



ECONOMIC OUTLOOK AND POLICY MEASURES

The economy of Sri Lanka recorded a growth of 6.0 per cent, in real terms, during the first quarter of 2013 in comparison to the first quarter of 2012. This was due mainly to the growth in the Industrial sector (10.7 per cent) which was led by the manufacturing and construction sectors. The Services sector, the major sector of the economy, recorded a growth of 4.3 per cent during the first quarter of 2013 in comparison to the same quarter of 2012. The Agricultural sector recorded a growth of 2.0 per cent during the reference quarter and this growth was mainly contributed by the growth in the tea and fishing sectors.

Table 1: Economic Indicators – First Quarter of 2011, 2012 and 2013

	2011	2012	2013 ^(a)
	Q1	Q1	Q1
Real GDP growth rate (%)	8.0	8.0	6.0
Agricultural Sector	-4.4	12.0	2.0
Industrial Sector	11.1	10.8	10.7
Services Sector	9.5	5.8	4.3
External Finance (US\$ million)			
Exports	2,670.7	2,570.1	2,363.2
Imports	4,437.9	5,349.2	4,506.7
Trade Balance	(1,767.2)	(2,779.1)	(2,143.6)
Trade Balance (% change)	61.8	57.3	-22.9
Prices			
Colombo Consumers' Price Index (2006/07 = 100) - Point to Point Change (%)	7.0	4.0	9.1
Wholesale Price Index (1974 = 100) Change (%)	21.3	-8.5	13.1
Exchange Rate			
Period average (Rs./US\$)	110.7404	118.8824	126.7941
End - period (Rs./US\$)	110.3929	128.1878	126.8528

(a) Provisional

Source: Central Bank of Sri Lanka

The trade deficit contracted sharply by 22.9 per cent in the first quarter of 2013 in comparison to the first quarter of 2012. The contraction was supported by the decline in expenditure on imports as a result of deceleration in credits and containment of imports demand.

Table 2: Money Market Rates – First Quarter of 2011, 2012 and 2013

(per cent per annum at the end of the quarter)

	2011	2012	2013
	Q1	Q1	Q1
Bank rate	15.00	15.00	15.00
Call money market rate (3 month average)	7.80	9.32	9.57
Treasury bill yield rates (Primary)			
91 days	7.01	9.50	9.88
182 days	7.09	9.46	10.33
364 days	7.34	10.04	11.21
Repo rate (overnight)	7.00	7.50	7.50
Reverse repo rate (overnight)	8.50	9.00	9.50
Commercial Banks' Average Weighted Deposit Rate (AWDR)	6.20	7.59	10.54
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	9.17	11.89	14.13

Source: Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) continued the relaxation of the monetary policy stance made during the latter part of 2012 throughout the first quarter of 2013 as well, in order to stimulate the domestic economic

activities. As a result, Repo rate and Reverse Repo rate were at 7.50 per cent and 9.50 per cent, respectively, as at end of the first quarter of 2013.

Following the relaxation in the monetary policy during the latter part of 2012 the market rates moved downward gradually. However, when compared to the first quarter of 2012, Treasury bill rates and call money rates were at high levels during the first quarter of 2013.

PAYMENT SYSTEM- HIGHLIGHTS

Cash

Cash payments continued to persist as the most popular payment mode with regard to retail payments in Sri Lanka. Currency in circulation increased by 5.4 per cent to Rs. 332.3 billion at the end of the first quarter of 2013 from Rs.315.4 billion at end of the same period of 2012.

Table 3: Monetary Aggregates – As at end of First Quarter of 2012 and 2013

	(Rs. Mn)		% change	
	2012 Q1	2013 ^(a) Q1	2012 Q1	2013 Q1
1. Currency of which held by:	315,363	332,271	11.49	5.4
1.1 Banks	62,414	69,705	14.10	11.7
1.2 Public	252,949	262,566	10.86	3.8
2. Demand deposits of which held by:	774,579	839,079	35.34	8.3
2.1 Government (b)	24,063	23,967	-10.67	-0.4
2.2 Banks (c)	554,844	612,256	56.55	10.4
2.3 Public	195,672	202,856	2.46	3.7
3. Narrow Money Supply (M1) (1.2 + 2.3)	448,621	456,413	7.03	1.7
4. Time and Savings deposits held by public	1,872,550	2,284,029	26.47	22.0
5. Broad Money Supply (M2) (3+4)	2,321,171	2,749,442	22.18	18.5

(a) Provisional Source: Central Bank of Sri Lanka

(b) Government demand deposits with the commercial banks and the Central Bank of Sri Lanka

(c) Inter-bank deposits of both local and foreign banks including deposits of international organizations and commercial banks with the Central Bank of Sri Lanka.

The broad money supply (M2) increased by 18.5 per cent during the first quarter of 2013 compared to the first

quarter of 2012. The growth of broad money supply was mainly contributed by the increase in credit to the private sector and the government from the banking sector.

Table 4: Relative Sizes of Monetary Aggregates – First Quarter of 2011, 2012 and 2013

	2011 Q1	2012 Q1	2013 ^(a) Q1
Share of Currency (%) held by			
Banks	19.3	19.8	21.0
Public	80.7	80.2	79.0
As a % of Broad Money Supply			
Currency held by public	12.0	10.9	9.5
Demand deposits held by public	10.1	8.4	7.4
Time and Savings deposits held by public	77.9	80.7	83.1

(a) Provisional

Source: Central Bank of Sri Lanka

Out of all three components of broad money supply, Time and Savings deposits held by public continued to remain as the major component of broad money supply which accounted for almost 83.1 per cent, recording an increase of 22.0 per cent during the first quarter of 2013 in comparison to the same quarter of 2012.

Non-cash Payments

The Real Time Gross Settlement (RTGS) System and Cheque Imaging and Truncation (CIT) System, the two systematically important payment systems in Sri Lanka accounted for 99 per cent of the total value of non-cash payments in the country. The rest of the non-cash payments were made using Sri Lanka Interbank Payment System (SLIPS), card based payment mechanisms, drafts, postal instruments and other electronic means of payment such as phone/mobile/ tele-banking and internet banking.

