



## ECONOMIC OUTLOOK AND POLICY MEASURES

The economy of Sri Lanka recorded a growth of 6.4 per cent, in real terms, during the fourth quarter of 2014, in comparison to the fourth quarter of 2013, due to the favorable growth in the Industry and Services sectors.

**Table 1: Economic Indicators**  
Fourth Quarter of 2012, 2013 and 2014

Description	2012 Q4	2013 Q4	2014 Q4
			(a)
<b>Real GDP growth rate (%)</b>	6.3	8.2	6.4
Agriculture Sector	0.3	10.4	-3.3
Industry Sector	13.4	10.7	8.5
Services Sector	3.7	6.5	6.7
<b>External Finance (US\$ million)</b>			
Exports	2,468.9	3,060.9	2,828.1
Imports	5,017.1	4,514.4	5,194.5
Trade Balance	(2,548.1)	(1,453.6)	(2,366.4)
<b>Prices</b>			
Colombo Consumers' Price Index (2006/07 = 100) Quarterly average			
Point to Point Change (%)	9.2	5.7	1.8
Wholesale Price Index (1974 = 100) Quarterly average			
Point to Point Change (%)	12.7	6.7	1.9
<b>Exchange Rate</b>			
Period average (Rs./US\$)	129.2643	131.0051	130.8570
End - period (Rs./US\$)	127.1608	130.7530	131.0486
(a) Provisional	Source: Central Bank of Sri Lanka		

The Industry Sector grew by 8.5 per cent due to growth in the construction (18.0 per cent), electricity, gas and water (6.4 per cent), manufacturing (4.5 per cent) and mining and quarrying (4.5 per cent), sub sectors. The Services Sector grew by 6.7 per cent during the fourth quarter of 2014 with the favorable growth in the sub sectors of wholesale and retail trade (8.7 per cent), hotels and restaurants (4.0 per cent), and transport, communication (6.7 per cent) and banking, insurance and real estate (8.2 per cent). However,

Agriculture Sector recorded a decline of 3.3 per cent, during the fourth quarter of 2014, compared to the respective quarter of 2013.

Inflation as measured by the Colombo Consumers' Price Index (CCPI) (2006/07 =100) declined to 1.8 per cent during the fourth quarter of 2014 compared to the same quarter of 2013. Moderation in prices of food and non-food imported items, supply side improvements, downward revisions in administered prices of electricity and water tariffs, LP Gas and fuel mainly contributed to maintain inflation at low levels during the fourth quarter of 2014.

**Table 2: Money Market Rates**  
Fourth Quarter of 2012, 2013 and 2014

Description	2012 Q4	2013 Q4	2014 Q4
<b>Interest rates</b> (Per cent per annum at the end of the quarter)			
Bank rate	15.00	15.00	15.00
Call money market rate (3 month average)	10.44	7.87	6.01
Treasury bill yield rates (Primary)			
91 days	10.59	8.11	5.74
182 days	11.89	8.89	5.84
364 days	12.49	9.68	6.00
Repo rate (overnight)*	7.50	6.50	6.50
Reverse repo rate (overnight)*	9.50	8.50	8.00
Commercial Banks' Average Weighted Deposit Rate (AWDR)	9.79	9.56	6.45
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	14.16	10.79	6.43

Source: Central Bank of Sri Lanka

\* Repo rate and Reverse repo rate under the standing facility were re-named as Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively, with effect from 2 January 2014.

During the fourth quarter of 2014, monetary policy stance remained unchanged. Accordingly, the Statutory Reserve Ratio (SRR) was at the level of 6.00 per cent during the fourth quarter of 2014 maintaining the reduction effected in July 2013. Several policy measures taken in September 2014 to limit the access of OMO participants to the Standing Deposit Facility (SDF) thereby encouraging the utilization of excess liquidity in the system to productive economic activities continued without any change. Accordingly, it was decided to maintain the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank of Sri Lanka at 6.50 per cent and 8.00 per cent, respectively during the fourth quarter of 2014. Further, access to SDF also remained rationalized with deposits of OMO participants under the SDF window exceeding three times being accepted at a reduced rate of 5.00 per cent per annum which was effected from 23 September 2014. Moreover, in responding to the policy stance, the call money market rates and the rates of government securities market recorded notable decreases as at end of the fourth quarter of 2014 compared to fourth quarter of 2013.

## PAYMENT SYSTEM- HIGHLIGHTS

### Cash

Cash payments continued to persist as the most popular payment mode in retail payments in Sri Lanka.

**Table 3: Monetary Aggregates  
As at the end of Fourth Quarter of 2013 and 2014**

Description	(Rs. Million)		% change	
	2013 Q4	2014 Q4	(a) 13/12 Q4	14/13 Q4
1. Currency	339,771	416,895	6.8	22.7
of which held by:				
1.1 Banks	75,164	87,469	13.0	16.4
1.2 Public	264,607	329,426	5.2	24.5
2. Demand deposits	818,293	832,129	-5.7	1.7
of which held by:				
2.1 Government (b)	25,165	34,745	-3.5	38.1
2.2 Banks (c)	573,157	514,655	-10.9	-10.2
2.3 Public	219,971	282,729	10.8	28.5
3. Narrow Money Supply (M1) (1.2 + 2.3)	484,578	612,155	7.7	26.3
4. Time and Savings deposits held by public	2,574,215	2,848,402	20.1	10.7
5. Broad Money Supply (M2) (3+4)	3,058,793	3,460,558	18.0	13.1

- (a) Provisional Source: Central Bank of Sri Lanka  
 (b) Government demand deposits with 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.

Currency in circulation increased by 22.7 per cent to Rs. 416.9 billion as at the end of the fourth quarter of 2014 from Rs. 339.8 billion as at the end of the same period of 2013.

The broad money supply (M2) as at end of the fourth quarter of 2014 increased by 13.1 per cent compared to the same quarter of 2013.

**Table 4: Relative Sizes of Monetary Aggregates  
Fourth Quarter of 2012, 2013 and 2014**

Description	2012 Q4	2013 Q4	(a) 2014 Q4
Share of Currency (%) held by			
Banks	20.9	22.1	21.0
Public	79.1	77.9	79.0
As a % of Broad Money Supply			
Currency held by public	9.7	8.7	9.5
Demand deposits held by public	7.7	7.2	8.2
Time and Savings deposits held by public	82.6	84.1	82.3

(a) Provisional

Source: Central Bank of Sri Lanka

The share of currency held by public was 79.0 per cent in the fourth quarter of 2014. Out of all three components of the broad money supply, Time and Savings deposits held by public remained as the major component of the broad money supply which accounted for 82.3 per cent, at end of the fourth quarter of 2014.

