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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

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# Press Release

Issued By Economic Research Department
Date 11-11-2013

## Monetary Policy Review – November 2013

As expected, the measures on monetary policy easing adopted by the Central Bank with the aim of further stimulating economic growth, have continued to yield the desired positive effects on key variables. While the recent monetary policy easing led to a reduction in short term interest rates almost immediately, it is envisaged that commercial banks too, would utilise the ample space available to ease medium to long term lending rates, resulting in further private sector investment growth, as well as a healthy level of credit growth to the private sector.

In September 2013, broad money growth increased to 16.3 per cent on a year-on-year (y-o-y) basis from 15.3 per cent in the previous month, largely due to a significant increase in net foreign assets (NFA). The growth in credit obtained by the private sector slowed down to 7.6 per cent in September 2013, as a result of settlement of loans from overseas banking units (OBUs) by BOI companies. However, credit disbursed to the private sector by domestic banking units (DBUs) of commercial banks increased by around Rs. 20 billion during September 2013, indicating some early signs of a take-off in credit. In this context, an encouraging development was that net credit to the government and public corporations from the banking sector declined significantly by Rs. 50.2 billion and Rs. 25 billion, respectively, during September 2013, thereby reducing the public sector dependence on the banking sector.

Meanwhile, inflation continued to remain at single digit levels in October 2013 for the 57$^{th}$ consecutive month since February 2009, while recent inflation (y-o-y) figures indicated that inflation volatility has smoothened. However, headline inflation for October 2013 showed a marginal increase to 6.7 per cent (y-o-y), from 6.2 per cent (y-o-y), in the previous month, mainly on account of price increases in certain food items. In the meantime, core inflation continued to decline, and was at its lowest at 2.6 per cent (y-o-y), in October 2013. Going forward, the inflation outlook continues to remain benign, with subdued international commodity prices, reduced domestic supply side pressures, and well contained demand driven inflationary pressures. In this background, according to current projections, inflation is expected to remain at mid-single digit levels throughout 2014 as well.

In the external sector, exports continue to improve, heightening expectations of a sustained growth in export proceeds during the remainder of the year. Imports, meanwhile, are expected to record a marginal decline during the year, despite the modest pickup observed in recent months, thus resulting in a narrower trade deficit for 2013. The balance of payments (BOP) recorded a surplus of US dollars 749 million by 31st October 2013, broadly in line with the BOP surplus of US dollars 700 million that has been estimated for 2013. At the same time, gross official reserves stood at US dollars 7.1 billion as at end October 2013, equivalent to 4.5 months of imports, while the domestic exchange rate vis-à-vis the US dollar also demonstrated a greater degree of resilience, compared to most other currencies in the region. Looking ahead, expected improvements to foreign inflows from exports of goods and services and workers' remittances are expected to contribute towards reducing the current account deficit further. Meanwhile, the recent positive developments in advanced economies raising the prospects of a global economic turnaround, may also result in increased inflows to the financial account, thereby strengthening the BOP and increasing the reserve position further, in the near term.

Taking the above factors into consideration, the Monetary Board at its meeting held on 8th November 2013, was of the view that the current monetary policy stance is appropriate, and accordingly, decided to maintain the Repurchase rate and the Reverse Repurchase rate of the Central Bank of Sri Lanka unchanged at 6.50 per cent and 8.50 per cent, respectively.

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