

PART II

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

ACCOUNTS AND BANKING OPERATIONS

The Balance Sheet of the Central Bank as at December 30, 1988 and the Profit and Loss Account of the Bank for the year ended December 30, 1988 are presented in Table 2.1.

At the end of 1988, the total Assets/Liabilities of the Central Bank stood at Rs. 55,331.6 million, registering an increase of 21.8 per cent over their level as at the end of the previous year. The increase in assets resulted from a rise in Domestic Assets (35.7 per cent) and an increase in Other Assets and Accounts (6.7 per cent). Within Domestic Assets, increases were recorded in Loans and Advances to Government (17.6 per cent), Medium and Long Term Credit (14.1 per cent), Short Term Loans (8.7 per cent), Contributions to Financial Institutions (10.0 per cent), and in Government and Government Guaranteed Securities (44.8 per cent). However, the International Reserve of the Bank showed a decrease of 13.8 per cent. During the year under review, the liabilities of the Bank rose mainly on account of increases in Currency in Circulation (35.2 per cent), Deposit Liabilities (68.8 per cent) and the balance in the Medium and Long Term Credit Fund (47.1 per cent). These increases were offset by a considerable decrease in Borrowings Abroad (87.2 per cent).

The income of the Bank for the year 1988 at Rs. 5,581.6 million showed an increase of 37.6 per cent over that for the previous year. After making allowances for expenditure and allocations to Reserve Accounts and provisions for depreciation, the net profit of the Central Bank amounted to Rs. 2,010 million. A sum of Rs. 10 million is to be transferred to the surplus of the Bank in terms of Section 39(b) of the Monetary Law Act. The balance Rs. 2,000 million is earmarked to be paid to the Government in terms of Section 39(c) of the Monetary Law Act.

Foreign Exchange Operations

The Central Bank continued to determine the daily spot buying and selling rates of the US Dollar against the Sri Lanka Rupee for its transactions with commercial banks. The spread between the spot buying and selling rates for the US Dollar was Rs. 3.00 per US\$ 100. No significant policy changes in this respect were made in 1988.

The Bank continued to intervene when necessary in the forward market by selling US Dollars forward upto three months in order to maintain stability in the forward exchange rates. The Central Bank was regularly in the forward market for the purchase of US Dollars upto three months.

As in the past, the Central Bank placed its foreign exchange reserves in deposits, as well as in gilt edged investments in international money and capital markets.

THE CENTRAL BANK
Balance Sheet as at

31st December, 1987		LIABILITIES	30th December, 1988	
Rs.	Rs.		Rs.	Rs.
15,000,000	96,000,000	Capital Accounts	15,000,000	97,000,000
81,000,000		Capital Surplus	82,000,000	
		Currency in Circulation		
14 373,290,993	15,063,103,597	Notes	19,553,357,957	20,371,341,642
689,812,604		Coins	817,983,685	
		Deposits		
1,553,255,643		Government	3,513,523,741	
163,115,650		Government Agencies and Institutions	159,573,844	
4,046,916,751		Commercial Banks	5,033,453,381	
		International Organisations, Foreign Government and Foreign Banking Institutions	3,905,462,348	
581,503,815		Compulsory Savings Fund excluding Rs. 66,519,400/- invested in Treasury Bills	401,801	12,999,188,595
91,413		Others	386,773,480	
1,354,268,631	7,699,151,903			
	1,801,653,900	Borrowings Abroad		231,227,500
	1,275,000,000	Medium and Long Term Credit		1,875,000,000
	200,000,000	Capital Contribution Accounts		220,000,000
	19,575,000	Central Bank Securities		19,325,000
	19,289,714,583	Other Liabilities and Accounts		19,518,552,639
	45,444,198,983			55,331,635,376

Profit and Loss Account for the

31st December, 1987			30th December, 1988	
Rs.	Rs.		Rs.	Rs.
	2,342,506,824	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings and Office Furniture) & Allocations made in terms of Section 38 of the Monetary Law Act.		3,537,195,117
		Net Profit for the year ended 30th December, 1988		
63,627,154		To Monetary Adjustment Account in Liquidation of Balance in terms of Section 39 (a) of the Monetary Law Act.	34,372,461	
1,000,000		Carried to Surplus in terms of Section 39 (b) of the Monetary Law Act.	10,000,000	
1,650,000,000	1,714,627,154	To Part Liquidate Outstanding Government Obligations to the Central Bank in terms of Section 39 (c) of the Monetary Law Act.	2,000,000,000	2,044,372,461
	4,057,133,978			5,581,567,578

Note of the Auditor General

The accounts of the Central Bank of Sri Lanka for the year ended 30th December, 1988 were audited under my direction in pursuance of Articles 154(1) of the Constitution of the Democratic Socialist Republic 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 (Chapter 422).

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

Auditor - General's Department,
Colombo - 7,
11th April, 1989.

W. Gamini Epa
Auditor-General

31st December, 1987 Rs.		ASSETS	30th December, 1988 Rs.	
3,204,821,056		International Reserve		
5,629,946,335		Cash and Balances Abroad ..	2,683,093,809	
3,398,272	8,838,165,663	*Foreign Securities and Treasury Bills ..	4,929,183,221	
		Holdings of Special Drawing Rights ..	2,704,443	7,614,981,473
		Domestic Assets		
5,268,673,355		Loans and Advances to Government ..	6,194,673,355	
1,005,873,320		to Others - Medium and Long Term ..	1,147,825,912	
2,490,282,769		- Short Term ..	2,705,925,672	
20,888,161,290		Government and Government Guaranteed Securities ..	30,244,061,536	
200,000,000	29,852,990,734	Contributions to Financial and Other Institutions ..	220,000,000	40,512,486,475
	6,753,042,586	Other Assets and Accounts ..		7,204,167,428
		*Includes securities acquired from Government Institutions on 1st February, 1964 at a face value of Rs. 5,527,675/- and on 24th May, 1965 at a face value of Rs. 57,450/- (the estimated market values of these securities were Rs. 2,933,697/- and Rs. 34,340/- respectively as on these dates)		
	45,444,198,983			55,331,635,376

year ended 30th December, 1988

31st December, 1987			30th December, 1988	
Rs.	Rs.		Rs.	Rs.
	4,057,133,978	By Interest, etc. Earned		5,581,567,578

H. N. S. Karunatilake
Governor

N. A. Dharmabandu
Chief Accountant

Asian Clearing Union (ACU)

The total value of transactions routed through the ACU facility during 1988 amounted to Rs. 13,407 million as compared with a total of Rs. 7,253 million in the previous year.

The rupee value of net settlements made in foreign currency in 1988 amounted to Rs. 3,305 million as compared with Rs. 577 million in 1987. Sales and purchases of currencies both spot and forward upto six months continued. The currencies involved were, Bangladesh Taka, Burmese Kyat, Indian Rupee, Iranian Riyal, Nepalese Rupee and Pakistani Rupee.

The Board of Directors of the ACU who met in Colombo in February 1988, appointed a Technical Committee to study the following proposals :

- (a) The Establishment of a swap facility between participating countries of the ACU.
- (b) The Issue of Travellers' Cheques and Credit Cards denominated in ACU currencies and/or Asian Monetary Units (AMUs).

The Technical Committee which met in Colombo in May 1988, submitted its report on these proposals to the Chairman of the Board of Directors.

Short Term Credit

The Central Bank's rate of interest (Bank Rate) on short term advances to commercial banks secured by the pledge of Government and Government Guaranteed Securities and against the pledge of Usance Promissory Notes relating to commercial and production loans continued to remain at 10 per cent per annum upto December 12, 1988. In terms of Section 83(1)(c) of the Monetary Law Act, the Bank established on December 13, 1988 a scheme of granting temporary accommodation to commercial banks to overcome their liquidity problems; the rate of interest for such accommodation was 15 per cent per annum. The scheme was expected to cease on January 31, 1989.

The Central Bank's accommodation to commercial banks under export credit refinance schemes continued to be in operation throughout the year. The period of refinance for both traditional (Category I) and non-traditional (Category II) exports remained at 90 days. However, extensions by a further 30 day period were provided on a case by case basis upto a total of 120 days for both categories. The Central Bank also decided to grant relief to exporters by extending the period of loans granted under the Export Credit Refinance Facility during the period October 1, 1988 to January 31, 1989 upto a maximum of 150 days on a case by case basis. This facility was expected to be withdrawn on January 31, 1989.

The rate of interest in respect of refinance for export credit under Category I remained at 11 per cent per annum with an on-lending rate of 14 per cent per annum ; for Category II exports, the corresponding rates applicable were 6 per cent per annum and 9.8 per cent per annum, respectively. The global limit of refinance remained

at Rs. 1,663 million under Category I of the Export Credit Refinance Facility. The Central Bank continued to refund 4 percentage points per annum of the interest charged on the refinance loans granted, to be passed on to the customers, on export transactions for which the sale proceeds of the related exports are received in Sri Lanka within stipulated time limits. However, the grant of the interest rebate of 4 percentage points applied only to the initial period of 90 days for both categories.

The rate of interest on Central Bank Advances against the pledge of Usance Promissory Notes of Co-operative Societies or of individuals relating to the production of paddy, vegetables and other specified food crops continued to remain at 1.5 per cent per annum. These advances were disbursed under the New Comprehensive Rural Credit Scheme.

The rate of interest on Central Bank's advances to commercial banks against the pledge of Usance Promissory Notes, in respect of advances granted to Co-operative Societies, Agrarian Service Centres and authorised persons, to finance the purchase of paddy and for the purchase and storage of other specified crops grown locally, remained unchanged at 3 per cent per annum.

Medium and Long Term Credit

The Central Bank continued to operate the Medium and Long Term Credit Scheme in 1988. In addition to the normal refinance facilities offered under the Scheme, the Bank also continued to refinance the capitalisation of overdue interest and loan instalments of the tourism industry. In accordance with a Cabinet directive, the Central Bank reduced the interest rate of 8 per cent per annum charged on refinance loans granted to the tourism industry to 1 per cent per annum as of April 1, 1988. Further, the Central Bank granted interest free loans under a Rescheduling Scheme for the Fisheries Sector Bank Rehabilitation Loans and loans granted for the cultivation of Chinese Ginger.

