Road Map: Monetary And Financial Sector Policies For The Year 2013 And Beyond

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The Governor of the Central Bank of Sri Lanka, presented the Road Map for Monetary and Financial Sector Policies for 2013 and Beyond. It comprised with an assessment of the macro-economic developments in the previous year, policy direction for 2013 and for the medium term, and to ensure a smooth transition into USD 4,000 per capita era. It was mentioned that the year 2012, was a year of consolidation following the post-conflict recovery. In preparation for the second wave of growth, policies have been implemented to strengthen country's macro-economic fundamentals. Many other measures have been taken, in oder to maintain economic stability so that Sri Lanka becomes the next "Break-out" nation.

Compiled by Dilesha Dias
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Ajith Nivard Cabraal, Governor, Central Bank of Sri Lanka
This is the 7th consecutive year that we enunciate our policy direction and the work

plan for the upcoming period. I believe we have been able to perfect our policies to a great extent, although there maybe various areas that we need to continuously improve. The new measures are needed, in order to realise many of the dreams and aspirations of our country.

A review of the past three years – 2010, 2011 and 2012

It is a useful time for us to reflect on the past three years which sets the stage for what we are going to articulate to you to take our country forward. Sri Lanka began a new journey in 2010. Wonderful things have happened in just three years of post-conflict period. When I look back at thirty seven years prior to that which were engulfed in conflict, and now after the war is over, we have a freedom to take on our economic measures without having any nagging doubts. I believe that, it is only the last three years that we really had an economy that we could work in a situation where it was conflict free. These last three years were excellent in my view and now we have a path with plenty of opportunities which we will have to make use of. Let me also preface my remarks, what we articulate to you on our policies will be estimates, and I believe all of you will understand that. The IMF also sets out estimates every year and they revise it at least three times during the year, there is nothing wrong in it. The World Bank does the same. Sri Lanka will do the exact same, whenever we understand that there is a necessity to revise our estimates, we do revise it. But in certain occasions some of the people are unable to understand this very well and think that there is a mistake in the procedure. Hopefully, they will also learn that in due course and it will be a process to them as well.

The growth momentum during the last three years

A major growth momentum was witnessed in the aftermath of the conflict with the economy recording growth rates of above eight percent for two consecutive years for the first time ever in 2010 and 2011. “Peace” dividend has been clearly visible, remarkable performances have been witnessed in all key sectors of the economy. The business confidence was enhanced and generated benign macro-economic fundamentals across all vital sectors. There was a gentle deceleration in the growth in 2012 for good reason. In economic management there will be occasions where you have to slow down and take the necessary measures and be ready for the next stretch. If you go the whole way without a change in your speed you probably end up with a crash, and I don’t think that is what everybody is looking forward to experience. We slowed down at the right time and made the adjustment that was

required.

By the end of 2011, the Sri Lankan economy had recorded a remarkable progress amidst global challenges. The high economic growth, increased level of investment, low inflation, decline in unemployment, buoyant external trade, tourism on an accelerator and balance of payments are areas of significant improvement in comparison to the previous years. And we also found that the macro fundamentals which are also extremely vital, for example; the debt to GDP, interest rates, were also moving in the right direction.

2011 was a tough year, the growth forecast as well as the growth of all the countries experienced a decline. The advanced economies, emerging markets and every other sector experienced a decline in their growth. We too faced difficulties. The fiscal cliff which was spoken of, fortunately didn't materialise. And if that would have happened, all our estimates would have been wrong and we would have had to revise all our estimates. But nevertheless, it was reverted and we were able to have greater movement in the areas that we stressed our attention. Locally we did see the excessive credit demand and the high imports. Drought conditions affected in the middle of the year had resulted the third quarter to be slightly less than expected. We had to revise down our growth forecast for this year to 6.5 percent. Heavy rains in the last quarter disrupted the food supplies. To deal with these challenges, several tough policy decisions were implemented at the beginning of 2012. The monetary policy was tightened, we placed a ceiling of 18 percent on bank credit expansion; additional five percent for foreign funds. Exchange rate policy was changed to make it more flexible, fiscal policy was changed by imposing additional tariffs and excise duties on selected imports. Through all that, we did manage to maintain the growth momentum. We also managed inflation to remain in single digit for 47 consecutive months. The longest ever period in our history.

