



Monetary Policy Review No. 4 of 2024

Press Conference

Review of the Monetary Policy Stance

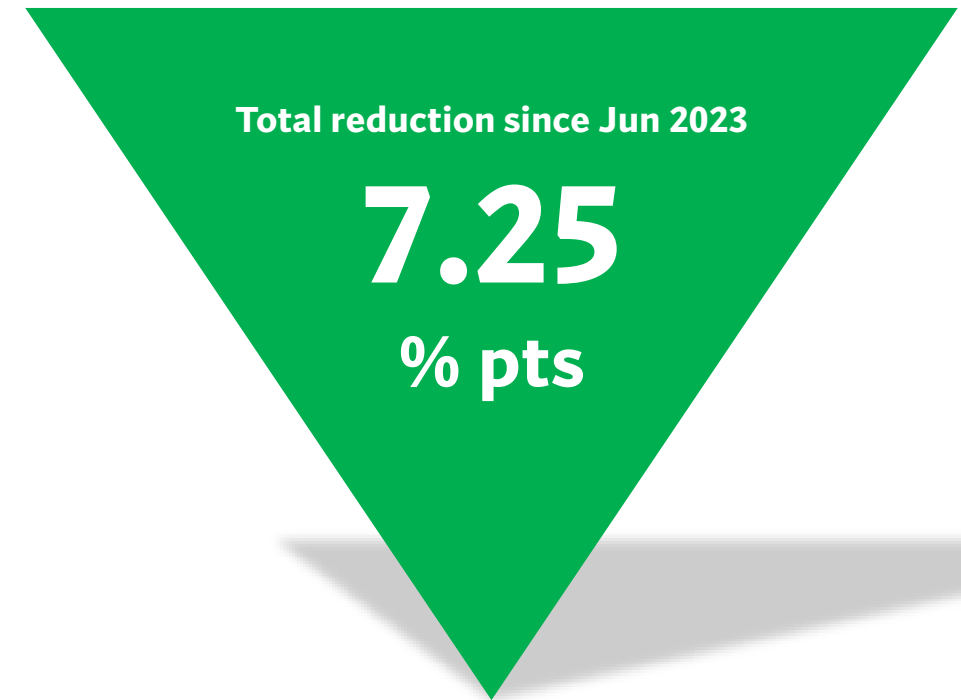
24 July 2024

Economic Research Department
Central Bank of Sri Lanka

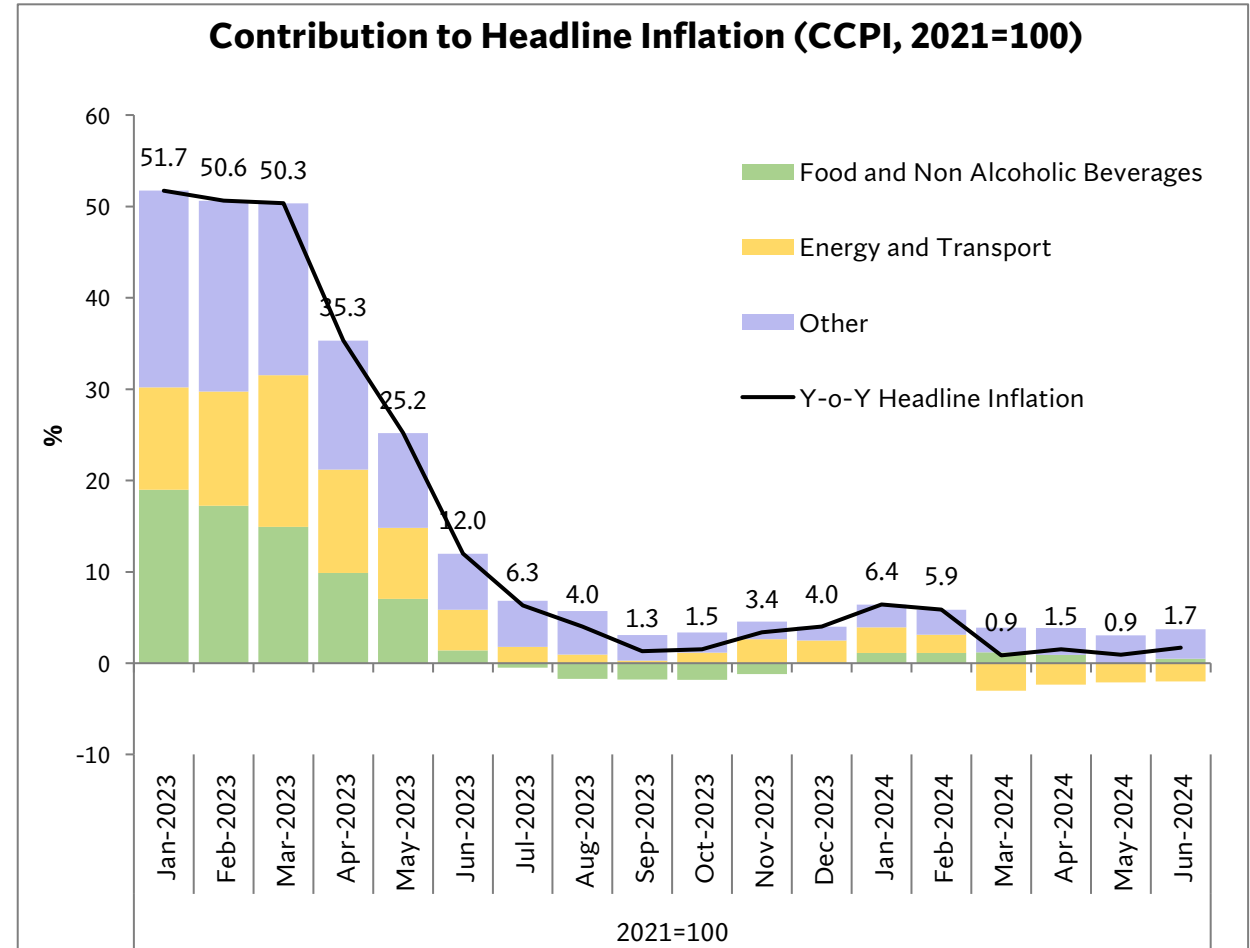
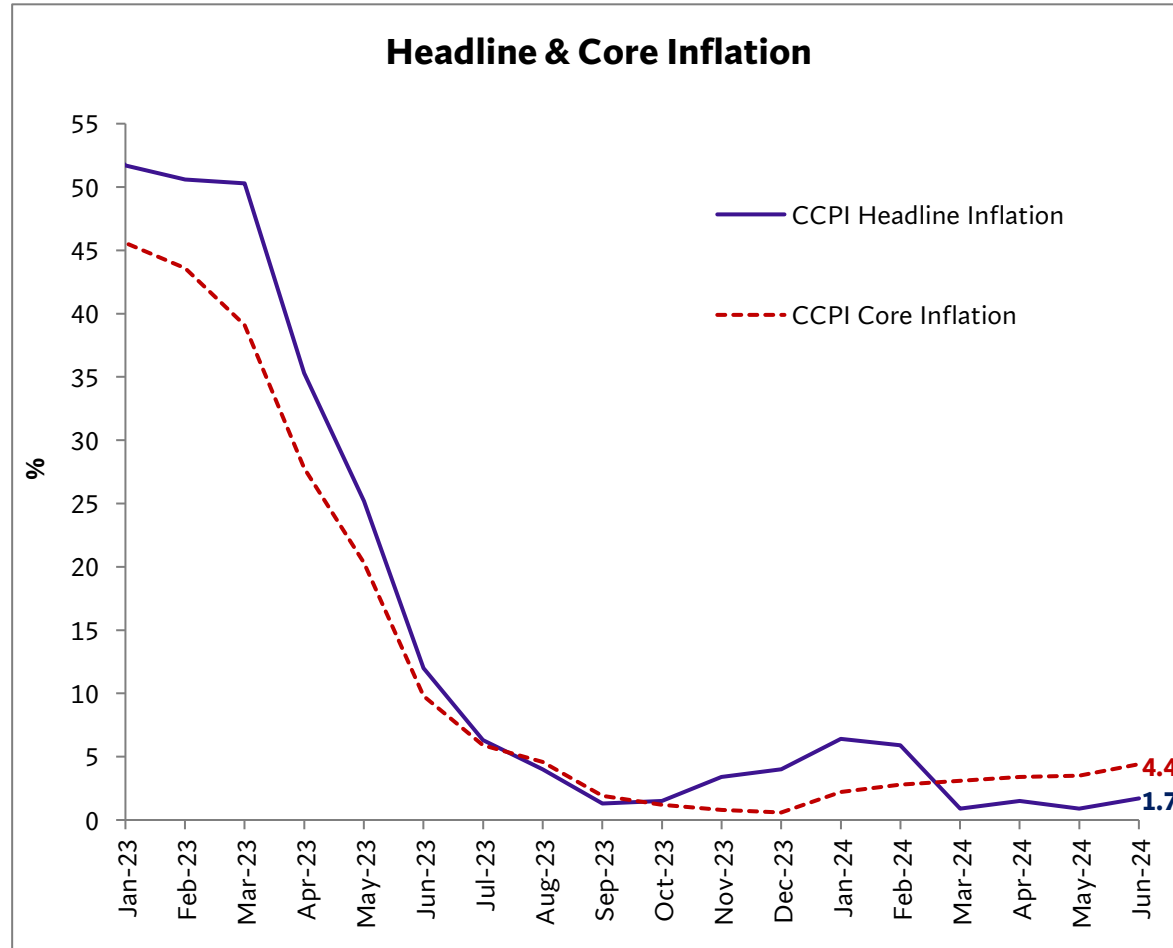


