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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 – October 2014

Continuing the sustained low inflation environment for the 68th consecutive month, headline inflation on a year-on-year (Y-o-Y) basis remained unchanged at 3.5 per cent in September 2014 while declining on an annual average basis to 4.2 per cent from 4.5 per cent in the previous month. Core inflation (Y-o-Y) meanwhile, decelerated to 3.7 per cent in September 2014 from 3.9 per cent in August 2014. The significant reduction of international energy prices and the improvements in the domestic electricity infrastructure have enabled the government to reduce domestic energy prices, and the benefits of these adjustments have now begun to reflect favourably on inflation. This development, along with the continued deceleration of the prices of other key commodities in the international market, is likely to result in inflation remaining at a lower rate than the previously projected range of 4-5 per cent in the period ahead.

Following some initial volatility observed in the domestic money market in response to the monetary policy measures taken by the Central Bank in September 2014, short term money market rates have broadly stabilised while longer term lending rates are adjusting downwards as expected. Credit extended to the private sector by commercial banks increased by Rs. 47.7 billion during the month of August, indicating a turnaround in the behaviour of bank credit. It is expected that credit disbursements to the private sector from commercial banks would continue to grow given the continued growth in economic activity and the relatively low market interest rates. In nominal terms, most market interest rates are at historic lows, although there is further room for these rates to reduce in relation to the low inflation environment. Meanwhile, net credit to the government (NCG) from the banking sector has increased by Rs. 60.9 billion in the first eight months compared to the projected bank borrowing of Rs. 100 billion for the year, and credit to public corporations has declined by Rs. 27.2 billion during this period. Reflecting increased foreign inflows to the government and the private sector, net foreign assets (NFA) of the banking sector have increased by Rs. 289 billion during the first eight months of the year. Accordingly, the growth of broad money (M_{2b}), which moderated in July 2014 to 11.9 per cent (y-o-y), accelerated to 12.3 per cent (y-o-y) in August 2014.

So far during the year, the Sri Lankan rupee has appreciated against the US dollar by 0.14 per cent, and gross official reserves stand at an estimated US dollars 8.7 billion by 13th October 2014. The strong external reserve position is the result of continued foreign exchange inflows from increased exports of goods and services, remittances, and other inflows to the private sector and the government.

In this background, the Monetary Board at its meeting held on 16th October 2014, was of the view that the current monetary policy stance is appropriate. Accordingly, the Monetary Board 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. Access to the Standing Deposit Facility (SDF) will remain rationalised with deposits of OMO participants under the SDF window exceeding three times being accepted at the lower rate of 5.00 per cent until further notice. In the meantime, OMO auctions will be conducted when necessary.

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%