

# **Road Map: Monetary And Financial Sector Policies For The Year 2012**



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The past year has been a tremendous success for the economy of Sri Lanka as the country claimed the fourth best economic growth in the world, in the third quarter of 2011 with a GDP growth of 8.4 percent. As a reflection of this success and in the hopes of furthering it, the Central Bank presented their plan for 2012 in the “Road Map – Monetary and Financial Sector Policies for the year 2012 and beyond”. The presentation was led by Ajith Nivard Cabraal – Governor of Central Bank, as he elaborated on the key developments of the Economy of Sri Lanka in 2011, while outlining their future strategies to realise the goal of making Sri Lanka an Economic hub of South Asia.

*Compiled by Krishani Peiris & Benjamin Fowler  
Photography Indika De Silva*

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### **Ajith Nivard Cabraal, Governor - Central Bank of Sri Lanka.**

Since 2010 we have fashioned our policies based on the ‘Mahinda Chintana’ vision for the future and embraced the concept of moving towards a USD 4,000 per capita income as well as developing the country on a five hub concept: Maritime, Aviation, Commercial, Energy and Knowledge. Last year the Managing Director of the World Bank remarked that she was very impressed that Sri Lanka was one of the few countries that had announced a per capita dollar target in the manifesto of a presidential candidate. Therefore, it was an interesting commitment to be made and I can assure you that the commitment is a serious one.

### **Key Microeconomic Developments of 2011**

The protracted Eurozone, the debt crisis and the loss of confidence has slowed the global economic recovery. Many of the advanced nations are moving at a slow pace although the emerging and developing economies are moving at a rapid pace. However, they too have felt the impact and the world economic growth continues to be sluggish. This has been the vision of many people, who believe that it will be a sluggish recovery in 2012 and thereafter as well. As conditions become extremely difficult we may need to change some of the targets that we have set out beforehand. Nevertheless we need to have an anchor in our overall journey and we will be moving on the basis of the current projection that has been set out and we

will be able to maintain that momentum even in trying circumstances.

It is an encouraging sign that Sri Lanka has also moved, keeping up with the trends of the upward moving GDP of Asia. We estimate an 8.3 percent growth this year and for the first time in our history, we experienced an eight percent growth for two consecutive years. The GDP was estimated to be USD 59 billion by the end of 2011 and the GDP per capita is expected to reach a level of USD 2,830. Inflation has been steady at mid-single digit levels, foreign reserves have been preserved at comfortable levels, a stable exchange rate has been delivered and we have also recorded the lowest unemployment rate of 4.3 percent, in the history of our nation. There has been a reduction in the poverty levels and we also observed some pressure on the BOP, which took place in the last couple of months.

When you look at the way the country's growth has been fashioned, you can see that the services sector has contributed significantly to the growth. It is estimated that the services sector had an 8.6 percent growth and has contributed about USD 34 billion to the GDP – about 58 percent of the total GDP.

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The Industry sector has grown by about 10.1 percent and the industries have contributed USD 18 billion to the GDP – roughly 30 percent of the GDP.

The agricultural sector was slow at the beginning. This was due to fact that the agricultural sector was effected very seriously in the first half of the year. Yet it recovered and proceeded to grow by two percent in the year 2011. Agriculture has accounted for about USD 7 billion of the GDP – roughly about 12 percent of our GDP.

Unemployment declined to around 4.3 percent – the lowest we have ever recorded. At the same time the overall labour productivity has also been quite good, it has been improving in the last few years. When you compare Sri Lanka's unemployment rates with some of the advanced and emerging economies, we seem to be doing well; because many of the other countries have fairly high unemployment rates today, which has given us some indication as to why there is so much of turmoil in some of the countries.

Poverty alleviation has also yielded some good news, where the poverty has declined to about 8.9 percent by 2010 and our initial estimates are that it has been on a reducing path thereafter as well.

The external sector has displayed very strong performance and the total of our exports and imports has accounted for about 51 percent of our GDP – up sharply from about 44 percent in 2010. This shows that our economy is becoming more open, which is a fairly significant shift in the way our economy is moving today. The expatriate workers' remittances have also grown substantially – about 8.8 percent of the GDP up from about 8.3 percent last year. These are new trends that we have seen in our economy, which we need to take cognisance of and even more significantly work on those seriously as time goes on.

