

PART 2

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

ACCOUNTS

Financial Accounts of the Central Bank for the year 1978 are given in Table 2.3. The main changes in comparison with 1977, as at the end of December, 1978 were:

Table 2.1

Main Changes in Accounts

		Rs. Million
		Change
Total Demand Liabilities, .. .. .	.. .. .	+ 1,365.3
Currency Circulation .. .. .	.. .. .	+ 289.4
Demand Deposits .. .. .	.. .. .	+ 1,473.1
Borrowings Abroad .. .. .	.. .. .	- 397.2
International Reserve .. .. .	.. .. .	+ 1,806.0
Domestic Assets .. .. .	.. .. .	+ 229.1

+ Increase - Decrease

The income of the Central Bank for the year 1978, amounted to Rs. 619,329,410 and expenditure, including allocations to reserves and provisions for depreciation on the value of land and buildings and office furniture amounted to Rs. 618,329,410. The net profit of Rs. 1,000,000 was carried to surplus in terms of Section 39 (b) of the Monetary Law Act.

FOREIGN EXCHANGE

The Sri Lanka Rupee continued to float during the year 1978, the middle rate for the U.S. Dollar, Pound Sterling, West German Deutsche Mark, French Franc, Japanese Yen and the Indian Rupee being fixed at a meeting held at the Central Bank at 2.00 p.m. on each working day. The rates fixed for these currencies at the end of the year were as follows.

Table 2.2

Exchange Rates

Currency per 100 Units	Middle Rate	Official Exchange Rates of commercial banks for their customers for Telegraphic Transfers	
		Buying	Selling
U. S. Dollar	Rs. 1550.50	Rs. 1549.00	Rs. 1552.00
Pound Sterling	Rs. 3167.05	Rs. 3164.05	Rs. 3170.05
Deutsche Mark	Rs. 855.35	Rs. 854.55	Rs. 850.15
French Franc	Rs. 374.60	Rs. 374.25	Rs. 374.95
Japanese Yen	Rs. 8.0365	Rs. 8.0290	Rs. 8.044
Indian Rupee	Rs. 190.65	Rs. 190.45	Rs. 190.85

Accounts of the Central Bank of

Balance Sheet as

31st December 1977		LIABILITIES	31st December 1978	
Rs.	Rs.		Rs.	Rs.
15,000,000	77,000,000	Capital Accounts		
62,000,000		Capital .. 15,000,000	63,000,000	78,000,000
		Surplus ..		
		Liabilities		
3,088,454,433	3,219,138,428	Notes in Circulation .. 3,356,471,756		3,508,590,424
130,683,995		Coins in Circulation .. 152,118,668		
		Deposits		
39,908,192		Government .. 1,033,559,401		
14,784,360		Government Agencies and Institutions .. 15,799,218		
606,523,969		Commercial Banks .. 737,753,831		
		International Organisations, Foreign Government and Foreign Banking Institutions .. 1,569,277,554		
1,257,344,758		Compulsory Savings Fund excluding Rs. 117,221,800/- invested in Treasury Bills .. 284,447		
155,125	2,156,571,502	Others .. 272,979,662		3,629,654,113
187,855,098				
	552,329,297	Borrowings Abroad ..		155,116,452
	75,128,288	Medium and Long Term Credit Fund ..		125,000,000
	5,448,926,975	Other Liabilities and Accounts ..		6,743,577,250
	11,529,094,490			14,239,938,239

Profit and Loss Account

31st December 1977		31st December 1978
Rs.		Rs.
279,927,189	To General Charges (including Salaries, Expenditure on Currency notes and Coins and Depreciation on Land & Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act	618,329,410
1,000,000	Balance being net profit of the year ended 31st December, 1978. The net profit has since been carried to surplus in terms of Section 39 (b) of the Monetary Law Act.	1,000,000
280,927,189		619,329,410

The accounts of the Central Bank of Ceylon for the year ended December 31, 1978 were audited under my direction in pursuance of Section 154 (1) of the Constitution of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971 and Section 42 (1) of the Monetary Law Act (Cap. 422).

My report to the Minister of Finance required in terms of Section 42 (2) of the Monetary Law Act (Cap. 422) will be submitted in due course.

Audit Office,
Colombo-7,
30th March 1979.

P.M.W. WIJAYASURIYA
Auditor-General

TABLE 2.3

Ceylon as of 31st December, 1978

of 31st December, 1978

31st December 1977		ASSETS	31st December 1978	
Rs.	Rs.		Rs.	Rs.
3,883,592,323		International Reserve		
275,071,378		Cash and Balances Abroad ..	5,274,583,604	
167,863,911	4,326,527,612	*Foreign Government and Non-Governmental Securities ..	345,472,040	6,132,436,769
		Holdings of Special Drawing Rights	512,381,125	
		Domestic Assets		
617,409,125		Loans and Advances-		
54,742,609		to Government ..	955,500,000	
829,837,000		to Others - Medium & Long Term ..	63,816,667	
		-Short Term ..	1,012,122,000	
2,420,060,839	3,922,049,573	Government and Government Guaranteed Securities ..	2,119,704,609	4,151,143,276
	3,280,517,305	Other Assets and Accounts ..		3,956,358,194
		*Includes securities acquired from Government Institutions on 1st February, 1964 at a face value of Rs. 5,530,271/- and on 24th May 1965 at a face value of Rs. 57,450/- (The estimated market values of these securities were Rs. 2,938,759/- and Rs. 34,340/- respectively as on these dates).		
	11,529,094,490			14,239,938,239

for the year ended 31st December 1978

	31st December 1977		31st December 1978
	Rs.		Rs.
	280,927,189	By Interest, etc. ..	619,329,410
	280,927,189		619,329,410

W. RASAPUTRAM
GovernorV.S. SUBRAMANIAM
Chief Accountant

Foreign Exchange transactions of the Central Bank are shown in Table 7 in the Appendix.