The balance in the Medium and Long Term Credit Fund was increased from Rs. 1,275 million to Rs. 1,875 million in December 1988, of which Rs. 1,148 million was outstanding from credit institutions as at December 30, 1988.

In addition, in terms of Section 16, Sub-Section 3(A) of the Control of Finance Companies Act, the Central Bank established a scheme of granting financial accommodation to commercial banks in respect of their lending operations with non-bank financial institutions having temporary liquidity problems and/or whose administration and management had been taken over by the Monetary Board.

A Credit Guarantee Scheme which came into operation with effect from March 16, 1987, provides guarantees for loans disbursed under designated credit schemes of Category I of the Medium and Long Term Credit Scheme. In 1988, the "Credit Scheme for Dairy Development", the "Sri Lanka ADB Livestock Development Project Loan Scheme" and the "Village adoption and Self Employment Scheme" for Anuradhapura District were brought under the Credit Guarantee Scheme.

Reserve Requirements

With effect from February 26, 1988, the statutory reserve ratio on demand, time and savings deposit liabilities of commercial banks was raised by 3 percentage points to 13 per centum. It was further raised by 2 percentage points to 15 per centum with effect from September 16, 1988. On both occasions, commercial banks were permitted to maintain the increases in the form of Sri Lanka Government Treasury bills. Consequently, the quantum of Treasury bills that could be held for the purpose of reserve requirements was 5 percentage points within the reserve ratio of 15 per centum.

Secondary Market Operations in Treasury Bills

The Central Bank continued its operations in Treasury bills in the Secondary Market. The sales turnover of Treasury bills increased from Rs. 48,808 million in 1987 to Rs. 61,361 million in 1988. The purchases turnover also increased from Rs. 24,255 million to Rs. 25,399 million over the same period.

Investments in the Secondary Market by the non-banking sector showed a significant increase in 1988, compared with that of the previous year. The net sales turnover to the non-banking sector increased to Rs. 7,560 million in 1988, from Rs. 6,098 million in 1987.

The discount rates applicable to the Treasury Bills Secondary Market Operations varied between 10 per cent and 13 per cent in the first half of the year and between 13 per cent and 18 per cent in the second half of the year.

Subsidy and Ex-gratia Payment to Indian Repatriates

The Bank continued to operate, on behalf of the Government, the two schemes to expedite the repatriation of estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964.

Import Duty Rebate to Exporters

The Bank continued to reimburse on behalf of the Government, claims made by commercial banks in respect of import duty rebates paid to exporters. A total sum of Rs. 798 million was reimbursed during 1988.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies 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 on behalf of the Government. During the year, the Bank paid out Rs. 1.2 million (inclusive of interest) to contributors in respect of 411 applications received.

Government Account

As Banker to the Government, the Central Bank continued to maintain accounts of Government Departments, Government Agencies and Institutions and certain statutory bodies. The number of operative accounts at the end of December 1988 was 164.

CURRENCY ISSUE

Currency in circulation continued to rise in 1988 to meet the increasing demand for currency. The total currency issue rose by Rs. 5,308 million or 35 per cent over the previous year and stood at Rs. 20,371 million as at the end of the year.

The value of notes in circulation rose to Rs. 19,553 million, 36 per cent higher than the level at the end of 1987. Notes in circulation comprised 96 per cent of the total currency issue at end-1988. In terms of value, the Rs. 1,000/- note represented 44 per cent of total notes in circulation, followed by Rs. 500/-, Rs. 100/-, Rs. 50/-, Rs. 10/- and Rs. 20/- in that order. In terms of volume, Rs. 10/- note had the highest circulation, followed by Rs. 100/-, Rs. 50/-, Rs. 20/-, Rs. 500/- and Rs. 1,000/- in that order. The Bank continued with the policy of progressive withdrawal from circulation of the notes of the denominations of Re. 1/-, Rs. 2/- and Rs. 5/-.

In 1988, 36 million unserviceable notes were withdrawn from circulation. These notes with a face value of Rs. 1,493 million were cancelled and destroyed.

The values of coins in circulation amounted to Rs. 818 million as at the end of 1988, showing an increase of 18.6 per cent over the previous year. (This includes commemorative coins to the value of Rs. 129 million). In terms of value, the total coins in circulation comprised 4 per cent of total currency issue.

The Bank took delivery of the first consignment of notes printed by the Bradbury Wilkinson Lanka (Private) Ltd., the joint venture security printing plant set up in collaboration with the Government of Sri Lanka, in the first quarter of 1988.

BANKING DEVELOPMENT

During 1988, the indigenous private banking sector was further strengthened with the establishment of the Seylan Trust Bank Ltd., which commenced business on March 24, 1988. With this new bank, the total number of commercial banks operating in the country rose to 25 as at the end of December, 1988, comprising 19 foreign banks and 6 indigenous banks. A total of 8 bank branches was also opened during the year.

In 1988, the Bank of Ceylon closed down its Ginigathhena branch in the District of Nuwara-Eliya consequent on the amalgamation of banking activities of the Ginigathhena branch with the Nawalapitiya branch in the Kandy District. The Central Road branch Pettah and the Keppitipola branch of the Bank of Ceylon were also amalgamated with the Central Supermarket branch and the Welimada branch, respectively. As a result, the Pettah Central Road branch and the Keppitipola branch were closed down. The Bank of Ceylon's Agriculture Service Centre branches at Welimada, Wattedagama and Mawathagama were up-graded to the status of main branches. However, the total number of main branches of the Bank of Ceylon which stood at 239 at the end of 1987, remained unchanged at the same level at the end of 1988. The People's Bank did not open any new branches during 1988. It appears that in 1988 the state banks placed greater emphasis on rationalization of the existing

branch net-work rather than on the establishment of new branches. The Commercial Bank of Ceylon Ltd. opened a new branch at Maharagama, bringing its total number of branches to 16 as at the end of 1988. The Sampath Bank opened 3 branches at Borella, Nugegoda and Pettah. With the Seylan Trust Bank which commenced business in March 1988, the total number of main branches of commercial banks, excluding branches of RRDBs, as at end December 1988 stood at 628. The National Savings Bank contributed to the expansion of the bank branch network in the country by opening 2 branches during 1988, at Narahenpita and Horana.

The enactment of the Banking Act No. 30, of 1988 was another important event in the field of banking development in Sri Lanka in 1988. With the enactment of this Act, the legal provisions relating to commercial banks were consolidated into a general banking legislation, in order to ensure that the banking system in the country develops in an orderly manner.

Another event of significance in the field of banking was the implementation of the concept of 'agency banking'. On a suggestion made by the Government, the Bank of Ceylon and the People's Bank implemented an agency banking scheme on an island wide basis during the latter part of 1988. In addition, the Sampath Bank too planned a similar scheme as a pilot project in the Biyagama area. Under the Agency Banking Scheme, the agents appointed by the banks on a criterion stipulated by them are provided with loanable funds against security. The agents are expected to relend the funds to borrowers at a lending rate subject to a maximum stipulated by the relevant bank. With the implementation of this scheme, it is expected that the borrowers will be able to obtain funds at a relatively low cost and that the average rate of interest in the informal rural sector would decrease.

BANK SUPERVISION

In 1988, the Central Bank concluded the examinations of five commercial banks which had commenced in 1987. Examinations in respect of a further eleven commercial banks, including 2 Regional Rural Development Banks were undertaken in 1988. The Bank continued to monitor the financial condition of commercial banks on the basis of monthly statements of Assets and Liabilities furnished by them. The profitability of commercial banks in 1987 was also analysed on the basis of returns furnished by them.

The Banking Act No. 30 of 1988 came into effect on September 16, 1988 and the Bank was engaged in framing the directions/operating instructions that were to be issued under the new Act. The Bank also monitored, on a semi-annual basis the training provided to staff by foreign banks operating in Sri Lanka.

The Central Bank continued the monitoring of the transactions of Foreign Currency Banking Units, established by commercial banks under the Foreign Currency Banking Scheme, on a monthly basis.

The Bank administered the Deposit Insurance Scheme covering Commercial Banks, Regional Rural Development Banks and Co-operative Rural Banks which commenced in 1987. Applications for insurance cover were received from 156 Co-operative Rural Banks; and 12 of these Banks were examined prior to their applications being considered. (Of the 12 Co-operative Rural Banks examined, 5 were in the Colombo District, 6 in the Gampaha District and 1 in the Kurunegala District). Two commercial banks, two Regional Rural Development Banks and one Co-operative Rural Bank were admitted to the Scheme.

SUPERVISION OF FINANCE COMPANIES

The Monetary Board in December, 1988 approved the setting up of a new Department for Supervision of Non-Bank Financial Institutions, to regulate and supervise finance companies under the new Finance Companies Act No. 78 of 1988.

In 1988, one new finance company was registered by the Monetary Board bringing the total number registered to 72 as at the end of the year.

On-site examinations of 32 finance companies which started in the latter part of 1987 was concluded during 1988. Several spot examinations too were conducted to verify the compliance by finance companies with the rules, regulations and directions issued by the Central Bank. Special emphasis was placed on monitoring the maintenance of the required levels of liquid assets and capital funds. In addition, continuous supervision of finance companies was carried out using information furnished by them to the Central Bank at regular intervals.

Several finance companies came to face serious financial difficulties during the year making them unable to honour their obligations to depositors. Of these, four companies were suspended in 1988. As the existing laws under the Control of Finance Companies Act were found inadequate to deal with these complex problems, it was decided to augment the powers of the Central Bank pending the passage of the new legislation. Accordingly, the Central Bank was vested with certain additional powers by regulations made by H. E. the President, in terms of Section 5 of the Public Security Ordinance in June, 1988. Thereafter, the administration and management of the four suspended companies were vested with the Monetary Board. Subsequently, two of these were handed over to management agencies, while auditors have been appointed to conduct comprehensive audit of the other two companies. Later, the restrictions imposed on one finance company were withdrawn and approval was granted for it to carry-on normal operations. Under the new regulations, the Monetary Board was empowered to take over the administration and management of any finance company, enter into an agreement with a management company to administer the affairs of a company vested with the Monetary Board, remove any Director from the Board of Directors of a finance company and if deemed necessary appoint auditors to audit the books and accounts of a finance company.

