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Macro-prudential Policy Framework to Improve Financial System Stability

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The global financial crisis has demonstrated the importance of a strong macro-prudential policy framework for reducing financial system systemic risk and ensuring a resilient financial system.

The traditional monetary policy objective was to achieve price stability that contributes to achieving the economic objectives of growth and employment. The assessment of the resilience of the financial system to domestic and external shocks, to ensure financial system stability, financial supervision which focussed on assessing the safety and soundness of individual financial institutions was undertaken. However, after the global financial crisis, it was evident that financial system stability cannot be achieved purely through micro-prudential policy framework due to systemic risk. Systemic risk refers to the risk of failure of the entire financial system leading to destabilize the real economy over time mainly due to spill-over effects that arise from direct and indirect linkages between institutions. Accordingly, the interconnectedness of financial institutions may transmit various shocks such as high losses in the banking sector due to excessive credit growth, across the entire financial system, thus impairing financial system stability. Instability in the financial system could destabilise the real economy over time. Hence, the implementation of a macro-prudential policy framework, with a view to identifying potential systemic risks in the financial system and reducing the vulnerability of the financial system to domestic and external shocks, is important. In macro-prudential perspective of supervision, it examines the overall functioning and stability of the system including all clearing systems, the Payments and Settlement System as well as exchanges and depositories for securities etc. This would help to reduce failures of financial institutions and improve the resilience of the entire financial system against shocks.

Table 1: Comparison between macro-prudential and micro-prudential perspectives

	Macro-prudential	Micro-prudential
Ultimate Objective	limit financial system-wide distress	limit distress of individual institutions
Model of risk	Endogenous	Exogenous
Correlations and common exposures across institutions	Important	Irrelevant
Calibration of prudential controls	in terms of system-wide distress; top-down	in terms of risks of individual institutions; bottom-up

Source: based on Borio (2003)

The following table compares macro-prudential policy and traditional micro-prudential policy in terms of objectives and model of risk.

The objective of a macro-prudential approach is to limit the risk of financial distress with significant losses in terms of the real output for the entire economy. In contrast, the micro-prudential approach is to limit the risk of financial distress at individual institutions, regardless of their impact on the overall economy (Borio 2003).

Macro-prudential policy framework

In implementing a macro-prudential policy framework for supervision, macro-prudential tools can be used to identify the systemic risks in the financial system at an early stage with a view to preventing the accumulation of financial systemic risks that could underpin the stability of the entire financial system. According to the BIS Paper No. 60 issued in Dec. 2011 on "Macro-prudential policies beyond Basel III" the macro-prudential policy framework should consist of an early warning system to signal any increased vulnerabilities to financial system stability and related policy tools to identify such increased vulnerabilities in the financial system at an initial stage.

Macro-prudential Tools

A variety of policy instruments have been identified as macro-prudential tools to identify the systemic risks in the financial system at an early stage. The macro-prudential tools that are used commonly are explained below.

(i) The Basel III Capital Conservation Buffer and Countercyclical Capital Buffer

The financial crisis has proved that downturn in the financial system would destabilise the banking sector as well as the real economy. Hence, it was observed the importance of building up capital buffers as a cushion to absorb losses and increase the resilience of the financial system to shocks. As capital is more expensive than other form of funding, additional buffers can be raised through profits earned from riskier lending. Such buffers can be utilized to protect from future potential losses due to system-wide risks arising from excessive credit growth, rather than credit contraction.

According to Basel III document issued by the Basel Committee, it is expected to introduce the following macro-prudential tools to capital framework to address systemic risks derived from procyclicality and interconnectedness of financial entities:

Capital Conservation Buffer:

The purpose of the conservation buffer being "to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress (The Basel III Accord). Such buffers above the minimum can be used to withstand during the future periods of stress.

Countercyclical Capital Buffer (CCB):

The purpose of the counter cyclical buffer is considered to be the achievement of "the broader macro prudential goal of protecting the banking sector from periods of excess aggregate credit growth." Further, the

The following Diagrams depict the proposed Capital Conservation Buffer and Countercyclical Capital Buffer proposed in Basel III.

Capital conservation buffer in Basel III

Capital conservation range is established above the minimum requirement	
Amount by which a bank's capital exceeds the minimum requirement in terms of a percentage of the size of the conservation range	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
[< 25%]	[100%]
[25% - 50%]	[80%]
[50% - 75%]	[60%]
[75% - 100%]	[40%]
[> 100%]	[0%]

Minimum CAR (% RWA):

Common equity: 4.5%
Tier1: 6%
Total: 8%

Conservation buffer (common equity type of capital): 2.5%

Total with conservation buffer: 10.5%

Bank must conserve 100% of current earnings: it can pay dividends only if it raises capital by an equal amount

Bank is asked to conserve 40% of current earnings

(Source: Bank of England)

Capital conservation buffer in Basel III

- ...transposed to levels of common equity Tier 1 ratio

Individual bank minimum capital conservation standards	
Common Equity Tier 1 Ratio	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
4.5% - 5.125%	100%
>5.125% - 5.75%	80%
>5.75% - 6.375%	60%
>6.375% - 7.0%	40%
> 7.0%	0%

(Source: Bank of England)

Countercyclical capital buffer in Basel III

- Example of restrictions on dividend payout if the CCB is set at 2.5%:

Individual bank minimum capital conservation standards, when a bank is subject to a 2.5% countercyclical requirement	
Common Equity Tier 1 Ratio (including other fully loss absorbing capital)	Minimum Capital Conservation Ratios (expressed as a percentage of earnings)
4.5% - 5.75%	100%
>5.75% - 7.0%	80%
>7.0% - 8.25%	60%
>8.25% - 9.5%	40%
> 9.5%	0%

(Source: Bank of England)

counter cyclical buffer is aimed at compelling banks to commence with build ups of such extra buffers - as soon as supervisors are aware of excessive credit in the system which subsequently pose a threat (in triggering loan losses). Banks are expected to "tap the buffer to offset such losses" without the immediate need to raise new capital (The Basel III Accord). The CCB should sit on top of the capital conservation buffer during boom periods, effectively stretching its size ("the minimum").

(ii) Caps on loan-to-value (LTV) and debt service-to-income (DSTI) ratio

These two soundness indicators mainly aim to address threats to financial stability arising from excessive credit expansion.

(a) Caps on loan-to-value (LTV)

LTV is the ratio of a possible loan amount against the value of the property as collateral. Hence, caps on LTV would reduce the risk of default and enhance resilience of the financial sector. Also, it acts as a restriction for credit expansion in an economic boom. The assessment is based on two criteria:

- LGD (loss given default) : High LTV = low recovery rate on a defaulted loan
- PD (probability of default) : High LTV at origination an important determinant of loan default

(b) Caps on debt-service-to-income (DSTI)

DSTI is the ratio of debt servicing cost relative to income. This will reduce the vulnerability to credit risk due to change in property prices as borrowers will have an affordability buffer that is more sensitive to income earned and level of unemployment.

