Central Bank of Sri Lanka

News Survey

Volume 35 Number 3 July-September 2015

IN THIS ISSUE

ISSN 1391 3589

Price per copy: Rs. 60.00

NOTICE TO THE PUBLIC

Protect your hard - earned money from unlawful investment schemes

- The public is advised to stay away from investments in prohibited schemes and persons taking deposits without approval.
- They solicit your funds in various methods and promise you very high returns or income in various forms.

What is an unauthorised deposit?

- Funds accepted without the approval.
- Institutions or persons accepting such deposits offer you very high interest and various benefits.
- A large number of such deposit takers, have collapsed in the past and depositors have lost their money.

What is a prohibited scheme ?

- A scheme participated by persons contributing or paying a certain amount of money where benefits to their participants are largely dependent on:
  - an increase in the number of participants in the scheme, or
  - an increase in the contributions made by the participants.
- Various structures or methods are used to attract and expand the number of participants. These easily mislead you and encourage you for high returns on your contribution.
- These schemes may collapse sooner or later and you will loose your money.

Accepting deposits without approval and participation & conduct of prohibited schemes are illegal.

Institutions Licensed by the Central Bank of Sri Lanka to take Deposits from the Public (as at 31.10.2015)

Licensed Commercial Banks

1. Amana Bank PLC
2. Axis Bank Ltd.
3. Bank of Ceylon
4. Cargills Bank Ltd.
5. Citibank, N.A.
6. Commercial Bank of Ceylon PLC
7. Deutsche Bank AG
8. DFCC Bank PLC
9. Habib Bank Ltd.
10. Hatton National Bank PLC
11. ICICI Bank Ltd.
12. Indian Bank
13. Indian Overseas Bank
14. MCB Bank Ltd.
15. National Development Bank PLC
16. Nations Trust Bank PLC
17. Pan Asia Banking Corporation PLC
18. People's Bank
19. Public Bank Berhad
20. Sampath Bank PLC
21. Seylan Bank PLC
22. Standard Chartered Bank
23. State Bank of India
24. The Hongkong & Shanghai Banking Corporation Ltd.
25. Union Bank of Colombo PLC

Licensed Specialised Banks

1. Housing Development Finance Corporation Bank of Sri Lanka
2. Lankaputhra Development Bank Ltd.
3. National Savings Bank
4. Pradeshiya Sanwardhana Bank
5. Sanasa Development Bank PLC
6. Sri Lanka Savings Bank Ltd.
7. State Mortgage and Investment Bank

Licensed Finance Companies

1. Abans Finance PLC
2. Alliance Finance Co. PLC
3. AMW Capital Leasing and Finance PLC
4. Arpico Finance Co. PLC
5. Asia Asset Finance PLC
6. Asian Finance Ltd.
7. Associated Motor Finance Co. PLC
8. Bimputh Finance PLC
9. BRAC Lanka Finance PLC
10. Capital Alliance Finance PLC
11. Central Finance Co. PLC
12. Central Investments and Finance PLC*
13. Chilaw Finance PLC
14. Citizens Development Business Finance PLC
15. City Finance Corporation Ltd.
16. Commercial Credit and Finance PLC
17. Commercial Leasing and Finance PLC
18. ETI Finance Ltd.
19. George Steuart Finance PLC
20. HNB Grameen Finance Ltd.
21. Ideal Finance Ltd.
22. Kanrich Finance Ltd.
23. LOLC Finance PLC
24. LB Finance PLC
25. Melsta Regal Finance Ltd.
26. Mercantile Investments and Finance PLC
27. Merchant Bank of Sri Lanka & Finance PLC
28. Multi Finance PLC
29. Nation Lanka Finance PLC
30. Orient Finance PLC
31. People's Leasing & Finance PLC
32. People's Merchant Finance PLC**
33. Richard Pieris Finance Ltd.
34. Sarvodaya Development Finance Ltd.
35. Senkadagala Finance PLC
36. Serendib Finance Ltd.
37. Singer Finance (Lanka) PLC
38. Sinhaputhra Finance PLC
39. Siyapatha Finance PLC
40. Softlogic Finance PLC
41. Swarnamahal Financial Services PLC
42. The Finance Co. PLC
43. The Standard Credit Finance Ltd.
44. TKS Finance Ltd.
45. Trade Finance & Investments PLC
46. UB Finance Co. Ltd
47. Vallibel Finance PLC

* Managed by the managing agent appointed by the Central Bank of Sri Lanka. In the mean time deposit mobilisation has been suspended.

**Managed by the managing agent appointed by the Central Bank of Sri Lanka.

Keep in Mind...

- The Central Bank regulates and supervise the above named institutions under the relevant laws to promote prudence in their business operations and thereby safeguard the deposits. However, the Central Bank does not have legal authority to guarantee deposits or assure that any such institution will never fail.
- The Central Bank has introduced a Deposit Insurance Scheme to repay deposits up to Rs.300,000 per depositor in the event of a failure of a bank or a finance company supervised by it.
- When depositing money in any of the above institutions, please exercise due care for the safety of your deposits.

For further inquiries

Bank Supervision Department
Tel : 0112 477659, 0112 477120, 0112 477129
Fax : 0112 477711
Email:dbsd@cbsl.lk

Non-Bank Supervision Department
Tel : 0112 477500, 0112 477504, 0112 398614
Fax : 0112 477738
Email: dsnbfi@cbsl.lk

Web: www.cbsl.gov.lk

Industrial Clusters: The Way Forward

N. Janagan
Assistant Director
(On release to the Ministry of Finance)

Introduction

An industrial cluster refers to a geographically proximate group of interconnected companies, specialised suppliers, service providers and associated institutions in a particular field that exists in a nation or region, which drives wealth creation in a nation or region, primarily through export of goods and services. Clusters typically include a group of companies in an industry or use the same technology and share infrastructure, suppliers and distribution networks. Firms that provide support services and raw materials come together with like-minded firms in related industries to develop research activities and efficient resource utilization to take advantage of market opportunities. Cluster development initiatives are an important new direction in economic policy, building on earlier efforts in macroeconomic stabilization, privatization and market opening and reducing the costs of doing business.

In general, industrial clusters can be classified into three broad categories, namely Geographical Clusters, Constructed Clusters and Emerging nation-wide Dispersed Industrial Clusters. Geographical clusters are formed based on their location-specific advantages. In Sri Lanka, Moratuwa wood industry cluster is an example of the geographical cluster. Industrial Estates and Industry Specific Export Processing Zones are examples of constructed industrial clusters. Emerging clusters constitute agglomerations of industrial enterprises located in different parts of the country. Electrical and Electronic (EE) industry cluster is an example of this category. Timely and prudent cluster formation will help the country to boost value added production and export earnings.

Economic Benefits of Industrial Cluster Developments

Currently, Sri Lanka is moving towards upper middle income status from lower middle income status. In order to achieve a GDP of US$ 150 billion and US$ 7000 per capita income by 2020, all three sectors (Agriculture, Industry and Services) in the economy need to play a critical role. In this regard, implementing industrial cluster strategies will offer significant opportunities to boost the country's industrial production as well as export earnings. With proper implementation of industrial clustering, infant industries can get the opportunity to work with the major players in the industry and develop themselves and increase the industrial output, which will enable the country to achieve economies of scale while mitigating inter-industry competitive fears. Further, working with clusters can provide most promising opportunities to encourage innovation, develop particular worker skills, and address issues that affect the efficiency and productivity. Strong domestic industrial clusters can also help to attract foreign direct investments (FDIs) to the country. Since early-1990s, most countries in the world have adopted industrial cluster policies for increasing business competence and developing strong regional economies. Silicon Valley and San Diego in the United States, Toyota Cluster in Japan, Baden-Wuerttemberg cluster in Germany, Hsinchu Science and Industrial Park in China, Cambridge Techno pole in the U.K. are some of the successful examples of large scale

clusters set up by advanced countries to enhance their industrial production and strengthen their national competitiveness.

