | | | | |
| Call Money (Overnight) | 3,746.0 | 2,076.9 | 3,183.3 | 5.94- 15.50 | 9.10 -16.50 | 7.99 -9.24 |
| Repo (Overnight) | 1,568.3 | 3,522.7 | 8,960.0 | 5.95-15.50 | 9.52 -16.50 | 8.01 -10.00 |
| | | | | | | |
| Open Market Operations | | | | | | |
| Overnight Basis | | | | | | |
| Repo | 1,533.3 | - | - | 5.96-6.49 | - | - |
| Reverse Repo | - | 7,484.7 | 6,006.7 | - | 9.05- 16.19 | 8.05 -9.55 |
| Liquidity Support Facility | - | - | - | - | - | - |
| Short-Term Basis | | | | | | |
| Repo | 22.0 | - | - | 5.98-6.49 | - | - |
| Reverse Repo | 235.0 | 1,450.3 | 2,318.1 | 7.50 | 10.31-16.50 | 8.08 -10.00 |
| Liquidity Support Facility | - | - | - | - | - | - |
| Long-Term Basis | | | | | | |
| Repo | - | - | - | - | - | - |
| Reverse Repo | 954.5 | 1393.3 | 279.5 | 7.73-33.07 | 10.78-29.24 | 8.85 -10.77 |
| Liquidity Support Facility | - | - | - | - | - | - |
| Outright Basis | | | | | | |
| Purchase of T-bills | - | - | - | - | - | - |
| Purchase of T-bonds | - | 8.5 | 12.0 | - | 13.70-30.80 | 13.20 -13.73 |
| Sale of T-bills | 23.5 | - | - | 20.75-26.97 | - | - |
| Sale of T-bonds | - | - | - | - | - | - |
| Standing Facility (at Standing Interest Rates) | | | | | | |
| Standing Deposit Facility | 54,528.3 | 17,991.0 | 32,516.8 | 14.50 ¹ | 9.00 ¹ | 7.50 ¹ |
| Standing Lending Facility | 163,058.1 | 26,015.3 | 1,708.0 | 15.50 ¹ | 10.00 ¹ | 8.50 ¹ |
| 1 End period rates | | | | Source: Central Bank of Sri Lanka | | |