

During the year, the Government contracted 20 project loans, 6 commodity loans and 3 cash and other loans. The value of these loans as at 31st December, 1982 amounted to Rs. 12,144 million. In comparison the value of loans contracted in the previous year amounted to Rs. 14,464 million. There has been no improvement during the year in the utilization rate of loans contracted. As at end of 1982, the aggregate utilization rate of the loans contracted since 1970 remained at 50 per cent, as was in 1981. While the level of utilization of project loans was 29 per cent, commodity loans and cash and other loans recorded a very much higher rate of 81 per cent and 84 per cent respectively. It was significant that the more expensive cash loans which were fully utilized in the previous years were not fully utilized in the year under review. Of the Eurocurrency commercial loan of US \$ 100 million contracted in 1982, only \$ 40 million was utilized during the year. Among other loans, contracted in 1981 there were 5 loans amounting to Rs. 1,544 million on which withdrawals did not commence until the end of 1982.

Interest payments on public debt amounted to Rs. 5,086 million during the year. A sum of Rs. 4,171 million was paid on domestic debt, while the balance of Rs. 915 million was on foreign debt. During the year, interest payments on domestic debt increased by 39 per cent and those on foreign debt increased by 28 per cent. Interest on domestic debt was made up of Rs. 2,167 million on rupee loans, Rs. 2,001 million on Treasury bills and Rs. 3 million on administrative borrowings. Interest payments on Treasury bills recorded an increase of 53 per cent while those on rupee loans increased by 28 per cent over that of last year. Interest paid on administrative borrowings remained unchanged.

MONEY AND BANKING

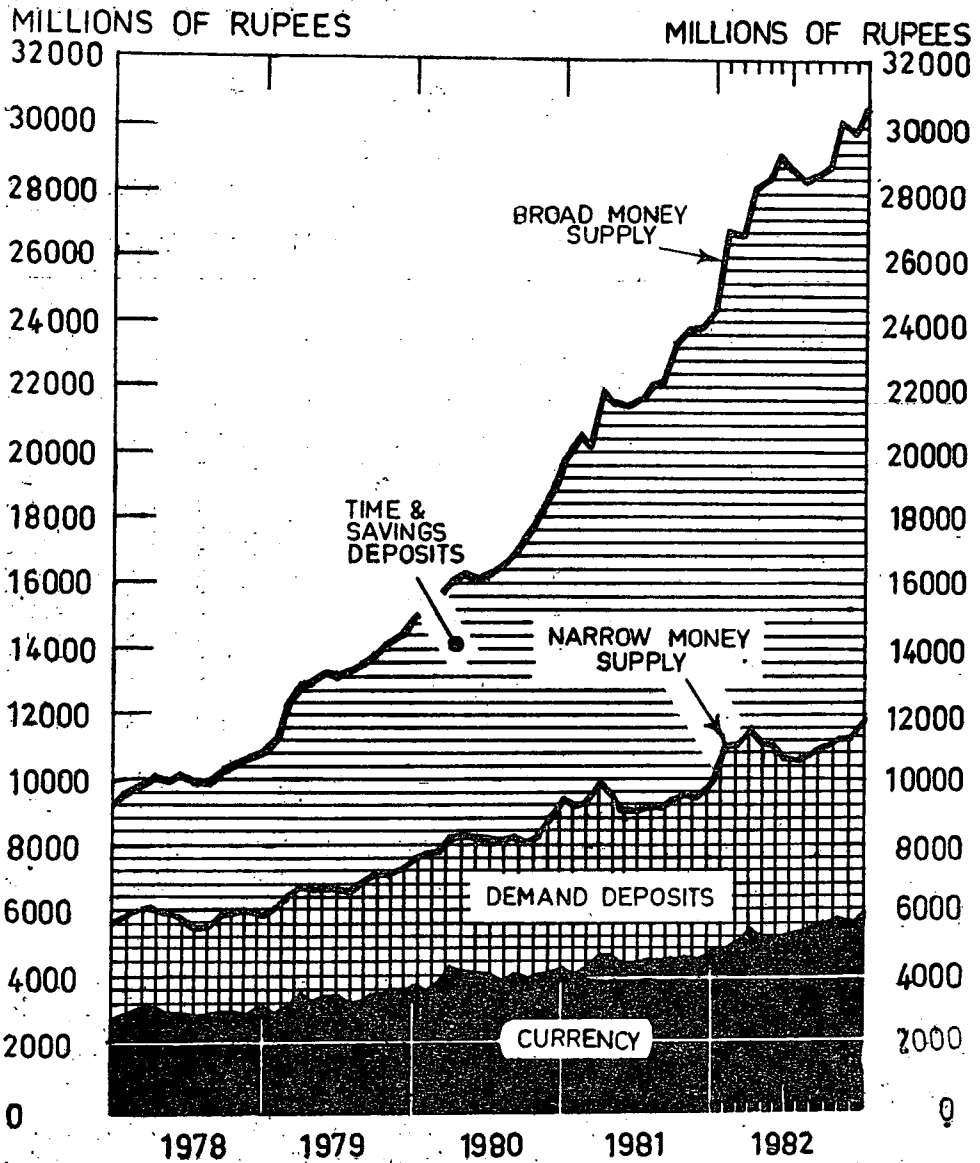
Money Supply

The monetary scenario in 1982 depicted developments in major monetary variables similar to those in the previous year. The broad money supply (M_2) comprising currency in circulation and the total of demand, time and savings deposits held by the public with commercial banks, grew by Rs. 6,063 million or 25 per cent compared to an increase of Rs. 4,587 million or 23 per cent in 1981. However, a deceleration was evident in the rate of growth in time and savings deposits held by the public with commercial banks (quasi-money). The rate of growth of these deposits which dropped from 41 per cent in 1980 to 38 per cent in 1981 declined further to 30 per cent in 1982. This was particularly associated with the downward revision in deposit rates by commercial banks in mid 1982, with the interest rates being offered by the National Savings Bank remaining unchanged. Hence, the slight acceleration in M_2 was largely reflected in the accelerated growth in narrow money supply (M_1) defined as currency and demand deposits held by the public.