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.

Asian Clearing Union

The Central Bank continued to be 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. 1,081,383,001.10 for 1978.

Foreign Exchange Entitlement Certificates (Repeal)

Law No. 17 of 1977

In terms of Section 3 (1) of the above law, the Central Bank has disposed of all the unsettled matters connected with the operation of the FEECs Scheme not provided for in Section 2 of the Repeal Law.

Subsidy to Indian Repatriates

Consequent to the introduction of a system of unified rates of exchange with effect from November 16, 1977, Government decided to pay the Indian repatriates covered by the Indo-Ceylon Agreement of 1964, a subsidy equivalent to 65 % of the amount authorised to be remitted or any part thereof.

Government also decided to make an ex-gratia payment of Sri Lanka Rs. 500/- plus 65% of this sum to repatriate estate workers of Indian origin as an incentive for them to leave Sri Lanka.

The Central Bank operates the above two schemes on behalf of the Government. The commercial banks who advance these monies to repatriates at the time of remittance are reimbursed by the Central Bank.

DOMESTIC BANKING

The Central Bank's rate of interest on advances against Government Securities and against Usance Promissory Notes relating to commercial and production loans continued to be 10% 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, Agricultural Service Centres, and to authorised individuals 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 and farmers 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 Co-operative Societies and not more than 9% from farmers where loans are granted directly to farmers.

The Central Bank's discount rate for Treasury bills continued to be 1/8% above the rate at which such Treasury bills were purchased by tender or from the Central Bank.

Credit Guarantee Scheme

In 1978, the Central Bank guaranteed on behalf of the Government, loans totalling Rs. 223,434,443.44 granted by commercial banks for the purpose of cultivation of paddy, vegetables and other specified crops and for tea replanting and tea factory modernization. The Government decided to withdraw this scheme with effect from October, 1978.

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 promotion or development of agriculture - 6½% per annum;
- (b) for non-agricultural purposes - 7½% per annum.

Refinance loans totalling Rs. 21,071,008.96 were granted to credit institutions during the year.

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. 19,309,364.56 (inclusive of interest) on 6,829 refund applications received.

CURRENCY ISSUE

At the end of 1978, the total currency circulation stood at Rs. 3,508.6 million representing an increase of Rs. 289.5 million over the corresponding figure of Rs. 3,219.1 million of the previous year. The note circulation in 1978 increased by Rs. 268.0 million as against Rs. 797.6 million in the previous year with the Rs. 100 note denomination accounting for Rs. 220.6 million of the increase. In the case of coins, the increase in total circulation in 1978 was Rs. 21.5 million with increases in all denominations and compares with the increase of 14.4 million in the preceding year.

New design currency notes of the Rs. 100 and Rs. 50 denominations bearing the Armorial Ensign of Sri Lanka were issued in 1978. These notes are of the same sizes as the existing notes of the same denominations issued after 25th October, 1970. The latter notes continued in circulation along with the new design notes issued.

A commemorative coin of the Re. 1 denomination bearing the effigy of His Excellency the President was issued to commemorate the installation of the first President of the Democratic Socialist Republic of Sri Lanka. The coins so issued were of the same specifications and dimensions as the current one rupee coins.

As a shortage of coins of the 5 cents and 10 cents denominations struck in nickel brass emerged in 1978, new coins of the same denominations struck in aluminium alloy were issued in 1978 with a view to eventually replacing the corresponding nickel brass coins. In all other respects, these coins are similar to the 5 cent and 10 cent coins struck in nickel brass.

BANK SUPERVISION

In the year 1978, 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.

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. Inspection 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 Debts Tax Act.

DEVELOPMENT FINANCE

The activities of the Development Finance Department increased considerably during the year 1978. In addition to the appraisal of development projects for which refinance was sought by approved credit institutions from the Central Bank's Medium and Long Term Credit Fund, the Department inaugurated a Credit Guarantee Scheme for small industry in collaboration with the Industrial Development Board. Besides, there has also been some expansion in the activities connected with the Packing Credit Guarantee Scheme which came into operation in January, 1977.

During the year, refinance to the extent of Rs. 12.1 million was approved for the following purposes:

Table 2.4
Medium and Long - term Refinance

		Rs. Million
Purposes		Amount
Hotel Projects	.. ..	2.8
Fisheries	.. ..	5.6
Industrial	.. ..	2.2
Agricultural	.. ..	1.5
Total	.. ..	12.1

Tea Industry Development

The project identification study for investment in the tea industry, undertaken at the request of the Ministry of Plantation Industries was completed during the year. This study has now been submitted to the Asian Development Bank which has agreed to send a team of experts to evaluate this project, with a view to considering the grant of a line of credit to finance the modernization and electrification of factories and related field development in a large number of tea plantations.

