

CBSL reduces rates to facilitate economic recovery

INDUNIL HEWAGE

The Monetary Board of the Central Bank of Sri Lanka (CBSL) has decided to reduce the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points to 6.50 per cent and 7.50 per cent, respectively.

CBSL governor Prof. W D Lakshman said the Monetary Board decision was intended to affirm its accommodative monetary policy stance and also create a further reduction in cost of funds raised by the financial institutions thereby allowing them to pass the benefits of reduced cost of funds to the economy.

"Both took into consideration several macro economic developments in making this decision" Prof. Lakshman said.

He said further that this decision supports a continued reduction in market lending rates, thereby facilitating the envisaged recovery in economic activity given the favourable medium-term outlook for inflation, which is well anchored within the 4-6 per cent range.

"On the inflation front, the recent acceleration of inflation particularly at the

CBSL to assess impact of Coronavirus

Senior Deputy Governor Dr. P Nandimal Weerasinghe said, the CBSL will be making an assessment about the impact of Coronavirus on local tourism sector.

He further said that it is too early to comment its impact on the tourism industry.

Deputy Governor H. A. Karunaratne said the CBSL has decided to extend the deadline for a loan moratorium and new credit program for small and medium sized enterprises to February 31.

This follows the directions issued by the President and Prime Minister to extend a one year loan moratorium for both performing and non-performing

also we have not seen any investor for this company. Therefore, our option is to go ahead and cancel the license.

Moreover, we're looking to see whether the government is willing to consider any other options, but if not we have to go ahead and cancel the license to assist large number of depositors who are regularly requesting their funds."

Altogether, the Finance Company has 145,000 depositors; out of that 135,900 depositors are having funds less than Rs. 600,000.

Therefore, if we cancel the license we can help this 94% of the depositors," Karunaratne added.

ing loans, to improve the economic growth.

He said it is expected to issue a fresh circular in this regard, adding that SME loans make up 12-13 percent of the Rs 8 trillion total credit extended. The Central Bank Deputy Governor H. A. Karunaratne also noted that the CBSL has decided that it is not viable to continue the business activities of The Finance Company PLC (TFC).

"Nevertheless, to resurrect the company, there're a few options. Either we need to find a new investor, if not fresh funds should be injected either by government or the Central Bank. The CBSL cannot inject any funds,"

Senior Deputy Governor Dr. P Nandimal Weerasinghe said, the CBSL will be making an assessment about the impact of Coronavirus on local tourism sector.

He further said that it is too early to comment its impact on the tourism industry.

Deputy Governor H. A. Karunaratne said the CBSL has decided to extend the deadline for a loan moratorium and new credit program for small and medium sized enterprises to February 31.

This follows the directions issued by the President and Prime Minister to extend a one year loan moratorium for both performing and non-performing



The CBSL Governor Prof. W D Lakshman, Senior Deputy Governor Dr. P Nandimal Weerasinghe and senior CBSL officials at the CBSL's monthly Monetary Policy Press conference held in Colombo yesterday. Picture by-Thushara Fernando

has gradually commenced expanding. Revival in confidence and revival in economic activities, fiscal measures credit relief package, declining interest rates will help sustain acceleration of credit growth over time, he said.

"Although market lending rates are generally on a declining path, we were at the Monetary board was of the view that lending rates should continue to decline and this was the key factor that supported the decision of the Board."

He said further that global economic conditions have been subdued and many advanced and emerging mar-

ket economies have maintained accommodative monetary policies to address those concerns.

External sector conditions will be monitored closely and managed with appropriate measures of macro prudential, fiscal and monetary measures.

Moreover, he stressed that the monetary policy decision will support a continued reduction in market lending rates, ensuring a broad based and sustained recovery in economic activity. It is essential that market lending rates reduce further in order to support the envisaged pick up in credit growth and economic activity.

The CBSL will continue to monitor macroeconomic and financial market development with a view to maintaining aggregate demand conditions at appropriate levels, thereby ensuring single digit inflation in the medium term. Headline inflation, as measured by the year-on-year change in Colombo Consumer Price Index (CCPI), accelerated in December 2019 owing to domestic supply disruptions.

Despite the short-term fluctuations, the near term forecast suggests that inflation will hover below 5 per cent in 2020, and stabilise between 4-6 per cent thereafter, assisted by appropriate

policy measures and underpinned by well anchored inflation expectations.

He added that there has been notable improvement in the external current account despite disruptions that the country faced in 2019. The Exchange rate has remained stable in 2019 as well as in January 2020, he noted

"There are renewed uncertainties of the global economic activities with the spread of the Coronavirus, which has already caused some disruptions to travel and tourism industry and resulted in volatility in currency and commodity markets," Prof. Lakshman added.