



SRI LANKA

FINANCIAL SECTOR QUARTERLY UPDATE

FIRST QUARTER 2008

• Highlights •

Introduction : This note is prepared by the World Bank Colombo Office to review the trends of some of the key indicators which have an impact on the financial sector performance. This was not prepared for four quarters. The main indicators identified in the report are: (i) banking sector performance in terms assets, deposits, advances, (ii) interest rates, (iii) exchange rate movements, (iii) inflation and; (iv) capital market movements. The data is collected from the Central Bank, individual banks, Department of Census and Statistics and Colombo Stock Exchange. If the data is adjusted by respective organizations in subsequent reports, we will adjust our records accordingly.

Performance of the Commercial Banking Sector¹: At the end of the 4th quarter of 2007, out of the total assets in the commercial banking sector, the private domestic banks (PDBs) contributed 46% followed by the two state commercial banks (SCBs) with 39%. In terms of deposits, PDBs led with 45% followed by the SCBs with 42%. In terms of advances, the PDBs recorded 47% while the SCBs contributed 39%, indicating that the PDBs continue to be even more aggressive in the supply side. The PDBs, during the period under review, recorded an increase of 4.2% in terms of assets, 5.5% in terms of deposits and 3.1% in terms of advances. The four major private banks continued to dominate the PDB category accounting for 80% of the assets, 86% of the deposits and 83% of the loans granted. However during the past two years the other banks have increased their share substantially. The Non Performing Loans (NPLs), as a percentage of total advances in the commercial banking sector, marginally declined from 5.51% in the 3rd quarter to 5.0% in the last quarter of 2007. The banks continue to make high provisions for the NPLs.

The Financial Intelligence Unit of the Central Bank signed a memorandum of understanding with the Bank Negara, Malaysia for exchange of information. CBSL on behalf of the government has raised a syndicated loan from the Standard Chartered Bank for US\$ 150 million on a 3-year maturity. Deutsche Bank has also been mandated to raise US\$50 million.

Performance of the Licensed Specialized Banks (LSB) : At the end of the 4th quarter 2007, out of the total assets of the LSBs, the National Savings Bank (NSB) led with 66% followed by DFCC Bank (16%), Regional Development Banks (8%) and the State Mortgage & Investment Bank (SMIB) (3%). In terms of their lending operations, NSB led with 38%, followed by DFCC (37%), RDB (14%) and SMIB (7%). NSB in recent years has been active in the lending side. NPLs, as a percentage of total advances of the LSBs, declined marginally from 7.5% in September to 6.76% in December 2007.

Interest Rates: During the 1st quarter of 2008, the increasing trend of the average prime lending rate continued and it further increased from 18.0% in December '07 to 18.6% in March '08. The CBSL policy rates have stabilized during the period under review; the repo rate and reverse repo rate remained at 10.5% and 12.00%² respectively. The short term Treasury Bill rates have slightly declined and the one year rate ended up at 19.0% in March. The offer rates, in the interbank money market, have followed the market trends and have increased to a range of 18.71-19.21.0%. Due to the aggressive open market operations and the decline in domestic credit both the private and public sector, the

¹ 4th Quarter data for bank performance.

² Active open market operations which commenced in March, 2003 continued.

increasing trend in the interest rates has been arrested. The Government has also allowed foreign participation in the government securities market.

Exchange Rate Movements:³ The Rupee has depreciated against all major currencies except the Dollar during the 1st quarter of 2008. The CBSL was active in the forex market to absorb foreign exchange thus stabilizing the dollar. The Rupee depreciated against the Sterling Pound (0.7%), SDR (2.9%), the Japanese Yen (8.0%) and the Euro (6.2%) while appreciating against the Dollar by 0.8%. Total foreign reserves in December amounted to \$ 4.9 billion (4.9 months of imports) while the gross official reserves amounted to US\$ 3.5 billion (3.5 months of imports) and the BOP registered a surplus of \$ 416 million by end of March. Despite the escalation in international fuel prices and food prices, the foreign reserves have remained at relatively comfortable levels due to inward remittances and favorable export earnings.

Inflation: The inflation marginally slowed down during the period under review. In the 1st quarter of 2008, Point-to-Point Index increased from 16.4% in December 2007 to 18.1% March 2007 while the Monthly Moving Average Index increased from 17.5% to 18.8% reflecting the past trend. The spiraling fuel prices and the food prices (rice, wheat and milk foods) have impacted on the inflation. The price indices reflected the full impact of the price adjustments in fuel, gas and flour. The Government is continuously adjusting the fuel prices which will have an impact on all items due to increase in transport costs. It is a better economic policy in the long run though it has short term costs.

