

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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BOX II - 1

Modernisation of the Central Bank of Sri Lanka

1. Introduction

The ever increasing complexities in financial systems and new thinking on economic policy and the role of central banks in a changing world gave rise to the need for central banks worldwide to change in order to acquire the capacity to perform effectively in their respective economies. The Central Bank of Sri Lanka too, having realised this need, embarked on a modernisation program in 2000 in order to restructure the Bank on modern lines of central banking and thereby gain capability for meeting these challenges (see Part II – Page II and Part II - Box II – I in Annual Reports of 2000 and 2001, respectively).

As reported in earlier Annual Reports of the Bank, the modernisation process was kicked off through a series of 'retreats' by senior officers and the appointment of focus groups to study and report on the key areas of reform. A critical self-evaluation was made specifically with respect to the following:

- Why should the Central Bank change?
- A revision of the objectives of the Central Bank
- Process to be pursued to achieve the objectives
- How the Central Bank should activate modernisation
- Strategic moves to be adopted to complete the modernisation process.

A special central bank modernisation project under the funding by the World Bank and Swedish International Development Co-operation Agency (SIDA) was set up in the Bank to plan and steer through the modernisation process. The following sections detail the progress of the project upto the end of 2002.

2. The Modernisation Process

The modernisation process, which commenced in 2001, was expected to create a lean, modernised and efficient Central Bank by upgrading its systems and procedures, governance system and by establishing a core financial system infrastructure to satisfy the needs of an evolving economy in a manner that strikes a balance among different objectives, viz., operational costs, processing efficiency and credit, liquidity, and systemic risks. This programme will therefore trigger off further financial sector reforms by creating an efficient central bank in the centre that contributes to the ultimate objective of establishing a competitive and prudently managed banking system.

Core Objectives

The Central Bank redefined its objectives and adopted two new core objectives, viz., (a) economic and price stability and (b) financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka through an amendment to the Monetary Law Act (MLA) effected in December, 2002. These two new core objectives were a departure from the multiple objectives pursued by the Bank in the past and helped the Bank to focus only on the key areas of central banking activities as demonstrated by international best practices of central banking. Along with the adoption of new core objectives, there were several other organisational and managerial reforms that had to be undertaken by the Bank as follows:

- Devolution of non-core functions
- Organisational changes to perform its new role more efficiently and effectively
- Adoption of new human resource policies to build its human capital stock
- Implementation of a voluntary retirement scheme to provide an exit mechanism for those who desire early retirement
- Legal reforms to match the new changes in the Bank.

Devolution of non-core functions

In focussing on the Bank's core objectives, the following have been implemented to assist in the devolution of non-core functions:

- (a) The Sri Lanka Automated Clearing House, which was a division of the Central Bank that handled the operations of the cheque clearing system and the off-line funds transfer system, was divested in April 2002 to LankaClear (Pvt) Ltd., an organisation jointly owned by the Central Bank and commercial banks. The objective of the divestiture was to improve the efficiency of the cheque clearing and electronic fund transfer systems by attracting new management and technology and adopting cost efficient operating systems.
- (b) Action was initiated to amalgamate the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) and consultancy assistance will be obtained in 2003 to assist in this process.
- (c) The ownership of the Bank's shares in the Regional Development Banks (RDBs) over and above

Box II - 1 Contd.

20 per cent of the issued share capital was transferred to the Treasury. The Bank also completed the selection process of a consultancy firm to assist in the restructuring of RDBs, which will enable these institutions to operate on their own.

Organisational changes

A new organisation structure, focussing on the core objectives and functions, was designed. Under this proposed organisational structure, departments have been categorised under the primary objectives or by functional groups, i.e., price stability, financial system stability, agency and business functions and corporate services. In this process, the following changes were implemented:

- (a) The Department of Development Finance and the Department of Rural Credit have been amalgamated and redesignated as the Regional Development Department to strengthen the area of regional development.
- (b) The Banking Department was reconstituted into 4 new specialised departments in order to be pro-active in the areas of international and domestic operations and to strengthen the payments and settlements engine of the financial market and handling of the internal financial matters.

Adoption of new human resource policies

In order to move towards a streamlined management culture with a greater degree of professionalism and the build up of a strong human capital stock, the Bank initiated action to adopt a series of new human resource policies. In this respect, the following activities have been carried out:

- (a) The Management Development Centre, which was established in the modernisation process, is continuing to train the managers and expose them to new knowledge so that they could play a key role in the change management process and discharging the new functions of the Bank through education, awareness raising, critical analysis and continuous evaluation of processes and activities.
- (b) A Human Resource (HR) Manager was recruited on a contract basis, in order to set up a modern Human Resource Department and implement suitable new human resource policies in the Bank.
- (c) Action has been initiated to recruit a Human Resource Advisor on a contract basis, to advise, assist and guide the HR Department during the change process and he is expected to commence his assignment in March 2003.

- (d) A comprehensive training plan is being implemented where staff are being sent for postgraduate studies abroad. In addition, the staff are encouraged to participate in local and foreign short-term courses in order to enhance their knowledge continuously and keep pace with the latest developments in the global financial sector. These programmes are funded by the World Bank and SIDA.

Implementation of a voluntary retirement scheme

The restructuring process in the modernisation programme entails, among other things, redesigning the objectives, functions and structure of the Bank, studying the work process and automation of activities, reassessment of human resource needs, redesigning jobs and sub-contracting some of the functions to outside agencies. In this process, it was evident that some categories of employees were most likely to be in excess of the requirements. Accordingly, the Bank offered a Voluntary Retirement Scheme (VRS) to certain categories of employees. The scheme offered an adequate compensation/retirement package and it encouraged many employees to opt for the VRS. Accordingly, with effect from the beginning of 2002, 690 employees retired from the Bank's service. With the remaining staff, the Bank has been able to provide a better service through the simplification of the work procedures, outsourcing, and automating the work processes.

Legal reforms

In order to accommodate the reforms in the financial sector, changes are required to the MLA, the Banking Act, the laws on debt recovery, Finance Companies Act and Finance Leasing Act. Accordingly, the Bank has initiated the following actions:

- (a) Procurement of the services of a local consultant with adequate international exposure on a short-term assignment, to make proposals for necessary legislative changes, consulting regulatory bodies and other stakeholders, and drafting necessary legislation. The final report of this assignment was due in mid-February 2003.
- (b) It is also proposed to procure the services of international experts for a comprehensive review of the MLA and the Banking Act with a view to formulating new laws to provide a practical and effective legal framework to enable the Central Bank to meet its objectives, and for orderly development and regulation of the banking sector. The Central Bank also envisages that these consultants would engage in a review of

Box II - 1 Contd.

other financial legislation currently administered by the Central Bank and of statutes establishing commercial and development banks, with a view to revamping and bringing them in line with the banking and financial sector development vision.

Governance, Disclosure and Transparency Principles

In enhancing the governance principles of the Bank, the following activities have been implemented:

- Enhancement of the size of the Monetary Board by an amendment to the MLA
- Establishment of Advisory Technical Committee Systems
- Strengthening the Bank's supervisory and regulatory functions
- Adoption of International Accounting Standards as the Bank's new accounting framework
- Adoption of a new internal audit charter.

Enhancement of the size of the Monetary Board

The size of the Monetary Board has been increased to 5 members in order to have more representation of the private sector in the Board.

Establishment of Advisory Technical Committee Systems

The Advisory Technical Committee Systems chaired by a Deputy Governor or a Board Member were established for the guidance of the Monetary Board for decision-making. Accordingly, the decision making process has been streamlined with the establishment of the Monetary Policy Committee (to recommend on monetary policy), Financial System Stability Committee (to recommend on the regulatory aspects of banking and financial institutions) and the Audit Committee (to recommend on financial, accounting and risk aspects of the Bank).

Strengthening supervisory and regulatory functions

The Bank is in the process of updating its prudential regulations to international standards, strengthening its on-site and off-site supervisory functions and ensuring the development of a sound banking sector in Sri Lanka. For this purpose the Central Bank will be procuring the services of an international expert to assist in strengthening the area of bank supervision and this assignment is expected to commence in May 2003. In addition, training programmes have been developed to provide continuous training to the staff, to enable them to perform their bank supervisory

functions effectively. This has assisted the Bank to introduce more on-site and off-site surveillance systems with a view to ensuring a stable financial system.

Adoption of a new accounting framework and an internal audit charter

In order to have a comparable and acceptable disclosure policy, the Bank has adopted the International Accounting Standards for the Central Bank accounts. This has enabled the Bank to review its operations, identify areas where the Bank was lagging behind, and bring them in line with international best practice. This would improve the Bank's standard settings *vis-à-vis* domestic financial institutions in the application of corporate governance best practices. Accordingly, action has been initiated for the following:

- (a) Ernst and Young, New Zealand, carried out a comprehensive audit of the accounts for the year 2001 in accordance with international accounting standards, along with other related special assignments. They have also provided the audit opinion on the Central Bank's accounts for 2002.
- (b) The Management Audit Department has been geared to set up specialised units to conduct performance audits and information system audits. The Management Audit Department has adopted an internal audit charter for this purpose.

The completion of the above activities would further improve the management audit function and risk management processes and enhance the Bank's credibility in the international community.

Technological Improvements through Payment Reforms

The proposed payment reforms seek to achieve the establishment of the infrastructure required to support the development of Sri Lanka's financial markets and banking sector. This process will assist to achieve the following:

- (a) Reduce settlement risk in the payments system and securities settlement system in line with emerging best international practice;
- (b) Enhance the integrity and tradability of Sri Lanka's public debt;
- (c) Improve efficiency and quality of the banks' financial and business operations; and
- (d) Establish an appropriate legal and regulatory framework to underpin the new operational mechanisms.

In order to achieve the above objectives, action was initiated to introduce a Real Time Gross Settlement (RTGS)

Box II - 1 Contd.

system / Scripless Securities Settlement (SSS) system. The RTGS system will be used basically to transmit time critical large value payments. The SSS system will ensure that the Sri Lankan securities settlement system conforms to international standards and assist to facilitate a more active secondary market in the trading of government securities, while overcoming inefficiencies in the market related to paper securities. In addition, an integrated accounting system / automated general ledger (GL) has been procured for the Bank to facilitate the above and support the Bank's current and future financial operations.

Tenders were called in February 2002, from international bidders by conforming to government and World Bank guidelines and the contract was awarded in October 2002 to Logica UK Ltd. and DMS Group, Sri Lanka for the supply, installation and commissioning of the RTGS/SSS and GL systems, respectively. The work on these projects commenced in November 2002 and these systems are expected to go live in the last quarter of 2003.

3. Funding Sources

The World Bank, through the International Development Agency (IDA), along with SIDA, agreed to provide the necessary funding to support the modernisation process. The total project cost was estimated at US dollars 42 million with an IDA contribution of US dollars 30.3 million and a SIDA contribution of US dollars 1 million. The balance US dollars 10.7 million will be borne by the Central Bank. However the IDA contribution was reduced to US dollars 25.3 million due to the reallocation of US dollars 5 million by the government towards another development project.

4. Time Frame

The modernisation process is continuing and is planned to be completed in mid 2005.

Accounts and Finance**1. Accounting Framework and Policies, Financial Statements and notes thereto for the year ended 31.12.2002****a. Basis of Presentation**

With effect from 2001, the Central Bank of Sri Lanka (the Bank) has adopted International Accounting Standards (IAS) as the accounting framework for producing its financial statements in order to make its financial statements internationally comparable and adopt disclosure and accounting policies in-line with best international practices. Though this was a complete departure from the hitherto adopted financial reporting system, the Bank was able to achieve substantial IAS compliance in both 2001 and 2002 and intends to complete the full compliance in 2003.

The following accounting policies were in force during 2001 and 2002 to ensure consistency for comparative purposes.

In view of adopting IAS as from 2001 and that there was a different accounting framework prior to that, the comparative data for 2001 have been disclosed on both IAS and pre-IAS bases in the Balance Sheet and the Profit and Loss Account reported in the succeeding sections. The Annual Report for 2001 presented the values in financial statements on a pre-IAS basis. Accordingly, the comparative figures for 2001 are given on both bases, to facilitate a proper comparison and to maintain the link with the last Annual Report.

b. General

As part of the on-going modernisation process, the Bank has focused attention on improving its financial reporting and accounting practices to conform to international best practices. Accordingly, the Bank has prepared the accompanying financial statements in compliance with International Accounting Standards (IAS) for the second consecutive year.

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as stipulated under IAS, with the exception of certain non-compliances described in the Statement of Accounting Policies, which comprise standards and interpretations approved by the International Accounting Standard Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee (IASC) that are in force.

The financial statements are for the Bank as a single entity, and do not include consolidated financial statements for the Bank and its subsidiaries as required under IAS. The Bank commonly acts as agent and in other fiduciary capacities that result in the holding or placing of assets and liabilities on behalf of the Government of Sri Lanka (GOSL) and other state controlled entities. Such assets and liabilities administered by the Central Bank of Sri Lanka under custodial and administration arrangements are not assets and liabilities of the Bank and, therefore, are not included in the accompanying financial statements.

CENTRAL BANK OF SRI LANKA**INCOME STATEMENT****For the year ended 31 December 2002**

	Note	2002 (IAS Basis) (Rs. '000)	2001 (IAS Basis) (Rs. '000)	2001 (SLAS Basis) (Rs. '000)
Operating Income:				
Income from Foreign Currency Financial Assets				
Interest Income	1	8,958,028	13,263,983	13,961,091
Interest Expense	2	(5,042,311)	(9,623,360)	(9,623,360)
		3,915,717	3,640,623	4,337,731
Gain (Loss) from Unrealised Price Revaluations		3,793,359	1,483,959	1,260,365
Gain (Loss) Realised from Price Changes		2,642,735	1,273,846	1,393,474
Total Income from Foreign Currency Financial Assets		10,351,811	6,398,428	6,991,570
Expenses on Foreign Currency Financial Liabilities				
Interest Expense		(966,346)	(826,088)	(826,088)
Derivatives in a loss position		—	(5,016)	—
Total Expenses on Foreign Currency Financial Liabilities		(966,346)	(831,104)	(826,088)
Net Foreign Exchange Revaluation Gain		3,466,518	699,601	453,307
Foreign Currency Investment Income		12,851,983	6,266,925	6,618,789
Income from Local Currency Financial Assets				
Interest Income	3	7,403,230	12,240,067	12,008,693
Interest Expense		(540,766)	—	—
Total Income from Local Currency Financial Assets		6,862,464	12,240,067	12,008,693
Dividend Income	4	49,172	38,758	30,008
Miscellaneous Income		272,061	690,046	128,091
Total Net Operating Income		20,035,680	19,235,796	18,785,581
Operating Expenses:				
New Currency Issue Expenses	5	(661,867)	(570,247)	(579,006)
Bad & Doubtful Debts	6	(22,328)	(406,406)	(262,574)
Decrease resulting from Revaluation of Property, Plant and Equipment		(721,284)	—	—
Provision	7	(2,206)	(428,655)	—
Administration	8	(872,409)	(430,019)	(488,779)
Personnel Expenses	9	(1,069,059)	(3,328,250)	(2,333,624)
Cost of VRS borne by CBSL		—	(435,611)	—
Depreciation	10	(168,647)	(233,543)	(216,258)
Total Operating Expenses		(3,517,800)	(5,832,731)	(3,880,241)
Profit from Operating Activities before Income Tax		16,517,880	13,403,065	14,905,340
Income Tax		(529,069)	—	—
Net Profit from Ordinary Activities		15,988,811	13,403,065	14,905,340

BALANCE SHEET AS AT 31 DECEMBER 2002

		Year Ended 31st December 2002 (Rs. '000) (IAS Basis)	Year Ended 31st December 2001 (Rs. '000) (IAS Basis)	Year Ended 31st December 2001 (Rs. '000) (SLAS Basis)
	<i>Note</i>			
Foreign financial assets				
Cash balances	11	55,873,107	34,545,000	34,996,680
Trading securities	12	90,851,682	67,362,354	66,434,843
Gold	13	7,114,912	6,520,080	6,584,657
IMF related assets	14	54,588,730	47,253,415	47,253,415
Receivables	15	91,046	1,075,868	1,029,653
		208,519,477	156,756,717	156,299,248
Local financial assets				
Treasury bills and bonds	16	52,859,539	62,385,731	59,455,392
Treasury bills and bonds (reverse repurchase)	16	-	1,500,000	1,968,684
Loans to government	17	31,033,000	30,126,600	39,275,047
Loans to other institutions	18	30,000	43,849	149,533
Receivables	19	398,145	58,742	3,669,422
Investment in Financial and other institutions	20	663,091	973,030	973,030
		84,983,775	95,087,952	105,491,108
Other assets				
Inventory		760,345	567,258	560,986
Gold inventory		425,780	430,537	430,537
Sundry assets		1,335,085	1,778,133	6,363,909
Property, plant and equipment	21	8,127,448	8,021,398	8,022,116
		10,648,658	10,797,326	15,377,548
Total assets		304,151,910	262,641,995	277,167,904
LIABILITIES				
Foreign financial liabilities				
Payables	22	349,710	54,550	54,550
IMF related liabilities	23	87,378,407	69,275,213	69,275,213
Amounts payable to ACU		13,029,377	9,849,836	9,999,354
Other foreign liabilities		122,969	176,944	171,928
		100,880,463	79,356,543	79,501,045
Local financial liabilities				
Balances with banks and financial institutions		38,085,775	35,951,929	35,951,929
Balances with Government and Government entities	24	769,005	4,572,294	4,310,366
Treasury bills and bond repurchases		11,155,684	2,715,179	2,715,179
Other Deposits		193,848	2,850,777	2,976,155
Payables		459,844	1,668,964	1,670,261
		50,664,156	47,759,143	47,623,892
Other liabilities				
Currency in circulation	25	88,307,773	76,561,172	76,561,172
Provisions		335,804	1,706,312	-
Other liabilities	26	362,966	259,271	8,650,616
		89,006,543	78,526,755	85,211,788
Shareholder's equity				
Capital & Reserves	27	63,600,748	56,999,554	64,831,179
Total shareholders equity		63,600,748	56,999,554	64,831,179
Total equity and liabilities		304,151,910	262,641,995	277,167,904

NOTE OF THE AUDITOR GENERAL

The accounts of the Central Bank of Sri Lanka for the year ended 31st December 2002 were audited under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 of the Finance Act, No.38 of 1971 and Section 42(1) of the Monetary Law Act, No.58 of 1949.

I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the CBSL as at 31 December 2002 and the results of its operations for the year then ended in accordance with the International Accounting Standards (IAS) and the stated accounting policies as set out in Notes 1 to 27 to the financial statements.

In terms of Section 42(2) of above Monetary Law Act, my comments and observations on these accounts are contained in my report of even date addressed to the Minister of Finance.

Auditor General's Department
Colombo 7.
28th March 2003

S. C. Mayadunne
Auditor General

A. S. Jayawardana
Governor

D. L. Katuwawala
Chief Accountant

NOTES

	2002 (IAS Basis) (Rs. '000)	2001 (IAS Basis) (Rs. '000)	2001 (SLAS Basis) (Rs. '000)
1. Net Interest Income – Foreign Currency			
Interest Income			
Cash and short term funds	1,148,303	1,008,698	1,779,513
Trading Securities	7,731,377	12,227,175	12,153,468
International Monetary Fund	78,348	28,110	28,110
Sub total	8,958,028	13,263,983	13,961,091
2. Interest Expense			
Foreign Securities	5,042,311	9,623,360	9,623,360
Sub total	5,042,311	9,623,360	9,623,360
Total	3,915,717	3,640,623	4,337,731
3. Net Interest Income – Local Currency			
Interest Income from			
Trading Securities – Government Treasury Bills	7,295,716	11,944,957	11,901,856
Loans and advances	107,514	295,110	106,837
	7,403,230	12,240,067	12,008,693
4. Dividend Income – Local Investments			
Shares held in RDBs and other related institutions	49,172	38,758	30,008
	49,172	38,758	30,008
6. New Currency Issue Expenses			
Expenses on issue of new Notes and coins	661,867	570,247	579,006
	661,867	570,247	579,006
6. Bad & Doubtful Debt Expenses			
Loans and advances to customers	-	-	-
Specific credit risk provisions	-	406,406	240,223
Write Off of Unrecoverable Balances	22,328	-	22,351
	22,328	406,406	262,574
7. Provisions			
Provision for Impairment of Property, Plant and Equipment	2,206	69,655	-
Provision for slow moving inventories	-	84,700	-
Provision for credit guarantee claims	-	294,100	-
	2,206	428,655	-
8. Administrative Expenses			
Repairs and Maintenance	79,015	39,722	53,722
Information	53,809	68,404	68,404
Operational Travel	13,781	16,013	16,013
Rental Expenses	22,355	36,849	31,954
Printing	41,127	18,833	18,833
Audit Fees Payable to Auditor General	750	750	750
Provision for Irrecoverable Cash Balances	20,093	10,611	-
Remuneration to Members of the Monetary Board	287	226	226
Miscellaneous	641,192	238,611	298,877
	872,409	430,019	488,779
9. Staff Costs			
Wages and salaries etc. and PAYE paid	626,779	1,013,012	1,366,617
Pension costs-defined contribution plans	246,020	1,765,635	152,865
Pension costs-defined benefit plans	196,260	649,603	814,142
	1,069,059	3,328,250	2,333,624

(The average number of persons employed by the Bank during the year 1,315)

	2002 (IAS Basis) (Rs. '000)	2001 (IAS Basis) (Rs. '000)	2001 (SLAS Basis) (Rs. '000)
10. Depreciation			
Office Furniture & Equipments	19,068	-	14,208
Computer & Computer Equipment	11,379	-	25,040
Motor Vehicles	5,712	-	6,206
Fixture & Fittings	38	1,679	3,838
Library Books	-	-	1,833
Automated Equipments	13,827	13,510	10,351
Buildings	114,504	148,499	148,499
AS 400 Mainframe	4,119	69,855	6,283
	168,647	233,543	216,258
FOREIGN FINANCIAL ASSETS			
11. Cash Balances			
Cash Balances	10,095,566	4,792,731	5,244,411
Foreign Notes & Coins	164	218	218
Time Deposits	45,777,377	29,752,051	29,752,051
	55,873,107	34,545,000	34,996,680
12. Trading Securities			
Foreign Government Securities	52,782,487	55,517,855	55,517,856
Foreign Government Treasury Bills	29,658,870	6,365,654	6,365,654
Foreign Securities - Non Government	8,410,325	5,478,845	4,551,333
	90,851,682	67,362,354	66,434,843
13. Gold			
Gold / Certificates held for trading	7,114,912	6,520,080	6,584,657
	7,114,912	6,520,080	6,584,657
14. IMF Related Assets			
Holding of SDR with IMF	210,034	77,629	77,629
IMF Quota	50,382,377	47,175,786	47,175,786
Balance as per valuation on IMF representative rate	50,592,411		
Add: Exchange valuation gain based on year-end exchange rate	3,996,319		
	54,588,730	47,253,415	47,253,415
15. Receivables			
Interest Receivable on Holding of SDR	10,107	13,226	13,226
World Bank Reimbursement of VRS Expenses	-	1,007,284	1,016,427
Interest Receivable on F/Deposits	71,080	32,390	
Interest Receivable on Gold Balances	6,832	8,715	
Interest Receivable on F/Bank Accounts	1,799	2,695	
Interest Receivable on Call Accounts - Euro & GBP	1,228	11,558	
	91,046	1,075,868	1,029,653
LOCAL FINANCIAL ASSETS			
16. Treasury Bills and Bonds held for Trading			
Sri Lanka Government Treasury Bills	52,859,539	62,385,731	59,455,392
Sri Lanka Government Treasury Bills (Reverse Repo)	-	1,500,000	1,968,684
	52,859,539	63,885,731	61,424,076
17. Loans to Government			
Revolving Credit	31,033,000	30,126,600	30,126,600
Special Advances	-	-	9,148,447
	31,033,000	30,126,600	39,275,047
18. Loans to Other Institutions			
Capital Outstanding	2,656,684	2,733,095	2,733,095
Add: Interest Receivable	3,967,675	3,577,713	3,577,713
Total Receivable	6,624,359	6,310,808	6,310,808
Less: Interest in Suspense	(3,967,675)	(3,577,713)	(3,577,713)
Provision for Doubtful Debts	(2,626,684)	(2,689,246)	(2,583,562)
	30,000	43,849	149,533

	2002 (IAS Basis) (Rs. '000)	2001 (IAS Basis) (Rs. '000)	2001 (SLAS Basis) (Rs. '000)
19. Receivables (Local)			
Prepayments	-	4,699	
Sundry Receivable	3,533	15,145	
Interest Receivable on Debentures	38,898	38,898	
Staff Provident Fund Recoverable	1,153		
Amount Receivables SIDA	2,561		
Receivable from General Treasury - Share Transfer	352,000		
Other			3,669,422
	398,145	58,742	3,669,422
20. Investments in Financial & Other Institutions			
Regional Development Banks	160,000	512,000	512,000
Sri Lanka Export Credit Insurance Corporation	20,000	20,000	20,000
Credit Information Bureau	12,372	12,483	12,483
National Development Bank	26,250	26,250	26,250
Duff & Phelps Credit Rating Ltd.	3,500	3,500	3,500
NDB Bank	10,500		
LankaClear Ltd.	29,500		
Sub total	262,122	574,213	574,213
Debentures taken from the RDB's			
Ruhuna Development Bank	107,355	107,355	107,355
Kadurata Development Bank	44,817	44,817	44,817
Rajarata Development Bank	27,892	25,740	25,740
Wayamba Development Bank	135,161	135,161	135,161
Sabarakgamuwa Development Bank	85,744	85,744	85,744
Sub total	400,969	398,817	398,817
Total	663,091	973,030	973,030
21. Property Plant and Equipment			
Land & Building	5,610,692	7,654,329	7,654,329
Motor Vehicles	51,405	66,832	55,852
Office Furniture & Equipment	169,695	127,872	127,872
Fixtures & Fittings	34,886	34,547	34,547
Computer Equipment	37,508	75,120	75,120
AS 400 Mainframe	16,476	25,132	25,132
Automated Equipment	96,714	110,541	41,403
Painting	3,964	3,637	3,637
Library	5,872	3,666	3,666
Building in Progress	494	494	494
SWIFT	64	64	64
Land Account	2,183,060		
Less: Provision For Fixed Assets	(83,382)	(80,836)	
	8,127,448	8,021,368	8,022,116
FOREIGN FINANCIAL LIABILITIES			
22. Payables (Foreign)			
Interest & Charges payable on IMF Loan	157,088	34,048	34,048
Interest Payable - ACU	16,670	20,502	20,502
Payables to World Bank - VRS	4,860		
Bank Reconciliation Clearing A/c	60,122		
Fixed Assets Payable	110,970		
	349,710	54,550	54,550
23. IMF Related Liabilities			
Quota increases	23,842,965	23,842,965	23,842,965
Allocation of SDR	8,636,908	8,087,212	8,087,212
Loans	27,787,088	19,462,579	19,462,579
Other Accounts	20,714,669	17,882,457	17,882,457
Balance as per valuation on IMF representative rate	80,981,630	69,275,213	69,275,213
Exchange Valuation loss based on year end exchange rate	6,396,777		
	87,378,407	69,275,213	69,275,213

	2002 (IAS Basis) (Rs. '000)	2001 (IAS Basis) (Rs. '000)	2001 (SLAS Basis) (Rs. '000)
LOCAL FINANCIAL LIABILITIES			
24. Balances with Government & Government Entities			
Government Deposits	200,749	4,562,948	4,301,022
Government Agencies	568,256	9,346	9,346
	769,005	4,572,294	4,310,368
25. Currency in Circulation			
Notes	85,023,029	73,463,680	73,463,680
Coins	3,284,744	3,097,492	3,097,492
	88,307,773	76,561,172	76,561,172
26. Other Liabilities			
Suspense Creditors	16,316	245,915	5,040,157
Others	346,650	13,356	3,610,459
	362,966	259,271	8,650,616
27. Capital and Reserves			
Capital of the Bank is fixed at Rs.15 million in terms of Section 6 of the Monetary Law Act (MLA)	15,000	15,000	15,000
General Reserve	36,771,696	22,304,283	17,775,880
Building Reserve			4,562,739
Credit Guarantee Reserve			500,000
Medium & Long Term Credit Fund	4,925,000	4,925,000	4,925,000
Profit & Loss A/c	15,988,811	13,403,085	14,905,340
Surplus	985,000	985,000	985,000
Capital Contribution A/c	577,859	577,859	
International Revaluation Reserve	3,675,000	14,789,347	19,723,526
Fixed Assets Revaluation A/c	662,362		
Other Reserves			1,438,694
	63,600,748	56,999,554	64,831,179

c. Statement of Accounting Policies

(i) Reporting Entity and Statutory Base

These are the financial statements of the Central Bank of Sri Lanka ("Bank" or "CBSL"), an institution established under the Monetary Law Act, No. 58 of 1949 as amended from time to time, as the authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka. These statements apply to the financial year ended 31 December 2002. They have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards (IAS) and Standing Interpretations Committee interpretations (SIC) approved by the IASC that remain in effect, with the following exceptions the requirement of which it has not been practical for the Bank to comply with, either partially or in full:

- IAS 7: Cash Flow Statements
- IAS 27: Consolidated Financial Statements
- IAS 32: Financial Instruments: Disclosure and Presentation
- IAS 39: Financial Instruments: Recognition and Measurement

The financial statements are for the Bank as a single entity and do not include consolidated financial statements for the bank and its subsidiaries as would be required under IAS.

The Governor and the Chief Accountant of the Bank have authorised these financial statements for issue on 24 February 2003.

(ii) Measurement Base

Unless otherwise stated, the measurement base is historic cost.

(iii) Currency of Presentation

All amounts are expressed in Sri Lanka rupees in thousands unless otherwise stated.

(iv) Foreign Currency Conversions

Transactions in foreign currencies have been translated to Sri Lanka rupees using exchange rates applicable on the trade date of transactions. Foreign currency financial assets and financial liabilities have been translated to Sri Lanka rupees using exchange rates applicable at balance sheet date. The following Sri Lanka rupee exchange rates for major currencies were used to convert foreign currency assets and liabilities to Sri Lanka rupees for reporting purposes:

	2002	2001
Euro	101.3823	82.2731
Sterling pounds	155.1227	135.0615
Indian rupees	2.0176	1.9308
Japanese yen	0.8164	0.7091
United States dollars	96.725	93.1587
Special Drawing Rights (SDR)	131.50	121.8732

(v) Financial Assets and Liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities. Foreign currency activities mainly arise from the Bank's foreign reserves management function. Local currency activities mainly reflect the assets and liabilities associated with monetary policy implementation, investment of the proceeds of issuing currency and banking activities.

The separate reporting of these activities is considered to provide a better presentation of the Bank's financial position, financial performance and risk profile. The Bank considers that the combined reporting of foreign and local currency activities would weaken the informational value of the financial statements.

