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Press Release

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Monetary Policy Review – July 2012

Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index, increased to 9.3 per cent in June 2012 from 7.0 per cent in May 2012, while annual average inflation increased to 5.8 per cent in June from 5.6 per cent in the previous month.

The increase in inflation in June 2012 was mainly due to the lower base in June 2011, the impact of the prevailing drought conditions on domestic fresh food prices and the recent revisions to administratively determined prices. At the same time, as a result of the several policy measures that are already in place to contain the emergence of demand side pressures arising from monetary expansion, broad money (M_{2b}) growth decelerated to 20.9 per cent in May 2012 from 22.9 per cent in April 2012, while the growth of credit extended to the private sector by commercial banks also reduced from its peak of 35.2 per cent in March 2012 to 33.5 per cent in May 2012. Consequently, in the first 5 months of the year, credit extended to the private sector grew only by 10.5 per cent.

In the meantime, provisional data shows that the growth of import expenditure has been shrinking sharply in the first five months of the year, thereby narrowing the trade deficit, compared to the high levels recorded in 2011. With weaker global demand, most international commodity prices are also on a declining trend, which should, on a net basis, further ease pressure on the country's imports this year, although the continuing sluggish global economic recovery may affect export earnings as well.

On the external front, by end-June 2012, Sri Lanka achieved all targets set under the Stand-By Arrangement (SBA) facility with the International Monetary Fund, thereby qualifying to receive the final tranche under the SBA facility. Such disbursement, along with other expected significant foreign inflows are likely to strengthen the external position of the country in the coming months, and enhance the gross official reserves, which stood at US dollars 5,815 million as at 31st May 2012, which is equivalent to 3.4 months of imports.

Taking into consideration the above factors, and after reviewing the progress of the developments under the monetary policy measures that have already been taken, the Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 10th July 2012, decided to maintain the Repurchase rate and the Reverse Repurchase rate of the Central Bank unchanged at 7.75 per cent and 9.75 per cent, respectively.

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