In December, 1988, the Parliament repealed the existing Control of Finance Companies Act No. 27 of 1979 and enacted a comprehensive new legislation in the Finance Companies Act No. 78 of 1988, which became law on December 18, 1988. Under the provisions of this Act, the powers of the Monetary Board were further

enhanced. The Monetary Board was permitted to impose heavy penalties on finance companies for violating provisions of the Act and the rules and directions made under it. It is a requirement under the Act that the finance companies be made public companies and maintain at all times an unimpaired capital of not less than Rs. 5 million. A period of 2 years be granted for finance companies to comply with the conditions stipulated in the law. The new legislation also provided for the Monetary Board to extend temporary financial accommodation to finance companies (including refinance under the Medium and Long Term Credit Fund established under Section 88A of the Monetary Law Act.) In 1988, two companies have availed themselves of such refinance assistance.

During 1988, several measures were taken to strengthen the supervisory role of the Central Bank on finance companies. In June 1988 the upper ceiling of 18 per cent per annum fixed for deposits accepted by finance companies was relaxed, because of the rising trend in interest rates in the market, when the maximum rate of interest payable on deposits was raised to 20 per cent per annum. In August, 1988 a further relaxation was made where the maximum rates of interest payable on deposits with a maturity period of less than 24 months was raised to simple interest of 21 per cent per annum and interest payable on deposits after a maturity of 24 months and above was raised to simple interest of 24 per cent per annum.

The Monetary Board also decided in December, 1988 to provide some relief to depositors of finance companies in distress. The relief payment was to be made to depositors in respect of the principal sum of matured deposits as at December 31, 1988. A sum of Rs. 20,000 or 50 per cent of the matured deposit, exclusive of interest and whichever is less in respect of each deposit, was to be made, subject to deductions of loans and other dues to the finance companies by the depositor. Moreover, in order to extend the relief scheme to depositors of finance companies where legal proceedings have been instituted for winding up of such companies, the Central Bank sought court approval for the stay of legal action and permission to take over the administration and management of such companies by the Monetary Board or by its appointed agents.

DEVELOPMENT FINANCE

Medium and Long-term Credit Fund

Approval of refinance under Categories II, III & IV of the Medium & Long-term Credit Fund aggregated to Rs. 255 million in 1988, reflecting an increase of Rs. 120 million over that of the previous year. The major share of refinance amounting to Rs. 176 million or 69 per cent was on rehabilitation of sick industries, which included loans granted for refurbishing of hotels and capitalization of interest in arrears on loans granted to tourist hotels. Approval of refinance for the agricultural sector in 1988 almost doubled compared to the 1987 level and amounted to Rs. 43 million. The entirety of this amount was in respect of approvals granted to meet the domestic cost of the Medium Term Investment Programme for the plantation sector. Utilization of refinance for the 'export' and 'industry' sectors remained low during the year. A breakdown of refinance approvals is given in Table 2.2.

TABLE 2.2

Medium and Long - term Credit Fund
(Approvals of Refinance under Categories II - IV)

(Rs. Mn.)

Category	1986		1987		1988	
	Loan Amount	Amount refi-nanced	Loan amount	Amount refi-nanced	Loan Amount	Amount refi-nanced
II Export Sector	41.4	29.0	36.9	25.8	27.2	19.0
III & IV						
(i) Agriculture	134.4	80.6	38.3	23.0	72.0	43.2 (a)
(ii) Industry	1.0	0.6	2.5	1.5	2.8	1.7
(iii) Hotels	2.5	1.5				
(iv) Others	16.5	14.7	52.0	31.2	15.0	15.0
Rehabilitation of Sick industries	325.6	316.4	84.8	53.2	272.6	175.8 (b)
Total	521.4	442.8	214.5	134.7	389.6	254.7

Source : Central Bank of Sri Lanka.

(a) Comprises 4 loans granted to Bank of Ceylon for Tree Crop Projects under the Medium Term Investment Programme.

(b) Includes 2 loans granted for refurbishing of 2 hotels and Capitalization of interest, arrears on loans granted to 13 tourist hotel projects.

In May 1988, a new package of relief measures to the hotel sector was implemented, in place of the relief package announced in 1984 and amended in 1985. The salient features of this package were as follows :

1. Extension of grace period

(i) Extension of the grace period upto 31.03.1993 in respect of bank loans granted to hotels and interest on these loans to be 2 per cent per annum during the grace period and maximum interest thereafter to be 12 per cent per annum.

(ii) Extension of the grace period upto 31.03.1993 in respect of loans granted by capitalizing interest in arrears ; and interest on these loans to be 2 per cent per annum during the grace period and thereafter. Where such loans had been refinanced by the Central Bank, the refinance rate of interest was to be 1 per cent per annum.

2. Extension of the recovery period

The recovery of all such loans including refinance loans would be over a period of ten years commencing April, 1993.

3. Suspension of Central Bank Refinance

Central Bank refinance extended for loans created by capitalizing interest was allowed only upto March 31, 1988.

The position of the hotel loans rescheduled and outstanding refinance loans granted for capitalization of interest under the earlier relief scheme as at 31.12.1988 are given in Table 2.3.

TABLE 2.3
Relief to Tourist Industry-Rescheduling of loans
(Cumulative Total as at 31.12.1988)

Name of the Credit Institution	No. of hotels	Rescheduled loans	Interest in arrears refinanced by C.B.
		Rs.	Rs.
Development Finance Corporation of Sri Lanka	22	223,775,943	90,201,968
National Development Bank of Sri Lanka	13	155,623,000	54,039,834
Hatton National Bank Limited	03	27,420,547	7,092,128
People's Bank	11	47,655,170	2,222,470
Bank of Ceylon	06	80,289,282	3,902,520
Commercial Bank of Ceylon Ltd.	03	14,958,020	7,427,263
Deutsche Bank (Asia)	01	5,290,992	5,290,992
Total	59	555,012,954	170,177,175

Source : Central Bank of Sri Lanka.

Credit Guarantee Operations

A Summary of the credit guarantee operations under the four Credit Guarantee Schemes administered by the Bank is given in Table 2.4.

Small Scale Industries (SSI) Scheme

The SSI Scheme inaugurated in 1978, completed its operations by the end of 1981. Out of a total 767 loans guaranteed during this period, 572 loans had been fully repaid, at the end of 1988. During the year, no new guarantees had been withdrawn/lapsed. Meanwhile, two claims submitted by banks had been admitted/settled. At the end of 1988, the total number of claims admitted/settled was 57, amounting to Rs. 1.6 million, while 73 guarantees remained outstanding and the premium collected amounted to Rs. 0.93 million.

Small and Medium Industry—I (SMI-I) Scheme

Under the SMI-I Scheme, a total of 1,668 credit guarantees were issued and, at the end of 1988, a total number of 1,035 loans was fully repaid and 357 guarantees were outstanding. The total liability admitted at the end of the year was Rs. 16 million in respect of 212 claims and the premium collected amounted to Rs. 11 million.

TABLE 2.4

Central Bank Credit Guarantee Schemes (1987-1988)
as at end of the year

Value Rs. Mn.

Schemes and Years Items	Small Scale Industries S. S. I.				Small And Medium Scale Industries									
					SMI - I				SMI - II				SMI - III	
	1987		1988		1987		1988		1987		1988		1988	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
Loans granted	767	31.2	767	31.2	1668	286.1	1,668	286.1	2182(e)	1148.06	2510(f)	1370.74	263(g)	155.0
Loans guaranteed	767	23.4(a)	767	23.4(a)	1668	157.5(b)	1,668	157.5(b)	2182	593.07(c)	2510	702.29(c)	263	110.3(d)
Loans fully repaid	561	20.5	572	21.6	1,003	112.3	1,035	119.3	67	11.28	70	11.90	—	—
Guarantees withdrawn & lapsed	63	3.9	63	3.9	48	12.8	48	12.8	62	35.87	109	56.83	2	0.13
Claims admitted/settled	55	2.203	57	2.22	150	19.143	212(i)	28.12	7	2.055	15(j)	2.968	—	—
Liability admitted	55	1.652	57	1.665	150	11.486	212(i)	16.098	7	1.233	15(j)	1.801	—	—
Claims rejected	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Loans outstanding	2	0.22	2	0.22	15	4.98	16	5.05	4	0.17	4	0.17	—	—
Amount claimed	2	0.16	2	0.16	15	2.99	16	3.03	4	0.10	4	0.10	—	—
Loans outstanding (of which in arrears)	86	2.2(h)	73	1.85(h)	452	63.9(h)	357	48.17(h)	1,692	687.22(h)	2197	948.2(h)	123	46.92(h)
Guarantees outstanding	78	1.3(h)	73	1.85(h)	354	48.7(h)	288	41.46(h)	327	122.05(h)	478	192.0(h)	Nil	Nil
	86	1.6(a)	73	1.38(a)	452	36.8(h)	357	27.85(b)	1,692	375.41(c)	2197	511.92(c)	123	36.49(d)
Claims pending	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Loans outstanding	7	0.468	6	0.522	89	16.966	45	13.0	23	8.66	50	24.4	—	—
Amount claimed	7	0.351	6	0.391	89	10.179	45	7.8	23	5.20	50	14.6	—	—
Premium collection (Rs. Mn.)	—	0.91	—	0.93	—	10.60	—	11.28	—	8.08	—	13.17	—	0.13

Source : Central Bank of Sri Lanka.

- (a) 75% of loans outstanding
 (b) 60% of loans outstanding subject to maximum of Rs. 0.4 mn. per project.
 (c) 60% of loans outstanding subject to maximum of Rs. 0.8 mn. in respect of loans upto Rs. 2.0 mn. and Rs. 1.2 mn. for loans between Rs. 2.0 mn. to Rs. 4.0 mn.
 (d) 80%, 60% and 40% respectively for loans upto Rs. 2.0 mn., Rs. 2.0 mn. to Rs. 3.0 mn. and Rs. 3.0 mn. to Rs. 4.0 mn. subject to maximum of Rs. 1.6 mn. per project.
 (e) Inclusive of 35 loans amounting to Rs. 227.0 mn. which are not reported as having disbursed as at end of 1987.
 (f) Inclusive of 115 loans amounting to Rs. 78.2 mn. which are not reported as having disbursed as at end of 1988.
 (g) Inclusive of 138 loans amounting to Rs. 108.2 mn. which are not reported as having disbursed as at end of 1988.
 (h) Excluding instalments recovered.
 (i) Inclusive of 14 claims under which 50% of the Central Bank liability amounting to Rs. 0.774 mn. has been settled.
 (j) Inclusive of 1 claim under which 50% of the Central Bank liability amounting to Rs. 0.135 mn. has been settled.