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, subsequent measurement bases are described below. All regular way purchases of financial assets are recognised on the settlement date. All regular way sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(vi) Trading Securities – Foreign Currency Marketable Securities

Foreign currency marketable securities are subsequently valued at quoted market prices. Changes in market value are recognised as an increase or decrease in the value of the Marketable Securities in the Balance Sheet. Gains and losses arising from changes in the market value of foreign currency marketable securities are recognised in the Income Statement. Where the security is still owned, the gain or loss is reported as Gain (Loss) from Unrealised Price Revaluations. Where the gain or loss has been realised (through selling the security), this is reported as Gain (Loss) Realised from Price Changes.

(vii) Trading Securities – Gold

Gold securities held with foreign counterparties is initially stated at cost. Changes in market value are recognised as an increase or decrease in the value of the gold in the Balance Sheet.

Gains and losses arising from changes in the market value of gold are recognised in the Income Statement. Where the gold is still owned, the gain or loss is reported as Gain (Loss) from Unrealised Price Revaluations. Where the gain or loss has been realised (through selling the gold), this is reported as Gain (Loss) Realised from Price Changes.

(viii) International Monetary Fund Balances

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as an agent for GOSL. All transactions by the Bank with the IMF have been included in these financial statements on that basis.

Quota with the IMF is recorded by the Bank as an asset and the amount payable to the IMF for quota is recorded as a liability of the Bank. The cumulative allocation of SDRs by the IMF is treated as a liability. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at balance date as published by the IMF are recognised in the Income Statement. Where the assets and liabilities are still owned, the gain or loss is reported as (Gain) Loss from Unrealised Price Revaluation. Where the gain or loss has been realised (through repayment of the asset and liability), this is reported as (Gains) Losses Realised from Price Changes.

All other charges and interest pertaining to balances with the IMF are recorded immediately in the Income Statement.

(ix) Repurchase and Reverse-Repurchase Transactions

Securities sold under agreements to repurchase continue to be recorded as Marketable Securities in the Balance Sheet. The obligation to repurchase (Securities Sold Under Agreements to Repurchase) is disclosed as a liability. The difference between the sale and repurchase price in repurchase transactions and the purchase price and sale price in reverse repurchase transactions represents an expense and is expensed in the Income Statement.

Securities held under reverse-repurchase agreements are recorded as an asset in the Balance Sheet (Securities Purchased under Agreements to Re-sell). Both repurchase and reverse-repurchase transactions are reported at the transaction value inclusive of any accrued income or expense.

(x) Investment Portfolio – Sri Lanka Government Securities

The Bank's investment portfolio consists of Treasury bills purchased from GOSL. The portfolio is recorded in the Balance Sheet at amortised cost since they represent loans originated by the Bank.

(xi) Loans to Government

Loans to Government represent direct provisional advances made to GOSL under Section 89 of the Monetary Law Act, No.58 of 1949 as amended.

(xii) Loans to Other Institutions

Loans granted to Other Institutions are recognised and carried at original granted amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xiii) Foreign Currency Term Liabilities

Foreign currency term liabilities are subsequently reported at amortised cost of the liabilities. Changes in the value of these liabilities are recognised as an increase or decrease in the value of the term liabilities in the Balance Sheet. Gains and losses arising from changes in value of foreign currency term liabilities are recognised immediately as expenses in the Income Statement. Where the liability is still owed, the gain or loss is reported as (Gain) Loss from Unrealised Price Revaluation. Where the gain or loss has been realised (through repayment of the liability), this is reported as (Gains) Losses Realised from Price Changes.

(xiv) Derivative Instruments

The Bank's involvement in derivative instruments comprises mainly forward foreign exchange contracts. In addition, derivative instruments arise due to the Bank's practice of accounting for regular way purchases on settlement date basis. Such derivative financial instruments are stated at fair value.

All derivative instruments in a gain position are reported within the balance of foreign currency Marketable Securities in the Balance Sheet. Derivative instruments in a loss position are reported in the Balance Sheet as Derivative Instruments in a Loss Position. Derivative instruments in a loss position are offset against derivative instruments in a gain position where a legal right of set-off exists.

(xv) Other Financial Assets and Liabilities

Local and foreign currency cash, deposits and short-term advances are valued at transaction date value.

(xvi) Gold Inventory

Gold inventory, which is a highly liquid commodity, is carried at cost.

(xvii) Inventories

Inventories are carried at lower of cost or realisable value. Cost is determined on a First in First Out basis. Allowance is made for slow moving inventories.

(xviii) Property, Plant and Equipment

All items of property, plant and equipment are initially recorded at cost. Land and buildings are subsequently re-valued, on an asset-by-asset basis, to their fair values. Revaluations are made with sufficient regularity to ensure that their carrying amount does not differ materially from their fair value at the balance sheet date.

The carrying amounts, both those re-valued and those measured at cost, are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount, and if carrying values exceed this recoverable amount, assets are written down.

When an asset is re-valued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation is calculated on a reducing balance method over the estimated useful life of the asset using following principal annual rates:

Buildings	2%
Artwork collections	Nil
Motor Vehicles	10%
Office Furniture and Equipment	10%
Fixtures and Furniture	10%
Computer Equipment	25%
Automated Equipment	20%
AS 400 Mainframe Computer	20%

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance, is recognised as an expense when incurred.

(xix) Accounts Receivable

Accounts receivable are carried at expected realisable value after making due allowance for doubtful debts.

(xx) Sundry Assets

Sundry assets are carried at expected realisable values.

(xxi) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(xxii) Currency in Circulation

Currency issued by the Central Bank of Sri Lanka represents a claim on the Bank in favour of the holder. The liability for Currency in Circulation is recorded at face value in the Balance Sheet.

(xxiii) Employee Benefits***Pensions***

The Bank operates a defined benefit pension scheme for permanent employees who had joined the Bank before 01 January 1998. The pension scheme is not open to the new entrants to the Bank from 01 January 1998. This is a non-contributory pension scheme, where the cost of benefits is wholly borne by the Bank. Contributions are made by the Bank to a separately administered fund. The cost of providing benefits under this plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10 per cent of the higher of defined benefit obligation and the fair value of plan assets. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Retirement Gratuity

Gratuity is a defined benefit plan. The Bank is liable to pay gratuity for the employees who are not eligible for the pension scheme. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated using a formula based on a half month's salary of the last month of the financial year of eligible employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement. The gratuity liability is not funded nor actuarially valued. This item is grouped under Provision in the Balance Sheet.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective statutes and regulations. The Bank contributes 24 per cent and 3 per cent of employees' gross emoluments to Employees' Provident Fund and Employees' Trust Fund, respectively, which are separately administered defined contribution plans.

(xxiv) Grants

Grants are recognised at their fair value when there is a reasonable assurance that the grant will be received and all attaching conditions, if any, which will be complied with are shown under equity. When the grant relates to an expense item, it is recognised in the Income Statement over the periods

necessary to match them to the expenses it is intended to compensate on a systematic basis.

(xxv) Personnel Expenses

Personnel Expenses include the full cost of all staff benefits. Salaries and leave accrued at year-end are reported in the Balance Sheet.

(xxvi) Operating Leases

Where the Bank is the lessee, the lease rentals payable on operating leases are recognised in the Income Statement over the term of the lease on a basis consistent with the expected benefits derived from the leased assets.

(xxvii) Income Tax

The income of the Bank other than interest or discount payable or allowable by the Bank on any deposit money including Treasury Bills, Treasury Bonds, is exempt from tax under section 8 (a) xxii of the Inland Revenue Act, No. 38 of 2000. As per the Inland Revenue (Amendment) Act, No. 10 of 2002, such interest or discount payable will be liable to 10 per cent withholding tax at the time of payment or crediting of such interest.

(xxviii) Administration Activities

Assets and liabilities administered by the Central Bank of Sri Lanka under custodial and administration arrangements are not included in these financial statements.

(xxix) Revenue & Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

The following specific recognition criteria must also be met before revenue and expenses are recognised:

Interest

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on Treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Dividends

Dividend income is recognised when the shareholders' right to receive the payment is established.

Miscellaneous

Miscellaneous income and expenses are recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant & equipment have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant and equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

(xxx) Segmental Reporting

The Bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. The Bank considers that this reporting approach provides appropriate segmental reporting of the Bank's activities which are more fully described below.

d. Nature and Extent of Activities

The Monetary Board of the Central Bank of Sri Lanka shall, in addition to determining the policies or measures authorised to be adopted or taken under Monetary Law Act, No. 58 of 1949, as amended, be vested with the powers, duties and functions of the Central Bank and be generally responsible for the management, operations and administration of the Bank. The Bank is primarily responsible for the administration supervision and regulation of monetary, financial and payment system of Sri Lanka and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- Implementing monetary and exchange rate policies.
- Issuing of currency.
- Facilitating free competition and stability in the financial system.
- Licensing and supervision of defined financial institutions.
- Organisation and management of the inter-bank settlement system and promotion of the smooth functioning of the payments system.
- Providing loans and advances to the government, Bank's and financial institutions under various facilities.
- Acting as a depository of the government under specific arrangements with government and agencies acting on behalf of the government.

The activities carried out in order to achieve its objective of economic, price and financial system stability with a view to encouraging and promoting the development of the productive resources of Sri Lanka, can be broadly segregated into foreign currency and local currency activities.

Foreign Currency Activities

Foreign currency activities result mainly from the Central Bank of Sri Lanka's holdings of foreign currency assets under its foreign reserves management function. The foreign reserves management portfolio comprises foreign currency assets held for foreign exchange intervention purposes ("foreign reserves") other foreign currency assets held for trading purposes.

The foreign currency assets are held in various currencies. The majority are denominated in United States dollars, euros, Sterling pounds and Japanese yen. The financial instruments held within these foreign currency portfolios consist mainly of sovereign securities, securities held under reverse repurchase transactions or balances held with other central banks, commercial banks and settlement institutions.

The Central Bank of Sri Lanka also holds, from time-to-time, foreign currency assets and liabilities that arise from domestic market operations.

As part of the active management of its foreign currency operations, the Central Bank of Sri Lanka enters into security repurchase transactions. The securities sold by the Bank under repurchase agreements continue to be recorded as Marketable Securities in the Bank's Balance Sheet. These transactions are also recognised as a liability for Securities Sold under Agreements to Repurchase in the Bank's Balance Sheet. The Bank also purchases securities under reverse repurchase agreements in its local currency operations.

Local Currency Activities

Local currency activities arise as follows:

- (i) Liquidity management operations. Liquidity management largely involves the Central Bank of Sri Lanka offsetting the daily net flows to or from government by advancing funds to or withdrawing funds from the banking system. Most of this business is undertaken through daily open market operations.
- (ii) Holding an investment portfolio comprising Sri Lanka government securities to support the liability for currency in circulation and representing the investment of the Central Bank of Sri Lanka's net equity. The Bank's policy is to hold these investments for monetary operations.

2. Assets / Liabilities 2002

The total Assets and Liabilities of the Central Bank stood at Rs.304.2 billion, as at the end of 2002, compared with Rs.262.6 billion as at the end of 2001, showing an increase of Rs.41.6 billion or 15.8 per cent during 2002. The increase in the assets of the Bank was reflected in increases in the foreign financial assets (by Rs.51.8 billion). However, local financial and other sundry assets of the Bank decreased by Rs.10.2 billion. This is due to the combined effect of a drop in Treasury bills and bonds by Rs.9.5 billion, and reverse repos by Rs.1.5 billion and an increase in loans to government by Rs.1.0 billion.

The increase in the liabilities of the Bank (Rs.41.6 billion) was reflected in increases in foreign financial liabilities (by Rs.21.5 billion), currency in circulation (by Rs.11.8 billion), local financial liabilities (by Rs.2.9 billion), and other liabilities (by Rs.1.2 billion), capital and reserves (by Rs.6.6 billion).

a. Assets

(i) Foreign Financial Assets

Foreign financial assets comprised the largest category of assets accounting for 68.6 per cent of total assets of the Bank and recorded an increase of 33 per cent in 2002 compared with the level in the previous year. The increase was partly due to the receipt of the second and third tranches of the Stand By Arrangement (SBA) facility of the IMF net of repayments and interest (US dollars 86 million), net purchases of US dollars by CBSL from the local foreign exchange market to build up external reserves (US dollars 177 million), receipt of foreign loans raised by the government net of repayments of principal and interest (US dollars 16 million), receipt of foreign exchange against the Sri Lanka Development Bonds issued by the Central Bank on behalf of the Government (US dollars 92 million) and partly due to the increase in the rupee value of foreign assets arising from the depreciation of the Rupee against major currencies during the year.

The value of the Bank's trading securities (foreign financial assets) increased by 33 per cent due to an increase in the market value of securities and investment in foreign government Treasury bills during the year.

(ii) Local Financial Assets

Local financial assets, which account for 28 per cent of total assets of the Bank, declined from Rs.95.1 billion in 2001 to Rs.85.0 billion in 2002 or by 10.6 per cent, mainly due to the decrease in Treasury bills and bonds, reverse repos and loans to government by Rs.11.0 billion and Rs.0.9 billion, respectively. Also, the investments in financial and other institutions declined by Rs.300 million as per details below:

Investments in Financial and Other Institutions

The Monetary Law Act, No. 58 of 1949 of Sri Lanka, as amended, specifically prohibits the CBSL from engaging in trade or otherwise having a direct interest in any commercial, industrial or other undertaking or to purchase shares of other banking institutions in the normal course of business. However, the Act authorises the bank to acquire and hold shares in any company, which in the opinion of the Monetary Board was formed for the advancement and promotion of human resources and technological development in the banking and financial sector or to facilitate clearance transactions among commercial banks operating in Sri Lanka. Further, specific legislation relating to RDBs, NDB, CRB and SLECIC have enabled the Bank to invest in the equity of RDBs, NDB and SLECIC, and CRIB, respectively.

Based on the above requirements the Bank holds the following investments:

Company	Business	% Holding		Year End
		2002	2001	
Ruhuna Development Bank Ltd.	Development Banking	20	68	31 Dec
Rajarata Development Bank Ltd.	Development Banking	20	52	31 Dec
Kandurata Development Bank Ltd.	Development Banking	20	68	31 Dec
Wayamba Development Bank Ltd.	Development Banking	20	68	31 Dec
Sabaragamuwa Development Bank Ltd.	Development Banking	20	68	31 Dec
Uva Development Bank Ltd.	Development Banking	20	52	31 Dec
Sri Lanka Export Credit Insurance Corporation Ltd.	Insurance of Export Credit	67	67	31 Dec
Credit Information Bureau of Sri Lanka Ltd.	Provision of Credit Information	50	50	31 Dec
National Development Bank Ltd.	Development Financing	5	5	31 Dec
Fitch Ratings Lanka Ltd.	Credit Rating	10	10	31 Dec
LankaClear (Pvt) Ltd.	Automated Clearing	20	-	31 Mar
NDB Bank Ltd.	Commercial Bank	2	-	31 Dec

Overall composition of the investments held by the Bank is as follows:

	2002 Rs.'000	2001 Rs.'000
Investments in shares in subsidiaries (including Regional Development Banks)	180,000	532,000
Investments in debentures of subsidiaries	400,969	398,817
Investments in shares in associates	12,372	12,463
Other Investments in shares	69,750	29,750
	<u>663,091</u>	<u>973,030</u>

As it is the Bank's intention to dispose of the investments in subsidiaries in the future, these investments have not been consolidated as subsidiaries. Instead they have been recorded in the Balance Sheet at historical costs. In the implementation of the planned divestiture, the Monetary Board, on 29 December 2002, approved of the transfer of a portion of equity shares in Regional Development Banks (RDBs) held by the Bank to the government for sale through the Public Enterprises Reform Commission in a suitable manner. The Secretary to the Ministry of Finance by his letter dated 16 December 2002 has expressed no objection to such proposal. Accordingly, the holdings of the investments in the share capital of the RDBs have been reduced to 20 per cent by transferring the shares held above 20 per cent, in the name of the General Treasury for a consideration of Rs.352 million.

b. Liabilities

(i) Foreign Financial Liabilities

Foreign financial liabilities account for 33.1 per cent of the total liabilities of the Bank. The IMF related liabilities in 2002 increased by Rs.18.1 billion or 26 per cent due to the receipt of the second and third tranches of the SBA facility from the IMF and the revaluation of foreign currency liabilities.

(ii) Local Financial Liabilities

Local financial liabilities, which account for 16.6 per cent of total liabilities, increased by Rs.2.9 billion or 6 per cent during the year. The growth of domestic financial liabilities was due to the increase of commercial bank deposits by Rs.2.1 billion, Treasury bills and bonds (Repurchase agreements) by Rs.8.4 billion.

(iii) Other liabilities

Other liabilities constituted the largest category of liabilities accounting for 29.3 per cent of the total liabilities of the Bank. Currency in circulation, which is the major item in the other liabilities, increased by Rs.11.7 billion or 15.3 per cent from Rs.76.6 billion in 2001 to Rs.88.3 billion in 2002. Capital and reserves increased by Rs.6.6 billion or 11.6 per cent from Rs.57 billion in 2001 to Rs.63.6 billion in 2002.

c. Income

The operational income (net of interest payments) amounted to Rs.20 billion for the year compared with Rs.19.2 billion for the previous year. A large portion of this net operational income, amounting to Rs.6.8 billion, was generated by way of earned interest and profits made from local financial operations of the Bank. This compares with Rs.12.2 billion for the previous year. The sharp drop is attributable to the combined effect of the reduced volumes in reverse-repo transactions of securities held by the Bank coupled with the decreasing trend in rupee interest rates experienced during the year.

However, the share of the income from foreign financial operations in total amounted to Rs.12.8 billion compared with Rs.6.2 billion for the previous year. This increase is mainly attributable to income arising from trading on foreign fixed interest bearing securities which experienced an upward trend in the market prices associated with the trend in the decreasing interest rates of the major currencies. The increase in the market value of the foreign securities held by the Bank at the end of the year substantially increased generating an unrealised income of Rs.3.8 bn. (on IAS basis) for the year under review compared with Rs.1.5 billion for the previous year. Similarly, the net income recognised in the year in respect of the gains and losses arising out of the changes in exchange rates associated with foreign currency denominated transactions during the year and the year end translations of foreign currency denominated assets and liabilities amounted to Rs.3.5 billion compared with Rs.0.7 billion for the previous year due to the depreciation of the value of the rupee against the major currencies.

d. Expenditure

The total operating expenditure of the Bank decreased from Rs.5.82 billion in 2001 to Rs.3.46 billion in 2002 representing a 40 per cent drop. Administrative expenditure dropped from Rs.4.86 billion in 2001 to Rs.2.06 billion accounting for most of the overall reduction. This is largely explained by the decline in the salary bill on account of the voluntary retirement scheme (Rs.0.4 billion) and reduced pension contributions cost following actuarial valuation (Rs.0.15 billion). The major erosion in the non-administrative area came from the need to provide for the decline in the Bank's property valuation amounting to Rs.0.72 billion as required under IAS principles.

e. General

The Bank is in the process of upgrading its financial reporting structure by way of introducing an extensive computerisation programme involving the general ledger systems and related sub-systems. The real time inter-bank settlement system, the depository system for local securities (scripless) are also to be linked with the general ledger systems to give on-line update on the financial reporting system. These improvements are meant to strengthen the Bank's ability to manage financial risk exposures on the one hand and comply with the international best practices in the field of accounting and finance including standards, reporting and disclosures with regards to the financial statements, on the other.

Audit Committee

The Audit Committee (AC) of the Monetary Board was appointed in August 2001. The Audit Committee consists of three Members: Mr. C. Chanmugam, the Appointed Member of the Monetary Board (Chairman of AC), Mr. G C B Wijeyesinge and Mr. J Mather. Dr. R Jayamaha, Assistant to the Governor, functions as the Secretary to the Committee.

As a part of the modernisation programme of the CBSL, the AC was established to review the existing financial reporting format and to reflect corporate governance best practices. The Terms of Reference of the AC were to:

- advise and assist the Monetary Board and CBSL in establishing and managing an internationally acceptable financial reporting system, in order to provide accurate, appropriate and timely information to the Monetary Board and the general public;
- assist CBSL in determining the scope of the proposed external audit, which will complement the audit done by the Auditor General and completing the annual accounts in accordance with International Accounting Standards (IAS);
- review the external auditors' management letters, particularly on the annual audit and the CBSL's response to the same, and advise the Monetary Board in implementing corrective measures;

- (d) advise the Monetary Board in adopting a new Management Audit Charter, previewing and approving the annual audit plan of the Management Audit Department (MAD) of the CBSL, and in strengthening MAD in line with international best practice announced by the Institute of Internal Auditors;
- (e) set up appropriate management audit committee/s to improve the financial reporting according to international standards and view management auditor's reports and ensuring prompt action on remedial measures;
- (f) advise and assist in establishing a high level and efficacious internal control system at CBSL and developing a formal risk management process.

Since its appointment, the AC has had 19 meetings during which the Committee met with key Heads of Departments with a view to gaining an insight into the core functions of these departments, especially as to how they identify and deal with operational risks. The AC reports directly to the Monetary Board and the AC's reports include recommendations to improve procedures to be more efficient and effective, and they also cover internal controls and risk management of different departments and the Bank as a whole.

The AC also discussed with the Auditor General the way forward strategy for the transformation of the CBSL's financial reporting framework which is based on Sri Lanka Accounting Standards (SLAS) to fully accommodate International Financial Reporting Standards (IFRS).

Bank Supervision

The regulatory and supervisory function of the Central Bank relating to banks licensed by the Central Bank is carried out by the Bank Supervision Department (BSD), with a view to ensuring the safety and soundness of the banking system and safeguarding the interests of depositors. The functions of regulation and supervision are governed mainly by the Banking Act and the Monetary Law Act. Institutions that are currently regulated and supervised are Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs). The regulatory and supervisory functions encompass the issue of directions, determinations and orders under the statutes, issue of prudential requirements and guidelines, recommending opening and closing of banks and branches of banks, off-site and on-site examination of banks and enforcement of regulatory actions and bank resolutions. Apart from the above, BSD also administers a voluntary Deposit Insurance Scheme.

Prudential Regulations and Directions

The BSD continued to monitor compliance by banks with regulatory requirements introduced from time to time under the provisions of the Banking Act No.30 of 1988 as amended by the Banking (Amendment) Act No.33 of 1995 and with other

prudential requirements relating to capital, liquidity, large exposures, share ownership in banks, investments by banks, asset quality, income recognition, provisioning for non-performing advances, related party transactions and acquisition and purchase of immovable property by banks, disclosure requirements by banks, the audit of banks and the regulation of off-shore banking business of banks.

Directions Issued under the Banking Act during 2002

During the year under review, the following directions, determinations of the Monetary Board and other prudential requirements were issued by the BSD:

- i. Dollar denominated Development Bonds were declared as liquid assets from 15 August 2002 through a determination made by the Monetary Board in terms of Section 86(g) of the Banking Act No.30 of 1988. Hence, the daily market values of investments made by an LCB in Sri Lanka Development Bonds were considered as liquid assets from 15 August 2002.
- ii. Prudential norms hitherto applicable to the LCBs were made applicable to the off-shore banking units. Accordingly, the following determinations in terms of Section 24(2) of the Banking Act relating to the off-shore banking business of LCBs were intimated to the banks on 30 December 2002.

(a) Application of Capital Adequacy Ratio

The Capital Adequacy Ratio (CAR) to be maintained by commercial banks in respect of off-shore banking business as at 30 June 2003 shall be 50 per cent of the specified CAR (*i.e.* not less than 2.5 per cent of core CAR and 5 per cent of total CAR) and by 31 December 2003 commercial banks are required to maintain the specified ratios (*i.e.* core CAR not less than 5 per cent and total CAR not less than 10 per cent) in respect of both off-shore banking business and domestic banking business on a consolidated basis.

The repatriation of profits and payment of dividends by LCBs were made dependent on compliance with the new regulatory capital requirements by December 2003.

(b) Application of Statutory Liquid Assets Ratio

LCBs are required to maintain the statutory liquid assets ratio in respect of both off-shore banking business and domestic banking business on a consolidated basis with effect from 1 January 2003.

(c) Application of Single Borrower Limit

The direction, "Banking Act (Single Borrower Limit) Directions No.2 of 1999" issued for adherence to the single borrower limit by the Domestic Banking Unit of an LCB shall be applied to accommodation granted by an off-shore banking unit as well with effect from 1 January 2004.

The above direction was amended to prevent repatriation of profits or declaration of dividends by a LCB, if the bank did not adhere to the single borrower limit.

Cancellation of the Banking Licence of Pramuka Savings and Development Bank Ltd. (PSDB)

On the basis of the findings of on-site examinations and information gathered through the off-site surveillance system, BSD makes regulatory interventions depending on the nature and depth of weaknesses, lapses or violations of banks. PSDB, a small bank, was licensed in 1997 as a specialised bank and engaged in banking activities other than maintaining demand deposits, foreign exchange dealings and off-shore banking. On the basis of a report submitted by the Director of Bank Supervision (DBS) based on information gathered through off-site surveillance and on-site examination which revealed that the bank was financially in a parlous condition with a non-performing assets ratio of over 75 per cent, the Monetary Board made an Order in terms of Section 76M of the Banking Act to suspend the business of PSDB with effect from 25 October 2002. The suspension was made with the objective of conserving the remaining assets of the bank in the interest of the depositors and creditors. After suspension, the BSD commenced a comprehensive examination of the affairs of PSDB in terms of Section 76L of the Banking Act in order to ascertain its true financial condition. Since the previous examination had shown mismanagement in the bank, the services of an audit firm, Messrs. Ernst & Young, were also obtained to carry out a special audit of the bank.

The findings of this examination and the special audit further revealed that unsound, improper and imprudent practices and mismanagement by those responsible for the affairs of PSDB had resulted in the bank being insolvent. An opportunity was given to the Chairman and the Board of Directors of PSDB to respond to these findings. The Directors responded both in writing and verbally at a meeting of the Monetary Board held on 13 December 2002. While they did not object to the findings and observations of the Central Bank, they made a proposal to resume the business of PSDB which involved making available to PSDB a sum of Rs.600 million. They, however, did not demonstrate any commitment on their part or on the part of the shareholders of PSDB to contribute any funds to revive PSDB. In the Central Bank's estimation and in the estimation of auditors appointed by the Central Bank, a much larger sum than Rs.600 million was required to revive the bank. In the absence of a commitment by the Directors and the shareholders to bring in additional funds to PSDB, any contribution to PSDB will have to be out of tax payers funds. Therefore, the Monetary Board had no option but to cause the DBS to take action to wind up PSDB and to cancel the licence issued to it. In the winding up the liquidator will distribute the available assets of PSDB among depositors and creditors according to law.

Subsequently, several cases have been filed in court by a few depositors and by the PSDB itself, challenging the decision of the Monetary Board to have the bank liquidated and the licence cancelled. These cases are now pending in court.

Consolidation in the Banking Sector

- The year 2002 saw consolidation in the banking sector, with mergers and acquisitions among the LCBs as well as the closure of an LSB.
- The Nations Trust Bank Ltd. (NTB) embarked on an expansion strategy during the year 2002. Accordingly, NTB acquired the Kandy branch customer portfolio of Standard Chartered Grindlays Bank Ltd. in August 2002, the personal and private banking business of Deutsche Bank AG's Colombo Branch in September 2002 and the banking business of American Express Bank Ltd. in Colombo in October 2002.
- In October 2002, the operations of Habib Bank AG Zurich in Sri Lanka were acquired by Hatton National Bank Ltd.
- Meanwhile, the merger of Standard Chartered Bank plc. and Standard Chartered Grindlays Bank Ltd. was finalised on 31 December 2002.
- Thus, 3 foreign commercial banks terminated their business in Sri Lanka. As mentioned before, the licence of PSDB was also cancelled.
- As a consequence, the number of LCBs and LSBs in operation as at the end of the year 2002 reduced to 22 and 13 respectively, from corresponding figures of 25 and 14 in the previous year.

The BSD continued to attend to requests for the opening, closing and relocation of branches made by LCBs and LSBs in terms of the Banking Act. During the year, approval was granted for the opening of 83 new branches and other banking outlets of LCBs and LSBs, and for the closure of a branch of an LCB. The BSD also granted approval for the relocation of 49 branches of LCBs and LSBs during the year.

Off-Site Surveillance System

Under the off-site surveillance system, the BSD continued to monitor the financial condition of the LCBs and LSBs on the basis of periodic statistical data provided by the banks concerning their operations.

The information gathered is analysed to ascertain the risk exposure of individual banks, and of the banking system as a whole. It also enables the comparison of the financial standing and performance of individual banks against their peers and against industry norms. Further, the information helps in identifying significant and unusual changes in the financial condition of banks and serves as an early warning system to indicate vulnerabilities in particular banks or areas that require further investigation and examination. On the basis of early warning signals, banks are required to take prompt corrective

action to correct imprudent practices which may lead to unsafe and unsound banking.

During 2002, the BSD continued to take action to implement the proposed new off-site surveillance system which was prepared on the basis of recommendations made by experts sponsored by the Swedish International Development Co-operation Agency (SIDA) in 2000. In June 2002, observations and comments on the proposed new returns of the system were obtained from LCBs. In addition, a meeting with relevant officials of LCBs was held for the purpose of further clarification and discussion on the comments made by banks relating to proposed returns. Consequently, new returns were introduced to commercial banks as a pilot project to test the feasibility of the proposed system and to identify further adjustments necessary in order that the system can be implemented effectively.

On-Site Examinations

In terms of the provisions of the Monetary Law Act, all banking institutions are subject to statutory examinations, *i.e.*, on-site examinations, at least once during each examination period, which, at present, is two years, or if the necessity arises, at a lesser interval.

Examiners of the BSD visit the Head Office and selected branches of each bank to gather necessary information. The BSD has adopted a new approach – the risk based examination of banks through the risk/resource matching for on-site examinations. Accordingly, the degree of a bank's exposure to varied banking risks such as credit risk, market risk, liquidity risk and operational risks is measured, and the adequacy of the resources available is assessed to ascertain a bank's ability to manage these risks. The resources assessed for risk mitigation are capital, earnings and management quality. In addition, a bank's compliance with statutory requirements, applicable laws and regulations and internal controls, as well as other prudential requirements, are also examined. During the year under review, the BSD commenced the on-site examinations of 8 LCBs and 2 LSBs.

New Trends / Other Activities in Bank Supervision

I. Code of Corporate Governance for Banks and Financial Institutions

The code of Corporate Governance for Banks and Financial Institutions (Code) was finalised in June 2002 by the National Task Force on Corporate Governance (NTFCG) established by the Central Bank. NTFCG comprised 16 members representing the Central Bank and other banks and financial institutions. The code was issued to LCBs, LSBs and Registered Finance Companies on 25 June 2002. The core

objective of this code is to promote good Corporate Governance in banks and other financial institutions.

The code comprised twelve principles and each principle has several guidelines relating to the subject covered by the principle. The main principles relate to The Board of Directors, Qualification of Directors, Appointment and Duties of a Director, Chairman and Chief Executive Officer (CEO), Role of the Chairman, Role of the CEO and Senior Management, Role of the Company Secretary, Directors' Training, Committee Structure for Boards, Transparency, Risk Management Systems and Prudential Regulation and Supervision. Most of the principles were adopted from the work carried out in this regard by the international bodies such as the Organisation for Economic Co-operation & Development (OECD), Commonwealth Association for Corporate Governance (CACG) and Bank for International Settlements (BIS).