During the year under review, M_1 rose by Rs. 1,735 million or 17 per cent when compared to an increase of Rs. 596 million or 6 per cent in the previous year. Of this, the demand deposits held by the public fluctuated specially during the second and third quarters of the year and registered a growth of Rs. 571 million or 11 per cent by the end of the year. Hence, the higher growth rate in M_1 was mainly reflected in the increased preference for currency holdings which registered a growth

MONEY SUPPLY

MONTHLY



of Rs. 1,165 million or 24 per cent in 1982. The largest monthly increases were in March and December during which periods the monthly growth rates amounted to 6 per cent each, indicating the increased preference for currency pending the festive seasons in April and in December. Further, the demand deposit component of M_1 declined from 52 per cent to 49 per cent over the year. It is possible that the uncertainties associated with an election year may have contributed to increased currency holdings. Nevertheless, it implied a set back in the banking habits among the public.

TABLE 1.47
Monetary Aggregates 1980 - 1982

Amount in Rs. Million

	Narrow Money Supply (M_1)						Broad Money Supply (M_2)					
	1980	1981	1982	% Change (1980 over 1979)	% Change (1981 over 1980)	% Change (1982 over 1981)	1980	1981	1982	% Change (1980 over 1979)	% Change (1981 over 1980)	% Change (1982 over 1981)
January	7,848	9,208	11,046	+28.8	+17.3	+20.0	15,118	20,532	26,890	+33.8	+35.8	+31.0
February	7,880	9,288	11,178	+21.4	+17.9	+20.4	15,488	20,199	26,758	+25.9	+30.4	+32.5
March	8,375	10,125	11,671	+24.0	+20.9	+15.3	16,052	21,984	28,240	+24.3	+36.9	+28.5
April	8,384	9,573	11,276	+24.6	+14.2	+17.8	16,379	21,555	28,395	+25.8	+31.6	+31.8
May	8,289	9,168	11,132	+23.8	+10.6	+21.5	16,316	21,437	29,128	+23.3	+31.3	+35.9
June	8,278	9,033	10,815	+23.7	+9.1	+19.8	16,414	21,681	28,739	+24.5	+32.0	+32.6
July	8,196	9,097	10,710	+22.9	+11.0	+17.8	16,658	22,065	28,459	+24.8	+32.5	+29.0
August	8,240	9,197	10,892	+19.5	+11.6	+18.5	17,100	22,165	28,494	+26.2	+29.6	+28.6
September	8,131	9,445	11,171	+14.7	+16.1	+18.3	17,700	23,460	29,781	+27.5	+32.5	+27.0
October	8,388	9,520	11,413	+17.2	+13.4	+19.9	18,369	23,837	30,161	+29.3	+29.7	+26.6
November	8,976	9,459	11,452	+24.1	+5.3	+21.1	19,040	23,842	29,860	+31.9	+24.9	+25.3
December	9,428	10,024	11,760	+22.9	+6.3	+17.4	19,860	24,447	30,510	+31.9	+23.0	+24.9
Monthly Average	8,368	9,429	11,210	+22.2	+12.7	+18.9	17,041	22,267	28,785	+27.5	+30.7	+29.3

Source: Central Bank of Ceylon.

The year-on-year increases in M_2 moved erratically between a range of 29 to 36 per cent during the first half of the year and gradually declined from 33 per cent in June to 25 per cent in December, 1982.

The income velocity of M_1 (i.e. GNP at current factor cost divided by M_1) which had increased from 6.6 in 1980 to 7.7 in 1981 remained at the same level in 1982. However, the income velocity of M_2 which stood at 3.1 in 1980 and had increased to 3.2 in 1981, dropped marginally to 3.0 in 1982. This marginal decline in the income velocity of M_2 indicated that the rates of growth in monetary aggregates had moved almost in line with the growth in output of goods and services exerting a reduced pressure on the price level when compared with the previous years. Partly reflecting this development, the Colombo Consumers' Price Index on a point to point basis recorded an increase of only 5 per cent during the 12 months ending December 1982, as against 18 per cent in the previous year.

TABLE 1. 48
Monetary Aggregates and Causal factors

(Amount in Rs. Million)

Item	December 1980	December 1981	December 1982	Change 1980/1981		Change 1981/1982	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
1. Currency held by the public ..	4,180.8	4,822.9	5,987.7	+ 642.0	+ 15.3	+1,164.8	+ 24.1
2. Demand deposits held by the public ..	5,247.3	5,201.5	5,772.1	- 45.8	- 0.8	+ 570.6	+ 10.9
Narrow Money (M ₁) ..	9,428.2	10,024.4	11,759.8	+ 596.2	+ 6.3	+1,735.4	+ 17.3
3. Time and Savings Deposits of private sector held with commercial banks ..	10,432.0	14,422.5	18,750.1	+3,990.4	+ 38.2	+4,327.6	+ 30.0
3.1 Co-operative institutions ..	315.4	334.5	357.3	+ 19.1	+ 6.0	+ 22.8	+ 6.8
3.2 Government corporations ..	2,036.0	2,768.4	4,257.8	+ 732.4	+ 35.9	+1,489.4	+ 53.8
3.3 Other private sector constituents ..	8,080.6	11,319.6	14,135.0*	+3,238.9	+ 40.0	+2,815.4	+ 24.8
Broad Money (M ₂) ..	19,860.2	24,446.8	30,509.9	+4,586.6	+ 23.0	+6,063.0	+ 24.8
Causal Factors							
1. Domestic Credit Expansion (DCE) ..	25,288.4	33,619.1	42,102.5	+8,330.7	+ 33.0	+8,483.4	+ 25.2
1.1 Net credit to the government ..	8,971.9	12,789.1	17,150.2	+3,817.2	+ 42.5	+4,361.1	+ 34.1
1.1.1 Gross credit to the government ..	11,904.6	15,667.4	19,719.8	+3,762.7	+ 31.6	+4,052.3	+ 25.8
By Central Bank ..	10,965.5	14,104.4	18,000.5	+3,138.9	+ 28.6	+3,896.0	+ 27.6
By Commercial Banks ..	939.1	1,563.0	1,719.3	+ 623.8	+ 66.4	+ 156.3	+ 9.9
1.1.2 Government deposits and cash balances ..	- 2,932.7	- 2,878.3	- 2,569.6	+ 54.5	+ 1.8	+ 308.7	+ 10.7
1.2 Gross credit to the private sector ..	16,316.5	20,830.0	24,952.3	+4,513.5	+ 27.7	+4,122.3	+ 19.8
1.2.1 Co-operative institutions (a) ..	853.1	946.5	892.6	+ 93.4	+ 11.0	- 53.9	- 5.7
1.2.2 Government corporations ..	4,122.7	4,487.7	4,677.4	+ 364.9	+ 8.8	+ 189.7	+ 4.2
1.2.3 Other private sector constituents ..	11,340.7	15,395.8	19,382.3	+4,055.1	+ 35.7	+3,986.5	+ 25.8
2. External Banking Assets (net) ..	3,630.7	2,940.3	2,371.8	- 690.4	- 19.0	- 568.5	- 19.3
3. Other items (net) ..	- 9,058.9	-12,112.6	-13,964.4	-3,053.7		-1,851.9	
3.1 Other liabilities (net) of the Central Bank ..	- 6,058.9	- 7,615.5	- 9,382.7	-1,556.6		-1,767.3	
3.2 Other liabilities (net) of commercial banks ..	- 2,832.2	- 4,354.8	- 4,596.1	-1,522.6		- 241.3	
3.3 Adjustments for items in transit ..	- 167.8	- 142.3	14.4	+ 25.5		+ 156.7	
Broad Money (M ₂) ..	19,860.2	24,446.8	30,509.9	+4,586.6	+ 23.0	+6,063.0	+ 24.8

