



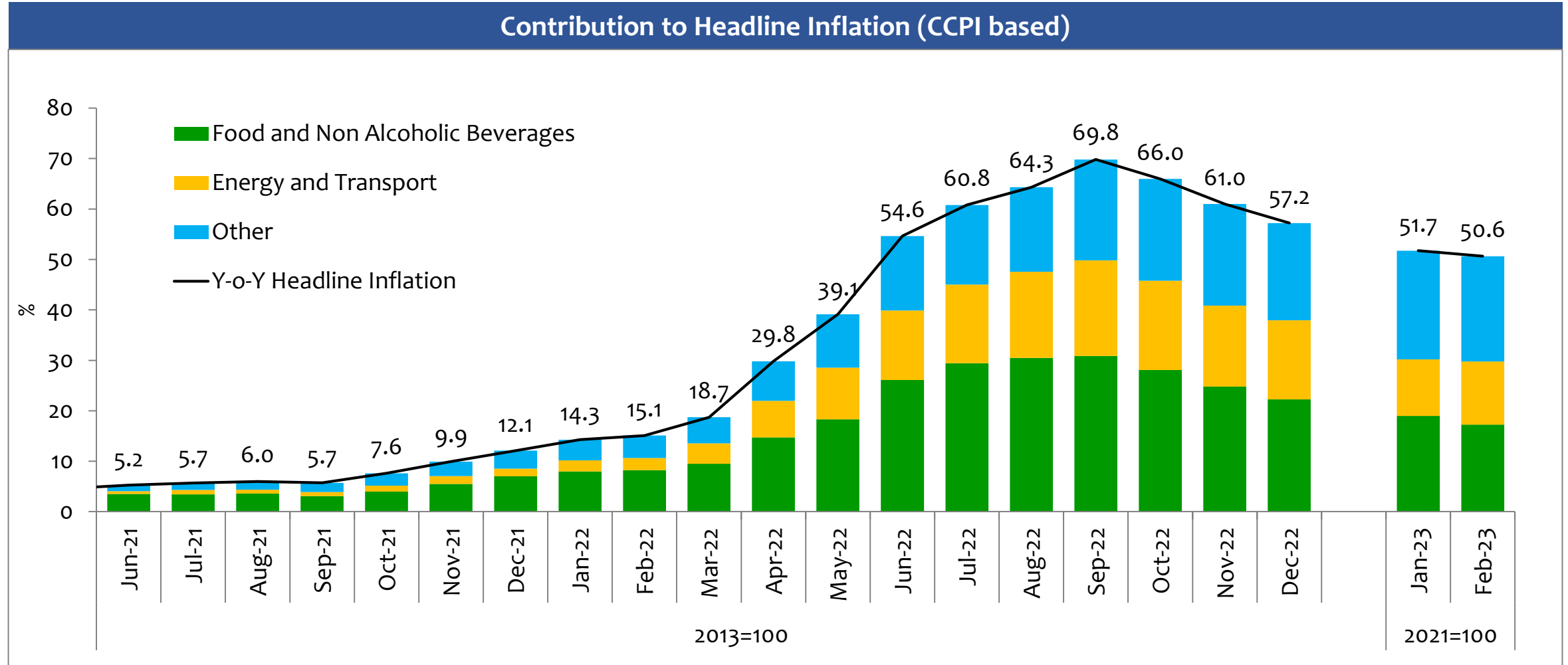
Recent Economic Developments

03 March 2023

Economic Research Department
Central Bank of Sri Lanka

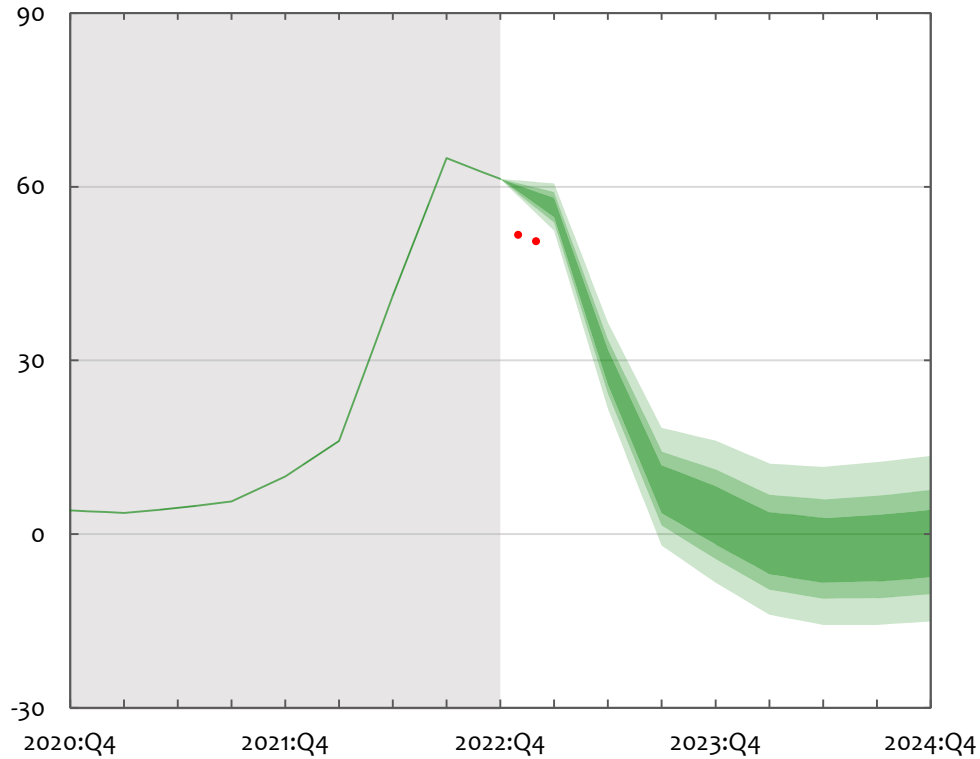
Inflation developments...

