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FINANCIAL SECTOR PERFORMANCE AND SYSTEM STABILITY

The financial sector continued to grow amidst challenging economic conditions thus far during the year with minimal macroprudential concerns. Banking sector assets increased moderately following the deceleration in the growth of loans and advances in response to the tight monetary policy stance that was in place from end 2015 until April 2018. Meanwhile, capital of the banking sector witnessed an improvement on the expectation of meeting enhanced capital adequacy ratios under Basel III regulations. Further, liquidity level of the banking sector continued to be well above the required minimum prudential levels. Nevertheless, decreasing asset quality that is currently at manageable levels, may have an adverse impact on the banking sector profitability and solvency if timely measures are not taken. A marginal decline in profitability of banks was also observed during the first eight months of the year. Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance slowed further, mainly due to high interest rates, moderate economic growth and natural calamities. Although capital and liquidity of the LFCs and SLCs sector were at satisfactory levels, asset quality and profits witnessed a decline. Several remedial measures have been taken by the Central Bank to revive certain weak finance companies in this sector while initiatives have also been taken for the resolution of insolvent companies. Meanwhile, the number of branches of bank and non-bank financial institutions and Automated Teller Machines (ATMs) increased during this period, thereby improving financial accessibility. Other financial institutions sector, which includes insurance, primary dealers, unit trusts and stock brokers, continued to expand their business operations without major stability concerns. Meanwhile, liquidity conditions in the domestic money market and the domestic foreign exchange market were relatively volatile in the first nine months of the year. Considerable liquidity shortages were observed in the domestic money market at times, resulting in higher interest rates. The exchange rate, which was relatively stable during the first quarter of 2018, depreciated significantly thereafter amidst a higher demand by importers and lack of sufficient inflows. Broad based strengthening of the US dollar in the global market, which encouraged foreign investors to withdraw capital from emerging market economies exerted added pressure on the Sri Lankan rupee. Reflecting the changes in market sentiments as well as the funding requirement of the government and the availability of foreign financing, yields on Government securities showed mixed movements during the first nine months of the year, amidst improved debt management strategies and enhanced transparency in the issuance process of government securities. The stock market performance was volatile and slowed with unstable foreign activity thus far during the year. The corporate bond market improved considerably during this period. With regard to financial infrastructure, payments and settlement systems operated smoothly without any major disruptions while adopting new technological advancements.

Developments in Financial Institutions

Banking Sector

- **The banking sector continued to expand while maintaining capital and liquidity well above the regulatory minimum requirements, thereby ensuring the resilience of the sector**. The asset base of the banking sector, which comprises credit and investment portfolios continued to grow, largely funded through deposits. Although, the growth of assets in the banking sector expanded at a slower pace in 2018, when compared to the performance in 2017, a deterioration was observed in asset quality, as reflected by the increase in the non-performing loans (NPLs) ratio. Meanwhile, profitability of the sector increased marginally during the first eight months of 2018, mainly due to higher net interest income and significant foreign exchange gains. The banking sector continued to contribute to enhance financial inclusion through the expansion of branch and ATM networks during this period. Moreover, the implementation of the Basel III framework would further improve the resilience of the banking sector. Further, implementation of appropriate regulatory actions and risk management measures enchanced the resilience of the banking sector.

- **The growth in assets of the banking sector moderated during the first eight months of 2018 when compared to the corresponding period of 2017**. Total assets of the sector expanded by 7.3 per cent to Rs. 11.0 trillion in the first eight months of 2018 compared to a growth of 9.4 per cent in the corresponding period of 2017. The increase in assets was mainly driven by the increase in loans and advances, whereas a moderation in investments hindered the expansion of the asset base of the banking sector. The asset base of the banking sector was funded primarily through deposits worth Rs. 8.1 trillion and borrowings worth Rs.1.5 trillion. The growth in assets, which slowed down to 11.1 per cent at end June 2018 from 13.8 per cent at end 2017, picked up marginally to reach 11.5 per cent at end August 2018.

- **A moderation in year-on-year banking sector credit growth was observed from late 2017 in response to the monetary and macroprudential policy measures introduced by the Central Bank**. Growth in credit of the banking sector increased during the first eight months of 2018 when compared to the corresponding period of 2017. Banking sector credit grew by 10.5 per cent, during the first eight months of 2018 reaching Rs. 7.1 trillion at end August 2018. Credit growth was driven by rupee loans, which recorded a growth of 9.5 per cent during this period accounting for 74.0 per cent of the increase. Year-on-year credit growth which decelerated to 14.7 per cent at end June 2018 from 16.1 per cent at end 2017 displayed a slight recovery by reaching 15.7 per cent at end August 2018. Growth in loans and advances was driven by

Figure 8.1
Banking Sector Indicators

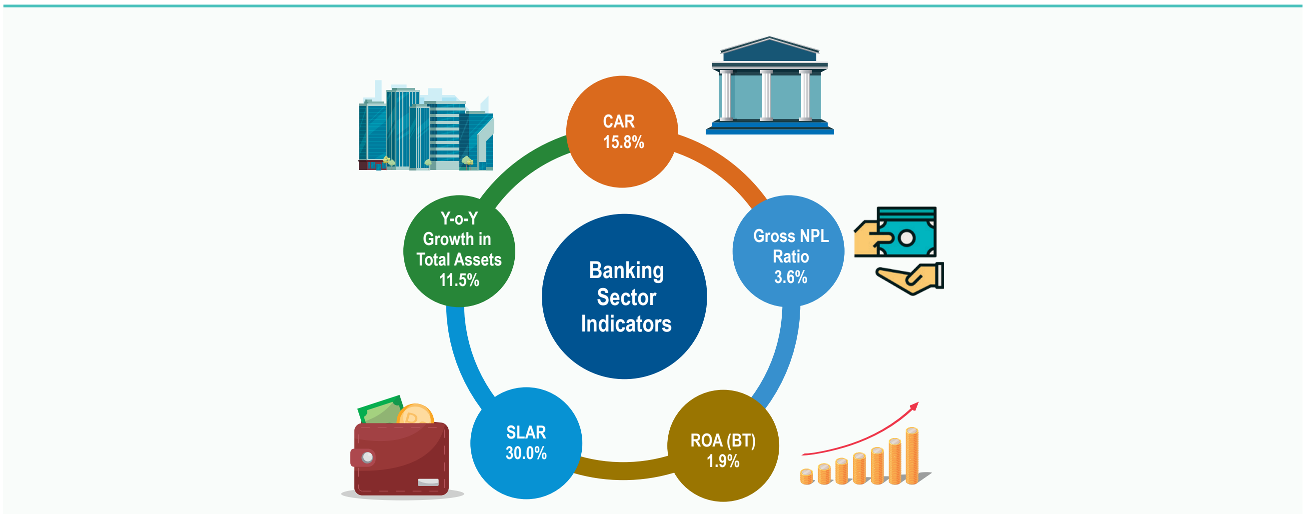

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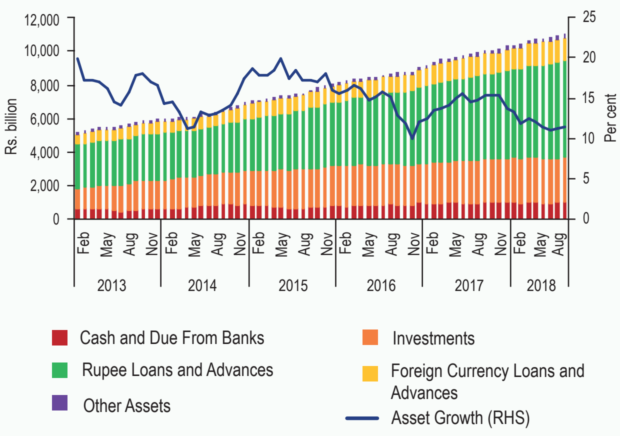
Figure 8.2
Assets of the Banking Sector

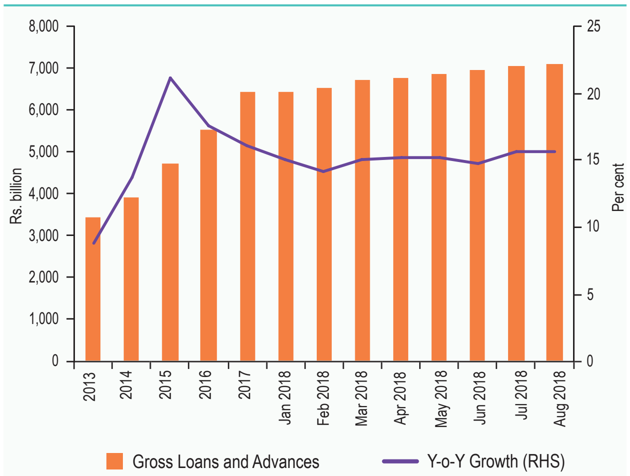


Source: Central Bank of Sri Lanka

increased lending by banks to the private sector and state owned enterprises, while lending to the Central Government decreased during the period. In terms of products, overdrafts and term loans contributed to the increase in credit growth during this period. Accordingly, overdrafts grew by 18.4 per cent (Rs.133.6 billion) during the first eight months of 2018 when compared to the growth of 8.0 per cent (Rs.70.5 billion) in the corresponding period of 2017. Meanwhile, growth in term loans moderated to 10.3 per cent during the first eight months of 2018 from 14.5 per cent during the first eight months of 2017. Credit by way of pawning and leasing grew by 8.1 per cent and 9.4 per cent, respectively, during the first eight months of 2018 compared to the growth of 8.7 per cent and 3.1 per cent, respectively, during the corresponding period of 2017. Meanwhile, banking sector credit was mainly extended towards consumption (19.7 per cent), wholesale & retail trade (16.1 per cent), construction (13.9 per cent), manufacturing (10.2 per cent) and agriculture, forestry & fishing (8.3 per cent) sectors. Even though credit was mainly concentrated amongst five economic sectors, individual banks have diversified their business among various sectors of the economy.

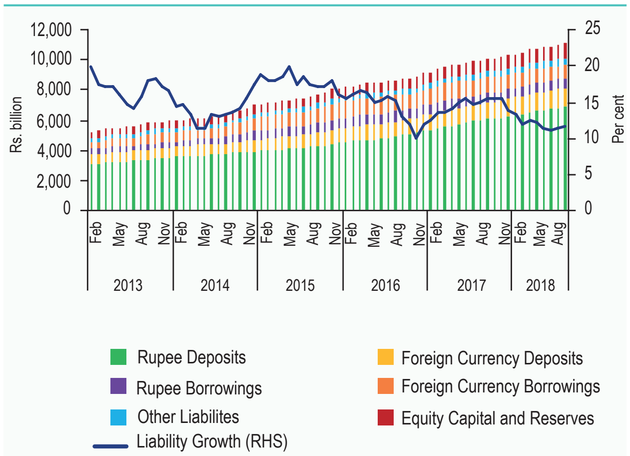
- **Investment growth decelerated during the first eight months of 2018, mainly due to a decline in investments in Government securities in the trading portfolios**. Increase in investments during the first eight months of 2018 was Rs. 29.8 billion (1.2 per cent) compared to Rs. 296.2 billion (13.0 per cent) during the corresponding period of 2017. Year-on-year growth of investments, which increased during the latter part of 2017 to record a growth of 12.5 per cent by end 2017, declined substantially thereafter to 0.7 per cent by end August 2018. Treasury bonds in the trading portfolio reported an increase of Rs. 23.7 billion, while Sri Lanka Development Bonds (SLDBs) and Treasury bills declined by Rs. 21.8 billion and Rs.15.4 billion, respectively, during this period. However, among investments in the held-to-maturity portfolio, Treasury bills and SLDBs reported increases while Treasury bonds declined during this period.

