

Preface by the Chief Economist and Director of Economic Research

The Central Bank of Sri Lanka as well as Sri Lanka's economy has both seen rapid changes over the last sixty years. In a fast developing world, it is essential that we stay abreast of the new developments to reap maximum benefits for the country and safeguard it from the possible peril that could befall us. Over the past sixty years, the Central Bank of Sri Lanka has continued to be a dynamic institution, which guided Sri Lanka's economy with skill and competence, to the brink of emerging as a rapidly developing economy in South Asia, where it stands today.

This publication, issued in commemoration of the 60th year of establishment of the Central Bank, presents a collection of 20 articles on the evolution of the Central Bank as well as its lasting contribution in numerous fields to the socio-economic development of Sri Lanka.

The Long March of the Central Bank – 60 Years of Central Banking in Sri Lanka takes you through the evolution of the Central Bank of Sri Lanka since its establishment in 1950, touching on the key events that changed the course of central banking in the country. In January 1996 the Central Bank of Sri Lanka faced a test of strength only a few other institutions in the world have undergone...and even fewer have successfully overcome. *Rising from the Ashes – The Central Bank's Remarkable Recovery from the Terrorist Attack* is a narrative of the Bank's experience of recovery and determination to rise to greater heights.

One of the toughest challenges faced by any central bank is to ensure stability in the economy. *Stability in the Midst of Uncertainty* recounts the episodes of turbulence faced by the Sri Lankan economy and the measures taken by the Central Bank to bring about stability.

The conduct of monetary policy is the exclusive prerogative of a central bank to ensure price stability in a country. *Evolution of the Conduct of Monetary Policy in Sri Lanka* presents the various aspects of the conduct of monetary policy in Sri Lanka and the progressive measures taken by the Central Bank to enhance its effectiveness over the years.

The Central Bank is also entrusted with the task of maintaining stability in the domestic financial system. *The Role of the Watchdog – Strengthening Financial Regulation in Sri Lanka* is an account of the continuous modifications carried out in the approach to regulate the financial system of the country in a bid to keep abreast of the ongoing changes both locally and internationally.

Efforts taken by the Central Bank to stabilise the domestic financial markets since its inception and the lessons learnt in the process are captured in ***Surviving in White Waters – Stabilising Domestic Financial Markets***.

Determining the Exchange Rate – Exchange Rate Regimes in Sri Lanka traces the various exchange rate regimes adopted from time to time by Sri Lanka to suit the macroeconomic environment and outlook at the time.

The Central Bank of Sri Lanka has played the lead role in introducing innovative systems to modernise the payments and settlements system of the country over the years to augment the effectiveness of the country's financial system. Such initiatives by the Central Bank are presented in ***Payments and Settlement – Evolution of Sri Lanka's Payments System***.

Notes and coins used in Sri Lanka have an interesting history behind each of them. ***Currency Issued by the Central Bank of Sri Lanka*** reveals many interesting details about each of the currency series issued by the Central Bank, up to the latest series issued in 2011, as well as a historical account of the minting process, which would be particularly invaluable to the numismatists in Sri Lanka.

Economic development of the country brought about a greater inflow of foreign exchange, raising the foreign exchange reserves to unprecedented heights in recent years. The enhanced stability in the external front thus established enabled a change in Sri Lanka's foreign exchange regulations from a period of rigid controls to a more relaxed position while management of the reserves also proved to be more challenging. ***From Control to Facilitation – Exchange Control Liberalisation*** gives the sequenced liberalisation implemented by the Central Bank while Managing Sri Lanka's Foreign Reserves presents the challenges faced by the Bank in managing the country's growing reserves.

Changing Lanes – Pursuing a Liberalised Economic Policy is a brief account of Sri Lanka's experiences in moving towards economic liberalisation. ***Sri Lanka's External Trade Relations*** presents the various approaches to international trade during the episodes of outward looking and inward looking policies pursued over the last 60 years. The gradual opening up of Sri Lanka's economy and our broadened inter-linkages with the world in terms of both trade as well as capital and financial flows are presented in ***Expanding Horizons – Integration with the World Economy***.

Managing the Public Debt gives an account of the steps taken by the Central Bank, categorised by instrument, to efficiently and effectively manage the public debt of the country, which is an agency function entrusted to the Central Bank. In 2007 Sri Lanka took a decisive step in public debt management by issuing its debut sovereign international bond. Encouraged by the reception for the Bond, several other issues followed in 2009-2011. ***Sri Lanka Steps into International Capital Markets*** is an account of the country's experience of tapping international investors.

Central banks rely on a host of information to design policy measures and gauge their effectiveness. The needs are more pronounced for the central banks of developing countries as a broad range of socio-economic data are required to facilitate their policy formulation. The Consumer Finances Survey is a longstanding survey conducted by the Central Bank of Sri Lanka to fill in this lacuna. ***Consumer Finances Surveys Conducted since 1953 – What the Data Reveal*** is the statistical embodiment of Sri Lanka’s growth story.

Special Attention to Special Needs – Central Bank Focuses on Regional Development is an overview of the Central Bank’s efforts at promoting financial deepening amongst the rural masses in a bid to promote economic growth. Although this is a step away from the conventional operations of a central bank, the efforts have yielded commendable results.

The prospects for development of the North and the East were hampered for decades by the protracted civil conflict, which underscored the urgency of restoring normalcy in the region following the resolution of the conflict. ***Renaissance of the North and the East*** reviews the measures taken by the government to revitalise the North and the East and the catalytic role played by the Central Bank to fast track the process. In conclusion, it presents the challenges faced by the authorities in uplifting livelihoods in these areas and ensuring sustainability.

The Central Bank has also been entrusted with managing the EPF, the country’s largest provident fund, owned by nearly 13.3 million persons employed in the private and semi-government sectors. ***Providing Social Security through the Employees’ Provident Fund*** gives a description of the Central Bank’s dedicated efforts of prudently managing the Fund to ensure maximum retirement benefits as well as other benefits for the betterment of its members.

Sri Lanka’s economy showed substantial changes since the end to the three decade long conflict in mid-2009. The ensuing period was characterised by greater stability in the macroeconomy, repositioning Sri Lanka on a path to attaining high growth. ***Recent Trends in the Emerging Economy of Sri Lanka*** presents the changes undergone by the economy since 2009, touching on the near term prospects for the country.

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