Central Bank of Sri Lanka

Objectives, Functions & Organization

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Address:
Central Bank of Sri Lanka
No. 30, Janadhipathi Mawatha
Colombo 1
Sri Lanka.

Telephone:
+94-11-2477000

Website:
https://www.cbsl.gov.lk

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1. Central Bank of Sri Lanka

The Central Bank of Sri Lanka[1] was established by the Monetary Law Act of 1949 with capital appropriated from the Board of Commissioners of Currency and commenced operations on 28 August 1950. The Central Bank is at the apex of Sri Lanka's financial system and is responsible for safeguarding both the value of the Sri Lanka Rupee and the stability of the country's financial system.

2. Objectives

The Central Bank's focus and functions have evolved since its formation, in response to the changing economic environment. In keeping with trends in central banking, the objectives of the Central Bank were streamlined by amending the MLA in 2002, to enable it to pursue two core objectives.

The objectives of the Central Bank are to secure:

- economic and price stability, and
- financial system stability

with a view to encouraging and promoting the development of productive resources of Sri Lanka.

Prior to the amendment of the MLA in 2002, the Central Bank had multiple objectives such as stabilization of domestic monetary values, preservation of the stability of the exchange rate, promotion of a high level of production, employment and real income, and encouragement and promotion of the full development of the productive resources. At times, these multiple objectives were in conflict or inconsistent with each other. Meanwhile, a consensus had developed internationally that a central bank's primary goals should be the maintenance of price stability and financial system stability. As price stability is crucially dependent on stable macroeconomic conditions, one of the core objectives of the Central Bank was specified as "economic and price stability".

Furthermore, experience has shown that the stability of the financial system is also crucial for maintaining economic stability. Hence, financial system stability was also identified as a core objective of the Central Bank. The two objectives are correlated and complement each other. Ensuring financial

1. Known as the Central Bank of Ceylon until 1985.

system stability is of prime importance for price stability as monetary policy is transmitted through financial intermediaries (institutions). Price stability is important for financial system stability as interest rates, exchange rates and other asset prices move in response to changes in the general price level, impacting on the risk profile of financial institutions. Economic, price and financial system stability are necessary for sustained economic growth. Hence, the two objectives are in harmony and this enables the Central Bank to perform its main functions effectively. The Central Bank has been given a high degree of autonomy to enable it to achieve its objectives. In this regard, the Central Bank closely liaises with the Ministry of Finance in making policy decisions and the Secretary to the Ministry of Finance is a member of the Monetary Board, which is the governing body of the Central Bank.

Price Stability

Price stability safeguards the value of the currency in terms of what it will purchase at home and in terms of other currencies. Price stability or stable prices means low and stable inflation. Experience has shown that the economy performs well when inflation is low and is expected to be low. Interest rates are also low in these conditions. Such an environment enables an economy to achieve its growth potential and fosters high employment. This is because, free from the disruptive effects of high and variable inflation, both consumers and producers make economic decisions with confidence. Hence, low and stable inflation or price stability fosters sustainable long-term growth of economic activity and employment. The Central Bank uses monetary policy to control inflation.

Financial System Stability

A financial system is typically characterized by three constituent elements: financial institutions, financial markets and financial infrastructure. Resource mobilization and allocation, risk management and the settlement of payments are the main functions of a financial system.

A stable financial system enables economic activity to be carried out in an uninterrupted manner. Furthermore, a stable financial system generates a conducive environment for savers and investors. Therefore, a stable financial system encourages efficient financial intermediation and promotes investment and economic growth.

3. The Monetary Board

Governing Body

The Central Bank has a unique legal structure where the Monetary Board is conferred with the corporate status and vested with all powers, functions and duties. As the governing body, the Monetary Board is responsible for making all policy decisions and for the management, operation and administration of the Central Bank.

The Monetary Board of the Central Bank consists of five (5) members.

- The Governor ;
- The Secretary to the Ministry of Finance (ex-officio) ;
- Three (3) non – executive members.

The Governor is the Chairman of the Monetary Board and also functions as the Chief Executive Officer of the Central Bank. The Governor and the non-executive Board members are appointed by the President, on the recommendation of the Minister of Finance. The term of office of the Governor and the non–executive Board members is six (6) years. The quorum for Monetary Board meetings is three (3) members. The concurrence of three (3) members is required for decisions of the Monetary Board to be valid. However, in cases where a unanimous decision is required, the concurrence of all five (5) members is necessary.

If there is a difference of opinion on monetary policy between the Minister of Finance and the Monetary Board, the Minister of Finance may inform the Monetary Board that the Government accepts responsibility for the Monetary Board adopting policies in accordance with the opinion of the Government and direct the Monetary Board to adopt Government policy.

There is a Monetary Board appointed 3 member Audit Committee chaired by a non–executive Board member. The other two members who are required to have expertise in financial matters, have been drawn from outside the Central Bank. The Audit Committee reviews and advises the Monetary Board on the Central Bank’s financial reporting process, the adequacy and effectiveness of internal controls and the scope and results of the internal and external audit.

