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CENTRAL BANK OF SRI LANKA

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# Press Release

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## Monetary Policy Review – November 2015

Headline inflation, as measured by the Colombo Consumers' Price Index (CCPI, 2006/2007=100), increased to 1.7 per cent on a year-on-year basis in October 2015 from negative 0.3 per cent in September 2015 mainly reflecting the dissipation of the impact of the downward revision of administered prices during the latter part of 2014. On an annual average basis, headline inflation remained unchanged at 0.7 per cent in October 2015. However, reflecting the firming up of aggregate demand conditions in the economy, core inflation continued to increase during last eight months reaching 4.4 per cent in October 2015, on a year-on-year basis, compared to 3.2 per cent recorded at end 2014. In the meantime, the Department of Census and Statistic (DCS) released a National Consumer Price Index (NCPI, 2013=100) on 23 November 2015 covering price movements in all provinces in the country. The movements of the NCPI are broadly in line with the movements in CCPI, which only covers the urban areas of the Colombo district. Headline inflation as per the year-on-year change in NCPI was at 3.0 per cent for October 2015.

In the monetary sector, the year-on-year growth of credit granted to the private sector by commercial banks increased further to 22.2 per cent in September 2015 from 21.3 per cent in the previous month. As per the Quarterly Survey of Commercial Banks' Loans and Advances to the Private Sector, the Services and Industry sectors witnessed the highest intake of credit, recording year on year increases of 40.6 per cent and 24.5 per cent, respectively. Broad money ( $M_{2b}$ ) grew by 16.0 per cent (y-o-y) in September 2015 compared to 16.8 per cent in the previous month driven by the expansion of credit extended to both private and public sectors by the banking system.

With regard to the external sector, the decline in expenditure on imports in September 2015 was greater than the decline in earnings from exports, narrowing the deficit in the trade account by 4.1 per cent to US dollars 733 million. However, on a cumulative basis, trade deficit widened during the first nine months of the year by 3.8 per cent to US dollars 6,145 million, driven by the continued increase in non-oil imports. Recent policy measures taken by the Central Bank and the government coupled with policy measures announced in the Budget for 2016 are expected to curtail certain imports, particularly motor vehicles, thereby easing the pressure on the external sector. Meanwhile, earnings from tourism in the first ten months of 2015 are estimated to have grown by 17.9 per cent, strengthening the external current account, while workers' remittances recorded a moderate growth of 1.8 per cent in the first nine months of the year. Gross official reserves, which stood at US dollars 6.8 billion at end September 2015, are estimated to have strengthened to around US dollars 8.0 billion by 03 November 2015 with the receipts from the ninth International Sovereign Bond issuance for US dollars 1.5 billion. Meanwhile, the Sri Lanka rupee has depreciated by 8.1 per cent against the US dollar so far in 2015.

Taking the above developments in the economy into consideration, the Monetary Board, at its meeting held on 24 November 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.

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