Cheques

The volume of cheques cleared through the CIT System operated by LankaClear (Pvt) Ltd. (LCPL) amounted to 11.6 million in the first quarter 2013 recording a decrease of 4.9 per cent in comparison to the first quarter of 2012. However, the value of the cheque cleared recorded a marginal increase of 0.7 per cent and amounted to Rs. 1,663 billion, during reference period of 2013. Thus, the average volume of cheques cleared per day decreased by 1.6 per cent while average value of cheques cleared per

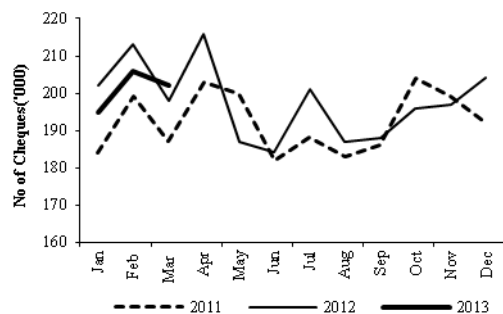
day increased by 4.4 per cent during the reference period in comparison to the same period of 2012.

**Table 5: Cheque Clearing
First Quarter of 2012 and 2013**

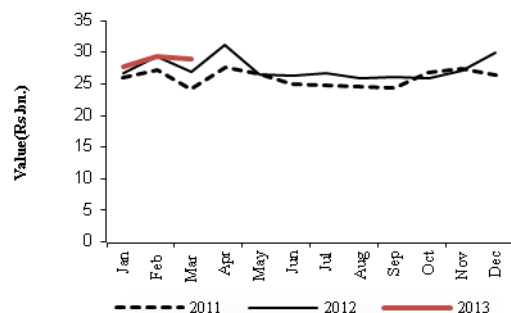
	2012 Q1	2013 Q1	% change	
			2012 Q1	2013 Q1
1.Total number of cheques cleared	12,232,660	11,633,262	9.4	-4.9
2. Total value of cheques cleared (Rs. bn)	1,652	1,663	8.9	0.7
3. Average number of cheques cleared per day	203,878	200,573	7.5	-1.6
4. Average value of cheques cleared per day (Rs.bn)	27.5	28.7	7.0	4.4

Source: LankaClear (Pvt) Ltd

**Chart 1
Average Volume of Cheques Cleared per Day**



**Chart 2
Average Value of Cheques Cleared per Day**



**Table 6 : Volume of Cheque Clearing by Size
First Quarter of 2012 and 2013**

Description	Number of Cheques		(13/12) % change	2013 % Share
	2012 Q1	2013 Q1		
Below Rs. 0.1 mn	10,172,014	9,575,275	-5.9	82.3
Rs.0.1mn - Rs. 1mn	1,821,027	1,797,262	-1.3	15.4
Rs.1 mn - Rs.11mn	228,822	249,603	9.1	2.2
Rs.11 mn - Rs.51mn	9,400	9,688	3.1	0.1
Rs.51mn - Rs.100mn	1,168	1,159	-0.8	neg
Above Rs. 100 mn.	229	275	20.1	neg
Total	12,232,660	11,633,262	-4.9	100.0

Neg - Negligible Source: LankaClear (Pvt.) Ltd

The majority of the cheques cleared through the CIT system during the first quarter of 2013 were below Rs. 0.1 million, accounting for 82 per cent of the total volume of cheques cleared. However, the value of those cheques accounted for only 13 per cent of total value of the cheque cleared during the first quarter of 2013.

**Table 7 : Value of Cheque Clearing by Size
First Quarter of 2012 and 2013**

Description	Value of Cheques (Rs.mn.)		(13/12) % change	2013 % Share
	2012 Q1	2013 Q1		
Below Rs. 0.1 mn	226,657	222,502	-1.8	13.4
Rs.0.1mn - Rs. 1mn	511,584	492,232	-3.8	29.6
Rs.1 mn - Rs.11mn	541,013	563,401	4.1	33.9
Rs.11 mn - Rs.51mn	200,051	206,587	3.3	12.4
Rs.51mn - Rs.100mn	88,086	86,837	-1.4	5.2
Above Rs. 100 mn.	84,941	91,698	8.0	5.5
Total	1,652,333	1,663,257	0.7	100.0

Source: LankaClear (Pvt.) Ltd

**Table 8: Cheque Returns
First Quarter of 2012 and 2013**

	2012 Q1	2013 Q1	% change	
			2012 Q1	2013 Q1
1.Total number of cheque returns	524,728	554,802	21.9	5.7
2. Total value of cheque returns (Rs. mn)	44,975	52,665	38.6	17.1
3. Average number of cheque returns per day	8,745	9,566	19.9	9.4
4. Average value of cheque returns per day (Rs.mn)	750	908	36.3	21.1
5.Number of cheque returns as a % of total volume of cheques received for clearing	4.3	4.8		
6.Value of cheque returns as a % of total value of cheques received for clearing	2.7	3.2		

Source: LankaClear (Pvt) Ltd

Both the aggregate volume and value of returned cheques increased by 5.7 per cent and 17.1 per cent, respectively, during the first quarter of 2013 in comparison to the 21.9% and 38.6%, respectively recorded in the first quarter of 2012. The average number and value of cheque returns per day increased by 9.4 per cent and 21.1 per cent during the reference quarter of 2013. The number of cheque returns, as a percentage of total cheque volume received for clearing was 4.8 per cent and the total value of cheque returns, as a percentage of total value of cheque received for clearing was 3.2 per cent during the first quarter of 2013.

**Chart 3
Cheque Returns as a Percentage of Total
Number of Cheques Received for Clearing**

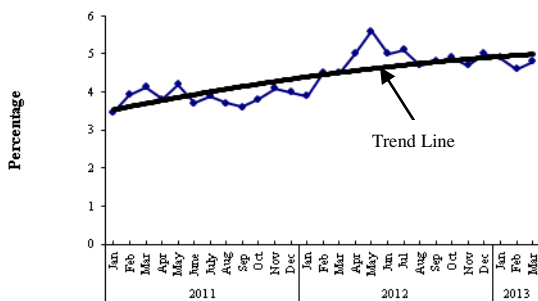


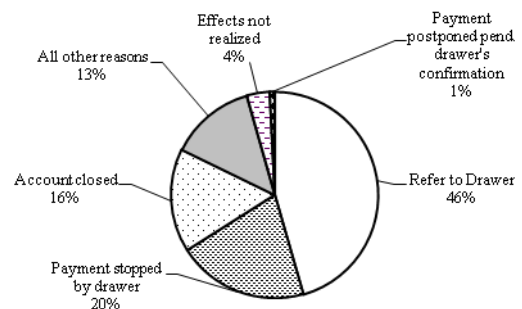
Table 9: Return Code-wise Cheque Returns (%)

Return Code	2012				2013
	Q1	Q2	Q3	Q4	Q1
Refer to Drawer	45.8	46.7	47.2	46.7	45.6
Payment stopped by drawer	20.6	20.9	20.3	20.2	20.5
Account closed	14.9	14.6	16.4	17.0	16.2
Effects not realized	4.5	4.2	4.0	3.5	3.6
Payment postponed pending drawer's confirmation	1.1	0.9	1.0	1.0	0.8
All other reasons	13.0	12.6	11.1	11.5	13.4

Source: LankaClear (Pvt.) Ltd

As shown in Table 9 and Chart 4, 'Refer to Drawer' continued as the key reason for the cheque returns accounting 45.6 per cent of total cheque returns during the first quarter of 2013. However, it showed a slight decline from the third quarter of 2012 to the first quarter of 2013.

