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ROAD MAP 2018

MONETARY AND FINANCIAL SECTOR POLICIES FOR 2018 AND BEYOND

CENTRAL BANK OF SRI LANKA

Road Map:

Monetary and Financial Sector Policies for 2018 and Beyond

Delivered by

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1. Introduction

Your Excellencies, Members of the Monetary Board, Senior Deputy Governor, Deputy Governors and Officials of the Central Bank, Distinguished Invitees, Ladies and Gentlemen,

First, let me warmly welcome you to the presentation of this year's Road Map.

Continuing our tradition that was initiated in 2007, today we are pleased to present the eleventh Road Map of the Central Bank of Sri Lanka. It is our belief that sharing our future policy direction and actions would help you to plan your business trajectory with more certainty. I hope this Road Map will enhance the transparency and clarity of our policies, which would help you to achieve your targets more effectively. The successful outcomes in your businesses would ultimately help us to implement our policies more effectively for the benefit of both the economy and people of Sri Lanka.

The year 2017 was challenging. We have seen economy-wide effects due to inclement weather conditions. The drought and floods disturbed agriculture activities and agro based industrial activities. Spillover effects of these adverse weather conditions impacted the other sectors of the economy as well. As a result, economic growth is expected to be subdued and lower than we projected at the beginning of the year. The tight monetary policy stance of the Central Bank as well as the relatively tight fiscal policy stance of the government, which were adopted with the aim of regaining macroeconomic stability, partly affected public and private investment spending that also contributed to low economic growth. Consumer price inflation increased, mainly due to high food prices associated with weather related domestic supply disruptions, revisions to indirect taxes and increased prices of imported commodities, making our efforts to anchor inflation expectations challenging. Despite the tight monetary policy stance maintained by the Central Bank, growth of monetary aggregates was high during most of 2017, before decelerating to envisaged levels towards the end of the year. Although we have seen signs of a firm recovery in exports with better prospects in key export markets and the flexible exchange rate policy of the Central Bank, the trade account continued to be affected by a largely weather induced increase in import expenditure. The decline in workers' remittances resulted in a reduction in the cushion against the widening trade deficit in the external current account. Although the fiscal sector has recorded notable improvements in terms of revenue collection, some slippage in the budget deficit is likely in 2017 mainly as a result of weather related fiscal costs and higher interest payments. This could have an adverse impact on achieving the envisaged fiscal consolidation path, while complicating the conduct of monetary and exchange rate policies.

Despite these challenges, 2017 was a year when we made **significant progress on many fronts** through several policy measures taken by the Central Bank in coordination with the government. In response to these measures, macroeconomic stability is being restored and our economy is trending in the right direction. The Central Bank has implemented several proactive policy measures during 2017 in order to achieve the core objectives of maintaining economic and price stability and financial system stability. Three frameworks have been put in place to improve the country's overall macroeconomic conditions. Attention is also being paid to institutionalising them. The Central Bank is working towards implementing a Flexible Inflation Targeting (FIT) framework by 2020 to conduct monetary policy in a proactive and forward-looking manner. It has also adopted a more flexible exchange rate policy that promotes export competitiveness. The government is also committed to a revenue based fiscal consolidation programme, which intends to bring down budget deficits and debt levels progressively. If we get fiscal policy and monetary policy right, then the pressure on the exchange rate would reduce. Let me discuss these frameworks in a detailed manner.

On the **monetary policy framework**, the Central Bank's move towards introducing a FIT regime aims to maintain a low inflation environment on a sustained basis. The FIT framework is a data-driven, forward-looking and proactive monetary policy regime built upon three main pillars: strong fiscal policy support, effective monetary policy conduct, and strong central bank mandate and credibility. The government has also endorsed this move to adopt a FIT regime as stated in its Vision 2025 policy document. In order to successfully implement the FIT framework, we have formulated a road map outlining several milestones to be completed by the government and the Central Bank, including the necessary legislative, institutional and operational changes. The International Monetary Fund (IMF) has also recognised our move towards FIT by giving us necessary technical assistance on capacity building.

The Central Bank accommodated greater **flexibility in the exchange rate** in 2017 by allowing market forces to determine the rate. The market reacted positively to this policy initiative by reviving the spot market. The Central Bank continued to absorb foreign exchange from the domestic interbank foreign exchange market in order to build up the quantum of non-borrowed foreign exchange reserves. This move also helped to smoothen the exchange rate behaviour. There were even some instances of appreciation of the rupee in 2017, indicating significant inflows to the foreign exchange market. Sri Lanka also received the fourth tranche of the Extended Fund Facility (EFF) of the IMF in December 2017. A total of US dollars 759.9 million has been received so far. This confirms Sri Lanka's satisfactory performance in achieving IMF-EFF targets during 2017 in terms of specified performance criteria and certain structural benchmarks. Earnings from exports increased owing to the recovery in key export markets, the Central Bank policy of maintaining exchange rate flexibility, conducive external trade policies and improved macroeconomic conditions of the country. Further, the reinstatement of the EU GSP+ facility, the expected conclusion of the free trade agreements with Singapore, China and India and strong institutional and policy support are also expected to drive the momentum in exports.

We have seen an increased inflow of **Foreign Direct Investment** (FDI) in 2017 and we expect FDI to gain momentum through the commencement of the Hambantota industrial zone and the continuation of the Colombo Port City project. Higher inflows to the government securities market and the Colombo Stock Exchange (CSE) as well as long term financial flows to the government were also witnessed during the year. With these developments on the external front, the Central Bank was able to build official reserves of over US dollars 7.9 billion at the end of 2017.

On the fiscal front, the government has embarked on a revenue based **fiscal consolidation** path to strengthen the country's public finances. The government expects to reduce the budget deficit to 3.5 per cent of GDP by 2020 and thereby reduce government debt to a sustainable level in the medium-term. It is in the process of implementing several reforms aimed at improving government revenue collection while rationalising government expenditures to adhere to the envisaged fiscal consolidation path over the medium-term. A positive primary balance is expected in 2017 for the first time since the early 1950s and a surplus in the current account is also expected in 2018 for the first time since 1987. The reform agenda of the government includes improving financial viability of the State Owned Enterprises (SOEs) to mitigate the budgetary implications for the government.

