

CENTRAL BANK OF SRI LANKA



ANNUAL REPORT

OF THE MONETARY BOARD TO THE
HON. MINISTER OF FINANCE

FOR THE YEAR

2007

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Ajith Nivard Cabraal
The Governor

Central Bank of Sri Lanka

30, Janadhipathi Mawatha
Colombo 1, Sri Lanka.

March 31, 2008

His Excellency Mahinda Rajapaksa
President of Sri Lanka and
Minister of Finance and Planning
Presidential Secretariat
Colombo 01.

Your Excellency,

Annual Report 2007

Section 35 of the Monetary Law Act (Chapter 422) requires the Monetary Board of the Central Bank of Sri Lanka to submit an Annual Report to the Minister of Finance on the state of the economy, the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board, within four months after the end of each financial year.

The Fifty Eighth Annual Report of the Monetary Board of the Central Bank, in respect of the year 2007, is submitted herewith in fulfilment of this obligation.

Yours sincerely,

CENTRAL BANK OF SRI LANKA

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NIMAL WELGAMA

Appointed Member

MRS. M. RAMANATHAN

Appointed Member

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Assistant Governors

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Appointed on 01.06.2004

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Appointed on 11.10.2006

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Appointed on 03.12.2007

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CONSULTANTS**Legal Department**

P.M.M. PIERIS	-	Consultant
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AUDITOR

P. A. PEMATILAKA

Auditor General

(Up to 30th December 2007)

S. SWARNAJOTHI

Auditor General

(From 3rd January 2008 onwards)

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List of Acronyms

ACU	Asian Clearing Union	CP	Commercial Paper
AD	Aggregate Demand	CPC	Ceylon Petroleum Corporation
ADB	Asian Development Bank	CPEP	Colombo Port Expansion Project
ALFEA	Association of Licensed Foreign Employment Agencies	CPF	Contributory Pension Fund
APMA	Agriculture Product Marketing Board	CPI	Consumer Price Index
APTA	Asia-Pacific Trade Agreement	CPO	Central Project Office
ARM	Adjustable Rate Mortgages	CRIB	Credit Information Bureau
ASPI	All Share Price Index	CRIBN	New Credit Information Bureau
ATM	Automated Teller Machine	CSE	Colombo Stock Exchange
AWDR	Average Weighted Deposit Rate	CTB	Ceylon Transport Board
AWFDR	Average Weighted Fixed Deposit Rate	CTC	Cut, Tear and Curl
AWLR	Average Weighted Lending Rate	DA	Document against Acceptance
AWPR	Average Weighted Prime Lending Rate	DA	Document of Acceptance
BCP	Business Continuity Plan	DBU	Domestic Banking Unit
BIA	Bandaranayake International Airport	DC	Desiccated Coconut
BIADP	Bandaranayake International Airport Development Project	DCS	Department of Census and Statistics
BIMST-EC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation	DFCC	Development Finance Corporation of Ceylon
BIS	Bank for International Settlement	DHF	Dengue Haemorrhagic Fever
BIS	Bureau of Indian Standards	DOA	Department of Agriculture
BOC	Bank of Ceylon	DOP	Department of Post
BOI	Board of Investment	DRS	Disaster Recovery Site
BOP	Balance of Payments	DvP	Delivery versus Payment
BPO	Business Process Outsourcing	ECB	External Commercial Borrowings
bps	Basis Points	ED	Excise Department
CAARP	Conflict Affected Areas Rehabilitation Project	EEC	European Economic Community
CAR	Capital Adequacy Ratio	EDI	Electronic Data Interchange
CARMELS	Capital, Assets, Reinsurance, Actural, Management, Earnings, Liquidity, Solvency - Rating System	EEZ	Exclusive Economic Zone
CBSL	Central Bank of Sri Lanka	EFTPOS	Electronic Fund Transfer Facilities at the Point of Sale
CCB	Coconut Cultivation Board	EIB	European Investment Bank
CCPI	Colombo Consumers' Price Index	EP	Eastern Province
CCPI(N)	New Colombo Consumers' Price Index	EPF	Employees' Provident Fund
CDA	Coconut Development Authority	ESC	Economic Service Charge
CDCPI	Colombo District Consumers' Price Index	ESDF	Education Sector Development Framework
CDMA	Code Division Multiple Access	ETF	Employees' Trust Fund
CDO	Collateralised Debt Obligations	EU	European Union
CEA	Central Environmental Authority	FAO	Food and Agriculture Organisation
CEB	Ceylon Electricity Board	FC	Finance Company
CEN	Central Environmental Authority	FDI	Foreign Direct Investment
CEPA	Comprehensive Economic Partnership Agreement	FMRA	Fiscal Management (Responsibility) Act
CFC	Ceylon Fisheries Corporation	FMRP	Fiscal Management Reform Programme
CFS	Consumer Finance and Socio-Economic Survey	FTAs	Free Trade Agreements
CIDA	Canadian International Development Agency	G-8	Group of Eight (Canada, France, Germany, Italy, Japan, Russia, UK and US)
CIF	Cost, Insurance and Freight	GAMS	Government Asset Management System
CIS	Commonwealth of Independent States	GDE	Gross Domestic Expenditure
CIT	Cheque Imaging and Truncation	GDP	Gross Domestic Product
COLA	Cost of Living Allowance	GNP	Gross National Product
		GSP	Generalised System of Preferences
		HACCP	Hazard Analysis and Critical Control Point
		HDFC	Bank Housing Development Finance