**Chart 4
Return Code-wise Cheque Returns
1st Qtr. 2013**



US Dollar Clearing System

During the first quarter of 2013, the US Dollar Cheque Clearing system operated by LCPL cleared 13,682 US Dollar cheques recording a 3.2 per cent increase over the corresponding quarter of 2012. However, the aggregate value of US Dollar cheques cleared by LCPL within the reference quarter declined by 3.2 per cent, in comparison to the first quarter of 2012. The daily average volume and value of US Dollar Cheques cleared during the first quarter 2013 were 236 and USD 0.85 million, respectively.

Chart 5
Monthly Volume of US Dollar Clearing

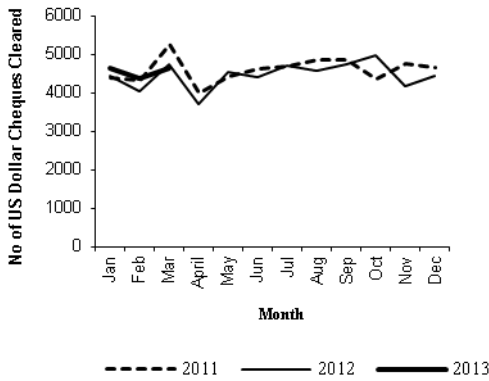


Table 10: SLIPS Transactions - First Quarter of 2012 and 2013

	2012 Q1	2013 Q1	% change	
			2012 Q1	2013 Q1
1. Total volume of transactions cleared	3,393,627	3,842,260	16.6	13.2
2. Total value of transactions cleared (Rs. mn)	123,242	156,010	34.8	26.6
3. Average volume of transactions settled per day	56,560	66,246	14.7	17.1
4. Average value of transactions settled per day (Rs.mn)	2,054	2,690	32.6	31.0

Source: LankaClear (Pvt) Ltd.

Rupee Draft Clearing System

Indicating the low popularity of rupee draft as a mode of payment, the total value of rupee drafts cleared through LCPL recorded further decline by 33.9 per cent to Rs. 71 million in the first quarter of 2013 in comparison to the first quarter of 2012. This may be an outcome of increasing popularity of alternative convenient, electronic payment methods and card based payment instruments for domestic transactions.

Chart 6
Monthly Value of Rupee Draft Clearing



Chart 7
Average Value and Volume of SLIPS Transactions per day

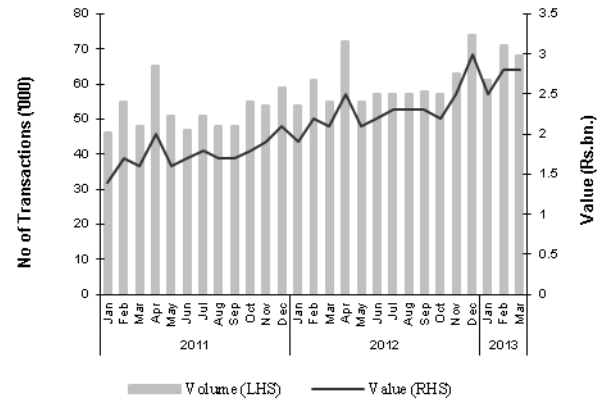


Table 11: SLIPS Transactions by Size
First Quarter of 2012 and 2013

Transaction Value (a)	Number of Items		Total Value (Rs. mn.)	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Less than Rs. 1 mn.	3,381,259	3,825,151	96,427	116,652
Rs. 1mn – Rs. 5 mn	12,368	17,109	26,814	39,358
Total	3,393,627	3,842,260	123,242	156,010

Source: LankaClear (Pvt) Ltd

(a) An upper limit of Rs 5 million per SLIPS transaction was imposed in 3rd Quarter of 2010.

Sri Lanka Interbank Payment System (SLIPS)

Continuing the increasing popularity of transaction through SLIPS in the past quarters, SLIPS cleared over 3.8 million transactions amounting to Rs. 156.0 billion during the first quarter of 2013. Accordingly, the average daily volume and value of SLIPS transactions increased by 17.1 per cent and 31.0 per cent, respectively, during the first quarter of 2013, in comparison to the same quarter of 2012.

The majority of SLIPS transactions processed during the quarter were of value less than Rs. 1 million and such transactions accounted for 99.6 per cent of the total volume of SLIPS transactions and 74.7 per cent of the total value of SLIPS transactions (Table 11).

**Table 12: SLIPS Transactions by Type
First Quarter of 2012 and 2013**

Category	Total Volume		Total Value (Rs. mn)	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Credit transactions	3,390,571	3,839,779	122,754	155,467
Debit transactions	3,056	2,481	488	543
Total transactions	3,393,627	3,842,260	123,242	156,010

Source: LankaClear (Pvt) Ltd.

In terms of the types of SLIP transactions, credit transfers remained as the major transaction category. The volume and value of credit transactions were 99.9 per cent and 99.6 per cent, respectively, out of the total transactions through SLIPS during the reference quarter (Table 12).

Real Time Gross Settlement (RTGS) System

The RTGS System, which is the main large value inter-participant fund transfer system in the country, had 34 participants consisting of CBSL, 24 Licensed Commercial Banks (LCBs), 7 Primary Dealer companies, Employees' Provident Fund (EPF) and Central Depository System of the Colombo Stock Exchange, as at end of the first quarter of 2013.

Table 13: RTGS Transactions – First Quarter of 2012 and 2013

Description	2012 Q1	2013 Q1	% change	
			2012 Q1	2013 Q1
1. Total no. of transactions	71,078	72,911	12.0	2.6
2. Total value of transactions (Rs.bn.)	12,237	13,346	-32.4	9.1
3. Average no. of transactions per day	1,185	1,257	10.1	6.1
4. Average value of transactions per day (Rs.bn.)	204	230	-33.5	12.8

Source: Central Bank of Sri Lanka

Both the total volume and value of transactions effected through the RTGS System during the first quarter of 2013 recorded an increase of 2.6 per cent and 9.1 per cent, respectively. As a result, the average volume of transactions per day recorded an increase of 6.1 per cent, and value of transactions per day increased by 12.8 per cent when compared to the same quarter of 2012.

