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CENTRAL BANK OF SRI LANKA

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# **Press Release**

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## **Monetary Policy Review – July 2013**

Headline inflation (year-on-year) for June 2013 eased to 6.8 per cent from 7.3 per cent in May 2013. Core inflation (year-on-year) continued to decrease in June 2013 to record the lowest figure since its inception. Core inflation for June was 4.3 per cent, down from 5.7 per cent in May 2013. Looking ahead, inflation, subject to minimal seasonal variations, is expected to remain at single digit levels for the remainder of the year supported by improved inflation expectations, supply side improvements and the absence of demand driven inflationary pressures.

In the meantime, the recent reduction of the Statutory Reserve Ratio (SRR) by 200 basis points contributed to the monetary policy relaxation process that commenced in December 2012, and provided the financial markets with a further stimulus to support the growth momentum of the economy. As a result, a downward movement was also observed in Treasury yield rates, as well as in the short term lending and deposit rates of major commercial banks. Interest rates for longer term lending facilities for the private sector are also expected to decrease in the ensuing months.

Increased inflows to the current account as well as foreign investments in Government securities, inflows to commercial banks and to the equity market supported the improvements of the external stability. In addition, the trade deficit narrowed further while domestic trade also showed signs of improvement, leading to more robust economic prospects for the country. However, as per the revised global economic outlook of the IMF, weaker than expected economic performance in advanced economies may yet prove to be a dampener in revitalising external demand and would need to be watched carefully in the months ahead.

Credit to the private sector grew during May 2013 as a response to the monetary policy stimulus since December 2012. Private sector credit in May 2013 picked up to record an absolute increase of Rs. 18.3 billion from Rs. 7.6 billion in the previous month. At the same time, year-on year growth in broad money ( $M_{2b}$ ) increased to 16.3 per cent in May 2013 from 15.2 per cent in April. As expected, credit to public sector for May 2013 declined by around Rs. 6.2 billion. This decline was supported by the deceleration in credit growth to the government and the decrease in credit utilised by the major public corporations on account of part settlement of dues, the increased revenue flow from adjustments to administered prices and favourable weather prompting low fuel usage for thermal power generation. Further improvements in the public sector performance are expected to release funds from the banking sector to provide additional stimulus to increase private sector activity.

Considering the above, the Monetary Board at its meeting held on 23<sup>rd</sup> July 2013, was of the view that the current monetary policy stance is appropriate, and accordingly, the Monetary Board decided to maintain the Repurchase rate and the Reverse Repurchase rate of the Central Bank of Sri Lanka without change at 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.