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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 – March 2013

Year-on-year inflation remained unchanged at 9.8 per cent in February 2013 reflecting the remaining impact of the substantial changes to administratively determined prices and disruptions to domestic food supplies. However, inflation is expected to turnaround from March 2013 onwards, and reach a more favourable level by the end of the year. Inflation has been at single digits over the past 49 months and the positive outlook for inflation is expected to continue, supported by well contained demand and favourable domestic and global supply conditions. Such moderation of inflation is also expected to offset the upward inflationary pressure of expected revisions to administered prices.

Credit extended to the private sector continued to decelerate further recording a growth of 15.5 per cent (year-on-year) in January 2013 from the peak growth of 35.2 per cent in March 2012, indicating that the relaxation of monetary policy in December 2012 is yet to be reflected in bank lending. However, the increase in credit obtained by the public sector in January caused broad money (M_{2b}) to expand by 18.3 per cent in January 2013, higher than the 17.6 per cent growth that was recorded in

December 2012. The expansion in broad money in January indicates that aggregate demand of the economy is adequate to support a continued growth momentum.

At the same time, with the expected price adjustments in the energy sector, the state owned enterprises would be able to reduce their reliance on bank financing, resulting in the release of additional resources for the private sector. That outcome would, in turn, enable the private sector to enhance its level of investment in order to expand economic activity through the utilisation of the improved physical infrastructure that has been put in place by the Government in recent times.

In the meantime, it has been a matter of some concern that two months after relaxing monetary policy, interest rates pertaining to both deposit and lending interest rates still remain high. However, following recent discussions that the Central Bank had with leading commercial banks, it is anticipated that both deposit rates and lending rates will be adjusted in the near term, in line with the direction of monetary policy. When such adjustment takes place, it is expected to stimulate private sector economic activity towards the growth targets for 2013.

So far during the year, the balance of payments has continued to record a surplus, and a comfortable overall surplus is anticipated in 2013. In fact, although the Central Bank has purchased US dollars 486 million on a net basis from the market this year, greater stability of the exchange rate has been observed owing to increased foreign exchange inflows to the government securities market, and from tourism and private transfers.

Considering the above, the Monetary Board at its meeting held on 7th March 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.