- The relative contribution to inflation from the main factors is decreasing in recent months...



Medium term inflation projections...

Quarterly Average Headline Inflation Projections (CCPI based, Y-o-Y, %)

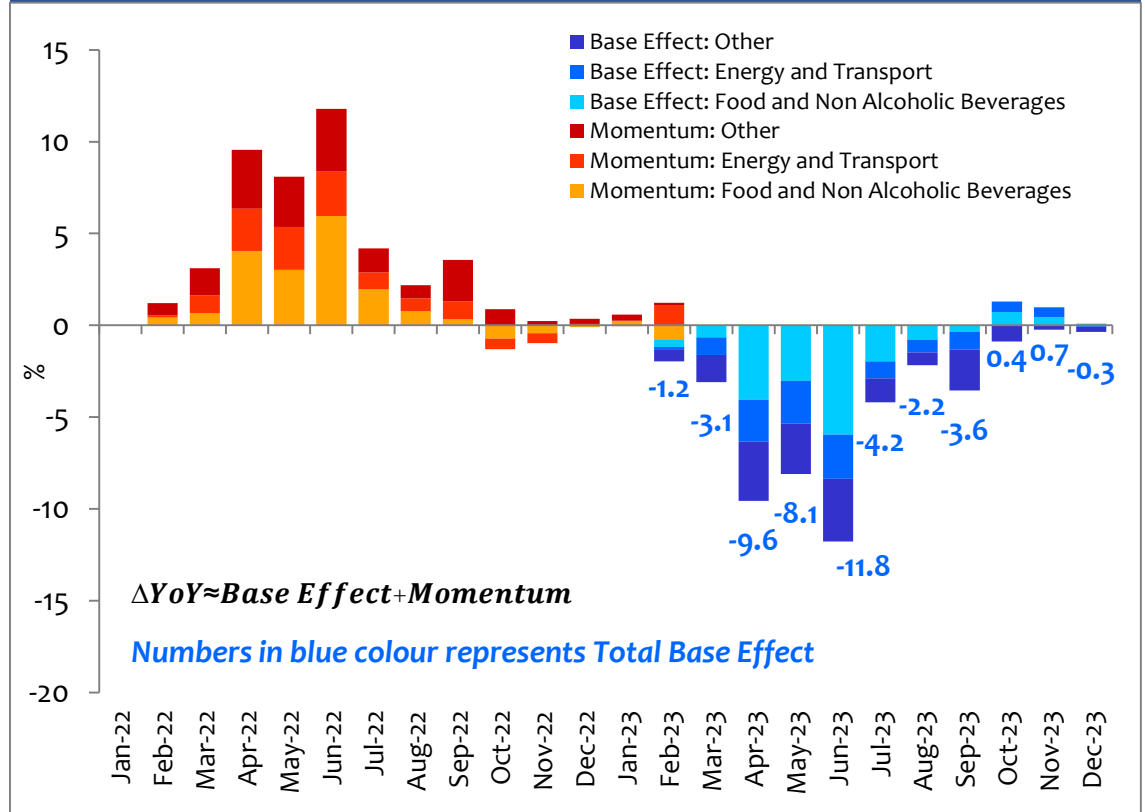


■ 90% CI
 ■ 70% CI
 ■ 50% CI
 ● Realised Inflation (CCPI, 2021=100):
 Jan and Feb 2023

Note:

- The CCPI is rebased to 2021 from February 2023 onwards.
- There is a level shift (downwards) in the new series, as observed in rebased NCPI series.