Fisheries

With regard to the Fisheries Development Project undertaken by the Ministry of Fisheries with financial assistance from the Asian Development Bank, the Development Finance Department continues to render support to the Ministry in the implementation of the project. The progress made in the issue of the different classes of vessels, under the project, is as indicated below:

Table 2.5
Fishery Boat Finance

Class of Boat	Number of boats to be provided under the project	Number of boats issued in 1978	Total Number of boats issued from August, 1976 to December, 1977
28 Feet	200	104	96
38 Feet	30	24	6

The table above shows that all the boats earmarked for distribution under the project have been issued to Co-operatives and the private sector. The purchase of these boats have been financed by loans from the Bank of Ceylon and the People's Bank. The Department was also associated with the Ministry of fisheries in drawing up a scheme for insuring boats issued under the project. After a detailed study, the Department proposed that the Boat Risk Fund Account be operated with funds contributed by each boat owner.

PACKING CREDIT GUARANTEE

Policies issued under the scheme of Packing Credit Guarantees, under which certain categories of pre-shipment payment risks are guarantee in respect of pre-shipment credits granted by commercial banks increased greatly. The relevant data are given below:

Table 2.6
Packing Credit Guarantees

Year	Number of Guarantees issued since inception of the scheme	Total permitted limits (Rs. Mn.)	Guarantees in force at the end of the year	
			Number	Permitted limits (Rs. Mn.)
1977	41	22.7	—	—
1978	96	96.1	52	65.3

The commodity-wise classification of credit limits in force under the scheme at the end of 1978 is given in the table below:

Table 2.7
Packing Credit Guarantees

Commodity	Number of Guarantees	Total of limits sanctioned Rs.
1. Canned fruits and fruit juices ..	2	710,000
2. Fibre and other fibre products ..	5	2,850,000
3. Ready-made garments ..	11	31,975,000
4. Spices ..	10	7,400,000
5. Gems, Jewellery, Polished Diamonds etc. ..	3	2,350,000
6. Essential oils extracted from local raw materials ..	1	750,000
7. Rubber based goods ..	1	650,000
8. Leather and Leather products ..	2	850,000
9. Marine products ..	9	5,850,000
10. Furniture and other wooden products ..	3	609,620
11. Luxury yachts and fibre glass boats ..	2	9,300,000
12. Kapok ..	1	15,000
13. Medicinal herbs, crude drugs etc. ..	1	50,000
14. Bar Soap ..	1	2,000,000
Total ..	52	65,359,620

Export Credit Insurance

The Department was closely associated with the preparatory work connected with the establishment of the Sri Lanka Export Credit Insurance Corporation, scheduled for commencement in February, 1979. The preparation of draft legislation for the establishment of this Corporation, the training of personnel and the documentation was handled by the Department during the year under review. With the establishment of the new Corporation, the Central Bank will hand over to the Corporation the existing business undertaken under the Packing Credit Guarantee Scheme.

Small Industry Credit Guarantee

The Central Bank, acting on behalf of the Government under Section 108 of the Monetary Law Act, undertook the operation of a Small Industry Credit Guarantee Scheme to cover loans to small industrialists granted by the People's Bank, Bank of Ceylon and the Development Finance Corporation of Ceylon in co-operation with the Industrial Development Board. The preparation of the scheme and its operation devolved on this Department. This scheme was put into effect in April, 1978. Under this scheme, the Central Bank guarantees 75 per cent of the original sum granted or the amount in default, whichever is lower. In the first 9 months of its operation, the total volume of loans guaranteed amounted to Rs. 1.9 million for 79 projects while a further Rs. 104,256 given on marketing loans was also guaranteed. At the end of the year, there

were no claims for losses arising from non-recovery of loans granted under the scheme. An industrywise classification of guarantees issued is given in the table below:

Table 2.8

Industrywise Classification of Small Industry Guarantees Issued

Type of Industry	Number	Amount (Rs.)
Jaggery	10	324,950
Leather bags	1	12,500
Cinnamon oil	1	40,000
Joss Sticks	1	57,800
Bricks	13	68,700
Grill Gates	2	14,500
Tinkering	2	5,842
Fibre	2	58,845
Furniture	3	48,000
Radio spares	5	183,180
Jewellery	2	12,110
Garments	5	163,000
Water pumps	1	8,684
Soap	2	21,800
Tailoring	2	8,880
Foundry	2	12,950
Blacksmith	1	1,851
Gum	1	45,000
Oil filter	1	2,817
Paper Cups	1	3,509
Printing flags	1	10,000
Wood	2	7,606
Lorry building	1	25,000
Lathe machines	3	128,100
Rice milling	2	202,000
Sugar cane	4	122,825
Batik	1	4,500
Rubber	2	108,920
Rubberised coir	1	55,000
Metal crushing	1	99,000
Ekel and fibre brooms	1	43,400
Beedi	1	8,000
Book binders	1	4,180
Carpets	1	15,000
Mushroom	1	7,000
Tea chests	1	15,000
Footwear	1	4,000
Galvanised pails	1	30,320
Glass	1	9,440
Fishing boats	1	116,200
Total	86	2,010,410

Survey on Finance Management

The Department also carried out a survey on "Finance Management in Small Scale Industries" in 1978. The primary objectives of the survey was to identify the financing problems of the small sector from the initial as well as post-financing stages and to ascertain the training needs in this area. Thirty firms with an investment of Rs. 500,000 or less in plant and machinery were selected for the survey. The survey brought out two important facts:

- (a) None of the firms in the sample had recourse to bank finance at the initial stage though on becoming successful some had been able to obtain limited facilities from banks. This limited access to bank credit would seem to be a reflection of the conservative, security-oriented lending policies of banks.
- (b) None of the small industrialists in the sample thought that there was a need for training in finance management. This may be partly due to the fact that there was no necessity to improve finance management as there had been only a marginal expansion in the scale of operations of the small industrialists during the period. There was some reason to think, however, that their lack of knowledge in finance management was one of the reasons that made it more difficult for them to obtain bank finance.