4. Functions

Core Functions

(a) Conduct of monetary policy.

(b) Conduct of exchange rate policy.

(c) Management of the official foreign reserves.

(d) Macroprudential Surveillance.

(e) Licensing, regulation and supervision of banks and selected non – bank financial institutions, i.e., Finance Companies, Specialised Leasing Companies, Primary Dealers in Government Securities, Money Brokers, Restricted Dealers (Money Changers).

(f) Provision of settlement facilities and the regulation of the payment system.

(g) Issue of currency notes and coins.

(h) Compilation and dissemination of economic data and statistics.

(i) Banker and financial adviser to the Government.

(j) Banker to Commercial Banks

Agency Functions

(a) Management of the Public Debt and Fiscal Agent of the Government.

(b) Management and Custodian of the Employees' Provident Fund.

(c) Management of Foreign Exchange.

(d) Facilitating Financial Inclusion and Balanced Growth.

Monetary Policy

The Central Bank conducts monetary policy to attain price stability in the domestic economy. Monetary policy operates primarily by influencing the cost and availability of money. Hence, the Central Bank manoeuvres market interest rates and credit availability in the economy by employing several monetary policy tools. The primary monetary policy tool is the Central Bank's policy interest rates, viz., the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR).

The Central Bank sets the policy interest rates for its own dealings with commercial banks and other 'Participating Institutions' (currently Primary Dealers in Government securities as well as the Employees' Provident Fund) and these rates then affect the whole range of interest rates set by commercial banks and other financial institutions for borrowers and savers. This in turn influences spending, investment and output decisions in the economy, and eventually the cost of production and the prices of goods and services.

For example, a change in the SDFR and the SLFR would have an almost immediate impact on interest rates in the inter-bank call money market. Changes in call rates would lead within a very short period to changes in other flexible short-term rates such as the yield on Treasury Bills and the lending rates of commercial banks to their prime customers. These changes would with a time lag affect the general lending rates of commercial banks, the yields on medium term Government securities (Treasury Bonds) and deposit rates offered by banks. The next step would be the impact on the levels of credit given by commercial banks, as changes in market interest rates would influence the demand for credit from firms (for investment) and consumers (for consumption expenditure). The final step in the process would be the impact of the change in interest rates and credit on aggregate demand and hence on prices and output.

If future inflation is expected to be higher than the desirable rate, the Central Bank will gradually raise its policy interest rates (the SDFR and the SLFR) to reduce inflation. Likewise, if future inflation is expected to be lower than the tolerable level, the Central Bank will lower its policy interest rates to stimulate the economy.

From the point of view of economic performance, the Central Bank sets interest rates (the SDFR and the SLFR) at a level to ensure that demand in the economy is in line with the productive capacity of the economy. If the interest rates are set too low, demand may exceed supply and lead to the emergence of inflationary pressures, so that inflation is likely to accelerate. If interest rates are set too high, output is likely to be unnecessarily low and inflation is likely to slow down.

Monetary Policy Tools

(a) Policy interest rates: The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) form the Standing Rate Corridor and generally form a floor and a ceiling for call money market rates. The Central Bank accepts deposits, on an overnight basis, from participating institutions (PIs), i.e., Commercial Banks, Primary Dealers in Government securities, and the Employees' Provident Fund, currently, for which it pays the SDFR. It lends to PIs at the SLFR, on an overnight basis, provided collateral (Treasury bills/Treasury bonds) is placed with the Central Bank. These standing facilities are available to the PIs, at their discretion.

(b) Open market operations (OMO): OMO are carried out by the Central Bank to supply liquidity to the money market or absorb money market liquidity, on an overnight basis, term basis or on a permanent basis. The instruments used for OMO are: Repurchase agreements and Reverse Repurchase agreements (for which government securities, i.e., Treasury bills and Treasury bonds, are the underlying collateral), outright purchases of Government securities, outright sales of Government securities, sales of Central Bank Securities, retirement of Central Bank Securities, and foreign exchange swaps. The Central Bank expects OMO to take place within the Standing Rate Corridor. OMO are carried out at the Central Bank's discretion and are aimed at affecting money market liquidity conditions so as to help the Central Bank to stabilise the Average Weighted Call Money Rate (AWCMR) at a level within the policy rate corridor, which is commensurate with the prevailing monetary policy stance.

(c) Statutory Reserve Ratio (SRR): The SRR stipulates the percentage of rupee denominated demand, savings and time deposits with commercial banks, which they are required to place with the Central Bank. The SRR is imposed to limit the volume of money created by the credit operations of the financial system.

(d) Bank Rate: This is the interest rate at which the Central Bank lends money to commercial banks that have liquidity difficulties. The Bank Rate is higher than the SLFR and is a penal interest rate.

(e) Foreign exchange operations: When the Central Bank purchases foreign currency this has the effect of injecting rupee liquidity and vice versa. In addition, the Central Bank may enter into Foreign Exchange Swap Agreements where it purchases/sells foreign currency with the undertaking of selling/buying back that foreign currency at a future date.