Characteristics of Industrial Cluster Policies

Industrial cluster policies are a range of policies developed and carried out by the government for the purpose of nurturing a specific industry in a particular area or reinforcing the innovative capability of existing industries. Prudent and timely policies will boost industrial production and help the country to achieve sustainable economic growth. Further, industrial cluster polices should be designed to strengthen industrial competitiveness through enhanced interconnection between the industry and the research sectors by promoting research activities among the industries through providing incentives or lump sum reduction of taxes to industries engaged in research related activities. Cluster policies place more emphasis on vitalizing interconnected networks, networks created through the collaboration of large companies as well as Small and Medium-sized Enterprises (SME), joint researches by SMEs and universities or research institutes, and joint projects between SMEs. Finally, cluster policies should encourage the active participation of private sector, as well as central and local governments in their planning and implementation.

Industry Cluster Formation in Sri Lanka

In Sri Lanka, there are several industrial clusters formed under the guidance of USAID since 2001. Such clusters include rubber, ceramic, coir, spice, tea and information and technology. According to Ministry of Traditional Industries and Small Enterprise Development, there are 33 industrial clusters actively engaged in Sri Lanka. Under these clusters, there are 256 production villages established in various parts of the country to promote and support the potential industries. These clusters help to improve marketing opportunities of those production villages through forward and backward linkages with the help of large-scale local enterprises and foreign enterprises. With the establishment of these clusters, Sri Lanka has improved its production standards. Further, industrial clusters provide sub-contracting and buy-back arrangements to enhance sustainability of the production villages. However, electric/electronic sub-sector as well as automobile industry sub-sector were not selected for cluster development under USAID's "The Competitiveness Program" (TCP) project.

In order to avoid the middle income trap and become an upper middle income country, Sri Lanka has to focus on product diversification. Likewise, in light of free port facilities, manufacturing and trading of electrical and electronic products as well as automobile products will boost economic growth of the country. Under the guidance of Japan International Cooperation Agency (JICA), the University of Moratuwa and Ministry of Industry and Commerce have taken an initiative to develop an Electrical and Electronic (EE) Industry Cluster in Sri Lanka. In order to initiate the clustering process the most significant and appropriate sector has to be identified from EE industries such as Renewable and New Energy, Power Electronics, Automation, etc. to commence the EE industrial clustering process. Then a cluster can be formed for companies dealing in a similar category of products because these companies have common suppliers of parts and devices. Based on market surveys, new products with a high value addition could be identified for the developing of new parts and new devices, or to upgrade currently used parts and devices to meet market requirements. After the cluster has achieved a certain level of performance, the cluster could be reformed into a new company group, but the basic cluster framework must remain unchanged.

Measures Taken to Promote Techno Base Industrial Clusters

- **Formation of UIG Partnership Model**

  Under University - Industry - Government (UIG) tripartite collaborative partnership, University of Moratuwa will play a more direct role in the capitalization of knowledge by undertaking demand driven research and development work while industry provides the business, innovative and institutional environment which are vital for the success of the cluster. Government on the other hand

needs to provide direct access to finance through various policy frameworks and strategic action plans as well as providing entrepreneurial support through technology centres and incubator facilities.

- **Industry-University Collaboration for R&D Projects**

  Research and Development (R&D) plays a critical role in the innovation process in the industry sector. It is essentially an investment in technology and future capabilities which is transformed into new products, processes, and services. However, organizations are becoming more and more specialized in specific fields of knowledge and, then, rarely have all the required resources internally. Therefore, they need to acquire knowledge from other external sources such as universities, research centers and other institutions in order to create successful innovations.

  Eg: Dialog-UoM mobile communication research laboratory and DSI-UoM rubber production & process incubators.

- **Accessibility of Nanotechnology Park**

  As for the technological concerns, nanotechnology is one of the most vital areas for achieving technological advancement. The establishment of Sri Lankan Institute of Nanotechnology (SLINTEC) will provide more opportunities to industrial clusters to create innovative products and add value to industrial production in order to compete with international markets. With nanotechnology, industries will be able to practice using nanoelectronic products which offer opportunities in creating new features and products. Some of these candidates include hybrid molecular/semiconductor electronics, one dimensional nanotubes/nanowires, or advanced molecular electronics.

Conclusion

Given current global developments and international trade: it is clear that a country needs to focus more on improving their export earnings to achieve sustainable economic growth. In this regard, diversifying exports by producing high value added products like electrical and electronic goods as well as automobiles would play an important role in sustaining growth in Sri Lanka. The electrical and electronics as well as automobile industries have now become global industries worth billions of dollars. Hence initiatives by authorities towards focusing more on electrical/ electronic and automobile industries will help the country to boost export earnings by producing higher value-added products. Therefore, in order to boost techno based industries, our country should initiate and develop electrical and electronic (EE) and automobile industrial clusters. A well-developed techno based industrial cluster spurs three important activities: increase value added production (through specialized inputs, access to information, synergies, and access to public goods), more rapid innovation (through cooperative research and competitive striving), and new business formation (by identifying the niche market and targeting it to form the cluster within the EE and automobile industries). In order to make the EE and automobile industrial clusters successful clear leadership and agile management of the key actors in the cluster and clear support by all relevant stakeholders are necessary. Through such activities techno based industrial clusters will help the country to achieve sustainable economic growth.

References:

Mercedes Delgado, Michael E. Porter and Scott Stern (March 11, 2011) Clusters Convergence and Economic Performance.

Lee W. Munnich Jr. (January 2009) Industry clusters an Economic Development Strategy for Minnesota, Preliminary Report: University of Minnesota Extension Service.

A Case Study of the Electronics Industry in Thailand (2005), United Nations.

Innovative Capacity Enhancement in Wood and Electric / Electronic Industry Cluster (ICEWEIC) Concept Paper for JICA

Developing a Strategy for Financial Inclusion in Sri Lanka

Dr. Mrs. R. A. Perera
Addl. Director
(On release to the Ministry of Public Enterprise Development)

"People were poor not because they were stupid or lazy. They worked all day doing complex physical tasks. They were poor because the financial institutions in the country did not help them widen their economic base"

MUHAMMAD YUNNUS

1. Introduction

Developing financial institutions and financial markets and improving access to finance has a strong impact on economic development, poverty alleviation and economic stability. An inclusive financial system is able to reduce poverty, boost shared prosperity and support inclusive and sustainable development. Theoretical and empirical research has found increasing evidence of the role of finance in economic growth. According to Levine (2005) a well-functioning financial system is able to remove financial constraints faced by industries and firms and improve access to finance that is required for economic growth. Given the importance of finance for growth countries are pursuing active strategies to develop financial institutions and markets as well as ehance financial inclusion.