Corporation Bank		Councils	
HDI	Human Development Index	MOFP	Ministry of Finance & Planning
HIES	Household Income and Expenditure Survey	MOP	Muriate of Potash
HS Codes	Harmonised System Codes	MPCC	Monetary Policy Consultative Committee
HP	Hire Purchase	MPI	Milanka Price Index
IAS	International Accounting Standards	MRCPI	Mataru District Consumer Price Index
IBRD	International Bank for Reconstruction and Development	MSL	Mean Sea Level
IBSL	Insurance Board of Sri Lanka	MTDMS	Medium Term Debt Management Strategy
ICICI	Industrial Credit and Investment Corporation of India	MTMFF	Medium Term Macro Fiscal Framework
ICT	Information and Communication Technology	NAQDA	National Agriculture Development Authority
ICTAD	Institute for Construction Training and Development	NCG	Net Credit to the Government
IDA	International Development Association	NCP	North Central Province
IDD	International Direct Dialling	NCRCS	New Comprehensive Rural Credit Scheme
IFAD	International Fund for Agricultural Development	NCRE	Non-conventional Renewable Energy
IFF	Investor Facilitation Forum	NCS	National Council for Sustainable Development
IFRS	International Financial Reporting Standards	NDA	Net Domestic Assets
ILF	Intra-day Liquidity Facility	NDF	Net Domestic Financing
IMF	International Monetary Fund	NDTF	National Development Trust Fund
IORARC	Indian Ocean Rim Association for Regional Co-operation	NEC	National Economic Council
IPO	Initial Public Offer	NECCDP	North East Coastal Community Development Project
IP	Internet Protocol	NEER	Nominal Effective Exchange Rate
IPP	Independent Power Producers	NFA	Net Foreign Assets
IPVPN	Internet Protocol Virtual Private Network	NFF	Net Foreign Financing
IRB	Internal Ratings Based	NFIA	Net Factor Income from Abroad
IRD	Inland Revenue Development	NFPC	Non Financial Public Corporations
IRIC	Inter Regulatory Institutions Council	NHDA	National Housing Development Authority
ISLFTA	Indo-Sri Lanka Free Trade Agreement	NN	Nagenahira Navodaya Renuka
IT	Information Technology	NPC	National Payment Council
ITE	Intra-group Transaction and Exposure	NPL	Non-performing loan
JBIC	Japan Bank for International Co-operation	NSB	National Savings Bank
JICA	Japanese International Cooperation Agency	NSDS	National Sustainable Development Strategy
JCT	Jaya Container Terminal	NWS&DB	National Water Supply and Drainage Board
KPIs	Key Performance Indicators	OBU	Off shore Banking Unit
KPIs	Key Production Indicators	OFC	Other Field Crops
JAFF	Joint Apparel Association Forum	OMO	Open Market Operation
KPO	Knowledge Process Outsourcing	OPEC	Organization of Petroleum Exporting Countries
LC	Letters of Credit	OTC	Over – The – Counter
LCB	Licensed Commercial Bank	PAFMIS	Public Accounting and Fiscal Management Information System
LG	Local Government	PAL	Port and Airport Development Levy
LIBOR	London Inter Bank Offered Rates	PAMP	Poverty Alleviation Microfinance Project
LMFI	Licensed Micro Finance Institution	PAMPRFS	Poverty Alleviation Microfinance Programme Revolving Fund Scheme
LSB	Licensed Specialised Bank	PB	People's Bank
MBIs	Market Based Instruments	PC	Provincial Council
MBSs	Mortgage – Backed Securities	PCB	Printed Circuit Board
MC	Municipal Council	PCE	Private Consumption Expenditure
MFA	Multi-Fibre Arrangement	PD	Primary Dealer
MFI	Micro Finance Institution	PDO	Project District Office
MID	Ministry of Industrial Development	PED	Public Enterprise Department
MLCPI	Matale District Consumer Price Index	PERC	Public Enterprises Reforms Commission
MLGPC	Ministry of Local Government and Provincial	PFI	Participating Financial Institutions
		PPA	Power Purchase Agreements

