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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 – October 2013

Prudent demand management policies and supply side improvements have resulted in inflation remaining at single digit levels for the past 56 months, signaling the success of policies already implemented. Headline inflation decreased marginally to 6.2 per cent (y-o-y), while core inflation declined to its lowest at 3.0 per cent (y-o-y), in September 2013. Going forward, the inflation outlook continues to remain favourable with restrained international commodity prices, reduced domestic supply side pressures, and well contained demand driven inflationary pressures.

Broad money growth for August 2013 was in line with projections for the year, indicating that the current monetary conditions could support higher growth in the second half of 2013. A sharp moderation in credit obtained by public corporations from the banking sector during August 2013, due to improved cash flow positions, was also expected to continue and thereby further alleviate demand side pressures and release resources for private sector investments. Further, policy easing since December 2012 had resulted in a reasonable downward adjustment in short term interest rates, including call money market rates and prime lending rates, with space remaining for further adjustments in longer term lending rates.

During the year, the conduct of monetary policy has been aimed at providing the necessary impetus to allow for economic growth to accelerate, in the absence of demand pressures. In that context, the policy easing in December 2012 and May 2013 reduced the borrowing costs of economic agents gradually, thereby encouraging private sector investments. These policies have strengthened the macroeconomic environment which is likely to enable the economy to comfortably exceed a GDP growth rate of 7 per cent in 2013.

In the meantime, the recent growth forecasts for advanced economies and emerging market economies have raised concerns regarding the global economic recovery. The heightened uncertainty arising from the delay in announcing tapering of the quantitative easing (QE) by the US Federal Reserve, coupled with the current political impasse experienced by the United States, resulting in a government shutdown and inability to increase the debt ceiling has also increased market volatility. Nevertheless, with the inflow of NSB bond proceeds, and the decline of the trade account deficit by 24.2 per cent in August 2013 due to higher earnings from exports and a reduction in the expenditure on imports, gross official reserves reached US dollars 7.0 billion, equivalent to 4.5 months of imports, further easing pressure on the current account and the balance of payments.

In this background, the Central Bank was of the view that, in keeping with the benign inflation and favourable inflation outlook environment, there is still further space to ease monetary policy in order to harness Sri Lanka's full economic potential, and stimulate the economy to reach a higher growth trajectory in 2014. Accordingly, the Monetary Board at its meeting held on 14th October 2013, decided to reduce the Repurchase rate and the Reverse Repurchase rate of the Central Bank by 50 basis points, respectively, thereby placing the Repurchase Rate at 6.50 per cent and the Reverse Repurchase Rate at 8.50 per cent with immediate effect.

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