Capital Market Movements:⁴ Despite the escalation of military operations in the North, the capital market reflected moderate performance. In the recent past, the corporate sector has ventured into other countries to cushion any unprecedented downturn in the economy. With the speculation of the Eastern Provincial council the investors would have followed a more “wait and see” policy during the quarter under review.

The capital market performance has been mixed and volatile. The ASPI has marginally increased by 0.3% from 2,541 in December '07 to 2,550 March '08. Milanka Index declined by 3.37% and MBSL index by 1.05%. The investors still seem bullish, However, there is active trading in the market. Monthly turnover ranged from Rs.9.6 billion (\$ 89.1 million) to Rs. 3.4 billion (\$ 31.5 million) during the quarter. Foreign investor transactions recorded a net inflow of Rs. 2.3 billion (US \$. 21.3 million) during the 1st quarter of 2008 and market capitalization increased Rs. 820 .0 billion (\$ 7.5 billion) to Rs. 828 (US\$ 7.7 bn).

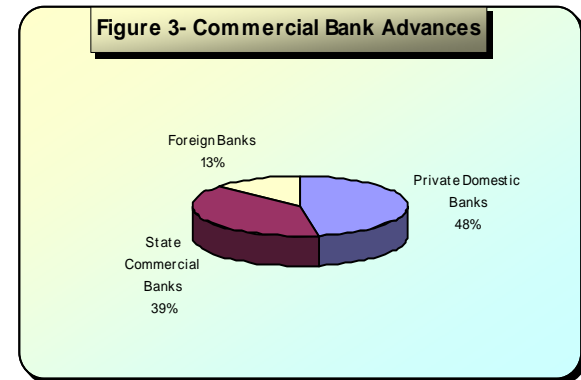
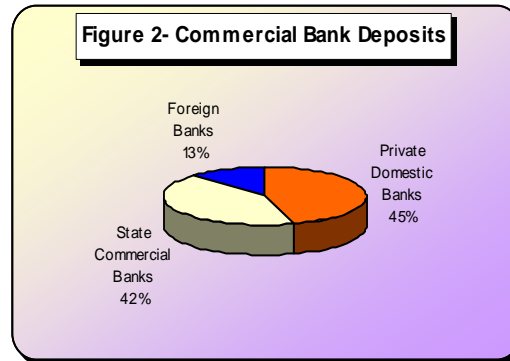
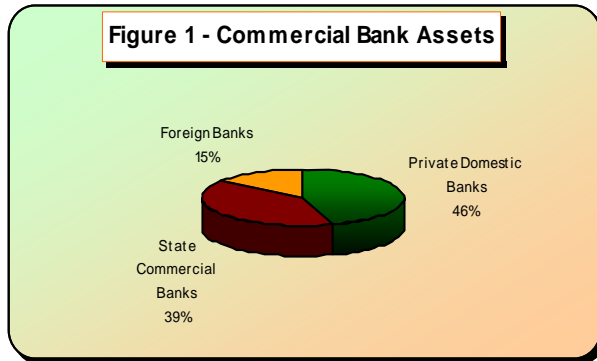
*Report, Graphic design and concept: Sriyani Hulugalle
Data Update: Sashi Jeyaraj
June 5, 2008.*

³ The Central Bank floated the Rupee in January 2003.

