

II. ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1975 are given in Table 7 in Appendix III. The main changes in comparison with 1974 as at the end of December 1975 were :-

		CHANGE (Rs. Million)
Total Demand Liabilities	+ 103.1
Currency Circulation	+ 61.4
Demand Deposits	+ 1.3
Borrowings Abroad	+ 40.4
International Reserve	+ 18.0
Domestic Assets	+ 91.1

+ Increase

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

Sterling		T. T. Buying	T. T. Selling
(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)		Rs. 86 1/32	Rs. 86 3/32
	Spot		
	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)		Rs. 770.80	Rs. 771.05
	Spot		
	Forward (Upto three months)	Rs. 770.80	-/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 (8) 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 $6\frac{1}{2}\%$ 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 $1\frac{1}{2}\%$ 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 1/8% 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 1975, the Central Bank guaranteed loans totalling Rs. 107,884,000 granted by commercial banks for the purpose of the cultivation of paddy, vegetables and other specified crops and for tea replanting and tea factory development.

Medium & Long Term Credit

The rates of interest on refinance loans granted by the Central Bank to credit institutions under the Medium & Long Term Credit Scheme remained unchanged 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 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 - 7½ % per annum.

Refinance loans totalling Rs. 14,789,000 were granted to credit institutions during the year.

Currency Issue

At the end of 1975 the total currency circulation stood at Rs. 1,890.4 million which indicates an increase of Rs. 61.4 million as compared with the figure as at the end of 1974. There has been an increase of Rs. 57.8 million in the currency notes circulation and an increase of Rs. 3.6 million in the coins circulation.

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.

Asian Clearing Union

The Central Bank is a participant Bank in the Asian Clearing Union. Operations under the Asian Clearing Union facility commenced on 1st November, 1975.

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. 165,714,000 and expenditure, including allocation to reserves and provisions for depreciation on the value of land and buildings and office furniture, amounted to Rs. 164,714,000. 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 1975, the Department of Bank Supervision examined eight Commercial Banks under Section 29 (1) of the Monetary Law Act thereby completing the examination of every Commercial Bank in Sri Lanka for the examination period 1974/75.

The Department continued to perform functions connected with the administration of the Bank Debits Tax Act No. 27 of 1970 and inspections of Commercial Banks were carried out for the purposes of verifying the information required to be furnished in the certificates of the Authorised Officer, under Section 15 (1) of the Act.

Development Finance Department

The Development Finance Department's main responsibility is the appraisal of development projects in respect of which refinance is sought by approved credit institutions from the Central Bank's Medium and Long-Term Credit Fund. The following table sets out the refinance approvals from the Medium and Long-Term Credit Fund of the Central Bank classified according to purpose:-

**Medium and Long-Term Credit Fund-
Refinance Loans approved in 1975**

<i>Purpose</i>	<i>No. of Projects</i>	<i>Amount Rs. Million</i>
1. Tea Factory Modernization	88	10.3
2. Hotel Projects	4	Rs. 9.7 mn.
3. Industrial Projects	6	Rs. 3.0 mn.
4. Poultry Farming	2	Rs. 0.3 mn.
Total		<u>23.3</u>

As in the past, the majority of the applications for refinance were in respect of loans for installing new machinery and equipment under the Asian Development Bank Tea Factory Modernization Loan Scheme. The Asian Development Bank Tea Factory Modernization scheme, which forms an integral part of the Government's development programme for the tea-industry, came into operation in 1968. A loan of U. S. Dollars 2 million was obtained from the Asian Development Bank to meet the foreign exchange costs of the scheme. This was supplemented by a second loan of U. S. Dollars 3.5 million in 1970. The rupee funds required to finance projects under the scheme are made available to commercial banks and other approved credit institutions from the Central Bank's Medium & Long-Term Credit Fund. During 1975, 88 factory modernization projects involving Rs. 10.3 million were approved for refinance by the Committee administering the scheme.