(iii) Surcharges on Systemically Important Financial Institutions (SIFIs)

A systemically important financial institution (SIFI) is one whose distress or failure could crystallize systemic risks. It is required to measure the contribution of individual institutions to overall risk, with a view to designing interventions to mitigate overall systemic risk as SIFIs pose substantial systemic risks. i.e. Failure of SIFI could disturb the financial system stability. Also it is possible to identify cross-border negative externalities on the global financial system and economy arising from SIFIs.

G-SIBs: Identification methodology

Main changes between BCBS (2011) and BCBS (2013)

Indicator-based measurement approach

Table 1

Category (and weighting)	Individual indicator	Indicator weighting
Cross-jurisdictional activity (20%)	Cross-jurisdictional claims	10%
	Cross-jurisdictional liabilities	10%
Size (20%)	Total exposures as defined for use in the Basel III leverage ratio	20%
Interconnectedness (20%)	Intra-financial system assets	6.67%
	Intra-financial system liabilities	6.67%
	Securities outstanding	6.67%
Substitutability/financial institution infrastructure (20%)	Assets under custody	6.67%
A cap of 500 bps	Payments activity	6.67%
	Underwritten transactions in debt and equity markets	6.67%
Complexity (20%)	Notional amount of over-the-counter (OTC) derivatives	6.67%
	Level 3 assets	6.67%
	Trading and available-for-sale securities	6.67%

Replaced the Wholesale Funding Ratio

Excludes High Quality Liquid Assets for LCR (Loan Coverage Ratio)

Source: BCBS (2013a)

(Source: Bank of England)

Identification of SIFIs is based on cross-jurisdictional activity, size, interconnectedness, substitutability/ financial institution infrastructure and complexity, and identification methodology of SIFIs is depicted in the following Table.

to improve firm's resilience due to maintenance of adequate capital to absorb losses

It is expected to introduce three types of leverage requirements:

SIFIs are required to maintain higher loss absorbency capacity beyond the standards approved as depicted in the following Table.

Bucketing approach — Table 2

Bucket	Score range*	Higher loss absorbency requirement (common equity as a percentage of risk-weighted assets)
5	D–E	3.5%
4	C–D	2.5%
3	B–C	2.0%
2	A–B	1.5%
1	Cutoff point–A	1.0%

* All score ranges are equal in size. Scores equal to one of the boundaries are assigned to the higher bucket.

(Source: Bank of England)

Total Regulatory Capital for SIFIs is therefore considered to be:

[Tier One Capital Ratio] + [Capital Conservation Buffer] + [Counter Cyclical Capital Buffer] + [capital for systemically important banks]

(iv) The Leverage Ratio

Assets can be funded by capital or debt. The leverage ratio plays an important role to ensure the resilience of the banking system as it shows the reliance on debt or capital to finance the assets. It is an indicator of a firm's solvency. It is the ratio of capital relative to its exposures.

Leverage Ratio = Tier 1 capital / Basel III exposure measure

According to the Basel III, leverage ratio measures exposures to on and off balance sheet items as it was observed an excessive increase in on and off balance sheet exposures during the financial crisis. Hence, banking sector required to reduce leverage by reducing exposures. It had an adverse impact on asset prices and real economy lending. Hence, a leverage ratio intends to reduce risks of excessive balance sheet growth and

1. **A minimum leverage ratio requirement** for all regulated banks, to remove or reduce systemic risks attributable to unsustainable leverage in the financial system.
2. **A supplementary leverage ratio buffer** for Systematically Important Financial Institutions, to remove or reduce systemic risks attributable to the distribution of risk within the financial sector.
3. **A countercyclical leverage ratio buffer** for all firms, to remove or reduce systemic risks attributable to credit booms - periods of unsustainable credit growth in the economy.

(v) Liquidity Policy

Financial intermediation involves using short-term funding sources to lend in long term basis (maturity transformation), exposing to high liquidity risk. With a view to reduce the risk of run on banking system, Basel III introduced first ever international standard on liquidity risk management. Accordingly, in order to restrict behaviour of banks, two liquidity risk measures, namely, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are introduced with upper limits. The **Liquidity coverage ratio (LCR)** is designed to ensure that financial institutions have the highly liquid assets on hand to meet short-term obligations.

LCR defined as:

$$\frac{\text{Stock of high-quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

LCR intended to ensure banks hold a sizeable buffer of liquid assets, have strong incentives to prudently structure their liabilities to manage liquidity risk and can survive a significant liquidity stress without reliance on other financial institutions or central banks.

Basel Committee opted for a conservative approach – allowing LCR to be phased in – starting from minimum of 60% in 2015 to 100% in 2019.

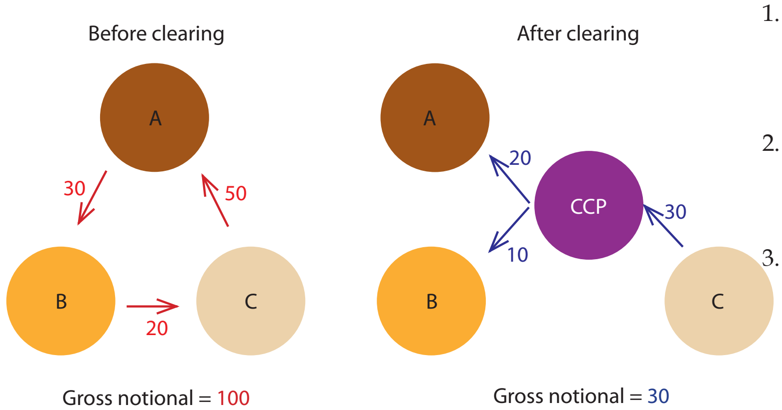
The **net stable funding ratio (NSFR)** measures the amount of longer-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations. The standard requires a minimum amount of funding that is expected to be stable over a one year time horizon based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures.

$$\frac{\text{Available Stable Funding}}{\text{Required Stable Funding}} > 100\%$$

NSFR intended to promote a sustainable funding structure for banks. The standard requires minimum levels of stable liabilities relative to the liquidity of a bank's assets.

(vi) Network Risks

A safe and sound payment and settlement system, securities exchanges and trading infrastructure and central counterparties plays a vital role to foster financial stability. Considering the complexity and interconnectedness of financial markets, it was observed that measures to enhance robustness of financial market infrastructure requires to address the cross sectional dimension of systemic risk. Hence, Central Counterparty plays a critical role in mitigating settlement risks and facilitating efficient use of liquidity due to reduced exposures through multilateral netting. This process can be depicted in the following diagram.



(Source: Bank of England)

Further, in a highly interconnected and complex system, banks pose a high risk to system resilience due to possibility of contagious defaults. Hence, it is requires to develop a system-wide risk management approach to identify banks' systemic capital requirements rather than individual bank's capital requirement.

Implementation of effective macro-prudential policy would facilitate to undermine the systemic financial risks. It was observed various challenges in implementation of macro-prudential policy and its operational mechanism. However, implementation of a more effective macro-economic policy framework and comprehensive regulatory and surveillance framework would facilitate to identify potential risks and vulnerabilities in all sectors of the economy and improve loss absorbency capacity of the banking sector due to adequate level of liquidity and capital maintained to withstand any potential shocks, resulting to improve the resilience of the banking sector against shocks and thereby enhance the financial system stability within the country.

