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Press Release

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Monetary Policy Review - October 2009

Worldwide inflation is expected to pick up moderately in the ensuing months with the base effects of last year's high consumer prices driven by the commodity price bubble wearing out, as well as firming demand alongside the nascent recovery in global markets. Nevertheless, inflation in Sri Lanka is expected to be at subdued levels in the approaching months, with current inflation remaining at around 1 per cent during the four months up to September 2009.

So far during the year, market interest rates have gradually declined in response to the monetary policy relaxation measures of the Central Bank, but are yet to adjust fully to such measures. Benchmark yield rates on Treasury bills have declined significantly by around 800 - 865 basis points since the end of last year, by the first week of October this year. The Central Bank expects the downward movement of the benchmark yield rates to permeate to other market interest rates over the coming weeks, further reducing the borrowing costs of economic agents. This, together with the improved outlook for economic activity, is expected to underpin an expansion in credit utilisation of the private sector, thereby supporting enhanced economic performance.

Accordingly, the Monetary Board is of the view that the current levels of policy interest rates do not require any adjustment at the present time, since the policy measures adopted so far are still supportive of the desired outcome of gradual easing of the credit conditions in the country.

The release of the next regular statement on monetary policy will be on 18 November 2009.