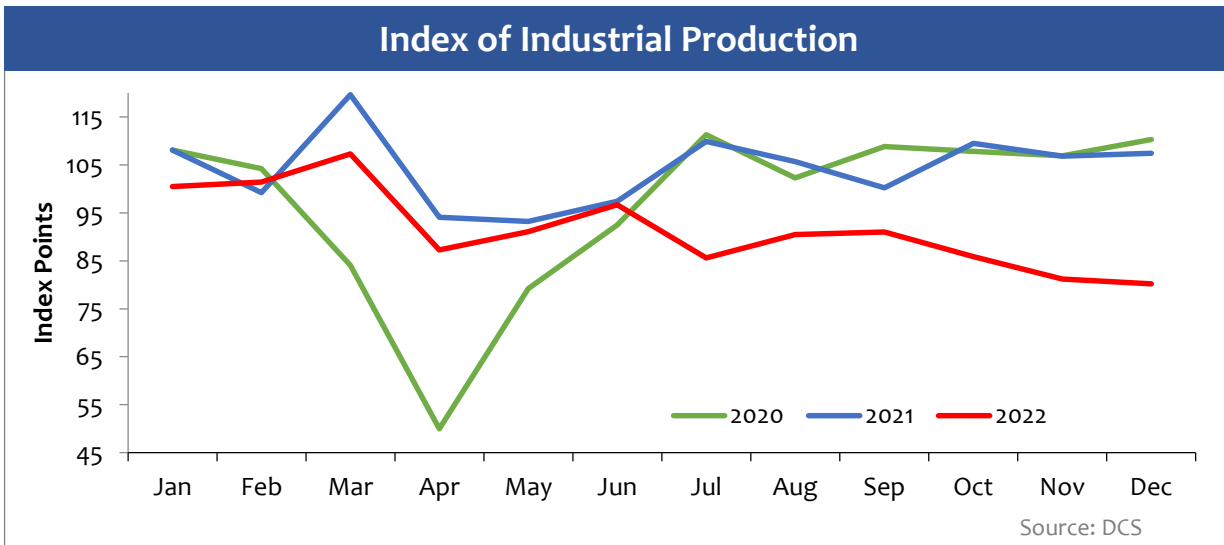
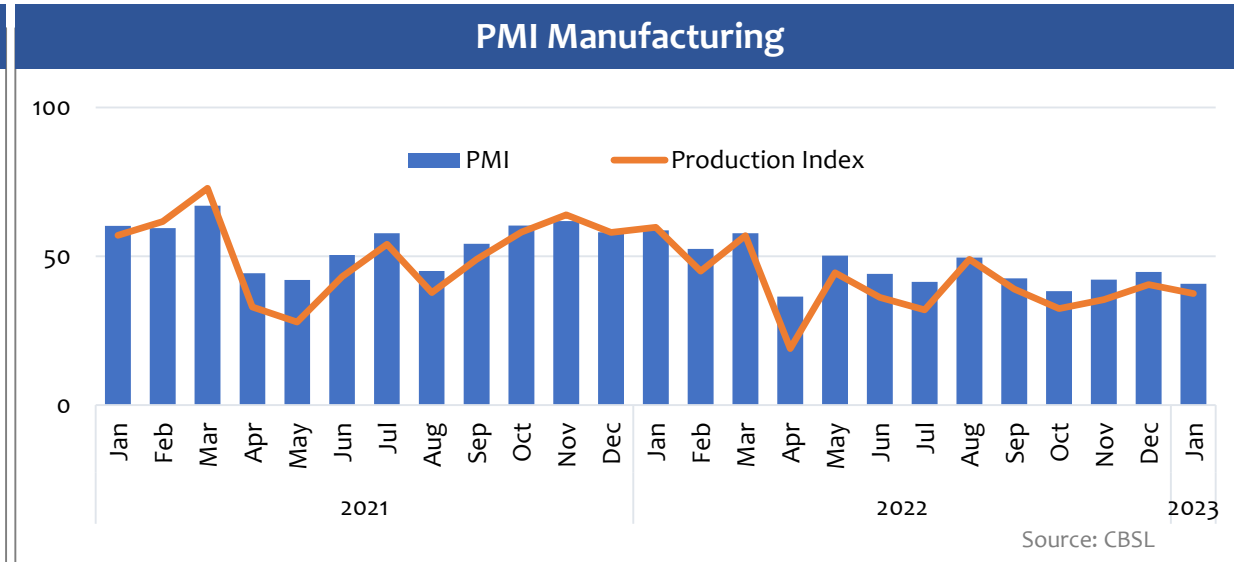
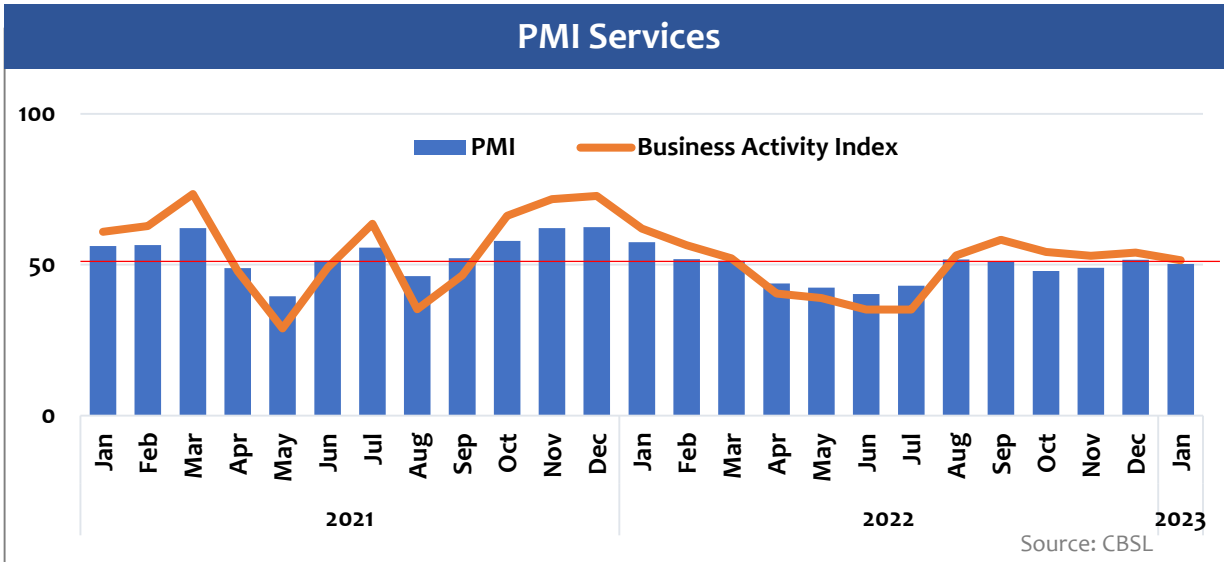
Momentum and Base Effects