The banks were advised that the code should be treated as a standard of conduct, in order to maintain the integrity and stability of the financial system.

II. Public Awareness of Financial Institutions

The BSD has taken the following measures with a view to increasing the awareness of the public about the financial system, the institutions that are legally permitted to accept deposits from the public and the nature and the purpose of regulation and supervision of banks and finance companies by the Central Bank:

- (a) Issue of a two paged paper supplement titled "A Guide to Financial Services in Sri Lanka" in the newspapers (in Sinhala, Tamil and English) on 20 January 2002.
- (b) Issue of a special volume of the publication "A Guide to Financial Services in Sri Lanka" as a brochure (in Sinhala, Tamil and English) in April 2002.
- (c) Issue of a press notice titled "Institutions Legally Permitted to Accept Deposits from the Public" and published in the newspapers (in Sinhala, Tamil and English) on 11, 12, 13 and 22 September 2002.
- (d) Making available the above mentioned publications on the Central Bank's website.

These publications were meant to assist the general public to be vigilant about financial institutions in ensuring the safety of their transactions. While the above publications set out factually a list of names of banks and finance companies licensed to accept deposits from the public, they did not make any recommendation to the public to invest in any one of the named institutions. The public had to make its own choice and decision with regard to investment in a particular institution. However, the publications contained guidelines that would assist the public in taking a decision.

III. Hosting of Workshop on "Risks in Turbulent Markets – The Role of Management and Supervisors" held on 24-25 January 2002

The above workshop was hosted by the Central Bank of Sri Lanka in association with SEANZA (South East Asia, New Zealand, Australia) Forum of Banking Supervisors and the Financial Stability Institute of the Bank for International Settlements (BIS) and was organised by BSD. The SEANZA Forum of Banking Supervisors was set up in 1984 as a sub-group of the main SEANZA Forum to promote effective banking supervision in the region through the exchange of information and sharing knowledge on issues and problems of common interest. The workshop was held at the Central Bank Auditorium and 28 delegates from 16 member countries of SEANZA participated in it.

The keynote address delivered by Mr. Andrew Crockett, General Manager, BIS focussed on "Micro Management to cope with Macro Shocks", while the rest of the Workshop concentrated on the following areas:-

- Risk Management Techniques in Volatile Markets
- Supervisors' response to Basel II
- Sound Corporate Governance
- Basel II in Asia
- Implementation of International Capital Standards

IV. Meetings with Chief Executive Officers of Banks

The BSD continued to arrange monthly meetings, chaired by the Governor, with the Chief Executive Officers of LCBs and LSBs. These meetings served as a forum for exchange of views and to discuss issues relating to banking operations, and helped to build a close relationship between the banks and the Central Bank. Application of prudential regulations on off-shore banking units of LCBs, publication of bank interest rates on deposits and advances, reduction of interest spreads of banks and publication of financial information of banks quarterly in the press were some of the major issues that were discussed at the meetings.

V. Financial Stability Committee

The Financial Stability Committee (FSC), which was established by the Monetary Board with the objective of strengthening the stability of the financial system in the country by reviewing the strengths, weaknesses and developments in the financial system, making recommendations on policy measures required for developing the financial infrastructure and for regulating and supervising the financial institutions and by enhancing public awareness on the status of the financial system, commenced its functions in 2002. The Committee identified the following subjects for its first report and work on this is proceeding.

- (a) Impact of the financial system on the national economy.
- (b) Impact of changes in exchange rates and interest rates and of inflation on the financial system.
- (c) Surveillance of the Primary Dealer System for Government Debt Securities.
- (d) The impact of the introduction of Scripless Securities.
- (e) Role of financial institutions in the country's payments system.
- (f) Risk of the payments system on the soundness and viability of financial institutions and risk of the operations of financial institutions on the payments system.
- (g) Whether there should be a single regulator or separate regulators for each sector of the financial system.
- (h) Compliance with Basel Core Principles on Regulations.

VI. Administration of the Deposit Insurance Scheme

The BSD continued to administer the Deposit Insurance Scheme, which commenced operations in 1987. This is a voluntary deposit insurance scheme open to banking institutions licensed by the Central Bank and to co-operative societies registered under the Co-operative Societies Law No.5 of 1972, which carry on banking business. At present, only four Multi-Purpose Co-operative Societies have obtained insurance cover under the scheme in respect of deposit liabilities of their rural banks. The premium payable is 3.75 cents for every Rs.100 per quarter, and the amount paid to the Deposit Insurance Fund by way of premia in 2002 was Rs.1.4 million. The fund stood at Rs.140 million as at 31 December 2002, together with Rs.50 million allocated by the Central Bank in 1997. These funds have been invested in Treasury bills.

Currency Issue

The Central Bank, as the sole currency issuing authority in Sri Lanka, continued to perform the function of issuing legal tender currency from its headquarters in Colombo, and up to 31 May 2002 from the Regional Offices at Anuradhapura and Matara as well. The two state banks and other banks operating in these two centres continued to provide currency services to the public in the respective regions after 31 May. The volume of currency notes and coins in circulation by the end of 2002 stood at Rs.88,308 million, as against Rs.76,561 million at the end of 2001. Notes in circulation comprised 96 per cent of the total currency in circulation. The Department continued to sell commemorative notes and coins to numismatists and collectors. Details of all commemorative coins and notes available for sale at the Central Bank of Sri Lanka, together with their selling prices, are given in Table II - I.

After the Voluntary Retirement Scheme of the Bank became effective, the staff strength of the Department in 2002 was reduced to half the level as at end 2001. However, with reorganisation and reallocation of duties, the Department was able to continue providing its services as effectively as before.

TABLE II - 1
Commemorative Coins and Notes Available for Sale

No.	Description	Year of Issue	Metal	Diameter (mm)	Weight (g)	Face Value (Rs.)	Selling Price (Rs.)
1.	40th Anniversary CBSL (Capsule)	1990	Silver	38.61	28.28	500	500
2.	5th South Asian Games (Pr. Box)	1991	12Kt. Gold	14.00	1.60	500	600
3.	5th South Asian Games (Capsule)	1991	12Kt. Gold	14.00	1.60	500	500
4.	5th South Asian Games (Pr. Box)	1991	Silver	22.00	10.20	100	200
5.	5th South Asian Games (Capsule)	1991	Silver	22.00	10.20	100	100
6.	President R Premadasa (Capsule)	1992	Cu-Ni	25.40	7.13	1	250
7.	2300 Mihindu Jayanthi (Pr. Box)	1993	Silver	38.61	28.28	500	700
8.	- do - (Capsule)	1993	Silver	38.61	28.28	500	500
9.	50th Anniversary of the UNO (Capsule)	1995	Nickel Brass	23.50	9.50	5	200
10.	50th Anniversary of Ind. Sri Lanka (Pr. Box)	1998	22Kt. Gold	22.05	7.98	5,000	8,000
11.	- do - (Pr. Box)	1998	Silver	38.61	28.28	1,000	1,200
12.	- do - (Note Folder)	1998	Polymer			200	400
13.	Cricket World Cup 1996 (Pr. Box)	1999	Silver	38.61	28.28	1,000	1,200
14.	50th Anniversary of SL Army - Proof (Pr.Box)	1999	Ni Plated Steel	25.40	7.13	1	400
15.	- do - Brilliant Uncirculated (Pr.Box)	1999	Ni Plated Steel	25.40	7.13	1	150
16.	50th Anniversary CBSL (Pr.Box)	2000	Silver	38.61	28.28	1,000	1,200
17.	50th Anniversary of SL Navy - Proof (Pr.Box)	2000	Cu-Ni	25.40	7.13	1	500
18.	- do - Brilliant Uncirculated (Pr.Box)	2000	Ni Plated Steel	25.40	7.13	1	200

Taking into consideration the attempts at counterfeiting currency notes, arrangements were made to enhance the security features in the Rs.1,000 and Rs.500 currency notes. During the year, the Department continued to work in close co-operation with the Counterfeit Currency Bureau of the Criminal Investigation Department to contain and minimise attempts at counterfeiting.

The two Currency Verification, Counting and Sorting Machines, which were upgraded in the second half of 2001, facilitated the processing of a higher volume of currency notes, both serviceable and unserviceable, during the year. Purchase of five desk top counting machines enabled the counting of serviceable notes at a faster rate with a smaller staff. After the refurbishment of the Main Vault in the Head office Building, a large stock of currency that was kept in the Vault in the Treasury building for a considerable period of time was shifted to the Main Vault. The coin collecting programme to collect coins at various religious centers was continued, and the value of coins collected in 2002 amounted to Rs.10.0 million.

The Department continued to conduct awareness programmes on identification of counterfeit notes for bank officers, school children, government employees and the general public, through public lectures and the electronic media. A special radio programme to educate the general public on the evolution of currency was also conducted. A delegation from the Nepal Rastra Bank who visited Sri Lanka in September 2002 under the SAARCFINANCE Staff Exchange programme was provided with an opportunity to familiarise themselves with currency operations.

The Currency Department also participated in the following programmes, organised by the government.

- (a) "Yuga Dekma" Industrial Exhibition organised by the Ministry of Industries, held in Trincomalee from 16 to 20 August 2002.

- (b) "Mahaweli Mahima" exhibition at Galnewa, organised by the Ministry of Irrigation and Water Management and the Mahaweli Authority, from 30 September to 6 October 2002. The currency stall included a currency exhibition and demonstrations on the identification of counterfeit notes.

- (c) Mahapola Trade Fair and Exhibition organised by the Ministry of Commerce and Consumer Affairs, at Kotte, Kataragama and Ampara during the second half of the year.

- (d) "Sahithya Kala Prasadini" exhibition organised by the Department of Cultural Affairs from 18 to 20 October 2002 at Mahamaya Girls College, Kandy.

Domestic Operations

The Domestic Operations Department which was established on 1 January 2002 performed the dual functions of implementing the Bank's monetary policy mainly through open market operations and enforcement of statutory reserve requirement, and of serving as the banker to commercial banks and the government.

a. Implementation of Monetary Policy

(i) Open Market Operations

During 2002, Open Market Operations (OMO) continued to be the main instrument through which monetary policy was implemented by the Central Bank. OMO, as in the past years, included Repurchase (Repo) and Reverse Repurchase (Reverse Repo) transactions and outright buying and selling of government securities. Only Treasury bills were used as collateral for Repo transactions. However, for Reverse Repo transactions, both Treasury bills and Treasury bonds were used.

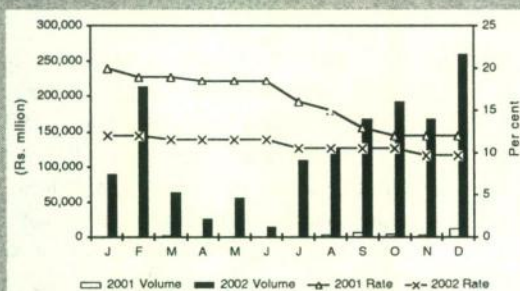
In contrast to 2001, which was characterised by a chronic liquidity shortage, the rupee liquidity in the market improved and a surplus emerged during 2002, particularly in the second half, following the issue of US dollar denominated Sri Lanka Development Bonds, government foreign currency borrowings and purchases of foreign currency in the domestic market by the Bank. The surplus was absorbed by the Bank through Repo transactions and outright sales of Treasury bills at the secondary window. Correspondingly, there was a marked reduction in Reverse Repo transactions and outright purchases of government securities by the Bank at the secondary window.

(ii) Repurchase (Repo) Transactions

In the liquid market in 2002, investments in Repo agreements in Treasury bills became the major avenue available for the participating institutions which consisted of Licensed Commercial Banks (LCBs), Primary Dealers (PDs) and Central Bank's internally managed funds to invest their excess funds for short periods, ranging from overnight to seven days. These investments helped stabilise the lower end of the inter bank call money market rates. The total volume of Treasury bills (overnight equivalent) sold under repurchase agreements increased from Rs. 203 billion in 2001 to Rs.1,764 billion in 2002. An overwhelmingly larger proportion of these investments was taken by LCBs.

The overnight Repo rate is determined by the Bank taking into consideration the conditions in the financial markets as well as its monetary policy stance. In view of the improved financial market and macroeconomic conditions, the rate was brought down from 12.0 per cent to 11.5 per cent on 20 March 2002 and further to 10.50 per cent on 26 July 2002. It was further reduced to 9.75 per cent on 22 November 2002 in line with the declining trend in interest rates in the liquid market following the deceleration in the inflation rate and to support the recovery in economic activity.

Chart II - 1
Repo Monthly Volumes and Rates
(2001 and 2002)

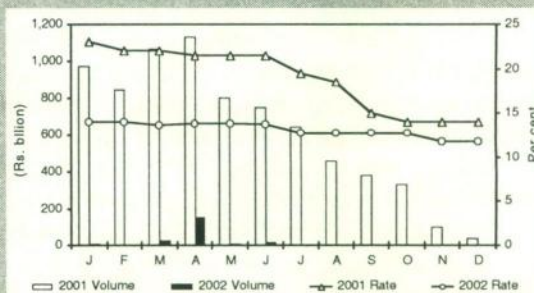


(iii) Reverse Repurchase (Reverse Repo) Transactions

The Reverse Repo window of the Bank, which helped to stabilise the upper end of inter bank call money rates in the last two years, became relatively inactive in 2002 with the improvement in market liquidity. The overnight equivalent of total volume of Reverse Repo at the Reverse Repo window of the Bank by commercial banks and primary dealers decreased from Rs.7,544 billion in 2001 to Rs.216.5 billion in 2002. These transactions were concentrated largely in the first half of the year. Reverse Repo transactions were not conducted with internally managed funds.

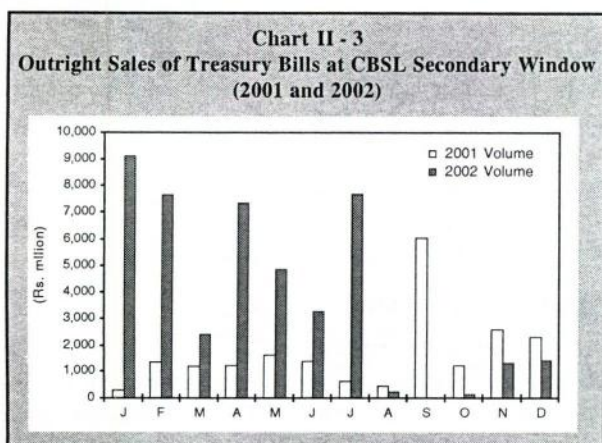
Similar to the Repo rate, the Reverse Repo rate was also determined by the Bank, taking into consideration its monetary policy stance and financial market conditions. The Reverse Repo rate was reduced from 14.00 per cent to 13.5 per cent on 20 March 2002, but increased in three steps to 13.85 per cent by 4 April 2002. Again it was brought down to 13.75 per cent on 4 June 2002 and further to 11.75 per cent in two steps by 22 November 2002.

Chart II - 2
Reverse Repo Monthly Volumes and Rates
(2001 and 2002)



(iv) Outright Transactions in the Secondary Window

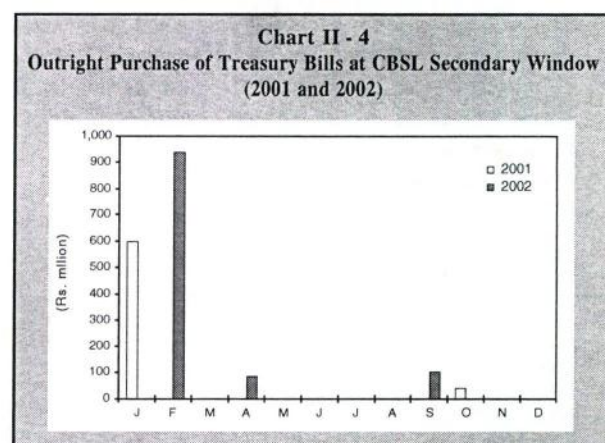
The total outright sales (discounting) of Treasury bills in the secondary window of the Bank to the participating institutions (PIs), amounted to Rs.45.5 billion in 2002, recording a more than a 100 per cent increase from Rs.20.4 billion in 2001. The main contributory factors for this development were the improvement of rupee liquidity in the market and the declining trend in Treasury bill yield rates at the primary market, which enabled PIs to secure a better yield at the Bank's secondary window during the first seven months of the year. The Bank's decision in 2000 to physically deliver the Treasury bills to the respective buying parties, thereby providing an opportunity for them to use such Treasury bills for trading in the



market, also made the Bank's secondary window more attractive. A total of Rs.10.6 billion worth of Treasury bills were bought by internally managed Funds of the Bank.

The Bank's discounting yield rates which were determined by deducting a margin from the respective primary market yield rates moved in line with the trends witnessed in the primary market. The margin, which was fixed by the Bank taking into consideration the developments in the market as well as the monetary policy stance, was raised in August 2002 to eliminate a distortion in the rates. This distortion was caused by the tendency in the yield rates in the primary market to decline by more than the Bank's margin following the improvement in liquidity. The increase in the margin would encourage dealers to bid competitively in the primary market instead of purchasing Treasury bills at the secondary window of the Bank. The Bank's discounting yield rates on 91 days, 182 days and 364 days Treasury bills gradually decreased from 12.93 per cent, 13.21 per cent and 13.69 per cent per annum respectively, at the beginning of 2001 to 8.67 per cent, 8.64 per cent and 8.66 per cent per annum respectively, at the end of the year.

Outright purchases (re-discounting) of Treasury bills by the Bank increased from Rs.645 million in 2001 to Rs.1.1 billion in 2002, an increase of 71 per cent (Rs.483 million). This was due to the increased resort to rediscounting by internally managed funds by Rs.1 billion to meet their unexpected fund requirements. The contribution by LCBs and PDs to the total outright purchases declined by Rs. 495 million (83 per cent), to Rs.102 million, reflecting the improved liquidity in the market during the year. In line with the declining trend in the yield rates at the Treasury bills primary auctions, re-discounting yield rates on 91 days, 182 days and 364 days Treasury bills gradually decreased from 14.23 per cent, 14.51 per cent and 14.99 per cent per annum respectively, at the beginning of 2002 to 11.17 per cent, 11.14 per cent and 11.16 per cent, respectively at the end of the year.



(v) *Active Open Market Operations*

Initiatives were taken to conduct OMO in a more active manner at market rates of interest, within an interest rate corridor established by the Bank in order to improve the Bank's techniques of monetary management. The proposed system is described in Box 20 in Part I. In order to gain experience under the proposed system, mock operations commenced on 9 December 2002 and continued everyday thereafter. Necessary preparatory work including the operational procedures and guidelines have been completed, and the proposed system would be implemented with effect from March 2003.

(vi) *Statutory Reserve Requirement (SRR)*

The SRR against deposit liabilities of commercial banks, denominated in Sri Lanka rupees, remained at 10 per cent during the year.

(vii) *Bank Rate*

The Central Bank's rate of interest (Bank Rate) on short term advances to LCBs, stipulated under Section 87 of the Monetary Law Act, remained at 18 per cent during the year.

b. Functions as the Banker to Commercial Banks and Government

(i) *Financial Institutions Accounts*

Operating as the banker to banks, the Bank continued to provide current account facilities to commercial banks and primary dealers to ensure an efficient inter-bank payment and settlement system.

(ii) *Government Accounts*

As banker to the government, the Bank continued to maintain accounts of government departments, government agencies and institutions and certain statutory boards, providing them with required banking facilities. The total number of such accounts maintained by the Bank stood at 119 as at the end of

2002. A total of 29 non operative accounts were closed and 5 new accounts were opened in 2002 at the request of the government. In terms of Section 89 of the Monetary Law Act, the Bank continued to provide provisional advances to the government. The limit on such advances (10 per cent of the estimated government revenue) increased by Rs.1,159 million to Rs. 31,367 million in 2002.

(iii) Import Duty Rebate to Exporters

The Bank reimbursed on behalf of the government, a total sum of Rs. 304 million to LCBs in 2002 in respect of import duty rebates paid by them to exporters as against a total sum of Rs.249 million reimbursed in 2001.

(iv) Subsidy and Ex-Gratia Payments to Indian Repatriates

The total subsidy payments made on behalf of the government to repatriated estate workers of Indian origin under the Indo Ceylon Agreement of 1964 amounted to Rs.42,250 in 2002 against Rs.95,103 in 2001. Ex-gratia payments amounted to Rs.3,300 in 2002 against Rs.7,425 in 2001.

Employees' Provident Fund

The Monetary Board, as the custodian of the Employees' Provident Fund (EPF), continued to discharge its responsibilities, in terms of the EPF Act, of receiving contributions, surcharges, and income from investments, maintaining proper accounts of registered employments, members and the Fund, investing excess monies in suitable investments, and paying benefits to the members of the Fund with the co-operation of the EPF Division of the Department of Labour.

EPF published its Annual Accounts of 2001 in the media for the first time since its inception, in December 2002, which was a step forward toward improving the public disclosure of its activities. The EPF website (www.epf-cbsl.lk), which was developed with the assistance of the ITD of the Bank, was operational from February 2002 and would evolve further as a direct communication method with the Fund and its stakeholders.

EPF also participated, along with other Departments of the Bank, in "Yuga Dakma - 2002" Industrial Exhibition which was held in Trincomalee in August 2002. It was a good opportunity for the EPF to reach members who require information on EPF matters and to help them have their problems resolved. Members were also able to check their EPF balances through a computer terminal connected to the main database in the Bank. The majority of their issues were resolved then and there, while the remainder were resolved completely within a period of about 10 days after the exhibition.

The annual member statements for 2001 and the semi-annual member statements for the first half of 2002 were issued to members through their employers during the year. The Department's strategy of outsourcing certain operational activities, in keeping with the current trend in the world, ensured the smooth functioning of its tasks, when 51 per cent of the permanent cadre in the Department retired under the Voluntary Retirement Scheme of the Bank.

System Improvements

The EPF further reviewed its system for efficiency, cost effectiveness, good governance and transparency, and introduced necessary improvements. The importance of an internal audit system covering 100 per cent of the Fund's activities and operations had been recognised for a long time. During the year, PriceWaterhouseCoopers, a private audit firm, was appointed as the Internal Auditor for the EPF. In addition to the benefit of a full audit of its work and recommendations for system improvements, the outsourcing of the service has also been a cost saver for the Fund.

The main IT system of EPF was further expanded to accommodate more computer peripherals to the system. A further automation in the form of voucher generation through the system was introduced, thereby improving the ability of the Fund in timely account preparation. In coordinating with the Labour Department for decentralising refund-making process to district Labour Officers, the EPF ensured the accessibility to those Labour Officers of the required information in the EPF database, through terminals. This mechanism has substantially increased the efficiency in the refund process, since the member is able to verify the information in his refund application for compatibility with particulars in the database of the EPF at the time of submitting the application. A system, which electronically provides information to the Textile Quota Board, has reduced the workload of the EPF and eliminated the possibility of producing a fraudulent receipt. In all computer-based activities of the EPF, the collaboration rendered by the ITD of the Bank is highly appreciated.

Investments

During the year, the total investment portfolio of the Fund grew further at a rate of 14.5 per cent to record a cost value of Rs.283 billion as at end 2002. In accordance with the EPF's investment policy of diversifying its investments with market oriented instruments, total investments in Treasury bonds – a market oriented government instrument, expanded further to 36 per cent of the total investment portfolio as at end 2002, against 25 per cent in the previous year. The total investments in Rupee Securities – an off market government instrument, continued to drop further to 61 per cent of total investment portfolio as at end 2002 from 72 per cent as at end 2001.

With regard to equity market activities, 2002 was a year in which EPF reaped benefits from its prudent investment approach. The equity market continued its bull run owing to

TABLE II - 2
EPF : Performance of Equity Portfolio
during 2001 and 2002

Item	Rs. mn.	
	2001	2002
Average Portfolio	1,182	1,219
Total Dividend Income (a)	92	90
Total Capital Gains	22	143
Bonus Shares Received (valued at the end of the period)	1	2
Total Dividends, Capital Gains and Bonus Shares	115	235

(a) Inclusive of tax-saving on tax-exempted dividends

Source : Employees' Provident Fund

the peace process, perception of economic recovery and decreasing interest rates, which together enhanced investor confidence. The stocks, which were collected at deep discounted prices, after thorough analyses and market monitoring during the period of 1998 to 2001, yielded high capital gains to EPF. The listed equity portfolio generated a gross return of Rs.235 million or 19.2 per cent on the average portfolio in 2002, through realised capital gains, dividend income and bonus shares. In addition, this portfolio marked an unrealised capital gain of Rs.433 million to market prices as at year end. Total investments in listed equities amounted to Rs.1,311 million or 0.5 per cent of the total investment portfolio as at 31 December 2002.

Secondary Market Trading Activities

Further, EPF endeavored to enhance the realisable rate of return on Treasury bonds and Treasury bills through secondary market participation. During the period under review, EPF realised capital gains of Rs.1,623 million from secondary market activities, out of which Rs.1,480 million came from secondary market dealings on Treasury bonds and bills. The comparative figures in 2001 were Rs.295 million and Rs.273 million, respectively. Table II - 3 below presents the details of secondary market activities of the EPF during 2002.

TABLE II - 3
EPF : Secondary Market Activities
during the year 2002

Item	Rs. mn.		
	Volume Purchased (a)	Volume Sold (a)	Capital Gain
Treasury Bonds	15,525	21,795	1,474
Treasury Bills	3,431	480	6
Equity Shares	345	299	143
Total	19,301	22,574	1,623

(a) At cost values

Source : Employees' Provident Fund

Housing Loans on EPF Members' Balances

An EPF member is eligible to obtain a loan for housing purposes from an approved lending institution, pledging the member's balance up to a maximum of 75 per cent of such balance. A second loan is also available upon the successful settlement of the first. In 2002, EPF issued 19,502 member balance certifications for a total approved loan amount of Rs.2,673 million to lending institutions.

Currently Non-contributing Member Accounts (CNMA)

As at end 2002, the number of Currently Non-contributing Member Accounts (CNMA) amounted to 7.3 million out of total Member Accounts of 9.3 million. The number of CNMA is continuously growing mainly due to one member having more than one account with the Fund. Although the Fund credits the annual interest on these CNMA also, and refunds them at the member's retirement, the accumulation of CNMA hampers administrative efficiencies. Therefore, members are encouraged to avoid duplication of their accounts by forwarding "Form G" to the Commissioner of Labour through their new employer at the time of changing their employment.

TABLE II - 4
EPF : The Salient Features

Item	2001	2002
Number of Members Accounts		
Currently Contributing Members Accounts (CCMA)	1,913,201	1,984,000
Currently Non-contributing Members Accounts (CNMA)	7,083,002	7,324,000
Total Contributions (Rs. mn.)	17,738	18,927
Total Refunds (Rs. mn.)	11,194	12,553
Number of Refunds	93,008	91,493
Total Investment Portfolio (Rs.bn.)	247	283
Government Securities Investments as a % of Total Investments (%)	97.9	97.5
Private Sector Investments as a % of Total Investments (%)	2.1	2.5
Realised Rate of Return on Average Portfolio (%)	13.10	13.64
Total Members Balance (Rs. bn.)	256	295
Total Gross Income (Rs. mn.)	30,401	36,171
Income Tax (Rs. mn.)	2,991	3,327
Administration Expenses (Rs. mn.)	260	333
Administration Expenses as a % of Gross Income (%)	0.86	0.92
No. of Member Balance Certifications Issued for Housing Loans	16,066	19,502
Annual Interest Rate Declared on Member Balances (%)	11.50	12.10
Effective Interest Rate Declared on Member Balances (%)	11.69	12.26

Source : Employees' Provident Fund

Exchange Control

In 2002, a major development in the sphere of Exchange Control was the removal of restrictions that existed on investment in Sri Lanka by non residents in the equity of companies in certain important areas, such as financial sector activities, infrastructure development and professional services. Other policy measures implemented during the course of 2002 were extending the facility of maintaining interest bearing accounts to foreign passport holders with resident visas, permitting exporters to pay freight in foreign currency, permitting migrant workers to obtain housing loans in foreign currency, the enhancing of the limit for travellers to take out of the country Sri Lankan rupees, and permitting persons to retain in their possession a limited amount of unutilised foreign currency purchased for previous travel by residents, for use in future travel. In addition, recommendations made by the Financial Sector Reform Committee (FSRC) to remove impediments that existed on payment terms on current international transactions that had already been liberalised and to further liberalise capital account transactions have been announced in November 2002 as Budget Proposals for 2003. Action was initiated to give effect to these proposals in early 2003.

The Exchange Control Department (ECD) also further strengthened its monitoring activities, with the multiple objectives of detecting transactions related to terrorism having regard to the UN resolutions, preventing and detecting exchange malpractices, and detecting activities of unauthorised remittance agents. Activities relating to registration of freight forwarders and granting and renewal of permits of travel agents, money changers and other persons and entities permitted to accept foreign currency also continued during the year. The supervision and monitoring of activities of money changers were intensified during the year, resulting in significant improvements in turnover in the money changing business.

1. Capital Transactions

(a) Non Resident Investment in Sri Lanka

In the Budget for 2002, it was decided to permit non resident investment upto 100 per cent of the equity capital in any rupee company established in the areas of financial sector activities such as banking, finance, insurance, stock broking, with a view to developing Sri Lanka as a financial hub. Non resident investment was also permitted upto 100 per cent in activities related to infrastructure development such as construction of residential buildings and roads, supply of water, mass transportation, telecommunication, production and distribution of power and energy. Further, non residents were permitted to freely invest upto 100 per cent in professional services, and setting up of branch/liaison offices of companies incorporated overseas in Sri Lanka. These measures were given effect to by a notice published in the *Gazette* Notification No: 1232/14 of 19 April 2002.

(b) Investment Abroad by Sri Lankan Residents

Granting approval for applications for investment abroad by Sri Lankan residents was streamlined in 2002 in terms of a set of norms. When compared with the previous year, the number of approvals granted for investment abroad by resident companies in 2002 increased significantly. Twenty one resident companies were permitted to make investments abroad in 2002. These investments were made for the purpose of promoting export of goods and services such as readymade garments, software development, leasing, financing, brokering and freight forwarding. The total value of investments so approved amounted to approximately US dollars 11.4 million. Further, employees of three resident companies were permitted to participate in Employee Share Option Schemes offered by their parent companies, having regard to special benefits accruing to the employees.

(c) Rupee Lending to Non-resident Controlled Companies

In 1999, all commercial banks and the National Development Bank (NDB) and the DFCC Bank licensed under the Banking Act were permitted to extend rupee accommodation including loans and advances to non resident controlled companies, except such companies as were approved under Section 17 of the BOI Act (BOI companies). With effect from April 2000, this permission was extended to cover non resident controlled companies approved under Section 17 of the BOI Act as well. However, credit facilities granted to non resident controlled BOI companies were subject to prudential limits. In the case of state banks, such accommodation was restricted to 2 per cent of their total credit to the private sector, while private domestic banks were permitted to extend credit facilities upto 3 per cent. The prudential limits applicable to DFCC Bank and NDB were initially at 5 per cent and later enhanced upto 10 per cent with effect from 10 April 2001. However, the FSRC accepted in principle that there should be no discrimination between BOI companies approved under Section 17 of the BOI Act and those approved under normal law, and proposed that these prudential limits be removed.