While introducing clear frameworks and reforms in relation to monetary and exchange rate policies in 2017, we have implemented several policy measures during 2017 to address the challenges in the financial sector and maintain a stable financial system for effective monetary policy transmission and to support sustainable growth. With a view to **promote a dynamic and resilient financial sector**, the regulatory and supervisory framework of the Central Bank was further strengthened in line with international standards and best practices. At present, our banking sector accounts for over Rs. 10 trillion in assets, while the non-bank financial institutions sector accounts for over Rs. 1 trillion in assets. The implementation of Basel III capital standards was commenced in 2017 in order to develop a more robust banking sector. The framework to regulate the non-bank financial institutions was strengthened under challenging conditions, and resolution of distressed finance companies was also commenced. During 2017, the Central Bank continued to strengthen the regulatory framework for the microfinance sector, and continued to combat the menace of illegal pyramid schemes with the assistance of other government agencies. Several measures were adopted to strengthen and modernise the payment and settlement infrastructure in order to develop an efficient and stable payment and settlement system in the country, as well as to pave the way towards a digital economy.

Being a trusted, professionally competent and strong institution, the Central Bank is entrusted with vital **agency functions**. Accordingly, as per our mandate, we carried out public debt management with the objective of mobilising the government's financing requirements at the lowest possible cost and with a prudent degree of risk. The framework for public debt management was reinforced by introducing a transparent market based auction mechanism for the issuance of government securities. This has already resulted in desirable outcomes of lowering interest costs to the government, efficient price discovery and improved transmission of monetary policy signals across the benchmark yield curve. The Employees' Provident Fund, which is the largest superannuation fund in the country, is managed by the Central Bank. It passed a significant milestone during 2017 with total assets of the Fund surpassing Rs. 2.0 trillion. The Central Bank also continued to promote financial literacy and inclusiveness and helped entrepreneurship development through our credit schemes for agriculture and livestock, as well as the micro, small and medium scale enterprise (MSME) sectors. In addition, we also adopted measures to promote a clean note policy in the country and improvements were also made in currency operations and processing. In 2017, the Central Bank implemented a new legislative and a policy framework for foreign exchange operations based on the Foreign Exchange Act, No. 12 of 2017. Provisions of the new Act are being implemented through the newly established Department of Foreign Exchange in the Central Bank focusing on reducing restrictions, excluding ambiguities, simplifying processes and enhancing efficiency associated with foreign exchange transactions while striving for clarity and convenience.

A significant amount of work needs to be done to improve Sri Lanka's global ranking in the implementation of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) regulations. The Financial Intelligence Unit of the Central Bank is taking several measures to address this with the assistance of key government Ministries and Departments as well as stakeholders such as Licensed Banks, Licensed Finance Companies, Regulators, Stock Brokers and Insurance Companies, and continued to enter into new MOUs with other country FIUs.

The Central Bank has already initiated several measures to enhance the economic stability of the country and it will continue with this endeavor in the future as well. Given improved economic fundamentals and stability, it is expected that the government will implement the necessary policy **reforms to uplift the economy** from the prevailing low growth trajectory to reach its potential level. The government's Vision 2025 unveils the future policy direction of the country. The Vision envisages transforming Sri Lanka into a hub of the Indian Ocean, with a knowledge-based, highly competitive, social-market economy. Accordingly, considering the limited scope of the domestic market, sustained future economic growth would have to be generated from external demand. Hence, effective and sustainable long-term policy measures have to be implemented for accessing foreign markets through exploiting trade and investment opportunities.

We also observe that frequent **natural calamities** hamper economic activity resulting in a moderation of economic expansion. This highlights the need for diversification of growth drivers in the economy as well as putting the necessary measures in place to strengthen the economy's resilience through mainstreaming sustainability into the planning and budgeting processes and improving disaster preparedness.

In the global context, after having a series of economic distortions and negative shocks after the Global Financial Crisis, now the **global economy** is gradually recovering. Investment conditions have improved and global trade also rebounded in 2017. So, we need to exploit opportunities created by the revival of global growth supported by synchronized economic expansion in Europe, Japan and the US for the first time since the Global Financial Crisis. Better prospects in Europe and the US, which are our two largest markets, are clearly tailwinds. This is growth positive for Sri Lanka. However, we should also be mindful that gradual normalisation of monetary policies in the advanced countries could pose some challenges to the economy on both external and fiscal fronts.

Sri Lanka is gradually transforming to upper middle income economy status. Sustained progress will inevitably involve greater integration with the world economy. While creating opportunities, this will also expose the economy to greater uncertainties and risks. In order to face the current and future challenges proactively, and to address the already identified deficiencies in the existing processes, the Central Bank, as outlined in its latest Strategic Plan for the medium term, expects to robustly **strengthen its institutional frameworks** by:

a) enhancing the monetary policy framework; b) strengthening the financial sector oversight; c) modernising payment and settlements; and, d) upgrading public debt management.

The **improved policy frameworks** will enable the country to take advantage of greater integration, while mitigating the risks involved and increasing the resilience of the economy. In this respect, as already mentioned, we are steadily progressing towards an effective FIT framework to ensure price stability. At the same time, we are striving to promote a dynamic and resilient financial sector in order to lower vulnerabilities in the financial system. This is a priority for achieving objectives in relation to growth, employment and incomes. Modernising the infrastructure of the payments and settlements system to pave the path towards a less cash society and facilitating a digital economy are also important policy priorities in the medium term. We are also determined to strive for prudent debt management with a view to ensure debt sustainability, enhance effectiveness and transparency of the primary auction system, promote market development and minimise risks. Our policies are aligned to achieve these strategic priorities which will be instrumental in supporting the country's economic and price stability and financial system stability. In this context, the Road Map 2018 reviews the policy actions that have been pursued during 2017 and more importantly, proposes policies and actions for the forthcoming period.

Accordingly, the outline of the Road Map 2018 is as follows:

Section 2:	The Central Bank's monetary policy strategy and policies for 2018 and beyond
Section 3:	The Central Bank's policies related to the financial sector performance and stability in 2018 and beyond
Section 4:	Key policies related to strengthening the broader economy through the Central Bank's agency and ancillary functions

Now, let me elaborate on these sections in a detailed manner.

2. Monetary Policy Strategy and Policies for 2018 and Beyond

The Central Bank is entrusted with the task of maintaining price stability. Price stability remains a key fundamental in fostering an environment conducive for sustained growth and securing rising living standards for the people.

The Central Bank seeks to achieve its price stability objective through the conduct of monetary policy. Based on the current monetary policy framework, we have been able to maintain inflation in single digits for close to a decade.