Figure 8.3
Loans and Advances of the Banking Sector



Source: Central Bank of Sri Lanka

Figure 8.4
Sources of Funding of the Banking Sector



Source: Central Bank of Sri Lanka

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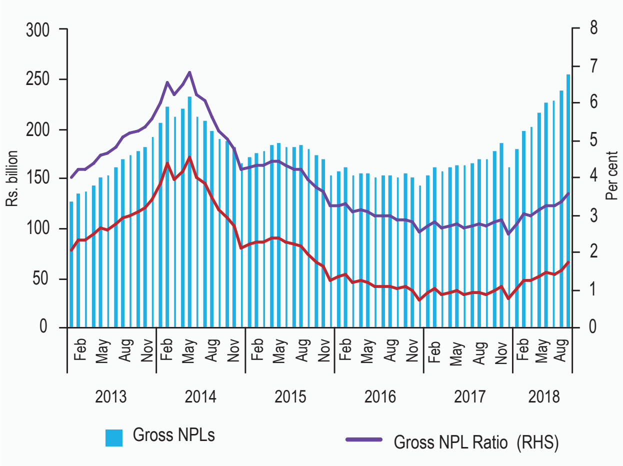
- **The banking sector expansion was largely funded through deposits, which accounted for 73.3 per cent of the total assets as at end August 2018.** The deposit base of the banking sector grew by Rs. 689.6 billion with a growth of 9.3 per cent and primarily consisted of rupee deposits. Meanwhile, a lower increase in time deposits was observed during this period when compared to the corresponding period of 2017, while the increase in demand and savings deposits was higher during this period when compared to the corresponding period of 2017. However, the share of demand and savings deposits as a percentage of total deposits (CASA ratio) declined to 32.7 per cent as at end August 2018, compared to 33.5 per cent during the corresponding period in 2017. Nevertheless, borrowings declined by Rs. 58.9 billion showing a contraction of 3.7 per cent during the first eight months of 2018, when compared to the decline of Rs. 92.2 billion (-5.4 per cent) in the corresponding period of 2017. Total borrowings declined mainly due to the decline in foreign currency borrowings by 13.7 per cent (US dollars 898.6 million), of which 78.2 per cent of the decrease was reported in the off-shore banking units (OBUs) of banks. Meanwhile, rupee borrowings increased by 2.5 per cent (Rs. 14.8 billion) during the first eight months of 2018 resulting from the net impact of Rs. 33.3 billion raised through Basel III compliant debentures issued by banks and the settlement of repo borrowings amounting to Rs. 16.6 billion.

- **Asset quality showed a deterioration, but remained manageable.** NPLs increased by Rs. 93.9 billion to Rs. 254.6 billion at end August 2018 from Rs. 160.7 billion at end 2017, resulting in the NPL ratio increasing to 3.6 per cent by end August 2018 from 2.5 per cent as at end 2017. The higher NPL ratio is still at a manageable level, when compared with the NPL ratios of 4.0 per cent to 6.0 per cent reported during the period 2014 to 2015. As at end June 2018, the highest NPL ratios were reported in the tourism (5.5 per cent), manufacturing (5.4 per cent), information technology & communication services (5.1 per cent), wholesale and retail trade (4.7 per cent) and agriculture, forestry & fishing (4.4 per cent) sectors. However, the increase in provisions was not commensurate with the increase in NPLs as the new NPLs that were classified under special mention category do not require additional provisions, resulting in a deterioration in specific and total provision coverage ratios to 38.6 per cent and 52.2 per cent, respectively, as at end August 2018 from 48.0 per cent and 66.2 per cent, respectively, as at end August 2017.

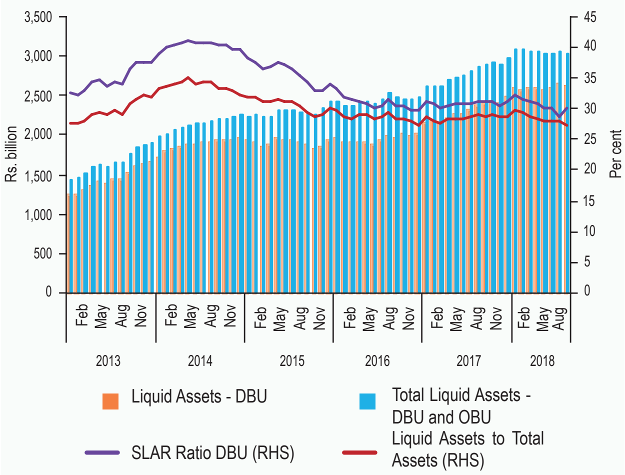
- **The banking sector operated with an adequate liquidity buffer above the minimum regulatory requirement.** As at end August 2018, the Statutory Liquid Assets Ratios (SLAR) of the Domestic Banking Units (DBU) and the OBU were at 30.0 per cent and 40.5 per cent, respectively, which is well above the minimum statutory requirement of 20 per cent, while the ratio of liquid assets to total

Figure 8.5
Non-performing Loans of the Banking Sector



Source: Central Bank of Sri Lanka

Figure 8.6
Liquidity Position of the Banking Sector



Source: Central Bank of Sri Lanka

assets stood at 27.4 per cent at the end of August 2018. The loans to deposits ratio increased marginally to 87.8 per cent at end August 2018 from 86.9 per cent at end August 2017. The rupee and all currency liquidity coverage ratios of the banking industry stood at 185.4 per cent and 151.2 per cent respectively, at end August 2018 remaining well above the regulatory minimum of 90 per cent.

- **The net foreign currency exposure of the banking sector increased by end June 2018, compared to end 2017, as the higher increase in assets denominated in foreign currency outpaced the increase in liabilities denominated in foreign currency**. During the first half of 2018, on-balance sheet assets denominated in foreign currency increased mainly due to the increase in placements with banks and investments, while off-balance sheet foreign currency liabilities rose mainly due to forward sales. The net foreign currency exposure as a percentage of banks' regulatory capital and on-balance sheet foreign currency assets stood at 2.4 per cent and 2.0 per cent, respectively, at end June 2018. The banking sector reported a long foreign currency position of US dollars 150.2 million at end June 2018, in comparison to a long position of US dollars 129.5 million at end 2017. There was a net gain of Rs. 12.9 billion on foreign currency revaluation during the first eight months of 2018.

- **The capital gains on investment in Treasury bonds reported during the first eight months of 2018 stood at Rs. 1.8 billion, lower than Rs. 3.4 billion reported during the corresponding period of 2017.** This was due to the higher volatility in interest rates of Government securities observed during the first eight months of 2017 compared to the first eight months of 2018. Equity risk of the banking sector was minimal as exposure to the equity market of banks' trading portfolio was Rs.19.1 billion accounting for 0.2 per cent and 3.0 per cent of total assets and investments held-for-trading of the banking sector, respectively, as at end August 2018.

- **Profits after tax of the banking sector stood at Rs. 138.9 billion for the year 2017 and Rs. 87.0 billion for the first eight months of 2018, increasing marginally by Rs. 0.4 billion when compared to the profits of Rs. 86.6 billion during the corresponding period of 2017.** Increase in profits was mainly due to increases in net interest income and non-interest income by Rs. 37.3 billion and Rs. 7.2 billion, respectively, during this period when compared with the corresponding period of 2017. However, this was set off by increases in non-interest expenses and loan loss provisions by Rs. 23.3 billion and Rs.10.2 billion, respectively, during the

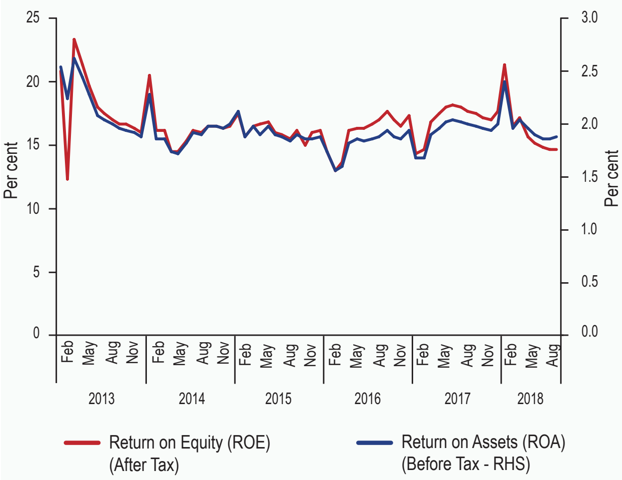
Table 8.1
Banking Sector - Selected Indicators

Item	End Aug 2016	End Aug 2017	End Dec 2017	End Aug 2018 (a)	Y-O-Y Change (%) Aug 2017	Y-O-Y Change (%) Aug 2018 (a)
Total Assets (Rs.billion)	8,624	9,901	10,292	11,040	14.8	11.5
Loans & Advances (Rs.billion)	5,092	6,140	6,431	7,104	20.6	15.7
Investments (Rs.billion)	2,428	2,588	2,577	2,608	6.6	0.8
Deposits (Rs.billion)	5,855	7,063	7,399	8,089	20.6	14.5
Borrowings (Rs.billion)	1,758	1,604	1,607	1,548	-8.8	-3.5
Capital Funds (Rs.billion)	683	823	867	959	20.5	16.5
Tier 1 Capital Adequacy Ratio (%) (b)	12.2	12.3	12.4	12.7		
Total Capital Adequacy Ratio (%) (b)	14.7	15.1	15.2	15.8		
Gross Non-performing Loans Ratio (%)	3.0	2.8	2.5	3.6		
Net Non-performing Loans Ratio (%)	1.1	0.9	0.8	1.7		
Return on Assets (Before Tax) (%)	1.9	2.0	2.0	1.9		
Return on Equity (After Tax) (%)	16.9	17.6	17.6	14.6		
Statutory Liquid Assets Ratio (DBU) (%)	31.4	31.2	31.3	30.0		
Liquid Assets to Total Assets (%)	29.2	29.0	28.8	27.4		

(a) Provisional
(b) As at end June

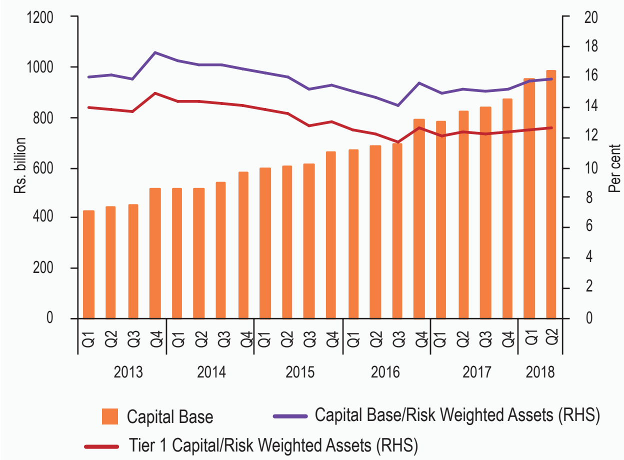
Source: Central Bank of Sri Lanka

Figure 8.7
ROA and ROE of the Banking Sector



Source: Central Bank of Sri Lanka

Figure 8.8
Capital Adequacy of the Banking Sector



Source: Central Bank of Sri Lanka

first eight months of 2018 in comparison to the corresponding period of 2017. There was a notable increase in foreign exchange income of Rs. 5.9 billion during this period when compared to the decline of Rs. 0.7 billion in the corresponding period of last year.

- **Despite the marginal increase in profits in absolute terms, profitability ratios deteriorated marginally**. Return on Assets (ROA) before tax and Return on Equity (ROE) after tax had dropped to 1.9 per cent and 14.6 per cent respectively at end August 2018 from 2.0 per cent and 17.6 per cent, respectively, at end August 2017. However, net interest margin increased by 20 basis points to 3.7 per cent during this period.The Increase in operating cost resulted in the deterioration of the efficiency ratio to 48.5 per cent at end August 2018 from 46.2 per cent at end August 2017.

- **The banking sector maintained adequate capital during the first half of 2018 in order to absorb adverse shocks**. By end June 2018, the banking sector operated with a common equity ratio of 12.7 per cent and a total capital ratio of 15.8 per cent, well above the Basel III requirements. However, in the medium-term, banks may face challenges in raising funds to meet the enhanced capital requirements under Basel III and to meet the impact of adopting the Sri Lanka Financial Reporting Standard 9 (SLFRs 9).