2011 Was A Tough Year, The Growth Forecast As Well As The Growth Of All The Countries Experienced A Decline. The Advanced Economies, Emerging Markets And Every Other Sector Experienced A Decline In Their Growth. We Too Faced Difficulties.

And, as expected, import expenditure declined. We found that the decline was very useful. Imports as a percentage of GDP is 31.5 percent. There was a clear contraction in the growth credits as well as inputs that helped us to stabilise the external sector a lot better. We found that the imports have declined from about

April onwards. That shows our policy was working as we expected. At the same time however, export earnings too, declined as a result of the weak global demand. Hopefully with the reversal we would see the exports rising once again. We do see that the reliance of exports in goods alone, will not be sufficient for us to move forward. We need to rely to a great extent on the exports of services as well. Our economy is moving towards that in the future, and it will happen. More importantly the trade balance contracted. The trade deficit which was as high as 16.4 percent in 2011, contracted to 15.1 percent of GDP in 2012, which again was a realisation of yet another target of our policy measures. As a result of the trade deficit and the increase in other earnings, the current account deficit reduced substantially in 2012. The current account deficit at 7.8 percent of GDP in 2011, contracted sharply to 5.5 percent in 2012.

Balance of payments from a negative of 2011 came to a positive in 2012. I believe we will have a balance of payments of about 100 million dollars in this year. A lot more sustainable, and excess reserves which were better used locally than in foreign countries, as pure investments have also paid off. We are building up the level of reserves in a gradual basis, to the level that is required and to have extraordinarily more reserves. During the year, higher policy rates, credit and lower levels of liquidity led to higher market interest rates, curtailed rapid increase in credit and checked import demands. The credit growth in the private sector declined after the first quarter of 2012, was exactly as we had wanted it to be. In spite of significant price revisions, the credit to the public corporations was increased. Specifically for the two major corporations CEB and CPC, but yet we would have preferred if that credit amount was not provided to the public corporations and it had been lesser than what they have been able to take on. In the case of CEB and CPC, they are still running at a loss, and we need to change that. Prices need to be adjusted, if that is to be changed. That is an area that the Government and the policy makers are concerned.

There Was A Clear Contraction In The Growth Credits As Well As Inputs That Helped Us To Stabilise The External Sector A Lot Better.

The Net Credit to the Government (NCG) has also increased, particularly from the licensed commercial banks. Although, the net credit to the Government was a marginal three billion rupee increase and had come down sharply during the last three months after the spike that it had during the early part of last year. The banking sector shifted their own way of doing business to a great extent,

investments and loans of banks have been more focused on the local economy. We do see a situation, where net foreign assets are at a neutral level. Monetary expansion was subdued and reached target levels by at the end of 2012. And the broad money (M2b) will probably have a 16.2 percent decrease. As a result of all these measures, Sri Lanka has been able to maintain inflation at single digit for the past 47 months, a lot longer period than we have ever had in the past. Reflecting on that more closely, the longest period we had before that was in 2001 and 2002, where the inflation was in single digit for 23 months. It was fluctuating very widely, it had been very difficult for people to do business in the private sector. But today we have worked very hard to ensure that inflation is maintained at those benign levels. Although there were massive adjustments both locally and internationally, we are now committed deeply to a low inflation regime. The success of having single digit inflation is now being enjoyed by everyone. It is vital that we maintain this situation for the future as well.

Towards the end of the year some relaxations were possible and were effected. In December the Monetary Board announced, that the Reverse Repurchase rate and the Repurchase rate were reduced by 25 basis points. Also, the ceiling that we had imposed on the bank credit in 2012 will be allowed to expire. Hence, there wont be a fresh ceiling that will be imposed from 2013 onwards. But we would observe the situation carefully, to see that there is no undue increase in credit. Bankers should take that as an important factor in their own expansion plans, while being watchful and mindful of the country’s economic condition, because we would not want to impose another credit ceiling. The multi-pronged policy package that we adopted in early 2012, helped the economy to get back on track swiftly, and to record the shortest tightening cycle since 2001. For the first time in our history we have had the tightening and the loosening of the monetary policy happening in the same year. In many other countries you would find that most of those restructuring would take four to five years. But in our case it was in eleven months, we entered and made the adjustments and exited. During the year, our foreign reserve accumulation was prudent. Not too excessive nor too low, we did not want to go into a situation where we were going to have seven to eight months of reserves. I think we have the right balance in our own reserve levels. That is something we had looked at achieving.

