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CENTRAL BANK OF SRI LANKA

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# Press Release

Issued By Economic Research Department

Date 26-04-2016

## Monetary Policy Review – April 2016

Headline inflation, as measured by the Colombo Consumers' Price Index (CCPI, 2006/2007=100), declined to 2.0 per cent on a year-on-year basis in March 2016 from 2.7 per cent in February 2016, mainly due to the decline in food inflation. On an annual average basis, CCPI based headline inflation edged up to 1.1 per cent in March 2016 from 0.9 per cent in the previous month. Year-on-year headline inflation, based on the National Consumer Price Index (NCPI, 2013=100), was 2.2 per cent in March 2016 compared to 1.7 per cent in the previous month, and was 2.4 per cent on an annual average basis. Meanwhile, the CCPI based core inflation, which reflects underlying demand pressures in the economy, declined to 4.5 per cent in March 2016 from 5.7 per cent in the previous month, on a year-on-year basis.

In the monetary sector, broad money ( $M_{2b}$ ) recorded a year-on-year growth of 19.8 per cent in February 2016, compared to 19.1 per cent in the previous month, driven by the expansion in domestic credit aggregates. Credit granted to the private sector by commercial banks, which is the largest category of domestic credit, increased by 26.5 per cent in February 2016, on a year-on-year basis, compared to 25.7 per cent in January 2016, while in absolute terms, credit granted to the private sector grew by Rs. 53.7 billion during the month of February 2016. Meanwhile, market interest rates have risen reflecting the tight monetary conditions in the economy. Going forward, a gradual slowdown in money and credit expansion is expected in the period ahead, as the recent monetary policy measures are expected to have an impact on the economy with some time lag.

In the external sector, the decline in expenditure on imports in February 2016 has been greater than the decline in earnings from exports, thereby narrowing the deficit in the trade account by 11.7 per cent, year-on-year. Earnings from tourism are estimated to have increased by 22.8 per cent in March 2016, while workers' remittances recorded a healthy increase of 8.3 per cent in February 2016. Gross official reserves are estimated to have stood at US dollars 6.2 billion by end March 2016 compared to US dollars 6.6 billion at end February 2016, and the Sri Lanka rupee remained broadly unchanged against the US dollar thus far during 2016.

Considering the fact that the Central Bank has already adopted measures to tighten monetary policy by raising the Statutory Reserve Ratio (SRR) and policy interest rates, and that the impact of these measures is yet to be reflected in monetary conditions in full, the Monetary Board, at its meeting held on 26 April 2016, was of the view that the current monetary policy stance is appropriate and decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank unchanged at 6.50 per cent and 8.00 per cent, respectively.

<b>Monetary Policy Decision:</b>	<b>Policy rates unchanged</b>
Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	7.50%