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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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Press Release

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Monetary Policy Review – August 2012

Policy measures implemented in February and March of this year, aimed at reducing the high import growth and the high credit expansion are yielding the expected results. In the external sector, preliminary estimates indicate the desired deceleration of expenditure on imports in June 2012 and a corresponding decline in the deficit in the trade account in the second quarter of 2012. In the monetary sector, year-on-year growth of broad money has decelerated from 22.9 per cent in April to 20.5 per cent in June 2012. At the same time, the growth of credit extended to the private sector by commercial banks has declined from 18.1 per cent in the second half of 2011 to 11.4 per cent the first half of 2012.

The global economic conditions continue to worsen with the recovery of US and European economies remaining sluggish. However, these adverse global conditions are not likely to affect the Sri Lankan economy more than that was anticipated at the time of revising the economic growth forecast for 2012 downward to 7.2 per cent. Further, the amount of credit that could still be disbursed in the second half of the year by licensed banks even with the credit ceiling in place, could comfortably support the revised economic growth path. In that context, the growth estimates still seem to be within reach, notwithstanding the gloomy global conditions.

In the meantime, cumulative net inflows to the Colombo Stock Exchange and net foreign investments in the Government securities market up to end July 2012, have exceeded US dollars 205 million and US dollars 842 million, respectively. With the receipt of the final tranche of the IMF-SBA facility of US dollars 414 million, the proceeds of the successful fifth International Sovereign Bond issue of US dollars 1 billion in July 2012, and other foreign inflows, gross official reserves are estimated to have risen to around US dollars 7.1 billion by end July 2012. Such level of reserves is equivalent to an import cover of 4.2 months, and the strengthened external sector position is likely to attract further foreign investment flows as estimated. Accordingly, the economy is on track to realise the macroeconomic targets as envisaged.

Nevertheless, inflation has picked up with year-on-year inflation, which has remained at single digit levels for the past 3 ½ years, increasing to 9.8 per cent in July 2012, from 9.3 per cent in the previous month, although annual average inflation has continued to remain at around 6 per cent since February 2012. This increase has been mainly due to adverse weather conditions and the resulting disruptions to domestic food supplies. However, although there could be some transitory inflationary pressures in the near term, the expected improvements in domestic supply conditions as well as the measures that have been very recently implemented are expected to contain consumer price inflation at single digit levels during the remainder of the year. This is particularly so, since the recent downward revisions to domestic gas prices and the reduction of taxes on selected food imports are likely to favourably impact short term threats to inflation while the tight monetary conditions that are in place would suppress demand side inflationary pressures, thereby helping to maintain inflation at the targeted level in the medium term.

Taking into account the current macroeconomic developments and the impact that the recent policy actions are already having on the external and monetary sector, the Monetary Board of the Central Bank of Sri Lanka was of the view that the current monetary policy stance is appropriate, and accordingly, at its meeting held on 6 August 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.