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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 – November 2012

Reflecting the effectiveness of the policy measures in place, the growth of broad money and credit extended to the private sector decelerated sharply in the third quarter of the year, while the cumulative trade deficit for the first nine months of 2012 contracted for the first time since December 2009.

In the monetary sector, broad money growth decelerated to 18.9 per cent, year-on-year, in September from a peak growth of 22.9 per cent in April 2012. The growth of credit to the private sector extended by commercial banks decelerated to 25.5 per cent, year-on-year, in September, from over 35 per cent seen prior to March 2012. In the month of September, credit to the private sector expanded by less than Rs. 10 billion compared to the monthly increases of over Rs. 55 billion seen in February and March 2012. Net credit to the government and credit to public corporations also increased modestly in September, but on a cumulative basis credit obtained by the public sector was higher than the projected levels. As such, the Government's commitment to continued fiscal consolidation, as expressed in the 2013 Budget speech, is likely to provide comfort to the conduct of monetary policy in the years ahead.

In the external sector, the contraction of the overall trade deficit over the first nine months of the year by 0.3 per cent to US dollars 6,780 million, was a result of imports declining significantly by 3.3 per cent despite fragile global demand causing a decline in exports by 5.8 per cent during the first nine months of 2012. The decline in the trade deficit together with higher inflows from workers' remittances, tourism, and capital inflows, resulted in a surplus of US dollars 269 million in the balance of payments by end September 2012 while gross official reserves increased to US dollars 7.1 billion, which is equivalent to 4.3 months of imports.

Dampened demand due to sluggish global economic recovery, political sparring over austerity measures in several EU countries, and the absence of proactive leadership amidst economic contraction will continue to affect Euro region's economic stability, slowing the global economy further. With the conclusion of the US presidential elections, it is expected that a joint effort between the USA and the Euro region may aid expediting global economic recovery. In the meantime, central banks in many advanced and emerging economies have eased monetary policy to deal with the turbulent events that may surface due to global developments.

Inflation continued its downward trend in October with the year-on-year change in the Colombo Consumers' Price Index (CCPI) showing a marginal decline to 8.9 per cent from 9.1 per cent in September mainly due to lower food prices. The onset of the inter-monsoonal rains is likely to increase the supply of agricultural produce alleviating price pressures further. With water levels in the reservoirs rising, the power generation mix has also become more favourable to the macroeconomy.

Taking into account the developments discussed above, the Monetary Board of the Central Bank of Sri Lanka at its meeting held on 16 November 2012 was of the view that the current monetary policy stance is appropriate. Accordingly, the policy rates of the Central Bank will remain unchanged at their current levels, i.e., the Repurchase rate and the Reverse Repurchase rate would remain 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.