Sri Lanka has consolidated its status as an emerging middle-income country. A significant increase has been seen in export earnings and exports have grown by about 23 percent. This shows the resilience of our exporters, who have been able to move with the times and even in difficult circumstances. There has been value addition, which has proved price competitive and exports as a percentage of GDP has also risen quite reasonably to about 17.7 percent.

Imports have expanded even faster with a growth of over 50 percent and we have seen a very sharp import increase in investment goods and intermediate goods. Imports as a percentage of GDP has reached a level of about 34 percent and we have allowed imports to take place without curtailing the import demand in any way. We have seen a rapid demand for Gold; also imported motor cars were in the range of about USD 1 billion and petrol has cost us USD 1.5 billion more compared to 2010.

Tourism entered a high-growth area, slowly reaching the USD 1 billion mark. It is a good thing and we presently have 197 hotel projects for 12,579 rooms in progression. The tourist board and all the other major players in the industry are taking their growth very seriously, to improve the per capita base spending of the tourists as well. Several key things are happening in the tourism industry: new hotel chains are coming in; new airlines have registered since 2010; Mirissa is now established as the world's top spot for watching blue whales; surfers are coming back to Sri Lanka and new shipping lines are also showing interest in coming to Sri Lanka.

The workers' remittances is another area that showed rapid improvement of about

27 percent from last year. Also it has improved as a percentage of GDP, to about 8.8 percent from 8.3 percent. We believe it has the potential to grow to about 11 percent of the GDP and can be a very important factor for the overall economy. The deficit in the trade account has been contained to a significant extent by the high inflows of workers' remittances and also by the inflows on account of other emerging services such as transportation, computer and other information BPO's, insurance and business services. Therefore, a new equilibrium has been fashioned in our economy in those areas.

The Foreign Capital Inflows have continued to be significant. The Bond issue in July, 2011 was over-subscribed by 7.5 times and the FDI has exceeded USD 1,000 million for the first time in our history. The limit on foreign investment in Sri Lanka rupee denomination on government securities was relaxed from 10 percent to 12.5 percent. The gross official reserves being equivalent to cover about four months of imports has also been established. The exchange rate has remained competitive even in a very high volatile external environment and the fourth sovereign bond was something that many people responded to very eagerly. Also for a long time we were aware about Sri Lanka having a savings gap. In order to reduce that, we need new monies and savings from outside the country to come into the economy, and that was allowed to happen. As a result savings that have taken place in other parts of the world came into the country through the bond issues that the government had, addressing the savings gap. Also if we are to move to a USD 100 billion economy, we cannot use only the organic savings in our country, we have to have new savings coming in so that we can move forward.

Our gross official reserves have remained at comfortable levels, although it has come down to about USD 6 billion by the end of 2011, compared to USD 6.6 billion at the beginning of the year. However, as a result, we have been able to provide the required stability. The international reserves were deliberately brought up to about USD 8.2 billion due to the large scale absorption of foreign exchange by the Central Bank, which also provided the necessary stability. Banks as well as importers all need a steady comfortable price, which does not fluctuate too much. The Central Bank has been confident of the inflows that are due to come in this year and that is why we set out those inflows. We have opened up new avenues for monies to come in and also encouraged the banks to increase their capital.

As a result of the Central Bank policies the exchange rate did not suffer unnecessary volatility. The fiscal consolidation efforts undertaken by the government have been extremely useful and the fiscal deficit this year would be

below 7 percent, down from 8 percent of 2010. Also if you look at the debt-to-GDP ratio, some countries have ratios of 80 percent, 100 percent and even high as 165 percent. However, Sri Lanka is estimated to have one of the lowest ratios at 78 percent. The risk indicators of public debt have also improved all around. When Sri Lanka's debt position is evaluated against stringent considerations set out globally, Sri Lanka is assessed as moderate in one area and as a less indebted country in five other areas.

The continuous upgrading of infrastructure has greatly enhanced the country's productive capacity. Further, private sector investments are on the rise on par with government's infrastructure development projects. These include new hotels, new terminals in the Colombo South Port, new industries in Hambantota Port, new universities and fisheries.