Financial inclusion can be broadly defined as the access to appropriate financial products and services at an affordable cost by all sections of society in general and to low income groups in particular who are underserved or have been excluded from formal financial services. Financial inclusion aims to, broaden the reach of financial services to those who do not currently have access, to deepen financial services for those who have minimal access and to increase financial literacy and consumer protection so that those who are offered financial products can make an informed choice.

Financial inclusion facilitates greater participation by different segments of the population in the formal financial system. The presence of a large informal sector could affect the transmission of monetary policy as a large number of economic agents would base their financial decisions independent of the monetary policy actions of the central bank. However, with greater financial inclusion, the share of households and small businesses in the formal financial sector increases, thereby improving the transmission of monetary policy and the effectiveness of monetary policy. Greater financial inclusion could also have an impact on financial system stability. On the one hand it could broaden the depositor base and lead to more diversified lending while on the other it could lead to rapid expansion of credit and growth in unregulated institutions (Mehrotra and Yetman, 2015).

2. Measuring Financial Inclusion

Based on generally accepted measures of financial inclusion, Sri Lanka has done well. The number of bank branches and banking density has steadily risen and there has been a significant increase in Automated Teller Machines (ATMs) and electronic fund transfer facilities at point of sales (EFTPOS) machines (see Table 1).

Table 1
Selected Indicators of Financial Inclusion

	2005	2010	2013
No. of bank branches [1/]	3,685	4,911	5,522
Banking density (No. of bank branches per 100,000 persons)	18.8	23.8	27.0
Total no. of ATMs	918	2,222	3,122
No. of ATMs per 100,000 persons	4.7	10.8	15.2
Total no. of electronic fund transfer facilities at point of sales machines (EFTPOS)	7,013	27,588	27,955
Total no. of credit cards	628,989	769,182	951,625
Credit cards per 100,000 persons	3,202	3,724	4,646

Source: Central Bank of Sri Lanka

[1/] Includes outlets of licensed commercial banks, licensed specialised banks and district co-operative rural banks but excludes student savings units.

However, in relation to indicators of financial depth such as money supply as a percentage of GDP, private sector credit as a ratio of GDP Sri Lanka has a low level of financial depth compared to other emerging nations (see Table 2). Sri Lanka's broad money supply to GDP ratio is around 40 per cent which is similar to the level in Indonesia (40 per cent) and Philippines (59 per cent) but significantly lower than that of Singapore (138 per cent), Malaysia (142 per cent), Thailand (125 per cent) and South Korea (144 per cent). A similar trend is observed in the ratio of private sector credit to GDP. Measures such as stock market capitalisation and outstanding government debt and corporate debt securities as a percentage of GDP indicates the need for further development in the capital market.

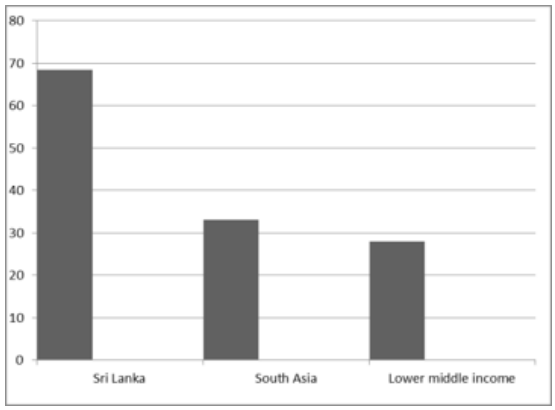
Table 2
Selected Indicators of Financial Depth

	2005	2010	2013
Depth - Financial Institutions			
Broad Money (as a % of GDP)	32.2	37.3	39.4
Total Financial Sector Assets (as a % of GDP)	129.0	119.4	118.9
Private Sector Credit by Commercial Banks (as a % of GDP)	29.0	26.6	29.2
Depth - Financial Markets			
Stock Market Capitalisation (as a % of GDP)	7.1	39.4	28.4
Outstanding domestic private debt securities (as a % of GDP)	n.a.	1.5	0.9
Outstanding government debt securities (as a % of GDP)	27.0	42.8	41.8

Sources: Central Bank of Sri Lanka, Department of Census and Statistics, Colombo Stock Exchange, Swiss Re

According to the Global Financial Inclusion (Global Findex) database[1] despite being categorised as a lower middle income country, Sri Lanka has a relatively high account penetration rate (69 per cent) (see Figure 1) compared to the average for South Asia (33 per cent) and for lower middle income countries (28 per cent).

Figure 1
Adults with an Account at a Formal Institution – Overall (%)

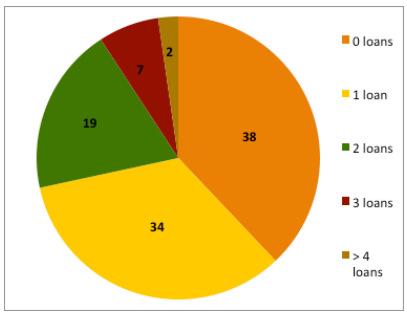


Source: Global Findex Database, World Bank 2013

1 Developed from a survey conducted by the World Bank of formal financial institutions covering more than 150,000 people in 148 economies representing more than 97 per cent of the world's population.

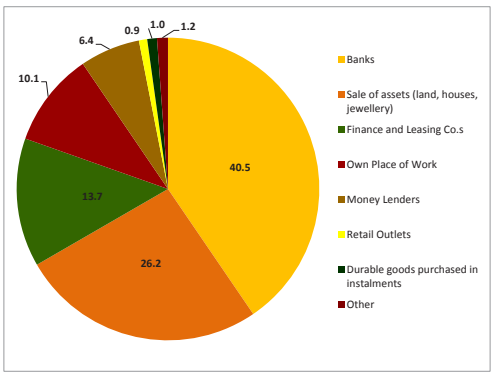
To determine access to credit, information from the Household Income and Expenditure Survey 2009/10 conducted by the Department of Census and Statistics was used to obtain information on the indebtedness of households. The survey covered 22,581 households in all districts excluding Mannar, Kilinochchi and Mullathivu districts in the Northern Province[1]. The survey collected information on the indebtedness of households to formal financial institutions such as banks and finance companies, and informal arrangements such as loans from money lenders, retail outlets etc. According to the survey 62 per cent of respondents had obtained a loan (Figure 2) and out of the loans obtained, 54 per cent were from banks and finance and leasing companies (see Figures 3).

Figure 2
Access to Credit (%)



Source: Household Income and Expenditure Survey 2009/10

Figure 3
Source of Loans Obtained (%)

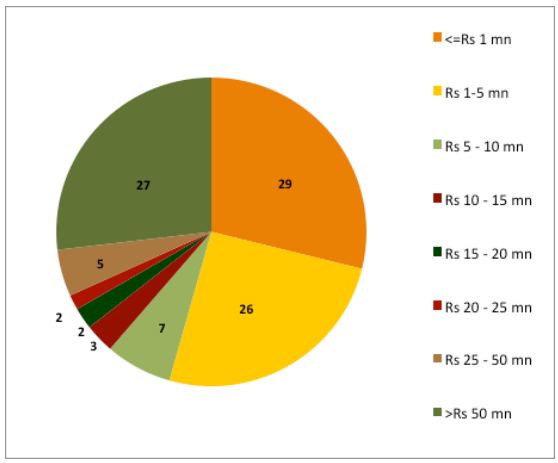


Source: Household Income and Expenditure Survey 2009/10

1 For more information on the sampling methodology please refer the Household Income and Expenditure 2009/10 Final Report, Department of Census and Statistics, Sri. Lanka.