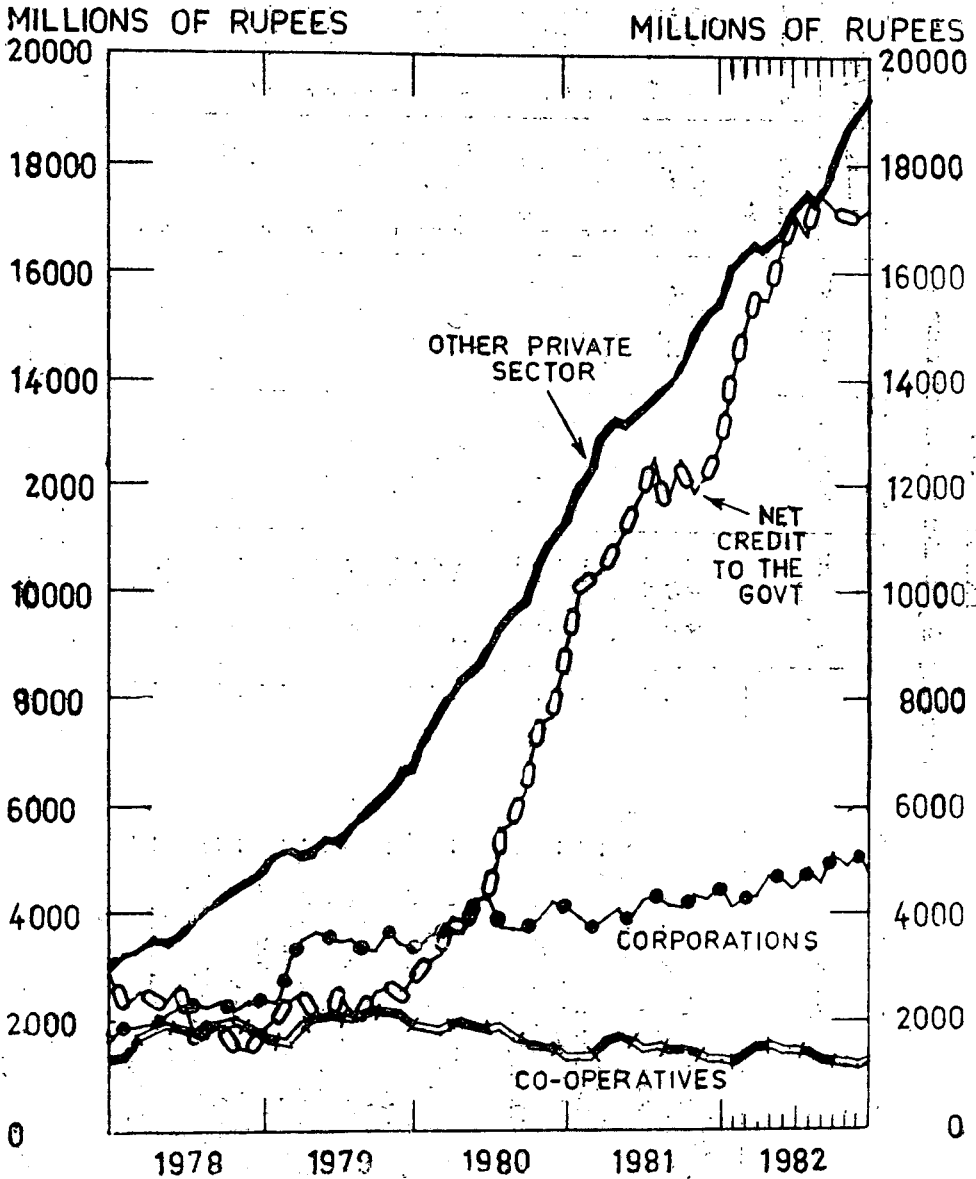
Source: Central Bank of Ceylon.

(a) Credit to co-operative institutions has been adjusted to take account of amounts held in Paddy Marketing Board Suspense Account pending liquidation of matured goods receipts. These amounted to Rs. 515.2 million and Rs. 347.4 million and Rs. 295.1 million (provisional) by end 1980, 1981 and 1982 respectively.

Note: Signs indicate the effect on M₂.

* Excludes Non Resident Foreign Currency deposits.

DOMESTIC CREDIT MONTHLY



Although the rate of growth in quasi-money declined during the past few years, in absolute terms, quasi-money registered increases of Rs. 3,044 million and Rs. 3,990 million in 1980 and 1981, respectively and an expansion of Rs. 4,328 million in the current year. The relatively low rate of growth registered in the current year was due to the downward revision of time deposit rates by commercial banks in mid 1982. Total quasi-money supply at end 1982 amounted to Rs. 18,750 million. However, a major part of this expansion (80 per cent) was recorded during the first half of the year. Reflecting this, the annual rate of growth of time and savings deposits which stood at 38 per cent in December, 1981, accelerated to 47 per cent in May, 1982 and gradually decelerated to 30 per cent by the end of the year. This deceleration was mainly due to the shift in deposits from commercial banks to the National Savings Bank (NSB) following the lower interest rates offered by the former on deposits as from June, 1982. Notwithstanding this, the share of time and savings deposits in M_2 increased from 59 to 61 per cent reflecting public's preference for interest bearing monetary assets. This development, perhaps, was associated with the positive real rate of return on deposits offered by commercial banks with the reduced inflationary pressures in the economy.