Small and Medium Industry—II (SMI-II) Scheme

The total number of credit guarantees issued under the scheme during 1982-87 was 2,510. The number of loans fully repaid by end of 1988 was 70 and the guarantees withdrawn/lapsed totalled 109. The liability admitted upto the end of 1988 in respect of 15 guarantees amounted to Rs. 1.8 million and a sum of Rs. 13 million had been collected as premia.

Small and Medium Industry—III (SMI-III) Scheme

The SMI-III was operative with effect from April, 1988. Unlike the two previous schemes, SMI-III is jointly financed by the IDA and the ADB. The IDA has approved SDR 15.5 million equivalent to US \$ 20 million. The ADB had contributed US \$ 15 million. The NDB had been designated the executing apex agency and would receive rupee funds from the Government of Sri Lanka, equivalent to US \$ 29.5 million, to refinance loans granted by the participating credit institutions (PCIs) for SMI projects. The balance US \$ 5.5 million was for technical assistance for designated purposes. The SMI-III scheme is broadly similar to the SMI-I and II schemes, except for the following changes.

Under SMI-III, the equity contribution to a SMI project has been increased to 25 per cent of the project capital, compared with the 20 per cent requirement under SMI-II. Similarly, the extent of NDB refinance has been reduced from a maximum of 80 per cent of the permissible loan, to 75 per cent. The maximum sub-loan remains at Rs. 4 million with provisions to consider under exceptional circumstances loans in excess of Rs. 4 million. Under the credit guarantee schemes of SMI-I & II, the extent of guarantee was 60 per cent of the loan granted or the amount in default including interest and other bank charges in arrears, whichever is lower, subject to a maximum of Rs. 400,000 and Rs. 1.2 million, respectively. Under SMI-III, a three-tier credit guarantee scheme has been introduced with variable extents of guarantee for different sizes of loan in the following manner, subject to a maximum cover of Rs. 1.6 million for each project.

<i>Sub loan</i>	<i>Extent of guarantees</i> (per cent)
1 — 2,000,000 ..	80
2,000,001 — 3,000,000 ..	60
3,000,001 — 4,000,000 ..	40

The guarantee liability of the Central Bank under SMI-III is limited to the principal amount in default, whereas under the SMI-I and II schemes, the guarantee liability included the principal amount, as well as other charges such as interest in arrears and other bank charges.

The total number of loans granted under the SMI-III scheme upto the end of December, 1988 was 263, amounting to Rs. 155 million, of which the value guaranteed by the Central Bank amounted to Rs. 110 million. An industry-wise classification of projects financed under SMI-II and III schemes is given in Table 2.5.

TABLE 2.5

SMI - II and III Credit Guarantee Schemes - Industry-wise Classification as at 31st December 1988

(Rs. '000)

Scheme Industry	SMI - II and III 1982 - 1988			SMI - II 1988			SMI - III 1988		
	No.	Loan Amount	Guaranteed Amount	No.	Loan Amount	Guaranteed Amount	No.	Loan Amount	Guaranteed Amount
Food Processing	892	485,700	254,350	123	80,484	40,902	55	33,262	23,537
Other Agro Industries	54	24,038	12,546	04	4,120	1,512	05	1,015	812
Rubber Products	80	62,446	32,403	05	5,200	2,220	08	7,575	5,260
Metal Products	270	122,249	64,261	23	19,054	8,611	31	9,414	7,531
Construction Materials	181	99,271	57,589	18	6,457	3,874	21	12,105	9,684
Construction Contracting	29	33,850	17,580	07	6,800	3,940	03	1,650	1,320
Wood Products	188	69,375	41,604	15	4,551	2,731	23	14,150	10,624
Garments	148	80,565	41,529	18	22,035	9,461	19	10,376	6,701
Textiles	59	52,155	26,627	05	6,162	2,497	04	6,380	3,504
Repair Workshop	114	47,284	28,164	16	8,051	3,630	13	7,107	5,685
Miscellaneous	758	451,915	236,964	94	62,919	30,831	81	51,922	35,677
Total	2,773	1,528,848	813,617	328	225,833	110,209	263	154,956	110,335

Source : Central Bank of Sri Lanka.

Follow-up and Inspection of Projects

The follow-up and inspection of projects financed under the SMI schemes were continued in 1988 with a view to taking corrective action where necessary. There was, however, some lag in the follow-up work during the latter part of the year due to unsettled conditions in the country. During 1988, 109 projects were inspected and most of these projects were located in Colombo, Kegalle and Kurunegala Districts.

SMI Funds

Effective from July, 1988, the Central Bank commenced investing its SMI funds in the Primary and Secondary Treasury bills markets. The investments outstanding as at the end of 1988 were Rs. 110 million. Total income received from investments during the year amounted to Rs. 3.4 million.

Entrepreneurship Development

The Central Bank Entrepreneurship Development Programme inaugurated in 1987 was suspended in 1988 owing to the unsettled conditions in the country. In some instances, the scheduled programmes were eventually cancelled because of the unwillingness of resource persons drawn from certain specialized agencies to travel to provincial towns. All these programmes have been rescheduled for implementation in 1989.

RURAL CREDIT

The Central Bank plays a vital role in formulating and implementing policy guidelines on rural credit, with a view to ensuring uniformity in approach to lending and co-ordination of the institutions involved in developing the rural sector. The Bank seeks to influence the commercial banks and thereby promote lending to the rural sector through the provision of refinance and credit guarantees.

Short-term refinance to banks is provided under the New Comprehensive Rural Credit Scheme (NCRCS) against loans granted for the cultivation of paddy and subsidiary food crops. The total volume of loans granted under this scheme in Yala 1988, when compared to Yala 1987, decreased by 15 per cent from Rs. 124 million to Rs. 105 million, whereas the loans granted during 1987/88 Maha increased marginally over the previous season by 5 per cent to Rs. 275 million. The drop in the volume of loans granted in Yala 1988 was due to the unsettled conditions that prevailed in the country, coupled with the non-availability of water for lands in under-irrigated areas.

The 'roll-over facility' introduced under the NCRCS enabled banks to reschedule loans given to non-wilful defaulters. In Yala 1987, the number and value of loans rescheduled stood at 314 and Rs. 1 million, respectively, compared to 745 loans valued at Rs. 5 million during Yala 1986. The number and value of loans rescheduled in Maha 1987/88 stood at 2,228 and Rs. 11 million, respectively, reflecting a significant increase from the previous Maha 1986/87 season, when 1,920 loans valued at Rs. 7 million were rescheduled.

Under the credit guarantee facility extended to cover NCRCS loans, the total indemnity claims by the bank in Yala 1987 amounted to Rs. 2.3 million, of which Rs. 1.1 million was paid to the banks as the first instalment of the claim.

In 1988, certain modifications were made to the NCRCS in regard to scales of finance. Owing to the increase in the price of fertilizer, pesticides, cost of seeds and labour, the scales of finance were increased by 50 per cent in October 1988, which should become effective from Maha 1988/89. The revised scales cover eleven crops, viz, paddy, potatoes, chillies, red onions, bombay onions, green gram, black gram, cowpea, ground nuts, maize and soya bean. Although the cost of these inputs vary from district to district, the scales were formulated on the basis of district averages to ensure uniformity.

With regard to medium and long-term lending, the amount of refinance utilized by lending banks upto the end of 1988 was Rs. 294 million. There were twenty three Medium and Long-Term Credit Schemes in operation in 1988 ; no new schemes were introduced in the year under review. The Credit Scheme for the construction of small on-farm potato seed stores, Credit Scheme for traders displaced under the Victoria Project and the (short-term) Marketing Loan Scheme for financing the purchase of soya bean, maize and other pulses by the Ceylon Oils and Fats Corporation (COFC) were cancelled. The last scheme was designed to ensure a guaranteed price for selected farmers through contract farming. As the objective of the scheme had not been realised, this scheme was suspended. Meanwhile, the Sri Lanka/ADB Rural Development Project Scheme was terminated, as the period of operation of the schemes had expired. The Special Credit Scheme to Assist Estate Sector Women in Income Generating Activities under the FAO/Women's Bureau Project, which was operated on a pilot basis, was terminated for the same reason. The Vavuniya-Mannar Districts Integrated Rural Development Project was suspended on the advice of IDA due to disturbances in the project area.

The performance of credit schemes under the MLCF Category I is given in Table 2.6. Due to the civil disturbances in the country, disbursement of funds under a large number of schemes was slow in 1988. There was no drawdown on refinance funds under the Credit Scheme for the construction of fertilizer stores by MPCSS' the Credit Scheme for the purchase of draught animals and the Credit Scheme for beach seining. In contrast, all self-employment schemes recorded favourable trends due to the wide range of activities for which loans could be granted. Despite slow progress made in some schemes, the All Island Farm Machinery Loan Scheme and Credit Schemes for Dairy and Livestock Development and Sugarcane Cultivation recorded a large drawdown on refinance allocations. The Credit Scheme for Outgrowers for cultivation of sugarcane under the Pelwatte Sugar Project, however, recorded low disbursement because, unlike a similar scheme targetted to permanent settlers under the project, Outgrowers were not engaged full-time in sugarcane cultivation and, therefore, the banks were reluctant to provide credit for sugarcane cultivation.