The Central Bank of Sri Lanka **reduced policy interest rates** by 25 bps

Standing Deposit Facility Rate (SDFR)	8.25%
Standing Lending Facility Rate (SLFR)	9.25%
Statutory Reserve Ratio (SRR) <i>Unchanged</i>	2.00%



Downward revisions to energy prices have helped ease headline inflation...

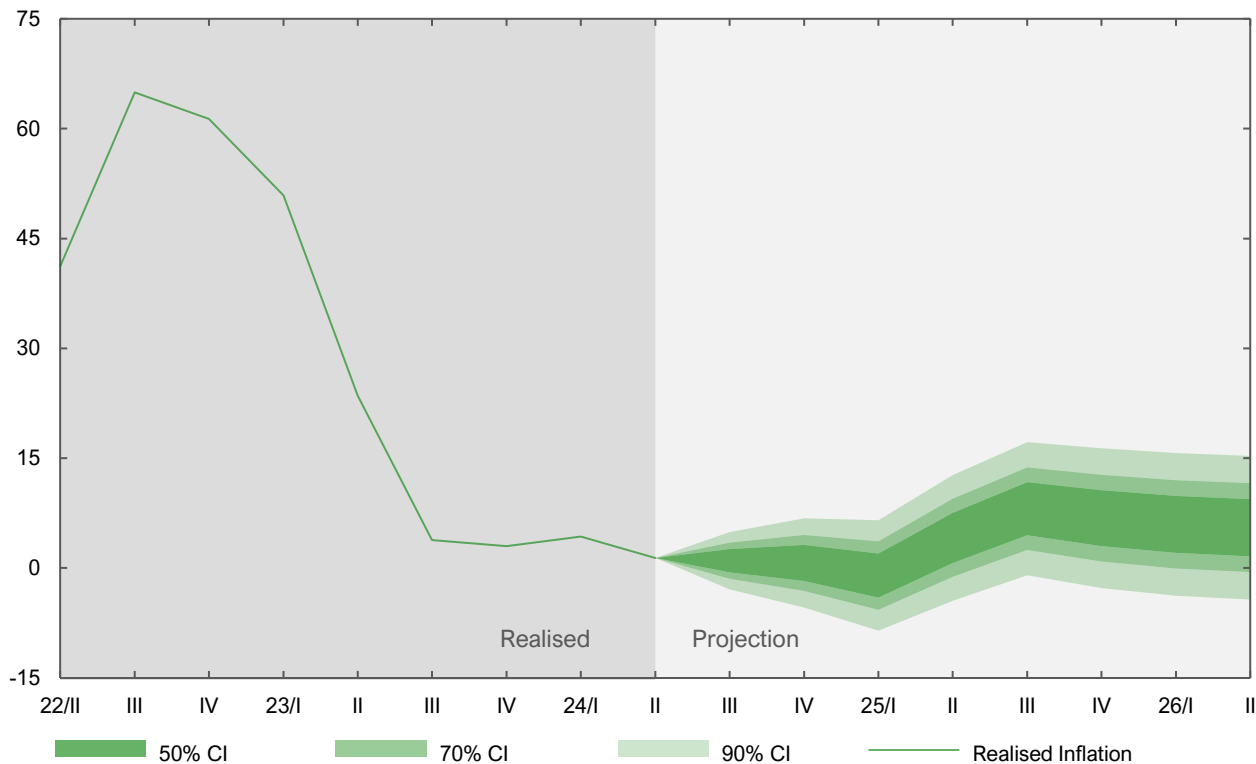


A sustained acceleration of core inflation is not anticipated

Headline inflation is projected to remain notably below the inflation target in the near term...



Headline Inflation Projections
CCPI (quarterly average, y-o-y, %)



Source: Central Bank Staff Projections

Note: 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). Projections are based on all available data at the forecast round in July 2024.