Table 14: Volume of RTGS Transactions by Size – First Quarter of 2012 and 2013

Description	No. of Transactions		% share	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Below Rs. 1 mn	9,476	9,116	13.3	12.5
Rs 1 mn - Rs 100 mn	43,254	45,287	60.9	62.1
Rs 100 mn - Rs 500 mn	13,709	13,626	19.3	18.7
Rs 500 mn - Rs 1,000 mn	2,475	2,808	3.5	3.9
Rs. 1,000 mn and above	2,164	2,074	3.0	2.8
Total	71,078	72,911	100.0	100.0

Source: Central Bank of Sri Lanka

The volume of transactions between Rs. 1 mn - Rs 100 mn in the RTGS system continued to remain as the highest transactions category during the first quarter of 2013.

Table 15: Value of RTGS Transactions by Size – First Quarter of 2012 and 2013

Description	Value (Rs. bn.)		% share	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Below Rs. 1 mn	3	2	0.0	0.0
Rs 1 mn - Rs 100 mn	998	1,107	8.2	8.3
Rs 100 mn - Rs 500 mn	3,433	3,445	28.1	25.8
Rs 500 mn - Rs 1,000 mn	1,842	2,162	15.1	16.2
Rs. 1,000 mn and above	5,961	6,630	48.7	49.7
Total	12,237	13,346	100.0	100.0

Source: Central Bank of Sri Lanka

In value terms, RTGS transactions over Rs. 100 mn accounted for 91.7 per cent of the aggregate value of RTGS transactions during the first quarter of 2013.

Table 16: Volume of RTGS Transactions by Type – First Quarter of 2012 and 2013

Type	No. of Transactions		% change	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Repo/R.Repo/ILF	13,608	16,821	-5.1	23.6
Interbank Transactions	14,872	12,515	48.0	-15.8
Customer Transactions	34,807	36,173	9.1	3.9
LankaSecure Transactions	1,093	1,012	7.9	-7.4
Clearing House Transactions	6,684	6,390	8.3	-4.4
Internal Fund Transfers	14	0	-	-
Total	71,078	72,911	12.0	2.6

Source: Central Bank of Sri Lanka

In terms of volume (Table 16), customer transactions continued to be the largest category in the RTGS transactions recording an increase of 3.9 per cent in the first quarter of 2013 in comparison to the same quarter of 2012.

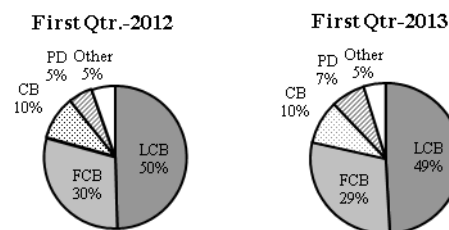
Meantime, the category of Repo, Reverse Repo and ILF transactions recorded a significant increase both in terms of volume and value by 23.6 per cent and 30 per cent, respectively. The growth was mainly contributed by repo transactions carried out due to the excess liquidity in the market during the first quarter of 2013 in comparison to the same quarter of 2012.

Table 17: Value of RTGS Transactions by Type First Quarter of 2012 and 2013

Type	Value (Rs. bn.)		% change	
	2012 Q1	2013 Q1	2012 Q1	2013 Q1
Repo/R.Repo/ILF	6,073	7,895	-57.5	30.0
Interbank Transactions	3,936	3,171	107.7	-19.4
Customer Transactions	1,206	1,196	43.1	-0.8
LankaSecure Transactions	571	575	9.8	0.7
Clearing House Transactions	450	509	-17.4	13.1
Internal Fund Transfers	1	0	-	-
Total	12,237	13,346	-32.4	9.1

Source: Central Bank of Sri Lanka

**Chart 8
Volume of RTGS Transactions by Type of Participants**



LCB - Local Commercial Banks
 FCB - Foreign Commercial Banks
 CB - Central Bank of Sri Lanka
 PD - Primary Dealers in Government Securities
 Other - Central Depository System of Colombo Stock Exchange, Multilateral Net Settlements, Employees Provident Fund

Chart 8 compares the participant-wise distribution of RTGS transactions in the first quarters of 2012 and 2013. Local commercial banks accounted 49 per cent of the transactions that processed through RTGS while foreign commercial banks accounted for 29 per cent in the first quarter of 2013.

Table 18: Time Distribution of Receiving and Settlement of RTGS Transactions - First Quarter of 2012 and 2013

Description	No of Items		% share	
	2012	2013	2012	2013
Before 1200 noon	23,647	24,786	33.3	34.0
After 1200 noon	47,431	48,125	66.7	66.0
Total	71,078	72,911	100.0	100.0

Source: Central Bank of Sri Lanka

As shown in Table 18, out of the total RTGS transactions, majority of transaction were effected after 12.00 noon accounting 66 per cent of total transaction during the first quarter of 2013.

Payment Cards

Credit Cards

As at end of the first quarter of 2013, there were 12 credit card issuers licensed by CBSL to engage in the credit card business. Total number and value of credit card transactions recorded a growth of 5.5 per cent and 7.6 per cent, respectively, during the first quarter of 2013 when compared to the same quarter of 2012.

Table 19: Credit Cards in Use - First Quarter of 2012 and 2013

	2012 Q1	2013(a) Q1	% change	
			(12/11)	(13/12)
Total No. of Credit Cards (As at end period)	846,420	926,649	7.1	9.5
Domestic and International Cards	803,756	888,048	10.3	10.5
Domestic Only Cards	42,664	38,601	-30.8	-9.5
Total Number of transactions ('000)	4,655	4,910	1.9	5.5
Total Value of transactions (Rs.mn)	25,456	27,398	19.4	7.6

(a) Provisional

Source: Commercial Banks

The total number of credit cards in use was at 926,649 and out of them 39,420 were new credit cards issued during the first quarter of 2013.

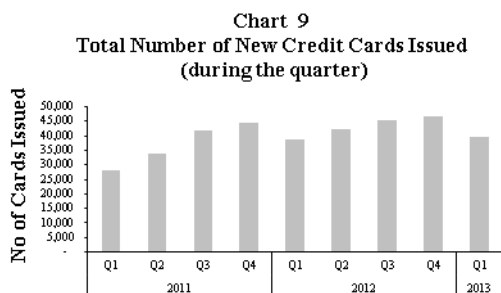


Chart 10
Total Volume & Value of transactions effected through
Credit Cards during the quarter

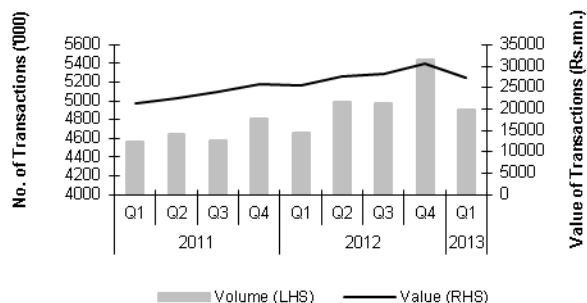


Chart 11
No. of Transactions per Credit Card during
the quarter



The average number of transactions per credit card decreased to 5.3 in the first quarter of 2013 from 5.5 in the first quarter of 2012. This may be partly due to the increase of tax rate on usage of credit value of a card in January 2013.