(f) Quantitative restrictions on credit: The Central Bank could impose restrictions on credit growth of banks. However, such restrictions are generally not used by the Central Bank.

(g) Moral suasion.

Communication is an additional tool available to the Central Bank, which, when used effectively, could influence expectations of different stakeholders of the economy and thereby impact on various asset prices and wages, for example, and in turn impact on inflation outcomes.

Exchange Rate Policy

A floating exchange rate system is in place currently. Accordingly, the exchange rate is determined by market forces of demand and supply, reflecting the macroeconomic fundamentals in the economy. Central Bank intervention in the foreign exchange market is mainly to prevent excessive volatility in exchange rate and to maintain a comfortable level of external reserves. The Central Bank's buying and selling of foreign exchange is done at market rates.

Foreign Reserve Management

The Central Bank manages the official foreign reserves of the country. The Monetary Law Act stipulates that the Central Bank should maintain adequate foreign exchange reserves in liquid foreign currencies and a small reserve in gold to maintain international stability of the Rupee and freedom in current international transactions.

The foreign exchange reserves are invested in the international money and capital markets in such a manner as to maintain an appropriate balance between liquidity and the rate of return on the country's assets. A major part of the foreign reserve is invested in fixed income securities (foreign Government securities) and the balance in foreign fixed deposits, call and current accounts and gold. At present, reserves are mainly held in US Dollars in addition to the other main currencies such as Euros, Japanese Yen, Australian Dollars, Chinese Yuan and New Zealand Dollars. The public debt repayment and other liquidity requirements and the - yield generating capacity of the currencies are mainly considered in determining the currency composition.

Macroprudential Surveillance

As part of its mandate of financial system stability, the Central Bank undertakes surveillance and oversight of the entire financial system, taking into account its interaction with the real economy, with a view to limiting systemic risk which could lead to financial and economic crises. Systemic risk is the risk that could cause the collapse or disruption of the whole financial system as opposed to the risk associated with one entity or group within the system that can be contained without harming the entire financial system. Macroprudential regulation addresses systemic risk while microprudential regulation addresses individual entity/group risk. It is recognized that macroprudential regulation fills the gap between macroeconomic policy and microprudential regulation.

The main role of macroprudential policy is to curb excessive risk-taking by the financial system, as systemic risk, that is the risk of widespread disruptions to the provision of financial services, could have serious adverse consequences for the economy at large.

Systemic risk could have a time dimension or a cross sectional dimension.

a) The time dimension deals with the evolution of systemic risk over time. This is linked to financial cycles and procyclicality where aggregated risks get amplified due to feedback loops between the financial system and the real economy. Financial forces can drive and feed economic expansions. Unsustainable developments can show up in rapid credit and asset price growth with increasing risk appetites which result in credit and asset price booms and busts. In this regard, asset markets such as stock/equity, real estate and gold have experienced high leverage and price volatilities. Therefore, during a "boom" period, the financial system must build up the required capital and liquidity buffers which, whilst helping to contain the expansion of asset prices within sustainable levels, are also necessary for withstanding a subsequent downturn. Hence, many of the tools that deal with this aspect of systemic risk focus on prudential policies to restrain excessive credit expansion and counter–cyclical measures.

b) The cross-sectional dimension deals with how risk is distributed in the financial system at a given point in time through inter-linkages, inter-dependencies and common exposures between financial institutions, markets and infrastructure. Due to inter-linkages, the failure of one entity could have a cascading effect on other connected entities which could spread and bring down the entire financial system. Many of the policy tools that address this aspect of systemic risk relate to limits, caps and ceilings on exposures to single parties or groups. In addition, many models have been developed to assess interconnectedness across financial intermediaries.

The stability of the financial system is assessed using several quantitative techniques under the macroprudential policy surveillance framework. Risks to the financial system are monitored through a number of macroprudential indicators covering developments in the global and domestic economies and in particular, the real sector, financial markets (money, bond, foreign exchange and equity markets), real estate, certain commodity markets, banks and other financial institutions and the corporate sector. Several composite indicators such as the Financial Stability Indicator, Macroeconomic Stability Indicator, Financial Market Stability Indicator and the Banking Soundness Indicator are also used to assess the health of the financial system and to identify the build-up of risks. In addition, network analysis is used to identify inter-connectedness and risk concentrations among financial institutions. Stress testing is used to assess the resilience of the financial institutions. An Early Warning Indicator system has been developed to identify potential risks and vulnerabilities to the financial system stemming from movements in the rupee exchange rate.

Commonly used Macroprudential Policy Tools

- Caps, possibly time-varying, on loan-to-value (LTV) ratio
- Minimum, possibly time varying, margin requirements
- Limits on maturity mismatches
- Caps on foreign currency lending
- Limits on net open currency positions or mismatches
- Counter-cyclical capital requirements
- Additional capital requirements for systemically important financial institutions.
- Ceilings on credit or credit growth.

Macroprudential tools help limit system-wide financial risk in two ways: firstly, by dampening the build-up of financial imbalances and building defences that contain the speed and sharpness of subsequent downswings and their effects on the economy and; secondly, by helping identify and address common exposures, risk concentrations, linkages and interdependencies that are sources of contagion and spillover risks that may jeopardize the functioning of the financial system as a whole.