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TRANSFORMING TO A SOCIALLY RESPONSIBLE WORKPLACE

Conveying the Differently Abled to the Crease*

> *'There was a time when many companies wouldn't give a thought to hiring somebody who was disabled.*
>
> *Not anymore! No Disabled!*
>
> *They are Differently Abled...!!!!*
>
> *Several organizations around the world now are hiring persons with disabilities to their workforce.'*

T D N Chathurangi
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Corporate Social Responsibility has been defined by the World Business Council for Sustainable Development as "the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

Social responsibility can simply be defined as the ethical responsibility of a company to commit for the wellbeing of the society. It is more than protecting the environment by going green, and there are two sides for it, namely internal and external. In general, internal social responsibility deals with equitable treatment for employees as well as shareholders. External social responsibility involves fair treatment of other vital stakeholders such as suppliers, customers, and the community at large.

Most of the companies in Sri Lanka practice various schemes to be branded as a socially responsible workplace. For example:

- Organizing charitable programs
- Optimizing energy usage
- Reducing paper usage and Recycling
- Promoting eco-friendly commuting
- Encourage diversity of the workforce

The modern workplaces reveal the importance of the demographics of its workforce. Diversity brings a range of exceptional opinions and skill sets into the workplace that can lead to the development of the company. So, it is better to take a sensible effort to encourage the diversity by including true talent from various paths of life and cultural backgrounds.

When companies try to foster the diversity in their workforce, they must not forget that people with disabilities amount to at least 10% of the population.

Therefore, employing persons with disabilities can be identified as a part of Social Responsibility. On the other hand, a fair recruitment practice concerning the persons with disabilities can make a difference for a company in an increasingly competitive environment, improving its reputation and image.

Protection of The Rights of Persons with Disabilities Act (No. 28 of 1996) as amended by Act No. 33 of 2003,

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defines a person with disability as "a person who, as a result of any deficiency in his physical or mental capabilities, whether congenital or not, is unable by himself to ensure for himself, wholly or partly, the necessities of life".

The National Policy on Disability Sri Lanka (2003) states that "the classification of types of disability used by the Ministry of Social Services and Social Welfare for program development encompasses, people who have visual, speech, hearing, mobility, intellectual, and psychiatric disability and disability arising as a result of epilepsy and other causes. It also encompasses multiple disabilities, which is a combination of two or more of these various disabilities in a single individual".

According to the Oxford Dictionary, the word 'Differently Abled' was first proposed (in the 1980s) as an alternative to disabled, handicapped etc. on the grounds that it gave a more positive message and so avoided discrimination towards people with disabilities. The term has gained little currency, however, and has been criticized as both over-euphemistic and condescending.

This shift from handicapped or disabled to Differently Able attempts to see more clearly, the abilities and full strength of such individuals. Certainly, those with disabilities are not incapable. There are many ways people can adjust for a reduction in abilities, and those with these reductions may have special strengths that exceed that of the normal people. Special Olympians, bipolar disordered individuals with exceptional creativity, and people with Down's syndrome who have engaging personalities and elevated mood are all examples of this.

The lives of these persons with disabilities are challenging at every step. Possibly little was written about these challenges, for the same reason normal people tend not to look at another person's disabilities and understand their mentality.

Persons with disabilities are entitled to the realization of all human rights and fundamental freedoms on equal terms with others in society, without discrimination of any kind.

According to the Universal Declaration of Human Rights, the human rights of persons with disabilities include the following indivisible, interdependent and interrelated human rights:

- The human right to freedom from any distinction, exclusion, restriction or preference based on the status of persons with disabilities, which has the purpose or effect of impairing the enjoyment of human rights and fundamental freedoms.
- The human right to freedom from discrimination in access to housing, education, social services, health care or employment.
- The human right to active participation in all aspects of social, economic, political and cultural life of society, and in shaping decisions and policies affecting him - or herself and community, at the local, national and international levels.
- The human right to equality of opportunity.
- The human right to full equality before the law and equal protection of the law.
- The human right to the highest attainable standard of health, to medical, psychological and functional treatment, including prosthetic and orthotic appliances, to medical and social rehabilitation, and other services necessary for the maximum development of capabilities, skills and self-reliance.
- The human right to work, according to capabilities, to receive wages that contribute to an adequate standard of living, and to receive equal remuneration for equal work.
- The human right to economic and social security, and to an adequate standard of living.
- The human right to be treated with dignity and respect.

To comfort many of their problems by giving a chance to mingling with the others and participate in social and economic activities can be done by employing them in suitable positions. For that instance, it is essential to convert Individuals with Disabilities to Qualified Individuals with Disabilities through the education system.

According to the U.S Department of Labor Employment Standards Administration,

- **Individuals with disabilities** refers to any person who has a physical or mental impairment that substantially limits one or more of the major life activities of such individual, has a record of such impairment, or is regarded as having such an impairment.
- **Qualified Individuals with disabilities** are the individuals who, with or without reasonable accommodation, are capable of performing the essential functions of the employment position.

In the past, employers were afraid to hire persons with physical and intellectual disabilities, thinking that they will not be accommodating the organizational success. But, in recent times society and the law have manipulated that the persons with disabilities should be put up and revived to operate to their maximum potential and encourage them to have the right to participate in societal and governmental activity without barriers.

To lead and encourage this trend, Sri Lankan government has recruited physically or mentally challenged personnel to the government service for various positions. For example as graduate persons with disabilities as Development Officers, and Department of Social Services has recruited qualified persons with disabilities as teachers.

Central Bank of Sri Lanka, Bank of Ceylon, Sampath Bank, HSBC, C.E.I Plastics, MAS Holdings, Singer Sri Lanka, Fentons Ltd, Sight Savers International, Jinasena Training and Rehabilitation Trust are some other Sri Lankan institutions who have given opportunities for the physically or mentally challenged personnel in their workforce.

It is important to inspire the society to provide opportunities to persons with disabilities, because:

- Enable them to participate in the mainstream of Sri Lankan economic activities.
- Persons previously unemployed can become taxpayers rather than welfare recipients.
- They can help to offset the nation's shrinking labor pool of qualified workers.
- Enables them to develop a feeling of contribution and self-respect.

  New career opportunities have been opened up for persons with physical challenges with many recent high-tech developments. For example, individuals with hearing impairments can use the Telecommunication Device for the Deaf (TDD), which allows a person with a hearing impairment to communicate over the telephone with someone who has the same device at the other end. And also computers with voice synthesizers that convert text into speech and actually 'read' text aloud to workers with vision impairments.

Now disability is becoming more and more regulated. A responsible company must comply with legislation and make the regulated principles its own. A number of disability aspects are specifically regulated and more regulations are yet to come.

These are some key legislative instruments relevant to persons with disabilities:

- **1988 Public Administration Circular** – 3% of vacancies in public services and public companies should be filled by people with disabilities "possessing requisite qualifications and whose disabilities would not be a hindrance to the performance of duties".
- **1992 Trust Fund Act for the Rehabilitation of the Visually Handicapped -** provides for education and training opportunities; financial assistance; housing provision and welfare schemes.
- **1996 Right of persons with Disabilities Act No. 28** - established the National Council and the National Secretariat for Persons with Disabilities.
- **1996 Social Security Board Act 17 -** provides for a pension and insurance for people with disabilities in the case of accidents or old age.
- **1996 National Health Policy -** provides for the improvement of the quality of life by running health programs on disability and health measures to prevent disability.
- **1997 General Educational Reforms -** introduced the inclusion of children who have disabilities in the ordinary classroom (an approach which started in the early 1970s).