## Non-cash Payments

The Real Time Gross Settlement (RTGS) System and the Cheque Imaging and Truncation (CIT) System, the two systemically important payment systems in Sri Lanka, accounted for 96.8 per cent of the aggregate value of non-cash payments in the country during the fourth quarter of 2014. The rest of the non-cash payments were made using the Sri Lanka Interbank Payment System (SLIPS), card based payments, postal instruments and other electronic means of payments such as mobile/ tele-banking and internet banking.

## Cheques

Total number of cheques cleared through CIT System operated by LankaClear (Pvt) Ltd. (LCPL) recorded a marginal increase of 0.6 per cent to 12.3 million and the total value of cheques cleared by LCPL recorded an increase of 8.7 per cent to Rs. 2,038 billion in the fourth quarter of 2014 in comparison to the same quarter of 2013. Continuation of expansion of economic activity and credit disbursement to industry and services sector during the latter half of the year could have resulted in this growth in usage of cheques as a payment instrument.

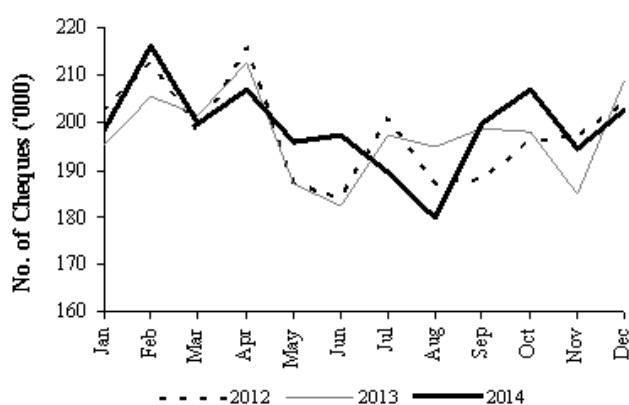
**Table 5: Cheque Clearing  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
1. Total number of cheques cleared	12,215,689	12,282,988	0.8	0.6
2. Total value of cheques cleared (Rs. bn)	1,875	2,038	11.7	8.7
3. Average number of cheques cleared per day	197,027	201,360	-0.9	2.2
4. Average value of cheques cleared per day (Rs.bn)	30.2	33.4	9.9	10.5

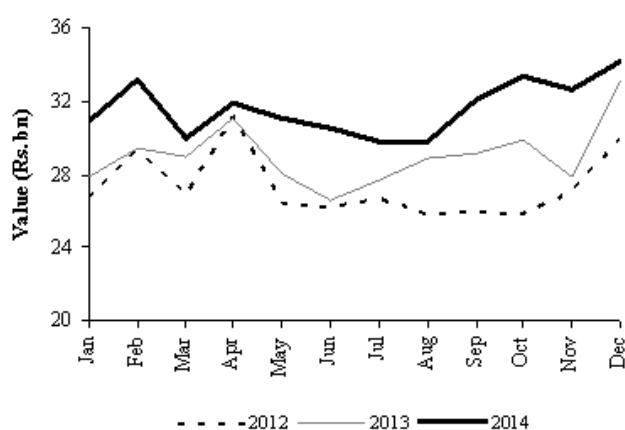
Source: LankaClear (Pvt) Ltd

The average volume and value of cheques cleared per day through CIT system increased, by 2.2 per cent and 10.5 per cent, respectively during the fourth quarter of 2014, when compared to the same quarter of the previous year.

**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  
Fourth Quarter of 2013 and 2014**

Description	Number of Cheques		14/13 Q4 % change	2014 Q4 % Share
	2013 Q4	2014 Q4		
Below Rs. 0.1 mn	9,985,285	9,876,040	-1.1	80.4
Rs.0.1mn - Rs. 1mn	1,943,287	2,092,899	7.7	17.0
Rs.1 mn - Rs.11mn	274,862	299,454	8.9	2.4
Rs.11 mn - Rs.51mn	10,343	12,374	19.6	0.1
Rs.51mn - Rs.100mn	1,579	1,780	12.7	Neg
Above Rs. 100 mn	333	441	32.4	Neg
<b>Total</b>	<b>12,215,689</b>	<b>12,282,988</b>	<b>0.6</b>	<b>100.0</b>

Neg - Negligible

Source: LankaClear (Pvt.) Ltd

The majority of the cheques (97.4 per cent) cleared through the CIT system were cheques with value less than Rs. 1 million and the volume of such cheques cleared through the CIT system increased by 0.3 per cent during the fourth quarter of 2014 in comparison to the same quarter of 2013. The value of those cheques accounted for only 40.0 per cent (Table 7) of the total value of cheques cleared through CIT system during the quarter.

**Table 7: Value of Cheque Clearing by Size  
Fourth Quarter of 2013 and 2014**

Description	Value of Cheques (Rs. million)		14/13 Q4 % change	2014 Q4 % Share
	2013 Q4	2014 Q4		
Below Rs. 0.1 mn	234,230	239,369	2.2	11.7
Rs.0.1mn - Rs. 1mn	532,994	575,872	8.0	28.3
Rs.1 mn - Rs.11mn	619,158	693,159	12.0	34.0
Rs.11 mn - Rs.51mn	219,897	269,514	22.6	13.2
Rs.51mn - Rs.100mn	124,173	134,596	8.4	6.6
Above Rs. 100 mn	144,436	125,111	-13.4	6.1
<b>Total</b>	<b>1,874,890</b>	<b>2,037,620</b>	<b>8.7</b>	<b>100.0</b>

Source: LankaClear (Pvt.) Ltd

The total volume and value of returned cheques declined further by 21.9 per cent and 28.3 per cent, respectively, during the fourth quarter of 2014 in comparison to the same quarter of 2013 (Table 8). This decline may be a result of continuous monitoring on cheque returns and adopting various measures to reduce cheque returns including enhancing customer awareness on drawing cheques and improving customer disciplines in maintaining their current accounts by respective commercial banks, on the instruction of the CBSL, throughout the year 2014.

