

## **Ajith Nivard Cabraal: Overview of financial and economic developments in Sri Lanka**

Keynote address by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at the Opening of the Financial Services Academy at the Centre for Banking Studies, Rajagiriya, 5 March 2007.

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Ladies and Gentlemen:

Today we all have gathered here to witness an **important step towards the development of the financial landscape and knowledge pool of the country**, the establishment of the Financial Services Academy, a landmark organization that we hope, would **shape the future of our financial services industry**.

As we know, the Sri Lankan economy recorded a growth of 7.8 per cent in the first three quarters of 2006 and according to current available data, it is very likely that the economic growth in 2006 would be well over 7 per cent. This will be the highest since 1978. Towards such growth, the contribution of the services sector was easily the highest and of such high growth sector, the growth in financial services was highly significant.

**It is therefore widely acknowledged that the contribution of the financial sector for the achievement of growth of the country is enormous, and whatever we do in that connection, would be of overall immense value.**

The developments in the financial sector also helps the economic growth through several other channels as well: It improves the efficiency of business processes, attracts investment, reduces unemployment and enhances access to finance, to name a few.

We are happy that during the recent years, our financial sector has also improved in every respect. This is clearly evident when we look around the financial institutions, financial markets and the developments in financial infrastructure.

Within the last five years, assets of the licensed banks in the country doubled. Altogether, there has been an addition of over 400 branches of these banks. Other financial institutions including Registered Finance Companies, Leasing Companies, Insurance Companies, Merchant banks, Venture capital firms and Unit Trusts have also grown in sympathy with the banking sector.

At the same time, we have also progressed rapidly in the financial infrastructure developments as well. This is particularly visible with the leap forward in the Payment System development as evidenced by the implementation of a Real Time Gross Settlement System in 2003. Now, 84 per cent of the value of country's payments are settled through the RTGS system. In 2006, we completed the Cheque Image Truncation project, reducing the maximum cheque clearance time to 2 working days, which is another significant achievement. The Colombo Stocks Exchange remains one of the most technically advanced stock exchanges of the world. Soon, we will also have a SWIFT Service Bureau in Sri Lanka and that will help to reduce cost of financial transactions.

Together with these infrastructure developments, our banking system has expanded their horizons by introducing several innovative infrastructure facilities and complex financial products as well. The ATM network of the country has doubled during the last five years and the number of credit cards in use have more than tripled. Improvements in Internet banking, tele-banking and mobile banking facilities are very significant and the progress is mind-boggling.

There have been significant improvements in financial markets too. With the introduction of LankaSecure, the Scripless Securities Settlement System, in 2004, government securities are transacted on Delivery versus Payments (DvP) basis and now nearly 27,000 beneficiary accounts are maintained at the LankaSecure. Recently we also allowed foreigners to own 5% of government securities through a new TIERA account that we introduced, and so far, foreigners have purchased US\$ 55 million worth of Treasury bonds. This is a new instrument that has enhanced liquidity in the capital market

Developments in the foreign exchange market are also immense. Helped by the continuous growth in imports and exports, and specially with the recorded improvement in migrant earnings, values and

volumes of forex transactions through formal channels have improved significantly during recent years. The initiatives we are taking will also improve this sector further in the years to come. In conjunction with these improvements, banks have now stepped forward to introduce new derivative instruments to the market. As you all know, CPC has now started to use hedging mechanisms to minimize the exchange rate exposure, which we expect that would be followed soon by other large public and private sector organizations.

Performance of the Share Market has of course been spectacular. The Colombo Stock Market has gained by 35% on average during the past 5 years. The growth during the last year was over 50% and the trend has continued so far during the year. With the expansion of CSE to regional cities such as Matara and Kandy, the contribution of outstation customers in stock market activities have increased significantly and this trend should be encouraged.

However in comparison to other regional countries, our Insurance penetration rate is still low, although the developments in the industry during recent years have been impressive.

As the country observes these developments in the financial sector, the regulatory mechanism has strengthened as it should be. The Central Bank continues to supervise the banking sector, finance companies, leasing companies, and money changers. Stock exchanges and stock brokers are regulated by the SEC. IBSL has the role of regulating the Insurance Industry.

All these developments have necessitated more and more people who are skilled, knowledgeable and trained on financial services. As stated in the bestseller of Robert Kiyosaki, the reason as to why most of the poor and middle class people financially struggle, while the rich continue to remain rich for generations, is mainly because of the lack of financial intelligence and insight, as the real financial education is usually conveyed by parents to their children and not taught formally at schools. Perhaps, this applies not only to individuals but to countries as well. May be, one of the reasons as to why we remain under-developed while developed countries progress faster, may be because of our shortage of human capital, with specific and adequate financial insights and awareness. If this situation is to be rectified, we need to develop well financially-educated people to operate financial institutions. We need well trained people to regulate these institutions.

We need the investors to master the art of investment. All in all, we need our future generations to acquire sufficient financial knowledge.

At the same time, I hope the knowledge that would be disseminated by this newly formed FSA would, also be valuable to change the attitudes of our financial journalists as well. In that regard, I hope that some of these courses may provide opportunities for our journalists too, to better understand financial service related subjects so that they will be able to provide a more meaningful interpretation of such matters. That too would, hopefully, enhance the general public's understanding of financial operations and I look forward to such an outcome as well.

As we all know there is today a vast majority of people who lack the knowledge to take advantage of the enormous opportunities that may be actually right in front of them. I think we have now taken the initiative to rectify that situation. The Financial Services Academy, established today, jointly by the SEC and the IBSL is a great move in that direction, and I hope that the FSA would grow to be a leading institution in financial education not only in Sri Lanka but also in the region.