(d) Foreign Currency Borrowings by Residents

At present, all commercial banks are permitted to extend foreign currency loans to direct and specified indirect exporters. Among specialised banks, NDB and DFCC Bank are also permitted to extend foreign currency loans to exporters, provided they have foreign exchange resources received on foreign credit lines to do so. In the case of default of such foreign currency loans, banks had to obtain permission from the Controller of Exchange to convert the rupee proceeds arising out of the sale of assets mortgaged on such loans into foreign currency. Permission was granted to convert sale proceeds to the extent of Rs.79.8 million in respect of two loans.

In order to extend the benefits of low interest rates on foreign currency loans to migrant workers who require loans to construct houses, permission was granted to Authorised Dealers, with effect from September 2002, to extend foreign currency loans to Sri Lankan migrant workers repayable out of their foreign currency earnings.

(e) Borrowing from Foreign Sources by Resident Companies

Borrowing abroad by resident companies, other than companies approved under Section 17 of the BOI Act with full exemption from the provisions of the Exchange Control Act (Section 17 BOI companies), need the prior approval of ECD. During the year under review, five resident companies were permitted to borrow in foreign currency from foreign lending institutions. The total borrowings amounting to US dollars 8.21 million.

(f) Blocked Funds held by Sri Lankan Emigrants and Foreign Nationals

Funds realised on the sale of capital assets belonging to Sri Lankan emigrants continued to be kept in blocked accounts, while the interest earned on such funds were permitted to be remitted after meeting any tax liabilities. As in the past, release of funds in these blocked accounts were permitted through commercial banks subject to a limit of Rs.750,000 per individual and Rs.1.0 million per family unit. Accordingly, a sum of Rs.135.9 million was permitted to be remitted abroad in respect of 199 applications received from persons leaving the country to take up permanent residence abroad during the year. Further, a sum of Rs.13.9 million was permitted to be remitted abroad during the year, being sale proceeds of immovable properties belonging to Sri Lankans who had emigrated earlier.

(g) Rupee Accounts of Foreign Passport Holders

Non residents, including Diplomatic Missions in Sri Lanka, had been permitted to maintain rupee accounts on an interest bearing basis since April 2001. This facility was extended to cover resident foreign passport holders with effect from January 2002.

(h) Foreign Currency Account Facilities for Shipping/Air Lines

With effect from 22 March 2002, Section 17 of BOI companies and non BOI exporters were permitted to pay sea/air freight in foreign currency from funds in their foreign currency accounts. In order to credit such payments, foreign currency accounts were permitted to be maintained by shipping/airline agents on behalf of their foreign principals.

2. Import and Export of Sri Lanka Currency and Possession of Unutilised Foreign Currency

With effect from 16 March 2002, the limit applicable to the export and import of Sri Lanka currency notes by persons

travelling abroad and returning from travel abroad was increased from Rs.1,000 to Rs.5,000. This increase was made for the convenience of residents travelling abroad, in order to enable them to meet expenses such as taxi fares etc. on their return to Sri Lanka.

Further, with effect from the same date, permission was granted to a resident to retain foreign currency in the form of travellers' cheques and currency notes upto a total value of US dollars 2,000 or its equivalent in other convertible foreign currencies of which not more than US dollars 500 or its equivalent could be in currency notes, provided such foreign currencies had been purchased from an Authorised Dealer for travel abroad and had not been utilised during such travel. Such retained foreign currency could be used by the same person in future travel abroad.

3. Trade Transactions

During the year, the import of gold has been further liberalised by granting permission to import gold on consignment account basis by limited liability companies, subject to certain terms and conditions, by a Notice published in the *Government Gazette Extraordinary* No. 1263/10 of 22 November 2002. Hitherto, this facility was available only to licensed commercial banks. The eligibility criteria for this facility is that the importer should be a limited liability company primarily engaged in trading of gold or manufacturing gold jewellery or similar products with a paid up capital of not less than US dollars 10 million, a good financial track record for a period not less than three years and experience of not less than 3 years in gold trading. In respect of companies which had not been in existence for 3 years, the experience and financial track record of the group of companies to which the company belongs, would be taken into consideration.

4. Liberalisation Measures announced in Budget 2003

In 2002, the Financial Sector Reforms Committee (FSRC) of the Central Bank appointed a task force to make recommendations on further relaxation of Exchange Control restrictions. Some of the recommendations of this task force, which were adopted by the FSRC, to remove certain impediments on current international transactions that had previously been liberalised, and to further liberalise capital account transactions, have been included in the Budget for 2003 announced in November 2002. These recommendations are given below:

(a) Relaxation of existing payment terms on imports to enable Sri Lanka Customs to release all imports without referring to the Exchange Control Department

A decision was taken to amend regulations published in the *Extraordinary Gazette* No. 1022/6 of 8 April 1998, to enable

Sri Lanka Customs to release imports which do not fall within the payment terms stipulated in such regulations. These imports include imports on no foreign exchange involved basis over US dollars 1,000 such as gifts, trade samples and equipment and machinery sent by foreign investors for their projects in Sri Lanka without payment from Sri Lanka. In view of Sri Lanka's acceptance of obligations under Article VIII of the IMF in 1994, to remove restrictions on current transactions, and also with a view to avoiding inconvenience to the public, it was felt that it was appropriate to authorise Sri Lanka Customs to release goods imported on "no foreign exchange involved basis" and imports which did not strictly fall within stipulated payment terms, without referring them to ECD. However, ECD would continue to monitor advance payments made for import of goods to ensure the receipt of goods for which such payments are made.

(b) Removal of prudential limits on rupee lending by banks to foreign controlled companies approved under Section 17 of the BOI Act.

Prudential limits applicable in respect of rupee lending to foreign controlled companies approved under Section 17 of the BOI Act, indicated above in item (c) under "Capital Transactions", have been removed, placing all non resident controlled companies on an equal basis with regard to access to rupee credit facilities from banks.

(c) Permitting the import of goods and services on credit basis at a reasonable rate of interest

Hitherto, while imports were permitted on deferred payment basis, if an interest rate was charged on such credit facilities, prior approval of the Controller of Exchange was required. However, in terms of this budget proposal, commercial banks are delegated the authority to permit imports on credit basis, provided the interest rate charged is reasonable.

(d) Permitting conversion into foreign currency of rupee proceeds realised on the sale of properties mortgaged as security for foreign currency loans, in settlement of the outstanding balances of such loans in case of default

The approving authority, so far vested with the Controller of Exchange, for the conversion of rupee sale proceeds of assets mortgaged for a foreign currency loans which were in default, is delegated to the lending banks, subject to the condition that evidence is available to the effect that –

- (i) assessment of credit risk at the time of granting the loan has been properly done; and,
- (ii) attempts to sell the mortgaged property against foreign currency to another party have failed.

(e) Increasing the period permitted for forward purchase of foreign currency from banks

The period permitted to purchase foreign currency forward from banks, which was 360, days is extended upto 720 days for the purpose of repayment of loans etc.

(f) Permitting the purchase of foreign currency forward for imports from a bank other than the bank through which the import documents are routed

Importers were permitted to purchase foreign currency forward up to 360 days from the commercial bank handling the import documents. In terms of this budget proposal, forward purchases would in future be permitted from a bank other than the bank establishing documentary credit for imports and collecting import bills on documents against acceptances (D/A) or documents against payment (D/P) terms subject to providing evidence of the underlying transaction to the bank which sells foreign exchange.

(g) Permitting the issue of guarantees to non residents in respect of bid bonds, performance bonds and other transactions

In terms of the above proposal contained in the Budget for 2003, authorised dealers are permitted to issue and renew guarantees in respect of obligations undertaken by a person resident in Sri Lanka which would involve a payment in foreign exchange to persons resident outside Sri Lanka in respect of the following:

- i. Bid Bonds in favour of persons resident outside Sri Lanka without a limit in respect of exports and other service contracts, subject to conditions stipulated in the tender or quotation.
- ii. Performance Bonds in favour of persons resident outside Sri Lanka without a limit in respect of exports or other service contracts subject to proof of the award of the contract, and conditions stipulated in the contract.
- iii. Letters of guarantees for purposes other than those referred to in item (i) and (ii) above upto a value of US dollars 500,000, subject to furnishing evidence of the underlying transaction.

(h) Permitting the repatriation of sale proceeds of real assets purchased by non residents through inward remittances out of Sri Lanka without referring to the Exchange Control Department

Non residents are permitted to purchase property for residential purposes out of inward remittances brought into the country, but the repatriation of sale proceeds of such property was permitted only with the prior approval of ECD. In terms of the above budget proposal, the repatriation of sale proceeds of

properties so purchased to investors or their heirs may be effected through commercial banks up to the extent of foreign currency brought into Sri Lanka for such purchase and for development of the property, without referring to ECD. Any capital gains earned should be maintained in an account with a licensed commercial bank in Sri Lanka

(i) Removal of restrictions on opening of branch and liaison offices in Sri Lanka by non residents

In terms of the above proposal non residents are permitted to open branch/liaison offices in Sri Lanka, subject to furnishing evidence of bringing in a minimum capital of US dollars 100,000 or its equivalent in other foreign currencies to Sri Lanka, if the branch/liaison office is to be engaged in commercial activities, or undertaking to meet all local expenses out of foreign currency brought into Sri Lanka, if it is not to be engaged in commercial activities.

Action is being taken to implement the above proposals contained in the Budget for 2003 in early 2003.

5. Registration of Freight Forwarders and Issue of Permits to Engage in Foreign Exchange Transactions

ECD continued to register freight forwarders, grant authority to travel agencies to issue travellers cheques (TCs) and issue/renew licences of money changers and other establishments such as hotels, duty free shops, travel agents and service providers to accept foreign currency with respect to sales and services performed by them for tourists.

(a) Registration of Freight Forwarders

During the year 2002, 8 new companies were registered as freight forwarders bringing the total number of companies registered as freight forwarders to 117 at the end of the year. The ECD continued to monitor the activities of freight forwarders registered with them.

(b) Authority for Travel Agents to issue Travellers' Cheques

During the year 2002, one more travel agent was granted authority to issue TCs bringing the total number of travel agents so authorised to 8.

(c) Appointment of Money Changers and their supervision

During the year, the ECD issued 6 new permits for companies to engage in the money changing business, and the permits of 32 money changers were renewed, bringing the total number of authorised money changers to 38. However, the validity period for new permits issued was restricted to a period of 6 months, subject to the condition that such permits would be renewed only if such money changing companies achieved a minimum average turnover of US dollars 5,000 per month. As

a result of enforcement of stringent criteria for granting and renewing of money changing permits, including the cancellation of permits of those unable to report a minimum average turnover of US dollars 5,000 per month and the regular inspections carried out on money changers, a rapid growth in the turnover in the money changing business was observed during the last 2 years. Annual reported turnover of money changers increased from a mere US dollars 39.7 million in 2000 to US dollars 100.9 million in 2001 and further to US dollars 142.9 million in 2002. This has resulted in reduction of foreign currency leakages to the informal market.

6. Monitoring

With the liberalisation of current account transactions in 1994, Authorised Dealers (ADs) and approved travel agents were permitted to release foreign exchange without any restrictions for current account transactions, exercising their judgement and discretion and after satisfying themselves with the *bona fides* of the requests.

All ADs and approved travel agents are, however, required to report to ECD sales and purchases of foreign exchange on a regular basis to enable ECD to monitor such transactions. From 1999, ADs were also required to report releases of foreign exchange through Electronic Fund Transfer Cards (EFTCs). At present, ADs provide detailed monthly reports on EFTCs, where the monthly drawings in foreign exchange exceed US dollars 5,000 per card. Monitoring activities on the sales and purchases of foreign exchange were pursued with greater intensity. ECD continued to monitor payments made in advance for imports in order to ensure the receipt of goods and services in the country against such advance payments. Credits and debits made to rupee accounts maintained by shipping and airline agents as well as freight forwarders on behalf of foreign principals/agents continued to be monitored during the year.

7. Combating the Financing of Terrorism

The ECD established in 2001 a special surveillance unit to monitor the adherence of banks, money transfer agencies, money changers, travel agents and other persons and entities authorised to accept foreign currency to the requirements laid down by the Ministry of Foreign Affairs in terms of UN Regulations No. 1 of 2001, and also to detect other sources for the financing of terrorism. These activities continued during the year under review, and several directions were issued to commercial banks, specialised banks (jointly with the Director of Bank Supervision), money changers, travel agents authorised to issue TCs and other persons and entities authorised to accept foreign currency, requiring compliance with directions issued by the Ministry of Foreign Affairs in terms of UN Regulations No. 1 of 2001.

8. Investigation

The ECD continued with investigations on alleged violations of the Exchange Control Act and total penalties imposed in

cases concluded during the year amounted to Rs.6.06 million. A further significant achievement in the area of investigation was the indictment of persons involved in two massive foreign exchange frauds in the High Court. ECD was also involved in the prosecution of persons who were in possession of foreign currency illegally in the Magistrate Court on the basis of information received from the Indian Customs Department at the Indo-Lanka Bilateral talks. Steps were also taken to investigate cases detected relating to alternative remittance mechanisms operating in Sri Lanka which could be involved in money laundering activities.

Information

The Information Department continued to operate as the information centre of the Bank, responsible for dissemination of information to the staff of the Bank and to the public. The Department performed its functions and duties as well as other special assignments with a reduced number of staff under the modernisation programme of the Bank, having outsourced some of its activities.

"Kauluwa", the newly introduced in-house news and features magazine, which opened a platform for an effective two-way communication between employees and the management, continued to be published throughout the year.

Catering to information needs of the public, the daily exchange rates, weekly and monthly economic indicators, consumer price indices, information on Treasury bills and Treasury bonds were published regularly. In addition, the Department handled official press releases, advertising and other publicity work of the Bank. The Department also commenced dissemination of information through electronic media to various users. It organised a number of press conferences on various issues including a Media Workshop on economic reforms. The monthly publication "Satahana" and bi-monthly publication "News Survey" continued to be published. The Department also commenced the publication of "Kurippedu", the Tamil version of "Satahana" for the benefit of Tamil readers.

The printing press, as in the previous years, continued to fulfil the printing requirements of the Bank. The regular printing assignments included the printing of the Annual Report of the Central Bank, Sri Lanka Socio-Economic Data, Economic and Social Statistics of Sri Lanka. 'News Survey', 'Satahana' and 'Staff Studies'. English and Sinhala versions of "Heritage of Sabaragamuwa" and the third revision of the Laws Relating to Banking and Finance in Sri Lanka were the special publications issued during the year. Along with these printing assignments, the printing press undertook another 250 printing assignments which included, among others, New Year greeting cards of the Bank and the Central Bank Diary - 2003 during the year. The printing of three publications of the Ministry of Finance was also undertaken by the press.

The Department, on behalf of the Regional Development Department, produced an educational tele-documentary, "Sahan Eliya", on forward sales contracts to create awareness among the agricultural producers, buyers and bankers of the benefits of the forward contract system. This documentary film was first shown publicly at the "Yuga Dekma" industrial exhibition held at Trincomalee in August, 2002.

Library and Information Centre (LIC)

During the year under review, the LIC continued to compile electronic publications such as Web News, Recent Additions, Current Contents, Current Article Abstracts, Central Banking Around the World, Banking & Finance Around the World and disseminated current information via intranet. "News Clip Service" which was disseminated in hard copy form to the senior management of the Bank was automated and made available to a wider user group via intranet, under the title "News Alert".

In 2002, the collection of the main library was increased from 10,107 to 11,273 books and from 762 to 799 CD ROMs, while subscriptions were made to 299 periodical titles with on-line access to 49 of them. Also premium on-line access was obtained for centralbank.com and ft.com web sites. The book collection of the Centre for Banking Studies Library was increased from 4,012 to 4,292 and subscriptions were made to 39 periodical titles.

In April 2002 the LIC established the E-Bank Library Network of Sri Lanka (ebanklibnetsl) an e-mail based Network with 17 local libraries relevant to Economics, Banking and Finance and shared information among respective libraries effectively.

During 2002, additional two (2) internet lines were provided for users and the usage was progressive. The library at the Centre for Banking Studies which was amalgamated with the main library in 2001 was provided with a computer with e-mail and Internet facilities in the latter part of 2002.

During the year under review the LIC conducted several user education programmes for Central Bank staff enabling them to make use of the facilities available at the LIC.

Information Technology

The Information Technology Department (ITD) continued its efforts in further expansion of the Information Technology (IT) environment of the Central Bank as well as upgrading the IT knowledge of Bank's staff. The main focus of the Department during the year under review was, (a) to introduce new technology and upgrade the existing facilities to meet the growing demand for IT facilities in the day-to-day operations of departments; (b) to drive the project work of the Real Time Gross Settlement System and the automated general ledger system; (c) further automation to promote efficiency and reduce operational costs; (d) to upgrade the IT knowledge and skills of the Central Bank staff. These were undertaken with a view to providing an IT infrastructure to meet the future challenges

in keeping with its long-term vision of a modernised Central Bank.

The local area network (LAN) was further expanded during 2002, increasing the number of personal computers connected to the network to 462 from 355 in the previous year. The number of e-mail connections was also increased significantly during the year under review, and almost all staff officers of the Bank are presently assigned e-mail access. The leased line capacity of the Internet connectivity was increased to 2MBPS, which resulted in faster response time, which was necessary to accommodate the increased e-mail and Internet traffic.

To facilitate dissemination of information to the general public, a website was established in February for the Employees' Provident Fund. An internal website was introduced for the Training Department to disseminate information relevant to training and human resources development. Currently, the nominations for all programmes are received on-line through this site. The departmental web site of the ITD is used to disseminate IT information to CBSL staff and to report the progress of IT projects undertaken by the Department. Websites and departmental servers have provided facilities to share information between departments within the Central Bank.

The officers of ITD were also released to conduct lectures and act as resource-persons for IT courses conducted by the Centre for Banking Studies.

Strengthening Disaster Recovery Process and Business Continuity

As a means of strengthening the Central Bank's disaster recovery functions, the computer system located at the backup site was upgraded to an AS/400 Model 270 system with increased capacity and processor speed. The information updates in the AS/400 System are copied to the backup site daily. The critical jobs are updated at the end of day, on-line via the leased telephone line connected between the backup site and the primary site. This facility of having up-to-date backup functionality will enable shifting of critical operations to the back-up site in the event of a major breakdown or a disaster at the primary site. To further strengthen the recovery process, ITD also commenced the preparation of a Business Continuity Plan, first by formulating a plan for the ITD.

With the expansion of the computer network, it was evident that ITD itself cannot maintain all IT function of the respective departments. To overcome this, the scope of the responsibility of the IT liaison officers appointed from each department has been expanded. In this exercise, liaison officers were assigned the responsibility of attending to all computer related matters and to report back to ITD for any assistance. Several training programs were arranged for the liaison officers, including a workshop that provided hands-on training on related IT matters.

Application Development

ITD continued to develop several applications both on the AS/400 and Windows NT Platforms for the benefit of the user departments of the Bank. As a means of replacing most of the manual processes that were performed by the staff that opted to leave under the voluntary retirement scheme, ITD undertook several projects to facilitate automation and replace manual operations.

During the year under review, ITD had to expend its resources in completing the payments and accounting aspects of the Voluntary Retirement Scheme (VRS) to release the personnel opting for VRS, within the stipulated time frame. A new time and attendance recording system was implemented which captures the arrival/departure information of employees at the turnstile access system to the premises and disseminates the information to user departments through the AS/400 system. With the introduction of this system the time recording machines became redundant. Software has already been tested to expand this application to record leave and short leave in a database, which will eventually replace the manual leave recording, and information storing system in individual leave registers of employees. An integrated application was implemented for Welfare Loan granting, loan authorisation by the Finance Department and the disbursement through cash or SLIPS by Currency Department. A project was also undertaken to computerise the functions of the Currency Department, and as an initial step Deposit and Currency Verification and Counting Section (CVCS) has been computerised, while computerisation of the reserve section is in progress.

Applications to monitor payments in the General Services Division of the Secretariat Department, a system to monitor the orders and payments for books and journals for the Library and Information Centre, a payment system for services rendered by Statistical Investigators in the Country Wide Data Collection Scheme were also implemented.

PC based stock control systems for the general supplies stores of the Secretariat Department and engineering stores of Premises Department were also developed and implemented. A system to monitor taxi service payments of the Premises Department and a system to monitor foreign loans for the Public Debt Department have also been developed.

The PC based computerised system of the Welfare Department's Medical Benefit payments scheme was replaced by a more comprehensive and secure AS/400 application. This has been implemented from 2003 with the changes made to the scheme due to recent policy decisions too being incorporated in the application.

CBSLNET Applications

As a means of increasing the utilisation of the CBSLNET the following applications were developed to enable commercial banks to report directly to the Central Bank.

- Report foreign exchange released through Exchange Control form 1 & 2
- Movements of Share Investment External Rupee Account (SIERA)
- Electronic bidding system for banks/primary dealers in secondary market operations to absorb/inject liquidity to the system
- The Liquidity Monitoring System.

EPF System Application

ITD continued to maintain the EPF application system and further automation was undertaken during the year under review. The EPF network was expanded and now accommodates 130 computer peripherals directly connected to the EPF system. Several regional labour offices are connected to the system through leased lines. Several accounting processes were computerised and automatic voucher generation has reduced the workload and enhanced the ability to prepare accounts in a timely manner.

The EPF Department has also been assigned the responsibility of maintaining the accounts of the proposed contributory pension scheme for the government sector. ITD along with EPF is in the process of evaluating and designing the new system. The EPF website, which was developed by ITD and was operational from February 2002 under the web address 'epf-cbsl.lk', is accessible through the Internet. ITD also continued providing information to the Labour Department and other related Institutions on EPF matters. These facilities were provided by ITD, in addition to the overall maintenance of the EPF computer installation.

Divestiture of SLACH

ITD played a leading role in the divestiture process of the Sri Lanka Automated Clearing House (then, a division of ITD) to LankaClear Private Limited, a private company jointly owned by all commercial banks and the Central Bank. The objective of the divestiture was to facilitate the timely introduction of new technology backed by the cooperative effort of the banking sector for clearing operations related to the National Payment System to foster efficiency and reduce operational costs. The divestment was completed and operations successfully transferred to LankaClear Private Limited from 1 April 2002. The staff attached to the SLACH reverted back to the CBSL general service, in stages after ensuring a smooth transition of service takeover by the new company.

RTGS / GL Project

CBSL with World Bank assistance initiated a tender for the procurement of a Real Time Gross Settlement (RTGS)/Scriptless Securities Settlement (SSS) System and an Automated General Ledger to streamline the accounting system of the Bank. During the first half of the year the specification for the RTGS/SSS was formulated with inputs related to technical and business

operations being contributed by ITD. The formulation of specifications was followed by the development of tender documents to standards required of an international tender, with significant contribution to this effort coming from the senior staff of ITD. The staff from ITD participated in the pre-bid conference and subsequently answering queries raised by bidders. The closing of tenders led to the evaluation process to determine the substantial responsiveness in selecting the successful bidder through a Technical Evaluation Committee in which IT staff was represented. ITD is currently driving the project with the Director of ITD as the Project Leader and with several staff members of the Department working full-time on the project. The Department, having prepared the site infrastructure, finalised the hardware installation of the RTGS/SSS Project, before the end of the year.

International Operations

(a) Report on Activities During 2002

The International Operations Department (IOD) is one of the four new departments created on 1 January 2002 after the reconstitution of the Banking Department into four departments with the main objective of separating settlement and accounting functions from trading activities in line with best international practices.

Management of the official international reserve of the country is the main function of IOD. The Monetary Law Act, No. 58 of 1949 specifies that the CBSL should maintain an adequate international reserve in liquid currencies, and a nuclear reserve in gold among its assets in order to maintain the international stability of the Sri Lanka Rupee and to assure the greatest possible freedom of its current international transactions. Accordingly, the IOD invests the official foreign exchange reserves in the international money and capital markets with approved counterparties and within limits authorised by the management while maintaining an appropriate balance between liquidity and rate of return on the Bank's assets. A major part of the international reserve is invested in fixed income securities and the balance in fixed deposits, call and current accounts and in gold. The main currencies in which the reserves were held during 2002 were US Dollars, sterling pounds and euros with appropriate changes to the composition depending on the strength of each currency. Public Debt repayments requirements and income generating capacity of the currencies were also considered in determining the currency composition. The total net foreign income generated through the foreign exchange reserve management operations was US dollars 68.5 million or Rs. 6.5 billion during 2002.

IOD closely monitors the movements in the exchange rates, money market rates, foreign exchange sales and purchases by commercial banks and overnight net foreign exchange open positions by commercial banks on daily basis. This provides a great deal of valuable information required for the daily Market Operations Committee (MOC) and for the Monetary Policy

Committee (MPC) meetings. IOD updates the two-way quotes on money market and exchange rates and details of actual foreign exchange transactions obtained from the market through the Local Area Network (LAN) every half-an-hour during the day for the information of senior management of the Central Bank and other relevant heads of departments. The Middle Office of the IOD monitors the risks associated with the foreign exchange reserve management activities and submits reports to the management.

The floating exchange rate regime that was introduced in January 2001 was continued during the year 2002. CBSL continued to closely watch the domestic foreign exchange market developments with a view to promoting the smooth functioning of the domestic foreign exchange market and to ensure an orderly adjustment of the exchange rate. At the same time, the IOD was able to purchase a large amount of foreign exchange from the market to build up its reserves. During the year 2002, it purchased a total of US dollars 177 million (net) from the domestic foreign exchange market to build up reserves of the Bank. The IOD's actions in the domestic foreign exchange market contributed towards maintaining the exchange rate stability during the year 2002. The US dollar/rupee rate which stood at Rs.93.15 at the end of December 2001 depreciated to Rs.96.74 at the end of December 2002 recording only a 3.7 per cent depreciation during the year compared to 9.4 per cent depreciation in 2001.

A significant feature of the foreign exchange market during the year 2002 was the continued depreciation of the US dollar against other major currencies due to the very low US interest rates and the threat of war against Iraq. The forward premium in the domestic market declined significantly due to market expectations of a weaker US dollar. With heavy selling pressure and importers' reluctance to book foreign exchange forward, the forward premia dropped below the interest rate differential between the US dollar and the rupee. The volume of transactions increased significantly during the second half of 2002 from US dollars 42 million at end 2001 to US dollars 173 million at end of 2002.

The summary of CBSL's foreign exchange transactions in the domestic market are given in Tables II - 6 and II - 7. Inter-bank foreign exchange transactions are given in Table II - 8.

(b) Major Administrative Measures Taken during 2002

One of the most important administrative measures taken during the year 2002 was the restating of responsibilities at each level of decision making and operations and reporting lines with regard to foreign exchange reserve management activity and reconstitution of the Foreign Reserve Management Committee (FRMC). The FRMC sets policy and overall strategy, reviews and revises appropriately the existing procedures, guidelines, responsibilities, portfolio setting and risk management, and adopts such policies and procedures as required for efficient

TABLE II - 6
Monthly Summary of CBSL Foreign Exchange Transactions with Commercial Banks in Sri Lanka (2002)

Month	Purchases		Sales	
	US \$ mn.	Rs. mn.	US \$ mn.	Rs. mn.
January	13.5	1,260.2		
February	19.0	1,781.7	2.1	194.1
March	5.5	614.1	1.5	148.4
April	67.7	6,500.8	2.9	283.1
May	5.0	480.8	19.9	1,911.1
June	17.0	1,635.8	20.1	1,930.3
July	26.2	2,522.3		
August	7.2	697.7		
September	31.2	3,003.9		
October	19.5	1,780.8		
November	5.7	555.1		
December	5.8	565.6		
Total	223.7	21,398.9	46.6	4,467.0

TABLE II - 7
Annual Volume of (Cash, Tom, Spot) Purchases and Sales of Foreign Exchange by CBSL

Year	(US \$ mn.)		
	Purchases	Sales	Net
1996	96.2	198.0	-101.8
1997	136.7	154.0	-17.3
1998	61.0	214.8	-153.8
1999	0.4	58.2	-57.8
2000	2.0	303.6	-301.6
2001	179.2	51.8	+127.4
2002	223.7	46.6	+177.1

TABLE II - 8
Inter-Bank Foreign Exchange Transactions Volume - 2002

Month	(US \$ mn.)			
	Cash	Tom	Spot	Forward
January	4.2	3.8	27.6	14.9
February	12.2	16.4	75.0	56.5
March	14.5	10.9	89.0	46.6
April	22.2	14.8	154.0	36.5
May	18.1	16.7	108.0	50.2
June	18.6	25.1	85.4	85.2
July	13.0	16.3	110.3	149.2
August	20.1	26.0	63.0	90.1
September	11.7	16.3	94.5	137.9
October	23.7	34.8	89.6	101.1
November	21.3	42.7	60.3	78.9
December	29.0	24.4	59.0	69.4
Total	208.2	248.0	1,015.6	916.4

reserve management and risk management with approval from Governor and the Monetary Board.

Investment of the International Reserve is carried out under the close guidance and supervision of the FRMC which is chaired by an Assistant to the Governor who is in charge of

the IOD. Other members of this committee are the Director, IOD, the Director, Economic Research, the Director, Management Audit, Chief Accountant of the Finance Department and the Chief Dealer of the Foreign Exchange Front Office of the IOD who acts as the Secretary of the Committee.

(c) Operating Instructions / Circulars / Directions Issued during 2002

CBSL continued to provide the market with information with regard to the use of euro currency notes which were introduced to the market initially on 1 January 2002. Accordingly, the Exchange Control Department (ECD) and IOD jointly issued operating instructions to commercial banks on 20 February 2002 informing them of the time table for the withdrawal of Euro area 'legacy currency notes' from the system. This was further to the operating instructions issued to commercial banks on 28 November 2001 jointly by the Controller of Exchange and Chief Accountant of the then Banking Department prior to the introduction of euro currency notes.

The Central Bank enhanced the limit on the daily positive net open positions (NOP) of commercial banks from 10 per cent of capital and reserves to 15 per cent and extended the limit on the duration of forward contracts in foreign exchange to one year with effect from 1 March 2002, in order to further improve the flexibility and stability of the foreign exchange market. This enhanced limit would enable commercial banks to manage their foreign exchange positions, while financing even large import bills, without causing excessive volatility in the foreign exchange market. The NOP reflects the working balances in all foreign currencies held by a commercial bank at the end of the day.

Following the independent float of the rupee in January 2001, several prudential measures were introduced, in consultation with commercial banks, to prevent excessive volatility in the foreign exchange market. Almost all of these measures have now been removed or relaxed. The improvement in forward market activities, both in terms of volume and value has been significant during 2002. The development of forward transactions adds depth to the foreign exchange market and helps to avoid excessive volatility. To enable the forward market to develop further, the Central Bank extended the limit on the duration of forward contracts to one year.