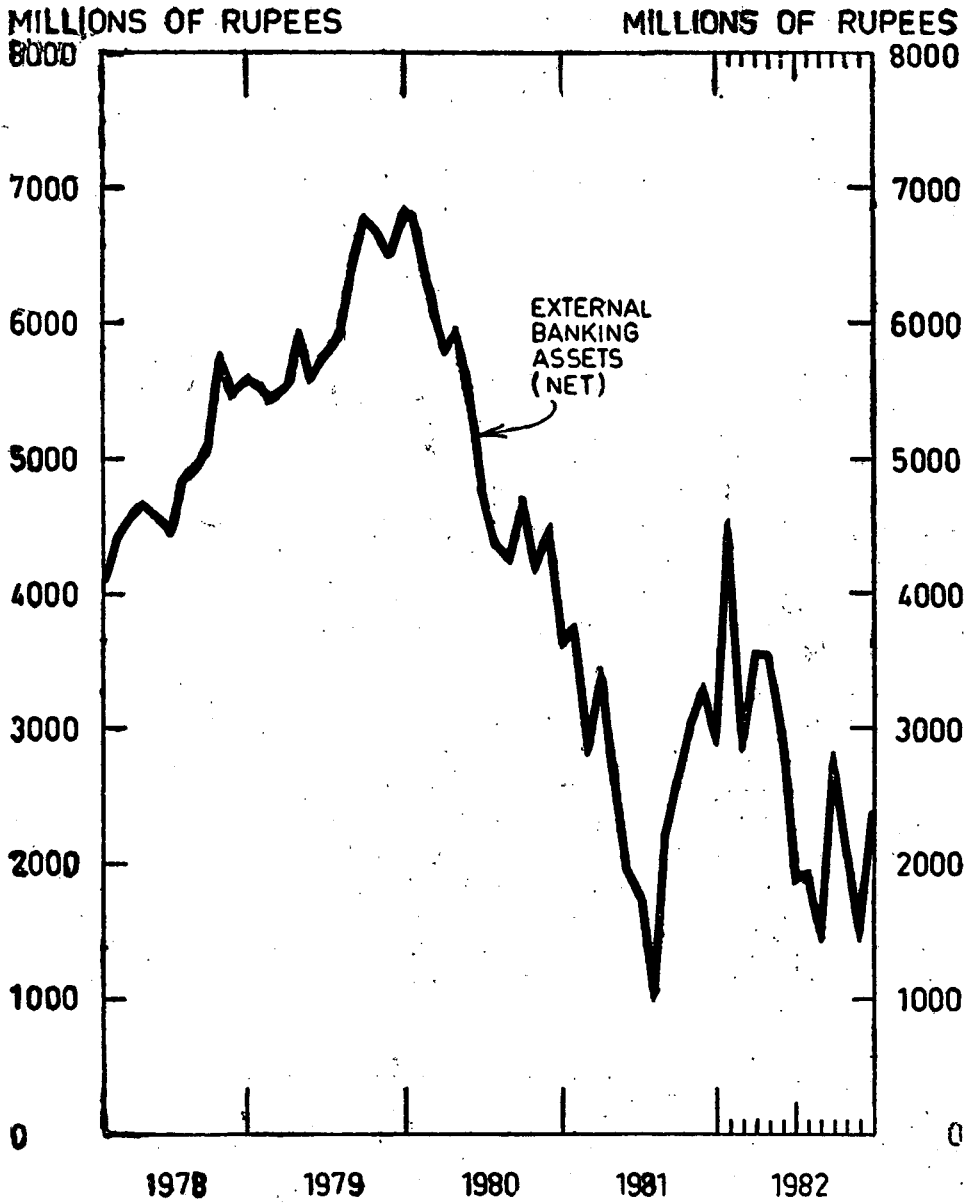
The increase in time and savings deposits during 1982, was mainly on account of increases in such deposits of Government corporations and the private sector proper, amounting to Rs. 1,489 million and Rs. 2,815 million respectively. The expansion in deposits of Government corporations registered a growth rate of 54 per cent as against 36 per cent in the previous year. However, the rate of expansion in time and savings deposits of other private sector constituents (private sector proper) decelerated from 40 to 25 per cent within the current year as a result of the exodus of deposits from commercial banks to the NSB and finance companies since mid 1982, consequent to the lowering of interest rates by banks.

Monetary developments in 1982, reflected similar features as in the previous year—particularly in respect of major contributory factors. Compared to the Domestic Credit Expansion (DCE) of Rs. 8,331 million in the previous year, DCE in the current year was slightly higher amounting to Rs. 8,483 million. However, the rate of growth in percentage terms decelerated significantly from 33 per cent in 1981, to 25 per cent in the year under review. Similar to the preceding year, the expansionary impact of this factor was partly offset by the drop in external banking assets (net) by Rs. 568 million or 19 per cent, and the increase in other items (net) of the banking system by Rs. 1,852 million. The latter resulted from the increased 'other liabilities' of the Central Bank largely on account of accumulated reserves held by the Bank.

The DCE in 1982 comprised of increases in Net Credit to Government (NCG) and Gross Credit to Private Sector (GCPS) by Rs. 4,361 million and Rs. 4,122 million, respectively, recording percentage growths of 34 and 20 per cent as against 43 and 28 per cent in the previous year. It is noteworthy that the rates of growth of both these factors indicated a deceleration during the past two years. Although the absolute growth in NCG was slightly higher than in 1981, the government borrowings from the banking system would have been even higher had it not been for the

EXTERNAL BANKING ASSETS (NET)

MONTHLY



successful Rupee Loan Programme launched during the year. Since the first Rupee Loan Programme amounting to Rs. 4,000 million was fully subscribed by September, 1982, an additional loan of Rs. 2,000 million was floated during the same month. This too was fully subscribed by the end of the year due to the enhanced subscriptions mainly from the NSB. This was made possible by the increased deposit mobilisation of the NSB following the downward revision of deposit rates of commercial banks in June, 1982. Moreover, the government's reliance on the banking system was also lower due to the drawing of US \$ 40 million (Rs. 836 million) from the Euro Currency Loan Arrangement for US \$ 100 million. Furthermore, the high rate of under expenditure relating to capital and recurrent expenditure of the Government experienced during 1982, also resulted in lower cash requirements during the year.

