

## II. ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1976 are given in Table 7 in Appendix III. The main changes in comparison with 1975 as at the end of December 1976 were:

	CHANGE (Rs. Million)
Total Demand Liabilities	+ 656.7
Currency Circulation	+ 516.8
Demand Deposits	+ 133.3
Borrowings Abroad	+ 6.6
International Reserve	+ 384.9
Domestic Assets	+ 177.5

+ Increase

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

		T. T. Buying	T. T. Selling
Sterling (per 100)	Spot	Rs. 1460 7/8	Rs. 1462 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. 99 11/32	Rs. 99 13/32
	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. 886.25	Rs. 886.50
	Forward (upto three months)	Rs. 886.25	-/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  $1\frac{1}{2}\%$  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  $1/8\%$  per annum over the average rate of the latest accepted Treasury Bill tender.

**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 1976, the Central Bank guaranteed loans totalling Rs. 14,737,000 granted by commercial banks for the purpose of cultivation of paddy, vegetables and other specified crops and for tea replanting and tea factory modernisation.

**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 annum.

Refinance loans totalling Rs. 19,119,000 were granted to credit institutions during the year.

### **Currency Issue:**

At the end of 1976 the total currency circulation stood at Rs. 2,407.2 million which indicates an increase of Rs. 516.8 million as compared with the figure as at the end of 1975. There has been an increase of Rs. 502.8 million in the currency notes circulation and an increase of Rs. 14.0 million in the coins circulation.

Two special coins of the denomination of Rs. 5/- and Rs. 2/- were issued to commemorate the Fifth Conference of Non-Aligned Nations held in Colombo during August 1976.

The Rs. 5/- coin is struck in pure nickel with 10 equal sides and a diameter of 1.293 inches while the Rs. 2/- coin is struck in cupro nickel with 7 equal curved sides and a diameter of 1.181 inches. The obverse design in both coins is a reproduction of the Bandaranaike Memorial International Conference Hall in the centre. The legend “නොබැඳුණු ජාතීන්ගේ සම්මේලනය” in Sinhala appears on the left periphery of the coin with its Tamil version on the right periphery and its English version below the reproduction of the Conference Hall. The Year 1976 is below the English words. On the reverse of the respective coins the figures 5 and 2 appear in the centre. Their respective values in words in Sinhala, Tamil and English appear across the figures 5 and 2. The words “ශ්‍රී ලංකා” appear above the figures while the Tamil and English versions of these words flank the figures on the left and right respectively.

Both coins will be legal tender in Sri Lanka for the payment of any amount and will be liabilities of the Central Bank of Ceylon while in 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. During the year the Bank paid out about Rs. 23.8 million to contributors on about 16,300 applications received.

### **Asian Clearing Union:**

The Central Bank is a participant Bank in the Asian Clearing Union. The net sum paid by Sri Lanka to the participant banks by way of settlement on transactions routed through the Clearing Union amounted to Rs. 162,808,000/-.

**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. 151,621,000 and expenditure, including allocations to reserves and provisions for depreciation on the value of land and buildings and office furniture also amounted to Rs. 151,621,000.

**BANK SUPERVISION**

In the year 1976 the Department of Bank Supervision commenced the examination of eight commercial banks under Section 29 (1) of the Monetary Law Act and concluded six of them. In addition the reports of three other banks, the examinations of which were begun earlier, were issued in 1976.

The Department continued to perform functions connected with the administration of the Bank Debts Tax Act No. 27 of 1970 as amended by Law No. 32 of 1975 and inspections of commercial banks were carried out for the purpose of verifying the information required to be furnished in certificates of the authorised officer under Section 15 of the Act.

**Development Finance Department**

The Development Finance Department continued to appraise various development projects for which refinance was sought by approved credit institutions from the Central Bank's Medium and Long-Term Credit Fund. A breakdown by purpose of the refinance approvals in 1976 is given below:

Industrial Projects	Rs. 7.3 million
Hotel Projects	Rs. 8.9 „
Tea Factory Modernisation Projects	Rs. 1.7 „
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Total	Rs. 17.9 million
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Although the Asian Development Bank loan for tea factory modernisation has been exhausted, the Loan Committee, chaired by the Deputy Governor of the Central Bank, which administered this loan scheme, continues to function as the approving authority for tea factory modernisation projects financed from free foreign exchange. These projects continue to be appraised by the Development Finance Department.

The Department also continued to service the Loan Committee administering the Fisheries Development Project, the foreign exchange costs of which are financed from a loan from the Asian Development Bank. The Department's responsibilities in connection with the implementation of the project include the co-ordination of activities of the executing banks in keeping with the construction programme of the boats, the formulation of procedures for the smooth processing of loan applications and the monitoring of loan recovery work of the executing banks. The project provides for the construction locally of 28 ft. class fishing vessels and for the construction abroad of 38 ft. class vessels on the basis of specifications drawn up by the Department of Fisheries. While the operation of the former class of vessel is limited to a range of about 15 miles from shore, the latter class of vessel has been designed to stay out for 3 days with facilities for overnight stay for the crew and for the storage of fish. The project also provides for the establishment of repair workshops for repair and maintenance of the boats and for the supply of refrigerated vans for marketing purposes. The issue of boats under the project commenced in August 1976. Progress made in the issue of the different classes of vessels is indicated below:

Class of boat	No. of boats to be provided under the project	No. of boats issued
28 ft.	200	37
38 ft.	30	3

Operational rules and procedures for the implementation of an Export Credit Guarantee Scheme were also finalised by the Department. The objective of the scheme is to promote exports by facilitating the grant of credit by banks to exporters of non-traditional products qualifying for FEECs and/or CRA. The scheme provides cover for two-thirds of any loss that may be suffered by a commercial bank on account of any guaranteed advance.

