

**Foreign Reserves Get a Boost from
US Investment Bank Funds
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In August 2009 the good news for Sri Lanka on the economic front came from the macro-economy. The Central Bank's foreign reserves got a significant boost when a US investment bank, Franklin Templeton Fund, decided to invest US \$875 million in government four year bonds and six year bonds. The recent IMF loan would have boosted the confidence of Templeton in Sri Lanka and the attractive interest rates that Sri Lanka offered would have been too tempting to ignore. The current US five year bond rate is below 3%. In contrast the Sri Lanka four year rate is close to 13% and the six year rate is a whopping 15%. For sure the Templeton investment boosted the foreign reserves of the country and further assisted to ease the foreign exchange crisis that the massive purchase of Treasury Bills that the Central Bank made in the last quarter of 2008 and the first quarter of 2009 created. However, the Templeton money, just like the IMF money, is not available to the Treasury for local spending or development work. But the Treasury will have to pay the interest in dollars that will come close to \$100 million per year until the bonds mature.

The Central Bank Governor is targeting a foreign reserve of \$5.0 to 6.0 billion by early 2011. This is significantly higher than the \$ 3.6 billion in reserves that Sri Lanka has promised the IMF when it obtained a Stand-by loan last July.

Sri Lanka's inflation continued to remain low, a trend that began early this year. The year on year rate of consumer price inflation in August was only 0.9%. This gave the Central Bank further room to reduce interest rates to encourage bank lending and investment. The low interest rate will also help the Bank to meet some of the conditions that the IMF wants the Bank to adhere to in order to get future tranches of the IMF loan.

Although the rate of inflation has moderated in recent months the inflationary pressure that built up in the economy in 2008 is yet to fully dissipate. In August private bus owners demanded a hike in bus fares. The estate workers and electricity workers demanded a wage increase. Companies that sell consumer products such as cooking gas that are subject to price control also pressed for upward price adjustments.

While the macroeconomic news was relatively good, the same cannot be said of public sector financial management at the micro level. The role of parliament

as the body that maintains oversight over public institutions came up for debate between the government and the opposition. The membership of the Committee has gone up from 12 to 33 with 16 from the opposition. Traditionally the main function of the Committee on Public Enterprises (COPE) has been to scrutinize the accounts of about twenty public enterprises.

In a report that COPE issued in August, it criticized several public enterprises for giving credit without a proper needs assessment of the borrower or the capacity of the borrower to repay such loans. It also found fault with these public enterprises for lack of adequate internal financial control. COPE also noted that some of these institutions failed to get proper legal advice from the Attorney General on issues that were of vital importance. COPE also noted that Sri Lankan Airlines and Sri Lanka Telecom which are two of the largest enterprises in Sri Lanka that were partly owned by taxpayers could not be summoned by COPE because both were registered as private companies.

The government announced that it may charge a visa fee from tourists. This seems reasonable. The government may also want to make use of this opportunity to do away with the two-tier fee structure that charges a higher fee from foreigners who visit historic sites and other places of interest and instead charge a flat cultural tax that can be consolidated with the visa tax. The current dual fee structure causes much embarrassment and also leads to abuse and corrupt practices. Instead, everybody local or foreign can pay the same fee at the entrance to sites. The revenue from the consolidated visa cum cultural sites tax can be equitably distributed to maintain cultural and historic sites.

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