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CENTRAL BANK OF SRI LANKA

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# Press Release

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## CENTRAL BANK HAD MADE SUBSTANTIAL GAINS IN RESERVE MANAGEMENT

The attention of the Central Bank has been drawn to several one-sided media reports which have alleged that the Bank has lost heavily by investing in Greek Bonds. Some reports have also claimed that the Central Bank was summoned to the Committee on Public Enterprises (COPE) at the request of an Opposition MP. While the examination of the Central Bank by COPE was a routine assessment and not prompted by a request by an Opposition MP, the Central Bank wishes to clarify the actual position vis-à-vis its reserve management.

The Central Bank manages the foreign reserves in order to safeguard and enhance the value of its overall reserves as well as generate a reasonable income from its investments. The track record of the investment activities over the past 10 years is set out in Table (1). From such table it would be clear that the returns generated by the reserve management activities in the past 2 years had been well above the bench mark of the US Fed Fund rate and had yielded US\$430 million in 2011 and US\$341 million in the year 2010. The yield in 2011 has been after making provision for losses in Greek Bonds as well, which clearly shows that the portfolio management has been successful in enhancing the value of the total portfolio whilst also providing for any losses that had been incurred in a highly challenging and volatile global situation. It may also be pertinent to state that the profits made by the Central Bank from its investment of foreign reserves for the period 2006 to 2011 were US\$1,243 million, which amount is substantially higher than the profits made during the previous ten years.

**Table - 1**  
**Profits on Management of Foreign Reserves – 2000-2011**

Item	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Total</b>	<b>52.7</b>	<b>67.5</b>	<b>54.5</b>	<b>75.6</b>	<b>71.1</b>	<b>100.7</b>	<b>125.0</b>	<b>145.2</b>	<b>100.9</b>	<b>341.2</b>	<b>430.2</b>
<b>Average CBSL Reserves USD Mn</b>	921	1,228	1,756	1,812	1,940	2,322	2,582	2,864	2,607	5,537	6,557
<b>Percentage of Return on foreign reserves</b>	5.72	5.49	3.10	4.17	3.66	4.34	4.84	5.07	3.87	6.16	6.56
<b>Fed fund Average rate</b>	3.75	1.67	1.10	1.23	3.25	5.02	5.00	1.96	0.25	0.25	0.25

With particular reference to Greek investments, the Central Bank wishes to state, that at the time the Greek investments were being done, Greece had the backing of the European Financial Stability Fund (EFSF) which had a AAA rating and therefore, Greek Bonds were considered sound even though the Greece rating itself was lower than the investment rate. The investments in Greece Bonds were a small fraction of the Central Bank total Europe portfolio and the loss of the Greek bonds was comfortably offset by higher returns from other investments.

The Central Bank also wishes to state that in a wide portfolio which includes *inter alia*, US dollars, Euro, Japanese Yen, Australian Dollars, Sterling Pounds and Gold as well as different types of instruments such as fixed income, money market and treasuries, there are fluctuations that occur in real-time. Whilst such fluctuations pose significant challenges to all reserve managers, the Central Bank has been able to deliver higher than average returns and consistent enhancement of value of its reserves in the past and it is confident that it can do so in the future as well, in keeping with its policy guide lines. In that context, the alarmist, and one sided reports which were obviously designed to discredit the Central Bank and generate feelings of uncertainty within the economy are highly regrettable.