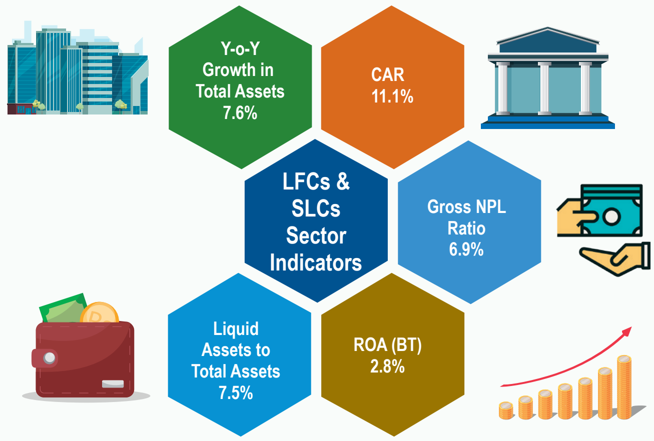
- **The branch network expanded further during the first half of 2018 improving financial accessibility**. Accordingly, during the first half of 2018, 14 new branches were opened and 304 ATMs were installed. Meanwhile, a new banking license was issued to Bank of China Limited to operate as a foreign commercial bank in Sri Lanka.

LFCs and SLCs Sector

- The LFCs and SLCs sector represents approximately 8.0 per cent of assets of the Sri Lankan financial system and consists of 43 LFCs and 5 SLCs with a network of 1,355 branches.

- **Sector expansion slowed down**. The expansion of total assets slowed down, recording a growth of 3.8 per cent (Rs. 51.4 billion) during the first eight months of 2018 reaching Rs.1,406.7 billion compared to 7.8 per cent growth reported in the corresponding period of 2017. This was mainly as a result of low credit growth, decrease in the investment portfolio due to substantial sale of assets by a distressed LFC and a decline in liquid assets.

Figure 8.9
LFCs and SLCs Sector Indicators

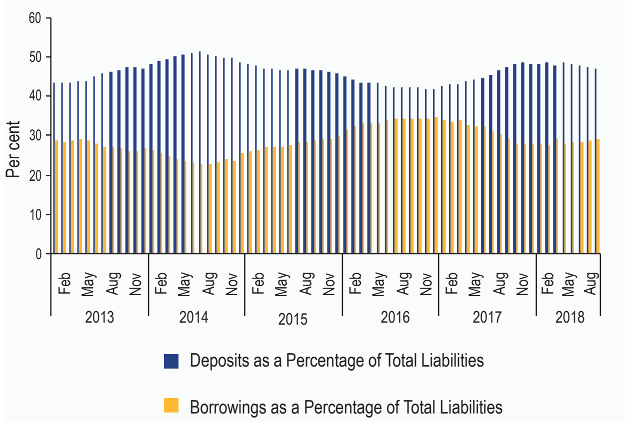


- **The sector demonstrates a continuing shift in its funding mix**. Even though deposits still dominate the total assets of the sector (42.0 per cent), the sector expansion, thus far during 2018 was largely funded through borrowings, indicating a shift in its funding mix. Borrowings recorded a growth of 8.8 per cent (Rs. 34.9 billion) during the first eight months of 2018, which is a shift from the contraction recorded in the year 2017. Deposit growth slowed down to 1.1 per cent during the first eight months of 2018, compared to the growth of 19.7 per cent recorded in the corresponding period of 2017. The sector showed reliance on bank borrowings over deposits considering the flexibility and negative public perception towards LFCs which resulted in the slowdown of funds mobilised through deposits.

- **Credit growth remained low mainly due to changes in macroprudential policies and the slowdown in the economy Lending activities of the sector showed signs of slowing down in response to macroprudential policies implemented on vehicle loans**. Credit provided by the LFCs and SLCs sector marginally grew by 6.4 per cent (Rs. 67.9 billion) to Rs. 1,125.0 billion in the first eight months of 2018 compared to the growth of 5.9 per cent in the corresponding period of 2017.

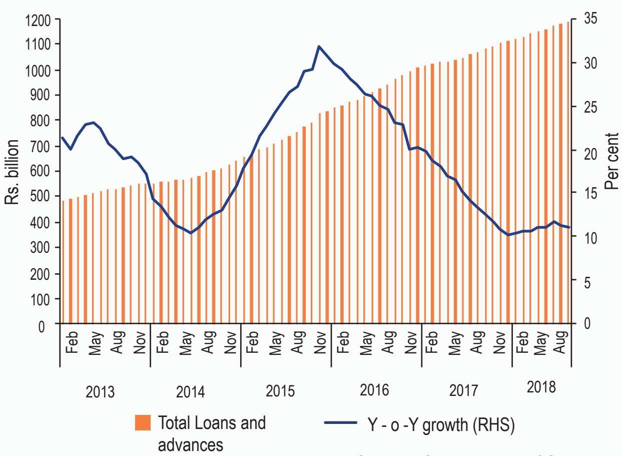
- **Rising trend in NPLs is expected to continue**. The gross NPL ratio increased to 6.9 per cent by end August 2018 from 5.9 per cent reported at end 2017 mainly due to flood, country-wide drought and the slow down in economic activity. This is the

Figure 8.10
Total Deposits and Borrowings of LFCs and SLCs Sector



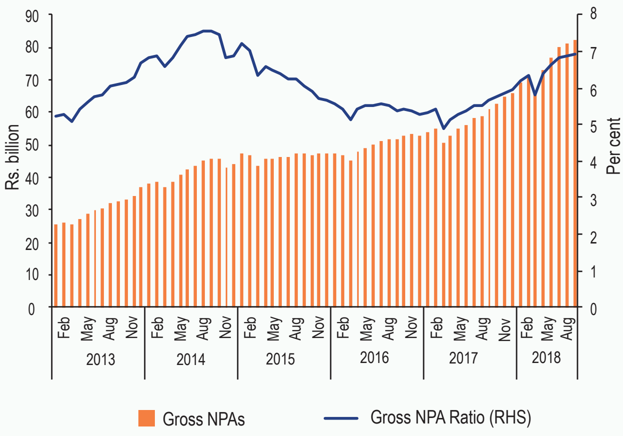
Source: Central Bank of Sri Lanka

Figure 8.11
Total Loans and Advances of LFCs and SLCs Sector



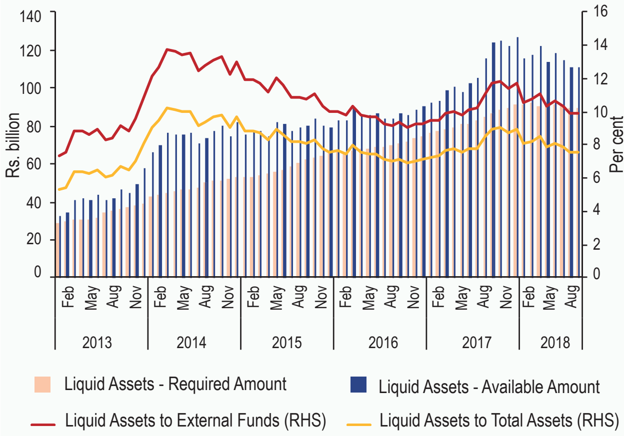
Source: Central Bank of Sri Lanka

Figure 8.12
Non-performing Accommodations of LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

Figure 8.13
Total Liquid Assets and Liquidity Ratio of LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

highest NPL ratio recorded since February 2015. Further, the provision coverage ratio declined to 54.1 per cent at end August 2018 compared to 61.9 per cent reported at end 2017. As a result, net NPL ratio increased to 2.2 per cent at end August 2018 from 1.6 per cent at end 2017 showing signs of deterioration in the asset quality of the sector. It is expected that NPLs will increase further due to extreme weather conditions and spillover effects of the Debt Relief Programme that was launched by the Ministry of Finance and Mass Media in August 2018.

- **The overall liquidity position of LFCs and SLCs recorded a surplus, but liquid assets demonstrated a declining trend**. Total liquid assets of the sector stood at Rs.110.9 billion at August 2018 with a surplus liquidity of Rs. 21.7 billion against the stipulated minimum requirement of Rs. 89.2 billion. However, the liquidity ratio (liquid assets on deposits and borrowings) declined to 9.9 per cent at August 2018 compared to the ratio of 11.7 per cent recorded as at end 2017. The decline in the ratio is attributable to decrease in available liquid assets by 12.3 per cent.

- **Capital level improved**. The total regulatory capital levels improved by Rs. 13.6 billion in August 2018 compared to the figures reported at end 2017, mainly due to the enhancement of the minimum capital requirement by the Central Bank

Table 8.2
LFCs & SLCs Sector - Selected Indicators

Item	End Aug 2016	End Aug 2017	End Dec 2017	End Aug 2018 (a)	Y-O-Y Change (%)	
					Aug 2017	Aug 2018 (a)
Total Assets - Net (Rs.billion)	1,140	1,307	1,355	1,406.4	14.7	7.6
Loans & Advances - Net (Rs.billion)	900	1,020	1,057	1,125.0	13.4	10.3
Deposits (Rs.billion)	506	636	687	693.9	25.6	9.2
Borrowings (Rs.billion)	408	413	396	430.9	1.2	4.3
Capital Funds (Rs.billion)	142	164	167	184.1	15.2	12.2
Tier 1 Capital Adequacy Ratio (%)	12.0	12.6	12.4	9.6		
Total Capital Adequacy Ratio (%)	12.6	13.3	13.1	11.1		
Gross Non-performing Accommodations Ratio (%)	5.5	5.5	5.9	6.9		
Net Non-performing Accommodations Ratio (%)	1.3	1.3	1.6	2.2		
Return on Assets (Before Tax) (%) - Annualised	3.7	3.0	3.0	2.8		
Return on Equity (After Tax) (%) - Annualised	20.0	14.9	14.7	12.9		
Liquid Assets to Total Assets (%)	7.0	8.5	8.9	7.5		

(a) Provisional

Source: Central Bank of Sri Lanka

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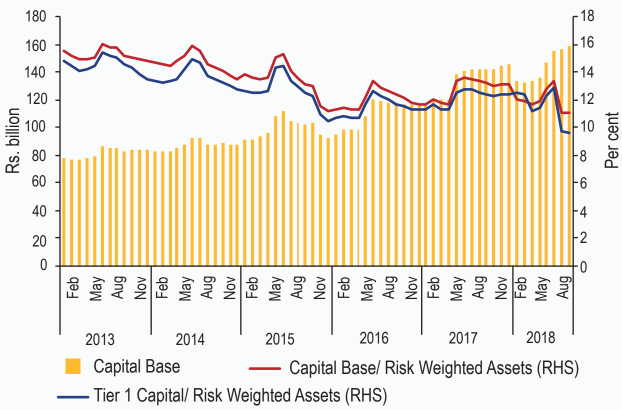
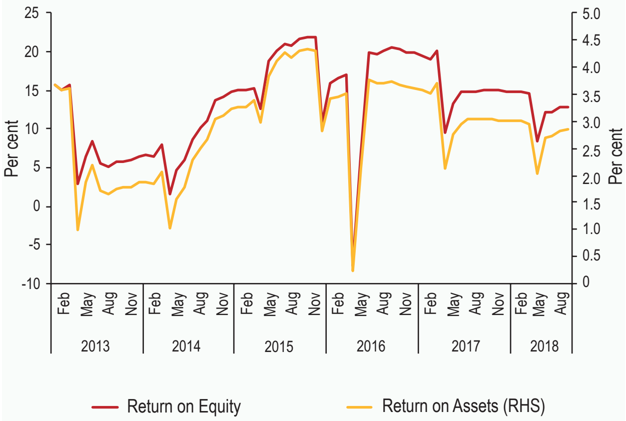
Figure 8.14
Capital Position of LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

Figure 8.15
ROA and ROE of LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

to Rs. 1 billion from 01 January 2018, Rs.1.5 billion by 01 January 2019, Rs.2.0 billion by 01 January 2020 and Rs. 2.5 billion by 01 January 2021. In addition, the companies were required to report risk weighted assets on a more risk sensitive manner covering credit risk and operational risk under the new capital adequacy framework. Consequently, the sectors' core capital and total risk weighted capital ratios decreased to 9.6 per cent and 11.1 per cent, respectively, at end August 2018 from the reported levels of 12.4 per cent and 13.1 per cent, respectively, at end 2017. A few companies, whose core capital and total risk weighted capital ratios were below the minimum required levels due to weak financial positions, were required to take measures to rectify these issues.