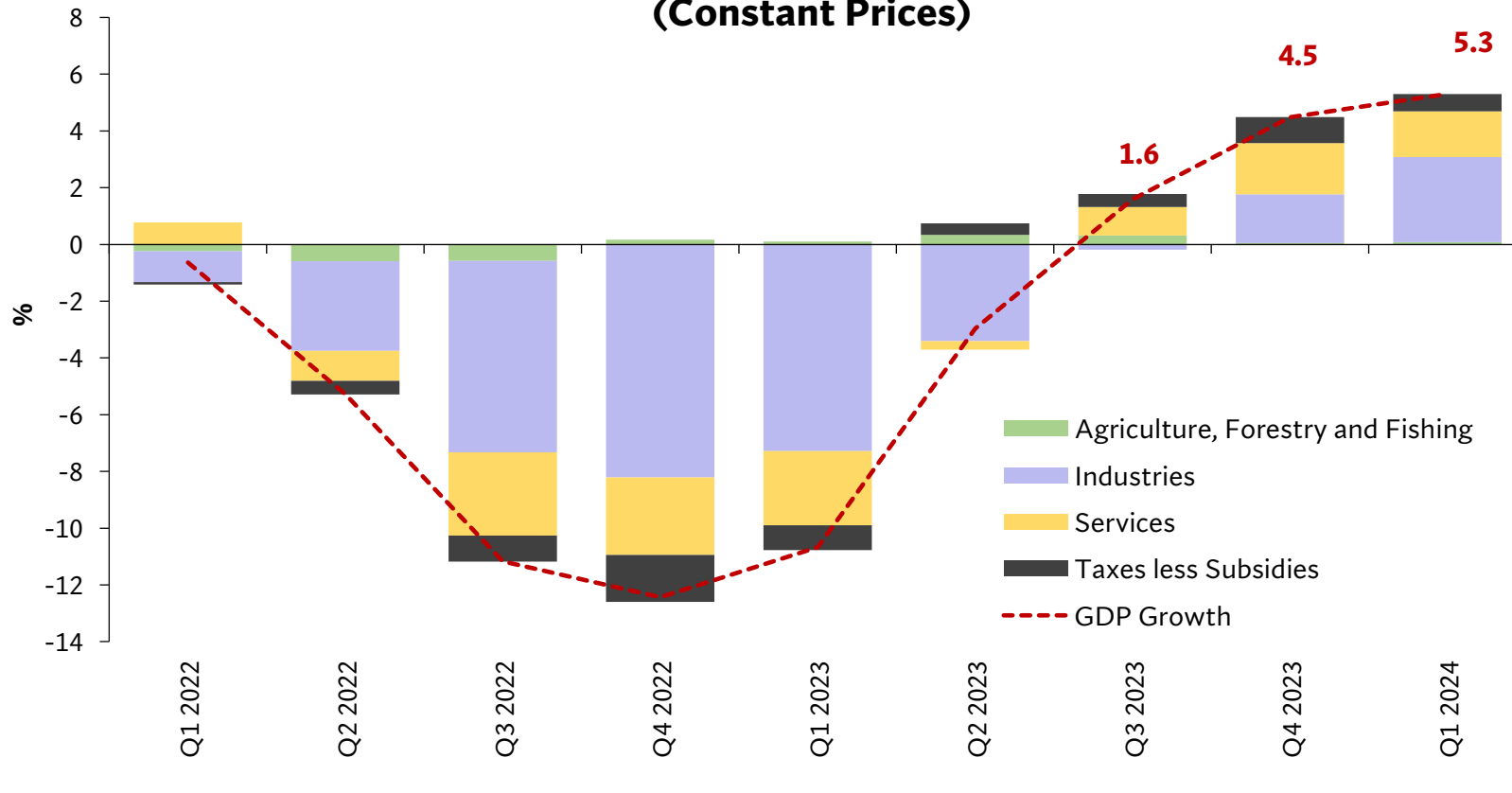
Headline inflation is likely to be notably below the target in the forthcoming months due to the combined impact of continued downward adjustments to administered prices and the favourable statistical base

While some upside risks remain within the forecast horizon, **inflation is expected to gradually align with target level over the medium term**, supported by appropriate policy measures

The recovery in domestic economic activity is expected to sustain...



**Sectoral Contribution to Y-o-Y Quarterly GDP Growth
(Constant Prices)**



Rebound in domestic economic activity is expected to sustain supported by:

Transmission of relaxed monetary policy to market interest rates

Enhanced supply conditions

Rebound in external demand conditions

Revival of tourism

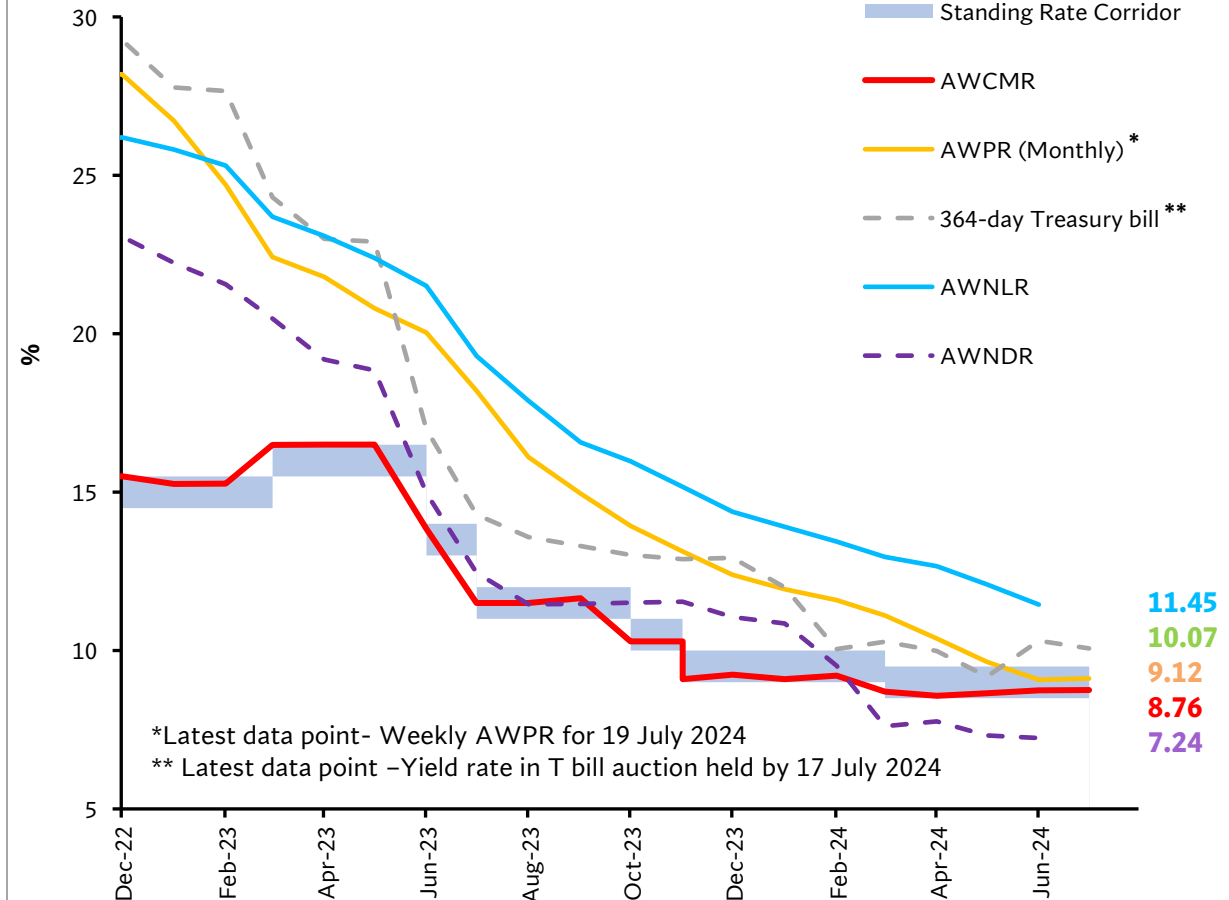
Dissipation of uncertainties on debt restructuring

- The latest economic indicators suggest that real GDP growth in Q2 2024 also has been robust
- The economy, which operates below its full capacity presently, is forecast to reach its potential over the medium-term horizon

Adjustments of lending interest rates remained weaker than the adjustments to deposit interest rates...