- **1999 Ranaviru Seva Act -** provides for the care and rehabilitation of members of the armed forces and police force who have become disabled in the line of duty.
- **2003 National Disability Policy -** provides the most comprehensive and progressive and holistic framework in Sri Lanka to date, for equality and opportunity for people with disabilities. (http://siteresources.worldbank.org)

In 1995, the Disability Discrimination Act was passed and came into force in December 1996. This act relates to employees or customers who are disabled. This protection provided by the 1995 Act applies only to those individuals who fall within the definition provided within the Act's words. The criteria include:

- An individual having a physical or mental impairment.
- This disability means that the individual is unable to carry out normal regular day-to-day activities.
- This disability must be long terms.
- Examples of factors affecting an individual's ability to carry out regular day-to-day activities include,
    - ✓ Mobility
    - ✓ Speech, hearing or sight
    - ✓ Physical coordination
    - ✓ Manual dexterity

According to the 1995 Act, discrimination probably occurs in two main ways:

- A disabled person receiving less favorable treatment. This means an organization treat an employee who is disabled in a less favorable manner than their colleagues who are not disabled.
- Where an organization fails to accommodate an employee with a disability by not making the necessary adjustments to the work place.

This Act has 3 main dimensions.

- For employers

  It is illegal for an organization to discriminate against actual disabled employees or potential disabled employees. There would be an obvious effect on recruitment and selection policies, and ongoing employment policies.
- For Service providers

  This means that any disabled customer should be able to expect the same level of service as everybody else.
- For premises

  Organizations are expected to modify their premises, where appropriate, so that any disabled customer and/or employee has exactly the same ease of access as everybody else.

In order to act lawfully on the subject of these persons with disabilities, employers have to focus on Human Resource Policies and Procedures of the organization.

In terms of an organization's recruitment process, employer can modify the recruitment process where necessary including what adjustments can be reasonably made to the job or the workplace to enable the disabled person to meet the requirements of the job. Employers have to recognize the roles which can be performed by persons with disabilities, since there are many such roles in an organization. Then they can identify the skill requirements and refer with the persons with disabilities' talent pool to recruit the right fit. If there is a gap in skill, it can be filled with training and development programs.

Employer has to emphasize the essential elements of a job in the job description and specification; so that any person with disabilities, who can meet these requirements, can be considered seriously.

The organization has to consider how they can accommodate its employees with disabilities after offering the job to the selected. Avoidance of harassments and discriminations should be ensured in the ongoing employment policies such as induction programs, compensation policies, promotion process, job transfer process, training and development programs, and performance evaluation process.

There can be some barriers for Persons with disabilities when performing in a work place. For example,

- Architectural, transportation and communication barriers
- Overprotective rules and policies.
- Difficulties in fulfilling some common performance measuring criteria in the organization. (eg. Employment Tests)

Employers can make some provisions for eliminate these barriers. Such as,

- Modify and adjust the working environment.
- Adapting employment tests and Performance evaluating methods concerning to the persons with disabilities.
- Ensure employees and dependents with disabilities have health insurance.
- Protects employees who are recovering from illnesses.
- Provide special assistance as medical examinations and treatment, guidance and counselling.
- Proper training and placement for persons with disabilities.

Most important thing in employing physically or mentally challenged personnel is to provide equal employment opportunities for them and prevent them being overlooked, since they are the people who require most of the assistant. It is also important that all other employees take an affirmative effort to understand and develop sensitivity towards them.

Attitudes and traditions of the society have to be changed for the 'persons with disabilities' to be accepted by society. Social acceptance is very important for them to interact with society with great confidence in tackling their day to day difficulties. The social responsibility lies on rest of us to take effort in eliminating the stereotypes related to persons challenged physically or mentally and to raise awareness on various problems faced by them. Information campaigns and awareness programs are important steps towards this end.

Effective support from government is required to enable policy and programme development, providing training and employment for persons with disabilities. Educational and Training institutions can strategically connect with government policymakers and work together to support the development of state action plans towards the development of persons who are physically or mentally challenged. Special committees towards enacting the above can be appointed to monitor progress in policy making, action plan development and implementation.

It is necessary to raise awareness within the higher education system and to provide necessary guidance and counselling to persons who are challenged and their families to make them equipped to face the requirements of the job market and it's coherent. This can be addressed by confidence building and training. It's also important to train according to the capabilities and employment potential.

The differently abled or "physically or mentally challenged" could be actively engaged in the path towards development. For that purpose, we have to eradicate discrimination and promote and protect all human rights and fundamental freedom for them and provide accessibility to the economic and social activities.

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'Treat people as if they were what they ought to be,

and you help them to become what they are capable of being'

-Johann Wolfgang von Goethe-

Economic significance of Sri Lanka as an ancient trading hub

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Introduction

The Chinese government has taken an initiative to establish modern trading activities and regional economic development through the development of a modern maritime silk route with some Asian countries including Sri Lanka as part of this venture. Therefore it is a timely initiative to take a look at the role Sri Lanka played during ancient times within the maritime silk route trading activities which made us an important player in the 21st century maritime silk route initiative.

Owing to the geographical position of Sri Lanka at the centre of the Indian Ocean, the country was a famous trading hub during ancient times. Sri Lanka's strategic positioning on the middle of the maritime Silk Route which stretched from China to the western world, and its rich natural resources made it a trading hotspot for merchants and tradesman from all across the world. Apart from its position on the maritime silk route, the country was also blessed with a natural port, Mantai, also known as Mahathittha which enabled tradesmen from every part of the world to successfully transport goods back and forth from the island.

This article discusses first about the importance of the maritime Silk Route in the economic development of ancient Sri Lanka and why it was a key player in the process of the country's economic development activities. Then it further discusses the importance of the port of Mantai in developing and sustaining the economic prosperity garnered through the Silk Route trading activities while touching upon the concept of a modern day maritime Silk Route initiative brought forth by China and the role of Sri Lanka in it. In addition to these factors, the article also discusses the significance of the country's economic activities in global terms during ancient times. In conclusion, the article reviews the economic importance of Sri Lanka as an ancient trading hub both internally and globally, through citing mentioned factors. The overall gist of the article is to elaborate on the significance held by Sri Lanka in global economic activities in ancient times.

The Maritime Silk Route

The maritime Silk Route between China and Europe was opened for maritime transportation during rule of the Tang Dynasty in China (618CE – 907CE)[1]. Ships which travelled on this route through Malacca to Europe found Sri Lanka's position on the middle of the route to be an ideal stopping point for trading and exchanging of goods. However, certain ships found it convenient to only travel as far as India while some ended their journey at Sri Lanka, preferring to anchor at local harbours while they waited for shipments of silk and other merchandise from further east. Therefore "Ships from the western sector of the Indian Ocean and those from the eastern sector were now meeting in Sri Lanka[2]." The merchants travelling in these ships were involved in the import and export activities of gems, pearls, ivory, spices and even animals such as elephants and Sri Lanka soon became famous for the goods that it exported, creating a high demand in the west.