The workers‘ remittances expanded significantly. The Government‘s approach

particularly the Minister of Foreign Employment, who calls these workers‘ remittances or the workers who remit these money regularly as ‘rata wiruwo‘. An interesting terminology to show that they are an important segment of our population and important segment of our economy. It is a good word to have, because they have kept our external sector buoyant and to ensure that we continuously have a steady stream of foreign exchange coming in to the country. Workers‘ remittances are estimated to be around six billion dollars, its about four times of what we earn from tea. There are many measures that are taken for these money to come to that level. It was careful planning and careful execution which made this happen on a regular basis. It has reached a level of ten percent of GDP by the year 2012. The high level of inflows on account of emerging services, also buttressed the current account. Its a new trend and a structural change in our economy, which we must take advantage of. Exports of services are also a very important factor. And when you think about exports, they have to be goods and services. At present, you can find that there are massive opportunities that are unfolding in Sri Lanka. In addition, several other inflows to the capital and financial account were also timely. Portfolio investments had been on a sharp upward strength, about 300 million dollars came in to the stock market last year. Sovereign Bond receipts, came in of about one billion dollars, net inflows from the sale of Government securities increased to 843 million dollars, mainly as a result of the relaxation of the threshold of treasury bills and treasury bonds. We also maintained a robust and flexible exchange rate policy. We found that the Rupee, has come to a reasonably stable level. Our working show that, since June about 5.3 percent has been the appreciation of the Rupee. Although, we end the year with a depreciation of ten percent on a net basis during the year.

Workers’ Remittances Are Estimated To Be Around Six Billion Dollars, Its About Four Times Of What We Earn From Tea.

Poverty alleviation measures have been strongly worked out. The dominance of the Western Province have also been reducing in gradual terms. All the other provinces have begun to show improvement which has not been there in the past. It is also due to many of the banks functioning with a lot more vigor in those areas that has helped us to make this happen. By 2016, the idea is to bring down poverty to less than two percent. We would have to work on that by ensuring three areas; to have 100 percent coverage of electricity, the concreting of roads, new roads to be laid in the rural sector, and the provision of assistance to banks as well as non banks, funds into those rural sectors will enable them to ensure that they will have an economic activity. Prosperity as tracked by the Sri Lanka prosperity index, has

also improved. Significant factor is that the Northern Province in just a three year period, has been able to move from the ninth position to the sixth position. It is as a result of prolonged as well as sustained measures put in by the Government and as well as the private sector.

Unemployment reached the historically lowest rate of 3.9 percent of first half of 2012. The idea is to make it less than three percent by the year 2016. Labour productivity also improved, but certainly a lot more improvements are necessary. Movement in the labour productivity, the total labour productivity has improved, services and industry has been improved, but the agriculture labour productivity has not been improved as much as it should have been. I believe there is ample opportunity for Sri Lanka to improve on its productivity as we go along in the next few years. A serious commitment has been made by the Government towards sustainable fiscal consolidation. As a direct result of public investment, massive infrastructure projects have transformed the country. There are several new road development projects that will happen in this year. The Southern Expressway will start probably by June of this year, and the road will go up to Matara. Colombo-Katunayake Expressway will be completed this year. The Colombo Outer Circular Highway Project (29km) will also be finished this year. These are massive projects, that will change the way that all of you do business, and the way we approach our normal living conditions in our country. Our projects, Norochcholai Coal Power Plant, will hopefully come into the second phase in next year, the second airport will be ready in this year. And a lot more changes are occurring, and I believe it is right for us to see that these massive development will encourage us in our movement forward.

The five-hub concept introduced in ‘Mahinda Chintana‘, has been gaining ground while tourism has emerged as a key trust industry. Tourist arrivals have done well. The projections of one million tourists were realised and it has been achieved. It is an interesting milestone. We have received many accolades, Lonely Planet said that Sri Lanka is the best place to visit in 2013, and best destination to visit in 2013 by British Airways. These are important facts that will help us to gain momentum. Sri Lanka’s HDI ranking has improved and the highest ranked in South Asia. Sri Lanka is ranked 97 out of 187 countries. And our average of HDI has improved, compared to the average world HDI rankings.

