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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Press Release

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Monetary Policy Review – February 2014

The effectiveness of the policy measures in place was visible as the economy showed signs of further improvement with interest rates adjusting downwards albeit with a lag, and private sector credit picking up during the last quarter of 2013.

In January 2014, inflation continued to remain at single digit levels for the 60th consecutive month, and is expected to remain comfortably at these levels throughout 2014 supported by well managed demand conditions and improved domestic supply. Headline inflation moderated further, recording 4.4 per cent (year-on-year) for January 2014 from 4.7 per cent (y-o-y) in December 2013. Core inflation showed some increase, recording 3.5 per cent (y-o-y) in January 2014.

Provisional data available for December 2013 showed that the growth of credit extended to the private sector by commercial banks bottomed out, with its year-on-year growth accelerating marginally to 7.5 per cent from 7.3 per cent in the previous month. The Quarterly Survey on Commercial Bank Loans and Advances depicted a robust growth in accommodation provided to Industry and Services sectors facilitating the growing economic activities. Accordingly, in absolute terms, outstanding loans and advances granted to Industry and Services sectors by commercial banks recorded a growth of Rs. 200 billion in 2013 compared to the increase of Rs. 167 billion in the previous year. However, agriculture and consumption related pawning advances declined. Going forward, private sector credit is expected to record a growth of around 16 per cent in 2014, with overall broad money (M_{2b}) growth of around 14 per cent.

Market interest rates continued to adjust downwards, following the compression of the Standing Rate Corridor through the reduction of the Standing Lending Facility Rate by 50 basis points on 2nd January 2014 and also the increased levels of liquidity seen in the domestic money market due to a part of the proceeds of the Sovereign Bond issued in January being converted to local currency by the Government. Whilst deposit interest rates and rates on Government securities have indicated signs of stabilising at current levels, longer term lending rates, which displayed some downward adjustments in January, have space to decrease further.

In the meantime, both current and capital accounts of the Balance of Payments (BOP) improved in December 2013, resulting in a stable exchange rate and a favourable international reserve position. In December 2013, earnings from exports recorded a healthy growth; while a notable reduction in imports was witnessed, reducing the trade deficit considerably. Inflows, on account of the workers' remittances and tourism, recorded the highest monthly values while inflows to the Financial Account increased moderately.

Going forward, the effect of the tapering of the US quantitative easing (QE) programme on the Sri Lanka economy is expected to be minimal as a result of the prudent policies that have consistently been in place to attract investors who have a serious and long term view of the Sri Lankan economy. That position has been confirmed by the fact that, so far during the year (up to 10 February 2014), even after the QE tapering has been in progress, the net inflows to the Sri Lankan bond and stock markets have amounted to US dollars 119 million, although many emerging economies have experienced the reverse phenomenon. Reflecting continued foreign currency inflows, the Central Bank has so far absorbed US dollars 58.7 million on a net basis from the domestic foreign exchange market during this period while the Rupee has remained stable, appreciating against the US dollar by 0.03 per cent so far during the year. Gross official reserves have also remained at comfortable levels, equivalent to around 5.3 months of imports.

Considering the above, the Monetary Board, at its meeting held on 13th February 2014, was of the view that the current monetary policy stance is appropriate, and therefore, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank unchanged at their current levels of 6.50 per cent and 8.00 per cent, respectively.

At the same time, the Monetary Board took note of the fact that the overall capacity of the economy has increased substantially in recent times as a result of the Government’s mega infrastructure drive, and that such increased capacity of the economy, in turn, has significantly amplified the investment potential and opened up new avenues to be utilised by the private sector. In that background, the Monetary Board was of the view that it would now be appropriate to further encourage the utilisation of this investment potential, since such policies by the government would give rise to increased and accelerated sustainable economic growth in the period ahead.

The date for the release of the next regular statement on monetary policy would be announced in due course.