Survey of Sugar Cane Loans

At the request of the Ministry of Plan Implementation and the Committee of Development Secretaries, this Department in collaboration with the People's Bank, the Bank of Ceylon, and the Ministry of Agriculture, undertook a survey of sugar cane loans given in the Amparai District with a view to determining the extent of mis-utilisation of loans. The results of this survey have been published by the Ministry of Plan Implementation.

National Development Bank

The Department also undertook the appraisal of several public sector projects referred to it by the Development Secretaries Committee under an arrangement made with the Central Bank by the Ministry of Finance and Planning. Under this arrangement Rs. 390 million earmarked in the 1978 Budget as the government's capital contribution to the National Development Bank was lodged with the Central Bank and disbursements out of this fund for capital expenditure by public sector corporations was made subject to an appraisal by this Department.

Draft proposals for Legislation for the establishment of the National Development Bank which was passed in November, 1978 was prepared by this Department during the year under review.

PUBLIC DEBT

Gross Public Debt outstanding stood at Rs 30,949,818,155 at the end of the financial year made up of domestic debt Rs. 16,367,554,626 and foreign debt Rs. 14,582,263,529. The increase in the gross Public Debt during the year under review was Rs. 5,963,917,272 with the share of domestic and foreign loans being Rs. 1,975,174,900 and Rs. 3,988,742,372 respectively.

The composition of the Public debt as at end of 1978 is given below:

Table 2.9

Composition of Public Debt

Types of Debt	Amount Rs.
1. Funded Domestic Debt	12,747,589,444
(i) Rupee loans	12,049,061,600
(ii) Administrative borrowings	698,454,005
(iii) National Development Bonds	73,839
2. Floating Debt	3,619,965,182
(i) Treasury bills	2,635,000,000
(ii) Tax Reserve Certificates	29,465,182
(iii) Central Bank Advances	955,500,000
(iv) Special Loans	—
3. Foreign Loans	14,582,263,529
(i) Project Loans	4,833,051,153
(ii) Commodity Loans	8,969,926,870
(iii) Others	779,285,506
4. Total Public Debt	30,949,818,155

Domestic Debt

(a) *Rupee Loans*: Government's Budgetary Programme for the Financial year 1978 envisaged the raising of a sum of Rs. 1,750 million from domestic non-bank sources. This amount was subscribed in full with contributions from the following sources.

Table 2.10

Subscriptions to Rupee Loans

Subscribers	Amount (Rs. Mn.)	Percentage
National Saving Bank	378.12	21.6
Joint Investment Fund	590.13	33.7
Employees' Provident Fund	576.39	32.9
Insurance Corporation	150.36	8.6
Others	55.00	3.2
Total	1,750.00	100.0

The total long-term rupee borrowing of Rs. 1,750 million was made up of eight loans of Rs. 200 million each and one of Rs. 150 million. The loan programme commenced in January, 1978 and concluded in November, 1978 when the amount was fully subscribed. The loans were timed to match the availability of investible funds in the public sector.

These loans were raised under the Appropriation Law No. 25 of 1977 and was within the borrowing limit of Rs. 5,155 million set out therein.

(b) *Administrative Borrowings*: Three loans made available to the Government through the Central Bank and Sri Lanka State Trading Corporation (Consolidated Exports) by Germany, Iran and Libya have been categorised under administrative borrowings. The total rupee liability of these loans amounted to Rs. 698,454,005.

(c) *National Development Bonds*: National Development Bonds are issued by the Commissioner of Inland Revenue under Section 19(1) of the Finance Act No. 65 of 1961. There were no transactions during the year. The amount outstanding, therefore, remained unchanged as at December 31, 1977.

(d) *Treasury Bills*: The authorised limit of Rs. 3,000 million remained unchanged during the year. The amount of Treasury bills issued and outstanding at the end of December, 1978 was Rs. 2,635 million, recording an increase of Rs. 135 million during the year. The banking sector held Treasury bills amounting to Rs. 2,199.9 million with the share of the Central Bank being Rs. 2,087.9 million. Government agencies held Rs. 270 million and others held Rs. 165.1 million.

(e) *Tax Reserve Certificates*: The authorised limit was Rs. 750 million. Tax Reserve Certificates issued upto end of December, 1978 totalled Rs. 722,983,200. Of this amount, Certificates aggregating Rs. 693,518,018 had been surrendered, leaving a sum of Rs. 29,465,182 as outstanding. There was a net reduction of Rs. 11,095,380 in the holding of Tax Reserve Certificates at the end of the year.

(f) *Central Bank Advances and Special Loans*: Central Bank Advances increased by Rs. 411,600,000 and special loans decreased by Rs. 73,509,125.

Foreign Debt

The total foreign debt outstanding as at the end of the financial year 1978 excluding administrative borrowings amounted to Rs. 14,582,263,529 recording an increase of Rs. 3,988,742,372 during the year. This includes the additional debt liability of Rs. 773,026,499 created by the revision of the rupee balance arising from fluctuations in exchange rates. New loans contracted in 1978 amounted to Rs. 4,892 million, with multilateral sources providing Rs. 1,680 million and bilateral sources providing Rs. 3,211.9 million. Disbursements under project loans during the year amounted to Rs. 1,584,442,259 with multilateral and bilateral sources providing Rs. 648,567,536 and Rs. 935,874,723 respectively.