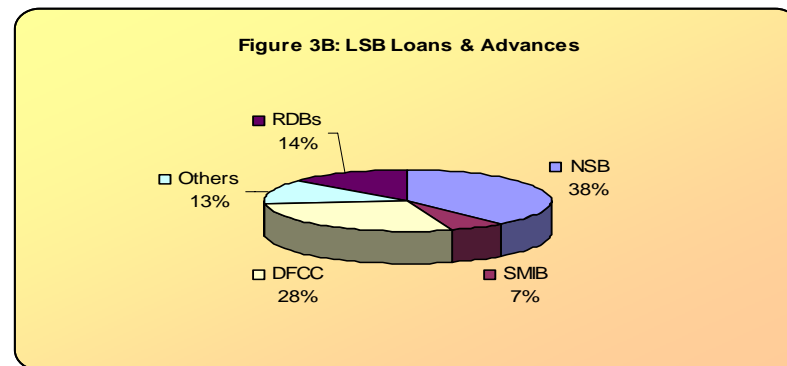
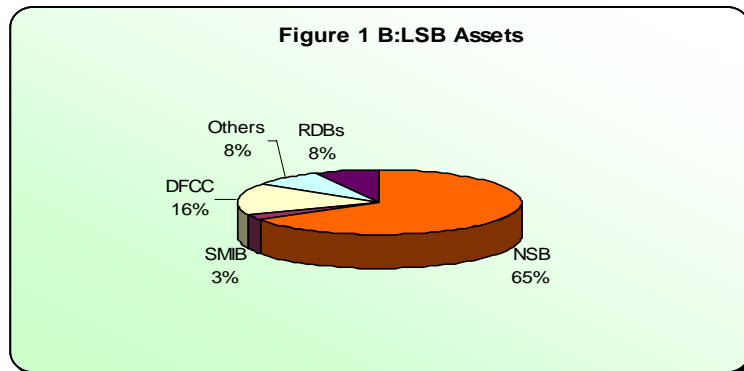
⁴ The investor sentiments have been strengthened since the cease fire since 2002

**Table 1: Market Structure of the Commercial Banking System
As at the end of 4th Quarter 2007**

Licensed Commercial Banks



Licensed Specialized Banks



Note : Only in the case of Table 1, data relate to Quarter 4, 2007. Data reflect Domestic and Foreign Currency Banking Unit transactions.
Source : CBSL Bank Supervision Department and individual commercial banks.

Table 2 – Interest Rates

	06-Oct	Nov	Dec	07-Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	08-Jan	Feb	March
Lending Rates (%)															
Commercial Bank Average Prime Lending Rates	14.76	13.78	15.19	18.39	15.97	16	17.48	17.14	17.9	17.6	17.85	17.95	17.83	18.54	18.16
Sri Lanka Inter Bank Offer Rate (SLIBOR) (%)															
1 Day	13.72	12.03	14.73	13.33	15.04	14	14.6	14.96	21.83	12.92	13.69	20.25	15.13	16.17	19.21
7 Day	13.94	12.42	14.96	15.04	15.66	15.77	16.17	16.54	19.79	15.21	16.23	18.5	16.88	17.13	18.54
1 Month	14.31	13.02	15.29	17.42	17.46	17.75	17.71	18.46	19.9	17.13	18.21	19.38	18.56	18.4	18.71
Call Money Market Rate (Av) (%)	13.06	11.76	14.47	13.17	13.37	13.51	14.28	14.77	19.54	16.5	15.78	14.99	14.92	16.27	16.88
Central Bank Repurchase Rate (%)	9.625	9.625	10.00	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
CB Reverse Repurchase Rate (%)	11.13	11.13	11.50	12	12	12	12	12	12	12	12	12	12	12	12
Bank Rate (%)	15.00	15.00	15.00	15	15	15	15	15	15	15	15	15	15	15	15
Savings Rates (%)															
Commercial Bank Savings Deposits	3.00-10.5	3.00-10.5	N/A	3-9.50	3-9.50	3-9.50	3-13.0	3-15.0	3-15.0	3-15.0	3-16.50	3-15.0	3-16.50	3-16.51	3-16.52
Commercial Bank 1 Yr. Fixed Deposits	5.50-13.75	5.50-14.00	N/A	5.50-1250	5.50-12.50	5.50-12.50	5.50-16.65	6.65-16.65	8-17.0	8-18.75	8-18.75	8-18.75			
National Savings Bank Savings Deposits	5.0	5.0	5.0	5	5	5	5	5	5	5	5	5	5	5	5
National Savings Bank 1 yr. Fixed Deposits	10.3	11.0	11.0	10	10	10.25	15	15	15	15	15	15			
Average Weighted Deposit Rate (AWDR)	7.03	7.87	7.6	8.34	8.65	8.86	9.27	9.61	9.65	9.92	10.31	10.31	10.32	10.32	10.32