The Government's borrowings from the Central Bank rose by Rs. 3,896 million or 28 per cent as against a similar increase of Rs. 3,139 million or 29 per cent in the preceding year. This was largely attributable to the enhanced Government and government guaranteed securities held by the Bank reflecting largely the Rs. 3,400 million worth of new Treasury Bills issued during the year. On the other hand, borrowings by the government from commercial banks increased by only Rs. 156 million or 10 per cent when compared to a considerable increase of Rs. 624 million or 66 per cent in 1981. While investments of commercial banks in Treasury Bills remained almost at the same level as in December, 1981, their contribution to the Government Rupee Loan Programme increased by Rs. 103 million following the relaxation of regulations permitting commercial banks to participate in this programme since August, 1982.

With the continuation of the restrictive monetary policy measures effected in mid 1981, Gross Credit to Private Sector (GCPS) gradually decelerated from an annual growth rate of 28 per cent at end December, 1981, to 20 per cent at end December, 1982. Of this growth, (Rs. 4,122 million) a major share (97 per cent) was on account of an increase in credit granted to other private sector constituents. Gross credit to this sector increased by Rs. 3,986 million or 26 per cent during the year. Nevertheless, credit to this sector indicated a decelerating trend during the past two years. Several reasons could be attributed to the deceleration in credit to the private sector. First, the deceleration in credit to this sector, particularly during the last quarter of 1982, was due to the uncertainty that prevailed in the business circles arising from the Presidential election and the Referendum. Secondly, the intensification of restrictive monetary policy measures during 1981 resulted in a deceleration in demand for credit from the private sector. Thirdly, the lump sum depreciation facility, which was one of the factors that contributed to the higher demand for credit, had been withdrawn at end March, 1981.

Co-operative institutions and the government corporations did not resort to heavy borrowings from the banking system during the year. In fact, credit to co-operative institutions dropped by Rs. 54 million while borrowings of government corporations increased by only Rs. 190 million.

Conforming to the trends observed since 1980, external banking assets (net) declined by Rs. 568 million in 1982, largely on account of a decline in net foreign assets of the Central Bank. The deterioration in external banking assets was the outcome of an increase in liabilities of the Central Bank which was entirely on account of increased borrowings abroad amounting to Rs. 1,584 million.

Commercial Banking

Commercial banking in 1982, was characterised by a significant improvement in liquidity. Continuing the trends observed in the second half of the preceding year, a substantial growth in deposits coupled with a significant deceleration in demand for credit from the private sector enhanced the liquidity base of the commercial banks. This continuous improvement in liquidity, without a corresponding increase in availability of attractive short-term investment outlets, led the commercial banks to effect certain changes in their deposit mobilisation programmes in mid year. First, the interest rates on all classes of time deposits were reduced by the two state banks and this was followed by most other banks. Secondly, many commercial banks discontinued the practice of accepting 24 month deposits. Thirdly, some banks discouraged even the inflow of 12 month deposits by offering higher rates on relatively short-term deposits (6 months and below). The objective of these measures was to reduce the cost of deposit mobilisation, while adjusting the term structure of deposits in favour of shorter term deposits. Meanwhile, the two state banks suspended their special long term saving schemes. These were the Minor's Deposit Scheme of the People's Bank and the National Endowment Scheme of the Bank of Ceylon.

Although the banking system remained highly liquid during most part of the year, some banks continued to be markedly aggressive in mobilising deposits, in particular, savings deposits, by providing numerous incentives such as monthly interest payments computed on daily balances, payment of interest up-front on savings certificates, and extending banking hours to facilitate savings account holders to transact business after normal banking hours. Moreover, special arrangements were made by some banks for the encashment of remittances received from Sri Lankans employed abroad, in an attempt to attract deposits from the beneficiaries of such remittances. Some foreign banks, through their branches in the Middle East, were able to canvass for remittances from Sri Lankans working in that region. Commercial banks also continued to issue Certificates of Deposits (CDs) thereby attracting a good amount of hoarded money into the system. At end 1982, 18 banks had been given formal approval to issue CDs. The outstanding amount of CDs stood at Rs. 323 million as at the same date.

Merchant Banking activities which were already established were further expanded during 1982, by the opening of the 'Merchant Bank of Sri Lanka', a subsidiary of the Bank of Ceylon. Meanwhile, the Foreign Currency Banking Scheme (FCBS) continued to reflect significant progress. At end 1982, there were 24 Foreign Currency Banking Units (FCBUs) in operation in Sri Lanka. Total assets/liabilities of these units rose sharply from Rs. 7,516 million (US \$ 366 million).

at end 1981 to Rs. 13,828 million (US \$ 649 million) during 1982. The operations of the FCBUs included financing projects in the Free Trade Zone, (FTZ), Euro currency lending to approved residents outside the FTZ, and the participation in international Euro-Currency syndicated loans.

Total resources of commercial banks rose by Rs. 7,438 million in 1982, compared with an increase of Rs. 6,184 million in 1981. A substantial part of the resource growth in 1982, amounting to Rs. 5,934 million was contributed by the increase in deposits. During the year under review, time and savings deposits and demand deposits grew by Rs. 5,174 million and Rs. 760 million, respectively, reflecting preference for the former by the interest conscious savers. The resource base was further augmented by an increase of Rs. 334 million in capital, reserves and undistributed profits of commercial banks. Meanwhile, borrowings of commercial banks rose by Rs. 322 million consisting of an increase in domestic inter-bank borrowings of Rs. 363 million (including borrowings from the Central Bank) and a decline in foreign borrowings of Rs. 41 million. In comparison, borrowings of commercial banks rose by Rs. 667 million in 1981. The lower level of borrowings in 1982, mainly reflected the enhanced liquidity of commercial banks. In fact, there were no penal rate borrowings from the Central Bank during the year, while Bank rate borrowings were reduced to minimum levels.

TABLE 1.49
Changes in Commercial Bank Resources and their Utilization

Sector	Rs. Million		
	End 1979/ End 1980	End 1980/ End 1981	End 1981/ End 1982
1. Government	450.5	- 770.0	- 56.4
2. Central Bank	409.2	- 429.7	- 315.0
3. Government Corporations	448.6	198.6	1,379.1
4. Cooperative Institutions(a)	140.3	- 101.1	72.5
5. Other Private	-1,427.0	- 669.0	- 729.1
6. Inter Bank	563.4	1,633.6	- 1.5
7. Foreign	- 584.9	137.7	- 349.6

Source: Central Bank of Ceylon.