Disbursements under commodity loans during the year amounted to Rs. 1,342,996,096 with bilateral sources providing the full amount.

Debt Service

(a) *Amortization*: Three Rupee loans which matured during the year were repaid. Redemption of the Rs. 20 million 3½% 1974-78 loan raised in 1958 under the Ceylon Development Loan Act was met out of the Sinking Fund established for the loan. After repayment of this loan, the Sinking Fund had a surplus of Rs. 1,068,204.45 which was credited to the Consolidated Fund. The other

two loans, Rs. 65,525,600 raised in 1952 and Rs. 7,054,000 raised in 1955 under the National Development Loan Act did not have Sinking funds set up for their redemption and therefore, these two loans were redeemed out of funds from the Consolidated Fund.

The repayment of foreign loans during 1978 amounted to Rs. 501,366,091. Of the repayments, Rs. 154,013,110 was in respect of project loans and Rs. 347,352,981 on account of commodity loans.

(b) *Interest Payments:* During the period under review, interest payments on domestic loans serviced by the Department of Public Debt, amounted to Rs. 1,054,724,639 with interest payments on rupee loans absorbing 79.6 per cent of the total. Interest payments on foreign loans amounted to Rs. 285,031,966. Interest payments according to the category of debt are given below:

Table 2.11
Interest Payments

	Amount (Rs.)	Percentage
1. Treasury bills	173,919,871	16.5
2. Tax Reserve Certificates	986,391	0.1
3. Rupee Loans	839,929,008	79.6
4. Administrative Borrowings:	39,889,369	3.8
(a) Iranian loan	(36,883,200)	—
(b) K. F. W. Germany	(3,006,169)	—
Total	1,054,724,639	100.0

(c) *The Sinking Funds:* At the end of the year, the value of the Sinking Fund established for the redemption of the rupee loans totalled Rs. 3,204,092,869.77, reflecting an increase of Rs. 652,283,996.23 during the year. The increase was made up as follows:

Sinking Fund contributions during 1978	Rs. 417,314,358.50
Net income from investments	Rs. 256,037,842.18
Total	Rs. 673,352,200.68
Less: Amount utilised for redemption	Rs. 20,000,000.00
Surplus in Sinking Fund after redemption, credited to Consolidated Fund	Rs. 1,068,204.45
	Rs. 21,068,204.45
	Rs. 652,283,996.23

Borrowings by semi-government institutions

There were no new issues of National Housing Debentures during the year 1978. Debentures to the value of Rs. 10 million issued in 1958 were repaid during the year out of funds available in the Sinking fund and the surplus in the fund

was credited to the National Housing Fund Account. The National Housing debentures issued and outstanding as at the end of 1978 amounted to Rs. 81 million. The approximate market value of the Sinking fund established for the redemption of National Housing debentures was Rs. 39,878,019 reflecting a decrease of Rs. 1,506,408 during 1978.

There were no issues or redemption of State Mortgage Bank debentures during 1978. The total of debentures issued and outstanding as at the end of the year remained at Rs. 32,250,000.

EXCHANGE CONTROL

Following the Government decision to liberalize trade and payments after November 15, 1977 several exchange control measures were relaxed and in many instances, the function of approving receipts or payments were delegated to commercial banks. The major relaxations are detailed below. Some of these relaxations came into force from November, 1977.

Exchange Control Relaxations

(1) *Holiday Travel*: Passage and a basic exchange allowance for holiday travel to the Indian Group of countries (Bangladesh, Burma, India, Maldives, Nepal, Pakistan and Thailand) and to the other countries was to be allowed once in 2 and 4 years, respectively.

(2) *Official, Business and Medical Travel*: Passage and exchange for official, business and medical travel which were permitted on a restricted scale, were made available on a more liberal basis. Exchange for official travel was allowed in terms of a higher schedule of rates applicable to the various countries. Exchange for business travel was allowed freely on a recommendation from the Chairman, Director, Partner or Sole Proprietor of the Company. Enhanced exchange for medical purposes, including hospital charges, was allowed.

(3) *Education*: Exchange for education abroad was released for studies at recognised Universities at under-graduate and post-graduate levels and for specialised technical training not available in Sri Lanka.

(4) *Remittance of Profits and Dividends*: The remittances of profits and dividends to non-resident shareholders which were earlier permitted on a restricted basis, were allowed in full.

(5) *Exchange for Emigrants*: Enhanced exchange was allowed for emigrants. Export of personal effects was liberalised.

(6) *Non-Resident Blocked Accounts*: Funds held in Non-Resident Blocked Accounts, which were not permitted to be remitted abroad, were released up to a maximum of Rs. 100,000 from each such account.

(7) *Export of Personal Jewellery*: The value of personal jewellery which could be taken by individuals travelling abroad without a permit was raised.

(8) *Reconversion of Currency*: The ceiling imposed on the reconversion into foreign currency by commercial banks of unexpended Rupees held by tourists and transit passengers was increased.

(9) *Excess Baggage*: Release of exchange for excess baggage fare was doubled.

