ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department
30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.
Tel : 2477424, 2477423, 2477311
Fax: 2346257, 2477739
E-mail: dcommunications@cbsl.lk, communications@cbsl.lk
Web: www.cbsl.gov.lk

Press Release

Issued By	Economic Research Department
Date	16.03.2020

The Central Bank of Sri Lanka Eases Monetary Policy Further to Support Economic Activity amidst the Spread of the COVID-19 Pandemic

The Monetary Board of the Central Bank of Sri Lanka, at an urgent meeting to review its monetary policy stance on 16 March 2020, decided to reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 25 basis points to 6.25 per cent and 7.25 per cent, respectively, with effect from 17 March 2020 and to reduce the Statutory Reserve Ratio (SRR) on all rupee deposit liabilities of licensed commercial banks (LCBs) by 1.00 percentage point to 4.00 per cent, with effect from the current reserve maintenance period. The Board arrived at this decision in consideration of the urgent need to support economic activity with the rapid global spread of the COVID-19 pandemic and its possible further spread in Sri Lanka.

Sri Lanka's economic growth, which has remained subdued for an extended period of time until end 2019, has begun to turnaround as a result of fiscal and monetary stimulus and the return of business confidence after the presidential election. However, it has increasingly become evident that domestic economic activity during the year 2020 would continue to be affected through various channels by the spread of the pandemic.

Prior to today's decision, the Central Bank, during the year thus far, has taken a number of measures to support the revival of domestic economic activity, in the context of well anchored inflation expectations and the absence of demand driven pressures on inflation. These include the reduction of policy interest rates of the Central Bank by 50 basis points effective 30 January 2020, facilitating the implementation of the credit support package for borrowers in both performing and non performing categories and the implementation of a credit guarantee scheme to revive non performing advances, while maintaining the dialogue with the financial market to ensure market lending rates continue to decline in line with the Monetary Law Act Order No. 02 of 2019. The Central Bank also assured the financial market of the provision of liquidity as necessary to counter any impact arising from the evolving situation. Today's decision will complement the above measures that are already in place.

The Central Bank reemphasises the need for all financial institutions led by licensed commercial banks to ensure the full benefit of the cumulative reduction of 75 basis points in policy interest rates thus far during the year as well as the reduced cost of funds through the reduction in SRR is reflected in market lending rates without further delay. In addition, the Central Bank requests financial institutions to refrain from engaging in speculative activity which could lead to panic in the financial market.

The Central Bank has put in place well tested business continuity arrangements, which will be triggered as and when required to prevent any disruption to cash and electronic transactions and ensure the timely settlement of liabilities of the government and the Central Bank.

The Central Bank is working closely with the government to ensure coordinated fiscal and monetary policy responses to mitigate the economic impact of the COVID-19 pandemic. In particular, the Central Bank will work with the government to raise the required funding for the government smoothly to tackle the current exceptional situation.

The Central Bank will closely monitor global and domestic market developments and take further policy, regulatory and operational actions as necessary, while monitoring activities of each financial institution to ensure smooth functioning of the financial market and the transmission of the Central Bank action to the economy in order to ensure that those who are in need of urgent support receive the required timely assistance.