Note: Minus sign indicates net utilization of resources.

(a) Credit to co-operative institutions has been adjusted to take account of amounts held in Paddy Marketing Board Suspense Account pending liquidation of matured Goods Receipts. The Changes for 1980, 1981 and 1982 amounted to Rs. -454.1 million, Rs. -167.8 million and Rs. -52.3 million, respectively.

Table 1.49 presents the changes in commercial banks' resources and their utilization on a net basis. During 1982, the other private sector utilized resources amounting to Rs. 3,986 million against a growth of Rs. 3,257 million in their deposits. Thus, the net utilization of resources by this sector amounted to Rs. 729 million.

During 1982, there was a net accrual of resources from commercial banks to the Central Bank. This, in part reflected the decline in borrowings from the Central Bank (Rs. 23 million) due to the enhanced liquidity of commercial banks. Also the reserves with the Central Bank increased by Rs. 292 million, reflecting the gradual increase in deposits.

In 1982, deposits of and advances to government corporations rose by Rs. 1,569 million and Rs. 190 million, respectively. Accordingly, this sector made a substantial contribution towards the resource build-up of commercial banks. Meanwhile, the foreign sector utilized resources to the tune of Rs. 350 million mainly on account of an increase in foreign balances including export bills.

The Government sector's net utilization of commercial bank resources amounted to Rs. 56 million in 1982. In comparison, a sum of Rs. 770 million was utilized by this sector in the preceding year. The lower level of utilization of resources in 1982, mainly reflected the reduced participation of commercial banks in the Secondary Treasury Bill market during the second half of the year. However, as mentioned earlier commercial banks' investments in government rupee securities rose by Rs. 103 million.

Reflecting the enhanced liquidity position of commercial banks, the ratio of liquid assets to demand deposits rose from 110 per cent at end 1981 to 121 per cent at end 1982. In addition, the credit deposit ratio declined from 99 to 92 over the year under review.

Bank Branch Expansion

The Central Bank of Ceylon opened its second regional branch in Anuradhapura in March, 1982. The first regional branch was opened in Matara in March, 1981.

In 1982, commercial banks opened 39 branches. A salient feature observed during the year was the opening of branches outside Colombo by two foreign banks. In June, 1982, the State Bank of India opened a branch in Anuradhapura being the first foreign bank to open a branch outside Colombo in recent times. The Indian Overseas Bank, also opened a branch in Matara in October, 1982. The opening of these branches reflected the desire to utilise the expertise of these banks in the field of rural credit. Meanwhile, 24 branches were opened by the Bank of Ceylon, 10 by the People's Bank and 2 by the Hatton National Bank. The Bank of Ceylon opened its first representative office in Singapore in January, 1982, with the main objective of canvassing additional business for the Head Office and eventually graduating to an off-shore unit. Conforming to the practice followed in recent years, the Bank of Ceylon relocated 16 of its Agricultural Service Centre (ASC) branches, bringing the total relocations to 303 by the end of the year.

During the year, the Middle East Bank Limited opened a branch in Sri Lanka bringing the total number of commercial banks operating in the country to 25 at the end of 1982. In addition, the Girard Bank of Philadelphia opened a representative

office in Sri Lanka. This was the first such office opened in the recent years. Meanwhile, the National Savings Bank too, opened 2 branches, thus bringing the total number of its branches to 47 at the end of the year.

Interest Rates

In the context of overall interest rate policy, the year 1982 witnessed only marginal changes in Sri Lanka's interest rate structure. The high interest rate policy introduced in 1977 and intensified in 1980 and 1981 was continued during 1982; notwithstanding the reduced rate of inflation during the year.

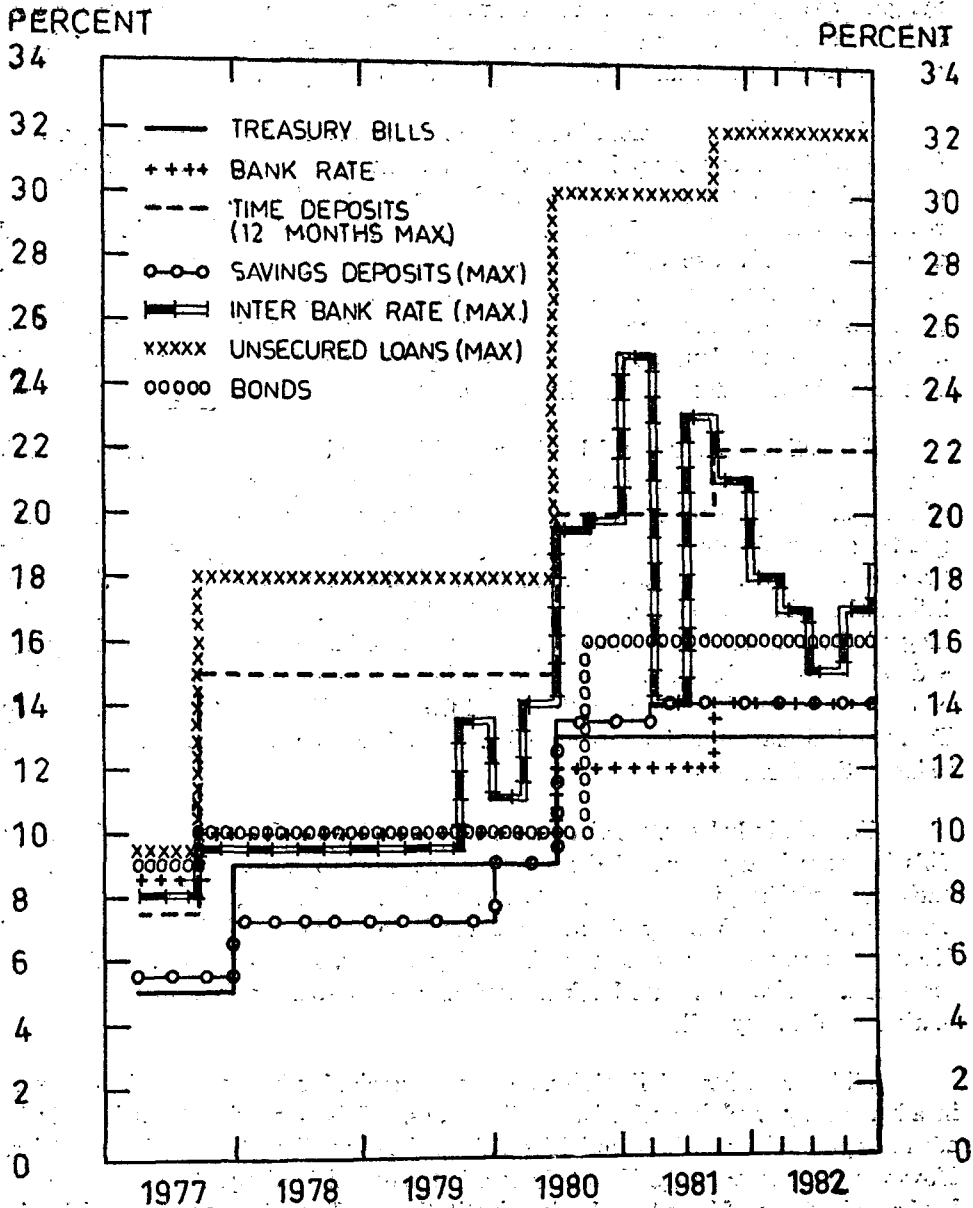
The significant deceleration in demand for credit, on the one hand, arising from restrictive monetary policy measures and the inflow of all classes of deposits on the other, resulted in excess liquidity in the commercial banking system during the year. The reaction of commercial banks to this situation took the form of a downward adjustment of all classes of fixed deposit rates in an attempt to lower the cost of funds. Accordingly, the interest rates on time deposits were reduced by a margin of 2 to 5 percentage points. Most commercial banks not only did away with the practice of accepting 24 month deposits but also discouraged the acceptance of 12 month deposits by offering higher rates on 6 month deposits.