A breakdown of credit outstanding from the formal sector which includes commercial banks, specialised banks, finance companies and leasing companies is given in Figure 4. Around 29 per cent of total outstanding credit comprises loans that are less than Rs. 1 million and 26 per cent are loans that are less than Rs. 5 million indicating a large proportion of loans fall within the small and medium categories.

Figure 4
Breakdown of Outstanding Credit by Size of Loan as at 30 November 2014 (%)



Source: Credit Information Bureau

According to Swiss Re, insurance penetration (total premium as a percentage of GDP) which measures the level of insurance activity is only 1.2 per cent in Sri Lanka. This is relatively low given the size of the Sri Lankan economy and compared to the average for Asia which is 5.8 per cent and 6.6 per cent for the world. The main reason for the low level of insurance penetration in Sri Lanka is that insurance is considered an instrument for risk mitigation rather than an instrument for saving and investment. The relatively low income as measured by per capita GDP, the availability of free health and the general lack of awareness of the benefits of insurance are some of the reasons for the low level of insurance penetration in the country. Further, insurance density which is the ratio of insurance premiums to the total population was only US dollars 36 in Sri Lanka compared to the average of US dollars 295 for Asia and US dollars 645 for the world.

Table 3
Insurance Penetration and Density in Selected Asian Countries

Country	Insurance Penetration[a] (in per cent)			Insurance Density[b] (Premiums per capita US$)		
	Total Business	Life Business	Non Life Business	Total Business	Life Business	Non Life Business
Sri Lanka	1.2	0.5	0.7	36.3	15.6	20.7
India	3.8	3.0	0.8	52.0	41.4	10.5
Indonesia	2.1	1.5	0.6	73.5	53.6	19.9
Malaysia	4.9	3.1	1.8	515.4	330.6	184.8
Philippines	1.9	1.4	0.5	53.7	39.1	14.6
Singapore	6.4	4.8	1.6	3,539.2	2,636.6	902.6
South Korea	11.0	6.9	4.1	2,904.6	1,821.3	1,083.2
Taiwan	18.7	15.5	3.3	3,885.7	3,203.8	681.9
Thailand	4.4	2.7	1.7	312.8	184.3	128.5
Vietnam	1.3	0.6	0.7	24.8	12.1	12.7
Japan	10.3	7.9	2.3	5,169	4,138	1,031
Asia	5.2	3.5	1.6	295.2	203.0	92.2
World	6.1	3.4	2.7	644.8	356.8	288.0

Source: Swiss Re, Sigma 3/ 2014

Notes:
(a) Insurance penetration is the total insurance premium as a percentage of GDP
(a) Insurance density is the ratio of insurance premiums to the total population

A direct link between demand for life insurance and interest rates and inflation has been observed. In the 1970s with the emergence of high inflation and interest rates, the attractiveness of life savings policies declined lowering penetration rates in North America and Europe, while increasing in Japan. However, with the decline in interest rates and inflation in those countries in the 1980s demand for life insurance increased. In relation to non-life insurance, penetration worldwide has steadily increased with the growth in vehicles. The same trends are expected to be seen in countries such as Sri Lanka with the rise in per capita incomes and the decline in interest rates. With inflation and interest rates being maintained at low and stable levels there is expected to be an increasing demand for alternative savings products such as life insurance. An ageing population will further boost demand for life insurance in countries such as Sri Lanka. Further, with the growth in per capita incomes, the emergence of a rising middle class and increasing wealth is also expected to increase demand for general insurance.

3. Policies to Advance Financial Inclusion

The nationalisation of the Bank of Ceylon in the 1960s and the establishment of the People's Bank led to a rapid expansion of bank branches around the country. The penetration of banking services into rural areas has helped promote banking habits among the people. Although central banks generally do not engage directly in development activities, recognising the need to accelerate development and to create more regionally balanced growth, central banks in developing countries have played a more active role in stimulating economic activity. The Central Bank of Sri Lanka has played a major role in the provision of long term project lending and in facilitating lending in the regions.

Microfinance lending has played a significant role in providing funds to low income segments of the population and has helped to develop a more inclusive financial service for the poor. The microfinance sector in Sri Lanka commenced in 1906 with the establishment of the Thrift and

Credit Cooperative Societies (TCCS) under the Cooperative Societies Ordinance. With the decline of the TCCS, the Central Bank took the lead in initiating various microfinance schemes. The first commercial microfinance scheme the Small Farmers and Landless Credit Programme ("Isuru") was launched by the Central Bank in conjunction with the RRDBs in 1991. Thereafter, several other microfinance projects have been initiated by the Central Bank to assist small and medium enterprises engaged in diverse activities. A credit guarantee scheme covering all short term loans given for cultivation of crops called the New Comprehensive Rural Credit Scheme (NCRCS) was introduced in 1986. The primary purpose of this scheme was to uplift the socio economic conditions of micro and small scale farmers by providing working capital requirements at low cost through interest subsidy and credit guarantees. The government has also played a major role in the provision of microfinance. The Samurdhi Development Programme which commenced in 1995 replacing the former Janasaviya Programe comprises a large network of Samurdhi Bank Societies through which savings and borrowing of its members takes place. In the 1980s and 1990s, several local and international NGOs began to engage in microfinance lending. In many of these cases microfinance lending was done together with the other social and community development activities undertaken by the NGO. The tsunami which hit the country in 2004 resulted in a significant flow of foreign funds into the country a large portion of which was channeled through MFIs. More recently, commercial banks have also entered the microfinance credit market.

Developments on the technological front have also helped expand the reach of financial services in the country. The introduction of automated teller machines (ATMs), credit cards, electronic fund transfer facilities has played a significant role in increasing banking activity across the country. The digitisation of financial transactions commenced in the 1980s following the liberalisation of the economy with the introduction of ATM cards in 1986 and credit cards in 1989. On the payments and settlements front, the establishment of the Sri Lanka Automated Clearing House (SLACH) in 1988, the introduction of the Sri Lanka Interbank Payment System (SLIPS) in 1994 for the electronic funds transfer (EFT) of interbank transactions in 1994 and its upgrade to an online system in 2010 facilitated T+0 settlement of cheques. With the introduction of cheque imaging and truncation system (CITS) in 2006 the time taken for cheque clearing was reduced further. This system enabled cheques in any part of the country to be cleared within T+1 days. The real time gross settlement system (RTGS) was introduced in 2003 to facilitate the settlement of high value and time critical transactions while the introduction of the Scripless Securities Settlement System (SSSS) has helped develop the government securities market and expand securities trading in the secondary market.

The adoption of electronic banking systems such as the internet banking, mobile phone based banking has further helped expand banking activities. Banks commenced offering internet banking products as early as in 1999. The advances in IT and payment systems throughout the country have reduced fees and charges relating to banking services and has helped increase the receipt of foreign remittances through formal banking channels. The Central Bank also granted permission to commercial banks to carry out agency banking through mobile phones. Commercial banks are able to carry out on the spot banking facilities such as depositing and withdrawing money and receiving remittances abroad through their agents located around the country. The widespread coverage of the mobile phone network in the country provides an opportunity to further expand access to financial services in the remotest parts of the country through the use of electronic retail payment methods such as payment cards and mobile phone based payment mechanisms. In 2010, the Central Bank commenced licensing service providers of payment cards and mobile payment systems to ensure safe and efficient retail electronic payment systems. At present in Sri Lanka, several mobile payment schemes (e-money) have been initiated such as eZ Cash, eChanneling, eZ Pay. According to a recent survey conducted among urban poor households the main uses for electronic payment schemes have been for the payment of utility and phone bills, remittances, retail payments, person-to-person fund transfers. However, the penetration

of these e-money schemes has been low. The reasons cited for this poor penetration were the lack of need, lack of awareness, and lack of trust, difficulty of use, availability and affordability. Recognising the enormous potential of these electronic money schemes and the need protect customer rights and to regulate service providers involved in such businesses in order to ensure the safety of the payment system and the stability of the financial system the Central Bank issued the Service Providers of Payment Card Regulations No. 1 of 2009 which was subsequently replaced with the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013.

