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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

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## **Press Release**

**Issued By** Economic Research Department

**Date** 27-01-2015

### **Monetary Policy Review – January 2015**

In December 2014, headline inflation on a year-on-year basis was at 2.1 per cent compared to 1.5 per cent in the previous month. Core inflation, which directly measures underlying price pressures, continued to remain between 3-4 per cent while decelerating to 3.2 per cent in December 2014 from 3.6 per cent in November. While low inflation is mainly attributable to contained demand pressure in the economy, it was also supported by favourable supply side developments, particularly the downward revisions in domestic energy prices in the last few months of 2014. Subdued demand pressure and inflation expectations in the economy, the favourable impact of further reductions in fuel prices in January 2015, and the expected reduction of administered prices of other key commodities announced in the Government's '100-Day Programme' are expected to reduce inflation further in the months ahead.

Supported by historically low market interest rates in nominal terms, credit obtained by the private sector from commercial banks continued to expand at a healthy pace. Credit flows to the private sector increased by 6.5 per cent on a year-on-year basis in November 2014, while in absolute terms, the increase was Rs. 57.8 billion during the month, bringing the cumulative credit flows to the private sector to Rs. 147.4 billion during January-November 2014. Credit granted against immovable property, plant and machinery, personal

guarantees and promissory notes, and other securities as well as unsecured loans increased substantially in November 2014. It is expected that the increasing trend in private sector credit disbursements can be sustained throughout 2015 providing the necessary impetus to the growth momentum of the economy.

Looking at the real sector, the Sri Lankan economy grew by 7.7 per cent during the third quarter of 2014 supported by strong performance in the Industry and the Services sectors. The Industry sector, which posted a growth of 12.4 per cent in the first half of 2014, maintained its growth momentum in the third quarter recording an expansion of 12.6 per cent. The performance in the Industry sector was supported by the significant growth observed in the construction, manufacturing and mining and quarrying sub sectors. In the meantime, the Services sector grew by 7.0 per cent while the Agriculture sector, which was hampered by weather related disruptions, contracted by 2.0 per cent. With appropriate macroeconomic policies to boost domestic and foreign investor confidence, the Sri Lankan economy is expected to record a robust performance in the period ahead.

Taking the above developments in the economy into consideration, the Monetary Board at its meeting held on 26 January 2015, 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. Access to the Standing Deposit Facility (SDF) will remain rationalised.

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

<b>Monetary Policy Decision:</b>	<b>Policy interest rates unchanged. Access to SDF remains rationalised.</b>
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Standing Deposit Facility Rate (SDFR)	6.50%
Standing Lending Facility Rate (SLFR)	8.00%
Statutory Reserve Ratio (SRR)	6.00%