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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 – March 2015

According to recently released data by the Department of Census and Statistics, the Sri Lankan economy is estimated to have grown by 7.4 per cent in 2014 compared to 7.2 per cent in 2013. This growth was mainly supported by the expansion in the Industry sector, which grew by 11.4 per cent and the Services sector, which grew by 6.5 per cent. Meanwhile, the Agriculture sector that was affected by adverse weather conditions, recorded a marginal growth of 0.3 per cent. Going forward, the economy is expected to maintain its growth momentum in 2015 amidst sustained low and stable inflation and expected improvements in business confidence.

Headline inflation, on a year-on-year (y-o-y) basis, decreased significantly to 0.6 per cent in February 2015 from 3.2 per cent in the previous month reflecting the downward revision of domestic fuel prices and the reduction in the prices of certain essential items announced in the Interim Budget 2015. Given the impact of such measures and supported by improved supply conditions, headline inflation is likely to remain at low levels, particularly in the first half of 2015. Meanwhile, core inflation, which reflects underlying demand pressures in the economy, declined to 0.8 per cent, y-o-y, in February 2015 compared to 2.1 per cent in January 2015.

The external sector remains resilient with continued foreign currency inflows to the current account as well as to the financial account of the Balance of Payments (BOP). During the remainder of 2015, the external sector is projected to strengthen further with the expected reduction in expenditure on imports together with higher inflows on account of tourism and workers' remittances as well as receipts to the government, the banking sector and other private corporates.

Credit obtained by the private sector from commercial banks increased by 11.5 per cent, y-o-y, in January 2015, while in absolute terms, credit disbursements during the month amounted to Rs. 21 billion. Credit to the private sector from commercial banks is expected to sustain its growth momentum in the period ahead benefiting from low market interest rates and increased business confidence. Supported by higher domestic credit expansion including credit granted to the government and public corporations, broad money growth was 12.6 per cent on a y-o-y basis in January 2015.

Given signs of sustained increase in credit flows to the private sector, the Central Bank removed the restriction placed on the access to its Standing Deposit Facility (SDF) by OMO participants with effect from 02 March 2015. Following this, the overnight interest rates moved upwards and settled within the policy rate corridor closer to the lower bound. Despite some upward movements in interest rates in certain market segments, the low interest rate environment is expected to continue, benefiting from the prevailing low inflation levels in the economy, thus providing an impetus to economic activity.

Taking the above developments in the economy into consideration, the Monetary Board at its meeting held on 17 March 2015, was of the view that the current monetary policy stance is appropriate, and accordingly, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate

(SLFR) of the Central Bank of Sri Lanka unchanged at 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%