

## 2 ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

Financial accounts of the Central Bank for the year 1977 are given in Table 7 in Appendix III. The main changes in comparison with 1976, as at the end of December, 1977 were :

	CHANGE (Rs. Million)
Total Demand Liabilities	+ 1,878.8
Currency Circulation	+ 812.0
Demand Deposits	+ 823.4
Borrowings Abroad	+ 243.4
International Reserve	+ 3,503.6
Domestic Assets	+ 309.4

+ Increase

With the floating of the Sri Lanka Rupee with effect from 16th November, 1977 the Central Bank fixes at 2.00 p.m. on each working day the middle rates for the U.S. Dollar, Pound Sterling, West German Deutsche Mark, French Franc, Japanese Yen and Indian Rupee. The rates fixed for these currencies at the end of the year were as follows :-

Currency per 100 Units	Middle Rate	Official Exchange Rates of Commercial Banks for their Customers for Telegraphic Transfers	
		Buying	Selling
U. S. Dollar	Rs. 1556.00	Rs. 1553.00	Rs. 1559.00
Pound Sterling	Rs. 2985.25	Rs. 2979.75	Rs. 2990.75
Deutsche Mark	Rs. 742.50	Rs. 741.00	Rs. 744.00
French Franc	Rs. 332.20	Rs. 331.45	Rs. 332.95
Japanese Yen	Rs. 6.4880	Rs. 6.4730	Rs. 6.5030
Indian Rupee	Rs. 185.00	Rs. 184.60	Rs. 185.40

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, which was 6 1/2% per annum in 1976, was increased to 8 1/2% per annum on 26th January, 1977 and then to 10% per annum on 31st August, 1977. 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 and to the Agricultural Productivity Committees 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

usage promissory notes of Co-operative Societies relating to the production of paddy, vegetables and other specified crops continued to be 1 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 which continued to be 1/8% per annum over the average rate of the last accepted Treasury Bill tender upto 17th October, 1977 was revised commencing 18th October, 1977 to 1/8% above the rate at which such Treasury Bills were purchased by tender or from the Central Bank.

### **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 1977, the Central Bank guaranteed loans totalling Rs. 463,271,752.34 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 were as follows:-

- (a) for the promotion or development of agriculture - 6 1/2% 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 non-agricultural purposes - 7 1/2% per annum.

Refinance loans totalling Rs. 10,311,000 were granted to credit institutions during the year.

### **Currency Issue**

At the end of 1977, the total currency circulation stood at Rs. 3,219.1 million which is an increase of Rs. 812.0 million on the figure as at the end of 1976. There has been an increase of Rs. 797.6 million in the currency note circulation and an increase of Rs. 14.4 million in the coin circulation.

The increase in the currency note circulation is mainly in the denominations of Rs. 100 and Rs. 50 while other denominations have been more or less static. 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 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 to contributors Rs. 6,405,435/57 (inclusive of interest) on 3,305 refund applications received.

### **Asian Clearing Union**

The Central Bank is a participant bank of the Asian Clearing Union. The net sum paid on behalf of Sri Lanka to the other participant banks by way of settlement on transactions routed through the Asian Clearing Union amounted to Rs. 298,077, 871.43 for 1977.

### **Foreign Exchange Entitlement Certificates Scheme**

The Foreign Exchange Entitlement Certificates Scheme, which came into operation under the Foreign Exchange Entitlement Certificates Act, No. 28 of 1968, was repealed by the Foreign Exchange Entitlement Certificates (Repeal) Law No. 17 of 1977 which came into force on November 15, 1977.

### **Income and Expenditure**

The income of the Central Bank for the year 1977, amounted to Rs. 280,927,189 and expenditure, including allocations to reserves and provisions for depreciations on the value of land and buildings and office furniture amounted to Rs. 279,927,189. 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**

The Department of Bank Supervision concluded, in 1977, examinations of six commercial banks under Section 29 (1) of the Monetary Law Act, thereby completing the examination of every commercial bank operating in Sri Lanka for the 1976/77 examination period.

The Department continued to perform functions connected with the administration of the Bank Debits Tax Act No. 27 of 1970 as amended by Law No. 32 of 1975. 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 Debits Tax Act.

## DEVELOPMENT FINANCE DEPARTMENT

The Development Finance Department continued to appraise development projects for which refinance was sought by approved credit institutions from the Central Bank's Medium and Long Term Credit Fund. Refinance approvals in 1977 were for the following purposes:-

Hotel Projects	—	Rs. 9.0 million
Industrial Projects	—	Rs. 7.2 „
Fisheries Projects	—	Rs. 1.8 „
		<u>Rs. 18.0 „</u>

Tea factory modernization projects involving a total sum of approximately Rs. 2 million were also referred by the Tea Commissioner for appraisal by the Department. The Tea Commissioner has subsequently informed this Department of alternate arrangements made by him for processing applications for tea factory modernization.

The Department, at the request of the Ministry of Plantation Industries, has undertaken a project identification study for investment in the tea industry.