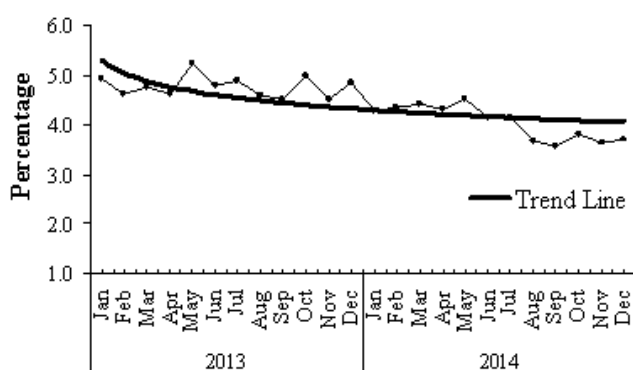
**Table 8: Cheque Returns  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
1. Total number of cheques returned	585,142	456,964	-0.8	-21.9
2. Total value of cheques returned (Rs. mn)	67,802	48,602	26.0	-28.3
3. Average number of cheques returned per day	9,438	7,491	-2.4	-20.6
4. Average value of cheques returned per day (Rs.mn)	1094	797	24.0	-27.1
5. Number of cheques returned as a % of total number of cheques received for clearing	4.8	3.7		
6. Value of cheques returned as a % of total value of cheques received for clearing	3.6	2.4		

Source: LankaClear (Pvt) Ltd

Further, as a result of declining the total number of cheque returns, the average number of cheques returned per day also decreased by 20.6 per cent to 7,491 in the fourth quarter of 2014 compared to the same quarter of 2013.

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



The volume of cheque returns, as a percentage of total volume of cheques received for clearing continued the decline trend and stood at 3.7 per cent during the fourth quarter of 2014. The value of cheque returns as a percentage of total value of cheques received for clearing was 2.4 per cent during the fourth quarter of 2014.

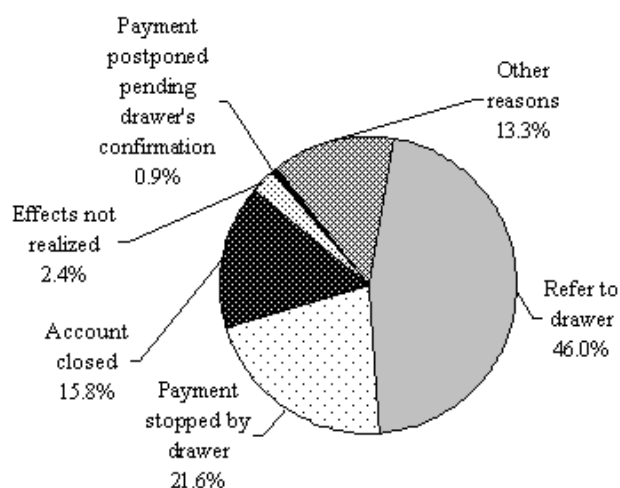
**Table 9: Return Code-wise Cheque Returns (%)  
Fourth Quarter of 2013 to Fourth Quarter of 2014**

Return Code	2013	2014			
	Q4	Q1	Q2	Q3	Q4
Refer to Drawer	46.4	46.6	46.2	46.7	46.0
Payment stopped by drawer	21.6	21.2	22.3	21.3	21.6
Account closed	17.1	17.1	16.2	16.6	15.8
Effects not realized	2.7	2.6	2.7	2.5	2.4
Payment postponed pending drawer's confirmation	0.7	0.6	0.8	0.7	0.9
Other reasons	11.5	11.9	11.8	12.2	13.3

Source: LankaClear (Pvt.) Ltd

As shown in Table 9 and Chart 4, 'Refer to Drawer' continued to be the major factor for the cheque returns which accounted for 46.0 per cent of total cheques returned during the fourth quarter of 2014. 'Payment stopped by drawer' (21.6 per cent) and 'Account closed' (15.8 per cent) were the other major reasons for the cheque returns.

**Chart 4: Return Code-wise Cheque Returns  
4th Quarter 2014**



### US Dollar Clearing System

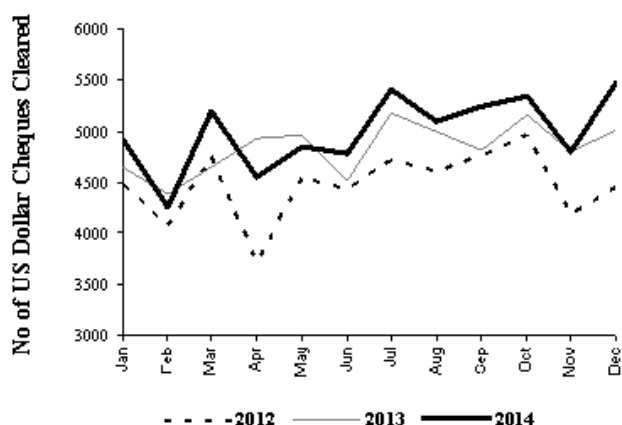
The US Dollar Cheque Clearing System operated by LCPL cleared, total volume and value of US Dollar cheques increased by 4.3 per cent and 9.0 per cent, respectively, during the fourth quarter of 2014.

**Table 10: US Dollar Cheque Clearing of LCPL  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
1. Total number of US Dollar cheques cleared	14,974	15,624	10.1	4.3
2. Total value of US Dollar cheques cleared (\$)	60,938,603	66,411,818	24.1	9.0
3. Average number of US Dollar cheques cleared per day	242	256	8.3	6.1
4. Average value of US Dollar cheques cleared per day (\$)	982,880.7	1,088,718.3	22.1	10.8

Source: LankaClear (Pvt) Ltd

**Chart 5: Monthly Volume of US Dollar Cheque Clearing**

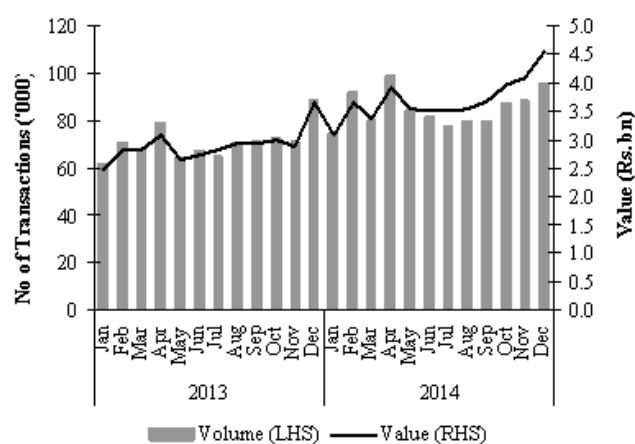


**Table 11: SLIPS Transactions  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
1. Total volume of transactions cleared	4,772,361	5,514,105	21.9	15.5
2. Total value of transactions cleared (Rs. mn)	195,707	256,716	26.6	31.2
3. Average volume of transactions cleared per day	76,974	90,395	19.9	17.4
4. Average value of transactions cleared per day (Rs.mn)	3,157	4,208	24.5	33.3

Source: LankaClear (Pvt) Ltd.