Movements in Selected Market Interest Rates



Interest Rate	Change (% pts)		Current Level (%)*
	Since Jun 2023	Thus far during 2024	
Key Policy Interest Rates**	-7.25	-0.75	8.25-9.25
AWCMR	-7.7	-0.5	8.76
91-day Treasury bill#	-16.1	-5.0	9.55
1 Year Treasury bill#	-12.8	-2.9	10.07
Weekly AWPR	-11.2	-3.0	9.12
AwnLR	-10.9	-2.9	11.45
AWNDR	-11.6	-3.8	7.24
AWNDR	-11.9	-4.0	7.32

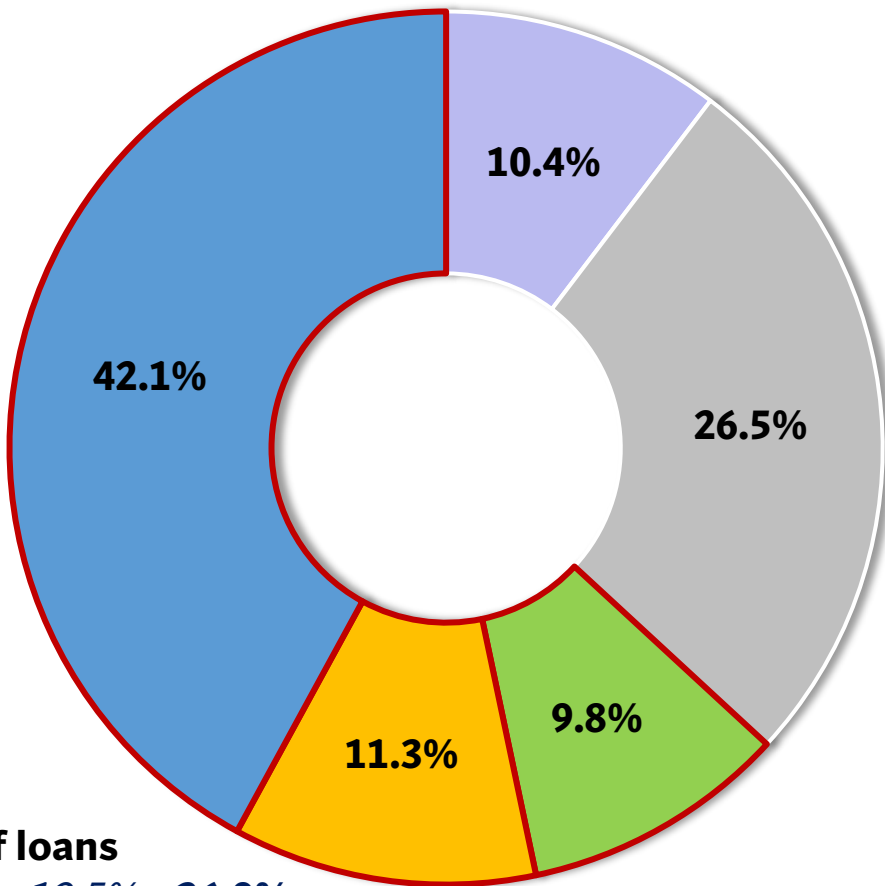
*As at 23 July 2024
**As at 24 July 2024

Primary market yield

Majority of the outstanding lending portfolio has shifted to lower interest rate brackets, yet further space is available..



