

Employees' Provident Fund has authority to make investments in the share market, including the banking and financial sector

The attention of the Central Bank has been drawn to recent claims of a spokesman for a certain political party that the Employees' Provident Fund (EPF) does not have the authority to invest in banking and financial sector stocks listed on the Colombo Stock Exchange. Such claim has also attempted to state that the investments are against the policy laid down by the Monetary Board. As these misleading statements may create confusion in the market and the general public, the Central Bank is issuing this statement.

In terms of the EPF Act, the Monetary Board of the Central Bank of Sri Lanka has been entrusted with the responsibility of managing the Fund as its custodian, while the general administration of the Fund has been vested with the Commissioner of Labour. The overall objective of the Fund in investing its money is to provide a reasonable return to members, while safeguarding and enhancing the value of the Fund. In terms of the section 5(e) of the EPF Act, Monetary Board may invest the moneys of the Fund in such securities as the Monetary Board may consider fit and may sell such securities. Accordingly, the EPF clearly has the authority to make investments in the share market, including the banking and financial sectors.

In keeping with its statutory obligations, the EPF, as Sri Lanka's biggest fund, has provided attractive returns to the EPF members while safeguarding their investment. The banking and financial sector is the largest sector in the Sri Lankan equity market with more 20 per cent of the total market capitalization. This sector has always been performing exceptionally well and therefore, since 2005, the EPF had invested in the sector with the intention of creating more wealth for the millions of EPF members in the long-term. Presently, the EPF's exposure to the banking sector is around one per cent of its total portfolio. In addition to the banking sector, the EPF has also invested in other sectors including construction and engineering, manufacturing, hotel and travel, telecommunication, and diversified holdings in the Colombo Stock Exchange, and in other instruments such as debentures, mortgage backed securities and selected private equities.

Currently, more than 95 per cent of the EPF investments are in government paper and this trend is expected to continue over the next few years as well. However, if the government were to reduce its fiscal deficit, over the next few years (as they have announced), there is a strong possibility that the EPF investment options of investing in government paper could diminish to some extent in the medium to long term. In that scenario, interest rates could decline further and hence the returns to the members could reduce proportionately, although such returns may be reasonably above the inflation rate. In that scenario, there is justification for a slight shift towards other instruments which provide higher yields, so that the returns of the EPF are maintained at reasonable levels in the medium to long term.

Since of late, Sri Lanka's stock exchange has been hailed as one of the best performing markets in the world and a massive peace dividend has been generated. In that context, it is the view of the Monetary Board that the savings of the people of our country, which are invested by the EPF, should also have the benefit of this peace dividend. The Monetary Board also wishes to assure the public that, as has been done for more than 50 years in the past, the EPF would discharge its investment responsibilities and duties in accordance with the stipulated rules and regulations in a professional and fair manner, providing a positive real rate of return to all its members while safeguarding the wealth of the EPF.