Loan Schemes approved for refinance under Category I

Name of Credit Scheme	Refinance allocation (Rs. Mn.)
A. Credit Schemes at the end of the year 1988	
1. Coconut Fertilizer Credit Scheme ..	65.00
2. Fisheries Sector Bank Financing Scheme ..	140.00
3. Credit Scheme for the Construction of Fertiliser Stores by MPCSS ..	14.00
4. Credit Scheme for Fishermen's Co-operative Societies ..	42.00
5. Matale-Puttalam District Integrated Rural Development Project ..	54.79
6. Youth Self-employment and Village Adoption Schemes in Matara District ..	18.20
7. Fertilizer Credit Scheme for Tea Small Holders ..	7.50
8. Credit Scheme for financing the purchase of draught animals in districts not covered under the Sri Lanka Rural Credit Project ..	5.60
9. Credit Scheme for financing the projects identified under Village Adoption and Self-employment Programme in Anuradhapura District ..	12.00
10. Badulla District Integrated Rural Development Project ..	7.00
11. Credit Scheme for Madel Fishing (Beach Seining) ..	5.00
12. Credit Scheme for settlers for the cultivation of sugarcane under the Pelwatte Sugar Project ..	66.00
13. Credit Scheme to assist small farmers for cultivation of sugarcane in Sevanagala, Hingurana and kantalai Sugar Project ..	120.60
14. All Island Farm Machinery Loan Scheme ..	106.99
15. Credit Scheme for the cultivation of Chinese Ginger, Pineapple and Passion Fruit in the Kurunegala, Colombo and Gampaha Districts ..	32.00
16. Anuradhapura Dry Zone Agricultural Project Loan Scheme ..	22.30
17. Sri Lanka/ADB Livestock Development Project ..	91.72
18. Scheme for financing Self-employment and other Medium term Projects in the Districts of kandy, Kegalle, Matale & Nuwara Eliya ..	16.00
19. Credit Scheme for Dairy Development ..	20.60
20. Credit Scheme to promote self-employment in Kalutara and Kurunegala Districts ..	35.00
21. Credit Scheme for Tube wells for lift irrigation purposes ..	1.10
22. Kegalle District Integrated Rural Development Project ..	50.00
23. Credit Scheme for Outgrowers for the Cultivation of Sugarcane under the Pelwatte Sugar Project ..	39.30
Total ..	972.70

TABLE 2.6

of the Medium and Long Term Credit Fund

Amount utilised as at 31.12.88 (Rs. Mn.)	Amount Unutilised as at 31.12.88 (Rs. Mn.)	Date of commence- ment of the project	Period of disbursement or the allocation (years)
53.31	11.69	26.03.79	11
135.42	4.58	02.07.79	9
9.14	4.86	13.10.80	1
1.28	40.72	28.04.81	7
54.79	Nil	29.06.81	8
16.59	1.61	10.04.81	Date of termination not specified
1.42	6.68	11.08.82	
3.11	2.49	10.09.82	6
8.18	3.82	14.10.82	7
4.52	2.48	27.09.83	7
0.90	4.10	26.04.84	2
38.73	27.27	10.05.84	6
26.67	93.93	20.09.84	5
73.12	33.87	26.03.85	3
4.04	27.36	27.06.85	4
2.96	19.34	02.07.85	4
3.84	87.88	01.03.86	5
6.39	9.61	01.03.86	6
4.15	16.45	16.04.86	5
20.08	14.92	15.05.86	5
0.17	0.93	08.09.86	2
2.12	47.88	15.01.87	6
2.75	36.55	07.08.87	7
473.68	499.02	—	—

Source : Central Bank of Sri Lanka.

The Bank continued to play the role of an executing agency for the credit component of the Kirindioya Irrigation and Settlement Project Phase II. In this regard, the Bank has been co-ordinating the activities of the participating credit institutions in providing credit to farmers for procurement of farm machinery. Apart from this, the Bank has also been designated as the executing agency for the credit components in respect of the following projects :

- (1) ADB funded Mid Country Perennial Crops Development Project.
- (2) ADB funded Agriculture Rehabilitation Project for the Northern and Eastern Provinces of Sri Lanka.
- (3) ADB funded Small Holder Tea Development Project.

A loan agreement was signed between the Government of Sri Lanka and the ADB for the implementation of the Mid-Country Perennial Crops Development Project indicated above. The loan would become effective from March, 1989. In regard to the other two projects, negotiations have been finalised between the Government and the ADB and the loan agreements are expected to be signed in the first quarter of 1989.

The Bank has been entrusted with the responsibility of implementing a poverty alleviation programme under the "Small Farmers and Landless Credit Project" funded by the International Fund for Agricultural Development (IFAD) and Canadian International Development Association (CIDA). A loan agreement was signed between the IFAD and the Government of Sri Lanka on April 20, 1988 for the implementation of this project.

The loan is expected to become effective during the first quarter of 1989 and will run over a period of 6 years from the effective date. The project will be operated in 4 districts, namely, Kandy, Puttalam, Galle and Matara. IFAD will provide the loan component of the project in Kandy and Puttalam districts and CIDA will finance the loan component of the project in Galle and Matara districts. The project aims at raising the living standards of approximately 32 impoverished households, who are unable to obtain loans from institutional sources within the 4 districts, by granting short and medium term loans to enable them to engage in income generating activities. Credit will be extended to eligible borrowers identified by the Regional Rural Development Banks (RRDBs), Project and District Offices and several national and international participating agencies.

There are several features which are unique to this project. First, credit is targeted to marginal and landless farmers who live below the absolute poverty line, viz, those whose net household annual income is less than Rs. 2,400/- . Second, as these borrowers lack collateral, unsecured credit will be granted primarily on a group basis along the lines of the Grameen Bank, Bangladesh, at an on-lending rate of 16 per cent per annum (compared to 12 1/2 per cent per annum which has hitherto characterised loans covered by Central Bank refinance). Third, participating agencies will act as 'barefoot bankers' in canvassing loans from this 'high risk' category of borrowers. Fourth, recognising that credit granted to women readily benefits

the entire family, women will be given equal opportunities to participate in the project. Emphasis will, therefore, be placed on granting credit to women's groups and female-headed households. Finally, due to acute pressures on the land and the need to diversify the production base, credit will be granted for innovative and low cost agro-based and service-oriented enterprises. During the second half of 1988, the Central Bank took steps to fulfil the conditions for signing of participating agreements with the participating organisations, namely, Sarvodaya Economic Enterprise Development Service (SEEDS), Women's Bureau, Lanka Mahila Samithi and the Federation of Thrift and Credit Co-operative Societies (FTCCSs), and signing of sub-subsidiary agreements with the Puttalam and Kandy RRDBs.

REGIONAL RURAL DEVELOPMENT BANKS (RRDBs)

In the last quarter of 1988 two new RRDBs were established in the districts of Nuwara-Eliya and Moneragala bringing the total number of RRDBs in operation to 11 as at the end of 1988. During the year, 19 RRDB branches were opened and there were 80 branches scattered in 11 districts by the end of 1988. Despite the civil disturbances that prevailed in the country, the RRDBs made a considerable effort to expand their services, particularly to the rural poor. (Table 2.7).

TABLE 2.7

Branch Network of RRDBs

Name of the RRDB	Date of Establishment of RRDB	Head Office	No. of branches opened				Total as at end 1988
			1985	1986	1987	1988	
Kalutara	85.07.13	Bulathsinhala	04	03	04	01	12
Matara	85.07.28	Yatiyana	05	02	—	01	08
Kurunegala	85.08.10	Kuliyapitiya	06	04	02	01	13
Anuradhapura	85.08.12	Mihintale	02	04	01	—	07
Hambantota	86.12.13	Ambalantota	—	02	02	02	06
Kegalle	87.02.08	Hettimulla	—	—	08	01	09
Puttalam	87.07.11	Chilaw	—	—	05	01	06
Galle	87.08.17	Elpitiya	—	—	01	07	08
Mahanuwara	87.10.03	Gampola	—	—	06	03	09
Nuwara-Eliya	88.10.10	Nuwara-Eliya	—	—	—	01	01
Moneragala	88.10.11	Buttala	—	—	—	01	01
Total			17	15	29	19	80

Source: Central Bank of Sri Lanka.

Considerable progress in the mobilization of deposits was observed in 1988. The total amount of deposits mobilized by all RRDBs nearly doubled from Rs. 53 million on 87,978 accounts as at the end of 1987 to Rs. 103 million on 144,516 accounts as at the end of 1988. Approximately 87 per cent of the total deposits was accounted for by the ordinary savings accounts and the share of fixed deposits in total deposits was only about 13 per cent. This indicates that the RRDBs were servicing mainly the relatively poor in rural areas. The figures show that the average value of deposits per account has risen from Rs. 602 in 1987 to Rs. 716 in 1988, with both savings and fixed deposits taken together. Detailed data on deposit mobilization are presented in Table 2.8.

TABLE 2.8

**A District-wise Breakdown of Mobilization of Deposits as at
end of 1987 and 1988**

(Amount in Rs. '000)

Name of the RRDB	Savings				Fixed				Total			
	1987		1988		1987		1988		1987		1988	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Kalutara ..	20,563	8,496	27,949	14,038	133	3,532	115	1,681	20,696	12,028	28,064	15,719
Matara ..	16,657	12,174	21,574	20,636	203	1,898	251	2,680	16,860	14,072	21,825	23,316
Kurunegala ..	20,042	9,399	23,951	15,444	150	2,000	232	2,585	20,192	11,399	24,183	18,029
Anuradhapura ..	8,483	3,802	16,561	7,080	11	611	27	958	8,494	4,413	16,588	8,038
Hambantota ..	5,839	3,239	10,758	7,260	75	462	137	1,316	5,914	3,701	10,895	8,576
Kegalle ..	8,888	3,113	17,562	8,450	47	421	116	1,654	8,935	3,534	17,678	10,104
Puttalam ..	3,091	1,706	10,289	6,223	15	71	40	366	3,106	1,777	10,329	6,589
Galle ..	1,230	941	5,881	5,852	19	136	158	1,662	1,249	1,077	6,039	7,514
Mahanuwara ..	2,519	886	8,071	4,270	13	88	65	1,004	2,532	974	8,136	5,274
Nuwara Eliya ..	—	—	544	193	—	—	01	25	—	—	545	218
Moneragala ..	—	—	234	75	—	—	—	—	—	—	234	75
Total ..	87,312	43,756	143,374	89,521	666	9,219	1,142	13,931	87,978	52,975	144,516	103,452

Source : Central Bank of Sri Lanka.