In 2011, we followed cautious and consistent policies and we did not reduce interest rates, ensuring that a certain stable environment was set out for stability down the road. Market liquidity has been reduced to manageable levels and the private sector credit has also expanded rapidly, although it has been on low base.

Broad Money has recorded a year-on-year growth of 19.8 percent, which in our view is somewhat higher than what we envisaged. But at the same time we were able to deliver inflation at mid-single digit numbers. Since there was the possibility of delivering inflation at that level, some of the other factors could be neutralised and it is a question of balance. Sometimes you have to balance one against another and then you have to work out the best balance in the overall context of objectives.

Sri Lanka's sovereign rating has improved. Moreover, initially even though we set out to have an IMF-SBA facility of USD 1.9 billion, a USD 2.6 billion facility was approved and so far we have received USD 1.7 billion plus another USD 0.5 billion, which is a special SDR location provided to all the countries. We are confident that we will be able to have a good relationship with them as the total foreign reserves that we were envisaging to have at the end of the programme was 3.5 months of imports by the end of the programme.

The global ranking of Sri Lanka has improved in many areas in 2011 and many international magazines said that it was one of the best places to visit. We can see that from the Global Competitiveness Index, Doing Business Index and the Human Development Index.

The economy's confidence was reflected in the levels at which the Sovereign Bond has been traded. Overall massive opportunities arose within the country to increase its productivity. We have seen low inflation, low interest rates and stable exchange rates; all of which formed a virtuous cycle, which we need to enforce in the future as well. Better utilisation of production facilities has also taken place.

### **Developments in the Financial System in 2011**

Sri Lanka has been able to stay calm and safe so far and we are confident that we can do so in the future as well. We have better balance sheets in our financial system today and have recorded substantial growth. The banking sector has benefitted from the higher credit growth and the expanding economic activities. We have seen the non-performing loan ratios continuing to decline. The total assets have increased and we have seen the Capital Adequacy levels of the banks at satisfactory levels and that is an important factor for the future. Also the State Banks have been able to show a strong growth and we are very pleased with that.

Despite the banking sector Intermediation Costs showing some respite all banks were able to make profits. The system has been sound and stable as the 'safety first' policy has been ingrained into many of the banks. The non-banking sector has increased its assets and will play a key role in the future. The loan portfolios in the non-banking sector also grew by 48 percent – a significant growth – and asset quality improved with a sharp drop in NPAs as well.

**...Many Outlets Of Financial Institutions Opened During The Year. One Third Of Those New Outlets Opened Have Been In The North And The East And Banks Have Taken The Initiative To Go To Those Areas And Ensure That Their Banking Products Have Reached The Area.**

We have set new capital limits for the banks as well as finance companies and adequate notice has been given. We want to reiterate that we would like to see all banking and non-banking sectors adhere to those capital requirements that we chose for a sound and resilient capital structure. The non-banking sector has ventured out as well and we have seen the title of distressed companies reducing. By the next year all should not be distressed.

We issued two banking licenses during the year – one to Amana Bank, dealing with Islamic banking products and another to Axis Bank in India. A private sector group has also been granted a provisional banking license and the Chinese Renminbi

(RMB) has been specified as a designated currency for foreign exchange transactions. In the meantime, many outlets of financial institutions opened during the year. One third of those new outlets opened have been in the North and the East and banks have taken the initiative to go to those areas and ensure that their banking products have reached the area.

The regulatory framework was strengthened during the year. As a result the Finance Business Act and the Regulation of Controllers Act were brought in. Regulation for mobile payments was also brought in, while an Early Warning System was developed within the Central Bank to figure out any oncoming vulnerabilities. A customer charter as well as an Integrated Risk Management system was introduced and an Investment Fund Account was introduced by the government with the necessary framework set up by the Central Bank.

Overall, the financial system expanded while funds mobilisation through IPO's and Rights Issues also increased. Secured transaction registry for movables and the implementation of the Basel II Capital Adequacy Requirements was established.

Payment and Settlement Systems were improved during the year. We have a 99.9 percent availability; however, we will be moving towards the 100 percent point in the coming years. The stock market had mixed results, which ended 8.5 percent lower than the previous year, but we believe that it will now have the platform to reach out for the future. Also the foreign holdings are about 20 percent of the total market cap and we believe there is sufficient space for it to increase.