- **Profitability reflected a declining trend mainly due to rising funding costs as well as NPLs.** Profits of the LFCs and SLCs sector slipped to Rs.15.5 billion during the first eight months of 2018 compared to the profit of Rs.17.6 billion in the corresponding period of 2017 as a result of the increased funding cost and increase in loan loss provisions. The annualised ROA and ROE ratios were at 2.8 per cent and 12.9 per cent, respectively, by end August 2018, compared to 3.0 per cent and 14.9 per cent, respectively, in the corresponding period of 2017.

Primary Dealers

- **Total assets and total portfolio of the Primary Dealer (PD) industry decreased during the first eight months of 2018**. Total assets of the PD industry decreased by 16.1 per cent to Rs. 359.4 billion and the total portfolio in government securities held by PDs decreased by 11.6 per cent to Rs.348.2 billion during the first eight months of the year. This decline was mainly due to a decrease in their investment portfolio. Borrowings under repo agreements unveiled a sharp decline of 118.8 per cent to Rs.68.5 billion by end August 2018 in comparison to end August 2017.

- **Profitability of the PD industry measured in terms of the ROA and ROE of standalone PDs stood at 2.9 per cent and 16.7 per cent, respectively, during the first eight months of 2018.** Overall, the PD industry recorded a profit of Rs. 8.9 billion over the eight months period ending August 2018 compared to the profit of Rs.10.2 billion in the corresponding period of 2017. The PD industry recorded total gains (realised and unrealised) of Rs.1.2 billion for the eight months ended August 2018, which has decreased significantly compared to Rs.3.0 billion recorded in the corresponding period of 2017. Suspension

Table 8.3
Primary Dealers - Selected Indicators

Item	End Aug 2016	End Aug 2017	End Dec 2017	End Aug 2018 (a)(b)	Y-O-Y Change (%)	
					Aug 2017	Aug 2018 (a)(b)
Total Assets (Rs.billion)	**311.8**	**418.3**	**337.2**	**359.4**	**34.2**	**-14.1**
Standalone PDs	87.5	67.6	77.3	73.9	-22.7	9.2
Bank PDs	224.4	350.7	259.9	285.5	56.3	-18.6
Total Portfolio (Rs.billion)	**256.0**	**393.8**	**314.2**	**348.2**	**53.2**	**-11.6**
Standalone PDs	41.3	50.6	62.6	67.3	22.4	33.0
Bank PDs	214.6	343.2	251.6	280.9	59.9	-18.2
Total Capital (Rs.billion) (c)	19.5	23.2	23.1	11.9	19.3	-48.6
Profit before Tax (Rs.billion) (d)	**11.1**	**10.2**	**15.1**	**8.9**	**-7.7**	**-12.7**
Standalone PDs	7.4	2.3	3.1	1.4	-69.2	-37.6
Bank PDs	3.7	8.0	11.9	7.5	114.8	-5.6
Tier 1 Capital Adequacy Ratio (%) (c)	33.7	57.4	54.9	21.5	23.7	-35.9
Total Capital Adequacy Ratio (%) (c)	35.0	58.8	55.9	22.3	23.8	-36.5
Return on Assets (%)	5.7	3.9	4.0	3.9	-1.8	-
Standalone PDs	13.3	4.6	4.2	2.9	-8.7	-1.4
Bank PDs	2.7	3.8	3.9	4.2	1.1	0.4
Return on Equity (%) (c)	66.1	16.9	14.9	16.7	-49.2	-0.2
Leverage Times (c)	3.5	1.9	2.3	5.1	-1.6	3.2
Operating Expenses to Total Income (%) (d)	**6.4**	**7.7**	**7.9**	**7.7**	**1.3**	**-**
Standalone PDs	8.3	24.8	26.8	30.8	16.5	6.0
Bank PDs	2.5	1.4	1.3	1.4	-1.1	-
Total Cost to Total Income (%) (d)	**54.1**	**64.0**	**63.2**	**59.4**	**9.9**	**-4.6**
Standalone PDs	36.5	64.0	64.9	73.8	27.5	9.8
Bank PDs	71.5	64.1	62.7	59.4	-7.4	-4.7
Duration of Assets and Liabilities (years)	**1.3**	**1**	**1**	**2.4**	**-23.1**	**140.0**
Standalone PDs	3.0	2.4	1.9	5.7	-20.0	136.7
Bank PDs	0.6	0.4	0.3	0.4	-33.3	-

(a) Provisional
(b) Data excludes financial of Perpetual Treasuries Ltd.
(c) Standalone PDs only
(d) During the period
Note: Above data excludes financials of Entrust Securities PLC.

Source: Central Bank of Sri Lanka

of business activities of Perpetual Treasuries Limited on 06 July 2017 had a negative impact on the profitability and total assets of the overall industry.

- **Capital was maintained at healthy levels**. All standalone PDs[1] maintained their core capital above the minimum requirement of Rs. 1,000 million as at end August 2018. The Risk Weighted Capital Adequacy Ratio (RWCAR) of the industry remained above the minimum requirement of 10 per cent, although it decreased to 22.3 per cent by end August 2018 from 58.8 per cent recorded at end August 2017.

- **Risk profile improved**. As the proportion of trading portfolio to total portfolio increased from 33.8 per cent at end August 2017 to 42.8 per cent at end August 2018, the exposure of the industry to market risk declined. In view of the large proportion of risk free government securities holdings of PDs and also the ability of PDs to use such government securities as collateral for obtaining funds to bridge unforeseen liquidity gaps, the liquidity risk profile of PDs remained low. Further, most PDs had stand-by contingency funding arrangements to bridge liquidity gaps, if materialised.

1 Standalone PDs excluding Perpetual Treasuries Limited and Entrust Securities PLC.

Insurance Sector

- **Insurance sector growth in terms of total assets and premium income continued to increase**. As at end June 2018, total assets of the insurance sector increased by 9.1 per cent, year-on-year, compared to the growth of 11.4 per cent recorded in the corresponding period of 2017. The growth in gross written premium

Table 8.4
Insurance Sector - Selected Indicators

Item	End Jun 2016	End Jun 2017	End Dec 2017	End Jun 2018 (a)	Y-O-Y Change (%)	
					Jun 2017	Jun 2018 (a)
Total Assets (Rs.billion)	**478.4**	**533.1**	**559.2**	**581.8**	**11.4**	**9.1**
Total Income (Rs.billion) (b)	**82.1**	**96.6**	**201.6**	**108.1**	**17.7**	**11.8**
Gross Premium Income (Rs.billion) (b)	66.8	76.2	160.4	85.8	14.0	12.6
Investment Income (Rs.billion) (b)	15.3	20.5	41.1	22.3	33.9	8.9
Profit Before Tax (Rs.billion) (b)	**5.2**	**4.7**	**24.7**	**21.7**	**-10.0**	**364.7**
Capital Adequacy Ratio (CAR) (%) (c)						
Long-term Insurance	296.0	358.0	336.0	310.3		
General Insurance	166.0	117.0	175.7	179.5		
Retention Ratio (%)						
Long-term Insurance	96.2	95.9	95.9	96.0		
General Insurance	159.1	78.5	77.9	76.1		
Claims Ratio (%)						
Long-term Insurancew	37.1	36.9	29.8	44.2		
General Insurance	55.7	63.9	64.3	63.7		
Combined Operating Ratio (%)						
Long-term Insurance	85.1	86.2	80.0	98.0		
General Insurance	97.2	102.9	102.7	101.4		
Return on Assets (ROA) (%)						
Long-term Insurance	2.2	1.8	4.5	8.5		
General Insurance	2.4	8.9	4.7	5.1		
Return on Equity (ROE) (%) - General Insurance	**4.5**	**18.8**	**9.9**	**10.4**		
Underwriting Ratio (%) - General Insurance	**15.7**	**17.1**	**17.4**	**18.0**		

(a) Provisional
(b) During the period
(c) Introduced in lieu of the solvency margin ratio since 2016

Source: Insurance Regulatory Commission of Sri Lanka

(GWP) of this sector decelerated to 12.6 per cent by June 2018, compared to a growth of 14.0 per cent in the corresponding period of 2017. Both the general insurance and long-term insurance sectors contributed equally towards the overall growth in GWP. Growth in GWP of the motor insurance sector, which accounts for 64.4 per cent of the general insurance sector, increased by 14.4 per cent in the first half of 2018 compared to 15.8 per cent in the corresponding period of 2017. Growth in the fire insurance sector also increased to 16.6 per cent as at June 2018 compared to 11.0 per cent at June 2017. However, growth in marine insurance and health insurance sectors slowed to 3.9 per cent and 10.6 per cent, respectively, in 2018 from 7.3 per cent and 15.8 per cent in 2017, respectively.

- **Overall profits of the insurance sector improved significantly during the first half of 2018.** The aggregate profit before tax for this sector increased considerably by 364.7 per cent during the first half of 2018 compared to the decrease of 10.0 per cent in the corresponding period of 2017. Long-term insurance sector's growth in profit has mainly contributed towards this substantial growth which was a growth of 2,246.6 per cent compared to the drop of 78.5 per cent during the corresponding period of 2017. This unusual increase in profits was a result of one off surplus transfers carried out by two insurance companies. This one off surplus has been created through the change in valuation method of life policy holder liabilities, to comply with regulations of the Insurance Regulatory Commission of Sri Lanka. When considering the claims made by the insurance sector, it was observed that claims of general insurance and long-term insurance sectors increased by 10.2 per cent and 34.3 per cent, respectively, during this period. Investment income of the sector increased by 8.9 per cent in the first half of 2018 compared to the growth of 33.9 per cent in the corresponding period of 2017. Share of investments in government securities in total investments of the long-term insurance and general insurance sectors were at 47.5 per cent and 38.0 per cent, respectively.

Unit Trust Sector

- **A contraction in terms of net asset value of the unit trust sector was observed during the**

Table 8.5
Unit Trust Sector - Selected Indicators

Item	End Jun 2016	End Jun 2017	End Dec 2017	End Jun 2018 (a)	Y-O-Y Change (%)	
					Jun 2017	Jun 2018 (a)
Total Assets (Rs.billion)	127.7	104.3	128.8	64.8	-18.3	-37.9
Net Asset Value - NAV (Rs.billion)	126.8	103.3	128.8	64.6	-18.5	-37.5
Investments (Rs.billion)	122.8	102.3	127.7	64.8	-16.7	-36.7
Equity	12.6	14.4	13.0	11.1	13.9	-22.8
Government Securities	55.9	42.8	22.5	5.3	-23.4	-87.6
Other (e.g.,Commercial Papers, Debentures, Trust Certificates & Bank Deposits)	54.4	45.2	92.1	48.4	-16.8	7.1
Investments in Equity as a % of NAV	9.9	13.9	10.2	17.2		
Investments in Government Securities as a % of NAV	43.7	41.0	17.7	8.2		
Other Investments as a % of NAV	42.9	43.8	72.2	74.9		
Total No. of Unit Holders	39,707	40,651	41,037	41,200		
No. of Units in Issue (billion)	8.9	6.7	7.6	2.0		
No. of Unit Trusts	76	76	79	79		

(a) Provisional

Source: Unit Trust Association of Sri Lanka

first half of 2018. Total number of unit holders recorded a marginal increase of 1.4 per cent, year-on-year, whereas the number of unit trusts increased by three thus far during the year. It was observed that the net asset value of the unit trust sector asset value decreased by 37.5 per cent to 64.6 billion as at end June 2018. When considering investments, the investments in equities has declined by 22.8 per cent, while investment in government securities declined substantially by 87.6 per cent on a year-on-year basis.

