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CBSL maintains policy interest rates at current levels

The Central Bank of Sri Lanka maintains policy interest rates at their current levels. The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 24 January 2023, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank at their current levels of 14.50 per cent and 15.50 per cent, respectively.

The Board, having noted the recent and expected developments and projections on the domestic and global macroeconomic fronts, was of the view that the maintenance of the prevailing tight monetary policy stance is imperative to ensure that monetary conditions remain

sufficiently tight to rein in inflationary pressures.

As per the GDP estimates published by the Department of Census and Statistics (DCS), the real economy is estimated to have contracted by 7.1% in the nine months ending September 2022, on a year-on-year basis. With tighter monetary and fiscal policies in place, along with disruptions to domestic supply conditions, real activity in the final quarter of 2022 is also expected to have remained subdued.

The economy is expected to make a gradual recovery during the year supported by the expected improvements in domestic supply conditions, underpinned by the timely implementation of corrective policy measures. Meanwhile, the anticipated

improvements in foreign exchange flows and the resultant enhancement in business and investor sentiment are expected to reinforce the expected recovery in the period ahead.

Year-on-year headline and core inflation, based on both the Colombo Consumer Price Index (CCPI) and the National Consumer Price Index (NCPI), continued to decelerate in December 2022 for the third consecutive month, as expected.

Tight monetary conditions, together with the tight fiscal policy, are expected to adjust inflation expectations downward, enabling the Central Bank to bring inflation rates towards the desired levels by end 2023, thereby restoring economic and price stability over the medium term.