**Chart 6: Average Value and Volume of SLIPS Transactions per day**



**Table 12: SLIPS Transactions by Size  
Fourth Quarter of 2013 and 2014**

Transaction Value (a)	Number of Transactions		Total Value (Rs. million)	
	2013 Q4	2014 Q4	2013 Q4	2014 Q4
Less than Rs. 1 mn	4,750,843	5,481,495	145,004	180,194
Rs. 1mn – Rs. 5 mn	21,518	32,610	50,704	76,522
<b>Total</b>	<b>4,772,361</b>	<b>5,514,105</b>	<b>195,707</b>	<b>256,716</b>

Source: LankaClear (Pvt) Ltd

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

## Sri Lanka Interbank Payment System (SLIPS)

SLIPS, which is the on-line interbank retail payment system operated by LCPL provides T + 0 basis settlements on each business day. In addition, SLIP system has the facility of accepting payment instructions for T + n (where n=1 to 14).

Reflecting the growing popularity of transactions through SLIPS, the volume and value of transactions cleared through SLIPS increased further by 15.5 per cent and 31.2 per cent, respectively, during the fourth quarter of 2014. As a result of that, the average daily volume and value of SLIPS transactions also increased by 17.4 per cent and 33.3 per cent, respectively, during the fourth quarter in comparison to the same quarter of 2013.

The majority of SLIPS transactions processed during the quarter was of value less than Rs. 1 million and such transactions accounted for 99.4 per cent of the total volume of SLIPS transactions and 70.2 per cent of the total value of SLIPS transactions (Table 12).

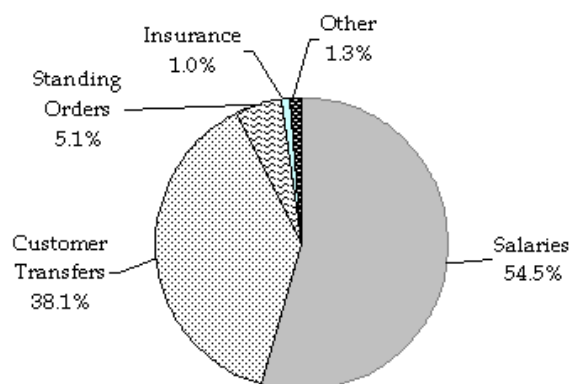
**Table 13: SLIPS Transactions by Type  
Fourth Quarter of 2013 and 2014**

Transaction Type	Total Volume		Total Value (Rs. mn)	
	2013 Q4	2014 Q4	2013 Q4	2014 Q4
Credit transactions	4,769,977	5,511,717	195,108	255,868
Debit transactions	2,384	2,388	600	848
<b>Total transactions</b>	<b>4,772,361</b>	<b>5,514,105</b>	<b>195,707</b>	<b>256,716</b>

Source: LankaClear (Pvt) Ltd.

In terms of the types of SLIPS transactions, credit transfers continued to remain as the major transaction category. The share of the total volume and value of credit transactions of the total transactions were 99.9 per cent and 99.7 per cent respectively during the reference quarter (Table 13).

**Chart 7: Transaction Code-wise SLIPS transactions  
4th Quarter 2014**



Salaries and Customer Transfers are the two main categories of SLIPS transactions (Chart 7) which are accounted for 92.6 percent of total SLIPS transactions in the fourth quarter of 2014.

### Real Time Gross Settlement (RTGS) System

The RTGS System, which is the main large value inter-participant fund transfer system in Sri Lanka, had 36 participants consisting of CBSL, 25 Licensed Commercial Banks (LCBs), 8 Primary Dealer companies, Employees' Provident Fund (EPF) and the Central Depository System of the Colombo Stock Exchange, as at end of the fourth quarter of 2014.

**Table 14: RTGS Transactions  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
1. Total no. of transactions	81,369	77,562	11.7	-4.7
2. Total value of transactions (Rs.bn)	14,172	14,835	46.2	4.7
3. Average no. of transactions per day	1,312	1,272	9.9	-3.1
4. Average value of transactions per day (Rs.bn)	229	243	43.8	6.4

Source: Central Bank of Sri Lanka

The average volume of RTGS transactions per day recorded a decrease of 3.1 per cent. However, the average value of RTGS transactions per day recorded an increase of 6.4 per cent during the quarter in comparison to the same quarter of 2013.

**Table 15: Volume of RTGS Transactions by Size  
Fourth Quarter of 2013 and 2014**

Transaction Value	No. of Transactions		% share	
	2013 Q4	2014 Q4	2013 Q4	2014 Q4
Below Rs. 1 mn	10,392	11,317	12.8	14.6
Rs 1 mn - Rs 100 mn	49,558	45,788	60.9	59.0
Rs 100 mn - Rs 500 mn	15,383	13,917	18.9	17.9
Rs 500 mn - Rs 1,000 mn	3,193	3,685	3.9	4.8
Rs. 1,000 mn and above	2,843	2,855	3.5	3.7
<b>Total</b>	<b>81,369</b>	<b>77,562</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Sri Lanka

In terms of volume, RTGS transactions with values between Rs. 1 million - Rs 100 million continued to remain as the highest number of transactions category (59.0 per cent) during the fourth quarter of 2014 (Table 15).

**Table 16: Value of RTGS Transactions by Size  
Fourth Quarter of 2013 and 2014**

Transaction Value	Value (Rs. bn)		% share	
	2013 Q4	2014 Q4	2013 Q4	2014 Q4
Below Rs. 1 mn	3	3	Neg	Neg
Rs 1 mn - Rs 100 mn	1,224	1,168	8.6	7.9
Rs 100 mn - Rs 500 mn	3,899	3,502	27.5	23.6
Rs 500 mn - Rs 1,000 mn	2,546	2,793	18.0	18.8
Rs. 1,000 mn and above	6,500	7,370	45.9	49.7
<b>Total</b>	<b>14,172</b>	<b>14,835</b>	<b>100.0</b>	<b>100.0</b>

Neg - Negligible Source: Central Bank of Sri Lanka

However, in value terms, that category accounted only for 7.9 per cent during the quarter while the transaction categories with value of Rs. 1,000 million and above remained as the highest category recording a share of 49.7 per cent (Table 16).

Customer transactions which was the largest category in terms of RTGS transactions volume (Table 17), accounted for 50.9 per cent of the total transactions in the fourth quarter of 2014.