Credit Cards in Default

As recorded by the Credit Information Bureau, the total number of credit cards in default (i.e. credit cards of which the minimum payment is in arrears for 90 days from the due date) as at the end of the first quarter of 2013 was 90,412 and the total value of defaulted credit card payments amounted to Rs 3.97 billion.

Debit Cards

Table 20: Debit Cards in Use - First Quarter of 2012 and 2013

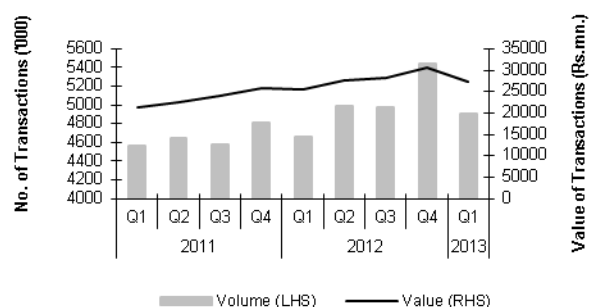
	2012 Q1	2013 Q1 (a)	% change	
			(12/11)	(13/12)
Total No. of Debit Cards (As at end period)	9,211,639	10,920,162	23.7	18.5
Domestic & International	8,852,469	10,559,376	25.3	19.3
Domestic Only	359,170	360,786	-5.6	0.4
Total Number of transactions('000)	2,459	3,173	45.6	29.0
Total Value of transactions (Rs.mn)	7,310	9,827	56.7	34.4

Source: Commercial Banks
Specialised Banks
Registered Finance Companies

(a) Provisional

As at end of the first quarter of 2013, there were 22 debit card issuers licensed by CBSL. The total number of debit cards in use was approximately 10.9 million as at the end of first quarter 2013 recording an increase of 18.5 per cent. The majority of debit cards had the facility to use in both domestic and international transactions. Total volume and value of debit card transactions increased by 29.0 per cent and 34.4 per cent, respectively during the first quarter 2013 when compared to the same quarter of 2012.

Chart 10
Total Volume & Value of Transactions effected through Credit Cards during the quarter



Mobile Phone/Tele-banking/Internet Banking

Reflecting the increasing popularity of phone based electronic payments, the volume and value of financial transactions effected through tele-banking/mobile banking recorded an increase of 20.7 per cent and 7.8 per cent, respectively, in the first quarter of 2013 when compared to the same period of 2012.

Table 21 : Payment Instructions Handled Through Electronic Systems First Quarter of 2012 and 2013

	2012 Q1	2013(a) Q1	% change	
			2012 Q1	2013 Q1
Tele-banking / Mobile Phone Banking				
No. of financial transactions	48,275	58,264	-3.2	20.7
Value of Transactions (Rs.mn)	1,199	1,292	-6.6	7.8
Internet Banking				
No. of financial transactions	1,524,939	2,043,683	28.8	34.0
Value of Transactions (Rs.mn)	98,285	165,536	43.9	68.4

(a) Provisional

Source: Commercial Banks

The volume and value of the financial transactions proceeded through internet banking increased significantly by 34.0 per cent and 68.4 per cent, respectively, during the first quarter 2013. This may be due mainly to convenience and time saving benefit to the customer.

Automated Teller Machines (ATMs)

Table 22 : ATM Terminals - First Quarter of 2012 and 2013

	2012 Q1	2013(a) Q1	% change	
			2012 Q1	2013 Q1
ATMs				
Total number of machines (End of period)	2,665	2,925	16.8	9.8
Total volume of financial transactions (During the period in '000)	32,422	36,292	15.5	11.9
Total value of transactions (During the period in Rs. mn.)	229,126	263,618	23.8	15.1

(a) Provisional

Source: Commercial Banks

Specialised Banks
Registered Finance Companies

The total number of ATM terminals stood at 2,925 recording an increase of 9.8 per cent as at end of the first quarter of 2013 in comparison to the corresponding period of 2012. Showing the customer preference for cash withdrawals through ATM terminals, both volume and value of ATM terminal transactions grew by 11.9 per cent and 15.1 per cent, respectively, during the first quarter of 2013.

Electronic Fund Transfer at Point of Sale (EFTPOS) Terminals

Table 23 : EFTPOS Terminals - First Quarter of 2012 and 2013

	2012 Q1	2013 ^(a) Q1	% change	
			2012 Q1	2013 Q1
Total number of machines (End of period)	28,029	24,949	-1.5	-11.0
Total volume of financial transactions (During the period in '000)	7,353	8,100	21.0	10.2
Total value of transactions (During the period in Rs. mn.)	42,042	45,605	33.9	8.5

(a) Provisional

Source: Commercial Banks

As a measure of mitigating fraud risk associated with cardholder's data theft while transit, CBSL decided to adopt Terminal Line Encryption (TLE) technology to all EFTPOS terminals in the country. Accordingly, all financial acquires were required to comply with TLE technology requirement by 31st March 2013. As at the end of the first quarter of 2013, the total number of EFTPOS terminals, recorded a decrease of 11.0 per cent in comparison to the first quarter of 2012. This decrease was due mainly to the removing of EFTPOS terminals which were not compatible with TLE technology. However, the total volume and value of payments effected through EFTPOS increased by 10.2 per cent and 8.5 per cent, respectively, in the first quarter of 2013 in comparison to the corresponding quarter of 2012.

Money Orders

As at the end of first quarter 2013, the total number of post offices stood at 4,737. The total value of transactions effected through money orders was Rs. 1.8 billion in the first quarter of 2013. Reflecting the consumer preference for faster fund transfer methods, E- money orders stood as the major postal payment instruments used by the public. The value of the payments effected through e-money orders was Rs. 1.2 billion in the first quarter of 2013.

