

III. ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1974 are given in Table 19 in Appendix III. The main changes in comparison with 1973 as at the end of December 1974, were:

		CHANGE (Rs. Million)
Total Demand Liabilities	+ 356.2
Currency Circulation	+ 176.0
Demand Deposits	+ 163.5
Borrowings Abroad	+ 16.7
International Reserve	- 60.5
Domestic Assets	+ 545.9

+ Increase - Decrease

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

		T.T. Buying	T.T. Selling
Sterling (per 100)	Spot		
	Forward (Upto six months)	Rs 1559 7/8 21/32 of a rupee per month discount against spot	Rs 1561 3/8 21/32 of a rupee per month premium against spot
Indian Rupees (per 100)	Spot		
	Forward (Upto six months)	Rs 82 15/16 1/32 of a rupee per month discount against spot	Rs 83/- 1/32 of a rupee per month premium against spot
U.S. Dollars (per 100)	Spot	*Rs 668.70	Rs 668.95
	Forward (Upto three months)	Rs 668.70	-/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 III.

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 Guranteed 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 facilities 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 from and sell to commercial banks operating in Sri Lanka specified foreign currency notes at prescribed rates.

Credit Guarantee Scheme

In 1974, the Central Bank guaranteed loans totalling Rs. 185,225,000— granted by commercial banks for the purpose of the cultivation of paddy, vegetables and other specified crops.

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. 8,945,001/- were granted to credit institutions during the year.

Currency Issue

At the end of 1974, the total currency circulation stood at Rs. 1,829.0 million which indicate an increase of Rs. 176.0 million as compared with the figure as at the end of 1973. There has been an increase of Rs. 167.9 million in the currency note circulation and an increase of Rs. 8.1 million in the coin circulation. The increase in the currency note circulation is indicated mainly in the denomination of Rs. 100/- while the other denominations have been more or less static.

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 the ceiling on Income and Compulsory Savings Law No. 15 of 1972, 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. 131,967,000 and expenditure, including allocation to reserves and provisions for depreciation on the value of land and buildings and office furniture, amounted to Rs. 130,967,000. 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 1974 the Department of Bank Supervision commenced the examination of eight commercial banks under Section 29 (1) of the Monetary Law Act of which four were concluded during the year.

The Department continued to perform functions connected with the administration of the Bank Debts Tax Act No. 27 of 1970 and inspections of commercial banks were carried out for the purpose of verifying the information required to be furnished in the certificates of the authorised officer-under Section 15 (1) of the Act.

The Development Finance Department

The Development Finance Department was set up in January 1974 and took over the functions and the staff of the Development Finance Division which formed part of the Department of Bank Supervision. The new department is mainly engaged in appraisal and evaluation of private sector development projects in respect of which refinance is sought from the Central Bank. The Department has also undertaken the evaluation of public sector projects at the request of Government Ministries and Departments. In 1974, refinance loans sought by banks were predominantly for the modernization of factories under the Asian Development Bank. Tea Factory Modernization Loan Scheme, which is administered by a Loan Committee chaired by the Deputy Governor of the Central Bank and is serviced by the Development Finance Department. The second Asian Development Bank Tea Factory Modernization Loan has now been fully committed and a request has been made for the negotiation of a third loan. The Department has undertaken preparatory work in connection with this request, including an analysis of the age composition of machinery in all registered tea factories in the island.

In 1967, the Central Bank acting on behalf of the government under Section 108 of the Monetary Law Act, put into operation a scheme of credit guarantee in respect of cultivation loans for paddy, vegetables and other specified crops financed by the Peoples Bank. In 1974, cultivation loans given by Bank of Ceylon too for these specified crops were brought within this scheme as were also the cultivation loans given by the Hatton National Bank to farmers settled under the Lower Uva-Debera AruWewa Scheme

A credit guarantee scheme designed to facilitate the provision of medium and long term loans by commercial banks to the tea industry was instituted on behalf of the government in March 1974. In August 1974, this scheme was extended to cover loans granted by commercial banks for meeting gratuity payments to repatriates under the Indo-Ceylon Agreement of 1964. Section 108A of the Monetary Law Act which came into operation in 1974 enables the Central Bank to operate guarantee schemes on its own account in respect of loans granted by commercial banks to small enterprises. Up to the end of 1974 no loans had been guaranteed under this scheme.

In September 1974, the Department conducted a training programme for management personnel of commercial banks participating in the Dairy Development Project the foreign exchange as well as part of the local costs of which are to be financed from a line of credit from the International Development Association. This training programme was part of the preliminary implementation work on this project which is to be administered by a Project Committee chaired by the Secretary, Ministry of Plan Implementation. The Director of Development Finance is a member of this Committee.