Macroprudential policy tools can be broadly divided into 'automatic corrective tools' and 'discretionary corrective tools'. Automatic corrective tools are based on predictable rules. They help counteract procyclical trends in the financial system and thereby help avert a buildup of risks. The general principle on which automatic corrective tools are based on is "build up buffers in good times which can be drawn down in bad times". Discretionary corrective tools are those tools which would be used on the basis of the assessments of the relevant authorities, to influence the decisions of economic agents so as to change the risk behavior in the financial sector with a view to boosting the resilience of the financial system. Many researchers argue that adopting a mix of automatic stabilizers and discretionary corrective tools would be the best way to ensure financial system stability, as it may not necessarily be clear to policymakers in some situations as to whether policy action should be taken. For example, at a time when an economy is undergoing significant change, it may be difficult for policymakers to determine whether credit expansion is due to fundamental changes taking place and therefore is justifiable or whether it is due to excessive expansion of aggregate demand.

The Central Bank has taken several macroprudential measures over the years. These include ceilings on credit growth, dynamic general provisions, time-varying capital requirements, time-varying margin requirements, reserve requirements, limits on net open foreign currency positions, caps on foreign currency lending and exposure limits. Some of these policy measures have been implemented by way of taking monetary policy measures while other policy measures were implemented as regulatory policy measures relating to banks and other financial institutions, but they helped secure financial system stability.

Supervision of Banks, Finance Companies and Primary Dealers

The Central Bank is responsible for regulating and supervising banks, finance companies and primary dealers to promote the safety and soundness of the banking and financial system and to safeguard the interests of depositors and investors.

The regulation and supervision of banks is governed by the Banking Act and the Monetary Law Act. The Central Bank is the licensing authority for banks in Sri Lanka and issues banking licences for two categories of banks, namely, Licensed Commercial Banks and Licensed Specialized Banks (which are savings and development banks). The main distinction between commercial banks and specialized banks is that the former is permitted to accept demand deposits (current accounts) from the public and engage in a full range of foreign exchange transactions, whereas the latter is not.

The supervision of banks is based on the internationally accepted standards for bank supervision set out by the Basel Committee for Banking Supervision. In keeping with global trends, the Central Bank is moving towards the risk-based supervision of banks. This approach focuses on the identification of banking risks, the management of these risks and the assessment of the ability in banks to mitigate these risks.

As a part of its regulatory and supervisory functions, the Central Bank issues directives on licensing, operations and closure of banks, the prudential requirements relating to banks, the resolution of weak banks and the enforcement of regulatory actions.

The main techniques of supervision are continuous off-site monitoring and surveillance and periodic on-site examinations of banks, meetings with bank management and co-operation with external auditors.

The Central Bank monitors the compliance of banks with a number of prudential requirements such as those in respect of capital adequacy, liquidity, corporate governance, risk management, large exposures, asset quality, provisioning for non-performing loans, related party transactions, income recognition, share ownership, investments, foreign currency borrowings, disclosure of accounts and the audit of banks. In addition, the internal controls in banks are also assessed.

At the end of 2018, there were 26 Licensed Commercial Banks (13 local banks and 13 foreign banks) and 07 Licensed Specialized Banks in operation and carrying on banking business in Sri Lanka, under the purview of the Central Bank.

The Central Bank regulates and supervises Licensed Finance Companies under the Finance Business Act. The regulatory and supervisory framework for licensed finance companies is similar to that of banks. The Central Bank also registers and regulates Specialized Leasing Companies. As at end 2018, the number of licensed finance companies and registered specialized leasing companies stood at 43 and 5 respectively.

The Central Bank also regulates and supervises Primary Dealers in Government Securities appointed under the Local Treasury Bills Ordinance and the Registered Stock and Securities Ordinance. As at end 2018, 7 Licensed Commercial Banks and 8 standalone companies had been appointed as Primary Dealers.

Further, the Central Bank is in the process of issuing licences to the institutions engaged in microfinance business under the Microfinance Act for the purpose of regulation and supervision.

Provision of settlement facilities and the regulation of the payment system

A well-functioning and secure payment and settlement system is an essential ingredient for a stable financial system. In terms of the Payment and Settlement Systems Act, No. 28 of 2005, the Central Bank of Sri Lanka is authorized to regulate and supervise payment, clearing and settlement systems. In addition, the Central Bank is responsible for the preparation of a plan for the national payment system and for providing guidance and leadership for the establishment and development of the payment, clearing and settlement systems. Furthermore, the Central Bank has established the National Payment Council (NPC), which comprises of the main stakeholders in the payment system, to make recommendations for the development of the national payment and settlement system in Sri Lanka.