In addition to the export of high quality, luxury goods, Sri Lanka had another advantage to lure traders with cargoes from the west owing to the fact that the country was rich in timber resources which were essential in building and maintenance of ships. Timber from Sri Lanka was used for various parts of ships such as to build the frame, plank, oars etc[3]. This advantage coupled with Sri Lanka's commercially viable export goods further encouraged ships travelling on the maritime Silk Route to stop at Lankan ports for trading activities. The main factor behind the discovery of Sri Lanka's luxury products and its timber-rich resources was the country's advantageous position on the maritime Silk Route which connected the east with the west. Findings by R.A.L.H. Gunawardana in his essay on "Seaways to Sielediba: Changing patterns of Navigation in the Indian Ocean and their Impact on Precolonial Sri Lanka" published in "Sri Lanka and the Silk Road of the Sea" suggest that the growth in trade and shipping activities of the country in ancient times can be attributed to the growth in the practice of cultivating coconut in large plantations with a view of exchanging the produce; the growth of the two, according to Gunawardana, are interconnected. As per Gunawardana's observations, it can be understood that Sri Lanka was able to discern products which had a higher demand overseas and therefore started producing these products (i.e. coconut) in mass quantities in order to gain the maximum benefits from trade. Even in ancient trade, Sri Lanka was competent in terms of economic development through export activities. It is now clear as to why Sri Lanka was deemed a force to be reckoned with in ancient trading activities, why the country was sought after and recommended as a place of sophisticated trading by many tradesman from the east and the west; in addition to its natural and geographical formations, Sri Lanka's rulers and decision-makers during the time knew how to produce according to the economic concept of "specialization".

The region of the Indian Ocean began undergoing massive developments in terms of commercial activities and lifestyle improvement of the people in the period between 5th – 8th AD owing largely to trading activities that were taking place within the region. However, it is important to mention that ease of access by sea into the country resulted in these massive developments and western writers had begun mentioning Sri Lanka and its sophisticated web of seaborne economic activities as early as the first-century A.D., much earlier before these developments began to occur. As trading activities intensified in the region, accounts of Sri Lankan trade began to be mentioned by a "number of Arabic and Persian geographers and travellers"[4].

Although written accounts began appearing in western documents around the first-century A.D., Sri Lanka was nonetheless renowned in both the east and west as early as the fourth-century B.C. as is evident from the accounts of soldiers sent by Alexander the Great to India, who upon their return to Europe, were among the first to speak about the island of Tabropane and the luxury goods it had to offer the world, such as spices, ivory, aromatics and tortoise shells[5].

W.I Siriweera (1994) mentions that the discovery of following the monsoons to navigate high seas in the first century A.D. opened up better opportunities for traders to navigate the seas. This discovery eased up the travel between India and the west, further expanding the trading activities between east and the west. According to Siriweera, the affluent Roman families with ties to its royal family and the political system sought luxury items for their use and consumption. This need was met by Sri Lanka, whose luxury goods such as spices, pearls and porcelain goods were shipped to them through Indian ports. This provides further evidence that Sri Lanka gained a powerful advantage in international trade as early as "the first few centuries of the Christian era"[6] through its natural resources as well as strategically advantageous location on the Indian Ocean.

In the essay titled "Durable Goods: The Archaeological evidence of Sri Lanka's role in the Indian Ocean Trade", Martha Pricket-Fernando mentions that "during the Protohistoric period, the only foreign objects clearly evident are the teeth and bones of horses, imported from North India or even further distances. The earliest imported ceramic type identified so far in Sri Lanka is the Plain Gray Ware from the basal Early Historic of the Anuradhapura Citadel, c 600 – 500 B.C"[7]. This further illustrates how heavily Sri Lanka had been involved in import and export activities with the rest of the world from ancient times.

As opposed to the Silk Route of the land which started from the old Chinese capital of Chang'an (Presently known as Xi'an City), the maritime Silk Route had a significant advantage wherein the volume of goods transported were larger as ships had the capacity to carry a significantly larger amount of goods compared to carts drawn by animals which were used on the land route. This factor enabled merchants travelling by sea to trade an increased amount of goods with each other and Sri Lanka being located centrally on this route created the opportunity for us to garner an immense amount of wealth and fame which significantly improved the country's economic wellbeing and living standards.

However, Sri Lanka underwent the highest level of development in terms of being a navigational commercial trading hub in the sixth century according to research done by R.A.L.H. Gunawardana, who states that "Kosmas" reflects upon the economic conditions in the sixth century, and mentions that the elevated economic conditions in this period "reflect the growth in importance that the island had achieved as a pivot in a vast network of trade routes in the Indian Ocean, a development that he attributed to its central location in the Indian Ocean"[8]. Further proof of these elevated economic conditions and increased economic and trading activities during the sixth century can be found in the discovery of a large number of Roman coins in areas such as Mahatittha, Mihintale etc out of which, most of these coins belonging to periods between third and sixth centuries.[9] Sixth century was the period in which the country and the region as a whole underwent a great expansion of wealth and development, strengthening and widening its contacts with the western world and generating a large income in the process. As such, one can only assume the amount of goods, especially exotic goods, which would have been shipped to the western world during the sixth century. In addition, Mantai was one of the key ports in the country during that period, and the discovery of a large amount of foreign (Roman) coins at the site during subsequent excavations serves as a measurement of the magnitude of the goods which must have been traded there. However, Siriweera (1994) also notes that Indian traders may have discouraged direct trade between Sri Lanka and Rome, and therefore these trades would have taken place through intermediaries at Indian ports. Indian traders may have attempted to discourage direct trade between Rome and Sri Lanka out of fear that Sri Lanka would begin to dominate seaborne trading activities with the west, especially Rome, and as a result, India would lose a large amount of revenue that it garners through intermediary trading activities. These factors also reflect the significance Sri Lanka must have held for the western world as an international trading hub.

The importance of Mantai for the Maritime Silk Route

As mentioned at the beginning of this article, the availability of the natural port of Mantai or Mahatittha enhanced the country's capacity to trade with the east and the west, as travellers who sailed in by ships on the silk route, be it merchants, voyagers or even religious missions, found this port to be an easily accessible anchoring point when crossing the Indian Ocean. According to findings by Lorna Dewaraja, the port was located on two international trade routes, one of which ran along the coast of Malabar and onto Arabia, Persia and Egypt, and the other which ran long the Coromandal coast to the Bay of Bengal and to Malacca, Sumatra, Java, Moluccas and China[10]. In addition to these favourable factors, Mantai was also the main port of the Anuradhapura Kingdom. The location of Mantai which connected two international trade routes contributed towards increased trading activities and economic development in the Anuradhapura Kingdom, a development which spread throughout the island as merchants within the island travelled to Mahatittha to buy and sell various wares.