- **Core inflation is also projected to follow a similar disinflation path**

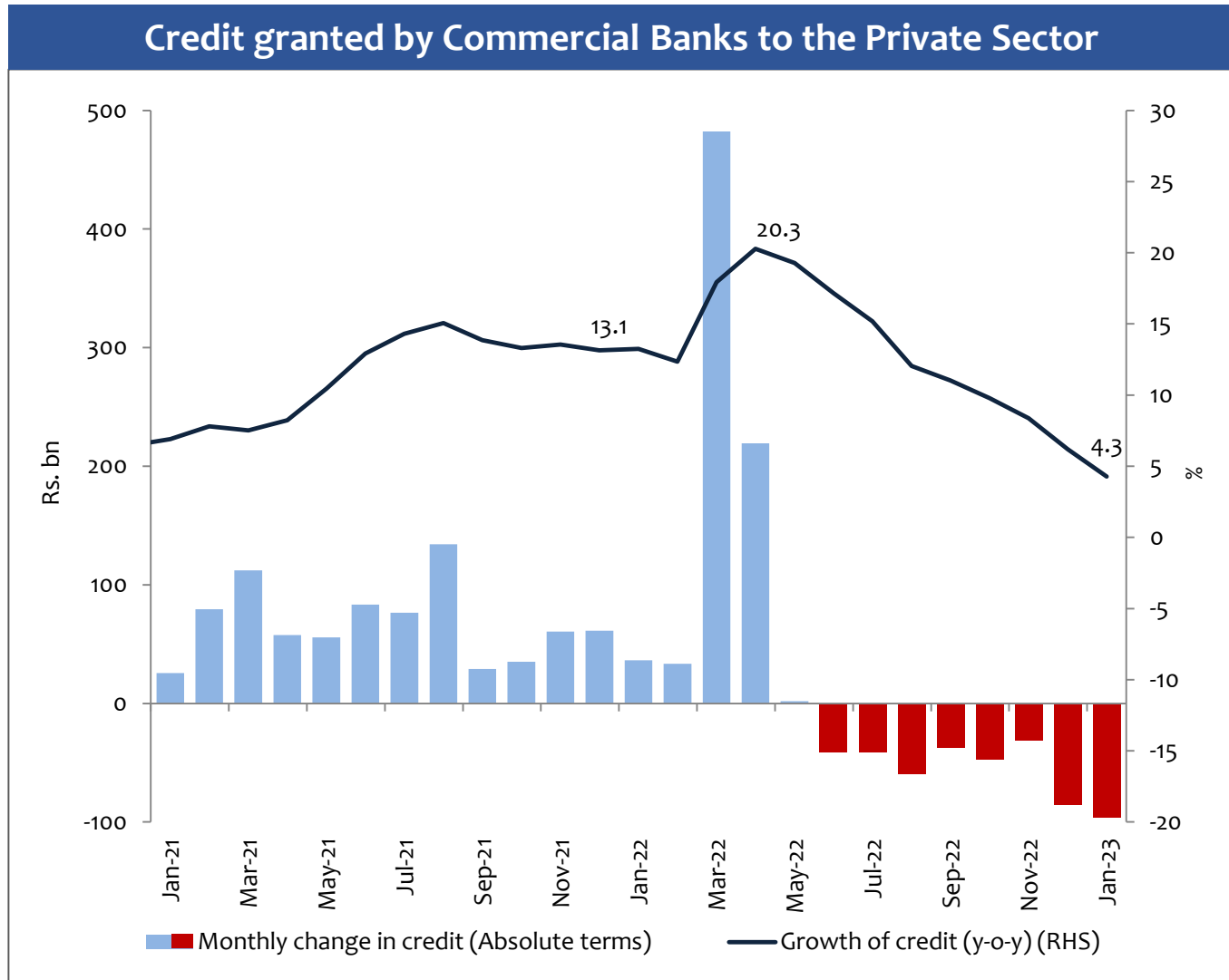


Leading indicators on economic activity...