The Central Bank operates the LankaSettle system, which is a systematically important payment and settlement system in Sri Lanka. LankaSettle system comprises of two systems: the Real Time Gross Settlement (RTGS) system and LankaSecure system. The RTGS system is the fund settlement component of the LankaSettle system which facilitates settlement of large value and time critical payments, in real time, eliminating settlement risks. Inter-bank call market transactions, government securities market transactions, open market operations, and clearing house transactions are the main types of transactions settled through the RTGS system. LankaSecure is the security settlement component, which consists of the Scripless Security Settlement System (SSSS) and the Scripless Securities Depository System (SSDS) for government securities. The Central Bank provides intra-day liquidity facilities on a collateralized basis, free of charge to participants of the LankaSettle system to ensure its smooth functioning.

The Central Bank regulates and provides settlement facilities for the retail payment and clearing systems operated by LankaClear (Pvt) Ltd, which is the national clearing house jointly owned by the Central Bank and commercial banks. The retail payment and clearing systems are: i) Cheque Imaging and Truncation System, ii) Sri Lanka Interbank Payment System, iii) Common ATM Switch and iv) Common Electronic Fund Transfer Switch. With the increased popularity of electronic payment instruments, such as payments cards, mobile payment and QR code based payments, the Central Bank has introduced guidelines to ensure that such payments are carried out in a secure manner.

Issue of Currency Notes and Coins

The Central Bank has the exclusive right to issue currency notes and coins that are the legal tender in Sri Lanka for the payment of any amount. There is no maximum limit imposed on the issue of currency. The issue of currency is primarily based on the transaction demand for money.

The denomination, dimension and design of the notes and coins are decided by the Monetary Board with the approval of the minister in charge of the subject of Finance. Currently, the Central Bank circulates notes in nine denominations (Rupees 5000, 2000, 1000, 500, 200, 100, 50, 20 & 10) and coins in 10 denominations (Rupees 10, 5, 2 & 1, Cents 50, 25, 10 ,5, 2 &1). The larger denomination notes have enhanced security features to deter counterfeiting. A clean note initiative is being implemented to upgrade the quality of notes in circulation. The Central Bank also issues commemorative notes and coins with the approval of the minister in charge of the subject of Finance.

Banker and Financial Advisor to the Government

As the banker to the Government, the Central Bank maintains the accounts of and provides banking facilities to Government departments, Government agencies, Government institutions and certain statutory boards. The Central Bank also provides provisional advances to the Government.

As the financial advisor to the Government, the Central Bank may make recommendations to the Government on measures and policies that should be adopted for the purposes of coordinating its policies with the policies of the Central Bank. In addition, the Central Bank should submit to the Minister of Finance by 15th September each year, for use in the preparation of the Budget Speech, a confidential report describing and analyzing the monetary situation in Sri Lanka and the current monetary policy of the Central Bank, and examining the effect of the current fiscal policy of the Government on the ability of the Central Bank to achieve its objectives.

Banker to Commercial Banks

As the banker to commercial banks, the Central Bank provides them current account facilities, settling payments to these accounts. With respect to settlement facilities provided to them, the Central Bank makes net settlements among the commercial banks in relation to the key payment and settlement systems, i.e., Cheque Imaging and Truncation System (CITS), Sri Lanka Inter-bank Payment System (SLIPS), Common ATM Switch (CAS) and the Common Electronic Fund Transfer Switch (CEFTS), via the Real Time Gross Settlement (RTGS) System. These operations of the Central Bank contribute to the efficiency of the domestic financial system.

In situations of emergency or imminent financial panic which directly threatens monetary or banking stability, the Central Bank may also provide emergency loans to commercial banks that are facing temporary liquidity problems against acceptable collateral. This facility is commonly known as the "lender of last resort" facility.

Management of the Public Debt and Fiscal Agent of the Government

The Central Bank of Sri Lanka as the fiscal agent of the government is responsible for management of public debt in terms of Section 113 of the Monetary Law Act. The main objective of public debt management is to ensure that the Government's financing needs and payment obligations are met at the lowest possible cost with a prudent degree of risk, over the medium to long-term, in accordance with a strategy of prudent debt management, which ensures debt sustainability.

The Central Bank raises funds from the public by issuing Government securities, such as short-term Treasury Bills and medium and long-term Treasury Bonds of varying maturities as recommended by the Domestic Debt Management Committee which consists of Central Bank and Treasury officials and meets regularly to decide on the Government's domestic borrowing programme. Treasury Bills are issued in terms of the Local Treasury Bills Ordinance while Treasury Bonds are issued under the Registered Stock and Securities Ordinance. Auctions are conducted by the Central Bank regularly to issue Treasury Bills and Treasury Bonds, through Primary Dealers in Government securities.

Treasury Bills and Treasury Bonds are issued in scripless form and are recorded in the Central Depositary System, a component of the LankaSecure system, and is the central depository and title registry for Government securities. Further, the Central Bank, on behalf of the Government, issues dollar denominated Sri Lanka Development Bonds in the domestic market. Funds are also raised by issuing medium/long term fixed rate Sovereign Bonds in the international capital markets as recommended by the Cabinet appointed steering committees. All debt raised by the Government of Sri Lanka (GOSL) are within the approved budgetary limits and other legal provisions identified under relevant laws and are subject to prior authorization by the Parliament of Sri Lanka.

