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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, communications@cbsl.lk
Web: www.cbsl.gov.lk

Press Release

Issued By Economic Research Department

Date 18-11-2014

Monetary Policy Review – November 2014

Reflecting the recent downward adjustments to domestic energy prices, headline inflation on a year-on-year (y-o-y) basis declined to its lowest level since November 2009 to record 1.6 per cent in October 2014, compared to 3.5 per cent in the previous month. Annual average headline inflation also declined to 3.8 per cent from 4.2 per cent. Core inflation (y-o-y) meanwhile, was at 3.6 per cent in October 2014 compared to 3.7 per cent in the previous month indicating well contained demand pressures on inflation. It is expected that subdued commodity prices in the international market, recent budget proposals such as reducing the Value Added Tax (VAT) to 11 per cent and stable inflation expectations would keep inflation at benign levels in the period ahead.

Broad money (M_{2b}) grew by 12.8 per cent (y-o-y) in September 2014 compared to 12.3 per cent in the previous month reflecting the expansion in bank credit obtained by the private and public sectors. During the first nine months of the year, net credit to the government (NCG) from the banking sector has increased by Rs. 87.3 billion while credit to public corporations has declined by Rs. 1.2 billion. Net foreign assets (NFA) of the banking sector have increased by Rs. 225.9 billion during this period.

A healthy growth of credit disbursements to the private sector by commercial banks were observed for the second consecutive month in September 2014. Credit obtained by the

private sector from commercial banks increased by Rs. 52.3 billion during the month of September, following an increase of Rs. 47.7 billion in August. On a y-o-y basis, this was an acceleration of credit to 4.6 per cent in September 2014 from 2.6 per cent in the previous month. The quarterly survey of commercial banks' loans and advances to the private sector reflected substantial credit flows to the Industry and the Services sectors in the first three quarters of the year. In the meantime, providing further impetus for a robust credit growth in the period ahead, the impact of the contraction in pawning advances on private sector credit growth following the decline in international gold prices appears to have gradually diminished in response to the policy measures introduced by the Central Bank. The reduction in market interest rates, including those on medium and long term credit facilities, is also expected to reinforce a continued credit flow to the economy.

On the external front, the Sri Lanka rupee remained broadly stable supported by foreign currency inflows mainly on account of export earnings, tourism, remittances, and other inflows to the banking sector. Accordingly, the gross official reserves stood at an estimated US dollars 8.8 billion, equivalent to 5.3 months of imports by end October 2014.

In this background, the Monetary Board at its meeting held on 17th November 2014, was of the view that the current monetary policy stance of the Central Bank is appropriate. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank will remain 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 while OMO auctions will be conducted as 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%