**Table 17: Volume of RTGS Transactions by Type Fourth Quarter of 2013 and 2014**

Type	No. of Transactions		% change	
	2013 Q4	2014 Q4	13/12 Q4	14/13 Q4
Repo/R.Repo/ILF	21,408	16,988	48.7	-20.6
Interbank Transactions	11,621	11,099	-14.6	-4.5
Customer Transactions	40,337	39,459	8.2	-2.2
LankaSecure Transactions	812	2,445	-6.1	201.1
Clearing House Transactions	7,190	7,570	7.4	5.3
Internal Fund Transfers	1	1	-	-
<b>Total</b>	<b>81,369</b>	<b>77,562</b>	<b>11.7</b>	<b>-4.7</b>

Source: Central Bank of Sri Lanka

While Repo/ Reverse Repo/ILF transactions recorded a decrease of both in terms of volume and value by 20.6 per cent and 24.2 per cent, (Table 17 and Table 18) respectively, during the fourth quarter of 2014 in comparison to the same quarter of 2013, the LankaSecure transactions recorded a more than three fold increase and value of such transactions also recorded a more than eight fold growth, during the fourth quarter of 2014. This was mainly due to reporting of Standing Deposit Facility (SDF) transactions under the LankaSecure transactions instead Repo/ Reverse Repo/ILF transactions with effect from 03 February 2014.

**Table 18: Value of RTGS Transactions by Type Fourth Quarter of 2013 and 2014**

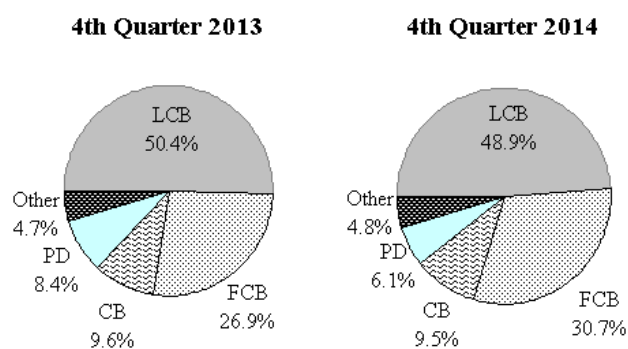
Type	Value (Rs. bn)		% change	
	2013 Q4	2014 Q4	13/12 Q4	14/13 Q4
Repo/R.Repo/ILF	9,376	7,109	120.5	-24.2
Interbank Transactions	2,539	2,960	-26.6	16.6
Customer Transactions	1,297	1,393	22.7	7.4
LankaSecure Transactions	307	2,750	-27.4	796.7
Clearing House Transactions	652	623	29.3	-4.5
Internal Fund Transfers	Neg	Neg	-	-
<b>Total</b>	<b>14,172</b>	<b>14,835</b>	<b>46.2</b>	<b>4.7</b>

Neg - Negligible

Source: Central Bank of Sri Lanka

Chart 8 compares the participant-wise distribution of the RTGS transactions in the fourth quarters of 2013 and 2014. The percentage share of the volume of RTGS transactions of local commercial banks decreased to 48.9 per cent from 50.4 per cent while the percentage share of the volume of RTGS transactions of foreign commercial banks increased to 30.7 per cent from 26.9 per cent, in the fourth quarter of 2014.

**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 and Employees Provident Fund.

**Table 19: Time Distribution of Receiving and Settlement of RTGS Transactions Fourth Quarter of 2013 and 2014**

Description	No of Items		% share	
	2013 Q4	2014 Q4	2013 Q4	2014 Q4
Before 12.00 noon	25,534	27,334	31.4	35.2
After 12.00 noon	55,835	50,227	68.6	64.8
<b>Total</b>	<b>81,369</b>	<b>77,561</b>	<b>100.0</b>	<b>100.0</b>

Source: Central Bank of Sri Lanka

Out of the total RTGS transactions, majority of transactions accounting for 64.8 per cent of total transactions was effected after 12.00 noon during the fourth quarter of 2014.

## Payment Cards

### Credit Cards

During the fourth quarter of 2014, for the first time a non-bank financial institution was issued with a license for credit card business. Accordingly, 13 credit card issuers licensed by CBSL were engaged in the credit card business at the end of the quarter. Total number of credit cards in use exceeded 1 million and recorded an increase of 8.5 per cent at end of the fourth quarter of 2014 in comparison to the same quarter of 2013.

**Table 20: Credit Cards in Use  
Fourth Quarter of 2013 and 2014**

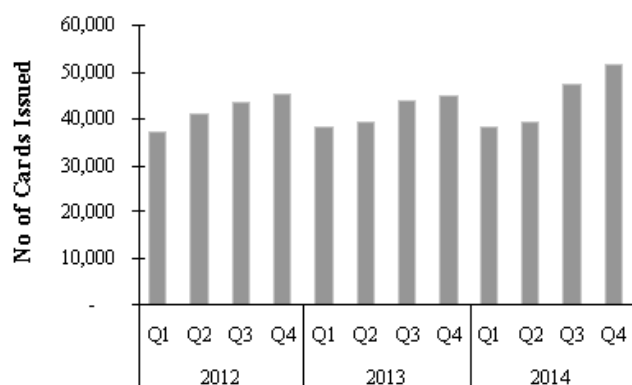
Description	2013 Q4	(a) 2014 Q4	% change	
			13/12 Q4	14/13 Q4
No of Cards issued during the period	44,855	51,680	-1.2	15.2
Total No. of Credit Cards in Use (As at end period)	951,625	1,032,833	6.8	8.5
Domestic and International Cards	915,635	999,959	7.6	9.2
Domestic Only Cards	35,990	32,874	-9.9	-8.7
Total Number of transactions ('000)	5,828	6,318	7.2	8.4
Total Value of transactions (Rs.mn)	32,979	36,880	8.1	11.8

(a) Provisional

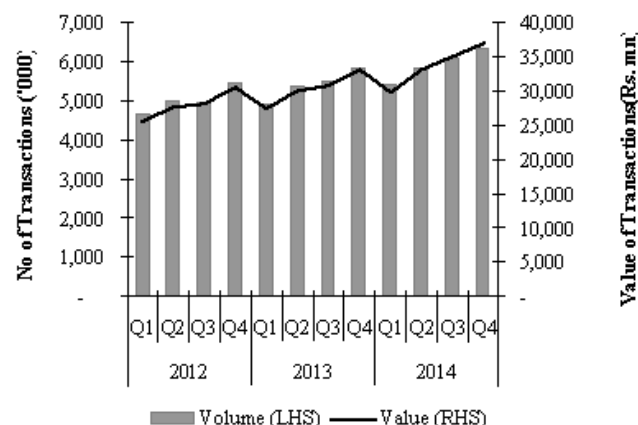
Source: Commercial Banks

Volume and value of credit card transactions recorded an increase of 8.4 per cent and 11.8 per cent, respectively, during the fourth quarter of 2014 in comparison to the same quarter of 2013 reflecting the popularity of the usage of credit cards as a mode of payment.