“Doing business” indicators and other international ratings have also improved. For the first time in seven years, South Asian country ranks among those improving the most. Sri Lanka has reached the 81st ranking. Sri Lanka has been acknowledged as the country that has improved the most in South Asia, and the second most in the world. Sovereign credit rating were maintained, where many other countries’ ratings were downgraded. During the year 2012 we completed the IMF-SBA. The first time that we have successfully been able to complete a multi year programme of that nature. I believe it was an important credibility issue as well, to establish that Sri Lanka can go through a programme like that and finish it. The programme was completed, which was an important message to the rest of the world as well. The growing confidence of overseas investors in Sri Lanka was evident from the performances of the fifth sovereign bond, which set a new benchmark. We have also seen many gradual improvements that are taking place, in the two key SOE’s, in CPC and CEB. Other SOE’s have plenty of potential for the improvement.

The public debt has been managed, we have been able to curtail the debt to GDP level to around 81 percent, mainly due to the one-off increase of about 278 billion rupees in the public debt on account of the depreciation of the rupee. The risk indicators of the Sri Lankan public debt has been improving and according to the UN-ESCAP definition levels, we still stay in the benign columns. However, the cost of debt portfolio increased in the early part of the year, but towards the latter part of the year and in time to come, we expect it to move down lower. During the year, the interest cost as a percentage of GDP decreased marginally, the average time to maturity of domestic currency debt improved. There was a very clear shift in treasury bills and treasury bonds, as a result the debt profile improved.

Despite the challenges in the economy, Sri Lanka’s financial system maintained its stability. There has been a steady expansion in the banking sector. Performance of almost all the financial institutions were improved. Regulations were strengthened and streamlined, efficiency of the Payment and Settlements system increased. Safety net mechanisms and consumer protection were developed. The banking sector was responsive to the needs of the economy, and helped to achieve a more rapid and sustainable economic growth. The banking sector stability indicators improved, the Capital Adequacy Ratio was maintained at very good levels. The Basel II Capital adequacy standards continued to be implemented and monitored. Several banks successfully accessed international debt markets during

the year. Several banks secured 973 million dollars in total. Its an important change, a paradigm shift. And it shows us what greater opportunities are there for us. Continuous supervision and guidance helped us to ensure a stable, streamlined financial system. Massive campaigns were also conducted against prohibited schemes in the course of the year. A number of financial risk assessment techniques were developed and it will continue to monitor the state of the financial system as we move along. Non-banking sector assets and deposits were improved. Proactive and timely supervisory policy measures were introduced, specifically in five sections. New directions were issued to finance institutions, supervisory actions were taken fast, combating unauthorised financial institutions, initiating regulatory mechanism for the macro finance sector and reviving some of the distressed companies.

Despite The Challenges In The Economy, Sri Lanka's Financial System Maintained Its Stability. There Has Been A Steady Expansion In The Banking Sector.
The payments and settlement system has also benefited by many innovative systems. The Employees' Provident Fund (EPF) grew by 13 percent to 1.15 trillion in 2012. 301 billion rupees was invested in Government securities, the share portfolio yielded about 2.7 billion rupees as realised income and long term share portfolio was maintained. Foreign reserves management returns showed remarkable results, and its the first time, that I have seen the Auditor General use the term 'remarkable' in his audit report. The country was able to deliver 430 million dollars in the year 2011. Though 2012 was a challenging year, we have profits of about 225 million dollars. And its only the last three years that Sri Lanka's foreign reserve management has been able to deliver results ahead of 200 million dollars a year. The rates in 2011 which were analysed suggest that Sri Lanka's Central Bank out performed almost every other central banks. Currency management was improved further in 2012. We implemented the Clean Note Policy; we want to see that the country has a new image of nice, crisp and clean notes. And that's something we are working towards in the next few years.

