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Press Release

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Monetary Policy Review – June 2015

The Sri Lankan economy expanded by 6.4 per cent in the first quarter of 2015, with positive contributions from all three key sectors of the economy. The Services sector and the Industry sector grew by 7.5 per cent and 6.5 per cent, respectively, while the Agriculture sector displayed strong signs of recovery. Going forward, the prospects of improved performance in advanced economies along with low inflation and low market interest rates are expected to benefit domestic economic activity.

In the external sector, proceeds from the International Sovereign Bond, Sri Lanka Development Bonds, foreign currency swap arrangement with the Reserve Bank of India and regular inflows in the form of earnings from the export of goods and services, including tourism as well as workers' remittances, improved the country's foreign reserves. Meanwhile, cross currency movements, tax adjustments favouring the importation of lower engine capacity motor vehicles and eased monetary conditions resulted in increased imports in April 2015. However, the substantial reduction in global oil prices resulted in a significant decline in the expenditure on oil imports.

Broad money supply (M_{2b}) recorded a year-on-year growth of 13.9 per cent in April 2015. The year-on-year growth of credit to the private sector in April 2015 was 15.2 per cent. In absolute terms, credit extended to the private sector has been increasing by around

Rs. 25 billion on average per month up to April 2015 supporting continued expansion of economic activity. Meanwhile, the increase in net credit to the government and State Owned Enterprises (SOEs) by the banking sector also contributed to the monetary expansion.

Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI) was 0.2 per cent in May 2015 and remained well below 1.0 per cent for four consecutive months. Annual average inflation declined further to 1.9 per cent in May 2015 from 2.1 per cent in the previous month. Meanwhile, core inflation on a year-on-year basis also remained low at 2.6 per cent in May 2015. Inflation is projected to remain comfortably below 4.0 per cent during the remainder of the year.

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 26 June 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%