**Average Weighted Lending Rate (AWLR)
December 2022**

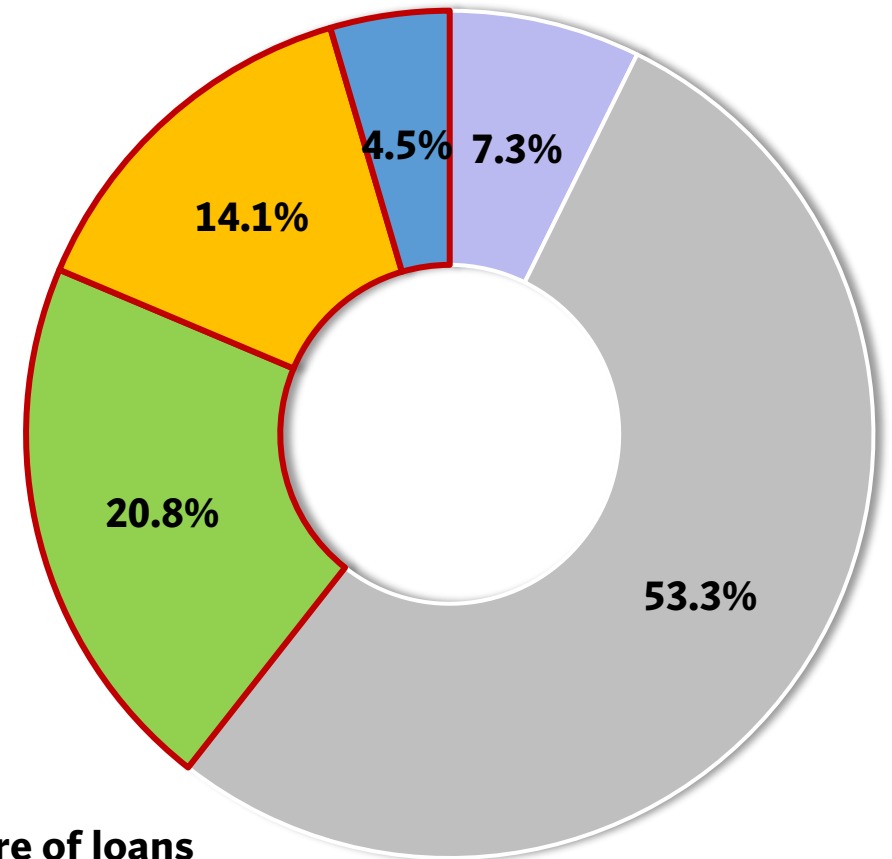


Share of loans

Less than 12.5% - 36.9%

Higher than 12.5% - 63.1%

**Average Weighted Lending Rate (AWLR)
June 2024**

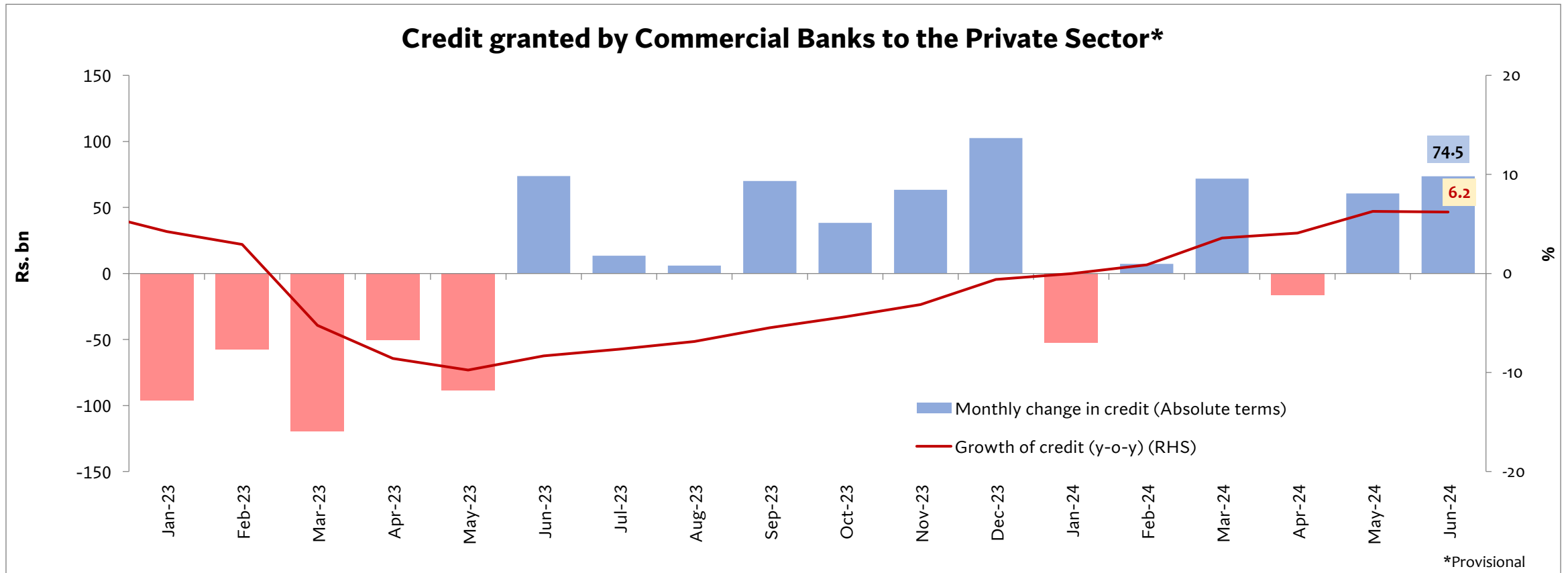


Share of loans

Less than 12.5% - 60.6%

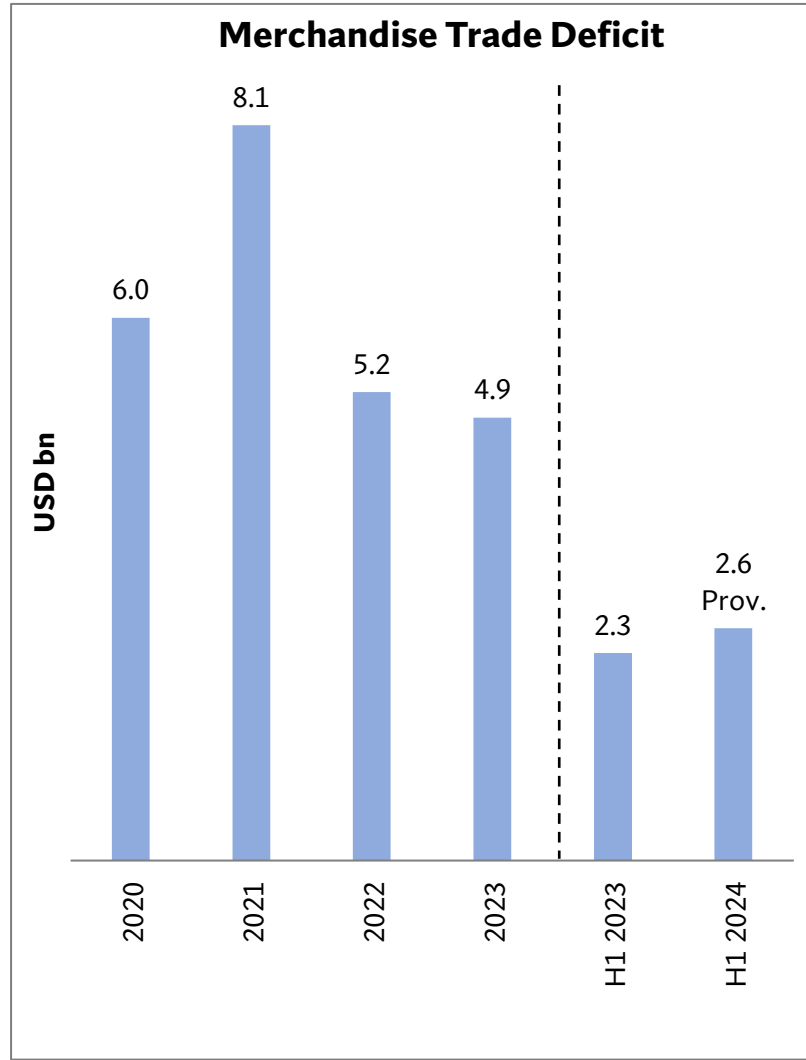
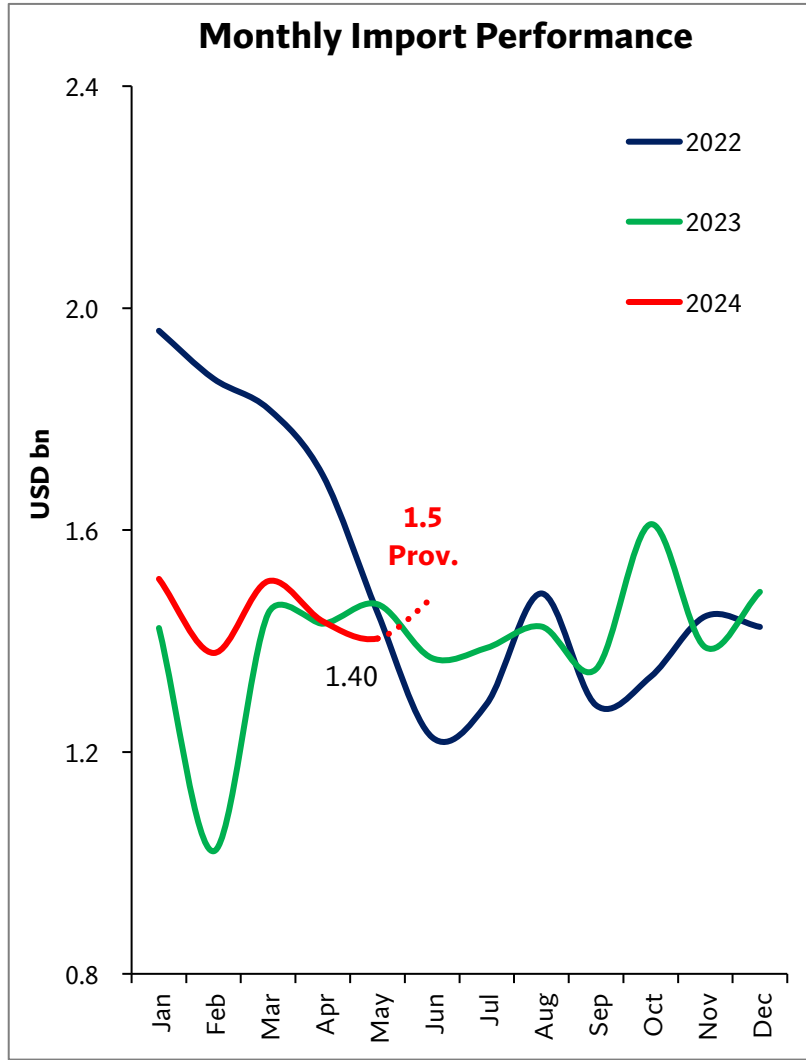
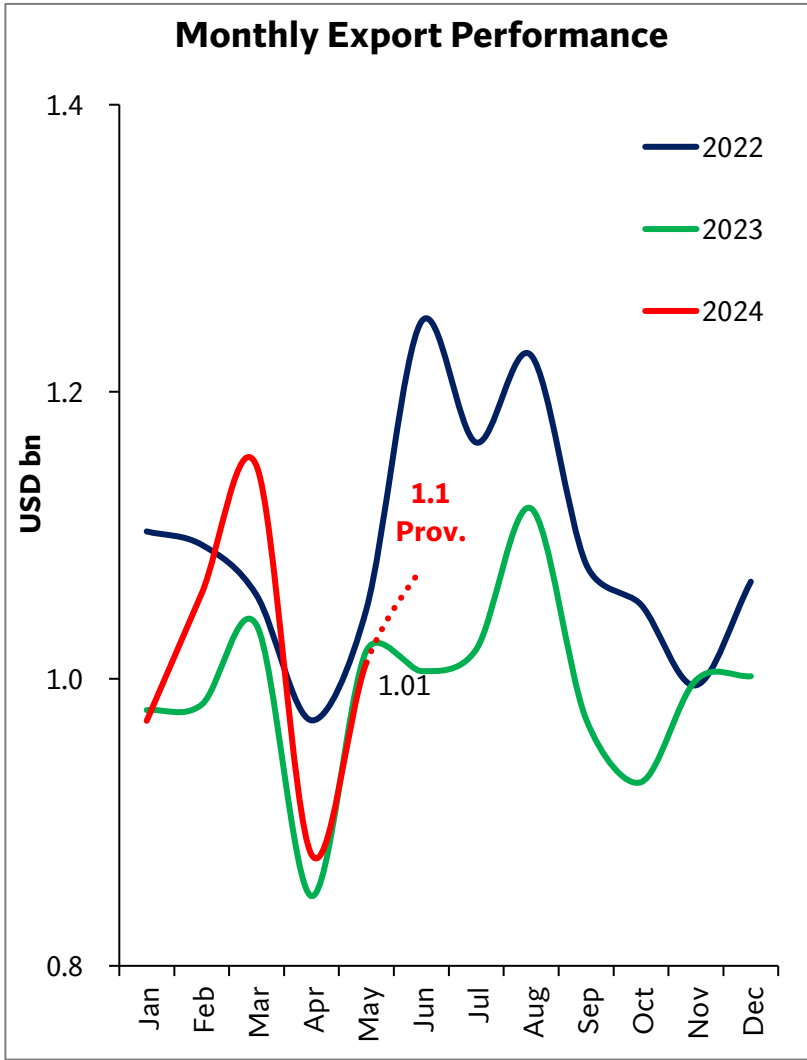
Higher than 12.5% - 39.4%