Delegation to commercial banks

The authority to approve the following, was delegated to commercial banks:-

- (1) Passage and exchange in respect of travel on holiday, business, official duty and for medical treatment.
- (2) Subscriptions to professional institutions; foreign examination fees; payment for correspondence study courses.
- (3) Emigrants' passage and excess baggage, exchange, personal jewellery and personal effects and sea freight.
- (4) Remittances of profits and dividends of non-resident shareholders.
- (5) The opening and maintaining of non-resident accounts by individuals resident outside Sri Lanka and companies registered outside Sri Lanka, subject to exchange control approval in respect of certain debits and credits to these accounts.
- (6) Export permits, other than those requiring prior approval of the Exchange Control Department.
- (7) Remittance of export commissions to agents and/or buyers.
- (8) Payments for imports against letters of credit, except those which require the prior approval of the Department of Exchange Control.
- (9) Returning of inward remittance to remitter, if recalled by the remitter.
- (10) Issue of foreign exchange against remittances received in favour of residents of and visitors to Sri Lanka for travel expenses.
- (11) Remittances and payment for passage out of "External Accounts".
- (12) Passage of non-resident visitors, where payment is made in Sri Lanka rupees, provided the non-resident visitors produce evidence that sufficient foreign exchange has been encashed to meet the cost of such passage.

EMPLOYEES' PROVIDENT FUND

The Monetary Board of the Central Bank of Ceylon, through its Employees' Provident Fund Department, continued to receive all sums paid under the Employees' Provident Fund Act. No. 15 of 1958 as contributions and surcharges and other income from the investment of moneys of the Fund and to perform its other functions in respect of these moneys in terms of Section 5 of the Act. A brief note on its operations during the year 1978 is given below.

Table 2.12
Employees' Provident Fund 1977 - 1978

	1977	1978
1. Number of covered employments registered ..	81,959*	85,656*
2. Number of registered members ..	1,344,528*	1,386,591*
3. Contributions received† (Rs.) ..	304,838,236	523,757,501
4. Investment (Rs.) ..	397,981,740	641,964,728
5. Income from investments received (Rs.) ..	160,222,583	206,127,224
6. Refund payments (Rs.) ..	89,357,790	122,012,108
7. Number of refunds ..	41,157	42,526
8. Rate of interest (%) ..	7.5	7.5
9. Interest on Members' balances (Rs.) ..	179,717,325	227,641,001

* Source: Labour Department.

† Excludes contributions credited to Suspense Accounts pending transfer.

Membership and Registered Employments

According to data furnished by the Department of Labour the number of registered employments increased from 81,959 in 1977 to 85,656 in 1978, an increase of 4.5 per cent. The number of members registered under these employments amounted to 1,386,591 as at end of 1978, as against a membership of 1,344,528 in 1977, an increase of 3.1 per cent.

Contributions

The contributions received by the Fund during the year amounted to Rs. 524 million, as against Rs. 305 million in 1977. This represents an increase of Rs. 219 million or 72 per cent over the level of contributions made during the previous year.

Members' balances as at end of 1978 stood at Rs. 3,263 million, which is an increase of Rs. 687 million or 27 per cent over the level of 1977.

Investments

During 1978, the Fund invested a sum of Rs. 642 million in Government Securities. This was an increase of Rs. 244 million or 61 per cent over that of 1977. The total investments of the Fund as at end of 1978 were Rs. 3,133 million, as against Rs. 2,491 million in 1977.

Income from Investments

In 1978, the income from investments amounted to Rs. 206 million, as against Rs. 160 million in 1977. This represents an increase of Rs. 46 million or 29 per cent, as against an increase of Rs. 28 million or 21 per cent in the previous year. This, of course, is due to investment of the increased volume of contributions received as well as re-investment of income earned on past investments.

Refunds

The total amount paid out by way of refund of benefits in 1978 amounted to Rs. 122 million. This represents an increase of Rs. 33 million as compared with 1977. The number of refunds made in 1978 was 42,526 as against 41,157 in 1977.

Interest on Members' Balances

The Employees' Provident Fund is required to pay interest on members' balances out of the income from its investments. The rate of interest payable on members' balances continued to be 7.5 per cent per annum. The interest payable as at the end of 1978 amounted to Rs. 228 million, as against Rs. 180 million in 1977. This records an increase of Rs. 48 million or 27 per cent over the previous year.

Interest is paid on the balances standing to the credit of members at the end of the year and thereafter, interest accumulates on that aggregate sum. Thus members earn a compound rate of interest. Besides, interest is paid for the entire year on the balance standing to the member's credit at the end of the year irrespective of the date when any portion of that balance (which represents contributions), was received by the fund to the member's account, e.g. a contribution received in December gets interest for the full year in the same way as a contribution received in January of that year. The effective rate of interest which a member earns is, therefore, somewhat higher than 7.5 per cent.

STATISTICS

An extensive programme of data collection was inaugurated in 1978. The decennial Consumer Finance Survey was redesigned to cover a wide range of socio-economic data and a decision was taken to conduct the survey every five years. In order to monitor the prices in all parts of the country, an all island data collection scheme was initiated to collect data from 100 different centres covering all districts in the country. The extended data collection programme also included the monitoring of the import liberalisation programme of the Government and the documentation of a wide range of statistics relating to the economy.

The Consumer Finance and Socio-Economic Survey 1978-1979

In 1953 the Central bank conducted the first of a series of Consumer Finance Surveys. This was followed by similar surveys in 1963 and 1973. The main purpose of these surveys was to obtain information on the household consumption pattern, the sources of their income and the relationship of income to investment and indebtedness. Supplementary data on employment and other demographic variables were also collected.

