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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 – April 2015

The Monetary Board at its regular meeting held on 11 April 2015 reviewed the current monetary policy stance and underlying macroeconomic conditions. Accordingly, the Monetary Board made following observations:

- Headline inflation, on a year-on-year (y-o-y) basis, declined to 0.1 per cent in March 2015 from 0.6 per cent in February 2015. Following the same trend, annual average inflation also declined to 2.5 per cent from 2.9 per cent recorded in the previous month. Significant decline in inflation in March 2015 reflects primarily the first round impact of downward price revisions of domestic energy prices as well as the administratively reduction in prices of a number of consumer items. Meanwhile, core inflation stood at 1.4 per cent on y-o-y basis and 3.0 per cent on annual average basis in March 2015.

- As expected, a sustained increase in credit granted by commercial banks to the private sector was observed in the past few months. The growth of the private sector credit rose to 12.6 per cent (y-o-y) or Rs. 24.5 billion in absolute terms in February 2015. Reflecting the developments in domestic credit, broad money (M_{2b}) increased by 12.3 per cent (y-o-y) in February 2015, remaining well within the underlying monetary projections.

- The external sector remained resilient with foreign currency inflows from export proceeds, workers' remittances, and tourist earnings as well as inflows to the government securities and portfolio investments supporting maintenance of the exchange rate against US Dollar without an unhealthy volatility on the strength of official foreign reserves increasing from US dollars 6.8 billion as at end March 2015 to US dollars 7.0 billion at present. The official reserves are projected to strengthen further with the proceeds pending from the currency swap arrangement between Sri Lanka and India and other identified regular investment inflows to a level of official reserves comfortable for supporting the exchange rate stability in the immediate future. Overall, the outlook in the balance of payments in 2015 remains favourable with continued inflows expected from current account related transactions, significantly lower expenditure on petroleum imports and receipts to the government, the banking sector and other private corporates.

- Current behaviour of market interest rates is viewed to be inconsistent with the continued low inflation and investments needed to address concerns on economic growth for the year. Inflation is projected to remain at low mid-single digit level in 2015. Therefore, there is a further leeway to continue relaxation of monetary policy, primarily through a reduction in policy interest rates of the Central Bank to encourage economic activities by enhanced credit flows and investments due to lower cost of funds and behaviour of market interest rates consistent with economic growth outlook. If any of subsequent interim effects of further monetary relaxation are found to be of concern over other economic variables, a mix of other monetary policy tools is available to fine-tune such effects towards achievement of current objectives of the monetary policy.

Taking the above observations into consideration, the Monetary Board decided to reduce the policy interest rates by 50 basis points. Accordingly, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank are reduced to 6.00 per cent and 7.50 per cent, respectively, with effect from today (15 April 2015). The monetary policy tool primarily adopted by the Monetary Board will continue to be the policy interest rates announced to the market with the support of other monetary policy tools. The relaxed monetary policy stance will also be pursued in months to come until concerns over inconsistent behaviour of market interest rates are addressed sufficiently to facilitate the economic growth further in a low single digit inflation environment.

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