Credit to the private sector expanded in May and June 2024...

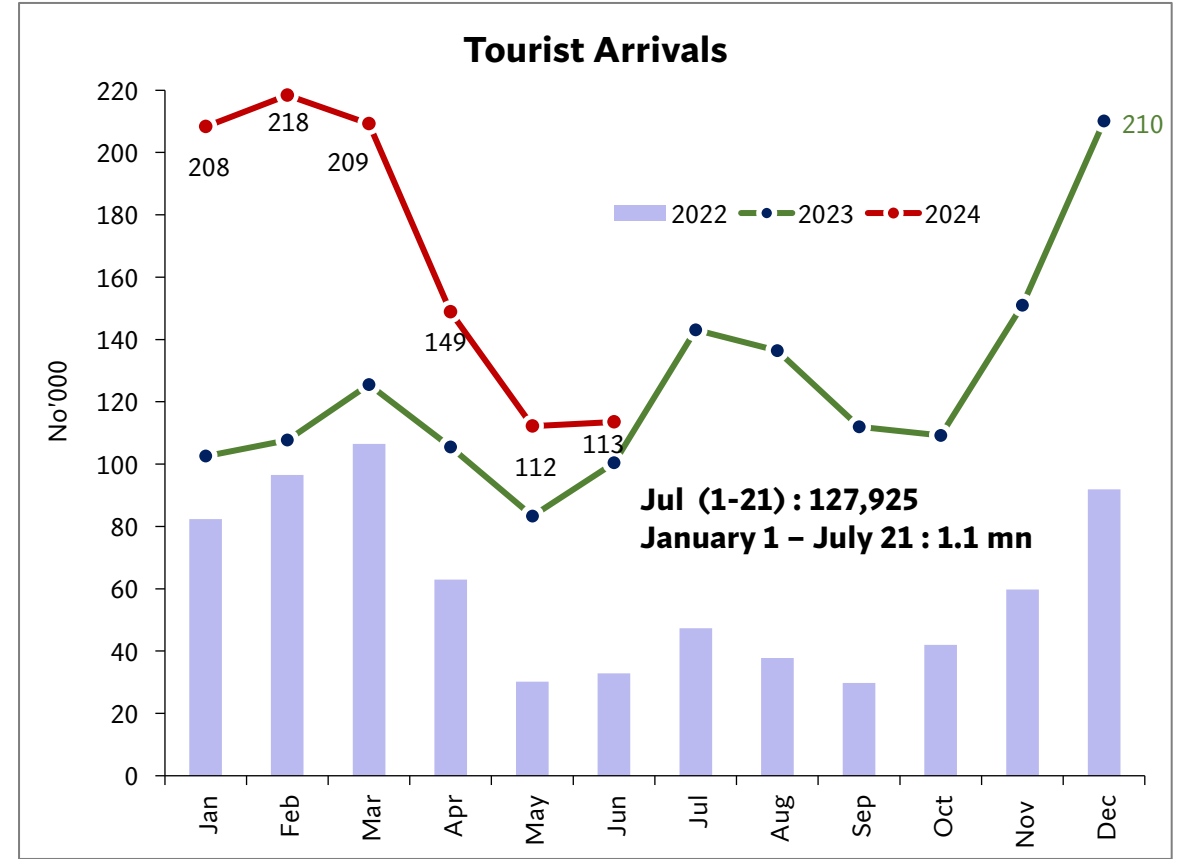
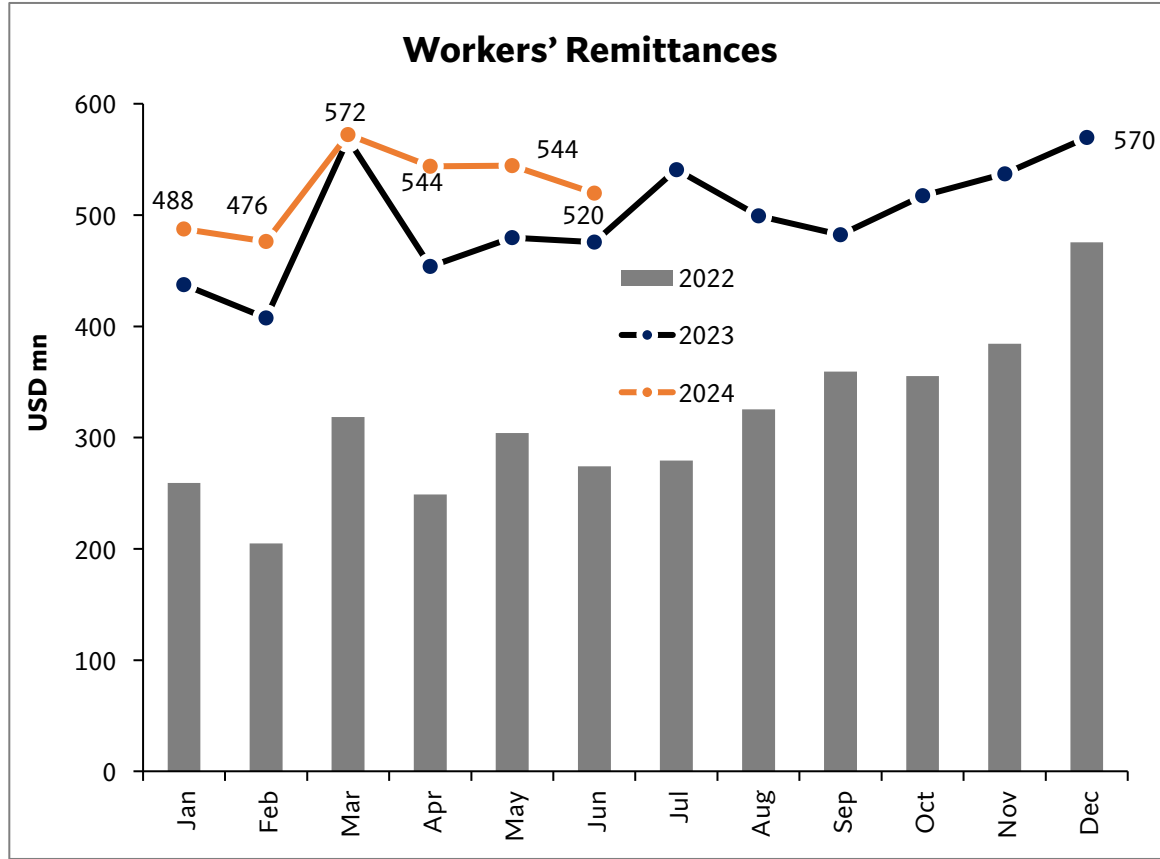