Because of the rapidly changing structure of the consumption patterns and income distribution of households in recent years the Central Bank decided to conduct Consumer Finance Surveys at five year intervals. A sample survey to obtain information on similar lines as in former consumer finance surveys was planned in early 1978. Later in the year, due to the urgent need of upto-date data on a wide range of socio-economic variables for the development plans of the Government, it was decided to widen the scope and subject coverage of the survey. Thus a new sample survey designated "Consumer Finance and Socio-Economic Survey 1978-79" was designed to meet these needs. Field investigation of Round 1 out of four rounds of the survey was completed during the last quarter of 1978. The results of this round are expected to be available by the middle of 1979.

The survey will cover a sample of 8,000 households drawn from rural, urban and estate sectors. Unlike the previous surveys, it was proposed to conduct the present survey in four rounds spread over a period of one year and in each round, a sample of 2,000 households would be enumerated. The collection of data in four rounds will serve a dual purpose. First, it will help to show up the seasonal variations of the socio-economic variables under study. Secondly, overall estimates will incorporate seasonal variation.

Private Investment in Sri Lanka

The scope and coverage of this survey was reported in detail in the 1977 Review of the Economy. The field work involved in the household sector was completed in 1977, while the field investigation in the fishing sector was carried out during the period 27th March, 1978 to 10th July, 1978. As the non-response of the business sector to the postal questionnaire was very high, a follow up of this sector by personal interview was done during the period 16th August, 1978 to 3rd September, 1978. The processing of data and writing of the report will continue up to the end of 1979.

Monitoring of the Import Liberalization Programme

In order to monitor the import liberalization programme and to forecast the import bill for future periods, a system of data collection was introduced to obtain data from the commercial banks on the letters of credit opened, the modifications of the letters of credit and bills received against letters of credit. The data is tabulated as follows :-

- (a) Values of letters of credit classified by four digit BTN numbers.
- (b) A further detailed breakdown of values of letters of credit classified by type of importation.
- (c) Values of letters of credit classified on the basis of Schedule 1 and Schedule 2 of the Gazette Extraordinary No. 291/7 of 15th November, 1977.
- (d) Values of letters of credit outstanding. In this table, information relating to the letters of credit actually utilised is also given.

Country wide Data Collection System

A country wide data collection system was launched in 1978. In the experimental stage, the following information is being collected periodically from hundred locations scattered throughout the country:-

- (a) Retail prices of consumer goods and their availability.
- (b) Producer prices of agricultural products.
- (c) Wage rates and availability of labour in paddy farming, small holdings of the tea, rubber and coconut and the construction industry.
- (d) Cost and availability of agricultural products.
- (e) Marketing facilities of major agricultural products.

Depending on the importance of economic variables, the data collection is done weekly, fortnightly and monthly. The data collected under this scheme are used for the following purposes :-

- (a) The information pertaining to the availability of consumer items and agricultural inputs are made available periodically to the ministries concerned in order to facilitate short term policy decisions to improve the distribution of these commodities.
- (b) The data on consumer prices and the prices of agricultural inputs are used to identify the differences in prices between areas and their periodic fluctuations. Arrangements are also made to compute a retail price index for the whole island and separate indices for each district and area.
- (c) Producer prices of agricultural products are used to measure the differences in the retail prices of the commodities and their producer prices. This information helps to identify the magnitude of trade margins kept by the distributors. A comparison of producer prices between the respective producing areas is also made to identify the reasons for such differences.
- (d) The data on wage rates prevailing in the sectors mentioned above are used for purposes such as preparing wage rate indices to trace the periodic fluctuations in them, differences in wage rates between areas and activities and to compare them with the wage rates in other sectors which are guided by minimum wage legislation and the Wages Boards Ordinance. Information on the availability of labour may help to encourage migration of labour from areas where there is a surplus to areas where labour is scarce. This information also helps to identify the trades where training of new skills is necessary.
- (e) The information on marketing facilities is used to locate the areas where marketing facilities are not adequate. Such information is made available to the respective ministries to take short term policy decisions to improve the marketing facilities in the relevant areas.

PERSONNEL

The Governor attended the following conferences abroad during 1978:-

- (a) Thirteenth SEACEN Governors' Conference and the Sixth Meeting of the Board of Governors of the Asian Clearing Union in Nepal (14 - 25 January).
- (b) Commonwealth Central Bank Governors' Conference in London, and the Annual General Meeting of the Bank for International Settlements in Basle, Switzerland (28 May - 20 June).
- (c) Twentieth Session of the Governing Body of the Asian Productivity Organisation in Seoul, Republic of Korea (1- 13 July).
- (d) Annual Meetings of the I.M.F. and I.B.R.D. in Washington, 50th Anniversary Celebrations of Bank Melli Iran in Tehran, and official discussions with the Bank of England and commercial banks in London (9 September - 12 October).
- (e) Investment Promotion Seminar in Hongkong and official discussions in Singapore (3 - 12 December).

Dr. Lal Jayawardena, Secretary to the Ministry of Finance ceased to be a member of the Monetary Board from March 8, 1978, with his appointment as Ambassador for Sri Lanka to the European Economic Community in Belgium.