Reflecting the improved liquidity position in all commercial banks, the call market rates which stood at a range of 13.75-15.00 per cent per annum at the beginning of the year dropped to a range of 12.75-15.00 per cent per annum by the second quarter and gradually moved up to a range of 15.75-18.50 per cent per annum by the end of the year. Meanwhile, the rates of discount in the Secondary Treasury Bill Market which stood at a range of 13.75-14.50 per cent per annum at the beginning of the year were lowered to a range of 12.25-13.25 per cent per annum by the end of the year. Reflecting these changes in the interest rates, the excess funds of commercial banks intermittently shifted from the call market to the Secondary Treasury Bill market at times to take advantage of the interest rate, and at times, due to institutional reasons:

The relatively less attractive fixed rates offered by the Government on Treasury Bills in the primary market led short-term investors to invest their funds in alternative high yielding investments. Compared with the fixed rate of 13 per cent per annum in 1981 the Treasury Bill rate on 3 and 6 months bills varied within a range of 13.00-13.50 per cent per annum depending on market conditions. This move reflected a desire to attract bank as well as the non-bank public to the primary market of Treasury Bills.

With the enhanced liquidity, some commercial banks expanded the turnover in advances by applying selective lending rates. This was evident particularly in advances granted for business activities and small and medium term scale industries. However, there were no significant changes in the overall lending rates of commercial banks or in those of long-term lending institutions. Since there was no revision in the interest rates on time deposits of the National Savings Bank (NSB) despite the downward revision by the commercial banks in mid-1982, an interest rate differential of about 2-4 percentage points existed between the NSB and commercial banks.

MONEY RATES END QUARTERLY FIGURES



The on-lending rates on refinance loans from the Medium and Long-term Credit Fund (MLCF) of the Central Bank, under category II for the promotion and development of exports were revised with effect from 22, January, 1982. Accordingly, for those projects where the cost does not exceed Rs. 5 million, the on-lending rate was fixed at 12 per cent per annum whereas the on-lending rate was fixed at 13 per cent per annum for other projects whose cost exceeded Rs. 5 million. However, effective 20 July, 1982, the refinance rate applicable to the latter category was reduced marginally from 11½ to 11 per cent per annum, while the on-lending rate remained unchanged at 13 per cent per annum.

Central Banking

The total assets/liabilities of the Central Bank stood at Rs. 30,166 million at end December, 1982. This reflected an increase of Rs. 2,815 million or 10 per cent during the year. On the assets side, this increase was shared by domestic assets including other assets (Rs. 2,386 million) and foreign assets (Rs. 429 million).

The increase in domestic assets was mainly on account of a rise in holdings of government and government guaranteed securities amounting to Rs. 3,292 million. This indicated primarily the extent of Government's utilisation of Central Bank resources through the issue of Treasury Bills. On the other hand, commercial banks' investments in the Secondary Treasury Bill Market declined markedly during the second half of the year, thereby preventing a further shift in Government's indebtedness from the Central Bank to the commercial banks. Further reflecting the reliance of the Government on Central Bank funds, provisional advances to the former rose by Rs. 604 million in 1982. However, short term advances to commercial banks declined as a result of the general improvement in their liquidity position.

The increase in the International Reserve consisted of increases in cash and balances abroad (Rs. 628 million) and holdings of foreign securities (Rs. 90 million) partly offset by a decline in SDR holdings (Rs. 289 million) on account of the repurchases from the International Monetary Fund. The improvement in the International Reserve was largely on account of the drawings made under the Euro-currency loan arrangement. Increased borrowings from abroad and the depreciation of the Sri Lanka Rupee against the United States Dollar too contributed towards the increase in the Rupee value of the International Reserve.

On the liabilities side, currency issue rose by Rs. 1,213 million in comparison to a much lower increase of Rs. 634 million in 1981. Meanwhile, borrowings abroad rose by Rs. 1,584 million thereby contributing towards the increase in gross foreign assets of the Bank. During the year, the Central Bank transferred Rs. 250 million from its reserves to the Medium and Long-term Credit Fund (MLCF) enhancing the credit facilities available under the Fund. Certain revisions which are discussed elsewhere in this report were also made with a view to improving the facilities granted for export oriented industries.

