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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 – April 2013

The Sri Lankan economy grew at a robust rate of 6.4 per cent in 2012 amidst significant challenges, registering a strong average growth rate of 7.5 per cent for the period 2010-2012. This growth was supported by a resilient Agriculture sector, which grew amidst adverse weather conditions, and by sustained Industry sector growth. Although the tourism and finance sub-sectors grew rapidly, the Services sector recorded moderate growth due to low external trade activities in 2012.

As projected, year-on-year (y-o-y) inflation for March 2013, fell significantly, mainly due to the base effect and reflecting a continuing decline of food prices. Headline inflation (y-o-y), which remained at 9.4 per cent on average for 9 months declined to 7.5 per cent, while core inflation (y-o-y) also declined to 6.8 per cent in March from 7.4 per cent in the previous month. Both headline and core inflation have remained at single digit levels for 50 consecutive months. Inflation is expected to remain at these benign levels supported by prudent demand management policies, although the proposed revisions to administered prices are likely to exert some upward pressure on price levels.

The balance of payments (BOP), which turned around in 2012 recording a surplus of US dollars 151 million at end 2012, remains in surplus so far this year and is expected to improve further with increased foreign currency inflows. During the year so far, the Central Bank has absorbed US dollars 560 million on a net basis, raising gross official reserves to US dollars 6.9 billion, which is equivalent to 4.5 months of imports.

The growth of broad money supply (M_{2b}) decelerated to 17 per cent in February 2013, its lowest level in 25 months. Within broad money, credit extended to the private sector increased by Rs. 18 billion in February, recording a y-o-y growth of 13.3 per cent. Meanwhile, credit obtained by the public sector amounted to Rs. 36.7 billion in February, but with expected adjustments to administratively determined prices and continued fiscal consolidation, the reliance of the public sector on bank financing is expected to decline in the coming months. The resulting availability of funds, together with foreign capital raised by the banking sector in recent months would provide the necessary stimulus to strengthen private sector activity.

Monetary policy measures taken so far indicate that expected results are being realised, providing reasonable stimulus for a higher economic growth. At the same time, further deceleration of demand driven inflation on a sustainable basis would provide space for further easing of monetary policy.

Accordingly, the Monetary Board at its meeting held on 12th April 2013, was of the view that the current monetary policy stance was appropriate and decided to maintain the Repurchase rate and the Reverse Repurchase rate of the Central Bank at their current levels of 7.50 per cent and 9.50 per cent, respectively.

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