Policies have been adopted from time to time to strengthen the financial sector. These institutional and legal reforms that have been adopted have contributed significantly to the expansion of financial services in the country. Recognising the vital role played by micro finance institutions in advancing financial inclusion and the need for better regulation and supervision of this sector the Central Bank has drafted a Microfinance bill. The main objectives of the legislation would be to expand access to finance to a wider segment of the population and to encourage a savings culture; to encourage fair and responsible credit practices; to promote economic growth and reduce income inequalities; to improve financial stability and foster public confidence.

Recognising that the lack of awareness is one of the key reasons for financial exclusion, the Central Bank has initiated various financial literacy programmes to disseminate information on financial services to various groups ranging from school children to farmers, women, small and medium entrepreneurs, and self-employed persons. Programmes are conducted on topics such as savings habits, budgeting, financial management, using credit wisely, the risk of unauthorised financial institutions. Entrepreneurship development programmes are also carried to create awareness of the availability of financial facilities and to improve the technical and marketing know-how of entrepreneurs and farmers. Studies find that basic business training significantly improves the returns from credit, providing further rationale for financial literacy programmes as a means of enhancing financial inclusion.

Although significant progress has been made towards enhancing the level of financial inclusion in the country, some areas still need to be strengthened and developed.

3.1. Develop a Formal Strategy for Financial Inclusion

A formal strategy for financial inclusion needs to be developed to take the country to the next decade. A strategy for financial inclusion would include developing surveys to collect data to better understand the baseline or starting point in terms of key indicators of financial inclusion that would help policy makers and financial institutions to better design products and delivery mechanisms. A national level taskforce may be set up to coordinate and monitor the implementation of the strategy. A mechanism to monitor the progress of the strategy and the achievement of the set targets for financial inclusion would also need to be established. This would include the conduct of regular surveys on financial inclusion and evaluation of products and delivery mechanisms introduced to enhance financial inclusion. The findings from these surveys and evaluations would help refine the strategies, thereby improving their effectiveness in enhancing financial inclusion. A strategy for financial inclusion may also seek to focus on some identified priority sectors in the economy, such as Small and Medium Enterprises (SMEs) in keeping with the development objectives of the country.

3.2. Establish a Credit Guarantee Corporation

Considering the important role that SMEs play in the economy, a credit guarantee corporation could be set up to reduce the financial constraints faced by SMEs that do not have sufficient collateral to obtain credit from formal financial institutions. Formal financial institutions are reluctant to extend credit to SMEs for various reasons such as asymmetric information, the lack of acceptable collateral, high administrative costs and the perception that they are high risk. In addition, SMEs are generally not able to provide information on their credit worthiness

and they often lack appropriate accounting records. As collecting this information can be costly and not cost effective given the typical size of loans to SMEs, formal financial institutions tend to avoid lending to this sector due to problems of adverse selection and moral hazard. Banks are also reluctant to lend to SMEs due to the lack of collateral and problems that arise when trying to register the type of collateral provided by SMEs. The Monetary Law Act contains provisions under Section 108(1) to permit the Central Bank of Sri Lanka to act as the agent of the government in guaranteeing, issuing or participating in the loans of banking institutions operating in the country. To strengthen the role of the Central Bank further, the MLA was amended in 1974 to permit the Central Bank to directly guarantee loans, advances or other accommodations granted to small scale enterprises by credit institutions operating in Sri Lanka. The Central Bank has operated various credit guarantee schemes covering the agriculture sector and specific industries such as the apparel sector and gems and jewellery sector. Most of the credit guarantee schemes operated by the Central Bank were in conjunction with either a refinance scheme or an interest subsidy loan scheme. However, due to various reasons such as the need for collateral, legal action being taken against defaulters and other stringent requirements, the full potential of credit guarantee schemes has not been realised (de Alwis and Basnayake, 2009). Hence, there is a rationale for establishing a credit guarantee corporation that will encompass all sectors of the economy. The risk weight for lending to SMEs is 75 per cent according to Basel regulations, however, if these loans are provided with a credit guarantee the risk weighting assigned would be lower, providing an incentive to banks to lend to this sector.

3.3. Develop Appropriate Products:

Financial institutions need to be encouraged to develop products that suit the needs of the poor. The products whether they are savings products, instruments of borrowing or insurance products should be easily accessible and be available at low cost. Appropriately designed savings products targeting small savers would encourage those with low incomes to save. Further, in a low interest environment, developing alternative savings products may help ensure that in an ageing society, retirees would be able to enjoy a basic standard of living even after retirement. Further, an ageing society is expected to place additional strain on the public health system. Given the budgetary constraints faced by the government, it would be necessary to develop a comprehensive health insurance system to ease the pressure on the public health system and ensure that everybody has access to afforable medical services. Weather related insurance to protect the income of farmers from adverse climatic conditions is another area that needs to be encouraged.

3.4. Strengthen the Regulatory Environment

One of the important lessons we learnt from the recent global financial crisis was that financial instability has a disproportionate effect on the poor, as people with low levels of income and savings have less ability to mitigate risk. Hence, countries with low levels of income need to pay special attention to preserving financial stability even as they seek to deepen and broaden their domestic financial sectors, while increasing their integration with the global financial system. Sri Lanka has developed a strong regulatory framework to protect the rights of savers and borrowers in the formal financial system. The establishment of a deposit guarantee scheme; financial literacy programmes are further measures that have been taken to safeguard customers and maintain public confidence in the formal financial system. The informal microfinance sector has also played an important role in providing credit and encouraging savings among low income persons thus helping to improve income levels and reduce vulnerabilities caused by unexpected events. However, the large number of microfinance institutions (MFIs) with relatively small capital base has led to inefficiencies and high transaction costs due to the lack of economies of scale. Growth in this sector may not be possible without capital and investors and lenders are more comfortable providing funds to regulated entities. One of the barriers to growth in the microfinance sector has been the absence of a single regulatory framework encompassing all microfinance institutions. Some microfinance institutions are regulated under separate legislation and by different institutions. For example the Regional

Development Bank by virtue of it being a classified as a licensed specialised bank is regulated by the Central Bank; the Samurdhi Banking Societies are regulated by the Divineguma Department; and the Cooperative Societies are regulated by the Cooperative Development Department. However, a large number of microfinance institutions remain outside the regulatory framework. Since ensuring adequate protection to savers and borrowers is vital to ensure confidence in the financial system and to encourage more participation in the formal financial sector it may be necessary to expedite the enactment of legislation to bring the large number of microfinance institutions into a common regulatory and supervisory framework.