Stock Broker Companies Sector

- **The stock brokering companies sector recorded a negative performance in the first half of 2018**. The income of the stock brokers decreased by 14.0 per cent, year-on-year, during the first half of 2018 to Rs. 384.6 million from Rs. 447.2 million in the first of half 2017. This decrease in income has led the sector to report a loss of Rs. 57.9 million compared to the profit of Rs. 35.3 million reported in the corresponding period of 2017, which is a 77.0 per cent decrease in net profits. Total assets declined by 18.4 per cent compared to the corresponding period of the previous year. Capital of the stock broker sector marginally decreased by 1.0 per cent to Rs. 5,495.0 million in June 2018 from Rs. 5,552.0 million in June 2017. The dismal performance recorded by the stock brokering companies sector is in line with the slowdown in the capital market during the period. Meanwhile, one stock broker failed to comply with the regulatory requirement imposed by the Securities and Exchange Commission as at 30 June 2018.

Superannuation Funds

- **The Employees' Provident Fund (EPF) is the largest superannuation fund in Sri Lanka with an asset base of over Rs. 2.2 trillion as at end June 2018.** Total number of member accounts of EPF reached 18 million in December 2017, recording an increase of 4.1 per cent from the last year.

Table 8.6
Stock Broker Companies Sector - Selected Indicators

Item	End Jun 2016	End Jun 2017	End Dec 2017	End Jun 2018 (a)	Y-O-Y Change (%)	
					Jun 2017	Jun 2018 (a)
Total Assets (Rs. billion)	9.5	12.8	9.1	10.5	34.4	-18.4
Total Liabilities (Rs. billion)	3.9	7.3	3.2	5.0	87.5	-31.7
Net Capital (Rs. billion)	4.5	5.6	5.8	5.5	22.6	-1.0
Income (Rs. billion) (b)	0.4	0.4	2.0	0.4	10.1	-14.0
Net Profit/(Loss) Before Tax (Rs. million) (b)	-121.0	35.3	74.0	-57.9	-129.2	-77.0

(a) Provisional
(b) During the period

Source: Securities and Exchange Commission of Sri Lanka

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Table 8.7
Superannuation Funds - Selected Indicators

Item	Employees' Provident Fund (EPF)			Employees' Trust Fund (ETF)		
	End Jun 2017	End Jun 2018 (a)	Change (%)	End Jun 2017	End Jun 2018 (a)	Change (%)
Total Contributions (Rs. billion) (b)	65.0	70.7	8.8	11.1	12.3	10.4
Total Refunds (Rs. billion) (b)	63.6	51.1	-19.7	9.4	9.4	0.2
Total Assets (Rs. billion)	1,948	2,169	11.3	262.4	295.0	12.4
Total Investment Portfolio (Rs. billion)	1,873	2,107	12.5	246.8	287.9	16.6
o/w, Government Securities (%)	91.6	91.8	0.2	84.4	72.3	-14.2
Gross Income (Rs. billion) (b)	108.4	110.8	2.2	13.6	14.5	6.1

(a) Provisional
(b) During the period

Sources: Central Bank of Sri Lanka
Employees' Trust Fund Board

- **Total member contributions received during the first half of 2018 increased by 8.8 per cent to Rs. 70.7 billion while refunds to members decreased by 19.7 per cent to Rs. 51.1 billion when compared to the corresponding period of the previous year.** The net contribution (contributions minus refunds) stood at Rs. 19.7 billion in 2018, compared to Rs.1.5 billion in 2017.

- **During the 12 months period ending 30 June 2018, total investment of EPF grew by 12.5 per cent to Rs. 2,107 billion and accordingly total assets of the EPF increased by 11.3 per cent to Rs. 2,169 billion.** The investment portfolio of EPF consists of 91.8 per cent in government securities, 3.8 per cent in equity market, and 2.2 per cent in corporate debt, trust certificates and reverse repo and 2.2 per cent in fixed deposits. The EPF reported a gross investment income of Rs. 110.8 billion during the first half of 2018, denoting an increase of 2.2 per cent from the corresponding period of 2017.

- **Total number of accounts in the Employees' Trust Fund (ETF) increased to 12.6 million at end June 2018 from 12.5 million at end June 2017.** However, there were only 2.6 million active accounts. Total contributions received increased by 10.4 per cent, year-on-year, to Rs. 12.3 billion at end June 2018. Meanwhile, the benefits paid increased at a slow pace of 0.2 per cent to Rs. 9.4 billion during this period, resulting in a higher net contribution of Rs. 2.9 billion. Further, total assets of the ETF increased by 12.4 per cent year-on-year to Rs. 295.0 billion as at end June 2018. The investment portfolio of the ETF remained concentrated in government securities having a share of 72.3 per cent as at end June 2018. Investments in equity, unit trusts, corporate debt securities and other investments as at end June 2018 stood at 3.8 per cent, 0.1 per cent, 0.9 per cent and 22.8 per cent, respectively.

- **The Public Service Provident Fund (PSPF) consisted of 228,700 active members.** Net contribution of the fund significantly declined to Rs. 50.9 million during the first half of 2018, compared to Rs. 640.1 million recorded in the first half of 2017. However, the total asset base of the fund grew by 28.8 per cent, year-on-year, and stood at Rs. 64.2 billion. Further, the investment of the PSPF improved to Rs. 62.7 billion at end June 2018, compared to Rs.47.8 billion recorded at end June 2017. The share of investments in government securities reduced significantly to 66.8 per cent of total investments at end June 2018 from 96.3 per cent recorded at end June 2017. The rate of return on member balances was 13.0 per cent for the period.

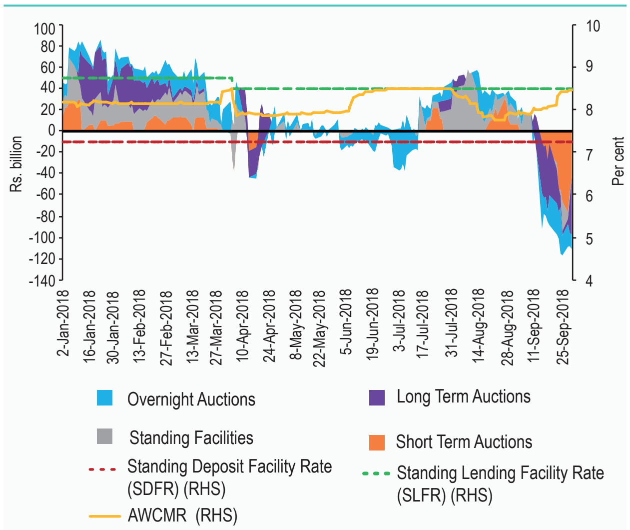
- **There were 127 privately managed Approved Provident Funds (APFs) with about 169,201 members as at end June 2018.** The total assets of APFs stood at Rs.179.7 billion while investments stood at Rs. 163.8 billion as at end June 2018.

Developments in Financial Markets

Inter-Bank Call Money Market

- **The Average Weighted Call Money Rate (AWCMR), hovered largely around the middle rate of the Standing Rate Corridor (SRC) formed by the Standing Lending Facility Rate (SLFR) and the Standing Deposit Facility Rate (SDFR) during most of the time until end September 2018**. The AWCMR, which was at 8.15 per cent by end 2017, continued to remain closer to that level with the prevailing excess liquidity in the domestic money market until end March 2018. An anomaly existed in the call and repo market rates due to removal of national tax credit on government securities transactions with the implementation of the new Inland Revenue Act, effective from 02 April 2018. However, the uncertainty surrounding in its application was felt in the market. As a result, AWCMR, which remained at 8.14 per cent by end March increased sharply by 26 basis points on the following day and remained closer to the upper bound of the corridor for next few days and declined again towards the middle of the corridor. Relaxation of the monetary policy stance by reducing SLFR by 25 basis points to 8.50 per cent on 04 April 2018 and the increase in liquidity resulting from transactions with the Government also contributed towards the decline. Responding to the liquidity shortage arising from the early retirement of Treasury bills by the Central Bank, AWCMR gradually increased towards the upper bound of the SRC in the first week of June 2018. However, with the prevailed surplus liquidity in the domestic money market during end July to mid-September 2018 resulting from Government transactions with the Central Bank, AWCMR declined gradually and remained around the middle of the SRC. Thereafter, AWCMR moved towards the upper bound of the SRC with the decline in liquidity in the market since mid-September 2018 mainly due to government related transactions and maturing of foreign exchange SWAPs with commercial banks. By 03 October 2018, AWCMR was at 8.44 per cent.

Figure 8.16
Standing Rate Corridor, AWCMR and Market Liquidity



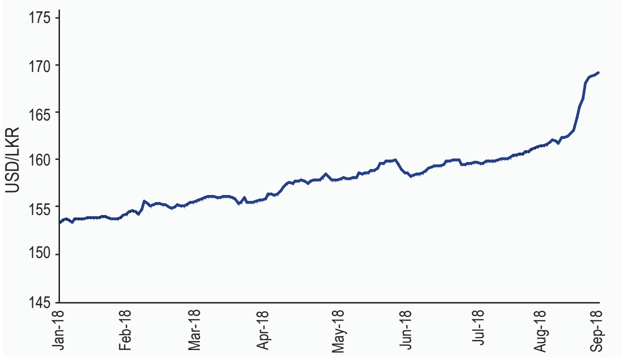
Source: Central Bank of Sri Lanka

- **Liquidity in the domestic money market which remained at surplus levels until end May 2018 turned into deficit thereafter before turning into surplus again by mid-July 2018**. However, liquidity in the domestic money market declined and remained in deficit levels since mid-September 2018. The sharp increase in surplus liquidity in the domestic money market from Rs. 18.3 billion at end 2017 to Rs. 45.6 billion at the beginning of January was mainly due to the provisional advances extended to the Government by the Central Bank. Excess rupee liquidity in the domestic money market continued to persist further, as a result of purchases of Treasury bills by the Central Bank. However, liquidity declined by more than Rs. 116 billion due to currency withdrawals during the period of six weeks up to mid-April 2018. Meanwhile, the Central Bank conducted overnight, short-term and long-term repo auctions to absorb liquidity in the domestic money market to maintain AWCMR at the desired level. With the maturing of foreign exchange SWAPs and early retirement of Treasury bills of the Central Bank, liquidity turned into deficit by end May 2018. To improve liquidity in the market, the Central Bank conducted outright purchases of Treasury bills, as well as overnight, short-term and long-term reverse repo auctions. Meanwhile, foreign exchange related transactions carried out by the Government with the Central Bank gradually raised liquidity from mid-July 2018. However, with the reversal of government forward transactions and foreign exchange SWAP maturities, liquidity in the domestic money market turned again into a deficit level from mid-September 2018. Hence, the Central Bank conducted overnight, short-term and long-term reverse repo auctions to inject liquidity to the domestic money market on a temporary basis while conducting outright purchase of Treasury bills auctions to inject liquidity to the market on a permanent basis. Accordingly, liquidity in the domestic money market recorded a deficit of Rs. 35.6 billion by 03 October 2018.

Domestic Foreign Exchange Market

- **In the first nine months of 2018, the Sri Lankan rupee depreciated against the US dollar by 9.7 per cent from Rs. 152.85 as at end 2017 to Rs. 169.24 as at end September 2018.** The exchange rate remained relatively stable during the first three months of the year and the Central Bank managed to absorb foreign exchange from the market. This situation turned around since end April 2018, mainly due to relatively low level of conversion of export proceeds and increase in import demand for vehicles, construction materials and oil imports bills which contributed to a significant depreciation of the rupee against the US dollar. This pressure was further aggravated during May through September due to the repatriation of investments in local government securities and equity markets triggered by interest rate hikes by the US Federal Reserve. In the first nine months of 2018, the Sri Lankan rupee depreciated against other major currencies such as the Japanese yen, pound sterling and euro. Further, Sri Lankan rupee which depreciated in 2017 against the Indian rupee, appreciated in 2018, due to the larger depreciation of USD/INR compared to USD/LKR.

