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# Press Release

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## Monetary Policy Review – June 2013

The financial markets have responded as expected to the recent policy measures taken by the Central Bank, with the relevant financial institutions gradually making the anticipated adjustments. The reduction in policy rates by 50 basis points in May 2013 has already been reflected on the deposit rates of major commercial banks, while the average weighted call money rate and the average weighted prime lending rate have also moved downwards. It is expected that the easing of monetary policy since December 2012 would transmit smoothly to the lending rates in the near future, thereby stimulating a sustained increase in longer term credit growth to the private sector, thus contributing to a higher level of economic activity, over the coming months.

Year-on-year broad money ($M_{2b}$) growth has moderated further in April 2013 to 15.2 per cent from 15.6 per cent in the previous month. Consequently, overall monetary expansion continues at the levels expected in the Monetary Programme for the year. Within the overall monetary expansion, the public sector has absorbed a greater portion of domestic credit, in comparison to the credit extended to the private sector by commercial banks during the first four months of the year. On a year-on-year basis, the growth of credit to the private sector has decelerated to 10.2 per cent in April 2013 from 10.9 per cent in the previous month, partly reflecting the effect of the high base. At the same time, during the year 2013, a compositional shift of credit disbursements by commercial banks is considered likely, with the expected easing in public sector borrowing during the remainder of the year and the adjustment of market lending rates, which would provide the required boost to the longer term credit growth to the private sector.

Meanwhile, mainly reflecting the recent adjustments in electricity prices, headline inflation (year-on-year) for May 2013 increased to 7.3 per cent from the 12-month low of 6.4 per cent in April 2013. However, core inflation (year-on-year) continued its decreasing trend from February, to record 5.7 per cent in May, while both headline and core inflation have remained at single digit levels for 52 consecutive months. Going forward, inflation is expected to remain at single digit levels, supported by supply side improvements and the absence of demand driven inflationary pressures.

In the external sector, the balance of payments (BOP) has continued to be in surplus so far during the year, and it is expected that the BOP would improve further to achieve the external sector projections for 2013. During the year, the Central Bank has absorbed around US dollars 580 million from the domestic foreign exchange market on a net basis, supported by increased earnings from trade in services, workers' remittances and investment inflows. These developments have resulted in the gross official reserves increasing to US dollars 6.9 billion by end April 2013, which is equivalent to 4.4 months of imports, with the rupee strengthening against major currencies during the year.

Taking the above factors into consideration, the Monetary Board at its meeting held on 6$^{th}$ June 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 7.00 per cent and 9.00 per cent, respectively.

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