

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1970 are given in Table (19) in Appendix (II). The main changes in comparison with 1969 as at the end of December 1970 were—

	CHANGE (Rs. Million)
Total Demand Liabilities	+ 65.4
Currency Circulation	—122.3
Demand Deposits (of which commercial banks + 87.5)	+ 32.0
Borrowings abroad	+ 155.6
International Reserve	+ 28.8
Domestic Assets (of which Government and Government Guaranteed Securities + 126.2)	+ 154.4

+ Increase
— Decrease

There were no changes during the year in the Central Bank's rates for Sterling, Indian Rupees and U. S. Dollars which were:—

		T. T. BUYING	T. T. SELLING
Sterling (per Ceylon Rupee)	.. Spot ..	1s. 4 53/64d.	1s. 4 13/16d.
	.. Forward .. (upto six months)	1/128 d. per month discount against spot	1/128d. per month premium against spot
Indian Rupees (per 100)	.. Spot ..	Rs. 79 1/8	Rs. 79 3/16
	.. Forward .. (Upto six months)	1/32 of a rupee per month discount against spot	1/32 of a rupee per month premium against spot
U. S. Dollars (per 100)	.. Spot ..	Rs. 595.25	Rs. 595.50
	Forward .. (Upto three* months)	Rs. 595.25	Rs. -/25 cts. per month premium against spot

* Over three months and upto six months on specific application to the Central Bank.

Foreign Exchange transactions of the Central Bank are shown in Table (24) in Appendix (II).

The Central Bank's rate of interest on advances against Government Securities and against usance promissory notes relating to commercial and production loans was increased to $6\frac{1}{2}\%$ per annum with effect from January 11, 1970. The rate of interest on Central Bank advances to commercial banks against the pledge of usance promissory notes in respect of advances granted to Co-operative Societies to finance the purchase of paddy under the Guaranteed Price Scheme and for the purchase, sale or storage of locally grown agricultural products

remained unchanged at 3% per annum. The rate of interest on Central Bank advances to commercial banks secured by the pledge of usance promissory notes of Co-operative Societies relating to the production of paddy, red onions, Bombay onions, chillies, potatoes, pineapples and vegetables continued to be fixed at $1\frac{1}{2}$ % per annum, provided that commercial banks which availed themselves of this facility did not charge more than 8% per annum (subject to a rebate of 3% per annum if payment is made on the due date) from the makers of the promissory notes. The Central Bank's discount rate for Treasury Bills continued to be at $1\frac{1}{8}$ % per annum over the last accepted average tender rate.

Foreign Currency Notes.

The Central Bank continued to purchase specified foreign currency notes from commercial banks operating in Ceylon at prescribed rates.

Credit Guarantee Scheme

Under this Scheme the Central Bank on behalf of the Government, guarantees payment upto 75% of the amount in default in respect of loans granted by commercial banks to Co-operative Societies for the purpose of cultivation of paddy, red onions, Bombay onions, chillies, potatoes, pineapples and vegetables. A guarantee fee of one half of one percent is payable by the commercial banks. In 1970, the Central Bank guaranteed loans granted by commercial banks totalling Rs. 50,695,000.

Medium and Long Term Credit

Refinance loans totalling Rs. 22,252,000 were granted to credit institutions during the year. The rates of interest on refinance loans granted by the Central Bank to credit institutions were revised with effect from January 11, 1970 as follows:-

- (a) for the promotion or development of agriculture or industry - $6\frac{1}{2}$ per cent per annum.
- (b) for the modernisation of tea factories and for construction of new factories where the Tea Controller meets a part of the interest payable on such loans.
 - (i) 5 per cent per annum in respect of refinance loans to cover local costs;
 - (ii) 7 per cent per annum in respect of refinance loans to cover the foreign exchange costs.
- (c) for the promotion or development of trade, commerce or business - $7\frac{1}{2}$ per cent per annum.

Currency Issue

At the end of 1970, the total currency circulation amounted to Rs. 1,090.4 million which was a decrease of Rs. 122.3 million as compared with the figure at the end of 1969. There was a decrease of Rs. 128.0 million in the note circulation and an increase of Rs. 5.7 million in the coin circulation.

All currency notes of the denominations of Rs. 100/- and Rs. 50/- bearing a date prior to 26.10.70 were demonetised on 25.10.70 and these ceased to be legal tender from 3.11.70. Two new currency notes of the denomination of Rs. 100/- and Rs. 50/- were issued on 26.10.70 to replace the old design demonetized currency notes. These notes are of an entirely new design. The reproduction of the statue of King Parakramabahu the Great on the fronts of the notes of both denominations was replaced with the portrait of the late Prime Minister, Mr. S. W. R. D. Bandaranaike. On the back of the Rs. 100/- note, the Sigiriya fresco was replaced with a picture of a drummer and three Kandyan dancers and on the Rs. 50/- note, the reproduction of the Moonstone and steps with a reproduction of the Vihara Maha Devi Monument.

Foreign Exchange Entitlement Certificates Scheme

The Central Bank of Ceylon continued to administer the Foreign Exchange Entitlement Certificates Scheme on behalf of the Government of Ceylon.

Asian Development Bank - 2nd Loan

The Central Bank of Ceylon entered into an agreement with the Asian Development Bank on December 1, 1970 for a loan of U. S. \$ 3.5 million to cover the foreign exchange costs of the Government's Tea Factory Modernisation Project.

Income and Expenditure

The income of the Central Bank for the year amounted to Rs. 80,984,000/- and expenditure including allocation to reserves and provision for depreciation on the value of the Bank building and office furniture amounted to Rs. 79,984,000/-. The net profit of Rs. 1,000,000 was carried to Surplus in terms of Section 39 (b) of the Monetary Law Act.

Bank Supervision

In the year 1970 the Department of Bank Supervision examined five commercial banks under Section 29 (1) of the Monetary Law Act and concluded the examinations of another five banks begun earlier. The Department continued to perform functions connected with the operation of Part III of the Finance Act No. 65 of 1961 as amended by Act No. 36 of 1968. The Development Finance Division continued to be engaged in the appraisal of loans prior to refinance by the Central Bank in connection with the first and second lines of credit made available by the Asian Development Bank for Tea Factory Modernisation Projects. The Division also appraised other refinance loans given from the Medium and Long-Term Credit Fund of the Central Bank for industrial, agricultural and commercial purposes.