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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

**Communications Department**

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: [dcommunications@cbsl.lk](mailto:dcommunications@cbsl.lk), [communications@cbsl.lk](mailto:communications@cbsl.lk)

Web: [www.cbsl.gov.lk](http://www.cbsl.gov.lk)

## Press Release

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### Monetary Policy Review – April 2014

Year-on-year inflation remained low with headline inflation (y-o-y) for March 2014 recording 4.2 per cent, unchanged from the previous month, while core inflation (y-o-y) increased marginally to 3.4 per cent in March from 3.1 per cent in February 2014. Looking ahead, although some price pressures may be felt due to supply disruptions brought by drought conditions, inflation is expected to remain at mid single digits throughout the year supported by favourable inflation expectations, and subdued demand conditions.

In the external sector, inflows on account of workers' remittances recorded a significant increase in February 2014 while earnings from tourism also increased during the first quarter 2014. Gross official reserves are estimated to be around US dollars 8.0 billion as at end February 2014, which is equivalent to 5.3 months of imports. The reserve levels are expected to further improve with the proceeds of the US dollars 500 million sovereign bond issuance in April 2014.

The growth of broad money supply ( $M_{2b}$ ) decelerated to 14.7 per cent in February 2014, its lowest level in 38 months, while reserve money on a quarterly average basis remained within projected levels in the first quarter. Within broad money, credit to

the private sector grew by a modest 4.4 per cent on a year-on-year basis in February 2014, from 5.2 per cent recorded in the previous month. Meanwhile, net credit to the government (NCG) for the first two months of the year amounted to Rs. 43.3 billion, with the government utilising the proceeds of the sovereign bond issuance in January 2014 to reduce its overdraft balances with the state banks. At the same time, credit obtained by the public corporations declined further in February due to net repayments by the CPC and CEB during the month. Continued fiscal consolidation, together with the sovereign bond issuance that took place in April 2014, is expected to ease public sector's reliance on bank financing in the coming months. The resulting release of funds for private investments bolstered by sufficient market liquidity levels would provide the necessary stimulus to strengthen private sector activity and in turn, as expected, expand credit growth from the second quarter onwards.

In the above background, the Sri Lankan economy is poised for stronger performance with the recovery observed in the external sector, sustained momentum in construction and manufacturing sectors and with monetary aggregates performing as expected, and inflation remaining low and stable.

Considering the above, the Monetary Board, at its meeting held on 21<sup>st</sup> April 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.

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