The Director of Development Finance continued to serve as a member of the Project Co-ordinating Committee set up to facilitate the absorption of a line of credit amounting to 21 million U.S. dollars made available by the International Development Association for the purchase of tractors, tractor spares and other equipment required by the public and private sectors for agricultural development.

## A REVIEW OF THE OPERATIONS OF THE E. P. F. DEPARTMENT

### Introduction

The Employees' Provident Fund Department of the Central Bank of Ceylon was set up on 1st August, 1958, in terms of the Employees' Provident Fund Act No. 15 of 1958 which provided for the establishment of a provident fund for employees in the private and semi-government sectors. It is charged with the responsibility of receiving contributions made to the Fund, maintaining proper accounts of the Fund and of the individual members of the Fund, effecting refunds of contributions and investing the monies of the Fund. This department works in close co-operation with the employees' Provident Fund Division of the Labour Department, which attends to the administration and enforcement of the Act.

A comparative summary of the operations of the Fund for the period 1971-1976 is depicted in the table annexed.

### Membership and Covered Employments

During the ten year period, 1966-1975, the membership of the Fund has increased from 1,543,151 to 2,291,022 i. e. an average annual increase of approximately 4.8 per cent. In 1971, as a result of an amendment to the E. P. F. Act, which widened the coverage under the Act. to include all employments, including those with a single employee (except domestic servants and religious and charitable organisations) the annual increase in membership rose to 7 per cent as against the previous year's annual increase of 4 per cent. Since then, the annual rate of increase in membership has been following a downward trend. A 3.8 per cent increase (approximately) in membership was recorded in 1975.

There was a 47.9 per cent increase in the number of covered employments in 1971, whilst during the five year period 1971-1975, the number of covered employments increased from 34,253 to 46,539 i. e. an average annual increase of approximately 7.2 per cent. There was a 5.2 per cent increase (approximately) in the number of covered employments in 1975.

### Contributions

Contributions to the Fund was fixed at 4 per cent of the total earnings by the employee and 6 per cent by the employer initially. In 1971, when coverage under the act was extended to include all employments, except domestic servants etc., these rates were raised to 6 per cent and 9 per cent respectively which resulted in a significant increase in contribution to the Fund (approximately Rs. 49 million).

Contributions received by the Fund have increased from approximately Rs. 12 million in 1959, the first year of operation, to Rs. 237 million in 1976. There was a 48.9 per cent increase in contributions in 1971 over 1970, whilst during the period

1971-1976, contributions to the Fund increased from Rs. 148 million to Rs. 237 million, i. e. an average annual increase of approximately 10.0 per cent. An increase of approximately 9.7 per cent was recorded in 1976.

### **Investments**

The E. P. F. Department has, since its inception, been one of the major subscribers to loans raised by the Public Debt Department of the Central Bank. In 1959, the first year of operation, its investments in Government Securities amounted to Rs. 9 million whilst investments made in 1976 amounted to Rs. 292 million. Investments increased by 93.1 per cent in 1971 over 1970, whilst during the period 1971-1976, investments increased from Rs. 195 million to Rs. 292 million, i.e. an average annual increase of approximately 8.3 per cent. The increase recorded in 1976 was 11.5 per cent, approximately.

### **Refunds**

In 1959, the Fund paid out approximately Rs. 09 million by way of refunds to members. The Fund's liability on this account has been increasing over the years. During the period 1971-1976, refunds have increased from Rs 41 million to Rs 104 million, i.e. an average annual increase of approximately 25.6 per cent. But the number of refunds effected increased from 45,956 in 1971 to 59,955 in 1974, i.e. an average annual increase of approximately 7.6 per cent. Subsequently, the number of refunds effected fell by 12 per cent to 52,780 in 1975 and rose to approximately 11.7 per cent to 58,993 in 1976. The average annual increase during the period 1971-1976 was approximately 4.7 per cent. This means that the average amount paid out per refund increased from approximately Rs 891 to Rs 1,762 during this period.

It will be observed that in last year's review, the number of refunds effected in 1974 was given as 69,829, which included part payments of refunds as well. This figure has since been adjusted to 59,955 as will be seen in the attached table.

### **Interest on Members' Contributions**

The E. P. F. is required to pay interest on members' balances out of the income from the investment of the monies of the Fund. The rate was initially fixed at a minimum of  $2\frac{1}{2}$  per cent by the E. P. F. Act. The actual rate of interest has been gradually raised to 6 per cent by the end of 1974.

E. P. F. STATISTICS - 1971/1976

	1971	1972	1973	1974	1975	1976
1. No. of covered employments	34,253	38,488	41,700	44,219	46,539	n.a.
2. No. of individual accounts	1,954,606	2,074,404	2,151,189	2,208,313	2,291,022	n.a.
3. Contributions received (Rs)	147,761,877	162,269,880	173,079,894	189,843,449	215,982,970	237,306,270
4. Investments (Rs)	194,904,374	165,910,882	204,196,991	200,240,100	262,186,000	291,762,200
5. Income from Investments (Rs)	48,211,434	63,658,748	80,089,666	96,994,949	117,043,162	132,603,366
6. Refund payments (Rs)	41,064,044	54,247,068	70,361,065	89,140,538	87,516,793	104,395,006
7. No. of Refunds	45,956	52,432	57,740	59,955*	52,780	58,993
8. Rate of interest (%)	5	5	5½	6	6	6
9. Interest on Members' balances (Rs)	42,737,866	57,063,525	72,371,678	90,583,183	104,965,041	120,906,675

\* excludes 9,874 part-payments included in table for 1975