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Press Release

Issued By Economic Research Department

Date 24-07-2015

Monetary Policy Review – July 2015

Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), remained at near-zero levels recording 0.1 per cent in June 2015 compared to 0.2 per cent in the previous month. Annual average inflation also continued to moderate further to 1.7 per cent in June 2015 from 1.9 per cent in the previous month. Meanwhile, indicating well contained underlying demand pressures, core inflation also remained low at 2.8 per cent in June 2015 on a year-on-year basis compared to 2.6 per cent in the previous month. It is expected that the current level of inflation will continue in the next few months mainly reflecting the benefit of downward adjustments in administered prices of fuel and energy.

In the monetary sector, supported by the prevailing low interest rate environment, credit to the private sector by commercial banks grew by 17.6 per cent, year-on-year, in May 2015. In absolute terms, credit to the private sector expanded by Rs. 48.6 billion in the month of May and by Rs. 150 billion on a cumulative basis during the first five months of the year. Driven by the expansion in private sector credit along with increased bank borrowings by the public sector, broad money supply (M_{2b}) increased by 15.4 per cent on a year-on-year basis in May 2015, compared to 13.9 per cent recorded in the previous month.

With regard to the external sector, increased expenditure on imports relative to earnings from exports widened the trade deficit in May 2015. Gross official reserves, which stood at US dollars 6.8 billion at end May 2015, are estimated to have increased to US dollars 7.5 billion by end June 2015 largely representing the receipt of the proceeds from the International Sovereign Bond and Sri Lanka Development Bond issuances. At the same time, other regular inflows such as earnings from tourism and workers' remittances also supported the external sector during this period. In addition to the US dollars 400 million made available to the Central Bank of Sri Lanka by the Reserve Bank of India (RBI) in April 2015, the Central Bank entered into another currency swap agreement with RBI on 17 July 2015 enabling the country to draw a further amount of US dollars 1.1 billion. The availability of this new facility strengthened the resilience of the external position of the country while supporting greater stability of the exchange rate. So far during the year, the Sri Lankan rupee has depreciated by 2.0 per cent to Rs. 133.70 against the US dollar.

Meanwhile, the Department of Census and Statistics (DCS) has replaced the base year for national accounts statistics from 2002 to 2010, while upgrading the compilation methodology to comply with the United Nation's System of National Accounts - 2008 (SNA 2008). According to the rebased national accounts statistics, real GDP growth for the first quarter of 2015 is estimated at 6.0 per cent with strong performance in the Services sector.

Taking the above developments in the economy into consideration, the Monetary Board, at its meeting held on 23 July 2015, was of the view that the current monetary policy stance is appropriate. Accordingly, the Monetary Board 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%