Public debt management is one of the most important functions of macro-management as it is the root to some of the problems in the world. Liquidity management, debt management – these are critical factors in the economy and it is important to reflect on these matters. If you look at the cost of debt, it has been brought down. Not only has the yield curve increased in its depth, but it has also had a reduction in value making it a clear trend that has been followed.

The Financial Intelligence Network has also been improved. Sri Lanka is now AML/CFT compliant and that's an important factor in the world's future and we will maintain it in the future as well. Several exchange control regulations were liberalised, but we do believe there are some leakages of foreign currency. We see that the money changers have not done their part appropriately, because in 2009, when the economy was much less vibrant, the total amount of money changing that took place was 297 million, but today it is down to 82 million ensuring there is some

kind of leakage.

During the year the EPF reached the Rs. 1 trillion milestone, where they have made careful investments with a long-term focus. The long-term health of the companies should be taken into consideration due to the fact that if something happens, people will question, "Why did you not look at those investments you were making?" That's not what is expected by the people who put their money in the EPF. So we have given the investment advisors and investment teams the necessary latitude to look after those investments carefully. When you have several investments it's similar to having many eggs in a basket. When you have many eggs you have to look after the basket also, because if the basket falls, all the eggs will break. If you do not look at the platform - the basket - you will have many investments - eggs - that are vulnerable. Furthermore, all over the world there is a call for institutional investors to take an interest and the people who come into management should also be accountable to the investors, who make these investments.

The central bank issued the 11th series of currency notes and the old notes will be phased out. We've done well with the new notes and had some global recognition as well. In all activities we have attempted to be in close-touch with our numerous stakeholders and there are about 195,000 hits on our website. We have had many programmes where we met with the public and also there had been many media releases.

## **Macroeconomic Outlook and the Monetary Policy Strategy for 2012 and Beyond**

Our economy has taken a major change. We need to understand, accept and use that change, otherwise it will be of no value. If you look at the sectoral share of our GDP in 1950 - it was a total about USD 900 million - 45 percent was agriculture, 19 percent was industry and 36 percent was services. By the time 1977 came agriculture had dropped to 31 percent - USD 1.3 billion, industry was 28 percent and services was 41 percent, which was about USD 1.7 billion. In 2011, our total GDP was about USD 59 billion and of that 12 percent or USD 7.1 billion was agriculture, USD 16.6 billion was industries and the services accounted for about 58 percent. At the same time the dominance of the western province has also diminished as other provinces have gradually been catching up.

Furthermore, the economic and social structures have also undergone a massive

transformation. The telephone density in 1990 was only 0.7 phones for 100 people, today it is 105. Percentage of households electrified was as low as 26 percent in 1990, today it is 92 percent. The number of persons per doctor was 6,900 in 1990 and now it is 1,400. There were only 918 banking outlets in 1990, now there are about 6000. So there has been a material change in the way Sri Lanka has changed over the past few years. If you look at 2011 and 2005, just in five years, there has also been a major shift that has taken place. GDP has gone from USD 24 billion to USD 59 billion, per capita has gone from USD 1,200 to USD 2,800, worker remittances are up from USD 1.9 billion to USD 5.2 billion, FDI is up from USD 0.3 billion to USD 1 billion and the debt-to-GDP went down from 91 percent to 78 percent.

### **In Our View 2012 Will Be Even More Different. GDP Will Grow To USD 66 Billion, Per Capita Will Grow To USD 3,100...**

In our view 2012 will be even more different. GDP will grow to USD 66 billion, per capita will grow to USD 3,100, workers' remittances will be USD 6.5 billion, FDI is estimated to go up to USD 2 billion, foreign funds into banks will reach USD 1 billion and tourist arrivals maybe more than 1 million, perhaps 1.2 million people. Also the external sector, we believe, will undergo a major change with new inflows and special long-term financing has been now negotiated for petroleum, about USD 1 billion. We are working on some long-term currency stocks, and also by opening out the treasury yields and bonds, we expect inflows of USD 0.5 billion this year.

