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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 – August 2014

Headline inflation continued to remain in low single digit levels, although it increased to 3.6 per cent on a year-on-year basis in July 2014 from 2.8 per cent in the previous month reflecting higher prices of certain food items caused by adverse weather conditions. Meanwhile, core inflation, which reflects underlying price movements, rose marginally to 3.7 per cent in July compared to 3.5 per cent in June 2014. Although supply disturbances triggered by adverse weather conditions could cause temporary price fluctuations, the outlook for inflation remains benign supported by relatively stable international commodity prices as well as well contained demand pressures and inflation expectations.

Market interest rates have continued to adjust downwards in response to monetary policy measures taken by the Central Bank in the recent past. Reflecting the impact of the low inflation environment, the secondary market yield curve for Government securities has shifted downwards. Short term interest rates, including the average weighted prime lending rate (AWPR) have decreased to historic low levels while longer term lending rates such as interest rates on housing loans and leasing are adjusting downwards as expected. Deposit rates, which fell in tandem with policy interest rates, appear to have stabilised at their new levels. Continued low inflation has enabled depositors to receive a positive real interest rate on deposits while encouraging financial institutions to introduce new products offering long term benefits to savers.

The growth of broad money (M_{2b}) on a year-on-year basis was 13.3 per cent in June 2014 in comparison to 13 per cent in the previous month. Credit obtained by the private sector rose by Rs. 8 billion in June, although on a year-on-year basis, private sector credit growth decelerated to 2 per cent by end June 2014. Credit obtained by the private sector is expected to increase gradually with high levels of liquidity in the domestic money market, low short term lending rates and declining longer term rates.

Considering available information for the first half of the year, real economic growth is likely to remain broadly on target in 2014. Nevertheless, reflecting the continued low inflation environment, the Implicit GDP Deflator is expected to be lower than the originally projected level of 6 per cent, and consequently, nominal GDP growth is expected to be lower than the initially projected rate of 14.3 per cent. Accordingly, the Central Bank expects broad money to grow by around 13 per cent, on a year-on-year basis by end 2014, compared to the previously expected 14 per cent for 2014.

The external sector strengthened further in recent months supported by timely and appropriate policies of the Central Bank and the Government. Favourable developments in exports observed from June 2013 are expected to continue during the remainder of 2014. Higher inflows attributed to rising workers' remittances and receipts from tourism along with the lower trade deficit have positively impacted the external current account. Consequently, gross official reserves surpassed the historic milestone of US dollars 9 billion, and currently stand at around US dollars 9.2 billion. In the meantime, the Central Bank has purchased over US dollars 1 billion from the domestic foreign exchange market on a net basis so far during the year.

In this background, the Monetary Board, at its meeting held on 14th of August 2014, 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.

Monetary Policy Decision:	**Policy rates unchanged**
Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	6.00%