Refinance amounting to Rs. 9.7 million was also approved for four government approved hotel projects. Of these, two hotels are located at Beruwala while the other two are at Habarana and Negombo. Among the industrial projects refinanced, two were for fruit processing and fruit canning, two for assembly of sewing machines and one each for the manufacture of agricultural equipment and synthetic resin.

Appraisal of loans for which cover was sought from the Credit Guarantee Scheme for the Tea Industry, and work connected with the operation of the scheme were also part of the responsibilities of the Department. The Credit Guarantee Scheme which was instituted in late 1974 on the recommendation of the Central Bank is operated by the Central Bank on behalf of the Government and was designed to assist tea producers who were finding it increasingly difficult to obtain loans for factory investment and tea replanting from the banking system. During 1975 guarantees were approved in respect of loans covering Rs. 1.6 million under this scheme.

In addition to servicing the Committees administering the Tea Factory Modernization Project and the Sri Lanka Fisheries Project, the foreign exchange costs of which are financed by the Asian Development Bank, the Department was also engaged in work connected with implementation of these projects, as well as the Sri Lanka Dairy Development Project which is administered by a Committee chaired by the Director of Plan Implementation and includes the Director of Development Finance of the Central Bank.

The implementation of these projects is vitally dependent on the effective use of credit which is made available by special arrangements with the banks which are in turn provided with refinance facilities from the Medium and Long-Term Credit Fund of the Central Bank. The Central Bank has therefore been alive to the need to train bank cadres in the techniques of project evaluation and end-use supervision when credit is given under these schemes. The Development Finance Department accordingly made arrangements for the Director of National Institute of Bank Management (NIBM), Bombay, to visit Sri Lanka in February, 1975, together with two members of the faculty of this Institute. This visit was specifically arranged by the Central Bank for the purpose of promoting discussions with senior management personnel of the commercial banks as well as the Central Bank, with a view to formulating training programmes for bank officers in Sri Lanka. The intention of the Central Bank was to use the Bankers' Training Institute, which is jointly financed and managed by the Central Bank and the commercial banks, to arrange, organise and conduct training programmes, seminars etc. to make the use of credit more effective. On the basis of these discussions, the visitors agreed to sponsor the visit of a team of senior bank management personnel to India to familiarise themselves with the type of training work undertaken by NIBM and the larger commercial banks in India. The intention of the Central Bank in sponsoring this visit of senior bank management personnel is to make available a pool of specialised know-how for the conduct and management of training programmes in Sri Lanka. The visitors from National Institute of Bank Management (NIBM) also agreed to collaborate with the Bankers' Training Institute in the conduct of planned programmes.

The Department also examined a proposal to set up an export credit guarantee corporation at the invitation of the Export Promotion Secretariat. In this connection two officers of the Department, along with an officer each from the Ministry of Foreign & Internal Trade and the Export Promotion Secretariat visited the Export Credit and Guarantee Corporation Limited of India, for the purpose of studying its operations as a basis for making recommendations on the proposal for the establishment of a scheme of export credit guarantee in Sri Lanka. This visit was financed by the International Trade Centre, Geneva, which is extending assistance to the Government in regard to the proposal to establish an export credit guarantee corporation.

Government Loan Operations

According to the revised Budget Estimates for the financial year 1975, the budget deficit, estimated at Rs. 2,527 million, was expected to be financed from the sources mentioned below to the extent shown against each:-

Appropriation Act Loans	Rs. 1,100 million
Commodity Aid Counterpart Fund	Rs. 791 ..
Project Loans and Grants	Rs. 398 ..
Administrative Borrowings	Rs. 250 ..

leading to a cash surplus of Rs. 12 million.



Appropriation Act Loans.

Since the target initially set for borrowing from non-bank domestic sources under the Appropriation Act was Rs. 900 million, nine loans of Rs. 100 million each were raised by way of loan stock issues under the Registered Stocks and Securities Ordinance in the first instance. However, in view of the upward revision of the target to Rs. 1,100 million and the availability of additional funds with semi-government institutions and agencies, a further issue of stock was made under that Ordinance and it was possible to mobilise, in the aggregate, a sum of Rs. 1,039,105,400 from non-bank domestic sources before the close of the financial year. A classification of the subscriptions to these government rupee loans by investor categories is set out in the table below.