Table 24 : Value of Payments made through Money Orders and Postal Orders - First Quarter

	2013 Q1 ^(a)
Money Orders (Value Rs. '000)	1,827,917
Ordinary Money Orders	553,218
Telegraph Money Orders	21,047
Fax Money Orders	3,148
E Money Orders	1,204,892
International Money Orders	1,788
Local Value Payment Money Orders	43,060
British Postal Orders (Value Rs. '000)	764
Total No. of Post Office (end period) ^(b)	4,737

(a) Provisional

Source: Postal Department

(b) Including post office, sub-post office and agency post office

Settlement of Payments through Asian Clearing Union (ACU)

The Asian Clearing Union (ACU) was established in 1975 with the main objective to facilitate payments among member countries for eligible transactions, thereby economizing the use of foreign exchange reserves and transfer costs as well as promoting trade among the member countries. The settlement mechanism of ACU involves settling intra-regional trade related payments among member central banks on a multilateral basis. At present, ACU consists of nine central banks/monetary authorities of Bangladesh, Bhutan, India, Iran, Nepal, Maldives, Myanmar, Pakistan and Sri Lanka.

Table 25: Asian Clearing Union (ACU) Transactions of Sri Lanka- First Quarter of 2012 and 2013

	2012	2013(a)	% change	
			(12/11)	(13/12)
Total Number of Transactions	1,299	1,247	-5.3	-4.0
Total receipts (Rs. Mn)	6,331	5,649	-72.7	-10.8
Total payments (Rs. Mn)	160,853	55,432	121.5	-65.5

(a) Provisional Source: Central Bank of Sri Lanka

The total volume of transactions effected by Sri Lanka in the first quarter of 2013 through the ACU mechanism declined by 4.0 per cent to 1,247, in comparison to the same quarter of 2012.

Reflecting the decrease of trade between Sri Lanka and ACU countries, the total value of payments effected through ACU mechanism decreased significantly by 65.5 per cent to Rs. 55.4 billion in the first quarter of 2013 when compared to that of the first quarter of the previous year. The total value of receipts effected through this mechanism decreased by 10.8 per cent to Rs.5.6 billion, during the first quarter of 2013 when compared with the same period of 2012.

SWIFT

Table 26: Participation in SWIFT-Customer Base (Live)

Item	2012		2013
	Q3	Q4	Q1
Total Domestic SWIFT users (End of Period)	35	35	35
Members	11	11	11
Sub-members	12	12	12
Participants	12	12	12
Total SWIFT worldwide users (End of Period)	10,209	10,279	10,363
Members	2,405	2,398	2,399
Sub-members	3,341	3,340	3,345
Participants	4,463	4,541	4,619

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

The total number of domestic SWIFT users remained at the same level of 35, while the total number of Global SWIFT users increased to 10,363 at the end of the first quarter of 2013.

Table 27 : SWIFT Message Flow in Sri Lanka - First Quarter of 2012 and 2013

Item	2012 Q1	2013 Q1	% change	
			2012 Q1	2013 Q1
All messages sent by domestic users	983,754	994,498	6.8	1.1
From Category I *	142,114	143,784	25.7	1.2
Category II **	114,241	103,890	16.3	-9.1
All messages received by domestic users	1,174,193	1,155,715	8.8	-1.6
To Category I	439,736	413,442	10.6	-6.0
Category II	35,028	31,957	23.3	-8.8
Domestic Traffic	468,030	492,759	0.5	5.3

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

*Category I - Customer (Funds) Transfers

**Category II - Bank (Funds) Transfers

The domestic SWIFT traffic recorded an increase of 5.3 per cent. Similarly, the global SWIFT traffic also recorded an increase of 4.3 per cent during the first quarter of 2013, in comparison to the same quarter of 2012.

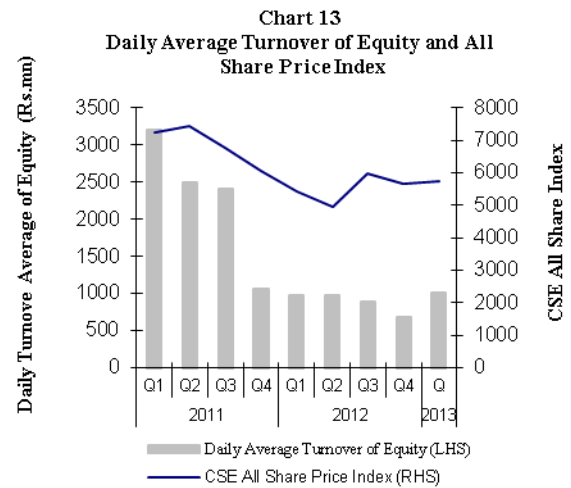
All the messages sent by domestic users increased by 1.1 percent in the reference quarter of 2013 comparison to the same quarter of 2012. The messages sent by domestic users on customer fund transfers (Category I) increased by 1.2 per cent while the messages sent by domestic users on bank funds transfers (Category II) decreased by 9.1 per cent. However, all the messages received by domestic users on customer fund transfers (Category I) and bank funds transfers (Category II) declined by 6.0 per cent and 8.8 per cent, respectively, during the period under review.

Trading and Settlements at the Colombo Stock Exchange

The total number of intermediaries i.e. member firms and stockbrokers who engage in trading of equity and debt securities on behalf of investors on the Colombo Stock Exchange (CSE), remained at 29 as at the end of first quarter of 2013. The total number of customer accounts in

the Central Depository System (CDS) of CSE was 708,850 and the total volume and value of equity shares lodged in the CDS were 67.1 billion and Rs 1,972.7 billion, respectively, as at end of the first quarter of 2013.

The daily average turnover of equity transactions decreased by 25.8 per cent to Rs 1,010.5 million during the first quarter of 2013, in comparison to the same quarter of 2012. The All Share Price Index (ASPI) of CSE declined by 1.64 per cent in the first quarter 2013.



Risks in Payment, Clearing and Settlement Systems

Payment, Clearing and Settlement Systems (PCSSs) play critical roles in the fostering of financial stability, economic efficiency, monetary policy transmission and fiscal policy implementation of a country. As a result of the rapid increase of the usage of new technology for fund transfers and the integration and inter-linkage of PCSSs, the roles as well as the functionalities of PCSSs have become multifaceted components in economies. However, at the same time PCSSs have the potential to induce and transmit risks in the financial systems and magnitude of such the risk exposure has aggravated by the rapid innovations in the PCSS arena.

The risk associated with PCSSs is that the fund transfers in the system will not take place on time as expected. This could be happened when a party related to a payment defaults one or more payment obligations, which is called settlement risk. The settlement risk includes, in particular, credit risk, liquidity risk, operational risk and legal risk. If the risk exposure of one participant in a PCSS spreads to the other institutions of the system, the system will face a systemic risk.