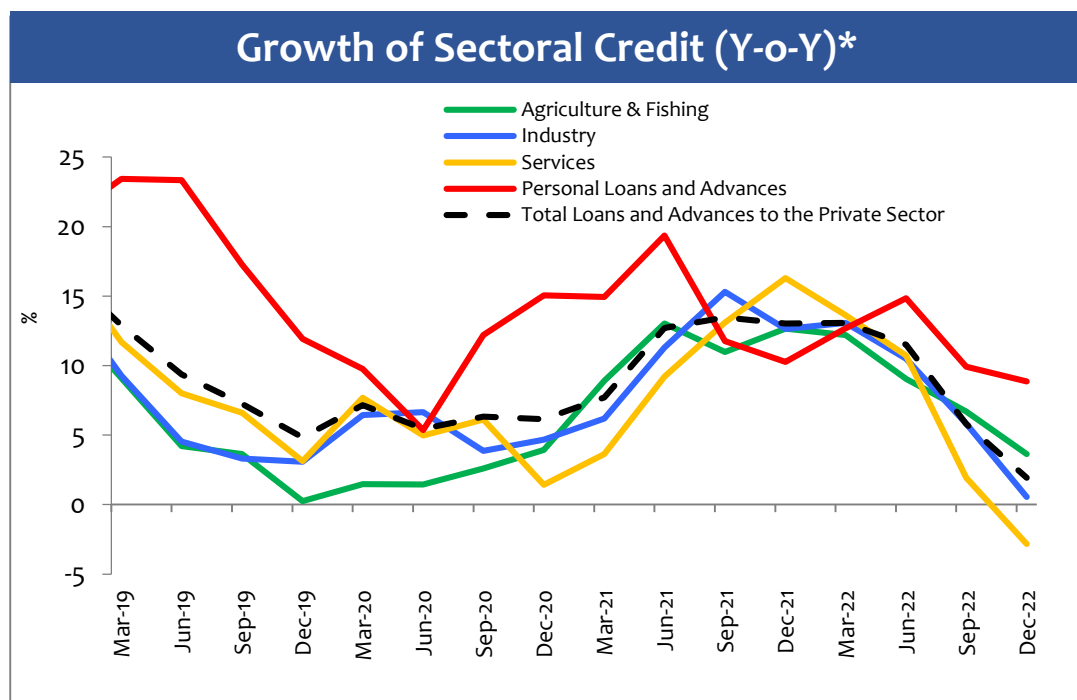


A gradual recovery is expected towards the end of 2023 supported by

- Improvements in domestic supply conditions
- Anticipated improvements in foreign exchange flows and the resultant enhancement in business and investor sentiment



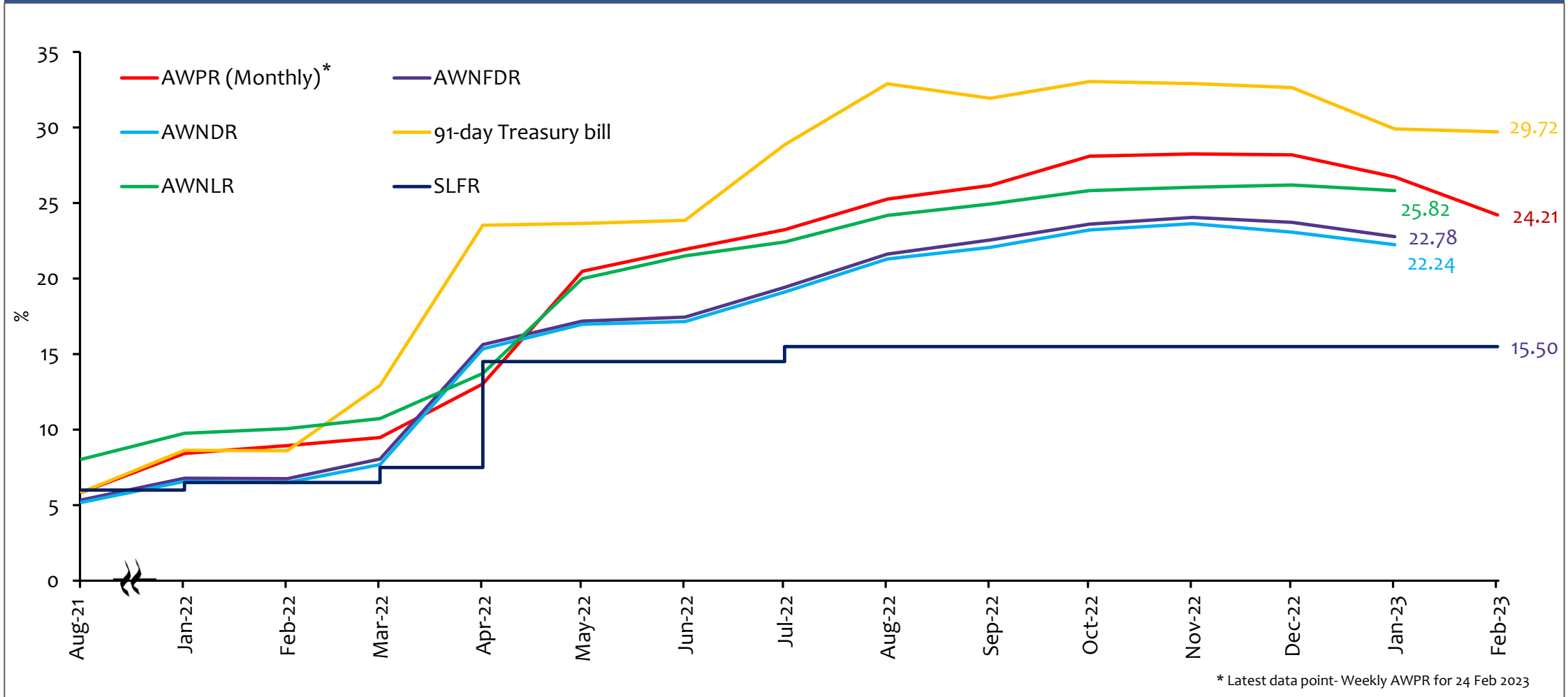
Absolute change	2020	2021	2022	Jan 2023
Rs. bn	374.1	810.5	432.7	(96.1)
Y-o-Y (%)	6.5	13.1	(3.1)*	(4.9)*