**Chart 9: Total Number of New Credit Cards Issued (during the period)**

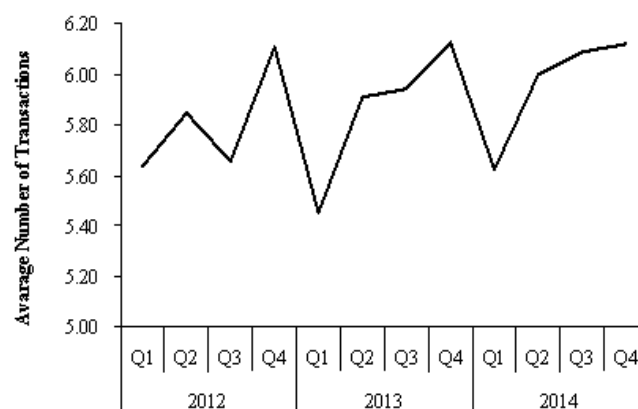


**Chart 10: Total Volume and Value of Transactions effected through Credit Cards (during the quarter)**



The average number of transactions per credit card was at 6.1 in the fourth quarter of 2014 continuing the increasing trend prevailed during the fourth quarter of 2014 (Chart 11).

**Chart 11: Average Number of Transactions per Credit Card during the quarter**



### Credit Cards in Default

As recorded by the Credit Information Bureau, the total number of credit cards in default (i.e. credit cards, when the minimum payment is in arrears for 90 days or more from the due date) as at the end of the fourth quarter of 2014, was 76,142 and the total value of defaulted credit card dues amounted to Rs. 4.6 billion.



## Debit Cards

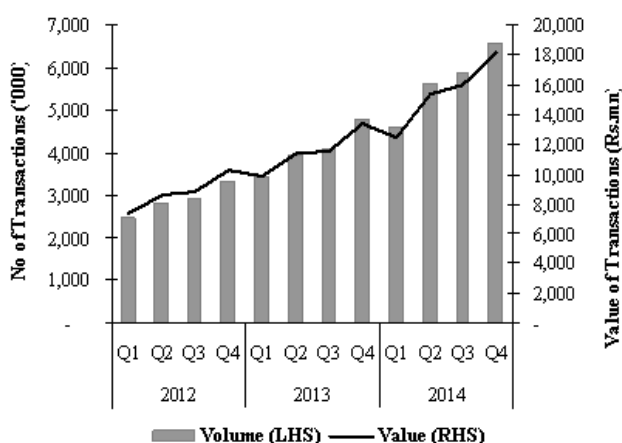
**Table 21: Debit Cards in Use  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4 <sup>(a)</sup>	% change	
			13/12 Q4	14/13 Q4
Number of Debit Cards issued during the period	595,360	890,442	21.6	49.6
Total No. of Debit Cards in Use (As at end period)	12,441,743	13,577,525	19.9	9.1
Domestic & International	12,100,770	13,199,602	20.8	9.1
Domestic Only	340,973	377,923	-5.1	10.8
Total Number of transactions ('000) (b)	4,790	6,580	43.8	37.4
Total Value of transactions (Rs.mn)	13,325	18,172	30.3	36.4

(a) Provisional Source: Commercial Banks  
(b) Total number of transactions carried out at POS

As at end of the fourth quarter of 2014, there were 28 debit card issuers licensed by CBSL. The total number of debit cards in use was 13.6 million at end of the period. The majority of debit cards had the facility to use for both domestic and international transactions. Reflecting the increasing popularity of card transaction as a means of payments, total volume and value of debit card transactions recorded significant increases of 37.4 per cent and 36.4 per cent, respectively, during the fourth quarter of 2014 in comparison to the same quarter of 2013.

**Chart 12: Total Volume and Value of Transactions effected through Debit Cards during the quarter**



## Mobile Phone/Tele-banking/Internet Banking

**Table 22: Payment Instructions Handled Through Electronic Systems  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4 <sup>(a)</sup>	% change	
			13/12 Q4	14/13 Q4
<b>Tele-banking / Mobile Phone Banking</b>				
No. of financial transactions	100,763	256,843	72.9	154.9
Value of Transactions (Rs.mn)	1,431	2,573	10.7	79.8
<b>Internet Banking</b>				
No. of financial transactions	2,374,512	2,854,515	16.2	20.2
Value of Transactions (Rs.mn)	210,963	248,237	27.4	17.7

(a) Provisional Source: Commercial Banks

Continuing the demand for phone based electronic payments, the volume and value of financial transactions effected through tele-banking/mobile banking recorded an increase of 154.9 per cent and 79.8 per cent, respectively, in the fourth quarter of 2014 when compared to the same quarter of 2013.

The volume and value of financial transactions effected through internet banking increased by 20.2 per cent and 17.7 percent respectively, during the fourth quarter of 2014 when compare with the same quarter of 2013.

## Automated Teller Machines (ATMs)

The total number of ATMs stood at 3,341 recording an increase of 7.0 per cent as at end of the fourth quarter of 2014. Reflecting the customer preference for cash transaction, cash withdrawals through ATM terminals, both volume and value of ATM terminal transactions grew by 10.3 per cent and 17.5 per cent, respectively, in the fourth quarter of 2014.

**Table 23: ATM Terminals and Transactions  
Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4 <sup>(a)</sup>	% change	
			13/12 Q4	14/13 Q4
<b>ATMs</b>				
Total number of machines (End of period)	3,122	3,341	9.7	7.0
Total volume of financial transactions (During the period in '000)	42,482	46,862	16.8	10.3
Total value of transactions (During the period in Rs. mn)	311,736	366,150	19.4	17.5

(a) Provisional Source: Commercial Banks  
Specialized Banks  
Registered Finance Companies

## Common Card and Payment Switch (CCAPS)

CCAPS is a project undertaken by LCPL based on a recommendation of CBSL, in order to establish a national platform for the electronic retail payments in the country.

The Common ATM Switch (CAS), which is the first phase of CCAPS, was launched on 23<sup>rd</sup> July 2013. As at end of the fourth quarter 2014, there were nine commercial banks facilitating their customers to operate ATM transactions through CAS.

Transactions carried out through CAS recorded a significant increase from its commencement. The volume of transactions increased to 3.5 million and value of such transaction was over 15.3 billion, in the fourth quarter of 2014.

**Table 24: Volume and Value of Transactions cleared through Common ATM Switch (CAS)**

Description	2014			
	Q1	Q2	Q3	Q4
Total number of transactions ('000)	881	1,385	2,801	3,513
Total value of transactions (During the period in Rs. mn)	2,976	5,131	11,656	15,278

Source: LankaClear (Pvt.) Ltd

## Electronic Fund Transfers at Point of Sale (EFTPOS) Terminals

The total number of EFTPOS terminals increased to 34,904 as at end of the fourth quarter of 2014. Reflecting the customer preference for card based payments total volume and value of financial transactions made through EFTPOS grew by 16.1 per cent and 14.8 per cent, respectively, during the fourth quarter of 2014 when compared to the same quarter of 2013.

