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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: No. 3 – 2017

As expected, the Colombo Consumer Price Index (CCPI, 2013=100) based headline inflation, decelerated on a year-on-year basis to 6.9 per cent in April 2017 from 7.3 per cent in March 2017, and CCPI based core inflation also decelerated to 6.8 per cent in April 2017 from 7.3 per cent recorded in the previous month. It is expected that inflation based on the National Consumer Price Index (NCPI, 2013=100), which edged up in March 2017, will also display a similar decline in April 2017. Supported by monetary policy adjustments from end 2015, inflation is projected to decelerate gradually to the desired mid-single digit levels by end 2017, although there could be some monthly fluctuations due to short term supply side disruptions and the base effects of tax revisions in 2016.

With the upward adjustment in market interest rates, the year-on-year growth of credit extended to the private sector by commercial banks decelerated gradually to 21.0 per cent by end February 2017 and 20.4 per cent by end March 2017, from 21.9 per cent recorded at end 2016. However, despite the deceleration observed during the first two months of 2017, the year-on-year growth of broad money (M_{2b}) remained high at 20.0 per cent in March 2017 compared to 18.4 per cent at end 2016 mainly on account of the expansion in credit to both private and public sectors in absolute terms during the month. This included the expansion of credit to public corporations, some of which were affected by the impact of the drought and increased international energy prices. As market interest rates remain substantially high, both in nominal and real terms, it is expected that credit extended to the private sector will decelerate to the envisaged levels by end 2017.

In the external sector, the cumulative trade deficit increased to US dollars 1.7 billion in the first two months of 2017 from US dollars 1.2 billion in the same period of 2016. This was a reflection of the combined impact of the decline in export earnings and increased expenditure on imports, particularly as a result of the drought conditions. Tourist arrivals and related earnings improved in the first four months of 2017 in spite of the partial closure of the Bandaranaike International Airport during the first quarter, although there was a moderation in inflows from workers' remittances during the first quarter of the year. Both the government securities market and the Colombo Stock Exchange experienced foreign inflows in recent months, while the government issued its 11th International Sovereign Bond (ISB) worth US dollars 1.5 billion this month, priced favourably at 6.2 per cent. These inflows, along with other expected financial inflows to the government and the likely disbursement of the 3rd tranche under the IMF Extended Fund Facility (EFF), would support the balance of payments and the country's reserve position. As at end April 2017, gross official reserves were estimated at US dollars 5.0 billion compared to US dollars 6.0 billion at end 2016, while the Sri Lankan rupee depreciated by 1.5 per cent against the US dollar during the year up to 05 May 2017.

Considering the above, the Monetary Board, at its meeting held on 08 May 2017, was of the view that the current monetary policy stance 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 7.25 per cent and 8.75 per cent, respectively. The Central Bank will closely monitor macroeconomic developments in the period ahead in order to adopt further measures, if required.

Monetary Policy Decision:	**Policy rates unchanged**
Standing Deposit Facility Rate (SDFR)	7.25%
Standing Lending Facility Rate (SLFR)	8.75%
Statutory Reserve Ratio (SRR)	7.50%