Credit Risk

In a situation where a payer is unable to settle a payment obligation for the full value neither when the obligation becomes due nor at any time thereafter, the relevant payee is exposed to a credit risk. In a net settlement system, payments are netted in the system at a given time, generally end of the day, and due to the time lag between the system's acceptance and processing of transactions, the receiving participant will have a credit risk exposure. Credit risk in a net settlement system could be mitigated through increasing the net settlement cycles, imposing multilateral and bilateral credit limits and loss-sharing arrangements among participants in the system and limiting the membership of the system for institutions that are considered least likely to default on payment obligations. In a Real Time Gross Settlement (RTGS) system, payments are settled individually on gross basis with irrevocable immediate finality, generally using central bank money under co-lateral arrangements. This arrangement eliminates the credit risk for the participants in the RTGS system.

The Central Bank of Sri Lanka (CBSL) also adopted the net settlement mechanism from its inception in 1950 until the implementation of the RTGS system in 2003. One of the major objectives of the implementation of the RTGS system by CBSL was the elimination of the credit risk associated with the deferred net settlement system.

Liquidity Risk

Liquidity risk is the risk that a counterparty will have insufficient funds to meet its financial obligations as and when expected. However, in this situation payer may be able to make the payment at a specified time thereafter. The reason for the unsettlement of a payment on time could be an operational issue or a temporary inability to provide funds as a result of adverse market conditions. However, in this kind of situation, the payee would also be unable to fulfill its payment obligations to the other participants in the system, thereby leading to a systemic risk. Further, if the non-defaulting party borrows funds from the market to settle its obligations, it would lead to shortage in the liquidity in the market thereby increasing the interest rates in the financial market.

In a net settlement payment system, liquidity risk depends, among other things, on the features of the particular system, the status of the operator and the legal soundness of the netting arrangement in place, and means and frequency of settlement. Remedies given above to mitigate credit risk could also be used to limit the liquidity risk in net payment systems. In addition, collateral pools, dedicated credit lines established by liquidity providers or guarantees provided by trusted third parties could also be arranged as liquidity risk management strategies, in order to ensure settling payments even in the event of a failure of a participant of the net settlement system with a largest exposure. Further, availability of information on net positions to individual participants at any time and access to central bank credit facilities would also allow participants to arrange required funds at the time of the settlement of the payment obligations.

However, large value payment systems operated on real time gross basis need to be able to complete settlement on time to provide sufficient liquidity to the market and to maintain the confidence of the system. Moreover, liquidity threat in a large value payment system would create larger liquidity difficulties in financial markets thereby causing severe risk exposures such as market risk and credit risk to all participants in the system. In comparison to the net settlement payment systems, RTGS systems need more liquidity as payment instructions are considered individually on gross basis for settlements. Therefore, liquidity management in RTGS systems are more dynamic than net settlement payment systems where liquidity has to be made available at fixed times. There are several ways of limiting liquidity risk in RTGS systems as shown below.

In order to address the events of liquidity deficiencies, queuing facilities can be introduced to the RTGS systems where respective payment orders are moved to a queue until sufficient liquidity becomes available. The queue should be with the priority levels for payments with the facility to change the order of payments in the queue depending on the urgent requirements .

Where Participants in the system are subject to reserve requirements, they can be allowed to use such balances on an intraday basis for settlement of payment orders.

Intraday credit can be made available by the central bank through intraday overdraft or repurchase agreements. Even though this arrangement may lead to intraday credit risk to the system, central banks may be able to impose suitable provisions to mitigate such risk. At present, Central Bank of Sri Lanka has introduced collateralized system by means of eligible securities.

Sophisticated queue release methods such as gridlock and deadlock mechanisms can be introduced, as applicable, in order to provide required liquidity to the system . A gridlock is a situation in which a failure to execute one or more transfer orders prevents the execution of a substantial number of payment orders submitted by the other participants in the system. In the gridlock resolution mechanism which is provided to resolve such situations, uses strategies such as changing queue priorities, temporary bypassing of any first-in first-out processing and use of bilateral or multilateral offsetting in the queue etc. A deadlock is a standstill situation whereby fund transfer orders cannot be settled by any

means without infringing upon limitations given in the system. A deadlock can only be resolved by injecting required liquidity into the system or adding payment orders to the queue in order to enable further processing.

With the introduction of the RTGS system in Sri Lanka for high value payments in the banking system, CBSL used the above mentioned liquidity risk mitigation mechanisms to ensure smooth operation of the system. The said queuing facility is available in the existing RTGS system in Sri Lanka and in addition, CBSL usually provides intraday liquidity for participants under the collateralized system by means of eligible assets, i.e. government securities.

Operational Risk

The definition which is internationally accepted and widely used within the financial industry for the operational risk is the "risk of losses resulting from inadequate or failed internal processes, people and systems or from external events". This definition specifies that operational risk is caused by the malfunctioning of technical components as well as the result of errors, fraud, inaccessibility of key staff, unavailability of external stakeholders, etc. The broader focus of the definition indicates that the operational risk management could be described as a continuous and systematic process whereby risks are proactively identified, their potential consequences are assessed and plans are developed to address them in the manner that they are either mitigated or accepted. Accordingly, in managing operational risks, it is required to take appropriate action to minimize the probability of a risk occurring and limit the consequences of those risks that materialized despite all measures taken to mitigate them.

Operational risk is common for all payment, clearing and settlement systems no matter they are wholesale or retail systems and whether they handle transactions on an item-by-item, net or hybrid basis. The consequences of an operational risk event vary depending on the design and nature of the system. Operators of PCSSs are responsible for the provisions of uninterrupted services in each business day, protection of the assets against unauthorized manipulation and maintaining confidentiality by adopting proper risk mechanisms.

It has been accepted that the implementation of an effective business continuity management programme could address the operational risk of PCSSs. Recognized best practices and standards suggest that an effective business continuity management programme should typically comprise the following four key elements:

- a business impact analysis with a view to identifying critical activities and determining recovery objectives;
- a well-defined business continuity strategy;
- appropriate plans and procedures to ensure the continuity of critical services; and
- the testing, maintaining and reviewing of existing plans in order to validate their effectiveness and ensure that they are kept up to date.

CBSL as the operator of the RTGS system has taken several steps to address the operational risks associated with the system. A business continuity plan (BCP) has been developed and a disaster recovery (DR) site has been established in a place away from the primary site with on-line replication facility in order to operate the system in any contingency event. Further, CBSL conducts live operations from the DR site at least twice a year in order to ensure the system availability in the DR site. Moreover, instructions have been given to all participants of the system to develop BCP

documents and establish DR sites adhering to the guidelines issued by CBSL. The BCP documents and DR site arrangements of the participants are supervised by CBSL continuously.

