



Sri Lanka

SRI LANKA

Sri Lanka's land area, excluding inland waters, is about 62,705 square kilometres. It has a population of 20.45 million. The capital is Sri Jayawardenapura-Kotte. The official languages are Sinhala and Tamil. The official monetary unit is the rupee, which is composed of 100 cents. The average exchange rate in respect of the US dollar was US\$1=Rs. 114.94 in 2009.

CENTRAL BANK OF SRI LANKA

Policy-Making Body THE MONETARY BOARD consists of five members as per the amendment to the Monetary Law Act No 32 of 2002 enacted on December 17, 2002, namely the Governor (Chairman), the Secretary to the Ministry of Finance and three appointed members (appointed by the President on the recommendation of the Finance Minister and with the concurrence of the Constitutional Council) from among those with expertise in banking, commerce and industry.

The Monetary Policy Committee meets monthly to review the monetary policy stance and make recommendations to the Monetary Board. The Monetary Policy Consultative Committee provides the expertise knowledge and views of academic and private sector personnel on monetary policy decision-making process.

Frequency of Meetings At least once in every two weeks and more frequently if required.

Degree of Central Bank Independence High degree of autonomy. The Secretary to the Ministry of Finance is a member of the Monetary Board. This has enabled a formal consultation process with the Government before the Board takes policy decisions. If there is a difference of opinion with regard to monetary policy, the Minister of Finance may inform the Monetary Board that the Government accepts responsibility for the adoption by the Board of a policy, in accordance with the opinion of the Government and direct that such policy be adopted by the Board. However, this override provision has been used only once since the establishment of the Central Bank in 1950.

Release of Policy Information Monetary policy is reviewed on a monthly basis. The changes to monetary policy and monetary policy operating procedures, including the reasons for such changes, are announced to the market based on a pre-announced advance release calendar. The senior officers of the Central Bank also arrange special press briefings when there are important changes. The Central Bank also announces its policies and targets at the beginning of the year through a policy document called 'Road Map – Monetary and Financial Sector Policies'. Important policy changes and the rationale for such changes are also explained in monthly bulletins, a semi-annual report and an annual report. Operating instructions to commercial banks and financial institutions are issued by the department heads of Domestic Operations; International Operations; Bank Supervision; Supervision of Non-Bank Financial Institutions and Payments

and Settlements (on matters relating to the reserve ratio, interest rates, prudential requirements, supervisory aspects, etc.), the Controller of Exchange (on exchange control matters) and by any other department heads, as relevant. Such instructions are also published in the Central Bank's Annual Report. The Bank's Website is at: <http://www.cbsl.gov.lk>.

International Monetary Fund Facilities

By end November 2009, Sri Lanka's total outstanding obligations to the IMF amounted to SDR 473 million. This consisted of Extended Arrangements (SDR 32.7 million), PRGF Arrangements (SDR 26.9 million) and Stand-by Arrangements (SDR 413.4 million).

MONETARY POLICY IMPLEMENTATION

Policy Targets

Maintenance of monetary growth targets, consistent with the core objectives of economic and price stability and financial system stability with a view to encouraging and promoting the development of productive resources in Sri Lanka.

Targets for 2010:

GDP growth: 7.0 per cent; inflation rate (GDP Deflator) : 6.0 per cent, average reserve money growth: 14.5 per cent, average broad money growth – 14.5 per cent.

Monetary Programme:

Monetary policy implementation is based on a monetary programme, which is prepared considering forecasts for economic growth, inflation and other key macroeconomic variables.

Operating Target:

Reserve Money

Intermediate Targets:

Monetary Aggregates: Narrow Money (M_1) and Broad money (M_{2b})

Policy Instruments

Primary Tools:

Central Bank policy interest rates i.e. Repurchase and Reverse Repurchase rates, open market operations (OMO) and Statutory Reserve Ratio (SRR) are the primary policy instruments. Increased emphasis is placed on OMO and a system of more active open market operations was introduced in early 2003. The key features of this system are a daily auction to inject or absorb liquidity and an interest rate corridor formed by the Central Bank's Repurchase rate and Reverse Repurchase rate, which are applicable for standing facilities to counterparties. Suitable adjustments to the interest rate corridor would be made considering the developments in monetary conditions, inflation and other key macroeconomic variables to signal changes in monetary policy stance.

Intervention Technique:

Frequency: Daily open market operations are conducted by way of repo and reverse repo transactions.

Other Tools:

Moral Suasion

Exchange Rate Regime The exchange rate regime prior to January 2001 was a “managed float” with Central Bank intervention to ensure smooth currency movements. Since January 23, 2001, with the introduction of an independently floating exchange rate system, the Central Bank refrained from announcing the buying and selling rates at the beginning of the day. Instead, the Central Bank has indicated that it would participate in the market through absorption and supplying at or near market prices to build up its reserves and avoid undue foreign exchange market volatility. The previous day’s weighted average market rate for the US dollar is used as an indicative rate by the Central Bank. The US dollar continues to be the intervention currency.