3.5 Develop a Database of Microfinance Borrowers

Financial institutions both domestic and international have many times been found guilty of over-extending credit to customers. The sub-prime crisis in the US is a good example where policies to promote financial inclusion and reduce income inequalities led to one of the worst global financial crises (Raghuram Rajan, 2007). This risk is particularly acute in the case of microfinance institutions due to the availability of a large number of microfinance lending institutions and products. In this regard, credit information bureaus can play an important role by maintaining a database of all outstanding loans to individual borrowers to prevent multiple lending and over borrowing. A database similar to what is maintained by the Credit Information Bureau (CRIB) could be established covering all loans provided by MFIs so that lending institutions are aware of the loans outstanding to individuals before they approve further loans. Issuing directions to MFIs that a single borrower at any given time may obtain a loan from a maximum of two MFIs may also be proposed to curb possible over borrowing by individuals.

3.6. Encourage Secured Transactions (Lending) based on Moveables

The availability of collateral is found to be a binding constraint on financing and is more severe in underdeveloped financial markets (Liberti and Mian, 2010). Insufficient collateral has also been cited as one of the main reasons firms are rejected when they apply for bank credit (Fleisig et al., 2006). One of the serious constraints faced by SMEs in Sri Lanka in accessing credit from the formal financial sector is the non-availability of acceptable collateral. Significant default and enforcement risk, double collateralisation of the same asset to multiple lenders and high transaction costs associated with these forms of assets have deterred banks from accepting moveable assets as collateral and significantly increased the cost of funds secured against these forms of assets. Given that movable assets are the main type of collateral available especially to SMEs the need for establishing a moveable collateral registry has been recognised. A Secured Transactions Act was enacted in 2009 and came into effect from 01 August 2011. However, registration is currently voluntary. A study of several countries that have implemented this measure indicate that it may be necessary to insist on mandatory registration of movable assets to ensure that it is effective as a tool for improving the access particularly of SMEs to finance from the formal sector (Love, Inessa, María Soledad Martínez Pería, Sandeep Singh, 2013).

3.7 Improve Financial Literacy

In a survey conducted by the World Bank, 78 per cent of respondents stated that "the lack of knowledge about basic financial products and services was a major barrier to financial access among the poor" (Global Financial Development Report, 2014). All users of financial services, from the financially excluded poor, to the middle income groups and high net worth individuals, everyone who is associated with the financial system needs to be financially literate, albeit to different degrees and in different aspects. The task of advancing financial literacy among the different segments of society is not only that of the Central Bank but includes the government, civil society and all other stakeholders.

3.8. Maximise the Use of Technology

The role of information technology (IT) in advancing financial inclusion is well documented. IT can be used to develop comprehensive and reliable credit information systems which are vital for efficient credit delivery and credit pricing. IT can also be used to develop products that are

tailored to particularly segments of the population and to reach, particularly underserved areas. IT can also play a significant role in educating customers by disseminating information. Leveraging on the power of IT and optimising the use of the existing financial infrastructure would be necessary to increase the level of financial inclusion going forward.

3.9. Encourage wholesale funding by banks to financial institutions engaged in lending to small and medium enterprises

Commercial banks should be encouraged to make available wholesale funding to financial institutions engaged in microfinance activities so that they could on-lend those funds to segments of the market that are outside the reach of commercial banks. This would provide financial institutions that are lending to SMEs access to low cost funds, while providing access to finance to a segment of the market that is currently excluded from the formal financial sector. Since this could expose banks to over financing in the sector, banks could be encouraged to lend to microfinance institutions by way of consortiums thereby reducing individual risk.

4. Conclusion

Sri Lanka's progress in relation of financial inclusion has been impressive. Since the 1950s the Central Bank and the government have undertaken various policy measures to enhance the level financial inclusion in the country. Based on general measures of financial inclusion such as account penetration, which measures the ownership of accounts at financial institutions, the level of financial inclusion in Sri Lanka is very high for a country categorised as a lower middle income country. However, in relation to other measures such as borrowing from the formal sector, the use of electronic forms of payment and the use of insurance products for health care and agriculture there is still much room for improvement. The rationale for promoting financial inclusion is not only due to equity considerations; access to affordable financial services is also required for inclusive growth. Given the important role that financial inclusion can play in realising sustainable development, reducing poverty and boosting shared prosperity, it is necessary to strive to continue to improve the level of financial inclusion in the country.

References

Central Bank of Sri Lanka, (1998), "Economic Progress of Independent Sri Lanka", Central Bank of Sri Lanka.

Central Bank of Sri Lanka, Financial Stability Reports (Various issues).

Central Bank of Sri Lanka, (2010), "60th Anniversary Commemorative Volume of the Central Bank of Sri Lanka", Central Bank of Sri Lanka.

de Alwis, Sharmini and B.M.R. Basnayake, (2009), "Credit Guarantee Schemes in Sri Lanka – Way Forward." Journal for SME Development, Volume 14, Taiwan.

Demirguc-Kunt, Asli and Leora Klapper, (2012), "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper No. 6025, World Bank, Washington D.C.

Liberti, Jose and Atif R. Mian, 2010. Collateral Spread and Financial Development. Journal of Finance 65(1), 147–177.

Love, Inessa, María Soledad Martínez Pería, Sandeep Singh (2013), Collateral Registries for Movable Assets: Does Their Introduction Spur Firms' Access to Bank Finance? Policy Research Working Paper No. 6477, World Bank, Washington D.C.

Mehrotra, Aaron and James Yetman, (2015), "Financial Inclusion-Issues for Central Banks." BIS Quarterly Review, March 2015 pp 83-96.

Rajan G., Raghuram (2010), 'Fault Lines: How Hidden Fractures Still Threaten The World Economy."

World Bank, (2014), Global Financial Development Report 2014: Financial Inclusion. Washington, D.C.

Strategic Asset Allocation An Important Tool for the Prudent Management of External Reserves

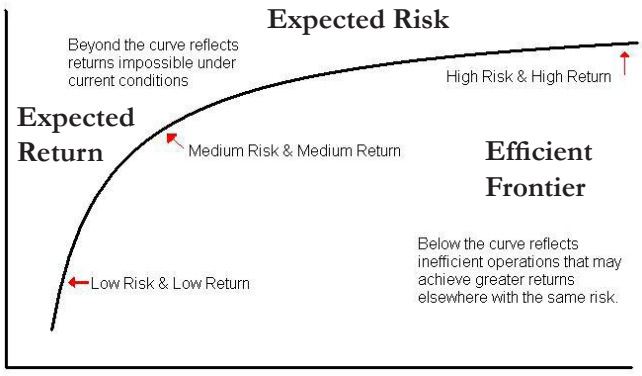
By Menaka K. Jayawardena
Senior Assistant Director
Risk Management Department

Introduction to Strategic Asset Allocation

Strategic Asset Allocation (SAA) involves long-term allocation of capital to different asset classes such as bonds, equity and real estate. For a given level of expected risk, there is a unique asset allocation that provides the highest expected return. The primary goal of portfolio management is to maximize your return for the risk you are willing to take. As shown in Chart 1 below, the efficient frontier graphically represents these theoretically risk-return efficient portfolios. Here, the inefficient strategies are below the frontier and the impossible strategies are above the frontier line.