Dr. W. M. Tilakaratna, Senior Deputy Governor functioned as Chief Executive Officer of the Bank in terms of Section 24 of the Monetary Law Act during the period of absence abroad of the Governor from 14 to 25 January. Dr. Tilakaratna retired from Bank Service with effect from March 28, 1978 to take up appointment as Secretary to the Ministry of Finance and Planning and became the official member of the Monetary Board from that date.

Mr. C. Chanmugam, Acting Secretary to the Ministry of Finance and Planning functioned as the official member of the Monetary Board during the absence of Dr. W. M. Tilakaratna.

Dr. Gamani Corea, Deputy Governor, continued to be on service with the UNCTAD as Secretary General.

Dr. W. Rasaputram, Deputy Governor, continued to be on service with the International Monetary Fund as Alternate Executive Director.

Mr. E. Eramudugolla, Assistant to the Governor was appointed Deputy Governor with effect from April 10, 1978. He was designated as Senior Deputy Governor with effect from April 20, 1978. Mr. Eramudugolla functioned as Chief Executive Officer of the Bank in terms of Section 24 of the Monetary Law Act during the periods of absence of the Governor.

Dr. H. N. S. Karunatilake, Superintendent of Employees' Provident Fund, was appointed as Adviser with effect from January 2, 1978 and was appointed as Deputy Governor with effect from April 10, 1978. Dr. Karunatilake was nominated as the Chairman of the Governing Body of Bankers' Training Institute with effect from June 23, 1978.

Mr. K. Kanagasabapathy, Assistant to the Governor and Secretary to the Monetary Board, was appointed Senior Assistant to the Governor with effect from April 20, 1978 and continued to be Secretary to the Monetary Board.

Mr. J. G. P. Jayasundera, Adviser, was appointed Assistant to the Governor on April 10, 1978.

Mr. A. Bandaranayake, Chief Accountant was on leave prior to retirement with effect from November 11, 1978.

Mr. T. Chatchithananthan, Director of Management Audit, was released to the Greater Colombo Economic Commission, with effect from March 27, 1978 and reverted to the Bank service with effect from May 1, 1978. Mr. Chatchithananthan was designated as Adviser at Head of Department level with effect from November 24, 1978.

Mr. D. L. Kannangara, who was released for service with the Central Bank of The Gambia reverted to the Bank service with effect from February 1, 1978. and was appointed Adviser, Banking Development.

Mr. N. Kathirgamathamby, Superintendent of Public Debt, was appointed Superintendent of Currency with effect from January 2, 1978.

Dr. A.G.A.D. Perera, Director of Establishments was appointed Secretary with effect from January 2, 1978.

Mr. V.S.Subramaniam, Director of Bank Supervision, was appointed Chief Accountant with effect from November 10, 1978.

Dr. K.S.E. Jayatilleke, Additional Director of Economic Research was appointed as Director of Statistics, with effect from January 2, 1978.

Mr. A.S. Jayawardena, was appointed Director of Economic Research with effect from January 2, 1978.

Mr. A.R. Fernando, Additional Controller of Exchange was appointed Acting Controller of Exchange on April 28, 1978 with effect from December 3, 1977.

Mr. S.W.P. Amarasuriya, Acting Secretary was appointed Acting Superintendent of Employees' Provident Fund with effect from January 2, 1978.

Mr. H. Premaratne, Deputy Chief Accountant was appointed Acting Additional Chief Accountant with effect from January 2, 1978. Mr. Premaratne was released for service with Central Bank of The Gambia as Financial Supervisor for a period of one year with effect from September 12, 1978.

Dr. S.T.G. Fernando, Deputy Superintendent of Public Debt was appointed Acting Superintendent of Public Debt with effect from January 2, 1978.

Mr. R.M. Tennekoon, Deputy Director of Establishments, was appointed as Acting Director of Establishments with effect from January 2, 1978.

Mr. R.D.K.J. Arthanayake, Deputy Director, Management Audit, was appointed Acting Director of Management Audit with effect from March 27, 1978.

Mr. U.A. de Silva, Deputy Chief Accountant, was appointed Acting Additional Chief Accountant with effect from November 10, 1978.

Mr. S. Easparathan and Dr. L.E.N. Fernando continued to be under release part-time to the Treasury.

Dr. P.A.S. Dahanayake, who was released to the Ministry of Planning and Economic Affairs, reverted to Bank service with effect from March 19, 1978.

Mr. G.M.P.D. de Silva, who was released to the Development Finance Corporation, reverted to the Bank service with effect from February 8, 1978.

Mr. P. M. Nagahawatte was released to the Ministry of Industries and Scientific Affairs as General Manager, Cement Corporation with effect from January 3, 1978. Mr. Nagahawatte reverted to Bank service with effect from September 1, 1978.

Dr. T. W. Y. Ranaweera, who was released to the Treasury was further released for an assignment with the United Nations with effect from April 16, 1978.

Mr. E.M.D. Peiris who was released to the Ministry of Fisheries, reverted to Bank service with effect from February 2, 1978.

Mr. W.L.de Silva was released to the Ministry of Food & Co-operative as General Manager 'MARKFED' with effect from June 21, 1978.

During the year under review, the following officers of the Central Bank continued to be under release full-time to the Government:-

Mr. T.G. Punchiappahamy	-	State Gem Corporation
Mr. S. Rajalingam	-	Treasury
Mr. P.M. Hassen	-	Ministry of Food & Co-operative
Mr. A.A.D. Justin	-	Ministry of Industries
Mr. M.B. Dissanayake	-	Treasury