



Frequently Asked Questions (FAQs)

Monetary Policy

What is Monetary Policy?

Monetary policy is the process by which the central bank influences the cost (interest) and availability of money (money supply/liquidity) with a view to price stability.

Who is responsible for the conduct of monetary policy?

In Sri Lanka, the authority responsible for the formulation and implementation of monetary policy is the Central Bank of Sri Lanka (CBSL). The Monetary Board is the monetary policy decision making body in Sri Lanka.

The Monetary Policy Committee (MPC) of the CBSL, chaired by the Governor, is responsible for providing monetary policy recommendations to the Monetary Board. The primary function of the MPC is to evaluate emerging monetary and macroeconomic developments and make recommendations on the stance of monetary policy for the consideration of the Monetary Board.

What is the current monetary policy framework of the CBSL?

At present, the Central Bank conducts monetary policy in line with a flexible inflation targeting (FIT) framework, aimed at stabilising inflation at mid single digit levels over the medium term while supporting economic growth to reach its potential.

What is flexible inflation targeting (FIT)?

Monetary policy conducted under a flexible inflation targeting (FIT) framework is aimed at stabilising inflation around the inflation target while minimising disturbance to the real economy. At present, the Central Bank conducts monetary policy in line with a flexible inflation targeting (FIT) framework, aimed at stabilising inflation at mid single digit levels over the medium term while supporting economic growth to reach its potential. In terms of operation under this framework, the Central Bank uses its policy instruments to guide short term interest rates, particularly the average weighted call money rate (AWCMR) as its operating target.

What are the instruments used by the CBSL to conduct its monetary policy?

The CBSL possesses a wide range of tools to be used as instruments of monetary policy. The main instruments are the policy interest rates, open market operations (OMOs) and the statutory reserve ratio (SRR). In addition, bank rate, refinance facilities, quantitative restrictions on credit, ceilings on foreign exchange and moral suasion can also be used. The CBSL has the independence of choosing appropriate instruments to conduct monetary policy.

What are the policy interest rates used by the CBSL?

Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) are the key policy interest rates of the CBSL. They were previously the Repurchase rate and Reverse Repurchase rate of the CBSL respectively.

SDFR is the floor rate (minimum rate) for the absorption of overnight excess liquidity from the banking system by the CBSL. With effect from 01 February 2016, the Standing Deposit Facility of the CBSL is uncollateralised.

Standing Lending Facility Rate (SLFR) is the ceiling rate (maximum rate) for the injection of overnight liquidity to the banking system by the CBSL.

What is the standing rate corridor?

SDFR and SLFR form the standing rate corridor, which is also known as the policy rate corridor. SDFR is the lower limit and SLFR is the upper limit. Changes in these floor rate and ceiling rate indicate changes in the monetary policy stance of the CBSL. Standing rate corridor limits the large fluctuations in the short-term market interest rates and helps to maintain average weighted call money market rate at appropriate levels, consistent with the current operating target of the monetary policy.

What are Open Market Operations?

Open Market Operations (OMOs) are the market based monetary policy operations conducted by the CBSL using acceptable securities to manage the money supply and liquidity at appropriate levels in line with the monetary policy stance of the CBSL. The CBSL can use government securities and the CBSL's own securities for this purpose.

What is the role of the Stakeholder Engagement Committee?

The Stakeholder Engagement Committee (SEC) consists of a cross section of stakeholders including eminent professionals, academics, and the private sector personnel. The primary role of this high-level consultative Committee is to represent the views and sentiments of the private sector and academia on economic conditions and the outlook, considering the overall economic development, particularly in the monetary and financial sectors of the economy. Further, it is expected to provide feedback from the viewpoint of the stakeholders of the economy on the policy measures adopted by the CBSL, thus enabling the CBSL to make informed policy decisions in a more consultative manner.

What are the key monetary aggregates in Sri Lanka?

The main definitions of monetary aggregates used in Sri Lanka are as follows;

1. Reserve Money/Monetary Base/High Powered Money – Includes currency outstanding (currency held by the public and currency with commercial banks' deposits with the CBSL and government agencies' deposits with the CBSL.
2. Narrow money (M1) - Includes currency held by the public and demand deposits held by the public with commercial banks.
3. Broad money (M2) – Includes narrow money supply and time and savings deposits held by the public with commercial banks.
4. Broad money (M2b) – Includes narrow money supply, time and savings deposits held by the public with commercial banks and also includes foreign currency deposits of commercial banks.
5. Broad Money (M4) - Includes broad money (M2b) supply and time and savings deposits held by the Licensed Specialised Banks and Licensed Finance Companies.

What is Average Weighted Call Money Rate (AWCMR)?