**Table 25: EFTPOS Terminals and Transactions Fourth Quarter of 2013 and 2014**

Description	2013 Q4	(a) 2014 Q4	% change	
			13/12 Q4	14/13 Q4
Total number of machines (End of period)	27,955	34,904	1.0	24.9
Total volume of financial transactions (During the period in '000)	10,665	12,386	20.6	16.1
Total value of transactions (During the period in Rs. mn)	55,933	64,221	17.0	14.8

(a) Provisional

Source: Commercial Banks

## Money Orders

As at the end of fourth quarter of 2014, the total number of post offices stood at 4,692. Reflecting the trends of moving towards the electronic payments, the paper based money orders showed a decline while the transactions through e-money orders increased (7.6 per cent) in the fourth quarter of 2014. In terms of value, E- Money orders stood as the major postal payment instrument used by the public which accounted for 78.4 per cent of total value of Money Orders and the value of the payments effected through e-money orders was over Rs. 1.5 billion in the fourth quarter of 2014.

**Table 26: Value of Payments made through Money Orders and Postal Orders**

Description	2013 Q4	(a) 2014 Q4	% Change Q4 14/13
Money Orders (Value Rs. '000)	1,940,045	1,899,387	-2.1
Ordinary Money Orders	504,191	374,084	-25.8
Telegraph Money Orders <sup>(b)</sup>	4,431	-	-
Fax Money Orders	124	-	-
E-Money Orders	1,383,307	1,488,899	7.6
International Money Orders	3,475	2,635	-24.2
Local Value Payment Money Orders	43,697	33,189	-24.0
British Postal Orders (Value Rs. '000)	820	580	-29.3
Total No. of Post Offices (end period) <sup>(c)</sup>	4,628	4,692	1.4

(a) Provisional

Source: Postal Department

(b) This service has been terminated by the Postal Department

(c) 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 1974 with the main objective of facilitating payments among member countries for eligible transactions, thereby economising 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 9 central banks/monetary authorities of Bangladesh, Bhutan, India, Iran, Nepal, Maldives, Myanmar, Pakistan and Sri Lanka.

**Table 27: Asian Clearing Union (ACU) Transactions Value and Volume of Sri Lanka Fourth Quarter of 2013 and 2014**

Description	2013 Q4	(a) 2014 Q4	% change	
			13/12 Q4	14/13 Q4
Total Number of Transactions	1,240	1,604	9.8	29.4
Value of total receipts (Rs. mn)	6,059	6,864	24.3	13.3
Value of total payments (Rs. mn)	60,040	94,721	13.0	57.8

(a) Provisional

Source: Central Bank of Sri Lanka

The total volume of transactions effected by Sri Lanka through the ACU mechanism increased by 29.4 per cent in the fourth quarter of 2014 when compared to the same quarter of 2013. Reflecting the popularity of using ACU mechanism for fund transfers, the value of total receipts effected through ACU mechanism increased by 13.3 per cent and the value of total payments effected through ACU mechanism increased significantly by 57.0 per cent during the fourth quarter of 2014 when compared to the same quarter of 2013.

## SWIFT

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is an internationally accepted, standard and secured communication system for financial transactions. The main purpose of the SWIFT communication is to ensure smooth, efficient and risk free transmission of messages (relating to financial transactions and financial information) through the SWIFT communication system.

**Table 28: Participation in SWIFT by Financial Institutions**

Item	2013	2014
	Q4	Q4
Total Domestic SWIFT users (End of Period)	35	38
Members	11	11
Sub-members	12	12
Participants	12	15
Total SWIFT worldwide users (End of Period)	10,583	10,805
Members	2,389	2,379
Sub-members	3,343	3,353
Participants	4,851	5,073

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

The domestic SWIFT users increased to 38 and the total number of Global SWIFT users increased to 10,805 as at the end of the fourth quarter.

Domestic SWIFT traffic decreased by 6.5 per cent while global SWIFT traffic increased by 11.2 per cent, respectively, during fourth quarter of 2014 compared to the same quarter of 2013.

All messages sent by domestic users recorded increases of 2.7 per cent and all messages received by domestic users decreased marginally by 0.7 per cent during the fourth quarter of 2014 when compared to the same quarter of 2013.

**Table 29: SWIFT Message Flow in Sri Lanka Fourth Quarter of 2013 and 2014**

Description	2013 Q4	2014 Q4	% change	
			13/12 Q4	14/13 Q4
All messages sent by domestic users	1,046,643	1,075,095	11.5	2.7
From Category I *	157,851	167,963	7.9	6.4
Category II **	105,619	118,178	11.0	11.9
All messages received by domestic users	1,226,136	1,217,022	11.4	-0.7
To Category I	447,382	459,568	11.1	2.7
Category II	35,651	35,340	3.2	-0.9
Domestic Traffic	509,440	476,269	13.0	-6.5
Global SWIFT Traffic (million)	1,308	1,472	12.3	12.6

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

\*Category I - Customer (Funds) Transfers

\*\*Category II - Bank (Funds) Transfers

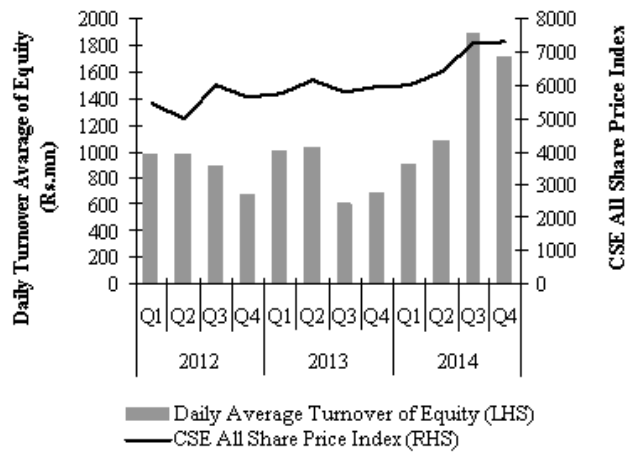
## Trading and Settlements on the Colombo Stock Exchange

The total number of intermediaries i.e. member firms (15) and stockbrokers (19) who engaged in trading of equity and debt securities on behalf of investors on the Colombo Stock Exchange (CSE), remained at 34 as at the end of fourth quarter of 2014. The total number of customer accounts in the Central Depository System (CDS) of CSE was 759,344 and the total volume and value of equity shares lodged in the CDS were 76.9 billion and Rs. 2,827.8 billion, respectively, as at end of the fourth quarter of 2014.