Subscriptions to the Government Loan Stock Issues of 1975

<i>Subscribers</i>	<i>Amount (In Rs. Million)</i>	<i>As a percentage</i>
1. Bank sector ..	—	—
1.1 Commercial banks ..	—	—
2. Non-bank sector		
2.1 Semi-Government Savings Institutions		
National Savings Bank ..	257.22	24.8
2.2 Trusts, Benevolent, Pension & Provident Funds:		
(a) Employees' Provident Fund ..	259.23	24.9
(b) Others ..	55.01	5.3
2.3 Joint Investment Fund ..	329.46	31.7
2.4 National Housing Sinking Fund ..	4.02	0.4
2.5 Insurance Funds:		
(a) Insurance Corporation ..	114.80	11.0
(b) Insurance Companies ..	0.38	..
2.6 Departments ..	8.84	0.9
2.7 Companies ..	0.13	..
2.8 Clubs & Institutions ..	9.08	0.9
2.9 Individuals ..	0.94	0.1
Total ..	<u>1,039.11</u>	<u>100.0</u>

The National Savings Bank, the Employees' Provident Fund, the Insurance Corporation and the Joint Investment Fund are found to have between them subscribed to 92.4% of the total loan stock issue. It may be mentioned that commercial banks are precluded from investing in new loan stock issues in view of the desirability of financing the deficit in a non-expansionary manner.

Issue of Treasury Bills

The limit to borrowing by Government by way of Treasury Bills has been set at Rs. 2,550 million by a resolution of the National State Assembly of 1972. 07. 21. Treasury Bills may, accordingly, be issued for the borrowing of

sums not exceeding in the aggregate the amount specified in that resolution, Treasury Bills may also be issued to raise sums required to pay off at maturity Treasury Bills issued and outstanding.

In 1975, Treasury Bills to the par value of Rs 8,769.9 million were issued whilst Treasury Bills to the value of Rs. 8,669.9 million were redeemed at maturity. The additional net issue of Rs. 100 million during the course of 1975, together with the issue outstanding of Rs. 2,250 million at the beginning of that year, brought the total Treasury Bill issue outstanding at the end of 1975 to Rs. 2,350 million. A classification of subscribers by investor categories in respect of the Rs. 2,350 million Treasury Bills outstanding is set out in the following table:

**Treasury Bills issued and outstanding at
the end of 1975 by subscriber categories**

<i>Subscribers</i>	<i>Amount (In Rs. Million)</i>	<i>As a percentage</i>
1. BANK SECTOR		
1.1 Central Bank 2,149.050	91.4
1.2 Commercial Banks	.. 51.038	2.2
2. NON-BANK SECTOR		
2.1 Compulsory Savings Fund ..	143.936	} 6.4
2.2 Employees' Provident Fund ..	1.000	
2.3 Trusts, Pension Funds etc. ..	1.550	
2.4 Insurance Companies ..	3.116	
2.5 Other Companies ..	0.145	
2.6 Clubs & Institutions ..	0.055	
2.7 Individuals ..	0.110	
Total ..	<u>2,350.000</u>	<u>100</u>

Issue of Tax Reserve Certificates

During the course of 1975, Tax Reserve Certificates in a sum of Rs. 47,824,200 were issued whilst Tax Reserve Certificates in a sum of Rs. 45,916,988 were surrendered of which payment of tax accounted for Rs. 39,666,275 and refund by way of cancellation accounted for Rs. 6,250,713. The net increase in the Tax Reserve Certificate issue was thus Rs. 1,907,212 and the proceeds of the net issue were made available to Government.

External Finance

Receipts of foreign loans utilised to meet the budget deficit amounted to Rs. 648,409,288 during 1975 of which Rs. 270,250,936 were by way of project loans and Rs. 378,158,352 were by way of commodity loans.