Raising of debt is accommodated within set parameters of the Medium term Debt Management Strategy formulated and implemented jointly by the Central Bank and the Ministry of Finance. The Central Bank is also engaged in managing liabilities rising out of the GOSL debt stock prudently through the relevant provisions as recognized under the Active Liability Management Act, No. 8 of 2018, particularly to mitigate rollover risk.

Management and Custodian of the Employees' Provident Fund

The Employees' Provident Fund, which is the largest superannuation fund in Sri Lanka, was established under the Employees' Provident Fund (EPF) Act. In terms of the provisions of the EPF Act, the Monetary Board of the Central Bank of Sri Lanka is assigned with the management of the fund as its custodian. The Employees' Provident Fund Department of the Central Bank of Sri Lanka has been established to discharge the duties and responsibilities entrusted to the Monetary Board under the EPF Act.

Management of Foreign Exchange

The Foreign Exchange Act, No.12 of 2017 (the Act) came in to effect from 20.11.2017 by repealing the Exchange Control Act, No. 24 of 1953, with a view to enhancing investor confidence, strengthening foreign reserves and stabilizing the foreign exchange market. As per the Act, the Central Bank carries out its duties and functions as the agent of the Government in promoting and regulating foreign exchange transactions.

The key functions include dealing in foreign exchange, import/export of currency, i.e., Sri Lanka rupees (LKR) and foreign currency, and possession of foreign currency through the adoption of appropriate policies and procedures, monitoring of foreign exchange transactions and ensuring compliance with the provisions of the Act and Regulations/Directions issued thereunder.

At present, current transactions in foreign exchange relating to goods and services in trade, through Authorized Dealers - ADs (Licensed Commercial Banks) in foreign exchange, are freely permitted by the Act, subject to the Authorized Dealers exercising due diligence by satisfying the bona fides of the transactions. Capital transactions relating to the acquisition of real or financial assets (i.e. capital account transactions) are partially liberalized. Most capital transactions which have been permitted are allowed to be carried out through ADs without obtaining the Central Bank's approval.

The current focus is on further liberalizing foreign exchange transactions, particularly capital account transactions, in line with the macroeconomic policy stance to promote Sri Lanka in global business activities.

Facilitating Financial Inclusion and Balanced Growth

With the intention of supporting inclusive and balanced economic growth and promoting financial inclusiveness in the country, various Refinance, Interest Subsidy and Credit Guarantee Schemes are implemented by the Central Bank of Sri Lanka on behalf of the Government through Participating Financial Institutions (PFIs), while providing a range of credit supplementary services to the needy segments of the economy. These concessionary credit schemes and credit guarantee schemes are funded by the Central Bank, the Government, Donor Agencies and PFIs.

Through the above schemes, the Central Bank serves individuals and business ventures in a wide spectrum of sectors including Agriculture and Animal Husbandry, Micro, Small and Medium Enterprise (MSME) and Microfinance sectors, by providing affordable finance facilities.

In addition, programmes aimed at skills development, improving financial literacy, entrepreneur development and post-harvest technology development are also conducted.

From a policy perspective, the Central Bank focuses on increasing financial inclusiveness in the country by way of addressing indebtedness among rural and financially excluded communities. In this effort, the Central Bank has initiated to develop a National Financial Inclusion Strategy (NFIS). The NFIS is expected to be used by all stakeholders to operate in one direction to improve financial inclusion in the country instead of having fragmented approaches.

Financial Intelligence Services to Detect and Prevent Money Laundering and Terrorist Financing

The Financial Intelligence Unit of Sri Lanka (FIU – Sri Lanka) is the national focal point for the anti-money laundering and countering financing of terrorism (AML/CFT) framework in Sri Lanka. The FIU-Sri Lanka is established under the Financial Transactions Reporting Act, No. 06 of 2006 (FTRA). Pursuant to the objectives and the powers specified under the FTRA, the FIU-Sri Lanka receives Suspicious Transaction Reports (STRs) and threshold-based reports. FIU-Sri Lanka analyzes, assesses and disseminates relevant information collected as well as received by way of STRs to law enforcement authorities and other agencies including supervisory authorities to facilitate the prevention, detection, investigation and prosecution of offences of money laundering and financing of terrorism. Further, the FIU-Sri Lanka carries out necessary AML/CFT supervision and regulatory functions with respect to its designated reporting institutions, which are the institutions engaged in finance businesses and designated non-finance businesses (DNFBs) as defined in the FTRA.

5. Organization

Committees

The following Committees of the Central Bank play a key role in the decision making process relating to the key functions of the Central Bank. The Senior Deputy Governor, a Deputy Governor or an Assistant Governor chairs each of the Committees.

- Monetary Policy Committee
- Foreign Reserve Management Committee
- Market Operations Committee
- Non-Financial Risk Management Committee
- National Payment Council
- Financial System Stability Committee
- EPF (Employees' Provident Fund) Investment Committee
- Treasury Bonds & Treasury Bills Tender Board

The Governor chairs the Corporate Management Committee, which makes recommendations to the Monetary Board with regard to the general administration of the Bank and the development of the Bank's human resources. The Governor also chairs the Training Committee.

