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CENTRAL BANK OF SRI LANKA

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# Press Release

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## Monetary Policy Review – January 2013

Broad money growth continued to moderate owing to the slowdown in credit extended to the private sector, which has been decelerating steadily since implementing several policy measures in early 2012. Private sector credit growth declined to 20.7 per cent by November from the peak growth of 35.2 per cent recorded in March 2012. Net credit obtained by the Government, which increased up to November, declined substantially during the month of December as a result of conscious efforts by the Government to meet the fiscal targets. Credit obtained by public corporations however, continued to grow, exerting some pressure on broad money growth.

In the external sector, with the sharp deceleration of the growth in expenditure on imports, the cumulative trade deficit for the first eleven months of 2012 declined by 2.1 per cent from the corresponding period in 2011. With increased net earnings from trade in services, workers' remittances, and investment inflows, the Balance of Payments (BOP) recorded a surplus in 2012, which was reflected in the increase in the Gross Official Reserves of the country. Meanwhile, the external sector projections

target a higher BOP surplus in 2013 with expectations of an improved trade balance, increased earnings from service exports, higher workers' remittances, increased inflows to the Government and capital markets, and in the form of foreign direct investments. As a result of the significant foreign inflows already being witnessed, the rupee, which appreciated by 5.3 per cent against the US dollar during the second half of 2012, appreciated further by 0.6 per cent by 15 January 2013.

Inflation, which continued to increase from February to July 2012 largely due to the adjustments of administered prices, eased in December declining to 9.2 per cent on a year-on-year basis from 9.5 per cent in November. Effective demand management policies that were in place in 2012 are likely to have moderated aggregate demand sufficiently, reining in future inflation and inflation expectations. As a result, inflation is projected to moderate from March 2013 and reach mid-single digit levels thereafter. Meanwhile, credit extended to the private sector by commercial banks is targeted to grow at a rate of around 18.5 per cent in 2013, and towards this end, credit disbursements by banks will be closely monitored to ensure that this expansion takes place at the desired pace. At the same time, since such rate of credit expansion is considered adequate to deliver an economic growth of 7.5 per cent in 2013 without giving rise to any unfavourable demand driven inflationary pressures, the risk of future inflation increasing is expected to be minimal.

Based on the above, the Monetary Board at its meeting held on 16 January 2013 was of the view that current monetary policy stance is appropriate, and accordingly, the Repurchase rate and the Reverse Repurchase rate of the Central Bank of Sri Lanka will remain unchanged at 7.50 per cent and 9.50 per cent, respectively.

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