Administrative Borrowings

The Sri Lanka State Trading (Consolidated Exports) Corporation received an advance payment of U. S. \$. 32 million from the Bank of Melli, Iran, against future tea exports to Iran. The Rupee proceeds of the advance amounting to Rs. 245,023,727 were made available to Government by the Corporation. This sum has been regarded as an administrative borrowing repayable to the Corporation by Government.

Budgetary Financing

The revised net cash deficit is now provisionally estimated at Rs. 1,800.9 million. This deficit is met as follows:

	<i>Rupees Million</i>
Domestic non-bank loans	1,039.1
Domestic short-term borrowing (Treasury Bills and Tax Reserve Certificates) ..	101.1
Administrative Borrowing (Consolexpo Loan) ..	245.0
Foreign Finance (Project and Commodity Loans) ..	648.4
	<u>2,033.6</u>
Add: Grants received	425.2
	<u>2,458.8</u>
Less: Capital Repayments	767.9
	<u>1,690.9</u>
Add: Central Bank Advance	88.1
	<u>1,779.0</u>
Add: Reduction in Cash Balances	15.5
	<u>1,794.5</u>
Add: Miscellaneous Loan Items	6.4
	<u><u>1,800.9</u></u>

REDEMPTION OF PUBLIC DEBT**Government Loan Stock Issues**

Two loans floated under the Registered Stock and Securities Ordinance for Rs. 9,561,200 and Rs. 60,000,000 were redeemed in 1975. Whilst in the case of the Rs. 9,561,200 loan, a deficit of Rs. 5,668,526.56 in the Sinking Fund was met by the Consolidated Fund, in the case of the Rs. 60,000,000 loan a surplus of Rs. 13,493,617.30 in the Sinking Fund was credited back to government.

Government Sterling Loan

A payment of Rs. 37,377,138.34 was made from the Consolidated Fund to meet the deficiency of £ 1,450,824.51 in the Sinking Fund of the £ 5 million, 4% 1973-75 loan which fell due for repayment on 1975.03.17. However, since the Supplementary Sinking Fund and the Rupee Loan Sinking Funds held stock to the value of £ 420,056.88 and £ 850,282.46 respectively in the maturing loan, the short fall, exchange wise, was in a reduced amount of £. 180,485.17.

Foreign Loans

Capital repayments* effected during the year 1975 in respect of project and commodity loans were Rs. 81,933,115 and Rs. 111,661,599 respectively aggregating Rs. 193,594,714.

PAYMENT OF INTEREST ON PUBLIC DEBT

Interest payments* in 1975 on Public Debt serviced by the Central Bank amounted to Rs. 642,195,363, details of which, according to the kind of debt, are set out below:-

A. Interest on Domestic Debt.

(1) Rupee Loans	..	Rs. 469,291,609
(2) Administrative Borrowings	..	Rs. 13,907,934
(3) Treasury Bills	..	Rs. 73,483,915
(4) Tax Reserve Certificates	..	Rs. 1,093,205
Sub-total	..	Rs. <u>557,776,663</u>

B. Interest on External Debt.

(1) Foreign Loans	..	Rs. 84,418,700
Total	..	Rs. <u>642,195,363</u>

PUBLIC DEBT OUTSTANDING

The gross Public Debt as at the end of 1975 stood at Rs. 14,564,278,431 of which Rs. 10,859,362,490 was in respect of domestic debt and the balance Rs. 3,704,915,941 was in respect of foreign debt. The net increase in gross Public Debt during 1975 was Rs. 2,184,207,593 and consisted of increases of Rs. 969,544,200 in Rupee Loans outstanding, Rs. 253,007,222 in administrative borrowings, Rs. 192,646,024 in short-term borrowings, Rs. 769,010,649 in foreign loans outstanding and a decrease of Rs. 502 in National Development Bonds outstanding.

* These do not include the payments for the purchase of FEECs.