National Credit Plan-1982

The National Credit Plan formulated by the Central Bank deals with commercial bank lending to private sector including public corporations. The plan estimated the outstanding credit to the private sector to be at Rs. 27,620 million by the end of 1982, a projected increase of Rs. 6,620 million or 32 per cent over the outstanding credit level of end 1981. In addition to ensuring the availability and efficient allocation of credit among various sectors, credit planning attempts to match the financial flows with the desired goals in the real sector of the economy. In order to maintain consistency between financial and real output flows, the desired monetary target for the economy was set, taking into account the projected real growth, the estimated rate of inflation and an allowance for the increased monetisation in the economy. After allowing for the behaviour of the external sector, and the credit requirements of the Government, the monetary target was translated into a permissible credit target for the private sector. The estimated total credit was allocated among commercial banks after several rounds of discussions, where the relevant issues in sectoral distribution of credit were also dealt with in detail.

Since its inception in 1981, credit planning in Sri Lanka has attempted to rationalise the use of the private sector credit among different sectors of the economy, aiming at a proper use of scarce loanable funds. In 1982, the credit plan gave priority to lending for Exports, Industry, Agriculture and Tourism. Of the total credit, 21 per cent was allocated for Industry, while the shares allocated for Exports and Agriculture were 18 per cent and 13 per cent, respectively. The allocation to the Tourism sector amounted to Rs. 598 million which represented an increase of Rs. 178 million over the previous year.

The actual credit utilized by the private sector shows only a negligible deviation from the planned credit targets during the first two quarters of the year. However, during the last two quarters, the actual credit levels fell below the targetted levels registering a shortfall of about Rs. 1,000 million by the end of 1982. This was the combined outcome of a decline in demand for credit caused by high lending rates, the moderation in the rate of inflation and the uncertainty experienced in economic activities during the latter part of the year. In view of the moderation in the rate of inflation, though the realised credit level was below the targetted level in nominal terms, the level of credit recorded the same growth in real terms.

A series of review meetings were held with the commercial banks in June/July 1982, to review the progress and discuss the problems faced by individual commercial banks. At these meetings the banks were requested to provide more credit to the industrial sector, in particular to the export based industries. Consequently, the share of industrial credit rose from the original target of 21 per cent to 25 per cent by the end of the year. There was at the same time a drop in the share of import credit from 19 to 14 per cent by end 1982.

Monetary Policy

The moderate expansion in major monetary variables experienced in 1982 did not call for any major policy changes during the year. However, the policy measures introduced and intensified in the previous years were continued with a view to maintaining a moderate growth in both domestic credit and monetary aggregates. The highlights of these policy measures were, a Bank Rate of 14 per cent, a drastic reduction of Rs. 355 million in Central Bank accommodation to commercial banks, a marginal increase in the minimum penal rates on commercial banks' borrowings above the general accommodation (from a range of 20-30 per cent per annum to 21-30 per cent per annum) and an increase in statutory reserve requirements (12 to 14 per cent on demand deposits and 5 to 6 per cent on time and savings deposits).

During 1982, certain changes of a marginal nature were introduced to the existing policy package in the field of supply promotion activities in an attempt to use monetary policy measures to stimulate supply in the economy. These measures represented a conscious attempt to achieve a mixture of stabilisation and development objectives.

The export sector was recognised as a vital sector in Sri Lanka's economy. The provision of adequate medium and long term credit to the export sector, became a necessity in the light of the higher demand for such credit and of the need to increase the active participation of commercial banks in project financing. With a view to giving special consideration to this sector, the quantum of refinance provided from the Medium and Long term Credit Fund (MLCF) of the Central Bank under category II was raised from 80 to 100 per cent to cover the entire cost of the project with effect from 22 January, 1982. With this revision, the refinance rate and the on-lending margins were also revised depending on the amount of the loan. Accordingly, the projects in which the total cost does not exceed Rs. 5 million, the rate of interest was fixed at 10 per cent per annum subject to an on-lending margin of 2 percentage points whereas the refinance rate was fixed at $11\frac{1}{2}$ per cent per annum subject to an on-lending margin of $1\frac{1}{2}$ percentage points for projects whose cost exceed Rs. 5 million. With effect from 20 July, 1982, the refinance rate applicable to the latter category was revised marginally from $11\frac{1}{2}$ per cent per annum to 11 per cent per annum subject to an on-lending margin of 2 percentage points. With a view to providing further facilities for project lending, the Central Bank enhanced the Medium and Long term Credit Fund from Rs. 525 million to Rs. 775 million in June, 1982.

In addition to the enhancement of funds and the revision made in interest rates on refinance loans from the MLCF, the amount allocated to export credit refinance facility available to commercial banks for pre-shipment credit at a concessionary rate of 12 per cent per annum was enhanced on a case by case basis from Rs. 575 million to Rs. 590 million during the year, in order to provide further relief to commercial banks and to enhance lendings for export purposes.

With effect from 3 February, 1982, commercial banks were allowed to grant loans and advances to non-banking companies and bodies engaged in the business of lending moneys to the public and/or engaged in hire purchase activities in excess of their total loans and advances outstanding on 30 June, 1976. However, this was conditional upon, in the case of each bank, such excess representing finance granted for the purchase of capital equipment and commercial vehicles, including heavy earth-moving equipment and passenger vehicles, irrespective of whether such equipment and vehicles were new or used. Furthermore, the restriction made in 1962 in respect of commercial bank credit to residents or companies registered in Sri Lanka for the purchase of estates and other immovables was withdrawn with effect from 8 June, 1982.

In addition to these policy measures in the field of supply management, the efficient allocation of available resources was continued through the National Credit Plan ensuring adequate credit flows to priority sectors for the second successive year.

Although there were no major changes in the interest rate structure in 1982, the reaction of commercial banks to their excess liquidity position resulted in a downward revision in the interest rates on all time deposits. In addition to these changes, an important change in the interest rate on Treasury Bills was effected towards the latter half of 1982. The introduction of the secondary market for Treasury Bills in 1981 and the flexible interest rates in this market called for flexible rates in the primary market. Accordingly, effective, November, 1982, the Treasury Bills rate on 3 and 6 months was allowed to vary within a small margin.

The significant feature in monetary management in 1982 was the monetary and price stability sustained during the year, as evident from the moderate changes in all available price indices particularly, towards the end of the year. The Colombo Consumers' Price Index (CCPI) recorded an increase of 5 per cent while the wholesale price index rose marginally by 0.6 per cent on a point to point basis during the 12 months ending December, 1982. Accordingly, the inflation rate decelerated significantly in 1982. This achievement was helped in a substantial way by the restrictive monetary policy measures coupled with reduced recourse to bank financing of the budget on the part of the Government.