Legal

The Legal Department advises the Bank on legal issues, and represents the Bank in courts and in other legal fora. It contributes to reforms of laws in the banking/financial sector.

As in previous years, the Department continued to provide advisory services to the Bank during the year 2002. The Department was also involved in legal work related to the modernisation project of the Bank, including the modernisation of the payment and settlement system and the government securities settlement system. The Department initiated

amendments to several laws relating to the financial sector including the Monetary Law (Amendment) Act, No.32 of 2002 which was enacted in December 2002.

Management Audit

In terms of the on-going modernisation programme, the Bank has recognised the need for restructuring its management audit functions, focusing mainly on risk-based auditing and early identification of potential risk areas. In order to meet these objectives, several initiatives were implemented during 2002 to restructure the Department. A new Director was recruited to head the Department. Steps were also taken to revise the Audit Charter to accommodate new audit strategies and practices (i.e., risk based audit approach).

In keeping with the Annual Audit Plan, the Management Audit Department carried out its internal audit and management services functions during 2002, with the objective of increasing the efficiency, economy and effectiveness in the performance of the Central Bank's functions.

The Audit Committee of the Monetary Board, which was established during 2001, among other things, oversees the audit process, the financial statements of the CBSL, the related financial reporting practices and the system of internal controls.

During the year, the Department audited unserviceable and damaged currency notes to the value of Rs.24 billion of various denominations prior to their destruction, and supervised the work at the Currency Verification, Counting and Sorting (CVCS) Unit. The Department also carried out the annual verification of stocks of gold, currency notes and coins. The stock registers of currency were checked and certified by the audit officers after reconciling receipts and issues.

Pre-auditing was carried out on all payments relating to the construction and rehabilitation of the Headquarters building of the Bank. In addition to auditing of all emoluments paid to Bank employees, including the terminal benefits, the annual financial statements prepared by the Secretariat and Welfare Departments relating to the Pension Fund, Provident Fund, Widow's and Widower's Pension Funds and other welfare schemes of the Central Bank were audited. Further, refunds on retirement or on terminating service with the Bank and compensation paid to the employees who retired under the Voluntary Retirement Scheme (VRS) were pre-audited by the Department. The Department also carried out several management studies with a view to improving the efficiency and effectiveness of the Bank.

In accordance with the new audit charter, the preparation of the Annual Audit Plan for the year 2003 was undertaken on a risk based audit approach.

Management Development Centre

The Management Development Centre (MDC), which was set up with the objective of improving the professional skills and

updating the knowledge of the senior staff of the Central Bank of Sri Lanka (CBSL) continued to conduct its training programmes in 2002. MDC also aimed at developing human resources capabilities of the senior staff of the CBSL by organising Human Resources Development Programmes.

In order to improve these skills, High Level Training Programmes were organised by enlisting the services of eminent researchers and policy makers from high ranking foreign universities and international organisations covering the fields of Economics, Management, Banking, Trade and Finance *etc.* The Swedish International Development Co-operation Agency (SIDA) funds a major share of the cost component of the courses, such as lecture fees, living allowances of the resource persons and the course material.

Under the High Level Training Programmes, eight courses and one seminar were conducted (Table II - 9). The number of participants who attended the courses conducted under the High Level Training Programme was 178, of whom 111 were from the Central Bank, 31 from the Ministry of Finance and Ministry of Policy Development and Implementation and the balance 36 from other institutions, *viz.*,

two state banks, licensed specialised banks, universities, Institute of Policy Studies and occasionally, commercial banks and other financial institutions.

One of the important factors witnessed in conducting these courses was the greater demand for participation by other institutions in these courses, which in turn helped to improve the quality of the courses as their participation gave an opportunity for the participants from the Bank to effectively exchange ideas on the applicability of theories taught in the courses.

The participants at the end of the course evaluated all courses conducted in the MDC. According to the evaluations, in most cases, the participants had rated the resource person as 'excellent' and the ratings for fulfilling the expectations by attending these courses were very high. The majority of the participants suggested that these courses should be repeated in the future, but with more emphasis on the applicability of the contents of the courses in the day-to-day work environment rather than focusing purely on theory.

MDC also conducted a follow-up survey on High Level Training Programmes using a sample of the participants and

TABLE II - 9
High Level Training Programmes conducted during 2002

No.	Course Title	Duration	Resource Persons
1.	International Trade Theory and Policy with a supplement on "World Trade Organisation: Implications for Trade Policy"	04 - 09 March, 2002 and 13 - 15 March, 2002 (9 days)	1. Professor Pranab Kumar Bardhan Institute of International Studies, University of California, Berkeley, USA. 2. Ms. Nimal Breckenridge (Sri Lanka) Formerly of GATT & WTO
2.	Management Development - Programme II "Managing Organisations in Today's Turbulent Environment"	20 - 31 May, 2002 (10 days)	Professor D.S. Withane Faculty of Business Administration, University of Windsor, Canada.
3.	Developing Financial Markets in Emerging Economics	20 - 31 May, 2002 (10 days)	Professor Robert B.H. Hauswald Robert H. Smith School of Business, University of Maryland, USA
4.	Management Development - Programme II Phase II - for Heads of Departments of the CBSL	07 - 13 June, 2002 (from 1600-1830 hrs.) (5 days)	Professor D.S. Withane Faculty of Business Administration, University of Windsor, Canada.
5.	Public Expenditure Management	10 - 21 June, 2002 (10 days)	Dr. A. Premchand (formerly of IMF) (USA) Consultant - Public Expenditure Management and nine local supplement lecturers
6.	Public Economics : Public Expenditure Analysis	08 - 16 July, 2002 (7 days)	Prof. Raghendra Jha Australia South Asia Research Centre Australian National University, Australia.
7.	Investment Analysis	29 July - 09 August, 2002 (10 days) (afternoons)	Prof. Lalith P. Samarakoon College of Business, University of St. Thomas, Minneapolis, USA.
8.	International Macroeconomics and Finance	02 - 13 September, 2002 (10 days)	Prof. Kenneth Miles Kletzer, Jr. Dept. of Economics, University of California, Santa Cruz USA.
9.	Risk Management*	23 - 24 September, 2002 (2 days)	Mr. Krishna Majithia Vice President, Citibank N.A., Mumbai Market Risk Manager for India, Sri Lanka & Bangladesh

* Seminar

their Heads of Departments on courses conducted during the first nine months of 2002, in order to ascertain the value addition to the Bank as a result of undergoing training under reference.

Based on the findings of the survey, the structure of the High Level Training Programmes were changed and the courses were redesigned as follows :

- i. A policy discussion session of one or two days at the beginning of each course for persons responsible for policy advice or policy making; and
- ii. The rest of the course to be for the benefit of persons engaged in research and related fields, emphasising more on the applicability of theories rather than concentrating on theoretical aspects.

The MDC initiated a Management Development Programme for Heads of Departments as a first step to improve the managerial skills of the senior staff of the Bank, by conducting three consecutive half-day sessions on management development.

The objective of these sessions was to provide the Heads of Departments with some tools as to how they should address the problems resulting from the reduction of staff in the Bank following the Voluntary Retirement Scheme implemented under its modernisation programme. As a continuation of this series, a separate programme on 'Corporate Planning' was also conducted so as to equip the senior management with a clear framework within which an institution could develop its own corporate plan along with its vision, mission, formulation of goals *etc.*

Payments and Settlements

The Payments and Settlements Department (PSD) was created on 1 January 2002, to ensure safety, efficiency, integrity and stability of the payment and settlement system in order to foster financial system stability. Accordingly the objectives of the PSD are to:

- reduce risks and improve efficiency and safety of payment and settlement systems and financial system stability;
- ensure smooth and efficient operation of the Real Time Gross Settlement System (RTGS) to be operated by the PSD;
- follow up and monitor operations of the proposed RTGS and payment system to ensure compliance with rules, regulations, guidelines and procedures if any, to assure safety, convenience and standards in line with 'Core Principles for Systemically Important Payment Systems published by the Bank for International Settlements (BIS);
- oversee clearing operations of LankaClear (Pvt.) Ltd.;
- reduce risks and increase efficiency of CBSL's back office functions in foreign exchange management and Open Market Operations (OMO) by ensuring compliance with procedures and guidelines; and

- ensure smooth and efficient operations of the Asian Clearing Union.

The PSD is responsible for performing a wide spectrum of functions:

- Facilitate policy making on payment system issues to promote safety, efficiency and integrity of payment systems in line with Core Principles for Systemically Important Payment Systems;
- Process and settle payment and settlement instructions of CBSL's own transactions on 'back office functions' relating to foreign exchange management and OMO, while ensuring compliance with procedure and guidelines.
- Overseeing of payment systems to minimise systemic risks;
- Operating the proposed RTGS System;
- Monitoring of RTGS operations to ensure compliance of rules, regulations and guidelines by participants;
- Effecting transactions under the Asian Clearing Union (ACU); and
- Enhance general understanding and awareness of users of payment systems on present and future payments developments.

During the year under review, PSD engaged in;

- 'back office functions' of CBSL's own transactions on foreign exchange management and OMO;
- assisting to set up the environment for preparation of operationalisation of RTGS/SSS system; and
- re-engineering of 'back office functions' of CBSL's own transactions to reduce risks and increase efficiency.

One of the major functions of the department during the year under review was to collect, compile and disseminate information on payment and settlement systems by publishing quarterly the Payments Bulletin on the CBSL Webpage (<http://www.centralbanklanka.org/psd.html>) to provide an analysis of the current payment and settlement systems and also to highlight future developments with the objectives of :

- (i) enhancing general understanding and awareness of users on type, speed, volume, value and risks involved in each payment system, their benefits and economies, to decide on which system to choose, given the nature of the transaction.
- (ii) informing the present and future payments developments facilitating future research and analytical work in the area of payments and settlements;
- (iii) guiding and facilitating private sector initiatives and competition in wider payments reforms in conjunction with the overall policy direction of the Central Bank;
- (iv) monitoring the developments of the payments and settlements systems to assess their possible consequences on the implementation of monetary policy;

- (v) joining with other central banks in providing information on Sri Lanka's payments and settlement system, and enhance awareness of the international community.

The PSD, in consultation with the member LCBs and Primary Dealers (PDs) of the Payments Reform Steering Committee designed the formats for collecting information for the Payments Bulletin. Further, views of LCBs were obtained in reviewing the statistical formats used in collecting information for the Payments Bulletin to upgrade the Payments Bulletin to 'Red Book' status required by BIS.

ACU Operations

The PSD effected transactions under the Asian Clearing Union, the payment arrangement whereby the eight member countries settle payments on intra-regional transactions on a multilateral basis. The total value of transactions routed by PSD under the ACU mechanism increased from Rs.72.4 billion in 2001 to Rs.77.1 billion in 2002. The rupee value of the net settlement made in foreign currency during 2002 amounted to Rs.67.6 billion in 2002.

Box II - 2

Payments Systems Oversight

The Payments system is considered to be an essential element in both the economic and the financial structures of a country. A robust and efficient payments and settlements system is critical to promote economic activity by reducing risks, viz., liquidity, credit and systemic risks. Central banks have a great responsibility in minimising systemic risks in a payment system. Such responsibilities are explained in detail in the Core Principles for Systemically Important Payment Systems set out by the Bank for International Settlements (BIS).

Payments system oversight focuses on (i) the smooth, safer and efficient operation of the payment system as a whole, (ii) ensuring that the systems operate without any interruption, (iii) maintaining consumer confidence and (iv) protecting the transmitting channels for monetary policy. Therefore, it is directed towards system-wide issues in specific systems, rather than an individual participant in a system.

Banks play a key role in offering payment services, while other institutions offer niche products. The oversight covers all payment systems owned/operated by CBSL or by banks or entities other than financial institutions whether they are systemically important or not. But the intensity of oversight varies on the relative degree of systemic importance. Payments system oversight and financial supervision of bank participants complement one another. Oversight covers reviewing of rules of a payment system to assess whether the rights and responsibilities of the participants are fair, clear, have a well-founded legal basis and the participants themselves adhere to them.

Basis for and Objectives of Oversight

The basis of oversight comprises of laws, regulations, rules, direction, guidelines and moral suasion. The Monetary Law (Amendment) Act, No. 32 of 2002, has vested in the CBSL the responsibility for the administration, supervision and regulation of the monetary, financial and payment systems

of Sri Lanka. This has given authority to CBSL to oversee the payments system.

In terms of Section 98 of the Monetary Law Act (MLA), CBSL is vested with duties to provide facilities for clearance transactions among commercial banks operating in Sri Lanka. In terms of the provision under section 112(b) of the MLA, CBSL authorised M/s. LankaClear (Pvt.) Ltd., to perform clearing operations, subject to terms and conditions set out by CBSL from time to time.

Oversight Role of CBSL and Coverage

The oversight role of CBSL focuses on ascertaining whether the appropriate structures, processes and products are in place to ensure smooth, safe and efficient operation of the payments systems. The Payments and Settlements Department (PSD) of CBSL performs the oversight function of the payments system.

Coverage of CBSL's oversight activities involves assessing the design and operations of fund transfer systems and important payment instruments. However, responsibility for ensuring security and efficiency of the systems lies with the operators of the respective systems.

Standards

Standards of oversight are the Core Principles published by BIS, Committee on Payment and Settlement Systems (CPSS)/International Organisation of Securities Commission (IOSCO) recommendations on securities settlement, best practices and internationally agreed technical standards.

Oversight Methods

The oversight methods include off-site surveillance of the payment systems operations, participants and instruments through collection of information, and conducting regular discussions with participants to monitor and analyse developments in the market.

31st Meeting of ACU Board of Directors

The 31st Meeting of the Board of Directors of the ACU was held at the Central Bank of Sri Lanka on 30 May 2002. Mr. A S Jayawardena, Governor of the Central Bank of Sri Lanka who was the Chairman of ACU in 2002, presided over the meeting. Governors of Bangladesh Bank, Reserve Bank of India, The Central Bank of the Islamic Republic of Iran, Nepal Rastra Bank, Royal Monetary Authority of Bhutan, the Deputy Governor of the Central Bank of Myanmar and the Executive Director of the State Bank of Pakistan with 10 other delegates attended the meeting. Hon. K N Choksy, PC, Minister of Finance was the Chief Guest.

The Board of Directors discussed recent economic developments, issues and reforms in the member countries and the future role of the ACU. The Board of Directors agreed to assign the ACU Technical Committee to revisit the ACU charter and examine necessary changes in the clearing arrangement to accommodate the proposed RTGS Systems in member countries. The forum also agreed to seek assistance from the ESCAP or UNCTAD and make further progress on the basis of the review, while keeping the present framework of the ACU.

The Governors of the Reserve Bank of India and the Central Bank of the Islamic Republic of Iran were elected as the Chairman and Vice Chairman of the ACU respectively for the year 2003/2004. The 32nd Meeting of the Board of Directors of ACU will be held in India during June 2003.

Premises

The Premises Department continued to carry out the maintenance and up keep of the Bank's own premises during 2002, in addition to providing support services such as transport and communication facilities to officers of the Bank.

Most of the maintenance services and a part of the transport services have been outsourced with a view to obtaining such services more effectively and efficiently at lower cost. As a result of successful negotiations undertaken during the year, the Special Task Force of the Police Department which occupied the Hostel Block of the Centre for Banking Studies since 1987, vacated the building at the end of December to enable the Centre to resume residential training facilities for bankers in the years to come. Alternate accommodation was provided for the Special Task Force at the second hostel block constructed for the same purpose.

The Department continued negotiations with the Ministry of Defence and the Presidential Secretariat to obtain approval for the Bank to construct a car park in front of the Bank premises, instead of the proposed car park on the land at York Street taken on lease.

The Department also continued to maintain the Light House Clock Tower on Chatham Street.

Public Debt

The Public Debt Department (PDD) manages Sri Lanka's public debt in close coordination with the General Treasury. In terms of Section 106(1) of the Monetary Law Act (MLA) 'The Central Bank shall act as the fiscal agent and banker to the government or agencies or institutions acting on behalf of the government, whether established by any written law or otherwise'. Furthermore, the MLA has vested with the Monetary Board and the Central Bank the function of debt management as per Section 113, which states that 'the Central Bank shall, as agent of the government, be responsible for the management of the public debt'. In Sri Lanka, the raising of debt by the government requires the scrutiny of the Monetary Board as per Section 114 of the MLA which states that 'No new loan shall be raised and no new issue of stock or debentures shall be made by the government or by any agency or any institution referred to in subsection (1) of Section 106, whether in pursuance of authority conferred by any written law or otherwise, unless the advice of the Monetary Board has first been obtained upon the monetary implication of the proposed loan or issue'. Monetary implications of new debt are reported to the Monetary Board both by the PDD and Economic Research Department of the Central Bank of Sri Lanka.

Domestic debt is raised by the PDD as per provisions of the Registered Stocks and Securities Ordinance (RSSO), Local Treasury Bills Ordinance (LTBO), Treasury Certificates of Deposits Act (TCDA) and Tax Reserve Certificates Act (TRCA). The head of PDD also serves as the Registrar of Public Debt in terms of the above-mentioned legislations. The PDD services both domestic and foreign debt.

In addition to the PDD, the General Treasury also raises public debt. The General Treasury raises the concessionary foreign debt through the External Resources Department. Occasionally in the past, the Treasury also has raised short-term domestic debt.

The main objective of the PDD is to manage the public debt to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Prudent risk management is crucial, given macroeconomic consequences of sovereign debt default, and the magnitude of ensuing output losses. These costs include business and banking insolvencies as well as the diminished long-term credibility and capability of the government to mobilise domestic and foreign savings.

In Sri Lanka, foreign debt is mostly concessional and long term, while most of the domestic debt is raised at on going market rates of interest. Thus, deciding on the cost and risk trade off in foreign debt is relatively easier than deciding on the cost and risk trade off in domestic debt. The Domestic Debt Management Committee (DDMC) is responsible for designing strategies of domestic debt management. The DDMC consists of the Superintendent of the PDD, Additional Superintendent

of the PDD, Director of the Economic Research Department, Director of the Statistics Department, and Director of the Domestic Operations Department of the Central Bank, and Additional Director General of the State Accounts Department of the General Treasury.

Developments in 2002

Debt Issuance and Cost

The mandate given to the PDD in 2002 was to raise gross domestic borrowing of Rs.328,706 million and to raise a further Rs.30 billion to settle the outstanding overdrafts of the Treasury with the two state banks. The PDD used a well-planned borrowing programme, and an appropriate mix of short and long-term borrowing in 2002 to lower the cost of borrowing significantly. This effort was facilitated by several macroeconomic factors. Monetary policy was relaxed by lowering the Repo rate gradually. Favourable economic conditions that prevailed since the second half of 2002 have led to market expectations of future lower inflation and interest rates.

Domestic interest rates were further eased as PDD resorted to foreign currency denominated domestic borrowings. In 2001, the government approved the issue of US dollar denominated Sri Lanka Development Bonds amounting to US dollars 250 million. In 2001, SLDBs amounting to US dollars 158.5 million were issued. The remaining SLDBs of US dollars 91.5 million were issued on 26 June 2002, with 2-year maturity and semi annual interest payments at the weighted average interest rate of 194 basis points over the six (6) month London Inter Bank Offered Rate (LIBOR) per annum.

The PDD was able to extend the yield curve by issuing longer-term marketable securities as a means of reducing the rollover risk, and to provide the market a benchmark for pricing long-term debt securities. It has been planned to launch a 10-year Treasury bond in January 2003 and a 15-year Treasury

bond in February 2003, with the view to stretching the yield curve up to 15 years.

In 2002, the stock of public debt rose to Rs.1,608.6 billion. As shown in Table II - 10, the share of non-marketable debt such as Rupee loans has declined in 2002. Table II - 11 further reveals that this was a result of net new issues of more marketable instruments such as Treasury bills and Treasury bonds and less non-marketable instruments such as Rupee loans in 2002.

TABLE II - 11
Issue and Maturity of Domestic Debt in 2002

Rs. Million				
	Maturity	Issues	Repayments	Net Issues
Treasury Bills	91 day	134,229	124,150	10,079
	182 day	35,627	16,546	19,081
	364 day	148,619	81,902	66,717
	Other	24,198	80,075	(55,877)
	Total	342,673	302,673	40,000
Treasury Bonds	2 year	21,422	58,321	(36,899)
	3 year	77,810	26,448	51,362
	4 year	19,221	4,400	14,821
	5 year	45,170	-	45,170
	6 year	43,500	-	43,500
	Total	207,123	89,169	117,954
Rupee Loans	2/5 year	38,419	-	38,419
	5/7 year	-	33,215	(33,215)
	4/6 year	-	10,317	(10,317)
	Total	38,419	43,532	(5,112)
Sri Lanka Dev. Bonds (US \$ 91.5 Mn.)	2 year	8,799	-	8,799
	Total	8,799	-	8,799
Loans from FCBUs (US \$ 100 Mn.) (US \$ 50 Mn.)	3 1/2 year	9,671	-	9,671
	1 year	-	4,829	(4,829)
	Total	9,671	4,829	4,842
Total		606,686	440,203	166,483

Source : Central Bank of Sri Lanka

TABLE II - 10
Composition of Public Debt (a)

Category	At end 2001 Rs. Mn.	%	At end 2002 Rs. Mn.	%
Domestic Debt	731,056	54.4	899,040	55.9
Treasury bills	170,995	12.7	210,895	13.1
Treasury bonds	229,174	17.1	347,128	21.6
Rupee loans	292,813	21.8	287,700	17.9
Sri Lanka Development Bonds	14,766	1.1	24,181	1.5
Borrowing from FCBUs	23,290	1.7	29,018	1.8
TCDs	11	0.0	11	0.0
TRCs	7	0.0	7	0.0
Foreign Debt (b)	611,050	45.5	709,517	44.1
Total	1,342,106	100.0	1,608,557	100.0

Source : Central Bank of Sri Lanka

(a) Debt managed and serviced by the Public Debt Department

(b) Provisional

As presented in Tables II - 12 and II - 13, the annual average yield of each instrument has fallen significantly. Table II - 14 shows the details of Treasury bonds issued within the year. As clearly seen, the number of series is excessive and may

TABLE II - 12
Issue and Repayment of Rupee Loans - 2002

	Interest Rate % p.a.	Maturity Period (Years)	Amount Rs. Mn.
Floated	13.00	2-5	38,419.4
Total			38,419.4
Repaid	14.00	5-7	33,215.0
	14.00	4-6	10,316.7
Total			43,531.7

Source : Central Bank of Sri Lanka

TABLE II - 13

Annualised Weighted Average Yield Rates of Treasury Bills, Treasury Bonds and Rupee Loans

Per cent per annum

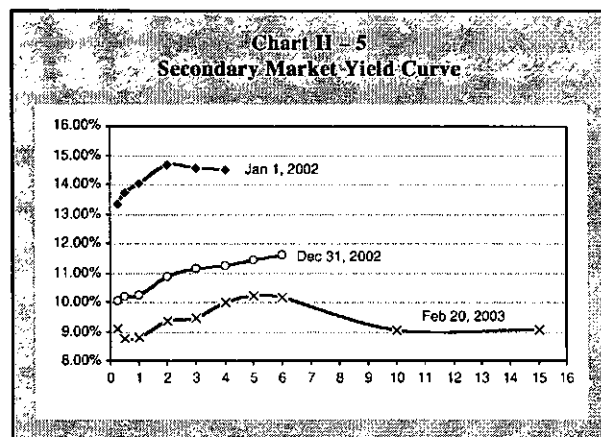
Instrument	1997	1998	1999	2000	2001	2002*
Treasury Bills (Months) (b)						
3	11.03	11.77	11.69	12.78	16.11	12.89
6	11.95	12.13	12.03	12.97	17.33	13.04
12	12.29	12.20	12.55	14.23	18.41	13.81
Overall average	11.60	11.98	12.06	13.68	17.41	13.33
Treasury Bonds (Years)						
2	12.81	12.84	13.01	16.71	19.82	14.88
3	11.42	13.43	13.31	15.00	15.60	14.29
4	11.67	13.72	13.53	12.52	-	14.54
5	-	-	13.78	12.78	-	14.69
6	-	-	13.65	12.88	-	14.83
Overall average	12.50	13.08	13.37	15.10	18.07	14.57
Rupee Loans (Years) (c)						
2	-	-	-	-	15.00	-
5	-	11.35	-	-	14.03	13.00
6	-	12.00	-	11.00	-	-
7	12.05	11.25	-	-	-	-
8	11.72	12.25	12.25	-	-	-
10	-	11.50	12.50	12.00	13.00	-
Overall average	11.98	11.61	12.36	11.68	14.31	13.00

Source : Central Bank of Sri Lanka

- (a) Includes 10% withholding tax. Effective from 3 May 2002, Government has imposed withholding tax on interest of Government Securities.
- (b) The issue of Treasury bills with maturities of 91 days, 182 days, and 364 days in place of 3, 6, 12 month maturities respectively, commenced in October, 1999.
- (c) For Callable Rupee Loans the compulsory date (maximum date) of repayment was considered.

hamper the trading activities in the secondary market. As a remedy, the PDD will endeavour to reduce the series in 2003. Chart II - 5 depicts the secondary market yield curve. The yield curve has shifted downwards in 2002. It further shows that the market expects lower future interest rates, thus the yield rates on the longer term bonds have become quite low.

Chart II - 6 and Table II - 15 provide a summary of future domestic debt obligations on account of total debt outstanding as at end 2002. The average duration of the domestic debt



stock as at 31 December 2002 was 1.97 years. The duration of domestic debt was computed as a weighted average maturity of domestic debt where the present value of payment obligations (cash out flows) are used as weights. The average cost of the domestic debt as at end 2002 stands at 13.13 per cent.

In raising and servicing debt, the PDD conducted 54 Treasury bill auctions and 80 Treasury bond auctions during the year, which were significantly oversubscribed. Total bids received in respect of Treasury bills amounted to Rs.596,590 million against the total issue of Rs.342,673 million. Total bids

TABLE II - 14

Information on Primary issue of Treasury Bonds - 2002

Bond Title	Maturity (Years)	Bids Received (Rs. Mn.)	Bids Accepted (Rs. Mn.)	W.A.Y.R to Maturity (% p.a)/ Range	Coupon Rate (% p.a.)
12.50% 2004 A	2	3,947	2,922	14.94 - 14.94	12.50
12.50% 2004 B	2	4,085	500	13.73 - 13.73	12.50
12.50% 2004 C	2	15,962	11,500	15.46 - 15.64	12.50
12.50% 2004 D	2	10,350	3,000	14.16 - 14.22	12.50
12.50% 2004 E	2	7,441	1,500	13.27 - 13.27	12.50
12.50% 2004 F	2	6,960	2,000	13.18 - 13.18	12.50
12.25% 2005 A	3	6,250	6,250	14.50 - 14.50	12.25
12.25% 2005 B	3	16,040	4,590	14.30 - 14.46	12.25
12.25% 2005 C	3	9,190	3,370	14.20 - 14.21	12.25
12.25% 2005 D	3	14,418	4,000	13.98 - 14.15	12.25
12.25% 2005 E	3	13,691	7,000	13.88 - 13.88	12.25
12.25% 2005 F	3	21,430	6,100	13.76 - 13.81	12.25
12.25% 2005 G	3	5,000	5,000	13.76 - 13.80	12.25
12.25% 2005 H	3	13,681	6,000	13.76 - 15.32	12.25
12.25% 2005 J	3	17,085	5,250	15.20 - 15.46	12.25
12.25% 2005 K	3	15,695	8,500	15.21 - 15.32	12.25
12.25% 2005 L	3	5,930	3,100	15.26 - 15.26	12.25
12.25% 2005 M	3	5,225	2,800	14.79 - 14.83	12.25
12.25% 2005 N	3	4,352	2,000	14.20 - 14.20	12.25
12.25% 2005 O	3	9,634	3,600	13.56 - 13.68	12.25
12.25% 2005 P	3	8,479	3,500	13.57 - 13.68	12.25
12.25% 2005 Q	3	17,230	6,750	12.37 - 13.56	12.25
12.00% 2006 A	4	9,501	3,000	13.79 - 13.79	12.00
12.00% 2006 B	4	4,825	4,550	13.79 - 15.43	12.00
12.00% 2006 C	4	5,860	3,471	15.43 - 15.83	12.00
12.00% 2006 D	4	2,725	1,000	15.47 - 15.47	12.00
12.00% 2006 E	4	3,523	1,500	15.23 - 15.23	12.00
12.00% 2006 F	4	7,055	2,700	13.80 - 13.80	12.00
12.00% 2006 G	4	7,510	3,000	12.05 - 13.77	12.00
11.75% 2007 A	5	8,755	4,500	15.76 - 16.00	11.75
11.75% 2007 B	5	12,550	4,200	15.81 - 15.93	11.75
11.75% 2007 C	5	5,252	4,470	15.93 - 15.93	11.75
11.75% 2007 D	5	6,886	3,250	15.11 - 15.93	11.75
11.75% 2007 E	5	7,521	1,250	14.84 - 14.84	11.75
11.75% 2007 F	5	7,540	5,000	14.37 - 14.37	11.75
11.75% 2007 G	5	7,010	4,500	14.43 - 14.43	11.75
11.75% 2007 H	5	12,320	6,000	14.27 - 14.46	11.75
11.75% 2007 J	5	43,777	12,000	12.24 - 14.17	11.75
11.50% 2008 A	6	10,795	9,000	15.76 - 15.98	11.50
11.50% 2008 B	6	1,000	1,000	15.98 - 15.98	11.50
11.50% 2008 C	6	4,000	4,000	15.33 - 15.98	11.50
11.50% 2008 D	6	8,105	5,000	15.13 - 15.33	11.50
11.50% 2008 E	6	6,231	1,500	14.44 - 14.52	11.50
11.50% 2008 F	6	2,500	2,500	14.52 - 14.52	11.50
11.50% 2008 G	6	12,040	7,500	14.49 - 14.56	11.50
11.50% 2008 H	6	41,873	13,000	12.31 - 14.53	11.50
Total		471,229	207,123		

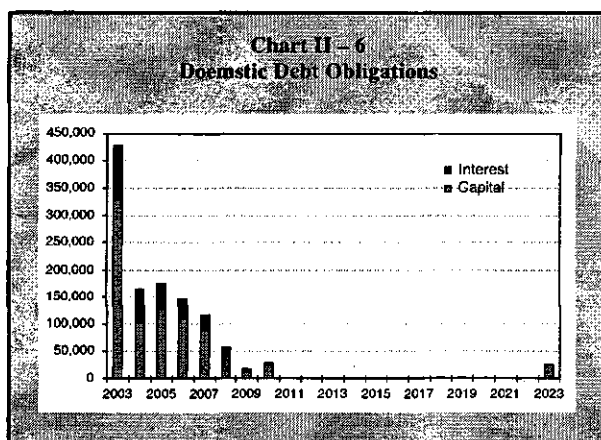
Source : Central Bank of Sri Lanka

TABLE II - 15
Domestic Debt Obligations as at end 2002

Year	Type of Payment		
	Principal	Interest	Grand Total
2003 (a)	328,258.15	99,493.92	427,752.06
2004	104,353.89	62,600.84	166,954.73
2005	126,475.11	50,319.80	176,794.91
2006	110,126.58	37,618.96	147,745.54
2007	87,683.66	30,037.42	117,721.08
2008	39,562.09	17,018.29	56,580.38
2009	11,410.00	6,462.48	17,872.48
2010	23,210.59	5,195.83	28,406.43
2011		2,890.56	2,890.56
2012		2,890.56	2,890.56
2013		2,890.56	2,890.56
2014		2,890.56	2,890.56
2015		2,890.56	2,890.56
2016		2,890.56	2,890.56
2017		2,890.56	2,890.56
2018		2,890.56	2,890.56
2019		2,890.56	2,890.56
2020		2,890.56	2,890.56
2021		2,890.56	2,890.56
2022		2,890.56	2,890.56
2023	24,088.00	1,445.28	25,533.28

Source : Central Bank of Sri Lanka

(a) Includes maturing Treasury bills as at end 2002.



received against the issue of Rs.207,123 million Treasury bonds was Rs.471,229 million.