Going forward, the introduction of an effective Flexible Inflation Targeting (FIT) framework will improve our capacity to deliver price stability. This will provide a more propitious environment for growth and employment generation.

Our motivation towards adopting inflation targeting as the monetary policy framework was signaled a number of years ago, as we recognised it as the most appropriate way to escape from the high inflation-low growth trap. The weakened relationship between money and inflation and deepening financial markets were among the major factors that encouraged this move.

Under the proposed FIT framework, the Central Bank will aim to preserve price stability of the economy by targeting an inflation range of 4-6 per cent. We believe that this target range is desirable for a country like ours in view of the vulnerability of the economy to supply or external shocks. We will employ market-based instruments, particularly the policy interest rates and open market operations (OMO) of the Central Bank, to influence market conditions and to navigate inflation in the targeted mid-single digit range. Variables such as overall monetary expansion and credit disbursements to the private sector by commercial banks will remain as key indicative variables to guide monetary policy conduct.

We have now progressed into a time-bound plan to make this leap towards FIT a reality. The period starting from 2018 will be vital in laying out required reforms to facilitate a smooth transition to a FIT framework.

In this context, we have identified three important pillars as the building blocks for adopting a FIT framework;

1. Strong Central Bank mandate and credibility

2. Effective monetary policy conduct

3. Strong fiscal policy support and commitment

Now let me discuss some key elements and building blocks of FIT.

A strong **Central Bank mandate and credibility** is essential for successful adoption of FIT. There is considerable evidence from around the world that weak legal mandates together with inadequate autonomy of central banks hinder the success of FIT. In this context, Sri Lanka will also have to introduce considerable changes to the existing mandate of the Central Bank through necessary legal reforms. The current framework is hampered by the focus on non-core activities, monetary financing and inadequate autonomy. These factors are structural impediments in the transition path towards FIT. Amending the Monetary Law Act (MLA) is, therefore, imperative to enhance the focus of the mandate as well as Central Bank autonomy, governance, transparency and accountability. These amendments would broadly include strengthening the mandate of price stability, separating the monetary and fiscal functions, strengthening the Central Bank's autonomy, and introducing institutional arrangements for setting inflation targets and maintaining accountability.

Second, to assure **effective monetary policy conduct** as a vital building block for maintaining low inflation under the FIT, we need to establish a sound, forward-looking decision-making process, based on reliable macroeconomic forecasts and projections. In this connection, the Central Bank has already improved technical capacity in modelling and forecasting of key macroeconomic variables. The Central Bank and the IMF have jointly developed a structural model-based Forecasting and Policy Analysis System (FPAS), which encompasses near-term and medium-term model-based projections. The current policy formulation process is gradually being aligned with the analysis based on FPAS. This is supporting the monetary policy formulation process in a more proactive and forward-looking manner. The Central Bank will continue to improve model-based projections through building sound technical infrastructure for inflation forecasting and macroeconomic analyses.

Moreover, the monetary policy formulation process is also being upgraded by introducing a forecast calendar, which outlines schedules for projections and revisions of forecasts linked to the availability of important economic data and events. Accordingly, during each monetary policy round, two technical staff level meetings are conducted to obtain inputs and feedback for forecasting followed by a pre-Monetary Policy Committee (MPC) meeting attended by the members of the MPC and technical staff to discuss projections and sectoral developments. The formal MPC meeting takes place subsequently to make recommendations to the Monetary Board. The number of MPC meetings during a year were also reduced to 8, allowing sufficient time for technical staff to undertake more sophisticated macroeconomic analysis.

In the new forward-looking framework, it is of utmost importance to monitor developments in both current and future economic conditions. In this regard, we will strengthen the existing surveys of expectations and economic conditions to gain forward-looking insights to improve accuracy of forecasts.

With regard to monetary operations, the domestic money market is being actively managed through OMO to steer the Average Weighted Call Money Rate (AWCMR) in line with the monetary policy stance of the Central Bank. We have taken several progressive measures to communicate more information, including cut-off yield rates of the OMO auctions and overnight liquidity estimates with a view to encouraging more efficient price discovery in the money market and promoting informed decision making by market participants as well as to improve market signaling of OMO. The Central Bank will continue to actively engage in liquidity management, while guiding the short-term interest rates along a desired path. Several measures, such as reviewing the compilation methodology of benchmark interest rates, strengthening the operational framework pertaining to the Intraday Liquidity Facility (ILF), introducing a rule-based code of conduct for Authorised Money Brokers and promoting market development will be taken to improve the efficiency and compliance in respect of money market operations.

As announced last year, the Monetary Policy Consultation Committee (MPCC) was re-established in mid-2017 to draw on external expertise to support the conduct of monetary policy. We will continue to take on board stakeholders' views and align our policies in a way, which is mutually beneficial for stakeholders and the Central Bank.

As the conduct of monetary policy is dependent on an effective and prudent **exchange rate policy**, the Central Bank has introduced a more market based exchange rate system. It has allowed more flexibility in determining the exchange rate based on the market conditions and has intervened only to smoothen volatility and to build up reserves. It is noteworthy that there has been a build-up of non-debt creating international reserves during 2017, with minimal impact on the exchange rate. Going forward, foreign exchange intervention policies will be adopted, which are consistent with a flexible exchange rate regime and supportive of improving foreign exchange market functionality. Maintaining a competitive exchange rate will be an important objective of the Central Bank.

In line with this policy, we will continue to focus more on **non-debt creating financial flows** in building up reserves. Ongoing policy reforms of the government focus on boosting exports as well as attracting FDI. This gives greater salience to our agenda of maintaining flexibility in the exchange rate to boost competitiveness. The Board of Investment (BOI) has estimated FDI to have reached US dollars 1.5 billion in 2017, which will be a key milestone and could possibly be a turning point in FDI inflows. The commencement of the Hambantota Industrial Zone and the continuation of the Colombo Port City project are expected to bring significant FDI flows from 2018 onwards. Annual FDI flows of US dollars 2-3 billion are expected in the coming years. In addition to boosting growth and employment, it will also enhance external sector resilience by generating non-debt creating inflows and boosting exports.

The Central Bank will continue to manage reserves in line with a model based **Strategic Asset Allocation framework (SAA)**, to ensure foreign exchange reserves are managed with the objective of ensuring an adequate level of liquidity and a reasonable return in comparison to benchmarks.

