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Press Release

Issued By Economic Research Department

Date 22-05-2015

Monetary Policy Review – May 2015

Following the reduction in policy rates of the Central Bank in April 2015, market interest rates have adjusted downwards as expected. The continuation of the low interest rate regime has induced demand for bank credit from the private sector. Accordingly, credit obtained by the private sector from commercial banks increased by 13.9 per cent in March 2015 on a year-on-year basis. In absolute value terms, the increase during the month was Rs. 41.4 billion, raising the cumulative increase in credit to the private sector by commercial banks to Rs. 86.9 billion in the first quarter of 2015. As per the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, the sustained expansion in credit was driven mainly by credit flows to the Industry and the Services sectors. Given continued low market interest rates, it is projected that private sector credit would increase further in the period ahead supporting the growth momentum of the economy. As a result of increased credit flows to both private and public sectors, broad money (M_{2b}) grew by 12.5 per cent in March 2015 on a year-on-year basis, along the expected path for monetary expansion.

Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), remained at 0.1 per cent in April 2015 unchanged from the previous month. Year-on-year headline inflation has remained below 1 per cent from February 2015 largely

reflecting the downward revision of domestic energy prices and the reduction in prices of selected consumer items. Annual average inflation declined further to 2.1 per cent in April 2015 from 2.5 per cent in the previous month. Meanwhile, core inflation, on a year-on-year basis increased to 2.4 per cent in April 2015 from 1.4 per cent in March, with price increases being recorded mainly in non-food items such as health services and clothing. Going forward, with improved domestic supply conditions and subdued prices of key commodities in the international market, it is projected that inflation would remain at low levels in the months ahead.

In the external sector, the recent currency swap agreement with the Reserve Bank of India amounting to US dollars 400 million has strengthened official reserves of the country. The realisation of expected capital inflows in the period ahead and sustained regular inflows in the form of earnings from the export of goods and services, including tourism and workers' remittances would improve the balance of payments during the year. So far in 2015, the Sri Lankan rupee has depreciated against the US dollar by around 2.0 per cent.

In this background, the Monetary Board was of the view that the current monetary policy stance is appropriate. Accordingly, the Monetary Board, at its meeting held on 21 May 2015, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank unchanged at 6.00 per cent and 7.50 per cent, respectively.

Monetary Policy Decision:	Policy rates unchanged
Standing Deposit Facility Rate (SDFR)	6.00%
Standing Lending Facility Rate (SLFR)	7.50%
Statutory Reserve Ratio (SRR)	6.00%