A sustained rebound in credit growth requires market lending interest rates to decline further in line with the prevailing accommodative monetary policy stance

The cumulative merchandise trade deficit widened during the H1 - 2024 (y-o-y) ...



Earnings from tourism and workers' remittances continued to be promising...



2023
USD 6.0 bn

H1 - 2023
USD 2.8 bn

H1 - 2024
USD 3.1 bn

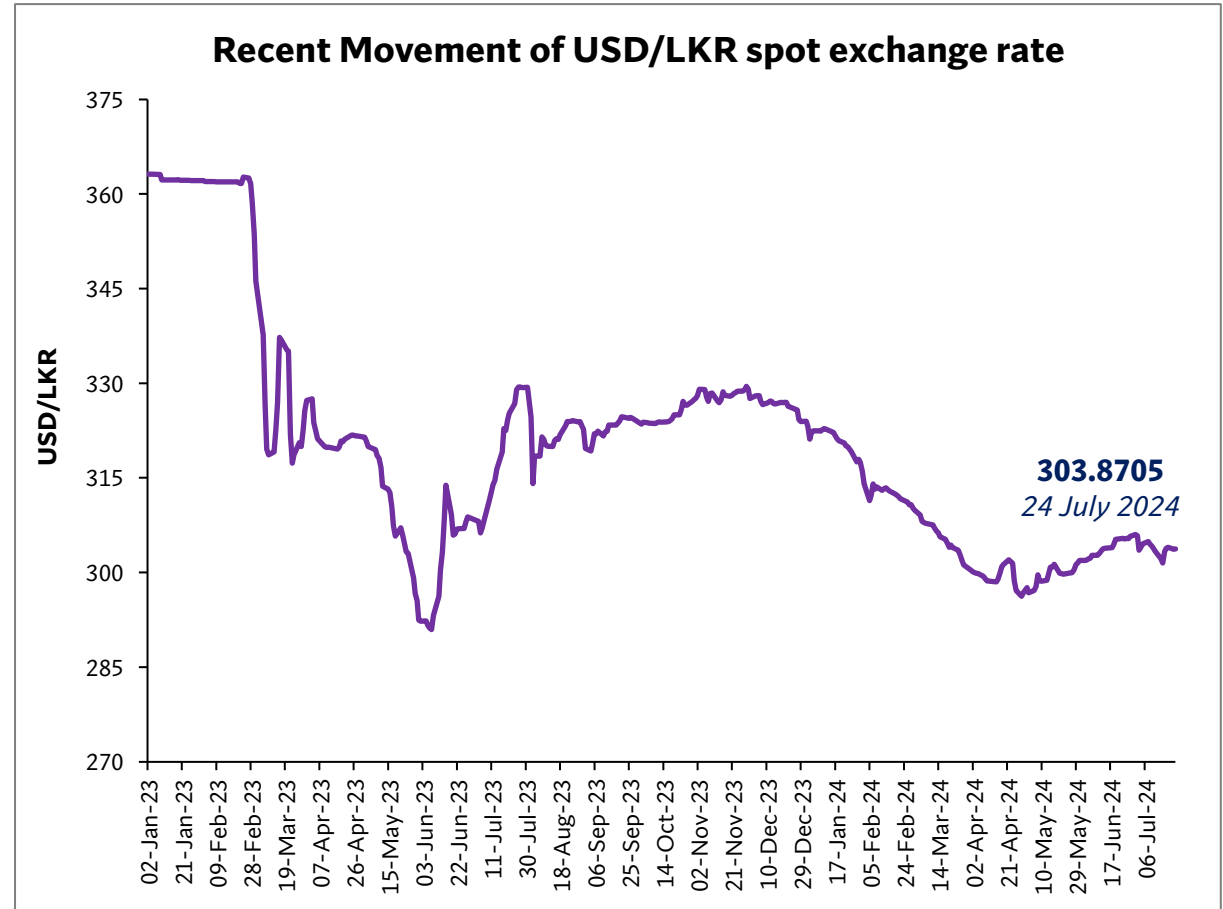
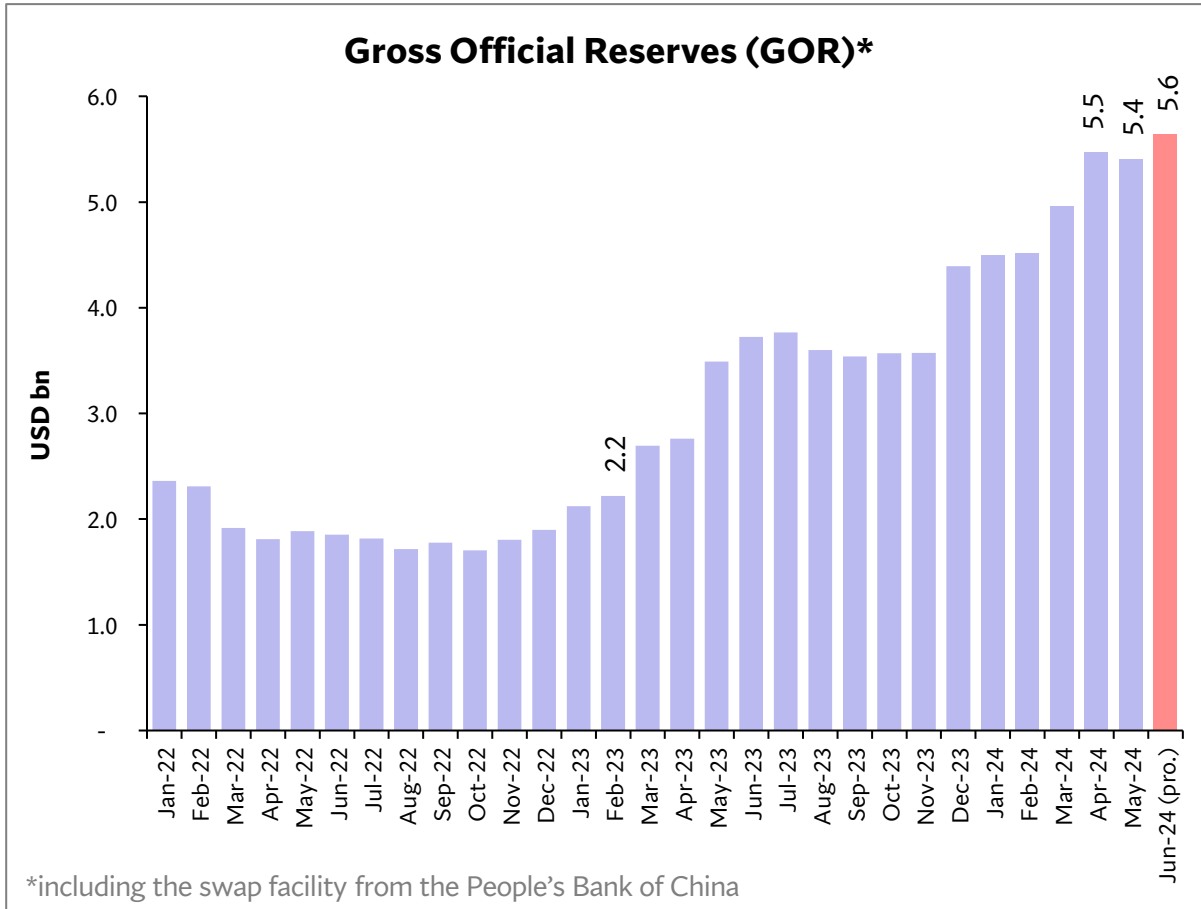
Earnings from Tourism