Inflation targeting is well understood as "management of expectations". Monetary policy affects inflation and the real economy mainly through its effects on private-sector expectations about future interest rates, inflation and economic activity. In this context, transparency in monetary policy is vital. This places a very high premium on **effective communication**. We believe our communication must be open, objective and up to date in order to effectively anchor expectations of the stakeholders. Therefore, we are working on improving the Central Bank's communication strategy in order to enhance public understanding of the new framework.

Several initiatives are already being pursued to enhance communication. This Road map remains at the centre of this communication policy. We already set out the macroeconomic direction of the economy over the medium-term through several year-round publications, press releases and press conferences. Further, as per the Road Map set out for FIT, several other initiatives, including further enhancing the analytical value of the Monetary Policy Review statement, issuing regular Monetary Policy Reports, publishing Inflation Reports and launching a public awareness outreach programme are also on our menu in the transition towards FIT.

In accordance with our commitment to set out an **advance release calendar** for the regular monetary policy announcements, we would like to announce the following calendar for the year 2018.

Monetary Policy Announcements in 2018

1	16 February, Friday
2	4 April, Wednesday
3	11 May, Friday
4	29 June, Friday
5	3 August, Friday
6	28 September, Friday
7	14 November, Wednesday
8	28 December, Friday

The Central Bank cannot implement a successful FIT framework alone. As we have emphasised in the past, the **continued and strong commitment of the government** will be of paramount importance.

It is encouraging that the government has already recognised the Central Bank's move towards FIT as the future framework for monetary policy, in its policy document "Vision 2025- A Country Enriched".

Continued strong commitment of the government towards greater fiscal discipline and stronger fiscal outcomes remain key to the successful adoption of FIT. In particular, the government is expected to maintain its commitment to medium-term fiscal consolidation, which is embedded in the IMF-EFF arrangement. The improved fiscal space through continued fiscal consolidation will create a better enabling environment for the effective and independent conduct of monetary policy.

This whole effort requires the government's commitment to remain on the trajectory of fiscal consolidation it has enunciated in its medium-term budgetary framework. The new Inland Revenue Act, enacted with the aim of simplifying and rationalising the existing income tax structure; the VAT reforms; and the improvements in tax administration are worthy achievements. Further, the government expects to strengthen fiscal consolidation by revising the Fiscal Management (Responsibility) Act to include binding fiscal targets. This would institutionalize its commitment to fiscal discipline, which is essential given the country's external debt dynamics and exposure to rating agencies and international capital markets.

Further, to institutionalise the autonomy of the Central Bank, it is vital to shield monetary policy from fiscal dominance. In this regard, a strong legal and institutional mandate for the Central Bank is expected to ensure a clear separation between monetary and fiscal policy as part of the transition to the FIT. This requires phasing out of monetisation of fiscal deficits by the Central Bank. This will also pave the way to a deeper and liquid financial market which will be a catalyst for effective transmission of monetary policy actions of the Central Bank.

We also see the proposed **Liability Management Act** of the government as a prudent strategy. It allows the government to manage public debt in a more flexible manner. Under this framework, the public debt manager would create a buffer fund to minimise the rollover risk of debt stock eliminating the necessity for the Central Bank to provide financial assistance to the government at the beginning of each year as per the current provisions of the MLA. Even more importantly, it will create the space to go beyond the government's borrowing requirement in any given year to mobilise financing to address the current bunching of external debt payments from 2019. The government's decision to earmark the proceeds of divestitures for liability management is also a very favourable development in this regard.

Meanwhile, the government's commitment to **reform state owned enterprises (SOEs)** is commendable. In particular, automatic pricing mechanisms for fuel and electricity are expected to be introduced in March and September 2018, respectively. This will go a long way towards reducing the future financial losses of key SOEs and avoid large ad hoc adjustments in retail prices. Not only will this be supportive of the effective conduct of monetary policy, but it will also have a positive impact on the balance sheets of both the government and the state banks.

As we know, the Central Bank alone cannot manage inflation and inflation expectations in the economy. It cannot influence supply side factors affecting inflation. Although monetary policy is effective in controlling demand driven inflation, the support of the government is essential in **managing supply side pressures on inflation**. In this regard, timely support of the government is necessary in dampening supply shocks, thereby anchoring inflation.

Several key milestones need to be reached over the next three years through the joint efforts and the commitment of the government and the Central Bank to fulfill the key prerequisites of the FIT framework. Legal amendments, continuation of fiscal consolidation, institutionalisation of the required changes to the monetary and fiscal policy processes, and building awareness and the confidence of the general public are the priorities in the near future before the official transition to the FIT framework by 2020.

In this regard, as mentioned, we have devised a **Road Map for adopting FIT**, outlining the necessary reforms and innovations. This is largely aimed at institutional features, organisational features, operational features, monetary policy implementation, exchange rate policy and foreign exchange operations as well as capacity building, while aligning both fiscal and monetary policy towards achieving economic targets set in a coherent manner.

When setting our monetary policy actions and directions, we cannot disregard the **external environment**. In the global economy, for the first time since the Global Financial Crisis, there is currently a divergence of monetary policy among the major economies. This is likely to result in greater volatility in capital and currency markets. This requires us to be vigilant. We are aware that interest rate hikes in advance economies such as the US and the UK as well as in emerging economies could have some spillover impact on the Sri Lankan economy through capital reallocation. Meanwhile, economic and political developments in major export destinations, as well as trends in key commodity prices, will also have a significant impact on the domestic economy.

3. Financial Sector Policies for 2018 and Beyond

Being guided by its mandate, the Central Bank promotes a dynamic and resilient financial sector, which supports sustainable growth, primarily through regulation and supervision of financial institutions, ensuring sound and safe payment and settlement systems, establishing risk management systems and instilling good corporate governance standards and practices in the financial sector.

Falling in line with international standards and best practices, the Central Bank has introduced several policy reforms, in 2017, to strengthen the regulatory and supervisory framework relating to FIs under the purview of the Central Bank thus ensuring financial system stability. It is also noteworthy to mention that we have re-established the Financial System Stability Consultative Committee (FSSCC) in 2017 comprising reputed and well experienced professionals, experts as well as the representatives from the institutions and regulatory bodies in the financial sector. Inputs of the FSSCC are helpful in devising appropriate decisions for maintaining financial system stability.

Going forward, there is an overarching need to amend the Banking Act to ensure that the **banking sector** is guided by legislation which sufficiently accounts for the change in the sectoral landscape and the challenges that may arise as the sector rapidly grows and evolves, across the country and beyond. The Central Bank is proactively working with all relevant stakeholders of the banking sector and looks forward to finalising a new Banking Act in the near-term.