The daily average turnover of equity transactions increased significantly by 145.8 per cent to Rs 1,707.8 million in the fourth quarter of 2014 in comparison to the same quarter of 2013.

The All Share Price Index (ASPI) of CSE increased by 0.6 per cent in the fourth quarter of 2014.

**Chart 13: Daily Average Turnover of Equity and All Share Price Index**



## Chip and PIN Payment Cards

Payment cards have taken over other retail payment mechanisms of many developed economies, rapidly decreasing the use of physical cash and paper based payment instruments. State-of-the art technology is being implemented by leading payment card companies and service providers to keep the payment card industry secure and efficient.

A payment card is a plastic card which can be presented by a cardholder physically, at a retail store or virtually to an online retailer in order to make a payment. Payment cards include pre-paid cards, debit cards and credit cards. Other types of cards are a variation of these. Payment cards based on the magnetic stripe technology was first developed in 1969 at the IBM Information Records Division (IRD) in Dayton, United States Of America (USA) in 1970. They laid the foundation for the entire magnetic stripe card industry that we use extensively today through the use of payment cards. This development resulted in every person having the ability to carry a payment card instead of carrying piles of cash, all the time.

Magnetic stripe of a payment card contains all the financial information necessary to make a purchase. If this information is stolen from a merchant, it can be encoded back onto a magnetic stripe and used as a fake card. This vulnerability is exploited by hackers to commit fraud. Several security measures such as Terminal Line Encryption, SMS alerts etc. have been introduced to manage this threat. Although these measures have significantly reduced frauds, it has not been able to eliminate the threats fully. To further reduce the threats involved with magnetic stripe card payments, chip and PIN (Personal Identification Number) technology was introduced by world renowned payment card companies to ensure secure use of payment cards.

Chip and PIN technology introduced by French banks has been in operation since 1984, although it was not very popular at that time. In 1996, the world's leading payment card companies collaborated to create a new more secure standard, based on the French technology. Chip embedded payment cards are referred to as EMV cards, an acronym standing for Europay, MasterCard and Visa, the three payment card companies that developed the first international technological specifications for chip and PIN cards.

Chip embedded payment cards represent a significant technological upgrade to the traditional magnetic stripe payment cards. Instead of embedding payment card numbers and cardholder information in a magnetic stripe, all data is contained within a tiny computer chip built into the card which is virtually impossible to copy due to the encryption. The computer chip inside a chip embedded card functions like a small computer. Not only can the chip store data, it is also a data processor. One of the reasons why chip embedded cards are considered secure is that the chip uses cryptography to protect secure data when communicating with a card reader. The chip itself has no power source, but it leaps into action when it comes in contact with a POS (Point of Sale) terminal.

PIN number coupled together with a chip embedded card gave birth to chip and PIN payment cards. PIN number provides an additional layer of security above and beyond the chip acting as a second authentication, because it is only known to the cardholder. PIN feature enhances protection against lost, stolen and counterfeit payment card frauds.

The most common way to use a chip and PIN card is to insert the end of the card into a slot on a card reader at retail locations or at automated teller machines (ATMs) with chip-enabled terminals requiring the system to validate the chip as well as the PIN. This methodology is also called “Two Factor Authentication” as the POS terminal at merchant validates the chip of the card as well as the 4 digit PIN entry of the customer to complete a transaction. Transactions made online with chip and PIN payment cards are conducted in the same manner as the non-chip payment cards. This may include using the 3-digit verification code on the back of the card. 4 digit PIN is not needed for online transactions. There are also so-called "contactless" POS terminals where you simply hold the card near the reader to activate the chip instead of physically inserting the card to the POS terminal. The same chip technology is being used in mobile phones to enable on-the-go mobile payments.

Another benefit of chip and PIN technology is that the card reader does not have to be connected to a phone or internet line to process the payment. With magnetic stripe cards, the card reader must communicate with the payment card company before authorizing the payment. In places with slow or no communication networks, chip and PIN terminals can work offline, processing the charge as well as the PIN verification using the chip alone and then authorizing the payments in bulk at the end of the day

Over the last decade, many countries switched from magnetic swipe cards to chip and PIN based payment cards for security reasons. United Kingdom has been using chip and PIN since 2003, and has experienced a dramatic reduction of payment card crime in cases where the cardholder is present. Malaysia, Australia and many European countries have mandated the migration to chip and PIN technology giving deadlines to financial institutions to complete the migration.

Chip and PIN technology will replace the magnetic stripe technology over the next few years. For now, magnetic stripes will remain on payment cards to allow consumers to use their payment cards at ATMs and POS terminals that have not yet been upgraded, and in countries that have not migrated to chip and PIN. The transfer to chip and PIN technology represents an evolution in the payment cards industry contributing to make payment cards even more secure. Regulator of payment card industry in Sri Lanka, the Central Bank of Sri Lanka (CBSL) has already recommended financial institutions to migrate to chip based payments cards and as a result some card issuers have already migrated to chip based payment cards technology. However, utilization of chip and PIN payment cards technology has not yet been initiated in Sri Lanka and CBSL expects to promote this technology with the support of all service providers to ensure a safe and secure usage of payment cards in Sri Lanka in the future.

## 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
January 2007	The “Road Map: Monetary and Financial Sector Polices 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

Continued..

Year	Event
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 <sup>th</sup> 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) 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
May 2013	The Payment Card and Mobile Payment Systems Regulations No. 1 of 2013 was issued by the Hon. Minister of Finance and Planning replacing the Service Providers of Payment Cards Regulations No.1 of 2009 issued in July 2009. CBSL issued the General Direction No. 01 of 2013 of the Operations of the Common ATM Switch
July 2013	LankaClear (Pvt) Ltd launched the Common ATM Switch (CAS) as the first phase of the Common Card and Payment Switch (CCAPS) CBSL issued the General Direction No. 02 of 2013 of the fees chargeable on the transactions effected through the CAS
November 2013	Second Custodian Account Based Mobile Payment System was launched by a Mobile Network Operator
February 2014	The General Direction No. 1 of 2014 – Fees Chargeable on the Transactions effected through the CAS was issued by CBSL replacing the General Direction No 02 of 2013.
July 2014	Launching of the Bank Computer Security Incident Response Team (Bank CSIRT), a collective risk mitigating effort of financial institutions operating in Sri Lanka for addressing information security risk.
September 2014	CBSL issued the General Direction No. 2 of 2014 of the operations of the Common Electronic Fund Transfer Switch