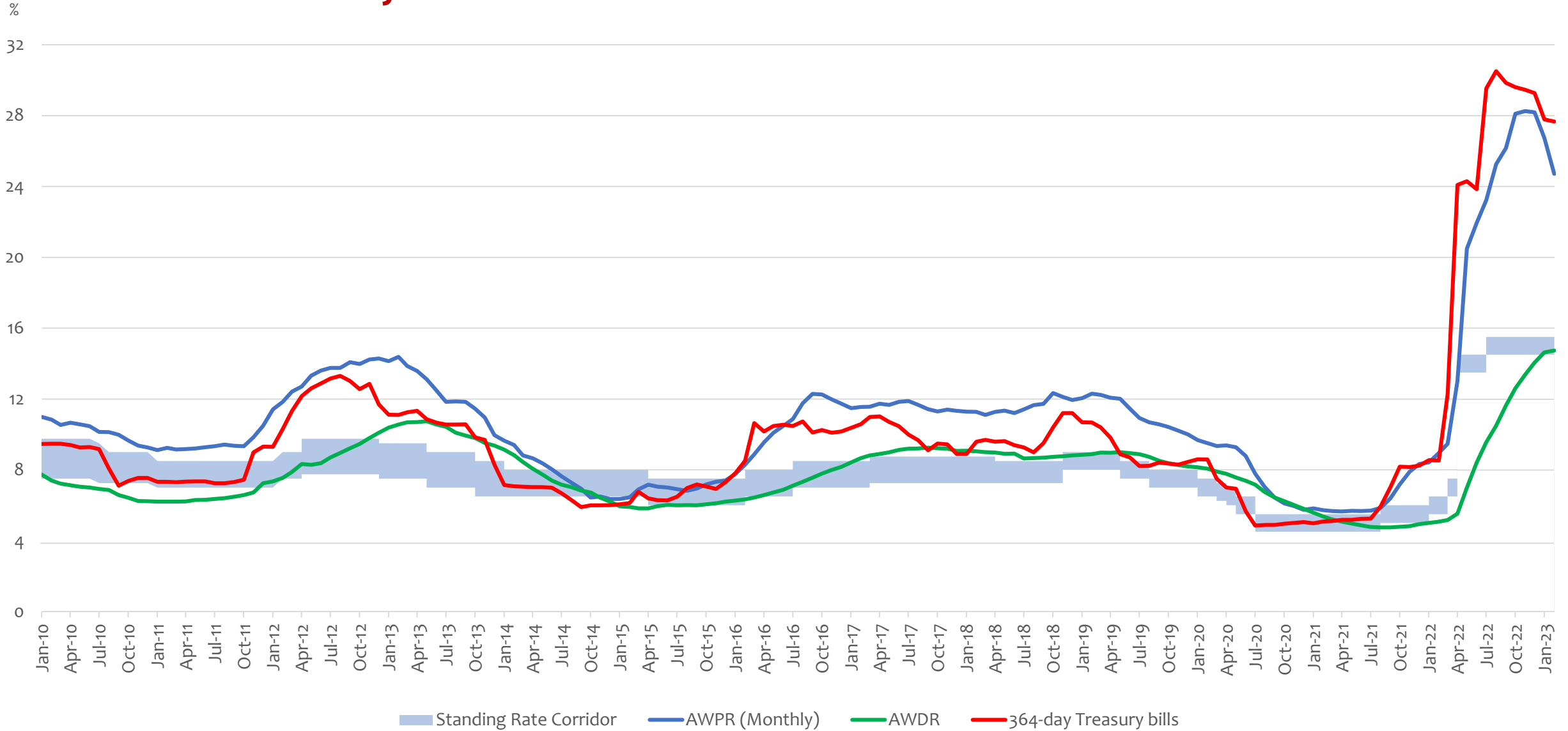
* Excluding the depreciation impact

Movements in selected market interest rates...