Strengthening the regulatory and supervisory framework for the banking sector remains at the centre of our financial sector policy. As such, we are continuing to upgrade and enhance the bank examination methodology to ensure that the focus of examinations is not entirely a rule-based one that concentrates only on compliance, but also one which gives due consideration to the efficiency, effectiveness and sustainability of individual banks and the entire banking sector. Accordingly, initiatives are underway to assign ratings to banks based on a combination of quantitative and qualitative indicators that will assess their efficiency and sustainability. During the course of this year, we expect to finalise the bank examination methodology based on the Bank Sustainability Risk Index (BSRI) to facilitate the transition from an annual 'on-site' examination approach to a 'risk-based' supervision approach. Further, we intend to incorporate BSRI to examination reports of all licensed banks and assign a supervisory rating grade for banks with effect from 2019, on a staggered basis.

Banks have also been engaged in the implementation of Basel III capital standards and implementation is to be completed by 1 January 2019. While banks have been working on the improvement of their capital adequacy ratios, a capital conservation buffer and a surcharge on domestic systemically important banks have been imposed to ensure that banks actively build capital buffers. The direction to increase the existing minimum capital requirements was targeted at improving the quality of capital to ensure that these buffers are of a more resilient nature. This will help safeguard the banking sector during periods of excessive credit growth and/or adverse economic conditions. It will also minimise the systemic risk arising from the interconnectedness among banks.

Under the Basel III guidelines, banks will also be required to comply with guidelines regarding a Net Stable Funding Ratio with due consideration to the composition of their assets and off-balance sheet exposures. A consultation paper has already been issued to banks in this regard and the relevant standard is to be implemented during this year. The Leverage Ratio is also to be introduced as a simple, transparent and non-risk based tool that will supplement other risk-based capital requirements. The implementation of guidelines related to this ratio is expected to curb the build-up of excessive leverage in the banking sector.

While we operate a deposit insurance and liquidity support scheme, an effective crisis management and resolution framework is a precondition for effective supervision. We are working closely with all relevant stakeholders to guide banks with the maintenance of appropriate recovery plans. Preliminary guidelines regarding the adoption of Sri Lanka Financial Reporting Standard 9 (SLFRS 9) are also to be issued during the year to ensure the appropriate classification and measurement of financial assets. Directions have already been issued to the banks on financial derivative transactions to streamline the risk management processes. Further, new directions have been issued on foreign currency borrowing limits based on the total assets of a bank, replacing the previous direction involving assets of Domestic Banking Unit (DBU) only.

With several new developments in the pipeline for the banking sector, we understand that it is essential to review the existing criteria and the mechanism for the selection of the panel of qualified auditors. The guidelines from the Basel Committee on Banking Supervision also emphasise this. The existing criteria and selection process are undergoing a rigorous review to strengthen the current assessment process and uplift the quality of audits so that auditors are also abreast with the emerging risks and implications of the Basel III framework and the new accounting standards that are to be enforced within the next few years.

With a view of facilitating risk management of emerging technologies and to encourage further digitalisation of banking operations, several policies will be introduced to define regulatory expectations on use of cloud computing and define minimum regulations on the use of relevant fintech solutions. Further, a comprehensive technology risk assessment programme would be conducted to assess and improve the technology risk resilience of banks.

Over the last five years, while the banking sector has grown approximately by 15 per cent annually, the **non-bank financial institutions sector** has grown approximately by 20 per cent. Although the sector accounts for a comparatively small share of around 8 per cent of the total assets of the financial system, the rapid growth and broad outreach of the sector necessitate proactive supervision and regulatory guidance. While several regulations have been introduced to strengthen these institutions, some licensed finance companies have shown signs of stress, while the rapid expansion of certain others have been curtailed due to their lack of compliance with regulatory requirements. This reiterates the need for continued strengthening of the existing regulatory framework of non-bank financial institutions to ensure the soundness of the sector and contain its spillover effects on the whole system. Initiatives are already underway to resolve such weaknesses through mergers and recapitalisation of such finance companies through strategic investors. It should also be mentioned that in addition to the Board of Directors, the senior management of these institutions are also equally responsible for the operations of the institutions. The Central

Bank will consider implementing the legal provisions against the errant senior management, if warranted, in the interest of depositors. In mid-2017, we set up an 'Enforcement Division' within the Legal and Compliance Department of the Central Bank to carry out duties relating to enforcement and resolution issues pertaining to financial institutions, combating the pervasion of prohibited schemes and other unauthorised financial undertakings, while also curbing violations related to exchange management. This Division has been converted into a full-fledged Department as at 1 January 2018.

We have also undertaken measures to enhance our surveillance mechanism. Improvements to the early warning systems are also being effected. During the last year, the system has helped provide proactive and timely guidance. In addition, the existing internal mechanism has also undergone a review process.

As announced in the Road Map 2017, the capital levels of licensed finance companies (LFCs) and specialised leasing companies (SLCs) are expected to be strengthened further. The minimum core capital requirement has been revised upwards from Rs. 400 million to Rs. 1 billion by 01 January 2018, followed by Rs 1.5 billion in 2019 and Rs. 2 billion by 2020. The strengthening of the capital position will improve the resilience of existing institutions while encouraging only the more financially efficient and effective companies to remain in the sector. Improved capital positions are also essential for the smooth consolidation of the sector in the near-term through market driven acquisitions or mergers. There are also ongoing discussions on the encouragement of LFCs and SLCs to obtain credit ratings and list themselves on the Colombo Stock Exchange (CSE). This will, in turn, ensure financial stability and operational excellence while creating healthy competition. We also consider imposing directions that LFCs and SLCs achieve a capital adequacy ratio of 12 per cent with the intention of improving sensitivity to risks, while focusing on credit risk based on borrowers' risk profiles, and operation and market risk in the trading book.

With the view of ensuring a stable and stronger non-bank financial sector, market driven acquisitions and mergers will be encouraged among LFCs/SLCs to sustain strong financial institutions, while minimising unstable small scale finance companies in the sector.

The Finance Business Act is also being currently revamped to strengthen the regulatory framework with due consideration to the evolving characteristics of the sector. Accordingly, it is being revised to incorporate provisions related to the resolution of LFCs and SLCs and unauthorised establishments. It will also focus on an improved litigation mechanism for fraudulent activities, while ensuring rapid prosecution of those who have misappropriated public funds. In line with this, a customer charter has also been issued recently to improve consumer protection and prevent associated malpractices.