Our profits transfers have helped the Government tremendously. Last year was the highest ever appropriation done by the Central Bank at 33 billion rupees. And we hope that we will be able to ensure that it is taking place, because that will be a huge support to the Government. The Central Bank has been in constant touch with the stakeholders, many awareness programmes were conducted. Average visits to the Central Bank's website per day, is more than 212,000. And I believe

that, it is an important communication tool that we use to interact with our stakeholders.

When we take on an overall basis, our current macro-fundamentals have reached benign levels. GDP growth, GDP per capita, inflation, remittances and in all other areas, there had been a gradual and steady improvement. Per capita income has been improving consistently. That shows we have been moving in the right direction.

The platform is set for sustained progress towards a 100 billion dollar economy and a 4,000 dollar per capita income.

The projections that we have set out will have the key parameters, which will be what we would like to achieve in the next few years. By the year 2015 we would like to get back to a growth of 8.3 percent, and the GDP deflator around the five percent mark. Total investment to rise to about 32 percent. The trade balance will shrink to some extent as a result of imports reducing on an overall basis. The overall budget deficit will be around 14.7 percent by 2015. Broad money growth will also be a profitable 14 percent.

Ensuring that inflation stays on course at mid-single digits for the next five years will be a priority. That’s something that we will give serious consideration. The Central Bank will also focus on two key factors in order to maintain macro-economic stability, the sustainable economic growth and the employment. We are eager to see that in 2013, 2014, 2015 and 2016, the growth will come to the rate that we enjoyed in 2010. And to see that the unemployment rate reaches less than three percent mark by the year 2016. In the determination of the exchange rates, market based flexibility will be maintained and it will allow the market conditions to be reflected. Limits on the forward market transactions will be relaxed. We will also allow selected derivative products to be developed. At the same time, the Central Bank’s monetary policy will be conducted within the current framework of monetary targeting. The world is also moving towards ensuring that there is more monetary targeting. And the imposition of monetary targets, have been understood and welcomed as an important factor in monetary policy transmission.

The policy rate corridor will continue to guide short term interest rates, in order to promote domestic savings while encouraging productive activity. And operationally, we will be considering making some changes during the year. Particularly, lengthening the current one week reserve maintenance period to two weeks, conducting regular term auctions to address structural liquidity and also enhancing operational capabilities in order to fine-tune operations to manage day to day liquidity in a more effective manner. We will continue with our robust communication policy, because we believe, that the market expectation have become an important component of monetary policy transmissions. We find that, it is essential for us to maintain an open policy, to ensure there will be communication in a broader scale. We will be also focusing a lot more on the entire external sector in the future. At the same time, the Central Bank will facilitate other key activities that will directly impact the exchange rates. The portfolio investments, FDI, raising of debt capital, private and worker's remittances, foreign borrowings by private sector, and import substitution measures. You could find that there is a huge transition in our economy, which can have a huge impact in our external accounts as well. We will be supporting large scale foreign exporting activities, particularly, tourism, knowledge based activities, global commercial activities and prudent sovereign debt management.

Trade and services gap will also be managed proactively. so as to not lead to excessive pressure on the BOP and the Exchange Rate. In addition, there will be greater emphasis in developing alternative non-inflationary sources of financing. Presently, the bond markets in Sri Lanka is about half a billion dollars. But for a one hundred billion dollar economy, the bond markets should be at least at 30 percent. Even if we do not reach up to 30 percent, if you reach up to 10 percent it will be at 10 billion dollars. You can see, what a huge potential that we have, and these are areas that we need to work on, not only the regulators, but also the private sector. Steps will be taken to bridge the high savings-investment gap through medium to long-term measures. In Sri Lanka the gap is still very large, we need to continuously take the required steps. Development of the capital market, by foreign investors, will be an instrument that we will have to encourage in order to bridge the gap.

Further strengthening of financial institutions and deepening financial markets will be key strategies for 2013 and beyond. Several existing Exchange Control policies will be relaxed. Time restriction on forward foreign exchange transactions will be

removed. A new investment account for non-residents amalgamating several types of investment accounts currently maintained at LCB's and a new inward Remittances Distribution Account will be introduced. In addition, there will be several other areas that we will relax policies, in order to make it more convenient for people to do business.