Movements in Selected Market Interest Rates

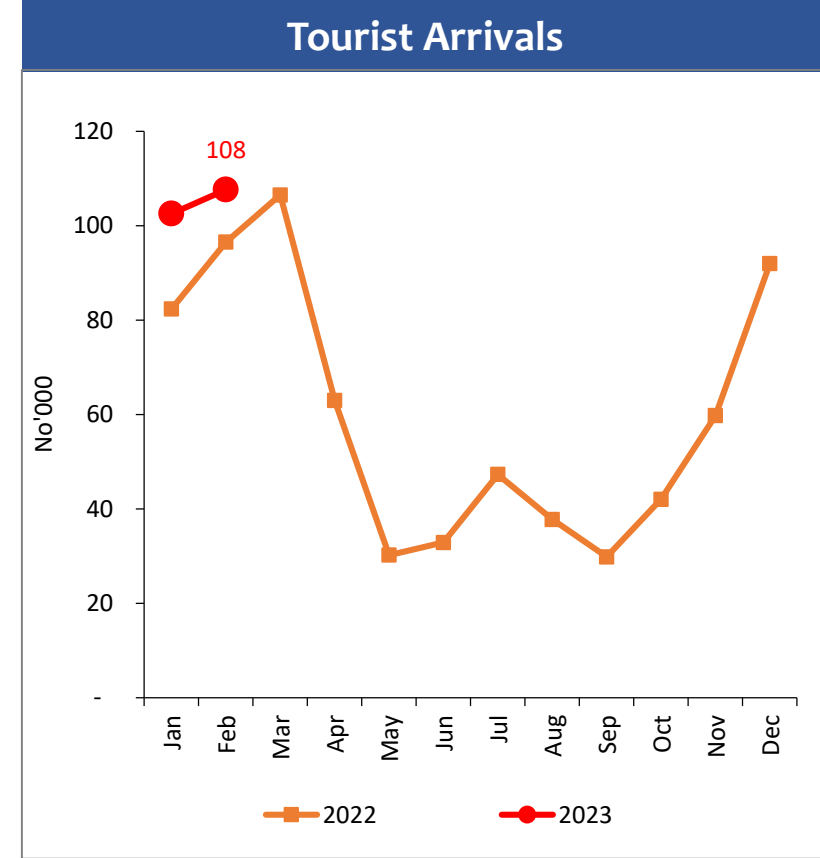
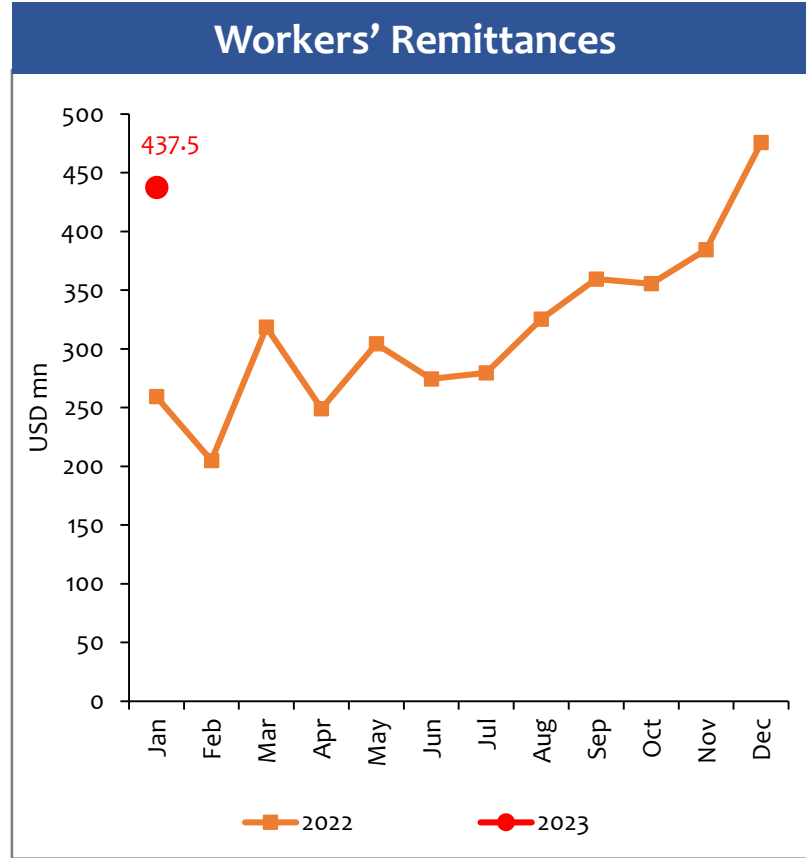
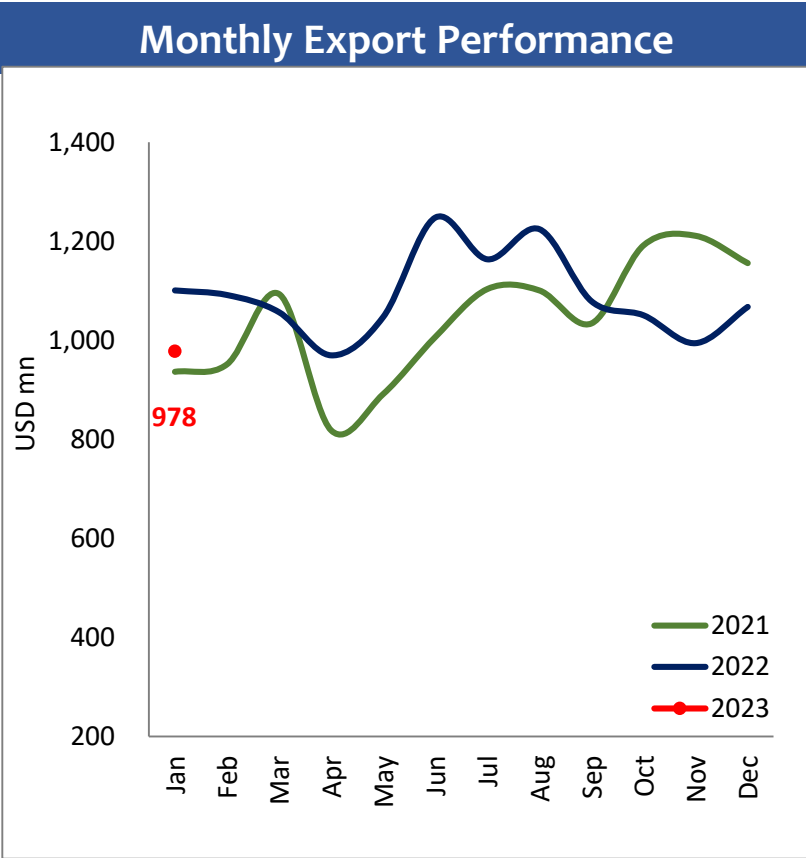


Policy Interest Rates and Selected Market Interest Rates



External sector performance...