(XXX)

TABLE 2.9

District-wise Breakdown of Loans Disbursed from 1985 to 1986, 1987 and 1988

(Rs. '000)

Name of the RRDB	During 1985 & 1986		During 1987		During 1988		Total 1985-1988	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Kalutara ..	2,134	6,894	2,700	12,787	2,492	19,982	7,326	39,663
Matara ..	3,906	13,389	4,977	20,166	4,257	22,555	13,140	56,110
Kurunegala ..	1,894	15,779	1,347	11,551	1,483	11,588	4,724	38,918
Anuradhapura ..	1,413	34,001	1,965	38,334	1,505	9,107	4,883	81,442
Hambantota ..	—	—	1,609	5,752	3,053	15,120	4,662	20,872
Kegalle ..	—	—	900	5,929	1,920	14,440	2,820	20,369
Puttalam ..	—	—	109	828	1,051	7,981	1,160	8,809
Galle ..	—	—	80	509	508	3,204	588	3,713
Mahanuwara ..	—	—	114	280	857	4,736	971	5,016
Nuwara-Eliya ..	—	—	—	—	01	06	01	06
Moneragala ..	—	—	—	—	—	—	—	—
Total ..	9,347	70,063	13,801	96,136	17,127	108,719	40,275	274,918

Source : Central Bank of Sri Lanka.

TABLE 2.10

**A Purpose-wise Comparison of Loans Disbursed from
1985 to 1986, 1987 and 1988**

Purpose	1985 to 1986			1987			1988			Total		
	No.	Amount Rs. '000	%	No.	Amount Rs. '000	%	No.	Amount Rs. '000	%	No.	Amount Rs. '000	%
Agriculture ..	4,629	25,415	36	6,816	34,950	36	8,649	47,272	44	20,094	107,637	39
Fisheries ..	—	—	—	—	—	—	75	3,727	04	75	3,727	01
Livestock ..	662	5,459	08	1,000	6,353	07	873	5,696	05	2,535	17,508	07
Small Industries ..	1,632	9,303	13	2,429	15,229	16	2,905	19,913	18	6,966	44,445	16
Trade & Business ..	1,681	25,951	37	2,228	33,454	35	2,520	19,955	18	6,429	79,360	29
Other ..	743	3,935	06	1,328	6,150	06	2,105	12,156	11	4,176	22,241	08
Total ..	9,347	70,063	100	13,801	96,136	100	17,127	108,719	100	40,275	274,918	100

Source : Central Bank of Sri Lanka.

The year 1988 also witnessed a considerable expansion in loan operations. The number of loans disbursed increased by 24 per cent from 13,801 during 1987 to 17,127 during 1988. The amount of loans disbursed rose from Rs. 96 million during 1987 to Rs. 109 million during 1988, showing a decline in the average size of loan from Rs. 6,966 in 1987 to Rs. 6,348 in 1988. This decline in the average loan size could be considered a reflection of the greater preference of RRDBs for relatively small loans demanded mainly by the poor. Selected details on loans disbursed by each RRDB are given in Table 2.9. The purpose-wise distribution of loans in 1988 shows that the RRDBs have assigned a high priority to agriculture. As shown in Table 2.10, approximately 44 per cent of the total quantum of loans was for agricultural purposes. The total quantum of loans disbursed to agriculture increased markedly by 36 per cent, from Rs. 35 million in 1987 to Rs. 47 million in 1988. The fact that 18 per cent each of the total quantum of loans was for small industries and for trade and business purposes clearly show that these banks have made a concerted effort to diversify the flow of credit to the rural sector, thereby promoting diversification of rural economic activities.

RURAL BANKING AND STAFF TRAINING COLLEGE

In response to the rising demand for human resources development in the banking sector, the Rural Banking and Staff Training College (RB&STC) of the Central Bank provides necessary training to banking personnel. The training courses aim at imparting new knowledge to the participants, thereby enhancing their skills to enable them to perform better in the future.

In 1988, RB & STC organized and conducted 34 training courses and seminars in which 1,277 persons participated. Of these participants, 826 were from commercial banks, 82 were from Regional Rural Development Banks and 240 were from the Central Bank. Almost all the participants were in the middle or lower management levels in the banking sector.

The training provided by RB & STC was in areas such as management development, use of computers, hire purchase and lease financing, commercial banking, rural banking, entrepreneurship development, project-oriented development in small scale agriculture including animal husbandry, export promotion etc.

EMPLOYEES' PROVIDENT FUND

In terms of the EPF Act, the monetary Board of the Central Bank of Sri Lanka is charged with the responsibility of receiving contributions, surcharges and income from the investment of monies of the Fund, maintaining proper accounts of registered employers and the individual members of the Fund and also effecting refund of benefits to its members. These activities were carried out in close co-operation with the Employees' Provident Fund Division of the Department of Labour which attends to the administration and enforcement of the provisions of the EPF Act.

Contributions

The contributions received by the Fund during the year 1988 amounted to Rs. 2,680 million as against Rs. 2,194 million in 1987. This represents an increase of Rs. 486 million or 22 per cent over the level of contributions received during the previous year.

Members' Balances

Members' balances as at December 31, 1988, before allocation of interest for the year under review stood at Rs. 24,758 million which is an increase of Rs. 2,188 million or 9 per cent over that of 1987.

Investments

During the year under review, the Fund invested a sum of Rs. 6,957 million in Government Securities, Treasury bills and in Rupee Loan Stock held by the Sinking Funds of the five National Housing Debentures, as against a sum of Rs. 4,410 million in 1987. This is an increase of Rs. 2,548 million over the level of investments in 1987.

Income Received from Investments

In 1988, the income received from investments amounted to Rs. 2,885 million as against Rs. 2,379 million in 1987, recording an increase of Rs. 506 million.

Refunds

The total sum paid out by way of refund of EPF benefits to members during the year 1988, amounted to Rs. 600 million as against Rs. 574 million in 1987. This records an increase of Rs. 26 million or 5 per cent. During the year under review, 30,661 claims for refund of benefits were paid out, which included 378 claims from repatriates of Indian origin.

Interest on members' Balances

The Employees' Provident Fund is required to pay interest on members' balances as at the end of each year, out of the income from investment of monies of the Fund. The rate of interest payable on members' balances as at the end of 1988 was fixed at 13 per cent per annum, an increase of 0.5 percentage points over the rate which prevailed during the previous year.

Interest is paid on the cumulative balance standing to the credit of members at the end of the year. All contributions received during the year irrespective of the date of receipt of such monies qualify for the payment of the interest for the entire year -e.g. contributions received in December attracts interest for the full year in the same way as contributions received in January of that year. Therefore, the effective rate of interest is somewhat higher.

Recording of Balances in EPF Account Books

Recording of balances in EPF Account Books issued by the Department of Labour continued during the year under review.

EPF Housing Loan Scheme

The EPF Act was amended during the year 1988 to enable the members to obtain a loan of upto 75 per cent of the balance standing to their credit from lending institutions for a housing purpose, which includes purchase of house/property and redemption of mortgages, etc. on production of a certificate of balance standing to their credit issued by the Central Bank for this purpose. This obviates the need for mortgaging immovable property or providing guarantors to obtain a loan.

A comparative statement of the operations of the Fund during 1987-88 is given in Table 2.11.

TABLE 2.11
EPF Statistics - 1987 - 1988

	1987	1988
(1) Contributions received (Rs. million) ..	2,194.3 (a)	2,680.1
(2) Investments (Rs. million) ..	4,409.7 (b)	6,957.4
(3) Income received from investments (Rs. million) ..	2,378.9	2,884.9
(4) Refund payments (Rs. million) ..	573.6	600.4
(5) Number of refunds ..	34,530	30,661
(6) Rate of interest (per cent) ..	13	
(7) Interest provision on members' balances (Rs. million) ..	2,507.7	3,218.6

(a) Excludes contributions credited to Suspense Accounts.

Source : Central Bank of Sri Lanka.

(b) Includes maturity proceeds re-invested in Govt. Securities and monies invested in Short Term Treasury Bills.

EXCHANGE CONTROL

The following changes were effected by the Central Bank in exchange control procedures during 1988.

1. Exports

- (a) Authorised Dealers were informed that the Coconut Development Authority was not proceeding with the indicative price scheme for coir fibre which was introduced on abolition of the floor price scheme for coir fibre products. (Operating Instructions bearing No. EC/01/88 (H) of 1988.01.01.)
- (b) The Floor Price Scheme pertaining to the export of spices and other products was withdrawn with effect from 1988.01.27. (Operating Instructions bearing No. EC/03/88 (H) of 1988.01.27.)
- (c) Authorised Dealers were informed that the requirement of obtaining a licence from the Controller of Imports and Exports for the export of rubber from Sri Lanka was rescinded with effect from 1988.01.01. (Operating Instructions bearing No. EC/04/88(H) of 1988.01.29).

2. Travel

- (a) Authorised Dealers were permitted to approve applications made on form 'P' by Sri Lankans for purchase of air tickets to proceed abroad for employment even if they have already utilised their basic passage entitlement, provided that a letter from the Sri Lanka Bureau of Foreign Employment recommending the approval of passage is furnished. (Operating Instructions bearing No. EC/06/88(K) dated 1988.03.16).
- (b) Shipping Agents, Travel Agents, Airlines and Airline Agents were authorised to issue passage tickets to non-nationals to travel abroad where payment for such tickets were made in foreign currency. (Circular No. EC/SAA/01/88(D) of 1988.05.16) Previously, only Travel Agents were permitted to, issue such tickets.
- (c) Authorised Dealers were informed that passage tickets to countries outside the Indian Group could be issued to persons who had not been issued with a passage ticket to travel to that group of countries within the last three years and not within the last four years as previously conveyed. (Operating Instructions bearing No. EC/10/88(K) of 1988.05.27).
- (b) Authorised Dealers were permitted to release the following enhanced exchange allowances to persons attached to public companies proceeding abroad for travel on business.
- (e) Authorised Dealers were permitted to release the following enhanced basic exchange allowances to Sri Lanka nationals for travel abroad.

Operating Instructions bearing No. EC/16/88(K) of 1988.09.28

	For travel to Bugladesh, Bhutan, Burma, India, Maldiv Islands, Nepal & Pakistan (once in 2 years)	For travel to other countries (once in 3 years)
Adults	US \$ 400/-	US \$ 1,500/-
Children under 12 years	US \$ 200/-	US \$ 750/-

3. Non-Resident Foreign Currency Accounts

- (a) Authorised Dealers were permitted to open and maintain Non-Resident Foreign Currency Accounts for nationals of Sri Lanka who are or have been employed abroad and for non-nationals of Sri Lankan origin who are resident outside Sri Lanka. (Operating Instructions bearing No. EC/08/88(D) of 1988.05.05).