Chart 1

Efficient Frontier



Establishing an appropriate asset mix is a dynamic process, which plays a key role in determining a portfolio's overall risk and return. The aim is to optimize the risk/return tradeoff given the specific preferences and goals of the organization. Ideally, one would need to establish and adhere to a "base policy mix" - a proportional combination of assets based on expected rates of return for each asset class. However, the input asset class risk and return assumptions are subject to much uncertainty and change can be costly. Nevertheless, for a given level of risk, there are actually many asset allocations that are deemed to be broadly efficient. Thus, once the long term assumptions on the efficient frontier are made, the management could decide whether to reduce/ increase risk or increase return levels within this broader area around the efficient frontier, with similar risk-return preferences, known as the "fuzzy frontier". Portfolio managers are then required to scan the market on a regular basis to check if current market conditions offer medium-term opportunities worth reaping and selectively employ active managers to exploit short-term opportunities to generate excess returns.

SAA as a Risk Management Tool for the Management of International Reserves

The traditional risk management function in central banks focused on computing daily profit and loss figures and risk measures as well as checking daily transactions to identify non-compliance with the investment framework, akin to risk management of

the treasury management activities of a commercial bank. The principle objective of risk control was thus to capture short-term anomalies and ensure that the trading books were matched. As reserves have grown over the years, reserves management activities are more comparable to those of the private asset management industry. For central bank reserves portfolios, safety of capital and liquidity are of prime importance. Financial return expectations, are generally deemed to be of secondary importance, although modest returns help build up the reserves over time. Applying SAA process to reserves management helps transform goals and risk-return preferences into long-term optimal proportions of individual asset classes, such as government bonds and other highly liquid, highly secure instrument types, such as money market instruments and gold. SAA typically comprises decisions on the currency composition, issuer type, instrument type and target risk measures such as duration, tracking error, value-at-risk levels, etc.

Reserves Management Policy and Investment Guidelines

Generally, it is the top management of the central bank that lays down the objectives for the management of foreign reserves and articulates investment principles and the long-term risk-return preferences. Typically, the analytical framework to derive the SAA is developed through two documents; the Investment Policy Statement (IPS) and the Investment Guidelines (IG). While the former sets out the broad parameters for how the reserves should be managed and provides basic principles and guidance for setting SAA, the latter operationalizes the guidance given in the IPS and defines details of implementing the SAA. IPS is generally decided by the Monetary Board. IG is set based on decisions taken by the Asset Management Committee of the central bank and should be consistent with the IPS. In the case of the Central Bank of Sri Lanka (CBSL), this is the Foreign Reserves Management Committee (FRMC). While FRMC operationalizes the SAA by defining the currency composition, target duration, investment benchmarks, credit risk and eligible asset classes, it is the responsibility of the top management to oversee its efficient implementation.

The SAA Process

SAA decision will be made based on reserve adequacy, import composition, and external debt levels. Most often, SAA decision will be effective over the medium to long term. However, the allocation might be reviewed and revised in light of changing investment opportunities and significant changes to the original assumptions or market conditions. Most central banks use model based approaches to establish SAA considering either an asset only or asset and liability approach[1]. Active management aims to improve the risk-return profile of the strategic benchmark by providing the necessary flexibility to take advantage of short to medium term investment opportunities. Thus the SAA becomes the main vehicle through which the institution's risk-return preferences are conveyed to the remaining tiers in the governance structure.

A Quantitative Approach for SAA

Although a quantitative approach is used to determine the investment process, the results of the optimization exercise is not intended to be replicated mechanically. Rather, the model based framework is expected to provide a starting point for discussions among risk managers, portfolio managers and the senior management on why and to what extent the final strategic asset allocation should deviate from the optimization results. These discussions could trigger the introduction of further policy requirements or strive to balance additional constraints, which may be difficult to capture within a purely quantitative framework. As a part of this process, portfolio managers should also consider practical issues that might arise during the implementation phase. Ultimately, the process should yield a SAA with an overall risk-return profile that the senior management is comfortable with, reflecting the model's limitations, policy requirements and portfolio management considerations.

1 Asset only approach would consider the entire asset base for the optimization model. The Asset and Liability Approach matches all assets against all liabilities by investing the assets within duration categories that reflect the liability structure. Here, it is the remaining assets that are subjected to an optimization.

SAA to Trigger Discussion

The discussion can be supported by further quantitative analysis such as evaluation of historic properties, stress testing, risk decomposition and an assessment of the potential impact of active management. This way, the risk-return characteristics of the model-based asset allocation are checked against possible alternative asset allocations, independently from the specific assumptions used in the optimization exercise. At the end of the validation process, a decision is made on a SAA incorporating the institution's investment philosophy, its risk tolerance and all operational considerations. Typically, SAA is expressed in terms of a percentage weighting of asset classes as well as deviation ranges, representing the permissible tactical allocations. The design of the strategic benchmark, and thus the implementation of the agreed asset weighting by means of market indices or notional portfolios, is outside the actual asset allocation process and should be left to the implementation phase.

SAA – Whose responsibility is it?

Although central banks base their investment frameworks on SAA, they differ in terms of whose responsibility it is. In the monetary authorities of Singapore, Hong Kong and France, SAA is the responsibility of the Front Office staff on the basis that they were more aware of what is happening in the international money and capital markets. However, in some other central banks including Brazil, Chile and Mexico, SAA is compiled by their Risk Management Departments. They maintained that the SAA is likely to be manipulated by the Front Office Staff to show better performance at the end of the period, if they are allowed to set the SAA. They cited cases where counterparties have convinced the top management of central banks to permit the Front Office staff to engage in SAA process, to promote the interests of counterparties.

Pros and Cons of the SAA Approach

SAA is appropriate for central banks as its investment mix does not change with the markets, unlike other market players who strive to buy when prices are low and sell when prices rise. As SAA is based on long-term trends, central banks typically know what the allocation of assets was at the beginning and want to maintain that mix through all market conditions and do not waste time and energy trying to time markets or make specific security selections. The good years may be counterbalanced with bad years, generating a return that is appropriate for investors who know that in the long run, their portfolio matches their risk tolerance and that they would achieve their long-term goals. However, given that SAA is structured to obtain a specific return for a particular risk over a market cycle, it does not allow for anomalies in the market place and as a result, can underperform the markets on a regular basis. It should also be noted that in order to comprehensively implement SAA, an effective Information technology infrastructure is essential to generate timely reporting of risk exposures and performance figures. An appropriate governance structure is also important as management support for the implementation of SAA is critical. Well-defined and clearly articulated risk-ownership roles and responsibilities are also an important component of effective risk governance and the key first step in holding people accountable for risk management.

Conclusion

SAA involves the long-term steady allocation to different asset classes, such as government bonds and other highly liquid, highly secure instrument types, such as money market instruments and gold. SAA typically comprises decisions on the currency composition, issuer type, instrument type and target risk parameters. Generally, the analytical framework to derive the SAA is developed through two documents; the IPS and IG, to ensure that reserves are managed effectively. Most central banks use model based approaches to establish SAA and this is intended to trigger discussion on the SAA. Since investors cannot beat market on a consistent basis, year-after-year, SAA remains the main driver of returns in the long run. Active management aims to improve the risk-return profile of the strategic benchmark by taking advantage of short to medium term investment opportunities. Thus, an institution's risk-return preferences are conveyed to the remaining tiers

in the governance structure through the SAA. In some central banks, it is the Middle Office or Risk Management Department that is responsible for SAA while at others, it is prepared by the staff of the Front Office. Both, financial or non-financial risks could give rise to reputational losses, which could be detrimental to the functioning of a central bank. Hence it is important that central banks establish appropriate governance structures and adopt proper risk management frameworks, with explicit risk objectives, to minimize potentially harmful consequences.