Sri Lanka's geographical position in the Indian Ocean and its natural port of Mantai did make the country a place of high importance and value in the global economic trading activities of ancient times. However, it is also apparent that even if the country had not been blessed with the natural formation of a port which ran along two international trade routes, Sri Lanka would still have benefitted immensely from its location at the maritime silk route. On the other hand, it is also important to note that Mantai as a port served to elevate the importance of Sri Lanka's already growing recognition as an international trading hub for the east and the west.

In analyzing the importance of the port of Mantai (Mahatittha) to the country, W.J.M. Lokubandara asks the reader an interesting question in his essay "Sri Lanka's Role in the Maritime Silk Route" (Sri Lanka and the Silk Road of the Sea). Lokubandara asks the reader about the possibility of Mantai generating a high income for great kings of the country who were responsible for the establishment highly advanced irrigation systems of ancient Sri Lanka, the systems which in turn contributed toward the country becoming known as the "Granary of the East". Indeed as Lokubandara observes "the commercial expansion that started with Mahatittha as its major centre has a continuous history for more than eighteen centuries. It reached its zenith during the reign of the great King Parakramabahu"[11]. It was under the guidance of King Parakramabahu that the Parakrama Samudraya was built. Parakrama Samudraya was the main reservoir which provided water to harvest the country's agricultural systems which evidently would have impacted in generating much larger harvests than before and which would have been exported in large quantities, therefore generating a larger income for the country's development. This would certainly have aided in cementing the importance of Sri Lanka in the minds of foreign countries and traders as an international trading hub.

When looking at the development which took place at Mantai in this light, we can see that the economic impact garnered from the port had been twofold. On one hand, Mantai as a port itself was responsible for a vast number of trading activities between many countries from the east and the west. Since no country can survive by self-production alone, the exchange of various goods between these countries helped create the spread of wealth in addition to advancement of the lifestyle of its peoples. As a result of these activities, Sri Lankan merchants became prosperous and wealthy, and expanded their business activities further in order to meet the rising demand for "exotic" Sri Lankan goods such as spices, tortoise shells and pearls, to name a few. On the other hand, it can be suggested that this wealth creation and the taxes levied upon goods traded at the port of Mantai generated enough revenue to build the irrigation systems of the country, as is similar to the observations made by Lokubandara in his article. Owing to the large number of goods traded at Mantai, a resident government officer was appointed by the king, to oversee the activities of foreign traders at the port and this officer was responsible for collecting tax from the traders at Mantai. According to the stone inscription in Mannar, these officers were known as "Mahaputu Laddan" (High Seated Officers)[12]. The placement of a formal officer to oversee activities and collect taxes illustrate the important role Mantai or Mathota played in the economic system of Sri Lanka and the major developments the port itself underwent as a result.

In his essay titled "Pre-Colonial Sri Lanka's Maritime Commerce with Special Reference to its Ports" (Sri Lanka and the Silk Road of the Sea) W.I. Siriweera mentions that "the Rasavahini written in the Polonnaruwa period implies that traders collected various commodities from Mahatittha and sold them in the interior. The Saddharmalankara refers to a merchant of Mavatupatuna who went eastward for trade. However, by the fifteenth century Mahatittha appears no longer to be an important port". Siriweera goes on to explain that this diminishing of importance occurred as a result of the South-East Asian Sri Vijayan kingdom emerging as the main centre of trade after the seventh century A.D. (Siriweera, 1994).

A modern maritime Silk Route

China recently unveiled its plan of developing a twenty-first century maritime Silk Route across South Asian countries including Sri Lanka, India and Pakistan. The Chinese government believes that this initiative will further enhance trade and cultural relations between the South Asian region and China whilst creating the necessary favourable conditions for regional development. China hopes to develop this twenty-first century maritime Silk Route by establishing several ports in strategically advantageous locations and improving infrastructure in the countries within this maritime route. During the president's recent visit to China the maritime silk route was a key topic of discussion between Sri Lankan and Chinese delegates in attendance, especially at BOAO forum for Asia (BFA). "In fact, the BOAO forum which generally discusses matters with relevance to regional economic development, was sub themed on the concept of building a silk road"[13].

The initiative to recreate a maritime Silk Route for the 21st century illustrates the importance an oceanic trading route would hold for a particular country or even the many countries involved. It is evident that China has decided to rekindle ancient maritime trade activities with Sri Lanka being involved because of Sri Lanka's advantageous position in the Indian Ocean. This move would create numerous benefits for the entire Indian Ocean region by the expansion of ports-related infrastructure facilities, development of communicational facilities and innovative product creation relevant for the growth of an economy. These developments would cause the improvements in lifestyle and living among the people of the region. This means that the maritime Silk Route and its economic implications are relevant for Sri Lanka locally and globally even today, and was not only limited to ancient trading activities.

Conclusion

When discussing the economic significance of Sri Lanka as an ancient trading hub, it is imperative that one discusses about the importance of Sri Lanka's position on the maritime Silk Route and the port of Mantai because these two geographical factors of the country were the determining factors in Sri Lanka becoming renowned as a country of great importance in the trading activities of the ancient world between the east and the west. These economic activities between Sri Lanka and the outside world greatly impacted the country's development process in addition to improving the cultural and religious aspects of our people because we were able to gain the influence of a myriad of cultures and religions through merchants, explorers and religious missions that travelled through Sri Lanka, and this resulted in the country and the Indian Oceanic region as a whole becoming more culturally and religiously diversified. When this happens, a country begins to cater to the needs of various different cultures and creates the necessary products for these cultures in addition to catering to the needs of locals. When such goods are produced, outsiders travelling to the country hear about these new products and trade these items. This creates the expansion of business and wealth. Also, due to foreign relationships, the products created in ancient Sri Lanka bore heavy foreign influences in their quality and characteristics, which would certainly have appealed more to traders and merchants outside of Sri Lanka. All these factors eventually contributed towards Sri Lanka becoming a renowned place for foreign trade and economic activities. These economic developments reached its highest point during the sixth century.

The importance of a seaborne line of international economic activities is further highlighted upon by the initiation of a modern-day maritime Silk Route by China with a view of developing infrastructural facilities of the regions involved in the twenty-first century maritime Silk Route, among other objectives which cover a broad spectrum of regional and global economic development activities. Therefore, it is assumed that a maritime Silk Route extending from China to the western world would be a modern day mechanism for development, and that it certainly cannot be said to have been limited to ancient times alone.

