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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

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## Monetary Policy Review – February 2013

Data from the monetary sector and the external sector for the full year of 2012 reflects the effect of the tight policy measures adopted in February/March 2012. In the monetary sector, broad money growth continued to moderate to 17.6 per cent in December from a peak growth of 22.9 per cent in April 2012. Growth of credit extended to the private sector also decelerated to 17.6 per cent by end 2012 from 34.5 per cent at end 2011. However, with increased borrowing by the Government and public corporations from the banking sector, the overall expansion of domestic credit remained at 21.7 per cent at end 2012. In the external sector, the tight policy measures resulted in a marked decline in non-oil imports, narrowing the deficit in the trade account in 2012. Increased workers' remittances, service inflows, and inflows to the capital and financial account resulted in a surplus in the Balance of Payments (BOP). Consequently, the external reserves of the country expanded while the rupee strengthened against major currencies.

With the macroeconomic stabilisation objectives of the February/March 2012 policy package being realised, the Central Bank was able to relax its monetary policy stance in December 2012. The reduction in policy interest rates and the expiration of the credit ceiling in December 2012 are now expected to support the economy to move towards its full potential in 2013. Compared to the increase of credit of Rs. 352 billion extended to the private sector by commercial banks in 2012, the Central Bank expects credit to the private sector to increase by around Rs. 435 billion (a year-on-year growth of 18.5 per cent) in 2013. Since such a credit growth will be compatible with the anticipated expansion in economic activity, it is not expected to fuel any demand driven inflationary pressures during the year.

In the meantime, short term money market interest rates have declined sharply in response to the relaxation of monetary policy, although deposit rates and lending rates are yet to adjust downwards. However, it is expected that these essential adjustments will take place in the ensuing weeks, which will stimulate private sector economic activity.

At the same time, inflation has remained at single digit levels over the past four years, although rising to 9.8 per cent, year-on-year, in January 2013, due to adverse weather conditions affecting vegetable prices, revisions to administratively determined prices and the base effect. Although vegetable prices have already declined substantially, year-on-year inflation in February is expected to remain at around the current level before decelerating thereafter.

Based on the above, the Monetary Board at its meeting held on 11 February 2013 was of the view that the current monetary policy stance was appropriate, and accordingly, the Monetary Board decided to maintain the Repurchase rate and the Reverse Repurchase rate of the Central Bank 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**.**