PPF	Private Provident Fund	SLNBB	Sri Lanka Nation Building Bond
PPP	Public-Private Partnership	SLPA	Sri Lanka Ports Authority
PS	Pradesheeya Sabha	SLR	Sri Lanka Railways
PSDG	Province Specific Development Grants	SLSI	Sri Lanka Standards Institution
PSFTA	Pakistan-Sri Lanka Free Trade Agreement	SLSPC	Sri Lanka State Plantation Corporation
PSPF	Public Sector Provident Fund	SLT	Sri Lanka Telecom.
PSDP	Province Specific Development Projects	SLTB	Sri Lanka Tea Board
PUCSL	Public Utilities Commission of Sri Lanka	SMEs	Small and Medium Enterprises
RADA	Reconstruction and Development Agency	SME	Small and Medium Scale Enterprise
RAMIS	Revenue Administration Information System	SNBFI	Supervision of Non-Bank Financial Institutions
R&D	Research and Development	SNG	Sub National Government
RDA	Road Development Authority	SOE	State Owned Enterprises
RDB	Regional Development Bank	SPCDRF	Second Perennial Crop Development Project Revolving Fund
RDD	Rubber Development Department	SRL	Social Responsibility Levy
REEL	Real Estate Exchange Ltd	SRR	Statutory Reserve Requirement
REER	Real Effective Exchange Rate	SSDS	Scripless Securities Depository System
RFC	Registered Finance Company	SSOEs	Strategic State Owned Enterprises
RFSDP	Rural Financial Sector Development Project	SSS system	Scripless Securities Settlement system
ROA	Return on Assets	STAART	Sri Lanka Tsunami Affected Areas Recovery and Take-Off Project
ROE	Return on Equity	STE	State Trading Enterprises
ROO	Rules of Origin	SVAR	Structural Vector Auto Regression
RPI	Retail Price Index	TAARP	Tsunami Affected Areas Rehabilitation Programme
RPPF	Road Projects Preparatory Facility	TAAR	Rehabilitation of Roads in Tsunami Affected Areas
RSDP	Road Sector Development Project	TB	Tuberculosis
RTGS	Real Time Gross Settlement System	TCCS	Thrift and Credit Co-operative Society
RWCAR	Risk Weighted Capital Adequacy Ratio	TDPRF	Tea Development Project Revolving Fund
SAARC	South Asian Association for Regional Co-operation	TERP	Tsunami Emergency Recovery Programme
SAFTA	South Asian Free Trade Area	TEUs	Twenty Foot Equivalent Container Units
SAGT	South Asia Gateway Terminals Ltd.	TRC	Telecommunication Regulatory Commission
SAPTA	South Asian Preferential Trading Arrangement	TRQ	Tariff Rate Quota
SBL	Single Borrower Limit	TSP	Triple Super Phosphate
SBRP	Small Business Revival Project	TVET	Technical and Vocational Education and Training
SDR	Special Drawing Rights	TYV	Ten Year Vision
SEA	Sustainable Energy Authority	UC	Urban Council
SEA	Strategic Environmental Assessment	UDA	Urban Development Authority
SEC	Securities and Exchange Commission	UK	United Kingdom
SEMA	Strategic Enterprises Management Agency	UNEP	United Nations Environmental Programme
SFLCP	Small Farmers and Landless Credit Project	UNICEF	United Nations International Children Education Fund
SHG	Self Help Group	UNIDO	United Nations Industrial Development Organization
SIRUP	Small Scale Infrastructure Rehabilitation and Upgrading Project	USA/US	United States of America
SLBA	Sri Lanka Banks' Association	USDA	US Department of Agriculture
SLBFE	Sri Lanka Bureau of Foreign Employment	VAT	Value Added Tax
SLC	Specialised Leasing Company	VCC	Venture Capital Companies
SLC	Sri Lanka Customs	VCF	Venture Capital Firm
SLCPI	Sri Lanka Consumers' Price Index	WPC	Western Provincial Council
SLTB	Sri Lanka Transport Board	WHO	World Health Organisation
SLDB	Sri Lanka Development Bond	WPI	Wholesale Price Index
SLECIC	Sri Lanka Export Credit Insurance Corporation	WTO	World Trade Organization
SLEDB	Sri Lanka Export Development Board		
SLIBOR	Sri Lanka Inter-Bank Offered Rate		
SLIIT	Sri Lanka Institute of Information Technology		
SLIPS	Sri Lanka Inter-bank Payment System		

PART I