Choice of Instruments The Central Bank now relies on more market-based policy instruments. The key instruments are Central Bank policy rates, OMO and statutory reserve ratio. The choice of instrument depends on the source of monetary expansion.

Current Policy Monetary policy is designed to maintain economic and price stability, while providing sufficient liquidity for economic growth, and maintaining financial market stability.

FINANCIAL STABILITY

Authorities Responsible for Financial Stability and Institutional Coverage of the Financial Supervisory Authorities

The Central Bank of Sri Lanka is responsible for maintaining financial system stability.

- The Central Bank of Sri Lanka supervises key financial sector institutions (such as licensed banks and registered finance companies, specialised leasing companies and primary dealers in government securities).
- The Securities and Exchange Commission (SEC) supervises stock exchanges, stock brokers/dealers and unit trust companies. The SEC also registers underwriters, margin providers, credit rating agencies, investment managers and securities clearing houses.
- The Insurance Board of Sri Lanka (IBSL) supervises insurance companies and their agents and insurance brokers.

Strategy for Supervision and Monitoring of Financial Stability

The Risk-based Approach is used for supervision. The analytical framework for monitoring and assessing financial stability involves both qualitative and quantitative macro-prudential analysis, including the compilation of financial soundness indicators and macroeconomic indicators and the publication of a Financial Stability Review.

Plan and Progress for the Implementation of Basel II

Basel II was implemented from January 2008 with the Standardised Approach for Credit Risk, Standard Measurement Approach for Market Risk and Basic Indicator Approach for Operational Risk.

**CURRENT CHIEF
OFFICIALS**
(as of 1 December 2009)

Governor Mr. Ajith Nivard Cabraal

Deputy Governors Dr. D.S. Wijesinghe

Mr. K.G.D.D. Dheerasinghe
(On release)

Assistant Governors Mr. P.D.J. Fernando
Mrs. C. Premaratna
Mr. P. Samarasiri
Mrs. C.K. Nanayakkara
Mrs. P. Liyanage
Mr. W.M. Karunaratne
Mrs. J.P. Mampitiya
Mr. B.D.W.A. Silva
Dr. P.N. Weerasinghe

Directors Mrs. T.M.J.Y.P. Fernando (Acting)
Bank Supervision
Mr. U.P. Alawattage
Centre for Banking Studies
Mr. S.J.A. Handagama
Communications
Mr. R.A.A. Jayalath (Acting)
Domestic Operations
Mr. K.D. Ranasinghe (Acting)
Economic Research
Mr. S. Lankatilake
Human Resources
Mr. H.A. Karunaratna
International Operations
Mrs. R.A.S.M. Dayarathna
Information Technology
Mr. M. I. Sufiyan
Management Audit
Mr. K.B. Disakaruna (Acting)
Payments and Settlements
Mr. Y.A. De Silva
Premises

Directors	Mr. E.A. Hettiarachchi Regional Development
	Mr. D. Wasantha Statistics
	Mr. S.S. Ratnayake Supervision of Non-Bank Financial Institutions
	Mrs. S.N. Perera Welfare
	Ms. K. Saravanamuttu Financial System Stability
	Dr. W.M. Hemachandra Policy Review and Monitoring
	Major Gen. (Ret) S. Wanigasekara Security Services
	Mr. D.M. Rupasinghe (Acting) Financial Intelligence Unit
	Mr. F.C.S. Mendis Provincial Offices Monitoring
	Mrs. K. Dasanayake (Acting) Governor's Secretariat
Secretary	Mr. A. Kamalasiri Secretariat
Chief Accountant	Mrs. K.M.A.N. Daulagala Finance
Superintendent and Registrar	Mr. C.J.P. Siriwardana Public Debt
Controller	Mr. P.H.O. Chandrawansa (Acting) Exchange Control
Superintendents	Mr. M.J.S. Abeysinghe (Acting) Employees' Provident Fund
	Mr. C.P.A. Karunathilake Currency
Additional Directors	Mr. N.W.G.R.D. Nanayakkara (Acting) Bank Supervision
	Mr. K.P.N.S. Karunagoda Centre for Banking Studies
	Mr. T.D.H. Karunaratne (Acting) Centre for Banking Studies

Additional Directors Mr. D.A.G.K. Wijetunga
Domestic Operations

Mr. H.M. Ekanayake
Supervision of Non-Bank Financial Institutions

Mr. J.P.R. Karunaratne
Supervision of Non-Bank Financial Institutions

Mr. H.B.D. Karunaratne (Acting)
Supervision of Non-Bank Financial Institutions

Mrs. N.H.E.R. Siriwardane (Acting)
Supervision of Non-Bank Financial Institutions