2023
USD 2.1 bn

H1 - 2023
USD 0.9 bn

H1 - 2024
USD 1.6 bn

Gross Official Reserves amounted to around USD 5.6 bn by end June 2024...



The Sri Lanka rupee witnessed intermittent volatility against the US dollar in recent months. Overall, the Sri Lanka rupee appreciated by over 6.5% against the US dollar thus far during 2024.



The Board considered the
need to signal
the continuation of the
eased monetary policy stance,
thereby
inducing a *further reduction*
in market lending rates...



Financial institutions are expected to
transmit the benefit of policy easing
thus far by
continuing the **downward adjustments**
in lending interest rates...

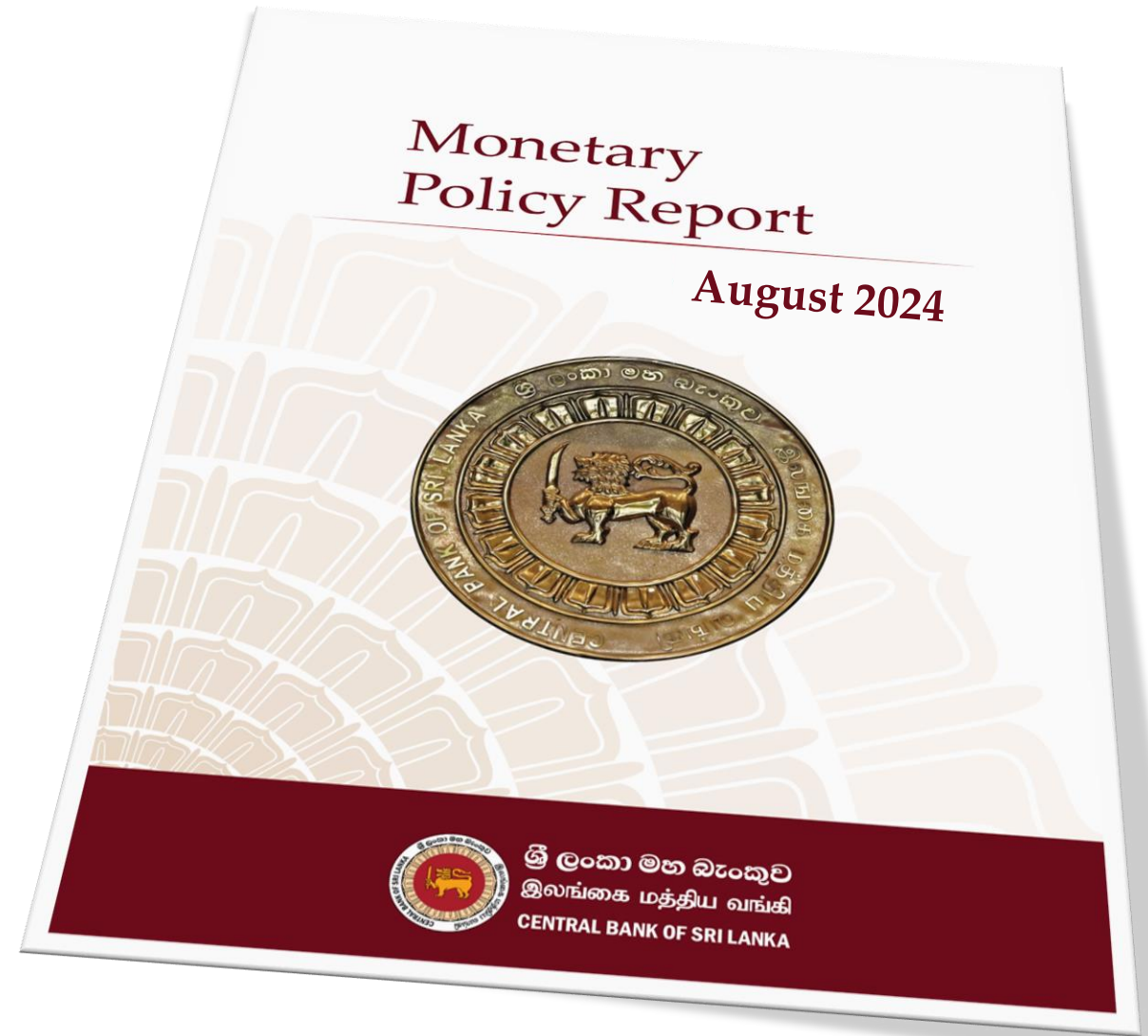
Monetary Policy Report – August 2024

Monetary Policy Review : July 2024
Press Conference



- **As per Section 27 of the CBA, CBSL is expected to publish a bi-annual report on inflation**

- Report will highlight recent movements in inflation, sources of inflation and medium-term projections for inflation and key risks to such projections
- The second Monetary Policy Report for 2024 is expected to be published on **15 August**



Thank You