There has been widespread concern regarding non-bank financial institutions engaging in unethical lending practices, especially in the North and North Central provinces and increased indebtedness of the public. We have been actively engaging with such institutions and other public stakeholders, including government agencies, to curtail such activity and to emphasise that these issues will be dealt with in a firm manner, while enhancing awareness among the public. We strongly believe that public awareness can also prevent such social mishaps and so will continue to undertake awareness programmes to educate the populace about the dangers of engaging in unauthorised investment schemes, while stressing the benefits of investing only in institutions that are authorised by the Central Bank to accept deposits. Further, we expect to develop a supervisory mechanism to assess the risk of primary dealers' transactions on a regular basis.

We are also engaged in active **macroprudential surveillance** to constantly monitor developments in the broader economy and assess their impact on the overall financial stability of the country. These surveillance efforts have highlighted issues such as excessive lending for non-productive sectors, continued deceleration in the growth of total assets of the non-bank financial sector, and reduced capital buffers and presence of weak finance companies. Accordingly, over the next few years, we will continue to strengthen the institutional framework for macroprudential surveillance through analysing liquidity and interest rate gaps and multicurrency foreign exchange risks, monitoring leverage of financial institutions, and enhancing credit risk assessments of the financial sector. As part of our macro prudential surveillance, a systemic risk survey is being conducted on a biannual basis to identify systemic risks to the domestic financial system. As part of a more complex monitoring system, a framework is to be developed to facilitate the identification and analysis of financial cycles and business cycles. Multivariate stress tests are to be developed for LFCs. In addition, a country-wide assessment of household indebtedness is to be carried out.

Over the year, the Central Bank has been actively involved in the adoption and implementation of measures that will not only strengthen the **payment and settlement infrastructure** but also facilitate the transition to a less-cash dependent society. During 2018, we will monitor the implementation of the National Card Scheme to facilitate introduction of low cost payment card products such as those pertaining to public transport and social benefit schemes. With the increased permeation of FinTech products, a regulatory framework is to be established detailing compliance requirements for such products and their usage.

Further, as has been seen in recent times, **cyber security** is a threat to the stability and credibility of our financial sector. Steps have already been taken not only to strengthen the security of the Central Bank but also to ensure that the core systems of banks and other financial institutions are also rigorously safeguarded. In this regard, the Central Bank is promoting the adoption of the Payment Application Data Security Standard (PADSS) for payment applications that may come into operation in the future. We will mandate real-time SMS/e-mail alerts for transactions made through debit/credit cards, internet banking and mobile phone based banking. Two-factor authentication will be adopted for Point of Sales (POS) transactions, internet banking as well as all on-line and mobile third-party fund transfers. Further, following policies will be adopted to facilitate modernisation of the Payment and Settlement System infrastructure:

- The Central Bank is in the process of acquiring a dynamic state of the art Real Time Gross Settlement (RTGS) system for facilitating and monitoring of real time large value fund transfers for the participating institutions.

- In order to safeguard customers and the financial system as a whole and to ensure smooth operations of mobile phone based e-money systems, the Central Bank will continue its on-site and off-site supervision of these systems.

- To enable a secure channel for e-commerce trading and internet payment gateways, the Central Bank, as the regulator, will continuously monitor and provide guidance in the form of standards for e-commerce trading service providers in order to safeguard the interests of the general public.

- Policies will be adopted to reduce cheque usage in Sri Lanka by means of converting to digital payment mechanisms/method. The Central Bank will facilitate and promote private and government institutions to effect payments through any electronic retail payment system.

- As Blockchain technology plays an important role to change the entire current financial transaction infrastructure within a digital eco system, the integration of distributed ledger systems into financial institutions and services will be facilitated in line with the regulations in the country.

- With the increasing global popularity of digital currencies, the Central Bank intends to carry out a study in order to determine the effects of a digital fiat currency on the current economic landscape of the country.

- The Central Bank aims to use a bottom-up approach in creating awareness from grassroot to institutional levels on the available and proposed payment modalities on a continuous basis.

- In order to facilitate new developments of payment cards and mobile payments, the Central Bank intends to issue a revised Credit Card Guideline and guidelines on Minimum Compliance Standards for Mobile Applications that will be applicable to any institutions operating, facilitating and proving payment services for mobile applications.

With a view to strengthening the financial intelligence environment, we will continue to coordinate with the stakeholders to develop **Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT)** policies to implement the Financial Action Task Force (FATF) recommendations more effectively. Actions will be taken to amend/repeal Financial

Transactions Reporting Act No 6 of 2006 (FTRA) and Prevention of Money Laundering Act, No. 05 of 2006 (PMLA) in line with international recommendations. We will also facilitate and coordinate with stakeholders to amend the Mutual Assistance in Criminal Matters Act (MACMA), NGO Act and Trust Ordinance.

In 2014, an AML/CFT National Risk Assessment (NRA) was conducted by the Central Bank with the support of more than 70 professionals representing key stakeholders. In 2018, we will take actions to update this NRA report. We will also coordinate with the Information and Communication Technology Agency of Sri Lanka (ICTA) to assist stakeholders to develop individual databases to maintain statistics in relation to AML/CFT.

Moreover, we will coordinate with the Ministry of Foreign Affairs (MOFA) and other stakeholders to implement UN Resolutions on proliferation financing (UNSCR 1718 and UNSCR 2231). Further, we will continue to coordinate with the international community, including the Egmont Group, to fulfil our international obligations and to strengthen cooperation.

During the year 2017, the Central Bank continued to strengthen the regulatory framework for the **microfinance sector** by issuing directions to licensed microfinance companies and principles, standards and guidelines to the Registrar of Voluntary Social Service Organisations, for the regulation and supervision of Microfinance NGOs. We are in the process of reviewing the Microfinance Act to suggest amendments for more effective regulation of the sector, including regulation of non-deposit taking micro-credit institutions through an appropriate regulatory framework, and a unified customer protection framework for microfinance customers. We plan to issue further directions, in the period ahead, to strengthen the regulatory and supervisory mechanism for microfinance.

Further, we have identified that regulation of the microfinance sector in a holistic manner is difficult because the microfinance institutions (MFIs) are regulated by a number of regulators which are exempted from the purview of the Microfinance Act. Therefore, we will convene an inter-regulatory council comprising of all regulators of MFIs during this year.

