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Press Release

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Monetary Policy Review – February 2016

Broad money (M_{2b}) continued to grow at a high pace, recording a growth of 17.8 per cent (year-on-year) in December 2015 compared to 13.4 per cent in December 2014. The year-on-year growth of credit granted to the private sector by commercial banks accelerated during the year, with a growth of 25.1 per cent in December 2015 in comparison to 8.8 per cent in December 2014. In absolute terms, the expansion in private sector credit during 2015 amounted to Rs. 691.4 billion compared to Rs. 223.9 billion in 2014.

The Colombo Consumers' Price Index (CCPI, 2006/2007=100) based core inflation continued its increasing trend reaching 4.6 per cent in January 2016, on a year-on-year basis, from 0.8 per cent recorded in February 2015. Headline inflation, as measured by the year-on-year change in CCPI decelerated to 0.9 per cent in January 2016, mainly reflecting the impact of low international commodity prices, broadly favourable domestic supply conditions as well as the relatively high base in January 2015. Year-on-year headline inflation based on the National Consumer Price Index (NCPI, 2013=100) was at 4.2 per cent in December 2015.

The Central Bank's decision to increase the Statutory Reserve Ratio (SRR) with effect from 16 January 2016 has permanently absorbed a part of excess rupee liquidity from the domestic money market. The decline in excess liquidity also resulted in market interest rates adjusting upwards. In effect, most market rates have shown adjustments towards the levels observed prior to the reduction in policy interest rates in April 2015.

Considering these developments, the Monetary Board, at its meeting held on 19 February 2016, observed that, in spite of the recent policy measures taken by the Central Bank and some upward adjustments observed in market interest rates, certain risks to macroeconomic stability continue. In particular, the Monetary Board was of the view that the excessive growth of broad money fuelled by domestic credit expansion in the midst of continued upward trend in underlying inflation requires pre-emptive policy measures in order to contain further build-up of demand driven inflationary pressures. Accordingly, the Monetary Board decided to increase the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points each, to 6.50 per cent and 8.00 per cent, respectively, effective from the close of business on 19 February 2016.

Monetary Policy Decision:	Policy rates increased
Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	7.50%