So as a result there are changes that will take place and have already been established in our economy. There will be new outflows and instead of curtailing we should give the impetus for the outflows to take place without controlling it in any way. If we allow the imports to come in, which are financed by new areas, we will have a new equilibrium settling in our economy.

So the major FDI projects are also important for us to recognise and we believe they will be a key anchor for the influence that will take place in the future. In the meantime the Central Bank is carefully prepared to move to a more advanced monetary policy framework.

Almost 10 years ago the 'Staff Studies 2001/2002' report spoke of targeting inflation and set out some pre-conditions. They were reducing the budget deficit to a reasonable level, having a more representative price index – the price index at that time was a 1948 basket of Colombo Consumer Price Index (CCPI), needing a

measure of core inflation, needing inflation forecasting and having a commitment towards reducing inflation. Therefore, over the last five years we actively worked on the above measures recommended in 2002. We brought down the budget deficit, the base was revised for 2007 - as far as CCPI was concerned, new core inflation was brought in, inflation forecasting methods and monetary policy transmission were improved. We also brought in a realm of communication and transparency to our actions and found we were able to deliver price stability over the past three years. That gives us the confidence to move to new levels and therefore, from the year 2012 onwards we will with greater confidence target the inflation as well.

The new policy framework will consider the new policy environment, which is a tight one. The tightening of the global supply conditions, climate change, natural calamities and the widespread political unrests, which are continuing, will be factored into the framework. The Euro debt crisis is continuing with no end in sight and it is shrinking the confidence in governments and all the indicators in those conditions seem to be unfavourable. We're seeing low growth in the global economy, which again, will be factored into studies as well as our own policy frameworks.

**In Order To Face The Challenge Internally We Will Equip Our Supervisory Teams, Develop Our Early Warning Systems And Continue To Enhance The Knowledge Of The Banking Community. We Will Also Support The Corporate Debt Market, The Greater Broadening Of The Government Securities Market And We Will Encourage The Vibrancy Of The Stock Exchange When It Has To Move To A New Level, Which I Believe Will Take Place In The Next Few Years.**

We asked ourselves the question: "Can Sri Lanka maintain its growth momentum?" In 2012, we expect major contributions to growth from the agricultural sector, which we expect to expand 7.3 percent compared to the 2 percent from 2011 and we have seen a 14.2 percent growth in paddy due to favourable weather conditions so far. Fishing and tea sectors have been improving and furthermore coconut has seen major potential for growth in 2012. The industry sector is going to be growing at a slightly lower pace than in 2011 - down from 10.1 percent to 9 percent - because construction will have a fairly high level of growth. The growth for the hotel industry is also being envisaged and so is the electricity, where we do the low-cost power generation used in coal power. The service sector is again, going to be expanding at a very modest 7.7 percent compared to the 8.6 percent in 2011; about 22 percent coming in from the tourism sector, 8.2 percent from domestic trade, 10.2 percent

from the post and tele-communication and of course high-end services will have strong growth of about 8.2 percent.

We also see macroeconomic conditions playing a major role in our growth story. So we will have to ensure that growth is also supported by the Central Bank and the Government by maintaining investor confidence, promoting agricultural and industrial products for both traditional and non-traditional markets and continuing the promotion of FDIs.

If we are able to maintain the momentum – and we have every confidence that we can – then, after careful consideration, we decided to announce that Sri Lanka will be able to generate an 8 percent growth in the year 2012, down from the 9 percent we projected in our roadmap in 2011. Although there has been a reduction in the growth we had originally envisaged, we believe, considering all the factors we have conveyed to you now, that we will be able to maintain the growth at 8 percent.

On our part the Central Bank will be keen to accommodate the higher growth – but our priority will be inflation. The fact that we have the 8 percent growth within our reach gives us the confidence that in the event that there has to be any kind of attention paid, we have the ability to give that little bit of a respite to the growth when dealing with a situation of strong inflation/depression building up. So that is a guard that we have, and we will use that as necessary.

So based on that factor we will expect to deliver inflation at single-digits – between 5-6 percent – and the GDP deflator will be 6.5 percent in 2012. We also expect the fiscal deficit to decline to 6.2 percent and the non-bank borrowings are expected to increase in 2012, so that the government will not need to borrow as much as it has in the past. In addition, looking at the external sector performance, we expect tourism and related projects as well as workers' remittances to be key anchors.