While we make every possible effort to put other financial institutions in order, we have to put our own house in order. In line with this, implementing an **Enterprise-wide Risk Management Framework (ERM)** and strengthening compliance in the bank have been identified as one of our strategic priorities. In line with new trends in central banking in the area of risk management, implementation of an ERM framework helps to move away from a 'silo based' approach to a 'whole of business' approach to risk management. ERM enables the integrated oversight of all risks across all levels, locations and departments using a uniform approach with consistent foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continuously improving risk management throughout the Central Bank. This will support more informed and risk-aware decision-making at the top, while strengthening the risk mitigation culture, enhancing internal governance, optimising risk management cost, and promoting efficient use of resources, while building confidence of stakeholders and the community at large.

As the key elements, new Risk Governance and Risk Management Structures, along the "Three Lines of Defense" model, are expected to be established, putting in place an overall Risk Management Policy Statement for the whole of the Central Bank. Priority will be attached to developing risk registers in line with internationally accepted standards and an incident reporting mechanism together with related IT infrastructure developments. Implementation of this throughout the Central Bank would help in inculcating a risk and compliance culture in the Bank. Further, a compliance framework will be developed in line with established global benchmarks, which will be implemented with a compliance tracking system of rating.

4. Policies to Strengthen the Broader Economy

What we have deliberated thus far were the future plans and policies associated with the core functions of the Central Bank. In addition to these functions, we are also engaged in several other activities, which we refer to as ancillary functions and the agency functions carried out on behalf of the government.

Currency Management

As you are aware, the Central Bank has always taken measures to ensure the availability of currency for use by the general public and in 2017, we continued to do the same, while making all efforts to improve currency operations and processes.

Most importantly, we introduced the Single Note Inspection (SNI) system to improve the quality of the newly printed currency notes with a view to ensuring zero defects in currency notes. Several other internal processes were also improved and upgraded to facilitate a more secure and uninterrupted flow of currency to the market.

Going forward, maintaining the quality standards of the currency will continue to be the key focus in the Central Bank's currency management policy. In this context, with a view to further strengthening the implementation of the **Clean Note Policy** and enhancing Sri Lanka's image among non-nationals through the circulation of clean notes, licensed commercial banks (LCBs) have been instructed to refrain from accepting willfully mutilated, altered or defaced currency notes from 1 April 2018.

We are also planning to issue a new coin series in 2018 by changing the metal of the coin, which would reduce the cost of minting, while also increasing durability.

In the medium-term, we intend to establish a state-of-the-art cash center to improve currency operations. Also, plans have been made to set up coin dispensing/ recycling machines island-wide to smoothen the distribution and recirculation of coins in the country to meet the demand.

Public Debt Management

We consider prudent debt management as one of the highest priorities given the challenge of managing a very large debt stock, while maintaining a proper mix between domestic and foreign financing. In fact, to break away from a potentially vicious cycle of debt, the Central Bank has made prudent debt management a bank-wide strategic priority in its mission to ensure debt sustainability. As you all know, the Central Bank is responsible for raising, managing and servicing of government debt and carries out its functions with the objective of ensuring that the government's financing requirements are met at the lowest possible cost in a timely manner, while ensuring the sustainability of debt obtained on behalf of the government.

Following what was outlined in the previous Road Map, several measures were implemented in 2017 to enhance the transparency of debt management operations. In July 2017, a new hybrid primary issuance system for Treasury bonds was introduced to enhance the efficiency and transparency of the domestic borrowings of the government.

We have also published an issuance calendar for government securities in the Central Bank website on a rolling basis to improve the transparency and predictability of the primary auction process and government securities market.

Looking ahead, in 2018, we will continue to work towards enhancing the security, efficiency and transparency in public debt management further. Subject to the enactment of the Liability Management Act, in early 2018, liability management measures will be executed in order to improve the underlying risk profile of the public debt stock. This would enable us to minimise the refinancing risk by altering the maturity profile of the outstanding debt stock. Also under this initiative, activities such as buy-back, switching and pre-funding arrangements will be explored, not only to increase tenor, but also to reduce cost.

Most importantly, we will take all steps necessary in the medium-term to establish a credible term structure of interest rates enabling to build up a long-term yield curve, while also smoothing the structure of debt. This would help reduce debt vulnerabilities. We have had a clean and unblemished track record with regard to debt repayment in the past. This must be continued and every effort will be made to do so.

Similar to Treasury bonds, we will also take measures to introduce a new primary issuance system for Treasury bills to further improve transparency and efficiency of government borrowings from the domestic market.

In order to deepen and broaden the secondary market for government securities, we propose to establish an Electronic Trading Platform (ETP) and a Central Counter Party (CCP) arrangement along with the required legal reforms. Through this arrangement, we will establish a mechanism to disseminate information on debt instruments in the secondary market with a view to enhancing transparency and eliminating the risk of imperfect information among the agents in the market.

In addition, we will take measures to increase the efficiency and effectiveness of settlement for investors by way of facilitating the Euroclearing of government securities.

The government has a clear development and reform plan set for the medium-term. In order to aid this development process, the Central Bank, on behalf of the government, will continue to tap commercial sources of relatively low cost funds from abroad as a source of development finance within the broader parameters of the Medium-Term Debt Management Strategy (MTDS).

Management of the Employees' Provident Fund

As you all know, the Monetary Board of the Central Bank of Sri Lanka, as the safe custodian, is vested with all powers and responsibilities pertaining to management of the Employees' Provident Fund (EPF). Being the largest superannuation fund in the country, the EPF passed a significant milestone during the year with total assets of the Fund surpassing Rs. 2.0 trillion. It has grown at a compounded average rate of around 13 per cent during last 5 years.

Several measures were taken, in 2017, to improve the overall quality of the services provided to members by way of streamlining operational activities. This was achieved by accelerating the automation process for collecting member contributions, real-time updating of member accounts and swift payment of refunds. Notable improvements were also made to services offered for employers in their submission of EPF returns via an electronic platform, while we also partnered with a few licensed commercial banks to offer their EPF paying customers the facility to remit their member contributions online. In addition, several measures were taken to enhance the accountability and transparency of the investment process with greater emphasis on improving the governance structure of fund management, including the establishment of an independent, internal department for risk management. Further, the assistance of the Asian Development Bank (ADB) and the World Bank was obtained to improve internal processes in line international best practices. As in the previous years, we have continued to provide members with the highest possible returns on their fund balances through profitable, yet prudent investments.

