

makers of the promissory notes. The Central Bank's discount rate for Treasury Bills continued to be at 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. With effect from December 28, 1971, the Central Bank also offered to sell specified foreign currency notes to commercial banks at prescribed rates.

Credit Guarantee Scheme:

Under this Scheme, the Central Bank, on behalf of the Government guaranteed payment upto 75% of the amount in default in respect of loans granted by commercial banks to Co-operative Societies for the purpose of the cultivation of paddy, onions, chillies, potatoes, pineapples, vegetables and spices. A guarantee fee of one half of one percent is payable by the commercial banks. In 1971, the Central Bank guaranteed loans granted by commercial banks totalling Rs. 41,976,000/-.

Medium and Long Term Credit:

Refinance loans totalling Rs. 17,993,000/- 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 on 30th January, 1971, as follows:-

- (a) for the promotion or development of agriculture or industry-6½ 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) 6 per cent per annum in respect of refinance loans to cover local costs;
 - (ii) 8 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-7½ per cent per annum.

Currency Issue:

At the end of 1971, the total currency circulation stood at Rs. 1285.1 million which indicates an increase of Rs. 194.7 million as compared with the figure at the end of 1970. There has been an increase of Rs. 188.0 million in the note circulation and an increase of Rs. 6.7 million in the coin circulation. The increase in the note circulation was mainly due to an increase of Rs. 169.1 million in the Rs. 100 denomination, an increase of Rs. 51.9 million in the Rs. 50

denomination and a decrease of Rs. 31.0 million in the Rs. 10 denomination. The increase in the coin circulation was due to the progressive increase in the circulation of all denominations of coins.

There have been no new issues of notes or coins during the year.

Bank Debits Tax:

The Central Bank continued to administer the collection of Bank Debits Tax.

Compulsory Savings:

The Central Bank acted as the custodian of the moneys of the Compulsory Savings Fund and administered the Fund on behalf of the Government.

Foreign Exchange Entitlement Certificates Scheme:

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

Income and Expenditure:

The income of the Central Bank for the year amounted to Rs. 83,086,000 and expenditure including allocation to reserves and provisions for depreciation on the value of the Bank building and office furniture amounted to Rs. 82,086,000. 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 1971, the Department of Bank Supervision examined five commercial banks under Section 29 (1) of the Monetary Law Act, concluded the examination of two other commercial banks begun earlier, and examined five co-operative banks declared banking institutions under Section 127 (1) (d) of the Monetary Law Act.

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 modernization of tea factories. In addition the Division appraised refinance loans for industrial, agricultural and commercial purposes financed through the Medium and Long Term Credit Fund set up by the Central Bank.

The Department also handled work connected with the duties cast upon the Central Bank by the Bank Debits Tax Act, No. 27 of 1970."