With this background the implementation of monetary policy will be multi-dimensional and we will be considering many factors. We will look at policy interest rates, global market operations, exchange rates – which will be viewed as a key stabilisation factor of the economy, engagement in policy discussions with our Monetary Policy Consultative Committee as well as with other members of the public that we have various interactions with and also at the productivity and capacity utilisation, which will be viewed as key items in the war against inflation in the next year and beyond.

According to the monetary analysis in 2012, the money multiplier is projected to remain unchanged at around 5.6; the growth of broad money is targeted to be around 15 percent; reserve money is targeted to grow at around 15 percent on a daily average basis; private sector credit is expected to moderate and be around 16 percent; foreign inflows will be actively encouraged and we will also look at the real value of savings in order to infuse the savings culture in our country. If you want to retain high levels of savings, you need to preserve the value of your savings. If people believe that your savings will erode over a long period of time, then the commitment that they have towards savings will be less. Therefore, we will be looking at the value of savings over the longer period.

We will continue our global collaborations with global financial institutions. The last test date for the IMF-SBA programme was December 31, 2011 and we expect the review mission to come on the third week of January, 2012; we will negotiate with the IMF on a follow-up or surveillance programme and we are also looking forward to the Financial Stability Assessment Programme (FSAP), which is to be conducted in 2012 in collaboration with the IMF and the World Bank. However, caution should be given that we may have to change in the event that major changes occur in the rest of the world.

I want to make a special mention of the various stakeholders – particularly the Monetary Policy Consultative Committee – who, every month have had a very useful discussion and have offered their advice and guidance. I want to thank Mahen Dayananda, Chairman as well as the other Monetary Policy Consultative Committee members for the interest that they have taken as many of them serve voluntarily and they have been extremely helpful in their views.

We believe Sri Lanka must now fashion its own policies, to grow to a USD 100 billion economy from the USD 60 billion at the end of 2011. Therefore, we have to look at the assets of our banks, which will probably increase to Rs. 8 trillion from the current level of about Rs. 4.5 trillion. Lending will reach to around Rs. 5 trillion and the net interest margin might have to come down to about 3.3 percent in the next few years. Market capitalisation in the stock exchange might reach to around 70 percent of the GDP by 2016 and the corporate bond market will probably be Rs. 1 trillion. So enormous changes will need to take place in our economy, in the next few years, if we are to really position ourselves to be a USD 100 billion dollar economy by 2015. It won't happen automatically, we need to fashion all our policies to break into that. So towards that scenario, banks will need to synchronise their own evolving needs and innovative and sophisticated financing solutions should be

created by the banks using their own balance sheets better and also by using their capacity for greater capital infusions. The Central Bank will also strengthen the regulatory regime, as we will have more frequent examinations and we will have a bank grading system, which will be internal to us. We will also look at related parties and in the non-bank finance sector, we will be looking at the Finance Business Act being implemented carefully in time to come.

In order to face the challenge internally we will equip our supervisory teams, develop our early warning systems and continue to enhance the knowledge of the banking community. We will also support the corporate debt market, the greater broadening of the government securities market and we will encourage the vibrancy of the stock exchange when it has to move to a new level, which I believe will take place in the next few years.

The Payments and Settlements Systems also have to be prepared and fashioned. We are upgrading the LankaSettle system, establishing the national payment switch and introducing the Line-encryption technology. Moreover, we will assess the payment systems against new core principles of the BIS and publish the oversight practices of Payment and Settlements Systems as we expect the total transactions to increase by about 45-50 percent in the next few years – for that we have to lead and prepare the platform. The FIU environment will also be kept at a robust level and we will encourage foreign exchange transactions even more, by granting permission for local listed companies to be listed in foreign stock exchanges and by granting general money changing licenses to many other organisations. We will hopefully have some automated foreign currency encashment operations to deal with the money changing problems and we will ensure that there are convenient formal mechanisms provided for people to cash their monies as well. Also I would like to thank the Financial System Stability Consultative Committee – especially Mr R N Asirwatham, Chairman and his team – for giving us the insights necessary to maintain the financial system stability in our country.