In 2018, we will take steps to further enhance accountability, transparency and the overall performance of Fund-related activities. Strengthening the overall risk management framework for EPF-related activities will also be among the top priorities in 2018. In this context, we will make every effort to further enhance institutional capacity through continuous training and development, which would be instrumental in conducting investment and fund management activities efficaciously. Technical assistance from ADB, under the capital market development project for Sri Lanka, will also contribute significantly to our capacity development efforts. Most importantly, we will strive to take prudent measures to provide our members with the best possible returns on their provident fund balances with us. In addition, EPF is in the process of implementing the government policy decision to use the new biometric National Identity Card number as a unique identification number for EPF-related transactions. We have also taken initiatives to accomplish the task of introducing a near paperless operating environment to EPF by introducing a real-time document image scanning project and workflow management system.

Foreign Exchange Management

Following the successful implementation of proposals announced in the Road Map for 2017, a new foreign exchange management framework was introduced in order to implement government policy. Accordingly, the Department of Foreign Exchange was established in place of the Exchange Control Department to implement provisions of the new Foreign Exchange Act. In addition, we have implemented several policies for further relaxation of capital transactions in 2017. The foreign exchange policies to be implemented in 2018 and beyond are basically focused upon facilitating integration with the current overall policy stance of the country which seeks to promote competitive advantages for Sri Lanka in the global business environment.

With the view of introducing an effective monitoring mechanism, a new 'real time' reporting and monitoring system is to be introduced for authorised dealers and restricted dealers in order to create a better database for macro-economic decision making through identifying patterns related to mobilisation of foreign exchange flows. Offsite surveillance will be strengthened as a part of the reporting requirement with the view of tracking and reducing non-compliances to improve market discipline.

Regional Development

The Central Bank continues to execute many concessionary development credit schemes through Participating Financial Institutions (PFIs), with a view of providing refinance facilities, interest subsidies and/or credit guarantees and credit supplementary services targeting development of agriculture and livestock, micro, small and medium scale enterprise (MSME) sectors, improving the financial inclusion and promoting balanced regional growth in the country. In order to strengthen effective credit delivery and to broaden the outreach of the formal financial sector, several loan schemes were introduced during 2017.

Further, the Central Bank facilitates all sectors of the economy by enhancing flow of credit and credit plus services and provision of non-financial support to achieve sustainable development and create a conducive financial environment to bring-in under-served segments of society to the formal financial sector. Priority is also being attached to develop a National Financial Inclusion Strategy for the country.

In addition, we plan to automate activities that pertain to registration of loan applications of borrowers and processing of refinance applications of PFIs and to focus on enhancing the efficiency of credit delivery mechanisms, thereby expediting the flow of credit to the needy sectors of the economy.

Going forward, the improved credit delivery mechanism along with other non-financial support extended will considerably enhance regional development efforts of the Central Bank. These efforts will also support achieving the goals of the National Food Production Programme of the government.

5. Concluding Remarks

Ladies and Gentlemen,

Let me conclude with a brief summary of the Road Map.

At the beginning of the year 2017, our country faced several challenges and uncertainties. Nevertheless, supported by the proactive stabilisation policy measures adopted by the Central Bank and the government, we have moved steadily towards achieving overall stability of the economy. But we do not want to be complacent with the achievements so far, and we acknowledge that several challenges continue to weigh down on the overall macroeconomic performance of the country. Therefore, we need to work hard in order to restore the stability of the economy on a permanent basis in order to create an enabling environment to raise the living standards of our people, and we believe that the policies outlined in the Road Map will help us in this endeavour.

In the meantime, we require broad based reforms and commitment to enhance the country's growth potential if we are to become an enriched nation as envisaged in the government's vision. As the agent for macroeconomic stability, the Central Bank will always work hand in hand with the government to enhance economic growth through maintaining low and stable inflation and ensuring financial system stability.

We believe that our future policy directions and actions set out in the Road Map will serve as guidance for you to plan ahead and to formulate and align your actions in line with broad policies of the economy. We would also like to note that we will be prepared to introduce new policies and measures not in the Road Map, as warranted by dynamic macroeconomic conditions and market developments. This flexibility is necessary in a world of elevated risks and uncertainties as well as rapid changes.

Similarly, we strongly believe that the government would continue its fiscal consolidation measures, which will support us to pursue our policies towards macroeconomic stability. In particular, this will be a necessary condition for us to successfully adopt FIT as the monetary policy framework as planned.

Before concluding my speech, I would like to convey my sincere gratitude to a number of individuals who constantly contribute and support our efforts to carry out our functions of the Central Bank effectively.

First and foremost, I am grateful to His Excellency the President Maithripala Sirisena, and Honourable Prime Minister Ranil Wickremesinghe for their guidance and leadership. I would also like to thank Honourable Minister of Finance and Mass Media Mangala Samaraweera for his support, especially in making every effort to ensure close coordination between the Ministry of Finance and the Central Bank.

I highly appreciate the ample support and prudent inputs from the Members of the Monetary Board of the Central Bank. My sincere gratitude goes to Secretary to the Treasury, Dr. R H S Samaratunga, Mrs. Manohari Ramanathan, Mr. Chrisantha Perera and Mr. Nihal Fonseka for the constant interaction and deliberations at the Monetary Board. I am also grateful to Senior Deputy Governor Dr. Nandalal Weerasinghe, and Deputy Governors, Mr. K D Ranasinghe and Mr. C J P Siriwardena for their enormous support and for their highly professional advice and recommendations. I would also like to acknowledge the unstinted service rendered by former Deputy Governors, Mr. P Samarasiri and Mr. S Lankatillake, who retired from the Bank service in 2017.

Finally, I would also like to express my sincere gratitude to the Assistant Governors, Senior Heads and Heads of Departments, particularly the Director of Economic Research and the Staff of the Economic Research Department for their effort in compiling this policy document. A special word of gratitude to my colleagues in the Governor's Secretariat who have had to put up with me on a day-to-day basis. In fact, I thank all Staff of the Central Bank who are dedicated to fulfilling the objectives of the Central Bank and maintain their professionalism, technical excellence and integrity for the betterment of the country. However, it has been revealed that a tiny minority of the Central Bank staff have not lived up to the very high standards that are expected in this iconic institution. In such instances, firm action has been taken to stamp out such wrongdoing in the future.

Thank you and I wish you all a Happy and Prosperous New Year 2018.