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Press Release

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Monetary Policy Review – December 2014

Credit obtained by the private sector from commercial banks grew by 5.1 per cent on a year-on-year (y-o-y) basis in October 2014, reaffirming its increasing trend for the third successive month. In absolute terms, the increase during the month was Rs. 42 billion, out of which Rs. 36 billion was disbursed by Domestic Banking Units (DBUs) of commercial banks. The impact of the contraction in pawning advances on the overall credit growth that was observed since early 2013 has now ended. In spite of the ongoing recovery of private sector credit growth, broad money (M_{2b}) growth (y-o-y) moderated to 11.5 per cent in October 2014 as a result of the decline in net foreign assets (NFA) of the banking system. Broad money growth has averaged 13.3 per cent during the first ten months of the year.

Headline inflation (y-o-y) remained at single digit levels for 70 consecutive months, and at levels below 5 per cent in the last 12 months. In October and November 2014, headline inflation (y-o-y) was even lower at 1.6 per cent and 1.5 per cent, respectively, mainly due to the downward revisions to domestic fuel and electricity prices. In the meantime, core inflation (y-o-y), which is more reflective of underlying trends in inflation, remained unchanged at 3.6 per cent in November 2014. The recent decline in crude oil prices in the international market is likely to impact inflation and inflation expectations favourably. Given Sri Lanka's large dependence on imported sources of energy, lower

inflation resulting from declining energy prices would support the expansion of economic activity domestically.

Leading indicators show strong signs of high economic growth as anticipated in the second half of 2014. In spite of adverse weather conditions and uncertain global conditions throughout the year, proactive policies adopted by the Government and the Central Bank have helped keep the economy on track to achieve growth projections for the year. Going forward, continued improvements in macroeconomic fundamentals would bolster market confidence and nurture positive investor sentiments enabling the maintenance of a high sustainable growth rate in the medium term.

In the external sector, volatile global conditions, cross currency movements and eased monetary conditions widened the trade deficit somewhat in October 2014. Nevertheless, given the continued and expected inflow of earnings from tourism, workers' remittances, and inflows to the financial account, the balance of payments (BOP) is projected to record a higher surplus in 2014 than in the previous year. Accordingly, gross official reserves are expected to remain at comfortable levels by end 2014.

Taking the above factors into consideration, the Monetary Board at its meeting held on 11th December 2014, was of the view that the current monetary policy stance is appropriate, and accordingly, decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank of Sri Lanka unchanged at 6.50 per cent and 8.00 per cent, respectively.

The date for the release of the next regular statement on monetary policy would be announced in due course.

Monetary Policy Decision:	Policy rates unchanged
Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	6.00%