The Department 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. Progress made in the issue of the different classes of vessels, under the project, which commenced in August 1976, is indicated below:-

Class of boat	No. of boats to be provided under the project	No. of boats issued in 1977	Total number of boats issued since August 1976
28 ft.	200	59	96
38 ft.	30	3	6

An evaluation of the financial viability of operating 38ft. boats was provided by the Department for the benefit of prospective buyers. The Department was also associated with the Ministry of Fisheries and the executing banks in working out arrangements for the financing of boats issued under the project, and in the formation of two regional fish marketing societies to handle the marketing of fish landed by the project boats.

The Department also participated in a symposium on Deep Sea and Off-shore Fishing conducted by the Ministry of Fisheries with a view to promoting the sale of 38 ft. boats.

An export credit guarantee scheme was put into operation with effect from 3rd January, 1977. The scheme is operated by the Central Bank on behalf of the Government. It is designed to facilitate the grant of credit by banks to exporters of non-traditional products for the purpose of purchasing, manufacturing, processing or packing of goods for export. The scheme provides cover for two-thirds of any loss that may be sustained by a lending bank on account of any guaranteed advance. A premium calculated at the rate of -/10 cts per Rs. 100/- per month is payable on the highest amount outstanding during each month.

Forty one guarantees for an aggregate limit of Rs. 22.8 million were issued during the year 1977. A commodity-wise classification of credit limits sanctioned under the scheme is indicated in the Table below :-

Commodity	Number of Guarantees Issued	Total of credit limits sanctioned (Rs.)
1. Canned fruits and fruit juices	1	650,000
2. Fibre and other fibre products	5	845,000
3. Readymade garments	7	8,300,000
4. Spices	8	4,825,000
5. Gems, Jewellery, Polished Diamonds etc.	2	2,250,000
6. Leather products	2	650,000
7. Feature Films (Rampage)	1	600,000
8. Live Tropical Fish and Aquatic Plants	2	35,000
9. Handicrafts and curios	3	240,000
10. Rubber based goods	1	650,000
11. Marine products	4	1,775,000
12. Furniture and other wooden products	2	360,000
13. Luxury Yachts	1	1,500,000
14. Kapok	2	90,000
	41	22,770,000

#### EMPLOYEES' PROVIDENT FUND—1977

The Monetary Board through its Employees' Provident Fund Department continued to have custody of the monies of the Employees' Provident Fund and to perform its other functions in respect of these monies in terms of Section 5 of the Employees' Provident Fund Act No. 15 of 1958, as amended. A brief note on its operations is given hereunder.

**Membership and Registered Employments:**

According to data available in the Department of Labour the number of registered employments increased to 81,959 in 1977 from 78,776 in 1976, an increase of 4 per cent. The number of members registered under these employments amounted to 1,344,528 as at end of 1977, as against a membership of 1,317,841 in 1976; an increase of 2 per cent.

**Contributions :**

The contributions received by the Fund during the year 1977 amounted to Rs. 304.8 million. This represents an increase of Rs. 67.5 million or 28.4 per cent over the level of contributions made during the previous year. The increase in contributions in 1977 is primarily attributed to an increase in the membership of the Fund.

Members' balances as at end of 1977 stood at Rs. 2,396.2 million which is an increase of Rs. 381.2 million, or 14 per cent over the total for 1976.

**Investments :**

During the year 1977, the Fund invested a sum of approximately Rs. 398.0 million in Government securities. This is an increase of Rs. 106.2 million or 36.4 per cent over that of 1976. The total investments of the fund as at end of 1977 was Rs. 2,491.4 million, as against Rs. 2,093.4 million in 1976.

During the latter part of the year the Monetary Board set up an Investment Committee consisting of the Deputy Governor, Director of Economic Research, Superintendent, Public Debt Department, and the Superintendent, Employees' Provident Fund, as the Secretary, to advise the Board in regard to the investment of monies in the Fund as and when necessary.

**Income from Investments :**

In 1977, the income from investments of the Fund increased by Rs. 27.6 million or 20.8 per cent as against an increase of Rs. 15.6 million or 13.3 per cent in the previous year. The income in 1977 was Rs. 160,222,583 as against an income of Rs. 132,603,366 in 1976.

**Refunds :**

The total amount paid out by way of refund of benefits in 1977 amounted to Rs. 89.4 million. This represents a decrease of Rs. 15.0 million as compared with 1976.

**Interest on Members' Balances :**

The Employees' Provident Fund is required to pay interest on members' balances out of the income from the investments of monies of the Fund. The rate of interest was raised to 7.5 per cent in 1977 from 6.0 per cent in 1976. Interest payable on

members' balances as at end of 1977 amounted to Rs. 179.7 million as against Rs. 120.9 million in 1976. This represents an increase of Rs. 58.8 million or 48.6 per cent over 1976.

A comparative table of the operations of the Fund on data presently available is given below.

E. P. F. Statistics - 1976/1977

	1976	1977
1. No. of covered employments registered	78,776*	81,959*
2. No. of registered members	1,317,841*	1,344,528*
3. Contributions received (Rs.)**	237,306,270	304,838,236
4. Investments (Rs.)	291,762,200	397,981,740
5. Income from Investments received (Rs.)	132,603,366	160,222,583
6. Refund payments (Rs.)	104,395,006	89,357,790
7. No. of refunds	58,993	41,157
8. Rate of interest (%)	6.0	7.5
9. Interest on members' balance (Rs.)	120,906,675	179,717,325

\* Source : Labour Department.

\*\* excludes contributions credited to Suspense Accounts pending transfer.