Frequently Asked Questions (FAQs)

Domestic Operations

What is Monetary Policy Implementation?

Monetary policy implementation involves the use of various monetary policy tools to operationalise the monetary policy decisions made by the Mc of the Central Bank.

What are Open Market Operations (OMOs)?

Open Market Operations (OMOs) refer to buying and selling of securities to inject or absorb liquidity in the money market by the Central Bank under the Monetary Law Act (MLA) No. 58 of 1949. Hence, OMOs are the main market based monetary policy operations conducted by the Central B government securities and/or central bank securities to manage the domestic money market liquidity in order to influence the short term interest rat

How do Open Market Operations (OMOs) work?

Open Market Operations (OMOs) influence Average Weighted Call Money Rate (AWCMR) which affects the movement in short term interest rates, as longer term interest rates and assets prices. The resultant impact on other interest rates, such as deposit and lending rates, will in turn influence tł spending decisions of households and businesses, and ultimately economic activity and price level in the economy.

Who is eligible to participate in Open Market Operations (OMOs)?

All Licensed Commercial Banks (LCBs) are eligible to participate in Open Market Operations (OMOs), and Standalone Primary Dealers (the compan as Primary Dealers, except LCBs) and the Employee's Provident Fund (EPF) have limited access to facilities under OMOs. These institutions are com as Participating Institutions (PIs).

What is Call Money Market?

Interbank call money market is generally an overnight market for Licensed Commercial Banks (LCBs) to meet overnight liquidity requirements collateral by way of borrowing and lending among themselves. These transactions are very short term in nature and reflect the demand for and supp in the market.

What is Average Weighted Call Money Rate (AWCMR)?

Average Weighted Call Money Rate (AWCMR) is a weighted average rate of interbank call money transactions, among the Licensed Commercial Bar an overnight basis. AWCMR serves as the operating target of the Central Bank's current monetary policy framework. AWCMR is computed and pub Central Bank on each working day.

What is Repo Market?

Repo market is a short term market that helps Licensed Commercial Banks (LCBs), Standalone Primary Dealers (SPDs) and the Employee's Provider to fulfill liquidity requirements through collateralised borrowings for their daily liquidity management purposes.

What is Average Weighted Repo Rate (AWRR)?

Average Weighted Repo Rate (AWRR) is the weighted average interest rate of the overnight repo market among Participating Institutions (PIs) on computed and published by the Central Bank on each working day.

What is Central Bank Liquidity and why is it important for Monetary Policy Implementation?

Central Bank liquidity is defined as the sum of the reserve balances of the Licensed Commercial Banks (LCBs) held with the Central Bank to fulfi requirement and settlement obligations. The actual balance in the reserve accounts held by LCBs over the level required to be maintained in the res determines the liquidity deficit or excess. The banking system is considered in excess (deficit) liquidity on a given day, if the deposit balances of L Central Bank are higher (lower) than the balance that they would need to maintain in the reserve/settlement account. Based on such excess or de the Central Bank takes decisions on monetary policy implementation by using appropriate tools to steer the AWCMR at a desirable level, and the des as per the prevailing monetary policy stance since AWCMR is the operating target of the current monetary policy framework.

What are the main liquidity enhancing and reducing factors?

Liquidity enhancing factors mainly include;

a) Purchase of Treasury bills/ bonds from the secondary market by the Central Bank (reverse repo auctions)

b) Purchase of Treasury bills/ bonds by the Central Bank on an outright basis

c) Retirement of own securities issued by the Central Bank

d) Provision of the standing lending facility by the Central Bank

e) Purchase of foreign exchange from the domestic foreign exchange market by the Central Bank

f) Purchase of foreign currency denominated loan receipts of the Government by the Central Bank

g) Deposit of currency at the Central Bank by banks

h) Purchase of Treasury bills/ bonds from the primary market by the Central Bank

i) Release of central bank profits to the Government

j) Grant of provisional advances to the Government by the Central Bank

k) Provision of loans and advances to PIs by the Central Bank

Liquidity reducing factors mainly include;

a) Sale of Treasury bills/bonds to the secondary market by the Central Bank (repo auctions)

b) Sale of Treasury bills/bonds held by the Central Bank on an outright basis

c) Issuing of securities by the Central Bank

d) Provision of the standing deposit facility by the Central Bank

e) Sale of foreign exchange in the domestic market by the Central Bank

f) Sale of foreign exchange by the Central Bank to the Government for repayment of foreign currency denominated loans of the Government

g) Currency withdrawals by banks from the Central Bank

h) Maturing/retiring of Treasury bills/ bonds held by the Central Bank

i) Repayment loans and advances obtained from the Central Bank by Participating Institutes

What is Intraday Liquidity Facility (ILF)?

The Central Bank provides interest free Intra-day Liquidity Facility (ILF) against the collateral of government securities to the Participating Institution Real Time Gross Settlement (RTGS) system to avoid any disruptions that could arise due to any liquidity issues of Participating Institutions.

What is Repo/Reverse Repo auctions?

Repo/Reverse Repo auctions are conducted by the Central Bank to absorb/inject liquidity from/to the domestic money market. A repo auction is absorb excess liquidity and a reverse repo auction is conducted to inject liquidity to the domestic money market. Under repo auctions, the Central repo) government securities on a temporary basis with an agreement to reverse the transaction after an agreed number of days. Whereas, under auctions, the Central Bank buys (a reverse repo) government securities on a temporary basis with an agreement to reverse the transaction aft number of days The tenure of the auction is determined based on the availability of market liquidity (1 day - Overnight repo/reverse repo, less than 7 term repo/reverse repo, more than 7 days up to 90 days - long term repo/reverse repo)

What are Outright auctions?

