

### III. ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1972 are given in Table 19 in Appendix II. The main changes in comparison with 1971 as at the end of December 1972, were:

		CHANGE (Rs. Million)
Total Demand Liabilities	.. ..	+ 279.9
Currency Circulation	.. ..	+ 159.7
Demand Deposits	.. ..	+ 101.8
Borrowings Abroad	.. ..	+ 18.4
International Reserve	.. ..	+ 47.2
Domestic Assets	.. ..	+ 135.3

+ Increase

The Central Bank's rates for Sterling, Indian Rupee and U. S. Dollar were revised during the year. At the end of the year, the rates were as follows:-

		T. T. Buying	T. T. Selling
Sterling (per 100)	Spot	Rs. 1559 7/8	Rs. 1561 3/8
	Forward (Upto six months)	21/32 of a rupee per month discount against spot	21/32 of a rupee per month premium against spot
Indian Rupees (per 100)	Spot	Rs. 82 3/4	Rs. 82 13/16
	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. 669 1/4	Rs. 669 1/2
	Forward (Upto three months)*	Rs. 669 1/4	-/50 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 remained unchanged at 6½ % per annum. 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, vegetables and other specified crops continued to be at 1½ % 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 1/8 % 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 Sri Lanka at prescribed rates. 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, vegetables and other specified crops. A guarantee fee of one half of one percent is payable by the commercial banks. In 1972, the Central Bank guaranteed loans granted by commercial banks totalling Rs. 35,471,000/-.

**Medium and Long Term Credit:**

The rates of interest on refinance loans granted by the Central Bank to credit institutions under the Medium and Long Term Credit Scheme remained unchanged 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) 6 per cent per annum in respect of local costs;
  - (ii) 8 per cent per annum in respect of foreign exchange costs.
- (c) for the promotion or development of trade, commerce, or business-  $7\frac{1}{2}$  per cent per annum.

Refinance loans totalling Rs. 10,169,000/- were granted to credit institutions during the year.

**Currency Issue:**

At the end of 1972, the total currency circulation stood at Rs. 1,444.8 million which indicates an increase of Rs. 159.7 million as compared with the figure as at the end of 1971. There has been an increase of Rs. 157.0 million in the currency note circulation and an increase of Rs. 2.7 million in the coin circulation. A significant increase is indicated in the circulation of the notes of

the denominations of Rs. 100 and Rs. 50 i. e. Rs. 111.2 million in the case of the Rs. 100 currency notes and Rs. 38.4 million in the case of the Rs. 50 currency notes, while the lower denominations have been more or less at the same level. This increase was due to the commercial banks' strike which prevailed towards the end of 1972. There has been no new issue of notes or coins during the year under review.

#### **Bank Debits Tax:**

The Central Bank continued to be responsible for the collection of Bank Debits Tax.

#### **Compulsory Savings:**

The Central Bank continued to be the custodian of the moneys collected in terms of the Compulsory Savings Act, No. 6 of 1971 and administered the Compulsory Savings Fund on behalf of the Government.

#### **Foreign Exchange Entitlement Certificate Scheme:**

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

#### **Income and Expenditure:**

The income of the Central Bank for the year amounted to Rs. 85,238,000 and expenditure, including allocation to reserves and provisions for depreciation on the value of the Bank building and office furniture, amounted to Rs. 84,238,000. 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 1972, the Department of Bank Supervision examined seven commercial banks under Section 29(1) of the Monetary Law Act; the examination of six of these banks was concluded during the year. Work in connection with bank examinations was held up during the period September to December, 1972 due to the strike of commercial bank employees.

The Department also performed functions connected with the administration of the Bank Debits Tax Act, No. 27 of 1970.

The Development Finance Division continued to be engaged in the appraisal of loans in respect of which re-finance was sought from the Medium and Long-term Credit Fund of the Central Bank. These loans were mainly for the purpose of financing tea factory modernization, the foreign exchange costs of which are met from loans made available for the purpose by the Asian Development Bank.