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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 – October 2015

Headline inflation, on a year-on-year basis, declined further to -0.3 per cent in September 2015 from -0.2 per cent recorded during the months of July and August 2015. On an annual average basis, headline inflation continued its moderation, recording 0.7 per cent in September 2015 in comparison to 1.0 per cent in the previous month. The impact of the sharp downward adjustments to administratively determined prices at end 2014 and the beginning of 2015, improved domestic supply conditions, favourable global commodity prices and subdued inflation expectations supported the persistence of near-zero levels of headline inflation. Nevertheless, reflecting the firming up of aggregate demand conditions, core inflation increased to 4.2 per cent in September 2015, on a year-on-year basis, from 3.9 per cent in the previous month. Headline inflation is expected to remain comfortably in low single digit levels by end 2015 despite the impact of the depreciation of the Sri Lankan rupee against major currencies on inflation.

On the external front, the cumulative expenditure on imports amounted to US dollars 12,559 million during the first eight months of 2015, broadly unchanged from the corresponding period in 2014, while earnings from exports declined by 3.4 per cent to US dollars 7,147 million during the same period. Non-oil imports continued to record their increasing trend throughout the year. Although the trade deficit narrowed in the month of August, it has widened in the first eight months of the year on a cumulative basis. Earnings from tourism in the first nine months are estimated to have grown by 18.8 per cent on a cumulative basis, while workers' remittances also recorded a marginal growth of 1.8 per cent in the first eight months of the year. The rupee has depreciated by around 7 per cent against the US dollar so far in 2015. The real effective exchange rate indices have also adjusted, supporting the external competitiveness of the economy. The Central Bank's decision to allow greater flexibility in the determination of the exchange rate and the expected realisation of other inflows to current and financial accounts are likely to strengthen the resilience of the external sector, going forward. Meanwhile, gross official reserves, which stood at US dollars 6.5 billion at end August 2015, are estimated to have increased to US dollars 6.8 billion by end September 2015. Gross official reserves are expected to increase further during the remainder of the year with the anticipated long term external financial inflows to the government.

In the monetary sector, the year-on-year growth of broad money (M_{2b}) accelerated further to 16.8 per cent in August 2015 from 16.2 per cent in the previous month, driven by the expansion of credit extended to private and public sectors by the banking system. Credit granted to the private sector by commercial banks increased by 21.3 per cent on a year-on-year basis in August compared to the increase of 21.0 per cent in the previous month. In absolute terms, the expansion of private sector credit during the month of August was Rs. 64.7 billion, and the cumulative increase during the first eight months of 2015 was Rs. 310.5 billion. Some stability in short term interest rates was observed, and most market interest rates continued to remain at low levels.

The effects of the policy measures taken by the Central Bank and the government recently to address emerging imbalances in certain sectors of the economy are yet to be reflected in macroeconomic data, although there are some indications that these measures are beginning to take effect. In the meantime, the Central Bank will continue to monitor the developments in aggregate demand conditions of the economy to ensure sustained economic and price stability.

Taking the above developments in the economy into consideration, the Monetary Board, at its meeting held on 19 October 2015, was of the view that the current monetary policy stance of the Central Bank 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%