Figure 8.17
Movement of Rupee per US dollar

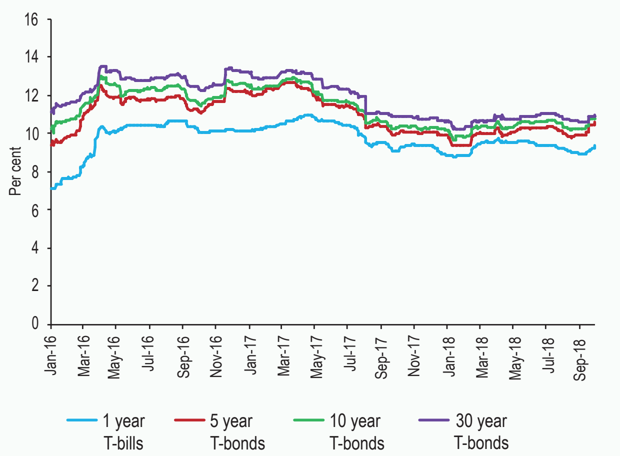


Source: Central Bank of Sri Lanka

- **The Central Bank was a net seller in the domestic foreign exchange market during the first nine months of 2018.** Continuous purchases of foreign exchange from the market with the favourable market conditions during the first four months of the year enabled the Central Bank to accumulate foreign reserves. However, during the succeeding five months, the Central Bank intervened in the market by selling foreign exchange to curb excess volatility of the exchange rate. Accordingly, during the period up to end September, the Central Bank absorbed US dollars 547.0 million and supplied US dollars 732.0 million resulting in a net supply of US dollars 185.0 million.

- **During the period ending September 2018, trading volumes in the domestic foreign exchange market increased marginally by 2.5 per cent compared with the corresponding period in 2017.** The total volume of inter-bank foreign exchange transactions amounted to US dollars 13.1 billion during this period compared to US dollars 12.8 billion in the corresponding period of 2017. Daily average volumes in the inter-bank foreign exchange market also recorded a similar increase to US dollars 73.0 million during the reference period, from US dollars 70.0 million in the corresponding period of 2017. Total volume of forward transactions for the period up to end September decreased to US dollars 5.0 billion compared to US dollars 6.6 billion during the period under review in 2017.

Figure 8.18
Secondary Market Yield Curve of Government Securities



Source: Central Bank of Sri Lanka

Government Securities Market

- **In the first half of 2018, higher share of financing was sourced from the external markets while maintaining orderly issuance volume in the domestic market**. Reflecting comparatively higher interest rates and the liquidity shortage that prevailed in the domestic market compared to latter part of 2017, the strategies adopted for debt issuance in the first half of 2018 included issuance of an International Sovereign Bond (ISB) amounting to US dollars 2,500 million, issuance of Sri Lanka Development Bonds (SLDBs) amounting to US dollars 712.19 million and issuance of Treasury bonds amounting to Rs. 337.02 billion mainly of medium-term maturities. This was also intended to offset any possibilities to crowd out the available domestic investible funds and to benefit from possible upward adjustment in international capital market interest rates. Issuance of medium-term Treasury bonds in the first half of the year, although contributed moderately to suppress the average time to maturity of domestic government securities, enabled debt managers to maintain orderly interest rate structure across government securities.

- **The secondary market yield curve of government securities witnessed a parallel shift downwards by end of the first half of 2018, compared to the corresponding period in 2017**. The secondary market yield rates pertaining to the 91-day, 182-day and 364-day Treasury bills at end of first half of 2018, decreased by 118 basis points, 140 basis points and 107 basis points, respectively, compared to end of the first half of 2017. Market yield rates of actively traded Treasury bonds with maturities of 2 to 10 years decreased within the range of 64 – 90 basis points, during the same period. The improved market conditions together with foreign inflows from ISBs combined with enhanced transparency and predictability in the issuance process of government securities and aligning government securities issuance in line with debt service payments, contributed positively towards easing the pressure on the interest rates in the domestic market. The Treasury bills and Treasury bonds held by non-residents decreased to Rs. 287.8 billion by end July 2018, from Rs. 322.6 billion at end 2017, partly reflecting foreign investors repositioning their investments from frontier and emerging market economies.

Corporate Debt Securities Market

- **Commercial paper (CP) market has been relatively less active in the first nine months of 2018**. The value of CPs issued amounted to Rs.1.7 billion in the first nine months of 2018 compared to Rs. 5.8 billion in the same period in 2017. The interest rates on CPs changed between a range of 13.10 - 15.00 per cent in 2018, from a range of 14.25 - 16.50 per cent recorded in the same period of 2017. All the CPs issued during the period was with a maturity of up to 3 months. The total outstanding value of CPs amounted to Rs. 1.2 billion as at end September 2018 in comparison to Rs. 2.5 billion as at end September 2017.

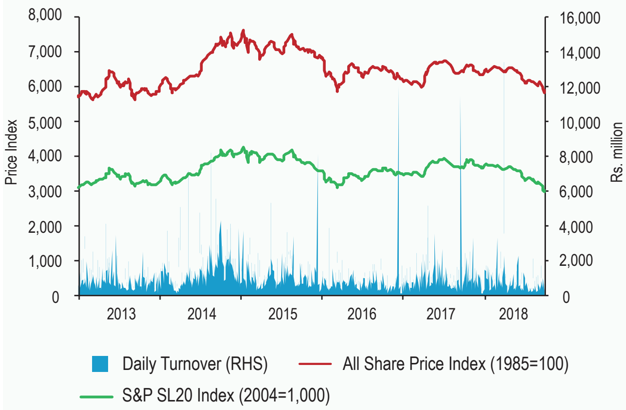
- **The corporate bond market expanded during the first nine months of 2018 compared to the corresponding period of the previous year, mainly due to the new listings due to Basel III requirements for banks**. During the first nine months of 2018, there were 20 listings of corporate debentures by 10 institutions, compared with 7 issues by 2 institutions during the corresponding period of the previous year. Out of the ten institutions listed during the period, eight were from the banking and finance sector. The total value of the corporate bonds listed in the first nine months of 2018, increased to Rs. 52.3 billion compared to Rs. 10.0 billion in the corresponding period of the previous year. Corporate bonds issued during the period had rates varying from range of 12.00 - 14.75 per cent compared to the range of 11.95 -15.00 per cent prevailed in the first nine months of 2017.One zero coupon debenture was also issued during the period.

Equity Market

- **The Colombo Stock Exchange (CSE) recorded a dismal performance during the first nine months of 2018 reversing the growth achieved in 2017**. The market was volatile with unstable foreign participation following increased investor uncertainty over future policy directions, pressure on the exchange rate and recent global developments.

- **Price indices, market capitalisation and average turnover of CSE declined, while net foreign sales increased**. The All Share Price Index (ASPI) decreased by 8.0 per cent and the S&P SL 20 index decreased by 18.2 per cent until end September 2018. Market capitalisation declined to Rs. 2,752.9 billion at end September 2018 from Rs. 2,899.3 billion at the end 2017.The average daily turnover was Rs. 787.6 million for the first nine months of year 2018, when compared to Rs. 915.3 million for the year of 2017. However, the average daily turnover of 2018 was slightly higher than the average turnover of Rs.737.2 million recorded for year 2016. The total number of trades declined to 675,796 during the first nine months of 2018 compared to 727,064 recorded during the corresponding period of 2017. Market Price Earnings Ratio (PER) further decreased to 9.2 times by end September 2018 compared to 10.6 times prevailed at end of 2017.

Figure 8.19
Movements of Share Price Indices



Source: Colombo Stock Exchange

Table 8.8
Equity Market - Selected Indicators

Item	End Sep 2016	End Sep 2017	End 2017	End Sep 2018
All Share Price Index (1985 = 100)	6,534.8	6,438.2	6,369.3	5,862.2
Year-to-date change (%)	-5.2	3.4	2.3	-8.0
S&P SL20 Index (2004 = 1,000)	3,617.3	3,688.0	3,671.7	3,002.0
Year-to-date change (%)	-0.2	5.5	5.0	-18.2
Market Capitalisation (Rs.billion)	2,785.7	2,919.7	2,899.3	2,752.9
As a percentage of GDP (%) (a)	23.5	24.7	24.5	20.7
Market Price Earnings Ratio	13.4	10.7	10.6	9.2
Average Daily Turnover (Rs. million)	737.2	914.8	915.3	787.6
Net Cumulative Foreign Purchases in Secondary Market (USD million)	-3.2	17.2	17.7	-6.2
Number of Companies Listed	295	295	296	297
Number of Rights Issues	6	14	15	15
Amount raised through Rights Issues (Rs. billion)	2.5	42.3	51.6	37.0
Initial Public Offering	3	2	2	3
Amount raised through IPOs (Rs. billion)	1.9	8.5	1.0	15.2

(a) Based on GDP for 2016 (Rs.13,317 billion)

Source: Colombo Stock Exchange

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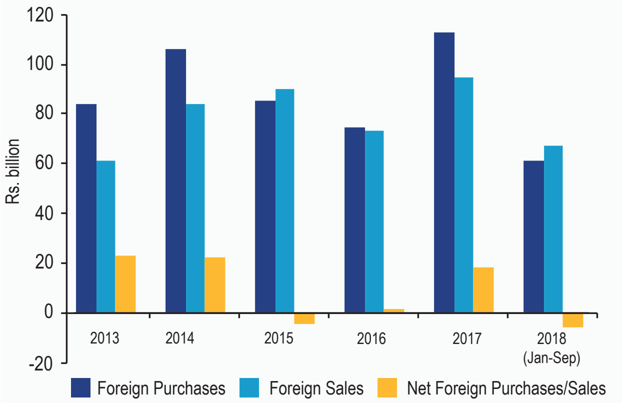
Figure 8.20
Foreign Participation at the CSE



Source: Colombo Stock Exchange

- **Total net foreign outflows from the stock market until end September 2018 was Rs. 6.2 billion compared to the inflow of Rs. 17.2 billion recorded during the corresponding period of 2017.** During this period, 3 Initial Public Offerings (IPOs) raised Rs. 15.2 billion and Rs. 37.0 billion was raised through 15 rights issues. Foreign investors accounted for about 45.3 per cent of the turnover, compared to the 46.2 per cent recorded in year 2017 during the reference period.

Development Finance and Access to Finance

- **The Central Bank, as the agent of the Government of Sri Lanka (GOSL), continued to develop and implement new development finance policy strategies during the first nine months of 2018, while continuing existing concessionary loan schemes.** These new initiatives and expansion of credit operations contributed to enhance the inclusive and balanced economic growth and the financial inclusiveness in the country.

- **During the first nine months of 2018, the Central Bank continued to coordinate, facilitate and implement various refinance, interest subsidy and/or credit guarantee schemes, while providing a range of credit supplementary services.** Individuals and the Micro, Small and Medium Enterprises (MSME) scattered across the country were served by providing affordable finance facilities through these schemes. These beneficiaries represented a wide spectrum of sectors including agriculture and animal husbandry, industrial and services sectors. In order to increase the level of financial inclusion, a series of financial literacy and skill development programmes were also conducted, with a special focus on people excluded from the formal financial sector.