4. Purchase of Foreign Currency

(a) Authorised Dealers were informed that purchase of inward remittances, travellers' cheques and foreign currency may be made by them without a permit on Form 'C'. (Operating Instructions bearing No. EC/22/88(D) of 1988.12.01).

5. Imports

(a) Authorised Dealers were informed that Letters of Credit for the import of cloves into Sri Lanka from any source should not be established without a valid licence issued by the Director of Commerce. (Operating Instructions bearing No. EC/11/88(B) of 1988.06.03).

(b) Authorised Dealers were informed that a licence from the Controller of Imports and Exports was necessary to establish Letters of Credit for the import of the following items :—

C.C.C.N. No.

10.05 — Maize

87.05 — Bodies (including cabs) for motor vehicles falling within Customs Co-operation Council Nomenclature Heading No. 87.02—

(Operating Instructions bearing No. EC/20/88/(B) of 1988. 1. 15)

Category of person travelling	For travel to Bangladesh, Bhutan, Burma, India, Maldiv Islands, Nepal & Pakistan	For travel to other countries
(i) Chairman, Directors of Public companies	US \$ 150/- (per diem)	US \$ 225/- (per diem)
(ii) Employees of Public companies	US \$ 100/- (per diem)	US \$ 150/- (per diem)

6. Non-Resident Blocked Accounts

(a) Authorised Dealers were informed that they could permit a further remittance of Rs. 150,000/- from Non-Resident Blocked Accounts, increasing the total amount remittable out of such accounts to Rs. 350,000/-. (Operating Instructions bearing No. EC/12/88(C & F) of 1988.07.15).

PUBLIC DEBT

The Bank continued to manage the Public Debt on behalf of the Government, in terms of Section 113 of the Monetary Law Act. Floating of Government Securities/Loans, issue of Treasury bills and Tax Reserve Certificates and servicing of government foreign loans were the main functions handled in this connection during 1988.

The outstanding gross and net Public Debt as at the end of 1988 stood at Rs. 223,874 million and Rs. 219,680 million, respectively. Rupee Securities amounting to Rs. 10,000 million were floated during 1988. The total repayment of rupee loans during 1988 amounted to Rs. 5,160 million. The amount outstanding as at the end of the year was Rs. 49,797 million.

During the year, the authorised limit on Treasury bills was increased thrice. The authorised limit which stood at Rs. 35,000 million at end-1987 was increased to Rs. 40,000 million in August, to Rs. 45,000 million in October and further to Rs. 55,000 million in December, 1988. The weekly issues of Treasury bills continued during the year. The amount of Treasury bills outstanding as at the end of the year was Rs. 43,700 million. During the year, interest payments on Treasury bills amounted to Rs. 4,198 million.

Total disbursement on medium and long term external borrowings of the government during 1988 amounted to Rs. 11,734 million and repayments amounted to Rs. 5,235 million. Total interest payments and other charges on external public debt in 1988 amounted to Rs. 3,305 million. The external public debt outstanding as at end of 1988 stood at Rs. 124,012 million. During 1988, the Bank floated debentures amounting to Rs. 250 million on behalf of the State Mortgage and Investment Bank.

REGIONAL OFFICES—MATARA, ANURADHAPURA AND MATALE

During 1988, the three Regional Offices at Matara, Anuradhapura and Matale continued their assistance to development work on an increasing scale, especially encompassing those engaged in small scale economic activities. Project identification and appraisals, recommendation of projects for financing by commercial banks, training programmes and monitoring of the implementation of rural credit programmes were among their main activities.

The activities of the three Regional Offices were aimed at promoting greater diversity and increasing employment opportunities in the regional economy. Thus, their operations were focussed not only on agriculture but also on numerous small scale industries and services.

In the sphere of agriculture, an attempt was made to increase the effectiveness of the implementation of the New Comprehensive Rural Credit Scheme. The Matara Regional Office continued the "Model Yaya" system of credit for paddy cultivation in association with the Bank of Ceylon and Matara Regional Rural Development Bank. In the disbursement of agricultural credit, the importance of the Credit Camp System was emphasized in order to reduce the transaction costs of both lenders and borrowers.

During 1988, under the Self-employment Refinance Credit Scheme, the Matara and Matale Offices recommended 115 and 200 projects for financing, respectively, involving a total loan amount of Rs. 3 million. The Anuradhapura Regional Office identified a total of 2,405 viable projects during the year. Commercial banks approved 992 of these projects and 953 projects were in operation by the end of 1988. With the borrowers' contribution of Rs. 5.7 million, the total capital investment in the projects which were in operation amounted to Rs. 15.7 million. The Anuradhapura Office also made an effort to popularize the use of under-ground water for the cultivation of cash crops during the off season by promoting bank finance for construction of wells.

Since low repayment of bank loans had been a serious problem, the Regional Offices also placed special emphasis on the improvement of loan repayments in their respective regions. Follow-up action by the Regional Offices appears to have helped the participating banks, particularly in recovering loans granted to the small scale sector.

Selected data on various refinance credit schemes implemented by the three Regional offices are given in Tables 2.12, 2.13 and 2.14.

TABLE 2.12

**Matara Regional Office : A Summary of
Refinance Credit Operations -1988**

Scheme	Year 1988		Cumulative end of 1988	
	No. of Loans	Amount (Rs.)	No. of Loans	Amount (Rs.)
1. Self-Employment Refinance Credit Scheme	91	1,046,440	1,092	10,057,660
2. Village Adoption Refinance Credit Scheme	01	5,000	118	608,685
3. Model Yaya Paddy Cultivation Loans under New Comprehensive Rural Credit Scheme	137*	304,940	2,275	5,269,569
4. High-land Farming Loans	39	127,000	249**	1,299,280
5. Tea Fertilizer Refinance Loan Scheme	01	23,500	184	1,289,624
6. Coconut Fertilizer Refinance Loan Scheme	—	—	370	3,226,945
7. Moneragala Two Wheel Tractor Loans	—	—	04	155,940
Total	269	1,506,880	4,292	21,907,703

Source : Central Bank of Sri Lanka.

(*) 1988 yala

(**) Includes 42 Dug well Loans in Moneragala District.

TABLE 2.13

**Anuradhapura Regional Office—A Summary of
Refinance Credit Operations—1988**

Sector	No. of Projects recommended to the banks	Amount recommended Rs.	No. of Projects approved by banks	Amount approved Rs.
Agriculture	1,295	15,554,057	523	6,490,025
Livestock	605	283,973	154	1,134,785
Industry	348	3,664,784	221	2,348,805
Services	157	1,430,250	94	832,054
Total	2,405	20,933,064	992	10,805,669

Source : Central Bank of Sri Lanka.

TABLE 2.14

**Matale Regional Office
A Summary of Refinance Credit Operations — 1988**

Scheme	No. of beneficiaries/units directed to Banks	Loan Quantum Recommended (Rs.)
1. New Comprehensive Rural Credit Scheme (NCRCS) - Yala/Maha	1,493	6,515,937/00
2. Self-Employment Credit Scheme (Matale/Kandy/Kegalle)	200	1,572,815/00
3. Dairy Development Credit Scheme	47	499,350/00
4. All Island Farm Machinery Loan Scheme	06	189,250/00
5. Integrated Rural Development Loan Scheme (Matale District)	03	24,000/00
6. Small & Medium Industry Loan Scheme	02	225,000/00
Total	1,751	9,026,352/00

Source : Central Bank of Sri Lanka.

In addition to activities directly relating to lending, the Regional Offices also continued their training programmes during the year. In 1988, the Matara Office trained 265 prospective entrepreneurs in the fields of industry and poultry farming and the Matale Office conducted a total of 52 project-oriented training sessions, seminars and workshop discussions and trained 450 unemployed youth specially in agro-based industry. The Anuradhapura Office also continued to conduct training programmes during the year, emphasizing particularly those which would contribute to the improvement of cultural practices in agriculture and the reduction of post-harvest losses.

The Regional Offices continued the sales of Treasury bills during 1988. Matara and Matale Regional Offices sold Rs. 35 million and Rs. 296 million worth of Treasury bills, respectively, while the value of Treasury bills sold by the Anuradhapura Office amounted to Rs. 836 million during the year.

The Regional Offices continued to provide clearing facilities to the banks in the three regions. During 1988, the Matara Regional Office cleared 80,489 cheques to the value of Rs. 724 million, while the Matale Regional Office cleared 59,118 cheques to the value of Rs. 331 million. The value of cheques cleared by the Anuradhapura Regional Office was Rs. 160 million.

INFORMATION AND PUBLICATIONS

The Bank continued to provide information and material to the general Public with a view to enlightening them of socio-economic developments in Sri Lanka. In order to achieve this objective, the following publications were released by the Bank during 1988.

Publications

- (1) The Central Bank Annual Report for the year 1987 was published and presented to the Minister of Finance & Planning in terms of Section 35(1) of the Monetary Law Act.
- (2) 'Economic Performance in the First Half of 1988' was published with a brief Review of the Economy for the First Half of 1988.
- (3) 'The Review of the Economy—1987' was published in October and was tabled in Parliament at the time of the presentation of 'Vote-on-Account'.
- (4) 'Economic and Social Statistics of Sri Lanka' Vol. x December, 1987 and Socio Economic Data Folder for 1988 (These publications contain basic data for the year).
- (5) 'Price & Wage Statistics of Sri Lanka 1986'
- (6) Occasional Papers Nos. 18 and 19.

- (7) Two books—'A Macro-econometric Model for Sri Lanka'—by Dr. A. G. Karunasena and 'Human Capital and Distribution of Personal Income'—by Dr. L. L. Gunaratne—were published during the year under the Central Bank of Sri Lanka research series.
- (8) 'Report on Sri Lanka Rural Credit Project (Institutional Aspects)' Vol. I by V. P. Malhotra.

SEMINARS

Professor Maxwell Fry, Professor of Economics, University of California at Irvin delivered a lecture in the Bank on "Financial Sector Problems in Developing Countries". In addition, the following officers of the Bank conducted seminars on the topics indicated against each name.

- (1) Mr. A. J. M. Zuhair—"An Empirical Study of Domestic Consumption Taxes : The Case of Sri Lanka (1970-85)"
- (2) Dr. Nimal A. Fernando—"Formal Credit for Small Farmers of Paddy in Sri Lanka".
- (3) Dr. D. S. Wijesinghe—"Effective Exchange Rate Changes and their Impact on the Balance of Trade".