The Government's commitment to continue fiscal consolidation will greatly facilitate the effective conduct of monetary policy. This commitment is particularly welcome when many other countries are grappling with fiscal deterioration. Since debt dynamics play a vital role in the maintenance of both price and financial system stability. Development in public sectors will be monitored carefully. Many features will be introduced, to ensure that the Government securities markets improve. Especially, to complete under writing of insurances by putting appropriate mechanisms, including liquidity support for primary dealers. An e-trading platform will be established.

The Government's Commitment To Continue Fiscal Consolidation Will Greatly Facilitate The Effective Conduct Of Monetary Policy.
Productivity growth, is an important factor in the growth of the country's development in the next few years. The agricultural sector accounts for 12 percent of total GDP, but it also has 30 percent of the work force engaged. This will definitely give opportunity for improvement in that sector. And there will be more opportunities that we will have to introduce, in order to make sure that the tightness takes place in the future. I believe, the 'Divi Naguma' Bill will improve the agricultural sector. A closer integration of the key sectors will also improve productivity. We hope the private sector will reflect upon and take on their own plans, to see that we are able to improve our country's overall productivity. The best way of dealing with inflation will be productivity improvements. New areas of land coming under cultivation, improvements in the harvesting process, improvement in storage, will have a huge impact on the inflation figure. Productivity improvements will be essential for both the hard infrastructure, that is improving roads, railways, air ports and ports, and the soft part of the infrastructure, where we improve the conditions of the people. By doing that, more people can come into the workforce. And to introduce socio-economic practices, child-care facilities flexible hours and absorbing differently abled citizens into the workforce. The Central Bank also welcomed nine differently abled persons to our team, we believed that they will be able to contribute a lot to the economy. Those who are relegated as not being

able to provide services to the economy, could come in, thats another area we would like to encourage.

Since oil imports account for over 25 percent of current imports, moving towards sustainable and renewable energy is another important factor in the future progress of the economy. Movement towards renewable energy will be an area we would like to support in the future. Managing the currently available resources in the energy sector will be a critical factor. The reservoir levels in our country will be closely monitored. Water in the reservoirs is as important or as expensive as the oil that we import, if we can substitute water and generate electricity without having to import oil, it is a huge saving for us. Monetary policy implementation will also look at global development. Hopefully, we would be able to have a reasonably benign atmosphere in the world economy, which will help us to maintain our stability in the next two years.

In summary, our monetary policy decisions will be based on a multi-dimensional approach. When we look at our policy priorities, maintaining inflation at mid single digits, ensuring continuous economic growth, maintaining low unemployment, maintaining exchange rate flexibility and stability will be pursued. We will also use direct policy instruments, monetary targeting measures with policy rate corridors, guiding short term interest rates, with the Statutory Reserve Ratio and the Open Market Operations being used to manage liquidity. Certain key stabilisation methods will be influenced, appropriate wage inflation curtailment process, facilitating the activity that impact the exchange rate, influencing in key components of the External Account, facilitating non-inflationary sources of financing, promoting continuous productivity improvement, and providing guidance to sustainable energy practices. All these factors are important assets of monetary policy. And I can assure you, that we would influence all those factors to the best way we can, and will have a huge impact on our economy as we go along.

When We Look At Our Policy Priorities, Maintaining Inflation At Mid Single Digits, Ensuring Continuous Economic Growth, Maintaining Low Unemployment, Maintaining Exchange Rate Flexibility And Stability Will Be Pursued.
Considering all these expectations and concerns, key Monetary Aggregates are expected to be maintained. We will do our outmost to see that we maintain a benign platform. The next few years, with the improvements in per capita income and reduction of regional disparities will bring about further, major structural

changes in the economy. After the 4,000 dollar per capita income, we need to have certain policies that will ensure Sri Lanka's second wave of growth for 2015 and beyond. The diversification of the economy is essential when we reach 4,000 dollars and to go beyond that. Sri Lanka is taking the necessary steps, so that we don't get trapped in what is commonly known as a "middle income trap". The five-hubs will be promoted in the future as well. Aviation, maritime, energy, commercial, knowledge and additionally the tourism hub will also be promoted. That is an area that we would all need to work on, because it is an important transition of our economy and in the next few years, the diversification that has been put in place with the five-hubs, has to be promoted and that will ensure that Sri Lanka will not fall into that middle income trap. With the diversification taking place, the structure of our country's earnings will change. The export of services will rise to about 9.8 billion rupees by 2016, an important change in our economy which we need to work on from now onwards. The structural changes taking place towards 100 billion dollar economy, is likely to be reflected in new sectorial composition of GDP by 2016. There are few national milestones, that we have to work towards. Poverty less than two percent, unemployment less than three percent, acute malnutrition amongst children, which is presently about 15 percent to be reduced to about five percent.

