

# Recent Trends in the Monetary Policy in Sri Lanka

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## **ABSTRACT**

*The purpose of this paper is to analyze the recent trends in the monetary policy of the Central Bank of Sri Lanka (CBSL). In Sri Lanka, the CBSL has introduced a series of operational changes in the recent past with a view to improving the framework for monetary policy implementation. Whilst maintaining inflation at single digits remained the focus of monetary policy, the framework for the conduct of monetary policy was based on monetary targeting with reserve money as the operating target and broad money as the intermediate target. This policy has been successful to a great extent in controlling demand driven inflationary pressures in the economy. The CBSL has made several improvements with respect to inflation forecasting, estimation of core inflation, and strengthening financial system stability, which would facilitate the move to an inflation targeting policy framework. The CBSL is also of the view that the country needs to move to a better monetary policy regime enabling it to maintain price stability on a more sustainable basis. Nevertheless, given that there are several pre-requisites to be achieved prior to moving to an inflation targeting framework, the CBSL needs to resort timely and gradual exit strategies to facilitate the economy to achieve its full potential while not jeopardizing the stability in the financial system. The implications of expected developments in the economy for monetary policy transmission also need to be given due consideration in formulating monetary policy.*

**Keywords:** Monetary Policy, Price Stability, Financial System Stability, Inflation Targeting Framework

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