RESEARCH ACTIVITIES

During 1988, as a part of the Bank's research programme, the following research projects were completed by Central Bank officers.

- (1) An Analysis of Interest Rates in the Informal Rural Credit Market of Sri Lanka.
- (2) Some Structural Characteristics of Sri Lanka's Tax System—1950-1984.
- (3) Tariff Reforms and Effective Protection. The Case of Some Selected Industries After 1984 Tariff Reform.
- (4) The Problems of Domestic Resource Mobilization in Sri Lanka.
- (5) The Profitability and Productivity of Commercial Banks in Sri Lanka.
- (6) Technological Change and Productivity Growth : Implications for Future Land Use Pattern in Sri Lanka's Paddy Sector.
- (7) Determination of Monetary Policy Responses to External Shocks : Some Simulation Experiments for Sri Lanka and Malaysia.

DATA PROCESSING

In March 1988, the Central Bank implemented the Automated Clearing House Project. The Automated Clearing House is administered by the Data Processing Department of the Bank.

During 1988, the Bank commenced work on and completed the first phase of the Economic Statistics Data Base, dealing with statistics on money and banking. The Bank also completed the processing of the data collected under the Consumer Finance Survey conducted by the Central Bank in 1987.

The Central Bank upgraded in 1988, its mainframe computer from an IBM 4331 Model KJ2 to an IBM 4361 Model LO5 and partly replaced the existing data entry system with an on-line data entry facility.

MANAGEMENT AUDIT

The Management Audit Department of the Bank, in accordance with its programme of work, carried out the audit of the various Departments of the Bank, including the Rural Banking & Staff Training College, the Regional Offices at Matale, Matara and Anuradhapura during the year 1988. Verification of all furniture and equipment of the Bank, all books in the Library of the Central Bank and the Library of the Rural Banking & Staff Training College was also undertaken and completed in October, 1988.

SURVEYS AND DATA COLLECTION

During 1988, the Central Bank continued its Country-wide Data Collection Programme which was introduced 10 years ago. Under this programme, information on retail prices of consumer items and agricultural inputs, producer prices of a wide range of items and activity-wise data on wage rates in paddy cultivation, tea, rubber and coconut small holdings and small scale construction activities is collected from approximately 100 selected centres scattered throughout the country. The data so collected are being published by the Bank in its annual publication 'Price and Wage Statistics', and will provide the data base for researchers to conduct further research on related subjects.

Although the Central Bank did not conduct any new surveys in 1988, data processing and the preparation of the survey reports in respect of surveys carried out in previous years were completed during the year. In this connection, the report of the 'Survey on Business Activities on Planned Investments—1984/85 to 1986/87' was finalised during the year and is awaiting publication. The data on the Consumer Finances and Socio-Economic Survey which the Bank conducted in 1986/87 were processed in 1988 and the report will be published in 1989.

TRAINING

The Central Bank continued to train its officers in academic and non-academic courses during 1988. The Academic courses were confined to post-graduate degree courses in economics and related fields at universities abroad, as well as in Sri Lanka,

and covered courses relating to Masters and Ph. D. degrees. A total of 6 Central Bank officers proceeded on post-graduate studies abroad, while one officer followed a post-graduate course in Sri Lanka during the year under review. In addition, two officers followed courses leading to the award of a diploma in a local university.

Training in non-academic fields included practical short-term training courses, seminars, workshops, study tours and visits, and mainly covered areas such as rural development, agricultural and industrial credit, banking and computer training. In all, 105 officers proceeded abroad on short-term training in 1988, while a further 437 officers participated in local training courses. Furthermore, a selected batch of Central Bank officers participated in an in-service training programme in commercial banking practices and operations at the two state banks during 1988.

PERSONNEL

Dr. W. Rasaputra relinquished his duties as Governor of the Central Bank of Sri Lanka with effect from 19th November, 1988 to take up appointment as Ambassador for Sri Lanka in France.

Dr. H. N. S. Karunatilake, a former Senior Deputy Governor of the Central Bank of Sri Lanka was appointed to the office of the Governor of the Central Bank with effect from 19th November, 1988.

The Governor, Dr. W. Rasaputra attended the following conferences and meetings during the year, 1988.

- (1) The 23rd South East Asian Central Bank Governors' Conference (SEACEN) held in Singapore.
- (2) The Nineteenth World Conference of the Society for International Development held in Thailand.
- (3) The Meeting of the Group 24 of the World Bank and the Interim Committee Meeting of the International Monetary Fund held in India and U. S. A.
- (4) The Commonwealth Central Bank Governors' Conference held in London.
- (5) The IMF/World Bank Annual Meetings 1988 held in Federal Republic of Germany.

Mr. D. L. Kannangara, Senior Deputy Governor acted as Chief Executive Officer of the Bank and the Chairman of the Monetary Board in the absence from Sri Lanka of the Governor.

Mr. A. S. Jayawardena, Deputy Governor was designated as Senior Deputy Governor and acted as the Chief Executive Officer of the Bank and the Chairman of the Monetary Board in the absence from Sri Lanka of the Governor after Mr. D. L. Kannangara, Senior Deputy Governor went on leave prior to retirement from the Bank service w.e.f. 4th May, 1988.

Dr. K. S. E. Jayatillake, Deputy Governor was designated as Senior Deputy Governor and acted as Chief Executive Officer of the Bank and the Chairman of the Monetary Board in the absence from Sri Lanka of the Governor, and Mr. A. S. Jayawardena, the Senior Deputy Governor.

Mr. G. Cumararatunga, Deputy Secretary to the Treasury, attended meetings of the Monetary Board as the Alternate of the Secretary to the Ministry of Finance and Planning, in the absence of the latter.

Appointments

Mr. A. S. Jayawardena, Deputy Governor was designated as the Senior Deputy Governor with effect from 10th May, 1988.

Dr. S. T. G. Fernando, Executive Director, who was on release to the Ministry of Finance and Planning to function as Chairman of the People's Bank, was appointed Deputy Governor with effect from 16th May 1988.

Mr. S. Ratnapragasam, Additional Director of Management Audit was appointed Director of Management Audit with effect from 15th March, 1988.

Mr. T. G. Savundranayagam, Additional Director of Economic Research was appointed Director of Statistics with effect from 1st August, 1988.

Miss C. Abeynayake, Additional Chief Accountant was appointed Director of Banking Development with effect from 1st November, 1988.

Mr. A. M. S. Radaliyagoda, Acting Additional Director of Premises was appointed Acting Director of Premises with effect from 1st January, 1988. He was appointed Adviser, Banking Development with effect from 7th July, 1988.

Mr. E. J. Anandappa, Acting Additional Superintendent of Employees' Provident Fund was appointed Acting Additional Secretary with effect from 16th March, 1988.

Mr. W. Jayasena, Acting Additional Secretary was appointed Acting Secretary with effect from 1st August, 1988.

Dr. L. L. Gunaratne, Deputy Director of Data Processing was appointed Acting Additional Director of Data Processing with effect from 1st March, 1988. He was appointed Acting Director of Premises in addition to being Acting Additional Director of Data Processing with effect from 13th September, 1988.

Dr. G. Abeysekera, Special Officer of Banking Development was appointed Acting Director of Banking Development with effect from 1st March, 1988.

Mr. J. R. J. A. C. Motha, Deputy Controller of Exchange was appointed Acting Additional Controller of Exchange with effect from 1st March, 1988.

Mr. E. W. E. Wijetunge, Deputy Superintendent Employees' Provident Fund was appointed Acting Superintendent Employees' Provident Fund with effect from 1st August, 1988.

Mr. A. J. M. Zuhair, Deputy Director of Economic Research was appointed Acting Director of Establishments with effect from 1st August, 1988.

Mr. D. Boyagoda, Regional Manager, Regional Office Anuradhapura and Deputy Head of Department was appointed Head of Department with effect from 1st August, 1988.

Dr. N. L. Sirisena, Deputy Director of Statistics was appointed Acting Director of Supervision of Non-Bank Financial Institutions with effect from 23rd December, 1988.

Mr. D. L. Kannangara, Deputy Governor was appointed Chairman of the Committee on Finance Companies on a contractual basis after his retirement with effect from 8th August, 1988 and designated as Adviser to the Governor. He relinquished his duties as Adviser to the Governor and the Chairman of the Committee on Finance Companies with effect from 17th November, 1988.

Mr. H. Premaratne, Consultant on Supervision of Banking and Financial Institutions, relinquished his duties with effect from 18th July, 1988.

Mr. K. Gunaratnam was appointed as a Member of the Committee on Finance Companies on a contractual basis with effect from 1st July, 1988 and designated him as Adviser to the Governor. He was appointed as Chairman of the Committee on Finance Companies with effect from 29th November, 1988.

Officers on release (as at 31st December 1988)—

The following officers of the Bank were on release to Ministries, Government Departments and State Corporations in Sri Lanka and for assignments with International Organisations :—

Dr. N. E. H. Sanderatne to the Ministry of Finance and Planning to function as Chairman, Bank of Ceylon.

Dr. L. E. N. Fernando to the International Monetary Fund to function as Alternate Executive Director for Bangladesh, Bhutan, India and Sri Lanka.

Mr. A. A. D. Justin to the Ministry of Industries and Scientific Affairs to function as Secretary, Ministry of Industries and Scientific Affairs.

Dr. A. C. Randeni, Mr. M. B. Dissanayake, Dr. S. S. Colombage, Messrs, E. A. P. N. Dias, D. S. I. A. Ariyadasa, J. M. T. B. Jayasundera, G. A. V. Fonseka, Dr. I. Coomaraswamy, Messrs C. Liyanage and T. M. Z. Mutaliph to the Ministry of Finance and Planning.

Retirement—

Mr. D. L. Kannangara Deputy Governor retired from the Central Bank's service with effect from 8th August, 1988.

Mr. B. F. J. Silva, Director of Establishments retired from the Central Bank's service with effect from 16th September, 1988.

Mr. C. Selvasiranjeevi, Director of Management Audit retired from the Central Bank's service with effect from 15th March, 1988.

Death—

Mr. A. M. S. Radaliyagoda, Adviser, Banking Development expired on 1st December, 1988.