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Press Release

Issued By Economic Research Department

Date 29-11-2016

Monetary Policy Review – November 2016

As envisaged, the growth of credit extended to the private sector by commercial banks decelerated considerably during September 2016, in response to monetary policy measures adopted by the Central Bank since end 2015. Accordingly, the year-on-year growth of private sector credit by commercial banks was recorded at 25.6 per cent in the month of September 2016 compared to 27.3 per cent in the previous month. Despite the deceleration in credit extended to the private sector, broad money (M_{2b}) growth accelerated to 18.4 per cent, year-on-year, in September 2016 in comparison to 17.3 per cent recorded in the previous month, as borrowings by the public sector from commercial banks expanded during the month. In the meantime, rupee liquidity conditions in the domestic money market have returned to a balanced level, which will help stabilise market interest rates at current levels.

Headline inflation as measured by both the National Consumer Price Index (NCPI) and Colombo Consumers' Price Index (CCPI) remained stable around mid-single digit levels in October 2016. Further, core inflation based on both NCPI and CCPI remained unchanged in the month of October 2016 compared to the previous month. The adjustments made to the tax structure by the government are expected to have a one-off impact on inflation from November 2016 while the overall impact of the Budget 2017 on inflation is estimated to be favourable. Aggregate demand pressures are expected to remain well contained supported by the pre-emptive monetary policy measures coupled with the continuation of the envisaged fiscal consolidation process, and as a result, inflation is expected to remain stable in mid-single digit level in the period ahead.

On the external front, the deficit in the trade balance contracted by 12.0 per cent, year-on-year, in the month of September 2016 as export earnings recorded a growth for the second consecutive month amidst the contraction in expenditure on imports. Earnings from tourism were estimated to have increased by around 14.6 per cent during the first ten months of 2016, while workers' remittances recorded a growth of 3.5 per cent during the same period. The gross official reserve position was estimated at US dollars 6.1 billion at end October 2016, while the Sri Lankan rupee depreciated by 2.6 per cent against the US dollar thus far during 2016. Meanwhile, Sri Lanka received the second tranche of the Extended Fund Facility (EFF) Programme with the International Monetary Fund (IMF) in November 2016, after the successful completion of the first review of the Programme by the IMF. The continuation of the EFF Programme is expected to strengthen the economy by facilitating medium to long term financial inflows in the period ahead.

Considering the above developments, the Monetary Board, at its meeting held on 28 November 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 7.00 per cent and 8.50 per cent, respectively.

Monetary Policy Decision:	Policy rates unchanged
Standing Deposit Facility Rate (SDFR)	7.00%
Standing Lending Facility Rate (SLFR)	8.50%
Statutory Reserve Ratio (SRR)	7.50%