Mrs. S. Gunaratna
Economic Research

Mrs. H.P.T. Wijesuriya (Acting)
Economic Research

Mr. K.M.M. Siriwardena (Acting)
Economic Research

Mr. D.K. Wijesuriya (Acting)
Financial Intelligence Unit

Mr. A.R.K. Wijesekera
Human Resources

Mr. C.B. Pathberiya (Acting)
Information Technology

Mr. A.A.M. Thassim
International Operations

Mr. A.M.N. Gunawardana (Acting)
Management Audit

Mrs. R.B. Weerasinghe (Acting)
Payments & Settlements

Mr. P.W.D.N.R. Rodrigo
Policy Review and Monitoring

Mr. U.H.E. Silva
Premises Department

Mr. K.L.L. Fernando (Acting)
Premises Department

Mr. P.G. Jayasooriya
Regional Development

Mr. S.M.A. Siriwardane (Acting)
Regional Development

Mr. M.S.K. Dharmawardena (Acting)
Regional Development

Additional Directors	Mr. B.L.J.S. Balasuriya (Acting) Security Services
	Ms. A.S. De Alwis (Acting) Statistics
	Mr. H. Amaratunga (Acting) Provincial Offices Monitoring
	Mr. T.M.Z. Mutaliph (Acting) Governor's Secretariat
Additional Superintendent and Registrar	Mr. C.N. Wijayasekera Public Debt
Additional Superintendents	Mr. W.R.A. Dharmaratne (Acting) Currency
	Mrs. K. Gunatilleke Employees' Provident Fund
	Mrs. C.M.D.N.K. Seneviratne (Acting) Employees' Provident Fund
Additional Chief Accountant	Mr. P.V.L. Nandasiri Finance
Additional Secretary	Mrs. Prema Wijesinghe (Acting) Secretariat
Additional Controller	Mr. A.M.R.K. Attanayake (Acting) Exchange Control
Additional Director On Release	Mr. S.R. Attygalle
Heads/Additional Heads of Department on No-pay Leave	Mrs. R. Dheerasinghe

MINISTRY OF FINANCE & PLANNING

The responsibility for the formulation and implementation of national economic policy lies with the Ministry of Finance & Planning. The Ministry of Finance & Planning prepares the annual government budget and the Minister of Finance & Planning presents it to the Parliament. Apart from the recurrent expenditures, the developmental expenditures coming under each of the ministries are assessed and available funds are allocated in line with the Public Investment Plan. Traditional Treasury functions are being carried out by a number of departments namely; State Accounts, Public Finance, Fiscal Policy, Public Enterprises, National Budget, Treasury Operations, Development Finance, National Planning, External Resources, Trade, Tariff and Investment Policy, Management Services, Management Audit and Legal Affairs. The General Treasury functions as the umbrella body for these departments. It is headed by the Secretary to the Treasury (who is also the Secretary to the Ministry of Finance and Planning) and three Deputy Secretaries. The departments in the General Treasury are charged with the responsibility of monitoring, evaluating and formulating policy relating to their respective subjects. Each department is headed by a Director General. The overall objective of the General Treasury is to determine fiscal and budgetary policy of the government in consultation with the other relevant authorities and to commence the execution of such policy with other financial entities in order to discharge the responsibility of the General Treasury. In addition, Inland Revenue, Customs, Census and Statistics, Excise, Imports and Exports Control and Valuation departments are also operated under the Ministry of Finance & Planning.

Budget Deficits The Government is aware of the inflationary impact and crowding out impact of high budget deficits. The thrust of fiscal policy is on the fiscal consolidation and debt reduction while promoting economic growth. Accordingly, the Fiscal Management (Responsibility) Act (FMRA) has been brought into effect from 2003 with the medium term targets in order to lower the budget deficit and outstanding debt of the government.

Annual Budget First reading: Mid-October (under normal circumstances)
Approval by Parliament: Mid-December (under normal circumstances)
Financial Year: January – December

Instead of the annual budget for 2010, the Vote on Account (VOA) for the period from January to April 2010 was presented to the Parliament on 3 November 2009 and it was approved on 5 November 2009.

Minister of Finance and Planning	H.E. Mr. Mahinda Rajapaksa
Minister of State Revenue and State Finance and Deputy Minister of Finance and Planning	Hon. Ranjith Siyambalapitiya
Deputy Minister of Finance and Planning	Hon. (Dr.) Sarath Amunugama
Secretary to the Ministry of Finance and Planning and Secretary to the Treasury	Dr. P.B. Jayasundera
Deputy Secretaries to the Treasury	Dr. R.H.S.Samaratunga Mr. Udaya Ranjith Seneviratne Mrs. Sujatha Cooray

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