In the absence of a scripless system, the PDD continued to issue paper based certificates. The number of certificates in respect of Treasury bills, Treasury bonds and Rupee loans issued and serviced during 2002 was substantial as seen in Table II - 16.

TABLE II - 16
Number of Scrips Issued and Serviced during 2002

Instrument		No. of Scrips	Amount (Rs. Mn.)
T-Bills	Issued	140,396	342,673
	Matured	137,900	302,673
T-Bonds	Issued	16,444	207,123
	Matured	11,475	89,169
	Interest Coupons	44,245	29,499
Rupee loans	Issued	99	38,419
	Matured	104	43,532
	Interest Warrants	828	38,161

Source : Central Bank of Sri Lanka

Details on Sri Lanka's foreign debt are shown in Tables II - 17 and II - 18. Foreign debt shows a reduction in commercial debt, and an increase in concessional debt.

Infrastructure Developments

The PDD developed a domestic debt management system in 2002, which runs parallel to the Commonwealth Secretariat Debt Recording and Management System, (CS-DRMS), being used for servicing and analysing foreign debt. The new system has enabled the PDD to issue in advance a long term borrowing calendar to the market well in advance.

The PDD jointly with the Information Technology Department of the Bank developed two systems to disseminate information on-line among primary dealers, one system to disseminate actual price quotes on securities and the other system to report actual transactions. The Bloomberg information system was installed in the PDD and Primary Dealer offices. This system will be used to develop a Bond Page for Sri Lanka, giving essential information to the rest of the

TABLE II - 17
Maturity, Interest Rates & Grant Element of External debt

Donor Category	Maturity Period (years)				Interest Rate/Service Charge (% p.a.)		Grant Element (%)	
	Grace Period		Repayment Period		Weighted Average	Range	Weighted Average	Range
	Weighted Average	Range	Weighted Average	Range				
Bilateral	7	1 - 16	27	7 - 40	2.25	0.00 - 5.68	69	28 - 91
Multilateral	10	3 - 11	30	9 - 40	0.97	0.75 - 8.25	79	5 - 94
Commercial	6	0 - 10	19	1 - 30	3.07	1.35 - 7.70	19	2 - 65
Export Credit	4	1 - 10	10	7 - 13	3.42	1.45 - 9.20	34	11 - 74

Source : Central Bank of Sri Lanka

TABLE II - 18
External Debt Disbursements and Principal Repayments in 2002 and Outstanding Amount
as at end 2002 (a) (b)

(Rs. Million)

Category	Disbursements		Principal Repayments		Net Disbursements		Outstanding	
	2001	2002(c)	2001	2002(c)	2001	2002(c)	2001	2002(c)
1. Donor	40,934	47,170	19,434	22,686	21,500	24,484	611,050	709,517
Bilateral	26,455	18,792	11,986	15,122	14,469	3,670	305,509	348,294
Multilateral	12,500	23,531	4,829	5,839	7,671	17,692	289,687	340,868
Commercial	-	-	1,038	597	(1,038)	(597)	7,962	7,849
Export Credits	1,979	4,847	1,581	1,128	398	3,719	7,892	12,506
2. Use of Funds	40,934	47,170	19,434	22,686	21,500	24,484	611,050	709,517
Cash	-	-	229	212	(229)	(212)	1,447	1,354
Commodity	871	317	2,726	3,091	(1,855)	(2,774)	28,974	30,158
Food	701	-	1,446	1,645	(745)	(1,645)	37,126	36,928
Goods & Services	-	976	-	-	-	976	-	988
Military	553	-	-	-	553	-	563	584
Programme	2,252	7,027	1,471	1,620	781	5,407	55,904	67,709
Project	36,557	38,850	13,546	16,107	23,011	22,743	486,850	571,614
Technical Assistance	-	-	16	11	(16)	(11)	186	182

(a) Excluding IMF financial assistance and Loans to the Department of Railway.

Source : Central Bank of Sri Lanka

(b) Difference with actual repayment data is due to cross exchange rate variations.

(c) Provisional

world on the developments of the Sri Lanka's government debt market.

During 2002 the PDD assisted the work relating to the introduction of the Real Time Gross Settlement (RTGS) system, the Scripless Securities Settlement (SSS) system and the Central Depository of Securities (CDS). These systems will be made operational in the third quarter of 2003. With the implementation of the SSS system and CDS, back office functions of the PDD will be automated. It will help develop the debt market, as a result of the elimination of the burden of the movement of scrips and increased efficiency in the payment and settlement of securities being traded. Legal provisions for issuing government securities in scripless form have been made by amendments made to the LTBO and the RSSO. The technology of RTGS and SSS systems and CDS will be provided by the service provider - Logica UK Limited. The World Bank and the Central Bank have jointly funded the project.

Transactions of the SSS system will be made on the basis of Delivery vs. Payments (DVP) / Receipt vs. Payment (RVP) or Delivery Free (DF) / Receipt Free (RF) depending on the type of transaction that the participants require. Settlement for securities will be carried out on a gross basis while funds will be settled through the RTGS system. An intra-day Liquidity Facility (ILF) will be made available to the participants of the RTGS to settle funds on securities transactions based on the collateral provided through scripless securities maintained in the CDS. The CDS will maintain details of all securities holders. Any securities transaction done among participants of the RTGS will be recorded in the CDS by the Central Bank. Respective primary dealers will inform securities transactions by the general public to the CDS. All transactions will be notified to parties involved by the CDS.

The Primary Dealer System, Regulation and Supervision

The primary dealer system was expanded in 2002 by regulations issued under the LTBO and RSSO that permitted Licensed Commercial Banks (LCBs) to become primary dealers, subject to certain terms and conditions, such as the maintenance of a Primary Dealer Special Reserve of Rs.150 million. There are two categories of primary dealers *i.e.*, specialised companies and LCBs. The reasons for expanding the primary dealer system are to increase the intermediation abilities of the system and to infuse more competition and liquidity into the market. The LCBs are expected to use their financial resources and branch network to market government securities to a wider public, thereby increasing investor access. The CBSL appointed two LCBs as primary dealers in 2002.

The legal framework for the regulation and supervision of primary dealers and the government securities market is provided by the LTBO and the RSSO. The CBSL through the PDD regulates and supervises primary dealers. The objectives of supervision is to ensure the protection of investors by safeguarding their rights, ensure that primary dealers are sound, safe and efficient, ensure that the government securities market is fair, transparent, and efficient, and ensure stability and to reduce systemic risk.

The PDD supervises primary dealers by conducting continuous off-site surveillance and periodic on-site examinations. Under off-site surveillance, the soundness and financial performance of primary dealer is evaluated by monitoring the capital adequacy and other key financial and performance indicators, such as profits, earnings, leveraging, liquidity, *etc.* Compliance with directions and guidelines are

monitored. Primary dealers submit daily returns on operations and monthly and annual financial statements to the PDD for this purpose. On-site examination is carried out to verify the assets and liabilities of primary dealers, to assess the adequacy of their management, internal controls and systems and to check the safety of customer holdings. On-site examinations are also conducted if the information from off-site surveillance reveals any cause for concern. The results of off-site surveillance and on-site examinations are communicated to primary dealers and in cases of non-compliance primary dealers are required to take corrective action. Primary dealers that fail to comply with regulations and directions for a prolonged period or have committed a serious offence are liable to have their appointment suspended or cancelled.

The regulations issued under the LTBO and the RSSO in 2002 strengthened the framework for the supervision of primary dealers, particularly with respect to capital requirements and widened the areas in which prudential requirements such as fiduciary responsibilities and custodial arrangements, standards of competence for the Board of Directors and senior management, risk management systems and infrastructure can be specified and enforced.

The PDD issued a number of directions to primary dealers relating to prudential requirements, investor protection and market making in 2002. To promote the financial soundness of primary dealers, the PDD issued a Direction on Capital Adequacy effective from June 2002. In terms of the Direction on Capital Adequacy, primary dealers are required to maintain a capital adequacy ratio (CAR) of 3 per cent as protection against losses arising from interest rate risk. The CAR permits primary dealers to leverage their capital up to 33 times. The CAR will be increased to 5 per cent from April 2003, which restricts capital leveraging to 20 times. The minimum capital requirement for primary dealers was also increased to Rs.200 million, of which a minimum of Rs.150 million has to be Tier 1 capital, with effect from January 2003.

The Direction on Segregation of Accounts and Revaluation of Securities issued in January 2002 requires primary dealers to separate their trading and investment portfolios and to "mark to market" their portfolios on a weekly basis in order to manage market risk. The Direction on Financial Statements also issued in January 2002, requires primary dealers to prepare their accounts in terms of the Sri Lanka Accounting Standards and to publish their audited accounts in the newspapers within a specified period, in order to increase disclosure of information to the public and to promote market discipline.

The Direction on Custodial Holdings of Securities issued in January 2002 requires that primary dealers must separate securities held on behalf of customers from their own portfolio and specifies the procedures for the safe-keeping of customer holding, in order to protect investors. Guidelines have also been issued regarding the payment of maturity and interest proceeds on Treasury bills and Treasury bonds.

To promote market liquidity and market making by primary dealers, the PDD issued a Direction on Two Way Quotes in 2002 to require primary dealer to make firm quotes for short-term maturities (up to 1 year). The PDD proposes to extend the requirement for firm quotes for specified benchmark medium and long term securities in 2003.

To monitor actual secondary market rates on real time basis, primary dealers were required to submit actual buying and selling rates for all maturities of securities transacted during the day. In order to adjust the CBSL Discount Window rates to reflect secondary market yield rates on a daily basis, actual buying and selling rates of Treasury bills and bonds were obtained from primary dealers on the basis of a Direction on Actual Market Yield Rates.

The PDD also issued a Direction on Repurchase Agreements, a Direction on New Products and a Direction on Branches/New Offices in 2002.

The aggregate performance of primary dealers is shown in the Table II - 19 below.

TABLE II - 19
Key Financial Indicators of Primary Dealers

		2001	2002 (a)
Portfolio Assets	(Rs. mn.)	21,664.0	40,138.2
Profit Before Tax	(Rs. mn.)	321.4	1,417.2
Total Earnings	(Rs. mn.)	448.2	1,714.1
Total Capital Funds	(Rs. mn.)	1,361.0	2,917.2
Return On Equity		13.48%	58.00%
Earning per Share	(Rs.)	2.42	16.39
Capital Adequacy Ratio		6.18%	9.72%
Capital Leveraging	(Times)	17.34	12.17

(a) Provisional - Based on the unaudited financial statements of Primary dealers.

Secondary Market Transactions of Primary Dealers

A substantial volume of outright purchase and sale, repurchase and reverse repurchase transactions on Treasury bills and Treasury bonds took place among PDs and between PDs and their clients. During 2002, based on the information compiled through the primary dealer weekly reporting system where PD is one party to the transaction, total outright sales and purchases of Treasury bills by PDs in the secondary market amounted to Rs.214,917 million and Rs.27,092 million respectively, while outright sales and purchases of Treasury bonds by the PDs amounted to Rs.185,814 million and Rs.107,987 million, respectively. The repo and reverse repo transactions of Treasury bills amounted to Rs.396,523 million and Rs.201,931 million, respectively while the repo and reverse repo transactions of Treasury bonds amounted to Rs.1,006,379 million and Rs.225,896 million, respectively.

The PDD compiles a Daily and Weekly Market Report of secondary market activity based on returns submitted by primary dealers. The reports provide aggregate data on trading volumes and yield rates on a maturity basis for outright and repurchase transactions. The reports also compile the weighted average market prices for the various Treasury bill and Treasury bond maturities and the average two way quotes for Treasury bills and Treasury bonds of different tenors.

Technical Assistance

The PDD received three teams of technical assistance in 2002. A team from the Swedish National Debt office visited the PDD in October, to assist in developing risk management systems. The team advised on several new developments on active secondary market intervention, rationalising the number of bond issues and auction systems.

The IMF – World Bank conducted a joint study on public debt management and debt market development in Sri Lanka. The report is a comprehensive review of the current situation and the identification of key areas in which reform and technical assistance is required. The IMF – World Bank will extend technical assistance towards establishing a separate debt office, primary and secondary market development and the regulation and supervision of debt market, once the recommendations of the report are accepted by the Central Bank and the Government of Sri Lanka. A follow-up mission is planned for early 2003.

A team from the United States Treasury visited to explore other areas of technical assistance.

Challenges in 2003

The primary challenge faced by the PDD in 2003 is to raise Rs.316 billion of gross borrowing which includes Rs.240 billion gross domestic financing mandated by the Budget 2003, at the minimum cost and at a commensurate risk. The financing will be used mainly to service debt obligations in 2003 shown in Table II - 20. To further facilitate the development of the debt securities market, the yield curve has already been extended to 15 years, and will have to be extended further.

With the proposed installation of the scripless securities system in late 2003, the department will have to manage the transition from scrip based securities to the scripless environment. The laws are being amended to provide for the scripless securities system and to permit the dematerialisation of scrip securities. In addition, the operational procedures are being devised to handle this task. Work is in progress to set up the Central Securities Depository for government securities in the PDD. There will also be a public awareness programme to inform and educate the public on the change to the new electronic paperless system and the preservation of the gilt-edged nature of sovereign debt.

The PDD proposes to issue several new directions to primary dealers in 2003. The introduction of derivatives such

as Forward Rate Agreements and Interest Rate Swaps by primary dealers for hedging risks and for rebalancing portfolios requires the formulation of capital requirements and rules and procedures for ensuring an orderly and safe market. The PDD intends to issue a Direction on Forward Rate Agreements and Interest Rate Swaps in early 2003, specifying the capital adequacy and "marking to market" requirements, exposure limits, accounting rules, internal controls and risk management systems, documentation and other procedures. A new direction on repurchase agreements will also be introduced in 2003, specifying standardised rules and documentation.

To improve financial soundness, internal governance and controls, it is also proposed to issue directions to require primary dealers to have audit committees reporting to their Boards of Directors. Directions on the composition of the Board of Directors and "fit and proper" criteria for Directors and senior management are also planned.

To safeguard investor interests and to promote best practice and market transparency, the PDD will introduce a Code of Business Conduct for PDs which would specify best execution rules relating to trading and marketing practices and principles to ensure the protection of customer assets and the responsibility of senior management for compliance with the Code. The Code of Conduct is scheduled to be issued in the first half of 2003.

A separate debt office will be created as proposed in Budget 2002. Thus, the anticipated change will have to be managed without disturbing the ongoing process of debt raising and servicing.

TABLE II - 20
Estimated Debt Service Obligations in 2003 (a)

Rs. million					
Month	Domestic Debt		Foreign Debt		Total
	Principal	Interest	Principal	Interest	
Jan - 03	38,584	15,282	1,145	739	55,750
Feb - 03	9,344	7,089	1,250	925	18,608
Mar - 03	26,488	8,276	2,960	1,246	38,970
Apr - 03	8,557	10,191	2,336	925	22,009
May - 03	4,607	9,116	2,219	913	16,854
Jun - 03	13,175	7,523	1,679	859	23,235
Jul - 03	2,557	13,817	1,291	1,070	18,734
Aug - 03	19,185	7,706	1,760	1,322	29,974
Sep - 03	14,004	8,646	3,580	1,792	28,023
Oct - 03	9,276	11,316	2,754	1,166	24,512
Nov - 03	17,537	7,760	2,237	1,102	28,635
Dec - 03	10,295	5,802	1,979	1,135	19,210
Total	173,607	112,523	25,190	13,194	324,514

Source : Central Bank of Sri Lanka

(a) Includes estimated debt service payments on account of projected issues in 2003 and excludes capital repayment of Treasury Bills.

Regional Development

In accordance with the Central Bank Restructuring Programme, the Development Finance Department (DFD) and the Rural Credit Department (RCD) were amalgamated and a new Regional Development Department (RDD) was created with effect from 1 January 2002. Further, a division handling policy work related to Regional Development Banks (RDBs), which was a part of the Bank Supervision Department (BSD), was also brought under the RDD. In addition, the responsibility of maintaining accounts of the various projects handled by the DFD and the RCD was also transferred to the RDD from the Banking Department (BD). As a result, the functions relating to regional development that had been handled by various departments of the Central Bank were brought under one department. The RDD continued to provide refinance under the various donor funded credit programmes and administer the credit guarantee schemes of the various credit programmes. Further, the RDD continued to implement the Small Farmers and the Landless Credit Project (SFLCP) and the Poverty Alleviation Micro-finance Project (PAMP) through the Central Project Office located in the Central Bank. The Department continued to conduct project inspections and the follow-up of work in respect of the credit schemes, which had already been completed.

Progress of the Credit Schemes

The credit schemes handled by the Department can be broadly categorised according to the source of funding.

A. Donor Funded Projects

(a) ADB Funded Projects

- (i) Tea Development Project
- (ii) Second Perennial Crop Development Project
- (iii) Skills Development Project
- (iv) Plantation Sector Reform Project
- (v) Urban Development and Low Income Housing Sector Project, and
- (vi) North Central Province Rural Development Project

(b) Other Donor Funded Projects

- (i) North Central Province Participatory Rural Development Project (IFAD, SIDA, WFP)
- (ii) Urban Environmental Infrastructure Development Project (USAID)
- (iii) Food and Nutrition Promotion Credit Scheme (Japanese government)
- (iv) Poverty Alleviation Micro-finance Project (JBIC), and
- (v) Matala Regional Economic Advancement Project (IFAD)

B. Government Funded Projects or Projects Implemented with the Government's Interest Subsidy and Projects Implemented with Revolving Funds :

- (i) New Comprehensive Rural Credit Scheme including Forward Sales Contract System (NCRCS)
- (ii) Small Farmers and the Landless Credit Project (ISURU)
- (iii) Sabaragamuwa Province Integrated Rural Development Project (SPIRDP)
- (iv) Surathura Programme – Self-employment Promotion through Micro-Enterprise Credit, and
- (v) Southern Province Rural Development (Revolving Fund) Credit Scheme.

Tea Development Project (TDP)

The TDP, covering all tea growing districts, completed its third year of operations in 2002. The broad objectives of the project are to increase tea smallholders' income on a sustainable basis and improve the natural environment in the project area. The project consists of four major components, namely; (a) institutional reforms and strengthening; (b) tea development; (c) social infrastructure and afforestation; and (d) project management.

The Central Bank is mainly responsible for refinancing sub loans granted by Participating Financial Institutions (PFIs). The activities eligible for granting loans under the project include replanting of tea, establishment of tea nurseries, rehabilitation and modernisation of tea factories, purchase of vehicles for transportation of green leaf and construction of green leaf collection centres.

During the year under review, the ADB approved a further allocation of SDR 2.7 million in loan proceeds for the credit line on recommendations made by the Mid-term Review Mission that visited Sri Lanka in September 2002, based on the satisfactory progress of the credit component. Accordingly, the revised allocation of the credit component increased to SDR 18.119 million. Out of the total allocation for the credit component, a sum of Rs.1,977.5 million had been approved to 3,131 eligible sub projects and Rs.1,626 million had been disbursed to 2,967 sub projects by all PFIs as at end 2002.

During the year, there was an increasing demand by tea smallholders for loans, mainly due to the favourable weather conditions that prevailed in tea producing areas and the increase in prices. As a result, loan disbursements amounted to Rs.581 million in 2002, which was 197 per cent of the target for the year.

Second Perennial Crop Development Project (SPCDP)

The ADB funded Second Perennial Crop Development Project (SPCDP) is being implemented with the objective of supporting the development and commercialisation of the perennial crop

sector by providing credit facilities and support services. The Project completed its 4th year of operations in 2002. The Central Bank implements the credit component of the project, and the Project Management Office (PMO) handles the other components *i.e.* research, seed and planting materials and institutional strengthening, on behalf of the Ministry of Agriculture.

Out of the ADB allocation of SDR 14.743 million, SDR 11.562 million has been set apart as the credit component for refinancing the loans granted by the PFIs under the scheme. The project is islandwide and scheduled to be completed in 2004. Under the credit component, a sum of Rs.925.28 million has been disbursed to 1,901 eligible sub projects by all PFIs as at end 2002. The amount disbursed by PFIs during the year stood at Rs.327 million and the Central Bank had granted a sum of Rs.270.05 million to PFIs by way of refinance. Accordingly, the PFIs were able to achieve 96 per cent of the disbursement target set for the year.

Skills Development Project (SDP)

The Skills Development Project (SDP) funded by the ADB came into effect in terms of a loan agreement entered into between the Government of Sri Lanka (GOSL) and the ADB in 1999. Under the Agreement, a loan of SDR 13.7 million is provided by the ADB for the project. The Ministry of Tertiary Education and Training (MOTET) is responsible for implementing the Project, on behalf of GOSL, over a period of six years from March 2000 to August 2006. On a request made by MOTET, the Bank undertook the responsibility of providing refinance against the sub loans granted to eligible borrowers who are required to complete the Skills Development Programmes conducted by the Ministry. Out of the total allocation, a sum of US dollars 675,000 has been allocated for the credit component for providing initial financial support to establish small scale entrepreneurial or self employment activities. The loan size would be between Rs.50,000 and Rs.250,000 per borrower.

Plantation Sector Reform Project

The Plantation Sector Reform Project (PSRP) which commenced in November 1996, as a five-year project, was concluded in August 2001. During the project period total approvals of the project were Rs.6,475 million. The total disbursement of the project was Rs.4,953 million and Rs.25 million was disbursed in 2002. Rs.1,522 million worth of loans were not entertained due to insufficiency of funds in the project. However, to meet the funds requirements of Regional Plantation Companies (RPCs), the Central Bank established the Plantation Sector Revolving Fund in July 2001 by using repayments of capital and interest proceeds of the above project. Seven RPCC, that were privatised in 1998 were eligible for funding from the Revolving Fund. Under the Revolving Fund Scheme, Rs.226 million was approved and disbursed as refinance during the year. As a result, the total approvals and

disbursements under PSRP stood at Rs.6,702 million and Rs.5,176 million, respectively.

As in the previous years the largest portion of the loan, to the value of Rs.226 million was approved for tree crop development. Disbursement of funds for this category during 2002 was Rs.247 million. Total disbursement for this sub category was Rs.3,145 million (61 per cent) during 1996-2002. Under the sub category of processing, improvement and pollution control, Rs.21 million was disbursed. The total disbursement for this sub category during the project cycle was Rs.1,386 million (27 per cent). During the project cycle total disbursement under the sub category of purchasing of service vehicles, equipment and mini hydro-projects was Rs.645 million (12 per cent).

The total liability of the Central Bank on account of credit guarantee cover issued against PSRP loan disbursements in 2002 was Rs.171 million. The total liability of the Bank on account of issue of guarantees under this scheme from 1996 to 2002 amounted to Rs.3,227 million. Premia collected on credit guarantees under PSRP during 2002 amounted to Rs.75 million, whereas the total premia collected during the period from 1996 to 2002 amounted to Rs.279 million.

Urban Development & Low Income Housing Sector Project (UDLIHSP)

This scheme commenced operations during the first half of 1999 with financial assistance from a loan of US dollars 20 million from the ADB. Refinance approvals and disbursements of the loan funds increased considerably during 2002 compared to 2001.

The total number of loans approved under the project increased from 7,471 in 2001 to 9,948 in 2002. Total refinance approved and disbursed amounted to Rs.719.9 million and Rs.744.9 million, respectively as at end 2002. The HDFC accounted for 76 per cent of total refinance approvals and 74 per cent of total disbursements. Out of the total loans granted to sub borrowers about 79 per cent were for construction of new houses and extension to existing houses.

ADB Funded North Central Province – Rural Development Project (NCP-RDP)

The ADB funded North Central Province - Rural Development Project (NCP-RDP) is an Integrated Rural Development Project (IRDP) aimed at reducing poverty in the North Central Province. The Project commenced in 1997 and is scheduled to be completed by end 2003. The project area covers the Mahaweli areas in the Anuradhapura District and the entire Polonnaruwa District.

The Central Bank is the co-coordinating agency for the credit component of the project. The objective of the credit component is to assist a wide range of farm and non-farm enterprises through credit from the PCIs. The four PCIs, *i.e.*, Bank of Ceylon, People's Bank, Hatton National Bank and Seylan Bank, had come into agreements with the Central Bank

of Sri Lanka to disburse credit to the target group. The ADB allocated a sum of US dollars 500,000 (approximately Rs.40 million) in 2001 to provide refinance to PCIs. The maximum credit limit per borrower is Rs.250,000.

Support services were contracted out to private sector suppliers as recommended by the ADB. Accordingly, two institutions, Industrial Services Bureau (ISB) and Seva Lanka Foundation (SLF), were selected by the PMO in 2002 to provide services for borrowers in the Polonnaruwa and Anuradhapura districts, respectively. In 2002, 132 loans amounting to Rs.10.2 million have been disbursed by PCIs under the project.

IFAD Funded North Central Province Participatory Rural Development Project (NCP-PRDP)

The IFAD funded North Central Province Participatory Rural Development Project (NCP-PRDP) is an Integrated Rural Development Project aimed at poverty reduction and balanced regional development in the North Central Province. The Anuradhapura District, except the Mahaweli area, is covered under the Project. The operation of the Project commenced in 1996 and the project was scheduled to be completed by the end 2002. However, the IFAD extended the Project period upto 30 June 2003 in order to complete some remaining project activities.

The Central Bank is the co-ordinating agency for the credit component of the Project. In 2002, the Bank released a sum of Rs.5 million to the PCIs as refinance loans.

Urban Environmental Infrastructure Development Project (UEIDP) (Phase II – Revolving Fund Credit Scheme)

The UEIDP Phase II, Revolving Fund Credit Scheme was introduced in May 2002 to continue with the credit activities of the UEIDP (Phase I) funded by a private investor in USA viz. Lazard Freres and Co. Ltd. Phase I of the project was successfully completed in October 2001. Total allocation of funds for the Revolving Fund – Phase II amounted to Rs.100 million.

The total disbursement of credit in 2002 amounted to Rs.96 million.

Food and Nutrition Promotion Credit Scheme (FAN-P)

FAN-P was introduced in 1997 at the request of the Ministry of Agriculture with the objective of improving the country's food production and encouraging lending institutions to channel credit through farmer organisations, co-operatives and rural organisations for effecting a cost effective credit delivery mechanism to the sector. However, out of the total allocation of Rs.284 million, only Rs.29 million has been disbursed by end March 2002. The main reason for the underutilisation of

credit was the difficulties encountered by co-operatives and farmer organisations in providing collateral acceptable to banks for obtaining loans.

In 2002, the Cabinet decided to terminate the implementation of the FAN-P Credit Scheme and to transfer the funds under the FAN-P to the Ministry of Rural Economy through the General Treasury for establishment of economic centres at Hingurakgoda, Meegoda, Maradagahamula and Embilipitiya. Accordingly, the Central Bank transferred Rs.120.6 million out of the remaining funds allocated for the FAN-P to the Ministry of Rural Economy during 2002.

Poverty Alleviation Micro-finance Project (PAMP) – JBIC

The Poverty Alleviation Microfinance Project (PAMP) funded by the Japan Bank for International Co-operation (JBIC) is a replication of the SFLCP. The Japanese government in recognising the satisfactory achievements of SFLCP decided to fund the PAMP as a microfinance intervention to alleviate poverty. The main objective of the project is to upgrade the living standards of the rural poor through income generating activities. The project is implemented in six districts namely, Kalutara, Hambantota, Badulla, Nuwara Eliya, Matale and Kurunegala. The effective operation of the project envisages a cost effective and sustainable micro credit delivery system, high women participation, inculcating savings habits and thrift among poor, improving literacy level of the rural community and improving self confidence and weaning them away from the dependency mentality.

Although the foreign funding from JBIC terminates by end 2006, according to the agreement between the government and JBIC, the project should continue for a further twenty years by utilising the funds accumulated in the Revolving Fund generated by way of loan recoveries and interest income.

As at end 2002, the Project has recognised 4,978 Self Help Groups (SHGs) with 27,253 beneficiaries. Micro loans granted under the project amounted to Rs.83.5 million with the volume of savings collected through group savings amounted to Rs.19.3 million. The number of villages covered was 2,511 and the women participation was 76 per cent. During the year 2002, the refinancing of loans commenced and the accounts at district level were fully computerised. The cumulative recovery rate stood at 98 per cent.

Matale Regional Economic Advancement Project

This Project which came into effect in 1999, continued its activities through 2002. This is its fourth year of operations though it is the second year for the operation of the credit component. IFAD has allocated SDR 8.35 million for the entire Project and SDR 2 million for the provision of refinance against the loans extended by PCIs under the Project.

Effective private sector participation is a major feature of this project when compared to other similar projects.

The original project plan specifies the project management with a greater participation of civil groups in the society and NGOs, which is a deviation from the usual IRDP schemes implemented by the government.

The objective of the project is to raise income levels of rural poor and farm families in the project area on a permanent and sustainable basis. The Bank functions as the executing agency for the rural financing component of the project.

During the year under review, KDB has disbursed Rs.13.5 million bringing the cumulative loan disbursement to Rs.47.1 million. SANASA Development Bank joined the credit scheme in 2002 and disbursed Rs.9.2 million to the project beneficiaries.

New Comprehensive Rural Credit Scheme (NCRCS)

The New Comprehensive Rural Credit Scheme (NCRCS) continued its activities throughout the country during the year under review providing short-term cultivation loans for paddy and seasonal food crops. The scope of the scheme expanded in many aspects, viz., the credit limit for purchase of crops was enhanced upto Rs.5 million per loan under the forward sales contract system. The credit guarantee for the purchase of agricultural produce under the forward sales contracts was withdrawn during the year. A detailed account on the operation of the scheme is included in Part I of the Annual Report under the section on Rural Banking and Credit.

Small Farmers and the Landless Credit Project (SFLCP)

The Small Farmers and the Landless Credit Project (SFLCP), introduced in 1990, was jointly funded by the IFAD (International Fund for Agricultural Development) – a loan of US dollars 6.7 million, CIDA (Canadian International Development Agency) – a grant of US dollars 6.6 million and the Government (Central Bank) – a contribution of US dollars 4.1 million. The Project is targeted at the low-income earning community who have no access to credit facilities from formal banking institutions. Project operates in four districts, namely, Galle, Matara, Puttalam and Kandy to improve the social, economic and general welfare aspects of the beneficiaries of these areas.