Outright auctions are conducted to address long-term liquidity surplus/deficits and, therefore, to absorb or inject liquidity on a permanent basis. liquidity remains at a large surplus and is likely to persist for a long period, the Central Bank decides to sell government securities on an outrigh secondary market from the holdings of government securities held by the Central Bank to absorb liquidity permanently. Similarly, through the government securities on an outright basis in the secondary market would inject liquidity permanently.

What is Liquidity Support Facility?

Liquidity Support Facility (LSF) is provided by the Central Bank to the Standalone Primary Dealers (SPDs), to ensure smooth functioning of the dor market and eliminate undue pressure on the money market during times of liquidity shortage.

What are the Open Market Operations Auctions available for Participating Institutions?

The Central Bank conducts a variety of auctions under OMO depending on liquidity conditions.

Auction	Objective	Eligible Counterparty	Tenor
Overnight Repo Auctions	to absorb liquidity on an overnight basis	LCBs and EPF (EPF is only for Repo Auctions)	1 Day
Overnight Reverse Repo Auctions	to inject liquidity on an overnight basis		
Overnight Liquidity Support Facility	to inject liquidity on an overnight basis	Standalone Primary Dealers (SPD)	1 day
Short Term Repo Auctions	to absorb liquidity on a short term basis	LCBs and EPF (EPF is only for Repo Auctions)	2-7 days
Short Term Reverse Repo Auctions	to inject liquidity on a short term basis		

Short Term Liquidity Support Facility Auctions	to inject liquidity on a short term basis	SPDs	2-7 days
Long Term Repo Auctions	to absorb liquidity on a long term basis	LCBs and EPF (EPF is only for Repo Auctions)	More than 7 days upto 90 days
Long Term Reverse Repo Auctions	to inject liquidity on a long term basis		
Long Term Liquidity Support Facility Auctions	to inject liquidity on a long term basis	SPDs	More than 7 days upto 90 days
Outright Sales Auctions	to absorb liquidity on a permanent basis	LCBs, SPDs and EPF	Not applicable
Outright Purchases Auctions	to inject liquidity on a permanent basis		

What is the Statutory Reserve Ratio (SRR)?

The SRR determines the minimum amount of reserves that each Licensed Commercial Bank (LCBs) should hold, in the reserve account with the Ce proportion to the total rupee deposit liabilities of the respective bank, in terms of Section 93 of the Monetary Law Act (MLA) No. 58 of 1949.

What types of deposits are considered for calculating the SRR?

All rupee-denominated deposits of Licensed Commercial Banks (LCBs), including demand deposits, time and savings deposits and other deposits de rupee terms and any other deposit category as determined by the Monetary Board of Central Bank from time to time. At present the LCB's need to n cent of the rupee deposit liability as the SRR.

What is the Bank Rate?

The Bank Rate is the rate at which emergency loans are provided to banking institutions under Sections 86 and 87 of the Monetary Law Act (ML 1949. At present, Bank Rate is decided by the Central Bank based on a benchmark rate plus a margin (eg. Average Weighted New Deposit Rate points).

What is the Liquidity Assistance Facility (LAF) of the Central Bank?

Under Section 83 (1) (c) of the Monetary Law Act, Licensed Commercial Banks (LCBs) are entitled to obtain a loan facility from the Central Bank period not exceeding 180 days upon promissory notes secured by the pledging of government securities.

What are Provisional Advances to the Government?

In terms of Section 89 of the Monetary Law Act (MLA) No. 58 of 1949, the Central Bank provides provisional advances to the Governmer expenditures authorised to be incurred out of the Consolidated Fund, provided that every such advance shall be repayable within a period not e months, and the total amount of such advances outstanding at any time shall not exceed ten per centum of the estimated revenue of the Goverr financial year in which they are made.

What is the role of the Central Bank as the Banker of the Government?

Under Sections 106 to 109 of the Monetary Law Act (MLA) No. 58 of 1949, the Central Bank maintains the accounts of and provides bankin Government departments, Government agencies, Government institutions and certain statutory boards as the banker to the Government.

What is the role of the Central Bank as the Banker to the Banker?

As the banker to banker, the Central Bank provides them current account facilities facilitating payment and settlement systems. With respect facilities provided to such banks, the Central Bank makes net settlements among the commercial banks in relation to the key payment and settlem i.e., Cheque Imaging and Truncation System (CITS), Sri Lanka Inter-bank Payment System (SLIPS), Common ATM Switch (CAS) and the Common El Transfer Switch (CEFTS), via the Real Time Gross Settlement (RTGS) System. These operations of the Central Bank contribute to the efficiency of financial system.

Who is an Authorised Money Broker (AMB)?

Authorised Money Brokers (AMBs) is a market intermediary in money, foreign exchange and government securities market that facilitates transact Participating Institutions. They act as an agent without being a counterparty to a transaction but negotiate, arrange or facilitate agreements bet counterparts for a brokerage fee. Hence, AMBs assist the price discovery process in the money market and Central Bank regulates them to ensure conduct.

How many money brokers are operating in Sri Lanka?

There are nine (9) money broking companies operating in Sri Lanka as of 31.12.2022.

1. BMR Money Brokers (Private) Ltd.
2. Central Forex & Money Brokers Ltd.
3. First Alliance Money Brokers (Private)) Ltd.
4. George Steaurts Investment (Private) Ltd.
5. MVS Money Brokers Ltd.
6. Pigott Chapman and Co. (Private) Ltd.
7. SMB Money Brokers (Private) Ltd.
8. Thaprobane Investment (Private) Ltd.
9. Vishwin Money & Exchange Brokers Ltd.