End Notes

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KEY ECONOMIC INDICATORS

	2000	2009	2010	2011	2012	2013	2014 (a)
DEMOGRAPHY							
Mid-year population ('000 persons) (b)	19,102 (c)	20,476	20,675	20,869 (a)	20,328 (a)(d)	20,483 (a)(d)	20,675 (d)
Growth of mid-year population (per cent) (b)	1.4 (c)	1.1	1.0	1.0 (a)	0.9 (a)(d)	0.8 (a)(d)	0.9 (d)
Population density (persons per sq.km.) (b)	305	327	330	333 (a)	324 (a)(d)	327 (a)(d)	330 (d)
Labour force ('000 persons) (e)	6,827 (f)	8,074 (g)	8,108 (g)	8,555 (h)	8,454 (h)	8,802 (h)	8,805 (h)
Labour force participation rate (per cent)	50.3 (f)	48.7 (g)	48.1 (g)	47.8 (h)	52.6 (h)	53.8 (h)	53.3 (h)
Unemployment rate (per cent of labour force)	7.6 (f)	5.8 (g)	4.9 (g)	4.2 (h)	4.0 (h)	4.4 (h)	4.3 (h)
OUTPUT (i)							
GDP at current market prices (Rs. billion)	1,258	4,835	5,604	6,543	7,579	8,674 (j)	9,785
GNP at current market prices (Rs. billion)	1,233	4,779	5,534	6,471	7,424	8,448 (j)	9,545
GDP at current market prices (US$ billion)	16.6	42.1	49.6	59.2	59.4	67.2 (j)	74.9
GNP at current market prices (US$ billion)	16.3	41.6	48.9	58.5	58.2	65.4 (j)	73.1
Per capita GDP at market prices (Rs.)	65,838 (k)	236,144 (k)	271,057 (k)	313,542	372,814	423,484 (j)	473,261
Per capita GNP at market prices (Rs.)	64,569 (k)	233,419 (k)	267,682 (k)	310,090	365,194 (j)	412,447 (j)	461,650
Per capita GDP at market prices (US$)	869 (k)	2,054 (k)	2,397 (k)	2,836	2,922	3,280 (j)	3,625
Per capita GNP at market prices (US$)	852 (k)	2,031 (k)	2,368 (k)	2,805	2,862	3,195 (j)	3,536
REAL OUTPUT (percentage change) (i)							
GNP	5.8	4.8	7.9	8.4	5.3	6.6 (j)	7.5
GDP	6.0	3.5	8.0	8.2	6.3	7.2 (j)	7.4
Sectoral classification of GDP							
Agriculture	1.8	3.2	7.0	1.4	5.2	4.7 (j)	0.3
Industry	7.5	4.2	8.4	10.3	10.3	9.9 (j)	11.4
Services	7.0	3.3	8.0	8.6	4.6	6.4 (j)	6.5
AGGREGATE DEMAND AND SAVINGS (per cent of GDP) (i)							
Consumption	82.6	82.1	80.7	84.6	83.1	80.0 (j)	78.9
Private	72.1	64.4	65.2	69.8	69.6	66.9 (j)	65.4
Government	10.5	17.6	15.6	14.8	13.5	13.1 (j)	13.5
Investment	28.0	24.4	27.6	29.9	30.6	29.5 (j)	29.7
Private	24.8	17.9	21.4	23.7	23.7	22.7 (j)	22.9
Government	3.3	6.6	6.2	6.3	6.9	6.9 (j)	6.8
Net exports of goods & services	-10.6	-6.5	-8.3	-14.6	-13.7	-9.5 (j)	-8.5
Exports of goods & services	39.0	21.3	22.4	23.1	22.8	22.5 (j)	22.3
Imports of goods & services	49.6	27.8	30.7	37.6	36.5	32.0 (j)	30.9
Domestic savings	17.4	17.9	19.3	15.4	16.9	20.0 (j)	21.1
Net factor income from abroad (l)	4.0	5.8	6.1 (j)	6.7	7.0	5.8 (j)	5.9
National savings	21.5	23.7	25.4 (j)	22.1	24.0	25.8 (j)	27.0
PRICES AND WAGES (percentage change)							
Colombo Consumers' Price Index (2002 = 100) - annual average	6.2 (m)	3.4	5.9	-	-	-	-
Colombo Consumers' Price Index (2002 = 100) - year-on-year - end period	10.8 (m)	4.8	6.9	-	-	-	-
Colombo Consumers' Price Index (2006/07 = 100) - annual average (n)	-	3.5	6.2	6.7	7.6	6.9	3.3
Colombo Consumers' Price Index (2006/07 = 100) - year-on-year - end period (n)	-	5.0	6.8	4.9	9.2	4.7	2.1
Wholesale Price Index (1974 = 100) - annual average	1.7	-4.2	11.2	10.6	3.5	9.2	3.2
GNP deflator (i)	6.7	5.9	7.3	7.9	8.9	6.7 (j)	5.1
GDP deflator (i)	6.7	5.9	7.3	7.9	8.9	6.7 (j)	5.1
Nominal wage rate index for workers in all wages boards	2.3	4.9	32.0	4.6	22.2	5.7	3.7
Nominal wage rate index for central government employees	8.3	9.4	3.3	6.7	6.9	5.0	8.8
EXTERNAL TRADE							
Trade balance (US$ million)	-1,798	-3,122	-4,825	-9,710	-9,417	-7,609	-8,287
Exports (o)	5,522	7,085	8,626	10,559	9,774	10,394	11,130
Imports (o)	7,320	10,207	13,451	20,269	19,190	18,003	19,417
Terms of trade (percentage change)	-6.1 (p)	-2.7	27.4	-8.9	-1.5	4.6 (j)	4.3
Export unit value index (2010 = 100) (percentage change)	1.5 (p)	2.4	40.4	11.1	-7.3	-0.3 (j)	2.7
Import unit value index (2010 = 100) (percentage change)	8.1 (p)	5.2	10.2	22.0	-5.8	-4.7 (j)	-1.5
Export volume index (2010 = 100) (percentage change)	18.3 (p)	-14.7	-13.3	10.2	-0.2	6.7 (j)	4.3
Import volume index (2010 = 100) (percentage change)	12.9 (p)	-31.2	19.6	23.6	0.5	-1.5 (j)	9.5
EXTERNAL FINANCE (US$ million)							
Services and income account (net)	-266	-97	90	452	43	-572 (j)	41
Current private transfers (net)	974	2,927	3,608	4,583	5,339	5,619	6,199
Current official transfers (net)	24	77	52	60	53	21	28
Current account balance	-1,066	-214	-1,075	-4,615	-3,982	-2,541 (j)	-2,018
Overall balance	-522	2,725	921	-1,059	151	985	1,369

(a) Provisional
(b) As reported by the Registrar General's Department
(c) Revised based on Statistics on `Vital Events 2000-2010´ published by Registrar General's Department in January 2011
(d) Based on the preliminary data of the Census of Population and Housing 2012, covering the entire island
(e) Data up to 2011 for household population aged 10 and above while that of 2012 onwards for those aged 15 and above
(f) Data excluding both Northern and Eastern provinces
(g) Data excluding Northern Province
(h) Data covers the entire island
(i) From 2003, data is based on GDP estimates compiled by the Department of Census and Statistics.
(j) Revised
(k) Estimates updated with latest population figures
(l) Includes workers' remittances
(m) Based on CCPI (1952=100)
(n) The rebased CCPI (2006/07=100) has replaced CCPI (2002=100) from June 2011.
(o) Excludes re-exports and re-imports from 2007 onwards
(p) Based on trade indices (1997=100)

KEY ECONOMIC INDICATORS (Contd.)