Departments

Most Departments in the Central Bank belong to one of three 'clusters', which perform the 'Economic Policy Advisory' role, the role of 'Financial Sector Regulation and Supervision' and the 'Capacity Building and Support' role. The Senior Deputy Governor or a Deputy Governor oversees each of the clusters. The Policy Review and Monitoring Department and the Legal and Compliance Department (LCD) do not belong to any of these three clusters and report directly to the Governor through an Assistant Governor. The Risk Management Department reports directly to the Monetary Board through the Board Risk Oversight Committee while the Internal Audit Department reports directly to the Monetary Board through the Advisory Audit Committee. With respect to compliance functions, LCD reports to the Board Risk Oversight Committee.

Departments of the Central Bank of Sri Lanka

DEPARTMENT	MAIN FUNCTIONS / RESPONSIBILITIES
Bank Supervision Department	Regulation and supervision of banks to ensure soundness of the banking system.
Centre for Banking Studies	Conducting training programmes to develop human capital of the financial sector and specifically, strengthening technical competencies of the Central Bank staff and other financial sector personnel.
Communications Department	Communicating policy decisions and regulatory measures taken in relation to the Economic & Price Stability and Financial System Stability objectives of the Central Bank and the Agency Functions carried out by the Central Bank (through the Department of Foreign Exchange, Employees' Provident Fund, Public Debt Department and the Regional Development Department), and information relevant to these responsibilities of the Central Bank.
Currency Department	Exercising the Central Bank's exclusive right to issue currency notes and coins that are the legal tender in Sri Lanka for the payment of any amount.
Department of Supervision of Non-Bank Financial Institutions	Regulation and supervision of Licensed Finance Companies, Specialized Leasing Companies and Licensed Microfinance Companies and supervision of Primary Dealers.

DEPARTMENT	MAIN FUNCTIONS / RESPONSIBILITIES
Domestic Operations Department	Implementing monetary policy measures, mainly through the conduct of open market operations, and the enforcement of the reserve requirement for commercial banks. Operates current account facilities for the government, commercial banks and primary dealers and performs the roles of banker to the government and banker to commercial banks. Regulates and supervises authorized money brokers to strengthen price discovery in the monetary policy implementation process.
Economic Research Department	Providing timely and independent policy advice to the Governor and the Monetary Board through data compilation, policy analysis and scientific research, with a view to facilitating the formulation and implementation of monetary policy to maintain price and economic stability. The Economic Research Department is also statutorily responsible for the dissemination of macroeconomic data and information to the public.
Employees' Provident Fund Department	Collection of member contributions and surcharges, maintenance of member accounts and general accounts, investment of surplus funds, crediting of interest to member accounts, payment of benefits to beneficiaries, and preparation of Annual Accounts of the Fund.
Facilities Management Department	Maintaining the Central Bank's premises so as to create a pleasant environment that promotes efficiency of the staff, and providing facilities and services to enable the Bank to carry out its operations effectively and without hindrance.
Finance Department	Accounting and financial reporting, budgetary control, payment for general services and payment of salaries to employees, management of internal funds of the Central Bank of Sri Lanka, and disbursement and repayment of foreign loans on behalf of the government.

DEPARTMENT	MAIN FUNCTIONS / RESPONSIBILITIES
Foreign Exchange Department	Implementing the provisions of the Foreign Exchange Act in order to ensure proper promotion and regulation of foreign exchange in Sri Lanka.
Human Resources Department	Recruitment, placement, promotion and performance monitoring of staff.
Information Technology Department	Facilitating operations of the Central Bank and raising efficiency in carrying out these operations by providing IT solutions.
Internal Audit Department	Performing the internal audit function.
International Operations Department	Managing the official foreign reserves.
Legal and Compliance Department	Ensuring robustness and contemporariness of the legal and regulatory frameworks that govern the activities of the Central Bank and safeguarding the Central Bank's legal interests. In carrying out duties and responsibilities, ensuring effective compliance throughout the Central Bank.
Macroprudential Surveillance Department	Assessing systemic risks in the domestic financial system and recommending policy measures to ensure stability of the domestic financial system.
Payments and Settlement Department	Regulating and supervising the payment, clearing and settlement systems in order to ensure a well-functioning and secure national payment system, and providing guidance and leadership for developing payment, clearing and settlement systems.
Policy Review And Monitoring	Preparing the Strategic Plan of the Central Bank of Sri Lanka and monitoring progress in terms of the Strategic Plan.