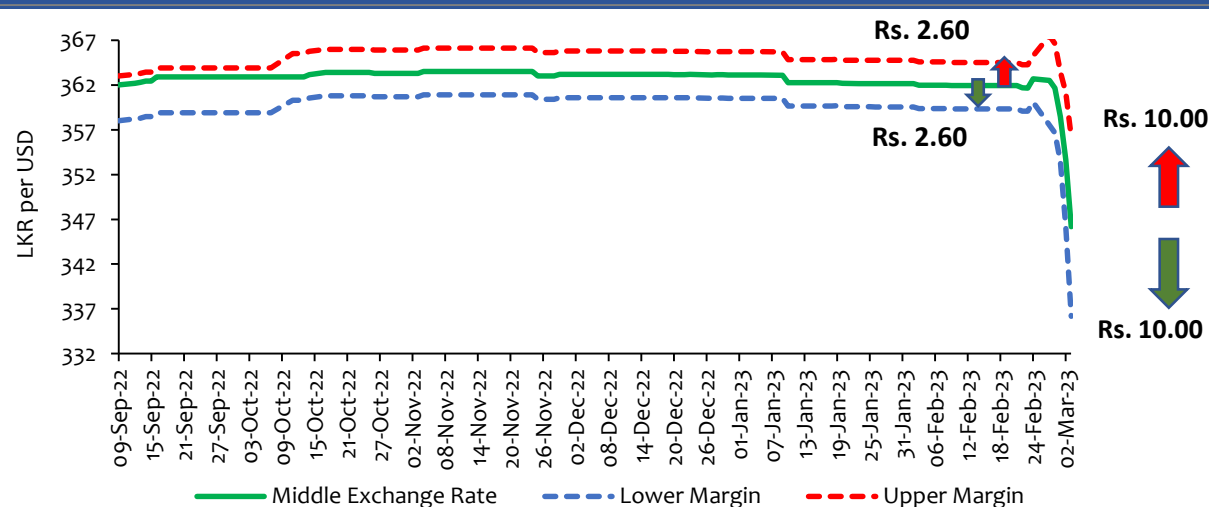
- External sector outlook remains positive with the expected improvements



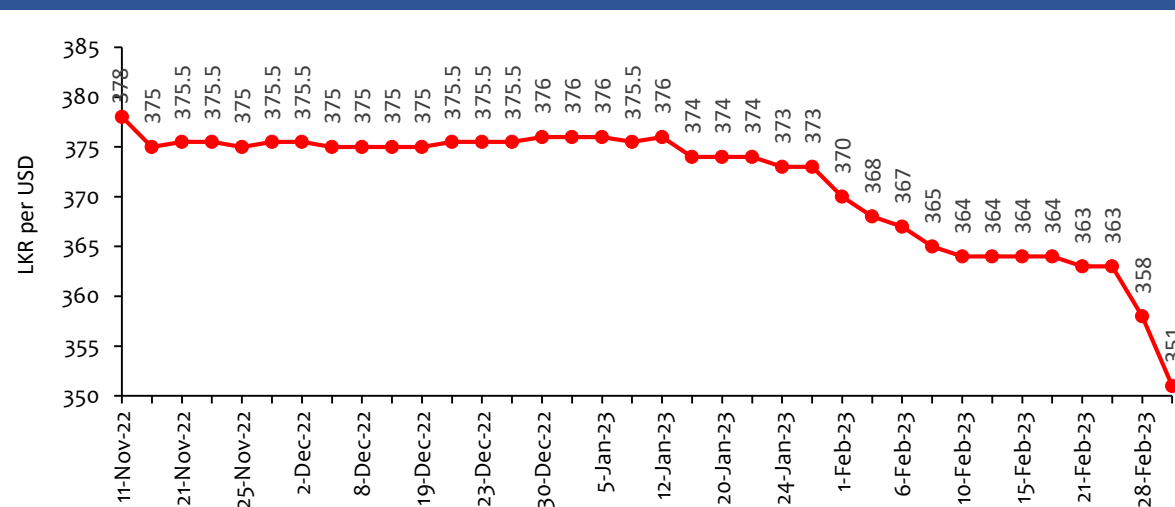
• GOR were estimated at USD 2.1 bn as of end January 2023, including the swap facility from the PBOC, equivalent to around USD 1.4 bn

Movements in the exchange rate...

Recent movement in USD/LKR spot exchange rate



Recent USD/LKR Selling Rates quoted by Money Changers



LKR Movement Against Other Currencies

	2021	2022	Up to 03 Mar 2023
Currency	App(+)/Dep(-)	App(+)/Dep(-)	App(+)/Dep(-)
US dollar	-7.0 %	-44.8 %	+4.9%
Pound sterling	-6.0 %	-38.1 %	+5.6%
Euro	+1.1 %	-41.4 %	+5.4%
Japanese yen	+3.8 %	-36.4 %	+8.0%
Indian rupee	-5.5 %	-38.6 %	+4.4%

- With a view to encouraging activity in the forex market, the Central Bank lowered mandatory forex sales requirement from 25% to 15% of the converted amounts and increased variation margin of Rs. 5.00 on either side (+/-) of the middle spot exchange rate, w.e.f 27.02.2023.
- Since 03.03.2023 onward variation margin increased to Rs. 10.00 on either side (+/-) of the middle spot exchange rate.

THANK YOU