	2000	2009	2010	2011	2012	2013	2014 (a)
Current account balance (per cent of GDP) (q)	-6.4	-0.5	-2.2	-7.8	-6.7	-3.8 (j)	-2.7
Total foreign assets (months of same year imports) (r)	3.5	8.3	7.7	4.7	5.4	5.7	6.1
Gross official reserves (months of same year imports)	1.7	6.3	6.4	4.0	4.4	5.0	5.1
Overall debt service ratio (s)							
As a percentage of export of goods and services	14.7	22.4	16.7	12.7	19.7	23.5 (j)	20.2
As a percentage of current receipts	12.2	16.1	11.9	9.0	13.5	16.4 (j)	14.1
Total external debt (per cent of GDP) (q)	61.0	49.7	50.1	55.3	62.5	59.4 (j)	57.4
EXCHANGE RATES							
Annual average							
Rs/US$	75.78	114.94	113.06	110.57	127.60	129.11	130.56
Rs/SDR (t)	99.90	177.22	172.50	174.54	195.38	196.19	198.35
NEER (2010 = 100) (24 - currency basket) (u)	-	99.85	100.00	99.84	90.44	91.39	91.99
REER (2010 = 100) (24 - currency basket) (u) (v)	-	97.36	100.00	101.84	95.80	100.61	101.94
Year end							
Rs/US$	80.06	114.38	110.95	113.90	127.16	130.75	131.05
Rs/SDR (t)	104.31	178.67	170.84	174.87	195.31	201.36	189.86
GOVERNMENT FINANCE (per cent of GDP) (i)							
Revenue and grants	17.2	15.0	14.9	15.0	14.1	13.3	12.3
Revenue	16.8	14.5	14.6	14.8	13.9	13.1	12.2
o/w Tax revenue	14.5	12.8	12.9	12.9	12.0	11.6	10.7
Grants	0.4	0.5	0.3	0.2	0.2	0.2	0.1
Expenditure and net lending	26.7	24.9	22.9	21.9	20.5	19.2	18.3
Recurrent expenditure	20.2	18.2	16.7	15.7	14.9	13.9	13.5
Capital expenditure and net lending	6.5	6.7	6.1	6.2	5.6	5.4	4.8
Current account deficit (-) / surplus (+)	-3.4	-3.7	-2.1	-0.9	-1.0	-0.8	-1.3
Primary deficit (-) / surplus (+)	-3.8	-3.5	-1.7	-1.4	-1.1	-0.8	-1.6
Overall deficit (-) / surplus (+)	-9.5	-9.9	-8.0	-6.9	-6.5	-5.9	-6.0
Deficit financing	9.5	9.9	8.0	6.9	6.5	5.9	6.0
Foreign	0.1	4.8	4.4	3.4	3.8	1.4	2.1
Domestic	9.4	5.1	3.6	3.5	2.7	4.5	3.9
Central government debt	96.9	86.2	81.9	78.5	79.2	78.3	75.5
Foreign	43.1	36.5	36.1	35.6	36.5	34.1	31.8
Domestic	53.8	49.7	45.8	42.9	42.7	44.2	43.7
MONETARY AGGREGATES (year-on-year percentage change)							
Reserve money	4.7	13.1	18.8	21.9	10.2	0.9	18.3
Narrow money (M_1)	9.1	21.4	20.9	7.7	2.6	7.7	26.3
Broad money (M_{2b}) (w)	12.9	18.6	15.8	19.1	17.6	16.7	13.4
Net foreign assets of the banking system	-31.9	417.2	-6.1	-74.0	-126.3	-195.5	119.8
Net domestic assets of the banking system	26.9	-2.8	22.1	39.7	23.4	18.3	10.5
Domestic credit from the banking system to							
Government (net)	56.8	9.9	-2.1	32.9	25.4	24.5	10.3
Public corporations	193.2	55.8	97.4	37.3	47.3	24.8	22.2
Private sector	11.8	-5.8	24.9	34.5	17.6	7.5	8.8
Money multiplier for M_{2b} (end year)	4.60	5.95	5.80	5.67	6.05	7.00	6.71
Velocity of M_{2b} (average for the year) (i)	2.80	2.90	2.92	2.86	2.75	2.71	2.70
INTEREST RATES (per cent per annum at year end)							
Repurchase rate (overnight) (x)	17.00	7.50	7.25	7.00	7.50	6.50	6.50
Reverse Repurchase rate (overnight) (x)	20.00	9.75	9.00	8.50	9.50	8.50	8.00
Treasury bill yields							
91-day	17.77	7.73	7.24	8.68	10.00	7.54	5.74
364-day	18.22	9.33	7.55	9.31	11.69	8.29	6.01
Deposit rates							
Commercial banks' average weighted deposit rate (AWDR)	9.89	8.01	6.23	7.24	10.10	9.37	6.20
Commercial banks' average weighted fixed deposit rate (AWFDR)	12.89	10.91	8.20	8.95	13.21	11.78	7.33
National Saving Bank's savings rate	8.40	5.00	5.00	5.00	5.00	5.00	5.00
National Saving Bank's 12-month fixed deposit rate	15.00	9.50	8.50	8.50	12.50	9.50	6.50
Lending rates							
Commercial banks' average weighted prime lending rate (AWPR)	21.46	10.91	9.29	10.77	14.40	10.13	6.26
Commercial banks' average weighted lending rate (AWLR)	19.30	17.41	14.80	13.44	15.98	15.18	11.91
CAPITAL MARKET							
All share price index (ASPI) (1985 = 100)	447.6	3,385.6	6,635.9	6,074.4	5,643.0	5,912.8	7,299.0
Milanka price index (MPI) (1998 Dec =1,000)	698.5	3,849.4	7,061.5	5,229.2	5,119.1	-	-
S&P SL 20 index (2004 Dec. = 1,000) (y)	-	-	-	-	3,085.3	3,263.9	4,089.1
Value of shares traded (Rs. million)	10,624	142,463	570,327	546,256	213,827	200,468	340,917
Net purchases by non nationals (Rs. million)	-3,365	-789	-26,335	-19,039	38,661	22,783	21,217
Market capitalisation (Rs. billion)	88.8	1,092.1	2,210.5	2,213.9	2,167.6	2,459.9	3,104.9

(q) Based on GDP estimates in US dollars

(r) Excludes foreign assets in the form of 'Direct investments abroad' and 'Trade credit and advances received'

(s) Overall debt service ratios were reclassified to capture debt servicing of government: short-term debt (i.e. foreign holdings of Treasury bonds) in accordance with the External Debt Statistics Manual (2003) of the International Monetary Fund (IMF).

(t) Special Drawing Rights (SDR), the unit of account of the IMF

(u) Exchange rates have been defined in terms of indices so that the appreciation/depreciation of the rupee relative to other currencies is directly reflected by a rise/fall in the values of the effective exchange rates indices.

(v) CCPI is used for the computation of the Real Effective Exchange Rate (REER). The REER is computed by adjusting the Nominal Effective Exchange Rate (NEER) for inflation differentials with the countries whose currencies are included in the basket.

(w) Includes assets/ liabilities of National Development Bank, which merged with NDB Bank Ltd. with effect from August 2005

(x) Repurchase rate and Reverse Repurchase rate were renamed as Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) respectively, with effect from 02 January 2014.

(y) With effect from 01 January 2013, the MPI was replaced by a newly introduced index, namely, S&P SL 20 index. This index was introduced on 27 June 2012 and its base period is December 2004 =1,000.

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