DEPARTMENT	MAIN FUNCTIONS / RESPONSIBILITIES
Public Debt Department	Raising funds to meet the gross borrowing requirement of the Government as per the Annual Appropriation Act, formulating the Medium Term Debt Management Strategy (MTDS) with the Ministry of Finance, making the Government's debt service payments on time, maintaining the LankaSecure system so as to facilitate the smooth settlement of Government securities, and maintaining the Registry of Government securities in the Central Depositary System (CDS).
Regional Development Department	Promoting financial inclusion and supporting inclusive and balance economic growth in Sri Lanka.
Regional Offices Management Department	Monitoring and supervising the work of the Regional Offices of the Central Bank, which work towards promoting regional development.
Resolution and Enforcement Department	Carrying out functions relating to resolution of banks and finance companies, taking enforcement actions on unauthorized finance business and prohibited schemes and carrying out the functions relating to Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS).
Risk Management Department	Strengthening risk management and governance in the Central Bank.
Secretariat Department	Corporate administration of the Central Bank through procurement management, disposal management, leave management, event management and administration of superannuation funds.
Security Services Department	Providing security at the Central Bank's premises and for currency consignments in transit.

DEPARTMENT	MAIN FUNCTIONS / RESPONSIBILITIES
Staff Services Management Department	Providing welfare facilities to the staff.
Statistics Department	Compiling, analysing and forecasting socio-economic statistics and conducting surveys.
Training and Development Department	Developing the human capital of the Central Bank.

Financial Intelligence Unit (Considered a Department of the Central Bank of Sri Lanka for administrative purposes only).	Collection and receipt of information on financial transactions for the purpose of detecting possible links to Money Laundering and Terrorist Financing and other related unlawful activities defined in the Financial Transactions Reporting Act, No. 6 of 2006, analysis of suspicious financial transactions relating to the above mentioned unlawful activities and dissemination of information of such analyses to relevant law enforcement and regulatory authorities for investigation.

6. Regular Press Releases

- External Sector Performance
- Government Securities
- Inflation
- Monetary Policy Review
- Open Market Operations
- Purchasing Managers Index Survey

7. Publications

- Annual Report
- Financial System Stability Review
- Recent Economic Developments
- Monthly Bulletin
- Economic & Social Statistics of Sri Lanka
- Payments Bulletin
- Staff Studies
- Satahana
- News Survey

- Vaippaham
- Sri Lanka Socio-Economic Data Folder
- 60th Anniversary Commemorative Volume
- 40th Anniversary Commemorative Volume
- 1950 - 1975 Commemorative Volume
- International Research Conference Proceedings
- Doing Business in Sri Lanka
- Let's start a Small and Medium scale business
- Central Bank of Sri Lanka - Objectives, Functions and Organization
- A Guide to Financial Services in Sri Lanka (2004)
- LankaSecure (2004)
- History of Coins and Currencies in Sri Lanka (2000)
- International Trade (2001)
- Directions and Rules issued under the Finance Companies Act, No. 78 of 1988
- Directions, Rules, Determinations, Notices, and Guidelines applicable to Licensed Finance Companies
- Directions issued under the Finance Leasing Act, No. 56 of 2000
- Price Stability (2005) - Pamphlet Series No. 1
- Financial System Stability (2005) - Pamphlet Series No. 2

- Exchange Rate (2006) - Pamphlet Series No. 3
- Danger Posed by Pyramid Schemes & Network Marketing Programmes (2006) - Pamphlet Series No. 4
- Institutions Authorised to Accept Deposits from the Public (2006) - Pamphlet Series No. 5
- Preventing Money Laundering and Combating the Financing of Terrorism (2006) - Pamphlet Series No. 6
- LankaSecure (2006) - Pamphlet Series No. 7

8. Regional Offices

Districts covered by the Operations of Regional Offices

Regional Office - Matara: Galle, Matara Hambantota and Ratnapura Districts

Regional Office - Anuradhapura: Anuradhapura, Polonnaruwa, Puttalam and Kurunagela Districts

Regional Office - Matale: Kandy, Matale and Kegalle Districts

Regional Office - Trincomalee: Trincomalee, Baticaloa and Ampara Districts

Regional Office - Kilinochchi: Kilinochchi, Vavuniya, Jaffna, Mullaitivu and Mannar Districts

Regional Office - Nuwara Eliya: Nuwara Eliya, Monaragala and Badulla Districts

Colombo, Kalutara and Gampaha districts in the Western Province are covered by the Regional Offices Management Department.

Contact Details of Regional Offices

Anuradhapura

341, 1st Stage, Anuradhapura.

Tel: 025 2222024

Fax: 025 2225689

E-mail: nihalw@cbsl.lk

Kilinochchi

Ariviyal Nagar, Kilinochchi

Tel: 021 2285912

Fax: 021 2285911

E-mail: rokn@cbsl.lk

Matale

805, Trincomalee Street, Mandandawela, Matale.

Tel: 066 2222167

Fax: 066 2222175

E-mail: romatale@cbsl.lk

Matara

35, Anagarika Dharmapala Mawatha, Matara.

Tel: 041 2222269

Fax: 041 2222719

E-mail: romatara@cbsl.lk

Nuwara Eliya

84, Badulla Road, Nuwra Eliya.

Tel: 052 3059002

Fax: 052 2224294

E-mail: ronuwaraeliya@cbsl.lk

Trincomalee

No.103, Post Office Road, Trincomalee.

Tel: 026 2226966

Fax: 026 2226967

E-mail: rotrinco@cbsl.lk