Source : Central Bank of Sri Lanka

Figure 4: Lending/ Deposit Rates

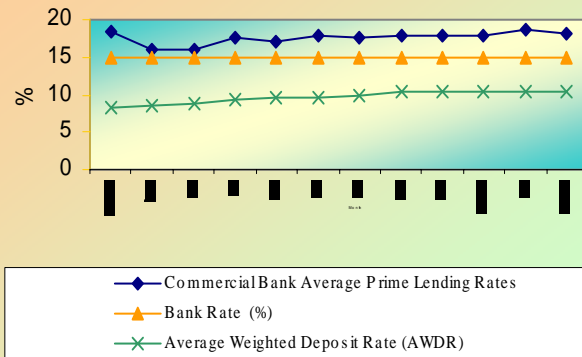


Figure 5: Real Interest Rates

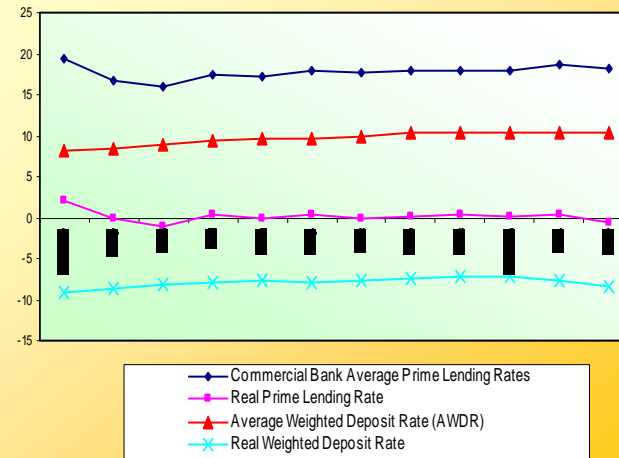


Table 3 – Exchange Rates

Exchange Rates End of	US\$	GBS	JPY*	Euro	SDR
07-Apr	109.98	219.04	92.00	149.58	167.76
May	111.78	219.91	92.00	148.69	167.72
June	111.37	223.00	90.00	149.62	168.76
July	111.76	228.95	94.00	153.62	171.31
August	112.99	227.73	97.00	154.43	173.09
September	113.4	229.71	99.00	160.65	176.40
October	112.32	230.58	98.00	160.91	175.57
November	110.52	228.15	100.00	162.99	175.65
December	108.65	214.39	100.00	160.24	172.21
08-Jan	107.75	214.61	101	160.21	172.25
Feb	107.83	214.50	103.00	163.65	172.85
March	107.76	216.36	108.00	170.17	177.19

Note: Rupees per 100 JPY; From January 2002, all 12 members of the Euro Currency Area replaced their national currencies with the Euro while subsequently more have joined.

Source: Economic Research Department, Central Bank of Sri Lanka

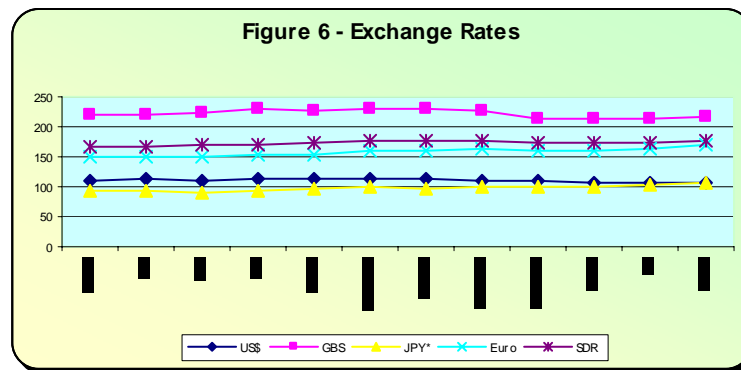


Table 4 : Consumer Price Indices

	07-Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	08-Jan	Feb	march
Colombo Consumers' Price												
(1952=100)												
All items	5025.4	5176.4	5344.3	5496.5	5453.2	5513.8	5723	5976.2	5954.9	6302.5	6345.4	6441.7
Growth Rate %												
Month-to-month	0.1	3.0	3.2	2.8	-0.8	1.1	3.8	4.4	0.4	5.8	0.7	1.5
Point-to-point	16.3	13.7	13.0	17.6	17.3	17.3	18.2	19.3	16.4	21.6	24.0	18.1
12-month M/A	17.4	17.4	17.0	17.2	17.3	17.5	17.7	17.7	17.5	17.6	18.1	18.8