In granting credit, the supply of credit plus services is emphasised. In the institutional network, linkage between the banks and the participating credit institutions, which provide credit plus services, is also emphasised. Financial services are provided on a group approach and screening of loan applications, loan monitoring, follow up, recovering and introducing new technology are done through the participation of groups. Further, the SFLCP, dubbed as 'ISURU', is a cost effective credit delivery system at grassroots level. The Central Bank functions as the executing agency on behalf of the government, while the staff of these project district offices (PDO's) have been drawn from the respective RDBs.

The foreign funding for the project terminated in December 1997 as originally scheduled and after 1999, and in accordance with the loan agreement, the project was continued by recycling the loan recoveries.

As at end 2002, the project had been extended to 3,731 villages in the four districts. There were 13,868 Self Help Groups (SHGs) with 82,267 beneficiaries. This figure was well above the target of 32,000 set in the project design. The most striking feature of the project was the high participation of women in project activities, who numbered 58,700, or 72 per cent of the total number of beneficiaries. As at end 2002, a sum of Rs.917.6 million had been advanced as micro loans for the borrowers to undertake income generating self employment activities. The average size of a loan was Rs.11,858. The project has consistently maintained a high cumulative recovery rate of over 97 per cent. In addition, the beneficiaries had saved Rs.146.7 million as compulsory and voluntary group savings as at end 2002.

The SHGs were amalgamated in 1997 to form ISURU Development Societies (IDSs), formal corporate bodies to provide facilities to strengthen their fund – base, improve negotiation capacity and enhance synergical power. In 2002, action was taken to form the National Isuru Federation by amalgamating the IDSs. Action was initiated to handover the district level administration of the project to respective RDBs and the Central Bank will continue to administer and monitor the project at national level through the Central Project Office.

Sabaragamuwa Province Integrated Rural Development (Revolving Fund) Project (SPIRDP)

The Kegalle District Integrated Rural Development project (KGIRDP) was implemented in the Kegalle District with financial assistance from IFAD from 1986 to 1996. The project was completed as scheduled in 1996. The credit component of the project was implemented through People's Bank, Bank of Ceylon and the then Kegalle Regional Rural Development Bank (RRDB). The Central Bank was responsible for providing refinance. The overall responsibility of implementing the project rested with the Ministry of Plan Implementation.

After the termination of the project, the Central Bank established and maintained a revolving fund out of the recoveries from the PCIs, in order to continue with the provision of refinance facilities against the loans granted by PCIs for agriculture and self-employment loans to low income groups, entrepreneurs and youth in the Kegalle District. The delivery of credit at grassroots level is handled by Business Development Officers (BDOs) who function under the Project Management Unit.

Having considered the high demand for credit, the KGIRDP revolving fund was extended in 2002 to the Ratnapura District with a view to covering the entire Sabaragamuwa Province. The project was re-named as the Sabaragamuwa

Province Integrated Rural Development Project (SPIRDP) Revolving Fund Credit Scheme. A sum of Rs.25 million was allocated initially for providing refinance in the Ratnapura District.

The project had financed 6,187 sub projects worth of Rs.245.2 million as at end 2002. The loans granted by the PCIs during the year 2002 amounted to Rs.65.7 million. The overall recovery rate of the project loans was 94 per cent, during the year under review.

Surathura Programme – Self-employment Promotion through Micro Enterprise Credit

The three PCIs of the Surathura Programme, Bank of Ceylon (BOC), People's Bank (PB) and Hatton National Bank (HNB), continued with the extension of credit under the Second Phase of the programme out of their own funds at a subsidised interest rate of 10 per cent per annum. The government continued to pay a 10 per cent interest subsidy to PCIs.

Under Phase II of the project, which was commenced in 1997, 30,000 loans to the value of Rs.1,300 million were targeted for disbursement by the PCIs to eligible borrowers to undertake income generating self employment projects. The scheme provided loans to unemployed, particularly the educated youth, to enable them to commence new projects or to expand existing projects.

The Central Bank continued to administer the interest subsidy payments of the Phase II while monitoring the recoveries of the Surathura Phase I, which completed its operations in 1997.

Southern Province Rural Development (Revolving Fund) Credit Scheme

The Southern Province Rural Development Project (Revolving Fund) Credit Scheme (SPRDPCS) was introduced in July 2000 to continue with the credit activities of the ADB Funded Southern Province Rural Development Project, which was completed in June 2000. Total allocation for the revolving fund amounted to Rs.194 million. The activities of the rural micro and small and medium scale industries were continued in the districts of Galle, Matara and Hambantota with credit facilities made available through the PCIs of the credit scheme.

The total disbursement of credit in 2002 amounted to Rs.32 million. The Bank refinance against the credit disbursements during the year stood at Rs.28 million bringing the total amount utilised equal to the total allocation of Rs.194 million.

Credit Guarantee Schemes under Small and Medium Scale enterprises (SMI & SMAP)

Implementation of SMI Credit Guarantee Schemes (SMI I, II, III & IV) and the Small and Medium Enterprise Assistance

Project (SMAP) have been successfully concluded. Loans granted under SMI were refinanced by the National Development Bank (NDB) from the proceeds of a line of credit US dollars 12.6 million provided by the International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD). Refinance facilities under SMAP have been provided by NDB with the rupee proceeds of loans equivalent to US dollars 55 million jointly raised from foreign banks and ADB.

Issuance of credit guarantee covers under the SMAP Credit Guarantee Scheme was completed in January 2001. The number of credit guarantee covers issued from 1997 to 2001 was 1894 and total loan amount was Rs.2,741.6 million. The liability of the Central Bank on this amount was Rs.1,271 million.

However, premia collection on loans for which credit guarantee covers is continued by the RDD. Project inspection work and follow up work in respect of non-performing loans granted under both schemes are also being carried out by the RDD. Further, the settlement of claims submitted by the PCIs on claims on defaulted loans also continued in 2002.

Investment of Credit Guarantee Fund

The total value of investments by the RDD in Treasury bills amounted to Rs.3,173 million during the year. The total interest income from the investments amounted to Rs.385 million. Funds for these investments are derived from premia collected under SMI, BPL, SMAP and the PSRP credit guarantee schemes and the funds allocated by the Central Bank.

Regional Offices

The RDD continued to monitor the activities of the three Regional Offices (ROs) of the Central Bank. The Department was overseeing the main functional areas of ROs such as implementation of various micro finance projects and other development programmes in the region, data collection, training, cheque clearing, currency operations and the general administration. The ROs placed a great emphasis on activities related to social and economic development in the respective regions. With this objective, the ROs were engaged in conducting awareness programmes on the Forward Sales Contract System and other credit schemes. The Anuradhapura Regional Office was responsible for implementing the North Central Province Participatory Rural Development Project (NCP-PRDP) and North Central Province Rural Development Project (NCP-RDP) while the Matale Regional Office was responsible for implementing Matale Regional Economic Advancement Project (M-REAP).

Regional Office – Anuradhapura

The regional Office in Anuradhapura continued to carry out its main activities of development lending and micro- enterprise development, promotion of Forward Sales Contract System (FSCS), implementing of North Central Province-Participatory

Rural Development Project (NCP-PRDP) and North Central Province Rural Development Project (NCP-RDP) on behalf of the Regional Development Department of the Central Bank of Sri Lanka during 2002. The regional office also continued to engage in organising educational seminars for students, collection of price information and data, currency operations and sale of Central Bank publications.

The RO was able to facilitate the parties to sign 3,945 forward sales contracts to the value of around Rs.160 million for number of crops in the Anuradhapura and Polonnaruwa districts. Three educational programmes were conducted for 146 participants to educate them on post harvesting techniques and self-producing of seed paddy.

During the period under review, 229,591 cheques were cleared with a total value of Rs.7,422.4 million through the regional clearing house. Currency operations of the regional office was terminated with effect from 01 July 2002.

Regional Office – Matale

The regional office in Matale continued to carry out certain responsibilities representing the Regional Development Department, at the regional level. These functions included the development lending activities, involvement in other regional development programmes, conducting training programmes for potential beneficiaries and educational seminars for Advance Level students and the promotion of FSCS. Further, it assisted in the collection of data for the Statistics Department and for the preparation of Kandurata Price Index. It also continued with the cheques clearing and sale of Central Bank publications.

The RO facilitated the parties to sign 1,822 FSCS in respect of paddy, B onions, soya, vegetables, fruits and finger millet. The RO was also active in the implementation of the Matale Regional Economic Advancement Project (M-REAP) and the PAMP in the Matale district.

The Regional Office cleared 829,790 cheques to the value of Rs.37,750 million and the Kandy Regional Clearing House 101,734 to the value of Rs.2,296 million.

Regional Office – Matara

The regional office in Matara continued to perform its duties and functions representing the Departments of Regional Development, Research and Statistics, Development Banking and other development related activities in the region received greater attention during the year.

Development banking activities included co-ordination of re-finance credit schemes, assistance in implementing Small Farmers and Landless Credit Project (SFLCP) in Galle and Matara districts and introduction of Poverty Alleviation Micro Finance Project (PAMP) to the district of Hambantota, implementing FSCS, assisting village adoption programme, Southern Province Rural Development Project (SPRDP) Credit Scheme, Tea Development Project (TDP) Credit Scheme, Second Perennial Crop Development (SPCDP) Credit Scheme and Southern Province Regional Economic Advancement Project (SPREAP) Credit Scheme. Special emphasis was given

to assisting the Ruhuna Development Bank (RDB) in its policy making and the proper and smooth functioning of the Bank in the region.

The regional office in Matara was able to co-ordinate activities in respect of signing of 2,945 Forward Sales Contracts in the region.

The Regional Clearing House operated in this office provided clearing facilities for the seven commercial banks in the areas. During the year, 197,904 cheques to the value of Rs.5,183.7 million were cleared.

The currency operations conducted at the regional level were terminated with effect from 01 June 2002, under the Central Bank re-structuring programme.

Regional Development Banks

The six Regional Development Banks (RDBs) continued to provide financial assistance during 2002 for the development of agriculture, industry, trade, commerce, fisheries and other development activities within their respective regions, with emphasis on financing the poor under the poverty alleviation programmes.

The performance of the RDBs during 2001 and 2002 is given in the table below. The satisfactory financial performance of RDBs in 2002 is reflected in their aggregate profits which increased from Rs.124 million in 2001 to Rs.343 million in 2002. The increase in lending activities and the concerted effort to recover the past due loans helped the increase in profits.

TABLE II – 21
Performance of Regional Development Banks

	(Amounts in Rs. mn.)	
	2001	2002
As at end of year		
Total deposits	4,746	6,344
Loans and advances	6,057	7,222
During the year		
Loans and advances disbursed	4,695	6,345
Profit (Loss)	124	343

Source : Central Bank of Sri Lanka

Branch Network of RDBs

The total number of branches of the six RDBs increased from 191 to 193 in 2002 with the opening of Walasmulla branch of the Ruhuna Development Bank and Kahawatta branch of the Sabaragamuwa Development Bank. The RDBs have opened five savings and pawning centres during the year, in order to expand the deposit mobilisation and disbursement of pawning advances. The Ruhuna Development Bank opened two savings and pawning centres in Morawaka and Hambantota, while the Wayamba Development Bank opened savings and pawning centre in Kurunegala. The Rajarata Development Bank also opened two savings and pawning centres in Anuradhapura and Kaduruwela.

Deposit Mobilisation

The RDBs have contributed significantly to mobilise rural savings by introduction of attractive savings schemes. The RDBs also, through Mobile Banking Units took banking facilities to unbanked and under banked areas in the respective regions. The total deposits mobilised by the RDBs as at end of 2002 stood at Rs.6,344 million in respect of 1.7 million accounts, indicating an increase of 34 per cent in the volume of deposits and 14 per cent in the number of accounts when compared with the position as at end of 2001. The savings deposits continued to constitute the bulk of these deposits. The total value of savings deposits amounted to Rs.4,102 million in respect of 1.6 million accounts. The average amount in a savings account increased from Rs.2,430 in 2001 to Rs.2,593 in 2002.

Delivery of Credit

The RDBs continued to grant financial assistance to their customers under different loan schemes introduced by the respective banks and the donor funded credit programmes. Among these were special credit schemes designed for the government employees and self employed people, 'Divimaga' loan scheme introduced by the Ruhuna Development Bank for small scale entrepreneurs and pilot projects for production of seeds and ornamental fish introduced by the Kandurata Development Bank.

The outstanding loans and advances as at end 2002 amounted to Rs.7,222 million as against Rs.6,057 million as at end 2001. The delivery of credit to various sectors of the economy by the RDBs during 2002 is given in Table II - 22.

The total loans and advances disbursed by the RDBs during 2002 under various credit schemes amounted to Rs.6,345 million registering a significant increase of 35 per cent compared with Rs.4,695 million disbursed during the preceding year. The loans were disbursed to over 875,000 borrowers and the average size of a loan was Rs.7,225. This indicates that in

keeping with the objectives of the RDBs, a large number of small loans had been released to needy customers in the respective regions. A sum of Rs.497 million has been released to the agricultural sector during the year 2002 compared to Rs.357 million released during 2001. The loans granted to agricultural sector includes the loan amount of Rs.164 million granted for cultivation of paddy and other seasonal crops during 2001/2002 cultivation season. These loans were granted under the New Comprehensive Rural Credit Scheme (NCRCS) at a subsidised interest rate of 12 per cent per annum. The advances granted against pawning of gold articles amounted to Rs.2,678 million in respect of 699,000 borrowers. Out of this a sum of Rs.1,513 million has been granted for the purposes of a agriculture and small industries.

Other Activities

The RDBs continued their contribution towards the promoting the development of their respective regions by providing encouragement for development activities and a wide range of ancillary services to their customers to fulfil the development role assigned to RDBs. They rendered advisory assistance by coordinating beneficiary training programmes for their customers including Samurdhi recipients. The RDBs continued to hold 'Janahamuwa' meetings in villages in order to create awareness of banking facilities as well as to extend credit facilities. The RDBs implemented several projects in line with the 100 Day Programme of the government including two Small Hydro Power Plant projects funded by the Sabaragamuwa Development Bank and several self employment projects funded by the Ruhuna Development Bank.

The RDBs also continued to promote marketing and processing of agricultural products. The RDBs participated as facilitators in the FSCS which was promoted by the Central Bank of Sri Lanka in order to ensure price stability of agricultural products through the market mechanism. During 2002, RDBs were able to facilitate the parties to sign over ten thousand Forward Sales Contracts between farmers and buyers. The total value of the contracts which were arranged by the RDBs amounted to Rs.487 million. In addition to the traditional banking activities, RDBs have engaged in tree planting programmes in their respective regions with a view to maintain the sustainability of the environment of the country.

The RDBs acted as participating credit institutions in several development lending programmes.

TABLE II - 22
Disbursement of Loans and Advances

Sector	(Amounts in Rs. mn.)			
	2001		2002	
	No. of A/c	Amount	No. of A/c	Amount
Agriculture	15,989	357	16,741	497
Livestock	1,228	46	1,747	84
Fisheries	529	36	890	47
Small Industries	4,945	237	7,365	340
Commerce/ Business	5,421	387	7,339	499
Other	71,531	1,440	144,301	2,159
Staff	681	58	696	61
Pawning	610,061	2,134	699,210	2,678
Total	711,185	4,695	878,289	6,345

Source : Central Bank of Sri Lanka

TABLE II – 23
Credit Schemes Operated by the Regional Development Department during 2002

Name of the Project	Funding Agency	Broad Mission	Original Allocation	Annual Interest Rate to the Borrowers	Credit Disbursement in 2002 (Rs. mn.)	Credit Disbursement upto 31.12.2002 (Rs. mn.)
1. Tea Development Project (1999-2005)	ADB	Increase tea small holders income on a sustainable basis and to improve the natural environment in the project area.	US \$ 17 mn.	AWDR + 2% (for Replanting) AWDR + 6% (for other purposes)	581	1,626
2. Second Perennial Crops Development Project (1998-2004)	ADB	Increase the production and commercialisation of Perennial Crops, development of nurseries, post-harvest handling and processing activities and marketing.	SDR 11.562 mn.	AWDR + 2%	310.4	792.6
3. Skills Development Project (Year commenced 2000)	ADB	Improve quality and relevance of skill training programmes to build a high quality workforce and address issue of skills mismatch and unemployment among rural and urban youth.	SDR 0.657 mn.	AWDR + 2%	-	-
4. North-Central Province Participatory Rural Development Project (1996-2002)	ADB, IFAD, SIDA and WFP	Poverty alleviation, improves food security, nutrition and increase employment opportunities for low-income families.	SL Rs. 40 mn.	AWDR or 10% whichever is lower + 6 percentage points	10.2	10.2
North-Central Province Rural Development Project (1997-2003)			SL Rs. 20 mn.			
5. Urban Environmental Infrastructure Development Project - Phase II (Revolving Fund)	USAID	Improve environmental facilities, health & sanitary conditions of the people living in urban and semi-urban areas.	SL Rs. 100 mn.	16%	96	96
6. Food & Nutrition Promotion Credit Scheme (Year Commenced - 1997)	Japanese Government	Increase food production and food processing techniques in the country.	SL Rs. 284 mn.	10%	n.a.	29
7. Poverty Alleviation Micro-finance Project (Year commenced 2000)	JBIC	To establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	¥ 1,368 mn.	Market rate	83.5	84.7
8. Matale Regional Economic Advancement Project (2000-2006)	IFAD	Permanent raising and sustaining of income of small entrepreneurs of rural and farmer families of project area.	SDR 2 mn.	14%	22.7	56.3
9. New Comprehensive Rural Credit Scheme	PCIs with govt. interest subsidy	Upliftment of rural farmers who cultivate short-term food crops.	-	12%	n.a.	638
10. Small Farmers & Landless Credit Project (1990-2000)	IFAD, CIDA, and GOSL	To establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	SDR 4.85 mn.	Agri. - 16% Other Purposes - 20%	174.6	927.8
11. Kegalle District Integrated Rural Development (Revolving Fund) Project (1997-2007)	Govt. of Sri Lanka	Uplift the standard of living of the people in the project area by promoting income-generating activities.	SL Rs. 100 mn.	10%	65.7	245.2
12. Surathura Programme Phase II (1998 onwards)	PCIs with govt. interest subsidy	Increasing income and improving living standards of unemployed educated youth by promoting self-employment among them.	SLRs 1,300 mn.	10%	-	596
13. Southern Province Rural Development (Revolving Fund) Project (from 2000)	- do -	To improve the quality of life of the people in the Southern Province.	US \$ 8.1 mn.	12%	32	177
14. Small and Medium Enterprise Assistance Project (SMAP)	Foreign Commercial Banks and ADB	To promote lending to SMEs with potentially viable projects but inadequate collateral.	US \$ 55 mn.	Market Rates	Refinance disbursed by NDB	n.a.
15. Urban Development Low Income Housing Project	ADB	To increase the accessibility of low income households.	US \$ 20 mn.	Max. 16%	745	1,310
16. SMI Credit Guarantee Scheme	IDA and IBRD	To promote lending to SMEs with potentially viable projects but inadequate collateral.	US \$ 12.6 mn.	Market Rates	Refinance disbursed by NDB	n.a.

AWDR - Average Weighted Deposit Rate

JBIC - Japanese Bank for International Co-operation

Research Activities

The Economic Research Department (ERD) engaged in discharging its dual statutory responsibility of providing information, analyses and advice to the Monetary Board to assist it in the conduct of monetary policy and in fulfilling the Board's role as economic advisor to the government, and of disseminating information on economic matters to the general public.

In order to do so, ERD collected, compiled and analysed economic data from domestic and international sources. Measures were taken to improve the dissemination of information, in terms of both coverage and timeliness. The technical skills of ERD were extensively used by both departments within the Bank and by outside agencies, and officers were often required to serve as resource persons and technical advisors. The Department also provided policy advice on various issues to other departments within the Bank, as well as to other government institutions, in particular the Ministry of Finance.

The provision of analyses and information for the determination of monetary policy was an important task of the Department. Meetings of the Monetary Policy Committee (MPC), the committee advising the Monetary Board on monetary policy, were held at least once a month. Background papers and other relevant information for these meetings were provided mainly by ERD, in addition to its officers serving on the Committee. The Department provided inputs and participated in the deliberations of the Market Operations Committee, the Domestic Debt Management Committee, and the Foreign Reserves Management Committee. As a part of the Bank's plans to improve the transparency of its operations, details of the monetary policy framework and projections under the monetary programme were posted on the Bank's website. Meetings were held with market participants to inform them of the Bank's monetary policy objectives and projections. The ensuing dialogue has helped to enhance market awareness and understanding, thereby helping to improve the effectiveness of monetary policy. Background work relating to the Bank's medium-term plan of moving to an inflation-targeting framework was continued with the assistance of the Riksbank of Sweden.

The ERD co-ordinated Sri Lanka's relations with the International Monetary Fund (IMF), the Inter-Governmental Group of Twenty Four (G-24), the SEACEN Centre for Research and Training, the SEANZA group and the SAARCFINANCE grouping of Central Bank Governors and Finance Secretaries, while assisting the Ministry of Finance in planning and co-ordinating work with the World Bank (WB), the Asian Development Bank (ADB) and other multilateral and bilateral donors. The ERD was primarily responsible for co-ordinating work relating to the finalisation of the Stand By Arrangement (SBA) and the Financial Sector Assessment Programme (FSAP), and the initial discussions relating to the

Poverty Reduction and Growth Facility (PRGF) programme with the IMF and WB. The SBA, which commenced in 2001, was successfully completed in September 2002, paving the way for the government to enter into negotiations for obtaining concessional assistance under a PRGF (a more detailed description of PRGF programmes is found in Box Article 3 in Part I). Similarly, the FSAP, a collaborative work of the IMF and WB to assess the strengths, weaknesses, risks and vulnerabilities of a country's financial system, which commenced in 2001, was completed in 2002. The provision of economic information to international organisations continued on a regular basis.

The ERD continued to host the SAARCFINANCE Cell of Sri Lanka. SAARCFINANCE, a grouping of Central Bank Governors and Finance Secretaries, was formally recognised as a body under SAARC in 2002. ERD organised the first meeting of SAARCFINANCE Cell Co-ordinators hosted by the Central Bank in Colombo in January 2002. A two day seminar on 'External Sector Management' under SAARCFINANCE was also organised by the Department, immediately after the inaugural SAARCFINANCE Co-ordinators' meeting.

The Central Bank of Sri Lanka has been an active founder member of the SEACEN Research and Training Centre and as a part of the ongoing involvement in SEACEN work, the Bank hosted the 24th Meeting of the SEACEN Directors of Research and Training (DORT) meeting and a workshop on Financial Stability and Capital Flows in December 2002. The ERD was primarily responsible for the organisation of these meetings. The Bank continued to participate in the SEACEN Experts Group (SEG) and provide information for the SEG database, this work too being co-ordinated by the ERD.

A vital part of the Department's functions is the dissemination of information on economic matters to the general public. Periodic information, varying from daily to annual, has been provided through the Central Bank's website, its publications and the media. An ongoing programme is in place to improve the coverage, timeliness and accessibility of information. There is an increasing demand for information to be available electronically, and the Central Bank's website, maintained by the ERD, now records around 200 hits per day. The Department continues to compile and release fundamental information on the monetary and the external sectors, and key interest rates such as the daily Sri Lanka Inter Bank Offered Rates (SLIBOR), the weekly weighted average prime lending rate (AWPR) and the monthly average weighted deposit rate (AWDR), which are now used by market players as benchmark rates. The Department also compiles and publishes monthly trade indices, as well as private sector industrial production indices. The detailed half yearly industrial production surveys were continued.

A data dissemination calendar has been prepared and is published in this Annual Report, as well as being posted on the Bank's website. Critical economic information will be released

in accordance with this calendar which will serve as a valuable guide to the public in planning the receipt of key economic data.

The Department was responsible for co-ordinating the publication of the Bank's Annual Report for 2001, in co-operation with other departments. The Department also published 'Recent Economic Developments - Highlights' in March 2002 and 'Recent Economic Developments Highlights of 2002 and Prospects for 2003' in November, in collaboration with other departments in the Bank, in particular, the Statistics Department. The Monthly Bulletin, containing a wealth of statistical detail, continued to be published by the Department. Action has been taken to revise the format of this Monthly Bulletin to make it more 'reader friendly' and improve presentation. The revised format will be used from 2003 onwards. The Department, in addition to providing ad hoc reports to the Ministry of Finance, prepared and submitted to the Minister of Finance the special report under Section 116 of the Monetary Law Act to facilitate the preparation of the Government Budget for 2003. The ERD was also responsible for evaluating all foreign loans obtained by the government and assessing their monetary implications, to enable the Monetary Board to provide its views on these loans, as required by the MLA.

Officers from the ERD undertook a number of research studies, both to fulfill the Bank's requirements and on their own initiative. Several studies have been selected for publication in the Bank's 'Staff Studies'.

Many senior staff officers of the Department served on important committees, both within the Bank and outside. Among these were the Steering Committee on Macro and Trade Policy Framework, Tariff Commission, Financial Sector Reforms Committee, Monetary Policy Committee, Market Operations Committee, Foreign Reserves Management Committee, Training Committee, Domestic Debt Management Committee and Treasury Bills and Bonds Tender Committees. Officers of the Department served on the Boards of Directors of institutions such as the National Development Bank, Board of Investment, the Sri Lanka Export Credit Insurance Corporation and the Distance Learning Centre Ltd. Officers also functioned as resource persons at seminars, workshops and training programmes conducted by the government and the private sector and foreign institutions such as the SEACEN Centre.

In order to improve the technical skills of staff, ERD undertook continuous training of staff both locally and overseas.

Secretariat

With the setting up of Finance Department, the functions of finance hitherto carried out by the Secretariat Department was transferred to the Finance Department during 2002. Except this, all other functions such as the procurement of goods and services for the Bank, arrangements for travel abroad by officers and general administration, protocol, leave policy matters and miscellaneous services continued to be handled by the Secretariat Department.

Under the voluntary retirement scheme introduced as a part of the modernisation programme of the Bank, eighty one (81) employees retired from the Secretariat Department in 2002. Consequently, to overcome immediate problems arising from the reduction of staff, certain activities such as mail handling were outsourced during the year, while employing some casual hands to attend to specific activities such as data entry operation and account balancing. These measures enabled the Department to perform its activities at a lower cost, saving a substantial amount of its budgeted expenditure during the year.

Security Services

In order to improve security services in the Bank modern electronic security equipment was installed in the Bank premises. The Security Officers were given adequate training in the use of the equipment. The security officers were also trained in Sri Lanka and abroad on other aspects of security as well.

Statistics and Field Surveys

The Statistics Department continued its compilation, analysis and dissemination of, (a) data on national accounts, prices, wages, labour force, employment and other socio economic indicators and (b) micro level data on households and the business sector through its surveys, in 2002 as well.

During the year under reference, the Department took several initiatives to explore the possibility of developing new statistical exercises to supplement existing data systems in specific areas of estimation of national income accounts as well as to enhance the quality, timeliness and coverage of its other data bases.

In improving quality and coverage, the existing data base on private consumption expenditure (PCE) in the national accounts estimates, which had hitherto been based on a concept of origin of goods and services consumed, was revised to adhere to the new Classification of Individual Consumption by Purpose (COICOP). During the year, the Department also prepared a comprehensive set of estimates on Provincial Gross Domestic Product (PGDP) and expanded dissemination of quarterly GDP estimates.

The regular and close monitoring of price movements in retail and wholesale markets across the country remained a key element of the continuous price collection system of the Department. Regular analytical reports on price developments were prepared and submitted to the management to facilitate policy decisions. While concentrating on price disseminating initiatives relating to retail and wholesale markets through the print and electronic media, with the country's peace initiatives moving ahead, the Department also made initial efforts to reestablish the price collection centres in the Northern and Eastern provinces which had hitherto been inactive due to the security conditions prevalent in those areas.

Meanwhile, efforts were made to further improve timeliness of the Departments' two regular publications, namely Sri Lanka Socio Economic Data 2002 and Economic and Social Statistics of Sri Lanka 2002, within the calendar year. Priority was also accorded to disseminating the information contained in these two publications in electronic format as well. The former was made available to the public in both print and electronic format. Although efforts were taken to publish the latter in electronic format as well during the year 2002, the CD ROM is now expected to be completed in early 2003.

Officers of the Statistics Department were able to enhance their professional capabilities by participating in many academic and professional training programmes conducted by the Bank's Management Development Centre (MDC) and the Centre for Banking Studies (CBS) as well as by participating in both foreign and local training programmes arranged by the Bank's Training Department. The subject areas included public finance, economics, international trade and international macro economics.

In addition, officers participated and contributed actively in seminars, workshops and national committees on a wide range of subject areas of national importance. Participation in international seminars focussed on recent developments in global statistical systems towards setting standards and producing timely and quality statistics. In this context, the consultative seminar on Governance of National Statistical Systems conducted in May 2002 in Singapore and the Conference on Challenges to Central Banks' Statistical Activities conducted in August 2002, in Switzerland, both sponsored by international agencies, were noteworthy.

The Department, as a part of extending its support services to other agencies, provided placement training for two students of the National Institute of Business Management. On a request made by Department of Statistics and Computer Science of the University of Colombo, the Department also provided industrial training placement facilities for two of its undergraduates for a period of 8 weeks in late 2002.

Surveys

Quarterly Follow Up Small Business Survey

The Small Business Survey conducted in the latter half of 2001 (SBS - 2001) was planned with the idea of continuing the survey on quarterly basis for a selected sub sample of small businesses. The primary objective of conducting this Survey was to establish a data base for the small business sector for the direct compilation of GDP. Accordingly, the first quarterly follow up mail survey on small businesses was conducted in the first half of 2002. However, this follow up survey continued to suffer from non response. After assessing the poor progress of this exercise, it was decided to discontinue the conduct of this survey, while keeping options open for an alternative strategy.

Proposed 8th Consumer Finances and Socio Economic Survey (CFS) - 2003/04

Following discussions between the Department of Census and Statistics (DCS) and the Statistics Department (SD), a consensus was reached to follow a coordinated approach in the conduct of future income and expenditure surveys towards developing a comprehensive database on socio economic conditions in Sri Lanka on a continuing basis. In this regard, it was agreed that the Income and Expenditure surveys conducted by the DCS and the CFS conducted by the SD are both needed by planners and that each be conducted to allow for a data series at equally spaced intervals.

Several major steps were taken by the Department during the year towards planning the eighth CFS to be conducted during 2003/04. The main objective of conducting this survey is to collect comprehensive data on household income, expenditure, consumption, savings and investments. In addition, a series of other important data on demographic features, housing and socio economic conditions, labour force and employment are also collected. Among the activities initiated during the year were preparation of the survey questionnaire, determination of the sample size and sampling procedure, selection of the first stage sample blocks, preparation of the field plan and planning for other logistical arrangements.

Retail Sales Survey

Preliminary work was undertaken to explore the possibility of establishing a data base on the domestic trade sub sector through the conduct of a Retail Sales survey. The draft Survey questionnaire and other logistics of conducting the survey were completed during the year and further progress is expected early in 2003.