- **The Central Bank disbursed loans through Participating Financial Institutions (PFIs) amounting to Rs. 11,719.4 million among 73,656 beneficiaries under 08 refinance and interest subsidy schemes during the first three quarters of 2018.** Out of these disbursements, a majority (51.0 per cent) of loans were granted through interest subsidy schemes while 49.0 per cent of loans were disbursed through refinance loan schemes. Funding sources of these schemes were the GOSL, the Central Bank, donor agencies

Table 8.9
Loan Disbursements by Funding Source

Funding Source	Share (%)			
	2017 Jan - Sep		2018 Jan - Sep	
	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.
Government Funded	82.3	61.8	92.7	71.5
Central Bank Funded	8.4	33.1	6.6	27.6
Donor Funded[(a) (b)]	9.4	5.1	0.7	0.9

Source: Central Bank of Sri Lanka

(a) 2017 data includes the performance of 05 NADeP Loan Schemes which concluded in 31 December 2018

(b) 2018 data includes May- September 2018 performance of the SAPP - RF Income Generation Loan Scheme

Table 8.10
Loan Disbursements by the Government Funded Loan Schemes

Loan Scheme	Loan Disbursements				Growth (%)	
	2017 Jan - Sep		2018 Jan - Sep		2018 Jan - Sep	
	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.
PAMP - RF	7,495.0	372.0	9,668.0	482.1	29.0	29.6
PAMP II - RF	10,922.0	922.5	3,573.0	336.2	-67.3	-63.6
Swashakthi	3.0	0.4	1,608.0	332.9	99.8	99.8
Athwela (READ)	-	-	3,543.0	1,499.7	-	-
SEPI – Ph II	-	-	216.0	99.8	-	-
NCRCS	45,911.0	4,959.5	50,146.0	5,709.0	9.2	15.1
WCLSTF (a)	5,871.0	1,341.4	-	-	-	-
Total	70,202.0	7,595.8	68,754.0	8,459.7	2.1	11.3

(a) Loan disbursements concluded in 14 August 2017. Interest subsidy payments will be continued until August 2019

Source: Central Bank of Sri Lanka

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and the PFIs. In the policy front, the Central Bank initiated actions to introduce necessary policy amendments with regard to the "Athwela" Loan Scheme and to implement the Smallholder Agribusiness Partnerships Programme (SAPP) funded by the International Fund for Agricultural Development (IFAD).

- **The GOSL continued to fund 06 refinance and interest subsidy schemes by contributing Rs. 8,459.7 million, accounting for 72.2 per cent to the total loan disbursements, in the first nine months of 2018 serving 68,754 beneficiaries.** Total disbursements of these GOSL funded schemes increased by 11.4 per cent during this period. Among these schemes "Sarusara"- New Comprehensive Rural Credit Scheme (NCRCS) which serves as an interest subsidy scheme and a credit guarantee scheme displayed significant performance by providing interest subsidy for 50,146 small-scale farmers of 33 short-term crop varieties. The disbursements of the NCRCS alone accounted for 48.7 per cent of the total disbursements and 67.5 per cent of the disbursement of the GOSL funded schemes in the first nine months of 2018. The performance of the NCRCS was followed by the GOSL funded "Athwela" Loan Scheme by providing refinance worth of Rs. 1,499.7 million disbursed among 3,543 beneficiaries. This accounted for 12.8 per cent of the total disbursements and 17.7 per cent of the GOSL funded schemes, in the reference period. The "Athwela" Loan Scheme was introduced in August 2017 to support the post-disaster recovery efforts of the entrepreneurs who got affected by the disasters as identified by the GOSL. In addition, the Poverty Alleviation and Microfinance Project II – Revolving Fund (PAMP II – RF) was successfully completed on 15 July 2018 as scheduled, contributing to the poverty alleviation of the country, by granting loans amounting to Rs. 7.0 billion among 94,893 beneficiaries.

- **The Central Bank continued to fund two main schemes, the "Saubagya – The Prosperity" Loan Scheme (SLS), a refinance scheme and the Commercial Scale Dairy Development Loan Scheme (CSDDLS), an interest subsidy scheme, with a view to broadening the financial outreach of the MSME sector and dairy industry, respectively**. Out of refinance schemes of the Central Bank, the SLS continued to operate as the flagship MSME loan scheme in the first three quarters of 2018 granting Rs. 2,996.9 million, accounting for 91.9 per cent of the loans disbursed by the Central Bank funded schemes. This amount accounted for 25.6 per cent of the total disbursements. CSDDLS, the interest subsidy scheme funded by the Central Bank continued to operate with the objective of providing financial facilities for dairy entrepreneurs covering all aspects of activities related to dairy, supporting the national objective of achieving self-sufficiency in milk.

Table 8.11

Loan Disbursements by the Central Bank Loan Schemes

Loan Scheme	Loan Disbursements				Growth (%)	
	2017 Jan - Sep		2018 Jan - Sep		2018 Jan - Sep	
	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.
Saubagya	5,977.0	3,048.3	4,627.0	2,996.9	-22.6	-1.7
CSDDLS (a)	1,160.0	1,024.8	275.0	262.7	-76.3	-74.4
Total	**7,137.0**	**4,073.1**	**4,902.0**	**3,259.6**	**-31.3**	**-20.0**

(a) Successfully concluded in June 2018 after achieving the target of granting loans worth of Rs.6 billion

Source: Central Bank of Sri Lanka

- **Overall, loans disbursed under the Central Bank funded schemes marginally decreased by 20.0 per cent during the first nine months of 2018.** The conclusion of the CSDDLS in June 2018 after achieving the target of granting loans worth of Rs. 6.0 billion, contributed to 93.7 per cent of decrease.

Table 8.12

Loan Disbursements by the Doner Funded Loan Schemes

Loan Scheme	Loan Disbursements			
	2017 Jan - Aug		2018 Jan - Aug	
	No. of Loans	Amount Rs. mn.	No. of Loans	Amount Rs. mn.
NADeP (a)	7,979.0	622.0	-	-
SAPP- RF Income Generation (b)	-	-	527.0	106.4
Total	**-**	**-**	**527.0**	**106.4**

(a) Includes performance of all NADeP Loan Schemes which concluded in 31 December 2018

(b) May to September 2018

Source: Central Bank of Sri Lanka

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- **With the closure of the major IFAD funded Agribusiness Development Loan Schemes, operated under the National Agribusiness Development Programme (NADeP) namely, NADeP Microfinance, Tharuna Diriya, Out Grower Farmers (Capital and Seasonal Loan Schemes) and Post-disaster Economic Activity Recovery Loan (PEARL) Schemes, IFAD and the GOSL signed a Financing Agreement in early 2018 to implement the Smallholder Agribusiness Partnerships Development Programme (SAPP)**. The SAPP is jointly funded by the IFAD and the GOSL by creating a consolidated line of credit incorporating the new financing provided by the IFAD and the existing and future recoveries of the previous IFAD funded projects.

- **Main objective of the SAPP is to contribute towards poverty reduction and to increase competitiveness in the Sri Lankan smallholder community**. It also intends to increase the income and quality of nutrition of 57,000 smallholder farmer households involved in commercially-oriented agriculture production and marketing system. SAPP consists of 06 loan schemes and operations of these loan schemes are currently at the initial stage. As at end September 2018, 1,073 loans amounting to Rs. 224.7 million were registered under the SAPP loan scheme. From end May to September 2018, 527 loans amounting to Rs. 106.4 million were refinanced.

- **The Central Bank has taken a number of new policy directions to strengthen the effective credit delivery in achieving balanced and inclusive economic growth**. The Central Bank initiated actions to develop a National Financial Inclusion Strategy (NFIS) for Sri Lanka. In this regard, the Central Bank has made arrangements to obtain technical and financial assistance of the International Finance Corporation (IFC), a member of the World Bank Group, to develop a comprehensive NFIS which is aimed at promoting a more effective and efficient process to improve financial inclusion across the country. Further, the Central Bank signed a Cooperation Agreement with IFC in January 2018.

- **During the first nine months of 2018, the Central Bank initiated preliminary actions to automate the registration and refinance of loans under the schemes**. This automation process will be commenced with the SAPP loan schemes and funded by the IFAD under the Institutional Strengthening component of the SAPP Financing Agreement. This process is expected to be completed in collaboration with the Project Management Unit of SAPP, PFIs and other relevant stakeholders. With the intention of increasing the domestic agricultural production to ensure food and nutrition security of the country, the Central Bank initiated actions to promote the "One village One-product" concept for commercial scale agricultural products by selecting potential villages. The broader objective of this programme is to support the sustainable development goals of the National Food Production Programme of the GOSL.

- **In addition to the efforts of the Central Bank, the GOSL has introduced the "Enterprise Sri Lanka" programme in line with the Vision 2025 Strategy of the GOSL**. Under the "Enterprise Sri Lanka" programme, GOSL has introduced 15 interest subsidy schemes which provide 25 -100 per cent interest subsidies for the entrepreneurs of the country. The main objective of these concessionary schemes is to establish a unique infrastructure for providing financial support for every Sri Lankan who aspires their entrepreneurship ambitions.

- **Identifying the need for the skills development and capacity building of the general public, the Central Bank conducted several programmes during the first nine months of 2018 with a view to promote financial literacy and inclusiveness in regions where high levels of financial exclusion have been identified**. Accordingly, the Central Bank conducted 121 awareness programmes exceeding the targeted of 114 programmes for the reference period. These programmes were mainly focused on improving financial literacy and financial management, entrepreneurship development and skills development.

Developments in the Payment and Settlement Systems

- **During 2018, the Central Bank adopted several measures to promote digital payment mechanisms in the country in order to cater to the payment and settlement needs of individuals and institutions**. The LankaSettle System which comprises two closely integrated systems, i.e. the Real Time Gross Settlement (RTGS) System and the Lanka Secure System, continued to provide a safe and reliable mechanism for settlement of high value transactions in the country. The RTGS system settles high value time critical customer and interbank transactions while LankaSecure settles securities transactions on a Delivery versus Payment (DvP) basis. The RTGS System accounted for 84.1 per cent of the total value of non-cash payments during the first six months of 2018 and continued to be the main interbank fund transfer system for Sri Lankan rupee transactions in the country. The daily average volume and value of RTGS transactions were 1644.5 and Rs.379.2 billion, respectively, during the first nine months of 2018.

- **The Cheque Imaging and Truncation (CIT) System introduced in 2006 with the objective of increasing the efficiency of cheque clearing by reducing the island-wide cheque realisation time to one day (T+1), continued to perform efficiently to settle retail payments**. The total volume and value of cheques cleared during the first nine months of 2018 were 37,735,279 and Rs. 7.9 trillion, respectively.

- **Sri Lanka Interbank Payment System (SLIPS), which provides an online mechanism to facilitate high transaction volumes, continued to operate smoothly during the period under review.** SLIPS is mainly used to effect low value bulk payments such as salaries and pensions. The volume and value of transactions settled through SLIPS were 24,291,209 and Rs.1452.5 billion, respectively, during the first nine months of 2018.

- **The Central Bank continued to facilitate establishment of the Common Card and Payment Switch (CCAPS), which is being operated by LankaClear (Pvt.) Ltd. (LCPL) under the brand name of "LankaPay".** CCAPS is a network of five interoperable switches i.e. Common ATM Switch (CAS), Common Electronic Fund Transfer Switch (CEFTS), Shared ATM Switch (SAS), Common Point-of-Sale Switch (CPS) and Common Mobile Switch (CMobS). In order to reduce the settlement risk and to ensure smooth operation of these systems, additional clearing cycles were introduced to increase the frequency of interbank settlements of CAS and CEFTS transactions.

- **CAS which is the first phase of CCAPS, started live operations in July 2013**. During the period of January to September 2018, CAS settled 29.4 million transactions amounting to Rs. 248.3 billion. In order to enhance the security of card transactions carried through CAS network, CAS members were instructed to enable Europay, MasterCard and Visa (EMV) technology in ATMs installed by them. From 01 January 2018, liability for fraudulent transactions carried out at ATMs which are not EMV enabled will have to be borne by the CAS members acquiring such transactions.

- **CEFTS, which is the second phase of CCAPS, was implemented on 21 August 2015**. CEFTS provides a common infrastructure to clear payments effected through multiple payment channels such as ATM, Internet Banking, Mobile Banking, Kiosks and over-the-counter. All LCBs obtained membership by the end of January 2018. CEFTS settled 4.7 million transactions amounting to Rs. 429.6 billion during the period of January to September 2018.

- **The Central Bank granted approval to implement several developments in CEFTS considering the payment requirements in the country**. Accordingly, LankaPay Online Payment Platform (LPOPP) was launched on 20 July 2017 to facilitate real time payments to Sri Lanka Customs. At the end of September 2018, eight

LCBs had connected to LPOPP. The Central Bank granted approval to LCPL to connect LPOPP to the Inland Revenue Department, Ministry of Provincial Councils and Local Government and Board of Investment (BOI) of Sri Lanka. In addition, as a solution for the rejection of transactions due to incorrect entry of account numbers, approval was granted to introduce the concept of Payment Exchange Name for CEFTS transactions. Accordingly, the payee's mobile number and a nickname assigned for the account will be used for fund transfers in CEFTS instead of the account number.