Source: Census and Statistics Department

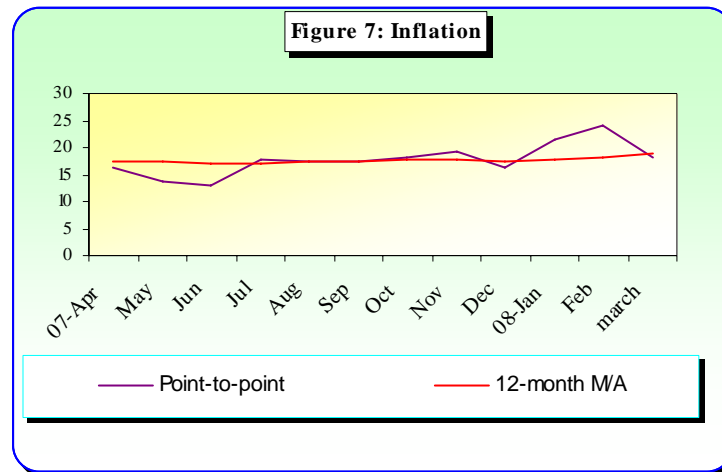


Table 5. Capital Market Information

Market Assessment	Jan	Feb	Mar	07-Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	08-Jan	Feb	Mar
All Share Price Index	2924	2983	2790	2811	2508	2572	2442	2527	2556.6	2615	2560	2540.99	2446	2531	2550
Milanka Price Index *1	4040	4188	3838	3869	3550	3584	3358	3453	3459.9	3529.59	3372.97	3291.87	3113	3172	3181
MBSL Mid Cap *2	5093	5306	4779	4820	4213	4353	4213	4196	4217	4395.95	4298.04	4310.43	4104	4280	4265
Sector Indices															
Banks, Finance & Insurance	5321	5424	5125	4951	4385	4717	4628	4786	4743	5022	4992	5110	4833	4988	4977
Beverage, Food & Tobacco	3483	3498	3135	3239	2877	2973	2845	3002	3214	3198	3116	3184	3160	3335	3493
Chemicals & Pharmaceuticals	3397	3255	2907	2695	2293	2383	2286	2303	2463	2614	2523	2545	2411	2623	2672
Construction	557	547	558	568	501	540	527	567	583	604	731	723	784	903	820
Diversified Holdings	810	837	834	817	722	755	691	719	702	712	712	715	677	704	714
Footwear & Textiles	890	885	838	800	646	708	710	796	815	911	932	929	872	937	876
Hotels & Travels	1468	1437	1321	1303	1150	1213	1135	1223	1354	1299	1312	1335	1470	1384	1345
Investment Trusts	14764	14391	13024	13390	10634	11213	10249	10255	11566	11817	12206	12249	11124	11205	12714
Land & Property	330	335	299	293	245	272	273	288	281	304	285	287	270	294	294
Manufacturing	1308	1387	1254	1282	1135	1185	1138	1134	1132	1145	1093	1086	1121	1210	1208
Motors	3603	3665	3361	3461	3028	2963	3063	2885	2937	2942	2893	2736	2699	2757	2873
oil palm	20272	20128	22627	22652	18067	17680	17088	16634	17373	17879	20359	20164	19505	21454	21818
Plantations	450	440	421	410	385	433	426	450	437	448	597	723	712	874	825
Services	7028	7074	6603	6994	6026	6133	5564	5814	5937	5963	6203	7791	6772	7047	7438
Stores & Supplies	10309	10636	9641	9907	9851	8676	7731	9908	10020	11261	11244	10746	10312	10331	10935
Trading	2535	2536	2373	2492	2097	2286	2227	2244	2334	2610	2674	246	2451	2484	2417
Market Capitalization															
Monthly Market Turnover (Rs. Mns)	14935	14272	9730	4235	12537	5292	2500	7840	8528	10704	8310	6100	3419	7625	9654
Foreign Purchases (Rs. Mns)	3266	3861	3079	2711	10741	3571	1311	3605	5066	4154	3677	3414	1427	3096	4177
Foreign Sales (Rs. Mns)	4116	4847	2905	2631	8858	2352	566	887	3461	2103	1948	813	707	3556	2057
Net Purchases (Rs. Mns)	-850	-986	174	80	1883	1219	745	2718	1605	2051	1729	2601	720	-460	2120
Market Capitalization (Rs. Billions)	910	928	869	885	804	828	787	815	827	843.37	825.32	820.65	792	820	828

1* - MILANKA - Covers the largest 25 companies

2 *- MBSL - Covers the next largest 25 companies

Source: Colombo Stock Exchange