To reach the 100 billion dollar economy, banks and non-bank financial institutions will have some work to do. The capital levels of the banking system will need to be maintained. We will go on to strengthen the regulatory regime. And that will cover both the banks as well as the non-bank financial institutions. The new regulations for macro-financial institutions will also come this year. It will be an important aspect of regularising the entirety of the financial markets in our country. In the next few months we will take steps to improve our clean notes policy implementation, so that our country's image will be reflected. At the same time, the regional development department will focus on the SME's, to make sure that they are supported and have new features of provision of capital.

And the international reserve management will also be expanded, to have a broader array of asset classes to a further diversification of our portfolio. We have improved our abilities, and we are also looking at a currency mix in our international reserve. The country's payments and settlements platform will maintain at a level ahead of time, because our payment system has to be better than what it used to be. And the EPF will also bring in innovative fund management techniques. We will take the

necessary steps to diversify our strategy of investments to ensure equity investments are pursued. We will also improve the efficiency of the EPF.

Central Bank's in-house skills will be continuously improved to be in line with the best in the world. I'm surrounded by very knowledgable people, we have 656 people who are highly qualified in every aspect of monetary policy and financial system stability. People who have the best brains in the private sector, have come to advice us. Together we form a very formidable team. The Central bank balance sheet exceeds 1,600 billion rupees. We manage as well as regulate a balance sheet to ensure economic and price stability. There are more than 700 loans that have to be paid exactly on the dot, and every one of those have been paid on time. We have official reserves that exceed 6,800 million dollars. We manage the currency in circulation, amounting 300 billion rupees. Payment platform that facilitates transactions over 65 trillion rupees a year. And we manage properties worth 23 billion rupees. I'm very proud of our team. I'm glad to be surrounded by them. We have striven very hard to perform and to deliver the results. The Central Bank has continuously been able to diligently deliver growth stability.

Implementation of these policies is key to success as the next "Break-out Nation"

The transformation that has taken place in our economy has been a massive change, and I have every reason to believe, that we would be, and we would surely be a break out nation. Sri Lanka has the potential to be a break out nation, and also to be truly a Wonder of Asia. We have given some new dimensions to the world on what Sri Lanka can do, but we need to continuously remind people that there is plenty more to be done. 2012 was an extraordinary year, it was a tough year, many measures were done to bring back the economy to where it has been.

Let me express my gratitude to our President, Minister of Finance, Deputy Minister of Finance, members of the Monetary Board, the members of the Central Bank, Deputy Governors. Let me also thank, the monetary policy consultancy committee, financial systems community consultancy committee as well as the top brains of the private sector, who have been helping us over the last four years. I also want to thank all the others, who have contributed in many ways to bring our insights to you in this fashion and in preparing policies of the Central Bank and taking us forward.

We Need To Prepare Well For The 4,000 Dollar Per Capita Income, And Move Further Than That. And If We Do That Well, We Will Be Able To Deliver Prosperity To Sri Lanka.

We plan carefully and we also articulate our plans. We started in 2007 by saying, we want to have growth and stability. Then we move to 2008, by saying we want move into prosperity and we set out the way forward. And in 2009 we took off some shackles that we had and took on the challenges, moved into a new path. Then we wanted to see that we fast track prosperity in 2010, it was actually a fast tracking of prosperity. We had per capita income improving much faster than we ever had before. In 2011, we had to reposition those changes, that repositioning was essential to move to the next phase of development. And in 2012, we said we will raise the bar and improve further, look at the world and see how best we had to move forward. And now my dear friends, we are well positioned. We are on the right track and we need to prepare well for the 4,000 dollar per capita income, and to move further than that. And if we do that well, we will be able to deliver prosperity to Sri Lanka. Thank you very much.

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for 2013