### **Policies to Strengthen the Economy in 2012 and Beyond**

We will have to continue to anticipate changes and challenges and prepare ourselves even better. We will see several improvements taking place in the agency functions and particularly work actively to improve the public debt management to deliver a debt-to-GDP ratio of about 60 percent by 2016.

Here, we will also endeavour to mitigate the impact of the rupee depreciation of the

public debt. When considering the public debt, the rates of exchange that we have borrowed has been about 1,576 billion, but at the time of conversion it has gone up to 2,253 billion, leading to an increase of about 677 billion. This is due to the impact of the depreciation of the rupee, on our total foreign debt. We will endeavour to fashion our policies to ensure that this impact will be minimized as it can be quite a sizable amount to deal with in the event that we do not take steps to mitigate the impact. Even companies are affected by the same situation when borrowing from abroad as you need to ensure you have the capacity to repay and we will be paying close attention to that.

Provincial development will be given a major boost. We will target the SME sector, ensure the lagging regions get sufficient monies to come in and also assist the government and the private sector with the necessary interventions to move towards high-growth targets. Particular focus will be given to tourism, agriculture, fisheries and construction – as we believe they are the key anchors for our economy to move forward. ICT, apparels, industry and remittances will also be supported and we want to maintain a robust level to ensure that the growth momentum is maintained. Ports and aviation should also have serious investment, which we will be working on in order to deliver the growth for the future.

In line with these objectives the EPF will actively implement strategies to maximize returns in a low interest-rate regime. We have to understand that we are moving towards a low-interest rate regime and in such a situation delivering returns is a challenge while ensuring that there is steady growth in the fund. We will also have new methods by which online member contributions can take place and the number of contributing employers will also be enhanced.

Currency management will be strengthened and we want to consider soiled notes as a thing of the past. It has been a challenging situation, but we have implemented new methods in which the soiled notes can be brought back so that we can issue new notes. We want to do so in order to build a better image for the country, as a country is sometimes looked at by foreigners by the quality of the notes.

### **Concluding Remarks**

Let me conclude by saying that we have developed a focus and we are committed to the implementation of our policies as well as our plans. We do have difficulties sometimes and we might not be able to deliver on every area that we have set out, but as you know it's always a balance that we need to strike and our overriding

commitment would be to financial and price stability. In all of our work we have been guided by His Excellency the President, Mahinda Rajapaksa as the Minister of Finance, the Deputy Minister of Finance, the members of the Monetary Board and Dr P B Jayasundera, Secretary to the Treasury. I want to make a special recognition of the members of the monetary board Mrs Mano Ramanathan, Mr Nimal Welgama and Mr Neil Umagiliya and also the former Deputy Governors, Mr Dharma Dheerasinghe and Mr Priyantha Fernando and the new Deputy Governors, Mr Ananda Silva and Dr Premaratne. Furthermore I want to thank The Consultative Committees on Monetary Policy, the Financial System Stability and all other committees.

In 2011 when we set up our Road Map we said that we would deliver certain targets – growth at 8.5 percent, inflation between 4 and 6 percent, broad money at 14.5 percent, international reserves 5-6 months, Debt-to-GDP at 79 percent, remittances at 5.1 billion and unemployment at 4.5 percent – overall we have been able to, by and large, deliver that. It has not been easy to achieve as it has been a tough year. Therefore, I want to pay tribute to the banks, the finance companies and all others in the financial and the connected sectors who have contributed to these results and also to the whole country as they are owners of the growth of the Central Bank. We are only the ones who record it and facilitate it.

I will end by saying that we are deeply committed to the mission of maintaining price stability and we have worked diligently towards that. In 2008, we worked on a plan to take us towards prosperity and in 2009 we challenged our comfort zones to see if we could come out of the levels that we had been traditionally accustomed to. In 2010 we moved towards fast-track prosperity and we took many steps to take the country on that basis. In 2011, we recognised the need to reposition the country, the Central Bank and the overall system to move to that new level and in 2012 we thought we will raise the bar. We will move towards a new era and we are confident that we can do that. We will together with all of you, deliver prosperity to our country. Thank you.