In addition to the BCP arrangements of RTGS, CBSL monitors the BCP arrangements of LankaClear (Pvt.) Ltd., the national clearing house of the country and all other service providers of payment systems including retail payment systems that are regulated by CBSL.

Legal Risk

A sound legal basis is a must for PCSSs as it provides a framework to define the rights and obligations of operators, participants and regulators. Most risk management mechanisms on PCSSs are based on the rights and obligations of the parties involved in the systems and therefore, it is required to establish the rights and obligations with high degree of legal certainty so that the systems can be operated even in contingency events without any interruption. With regard to payment systems, there should be clear legal certainty for the critical points of fund transfers such as finality of payments and validity of net claims against a defaulting party etc.

Legal risk in payment systems can be prevented on a centralized arrangement in designing laws and legislations and there should be less ambiguous legal documents. Further, as the methods and devices being used for making payments are evolved continuously, it is essential to develop flexible legal framework while keeping provisions for addressing possible risks.

The PCSSs in Sri Lanka are operated mostly under the provisions of the Monetary Law Act No. 58 of 1949 and Payment and Settlement Systems Act No. 28 of 2005. Having experienced the global trend in innovative payment systems that are being developed, CBSL has taken steps to revise the legal framework relating to PCSSs to provide provisions for evolving PCSSs.

Systemic Risk

Systemic risk means the inability of one participant in a payment system to discharge its obligations on a system on time thereby causing other participants to be unable to fulfill their obligations when they become due. In such a situation, there could be significant liquidity and credit issues spilling over into other systems and markets thereby threatening the stability of the financial system. Systemic risk could ultimately lead to undermine public confidence in the financial infrastructure and currency and may affect the smooth functioning of the whole economy.

Systemic risk in an RTGS system is normally less than such risk in a net settlement system as there is no credit or liquidity risk in an RTGS system and more importantly due to the fact that the settlement bank of the RTGS system is the central bank which has no risk of failing the institution in any circumstance.

Reference:

1. The Payment Systems – European Central Bank, Frankfurt Main, September 2010
2. Principles for Financial Market Infrastructures – Bank for International Settlements, April 2012

Chronology of Major Events in the Payment and Settlement Systems in Sri Lanka.

Year	Event
August 1950	Functions of the Colombo Clearing House were taken over by the Central Bank of Sri Lanka (CBSL).
December 1974	CBSL joined the Asian Clearing Union (ACU) – (An Intra-regional Clearing Union)
September 1981	Introduction of a Proprietary Credit Card by a non-bank financial institution in Sri Lanka
June 1986	Introduction of Automated Teller Machines (ATMs) in Sri Lanka
March 1988	Establishment of Sri Lanka Automated Clearing House (SLACH)
February 1989	Introduction of Credit Cards by commercial banks, in Sri Lanka
August 1992	CBSL joined the EuroClear System
June 1994	CBSL joined the SWIFT
August 1994	Introduction of Sri Lanka Interbank Payment System (SLIPS) - An off-line Electronic Fund Transfer System.
March 1997	Introduction of Debit Cards in Sri Lanka
March 1999	Introduction of Internet Banking in Sri Lanka
January 2002	Establishment of the Payments and Settlements Department of Central Bank of Sri Lanka
February 2002	Formation of LankaClear (Pvt) Ltd.
April 2002	LankaClear (Pvt) Ltd commenced clearing operations
September 2003	Real Time Gross Settlement (RTGS) System went live
February 2004	LankaSecure, the securities settlement components of LankaSettle went live
March 2004	The Debt Securities Exchange (DEX) of the Colombo Stocks Exchange (CSE) was officially launched
December 2004	Red Book – Payment Systems in Sri Lanka was published by the Bank for International Settlements (BIS)
February 2005	National Savings Bank (NSB) received direct access status in SLIPS
September 2005	Payment and Settlement Systems Act No.28 of 2005 was passed in the Parliament
March 2006	CBSL issued Guidelines on Business Continuity Planning to participants of the LankaSettle System
May 2006	Cheque Imaging and Truncation (CIT) System was launched
May 2006	CBSL issued a General Direction on CIT System to LankaClear (Pvt) Ltd and participants of the CIT System
November 2006	Lanka Financial Services Bureau Ltd was established
December 2006	CBSL issued norms and standards on settlement of inter participant transactions in the LankaSettle System, to LankaSettle participants

Continued..

Year	Event
January 2007	The “Road Map: Monetary and Financial Sector Policies for 2007 and beyond” of CBSL was announced
June 2007	The Money, Payment, Clearing and Settlement Service Providers Regulations No.01 was issued by the Hon. Minister of Finance and Planning
November 2007	CBSL issued the General Direction on the participating institutions’ service norms and standard times for accepting cheque deposit from customers and crediting cheque proceeds to customers’ accounts under the CIT System
February 2008	Lanka Financial Services Bureau Ltd, which was established in June 2007, began its operations.
March 2008	Inauguration of the SAARC Payments Initiative and the first meeting of the SAARC Payments Council (SPC) was held in Colombo, Sri Lanka
September 2008	3rd meeting of the SAARC Payments Council (SPC) was held in Colombo.
October 2008	Acquisition of Standard Chartered Bank (Pakistan) Limited by Standard Chartered Bank
January 2009	Option to settle the ACU transactions either in US Dollar or Euro was introduced.
May 2009	Sri Lanka’s first certification authority under the brand name of LANKASIGN was established by the LankaClear Pvt Ltd. to provide digital certificate for the financial sector on electronic transactions.
June 2009	38 th meeting of the ACU Board of Directors was held in Colombo, Sri Lanka.
July 2009	Service Providers of Payment Cards Regulations No. 1 of 2009 was issued by the Hon. Minister of Finance and Planning.
September 2009	LankaSettle System Rules Version 2.0 was issued to participants of the LankaSettle System.
March 2010	Credit Card Operational Guidelines No 01 of 2010 was issued
August 2010	CBSL commenced licensing of service providers of payment cards under the Regulations No1 of 2009.
September 2010	SLIPS System was upgraded to an on - line system with T+0 settlements facility.
January 2011	CBSL issued the General Direction on Sri Lanka Interbank Payment System No. 01 /2011 to LankaClear (Pvt) Ltd. and the participants of the Sri Lanka Interbank Payment System
March 2011	Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services and Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services were issued by CBSL
June 2012	LankaClear (Pvt) Ltd migrated to direct connectivity mode of the CIT System (Settlement Clearing)
June 2012	The first Custodian Account Based Mobile Payment System was launched by a Mobile Network Operator
March 2013	Adoption of the Terminal Line Encryption (TLE) Technology for Electronic Fund Transfer Point of Sales (EFTPOS) Terminals