Country Wide Data Collection System

The Country Wide Data Collection System (CWDCS) of the Statistics Department, which commenced in 1978, completed 24 years of operation in 2002. Regular collection of information on retail prices of consumer goods, producer prices of agricultural commodities, and wage rates pertaining to the informal sector is carried out under this programme. The system is also used to identify the impact of changes in the administered prices of consumer items as well as to monitor inputs for agriculture in major producing areas. The sub sectors covered by the scheme include paddy, tea, rubber and coconut cultivation, and also small-scale construction. Data collection is accomplished through an island-wide network of school teachers who function as statistical investigators in around 100 centres. Information thus collected is published regularly through the print and electronic media. Seminars were conducted in Colombo, Matara, Anuradhapura and Kandy in 2002, to provide further training for the data collectors in order to improve the quality, efficiency and timeliness of their data collection, as well as to obtain their input on the reasons for differences in price developments across regions identified in the computation of regional consumer price indices.

The daily collection of wholesale and retail prices of major food items from the Pettah market and other centres such as the Maradagahamula rice market and the Dambulla Economic Centre is also undertaken by the Department. This information is disseminated daily in the newspapers and through the electronic media to farmers, traders and consumers. The information is also used by government agencies and private sector institutions for research and business decision making, such as in forward sales contracts. Collection of price information from the Pettah Market and other centres within the Colombo District, which was previously carried out by the officers of the Department, was outsourced to a private company following the retirement of some staff under the Bank's Voluntary Retirement Scheme (VRS).

The Prices and Wages Division of the Statistics Department developed a Micro Data Analysis Programme (MDAP) with the support of two students following the Higher Diploma in Computer Based Information Systems at the National Institute of Business Management who were on a short-term attachment in the Department. This programme is user friendly and is capable of handling the entire database of the Division. The MDAP helped the Division to improve efficiency by way of reducing the required number of man hours to edit and process information under the CWDCS.

Further, the Division replaced the former payments system to teacher investigators under the CWDCS using Money Orders of the Postal Department with a computerised programme linked to the Sri Lanka Inter-bank Payment System (SLIPS), which reduced cost in terms of number of man hours as well as commission payments to the Postal Department. These two developments under the CWDCS, the introduction of MSAP and SLIPS, helped the Division in its reorganisation after the VRS, to function smoothly under the new environment.

Computation of Price Indices

Consumer Price Indices

The Colombo District Consumer Price Index (CDCPI), introduced in 1998, continued to be computed by the Department as a supplementary index to the Colombo Consumers' Price Index (CCPI) computed by the Department of Census and Statistics. The target population used in the CDCPI is the lowest 40 per cent of the district household population ranked by income. It has a broader coverage in terms of the number of items, as well as geographically, than the CCPI. The information for the computation of the index is obtained from 11 centres in the Colombo District. Of these 11 centres, 5 centres, namely the Pettah Market, Hanwella, Homagama, Moratuwa and Avissawella, are established under the CWDCS, and the other centres namely, Kolonnawa, Nugegoda, Dehiwala, Piliyandala, Maharagama and Padukka, were newly introduced in January 1999. Following the outsourcing of the collection of information to a company, two field investigators hired from the company and

appointed teacher investigators collected information regularly from these centres.

Since 1998, the Department has computed three regional consumer price indices for the districts of Anuradhapura, Matale and Matara on an experimental basis. The commodity weights for the indices are based on the expenditure patterns of the respective districts derived from the Consumer Finances and Socio-Economic Survey of 1996/97 conducted by the Central Bank. The corresponding weights for the calculation of the indices were constructed based on the target population of the lowest 40 per cent of households in the district when ranked by income. These indices are useful in analysing regional price movements. They are also used by market players in negotiating forward sales contracts in agricultural commodities.

The Statistics Department continued to compile a consumer price index covering the Western Province for internal purposes. The main improvement in this index is the expanded coverage of a consumer price index to higher income households and a wider geographical area. This index represents the lowest 64 per cent of households in the Western Province when ranked by income, taken from the Consumer Finances and Socio Economic Survey of 1996/97. The weights are based on the expenditure pattern of the representative households. Data collection centres have been extended beyond major trading centres used for the CDCPI, to include super markets in the city to capture changing consumption patterns of the higher income households as well.

In addition to the above consumer price indices, the Statistics Department commenced analysis of movements of the Sri Lanka Consumer Price Index (SLCPI), newly introduced by the DCS in March 2002. This index covers 80 per cent of the households ranked by expenditure for the entire country excluding the Northern Province, using a survey conducted by the DCS in 1995/1996. During the year, the Statistics Department commenced issuing monthly press releases analysing the movements of all available CPIs, including the SLCPI, along with contributory factors for those price movements.

Wholesale Price Index

The Department continues to compute the Wholesale Price Index (WPI), which reflects price movements at the primary market level. This is a useful indicator of the future price movements in retail markets.

National Accounts

The Department continued its activities in connection with the estimation of National Accounts. These included the collection of primary and secondary data and compilation of related statistics.

In 2002, there was a marked improvement in data dissemination. In the past, the quarterly press releases had disseminated limited information to the public on the GDP when compared with the annual information published in the

CBSL Annual Report. The sectoral breakdown in the press releases contained five sectors *viz.*, Agriculture, forestry and fishing, Mining and quarrying, Manufacturing, Construction and Services. However, after four years of such dissemination, during which period the coverage of data for quarterly GDP has expanded and improved, it was considered timely to disseminate more comprehensive information on quarterly GDP. Hence, from the first quarter press release in 2002, the coverage was expanded to eleven sectors, the structure used for the annual estimates in the CBSL Annual Report. In addition, the Department also issued an advance release calendar for 2002, indicating the future dates of dissemination of quarterly national income estimates following the practice of many national statistical institutions worldwide that compile GDP. Earlier, quarterly GDP information was issued to the electronic and print media through a press release. Since the first quarter of 2002, a press conference was held with the release of each quarterly report to enhance public awareness of issues of economic interest.

In 2002, the National Accounts Division revised the classification of private consumption expenditure that had prevailed over a 40 year period, which was based on the origin of goods and services consumed. The new classification, Classification of Individual Consumption by Purpose (COICOP), is a purpose-wise classification which is internationally accepted. The new classification is published in this Annual Report.

Provincial National Accounts

With a view to filling the lacuna of not having a comprehensive set of estimates for provincial GDP, the Department was successful in developing a methodology for compiling and publishing provincial GDP estimates at current factor cost prices for the five year period from 1996 to 2000. Such provincial GDP estimates would allow policy makers to obtain key economic indicators *viz.*, economic growth, labour productivity and per capita income at the provincial level, towards more efficient allocation and utilisation of productive resources. In May 2002, the Department conducted a seminar on Provincial Estimation and Analysis of Regional Economic Activity in Sri Lanka, as regional development is a key pillar of the overall development policy framework of the government. The Department also published a paper on these Provincial GDP estimates during the year. This paper provides a comprehensive analysis of provincial economic activities as well as the provincial contribution to national economic development.

In an effort to improve timeliness, nearly 90 per cent of the compilation relating to the provincial GDP estimates for year 2001 was completed in 2002, and it is expected to complete this task early in 2003.

Employment Statistics

The Department continued its annual survey on Public Sector Employment in 2002 as well, with the objective of ascertaining

the trends in employment in government ministries, departments, provincial councils, local authorities, corporations and state boards. Further, the survey on Quarterly Public Sector Employment, which was initiated in 2001, was continued in 2002 for the purpose of ascertaining the quarterly trends in public sector employment required for the estimation of the value addition in the Public Administration and Defence sector of the National Income Accounts.

STANET and Web Page

The Department continued to provide access to key data and press releases, as well as general information about the work of the Department through its web page "STANET" on the Local Area Network of the Central Bank. The integrated network system provides access to and sharing of data bases between divisions and other departments of the Bank, as well as the web page of the Central Bank.

Publications

Report of the Survey on Small Businesses in Sri Lanka – 2001

The above report presenting the findings of the SBS - 2001 was completed in February 2002.

Other Publications

During the period under review, the Department continued its activities in connection with its two annual publications. The Department released 'Sri Lanka Socio-Economic Data 2002-Volume XXV' in June and 'Economic and Social Statistics of Sri Lanka 2002' – Volume XXIV in December.

These two publications carry comprehensive time series and cross-sectional data on socio-economic variables, including demography, labour force and employment, national income and expenditure, agriculture, industry, external trade and finance, prices and wages, money and banking, capital markets, government finance and socio-economic services. The publication 'Economic and Social Statistics of Sri Lanka 2002' was improved further by providing wider coverage of province-wise information. In addition, the Department contributed to several other publications of the Central Bank.

Supervision of Non-Bank Financial Institutions¹

The Department of Supervision of Non-Bank Financial Institutions continued to carry out its regulatory and supervisory functions in respect of registered finance companies (FCs) with the objective of ensuring that FCs comply with the minimum prudential requirements stipulated by the Central Bank. These functions were carried out mainly through off-site surveillance and on-site examinations. The Department is also

1/ Consolidated Balance Sheets of Registered Finance Companies for the years 1993-2002 are given in Appendix Table 114.

entrusted with the task of registering and monitoring finance leasing establishments.

One new finance company was registered during the year while the name of another company was changed by its new management. As at the end of 2002, the total number of finance companies stood at 26. The total number of registered finance leasing establishments as at the same date was 49.

Off-site Surveillance

The Department continued its off-site surveillance of registered finance companies. In this process, periodical returns submitted by FCs were analysed with a view to ascertaining the financial condition of the FCs and monitoring their compliance with the provisions of the Finance Companies Act and the Directions and Rules issued under it. Returns obtained from FCs included weekly statements of liquid assets, monthly statements of large advances granted, monthly statements of assets and liabilities, monthly cash flow statements, quarterly statements of non-performing advances and annual audited balance sheets and profit and loss accounts. Directions issued under the Act included minimum capital and liquidity requirements, provisioning for bad and doubtful debts, single borrower limits and limits on equity investments.

On-site Examination

The Department conducted comprehensive on-site examinations of two FCs during the year. Examiners of the Department assessed information gathered from books of accounts and other records maintained by FCs in order to examine capital adequacy, asset quality, management efficiency, earnings and liquidity. Internal controls and systems and the companies' compliance with statutory requirements were also examined. Meanwhile, spot examinations were conducted of 23 other companies prior to the issue of annual licences for 2003. These spot examinations covered selected critical areas.

Registration of Finance Leasing Business

In terms of the provisions of Finance Leasing Act (FLA), No.56 of 2000, a certificate of registration is necessary to carry on finance leasing business. Any establishment engaged in finance leasing business on the appointed date, i.e., 1 August 2001, was allowed to continue to carry on such business without registration for a period not exceeding one year from the appointed date. During the period July to December 2002, 49 institutions comprising 8 licensed commercial banks, 4 licensed specialised banks, 23 registered finance companies and 14 public companies were registered and certificates of registration under the FLA were issued to these institutions.

Issue of a Direction

In September, Finance Companies (Deposits) Direction No.1 of 2002 was issued and the Finance Companies (Deposits)

Direction No.6 of 1991 as amended by Direction No.1 of 2001 was revoked. In terms of the new Direction, finance companies are authorised to accept deposits for a minimum period one month. Earlier, the minimum period for accepting deposits was three months.

Failed Finance Companies

Of the nine failed finance companies the administration and management of which were vested in the Monetary Board under the provisions of the Finance Companies Act, No.78 of 1988, five were under liquidation at the end of 2002. The administration and management of the remaining four companies continued to be vested in the Monetary Board. A petition for liquidation with respect to one such company was pending in Courts.

The Centre for Banking Studies

With the objective of imparting training to officials in the financial sector and equipping them with the necessary skills to meet challenges arising from technological advancements and financial innovations, the Centre for Banking Studies (CBS) conducted a wide range of short-term training programmes, workshops and seminars in 2002. A number of long-term courses (60 hours) in Information Technology and in English language were also conducted in 2002. Table II - 24 gives the broad areas in which training programmes were conducted in 2002.

TABLE II - 24
Training Programmes Conducted by CBS in 2002

	No. of Prog- rammes	Trainees			Total Training Hours
		CBSL	Other	Total	
Banking Operations	6	8	176	184	96
Bank Supervision	7	7	152	159	90
Financial Sector Development and Economic Management	5	15	147	162	54
Information Technology	24	240	30	270	934
Management	1	14	5	19	30
Skill Development	6	128	7	135	204
Special Programmes	6	80	-	80	30
TOTAL	55	492	517	1,009	1,438

Source : CBS, Central Bank of Sri Lanka

CBS conducted 55 training programmes covering 1,438 training hours for 1,009 participants. Approximately 49 per cent of participants were from the Central Bank, while the rest were mainly from commercial banks and other financial sector institutions. CBS also had a few participants from Ministries. A new development was the participation of University

TABLE II – 25
Commemoration Lectures and Public Seminars Conducted in 2002

Date	Topic	Lecturer	Discussants
11 January	New Orientations in Central Banking	Dr. A. Vasudevan, Honorary Advisor, Reserve Bank of India, Mumbai	
24 January	Reforming the International Financial Architecture	Mr. Andrew D. Crockett General Manager, Bank for International Settlements, Basel, Switzerland	Dr. Nadem UI Haque Senior Resident Representative, IMF
21 February	Process of Policy Making in Government (Independence Commemoration Lecture)	Mr. Godfrey Gunatilleke Member, Human Rights Commission and Board of Governors, Marga Institute	
2 May	Preliminary Findings of the Census 2001 and Use of Census Data in Development Planning	Mr. A.G.W. Nanayakkara Director General, Department of Census & Statistics	Dr. K.A.P. Siddhisena Prof. of Demography University of Colombo. Dr. A.T.P.L. Abeykoon, Director, Population Division Ministry of Health, Nutrition & Welfare
16 May	State of the Economy and the Need for Structural Reforms (Republic Commemoration Lecture)	Dr. A.G. Karunasena, Director, Economic Research, Central Bank of Sri Lanka	Dr. P.B. Jayasundera Chairman, Public Enterprise Reform Commission
27 June	Sociological Aspects of Poverty in Sri Lanka	Prof. K. Tudor Silva, Prof. of Sociology, University of Peradeniya & Executive Director, Centre for Poverty Analysis	Dr. Nimal Sanderatne, Visiting Senior Fellow, Post Graduate Institute of Agriculture, University of Peradeniya.
11 July	Value Added Tax: Features and Issues	Mr. P. Guruge, Advisor-Fiscal Policy, Ministry of Finance	Mrs. Lakmali Nanayakkara, Partner, Ernst & Young. Mr. C.J.P. Siriwardena Senior Economist & Head of Fiscal Policy Division, Central Bank of Sri Lanka
8 August	Problems Faced by Accounting Industry after Enron	Mr. Manil Jayasinghe, Partner, Ernst & Young	Mr. Ariththa Wikramanayake, Senior Partner, Nithya Partners (Attorneys-at-law)
29 August	The Tax System and Development of a Single Tax System (The 52nd Anniversary Lecture of the Central Bank)	Dr. Parthasarathi Shome, Director, IMF Singapore Regional Training Institute, Republic of Singapore	
26 September	Issues in Water Resource Management	Prof. A Vaidyanathan, Madras Institute of Development Studies, Chennai	
17 October	Forward Market for Agricultural Commodities (21st Anniversary Lecture of the CBS)	Mr. Lamon Rutten, Co-ordinator, Commodity Marketing, Risk Management and Finance UNCTAD, Geneva	

Source : CBS, Central Bank of Sri Lanka

lecturers, mainly from the University of Jaffna, South Eastern University of Sri Lanka and Eastern University of Sri Lanka, in training programmes at CBS.

In 2002, the programmes that had an increased demand from commercial banks and other financial sector institutions were "Determinants of Interest Rates and Exchange Rates", "Management of Government Debt", "Hire Purchase and Lease Financing", "Legal Aspects of Documentation for Advances", "Central Bank Open Market Operations and Interest Rate

Trends", "Non-Performing Assets and Banking System Failures", "Lending on Pledge of Jewellery" and "Financial Statement Analysis". There was considerable demand for training in Information Technology Skills from employees of the Central Bank, and CBS conducted 24 computer training courses where 89 per cent of the participants were from the Central Bank. In addition to the 07 scheduled programmes on Internet and E-mail, 04 special programmes were conducted at the request of the Information Technology (IT) Department.

A Special Workshop for Departmental IT Liaison Officers was also conducted at the request of the IT Department. In addition, there were 06 skills development courses conducted in the year, of which 04 were in English Language, exclusively for Central Bank participants. CBS also continued to provide logistical assistance to the Management Development Centre of the Central Bank to conduct 08 High Level Training Programmes at the premises of CBS.

For the fourth successive year, CBS continued with the series of monthly public seminars and commemoration lectures with a view to disseminating new ideas in the field of banking, finance, economics and other relevant subjects. This provided a forum for the public, professionals and academics to exchange views and share experiences.

Table II - 25 provides information of the eleven public seminars and commemoration lectures held in 2002 which were well attended by the officials from banking, financial and government sectors, universities, the media and the general public.

Training

During the year under review, in order to address the issue of developing human resource skills in the Bank with the required competency to facilitate it to achieve its new core objectives, the Training Department formulated a medium-term training plan aiming at providing training opportunities to the staff at all levels. The focus of the training plan was to meet identified skills gap of officers through a learning process to acquire the core competencies as well as specific technical competencies required.

The training plan has placed a high priority on providing postgraduate training to eligible staff to meet the Bank's most urgent needs in economic research, statistical investigation, bank supervision and finance. The short term training mainly focused on improving communication skills and information technology, in addition to helping staff members to update their competencies and knowledge on technical areas relating to the Bank.

As a prelude to the formulation of the training plan, a competency assessment audit of each officer was conducted by a departmental Training Sub-Committee by identifying the competencies possessed by officers and the required

competencies for the performance of the jobs and tasks involved. The resultant competency gap through this exercise served as the basis for the Master Training Plan.

In 2002, 5 officers were sent for postgraduate studies; of these, 3 officers followed postgraduate studies in Finance, one officer in Information Technology and one officer in Management. As at end 2002, 17 officers were following postgraduate studies abroad in various fields. After completing the Master's Degree, 2 officers returned to the Bank during the year.

The total number of officers trained in foreign short-term training programmes were 154, while the number trained locally were 818. Of the local trainees, 500 officers were trained in courses conducted by the Centre for Banking Studies of the Central Bank.

During the year under review, the Bank opened the opportunity for officers to acquire professional qualifications such as charter holders of the Chartered Financial Analysts (CFA) and Associate Members of the Institute of Chartered Accountants (ACA). For the first time, the Institute of Chartered Accountants of Sri Lanka recognised the Central Bank as an accredited training institution for serving the articleship period

TABLE II - 27

Training of Officers: Short-term Training Programs / Seminars - 2002

Department	No. of Officers Trained			
	Foreign		Local (CBS)	
	2001	2002	2001	2002
1. Banking	18	-	24	-
2. Economic Research	17	24	31	27
3. Bank Supervision	18	24	66	54
4. Information Technology	6	7	18	10
5. Secretariat	-	8	24	22
6. Employees' Provident Fund	-	1	63	61
7. Public Debt	6	14	26	17
8. RDD	4	13	-	28
9. Centre for Banking Studies	-	2	22	12
10. Currency	-	3	15	31
11. Development Finance	-	-	11	-
12. HRD	1	6	8	14
13. Exchange Control	1	6	10	23
14. Financial Markets	-	-	21	-
15. Management Audit	2	2	-	13
16. Premises	-	-	17	13
17. Statistics	5	2	8	18
18. Supervision of Non-Bank Financial Institutions	3	6	19	34
19. Welfare	-	1	22	22
20. Training	1	1	16	10
21. Security Services	-	3	10	15
22. New Buildings	-	-	8	-
23. Legal	2	3	8	1
24. Information (including Library)	2	1	7	28
25. FD	-	3	43	13
26. DOD	-	2	-	7
27. IOD	-	14	-	11
28. PSD	-	7	-	13
29. MDC	-	1	-	3
TOTAL	86	154	497	500

(a) Regional Offices included

Source : Central Bank of Sri Lanka

TABLE II - 26

Training of Officers: Postgraduate Studies 2001/ 2002

Year	No. of Officers Sent for Post- graduate Studies	No. of Officers who Returned after Postgraduate Studies	No. of Officers pursuing Postgraduate Studies as at end year	
			Docto- ral	Masters/Post- graduate Diploma
2001	10	7	1	12/11
2002	5	2	1	15/2

Source : Central Bank of Sri Lanka

by ICA students. Under this programme, the ICA scholars in the Central Bank will undergo practical training in the departments of IOD, DOD, PDD, Finance, MAD, BSD & EPF. It is expected that many officers of the Central Bank will qualify in these professional fields during the forthcoming 5 year period.

Officers were trained in various skills highly related to the core functions of the Bank, such as Risk Management, Reserve Management, Monetary and Financial Sector Management and Banking Supervision. Special programmes were also conducted in the Bank to introduce the new accounting system, RTGS and new auditing system. In order to improve language skills and IT skills of non-staff officers, special language courses in Tamil and English language and special IT programmes were conducted. The Department also encouraged CBSL officers to participate in the courses conducted by the Sri Lanka Institute of Development Administration (SLIDA), at their Distance Learning Centre. These courses enabled the officers to learn through on-line and simultaneous interaction with counterparts in the rest of the world. A total number of 36 officers participated in these Distance Learning Programmes.

The Department continued to send officers for training under the Staff Exchange Programme for promoting exchange of ideas and knowledge among SAARC countries. During the year, 19 officers visited the central banks in the region to study areas of Public Debt Management, Human Resource Development, Regulation of Finance Leasing Companies, Trainers Training, Internal Auditing Practices, Development in the Debt Securities Market and Poverty Alleviation Micro-finance *etc.*

With the introduction of the Voluntary Retirement Scheme (VRS), the Department took an initiative to adapt to the new environment by introducing the application process for training to an on-line system enabling the Department to move away from a paper-based system to an electronic system. In order for the staff to have easy access to the information on training activities of the Bank, a website was launched in collaboration with the Information Technology Department for providing information on training opportunities that were available. The officers who were trained abroad were also closely monitored by encouraging them to make presentations at the Bank after training with a view to sharing their knowledge with the other staff. A Training Bulletin in electronic form was also launched by the Department on its website, facilitating the dissemination of selected trainee reports submitted by officers after training. Two volumes consisting of 10 articles have been inserted in the Bulletin during the year. In addition, a weekly seminar series was also conducted by the Department with the objective of imparting knowledge on current economic, banking and other general issues. These seminars were conducted by eminent persons from institutions in Sri Lanka and abroad, as well as by officers of the Bank; 47 such seminars were conducted during the year.

Welfare

A special job handled by the Welfare Department during the year under reference was the work relating to the recovery of outstanding loan liabilities of 690 employees who retired under the VRS and the expeditious release of their Provident Fund monies, after the settlement of loan liabilities.

During 2002 the Welfare Department continued to extend welfare facilities to employees by the administration of several concessional staff loan schemes, provision of health facilities at the Bank clinic and the provision of meals at four canteens. The canteen also provided catering services at official functions and international seminars.

The Department was able to use new technology to expedite work which had to be carried out with reduced staff in view of the VRS, by computerising the processing of loan applications of the Provident Fund and Staff Benefit Schemes, and by using computer generated payment documents to enable the employees to obtain cash from Currency Department.

The Housing Loan Scheme was implemented smoothly during the year. New recruits to the Bank were required to obtain a Loan Protection Policy from the Insurance Corporation of Sri Lanka to ensure that the policy holder's family would not be burdened with the housing loan liabilities in the event of death whilst in service.

The Department continued to provide facilities to victims of the attack on the Bank in 1996, by giving computers with the necessary software packages to those who lost their eye sight, to enable them to improve their quality of life.

Advances and reimbursements were made under the Staff Medical Benefit Scheme (MBS) for the medical expenses of employees, pensioners and their dependants. The Monetary Board also approved the enhancement of benefits under MBS to all employees with effect from 1 January 2003. Further medical facilities under Categories C, D and E of MBS which were not available to pensioners were extended to pensioners and their spouses on a contributory basis, thereby making them eligible for the reimbursement of the cost of special surgery, rare and incurable diseases *etc.*

In order to enable employees to have a better take home pay, the Monetary Board approved the amalgamation and rescheduling of provident fund loans granted since September 1997.

The subsidised Railway and Bus Season Ticket Scheme and the Railway Warrant Scheme also continued as in the previous year.

Human Resources Development

As a part of its modernisation program, the Bank decided to rename the Establishments Department as the Human Resources Department with the appointment of a professionally qualified Director for Human Resource Management in April 2002. Certain changes in relation to the Human Resource

Management have also been identified during the year. The policies relating to recruitment, placement, career development, succession and performance management are now under review. The Human Resources Department has observed that given the existing strength of the Bank and in the face of diverse banking activities, consequent to the rapid expansion of the financial sector, special attention has to be paid to improving employees' competency, efficiency, quality and commitment.

The Human Resources Department plays a vital role in the on-going modernisation programme, as HR is fundamental for generating internal capabilities of employees to carry out this programme effectively. Therefore, competency profiling has been initiated to identify the training and development needs of employees. This exercise, once completed, should provide an assessment of the existing human capital of the Bank, and also provide the information required for future development needs of the professional staff. The performance management system will be also improved to create a performance driven culture in the Bank.

Meanwhile two professionally qualified officers were appointed to head the Finance Department and Management Audit Department. Action was initiated to recruit Staff Officers to the Bank service in the early part of the year, and it is expected to finalise recruitment during the first quarter of 2003. Action has also been initiated to obtain the services of a Human Resource Consultant to develop the Strategic Human Resource Management in the Bank.

The Governor Mr. A S Jayawardena attended the following meetings during 2002.

1. World Bank Annual Competition "The Development Marketplace" held at the World Bank Headquarters in Washington D C from January 8 – 10, 2002.
2. The Indian Council for Research on International Economic Relations (ICRIER) and the South Asia Distinguished Lecture Series in New Delhi (Economic Performance of Sri Lanka in the Nineties) and visited the Cotton Commodity Exchange and the Oil Seeds Exchange in Mumbai from February 14 – 21, 2002.
3. G-24, IMFC and Development Committee Meeting in Washington D C from April 16 – 24, 2002.
4. Commonwealth Secretariat Symposium Events, Bank of England Central Bank Governors' Symposium Events in London from July 2 – 5, 2002 and 72nd Annual General Meeting of Bank for International Settlements, Basle, Switzerland from July 6 – 8 and visited Sveriges Riksbank, Sweden from July 9 – 19, 2002.
5. Conference on "Challenges to Central Banking from Globalised Financial Systems" and Bank/Fund Annual Meetings in Washington D C from September 16 – October 1, 2002.
6. SEANZA Central Bank Governors' Symposium and Meeting in Hong Kong from October 30 – November 4, 2002.

Reconstitution of Banking Department by establishing International Operations, Domestic Operations, Payments & Settlements and Finance Departments

Under the on-going modernisation programme, the Banking Department of the Central Bank was reconstituted into four separate departments, in order to perform its functions more efficiently, while reorganising its operations to be in line with current international best practices. The four departments are International Operations Department, Domestic Operations Department, Payments and Settlements Department and Finance Department. With the commencement of the new departments' operations on 1 January 2002, the activities of the Banking Department ceased.

Amalgamation of Rural Credit Department and Development Finance Department

The Regional Development Department (RDD) commenced its activities with effect from 1 January 2002 with the amalgamation of Rural Credit Department and Development Finance Department. This amalgamation was carried out to improve the understanding of problems and opportunities for development, which could be effectively addressed through Regional Development Banks.

Appointments

1. The following appointments were effected from 1 January 2002.
 - (i) Mr. Y M W B Weerasekara, Chief Accountant, Banking Department as Director, International Operations Department.
 - (ii) Dr. D S Wijesinghe, Additional Director, Economic Research Department as Director, Domestic Operations Department.
 - (iii) Mrs. K R M Siriwardena, Additional Chief Accountant, Banking Department as Director, Payments and Settlements Department.
 - (iv) Mrs. C K Nanayakkara, Director, Rural Credit Department and Acting Director, Development Finance Department, as Director, Training and Acting Director, Management Development Centre.
 - (v) Mr. M M Attanayake, Additional Director, Economic Research Department, as Acting Director, Training and Acting Director, Management Development Centre, as Director, Regional Development Department.
2. Mr. K Jeganathan, Additional Secretary, Secretariat Department was appointed as Acting Chief Accountant, Finance Department on 1 January 2002 and subsequently, he was appointed as Director of the Centre for Banking Studies with effect from 15 March 2002. In addition to his duties as Director of the Centre for Banking Studies, he functioned as Additional Chief Accountant of the Finance Department with effect from 17 September 2002.

3. Mrs. P P Sirisena, Additional Controller of Exchange, Exchange Control Department was appointed as Director, Bank Supervision Department with effect from 25 January 2002.
4. Mr. L Y Dharmasena, Acting Additional Secretary, Secretariat Department was appointed as Acting Director, Premises Department with effect from 18 March 2002.
5. Mr. D L Katuwawala was appointed as Chief Accountant to head the Finance Department with effect from 15 March 2002, on contract basis.
6. Mr. H D Tissera, Acting Director, Centre for Banking Studies was appointed as Acting Additional Director, Centre for Banking Studies with effect from 15 March 2002. In addition to his duties he functioned as Additional Director, Information Department with effect from 13 June 2002.
7. Mr. K A D Rupasena, Acting Director of Establishments was appointed as Special Officer of the Human Resources Department with effect from 1 April 2002.
8. Mr. M A Nandasiri was appointed as Director Human Resources to head the Human Resources Department with effect from 1 April 2002, on contract basis.
9. Mr. W M J Ratnapriya was appointed as the Director, Management Audit to head the Management Audit Department with effect from 2 September 2002, on contract basis.
10. Mr. C K Paravithana, Director, Management Audit was appointed as Additional Director, Welfare Department with effect from 2 September 2002.

Retirements

1. Mr. S Rupasinghe, Director, Establishments Department retired from the Bank service with effect from 3 January 2002.
2. Mr. P T Sirisena, Director, Bank Supervision Department retired from the Bank service with effect from 25 January 2002.
3. Mr. K A D Rupasena, Special Officer, Human Resources Department retired from the Bank service with effect from 29 May 2002.
4. Mr. G A V Fonseka, Actg. Director, Premises Department retired from the Bank service with effect from 16 June 2002.

Officers on Release

1. Mr. R A Jayatissa to the International Monetary Fund as Alternate Executive Director.
2. Mrs. M A R C Cooray to the Ministry of Finance as Director General/Fiscal Policy and Economic Affairs
3. Dr. U Vidanapathirana to the Ministry of Industries as Secretary.
4. Mr. M J S Abeysinghe to the Ministry of Finance.
5. Mr. L J Wickramasinghe to LankaClear (Pvt) Ltd.
6. Mrs. Y M Indraratne to the Ministry of Finance as Deputy Director, Department of Fiscal Policy and Economic Affairs.