- **CPS, which is to be implemented before the end of 2018, will provide switching and clearing facilities for payment card transactions carried out at Point-of-Sale terminals mainly using payment cards issued by member institutions of CPS under the National Card Scheme (NCS), any proprietary card scheme or payment cards issued under any International Card Scheme (ICS) subject to the concurrence of such ICS**. In order to ensure smooth operation of CPS, the Central Bank issued the General Direction No. 02 of 2018 on the Operations of the Common Points-of-Sale Switch for LCPL and member financial institutions in CPS.

- **Considering the importance of having a NCS in order to reduce the cost of domestic payment card transactions, the Central Bank granted approval to LCPL to implement a NCS**. The NCS will be implemented in partnership with an ICS providing international acceptance to payment cards issued under the NCS. CPS, will provide switching and clearing facilities for payment cards issued under the NCS.

- **Operations of the service providers of payment cards and mobile payment systems were supervised in terms of the provisions of the Payment Cards and Mobile Payment Systems Regulations No.01 of 2013.** In 2018, onsite supervision was conducted to monitor the implementation of recommendations made by the Central Bank to licensed operators of mobile phone based e-money systems, in order to ensure that e-money systems are operating within the approved framework.

- Direction on Acquiring Payment Card Based Electronic Commerce Transactions through Service Providers was issued under the Payment Cards and Mobile Payment Systems Regulations No.01 of 2013 to stipulate conditions on acquiring payment card based transactions through Service Providers in order to ensure timely payments to merchants and to safeguard the interests of cardholders.

- **Having considered the recent trend in using mobile applications for financial transactions, it became necessary to set standards to ensure security of transactions effected through mobile applications and confidentiality of customer information**. Accordingly, the Guideline on Minimum Compliance Standard for Payment Related Mobile Applications was issued under the Payment and Settlement Systems Act, No. 28 of 2005 to set minimum compliance standards for Mobile Applications used by financial institutions to provide payment services.

- **The National Payment Council (NPC) which is the industry consultative and monitoring committee on payment systems, appointed two committees to study developments in the FinTech sector and Blockchain technology in order to introduce emerging innovative payment technologies to the payment and settlement system of the country**. The Central Bank initiated actions to implement the recommendations, which were presented to the NPC, by these committees.

Expected Developments

- **It is expected that credit growth would moderate gradually to a sustainable level in the medium-term in line with the prevailing monetary policy direction**. At present, a gradual increase in NPLs is observed due to the challenges in the operating environment and banks will need to be cautious of further increases in NPLs associated with the increase in credit and ensure that proper risk management mechanisms are in place to mitigate all relevant risks.

- **Capital levels of banks are expected to strengthen further as a result of the enhanced capital requirements and other regulatory requirements**. With the enhanced minimum capital levels and the implementation of Basel III minimum capital requirements, banks are expected to meet the enhanced requirement for high quality capital and those which are unable to comply, will be encouraged to consolidate on a voluntary basis. Further, in terms of Sri Lanka Financial Reporting Standard – 9 on Financial Instruments (SLFRS 9), banks are required to provide for loan losses under expected credit loss approach. Accordingly, banks have to augment their capital level to meet the regulatory requirements. This will improve the ability of the banking sector to absorb shocks arising from financial and economic stress, reducing the risk of spillover from the financial sector to the real economy in the coming years.

- **The liquidity positions of banks are expected to be maintained at healthy levels**. In terms of the Banking Act, Directions on Liquidity Coverage Ratio (LCR) under Basel III Liquidity Standards issued in 2015, banks are required to maintain an LCR ratio of 100 per cent from 2019 onwards. LCR aims to address the liquidity risk management of licensed banks by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately under a liquidity stress scenario into cash to meet their liquidity needs within the next 30 days. In addition, with the expected implementation of the Net Stable Funding Ratio (NSFR) commencing 2019, which require banks to maintain sufficiently stable funding sources, the liquidity risk profile of banks will be further strengthened.

- **Trends and changes in macroeconomic variables will be monitored to identify any adverse scenarios in order to address any spillover risks arising from the real economy to the banking sector and accordingly, appropriate macroprudential measures will be introduced, if necessary, to preempt any future risks to the stability of the banking system**. The regulatory and supervisory framework pertaining to licensed banks will be further strengthened in line with the Basel Core Principles on Effective Banking Supervision and other international and regional best practices. Examination methodology of banks will continue to be enhanced focusing on the efficiency, effectiveness and sustainability of individual banks and the banking sector.

- **With the emergence of Fintech and advanced technologies like Blockchain, the business models of banks may change significantly over time while opening up new business opportunities**. Further, these developments lead to emerging risk for the banking sector. Accordingly, adoption of these new technologies needs to be encouraged while ensuring the safety and soundness of the banking system.

- **With the increased risk in cyber security, changes will be introduced to the regulatory and supervisory framework with respect to cyber security, pertaining to banks in line with international standards and best practices**. The proposed regulations will prompt banks to upgrade and strengthen their information systems and related technological platforms enabling the banks to cater to resulting information requirements. The Central Bank has also issued a Road Map to banks to improve technology risk resilience in the banking sector with a timeline for implementation from 2018 to 2020.

- **The banking sector is expected to increase access to banking with a view to enhancing financial inclusion and supporting economic activities throughout the country**. It is expected to enhance banking access through digital initiatives such as mobile/phone banking and internet banking with the increased usage of Information Technology as a service delivery channel and will require banks to take preventive measures to strengthen information security management of all systems related aspects.

- **Large commercial banks will be encouraged to look into avenues of regional expansion, which will lead to an increase in the geographical reach of the banking sector**. Hence, close interactions will be maintained with other regional regulators with a view to enhancing information sharing among regulators and cross-border supervision.

- **Considering the regulatory efforts to strengthen the capital and liquidity levels of banks and the expected improvements in risk management and corporate governance, the stability of the banking sector is expected to be maintained**. Going forward, the Central Bank will ensure that effective regulations will be in place to mitigate any risks arising from the digital era without stifling technological innovations.

- **Direction on ownership limits for LFCs**. One of the reasons for the failure of LFCs has been identified as poor corporate governance practices where the ownership and decision making is concentrated with main shareholder or few shareholders linked to the main shareholder. Central Bank expects to issue directions on the ownership limits for LFCs with the consultation of the industry giving a time horizon of 3 to 4 years for the implementation. Factors such as performance of the company, level of compliance, good corporate governance, implemented restructuring plans and the overall financial sector developments will be considered when developing the ownership limits.

- **The stability of the LFCs and SLCs sector is expected to be reinforced further in the medium-term horizon with changes to the existing regulatory framework**. The changes to the relevant directions to be introduced are proposed during the second half of 2018 particularly the existing liquidity and provisioning requirements with a view to strengthen the resilience of the sector further in line with the enhanced capital requirements. A new Direction on borrowing requirements will be issued which will impose limits on domestic and foreign borrowings.

- **Establishment of a proper resolution framework**. A positive outcome will be expected through the initiatives proposed on the resolution of some distressed LFCs. Initiatives are currently being taken to resolve the remaining distressed LFCs, as per the provisions of the Finance Business Act, No.42 of 2011(FBA). Licences of two distressed LFCs were cancelled and is in the process of settling the existing depositors through the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS). Amendments are proposed to the FBA to facilitate expeditious resolution action in respect of distressed finance companies by the Resolution and Enforcement Department (RED) of the Central Bank of Sri Lanka. With the proposed amendment, the Monetary Board will be empowered to assign certain identified powers to the Director of RED on case by case basis relating to an LFC in a distress or insolvency situation. The RED has initiated processes and developed operational procedures on both resolution and enforcement functions. Arrangements have already been initiated through the regulator and the Legal and Compliance Department to take legal actions against Directors who have allegedly involved themselves in frauds and misconducts of several finance companies. Further, several investigations were conducted on unauthorised finance businesses and prohibited schemes under the relevant provisions of the FBA and the Banking Act. RED will continue to conduct programme to highlight the dangers of conducting and investing in unauthorised finance business and prohibited schemes.

- **As envisaged in the Medium-Term Macro Fiscal Framework, the Medium-term Debt Management Strategy (MTDS) is formulated to raise funds required to meet the cash flow needs of the government in an appropriate composition, to ensure that the government's financing needs are met at the lowest possible**

cost at a prudent level of risk. Further, the Government considers mitigation measures pertaining to exogenous shocks in articulating and implementing the MTDS. Reflecting long-term fiscal sustainable policies, the debt to GDP ratio decreased to 77.6 per cent at end 2017, compared to 78.8 per cent recorded at end 2016. The expected generation of primary surpluses along with improved macroeconomic conditions would enable the government to dampen debt accumulation, thereby, enabling them to reduce the debt to GDP and budget deficit to GDP ratios over the medium-term. Further, the implementation of Active Liability Management Act (ALMA) would enable the government to proactively address part of the refinancing requirements ahead of time and extend the maturity duration for both domestic and foreign debt in the medium-term. In general, this exercise will help government to diversify the investor base, borrow at competitive rates based on prevailing market rates, extend the duration of the debt portfolio, reduce refinancing risk in the near term and create a favourable price tension for any new issuances.

- **The Government has shown steady progress in implementing revenue based fiscal consolidation process coupled with policy reforms to create more space to manoeuvre its fiscal operations to achieve the targets of MTDS**. Strategies will be implemented to lengthen the average time to maturity of the domestic debt portfolio and to reduce the share of short-term domestic debt to total domestic debt and short-term foreign currency debt to total debt, while further reducing debt servicing costs. Debt service payments in the medium-term also have been strategically structured to create required spaces based on resource availability, bunching of maturity cycle and the trajectory of fiscal consolidation. Similarly, issuance of long-term Treasury bonds at low yields will smoothen the debt service payments and increase the average time to maturity in the medium-term. Further, continuous dialogue with international rating agencies will be held to strengthen international sovereign rating for the GOSL.

- **Government, as part of MTDS, is also exploring the feasibility of alternative market financing for future debt servicing through issuance of non-euro-dollar bonds**. Opportunities in alternative markets are in the process of consideration with the possibility of leveraging strong government to government relations. These include accessing SAMURAI bonds, PANDA bonds and possible syndicated loans with possible upsizing opportunities across non-conventional markets with priorities attached to achieve both cost and risk objectives.

- **The strict adherence of Government's revenue based fiscal consolidation process and effective implementation of ALMA are key factors to achieve and maintain envisaged country sovereign ratings**. Also, gradual normalisation of interest rates in the US and other major Organisation for Economic Co-operation and Development (OECD) countries require funding sources diversified in a timely manner as it can increase the cost of commercial borrowings in the future coupled with the decrease of concessional and project related external loan disbursements while acceleration in existing concessional and project loan related debt service payments due to Sri Lanka's graduation to upper middle income earning country.

- **The recommendations of the FinTech committee appointed by NPC will be implemented in 2019**. The Central Bank will facilitate the implementation and popularisation of the National QR Code standard, which was issued in October 2018, for local currency payments to promote customer convenience, security and ensure interoperability of different payment mechanisms and instruments. Further, the implementation of a National Transit Card and Infrastructure Framework for Ticketing and Fare Collection in the transport sector will be facilitated. This initiative will standardise the transportation industry payment mechanisms and contribute to the national objective of a less-cash society. Furthermore, the process to establish a FinTech Regulatory Sandbox in order to identify regulatory shortfalls and to provide FinTechs with the necessary guidance to develop their products in safe and secure environments, will be initiated.

- **As per a recommendation of the committee appointed to study the Blockchain technology, a working committee was appointed to further study the adoption of Blockchain technology in the financial sector**. The working committee will study the feasibility of using Blockchain technology in financial sector applications and submit its report in 2019.

- The Central Bank will monitor financial acquirers of payment cards joining CPS in order to facilitate switching and routing of transactions carried out using payment cards issued under the NCS.