AWCMR is a weighted average rate of interbank call money transactions, the overnight unsecured transactions among commercial banks and it is the operating target of the CBSL's current flexible inflation targeting framework.

What is SLIBOR?

SLIBOR, which stands for Sri Lanka Inter Bank Offered Rate, was an indicative money market rate. The CBSL discontinued the compilation and publication of SLIBOR with effect from 01 July 2020. This decision was taken considering the lack of usage of SLIBOR in benchmarking loan products in the domestic market, the global trend of phasing out the compilation and publication of offered rates including the London Interbank Offered Rate (LIBOR), and the request from several licensed commercial Banks to discontinue the reporting of offered rates in the context of thin interbank market volumes for longer tenors and the availability of alternative benchmark interest rates in the domestic financial market.

SLIBOR was calculated based on an average of interest rates quoted by selected licensed commercial banks that they were willing to offer funds in the call money market. Based on these quotes, SLIBOR for one-day, seven-day, one-month, 3-month, 6-month and 12-month maturities was computed and published daily by the CBSL.

What is Average Weighted Lending Rate (AWLR)? / What is Average Weighted Prime Lending Rate (AWPR)?

The AWLR is calculated by the CBSL, on a monthly basis, based on interest rates of all outstanding rupee loans and advances extended by commercial banks to the private sector.

The AWPR is calculated by the CBSL, on a weekly basis, based on commercial bank's lending rates offered to their prime customers during a particular month. The monthly average of weekly AWPR is also published.

What is Average Weighted Deposit Rate (AWDR)? / What is Average Weighted Fixed Deposit Rate (AWFDR)?

The AWDR is calculated by the CBSL, on a monthly basis, based on the weighted average rates of all outstanding interest bearing rupee deposits held by commercial banks.

The AWFDR is also calculated, on a monthly basis, by the CBSL based on weighted average rates of all outstanding interest bearing rupee time deposits held by commercial banks.

What is Average Weighted New Deposit Rate (AWNDR)? / What is Average Weighted New Lending Rate (AWNLR)?

The AWNDR is calculated by the CBSL, on a monthly basis, based on weighted average rates of all new interest bearing rupee deposits mobilised by commercial banks during a particular month.

The AWNLR is calculated by the CBSL, on a monthly basis, based on interest rates of all new rupee loans and advances extended by commercial banks to the private sector during a particular month.

What is Legal/Market Rate of Interest?

The Legal rate is defined under the Civil Procedure Code (Amendment) Act No. 6 of 1990 and is applicable to any action for the recovery of a sum of money. The Market rate is defined under the Debt Recovery (Special Provisions) Act No. 2 of 1990 and applies only in relation to actions instituted by lenders for the recovery of debt exceeding Rs. 150,000 arising out of commercial transactions, where there is no agreed rate of interest.

The Market Rate and the Legal Rate for a year is computed in December by the Central Bank and is announced through a Gazette notification.

About

[Contact Us](#)

[Right to Information](#)

[FAQ](#)

[Glossary](#)

[Forms & Downloads](#)

[Tender Notices](#)

[Careers](#)

[Privacy](#)

[Sitemap](#)

More Services

[Employees' Provident Fund](#)

[Public Debt Management](#)

[Department of Foreign Exchange](#)
(<http://www.dfe.lk>)

[Center for Banking Studies](#)

[Financial Intelligence Unit](#)

[Regional Offices of CBSL](#)

[LankaPay](#)

Useful Sites

[Ministry of Finance](#)
(<http://www.treasury.gov.lk/>)

[Department of Census and Statistics](#)
(<http://www.statistics.gov.lk/>)

[Institute of Bankers of Sri Lanka](#)
(<http://www.ibsl.lk>)

[International Monetary Fund](#)
(<http://www.imf.org>)

[Colombo Stock Exchange](#)
(<http://www.cse.lk/>)

[Credit Information Bureau](#)
(<http://www.crib.lk>)

[Sri Lanka Accounting and Auditing Standards Monitoring Board](#)
(<http://slaasmb.gov.lk/>)

Follow Us

[!\[\]\(0aaea5eb29549a0c507a518cbdd818a0_img.jpg\) **Facebook**](#)

[!\[\]\(62e94c0795f5d0e811cb40e6b18f26fd_img.jpg\) **Twitter**](#)

[!\[\]\(fed825e7856867ee486f6761f9a89d91_img.jpg\) **YouTube**](#)

[!\[\]\(aedbb838a7f635b6ebfdf5bdbc3e5572_img.jpg\) **LinkedIn**](#)

[!\[\]\(e0cc407cc366fdce3374cd52936f2fe1_img.jpg\) **Subscribe**](#)

[!\[\]\(654d8e30dc2e8e002b21c7dff500ad96_img.jpg\) **RSS**](#)