



ශ්‍රී ලංකා මහ බැංකුව
இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

Communications Department

30, Janadhipathi Mawatha, Colombo 01, Sri Lanka.

Tel : 2477424, 2477423, 2477311

Fax: 2346257, 2477739

E-mail: dcommunications@cbsl.lk, communications@cbsl.lk

Web: www.cbsl.gov.lk

Press Release

Issued By

Economic Research Department

Date

11-05-2012

Monetary Policy Review – May 2012

In April 2012, year-on-year inflation as measured by the CCPI (base=2006/2007) was 6.1 per cent while annual average inflation was 5.7 per cent. While inflation continues to remain at single-digit levels, the outlook for domestic food supplies remains favourable, which augurs well for domestic prices in the period ahead. The improvement in the supply of domestic agricultural produce over the last few years has continued to help stabilise domestic consumer prices.

On the external front, international oil prices have recently declined and the Brent crude oil price was US dollars 112.41 a barrel on 10 May 2012 compared to US dollars 120 a barrel, on average, in March 2012. If this dampening of international commodity prices led by the decline in oil prices persists into the forthcoming period, pressure on the domestic foreign exchange market is likely to lessen markedly. The expected deceleration in the volumes of imports during the course of the year 2012 following the measures taken by the government and the Central Bank earlier this year will also significantly reduce pressure on the domestic foreign exchange market.

With respect to monetary developments, market interest rates have moved up gradually, reflecting the tightening of monetary conditions. Benchmark Treasury bill yield rates have increased and in turn, deposit and lending rates of commercial banks as well as other financial institutions have shown an increasing trend. Meanwhile, banks have been directed to take measures to reduce the growth of loans and advances to a range of 18 – 23 per cent. Hence,

although broad money (M_{2b}) growth was 22.8 per cent, year-on-year, by March 2012, monetary aggregates are expected to decelerate significantly over the balance part of the year.

At the Monetary Board meeting held on 11 May 2012, the Monetary Board was of the view that the policy measures implemented thus far are sufficient to moderate the expansion of both credit and the trade deficit. While the Central Bank expects a deceleration in both monetary aggregates and imports during the course of this year, it will continue to closely monitor monetary and external sector developments and adopt further measures if necessary in the months ahead. The Central Bank's Repurchase rate therefore will remain at 7.75 per cent while the Reverse Repurchase rate will remain at 9.75 per cent.

The next monthly statement on monetary policy is scheduled to be released on 12 June 2012.