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	18-09-2012

Monetary Policy Review – September 2012

The concerted efforts by the Central Bank and the Government earlier this year to curb the high demand for imports and credit are yielding results. Reflecting the impact of the policy measures taken, credit obtained by the private sector has decelerated since the second quarter of 2012, and the policy measures in place are expected to help ensure that the growth of credit will be within the desired level at year end. Compared to the average monthly credit expansion of about Rs.52 billion in the first three months, average monthly credit decelerated to around Rs.27 billion during the period from April-July. Benefiting from this moderation, growth of broad money has also decelerated to below 20 per cent in July for the first time this year. Nevertheless, the amount of credit available has been sufficient to facilitate reasonably robust economic activity, and as per estimates of the Department of Census and Statistics, the economy recorded a robust growth of 7.2 per cent during the first half of the year.

Inflation, which increased in June and July, largely due to domestic supply disruptions has eased somewhat, recording a year-on-year change of 9.5 per cent in August. The downward revision of certain administratively determined prices, such as LP gas, and revisions to tariffs and levies on selected food items is expected to provide some respite from temporary increases in inflation arising from supply side shocks. Going forward, demand management policies adopted by the authorities are expected to help contain inflation within single digit levels.

Growth of imports has decelerated considerably since April, outpacing the decline in export growth, resulting in a continued improvement in the balance of trade, such improvement, together with sustained inflows on account of workers' remittances and enhanced tourist earnings have helped narrow the deficit in the current account balance. Further, the growing positive investor sentiment has resulted in cumulative net inflows of US dollars 229 million to the Colombo Stock Exchange, up to mid-September 2012, while proceeds of the fifth international sovereign bond issued in July and foreign investments in government securities amounting to US dollars 1,725 million in the same period have helped to ease pressure in the external sector, raising gross official reserves above US dollars 7 billion by end July.

Taking into account the developments discussed above, the Monetary Board of the Central Bank of Sri Lanka was of the view that the current monetary policy stance was appropriate to deliver the expected results, and accordingly, at its meeting held on 17 September 2012, decided to maintain the policy rates of the Central Bank unchanged at their current levels. As such, the Repurchase rate would remain at 7.75 per cent while the Reverse Repurchase rate would remain at 9.75 per cent.

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