References

Cardon, Pierrre and Coche, Joachim, "Strategic Asset Allocation for Foreign Exchange Reserves" ECB Publication "Risk Management for Central Bank Foreign Reserves", 2004

Crocombe, Stephen, "Introduction to Asset Allocation and Multi Asset" presented at the BlackRock Educational Academy, 2015

Damaso, Isabela R. and De Cacella, Paulo M.F. "A Risk Management Framework for a Central Bank", UBS Publication "New Horizons in Central Bank Risk Management", 2004

Pensioen Bestuur & Management, "From Asset Allocation to Risk Allocation", 2012

Pihlman, Jukka, "Risk Management" presented at the Central Bank of Sri Lanka, 2015

REVIEWER ACKNOWLEDGEMENT

The Communications Department of the Central Bank of Sri Lanka would like to thank the reviewers who have contributed to the July – September 2015 (Volume 35, Number 3) issue of News Survey

Industrial Clusters: The Way Forward
Reviewed and recommended by Mr. K D Ranasinghe
Assistant Governor, Central Bank of Sri Lanka

Developing a Strategy for Financial Inclusion in Sri Lanka
Reviewed and recommended by Mrs. J P Mampitiya
Assistant Governor, Central Bank of Sri Lanka

Strategic Asset Allocation: An Important Tool for the Prudent Management of External Reserves
Reviewed and recommended by Mr. C J P Siriwardena
Assistant Governor, Central Bank of Sri Lanka

SRI LANKA–COUNTRY PROFILE

GEOGRAPHY

Location	5°55' N - 9°50' N 79°31' E - 81°53' E

North to South (Between furthest points)	433 km (269 miles)
East to West (Between furthest points)	226 km (140 miles)
Highest Elevation (Pidurutalagala)	2,525 metres (8,284 ft.)

Area	sq.km.	'000 ha	Mn. acres
Gross	65,610	6,561	16.2
Excluding Inland waters	62,705	6,271	15.5

CLIMATE

Temperature	Min	Max	Min	Max
Low Country	24.4 °C	32.0 °C	75.7 °F	89.6 °F
Hill Country	18.3 °C	27.0 °C	64.9 °F	80.6 °F
Annual Rainfall in 2014	2,136mm			

SOCIAL INDICATORS

Human Development Index (HDI)[2013] 0.750 (min 0.0, max 1.0)

	Male	Female
Expectation of life at birth Years (2012)	71.9	78.1
Literacy Rate, % (2014)	93.5	91.6

Demography - 2014 (a) **Average annual Population Growth rate; 0.9**

Population ('000) 20,771

Province	Population '000	Land area Sq.km	Density of Population (per Sq.km.)
Western	5,936	3,593	1,652
Central	2,631	5,575	472
Southern	2,532	5,383	470
Northern	1,085	8,290	131
Eastern	1,593	9,361	170
North-Western	2,425	7,506	323
North-Central	1,298	9,741	133
Uva	1,301	8,335	156
Sabaragamuwa	1,970	4,921	400
Total	20,771	62,705	331

Population - 2012 Census %

By Ethnicity		By Religion	
Sinhalese	74.9	Buddhists	70.1
Sri Lankan Tamils	11.2	Hindus	12.6
Indian Tamils	4.1	Islam	9.7
Sri Lankan Moors	9.3	Christians	7.6
Others	0.5	Others	-
By Sex		**By Age Group**	
		Less than 15 years	25.2
Male	48.4	15-59 years	62.4
Female	51.6	60 years and over	12.4

Sovereign Ratings (2014)

S&P: B+ Stable Outlook Fitch: BB- Stable Outlook Moody's: B1 Stable Outlook

ECONOMY

	2011	2012	2013	2014	2015(a)
Real Sector (b)					
GNI , Market prices (Rs. bn.)	7,147	8,578	9,366	10,212(a)(i)	10,932
(US$ bn.)	64.6	67.2	72.5	78.2(a)(i)	80.4(c)
GDP Per Capita market prices					
(Rs.)	345,925	427,559	466,112	503,032(a)(i)	533,398
(US$)	3,129	3,351	3,610	3,853(a)(i)	3,924
Real GDP growth %	8.4	9.1	3.4	4.9(a)(i)	4.8(c)
GDP Composition %					
Agriculture	8.2	7.8	7.8	7.8(a)(i)	7.9(c)
Industry	26.9	26.8	27.0	26.7(a)(i)	26.2(c)
Services	54.9	55.9	56.2	56.3(a)(i)	58.6(c)
Taxes less subsidies on products	10.0	9.4	9.0	9.2(a)(i)	9.3(c)
Unemployment, % of Labour Force	4.2	4.0	4.4	4.3	4.6(c)
Money and Inflation					
Inflation: Change of CCPI (2006/07=100), % (Annual average)	6.7	7.6	6.9	3.3	0.9(d)
Money Stock (M2b) (Rs. bn.)	2,491.7	2,929.1	3,417.9	3,875.9	4,305.0(e)
Money (M2b) Growth, %	19.1	17.6	16.7	13.4	16.0(e)
External Sector (Rs. bn.)					
Exports	1,167.6	1,245.5	1,344.1	1,453.2	1,069.4(f)
Imports	2,241.5	2,441.9	2,323.1	2,535.2	1,891.6(f)
Current Account	-511.1	-501.9	-324.0	-263.4	-119.9(c)
Total External Assets (g)	910.1	1,091.8	1,121.0	1,295.3	1,191.9(e)
External Debt	3,730.0	4,717.3	5,217.7	5,633.6	-
External Sector (US$ mn.)					
Exports	10,559	9,774	10,394	11,130	7,996(f)
Imports	20,269	19,190	18,003	19,417	14,141(f)
Current Account	-4,615	-3,982	-2,541(f)	-2,018	-905(c)
Total External Assets (g)	7,991	8,586	8,574	9,884	8,439(e)
External Debt	32,748	37,098	39,905	42,988	-
% of GDP	50.2(f)	54.2(f)	53.7(f)	54.5(f)	-
Debt Service % of Foreign Earnings	9.3	13.5	16.4	14.1	-
Average Exchange Rate Rs./ US$	110.57	127.60	129.11	131.56	135.22(h)
Rs./ SDR	174.54	195.38	196.19	198.35	189.34(h)
Fiscal Sector					
Revenue and Grants (Rs. bn.)	983.0	1,067.5	1,153.3	1,204.6	959.6(f)
Expenditure and Net Lending (Rs. bn.)	1,433.20	1,556.50	1,669.40	1,795.90	1,532.5(f)
Fiscal Deficit (Rs. bn.)	450.2	489.0	516.1	591.2	573.0(f)
% of GDP	6.2	5.6	5.4	5.7	5.1(f)
Public Debt (Rs. bn.)	5,133.4	6,000.1	6,793.2	7,390.9	8,266.0(f)
% of GDP	71.1	68.7	70.8	71.8	n.a.

(a) Provisional
(b) The data is based on the revised GDP estimates (base year 2010)
(c) First half (d) End November (e) End Sept. (f) January-Sept.
(g) Calculated at market value (h) January-November (i) Revised

Published by the Central Bank of Sri Lanka, Janadhipathi Mawatha, Colombo 1, Sri Lanka
Printed at the Central Bank Printing Press, 58, Sri Jayewardenepura Mawatha, Rajagiriya, Kotte, Sri Lanka